

## **Portfolio Update and Financial Reports**

### **Including an Update on Progress against the Expense Reduction Plan and Details Regarding Senior Management Travel**

As of 12/31/09 (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 regarding our safety and soundness.

#### **Economic Overview**

In 2010, several government programs that were needed to improve the economy and liquidity during the height of the crisis should begin to wind down. These measures proved to be very successful in supporting the markets in 2009, as clearly indicated by the over 20% gain in the S&P and tightening of credit spreads. As much of this support gets pulled back during 2010, it will be important to see if the market can stand on its own. We are skeptical that the economy is healthy enough to produce consistent trend growth without support. While we don't anticipate a double-dip recession, we expect growth to be well below that experienced in the recoveries seen in the 1970's and 1980's. This recovery will likely be slower and the job market will take much longer to recover than many of the previous recessions. It will look much more similar to the "jobless" recoveries of the 1990's and 2000's.

The housing market was one of the main beneficiaries of federal support in 2009. The Fed purchased \$1.25 trillion of mortgage-backed securities (MBS) in order to keep mortgage rates low, implemented and extended the homebuyer tax credit to stimulate demand, and implemented foreclosure moratoria and loan modification programs (HAMP) to keep homeowners in their homes, which helped keep the supply of available homes lower. Most of this support is scheduled to be phased-out in 2010 as the MBS purchases are slated to end in March and the homebuyer tax credit expires in June. We suspect that some of these programs may be extended or replaced with other programs as it becomes evident that the housing market cannot stand without assistance. Perhaps, a precursor to this was the Treasury department's announcement that it will provide unlimited access to capital to the government-sponsored enterprises (GSEs). This may create a way for the Fed to manipulate the mortgage market without impacting its own balance sheet.

The biggest factor weighing on the housing market is the large supply of delinquent and foreclosed homes that could flood the market and further depress prices. According to the Mortgage Bankers Association, 10.62% of mortgage loans in the U.S. were either 60+ days delinquent or in foreclosure as of 9/30/09. Given that there are approximately 52 million first lien mortgage loans in the U.S., that translates into 5.5 million more houses in potential future housing inventory. That would almost triple the current inventory of existing homes on the market. This large supply overhang will likely cause housing prices to decline further in 2010. The decline should be much more modest than the past 2 years, but at least 5%-10% of further price erosion seems probable.

Many economists discuss how the labor market affects the housing market, but the housing market can also have an impact on labor. The U.S. has traditionally ranked near the top in terms of a country's labor mobility. Labor mobility helps to dampen a recession as workers migrate to the parts of the country that are more prosperous, which helps to keep the unemployment rate lower. Given the large drop in housing values, labor mobility has been negatively impacted. Many people are being forced to stay in their homes due to large negative equity positions and/or inability to sell their homes. This impact will likely remain for several years, and will cause the unemployment rate to be higher than in normal circumstances.

We expect the labor market to remain weak throughout 2010. Similar to the housing story, the main reason for weakness is the huge amount of supply that overhangs the market. The labor force participation rate has fallen

by 1.2% over the past twelve months, which is the biggest drop in the postwar period. The decline comes from the increased number of discouraged and part-time workers that would prefer full-time work.

When the economy improves, many of these workers will look to re-enter the labor force. This will limit the magnitude of unemployment rate improvement. We expect the unemployment rate to stay above 9% for 2010.

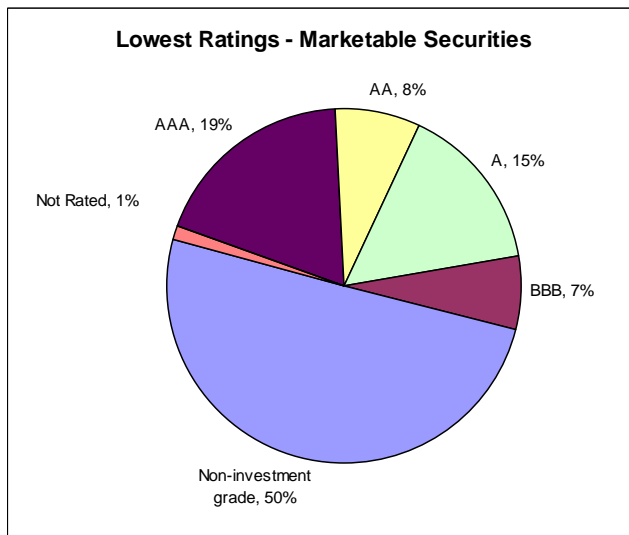
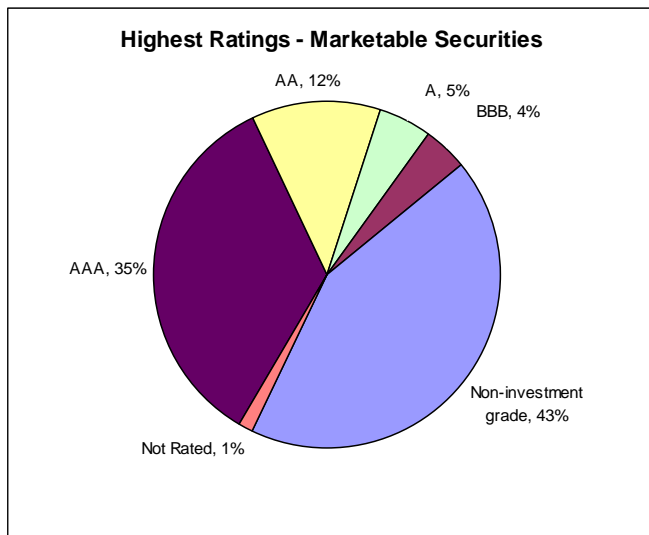
### Members United Outlook

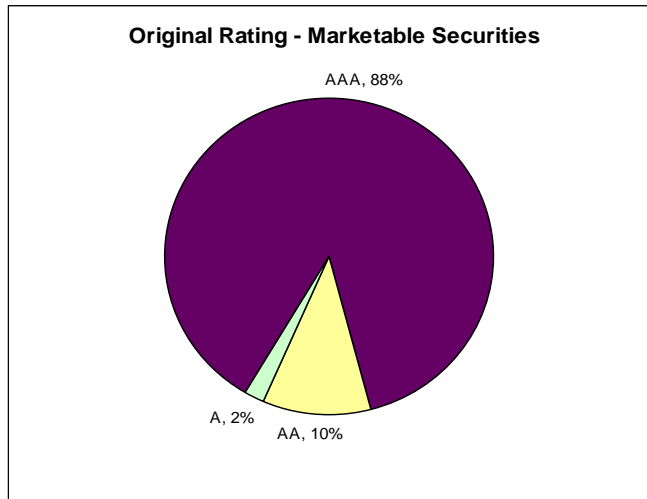
Short-term interest rates increased substantially from late November to year-end. This was mainly due to the positive surprise in the November employment report and hopes of a quick recovery. These hopes were diminished when the December payroll report was weaker than expectations and continued to show net job losses. Short-term rates reverted back near their lows. The futures market is currently pricing in Fed rate increases starting in July, 2010. The market is pricing cumulative rate increases of 60 basis points for 2010. We continue to believe that the Fed stays on hold for 2010. Given the stubbornly high unemployment rate, the Fed will not feel comfortable removing the stimulus.

### Portfolio Overview

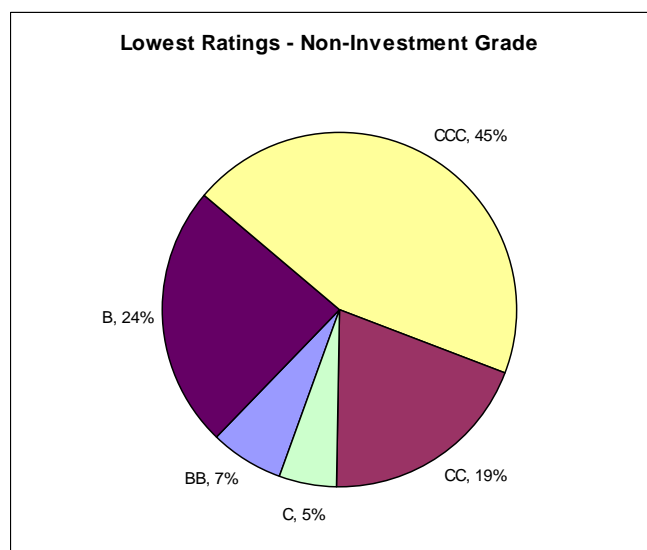
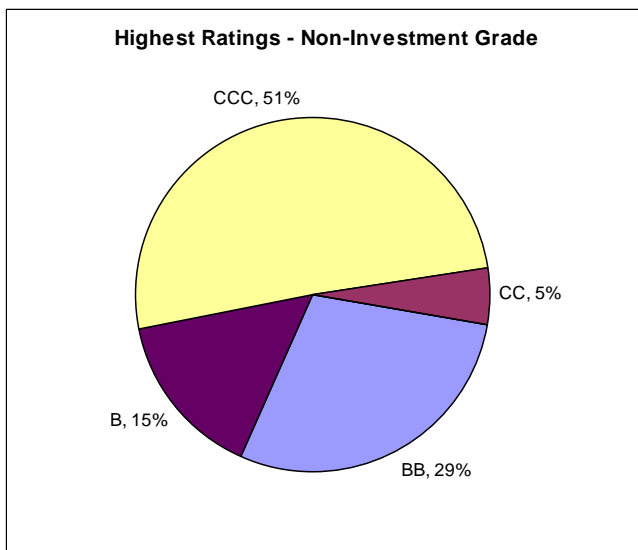
Credit risk is the risk that the par value of an investment will not be returned (fractionally or as a whole). Members United manages credit risk through continual monitoring and rigorous modeling of its investment securities. Members United has the regulatory authority to hold investment securities with a rating of BBB or higher. If an investment held by the corporate falls below BBB, an investment action plan must be prepared and filed with the NCUA, demonstrating the anticipated performance of the security and any potential loss exposure to future cash flows (periodic interest and principal payments). The ability to continue to hold investments below BBB are subject to the approval of the NCUA.

Members United presents three charts below. The first chart provides a ratings breakdown of Members United's current marketable securities holdings using the highest current rating available. The second chart provides the same breakdown using the lowest current rating available. The third chart shows a breakdown using the original rating assigned to the security. These charts summarize the portfolio ratings as of December 31, 2009 (total par value of approximately \$5.2 billion):



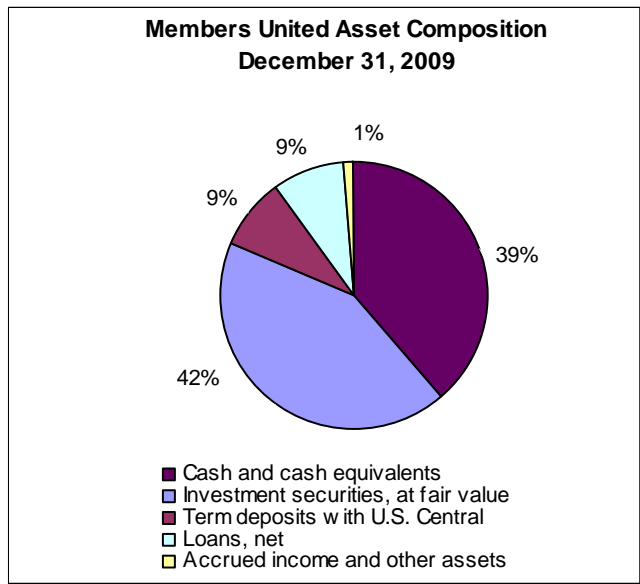
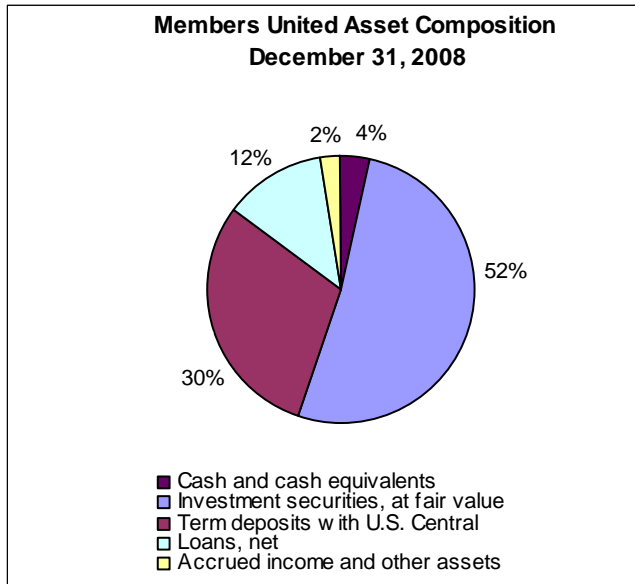


