**NCUA 2010**
**FINANCIAL STATEMENT AUDITS**
**FOR**

**TEMPORARY CORPORATE CREDIT**
**UNION STABILIZATION FUND**

**For the year ended December 31, 2010**

| Audited Financial Statements | Audit Report Number |
|---|---|
| Temporary Corporate Credit Union Stabilization Fund | OIG-11-13 |

December 27, 2011

William A. DeSarno
Inspector General

# EXECUTIVE SUMMARY

**PURPOSE AND SCOPE** The National Credit Union Administration (NCUA) Office of Inspector General contracted with the independent public accounting firm of KPMG LLP to perform the financial statement audits of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Temporary Corporate Credit Union Stabilization Fund for the year ended December 31, 2010. The reports for the first four funds were issued on May 12, 2011 and can be found on the NCUA OIG's website. This report is issued on the NCUA Temporary Corporate Credit Union Stabilization Fund.

The purpose of the audit is to express an opinion on whether the financial statements are fairly presented. The independent firm also reviewed the internal control structure and evaluated compliance with laws and regulations, as part of their audit.

The audit was performed in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. The Inspector General contracted with KPMG LLP in June 2009 to perform the financial statement audits mentioned above. The contract was for 2009, with options for 2010 and 2011. The Inspector General was the contracting officer for this contract.

**AUDIT RESULTS** KPMG LLP expressed an unqualified opinion, stating that the financial statements present fairly, in all material respects, the financial position of the NCUA Temporary Corporate Credit Union Stabilization Fund at December 31, 2010, and the results of operations for the year then ended.

Although KPMG LLP did not express an overall opinion of the Funds' compliance with laws and regulations, their testing of compliance did not disclose any significant deviations.

KPMG did report a significant deficiency related to the "Lack of sufficient preparation for the accounting and reporting of Corporate System Resolution Program." Details of this finding are in Exhibit I of the report as well as management's response.

# National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund

Financial Statements as of and for the Year Ended December 31, 2010, and for the period from May 20, 2009 (Inception) to December 31, 2009

**NATIONAL CREDIT UNION ADMINISTRATION**
**TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND**

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**KPMG LLP**
Suite 12000
1801 K Street, NW
Washington, DC 20006

# Independent Auditors' Report

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

We have audited the accompanying balance sheets of the National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF) as of December 31, 2010 and 2009, and the related statements of net cost, and changes in net position, and statements of budgetary resources (hereinafter referred to as "financial statements") for the year ending December 31, 2010 and for the period from May 20, 2009 (inception) to December 31, 2009. These financial statements are the responsibility of the TCCUSF's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TCCUSF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TCCUSF as of December 31, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the year ending December 31, 2010 and for the period from May 20, 2009 (inception) to December 31, 2009 in conformity with U.S. generally accepted accounting principles.

The information in the Required Supplementary Information section is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 22, 2011, on our consideration of the TCCUSF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

December 22, 2011



KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

**NATIONAL CREDIT UNION ADMINISTRATION**
**TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND**

## BALANCE SHEETS
**As of December 31, 2010 and 2009**
**(Dollars in thousands)**

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| **INTRAGOVERNMENTAL** | | |
| Fund Balance with Treasury (Note 2) | $ 500 | $ - |
| Investments, Net - U.S. Treasury Securities (Note 3) | 372,211 | 343,183 |
| Accounts Receivable - Due from the National Credit Union Share Insurance Fund (Note 4) | 194 | 21,351 |
| Total Intragovernmental Assets | 372,905 | 364,534 |
| **PUBLIC** | | |
| Accounts Receivable - Special Premium Assessments from Insured Credit Unions, Net (Note 4) | 2 | 5,950 |
| Accounts Receivable - Guarantee Fee on Temporary Corporate Credit Union Liquidity Guarantee Program, Net (Note 4) | 635 | 1,329 |
| Accounts Receivable - Guarantee Fee on NCUA Guaranteed Notes, Net (Note 4) | 3,233 | - |
| Total Public Assets | 3,870 | 7,279 |
| **TOTAL ASSETS** | $ 376,775 | $ 371,813 |
| **LIABILITIES** | | |
| **INTRAGOVERNMENTAL** | | |
| Debt - Borrowings from U.S. Treasury (Note 5) | $ - | $ 1,000,000 |
| Other - Accrued Interest Payable to U.S. Treasury (Note 5) | - | 2,589 |
| Total Intragovernmental Liabilities | - | 1,002,589 |
| **PUBLIC** | | |
| Accounts Payable | 1,410 | - |
| Other - Insurance and Guarantee Program Liabilities (Note 6) | 7,833,046 | 6,365,500 |
| Total Public Liabilities | 7,834,456 | 6,365,500 |
| **TOTAL LIABILITIES** | 7,834,456 | 7,368,089 |
| Commitments and Contingencies (Note 6) | | |
| **NET POSITION** | | |
| Cumulative Result of Operations | (7,457,681) | (6,996,276) |
| Total Net Position | (7,457,681) | (6,996,276) |
| **TOTAL LIABILITIES AND NET POSITION** | $ 376,775 | $ 371,813 |

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 Year Ended December 31, 2010, and for the period from May 20, 2009 (Inception) to December 31, 2009**
**(Dollars in thousands)**

| | 2010 | 2009 |
|---|---|---|
| **GROSS COSTS** | | |
| Interest Expense on Borrowings (Note 5) | $ 6,285 | $ 2,589 |
| Insurance and Guarantee Loss Expense (Note 6) | 1,467,546 | 6,365,500 |
| Loss on Investment (Note 3 and Note 7) | - | 1,000,000 |
| Imputed Costs (Note 7) | 5,858 | - |
| Fee on Early Retirement of Borrowings from the U.S. Treasury (Note 5) | 5,811 | - |
| Administrative Expenses (Note 7) | 4,647 | - |
| Total Gross Costs | 1,490,147 | 7,368,089 |
| **LESS EARNED REVENUES** | | |
| Special Premium Revenue (Note 7) | (999,592) | (337,301) |
| Guarantee Fee Revenue - NGNs (Note 7) | (7,577) | - |
| Guarantee Fee Revenue - TCCULGP (Note 7) | (7,964) | (34,504) |
| Gain on Early Retirement of Loans to Corporate Credit Unions (Note 5) | (3,785) | - |
| Interest Revenue - Loans (Note 5) | (3,673) | - |
| Interest Revenue - Investments (Note 3 and Note 7) | (293) | (8) |
| Total Earned Revenues | (1,022,884) | (371,813) |
| **NET COST OF OPERATIONS** | $ 467,263 | $ 6,996,276 |

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 Year Ended December 31, 2010, and for the period from**
**May 20, 2009 (Inception) to December 31, 2009**
**(Dollars in thousands)**

| | 2010 | 2009 |
|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | |
| Beginning Balances | $ (6,996,276) | $ - |
| **OTHER FINANCING SOURCES** | | |
| Imputed Financing | 5,858 | - |
| Net Cost of Operations | (467,263) | (6,996,276) |
| Net Change | (461,405) | (6,996,276) |
| **CUMULATIVE RESULTS OF OPERATIONS** | (7,457,681) | (6,996,276) |
| **NET POSITION** | $ (7,457,681) | $ (6,996,276) |

