



**BOARD ACTION MEMORANDUM**

**TO:** NCUA Board **DATE:** August 29, 2011  
**FROM:** Executive Director **SUBJ:** NCUA Guaranteed Note Program Oversight

**ACTION REQUESTED:** The National Credit Union Administration (NCUA) Board approval to create the NCUA Guaranteed Note (NGN) Securities Management and Oversight Committee with support staff.

**DATE ACTION REQUESTED:** August 29, 2011

**OFFICES CONSULTED:** The Office of General Counsel, the Office of Examination and Insurance, the Office of the Chief Economist, the Office of the Chief Financial Officer, the Office of Corporate Credit Unions, the Office of Human Resources, and the Asset Management and Assistance Center.

**VIEWS OF OFFICES CONSULTED:** All concurred.

**BUDGET IMPACT:** The 2011 costs to stand up the NGN Securities Management and Oversight Committee are \$200,000. The preliminary estimate of 2012 costs for Temporary Corporate Credit Union Stabilization Fund (TCCUSF or Stabilization Fund) is \$12,238,000. These amounts are included in previously reported loss estimates for the Corporate System Resolution Program. The costs are funded by the TCCUSF. The NGN costs do not affect the costs of the NCUA Operating Fund or the National Credit Union Share Insurance Fund.

**SUMMARY:** The purpose of this action is to request Board approval for the creation of the NGN Securities Management and Oversight Committee (Oversight Committee) to ensure that NCUA meets its requirements and achieves its programmatic objectives in connection with the NCUA guaranteed notes. The Oversight Committee will be supported by five (5) new staff positions. These resources, together with resources provided by other agency offices, will ensure that NCUA fulfills its ongoing responsibilities under the NGN Program in a manner that promotes transparency, efficiency, and accountability. The Board's authority for this action is based on its administrative powers set forth in §209 of the Federal Credit Union Act (FCU Act) and on §217(a), Establishment of the Stabilization Fund, of the FCU Act.

## **Background**

Under the Corporate System Resolution Program, NCUA re-securitized nearly \$50 billion in legacy assets, containing 2,800 CUSIPs, formerly held in the securities portfolios of certain corporate credit unions by the issuance of NCUA Guaranteed Notes (NGNs). The NGNs require the long-term monitoring, managing, and reporting on very complex transactions for at least the next 10 years.<sup>1</sup> Accordingly, a long-term, stream-lined solution to overseeing the daily requirements and activities in connection with the NGN Program must be established.

Additionally, failure to uphold NCUA's responsibilities under the NGN Program may expose the agency to legal and reputational risks, erode the reputation of the credit union system, and increase the costs to credit unions and stakeholders. Non-performance of requirements under the FCU Act, NGN deal documents, and other statutes may result in large additional costs and loss of faith in the credit union system. These potential risks, if realized, are untenable. NCUA, as a Federal Agency operating with the full faith and credit of the US Government, must ensure the ability to perform on the payments under the NGN guarantee agreements.

Accordingly, to ensure the achievement of programmatic objectives, which include efficient and effective coordination of activities performed by multiple offices (e.g., Office of Examination and Insurance, Office of the Chief Financial Officer, Asset Management and Assistance Center), the creation of the NGN Securities Management and Oversight Committee, supported by dedicated staff, is recommended.

## **Business Case**

The centralized management and oversight of offices contributing to the NGN Program is essential to fulfill stewardship responsibilities and to minimize its long-term cost. Common and sound business practices provide for the centralized oversight of business processes, especially when such processes span multiple offices.

Exhibit II, NCUA Guaranteed Note Program - Key Internal Responsibilities, demonstrates the multiple activities and functions to be managed centrally by the Oversight Committee. The responsibilities under the NGN Program include, but are not limited to:

- Fiduciary responsibility to the members, creditors, and investors of the Asset Management Estates<sup>2</sup> (AME) and the holders of the NGNs;

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<sup>1</sup> Long-term activities are likely to be much longer given the need to do re-securitizations when the NGNs mature.

<sup>2</sup> Asset Management Estates are the remaining assets held by TCCUSF liquidated corporate credit unions.

- Contractual and legal responsibilities related to various guarantees, securities laws, and NGN Trust Indentures;
- Asset management responsibility to monitor the performance of the securitized legacy assets and NGN Trusts, and take any corrective actions;
- Resolution authority to take delegated corrective actions and develop recommendations for other corrective actions; and
- Financial reporting responsibility to account for the funds entrusted to the agency, to maintain effective internal controls, and to ensure transparency to members of the credit union system, creditors, and investors.

The Oversight Committee will support NCUA offices with procurement of all goods and services required for the administration of the NGN Program. This will ensure the efficient use of TCCUSF monies as well as the coordination among the users of these services.

