TO: Bill Cheney, CUNA President and CEO

FM: Mary Dunn, CUNA SVP and Deputy General Counsel

Bill Hampel, CUNA Chief Economist

RE: NCUA Board Meeting Today on TCCUSF Prepayment Program

DT: June 29, 2011

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As you requested, here is a report on the NCUA Board meeting today that you attended with us and other CUNA staff members. The Board approved a program to allow federally-insured credit unions to voluntarily pre-pay some of their future Temporary Corporate Credit Union Stabilization Fund (TCCUSF) assessments.

The Board made changes in the program from the proposal issued in May, including some important revisions that address concerns CUNA raised, which are highlighted in this summary. Each member of the Board emphasized that the program does not benefit NCUA but rather was developed at the request of credit unions and other organizations, which included CUNA, to allow help reduce this year’s assessment and spread out future assessments.

Essentially, here are the changes from the initial proposal:

* The minimum size of the program has been raised from $300 million to $500 million, and that amount has also been set as the maximum size of the program. In other words, if there are sufficient commitments from credit unions to fund $500 million in prepayments, the program will be implemented at $500 million. If not, the program will not proceed.
* At this $500 million level, which amounts to 6.4 basis points (bp) of insured shares, this year’s assessment would be lowered from 24.9 bp to 18.5 bp.
* The minimum level for each credit union’s participation has been lowered (to $1,000) so that 98% of credit unions are eligible, and the maximum participation per credit union has been raised to 48 basis points of insured shares.
* All prepayments will be applied to reducing this year’s assessment.

Changes that CUNA had requested that were not included in the final plan are:

* The payment of interest on the prepaid amounts. Agency officials maintain that the law does not allow them to borrow from credit unions on an unsecured basis.
* A minimum size for the program of $1 billion. At that level, this year’s assessment could have been reduced to about 12 bp. Agency officials explained that a prepayment of more than $500 million might have created a situation in which the Fund would not receive sufficient cash flows in 2013 and 2014, as too large a portion of assessments in those years would have been covered by prepayments made this year, rather than new cash in those years.

Whether the changes result in sufficient benefits to credit unions will be a decision each credit union will have to make. CUNA appreciates NCUA’s efforts in developing the program, but is disappointed that the program could not have been larger than $500 million, which would have allowed a greater reduction of this year’s assessment.

Details of the board meeting and the proposed plan follow.

The NCUA Board Action Memorandum approving the TCCUSF prepayment program, the prepayment program’s terms and conditions, and the instructions for making a prepayment under the program are available as attachments to the Board’s meeting [agenda](http://www.ncua.gov/GenInfo/BoardandAction/DraftBoardActions/index.aspx).

**Elements of the Voluntary Prepayment of Corporate Stabilization Fund Assessment**

As adopted by the Board, the provisions of the prepayment plan include:

* The minimum amount individual credit unions could provide would be $1,000 or 5 bp based on March 31, 2011 insured shares, whichever is greater. The agency had proposed a $10,000 minimum contribution. This change will enable smaller credit unions to participate if they choose to do so, a result that CUNA urged.
* The maximum individual credit union participation amount is 48 basis points based on insured shares as of March 31, 2011. NCUA had proposed a maximum of 36 basis points. This change will help address issues raised by some of the 169 credit unions that commented on the proposal that they want to provide larger prepayments now. (There were 184 total comment letters filed, including letters from leagues and CUNA.)
* The size of the program is capped at $500 million. If less than $500 million is committed by federally insured credit unions, the agency said it will not implement the program. If more than $500 million is committed, prepayments from credit unions will be prorated in order not to exceed the $500 million target. CUNA had urged the agency to set the target level at $1 billion in prepaid assessments, in order to maximize benefits to credit unions. However, the agency said it is concerned that if more than $500 million is brought in now, it could affect future cash flow needs of the Fund and the TCCUSF’s borrowing capacity for future years. The Board said that limiting the size of the program to $500 million will provide flexibility to manage the impact of regular annual assessments, which are an expense to credit unions, and manage the cash flow needs of the TCCUSF and its line of credit with the Treasury over the next 4 years.
* Participation is strictly voluntary and any federally-insured credit union that meets the commitment conditions may participate.
* NCUA will add a line for the prepayment on the 5300 Call Report after September 30, 2011. This will allow the NCUA to exclude the prepayment amount from the calculation of a credit union’s risk based net worth.
* Here is the timeline NCUA said it would follow regarding the commitment and collection process for the prepayments:
  + NCUA will be sending a letter to credit unions, possibly today, regarding the prepayment program and plans to hold a webinar July 11 on the details of the prepaid assessments. The letter will include instructions and program agreements interested credit unions must complete and file with NCUA.
  + By July 29, 2011, NCUA must receive the completed program form from interested credit unions.
  + On August 9, 2011, NCUA will email all credit unions that submitted forms about the results of the total commitments.
  + On August 18, if the minimum target volume of commitments is reached, NCUA will directly debit a credit union’s account through Pay.Gov.
* While the date has not been set, NCUA is planning a special Board meeting in August to determine the amount of the regular assessment for 2011.
* NCUA may develop a similar prepaid assessment program for future years, depending on credit unions’ participation in this program, and if needed.

In response to a question raised by credit unions as to why they cannot simply pay all of their TCCUSF assessments now, agency staff said the ultimate costs of the TCCUSF are now known (although the total cost is estimated at approximately 99 basis points). Also, they were concerned about the impact on individual institutions and wanted to structure assessments so they would not have a material impact on credit unions’ balance sheets or on liquidity.

According to the staff, the cost of the program to NCUA will be about $100,000 which includes agency staff time.

Credit unions are encouraged to carefully consider the revised TCCUSF assessment prepayment plan. As they would for any other program involving material credit union resources, credit unions should consider the impact of participation on their earnings, liquidity, and interest rate profile. Credit unions are also strongly encouraged to talk with their accountants and auditors about the program.

CUNA will be following up shortly to provide more detailed information to Leagues and credit unions on the program.