

# Key points for board members about the NCUA corporate actions

*Little or no impact on members, it's not a bailout, and credit unions will cover the costs..*

## **NCUA took 3 key actions on corporate credit unions**

The agency placed three more corporates into conservatorship (for a total of five); unveiled its plan for resolving the “legacy assets” held by the conserved corporates; and adopted a new set of regulations for corporates. “Conservatorship” means the corporates are still operating normally but the U.S. government has taken them over. The “legacy assets” refers to mortgage-backed securities held by the corporates. And, the new regulations are designed to prevent credit unions from ever facing a situation like this again in the future, but changing the role of corporates.

## **Little or no impact on credit union members**

The actions taken by NCUA are meant to protect credit unions and their members. The agency’s comprehensive plan and fast action will ensure that members see little or no impact from the conservatorships. As NCUA Board Chairman Debbie Matz said last week: Not one credit union depositor has lost even a penny in a federally insured credit union account; there have been no disruptions in service to consumers who do business at credit unions; and, overall, our nation's credit union system remains strong and secure.

## **Deposits covered by federal insurance**

The deposits that regular credit unions have in the conserved corporates are federally insured up to \$250,000 and backed by the full faith and credit of the U.S. government. And the U.S. government has also guaranteed deposits beyond \$250,000 in these institutions. [So as you can see, the excess funds we have invested in these corporate credit unions are fully protected.]

## **It is NOT a government bailout**

This is not a government bailout. Credit unions – not taxpayers - will pay all of the costs. There are about \$50 billion in troubled assets; they will probably eventually return a bit more than \$40 billion. That means the ultimate loss that credit unions must cover will be something less than \$10 billion. No matter what the amount, credit unions have the resources, and have been given an extended amount of time – until 2021 -- by the Congress and the Treasury Department, to pay the bill. This means credit unions at large face no threat and taxpayers will not pay the costs.

## **An estimated \$8.1 billion remains to be paid**

The latest, revised estimated future losses on the legacy assets are in the range of \$14 billion to \$16 billion. Using \$15 billion as an estimated midpoint, and figuring that \$5.6 billion has already been covered by the extinguished capital of the conserved corporates – and \$1.3 billion has already been paid by credit unions in last year’s and this year’s assessments – that leaves an estimated balance of \$8.1 billion which remains to be paid. Credit unions must cover this cost. Note: The final total could be higher or lower - the numbers used here are only estimates.

## **Cost to credit unions depends on insured share growth, other factors**

Credit unions have until 2021 to pay the costs. Assuming the figure given (above) holds, the amount credit unions will pay depends on how their shares grow. If shares and deposits grow 5% each year for the next 11 years, the average annual assessment on credit unions will be about 0.07% on average assets (i.e., 7 basis points). (Starting next year – 2011 – the assessment will be around 9 bp and then fall to 5.5 bp in the last year, 2021). THESE ARE ESTIMATES; if savings grow faster than 5% (and/or/if remaining losses are less than \$8.1 billion), the average cost/assessment will be less than 7 bp a year – OR VICE VERSA.

## **No way to calculate total costs with precision**

No one can predict or claim to know with certainty what the total costs (and losses) will be. They will be what they will be. However the faster the economy and the housing markets recover from the recession, the lower will be the losses and costs to credit unions.

## **Not the root of the problem ...**

It’s also important to remember that while credit unions have experienced some collateral damage during this recession (from member job losses, declining home values), we did not cause the problem. Congressman Barney Frank, the chairman of the House Financial Services Committee, has said more than once that “If credit unions made all of the mortgage loans, then there would have been no subprime crisis, and therefore no economic crisis.” In today’s economy regular credit unions like ours that serve consumers continue to be a safe haven and offer great value.

## **We are well**

Credit unions as a whole are very well capitalized, with an average capital-to-assets ratio is nearly 10%. That’s considerably higher than the 7% industry standard for being “well capitalized.” This 10% capital

***capitalized***

means credit unions are well positioned to absorb the costs of resolving the corporate issues with little or no impact on our members.