Prepared Remarks NGN Legacy Asset Disposition Strategy
NCUA Board Briefing, December 15, 2016

The following are the prepared remarks of staff from NCUA's Office of Examination and Insurance for their briefing on the NCUA Guaranteed Notes Legacy Asset Disposition Strategy at the December 2016 NCUA Board open meeting. These remarks accompany the staff's slide presentation, which is available, along with more information from the meeting, on the Board meeting agenda page. NCUA also makes detailed information about the Corporate Resolution and the Guaranteed Notes Program available on its website. A video recording of the open Board meeting will be available online here in about three weeks.

Slide 1: Larry Fazio, Director, Office of Examination and Insurance

Good morning, Chairman Metsger and Board Member McWatters. Anthony, Brian and I are here today to provide an update and report on the current status of the Corporate System Resolution Program. Our goal today will be to:

- Provide some background for stakeholders on the overall corporate system resolution program; provide details on the status of the elements of the program that are still operating. This will include an attempt to show how the various moving parts, such as the NCUA Guaranteed Notes, the asset management estates, and the Temporary Corporate Credit Union Stabilization Fund fit together and explain where the presentation of performance information aligns and necessarily varies.

- Provide contemporary projections on the cash needs of the Stabilization Fund.

- Explain the projections for potential assessment rebates and recoveries for holders of depleted corporate capital, as well as the statutory, contractual, and other considerations related to the timing of any such rebates and recoveries.

- Discuss the next steps and options with respect to the sales of securities formerly securitizing NGNs that NCUA now has access to.

We are posting the slide presentation as well as our prepared remarks on the NCUA website. We've included throughout the slide deck links to where details and supporting information, such as various schedules, tables, videos, and frequently asked questions already exist that address what we are covering today.

Please note, today's presentation is based on third-quarter 2016 data. The data currently on the website is as of the second quarter 2016, and we'll be updating it with some additional information in the near future and comprehensively based on fourth-quarter 2016 data in March of 2017.

It is important to note the information and projections we are providing today represent a point-in-time estimate generated as of the end of the third quarter of 2016. This information is unaudited. The cost 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.

Much of the information presented today is generated using projected cash flows for the legacy assets—the securities from the failed corporate credit unions that were re-securitized in the NGNs. The future cash flows of the legacy assets are projected by BlackRock, based on proprietary models that consider key macro-economic 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. Also, NCUA would receive these projected cash flows over time, but they have not been realized and could vary significantly from projections.

I would also remind everyone that we ***do not*** include potential future legal recoveries in our projections as these are inherently inestimable.

Slide 2: Fazio

So, we'll first start with background information on the overall corporate system resolution program. During the economic crisis, several corporate credit unions had come under severe liquidity and capital pressure in 2008 due to high concentrations of primarily private label mortgage backed securities. As of 2009, the total unpaid principal balance for the distressed securities was $52.7 billion, but their market value was less than $22 billion. Thus, market losses from the these corporates – ultimately five in total - would have exceeded $30 billion, an amount far in excess of the Share Insurance Fund's then-$11 billion balance available to cover those losses. We estimated the probable failure of thousands of consumer credit unions with uninsured deposits in these institutions, which would have resulted in a cost to the credit union system estimated at $40 billion. The agency's corporate system resolution program prevented that scenario.

Slide 3: Fazio

Stakeholders will recall that the corporate system resolution program had three key goals: to stabilize, resolve, and reform the corporate system. The extraordinary liquidity support programs put in place during the Stabilization phase of the program have all since expired, but elements of the resolution phase remain, specifically the Stabilization Fund, the NCUA Guaranteed Note Program, and the five asset management estates, one for each of the failed corporate credit unions.

