September 5, 2017

Mr. Gerald S. Poliquin
Secretary of the Board
National Credit Union Administration
Via email: regcomments@NCUA.gov

Re: Closing the TCCUSIF via Merger with the NCUSIF and raising the NOL

The proposal to close the TCCUSF early is a welcome disruption from past assertions that no recoveries could be returned to credit unions until 2021. However, if this initiative is not also accompanied by a rethinking of the Board's oversight for NCUSIF performance, then all the benefits of this accelerated return could be lost for credit unions.

Creating a New Relationship of Mutual Respect

For almost a decade, the NCUA board has taken unilateral action to impose on credit unions its economic projections, modeling outcomes, corporate resolution plans, and the accompanying costs in both premiums and new capitalization.

In these decisions NCUA got a whole lot right and a whole lot wrong. When a lot of decisions are being made over several years, some are bound to be bad, especially if there is no consultation, or look back, with those affected by the decisions.

Which brings us to today. NCUA's request for comments on the proposal to close the TCCUSF early, send the recoveries to credit unions, and become more transparent and accountable in its oversight, could be an opportunity to open a new chapter in credit union relationships; one based on mutual respect.

This new chapter would recognize that NCUA is the steward of members' funds and that their primary fiduciary responsibility is to credit union member-owners.

The proposal to begin distribution of recoveries is a positive step; however, the staff's recommendation that the agency retain two thirds of the available funds is a continuation of the crisis mindset and questionable modeling analysis and projections that characterized much of the NCUA's past actions.

Below is a summary of the costs credit union members paid up front to resolve the crisis. NCUA's oversight decisions then added billions in costs to the projected legacy asset problem. Further, NCUA's management of the NCUSIF for the past nine years reveals a troubling pattern of misjudgments and increasing expenses.

If a break with these past behaviors cannot be made, then it would be better not to merge the funds. Outlined below is the context and the steps to make the right decision.

The Costs Paid Up Front by Members

When the TCCUSF was established in 2009, KPMG's audit report of that year stated the net contingent liability for the potential losses across the entire corporate system was $6.4 billion -—"fairly presented in all material respects." This audited figure should always be front and center when NCUA staff periodically resorts to rhetorical hyperbole such as asserting there was a $50 billion shortfall in the corporate system in 2009.

One year later, after liquidating five corporates, KPMG's opinion stated that this action was the primary reason the net contingent liability had increased by another $1.4 billion to now total $7.8 billion.

Credit union members directly paid the costs (expenses) for the "corporate stabilization plan" in the following ways:

1. The capital shareholders of the five conserved corporates (four retail and US Central) had to write off (expense) their entire capital accounts. The four retail corporates had total membership capital of $2.187 billion and US Central reported total capital accounts of $1.986 billion which all corporate members all had to write off. These amounts do not include any of the retained earnings which the five corporates first wrote off before "extinguishing" member capital accounts.
2. All 30-plus corporates with member capital shares in US Central were then required to write off these shares totaling $1.986 billion against each corporate's reserves and capital. This required many corporates to write off (extinguish) tens of millions of their retail credit unions' member capital shares in their corporate credit unions. This was a direct loss for each credit union owning capital shares in a corporate.
3. All credit unions were then assessed two premiums by the TCCUSF in 2009 and 2010 totaling $4.8 billion.
4. NCUA transferred $485 million in overassessments of premiums in the NCUSIF to the TCCUSF from 2011-2013 when the 1.3% Normal Operating Level (NOL) cap was exceeded at year-end.

After these liquidation costs, retail credit unions were then required to commit hundreds of millions in new perpetual capital shares to fund two restructured corporates as well as sustain corporates who wished to remain operating after their collective write-downs of capital from US Central's failure and individual OTTI projected losses.

Credit unions paid these costs in full, with the explicit understanding that should recoveries exceed the projected losses, then those funds would go back to them to reimburse these extraordinary projected losses, all of which were assessed up front.

NCUA staff is now proposing to renege on this commitment by withholding recoveries and diverting these funds to other uses.

NCUA's Management of the Corporate Resolution Increased Costs by Billions

The primary reason for the corporate liquidations was the potential losses in the five corporates on the legacy assets. In every case these five had fully reserved for these losses by expensing the projected credit defaults. In fact they had written down the value of their anticipated losses on these investments (called legacy assets) by over $11.6 billion more than actual defaults incurred as of the September 2010 seizures by NCUA.

These NCUA initiated liquidations added an immediate $1.4 billion to the net contingency costs as explicitly stated in the 2010 KPMG audit.

Over the next seven years, NCUA's management has resulted in an additional $1.048 billion charged to the five Asset Managed Estates collectively for liquidation expenses. These additional costs charted to the AMEs almost equal the entire operating expenses of the NCUSIF in this same seven years of $1.174 billion.

In other words, the regulator spent, off budget, as much to manage the five corporate liquidations as it did to oversee the 6,000-plus operating credit unions still insured by the NCUSIF from 2010-1016.

The estimates of legacy asset losses now appear to be in error by as little as $3 billion or as much as $6 billion. These losses were expensed by the five corporates in their OTTI write-downs and used to justify their subsequent liquidations even though three of the five clearly showed positive regulatory capital when seized.

NCUA states it incurred $1 billion in investment losses not involving legacy assets. This could only have occurred if the agency decided to sell securities whose market value was below book value due to the market dislocations that occurred during the financial crisis. These sale losses were not due to projected credit defaults, the basis for OTTI expense write-downs, but solely due to the timing of NCUA's decision to sell seized securities.

However one adds up these events, NCUA's liquidation oversight has added $3 billion to $6 billion over and above the losses that KPMG had estimated for the corporate system. These expenses are off book, unbudgeted, and not reported in detail anywhere.

The NCUA board appears to have been uninvolved in any of these billions of dollars of open-ended expenditures and recovery allocations which means that the resolution plan has been implemented without ongoing oversight or accountability.

These circumstances alone would support closing the TCCUSF as soon as possible, but only if the transparency, responsibility, and public accountability for recoveries is clearly established beforehand by the NCUA board.

NCUA's History of NCUSIF Management

A final point of historical context is the NCUSIF financial record in the period of 2008-2016 as shown on the accompanying spreadsheet.

As documented, NCUA management of the NCUSIF has been incapable of showing any alignment between the loss provision expense and actual cash losses. This has led to over-reserving that resulted in a loss allowance 16 times greater than actual cash losses as recently as last year. This over-reserving also is an expense that can lead to material misstatements in the share fund's (NOL) of 1.2% to 1.3%.

These overestimates, which are current expenses to build up the loss reserve account, required two special premiums totaling $ 1.668 billion. These excess reserves were then reversed in successive years because the NOL exceed its upper cap of 1.3%.

However, this $485 million excess was not returned to credit unions which expensed the premiums, but rather transferred into the TCCUSF. Staff is now proposing to reclaim these unneeded, excess funds once again for the NCUSIF's use.

In addition to this inability to align current costs with actual losses, NCUA has converted the NCUSIF's primary purpose from risk mitigation and loss recovery to paying for the operating expenses to run the agency.

In 2008 the agency's net operating expenses paid for by a separate assessment on federal charters was $74 million. In 2016 this net expense was exactly the same amount: $74 million. But NCUA's actual expenses had increased in 2016 by over $128 million. This entire increase was paid for by increasing the Overhead Transfer Rate charged to NCUSIF income from 52.0% in 2008 to 73.1%, a purely internal agency decision.

The result is that more than 90% of the NCUSIF's income on its $12 billion investment portfolio now goes to paying agency operating expenses. Little is left to cover the fund's primary purpose of minimizing losses and recapitalizing problems, let alone to add to retained earnings so the growth in the fund's NOL can keep pace with insured shares.

Each year the agency defends its OTR increase with the same footnote wording sophistry when common sense demonstrates that credit union insurance risk is significantly lower than six or even eight years ago.

Telling the truth will be vital to achieve the trust of the NCUSIF owners in a combined NCUSIF-TCCUSF.

The above pattern of events makes one suspect the motivations and newly found Federal Reserve modeling assumptions used by NCUA staff to suggest a "potential" NOL shortfall just as billions of TCCUSF recoveries are being merged,

Indeed, the plan to hold back TCCUSF recoveries due credit unions to cover NCUA's ever-increasing annual expenses seems to be self-serving, and a way to avoid explaining to credit unions why an NCUSIF premium is necessary in the industry's strongest year since the Great Recession.

The Right Way to Merge the Funds

Closing the TCCUSF now should distribute billions for members' benefit and also bring new transparency and accountability to the NCUA board's oversight of the NCUSIF.

For a merger to be in members' best interest the following steps should be taken:

1. Complete the merger but retain separate accounts for TCCUSF income and recoveries.

2. Distribute in full the amount of TCCUSF assets transferred as of the merger date as a refund to credit unions for their costs supporting the stabilization plan.

3. Future TCCUSF recoveries should be put in an account payable liability and routinely distributed in full to credit unions as soon as practical. These assets should not be used in calculating the NCUSIF's NOL as they are separate from any NCUSIF event or responsibility. The operating responsibilities of the NCUSIF and TCCUSF recoveries should never be conflated — for this would further obscure NCUA's role in managing each accountability.

4. If the NCUSIF NOL is deemed to be too low, then the board should make a decision about a premium based solely on the circumstances of that fund's management and cash flows.

If the TCCUSF funds cannot be distributed in full and future inflows kept in segregated accounts, then the board should reject the staff's funds merger proposal as presented.

The current NCUA board has the opportunity to shape its own destiny and the future of NCUA-credit union relationships. One hopes this would be a future characterized by mutual respect based on the integrity and character of the board's decisions and its future oversight.

An immediate distribution of up to $2.4 billion into the credit union system could have enormous potential member benefit while establishing that new relationship.

Firstly, it would keep faith with credit union members who sacrificed during the crisis to upfront all of the potential costs of the stabilization plan. It would signal a new day for NCUA-credit union relationships. It could keep trust in government regulation at a time when public skepticism abounds.

Secondly, distribution would be especially important to smaller credit unions due to the way membership capital commitments were paid into corporates prior to the crisis. Small credit unions would pay their full pro-rata share, usually ¼ of 1% of total shares. Larger credit unions capital contributions were often capped at a total dollar limit so they did not pay the full ¼ subscription. When capital was written off or depleted, smaller credit unions took a relatively larger hit.

Thirdly, as shown in numerous comments, credit unions are ready and eager to put these funds to work to benefit their members. The return on these investments could be 10, 20 or even 50-fold the result possible versus the zero members would get from leaving cash at NCUA to put in government securities.

Fourthly, distribution in full would reinforce the self-help, bottom-up economic model where credit unions raise funds locally to invest in members' well-being versus the top-down approach of for-profit and governmental programs. The former are motivated by profit maximization opportunities and the latter by policy priorities. Belief in the uniqueness and effectiveness of the cooperative model for members would be affirmed.

Fifthly, by injecting this capital NCUA would demonstrate its confidence in the special economic role of credit unions to invest in their members and communities to build their sustainability. This will enhance the system's safety and soundness. Withholding funds would just reinforce the dystopian mindset nurtured by NCUA's exaggerated forecasts and massive over accumulation of funds for future losses during the Great Recession.

Sixthly, should circumstances require the board to raise the NOL in the future, then the reasoning, facts, and models for doing so could be subject to full disclosure and accountability. Merging the two funds and intermingling accounts will only confuse the ability to learn the actual results of each fund's role.