### **Committee Structure**

As shown in Exhibit I, NGN Securities Management and Oversight Committee Structure, the Oversight Committee will report to the Board and be comprised of the directors of:

- The Office of Examination and Insurance (E&I);
- The Asset Management and Assistance Center (AMAC); and
- The Office of the Chief Financial Officer (OCFO).

Advisory support to the Oversight Committee will be provided by the Office of the Chief Economist (OCE) and the Office of General Counsel (OGC).

The Oversight Committee will be initially chaired by the Director of E&I. The Chair of the Oversight Committee may be reassigned at the discretion of the Board. The Oversight Committee will meet periodically, but no less than quarterly, to discuss status, emerging issues, and funding needs relating to the NGN Program.

### **Staffing**

To ensure the agency has the resources to fulfill its responsibilities, the following five (5) new positions, with two (2) positions being directly allocated to the Oversight Committee, need to be authorized:

<b>Office Location</b>	<b>FTE</b>	<b>Grade</b>	<b>Title</b>
Oversight Committee	2.00	CU-14	Program Support Officer
E&I, Division of Capital Markets	1.00	CU-14	Investment Analyst
E&I, Division of Capital Markets	1.00	CU-15	Senior Investment Analyst
AMAC	1.00	CU-15	Investment Program Manager
<b>Total</b>	<b>5.00</b>		

Exhibit II, NGN Program Responsibilities - Key Internal Responsibilities, outlines the responsibilities that the NGN staff will perform, taking direction from the Chair of the Oversight Committee. The NGN staff will coordinate information and analyses provided by various offices and external parties, perform bond analytics, ensure quality control, and disseminate this information to the various internal and external stakeholders. The NGN staff will support contract management and vendor coordination in connection with the NGN Program.

In addition to the five (5) new positions, the Oversight Committee will draw upon the staffing resources of other offices. For 2012, staffing resources are anticipated to total 3.5 full-time equivalents (FTE), bringing the total full-performance estimate to 8.5 FTE. The cost of the additional 3.50 FTE will be allocated to the TCCUSF using the agency's standard cost accounting practices.<sup>3</sup>

### **Stabilization Fund Budget**

This action requests the funding of five (5) new full-time equivalents for the remainder of 2011, or \$200,000. This is the initial standup cost of the Oversight Committee. The additional follow-on cost will be part of the 2012 budget request, explained below. The costs of the Oversight Committee, along with other allocable costs, will be funded by the Stabilization Fund.

As part of the annual agency budget formulation, the Oversight Committee will formulate a budget for the Stabilization Fund operations. Such operations exclude activities already delegated to AMAC, which acts as administrator of asset management estates and liquidation agent, and paid for by the asset management estates. The budget will be submitted to the Board for approval and executed under normal budgetary controls.

The Stabilization Fund's first full-year budget will be prepared for the 2012 calendar year and will be presented to the Board in November 2011. Exhibit III, 2011 Budget and Estimated 2012 Budget, conveys the initial 2011 stand up costs as well as a preliminary estimate of the 2012 budget. The 2012 budget estimate for the Stabilization Fund totals \$12,238,000 and 8.50 FTE; however, this does not include the NGN loss reserve estimate at this time.

The 2012 estimate includes the costs of the Oversight Committee support staff as well as costs incurred by other NCUA offices in support of the NGN Program. Those offices include the Office of Examination and Insurance, Asset Management and Assistance Center, the Office of the Chief Financial Officer, the Office of the Chief Economist, and the Office of General Counsel.

Outside of personnel costs, additional funding will be needed for various administrative expenses. Administrative expenses will include outside professional

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<sup>3</sup> The allocation of staff cost will parallel the methodology used for staff of the Central Liquidity Facility.

services, as external valuation experts, tax consultants, attorneys, financial specialists, and accountants are needed from time to time to fulfill program needs. Such NGN Program administration needs include, but are not limited to:

- Overseeing security valuations, which includes modeling forecasts of cash flows and credit losses (NGN Analytics);
- Processing accounting transactions and developing related policies and procedures;
- Preparing monthly and year-end financial reports;
- Supporting the TCCUSF financial statement audit and any other audits (e.g., audits by the U.S. Government Accountability Office);
- Overseeing trustee and custodial activities; and
- Accounting for and overseeing complex financial transactions.

Additionally, information technology specialists and equipment will be required to stand up and maintain the secured data warehouse and NetRoadshow website.<sup>4</sup>

There are unknown factors that may affect the cost of administrative expenses. For instance, a significant deterioration in the residential mortgage credit markets could significantly increase the cost of NGN Analytics.

Finally, certain administrative costs incurred are directly allocable to asset management estates and, therefore, are part of the loss reserve budget. These costs are controlled by AMAC, which acts as administrator of asset management estates and liquidation agent.

