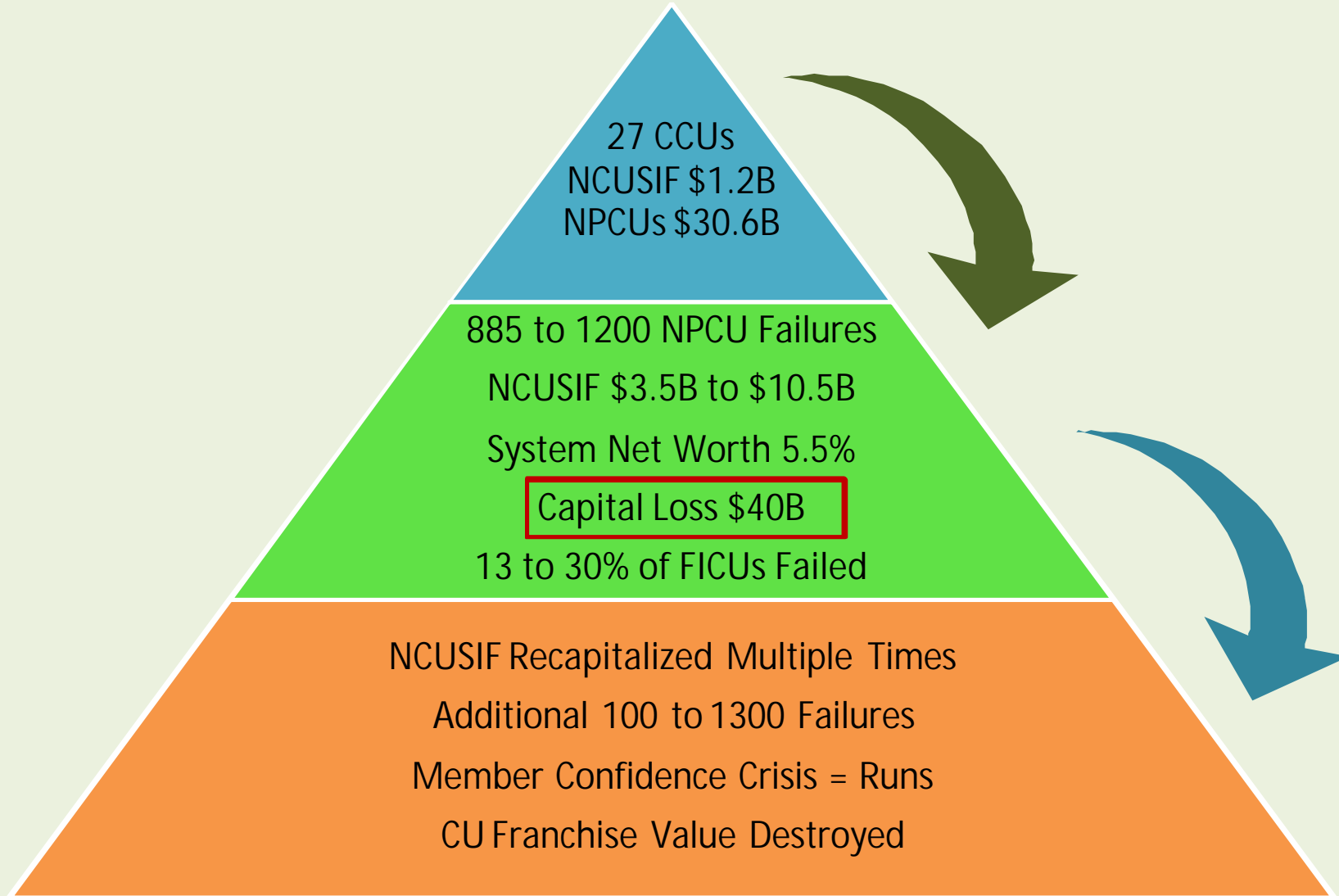


# Corporate System Resolution

National Credit Union Administration

# Why Did NCUA Step-In? To Prevent Cascading Losses



# Corporate Crisis Corrective Action Phases

1. Stabilize System Liquidity

2. Resolve Problem Credit Unions

3. Reform Corporate System

# PRIORITIES

Share  
Guarantee  
Remains  
Through  
12/31/2012

Certainty of  
Continued  
Payment  
Systems  
Operations

Cost  
Contained  
in Long-  
Term  
Solution

# Guiding Principles

## Drivers for Strategy

- Ø Prevent interruption of payment services to natural person credit unions and their 90 million consumers
- Ø Preserve confidence in the credit union system
- Ø Manage to the least long-term cost consistent with sound public policy
- Ø 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

# Basic Overall Strategy

Isolate

- Conservatorship
- “Good Bank/Bad Bank” Model

Fund

- NCUA Guaranteed Notes
- Locked-in Long Term Funding
- Linked to Performance of Underlying Collateral

Transition

- Operations Transferred to Bridge Corporate
- No Changes to Credit Union Routing Numbers
- Continued Service to Members
- Ensure Orderly Transition to New Future State

# Good Bank/Bad Bank Model

Bridge  
Corporate

Old  
Corporate  
Charter

Asset  
Management  
Estate

GOOD ASSETS

BAD ASSETS

# Bridge Corporates

## Key Policies

- **Payment Systems - Primary Function**
- **Very Liquid Investments Once Settlement Occurs**
- **Term Deposits Limited to 180 Days**
- **Conservatorships With PUED From Day 1**

## Future Actions

- **Short-Term Holding Pattern For Potential New Charter Decision**
- **Transition Operations – Target of 24 Months**
- **No Ability to Recapitalize Bridge Corporates**

## Small Credit Union Assistance

- **Developing Checklists & Guidelines for Small Credit Unions**
- **Major Portion of 2011 SCUP Workshops, Either Topic or Clinic**



# Securitization

NCUA Guaranteed  