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 Year Ended December 31, 2010, and for the period from May 20, 2009 (Inception) to December 31, 2009**
**(Dollars in thousands)**

| | 2010 | 2009 |
|---|---|---|
| **BUDGETARY RESOURCES (Notes 8, 9, 10 & 12)** | | |
| Unobligated Balance, brought forward, January 1 | $ 5,361,945 | $ - |
| Budget Authority | | |
| Borrowing Authority Realized | 5,810,000 | 6,000,000 |
| Spending Authority from Offsetting Collections | | |
| Collected | 5,939,224 | 343,183 |
| Change in Receivables from Federal Sources | (21,157) | 21,351 |
| Permanently Not Available | (5,810,000) | - |
| TOTAL BUDGETARY RESOURCES | $ 11,280,012 | $ 6,364,534 |
| **STATUS OF BUDGETARY RESOURCES** | | |
| Obligations Incurred - Reimbursable | $ 4,917,198 | $ 1,002,589 |
| Unobligated Balance - Exempt from Apportionment | 6,362,814 | 5,361,945 |
| TOTAL STATUS OF BUDGETARY RESOURCES | $ 11,280,012 | $ 6,364,534 |
| **CHANGE IN OBLIGATED BALANCES** | | |
| Obligated Balance, net: | | |
| Unpaid Obligations, brought forward, January 1 | $ 2,589 | $ - |
| Uncollected Customer Payments from Federal sources, brought forward, January 1 | (21,351) | - |
| Total Unpaid Obligated Balance, brought forward, January 1 | (18,762) | - |
| Obligations Incurred, net | 4,917,198 | 1,002,589 |
| Gross Outlays | (4,909,696) | (1,000,000) |
| Change in Uncollected Customer Payments from Federal Sources | 21,157 | - |
| TOTAL OBLIGATED BALANCES, NET, END OF PERIOD | $ 9,897 | $ 2,589 |
| OBLIGATED BALANCE, NET, END OF PERIOD: | | |
| Unpaid Obligations, end of period | $ 10,091 | $ 2,589 |
| Uncollected Customer Payments from Federal Sources, end of period | (194) | - |
| TOTAL UNPAID OBLIGATED BALANCES, NET, END OF PERIOD | $ 9,897 | $ 2,589 |
| **NET OUTLAYS** | | |
| Gross Outlays | $ 4,909,696 | $ 1,000,000 |
| Offsetting Collections | | |
| Interest on Federal Securities | (293) | (8) |
| Non-Federal Sources | (5,938,931) | (343,175) |
| TOTAL NET OUTLAYS | $ (1,029,528) | $ 656,817 |

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 of Directors (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 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). The TCCUSGP guarantees the entire share amount member credit unions have on deposit with CCUs, subject to certain limitations. Under the TCCULGP, the NCUA guarantees 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 is primarily provided by the TCCUSF.

### Fiduciary Responsibilities

On September 24, 2010, the NCUA Board announced the Corporate System Resolution Program (CSRP) as part of the TCCUSF. 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 (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 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 funding for the NCUA's guarantees on the NGNs is primarily 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 credit unions were placed into Asset Management Estates (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 are private legal entities, separate from the TCCUSF and therefore are not part of the reporting entity. There is no fiduciary relationship between the TCCUSF and the Bridge Corporates. To the extent that the liabilities and shares transferred exceeded the assets transferred, the AMEs issued promissory notes (Promissory Notes) to the Bridge Corporates for the difference. Each Promissory Note is guaranteed by the NCUA, which guarantees are primarily funded by the TCCUSF. As discussed herein, to the extent that required funding for the guarantees exceeds the funds available from the TCCUSF, the NCUSIF will provide the needed funds.

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 AMEs and NGN Trusts are considered fiduciary in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) 31, *Accounting for Fiduciary Activities* (SFFAS 31). Fiduciary assets are not assets of the Federal Government and therefore are not recognized on the Balance Sheet of the TCCUSF.

**Sources of Funding**

The TCCUSF has multiple sources of funding, to include special premium assessments, investment interest income, guarantee fees, and borrowings from the U.S. Treasury. The NCUA Board may assess premiums to all federally insured credit unions, as provided by the FCU Act. 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 dividend to federally insured credit unions, the NCUSIF is obligated to make distributions to the TCCUSF in lieu of dividends to the federally insured credit unions.

In addition, the TCCUSF has $6.0 billion in borrowing authority from the U.S. Treasury, shared with the NCUSIF.

**Basis of Presentation**

The TCCUSF's financial statements have been prepared from its accounting records in accordance with Federal Accounting Standards Advisory Board (FASAB) standards. 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 September 29, 2010.

**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 under the Federal Credit Reform Act of 1990 (2 U.S.C. §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
- 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; and (ii) the amount and timing of recoveries, if any, related to any claims paid in settlement of the guarantee liabilities. The current 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 invested in overnight securities and managed by the Bureau of the Public Debt (BPD). Cash balances in FBWT may be invested overnight in non-marketable U.S. Treasury securities, as managed by the BPD, and are reported at par value.

**Loans Receivable and Allowance for Loan Losses**

Loans receivable are valued at their gross amounts less an allowance for the amounts not expected to be recovered.

**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 special premium assessments to federally insured credit unions that were 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 federally insured credit unions and guarantee fees associated with the TCCULGP and NGNs, as described below.

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

*Guarantee Fees on TCCULGP Receivable*
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 NGN Receivable*
For a fee, the NCUA guarantees the timely payment of principal and interest on NGNs, principally funded through the TCCUSF.

*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.

**Net Position and Accumulated Deficit**

The TCCUSF has an accumulated deficit in its net position primarily due to the Insurance and Guarantee Program Liabilities. As allowed under the TCCUSF's enabling legislation, and incorporated into the FCU Act as §217(g), the financial conditions of the TCCUSF may reflect a deficit. Per §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.

**Debt – Borrowings from 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 via BPD.

**Accrued Interest Payable to 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 5, *Accounting for Liabilities of the Federal Government*, 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
- 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 for the guarantees associated with the NGNs and the Promissory Notes.

Liabilities for loss contingencies also arise from claims, assessments, litigations, 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.

**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.

**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 administrative expenses paid by the NCUA Operating Fund but not reimbursed by the TCCUSF.

## 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury balances and status consisted of the following (in thousands):

| | As of December 31, 2010 | As of December 31, 2009 |
|---|---|---|
| Total Fund Balance with Treasury: | | |
| Revolving Funds | $ 500 | $ - |
| Status of Fund Balance with Treasury: | | |
| Unobligated Balance - Available | $ 6,362,814 | $ 5,361,945 |
| Obligated Balance Not Yet Disbursed | 9,897 | 2,589 |
| Non-Budgetary FBWT Accounts | (6,372,211) | (5,364,534) |
| Total | $ 500 | $ - |

As a revolving fund, the FBWT is used for continuing business 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 and current activities. Non-budgetary FBWT accounts, which consist of investments and borrowing authority, reduce the status of fund balance. Funds not needed for immediate liquidity are invested in overnight U.S. Treasury securities.

