

TENNESSEE CREDIT UNION LEAGUE

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Date: March 18, 2009
To: Member Credit Unions
From: Thomas F. Gaines, President
Re: **Corporate Intervention**

Corporate Intervention – Accounting Options: The American Institute of Certified Public Accountants (AICPA) recently addressed guidance for accounting as a result of NCUA's intervention and assessment. The first is the period for recognizing the insurance assessments related to NCUA's intervention and stabilization program. The second relates to the evaluation of investments or capital that natural person credit unions hold in corporates and whether or not it has been impaired because of the corporates' capital position in U.S. Central.

The AICPA position is guidance to accountants in advising credit unions. The big issue is whether or not the losses from the NCUSIF deposit impairment occurred in 2008, 2009, or both? The AICPA recognized that there is reasonable support for the conclusion that what the NCUA did on January 28, was based on an assessment of the situation and conditions that existed on December 31, 2008 (date of U.S. Central portfolio evaluation). This provides support for amending 2008 financial statements to reflect the deposit insurance costs as a prior period adjustment.

The AICPA also notes there is evidence that supports recognizing the loss in 2009 since that is when NCUA took action and triggered the loss. As a result, AICPA recognizes two approaches and has not indicated favoring one over the other. This gives you some flexibility in working with your accountants and auditors to determine whether it is beneficial or appropriate for your credit union to adjust your 2008 financial statements to reflect the loss or recognize and report it in 2009. You may also consider recognizing the deposit impairment in 2008 and the premium required in 2009. This is because the deposit impairment was based for losses recognized as of December 31, 2008, while the assessment was made in 2009 to replenish the funds. This gives you flexibility in determining your recognition period for these losses with your accountants.

First item of when to recognize the loss can be valuable, based on your capital and earnings position for 2008 and 2009, as well as your own strategic plans for the future. There is good reason and justification for recognizing all losses in 2008, 2009, or some split between 2008 and 2009. That will be an individual evaluation and judgment for you as management and your auditors.

A number of credit unions have already posted year-end 2008 statements to members and held their annual meeting. If you are one of those credit unions, and choose a post-period adjustment to take the loss in 2008, it is probably a good idea to notify your members. This would avoid any accusation of deception or failure to disclose a material situation to that membership. Such a disclosure should indicate that all credit unions fund the mutual deposit insurance fund, which itself is backed by the full faith and credit of the federal government. Indicate that wholesale corporate credit unions experienced losses in their investment portfolio that required a special assessment to the insurance fund. You have met your obligation for that assessment and recognized it in 2008. As a result, the year-end performance has been adjusted. Any loss or reduction in net income and net worth was in no way related to the credit union's operations, and will not impact service or member accounts. Members' accounts will remain insured to \$250,000, and the dividend levels and lending service will stay the same. - AICPA guidance items have been posted on the League's website for your consideration.

On the second issue, evaluating investment or capital position in corporates and corporates in U.S. Central, the AICPA suggests corporate capital in U.S. Central needs to be evaluated for impairment. Natural person credit unions that have PIC and/or membership shares in a corporate should then determine whether that position has become impaired as a result of any impairment of the corporate's capital investment in U.S. Central.

There continues to be some thrashing around for ways to mitigate or ease the impact of the NCUSIF assessment. However, CLF relief will require legislation, which could take some time. TARP money is also problematic, but possible with the leadership of NCUA. One problem we have is the capital strength within the credit union movement. The AICPA is evaluating the impact of some Fair Value Accounting requirements (OTTI); however, any relief will be prospective from March 15, 2009. Nothing prior will be affected.