### **Roles and Responsibilities**

The primary responsibilities of the Oversight Committee will be to coordinate the efforts of all offices contributing to the NGN Program to ensure compliance with legal, reporting, and other responsibilities while, at the same time, maintaining transparency to key stakeholders. These items are discussed in further detail below.

**Oversight.** The NGN Program has resulted in additional responsibilities for many areas of the agency including, but not limited to, cash management, forecasting, financial reporting, risk management, contract management, and legal and tax compliance (see Exhibit II). Effective oversight and coordination of these responsibilities is vital to the agency.

On an ongoing basis, the Oversight Committee will be responsible for identifying, collecting, and responding to concerns, issues, or suggestions, related to the NGN Program, raised by various parties. Through consultations with individual offices, the Oversight Committee will determine and implement appropriate actions in

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<sup>4</sup> NetRoadshow website is an Internet portal where potential investors will have access to various NGN documents and presentations in a SEC-compliant electronic format.

response to external circumstances and in compliance with NCUA's responsibilities under NGN deal documents. This may involve writing policies and procedures, identifying and securing resources, notifying offices of their changing roles, and ensuring effective implementation of actions.

**Compliance.** In connection with the NGN Program, the NCUA is subject to numerous legal, regulatory, and specific transaction laws and statutes. Maintaining compliance with the NGN offering documents and securities and tax laws is a critical element for the program's success. This includes ensuring timely payment of principal and interest under guarantee agreements. Further, the NCUA must maintain compliance with the FCU Act while meeting the other rules and regulations issued by the U.S. Treasury, the Office of Management and Budget, the Government Accountability Office, and Congress. The Oversight Committee will maintain a list of compliance requirements and will coordinate across NCUA's offices to ensure that NCUA meets these requirements.

**Analysis.** Maintaining transparency around the performance of the NGN Program is critical to the NCUA's various roles as regulator, sponsor, seller, investor, guarantor, and liquidating agent. The Oversight Committee will coordinate the financial analyses performed by external consultants as well as its own staff to assess the effect of the NGN Program on key stakeholders. Detailed financial analyses will be necessary to assess the program's effect on credit unions and members, to provide periodic reports to stakeholders, to monitor legacy asset performance, to provide an estimate of potential guarantee payments, and to perform portfolio management.

**Operations.** It is paramount that the NCUA does not default on its obligations under the guarantee agreements. This function will require cash management and forecasting along with asset management and disposition. The Oversight Committee will coordinate with NCUA offices to ensure that NCUA meets its obligations for timely payments under the guarantee agreements.

A secured data warehouse will be established to maintain all information related to the NGN Program including, but not limited to:

- Deal documents for both the NGNs and their underlying securities or assets;
- Analyses surrounding the performance of the NGNs and underlying securities or assets;
- Records of guarantee payments made on any of the guarantees; and
- Reports on NGN trusts, securities, and risk management.

This information will be stored on a central server providing accessibility to all offices within the agency while minimizing duplication. The Oversight Committee will have the primary responsibility for maintaining the completeness, accuracy, and security of the data warehouse, as well as ensuring that the agency has an adequate IT capacity for ongoing monitoring of the NGN Program.

**Reporting.** The Oversight Committee will monitor and coordinate reporting requirements under the NGN Program including annual financial statements, internal management reports, NCUA Board and Congressional briefings, NetRoadshow reports, and transparency reports to external stakeholders (e.g., credit unions, investors).

On a quarterly basis, the Oversight Committee will report to the NCUA Board on the performance of the NGN Program. This report is expected to include, among other details, an executive summary description of:

- Performance of the NGNs and their underlying collateral;
- Guarantee payments made by the NCUA, if any;
- Forecasts of expected future guarantee payments;
- Current, and changes in, asset/liability positions of the AMEs;
- Variations, with explanations, from previous expected performance;
- Reports of actions taken by the Oversight Committee pursuant to delegated authority;
- Administrative expenses incurred since the last report; and
- Recommendations, as necessary, for specific Board action not within the authority delegated to the Oversight Committee or any NCUA office.

The information used in the preparation of these reports will primarily be derived from analyses and information provided by the various offices under their current responsibilities. The Oversight Committee may make additional requests of offices as needed to ensure it reports a comprehensive and accurate analysis of the performance of the NGN Program.

### **Delegated Authorities and Control**

In establishing the Oversight Committee, ensuring the effectiveness of the committee, and providing administrative powers within NCUA, delegated authorities are proposed in Exhibit IV, NGN Securities Management and Oversight Committee - Delegation of Authority.

The delegated authorities can be summarized as managerial, administrative, and budgetary. The delegated authorities, including the authorization to make payments from the TCCUSF, primarily encompass the authority to execute commitments and fulfill contingent obligations previously approved by the Board. An example would be making guaranty payments. In addition, SPE 33 supersedes the Board delegation over NCUA's guaranteed securities, which was originally part of the October 11, 2010, Board Resolution related to the NGN Program.

