



NCUA Issues New Rules for Corporates; Seizes Three More (Misc News: September 24, 2010)

The NCUA board approved sweeping new rules for corporate credit unions on Friday. It also seized control of three more corporates, bringing the total to five in conservatorship.

The new rules prohibit corporate credit unions from purchasing private-label mortgage-backed securities or subordinated securities, subject corporate credit unions to leverage capital requirements and force the corporates to adhere to Basel I standards.

The corporates that NCUA placed into conservatorship are: \$7.4 billion Members United Corporate FCU in Warrenville, Ill.; \$9.5 billion Southwest Corporate FCU, in Plano, Texas; and \$1.2 billion Constitution Corporate FCU in Wallingford, Conn. NCUA said it would continue to operate the corporates as before to preserve member services, but it had ousted the boards and executive leaderships of all three corporates.

MCUL President & CEO David Adams said Michigan-based [GenCorp. CU](#), was not affected by the announcement. Also, second quarter results showed Michigan credit unions continued their growth trend, reporting strong net worth, lending and membership growth.

NCUA had previously seized Wescorp FCU and U.S. Central FCU.

"The steps NCUA has taken today represent a comprehensive solution to the problems afflicting the corporate credit union system," said NCUA Chairman Debbie Matz.

Corporates are also now required to examine ratings from all rating agencies and to only use the lowest of those ratings. The rules require corporates to buy investments rated no lower than A-.

Corporates are also prohibited from investing in private-label residential mortgage-backed securities, in collateralized debt obligations, known as CDOs, in net interest margin securities and in securities subordinated securities.

The changes also affect corporate CUSOs, which will only be allowed to offer brokerage services, investment advisory and other preapproved activities spelled out by NCUA.

At least one CEO, CFO or COO from a member credit union will be required to sit on the corporates' boards and a majority of board members must be representatives of the corporates' member credit unions, under the new rules.

Corporates will be required to annually disclose the compensation of senior executives to their members.

It also restricts the weighted average life on a corporate's cash flowing assets to two years.

CUNA Chief Economist Bill Hampel has estimated that the combined loss portfolios of U.S. Central and WesCorp could total between \$9 billion and \$11 billion. The NCUA plan will attempt to deal with as much as \$50 billion in long-term assets held by corporate credit unions.