



## Portfolio Update

As of 9/30/2007

As a trusted business partner, one of our goals is to provide our member-owners objective, transparent information and data. The following report has been developed as a way to provide our members with additional disclosure regarding our safety and soundness. We are pleased to report that the quality and performance of our portfolio and our balance sheet is very strong. While financial statements are published monthly for your review (available at [www.membersunited.org](http://www.membersunited.org)), we will provide an enhanced look into the corporate's balance sheet and risk profile on a periodic basis.

This report will focus on three primary risks within Members United 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.

### Infrastructure and Segregation of Duties

Members United's investment and lending activities are clearly segregated from risk monitoring activities. All investment and lending decisions are managed by the Chief Investment Officer. All risk monitoring activities are coordinated by the Chief Risk Officer. Further segregation is observed by maintaining a Chief Financial Officer (CFO) whose responsibilities are completely segregated from those of the other areas.

The Chief Risk Officer (CRO) oversees the approval of any limits to investment counterparties, as well as the approval of specific marketable security trades being sought by our investment staff. Additionally, the CRO is responsible for the oversight of all interest rate risk modeling, which produces risk measurements such as net economic value (NEV) and net interest income (NII) forecasts. Members United utilizes software developed by Quantitative Risk Management (QRM), a leading asset-liability management analytic software provider, to produce monthly exposure reports. As part of the modeling process, we perform multiple tests including changes to the shape of the yield curve, prepayment speed changes, market spread changes and volatility changes. The results of these tests demonstrate that at all risk tolerance levels, we are well within regulatory limits, board approved policy, and internal guidelines.

### Ratings

Independent confirmation of our soundness, including risk management practices and high credit quality of our asset composition, is reflected in the ratings confirmation provided by the three primary rating agencies. The following table illustrates Members United's current ratings as provided by these agencies:

Issuer Rating	Rating Type	Rating	Ratings Outlook
Moody's Investor Service	Short-term	P1	Stable
Standard & Poor's	Short-term	A1+	Stable
Fitch Ratings	Short-term	F1+	Stable
	Long-term	AA-	Stable

