Fact Sheet

Legacy Asset Solution

Isolation & Funding

Actions taken during the corporate resolution process will allow NCUA to isolate and fund the impaired securities referred to as "legacy assets". This document covers the funding phases and outlines the basic characteristics of the NCUA Guaranteed Notes that will be issued, including the mechanics of the guarantee.

Funding Phases

There will be two funding phases for the legacy assets:

1) Short-term bridge loan; and

2) Long-term funding via issuance of structured notes from a securitization trust guaranteed by the NCUA, backed by the full faith and credit of the United States. The net proceeds of the structured notes issued will be used to purchase the legacy assets from the conserved corporates' asset management estates.

NCUA will use its existing borrowing authority and coordinate closely with the U.S. Treasury to facilitate both funding phases.

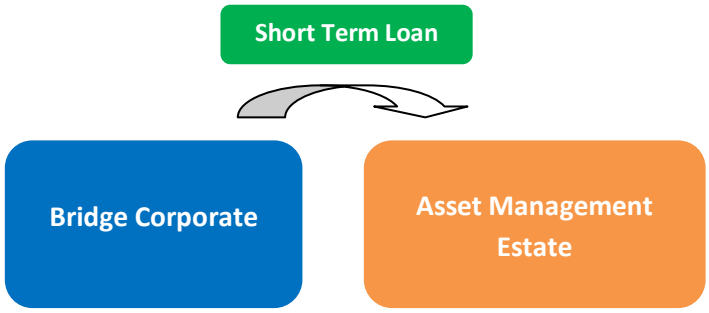
Phase 1: Initial Bridge Funding

A bridge funding arrangement is necessary to commence the isolation of the legacy assets while the process of issuing permanent funding is conducted.

When the insured and guaranteed shares are assumed by the bridge corporate from the asset management estate, the bridge corporate will be due the difference between assets purchased and the

THIS DOCUMENT IS BEING PROVIDED FOR INFORMATION PURPOSES ONLY, AND DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, SECURITIES. IT DOES NOT PURPORT TO BE ALL-INCLUSIVE OR TO CONTAIN ALL OF THE INFORMATION THAT A PROSPECTIVE INVESTOR MAY REQUIRE TO MAKE A FULL ANALYSIS OF THE SECURITIES TRANSACTIONS REFERENCED HEREIN. THE INFORMATION CONTAINED HEREIN REGARDING SECURITIES TRANSACTIONS WILL BE SUPERSEDED, AND IS QUALIFIED IN ITS ENTIRETY, BY INFORMATION CONTAINED IN THE DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS. OFFERS OF SECURITIES WILL BE MADE ONLY THROUGH THE DELIVERY OF DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS AND IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS.

liabilities assumed. Ordinarily this would be in the form of a cash payout from NCUA. Due to the size of this transaction, a short-term loan (e.g., 90 days) guaranteed by the Temporary Corporate Credit Union Stabilization Fund ("Stabilization Fund") from the bridge corporate to the asset management estate will be made. This will "balance" the transaction and preserve the independence and "clean balance sheet" of the bridge corporate.



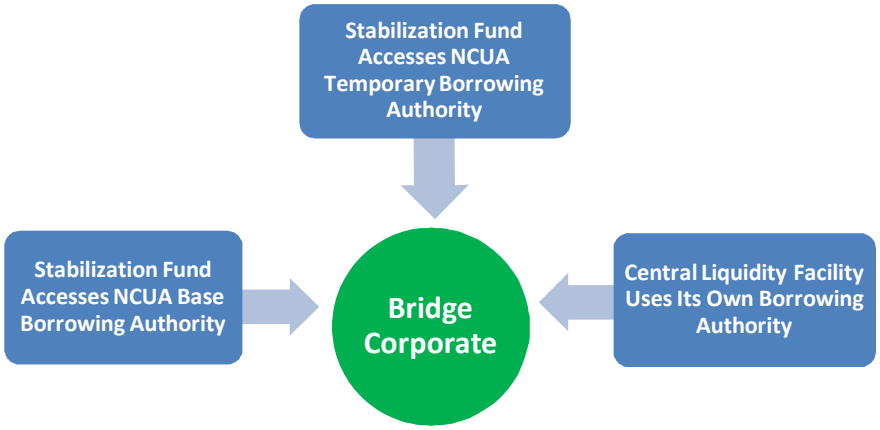
<u>The retention of member credit union deposits in the bridge corporate is key to the success of this phase.</u>

