Questions and Answers

Second Quarter of 2020 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 second quarter of 2020. 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 $8.5 billion to $8.8 billion with the net projected loss to federally insured credit unions at $1.5 billion. The total net costs range from $4.7 billion to $5.0 billion.

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

Description	Amount
Total Projected Resolution Costs (Gross)	**$8.5 to $8.8**
Legal Recovery Proceeds (Net)	$3.8
Total Projected Resolution Costs (Net)	**$4.7 to $5.0**
Net Projected Loss to Federally Insured Credit Unions	$1.5
Net Projected Loss to Depleted Corporate Capital	$3.2 to $3.5

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 $2.5 billion and $5.7 billion, respectively.

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

Time Period	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Beginning NGN Balance	28,116	24,653	21,160	17,508	15,213	11,164	7,922	5,449	4,382	3,209
Principal Paydowns	3,463	3,493	3,652	2,295	4,049	3,242	2,007	1,067	1,173	276
Guaranty Payments[2]	0	0	0	0	0	0	466	0	0	485
Ending NGN Balance	**24,653**	**21,160**	**17,508**	**15,213**	**11,164**	**7,922**	**5,449**	**4,382**	**3,209**	**2,448**

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

Time Period	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Beginning Legacy Asset Balance	42,043	34,530	28,431	24,146	21,278	17,506	13,532	9,561	7,854	6,480
Current Period Principal Payments	4,937	3,889	3,147	2,500	3,590	3,943	1,898	1,200	1,029	334
Current Period Realized Losses	2,576	2,209	1,138	368	182	31	83	(14)	27	17
Current Period Asset Sales	0	0	0	0	0	0	1,991	521	318	474
Ending Legacy Asset Balance	**34,530**	**28,431**	**24,146**	**21,278**	**17,506**	**13,532**	**9,561**	**7,854**	**6,480**	**5,655**
Securitized Legacy Asset Balance	34,299	28,201	23,915	21,047	16,169	11,192	7,546	6,486	5,387	3,804
Post-Securitized Legacy Asset Balance	0	0	0	0	1,106	2,109	1,784	1,137	867	1,625
Un-Securitized Legacy Asset Balance	231	231	231	231	231	231	231	231	226	226
Cumulative Realized Losses	**3,404**	**5,613**	**6,752**	**7,119**	**7,301**	**7,332**	**7,415**	**7,400**	**7,428**	**7,445**
Current Period Implied Write-downs	345	349	250	23	97	39	21	(29)	(16)	4
Cumulative Implied Write-downs	**926**	**1,275**	**1,525**	**1,547**	**1,645**	**1,684**	**1,705**	**1,676**	**1,660**	**1,664**
Implied Write-downs in Securitized Assets	926	1,275	1,525	1,547	1,430	1,280	961	924	899	774
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**	**4,820**	**3,990**
Funds Held by Trustee	505	1,019	626	930	583	814	444	557	549	315
Overcollateralization (%)	37.4%	32.1%	31.5%	34.3%	37.3%	35.4%	29.0%	39.6%	57.0%	36.6%
Net Realizable Value	**24,548**	**21,252**	**19,779**	**18,020**	**14,551**	**10,647**	**7,372**	**5,799**	**4,713**	**3,914**
Market Value	**19,256**	**19,064**	**18,043**	**16,672**	**13,309**	**9,687**	**7,214**	**5,654**	**4,675**	**3,690**

[1] Each column represents an entire calendar year with the exception of 2020, which is only through Q2.
[2] The NCUA made payments of $466 million to retire NGN 2010-R2 1A in October 2017, $167 million to retire NGN 2011-R1 1A in January 2020, $206 million to retire NGN 2011-R2 1A in February 2020, and $112 million to retire NGN 2011-R3 1A in March 2020. These payments are functionally equivalent to guaranty payments.

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 second quarter of 2020, realized losses of $7.4 billion and implied write-downs of $1.7 billion add to a total cumulative loss of $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 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. How will the discontinuation of LIBOR affect the NGN program?

LIBOR is expected to be discontinued and replaced by a new reference rate by the end of 2021. While the majority of the remaining NGNs use LIBOR as their reference rate, the NCUA expects little to no impact on the NGN program. With the last of the NGN deals maturing in June of 2021, as shown in Table 4, the NGN deals will no longer exist by the time the new reference rate goes into effect.