Congress established the Stabilization Fund in May 2009. By statute it had a temporary, seven-year life that could be extended by the Board with the concurrence of the Treasury Secretary. In September 2010, former Treasury Secretary Timothy Geithner approved an extension of the

expiration date of the Stabilization Fund to June 2021. The Stabilization Fund was established to accrue the losses of the failed corporate credit unions during the credit crisis and to recover such losses over time. This provided significant relief to insured credit unions in dealing with assessments related to corporate credit union stabilization actions while protecting the Share Insurance Fund. But for this legislation, the industry losses would have been absorbed by the Share Insurance Fund, which in turn would have had to assess significant premiums to restore the Share Insurance Fund's capitalization, all at a time when credit unions needed their cash and capital to weather the crisis.

NCUA created a re-securitization program to provide long-term funding for the legacy assets through the issuance of the NGNs by trusts established for this purpose. With the issuance of the NGNs, NCUA transferred the associated legacy assets into the respective NGN Trusts. The NGNs are guaranteed by NCUA and backed by the full faith and credit of the United States. For the NGN program, at least one series for 11 of the 13 original deals are still outstanding, although the guaranty obligations for three of the deals are completely paid off. The asset management estates for the five failed corporates also continue to operate.

With that, I will turn it over to Brian to discuss the resolution timeline and NGN characteristics.

Slide 4: Brian Heitman, NGN Financial Analyst, Division of NGN Support, Office of Examination and Insurance

At its open meeting on Sept. 24, 2010, the NCUA Board announced the resolution phase of the corporate system resolution program. To facilitate the resolution, there was an initial sale of about $10 billion in securities that were highly marketable and trading close to par, as well as an unwind of about $25 billion notional in derivatives so as to unencumber the legacy assets for re-securitization. Resolution of the five corporate credit unions employed a good-bank bad-bank approach that led to the creation of the five asset management estates and four temporary bridge corporate credit unions, which have since been closed once operational transition for affected credit unions was achieved. The NGN program began with the first deal issued in October 2010, and the last deal issued in June 2011, for a total of 13 deals.

Slide 5: Heitman

You can see here the 13 NGNs that were issued, their dates, amounts, total proceeds raised of $28 billion, and the amount of proceeds that relate to each corporate credit union estate. Please note that some of the NGNs have multiple series within one deal. The NGNs are backed by a variety of security types, predominately non-agency residential mortgage backed securities.

All but the 2011-M1 deal amortize based on the pay-down of the underlying securities. The 2011-M1 is a series of five bullet payments. The NGNs all have hard final maturities of 10 years or less. This was done to achieve better execution and pricing for the deal offerings and to ensure the NCUA guaranty obligation associated with the NGNs did not extend beyond the life of the Stabilization Fund.

Slide 6: Heitman

With that, I will turn it back over to Larry to discuss the current status of the outstanding elements of the resolution program.

Slide 7: Fazio

We'll start with the status of Stabilization Fund borrowings. First, we are happy to report that as of Oct. 24, 2016, NCUA's borrowings from the U.S. Treasury have been fully repaid. As you know, NCUA has a base borrowing authority with the U.S. Treasury that is capped by law at $6 billion.

As you can see in the red line on this slide, NCUA had peak borrowings outstanding of $5.1 billion at the end of 2012. The borrowings, combined with the $4.1 billion in credit union assessments to that point, were necessary to fund the cash and contingent liquidity needs of the Stabilization Fund, primarily the $5.5 billion in medium-term note payments that matured in October 2011 and October 2012. The medium-term notes were issued by U.S. Central and WesCorp for liquidity needs and were guaranteed by NCUA.

Between 2009 and 2013, credit unions paid five Stabilization Fund assessments totaling $4.8 billion. The purpose of the 2013 assessment was to partially pay down the balance of the agency's borrowing with Treasury, restoring more of the available line for contingencies for both the Share Insurance Fund and the Stabilization Fund. After the 2013 assessment was declared in July, NCUA was successful in obtaining a settlement with J.P. Morgan in November, resulting in more than $1 billion of additional cash flow. This enabled the Stabilization Fund to repay in 2013 $2.2 billion of Treasury borrowings.

The proceeds from additional legal recoveries in 2015 and 2016, including the most recent RBS settlement, allowed the agency to fully pay off the outstanding Treasury borrowing in October of this year. Our success on the legal front has made it possible to avoid additional assessments to repay Treasury.

Slide 8: Fazio

Slide 8 contains a list of the legal recoveries we've received to date, which total $3.2 billion of net recoveries. This information may also be found on NCUA's website where we provide additional details.

I'll now turn it over to Anthony to discuss the status of the NGN program.

Slide 9: Anthony Cappetta, Supervisor, Division of NGN Support, Office of Examination and Insurance

Slide 9 provides some high-level statistics on the current status of the NGNs and the associated corporate credit union legacy assets. In terms of trends, we use Q4 2011 as the reference point as it is the first year-end for which all the NGNs had been issued, which provides a comparable

basis for totaling outstanding balances and so forth. Adding up the nominal amounts at the time a particular NGN was issued, we actually securitized over $40 billion of legacy asset balance with total proceeds raised through the NGN sales of $28.3 billion. At Q4 2011, the total legacy asset unpaid principal balance across all NGNs was $34.3 billion. As of Q3 2016, this has declined to $14.2 billion, primarily from principal pay owns and defaults on the legacy assets. You can see in the realized legacy asset defaults line that $8.0 billion of defaults have occurred to date, with total remaining defaults estimated to be another $1.7 billion to $2.2 billion. Please note that there are another $1 billion in realized losses on the assets of the failed corporates that were not re-securitized because they had or were expected to have credit losses resulting in little to no realizable value. We would also note since Q4 2011, the projected range of lifetime legacy asset defaults has improved by $3.5 billion for the strong credit scenario and $6.2 billion for the weak credit scenario. The improvements in default projections are primarily the result of better than expected improvements in the housing market.

NCUA uses cash flows projected by Blackrock discounted at the applicable funding rate to estimate the net realizable value of the legacy assets associated with the NGN program. The net realizable value was $24.5 billion as of Q4 2011 with a market value of $19.3 billion. This was backing $24.7 billion in outstanding balances owed to the NGN investors. As of Q3 2016, the net realizable and market values of the legacy assets are $11.5 billion and $10.3 billion, respectively, backing $8.4 billion owed to NGN investors.

However, we need to point out there are 3 NGN series (2 NGN deals) that have now matured as of Q3 2016, and one additional CMBS deal where all guaranty obligations have been paid off. We'll discuss the NGN maturities in more detail shortly, but this means there are some legacy assets no longer collateralizing NGNs. Thus, there are legacy assets with net realizable and market values of $9.8 billion and $8.6 billion, respectively, backing a net of $7.7 billion owed to NGN investors, after you account for $700 million in funds held by the NGN trustees.

Slide 10: Cappetta

This slide is intended to just show the information on slide 9 that relates specifically to the projected remaining value from the legacy assets after the NGN investor balances are repaid, and the amount currently available from the NGN series that have matured already.

The intended takeaway from this slide is that while there is a projected market value surplus of $2.6 billion related to the NGN program, only $1.7 billion is from securities available for NCUA to sell or that will cash flow, that is, be collected within the next 18 months. We'll come back to this point later in the presentation and explain how it relates to both the timing and amount of potential assessment rebates and recoveries for depleted corporate capital holders.

I'll now turn it back to Brian to discuss the projected maturities for the outstanding NGNs and associated guaranty obligations.

Slide 11: Heitman

Slide 11 shows the actual and projected NGN maturities. As noted earlier, all but the 2011-M1 deal amortize based on the paydown of the underlying securities. The 2011-M1 is a series of five bullet payments. The NGNs all have hard final maturities of 10 years or shorter. Originally, there were 13 NGN deals, a few with multiple series. Three NGN series have matured to date. Because the legacy assets in certain NGN series performed much better than expected, and NCUA designed all but one of the NGNs to amortize in concert with performance of the underlying legacy assets, three NGN series have paid off before their hard final maturities. None of these three NGN series required NCUA to make any guaranty payments.