The following charts provide additional ratings information for the non-investment grade portion of the portfolio as of December 31, 2009 (total par value of approximately \$2.2 billion for the highest-rating scenario and \$2.5 billion for the lowest-rating scenario):



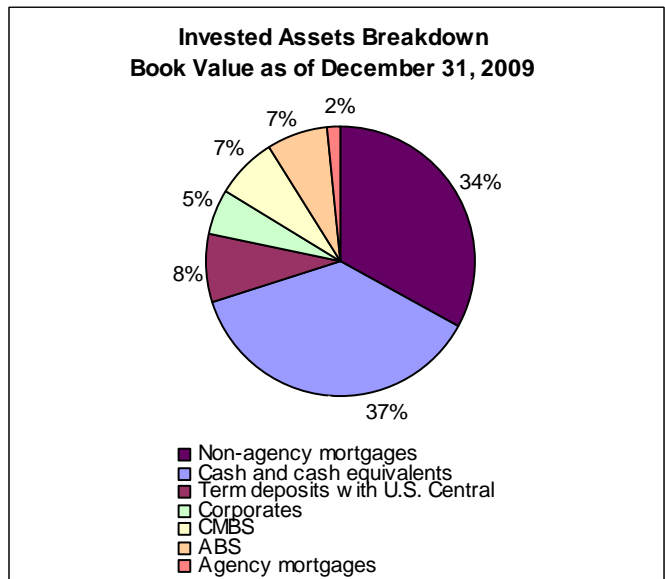
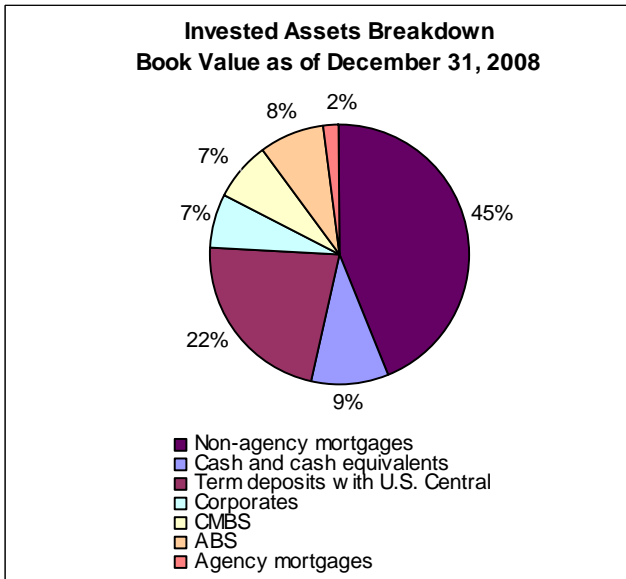
**Asset Composition**

As of December 31, 2009, the total fair value of assets was \$8.37 billion. Cash and cash equivalents and overnight deposits at U.S. Central totaled \$3.23 billion, fair value of marketable securities represented \$3.58 billion, loans to members totaled \$0.73 billion, term deposits at U.S. Central totaled approximately \$0.74 billion and accrued income and other assets totaled \$.09 billion.



Invested Assets

Asset allocations based on book value within Members United's invested asset portfolio have changed considerably since fiscal year-end 2008. Cash and cash equivalents have increased substantially from 9% to 37% of total investments. At the same time, term deposits with U.S. Central have been reduced from 22% to 8%, and non-agency mortgage securities have declined from 45% to 34%.



## Total Investment Portfolio

The table below summarizes Members United's total available-for-sale (AFS) securities by category, as of December 31, 2009:

(All dollar amounts are reflected in thousands)

	Par Value	Book Value	Unrealized Loss*	Fair Value
Non-agency mortgages	\$ 3,290,161	\$ 2,895,642	\$ (1,010,246)	\$ 1,885,396
Asset-backed securities (secured by non-mortgage assets)	641,920	642,177	(42,404)	599,773
Commercial mortgage-backed securities	640,848	650,307	(158,052)	492,255
Corporates	490,141	462,848	(22,350)	440,498
Agencies (mortgage and SBA pass-throughs)	140,496	140,492	(1,058)	139,434
Mutual fund and other	34,849	27,471	-	27,471
Total investment securities	\$ 5,238,415	\$ 4,818,937	\$ (1,234,110)	\$ 3,584,827
*Excludes net unrealized loss on derivative instruments of \$22,600.				

## Mortgage-Related Securities

The housing market remains under stress, though recent signs point to potential stabilization. While there is continued news of falling home values and rising delinquency and foreclosure rates (especially in certain geographic areas), the pace of this deterioration has declined. That said, a record number of homes remain in some stage of foreclosure and have yet to be sold or liquidated. The following table provides more information on Members United's non-agency mortgage-related holdings as of December 31, 2009:

(All dollar amounts are reflected in thousands.)

Mortgage Portfolio Category	Par Value	Book Value	Percent of Non-Agency, Mortgage-Related Securities (Par Value)	Percent of Total Invested Assets*
Total non-agency mortgage exposure	\$ 3,290,160	\$ 2,895,642	100%	33%
Prime	865,422	785,115	26%	9%
Sub-prime (FICOs < 680)	867,638	794,495	26%	9%
Alt-A	1,557,100	1,316,032	48%	15%

\*Invested Assets = Book value of AFS securities + deposits at U.S. Central + cash and cash equivalents

## Monoline Insurance Companies

An important 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. One common method of providing credit enhancement for these investments is the use of an insurance "wrap" from a monoline insurer, which guarantees the timely payment of interest and ultimate payment of principal. Most monoline insurers continue to experience significant losses from guarantees they made on credit default swaps (CDS) and collateralized debt obligations (CDO) backed by residential mortgage securities. (Members United does not own any CDOs or hold any CDS contracts.) These unrealized losses continue to negatively affect the monoline insurers' capital ratios, leading to downgrades of their insurance financial strength ratings.

Residential mortgage-backed securities wrapped by FGIC and Syncora Guarantee (SGI), have been subjected to other-than-temporary impairment (OTTI). Effective November 24, 2009, FGIC ceased paying claims on its insured obligations per an order issued by the New York Insurance Department. SGI ceased paying claims effective April 2009. Also of note, Ambac was downgraded to CC and Caa2 by S&P and Moody's, respectively, in late July 2009, following its announcement of significantly greater-than-expected losses on its CDS exposures. While Ambac remains in compliance with regulatory capital requirements at this time, the amount of cushion available to absorb potential additional future losses has fallen substantially.

The following table highlights Members United's monoline insurance exposure. We note again that holding amounts are reported on a book value basis and are net of any recorded OTTI:

(All dollar amounts are reflected in thousands.)

Monoline	December 31, 2009 Total Holdings Wrapped	December 31, 2009 Total Holdings Wrapped (% of Invested Assets*)
Ambac	\$ 328,646	3.74%
MBIA	340,320	3.88%
FGIC	102,234	1.17%
AGM (f.n.a. FSA)	75,055	0.86%
SIG (f.n.a. XLCA)	15,148	0.17%
CIFG	4,932	0.06%
<b>Total</b>	<b>\$ 866,335</b>	<b>9.88%</b>

\*Invested Assets = Book value of AFS securities + deposits at U.S. Central + cash and cash equivalents

### Interest Rate Risk

Members United is exposed to some amount of interest rate risk, as changes in interest rates can affect net interest income and the value of our balance sheet. One common measure used to capture interest rate risk is net economic value (NEV), which measures the net change in the value of our assets, liabilities and off-balance sheet items, given a change in interest rates. Members United adheres to NCUA's Rules and Regulations Part 704 and analyzes NEV monthly using instantaneous and parallel interest rate shocks of up to 300 basis points – a very aggressive assumption designed to produce a “stress test” of the balance sheet. In addition, Members United also periodically evaluates the impact to NEV through changes to yield curve point values, prepayment rates, volatility, credit spreads and basis risk. The resulting market value data information and deviation to “base case” results is reviewed with Management and ALCO.

The chart below demonstrates NEV test results for December 2009. Base-case NEV figures reflect the impact of unrealized losses, which we continue to believe are largely temporary. The most severe scenario of a 300 basis point, instantaneous rise in interest rates reflects a decline in NEV of approximately \$115.7 million – or 10.37%.

(All dollar amounts are reflected in thousands.)

Net Economic Value December 31, 2009			
	Net Economic Value	Dollar Change	Percentage Change
Base case net economic value	(1,116,417)	-	-
300 basis point rise in rates	(1,232,134)	(115,717)	(10.37%)

Valuations reflected in the base NEV calculation continue to be constrained due to market illiquidity and the failure of current market prices to capture true economic value, if the securities are held to maturity. Members United continues to monitor this dislocation in valuations through regular comparisons of internal option adjusted (OAS) spread-derived prices with prices received from third-party pricing services. Differentials between these two pricing approaches remain quite wide, as most asset-backed security (ABS) sectors remain thinly traded and quotes from market makers and third-party pricing sources continue to reflect deep discounts and a sizeable liquidity premium. We note that as market liquidity eventually improves, this dislocation in market pricing is expected to gradually correct itself, eventually leading to a reduction in unrealized losses reported in base NEV measures.

