

Questions and Answers
Relating to the
NCUA Corporate Credit Union Insurance Guarantee Stabilization Plan

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| <p>Q1. How did the situation with the Corporate Credit Union system get to this point?</p> | <p>The corporate credit union system owns a significant portfolio of securities backed by residential mortgages. As home prices have significantly fallen, the deteriorating performance of the loans underlying the securities resulted in declining security values and the concomitant escalating unrealized losses on these securities.</p> <p>In 2007, housing price declines impacted the mortgage backed security markets, resulting in inactive trading of these debt securities and a severe contraction of wholesale lending. As a result, the corporate system is experiencing a strain on liquidity due to approximately \$64 billion held in mortgage and asset-backed securities for which, in most cases, there is currently a limited active trading market.</p> |
| <p>Q2. Why did NCUA choose to take this action now?</p> | <p>NCUA took action to avoid a failure in the corporate system, which could have resulted in numerous natural person credit unions losing their investments and becoming undercapitalized.</p> <p>Generally Accepted Accounting Principles (GAAP) require expected losses on certain securities determined to be “other than temporarily impaired”, to be reflected through current earnings. When the NCUA Board learned US Central expected an OTTI charge of \$1.2 billion against current earnings, quick, decisive action was needed. This anticipated charge represented nearly all US Central’s core capital (retained earnings and Paid-in Capital). NCUA acted to inject needed capital into US Central and to declare a temporary share guarantee to maintain stability of the entire credit union system. This action represented the lowest cost option to the industry.</p> |

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| <p>Q3. Why doesn't the NCUA use the Central Liquidity Facility (CLF) to fund the capital note or back the share guarantee?</p> | <p>The CLF is primarily a liquidity needs lending facility and does not have authority under the Federal Credit Union Act to make capital investments. It is allowed to make liquidity loans to member natural person credit unions.</p> |
| <p>Q4. How does this recent action (capital note for US Central and share guarantee) affect share insurance protection for members of natural person credit unions?</p> | <p>It doesn't. Each account remains insured up to the \$250,000 limit, with the full faith and credit of the federal government (U.S. Treasury) standing behind it. Members that maintain less than \$250,000 on deposit; and those that properly structured their accounts to ensure they are fully insured to the statutory limits will not lose any money. Under the NCUA guarantee, accounts maintained by natural person credit unions, <u>regardless of dollar amount</u>, in a corporate credit union that chooses to participate in the guarantee program are NOT at risk. In addition, the actions taken by the NCUA Board require no taxpayer funds. These actions have been taken to ensure the strength of the entire credit union system and to instill the confidence needed to move forward.</p> |
| <p>Q5. Can TARP funds be used to pay for this loss?</p> | <p>As of this date, the Treasury Department has not demonstrated any intent to make TARP funds available to credit unions or NCUA for capital infusions. NCUA continues to pursue TARP funds only for their intended purpose, to purchase troubled assets.</p> |
| <p>Q6 How is a premium calculated?</p> | <p>A premium is calculated on the insured shares of each credit union. Each quarter, credit unions report their insured shares to NCUA via their call report. The National Credit Union Share Insurance Fund (NCUSIF) will determine the exact amount of each credit union's assessment based on their most recent report at the time the bills are distributed.</p> |