There are 15 NGN series still outstanding. One, a CMBS deal, has already paid down all of its guaranty obligations, with most of the assets expected to pay remaining cash flows to the contributing estates within the next 18 months. Two additional series are projected to mature in Q4 2017, and the remainder do not mature until essentially the end of the program in 2020 and 2021.

Please note, the NGNs do not have a call feature other than a clean-up call provision when the legacy asset balances are 10 percent or less. None of the outstanding NGNs are currently projected to reach their clean up call triggers before they hit their hard final maturities. A broader call feature would likely have been costly or could have limited demand for the NGNs, something that was considered too big a risk, especially in light of early cash flow projections indicating levels of funds to repay the NGN investors upon such a call. This would have been untenable for the Stabilization Fund. Thus, NCUA cannot retire the NGNs early; they must run their course.

Slide 12: Heitman

As you can see on slide 12, there are 248 securities formerly securitizing NGNs that NCUA can now actively manage. These securities have a total market value of $1.7 billion as we indicated previously. There are another 211 securities with a projected market value of $1.1 billion that will be available at the end of 2017 for NCUA to manage when those respective NGN series mature. So, the total estimated market value of securities NCUA could sell—or that will cash flow in the interim—after Dec. 7, 2017 is $2.8 billion. However, these funds will be needed for future program obligations.

Slide 13: Heitman

Specifically, as you can see in the last column on this slide, NCUA will need to make a total of $3.25 billion in guaranty payments on the outstanding NGN series. These are hard final maturity payments analogous to a balloon payment. There is only one projected guaranty payment of $452 million prior to 2020. This payment can be made using funds received between now and November 2017 from guaranty fees, principal and interest from the post-securitized legacy assets, and any other inflows. The rest of the guaranty payments are expected to begin in January 2020 and are heavily concentrated in the last quarter of 2020. As we will discuss later in

this presentation, there will not be enough funds available without selling some legacy assets to satisfy all the guaranty payments.

As usual, we should point out that these projections are point in time estimates based on BlackRock's projected cash flows under the strong credit scenario and subject to change.

Larry will now cover how these projections relate to the asset management estates and the Stabilization Fund.

Slide 14: Fazio

Slide 14 shows the preliminary and unaudited schedule of fiduciary net assets and liabilities broken out by the five main corporate asset management estates. We have omitted the NGN Trusts and Consolidation Elimination columns typically shown in the financials so that we can focus on the individual estates. The following slide shows the eliminations that would be reflected in the notes to the Stabilization Fund's full financial statements.

As you can see from this table (upper left corner), the estates have only $7.5 million in cash and cash equivalents. Everything else is a receivable related to the legacy assets, which are primarily based on projected cash flows expected to be received in the future. In other words, there is currently little money in the estates to fund a depleted capital recovery.

As we noted previously, the net proceeds from the RBS settlement, reflected on this slide in the Other Fiduciary Assets and the accrued expenses and payables lines, were remitted when received to the Stabilization Fund in payment of amounts due to the fund, and in turn were used to repay Treasury. We'll show this for the Stabilization Fund in a moment.

Relating these numbers back to the overall legacy asset numbers, you can see that there are $1.3 billion of legacy assets (outside NGN trusts) and $10.2 billion of legacy assets/investments collateralizing the NGNs (inside trusts). This total of $11.5 billion ties back to the legacy asset NRV on slide 9. Just note that the $10.2 billion includes the $400 million in legacy assets still within the 2010-C1 trust. These are shown on slide 9 as post-securitized because the investors have been repaid.

The $7.7 billion 'Due to NGN Trusts' fiduciary liability is net of approximately $700 million of cash, receivables and payables in the NGN trusts, which equals the amounts shown on slide 9. The total amount the estates owe the Stabilization Fund, not including the $1 billion capital note for U.S. Central, is $5.4 billion, shown on the "Due to Stabilization Fund" line.