As shown in the attached slides and as stated in repeated audits, the new net contingent liability to the NCUSIF from NCUA's guarantee of NGN payments is nil. Moreover, NCUA itself estimates another $2 billion to $3 billion in distributions to credit union and AME receiver certificate holders. The merger and increased flexibility it brings can only improve NCUA's ability to return members funds to their proper use- if done right.

Summary:

Doing the right thing for members could inaugurate a new, positive dynamic in credit union and NCUA relations. It would be a powerful statement about government's ability to choose constituents' interest over bureaucratic motivated proposals. It would uniquely affirm the cooperative model's capability to manage "common wealth" without either institutional or self-interested "agency" motivation taking over. It could inspire a new entrepreneurial era in credit unions by reversing a decade-long imposition of regulatory rules and expense burdens. It would rebut the public's cynicism of government's ability to act quickly and to do the right thing.

If just some of these results occur, it could precipitate a further rebuilding of the cooperative system, its own self-funded liquidity safety net, cooperative solutions for secondary market access, and other innovations driven by cooperative design versus imitating competitors.

Morale matters.

By keeping faith and distributing the TCCUSF recoveries in full, now and in the future, NCUA could spark a new renaissance of cooperative innovation, and help restore the passion and excitement that motivated each credit union's founders to seek a charter in the first place.

Sincerely,

Charles W. Filson
Chair
Callahan & Associates

Encl:
Slides: Doing the Right Thing in the Right Way
NCUSIF financial and ratio spread sheet (fiscal 2008-2016)

Merging the TCCUSF with the NCUSIF:
Doing The Right Thing, The Right Way

August 29, 2017

Chip Filson, Chairman

Callahan & Associates, Inc.

CALLAHAN & ASSOCIATES
the credit union company

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Today's Agenda

- The Critical Issues
- Why Merger Makes Sense-if done right
- A New Chapter in NCUA/Industry Relationship
- Acting as Owners

Critical Issues To Consider

- Owners' comments due <u>Sept 5</u>
- Should TCCUSF recoveries be retained for NCUA's use or returned <u>in full for</u> credit union members?
- NCUA's flawed premise: retaining funds is due to increased risk arising from merger
- Creating a new chapter in NCUA-CU cooperation

3 Reasons Your Comments Really Matter

- NCUA **is** listening
- $2.4B is at stake-initially
- You are an owner of the NCUSIF-This is NCUA's "account payable" to return the premiums you sent to fund the TCCUSF

THE RIGHT WAY TO MERGE THE FUNDS

Let’s Cut to the Chase:

The Right Way To Merge The Funds

- Refund *all* $2.2-2.4 billion to benefit members ($2,400 per million of insured shares)
- Re-affirm the 1.20 to 1.3% Normal Operating Level (NOL) range of NCUSIF
- Track/report TCCUSF income separately from NCUSIF assets-Create TCCUSF *account payable* for cu refunds
- Increase transparency, lower costs, simplify administration, improve accountability
- Re-tether NCUSIF financial results to actual events
- Expedite payments to AME Receiver’s certificate holders (eg. Southwest has no payable to TCCUSF)

Why Close the TCCUSF?

- Will allow rebates of excess TCCUSF premiums earlier than June 2021
- Simplifies reporting of AME's and reduces costs
- Provides more flexibility winding down the program
- As much as $3.2B rebate of TCCUSF premium assessments will be available
- $1.7B return to capital shareholders of four corporate AMEs (not WesCorp) and all active CCUs that hold receiver's certificates

The Merger Math

NCUSIF balance at June 30	$ 13.2 bn
TCCUSF net position March	$ 1.8 bn
Additional TCCUSF funds	$ 1.0 bn
Plus additional 1% true-ups	
Estimated combined Fund balances at Dec 2017	$16.0 bn

How to Calculate NOL Value/Return

$$\frac{\text{Total Fund Balances of \$16bn}}{\text{\$1.1 trillion Insured Shares}}$$

= 1.47 NCUSIF NOL

Therefore,

each .01 of NOL equals $109 million

NCUA Staff Proposal for the TCCUSF Surplus

Raise NOL 4 pts to 1.30	$436 million
Retain 4 NOL pts for NGN	$436 million
Retain 5 NOL pts to offset NCUSIF operating trends	$545 million
Pay members just 8 NOL pts	$872 million

Bottom line: NCUA retains 13 NOL (62%) and 8 NOL (38%) returned to cu members from TCCUSF recoveries

CONTEXT:
A LOOK AT REAL INDUSTRY RESULTS

CALLAHAN & ASSOCIATES
the credit union company

Context for Decisions

- Industry results and economic trends continue to be very favorable
- 95.2% credit union assets are CAMEL 1-2: highest % for over a decade
- 2 failures so far in ‘17 vs five year average of 17 per year
- NCUSIF equity 1.26% + $208 million loss allowance (June 2017) is equal to 16x the 2016 net cash losses

U.S. Credit Union Industry Increases growth momentum as of June 2017 data

	As of 06/30/2017	12-mo. Growth 2Q 2017	12-mo. Growth 2Q 2016
Assets	$1.4T	7.7%	7.4%
Loans	$924.0B	10.9%	10.5%
Shares	$1.2T	8.2%	7.3%
Investments	$374.9B	1.9%	0.4%
Capital	$153.0B	5.8%	7.8%
Members	110.8M	4.4%	3.8%

Source: Callahan's Peer-to-Peer Analytics

TWO FLAWED PREMISES:

NCUA'S MODELS APPROXIMATED ACTUAL EVENTS

&

INCREASED RISK IN NCUSIF DUE TO NGN GUARANTEE

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NCUA's Proposal Uses 2 False Narratives

<u>As shown in following data slides:</u>

- The contingent liability risk for the NGN guarantee is negligible
- NCUA's financial "modeling" for both TCCUSF and NCUSIF has not been close to real outcomes

Retaining 4 NOL for NGN contingent liability is unsupported by audits or NCUA's own models

- Dec 15 and Dec 16 KPMG audit's assessments explicitly state no need for contingency liability reserve:

During 2016, the TCCUSF was principally responsible for guarantees related to the NGNs. As of December 31, 2016 and 2015, NCUA estimated no insurance losses for the NGN program (page 3);

The TCCUSF recorded no contingent liabilities on the TCCUSF's balance sheet as of December 31, 2016 and 2015. . . There were no probable losses for the guarantee of NGN's associated with re-securitization transactions. (footnote 8, page 25)

But, NCUA's new model suggest there might be a loss: NCUA's modeling history

- Read the full quote on NCUA's use of models, page 125/6 KPMG 2016 audit: **Bottom line there is no contingency needed and $2.4 in billion excess coverage today**.

NCUA's new modeling using Federal Reserve assumptions:

"Federal Reserve officials are looking under the hood of their most basic inflation models and starting to ask if something is wrong. Minutes from the July 25-26 Federal Open Market Committee meeting showed. . . the debate over resource slack models and whether standard sources were telling the whole story showed convictions about their forecast are fraying."

(source: Bloomberg News August 16, 2017: Fed Starts to Wonder if Cornerstone Inflation Model Still Works)

NCUA's Financial Modeling legacy for TCCUSF

- TCCUSF KPMG audited contingent loss models at 12/09 for the entire corporate network loss projections: **$6.4 billion**
- Setting up TCCUSF removed this deficit liability from the NCUSIF's balance sheet
- Important because WesCorp and US Central had been conserved by NCUSIF- must their shortfalls be consolidated?

BY THE NUMBERS:

A LOOK AT NCUA'S CORPORATE RESOLUTION EFFORTS

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THE WALL STREET JOURNAL.

TUESDAY, SEPTEMBER 30, 2008

Bailout Plan Rejected, Markets Plunge, Forcing New Scramble to Solve Crisis

What's News–

Citi, U.S. Rescue Wachovia

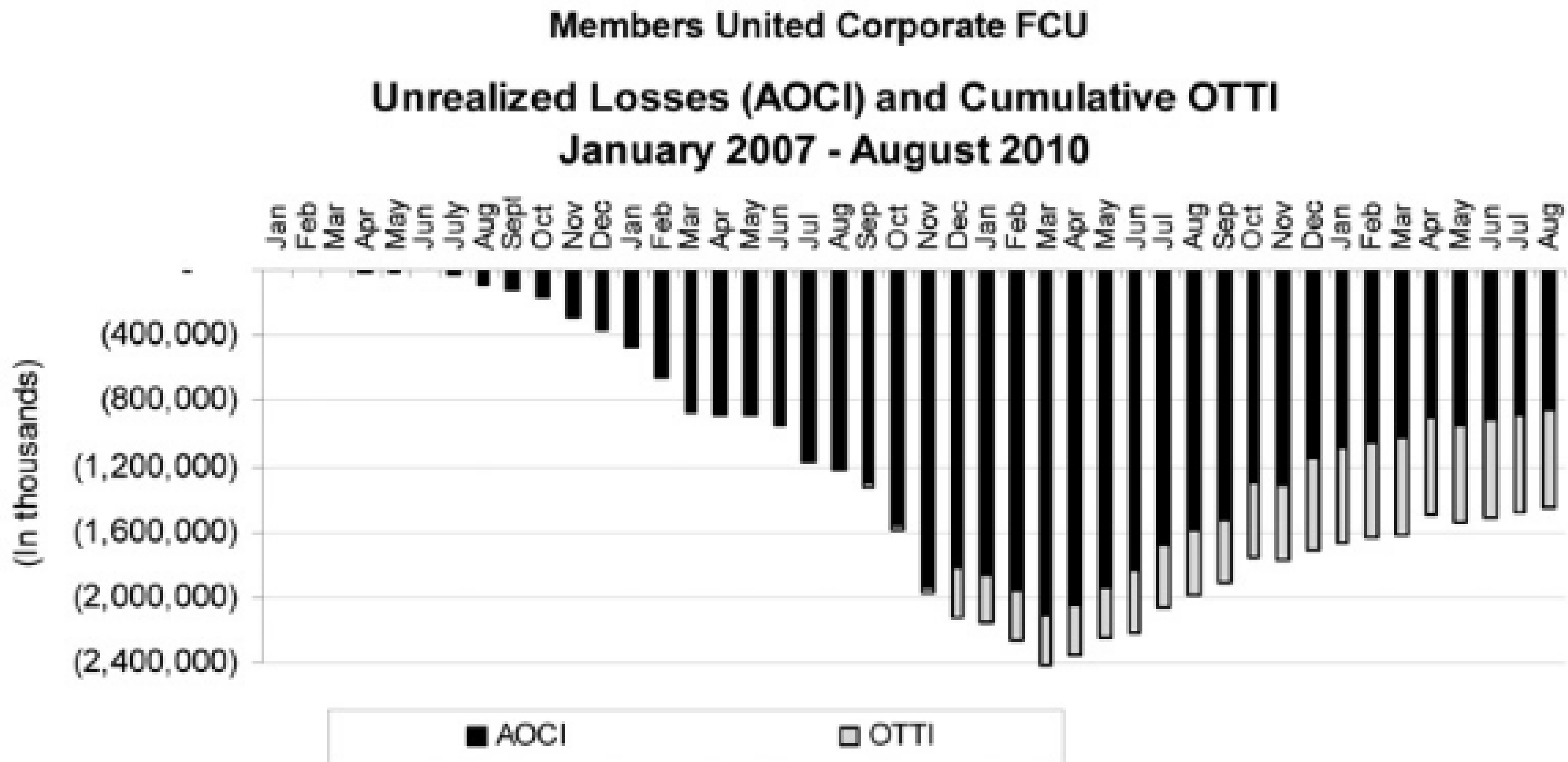
Latest Shotgun Deal Creates Nation's Third-Largest Bank

Industry Is Remade

Corporate CU System Recovery Was clearly UnderwayJune 2009 – June 2010

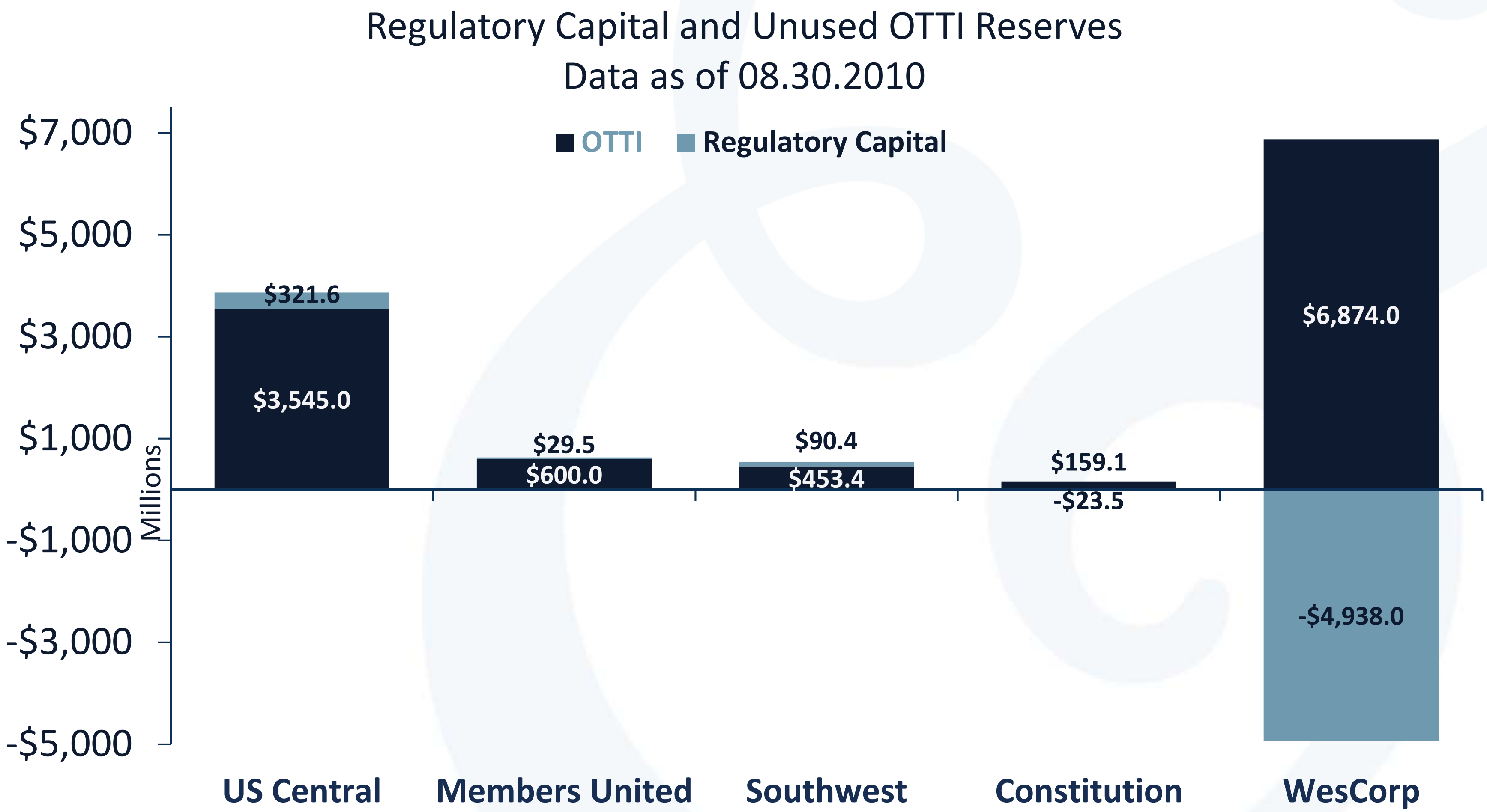
- Shares and borrowings ↓ $12B
- Assets (leverage) ↓ $3B
- Equity ↑ $9B

Members United Reported Monthly Progress-
($571 million improvement in AOCI in its last 12 months)



Source: *Callahan Report Corporate Crisis & Regulatory Reform.*

3 of the 5 liquidated corporates reported positive regulatory capital in August 2010

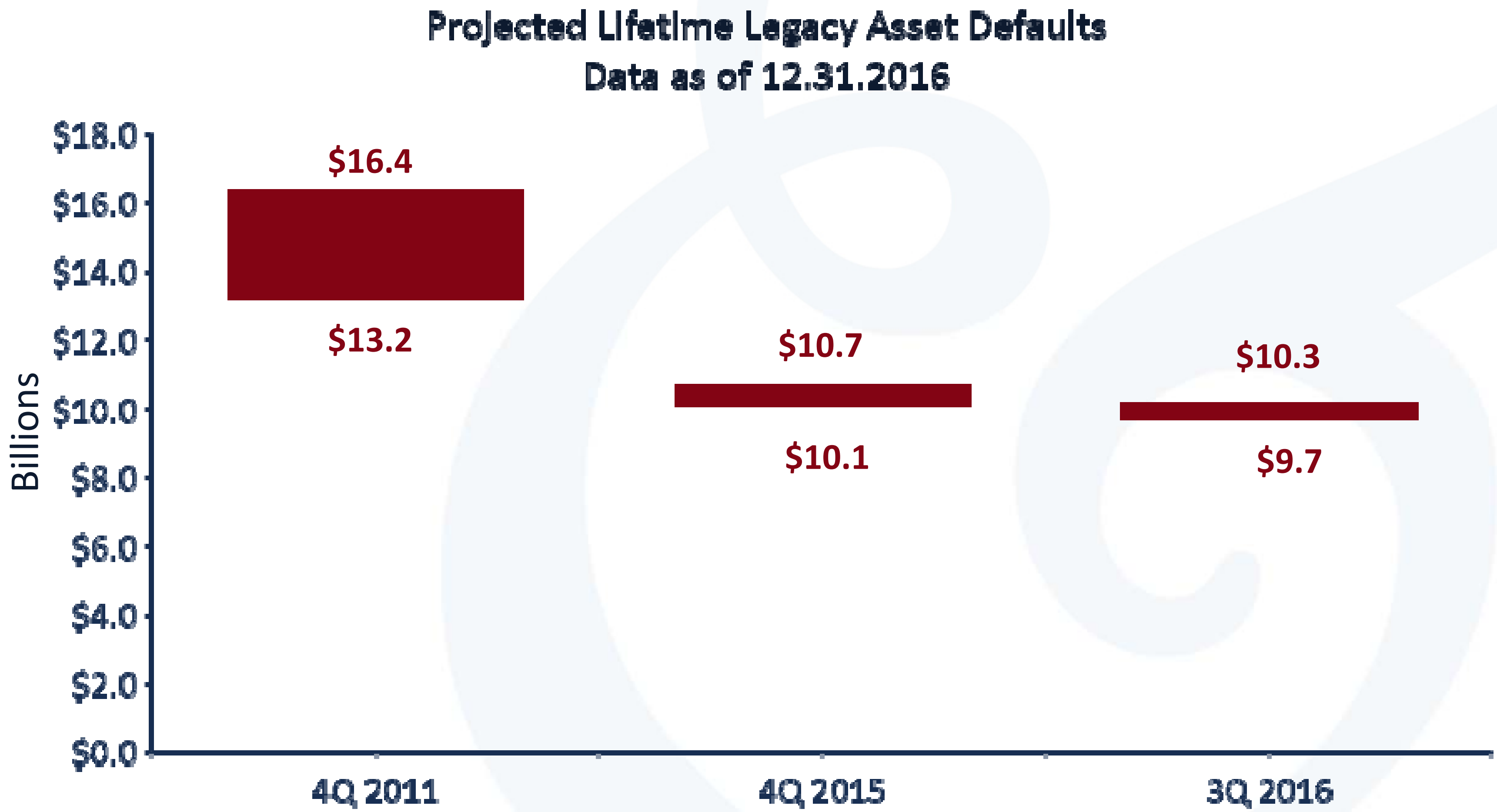


Status of Capital and OTTI at August 30, 2010

Corporate	Regulatory Capital Per 5310 Call Rpt	Unused OTTI
US Central	$321.6 million	$3,544.8 million
WesCorp	($4,937.8 million)	$6,874.3 million
Southwest	$90.4 million	$600.0 million
Members United	$29.5 million	$453.4 million
Constitution	($23.5 million)	$159.1 million
Totals	($4,519. 80 million)	$11,631.6 million

OTTI Write-downs/
Losses Not Incurred

A Moving Target: NCUA's Projections

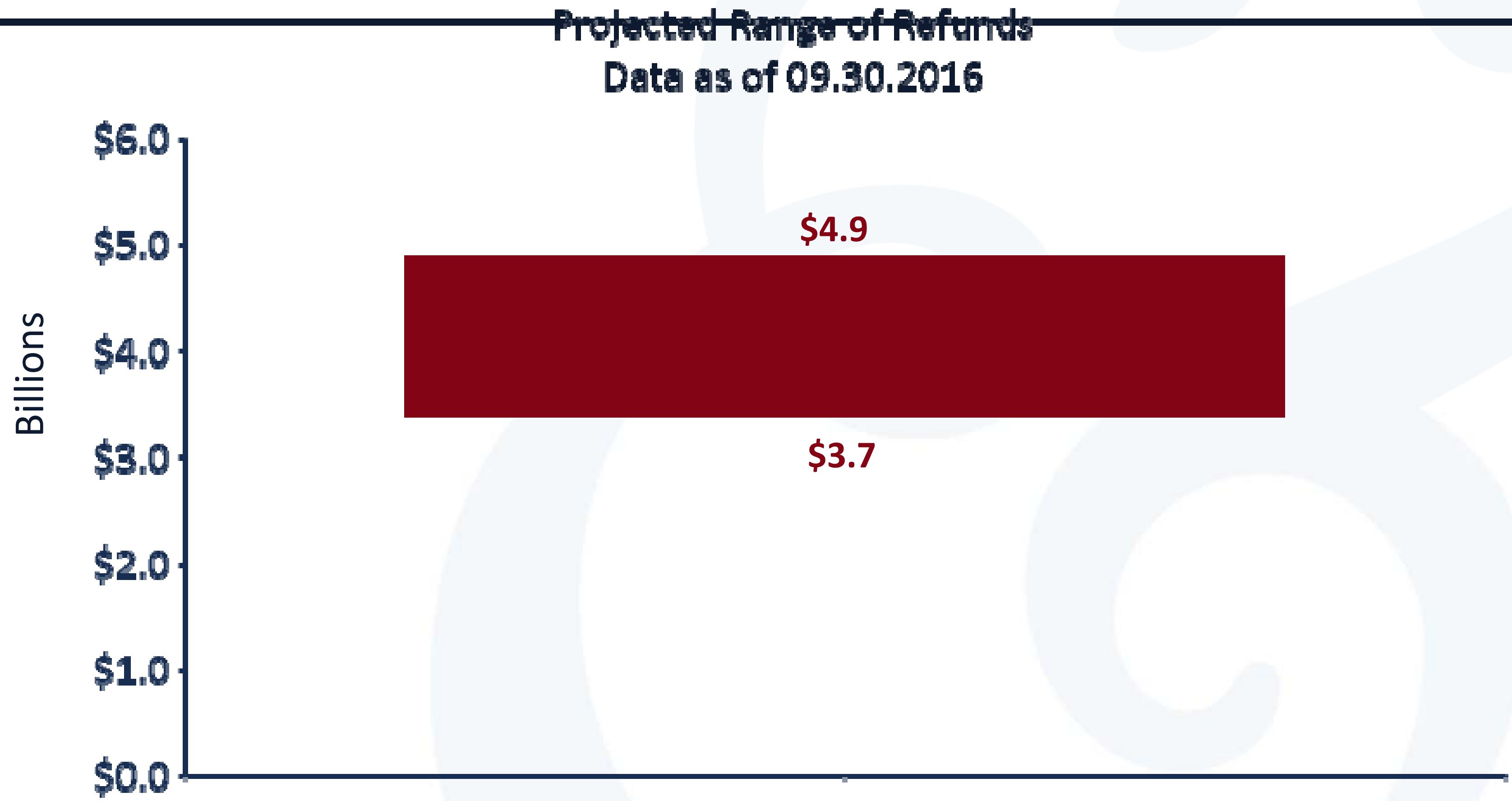


NCUA's 2010 Liquidations added $1.4 billion to the Projected Corporate losses

*"The increase in aggregate contingent loss from 2009 to 2010 of **approximately $1.4 billion** ($6.4-$7.8bn) is primarily the result of increased losses in the previously conserved CCU's and three additional CCU's, all five of which were placed in AME status in 2010."*

(page 24 KPMG audit)

NCUA now projects up to $4.9B in refunds



Claim Receipts for Member Capital:

At March 31, 2017 NCUA estimates $2.5bn in positive AME equity for member capital minus $1.0bn to TCCUSF from USC

CLAIM RECEIPT FOR MEMBER CONTRIBUTED CAPITAL

November 12, 2010

CHICAGO PATROLMENS FCU
1407 W Washington Blvd
Chicago, IL 60607

TO: CHICAGO PATROLMENS FCU

By Order issued October 31, 2010, the National Credit Union Administration Board ("NCUA Board") placed Members United Corporate Federal Credit Union ("Members United") into liquidation and appointed itself Liquidating Agent. 12 U.S.C. 1787(a)(I)(A).

As you know, the capital contributed by members to Members United was fully depleted prior to liquidation to absorb losses in excess of retained earnings. 12 C.F.R. 704.2. The depletion was due primarily to the required recognition of unrealized investment losses based on projected future bond defaults.

In the event of liquidation of a corporate credit union, member Paid-In Capital ("PIC") and Membership Capital Accounts ("MCA") are payable only after satisfaction of all liabilities of the liquidation estate as prescribed in 12 C.F.R. 709.5(b), based on the circumstances that exist on the date of liquidation. Id. §709.5(*c*).

Under normal circumstances, a member of Members United is required to file a claim against the liquidation estate to recover its depleted capital on the basis of, for example, an "error in accounting estimation." In recognition of credit unions' concerns about the depletion of their capital, however, the NCUA Board has chosen to issue this "Claim Receipt for Member Contributed Capital" representing the value of your PIC and MCA balances for September 30, 2009 ("the record date"). Based on Members United's account records, I have determined that CHICAGO PATROLMENS FCU had PIC and MCA balances of:

PIC $ .00 MCA $1,500,000.00

Upon final resolution of the Members United liquidation estate, this Claim Receipt will enable you to share *pro rata* in the net proceeds, if any, to the extent of your PIC and MCA balances as of the record date. No further action is required on your part to file or activate a liquidation claim.

This Claim Receipt supersedes any prior certification, record or statement of member PIC and MCA balances.

If you have any questions, please feel free to contact us at 512-231-7900.

Sincerely,

Mike Barton

Mike Barton,
Liquidating Agent for
Members United Corporate Federal Credit Union

NATIONAL CREDIT UNION ADMINISTRATION

NCUA's Est. $2.5bn AME Distributions

March 2017

Corporate Shareholders	Estimated AME Distributions
US Central	$1.8 billion ($1.0 to NCUSIF)
WesCorp	($3.1 billion)
SouthWest	$400 million + USC share
Members United	$273 million + USC share
Constitution	$0 + USC share

DOES TCCUSF MERGER INCREASE THE NCUSIF'S "TRADITIONAL" RISK?

SPOILER ALERT: NO.

The NCUA’s “Logic” for Raising the NOL

- NOL is 1.26 at June 30, 2017
- NCUA wants to add 9 more basis points for contingencies based on new models
- Would keep almost $1 billion TCCUSF recoveries for NCUSIF investment in US Treasuries

KPMG Opinion of NCUSIF Equity Ratio

In our opinion the financial statements… ***presented fairly, in all material respects,*** *the financial position of the NCUSIF as of December 31, 2016 and 2015 and its net costs, changes in net position* etc. (pg 99)

The "fairly presented" equity ratio:

The NCUSIF-calculated equity ratio of 1.24% and 1.26% as of December 31, 2016 and 2015 was below the normal operating level of 1.3%; therefore, the NCUSIF did not estimate or record a distribution. (page 121)

KPMG Opinion of NCUSIF Equity Ratio Sufficiency

In accordance with SFFAS No. 5 all federal insurance programs should recognize a liability for:

- *Unpaid claims incurred . . .*
- *When an existing condition, situation or set of circumstances involving uncertainty as to probable loss exists. . .*
- *A future outflow or other sacrifice of resources that is probable. (pg 111)*

KPMG 2016 Opinion of NCUSIF Equity Ratio

Further. . . *The year-end contingent liability is derived by using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios and <u>other conditions.</u>* (page 111 NCUA Annual Report)

A BRIEF FINANCIAL HISTORY OF THE NCUSIF (2008-2016)

FROM AN INSURANCE FUND TO BECOMING NCUA'S OPERATING CASH REGISTER

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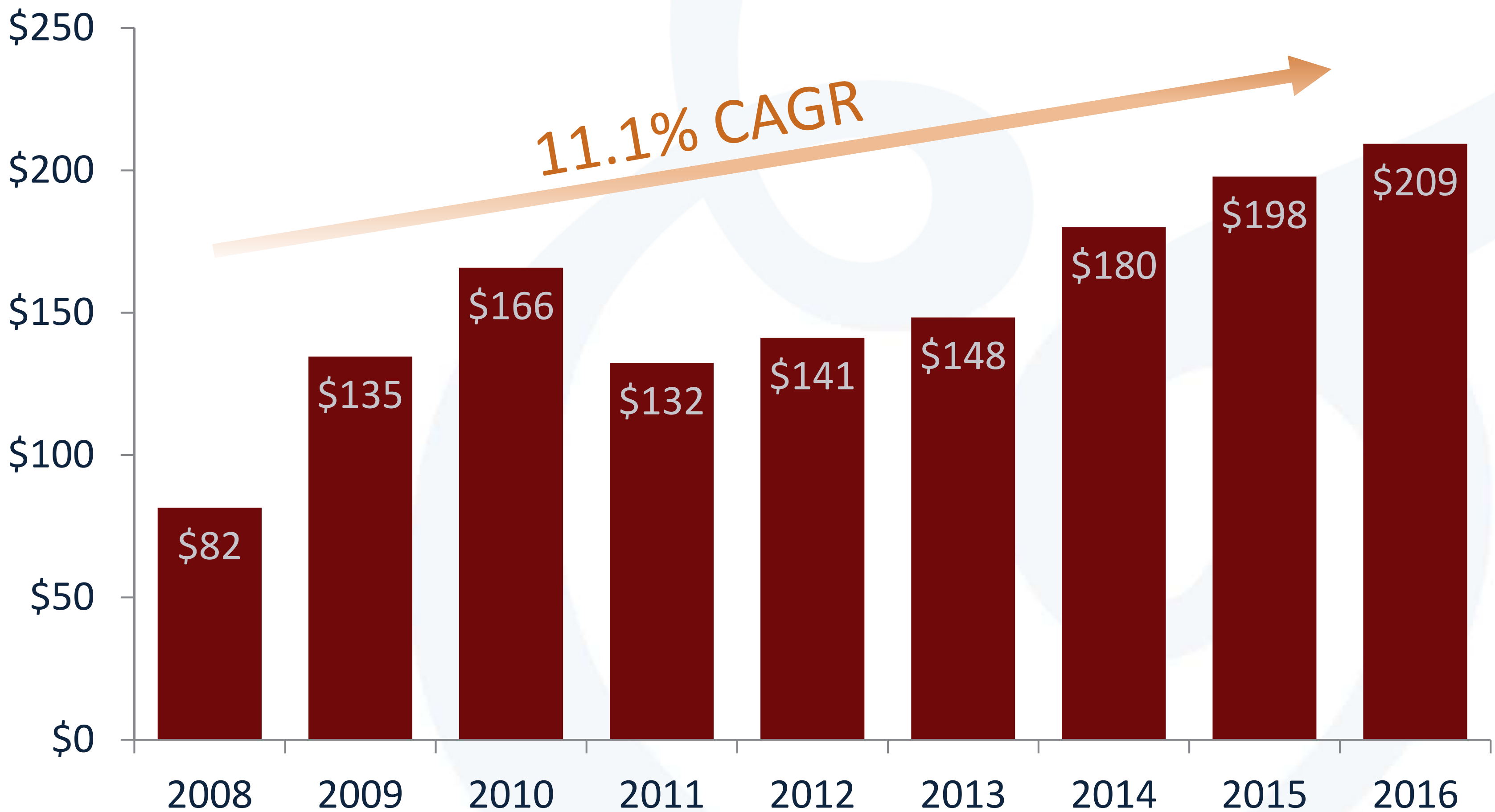
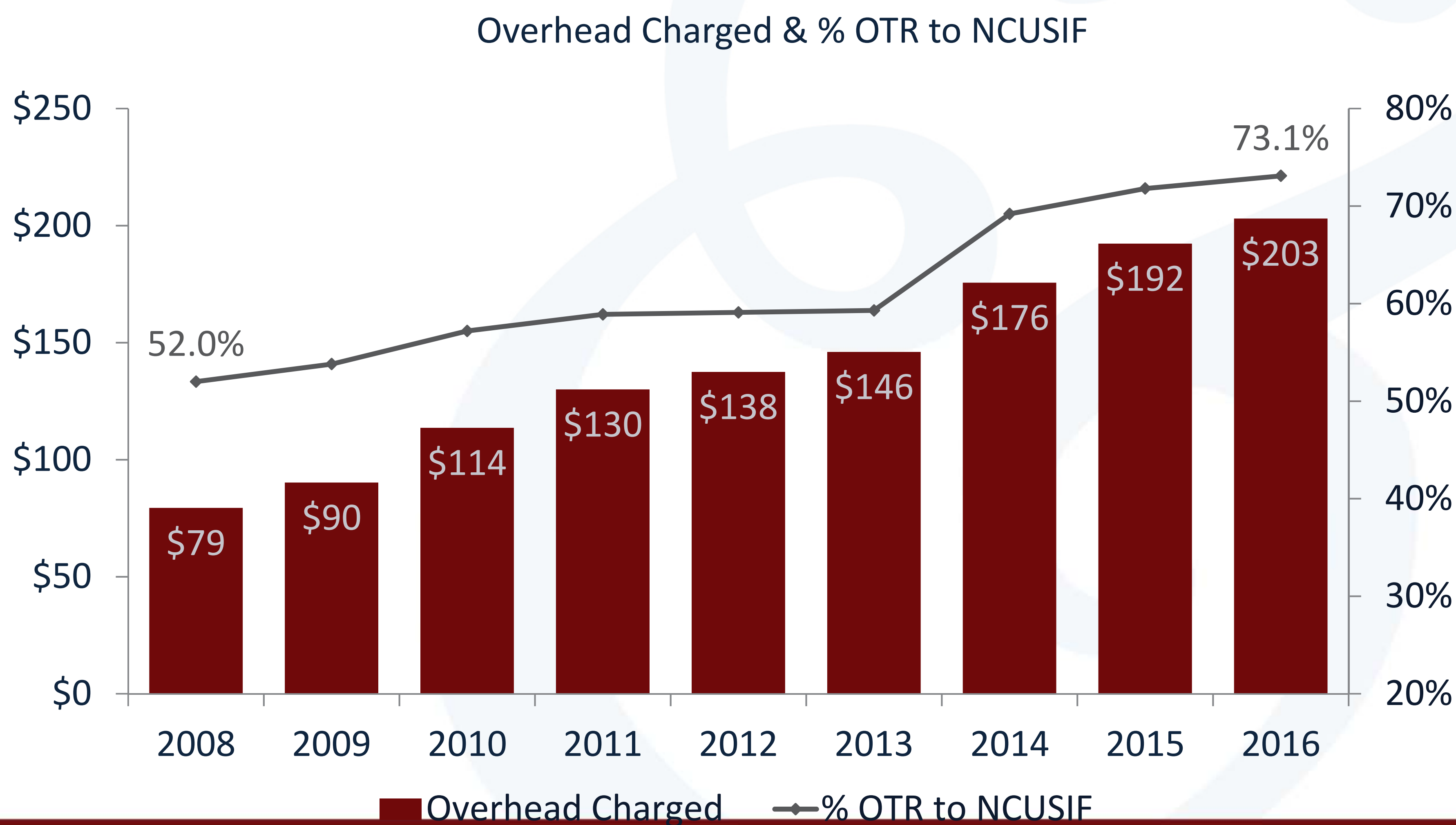
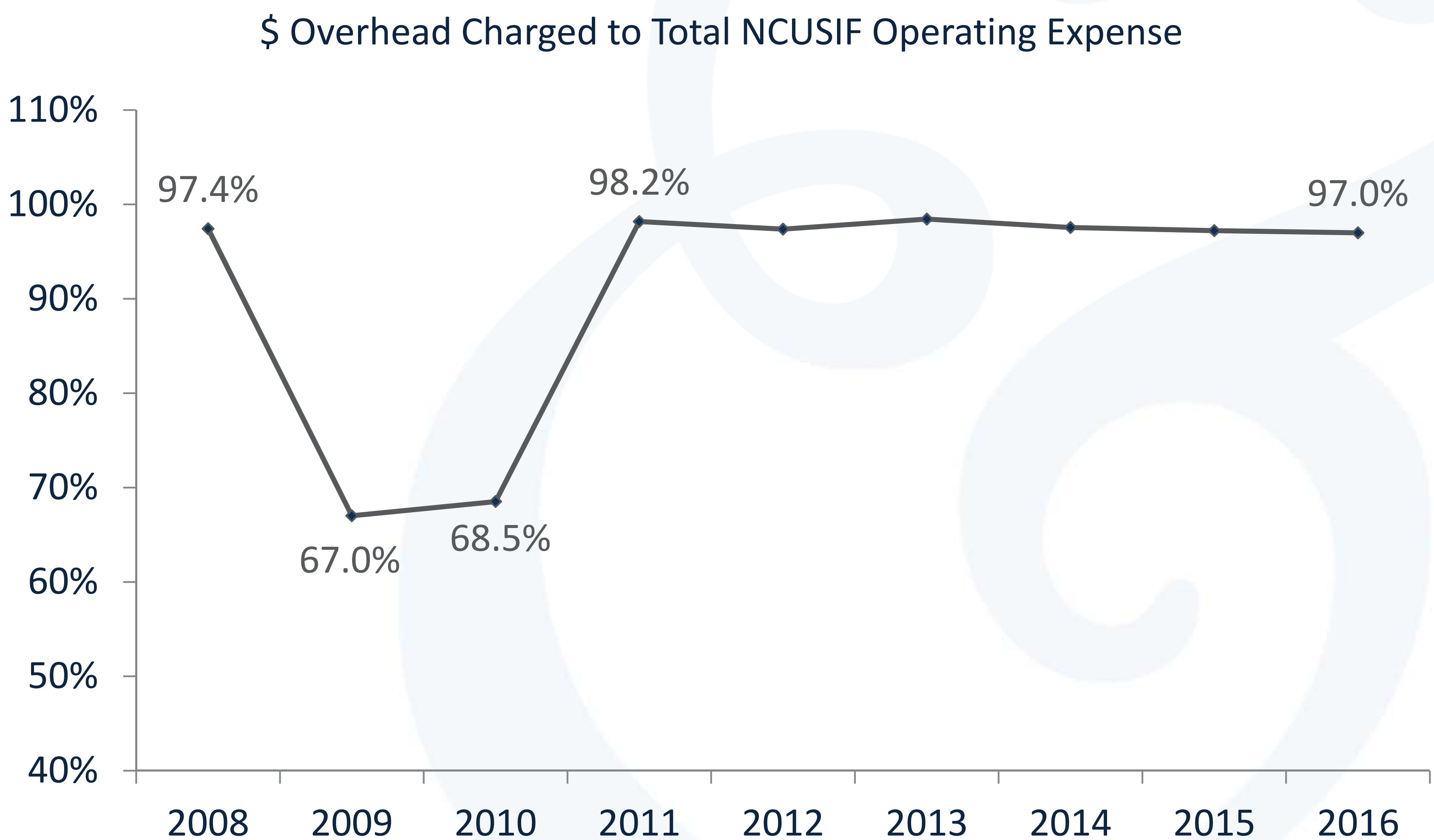
Total NCUSIF Operating Expenses (2008-2016)



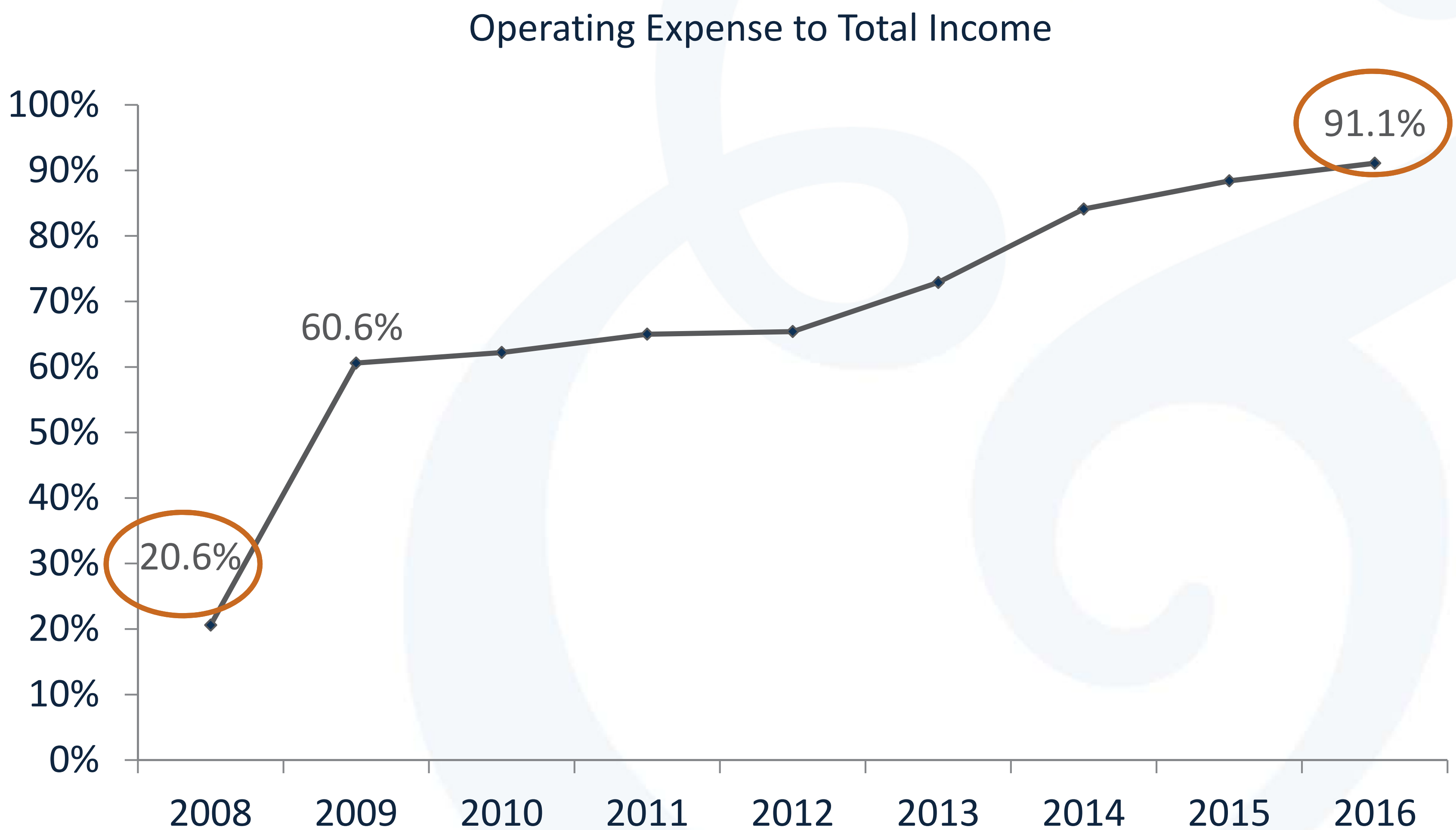
Annual OTR % and Total $ Charged to NCUSIF for NCUA Operating Expenses



NCUA's Overhead Transfer Now Takes Almost All NCUSIF Operating Expenses (2008-2016)



Increasing NCUA Expense Transfers Now Use Almost All of the NCUSIF's Total Annual Income

