

Portfolio Update

As of 09/30/2008

The credit and liquidity crisis that began in July 2007 continues to strain global financial markets. Members United is committed to providing our member-owners information about these market events and the quality of our assets. We strive to provide objective, transparent information and data regarding our safety and soundness. While credit and liquidity events continue to foster market instability, we remain confident in the quality and continued strength of Members United's portfolio and in our ability to provide liquidity to members. In addition to this *Portfolio Update*, financial statements are published monthly for your review (available at www.membersunited.org).

This report focuses on three primary risks within Members United's investment portfolio: interest rate, credit, and liquidity risks. Members United has developed the infrastructure, expertise and capability to manage a complex balance sheet, and our intent is to share our position related to these key risk attributes, as well as guidance on how we monitor and report these positions.

Economic Overview

The economic picture in September continued to deteriorate, but thanks to multiple rounds of government intervention, slight improvement was evident by early October. We'll address both of these realities in the below paragraphs.

In September, credit conditions deteriorated significantly and the availability of private credit shrank considerably. Interbank lending has deteriorated markedly since our last call. Two of the many reasons for this trend are the concern over the transparency of counterparty disclosures and the desire to "hoard" liquidity. Looking at the yield spread between Treasury bills and interbank lending rates, often referred to as the TED spread (Treasury-Euro-Dollar), helps illuminate this issue. When TED spreads are very wide, investors are asking for a large yield premium to invest in bank deposits versus a risk-free rate (Treasury bills). Over the last year the average spread has been 148 basis points, with this year's pre-September high around 200 basis points. September's high was 483 basis points. Demand for Treasury bills has been so strong that investors bid the yield to as low as .06 percent (6/100ths of one percent).

Lending to corporations and individuals has also contracted fairly significantly for two reasons. First, lending standards over the last few years, especially in residential mortgage lending, have contributed. The losses that banks incurred have made them more conservative lenders and less willing to take risks. Second, even if financial institutions wanted to loan funds, their ability is vastly diminished thanks to their reduced capital: institutions have recorded approximately \$600 billion in losses worldwide related to mortgage lending. While many of these financial institutions have been able to raise capital in the market place, they have only raised about 75 percent of the capital that was lost. Using the \$600 billion loss number, we therefore assume about \$150 billion of capital has not been replaced.

All financial institutions use leverage (borrowings through debt or deposits) to grow and serve their customers/members. Banks' capital requirements are between 6-8 percent, but for the sake of simplicity, let us assume they had a 10% capital requirement. This means that they can borrow up to \$90 for each \$10 in capital, which they could use to make \$100 in loans. With a real decline in total capital of \$150 billion, banks would need to reduce lending by 10 times that amount or \$1.5 trillion (\$1,500,000,000,000). This helps explain a reduced willingness to lend and the desire by the Treasury to spur lending by investing in bank capital.

Good News

While the economic picture remains weak, we have seen marked movement to break the deadlock in the capital markets. The administration, Federal Reserve and Treasury continue to work at a feverish pace to stabilize financial markets and thus strengthen the economy, which is critical to ensuring any form of economic recovery. On the table to date:

- \$700 billion economic rescue package (TARP - Troubled Asset Rescue Plan)
 - \$250 billion slated to purchase major banks' equity (preferred shares and common stock warrants)
 - \$450 billion slated to purchase mortgage-related assets (securities and/or loan pools)
- Raising federal deposits insurance coverage to \$250,000 per account/owner
- Federal guarantees of money market mutual funds
- Federal Reserve Bank is buying short-term debt (commercial paper)
- Continued supply of liquidity through open market operations, discount window lending and international coordination
- Federal insurance coverage for non-interest bearing/transaction accounts (FDIC)
- Federal Reserve Bank continued lowering its target for Federal Funds from 2 percent to 1.5 percent

On the credit union front:

- The CLF was expanded from \$1.4 billion to \$41 billion to supply liquidity to credit unions
- NCUA guaranteed the debt of corporate credit unions