However, if withdrawals from the bridge corporate exceed available cash transferred to the bridge corporate during the process, NCUA will need to use its authorities to resolve the liquidity event. If the liquidity drain is too large, legacy assets being held for securitization may instead have to be sold to provide cash. This would increase the level of losses to the Stabilization Fund that all credit unions will have to pay.

Several borrowing authorities, each with their own limitations and conditions, may also be available.

- The Stabilization Fund could call on its access to NCUA's remaining base borrowing authority with Treasury ($6 billion less any funds needed for the securitization).
- The Stabilization Fund could call on its access to NCUA's temporary increase in borrowing authority of $30 billion, less funding needed for securitizations.
- The Central Liquidity Facility's borrowing authority could be used ($41 billion less any outstanding borrowings and considering natural person credit union liquidity needs).

THIS DOCUMENT IS BEING PROVIDED FOR INFORMATION PURPOSES ONLY, AND DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, SECURITIES. IT DOES NOT PURPORT TO BE ALL-INCLUSIVE OR TO CONTAIN ALL OF THE INFORMATION THAT A PROSPECTIVE INVESTOR MAY REQUIRE TO MAKE A FULL ANALYSIS OF THE SECURITIES TRANSACTIONS REFERENCED HEREIN. THE INFORMATION CONTAINED HEREIN REGARDING SECURITIES TRANSACTIONS WILL BE SUPERSEDED, AND IS QUALIFIED IN ITS ENTIRETY, BY INFORMATION CONTAINED IN THE DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS. OFFERS OF SECURITIES WILL BE MADE ONLY THROUGH THE DELIVERY OF DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS AND IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS.



All of the above funding approaches must be coordinated with the U.S. Treasury and have associated costs. Thus, the most advantageous approach to the short-term funding phase is the retention of deposits from member credit unions.

Phase 2: Long-Term Funding

After short-term funding is achieved, NCUA must arrange for a permanent source of funding for the legacy assets. The goal of this funding phase is to transfer the legacy assets into securitization transactions at negotiated sale prices higher than current market value. NCUA is using this approach rather than selling the legacy assets at current market values and realizing the full amount of market losses. This will help limit losses on the underlying legacy assets to actual credit defaults as much as possible.

With the legacy assets isolated and funded in the short-term, NCUA can implement a long-term funding mechanism by arranging for the formation of a series of securitization trusts and the issuance and sale of guaranteed notes by the trusts to investors. The trusts will purchase the legacy assets out of the asset management estates with the net proceeds from the issuance of the guaranteed notes.

THIS DOCUMENT IS BEING PROVIDED FOR INFORMATION PURPOSES ONLY, AND DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, SECURITIES. IT DOES NOT PURPORT TO BE ALL-INCLUSIVE OR TO CONTAIN ALL OF THE INFORMATION THAT A PROSPECTIVE INVESTOR MAY REQUIRE TO MAKE A FULL ANALYSIS OF THE SECURITIES TRANSACTIONS REFERENCED HEREIN. THE INFORMATION CONTAINED HEREIN REGARDING SECURITIES TRANSACTIONS WILL BE SUPERSEDED, AND IS QUALIFIED IN ITS ENTIRETY, BY INFORMATION CONTAINED IN THE DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS. OFFERS OF SECURITIES WILL BE MADE ONLY THROUGH THE DELIVERY OF DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS AND IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS.

