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Corporate System Resolution

"NCUA has a responsibility, first and foremost, to protect the interests of consumers. Our solution is predicated on this very principle."

NCUA Chairman Debbie Matz

Plan Objectives:

- *Prevent interruption of payments services to natural person credit unions and their 90 million consumers*
- *Preserve confidence in the credit union system*
- *Manage to the least long-term cost consistent with sound public policy*
- *Facilitate an orderly transition to a new regulatory regime and future state for the corporate credit union system based on natural person credit union choice*

Your savings federally insured to $250,000 and backed by the full faith and credit of the United States Government.

Strategy

STABILIZE CREDIT UNION SYSTEM

Over the last 18 months, NCUA has been successful in temporarily stabilizing the corporate credit union system. However, the presence of approximately $50 billion of distressed (legacy) assets, predominantly private-label mortgage-backed securities, prevents the resolution of troubled corporate credit unions and reform of the corporate credit union system. The lowest cost, least disruptive strategy in dealing with the legacy assets is to develop a mechanism to effectively isolate and hold them to maturity and absorb only the credit losses. This would minimize the threat of a liquidity event that would require selling the assets realizing additional market losses.

DEVELOP STABLE, SAFE AND SOUND FUTURE

The scope and scale of the corporate crisis makes its successful resolution the agency's highest priority. The objective is to provide a solution for the troubled corporate credit unions, isolate and fund the legacy assets based on a least cost strategy in the long term, consistent with sound public policy, and provide for an orderly migration to a new regulatory framework. The agency's commitment is to develop a stable, safe, and sound future environment for the credit union system. The framework for the transition period will ensure safety and soundness while enabling credit unions to decide how and from whom they will receive the vital services corporate credit unions currently provide.

Stabilization Fund

LOW COST STRATEGY CHOSEN TO DEAL WITH LEGACY ASSETS

NCUA understands that one of the main questions credit unions have is, "How much is this going to cost?" As the agency moved through the process of evaluating the best resolution alternative for the legacy assets, costs to individual credit unions and the credit union system as a whole played a pivotal role in the final decision. Our goal was to achieve the lowest cost, least disruptive strategy in dealing with legacy assets which have clearly put a strain on the credit union system. While many alternatives were considered, the agency chose the plan that presented the least cost for the system consistent with sound public policy; that is, to create a structure that would avoid the outright sale of the securities at market prices and provides additional flexibility.

Total costs to be absorbed by credit unions will be determined by the performance of the underlying securities. Current estimates are between $8.3 and $10.5 billion net of membership capital. Losses may be higher or may come more quickly than expected making it difficult to forecast or predict the timing and amount of assessments.

LIFE OF FUND EXTENDED TO 2021

NCUA has, however, received approval from the U.S. Treasury to extend the life of the Temporary Corporate Credit Union Stabilization Fund ("Stabilization Fund") to June 2021, which means that assessments can be made over a longer period of time. Again, the amount is uncertain. What is certain, however, is that credit unions can plan for annual assessments over at least the next five years.

Conservatorships

MANAGED DISPOSITION OF ASSETS

To facilitate the resolution of the legacy asset issue, NCUA will employ a "good bank/bad bank" model. The five corporate credit unions currently in conservatorship – US Central, Western Corporate, Constitution Corporate, Members United Corporate, and Southwest Corporate - will be placed into asset management estates (i.e., "bad banks") where the legacy assets and contributed capital accounts will remain in isolation until the long-term funding solution can be achieved. The core operations, largely involving payments systems, and the guaranteed share accounts will be paid out to "bridge corporates" (i.e., "good banks") newly chartered by the NCUA Board.

ORDERLY TRANSITION FOR MEMBER CREDIT UNIONS

The bridge corporates will provide a mechanism to facilitate an orderly transition over time for the member credit unions served by these corporates. The bridge corporates will operate for a targeted 24 months to allow member credit unions time to individually find alternate service providers. These corporate credit unions will not be provided the opportunity to recapitalize and be returned to member control under existing charters. Member credit unions may explore various options, such as chartering a new corporate, establishing a CUSO, or obtaining services elsewhere.

The Temporary Corporate Credit Union Share Guarantee Program (Share Guarantee) remains in place through December 31, 2012.

Short-Term Funding

To facilitate the isolation of legacy assets through a good bank/bad bank structure, NCUA must arrange for a source of funding. The legacy assets cannot, in their current state, be sold to a third party at prevailing market prices because the upfront cost is excessive. As such, there is a need to fund on both a short and long-term basis to "carry" the legacy assets for an extended period of time, possibly even until the securities are fully paid down. There are two funding phases envisioned: an initial temporary ("bridge") phase and permanent phase (discussed next).

It is vital that member credit union deposits remain in the corporate system so as not to trigger a liquidity event that necessitates the premature sale of the legacy assets.

BRIDGE FUNDING

An immediate bridge funding arrangement will be necessary to finance the isolation of the "bad" assets while the process of issuing permanent funding is conducted. This immediate funding will be obtained through a Stabilization Fund guaranteed 120 days maximum maturity loan between the bridge corporate (with a balance sheet of member deposits and cash) and the asset management estate (with a balance sheet of legacy assets and notes payable) which will be repaid on a flow basis as permanent funding is obtained.

Long-Term Funding

GUARANTEED NOTES BACKED BY FULL FAITH AND CREDIT

With the legacy assets isolated and funded in asset management estates, NCUA will implement a long-term funding mechanism. A securitization trust will be created to issue guaranteed notes backed by the full faith and credit of the United States. The legacy assets will be used to collateralize these notes. Barclays Capital, Inc. New York, New York, an international investment bank with a presence in all the major markets around the world, is the agency's primary partner in this undertaking and is providing the expertise and support necessary to fully execute the securitization plan.

STRUCTURED FOR BEST PRICE EXECUTION

The notes are structured to mitigate liquidity and interest rate risk for NCUA, have high collateral values, and have a full, unconditional guarantee provided by NCUA and backed by the full faith and credit of the United States. The guarantee ensures the best possible execution and price, keeping the cost to credit unions low. This funding approach enables the underlying securities to be maintained without the need to sell them immediately and realize the full market losses. This approach will limit the losses absorbed by credit unions to the actual credit defaults on the underlying legacy assets.

NATURAL PERSON CREDIT UNIONS CAN INVEST

The market for the notes will be eligible investors including credit unions.

Corporate Rule

NCUA is committed to providing a regulatory framework that prevents a similar crisis from reoccurring. To that end, the NCUA Board approved sweeping revisions to corporate credit union regulations on September 24, 2010. The final regulation addresses capital standards, investments/asset-liability management ("ALM"), credit union service organization ("CUSO") operations, and board governance.

NEW CAPITAL STANDARDS

Historically, corporates have had low levels of capital. This, combined with an ever-increasing level of balance sheet risk, was one of the key problems that led to the current challenges faced today. The new regulation sets forth new minimum capital standards and provides NCUA with prompt corrective action ("PCA") tools for dealing with undercapitalized corporates.

NEW INVESTMENT LIMITS

With regard to investments and ALM, the new regulatory changes reduce reliance on credit ratings and set forth new investment limits focusing on safety and liquidity. These changes are intended to work in tandem to reduce risk while still providing sufficient flexibility to operate profitably and increase retained earnings.

Finally, the new regulation provides for greater regulatory oversight over CUSO operations and sets forth minimum qualifications for individuals who are chosen to serve on the board of a corporate.