In addition to NEV computations, Members United executes monthly net interest income (NII) forecasts under instantaneously shocked and ramped-rate scenarios. These are typically 12-month, forward-looking forecasts that are calibrated to the same sector volumes utilized in NEV modeling. Repricing characteristics are reviewed monthly and are adapted to current market conditions, as applicable, to ensure that the most robust

assumptions are applied in the forecast simulations. The following table illustrates Members United's projected NII over the next 12 months. As is appropriate with NEV modeling, Members United captures the embedded options (prepayment speeds, "call" provisions, etc.) associated with all on- and off-balance sheet instruments.

(All dollar amounts are reflected in thousands.)

<b>Net Interest Income Projection</b>			
<b>December 31, 2009 (12-month projection)</b>			
	<b>Net Interest Income</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Base case net interest income	31,681	-	-
300 basis point rise in rates	54,110	22,429	70.80%

### 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. Liquidity risk is mitigated by the amount of currently available liquidity. This can be in the form of cash that can be immediately utilized or in readily available sources of liquidity such as borrowings. The following table outlines our sources of liquidity as of December 31, 2009:

(All dollars are reflected in thousands)

<b>Current Liquidity</b>			
Cash and short term deposits	\$ 690,151		
<b>Source of Liquidity</b>	<b>Gross</b>	<b>Used</b>	<b>Net</b>
FHLB Chicago line of credit	\$ 160,000	\$ 100,000	\$ 60,000
US Central - advised line	726,642	62,707	663,935
Available-for-sale securities - sales	1,469,025	-	1,469,025
Available-for-sale securities - borrowings	582,772	-	582,772
Fed funds	913,000	-	913,000
<b>Subtotal</b>	<b>3,851,439</b>	<b>162,707</b>	<b>3,688,732</b>
<b>Total</b>	<b>\$ 4,541,590</b>	<b>\$ 162,707</b>	<b>\$ 4,378,883</b>
<b>Total member loans</b>		<b>\$ 738,000</b>	
<b>Balances at the FRB</b>		<b>\$ 2,535,816</b>	

Natural person credit unions continue to experience strong liquidity due to strong share and weaker loan growth. This has maintained strong deposit balances at Members United, primarily in overnight and short term deposits. We expect seasonal trends to continue to support above trend credit union liquidity as federal tax refunds will start to go out to individuals in February. Traditionally bonuses from sponsors and other companies have also buoyed credit union liquidity in the first quarter, but with the drastic economic slowdown we feel this will have a much smaller impact in 2010. Members United's available cash positions remain robust with \$2.5 billion at the FRB and an additional \$690 million at other overnight depository accounts.

### Derivative Positions

Members United uses interest rate swaps to manage interest rate risk and has 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, 2009, there was no credit exposure with our derivative counterparties.

### **Financial Plan Update**

Members United continues to follow a financial plan that is designed with one goal in mind – to minimize the ultimate losses to our member credit unions by holding securities until they mature. While principal losses are expected, the losses would be greater if the securities were sold in the current market. In summary, Members United continues to:

- Participate in the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP)
- Continue suspension of mortgage investment purchases
- Hold securities until they recover in value
- Use cash inflows to pay down debt and store cash
- Reduce operating expenses to preserve capital

Members United remains focused on following this plan and is achieving the desired results. Cash balances exceed \$3.2 billion, external borrowings have been reduced and significant operating expense savings continue to be realized – actual year-to-date expenses are down \$19.8 million in 2009 compared to the prior year.

