Questions and Answers

Fourth Quarter of 2016 Corporate System Resolution Costs and Assessment Range

This document addresses frequently asked questions about the corporate system resolution cost projections, as part of the program approved by the NCUA Board in September 2010 to address the failure of five corporate credit unions (corporates).

The corporate system resolution cost and NCUA Guaranteed Note (NGN) projections in this document represent a point-in-time estimate generated as of the end of the fourth quarter of 2016. NCUA typically updates this information on its website twice per year, based on the most recent analysis of the performance of legacy assets from the five failed corporates. The cost projections are subject to change based on asset performance, future legal recoveries, and key loss modeling variables such as unemployment, home prices, and other factors.

For clarification of terms used in this document, visit this website location:

Terms and Glossary

http://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/glossary.aspx

Table 1. Resolution Costs and Net Remaining Assessments (in Billions)[1,2,3]

Quarter	Total Projected Resolution Costs (Gross)	Legal Recovery Proceeds (Net)	**Total Projected Resolution Costs (Net)**	Net Projected Loss to Stabilization Fund (After Projected Rebate)	Net Projected Loss to Depleted Corporate Capital	Projected Rebate on Assessments Paid to Date	Net Projected Recovery on Depleted Corporate Capital	**Net Projected Remaining Assessments**
2010 July	$13.9 to $16.1	$0.00	**$13.9 to $16.1**	$8.3 to $10.5	$5.6	$7.0 to $9.2		**$7.0 to $9.2**
2011 Q2	$10.8 to $15.1	$0.00	**$10.8 to $15.1**	$5.2 to $9.5	$5.6	$1.9 to $6.2		**$1.9 to $6.2**
2011 Q4	$11.7 to $15.0	$0.10	**$11.6 to $14.9**	$6.0 to $9.3	$5.6	$2.7 to $6.0		**$2.7 to $6.0**
2012 Q2	$11.7 to $14.6	$0.10	**$11.6 to $14.5**	$6.0 to $8.9	$5.6	$1.9 to $4.8		**$1.9 to $4.8**
2012 Q4	$11.6 to $13.9	$0.30	**$11.3 to $13.6**	$5.7 to $8.0	$5.6	$1.6 to $3.9		**$1.6 to $3.9**
2013 Q2	$10.5 to $12.3	$0.30	**$10.2 to $12.0**	$4.6 to $6.4	$5.6	-$0.2 to $1.6		**-$0.2 to $1.6**
2013 Q4	$9.7 to $11.1	$1.30	**$8.4 to $9.8**	$2.8 to $4.2	$5.6	-$2.0 to -$0.6		**-$2.0 to -$0.6**
2014 Q2	$10.1 to $12.1	$1.90	**$8.2 to $10.2**	$2.6 to $4.6	$5.6	-$2.2 to -$0.2		**-$2.2 to -$0.2**
2014 Q4	$9.8 to $11.6	$1.90	**$7.9 to $9.7**	$3.2 to $4.2	$4.7 to $5.5	-$1.6 to -$0.6	-$0.9 to -$0.1	**-$2.5 to -$0.7**
2015 Q2	$9.4 to $11.3	$1.90	**$7.5 to $9.4**	$2.9 to $3.9	$4.6 to $5.5	-$1.9 to -$0.9	-$1.0 to -$0.1	**-$2.9 to -$1.0**
2015 Q4	$9.1 to $10.7	$1.90	**$7.2 to $8.8**	$2.9 to $3.5	$4.3 to $5.3	-$1.9 to -$1.3	-$1.3 to -$0.3	**-$3.2 to -$1.6**
2016 Q2	$8.8 to $10.4	$2.40	**$6.4 to $8.0**	$2.4 to $2.9	$4.0 to $5.1	-$2.4 to -$1.9	-$1.6 to -$0.5	**-$4.0 to -$2.4**
2016 Q4	$8.7 to $10.1	$3.20	**$5.5 to $6.9**	$1.7 to $2.2	$3.8 to $4.7	-$3.1 to -$2.6	-$1.8 to -$0.9	**-$4.9 to -$3.5**

[1] Generated using projected legacy asset cash flows that have not been realized. Actual cash flows could vary significantly from projections. Point in time estimates based on best available information. Does not include projected legal recoveries.
[2] Negative values represent projected assessment rebates and recoveries of depleted corporate capital.
[3] Prior to substantial legal settlements received in 2013 and 2014, recoveries of depleted corporate capital were projected to be de minimis.

Negative assessments represent the total projected excess of cash inflows over outflows for the life of the Stabilization Fund. As such, they are a combination of assessment rebates and recoveries for depleted corporate capital holders. Of the projected $4.9 billion at the optimistic end of the range, approximately $1.8 billion would be paid to capital holders, leaving $3.1 billion as an assessment rebate. Of the projected $3.5 billion at the pessimistic end of the range, approximately $0.9 billion would be paid to capital holders, leaving $2.6 billion as an assessment rebate.

