Questions and Answers

Fourth Quarter of 2018 NGN Program Projections

This document addresses frequently asked questions about the NCUA Guaranteed Note (NGN) program, as part of the completed Corporate System Resolution Program approved by the NCUA Board in September 2010 to address the failure of five corporate credit unions.

On September 28, 2017, the NCUA Board unanimously voted to close the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) effective October 1, 2017, and transfer all remaining funds, property, and other assets to the National Credit Union Share Insurance Fund (Share Insurance Fund). For the historical Corporate System Resolution Program data and Stabilization Fund closure information, visit https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution/stabilization-fund-history.aspx.

The projections in this document represent point-in-time estimates generated as of the end of the fourth quarter of 2018. The NCUA updates this information on its website twice per year, based on the most recent analysis of the performance of legacy assets from the five failed corporates. The projections are subject to change based on asset performance, future legal recoveries, and key loss modeling variables such as unemployment, home prices, and other factors.

For clarification of terms used in this document, visit http://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/glossary.aspx.

Q1. What are the total projected corporate system resolution costs? How much of those costs have been borne by federally insured credit unions?

As shown in Table 1, the total gross projected resolution costs now range from $8.8 billion to $9.1 billion with the net projected loss to federally insured credit unions at $1.6 billion. The total net costs range from $5.0 billion to $5.3 billion.

Table 1. Projected Corporate System Resolution Costs (in Billions)

Description	Amount
Total Projected Resolution Costs (Gross)	**$8.8 to $9.1**
Legal Recovery Proceeds (Net)	$3.8
Total Projected Resolution Costs (Net)	**$5.0 to $5.3**
Net Projected Loss to Federally Insured Credit Unions	$1.6
Net Projected Loss to Depleted Corporate Capital	$3.4 to $3.7

Q2. What are the remaining balances of the NGNs and the underlying legacy assets? How have these balances paid down since inception of the NGN program?

As shown in Table 2 and Table 3, the NGN and legacy asset balances have paid down consistently over time and currently stand at $4.4 billion and $7.9 billion, respectively.

Table 2. Historical NGN Balances and Activity ($ in Millions)[1]

Time Period	2011	2012	2013	2014	2015	2016	2017	2018
Beginning NGN Balance	28,116	24,653	21,160	17,508	15,213	11,164	7,922	5,449
Principal Paydowns	3,463	3,493	3,652	2,295	4,049	3,242	2,007	1,067
Guaranty Payments[2]	0	0	0	0	0	0	466	0
Ending NGN Balance	**24,653**	**21,160**	**17,508**	**15,213**	**11,164**	**7,922**	**5,449**	**4,382**

Table 3. Historical Legacy Asset Balances and Activity ($ in Millions)[1]

Time Period	2011	2012	2013	2014	2015	2016	2017	2018
Beginning Legacy Asset Balance	42,043	34,530	28,431	24,146	21,278	17,506	13,532	9,561
Current Period Principal Payments	4,937	3,889	3,147	2,500	3,590	3,943	1,898	1,200
Current Period Realized Losses	2,576	2,209	1,138	368	182	31	83	(14)
Current Period Asset Sales	0	0	0	0	0	0	1,991	521
Ending Legacy Asset Balance	**34,530**	**28,431**	**24,146**	**21,278**	**17,506**	**13,532**	**9,561**	**7,854**
Securitized Legacy Asset Balance	34,299	28,201	23,915	21,047	16,169	11,192	7,546	6,486
Post-Securitized Legacy Asset Balance	0	0	0	0	1,106	2,109	1,784	1,137
Un-Securitized Legacy Asset Balance	231	231	231	231	231	231	231	231
Cumulative Realized Losses	**3,404**	**5,613**	**6,752**	**7,119**	**7,301**	**7,332**	**7,415**	**7,400**
Current Period Implied Write-downs	345	349	250	23	97	39	21	(29)
Cumulative Implied Write-downs	**926**	**1,275**	**1,525**	**1,547**	**1,645**	**1,684**	**1,705**	**1,676**
Implied Write-downs in Securitized Assets	926	1,275	1,525	1,547	1,430	1,280	961	924
Ending Legacy Asset Balance (Including Cumulative Implied Write-downs)	**33,604**	**27,157**	**22,621**	**19,731**	**15,861**	**11,848**	**7,856**	**6,178**
Funds Held by Trustee	505	1,019	626	930	583	814	444	557
Overcollateralization (%)	37.4%	32.1%	31.5%	34.3%	37.3%	35.4%	29.0%	39.6%
Net Realizable Value	**24,548**	**21,252**	**19,779**	**18,020**	**14,551**	**10,647**	**7,372**	**5,799**
Market Value	**19,256**	**19,064**	**18,043**	**16,672**	**13,309**	**9,687**	**7,214**	**5,654**

Q3. What are the cumulative losses to date on the legacy assets once held by the failed corporates?

