



**NCUA**  
National Credit Union Administration

Office of Examinations and Insurance  
Asset Management Assistance Center  
Office of the Chief Financial Officer

# **NCUA Guaranteed Notes Program and Asset Management Estate Update**

June 25, 2020

# Background

- **Corporate System Resolution Program Goals**
  - Stabilization: Liquidity Support Programs
  - Resolution: NCUA Guaranteed Notes (NGN), Bridges, and Asset Management Estates (AME)
  - Reform: New Corporate Rules
- **Remaining Components**
  - NGN Program
  - Asset Management Estates

<https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution/glossary.aspx>

<https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/glossary.aspx>

# Resolution Phase Time Line

September 24, 2010 Launch

Securities Sales Program  
Derivative Unwind Program

*Pre-Launch Phase*

September 2010: Resolution begins  
June 2011: Securitization complete – final payment bridge notes

*Phase 1 – Ends June 2011*

June through October 2011: Continue monetizing estate assets ~\$7.6B  
October 2011: Medium Term Note repayment \$2B

*Phase 2A – Ends October 2011*

2012: Continue monetizing estate assets ~\$788M  
October 2012: Medium Term Note repayment \$3.5B

*Phase 2B – Ends October 2012*

2012 through June 2021: Manage NGN program and securitized assets, trust maturities and post-securitized assets, guaranty payments / optional purchases, legacy asset sales

October 1, 2017: Early closure of TCCUSF

*Phase 3A – Ends June 2021*

June 12, 2021: Last NGN trust matures

July 2021 onward: Orderly liquidation of remaining assets, close AMEs, and distribute funds following payout priorities

*Phase 3B – Begins July 2021*

<https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes.aspx>

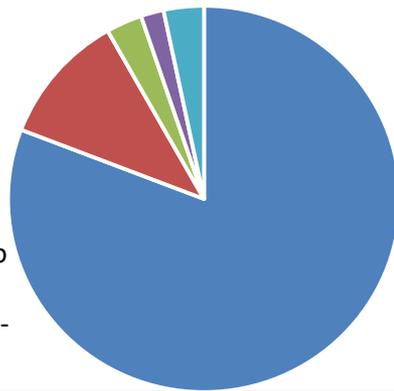
<https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/timeline.aspx>

# NGNs Issued

(\$ In Billions)<sup>1</sup>

Completed Securitization Deals	Date Sold	Members United	Southwest	US Central	WesCorp	Constitution	Total
13 deals (18 series)	NGN 2010-R1	Oct-10	\$ 0.00	\$ 0.00	\$ 3.85	\$ 0.00	\$ 3.85
	NGN 2010-C1	Nov-10	0.00	0.00	0.22	3.53	3.75
	NGN 2010-R2	Nov-10	0.72	0.74	2.01	2.01	5.48
	NGN 2010-R3	Dec-10	0.42	0.28	1.33	1.31	3.52
	NGN 2010-A1	Dec-10	0.19	0.11	0.86	0.00	1.16
	NGN 2011-R1	Jan-11	0.09	0.12	0.74	0.48	1.51
	NGN 2011-R2	Feb-11	0.11	0.14	0.50	0.44	1.25
	NGN 2011-R3	Feb-11	0.07	0.03	0.55	0.43	1.10
	NGN 2011-C1	Feb-11	0.35	0.00	0.15	0.31	0.83
	NGN 2011-R4	Mar-11	0.39	0.30	0.39	0.43	1.52
	NGN 2011-R5	Apr-11	0.06	0.08	0.66	0.35	1.16
	NGN 2011-R6	May-11	0.06	0.10	0.52	0.26	0.96
	NGN 2011-M1	Jun-11	0.43	0.36	0.95	0.42	2.21
<b>Total Proceeds</b>		<b>\$ 2.88</b>	<b>\$ 2.28</b>	<b>\$ 12.73</b>	<b>\$ 9.98</b>	<b>\$ 0.45</b>	<b>\$ 28.33</b>

