



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

March 18, 2021

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 24, 2016: Completed repayment of Treasury borrowings

December 8, 2015: First NGN trust matures

October 1, 2017: Early closure of Stabilization Fund

June 12, 2021: Last NGN trust matures

Phase 3A – Ends June 2021

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>

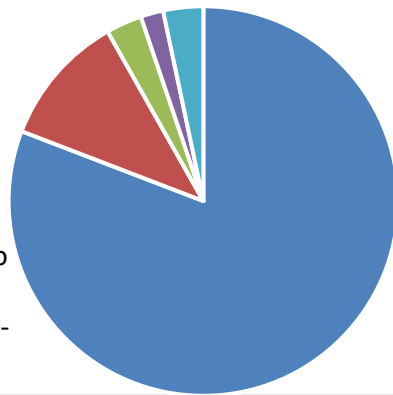
<https://www.ncua.gov/regulation-supervision/Pages/guaranteed-notes/timeline.aspx>

NGNs Issued

(\$ In Billions)¹

| | | 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 | \$ 0.00 | \$ 3.85 | |
| | NGN 2010-C1 | Nov-10 | 0.00 | 0.00 | 0.22 | 3.53 | 0.00 | 3.75 | |
| | NGN 2010-R2 | Nov-10 | 0.72 | 0.74 | 2.01 | 2.01 | 0.00 | 5.48 | |
| | NGN 2010-R3 | Dec-10 | 0.42 | 0.28 | 1.33 | 1.31 | 0.18 | 3.52 | |
| | NGN 2010-A1 | Dec-10 | 0.19 | 0.11 | 0.86 | 0.00 | 0.00 | 1.16 | |
| | NGN 2011-R1 | Jan-11 | 0.09 | 0.12 | 0.74 | 0.48 | 0.07 | 1.51 | |
| | NGN 2011-R2 | Feb-11 | 0.11 | 0.14 | 0.50 | 0.44 | 0.06 | 1.25 | |
| | NGN 2011-R3 | Feb-11 | 0.07 | 0.03 | 0.55 | 0.43 | 0.02 | 1.10 | |
| | NGN 2011-C1 | Feb-11 | 0.35 | 0.00 | 0.15 | 0.31 | 0.02 | 0.83 | |
| | NGN 2011-R4 | Mar-11 | 0.39 | 0.30 | 0.39 | 0.43 | 0.00 | 1.52 | |
| | NGN 2011-R5 | Apr-11 | 0.06 | 0.08 | 0.66 | 0.35 | 0.02 | 1.16 | |
| | NGN 2011-R6 | May-11 | 0.06 | 0.10 | 0.52 | 0.26 | 0.02 | 0.96 | |
| | NGN 2011-M1 | Jun-11 | 0.43 | 0.36 | 0.95 | 0.42 | 0.05 | 2.21 | |
| Total Proceeds | | | \$ 2.88 | \$ 2.28 | \$ 12.73 | \$ 9.98 | \$ 0.45 | \$ 28.33 | |

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 ² | 1.3 | 3% |
| Total | 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 Summary¹