The total cumulative losses to date are computed by adding the cumulative realized losses and cumulative implied write-downs from Table 3. For the fourth quarter of 2018, realized losses of $7.4 billion and implied write-downs of $1.7 billion add to a total cumulative loss of about $9.1 billion.

Q4. How are the future legacy asset cash flows projected? What are the key drivers?

The future cash flows of the legacy assets are projected by BlackRock based on proprietary models that consider key macroeconomic factors, such as housing prices, interest rate environment, and

[1] Each column represents an entire calendar year.
[2] The NCUA made a payment of $466 million to retire NGN 2010-R2 1A in October of 2017. This payment was functionally equivalent to a guaranty payment.

unemployment level, as well as a wide variety of current characteristics and historical performance variables at the loan level.

For example, for the non-agency residential mortgage-backed securities that represent the majority of the legacy assets, performance is projected in terms of probabilistic prepayments, defaults, and loss given borrower default. Some important inputs include borrower credit score, current combined loan-to-value ratio, loan size, and time since last payment.

Q5. What obligations remain related to the NGN program?

The NCUA must make payments as guarantor related to various NGN hard final maturity dates through the end of the program in 2021. There are approximately $2.7 billion of projected guarantor payments that will be due in 2020 and 2021.[3]

Table 4. Expected NGN Payoff Dates and Balances

NGN Deal / Series	Expected Investor Payoff Date	Projected Bond Count	Projected Balance of Collateral (in Millions)	Projected Guaranty Payment (in Millions)
NGN 2011-R1 1A	1/8/2020	78	$561	$175
NGN 2011-R2 1A	2/6/2020	99	$525	$203
NGN 2011-R3 1A	3/11/2020	43	$239	$107
NGN 2010-R1 1A	10/7/2020	58	$564	$304
NGN 2010-R2 2A	11/5/2020	117	$752	$623
NGN 2010-R3 3A	12/8/2020	20	$79	$0
NGN 2010-R3 1A	12/8/2020	90	$527	$447
NGN 2010-R3 2A	12/8/2020	73	$563	$492
NGN 2010-A1 1A	12/10/2020	8	$191	$163
NGN 2011-C1 2A	3/9/2021	16	$87	$62
NGN 2011-M1	6/12/2021	222	$359	$75
Total		**824**	**4,446**	**2,651**

Q6. What are the potential sources of funding for the hard final maturity payments?

Now that the Stabilization Fund has been closed, its obligations are borne by the Share Insurance Fund. As such, Share Insurance Fund assets can be used to make the hard final maturity payments in 2020 and 2021. This would include any net proceeds from additional legal recoveries.[4]

Legacy assets that are no longer securing NGNs can also be sold to satisfy remaining NGN program obligations. The NCUA can potentially sell securities from NGN trusts that are about to mature, using a provision in the NGN indentures that allows the NCUA to sell (or direct the sale of) the underlying securities after the last monthly payment before the final payment date.

Borrowing from the NCUA’s $6 billion line of credit with the Treasury is possible as a last resort.

[3] Unless the NCUA as liquidating agent is able to use the indentures’ optional purchase provisions in the month immediately preceding the hard final maturity date to raise the funds to satisfy the final payment.
[4] The likelihood, timing, and amount of potential recoveries from legal efforts are inherently uncertain. Therefore, this is not something the NCUA can rely on for cash management purposes until there is certainty of timing and amount.

Q7. How will the NCUA determine its asset management strategy for the legacy assets of the NGN program? What are the considerations associated with each strategy?

When the NGNs mature, the NCUA considers available options to dispose of the legacy assets in an orderly manner to satisfy NGN program obligations. Options include, but are not limited to, the following:

- Holding the legacy assets to maturity;
- Selling the legacy assets into the market; and
- Re-securitizing the remaining expected cash flows from the legacy assets in a manner similar to the NGN Program, but without an NCUA guarantee.

To do this, the NCUA performs a bond-by-bond analysis as the legacy assets become available for active management to determine the appropriate strategy for each security. Considerations include such factors as:

- Differences between market value, intrinsic value, and par value;
- Remaining expected life of the asset;
- Legal remedies in progress as well as potential future legal remedies; and
- Risk involved with holding the security over the long term.

