

# TECHNICAL GUIDE

*A Publication of Nearman, Maynard, Vallez, CPAs*

Since the issuance of *NCUA Letter to Credit Unions (LTCU) #09-CU-02* by the *National Credit Union Administration (NCUA)* last week detailing their “*Corporate Credit Union System Strategy*,” the firm of Nearman, Maynard, Vallez, CPAs has participated in numerous conference calls, webinars, and discussions with representatives of the *American Institute of Certified Public Accountants (AICPA)*, NCUA, and other credit union practitioners concerning this issue. This issue affects the entire Credit Union Industry; therefore, based on our discussions, *Generally Accepted Accounting Principles (GAAP)*, and our *Professional Standards*, we have prepared this summary detailing the related accounting issues and recommended accounting treatment.

## **Share Insurance Fund Deposit Impairment**

The NCUA has stated due to the capital infusion to U.S. Central Federal Credit Union from the *National Credit Union Share Insurance Fund (NCUSIF)* and other NCUA Board actions highlighted in the LTCU, the NCUSIF is impaired. The NCUSIF impairment is estimated to equal 51 percent of each credit union’s NCUSIF deposit. Based on the timing and events surrounding the NCUSIF impairment it is our opinion this impairment occurred in 2009 and should be recorded immediately in 2009. For credit unions with an audit date of December 31, 2008, this event would be disclosed as a type II subsequent event and footnoted in the financial statements. The conclusion and support for the accounting treatment is based on the following:

A. The NCUA stated in a recent webinar hosted by the *National Association of Federal Credit Unions (NAFCU)* the December 31, 2008 NCUSIF financial statements will be treated as a type II subsequent event and, therefore, the impairment will not be recorded as an impairment to the NCUSIF’s income statement for the period ended December 31, 2008.

B. Although the NCUA Board action was due to the impairment at U.S. Central Federal Credit Union as of December 31, 2008, the share insurance fund was not impaired until the NCUA Board took action in January 2009.

**Conclusion:** Based on the facts and events above, credit unions must record the impairment of the NCUSIF fund as soon as it became impaired, which was in 2009.

## **Premium Assessed in 2009**

As a result of the costs to the NCUSIF described in the LTCU and the Board’s related decision to return the NCUSIF’s equity ratio to its normal operating level of 1.30 percent, there is a 0.3 percent of insured shares cost beyond the capitalization deposit. Because the planned assessment is estimatable and probable it should be recorded immediately. However, on February 4, 2009, legislation was introduced

that if passed would allow the share insurance fund to be re-capitalized over a five-year period rather than the current one-year requirement. If signed into law, a five-year, re-capitalization period may reduce the NCUA's 2009 assessment. At this time, we think it would be prudent to accrue an amount based on the NCUA Accounting Bulletin #09-1 and then re-assess this accrual as new information is made available.

The information provided in this Technical Guide is based on the information known to Nearman, Maynard, Vallez, CPAs as of February 9, 2009. This information is subject to change and we will notify you of any significant changes.



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