June 26, 2012

To: Bill Cheney

From: Bill Hampel

RE: 2011 Audited Statements for Corporate Stabilization Fund

Last Friday, NCUA released audited financials for the Temporary Corporate Credit Union Stabilization Fund. Although coming four months after the release of financial statements for the other major funds managed by NCUA, the Stabilization Fund statements came about six months earlier than last year.

The most important implication for credit unions from the new financial statements is what they say about the likely remaining assessments for the Stabilization Fund. In the press release accompanying the release of the statements, NCUA Chair Debbie Matz says “NCUA staff is now working to update the Corporate System Resolution loss projections through year-end 2011, and we will post this information on NCUA’s Corporate System Resolution Costs webpage by the end of June”. We expect this update sometime next week.

Pending that update, we can infer from the financial statements that as of last December, NCUA’s estimates of the ultimate costs of the corporate stabilization are essentially unchanged from what they were at the end of 2010. This is based on the fact that the improvement in the Total Net Position of the Fund of approximately $2.2 billion, (from -7.5 billion as of December 2010 to -$5.3 billion as of December 2011) just about equals the sum of the last year’s assessment ($1.95 billion) and the transfer of excess equity from the share insurance fund of $0.28 billion.1 The negative net position of $5.3 billion as of December 2011 represents the latest estimate of the amount to be paid in future stabilization assessments.

It is encouraging that the loss estimates have not increased over the full year 2011. However, the fact that they did not fall as previously suggested is disappointing. As of last August, NCUA’s website indicated that the “Remaining Projected Assessments” were in the range of $1.9 billion to $6.2 billion, (midpoint of $4 billion). Considering the timing of the assessment and NCUSIF transfer, this suggests that the loss estimates declined by about $1.5 billion from December 2010

1 Recall that last year, the share insurance fund would have paid a dividend of $280 million on credit unions’ 1% NCUSIF deposits but for the existence of the Corporate Stabilization Fund. So long as the stabilization fund has outstanding borrowings from the Treasury, any funds that might have been paid as NCUSIF dividends must instead be transferred to the Stabilization Fund. Thus, instead of receiving a share insurance fund dividend, credit unions’ future assessments are reduced by the amount of the transfer.
to August 2011, then rose by a similar amount by the end of the year, to end the full year unchanged.²

Since most of the eventual losses are yet to actually occur, we should remember that these are just estimates, and the final results will be different. The fact that the US housing market has been improving over the past few months suggests the ultimate losses could be lower. Nevertheless, based on this latest loss estimate, it would require annual assessments of approximately 10 basis points for the next 5 to 6 years to pay off the total resolution costs.

NCUA officials have told us that this year’s assessment will be on the agenda for its board meeting on July 24. The agency has signaled a range of 8 bp to 11 bp of insured shares. Ten basis points is a likely number to expect.

We are in the process of conducting our own valuation of the remaining portfolios. The results of that analysis should be available in a few months.

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² Remaining projected assessments, which began the 2011 at $7.5 billion, were reduced by the $2 billion assessment and a $1.5 billion reduction in expected losses to $4 billion as of August. They were then further reduced by the $0.3 billion NCUSIF transfer, but increased by a $1.5 billion rise in expected losses, to $5.2 billion by yearend.