

What has happened to 'corporate' credit unions?

A brief explanation, in Q&A format, of the actions taken by the federal government over assets of 'corporate' credit unions

Q: *What has happened?*

A: The National Credit Union Administration – the federal regulator of federally insured credit unions – has put into effect a plan taking a variety of actions to stabilize wholesale credit unions known as “corporate credit unions.” These “credit unions for credit unions” are unlike everyday credit unions that serve consumers; “corporate” credit unions offer liquidity and other needs to everyday credit unions. The actions the federal regulator has taken were meant to stabilize, resolve problems of and reform the corporate credit union system.

Q: *What actions were taken?*

A: The federal regulator essentially took three actions: It began the process of isolating troubled assets (primarily, mortgage-backed securities impaired by the collapse of the housing market) from five corporate credit unions. It will soon guarantee and sell off the assets on the open market. The government also conserved – or, placed under federal government control – three corporate credit unions (which were in addition to the two other conservatorships in 2009), and it adopted new rules meant to reform corporate credit unions to safeguard consumer credit unions, their members and taxpayers.

Q: *Why was this action taken?*

A: NCUA says it took action to instill stronger safeguards for credit unions and to protect taxpayers. As the regulator pointed out, for the last two years – since the collapse of the real estate market – it has been studying the complex challenge of removing the reduced-value mortgage-backed securities from the corporates without causing losses to all other credit unions, disrupting service to consumers, or costing taxpayers a dime. The regulator chose this plan because, as it said, it represented the least-cost solution. Importantly, however, that does NOT mean there will be NO costs; credit unions will have to bear whatever costs ultimately result from this approach.

Q: *Is this a taxpayer bailout?*

A: No; not one penny of tax dollars will be used; credit unions will pay all of the expenses associated with this action – which makes it is anything but a “bailout.” 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.

Q: *What does this mean for “everyday” credit unions, like those which serve*

A: Fortunately, most “everyday” credit unions have saved up enough (in their reserves) to cover the costs of this action. In fact, credit unions have a reserve ratio of nearly 10 percent – well over the “well capitalized” level of 7 percent set by the federal government. They will continue to offer loans and savings to consumers (their members) at better rates than most

consumers?

other financials – and services for little or no fees. Consumers should see or feel little or no effect.

Q: *What does this mean for Georgia Central CU?*

A: All of Georgia Central's investments are guaranteed by the U.S. Government. This corporate credit union, which is owned by and serves 160 Georgia-based credit unions, is engaged in business as usual with the added assurance provided by an expanded transition period for complying with certain new regulatory provisions, during which time it can continue to depend on the services of U.S. Central.

Q: *Are consumers' savings in credit unions safe?*

A: Yes. Virtually all credit unions have federal savings insurance to the same level as that provided to bank depositors (\$250,000) and backed by the full faith and credit of the U.S. government.