

## GLOSSARY

### **ABS: asset-backed security**

A debt security collateralized by specific assets. Although the term applies to any debt backed by identified assets, it generally refers to securities backed by short-term collateral such as credit-card receivables, car loans and home-equity loans. Because even the most financially strapped companies can hold valuable assets, it is possible for the credit quality of asset-backed securities to be substantially better than the general credit of the company issuing the securities.

### **ALM: asset/liability management**

The art of managing the mix, volume and interest rate sensitivity of both the sources and uses of funds to try to control interest rate risk and provide a constant positive net interest margin.

### **ANPR: Advance Notice of Proposed Rulemaking**

Mechanism whereby the National Credit Union Administration solicits comments for credit unions on proposed regulations.

### **CDO: collateralized debt obligation**

An investment-grade security backed by a pool of bonds, loans and other assets. CDOs do not specialize in one type of debt but are often non-mortgage loans or bonds. Similar in structure to a collateralized mortgage obligation (CMO) or collateralized bond obligation (CBO), CDOs are unique in that they represent different types of debt and credit risk. In the case of CDOs, these different types of debt are often referred to as “tranches” or “slices.” Each slice has a different maturity and risk associated with it. The higher the risk, the more the CDO pays.

### **CLF: Central Liquidity Facility**

The CLF is a mixed ownership government corporation created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. Member credit unions own the CLF, which exists within the NCUA. The president of the CLF manages the facility under the oversight of the NCUA Board.

Membership is voluntary and open to all credit unions that purchase a prescribed amount of CLF stock. There are two types of membership, regular (natural person credit unions) and agent (corporate credit unions). Natural person credit unions may borrow from the CLF either directly as a regular member or indirectly through an agent member.

### **CUSO: credit union service organization**

The entity most closely resembling a subsidiary or affiliate of a federal credit union is a credit union service organization (CUSO). CUSOs are not subject to direct regulation by NCUA; instead, NCUA regulates federal credit union loans to and investments in CUSOs. CUSOs may be corporations, partnerships or any other business entities allowed under the law of the state in which they are organized.

### **DANA: daily average net assets**

The number representing DANA is used to calculate capital ratios. This number smoothes out normal daily fluctuations in assets.

### **extinguishment (of capital)**

Losses are recorded against members’ capital, and capital accounts are written down to zero. There is no further recognition of the member having that capital and all rights are cancelled. The member will never receive the capital back in any form and is not entitled to future dividends based on the extinguished capital.

*continued...*

### **FOM: field of membership**

The general geographical area or grouping of people that a credit union or corporate credit union serves.

### **GAAP: generally accepted accounting principles**

The common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information.

### **GAP modeling**

GAP analysis and reporting identifies the future cash flow mismatches from assets, liabilities and shares (liquidity gap) or the repricing mismatches of the assets, liabilities and shares (repricing gap). Large gaps in certain periods can be identified as potential sources of risk to the credit union.

### **MBS: mortgage-backed security**

A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by an accredited credit rating agency and usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from a regulated and authorized financial institution. Also known as a “mortgage-related security” or a “mortgage pass-through.”

### **MCS: membership capital shares (also known as membership capital accounts)**

Funds on deposit from members that hold a primary membership in a credit union. These funds have a three-year notice of withdrawal and are available to cover losses that exceed retained earnings and paid-in capital. MCS are not insured by the NCUSIF and cannot be pledged against borrowings.

### **NCUA: National Credit Union Administration**

The National Credit Union Administration (NCUA) is the independent federal agency that charters and supervises federal credit unions. NCUA, backed by the full faith and credit of the U.S. government, operates the National Credit Union Share Insurance Fund (NCUSIF), insuring the savings of 80 million account holders in all federal credit unions and many state-chartered credit unions.

### **NEV: net economic value**

Net economic value is the difference between the net present value of the credit union’s assets including the value of the asset’s contractually included options, and the net present value of the credit union’s shares and liabilities including the value of the liabilities’ contractually included options.

