NCUA 2012
FINANCIAL STATEMENT AUDIT
FOR

TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND

For the year ended December 31, 2012

Audited Financial Statements	Audit Report Number
Temporary Corporate Credit Union Stabilization Fund	OIG-13-06

March 27, 2013

William A. DeSarno
Inspector General

EXECUTIVE SUMMARY

PURPOSE AND SCOPE

This report transmits KPMG LLP's (KPMG) report on its financial statement audit of the National Credit Union Administration's (NCUA) financial statements for the Temporary Corporate Credit Union Stabilization Fund for the years ending December 31, 2012 and 2011. The NCUA prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and subjected them to audit.

AUDIT REPORT ON FINANCIAL STATEMENTS, INTERNAL CONTROL, AND COMPLIANCE AND OTHER MATTERS

Under a contract monitored by the NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of the NCUA's financial statements as of December 31, 2012. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States; Office of Management and Budget audit guidance, and the *Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual.*

KPMG's audit report for 2012 includes: (1) an opinion on the financial statements, (2) conclusions on internal control over financial reporting, and (3) a section addressing compliance and other matters. In its audit of the NCUA, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- There were no material weaknesses in internal controls,[1]
- There were no significant deficiencies to internal controls.[2]
- No instances of reportable noncompliance with laws and regulations it tested or other matters that are required to be reported under Government Auditing Standards or OMB guidance.

[1] A material weakness is defined as a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

[2] A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

OIG EVALUATION OF KPMG'S AUDIT PERFORMANCE

To ensure the quality of the audit work performed, we reviewed KPMG's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, and reviewed and accepted KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on NCUA's financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's reports dated March 27, 2013 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

This report is only on the Temporary Corporate Credit Union Stabilization Fund for the year ended December 31, 2012. The report for the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility and the Community Development Revolving Loan Fund were issued on February 15, 2013 and can be found on the NCUA OIG's website.

We would like to extend our thanks to NCUA management and staff involved in issuing the financial statement within the established milestones. In addition, we appreciate the professionalism, courtesies, and cooperation extended to KPMG throughout the audit and our oversight of the audit process.

Report # OIG-13-06

National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund

Financial Statements as of and for the Years Ended
December 31, 2012 and 2011, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND

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Overview

I. *Mission, Background and Organizational Structure*

TCCUSF Mission and Background

The National Credit Union Administration (NCUA) administers the Temporary Corporate Credit Union Stabilization Fund[1] (TCCUSF). Congress established the TCCUSF in May 2009 as a revolving fund in the Treasury of the United States (U.S. Treasury) under the management of the NCUA Board. The TCCUSF is planned to close in June 2021.

The TCCUSF accrues the losses of the corporate credit union system and, over time, assesses the credit union system for the recovery of such losses. References to credit unions or credit union system refer only to those credit unions that are federally insured.

Acting under authority granted by Congress under the *Helping Families Save Their Homes Act of 2009*, the NCUA Board took action to provide significant relief to insured credit unions in dealing with assessments related to corporate credit union stabilization actions while maintaining a safe and strong National Credit Union Share Insurance Fund[2] (NCUSIF). With the failures of several large corporate credit unions in 2009, the TCCUSF provided an opportunity to mitigate the one-time assessment burden on federally insured credit unions for corporate credit union stabilization actions. While it has recognized the corporate credit union stabilization costs under the TCCUSF, the NCUA Board, at its discretion, determines if, and when, to assess premiums over the life of the TCCUSF. The total special premium assessments to federally insured credit unions over the life of the TCCUSF are currently estimated to range from $5.7 billion to $8.0 billion. Through 2012, special premium assessments totaled $4.1 billion.

On September 24, 2010, the NCUA Board announced the Corporate System Resolution Program (CSRP). The CSRP is a multi-stage plan for stabilizing the corporate credit union system, providing short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), other asset-backed securities (ABS) and corporate bonds (collectively referred to as the Legacy Assets) held by the failed corporate credit unions, and establishing a new regulatory framework for corporate credit unions. Under the CSRP, the NCUA created a re-securitization program (NGN Program) to provide long-term funding for the Legacy Assets through the issuance of the NCUA Guaranteed Notes (NGNs) by trusts established for this purpose (NGN Trusts). The NGNs are guaranteed by the NCUA, and backed by the full faith and credit of the United States Government.

The Legacy Assets from failed corporate credit unions consisted of over 2,000 investment securities, secured by approximately 1.6 million residential mortgages, as well as commercial mortgages and other assets. With the issuances of NGNs, the NCUA transferred the associated Legacy Assets into the respective NGN Trusts.

As part of the CSRP, the NCUA Board liquidated five corporate credit unions during 2010. The assets and liabilities of the liquidated corporate credit unions were placed into asset management estates, administered by the NCUA Board as the liquidating agent, through its Asset Management and Assistance Center (AMAC), pursuant to applicable provisions of the Federal Credit Union Act (FCU Act). To facilitate the resolution process, the NCUA Board chartered four bridge corporate credit unions (Bridge Corporates) to purchase certain assets and assume certain liabilities and member shares from the asset

[1] The TCCUSF is one of five funds established in the U.S. Treasury and administered by the NCUA Board. In addition to the TCCUSF, a temporary fund, NCUA administers four permanent funds to include the National Credit Union Share Insurance Fund, the Operating Fund, the Central Liquidity Facility and the Community Development Revolving Loan Fund. All five funds report under separate financial statements.

[2] NCUSIF insures members' accounts in insured credit unions up to the standard maximum share insurance amount.

management estates. To the extent that the liabilities and shares assumed exceeded the assets purchased by the Bridge Corporates, the asset management estates issued promissory notes (Promissory Notes) to the Bridge Corporates for the difference. Each Promissory Note was guaranteed by the NCUA and was primarily funded by the TCCUSF.

During 2011, the NCUA repaid the outstanding Promissory Notes and approved the mergers of two Bridge Corporates.

In 2012, the NCUA Board completed the CSRP with the closing of remaining two Bridge Corporates. The TCCUSF continues to provide funding necessary for the continuation of the NGN Program through 2021 and for AMAC to complete the wind down of the corporate credit union asset management estates.

Organizational Structure

The NCUA Board authorized staff to establish the corporate governance structure of the TCCUSF. The NCUA Board delegated operational oversight and provided authority to staff to borrow funds, invest and approve assistance to corporate credit unions subject to limitations.

The NCUA Board created the NGN Securities Management and Oversight Committee to ensure that NCUA meets all its statutory and legal obligations under the NGN Program. The Directors of the Office of Examination & Insurance, AMAC and the Office of the Chief Financial Officer comprise the committee.

The Director of Examination & Insurance serves as the Chair of the NGN Securities Management and Oversight Committee and other NCUA offices provide operational and administrative services to the TCCUSF. AMAC administers the asset management estates, collects obligations due to the closed corporate credit unions, monetizes assets and distributes amounts to claimants, including the TCCUSF, in accordance to their respective regulatory pay-out priorities.

II. Performance Goals, Objectives and Results

The focus of NCUA’s efforts in supervising corporate credit unions is to ensure their ongoing safety and soundness as well as their continued ability to provide uninterrupted services to the consumer credit unions that they serve.

NCUA’s mission, as outlined in the *NCUA 2011-2014 Strategic Plan*, is to “provide through regulation and supervision a safe and sound credit union system which promotes confidence in the national system of cooperative credit.” NCUA’s annual objectives related to corporate credit unions in 2012 are to:

- continue to stabilize the corporate credit union system;
- ensure the transition of consumer credit unions from the Bridge Corporates without disruption of member services; and
- improve the transparency of the NGN Program.

NCUA has successfully met these goals. By the end of 2012, NCUA had successfully completed its efforts to stabilize, resolve and reform the corporate credit union system. Corporate credit unions maintained sufficient liquidity to meet member needs and maintained adequate capital to meet the NCUA’s Prompt Corrective Action requirements. The last two Bridge Corporates were closed during 2012 with no disruption of member services.

Operational success in meeting the goals of NCUA’s Strategic Plan to “promote confidence in the national system of cooperative credit” is further evidenced by the ongoing stability of the TCCUSF. In 2012 and 2011, the TCCUSF maintained sufficient liquidity to meet its obligations. During the same period, the TCCUSF’s deficit, as represented by the negative Net Position of the TCCUSF, continued to decline consistent with the design of the TCCUSF. In 2012, the deficit in Net Position decreased by $1.8 billion, to $3.5 billion. Substantially all of this change is explained by both the $792.5 million in special premium assessments collected from insured credit unions and by a $806.5 million reduction in estimated insurance losses, the majority of which was related to the change in the projected future performance of the Legacy Assets in the NGN Program.

During 2012 and 2011, the TCCUSF was principally responsible for four initiatives and related guarantees to stabilize the corporate credit union system: the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP), the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP), Promissory Notes, and NGNs. As of December 31, 2012, the TCCUSF had no further obligations under the TCCUSGP, TCCULGP and Promissory Notes due to expiration of related guarantees. As of December 31, 2012, the TCCUSF recognized no liability for the NGN Program.

While NCUA recognized no insurance losses for the TCCUSF at year-end 2012, since inception, the TCCUSF has made approximately $9.4 billion in guarantee payments. At December 31, 2012, NCUA estimated that approximately $1.1 billion will ultimately be recovered from the corporate credit union asset management estates. Actual amounts recovered could differ from these estimates as the NGN Program continues and the corporate credit union asset management estates are resolved.

Finally, NCUA increased transparency on the NGN Program through the distribution of press releases, town hall style meetings, videos and Web pages. Web pages specifically devoted to the NGN Program are available on NCUA's Website and are updated every six months.

III. Financial Statement Analysis

During 2012, the financial condition of the TCCUSF remained stable in that it maintained sufficient liquidity to meet its obligations and that the TCCUSF's deficit continued to decline. At December 31, 2012, the TCCUSF had a negative Net Position of $3.5 billion, a change of approximately $1.8 billion as compared to the year-end 2011 Net Position of negative $5.3 billion.

Summarized financial information is presented below for the TCCUSF.

