



National Credit Union Administration

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: May 14, 2010

FROM: Office of Corporate Credit Unions

SUBJ: Extension of Temporary
Corporate Credit Union Liquidity
Guarantee Program (TCCULGP)
Agreement

DATE ACTION REQUESTED: May 20, 2010.

ACTION REQUESTED: Board approval of an extension and modification of the TCCULGP.

OTHER OFFICES CONSULTED: Office of Examination and Insurance and Office of General Counsel.

VIEWS OF OTHER OFFICES CONSULTED: Concur.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes.

BUDGET IMPACT, IF ANY: None.

RESPONSIBLE STAFF MEMBERS: Director Scott Hunt, Office of Corporate Credit Unions.

SUMMARY: NCUA staff is recommending an extension and modification to the TCCULGP in order to align the termination of the program more consistently with NCUA's other corporate stabilization efforts, and focus on shorter-term borrowing needs. This action will extend the date for new issuances under the TCCULGP to September 30, 2011; and limit the maturity date of new issuances to September 30, 2012. Currently, the date for new issuances under the TCCULGP is set to expire on June 30, 2010, and issuances under the guarantee are permitted to have maturities through June 30, 2017.

BACKGROUND: On October 16, 2008, the NCUA Board approved the TCCULGP. Under the original terms of the TCCULGP, the NCUSIF guaranteed the timely payment of principal and interest on certain unsecured debt of participating corporate credit unions issued on or before June 30, 2009, and maturing on or before June 30, 2012.

On May 21, 2009, the Board revised some of the TCCULGP terms and conditions including the extension of the TCCULGP to cover newly issued unsecured debt obligations issued on or before June 30, 2010, and maturing on or before June 30, 2017. The extension of maturities to 2017 was adopted to allow corporate credit unions access to longer-term stable funds at lower cost.

On June 18, 2009, the primary obligation for performance of the TCCULGP was legally transferred from the NCUSIF to the Temporary Corporate Credit Union Stabilization Fund.

The TCCULGP has been a vital tool in our efforts to stabilize the corporate credit union system. The TCCULGP was used to support the Credit Union System Investment Program (CU SIP) and Credit Union Homeowners Affordability Relief Program (CU HARP) initiatives, which raised approximately \$8.2 billion to ease the liquidity strain on the corporates. Additionally, the TCCULGP was used to guarantee the medium-term note issuances by U.S. Central and WesCorp to pay-off the CU SIP and CU HARP notes that have matured to date. Corporate credit unions have also used the TCCULGP to guarantee overnight Fed Funds transactions. The TCCULGP has been a vital liquidity tool for corporate credit unions through the current economic crisis.

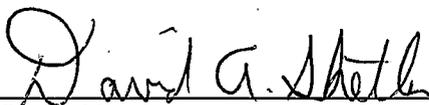
Staff believes it is necessary to continue to provide alternative liquidity sources during the time frame for the finalization, adoption, and implementation of the proposed corporate rule. Additionally, access to adequate liquidity is crucial as NCUA moves forward with action to address the "legacy" assets in the corporate system.

The current action will permit corporates to issue new TCCULGP-guaranteed debt up to and including September 30, 2011; however, new issuances after June 30, 2010, must have a maturity date no later than September 30, 2012, to receive the TCCULGP guarantee. Debt that is issued after June 30, 2010, and that has a maturity later than September 30, 2012, is not covered by the TCCULGP guarantee at any time. Staff believes there is a need to focus on shorter-term liquidity needs. The shorter permissible maturities will bring the TCCULGP in line with the planned phase-out of other stabilization efforts.

RECOMMENDED ACTION: The NCUA Board extend the TCCULGP guarantee to debt issued on or before September 30, 2011, and, effective for debt issued after June 30, 2010, limit the maturity date for TCCULGP-guaranteed debt to no later than September 30, 2012.

