

**Market/Economic Events and the
Financial Performance of the Corporate Network**

May 30th Webex chat area Q&A

Note: USC = U.S. Central response

OCCU = NCUA Office of Corporate Credit Unions response

- 1. The CU community has been encouraged to assist our members by taking on R/E loans. Are you concerned?**

Participant response to all participants: Somewhat...we sell most mortgages though.

Participant response to all participants: We actually believe this is a great time for credit unions to add real estate, and new members, and then build on those relationships. This is a great opportunity to add assets, as long as we are sensible with underwriting.

- 2. I realize liquidity is important and U.S. Central appears liquid, but liquidity is one function of safety in investment, capital matters too, we were very surprised our corporate had 93% of assets at U.S. Central and since our money is the members we decided to pull the overnight funds from our corporate and use other overnight sources. Is the ncuA considering an implied or implicit guarantee of the safety of U.S. Central and other corporates? Do you feel we were overreacting or prudent in your opinion?**

Participant response to all participants: We maintain most of our overnights in the corporate system; I hope after today's review you will feel as confident as we do. I am confident in the system and serve on a board of a corporate so I review my own corporate's financials monthly and those of U.S. Central's regularly. And I am the CFO of a very large CU.

Participant response to all participants: I too sit on the board of my corporate and we have kept up to date on the situation at U.S. Central and still have confidence in the Corporate Network. However, it is also our responsibility to continue to closely monitor the situation.

OCCU response: NCUA is not providing either an implied or implicit guarantee to U.S. Central members. Each member should perform due diligence reviews periodically and discuss any issue(s) noted directly with U.S. Central staff. Regarding concentration limits, each member should establish this based on its due diligence review and risk appetite and capabilities.

3. Does US Central expect a 'clean' audit opinion?

USC response: Other than the usual qualification we take for the classification of members' deposits as equity, we expect a clean opinion.

4. Are the US Central April financials on their website? We did not see them.

Participant response to all participants: The financials are on U.S. Central's site - uscentral.org - about us central - financial info - quarterly financials.

5. What is the dollar value of the assets subject to the independent valuation based on your method of valuation prior to 2007 and the preliminary impact on net income/net worth?

USC response: The independent study we commissioned from Clayton primarily was focused on an *evaluation* of whether we are "money good" with respect to principal and interest. We requested the evaluation on any security priced under \$85 or rated below "A+" as of Feb. 29, 2008. This resulted in a sample of 330 mortgage-backed securities (MBS) valued at more than \$13 billion, or approximately one half of U.S. Central's MBS holdings. Clayton identified approximately \$11 million (.08%) of principal at risk.

6. To what degree is US Central impacted by this subprime mortgage crisis? Is U.S. Central allowed to invest in international markets?

USC response: The sub prime mortgage crisis has affected virtually all fixed-income investors to varying degrees, and U.S. Central has been no exception. While we have not been negatively impacted by any forced sales of securities, the general market illiquidity and widespread ratings downgrades have resulted in unrealized losses due to low pricing for even the highest quality of assets. The results of the Clayton study mentioned above confirm to U.S. Central that the MBS holdings in our portfolio that are backed by sub prime mortgages are performing and will continue to perform in the future.

With regard to international markets, U.S. Central is allowed to invest subject to NCUA regulations. U.S. Central does so selectively, but at this time has virtually zero in obligations of non-U.S. counterparties.

7. Can you speak to your recent FRB borrowings?

USC response: U.S. Central does not have any borrowings from the Federal Reserve Bank (FRB) System at this time, nor have we ever borrowed from the FRB. In fact, up until mid-May, 2008, U.S. Central did not even have access to FRB credit.

Approximately 18 months ago we launched an initiative to gain access to *intraday* FRB credit to assist the Corporate Network with its early morning funding needs for certain payment system transactions. The FRB Discount Window access that U.S. Central now has is an ancillary benefit of having access to intraday credit.

8. Can U.S. Central use all the liquidity on the sources screen or is there a borrowing maximum like regular credit unions for example, fhfb would lend us 75 million, but our ncu limit is about 60, is there a similar reg for corporates? Meaning is all that liquidity available?

USC response: As provided in the April financials posted on our Web site, U.S. Central's regulatory borrowing limit was \$25.8 billion at month-end. Borrowings above that limit would require regulatory approval.

