

## NCUA Actions to Support Corporate Credit Unions

NCUA has taken a number of initiatives to shore up the corporate credit union system, since mid-October 2008. Below is a chronological timeline of NCUA's major actions to date in regard to stabilizing the Corporate System.

- On October 16, 2008, NCUA approved a Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP) that will operate from October 16, 2008, through June 30, 2009. The National Credit Union Share Insurance Fund (NCUSIF) provided a 100 percent guarantee on new unsecured debt obligations issued by eligible corporate credit unions on or before June 30, 2009, and maturing on or before June 30, 2012. This included promissory notes, commercial paper, inter-bank funding, and any unsecured portion of secured debt. Twenty-six corporate credit unions, including U.S. Central are participating in the program.
- On December 9, 2008, NCUA unveiled its Credit Union System Investment Program (CU SIP) to provide contingent liquidity to corporate credit unions. The Federal Reserve was supportive of this initiative. Under the CU SIP, participating creditworthy credit unions would borrow from the CLF and invest in a SIP Note. The CLF will designate which corporate will issue SIP Notes to which credit unions. Each SIP Note will be fully guaranteed by the NCUSIF, pursuant to the TCCULGP. The corporate credit union that receives the funds will be required to use it to retire external debt to free up collateral. So far, the CLF has advanced almost \$8 billion through the CU SIP.
- On December 12, the Board approved a regulatory change that enables U.S. Central to convert its membership capital accounts (MCA) to a new paid-in-capital instrument (PIC2), which is considered Tier 1 capital by debt ratings agencies.
- On January 28, 2009, U.S. Central FCU informed the NCUA that it would be taking an OTTI charge of \$1.2 billion for 2008, creating a loss of \$1.1 billion. As a result NCUA issued a \$1 billion note to U.S. Central Federal Credit Union – which has 26 corporate credit union members – to offset the expected losses and guaranteed uninsured shares at all corporate credit unions through February 2009 and established a voluntary guarantee program for uninsured shares of all corporate credit unions through Dec. 31, 2010. Twenty-three corporate credit unions have subsequently opted for the voluntary guarantee.<sup>1</sup>
- On March 20, NCUA placed both U.S. Central FCU and WesCorp FCU into conservatorship. U.S. Central has approximately \$34 billion in assets and WesCorp has \$23 billion in assets and 1,100 natural person credit union members. NCUA found that the potential credit losses at the two corporate credit unions presented an immediate capital concern necessitating NCUA assuming control of the two institutions.
- On May 19, Congress increased NCUA's borrowing authority to \$6 billion via the enactment of the Helping Families Save Their Homes Act of 2009. The extended borrowing authority

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<sup>1</sup> John Kutchev, acting director for NCUA's Office of Examination and Insurance, commented during a National Association of Federal Credit Unions' webinar that if NCUA had not acted on January 28 to stabilize the corporate credit union system, there may have been costs of \$40 billion to \$50 billion from the sale of corporate credit unions' underwater securities, with the impact felt throughout the credit union industry.

was necessary for starting the Temporary Corporate Credit Union Stabilization Fund. Additionally, the legislation extend the \$250,000 deposit insurance protection to 2013, enabled credit unions to spread the cost of corporate stabilization over 7 years, extend replenishing the National Credit Union Share Insurance Fund through premiums to 8 years; and established a \$30 billion NCUA emergency borrowing authority.

