

Estimating the 2010 NCUSIF Share Insurance Premium

EXECUTIVE SUMMARY.

The recently announced assessment of 13.4 basis points (bp) of insured shares for Corporate Stabilization is in line with expectations, and does not suggest either an increase or decrease in the ultimate cost to credit unions of the Corporate Stabilization, which will not be known for a few more years.

NCUA will announce the regular 2010 NCUSIF premium in the fall, probably at its September board meeting. The size of the premium will have to be sufficient to bring the NCUSIF's equity ratio to an acceptable level. Given the current and expected economic climate, credit unions' financial condition, and the outlook for additional insurance losses over the coming year, an acceptable level of the fund would reasonably be in the neighborhood of 1.25% of insured shares.

The latest reading for the equity ratio as of May was 1.22%. If recent trends continue, by the time the premium is announced the fund's equity ratio will have declined to 1.19%. It could go lower if insurance expenses in the coming few months rise above projected levels. Even with considerable additional insurance losses in the next few months, it is highly unlikely that the fund will fall below 1.15% by the time the premium is announced. Therefore, the premium is most likely to be in the range of 6 bp to 10 bp of insured shares. This is in the lower end of the 5 bp to 25 bp range that NCUA announced last year.

CUNA has conducted an analysis identifying the credit unions most adversely affected by the recent financial crisis and recession. These are the credit unions most likely to fail and cause losses to the share insurance fund in the coming year and a half. Under our Base Case analysis, the total actual losses from these credit unions would be around \$1.2 billion, which is only marginally above the \$1.1 billion that NCUSIF has already expensed for insurance losses. CUNA's Optimistic Case suggests total actual insurance losses of \$700 million, which would imply that no additional reserving for insurance losses is necessary. Under CUNA's Pessimistic Case, total actual insurance losses would be \$2.2 billion. In that scenario, a premium of up to 15 bp would be required in 2011 in addition to this year's premium of 6 bp to 10 bp. That would put the combined, two-year premium near the top of the previously announced range of 5 bp to 25 bp.

Estimating the 2010 NCUSIF Share Insurance Premium

Last year, NCUA officials disclosed that the range for the combined costs of the Corporate Stabilization assessment and share insurance premium to be levied in 2010 was between 20 basis points (bp) and 40 bp of insured shares. This range was a combination of the two components of the assessment: Corporate Stabilization and the NCUSIF premium. Most of us took that to mean the likely Corporate Stabilization assessment would be around 15 bp of insured shares, leaving the range for the share insurance premium of 5 bp to 25 bp, corresponding to a best case and worst case set of outcomes for the share insurance fund.

Since last fall, there have been a number of developments:

- The fourth quarter was another very difficult one for credit unions: net income, or return on assets (ROA), was a negative 12 bp of average assets.
- The first quarter of 2010 saw considerable improvement, with ROA rising to an annualized 48 bp.
- The Corporate Stabilization assessment and the share insurance premium were separated, with the Corporate Stabilization assessment announced in June and the share insurance premium to be announced in the fall, probably in September.
- The Corporate Stabilization assessment was announced at the rate of 13.4 bp of insured shares, slightly below the placeholder of 15 bp.
- A \$200 million plus credit union in Ohio failed due to fraud.
- In an interview, NCUA Board member Fryzel announced that the combined levy for the year was still in the range of 20 bp to 40 bp, further suggesting that credit unions may wish to budget on the higher end of that range.
- An \$800 million plus credit union in California was placed into conservatorship.

This all leaves two nagging questions: what should we make of the Corporate Stabilization assessment just announced, and what will the NCUSIF premium assessment be in September?

CORPORATE STABILIZATION.

The 13.4 bp assessment for Corporate Stabilization was simply this year's installment on a six year program to pay for the estimated losses on the troubled portfolios in corporate credit unions, primarily at US Central and WesCorp. Last year, NCUA estimated the eventual credit losses on the portfolio to be around \$6.5 billion. This refers to future, expected losses. It will take several years for the actual losses to be incurred. Most losses will likely be known in three to five years, but some will not be known even then. Because the bulk of the securities in question are mortgage backed securities, the actual losses will depend on the future course of the economy, interest rates, mortgage rates, housing finance, home prices, employment growth, how these factors vary in the markets where the underlying mortgages apply, and how homeowners and mortgage servicers will respond to those factors. In other words, the future losses are both unknown and

unknowable. The \$6.5 billion estimate is no doubt a reasonable estimate, rigorously determined, but it is just that, i.e., a guess. The eventual actual losses could end up being substantially more or less than \$6.5 billion. Only time will tell. We are aware of no recent breaking information that would either increase or decrease the estimate. Therefore, the most reasonable interpretation of the 13.4 bp assessment is that it was chosen because it represents \$1 billion in receipts, which if repeated for six years would generate \$6 billion.

