

Stability Through the Crisis

National Credit Union Administration

2008–2009

Annual Report

NCUA's Role

The **National Credit Union Administration (NCUA)** is the independent federal agency that charters and supervises federal credit unions throughout the United States and its territories.

NCUA administers the 1934 "Federal Credit Union Act" created by Congress to serve, protect and promote a safe, stable national system of cooperative financial institutions that encourage thrift and offer a source of credit for their members.

With the backing of the full faith and credit of the U.S. government, NCUA administers the **National Credit Union Share Insurance Fund (NCUSIF)**, which insures the savings of more than 90 million account holders in all federal credit unions and the substantial majority of state-chartered credit unions.

NCUA is supported by the credit unions it supervises and insures by fees submitted to the **NCUA Operating Fund** and **NCUSIF**. NCUA also administers the **Central Liquidity Facility (CLF)**, **Community Development Revolving Loan Fund (CDRLF)**, and the **Temporary Corporate Credit Union Stabilization Fund (TCCUSF)**. The CLF serves as a back-up lender for member credit unions, while the CDRLF provides loans and grants to enhance low-income credit union operations. The TCCUSF stabilizes the corporate credit union system.

The 2008-2009 NCUA Annual Report is NCUA's official report to the President and the Congress of the United States. The report contains the financial statements of the **NCUSIF**. The **NCUA Operating Fund, CDRLF, CLF** and **TCCUSF** financial statements are online at www.ncua.gov under *Resources and Publications/Publication/Reports, Plans and Statistics*.

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NCUA's Mission is to
Ensure a Safe and Sound
Credit Union System



NCUA's 2008–2009 Annual Report
describes the many actions
NCUA has taken to stabilize
the credit union system through
the worst financial crisis
since the Great Depression.



NCUA Board: Board Member Christiane Gigi Hyland, Chairman Debbie Matz, Board Member Michael E. Fryzel.

NCUA has a three-member board appointed by the President of the United States and confirmed by the Senate. No more than two Board members are from the same political party, and members serve staggered six-year terms. The NCUA Board normally meets monthly, except August, in open session in Alexandria, Virginia.

Chairman Debbie Matz was nominated by President Barack Obama to serve as the eighth board chair of the National Credit Union Administration. She was sworn into office August 24, 2009. Most recently a federal credit union's executive vice president/chief operating officer, Ms. Matz is no stranger to NCUA, having served as an NCUA board member from January 2002 to October 2005. A public servant for 26 years, with many years on Capitol Hill, she spent nine years as an economist with the Congressional Joint Economic Committee, and President Bill Clinton appointed Ms. Matz to serve as Deputy Assistant Secretary of Administration at the Department of Agriculture. Her term expires April 10, 2015.

Board Member Christiane Gigi Hyland was appointed by President George W. Bush to a seat on the NCUA Board effective November 18, 2005. When nominated to the NCUA Board, she served as Senior Vice President, General Counsel for Empire Corporate Federal Credit Union in Albany, New York. She previously served concurrently as Vice President, Corporate Credit Union Relations of the Credit Union National Association, Inc. and Executive Director for the Association of Corporate Credit Unions. Her term expires August 2, 2011.

Board Member Michael E. Fryzel was appointed by President George W. Bush to a seat on the NCUA Board. He was confirmed by the U.S. Senate June 26, 2008, and took the oath of office as NCUA Chairman July 29, 2008. Mr. Fryzel was an attorney in private practice specializing in financial, regulatory and real estate law prior to his appointment. Mr. Fryzel served on the Illinois Governor's Board of Credit Union Advisors from 1992 to his NCUA appointment. His term expires August 2, 2013.

2008–2009 Financial Highlights

2008

NCUA Operating Fund

Operating fee revenue	\$50.7 million
Other income	.7 million
Total revenue	51.4 million
Expense budget	149.9 million
Actual expenses	133.5 million
Expenses transferred to Share	
Insurance Fund	79.9 million
Operating Fund expense	53.7 million
Net income	(2.3) million
Operating Fund balance	14.9 million

National Credit Union Share Insurance Fund

Total revenue	\$395.7 million
Operating expense	81.5 million
Insurance expense	290.4 million
Net income	23.8 million
Reserve for losses	278.3 million
Fund balance	8.0 billion
Equity ratio	1.26 percent
(fund balance as percentage of insured deposits)	

Central Liquidity Facility

Net income before dividends and interest on deposits	\$57.3 million
Dividends and interest on deposits	57.3 million
Net income after dividends and interest on deposits	-0- million
Total assets	1.6 billion
Total loans	1.6 billion
Retained earnings	11.4 million
Capital stock	1.71 billion

Federally Insured Credit Unions

Number of credit unions	7,806
Total assets	\$813.4 billion
Total insured shares	659.0 billion
Total loans	566.0 billion
Net worth to assets	11.0 percent
Share growth	7.7 percent
Ratio of loans shares	83.1 percent
Delinquency ratio	1.37 percent
Net income (before reserve transfers)	0.31 percent

Community Development Revolving Loan Fund Program

Eligible credit unions	1,100
Total assets	\$16.2 million
Net income	\$0.0 million
Loan appropriations (since inception)	\$13.4 million
Loans outstanding	\$10.5 million
Grant appropriations (2008)	\$1.0 million
Grants awarded	\$1.2 million

2009

NCUA Operating Fund

Operating fee revenue	\$81.7 million
Other income	.6 million
Total revenue	82.3 million
Expense budget	177.9 million
Actual expenses	167.7 million
Expenses transferred to Share	
Insurance Fund	90.2 million
Operating Fund expense	77.5 million
Net income	4.8 million
Operating Fund balance	27.3 million

National Credit Union Share Insurance Fund

Total revenue	\$949.6 million
Operating expense	134.7 million
Insurance expense	625.1 million
Net income	189.8 million
Reserve for losses	758.7 million
Fund balance	9.0 billion
Equity ratio	1.23 percent
(fund balance as percentage of insured deposits)	

Central Liquidity Facility

Net income before dividends and interest on deposits	\$21.2 million
Dividends and interest on deposits	18.5 million
Net income after dividends and interest on deposits	2.7 million
Total assets	20.2 billion
Total loans	18.3 billion
Retained earnings	14.1 million
Capital stock	1.8 billion

Federally Insured Credit Unions

Number of credit unions	7,554
Total assets	\$884.8 billion
Total insured shares	724.8 billion
Total loans	572.4 billion
Net worth to assets	9.9 percent
Share growth	10.5 percent
Ratio of loans shares	76.1 percent
Delinquency ratio	1.82 percent
Net income (before reserve transfers)	0.20 percent

Community Development Revolving Loan Fund Program

Eligible credit unions	1,100
Total assets	\$17.7 million
Net income	58.8 thousand
Loan appropriations (since inception)	13.4 million
Loans outstanding	8.8 million
Grant appropriations (2009)	1.0 million
Grants awarded	1.1 million

Temporary Corporate Credit Union Stabilization Fund

Earned revenues	\$371.2 million
Insurance expense	6.4 billion
Loss on investment	1.0 billion
Net Cost	7.0 billion

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Message from the NCUA Board



Stability Through the Crisis

The nation's credit union industry faced profound and unprecedented threats to its stability in 2008 and 2009. A steep plunge in global financial markets triggered the most severe economic downturn since the Great Depression. The resulting cascade of job losses, bankruptcies, and home foreclosures exerted relentless pressure on the entire American financial services sector—including credit unions.

Every aspect of the federal financial regulatory system was tested as never before. The crisis required policymakers and regulators—including the National Credit Union Administration—to design far-reaching stabilization operations to maintain public confidence in the financial system. NCUA's proactive approach reaffirmed public trust in the credit union system's safety and soundness, positioning credit unions to emerge from the crisis with public confidence intact.

Confronting the Crisis

From the onset of the crisis, NCUA took decisive action working in concert with Congress, the U.S. Department of the Treasury, the Federal Reserve and other policy-making bodies to safeguard the credit union system.

NCUA's most critical task was to stabilize the corporate credit union system—the network of correspondent credit unions that provide liquidity, payment systems, and investments for nearly 7,500 consumer-owned credit unions.

Since corporate credit unions handle intricate back-office functions such as check clearance, settlement, and electronic transactions for 90 million credit union members, maintaining these services was essential to preserving consumer confidence.

Yet in 2008 and 2009, several of the largest corporate credit unions were in imminent danger of insolvency. Their over-concentration in what were once highly rated mortgage-backed securities devalued their portfolios and threatened their operations after the market for those securities froze.

If the corporates had abruptly stopped operating, vital services to more than 5,000 consumer-owned credit unions would have been eliminated. This would have caused chaos for millions of credit union members whose checks, credit and debit transactions would not have been processed.

Credit unions across America would have suffered huge and insurmountable losses—shattering confidence in all credit unions. Consumer-owned credit unions would have lost about \$30 billion in net worth—more than one-third of their total net worth. At least 800 consumer-owned credit unions would have failed immediately.

In addition, the National Credit Union Share Insurance Fund (NCUSIF) would have had to levy a staggering assessment on the surviving credit unions to cover the remainder of the losses within one year. Many of those remaining credit unions would not have survived much longer.

If NCUA had not confronted this crisis head-on, the nation's entire credit union system could have collapsed under the weight of this systemic risk.

Stabilizing the System

Instead, NCUA moved quickly to devise initiatives that stabilized the system.

In 2008, NCUA won Congressional approval to increase the Central Liquidity Facility (CLF) lending limit from the appropriated \$1.5 billion to a statutory limit of \$41.5 billion. With approval of both the Treasury and the Federal Reserve, NCUA expanded the use of CLF to introduce the Credit Union System Investment Program and the Credit Union Homeowners Affordability Relief Program. These two programs attracted nearly \$8.4 billion worth of investments in corporate credit unions at a time when liquidity was at a premium.

In a related action in 2008, the NCUA Board created the Temporary Corporate Credit Union Liquidity Guarantee Program. This liquidity guarantee restored corporate credit unions' ability to borrow in debt markets. As a result, the two largest corporates raised \$5.5 billion in medium-term notes.

To raise confidence among depositors, NCUA successfully sought Congressional approval to increase federal insurance coverage from \$100,000 to \$250,000 per account.

Starting in 2009, NCUA effectively guaranteed all shares above the federal insurance limit in all corporate credit unions. The Temporary Corporate Credit Union Share Guarantee Program continues to maintain a stable level of shares throughout the corporate system.

In concert with these actions, NCUA, to preserve and protect the corporate system so it could continue to meet the needs of its member credit unions, conserved the two largest corporates: U.S. Central Federal Credit Union and Western Corporate Federal Credit Union (WesCorp). These conservatorships were necessary to minimize catastrophic losses on investments, while sustaining critical liquidity and payment services to consumer-owned credit unions.

Throughout the rest of 2009, NCUA made steady progress toward a comprehensive resolution of the corporate crisis—including the following key steps:

- NCUA successfully worked with Congress to create the Temporary Corporate Credit Union Stabilization Fund. The Stabilization Fund allows the credit union industry to cover the costs of corporate losses over several years, rather than in one lump sum. The fund is being paid for by assessments on credit unions – not by taxpayer dollars;
- NCUA sought public comments on a proposed new corporate rule to ensure that continuing corporates operate within a stronger framework of safety and soundness; and
- NCUA began designing a resolution plan that will ultimately remove billions of dollars of severely impaired securities from corporates at the lowest possible cost to the credit union industry.

Facing Another Crisis

Even as NCUA managed the corporate credit union crisis, the agency was dealing with the declining fortunes of a number consumer-owned credit unions. While the nation's credit union system remained strong overall, consumer-owned credit unions in several regions were weakened by home foreclosures, business failures, and unemployment. Credit unions that held too many fixed-rate mortgages saw their balance sheets decline – sometimes precipitously. Credit unions that failed to do their own due diligence on indirect loans, member business loans and participation loans quickly fell to the brink of insolvency. Some indeed became insolvent.

In 2008, 18 credit unions failed and \$290 million in losses were charged to the National Credit Union Share Insurance Fund. In 2009, 28 credit unions failed and the NCUSIF absorbed another \$695 million in insurance fund losses.

Credit union members are among the millions of Americans who have endured job losses and foreclosures. Aggregate credit union financial performance reflects their members' struggles. From the beginning of 2008 to year-end 2009:

- Member bankruptcies doubled from 158,114 to 323,733;
- Loan charge-offs soared from 0.51 percent to 1.21 percent;
- Return on average assets plunged from 0.63 percent to 0.18 percent; and
- Net worth eroded from 11.41 percent to 9.90 percent.

Taking Extraordinary Measures

These extraordinary times called for extraordinary measures to ensure that more credit unions would not fail.

During the second half of 2009, NCUA implemented a “red flag” early warning system to detect problems in individual credit unions before they became insurmountable. On quarterly call reports, whenever examiners found credit unions holding high concentrations of fixed-rate mortgages—or reporting rising delinquencies on indirect loans, member business loans or participation loans—they followed up with immediate corrective actions.

NCUA also began to step up administrative actions wherever necessary to ensure compliance. If credit unions did not address NCUA recommendations contained in a Document of Resolution, examiners were authorized to move to a Letter of Understanding and Agreement—or in more severe cases, a Cease and Desist order. These steps were taken in an effort to save as many credit unions as possible.

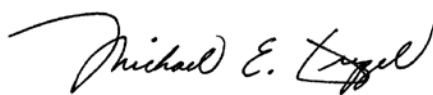
By year-end 2009, more than 96 percent of credit unions met the statutory definition of “well capitalized.”



Debbie Matz
Chairman



Christiane Gigi Hyland
Board Member



Michael E. Fryzel
Board Member

Upholding Higher Standards

Requiring credit unions to adopt the highest standards is the most effective way to maintain safety and soundness. NCUA’s enforcement of these exacting standards empowered the credit union system to withstand dramatic macroeconomic shocks throughout the past two years. The experience during these years of crisis demonstrated the value of diligent oversight, rigorous regulation, and a robust share insurance fund.

Throughout the credit union industry’s extended period of financial stress, NCUA managed its own finances very carefully. The accuracy of NCUA’s own finances was verified when two global accounting firms issued unqualified audit opinions for all of the agency’s funds’ financial statements. The audit opinions are featured in this combined 2008-2009 Annual Report.

Turning the Page

In the coming years, NCUA plans to reform the corporate credit union system and raise the bar even higher to protect consumer-owned credit unions and their members. With a new corporate rule, and with clean balance sheets, America’s credit unions will be well positioned to take advantage of the opportunities that a recovering economy will offer.

We look forward, in the coming year, to turning the page—from unprecedented challenges, to a promising future.

Management's Discussion and Analysis

NCUA's offices provided the following messages describing 2008–2009 operations and plans for 2010.

NCUA Structure and Programs

NCUA accomplishes its mission of serving and maintaining a safe, secure credit union community using a dynamic structure. Headquartered in Alexandria, Virginia, NCUA has five regional offices. Assigned to the regions, the bulk of NCUA staff are its 526 examiners who scrutinize the credit unions regularly to ensure safe and sound operations. NCUA's Board and executive director are located in Alexandria headquarters along with the following major offices that administer the agency's various programs.

The **Office of the Executive Director** is responsible for the agency's daily operation and the executive director reports directly to the NCUA Chairman. All regional and central office directors report to the executive director and NCUA's Equal Opportunity Program is included in this office. Also included is NCUA's strategic planning program, which directs the agency's planning process and tracks and reports on goal achievement.

The **Office of Examination and Insurance (E&I)** provides national guidance for NCUA's supervision program ensuring the safety and soundness of federally insured credit unions. Within E&I, the Division of Supervision oversees NCUA's examination and supervision program. The Division of Risk Management oversees the agency's credit union problem resolution program and compiles the financial data submitted quarterly by all federally insured credit unions.

The **Office of Public & Congressional Affairs (PACA)** handles federal legislation and serves as NCUA's liaison with Capitol Hill and fellow government agencies. PACA is also the source of information about NCUA and its functions for the public, credit unions, league and trade organizations, the media and NCUA employees.

The **Office of General Counsel** is responsible for legal matters affecting NCUA. This includes representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act and NCUA

Rules and Regulations, processing Freedom of Information Act requests, advising the Board and the agency on general legal matters, and drafting regulations designed to ensure the safety and soundness of credit unions.

The **Office of Capital Markets (OCM)** develops agency policies and procedures related to credit union investments and asset liability management, and the office assists examiners evaluate investment issues in credit unions. OCM also provides expert advice to the Board on investment issues and oversees the day-to-day operation of the Central Liquidity Facility.

The **Office of the Chief Financial Officer** is responsible for agency budget preparation and management, ongoing finance and accounting functions, and administration of credit union operating fees and National Credit Union Share Insurance Fund capitalization deposits.

The **Office of Corporate Credit Unions (OCCU)** supervises the corporate credit union system. Corporate credit unions provide a variety of investment services and payment systems for other credit unions. There are 27 corporate credit unions that range from \$88.5 million to \$35.1 billion in assets.

The **Office of Small Credit Union Initiatives (OSCUI)** supports two primary roles, assisting the agency's risk mitigation program and fostering credit union development, particularly the expansion of services provided by small credit unions to all eligible consumers. OSCUI fulfills these roles through training sessions, customized assistance, financial assistance, chartering assistance and partnership opportunities.

The **Asset Management and Assistance Center (AMAC)** conducts credit union liquidations and performs management and asset recovery. The office assists NCUA regional offices with the review of large, complex loan portfolios and actual or potential bond claims. Staff also participates extensively in the operational phases of conservatorships and record reconstruction.

NCUA Remains Vigilant During Extended Period of Financial Stress

Office of the Executive Director

The state of the economy combined with other events that transpired during 2008 and throughout 2009 resulted in one of NCUA's most challenging periods in recent history. Securities created outside the credit union industry, in the form of non-traditional mortgage products and reduced lending guidelines, found their way into the investment portfolios of various corporate credit unions. The evolution of concentrated risk combined with a continued decline in consumer home values led to increased market contraction, tighter liquidity throughout the financial sector, and a material decline in the fair value of mortgage backed securities.

Application of Generally Accepted Accounting Principles, mandated by the Federal Credit Union Act, requires that the difference between book value and fair value of securities, classified as available for sale, be recorded on the balance sheet as Accumulated Unrealized Gains or Losses on Available for Sale Securities and resulted in additional write-downs. As the secondary market for these investment instruments deteriorated, some of our largest corporate credit unions found it all but impossible to sell these securities without incurring significant losses and even difficult to pledge as collateral for borrowings given their material decline in value.

To protect the interests of the millions of consumers who are served by America's credit unions, NCUA took decisive action to help stabilize the industry. In late 2008, NCUA successfully lobbied Congress to increase the appropriated lending authority of the CLF to the statutory maximum. In conjunction with increased CLF lending authority, and with the concurrence of both Treasury and the Board of Governors of the Federal Reserve System, NCUA expanded the use of CLF to introduce the Credit Union System Investment Program and the Credit Union Homeowners Affordability Program. These programs were designed to transfer

high-cost borrowings from the books of corporate credit unions by allowing natural person credit unions to borrow funds from the CLF and invest those proceeds in corporate credit unions. Combined, these two programs generated nearly \$8.4 billion of liquidity within the credit union industry.

The economic crisis resulted in a variety of major governmental actions, including legislation increasing the level of federal insurance coverage to \$250,000. When the legislation was signed into law, NCUA moved quickly to update insurance coverage disclosures and signs and to implement a public awareness campaign to ensure consumers were well informed of the change. Backed by the full faith and credit of the U.S. government, members were assured their federally insured credit union shares were safe and secure.

To further stabilize the tenuous liquidity position within the industry, NCUA also approved a Temporary Corporate Credit Union Liquidity Guarantee Program to guarantee timely payment of principal and interest on certain unsecured debt of participating corporate credit unions. NCUA also took further unprecedented action by establishing a 100 percent guarantee of qualifying share accounts at participating corporate credit unions. Ultimately, as the credit losses associated with certain pools of mortgage-backed securities mounted, NCUA conserved the two largest corporate credit unions to protect the interests of the National Credit Union Share Insurance Fund (NCUSIF).