To understand how this schedule relates to the Stabilization Fund's balance sheet, you have to do the math separately for each estate because they are not cross collateralizing each other. Essentially what you do is figure out whether total fiduciary assets for each estate minus the fiduciary liabilities not including the "Due to Stabilization Fund" line is enough to repay the Stabilization Fund. We did that math for everyone in the last line entitled, "Net collectible for Due to Stabilization Fund."

As you can see, the estates for U.S. Central, Members United, and Southwest are projected to be able to fully repay the Stabilization Fund. However, the WesCorp estate is projected to be short over $3 billion. Therefore, the total net collectible for the Stabilization Fund is a little over $2.2 billion. This is reflected on slide 16 in the sum of the 'Settlements Receivable' and 'Receivable from Asset Management Estates, Net' line items.

Slide 15: Fazio

This slide presents the preliminary and unaudited Schedule of Fiduciary Net Assets and Liabilities as it would appear in the notes of the Stabilization Fund financial statements, except that the asset management estates are reported separately. In accordance with federal accounting standards (Statement of Federal Financial Accounting Standards 31 – Accounting for Fiduciary Activities), fiduciary activities are not recognized in the Stabilization Fund's financial statements, but are reported on schedules in the notes to the financial statements.

The NGN Trusts column represents the assets and liabilities of the trusts, which are separate legal entities, created to hold the legacy securities. The Consolidation Eliminations column is used to remove the effects of inter-entity transactions in order to present the financial position of the whole group of entities. In this case, the eliminations ensure that the economic substance of the whole is presented.

Slide 16: Fazio

This slide represents the Stabilization Fund summary balance sheet as presented by (Chief Financial Officer) Rendell Jones previously. The sum of the 'Settlements Receivable' and 'Receivable from Asset Management Estates, Net' line items equals $2.2 billion, the net collectible from slide 14.

Also, you can see the net RBS receivable of $826.6 million and outstanding Treasury borrowings of $1 billion. Those proceeds were received in October and, combined with some of the Fund Balance on hand, used to repay the $1 billion in Treasury borrowings outstanding.

Slide 17: Fazio

Slide 17 just shows was the pro-forma balance sheet would look like if we had received the proceeds for the RBS settlement by Sept. 30. You can see the fund balance (cash) reduce to $146.6 million and the settlements receivable and borrowings from U.S. Treasury zeroed out. Beyond the $146.6 million in fund balance with Treasury, virtually all of the rest of the Stabilization Fund's assets are a receivable from the estates. This receivable comes from the legacy assets, the majority of which are still underlying the NGNs and are not available for us to manage. Furthermore, this receivable is based on projected cash flows that have not yet been received.

We normally keep a fund balance with Treasury of at least $100 million to cover expenses and unexpected contingencies.

Slide 18: Fazio

So, in summary we can see on slide 18 the total available resources of the estates and the Stabilization Fund as of Q3 2016 of about $1.9 billion. With the additional securities that will become available to sell through December 2017, less the guaranty payment NCUA will need to make in 2017, there will be a net total available by January 2018 of $2.5 billion.

However, the remaining projected NGN guaranty payments that will come due in 2020 and 2021 total $2.8 billion. So, clearly, we will need the $2.5 billion to help make the projected guaranty payments in 2020 and 2021. We also need to point out, the projected guaranty payments could increase, and are in fact based on the strong credit scenario, not the weak one. We'll come back to the issue of the cash needs of the Stabilization Fund between now and June of 2021, and how all of this relates to NCUA's interim legacy asset sales strategy and the timing of potential assessment rebates and depleted corporate capital recoveries.

Slide 19: Fazio

Now, I'll turn it back to Anthony to discuss the potential assessment rebates and recoveries of depleted corporate capital.