Summarized Financial Information (in thousands)		
	December 31, 2012	December 31, 2011
Total Assets	$ 1,610,008	$ 1,195,035
Receivables from Asset Management Estates, Net	1,139,081	626,678
Fund Balance with Treasury and Investments	377,901	284,712
Borrowings from the U.S. Treasury	5,100,000	3,500,000
Insurance and Guarantee Program Liabilities	-	2,944,207
Net Position	(3,494,730)	(5,254,105)
Net Income from Operations	1,669,388	1,921,157
Special Premium Revenue	792,493	1,956,462
Guarantee Fee Revenue	84,812	89,468
Provision for Insurance Losses, Reduction (Expense)	806,508	(110,500)

Balance Sheet Highlights
Assets grew by $415.0 million in 2012 primarily as a result of increases in TCCUSF's claims on Receivables from Asset Management Estates. These net receivables increased by $512.4 million from 2011 to 2012. Reflected in the increase is the favorable change in the future cash flows of the Legacy Assets in the NGN Program. Also, Fund Balance with Treasury (FBWT) and Investments increased by $93.2 million from 2011 to 2012, primarily due to the monetization of assets within asset management estates.

During 2012, the TCCUSF borrowed $1.9 billion from the U.S. Treasury and repaid $300.0 million, resulting in an outstanding balance of $5.1 billion as of December 31, 2012. These borrowings were used to fund the $3.5 billion guarantee payment for the Medium Term Notes (MTNs).

Insurance and Guarantee Program Liabilities, also referred to as contingent liabilities, decreased by $2.9 billion in 2012. The reduction in Insurance and Guarantee Program Liabilities is due to the guarantee payments that were previously accrued. These disbursements were for events such as the maturity of $3.5 billion in MTNs and the liquidation of the remaining two Bridge Corporates. Also, by December 31, 2012, all guarantees under the TCCUSGP and TCCULGP had expired. While the contingent liability is zero at year-end, the TCCUSF continues to have a guarantee obligation for the NGN Program. The contingent liability balance could increase in the future, depending on future analyses of the value of Legacy Assets in the NGN Program.

Statement of Net Cost Highlights

Net Income from Operations was $1.7 billion for 2012, as compared to $1.9 billion for 2011. The 2012 net income is primarily from $792.5 million for Special Premium Revenue and $806.5 million from the reduction in the Provision for Insurance Losses. This reduction is primarily due to the favorable change in future cash flows of the Legacy Assets in the NGN Program. Additionally, net income includes $84.8 million in Guarantee Fee Revenues.

Statement of Changes in Net Position Highlights

Cumulative Results of Operations increased by $1.8 billion in 2012. This increase was due to Net Income from Operations of $1.7 billion and a distribution receivable from the NCUSIF of $88.1 million.

As of December 31, 2012 and 2011, the TCCUSF recorded an estimate for the distribution receivable from the NCUSIF to bring the NCUSIF equity ratio to its normal operating level of 1.30 percent in the amounts of $88.1 million and $278.6 million, respectively.

Statement of Budgetary Resources Highlights

Activity impacting budget totals of the overall Federal Government is recorded in the TCCUSF's Statements of Budgetary Resources. Total TCCUSF budgetary resources decreased in 2012 by $4.0 billion, primarily due to guarantee payments related to the MTNs. The TCCUSF's gross outlays of $3.6 billion and $5.9 billion for 2012 and 2011, respectively, were used primarily to extinguish MTNs and Promissory Notes.

Fiduciary Activity Highlights

As the TCCUSF was established to accrue the losses of the corporate credit union system and, over time, assesses the credit union system for the recovery of such losses, the TCCUSF's financial results are driven by the financial performance of the corporate credit union asset management estates and the NGN Program. The financial results of the corporate credit union asset management estates and the NGN Trusts in the NGN Program are presented as fiduciary activities of the TCCUSF in accordance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard No. 31, *Accounting for Fiduciary Activities*, and are included in the notes to the TCCUSF financial statements.

NGN Program

The outstanding principal balance of the NGNs was $21.2 billion and $24.7 billion as of December 31, 2012 and 2011, respectively. This amount represents the maximum potential future guarantee payments that NCUA could be required to make without consideration of future expected cash flows from underlying Legacy Assets and possible recoveries under the terms of the guarantee or from the asset management estates. The losses from the guarantee of NGNs are expected to be significantly less than the above maximum potential exposure, and such losses are based on estimated guarantee payments, net of estimated guarantor reimbursements, if any, from the NGN Trusts and expected recoveries, if any, from the asset management estates. The NCUA's estimate of the expected recovery from the asset management estates reflects the NCUA's expectations and assumptions about the recovery value of the asset management estates' assets, which include asset management estates' economic residual interests in the NGN Trusts.

The NCUA's estimated guarantee payments, guarantor reimbursements and the recovery values, if any, of the asset management estates' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Assets transferred to the NGN Trusts in the priority of payments pursuant to the governing documents of each NGN Trust. The estimated cash flows incorporate the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts are also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral that comprise the Legacy Assets, and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets. The external model produces estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgage loans and other assets. Assumptions about prepayments, defaults and loss severity are developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rates, housing prices and interest rates.

The table below represents the composition of Legacy Assets collateralizing the 13 NGN Trusts with an aggregate unpaid principal balance of $28.2 billion and $34.3 billion and recovery value of approximately $21.3 billion and $24.5 billion as of December 31, 2012 and 2011, respectively.

		Based on Recovery Value				Based on Unpaid Principal Balance			
Asset Type and Credit Rating[1]		2012		2011		2012		2011	
	AAA		1%		3%		1%		2%
	AA		5%		7%		3%		4%
RMBS	A	71%	3%	71%	3%	77%	2%	79%	2%
	BBB		3%		5%		2%		3%
	Below Investment Grade		88%		82%		92%		88%
	NA		0%		0%		0%		0%
	AAA		18%		16%		19%		17%
	AA		21%		15%		21%		15%
CMBS	A	21%	36%	19%	44%	15%	34%	13%	44%
	BBB		11%		15%		11%		14%
	Below Investment Grade		14%		10%		15%		11%
	NA		0%		0%		0%		0%
	AAA		3%		23%		2%		18%
	AA		35%		18%		25%		15%
ABS[2]	A	4%	40%	6%	33%	4%	29%	5%	27%
	BBB		9%		7%		7%		6%
	Below Investment Grade		13%		19%		37%		34%
	NA		0%		0%		0%		0%
Agency	Agency	2%	100%	3%	100%	2%	100%	2%	100%
	AAA		0%		0%		0%		0%
	AA		2%		2%		2%		2%
Corporate	A	2%	10%	2%	27%	2%	8%	2%	21%
	BBB		28%		28%		22%		23%
	Below Investment Grade		20%		1%		18%		5%
	NA		40%		41%		50%		49%

Percentages may not total 100% due to rounding.

[1] Credit rating is based on the lowest rating published rating by Standard & Poor's, Moody's, or Fitch, where available.

[2] The collateral underlying the ABS included in the tables above is primarily student loans.

Due to uncertain systemic risks and the possibility of variances with assumptions, actual losses could differ materially from the contingent liabilities recorded by the TCCUSF.

Performance measures are designed to enable management and the NCUA's stakeholders to assess programs and financial performance and to use this information to make improvements. Performance measures have inherent limitations including the change over time in the correlation of cause and effect. A strong correlation between cause and effect in one period may not continue into the next. In addition, performance measures may not address systemic risks, which can have a significant determination on future results.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the TCCUSF. While the statements have been prepared from the books and records of the TCCUSF in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Liquidity Risk and Capital Resources

For liquidity, the TCCUSF maintains cash in its FBWT as well as investments in overnight U.S. Treasury Securities, which are available for the possibility of urgent liquidity needs.

2012 and 2011 Fund Balance with Treasury and Investments (in thousands)		
	December 31, 2012	December 31, 2011
Fund Balance with Treasury	$ 1,425	$ -
U.S. Treasury Securities, Overnight	376,476	284,712

The FBWT account is increased by special premium assessments, guarantee fee income, proceeds from borrowings from the U.S. Treasury, interest income on investments in U.S. Treasury Securities, distributions from the NCUSIF, and any recoveries from the asset management estates. The FBWT account is decreased by amounts expended in support of stabilizing the corporate credit union system, including guarantee payments, repayment of borrowings from the U.S. Treasury and related interest payments, and purchases of U.S. Treasury Securities.

The TCCUSF is a revolving fund in the U.S. Treasury and has access to sufficient funds to meet its obligations, including its Insurance and Guarantee Program Liabilities.

The TCCUSF has multiple sources of funding including:

- special premium assessments on credit unions, as necessary;
- borrowings from the U.S. Treasury; and
- distributions from the NCUSIF, as provided by the FCU Act.

Special Premium Assessments

In January 2011, *The National Credit Union Authority Clarification Act*, Public Law 111-382 (Clarification Act), amended the FCU Act by clarifying NCUA's authority to assess a premium against credit unions not only to repay TCCUSF advances but also to make TCCUSF expenditures without borrowing from the U.S. Treasury. The Clarification Act permits the NCUA Board to assess a special premium with respect to each insured credit union in an aggregate amount that is reasonably calculated to make any pending or future TCCUSF expenditures, in addition to existing authority to make assessments to repay U.S. Treasury advances. The Clarification Act also states that the NCUA Board must take into consideration any potential impact on credit union earnings that such an assessment may have and requires the premium be paid not later than 60 days after the date of the assessment.

Borrowing Authority from the U.S. Treasury

The TCCUSF has $6.0 billion in maximum statutory borrowing authority, shared with the NCUSIF, from the U.S. Treasury. As of December 31, 2012 and 2011, the TCCUSF had $5.1 billion and $3.5 billion in borrowing outstanding from the U.S. Treasury, respectively; the NCUSIF had no borrowings outstanding. As a result, the TCCUSF had $0.9 billion and $2.5 billion, respectively, in available borrowing authority, shared with the NCUSIF. The estimated losses and liquidity needs of the TCCUSF are based on the NCUA's expectations and assumptions about the resolution of failed corporate credit unions, including the disposition and recovery value of their assets. Actual losses of the TCCUSF, including the TCCUSF's funding needs, could differ from those estimates. Additional borrowing reduces funds available from this source.

