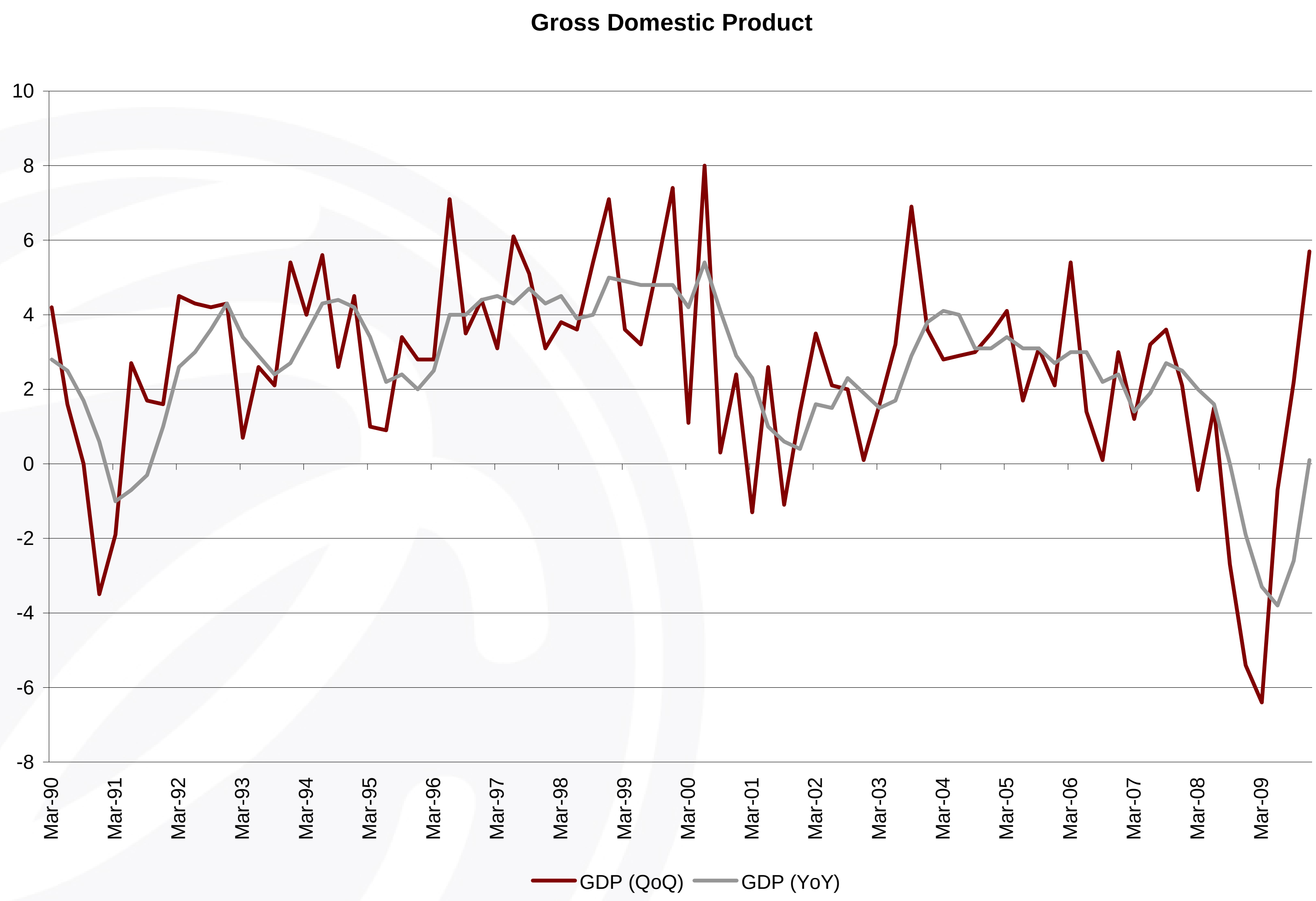
First Quarter 2010 Investment Webinar

SOUTHEAST CORPORATE