Q6. 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 $2.0 billion of projected remaining guarantor payments that will be due in 2020 and 2021.

In most cases, the NCUA as liquidating agent will use the indentures' optional purchase provisions in the month immediately preceding the hard final maturity date to purchase legacy assets from the trust, which will provide the funds required to satisfy the final payment to NGN investors. The optional purchase is functionally equivalent to a guaranty payment in that the amount purchased will represent the remaining principal balance that was not paid down naturally by the underlying collateral.

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 2010-R1 1A	10/7/2020	55	502	242
NGN 2010-R3 3A	10/7/2020	21	78	0
NGN 2010-R2 2A	11/5/2020	117	708	577
NGN 2010-R3 1A	12/4/2020	93	513	421
NGN 2010-R3 2A	12/4/2020	76	546	466
NGN 2010-A1 1A	12/10/2020	7	155	127
NGN 2011-C1 2A	3/6/2021	15	73	48

NGN Deal / Series	Expected Investor Payoff Date	Projected Bond Count	Projected Balance of Collateral ($ in Millions)	Projected Guaranty Payment ($ in Millions)
NGN 2011-M1	6/14/2021	238	340	80
Total		**622**	**2,916**	**1,961**

Q7. 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. Fiduciary cash held by the NCUA on behalf of the failed corporates and any net proceeds from additional legal recoveries may also be used.[3]

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.

Q8. What is the chosen asset management strategy for the legacy assets of the NGN program? What are the considerations associated with this strategy?

As the NGNs mature, the NCUA will liquidate the legacy assets in a prompt, orderly manner to satisfy NGN program obligations, subject to favorable market conditions. The primary mechanism of liquidation will be auction sales with broker/dealers that have established trading relationships with the NCUA.

To facilitate the orderly liquidation, the NCUA will perform a bond-by-bond analysis as the legacy assets become available for active management to determine the appropriate sell strategy for each security. Considerations include such factors as:

- Differences between market value, intrinsic value, and par value;
- Remaining expected life of the asset and associated market risk; and
- Legal remedies in progress as well as potential future legal remedies.

Q9. How many of the legacy assets have been sold to date?

As shown in Table 5, the NCUA (on behalf of the asset management estates) has held nineteen legacy asset auctions with sales proceeds totaling approximately $2.8 billion as of the second quarter of 2020.

[3] 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.

Table 5. Legacy Asset Sales Summary

Auction Date	Number of Legacy Assets Sold	Face Value ($ in Millions)	Sales Proceeds ($ in Millions)
2/9/2017	7	18.0	18.3
3/9/2017	10	27.0	27.1
4/6/2017	23	108.9	113.5
5/10/2017	24	549.1	432.3
6/8/2017	22	141.7	117.5
7/13/2017	22	46.3	34.6
8/3/2017	26	26.6	24.7
9/14/2017	29	35.3	20.7
10/19/2017	32	450.2	409.8
11/9/2017	31	360.8	274.6
12/7/2017	24	136.7	113.4
12/19/2017	5	88.9	79.7
1/11/2018	29	107.6	110.1
2/15/2018	20	89.0	81.0
3/14/2018	20	31.1	28.3
5/16/2018	10	227.8	206.4
8/29/2018	8	65.4	57.1
10/9/2019	16	186.3	138.2
12/17/2019	16	131.7	128.0
1/15/2020	27	272.6	251.3
2/19/2020	27	201.6	174.4
Total	**428**	**3,302.5**	**2,840.9**

Q10. What is the expected timing with respect to the remainder of the orderly liquidation?