Attachments:

October 16, 2008, TCCULGP BAM
May 21, 2009, TCCULGP BAM
TCCULGP Fact Sheet



Scott Hunt
Director
Office of Corporate Credit Unions

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BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: October 16, 2008

FROM: Director, Office of
Examination and Insurance

SUBJ: Temporary Corporate
Credit Union Liquidity
Guarantee Program

ACTION ITEM: Board approval of a guarantee of unsecured debt obligations issued by corporate credit unions from October 16, 2008, through June 30, 2009.

ACTION DATE: October 16, 2008

OTHER OFFICES CONSULTED: Office of Capital Markets and Planning, Office of Corporate Credit Unions, Office of General Counsel, and Office of the Chief Financial Officer.

VIEWS OF OTHER OFFICES CONSULTED: Concur.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes.

BUDGET IMPACT, IF ANY: None.

RESPONSIBLE STAFF MEMBERS: David M. Marquis, Director, Division of Examination and Insurance

SUMMARY: NCUA proposes to establish a guarantee program for newly issued unsecured debt obligations issued by federally insured corporate credit unions between October 16, 2008, and June 30, 2009. All guarantees under the program will expire on or before June 30, 2012. A corporate credit union may issue unsecured debt obligations guaranteed by the National Credit Union Share Insurance Fund (NCUSIF). All corporate credit unions are automatically covered for debt obligations issued through November 17, 2008. Corporate credit unions may elect to opt out of the program by providing notice to the Office of Corporate Credit Unions. NCUSIF will charge corporate credit unions participating in the program a fee of 75 basis points per year on the outstanding balance of guaranteed debt obligations. This program is similar to the "Temporary Liquidity Guarantee Program" announced by the Federal Deposit Insurance Corporation on October 14, 2008, and is intended to provide corporate credit unions with competitive standing in the debt market.

RECOMMENDED ACTION: Board approval of the proposed guarantee program, as outlined in the attachment, and delegation of authority to the Executive Director to implement and oversee the program.

ATTACHMENT: Temporary Corporate Credit Union Liquidity Guarantee Program

ATTACHMENT

Temporary Corporate Credit Union Liquidity Guarantee Program

Effective October 16, 2008, the National Credit Union Share Insurance Fund (NCUSIF) is providing a 100 percent guarantee for newly-issued unsecured debt obligations of federally-insured corporate credit unions, subject to the terms outlined below. The Federal Credit Union Act authorizes the Board, acting on behalf of the NCUSIF, to offer this guarantee program. 12 U.S.C. §§1766(i)(2), 1783(a), 1787(a)(1), and 1789(a)(7).

Scope of Eligible Corporate Credit Unions:

Eligible corporate credit unions are federally-insured corporate credit unions. Corporate credit union has the meaning as defined in NCUA Rules and Regulations §704.2. 12 CFR §704.2.

Scope of Liabilities:

The NCUSIF guarantee applies only to newly issued unsecured debt obligations issued by eligible corporate credit unions on or before June 30, 2009, maturing on or before June 30, 2012, including promissory notes, commercial paper, inter-bank funding, and any unsecured portion of secured debt. The amount of debt obligations covered by the guarantee per eligible corporate credit union may not exceed the greater of: (a) 100 percent of the eligible corporate credit union's maximum unsecured debt obligations outstanding during the period September 30, 2007 through September 30, 2008; (b) such other amount determined by written approval of the Director, Office of Corporate Credit Unions, with the prior concurrence of the Director, Office of Examination and Insurance, not to exceed \$100 million; or (c) such other amount determined by the NCUA Board.

Fees:

The NCUSIF will charge fees for coverage effective October 16, 2008. For corporate credit unions that do not opt out of the program, a fee is imposed on each guaranteed debt obligation equal to 0.75 percent times the amount of guaranteed debt obligation times the actual number of days the debt obligation is outstanding divided by 365. Fees will be retained by the NCUSIF.