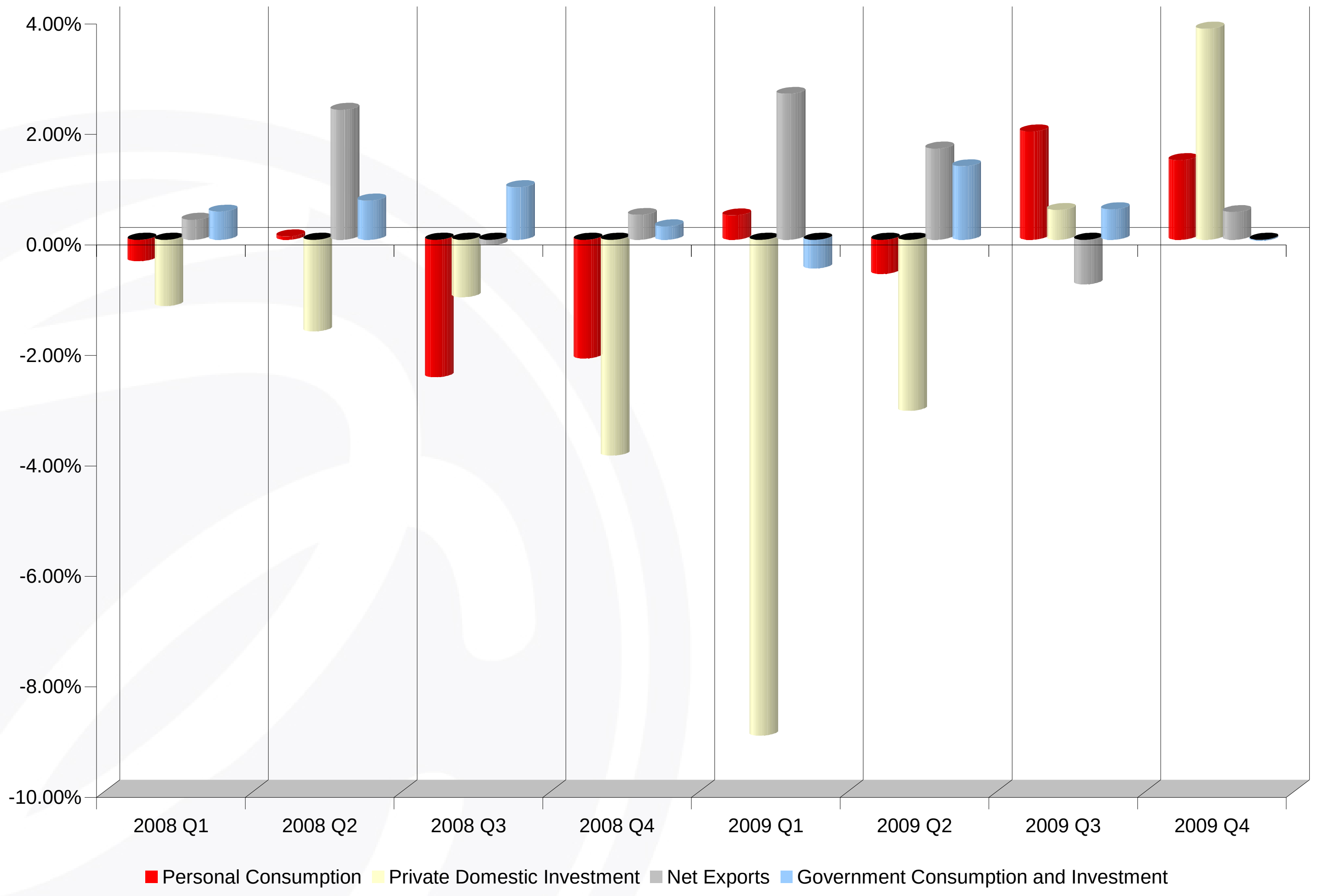
In the Home Stretch

Gregory Wirthmann, CFA
SVP/Chief Investment Officer
Southeast Corporate FCU

