FREQUENTLY ASKED QUESTIONS REGARDING

THE PACIFIC INVESTMENT MANAGEMENT COMPANY LLC (PIMCO) ANALYSIS

Q1: Why did NCUA hire an outside firm to conduct a credit analysis?

The NCUA Board requested an analysis of corporate credit union residential mortgage-backed securities (RMBS) to 1) receive an independent and objective assessment of potential credit losses resulting from holding the securities to maturity; and 2) to verify NCUA's own reserve methodology for calculating the premium to credit unions to recapitalize the National Credit Union Share Insurance Fund (NCUSIF).

The impetus to obtain an independent review is based on the following:

a) The portfolios with RMBS have highly complex structures that require considerable expertise to model and analyze;
b) The growing amount of unrealized losses on investment securities and the troubling amount of rating downgrades compels NCUA to independently determine the amount of expected credit impairment. Bonds cannot be sold at current estimated market values because NCUA expects that selling now would result in far greater losses than if the bonds were held to maturity; and
c) NCUA has developed concerns about the portfolio management abilities of the largest corporate credit unions and is not willing to rely solely on the institutions' own analyses.
d) NCUA was hampered in its ability to compare the risk of loss across different corporate credit unions because each credit union used different methodologies to assess potential losses.

The selection of PIMCO was made after considering several possible providers of valuation services. Due diligence site visits were conducted with three vendors. The selection was predicated on each firm's analytical capabilities, fee, and speed of delivery. PIMCO met all of these criteria and is independent from the corporate credit union network. Furthermore, PIMCO has successfully been engaged by other federal agencies for similar endeavors.

The PIMCO report, taken together with other supervision and examination information, augments the NCUSIF analysis of the potential losses stemming from the corporate credit union portfolios. Obtaining the assessment of an independent, third party expert enables NCUA to better assess the reliability of information developed by the corporate credit unions. Most importantly, it gives NCUA a contemporaneous understanding of the investment risks at a time when virtually all agree that economic fundamentals are rapidly deteriorating. The PIMCO analysis serves to ***confirm*** the agency's risk management concerns. It ***augments*** the work done by the NCUSIF in 2008 to model its loss reserve estimate by conducting detailed analyses of quantitative and qualitative aspects of all securities in the portfolios. The loss reserve estimate is based on several key variables and assumptions that were updated and refined by the NCUSIF in light of the PIMCO analysis. Specifically, estimates for the probability of default and the loss given default for the assets underlying the investment portfolios are the major determinants of the loss figure. With the assistance of PIMCO, the NCUSIF is able to produce a more robust estimate that computes the default and recovery projections for individual securities and even individual loans and other credit enhancements underlying each security under specific scenarios. It is this specificity of detail in the data that gives the loss estimate calculation improved precision and thus a higher confidence level.

Moreover, the Board contracted with PIMCO to conduct the initial review of the RMBS portfolios and budgeted money to have PIMCO update its analysis three additional times depending on market conditions and rating agency downgrades.

Q2: NCUA requires credit unions to use a variety of vendors to model securities portfolios. Why is NCUA comfortable with the use of only one vendor for such an important analysis?

There are only a handful of firms that can conduct the depth of analysis that NCUA desired. PIMCO was selected after careful consideration of the following factors:

- reputation of the vendor,
- scope of their analysis,
- source of their data inputs,
- specificity of detail in the data,
- quality of their assumption development, and
- independence of the review.

PIMCO was also able to deliver the results quickly.

NCUA previously disclosed its own reserve methodology to assess what the level of premium would be to credit unions. That analysis is available at: http://www.ncua.gov/CorporateStabilizationProgram.html. PIMCO's analysis was sought to confirm whether NCUA's concerns about potential losses are valid and whether the NCUSIF reserve estimates are reasonable and supportable.

As noted above, the Board contracted with PIMCO to conduct the initial review of the RMBS portfolios and budgeted money to have PIMCO update its analysis three additional times at NCUA's discretion.

Q3: How is NCUA evaluating the report?

NCUA will use its most experienced fixed-income professionals on staff to evaluate the methodology used by PIMCO to estimate credit losses.

Additionally, the agency will conduct another reserve methodology calculation using the additional information provided in the report to refine the anticipated premium amount. We'll submit the revised amount to our independent auditors, Deloitte & Touche, for review and analysis to assure the agency's method is deemed reasonable and supportable and accurately reflects the reserve on its financial statements.

Q4: Will NCUA share the report with credit unions?

NCUA will release an executive summary about the report. The agency never releases information on any supervisory effort that it undertakes involving any specific institution.

Q5: How will the report affect the premium that credit unions may need to pay later this year?

As noted above, the report helps NCUA refine its estimate and augments the NCUSIF analysis of the potential losses stemming from the corporate credit union portfolios. While the premium is slightly higher than NCUA's initial reserve analysis, the report supports that the cost approximated by the agency's initial reserve estimate is in line with the PIMCO report. The agency continues to explore all other reasonable approaches to minimize the cost impact of these actions to credit unions.

Q6: How is NCUA reconciling the report numbers with corporate credit unions' financial information in the market?

Corporate credit unions are required to demonstrate they have a sufficiently rigorous and robust approach to evaluating the performance of their portfolio and are representing their financial condition accurately and in accordance with GAAP. As noted above, the PIMCO report and the subsequent updates we can request, give NCUA a current and independent view of the investment risks at a time when virtually all agree that economic fundamentals are rapidly deteriorating. The PIMCO analysis will assist the agency in evaluating risk management concerns and facilitate NCUA's efforts to take timely and effective action to minimize the ultimate loss impact on natural person credit unions.

Q7: What if there are further ratings downgrades and/or the economy continues to decline?
It is important to understand the linkage between the housing market and bond performance. NCUA will continue to monitor these portfolios, may request PIMCO to update its report and will revise the agency's estimates for losses as the prognosis stabilizes, deteriorates, or improves.