Questions and Answers

Fourth Quarter of 2021 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 that was 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 the NCUA's website.

On June 14, 2021, the final NGN tranche (NGN 2011-M1 A5) matured with all noteholders being fully repaid. As discussed further in this document, the remainder of the legacy assets still must be liquidated. However, this represents the end of the NGN program. For details on all the NGN deals, visit the NCUA's website.

The projections in this document represent point-in-time estimates generated as of the end of the fourth quarter of 2021. 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 the NCUA's website.

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 are estimated to be $8.7 billion with the net projected loss to federally insured credit unions estimated to be $2.0 billion. The total net costs are projected to be $4.9 billion.

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

Description	Amount
Total Projected Resolution Costs (Gross)	**$8.7**
Legal Recovery Proceeds (Net)	$3.8
Total Projected Resolution Costs (Net)	**$4.9**
Net Projected Loss to Federally Insured Credit Unions	$2.0
Net Projected Loss to Depleted Corporate Capital	$2.9

Q2. What are the remaining balances of the NGNs and the underlying legacy assets?

The NGN balance has now been reduced to zero. The legacy asset balance has paid down consistently over time and currently stands at $2.0 billion.

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

Time Period	2011 – 2018	2019	2020	2021
Beginning NGN Balance	28,116	4,382	3,209	432
Principal Paydowns	23,268	1,173	397	368
Guaranty Payments[1]	466	0	2,380	64
Ending NGN Balance	**4,382**	**3,209**	**432**	**0**

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

Time Period	2011 – 2018	2019	2020	2021
Beginning Legacy Asset Balance	42,043	7,854	6,480	4,530
Current Period Principal Payments	25,105	1,029	665	384
Current Period Realized Losses	6,572	27	17	(15)
Current Period Asset Sales	2,511	318	1,267	2,146
Ending Legacy Asset Balance	**7,854**	**6,480**	**4,530**	**2,015**
Securitized Legacy Asset Balance	6,486	5,387	844	0
Post-Securitized Legacy Asset Balance	1,137	867	3,460	1,789
Un-Securitized Legacy Asset Balance	231	226	226	226
Cumulative Realized Losses	**7,400**	**7,428**	**7,445**	**7,430**
Current Period Implied Write-downs	1,096	(16)	(6)	(4)
Cumulative Implied Write-downs	**1,676**	**1,660**	**1,654**	**1,650**
Implied Write-downs in Securitized Assets	924	899	345	0
Ending Legacy Asset Balance (Including Cumulative Implied Write-downs)	**6,178**	**4,820**	**2,877**	**366**
Funds Held by Trustee	557	549	312	0
Overcollateralization (%)	39.6%	57.0%	87.7%	N/A
Net Realizable Value	**5,799**	**4,713**	**2,871**	**865**
Market Value	**5,654**	**4,675**	**2,928**	**901**

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

For the fourth quarter of 2021, 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 legacy asset values projected? What are the key drivers?

The values of the legacy assets are projected by BlackRock based on expected net realizable value obtained through the NCUA's chosen liquidation strategy. These values are driven primarily by estimated market prices derived using BlackRock's proprietary pricing hierarchy. BlackRock's models also 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 to project legacy asset cash flows.

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

[1] The NCUA made the payment amounts shown in the Guaranty Payments row of Table 2 to optionally purchase assets from the NGN trusts and retire the deals. These payments are functionally equivalent to guaranty payments.

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 midyear 2023. Now that the final NGN trust has matured, the NCUA expects no LIBOR-based impact on the NGN program.

Q6. What obligations remain related to the NGN program?

Now that the final NGN trust has matured, there are no obligations remaining related to the NGN program. However, the asset management estates have remaining claims that must still be repaid.

Guaranty payments and optional purchases related to NGN maturities totaled $2.9 billion.

Q7. What is the chosen asset management strategy for the remaining legacy assets? What are the considerations associated with this strategy?

The NCUA will continue to liquidate the legacy assets in a prompt, orderly manner, 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.

Q8. How many of the legacy assets have been sold to date and how many are left to be sold?

As shown in Table 4, the NCUA (on behalf of the asset management estates) has held legacy asset auctions for five years with sales proceeds totaling approximately $5.3 billion. As of the fourth quarter of 2021, there are 217 legacy assets left with face value and market value of approximately $2.0 billion and $0.9 billion, respectively.

Table 4. Legacy Asset Sales Summary

Auction Year	Number of Legacy Assets Sold	Face Value ($ in Millions)	Sales Proceeds ($ in Millions)
2017	255	1,990	1,666
2018	87	521	483
2019	32	318	266
2020	154	1,267	1,129
2021	527	2,146	1,782
Total	**1,055**	**6,242**	**5,326**

