

Portfolio Update

As of 10/31/2008

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

Signs continue to point to a significantly weaker economic environment in 2009. A recent Bloomberg poll of 59 economists forecasts a 3% decline in GDP in the 4th quarter of this year, followed by 1.5% decline in the first quarter of 2009. We continue to foresee weakness in three key areas: the housing/mortgage markets, employment and the equity markets.

The weak housing markets continue to take their toll as FNMA announced a \$29 billion loss. Expectations from the mega-mortgage company, taken over by the government, seem equally pessimistic as they foresee continued losses. The supply of homes for sale remains stubbornly high as the market is dominated by distressed sales from foreclosures. Though the housing market remains very weak, there is some glimmer of hope. The Case-Shiller index of home values, while still posting large year-over-year declines, is showing much smaller declines on a month-to-month basis. Any stabilization of this index in the face of continued liquidations of foreclosed properties is positive.

The employment market remains depressed, as seen in the record highs set in two consecutive weeks – each week reported more than 500,000 new unemployment claims. The benchmark unemployment rate reached 6.5%, up from 4.8% in February 2008. Non-farm payrolls have recorded consistent declines since December of last year. This weakness in employment also has negatively affected consumer confidence, which fell to a record low of 38 in October from 61.4 in September.

Equity markets continue to look for good news to try to stage a comeback. The Dow Jones Industrial Average appears to have established a tentative floor at the 8,000 mark. Until the trading session on November 19, the equity market has been able to hold this benchmark support level. However continued trading below the 8,000 mark will likely signal further declines.

Other positive signs have occurred. The trade deficit has narrowed significantly over the last year. Oil prices fell to a 21-month low of \$56.16 for December delivery. This stands in sharp contrast to the \$147.27 high we reached on July 11. The oil price collapse over the last few months will take some of the pressure off consumers as gas prices at the pump are finally decreasing.

Central bankers have provided unprecedented amounts of liquidity and have reacted to disjointed markets with new and innovative programs. In the US and abroad, inflation fears have dissipated as economic activity has slowed, allowing for an easing of monetary policy. The Federal Reserve Bank lowered the Fed Funds target rate to 1% and is expected to reduce it even further at their next meeting. The Treasury and the Federal Reserve Bank have developed several programs to create liquidity and support the economy, including establishing a

facility to purchase commercial paper, contributing capital to financial institutions through the TARP program, contemplating a rescue package for auto makers, expanding bailout funds for AIG and Fannie Mae and Freddie Mac, and a slew of other plans.

Members United Outlook

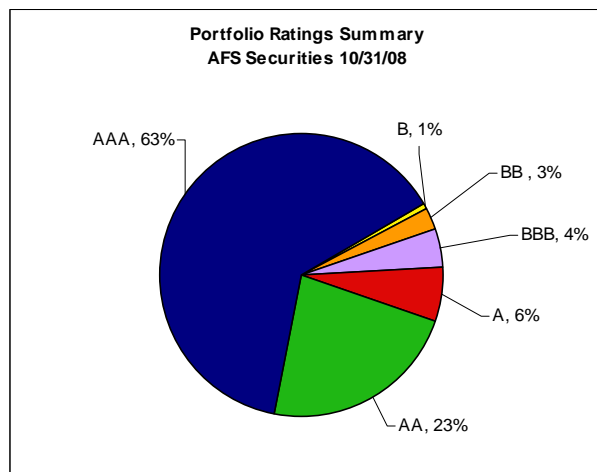
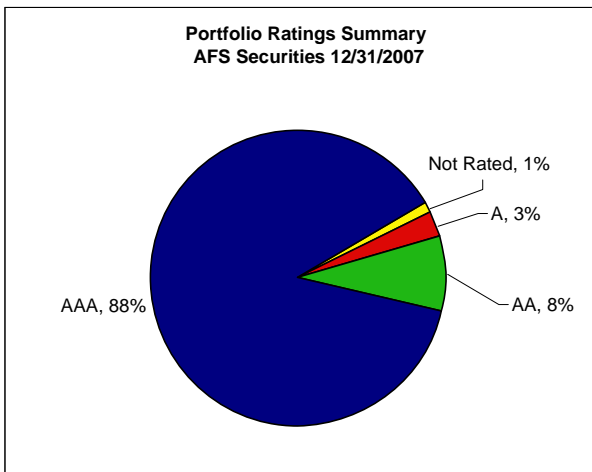
While the steps taken so far are positive and necessary, president-elect Barack Obama and the Democratic-controlled Congress still need to outline their plan for an economic recovery. Government officials are clearly focused on and understand the issues of the day and their significance, which bodes well for aggressive and positive action to resurrect the faltering economy. However, it will take time for the economy to wholly recover from the issues it currently faces.