We believe that credit unions should expect annual assessments for Corporate Stabilization of around \$1 billion for the next two or three years. By that time, most of the ultimate actual losses will be largely known. If they are by then indeed revealed to be around the currently estimated \$6.5 billion, expect two more years of similar premiums, and the losses will have been covered. Since insured shares will grow over the period, the assessment rate needed to generate \$1 billion will decline to around 10 bp in the sixth year if that payment is necessary. If instead the losses turn out to be substantially less than \$6.5 billion, the annual assessments will end early, as soon as the reduction in the losses becomes fairly certain. If the NCUA collects more than is required to cover the losses, it will refund the excess amount to credit unions. Finally, if the losses turn out to be substantially more than the currently estimated \$6.5 billion, assessments will continue to the end of the six year period, and the last few assessments will need to be large enough to cover the actual losses.

CUNA and CUNA Mutual Group are in the process of developing an estimate of the likely range of the eventual actual credit losses in the WesCorp and US Central portfolios. The portfolio analysis is being conducted by CUNA Mutual's investment subsidiary MEMBERS Capital Advisors. We will not develop a single estimate of the losses because we do not believe any single estimated value is meaningful. We will however disclose what we believe to be the range of likely outcomes, with an explanation of what might cause the actual results to lie to one end or the other of the range. We hope to be able to repeat the analysis in the future, with the hope that as time passes, the range will narrow. The goal will be to shed as much light as possible on a very uncertain situation so that credit unions can better understand the possible outcomes.

NCUSIF PREMIUM.

At the May meeting of the NCUA Board, Director of Examination and Insurance Melinda Love reported¹ that the determination of the premium depends on four distinct processes:

1. An estimate of the fund's equity level at a given time,
2. An estimate of how the equity level will trend over the ensuing 6 to 12 months.
3. An assessment of the impact of different assessment levels on credit unions, and
4. A recommendation of the targeted equity level.

¹ www.ncua.gov/news/press_releases/2010/5-20-10ShareInsuranceFundAssessmentAnalysis.pdf

Based on publicly available data, we have analyzed how these four processes are likely to play out. We assume the premium will be announced in September, based on the NCUSIF finances as of August, and total insured shares as of June.

The Fund's Equity Ratio as of August, 2010.

The latest available reading for the fund's equity ratio is as of May, when it stood at 1.22% of insured shares. Between now and August, the fund's equity ratio will likely change due to:

- a. The growth of insured shares from December to June, since insured shares in June will be the denominator of the equity ratio for August. CUNA's Monthly Credit Union Estimates² report total savings growth of 3.3% from December to April. We therefore assume 5% growth in insured shares by June.
- b. The net income of the fund. The fund is budgeted to lose about \$55 million a month in 2010, largely the result of adding about \$62 million a month to reserves for insurance losses. Through May, the fund was very close to budget, although there had been month-to-month fluctuations due to changes in insurance loss expensing.

If the fund continues to run close to budget, the fund's equity ratio will fall to 1.19% as of August. Whether or not this happens depends on whether insurance expenses stay close to budget. The process of accounting for insurance losses is described below. Although a drop to 1.19% is the most likely scenario, a substantial increase in credit union failures in the coming few months could lower the fund's equity ratio even more. For each additional approximately \$75 million of unbudgeted insurance losses, the fund's ratio would fall by an additional 1 bp of insured shares.

Because a fund equity ratio of 1.19% is far below where the NCUA would like to begin a year, some level of premium is almost certain, in order to raise the ratio to a more acceptable level. How much that premium will be depends on the other three steps in the premium determination process.

The Equity Ratio's Trend into 2011.