Securities Structure

The agency worked closely with Barclays Capital Inc., New York, New York ("Barclays"), an international investment bank, to structure the notes. Barclays provided analytics and assistance in structuring this specific deal drawing on their prior experience with structured security sales. Barclays will serve as the investment bank and main distribution channel in these transactions.

The notes themselves will:

1. Have a funding structure that is linked to the cash flows of the underlying legacy assets;
2. Be over-collateralized based on current loss projections;
3. Have final maturities of ten years or shorter with a clean-up call feature; and
4. Be fully guaranteed as to principal and interest by NCUA, accounted for in the Stabilization Fund.

The notes will be offered to institutional investors and financial institutions, including natural person credit unions.

Mechanics of Securities Guarantee

As mentioned above, the notes will be fully guaranteed as to principal and interest by the NCUA, backed by the full faith and credit of the United States, and accounted for in the Stabilization Fund. To facilitate the government guarantee, NCUA received the U.S. Treasury's approval to extend the life of the Stabilization Fund from its original seven years to June 30, 2021, to match the ten year life of the notes.

Our "expected case" for credit loss projections indicates that no guarantee payments will be required during the life of the securities given the planned use of overcollateralization. However, if there are any shortfalls in cash coming in from the underlying securities resulting in insufficient cash flows to permit the timely payment of principal and interest on the guaranteed notes, NCUA will make payment of the amount of the deficiency under the guarantee.

Shortfalls could come from:

- principal reductions due to increased or earlier credit losses, or
- principal parity payments (required when the balance of the underlying assets is less than the balance on the notes).

THIS DOCUMENT IS BEING PROVIDED FOR INFORMATION PURPOSES ONLY, AND DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, SECURITIES. IT DOES NOT PURPORT TO BE ALL-INCLUSIVE OR TO CONTAIN ALL OF THE INFORMATION THAT A PROSPECTIVE INVESTOR MAY REQUIRE TO MAKE A FULL ANALYSIS OF THE SECURITIES TRANSACTIONS REFERENCED HEREIN. THE INFORMATION CONTAINED HEREIN REGARDING SECURITIES TRANSACTIONS WILL BE SUPERSEDED, AND IS QUALIFIED IN ITS ENTIRETY, BY INFORMATION CONTAINED IN THE DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS. OFFERS OF SECURITIES WILL BE MADE ONLY THROUGH THE DELIVERY OF DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS AND IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS.

Built into the securitization is a 35 basis point per year guaranty fee which may be paid upfront (for bullet securities) or monthly (for amortizing securities) as specified in the offering memorandum for each specific transaction. The fee is intended to cover some of the costs of the asset management and securitization activities and will flow back to the Stabilization Fund. If any excess funds exist (due to the over-collateralized nature of the notes) they will be utilized for guarantee payments which will, in turn, reduce the outstanding borrowings and help minimize assessments necessary from credit unions.

THIS DOCUMENT IS BEING PROVIDED FOR INFORMATION PURPOSES ONLY, AND DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, SECURITIES. IT DOES NOT PURPORT TO BE ALL-INCLUSIVE OR TO CONTAIN ALL OF THE INFORMATION THAT A PROSPECTIVE INVESTOR MAY REQUIRE TO MAKE A FULL ANALYSIS OF THE SECURITIES TRANSACTIONS REFERENCED HEREIN. THE INFORMATION CONTAINED HEREIN REGARDING SECURITIES TRANSACTIONS WILL BE SUPERSEDED, AND IS QUALIFIED IN ITS ENTIRETY, BY INFORMATION CONTAINED IN THE DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS. OFFERS OF SECURITIES WILL BE MADE ONLY THROUGH THE DELIVERY OF DEFINITIVE OFFERING DOCUMENTS FOR THE SECURITIES TRANSACTIONS AND IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS.