



CUNA

Credit Union National Association

cuna.org

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May 14, 2009

The Honorable Michael Fryzel
Chairman
National Credit Union Administration Board
1775 Duke Street
Alexandria, VA 22314

Dear Chairman Fryzel:

On behalf of the Credit Union National Association, I am writing to you in connection with the ongoing efforts of CUNA and the Leagues to minimize the impact on the credit union system of the National Credit Union Share Insurance Fund assistance for WesCorp Federal Credit Union and U.S. Central Corporate Federal Credit Union. This letter follows a number of very recent discussions I have had with CUNA's Executive Committee, League presidents, the Roundtable of Largest Credit Unions, the Association of Corporate Credit Unions, and chief executive officers of state and federal credit unions of all sizes from around the country regarding the agency's handling of the corporates.

It also follows discussions I and my staff have had with senior officials at NCUA on these issues, which we appreciate.

As you know, CUNA is strongly supporting the legislation which contains several provisions to allow the agency to spread out credit unions' insurance costs associated with NCUA's corporate credit union stabilization. We want to work with the agency to ensure the legislation is passed and will be making a strong statement of support during the hearing next week before the House Financial Services Subcommittee on Domestic and International Monetary Policy, Trade and Technology.

While they acknowledge the usefulness of the legislation, credit unions continue to raise a number of issues about NCUA's corporate stabilization efforts. We urge you to act favorably and expeditiously to address these concerns, which include the following:

Capital Holders in the Conserved Corporates Should be Allowed to Share In Recoveries of the Mortgage- and Asset- Backed Securities

NCUA staff have indicated on several occasions that all the capital accounts in WesCorp and all of the paid-in capital and 63% of the member capital shares at U.S. Central must be "extinguished," which would limit the ability of those account holders to benefit from any recoveries that the mortgage- and asset- backed securities at WesCorp or U.S. Central may have in the future.

Whether extinguishment or some similar action, we seriously question this step for many reasons, including the basis for the agency's authority and determination that it is necessary. We respectfully request that NCUA reconsider the ramifications of this action and instead, make provisions to allow credit unions to share in some portion of future recoveries on the securities in question.



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We have already shared with the agency an economic and legal analysis as to how this could work. Our goal is achieve fairness and to help the credit unions whose capital is being absorbed by the estimated losses to at least have the possibility of recovering capital if losses do not indeed amount to current estimates.

At a minimum, we urge the Board to include language in its upcoming guidance on capital accounts at WesCorp and U.S. Central that indicates the agency will not close the door on allowing capital holders at the time of conservatorships to share in future recoveries on the securities.

More Transparency on the Performance of the Mortgage Backed Securities Is Needed

More transparency to the credit union system is needed regarding NCUA's credit loss estimates on the mortgage- and asset-backed securities. To achieve that objective, we urge the agency to provide much more detailed information to credit unions on the assumptions used to determine the loss projections.

We also urge you to establish a reporting system to credit unions that will provide information to them on the performance of the securities held by the conserved corporates. We further request that the agency establish and publish a set of investment management policies specifying the goal of holding the securities long enough to minimize losses by taking no market losses other than credit losses. Such an approach should include contracting with a third party to manage the securities and issuing timely, periodic reports about the performance of the securities.

NCUA Should Not Penalize CUs if Their Net Worth Ratios Drop Due to the NCUSIF Costs Associated with the Corporates

Agency officials have repeatedly assured credit unions that they will not be subject to harsh treatment from examiners if their net worth ratios decline solely as a result of having to pay their portion of the NCUSIF costs associated with the assistance to the corporates.

Yet, we are hearing from credit unions that examiners are forcing even well capitalized credit unions to develop net worth restoration plans to bring their net worth to its level prior to the NCUSIF assessments. We urge NCUA to instruct examiners that they must allow credit unions flexibility and reasonable time, particularly in light of the economy, to rebuild their net worth, without the threat of examination sanctions for failure to meet arbitrary net worth goals. This examiner communication should be made available to credit unions.

NCUA Should Support the Use of the CLF for Liquidity to the Corporates

Next week's hearing will provide the agency with a good opportunity to discuss the need for the legislation to allow credit unions to spread out their NCUSIF costs. It will also provide an opportunity for NCUA to support the use of the Central Liquidity Facility to provide short-term loans directly to corporate credit unions. We continue to believe this could be an important tool for the agency to address liquidity issues within the corporate system and we urge the agency to take advantage of its time before Congress to support expanding the role of the CLF to help corporate credit unions meet their liquidity needs.

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Conclusion

The agency's handling of the corporate credit union system is the most critical issue facing the credit union system today. The agency has taken significant steps to address the issue. We urge NCUA to address the issues we are raising, which continue to cause so much concern for credit unions. I would welcome the opportunity to discuss this letter with you at your earliest convenience.

Sincerely,

A handwritten signature in black ink that reads "Daniel A. Mica". The signature is written in a cursive style with a large, looping initial "D".

Daniel A. Mica
CUNA President and CEO