OCCU Response: Section 704.9(b) of the NCUA Rules and Regulations addresses borrowing limitations. The borrowing limitation is up to 10 times capital or 50 percent of shares (excluding shares created by the use of member reverse repurchase agreements) and capital, whichever is greater. The NCUA Board retains the authority to issue orders which vary from Part 704. In other words, the NCUA Board can waive this borrowing limitation and establish a higher limit if it wishes to do so.

9. Do you expect to realize a corresponding gain from the original markdown as the real market value of these underlying assets comes to light?

USC response: When the market returns to normal, we expect to see lower unrealized losses and eventually, unrealized gains recorded in other comprehensive income for our available-for-sale securities. However, based on generally accepted accounting principles (GAAP), no gains related to any securities for which we have taken other-than-temporary impairment charges can be recorded until the asset is sold, or principal has been re-paid above book value.

10. Were all bond investments reviewed or were the 330 that were reviewed a sample?

USC response: All bonds priced below \$85 and/or rated below "A+" were included in the independent evaluation. These were securities that were deemed to be worthy of additional analysis by an independent third party to determine if principal and/or interest were at risk. This portfolio subset represented approximately 36 percent of the total portfolio and half of the mortgage-backed securities portfolio.

11. What does "DANA" stand for?

OCCU response: DANA stands for daily average net assets. Moving daily average net assets is used as the denominator in calculating corporate capital ratios. Moving daily average net assets is defined as the average of daily average net assets for the month being measured and the previous 11 months.

12. Is there any initiative to raise additional capital?

USC response: With over \$2.5 billion in total capital, U.S. Central believes it has the capital necessary to withstand the current market disruption. We expect that this market

disruption will continue to broadly affect the entire fixed-income market for many months in the future. Our access to diversified sources for over \$25 billion in outside liquidity further convinces us that we are well positioned to continue to weather this storm.

- 13. The additional \$50 million you mentioned as being impaired for 2007 as a result of your audit. Can you elaborate on this? Was this a matter of having more information now as opposed to back then with regard to those assets? Seems like a large amount to mark impaired post closing, compared to what you stated you actually marked as impaired in the 4th quarter of 2007.**

USC response: The additional \$50 million was a result of a new approach to assessing “realizability” of these assets that we first employed in March 2008, which is why we disclosed it in our cover letter with the March financial statements. However, because we believe that it was a condition that existed as of Dec. 31, 2007 and not something new that developed in 2008, we recommended to our auditors that it be made retrospectively. In addition, the Clayton work that was conducted in April revealed a potential \$11 million (out of \$13 billion of securities analyzed) that may be other-than-temporarily impaired, that we also may book as of Dec. 31, 2007. As our audit is still in process, these discussions are still underway. As we become aware of developments, we will keep you informed via our monthly cover letters that are posted with our financial statements by the 15th business day of the following month.

- 14. Kent - Is that a general NCUA opinion that the OTTI is not of great concern regardless of the degree of the impairment?**

OCCU Response: What I attempted to communicate was that the amount of OTTI recognized to date at a corporate is not of concern in relation to that corporate’s capital. As discussed during the webinar, the quality of the corporate system’s marketable securities is very high. I do not presently envision where the recording of OTTI at any corporate will be so great that the corporate will be impaired.

- 15. What is the average remaining life of the securities with unrealized losses? That is, once they are largely paid back to investing corporates, then by definition the unrealized losses dissipate commensurately.**

OCCU Response: Unrealized gains (losses) are a function of market prices and not principal pay-downs. Market prices change constantly and, theoretically, unrealized losses could be eliminated tomorrow.

The March 31 estimated weighted average dollar life of all marketable securities (in the corporate system), based on information obtained from Bloomberg, is 6.47 years. This is just an estimate.

USC response: Virtually all fixed-income securities issued over the past five years, with the exception of U.S. Treasury obligations, are trading at unrealized losses today, and

U.S. Central's holdings are no exception. The weighted average life of our securities portfolio is 3.89 years.

16. US Central has Other Comprehensive Income losses that are encumbering over 50% of its net worth. Does US Central feel that these losses have now peaked assuming no huge spike in interest rates?

USC response: The accumulated other comprehensive loss has been predominately driven by widening credit spreads as a result of the severe dislocation in the mortgage securities market, as well as most other sectors of the fixed-income market. We expect the market to continue to be disrupted for some time, which could cause our unrealized losses to move higher. However, U.S. Central expects to receive over \$3 billion in principal repayment from its fixed-income holdings during 2008, all of which will be received at par. Our strong liquidity position will allow us to continue to hold our securities as they repay and/or mature, thus keeping these unrealized losses from becoming realized.