For further discussion of resolution costs, visit this website location:

Corporate System Resolution Costs
http://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution.aspx

Q1. What are the cumulative losses to date on the legacy assets once held by the failed corporates?

As shown in the securitized row of Table 2, the legacy assets included in the NGN portfolio have incurred $8.0 billion in losses (realized losses and implied write-downs) since the inception of the NGN program and through the fourth quarter of 2016. The legacy assets that were not securitized into the NGN portfolio have an additional $1.0 billion of losses to date. These cumulative losses exceed the $5.6 billion of credit union member capital in the failed corporates, as shown in the first row of the column labeled Net Projected Loss to Depleted Corporate Capital in Table 1, underscoring that those institutions were insolvent.

As shown in the total row of Table 2, the projected lifetime losses on the legacy assets (both securitized and un-securitized) range from $9.9 billion to $10.3 billion, meaning that around 90 percent of the total projected losses have been realized.

Table 2. Loss Breakdown[4]

Legacy Asset Category	Realized Losses (Including Implied Write-downs)	Projected Losses Optimistic	Projected Losses Pessimistic	Lifetime Losses Optimistic	Lifetime Losses Pessimistic
Securitized	8.0	0.8	1.2	8.8	9.2
Un-securitized	1.0	0.1	0.1	1.1	1.1
Total	**9.0**	**0.9**	**1.3**	**9.9**	**10.3**

Q2. What is the total projected range of resolution costs over the life of the Stabilization Fund? Why do total resolution costs differ from cumulative legacy asset losses?

As of the fourth quarter of 2016, NCUA projects the total corporate system resolution costs to range from $5.5 billion to $6.9 billion, as shown in the last row of the Total Projected Resolution Costs (Net) column in Table 1. Without NCUA’s legal efforts that have yielded net recoveries of $3.2 billion to date, the cost would have ranged from $8.7 billion to $10.1 billion.

Costs are a few billion dollars less than the cost of the defaults on the underlying securities because of direct and indirect legal recoveries, as well as a beneficial spread between the lower NGN coupon rates

[4] Numbers may not add due to rounding.

and the underlying coupon rates of the legacy assets that partially offsets some of the corporate system resolution costs. Thus, in addition to preventing losses and stabilizing the credit union system, the corporate system resolution, including the NGN program, provided a beneficial spread and preserved several billion dollars in additional legal recoveries.

Q3. Why has the total projected range of aggregate resolution costs declined from the initial projections in 2010?

Estimated aggregate resolution costs are lower than original estimates due to a number of factors, including the following:

- better than expected recovery in the housing market;
- a sustained low interest rate environment; and
- legal recoveries.[5,6]

Resolution costs have declined significantly due to legal recoveries. The potential for legal recoveries increased materially when NCUA initiated the corporate system resolution, which gave the asset management estates the benefit of the Federal Credit Union Act's extender statute. The extender statute preserved and strengthened a substantial portion of legal claims that otherwise may have expired. In addition, NCUA's consolidation of recovery efforts across the five failed corporates and its ability to coordinate with other government-related plaintiffs substantially increased recovery potential.

Q4. How much have federally insured credit unions collectively paid to date to cover corporate system resolution costs?

Credit unions with membership shares (capital) in the failed corporates have borne losses in corporate capital investments totaling $5.6 billion. In addition, all federally insured credit unions have paid Stabilization Fund assessments of $4.8 billion in total. Thus, the cumulative cost borne by credit unions through assessments and the loss of corporate capital investments is $10.4 billion. There are potential rebates to the assessments and recoveries for depleted corporate capital holders at the end of the program, as explained in question 6.

The total Stabilization Fund assessment amount of $4.8 billion should not be confused with the separate National Credit Union Share Insurance Fund (Share Insurance Fund) insurance premium charges, which are not part of the corporate system resolution costs.

Q5. Why did NCUA assess $4.8 billion? How were those assessments used?

As discussed in the 2011 through 2013 Board Action Memorandums linked below, total assessments of $4.8 billion were driven by cash and contingent liquidity needs of the Stabilization Fund. There were large debt obligations of the failed corporates' estates maturing through 2012 that had to be repaid. Even

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[5] See NCUA's Legal Recoveries website for details.
[6] Uncertain legal recoveries are not included in projections, as they are inherently inestimable.

with the assessments, NCUA had to borrow from its $6 billion Treasury line, with the outstanding balance peaking at $5.1 billion in 2012.

