

P I M C O

840 Newport Center Drive
Newport Beach, CA 92660
Tel: 949.720.6000
Fax: 949.720.1376

via Federal Express

March 3, 2009

Mr. Richard L. Mayfield, CFA
Capital Markets Specialist
Office of Corporate Credit Unions
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-6113

Dear Rick:

You will find enclosed the hard copy of the Consultancy Report for NCUA.
The report consists of four binders.

Please contact me if you need copies of specific sections and/or copies of the entire report.

Best regards,

(b)(4)

Senior Vice President – Product Manager

PCT:cdm

Enclosures

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Portfolio Overview

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Investment Outlook by Bill Gross

Individual CDO Analyses

Individual RMBS Analyses

February 26, 2009

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Attention: **Scott Hunt and Rick Mayfield**

Re: Portfolio Analysis - Investment Advisory Service

Scott and Rick,

Attached please find our completed assessment of expected loss for the portfolios you have presented to us, based on our engagement letter from January 29, 2009. As agreed, we have analyzed and provided loss assessments for all 2,007 bonds. For approximately 250 of these bonds (mostly 2nd Liens and Home Equity Lines of Credit), loan level data was not available, so we provided summary data in a spreadsheet instead of the two page summary.

These materials are delivered to you in accordance with and subject to the provisions of the Investment Advisory Services Agreement. We have delivered electronic copies by email and hard copies via mail. Please let us know if you would like additional printed copies.

Attached you will find the following parts of our consultancy report:

1. Introduction and Executive Portfolio Summary
2. Analysis of Market Conditions
3. Evaluation of Government Policy Developments
4. Assessment of Possible Courses of Action
5. Description of Modeling Methodology
6. Analysis of Servicers

File Attachment 1 – Presentation of Results of NCUA Portfolio Analysis

File Attachment 2 – Assessment of Fair Value

File Attachment 3 – Bond Specific Summaries

File Attachment 4 – *Investment Outlook* by Bill Gross

Thank you again for choosing PIMCO Advisory Services. We are truly honored.

Best wishes,

(b)(4)

Senior Vice President
PIMCO

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PIMCO Advisory



Consultancy Report National Credit Union Administration

February 26, 2009

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1. Introduction – Executive Portfolio Summary

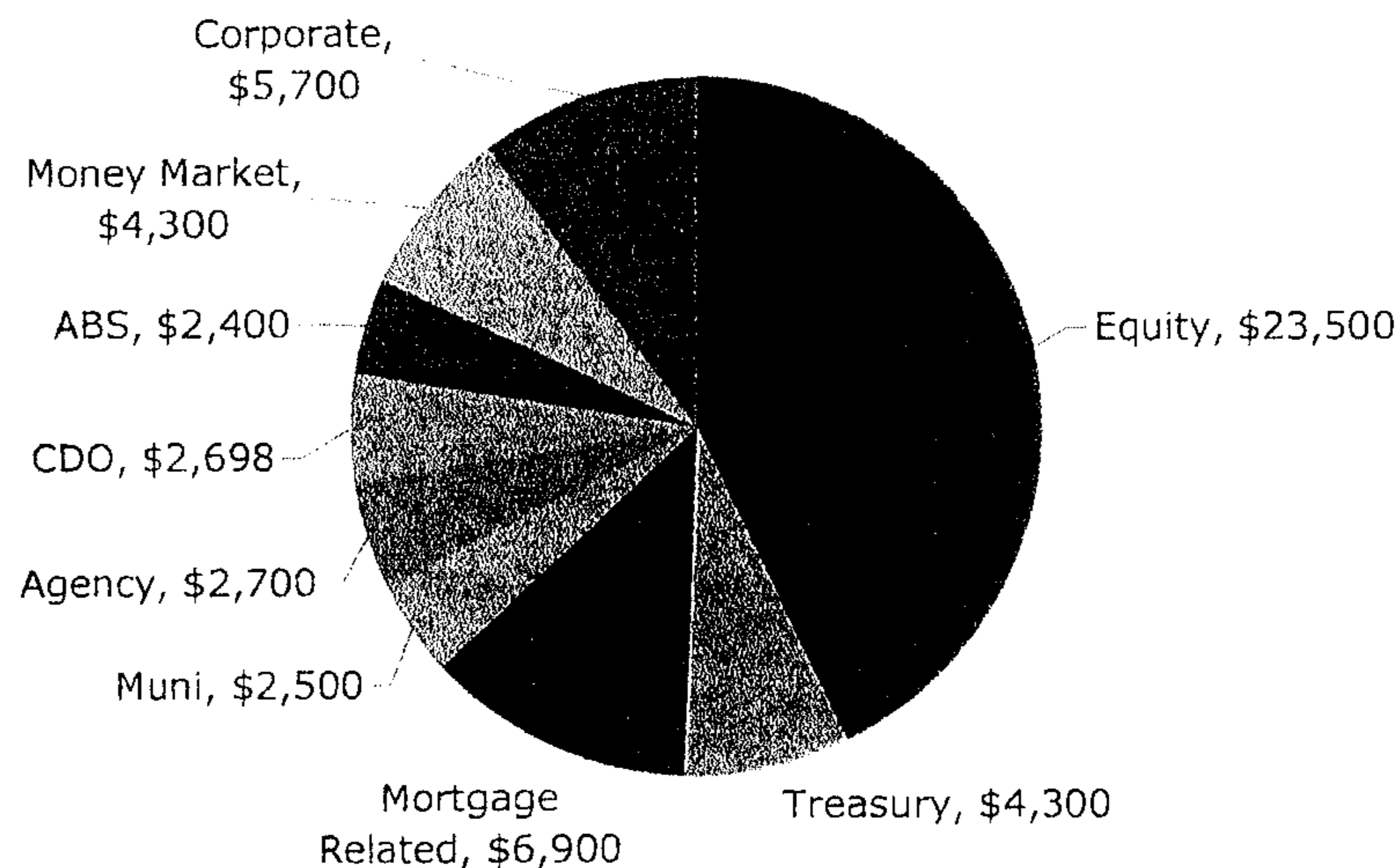
We are pleased to provide NCUA with your completed report and accompanying valuation analyses, at the aggregate portfolio, sub-portfolio and individual asset levels. At your request, we are focused on valuing the assets and ultimately providing an assessment of the timing of losses under pessimistic, base and optimistic scenarios.