Duration:

The ability of eligible corporate credit unions to issue guaranteed debt obligations under this program expires on June 30, 2009. Initially, all eligible corporate credit unions will be automatically covered under this program through November 17, 2008. Eligible corporate credit unions must inform the Office of Corporate Credit Unions whether they will opt out of the guarantee program by November 17, 2008. If an eligible corporate credit union opts out of the program, the guarantee on any newly issued unsecured debt obligation will expire on November 17, 2008, regardless of the term of the obligation. Eligible corporate credit unions availing themselves of the guarantee program will be subject to enhanced supervisory oversight to prevent rapid growth or excessive risk-taking.

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: May 12, 2009

FROM: Director, Office of
Examination and Insurance



SUBJ: Temporary Corporate
Credit Union Liquidity
Guarantee Program

ACTION ITEM: Revisions to terms and conditions of Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP).

ACTION DATE: May 21, 2009

OTHER OFFICES CONSULTED: Office of Capital Markets and Planning, Office of Corporate Credit Unions, Office of General Counsel, and Office of the Chief Financial Officer.

VIEWS OF OTHER OFFICES CONSULTED: Concur.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes.

BUDGET IMPACT, IF ANY: None.

RESPONSIBLE STAFF MEMBERS: Scott Hunt, Office of Corporate Credit Unions, Steve Farrar, Office of Examination and Insurance.

SUMMARY: On October 16, 2008 the NCUA Board established the TCCULGP (Original Board Action Memorandum – Attachment 4). Corporate credit unions participating in the TCCULGP received a NCUSIF-guarantee that extends through June 30, 2012 on certain senior unsecured debt obligations issued on or before June 30, 2009. NCUA staff is recommending revisions to the TCCULGP to extend the guarantee term and modify the fees charged to participating corporate credit unions for issuing debt guaranteed by the NCUSIF, as outlined in the Fact Sheet (Attachment 1). The revisions in the program will enhance corporate credit unions' ability to obtain stable funds at a reduced cost.

BACKGROUND: In response to the major disruptions in the credit markets blocking access to liquidity and the initiation of the FDIC's Debt Guarantee program which increased competition for corporate credit union funding, the NCUA Board established the TCCULGP on October 16, 2008. The TCCULGP provided a NCUSIF guarantee for newly issued unsecured debt obligations issued by federally insured corporate credit unions (CCUs).

The TCCULGP provides a full guarantee of senior unsecured debt issued by CCUs between October 16, 2008 and June 30, 2009, with the guarantee expiring on or before June 30, 2012. Senior unsecured debt includes federal funds purchased, promissory notes, commercial paper, and unsubordinated unsecured notes.

All corporate credit unions were automatically covered for debt obligations issued through November 17, 2008. Corporate credit unions could elect to opt out of the program by providing notice to the Office of Corporate Credit Unions. Only two corporate credit unions opted out of the program. Credit unions which opted-out of the TCCULGP will be allowed to participate in the revised program.

Corporate credit unions that issue debt covered by the TCCULGP compensate the NCUSIF through fees. Fees are based on the fair value of the guarantee transaction and will initially be used to build a reserve for potential losses resulting from the guarantees. The adequacy of the reserves will be evaluated periodically. Excess levels of reserves would eventually be recognized as income for the NCUSIF and increase the Fund's equity level. Shortages in the level of reserves would require the NCUSIF to recognize the expense of adding to the reserves. We expect the TCCULGP will pay for itself and have set the revised fees accordingly.

Six CCUs have used the TCCULGP outside of the Credit Union System Investment Program (CU SIP) and Credit Union Homeowners Affordability Relief Program (HARP), with only U. S. Central and WesCorp reporting recent activity. As of March 31, 2009, the NCUSIF has collected fees of \$4,576,000.

CCUs participating in the TCCULGP must voluntarily agree to be bound by and comply with the terms of the program. The draft Agreement (Attachment 2), to be signed by NCUA with each TCCULGP participant, contains the terms and conditions of the revised TCCULGP guarantee. Any CCUs currently participating in the TCCULGP that decline to sign the attached agreement will continue to be bound by the terms and conditions of the original TCCULGP.