Whatever level the fund's equity ratio reaches by August, the future course of the ratio to mid-2011 depends upon:

- The growth of insured shares over the period.
- The fund's earnings, which depend largely on the level of insurance losses. If insurance losses were to fall to pre-2007 levels, the fund's earnings would likely be sufficient for the equity level to hold fairly steady over the course of the year. However, because insurance losses will likely be greater than that, the fund will likely trend down during the year. How much the Agency expects

² <http://advice.cuna.org/download/mcue.pdf>

the equity ratio to trend down during the year will be crucial to determining the amount of the premium. The premium will need to be sufficient to establish a high enough ratio at the beginning of the year so that the ratio at the end of the year is not too low.

The question then becomes, what sort of insurance losses should the fund expect over the coming year? It is crucial to note that by insurance losses we are not referring just to actual, realized losses that are incurred when a credit union fails. In addition, how much the fund will have to “reserve for” or “expense for” future losses during the coming year has to be considered. The situation is very similar to a credit union’s provision expenses for loan losses in order to maintain its allowance for loan loss account at the appropriate level.

The fund maintains an account called “Provision for CU Losses (Reserves) – NPCU” (hereafter, “reserves”) which is analogous to a credit union’s Allowance for Loan and Lease Losses. The fund’s expense item titled “Insurance Loss Expense” is in turn analogous to a credit union’s “Provision for Loan and Lease Losses.”³ Similar to a credit union’s allowance account, the reserve has two components: a specific reserve for pending losses from credit unions that have already failed or are almost certain to fail, and a general reserve which is based on the number and size of credit unions in various risk categories, without specifying which credit unions might fail.

The fund’s total loss reserves stood at \$1.1 billion as of May. Just three and a half years ago, at the beginning of 2007, this reserve account was only \$70 million, about where it had been for four years in a row. The increase from \$70 million to \$1.1 billion over the period was the result of \$1.4 billion of expensing (provisioning) combined with \$400 million of actual net losses paid. We estimate that of the current \$1.1 billion in reserves, about \$350 million pertains to specific cases, and the remaining roughly \$715 million is in the general reserve.

This means that most of the expensing of \$1.4 billion over the past three and a half years has not been because of actual credit union failures. Instead it has been due to the substantial growth of credit unions in higher risk categories, illustrated by the growth of those with CAMEL codes of 4 and 5, or “troubled” credit unions, as reported by NCUA and shown in the table below.

Trends in CAMEL Code 4 and 5 Credit Unions		
	Number of CUs	Percent of Insured Shares
2007	211	1.0%
2008	271	2.7%
2009	351	5.7%
May 2010	351	6.2%

³ It is unfortunate that the fund’s terminology does not match up with credit union parlance.

Again, the analogy to credit union provisioning for the allowance account applies. The increase in the number of and insured shares in troubled credit unions is similar to a rise in a credit union's number and dollar delinquency rates, requiring a further increase in the allowance account, which in turn requires an increase in the provision expense.⁴

The amount the fund will have to expense for insurance losses over the coming year depends on two things: changes in the amount of insured shares in troubled credit unions, and actual losses due to credit union failures. Changes in insured shares in troubled credit unions will determine the amount the fund must expense to fund the general reserve. Actual losses due to credit union failures will require expensing to replace the reserves that are depleted to pay for the actual losses.

Over the past few years, most of the insurance loss expensing has been to build the general reserve because of rising CAMEL codes, rather than to pay actual losses. That is likely to change in the coming year. First, with a slowly recovering economy and gradually improving credit union financial operations, a further substantial increase in Code 4 and 5 credit unions is unlikely. In fact, in the next quarter or so, it is quite likely that many credit unions will begin to receive lower (stronger) CAMEL codes. This would reduce the required size of the general reserve account, thus reducing the amount of loss expensing required, thus boosting the fund's net income and moderating any reduction in the fund's equity ratio over the coming year.

However, a number of troubled credit unions are likely to fail this year and next. Credit unions failures in 2010 and 2011 will likely exceed the number that failed in the previous two years. We estimate that around 80 of the roughly 400 currently significantly weakened credit unions could fail by next year. Just as loans go delinquent for a while before actually being charged off, it takes a while for a troubled credit union to fail. The likely increase in failures will increase actual insurance losses. This will diminish the amount of funds in the reserve account as the actual losses are paid, thus increasing the amount of loss expensing required to restore the reserve account, thus reducing the fund's net income and lowering the fund's equity ratio over the coming year.⁵

The net effect of these two opposing trends is of course impossible to predict. It depends on the timing of the actual credit union failures and the transition of other credit unions back to lower CAMEL codes. Unfortunately, if history is any guide, the failures will likely occur before any significant CAMEL code improvements. The failures can happen quite quickly. Graduating out of the troubled CAMEL codes will be a slower process. As a result, we can expect somewhat of a reduction in the fund's equity ratio due to insurance loss expensing over the coming year. However, this timing feature also means that at some point the fund will become "over-reserved."