Distributions from the NCUSIF
In accordance with Section 202(c)(3) of the FCU Act, *Distributions from Fund Required*, the NCUA Board shall effect a pro rata distribution from the NCUSIF to insured credit unions after each calendar year, if: (i) any loans to the NCUSIF from the Federal Government, and any interest on those loans, have been repaid; and (ii) the NCUSIF's equity ratio exceeds the normal operating level, as defined, of 1.3 percent; and (iii) the NCUSIF's available assets ratio, as defined, exceeds 1.0 percent. The amount of distribution shall equal the maximum possible amount that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.3 percent and does not reduce the NCUSIF's available assets ratio below 1.0 percent.

IV. Systems, Controls and Legal Compliance

The TCCUSF was created by Public Law 111 – 22, *Helping Families Save Their Homes Act of 2009*, enacted May 20, 2009. NCUA, including the TCCUSF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. §661e(a)(1)). The TCCUSF may make expenditures only in connection with the conservatorship, liquidation, or threatened conservatorship or liquidation of a corporate credit union. Governing legislation specified that the TCCUSF would close 90 days after the seven year anniversary of its first borrowing from the U.S. Treasury, which was June 25, 2009. With the concurrence of the U.S. Treasury, the TCCUSF's closing date was extended to June 30, 2021.

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. The Federal Manager's Financial Integrity Act (FMFIA) requires agencies to establish management controls over their programs and financial systems. Accordingly, NCUA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of FMFIA, which include safeguarding assets and compliance with applicable laws and regulations. NCUA managers monitor and assess their relevant internal controls and report on their assessment. This allows NCUA management to provide reasonable assurance that internal controls are operating effectively. NCUA is in compliance with FMFIA as well as all applicable laws such as the Prompt Payment Act, and the Debt Collection and Improvement Act. As required by the Improper Payments Elimination and Recovery Act, NCUA determined that the TCCUSF's programs are not susceptible to a high risk of significant improper payments.

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Independent Auditors' Report

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibilities

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund as of December 31, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the TCCUSF changed its presentation for reporting the statement of budgetary resources in 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the TCCUSF's statement of budgetary resources for 2011 has been adjusted to conform to the current year presentation.

Supplemental Information

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the TCCUSF's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TCCUSF's internal control. Accordingly, we do not express an opinion on the effectiveness of the TCCUSF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TCCUSF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in this Other Reporting Responsibilities section is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

March 27, 2013

NATIONAL CREDIT UNION ADMINISTRATION
TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND

BALANCE SHEETS
As of December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 1,425	$ -
Investments, Net - U.S. Treasury Securities (Note 3)	376,476	284,712
Accounts Receivable - Due from the National Credit Union Share Insurance Fund	690	-
Other - Distribution Receivable from the National Credit Union Share Insurance Fund (Note 5)	88,090	278,641
Total Intragovernmental Assets	466,681	563,353
PUBLIC		
Accounts Receivable - Special Premium Assessments from Insured Credit Unions, Net (Note 4)	8	93
Accounts Receivable - Guarantee Fee on Temporary Corporate Credit Union Liquidity Guarantee Program, Net (Note 4)	-	446
Accounts Receivable - Guarantee Fee on National Credit Union Administration Guaranteed Notes, Net (Note 4)	4,238	4,465
Other - Receivables from Asset Management Estates, Net (Note 6)	1,139,081	626,678
Total Public Assets	1,143,327	631,682
TOTAL ASSETS	$ 1,610,008	$ 1,195,035
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the National Credit Union Share Insurance Fund	$ -	$ 2
Debt - Borrowings from the U.S. Treasury (Note 7)	5,100,000	3,500,000
Other - Accrued Interest Payable to the U.S. Treasury (Note 7)	3,901	2,477
Total Intragovernmental Liabilities	5,103,901	3,502,479
PUBLIC		
Accounts Payable	723	1,423
Other Liabilities	114	1,031
Other - Insurance and Guarantee Program Liabilities (Note 8)	-	2,944,207
Total Public Liabilities	837	2,946,661
TOTAL LIABILITIES	5,104,738	6,449,140
Commitments and Contingencies (Note 8)		
NET POSITION		
Cumulative Result of Operations (Note 1)	(3,494,730)	(5,254,105)
Total Net Position	(3,494,730)	(5,254,105)
TOTAL LIABILITIES AND NET POSITION	$ 1,610,008	$ 1,195,035

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND

STATEMENTS OF NET COST
For the Years Ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
GROSS COSTS		
Interest Expense on Borrowings (Note 7)	$ 6,601	$ 2,477
Provision for (Reduction of) Insurance Losses		
Reserve Expense (Note 8)	(237,935)	110,500
AME Receivable Bad Debt Expense (Note 6)	(568,573)	-
Imputed Costs	1,897	3,778
Fee on Early Retirement of Borrowings from the U.S. Treasury (Note 7)	25	-
Administrative Expenses	6,238	8,223
Total Gross Costs	(791,747)	124,978
LESS EARNED REVENUES		
Special Premium Revenue	(792,493)	(1,956,462)
Guarantee Fee Revenue - National Credit Union Administration Guaranteed Notes	(80,511)	(82,618)
Guarantee Fee Revenue - Temporary Corporate Credit Union Liquidity Guarantee Program	(4,301)	(6,850)
Interest Revenue - Investments	(336)	(205)
Total Earned Revenues	(877,641)	(2,046,135)
NET COST OF/(INCOME) FROM OPERATIONS	$ (1,669,388)	$ (1,921,157)

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ (5,254,105)	$ (7,457,681)
BUDGETARY FINANCING SOURCES		
Other - Distribution Receivable from the National Credit Union Share Insurance Fund (Note 5)	88,090	278,641
OTHER FINANCING SOURCES		
Imputed Financing	1,897	3,778
Total Financing Sources	89,987	282,419
Net (Cost) of/Income from Operations	1,669,388	1,921,157
Net Change	1,759,375	2,203,576
CUMULATIVE RESULTS OF OPERATIONS	(3,494,730)	(5,254,105)
NET POSITION	$ (3,494,730)	$ (5,254,105)

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND

STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
BUDGETARY RESOURCES (Notes 10, 11, 12, and 14)		
Unobligated balance, brought forward, January 1	$ 3,058,245	$ 6,362,814
Borrowing authority (mandatory)	300,000	-
Spending authority from offsetting collections (mandatory)		
Collected	1,848,467	2,312,603
Change in receivables from federal sources	690	(194)
Anticipated nonexpenditure transfer	88,090	278,641
Permanently not available	(300,000)	-
TOTAL BUDGETARY RESOURCES	$ 4,995,492	$ 8,953,864
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	$ 3,635,629	$ 5,895,619
Unobligated balance, end of year:		
Exempt from apportionment	1,359,863	3,058,245
Total unobligated balance, end of year	1,359,863	3,058,245
TOTAL STATUS OF BUDGETARY RESOURCES	$ 4,995,492	$ 8,953,864
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations, brought forward, January 1	$ 5,108	$ 10,091
Uncollected customer payments from Federal sources, brought forward, January 1	-	(194)
Obligated balance, start of year (net), as adjusted	5,108	9,897
Obligations incurred	3,635,629	5,895,619
Outlays (gross)	(3,633,920)	(5,900,602)
Change in uncollected customer payments from Federal sources	(690)	194
Obligated balance, end of year		
Unpaid obligations, end of year	6,817	5,108
Uncollected customer payments from Federal sources, end of year	(690)	-
OBLIGATED BALANCE, END OF YEAR (NET)	$ 6,127	$ 5,108
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (mandatory)	$ 1,937,247	$ 2,591,194
Actual offsetting collections (mandatory)	(1,848,467)	(2,312,603)
Change in uncollected customer payments from Federal sources (mandatory)	(690)	194
Anticipated offsetting collections (mandatory)	(88,090)	(278,641)
BUDGET AUTHORITY, NET (MANDATORY)	$ -	$ 144
Outlays, gross (mandatory)	$ 3,633,920	$ 5,900,602
Actual offsetting collections (mandatory)	(1,848,467)	(2,312,603)
AGENCY OUTLAYS, NET (MANDATORY)	$ 1,785,453	$ 3,587,999

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Temporary Corporate Credit Union Stabilization Fund (TCCUSF) was created by Public Law 111-22, *Helping Families Save Their Homes Act of 2009* (Helping Families Act), enacted May 20, 2009. The TCCUSF was established as a revolving fund in the Treasury of the United States (U.S. Treasury) under the management of the National Credit Union Administration (NCUA) Board (NCUA Board). The purposes of the TCCUSF are to accrue the losses of the corporate credit union (CCU) system and, over time, assess the credit union system for the recovery of such losses.

The TCCUSF may make expenditures only in connection with the conservatorship, liquidation, or threatened conservatorship or liquidation of a CCU. Governing legislation specified that the TCCUSF would terminate 90 days after the seven year anniversary of its first borrowing from the U.S. Treasury, which was June 25, 2009. With the concurrence of the U.S. Treasury, the TCCUSF's termination date was extended to June 30, 2021.

On June 18, 2009, the NCUA Board approved actions to legally obligate the TCCUSF for the costs of stabilizing the CCU system. These actions legally obligated the TCCUSF for all liabilities arising from the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) and the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). Under the TCCUSGP, the NCUA guaranteed the entire share amount that member credit unions had on deposit with CCUs, subject to certain limitations. Under the TCCULGP, the NCUA guaranteed the timely payment of principal and interest on certain unsecured debt of participating CCUs. The funding for the NCUA's guarantees under the TCCUSGP and TCCULGP was primarily provided by the TCCUSF. The TCCUSGP ended December 31, 2012. Also, the TCCULGP had no remaining guarantees on unsecured debt of participating CCUs as of December 31, 2012.

Fiduciary Responsibilities
Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the Federal Government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. The NCUA's AMAC conducts liquidations and performs management and recovery of assets for failed credit unions, including failed CCUs. The assets and liabilities of the Asset Management Estates (AMEs) and NGN Trusts are considered fiduciary in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting for Fiduciary Activities* (SFFAS No. 31). Fiduciary assets are not assets of the Federal Government and therefore are not recognized on the Balance Sheet of the TCCUSF.