**RECOMMENDED ACTION:**

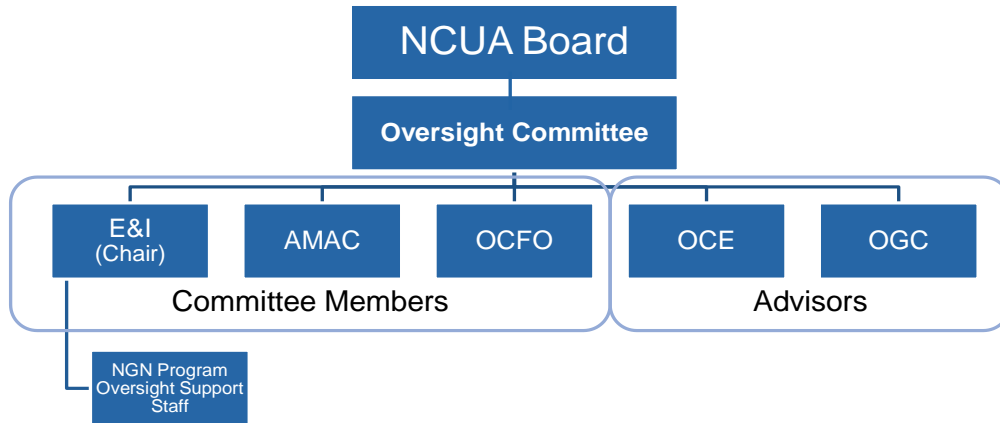
Staff recommend that the NCUA Board approve:

- 1) The creation of the NGN Securities Management and Oversight Committee in the structure as outlined by Exhibit I with rights and duties as enumerated within this Board Action Memorandum.
- 2) The authorization of five (5) full-time equivalents to support and effect the responsibilities of the NGN Securities Management and Oversight Committee with the budget of \$200,000 for personnel costs in 2011.
- 3) The adoption of the delegation of authorities, as enumerated in Exhibit IV, NGN Securities Management and Oversight Committee - Delegation of Authority



**Exhibit I**

**NGN Securities Management and Oversight Committee Structure**



- NGN Oversight will:
1. Leverage analytics, reporting and analyses completed by the various offices;
  2. Convene the NGN Securities Management and Oversight Committee\* meetings with members from various offices to discuss key issues and upcoming deliverables;
  3. Coordinate reporting across offices to meet the needs of the NCUA Board;
  4. Provide analytical support;
  5. Ensure the NCUA meets its responsibilities under the NGN Program;
  6. Deploy 5 staff (2 to Oversight Committee, 2 to E&I, 1 to AMAC) to support the Oversight Committee; and
  7. The Chairmanship of the NGN Securities Management and Oversight Committee can be rotated at the Board's discretion.
- \*Similar to the function of the existing Investment Committee.

**Acronyms:**

- AMAC Asset Management and Assistance Center
- E&I Office of Examination & Insurance
- OCFO Office of the Chief Financial Officer
- OCE Office of the Chief Economist
- OGC Office of General Counsel

## Exhibit II

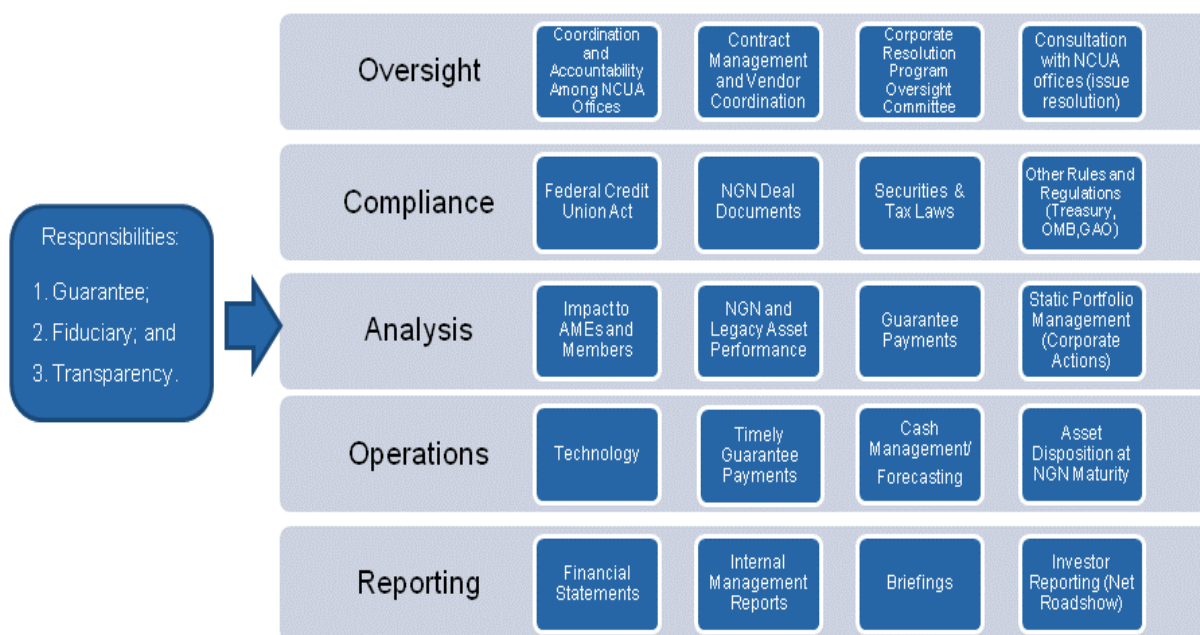
### NGN Program Responsibilities - Key Internal Responsibilities