Revisions to the TCCULGP Program

In its current form, the TCCULGP applies a one size fits all approach to the guarantee. It prices the guarantee at 75 basis points for any maturity. Further, as it was developed prior to the implementation of the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP), its pricing did not reflect the impact of this program. Accordingly, the TCCULGP needs to be revised to reflect contemporary developments.

The following table outlines the revisions to the TCCULGP:

	Original Program	Proposed Revisions
Effective Date	October 16, 2008	Effective upon execution of the revised TCCULGP Agreement.
Issuance of guaranteed	June 30, 2009	June 30, 2010

	Original Program	Proposed Revisions
debt through ¹		
Debt covered by guarantee through (expiration date)	June 30, 2012	June 30, 2017
Limit	Greater of (1) 100% of maximum unsecured debt obligations outstanding from 9/30/07-9/30/08 (2) amount approved by OCCU with E&I concurrence not to exceed \$100 million	Greater of (1) 100% of maximum unsecured debt obligations outstanding from 9/30/07-9/30/08 but not greater than \$10 billion (2) amount approved by OCCU with E&I concurrence not to exceed the greater of \$100 million or 5% of liabilities and shares.
Fees (applied on the outstanding balance of guaranteed debt obligations)	75 bps per annum	Fee schedule goes into effect July 1, 2009 and will also apply to outstanding TCCULGP. (1) maturity 0 days to 2 years, 10 bps, per annum, (2) Over 2 years to 3 years, 15 bps per annum, (3) Over 3 years to 4 years, 20 bps per annum, (4) Over 4 years to 5 years, 25 bps per annum, (5) Over 5 years to 6 years, 30 bps per annum (6) Over 6 years to 7 years, 35 bps per annum.
Penalty for exceeding limit	Assessment rate increased to 150 bps.	Assessment rate will double.

Extension of TCCULGP Duration

This revision to the TCCULGP will extend the maximum term for debt covered by the TCCULGP from June 30, 2012 to June 30, 2017. The five year extension will allow corporate credit unions to secure longer-term stable funds at lower cost. The TCCULGP provides a complement to the Temporary Corporate Credit Union Share Guarantee Program and provides another tool for CCUs to use in the management of liquidity.

¹ Under both the original and revised TCCULGP, participating CCUs do not have to guarantee all qualifying debt. To obtain the guarantee, a participating CCU must inform the creditor, in writing and at the time of issuance, that it intends that particular debt obligation to be guaranteed under the TCCULGP.

Change in Limit

Based on the original limit imposed on the amount of guaranteed unsecured debt a CCU could issue (greater of 100% of maximum unsecured debt obligations outstanding from 9/30/07 to 9/30/08 or the amount approved by OCCU with the concurrence of E&I not to exceed \$100 million) the maximum amount of unsecured debt that could be issued is \$25.5 billion. U.S. Central accounts for \$18 billion (70%) of the total maximum.

The change in the limit on the amount of guaranteed unsecured debt places an overall limit of \$10 billion per individual CCU that had outstanding debt obligations from September 2007 to September 2008 and allows CCUs with no unsecured debt previously to issue debt up to the greater of \$100 million or 5% of shares and liabilities. This change in the definition of the limits will increase the amount available for five CCUs and reduce the amount available for U.S. Central. Overall the total cap will decline from \$25.5 billion to \$18.3 billion.

Pricing

In order to provide benefit to the CCUs, the pricing must be low enough for CCUs to obtain funds at a cost which will allow CCUs to remain competitive and still provide a viable alternative for stable funding sources.

The new fee structure considers the interplay in the risk to the NCUSIF between the TCCUSGP and the TCCULGP. The revised fees now represent a better correlation with the risks incurred. Also, they represent a more attractive option for CCUs to raise long-term, stable funding. These are two important dynamics that should make the new TCCULGP more attractive and more effective going forward.

RECOMMENDED ACTION: Board 1) approve the revisions to the TCCULGP as outlined in the attached Fact Sheet, 2) delegate to the Executive Director the authority to implement and oversee the revised TCCULGP, including the authority to make minor changes to the attached TCCULGP Agreement and to execute the Agreement with corporate credit unions currently participating in the TCCULGP.