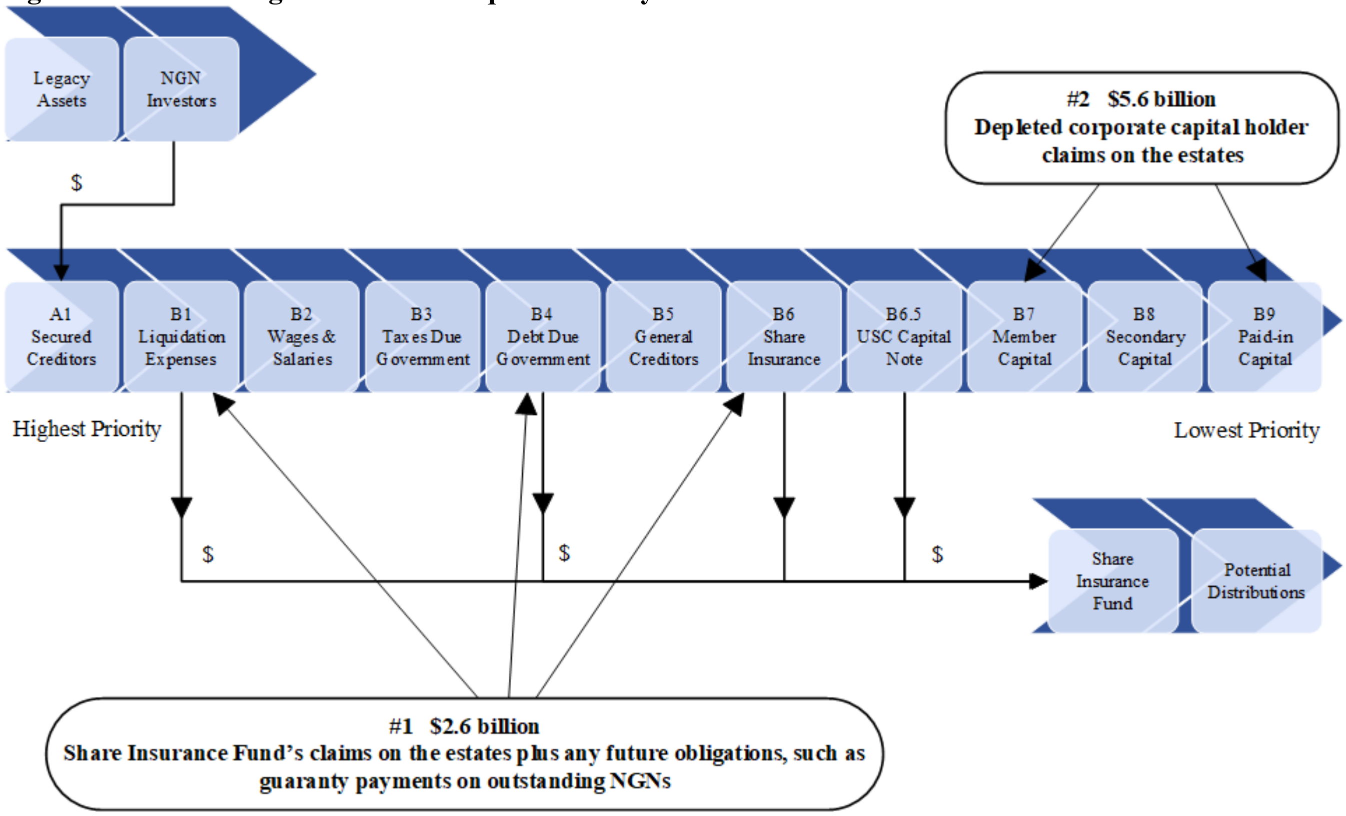
The remainder of the NGN deals have now begun maturing and will continue to mature throughout 2020 and 2021. The NCUA will conduct the majority of the orderly liquidation by the end of 2021. However, asset sales will continue into 2022 and potentially beyond. Unpredictable factors, such as legal proceedings, LIBOR discontinuation, and market fluctuations, will determine timing of the final sales.

Q11. Once the NGN investors are repaid, how will residual cash flows be allocated among remaining claimants?

Allocation of legacy asset cash flows, sales proceeds, 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.[4]

[4] 12 C.F.R. §709.5

Figure 1. Asset Management Estate Liquidation Payout Priorities[5,6]



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 payouts 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.

[5] The $1 billion capital note provided to U.S. Central in category B6.5 has been repaid in full.
[6] Virtually all of the $2.6 billion of claims due to the Share Insurance Fund are owed by WesCorp. Less than $200 million of those claims are expected to be repaid.

Q12. 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 the 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 6, the projected decrease in the value of the NCUA's receivable as of the second quarter of 2020 under the adverse scenario is approximately $100 million or 1 basis point on the equity ratio.