#### Overview

The NGN Program poses oversight, compliance, analysis, operational, and reporting challenges across many offices within NCUA. Effective oversight and coordination of these functional responsibilities across NCUA is critical to the NGN Program's success.

The NCUA must establish best practices throughout the organization that incorporate effective controls and checks-and-balances. Certain key functional responsibilities of the NCUA resulting from the NGN Program are discussed in further detail below. Additional responsibilities may periodically arise.

#### Exhibit: NGN Program Responsibilities



## 1. Oversight

### Coordination and Accountability

On an ongoing basis, it will be necessary to coordinate efforts to identify, collect, and respond to concerns, issues, or suggestions raised by internal and external stakeholders. It is essential that internal controls over the NGN Program are sufficient to ensure vital obligations are met, major decisions are thoroughly vetted, , and the NCUA is adequately prepared for reviews by the Inspector General (IG), the Government Accountability Office (GAO) and other external parties.

### Contract Management and Vendor Coordination

The NCUA will require additional federal staff to manage oversight responsibilities and provide support for the ongoing needs of individual offices while they manage new functional responsibilities in connection with the NGN Program. Contractor and vendor support will supplement existing NCUA resources to provide analytics, accounting support, legal consultation, and other professional services. Centralized coordination of the vendors supporting the NGN Program will be critical to monitoring costs and ensuring timely deliverables. **Ultimate accountability, however, will always rest with the NCUA.**

## 2. Compliance

As guarantor, sponsor, *and* seller, the NCUA must maintain compliance with numerous legal, regulatory, and transaction document requirements in connection with the NGNs (Appendices D, I, and N), as outlined in the table below.

Timely payment of principal and interest under the guarantee is critical. This involves substantial time and effort in monitoring the multiple Trusts, the underlying Legacy Assets, and the cash position of the TCCUSF from which guarantee payments will be made. After receiving a notification from the trustee, the NCUA must remit any required guarantee payment within five business days. **Failure to perform under the guarantee would result in a default under the NGN documents and lead to accelerated legal and financial liabilities for the NCUA, immediate credit union assessments to allow for payment while in default, probable intervention by the Treasury Department, and possible erosion in public confidence in the full faith and credit backing of the US Government.**

Governing Authority	NCUA Role	NCUA Duties
Federal Credit Union Act	Liquidating Agent (Seller and Investor)	Preserve and conserve AMEs' assets and protect the NCUSIF
NGN Deal Documents	Guarantor, Seller (Investor or Owner Trust Certificateholder)	Guarantee payments, exercise options, respond to requests for direction regarding legal actions relating to underlying securities, or monitor and manage (i.e. replace, etc) trustees
Securities and Tax Administrations	Guarantor, Seller	Compliance with laws and regulations
Treasury/OMB	Guarantor, Regulator, Seller	TCCUSF budget submission, Liquidity needs and requests Preparation of TCCUSF financial statements and AME financial reports
Congress & GAO	Regulator	Effective internal controls and related certifications

### 3. Analysis

Maintaining transparency of the NGN Program is critical to the NCUA's role as regulator, sponsor, seller, investor, guarantor, and liquidating agent. Financial analyses and projections on the NGNs are necessary to:

- 1) calculate the size and rate of assessments levied on credit unions,
- 2) maintain transparency and provide periodic reporting to key stakeholders,
- 3) monitor Legacy Asset performance and impact on NGNs,
- 4) provide an estimate of potential guarantee payments, if any, and
- 5) perform static portfolio management on the Legacy Assets.

#### Impact to the AMEs and their creditors and former members

The financial performance of the NGNs impacts the TCCUSF, the AMEs, the AMEs' creditors and former members, and the credit union system as a whole.

#### NGNs and Legacy Assets

NGN and Legacy Asset surveillance is a critical component of the NGN Program. Types of analysis will include stress testing, cash flow projections, and fair value analysis of the NGNs and underlying Legacy Assets.

