Fact Sheet

Corporate Credit Union System Transition Period Timelines

On September 24, 2010, NCUA finalized the new corporate rule and launched a program to isolate and fund legacy assets (primarily impaired private-label residential mortgage-backed securities) held by several large corporate credit unions. The paramount goal of these efforts is maintaining uninterrupted member services.

As indicated during pre-launch messaging efforts and reiterated during corporate system resolution ("CSR") regional town hall meetings, credit unions are not pressured to make immediate long-term decisions regarding the future of bridge and other corporate credit unions ("corporates"). However, consumer credit unions must be cognizant of critical milestone dates/events outlined in the new corporate rule and coordinate these with their own internal plans.

This document details various aspects relating to capital standards for corporate credit unions and relevant timelines and considerations for members of bridge corporate credit unions as well as members of all other corporates.

Corporate Rule

The revised corporate rule was published in the Federal Register on October 20, 2010. This new rule contains numerous provisions to address operational issues such as capital standards and prompt corrective action, investments, corporate governance, and other issues. (*Detailed information regarding the new rule can be accessed on NCUA's webpage at http://www.ncua.gov/Resources/CorporateCU/CSR/Reform.aspx.*)

One of the key provisions of the new rule is the accumulation of capital. All corporates (other than the bridge corporates) will need to comply with the new capital standards in the corporate rule that take effect October 20, 2011. For many, this will include developing strategies to raise capital, including the solicitation of capital contributions from consumer credit unions.

Bridge Corporates

Bridge corporates will not be allowed to recapitalize. However, NCUA's bridge corporate management teams are working with member credit unions to develop transition plans to a long-term service solution. Members of bridge corporates are encouraged to be involved throughout the process of developing the transition plan.

In addition to exploring individual options of switching to other service providers, collectively members of bridge corporates can consider chartering a new corporate credit union to serve the membership, combining with an existing corporate,[1] creating some other business entity to purchase and assume bridge operations, or selling operations to an external party. The bridge corporates will submit a member approved plan to NCUA to transition the services they currently provide members to a long term viable solution by March 31, 2011. If transitioning to a new charter or another corporate, it is expected the resulting entity will raise capital to be *Adequately Capitalized* as of October 20, 2011.[2] Member credit unions should expect bridge corporates to hold transparent outreach efforts via town halls, conference calls, web pages, etc. to foster dialogue on this issue.

[1] This would most likely be conducted as a purchase and assumption, with the net consideration due to or received from the acquiring corporate reflecting the economics of the assets purchased and liabilities assumed.
[2] Corporates, including any new charter applicants for the members of the bridge corporates, must achieve by October 20, 2011, the 4% interim leverage ratio, which includes retained earnings, perpetual contributed capital, and non perpetual contributed capital.

All Other Corporates

Part of NCUA's CSR strategy included a comprehensive evaluation of the entire corporate system to determine the financial viability of all corporates. NCUA determined all but the five conserved corporates were financially viable. The remaining corporates, referred to as "all other corporates," must make critical decisions regarding their future operations under the new regulatory structure. Members of "all other corporates" that are not already compliant with the new corporate regulation have various options available to them, including raising capital, merging or consolidating with another entity, or streamlining operations to provide more efficiencies.

Capital Compliance Plans

In addition to a strategic business plan, where applicable "all other corporates" must submit the following information to NCUA's Office of Corporate Credit Unions (OCCU):

- New or revised business model or strategic direction.

- Description of how the corporate will bring the capital and NEV ratios into compliance, to include expectations of capital conversions or additional capital contributions from members. This will include any capital subscription process, including targeted capital subscription goals, timelines, and the process by which capital will be pledged and actually subscribed. **In particular, the plan will describe how the corporate will return pledged capital to members if the targeted capital goals are not achieved (e.g., via an escrow mechanism).**

- Tactical plans to achieve compliance, which must include milestones for implementation, measurable goals, and discussion with members. In addition, this must include options or contingency plans in case the corporate makes insufficient progress or is unable to comply with the new regulatory requirements. The plan must consider one or more of the following options prior to September 30, 2011:

- ✓ Charter conversions;
- ✓ Mergers with or resulting in a well capitalized corporate; or
- ✓ Self-liquidation.

- Balance sheet and income projections, including assumptions, for 2011 through 2013.

- Discussions of any significant changes in correspondent service providers or third party relationships. In particular, a corporate must address contingency plans for replacing services provided by U.S. Central Bridge Corporate Federal Credit Union, should the members be unable to develop a plan that transitions US Central's services to a long-term viable solution.

- Investment portfolio changes to become compliant with the provisions of the new corporate rule (i.e., Part 704). Plans requesting waivers to Part 704 not already approved will include the business reason for request, length of time waiver will be required, and how compliance with the waiver will be monitored.