The purpose of the assessment in 2013 was to restore more of the available borrowing line with Treasury, given the potential for unexpected liquidity needs. It was only after collection of the 2013 assessment that NCUA received the $1.4 billion JP Morgan Chase gross legal settlement, the proceeds of which allowed the agency to further pay down the Treasury borrowing.

For further detail on each of the assessments, visit these website locations:

Board Action Memorandums
http://www.ncua.gov/About/Documents/Agenda%20Items/AG20110829Item3.pdf
http://www.ncua.gov/About/Documents/Agenda%20Items/AG20120724Item5.pdf
http://www.ncua.gov/About/Documents/Agenda%20Items/AG20130725Item5.pdf

Q6. How much more in Stabilization Fund assessments does NCUA project federally insured credit unions will have to pay?

As of the fourth quarter of 2016, NCUA projects there will likely be no need for future assessments. In fact, the projected net assessments range of negative $4.9 billion to negative $3.5 billion indicates the possibility of an assessment rebate and recovery to capital holders at the end of the Stabilization Fund, which expires in 2021. See the last row of the column labeled Net Projected Remaining Assessments in Table 1.

The assessment range is generated using projected legacy asset cash flows, as discussed in question 7. NCUA expects to receive these cash flows over time, but they have not been realized and could vary significantly from projections.

Q7. How are the future legacy asset cash flows projected? What are the key drivers?

The future cash flows of the legacy assets are projected by BlackRock based on proprietary models that consider key macro-economic factors, such as housing prices, interest rate environment, and unemployment level, as well as a wide variety of current characteristics and historical performance variables at the loan level.

For example, for the non-agency residential mortgage backed securities that represent the majority of the legacy assets, performance is projected in terms of probabilistic prepayments, defaults, and loss given borrower default. Some important inputs include borrower credit score, current combined loan-to-value ratio, loan size, and time since last payment.

Q8. As the assessment range is negative, will credit unions receive a rebate in 2017? If not, when will rebates be distributed?

The following is an explanation of the conditions upon which any rebates would occur.

Stabilization Fund Assessment Rebate.[7] Per section 1790e(h) of the Act, the Stabilization Fund must be closed before any distribution of residual assets can occur, and the residual assets must be distributed to the Share Insurance Fund. First, this means there can be no rebate directly out of the Stabilization Fund. Thus, the amount of any rebate to insured credit unions will be based on the extent to which the distribution to the Share Insurance Fund at the closing of the Stabilization Fund causes the equity ratio of the Share Insurance Fund to exceed the normal operating level at the end of a calendar year.[8] Second, this means that the timing of any such distribution has to coincide with closing the Stabilization Fund and the end of the succeeding calendar year. The NCUA Board has the discretion to close the Stabilization Fund early and transfer the corporate system resolution program assets and obligations, including the guarantees on any outstanding NGNs, to the Share Insurance Fund.

However, this creates the potential for significant volatility in the equity ratio of the Share Insurance Fund with any downturn in the performance on the underlying legacy assets, given the current size of the remaining obligations in relation to the size of the Share Insurance Fund. Once closed, there is no express legal provision that permits reopening the Stabilization Fund. There are also a host of other issues that need to be addressed for this to occur.

Also, there will be payments required to be made by NCUA as guarantor due at various NGN hard final maturity dates through the end of the program in 2021. As shown in Table 3, there is a $455 million guarantor payment projected to be due in November of 2017. There are approximately $2.9 billion more of projected guarantor payments that will be due in 2020 and 2021 for a total of approximately $3.4 billion.[9]

Table 3. Expected NGN Payoff Dates and Balances

NGN Deal / Series	Expected Investor Payoff Date	Guarantor Payment at Payoff Date (Millions)	Collateral Balance at Payoff Date (Millions)
NGN 2010-R2 1A	11/6/2017	455	709
NGN 2011-R4 1A	12/7/2017	0	876
NGN 2011-C1 1A	10/28/2019	0	1
NGN 2011-R1 1A	1/8/2020	234	573
NGN 2011-R2 1A	2/6/2020	225	518
NGN 2011-R3 1A	3/11/2020	121	247
NGN 2010-R1 1A	10/7/2020	328	577
NGN 2010-R2 2A	11/5/2020	683	682
NGN 2010-R3 3A	12/4/2020	1	69

[7] Stakeholders need to be aware that once a particular liquidation estate has repaid their Stabilization Fund obligations (after consideration of all contingencies), remaining projected surplus funds are owed to depleted capital holders of the particular liquidation estate and are not available to be used for assessment rebates.
[8] The net remaining projected assessments for the Stabilization Fund are negative (as shown in Table 1), indicating the potential for a combination of assessment rebates and recoveries on depleted corporate capital. The critical assumption included in the assessment rebate estimate, among others, is that the Share Insurance Fund equity ratio exceeds the normal operating level after the distribution to the Share Insurance Fund from the Stabilization Fund occurs.
[9] Unless NCUA as liquidating agent is able to use the indentures' optional purchase provisions in the month immediately preceding the hard final maturity date to raise the funds to satisfy the final payment.

NGN Deal / Series	Expected Investor Payoff Date	Guarantor Payment at Payoff Date (Millions)	Collateral Balance at Payoff Date (Millions)
NGN 2010-R3 1A	12/4/2020	455	510
NGN 2010-R3 2A	12/4/2020	516	552
NGN 2010-A1 1A	12/10/2020	173	200
NGN 2011-C1 2A	3/6/2021	65	89
NGN 2011-M1	6/14/2021	128	375
Total		**3,385**	**5,979**

Incoming proceeds from other aspects of the corporate system resolution program, such as the NGN guarantee fee and principal and interest cash flows from un-securitized and post- securitized legacy assets, will be sufficient to pay the projected $455 million hard final maturity payment in 2017—there is no need to sell securities to fund this obligation if projections hold. However, even without providing a rebate to credit unions, customary incoming cash flows, such as the guarantee fee, will be insufficient based on current projections to make required hard final maturity payments in 2020 and 2021.[10]

Recoveries for Depleted Capital Investors. There are a few estates projected to have recoveries for investors in depleted capital instruments of the failed corporates. However, all five estates are currently expected to have outstanding senior creditor obligations, including to the Stabilization Fund via the guaranty it provides on the NGNs, until 2021. Thus, until senior creditor obligations of each particular estate can be satisfied with certainty (repaid or fully funded, including for contingencies), it would not be appropriate to make any distributions to the subordinate depleted capital claimants.

Funds that build up in the Stabilization Fund will be invested and used to backstop any potential increase in program obligations, such as any unexpected guaranty payments due to a downturn in the performance of the legacy assets.

Q9. What are the potential sources of funding for the hard final maturity payments?

Funding sources to make the hard final maturity guaranty payments in 2020 and 2021 are described below.

- **Selling securities NCUA can actively manage.** Legacy assets that are no longer securing NGNs can now be actively managed and potentially sold. NCUA could use this approach to satisfy remaining program obligations and avoid borrowing from Treasury, using funds from the Share Insurance Fund, or assessing credit unions.
- **Using Share Insurance Fund funds.**[11] This is a distinct option, but there are accounting and legal matters, and potential unintended consequences, that could factor into this.[12] It could also

[10] The potential for additional legal recoveries are not included in these projections.
[11] This could involve the Share Insurance Fund taking a claim against the liquidation estates to be repaid over time or receiving assets from the liquidation estates in exchange for funds from the Share Insurance Fund.
[12] All remaining assets in the Stabilization Fund when it closes must be transferred to the Share Insurance Fund. See 12 U.S.C. §1790e(h).

necessitate disruption of the Share Insurance Fund investment portfolio ladder, impacting the future yield of the Share Insurance Fund.

- **Borrowing from NCUA's $6 billion line of credit with the Treasury.** Such borrowing would be expected to be short term in nature, but poses reputational risk and public policy concerns, especially as there would be assets available to sell and Share Insurance Fund resources available to make necessary payments.
- **Selling securities from the NGN trusts about to mature.** There is a provision in each of the NGN Indentures that allows NCUA to access (so we can sell them) or direct the sale of the underlying securities out of the NGN trusts after the last monthly payment that occurs before the final payment date.[13] Making decisions over the next few years that could require materially relying on this option entails a fair degree of risk and uncertainty given the one-month window provides a limited timeframe to achieve reasonable execution in the market and is subject to whatever the market conditions happen to be at that future time.[14]
- **Declaring a Stabilization Fund assessment.** The funds to make the maturity payments are only needed from a cash management perspective, not to pay for losses, and thus would increase the amount of the projected rebate based on current estimates. Therefore, NCUA views this option as a contingency only.
- **Re-securitizing securities NCUA can now actively manage.** This option can be costly and time-consuming. Without an NCUA guarantee, which would perpetuate ongoing obligations and could be viewed as the agency experiencing new liquidity problems, it is not likely to provide net proceeds better than an outright sale nor preserve any upside for the credit union system without some ongoing involvement by the Share Insurance Fund. Therefore, this option has limited utility for interim liquidity needs.
- **Net proceeds from any additional legal recoveries.** The likelihood, timing, and amount of potential recoveries from NCUA's and other investors' legal efforts are inherently uncertain. Therefore, this is not something NCUA can rely on for cash management purposes until there is certainty of timing and amount.

Q10. Given that the net remaining projected assessments range from negative $4.9 billion to negative $3.5 billion, why is the Stabilization Fund's net position approximately $1.5 billion as of the fourth quarter of 2016?