During 2010, the FBWT account was increased by special premium assessments, guarantee fee income, proceeds from borrowing from the U.S. Treasury, and interest income on investments in U.S. Treasury securities. The FBWT account was decreased by amounts expended in support of stabilizing the CCU system, including the repayment of borrowings from the U.S. Treasury, and purchases of U.S. Treasury securities. As of December 31, 2010 and 2009, there were no unreconciled differences between U.S. Treasury records and balances reported in the TCCUSF's general ledger.

## 3. INVESTMENTS

The TCCUSF invests in non-marketable daily overnight U.S. Treasury securities, which are purchased at par value. As of December 31, 2010 and 2009, the cost and market value of U.S. Treasury securities were as follows:

| As of December 31, 2010 and 2009<br>(Dollars in thousands) | Cost | Amortization Method | Amortized (Premium) Discount | Interest Receivable | Investments | Other Adjustments | Market Value Disclosure |
|---|---|---|---|---|---|---|---|
| Non-Marketable, par value, 12/31/2010 | $ 372,211 | n/a | $ - | $ - | $ 372,211 | $ - | $ 372,211 |
| Non-Marketable, par value, 12/31/2009 | $ 343,183 | n/a | $ - | $ - | $ 343,183 | $ - | $ 343,183 |

### Loss on Investment – USC Capital Note

On June 18, 2009, the NCUA Board transferred the $1.0 billion capital note (USC Capital Note) investment in U.S. Central Federal Credit Union (USC) to the TCCUSF; the USC Capital Note was originally held by the NCUSIF. Based on an evaluation of USC's financial position as of December 31, 2009, which included independent valuation analyses, the NCUA concluded that an other-than-temporary impairment had occurred with the USC Capital Note, and, accordingly, recorded an impairment charge, or bad debt expense, for the entire value of the USC Capital Note.

## 4. ACCOUNTS RECEIVABLE

### Intragovernmental - Accounts Receivable from the NCUSIF

The TCCUSF special premium assessments, if collected by the NCUSIF for operational reasons, are reclassified by the TCCUSF from Public Accounts Receivable – Special Premium Assessments from Insured Credit Unions to Intragovernmental Accounts Receivable – Due from NCUSIF. As these assessments are transferred from the NCUSIF to the TCCUSF, the Accounts Receivable – Due from NCUSIF decreases. As of December 31, 2010 and 2009, the TCCUSF receivable due from the NCUSIF totaled $194 thousand and $21.4 million, respectively.

### Public Accounts Receivable

*Special Premium Assessments from Federally Insured Credit Unions*
As of December 31, 2010 and 2009, special premium assessments that had not been paid by federally insured credit unions totaled $2.0 thousand and $6.0 million, respectively.

*TCCULGP Guarantee Fee Receivable*
For a fee, the NCUA guarantees the timely payment of principal and interest on certain unsecured debt of participating CCUs, principally through the TCCUSF. The TCCUSF invoices participating CCUs on a monthly basis for the guarantee fee. As of December 31, 2010 and 2009, there were $635 thousand and $1.3 million in TCCULGP guarantee fees that had not been received, respectively.

*NGN Guarantee Fee Receivable*
For a fee, the NCUA guarantees the timely payment of principal and interest on 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, 2010, the NGN guarantee fee that had not been received was $3.2 million. There was no NGN guarantee fee receivable as of December 31, 2009, as the re-securitization program was established in 2010.

*Allowance for Doubtful Accounts*
The allowance for doubtful accounts on public accounts receivable as of December 31, 2010 and 2009 was zero.

## 5. DEBT – BORROWINGS FROM U.S. TREASURY

During 2010, the TCCUSF borrowed and repaid a total of $4.8 billion from the U.S. Treasury. During 2010, the TCCUSF incurred interest expense of $6.3 million and fees of $5.8 million on the early retirement of the borrowings from the U.S. Treasury.

As of December 31, 2009, the TCCUSF owed $1.0 billion with accrued interest expense of $2.6 million payable to the U.S. Treasury related to the USC Capital Note as further described herein. The TCCUSF repaid the $1.0 billion and related interest to the U.S. Treasury during 2010.

## 6. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

As of December 31, 2010, the TCCUSF was primarily responsible for four initiatives and related guarantees to stabilize the CCU system: TCCUSGP, TCCULGP, NGN issuances, and the Promissory Notes. The NCUA's guarantees on the NGNs and the Promissory Notes were new initiatives in 2010 and 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 estimate contingent liabilities associated with the TCCUSGP, TCCULGP, NGN and the Promissory Notes initiatives, as discussed herein. As shown in the table below, the TCCUSF recorded contingent liabilities related to the TCCUSGP, TCCULGP, NGN and the Promissory Notes initiatives on the TCCUSF's Balance Sheet of approximately $7.8 billion and $6.4 billion as of December 31, 2010 and 2009, respectively. Pursuant to the FCU Act, the NCUA is authorized to assess the CCU system for the recovery of such losses during the life of the TCCUSF.

| For the Period From May 20, 2009 to December 31, 2009 and for the Year Ended December 31, 2010 | TCCUSGP | TCCULGP | Promissory Notes | NGNs | TOTAL |
|---|---|---|---|---|---|
| (Dollars in thousands) | | | | | |
| TCCUSF Inception, 5/20/2009 | $ - | $ - | $ - | $ - | $ - |
| Provision for Losses | 6,365,500 | - | - | - | 6,365,500 |
| Insurance losses (Claims) paid | - | - | - | - | - |
| Net Recovery | - | - | - | - | - |
| Ending Balance, 12/31/2009 | $ 6,365,500 | $ - | $ - | $ - | $ 6,365,500 |
| Beginning of Year, 1/1/2010 | $ 6,365,500 | $ - | $ - | $ - | $ 6,365,500 |
| Provision for Losses | (6,318,311) | 2,402,447 | 4,768,897 | 614,513 | 1,467,546 |
| Insurance losses (Claims) paid | - | - | - | - | - |
| Net Recovery | - | - | - | - | - |
| Ending Balance, 12/31/2010 | $ 47,189 | $ 2,402,447 | $ 4,768,897 | $ 614,513 | $ 7,833,046 |

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 natural person 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 TCCUSGP is set to expire on December 31, 2012.

Participating CCUs in the TCCUSGP do 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 the member 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.

As a result, the TCCUSF is obligated for any liability arising from: the payment of excess shares guaranteed under the TCCUSF; insured shares equal to the Standard Maximum Share Insurance Amount to the extent that the Bridge Corporate is unable to make these payments from its resources; and, any authorized dividend payments. To the extent that this liability exceeds the funds available from the TCCUSF, the NCUSIF will provide the needed funds.

As of December 31, 2010 and 2009, there were conditions from past events that involve uncertainties resulting in possible loss pursuant to the TCCUSGP, where such uncertainties are probable to be resolved by future events and are measurable, and as discussed below, a contingent liability has been recognized.

The TCCUSF's Insurance and Guarantee Program Liability associated with the TCCUSGP as of December 31, 2010 totaled approximately $47.2 million, all of which is attributed to the Bridge Corporates. The expected losses from the guarantee of the Bridge Corporates' shares is dependent upon the expected recovery from the Bridge Corporates that reflect the NCUA's expectations and assumptions about the Bridge Corporates' financial condition and projected operating cash flows. As of December 31, 2010, the aggregate outstanding insured shares of the CCUs under the TCCUSGP were $80.0 billion. This amount represents the maximum potential future guarantee payments that the NCUA could be required to make without consideration of any possible recoveries under the terms of the guarantee from the CCUs. This amount bears no relationship to the losses anticipated under the TCCUSGP.