On September 24, 2010, the NCUA Board announced the Corporate System Resolution Program (CSRP). The CSRP is a multi-stage plan for stabilizing the CCU system, providing short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities , commercial mortgage-backed securities , other asset-backed securities and corporate bonds (collectively referred to as the Legacy Assets) held by the failed CCUs, and establishing a new regulatory framework for CCUs. Under the CSRP, the NCUA created a re-securitization program to provide long-term funding for the Legacy Assets through the issuance of the NCUA Guaranteed Notes (NGNs) by the trusts established for this purpose (NGN Trusts). The NGNs are guaranteed by the NCUA, and backed by the full faith and credit of the United States Government. The principal funding for the NCUA's guarantees on the

NGNs is provided by the TCCUSF. To the extent that required funding for the guarantees exceeds the funds available from the TCCUSF, the National Credit Union Share Insurance Fund (NCUSIF) will provide the needed funds.

As part of the CSRP, the NCUA Board liquidated five CCUs during 2010. The assets and liabilities of liquidated CCUs were placed into AMEs, and are administered by the NCUA Board as liquidating agent, through its Asset Management and Assistance Center (AMAC), pursuant to applicable provisions of the Federal Credit Union Act (FCU Act). To facilitate the resolution process, the NCUA Board chartered four bridge corporate credit unions (Bridge Corporates) to purchase certain assets and assume certain liabilities and member shares from the AMEs. The Bridge Corporates were private legal entities. While legally separate from the TCCUSF and therefore not part of the reporting entity, they remained in the conservatorship of the NCUA Board. The U.S. Central Bridge Corporate Federal Credit Union (USC Bridge) and Western Bridge Corporate Federal Credit Union (Western Bridge) were placed into liquidation during 2012. The two other Bridge Corporates were resolved through unassisted mergers with other CCUs in 2011. When establishing the Bridge Corporates, to the extent that the liabilities and shares assumed exceeded the assets purchased by the Bridge Corporates, the AMEs issued promissory notes (Promissory Notes) to the Bridge Corporates for the difference. Each Promissory Note was guaranteed by the NCUA through the TCCUSF. All Promissory Notes have since been paid in full.

Sources of Funding

The TCCUSF has multiple sources of funding, including special premium assessments, investment interest income, guarantee fees, and borrowings from the U.S. Treasury. The NCUA Board may assess premiums to all insured credit unions, as provided by the FCU Act.

The TCCUSF may also receive additional funding from the NCUSIF under certain circumstances. As part of the Helping Families Act, when the TCCUSF has an advance outstanding from the U.S. Treasury and the NCUSIF would have otherwise paid a distribution to insured credit unions, the NCUSIF is obligated to make distributions to the TCCUSF in lieu of distributions to the insured credit unions to the maximum amount possible that does not reduce the NCUSIF’s equity ratio below the normal operating level, as defined, of 1.3 percent, and does not reduce the NCUSIF’s available assets ratio, as defined, below 1.0 percent.

In addition, the TCCUSF has $6.0 billion in revolving borrowing authority from the U.S. Treasury, shared with the NCUSIF. At December 31, 2012 and 2011, there was $0.9 billion and $2.5 billion in available borrowing authority, respectively.

Legislation

In January 2011, *The National Credit Union Authority Clarification Act*, Public Law 111-382 (Clarification Act), amended the FCU Act by clarifying NCUA’s authority to assess a premium against federally insured (insured) credit unions not only to repay TCCUSF advances but also to make TCCUSF expenditures without borrowing from the U.S. Treasury. The Clarification Act permits the NCUA Board to assess a special premium with respect to each insured credit union in an aggregate amount that is reasonably calculated to make any pending or future TCCUSF expenditures, in addition to existing authority to make assessments to repay U.S. Treasury advances. The Clarification Act also states that the NCUA Board must take into consideration any potential impact on insured credit union earnings that such an assessment may have and requires the premium be paid not later than 60 days after the date of the assessment.

Basis of Presentation

The TCCUSF's financial statements have been prepared from its accounting records in accordance with standards promulgated by the Federal Accounting Standards Advisory Board (FASAB). FASAB is designated by the American Institute of Certified Public Accountants as the source of generally accepted accounting principles (GAAP) for federal reporting entities. The format of the financial statements and footnotes are in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised August 3, 2012.

Basis of Accounting

In its accounting structure, the TCCUSF records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash.

Federal budgetary accounting recognizes the obligation of appropriations, borrowing authorities, and other funds upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

The NCUA, including the TCCUSF, is exempt from requirements of the Federal Credit Reform Act of 1990 (Section 661e(a)(1)).

Use of Estimates

The preparation of financial statements in conformity with GAAP for the Federal Government requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the financial statements; and
- the amounts of revenues and costs reported during that period.

Actual results could differ from estimates. Significant items subject to those estimates and assumptions include: (i) reserves for probable losses and contingencies related to Insurance and Guarantee Program Liabilities; (ii) the amount and timing of recoveries, if any, related to any claims paid in settlement of the guarantee liabilities; and (iii) allowance amounts established related to reimbursements from AMEs for claims paid in settlement of the guarantee liabilities. Since 2009, the economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of the TCCUSF's accounts with the Federal Government's central accounts, from which the TCCUSF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type.

Investments

Investments represent non-marketable U.S. Treasury securities purchased and reported at par value, which are overnight securities managed by the Bureau of the Public Debt (BPD). Cash balances in FBWT may be invested in non-marketable U.S. Treasury securities.

Accounts Receivable

Accounts receivable represent the TCCUSF's claims for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts as further discussed below. The TCCUSF's accounts receivable consists of two components: Intragovernmental and Public. Intragovernmental accounts receivable due from the NCUSIF represent activity collected by the NCUSIF on behalf of the TCCUSF, but not yet transferred to the TCCUSF for its use and benefit. Public accounts receivable represent outstanding balances of the special premiums assessed to insured credit unions and guarantee fees associated with the TCCULGP and NGNs, as described herein.

Allowance for Doubtful Accounts
An allowance for doubtful accounts represents the TCCUSF's best estimate of the amount of credit losses in an existing receivable. Based on an assessment of collectability, the TCCUSF calculates an allowance on an individual account basis for public accounts receivable. An account may be impaired or written off if it is probable that the TCCUSF will not collect all amounts contractually due. No allowance is calculated for intragovernmental accounts receivable, as these are deemed to be fully collectible.

Other - Distribution Receivable

The TCCUSF records a distribution receivable from the NCUSIF, per Section 217(e) of the FCU Act, when the TCCUSF has an outstanding advance (borrowing) from the U.S. Treasury and the NCUSIF is required to make a distribution. As such, the NCUSIF is prohibited from making the distribution to insured credit unions described in Section 202(c)(3) of the FCU Act and instead must make its distribution to the TCCUSF.

Other - Receivables from Asset Management Estates

Receivables from AMEs include claims to recover payments made by the TCCUSF to satisfy obligations to insured shareholders and other guaranteed parties and to recoup administrative expenses paid on behalf of AMEs. Any related allowance for losses represents the difference between the funds disbursed and the expected repayment from the AMEs pursuant to the liquidation payment priorities set forth in 12 Code of Federal Regulations (CFR) § 709.5(b), *Payout Priorities in Involuntary Liquidation* (12 CFR § 709.5(b)). Assets held by the AMEs are the main source of repayment of the TCCUSF's receivables from the AMEs. The recoveries from these AME assets are paid to the TCCUSF to the extent a receivable is due.

The allowance for losses on receivables from AMEs is based on asset recovery rates and comes from several sources, including:

- actual or pending AME asset disposition data;
- asset valuation data based upon the performance, quality, and type of the assets in the portfolio;
- estimated liquidation costs based on information from recently failed credit unions; and
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

Asset recovery rates are evaluated during the year but remain subject to uncertainties because of potential changes in economic and market conditions.

Debt – Borrowings from the U.S. Treasury

The amount of debt owed and payable by the TCCUSF is recognized at par value and consists solely of borrowings from the U.S. Treasury, specifically through BPD.

Other - Accrued Interest Payable to the U.S. Treasury

Accrued interest payable represents interest expense incurred but unpaid on principal owed to the U.S. Treasury on borrowings.

Insurance and Guarantee Program Liabilities and Contingencies

In accordance with SFFAS No. 5, *Accounting for Liabilities of The Federal Government* (SFFAS No. 5), all federal insurance and guarantee programs, except social insurance and loan guarantee programs, should recognize a liability for the following:

- unpaid claims incurred, resulting from insured events that have occurred as of the reporting date;
- a contingent liability when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists, and the uncertainty will ultimately be resolved when one or more probable future events occur or fail to occur; and
- a future outflow or other sacrifice of resources that is probable.

The TCCUSF records a contingent liability for probable losses relating to CCUs under the TCCUSGP and TCCULGP, as well as probable losses, if any, for the guarantees associated with the NGNs and the Promissory Notes, net of any anticipated recoveries. All guarantees under the TCCUSGP and TCCULGP expired as of December 31, 2012.

Liabilities for loss contingencies also arise from claims, assessments, litigation, fines, penalties and other sources. These liabilities are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Net Position and Accumulated Deficit

The TCCUSF has an accumulated deficit in its net position primarily due to the Insurance and Guarantee Program Liabilities, borrowings from the U.S. Treasury, and the allowance for losses associated with the receivables from AMEs. As allowed under the TCCUSF's enabling legislation, and incorporated into the FCU Act as Section 217(g), the financial condition of the TCCUSF may reflect a deficit. In accordance with Section 217(d) of the FCU Act, the TCCUSF may assess special premiums to recover the losses of the CCU system borne by the TCCUSF over time.

Revenue Recognition

Exchange Revenue
Exchange revenues arise and are recognized when a Federal Government entity provides goods and services to the public or to another Federal Government entity for a price. Exchange revenue consists of special premium assessments, guarantee fee income, interest revenue, and other fees.

Special Premium Assessments from Insured Credit Unions
Under the statutory authority provided by the Helping Families Act, the NCUA Board may assess each insured credit union a special premium charge that shall be stated as a percentage of its insured shares as represented on the insured credit union's previous call report.