The core financial statements of the Stabilization Fund present the assets and liabilities that belong to the fund. The core financial statements exclude asset management estate assets that can be claimed by third

[13] There is also an early termination ("clean-up call") provision in most NGN indentures once the aggregate principal balance of the underlying securities drops below 10% of the balance at the time they were put into the NGN trust. Based on current projections, this provision is not expected to be available for any of the NGNs maturing in 2020 and 2021.
[14] One of the biggest maturity payment periods occurs in December of 2020 (three NGN maturities with a total of over $1 billion in projected maturity guaranty payments).

parties, as well as assets that have been written off. The related net position as of December 31, 2016, indicates that the fund's assets[15] exceed its liabilities at that point in time by approximately $1.5 billion.

In contrast, the net remaining projected assessment range is a forward-looking all-inclusive economic measure, based on expectations about the amount and timing of payments to and from the Stabilization Fund until it expires in 2021. The differences are primarily related to the following:

- Accounting rules requiring receipt of cash for written off debts;
- Accounting treatment of projected cash flows, such as guarantee fee income and interest on Treasury borrowings;
- Discounting methodology differences to reflect assessments/refunds as cash values;
- Exclusion of assets that can be claimed by third parties, such as the asset management estates; and
- Credit scenarios and asset management strategies used at the endpoints of the range.

In summary, the net position is an accounting measure at a point in time, and the projected assessment range is an all-inclusive economic measure.

Q11. What do the endpoints of the assessment range represent? What differentiating factors and assumptions are included at each end of the range?

The assessment range represents a spectrum for both the projected performance of the legacy assets once held by the failed corporates and the asset management strategy followed by NCUA to liquidate the legacy assets after the NGN deals mature.

As shown in Table 4, the optimistic scenario used for the lower end of the assessment range (negative $4.9 billion) is based on projections under both a strong future credit environment and an asset management strategy of realizing full intrinsic value over a very long period of time (hold to maturity). The pessimistic scenario used for the upper end of the assessment range (negative $3.5 billion) is based on projections under a weaker future credit environment and an asset management strategy of prompt, orderly liquidation.

The assessment range is generated using BlackRock's legacy asset cash flow projections. NCUA expects to receive these cash flows over time, but they have not been realized and could vary significantly from projections.

[15] As of December 31, 2016, there was less than $500 million in cash and other liquid investments in the Stabilization Fund. As shown in Table 3, the majority of this cash will be needed to make the hard final maturity payment in November 2017. The fund's assets consist primarily of a receivable related to the value of the legacy assets collateralizing the NGNs, the majority of which cannot be monetized at this time.

Table 4. Projected Net Remaining Assessment Range (in Billions)[16,17]

NGN Residual Disposition Method	Strong Credit Scenario	Weak Credit Scenario
With Residual Assets Monetized after NGN Maturities	-$3.8	-$3.5
Without Monetizing Residual Assets after NGN Maturities	-$4.9	-$4.5

Q12. How will NCUA determine its asset management strategy for the legacy assets of the NGN program? What are the considerations associated with each strategy?

The assessment range represents the spectrum of asset management strategies with holding the legacy assets until maturity at one end and selling them promptly on the other end. NCUA will most likely employ a combination of these strategies.

When the NGNs mature, NCUA considers available options to dispose of the legacy assets in an orderly manner to satisfy Stabilization Fund and asset management estate obligations. Options include, but are not limited to, the following:

- Holding the legacy assets to maturity;
- Selling the legacy assets into the market; and
- Re-securitizing the remaining expected cash flows from the legacy assets in a manner similar to the NGN Program, but without an NCUA guarantee.

To do this, NCUA performs a bond-by-bond analysis as the legacy assets become available for active management to determine the appropriate strategy for each security. Considerations include such factors as:

- Differences between market value, intrinsic value, and par value;
- Remaining expected life of the asset;
- Legal remedies in progress as well as potential future legal remedies; and
- Risk involved with holding the security over the long term.

Q13. What is the expected timing with respect to each strategy?