Asset Types



**UPB (\$ Billions)**      **% Portfolio**

■ Non-Agency RMBS	32.3	81%
■ CMBS	4.4	11%
■ Student Loan	1.2	3%
■ Agency MBS	0.8	2%
■ Other <sup>2</sup>	1.3	3%
	40.0	100%

See these pages for more information:

<https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes.aspx>

<https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/timeline.aspx>

<https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/asset-overview.aspx>

1. Numbers may not add due to rounding. 2. Comprised of corporate debt and other asset-backed securities.

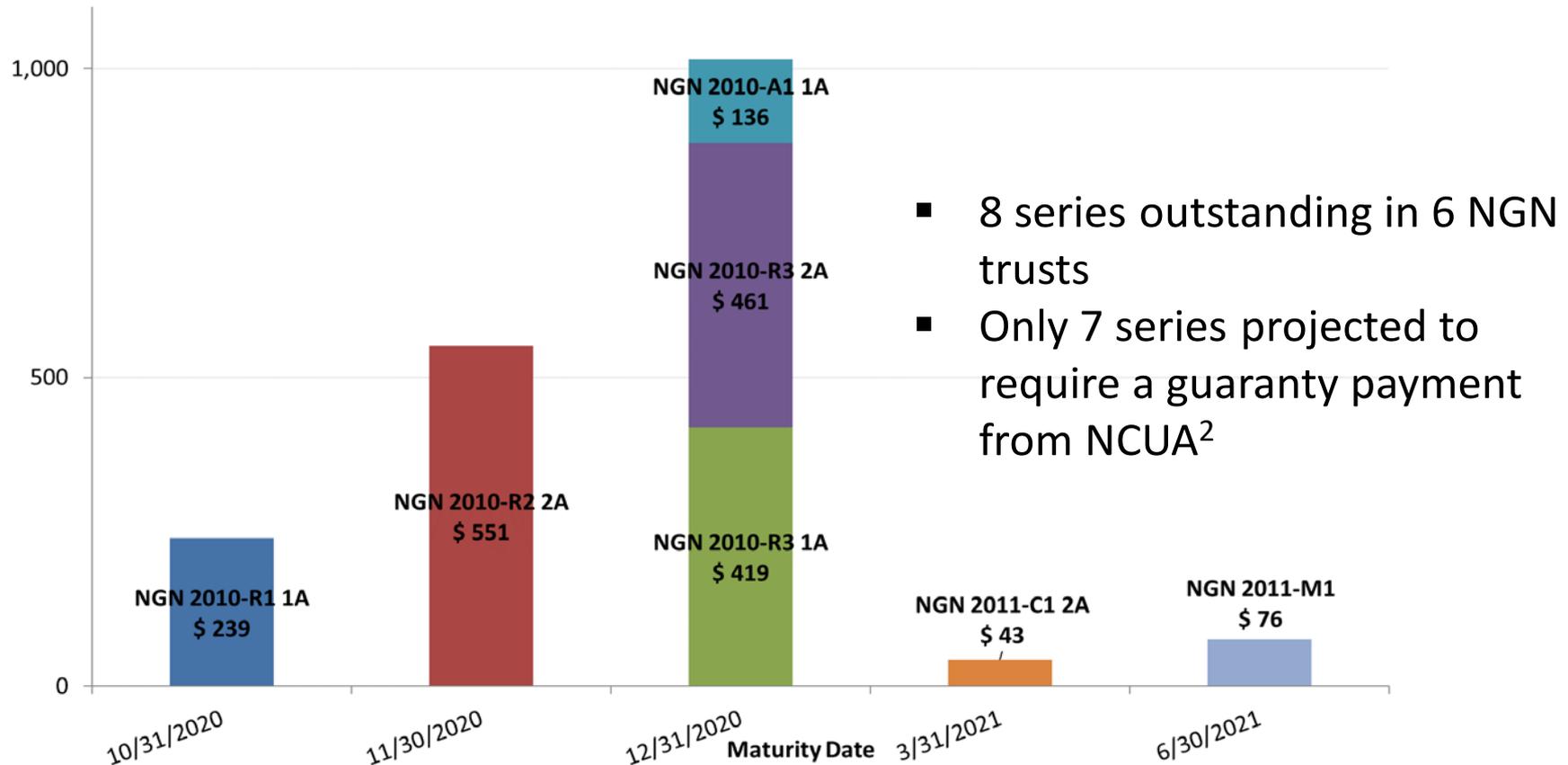
# Legacy Asset and NGN Performance Summary<sup>1</sup>