In May 2009, Congress provided NCUA, through the Temporary Corporate Credit Union Stabilization Fund, the tools necessary to seek resolution of the distressed assets of corporate credit unions while spreading the cost over multiple years. NCUA was also provided additional borrowing authority to continue efforts to stabilize the industry.

The widespread disruption in the financial markets put a tremendous strain on the balance sheets of some natural person credit unions as well, and resulted in an increase in the size and severity of problem institutions and resulting risk to the NCUSIF. Concentration of a sizeable portion of these cases in Region V led to challenges in resource allocation. Collaborating to share supervisory resources across regions, NCUA conducted a risk assessment mitigation project (RAMP) to address the elevated risk posed by federally insured credit unions in these designated areas. In early 2009, NCUA reassigned the Region V credit unions in Nevada and Alaska to Regions I and II respectively. In addition, the agency made provisions for a national exam team in early 2009 to organize talented, experienced staff from each region to supervise the largest, most complex credit union cases. These two plans allowed the agency to effectively align resources with mission needs while remaining vigilant about emerging issues.

Citing a need to quickly identify emerging problem risk areas and exposure to the NCUSIF, NCUA implemented a plan to return to a 12-month examination cycle for federally insured credit unions. Recognizing the importance of consumer protection efforts, the agency also approved a national Office of Consumer Protection to oversee compliance with consumer-related regulations.

During this tumultuous period, the agency also was very effective in preparing for and responding to Hurricanes Gustav and Ike, as well as intense flooding in the Midwest. NCUA also planned for and integrated changes in leadership, including Board Member Michael E. Fryzel serving as NCUA Chairman from July 2008 to August

2009, and current Chairman Debbie Matz returning to NCUA leadership in August 2009.

In June 2009, NCUA commemorated 75 years since passage of the Federal Credit Union Act. Federal credit unions have helped three generations of Americans turn their financial dreams into realities. Millions have been able to purchase a home or vehicle, educate a child, or cover emergency expenses due to the financial relationship they have established with member-owned and operated federal credit unions. When the Federal Credit Union Act was signed in 1934, America was in the midst of the Great Depression. Many working Americans were unable to obtain credit from the banking industry. The founders of the credit union movement envisioned a financial network that would meet the needs of all, especially those of modest means. Federal credit unions have served those needs through numerous periods of economic highs and lows. Service to members, as represented by total shares, has grown from \$1.8 billion at the 25th anniversary of the federal credit union act to over \$725 billion at the 75th anniversary.

Today credit unions are again faced with a turbulent national and global economy. Though well positioned to weather the situation, credit unions are not immune to the impact of job losses and instability in the financial markets. Credit union members face some significant challenges to their financial security. Now, as in 1934, credit unions have the opportunity to once again help their members weather a financial storm. NCUA has made extensive preparations to continue to meet the agency's mission. As economic concerns persist, NCUA's course is to maintain vigilance as a regulator and as a good steward of the share insurance fund.

Risk Management and Supervision Emphasized in 2008–2009

Office of Examination and Insurance

Risk Identification and Mitigation Strategies

Identifying and resolving increased risk concerns (e.g., credit risk, concentration risk, strategic risk, and reputation risk) continued to be the primary focus for the Office of Examination and Insurance during 2008 and 2009. Industry correspondence, primarily Letters to Credit Unions, emphasized these risk areas, for example:

Letter to Credit Unions 09-CU-19—Evaluating Residential Real Estate Mortgage Loan Modification Programs provided guidance to review and evaluate a credit union's real estate modification policies and procedures.

Letter to Credit Unions 09-CU-23—Reviewing Adequacy of Earnings emphasizes the delicate balance credit unions must strive to achieve between their short-term and long-term needs. The letter encourages officials to commit to a conscientious, well-planned strategy to safely balance credit union net worth and earnings needs with their current and future risk profile.

Although issued in 2008, *Letter to Credit Unions 08-CU-20—Evaluating Current Risks to Credit Unions* remained relevant throughout 2009. This guidance focuses on evaluating overall industry risks. Specifically, the letter addresses several key risk issues and provides supervision procedures for examiners addressing:

- Credit unions' changing business model and balance sheet composition and the challenges created;
- Present mortgage and real estate market and related expectations for credit unions and examiners; and
- NCUA's risk focused examination and supervision program, with an emphasis on the importance of district management and off-site monitoring.

Additional Letters to Credit Unions were issued. Topics included monitoring real estate loan activity and portfolio performance, making sound member business loans, evaluating loan participations, managing third-party mortgage broker relationships, and managing foreclosed and repossessed assets.

Due Diligence of Third Parties

In late 2007, guidance was issued to the credit union industry outlining practices related to effective third-

party evaluation and due diligence. In 2008, a corresponding questionnaire was issued to examiners to guide them through the process of evaluating credit union internal controls related to this key area. During 2009, due diligence program reviews continued to be emphasized to mitigate risks inherent to third-party relationships.

Exam Program Changes

To provide more opportunity to timely identify and resolve emerging risk issues in credit unions, the NCUA Board approved a new policy regarding the frequency of federal credit union examinations beginning in 2009. The new policy requires a substantive on-site contact by NCUA examiners every 10 to 14 months, with the longer-term objective to complete an examination every calendar year in all federally chartered credit unions.

Online 5300 Call Report System

NCUA implemented a new web-based Credit Union Profile and 5300 Call Report system in September 2009, for consumer credit unions. The online system provides credit unions the opportunity to self-manage profile information, submit data, and receive information from NCUA. By eliminating data collection software, NCUA now provides a more efficient, cost-effective method to collect credit unions data. Credit Union Online also reduces the redundancy in reporting and provides an application where multiple credit union staff can simultaneously input data. Beginning with the September 30, 2009, cycle, over 7,600 credit unions submitted 5300 Call Reports using the new online system.

Share Insurance Changes

Various coordinated initiatives addressed Congressional changes related to share insurance coverage, emphasizing the increase in account coverage from \$100,000 to \$250,000. Related publications were updated, including *Your Insured Funds*, which was also translated into Spanish. Public relations tools were developed for credit unions to address the importance of federal share insurance, including a webcast explaining the benefits and laws related to share insurance protection.

PACA Responds with Decisive Action

Office of Public and Congressional Affairs

The Office of Public & Congressional Affairs (PACA) provided Congress, the media, trade associations, and the credit union community with an active NCUA voice in 2008 and 2009.

Legislative Activity

In 2008, PACA frequently provided Congress with information about NCUA and credit union operations, including detailed information about provisions in proposed CURIA legislation that would have enhanced protection by affording credit unions a system of risk-based prompt corrective action, enabling community credit unions to serve low-income areas, ensuring members are fully informed when charter changes are considered, and expanding member business lending eligibility.

Passage of the Emergency Economic Stabilization Act in October 2008 included provisions that increased the level of federal insurance protection to \$250,000 temporarily through December 31, 2009. This legislation also required the Secretary of the Treasury to consult with the NCUA Chairman and other regulators in administering the Troubled Assets Relief Program (TARP).

Also in 2008, the Omnibus Appropriations Act contained provisions temporarily removing a cap of \$1.5 billion on the Central Liquidity Facility (CLF), and allowing the CLF to borrow up to its authorized limit to lend to credit unions to meet short-term liquidity needs. As of December 31, 2009, the authorized borrowing limit was \$43.8 billion.

With Congress focused on consumers and mortgage lending as the economy and mortgage market faltered, NCUA testified four times in the first six months of 2008:

- March 4—Condition of the Banking Industry
- March 6—The Need For Credit Union Regulatory Relief
- April 15—Financial Literacy and Education
- June 5—State of the Banking Industry: Part II

PACA introduced Board nominee Michael E. Fryzel to Banking Committee members and prepared materials for his confirmation hearing before the Senate Banking Committee in June 2008. Board Member Fryzel was sworn into office as NCUA chairman July 29, 2008.

President Obama nominated Debbie Matz to become NCUA Chairman May 21, 2009. Following a Committee hearing, she was confirmed by the U.S. Senate August 7th and sworn into office as the eighth NCUA chairman August 24, 2009.

2009 saw intensified congressional action on consumer protection, depositor protection and financial services reform. NCUA testified before Congress four times in 2009, including three times in one day:

- March 19—Regulatory Modernization
- March 19—Issues in Deposit Insurance
- March 19—Credit Cardholders' Bill of Rights and Overdraft Protection
- October 14—State of the Industry

Enacted in 2009, The Fiscal Year 2010 Consolidated Appropriations Act included two provisions for credit unions. The Central Liquidity Facility secured full lending authority for 2010, allowing the CLF to continue to meet the liquidity needs of credit unions. In addition, the appropriation for the Community Development Revolving Loan Fund was increased by \$250,000 to \$1.25 million.

In December 2009, the House of Representatives passed H.R. 4173, the Wall Street Reform and Consumer Protection Act. The regulatory reform measure was referred to the Senate for consideration in 2010.

Earlier in 2009, Congress enacted the Helping Families Save Their Homes Act. The measure extended the temporary increase in share deposit insurance to December 31, 2013. It also amended the Federal Credit Union Act to (1) grant NCUA increased borrowing authority, (2)

establish a NCUSIF restoration plan, and (3) establish the Temporary Corporate Credit Union Stabilization Fund with authority to borrow from the Treasury Department.

Public Affairs Activity

For the first time in agency history, PACA initiated a widespread public media campaign designed to reassure members their federally insured credit union funds are safe. PACA acted, in autumn 2008, to allay public concern when widely publicized declines in the financial markets and financial institution closures fueled consumer apprehension.

NCUA posted a comprehensive Share Insurance Tool Kit on the Internet, at <http://www.ncua.gov/Share-Insurance/Index.htm>, to help credit unions and their members better understand NCUSIF protection. PACA created and distributed “Uncle Sam” posters to credit unions for their lobbies to highlight federal insurance protection. A similar Uncle Sam protection notice was placed in 25 of the nation’s major newspapers, and a reassuring radio announcement was broadcast in markets hard hit by the financial downturn. Specific cities saw targeted Uncle Sam ads placed on local buses, bringing the insurance protection message to the public at large.

Calls skyrocketed on PACA’s consumer assistance hotline. NCUA received an average of 500 calls a day from members concerned about the safety of their funds.

Regional offices assisted to ensure members received quick response calls. Available 24/7, NCUA’s consumer hotline continues to provide members rapid access to information about NCUA, insurance protection and credit unions. In 2009, the consumer assistance hotline handled over 10,000 phone calls.

PACA issued over 200 media advisories and releases in 2008 and 175 in 2009, while Board Action Bulletins and the NCUA newsletter conveyed the agencies message to its wide-spread audience—credit unions and their members, Capitol Hill, league organizations, trade associations, local and national media, and the general public.

Working with fellow regulators, PACA issued numerous interagency releases in 2008 and 2009 on initiatives addressing various topics including: Interagency Q&A regarding flood insurance; revised ID Theft Brochure; model privacy information; “Make Home Affordable” loan modification program; loss mitigation preserving homeownership; and guidance on prudent commercial real estate loan workouts.

Along with people from the credit union industry, banking groups from China, Kenya, Japan and Mongolia visited NCUA in 2009 to learn about the United States federal credit union chartering, supervision and member insurance protection. Among other guests, the president of the Peruvian banking association visited NCUA in 2008 to learn about the United States federal credit union system.

Providing Opportunity for Credit Unions

Office of Small Credit Union Initiatives

The Office of Small Credit Union Initiatives' (OSCUI's) primary roles are to assist the agency's risk mitigation program and to foster credit union development, particularly the expansion of services provided by small credit unions to all eligible consumers. OSCUI fulfills these roles via the training, assistance and partnership opportunities (TAP) discussed below.

Training—Focus on Credit Union Needs

OSCUI spearheads an extensive training program for credit unions. Each year, OSCUI conducts 20 workshops and 10 roundtables. In 2008, over 2,500 representatives from 1,500 credit unions attended these training events. In 2009, over 2,711 representatives from 1,703 credit unions attended. In 2009, OSCUI increased the number of people attending external training events by 8.5 percent over the previous year and increased the number of credit unions attending external training events by 14.3 percent.

Training events evolve and cover a broad range of issues. Samples include regulatory hot topics (liquidity risk and amendments to Truth-in-Lending) and issues facing credit unions such as volunteer recruitment, partnerships for expanding services, collections and workout plans, allowance for loan and lease losses, and 5300 online Call Reporting. Outreach panelists presented topics on mortgage fraud, fraudulent money instruments, and community resources for homeowners.

Assistance—Meeting Assistance Demands

OSCUI offers customized technical and financial assistance through NCUA's National Small CU Program. Fifteen NCUA economic development specialists (EDS's) provided 8,741 hours of assistance performing 281 contacts at 199 existing credit unions, and they assisted 16 chartering groups in 2008. In 2009, EDS's provided 8,848 hours of assistance performing 255 contacts at 188 credit unions, and they assisted 10 chartering groups. Small credit unions wishing to receive hands-on assistance should contact OSCUI or their region.

OSCUI also administers the Community Development Revolving Loan Fund (CDRLF). CDRLF was established in 1979 to support the Federal Credit Union Act mission of making credit more accessible to people of small means by providing loans and grants to low-income designated credit unions. CDRLF activity is described in the NCUA Fund Programs section of this report.

Partnerships—Provide Resources for Credit Unions

Credit unions partnering with community-based organizations, foundations, government agencies, and other organizations form synergies that result in increased financial services for consumers and resources for credit unions. For example, credit unions partnering with the Internal Revenue Service brought \$43 million into

their communities when completing 41,575 tax returns in 2008. OSCUI leads the agency's partnering initiative and has created a web portal for resources. Access "The Resource Connection" online at www.ncua.gov/Resources/CreditUnionDevelopment/ResourceConnection/Index.aspx.

Directing a National Chartering Program

OSCUI took on a new role in 2009, directing the national federal credit union chartering program. Information on how to charter a federal credit union is posted on the agency's website. NCUA assistance is tailored to each group wishing to charter a credit union. OSCUI assistance resulted in two new credit union charters—1st Bergen Federal Credit Union and East River Development Alliance Federal Credit Union.

Charting a Future Course

OSCUI looks forward to continuing to serve credit unions that TAP into our resources in 2010 by offering the following:

- Training—New workshops, roundtables, and clinics covering topics such as Issues facing credit unions, Maximizing your bottom line, Regulatory Hot Topics, Allowance for Loan Lease Losses (ALLL) and Alternatives to Predatory Lending. For locations and dates, visit the agency's website www.ncua.gov and click on *Resources and Publications/Resources for Credit Unions/Credit Union Development*.
- Assistance—On-site assistance emphasizes strategic issues for credit unions participating in the Small Credit Union Program 2010.

- Partnerships—Web-based training focuses on partnership opportunities. OSCUI will also identify new resources for credit unions and actively promote The Resource Connection.

OSCUI will assist groups forming new federal credit unions by providing web-based training and individual guidance. Electronic guidance will include a Federal Credit Union Application Guide and a narrative Federal Credit Union Chartering PowerPoint presentation offering step-by-step instruction on how to complete a new federal credit union charter application.

For more information about OSCUI and its programs, contact the Office of Small Credit Union Initiatives at 703-518-6610 or visit <http://www.ncua.gov/Resources/CreditUnionDevelopment/index.aspx>.

Guiding Capital Markets, Investing, Performance Planning and Contingency Operations

Office of Capital Markets and Planning

The Office of Capital Markets and Planning (OCMP) is responsible for agency policy and analysis and training in the areas of investments and asset/liability management and was responsible for strategic and annual performance planning during 2008–2009.

Division of Capital Markets

Within OCMP, the Division of Capital Markets staff members are capital markets experts and contribute to development of related policy and analysis. Capital Markets staff develops and delivers examiner training in investments and asset/liability management. In addition, staff provides assistance to field staff on examinations of both corporate and natural person credit unions.

During 2008, Capital Markets advised the NCUA Board on policy issues and provided guidance and training to examiners on investments, interest rate risk and liquidity risk. The office also provided examination support to NCUA natural person and corporate credit union field staff.

In 2009, Capital Markets staff began revising capital markets training to incorporate an e-learning segment in addition to regular classroom training for the 2010 classes, and staff worked with other financial institution regulatory agencies developing pertinent guidance. Capital Markets staff also provided extensive assistance the Central Liquidity Facility (CLF) during the period of increased CLF loan demand.

Division of Planning

Performance Planning, Budgeting and Reporting

Assess performance, assist forward-looking risk analysis.

The Division of Planning developed the Draft NCUA Strategic Plan 2011–2016 to release for public comment in 2010. The Division also contributed the annual performance summary for the NCUA Annual Report.

Continuity of Operations

Ensure essential function and emergency operation preparedness.

The Division worked with the Office of the Chief Information Officer (OCIO) to finalize the Emergency Management System (EMS), including a public call center used during contingencies. The Division led agency participation in national and local exercises, such as the national-level Exercise Eagle Horizon 2008 and 2009. The Division also initiated a thorough revision of the NCUA Continuity of Operations Plan.

Critical Infrastructure and Key Resource Protection

Ensure protection of essential U.S. assets.

The Division was liaison to the Financial and Banking Information Infrastructure Committee and served during exercises and real world contingencies.

Protection of Classified National Security Information

Ensure compliance to classify, safeguard, and declassify national security information.

The Division worked with OCIO to develop procedures and processes to protect national security information and complete requirements to certify a classified Top Secret secure storage and communication room.

The Division of Strategic Planning now operates within the Executive Directors Office.

Steering Enforcement, Regulation; Addressing Corporate Stabilization and Consumer Protection in Difficult Times

Office of General Counsel

Regulatory Initiatives and Guidance

The Office of General Counsel undertook regulatory initiatives in 2008 to increase access to credit union services for low-income areas, clarify and broaden account insurance coverage, and address technological and operational innovations through enhancements to incidental powers and fixed asset rules. As part of a federal inter-agency rulemaking on credit cards, NCUA adopted prohibitions against unfair practices to protect consumers.

The Office of General Counsel also provided guidance in legal opinions on a challenging range of legal issues—business lending, protection of member interests, stored value products, and innovative educational savings plans for members.

In 2009, Operations Division attorneys were involved in providing advice on numerous legal and regulatory issues resulting from the economic challenges credit unions, particularly corporate credit unions, were facing, including review of legislative proposals and rulemakings, such as changes in operating fee rules to enhance participation in the agency's Credit Union Homeowners Affordability Relief Program and Credit Union System Investment Program. Among other rulemakings were changes to maturity limits for second liens to enhance members' ability to participate in the President's Making Homes More Affordable program. NCUA also worked with other federal regulatory agencies on rules implementing the Credit Card Accountability Responsibility and Disclosure Act of 2009, also known as the Credit CARD Act.

Litigation and Enforcement

NCUA made judicious use of its litigation and enforcement powers during the last two years by helping resolve problems in the corporate credit union system and by addressing federally insured credit union problems as well as abuses by credit union officials and institution affiliated parties.

In 2008, NCUA issued in excess of 30 prohibitions. Working closely with federal prosecutors, the agency secured a criminal conviction and an order of restitution against a former manager responsible for the failure of a Massachusetts credit union. In addition, NCUA was conservator of two additional credit unions placed into conservatorship in 2008 and served as liquidating agent for several other institutions that failed.

NCUA successfully defended its charter conversion rule in 2008, when the plaintiff, Coalition for Credit Union Charter Options, dropped its appeal after losing in federal district court.

During 2009, considerable effort and significant legal resources were focused on the corporate credit union system. NCUA placed both U.S. Central Federal Credit Union and Western Corporate Federal Credit Union (WesCorp) into conservatorship and continues to oversee their day-to-day operations. These corporate credit unions were placed into conservatorship after incurring large losses as the result of significant investments in mortgage backed securities. Enforcement is actively investigating the circumstances surrounding these investments in order to determine whether there is any basis for recovering some of the losses from responsible parties.

As conservator, NCUA intervened in a lawsuit seeking to recover losses on these investments from former officials and directors of WesCorp. In order to stabilize the corporate system, NCUA entered into letters of understanding and agreement with most corporate credit unions to assure safe and sound business practices and develop a share guarantee for those shares above the statutory insurance limit. To assure corporate credit unions have adequate liquidity, a program was developed and implemented to guarantee unsecured corporate debt.

