



September 24, 2010

Credit Unions Still in Great Shape

Today the National Credit Union Administration (NCUA), the federal agency that, along with state agencies, supervises and regulates America's credit unions, and also manages the NCUSIF (National Credit Union Share Insurance Fund, similar to the FDIC) announced that it needed to conserve (take over operations) of three Corporate Credit Unions: Southwest Corporate in Texas, Members United Corporate in Illinois and Constitution Corporate in Connecticut. In March 2009, NCUA conserved two others: Western Corporate in California and U.S. Central in Kansas.

There are 27 Corporates in America (none in Minnesota) with combined assets of about \$110 billion. Corporate credit unions are wholesale financial institutions. They are often referred to as a "credit union for credit unions" (like a "bankers bank") that provide a variety of products and services to natural person / retail credit unions, of which there are about 7,400, with assets of about \$900 billion. Minnesota Valley Federal Credit Union is a natural person credit union.

Natural person credit unions use many service providers other than Corporates, too. Minnesota Valley Federal Credit Union utilizes the services of two Corporates and about 15 other non-Corporate service providers. We do use Members United Corporate quite a bit. We started out using Minnesota Corporate many decades ago and through mergers and consolidations in the Corporate sphere, we became associated with Members United Corporate, a \$10 billion Corporate based in Warrenville, near Chicago.

Why did NCUA conserve five Corporates? Too many underperforming, mortgage backed investments. It wasn't that Corporates made bad loans. They didn't. Corporates only lend to credit unions, similar to the FHLB (Federal Home Loan Bank). What they did too much of was invest in loans packaged up by Big Banks and Wall Street. Many of those entities are gone (e.g. WAMU, Country Wide, Lehman Bros,



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Merrill Lynch, etc...) and too often misrepresented. These five invested too heavily in private label (not FNMA or Freddie Mac) mortgage backed securities that were very highly rated by the agencies (Standard and Poor's, Moody's and Fitch) and also insured (Ambac, FGIC, SGI, FSA, MBIA) and sold by Wall Street Investment Banks.

When the economy began to sour (the Great Recession, as it's called) and the housing bubble burst, so did the value of these overrated and oversold securities. Most are actually performing, that is, payments of interest and principal are rolling in, but the market value if sold today is extremely low.

Also, the accounting (FASB) treatment is rather rigorous when such securities are held on the books of these Corporates as they must be written down even if substantially performing if the impairment in value is other than what appears to be temporary (OTTI).

Therefore, NCUA is packaging up (securitizing with the help of Barclays Capital and other professionals) \$50 billion of such securities (called "legacy assets") and selling Guaranteed Notes, backed by the "full faith and credit of the United States Government". The United States Treasury and Federal Reserve is providing up to \$30 billion in guarantees. As the notes are sold, and the underlying collateral performs, there will be a decreasing need for the guarantee.

This is not a federal loan. This is not federal bailout. This is not like TARP. Credit unions are not like banks. We've never needed taxpayer money. Taxpayers have never lost a single penny in credit union land in over 100 years. We're a cooperative system so we do pool our collective credit union resources. The \$30 billion is a guarantee which is necessary in order to sell the notes sufficiently close to their true economic value as the market is still "dislocated".

That said, in 2009, NCUA did borrow \$6 billion from the US Treasury that we are paying back.



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What does this mean for Minnesota Valley Federal Credit Union members? It's really business as usual. We're fine. The credit union system is fine. It even seems the national and state economy is perhaps finally turning around, though employment traditionally seems to be a lagging indicator.

We've never been stronger, bigger or better in our 76 year history. We have capital of over 8% and need just over 5% according to NCUA and CPAs based upon our balance sheet structure. So we have a big cushion. Loan losses are extremely low at your credit union, too, and our investment portfolio is comprised of about \$27 million in federally insured certificates of deposit across the country. Very safe. We always practice SLY: safety, liquidity then yield, in that order. And as always, just like banks, member deposits are insured up to \$250,000 (another \$250,000 for IRAs).

Even though we've had to pay into the NCUSIF \$251K to date and write off our equity investment (MCSD and PIC) in Members United Corporate (which in time we'll recoup some or much of this as the mortgage backed securities pay off) Minnesota Valley Federal Credit Union is doing extremely well and we plan to keep it that way for at least another 76 years.

Without question there is no safer place to save money and do business than your credit union. We work hard every day to also say there is no better place, either.

Members are the owners so as always "You're number 1 and part owner". That's a very big, very special reality. We never forget it.

If you ever have any questions, anytime, about anything, don't hesitate to ask any of us.

Best regards. Respectfully yours. Nick Meyer, President and CEO (since 2000).



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