As of December 31, 2009, the contingent liability associated with the TCCUSGP totaled approximately $6.4 billion. The NCUA estimated this contingent liability using an internal model based on external valuations of the Legacy Assets and other assets held by the CCUs that reflected the NCUA's expectations and assumptions about prepayments, defaults, loss severity and discount rates of the Legacy Assets, as well as the financial condition of the CCUs.

The decrease in the contingent liability for the TCCUSGP from 2009 to 2010 is a result of previously conserved CCUs and additional CCUs being placed in the status of AMEs, and their member shares being transferred to the Bridge Corporates during 2010. The decrease in the contingent liability for the TCCUSGP was more than offset by guarantees provided to those AMEs by the TCCUSF in 2010 as further discussed below.

There have been no claims filed under the TCCUSGP as of December 31, 2010 or 2009, and therefore, no direct liability has been recorded.

**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 guarantees the timely payment of principal and interest on certain unsecured debt of participating CCUs, principally funded through the TCCUSF.

As of December 31, 2010, the NCUA had extended guarantees related to the AMEs' Medium Term Notes (MTNs) as described below. As of December 31, 2009, the NCUA had extended guarantees related to the Credit Union System Investment Program (SIP), Credit Union Homeowner's Affordability Relief Program (CU HARP), and the MTNs.

*Medium Term Notes*
In 2009, USC and Western Corporate Federal Credit Union issued MTNs to the public debt market. These MTNs are guaranteed by the NCUA under the TCCULGP. The MTNs were issued to fund the CCUs repayment of their loans from the NCUA Central Liquidity Facility (CLF) under SIP and the CU HARP. As shown in the table below, MTNs with an aggregate face value of $5.5 billion were issued by USC and Western Corporate Federal Credit Union and were outstanding as of the date of their liquidations and are guaranteed under the TCCULGP.

| As of December 31, 2010 and 2009 | Coupon | Maturity Date | Amount Issued |
|---|---|---|---|
| (Dollars in thousands) | | | |
| | 1.25%; Fixed | 10/19/2011 | $ 1,500,000 |
| | LIBOR; Floating | 10/19/2011 | 500,000 |
| | 1.90%; Fixed | 10/19/2012 | 2,000,000 |
| | 1.75%; Fixed | 11/2/2012 | 1,500,000 |
| | | | $ 5,500,000 |

*Credit Union System Investment Program*
Under the SIP, participating creditworthy natural person credit unions borrowed from the CLF and invested the proceeds in participating CCUs. Natural person credit unions participating in this initiative received a spread of 25 basis points between the borrowings from the CLF and the investment with participating CCUs. As of December 31, 2009, borrowings of $8.2 billion by the participating natural person credit unions were subject to TCCUSF guarantees under this initiative. In March 2010, the SIP ended when all borrowings from the CLF were repaid by the participating natural person credit unions, whose investments were repaid by the participating CCUs primarily with proceeds from their issuance of the MTNs.

*Credit Union Homeowners Affordability Relief Program*
The CU HARP is a two-year, $2.0 billion initiative to assist homeowners who are facing foreclosure on their mortgages. Under CU HARP, participating creditworthy natural person credit unions borrow from the CLF and receive up to 100 basis points over the cost of borrowing from the CLF if they modify at-risk mortgages, primarily by lowering interest rates and corresponding monthly payments. As of December 31, 2009, borrowings of $95.6 million by the participating natural person credit unions were subject to guarantees under the CU HARP. The CU HARP program ended on December 30, 2010.

As of December 31, 2010 and 2009, there were conditions from past events that involve uncertainties related to possible loss pursuant to the TCCULGP, where such uncertainties are probable to be resolved by future events and are measurable, and as discussed below, a contingent liability has been recognized.

The TCCUSF's Insurance and Guarantee Program Liability associated with the TCCULGP as of December 31, 2010 totaled approximately $2.4 billion. The expected loss is based on the NCUA's assessment of the guarantee exposure on the aggregate outstanding amount of $5.5 billion of MTNs, net of the 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 below.

The CU HARP and SIP ended in 2010 and therefore no related contingent liability was recorded as of December 31, 2010, for these initiatives.

There have been no claims filed under the TCCULGP as of December 31, 2010 or 2009, and therefore, no direct liability has been recorded.

**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 NGNs consisting of floating and fixed-rate notes. The 2010 NGN issuances have final maturities ranging from 2017 to 2020. As of December 31, 2010, the principal balance of the NGNs was $17.3 billion. This amount represents the maximum potential future guarantee payments that NCUA could be required to make without consideration of any possible recoveries under the terms of the guarantee or from the AMEs. This amount bears no relationship to the losses anticipated on the NGNs.

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 with respect to timely payment of interest and principal on the NGNs, as well as any parity payments. As of a given distribution date, parity payments are due when the unpaid principal balance of all Legacy Assets underlying the NGN Trusts, after realized and implied losses, is less than the remaining unpaid principal balance of the related NGNs after distribution of all cash collected on the Legacy Assets. The estimated guarantee obligation of the TCCUSF and resultant reserve for probable losses for the NGN initiative is calculated net of related guarantor reimbursements from the NGN Trusts, if any, and expected recoveries from the AMEs to the extent that the NGN Trusts do not have sufficient assets to reimburse the TCCUSF.

Potential guarantor reimbursements by the NGN Trusts to the NCUA are subordinate to payments on the NGNs per the respective indentures. As such, guarantor reimbursements will not occur until the NGNs have 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 guarantor 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 per 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 as a guarantor at each payment date is equal to 35 basis points per year, payable monthly, on the outstanding NGN balance prior to the distribution of principal on the payment date.

As of December 31, 2010, there were conditions from past events that involve uncertainties related to possible loss pursuant to the NGN guarantee, where such uncertainties are probable to be resolved by future events and are measurable, and as discussed below, a contingent liability has been recognized.

The TCCUSF's Insurance and Guarantee Program Liability attributed to the NGNs as of December 31, 2010 totaled approximately $615.0 million. The expected loss 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 11.

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 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 rates and housing prices.

There have been no claims filed as of December 31, 2010, related to the guarantee on the NGNs, and therefore, no direct liability has been recorded.

**Promissory Notes**

Per the terms in each Promissory Note agreement between the AMEs and Bridge Corporates, each Promissory Note is 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, draw on available borrowings from the U.S. Treasury. As of December 31, 2010, the NCUA was the guarantor of the Promissory Notes with an aggregate face value of $18.2 billion.

There have been no claims filed as of December 31, 2010, related to the guarantee on the Promissory Notes, and therefore, no direct liability has been recorded.

As of December 31, 2010, there were conditions from past events that involve uncertainties related to possible loss pursuant to the promissory note guarantee, where such uncertainties are probable to be resolved by future events and are measurable, and as discussed below, a contingent liability has been recognized.

The TCCUSF's Insurance and Guarantee Program Liability attributed to the Promissory Notes totaled approximately $4.8 billion as of December 31, 2010. This expected loss is based on the NCUA’s assessment of the guarantee exposure on the aggregate outstanding amount of $18.2 billion, 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 11.