In addition to efforts to address the corporate credit union system, NCUA was proactive in addressing problems in natural person credit unions. During 2009, the agency issued in excess of 35 prohibition orders, one immediate cease and desist order, and several natural person credit unions were placed in conservatorship or liquidated.

Stabilizing Corporate Credit Unions

Office of Corporate Credit Unions

Over the past two years, the corporate credit union system has suffered severe losses from mortgage backed securities (MBS) owned by some of the 27 corporate credit unions, and these losses threatened to destabilize the entire credit union system. In 2008 and 2009, the NCUA Board adopted actions to stabilize and reform the corporate credit union system. These actions include:

- Issuing a \$1 billion capital note to U.S. Central Credit Union, due to pending investment losses, to ensure U.S. Central's continued ability to provide essential payment system services.
- Creating the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) guaranteed uninsured shares at participating corporate credit unions. This action was essential to maintain natural person credit union confidence in the corporate credit union system and prevent a liquidity crisis resulting from the outflow of funds from corporates.
- Establishing the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP) and forming the Credit Union Homeowners Affordability Relief Program (CU HARP) and the Credit Union System Investment Program (CU SIP) as measures to ensure ongoing access to liquidity.
- Placing U.S. Central and Western Corporate Federal Credit Unions in conservatorship. Both corporates had mounting investment losses and lacked sufficient capital. The actions stabilized credit union share deposits, ensured continued member services and protected NCUSIF interests.
- Establishing the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) primarily to spread, over multiple years, the costs to insured credit unions associated with stabilizing corporate credit unions.

FEDERAL CORPORATE CREDIT UNIONS¹

December 31, 2009

Corporate Name	City, State	Assets (in millions)
Constitution	Wallingford, Connecticut	\$1,291,412,330
Corporate One	Columbus, Ohio	3,299,132,391
Eastern Corporate	Burlington, Massachusetts	844,562,089
Kentucky Corporate	Louisville, Kentucky	443,922,356
Members United Corporate	Warrenville, Illinois	8,367,676,579
Mid-Atlantic Corporate	Middletown, Pennsylvania	3,816,147,603
Midwest Corporate	Bismarck, North Dakota	187,054,364
Southeast Corporate	Tallahassee, Florida	3,334,855,221
Southwest Corporate	Plano, Texas	7,922,897,749
SunCorp	Westminster, Colorado	2,466,109,320
Tricorp Corporate	Westbrook, Maine	951,888,626
VACORP	Lynchburg, Virginia	1,435,845,636
Western Corporate	San Dimas, California	21,110,199,176
West Virginia Corporate	Parkersburg, West Virginia	244,381,945
Total		\$55,716,085,385

¹LICU Corporate Federal Credit Union Self-Liquidated in 2009. SunCorp and West Virginia Corporate Credit Unions converted to federal charters in 2009.

- Issuing for public comment a comprehensive scheme of proposed amendments to the corporate credit union rules. The amendments would establish new capital standards; impose Prompt Corrective Action requirements; provide various new investment and asset liability management limitations; amend corporate governance requirements; and amend the regulations pertaining to corporate credit union service organizations (corporate CUSOs).

NCUA remains focused on the future of the corporate credit union system. Two remaining critical issues are isolating the remaining MBS, also referred to as the "legacy assets," and the structure and regulation of the corporate credit union system going forward.

KEY STATISTICS OF FEDERALLY INSURED CORPORATE CREDIT UNIONS
December 31, 2009 (In millions)

	2007	2008*	2009*
Number	28	28	27
Assets	\$95,936.9	\$60,368.8	\$71,301.3
Loans	4,251.7	4,175.5	2,825.8
Shares	73,426.2	58,859.6	71,619.1
Total capital	5,955.3	-2,579.8	-2,250.4
Gross income	4,858.4	3,180.1	3,094.3
Operating expenses	357.4	384.8	369.7
Interest on borrowed funds	412.3	353.2	100.1
Dividends and interest	3,867.6	2,198.8	704.6
Non-operating gains/losses	-4.6	-10,689.1	-2,185.0
Net income	216.4	-10,445.7	-2,017.9

Dollar amounts do not include U.S. Central

*The significant losses and erosion of capital in 2008 and 2009 relate to other-than-temporary impairment (OTTI) charges on investments in private label mortgage-backed securities, and write-downs of capital accounts at U.S. Central Federal Credit Union.

Ratios do not include U.S. Central

SIGNIFICANT RATIOS

Capital to assets	6.2	-4.3	-3.1
Operating expenses to gross income	7.4	12.1	11.9
Yield on assets	5.1	5.3	4.3
Cost of funds to assets	4.5	4.2	1.1
Gross spread on assets	.6	1.1	3.2

FEDERALLY INSURED STATE CORPORATE CREDIT UNIONS
December 31, 2009

Corporate Name	City, State	Assets
Central Corporate	Southfield, Michigan	\$2,965,064,690
Corporate America	Irondale, Alabama	2,196,670,153
Corporate Central	Hales Corners, Wisconsin	1,769,791,100
First Corporate	Phoenix, Arizona	955,209,318
First Carolina Corporate	Greensboro, North Carolina	1,781,833,580
Georgia Central	Duluth, Georgia	2,515,581,386
Iowa Corporate	Des Moines, Iowa	88,459,639
Kansas Corporate	Wichita, Kansas	339,583,784
Louisiana Corporate	Metairie, Louisiana	158,851,877
Missouri Corporate	St. Louis, Missouri	896,555,705
Treasure State Corporate	Helena, Montana	365,361,303
Volunteer Corporate	Nashville, Tennessee	1,552,579,997
Total		\$15,585,542,532
Total for All Corporates (Excluding U.S. Central)		\$71,301,627,917
U.S. Central Federal CU	Lenexa, Kansas	\$35,074,924,787

Mortgage Market Disruption Triggers Action

Asset Management Assistance Center

Reflecting the national economic downturn and its widespread impact, AMAC dealt with significant liquidation activity during 2008 and 2009. A total of 15 credit unions liquidated in 2008 and 16 in 2009. In 2009, four of these were complete liquidations with total shares paid-out of \$12.3 million. Twelve liquidations in 2009 with total shares of \$969 million and loans of \$792 million, involved a purchase and assumption transaction where all or part of the shares and loans of these failed credit unions were transferred to another credit union.

Assets from closed credit unions managed by AMAC have increased significantly, with net assets at the end of 2009 increasing to \$205 million, compared with \$103 million at the end of 2008. Most of this increase in assets came from credit union failures in the western part of the country.

However, the most significant concentration of assets is in Southwest Florida, where AMAC is managing over 750 properties out of an original pool of 1,000 resi-

dential homes assumed with the failure of three credit unions in 2008. AMAC is employing a longer-term recovery strategy to maximize return on these assets and minimize disruption of the local real estate market. This strategy includes utilizing both sales and leasing options to divest the properties.

With respect to acquired mortgages, AMAC has adopted an aggressive loan modification program because most mortgages held by AMAC are in real estate markets facing a severe decline in property value. AMAC is actively working with borrowers to modify loan terms and allow owners to remain in their homes and avoid foreclosure.

In October 2008, AMAC implemented payouts based on increased NCUSIF share insurance coverage, which now provides members up to \$250,000 protection on their credit union shares. Verified share account payouts were made within three business days on all liquidations AMAC processed during 2008 and 2009.

Fund Programs

The following pages describe NCUA fund operations and activities that took place during 2008–2009.

The **Central Liquidity Facility** provides liquidity for all member credit unions and can invest in U.S. government and agency obligations, deposits of federally insured institutions and shares or deposits in credit unions.

The **Community Development Revolving Loan Program** provides loans and grants to low-income designated credit unions.

The **National Credit Union Share Insurance Fund** (NCUSIF) is the federal fund created by Congress in 1970 to insure member deposits in credit unions up to at

least \$250,000 through December 31, 2013. Administered by the National Credit Union Administration, the NCUSIF is backed by the “full faith and credit” of the U.S. Government.

The **Operating Fund**, in conjunction with the NCUSIF, finances NCUA operations.

The **Temporary Corporate Credit Union Stabilization Fund** (TCCUSF) was formed to accrue corporate credit union system losses, and over time, to assess the credit union system for unrecoverable losses.

Message from NCUA's Chief Financial Officer



I am pleased to present the National Credit Union Administration (NCUA) 2008 and 2009 financial statements for the:

- Central Liquidity Facility;
- Community Development Revolving Loan Fund;
- National Credit Union Share Insurance Fund;
- National Credit Union Administration Operating Fund; and
- Temporary Corporate Credit Union Stabilization Fund.

These statements are our principal financial measure of accountability to the President, Congress, credit unions, and the American public. The NCUA's funds' financial statements received unqualified, or clean, opinions from our independent financial auditors for both 2009 and 2008. Our financial statements reflect that the NCUA remains strong. The full financial statements can be found on NCUA's website.

The Board supported amending the Federal Credit Union Act. With Public Law 111-22, *Helping Families Save Their Homes Act of 2009*, deposit insurance coverage was increased to \$250,000 through December 31, 2013, and the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) was created. The purposes of the TCCUSF are to accrue the losses of the corporate credit union system, and over time, to assess the credit union system for recovery of such losses, rather than having one lump-sum assessment as previously required under the Federal Credit Union Act. The annual report is due to Congress by July 30, 2010 and will be posted to our web site.

NCUA continues its history of strong stewardship and accountability into 2009, as demonstrated by:

- Briefing the Board and public monthly on the financial status of the NCUSIF and the TCCUSF;
- Returning \$740,000 in excess cash through reduced 2010 operating fee rates;
- Hiring 78 positions and maintaining a low employee vacancy level, two percent of authorized staff; and
- Engaging the Enterprise Service Center of the Department of Transportation, a shared service provider, to implement NCUA's next generation financial management system, a system that went live January 3, 2010.

In these times of unprecedented financial market challenges, strong financial management is vital to NCUA's mission of supporting a safe and sound credit union system. We will uphold our solid tradition of responsible financial management that focuses on continual improvements, ensuring the reliability of the financial data upon which critical decisions are made.

A handwritten signature in black ink that reads "Mary Ann Woodson". The signature is written in a cursive, slightly informal style.

Mary Ann Woodson
Chief Financial Officer

CLF Helps Stabilize System Liquidity Needs

Central Liquidity Facility

The Central Liquidity Facility (CLF) serves as a back-up lender to meet the unexpected liquidity needs of its member credit unions when funds are unavailable from standard credit sources. CLF also has authority to lend funds to the National Credit Union Share Insurance Fund (NCUSIF) under terms and conditions established by the NCUA Board. The two primary sources of funds for the Facility are paid-in stock subscriptions from credit unions and borrowings from the Federal Financing Bank.

CLF Obtains Temporary Lift of Borrowing Cap

By statute, the CLF is authorized to borrow from any source up to 12 times its subscribed capital stock and surplus, but this authority has been subject to a Congressional appropriation limit below this amount since the CLF's inception. Since 2001, Congress has imposed an appropriation limit on the gross obligations of the CLF for the principal amount of new direct loans to member credit unions not to exceed \$1.5 billion. In September 2008, Congress removed the appropriation limit at the request of the NCUA Board and authorized CLF to borrow its full statutory amount. This request was made in response to the unprecedented turmoil in the credit markets and the severe impact upon liquidity experienced by some corporate credit unions. CLF utilized its expanded borrowing capacity to help fund and stabilize the corporate credit union system starting in the third quarter of 2008 and continuing through all of 2009.

Liquidity Lending Programs

In the fourth quarter of 2008, the NCUA Board determined that making loans for purposes "other than liquidity needs" was in the national economic interest in order to establish special lending programs to address liquidity constraints in the corporate credit union system. The Board obtained concurrence from the Secre-

tary of the Treasury and the Board of Governors of the Federal Reserve System in making its determination and establishing its special lending initiatives. Launched in January of 2009, the two initiatives for other than liquidity needs lending were the Credit Union System Investment Program (CU SIP) and the Credit Union Homeowners Affordability Relief Program (CU HARP). CLF made loans of \$8.4 billion under these programs.

In March 2009, when the NCUA Board took steps to stabilize the corporate credit union system by placing U.S. Central Federal Credit Union and Western Corporate Federal Credit Union into conservatorship, the CLF approved a \$10 billion advance to the National Credit Union Share Insurance Fund (NCUSIF) in order for NCUSIF to extend liquidity stabilization loans to these institutions.

At year-end 2009, CLF loans outstanding totaled \$18.3 billion.

CLF Policy Changes

The NCUA Board approved a change to CLF's Earnings Retention Policy in September 2009 to resume an accumulation of retained earnings after paying a reasonable dividend to shareholders. Prior to September 2009, CLF paid members dividends of approximately 100 percent of net income. Increased retained earnings support the risks of the Facility and help fund the cost of operations through the management of income generated from the investment of retained earnings.

CLF Audit Report

The CLF received unqualified audit opinions on its 2008 and 2009 financial statements from independent auditors Deloitte & Touche LLP and KPMG LLP, respectively.

Loans and Grants Expand Access and Financial Services

Community Development Revolving Loan Fund

The Office of Small Credit Union Initiatives administers the Community Development Revolving Loan Fund (CDRLF). The CDRLF was established in 1979 to support the Federal Credit Union Act mission of making credit more available to people of small means. The CDRLF provides reduced rate loans and technical assistance funding to eligible federal and state-chartered credit unions serving low-income communities.

Loans Provide Services to Communities

Congress did not make an appropriation to the CDRLF for loans for fiscal year 2008 or for fiscal year 2009. Prior year appropriations of \$13.4 million were available for loans. During calendar year 2008, the CDRLF provided \$350,000 in loan funds. The fund was fully funded during early 2008 which resulted in a fully loaned portfolio totaling \$13.1 million. At the end of 2008, \$10.6 million in CDRLF loans were outstanding.

The CDRLF disbursed \$2.6 million in loans during the 2009 calendar year. Loan amortizations available to lend by year-end amounted to approximately \$4.3 million. At the end of 2009, \$8.8 million in CDRLF loans were outstanding. The CDRLF opened a loan funding round in late 2009. In the 2009 funding round, credit unions were encouraged to undertake outreach projects to provide new or better services to members and the community. NCUA made loan awards and disbursements in the first quarter of 2010. Approximately \$3 million in loan amortizations are anticipated by year-end 2010. In 2010, NCUA plans to open the loan application period until available loan funds are exhausted.

Grant Demand Exceeds Funding

In 2009, Congress appropriated \$1 million to the CDRLF to be used for technical assistance funding. The CDRLF also had 2009 earnings of \$58,820 and prior years' retained earnings available for any funds awarded above the appropriated amount. All 2009 appropriated funds were obligated for technical assistance by year-end.

In fiscal year 2008, while low-income credit unions submitted 393 grant requests totaling more than \$2.2 million, only \$1.2 million was awarded due to limited

funds. In 2009, CDRLF received 317 technical assistance grant applications requesting \$1.9 million and awarded 215 grants totaling \$1.06 million. 2008 and 2009 grants were awarded from funds supplied by Congressional appropriations of \$975,000 and \$1 million, respectively.

NCUA opened five grant initiatives in 2009:

Building Internal Capacity/Building Technology.

This initiative is designed to provide funds to credit unions for projects that improve the overall operations and financial condition of the credit union.

Enhancing Member Services. The Enhancing Member Services Initiative encourages credit unions to undertake projects that provide new or better services to members and to the community.

Staff, Official, and Board Member Training. This initiative provides funds for credit union representatives to attend courses and seminars, and take advantage of other training opportunities.

Student Internship. This initiative is designed to defray credit union costs of training college students. Having a student intern familiarizes college students with the operation and management of credit unions.

Volunteer Income Tax Assistance (VITA). This initiative provides funds to credit unions wishing to help existing and potential members prepare their tax returns, especially those members eligible for the Earned Income Tax Credit¹.

In addition, CDRLF sets aside earnings designated for an **Urgent Needs Grant** to ensure the continued viability of credit unions experiencing an unexpected or unplanned cost. If left unaddressed, that issue might disrupt existing services to members.

¹The Earned Income Tax Credit or the EITC is a refundable federal income tax credit for low- to moderate-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit.

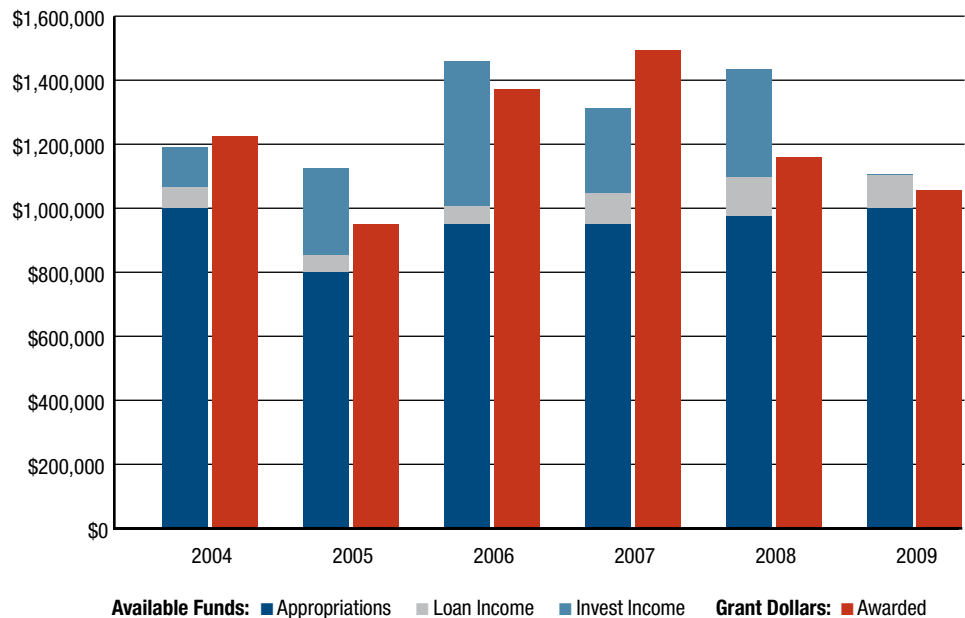
Uses of Monies

Credit unions used CDRLF loan and technical assistance grant funds to improve member services, which include the following:

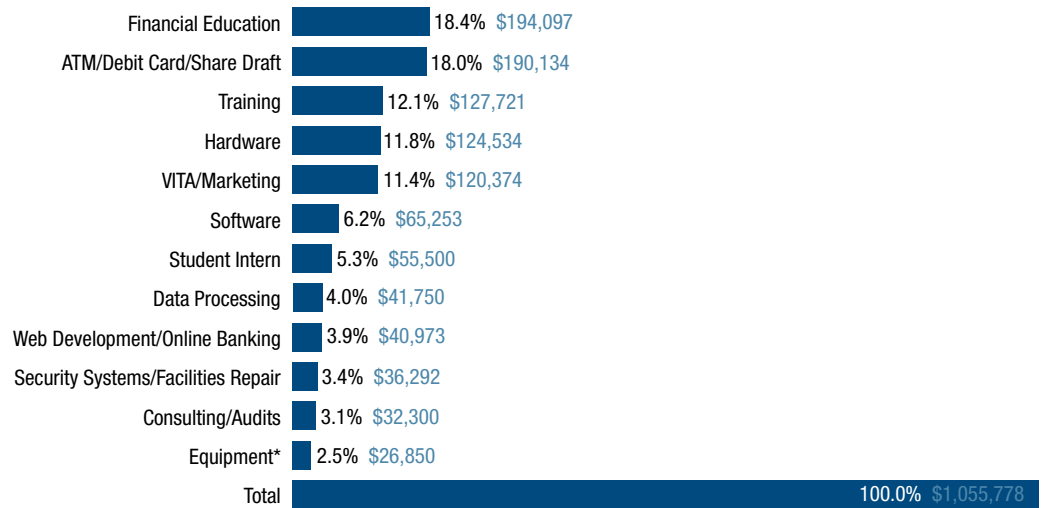
- Add new services, such as ATM machines, debit cards, and electronic bill paying;
- Extend technology to members through web-based services such as online deposit and loan services and online bill pay;
- Provide financial education for members and the community in different languages, for homebuyers, and as part of the Volunteer Income Tax Assistance program;
- Provide alternatives to payday lending;
- Attend training courses, purchase on-line libraries, participate in webinars, and conduct on-site training;
- Expose student interns to credit union operations and management mentoring; and,
- Operate and participate in Volunteer Income Tax Assistance sites.