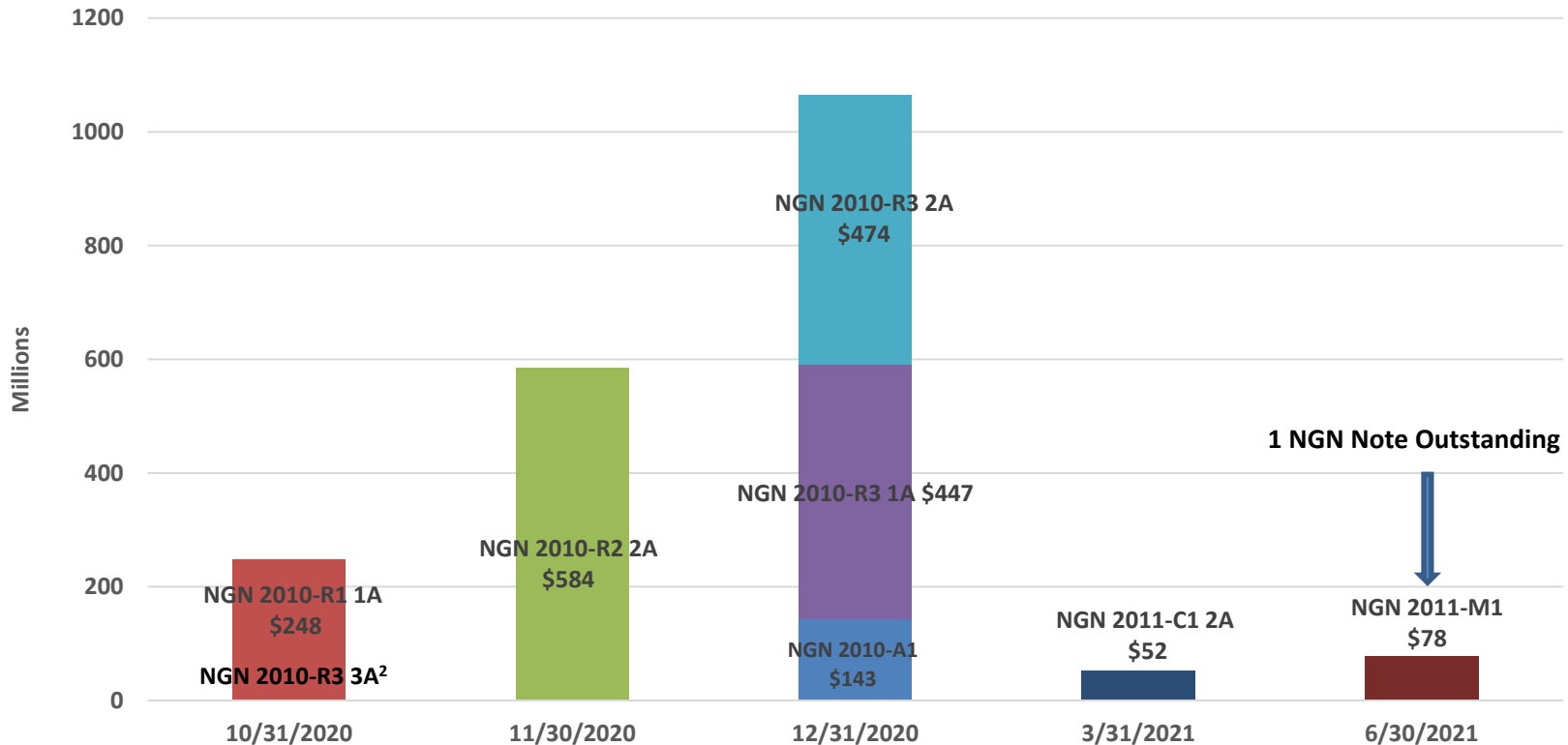
| Description (in Billions) | Q4 2011 ² | Q4 2020 |
|---|----------------------|---------|
| Legacy Asset Unpaid Principal Balance | \$34.3 | \$4.5 |
| Total Legacy Asset Net Realizable Value | \$24.5 | \$2.9 |
| Collateralizing Outstanding NGNs ³ | | \$0.6 |
| Post-securitized ⁴ | | \$2.3 |
| Total Legacy Asset Market Value | \$19.3 | \$2.9 |
| Collateralizing Outstanding NGNs | | \$0.6 |
| Post-securitized | | \$2.3 |
| NGN Investor Outstanding Balance | \$24.7 | \$0.4 |
| Funds Held by NGN Trustee | | \$0.3 |
| Net Due to NGN Investors | | \$0.1 |
| Realized Legacy Asset Losses ⁵ | \$3.6 | \$9.7 |
| Projected Lifetime Legacy Asset Losses ⁵ | \$13.2 to \$16.4 | \$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>

Maturities and Guaranty Payments¹

- Guaranty payments and optional purchases will total approximately \$3 billion
- Recent Maturities and Payments



1. Only months with NGN maturities are shown.
2. NGN 2011-R3 3A did not require a guaranty payment.

Legacy Asset Sales Summary¹

➤ Legacy Asset Sales as of March 9, 2021

| 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 | 154 | \$1.3 | \$1.1 |
| 2021 | 104 | \$0.8 | \$0.6 |
| Total | 632 | \$4.9 | \$4.1 |

➤ The Legacy Assets that remain to be sold.²

| Type | Number of Legacy Assets | Face Value (in Billions) | NRV (in Billions) |
|--------------------------|-------------------------|--------------------------|-------------------|
| Securitized ³ | 264 | \$0.4 | \$0.2 |
| Post-Securitized | 398 | \$2.9 | \$1.9 |
| Total | 662 | \$3.3 | \$2.1 |

1. Numbers may not add due to rounding. 2. Some Legacy Assets have pending litigation and are unavailable for sale until legal remedies are exhausted or settled. 3. Projected as the final NGN, NGN 2011-M1 matures in June 2021.