Slide 20: Cappetta

Slide 20 shows the proverbial bottom line for credit union system rebates and recoveries based on current "all-in" projections. These projections include cash flows and other elements that may not be recognizable currently under accounting rules, a point we will come back to on slide 23. You can see the ends of the projected range circled in red; a range of negative $4.9 billion to negative $3.4 billion. We have historically called this the "projected net remaining assessment," with a negative value indicating some combination of an assessment rebate and depleted capital recovery. To arrive at the range, we dimension the projections based on both strong and weak credit loss scenarios and disposition strategies for the legacy assets once the NGN investors have been paid off that result in proceeds at market value or net realizable value estimates.

Slide 21: Cappetta

This slide actually shows how the net projected remaining assessments are allocated between assessment rebates and depleted corporate capital recoveries. Working up from the bottom, you can see that projected recoveries on the depleted corporate capital in total range from $900 million to $1.7 billion. This will, of course, vary by estate, with proportionally greater recoveries in some estates and no recovery for WesCorp capital holders. We'll show these allocated by estate on slides 28 and 29. This leaves $3.9 billion to $4.7 billion still in losses on the $5.6 billion of depleted capital.

Projected rebates on the $4.8 billion of assessments paid to date range from $2.5 billion to $3.2 billion. This leaves $1.6 billion to $2.3 billion in net projected loss to the Stabilization Fund. Thus total net projected losses to the credit union system are $5.5 billion to $7.0 billion, and

would have been higher at $8.7 billion to $10.2 billion without the $3.2 billion in net legal recoveries. Again, potential legal recoveries were never included in the projections.

I want to remind everyone, these are point-in-time projections that could materially change. We'll cover a little later in the presentation the statutory and contractual conditions related to the timing of the rebates and recoveries, as well as where the proceeds would derive from.

Slide 22: Cappetta

Before we explain these matters in more detail, we want to provide a crosswalk from the Stabilization Fund's net position to the range of projected rebates and recoveries. Slide 22 just shows the Stabilization Fund balance sheet again and highlights the $1.5 billion net position.

Slide 23: Cappetta

This slide shows the crosswalk between what is not included in the Stabilization Fund's Net Position and what is included in the "all-in" projection for the range of what is now rebates and recoveries. We start with the $1.5 billion Net Position and add in the $1.0 billion capital note provided to U.S. Central. Under accounting rules, the Capital Note was written off and cannot be reflected on the Stabilization Fund's balance sheet until actually collected. However, we project the U.S. Central estate will be able to fully repay this note. We also project the guaranty fee cash flow stream over the remaining life of the NGN program, which also can't be included in the Stabilization Fund's financials until earned.

There are some discounting methodologies built into the Stabilization Fund net position that are not included in the "all-in" projections, so we make this adjustment as well. Also, the Stabilization Fund has no claim on estate assets beyond repayment of the support it provides each estate. Thus, we add back the $1.4 billion point estimate for depleted corporate capital holder recoveries. This gets us to a point estimate of combined rebates and recoveries of $4.3 billion, which is in the range of $3.4 billion to $4.9 billion we've already shown.

I will now turn it back to Larry.

Slide 24: Fazio

We are now going to discuss the statutory and contractual conditions that affect the timing of any potential assessment rebates and depleted corporate capital recoveries. First assessment rebates. The Federal Credit Union Act does not provide for assessment rebates directly out of the Stabilization Fund, nor can they be provided from the asset management estates. Rather, the Act specifically directs that when the Stabilization Fund is closed, residual assets are distributed to the Share Insurance Fund. Thus, the amount of any "rebate" to insured credit unions will be based on the extent to which the distribution to the Share Insurance Fund at the closing of the Stabilization Fund causes the equity ratio of the Share Insurance Fund to exceed the normal operating level at the end of a calendar year triggering a dividend.

The NCUA Board has the authority to close the Stabilization Fund early and transfer the corporate system resolution program assets and obligations (including the guarantees on any outstanding NGNs) to the Share Insurance Fund. However, this creates the potential for significant volatility in the equity ratio of the Share Insurance Fund with any downturn in the performance on the underlying legacy assets given the current size of the remaining obligations in relation to the size of the insurance fund. We'll discuss this more when we get to slide 40.