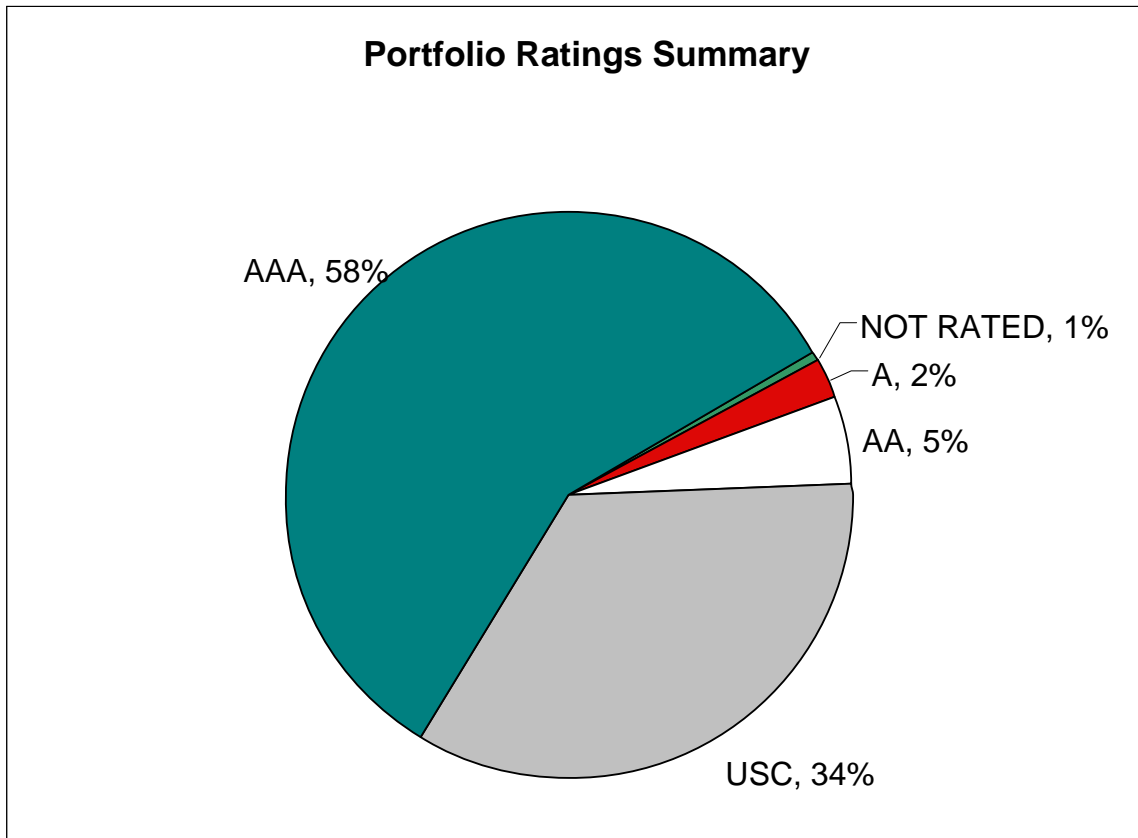
### Portfolio Overview

As of September 30, 2007, Members United's investment portfolio exceeded \$11.4 billion. The investment composition associated with this aggregate portfolio, is comprised of multiple highly rated investments that were purchased to adhere with 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 two key risk types: credit risk and interest rate risk (NEV).

## Credit Risk

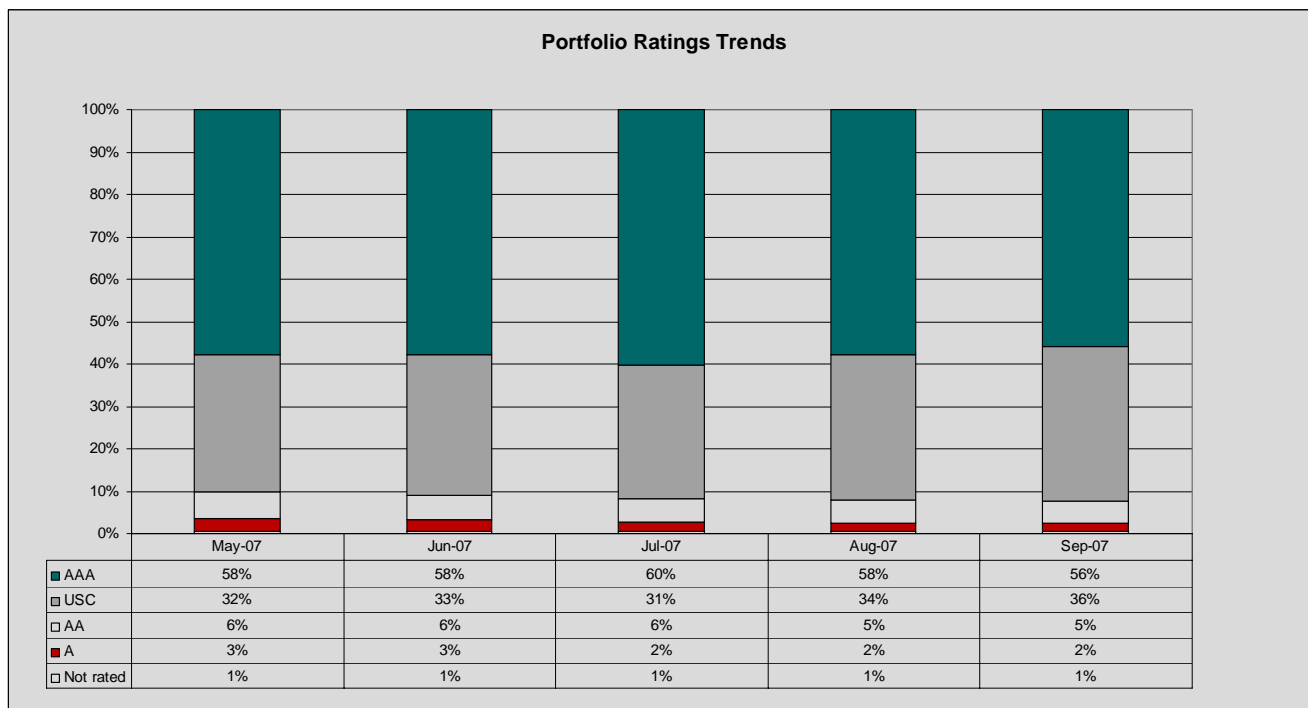
Credit risk is the risk that the value of an investment will not be returned. Members United manages credit risk through a diligent pre-purchase review and analysis of all investment securities, continual monitoring of ongoing credit metrics, diversification of investments and review of credit grades from primary rating agencies. Consistent with our approach to ensure appropriate controls and segregation of duties, the Fixed Income Credit Analysis Department is an independent group reporting to the CRO. This department, staffed by four full-time employees, evaluates all existing and potential credit exposures. Members United's expertise in this area allows us to continually watch our holdings, as well as the markets, each day.

Members United has the authority to invest and hold investment securities with a rating of BBB or better. The vast majority of our holdings are AAA rated investments. The report below shows our investment securities holdings by rating across various asset classes.