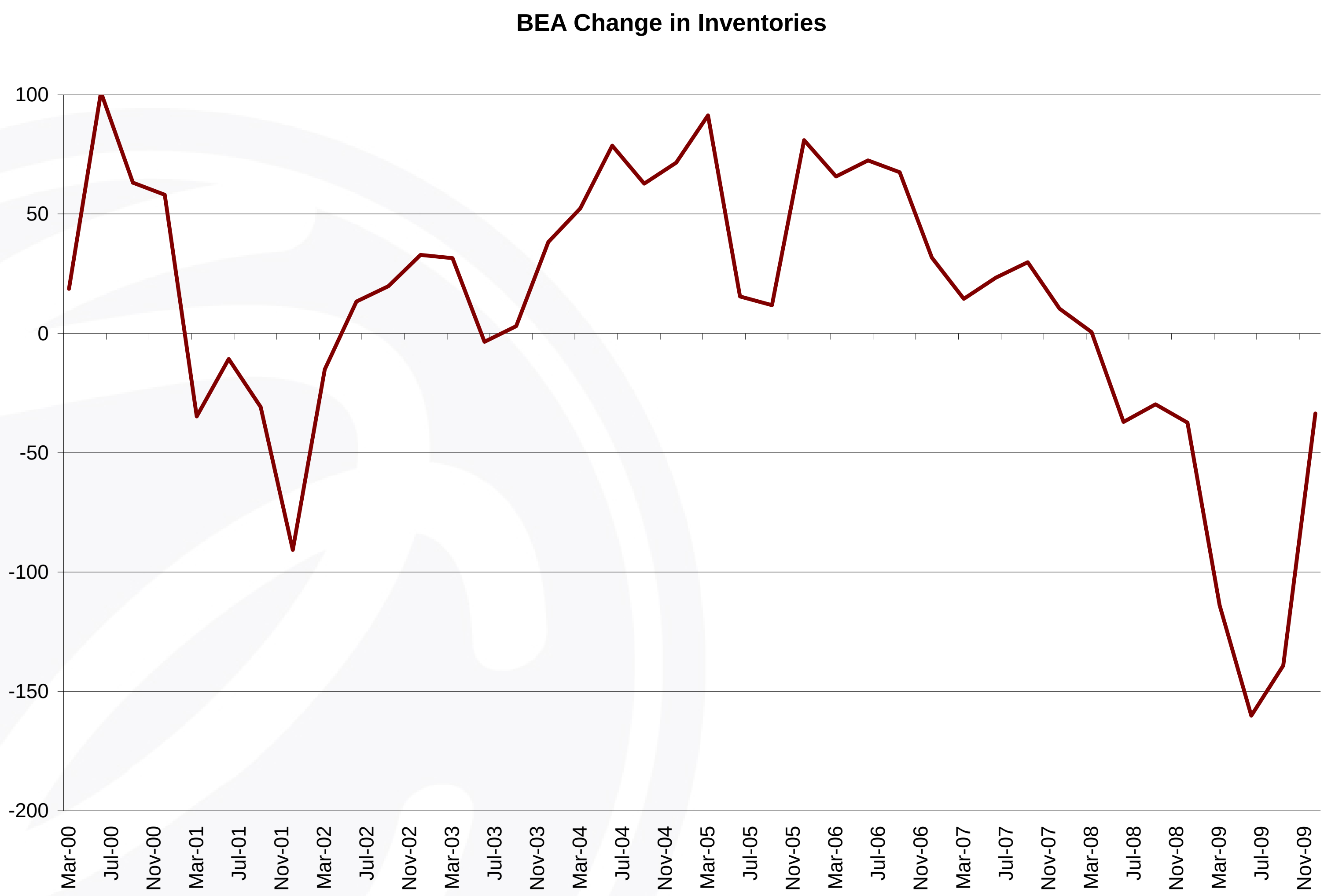
Strongest economic growth in six years



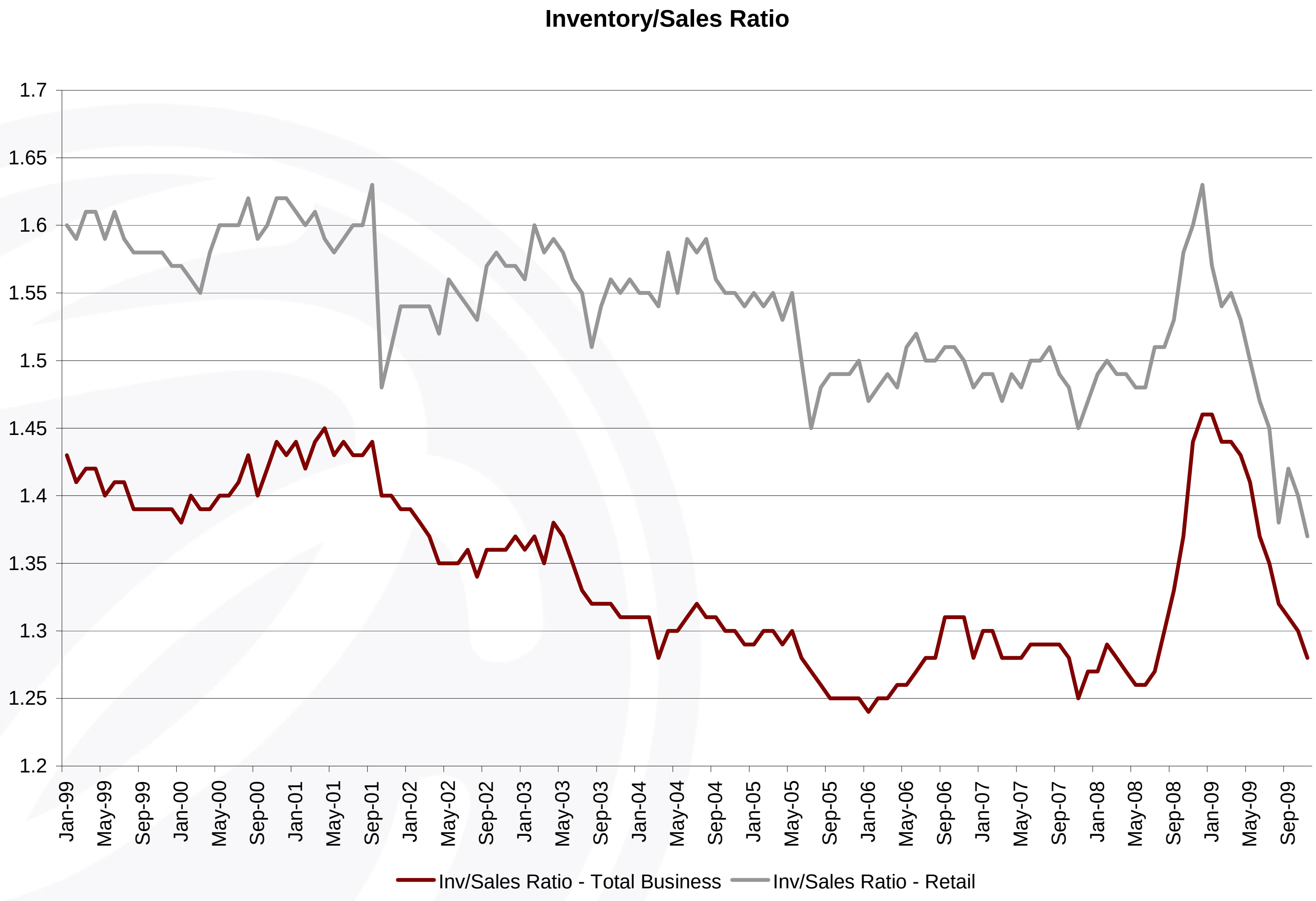