Corporate System Resolution Costs¹

| Description (in Billions) | Q4 2020 |
|--|--------------|
| Projected Lifetime Legacy Asset Losses | \$9.7 |
| Guaranty Fees and Excess Interest ² | \$1.0 |
| Total Projected Resolution Costs (Gross) | \$8.7 |
| Legal Recovery Proceeds (Net) ³ | \$3.8 |
| Total Projected Resolution Costs (Net) | \$4.9 |
| Net Projected Loss to Federally Insured Credit Unions | \$1.7 |
| Net Projected Loss to \$5.6 Billion in Depleted Corporate Capital ⁴ | \$3.2 |

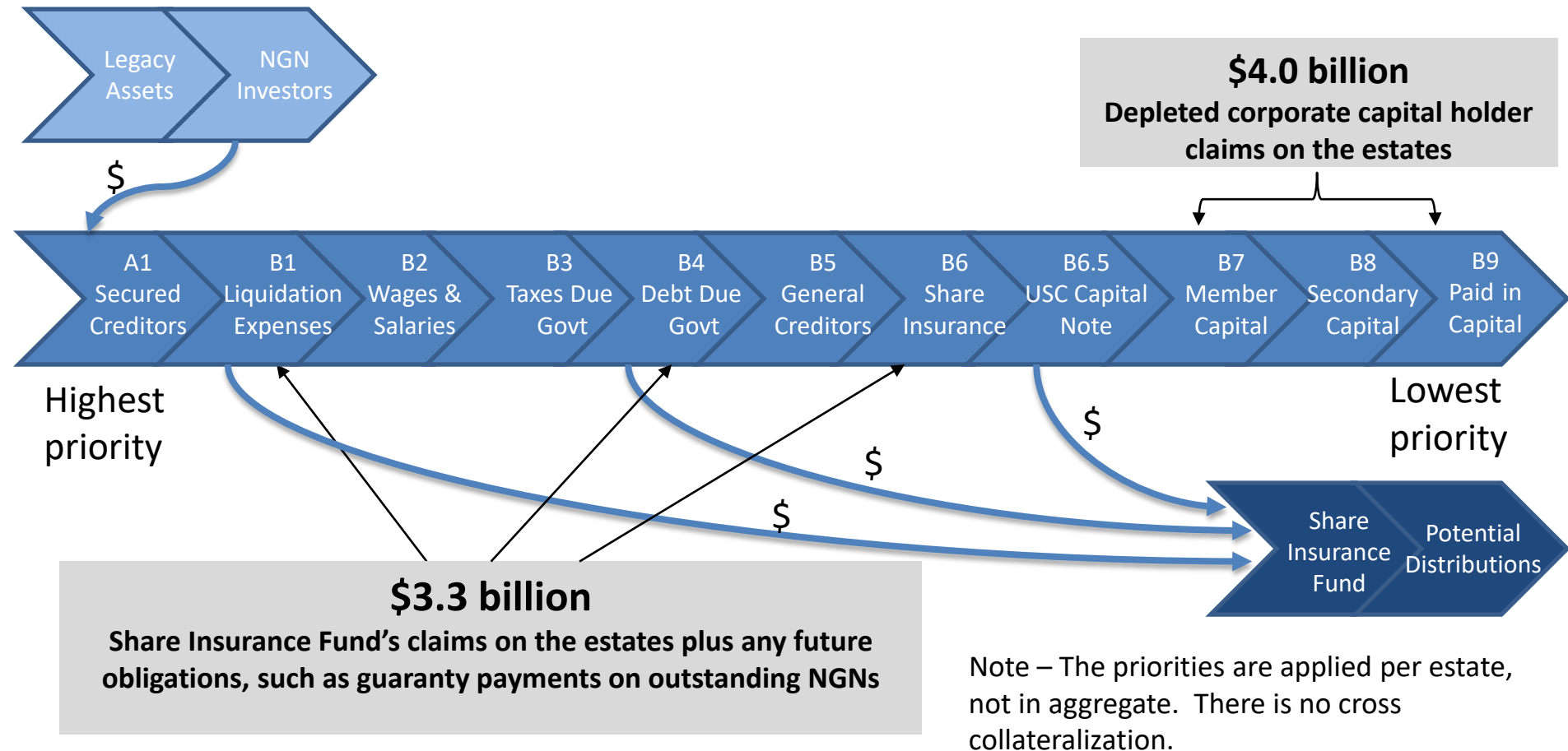
1. Point in time estimates based on best available information.
2. Losses are partially offset by guaranty fees on the NGNs and excess interest collected from the legacy assets due to over-collateralization.
3. Does not include potential future legal recoveries
4. Includes both depleted corporate capital and loss of retained earnings.

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 Corporate (WesCorp)
 - Members United Corporate
 - Southwest Corporate, and
 - Constitution Corporate
- To the extent recoveries exceed claims, recoveries lead to distributions from the respective estates.