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| <p>Q7. How much does NCUA expect the premium to cost natural person credit unions?</p> | <p>Each credit union's individual cost is based on their level of insured shares. Based on current information, NCUA estimates the share insurance premium to cause a 56 basis point decline in natural person credit unions' net worth. Prior to actually collecting the premium, NCUA will perform a final analysis and adjust estimates as needed to replenish the NCUSIF normal operating level to 1.30 percent.</p> |
| <p>Q8. Does the premium assessed by NCUA have to be reflected through current earnings on the Income Statements of natural person credit unions?</p> | <p>Generally Accepted Accounting Principles (GAAP) dictates credit unions that follow GAAP book the premium as an expense in the reporting period incurred. The Federal Credit Union Act requires credit unions to file their Call Reports in accordance with generally accepted accounting principles (GAAP). Section 202(a)(6)(C)(i). GAAP in the U.S. is established by the Financial Accounting Standards Boards (FASB) under oversight of the SEC. When auditing financial statements, accounting practitioners determine the extent to which the audited entity maintains its financial statements in conformance with GAAP. GAAP requires that premium expenses and asset impairments flow through the income statement, and therefore, are charged as an expense.</p> <p>Based on events that occurred in January 2009, the NCUA Board took action on January 28, 2009, to stabilize the corporate credit union system. This action resulted in the impairment to the NCUSIF and resulting premium assessment.</p> <p>Since GAAP requires all expenses to be booked in the period in which they incur, the premium assessment cannot be spread over multiple reporting periods, or be accounted for through a direct transfer</p> |

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| | <p>from Regular Reserves. Prior to actually collecting the premium, NCUA will perform a final analysis and adjust the premium as needed.</p> <p>NCUA will review any suggestions on alternative booking of the assessment which may be presented by the credit union industry.</p> |
| <p>Q9. Does this premium assessment fix the problems, or are additional assessments possible?</p> | <p>Several factors will continue to impact the cost to the industry including OTTI charges, further evaluation of the credit risk in the securities, evolving economic conditions, and liquidity levels. As these factors change, the cost may change in either direction. If the cost estimates decline, you will see a return of your charge in the form of future dividends from the NCUSIF.</p> <p>NCUA cannot speculate about future situations that may develop, but will continue to take any steps necessary to maintain a stable and well-functioning credit union system. It is NCUA's strong belief that the industry input received during the Advanced Notice of Proposed Rulemaking (ANPR) process will yield significant and constructive ideas regarding future reforms to the corporate network.</p> |
| <p>Q10. What is NCUA doing to address management issues at US Central and other corporates?</p> | <p>NCUA does not comment on its supervision of individual credit union cases. However, as part of its necessary due diligence in providing the share guarantee, NCUA plans to enter into agreements with participating corporate credit unions for enhanced supervisory oversight and controls for adequate corporate governance. Additionally, NCUA has created an ANPR for the express purpose of receiving industry input</p> |

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| | <p>on the future structure and operations of the corporate credit union network. The comments received from the credit union industry will significantly determine the future structure of the corporate system.</p> |
| <p>Q11. What can a natural person credit union do to provide additional support of NCUA's corporate credit union stabilization efforts?</p> | <p>There are three significant ways that a natural person credit union can support NCUA's corporate credit union stabilization efforts:</p> <p>(1) Participate in the Credit Union System Investment Program (CU SIP). This option makes sense for credit unions that may not have current on-hand funds to invest. With CU SIP, a qualifying credit union borrows from the Central Liquidity Facility and places the proceeds of the advance in a guaranteed corporate note (an unsecured debt obligation of a corporate with a full NCUSIF guarantee). The term is for one year and the credit union will earn a guaranteed spread of 0.25%; and,</p> <p>(2) Purchase a note from a corporate credit union under the NCUA Temporary Corporate Credit Union Liquidity Guarantee Program (TCCLGP). This program permits any credit union to invest directly with a corporate credit union (including US Central) in an unsecured note that carries a full guarantee from the NCUSIF. Corporates can issue notes under this program through June 30, 2009, maturing on or before June 30, 2012. Credit unions can contact corporates directly to learn what rates are being offered on such notes.</p> <p>(3) "Maintain existing share deposits in your corporate credit union. Place any additional excess liquidity into your corporate. All shares are now guaranteed</p> |

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| | <p>by the NCUSIF. The more credit union funds placed in the corporate credit union system the less reliance on external borrowings. The most significant immediate concern is maintaining adequate liquidity in the system to avoid an event that would cause a corporate credit union to sell securities in the current distressed market in order to meet liquidity demands. The less reliance on external borrowings, the less likely the potential need to sell securities at distressed prices.”</p> <p>Details of these programs are available on NCUA’s website: www.ncua.gov.</p> |
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