- On May 21, the NCUA Board modified the terms of the TCCULGP. The major changes from the original TCULGP introduced in October include extending the issuance period ending date, one year, from June 30, 2009, to June 30, 2010. The Board's actions extends the date guaranteed debt will expire from June 30, 2012, to June 30, 2017 and revises the fee structure, which goes into effect July 1, 2009, from 75 basis points per annum for all guarantees to a fee dependent upon maturity of the debt.
- On July 31, NCUA announced that, effective August 3, 2009, the CLF would transfer its funds from U.S. Central FCU (USC) to the U.S. Treasury and invest them in a laddered portfolio of U.S. Treasury securities. Additionally, NCUA will explore alternatives regarding the transfer of the primary ownership of CLF stock from USC to other credit unions or groups of credit unions through the anticipated reforms of the corporate network.
- On November 23, NCUA extended the expiration date of the TCCULGP from December 31, 2011, to March 31, 2012. With this extension, new investments with maturities of two years or less in participating corporate credit unions made before March 31, 2010, will be fully covered by the guarantee program.
- On March 4, 2010, NCUA extended the expiration date of the TCCULGP from March 31, 2012, to June 30, 2012. With this extension, new investments with maturities of two years or less in participating corporate credit unions made before June 30, 2010, will be fully covered by the guarantee program.
- On June 2, NCUA extended the expiration date of the TCCULGP from June 30, 2012, to September 30, 2012. With this extension, new investments with maturities of two years or less in participating corporate credit unions made before September 30, 2010, will be fully covered by the guarantee program.
- On June 17, the NCUA Board announced it would assess federally insured credit unions a 13.4 basis point assessment for costs associated with the continuing losses in the corporate credit union system. This action would charge the credit union industry \$1 billion.
- On August 31, NCUA extended the expiration date of the TCCULGP from September 30, 2012, to December 31, 2012. With this extension, new investments with maturities of two years or less in participating corporate credit unions made before December 31, 2010, will be fully covered by the guarantee program.
- On September 24, National Credit Union Administration took several significant actions to restructure the corporate credit union system.

- NCUA took into conservatorship three additional corporate credit unions: Members United Corporate Federal Credit Union of Warrenville, Illinois; Southwest Corporate Federal Credit Union of Plano, Texas; and Constitution Corporate Federal Credit Union of Wallingford, Connecticut.
  - NCUA adopted a new set of reforms to strengthening Corporate Credit Union regulations – Part 704. The reform implements stronger capital requirements and establishes prompt corrective action measures for corporate credit unions; institutes clear concentration limits on investments that will require corporate credit unions to better diversify their portfolios; improves asset-liability management requirements to avoid liquidity and interest rate risks; and raises governance standards to improve levels of experience and expertise on corporate boards.
  - The NCUA Board rolled out a plan to address the corporate system’s impaired assets and to resolve these troubled institutions. The plan isolates the impaired securities (legacy assets) held by five corporate credit unions and transfers the corporates’ still-valuable assets to newly created “bridge banks” that will allow for continued operations. The legacy assets are repackaged into new securities with an NCUA guarantee backed by the unconditional full faith and credit of the United States government, and issued to investors on the open market. The NCUA allotted a 24-month time frame to transition operations now under NCUA conservatorship to other service providers.
  - The expiration date of the Temporary Corporate Credit Union Stabilization Fund was extended to June 30, 2021, with the concurrence of Treasury Secretary Timothy F. Geithner. This will provide the NCUA Board with flexibility in mitigating the impact of the annual assessments to credit unions for the costs over this period.
- On October 5, the NCUA announced the creation of two bridge corporate credit unions to assume operations of US Central and WesCorp. These actions, which were originally announced in conjunction with the unveiling of NCUA’s Corporate System Resolution Plan on September 24, comprise an important next phase in the transition of corporate credit unions currently under NCUA conservatorship. The newly created institutions will be known as U.S. Central Bridge Corporate Federal Credit Union and Western Bridge Corporate Federal Credit Union.
  - On October 12, the NCUA announced that it repaid a \$10 billion loan from the U.S. Treasury to the Central Liquidity Facility, which transferred the funds to the National Credit Union Share Insurance Fund in order to lend \$5 billion each to U.S. Central FCU (Lenexa, Kan.) and Western Corporate FCU (San Dimas, Calif.). The agency raised \$9.5 billion by selling select assets from U.S. Central and Western Corporate Federal Credit Union, including securities backed by performing residential and commercial mortgages, credit card receivables, student loans and auto loans.

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