

Supervisory Letter Summary

Prepared by the NASCUS Regulatory Affairs Department

March 22, 2009

NCUA

Letter to Credit Unions No.: 09-CU-06 Corporate Stabilization Program – Conservatorship of US Central FCU and Western Corporate FCU

On March 19, the NCUA Board voted to take control of US Central Corporate Federal Credit Union (USC) and Western Corporate Federal Credit Union (WesCorp) and place them both into conservatorship. The NCUA actions were announced late Friday, March 20.

1) Conservatorship

- NCUA's analysis of individual corporate credit union portfolios convinced the agency that the incidence of expected credit losses greater than total capital was concentrated primarily in USC and WesCorp.
- NCUA anticipates operation of both corporate credit unions will continue uninterrupted thru the conservatorship.
- The remaining 26 corporate credit unions show a level of portfolio risk that NCUA considers manageable from the standpoint of capital adequacy.

2) Revised NCUSIF Liability Estimate

- NCUA's revised assumptions show the overall reserve level increased to \$5.9 billion from the \$4.7 billion estimated on January 28, 2009.

3) Maintenance of Liquidity

- Since the first phase of the stabilization action in December, liquidity in the corporate credit unions holding the majority of the distressed securities has improved with deposits increasing from \$59.1 billion to \$71.3 billion.
- Since January 28, external borrowings in the same corporate credit unions have declined from \$11.8 billion to \$2.1 billion.
- NCUA urges natural persons to place excess liquidity in the corporate system.

4) Analysis Performed and Impact on the Reserve and Cost to Credit Unions

- Analysis of the corporate's securities indicate that potential credit losses on all securities could approach upwards of \$16 billion, with a most reasonable estimate in the current environment of \$10.8 billion.
- NCUA modeled the impact on each corporate credit union and the revised total liability for the NCUSIF increases from \$4.7 billion to \$5.9 billion.
- Results: additional charge per credit union of 10 bp of earnings and 9 bp of net worth.
- CUs that have already reflected the stabilization expense on the financial statements will need to adjust for the increase in the NCUSIF's recorded liability.

- The individual expense for the stabilization action should be calculated based on insured shares of \$100,000 in two parts:
 - Premium expense: insured shares as of December 31, 2008 x 0.30%
 - NCUSIF deposit: insured shares as of December 31, 2008 x 1% ; and
 - i) Revised impairment: NCUSIF deposit x 69% (previously estimated at 51%)

5) Next Steps

- NCUA will seek ways to reduce the cost impact on the credit union community from the stabilization action and determine the least cost alternative to absorb the losses within the system.
- NCUA is exploring alternate methods to manage the distressed assets held by the corporate credit unions.
- NCUA will restructure the existing corporate system based on input from stakeholders and future safety and soundness considerations.

In closing, NCUA stated its belief that its plans and actions taken present the least cost alternative to the credit union community under the current legal authority and requirements.