Guarantee Fees on Temporary Corporate Credit Union Liquidity Guarantee Program
For a fee, the NCUA guarantees the timely payment of principal and interest on certain unsecured debt of participating CCUs, principally funded through the TCCUSF.

Guarantee Fees on NCUA Guaranteed Notes
For a fee, the NCUA guarantees the timely payment of principal and interest on the NGNs, principally funded through the TCCUSF.

Non-exchange Revenue
Non-exchange revenues are inflows of resources that the Federal Government demands or receives by donation. Such revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.

Imputed Financing Sources

The TCCUSF records an imputed cost on the Statement of Net Cost and an offsetting imputed financing source on the Statement of Changes in Net Position for CSRP administrative expenses paid by the NCUA Operating Fund but not reimbursed by the TCCUSF.

Statement of Budgetary Resources

The TCCUSF has updated the Statement of Budgetary Resources presentation in the 2012 financial statements in accordance with the new presentation requirements of OMB Circular No. A-136, *Financial Reporting Requirements*. All calendar year 2011 activity and balances reported on the Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year.

Tax-Exempt Status

The TCCUSF is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2012 and 2011, consisted of the following:

(Dollars in thousands)	2012	2011
Total Fund Balance with Treasury:		
Revolving Funds	$ 1,425	$ -
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 1,359,863	$ 3,058,245
Obligated Balance Not Yet Disbursed	6,817	5,108
Non-Budgetary FBWT Accounts	(376,476)	(284,712)
Non-FBWT Budgetary Accounts	(988,779)	(2,778,641)
Total	$ 1,425	$ -

As a revolving fund, the FBWT is used for continuing business-like activities. The TCCUSF collects special premium assessments and guarantee fees, which are used to fund payments for the conservatorship, liquidation, or threatened conservatorship or liquidation of CCUs, without requirement for annual appropriations. FBWT contains monies available for future obligations as well as monies obligated for current activities. Non-budgetary FBWT Accounts consist of investments, while non-FBWT Budgetary Accounts may consist of borrowing authority, nonexpenditure transfers, and changes in federal receivables. Funds not needed for immediate liquidity are invested in overnight U.S. Treasury securities.

As of December 31, 2012 and 2011, there were no unreconciled differences between U.S. Treasury records and balances reported in the TCCUSF's general ledger.

As of December 31, 2011, there was a $52.9 million credit balance for FBWT in the TCCUSF's general ledger as well as the U.S. Treasury. This credit balance was due to the purchase of an overnight U.S. Treasury security in an amount greater than funds available. The TCCUSF's FBWT and overnight U.S. Treasury securities are held with the same counter party, the U.S. Treasury. NCUA offset the FBWT with the overnight investment balance, resulting in FBWT of zero dollars and a reduction of investments by $52.9 million. NCUA resolved the credit balance with the U.S. Treasury on January 3, 2012.

3. INVESTMENTS

The TCCUSF invests in non-marketable daily overnight U.S. Treasury securities, which are purchased at par value. The cost and market value of U.S. Treasury securities were as follows:

As of December 31, 2012 and 2011	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments	Other Adjustments	Market Value Disclosure
(Dollars in thousands)							
Non-Marketable, par value, 12/31/2012	$ 376,476	n/a	$ -	$ -	$ 376,476	$ -	$ 376,476
Non-Marketable, par value, 12/31/2011	$ 284,712	n/a	$ -	$ -	$ 284,712	$ -	$ 284,712

4. ACCOUNTS RECEIVABLE

Public – Accounts Receivable

Special Premium Assessments from Insured Credit Unions
As of December 31, 2012 and 2011, special premium assessments that had not been paid by insured credit unions totaled $8.0 thousand and $93.0 thousand, respectively.

TCCULGP Guarantee Fee Receivable
For a fee, the NCUA guaranteed the timely payment of principal and interest on certain unsecured debt of participating CCUs, principally through the TCCUSF. The TCCUSF invoiced participating CCUs on a monthly basis for the guarantee fee. As of December 31, 2012 and 2011, there were $0 and $446.0 thousand in TCCULGP guarantee fee receivable, respectively. The TCCUSF had no remaining guarantees on unsecured debt of participating CCUs under the TCCULGP as of December 31, 2012.

NGN Guarantee Fee Receivable
For a fee, the NCUA guarantees the timely payment of principal and interest on the NGNs, principally through the TCCUSF. Guarantee fees on each NGN Trust are 35 basis points per year, payable monthly, on the outstanding balance of the NGNs. As of December 31, 2012 and 2011, there were $4.2 million and $4.5 million in NGN guarantee fees receivable, respectively.

Allowance for Doubtful Accounts
The allowance for doubtful accounts on public accounts receivable above was zero as of December 31, 2012 and 2011.

5. OTHER - DISTRIBUTION RECEIVABLE

In accordance with Section 202(c)(3) of the FCU Act, *Distributions from Fund Required*, the NCUA Board shall effect a pro rata distribution from the NCUSIF to insured credit unions after each calendar year, if:

(i) any loans to the NCUSIF from the Federal Government, and any interest on those loans, have been repaid; and
(ii) the NCUSIF's equity ratio exceeds the normal operating level, as defined, of 1.3 percent; and
(iii) the NCUSIF's available assets ratio, as defined, exceeds 1.0 percent.

The amount of distribution shall equal the maximum possible amount that does not reduce the NCUSIF's equity ratio below the normal operating level, as defined, of 1.3 percent, and does not reduce the NCUSIF's available assets ratio, as defined, below 1.0 percent. In any year that the TCCUSF has an outstanding borrowing from the U.S. Treasury, the NCUA Board must make the distribution to the TCCUSF rather than to insured credit unions.

As of December 31, 2012 and 2011, the TCCUSF had an outstanding advance (borrowing) from the U.S. Treasury. As a result, as of December 31, 2012 and 2011, the TCCUSF had a distribution receivable due from the NCUSIF of $88.1 million and $278.6 million, respectively.

6. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2012 and 2011, the gross receivables from AMEs were $8.3 billion and $5.6 billion, and the related allowance for losses was $7.1 billion and $5.0 billion, for net receivables from AMEs of $1.1 billion and $626.7 million, respectively. The net receivables from AMEs represent the TCCUSF's expected reimbursements from the AMEs for claims paid by the TCCUSF.

The allowance for losses takes into account the NCUA's assessment of expected recovery from the AMEs that reflects the NCUA's expectations and assumptions about the recovery value of the AMEs' assets, as further discussed under fiduciary activities in Note 13.

(Dollars in thousands)	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Gross Receivables from AMEs	$ 8,266,119	$ 5,626,017
Allowance for Losses, beginning balance	4,999,339	-
AME Receivable Bad Debt Expense (Reduction)	(568,573)	-
Increase in Allowance	2,696,272	4,999,339
Allowance for Losses, ending balance	7,127,038	4,999,339
Receivables from AMEs, Net	$ 1,139,081	$ 626,678

7. DEBT – BORROWINGS FROM U.S. TREASURY

As of December 31, 2012 and 2011, the TCCUSF owed $5.1 billion and $3.5 billion to the U.S. Treasury, respectively. For 2012, the TCCUSF borrowed a total of $1.9 billion from the U.S. Treasury, repaid $300.0 million of borrowings, incurred interest expense of $6.6 million on outstanding principal, and paid fees of $25.0 thousand on the early retirement of debt. During 2011, the TCCUSF borrowed a total of $3.5 billion from the U.S. Treasury and incurred interest expense of

$2.5 million. As of December 31, 2012 and 2011, accrued interest payable was $3.9 million and $2.5 million, respectively.

8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

In 2012, the TCCUSF was principally responsible for three initiatives and related guarantees to stabilize the CCU system: TCCUSGP, TCCULGP, and NGNs. During 2011, the TCCUSF was also responsible for Promissory Note issuances which were fully repaid as of December 31, 2011. The NCUA's guarantees on the Promissory Notes and NGNs are a direct result of the NCUA's implementation of the CSRP.

The NCUA uses both internal and external models, as well as external valuations to some extent, to estimate contingent liabilities associated with the four guarantees, as discussed herein. As shown in the table below, the TCCUSF recorded contingent liabilities on the TCCUSF's Balance Sheet of approximately $0 and $2.9 billion as of December 31, 2012 and 2011, respectively. Pursuant to the FCU Act, the NCUA is authorized to assess insured credit unions for the recovery of such losses during the life of the TCCUSF.

For the Years Ended December 31, 2011 and 2012

	TCCUSGP	TCCULGP	Promissory Notes	NGNs	TOTAL
(Dollars in thousands)					
Beginning Balance, 1/1/2011	$ 47,189	$ 2,402,447	$ 4,768,897	$ 614,513	$ 7,833,046
Reserve Expense (Reduction)	13,690	494,006	217,317	(614,513)	110,500
Insurance Losses (Claims) Paid/Settled	(26,611)	(13,125)	(5,679,041)	-	(5,718,777)
Recoveries/Claims on AMEs	26,611	-	692,827	-	719,438
Ending Balance, 12/31/2011	60,879	2,883,328	-	-	2,944,207
Reserve Expense (Reduction)	(3,879)	(234,056)	-	-	(237,935)
Insurance Losses (Claims) Paid/Settled	(144,609)	(3,532,126)	-	-	(3,676,735)
Recoveries/Claims on AMEs	87,609	882,854	-	-	970,463
Ending Balance, 12/31/2012	$ -	$ -	$ -	$ -	$ -

A description of each TCCUSF initiative and the associated contingent liability is provided below.

Temporary Corporate Credit Union Share Guarantee Program

The TCCUSGP is a guarantee of shares (excluding paid-in-capital and membership capital accounts) at CCUs that began on January 28, 2009. The TCCUSGP protects the entire share account of credit unions that are members of CCUs, subject to certain limitations. On March 1, 2009, the guarantee became voluntary when CCUs were provided the option to participate in the TCCUSGP. Nearly all CCUs elected to participate. The initial expiry of the guarantee was set for December 31, 2010; however, it was extended on a quarterly basis through December 31, 2012. The TCCUSGP expired on December 31, 2012.

CCUs participating in the TCCUSGP did not pay a fee to the TCCUSF directly attributable to the guarantee. To fund any claims under this initiative, the TCCUSF is authorized to make special premium assessments of insured credit unions and, if necessary, draw on available borrowings from the U.S. Treasury. The TCCUSF's obligation to pay holders of guaranteed shares arises only upon the liquidation of the participating CCU.