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 October 31, 2008, Members United's investment portfolio was approximately \$7.7 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 85 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

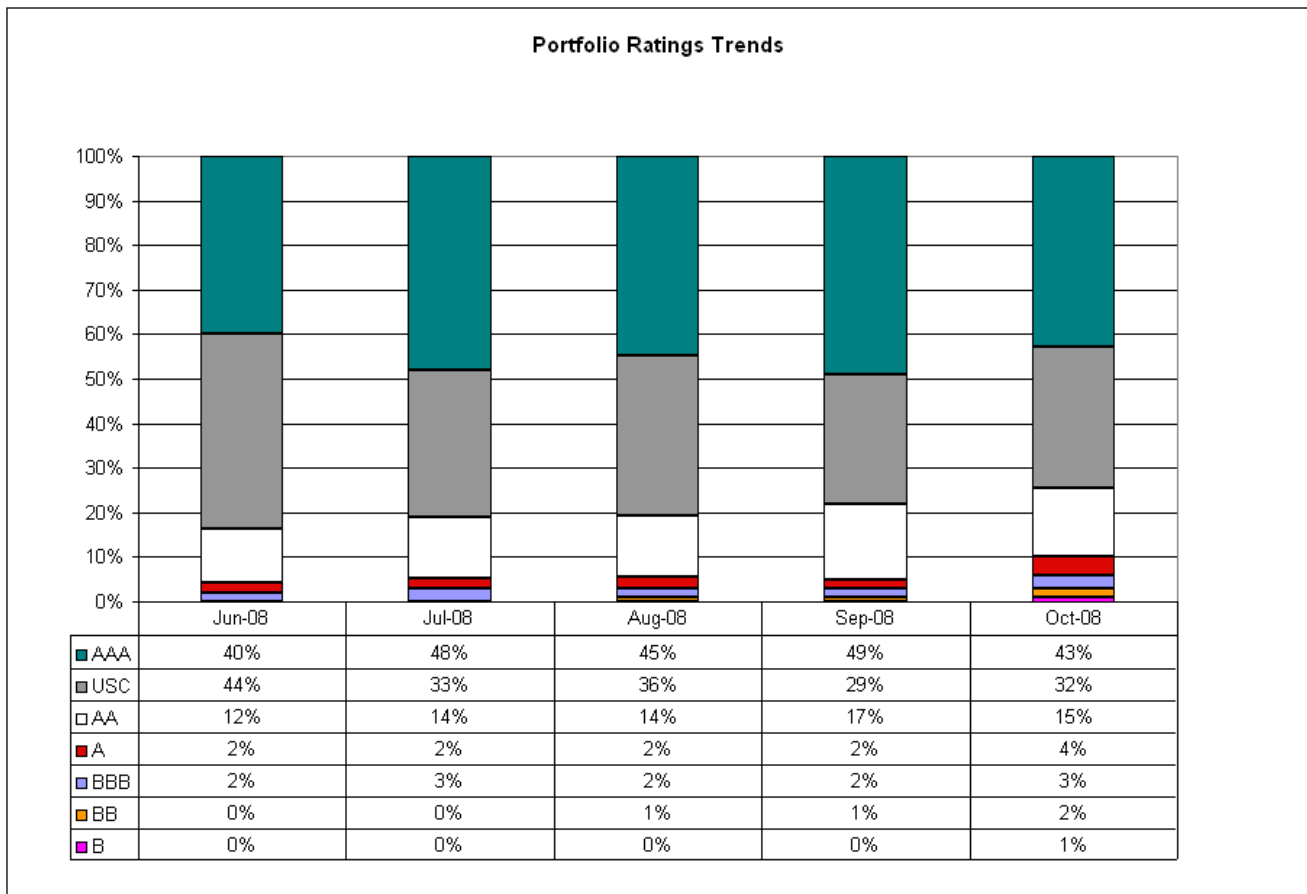
Credit risk is the risk that the par value of an investment will not be returned (fractionally or as a whole). Members United manages credit risk through:

- 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).

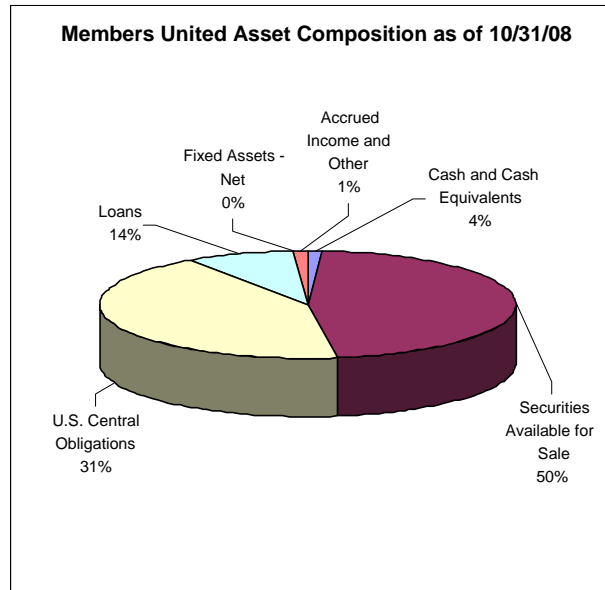
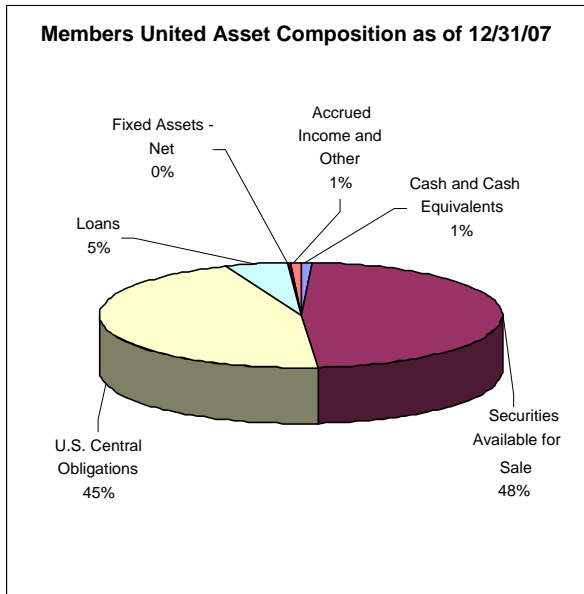
Since the beginning of this credit and liquidity crisis and after tens of thousands of ratings downgrades from the rating agencies, the rating of 371 of the 514 investment securities in Members United's diversified portfolio remain unchanged. During October 2008, 14 bonds were downgraded for the first time. Currently, we have nine bonds wrapped by FGIC, totaling \$152.2 million, which have ratings below BBB (the minimum acceptable level to be held in our investment portfolio). In addition, three bonds wrapped by Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) totaling \$38.3 million have 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 June 2008.