The CDRLF received an unqualified audit opinion on its 2008 and 2009 financial statements.

AVAILABLE FUNDS AND GRANTS AWARDED SINCE 2004 December 31, 2009



AWARDS BY USAGE December 31, 2009



2009 Insurance Premium Follows Increased Deposits and Losses

NCUA Share Insurance Fund

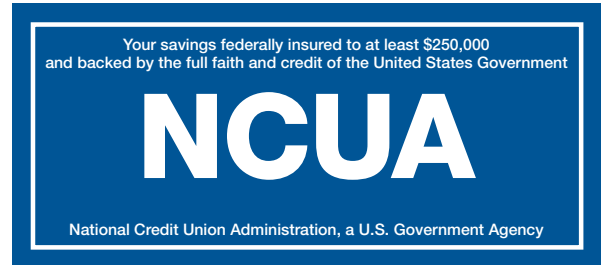
The National Credit Union Share Insurance Fund (NCUSIF) remained strong during 2008 and 2009 addressing unprecedented economic conditions. An increase in insurance coverage limits to \$250,000 in late 2008, as well as a “flight to quality,” resulted in 17 percent insured share growth in 2008 and 11 percent growth in 2009. The NCUSIF ended 2008 and 2009 with an equity ratio at 1.26 percent and 1.23 percent, respectively, below the Board established 1.30 percent normal operating level.

Along with collecting the normal 1 percent capitalization deposit adjustment, the NCUA Board also assessed an insurance premium of .1027 percent on insured shares to move the equity ratio closer to its normal operating level. Collections for the capitalization deposit adjustment and insurance premium totaled \$1.1 billion and \$727.5 million, respectively.

NCUSIF revenue was \$949.6 million in 2009, as compared to \$395.7 million in 2008. Revenue is primarily derived from insurance premium assessments and investment income, which in 2009 were \$727.5 million and \$188.8 million, respectively. The market value of the fund’s portfolio was \$9.5 billion at 2009 year-end. The portfolio is comprised of U.S. Treasury securities, laddered with maturities through 2019. Operating expenses for 2009 were \$134.7 million, an increase of \$53.1 million from 2008. Insurance loss expense was \$625.1 million, compared to \$290.4 million in 2008. The fund finished 2009 with net income of \$189.8 million as compared to net income of \$23.8 million in 2008.

Reserves

2009 ended with \$758.7 million in NCUSIF reserves set aside to protect against future or potential losses for natural person credit unions. Fund reserves increased a net \$480.4 million over the year. Unallocated reserves, also called general reserves, were \$596.9 million of the total. The number of problem code credit unions increased from 271 to 351 during 2009. Total shares related to these credit unions increased from \$16.3 bil-



lion to \$41.6 billion, representing approximately 5.8 percent of total insured shares at year-end 2009.

Failures

Twenty-eight credit unions failed during 2009, compared to 18 in the prior year. Insurance losses paid totaled \$161.7 million for 2009 and \$284.6 million for 2008. In accordance with generally accepted accounting principles (GAAP), insurance losses are expensed when loss reserves are established for institutions considered a probable loss. Money subsequently paid on failed institutions is charged to the reserve account.

Insurance Coverage Increased

The Emergency Economic Stabilization Act of 2008, signed into law October 3, 2008, temporarily increased the maximum amount of insurance on member share accounts to \$250,000. The temporary increase was extended through December 31, 2013, by the *Helping Families Save Their Homes Act of 2009*. This increase includes all share account types, such as regular share, share draft, money market, and certificates of deposit. Individual Retirement Account and Keogh account coverage remains \$250,000, separate from other types of share accounts.

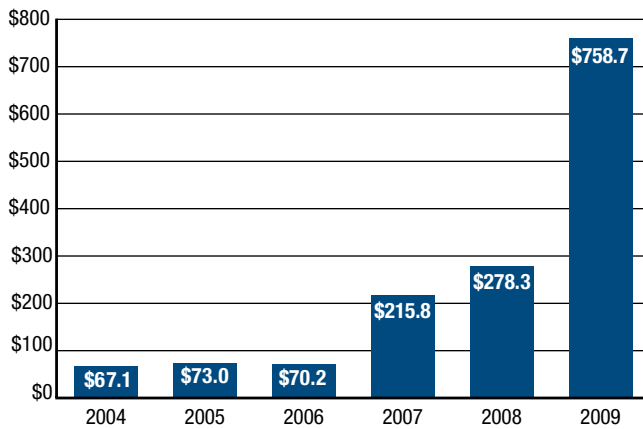
Unqualified Opinion Earned

The NCUSIF received unqualified audit opinions on its financial statements for the years ending December 31, 2009 and 2008. The fund is also subject to audit by the U.S. Government Accountability Office.

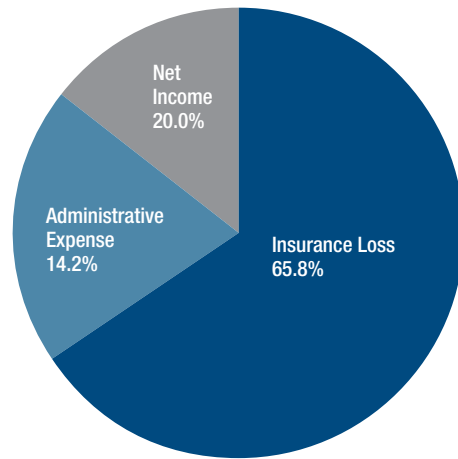
PERCENTAGE OF SHARES
by CAMEL category

Category	2004	2005	2006	2007	2008	2009
Code 1 & 2	91.9%	93.6%	93.6%	93.2%	86.4%	80.9%
Code 3	7.3	5.3	5.5	5.8	11.0	13.6%
Code 4	0.8	1.1	0.9	0.9	2.6	5.3%
Code 5	0.0	0.0	0.0	0.1	.1	0.2%
Totals	100%	100%	100%	100%	100%	100%

NCUSIF RESERVES IN MILLIONS OF DOLLARS
December 31, 2009



NCUSIF INCOME AND EXPENSES
by percent



RESERVES FOR ESTIMATED LOSSES

(in thousands)

Fiscal year	2004	2005	2006	2007	2008	2009
Reserves—beginning of fiscal year	\$76,667	\$67,126	\$72,976	\$70,229	\$215,780	\$278,343
Net charges for fiscal year	(6,117)	(15,090)	(5,295)	(40,846)	(227,791)	(144,742)
Provision for insurance losses	(3,424)	20,940	2,548	186,397	290,354	625,140
Reserves—end of fiscal year	\$67,126	\$72,976	\$70,229	\$215,780	\$278,343	\$758,741

ADMINISTRATIVE COSTS

(in thousands)

Fiscal year	2004	2005	2006	2007	2008	2009
Direct expenses	\$1,542	\$1,641	\$1,414	\$1,452	\$2,131	\$44,380
Allocated expenses	79,863	78,832	80,642	77,766	79,385	\$90,244
Total administrative expenses	\$81,405	\$80,473	\$82,056	\$79,218	\$81,516	\$134,624
Percent of NCUA total administrative expenses	60.3%	57.5%	57.4%	53.8%	53.4%	53.8%

SUMMARY OF CAMEL CODE 4 & 5 CREDIT UNIONS

Fiscal year	2003	2004	2005	2006	2007	2008	2009
Number of Code 4 & 5 credit unions	217	255	280	240	211	271	351
Percentage of insured credit unions	2.3%	2.8%	3.1%	2.9%	2.6%	3.5%	5.8%
Shares in Code 4 & 5 credit unions	\$3.6B	\$4.3B	\$5.8B	\$5.2B	\$5.3B	\$15.4B	\$38.7B
Percentage of NCUSIF natural person insured shares	0.74%	0.87%	1.12%	0.96%	0.94%	2.33%	5.35%

INSURED SHARE GROWTH IN FEDERALLY INSURED CREDIT UNIONS*

(in millions)

December 31	Shares outstanding			prior year total shares
	Federal credit unions	State credit unions	Total	
1998	\$191,328	\$130,129	\$321,457	9.6%
1999	194,766	140,857	335,623	4.4%
2000	195,871	157,996	353,867	5.4%
2001	217,112	185,574	402,686	13.8%
2002	238,912	202,552	441,464	9.6%
2003	262,420	215,056	477,476	8.2%
2004	276,395	222,573	498,968	4.5%
2005	285,713	229,909	515,622	3.3%
2006	296,469	237,724	534,193	3.6%
2007	308,917	251,915	560,832	5.0%
2008	\$361,094	\$297,801	\$658,895**	17.5%
2009	\$393,294	\$331,501	\$724,795**	10.5%

*Natural Person Credit Unions

**Shares are insured to \$250,000

Insured Credit Union Activity

CHANGES IN FEDERALLY INSURED CREDIT UNIONS

Fiscal Year 2008

	Federal Credit Unions		Federally insured state credit unions		Total
Number January 1, 2008	5036		3065		8101
Additions					
New Charters		3		1	4
Conversions	FISCU to FCU	5	FCU to FISCU	8	13
	NFICU to FCU		NFICU to FISCU	4	4
Total Charter Additions		8		13	21
Mergers					
Mergers		-175		-104	-279
Assisted		-3		0	-3
Voluntary		-154		-99	-253
Mergers in Process		-18		-5	-23
Liquidations					
Liquidations		-14		-8	-22
Voluntary		-4		-2	-6
Involuntary		-9		-6	-15
Liquidations in Process		-1		0	-1
Conversions					
		-8		-7	-15
	FCU to FISCU	-8	FISCU to FCU	-5	-13
	FCU to NFICU		FISCU to NFICU	-1	-1
	FCU to Non-CU		FISCU to Non-CU	-1	-1
Total Charters Cancelled		-197		-119	-316
Total credit unions, December 31, 2008		4847		2959	7806
Net Change		-189		-106	-295

CHANGES IN FEDERALLY INSURED CREDIT UNIONS
Fiscal Year 2009

	Federal Credit Unions		Federally insured state credit unions	Total	
Number January 1, 2009	4,847		2,959	7,806	
Additions					
New Charters	2		2	4	
Conversions	FISCU to FCU	10	FCU to FISCU	6	16
	NFICU to FCU	1	NFICU to FISCU	2	3
Total Charter Additions	13		10	23	
Mergers					
Assisted	-6		-4	-10	
Voluntary	-113		-94	-207	
Mergers in Process	-8		-8	-16	
Liquidations					
Voluntary	0		0	0	
Involuntary	-9		-6	-15	
Liquidations in Process	-4		-2	-6	
Conversions					
	FCU to FISCU	-6	FISCU to FCU	-10	-16
	FCU to NFICU		FISCU to NFICU	-3	-3
	FCU to Non-CU		FISCU to Non-CU	-2	-2
Total Charters Cancelled	-146		-129	-275	
Total credit unions, December 31, 2009	4,714		2,840	7,554	
Net Change	-133		-119	-252	

FCU = Federal credit union

NFICU = Non-federally insured state-chartered credit union

FISCU = Federally insured state-chartered credit union

Non-CU = Non-credit union charter

MULTIPLE COMMON BOND FEDERAL CREDIT UNION EXPANSIONS
January 1–December 31, 2008

Region	I	II	III	IV	V	TOTAL
Number of Credit Unions	103	193	153	108	110	667
Number of Groups Added	1,148	2,803	2,370	1,061	2,390	9,772
200 and Less	990	2,548	2,102	884	2,142	8,666
201-500	93	138	149	94	120	594
501-1,000	30	60	67	38	58	253
1,001-1,500	10	22	20	20	27	99
1,501-2,000	11	8	10	8	19	56
2,001-2,999	10	12	10	11	16	59
3,000 and over	4	15	12	6	8	45
Potential New Members	213,907	383,255	669,062	224,476	305,353	1,796,053
Average Size of Groups Added	186	137	282	212	128	184
Applications Denied	2	10	1	2	3	18
Deferrals*	48	131	60	6	67	312
Groups Denied of 3,000 and over	0	2	0	0	1	3
Groups Deferred of 3,000 and over	9	16	11	0	9	45
Largest Approved	54,000	38,000	169,454	35,000	33,000	

MULTIPLE COMMON BOND FEDERAL CREDIT UNION EXPANSIONS
January 1–December 31, 2009

Region	I	II	III	IV	V	Total
Number of Credit Unions	112	184	139	120	116	671
Number of Groups Added	1,379	3,583	2,381	1,313	2,117	10,773
200 and Less	1,215	3,180	2,088	1,101	1,881	9,465
201-500	78	201	166	103	143	691
501-1,000	46	95	64	57	47	309
1,001-1,500	14	40	23	18	9	104
1,501-2,000	6	25	12	10	15	68
2,001-2,999	11	23	9	12	16	71
3,000 and over	9	19	19	12	6	65
Potential New Members	259,470	782,904	887,337	317,436	284,426	2,531,573
Average Size of Groups Added	188	219	373	242	134	235
Applications Denied	0	10	0	7	3	20
Deferrals*	43	176	76	23	79	397
Groups Denied of 3,000 and over	0	3	0	2	1	6
Groups Deferred of 3,000 and over	1	20	6	7	5	39
Largest Approved	24,616	83,381	180,000	33,900	26,500	

*This number represents the total number of deferrals processed upon initial receipt of an expansion request. Some of these initial deferrals were subsequently approved or denied.

Operating Fees, Transfers and Expenses

NCUA Operating Fund

Operating Fee Assessment

For the 2009 operating fee scale, the assessment rates charged to natural person credit unions increased by 6.77 percent over the 2008 rates, primarily due to the addition of programs, such as the Annual Examination Program, and in response to economic conditions. A total of \$81.7 million was collected in operating fees during 2009 as compared to \$72.4 million in 2008.

Overhead Transfer Rate

The Operating Fund charges the National Credit Union Share Insurance Fund for insurance related expenses through an overhead transfer. The overhead transfer rate, based primarily on the amount of insurance work performed by NCUA staff, is calculated annually and applied to actual expenses. For 2009, the overhead transfer rate was 53.8 percent and resulted in transfers received by the Operating Fund of \$90.2 million. During 2008, the overhead transfer rate was 52.0 percent with transfers received totaling \$79.4 million.

Operating Expenses

For 2009, operating expenses were \$4.6 million, or 5.6 percent, under the budgeted amount of \$82.1 million, and for 2008, operating expenses were \$2.8 million, or

3.8 percent, below the 2008 budget of \$76.4 million. The 2009 under budget variance is less than NCUA's 10-year average of 6.5 percent, while the 2008 variance is the smallest since 1997. Operating expenses are primarily driven by employee pay and benefits, which comprise 75.4 percent of all expenses. During 2009, NCUA hiring efforts increased staff by 78 positions and resulted in year-end vacancies of 16 positions based on an authorized staff level of 1,023.

Improper Payments Information Act

The Improper Payments Information Act requires agencies to review their programs and activities to identify those susceptible to significant improper payments. Significant improper payments are defined as annual improper payments in a program exceeding both 2.5 percent of program payments and \$10 million. An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, and administrative or other legally applicable requirements. NCUA has reviewed its programs and determined that none are susceptible to a high risk of significant improper payments.

Corporate System Gains Temporary Assistance

Temporary Corporate Credit Union Stabilization Fund

Public Law 111-22, *Helping Families Save Their Homes Act of 2009*, created the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). TCCUSF was formed to accrue corporate credit union system losses, and over time, to assess the credit union system for unrecoverable losses.

The act provides TCCUSF with access to \$6 billion in borrowing authority, which is shared with NCUSIF. During the period ending December 31, 2010, if the Secretary of the Treasury (in consultation with the President) determines additional amounts above \$6 billion are necessary, the borrowing authority will be increased to the amount determined necessary, not to exceed \$30 billion. Such determination may be made only upon written recommendation of the NCUA Board and the Board of Governors of the Federal Reserve System.

On June 18, 2009, the NCUA Board approved actions to legally obligate TCCUSF for the costs of stabilizing the corporate system. As a result, the status of issuer and holder of the \$1 billion Capital Note from U.S. Central Federal Credit Union was legally obligated to the TCCUSF. In addition to the Capital Note, the Board also approved legally obligating TCCUSF for liability arising from the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) and the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP).

The TCCUSGP is a voluntary share guarantee program (excluding paid-in-capital and membership capital accounts) for corporate credit unions that began March 1, 2009. Corporate credit unions may participate in this program. The guarantee provides members who have NCUSIF-insured share accounts at corporates with excess coverage above the NCUSIF insurance limits. The guarantee applies to all share amounts above \$250,000. The program is set to expire September 30, 2012, but may be extended.

The TCCULGP was created in October 2008 to provide a guarantee on certain unsecured debt of participating corporate credit unions issued from October 16, 2008, through June 30, 2010, and maturing on or before June 30, 2017. The guarantee fee is priced to cover anticipated losses. The purpose of the program is to ensure parity with depositories covered by a similar FDIC guarantee program and to maintain market place confidence in corporate credit union unsecured debt offerings.

Through 2009, TCCUSF has borrowed \$1 billion and has assessed credit unions a premium of .0473 percent on insured shares, or \$337 million, to pay principal and interest on borrowings. TCCUSF is expected to sunset in fiscal year 2016.

NCUA Annual Performance Summary

Annual Performance Analysis 2008-2009

NCUA performance indicators illustrate whether the agency met its annual objectives and exhibited continued progress toward strategic goals and mission accomplishment. NCUA measures success based on performance of the credit union system it supervises, regulates and insures.

2008 and 2009 were challenging years for NCUA, the credit union system, and all financial institutions due to deteriorating economic conditions in the United States. The financial crisis continued with declines in real estate values and related investments. Although there are signs of stabilization, continued high unemployment combined with declining real estate values have led to increased mortgage loan defaults and foreclosures throughout the country.¹

The economic conditions and disruptions in the financial markets negatively affected segments of the credit union industry. Some corporate credit unions, with large concentrations of securities based on non-traditional mortgage products, experienced large losses when the secondary markets for these investments collapsed and the securities could not be sold as expected. Natural person credit unions have also experienced increased balance sheet strain. This led to increased risk to the NCUSIF, as evidenced by an increase in shares related to problem credit unions as a percent of total insured shares. To protect the interests of credit union members and the NCUSIF, NCUA took various actions to stabilize the industry.

NCUA initiatives implemented in late 2008 began to yield measurable results in 2009, improving the viability and stability of both corporate and natural person credit unions. NCUA concentrated significant efforts in improving the liquidity of the corporate credit union system by implementing a number of new programs. These included the Temporary Corporate Credit Union Liquidity Guarantee Program, which provided a National Credit Union Insurance Share Guarantee for unsecured debt obligations, and the Temporary Corporate Credit Union Share Guarantee Program, which guaranteed all deposits in corporate credit unions, excluding capital accounts.

These programs helped ensure corporate credit union access to liquidity in the financial markets and encouraged natural person credit unions to maintain and increase their deposits in corporate credit unions, easing the liquidity burden. The corporate credit unions used the monies received to pay down external borrowings, thus freeing collateral for future contingency liquidity needs. While improvement is still needed, corporate credit union borrowings, as a percent of assets, decreased from 34 percent in 2008 to 23.6 percent in 2009.

Natural person credit unions have remained more stable than other financial institutions. While credit union net worth declined a slight 0.02 percent in 2008, it increased by 1.86 percent in 2009. Membership increased, by 5.8 percent in 2008 and 6.93 percent in 2009, to reach nearly 90 million credit union members. The pace of loan growth increased as well, to just over 7 percent in 2008, and at a slower pace of just over 1 percent in 2009. As can be expected due to economic conditions, loan delinquency increased to 1.38 percent of total loans in 2008 and 1.82 percent of total loans in 2009. It should be noted; however, that both loan numbers represent much healthier figures than those of other financial institutions. FDIC data indicates that total loans decreased for banks in 2009 and loan delinquency (non-current loans) stood at just over 7 percent². NCUA continued to take actions such as increasing issuance of regulatory and supervisory guidance to help credit unions manage their risk and to ensure stability of the system and the NCUSIF.

