Qwick Views for credit unions June 2011

The Corporate Upheaval: Where Do We Go From Here?

by Shawn O'Brien, President, QwickRate

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As part of its ongoing measures to *stabilize, resolve and reform* the corporate credit union system, NCUA has taken steps that will have a direct impact on natural person credit unions. These measures include stronger capital requirements imposed on corporate credit unions and changes in governance. Natural person credit unions will need to look at the new regulatory framework and determine if their business needs will be met under the new business model for the corporate system — in terms of the services they receive from corporates, and how much those services ultimately cost.

Issue:

Ongoing Assessments and the Drain on CU Net Income

The string of assessments that were levied against credit unions in 2010 continues through this year and beyond. In 2011, the National Credit Union Share Insurance Fund (NCUSIF) premium and new assessment(s) from NCUA are projected to total between 20 to 35 basis points. This combined tab will cost natural person credit unions $1.5 to $2.7 billion this year alone.

Plus, a new wrinkle is being added to assessments in 2011. The recent National Credit Union Stabilization Act, which the President signed into law in January, allows the NCUA to assess fees *in advance of anticipated expenditures.* Any "advance" assessments issued from this point on will be due and payable within 60 days.

What this means for credit unions:

Federally insured credit unions — all but 2% of natural person credit unions — will have no choice but to deplete their net income by paying future assessments. There's more reason than ever for credit unions to seek maximum returns from their investment portfolios in order to best serve their members.

A safe, efficient way for the institutions to optimize earnings is by investing in CD's direct through a deposit listing service, rather than opting for managed or brokered investing. By taking advantage of a deposit listing service, investors gain the power to make more money. They don't have to rely on brokers or agents with a diminished resource base. Instead, they can select from a larger pool of CD issuers from across the country, securing some of the highest yields available — with no rate stripping, broker fees or finder's fees. Plus they can rely on advanced technologies to automate and simplify their investment activities.

"The need for future premiums or dividends will depend on credit unions' ability to weather difficult financial times, and mitigate risks throughout all economic cycles."

— Debbie Matz
National Credit Union Administration Chairman
NCUA Letter to Credit Unions - September 20, 2010

25 YEARS of market-leading service and value

How QwickRate can help:

QwickRate enables credit unions to achieve optimal yields for your institution and offset some of the negative impact created by corporate assessments. With a subscriber base that exceeds 3,000 members, the QwickRate marketplace offers direct connections to nationwide investment opportunities. Our eContact technology virtually eliminates the need for phone calls, faxes and emails, while helping you stay in control of your investing processes. We also automate the offer, acceptance and rollover processes for you. This is essential for busy credit unions that manage investment portfolios using manual systems or multiple spreadsheets.

Not all CD deposit listing services are alike. You should direct focused attention to the sources and durations attached to your investments. As shown in the examples below, significant disparities exist among the yields that can be expected from various investment instruments.

A Comparison of Investment Options

Duration	Corporate Credit Unions Top Rates*	SimpliCD Top Rates*	QwickRate Top Rates*
180 days	0.080	0.240	1.060
1 year	0.300	0.320	1.230
2 years	0.410	0.800	1.510

** Rates as of 6/02/2011*

"The corporates that survive will be ones that have deeply rethought what services they provide because nothing less than a radical re-examination of business fundamentals will point today's corporates to survival."

— How Many Credit Unions Will Be Standing by Year End?
by Robert McGarvey
Credit Union Times
- March 2, 2011

Issue:

The Transition to a New Corporate Credit Union Structure

More than 95% of natural person credit unions belong to a retail corporate credit union, including the "bridge" entities formed when the NCUA took over the good assets of five organizations. The Temporary Corporate Credit Union Share Guarantee Program will cover all members' shares above $250,000 in all NCUSIF-covered corporates through December 31, 2011. For members of bridge corporates, deposits will be covered through December 2012.

Clearly, bridges are just a temporary solution. The NCUA intends to maintain those corporates only long enough to allow natural person credit unions adequate time to determine and arrange their long-term service options.

Member support for any corporates, bridges or not, is unclear at this point. To meet new NCUA capital requirements, many corporates will probably have to solicit capital from their members. In October of 2011 the corporates must have minimum risk-based capital ratios and an interim leverage ratio of 4%. In October 2013, the corporates will have to meet additional retained earnings and capital requirements. Other financial requirements will follow in 2016 and 2020.

Rechartering bridge corporates and recapitalizing the other corporates will put a further drain on members' income. And it has been proposed that members will have to contribute capital to the corporates or resign their membership.