Growth contribution



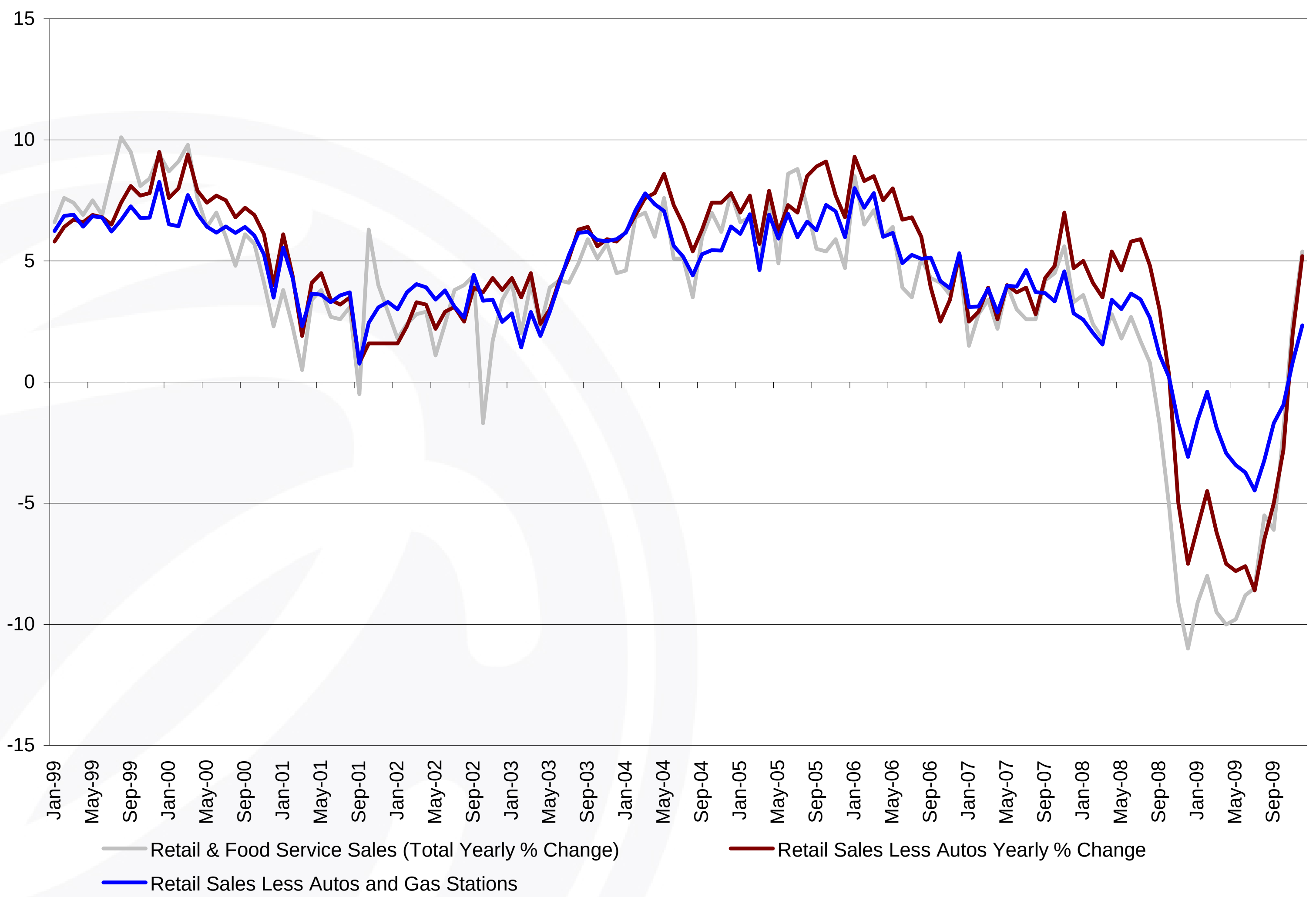
Despite growth, inventories still declined



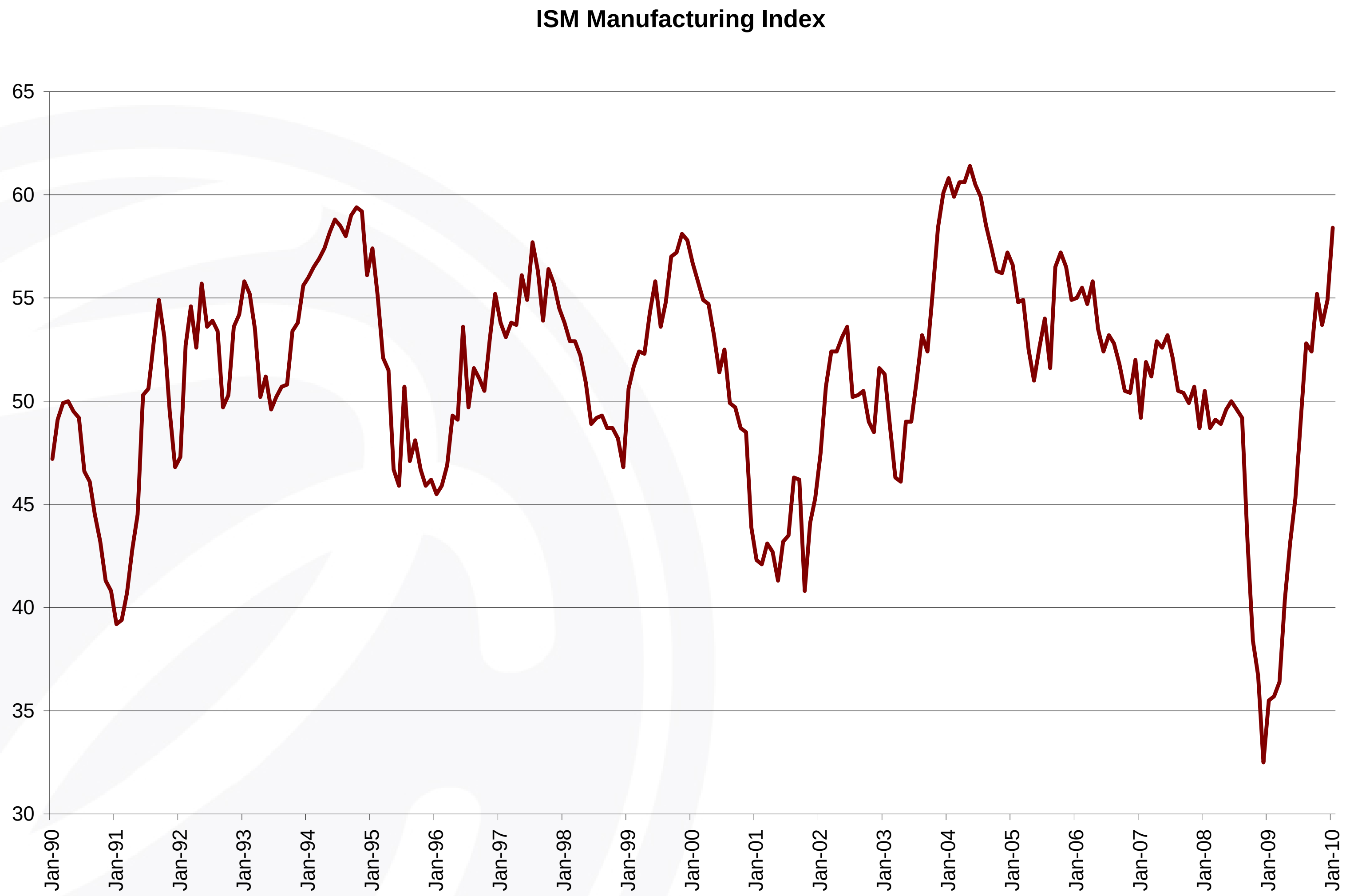
Inventory reduction exceeds retail sales decline



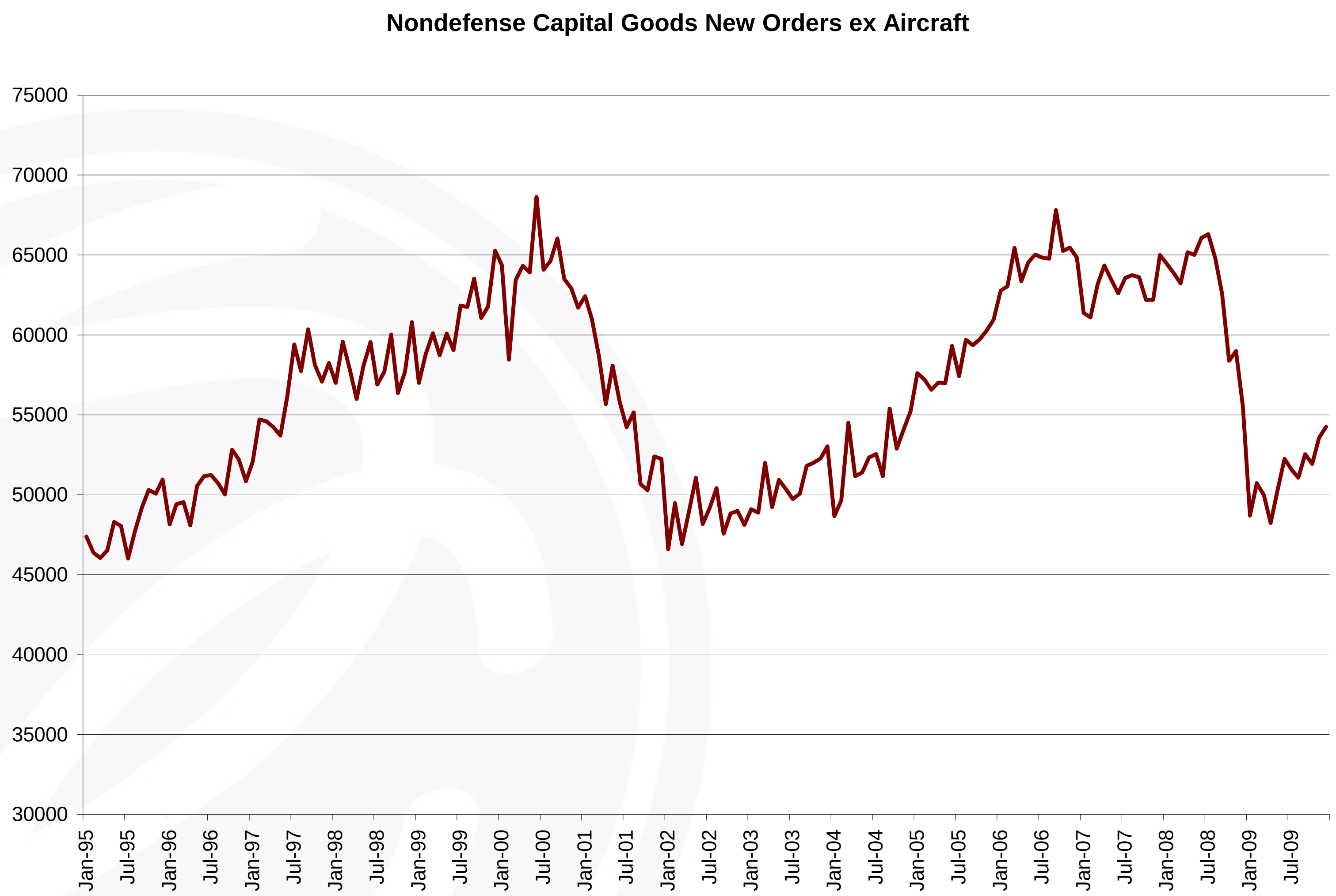
Retail sales rebound



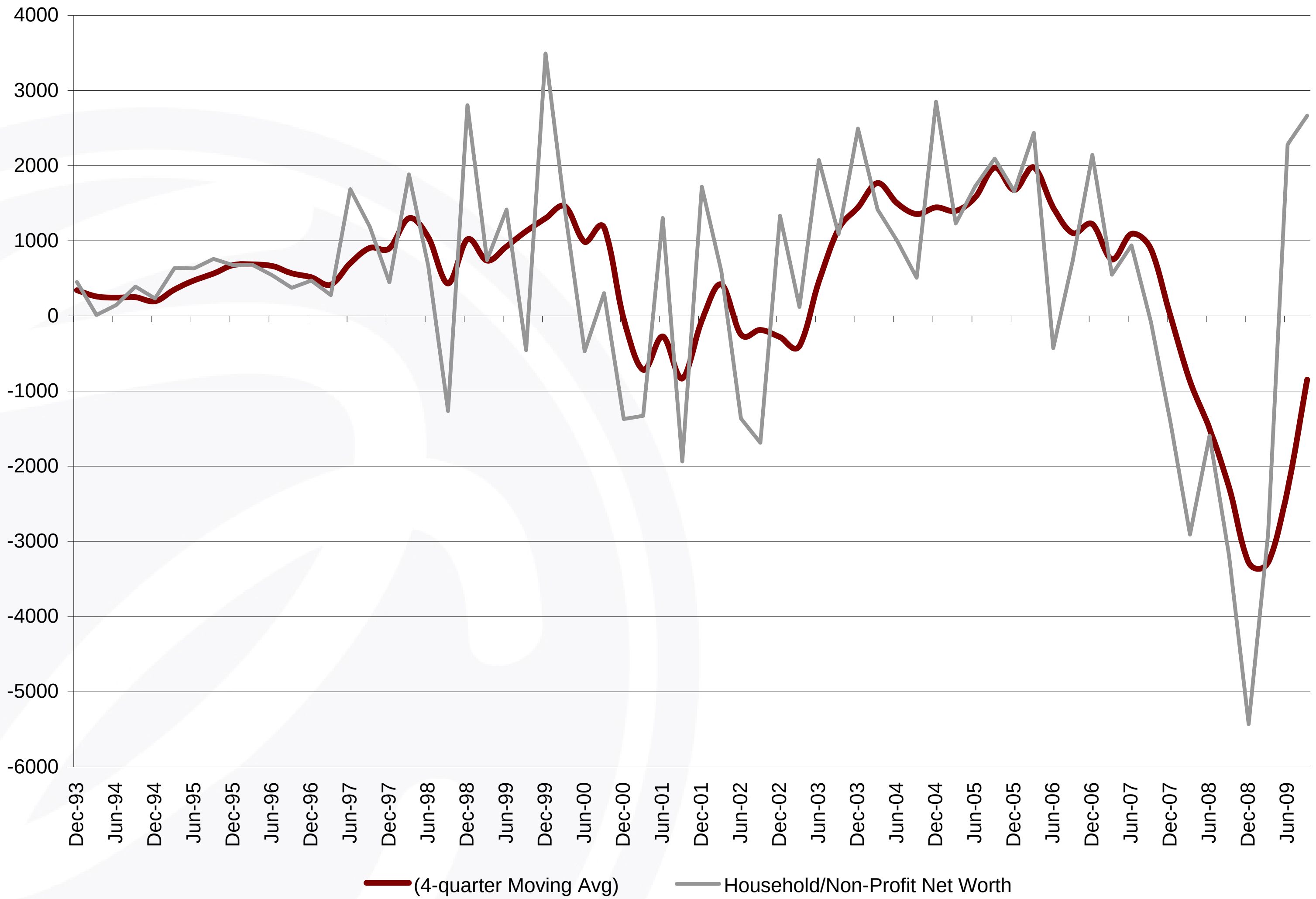
Manufacturing rebounds



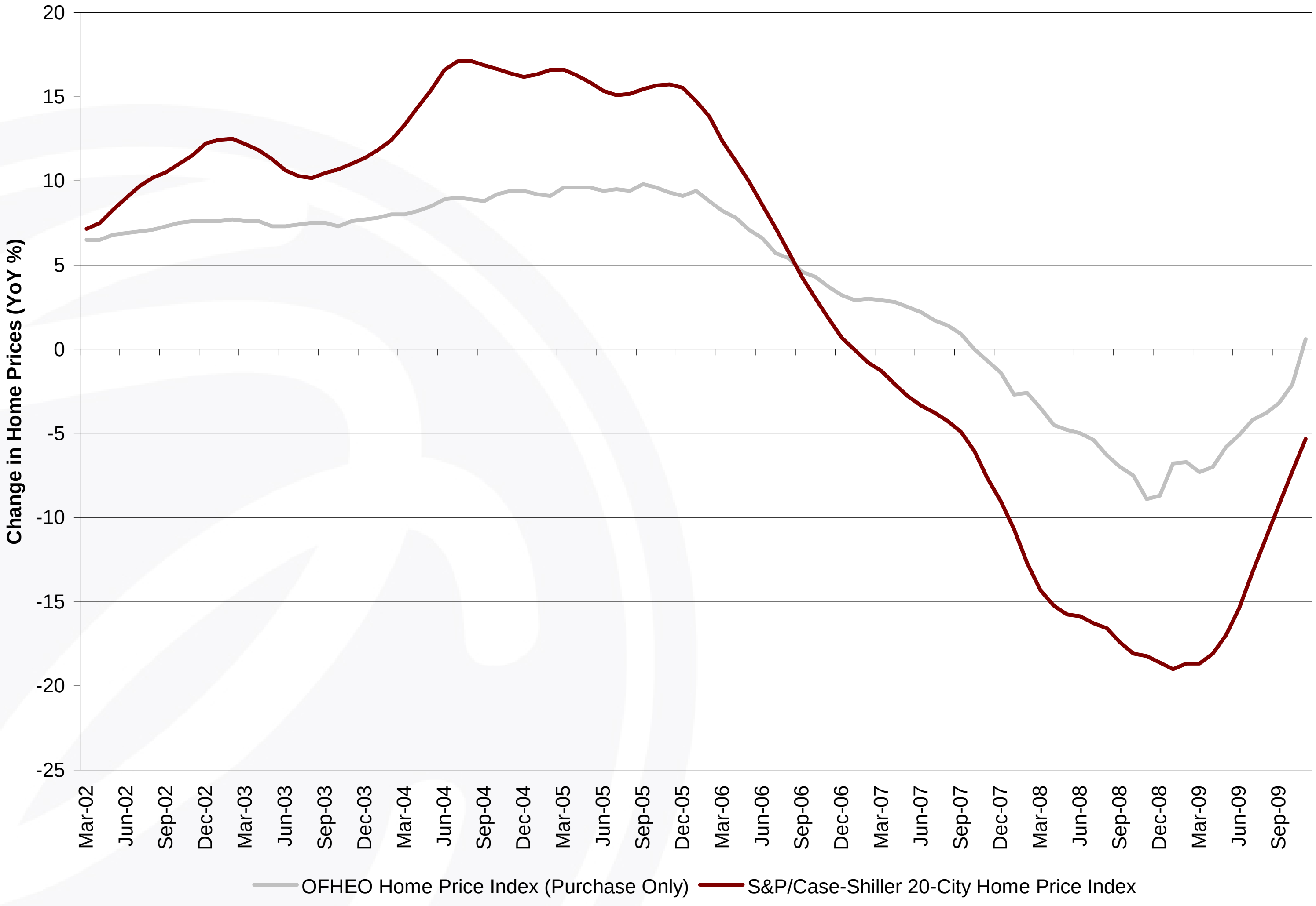
Businesses begin to reinvest



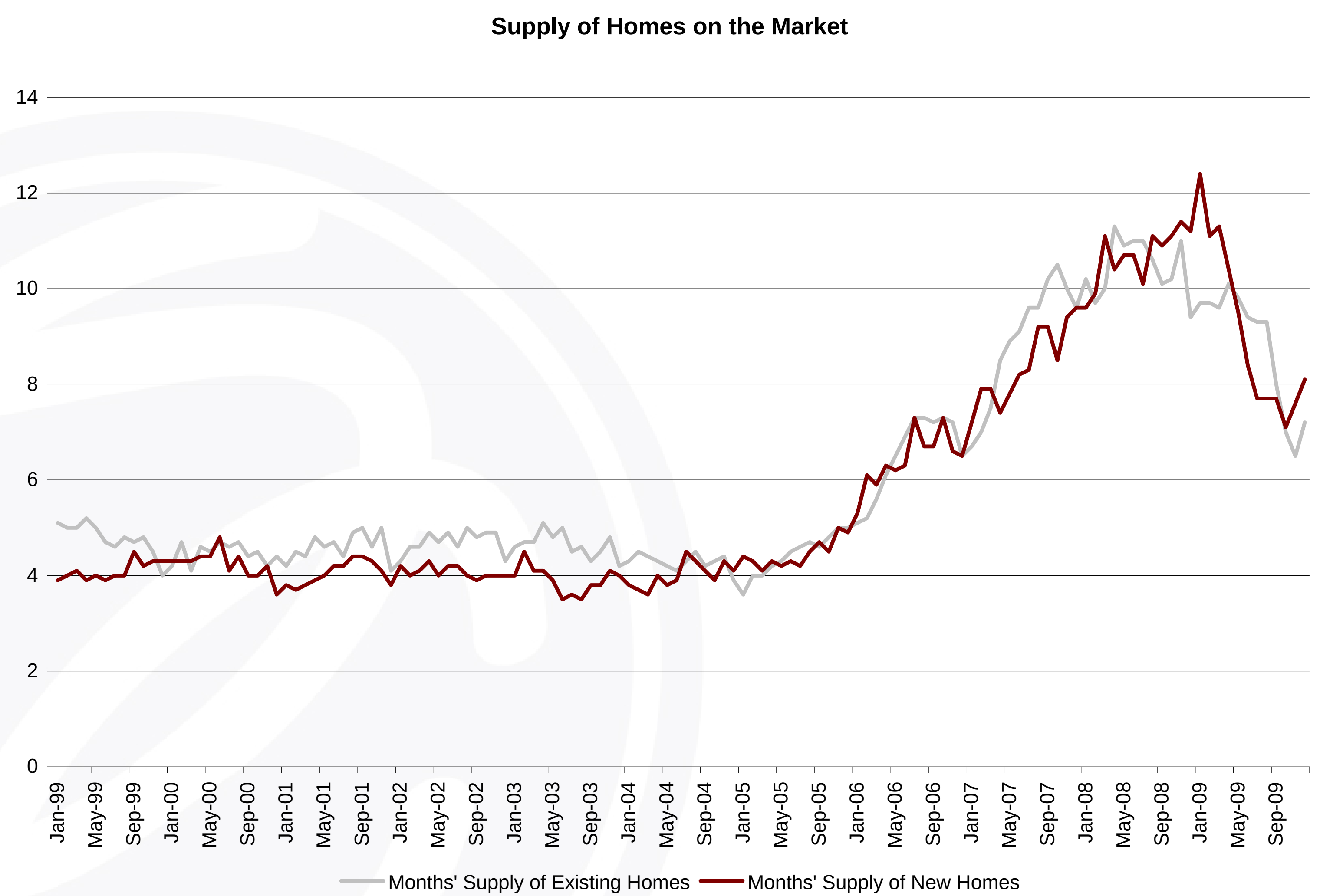