NCUA efforts to help improve access of credit union services, especially to those of modest means, continued as well. NCUA is committed to assisting credit unions add underserved areas to their fields of membership as well as provide guidance and assistance to low-income credit unions. Credit unions have seen the benefits of NCUA's outreach programs, as evidenced by increased attendance and positive feedback to such programs.

¹From *National Risk Trends Report* analysis created by NCUA internal economist

²Data from statistical trend reports available at www.fdic.com




Finally, NCUA leadership understands that staff is critical in ensuring its continued successful performance. The agency implemented changes to its training program to ensure a well-trained and motivated staff. These changes include adding five full-time instructors to the Division of Training and Development staff and adding four new courses for credit union examiners, including two advanced courses that directly relate to emerging issues faced by the credit union system.

STRATEGIC GOAL 1

A safe, sound and healthy credit union system

Strategic Indicator 1.1	Core capital ratio of the corporate credit union system					
Desired Level	Improve from prior year					
Results	Target achieved					
Performance	2005	2006	2007	2008	2009	
	3.35%	3.25%	2.76%	(6.45)%	(3.82)%	

Strategic Indicator 1.2	Net worth of the credit union system continues to grow					
Desired Level	Percentage growth from prior year improves					
Results	Target achieved					
Performance	2005	2006	2007	2008	2009	
	7.57%	7.35%	5.19%	(0.02)%	1.86%	

 Goal achieved.
 Goal not achieved but progressing toward achievement—no significant impact on overall program performance
 Goal not achieved with an impact on overall program and activity performance.

Annual Performance Goal: Stabilize the liquidity of the corporate credit union system

Annual Indicator 1.3	Corporate credit unions reduce amount of borrowings as a percent of shares and assets					
Desired Level	Return to under 15% for borrowings/assets and under 20% for borrowings/shares					
Results	Target not achieved—Improving					
Performance	2005	2006	2007	2008	2009	
	Borrowings/Assets	11.8%	12.5%	15.0%	34.0%	23.6%
	Borrowings/ Shares	14.7%	15.8%	19.6%	36.9%	25.5%

Annual Performance Goal: Protect the integrity and financial stability of the NCUSIF

Annual Indicator 1.4	Take enforcement actions to minimize risks and prevent credit union failures					
Desired Level	Supervisory enforcement actions increase to address identified safety and soundness issues (CAMEL ratings slip)					
Results						
Performance	2005	2006	2007	2008	2009	
	167	219	184	195	294	

Annual Performance Goal: Protect the integrity and financial stability of the NCUSIF

Annual Indicator 1.5	Percentage of delinquent loans to total loans in natural person credit unions				
Desired Level	Keep under 1%				
Results	Not achieved				
Performance	2005	2006	2007	2008	2009
	0.73%	0.68%	0.93%	1.38%	1.82%

Annual Performance Goal: Encourage credit unions to reduce concentration risk

Annual Indicator 1.6	NCUA encourages credit unions to reduce the percentage of real estate loans to total loans				
Desired Level	Reduce from prior year				
Results	Not achieved				
Performance	2005	2006	2007	2008	2009
	47.72%	49.52%	51.64%	53.80%	54.07%

STRATEGIC GOAL 2

Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States

Strategic Indicator 2.1	Increase in credit union membership				
Desired Level	Reach 100,000,000 by 2016				
Results	Moving toward target				
Performance	2005	2006	2007	2008	2009
	85,094,038	86,072,667	87,188,480	88,604,817	89,931,442

Strategic Indicator 2.2	Increase in credit union assets, shares and loans					
Desired Level	Increase over previous year					
Results	Target achieved for Assets and Shares Target not achieved for Loans with no impact on program performance					
Performance	2005	2006	2007	2008	2009	
	Assets	4.95	4.74	6.16	7.43	9.08
	Loans	10.69	8.07	6.66	7.08	1.14
	Shares	3.84	4.08	5.19	7.71	10.5

Annual Goal: Facilitate credit union’s ability to serve the underserved

Annual Indicator 2.4	Number of underserved areas added to credit union field of membership (as allowed under NCUA regulation)				
Desired Level	Continue to add underserved areas and increase potential membership				
Results	Target achieved				
Performance	2005	2006	2007	2008 ³	2009
Areas added	179	97	77	11	27
Potential members added	24,561,007	17,466,630	14,829,178	1,977,785	3,831,956

Annual Goal: Outreach programs help low-income credit unions

Annual Indicator 2.5	Attendance to NCUA outreach programs (workshops, round tables, clinics) has increased and credit unions see value in the programs				
Desired Level	Attendance increases year-to-year				
Results	Targets achieved				
Performance	2005	2006	2007	2008	2009
Individual credit unions attending	N/A	1,060	1,107	1,490	1,690
Overall benefit to credit union as indicated in survey ⁴	N/A	N/A	N/A	N/A	4.76/5.0

Annual Indicator 2.6	Percentage increase in membership of low-income credit unions				
Desired Level	Membership growth increases from previous year				
Results	Target achieved				
Performance	2005	2006	2007	2008	2009
Percentage growth	7.57%	7.66%	11.19%	5.8%	6.93%

STRATEGIC GOAL 3

A prudent, flexible and efficient regulatory environment for all federally insured credit unions.

Strategic Indicator 3.1	Regulations are reviewed consistently year-to-year				
Desired Level	Review one-third of regulations yearly				
Results	Target Achieved				
Performance	2005	2006	2007	2008	2009
Regulations reviewed	One-third	One-third	One-third	One-third	One-third

³In early 2008, NCUA put a temporary moratorium on adding areas to Field of Membership while it updated its Chartering and Field of Membership manual to update and clarify the process of approving credit union service to “underserved” areas. This made explicit the process for applying the economic distress criteria that determine whether an area qualifies as “underserved.”

⁴Surveys began in 2009 and will continue in subsequent years.

Auditors' Reports and Financial Statements

NCUA earned unqualified opinions on its 2008 and 2009 audited financial statements. To conserve space, this year's annual report only includes the audited statements for the National Credit Union Share Insurance Fund. The audited financial statements for all five NCUA funds are available online at www.ncua.gov under *Resources and Publications/Publications/Reports, Plans and Statistics*.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the accompanying balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2009, and the related statements of operations, changes in fund balance, and cash flows for the year then ended (hereinafter referred to as "financial statements"). These financial statements are the responsibility of the NCUSIF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 11, 2010, on our consideration of the NCUSIF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

June 11, 2010

INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:


We have audited the accompanying balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2008, and the related statements of operations, changes in fund balance, and of cash flows for the year then ended. These financial statements are the responsibility of NCUSIF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NCUSIF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, effective June 18, 2009, NCUSIF legally transferred certain obligations to a newly formed entity, the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). As a result, effective with that date, NCUSIF was no longer required to consolidate certain corporate credit unions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation* (formerly, FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities*). Because NCUSIF and TCCUSF are under common control, this has resulted in a change in reporting entity in accordance with FASB ASC 250, *Accounting Changes and Error Corrections*, which change has been applied retrospectively.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2010, on our consideration of NCUSIF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



June 10, 2010

NATIONAL CREDIT UNION SHARE INSURANCE FUND

**BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008
(Dollars in thousands)**

	2009	2008
ASSETS		
Cash and cash equivalents (Note 4)	\$ 817,439	\$ 3,837,344
Investments (Note 5)	8,698,313	4,243,313
Contributions receivable from insured credit unions	17,614	992
Note receivable due from NCUA Operating Fund (Note 7)	18,438	19,779
Premium receivable	12,901	-
Loans receivable (Note 7)	10,000,000	-
Assets acquired in assistance to insured credit unions	204,525	103,175
Fixed assets — net of accumulated depreciation and amortization	58	80
Accrued interest receivable	72,356	39,848
Accrued fee receivable	-	1,929
Total assets	<u>\$ 19,841,644</u>	<u>\$ 8,246,460</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Cash assistance liability	\$ 5,393	\$ 2,000
Amounts due to insured shareholders of liquidated credit unions	12,192	10,356
Due to NCUA Operating Fund (Note 12)	2,257	169
Reserve for losses (Note 9)	758,741	278,343
Interest payable	1,302	-
Obligations under capital lease	-	89
Note payable (Note 12)	10,000,000	-
Accounts payable	27,474	56
Total liabilities	<u>10,807,359</u>	<u>291,013</u>
Commitments and Contingencies (Note 14)		
FUND BALANCE		
Insurance fund balance	1,889,798	1,700,003
Insured credit unions' accumulated contributions (Note 11)	7,067,139	5,977,106
Accumulated other comprehensive income	77,348	278,338
Total fund balance	<u>9,034,285</u>	<u>7,955,447</u>
Total liabilities and fund balance	<u>\$ 19,841,644</u>	<u>\$ 8,246,460</u>

See accompanying Notes to the Financial Statements

NATIONAL CREDIT UNION SHARE INSURANCE FUND

**STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)**

	2009	2008
REVENUES		
Premium income (Note 10)	\$ 727,466	\$ -
Investment income	188,774	390,922
Interest on note receivable due from related party	509	807
Interest on loans	32,791	1,178
Other income	19	2,752
Total revenues	<u>949,559</u>	<u>395,659</u>
EXPENSES		
Employee wages and benefits	69,966	60,699
Travel	10,161	8,130
Rent, communications, and utilities	2,255	2,067
Contracted services	4,646	3,698
Interest expense	32,791	-
Other	14,805	6,922
Provision for insurance losses	625,140	290,354
Total expenses	<u>759,764</u>	<u>371,870</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 189,795</u>	<u>\$ 23,789</u>

See accompanying Notes to the Financial Statements

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	Insurance Fund Balance	Insured Credit Unions' Accumulated Contributions	Accumulated Other Comprehensive Income	Comprehensive Income	Total
BALANCE — January 1, 2008	\$ 1,676,214	\$ 5,585,256	\$ -	\$ -	\$ 7,261,470
Contributions from insured credit unions	-	391,850	-	-	391,850
Excess of revenues over expenses	23,789	-	-	23,789	23,789
Other comprehensive income - changes in unrealized gain on available for sale investments	-	-	278,338	278,338	278,338
Comprehensive income	-	-	-	\$ 302,127	
BALANCE — December 31, 2008	1,700,003	5,977,106	278,338	\$ -	7,955,447
Contributions from insured credit unions	-	1,090,033	-	-	1,090,033
Excess of revenues over expenses	189,795	-	-	189,795	189,795
Other comprehensive income - changes in unrealized gain on available for sale investments	-	-	(200,990)	(200,990)	(200,990)
Comprehensive loss	-	-	-	\$ (11,195)	
BALANCE — December 31, 2009	<u>\$ 1,889,798</u>	<u>\$ 7,067,139</u>	<u>\$ 77,348</u>		<u>\$ 9,034,285</u>

See accompanying Notes to the Financial Statements

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 189,795	\$ 23,789
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	82	323
Amortization of premiums and discounts on investments — net	78,916	44,465
Provision for insurance losses	625,140	290,354
Insurance losses paid, net	(144,742)	(227,791)
(Increase) decrease in assets:		
Premium receivable	(12,901)	-
Assets acquired in assistance to insured credit unions — net	(101,350)	(37,291)
Accrued interest receivable	(32,508)	20,203
Accrued fee receivable	1,929	(1,929)
Increase (decrease) in liabilities:		
Cash assistance liability	3,393	2,000
Amounts due to insured shareholders of liquidated credit unions	1,836	5,463
Due to NCUA Operating Fund	2,088	(103)
Interest payable	1,302	-
Due to credit unions	-	(30,853)
Accounts payable	27,418	21
Net cash provided by operating activities	<u>640,398</u>	<u>88,651</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(6,095,297)	(2,335,125)
Proceeds from maturities on investments	1,360,391	1,800,000
Proceeds from sales of investments	-	2,500,000
Capital expenditures	(60)	-
Collections on note receivable — NCUA Operating Fund	1,341	1,341
Net cash (used in) provided by investing activities	<u>(4,733,625)</u>	<u>1,966,216</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	1,073,411	391,012
Principal payments under capital lease obligation	(89)	(351)
Net cash provided by financing activities	<u>1,073,322</u>	<u>390,661</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,019,905)	2,445,528
CASH AND CASH EQUIVALENTS — Beginning of year	<u>3,837,344</u>	<u>1,391,816</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 817,439</u>	<u>\$ 3,837,344</u>
CASH PAYMENTS FOR INTEREST	<u>\$ -</u>	<u>\$ 7</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Loans to Corporate Credit Unions (CCUs) financed through CLF borrowings	<u>\$ 10,000,000</u>	<u>\$ -</u>

See accompanying Notes to the Financial Statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. ORGANIZATION AND PURPOSE

OVERVIEW OF THE NATIONAL CREDIT UNION SHARE INSURANCE FUND

The National Credit Union Share Insurance Fund (“NCUSIF”) was created by Title II of the Federal Credit Union Act, 12 U.S.C. 1781 et seq., as amended by section 136(b) of the Emergency Economic Stabilization Act of 2008, 12 U.S.C. 5241(b), and the Helping Families Save Their Homes Act of 2009, §204, Pub. L. No. 111-22, 123 Stat. 1632, 1648 (2009) (“Helping Families Act”). The NCUSIF was established as a revolving fund in the United States Treasury, under the Board of Directors of the National Credit Union Administration (NCUA), for the purpose of insuring member share deposits in all federal credit unions and for qualifying state credit unions requesting insurance.

The NCUA exercises direct supervisory authority over federal credit unions and coordinates required supervisory involvement with the state chartering authority for state chartered credit unions insured by the NCUSIF. Insured credit unions are required to report certain financial and statistical information to NCUA on a quarterly basis, and are subject to periodic examination by the NCUA. Information derived through the supervisory and examination process provides the NCUSIF with the ability to identify credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, cash assistance, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF may liquidate the credit union, pay members’ shares up to the maximum insured amount, and dispose of its assets.

A change in reporting entity, related to certain variable interest entities, has been retrospectively presented herein. With this change in reporting entity, the NCUSIF was no longer required to consolidate any corporate credit unions.

Recent Legislation — The Helping Families Act increased deposit insurance coverage to \$250,000 through December 31, 2013, and created the Temporary Corporate Credit Union Stabilization Fund (“TCCUSF”), 12 U.S.C. 5241(b), 1790e. The purposes of the TCCUSF are to accrue the losses of the Corporate Credit Union (“CCU”) system, and over time, to assess the entire credit union system for the recovery of such losses. The act does not permit recovery of losses ahead of funds advanced to pay such losses; instead, funds to pay losses are provided through borrowings from the U.S. Treasury. NCUA has 28 corporate credit unions which provide liquidity, investment, and payment services to natural person credit unions. On June 18, 2009, the NCUA Board approved actions to legally obligate the TCCUSF for the costs of stabilizing the CCU system. These actions included legally obligating the TCCUSF as the issuer and holder of a \$1 billion capital note with U.S. Central Federal Credit Union (“USC”), and for all liabilities arising from the Temporary Corporate Credit

Union Share Guarantee Program (“TCCUSGP”) and the Temporary Corporate Credit Union Liability Guarantee Program (“TCCULGP”). The TCCUSGP guarantees the entire share amount member credit unions have on deposit with CCUs. The TCCULGP guarantees timely payment of principal and interest on certain unsecured debt of participating CCUs.

Sources of Funding — Deposits insured by NCUSIF are backed by the full faith and credit of the U.S. Government. NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain in the NCUSIF one percent of its insured shares. The NCUA Board may also assess premiums to all federally insured credit unions as provided by the Federal Credit Union Act.

In addition, the NCUSIF has \$6 billion in borrowing authority, shared with the TCCUSF, from the U.S. Treasury for use in unforeseen emergencies. This borrowing may be temporarily increased to an amount not to exceed \$30 billion.

Under the Federal Credit Union Act, NCUSIF also has the ability to borrow from the NCUA Central Liquidity Facility (“CLF”). If in the judgment of the NCUA Board, a loan to the NCUSIF is required at any time for carrying out the purposes of its programs, the NCUSIF is authorized to borrow from the CLF, having access to CLF’s unused borrowing authority.

Significant Developments — On March 20, 2009, the NCUSIF made two \$5 billion liquidity stabilization loans to USC and Western Corporate Federal Credit Union (“WesCorp”), respectively, with funds borrowed from the CLF. These advances are due to the CLF on December 21, 2010, as discussed further below.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The NCUSIF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), based on standards issued by the Financial Accounting Standards Board (“FASB”), the private sector standards setting body. In October 1999, the American Institute of Certified Public Accountants (AICPA) designated the Federal Accounting Standards Advisory Board (“FASAB”) as the standards setting body for the establishment of accounting principles generally accepted in the United States of America with respect to the financial statements of Federal government entities. The FASAB has indicated that the preparation of financial statements based upon standards promulgated by the FASB may be regarded as being in accordance with GAAP for those Federal entities, which includes the NCUSIF, that have issued financial statements based upon FASB standards in the past. To be consistent with historical reporting, the NCUSIF’s financial statements are presented in accordance with accounting and financial reporting standards promulgated by the FASB. These statements include the accounts of the NCUSIF and are consolidated as necessary with any variable interest entities for which the NCUSIF is deemed to be the primary beneficiary. As explained herein, no entities were consolidated in either 2009 or 2008.

Basis of Accounting — The financial statements are presented in accordance with the accrual basis of accounting. As such, the NCUSIF recognizes income when earned and expenses when incurred. The NCUSIF recognizes loans upon issuance and related repayments when received. The NCUSIF investment transactions are recognized on trade date. The NCUSIF recognizes borrowings when received and repayments when made. In addition, the NCUSIF recognizes interest on loans, interest on investments, and revenue from premium assessments when earned and recognizes interest on borrowings and expenses when incurred.

Assets Acquired in Assistance to Insured Credit Unions — The NCUSIF acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the NCUSIF may purchase certain credit union assets. In addition, the NCUSIF may provide cash assistance by acquiring nonperforming assets of a credit union experiencing financial difficulty. These acquired assets are recorded by the NCUSIF at their estimated net realizable value.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reported during that period. Actual results could differ from estimates. Significant items subject to those estimates and assumptions include reserve for losses and contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Cash and Cash Equivalents — The Federal Credit Union Act permits the NCUSIF to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are liquid investments with original maturities of three months or less.

Loans and Note Receivable — Notes and loans receivable relate to advances and loans to credit unions and the National Credit Union Administration Operating Fund. They bear interest based on rates set by U.S. Treasury and are recorded at face value. The NCUSIF does not intend to sell these receivables.

An allowance for doubtful accounts is the NCUSIF's best estimate of the amount of credit losses in the existing notes. The allowance is determined on an individual note basis upon review of any note that has a payment past due for over 60 days. A note is impaired if it is probable that the NCUSIF will not collect all principal and interest contractually due. The impairment, if any, is measured based on the present value of expected future cash flows discounted at the note's effective interest rate. As of December 31, 2009 and 2008, the NCUSIF had not recorded any allowances for notes or loans receivable nor recognized any amounts to be impaired, as the NCUSIF expects to recover amounts across the notes and loans receivable as contractually agreed upon.

The NCUSIF does not accrue interest when a note has been considered impaired. When ultimate collectability of the principal balance of the impaired note is in doubt, all cash receipts on impaired notes are applied to reduce the principal amount of such notes until the principal has been recovered and is recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Notes are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

Variable Interest Entities — An entity is referred to as a variable interest entity (“VIE”) if it meets the criteria outlined in ASC 810, *Consolidation* (formerly FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities (revised December 2003)* (FIN 46(R)), which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity’s operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

In addition, a VIE must be consolidated by the reporting entity that is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has the majority of the expected losses or a majority of the expected residual returns or both.