As discussed herein, five CCUs were liquidated during 2010, which resulted in the establishment of four Bridge Corporates. Pursuant to the NCUA Board action, the participation of these Bridge Corporates in the TCCUSGP was approved. Each Bridge Corporate entered into a Letter of Understanding and Agreement with the NCUA to extend the TCCUSGP to the Bridge Corporates' shares that were assumed from the AMEs. Two Bridge Corporates were resolved through unassisted mergers with other CCUs in 2011. USC Bridge and Western Bridge were placed into liquidation during 2012.

As a result, the TCCUSF was obligated for any liability arising from insured shares equal to the Standard Maximum Share Insurance Amount (SMSIA), as defined, and from shares in excess of the SMSIA guaranteed under the TCCUSGP. To the extent that the liability could exceed the funds available from the TCCUSF, the NCUSIF would provide the needed funds.

The TCCUSF's Insurance and Guarantee Program Liability associated with the TCCUSGP as of December 31, 2012 and 2011 totaled approximately $0 and $60.9 million, respectively. The expected losses from the TCCUSGP was dependent upon the NCUA's expectations and assumptions about the Bridge Corporates and other CCUs' financial condition and projected operating cash flows, and any expected recoveries after payment of a TCCUSGP liability. As of December 31, 2012 and 2011, the aggregate outstanding insured shares of the CCUs under the TCCUSGP were $0 and $34.0 billion, respectively. The aggregate outstanding insured shares of the CCUs represents the maximum potential, but not the expected amount of, guarantee payments that the NCUA may be required to make under the terms of the TCCUSGP.

Temporary Corporate Credit Union Liquidity Guarantee Program

The TCCULGP was created in October 2008 to provide a guarantee on certain unsecured debt of participating CCUs. Under the terms of the TCCULGP, for a fee, the NCUA guaranteed the timely payment of principal and interest on certain unsecured debt of participating CCUs issued prior to September 30, 2011, principally funded through the TCCUSF.

Under the TCCULGP, the TCCUSF had no remaining guarantees on unsecured debt of participating CCUs as of December 31, 2012. The ability for CCUs to issue new debt under the TCCULGP ended on September 30, 2011.

For 2012 and 2011, the NCUA had made payments under the TCCULGP related to the AMEs' Medium Term Notes, as described below.

Medium Term Notes
In 2009, U.S. Central Federal Credit Union and Western Corporate Federal Credit Union issued Medium Term Notes (MTNs) to the public debt market. These MTNs were guaranteed by the NCUA under the TCCULGP.

As of December 31, 2011 and through the maturity dates in 2012, the MTN principal amount of $3.5 billion was outstanding and guaranteed under the TCCULGP as represented below.

As of December 31, 2012 and 2011
(Dollars in thousands)

Coupon	Maturity Date	December 31, 2012 Outstanding	December 31, 2011 Outstanding
1.90%; Fixed	10/19/2012	$ -	$ 2,000,000
1.75%; Fixed	11/2/2012	-	1,500,000
		$ -	$ 3,500,000

The TCCUSF's Insurance and Guarantee Program Liability associated with the TCCULGP as of December 31, 2012 and 2011 totaled approximately $0 and $2.9 billion, respectively. The TCCUSF's expected loss was based on the NCUA's assessment of the guarantee exposure on the aggregate outstanding amount of MTNs, net of expected recovery from the AMEs that reflects the NCUA's expectations and assumptions about the recovery value of the AMEs' assets, as further discussed under fiduciary activities in Note 13.

Promissory Notes

In accordance with the terms of each Promissory Note agreement between the AMEs and Bridge Corporates, each Promissory Note was guaranteed by the NCUA and primarily funded by the TCCUSF. To fund any claims under this initiative, the TCCUSF is authorized to make special premium assessments as discussed herein and, if necessary, to draw on available borrowings from the U.S. Treasury. As of December 31, 2012 and 2011, the NCUA had no contingent liability against its guarantee on the Promissory Notes as they were fully repaid as of December 31, 2011. During 2011, the NCUA applied funds primarily received from the issuance of NGNs, borrowings from U.S. Treasury, and special premium assessments, to repay the Promissory Notes of $18.2 billion. This amount included $5.7 billion in guarantee payments made by the TCCUSF.

NCUA Guaranteed Notes

Beginning in October 2010, the NCUA Board, as liquidating agent of the AMEs, transferred Legacy Assets to NGN Trusts and re-securitized them through the issuance of a series of floating and fixed-rate NGNs. The NGNs have final maturities ranging from 2013 to 2021. As of December 31, 2012 and 2011, the outstanding principal balance of the NGNs was $21.2 billion and $24.7 billion, respectively. This amount represents the maximum potential, but not the expected, future guarantee payments that NCUA could be required to make.

The NCUA, principally through the TCCUSF, is obligated to make guarantee payments through the NGN Trusts to the NGN holders under certain conditions outlined in the respective indentures and related agreements with respect to timely payment of interest and ultimate principal on the NGNs, as well as any parity payments. As of a given payment date, parity payments are due when the unpaid principal balance of all Legacy Assets underlying a particular NGN Trust, after realized and implied losses, if applicable, is less than the remaining unpaid principal balance of the related NGNs after distribution of all cash collected on the Legacy Assets for such payment date.

As of December 31, 2012 and 2011, the probable losses for the guarantee of NGNs associated with 13 re-securitization transactions was zero; the gross estimated guarantee payments were approximately $4.5 billion and $5.5 billion, respectively. These payments are estimated to be offset in part by:

i) related reimbursements and interest from the legacy assets of the NGN Trusts received directly from contractual reimbursement rights pursuant to the NGN governing documents of approximately $3.3 billion and $3.9 billion; and
ii) indirectly by collections under 12 CFR § 709.5(b) from the AMEs' economic residual interests in NGN Trusts of approximately $2.0 billion and $1.6 billion as of December 31, 2012 and 2011, respectively, that are estimated to remain after all obligations of the NGN Trusts are satisfied.

Recoveries in the form of potential guarantor reimbursements by the NGN Trusts to the NCUA are subordinate to payments on the NGNs in accordance with the respective indentures. As such, reimbursements to the NCUA will not occur until the applicable NGN has been repaid in full. After the NGNs are repaid in full, any cash flows received on those Legacy Assets underlying the NGN Trusts are directed toward reimbursements until the NCUA is reimbursed in full. The NCUA earns interest on any guarantee payments not yet reimbursed by the NGN Trusts at a rate equal to the interest rate on the associated NGNs.

Guarantee fees are senior in the NGN Trust payment waterfall in accordance with the respective indentures. It is expected that the NCUA will receive a guarantee fee payment from the NGN Trusts on each NGN payment date. The guarantee fee amount due to the NCUA, at each monthly payment date, is equal to 35 basis points per year on the outstanding NGN balance prior to the distribution of principal on the payment date.

The TCCUSF's Insurance and Guarantee Program Liability attributed to the NGNs as of December 31, 2012 and 2011 was zero. The TCCUSF's expected net guarantee obligation is based on the estimated guarantee payments, net of estimated guarantor reimbursements from the NGN Trusts and expected recoveries from the AMEs, as further discussed under fiduciary activities in Note 13.

The NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery value of the AMEs' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Assets transferred to the NGN Trusts in the priority of payments pursuant to the indenture of each NGN Trust. The estimated cash flows incorporate the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts are also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral that comprise the Legacy Assets, and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets.

The external model produces estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgage loans and other assets. Assumptions about prepayments, defaults and loss severity are developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rates, housing prices and interest rates.

9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between Intragovernmental and Public to facilitate government-wide financial reporting. Intragovernmental revenue and expenses arise from transactions with other federal entities, including imputed costs for CSRP administrative expenses paid by the NCUA Operating Fund but not reimbursed by the TCCUSF. Public revenue and expenses arise from transactions with persons and organizations outside of the Federal Government. The associated costs and revenue of the TCCUSF’s initiatives for the years ended December 31, 2012 and 2011 are provided below. When guarantee payments are made for the TCCUSF’s initiatives, the TCCUSF obtains funds from special premium assessments, available cash, investments, and borrowings from the U.S. Treasury.

For the Year Ended December 31, 2012

Intragovernmental Costs and Exchange Revenue	**TCCUSGP**	**TCCULGP**	**Promissory Notes**	**NGNs**	**Other**	**TOTAL**
(Dollars in thousands)						
Intragovernmental Costs	$ -	$ -	$ -	$ -	$ 8,523	$ 8,523
Public Costs (Reduction)	(3,879)	(234,056)	-	-	(562,335)	(800,270)
Total	(3,879)	(234,056)	-	-	(553,812)	(791,747)
Intragovernmental Exchange Revenue	-	-	-	-	(336)	(336)
Public Exchange Revenue	-	(4,301)	-	(80,511)	(792,493)	(877,305)
Total	-	(4,301)	-	(80,511)	(792,829)	(877,641)
Net Cost/(Income)	$ (3,879)	$ (238,357)	$ -	$ (80,511)	$ (1,346,641)	$ (1,669,388)

For the Year Ended December 31, 2011

Intragovernmental Costs and Exchange Revenue	**TCCUSGP**	**TCCULGP**	**Promissory Notes**	**NGNs**	**Other**	**TOTAL**
(Dollars in thousands)						
Intragovernmental Costs	$ -	$ -	$ -	$ -	$ 6,255	$ 6,255
Public Costs (Reduction)	13,690	494,006	217,317	(614,513)	8,223	118,723
Total	13,690	494,006	217,317	(614,513)	14,478	124,978
Intragovernmental Exchange Revenue	-	-	-	-	(205)	(205)
Public Exchange Revenue	-	(6,850)	-	(82,618)	(1,956,462)	(2,045,930)
Total	-	(6,850)	-	(82,618)	(1,956,667)	(2,046,135)
Net Cost/(Income)	$ 13,690	$ 487,156	$ 217,317	$ (697,131)	$ (1,942,189)	$ (1,921,157)

For the years ended December 31, 2012 and 2011, other intragovernmental costs of $8.5 million and $6.3 million, respectively, included interest expense on borrowings, imputed costs, and the fee on the early retirement of borrowings from the U.S Treasury. Public costs include administrative costs and an overall reduction of the AME receivable bad debt expense and reserve expense in calendar year 2012, totaling a negative $800.3 million, and $118.7 million for the years ended December 31, 2012 and 2011, respectively. Public exchange revenue of $877.3 million and $2.0 billion consists primarily of special premium assessments invoiced during the years ended December 31, 2012 and 2011, respectively.

10. TERMS OF BORROWING AUTHORITY USED

On June 23, 2009, the NCUA entered into a Memorandum of Understanding (MOU) with the U.S. Treasury to establish the terms and conditions for borrowing from the U.S. Treasury. This MOU is reviewed and updated annually. Interest is payable annually on the anniversary of the first advance, which was June 25, 2009. The interest rate resets on each anniversary at a rate equal to the average market yield on the outstanding marketable obligations of the United States with maturities equal to 12 months. The interest rate per the MOU was 0.191 percent and 0.165 percent at December 31, 2012 and 2011, respectively, with a maturity of June 25, 2021. Early repayment of any advance shall be at a price determined by the U.S. Treasury per the current MOU.

11. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The TCCUSF shares its $6.0 billion borrowing authority from the U.S. Treasury with the NCUSIF. For the years ended December 31, 2012 and 2011, the TCCUSF borrowed $1.9 billion and $3.5 billion from the U.S. Treasury, respectively. The TCCUSF repaid $300.0 million of borrowings in 2012.

At December 31, 2012 and 2011, the TCCUSF, together with the NCUSIF, had $0.9 billion and $2.5 billion in available borrowing authority from the U.S. Treasury, respectively.

12. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources discloses total budgetary resources available to the TCCUSF and the status of resources as of December 31, 2012 and 2011. Activity affecting budget totals of the overall Federal Government budget is recorded in the TCCUSF's Statement of Budgetary Resources. As of December 31, 2012 and 2011, the TCCUSF's resources in budgetary accounts totaled $5.0 billion and $9.0 billion, respectively.

Undelivered orders were $2.2 million and $1.2 million at December 31, 2012 and 2011, respectively. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities. All obligations incurred by the TCCUSF are reimbursable, meaning that obligations will be ultimately reimbursed from the special premium assessments to insured credit unions and from other collections. The TCCUSF is exempt from OMB apportionment control.

Budgetary resources listed on the TCCUSF's financial statements and the budgetary resources found in the budget of the Federal Government differ because the TCCUSF's financial statements are prepared as of December 31, calendar year, rather than as of September 30, the Federal Government's fiscal year end.

13. FIDUCIARY ACTIVITIES

The NCUA's fiduciary activities, in accordance with SFFAS No. 31, involve the collection or receipt, management, protection, accounting, investment, or disposition by AMEs and NGN Trusts of cash and other assets. Fiduciary assets are not assets of the Federal Government. Fiduciary activities are not recognized on the financial statements, but are reported in the notes to the financial statements in accordance with SFFAS No. 31.

The NCUA Board, as liquidating agent of the AMEs, disburses funds for obligations owed by and collects money due to the AMEs.

The Bridge Corporates, as previously discussed herein, were established to function in a temporary capacity and were formed by the NCUA Board as chartered private enterprises to purchase and assume selected assets, liabilities and member shares of the AMEs resulting from the five CCU liquidations that occurred in 2010. The Bridge Corporates were established to provide uninterrupted services to the consumer credit unions and CCUs that were members of the now failed CCUs.

At the time of liquidation in 2010, the AMEs had an aggregate deficit of approximately $7.2 billion, which represents the difference between the value of the AMEs' assets and the contractual or settlement amount of the claims and member shares recognized by the NCUA Board as the liquidating agent.

The liquidation of the CCUs and the creation of the Bridge Corporates also resulted in the issuance of $36.0 billion in Promissory Notes by the AMEs to the Bridge Corporates. The Promissory Notes represented reimbursements to the Bridge Corporates for the difference between assets purchased and liabilities and member shares assumed from the AMEs.

As previously discussed herein, in an effort to maximize recoveries and minimize losses to the AMEs and all insured credit unions, the NCUA provided guarantees on the various obligations of the AMEs, including the Promissory Notes and the MTNs. In addition, to facilitate the orderly liquidation of the Legacy Assets held by the AMEs, the NCUA provided guarantees on the NGNs issued through a series of re-securitization transactions. During the year ended December 31, 2011, the NCUA completed eight NGN transactions with net proceeds received of $10.6 billion, bringing the total of NGN transactions and net proceeds received to 13 and $28.3 billion, respectively. The majority of proceeds from the NGN issuances were used to partially repay the Promissory Notes owed by the AMEs to the Bridge Corporates. During the year ended December 31, 2011, NCUA fully repaid the aggregate outstanding amount of the Promissory Notes. As of December 31, 2012, all Bridge Corporates have been closed through merger or liquidation.

The schedules of fiduciary activity and the fiduciary net assets/liabilities of the AMEs and the NGN Trusts for the years ended December 31, 2012 and 2011 are presented below. The preparation of these schedules requires the NCUA Board, in its role as the liquidating agent, to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses of the AMEs and the NGN Trusts.

The NCUA, in its role as the guarantor, is exposed to the risk of loss from various guarantees extended to the creditors of both the AMEs and the NGN Trusts. The estimates and expectations regarding the contingent liabilities recorded on the TCCUSF's Balance Sheet related to these guarantees are based on our current assumptions about the future performance of Legacy Assets collateralizing the NGNs issued through the NGN Trusts and the recovery value of other assets held by the AMEs. Actual results could differ materially from our current estimates and expectations.

Schedule of Fiduciary Activity

	For the Year Ended December 31, 2012			
(Dollars in thousands)	**AMEs**	**NGN Trusts**	**Eliminations**	**TOTAL**
Fiduciary Net Liabilities, Beginning of Year	$ 7,480,343	$ -	$ -	$ 7,480,343
Net Realized Losses upon Liquidations	26,902	-	-	26,902
Revenues				
Interest on Loans	(7,898)	-	-	(7,898)
Income from AMEs on Re-Securitized Assets	-	(338,358)	338,358	-
Income from Investment Securities	(462,231)	-	-	(462,231)
Other Fiduciary Revenues	(17,751)	-	-	(17,751)
Expenses				
Professional and Outside Services Expenses	15,834	-	-	15,834
Interest Expense on Borrowings and NGNs	52,526	257,847	-	310,373
Payments to NGN Trusts	338,358	-	(338,358)	-
Guarantee Fees	4,301	80,511	-	84,812
Other Expenses	9,112	-	-	9,112
Net Change in Recovery Value of Assets and Liabilities	(622,592)	-	-	(622,592)
Increase/(Decrease) in Fiduciary Net Liabilities	(663,439)	-	-	(663,439)
FIDUCIARY NET LIABILITIES, END OF YEAR	$ 6,816,904	$ -	$ -	$ 6,816,904

Schedule of Fiduciary Activity

(Dollars in thousands)	For the Year Ended December 31, 2011 AMEs	NGN Trusts	Eliminations	TOTAL
Fiduciary Net Liabilities, Beginning of Year	$ 7,339,784	$ -	$ -	$ 7,339,784
Net Realized Losses upon Liquidations	-	-	-	-
Revenues				
Interest on Loans	(25,525)	-	-	(25,525)
Income from AMEs on Re-Securitized Assets	-	(337,666)	337,666	-
Income from Investment Securities	(528,065)	-	-	(528,065)
Other Fiduciary Revenues	(180,937)	-	-	(180,937)
Expenses				
Professional and Outside Services Expenses	78,584	-	-	78,584
Interest Expense on Borrowings and NGNs	151,609	255,048	-	406,657
Payments to NGN Trusts	337,666	-	(337,666)	-
Guarantee Fees	6,850	82,618		89,468
Other Expenses	10,266	-	-	10,266
Net Change in Recovery Value of Assets and Liabilities	290,111	-	-	290,111
Increase in Fiduciary Net Liabilities	140,559	-	-	140,559
FIDUCIARY NET LIABILITIES, END OF YEAR	$ 7,480,343	$ -	$ -	$ 7,480,343

The schedule of fiduciary activity includes revenues earned on the investments including Legacy Assets, loans, real estate and other investments, and expenses incurred in orderly liquidation of the AMEs, including interest expense on borrowings and the NGNs. The Net Change in Recovery Value of Assets and Liabilities includes the realized and unrealized gains and losses on the Legacy Assets, loans, real estate, investments and other assets and liabilities.

Schedule of Fiduciary Net Assets/Liabilities

(Dollars in thousands)	As of December 31, 2012 AMEs	NGN Trusts	Eliminations	TOTAL
Fiduciary Assets				
Cash and Cash Equivalents	$ 39,503	$ 322,737	$ -	$ 362,240
Legacy Assets	49	-	-	49
Legacy Assets/Investments Collateralizing the NGNs	21,251,948	696,395	-	21,948,343
Loans	146,341	-	-	146,341
Receivable from AMEs	-	20,154,923	(20,154,923)	-
Other Fiduciary Assets	208,018	-	-	208,018
TOTAL FIDUCIARY ASSETS	21,645,859	21,174,055	(20,154,923)	22,664,991
Fiduciary Liabilities				
Accrued Expenses	(40,830)	(14,048)	-	(54,878)
NGNs	-	(21,160,007)	-	(21,160,007)
Due to NGN Trusts	(20,154,923)	-	20,154,923	-
Unsecured Claims and Payables	(891)	-	-	(891)
Due to TCCUSF (Note 6)	(8,266,119)	-	-	(8,266,119)
TOTAL FIDUCIARY LIABILITIES	(28,462,763)	(21,174,055)	20,154,923	(29,481,895)
TOTAL FIDUCIARY NET ASSETS / (LIABILITIES)	$ (6,816,904)	$ -	$ -	$ (6,816,904)