⁴ NCUA assigns failure probabilities to all credit unions with CAMEL codes of 2 or higher, varying by CAMEL code and net worth ratio. Therefore, in general, any movement toward higher (weaker) CAMEL codes among all credit unions will increase the required size of the general reserve account, and vice versa.

⁵ Of course, as troubled credit unions fail, their insured shares are withdrawn from the pool against with the general reserve must be held, reducing the required level of that reserve. However, the actual losses in those cases will almost always be greater than the reduction in reserving expense.

The Impact of Different Assessment Levels on Credit Unions.

The last two calendar years have been the worst for credit union financial operations in the modern era. Overall net income was essentially zero over the two year period: ROA was minus 15 basis points in 2008 and plus 19 bp in 2009; an average of only 2 bp over the period, i.e., zero. For many credit unions, particularly those in areas most severely affected by the residential real estate collapse, net income has been sharply negative over the period. The overall net worth ratio for credit unions fell from 11.4% at the end of 2007 to 9.8% as of May 2010. Again, for many credit unions in hard-hit areas, the decline was even steeper. In 2007, only 1% of credit union assets were in credit unions that were not well-capitalized.⁶ By the end of 2009 that had risen to 9%.

In summary, credit unions are coming out of a very rough period, the worst financial crisis in the US in the past eighty years. Virtually all credit unions have suffered, some more than others. Some are just slightly bruised; a few have been severely roughed up.

Credit union net income has begun to improve in 2010, but it is still far below the 90 bp to 100 bp that credit unions have long considered adequate, and that they need to rebuild capital ratios. Credit unions still have a long way to go to get back to the fully healthy state they were in several years ago. In this environment, the lower NCUA can keep this year's NCUSIF premium, the more rapidly will credit unions be able to recover. For those credit unions most severely affected by the recession, any premium level higher than the amount that is absolutely necessary will only make their recovery that much more difficult.

The Recommended Target Equity Level.

Historically, NCUA has managed the equity ratio in the narrow band of 1.2% to 1.3% of insured shares. If at the end of a year, the ratio was above 1.3%, the fund paid a dividend. If it were to fall below 1.2%, a premium was required by law. Typically, the fund begins the year at or very near the top of the range, and unless insured share growth is very strong or losses are high, it ends the year close to 1.3%.

Last year, Congress gave NCUA the authority let the equity ratio fall below 1.2% without charging a premium. If the ratio does fall below 1.2%, NCUA is required to submit a restoration plan to get the fund back above 1.2% in at least eight years. NCUA has been reluctant to use that authority because it applies only to the retained earnings portion the fund, not to credit union contributed capital. In other words, if the retained earnings fall below 0.2%, the fund could take eight years to restore them, but if the retained earnings fall below zero, credit unions would be required to immediately expense a portion of their 1% deposits. NCUA is therefore concerned about letting the retained earnings fall too far below 0.2%, notwithstanding the eight year provision, because a level much below 0.2% may not provide a sufficient cushion to protect the 1% deposits. This is why NCUA charged a sufficient premium to keep the fund at 1.3% last year.

⁶ Well capitalized as defined by Prompt Corrective Action, i.e., with a net worth ratio of 7% or higher.

It is interesting to note that the eight year period allowed to restore the retained earnings to the bottom of the normal operating level was patterned after same period Congress allowed FDIC to restore its equity ratio. Just two years ago, the FDIC's equity ratio stood at 1.22% of insured deposits, about where NCUSIF is today. The latest quarterly reading for FDIC, as of March, shows it to be at -0.38%. That's 1.53% below the bottom of its statutory minimum target of 1.15%. In fact, FDIC is so concerned about the effect of premiums on current bank operations that they recently announced that they would forgo imposing a special assessment this year, or increasing the special assessment planned to commence next year (3 basis points a year on top of the normal risk-based premium for the length of the plan through 2017.) FDIC's explanation for delaying any additional premium now is that banks are currently still hurting from the recession, that banks typically recover from a recession with a lag, and that therefore banks will be more able to pay additional premium expenses in the coming few years than they are now. All of these reasons of course also apply to credit unions in the current environment.