The NCUSIF has variable interests in natural person credit unions (“NPCU”)s that may be deemed VIEs. These entities are regularly monitored by the NCUSIF to determine their status and whether any reconsideration events have occurred that could cause its primary beneficiary status to change. These events include changes in contractual arrangements in a manner that reallocates expected losses and residual returns among the variable interest holders and providing support to an entity that results in an implicit variable interest.

Other Receivables

Accrued Interest Receivable

The NCUSIF recognizes accrued interest receivable for amounts of interest that have been contractually earned but not yet received.

Contributions Receivable from Insured Credit Unions

Each insured credit union pays to the Fund a deposit amount equal to 1% of the credit union’s insured shares. On an annual basis the NCUSIF recalculates the appropriate deposit amount for each credit union’s insured shares and reconciles the calculated deposit amount to the current deposit amount held by the NCUSIF. Any deposit shortfalls are billed to the credit unions to true-up their current deposited amounts, thereby returning deposit levels to the requisite 1% of insured shares. Any deposit surpluses over the requisite 1% of insured shares are refunded back to the credit unions. For credit unions with more than \$50 million in insured shares, this true-up process is performed twice a year.

Premium Receivable

NCUSIF has the statutory authority according to the Federal Credit Union Act of 2003 (revised in 2007 and 2009) Section 1782 “Administration of the Insurance Fund” to assess the federally insured credit unions for a premium charge. The NCUSIF may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period, if the NCUSIF’s equity ratio is less than 1.3%. Premium receivable refers to premium charge amounts that have been billed to federally insured credit unions, but have not been received as of the balance sheet date.

Investments — Investment securities at December 31, 2009 and 2008, consist solely of U.S. Treasuries. Effective December 31, 2008, all holdings in the NCUSIF investment portfolio were transferred from *held-to-maturity* to *available-for-sale*. Management determined that NCUSIF could no longer assert that it had the positive intent and ability to hold these securities to maturity, as they might be sold in response to a liquidity need.

Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of *available-for-sale* securities are determined on a specific identification basis.

A decline in the market value of any *available-for-sale* security below cost that is deemed to be *other-than-temporary* results in an impairment to reduce the carrying amount to fair value. The impairment is charged against earnings and a new cost basis for the security is thereafter established. To determine whether an impairment is *other-than-temporary*, the NCUSIF takes into consideration whether it has the ability and intent to hold a particular investment long enough until a market price recovery occurs, which entails consideration of evidence to indicate the cost of the investment is recoverable. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, expected changes in value of the investment subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

Premiums and discounts are amortized or accreted over the life of the related *available-for-sale* security as an adjustment to yield using the effective interest method. The aforementioned amortization and accretion of a premium and discount, respectively, is recorded in the following manner: (1) for premiums, the amortization of that premium is recorded to a valuation adjustment account (contra-asset), which is netted against the security's carrying amount to bring the recorded amount of the investment back to down to par, (2) for discounts, the accretion of a discount is recorded directly to the security's carrying amount to bring the recorded amount of the investment back up to par. Dividend and interest income are recognized when earned.

Fixed Assets — Property, plant, equipment, and related intangible assets, subject to amortization, are carried at amortized cost. Depreciation and amortization are recognized over the useful life.

Long-Lived Assets — In accordance with FASB ASC 360, "*Accounting for the Impairment or Disposal of Long-Lived Assets*", long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, NCUA initially performs a comparison between the undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third party independent appraisals, as considered necessary.

Amounts due to Insured Shareholders of Liquidated Credit Unions — The NCUSIF recognizes a liability for monies to be paid to insured shareholders of failed, federally insured credit unions.

Revenue Recognition — The NCUSIF recognizes revenue when interest on investments or loans are earned and when assessments to credit unions have been invoiced.

Reserve for Losses — The NCUSIF records a contingent liability and a loss provision for losses incurred in the resolution of troubled institutions. Through NCUA's supervision process, NCUA applies a supervisory rating system to assess each credit union's relative health in the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the adequacy of Liquidity ("CAMEL"), applying a value ranging from "1" (strongest) to "5"

(weakest). The contingent liability is derived by applying expected failures based on CAMEL ratings and historical loss rates. In addition credit union-specific analysis is performed on those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

Income Taxes — The NCUSIF is exempt from federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

Commitments and Contingencies — Liabilities for general loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Fair Value of Financial Instruments — The NCUSIF adopted ASC 820-10, *Fair Value Measurements and Disclosures*. The statements defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the NCUSIF's market assumptions. This hierarchy requires the NCUSIF to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

Related Party Transactions — The NCUSIF is one of the five funds under the common control of the NCUA Board. The NCUSIF had related party transactions during 2009 with the NCUA Operating Fund, the CLF and the TCCUSF, as discussed further within the notes to the financial statements.

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

In 2009, NCUSIF adopted an amendment to the accounting standards on the GAAP hierarchy (FASB ASC 105). This amendment changes the GAAP hierarchy used in the preparation of financial statements of non-governmental entities. It establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States. Rules and interpretive releases of the U.S. Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The adoption of this amendment had no impact to the financial statements.

In 2009, the NCUSIF adopted the amendment to the accounting standards for subsequent events (FASB ASC 855). This amendment establishes general standards of accounting for, and disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth (a) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (b) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (c) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. It also requires entities to disclose the date through which subsequent events were evaluated, and determine whether that date is the date that financial statements were issued or the date they were available to be issued. The adoption of this amendment did not have a material impact on the financial statements.

4. CASH AND CASH EQUIVALENTS

NCUSIF's cash and cash equivalents at December 31, 2009 and 2008, are as follows:

	2009	2008
(Dollars in thousands)		
Deposits with U.S. Treasury	\$ 217	\$ 384
U.S. Treasury overnight investments	<u>817,222</u>	<u>3,836,960</u>
Total cash and cash equivalents	<u>\$ 817,439</u>	<u>\$ 3,837,344</u>

5. INVESTMENTS

The Federal Credit Union Act, Section 1783 (c) as amended provides guidance regarding holding U.S. Treasury securities. The NCUSIF currently does not hold any corporate debt or equity securities. All investments at the NCUSIF pertain to U.S. Treasury securities of varying maturities.

In addition, the NCUSIF does not maintain any investments in securities that have been classified as *trading* or *held-to-maturity* as per FASB ASC 320, "Investments — Debt and Equity Securities."

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of *available-for-sale* debt securities at December 31, 2009 and 2008, were as follows:

	<u>Carrying Amount</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding (Losses)</u>	<u>Fair value</u>
(Dollars in thousands)				
At December 31, 2009				
Available for sale:				
U.S. Treasury securities	<u>\$ 8,620,965</u>	<u>\$ 127,388</u>	<u>\$ (50,040)</u>	<u>\$ 8,698,313</u>
At December 31, 2008				
Available for sale:				
U.S. Treasury securities	<u>\$ 3,964,975</u>	<u>\$ 278,338</u>	<u>\$ -</u>	<u>\$ 4,243,313</u>

Maturities of debt securities classified as *available-for-sale* at December 31 were as follows:

	<u>Fair value</u>
(Dollars in thousands)	
Available for sale:	
Due prior to one year	\$ 1,470,781
Due after one year through five years	6,788,485
Due after five years through ten years	<u>439,047</u>
	<u>\$ 8,698,313</u>

Proceeds from the sale of investment securities classified as *available-for-sale* were \$0 and \$2.5 billion in 2009 and 2008, respectively; gross realized gains included in investment income in 2009 and 2008 were \$0 and \$106 million, respectively; and there were no realized losses in 2009 or 2008.

Gross unrealized losses on investment securities, for which *other-than-temporary impairments* have not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2009, were as follows:

	Duration of Losses - Less than 12 months		
	Unrealized losses	Unrealized gains	Fair value
(Dollars in thousands)			
Available for sale:			
U.S. Treasury securities	\$ (50,040)	\$ 127,388	\$ 8,698,313

The unrealized losses on investments in U.S. Treasury securities, included in the table above, were the result of lower interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the NCUSIF asserts the ability and intent to hold these investments until a market price recovery occurs or until maturity, these investments are not considered *other-than-temporarily-impaired*.

6. FAIR VALUE MEASUREMENTS AND DISCLOSURES

Fair Value of Financial Instruments

The NCUA adopted ASC 820-10, *Fair Value Measurements and Disclosures*. The statement defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect NCUSIF's market assumptions.

Cash and Cash Equivalents, Receivables and Payables, Due to the NCUA Operating Fund, and Amounts Due to Insured Shareholders of Liquidated Credit Unions

The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Investment Securities

Debt securities classified as *available-for-sale* are measured using quoted market prices multiplied by the quantity held when quoted market prices are available. These instruments are determined to be Level 1 inputs.

The following tables present the carrying amounts and estimated fair values of NCUSIF's financial instruments at December 31, 2009 and 2008. FASB ASC 825, "*Financial Instruments*", defines fair value as either the price received to sell an asset or the price paid to transfer a liability, as part of an orderly transaction between market participants at the measurement date.

The fair values of the financial instruments shown in the below table as of December 31, 2009 and 2008, represents management's best estimates for either the amount that would be received to sell those assets, or the amount that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the judgment by the NCUSIF, regarding the assumptions market participants would consider, in pricing the asset or liability. The NCUSIF's judgment, in this instance, was developed through utilizing the best information available at the time, under the given circumstances.

(Dollars in thousands)

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	\$ 817,439	817,439	3,837,344	3,837,344
Investments	8,698,313	8,698,313	4,243,313	4,243,313
Contributions receivable from insured credit unions	17,614	17,614	992	992
Due from NCUA Operating Fund	18,438	18,438	19,779	19,779
Premium receivable	12,901	12,901	-	-
Loans receivable	10,000,000	10,000,000	-	-
Assets acquired in assistance to insured credit unions	152,423	152,423	71,216	71,216
Accrued interest receivable	72,356	72,356	39,848	39,848
Accrued fee receivable	-	-	1,929	1,929
Financial liabilities:				
Cash assistance liability	5,393	5,393	2,000	2,000
Amounts due to insured shareholders of liquidated credit unions	12,192	12,192	10,356	10,356
Due to NCUA Operating Fund	2,257	2,257	169	169
Interest payable	1,302	1,302	-	-
Obligations under capital leases	-	-	89	89
Note payable	10,000,000	10,000,000	-	-
Accounts payable	27,474	27,474	56	56

(Dollars in thousands)

	Fair value measurements at reporting date using			
	December 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Investments	\$ 8,698,313	8,698,313	-	-

(Dollars in thousands)

	December 31, 2008	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Investments	\$ 4,243,313	4,243,313	-	-

The carrying amounts shown in the tables above are included on the balance sheets under the indicated captions.

7. LOANS AND NOTES RECEIVABLE

U.S. Central and Wescorp Liquidity Stabilization Loans

On March 20, 2009, the NCUSIF made two \$5.0 billion liquidity stabilization loans (with funds borrowed from the CLF) to USC and WesCorp respectively. These advances were issued for settlement on March 20, 2009, by the NCUSIF and are fully collateralized by the assets of the borrowers referred to herein. Both advances have a fixed interest rate of 0.528% as of December 31, 2009. Interest payments are scheduled for June 21, 2010, in the amount of \$13.1 million (per advance) and for December 21, 2010, in the amount of \$13.2 million (per advance), with the principal due on December 21, 2010, in the amount of \$5.0 billion (per advance).

The notes were originally issued to both USC and WesCorp on March 20, 2009, by the NCUSIF, with a maturity date of June 22, 2009 (with principal and interest due on that date). Upon maturity, both notes were extended with a maturity date of December 21, 2009. Upon maturity on December 21, 2009, both notes were extended once more for a full year, with a current maturity date of December 21, 2010.

National Credit Union Administration Operating Fund

In 1992, the NCUSIF lent approximately \$42 million to the NCUA Operating Fund, pursuant to a thirty-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately \$509 thousand and \$807 thousand for 2009 and 2008, respectively. The note receivable balances at December 31, 2009 and 2008, were approximately \$18.4 million and \$19.8 million, respectively.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2009 and 2008, were 2.56 % and 3.95%, respectively. The interest rates at December 31, 2009 and 2008, were 2.06 % and 3.49%, respectively.

The above note requires principal repayments at December 31 as follows (in thousands):

Years Ending December 31	Secured Term Note
2010	\$ 1,341
2011	1,341
2012	1,341
2013	1,341
2014	1,341
Thereafter	<u>11,733</u>
Total	<u>\$ 18,438</u>

8. VARIABLE INTEREST ENTITIES

National Person Credit Unions

During the year ended December 31, 2009, NCUA held variable interests in the natural person credit unions (“NPCUs”) it supervises and regulates in the form of insurance on member deposits up to \$250,000. Reconsideration events (e.g. conservatorships) could result in such credit unions being deemed VIEs and NCUA becoming the primary beneficiary of the NPCU VIEs. Total insured shares for NPCUs, or maximum exposure to loss, as of December 31, 2009 and 2008, were \$724.8 billion and \$658.9 billion, respectively.

NCUA has documented herein the process for identifying needed reserves, both specific and general, to cover expected losses due to insurance on member deposits. Expected losses are only a fraction of the maximum exposure to loss; approximately 1.0 percent for 2009 and less than 0.5 percent for 2008. The total reserves for identified and anticipated losses resulting from NPCU failures are \$758.7 million and \$278.3 million at December 31, 2009 and 2008, respectively.

Corporate Credit Unions

During 2008 and through June 2009, there was significant discussion at NCUA regarding the variable interests held in corporate credit unions (CCUs”), which resulted from NCUA actions to stabilize the CCU system. It was concluded that for 2008 the NCUSIF would be the primary beneficiary of certain identified VIEs based on variable interests held by the NCUSIF at December 31, 2008, and therefore, the NCUSIF would have been required to consolidate such VIEs in its financial statements for the year ended December 31, 2008. However, based on the actions discussed below, it was concluded that the TCCUSF would be the primary beneficiary of these same VIEs based on variable interests held by the TCCUSF at December 31, 2009. The shift in primary beneficiary from 2008 to 2009 was the result of the June 18, 2009, actions of the NCUA Board to transfer the legal obligations related to CCUs from the NCUSIF to the TCCUSF. Such actions relieved the NCUSIF for the costs and related obligations of stabilizing the CCU system, as provided by Public Law 111-22, which was enacted May 20, 2009.

Given the shift in 2009 for the responsibility for corporate stabilization efforts from the NCUSIF to the TCCUSF, the NCUSIF has applied ASC 250 *Accounting Changes and Error Correction*”, as discussed in the next paragraph.

On June 18, 2009, the NCUA Board approved actions to legally transfer corporate stabilization efforts to the TCCUSF and relieve the NCUSIF of such activities. Accordingly NCUSIF is no longer required to consolidate any corporate credit unions. Furthermore, because the NCUSIF and the TCCUSF are under common control, this resulted in a change in reporting entity. This change in reporting entity has been applied retrospectively to 2008. Accordingly, the accompanying financial statements for the year ended December 31, 2008 do not reflect the consolidation of any CCUs.

9. RESERVE FOR LOSSES

Management identifies credit unions experiencing financial difficulty through NCUA's supervisory and examination process. Management on a specified case basis determines the estimated losses from these supervised credit unions. Management also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies a rating system to assess a credit union's financial condition and operations in the areas of Capital Adequacy, Asset Quality, Management, Earnings, and Asset/Liability Management ("CAMEL"). The CAMEL Rating System is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL Rating System to respond to continuing economic and regulatory changes in the credit union industry. For general reserve requirements, risk profile categories are established based on the CAMEL ratings of problem credit unions, and probable failure and loss rates are applied based on historical data. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions.

Total insured shares for natural person credit unions as of December 31, 2009 and 2008, were \$724.8 billion and \$658.9 billion, respectively. The total reserves for identified and anticipated losses resulting from supervised credit unions' failures are \$758.7 million and \$278.3 million at December 31, 2009 and 2008, respectively.

In exercising its supervisory function, the NCUSIF will at times, extend guarantees of assets (primarily loans) to third-party purchasers or to existing credit unions to facilitate mergers. The NCUSIF would be obligated upon nonperformance. No such guarantees were outstanding at December 31, 2009 and 2008. Estimated losses resulting from asset and merger guarantees are evaluated by management on a case-by-case basis.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party credit provider, such as a corporate credit union or bank, if a particular credit union were to have a current or immediate liquidity concern and the credit provider has refused to extend credit without a guarantee. The NCUSIF would thereby be obligated if the credit union failed to perform. Total line-of-credit guarantees of credit unions at December 31, 2009 and 2008, are approximately \$1.0 million and \$50.0 million, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2009 and 2008, are approximately \$0.0 and \$22.0 million, respectively. The carrying amount of the liability as of December 31, 2009 and 2008, for the outstanding NCUSIF guarantees is \$18.5 thousand and \$1.1 million, respectively. The guarantees expire in March of 2010.

On rare occasions, the NCUSIF provides indemnifications, as part of a merger assistance agreement, to acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There was one such indemnification contingency at December 31, 2009, for \$37,000, which expires in December 2010. As of December 2008, there was one indemnification contingency for \$37,000, which expires in December 2010.

The activity in the reserve for losses from supervised credit unions for the years ended December 31, 2009 and 2008, was as follows:

	2009	2008
(Dollars in thousands)		
Beginning balance	\$ 278,343	\$ 215,780
Insurance losses paid	(161,685)	(284,626)
Recoveries	16,943	56,835
Provision for insurance losses	<u>625,140</u>	<u>290,354</u>
Ending balance	<u>\$ 758,741</u>	<u>\$ 278,343</u>

The increase in the provision for insurance losses is due to the following (in thousands):

Specific reserves — increased from \$46,043 at December 31, 2008, to \$161,841 at December 31, 2009.

General reserves — increased from \$232,300 at December 31, 2008, to \$596,900 at December 31, 2009. Reserve amounts pertaining to the CCU system included \$3.7 million for 2008. In 2009, the amount pertaining to the CCU system was \$0, as all of the reserves pertaining to the corporate credit unions were obligated to the TCCUSF.

In addition to these recorded contingent liabilities, additional adverse performance in the financial services industry could result in additional loss to the NCUSIF. The ultimate losses for supervised credit unions will largely depend upon future economic and market conditions and accordingly, could differ significantly from initial estimates.

10. PREMIUM INCOME

The fund may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the Fund's equity ratio is less than 1.3%. When the Board projects that the equity ratio will, within six months, fall below 1.2%, the Board shall establish and implement a restoration plan within 90 days, which meets the requirements and conditions that the Board determined appropriate. In order to meet the requirements established by the Board, the plan must provide that the equity ratio will meet or exceed the minimum amount specified before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the Board may determine to be necessary due to extraordinary circumstances). In November 2009, the NCUA Board assessed a .1027 percent premium of insured shares totaling \$727.5 million.

11. INSURED CREDIT UNIONS' ACCUMULATED CONTRIBUTIONS

In 1998, the Federal Credit Union Act was amended to mandate changes to the NCUSIF's capitalization provisions effective January 1, 2001. 12 U.S.C. 1782(a). The Credit Union Membership Access Act of 1998 (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling 1% of the credit union's insured shares. The amount of each insured credit union's deposit shall be adjusted as follows, in accordance with procedures determined by the NCUA, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50 million; and (ii) semiannually,

in the case of an insured credit union with total assets of \$50 million or more. The annual and semiannual adjustments are based on member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1% contribution will be returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA.

Beginning in 2000, the CUMAA mandates that dividends are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, dividends associated with insured shares at year-end are declared and paid in the subsequent year.

In December 2007, the NCUA set the normal operating level at 1.30%. The calculated equity ratios at December 31, 2009 and 2008, were 1.23% and 1.26%, respectively.

Total insured shares as of December 31, 2009 and 2008, were \$724.8 billion and \$658.9 billion, respectively. The equity ratio for 2008 was calculated based on an insured share base of \$611.6 billion. Although deposit insurance coverage was increased from \$100,000 to \$250,000, the calculation for the equity ratio was based on the \$100,000 level due to the temporary nature of the increase in insurance coverage. Insurance coverage at the \$250,000 level was subsequently extended to December 31, 2013.

