

Corporate Credit Union Stabilization Survey and NJCUL ANPR Process

2/19/2009

Agenda



- Review survey responses
- Thoughts on TARP
- Take a look at another Co-op Structure
- Review ANPR Q&A
- Highlight MU and MA Corp. CU plans

Corporate (CCU) Stabilization Plan/System Restructuring Survey Results...

- 59 Credit Unions
- 94% said they have reviewed the expense to their credit union.
- 38% said NCUA's plan would be more acceptable to them if they knew it would result in corporate restructuring and new safeguards to prevent a repeat occurrence.
- The most popular alternatives to NCUA's plan were the following:
 - Passing legislation to give CCUs direct access to CLF
 - Assessing the NCUSIF premium in stages (5 years).
 - Expanding the CU SIP (System Investment Program) to make it more attractive to CUs, enhance yield spread.

Survey Highlights



- If NCUA's plan goes into effect, 62% of credit unions were concerned negative ROA would bring a negative perception on the health of their credit union. Followed by cutting spending and foregoing strategic initiatives.
- 60% said they did not favor injecting permanent capital into CCUs or offering subordinated in order to limit the impact of NCUA's current plan.
- 52% felt very strongly that NCUA failed credit unions by not reacting to market conditions sooner.
- An overwhelming 88% said that once CCUs accept NCUA's plan to guarantee investments the operating plan under the LUA of that Corporate should be made public.
- 30% felt very strongly that CCUs did not do a good enough job communicating their potential problems and the risks to credit unions.

Survey Highlights



- Nearly 77% said they still have confidence in their Corporate CU.
- Respondents were split nearly 50/50 on whether the new corporate system should be broken into two charters: one for corporates that handle payment processing and one for those that handle investments.
- 58.8% favored limiting CCU fields of membership to defined geographic regions.
- 58.3% did not believe CCUs' primary role going forward should be payments processing.
- 60% said they will still look to CCUs for investments after this or any other NCUA plan is complete.

Survey Highlights



- An overwhelming 77.6% said they were not aware CCUs had such a large portfolio of non-agency, mortgage backed securities.
- 36% said they only recently became aware of the mounting unrealized losses in the corporate system.
- The question of whether or not corporates should consolidate was fairly even with 55.1% in favor and 44.9% against it.
- 58.7% said there is a future role for U.S. Central.
- 72.3% of respondents said they did not want to see corporates fall under the regulatory purview of Treasury.

Survey Highlights

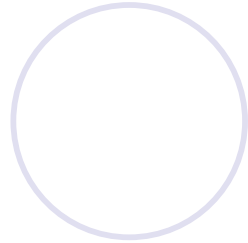
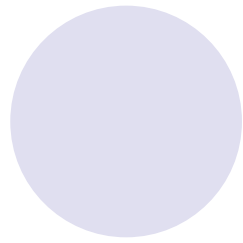


- 87.8% of credit unions said they plan to pursue investment options outside of the corporate network.
- 76.5% said they have not moved money out of the corporates since learning of the problems.
- 87.8% said they have not increased their investments in corporates since learning of the problems.
- 56.3% said they would be willing to invest permanent capital in the corporate system.
- 62% said they only utilize one corporate.

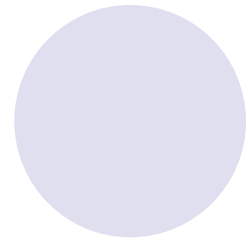
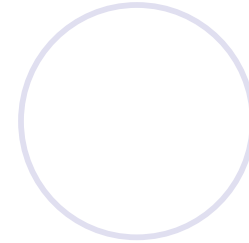
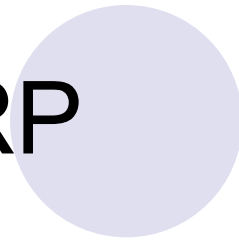


TARP Survey Responses

- Why TARP: 58.8% did not feel there was enough capital in the natural person credit union system to absorb corporate losses and fund future premium assessments
- The philosophical question of whether or not to accept government funds showed a strong divide. 27.5% were strongly in favor of the CU movement accepting TARP funds, while 23.5% were strongly against it.
- Nearly 40% felt strongly that taking federal funds would put the credit union tax exemption in jeopardy.