17. Will corporates be required to provide audited interim financial statements as the crisis continues vs. waiting an entire year?

OCCU Response: NCUA is not considering imposing additional audit requirements on corporate credit unions. OCCU's capital markets specialists provide on-going supervision at the corporate credit unions holding in excess of 94 percent of the corporate system's marketable securities. This close supervision includes reviewing the composition and performance of the corporate's investment portfolio. In addition, all corporate credit unions file monthly call reports.

18. Have the top 5 corporate CU written off impaired MBSs and/or is there likely to be any significant adjustments in the months to come? How can we monitor this for individual corporates?

OCCU Response: One of the top 5 corporate credit unions (U.S. Central, as reviewed and explained during the webinar) has written off permanently impaired securities in accordance with GAAP. The other top 4 corporate credit unions do not presently hold securities that have been classified as OTTI. All corporate credit unions are required to recognize investment losses in accordance with GAAP.

Will there be significant adjustments in the months to come? I don't know. During your due diligence reviews, you should ask the corporate if they have written-off permanently impaired securities in accordance with GAAP.

19. Moving forward how likely is it that Corporates will move to a more conservative investment strategy?

Corporates already employ conservative investment strategies, investing in only highly rated securities focused on safety, liquidity, and yield. As highly regulated entities,

corporate credit unions have highly disciplined security selection and portfolio management processes that include extensive credit due diligence, significant pre-purchase and on-going risk analysis and control, stress testing, and modeling of the entire investment portfolio.

20. What is the status with your current credit rating? When will a new one be given?

USC response: We do not have a defined timeline from S&P or Fitch regarding their review of our credit rating. Typically, credits like U.S. Central are reviewed once per year. But in today's environment, rated companies are under ongoing scrutiny. As has been demonstrated with the numerous negative ratings actions that have been taken across a broad spectrum of financial institutions, the rating agencies remain very cautious in this environment. However, U.S. Central continues to be one of the highest rated financial institutions in the world, and we have no reason to believe that will change.

21. What if funding cost increases while holding securities to ultimate maturity. Wouldn't this impact earnings and capital for future periods? Wouldn't your availability of liquidity also be impacted as the collateral values are decreased?

OCCU Response: This question seems to imply that the majority of marketable securities held by corporate credit unions are fixed-rate. In fact, seventy-seven percent of the corporate system's marketable securities are floating rate. Eighty-three percent are indexed to the 1-month US LIBOR rate and another 12 percent are indexed to the 3-month US LIBOR rate. As funding costs increase, so will the yield on investments increase.

USC response: U.S. Central's cost of outside funding is variable rate and certainly subject to rising and falling with the general level of short-term interest rates. However, most of U.S. Central's investment holdings also are floating rate. Thus, there should be little impact on earnings from holding these currently illiquid securities in either a rising or falling rate environment.

22. I hear "getting back to a more normalized mortgage market" often but rarely hear what that means? Can you elaborate on what you believe is a more normal mortgage market in today's world and how will we know when this happens?

OCCU response: A normal market is one where there is a large volume of trades between willing counterparties with significant depth and breadth of participants. Historically, in a normal mortgage market, the spread on mortgage-related securities may be LIBOR plus 30 bps. In this dislocated market, the spread may be LIBOR plus 250 bps or greater. Although it is unknown if spreads on mortgage-related securities will ever return to LIBOR plus 30 bps, clearly credit spreads will narrow from where they are presently.

23. What is the year end date of your audited financial statements? When do you expect your audited financials to be released?

USC response: Our fiscal year ends December 31. Our audit resumed in mid-May, and we are working with our auditors to coordinate its completion as soon as possible.

24. Thanks for the comments related to the valuation. As a follow-up, of the \$13 billion valued by the independent group, are there large dollar differences between their value and the value you recorded based on previous valuation methods?

USC response: The independent review was performed to validate the stability of the principal and interest cash flows of our securities portfolio. The positive results of this evaluation were consistent with our internal assessment.

25. Going back to my original question posed electronically several moments ago, is the average weighted time to maturity, given a non-return to normal capital market conditions, five years, ten years, or what? In other words, what is the worst case time frame that this tumultuous cloud remains in the corporate system?

USC response: The current weighted average life (WAL) of the \$40.5 billion of assets on U.S. Central's books is only 3.89 years as of April 30, 2008. Our MBS holdings of \$20.9 billion have a WAL of 4.62 years. Additionally, we currently are receiving principal amortizations (paydowns) on those holdings of more than \$300 million per month.