

Corporate Credit Union Talking Points

As you are well aware, NCUA made some significant announcements regarding the shoring up of U.S. Central and the restructuring of the corporate credit union network. This has generated substantial press coverage and inquiries. Below you will find talking points you can utilize if you are contacted by the media.

Also, please note that we are aware that credit unions are very concerned about the financial impact NCUA's actions will have on them. We are continually monitoring the situation and will provide further details as we learn more.

Here is what we do know. NCUA has estimated that its actions to shore up U.S. Central with a \$1 billion note backed by the National Credit Union Share Insurance Fund will result in the average credit union absorbing a total 62 basis point decline in return on assets and a 56 basis point reduction in net worth. NCUA plans to assess credit unions a premium to return the NCUSIF to an equity ratio of 1.3%. When and how NCUA plans to assess credit unions is unclear. You can find further details on NCUA's Web site at the following link:

http://ncua.gov/letters/2009/CU/LCU_09-CU-02_CorporateCreditUnionStrategy.pdf

Media Responses

Here are four key points you can make at the top of your responses:

- The credit union system, overall, is healthy and sound.
- Consumers can be assured their money is safe in their credit union.
- The action taken by the federal government has no impact on the ability of credit unions to continue serving their members – they can and will continue lending, offering a safe place for their members' savings, and the scores of additional services credit unions offer to their members at no or low-cost.
- The action involves no taxpayer dollars.

No doubt, credit union members and the press will ask for additional details. Consider using the following to help form your responses:

The credit union system overall is healthy and sound; consumers' money is safe in a credit union.

- Regular or everyday credit unions ("natural person"), the ones where 92 million Americans save and borrow, are well capitalized and strong (nearly 11% capital to assets).
- We're still actively extending credit, keeping the country's lending wheels in motion when many other financial institutions have cut back.

- We're lending responsibly. Credit unions typically hold onto their loans, and do not "originate to distribute," a practice that ultimately caused so many other financials big problems.
- Deposits at virtually all credit unions are federally insured to \$250,000, the same as at FDIC-protected banks and with the same federal guarantee. And, the insurance fund protecting consumer savings (the National Credit Union Share Insurance Fund) is backed by the full faith and credit of the United States.

Some everyday ("regular") credit unions, as one would expect, are feeling the strain from what is now seen as the worst financial crisis to grip the nation since the Great Depression.

- The steep decline in the economy is having its impact. At year's end, the delinquency ratio among credit unions was about 1.43% -- well above the typical ratio of about 0.96% in the first seven months of 2008.
- But, especially in hard-hit states like CA, NV, AZ, FL, credit unions are experiencing particular "collateral damage" stemming from the economic crisis in those states (e.g., members with job losses or other changes in their lives related to the economic downturn fall behind on carefully made loans).
- A small number of credit unions have closed or taken into conservatorship (16 out of 8,300) and there will likely be more. But credit unions overall are in strong shape and will weather this financial storm. There is no problem that can't be handled by our existing deposit insurance system.
- No one has ever lost a penny of federally insured deposits in a credit union.

The 28 "corporate" credit unions—which are entities that everyday credit unions invest in—deal with large sums of money. As such they operate in the open securities markets and are being affected by the credit crunch there.

- As the Wall Street Journal pointed out (Jan. 29, Page 1), corporate credit unions provide financing, check-clearing and other tasks for regular credit unions. These "wholesale" credit unions are owned by regular credit unions – which are members of the corporates.
- Additionally, corporate credit unions hold mortgage backed securities that generally are still performing and are "higher up the food chain" than those held by Wall Street banks that experienced so many troubles in the fall of '08.
- But under fair value accounting rules, these securities have lost value in today's frozen-up financial markets.

- The majority of these securities give every indication of continuing to pay interest and principal until they mature.
- Further, corporate credit unions are facing keen competition for deposits from an increasing number of other institutions which have received guarantees from the U.S. government, such as through the Troubled Asset Relief Program, or TARP.

The program announced Wednesday by the National Credit Union Administration, credit unions' federal regulatory agency, is designed give credit unions – which are members and sole users of the corporates – continued confidence in the wholesale institutions.

- As NCUA has pointed out "the capital position of natural person credit unions remains a constant source of strength of the industry."
- But, also according to the federal agency, "the corporate credit union system is now facing unprecedented strains on its liquidity and capital due to credit market disruptions and the current economic climate
- NCUA's action is intended to add stability to and strengthen corporate credit unions utilizing a three-pronged approach designed to: maintain liquidity, strengthen capital and restructure the corporate system.
- No taxpayer dollars are being used for the corporates. It is only credit union money paid into the National Credit Union Share Insurance Fund – the insurance fund that is completely funded by credit unions to assist in this type of situation.

Again, credit unions are well-positioned to weather the economic storm.