Taking all of these factors into account, it would seem reasonable for NCUA to charge a premium this year sufficient to restore the fund's equity ratio to the 1.25% level at the time the premium is collected. That would give the fund room to absorb substantial additional losses, while not burdening credit unions just beginning to recover with a higher than necessary premium expense, i.e., the extra 5 bp to get the fund up to 1.3% of insured shares. It would be quite possible under this scenario that the fund's equity ratio might fall below 1.2% some time during the following year, but it would be very unlikely that the ratio would fall below 1%. And, if that very unlikely event appeared imminent during the year, NCUA has the authority to charge two premiums in any calendar year.

Determining This Year's Premium.

Returning to NCUA's four step process to establish a premium:

1. Assuming that insurance expenses for the next three months stay on budget, and no significant actual failure costs are incurred during the period, the fund's ratio will be 1.19% at the time the premium is assessed. For each additional \$75 million that insurance losses exceed budget or not-yet-reserved actual losses are incurred, the fund's ratio would be 1 bp lower.
2. The fund's ratio is very likely to fall during the year following the premium assessment, but the effect of rising actual losses will be mitigated by a reduced need to fund the general loss reserve account.
3. Credit union income statements are still under considerable negative pressure because of the lingering effects of the recession. This argues strongly in favor of moderating the size of any premium.
4. Given the previous two factors, a target level for the fund at the time of the premium of 1.25% of insured shares would be reasonable and appropriate.

Putting all of these factors together, the most likely NCUSIF premium would be 6 bp plus whatever additional above budget insurance expenses are incurred in the next three

months. Allowing for up to \$300 million of such losses, would indicate a premium of between 6 bp and 10 bp.

There is an additional reason that we feel NCUA would be justified in bringing the fund's ratio up to 1.25% rather than 1.3% this fall. Because of lags involved in the accounting mechanism, if the Agency follows a strict application of loss expensing based on insured shares in troubled credit unions, at some point in the not too distant future, the fund will find itself over-reserved. As we discussed previously, the actual losses at credit unions will occur soon, but the improvement in CAMEL codes will take longer to affect the expensing. This too is analogous to what typically happens to allowance for loan losses in credit unions. Toward the end of a cycle, they become over-funded.

We have conducted an analysis, described in the appendix, of the roughly 410 credit unions that appear most in danger of failing in the next few years. Applying what we believe to be the most likely estimates of failure rates and losses in the event of failure, we estimate that the most likely level of actual losses is around \$1.2 billion. Our high-side estimate is a loss of \$2.1 billion; our low side estimate is \$0.8 billion.

The current balance in NCUSIF's reserves for losses is \$1.1 billion. That is very close to our current estimate the ultimate losses the fund will actually experience. This means that so long as the economy does not fall back into a significant double dip recession, it is very unlikely that the actual losses will be substantially above the amount the fund has already expensed. Even if the losses are double what we have estimated, i.e., \$2.1 billion, if a premium sufficient to raise the fund's equity ratio to 1.25% is levied this fall, the ratio would remain above 1.10% a year later.

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APPENDIX

Evaluating Likely Actual Losses to NCUSIF

We have performed an analysis of those credit unions most likely to fail in the coming 18 months based on their reported financial condition as of March 2010. We identified 411 credit unions as potential candidates for causing a loss to the share insurance fund based on their “Texas” ratios and their net worth ratios. We further divided these credit unions into five groups, from most likely to least likely to fail, assigned failure probabilities to each group, and estimated the resulting losses to the insurance fund.

The Texas ratio is so named because of its use in the banking crisis in the 1980s, when a number of banks in Texas (and other areas too) failed. It is particularly useful in identifying financial institutions in danger because of troubled credit conditions. It is defined as the sum of non-performing assets plus repossessed assets divided by total capital and allowances. For the numerator we use all loans delinquent more than two months plus repossessed assets. In denominator we use net worth plus the allowance for loan and lease losses. In its simplest interpretation, a Texas ratio above 100% suggests the probability of failure is very high.