Q8. What is the expected timing with respect to each strategy?

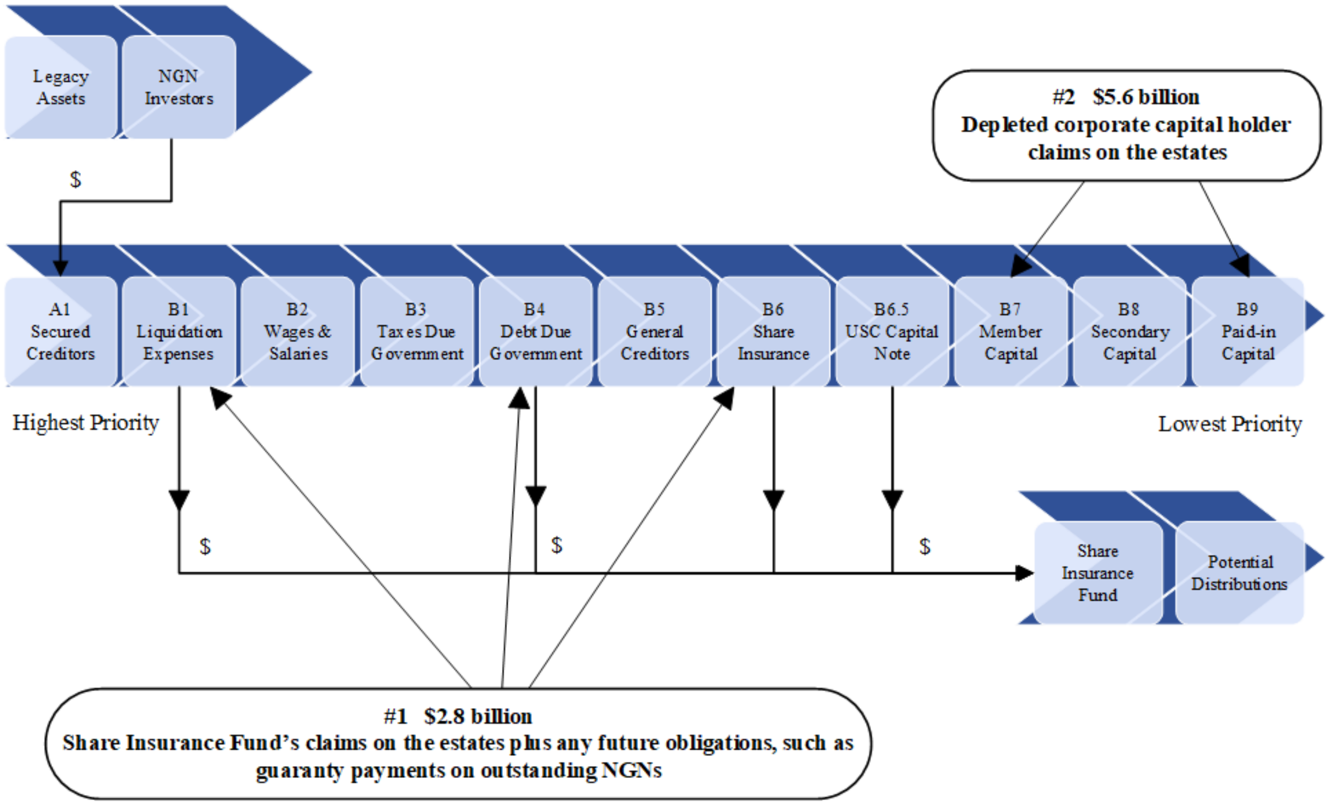
The majority of the NGN deals will not mature until 2020 and 2021, which is the earliest that the NGN program could be concluded. The prompt, orderly liquidation of the legacy assets would result in an end to the need to oversee the legacy assets and a reduction in risk. A strategy of holding the legacy assets until they naturally pay down would take until 2038 to realize all the underlying cash flows. Uncertainty and risk related to realization of the projected values would remain for a long period.

Q9. Once the NGN investors are repaid, how will residual cash flows be allocated among remaining claimants?

Allocation of legacy asset cash flows and other recoveries must follow the mandated payout priorities for involuntary liquidation for each asset management estate of the failed corporates, as depicted in Figure 1.[5]

[5] 12 C.F.R. §709.5

Figure 1. Asset Management Estate Liquidation Payout Priorities[6,7]



Cash advanced to each of the asset management estates is repaid according to the payout priority schedule. The Share Insurance Fund has actual or contingent claims at the B1, B4, B6, and B6.5 level, depending on the reason cash was advanced to the estates.