Description (in Billions)	Q4 2011 <sup>2</sup>	Q1 2020
Legacy Asset Unpaid Principal Balance	\$34.3	\$5.8
Total Legacy Asset Net Realizable Value	\$24.5	\$4.2
Collateralizing Outstanding NGNs <sup>3</sup>		\$3.2
Post-securitized <sup>4</sup>		\$1.0
Total Legacy Asset Market Value	\$19.3	\$4.1
Collateralizing Outstanding NGNs		\$3.1
Post-securitized		\$1.0
NGN Investor Outstanding Balance	\$24.7	\$2.6
Funds Held by NGN Trustee		\$0.3
Net Due to NGN Investors		\$2.3
Realized Legacy Asset Losses <sup>5</sup>	\$3.6	\$9.5
Projected Lifetime Legacy Asset Losses <sup>5</sup>	\$13.2 to \$16.4	\$9.6 to \$9.7

1. Numbers may not add due to rounding. 2. Point in time after which all NGNs had been issued. 3. Calculated based on BlackRock projections of cash flows over the life of the securities discounted based on the applicable NGN funding rate. 4. Calculated based on BlackRock projections of cash flows over the life of the securities discounted based on the applicable market rate. 5. Includes losses of approximately \$1 billion on non-securitized assets held by the failed corporate credit unions.

See <https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution/glossary.aspx>, <https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/glossary.aspx>, <https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/metrics.aspx> <https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/legacy-asset-losses.aspx>

# Projected Guaranty Payments (\$ in Millions)<sup>1</sup>



1. Only months with NGN maturities are shown. 2. NGN 2011-R3 3A does not have a projected guaranty payment.

# Projected Maturities and Guaranty Payments

NGN Deal / Series	Expected Investor Payoff Date	Projected Number of CUSIPs	Projected Unpaid Principal Balance of Collateral (in Millions)	Projected NCUA Guaranty Payments (in Millions)
NGN 2010-R1 1A	10/7/2020	55	\$498	\$239
NGN 2010-R2 2A	11/5/2020	113	\$687	\$551
NGN 2010-R3 1A	12/4/2020	88	\$506	\$419
NGN 2010-R3 2A	12/4/2020	76	\$539	\$461
NGN 2010-R3 3A	10/7/2020	20	\$78	\$0
NGN 2010-A1 1A	12/10/2020	7	\$163	\$136
NGN 2011-C1 2A	3/6/2021	14	\$68	\$43
NGN 2011-M1	6/14/2021	237	\$338	\$76
<b>Total</b>		<b>610</b>	<b>\$2,887</b>	<b>\$1,925</b>

All projected values are point-in-time estimates. Economic conditions, market factors, and extraordinary losses on the legacy assets due to exogenous factors will result in higher than anticipated guaranty payments from NCUA.