### **NIMS: net interest margin security**

A type of security that allows holders to access excess cash flows resulting from securitized mortgage loan pools. The excess cash flows are transferred to a trust account through a NIMS transaction. From this trust account, investors of the NIMS receive interest payments.

### **NRSRO: nationally recognized statistical rating organization**

NRSROs (like Moody’s, Standard & Poor’s, and Fitch) assign a letter rating to securities that corresponds to the likelihood that investors will receive timely principal and interest payments.

### **OCCU: Office of Corporate Credit Unions**

NCUA created the Office of Corporate Credit Unions (OCCU) in 1994 to centralize the supervision of the corporate credit union system through its headquarters in Alexandria, VA.

## **OTTI: other-than-temporary impairment**

At the point that an institution believes that unrealized losses for a particular marketable security are no longer temporary (meaning there is a probability of principal losses), the investment is considered to be impaired under generally accepted accounting principles (GAAP). At that point, permanent impairments are recorded through the income statement and are recorded as losses.

FASB now allows companies to use their judgment when determining an asset's "fair value." Assets can now be valued at what they might sell for in an "orderly sale," rather than under current market conditions. Previous guidelines on "mark-to-market" accounting forced institutions to value their investments at current market value, making these institutions record unrealized losses, or other-than-temporary impairment (OTTI), during downturns.

The new rules will also mitigate the impact of future OTTI by requiring only the credit loss portion of the impairment to be charged to income. Currently, OTTI is based on distressed market prices and the credit loss, which results in a higher OTTI and charge against capital.

For Members United, these changes are effective for the quarter ending March 31, 2009, and are not retroactive to the year ending December 31, 2008.

## **PFI: primary financial institution**

The financial institution that an individual or entity considers its main source of financial services.

## **PIC: paid-in capital**

Accounts of a corporate credit union that are perpetual, non-cumulative dividend accounts. PIC is available to cover losses that exceed retained earnings, is not insured by the NCUSIF and cannot be pledged against borrowings.

## **premium membership capital account (MCA)**

A special subscription of membership capital accounts that Empire Corporate offered to its members before the merger that allowed credit unions to increase their membership capital investment above their capped requirement.

## **pro-rata**

Used to describe a proportionate allocation. A method of assigning an amount to a fraction, according to its share of the whole. For example, a pro-rata dividend means that every shareholder gets an equal proportion for each share s/he owns.

## **RMBS: residential mortgage-backed security**

A type of security whose cash flows come from residential debt such as mortgages and home-equity loans. This is a type of mortgage-backed security that focuses on residential instead of commercial debt. Holders of an RMBS receive interest and principal payments that come from the holders of the residential debt. The RMBS comprises a large amount of pooled residential mortgages.

## **ROA: return on assets**

An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment." Note: Some investors add interest expense back into net income when performing this calculation because they would like to use operating returns before cost of borrowing.

The assets of the company are comprised of both debt and equity. Both of these types of financing are used to fund the operations of the company. The ROA figure gives investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number, the better, because the company is earning more money on less investment. For example, if one company has a net income of \$1 million and total assets of \$5 million, its ROA is 20%; however, if another company earns the same amount but has total assets of \$10 million, it has an ROA of 10%. Based on this example, the first company is better at converting its investment into profit.

*continued...*

## **RUDE: reserves and undivided earnings**

The portion of net income or net loss that is retained by the corporate. This includes undivided earnings, reserves and any other appropriations designated by management or regulatory authorities.

## **VaR: value at risk**

A technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities. VaR is able to measure risk while it happens and is an important consideration when firms make trading or hedging decisions.

## **warehouse line of credit**

A line of credit used by a company that originates and sells mortgage loans to the secondary market. As loans are closed, they are funded using this line of credit. Loans are then accumulated until such time as enough loans can be packaged and sold to an end-purchaser such as Fannie Mae, Freddie Mac or a non-government purchaser. When the loans are sold, generally within 15-90 days, the line of credit is repaid and the availability is used to fund additional mortgage loans. Collateral for warehouse lines of credit are the underlying mortgage loans originated by the company and pledged to the warehouse lender.