## 7. 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 administrative expenses paid by the NCUA Operating Fund but not reimbursed by 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 year ended December 31, 2010, and for the period from May 20, 2009, to December 31, 2009 are provided below. When guarantee payments are anticipated to be made for the TCCUSF's initiatives, the TCCUSF would expect to fund payments from special premium assessments, available cash, investments, and/or borrowings from the U.S. Treasury.

**For the Year Ended December 31, 2010**

| Intragovernmental Costs and Exchange Revenue | USC Capital Note | TCCUSGP | TCCULGP | Promissory Notes | NGNs | Other | TOTAL |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | | | | | | | |
| Intragovernmental Costs | $ 2,934 | $ - | $ - | $ - | $ - | $ 15,020 | $ 17,954 |
| Public Costs | - | (6,318,311) | 2,402,447 | 4,768,897 | 614,513 | 4,647 | 1,472,193 |
| Total | 2,934 | (6,318,311) | 2,402,447 | 4,768,897 | 614,513 | 19,667 | 1,490,147 |
| Intragovernmental Exchange Revenue | - | - | - | - | - | (293) | (293) |
| Public Exchange Revenue | - | - | (7,964) | - | (7,577) | (1,007,050) | (1,022,591) |
| Total | - | - | (7,964) | - | (7,577) | (1,007,343) | (1,022,884) |
| **Net Cost** | $ 2,934 | $ (6,318,311) | $ 2,394,483 | $ 4,768,897 | $ 606,936 | $ (987,676) | $ 467,263 |

**For the Period from May 20, 2009 to (Inception) December 31, 2009**

| Intragovernmental Costs and Exchange Revenue | USC Capital Note | TCCUSGP | TCCULGP | TOTAL |
|---|---|---|---|---|
| (Dollars in thousands) | | | | |
| Intragovernmental Costs | $ 2,589 | $ - | $ - | $ 2,589 |
| Public Costs | 1,000,000 | 6,365,500 | - | 7,365,500 |
| Total | 1,002,589 | 6,365,500 | - | 7,368,089 |
| Intragovernmental Exchange Revenue | (8) | - | - | (8) |
| Public Exchange Revenue | (337,301) | - | (34,504) | (371,805) |
| Total | (337,309) | - | (34,504) | (371,813) |
| **Net Cost** | $ 665,280 | $ 6,365,500 | $ (34,504) | $ 6,996,276 |

### USC Capital Note

During 2009, as mentioned herein, the TCCUSF received the $1.0 billion USC Capital Note investment in USC from the NCUSIF. This action made the TCCUSF responsible for managing an intragovernmental relationship with the U.S. Treasury and a public relationship with USC. Intragovernmental costs represents interest expense incurred on the $1.0 billion borrowing from the

U.S. Treasury of approximately $2.9 million and $2.6 million for the year ended December 31, 2010, and for the period from May 20, 2009 to December 31, 2009, respectively. Public costs for 2009 represented an impairment charge in the amount of $1.0 billion due to the write off of the USC Capital Note as of December 31, 2009, as the USC Capital Note was determined to be impaired and unrecoverable. Public exchange revenue for 2009 represents the special premium assessment that was invoiced to all federally insured credit unions.

**Temporary Corporate Credit Union Share Guarantee Program**

As of December 31, 2010 and 2009, the TCCUSF estimated that the necessary reserve balance resulting from the TCCUSGP to be $47.2 million and $6.4 billion, respectively. As described herein, the decrease in the reserve balance for the TCCUSGP is a result of previously conserved CCUs and additional CCUs being placed into AMEs, and their member shares being transferred to the Bridge Corporates during 2010. The decrease in the reserve balance for the TCCUSGP is offset by increases in the reserve balances for guarantees provided to the AMEs by the NCUA and funded by the TCCUSF in 2010. As such, the insurance and guarantee expense related to the TCCUSGP was reduced by approximately $6.3 billion for the year ended December 31, 2010.

**Temporary Corporate Credit Union Liquidity Guarantee Program**

As of December 31, 2010, the TCCUSF estimated that the necessary reserve balance resulting from the TCCULGP to be $2.4 billion. The amount reflects the public cost incurred by the TCCUSF in support of this initiative for the year ended December 31, 2010. The insurance and guarantee exchange revenue originates from guarantee fee collections pertaining to certain debt issuances resulting from the TCCULGP initiative. The exchange revenue from the TCCULGP was approximately $8.0 million and $34.5 million during the year ended December 31, 2010 and for the period from May 20, 2009 to December 31, 2009, respectively.

**Promissory Notes**

As of December 31, 2010, the TCCUSF estimated that the necessary reserve balance resulting from the Promissory Notes to be $4.8 billion. The amount reflects the public cost incurred by the TCCUSF in support of this initiative for the year ended December 31, 2010.

**NGNs**

As of December 31, 2010, the TCCUSF estimated that the necessary reserve balance resulting from the NGNs to be approximately $615.0 million. The amount reflects the public cost incurred by the TCCUSF in support of this initiative for the year ended December 31, 2010. Exchange revenue, in the amount of $7.6 million, is derived from the collection of guarantee fees by the TCCUSF in exchange for the NCUA guarantee over the NGNs.

When guarantee payments are anticipated to be made by the TCCUSF with respect to the NGNs, the TCCUSF expects to fund those payments from special premium assessments, available cash, investments, and borrowings from the U.S. Treasury.

**Other**

For the year ended December 31, 2010, intragovernmental costs of approximately $15.0 million included interest expense on borrowings, imputed costs, and the fee on the early retirement of borrowings from the U.S Treasury. The interest expense on borrowings and the fee on the early retirement of borrowings from the U.S Treasury are a result of the $4.0 billion TCCUSF loan to the Western Bridge Corporate Federal Credit Union and $810.0 million TCCUSF loan to USC during 2010.

The borrowings were repaid during 2010; therefore as of December 31, 2010, there was no balance or interest due to the U.S. Treasury. Public exchange revenue of approximately $1.0 billion consists primarily of special premium assessments invoiced during the year ended December 31, 2010.

## 8. 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. Early repayment of any advance shall be at a price determined by the U.S. Treasury per the current MOU. The interest rate per the MOU was 0.375 percent and 0.5 percent at December 31, 2010 and 2009, respectively.

## 9. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The TCCUSF shares its $6.0 billion borrowing authority from the U.S. Treasury with the NCUSIF. During 2010, the TCCUSF borrowed a total of $4.8 billion from the U.S. Treasury, which was repaid by December 31, 2010. During 2009, the TCCUSF borrowed $1.0 billion from the U.S. Treasury, which was repaid during 2010. At December 31, 2010 and 2009, the TCCUSF together with the NCUSIF had $6.0 billion and $5.0 billion in available borrowing authority from the U.S. Treasury, respectively.

## 10. 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, 2010 and 2009. Activity affecting budget totals of the overall Federal Government budget is recorded in the TCCUSF's Statement of Budgetary Resources. As of December 31, 2010 and 2009, the TCCUSF's resources in budgetary accounts totaled $11.3 billion and $6.4 billion, respectively. Undelivered orders were $8.7 million at December 31, 2010, and zero at December 31, 2009. 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 assessment to federally 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, 2010, rather than as of September 30, 2010, the Federal Government's fiscal year end.