# Legacy Asset Sales Summary<sup>1</sup>

Auction Year	Number of Legacy Assets Sold	Face Value (in Billions)	Sales Proceeds (in Billions)
2017	255	\$2.0	\$1.7
2018	87	\$0.5	\$0.5
2019	32	\$0.3	\$0.3
2020	54	\$0.5	\$0.4
<b>Total</b>	<b>428</b>	<b>\$3.3</b>	<b>\$2.8</b>

- The remaining legacy assets will be liquidated in an orderly fashion as the NGNs mature.
- The legacy assets below remain to be sold.<sup>2</sup>

Type	Number of Legacy Assets	Face Value (in Billions)	NRV (in Billions)
Securitized <sup>3</sup>	610	\$2.9	\$2.4
Post-Securitized	240	\$1.9	\$1.0
<b>Total</b>	<b>850</b>	<b>\$4.8</b>	<b>\$3.4</b>

1. Numbers may not add due to rounding. 2. Legacy assets may have pending litigation and would be unavailable for sale until legal matters have been resolved. 3. Projected as the NGNs mature in 2020 and 2021.

# Corporate System Resolution Costs<sup>1</sup>

Description (in Billions)	Q1 2020
<b>Projected Lifetime Legacy Asset Losses</b>	<b>\$9.6 to \$9.7</b>
Guaranty Fees and Excess Interest <sup>2</sup>	\$1.2 to \$1.1
<b>Total Projected Resolution Costs (Gross)</b>	<b>\$8.4 to \$8.6</b>
Legal Recovery Proceeds (Net) <sup>3</sup>	\$3.8
<b>Total Projected Resolution Costs (Net)</b>	<b>\$4.6 to \$4.8</b>
Net Projected Loss to Federally Insured Credit Unions	\$1.5
Net Projected Loss to \$5.6 Billion in Depleted Corporate Capital	\$3.1 to \$3.3

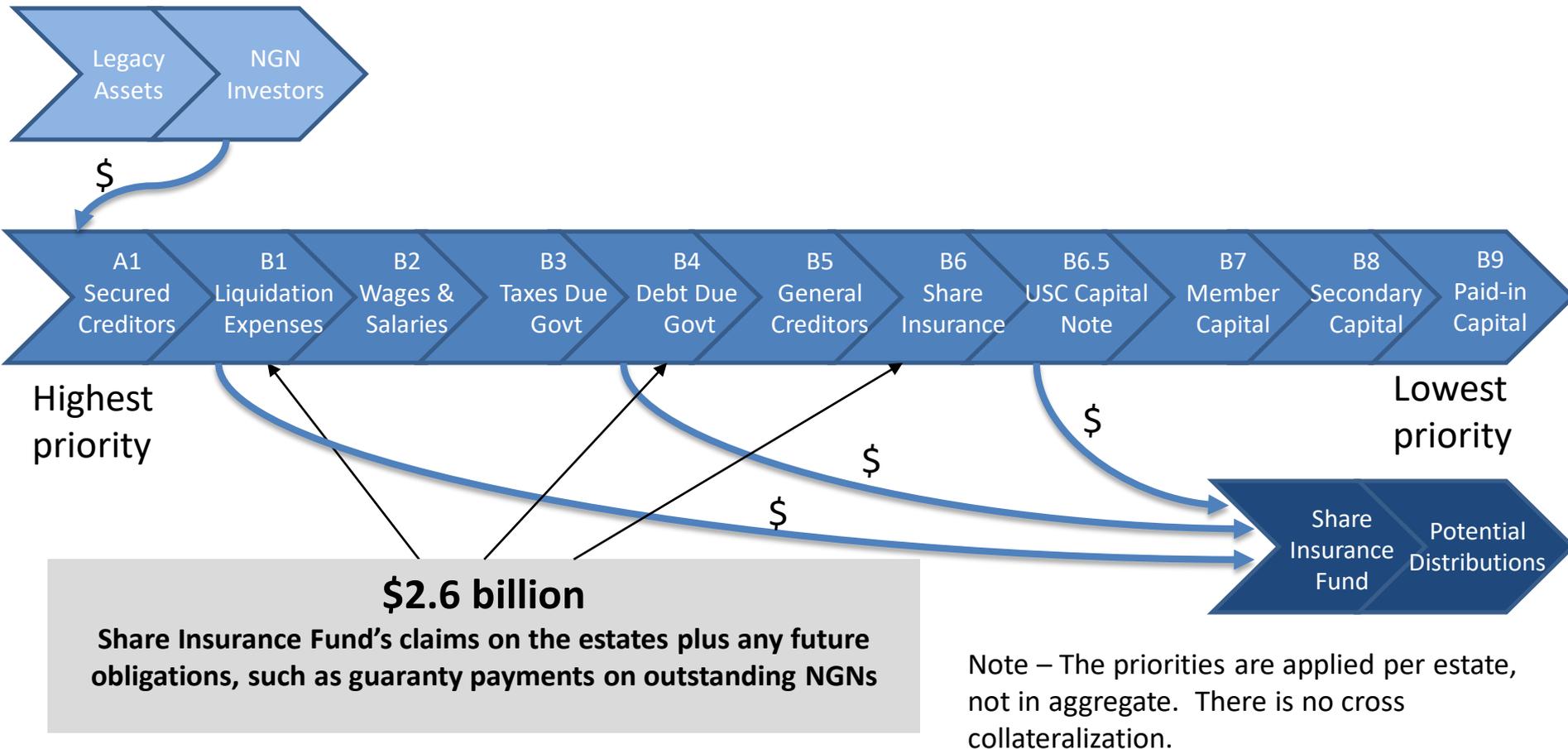
1. Point in time estimates as of March 31, 2020, based on best available information, using optimistic and pessimistic cash flow scenarios from BlackRock's valuation model discounted at funding rate and market rate, respectively, to estimate the high end and low end of net economic values of the NGN program in today's dollars.
2. Losses are partially offset by guaranty fees on the NGNs and excess interest collected from the legacy assets due to over-collateralization.
3. Does not include potential future legal recoveries.

See <https://www.ncua.gov/support-services/corporate-system-resolution>.

# Asset Management Estates

- NGN activities, along with other actions, provide for cash recovery to the five failed corporate credit union estates:
  - US Central, Western, Members United (Members), Southwest, and Constitution
- Better than expected recoveries through the NGN program have allowed us to reach a point of paying AME capital claim holders (initial projections predicted no payments at this level).
- Not all AMEs are ready, or will have a payout.

# Asset Management Estates – Payout Priorities<sup>1</sup>



1. NCUA regulations § 709.

See <https://www.ncua.gov/support-services/corporate-system-resolution>.

# Asset Management Estate Summary

As of March 31, 2020 (\$ in Billions)<sup>1</sup>

Estate	Projected Depleted Capital Payouts and Liquidating Dividends <sup>2</sup>			
	Optimistic	Base	Pessimistic	Adverse <sup>3</sup>
US Central <sup>4</sup>	1.1	1.1	1.0	0.7
WesCorp	0.0	0.0	0.0	0.0
Members	0.6	0.6	0.6	0.4
Southwest	0.4	0.4	0.4	0.4
Constitution	0.0	0.0	0.0	0.0
<b>Subtotal</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>1.5</b>
Liquidating Dividend <sup>5</sup>	0.3	0.3	0.3	0.1
<b>Total</b>	<b>2.4</b>	<b>2.4</b>	<b>2.3</b>	<b>1.6</b>
<i>Deltas from Base</i>	<i>0.0</i>	<i>--</i>	<i>(0.1)</i>	<i>(0.8)</i>

1. Payout priorities are outlined in 12 CFR § 709.5. 2. Numbers may not add due to rounding. 3. Based on Fed's CCAR scenarios from 2019; adverse scenario for 2020 still in progress. 4. Reduced for portion of depleted capital (\$0.6 Billion) that would be distributed to the other four estates that had capital at US Central. 5. Potential liquidating dividend amounts by estate shown on next slide.

See <https://www.ncua.gov/support-services/corporate-system-resolution/corporate-asset-management-estate-recoveries-claims>.

