



Highlights of [GAO-12-247](#), a report to congressional committees

Why GAO Did This Study

Corporate credit unions (corporates)—financial institutions that provide liquidity and other services to the more than 7,400 federally insured credit unions—experienced billions in financial losses since the financial crisis began in 2007, contributing to failures throughout the credit union system and losses to the National Credit Union Share Insurance Fund (NCUSIF). Since 1998, Congress has required the National Credit Union Administration (NCUA), the federal regulator of the credit union system, to take prompt corrective action (PCA) to identify and address the financial deterioration of federally insured natural person credit unions (credit unions) and minimize potential losses to the NCUSIF. Legislation enacted in 2011 requires GAO to examine NCUA's supervision of the credit union system and use of PCA. This report examines (1) the failures of corporates and credit unions since 2008, (2) NCUA's response to the failures, and (3) the effectiveness of NCUA's use of PCA. To do this work, GAO analyzed agency and industry financial data and material loss reviews, reviewed regulations, and interviewed agency officials and trade organizations.

What GAO Recommends

NCUA should (1) provide its Office Inspector General the necessary documentation to verify loss estimates and (2) consider additional triggers for PCA that would require early and forceful regulatory action and make recommendations to Congress on how to modify PCA, as appropriate. NCUA agreed with both recommendations.

View [GAO-12-247](#). For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

January 2012

NATIONAL CREDIT UNION ADMINISTRATION

Earlier Actions Are Needed to Better Address Troubled Credit Unions

What GAO Found

From January 1, 2008, through June 30, 2011, 5 corporates and 85 credit unions failed. As of January 1, 2008, the 5 failed corporates were some of the largest—accounting for 75 percent of all corporate assets—but the 85 failed credit unions were relatively small—accounting for less than 1 percent of total credit union assets. GAO found poor investment and business strategies contributed to the corporate failures. Specifically, the failed corporates overconcentrated their investments in private-label, mortgage-backed securities (MBS) and invested substantially more in private-label MBS than corporates that did not fail. GAO also found that poor management was the primary reason the 85 credit unions failed. In addition, NCUA's Office of Inspector General has reported that NCUA's examination and enforcement processes did not result in strong and timely actions to avert the failure of these institutions.

NCUA took multiple actions to stabilize, resolve, and reform the corporate system. NCUA used existing funding sources, such as the NCUSIF, and new funding sources, including the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund), to stabilize and provide liquidity to the corporates. NCUA placed the failing corporates into conservatorship and liquidated certain poor performing assets. In order to decrease losses from the corporates' failures, NCUA established a securitization program to provide long-term funding for assets formerly held in the portfolios of failed corporates by issuing NCUA-guaranteed notes. To address weaknesses highlighted by the crisis, in 2010, NCUA issued regulations to prohibit investment in private-label MBS, established a PCA framework for corporates, and introduced new governance provisions. NCUA considered credit unions' ability to repay borrowings from Treasury and included measures to reduce moral hazard, minimize the cost of resolving the corporates, and protect taxpayers. While NCUA has estimated the losses to the Stabilization Fund, it could not provide adequate documentation to allow NCUA's Office of Inspector General or GAO to verify their completeness and reasonableness. Without well-documented cost information, NCUA faces questions about its ability to effectively estimate the total costs of the failures and determine whether the credit unions will be able to pay for these losses.

GAO's analysis of PCA and other NCUA enforcement actions highlights opportunities for improvement. For credit unions subject to PCA, GAO found those credit unions that did not fail were more likely subject to earlier PCA action—that is, before their capital levels deteriorated to the significantly or critically undercapitalized levels—than failed credit unions. GAO also found that for many of the failed credit unions, other enforcement actions were initiated either too late or not at all. GAO has previously noted that the effectiveness of PCA for banks is limited because of its reliance on capital, which can lag behind other indicators of financial health. GAO examined other potential financial indicators for credit unions, including measures of asset quality and liquidity, and found a number of indicators that could provide early warning of credit union distress. Incorporating such indicators into the PCA framework could improve its effectiveness.