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What this means for credit unions:

Because of all the factors discussed above, natural person credit unions should take a hard look at the new corporate business model to determine whether it meets their needs. A March 30th article in the Credit Union Times, Bridging the Gap to the New Corporates Model, mentioned a recent poll taken at a New Jersey Credit Union League conference. Asked if they intended to recapitalize a corporate credit union, 38% of the audience said they didn't, while 37% said they did.

The same article quoted Scott Hunt, director of the NCUA office of corporate credit unions, saying, "Corporates can provide value, but every credit union needs to make its own decision. As for the bridges, we need to be prepared to liquidate them if there is not sufficient support from their members." On April 20, NCUA issued a press release stating, "NCUA encourages credit unions seeking to leave a corporate credit union to begin searching for a new provider as soon as possible to minimize service disruptions." Many corporate members are already lining up alternate sources for their correspondent banking, liquidity and investment services.

How QwickRate can help:

QwickRate can serve as a reliable outside source for meeting your liquidity and investment needs. For 25 years, our nationwide marketplace has provided credit unions with convenient connections for investing and funding — no third-party, rate stripping or broker fees involved.

Our marketplace offers important liquidity options to supplement member deposits. It can also be a viable and lucrative replacement for credit union investment programs. Even if you decide to maintain a relationship with a corporate credit union, QwickRate can play a crucial role in your investment and funding strategies.

Issue:

Interagency Policy on Funding and Liquidity Risk Management

NCUA's conservatorship of five corporate credit unions in 2009 and 2010 was due to their extensive losses from investments in mortgage-backed securities. Obviously the financial industry's losses weren't confined to credit unions. As a result, in 2009 and 2010 the NCUA and the other federal banking agencies issued an interagency policy statement that specifies the process that institutions should follow to appropriately identify, measure, monitor and control their funding and liquidity risk.

The policy statement emphasizes the need to have diversified funding sources and a cushion of liquid assets, along with a formal well-developed contingency funding plan (CFP). The agencies advise that insured institutions should be prepared for any contingencies that will apply to them if they become less than well capitalized. In addition, the agencies indicate they expect liquidity risk management processes and CFPs to be tested, well documented and available for supervisory review.

> ***"Failure to maintain an adequate liquidity risk management process will be considered an unsafe and unsound practice... Critical elements of sound liquidity risk management include … an appropriately diverse mix of existing and potential future funding sources."***
>
> — Interagency Policy Statement on Funding and Liquidity Risk Management, March, 2010

What this means for credit unions:

Many credit unions are no longer willing or able to rely on corporates as their primary funding source. Even if your credit union does seek funding from a corporate, it remains imperative to diversify your funding sources and maintain contingency sources in preparation for unforeseen events. Remember that contingency funding sources *must* be tested, meaning that your institution has formally secured those sources and you can easily access them in case of an emergency. *All credit unions should be substantiating the availability of alternative funding resources* — whether you are simply diversifying to eliminate an over concentration of corporate funding, or whether your credit union currently falls under Prompt Corrective Action regulations. Today every credit union needs alternative, diversified sources to support a sound contingency funding strategy.

How QwickRate can help:

QwickRate gives you an expedient path for reaching out to other natural person credit unions as reliable funding sources. Currently more than 1,200 credit unions are QwickRate subscribers, and that volume is steadily growing. This makes the marketplace an excellent option for credit unions as both a supplement to member deposits and a contingency liquidity source. However, simply listing QwickRate as a funding source is not enough. Regulators will look for proof that you have a current subscription agreement, and that you've properly tested your access to the marketplace. A single subscription fee to QwickRate provides unlimited opportunities for investing and funding. And when a credit union posts deposit rates, the marketplace ensures that only subscribing credit unions have access to view its rates. In addition, QwickRate has on-staff regulatory expertise and tools, including a Risk Management Workbook and CD funding policy templates, to help credit unions wade through the complexities of establishing risk policies and procedures related to funding outside of their local market.

About the Author:

Shawn O'Brien is president of QwickRate and is responsible for leading the strategic direction of the CD marketplace. His efforts are centered on further enhancing QwickRate's value and ensuring that credit union subscribers continue to secure the best rates in the country through the highly respected marketplace. Shawn has more than 20 years of financial services experience in the areas of finance and management. He holds a B.A. in Business from the University of Notre Dame.

About QwickRate:

QwickRate is the premier online CD marketplace for non-brokered funding and investing. With more than 3,000 members, QwickRate offers credit unions a cost-effective way to gain access to a nationwide CD market. Our automated QwickTools™ put credit unions in control to get the best rates for their institutions and more efficiently manage their portfolios. With no third party or broker fees, and unlimited support and regulatory guidance, QwickRate is a fast and efficient source for higher investment yield and reliable liquidity.

For more information contact us at 800.285.8626 or visit www.qwickrate.com.

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