ATTACHMENTS:

1. Corporate Credit Union Liquidity Guarantee Program Fact Sheet
2. TCCULGP Agreement
3. Federal Register Announcement
4. October 16, 2008 TCCULGP BAM
5. Examination and Insurance Summary

FACT SHEET

Temporary Corporate Credit Union Liquidity Guarantee Program

(Revised May 21, 2009)

On October 16, 2008, the NCUA Board approved the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). On May 21, 2009, the Board revised some of the TCCULGP terms and conditions. This document summarizes the TCCULGP and provides notice of the specific terms and condition applicable to the revised TCCULGP.

A. Summary.

Under the terms of the TCCULGP, the National Credit Union Share Insurance Fund will guarantee the timely payment of principal and interest on certain unsecured debt of participating corporate credit unions.

B. Terms and Conditions Applicable to the TCCULGP

1. *Scope of Eligible Corporate Credit Unions.* All corporate credit unions were automatically covered for debt obligations issued through November 17, 2008.¹ On November 18, 2008 NCUA posted the listing of the twenty-six corporate credit unions voluntarily continuing their participation in the TCCULGP. All corporate credit unions may voluntarily continue their participation in the revised TCCULGP and NCUA will post notice of the participants on June 30, 2009.

2. *Scope of Liabilities.* Prior to the May 21, 2009 revisions, the NCUSIF guarantee applied only to newly issued unsecured debt obligations issued on or before June 30, 2009, maturing on or before June 30, 2012. On May 21, 2009 the NCUA Board authorized the extension of the TCCULGP to cover newly issued unsecured debt obligations issued on or before June 30, 2010 and maturing on or before June 30, 2017.

Types of qualifying unsecured debt obligations include promissory notes, commercial paper, inter-bank funding, and any unsecured portion of secured debt. The TCCULGP does not apply to shares, certificates of deposit, member capital shares, and paid-in-capital accounts. Shares and certificates of deposit may be covered under the Temporary Corporate Credit Union Share Guarantee Program.

The amount of debt obligations covered by the revised TCCULGP guarantee per eligible corporate credit union may not exceed the greater of: (a) 100 percent of the eligible corporate credit union's maximum unsecured debt obligations outstanding during the period September 30, 2007 through September 30, 2008, subject to an

¹ Eligible corporate credit unions are federally-insured corporate credit unions. Corporate credit union has the meaning as defined in NCUA Rules and Regulations §704.2. 12 CFR §704.2.

amount not to exceed \$10 billion; (b) such other amount determined by written approval of the Director, Office of Corporate Credit Unions, with the prior concurrence of the Director, Office of Examination and Insurance, not to exceed the greater of \$100 million or 5% of shares and liabilities as of September 30, 2008; or (c) such other amount determined by the NCUA Board.

3. *Fees charged on TCCULGP debt.* The NCUSIF charges fees for TCCULGP coverage. Fees for participation in the revised TCCULGP depend on the maturity of debt guaranteed (revised from the flat fee of 0.75 percent per annum under the original TCCULGP). The revised fee schedule is as follows:

For TCCULGP debt with a maturity of	The assessment rate (in basis points) per annum
2 year or less	10
Over 2 year to 3 years	15
Over 3 year to 4 years	20
Over 4 years to 5 years	25
Over 5 year to 6 years	30
Over 6 years to 7 years	35

The revised fee schedule will go into effect on July 1, 2009 on all outstanding TCCULGP. The assessment rate is determined at date of debt issuance and remains constant throughout the life of the obligation. The NCUSIF assesses TCCULGP fees on a monthly basis.

4. *Payments by NCUSIF on TCCULGP debt.* The NCUSIF's obligation to pay holders of NCUSIF-guaranteed debt under the TCCULGP will arise upon the uncured failure of a timely payment of principal or interest as required under the debt instrument (a "payment default").