Currently, 97 percent of the portfolio is rated AAA, AA or is held at U.S. Central Federal Credit Union. The remaining 3% is invested in highly-rated investments, as well as a mutual fund that can only purchase investment grade securities. The non-rated portion is a mutual fund with exposures only to agency and highly rated collateral.

During 2007, the rating agencies have aggressively downgraded and or placed on negative outlook thousands of securities. Members United has only experienced one downgrade on investment positions held within our portfolio out of a well diversified, 520 individual securities. Both of the securities are investment grade and are performing well and being managed by the corporate. The following chart provides the ratings trends on Members United's investment holdings since May 2007.



### Mortgage Related Securities

Over the past several months, mortgage related securities have become headline news due to defaults associated with the deterioration of certain geographic sectors, rising rates on adjustable mortgage loans, and instances of fraudulent practices by certain originators. As of September 30, 2007, Members United's investments in mortgage related securities were approximately \$4.8 billion. The following represents the aggregate mortgage related holdings:

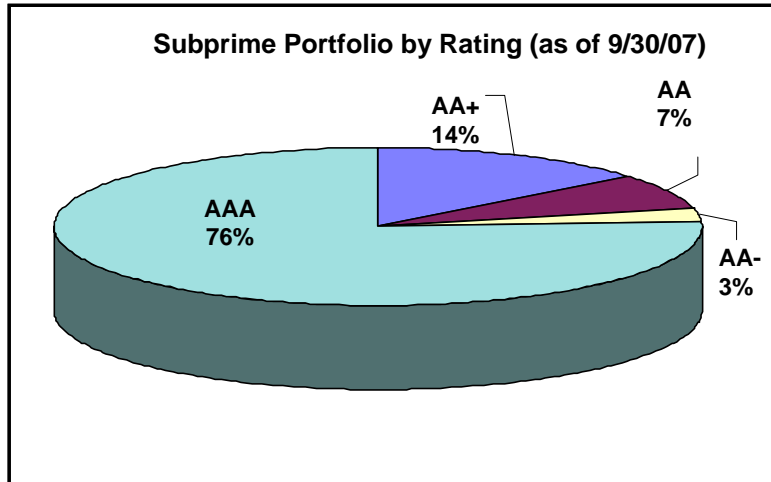
Mortgage Portfolio Category	Dollar Amount Outstanding
Total Non-Agency Mortgage Exposure	\$4,797,336,980
Prime	1,542,838,653
Sub-prime (FICOs < 680)*	1,214,124,280
Alt-A	2,040,374,047
Interest Only	1,763,640,197
Option ARMs	535,404,127

\* Sub-prime category includes \$205,839,272 also reported in Interest Only.

Many of the risks associated with mortgage-related securities have centered on the sub-prime market. The following provides a high-level summary of Members United's sub-prime holdings as of September 30, 2007:

1. Approximately **\$1.2 billion** in **sub-prime mortgage** related securities were managed in the portfolio. This represents 24% of the non-agency mortgage related securities and **10.6%** of the **total investment portfolio**.
2. The **weighted average loan to value (LTV)** for the sub-prime portfolio is **82.27%**
3. The **weighted average current losses** on current sub-prime mortgage related investments are **0.86%**, an increase of 10 basis points (bps) (13%) from the prior month. This increase is due mainly to further seasoning of the loans and not attributable to any severe deterioration.
4. The **current weighted average loss coverage** multiple is 42. Simply stated, Members United's portfolio can withstand losses increasing **42 times** their current levels before losses begin to eat into the credit supports.
5. To further emphasize the strength of Members United's sub-prime portfolio, our analysts stressed the current loss levels by assuming a 50 percent roll rate for 90 day delinquencies, foreclosures and Real Estate Other or Owned (REO), adding these roll totals to the current losses gave us a weighted average **stressed loss rate of 3.48%**. Taking this a step further, the **weighted average stressed loss coverage multiple** was calculated to be **18**. Again, simply stated, in the stressed scenario Members United's portfolio can withstand 18 times the stressed loss level before losses would eat into the current credit support level.

The following graph represents Members United’s sub-prime portfolio broken down by rating category:



With 76 percent of the portfolio rated AAA, it gives an added layer of comfort for the quality of the portfolio as a whole. The remainder of the portfolio is comprised of AA+ 14%, AA 7%, and AA- 3%.