Because there can be other reasons for insolvency, and because the basic measure of solvency is driven by the net worth ratio, we also identified weakened credit unions by net worth ratio. In other words, even if a credit union’s Texas ratio would not place it in a warning group, we nevertheless included that credit union if its net worth ratio was low enough. The ranges we used to define our groups are shown in the following table:

Identifying Credit Unions that Could Cause a Loss to NCUSIF*		
Group	Texas Ratio	Net Worth Ratio
1	Over 150%	Less than 1.5%
2	100% to 150 %	1.5% to 3%
3	80% to 100%	3% to 4%
4	60% to 80%	4% to 5%
5	40 to 60%	5% to 6%

*A credit union is assigned to a group if its Texas Ratio is in that range, OR if its net worth ratio is in the group’s range. For example, a credit union with a Texas Ratio above 150% and a high net worth ratio is in Group 1. Similarly, another credit union with a Texas Ratio well below 100% but a net worth ratio below 1.5% is also in Group 1.

Using March 2010 Call Report data, 411 credit unions met these criteria as follows:

Credit Unions and Assets by Group		
Group	Number of CUs	Assets (\$ billions)
1	22	\$0.7
2	33	\$3.5
3	48	\$6.6
4	89	\$12.6
5	219	\$33.3
TOTAL	411	\$56.7

Our simple analysis identifies 411 credit unions with \$57 billion in assets as being potentially “troubled” credit unions. In comparison, NCUA has identified 351 credit unions with \$45 billion of insured shares as having CAMEL codes of 4 or 5. The CAMEL coding system is of course based on much richer supervisory information in addition to Call Report data, and we in no way claim that level of precision in our analysis. However, it’s quite likely that virtually all of NCUA’s 351 credit unions are somewhere in our list of 411, and we have also picked up some CAMEL 3 coded credit unions. Also, it is worth noting that over half of the credit unions and assets we identified are in the lowest risk Group 5.

To estimate potential losses to the share insurance fund, we created three scenarios with different probabilities of failure, and loss rates in the event of failure, for each Group as follows:

Group	Base Case		Optimistic		Pessimistic	
	Prob. of Failure	Loss Rate	Prob. of Failure	Loss Rate	Prob. of Failure	Loss Rate
1	90%	15%	90%	10%	90%	20%
2	60%	15%	60%	10%	60%	20%
3	30%	15%	20%	10%	40%	20%
4	15%	15%	10%	10%	20%	20%
5	5%	15%	5%	10%	10%	20%
No of Failed CUs	78		69		99	
Assets in Failed CUs	\$8.2 billion		\$7.0 billion		\$11.2	
Total Estimated Loss	\$1,240 million		\$700 million		\$2,240 million	

The 15% loss rate for the base case was chosen as close to the long-term average loss rate at NCUSIF. In the current circumstances of deep financial dislocation, one might expect a higher than normal loss rate. However, there is also the fact that failures due to fraud tend to produce higher losses than those caused by economic pressures. Since the increase in the number of failures likely over the coming year or so is due largely to economic conditions, the proportion of failures due to fraud in the coming year will be lower than normal, suggesting that a 15% assumed loss rate is reasonable.

The latest reported value of the “Provision for CU Losses (Reserves) – NPCU” for the NCUSIF, as of May is \$1,067 million. This is the amount that has already been expensed to cover actual insurance losses. This is only \$173 million less than our Base Case estimate of \$1,240 for actual insurance losses through 2011. Under this scenario, the fund would only need to expense about \$15 to \$20 million a month for insurance losses, leaving an adequate general reserve a year from now, and only a slight reduction in the fund’s equity ratio over the year. In this scenario, a beginning equity ratio of 1.25% would be more than adequate.

In our Optimistic case, the NCUA would likely determine that the reserve account is over-funded sometime next year. Even allowing \$200 million for the general reserve after the actual losses had been paid, the reserve would have an excess of about \$200 million. That would require either a reversal out of the reserves, or at least the absence of any new expensing for quite some time. In this scenario, the fund ratio would likely increase over the course of the year following the premium.

In our Pessimistic case, the fund would require an additional almost \$1.2 billion of insurance loss expensing during the year after the premium. That would drop the fund’s equity ratio to about 1.10% at the end of the year. That would likely require either a significant premium (of up to 15 bp) next year, or the implementation of a restoration plan by the fund to take a few years to get back above 1.2%.