

## **Portfolio Update**

As of 12/31/2008 (unaudited)

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.

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 string of bad economic news has shown no signs of abating thus far in 2009. Most economic indicators remain at or near all-time lows. Given that short-term interest rates are close to zero percent, there isn't much more relief that can come from a change in interest rate policy. Therefore, the focus has been on fiscal policy and how it might help to jumpstart the economy. The Obama Administration has launched a multi-pronged approach to try to revive the economy.

As of this date, the President is expected to sign a \$787 billion fiscal stimulus plan into law. The plan includes approximately \$500 billion in new spending and \$280 billion in tax cuts to help spur the economy. The plan is smaller than many Democrats had hoped, but still large in relation to prior stimulus plans. It is over three times the size of the 2008 stimulus plan and larger, on a percentage of GDP, than the largest spending year of the FDR "New Deal." The key to the plan will be whether the impacts will be long-lasting or the effects will prove to be temporary, like the 2008 fiscal stimulus.

In an effort to try to stabilize the housing sector, the fiscal stimulus plan includes an \$8,000 tax credit for first-time homebuyers. This move, combined with the announcement that the Obama Administration is working on a program to lower mortgage rates for borrowers at risk of becoming delinquent, displays an effort to directly tackle the housing valuation problem. The impact on delinquencies from lowering the mortgage rate via loan modifications has thus far been muted, so the effectiveness of the program remains to be seen.

The financial rescue plan announced by Treasury Secretary Timothy Geithner represents another prong in the Administration's approach. The plan, which was announced on February 10th, includes another round of bank recapitalization, a public-private partnership to purchase troubled assets and an expansion of the TALF Program. The plan, which was highly anticipated, was relatively high-level and lacked the details that the market was hoping for. Given the lack of clarity, the stock market promptly sold off by almost five percent immediately following the announcement.

The stock market clearly displays the lack of confidence that the economy will be able to turn around quickly. The S&P 500 is down over 12 percent year-to-date and is testing long-term support levels dating back to 2002, despite the multiple plans of action announced by the Administration. The market seems to want proof that the plans will accomplish what they are supposed to do before rallying any further.

## Members United Outlook

Inflation appears to be a faint memory as interest rates rest comfortably near zero. We expect short-term rates to have little impetus to move through most of this year. Without substantive and effective changes the mortgage and housing markets will remain weak. Market confidence in plans to “prime the pump” through fiscal stimulus has been less than anticipated. We are hopeful the administration plans will eventually effect positive change to the economic landscape; however the economic potential may now be curtailed as consumers reposition their balance sheets with an emphasis on savings and a de-emphasis on discretionary spending.

## 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.

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.

### Credit Risk

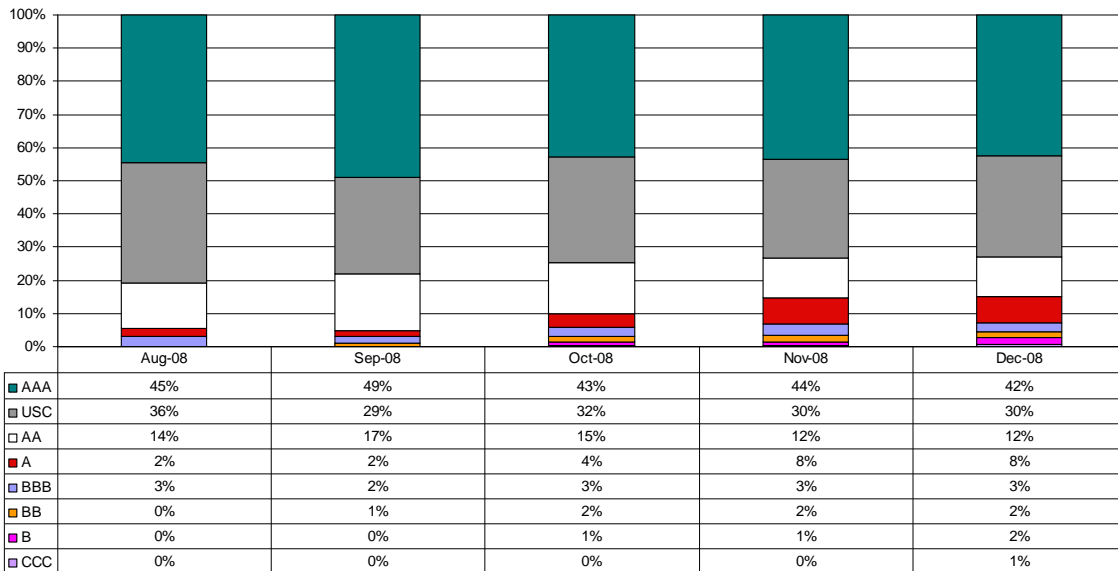
Credit risk is the risk that the par value of an investment will not be returned (fractionally or as a whole). Members United manages credit risk through:

- 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).

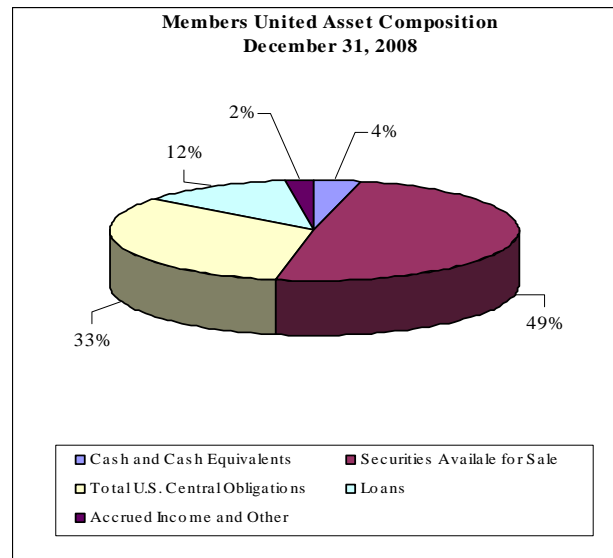
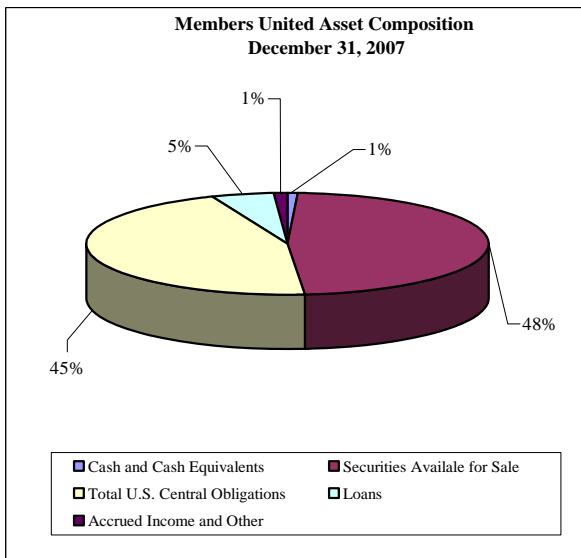
Since the beginning of this credit and liquidity crisis and after tens of thousands of ratings downgrades from the rating agencies, the rating of 327 of the 507 investment securities in Members United’s diversified portfolio remain unchanged. During December 2008, 10 bonds were downgraded for the first time. Currently, we have 11 bonds wrapped by FGIC, totaling \$161.5 million, which have ratings below BBB (the minimum acceptable level to be held in our investment portfolio). In addition, five bonds wrapped by Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) totaling \$44.4 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 chart on the following page provides the ratings trends on Members United’s investment holdings since August 2008.

### Portfolio Ratings Trends



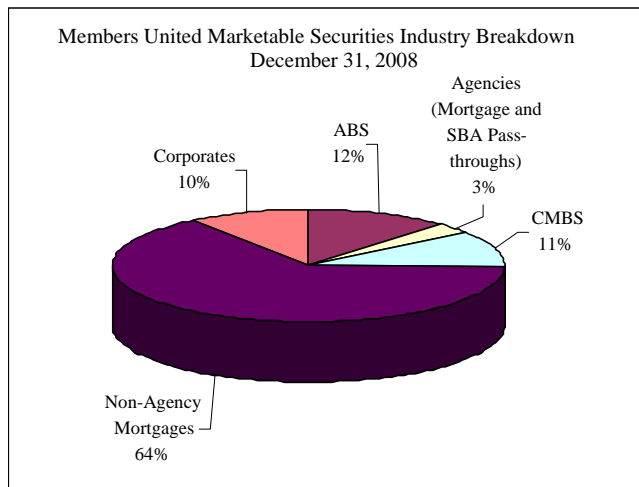
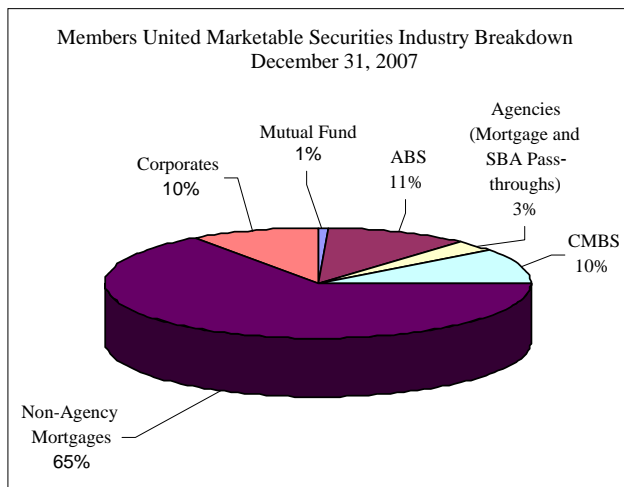
### Asset Composition

As of December 31, 2008, our assets were \$8.3 billion. Marketable securities represented \$4.1 billion, and outstanding loans totaled \$985.7 million. Deposits at U.S. Central totaled approximately \$2.7 billion.



## Industry Composition

Members United's industry composition has remained relatively stable since fiscal year-end 2007, with no category changing by more than one 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 December 31, 2008 (unaudited):

(All dollar amounts are reflected in thousands)

	Unrealized		
	Par Value	Loss*	Fair Value
Non-agency mortgages	\$ 3,933,346	\$ (1,603,532)	\$ 2,329,814
Asset-backed securities (secured by non-mortgage assets)	722,738	(109,424)	613,314
Commercial mortgage-backed securities	659,348	(233,707)	425,641
Corporates	606,702	(91,709)	514,993
Agencies (mortgage and SBA pass-throughs)	183,248	(2,953)	180,295
Mutual fund and other	27,303	-	27,303
Total investment securities	\$ 6,132,685	\$ (2,041,325)	\$ 4,091,360

\*Excludes net unrealized loss on derivative instruments of \$38,658.

## 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 December 31, 2008, Members United's investments in non-agency, mortgage-related securities were approximately \$3.93 billion (unaudited). The following represents the aggregate mortgage-related holdings:

(All dollar amounts are reflected in thousands.)

<b>Mortgage Portfolio Category</b>	<b>Dollar Amount Outstanding</b>
Total non-agency mortgage exposure	\$3,933,346
Prime	1,162,335
Sub-prime (FICOs < 680)	1,050,533
Alt-A	1,720,478

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 December 31, 2008:

<b>Mortgage Portfolio Statistics</b>	<b>Prime</b>	<b>Alt –A</b>	<b>Sub-prime</b>
Percent of non-agency, mortgage-related securities	30%	44%	26%
Percent of total investments	17%	25%	15%
Weighted average FICO score	724	707	633
Weighted average loan to value	79%	78%	81%

## 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.)

<b>Monoline</b>	<b>December 31, 2008 Total Holdings Wrapped</b>	<b>December 31, 2008 Total Holdings Wrapped (% of Investments)</b>
<b>Ambac</b>	\$448,123	6.6%
<b>MBIA</b>	427,253	6.3%
<b>FGIC</b>	192,688	2.9%
<b>FSA</b>	99,748	1.5%
<b>SGI (f.n.a. XLCA)</b>	57,675	0.8%
<b>CIFG</b>	15,042	0.2%
<b>Total</b>	\$1,240,529	18.3%

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.

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 December 2008. Given the calculation impact of the unrealized losses (which we continue to believe are largely temporary) creating a base NEV 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 \$1.4 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.)