Schedule of Fiduciary Net Assets/Liabilities	As of December 31, 2011			
(Dollars in thousands)	AMEs	NGN Trusts	Eliminations	TOTAL
Fiduciary Assets				
Cash and Cash Equivalents	$ 709,700	$ 349,061	$ -	$ 1,058,761
Legacy Assets	383	-	-	383
Legacy Assets Collateralizing the NGNs	24,547,781	155,447	-	24,703,228
Loans	362,926	-	-	362,926
Receivable from AMEs	-	24,164,790	(24,164,790)	-
Other Fiduciary Assets	258,963	-	-	258,963
TOTAL FIDUCIARY ASSETS	25,879,753	24,669,298	(24,164,790)	26,384,261
Fiduciary Liabilities				
Accrued Expenses	(66,440)	(16,231)	-	(82,671)
MTNs	(3,500,000)	-	-	(3,500,000)
NGNs	-	(24,653,067)	-	(24,653,067)
Due to NGN Trusts	(24,164,790)	-	24,164,790	-
Unsecured Claims	(2,849)	-	-	(2,849)
Due to TCCUSF (Note 6)	(5,626,017)	-	-	(5,626,017)
TOTAL FIDUCIARY LIABILITIES	(33,360,096)	(24,669,298)	24,164,790	(33,864,604)
TOTAL FIDUCIARY NET ASSETS / (LIABILITIES)	$ (7,480,343)	$ -	$ -	$ (7,480,343)

The schedule of fiduciary net assets reflects the expected recovery value of the AMEs' assets, including the Legacy Assets collateralizing the NGNs issued through the NGN Trusts, and the settlement value of valid claims against the AMEs outstanding at December 31, 2012 and 2011. Certain claims against the AMEs, including the MTNs and the NGNs, are guaranteed by the NCUA as previously discussed herein.

Fiduciary assets include cash, investments, including Legacy Assets collateralizing the NGNs, consumer and mortgage loans, investments in credit union service organizations, buildings, fixtures, furniture, equipment and other investments. Fiduciary assets are recorded at values that the NCUA expects to recover based on market information and external valuations, such as appraisals, as well as internal and external models incorporating the NCUA’s current assumptions regarding numerous factors, including prepayments, defaults, loss severity and discount rates.

Fiduciary liabilities include the Promissory Notes, MTNs and NGNs and related accrued interest expense, unsecured claims and accrued liquidation costs. Fiduciary liabilities related to borrowings and claims are recorded at their contractual or settlement amounts as agreed by the NCUA and the creditors. Accrued liquidation costs reflect the NCUA's estimates and assumptions regarding the timing and associated costs to dispose of the AME assets. The future estimate of liquidation costs, as well as the actual amounts, could differ materially from current estimates and assumptions.

Unless expressly guaranteed by the NCUA and backed by the full faith and credit of the United States, the AMEs' unsecured creditors could only expect to be paid if recoveries from the assets of the AMEs are sufficient to be distributed to the unsecured creditors in order of priority as set forth in 12 CFR § 709.5(b).

14. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and proprietary net cost of operations during the years ended December 31, 2012 and 2011. The Reconciliation of Net Cost of Operations to Budget consisted of the following:

Reconciliation of Net Cost of Operations to Budget	As of December 31, 2012	As of December 31, 2011
(Dollars in Thousands)		
Resources Used to Finance Activities:		
Unobligated Balance, brought forward, January 1	$ 3,058,245	$ 6,362,814
Borrowing Authority Realized	300,000	-
Spending Authority from Offsetting Collections		
Collected	1,848,467	2,312,603
Change in Receivables from Federal Sources	690	(194)
Permanently not available	(300,000)	-
Nonexpenditure Transfers, Net	88,090	278,641
Total Budgetary Resources	4,995,492	8,953,864
Less Unobligated Balance - Exempt from Apportionment	(1,359,863)	(3,058,245)
Total Obligations Incurred	3,635,629	5,895,619
Imputed Financing	1,897	3,778
Total Resources Used to Finance Activities	3,637,526	5,899,397
Resources Used to Fund Items Not Part of the Net Cost of Operations:		
Other Collections	(970,826)	(266,468)
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(987)	7,473
Costs Capitalized on the Balance Sheet	(3,218,608)	(5,626,956)
Other Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(917)	1,032
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	(4,191,338)	(5,884,919)
Costs Included in the Net Cost of Operations That Do Not Require Resources During the Reporting Period:		
Reserve for Guarantee Liabilities	(237,935)	110,500
Revenue Recognized		
Interest Collected - on Investments	(336)	(205)
Guarantee Fees	(84,812)	(89,468)
Special Premiums	(792,493)	(1,956,462)
Total Costs That Do Not Require Resources	(1,115,576)	(1,935,635)
Net Cost of Operations	$ (1,669,388)	$ (1,921,157)

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the Balance Sheet date through March 27, 2013, which is the date the financial statements were available to be issued. Management has determined that there were no items to disclose as of December 31, 2012.

Risk Assumed Information

Contingent Liability

As discussed previously herein, the purpose of the TCCUSF is to accrue the losses of the CCU system and, over time, assess insured credit unions for the recovery of such losses. The NCUA identifies CCUs at risk of failure through the supervisory and examination process and estimates losses based upon macroeconomic trends and CCU's financial condition and operations.

The contingent liability for expected losses from the CCU system recognized by the TCCUSF pursuant to SFFAS No. 5 was approximately $0 and $2.9 billion at December 31, 2012 and 2011, respectively. During 2012 and 2011, the TCCUSF was principally responsible for four initiatives and related guarantees to stabilize the corporate credit union system: the TCCUSGP, the TCCULGP, Promissory Notes, and NGNs. As of December 31, 2012, the TCCUSF had no further obligations under the TCCUSGP, TCCULGP and Promissory Notes due to expiration of related guarantees. As of December 31, 2012, NCUA recognized no liabilities for insurance losses from the NGNs.

At December 31, 2012 and 2011 the TCCUSF had accrued for losses of the CCU system of approximately $7.1 billion and $7.9 billion consisting of approximately $0 and $2.9 billion in contingent liability and $7.1 billion and $5.0 billion in allowance for losses against receivables from the AMEs, respectively.

As discussed in Notes 6 and 8, during 2012 and 2011, the TCCUSF made guarantee payments of $3.7 billion and $5.7 billion, respectively. As of December 31, 2012 and 2011, the TCCUSF had gross receivables from the AMEs of $8.3 billion and $5.6 billion, against which an allowance for losses of approximately $7.1 billion and $5.0 billion was established, respectively.

Fees and Premiums

Under the TCCULGP and NGN initiatives, the TCCUSF is entitled to guarantee fees on a monthly basis for providing associated guarantees as previously discussed in Notes 4 and 8. As of December 31, 2012, the estimated value of TCCUSF guarantee fees for the remaining term of the TCCULGP and the NGNs are $0 and $280.4 million, respectively. As of December 31, 2011, the estimated value of TCCUSF guarantee fees for the remaining term of the TCCULGP and the NGNs, which will lessen the expected losses recognized by TCCUSF, are $4.3 million and $380.8 million, respectively.

In addition, the NCUA Board, under the FCU Act, may assess insured credit unions special premiums to cover payments for the conservatorship, liquidation, or threatened conservatorship or liquidation of CCUs. The TCCUSF assessed a special premium of $792.5 million and $2.0 billion in 2012 and 2011, respectively. The NCUA Board expects to assess additional special premiums on insured credit unions periodically for the recovery of losses over the remaining term of the TCCUSF.

Sensitivity, Risks and Uncertainties of the Assumptions

As discussed in Note 8, the NCUA estimates the expected losses from the initiatives created by the NCUA to stabilize the CCU system using various methodologies, including internal models, market information and external valuations such as appraisals, and internal and external models that incorporate the NCUA's expectations and assumptions about the financial condition and operations of the Bridge Corporates, CCUs and the AMEs, as well as the anticipated recovery value, if any, of the AMEs' assets and the Legacy Assets collateralizing the NGNs.

The development of assumptions for key input variables of the estimation models and external valuations is a highly subjective process that involves significant judgment. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling include borrower status, prepayments, default, loss severity, discount rates, forward interest rate curves, house price appreciation forecasts, legal and regulatory changes, property locations, and unemployment expectations. Assumptions also vary by asset type and vintage. The assumptions developed for the estimation models are periodically evaluated by the NCUA to determine the reasonableness of those assumptions over time.

As discussed in Note 8, the NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery values, if any, of the AMEs' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Assets transferred to the NGN Trusts in the priority of payments pursuant to the governing documents of each NGN Trust. The estimated cash flows incorporate the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts are also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral underlying the Legacy Assets and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets.

The external model produces estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgages and other assets. Assumptions about prepayments, defaults and loss severity are developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rate and housing prices, among other factors.

While certain parts of the credit market have seen recent improvements, the performance of asset- and mortgage-backed securities, such as the Legacy Assets, remains uncertain. The longer-term outlook for borrower and loan performance is uncertain. Uncertainty around housing prices, interest and unemployment rates, legal and regulatory actions, and the relationship of these factors to prepayment, loss severity, default and delinquency rates will likely change over time. Legacy Asset performance continues to be challenging to predict, and the external model used to derive the expected losses to the TCCUSF from the guarantee of the NGNs is sensitive to assumptions made about Legacy Asset performance. For example, changing the assumptions for reasonably possible variations in certain macroeconomic factors such as a decline in housing prices from its most recent peak in the external model would have resulted in the NCUA's expected losses, net of estimated recoveries in the form of guarantor reimbursements and the economic residual interests in the NGN Trusts (but exclusive of the estimated guarantee fees for the remaining term of the NGNs) associated with 13 re-securitization transactions, to be zero under one scenario, and approximately $189.8 million and $1.3 billion in another scenario, as compared to no expected liability for losses on the NGN guarantees recognized on the TCCUSF’s Balance Sheet as of December 31, 2012 and 2011, respectively.

The estimates of the NCUA's guarantee payments under the NGNs require significant judgment and will change over time. Forecasting borrower behavior and changes in the macroeconomic environment is inherently difficult. Historical trends are not indicative of future performance. Even under so-called normal conditions, leading economic experts have great difficulty predicting economic conditions with any degree of certainty. The assumptions used to estimate the cash flows of the NGNs, Legacy Assets underlying the NGNs, and collateral underlying the Legacy Assets will require continued calibration and refinement.