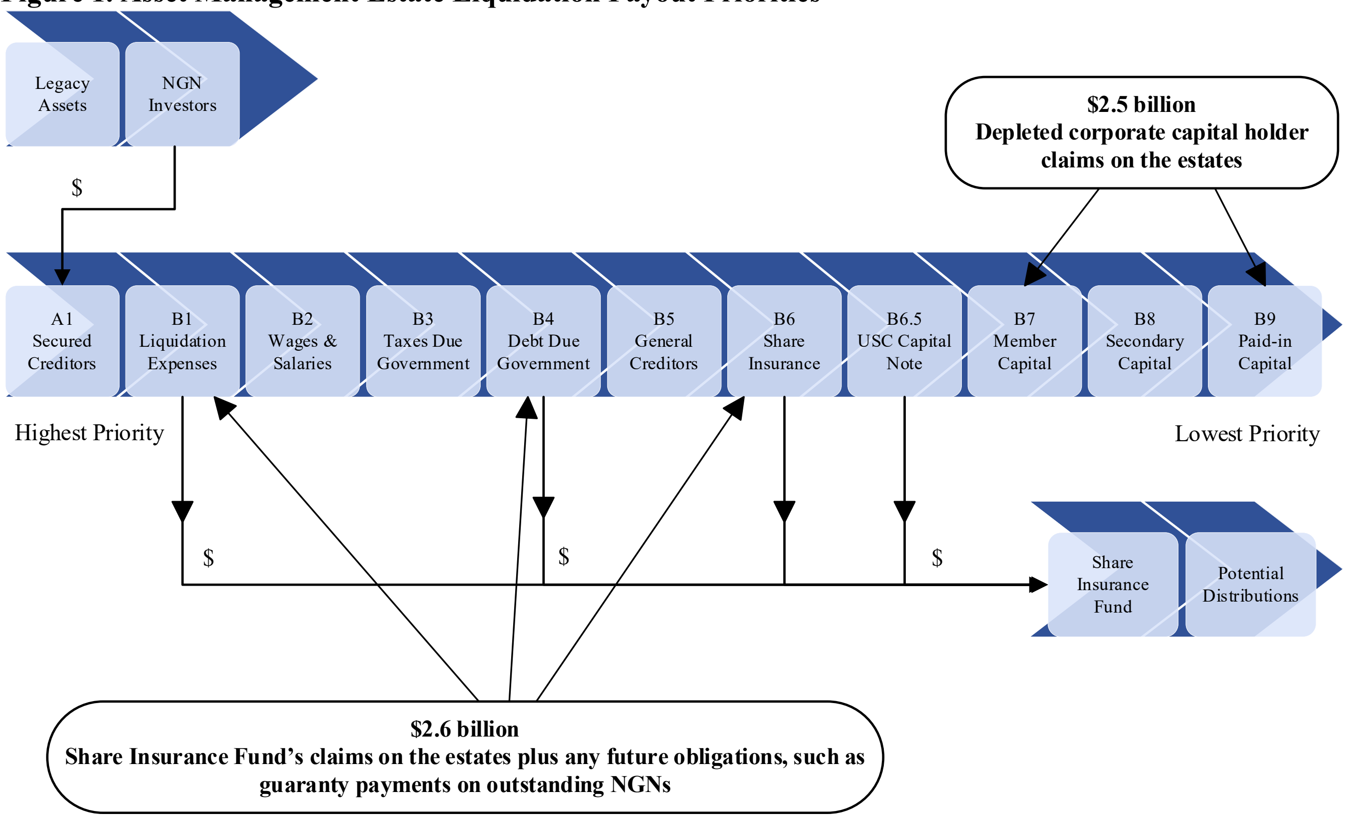
Q9. What is the expected timing with respect to the remainder of the orderly liquidation?

The NCUA conducted 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 and market fluctuations, will determine timing of the final sales.

Q10. Now that the NGN investors have been 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 payout priorities for involuntary liquidation mandated by 12 C.F.R. §709.5 for each asset management estate of the failed corporates, as depicted in Figure 1.

Figure 1. Asset Management Estate Liquidation Payout Priorities[2,3]



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, and B6 level, depending on the reason cash was advanced to the estates.

Substantially all of the remaining claims at the B1 to B6 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

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

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 been fully repaid (or provisioned for) at levels A1 through B6, capital payouts occur at levels B7 through B9.

For details related to the asset management estates' recoveries and claims, visit the NCUA's website.

Q11. How are losses allocated to each asset management estate? How much are the projected payouts to capital holders and what has been paid to date?

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 5 shows the actual and projected payouts of membership capital account (MCA) and paid in capital (PIC) claims.

Table 5. Depleted Corporate Capital Holder Payouts

Amount ($ in Millions)	US Central	Members	Southwest	Constitution	Total[4]
Original MCA Claims	**1,686**	**493**	**404**	**67**	**2,649**
Original PIC Claims	300	79	0	0	379
Original MCA & PIC Claims	**1,986**	**572**	**404**	**67**	**3,028**
Less: MCA & PIC Claims Paid	-925	-395	-404	-16	-1,724
Remaining MCA & PIC Claims	**1,061**	**177**	**0**	**67**	**1,305**
Projected Future MCA & PIC Distributions[5]	883	177	0	45	1,105

Q12. When will these projected payouts be made to capital holders? Will estates continue to receive payouts during the legacy asset liquidation?

Using a conservative provisioning approach, the NCUA as liquidating agent will continue to compare each estate's cash to its remaining obligations. To the extent that cash exceeds obligations, the estates will receive capital payouts in 2022 and beyond.

For more information, including guidance on how to treat the capital payout for accounting purposes and on the Call Report, visit the NCUA's website.

Q13. 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

[4] WesCorp is not projected to repay any of their MCA balance of $931 million or their PIC balance of $213 million.
[5] In addition to the projected future MCA and PIC distributions, there are projected liquidating dividends of $45 and $332 for Members and Southwest, respectively.

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 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 the NCUA's website.

Q14. 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, see the NCUA website's information about the Corporate System Resolution or its Guaranteed Notes.