Membership Capital Shares (MCS), Paid-in Capital (PIC)
FACT SHEET

Members United has received various questions from members about membership capital shares (MCS) and paid-in capital (PIC). This fact sheet is designed to answer these questions and help members talk with their boards of directors about their capital decisions at Members United.

MCS Questions & Answers

1) What are membership capital shares (MCS)?

- An MCS account holds restricted funds on deposit from members. These funds can be counted as secondary capital by Members United, are not insured and are at risk.
- Capital shareholders help strengthen the overall organization by providing funds for ongoing product development, growth and safety that benefit all members.
- In return for members' capital commitment, Members United offers these members products and services at discounted prices.
- Credit unions deposited capital in Members United and, in return, were paid a competitive return on that account.
- These funds have a three-year notice of withdrawal and are available to cover losses that exceed retained earnings and paid-in capital (PIC – *see below for information on PIC*).
- MCS are not insured by the NCUSIF and cannot be pledged against borrowings.

2) How does the MCS account work?

- A credit union must invest a minimum of 1% of its total year-end assets (not to exceed $1.5 million) to be a fully capitalized member.
- The account requires a three-year withdrawal notice.
- Normally, the required balance of the MCS account is adjusted annually on October 1. The new required balance would reflect 1% of a credit union's previous year-end assets, not to exceed $1.5 million.
- However, Members United has suspended the October adjustment for 2009, so that fully capitalized members do not need to deposit additional capital into the corporate, even if the member's account balance falls below the minimum requirement.
- Members whose assets decreased at December 31, 2008 – and who would normally be eligible to reduce their capital balance at the October 2009 reset – will receive that reduction after accounting for any depletion of their capital. For example, if a credit union was eligible to receive a $50,000 reduction but had a $30,000 depletion, it would receive a $20,000 reduction.

3) What benefits do members who are fully capitalized enjoy?

- Benefits include:
  - decreased fees on products and services.
  - a competitive rate on the capital account.
  - decreased rates on loans.
  - priority access to borrowing.
  - occasional certificate specials (as conditions and availability warrant).
  - discounts at Members United-hosted events.
- Fully capitalized members are also eligible for nomination to a seat on Members United's board of directors (via election).

4) Why do corporates need MCS, and why did Members United originally issue MCS?

- Remember that corporates, which were started by leagues and credit unions, are thinly capitalized by design in order to return as much capital to their members.
- Historically, Members United has tried to return as much capital to members as possible.
- Corporates needed to build and maintain sufficient capital to supplement existing reserves and undivided earnings (RUDE). This helped build strength and safety.

5) What is a *premium* membership capital account?

- This was a special subscription of membership capital accounts that Empire Corporate offered to its members before the merger. The premium membership capital account allowed credit unions to increase their membership capital investment above their capped requirement (at a competitive rate of return) to the full amount allowed by NCUA.

PIC Questions & Answers

6) What is paid-in capital (PIC)?

- PIC accounts 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.

7) Why did the corporate issue PIC?

- In 1997, NCUA instituted a regulatory change that required a higher level of RUDE as corporates were growing.
- NCUA approved the use of paid-in capital (PIC). At first, it needed to either be perpetual or have at least a 20-year maturity. Later, only perpetual was allowed.
- PIC was issued to build extra capital to help Members United operate strongly and efficiently.
- In 2000, Minnesota Corporate sold PIC to credit unions in the state. The amount purchased counted toward the membership capital requirement.

- In 2003, the remainder of Members United PIC came from an issuance by Mid-States, mostly to Illinois and Indiana credit unions.
- The corporate again gave members a competitive return rate in exchange for their capital.

8) Did all members have an opportunity to invest in PIC?

- No, our members in the Midwest were offered this opportunity before the merger of Mid-States and Empire Corporate.
- This offer was not extended to Northeast members.
- Our members in the Northeast maintained their MCS accounts.

9) What benefits did members receive for offering the corporate MCS and PIC?

- The corporate gave members a competitive return rate in exchange for their capital.
- Fully capitalized members also receive:
  - decreased fees on products and services.
  - a competitive rate on the capital account.
  - decreased rates on loans.
  - priority access to borrowing.
  - occasional certificate specials (as conditions and availability warrant).
  - discounts at Members United-hosted events.

General Questions & Answers

10) If Members United recovers any of its bonds, can this money go to members' PIC/MCS capital accounts?

- The essential function of PIC/MCS is to serve as an additional reserve of capital to absorb losses in excess of retained earnings.
- As per the NCUA regulation, when a corporate has a retained earnings deficit, PIC and MCS are depleted to the extent necessary to resolve the deficit.
- Once these accounts are depleted, as per the NCUA regulation, Members United is unable to replenish these accounts in the future.

11) As an MCS holder, why should I refrain from putting my shares on notice?

- Putting your shares on notice will impact the level of service that Members United is able to deliver and our ability to borrow.
- Without the capital, our services will likely cost more.
- You will lose the above-mentioned benefits of being a fully capitalized member.
- A strong capital position ensures that Members United can continue to deliver vital and ample funds to our members, if and when they need liquidity.

- Historically, Members United has tried to return as much capital to members as possible and to help you through all of your difficult times.
- We are now asking members to help us during this difficult time.

12) When were capital requirements and MCS/PIC issued?

- **1992-1997**: NCUA mandated capital requirements for corporates and required a minimum of one-year notice on MCS.
- **1997 to present**: NCUA requires a minimum three-year notice on MCS.
- **1997:** NCUA approves use of paid-in capital (PIC). At first, options included a perpetual term or at least a 20-year maturity. Later, only perpetual was allowed.
- **2000**: Minnesota Corporate* sells PIC to credit unions in the state. The amount purchased counted toward the membership capital requirement. Almost all of PIC raised was dollars converted from MCS.
- **2003**: The remainder of Members United PIC came from an issuance by Mid-States Corporate, mostly to Illinois and Indiana credit unions.

*Minnesota Corporate required 0.5% of assets for MCS (or MCS/PIC combined), with a cap of $1,000,000. After merging with Mid-States, and carrying over to Members United, the requirement complied with Members United's standard: 1% of assets with a $1.5 million cap.