



## TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND UPDATE

The NCUA has issued Letter to Credit Unions 09-CU-14, which provides more detail on the actions taken by the NCUA Board and their impact on credit unions. The NCUA also announced it will post a recording of a June 24, 2009, webinar and a Frequently Asked Questions document related to these issues. Information will be posted on the Corporate Stabilization Program page of NCUA's website (<http://www.ncua.gov>).

On June 18, 2009, the National Credit Union Association (NCUA) Board took the following actions to provide relief to the credit union industry as it deals with the stabilization of the corporate credit union system:

- Implemented the Temporary Corporate Credit Union Stabilization Fund (the "Stabilization Fund") by authorizing NCUA staff to establish a corporate governance structure of the Stabilization Fund.
- Approved legally obligating the Stabilization Fund, and thereby releasing the National Credit Union Share Insurance Fund (NCUSIF) from its present obligations, for the costs of stabilizing the corporate credit union system.
- Recapitalized the NCUSIF deposit.

This Accounting Insight will summarize the actions taken by the NCUA Board and how they will impact credit union financial reporting for June 30, 2009. For additional information regarding the Stabilization Fund and other provisions of the Helping Families Save Their Homes Act that impact credit unions in other aspects, please refer to NCUA Letter to Credit Unions 09-CU-14.

### THE STABILIZATION FUND

The Stabilization Fund was created upon enactment of the Helping Families Save Their Homes Act on May 20, 2009. By implementing the Stabilization Fund, the NCUA Board is now able to use it to help stabilize the corporate credit union system. Highlights of the Stabilization Fund are summarized below:<sup>1</sup>

- The Stabilization Fund is administered by the NCUA and is separate from the NCUSIF.
- The Stabilization Fund may borrow from the Treasury to make expenditures only in connection with the conservatorship, liquidation, or threatened conservatorship or liquidation of a corporate credit union.
- The Stabilization Fund must repay all advances plus interest to the Treasury within seven years from the time of the first advance, unless the NCUA Board, with the Treasury's approval, extends the final repayment date.

<sup>1</sup> Taken from NCUA Letter to Credit Unions 09-CU-14

### **THE STABILIZATION FUND (Continued)**

- The NCUA Board has discretion in setting the time and amount of repayments. At least 90 days prior to each repayment to the Treasury, the NCUA Board will determine if the Stabilization Fund has sufficient funds to make the repayment. If the Stabilization Fund does not have sufficient funds, it must assess each federally insured credit union an aggregate amount necessary to make the payment to the Treasury. The charge will be stated as a percent of insured shares as represented on the credit union's previous call report.
- The NCUSIF is prohibited from paying dividends to federally insured credit unions while the Stabilization Fund has an outstanding advance from the Treasury. Instead, the amount that would normally be paid as a dividend will be distributed to the Stabilization Fund.
- The Stabilization Fund is subject to the same administrative provisions as the NCUSIF including the preparation of an annual budget and audited financial statements.

### **TRANSFERRING THE CORPORATE STABILIZATION OBLIGATIONS**

The NCUA Board approved the following actions, which legally transfer the obligations of the corporate stabilization from the NCUSIF to the Stabilization Fund and essentially restore the equity in the NCUSIF:

- The Stabilization Fund will pay the NCUSIF \$1 billion for the full assignment of the capital note extended to U.S. Central Federal Credit Union.
- The Stabilization Fund will be legally obligated to pay any liability arising from the Temporary Corporate Credit Union Share Guarantee Program and the Temporary Corporate Credit Union Liquidity Guarantee Program.

### **RECAPITALIZATION OF THE NCUSIF DEPOSIT**

Finally, the NCUA Board took steps to pass the increase in the NCUSIF equity back to insured credit unions equal to 0.69% of each credit union's insured shares at December 31, 2008. This action restores each credit union's NCUSIF deposit back to its original value prior to the impairment previously recognized since the deposit is once again fully refundable.

### **IMPACT ON CREDIT UNION FINANCIAL REPORTING**

The Stabilization Fund and the actions taken by the NCUA Board will allow the NCUA to spread the costs of the corporate stabilization over the next several years. As a result, effective June 30, 2009, federally insured credit unions should adjust their financial reports as follows:

- Recognize the recapitalization of the NCUSIF deposit by increasing the deposit by 0.69% of December 31, 2008, insured shares and recognizing nonoperating income. The resulting asset balance should once again represent 1% of December 31, 2008, insured shares (up to \$100,000). (The income recognized for the recapitalization will offset the expense previously recognized for the impairment in the income statement, but the two amounts should be reported separately.)
- Earlier, the NCUA expected to assess all credit unions for 0.30% of insured shares (up to \$100,000) in the fall of 2009. The NCUA now estimates the assessment will be 0.15% of insured shares (up to \$250,000) as of June 30, 2009, (for credit unions over \$50 million in assets) or December 31, 2008, (for credit unions less than \$50 million in assets). Credit unions should adjust the accrual and premium expense previously recognized for this assessment to the new estimate.

## **OTHER FINANCIAL REPORTING CONSIDERATIONS**

The following addresses some other reporting considerations for credit unions:

- The impairment of the NCUSIF deposit and original premium assessment previously recognized should not be restated. The impairment and original estimate of the premium assessment were based on information known at the time. The new law and NCUA Board actions allowed the NCUSIF deposit to be recapitalized and changed the estimate of the premium assessment. Therefore, the recapitalization of the NCUSIF deposit is recognized as nonoperating income and the change in the premium assessment is recognized as a change in estimate, both effective June 30, 2009.
- The recapitalization of the NCUSIF deposit should be reported as nonoperating income in the June 2009 call report. In the September 2009 and December 2009 call reports, a separate line will be available to report the recapitalization of the NCUSIF deposit.
- If the NCUSIF deposit impairment and/or premium assessment were not previously recognized in the December 2008 or March 2009 call report, the NCUA expects the credit union to file an amended call report to properly reflect the impairment and original premium assessment.
- Future premium assessments will be based on the new insured limit of \$250,000.
- Credit unions will also be receiving an assessment in the fall of 2009 (for credit unions over \$50 million in assets) or in the spring of 2010 (for credit unions less than \$50 million in assets) to increase their NCUSIF deposit balance to 1% of their insured shares up to \$250,000. Credit unions will not recognize expense for this assessment, but it will require a cash payment to the NCUSIF.

## **OTHER MATTERS**

The NCUA has also provided guidance regarding the impact of the Stabilization Fund and the NCUA Board actions on matters unrelated to immediate financial reporting issues. These matters include:

- Prompt corrective action implications
- Future premium assessments
- Other related provisions of the Helping Families Save Their Homes Act

The NCUA Letter to Credit Unions 09-CU-14 summarizes many of these issues and other information can be found on the Corporate Stabilization Program page of the NCUA website (<http://www.ncua.gov>).

## **CONTACT INFORMATION**

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