12. RELATED PARTY TRANSACTIONS

Central Liquidity Facility

On March 19, 2009, the NCUA Board took steps to stabilize the corporate credit union system when it placed USC and WesCorp into conservatorship. The NCUSIF has in place with the CLF, a Funding Commitment and Agreement and a Short-Term Revolving Promissory Note dated March 20, 2009, to fund \$20.0 billion with a final maturity date of any advance at December 31, 2010. There was \$10.0 billion remaining on this commitment as of December 31, 2009. CLF approved an advance of \$10.0 billion to NCUSIF in order for NCUSIF to make \$5.0 billion in liquidity stabilization loans to both USC and WesCorp. The notes were originally issued to both USC and WesCorp on March 20, 2009, by the NCUSIF, with a maturity date of June 21, 2009 (with principal and interest due on that date). Upon maturity, both notes were extended with a maturity date of December 21, 2009. Upon maturity on December 21, 2009, both notes were extended once more for a full year, with a current maturity date of December 21, 2010. The advance bears interest at a rate of 0.528% per annum at December 31, 2009.

NCUA Operating Fund (OF)

Certain administrative services are provided to the NCUSIF by the OF. The OF charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. As of December 31, 2009 and 2008, the NCUSIF had accrued \$2.3 million and \$169,000, respectively, in amounts due to the NCUA Operating Fund. The allocation factor was 53.8% to NCUSIF for 2009 and 52.0% for 2008. The cost of the services allocated to NCUSIF, which totaled approximately \$90.2 million and \$79.4 million for 2009 and 2008, respectively, is reflected as an addition to the corresponding expenses in the accompanying financial statements.

The NCUSIF issued a secured term note in 1992 to fund the costs of constructing a building in 1993 for the OF. The amount funded through the note was approximately \$42.0 million. Interest costs incurred were \$509,000 and \$807,000 for 2009 and 2008, respectively. The note payable balances at December 31, 2009 and 2008 were approximately \$18.4 million and \$19.8 million, respectively.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2009 and 2008, were 2.56 % and 3.95%, respectively. The interest rates at December 31, 2009 and 2008, were 2.06 % and 3.49%, respectively.

Temporary Corporate Credit Union Stabilization Fund ("TCCUSF")

On June 18, 2009, the NCUA Board approved actions to legally obligate the TCCUSF, and thereby relieve the NCUSIF, for the costs of stabilizing the CCU system as previously described herein. As a result, the status of issuer and holder of the Capital Note was legally obligated to the TCCUSF and relieved from the NCUSIF. The Board also approved to legally obligate the TCCUSF for the liability arising from the TCCUSGP and TCCULGP; both programs having also been relieved from the NCUSIF.

13. CONCENTRATIONS

The NCUSIF has the following concentrations of risk: 10 of the largest natural person credit unions hold 13.6 percent of the total assets within the credit union system and account for 13.0 percent of the contributed capital within the credit union system. Real estate secured loans are the largest single asset type within the natural person credit union system, accounting for 35.0 percent of total assets. The states of California, Florida, Arizona, and Nevada present a credit concentration risk accounting for 22.0 percent of the total real estate loans outstanding and 31 percent of total delinquent loans.

14. COMMITMENTS AND CONTINGENCIES

The Fund is currently a party to a number of disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to any other disputes, if any, will not be material to the Fund's financial position.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 10, 2010, which is the date the financial statements were available to be issued. There have been no activities that would materially affect financial statement balances as of December 31, 2009.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2009, and the related statements of operations, changes in fund balance, and cash flows for the year then ended (hereinafter referred to as "financial statements"), and have issued our report thereon dated June 11, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the NCUSIF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the NCUSIF's internal control over financial reporting by obtaining an understanding of the NCUSIF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



National Credit Union Share Insurance Fund

June 11, 2010

Page 2 of 2

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency that is described in Exhibit I. Exhibit III presents the status of the prior year material weakness.

The NCUSIF's responses to the finding identified in our audit are presented in Exhibit II. We did not audit the NCUSIF's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we have reported to management of the NCUSIF in a separate letter dated June 11, 2010.

This report is intended solely for the information and use of the addressees, NCUSIF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 11, 2010

NATIONAL CREDIT UNION – SHARE INSURANCE FUND**SIGNIFICANT DEFICIENCY****Introduction**

This exhibit describes the significant deficiency noted during our audit as of and for the year ended December 31, 2009, and our recommendations thereon. The National Credit Union Share Insurance Fund (the SIF) management's response to this finding is presented in Exhibit II.

Improvements Needed in Financial Accounting and Reporting Process

The SIF does not have sufficient staff resources with the experience in technical accounting and reporting requirements that the entity requires to consistently perform certain internal control activities, particularly those related to the preparation and review of the financial statements. For example, we noted:

- 1 A lack of documentation of control activities. The SIF does not have procedures in place that require review and approval of the journal entries and related supporting documentation because the journal entries that we tested did not have evidence that the journal entries were reviewed and approved by someone other than the preparer.
- 2 Lack of formal policies and procedures that require periodic reassessment of the adequacy and propriety of required disclosure and that also would stipulate the review process and require secondary reviews and approvals of the financial statements and related supporting documentation.
- 3 Supervisory reviews that were nonetheless performed were not entirely effective in identifying improper financial statement presentation and missing disclosures. In part, the individuals compiling the financial statements did not possess sufficient technical knowledge and/or institutional expertise that would enable effective performance of such preparation and reviews. For example, the draft financial statements prepared for the year ended December 31, 2009 did not properly identify and present comprehensive income and its related components in the statement of fund balance and comprehensive income. Additionally, such draft financial statements also improperly aggregated certain items on the statement of cash flows to comprise both non-cash reconciling items and actual cash disbursements. Additionally, there were several occurrences of inconsistencies, in similarly or identically described amounts, both between the basic financial statements and the amounts in the note disclosures and internally within the notes. As a result of our observations, management analyzed and adjusted the financial report.

Office of Management and Budget (OMB) Circular No. A-123, *Management Accountability and Control*, defines management's responsibility and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. Management controls are the organization policies and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making. Further, OMB Circular No. A-123 elaborate on both general attributes and specific controls that are essential for effective management controls. Management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure actions address risks.

The activities include reviews by management at the functional or activity level, proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control. Without such effective controls, there is an increased risk of material misstatements to the financial statements and related disclosures.

Recommendations

We recommend that the NCUA modify accounting policies, procedures and controls as follows:

- Reassess on a comprehensive basis the staff capabilities and operational and reporting processes to determine the areas where new and/or revised controls are warranted. This is especially vital when viewed within the context of the migration to the new financial accounting system. Consider also the control environment to determine the necessary requirements to satisfy the criteria referenced above.
- Match qualified personnel who are regularly trained and who possess the unique skills necessary to account for and report NCUA transactions consistent with the requirements of U.S. generally accepted accounting principles to the key NCUA process and control activities.
- Improve the overall core competencies of key financial management and personnel through training that is sufficiently robust and focused on the areas of need.
- Adopt formal methodology to regularly (at least annually) evaluate and update the Fund's policies and procedures to adapt to significant operational changes and adopt accounting pronouncement as such changes occur. Where transactions are similar across the NCUA, it may be advantageous to prepare combined accounting policies and pro forma disclosures.



NATIONAL CREDIT UNION SHARE INSURANCE FUND
MANAGEMENT RESPONSE TO AUDIT FINDINGS

Findings: Improvements Needed in Financial Accounting and Reporting Process

The OCFO experienced a significant increased level of work during 2009, including implementing a new financial management system, adding the Temporary Corporate Credit Union Stabilization Fund, assessing insured credit unions for the collection of a premium, and addressing a considerable increase in the level of complexity in accounting transactions and reporting.

The financial statement audit, which resulted in an unqualified opinion, identified findings related to needed improvement in the National Credit Union Share Insurance Fund's (NCUSIF) financial accounting and reporting processes. NCUA agrees that they warrant management's attention.

We believe the findings can best be categorized as:

1. Lack of documentary evidence of supervisory review, especially over journal entries;
2. Comprehensiveness of documentation with accounting policies and procedures; and
3. Weaknesses with conforming our annual financial statements into the form and content required by Generally Accepted Accounting Principles.

We will implement corrective action to address these findings taking into consideration the agency's resources and priorities.

1. Lack of documentary evidence of supervisory review, especially over journal entries:

As a small agency with limited resources, NCUA is still required to assess its internal control structure with the goal of ensuring that risks are appropriately mitigated. As part of implementing our new financial management system, we will review controls around journal entries and consider establishing a threshold for documenting supervisory review of journal entries above a certain dollar threshold or unusual in nature.

2. Comprehensiveness of documentation with accounting policies and procedures:

Audit findings highlighted the lack of comprehensiveness of our accounting policies and procedures as well as available documentation to evidence compliance. In response, NCUA will review controls where the availability of documentation appeared limited and strengthen processes accordingly. NCUA will also start building a repository of accounting and internal control policies and practices, which can be readily accessed by all NCUA staff.

3. Weaknesses with conforming our annual financial statements into the form and content required by generally accepted accounting principles:

NCUA is a small Federal agency and must focus its resources on essential functions. Financial accounting and reporting is viewed by executive agency management as important and essential. Financial highlights of all funds are made available to all at public Board meetings and on the agency's web site. The findings cited by our auditors relate to our annual process of preparing the financial statements in the form and content required by generally accepted accounting principles. To strengthen our financial reporting, we will review and refine our internal control processes and evaluate training requirements. We will also hire additional staff with requisite skills.

NATIONAL CREDIT UNION – SHARE INSURANCE FUND

STATUS OF PRIOR YEAR MATERIAL WEAKNESS

Prior Year Material Weakness

During the fiscal year 2008 financial statement audit, the prior year auditors noted a material weakness regarding the National Credit Union Share Insurance Fund (NCUSIF) accounting and reporting for the consolidation of certain variable interest entities.

Current Year Status of the Prior Year Material Weakness

During fiscal year 2009, management determined that due to the change in reporting entity, the NCUSIF no longer should consolidate the variable interest entities identified during the 2008 financial statement audit. Certain accounting and reporting deficiencies continued to be observed in 2009 as described in Exhibit I.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2009, and the related statements of operations, changes in fund balance, and cash flows for the year then ended (hereinafter referred to as "financial statements"), and have issued our report thereon dated June 11, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the NCUSIF is responsible for complying with laws, regulations, and contracts applicable to the NCUSIF. As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free of material misstatement, we performed tests of the NCUSIF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the NCUSIF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance discussed in the third paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, NCUSIF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 11, 2010

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Share Insurance Fund (NCUSIF) as of and for the year ended December 31, 2008, and have issued our report thereon dated June 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NCUSIF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NCUSIF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NCUSIF's internal control over financial reporting.

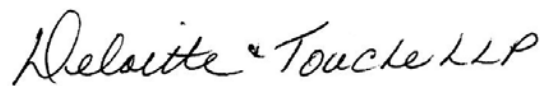
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. See finding 2008-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NCUSIF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Inspector General, the Board of the National Credit Union Administration, and the management of the National Credit Union Share Insurance Fund and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Deloitte Touche LLP".

June 10, 2010

NATIONAL CREDIT UNION SHARE INSURANCE FUND

SCHEDULE OF FINDINGS AND RESPONSES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

FINDING 2008-01

Condition: National Credit Union Share Insurance Fund (NCUSIF) failed to properly identify the appropriate accounting treatment under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation* (formerly, FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities* with respect to its variable interests in certain corporate credit unions.

Criteria: An entity is a variable interest entity (VIE) if it meets the criteria outlined in ASC 810, which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity. A VIE must be consolidated by the reporting entity that is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has the majority of the expected losses or a majority of the expected residual returns or both. NCUSIF was deemed to be the primary beneficiary of certain VIE's at December 31, 2008.

Effect: NCUSIF should have consolidated the VIE's in which it was the primary beneficiary as of December 31, 2008. However, effective June 18, 2009, NCUSIF legally transferred its obligations with respect to the corporate credit unions to a newly formed entity, the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). As a result, effective with that date, NCUSIF was no longer required to consolidate VIE's in accordance with ASC 810. Because NCUSIF and TCCUSF are under common control, this has resulted in a change in reporting entity in accordance with FASB ASC 250, *Accounting Changes and Error Corrections*; accordingly, TCCUSF is now considered the primary beneficiary.

Cause: This condition results from a deficiency in the design of internal control as NCUSIF did not initially identify the correct accounting treatment for its variable interests in certain corporate credit unions.

Monetary Impact: There is no monetary impact associated with this finding due to the fact that subsequent to December 31, 2008, NCUSIF legally transferred its obligations with respect to the corporate credit unions to a newly formed entity.

Recommendation: NCUSIF should consider all relevant accounting literature as it prepares its financial statements to ensure accuracy in accounting and presentation.

Management Response: NCUA is a small Federal agency and must focus its resources on essential functions. Financial accounting and reporting is viewed by executive agency management as important and essential. Financial highlights of all funds are made available to all at public Board meetings and on the agency's web site. The finding cited by our auditors relates to our annual process of preparing the financial statements in the form and content required by generally accepted accounting principles. To strengthen our financial reporting, we will review and refine our internal control processes and evaluate training requirements. We will also hire additional staff with requisite skills.

Financial Tables

INSURANCE FUND TEN-YEAR TRENDS

Fiscal year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Income (in thousands)										
Regular premium	—	—	—	—	—	—	—	—	—	727,466
Investment income ¹	\$268,169	\$252,853	\$213,252	\$151,175	\$124,836	\$175,017	\$264,895	\$320,163	\$390,922	188,774
Other income	1,952	1,703	1,226	760	515	645	1,326	1,166	4,737	33,319
Total income	\$270,121	\$254,556	\$214,478	\$151,935	\$125,351	\$175,662	\$266,221	\$321,329	\$395,659	949,559
Expenses (in thousands)										
Operating	\$65,898	\$90,505	\$85,367	\$85,026	\$81,405	\$80,473	\$82,056	\$79,218	\$81,516	134,624
Insurance losses—	—	—	12,513	38,043	(3,424)	20,940	2,548	186,397	290,354	625,140
Losses on investment sales	—	—	—	—	—	—	—	—	—	—
Total expenses	\$65,898	\$90,905	\$97,880	\$123,068	\$77,981	\$101,413	\$84,604	\$265,615	\$371,870	759,764
Net income (in thousands)	\$204,223	\$164,051	\$116,598	\$28,867	\$47,370	\$74,249	\$181,617	\$55,714	\$23,789	189,795
Data highlights										
Total equity (in millions) ²	\$4,628	\$5,036	\$5,607	\$6,073	\$6,359	\$6,618	\$6,978	\$7,261	\$7,677	8,957
Equity as a percentage of shares in insured credit unions	1.30%	1.25%	1.27%	1.27%	1.27%	1.28%	1.30%	1.29%	1.26%	1.23%
Contingent liabilities ³ (in thousands)	\$2,362	\$2,217	\$0	\$0	\$0	\$3,475	\$443	\$5,100	\$2,393	\$18
Contingent liabilities as a percentage of equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.1%	0.0%
NCUSIF loss per \$1,000 of insured shares	\$0.00	\$0.00	\$0.03	\$0.08	\$0.00	\$0.04	\$0.00	\$0.33	\$0.47	\$0.86
Operating ratios										
Premium income	—	—	—	—	—	—	—	—	—	76.7
Investment income	99.3%	99.3%	99.4%	99.5%	99.6%	99.6%	99.5%	99.6%	98.8%	19.9%
Other income	0.7%	0.7%	0.6%	0.5%	0.4%	0.4%	0.5%	0.4%	0.2%	0.4%
Operating expenses	24.4%	35.5%	39.8%	56.0%	64.9%	45.8%	30.8%	24.7%	20.6%	14.2%
Insurance losses	0.0%	0.0%	5.8%	25.0%	(2.7)%	11.9%	1.0%	58.0%	73.4%	65.8%
Total expenses	24.4%	35.6%	45.6%	81.0%	62.2%	57.7%	31.8%	82.7%	94.0%	80.0%
Net income	75.6%	64.4%	54.4%	19.0%	37.8%	42.3%	68.2%	17.3%	6.0%	20.0%
Involuntary liquidations commenced										
Number	20	17	14	8	14	10	12	7	15	16
Share payouts (in thousands)	\$10,393	\$16,290	\$40,003	\$ 7,774	\$88,746	\$27,137	\$19,799	\$195,325	\$648,620	\$713,112
Share payouts as a percentage of total insured shares	0.003%	0.004%	0.009%	0.002%	0.018%	0.005%	0.004%	0.035%	0.106%	0.098%

¹2008 includes \$106 million gain on sale of treasury securities.

²2008 Equity does not include unrealized gain of \$278 million from Treasury securities held as AFS.

³Amounts for 2006 and 2007 represent the carrying value of guarantees as determined under FIN 45, Guarantor's Accounting and Disclosure Requirements for Insured Share Guarantees, including indirect guarantees of indebtedness of others.

INSURANCE FUND TEN-YEAR TRENDS

Fiscal year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Mergers—fiscal year										
Assisted	9	5	1	5	7	5	4	5	3	10
Unassisted	284	295	271	166	331	260	281	237	253	207
Section 208 (FCU Act) assistance to avoid liquidation (in thousands)										
Capital notes and other cash advances outstanding	\$146	\$2,050	\$0	\$0	\$0	\$0	\$15,000	\$0	\$0	\$11,000,000
Non-cash guaranty accounts	\$8,450	\$2,559	\$156	\$7,872	\$70	\$4,649	\$679	\$233,088	\$51,340	\$776,471
Number of active cases	17	10	3	10	1	8	4	6	5	8
Number of problem case insured credit unions (CODE 4 & 5)										
Number	202	205	211	217	255	280	240	211	271	351
Shares (millions)	\$1,483	\$1,731	\$2,901	\$3,568	\$4,350	\$5,771	\$5,160	\$5,300	\$15,358	\$38,749
Problem case shares as a percentage of insured shares	0.42%	0.43%	0.66%	0.74%	0.87%	1.12%	0.96%	0.94%	2.33%	5.35%
December 31										
Shares in insured credit unions (in millions)¹										
Federal credit unions	\$195,871	\$217,112	\$238,912	\$262,420	\$276,395	\$285,713	\$296,469	\$308,917	\$373,371	\$408,832
State credit unions	157,996	185,574	202,552	215,056	222,573	229,909	237,724	251,915	307,759	343,835
Total shares	\$353,867	\$402,686	\$441,464	\$477,476	\$498,968	\$515,622	\$534,193	\$560,832	\$681,130	752,667
Number of member accounts in insured credit unions (in thousands)										
Federal credit unions	74,125	74,886	76,554	79,819	81,668	84,556	87,869	88,543	90,418	91,854
State credit unions	57,397	61,290	62,597	62,489	63,585	64,632	67,432	69,513	72,351	74,324
Total	131,522	136,176	139,151	142,308	145,253	149,188	155,302	158,056	162,769	166,178
Number of insured credit unions										
Federal credit unions	6,336	6,118	5,953	5,776	5,572	5,393	5,189	5,036	4,847	4,714
State credit unions	3,980	3,866	3,735	3,593	3,442	3,302	3,173	3,065	2,959	2,840
Total	10,316	9,984	9,688	9,369	9,014	8,695	8,362	8,101	7,806	7,554
Insured shares as a percentage of all credit union shares	93.3%	92.1%	91.2%	90.4%	89.7%	89.0%	88.9%	88.7%	96.7%	96.3%
State credit union portion of insured shares	44.7%	46.1%	45.9%	45.0%	44.6%	44.4%	44.5%	44.9%	45.2%	45.7%

¹Insured shares in natural person credit unions.

