

ATTENTION: CREDIT UNION CEOs!

NCUA Proposal for *Voluntary Prepayment of Corporate CU Fund Assessments*

The New Jersey Credit Union League is seeking comments from credit union CEOs regarding the NCUA Board's decision from its May 19th meeting to put forth a proposal on *Voluntary Prepayments of Corporate CU Fund Assessments* for consideration by the credit union system. Meeting results available here,

<http://www.ncua.gov/GenInfo/BoardandAction/Reports/2011/BAB11-0519.pdf>.

NCUA reported that according to its analysis, the Federal Credit Union Act does not allow the agency to charge a mandatory prepaid assessment to all credit unions. However, NCUA has developed a plan <http://www.ncua.gov/GenInfo/BoardandAction/DraftBoardActions/2011/May19/Item5-11-0519.pdf> to allow credit unions to prepay some of their corporate stabilization assessments on a voluntary basis.

Specifically the League would like to know whether New Jersey credit unions;

- 1) Are willing to participate in the program;
- 2) Have suggestions for improvements;
- 3) Have any accounting considerations; and
- 4) Have any public policy concerns.

Your opinion is extremely valuable and the League urges you to review NCUA's proposal closely. Please return your comments to the League by close of business June 13, 2011. Comments to the League should bear the subject line: ***Voluntary Prepayments*** and may be sent by email to nfoggie@njcul.org. Questions should be directed to Nicola Foggie, Director of Compliance, 1-800-792-8861, ext. 112.

NCUA's deadline for comments from the public is June 20, 2011.

Highlights of the proposal according to CUNA's analysis;

http://cuna.org/reg_advocacy/member/ncua_board/ncua_boardsumm.html

- To the extent there is voluntary participation in the prepaid assessment program, there will be a reduction in the assessments all credit unions will be required to pay in 2011 and 2012.
- Subject to some limitations, NCUA will permit a credit union to prepay corporate stabilization assessments by up to 36 basis points of insured shares this year. The minimum amount that a credit union could advance would be \$10,000.

- These prepayments would then become an “account” (a prepaid asset) from which actual assessments in 2013 and 2014 and later could be paid. These prepayments would essentially amount to interest free loans to the Stabilization Fund, and would reduce the size of the required assessments in 2011 and 2012. Also, the prepayments would be an asset purchase rather than an expense, and would not be expensed until used to cover assessments in 2013 and beyond. NCUA will solicit interest by credit unions in the program before finalizing it. If “subscriptions” by credit unions total less than \$300 million, the program will not be implemented.
- CUNA estimates that if all eligible credit unions participate to the maximum extent permitted, the 2011 assessment to all credit unions would be around 10 basis points instead of 25 bp. Next year’s assessment would likely be around 10 bp instead of 13 bp. Subsequent assessments would likely be around 9 bp and would gradually decline as total insured shares in credit unions grow. Again, this assumes no change in the expected losses on the legacy asset portfolios over the life of the program and using the full 11 years of the stabilization fund to cover the costs.
- Participation by any credit union would essentially involve granting the corporate stabilization fund an interest free loan for a few years. At current interest rates, there would not be substantial opportunity costs, but rates could be higher next year and the year after.

More information will be forthcoming as CUNA is working on providing more information and guidance on how the prepayment plan would work. NCUA is expected to hold a webinar next week. The League will publish the date and time in the Daily Exchange and the Weekly Exchange newsletters once available.