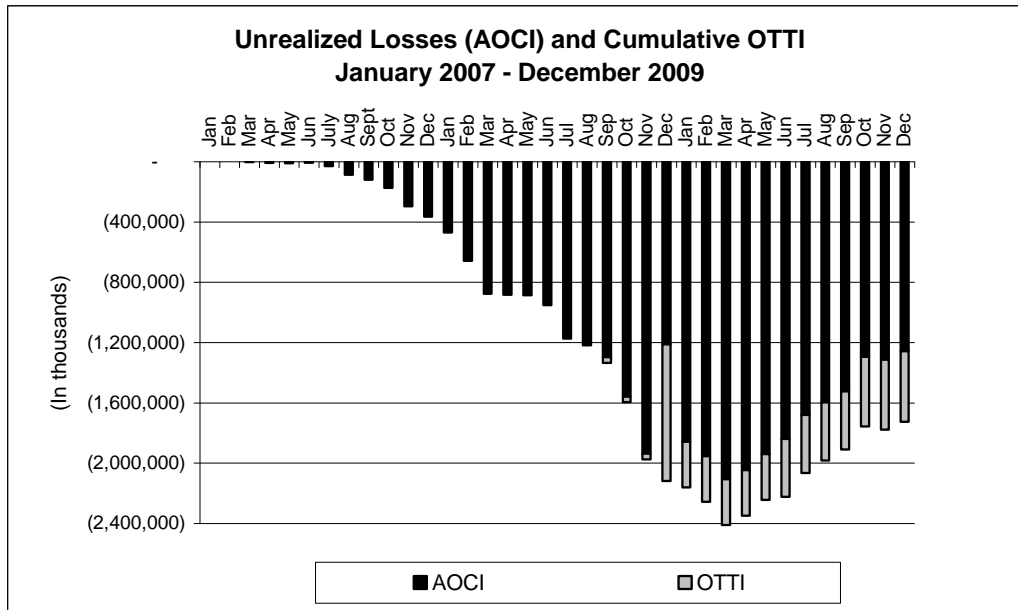
### Financial Results for December 31, 2009 (excluding OTTI)

Full financial results are not available for December 31, 2009 as Members United is in the process of performing its investment OTTI review to determine if additional losses should be recorded. Ideally, this information will be audited by the independent accountants to ensure their concurrence. Due to the complexity of the issue and the importance of being as precise as possible, we are targeting April 30, 2010 to release the full financial results as of December 31, 2009. In lieu of providing full financial results, the following financial highlights are provided for the month of December 31, 2009.

- Core net income, excluding the OTTI loss estimates, totaled \$1.4 million.
- Operating expenses continue to be much less than the prior year and much less than budgeted levels.
- Liquidity is strong as cash and cash equivalents totaled approximately \$3.2 billion
- Members United has reduced its borrowings by \$1.8 billion over the past 12 months.
- Capital, consisting primarily of membership capital shares, totaled \$140.5 million prior to any OTTI charges that may result from the aforementioned OTTI review currently underway.

