January 2017 ***Volume 1, Issue 1***

2017 NCUSIF Premium Assessment

During the November NCUA Board open meeting, the Office of Examination and Insurance estimated that a share insurance premium of 3 to 6 basis points will be necessary in 2017 to restore the Share Insurance Fund's equity ratio to the normal operating level of 1.3 percent. Growth of insured shares in credit unions coupled with a continuing low interest-rate environment is causing the Share Insurance Fund's equity ratio to decline.

The proposed premium range is provided only for credit union budgeting purposes. Credit unions should not actually accrue for a premium until one is approved by the NCUA Board. The Board can vote any time this year to impose a premium assessment or choose to not issue an assessment for 2017.

The Federal Credit Union Act (FCUA) governs the allowable NCUSIF ratio. The FCUA specifically states – The Board may assess a premium charge only if –

1. The Fund's equity ratio is less than 1.3 percent; and
2. The premium charge does not exceed the amount necessary to restore the equity ratio to 1.3 percent.

Under the FCUA, a premium charge is REQUIRED if the equity ratio falls below 1.2 percent. In the event the equity ratio were to fall below 1.2 percent, the Board would need to assess a premium charge in such an amount as the Board determines necessary to restore the equity ratio to, and maintain that ratio at, 1.2 percent.

Credit unions have not had to pay a premium assessment to the NCUSIF since 2010. There is **NO** projected assessment under consideration for the Stabilization Fund.

The NCUA Board can vote any time this year to impose a premium assessment or choose to not issue an assessment for 2017.

MCUL & Affiliates supports efforts by CUNA and Sister Leagues to discourage the NCUA from assessing a share insurance premium next year, especially with interest rates on the rise, which should improve NCUA's investment yields. Because we also know that historically high exam staffing levels are driving the overall budget pressure being experienced by the NCUA, we also support the reduction of NCUA exam staffing levels, which have remained at high levels longer after the recent financial turmoil has passed. By rightsizing staffing levels, the NCUA will reduce payroll expenses, which will take pressure off the NCUSIF.

Please Note: The following FAQ is designed to provide an overview of the potential for an NCUSIF premium in 2017.

Q1. Why is there a projected assessment to cover the NCUSIF for 2017 when credit unions have not had to pay this assessment since 2010?

A1. According to the NCUA, the growth in credit union insured shares coupled with the continued low interest rate environment has resulted in a steady decline in the equity ratio. The equity ratio as of the end of the third quarter, 2016, was 1.27%, down from 1.29% in the third quarter, 2015. Based on the NCUA's current projections, the equity ratio is expected to fall between 1.24% and 1.26% in 2017.

- *It is important to note the proposed premium range of 3 to 6 basis points is provided strictly for credit union budgeting purposes. Credit unions should not actually accrue for a premium until one is approved by the NCUA Board, which typically would occur at the February or July 2017 Board meeting to align with regular credit union billing cycles.*

According to CUNA's recent white paper, *The Case against an NCUSIF Premium in 2017*, the NCUA's case for a potential premium assessment in 2017 is out of character given the NCUA's past successful management of the NCUSIF equity ratio. Additionally, the white paper attributes the recent marginal decline in the equity ratio to healthy growth of insured shares, coupled with low earnings resulting from an extended period of very low interest rates. Insurance losses have not been the culprit.

In a presentation on the prospects for a premium assessment, the NCUA provides estimates of the fund ratio for the next few years under a variety of assumptions. A summary is included in CUNA's report and is provided below.

NCUA PROJECTIONS FOR NCUSIF EQUITY RATIO:

As of Year End:	BASE-MINUS	BASE	BASE-PLUS
2016	1.26%	1.27%	1.27%
2017	1.24%	1.25%	1.26%
2018	1.22%	1.24%	1.26%
2019	1.20%	1.22%	1.25%
2020	1.19%	1.21%	1.24%

CUNA states, and you can see, these projections, even under the pessimistic base-minus case, the equity ratio will not approach the 1.2% premium-triggering level in 2017, hence the surprise that the NCUA is considering an assessment for 2017.

Q2. If the NCUA is not projecting the NCUSIF equity ratio to fall below 1.2 percent in 2017, why are they proposing a potential premium assessment?

A2. Very good question. The NCUA has never imposed a share insurance premium unless the equity ratio would end the year at or below 1.2%. By its own projections, that is unlikely to happen before 2020 or later. In a 2013 White Paper the NCUA suggested need to substantially increase the Equity Ratio from 1.3% to 1.5% so there are clearly very conservative elements within the agency that want even more capital in the fund than has ever been the case. In fact, as the chart below indicates, the NCUSIF has remained at a remarkably constant level over the last 30 years, which makes the perceived need for more capital even more puzzling.