FEDERAL CREDIT UNION TEN-YEAR SUMMARY

Federal credit unions December 31 (dollar amounts in millions)

December	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of credit unions	6,336	6,118	5,953	5,776	5,572	5,393	5,189	5,036	4,847	4,714
Number of members	43,883,106	43,816,877	44,610,949	46,155,018	46,857,723	47,913,908	48,254,366	48,474,331	49,129,079	49,604,486
Assets	\$242,881	\$270,125	\$301,238	\$336,612	\$358,704	\$377,826	\$394,130	\$417,579	\$448,279	482,686
Loans outstanding	163,851	170,326	181,767	202,898	223,878	249,521	270,418	289,170	309,272	311,154
Shares	210,188	235,202	261,819	291,485	308,318	321,831	333,914	349,101	373,371	408,832
Reserves ¹	10,837	11,339	12,227	12,881	13,342	13,368	14,096	14,580	14,070	14,657
Undivided earnings	17,279	18,596	20,855	23,526	26,054	28,855	31,580	33,368	34,466	33,237
Gross income	19,456	20,042	19,676	19,764	20,302	22,796	26,137	29,304	30,117	29,034
Operating expenses	8,721	9,287	10,158	11,239	12,128	13,308	13,900	13,523	14,411	14,710
Dividends	8,120	8,277	6,369	5,199	4,683	5,930	8,398	10,588	9,686	7,421
Reserve transfers										
Net income ²	\$2,470	\$2,436	\$3,082	\$3,273	\$3,351	\$3,295	\$3,419	\$2,910	\$1,605	\$1,094
Percent change										
Total assets	1.5%	11.2%	11.5%	11.7%	6.6%	5.3%	4.3%	5.9%	7.4%	8.0%
Loans outstanding	5.6	4.0	6.7	11.6	10.3	11.5	8.4	6.9	7.0	0.6%
Shares	1.2	11.9	11.3	11.3	5.8	4.4	3.6	4.5	7.0	9.5%
Reserves ¹	5.1	4.6	7.8	5.3	3.6	0.2	5.4	3.4	-3.5	5.1%
Undivided earnings	4.4	7.6	12.1	12.8	10.7	10.8	9.4	5.7	3.3	0.4%
Gross income	5.0	3.0	-1.8	0.4	2.7	12.3	14.7	12.1	2.8	-2.9%
Operating expenses	2.0	6.5	9.4	10.6	7.9	9.7	4.4	-2.7	6.6	-3.9%
Dividends	5.5	1.9	-23.1	-18.4	-9.9	26.6	41.6	26.1	-8.5	-23.4%
Net income ²	13.1	-1.4	26.5	6.2	2.4	-1.7	3.8	-14.9	-44.8	441.3%
Significant ratios										
Reserves to assets	4.5%	4.2%	4.1%	3.8%	3.7%	3.5%	3.6%	3.5%	3.1%	3.0%
Reserves and undivided earnings to assets	11.6	11.1	11.0	10.8	11.0	11.2	11.6	11.5	10.8	9.9%
Reserves to loans	6.6	6.7	6.7	6.3	6.0	5.4	5.2	5.0	4.5	4.7%
Loans to shares	78.0	72.4	69.4	69.6	72.6	77.5	81.0	82.8	82.8	76.1%
Operating expenses to gross income	44.8	46.3	51.6	56.9	59.7	58.41	48.6	46.3	47.9	50.7%
Salaries and benefits to gross income	20.2	21.0	23.3	25.9	27.0	25.8	24.2	23.1	23.9	25.6%
Dividends to gross income	41.7	41.3	32.4	26.3	23.1	26.0	32.1	36.1	32.2	25.6%
Yield on average assets	8.3	7.8	6.9	6.2	5.8	6.2	5.5	7.2	7.0	6.2%
Cost of funds to average assets	3.5	3.3	2.3	1.7	1.4	1.7	2.3	2.8	2.4	1.8%
Gross spread	4.8	4.5	4.6	4.5	4.4	4.5	4.5	4.5	4.5	4.5%
Net income divided by gross income ²	12.7	12.2	14.8	16.6	16.5	14.5	13.1	9.9	5.3	3.6%
Yield on average loans	8.5	8.2	7.7	6.9	6.3	6.2	6.5	6.7	6.6	6.3%
Yield on average investments ³	6.4	4.9	3.5	2.7	2.6	3.2	4.0	4.7	3.9	2.7%

¹ Does not include the allowance for loan losses; ² Net income prior to reserve transfers; ³ Starting in 2000, investments includes cash on deposit and cash equivalents

FEDERALLY INSURED STATE-CHARTERED CREDIT UNION TEN-YEAR SUMMARY

Federally insured state-chartered credit unions December 31 (dollar amounts in millions)

December	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of credit unions	3,980	3,866	3,735	3,593	3,442	3,302	3,173	3,065	2,965	2,840
Number of members	33,704,772	35,532,391	36,336,258	36,273,168	36,710,301	36,896,076	37,499,194	38,363,147	39,436,940	40,332,653
Assets	\$195,363	\$231,280	\$255,838	\$273,572	\$288,296	\$300,871	\$315,817	\$335,885	\$365,163	402,071
Loans outstanding	137,485	152,014	160,881	173,236	190,377	208,734	223,917	237,755	256,718	261,285
Shares	169,053	201,807	222,377	236,856	247,804	255,588	267,274	283,298	307,759	343,835
Reserves ¹	9,120	10,266	11,105	10,895	10,997	11,117	11,474	11,763	12,291	12,437
Undivided earnings	12,830	14,563	16,229	18,231	20,202	21,943	24,337	26,106	26,826	26,436
Gross income	15,714	17,385	17,075	16,378	16,538	18,164	20,936	23,703	24,383	24,043
Operating expenses	7,024	8,053	8,990	9,629	10,250	10,806	11,348	11,278	12,015	12,287
Dividends	5,256	5,547	4,020	3,123	2,800	3,557	5,084	6,277	5,696	4,303
Reserve transfers										
Net income ²	\$1,859	\$2,060	\$2,584	\$2,508	\$2,439	\$2,363	\$2,302	\$1,828	\$837	\$330
Percent change										
Total assets	13.5%	18.4%	10.6%	6.9%	5.4%	4.4%	5.0%	6.4%	8.7%	8.4%
Loans outstanding	18.1	10.6	5.8	7.7	9.9	9.6	7.3	6.2	8.0	8.0%
Shares	13.2	19.4	10.2	6.5	4.6	3.1	4.6	6.0	8.6	8.6%
Reserves ¹	14.8	12.6	8.2	-1.9	0.9	1.1	3.2	2.5	4.5	2.2%
Undivided earnings	16.0	13.5	11.4	12.3	10.8	8.6	10.9	7.3	2.8	-1.8%
Gross income	17.2	10.6	-1.8	-4.1	1.0	9.8	15.3	13.2	2.9	2.7%
Operating expenses	13.9	14.6	11.6	7.1	6.4	5.4	5.0	-0.6	6.5	13.8%
Dividends	21.8	5.5	-27.5	-22.3	-10.3	27.0	42.9	23.5	-9.3	-9.3%
Net income ²	18.7	10.8	25.5	-2.9	-2.8	-3.1	-2.5	-20.6	-54.2	-129.6%
Significant ratios										
Reserves to assets	4.7%	4.4%	4.3%	4.0%	3.8%	3.7%	3.6%	3.5%	3.4%	3.3%
Reserves and undivided earnings to assets	11.2	10.7	10.7	10.6	10.8	11.0	11.3	11.3	10.7	10.3%
Reserves to loans	6.6	6.8	6.9	6.3	5.8	5.3	5.1	4.9	4.8	4.7%
Loans to shares	81.3	75.3	72.3	73.1	76.8	81.7	83.8	83.9	83.4	83.4%
Operating expenses to gross income	44.7	46.3	52.7	58.8	62.0	59.5	54.2	47.6	49.3	52.7%
Salaries and benefits to gross income	19.9	20.6	23.2	26.2	27.8	26.7	24.9	23.9	24.9	24.9%
Dividends to gross income	33.4	31.9	23.5	19.1	16.9	19.6	24.3	26.5	23.4	23.4%
Yield on average assets	8.3	8.2	7.0	6.2	5.9	6.2	6.8	7.3	7.0	7.0%
Cost of funds to average assets	3.6	3.5	2.3	1.7	1.4	1.7	2.4	2.8	2.4	2.4%
Gross spread	4.7	4.7	4.7	4.5	4.5	4.4	6.8	4.5	4.5	4.5%
Net income divided by gross income ²	11.8	11.8	15.1	15.3	14.7	13.0	11.0	7.7	3.4	-2.2%
Yield on average loans	8.5	8.4	7.6	6.6	6.1	6.0	6.4	6.7	6.6	6.6%
Yield on average investments ³	6.3	5.1	3.4	2.7	2.6	3.2	3.9	4.8	3.9	3.9%

¹ Does not include the allowance for loan losses; ² Net income prior to reserve transfers; ³ Starting in 2000 investments includes cash on deposit and cash equivalents

HISTORICAL FEDERAL CREDIT UNION DATA

Historical data for federal credit unions December 31, 1935 to 1971

Year	Charters issued	Charters cancelled	Net change	Total outstanding	Inactive credit unions	Active credit unions	Members	(Amounts in thousands of dollars)		
								Assets	Shares	Loans outstanding
1935	828		828	906	134	772	119,420	\$ 2,372	\$ 2,228	\$ 1,834
1936	956	4	952	1,858	107	1,751	309,700	9,158	8,511	7,344
1937	638	69	569	2,427	114	2,313	483,920	19,265	17,650	15,695
1938	515	83	432	2,859	99	2,760	632,050	29,629	26,876	23,830
1939	529	93	436	3,295	113	3,182	850,770	47,811	43,327	37,673
1940	666	76	590	3,855	129	3,756	1,127,940	72,530	65,806	55,818
1941	583	89	494	4,379	151	4,228	1,408,880	106,052	97,209	69,485
1942	187	89	98	4,477	332	4,145	1,356,940	119,591	109,822	43,053
1943	108	321	- 213	4,264	326	3,938	1,311,620	127,329	117,339	35,376
1944	69	285	- 216	4,048	233	3,815	1,306,000	144,365	133,677	34,438
1945	96	185	- 89	3,959	202	3,757	1,216,625	153,103	140,614	35,155
1946	157	151	6	3,965	204	3,761	1,302,132	173,166	159,718	56,801
1947	207	159	48	4,013	168	3,845	1,445,915	210,376	192,410	91,372
1948	341	130	211	4,224	166	4,058	1,628,339	258,412	235,008	137,642
1949	523	101	422	4,646	151	4,495	1,819,606	316,363	285,001	186,218
1950	565	83	482	5,128	144	4,984	2,126,823	405,835	361,925	263,736
1951	533	75	458	5,586	188	5,398	2,463,898	504,715	457,402	299,756
1952	692	115	577	6,163	238	5,925	2,853,241	662,409	597,374	415,062
1953	825	132	693	6,856	278	6,578	3,255,422	854,232	767,571	573,974
1954	852	122	730	7,586	359	7,227	3,598,790	1,033,179	931,407	681,970
1955	777	188	589	8,175	369	7,806	4,032,220	1,267,427	1,135,165	863,042
1956	741	182	559	8,734	384	8,350	4,502,210	1,529,202	1,366,258	1,049,189
1957	662	194	468	9,202	467	8,735	4,897,689	1,788,768	1,589,191	1,257,319
1958	586	255	331	9,533	503	9,030	5,209,912	2,034,866	1,812,017	1,379,724
1959	700	270	430	9,963	516	9,447	5,643,248	2,352,813	2,075,055	1,666,526
1960	685	274	411	10,374	469	9,905	6,087,378	2,669,734	2,344,337	2,021,463
1961	671	265	406	10,780	509	10,271	6,542,603	3,028,294	2,673,488	2,245,223
1962	601	284	317	11,097	465	10,632	7,007,630	3,429,805	3,020,274	2,560,722
1963	622	312	310	11,407	452	10,955	7,499,747	3,916,541	3,452,615	2,911,159
1964	580	323	257	11,664	386	11,278	8,092,030	4,559,438	4,017,393	3,349,068
1965	584	270	324	11,978	435	11,543	8,640,560	5,165,807	4,538,461	3,864,809
1966	701	318	383	12,361	420	11,941	9,271,967	5,668,941	4,944,033	4,323,943
1967	636	292	344	12,705	495	12,210	9,873,777	6,208,158	5,420,633	4,677,480
1968	662	345	317	13,022	438	12,584	10,508,504	6,902,175	5,986,181	5,398,052
1969	705	323	382	13,404	483	12,921	11,301,805	7,793,573	6,713,385	6,328,720
1970	563	412	151	13,555	578	12,977	11,966,181	8,860,612	7,628,805	6,969,006
1971	400	461	-61	13,494	777	12,717	12,702,135	\$10,533,740	\$9,191,182	\$8,071,201

Data for 1935-44 are partly estimated.

HISTORICAL FEDERAL CREDIT UNION DATA

Historical data for federal credit unions December 31, 1970 to 2009

Year	Charters issued	Charters cancelled	Net change	Total outstanding	Inactive credit unions	Active credit unions	Members	(Amounts in thousands of dollars)		
								Assets	Shares	Loans outstanding
1972	311	672	-361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	-159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	-2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	-33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	-50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	-198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	-435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	-442	11,925	294	11,631	26,114,649	45,482,943	41,340,911	28,184,280
1983	107	736	-629	11,296	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984	135	664	-529	10,767	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985	55	575	-520	10,247	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	-382	9,865	107	9,758	31,041,142	95,483,828	87,953,642	55,304,682
1987	41	460	-419	9,446	45	9,401	32,066,542	105,189,725	96,346,488	64,104,411
1988	45	201	-156	9,290	172	9,118	34,438,304	114,564,579	104,431,487	73,766,200
1989	23	307	-284	9,006	185	8,821	35,612,317	120,666,414	109,652,600	80,272,306
1990	33	410	-377	8,629	118	8,511	36,241,607	130,072,955	117,891,940	83,029,348
1991	14	291	-277	8,352	123	8,229	37,080,854	143,939,504	130,163,749	84,150,334
1992	33	341	-308	8,044	128	7,916	38,205,128	162,543,659	146,078,403	87,632,808
1993	42	258	-216	7,828	132	7,696	39,755,596	172,854,187	153,505,799	94,640,348
1994	39	224	-185	7,643	145	7,498	40,837,392	182,528,895	160,225,678	110,089,530
1995	28	194	-166	7,477	148	7,329	42,162,627	193,781,391	170,300,445	120,514,044
1996	14	189	-175	7,302	150	7,152	43,545,541	206,692,540	180,964,338	134,120,610
1997	17	179	-162	6,994	13	6,981	43,500,553	215,097,395	187,816,918	140,099,926
1998	8	174	-166	6,816	1	6,815	43,864,851	231,904,308	202,650,793	144,849,109
1999	17	265	-248	6,566	0	6,566	44,076,428	239,315,693	207,613,549	155,171,735
2000	12	235	-223	6,343	7	6,336	43,883,106	242,881,164	210,187,670	163,850,918
2001	14	228	-214	6,129	11	6,118	43,816,877	270,125,345	235,202,500	170,325,562
2002	21	180	-159	5,959	6	5,953	44,610,949	301,238,242	261,819,003	181,766,655
2003	28	193	-165	5,788	12	5,776	46,153,243	336,611,886	291,484,763	202,898,454
2004	22	172	-150	5,626	54	5,572	46,857,723	358,704,157	308,318,116	223,878,376
2005	19	177	-158	5,414	21	5,393	47,913,908	377,826,822	321,830,899	249,520,685
2006	17	201	-184	5,209	20	5,189	48,254,366	394,130,999	333,914,263	270,418,116
2007	14	165	-151	5,038	2	5,036	48,474,331	417,578,758	349,100,902	289,169,600
2008	8	178	-170	4,866	19	4,847	49,129,079	448,279,076	373,370,684	309,271,992
2009	13	134	-121	4,726	12	4,714	49,598,789	482,685,927	408,831,668	311,153,747



From the left are Larry Fazio, John McKechnie, Doug Verner, Owen Cole, David Marquis, Scott Hunt, Melinda Love, Robert Fenner, Tawana James, Mary Ann Woodson and Kent Buckham.

Who's Who Central Office

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Board Member

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Executive Director

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Doug Verner
Chief Information Officer

Lorraine Phillips
Director, Office of Human
Resources

William DeSarno
Inspector General



Mark Treichel



Jane Walters



Keith Morton



Elizabeth Whitehead



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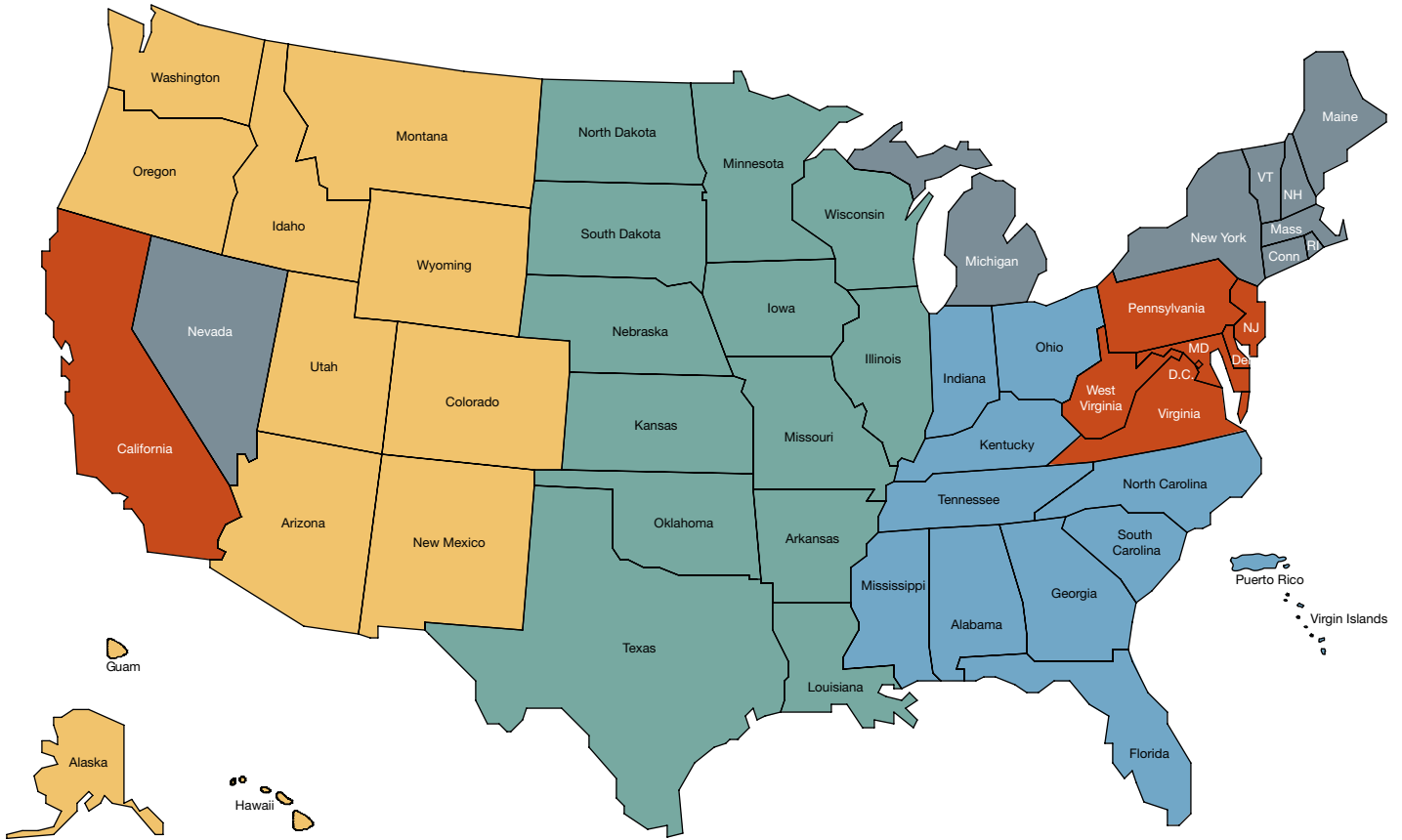
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- region 3—atlanta
- region 4—austin
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Consumer assistance hotline	1-800-755-1030 703-518-6339
Credit union investments	1-800-755-5999 703-518-6370
GC fraud hotline	1-800-827-9650 703-518-6550
Publications	703-518-6340
Report improper or illegal activities	1-800-778-4806 703-518-6357
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Please send your comments and suggestions to pacamail@ncua.gov.

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