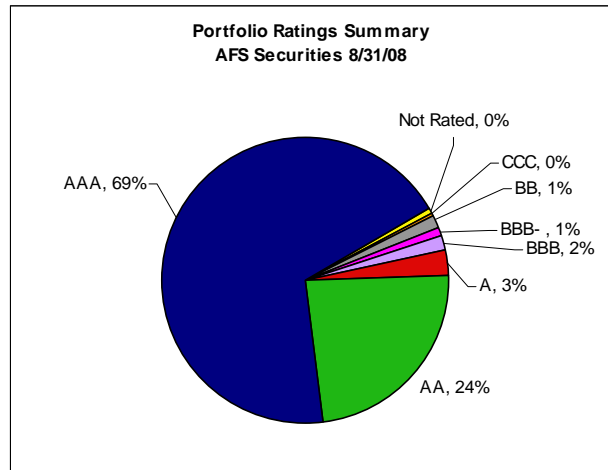
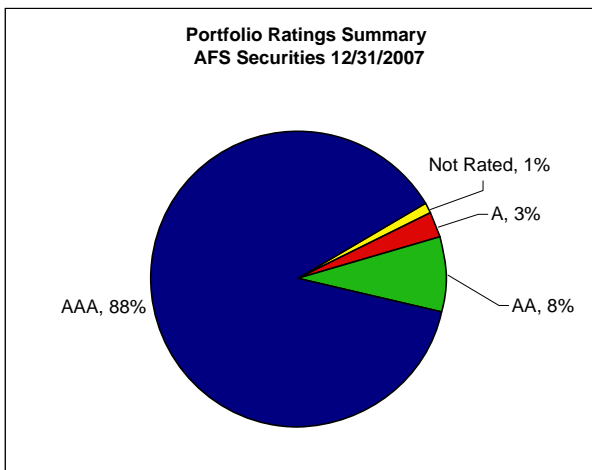
Although the full impact of these aggressive and innovative programs has yet to be fully realized, we are very encouraged. While these initiatives should provide a tangible economic benefit, it is critical to note the unprecedented level of activity and coordination of the Federal Reserve Bank, U.S. Treasury and all the financial institution regulators, as well as the international monetary and financial community. This coordinated resolve to address the situation is the most reassuring aspect of the current distressed environment.

Portfolio Overview

Members United's portfolio is comprised of highly rated securities and depository obligations issued by U.S. Central Federal Credit Union, all of which we purchase according to tightly defined guidelines. As of September 30, 2008, Members United's investment portfolio was approximately \$7.6 billion.

While there are numerous forms of risk associated with any type of investment and overall portfolio management, this report will focus on three key risk types: credit risk and interest rate risk in both net interest income (NII) and net economic value (NEV), and liquidity risk.

The investment rating trends have shifted in the past six months due primarily to the credit rating downgrades reflected in the monoline financial guarantor sector and the deterioration in the residential mortgage market. Even with the noted credit rating downgrades, Members United's overall investment portfolio remains strong with more than 90 percent of the portfolio rated AA or above. These ratings are supported by credit enhancement levels that continue to be solid in a difficult environment.