## 11. FIDUCIARY ACTIVITIES

The NCUA's fiduciary activities, in accordance with SFFAS 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 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 natural person credit unions that were members of the now failed CCUs.

At the time of liquidation, 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 approximately $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, the NCUA provided guarantees on the various obligations of the AMEs, including the Promissory Notes and the MTNs. In addition, in order 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, 2010, the NCUA completed five NGN transactions with net proceeds received of approximately $17.8 billion. The majority of proceeds from the NGN issuances were used to repay the Promissory Notes owed by the AMEs to the Bridge Corporates. As of December 31, 2010, the aggregate outstanding amount of the Promissory Notes was approximately $18.2 billion.

The schedules of fiduciary activity and the fiduciary net assets/liabilities of the AMEs and the NGN Trusts for 2010 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 investment securities and other assets held by the AMEs. Actual results could differ materially from our current estimates and expectations.

The schedules below do not contain comparative fiscal year data, as there were no AMEs or NGN Trusts in 2009.

**Schedule of Fiduciary Activity**

| (Dollars in thousands) | For the Year Ended December 31, 2010 AMEs | NGN Trusts | Eliminations | TOTAL |
|---|---|---|---|---|
| Fiduciary Net Liabilities, Beginning of Year | $ - | $ - | $ - | $ - |
| Net Fiduciary Liabilities Assumed upon Liquidations | 7,193,716 | - | - | 7,193,716 |
| **Revenues** | | | | |
| Interest on Loans | (8,861) | - | - | (8,861) |
| Income from AMEs on Re-Securitized Assets | - | (40,801) | 40,801 | - |
| Income from Investment Securities | (144,155) | - | - | (144,155) |
| Other Fiduciary Revenues | (2,369) | - | - | (2,369) |
| **Expenses** | | | | |
| Professional and Outside Services Expenses | 7,980 | - | - | 7,980 |
| Compensation and Benefits | 53 | - | - | 53 |
| Interest Expense on Borrowings and NGNs | 99,208 | 33,358 | - | 132,566 |
| Payments to NGN Trusts | 40,801 | - | (40,801) | - |
| Other Expenses | 3,205 | 7,443 | - | 10,648 |
| **Net Change in Recovery Value of Assets and Liabilities** | 150,206 | | | 150,206 |
| **Increase in Fiduciary Net Liabilities** | 7,339,784 | - | - | 7,339,784 |
| **FIDUCIARY NET LIABILITIES, END OF THE PERIOD** | $ 7,339,784 | $ - | $ - | $ 7,339,784 |

The schedule of fiduciary activity includes revenues earned on the investment securities 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**

| (Dollars in thousands) | As of December 31, 2010 AMEs | NGN Trusts | Eliminations | TOTAL |
|---|---|---|---|---|
| **Fiduciary Assets** | | | | |
| Cash and Cash Equivalents | $ 2,263,242 | $ 211,911 | $ - | $ 2,475,153 |
| Legacy Assets | 13,415,065 | - | - | 13,415,065 |
| Legacy Assets Collateralizing the NGNs | 16,958,268 | | | 16,958,268 |
| Loans | 800,076 | - | - | 800,076 |
| Receivable from AMEs | - | 17,349,791 | (17,349,791) | - |
| Other Fiduciary Assets | 364,989 | - | - | 364,989 |
| **TOTAL FIDUCIARY ASSETS** | 33,801,640 | 17,561,702 | (17,349,791) | 34,013,551 |
| **Fiduciary Liabilities** | | | | |
| Accrued Expenses | (47,897) | (10,321) | - | (58,218) |
| Promissory Notes | (18,189,414) | - | - | (18,189,414) |
| MTNs | (5,500,000) | - | - | (5,500,000) |
| NGNs | - | (17,551,381) | - | (17,551,381) |
| Notes Payable - Other | (206) | - | - | (206) |
| Due to NGN Trusts | (17,349,791) | - | 17,349,791 | - |
| Unsecured Claims | (54,116) | - | - | (54,116) |
| **TOTAL FIDUCIARY LIABILITIES** | (41,141,424) | (17,561,702) | 17,349,791 | (41,353,335) |
| **TOTAL FIDUCIARY NET ASSETS / (LIABILITIES)** | $ (7,339,784) | $ - | $ - | $ (7,339,784) |

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 claims against the AMEs outstanding at December 31, 2010. Certain claims against the AMEs, including the Promissory Notes, MTNs and the NGNs are guaranteed by the NCUA as previously discussed herein.

Fiduciary assets include cash, investment securities, 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 an external model 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.  Our future estimate of liquidation costs, as well as the actual amounts, could differ materially from our 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 the NCUA regulations.  The NCUA is entitled to recoveries, if any, from the AMEs for any future guarantee payments, up to the amount of assets available in the AMEs to be distributed in order of priority as set forth in the NCUA regulations.

## 12. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) 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 period ended December 31, 2010, and 2009. As of December 31, 2010, and 2009, the Reconciliation of Net Cost of Operations to Budget consisted of the following:

| **Reconciliation of Net Cost of Operations to Budget**<br>(Dollars in Thousands) | **As of December 31, 2010** | **As of December 31, 2009** |
|---|---|---|
| **Resources Used to Finance Activities:** | | |
| Unobligated Balance, brought forward, January 1 | $ 5,361,945 | $ - |
| Borrowing Authority Realized | 5,810,000 | 6,000,000 |
| Spending Authority from Offsetting Collections | | |
| Collected | 5,939,224 | 343,183 |
| Change in Receivables from Federal Sources | (21,157) | 21,351 |
| Permanently not available | (5,810,000) | - |
| Total Budgetary Resources | 11,280,012 | 6,364,534 |
| Less Unobligated Balance - Exempt from Apportionment | (6,362,814) | (5,361,945) |
| Total Obligations Incurred | 4,917,198 | 1,002,589 |
| Imputed Financing | 5,858 | - |
| **Total Resources Used to Finance Activities** | 4,923,056 | 1,002,589 |
| **Resources Used to Fund Items Not Part of the Net Cost of Operations:** | | |
| Collection of Loan Principal | (4,810,000) | - |
| Other Collections | (106,340) | - |
| Change in Federal Accounts Receivable | 21,157 | - |
| Change in Budgetary Resources Obligated for Goods and Services Not Yet Received | (8,681) | - |
| Change in Uncollected Customer Payments | 3,409 | - |
| **Total Resources Used to Fund Items Not Part of the Net Cost of Operations** | (4,900,455) | - |
| **Costs Included in the Net Cost of Operations That Do Not Require Resources During the Reporting Period:** | | |
| Reserve for TCCUSGP | 1,467,546 | 6,365,500 |
| Revenue Recognized | | |
| Interest Collected - on Investments | (293) | (8) |
| Interest Collected - on loan | (3,673) | - |
| Fee on Early Retirement of Loans to CCUs | (3,785) | - |
| Guarantee Fees Collected | (15,541) | (34,504) |
| Premiums Collected | (999,592) | (337,301) |
| **Total Costs That Do Not Require Resources** | 444,662 | 5,993,687 |
| **Net Cost of Operations** | $ 467,263 | $ 6,996,276 |

## 13. SUBSEQUENT EVENTS

In accordance with SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards,* subsequent events have been evaluated through December 22, 2011, which is the date the financial statements were available to be issued. The following events, subsequent to the finalization of the December 31, 2010 financial statements warrant identification.

The NCUA completed additional issuance of the NGNs consisting of eight re-securitization transactions from January to June 2011. Total proceeds from the NGN issuances in 2011 totaled approximately $10.5 billion.

On July 27, 2011 the TCCUSF borrowed $3.5 billion from the U.S. Treasury. The current interest rate, which resets annually on June 25, is 0.165 percent with a maturity date of June 25, 2016.

On August 29, 2011, the NCUA Board approved a 0.25 percent special premium assessment from each federally insured credit union. This special premium assessment, totaling $2.0 billion, was due to be paid by credit unions on September 27, 2011.

The NCUA applied the funds received from the issuance of NGNs, borrowings from U.S. Treasury and the special premium assessment to satisfy guarantee claims to repay the remaining outstanding amount of the Promissory Notes of approximately $5.7 billion to the Bridge Corporates on August 1, 2011, and approximately $2.0 billion of the MTNs that matured on October 19, 2011.

In 2011, the NCUA Board, as the liquidating agent of the AMEs, filed multiple suits against securities firms alleging violations of federal and state securities laws and misrepresentations in the sale of hundreds of securities to the failed CCUs.

On November 14, 2011, two securities firms have agreed to pay $145.0 million and $20.5 million respectively, to the NCUA, as the liquidating agent of the AMEs, to settle potential claims relating to the sale of RMBS to five failed CCUs.

Management determined that there were no other significant items to be disclosed as of December 31, 2010.

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

### 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 the credit union system 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 aggregate contingent liability for expected losses from the CCU system recognized by the TCCUSF pursuant to SFFAS 5 was approximately $7.8 billion and $6.4 billion at December 31, 2010, and 2009, respectively. As discussed in Note 6, the TCCUSF's contingent liability is related to four initiatives established by the NCUA to stabilize the CCU system consisting of the TCCUSGP, TCCULGP, NGN issuances, and the Promissory Notes. The increase in the aggregate contingent liability from 2009 to 2010 of approximately $1.4 billion is primarily a result of increased losses in the previously two conserved CCUs and three additional CCUs, all five of which were placed in AME status during 2010.

**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 6. As of December 31, 2010, 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 $11.2 million and $284.0 million, respectively.

In addition, the NCUA Board, under the FCU Act, may assess the credit union system special premiums to cover payments for the conservatorship, liquidation, or threatened conservatorship or liquidation of CCUs. The TCCUSF assessed a special premium of approximately $1.0 billion in 2010. In September 2011, the NCUA Board assessed a special premium of approximately $2.0 billion. The NCUA Board expects to assess additional special premiums on the credit union system periodically for the recovery of losses over the remaining term of the TCCUSF.

**Sensitivity, Risks and Uncertainties of the Assumptions**

As discussed in Note 6, the NCUA estimates the expected losses from the four initiatives using various methodologies including internal models, market information and external valuations such as appraisals, and an external model that incorporates the NCUA's expectations and assumptions about the financial condition and operations of the Bridge Corporates and the AMEs, as well as the anticipated recovery value, if any, of 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.

*Temporary Corporate Credit Union Share Guarantee Program*

The TCCUSF has insured CCU member shares totaling $80.0 billion as of December 31, 2010. The expected loss of $47.2 million, all of which is attributed to the Bridge Corporates, is dependent upon the expected recoveries from the Bridge Corporates that reflects the NCUA's expectations and assumptions about the Bridge Corporates' financial condition and projected operating cash flows. These are dependent on the ultimate outcome of the credit union system-led resolution to the Bridge Corporates, including the resolution of two Bridge Corporates through mergers in September and October 2011. Actual resolution of the remaining Bridge Corporates and the ultimate losses to be incurred by the TCCUSF could differ materially from the assumptions made as of December 31, 2010.

*Temporary Corporate Credit Union Liquidity Guarantee Program and the Promissory Notes*

The expected losses from the guarantee under the TCCULGP and the Promissory Notes are largely dependent upon the expected recovery, if any, from the AMEs and reflects the NCUA's expectations and assumptions about the recovery value, if any, of the AMEs' assets as previously discussed under fiduciary activities in Note 11. As of December 31, 2010, the aggregate outstanding amount of MTNs was $5.5 billion, and the aggregate face value of the Promissory Notes was $18.2 billion.

As discussed in Note 13, the NCUA Board, as the liquidating agent, repaid all of the outstanding Promissory Notes in August 2011, and $2 billion of the MTNs due in October 2011. The TCCUSF made guarantee payments of approximately $5.7 billion in connection with the AMEs' repayment of the Promissory Notes. It is expected that the TCCUSF would make additional guarantee payments with respect to the remaining MTNs due in October 2012.

As discussed in Note 11, in the event of a guarantee payment on the MTNs under the TCCULGP and the Promissory Notes, the TCCUSF is entitled to reimbursements from the AMEs, to the extent there are remaining assets, in accordance with the priority of payments specified in the NCUA regulations. The amount and timing of reimbursements, if any, from the AMEs are based on the NCUA Board's expectations and assumptions about its ability, as the liquidating agent, to liquidate the AME assets, such as investment securities, loans, investment in credit union service organizations, buildings, fixtures, furniture, equipment, economic residual interests in the NGN Trusts, and other investments.

The expected recovery values of the AMEs' assets are derived using market information and external valuations, such as appraisals and external models that incorporate the NCUA's assumptions about prepayments, defaults, loss severity and discount rates that differ by borrower status, asset types and other factors. In particular, the AMEs' economic residual interests in the NGN Trusts are sensitive to the assumptions made by the NCUA as further discussed below. Recovery amounts, if any, of the AME assets and ultimate gross claims to be paid by the TCCUSF, net of any reimbursements from the AMEs, could differ materially from the assumptions made as of December 31, 2010.

*NCUA Guaranteed Notes*

As discussed in Note 6, the principal balance of the NGNs was $17.3 billion as of December 31, 2010. This amount represents the maximum potential future guarantee payments that NCUA could be required to make without consideration of any possible recoveries under the terms of the guarantee or from the AMEs. The expected losses from the guarantee of NGNs are expected to be significantly less than the above maximum potential exposure, and such losses are based on the estimated guarantee payments, net of estimated guarantor reimbursements, if any, from the NGN Trusts and expected recoveries, if any, from the AMEs. The NCUA's estimate of the expected recovery from the AMEs reflects the NCUA's expectations and assumptions about the recovery value of the AMEs' assets as discussed above, which include AMEs' economic residual interests in the NGN Trusts.

As discussed in Note 6, 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.