Notes

Sold to Investors  
From Securitization  
Trust

Unconditional Full  
Faith and Credit  
Guarantee

Over-collateralized

Correlates  
Security Structure  
With Underlying  
Collateral

# Projected Future Stabilization Fund Assessments

\$8.3 to \$10.5 Billion  
Range of Stabilization  
Fund Cost

\$1.3 Billion  
Assessments Paid to Date

\$7.0 to \$9.2 Billion  
Projected Range of  
Remaining Assessments



Total projected costs to all insured credit unions.

\$310 million assessed in 2009, \$1 billion assessed in 2010.

Timing and amount of remaining assessments at NCUA Board discretion over remaining life of fund (June 2021) , subject to cash management needs.

# All Other Corporates

## Financially Viable

Legacy Assets

Pessimistic OTTI Still Leaves Capital

Capital Raise

Regulatory & NEV Requirements

## Action Steps

### Corporates

- ∅ Digest New Rule
- ∅ Update Business Approach & Policies
- ∅ Engage Independent Modeling Firm
- ∅ Sell Value Proposition to NPCUs
- ∅ Raise Capital

### NCUA

- ∅ Continue Risk Mitigation Directives
- ∅ Issues Capital & NEV Directives
- ∅ Work with CCUs Unable to Raise Capital
- ∅ Assess Regulatory Waiver Requests

### NPCUs

- ∅ Understand Corporates New Business Model
- ∅ Determine Payment Services Provider
- ∅ Move Services If Needed

# Part 704 – Revised

## Prompt Corrective Action Implemented

- 4% Leverage ratio (5% well capitalized)
- 4% Tier 1 Risk-Based Capital Ratio (6% well capitalized)
- 8% Total Risk-Based Capital Ratio (10% well capitalized)
- 2% Net Economic Value Requirement Retained

## Investments & ALM

- Establishes sector and counterparty limits
- Prohibits private label and subordinated structures
- Tightens WAL requirements for portfolio

## Corporate Governance

- Minimum Qualifications Require NPCU Experience
- Compensation Disclosures
- CUSO Approvals

# **DIALOGUE ON CORPORATE SYSTEM RESOLUTION**