## Guarantee Payments

Timely and accurate forecasting of potential guarantee payments requires extensive financial modeling. Scenario analyses stressing factors such as housing prices, employment trends, interest rates, and laws and regulations (e.g. foreclosure proceedings) capture the uncertainty and volatility of the Legacy Assets' performance, which, in turn, affects NGN performance and the related guarantee obligation of the NCUA towards the NGN holders. Maintaining a forward looking view allows the NCUA to prepare for potential guarantee payments before they occur and assess the impact of changing market conditions on future obligations. The terms of the NCUA guarantee are detailed in the guarantee agreement of each Trust.

## Static Portfolio Management

Although the Legacy Assets backing the NGNs will not be actively traded, the NCUA will need to make certain decisions concerning the Legacy Assets over the life of the NGNs. These decisions may arise in the context of legal or corporate actions requested by Legacy Asset trustees, the exercise of an optional termination clause under a trust indenture, or action on put-back options on the Legacy Assets. As investor in the Owner Trust Certificates, the AMEs retain rights to any Legacy Assets remaining after maturity and repayment of the NGNs. As liquidating agent, the NCUA would need to determine how to maximize recoveries on the Owner Trust Certificates and remaining Legacy Assets.

## Summary of NGN Balloon Payments

Deal	Date	Original NGN Face	Projected Gross Balloon	Projected Collateral Value	Net Balloon Payment
NGN 2010-R1 IA	October 2020	\$ 3,280,000,000	\$ 513,690,403	\$ 439,898,434	\$ (73,791,969)
NGN 2010-R1 IIA	October 2020	\$ 566,500,000	\$ 19,259,949	\$ 58,862,794	\$ 39,602,845
NGN 2010-C1 A1	October 2020	\$ 613,200,000	\$ -	\$ 640,819,649	\$ 640,819,649
NGN 2010-C1 A2	October 2020	\$ 1,360,800,000	N/A	N/A	N/A
NGN 2010-C1 A3	October 2020	\$ 1,786,000,000	N/A	N/A	N/A
NGN 2010-R2 IA	November 2017	\$ 2,620,000,000	\$ 610,901,724	\$ 529,878,530	\$ (81,023,194)
NGN 2010-R2 IIA	November 2020	\$ 2,862,000,000	\$ 478,046,234	\$ 419,336,983	\$ (58,709,251)
NGN 2010-R3 IA	December 2020	\$ 1,548,000,000	\$ 263,274,790	\$ 216,056,742	\$ (47,218,048)
NGN 2010-R3 IIA	December 2020	\$ 1,600,200,000	\$ 368,649,578	\$ 323,780,025	\$ (44,869,554)
NGN 2010-R3 IIIA	December 2020	\$ 370,000,000	\$ 59,091,713	\$ 64,917,574	\$ 5,825,860
NGN 2010-A1 IA	December 2020	\$ 1,160,863,000	\$ 146,361,917	\$ 165,682,455	\$ 19,320,537
NGN 2011-R1 IA	January 2020	\$ 1,511,000,000	\$ 266,830,664	\$ 310,480,654	\$ 43,649,990
NGN 2011-R2 IA	February 2020	\$ 1,253,000,000	\$ 294,841,498	\$ 312,447,273	\$ 17,605,775
NGN 2011-C1 IA	February 2020	\$ 235,000,000	\$ -	\$ -	\$ -
NGN 2011-C1 IIA	March 2021	\$ 605,000,000	\$ 187,506,296	\$ 194,048,739	\$ 6,542,443
NGN 2011-R3 IA	March 2020	\$ 1,096,000,000	\$ 214,328,657	\$ 220,552,226	\$ 6,223,569
NGN 2011-R4 IA	March 2020	\$ 1,525,000,000	\$ 217,254,923	\$ 230,428,024	\$ 13,173,102
NGN 2011-R5 IA	April 2020	\$ 1,165,000,000	\$ 158,052,269	\$ 186,627,624	\$ 28,575,354
NGN 2011-R6 IA	May 2020	\$ 965,000,000	\$ 109,318,912	\$ 168,467,636	\$ 59,148,724
NGN 2011-M1 A1	June 2013	\$ 730,000,000	N/A	N/A	N/A
NGN 2011-M1 A2	June 2015	\$ 425,000,000	N/A	N/A	N/A
NGN 2011-M1 A3	June 2017	\$ 380,000,000	N/A	N/A	N/A
NGN 2011-M1 A4	June 2019	\$ 300,000,000	N/A	N/A	N/A
NGN 2011-M1 A5	June 2021	\$ 375,000,000	\$ 230,186,499	\$ 260,562,341	\$ 30,375,841
<b>Total</b>		<b>\$ 28,332,563,000</b>	<b>\$ 4,137,596,028</b>	<b>\$ 4,742,847,702</b>	<b>\$ 605,251,674</b>

Source: Barclays Capital

## 4. Operations

### Technology

The NCUA must maintain IT infrastructure adequate to serve the ongoing needs of the NGN Program. Enhanced technology and support, such as a data warehouse and new vendor tools such as Intex will be needed by the NCUA. Proprietary tools will require more powerful desktop machines to efficiently run vendor utilities.