PIMCO's process incorporates both top-down macroeconomic views and granular analysis of each asset. To provide context for your analysis, we have included a discussion of the qualitative market forces that are impacting your portfolio, e.g., home prices, public policy and servicer performance. Importantly, we discuss various strategies for reducing risk based on the specifics of your portfolio. Finally, we attach a summary of the analytical framework that we employed for this analysis.

We are witnessing a massive deleveraging of the global economy driven initially by poorly underwritten mortgages, which led ultimately to failures of some of the world's largest financial institutions. We are seeing banks, corporations and consumers forced to sell nearly every type of asset. This has resulted in a sharp decline in the value and liquidity of risk assets and a concurrent increase in volatility.

Until recently, few understood how integral to the global financial infrastructure structured products truly were. For decades, they were considered an esoteric part of the fixed income markets. It is now painfully obvious that they touched nearly every aspect of the global economy. For example: leveraged buyouts were financed via collateralized loan obligations (CLOs); home mortgages via residential mortgage-backed securities (RMBS); consumer credit such as credit cards, student loans and auto loans through asset-backed securities (ABS); and commercial real estate through commercial mortgage-backed securities (CMBS). These esoteric assets were held directly and indirectly by nearly everyone, including "risk-free" money market funds that invested heavily in commercial paper (CP) issued by structured vehicles. Issuance of structured credit peaked around June 2007. At that point in time there was approximately \$5.1 trillion of dollar-denominated funded structured credit outstanding. To put this in context, this is nearly as big as the corporate debt market at that time.

US Capital Markets Outstanding
As of June 2007 (Billions of USD)