# End of Program Projected Capital Payouts<sup>1</sup>

As of March 31, 2020

Estate	Member Capital (% of Capital Contributed)		Paid-in Capital (% of Capital Contributed)		Potential Liquidating Dividend (in Millions)	
	Base	Adverse <sup>2</sup>	Base	Adverse <sup>2</sup>	Base	Adverse <sup>2</sup>
US Central <sup>3</sup>	100%	62%	4%	0%	\$0	\$0
WesCorp	0%	0%	0%	0%	\$0	\$0
Members	100%	79%	100%	0%	\$19	\$0
Southwest	100%	100%	N/A	N/A	\$305	\$117
Constitution	54%	14%	N/A	N/A	\$0	\$0

Losses are allocated based on the amount and performance of the specific legacy assets owned by each estate. As such, the projected capital recoveries will vary significantly across estates due to their differing circumstances. As the least senior claimant of the estates, depleted capital holders absorb the first losses in an economic downturn and will have the most volatility in potential outcomes.

1. Point in time estimates as of March 31, 2020, based on best available information. 2. Based on Fed's CCAR scenarios from 2019; adverse scenario for 2020 still in progress. 3. Includes capital that would be returned to the other four asset management estates.

See <https://www.ncua.gov/support-services/corporate-system-resolution/corporate-asset-management-estate-recoveries-claims>.

# Criteria for Potential Interim Distributions

- In accordance with our Rules and Regulations, distributions to depleted capital holders can only be paid after all senior priority claims have been fully paid or provided for.
- While the ultimate earnings and monetization of the legacy assets are projected to cover senior claims in some instances, distributions will require fiduciary cash to be on hand.
- Interim distributions are labor intensive and require significant resources. An orderly liquidation dictates only making an interim distribution for a meaningful amount.
- Only one estate (Southwest) now has sufficient fiduciary cash to conservatively provide for ***all*** future guaranty obligations ***and*** pay a meaningful amount of funds.

# Asset Management Estates – Fiduciary Net Assets

As of December 31, 2019

Line Item <sup>1</sup> (\$ in Millions)	US Central	WesCorp	Members United	Southwest	Constitution	Total
<b>Fiduciary Assets</b>						
Cash and Cash Equivalents	300.8	0.0	141.4	266.6	0.0	708.8
Legacy Assets <sup>2</sup>	242.4	78.2	47.1	41.5	0.0	409.2
Legacy Assets/Investments Collateralizing the NGNs <sup>2</sup>	2,256.1	1,413.8	264.2	255.9	113.2	4,303.1
Loans <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Receivable from AMEs	0.0	0.0	0.0	0.0	0.0	0.0
Other Fiduciary Assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL FIDUCIARY ASSETS</b>	<b>2,799.2</b>	<b>1,492.0</b>	<b>452.6</b>	<b>564.1</b>	<b>113.2</b>	<b>5,421.1</b>
<b>Fiduciary Liabilities</b>						
Accrued Expenses and Payables	12.9	10.3	3.0	2.5	0.5	29.2
NGNs	0.0	0.0	0.0	0.0	0.0	0.0
Due to NGN Trusts	1,120.4	1,230.2	128.2	92.7	84.0	2,655.4
Unsecured Claims	0.0	0.0	0.0	0.0	0.1	0.1
Due to Stabilization Fund	0.0	2,734.8	0.0	0.0	22.6	2,757.4
<b>TOTAL FIDUCIARY LIABILITIES</b>	<b>1,133.3</b>	<b>3,975.3</b>	<b>131.2</b>	<b>95.2</b>	<b>107.2</b>	<b>5,442.1</b>
<b>TOTAL FIDUCIARY NET ASSETS (LIABILITIES)</b>	<b>1,666.0</b>	<b>(2,483.3)</b>	<b>321.5</b>	<b>468.9</b>	<b>6.0</b>	<b>(21.0)</b>

Matches cash of ~\$267M on slide 17.

With trust expenses from following slide, equals ~\$3M fiduciary liabilities on slide 17.

