NCUA LETTER TO FEDERAL CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: **January 2009** **LETTER NO.: 09-FCU-01**

TO: **All Federal Credit Unions**

SUBJ: **Permissible Investments – Depository Institution Debt Guaranteed by the National Credit Union Share Insurance Fund or the Federal Deposit Insurance Corporation**

Dear Board of Directors and Chief Executive Officers:

The National Credit Union Administration recently received numerous inquiries regarding the permissibility of federal credit unions to invest in unsecured debt obligations guaranteed under the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP) and senior unsecured debt guaranteed under the Federal Deposit Insurance Corporation (FDIC) Temporary Liquidity Guarantee Program (TLGP). The purpose of this letter is to confirm a federal credit union's power to invest in this debt subject to the conditions stated below.

TCCULGP

On October 16, 2008, the NCUA Board approved the TCCULGP. The TCCULGP was established to ensure marketplace confidence of the holders of corporate credit union unsecured debt obligations, and to provide corporate credit unions with competitive standing in the unsecured debt market. Under the terms of the TCCULGP, the National Credit Union Share Insurance Fund (NCUSIF) will guarantee the timely payment of principal and interest on certain newly issued unsecured debt obligations of participating corporate credit unions issued from October 16, 2008 through June 30, 2009 and maturing on or before June 30, 2012. Types of qualifying unsecured debt obligations include promissory notes, commercial paper, inter-bank funding, and any unsecured portion of secured debt. The TCCULGP does not apply to a federal credit union's normal business activities with a corporate credit union. For example, shares, certificates of deposit, member capital shares, and paid-in-capital accounts at corporate credit unions would not be covered by the TCCULGP.

A federal credit union may invest in obligations, participations, securities, or other instruments of, or issued by, or fully guaranteed as to principal and interest by an agency of the United States of America. 12 U.S.C 1757(7)(B). This means a federal credit union may invest in an unsecured debt obligation fully guaranteed by NCUSIF through maturity under the TCCULGP. The TCCULGP guarantees expire on June 30, 2012. If an unsecured debt obligation is not guaranteed through maturity, then that unsecured debt obligation is not fully guaranteed and not a permissible investment.

To ensure that a particular corporate credit union unsecured debt obligation is covered by the guarantee, federal credit unions wishing to take advantage of the NCUSIF guarantee must:

1. Ensure the corporate credit union has elected to participate in the TCCULGP;
2. Ensure the unsecured debt obligation qualifies for coverage under the terms and conditions of the TCCULGP, and
3. Obtain and record a confirmation, issued by the participating corporate credit union at the time of the issuance of the unsecured debt obligation, that the corporate credit union intends that particular unsecured debt obligation to be guaranteed by the NCUSIF.

Once guaranteed by NCUSIF, qualifying corporate credit union unsecured debt obligations will remain guaranteed until the debt is fully repaid.

Federal credit unions can visit the Corporate Credit Union section of the NCUA website at http://www.ncua.gov/CorporateCU/index.htm to obtain a list of participating corporate credit unions, and Corporate Credit Union Guidance Letters No. 2008-01 and 2008-02, which are intended to provide additional information and guidance regarding the TCCULGP.

TLGP

On November 21, 2008, the Board of Directors of the FDIC adopted a Final Rule relating to the TLGP. 12 C.F.R. 370. The TLGP was announced by the FDIC on October 14, 2008, as an initiative to counter the current system-wide crisis in the nation's financial sector. Under the terms of the TLGP, the FDIC temporarily would guarantee the timely payment of principal and interest on all newly-issued senior unsecured debt up to prescribed limits issued by depository institutions on or after October 14, 2008 through and including June 30, 2009. The guarantee would not extend beyond June 30, 2012.

As noted above, a federal credit union may invest in obligations, participations, securities, or other instruments of, or issued by, or fully guaranteed as to principal and interest by an agency of the United States of America. 12 U.S.C 1757(7)(B). This means a federal credit union may invest in senior unsecured debt fully guaranteed by FDIC through maturity under the TLGP. The TLGP guarantees expire on June 30, 2012. If the senior unsecured debt is not guaranteed through maturity, then that senior unsecured debt is not fully guaranteed and not a permissible investment.

Federal credit unions wishing to take advantage of the FDIC guarantee should ensure that the senior unsecured debt is covered under the TLGP. Under the Final Rule, an eligible depository institution participating in the TLGP must include the following disclosure statement in all written materials underlying any senior unsecured debt it issues on or after December 19, 2008, through June 30, 2009, that is covered under the TLGP:

> *This debt is guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program and is backed by the full faith and credit of the United States. The details of the FDIC guarantee are provided in the FDIC regulations, 12 CFR 370, and at the FDIC's Web site, http://www.fdic.gov/tlgp. The expiration date of the FDIC's guarantee is the earlier of the maturity date of the debt or June 30, 2012.*

Similarly, an eligible depository institution participating in the TLGP must include the following disclosure statement in all written materials underlying any senior unsecured debt it issues on or after December 19, 2008, through June 30, 2009, that is ***not*** covered under the TLGP:

> *This debt is not guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program.*

It is important to note that permissibility does not automatically mean the investment activity is suitable for every credit union. In addition to the due diligence steps outlined in this letter to ensure the investments are covered by either the TCCULGP or TLGP, management must evaluate the suitability of the investment with the credit union's overall balance sheet risk profile and asset liability management policy and strategy. Examiners will review a federal credit union's participation in the programs, including their decision process, risk analysis, and rationale.

If you have questions concerning the TCCULGP or TLGP, please contact the NCUA's Investment Hotline at 800-755-5999 or your Regional Office or examiner.

Sincerely,

/**s**/

Michael E. Fryzel
Chairman