



Fact Sheet

NCUA Guaranteed Notes

In conjunction with the Corporate System Resolution Program announced on September 24, 2010, the National Credit Union Administration (“NCUA”) established a securitization program to provide long-term funding for legacy assets formerly held in the securities portfolios of certain corporate credit unions through the issuance of NCUA-Guaranteed Notes (“NGNs”). This fact sheet provides an overview of the NGNs and addresses their permissibility as an investment for credit unions serving natural persons (“natural person credit unions”).

Issuance

The NGNs will be collateralized by various previously-issued securities, including residential mortgage-backed securities; commercial mortgage-backed securities; other asset-backed securities; and/or corporate bonds (collectively, the “Underlying Securities”).

The NGNs will be issued in a series of securitizations, which began in October 2010, and will be predominantly structured as floating-rate amortizing notes that approximate the cash flows of floating-rate Underlying Securities. Some fixed-rate NGNs will also be issued and will similarly track the cash flows of fixed-rate Underlying Securities.

Payments

Cash flows from the Underlying Securities will be used to make principal and interest payments to holders of the NGNs. Timely payment of principal and interest on the NGNs is directly, fully, and unconditionally guaranteed by NCUA in its capacity as an Agency of the Executive Branch of the United States. NCUA’s guaranty obligations will be set forth in guaranty agreements executed by NCUA in relation to each NGN issuance.

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Permissibility

Under Section 102(a) of the Federal Credit Union Act (“FCU Act”), NCUA was created by an act of Congress as an independent Agency of the Executive Branch of the United States. As such, obligations that NCUA is authorized to undertake pursuant to the FCU Act, which include the guaranty obligations issued in relation to the NGNs, are backed by the full faith and credit of the United States. See 6 Op. O.L.C. 262, 264 (1982) (*citing* 41 Op. Att’y Gen. 403, 405 (1959); 42 Op. Att’y Gen. 341, 344 (1967); 41 Op. Att’y Gen. 424, 430 (1959); *Perry v. United States*, 294 U.S. 330, 353, 54 (1935); and *Lynch v. United States*, 292 U.S. 571, 580 (1934)).

Federally-chartered natural person credit unions are permitted by statute to invest funds “in obligations, participations, securities, or other instruments of, or issued by, or fully guaranteed as to principal and interest by any . . . agency of the United States.” See 12 U.S.C. § 1757(7)(E). Thus, the NGNs are permissible investments for federally-chartered natural person credit unions. Whether state-chartered natural person credit unions can invest in the NGNs is governed by applicable state law.

NCUA Letters to Credit Unions 10-CU-18 and 10-CU-19 address some of the due diligence processes that should be undertaken before investing in the NGNs (or any other investment), even if they are a permissible investment.

Call Reporting

Beginning December 31, 2010, the NCUA Call Report will include a separate line for natural person credit unions that invest in the NGNs to report the investments on the applicable reporting dates.

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