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National Association of Federally-Insured Credit Unions

February 17, 2021

The Honorable Todd M. Harper, Chairman
The Honorable Kyle S. Hauptman, Vice Chairman
The Honorable Rodney E. Hood, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Share Insurance Fund Financial Conditions

Dear Chairman Harper, Vice Chairman Hauptman and Board Member Hood:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to urge caution as it pertains to premium charges from the National Credit Union Share Insurance Fund (SIF). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve nearly 121 million consumers with personal and small business financial service products. As we have consistently stated in the past, NAFCU opposes any premium that is the direct result of excess share growth rather than material weakness in the SIF. The 2020 SIF audited financial statements show that the fund remains in a solid position, and that no premium is necessary at this time.

Condition of the Share Insurance Fund

Along a number of dimensions, the year-end financials of the SIF reflect the overall strength of the fund. This is due to the resiliency of the credit union industry even in the midst of an extraordinary crisis, as well as the effective management of the fund by the NCUA. Although asset growth surged during the year, assets held in CAMEL 3, 4, and 5 rated credit unions declined from $52.5 billion at the end of 2019 to $50.3 billion at the end of 2020. Furthermore, after spiking in March due to the uncertainties associated with COVID-19, insurance loss reserves steadily declined during the year. In March reserves totaled $177.7 million, or 13.9 cents per $1,000 of insured shares. By December reserves fell to 12.1 cents per $1,000 of insured shares as the outlook for losses improved. There was just one credit union failure during 2020.

The key mechanism for funding the SIF is credit unions' capitalization deposit, which is established by the Federal Credit Union Act as equal to one percent of insured shares. However, there is a persistent lag in the recognition of changes in the capitalization deposit, as the agency must certify call report data and generate invoices before those values can be recognized in SIF financial statements. However, the agency's standing practice is to calculate the equity ratio using total estimated insured shares as the denominator, even before the capitalization deposit billings take place. The result is a temporary mismatch between the numerator and denominator, where the denominator reflects insured shares as of one date, but the equity in the numerator uses the capitalization deposits as of a date six months earlier, roughly speaking. This mismatch only persists for a brief time until the capitalization deposit adjustments are billed, but it does span the period of time where the audited equity ratio is calculated.

This temporary outage tends to be small, in the order of 1 or 2 basis points of insured shares. However, lately it has been much larger due to extremely high levels of share growth. As reported in the 2020 audited financial statements, the equity ratio at year end was 1.26 percent. Although this is below the threshold that governs whether the agency has the statutory authority to charge a premium, NAFCU anticipates that the equity ratio will increase above that statutory threshold once capitalization deposit adjustments are recognized next month. Hence, any authority that the agency has to charge a premium merely reflects the aforementioned timing mismatch. NAFCU believes the agency should refrain from charging a SIF premium at this time.

Conclusion

Thank you for your attention to this matter and we would be happy to discuss our thoughts on the Share Insurance Fund in more detail. NAFCU supports a strong SIF, and it is ultimately the strength of the SIF which is the primary reason that a premium is not needed at this time. If you have any questions, please do not hesitate to contact Curtis Long, NAFCU's Chief Economist and Vice President of Research, at clong@nafcu.org or (703) 842-2276.

Sincerely,

Curtis Long

Curtis Long
Vice President of Research and Chief Economist