Multiple offices within the NCUA will need to access information about the NGN Program. Maintaining a central site to house all information related to the NGN Program will allow for effective and timely communication between these offices, minimize duplication, and provide timely information to constituents. Information stored may include:

- Deal documents for the NGNs,
- Performance metrics and analysis of the NGNs and underlying Legacy Assets,
- Internal procedures for handling requests for direction, guaranty payment notices, and/or options that arise under the NGN documents,
- Records of guarantee payments made, if any, and
- Reports on NGN Trusts, Legacy Assets and the AMEs.

It will be necessary to assign responsibility for the maintenance, completeness, accuracy, and security of the data warehouse. Policies and procedures will need to be developed to govern public reporting of NGN performance.

### Guarantee Payments and Cash Forecasting

Performance under the guarantee agreements will require timely and accurate cash forecasting, taking into account the limits on the NCUA's sources of liquidity (i.e. limits to borrowing from the US Treasury). Monitoring sources and uses of cash will also be critical for communicating the timing and amount of any assessments to credit unions and the AMEs' ability to satisfy claims. The current projection for sources and uses of cash is attached and will need to be maintained on a periodic basis with updated NGN projections.

### Asset Disposition

As the liquidating agent of the AMEs, the NCUA will have exposure to the Legacy Assets after the legal maturity of the NGNs. As holders of the Owner Trust Certificates, the AMEs are the controlling class and retain optional purchase and early termination rights stipulated in the NGN Trust indentures. During a window of time around the legal final maturity of the NGNs, the NCUA, as the liquidating agent of the AMEs, may choose to either retain ownership in any remaining Legacy Assets or direct the trustee to dispose of them through an auction. If the legacy assets are retained by the NCUA upon transaction maturity, additional securitizations may be executed to monetize remaining assets.

## 5. Reporting

There are various reporting requirements under the NGN Program, including the annual TCCUSF financial statements, AME financial reports, internal management reports, NCUA Board and Congressional briefings, and reports and certifications to Congress for TCCUSF costs. Governance and reporting requirements cross many organizational boundaries and thus demand institutionalized oversight and decision-making support. Effective implementation of checks and balances and organization-wide cooperation is an important requirement to ensure clean audits and transparency for stakeholders.

### Reporting

#### Internal Reporting

Internal stakeholders, such as the NCUA Board and various offices will require periodic reporting on the NGN Trusts. Timely and accurate reporting to internal stakeholders requires coordination of efforts, responsibilities, and information sharing across the offices of the NCUA. The NCUA must have the systems, data and analytical resources necessary to meet ad-hoc reporting requirements in a timely fashion.

#### External Reporting

The NCUA will need to provide periodic reporting to satisfy requests from external stakeholders including the Treasury, the IG, the GAO, NGN investors, credit unions and their members. Existing NCUA offices will need to coordinate with PACA in response to media requests for comment on the NGN Program. It is expected that the NCUA will have significant external reporting needs in connection with the NGN Program.

Examples of anticipated internal and external reports:

- The performance of Legacy Assets and resulting impact on the NGNs,
- Guarantee payments made by the NCUA, if any,
- Forecasts of guarantee payments, if any,
- Budgetary resources and uses, including TCCUSF costs, to the OMB, the US Treasury, and Congress,
- Reconciliation and explanation of differences between actual and projected performance of the NGNs and Legacy Assets,
- TCCUSF financial statements,
- AME financial reports, and
- Analysis and documentation supporting recommendations to the NCUA Board.

Additional ad-hoc reporting requests are expected from time to time including from press, trades, credit unions, Congress, Treasury and other government agencies.

### Financial Statements

The NCUA is required to produce financial statements for the TCCUSF audit. These statements will require disclosure of the various guarantees made under the Corporate Resolution Program. Other disclosures in the NCUA's annual report, such as the management discussion and analysis ("MD&A") and Required Supplementary Information disclosures will require an expanded discussion on the guarantee reserve methodology for the NGN Trusts.

Under Federal Regulations, the NCUA is also responsible for assessing and certifying the effectiveness of internal controls on an annual basis, including internal controls over financial reporting. New internal control processes need to be established and assessed periodically to support the NGN Program.

Other institutions with programs similar to the NGN Program, such as GNMA, FNMA, FDIC, and the US Treasury (TARP), have reported certain deficiencies in internal controls over such programs.