Credit Risk

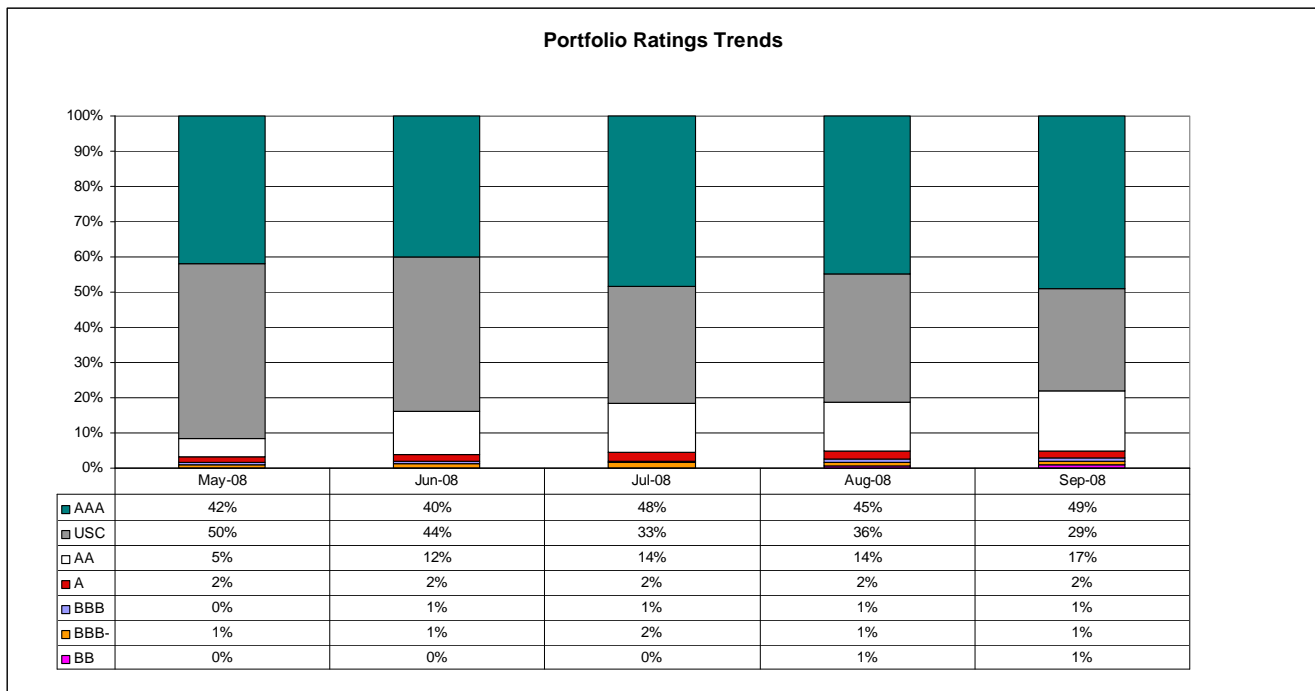
Credit risk is the risk that the par value of an investment will not be returned (fractionally or as a whole). Members United manages credit risk through:

- a diligent pre-purchase review and analysis of all investment securities
- continual monitoring of ongoing credit metrics
- diversification of investments
- reviewing credit grades from primary rating agencies

Members United has the regulatory authority to invest and hold investment securities with a rating of BBB or better. If an investment held by the corporate falls below BBB, an investment action plan must be prepared (and filed with the NCUA) to demonstrate the anticipated performance of the security and any exposure to future cash flows (periodic interest and principal payments).

