Corporate System Resolution
Corporate Conservatorships
Frequently Asked Questions (FAQs)

1. What does this FAQ cover?

This document addresses the corporates that were conserved by the NCUA Board as well as the rationale behind the conservatorships. It answers questions related to continued services, membership capital, and the Temporary Corporate Credit Union Share Guarantee Program (Share Guarantee).

2. Which corporates were conserved by NCUA on September 24, 2010?

NCUA conserved Constitution Corporate CU, Member's United Corporate FCU, and Southwest Corporate FCU. This brings the total of corporate credit unions under NCUA conservatorship to five.

3. What are the total assets now in conservatorship by NCUA?

Including U.S. Central and WesCorp (combined with the three recent conservatorships), there are now approximately $72 billion total assets in corporate credit union conservatorships.

4. Why did NCUA take the action to conserve these corporates?

The legacy assets, mostly in the form of private-label mortgage-backed securities held by these five corporate credit unions, have been a severe drain on the entire credit union system. Based on loss estimates by several independent sources, these corporates are very vulnerable to continued "other-than-temporary impairment" (OTTI) due to the credit losses underlying their securities, primarily residential mortgage backed securities. With the potential for continued OTTI so high, credit unions that recapitalized these corporates would be putting each new dollar at risk of loss almost immediately. We knew that we had to find a way to wall off the legacy assets, or as we're explaining it, isolate and fund them.

It should also be noted that these five conserved corporates are considered not financially viable; they are critically undercapitalized and have no reasonable prospect of becoming adequately capitalized absent extraordinary government intervention.

5. Does NCUA have any plans to conserve other corporate credit unions due to OTTI impairments?

No, we have no current plans for additional conservatorships. Based on a comprehensive analysis of the entire corporate system, resolution actions involve placing under federal conservatorship a total of five corporate credit unions, two of which have been under NCUA's direct control since 2009. On September 24, 2010, the NCUA Board placed the three other corporate credit unions into conservatorship.

Based on the most current data, the remaining corporates should be able to overcome estimated OTTI impairments. Additionally, it should be noted that the five conserved corporates hold more than 90% of the total legacy assets in the system, which account for 98% of the OTTI. While the remaining corporate credit unions are financially viable, they will need to develop business plans to come into compliance with the new requirements of our revised regulation.

6. What about all the services that these corporates provide?

As we have demonstrated in our conservatorships of U.S. Central and WesCorp since early 2009, credit unions do not need to worry about their services. NCUA will be moving all operations to a "bridge corporate" that will continue to provide the services that credit unions rely on without interruption. We will operate these corporates for a targeted period of 24 months to allow member credit unions to orderly transition to new service providers.

7. How will credit unions go about finding an alternative payment service provider?

NCUA realizes the search for new vendors will be a very critical undertaking. In establishing the transition period we are cognizant of the need to provide guidance for credit unions in their vendor due diligence process. We will be providing guidance in this regard through various outreach efforts including the 2011 Office of Small Credit Union Initiatives workshops. Letters to Credit Unions 01-CU-20 and 01-CU-21 both have information that should serve as solid guidance in this regard.

8. What about the outstanding loans that corporates have to their members?

Settlement loans will be handled by the bridge corporate without disruption or any action required on the part of the member credit union. The bridge corporate will provide new loans primarily for settlement purposes and will continue to service existing loans.

9. What happens to the remaining capital accounts in the conserved corporates?

The legacy asset resolution involves securitizing the distressed assets. To implement the securitization, the legacy assets must be transferred into a securitization trust. Under generally accepted accounting principles, this transfer requires the recognition of the market losses associated with the securities. Recognition of that loss fully depletes remaining capital in these corporates as of September 30, 2010, including membership capital shares.

10. What about the Temporary Corporate Credit Union Share Guarantee Program? Are shares still covered under this program?

The Share Guarantee is critical to NCUA's stabilization and resolution effort. The original program was adopted in January 2009 and provided a guarantee of all shares (excluding membership capital and paid-in capital) at all corporate credit unions through December 31, 2010. In April 2009 the program was revised to extend the guarantee through September 30, 2011, and allowed for subsequent quarterly extensions based on liquidity needs.

Currently, the guarantee has been extended through December 31, 2012. Each corporate credit union was required to execute a revised Share Guarantee Agreement with NCUA. The date the Agreement was executed was the date that corporate credit union was covered under the revised Share Guarantee. However, the April 2009 revisions also limited the guarantee to shares with maturities of two years or less. In summary, shares issued by corporate credit unions prior to the date of the revised Agreements are covered under the provisions of the original Share Guarantee Program until the Guarantee expires. Shares issued on or after the date of the revised Agreement are covered under the revised Share Guarantee and only shares with maturities of two years or less are covered.

11. How can a credit union find out if shares deposited in a corporate are covered under the original or revised Share Guarantee program?

A list of all the participating corporate credit unions and the date they entered into the revised agreement is posted on NCUA's website at http://www.ncua.gov/Resources/CorporateCU/CSR/Stabilization.aspx. Credit unions can access this site to determine if share deposits are covered under the original or revised agreement.

12. Why didn't NCUA just let the status quo continue with the Share Guarantee?

NCUA looked at this option very closely; however, maintaining the status quo was not consistent with our guiding principles for the corporate resolution strategy. There were many other disadvantages to this approach as outlined below.

Maintaining the status quo limits credit union choices and requires them to keep deposits and services with their current corporate despite its financial or operational condition even if there are more efficient alternatives.

The status quo does not eliminate liquidity event risk. Should credit union liquidity demands increase, deposits would flow out of the corporates. This outflow would increase the likelihood that the legacy assets would need to be sold at unfavorable market prices. The potential for cascading losses if such a liquidity event were to occur could be insurmountable.

The status quo does not eliminate interest rate risk. By locking in funding for the legacy assets with NCUA Guaranteed Notes, the inherent interest rate risk of funding long-term assets (legacy assets) with short term liabilities (credit union deposits) is eliminated. Member credit unions are protected having to maintain low yielding deposits in their corporates (to prevent a liquidity event) while having to pay higher and higher share rates on their own share deposits should interest rates rise.

A status quo approach perpetuates the "too big to fail" moral hazard. Government intervention promotes the moral hazard of other financial institutions growing large and taking increasing levels of risk knowing the government will provide assistance.

The status quo does not allow for the depleted capital holders to regain their capital investment if there is a sufficient turn-around to provide additional funds at the maturity date of the bond portfolios.

Finally, the status quo continues the poor public policy of open bank assistance. This approach to resolution is not well received by other regulatory and oversight entities, Congress, or the general public. It is perceived as an ongoing government bail-out that subjects the industry to repeated headline risk.