Substantially all of the remaining claims at the B1 to B6.5 level in the payout priority are due to the Share Insurance Fund. With WesCorp as the sole exception, these claims are projected to be repaid in full and are included in the NCUA's financial reporting. Thus, only cash flows allocated to WesCorp in excess of what is currently projected would increase the expected recovery to the Share Insurance Fund.

Once an individual estate's residual cash flows have fully repaid its liquidation expenses and all other debts owed at levels A1 through B6.5, capital recoveries may occur at levels B7 through B9.

For details related to the asset management estates' recoveries and claims, visit https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution/asset-management-estate-recoveries-claims.aspx.

[6] The $1 billion capital note provided to U.S. Central in category B6.5 has been repaid in full.
[7] Virtually all of the $2.8 billion of claims due to the Share Insurance Fund are owed by WesCorp. Approximately $300 million of those claims are expected to be repaid.

Q10. How does the equity ratio change with changes to the expected cash flows of the legacy assets? How does this change if macroeconomic conditions deteriorate?

Legacy asset cash flow changes do not translate dollar-for-dollar to NCUA's receivable or the equity ratio. Rather, legacy asset principal and interest cash flows received by the NGN trusts run through the applicable NGN waterfalls and are then applied to the payout priority categories for each of the estates. As described above, only cash flows allocated to WesCorp in excess of what is currently projected would increase the expected recovery to the Share Insurance Fund.

As shown in Table 5, the projected decrease in the value of NCUA's receivable as of the fourth quarter of 2018 under the adverse scenario is approximately $200 million or 2 basis points on the equity ratio.

Table 5. Receivable from Estates and Equity Ratio Change

Scenario	December 31, 2018	June 30, 2018	December 31, 2017	March 31, 2017
Base	$0.3 billion	$0.3 billion	$0.5 billion	$2.0 billion
Adverse[8]	$0.1 billion	$0.1 billion	$0.3 billion	$1.6 billion
Receivable Change	*$0.2 billion*	*$0.2 billion*	*$0.2 billion*	*$0.4 billion*
Equity Ratio Change	***2 bps[9]***	***2 bps***	***2 bps***	***4 bps***

Q11. How are losses allocated to each asset management estate? How much are the projected recoveries to the capital holders?

Losses are allocated based on the amount and performance of the specific legacy assets owned by each asset management estate. As such, the projected capital recoveries will vary significantly across the 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. Table 6 shows these projected recoveries for the base and adverse scenarios.

Table 6. Depleted Corporate Capital Holder Recoveries (in Billions)

Estate	Base	Adverse[8]
U.S. Central	$0.9	$0.4
WesCorp	$0.0	$0.0
Members United	$0.5	$0.3
Southwest	$0.7	$0.4
Constitution[10]	$0.0	$0.0
Total	**$2.1**	**$1.1**

[8] The adverse scenario represents a moderate recession, based on the Federal Reserve's Adverse 2018 Comprehensive Capital Analysis and Review scenario.

[9] Based on insured shares of $1.1 trillion per the Share Insurance Fund's December 31, 2018 financial statements.

[10] Constitution is projected to receive a recovery of approximately $27 million in the base case, which rounds to zero for this table.

Q12. How will lawsuits the NCUA has filed against Wall Street firms and any related settlements or recoveries affect these projections?

The impact depends on the nature of the settlement or recovery. If proceeds are received by the legacy asset trusts, they will be distributed to individual bond-level certificate holders as specified by deal documents. In this situation, the cash flows from the legacy assets will increase, but the value received will not necessarily be dollar for dollar.

If proceeds are received by the Share Insurance Fund, they would be available to satisfy any remaining NGN obligations and for potential distributions to credit unions, subject to the Share Insurance Fund's equity ratio and normal operating level.

To date, the NCUA's legal efforts have yielded more than $3.8 billion of net recoveries. For a complete history of legal recoveries, expenses, and fees to date, visit https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution/legal-recoveries.aspx.

Q13. How often will the NCUA update the actual losses and future projections? Where can I find these updates?

The NCUA posts updates at least twice per year, typically in April and November. For updates and more detailed information, visit:

- ***Corporate System Resolution Costs***
  https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution.aspx
- ***NGN Program Information***
  http://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes.aspx