# Corporate System Resolution
# Legacy Asset Solution
# Isolation & Funding
# Frequently Asked Questions (FAQs)

## 1. What does this FAQ cover?

This document covers the specifics of the isolation and funding of the legacy assets including the "Good Bank/Bad Bank" process and the anticipated timeline for events. Specific characteristics of the guaranteed notes are outlined. Additionally, we cover who is assisting NCUA with the securitization of legacy assets as well as how much the process is going to cost.

## 2. How will NCUA "isolate and fund" the legacy assets of these corporates?

NCUA is using a "Good Bank/Bad Bank" model to isolate and fund the legacy assets.

In summary, the legacy assets stay in the current charter, the "bad bank". NCUA charters a new bridge corporate, the "good bank" which will purchase the good assets and assume the liabilities and share deposits from the conserved corporate. Simultaneous to this purchase and assumption, the conserved corporate is placed into an asset management estate. That action isolates the impaired legacy assets in the asset management estate from the good parts of the balance sheet in the bridge corporate.

By using a bridge corporate, payments systems can continue seamlessly for the member credit unions. Also, the asset structure becomes very liquid so that once funding can take place, credit unions that would like to move their excess deposits can do so without triggering the cascade of losses that would be the result of selling the bonds outright.

The securitization process is complex. However, in summary, the legacy assets will be combined into new securities that will be issued in the financial markets as NCUA Guaranteed Notes from a securitization trust. The new securities will have a guarantee from the NCUA, backed by the full faith and credit of the United States, that is accounted for in the Temporary Corporate Credit Union Stabilization Fund ("Stabilization Fund").

### 3. What's the difference between the sale of securities at diminished prices and the securitization process, since you have to book the difference at fair value in the asset management estates?

Had the securities been sold on the market at their current market prices out of a corporate, the market loss would have been embedded (confirmed) in the corporate's balance sheet with little hope of recovery. Through the securitization, the securities are able to be carried to maturity inside the securitization transactions and thus able to recoup the difference between the market value and the actual cash flows over time. In essence, this strategy allows credit unions to only have to pay for credit losses associated with these bonds.

### 4. If NCUA moves all of the liabilities/shares over to the "good bank" and still has assets left, how is the "bad bank" funded?

In the short term, there will be a Stabilization Fund guaranteed loan between the "good bank" and the "bad bank". In the long term, we will use the funds from the securitization process and U.S. Treasury borrowings under our base authority.

### 5. Is that why NCUA put so much money into the corporate system back in June for "liquidity"?

Yes, we knew that this was the likely outcome and wanted to be prepared to initiate the loan transactions.

### 6. Are there any instruments/investments in the "bad bank" that won't be securitized? If so, what will happen to these?

There will be some instruments that will not be securitized and will be sold outright on the market – most of these are very marketable at this time at or near par. However the overwhelming majority will be in the securitization program. There are other assets, such as buildings, etc. that will have to be managed on a case-by-case basis through our normal asset disposition process.

## 7. Who is helping NCUA securitize the legacy assets?

NCUA has been working with Barclays Capital, Inc. New York, New York ("Barclays") for the last several months to work out the corporate resolution strategy. NCUA spent a great deal of time assessing the pros/cons of each potential alternative and determined that securitization represents the lower cost option consistent with sound public policy.

## 8. Why did NCUA choose Barclays?

Barclays, a well respected investment firm, was most attractive due to their experience with security sales. NCUA was required to go through the government competitive procurement process due to the size and nature of this transaction. Barclays offered to securitize the instruments for a capped fee and was the least costly and most experienced.

## 9. What type of due diligence did NCUA perform over Barclays?

NCUA conducted a competitive bid process and compared Barclays to other service providers. NCUA also met with other clients of Barclays to get their feedback. One of the key criteria NCUA considered is to hire a company that has enough capacity and scale to handle this type of transaction. NCUA also considered potential conflicts of interests. Barclays met that criterion.

## 10. How much is NCUA expected to pay consultants throughout the process of securitizing the legacy assets?

NCUA has engaged a number of external consultants to assist in the securitization effort and provide various services, including investment advice, legal services, underwriting services, etc. NCUA expects to pay approximately $33 million in consultant and administrative costs for the securitization. But remember, we are talking about approximately $50 billion in securities that must be managed through a complex re-securitization process. NCUA went through the government procurement process which is required to award a contract of this size/nature. There may also be additional fees which will be assessed as we move through this process for which we will provide full transparency.

## 11. What exactly are these “notes” that NCUA is creating?

They are officially called “NCUA Guaranteed Notes” and will be guaranteed as to principal and interest by NCUA backed by the full faith and credit of the United States. 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. NCUA will use all resources available through its statutory authorities to ensure guarantee payments, if required, are made timely.

The notes will be offered to institutional investors and financial institutions, including natural person credit unions. There will be approximately 10 separate issuances which we expect to place into the market over the next several months.

## 12. How can these instruments have 10 year maturities when the Stabilization Fund’s life is only 7 years?

NCUA received approval from the U.S. Treasury to extend the life of the Stabilization Fund to June 30, 2021, to cover the life of these instruments.

## 13. What will happen if NCUA can’t sell all these instruments on the open market? Why would anyone want to buy them?

NCUA believes these securities will be attractive to investors due to the government guarantee that will back the instruments. However, if we can’t sell all of them, we do have contingency plans established, such as exercising authority providing for a temporary increase in our borrowing authority.

## 14. With regard to the credit losses related to the legacy assets when does NCUA expect the bulk of these to come to fruition?

Confirmed losses as of June 30, 2010, are $1.1 billion with the majority of the remaining losses to be confirmed within the next few years. The NCUA Board has the ability to assess for these losses over the life of the Stabilization Fund.

## 15. What can credit unions expect in terms of cost?

Our conservative estimate ranges from approximately $8.3 to $10.5 billion. Credit unions have already paid $1.3 billion in assessments. Since we have approval from the U.S. Treasury to extend the life of the Stabilization Fund, we will have the ability to spread out the remaining costs over the new life of the fund which ends June 30, 2021. We anticipate that the greatest cash needs to meet liability demands should occur in 2012 due to the maturity of medium term notes, flow of anticipated credit losses, etc. As a result, credit unions can expect higher assessments in 2011 and 2012 with assessments anticipated to level off thereafter.

## 16. Why didn’t NCUA just let the free market decide the fate of corporate credit unions?

The steps NCUA has taken to stabilize the corporate credit unions have been to protect the entire credit union system and the billions of payment transactions counted on by the 90 million credit union consumers. A disorderly resolution would have resulted in the failure of up to 30 percent of all natural person credit unions and much greater total loss.

## 17. Is this strategy going to fix the problem?

Yes. NCUA’s plans will result in the comprehensive resolution and reform of the corporate system. The new corporate rule and its system of prompt corrective action and corporate governance provides the regulatory structure to prevent this situation from ever occurring again. This strategy contains the necessary framework to facilitate an orderly transition to a new regulatory regime and future state for the corporate credit union system based on choices made by natural person credit unions.