

**From:** Rick Wertz [rickw@sccu4u.net]  
**Sent:** Thursday, February 05, 2009 5:51 PM  
**To:** \_Board Mail  
**Cc:** Myklebust, Chris; \_Region 5 Mail; crosenthal@cdcu.coop; tgraham@suncorp.coop; jdill@colocu.com; HOLTAN, STAN (CO); officeoftheceo@cuna.com  
**Subject:** Corporate Stabilization Program and the Saguache County Credit Union  
**Importance:** High

## SAGUACHE COUNTY CREDIT UNION

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February 5, 2009

Chairman Michael E. Fryzel  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Dear Chairman Fryzel,

The NCUA recently released its proposal for a Corporate Credit Union System Strategy. This proposal's intent is to stabilize corporate credit unions who have felt the crunch of our depressed economic times. Its three primary objectives are to:

1. Maintain liquidity
2. Strengthen capital
3. Restructure the existing corporate system

To achieve these objectives, the NCUA is considering a share guarantee for the NCUSIF and a capital infusion to U.S. Central totaling \$3.7 billion.

Accordingly, the Corporate Stabilization Program's goal is "to ensure the corporate credit union system is strengthened." However, whether this program stabilizes them or not, it will do so on the backs of the small natural person credit unions.

According to the NCUA's LETTER NO.: 09-CU-02, "The projected average cost for credit unions for the share guarantee is an approximate 48 basis point decline in annual return on assets and a 43 basis point decline in the net worth ratio. The impact on credit unions for the capital infusion to U.S. Central will be an average additional decline in the return on assets of 14 basis points and 13 basis points of net worth. The combination of both actions results in the

average credit union absorbing a total 62 basis point decline in the return on assets and a total 56 basis point reduction in the net worth ratio.”

This is like Main Street paying for CUall Street.

In 1996, Saguache County, Colorado had no financial institutions. It was then that our founders created a member/resident owned certified “Low-Income” Community Development Credit Union. The Saguache County Credit Union now provides a complete range of financial services to over 3,500 members. We are infused into our membership in a symbiotic relationship. Our loss is theirs. Their loss is ours. Without SCCU, many of our members would again be without financial services within 50 miles.

In order to achieve our success, SCCU has had to work diligently to find ways of increasing our net worth to be PCA compliant. In only 13 years, we have grown from \$0 to \$24M in assets and have acquired the necessary capital to be compliant. At the end of 2008, our current net worth ratio was 7.61%. This includes \$420K in secondary capital that will totally expire at the end of seven years. Without secondary capital, our ratio was 5.87%. Our business plan is to improve our capital position each year with the goal of self-capitalization over 7% within 7 years. We have been able to plan and chart our goals within the framework of our depressed economic times. We have planned a no-growth scenario, restructured our staff, cut expenses to the bone, and projected an annual income of \$36K, which will provide the capital to meet our goals.

The Corporate Stabilization Program puts a heavy burden on our capital position and our ability to serve our members. According to a CUNA formulated worksheet that determines the estimated effect of the program on credit unions, the NCUA program could lower our net worth ratio not by the 56 basis points estimated in your letter but by 65 basis points (See worksheet below). This would cause a 12% decline in our earned capital (not including secondary capital). Even with our secondary capital, our ratio would drop to 7.06%, marginally over the Prompt Corrective Action requirements. Since the NCUA’s formula is based on a credit union’s insured share to asset ratio, it essentially penalizes smaller, younger, community development credit unions that have less capital and thus a larger share to asset ratio.

## **Estimating the Effect of NCUA's Initial Corporate Stabilization Proposal on SCCU**

(Based on information in NCUA's Letter to Credit Unions 09-CU-02)

<http://advice.cuna.org/download/CorpstabilizationIndividualCU.xls>

### **Per December 2008 Call Report**

<b><u>Your Credit Union's Totals</u></b>		<b>Percent of Assets</b>
Beginning assets (input)	\$24,082,438.00	
Insured shares (input)	\$20,906,040.00	86.8%
Beginning Net worth (input)	\$1,832,673.00	7.61%
Budgeted net income (input)	\$36,000.00	0.15%
<b><u>Assessment cost:</u></b>		
Assessment rate	0.81%	
x Insured shares	\$20,906,040.00	

= Total assessment cost	\$168,897.81	0.70%
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**Effect on your credit union's assets:**

Beginning assets	\$24,082,438.00	
<u>Ending assets</u>	<u>\$23,913,540.19</u>	
Change in assets	-\$168,897.81	

**Effect on your credit union's ROA:**

Budgeted net income	\$36,000.00	0.15%
<u>Change in budgeted net income (total cost)</u>	<u>-\$168,897.81</u>	<u>-0.71%</u>
Net income after infusion & deposit guarantee	-\$132,897.81	-0.56%

**Effect on your credit union's net worth ratio:**

Beginning net worth (& as a % of beginning assets)	\$1,832,673.00	7.61%
<u>Ending net worth (&amp; as a % of ending assets)</u>	<u>\$1,663,775.19</u>	<u>6.96%</u>
Change in net worth ratio	-\$168,897.81	-0.65%

Saguache County has not been immune to the effects of our global economic conditions. In fact, since we are located in a low-income rural area, the effect has been larger. The profitability of our credit union has been greatly affected by job loss, small business downturns, and member economic hardship. Needless to say, the affect of a NCUA imposed \$169K expense to our budget projecting \$36K a year in net income could be devastating.

We have always supported and cooperated with our corporate credit union, SunCorp. We have had a partnership that has benefited both of us. SunCorp's services offer many benefits to us. On the other hand, our benefit to them is not measured in quantity of deposits but rather in the shared learning in developing a new and valuable credit union.

The following are suggestions that would help mitigate the damage of the Corporate Stabilization Program will have on small, low-income, and less capitalized credit unions:

1. Exempt small, low-income, and less capitalized credit unions from the liability to the NCUSIF.
2. Allow credit union to amortize the expense over at least 10 years
3. Provide equity grants to small, low-income, and less capitalized credit unions
4. Help acquire financial support for the Community Development Financial Institution Fund to provide grants to certified credit unions

Small credit unions have been the history and are the backbone of the credit union industry. We represent the spirit of the credit union movement. We support local economies and help develop Main Streets across America. The Saguache County Credit Union asks the NCUA to consider ways to stabilize our corporate credit unions that do not put an extra burden on the little guys.

Sincerely,

Richard Wertz, CEO

Saguache County Credit Union  
719-256-6000

cc:  
Melinda Love, Director, NCUA Region V -Tempe  
Rodney E. Hood, NCUA Board of Directors  
Gigi Hyland, NCUA Board of Directors  
Chris M. Myklebust, Commissioner, Colorado Division of Financial Services  
John Dill, President, Colorado Credit Union Association  
Thomas R. Graham, President and Chief Executive Officer, SunCorp Credit Union  
Clifford N. Rosenthal, President / CEO, NFCDCU  
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