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Capital at 'Solvent Five' Survives Total U.S Central Impairments

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By Heather Anderson

After releasing November financial statements, in which many corporate credit unions wrote off 100% of their U.S. Central capital investments, only five can say their capital remains unimpaired: the \$2 billion Corporate America Credit Union, the \$2.2 billion Corporate Central Credit Union, the \$3.5 billion Corporate One Federal Credit Union, the \$92 million Iowa Corporate Central Credit Union and the \$1 billion Volunteer Corporate Credit Union.

Of the five, Corporate America and Corporate Central have even raised paid-in capital from members, getting a head start on proposed NCUA regulations that will likely increase the required ratio of noncallable, GAAP-approved PIC to moving average assets.

As of Nov. 30, Corporate Central reported \$59 million in Tier One core capital, the result of its successful 2009 "PIC-50" issuance that converted member capital shares into \$47.4 million in PIC. The nest egg puts the Muskegon, Wis.-based corporate at 3.03% Tier One capital and nearly 8% total capital after including \$95.5 million in unimpaired membership capital shares.

And President/CEO Bob Fouch played Santa on Christmas Eve, delivering some good news in the form of December's investment report, posted on Corporate Central's Web site (www.corpcu.com).

"The impairment of capital shares at U.S. Central reduced Corporate Central's retained earnings significantly, but it is very important to note that NONE of our members' capital shares were impaired as a result," Fouch wrote in the report.

Corporate Central doesn't appear to have much risk in its own portfolio to worry about, either.

"As we have communicated many times in the past, we have not purchased any nonagency mortgage-related securities since early 2004," Fouch wrote. "Of the \$1.68 million in home equity ABS we own, \$1.49 million are securities that were issued in 1999."

It appears Corporate Central's only pressing concern is building retained earnings, \$11.8 million as of Nov. 30, which produces an 0.60% retained earnings ratio. Corporate America President/CEO Thomas Bonds dubbed the five institutions "The Solvent Five" in a letter to Credit Union Times in which he objected to industry analyst Marvin Umholtz's statement that the corporate system has no capital left.

"It is indisputable that the corporate network, taken as a whole, failed its members. But to paint all corporates with the same broad brush is doing a disservice to the member/owners of those corporates that actually benefited them throughout this crisis," Bonds said.

Corporate America has not yet written off 100% of its U.S. Central capital, Bonds said, but the remaining amount is "less than our December net income."

The Irondale, Ala.-based corporate raised \$40.6 million in PIC last year, including more than \$4 million in the fourth quarter, for a total of \$54 million as of Nov. 30. Member capital accounts numbered \$22 million, and undivided earnings add another \$8 million to capital.

Bonds also said his corporate also added 39 new members in 2009.

The Columbus, Ohio-based Corporate One survived a November Clayton portfolio review with all member capital intact, writing off \$32.2 million, but leaving more than \$25 million in reserves.

In November financial reports posted online (www.corporateone.coop), CEO Lee Butke said current Clayton analysis indicates Corporate One does "not anticipate having to impair our members' capital in the future."

Corporate One reported \$25.7 million in PIC and another \$118.4 million MCS. Add in \$25.6 million RUDE, and Corporate One members have nearly \$170 million in their coffers.

Corporate One does have some investment worries of its own, writing off \$28 million in November from its own securities portfolio, which included a \$10 million hit on securities covered by failed monoline insurer Financial Guarantee Insurance Corp. Of Corporate One's \$2 billion securities portfolio, \$1.35 billion are asset-backed, \$454 million are mortgage-backed, \$187 million are corporate debt, with the \$17 million balance in government-sponsored enterprises.

Regardless, the corporate picked up eight new members in October and November, Butke reported.

VolCorp CFO Jeff Merry said his corporate will have \$2.9 million in retained earnings at year-end after writing off its remaining \$2.1 million in U.S. Central capital.

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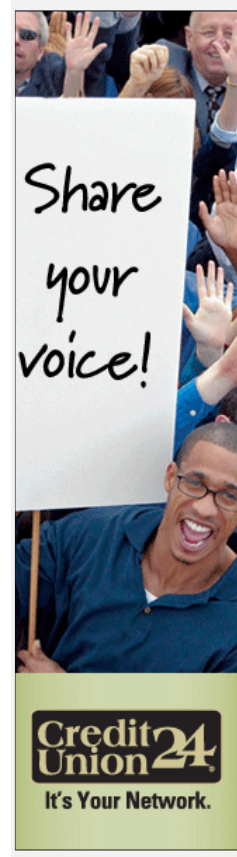
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According to VolCorp's November month-end financials, posted on its Web site (www.volcorp.org), the Nashville, Tenn.-based institution reported another \$50.5 million in membership capital shares.

Like Corporate Central, VolCorp's primary concern is retained earnings, currently at 0.37% to moving average assets. Merry also reported that "high asset levels" had put "a squeeze on the RE and capital ratios."

Nonetheless, President/CEO Rick Veach also played Santa to members, announcing in his December newsletter that "we could meet the contributed capital requirements of the new NCUA corporate rules without any additional capital from members." This is assuming a successful conversion to PIC, as the institution does not have the tier-one qualifying accounts on its books.

Iowa Central Corporate does not make its monthly financial reports available to the public. However, the Des Moines, Iowa-based institution had already written off 100% of its U.S. Central capital as of Sept. 30 per its NCUA 5310 report. Member capital accounts numbered \$8.3 million and retained earnings stood at \$5.5 million as of Sept. 30. The comparatively tiny \$92 million corporate reported nearly \$14 million total capital.

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