Statement on NCUA’s 8 basis point Corporate Stabilization Assessment

Today, the NCUA Board approved a 2013 Corporate Stabilization Fund assessment of 8 basis points (bp) of insured shares as of June 2013. The Agency announced that the assessment will be payable in October and that credit unions should record the expense in July, consistent with GAAP, and on their third quarter Call Reports.

The good news is that the assessment is on the low end of the projected range of 8 bp to 11 bp. Based on CUNA's previous analysis of the corporate securities, previous information released by NCUA, and recent and projected trends for the economy in general and the housing market in particular, this year's assessment amount of about $700 million could well be sufficient to cover the remaining losses on the legacy assets acquired from the five failed corporate credit unions.

To the extent this turns out to be the case, an assessment next year may well be unnecessary and therefore unlikely. The passage of another year and the performance of the legacy assets over that period will provide more clarity on any remaining losses. Of course, the stronger the recovery in the housing market remains, the more likely the losses are almost fully covered.

Despite this good news, one can wonder whether it was really necessary to cover almost all the losses of corporate stabilization in just the first five years of what could have been a thirteen-year program, from 2009 to 2021. Because many of the remaining losses won't actually be realized until a few more years into the future, it would have been preferable for the timing of the assessments to more closely correspond to the timing of the realization of the losses. That also would have smoothed the effects of the assessments on credit union income statements. As it is, assessments to date (combined with the depleted capital of the failed corporates) exceed the amount of actually realized losses by about $4 billion. By suggesting the remaining losses are largely paid for, we are saying that there are about $4 billion of losses yet to be realized.

Unfortunately, the timing of the assessments is being driven by factors other than actual losses or the latest estimates of losses to be covered. It is clear from statements made by NCUA officials at today's board meeting that the assessment decision was based more on liquidity concerns than on loss estimates. Specifically, Agency officials appear to be intent on paying down the $4.7 billion balance of the Agency’s $6 billion line of credit from Treasury to build a sufficient cushion for emergency liquidity needs the Agency or share insurance fund might encounter. In the past, the Central Liquidity Facility provided access to large amounts of emergency liquidity to NCUA, but in its present form, the CLF no longer serves that purpose.

After the bulk of this year’s 8 bp assessment is applied to the Treasury debt, the $2 billion of available liquidity should be more than sufficient to meet any emergency liquidity needs NCUA might encounter over the next several years. That, plus the likelihood that the losses on the legacy assets are largely paid for should preclude the need for anything but minimal assessments for the next few years. It is even possible, if the recovery of the housing market is stronger than expected, that credit unions might be able to look forward to a rebate of previous assessments toward the end of the decade. Credit unions shouldn’t count on that, but it’s not beyond the realm of possibility.

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