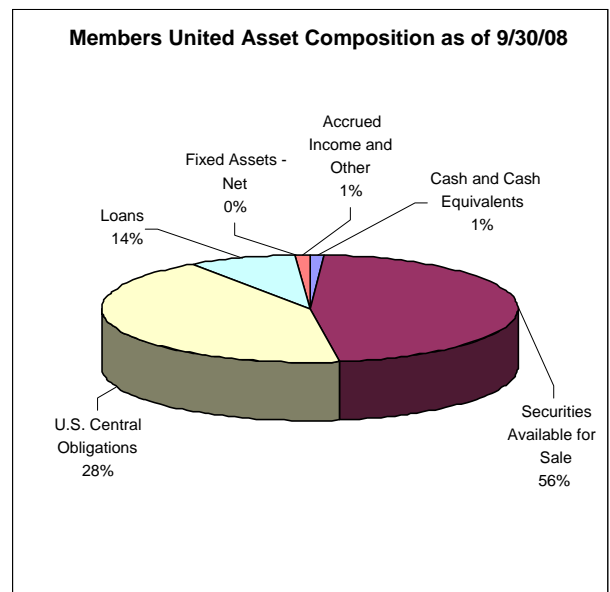
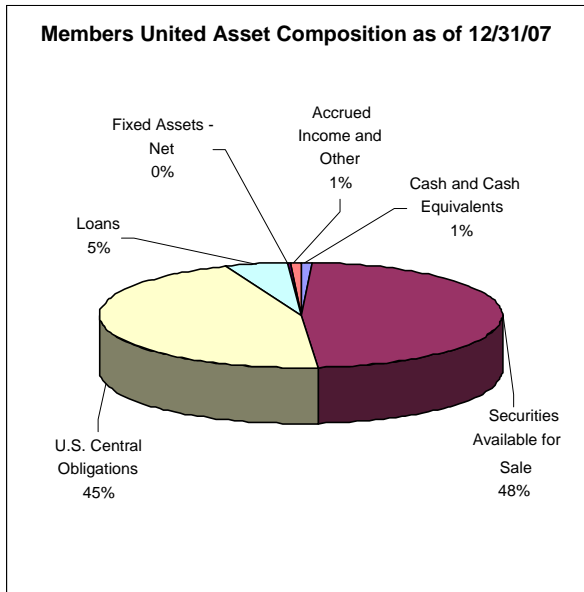
Since the beginning of this credit and liquidity crisis and after tens of thousands of ratings downgrades from the rating agencies, the rating of 385 of the 514 investment securities in Members United's diversified portfolio remain unchanged. During September 2008, 15 bonds were downgraded for the first time. Currently, we have nine bonds wrapped by FGIC, totaling \$154.3 million, which have ratings below BBB (the minimum acceptable level to be held in our investment portfolio). In addition, one bond wrapped by Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) totaling \$3.4 million has ratings from two agencies that are below BBB. Management is finalizing its investment action plan and continues to monitor these bonds closely.

The following chart provides the ratings trends on Members United's investment holdings since May 2008.



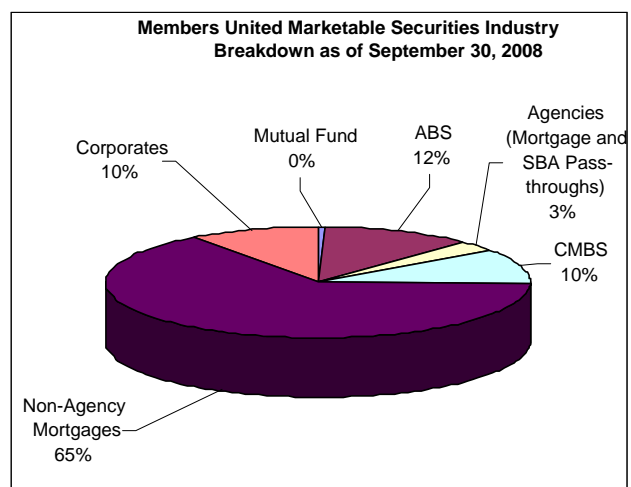
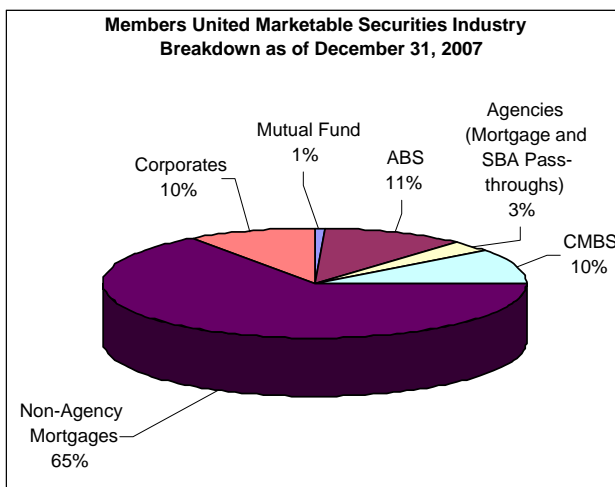
Asset Composition

As of September 30, 2008, our assets were \$9.1 billion. Marketable securities represented \$5.1 billion, and outstanding loans totaled \$1.2 billion. The total U.S. Central obligations were approximately \$2.6 billion.



Industry Composition

Members United's industry composition has remained relatively stable since fiscal year-end 2007, with no category changing by more than 1 percent, as noted in the graphs below.



Total Investment Portfolio

The table below summarizes Members United's total available-for-sale securities, by category, as of September 30, 2008:

(All dollars are reflected in thousands)

	Par Value	Unrealized Loss*	Fair Value
Non-agency mortgages	\$ 4,088,325	\$ (1,050,045)	\$ 3,038,280
Asset-backed securities (secured by non-mortgage assets)	706,673	(51,335)	655,338
Commercial mortgage-backed securities	666,074	(92,291)	573,783
Corporates	611,607	(82,365)	529,242
Agencies (mortgage and SBA pass-throughs)	193,267	(1,190)	192,077
Mutual fund and other	23,775	-	23,775
U.S. treasury and agency securities	44,488	522	45,010
Total investment securities	\$ 6,334,209	\$ (1,276,704)	\$ 5,057,505

*Excludes net unrealized loss on derivative instruments of \$19,243.

Mortgage-Related Securities

Credit events driven by housing price declines and the resulting impact on mortgages and mortgage-related securities continue to be the most observable risk that investors face. As such, news regarding rising default rates in certain geographic areas, rising rates on adjustable mortgage loans, large bank and broker write-downs, and instances of fraudulent practices by certain originators (and some borrowers) continue to generate headlines. As of September 30, 2008, Members United's investments in non-agency, mortgage-related securities were approximately \$4.1 billion. The following represents the aggregate mortgage-related holdings:

Mortgage Portfolio Category	Dollar Amount Outstanding
Total Non-Agency Mortgage Exposure	\$4,088,325
Prime	1,232,127
Sub-prime (FICOs < 680)	1,085,631
Alt-A	1,770,567

(All dollar amounts are reflected in thousands.)

Many of the risks associated with mortgage-related securities have been highlighted in the sub-prime market. However, Members United monitors other sectors within the mortgage arena that have similar performance characteristics. The following provides a high-level summary of Members United's mortgage-related holdings as of September 30, 2008:

Mortgage Portfolio Statistics	Prime	Alt -A	Sub-prime
Percent of non-agency, mortgage-related securities	30%	43%	27%
Percent of total investments	16.1%	23.4%	14.2%
Weighted average FICO score	725	708	632
Weighted average loan to value	78.2%	79.3%	83.1%

Monolines

A component of the credit quality of structured finance investment vehicles is the credit enhancement available to protect the investor from loss of principal or interest. A common method of providing credit enhancement for these investments is to use an insurance "wrap" from a monoline insurer, which writes a single line of insurance contracts. A monoline insurer is a financial risk insurance company that specializes in insuring bond issues, including municipal bonds, residential mortgage-backed securities (RMBS) and asset-backed securities (ABS). A "monoline wrap" is a guarantee covering the timely payment of interest and the ultimate payment of principal.

In recent years, the monoline insurers expanded into insuring credit default swaps (CDS) and collateralized debt obligations (CDO) backed by residential mortgage securities, including those with sub-prime collateral. Members United does not own any CDOs or hold any CDS contracts.

As the credit markets deteriorated and the sub-prime crisis worsened, these insured portfolios recognized large unrealized losses. Most of these wrapped obligations are synthetic structures, resulting in inconsistent valuations through the use of multiple valuation models by the insurance entities, the rating agencies and brokerage houses. These unrealized losses affected the monoline insurers' capital ratios, making it more difficult to support 'AAA' ratings.

Members United has exposure to these insurers, through securities that have monoline insurance, in addition to the underlying collateral supporting the respective securities. The following table provides a brief overview of this exposure:

(All dollar amounts are reflected in thousands.)

Monoline	September 30, 2008 Total Holdings Wrapped	September 30, 2008 Total Holdings Wrapped (% of Investments)
Ambac	\$470,574	6.2%
MBIA	444,562	5.8%
FGIC	204,372	2.7%
FSA	105,452	1.4%
SGI (f.n.a. XLCA)	64,113	0.8%
CIFG	16,583	0.2%
Total	\$1,305,656	17.1%

Most of Members United's holdings are in the two largest monoline insurers – Ambac and MBIA. Both firms' claims-paying ability and liquidity remain strong. Many of the underlying securities also have additional layers of protection in the form of over-collateralization, subordination and excess interest. The following table illustrates a sector breakdown in which holdings are wrapped.

(All dollar amounts are reflected in thousands.)

Monoline	ABS HELOC	ABS Home Equity	MBS Alt-A	Corp Bonds	ABS Auto	ABS Equip	MBS Lot Loans	ABS Student Loans	MBS Sub- prime
Ambac	\$127,034	\$69,808	\$129,105	\$83,125	\$60,000				\$1,502
CIFG	16,583								
FGIC	160,557	27,115					\$15,636		1,064
FSA	77,357		28,096						
MBIA	60,698	228,531	39,830	53,333	33,000	\$17,067		\$15,813	
SGI	11,676	13,321	35,405						
Total	\$453,905	\$338,775	\$232,436	\$136,458	\$93,000	\$17,067	\$15,636	\$15,813	\$2,566

The structure of an individual trust is important in determining the amount and timing of the monoline payment (if applicable). The insurance policy normally provides an unconditional and irrevocable guarantor of timely payment of interest and ultimate repayment of principal on the final maturity date. The monoline covers funding shortfalls and is not assumed to cover the entire principal balance unless significant economic events warrant this.

Interest-Rate Risk

Interest-rate risk measures the impact of changing interest rate scenarios on the value of our balance sheet and net interest income. One common measure is NEV, which measures the net change in the value of our assets and our liabilities given changes in interest rates. Members United adheres to NCUA's Rules and Regulations Part 704 and analyzes NEV monthly. We assess the impact of interest rate shocks, from a 300-basis-point decline to a 300-basis-point increase in rates, in 100-basis-point increments. However, we do not model for rates less than zero (currently, the Down 300 and Down 200 scenarios meet this criterion and are suspended). These changes assume an instantaneous and parallel shift of the yield curve – a very aggressive assumption designed to produce a "stress test" of the balance sheet.

Additionally, Members United evaluates the impact on NEV of changes in the shape of the yield curve, prepayment rates, credit spreads and basis risk. Management and ALCO review this information monthly. The chart below demonstrates the NEV impact for September 2008. Given the calculation impact of the unrealized losses (which we continue to believe are largely temporary) creating a base net economic value close to zero, the worst-case scenario (an instantaneous rise in interest rates of 300 basis points) reflects a decline in the NEV by approximately \$758 million. The percentage change calculations are exaggerated due to the base case being so small and are shown as N/A on the chart.

(All dollar amounts are reflected in thousands.)

Net Economic Value September 30, 2008			
	<u>Net Economic Value</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
-100 basis point decline in rates	\$(386,970)	\$40,871	N/A
Base net economic value	(427,841)	-	-
+300 basis point rise in rates	(757,663)	(329,822)	N/A

The valuations reflected in the base NEV calculation continue to be constrained due to the market illiquidity as well as the wider credit spreads that have affected all investors. With the dislocation occurring within the markets, economic vs. market prices are significantly different, and we believe this is a condition that will eventually correct itself. As a footnote, the change in NEV has not resulted from any investment purchase and sale activity, but rather the dislocation in market price valuations. For now, this condition continues to be exacerbated by the high levels of price volatility in the markets. The impact to Members United's NEV computation is compounded by utilizing market pricing (which we believe in this environment fails to capture the true economic value) and the increases in volatility.

An alternative security pricing methodology involves obtaining option-adjusted spread (OAS) quotes on our securities holdings and sectors. In the current marketplace, prices calculated from these OAS quotes do not reflect the same degree of liquidity bias seen in direct price quotes from our regular pricing sources (which reflect market makers not truly interested in bidding for securities except at deep discounts). Members United regularly reviews security pricing service indications to OAS-derived prices. The disparity between such results is currently quite wide.

As can be seen from the table below, the NEV calculations from OAS-derived prices are better compared to the NEV results using security pricing services. By using the OAS spreads, the base case NEV is higher.

This rise in the base case value decreases the percentage changes in the rate shock scenarios. The large disparity in results reflects the difference between the OAS-based model (which is closer to estimated economic value) and current liquidation value in an illiquid and fragmented market.

(All dollar amounts are reflected in thousands.)

Net Economic Value OAS – Derived Security Prices September 30, 2008			
	<u>Net Economic Value</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
-100 basis point decline in rates	\$19,695	\$35,683	223.2%
Base net economic value	(15,987)	-	-
+300 basis point rise in rates	(299,023)	(283,035)	-1,770.4%

In addition to the NEV risk computations, Members United prepares monthly net interest income (NII) forecasts utilizing the same data to calibrate the modeling of NEV. The following table illustrates Members United's projected NII over the next 12 months. As appropriate with modeling NII and/or NEV, Members United captures the embedded optionality associated with all assets and liabilities.

(All dollar amounts are reflected in thousands.)

Net Interest Income Projection			
September 30, 2008 (12-month projection)			
	<u>Net Interest Income</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
100 basis point decline in rates	\$35,790	\$(3,952)	(9.94%)
Base case NII	39,742	0	0.0%
300 basis point rise in rates	45,084	5,342	13.44%

Liquidity Risk

Liquidity risk addresses the ability to create liquidity to fund cash flow requirements, both expected and unexpected, which usually result from share withdrawals and member loan requests. Members United maintains a \$310 million committed line of credit and advised lines of credit that total more than \$2 billion. The following table outlines our sources of liquidity:

(All dollars are reflected in thousands)

Current Liquidity	
Cash and short term deposits at U.S. Central	\$ 723,749

Source of Liquidity	Gross	Used	Net
US Central - committed line	\$ 310,000	\$ 310,000	-
FHLB Chicago line of credit	240,000	230,000	\$ 10,000
US Central - advised line	1,641,836	272,552	1,369,284
State of Illinois deposit	100,000	100,000	-
Available-for-sale securities - sales	2,070,860	-	2,070,860
Available-for-sale securities - borrowings	535,988	469,338	66,650
Fed funds	480,000	124,000	356,000
Term investment option (TIO)	300,000	300,000	-
Subtotal	5,678,684	1,805,890	3,872,794
Total	\$ 6,402,433	\$ 1,805,890	\$ 4,596,543
Total Member Loans		\$ 979,310	

Liquidity continues to be a primary focus within these volatile and disjointed markets. We continually look to enhance our liquidity planning process and earlier this year added the FHLB Chicago to our sources of funds. We are very pleased to announce three new liquidity initiatives. First, Members United will be joining the Federal Reserve as a full member with access to the Discount Window. With collateral available in the \$3-4 billion range we could create another \$1-2 billion in additional available liquidity. These two new developments will provide significantly more stability to our funding sources and protection to our members.

Secondly, the NCUA will guarantee the debt issued by corporate credit unions issued by mid-2009 and maturing before mid-2012. This will allow Members United to issue debt that would effectively represent the full faith and credit of the U.S. Treasury. This should allow increased access to capital markets, especially as other marketplace initiatives begin to take effect.

Third, we are working with the Federal Reserve Bank to take advantage of their new program to purchase commercial paper. Based on the program information, the Fed should be able to purchase \$270 million of commercial paper, which will be a direct increase in our available funding sources.

Our overnight account is currently running at around \$3 billion, and our cash and sources of funds provide adequate liquidity for continued operations, even if credit unions' needs for liquidity increase. This is important as it provides us the flexibility of not having to sell securities at grossly discounted rates in the current illiquid markets.

We have included a new line item in the chart above to illustrate the amount of liquidity we are supplying our member credit unions. As a corporate credit union it is our charter to not only act as a storehouse for credit union liquidity, but also to supply credit unions with liquidity when needed. Our total loans to assets are approaching 10 percent. Additionally, we have been working diligently to facilitate credit union access to the Central Liquidity Facility (CLF). As of September 30, we had helped credit unions access \$175 million of low-cost funds from the CLF (cost of funds ranged from 1.75 percent to 2.25 percent).