With respect to depleted capital recoveries, there are 4 estates projected to have recoveries for investors in depleted capital instruments of the failed corporates. However, all five estates are currently expected to have outstanding senior-creditor obligations, including to the Stabilization Fund through the guaranty it provides on the NGNs, until 2021. Thus, until senior-creditor obligations for each particular estate can be satisfied with certainty—that is, repaid or fully funded, including for contingencies—it would not be appropriate to make any distributions to the subordinate depleted capital claimants.

Slide 25: Fazio

We also get asked what the bases are for rebates of assessments and recoveries on depleted capital. As noted, the assessment rebate would flow out ultimately as a Share Insurance Fund dividend, which per the Act is prorated based on insured shares at the time of the dividend. For depleted capital recoveries, these would first go to the membership capital holders (prorated by claim amount) until fully recovered. Then any additional proceeds would go to paid-in capital holders, again prorated by claim amount.

Slide 26: Fazio

Slide 26 shows the legal payout priorities for the estates as set forth in NCUA regulations. The Stabilization Fund is senior to the depleted capital holders, at priorities B1, B4, and B6.5 for the support it has provided the estates and the U.S. Central Capital note. Depleted member-capital holders are in payout priority B7, with depleted paid-in capital holders at the bottom at B9.

Slide 27: Fazio

We included this slide as reference material. Based on the payout priorities and other statutory and contractual conditions, the decision tree on this slide is just another way to think about how values flow from the legacy assets and legal recoveries to the NGN investors, the estates, the Stabilization Fund, the Share Insurance Fund, depleted capital holders, and all insured credit unions.

Slide 28: Fazio

This slide, along with the next slide, apply all the payout priorities to the low and high end of the projected ranges by estate. For the low end, you can see from the total of column I that the Stabilization Fund would be repaid $2.5 billion, with another $900 million in recoveries for depleted capital holders per column J. These are the same lower end totals shown on slide 21.

Slide 29: Fazio

This slide does the same thing as slide 27, but is based on the high end of the projected ranges. For the high end, you can see from the total of column I that the Stabilization Fund would be repaid $3.2 billion, with another $1.7 billion in recoveries for depleted capital holders per column J. These are also the same upper end totals shown on slide 21.

Slide 30: Fazio

I am going to turn it back to Brian to discuss funding options for the guaranty obligations that will be required for outstanding NGNs.

Slide 31: Heitman

As we noted previously on slide 13, which is shown here again, there are a total of $3.25 billion projected guaranty payments NCUA will need to make on the outstanding NGN series. These are hard final maturity payments analogous to balloon payments.

Slide 32: Heitman

As we noted previously on slide 18, which is shown here again, currently the total available resources of the estates and the Stabilization Fund as of Q3 2016 are about $1.9 billion. With the additional securities that will become available to sell through December 2017, less the guaranty payment NCUA will need to make in 2017, there will be a net total available by January 2018 of $2.5 billion.

However, the remaining projected NGN guaranty payments that will come due in 2020 and 2021 total $2.8 billion. But it is important to dimension this a little further to understand options about holding and selling legacy assets for the interim period until all the NGNs have matured.

Slide 33: Heitman

You can see here on this slide, the $3.25 billion in total projected guaranty payments. The cash flows projected to occur between now and June 2021, without selling any securities are estimated to be sufficient to fund all but $1.0 billion of the $3.25 billion in projected guaranty payments.

Slide 34: Heitman

NCUA has a variety of options to fund the necessary $1.0 billion to make the guaranty payments. The first option is to declare an assessment. However, the funds to make the maturity payments are only needed from a cash management perspective, not to pay for losses, and thus this option would only serve to increase the amount of the projected rebate. Therefore, this is not a good option relative to the others.

The second option is to re-securitize the legacy assets NCUA can actively manage. This option is costly. Without an NCUA guaranty—which would perpetuate ongoing obligations and could be viewed as the agency experiencing new liquidity problems—it is not likely to provide net proceeds better than an outright sale, nor preserve any upside for the credit union system without some ongoing involvement by the Share Insurance Fund as holder of a residual certificate. Therefore, this is not a good option for interim liquidity needs.