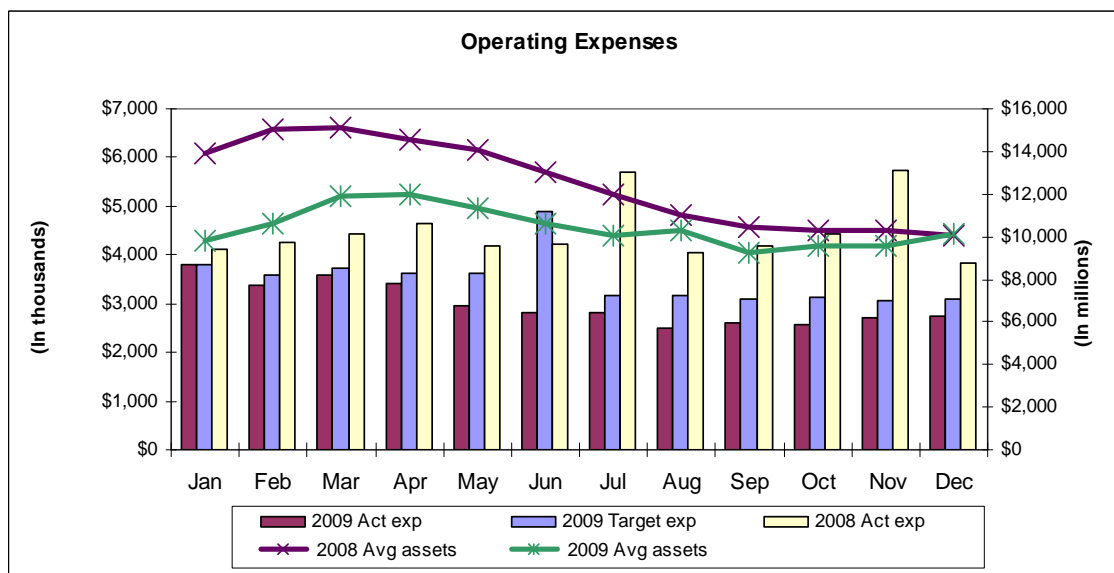
### Valuation Trends

Please note that the following chart aggregates the current unrealized loss (AOCI) and all OTTI that has been recorded since September 2008. Aggregating this data improves comparability of this trend since OTTI essentially represents a reclass from the balance sheet (AOCI) to the income statement (OTTI), when losses are deemed other-than-temporary. In summary, these aggregated balances represented a loss of \$2.4 billion as of March 31, 2009, which has improved to an aggregated loss of \$1.72 billion as of December 31, 2009.



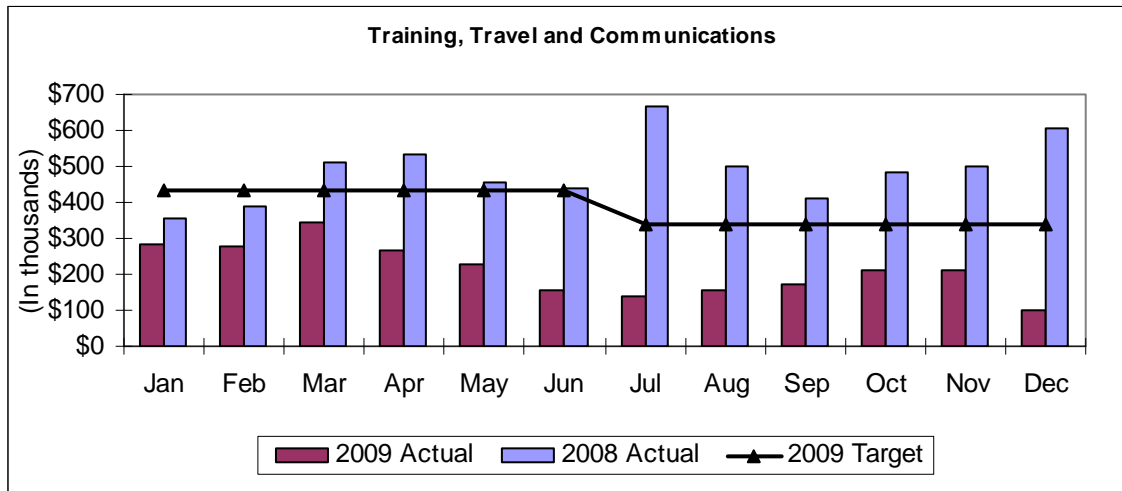
#### Total Operating Expenses - Plan Update

Members United continues to realize significant cost savings relative to last year. On a year-to-date basis through December 31 2009, total expenses are \$19.8 million **less** than expenses incurred through December 31, 2008.



#### Travel, Training and Communication Expense – Update

Travel, training and communications expense is approximately 11% of the total annual operating expense budget and represents a primary focus of the cost savings initiatives in 2009. These expenses totaled \$100,000 for the month of December 2009. The following table presents results against plan.



From 11/24/09 through 12/23/09 (the applicable expense reporting period), the executive leadership team expense reports totaled \$1,827 for travel-related expenses. This included costs associated with five trips. One of these trips occurred during the applicable expense reporting period and four are for future travel. At December 31, 2009, the executive leadership team includes Joe Herbst, Todd Adams, Kevin Brauer, John Collins and Ron Koza. The following table provides more detailed information regarding leadership team travel:

Date	Name	Costs	From/To	Purpose
12/14-12/16	Brauer	\$ 359	Albany to Chicago	Leadership team meetings in the Warrenville office
1/25-1/26	Herbst	133	Albany to Chicago	Tow n hall meetings in Chicago and Indiana
2/1-2/2	Herbst	820	Chicago to Sioux Falls and Minneapolis	Tow n hall meetings in Sioux Falls and Minneapolis
2/4/2010	Herbst	250	Minneapolis to Orlando to Albany	NCUA tow n hall meeting in Orlando
2/8/2010	Herbst	265	Albany to Chicago	CEO meetings in Illinois
<b>Total travel related expenses</b>		<u>\$ 1,827</u>		

### Summary

Members United appreciates your continued support and patience as we work through the accounting and reporting requirements. Members United remains committed to contributing to the long-term financial success of our members and will continue to work towards minimizing any losses incurred.

### Contact Information

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

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