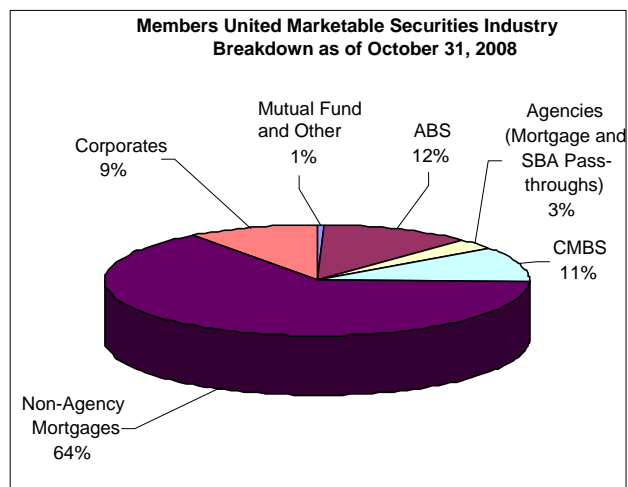
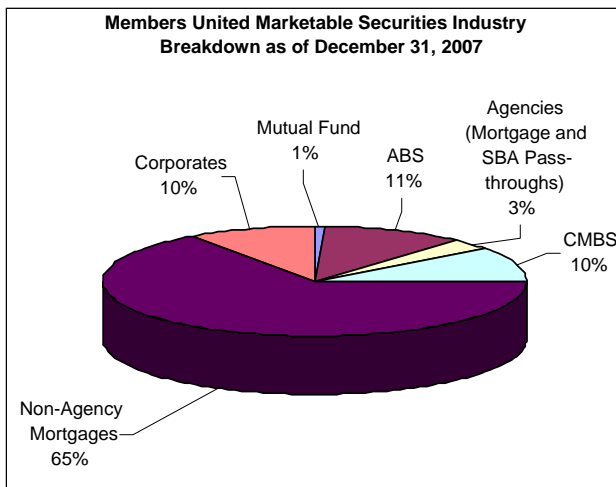
Asset Composition

As of October 31, 2008, our assets were \$9.4 billion. Marketable securities represented \$4.7 billion, and outstanding loans totaled \$1.2 billion. Deposits at U.S. Central totaled approximately \$2.9 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 October 31, 2008:

(All dollars are reflected in thousands)

	Par Value	Unrealized Loss*	Fair Value
Non-agency mortgages	\$ 4,037,651	\$ (1,198,464)	\$ 2,839,187
Asset-backed securities (secured by non-mortgage assets)	738,671	(86,877)	651,794
Commercial mortgage-backed securities	664,204	(160,281)	503,923
Corporates	566,695	(91,993)	474,702
Agencies (mortgage and SBA pass-throughs)	190,908	(1,816)	189,092
Mutual fund and other	67,813	-	67,813
Total investment securities	\$ 6,265,942	\$ (1,539,431)	\$ 4,726,511

*Excludes net unrealized loss on derivative instruments of \$18,294.

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 October 31, 2008, Members United's investments in non-agency, mortgage-related securities were approximately \$4.1 billion. The following represents the aggregate mortgage-related holdings:

(All dollar amounts are reflected in thousands.)

Mortgage Portfolio Category	Dollar Amount Outstanding
Total Non-Agency Mortgage Exposure	\$4,037,651
Prime	1,212,762
Sub-prime (FICOs < 680)	1,072,158
Alt-A	1,752,731

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 October 31, 2008:

Mortgage Portfolio Statistics	Prime	Alt -A	Sub-prime
Percent of non-agency, mortgage-related securities	30%	44%	26%
Percent of total investments	15.8%	23.1%	14%
Weighted average FICO score	725	708	632
Weighted average loan to value	78%	79.3%	82.2%

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	October 31, 2008 Total Holdings Wrapped	October 31, 2008 Total Holdings Wrapped (% of Investments)
Ambac	\$460,351	6.2%
MBIA	437,421	5.8%
FGIC	200,004	2.7%
FSA	103,473	1.4%
SGI (f.n.a. XLCA)	59,300	0.8%
CIFG	16,119	0.2%
Total	\$1,276,668	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	\$124,738	\$64,834	\$128,066	\$81,250	\$60,000				\$1,464
CIFG	16,119								
FGIC	158,177	25,280					\$15,486		1,061
FSA	75,577		27,896						
MBIA	59,590	223,452	39,237	50,417	33,000	\$15,912		\$15,813	
SGI	11,218	13,093	34,988						
Total	\$445,419	\$326,659	\$230,187	\$131,667	\$93,000	\$15,912	\$15,486	\$15,813	\$2,525