The third option involves using a provision built into each of the NGN indentures that allows NCUA to access (so we can sell them) or direct the sale of the underlying securities out of the NGN trusts after the last monthly payment that occurs before the final payment date, which would avoid guaranty payments. Making decisions over the next few years that could require materially relying on this option entails a fair degree of risk and uncertainty given the one-month sales window provides a limited timeframe to achieve reasonable execution in the market and is subject to whatever the market conditions happen to be at that future time.

The fourth option is to use NCUA's borrowing authority. Such borrowing would be short term in nature, but would pose reputational risk and public policy concerns – especially as there would be assets available to sell and Share Insurance Fund resources available to make necessary payments. The Treasury's standing policy is that borrowings should not be used when other practical means are available.

The fifth option is to use the Share Insurance Fund. This is a distinct option, but there are accounting and legal matters and potential unintended consequences that could factor into this. It could also necessitate disruption of the Share Insurance Fund investment portfolio, affecting the future yield of the Share Insurance Fund.

The final option is to sell enough legacy assets that have exited the NGNs to raise the needed $1.0 billion.

Slide 35: Heitman

Larry will now discuss considerations with respect to selling legacy assets.

Slide 36: Fazio

First, it is important to clarify NCUA's role as liquidating agent. NCUA's role as liquidating agent is to conduct an orderly liquidation, not to function as a long-term asset manager trying to maximize return on a portfolio. As such, NCUA does not attempt to speculate with assets under management. Rather, as liquidating agent, NCUA seeks to obtain a reasonable price upon which to liquidate assets of failed institutions while trying to minimize losses to the Share Insurance Fund and Stabilization Fund.

Slide 37: Fazio

Based on this role, the interim disposition plan would involve selling enough securities to satisfy remaining guaranty obligations without needing to borrow from Treasury, use funds from the

Share Insurance Fund, or assess credit unions. As noted previously, current projections indicate we would need to raise $1.0 billion through securities sales to fund the December 2020 and 2021 projected hard final maturity payments. Now that NCUA has the ability to sell securities as a source of liquidity, and as a contingency, the Share Insurance Fund can be used without downstream expense consequences for insured credit unions, we should no longer borrow from Treasury other than for emergency needs.

To raise the necessary funds, NCUA will sell legacy assets that can be sold at a reasonable price without compromising legal efforts that have a good chance of material recovery that isn't accounted for in market prices. There are prudent reasons to begin selling some securities NCUA can actively manage and continue to do so through the end of the resolution program. Specifically, selling certain legacy assets at a reasonable "exit" price reduces the downside risk of the portfolio.

Please note that this approach applies to interim sales to fund program obligations and manage downside risk until the end of the NGN program. The strategy for remaining securities at the end of the NGN program, after obligations have been satisfied, will be determined by the Board at a future date based on market conditions closer to that time.

Slide 38: Fazio

This slide gives stakeholders a sense of how we would apply the interim sales strategy to the 248 legacy assets NCUA can now actively manage. We currently envision beginning to sell 152 securities with a total market value of about $700 million.

Slide 39: Fazio

The proceeds from these sales, along with cash flows from the NGN guaranty fee and other inflows, will begin to increase the outstanding amount of Stabilization Fund cash. Staff will continue to follow the current practice of investing these funds with the U.S. Treasury until they are needed to make guaranty payments, as well as backstop any potential increase in program obligations, such as any unexpected guaranty payments due to a downturn in the performance of the legacy assets. Again, we can't rebate funds at this time.

Slide 40: Fazio

However we will evaluate the potential to close the stabilization fund early. The Board will need to carefully weigh the potential benefits and disadvantages of doing so. This slide lists some of these for context.

That concludes our prepared remarks. The remaining slides contain links to additional information available on NCUA's website. We are happy to answer any questions you have.