Table 6. Receivable from Estates and Equity Ratio Change

Scenario	June 30, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Base	$0.1 billion	$0.3 billion	$0.3 billion	$0.5 billion
Adverse[7]	$0.0 billion	$0.1 billion	$0.1 billion	$0.3 billion
Receivable Change	*$0.1 billion*	*$0.2 billion*	*$0.2 billion*	*$0.2 billion*
Equity Ratio Change	***1 basis point[8]***	***2 basis points***	***2 basis points***	***2 basis points***

Q13. How are losses allocated to each asset management estate? How much are the projected payouts to 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 payouts 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 7 shows these projected payouts for the base and adverse scenarios.

Table 7. Depleted Corporate Capital Holder Payouts (in Billions)

Estate	Base	Adverse[7]
U.S. Central[9]	$1.1	$0.7
WesCorp	$0.0	$0.0
Members United	$0.6	$0.4
Southwest[10]	$0.4	$0.4
Constitution[11]	$0.0	$0.0
Corporate Capital Subtotal	**$2.1**	**$1.5**

[7] The adverse scenario represents a moderate recession, based on the Federal Reserve's 2020 Comprehensive Capital Analysis and Review scenarios.
[8] Based on insured shares of $1.4 trillion per Share Insurance Fund unaudited financial highlights as of June 30, 2020.
[9] Reduced for portion of depleted capital that would be distributed to the other four asset management estates.
[10] Not reduced to reflect $171 million capital payout to Southwest in July 2020, as this occurred after the end of the quarter.
[11] Constitution is projected to receive a payout of $36 million in the base scenario and $9 million in the adverse scenario, both of which round to zero for this table.

Estate	Base	Adverse[7]
Liquidating Dividend[12]	$0.3	$0.1
Total Projected Payout	**$2.4**	**$1.6**

Table 8 and Table 9 show projected member capital and paid-in capital payouts, respectively, as a percent of capital contributed for each estate.

Table 8. Projected Member Capital Payout (% of Member Capital Contributed)

Estate	Base	Adverse
U.S. Central[13]	99%	61%
WesCorp	0%	0%
Members United	100%	77%
Southwest[14]	100%	100%
Constitution	54%	14%

Table 9. Projected Paid-in Capital Payout (% of Paid-in Capital Contributed)

Estate	Base	Adverse
U.S. Central	0%	0%
WesCorp	0%	0%
Members United	100%	0%
Southwest	N/A	N/A
Constitution	N/A	N/A

Q14. When will these projected payouts be made to capital holders? Will any estates receive payouts prior to the end of the NGN program?

All five asset management estates still have projected guaranty obligations on the NGNs that represent senior claims in category B1 of the payout priorities, totaling approximately $2.0 billion by the middle of 2021, as shown in Table 4. No payouts to depleted capital holders are permitted until all senior claims have been fully paid or sufficient provisions have been made for them.

Using a conservative provisioning approach and audited year-end 2019 financial statements, the NCUA as liquidating agent has compared each estate's cash to its remaining obligations. This analysis, which is completed annually in accordance with standard procedures, shows that funds are available for an interim payout to membership-capital account holders of Southwest Corporate Federal Credit Union.

The membership-capital payout is approximately $171.3 million, representing a 42% return of the membership-capital account balance. After accounting for mergers, purchases and assumptions, and liquidations, almost 900 open credit unions will receive payouts.

Only the Southwest estate has sufficient funds at this time for a capital payout in 2020. The NCUA will perform this analysis again in 2021 using its December 31, 2020, audited financial statements to evaluate potential future distributions.

[12] Potential liquidating dividends belong materially to Southwest. Projected amounts for other estates are de minimis or zero.
[13] Includes depleted capital that would be returned to the other four asset management estates.
[14] Southwest is projected to receive 100% of its member capital, plus an additional liquidating dividend that is projected to be approximately $297 million in the base scenario and $110 million in the adverse scenario.

For more information, including guidance on how to treat the capital payout for accounting purposes and on the Call Report, visit https://www.ncua.gov/support-services/corporate-system-resolution/corporate-capital-distribution-process.

Q15. 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.

Q16. 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 https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution.aspx or http://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes.aspx.