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 October 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 \$1.0 billion. 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 October 31, 2008			
	<u>Net Economic Value</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
-100 basis point decline in rates	\$(688,939)	\$42,117	N/A
Base net economic value	(731,056)	-	-
+300 basis point rise in rates	(1,049,595)	(318,540)	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 October 31, 2008			
	<u>Net Economic Value</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
-100 basis point decline in rates	(\$232,876)	\$35,406	13.2%
Base net economic value	(268,283)	-	-
+300 basis point rise in rates	(545,148)	(276,865)	-103.2%

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			
October 31, 2008 (12-month projection)			
	<u>Net Interest Income</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
100 basis point decline in rates	\$36,858	\$(4,282)	(10.48%)
Base case NII	40,867	0	0.0%
300 basis point rise in rates	48,466	7,599	18.59%

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	\$ 1,531,654

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	1,485,861	302,564	1,183,297
State of Illinois deposit	100,000	100,000	-
Commercial paper	270,000	268,000	2,000
Available-for-sale securities - sales	1,487,905	-	1,487,905
Available-for-sale securities - borrowings	461,910	396,704	65,206
Fed funds	500,000	15,000	485,000
Term investment option (TIO)	200,000	200,000	-
Fed discount window	1,018,254	-	1,018,254
Subtotal	6,073,930	1,822,268	4,251,662
Total	\$ 7,605,584	\$ 1,822,268	\$ 5,783,316
Total member loans	\$ -	\$ 874,657	\$ -

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 has joined the Federal Reserve as a full member with access to the Discount Window. Our collateral borrowing value provides more than \$1 billion of access from the Discount Window. These two new developments will provide significantly more stability to our funding sources and protection to our members.

Second, the NCUA is guaranteeing 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 have worked with the Federal Reserve Bank to take

advantage of their new program to purchase commercial paper. We have been able to access more than \$250 million in additional stable liquidity.

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.

The chart above continues to show 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 13 percent. Additionally, we have been working diligently to facilitate credit union access to the Central Liquidity Facility (CLF). As of October 31, we had helped credit unions access \$277 million of low-cost funds from the CLF (cost of funds ranged from 1.25 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 October 31, 2008, there was no credit exposure with our derivative counterparties.

Financial Overview

Members United's net income of \$4.3 million as of October 31, 2008, compares favorably to the \$2.7 million earned for the same period in 2007. Members United continues to enjoy a good margin environment as the spread between LIBOR (the rate earned on investments) and Fed Funds (the rate paid on member share accounts) continues to be higher than historical results.

The current market continues to stress the market value of our investments classified as available-for-sale. Unrealized losses totaled \$1.6 billion as of October 31, 2008, an increase of \$0.3 billion over the prior month. We continue to believe that the unrealized losses represent temporary declines in value, and we intend to hold the securities until they recover in value, which in some cases may mean until maturity. The current market values do not represent these investments' true economic value, as a significant liquidity discount is being built into the pricing of the positions.

Liquidity is a key factor in our ability to hold the investments until they recover in value. Cash and overnight share accounts as of October 31, 2008, totaled \$1.5 billion, unused advised lines of credit totaled \$1.2 billion, and access to the Federal Reserve discount window has been established as a backstop. Our primary source of liquidity continues to represent share and certificate accounts, which totaled \$7.9 billion at the end of October, a \$0.4 billion increase from the previous month.

Capital totaled \$863 million as of October 31, 2008, including \$297 million of reserves and undivided earnings. Charges would be recorded against this capital base if investment principal losses were clearly expected. This would require us to record, through the income statement, permanent impairment charges. (For example, losses would be recorded if Members United purchased a bond at \$100 and now clearly expects to receive only \$90 in principal over the life of the investment.) Members United did not record any permanent impairment charges during the month of October.

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.

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

For questions related to any information contained in this update, please contact any of the following individuals:

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