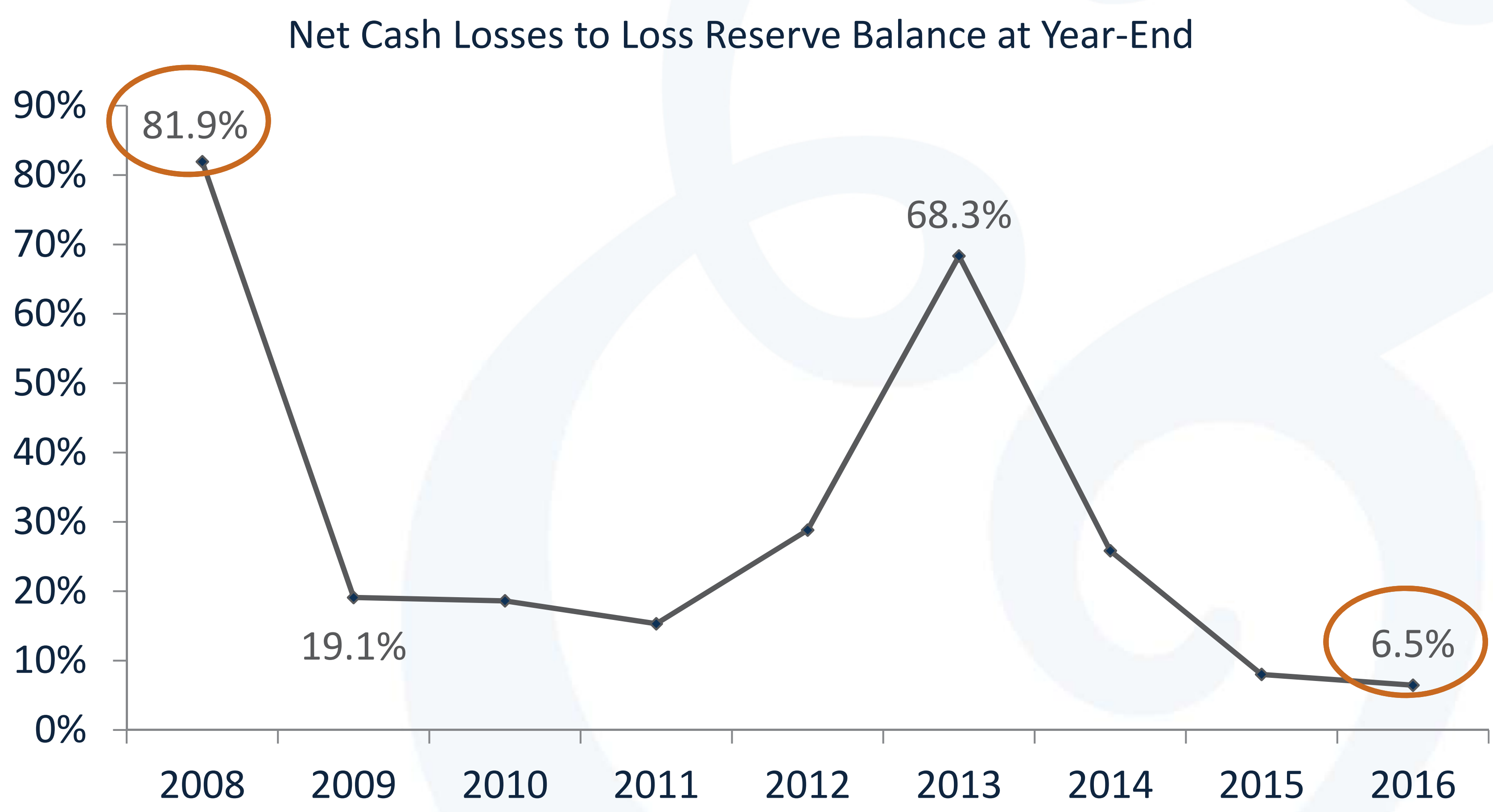


The Result: NCUA Uses NCUSIF Revenue to Pay for Increases in Its Operations

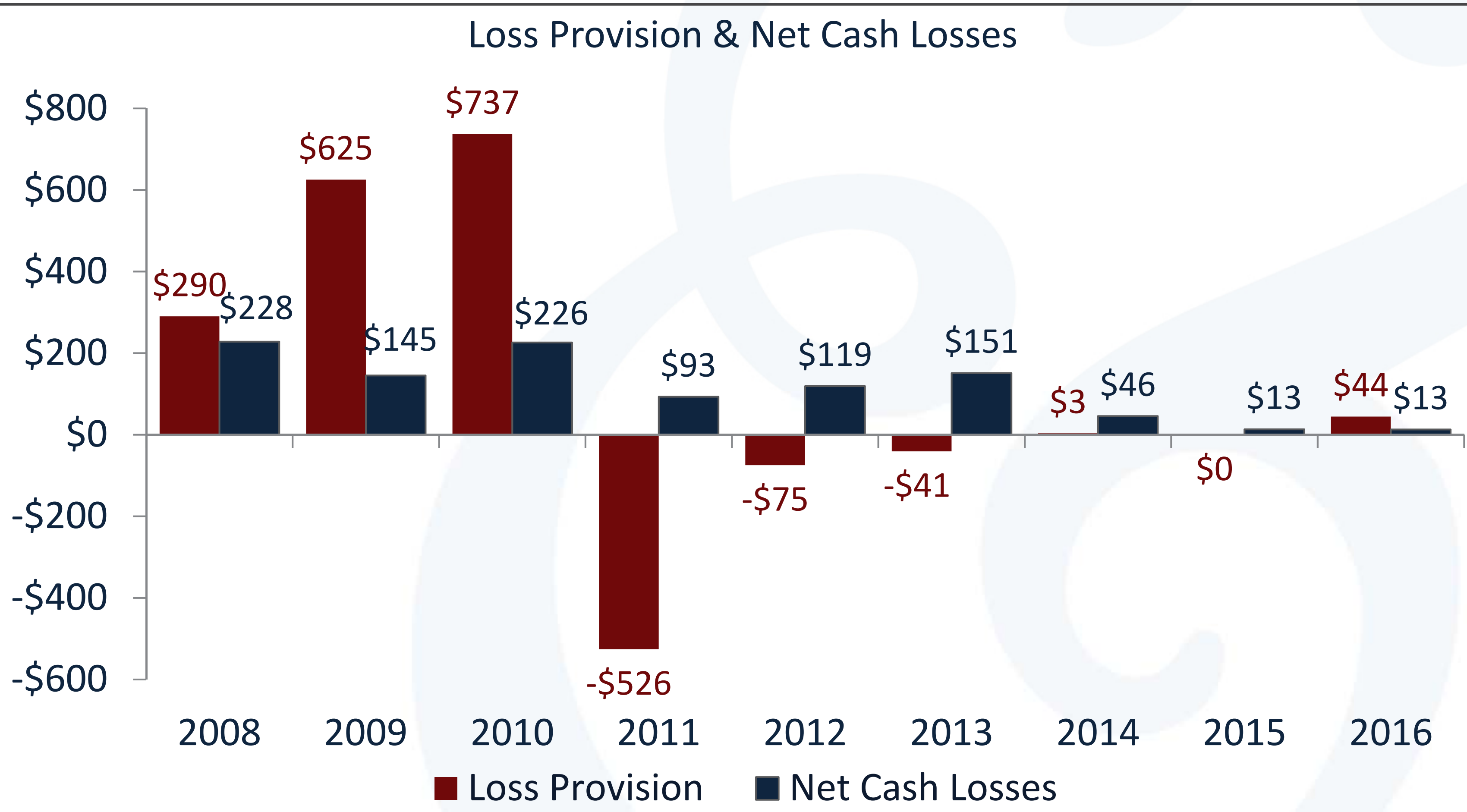
	2008	2016	8 Year Change
% NCUA OTR transfer rate	52%	73.1%	+ 22.1% (increase of 42%)
Net NCUA Operating Expense	$74.3 m	$74.7 m	+ $400,00
Total **Annual NCUSIF OpEx**	$79.4 m	$203.0 m	+ $123.6 m (increase of 156%)
NCUA $OTR/ Total $ NCUSIF OpExp	20.6%	91.1%	+70.5%

NCUSIF (2008-2016) SHOWS SAME MODEL ACCOUNTING FLAWS AS TCCUSF RESULTS

NCUSIF's Net Cash Losses show no relation to Yearend Loss Reserves: Models are flawed



NCUSIF's Loss Provision Expense & Actual Net Cash Losses show no relationship (2008-2016)



CONCLUSIONS

Conclusion:

There Is No Basis to Increase the NCUSIF's NOL

- Auditors and NCUA confirmed sufficiency of 1.24 NOL in December '16: 1.26 as of 6-30-17
- NCUSIF Expense Transfer growing 11% per year-staff forecasts continued 4.5% growth
- NCUSIF does not have a shortage of reserves or capital-NCUA has created an expense structure swallowing up most income.
- Reason for higher NCUSIF NOL is to pay for increased spending, not losses.

Conclusion:

Learn From the Past to Do The Right Thing Today

- Owners must act like owners: the $2.4 billion is your credit union's account receivable;
- Failure to comment is defaulting to NCUA staff to decide what to do with your money;
- The criteria to decide the "right thing"? *What's is in the members' best interest*!
- Confront the "Black Box Syndrome" – modeling futures cannot absolve NCUA's responsibility to align actual events and accounting statements

Continued...

Conclusion:

Learn From Our Past: Transforming NCUA-CU Relations

- Crisis Mindset → Manage Real-World Events
- Despair & Dystopia → Build on Positive Changes & Results
- Cashing Out Problems→ Workouts, Saving Charters with cooperative "patience"
- Hiding Behind Models → Apply Models Appropriately

And Finally…

Let credit unions put the money to work for their members!