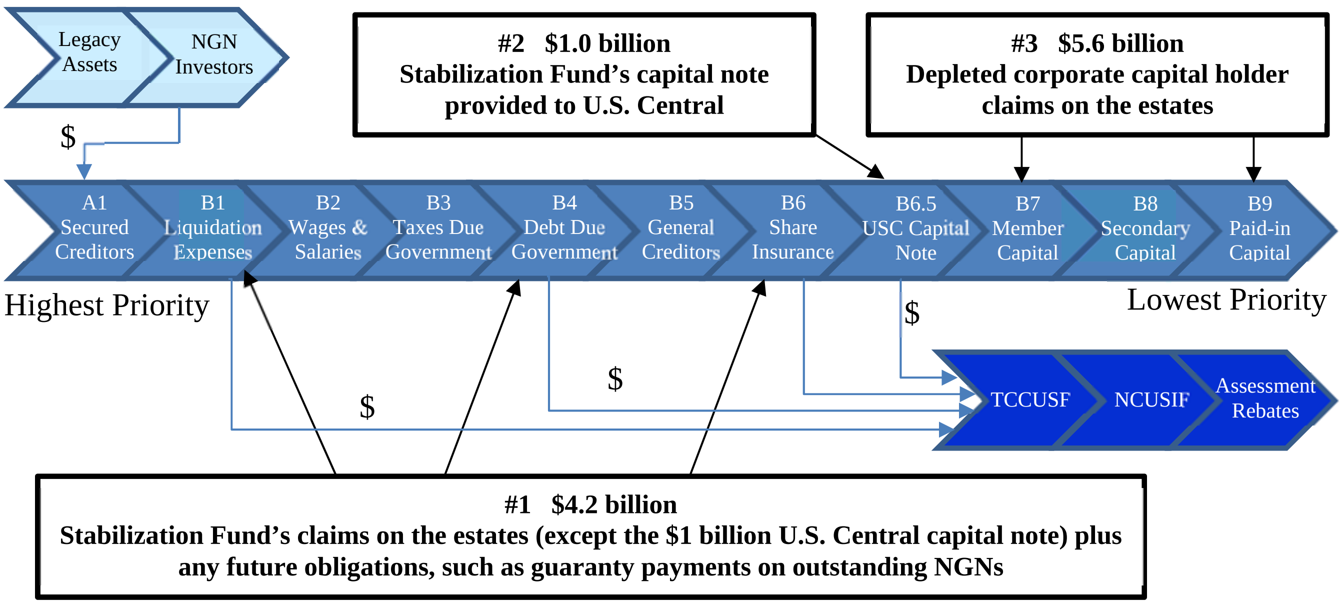
The majority of the NGN deals will not mature until 2020 and 2021, which is the earliest that the NGN program could be concluded. The prompt, orderly liquidation of the legacy assets would result in an end to the need to oversee the legacy assets and a reduction in risk. A strategy of holding the legacy assets until they naturally pay down would take until 2038 to realize all the underlying cash flows. Uncertainty and risk related to realization of the projected values would remain for a long period.

[16] Generated using projected legacy asset cash flows that have not been realized. Actual cash flows could vary significantly from projections. Point in time estimates based on best available information. Does not include projected legal recoveries. Amounts remaining once all other senior obligations met.
[17] Negative values represent a combination of assessment rebates and recoveries to capital holders.

Q14. Once Treasury and the NGN investors have been repaid, how will residual cash flows be allocated between assessment rebates and return of credit union member capital in corporates?

Allocation of legacy asset cash flows and other recoveries must follow the mandated payout priorities for involuntary liquidation for each asset management estate of the failed corporates, as depicted in Figure 1.[18]

Figure 1. Asset Management Estate Liquidation Payout Priorities



Cash is advanced during the liquidation process to each of the asset management estates. The cash is repaid to the Stabilization Fund according to the payout priority schedule. The Stabilization Fund has actual or contingent claims at the B1, B4, B6, and B6.5 level, depending on the reason cash was advanced to the estates.

Substantially all of the remaining claims at the B1 to B6 level in the payout priority are due to the Stabilization Fund, so as the residual cash flows are received by the asset management estates, they flow to the Stabilization Fund. These funds then become available for potential assessment rebates to credit unions, after Treasury, the NGN investors, and all other obligations of the Stabilization Fund have been met.

Once an individual estate's residual cash flows have fully repaid its liquidation expenses and all other debts owed at levels A1 through B6, capital recoveries may occur at levels B7 through B9.

Q15. What makes up the expenses shown in category B1 of the payment priority schedules of the asset management estates? How are these expenses allocated to specific estates?

As of June 2016, the asset management estates show total liquidation expenses of $2.1 billion, of which approximately $1.9 billion has been incurred to date. The other $232 million consists of projected

[18] 12 C.F.R. § 709.5

expenses that have not been incurred. Of the $1.9 billion of actual expenses, $843 million are legal fees, as detailed on our Legal Recoveries webpage.

Another $670 million are liabilities that were related to the failing corporates. In the purchase and assumption agreements between the failed corporates and the newly created bridge corporates, NCUA paid $670 million for liabilities transferred to the bridge corporates. As in any purchase and assumption agreement, NCUA negotiates an orderly transaction to provide a transition of services, including payment of liabilities necessary to seamlessly continue the ongoing credit union's operations.

The expenses also include $152 million in interest on promissory notes issued as part of the good bank-bad bank approach during resolution. In addition, $60 million in interest is owed on borrowings from the Stabilization Fund for financial support provided to each asset management estate.