### Briefings

The NCUA will be required to brief internal and external stakeholders on the status of the NGN Program. Ensuring that the necessary parties have a comprehensive understanding of the NGN Program and its status will be critical to delivering concise external reports.

### NetRoadshow

NetRoadshow is a vendor that provides the data warehouse that maintains all legal documents pertaining to the issued NGNs, and currently managed by Barclays and outside legal counsel. Pursuant to SEC Rule 17-g5, the NCUA will need to ensure that this warehouse continues to be maintained and its information available to ratings agencies for the life of the NGNs. Additionally, information stored in the NetRoadshow can be used to support in-house analytics and facilitate other internal inquiries.



**EXHIBIT III****Stabilization Fund 2011 Budget and Estimated 2012 Budget**

Category	2011 {a}		2012 {b}	
	FTE	Budget	FTE	Budget
Employee Pay and Benefits	5.00	\$ 200,000	8.50	\$ 1,380,000
Travel		-		15,000
Rent, Communications, Utilities		-		-
Administrative		-		-
Contracted Services				
Consulting		-		6,548,000
Vendors		-		2,750,000
Software/Data Subscriptions		-		815,000
Legal		-		730,000
Estimated Loss Reserve		{c}		{c}
	<u>5.00</u>	<u>\$ 200,000</u>	<u>8.50</u>	<u>\$12,238,000</u>

## Notes

{a} The 2011 Budget reflects solely the cost of the five requested FTE. This is the initial costs to stand up the Oversight Committee. Other 2011 Stabilization Fund operating costs have been previously authorized.

{b} The 2012 estimates reflect budget at full performance.

{c} The Estimated Loss Reserve will be included in the budget; this value is currently being analyzed by independent valuation specialists.

## EXHIBIT IV

### NGN Securities Management and Oversight Committee - Delegation of Authority

	Authority	Delegations
SPE 33	<p>Authority, with respect to guaranties on NCUA securities and assets subject to securitization, to negotiate and approve the terms of, and to execute and deliver, the guaranties. This includes the authority to execute related correspondence and actions.</p> <p>The authorities set forth in this delegation may be re-delegated to another committee member or the Acting Director of the Office of Examination and Insurance. Such re-delegations must be documented with notification provided to the Board.</p>	Chairman of NGN Securities Management and Oversight Committee
SPE 34	<p>Administrative authority of the NGN Securities Management and Oversight Committee (the "Committee"). This authority includes, but is not limited to, (a) formulating an annual budget for the Committee, subject to NCUA Board approval, (b) developing and implementing governance procedures for the coordination of Committee responsibilities, and (c) making personnel actions, procurement decisions, and other actions commensurate with authorities that reside with NCUA office directors. The chairman of the Committee will also be responsible for scheduling briefings of the Committee to the NCUA Board with regard to the activities of the Committee and the NGN Program, on at least a quarterly basis.</p> <p>Budget authority, however, does not include activities already delegated to AMAC, which acts as the administrator of asset management estates and liquidation agent.</p> <p>The chairmanship may be rotated among the Committee members at the discretion of the Board.</p>	Chairman of NGN Securities Management and Oversight Committee

SPE 35	<p>Authority to manage the NGN Program after deal closings, which includes, but is not limited to, the following activities associated with the NGN Program: (a) entering into, authorizing, and managing agreements, procurements, and contracts for legal, consulting, and other professional services; (b) entering into and terminating agreements to guaranty or insure third parties against loss in relation to NGN Program assets or liabilities; (c) monitoring compliance with NGN Program deal documents and exercising or declining to exercise any authorities granted to NCUA in its capacity as guarantor under those documents; and (d) disposing of or satisfying, in any manner permitted under the Federal Credit Union Act, investment securities associated with NCUA's Corporate System Resolution Plan.</p> <p>The authorities set forth in this delegation may be re-delegated to another committee member or the Acting Director of the Office of Examination and Insurance. Such re-delegations must be documented with notification provided to the Board and may include monetary threshold levels for executing this authority.</p>	Chairman of NGN Securities Management and Oversight Committee
SPE 36	<p>Authority to approve payments from the TCCUSF in connection with the NGN Program. This authority (a) does not supersede any authority to make payments from the TCCUSF granted to other offices pursuant to other delegations of authority and (b) includes, but is not limited to, the authority to approve unbudgeted payments required to be made pursuant to guaranties related to the NGN Program and to approve payments in relation to other contracts, Board approved U.S. Treasury borrowings, and other obligations entered into pursuant to SPE 33, 34 and 35.</p> <p>The authorities set forth in this delegation may be re-delegated to another committee member or the Acting Director of the Office of Examination and Insurance. Such re-delegations must be documented with notification provided to the Board and may include monetary threshold levels for executing this authority.</p>	Chairman of the NGN Securities Management and Oversight Committee