Asset Management Estates – Payout Priorities¹



1. NCUA regulations § 709.

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

Asset Management Estates – Depleted Capital

As of December 31, 2020 (\$ in Billions)

| Estate | Depleted Capital | | Projected Capital Repayment | | |
|--------------------------|-----------------------|------------|-----------------------------|------------|------------------------------------|
| | Corp AME ¹ | To Network | To Corp AME ¹ | To Network | % of Total Due to Legal Recoveries |
| US Central | 0.7 | 1.3 | 0.6 | 1.1 | 79% |
| WesCorp | | 1.1 | | 0 | n/a |
| Members | | 0.6 | | 0.6 | 36% |
| Southwest | | 0.2 | | 0.5 | 41% |
| Constitution | | 0 | | 0 | 11% |
| Total² | 0.7 | 3.3 | | 2.2 | |

1. US Central capital “To Corp AME” includes capital that, as paid, is returned to the other four asset management estates. Those four estates include this projected inflow as part of their capital repayment estimate. WesCorp’s allocation (\$69 million) of US Central’s projected capital repayment will result in a reduction of NCUSIF loss. The total projected payout remaining to the system is \$2.2 Billion, including the \$321 in projected liquidating dividends.
2. Numbers may not add due to rounding.

Asset Management Estate Summary

As of December 31, 2020 (\$ in Billions)¹

| Estate | Projected Depleted Capital Payouts and Liquidating Dividends ² | | | |
|-----------------------------------|---|------------|--------------|----------------------|
| | Optimistic | Base | Pessimistic | Adverse ³ |
| US Central ⁴ | 1.1 | 1.1 | 1.1 | 0.8 |
| WesCorp | 0.0 | 0.0 | 0.0 | 0.0 |
| Members | 0.6 | 0.6 | 0.6 | 0.5 |
| Southwest | 0.3 | 0.2 | 0.2 | 0.2 |
| Constitution | 0.0 | 0.0 | 0.0 | 0.0 |
| Subtotal | 2.0 | 1.9 | 1.9 | 1.5 |
| Liquidating Dividend ⁵ | 0.3 | 0.3 | 0.3 | 0.2 |
| Total | 2.3 | 2.2 | 2.2 | 1.7 |
| <i>Deltas from Base</i> | <i>0.1</i> | <i>--</i> | <i>(0.0)</i> | <i>(0.5)</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 2020. 4. Reduced for portion of depleted capital 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 Payouts¹

As of December 31, 2020

| Estate | Member Capital (% of Capital Contributed) | | Paid-in Capital (% of Capital Contributed) | | Potential Liquidating Dividend (in Millions) | |
|-------------------------|--|----------------------|---|----------------------|--|----------------------|
| | Base | Adverse ² | Base | Adverse ² | Base | Adverse ² |
| US Central ³ | 100% | 78% | 3% | 0% | \$0 | \$0 |
| WesCorp | 0% | 0% | 0% | 0% | \$0 | \$0 |
| Members | 100% | 96% | 100% | 0% | \$14 | \$0 |
| Southwest | 100% | 100% | N/A | N/A | \$307 | \$197 |
| Constitution | 53% | 18% | 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 December 31, 2020, based on best available information. 2. Based on Fed's CCAR scenarios from 2020 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

- Distributions to depleted capital holders can only be paid after all senior priority claims have been fully paid or provided.
- Distributions are based on fiduciary cash on hand.
- Sufficient fiduciary cash exists to account for all senior claims at the B1 to B6 level for the following cases:
 - US Central,
 - Members United, and
 - Southwest.

Partial Recovery to Capital Holders

- Based on audited year-end 2020 financials, USC, MU, and SW estates have sufficient cash to provision for **all** future guaranty obligations **and** make a distribution to capital holders in April.
 - 2,654 membership capital holders will receive partial recovery of depleted capital
 - Payout totaling \$368.7 million of membership capital

| Amount (\$ in Millions) | US Central | Members United | Southwest |
|--|--------------|----------------|--------------|
| Available Cash (Outside of NGNs) | 191.6 | 96.9 | 72.5 |
| Cash from US Central Distribution | | 24.0 | 21.1 |
| NGN Liability less Funds Held by Trustee | (29.7) | 8.2 | 1.5 |
| All Remaining Fiduciary Liabilities | (11.9) | (2.9) | (2.6) |
| Approved Distribution | 150.0 | 126.2 | 92.5 |
| Percentage | 8.9% | 25.6% | 22.9% |

Interim Distribution

- NCUA issued claim certificates to member capital account (MCA) holders in 2010.
- USC, MU, and SW AMEs had 2,654 MCA holders, including 2,581 credit unions at the time of liquidation.
- The payout is planned by April 30.
- NCUA plans to notify recipients by letter of their distribution and other payment details.
- Distribution will generally occur via EFT (electronic funds transfer.)