There are currently 25 different issuer/originators that comprise the sub-prime portfolio holdings. Of these, six represent greater than 5 percent of the sub-prime total holdings. The following chart details these issuers/originators:

Issuer/Originator	Total Outstanding	% of Sub-prime Port	WAVG FICO	WAVG LTV	WAVG Current Losses	WAVG Credit Support	Loss Coverage Multiple
<b>Wells Fargo</b>	\$171,735,046	14%	630	82.72	0.16	23.73	48
<b>Option One</b>	134,737,243	11%	620	79.69	0.46	36.92	50
<b>Morgan Stanley</b>	122,501,973	10%	634	80.89	1.17	38.63	32
<b>IndyMac</b>	115,117,331	9%	674	94.29	0.43	90.22	50
<b>Washington Mutual</b>	112,996,000	9%	639	81.48	0.86	33.91	39
<b>Ameriquest</b>	111,689,673	9%	616	82.32	0.82	42.92	45

As seen by the above chart, the top six issuer/originators all have been performing within industry averages and have ample credit support to cover losses. Some have coverage ratios that are extremely high, indicating the strong level of protection embedded in Members United’s sub-prime portfolio. In an effort to be conservative in our monitoring, our practice is to default any loss coverage multiple that exceeds 50 to a value of 50.

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 most common measure is NEV, which measures the net change in the value of our assets and our liabilities, given a change or changes in interest rates. Members United adheres to NCUA’s Rules and Regulation Part 704 and analyzes NEV on a monthly basis. We assess the impact of seven interest rate shocks, from a 300 basis point decline to a 300 basis point increase in rates, in 100 basis point increments. These changes assume an instantaneous and parallel shift of the yield curve. This assumption is very aggressive and designed to produce a “stress test” of the balance sheet, which we believe is appropriately conservative. Additionally, Members United evaluates the impact on NEV of changes in the shape of the yield curve, prepayment rates, credit spreads and basis risk. This information is reviewed monthly by management and ALCO.

The chart below demonstrates the NEV impact for September 2007. In the worst-case scenario (an instantaneous rise in interest rates of 300 basis points) the NEV declines by approximately 17 percent, which is significantly below the regulatory cap.

<b>Net Economic Value</b>				
<b>September 30, 2007</b>				
Dollars in Thousands				
	<b>Net Economic Value</b>	<b>Dollar Change</b>	<b>Actual Percentage Change</b>	<b>Policy and Regulatory Limits</b>
300 basis point rise in rates	\$ 634,178	\$ (129,250)	-16.93%	-28.0%
Base net economic value	763,428	-	-	-
300 basis point decline in rates	815,990	52,562	6.88%	

## **Liquidity Risk**

Liquidity risk addresses the ability to create liquidity to fund cash flow requirements, both expected and unexpected. Most commonly these come from share withdrawals and member loan requests. To address potential liquidity needs, Members United can leverage its high quality investment portfolio. A significant portion of our investment securities is highly liquid and can be traded into the market through reverse repurchase agreements or direct sales. While market conditions can impact execution levels, our securities portfolio generally has an active secondary market. Members United also maintains a \$300 million committed line of credit and a \$2.2 billion advised line of credit. In addition, Members United maintains a commercial paper issuance program (with approved issuance level of up to \$1.0 billion). The following table outlines the categories of liquidity:

<b>Sources of Liquidity</b>	
<b>Cash and Cash Equivalents</b>	
Cash	\$1,357,030,311
Asset-Backed Securities @ 85%	\$2,773,868,667
<b>Total Cash and Cash Equivalents</b>	<b>\$4,130,898,978</b>
<b>Government Deposits</b>	\$100,000,000
<b>Commercial Paper</b>	\$1,000,000,000
<b>Committed Lines of Credit</b>	\$300,000,000
<b>Advised Lines of Credit</b>	\$2,200,000,000
<b>Total Sources of Liquidity</b>	<b>\$7,730,898,978</b>

Members United continually evaluates and tests its liquidity sources through the course of the year to ensure the viability of all funding sources. In total, Members United's readily available liquidity is approximately \$7.7 billion as of September 30, 2007.

## **Derivative Positions**

In 2005, Members United began entering into interest rate swap transactions to mitigate and hedge interest rate risk exposures. Individual derivative transactions are matched to specific balance sheet risks and are then accounted for under FAS 133. To the extent that the derivative represents a gain, Members United has a credit exposure to the counterparty. In these cases, Members United requires the counterparty to post collateral when the credit exposure exceeds a pre-determined limit.

As of September 30, 2007, Members United has 237 derivatives positions outstanding with various counterparties. In total, the net unrealized loss on the portfolio was approximately \$6,413,612, which is outlined in the following table:

<b>Total Contracts</b>		<b>Notional</b>		<b>Month-End Gain/(Loss)*</b>
55	\$	1,227,000,000	\$	(3,467,317)
175	\$	3,763,540,000	\$	1,822,328
7	\$	391,224,750	\$	(4,768,622)
237	\$	5,381,764,750	\$	(6,413,612)

## 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 and performing very well during these volatile markets. We will continue to provide periodic updates with full transparency in an effort to communicate our portfolio and risk exposure and 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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