TARP



FOR

- Losses & cost of CSP
- Competition receiving low cost capital
- Small comparative cost \$5bil/\$2tril
- Backup only
- Unknown future expense

AGAINST

- Taint tax exemption
- Regulatory reform
- Remaining excess capital is adequate
- Political future

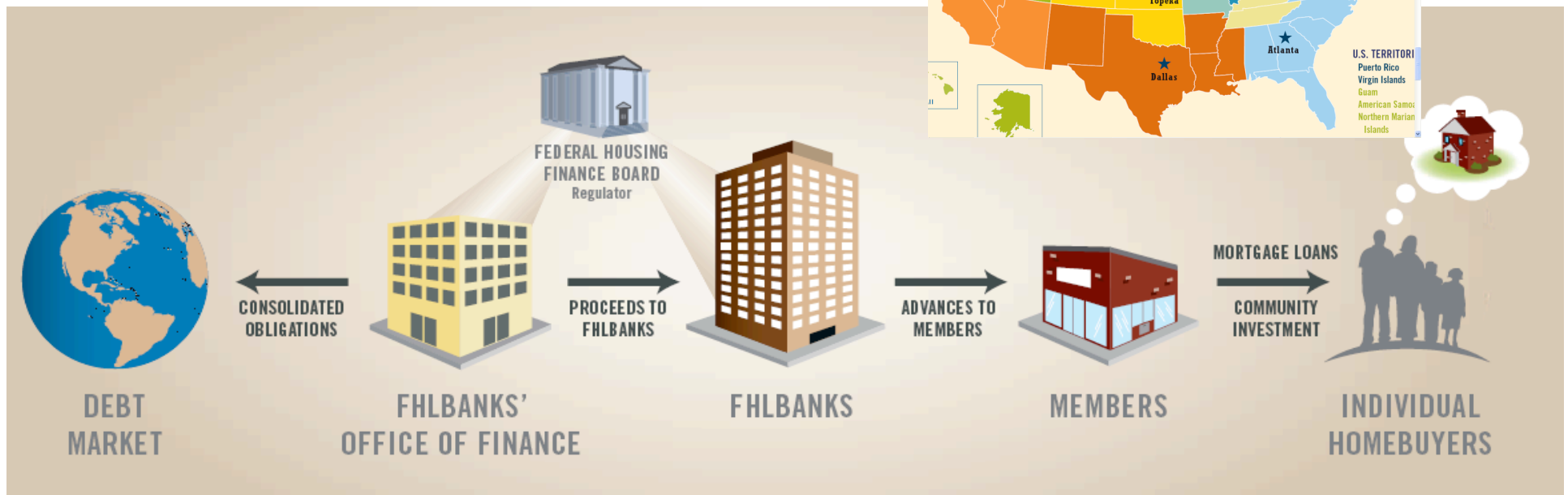
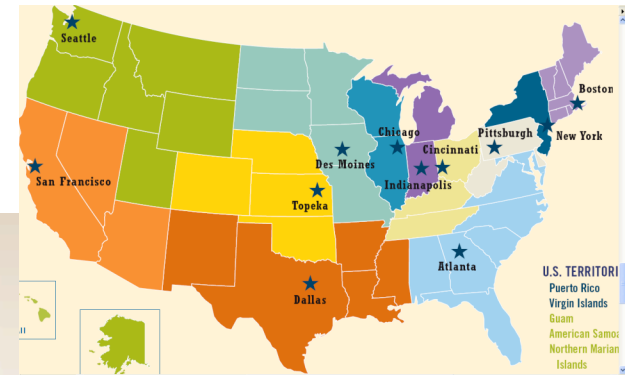


Do you understand OTTI?

- The write downs for an investor are brutal
- Impairment, less than 85% of face value
- Write downs are based on projected losses which is typically reflected in current market prices...what if there is no loss?
- Losses - immediate vs. holding the asset to maturity as you would a loan, provision for losses accordingly
- Recovery - gains are amortized over the life of the bond, in some cases 30 years
- Can a liquidity provider afford to hold an investment to maturity...is there enough capital and liquidity to satisfy member demands?

Is there something to be learned from the FHLB structure?

- Privately held financial cooperative system
- Regional demographic, no competition
- Cross collateralized/cross defaulted
- Debt offerings are issued through a central repository, “Office of Finance” for all FHLBs
- SEC registrant



Corporate CU Response to ANPR

- Members United & Mid-Atlantic

- Payment Systems
- Liquidity Management
- Field of Membership
- Investment Authorities
- Core Capital
- Permissible Investments
- Credit Risk Management
- ALM
- Governance



ANPR

- Purpose
- Should NCUA consider limiting a corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function?
- What specific types of products and services should corporates be authorized to provide?
- State or regional FOM ?
- Separate charter for other services (CUSO)?



ANPR

- Capital limits for expanded investment authority?
- Is there a need for a wholesale corporate 2 tier system?
- Should NCUA/OCCU be the regulator for a new corporate system?
- What types of core capital should the system require?



ANPR

- Should NCUA limit investment powers?
- Should there be a minimum requirement for directors of a corporate?

Next Steps...



- Actions of NJCUL

- Timeline March 28th deadline to NCUA

- Draft letter for comment

- Board meeting March 16th, review & submission