<b>Net Economic Value</b>			
<b>December 31, 2008</b>			
	<b>Net Economic Value</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
-100 basis point decline in rates	N/A	N/A	N/A
Base net economic value	(1,260,525)	-	-
+300 basis point rise in rates	(1,410,667)	(150,142)	(11.91)

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.

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.)

<b>Net Interest Income Projection</b>			
<b>December 31, 2008 (12-month projection)</b>			
	<b>Net Interest Income</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
100 basis point decline in rates	N/A	N/A	N/A
Base case NII	33,033	0	0.0%
300 basis point rise in rates	42,656	9,623	29.13%

## 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)

<b>Current Liquidity</b>	
Cash and short term deposits at U.S. Central	<b>\$ 1,339,764</b>

<b>Source of Liquidity</b>	<b>Gross</b>	<b>Used</b>	<b>Net</b>
US Central - committed line	\$ 310,000	\$ 310,000	-
FHLB Chicago line of credit	240,000	230,000	\$ 10,000
US Central - advised line	1,359,153	278,479	1,080,674
State of Illinois deposit	100,000	100,000	-
Commercial paper	270,000	268,000	2,000
Available-for-sale securities - sales	1,281,009	-	1,281,009
Available-for-sale securities - borrowings	251,063	186,454	64,609
Fed funds	1,383,000	500,000	883,000
Fed discount window	1,018,254	-	1,018,254
<b>Subtotal</b>	<b>6,212,479</b>	<b>1,872,933</b>	<b>4,339,546</b>
<b>Total</b>	<b>\$ 7,552,243</b>	<b>\$ 1,872,933</b>	<b>\$ 5,679,310</b>
<b>Total member loans</b>	<b>\$ -</b>	<b>\$ 988,392</b>	<b>\$ -</b>

Liquidity has followed normal seasonal trends, and we are seeing increases to our overnight account balances. This is reassuring as the diminished expectation for early-year bonuses are likely being offset by an increase in filings for federal income tax returns. Our key sources of liquidity remain strong and the reliability of US Central as a source of funding is greatly enhanced with their participation in the SIP and HARP programs pioneered by NCUA. The opening of the CLF program has also provided strong liquidity to member credit unions. Our access to the Federal Reserve Bank Discount Window remains at over \$1 billion. The guarantee programs initiated by NCUA for both debt and deposits should provide significant comfort to credit unions to utilize or even increase investments in corporate financial products going forward.

## Derivative Positions

Members United uses interest rate swaps to manage interest rate risk and never used derivatives to hedge credit risk associated with a specific investment. For example, if Members United made a five-year fixed rate loan to a credit union, Members United would enter into an interest rate swap to convert the fixed rate to a variable rate. There can be a nominal amount of credit risk if the counterparty should fail to perform under the terms of the contract. Members United manages credit risk by using comprehensive credit-approval processes, selecting only creditworthy counterparties and using 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 December 31, 2008, there was no credit exposure with our derivative counterparties.

## Financial Report Update

We fully understand that our credit union members are seeking our financial statements as of December 31, 2008. We want you to know that we are committed to issuing financial reports as soon as possible. However, recent market events are requiring us to perform additional work to ensure the proper accounting for the following set of transactions:

1. U.S. Central reported an unaudited \$1.2 billion loss in December and now has a retained deficit of approximately \$500 million. Members United owns capital shares in U.S. Central and must evaluate how this loss adversely impacts the carrying value of those shares.
2. The credit markets deteriorated during the fourth quarter and Members United has retained external third parties to review some of our investments for possible impairment. Please recall that in September 2008, Members United recorded an OTTI (other than temporary impairment) when we determined that principal losses on certain investments were probable.
3. A loan to a mortgage CUSO requires additional appraisals and a legal review to determine if the specific allowance for loan loss should be adjusted.
4. Members United is evaluating if its NCUSIF deposit requires impairment.

Consistent with our continued commitment to transparency, we will provide an update on each of these topics at the next Financial Update webinar. We greatly appreciate your continued patience and support as we work hard to research these transactions to ensure that the proper accounting treatment is applied.

## 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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