Derivative Positions

Members United is exposed to credit risk on derivative instruments if the counterparty should fail to perform under the terms of the contract. Members United manages credit risk through the use of comprehensive credit-approval processes, the selection of only creditworthy counterparties and effective collateral administration. In addition, Members United requires legally enforceable netting arrangements, which permit netting of transactions with the same counterparty. The amount of credit exposure is limited to the interest receivable and the fair market value of the derivative contracts in gain positions, reduced by the value of any collateral pledged by the counterparty. As of September 30, 2008, there was no credit exposure with our derivative counterparties.

Financial Overview

Global financial markets are in the midst of a severe market cycle as evidenced by the bankruptcy of Lehman Brothers, conservatorship of Fannie Mae and Freddie Mac, the AIG bailout and the need for the U.S. government to develop and implement a rescue plan. Members United, with the support of its members, is successfully navigating through this severe market even though investment losses have occurred this month. Members United's capital base is sufficient to absorb these losses.

With this background in mind, Members United recorded a net loss of \$40.3 million for the month of September 2008. This loss will reduce retained earnings from \$333.0 million as of August 31, 2008, to \$292.7 million as of September 30, 2008. Regulatory capital, which consists of retained earnings, membership capital shares and paid-in capital shares, totaled \$856.0 million as of September 30, 2008. While the monthly loss is significant, it also highlights that capital is sufficient to absorb severe market impacts. After incurring the net loss, the regulatory capital ratio stood at 6.8 percent and is well above the 5.0 percent regulatory threshold.

Core earnings of \$2.7 million for the month of September were offset by \$43.0 million of losses on financial instruments. These losses were primarily due to the recording of other-than-temporary impairment (OTTI) on investments that will most likely realize some level of principal loss before they mature. As a specific example, Members United owns \$45 million of senior unsecured debt issued by Lehman, which declared bankruptcy during September. Fitch reacted to this news and lowered Members United's short-term rating from F-1+ to F-1 and long-term rating from AA- to A+. These ratings are still strong relative to other financial institutions, and the downgrade did not impact operations.

From a balance sheet perspective, assets totaled \$9.1 billion as of September 30, 2008, compared to \$12.6 billion one year earlier. Loans to credit unions are up 85 percent while shares and certificates are down 26 percent when comparing results as of September 30, 2008, to the prior year. While deposits are down, much of the decline is attributable to opportunities in the market through brokered certificates and other capital market investments such as Treasuries and Agencies.

Members United continues to develop additional funding sources and remains committed to its historic mission as a liquidity provider to its members. After funding loans and after funding share account withdrawals, Members United continues to maintain ample liquidity sources. As of September 30, 2008, cash and overnight share accounts totaled \$723.7 million, and the unused portion of the advised line of credit through U.S. Central

totaled \$1.37 billion. Three recent events are expected to strengthen Members United's liquidity position and ensure that our members' liquidity needs continue to be met:

1. Access to the discount window at the Federal Reserve was established.
2. The NCUA announced it would guarantee unsecured debt obligations such as commercial paper.
3. The CLF cap was raised from \$1.5 billion to \$41.5 billion.

Our credit union members have been extremely supportive and continue to provide us with the liquidity and capital to come through these challenging economic times together.

Lastly, please note that we have made revisions to the financial statements in an effort to improve their usefulness. On the balance sheet, CLF loans are reflected as a separate line item and additional detail has been provided for other borrowings. On the income statement, net realized gains (losses) and fair value adjustments have been combined and are now reflected as gains (losses) on financial instruments immediately following core operating results. The notes to the financial statements have been updated and provide additional information. Also, our website includes additional useful information such as the *Portfolio Update* and monthly webinar recordings.

Summary

Members United has made a commitment to developing a leading investment and risk infrastructure for our members. The combination of expertise, practices, tools and controls should provide assurance to our member-owners that we are well-positioned to navigate through these unprecedented markets. We will continue to provide monthly updates with full transparency in an effort to communicate our portfolio and risk exposure, and to affirm the strong financial position of Members United.

Contact Information

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