

February 5, 2009

TO: Board of Directors of League Member Credit Unions
RE: NCUA Stabilization

Our credit union system is sound and well capitalized. However, we are not immune to overall economic conditions. U.S. Central and some members of the corporate network, not Volunteer Corporate, hold devalued mortgage-backed securities (MBS) in their portfolios. They were purchased for yield spreads and liquidity support. The major dislocations in worldwide credit markets greatly reduced the ability to sell these MBS bonds at market-established prices.

Recently, U.S. Central experienced a significant loss of value in its portfolio. To protect the financial integrity of corporates and maintain investor confidence, NCUA took intervening action. They injected a billion dollars of capital into U.S. Central from the NCUSIF, and temporarily guaranteed all deposits at all corporates with the exception of capital accounts. This substantially strengthened the capital of U.S. Central and provided full faith and credit backing of corporate deposits.

Worldwide problems in credit markets made NCUA's actions both necessary and responsible. Had they not intervened, U.S. Central and the corporates could have experienced severe illiquidity, substantial financial losses, and confidence in our entire system could have been badly damaged.

While all the details of the intervention have not been finalized, it is expected that credit unions will experience some earnings and capital reductions to restore the NCUSIF balance. The Federal Credit Union Act requires credit union funding of the NCUSIF, which financed the intervention. This will impact earnings, capital, and even Prompt Corrective Action events. – Thank goodness our system is so well capitalized. It protects our operations and members in situations like this, but there will be some pain involved. However, after meeting our NCUSIF obligation, Tennessee's credit unions will continue to be extremely well capitalized.

While we cannot be sure that additional, market driven problems will not develop, we can be confident that our system is adequately capitalized. The NCUA and our state authorities are aware of this and will keep it in consideration for examinations and action requirements.

The League will continue monitoring this situation and providing operating information to your CEO and staff. We will communicate with both NCUA and the state authorities. I am confident the necessary actions were taken to prevent greater losses and that Tennessee's credit unions have the capital and financial strength to meet whatever challenges may result.

The best thing to do is stay informed and recognize the situation for what it is. The worst thing would be to overreact and not recognize that this is why we have capital. We are business as usual for our members.

Thank you for your review of this perspective.

Sincerely,

Thomas F. Gaines, III
For the Board of Directors
Tennessee Credit Union League