1. Numbers may not add due to rounding; does not include US Central Bridge. 2. Projected base scenario cash flows discounted by funding and market rates for securitized and un-securitized assets, respectively.

See <https://www.ncua.gov/support-services/corporate-system-resolution/corporate-asset-management-estate-recoveries-claims>

# NGN Trusts – Fiduciary Net Assets

As of December 31, 2019

Line Item <sup>1</sup> (\$ in Millions)	US Central	WesCorp	Members United	Southwest	Constitution	Total
<b>Fiduciary Assets</b>						
Cash and Cash Equivalents	233.7	(203.5)	152.1	131.9	2.2	316.5
Legacy Assets <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Legacy Assets/Investments Collateralizing the NGNs <sup>2</sup>	104.7	6.1	80.6	49.0	(3.4)	237.1
Loans <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Receivable from AMEs	1,120.4	1,230.2	128.2	92.7	84.0	2,655.4
Other Fiduciary Assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL FIDUCIARY ASSETS</b>	<b>1,458.8</b>	<b>1,032.8</b>	<b>360.9</b>	<b>273.6</b>	<b>82.8</b>	<b>3,209.0</b>
<b>Fiduciary Liabilities</b>						
Accrued Expenses and Payables	2.7	1.9	0.7	0.5	0.2	5.9
NGNs	1,456.2	1,030.9	360.2	273.1	82.7	3,203.1
Due to NGN Trusts	0.0	0.0	0.0	0.0	0.0	0.0
Unsecured Claims	0.0	0.0	0.0	0.0	0.0	0.0
Due to Stabilization Fund	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL FIDUCIARY LIABILITIES</b>	<b>1,458.8</b>	<b>1,032.8</b>	<b>360.9</b>	<b>273.6</b>	<b>82.8</b>	<b>3,209.0</b>
<b>TOTAL FIDUCIARY NET ASSETS (LIABILITIES)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Equals  
~\$181M of  
cash in NGN  
trusts.

With AME  
expenses from  
previous slide,  
equals ~\$3M  
fiduciary  
liabilities on  
slide 17.

Cash of  
~\$181M from  
above less  
NGN guaranty  
liability of  
~\$273M  
equals  
negative  
~\$92, as  
shown on  
slide 17.

1. Numbers may not add due to rounding. 2. Projected base scenario cash flows discounted by funding and market rates for securitized and un-securitized assets, respectively.

See <https://www.ncua.gov/support-services/corporate-system-resolution/corporate-asset-management-estate-recoveries-claims>

# Partial Recovery to Southwest Capital Holders

- Based on audited year-end 2019 financials, the Southwest estate has sufficient cash to provision for **all** future guaranty obligations **and** pay meaningful funds to capital holders in 2020
  - 1,120 membership capital holders will receive partial recovery
  - Payout **42%** of \$403.5 million of membership capital

Southwest Estate	Amount (\$ in Millions)
Available Cash (Outside of NGNs)	267
NGN Liability less Funds Held by Trustee	(92)
<u>All Remaining Fiduciary Liabilities</u>	<u>(3)</u>
<b>Approved Distribution</b>	<b>171</b>

- The Liquidating Agent will perform this exercise annually for all estates (e.g. use audited year end 2020 financials in early 2021 in the same manner to determine if a distribution could safely and meaningfully be made).

# Interim Distribution

- NCUA issued certificates in claim to member capital account (MCA) holders in 2010.
- Southwest AME has 1,120 MCA holders, including 1,092 credit unions, with a total claim of \$403.5 million. After accounting for mergers, purchases and acquisitions, and liquidations, almost 900 active credit unions will receive a payout.
- NCUA plans to send letters to distribution recipients, notifying them of their amount and other payment details. In addition, information will be posted on the NCUA public website.
- Distribution will be made to credit unions generally via electronic funds transfer. The payout is planned for July. The NCUA will work with each non-credit union payout recipient to ensure timely receipt of the payout.