Voluntary Prepayment of Assessments
Potential Program Design Outline

Introduction

Stakeholders requested NCUA explore a program of prepaid, or advanced, assessments similar to the program adopted by the FDIC in 2009.[1] In response to these requests by stakeholders in the credit union system for the opportunity to use excess funds to aid in managing corporate resolution funding needs over the next two years, NCUA is exploring a program to provide enhanced flexibility in setting future Stabilization Fund assessments.

When the Corporate System Resolution program was implemented in September 2010, NCUA made it clear that upfront cash outlays were expected in 2011 and 2012. The budget guidance NCUA provided to credit unions in November 2010 indicated 2011 Stabilization Fund assessments were expected to be in the range of 20 to 25 basis points.[2] This range included the upfront anticipated cash outlays as a significant factor.

After accounting for all proceeds raised through NGN sales and monetization of other asset management estate assets, Stabilization Fund cash flow projections indicate a total of $8.44 billion in cash outlays will need to be funded through October 2012 with borrowed funds, assessments, and/or other alternatives. Use of NCUA's $6 billion borrowing authority through Treasury would provide the majority of the funding, but NCUA needs to maintain a margin against the borrowing limit for contingencies of at least $500 million. This leaves $2.94 billion in additional funding needed (see Figure 1). **These projected upfront cash needs are not indicative of any change to the total estimated corporate resolution costs at this point in time.**

Figure 1
Stabilization Fund Uses and Sources of Funds
(amounts in billions)

Uses of Funds to 10/31/12	
Corporate medium term note guarantee – (final maturity due in October 2012)[3]	5.64
Notes payable to bridge corporates – September 2011 (net of proceeds raised by the NGN program)[4]	3.35
Other miscellaneous obligations	0.30
a. Total projected uses of funds	9.29
Sources of Funds to 10/31/12	

[1] In this document the terms prepaid and advanced assessments are used interchangeably.
[2] All figures provided herein are for the Stabilization Fund only. The figures and estimates discussed do not include any potential NCUSIF premiums related to losses in consumer credit unions.
[3] Principal and interest of $2.07 billion is due in October 2011, and another $3.57 billion due in October 2012.
[4] The proceeds from the NGN transactions, combined with principal pay-downs on legacy assets awaiting securitization, put total proceeds accumulated within original estimates. NGN issuances were NCUA's primary source to raise the necessary funding to conduct the payout of the guaranteed deposits and borrowings in the failed corporate credit unions, with funds from assessments and Treasury borrowings making up the difference.

Monetization of Other Corporate Assets	0.58
Miscellaneous sources	0.27
b. Total projected sources of funds	0.85
Net Pre-2013 Obligations to be funded (a-b)	**8.44**
Less: Treasury Borrowing (the $6 billion statutory limit less $500 million for contingencies)[5]	5.50
Pre-2013 Projected Funding Needs	**2.94**

Raising $2.94 billion equates to assessments of about 38 basis points of insured shares in total for 2011 and 2012 combined. For example, a 2011 assessment of 25 basis points and a 2012 assessment of 13 basis points, totaling 38 basis points combined, would generate the needed $2.94 billion. This level of assessments is within the range used for NCUA's original modeling of the impact on credit union earnings, net worth, and liquidity of the timing and amount of corporate resolution costs.

When setting the Stabilization Fund assessment in 2011 NCUA will consider the following:

- Liquidity needs of the Stabilization Fund;
- Cost of borrowed funds;
- Forecast of future performance of the NCUSIF and the potential for NCUSIF premiums; and
- Impact of both Stabilization Fund assessments and potential NCUSIF premiums on individual credit unions and the industry.

Overview of Voluntary Program to Collect Assessments in Advance
Recognizing the upfront cash needs of the Stabilization Fund through 2012, stakeholders requested NCUA explore a program of prepaid assessments similar to the program adopted by the FDIC in 2009. NCUA does not have the legal authority to mandate prepaid assessments. However, NCUA does have authority to collect assessments in advance on a voluntary basis.[6]

Accordingly, NCUA has developed a framework for how a voluntary program for collection of assessments in advance ("the Program") might work. The remainder of this document lays out some of the specific details necessary to make such a program work.

Contemplated Terms and Conditions of the Program

[5] The Stabilization Fund also will maintain on hand $200 to $250 million in cash and cash equivalents.
[6] The legal authority for the collecting assessments in advance on a voluntary basis is located at 12 U.S.C. §1772a. Any such advance is analogous to an interest free loan. The NCUA Board may accept interest free loans pursuant to §127 of the Federal Credit Union Act.

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The following are sample Program terms and conditions. NCUA invites comment from the public on the sample terms and conditions, as well as any additional terms and conditions that might be warranted.

1. Eligible Credit Unions. Participation would be voluntary. All federally insured credit unions would be eligible to participate provided the minimum participation amounts are met (see items #3 and #4 below).

2. Interest Rate on Prepaid Balance. The interest rate would be zero. Participating credit unions would not receive any interest or any other form of compensation from NCUA in connection with the Program.

3. Individual Credit Union Minimum and Maximum Prepaid Amount. The minimum advance amount would be $10,000.[7] The maximum advance amount would be 36 basis points of insured shares as of March 31, 2011.[8] Participating credit unions could advance any amount between the $10,000 minimum and the credit union's maximum level of 36 basis points of insured shares. Minimum and maximum individual institution limits are necessary in order to balance transaction costs and administrative burdens and ensure no single credit union assumes an inordinate burden.

4. *Minimum Aggregate Prepaid Assessments*. The minimum aggregate level of advanced assessments would be $300 million.[9] This minimum aggregate participation in the Program is intended to ensure broad involvement and meaningful funding levels, and give credit unions contemplating participation reasonable assurance of sufficient aggregate Program participation to warrant the opportunity cost of making the advance before committing the funds.

5. *Commitment and Collection Process*. [Note: Please see the section below discussing a generic timeline for the Program regarding the due dates for the notice and collection process.]

> A. Participating credit unions would need to complete and sign a Program agreement which (a) documents the credit union's agreement to the terms of the Program, (b) indicates the amount of the advance the credit union is committing to, and (c) provides consent for NCUA to electronically withdraw the amount of the advance from the credit union's designated account.[10] NCUA would need to receive the Program agreements from credit unions by [insert date].

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[7] Practically, credit unions with assets more than $2.8 million are able to participate in the Program given the interplay between the maximum individual credit union limit of 36 basis points and the $10,000 minimum dollar limit. Thus, roughly 6,023 credit unions (83%) would be eligible.
[8] The maximum individual credit union limit of 36 basis points is based on approximately three year's worth of a straight-line level of projected Stabilization Fund assessments.
[9] The $300 million equates to approximately 4 basis points of system-wide insured shares.
[10] Credit unions would need to ensure a current *Authorization Agreement for Electronic Funds Transfer Payments* form is on file with NCUA.

B. Credit unions that submit Program agreements would be notified by email no later than [insert date] of NCUA's acceptance of the agreement if the $300 million minimum aggregate participation level is achieved. If the required minimum volume is met, then NCUA would process a direct debit of the credit union's account through Pay.Gov on [insert date]. If the minimum aggregate amount is not achieved, credit unions that submitted a Program agreement would be notified by email that the minimum overall Program participation was not achieved and no further action would be taken.

6. *Application of Advancement Balance to Future Assessments*. NCUA would apply the Program amounts as offsets against Stabilization Fund assessments for the years 2013 and thereafter. If the balance of the advance account exceeds the amount due under the first assessment invoice issued by NCUA in 2013, the NCUA would deduct the excess amount from Stabilization Fund assessments in subsequent years until the balance of the credit union's advance account is reduced to zero. In the event the credit union has a remaining advancement balance at the end of the life of the Stabilization Fund (June 2021), NCUA would return the balance to the credit union. As an obligation of the Stabilization Fund, the return of the balance to the credit union in the manner described above would be guaranteed by the NCUA and backed by the full faith and credit of the United States. In the event a participating credit union merges with another institution, the account balance would belong to the continuing institution; or in the event of liquidation would belong to the liquidation estate. In no event, however, could a credit union or its merger partner or its liquidation estate redeem the Program account balance other than at the time and in the manner described above. In addition, neither the credit union nor its successors would receive any interest or other compensation in exchange for Program balances. Other than as described above, Program advances would not be redeemable by the credit union or successor institution.

7. *Treatment of Program Balances for Risk Based Net Worth*. Program balances would be classified as a low-risk asset for computation of the Risk Based Net Worth Requirement. A field to report outstanding voluntary assessment advances would be included on the [insert date] Call Report.

8. *Accounting Treatment of Program Advances*. As a credit union considers the appropriate financial reporting of its participation in the Program, it should review relevant generally accepted accounting principles (GAAP) and consult its independent accountant. The NCUA program is structured somewhat differently than the FDIC's prepaid assessment program so the related accounting may differ. GAAP guidance on loan accounting, the interest method, imputing interest, contributions, and applying GAAP to immaterial items may be considerations in reporting. In no case would amounts of imputed interest, if any, be added to the advance balance as available to absorb assessments. Notwithstanding outstanding advance balances, each

participating credit union would record assessment expenses annually as they are made by the NCUA Board.[11]

Generic Program Timeline

Date	Action
X	NCUA Board approval of the Program.
X+1 day	Letter to Credit Unions to explain Program and solicit commitments.
X+40 days	Program agreement forms must be received by NCUA.
X+42 days	NCUA emails to credit unions that submitted Program agreements about results of aggregate commitments.
X+47 days	If the required minimum volume is met, then NCUA will process a direct debit of the credit union's account through Pay.Gov.

Program Benefits and Considerations

The industry has substantial liquidity. As of March 31, 2011, federally-insured credit unions held more than $80 billion in liquid balances. The NCUA believes credit unions would for the most part fund any voluntary advanced assessments from available cash and short term investments. With the low interest rate environment and substantial liquidity in the credit union system, the impact on credit unions of providing liquidity to the Stabilization Fund will be minimal, not materially affecting net income or lending activities. Such a program could enhance NCUA's flexibility in setting Stabilization Fund assessments and reduce the level of Stabilization Fund borrowings and associated interest expense. Program funds will be applied to Stabilization Fund assessments the NCUA Board sets for periods after 2012 (i.e., will not be applied to any assessments the NCUA Board makes in 2011 and 2012). Also, maximum participation in the Program would raise $2.8 billion, which would result in both a reduction of assessments and in the amount of funds borrowed from Treasury by the Stabilization Fund, hence not a dollar-for-dollar lowering of assessments in 2011 and 2012.

Credit unions contemplating participating in such a program would need to weigh the associated lost opportunity cost and impact on liquidity of not having access to any funds provided. The voluntary nature of the Program could also pose a "free-rider" issue, where all credit unions could benefit from reductions in assessments in the short term at the expense of the subset of credit unions that voluntarily participate in the Program. While NCUA believes there should be no adverse accounting implications for

[11] To the extent that the National Credit Union Administration assesses premiums to cover prior operating losses of the insurance fund or to increase the fund balance to normal operating levels, credit unions shall expense those premiums when assessed. *[FASB ASC 942, Financial Services Depository and Lending-325, Investments-Other-35, Subsequent Measurement-4c]*

credit unions participating in such a program, as part of its due diligence each credit union would need to research the appropriate accounting treatment prior to any commitment.

Input Solicited from the Public

In addition to comments on specific details of the contemplated Program outlined above, NCUA invites comments on:

- The efficacy of such an approach to funding, including any public policy considerations.
- Accounting treatment and considerations for such a program.
- The extent to which there would be sufficient interest in such a program to warrant proceeding.
- Any other suggestions or concerns related to this type of program.

In order to factor into the NCUA Board's decision regarding the Stabilization Fund assessment for 2011, NCUA would need to know with certainty the amount of cash raised through any such Program. Given the $2.07 billion maturity of guaranteed notes on 10/19/2011, this necessitates adoption of any such program by late June 2011. **Thus, it is imperative NCUA receive any comments from the public by June 20, 2011.**

Interested parties may submit comments by any of the following methods (Please send comments by one method only – comments will be posted publicly.) NCUA has decided to publicly share the comments on the voluntary prepaid assessments proposal. NCUA has sought public feedback to determine whether the agency should move forward with the program and, if so, what form the final program will take.

Concern that some comments might include sensitive business or financial information led NCUA to originally decide not to post the comments publicly. A review of the comments received to date, however, indicates that none of them contain such sensitive information. Accordingly, NCUA has now determined it will, beginning sometime shortly after June 9th, to post to its website feedback it receives on the program.

Because NCUA received some comments before making this determination, and entities may have provided feedback under the belief their comments would not be posted publicly. To keep an already submitted letter from being posted, these parties need to email regcomments@ncua.gov by June 10, 2011. Unless NCUA hears otherwise on or before June 10th, the agency will post all comments on its website.

NCUA will consider all comments, whether posted or not, when determining the future of program.

- *E-mail:* Address to *regcomments@ncua.gov.* Include ''[Your name] —Comments on Potential Voluntary Prepaid Assessments Program'' in the e-mail subject line.

- *Fax:* (703) 518–6319. Use the subject line described above for e-mail.

- *Mail:* Address to Mary Rupp, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314–3428.

If you have questions on this Program please contact:

Wendy Angus, Director of Risk Management
Office of Examination and Insurance
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314–3428.
703-518-6363