SOURCE: SIFMA

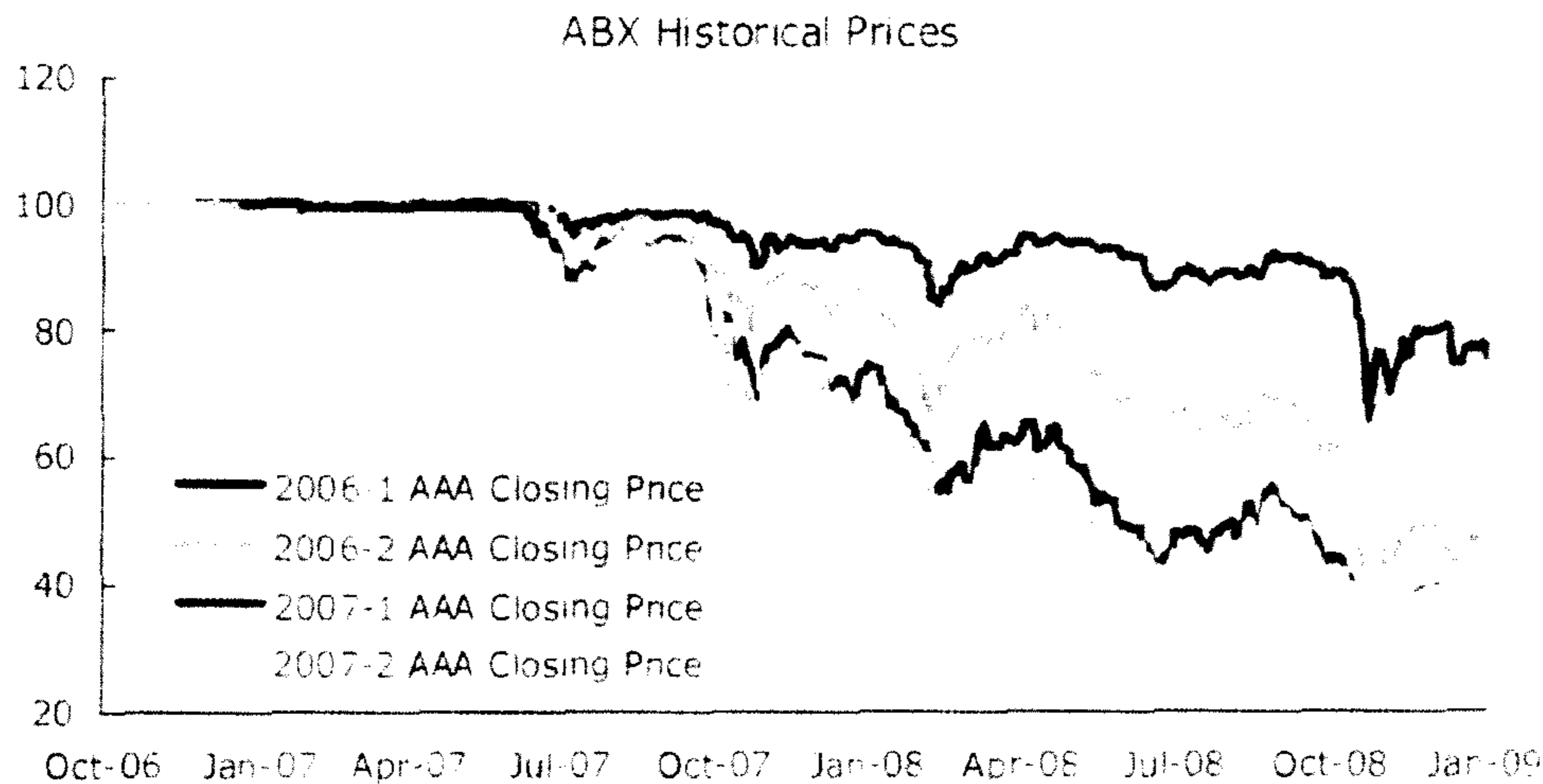
The portfolio you asked PIMCO to analyze is composed of residential mortgage-backed securities (RMBS) and collateralized debt obligations (CDOs). As such, its performance is driven by several important factors, e.g., real estate prices, public policy and servicer impacts, bankruptcy carve-outs, loan modifications and cram-downs. The impact of these factors can change dramatically based on policy decisions and market conditions.

- Policy changes could have either a positive or negative impact on mortgages; however, the impact on your portfolio is largely dependent upon the specifics of each tranche.
- Contingent on the enactment of bankruptcy reform, a feature of the pending H.R. 1106, carve-outs, if applicable, increase the probability that senior bonds that would not otherwise take a loss could suffer a small loss, e.g., 0%–2%. Consequently, the impact on loss forecasts is small, but could result in a material risk of downgrade of senior tranches. Note that based on developments this week, we believe the probability of this applying is materially reduced.
- Servicer Safe Harbor and incentive payments to servicers for performing modifications are each features of the pending H.R. 1106; they will combine to increase the frequency and loan-level impact of modifications in non-Agency RMBS.
- The mezzanine tranches of Alt-A, Prime & Prime Option adjustable-rate mortgages (ARMs) are highly levered to the negative outcomes associated with aggressive streamlined loan modifications that are performed under the auspices of servicer-harbor legislation and bankruptcy court-imposed principal-balance reduction modifications (i.e., cram-downs). This composes approximately 25% of your portfolio.