The remaining $139 million reflects actual cash payments which fall under the B1 Liquidation Expenses category for the asset management estates from 2010 through June 2016. The current run rate of expenses in this category ranges from approximately $15 million to $20 million a year, including expenses related to the pursuit of legal recoveries that may ultimately be reimbursed to NCUA if recovery efforts are successful.

Expenses related to specific asset management estates are allocated directly to their respective estate. Other expenses that apply to all of the estates more broadly are allocated based on each estate's respective contribution to the total fiduciary assets during resolution.

Q16. How are losses allocated to each asset management estate? How much are the projected recoveries to the capital note holders of each estate? How do these compare to pre-failure capital?

Losses are allocated based on the amount and performance of the specific legacy assets owned by each asset management estate. As such, the projected capital recoveries will vary significantly across the estates due to their differing circumstances. Table 5 and Table 6 provide the approximated losses and projected recoveries for each estate as of the third quarter of 2016.

Table 5. Losses and Projected Recoveries (Strong Credit Scenario in Billions)[19,20,21]

Payout priorities

Guaranteed

B1, B4, B6

B6.5 – U.S. Central Capital Note

B7 and B9

AME	A Net Realizable Value	B Funds Held by Trustee	C Total Legacy Asset Value [A+B]	D NGN Investor Balance	E Legacy Assets Minus NGN Balance [C-D]	F Outstanding Estate Borrowing from Stabilization Fund[22]	G Additional Stabilization Fund Claims[23]	H Total Due to Stabilization Fund [F+G]	I Projected Stabilization Fund Recovery [Min(E,H)]	J Projected Member Capital Recovery [Max(E-I,0)]	K Percent Recovery of Depleted Capital
USC	6.0	0.3	6.3	4.0	2.3	0.4	1.0	1.4	1.4	0.9	49.2%
WSC	4.0	0.0	4.0	2.4	1.6	4.1	0.0	4.1	1.6	0.0	0.0%
MUC	1.2	0.2	1.4	1.0	0.4	0.2	0.0	0.2	0.2	0.3	36.2%
SWC	1.1	0.2	1.3	0.8	0.5	0.0	0.0	0.0	0.0	0.5	63.3%
CON	0.2	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1%
Total	**12.4**	**0.7**	**13.3**	**8.4**	**4.9**	**4.7**	**1.0**	**5.7**	**3.2**	**1.7**	**31.0%**

Table 6. Losses and Projected Recoveries (Weak Credit Scenario in Billions)[19,20,21]

Payout priorities

Guaranteed

B1, B4, B6

B6.5 – U.S. Central Capital Note

B7 and B9

AME	A Net Realizable Value	B Funds Held by Trustee	C Total Legacy Asset Value [A+B]	D NGN Investor Balance	E Legacy Assets Minus NGN Balance [C-D]	F Outstanding Estate Borrowing from Stabilization Fund[22]	G Additional Stabilization Fund Claims[23]	H Total Due to Stabilization Fund [F+G]	I Projected Stabilization Fund Recovery [Min(E,H)]	J Projected Member Capital Recovery [Max(E-I,0)]	K Percent Recovery of Depleted Capital
USC	5.6	0.3	5.9	4.0	1.9	0.4	1.0	1.4	1.4	0.5	20.2%
WSC	3.3	0.0	3.3	2.4	0.9	4.1	0.0	4.1	0.9	0.0	0.0%
MUC	1.1	0.2	1.3	1.0	0.3	0.2	0.0	0.2	0.2	0.1	19.7%
SWC	0.9	0.2	1.1	0.8	0.3	0.0	0.0	0.0	0.0	0.3	44.0%
CON	0.2	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Total	**11.1**	**0.7**	**11.8**	**8.4**	**3.4**	**4.7**	**1.0**	**5.7**	**2.5**	**0.9**	**15.8%**

As the tables show, four of the asset management estates are projected to receive a capital recovery in the strong credit scenario. However, in the weak credit scenario, only three of the estates are expected to receive a recovery. If the capital holders of the estates do receive a capital recovery, it will most likely

[19] Tables shown as of the third quarter of 2016. For year-end 2016, the projected member capital recovery under the strong credit scenario increased slightly to $1.8 billion. The projected member capital recovery under the weak credit scenario did not change.

[20] Generated using projected legacy asset cash flows that have not been realized. Actual cash flows could vary significantly from projections. Numbers may not add due to rounding. Payout priority values calculated under strong and weak credit scenarios for illustrative purposes only.

[21] Corporate recovery relates to capital at the corporate credit unions pre-failure.

