NCUA Chairman Todd M. Harper
Statement on the Share Insurance Fund Briefing
February 18, 2021

Note on clean audits before Eugene's presentation

Eugene, before you begin your presentation, I would like to thank you and your team, and the many others throughout the agency, for all of your hard work during the annual audits of the Share Insurance Fund, Operating Fund, Central Liquidity Facility and Community Development Revolving Loan Fund. Each of these funds received unmodified, or "clean," audit opinions for 2020, according to the financial statement audits released on Tuesday by the agency's Office of the Inspector General.

Prudent financial management, accountability and transparency go hand-in-hand as a financial institutions' regulator. The efforts of your team, and those of the Inspector General and KPMG, demonstrate the NCUA's careful stewardship of the funds entrusted to us by Congress, and ensure that reliable financial information is available to our many stakeholders.

Again, thank you for the excellent work.

Statement after presentation

Thank you, Eugene, for your sobering update on the Share Insurance Fund and the equity ratio. The NCUA's top priority in 2021 is to ensure that the credit union system and the Share Insurance Fund are fully prepared to weather any economic fallout related to the COVID-19 pandemic.

During 2020, the credit union system experienced a dramatic rise in assets, falling loan demand, compressed interest rates, decreased earnings, and subdued consumer confidence. The system also saw an unprecedented increase in insured share growth, which caused the Share Insurance Fund's equity ratio to fall to 1.22 percent last June.

Those same factors, which contributed to the equity ratio's decline in the first half of 2020, continued into the second half. Even after receiving the semi-annual capital deposit adjustments in October, the equity ratio at the end of 2020 was 1.26 percent, less than that 6 basis points away from the statutory floor of 1.20 percent. And, the year-end equity ratio was about 4 basis points lower than previously anticipated.

As with so many things, the COVID-19 pandemic is only accelerating existing economic trends. Since the end of the Great Recession, the Share Insurance Fund's equity ratio has steadily declined overall, primarily from strong growth in insured shares and reduced investment income resulting from a persistent low interest-rate environment. The closure of the Temporary Corporate Credit Union Stabilization Fund and the transfer of its assets to the Share Insurance Fund in 2017 boosted the equity ratio and prevented a premium assessment at that time. However, as we have seen, the increase was only temporary.

The primary factors contributing most significantly to the continuing decline in the equity ratio — strong growth in insured shares and reduced investment returns — remain and will likely continue in the future. Like the persistent current of a mighty river, we can only swim upstream for so long against these economic realities.

The NCUA Board is duty bound to manage the Share Insurance Fund responsibly. I recognize that charging a premium during a pandemic and economic downturn is not ideal. However, we may no longer be able to avoid it. With the growth in shares likely to remain elevated in 2021, it is increasingly clear the question is no longer "if" we have to assess a share insurance premium, but "when" and "how much."

Any future decision by the Board to assess premiums must be data-driven. We must analyze and evaluate several potential scenarios and rely on the staff's recommendations and best judgment. History has also shown the importance of building up the resiliency of the Share Insurance Fund, so it can handle the potential issues related to the pandemic's economic fallout that we know are coming. Credit union members — and the taxpayers who ultimately guarantee the Share Insurance Fund — are counting on us to get it right.

Before I recognize my fellow Board Members, I do have a few questions for you, Eugene.

Slide 6, which has the number of credit union failures between 2015 and 2020, shows there was one credit union failure in 2020. When was the last time that number was so low? What has been the typical number of credit union failures each year historically?

[PAUSE FOR RESPONSE]

Thank you for that answer. It seems like we may be experiencing the calm before the storm.

Turning to Slide 8, I would like to review the Share Insurance Fund's equity ratio. Eugene, what is the trend line for the Fund's equity ratio over the last several years? How will the semi-annual capital deposit adjustment that we will collect in April affect the equity ratio going forward?

[PAUSE FOR RESPONSE]

Thank you. Finally, let's go to Slide 7, which shows the average weighted yield of the Share Insurance Fund's portfolio at the end of December 2020. The portfolio's yield has declined more than 50 basis points over the last year, falling from 1.88 percent at the end of December 2019 to 1.30 at the end of 2020.

Will that trend likely continue over the next few quarters? How will the low-rate environment affect the Fund's earnings in the immediate future? And, why can't the agency invest in other assets that earn higher returns?

[PAUSE FOR RESPONSE]

Ultimately, in my view, premiums are a short-term solution. With credit unions and insured shares continuing to grow, a possible long-term solution is working with Congress to grant the NCUA additional flexibility to manage the Fund going forward, allowing the Fund to build up reserves during good times while avoiding potential premiums during bad times. It is increasingly evident that such reforms are needed.

Thank you again, Eugene, for your observations today. I now recognize Vice Chairman Hauptman for his remarks.