It is important to note that our base case incorporates not just a weakening of the housing market, but also the potential benefits to the housing market from positive policy responses.

2. Analysis of Market Conditions

Residential Mortgage Backed Securities (RMBS) continue to deteriorate from a fundamental credit and pricing perspective, as illustrated by the following chart of historical ABX pricing. This is a reflection of continuing increases in delinquency rates, declines in home prices and regulatory changes such as mortgage cram-downs and streamlined loan modifications. The loss estimates have not recently increased as much as in other fixed-income sectors over the last quarter because the poor credit performance in RMBS has persisted over the last 1-2 years and is experiencing some burnout especially for the 2004-2005 vintages.



Home Prices, Non-Agency Concentration, and Unemployment

Nationally and across the major regions, house prices have continued their decline, with further year-on-year price declines registered in all the major cities in the S&P/Case-Shiller Home Price Index. In the composite of 20 major U.S. cities (metropolitan statistical areas (MSA)), home prices have fallen over 18% since November 2007, and have fallen over 27% from their peak. The specific city breakouts are listed below:

MSA	1-Year Home Price Change
Phoenix	-34.0%
Las Vegas	-33.0%
San Francisco	-31.2%
Miami	-28.8%
Los Angeles	-26.4%
San Diego	-24.8%
Tampa	-22.0%
Detroit	-21.7%
Washington	-19.2%
Minneapolis	-18.5%
Chicago	-14.3%
Seattle	-13.4%
Portland	-13.1%
Atlanta	-12.2%
New York	-9.4%
Charlotte	-7.2%
Boston	-7.0%
Cleveland	-6.1%
Dallas	-4.3%
Denver	-4.0%

Composite of 20 MSAs: -18.6%

MSA	Peak to Trough Price Change (Change/Peak)
Phoenix	-45.5% Jun-06
Las Vegas	-44.0% Aug-06
Miami	-41.3% Dec-06
San Francisco	-40.4% May-06
San Diego	-39.2% Nov-05
Los Angeles	-37.4% Sep-06
Detroit	-36.3% Dec-05
Tampa	-34.5% Jul-06
Washington	-29.8% May-06
Minneapolis	-25.8% Sep-06
Chicago	-18.6% Sep-06
Seattle	-16.7% Jul-07
Atlanta	-16.6% Jul-07
Boston	-16.1% Sep-05
Portland	-15.0% Jul-07
New York	-15.0% Jun-06
Cleveland	-14.8% Jul-09
Denver	-10.4% Aug-06
Charlotte	-9.9% Aug-07
Dallas	-8.6% Jun-06