The table below represents the composition of Legacy Assets collateralizing the NGNs with an aggregate recovery value of approximately $17.0 billion as of December 31, 2010. The collateral underlying the ABS included in the table below is student loans.

| Asset Type | | Credit Rating | |
|---|---|---|---|
| RMBS | 68% | AAA | 7% |
| | | AA | 10% |
| | | A | 7% |
| | | BBB | 4% |
| | | Below Investment Grade | 72% |
| CMBS | 25% | AAA | 18% |
| | | AA | 19% |
| | | A | 44% |
| | | BBB | 17% |
| | | Below Investment Grade | 1% |
| | | N/A | 2% |
| ABS | 7% | AAA | 25% |
| | | AA | 19% |
| | | A | 29% |
| | | BBB | 25% |
| | | Below Investment Grade | 3% |

The credit rating is based on the lowest rating published by the Standard & Poor's, Moody's and Fitch, where available.

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 TCCUSF from the guarantee of the NGNs is sensitive to assumptions made about Legacy Asset performance. For example, changing our 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 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) to be zero under one scenario, and approximately $1.3 billion in another scenario, as compared to $615.0 million in expected losses on the NGN guarantees recognized on the TCCUSF’s Balance Sheet as of December 31, 2010.

As discussed in Note 13, the NCUA completed thirteen re-securitization transactions through June 2011. 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.

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## Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheets of the National Credit Union Administration's (NCUA) Temporary Corporate Credit Union Stabilization Fund (TCCUSF) as of December 31, 2010 and 2009, and the related statements of net cost, changes in net position, and statements of budgetary resources (hereinafter referred to as "financial statements") for the year ending December 31, 2010 and for the period from May 20, 2009 (inception) to December 31, 2009, and have issued our report thereon dated December 22, 2011.

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 of material misstatement.

The management of the TCCUSF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the TCCUSF's internal control over financial reporting by obtaining an understanding of the TCCUSF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TCCUSF's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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 a 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 over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting described in Exhibit I that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is 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.



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The TCCUSF's response to the findings identified in our audit is presented in Exhibit II. We did not audit the TCCUSF's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the addressees, TCCUSF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 22, 2011

**Exhibit I**

**NATIONAL CREDIT UNION ADMINISTRATION**
**TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND**

**SIGNIFICANT DEFICIENCY**

## Introduction

This exhibit describes the significant deficiency noted during our audit as of and for the year ended December 31, 2010, and our recommendations thereon. The National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF) management's response to this finding is presented in Exhibit II.

## Lack of sufficient preparation for the accounting and reporting of the Corporate System Resolution Program

During 2010, the National Credit Union Administration undertook a new initiative, the Corporate System Resolution Program (CSRP), as a result of the failing corporate credit unions (CCUs) due to the financial system crisis. The broad-reaching inter-related implications of this unprecedented initiative, which included actions to accumulate and value assets of liquidated CCUs and their corresponding temporary bridge entities, presented significant financial reporting challenges. Simultaneously, the agency was transitioning to new accounting standards for another fund as well as implementing a new accounting system. This unprecedented initiative and its reporting challenges, hindered NCUA's ability to fully plan and execute timely all the related accounting requirements for the TCCUSF and contributed to delays in the publication of the financial statements by OMB established deadlines.

As an example, one of the valuation specialists was engaged as early as November 2010, with a goal of reporting by December 2010 on transactions consummated early in the fourth quarter of 2010. The delivery of the valuation reports took significantly longer than the agency had forecasted after due diligence efforts over the third party vendors identified additional questions for the valuation process. Further, it took until May 2011, to engage valuation specialists needed to calculate December 31, 2010, values of assets underlying the re-securitization program. As a result, the submission of the TCCUSF financial statements was delayed.

U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, states the following:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.
>
> Effective internal control also helps in managing change to cope with shifting environments and evolving demands and priorities. As programs change and as agencies strive to improve operational processes and implement new technological developments, management must continually assess and evaluate its internal control to assure that the control activities being used are effective and updated when necessary.

> In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

Thus, co-ordination and communication are key elements of an effective internal control structure to enable management to be able to "…cope with shifting environments…" as noted above.

During 2010, the operating environment for NCUA was presented with what arguably was the culmination of adverse developments without precedent. It is challenging to identify one predominant factor among the variety of potential contributory causes that include, government interventions in the housing market, continued price instability in certain asset classes and pre-planned corporate initiatives. Specifically, there were operational NCUA-wide initiatives (e.g. the corporate system resolution, transitioning to new accounting standards for another fund, the scheduled implementation of a new financial accounting system) which consumed key management resources. These pressing operational needs diverted resources from the tasks of planning, managing and executing the requisite internal co-ordination amongst NCUA departments to satisfy accounting and reporting requirements for the TCCUSF in a timely manner.

***Recommendation***

We recommend that NCUA:

- Fully consider and more comprehensively develop change management plans to address the impact of significant future changes on key aspects of the business, including significant events and transactions (e.g. CCU liquidations) and timely financial reporting. This would include multi-disciplinary project teams to assure needs and capabilities of all NCUA dependent and precedent process owners are considered and tasks are appropriately prioritized for all key members in order to timely execute the changes necessary. This would also ensure that all key members are involved at the start, participate in key decisions and maintain effective communication throughout program execution.

- Ensure there are adequate resources available to address any changes that need to be made in processes and/or financial reporting.

**Exhibit II**

**NATIONAL CREDIT UNION ADMINISTRATION**
**TEMPORARY CORPORATE CREDIT UNION STABILZATION FUND**

**MANAGEMENT RESPONSE TO AUDITOR FINDING**

Finding: Lack of sufficient preparation for the accounting and reporting of the Corporate System Resolution Program

The financial statement audit, which resulted in an unqualified opinion, identified a finding related to a lack of sufficient preparation for the accounting and reporting of the Corporate System Resolution Program (CSRP). The NCUA makes every effort to be proactive with developing policies and improving its internal control environment. The CSRP was implemented to meet NCUA's mission of providing a safe and sound credit union system at the least long-term cost to the system. The CSRP has been and continues to be an unprecedented undertaking at NCUA affecting nearly every office. NCUA worked to ensure that corporate stabilization efforts are appropriately and accurately reflected in the financial statements. This included but was not limited to:

- Developing and employing appropriate internal controls, for example a structured and standardized review over contractor provided measurement data and the development of monitoring and oversight protocols;
- Researching appropriate accounting treatment for transactions related to the CSRP;
- Developing multiple accounting policies to document both recognition and measurement of transactions related to the CSRP;
- Coordinating among multiple offices on a variety of financial statement inputs to include the above referenced accounting policies and due diligence responsibilities; and,
- Investing in additional tools and contractor support, as recommended by the auditors.

NCUA implemented these necessary action steps to ensure the final published financial statements appropriately reflect CSRP transactions, are reported in accordance with GAAP, and can be relied upon by readers of the financial statements.

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## Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the National Credit Union Administration's (NCUA) Temporary Corporate Credit Union Stabilization Fund (TCCUSF) as of December 31, 2010 and 2009, and the related statements of net cost, changes in net position, and statements of budgetary resources (hereinafter referred to as "financial statements") for the year ending December 31, 2010 and for the period from May 20, 2009 (inception) to December 31, 2009, and have issued our report thereon dated December 22, 2011.

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 of material misstatement.

The management of the TCCUSF is responsible for complying with laws, regulations, and contracts applicable to the TCCUSF. As part of obtaining reasonable assurance about whether the TCCUSF's financial statements are free of material misstatement, we performed tests of the TCCUSF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the TCCUSF. 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 other tests of compliance discussed in the third paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, TCCUSF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 22, 2011



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