- Plans for an independent stress test of capital adequacy for those corporates with legacy assets (i.e., those that are subject to ongoing impairment charges flowing through the income statement).

Independent Stress Testing - Corporates with Remaining Legacy Assets

NCUA's comprehensive evaluation of the entire corporate system factored in the potential impact to corporates with legacy assets remaining on their balance sheets. These particular corporates not only need to address and meet the requirements listed above, but also have the added challenge of convincing member credit unions to recapitalize them, should they pursue this option, when the potential exists for incurring additional losses from these legacy assets. **Member credit unions of corporates with remaining legacy assets should be receiving and reviewing periodic independent reports on the potential impact to remaining capital of the remaining legacy assets.**

To be transparent and allow full disclosure to their members, the plans for corporates with legacy assets need to include:

- *A Transparency Framework.* In order to cultivate credibility and trust with members, the capital compliance and strategic plans should include a transparency framework that includes, but is not limited to:

  - ✓ The plan for management of legacy assets;
  - ✓ Security level data on all marketable securities;
  - ✓ Asset liability modeling results;
  - ✓ The strategic (business) plan documenting capital and NEV assumptions and projections;
  - ✓ Projected balance sheets and income statements with all assumptions; and
  - ✓ Specific requirements for periodically obtaining additional stress tests and disclosing the results to members going forward.

- *A Stress Test.* The stress test must identify a range of potential losses (credit or other) from any legacy assets, and the impact of these potential losses to capital. The stress test should incorporate loss projections from an independent third party with appropriate experience in conducting these types of analyses. This type of study will assist in developing a capitalization plan, including how new capital subscriptions can best be insulated from any losses from legacy assets (such as through being made senior to existing capital). Including this type of study allows members to assess potential continuing loss exposure and/or the ability for existing capital to absorb losses from legacy assets. The corporates with legacy assets are expected to complete this study as soon as possible in order to provide the results to members by May 31, 2011.

Milestone Dates and Consumer Credit Union Considerations

The table below highlights necessary actions for corporates as a result of the new rule and associated milestone dates. Considerations for member consumer credit unions are also outlined. It should be noted that the dates outlined here are deadline dates; corporates can move more quickly through the process should individual progress allow.

Milestone Date	Corporate Credit Union Action	Consumer Credit Union Considerations
October 20, 2010	Final Rule Publication Date	Review and understand new rule requirements. Utilize reference material posted on the NCUA corporate system resolution website.
October 20, 2010 through March 31, 2011	**"All Other Corporates":** Work with members to develop strategic and capitalization plans, or an alternative course of action. **Bridge Corporates:** Work with members to develop transition plans.	Discuss with corporate management/officials viable alternatives for the future considering the interests of the members, the financial and operational viability of the corporate or new entity in light of new regulatory requirements, and the options available for alternative service providers. The plans must have the support of the membership.
January 18, 2011	**"All Other Corporates":** Corporate boards must adopt a resolution [per Part 704, Appendix A, Part I (a) of the new rule] that capital contributed on or after January 18, 2011, will have seniority to existing capital to absorb losses in liquidation, if it chooses this option. Corporate must notify members and NCUA of its resolution as soon as practicable. **Bridge Corporates:** Not applicable.	Discuss the pros/cons of this alternative and make preferences known to corporate officials. Should the corporate choose this option, member credit unions should be discussing with their board of directors the impact (immediate and long-term) this may have on the credit union and weigh this against any decision regarding recapitalization, especially if the corporate still has legacy assets.
March 31, 2011	**"All Other Corporates":** Corporates submit strategic and capital compliance plans to NCUA for review. For corporates that have legacy assets that remain on their balance sheets, plans should include a stress test that identifies a range of potential losses (credit or other) from legacy assets, the impact of these potential losses to capital, and a transparency framework to cultivate credibility and trust with member credit unions.	Review the basic components of these plans and evaluate the overall financial and operational impact of the plan on your credit union. Engage in dialogue with corporate officials about the value proposition being offered by the corporate, and the advantages and disadvantages of the available options.