[22] Cash advances and accrued interest made by the Stabilization Fund to the asset management estates that have not been repaid. Net proceeds of $0.8 billion from RBS legal recoveries are included, thereby reducing the outstanding balance shown here.

[23] Includes the $1.0 billion capital note provided to U.S. Central.

be a fraction of the original capital lost, as shown in column K. That is, the depleted corporate capital holders would receive a proportional share of their full claim.

Q17. Why do the financial statements for the Stabilization Fund show a smaller net assets number than the combined financial statements of the asset management estates?

The asset management estates of the failed corporates hold more assets than the Stabilization Fund. The estates are legally separate entities in which NCUA holds a fiduciary responsibility to third party claimants, such as general creditors and member capital holders. Assets of the estates are managed for the benefit of claimants. The Stabilization Fund is the largest claimant, primarily due to payments it made on NCUA guarantee programs, such as the Temporary Corporate Credit Union Liquidity Guarantee Program, the Temporary Corporate Credit Union Share Guarantee Program, and the NGN program.

In its financial statements, the Stabilization Fund can only recognize a net claims receivable where recovery is probable. In addition, accounting rules limit recognition of recovery where certain assets have been written off by the Stabilization Fund, such as the $1 billion capital note to U.S. Central. The Stabilization Fund's core financial statements only reflect the assets and liabilities that belong to the government. In essence, the core financial statements for the Stabilization Fund exclude asset management estate assets that can be claimed by third parties, as well as assets that have been written off. Note 13, Fiduciary Activities, to the Stabilization Fund financial statements includes all of the economic activity of the estates.

Q18. What is the Stabilization Fund assessment range for 2017? What is the timetable for announcing, billing, and collecting assessments?

At the November 2016 NCUA Board meeting, the agency confirmed there would be no Stabilization Fund assessment for 2017. In addition, as long as both ends of the range remain negative, no future assessments are likely. However, if adverse conditions develop, the NCUA Board may have to consider an assessment.

The timetable for assessments has generally worked as follows: the Board determines the assessment range in November of the preceding year, announces the exact amount of any assessment the following July, bills for the assessment in August, and collects the assessment in September and October. Future NCUA Boards can change this timetable at their discretion.

Q19. How many more years will federally insured credit unions have to pay Stabilization Fund assessments?

As long as both ends of the remaining assessment range remain negative, no future assessments are likely. However, when setting the annual Stabilization Fund assessment, the NCUA Board will determine the plan to manage potential assessments over time, weighing legacy asset performance, public policy considerations, interest and principal payments to the Treasury, legal recoveries, and credit union performance, among other factors.

Q20. Why does NCUA need to borrow from the U.S. Treasury for the Stabilization Fund? How will the remaining borrowings be repaid?

NCUA can and has used funds borrowed from the Treasury to manage the costs of the corporate system resolution program. These costs are driven by losses on the legacy assets, management and disposal of other assets acquired in liquidation, bridge corporate transition expenses, interest on borrowings, expenses associated with monitoring the re-securitized legacy assets, and other liquidation costs.

Due to better performance of the legacy assets in an improving economy, a number of significant legal recoveries, and the absence of short term cash obligations, NCUA did not borrow from the U.S. Treasury from 2013 through 2016. However, NCUA may need to borrow again when NGN maturity payments begin.

NCUA's corporate system resolution program ensures there is no loss to the taxpayer; all losses are and will be borne by federally insured credit unions. As of year-end 2016, all Treasury borrowings have been repaid.

For a complete history of Treasury borrowings, repayments, and associated interest expense, visit this website location:

Borrowing Costs

http://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution/borrow-cost.aspx

Q21. How will lawsuits NCUA has filed against Wall Street firms and any related settlements or recoveries affect the Stabilization Fund and credit union assessments?

The impact depends on the nature of the settlement or recovery. If proceeds are received by the legacy asset trusts, they will be distributed to individual bond-level certificate holders as specified by deal documents. In this situation, the cash flows from the legacy assets will increase, but the value received will not necessarily be dollar for dollar.

If proceeds are received by NCUA, they will directly reduce the net amount NCUA is required to assess credit unions. However, proceeds received by NCUA are first used to repay Treasury borrowings and any other obligations of the Stabilization Fund. Thus, they do not necessarily accelerate the timing of potential rebates.

Through the fourth quarter of 2016, NCUA's legal efforts have yielded $3.2 billion of net recoveries. For a complete history of legal recoveries, expenses, and fees to date, visit this website location:

Legal Recoveries

https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution/legal-recoveries.aspx

Q22. How often will NCUA update the actual losses and future projections? Where can I find these updates?

NCUA posts updates on the NCUA website at least twice per year, typically in April and November. For updates and more detailed information, visit these website locations:

Corporate System Resolution Costs
http://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution.aspx

NGN Program Information
http://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes.aspx