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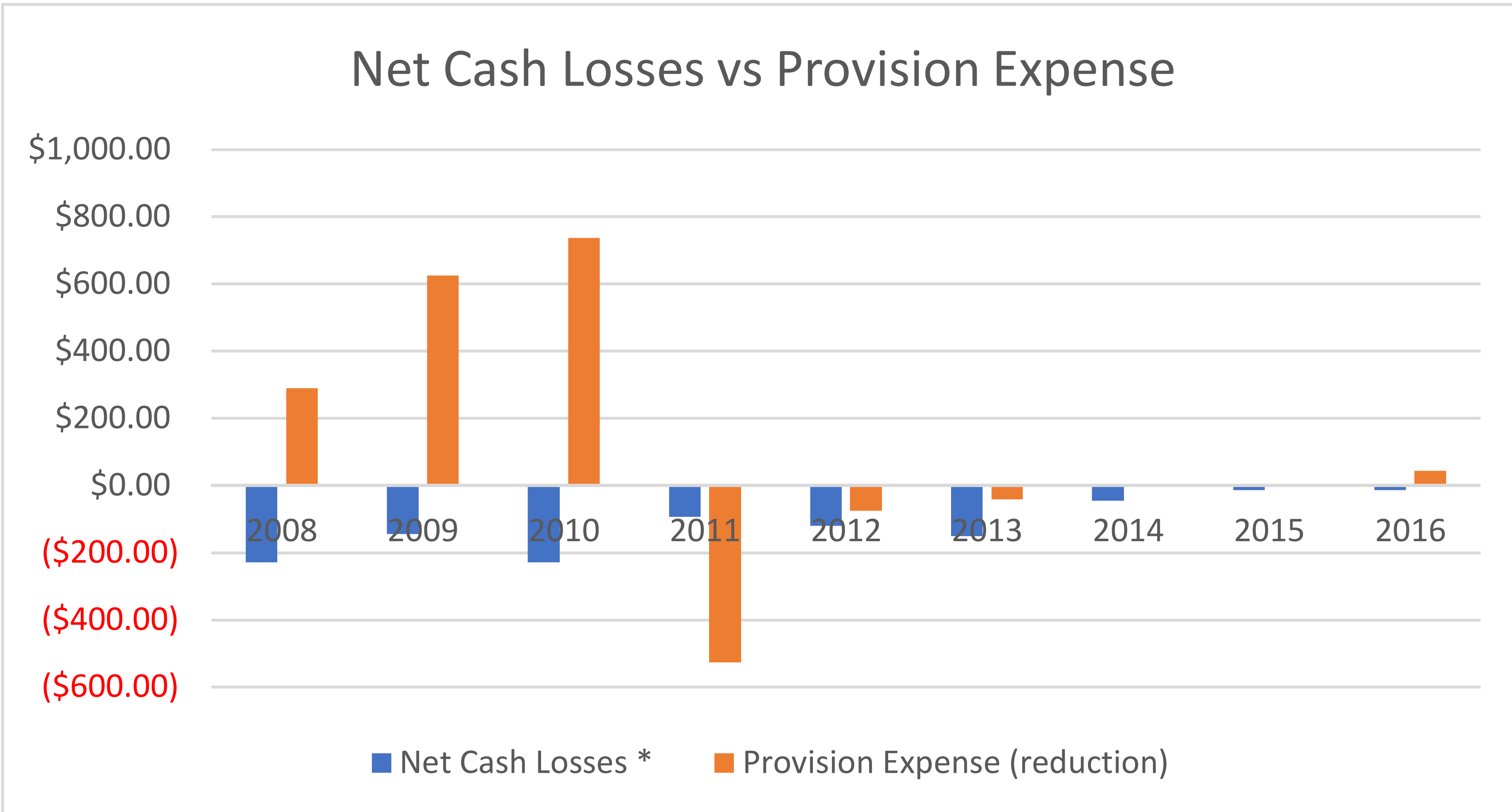
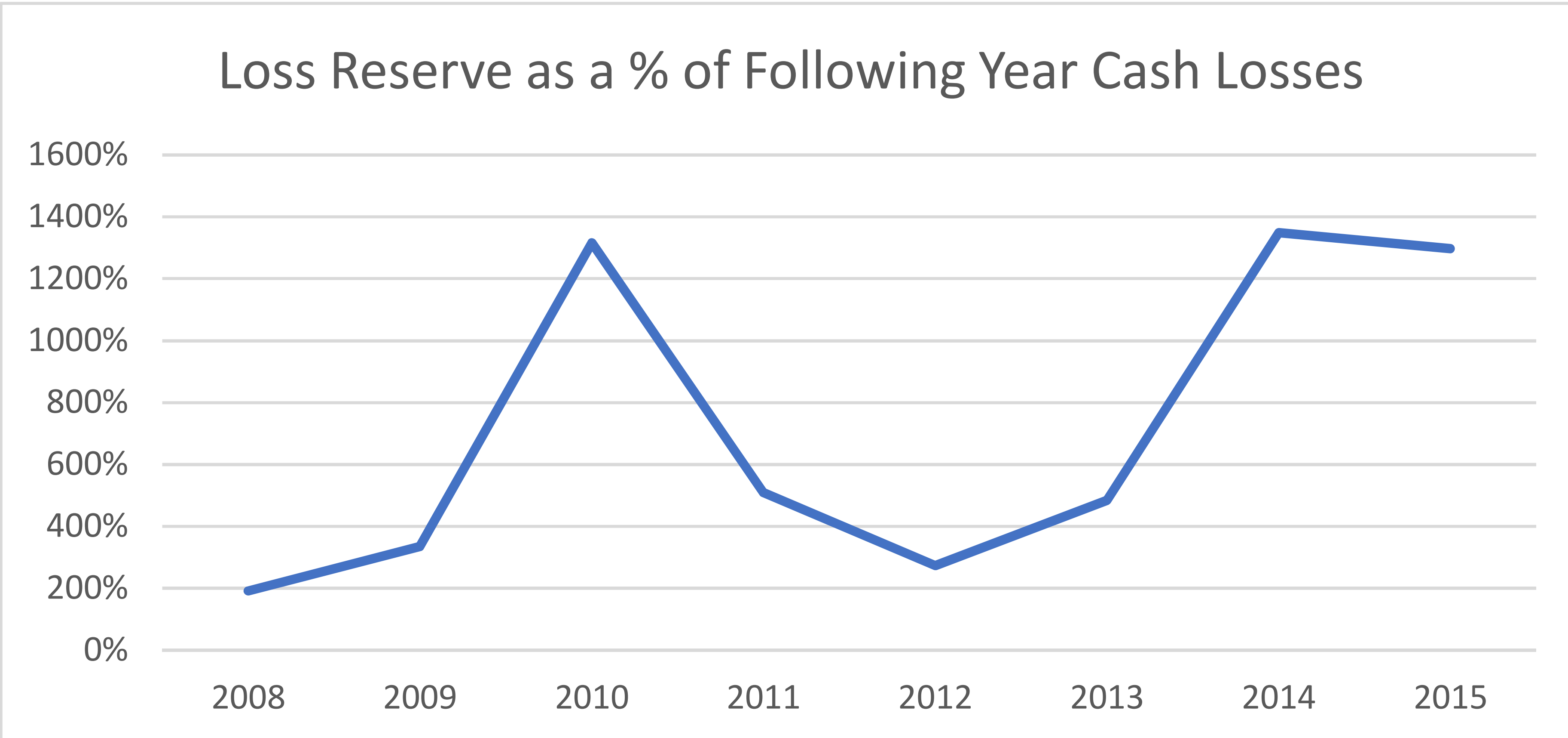
NCUSIF Financial Performance 2008-2016 and Selected Ratios

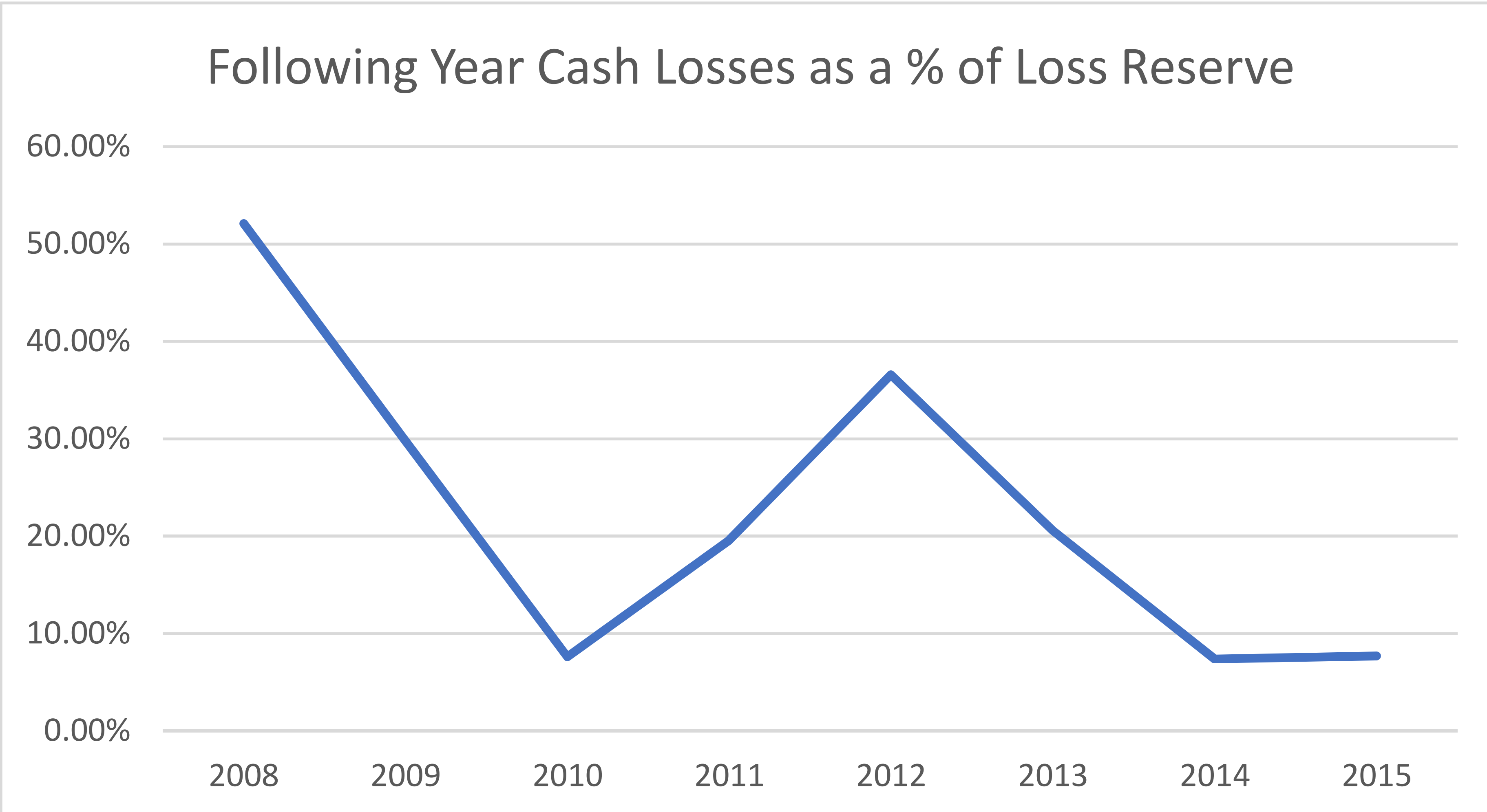
Source: NCUSIF Annual Audits

		2008	2009	2010	2011	2012	2013	2014	2015	2016	Totals
1	Insured Shares at Year-End	$659.00	$725.00	$758.00	$795.00	$839.00	$866.00	$903.00	$961.30	$1,000.00	
2	Loss Reserve Balance at Year-End	$278.30	$759.00	$1,225.00	$607.00	$413.00	$221.00	$178.10	$164.90	$196.62	$3,683.40
3	Amount of Reserve for General Losses	$232.00	$597.00	$1,052.00	$590.00	$317.00	$208.00	$173.00	$154.90	$193.70	$3,172.00
4	Amount of Reserve for General Losses/Loss Reserve Balance at Year-End	83.4%	78.7%	85.9%	97.2%	76.8%	94.1%	97.1%	93.9%	98.5%	
	Operating Income Statement										
5	Investment Income	$390.90	$188.80	$217.00	$198.00	$207.00	$198.00	$208.00	$218.50	$227.20	$1,612.70
6	Other Income	$4.70	$33.30	$49.50	$5.00	$9.00	$5.00	$6.00	$5.20	$2.50	$118.50
7	Total Income	$395.60	$222.10	$266.50	$203.00	$216.00	$203.00	$214.00	$223.70	$229.70	$1,727.20
8	Operating Expense	($81.50)	($134.60)	($165.80)	($132.00)	($141.20)	($148.00)	($180.00)	($197.87)	($209.30)	($975.10)
9	Net Cash Losses *	($228.00)	($145.00)	($228.00)	($93.00)	($119.00)	($151.00)	($46.00)	($13.20)	($12.70)	($1,001.00)
10	**"Cash" Operating Results Before Premium and Reserve Adjustments**	**$86.10**	**($57.50)**	**($127.30)**	**($22.00)**	**($44.20)**	**($96.00)**	**($12.00)**	**$12.63**	**$7.70**	**($262.90)**
11	Cash Premium	$0.00	$727.00	$930.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$1,668.00
	Operating Results After Premium (Cash) But Before Provision Expense	$86.10	$669.50	$802.70	($22.00)	($44.20)	($96.00)	($12.00)	$12.63	$7.70	$1,384.10
	Loss										
12	Provision Expense (reduction)	$290.00	$625.00	$737.00	($526.00)	($75.00)	($41.00)	$3.30	($0.25)	$44.40	$1,025.30
13	Other Non-Cash AME Provision Adjustment (reduction)			($2.00)	($7.00)	($3.00)	($8.00)	($45.10)	($35.20)	($30.60)	($65.10)
14	Audited Net Income Including All Provision Adjustments	$23.80	$189.80	$295.00	$203.00	$64.00	$8.00	$75.90	$61.30	$12.50	$873.50
15	Gross Cash Paid Losses *	($285.00)	($162.00)	($278.00)	($105.00)	($349.00)	($225.00)	($97.60)	($40.00)	($27.90)	($1,486.60)
16	Less: Recoveries *	$57.00	$17.00	$50.00	$12.00	$230.00	$74.00	$52.00	$26.80	$15.20	$508.00
17	Net Cash Losses *	($228.00)	($145.00)	($226.10)	($93.00)	($119.00)	($151.00)	($45.60)	($13.20)	($12.70)	($990.70)
18	Cash Operating Results - Audited Net Income **	$62.30	($247.30)	($422.30)	($225.00)	($108.20)	($104.00)	($87.90)	($48.67)	($4.80)	($1,114.40)
	Ratio Analysis	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	
19	Loss Reserve as a % of Following Year Cash Losses	192%	336%	1317%	510%	274%	484.60%	1349.20%	1298%	N/A	
20	Loss Provisison as a % of Current Year Cash Losses	127%	431%	326%	(566.0%)	(63.0%)	(27.0%)	7.20%	(1.9%)	349.60%	