Composite of 20 MSAs: -27.1%

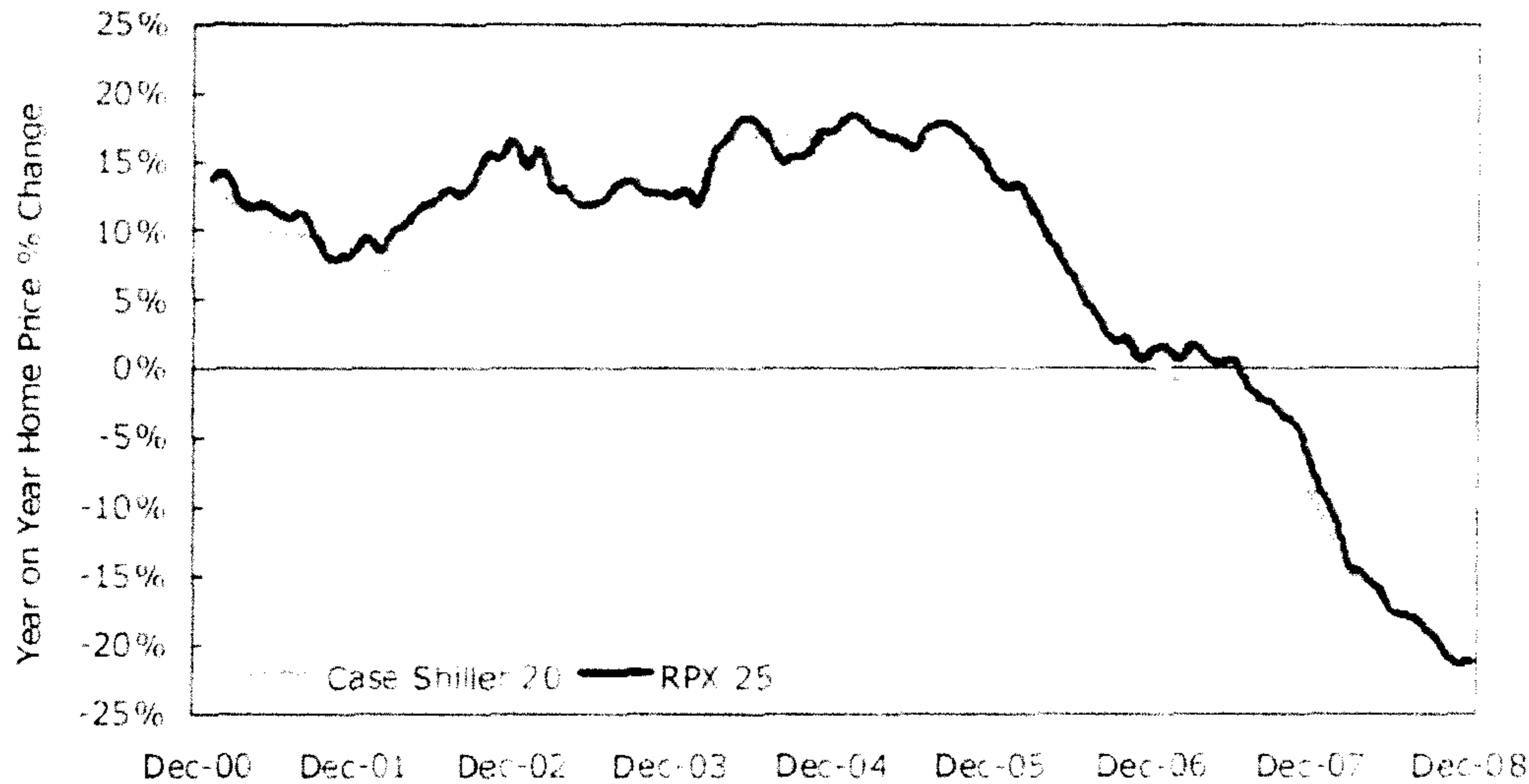
As the crises in the housing and financial markets continue, regional differentiation with respect to house price depreciation is increasing markedly. In December 2007, the range between the most severe peak-to-trough depreciation area (San Diego) and the least severe area (Portland) was 17%. Currently, the spread between best and worst performing regions has more than doubled to 37% (Dallas and Phoenix.)

The growing dispersion between regions in home price depreciation can largely be attributed to the concentration of non-Agency mortgages in a given area, with the notable exception of the housing market in Detroit and its previously unique unemployment issues. Areas with the highest concentrations of non-Agency mortgages (AZ, CA, FL, NV) have been hardest hit by falling home prices as affordability products like Pick-A-Pay mortgages and no-doc loans created the earliest and largest run up in home prices. With the non-Agency loan origination market closed and increasing numbers of borrowers unable to refinance into higher credit quality and larger down-payment Agency mortgages, these houses are being foreclosed on and sold back into the market at severe discounts, driving down all house prices.

In addition, the effect of rising unemployment will further weigh on home prices as demand for housing decreases further.

The path of home prices over the last decade can be seen in the graph below. While the S&P/Case-Shiller Composite is an index tracking home prices across 20 major metropolitan areas, the RPX 25 Index is a tradable composite based on housing prices per square foot across 25 major metropolitan areas. As the graph shows, the housing market crossed into year-over-year declines in mid-2007 and continued its fall uninterrupted throughout all of 2008 and during the first quarter of 2009.

RPX 25 Index vs Case Shiller 20 Composite Index



The RPX property price index is implying significant further declines in home prices.

RPX Peak To Trough Home Prices



RPX is a home price index based on actual transactions across 25 MSAs. This index is published daily with a 63-day lag. An over-the-counter (OTC) market based on forwards on the RPX provides insight into the forward home price path implied by the market. We use implied home price appreciation from this OTC market as one of the inputs for our forward projections.

Currently, RPX is implying a bottom in 2010 with a peak-to-trough decline of 42% (19% lower than current prices).

The systemic de-leveraging catalyzed by the steep and persistent decline in national house prices has, as displayed in the following chart, resulted in credit contraction sufficient to cause substantial increases in unemployment. This has resulted in a flurry of public policies intended to break the vicious cycle of deleveraging, asset-price deflation, credit contraction and unemployment.

RPX 25 Index vs Case Shiller 20 Composite Index vs Unemployment Rate

