BOARD MEMBER HYLAND'S STATEMENT TO CREDIT UNIONS
ON CORPORATE STABILIZATION EFFORTS
March 27, 2009

Freedom of speech is one of the key tenets of our society. It's the cornerstone of our democratic society. So, I can't tell you how pleased I was to receive the scores of e-mails (1,400 at the time of writing and still coming!) on March 25th and 26th regarding NCUA's Corporate Stabilization Plan and conservatorships of WesCorp and U.S. Central FCU. That is credit union grassroots at work.

Many of the e-mails expressed anger, most frustration, and all expressed increasing concern about the current circumstances and the costs associated with the corporate stabilization and conservatorships. In your e-mails, you asked for relief from these heavy burdens -- relief in the form of a mechanism to expense the premium assessment over a longer period of time. Many of you raised substantive questions about the NCUA Board's actions. I hear you. As the Board member with credit union experience, including significant experience in the corporate credit union system, I understand the complexities of your concerns and sentiments. Let me try to address some of the key issues you raised.

On March 26th, the NCUA Board approved a proposal that would enable credit unions to spread the cost of the National Credit Union Share Insurance Fund (NCUSIF) replenishment over as much as a 7-year period. The proposed legislation requires Congressional action. It would create the Corporate Credit Union Stabilization Fund which would absorb losses associated with the corporate credit union stabilization actions. Federally insured credit unions would still be assessed for associated costs, but the costs would be spread out over as much as a 7-year period. Your support for this effort is vital. Put those grassroots efforts at work to help NCUA achieve the relief you seek. Let me be clear that since the Board implemented the Corporate Stabilization Plan on January 28th, I have been committed to finding a workable way to lessen the impact on credit unions. I believe the legislative proposal adopted by the NCUA Board goes a long way towards achieving that objective. At the same time, the NCUA will continue to review and consider all other possible options to further mitigate the costs to credit unions.

In your e-mails, many of you asked for the basis of the U.S. Central and WesCorp conservatorships and how the PIMCO report played a role. NCUA conserved both institutions for several reasons: (1) to reduce the systemic exposure given the estimated loss projections in both corporate credit unions. These loss projections exceed the capital in both institutions; (2) to exert greater direct control over and improve the transparency of financial information; and (3) to maintain the confidence of member credit unions and payment system counterparties given the expected losses and credit rating downgrades. The agency considered many factors related to these two institutions in deciding upon conservatorship. One factor was the range of estimated credit losses on the corporate credit union bonds provided by the credit unions' internal and external portfolio reviews, as well as the independent reviews conducted by NCUA staff and external vendors – the corporates' vendors and NCUA's external vendor, PIMCO. Significant differences were seen in these results, depending on the scope of the review and the portion of the portfolio that was assessed. In some cases, positive results reported were potentially misleading because only a small or select portion of the portfolio was segmented for the external review.

NCUA staff is working collaboratively with PIMCO on a summary of the PIMCO report to share with the credit union system. NCUA's website contains an FAQ on the PIMCO report. It is available at: **http://www.ncua.gov/news/press_releases/2009/MR09-0323b.htm**. PIMCO is one of a handful of experts in the nation that reviews the types of mortgage-backed securities portfolios held by corporate credit unions. In today's world of modern finance, PIMCO, like other companies, is also one of the biggest investors in such securities. That said, the cornerstone of the corporate stabilization efforts has been NCUA's intent to hold the securities to maturity and not to sell them. Selling the securities is the very last thing that NCUA wants to do and, in fact, PIMCO advised NCUA not to sell the securities.

Events in the financial services marketplace are ever-evolving. It is imperative that NCUA and the industry continue to seek all opportunities to spread the costs of the stabilization plan and conservatorships over a longer period of time so that credit unions can continue to lend and serve their communities in a manner that fosters economic recovery for this country.