Upon the occurrence of a payment default, the NCUSIF will satisfy its guarantee obligation by making scheduled payments of principal and interest pursuant to the terms of the debt instrument through maturity (without regard to default or penalty provisions).

Individual debt-holders, or their authorized representatives, may make demand for payment of the guaranteed amount upon the NCUSIF. To be considered for payment, such demand must be accompanied by a proof of claim, which must include evidence in form and content satisfactory to the NCUSIF of the occurrence of a payment default and the claimant's ownership of the NCUSIF-guaranteed debt obligation. The demand must also be accompanied by an assignment to the NCUSIF, in form and content satisfactory to the NCUSIF, of the debt-holder's rights, title, and interest in the NCUSIF-guaranteed debt and the transfer to the NCUSIF of the debt-holder's claim in any insolvency proceeding. This assignment must include the right of the NCUSIF to receive any and all distributions on the debt from the proceeds of the corporate credit union's liquidation estate. If any holder of the NCUSIF-guaranteed debt has received any distribution from the estate prior to the NCUSIF's payment under the guarantee, the guaranteed amount paid by the NCUSIF will be reduced by the amount the holder has received in the

distribution. All such demands must be made within 90 days of the occurrence of the payment default upon which the demand is based. Upon receipt of a conforming proof of claim, if timely filed, the NCUSIF will make a payment of the amount guaranteed.

Any demand under this subsection must be made in writing and directed to the Executive Director, National Credit Union Administration, Alexandria, Virginia. The demand must include all supporting evidence as set forth in the previous subsections and must certify to the accuracy of the claim. Failure of the holder of the NCUSIF-guaranteed debt to make demand for payment within ninety (90) days of the occurrence of payment default will deprive the holder of the NCUSIF-guaranteed debt of all further rights and remedies with respect to the guarantee claim.

Upon any NCUSIF payment made under this section, the NCUSIF will be subrogated to the rights of any debt-holder against the corporate credit union, including in respect of any insolvency proceeding, to the extent of the payments made. The payout priority for the NCUSIF will be as described in 12 C.F.R. §709.5(b)(4).

Payment by NCUSIF under this section will constitute, to the extent of payments made, satisfaction of all NCUSIF obligations under the debt guarantee program with respect to that debt-holder or holders. Acceptance of any such payments will constitute a release of any liability of the NCUSIF under the debt guarantee program with respect to those payments. The corporate credit union agrees and acknowledges that it will be indebted to the NCUSIF for any payments made under these provisions (including amounts paid to another party in return for its assumption of a guaranteed debt issuance) and the corporate credit union will honor immediately a demand by the NCUSIF for reimbursement therefore.

The NCUSIF's determination under this paragraph will be a final administrative determination subject only to judicial review. The holder of NCUSIF-guaranteed debt will have the right to seek judicial review of the NCUSIF's final determination in the district court of the United States where the corporate credit union's principal place of business is located or in the United States District Court for the District of Columbia. Failure of the holder of the NCUSIF-guaranteed debt to seek such judicial review within sixty (60) days of the date of the rendering of the final determination will deprive the holder of the NCUSIF-guaranteed debt of all further rights and remedies with respect to the guarantee claim.

The NCUA Board may terminate a corporate credit union's participation in the TCCULGP at any time and at the Board's discretion. Termination will be by written notice issued to the corporate credit union and published on NCUA's website. The NCUSIF guarantee will continue, until the debt is fully repaid, on any of the corporate credit union's debt issued and guaranteed under the TCCULGP before publication of the notice of termination on NCUA's website. A participating corporate credit union may not terminate its participation in the TCCULGP.

C. Authority

The Federal Credit Union Act authorizes the Board, acting on behalf of the NCUSIF, to offer this guarantee program. 12 U.S.C. §§1766(i)(2), 1783(a), 1788(a)(1), and 1789(a)(7).

D. Additional Information.

For further information about the TCCULGP, please contact the NCUA Regional Office for the area in which you are located. See http://www.ncua.gov/Aboutncua/ncua_directory.html.