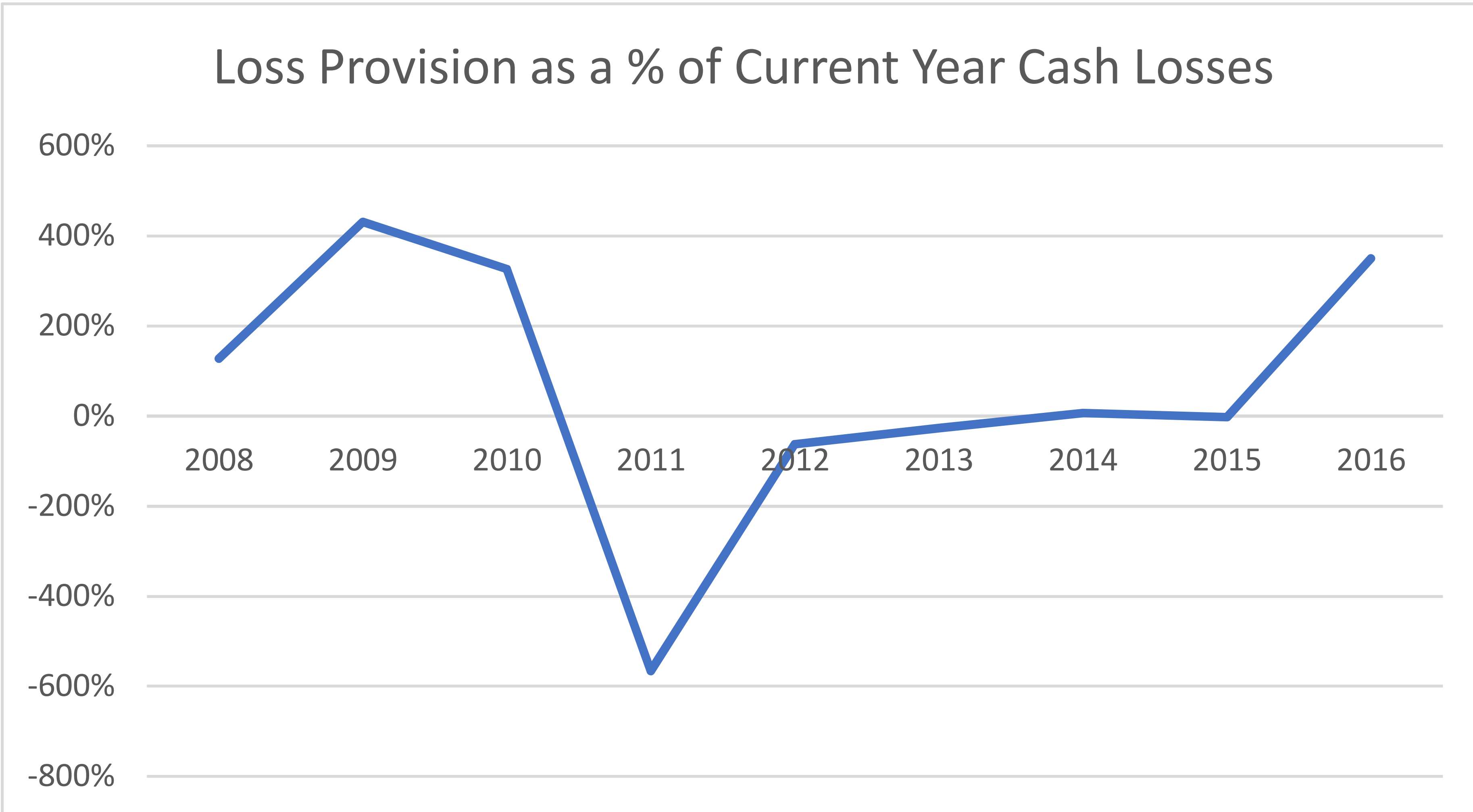
21	Following Year Cash Losses as a % of Loss Reserve	52.10%	29.80%	7.60%	19.60%	36.60%	20.60%	7.40%	7.70%	N/A	
22	Cash Losses as a % of Loss Provisison	78.60%	23.20%	30.70%	(17.7%)	(158.7%)	(368.3%)	1381.80%	(5,280.0%)	28.60%	
23	$ Transferred to TCCUSF: $ Exceeding 1.3%			$0	$279	$88	$95	$0	$0	$0	$485
24	Percent Overhead Transfer Rate to NCUSIF	52.00%	53.80%	57.20%	58.90%	59.10%	59.30%	69.20%	71.80%	73.10%	
25	Opex/Total Income (Exclude Provision & Loan Losses)	20.60%	60.60%	62.20%	65.00%	65.40%	72.90%	84.10%	88.40%	91.10%	
26	$ Overhead Charged	$79.40	$90.20	$113.60	$130.00	$137.50	$146.00	$175.60	$192.30	$203.00	$898.30
27	Total NCUSIF Operating Expense	$81.50	$134.60	$165.80	$132.40	$141.20	$148.30	$180.00	$197.80	$209.30	$1,010.80
28	$ Overhead Charged/ Total NCUSIF Operating Expense	97%	67%	69%	98%	97%	98%	98%	97%	97%	
	* New Cash Losses is calculated by subtracting Recoveries from Gross Cash Paid Losses										
	** Results: Positive = Cash > Audit; Negative = Cash < Audit Results										

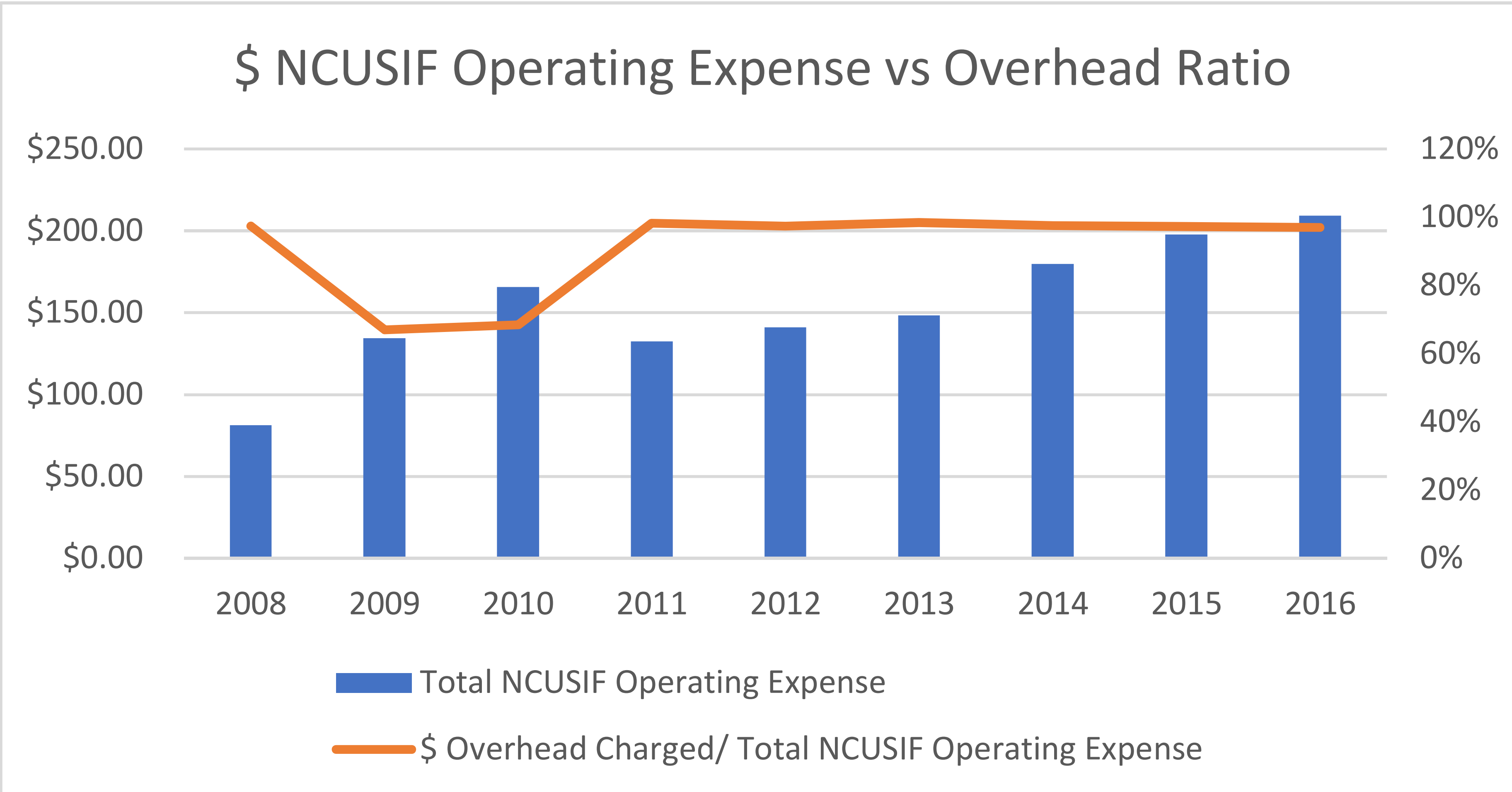

Net Cash Losses vs Provision Expense
$1,000.00
$800.00
$600.00
$400.00
$200.00
$0.00
($200.00)
($400.00)
($600.00)
2008
2009
2010
2011
2012
2013
2014
2015
2016
Net Cash Losses *
Provision Expense (reduction)


Loss Reserve as a % of Following Year Cash Losses
1600%
1400%
1200%
1000%
800%
600%
400%
200%
0%
2008
2009
2010
2011
2012
2013
2014
2015



Following Year Cash Losses as a % of Loss Reserve
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
2008
2009
2010
2011
2012
2013
2014
2015


Loss Provision as a % of Current Year Cash Losses
600%
400%
200%
0%
-200%
-400%
-600%
-800%
2008
2009
2010
2011
2012
2013
2014
2015
2016


$ NCUSIF Operating Expense vs Overhead Ratio
$250.00
$200.00
$150.00
$100.00
$50.00
$0.00
120%
100%
80%
60%
40%
20%
0%
2008
2009
2010
2011
2012
2013
2014
2015
2016
Total NCUSIF Operating Expense
$ Overhead Charged/ Total NCUSIF Operating Expense