Q3. Are there statutory requirements for managing the Share Insurance Fund?

A3. As previously addressed, the NCUA Board sets the normal operating level for the Share Insurance Fund at 1.3% and has remained at that level since December 2007. The NCUA Board has historically adopted 1.3% as the normal operating level, which means if the Fund ends a year with a ratio over 1.3%, it pays the excess as a dividend on credit unions' 1% deposits. Therefore, the normal operating "range" of the fund is from 1.2% (the statutory minimum established under the Federal Credit Union Act and to which anything below would require a premium assessment) and 1.3% (above which a dividend is paid). [1]

Q4. What is driving the NCUA's potential share insurance fund premium assessment?

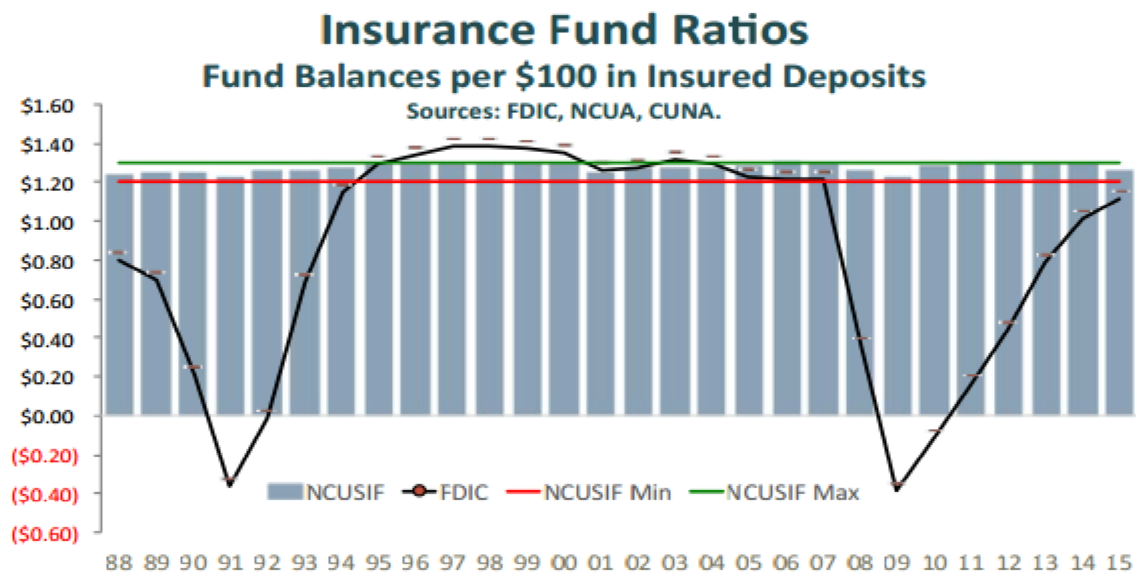
A4. According to NCUA Letter to Credit Unions 16-CU-10 the NCUA considered a number of factors in forecasting the equity ratio, including:

- Impact of premiums on net worth and profitability in aggregate and by individual credit unions;
- Range of possible losses incurred in resolving failed natural person credit unions and the level of reserves;
- Trends in CAMEL ratings;
- The pace of credit union failures;
- Earnings of the Share Insurance Fund's investments and Share Insurance Fund operating expenses; and
- Growth in insured shares.

The letter reiterates that credit unions should not expense any premium or assessment until actually declared by the NCUA Board, nor use the projection as the basis for any accruals of future expenses.

CUNA's white paper also addresses the potential assessment to credit unions. One element of the paper, detailed in the chart below, highlights the stability of the NCUSIF for over 20 years, from 1988 to 2015 in comparison to that of the FDIC.

[1] It is important to note that the NCUA is temporarily prohibited from paying a NCUSIF dividend to credit unions while the Temporary Corporate Stabilization Fund has an outstanding loan balance from Treasury. Instead what would have been a dividend must be transferred to the Stabilization Fund, which should increase the size of the eventual refund to credit unions from the Stabilization Fund.



Insurance Fund Ratios
Fund Balances per $100 in Insured Deposits
Sources: FDIC, NCUA, CUNA.
$1.60
$1.40
$1.20
$1.00
$0.80
$0.60
$0.40
$0.20
$0.00
($0.20)
($0.40)
($0.60)
NCUSIF
FDIC
NCUSIF Min
NCUSIF Max
88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15