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Milestone Date	Corporate Credit Union Action	Consumer Credit Union Considerations
March 31, 2011 (cont.)	**Bridge Corporates:** Bridge corporates submit the member approved plan to preserve services to NCUA. This may include transferring members or the bridge operations into a new corporate charter, into an existing corporate charter, or into another entity.	Working with the bridge corporate management teams, members of each bridge corporate should determine the future of the corporate's services outside the bridge structure and submit transition plans to NCUA. These plans should establish specific timelines for pursuing options and ensure timely action is taken.
April 29, 2011	NCUA finalizes the review of strategic and capital compliance plans, and bridge member transition plans, for any changes and request revision as appropriate.	N/A
May 31, 2011	**"All Other Corporates":** Provide the strategic business and capital compliance plans to the members, including transparency of the potential for future other-than-temporary (OTTI) charges related to any legacy assets. *This is the beginning of the "capital subscription" process.* Corporates will announce a targeted goal for capital subscriptions. Corporates unable to reach their goal will be required to return funds to those credit unions who participated in the subscription (i.e., if the offering fails). Those corporates will be required to utilize escrow accounts to accumulate subscriptions to provide protection to credit unions should sufficient capital not be obtained. **Bridge Corporates:** The bridge corporate leadership teams will initiate the transition plan. For transitions to a new or existing corporate charter, the bridge will begin the application and capital subscription process, if necessary. Escrow accounts can be used through the capital raise period for the protection of member credit unions. <u>As a reminder, within a targeted 24 months NCUA will wind down bridge corporate operations if a collective solution of the members has not been implemented.</u>	**"All Other Corporates":** Analyze plans and discuss financial and operational impact of the recapitalization and strategic plans with each consumer credit unions' boards of directors. Consider the differences between and risks of perpetual and non-perpetual capital subscription requests, especially in regard to any unrealized or long-term plans for business model changes. Understand the potential for future OTTI charges and the impact those charges may have on capital held in the corporate and any that may be newly contributed in any capital subscription process. Understand the capital subscription process, including the use of escrow accounts and perform your own legal due diligence on any contracts that your credit union may enter into with the corporate. For those corporates that still hold legacy assets, ensure you have a comfort level with the transparency framework corporate management has established. **Bridge Corporates:** Analyze transition plans and discuss financial and operational impact with each consumer credit unions' boards of directors. For members using the new charter option, understand the capital subscription process, including the use of escrow accounts. For combination with other corporates, see the recommendations for "all other corporates." Member credit unions need to be aware that any capital raised through the subscription process would be the property of the new charter and not the property of the bridge corporate.

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Milestone Date	Corporate Action	Consumer Credit Union Considerations
August 31, 2011	Interim benchmark for evaluating corporates' progress. Corporates must submit a progress report to NCUA.	Be aware of the progress of your corporate and potential ramifications if goals are not being met. Members should have an open dialogue with their corporates regarding the progress being made.
September 30, 2011	Corporates, including any new charter applicants, must demonstrate sufficient progress with existing capital and capital subscriptions (perpetual and/or nonperpetual) to achieve by October 20, 2011, the 4% interim leverage ratio (includes retained earnings, perpetual contributed capital, and non perpetual contributed capital) and 2% NEV ratio.	Closely analyze the corporate's progress in meeting capital subscription goals. If sufficient progress is not being made, discussions should be held regarding pursuit of other options.
October 20, 2011	**"All Other Corporates":** Initial Part 704 capital requirements become effective. For corporates that plan to raise capital to meet the required minimums, if the capital subscription falls short of the required minimum, all newly subscribed capital can be subject to release. Corporates that do not meet the capital requirements will be subject to the prompt corrective action provisions of Part 704 (PCA), which may include filing net worth restoration plans, and may subject the corporate to the discretionary and mandatory actions of the new rule. **Bridge Corporates:** Deadline to meet the initial capital requirements of Part 704, assuming the bridge will transition to a new charter or another corporate, If the bridge fails to meet the required capital raise, the capital subscription will be deemed failed and all subscribed capital released, and the bridge will be wound down over time.	**"All Other Corporates":** Monitor compliance with regulatory benchmarks. As necessary to meet the new capital definitions and October 20, 2013, phased-in capital requirements, member credit unions should be involved in developing a capital conversion policy. The previous "Paid-In-Capital" accounts have been replaced with "Perpetual Contributed Capital (PCC)" accounts, and the previous "Membership Capital Accounts (MCAs)" are now referred to as "Nonperpetual Capital Accounts (NCAs)". Under the new final rule, MCAs that are not converted to NCAs or PCC within one year must be put on notice by the corporate and, to the extent not needed to cover operational losses, returned to the member at the end of the notice period. **Bridge Corporates:** If a collective solution has not been implemented, individual options to switch to other service providers will need to be pursued as part of an orderly wind down.
October 20, 2012	**"All Other Corporates":** Not applicable. **Bridge Corporates:** Targeted end of bridge corporate transition period.	**"All Other Corporates":** Not applicable. **Bridge Corporates:** Members must implement transition to alternative service providers if a collective solution was not achieved.
October 20, 2013	Full phase-in of rules new capital requirements. Tier 1 capital (*retained earnings and perpetual capital only*) must equal 4%.	Continue to exercise strong governance over the member-owned corporate credit union.