Household net worth improves



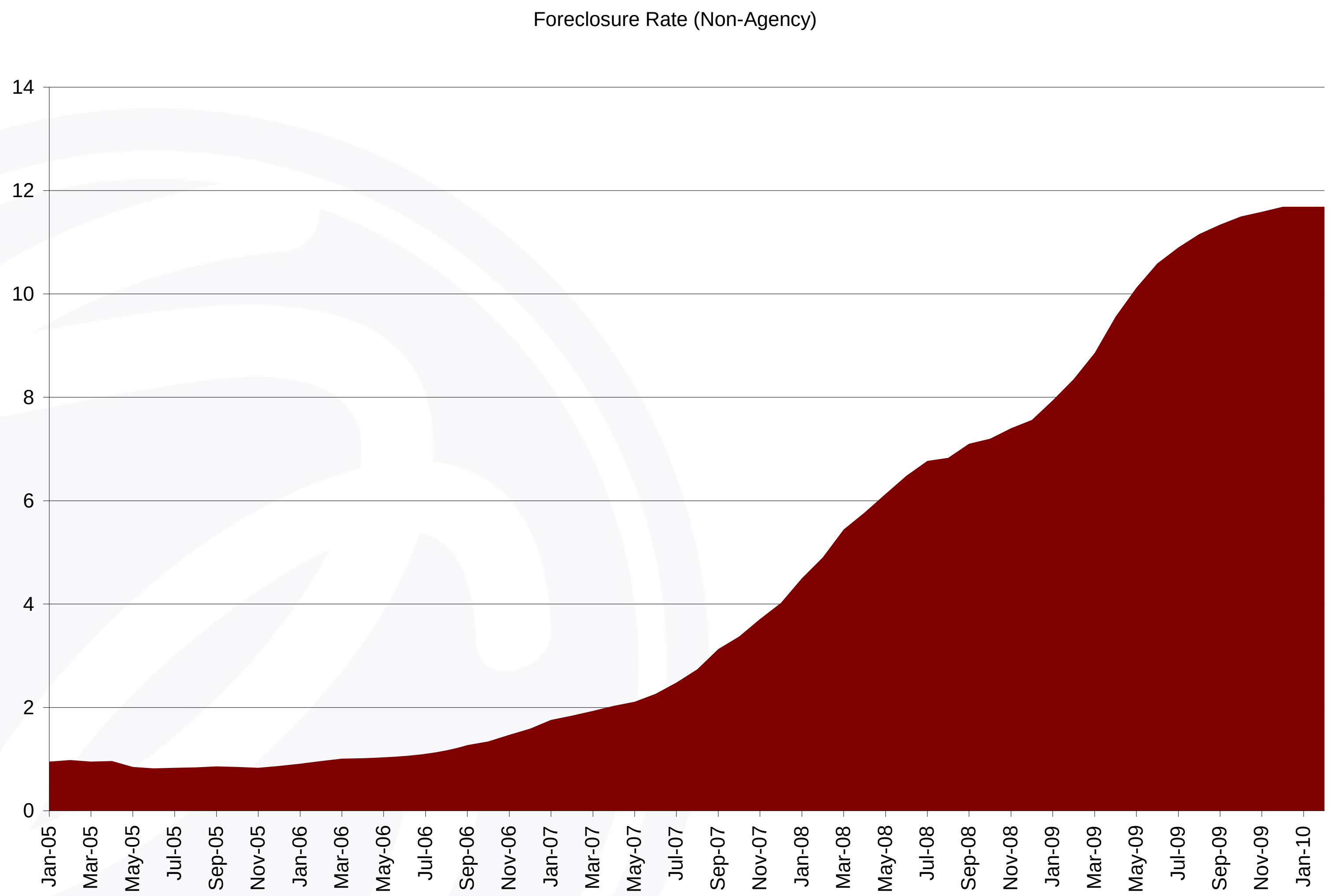
Housing values find a plateau



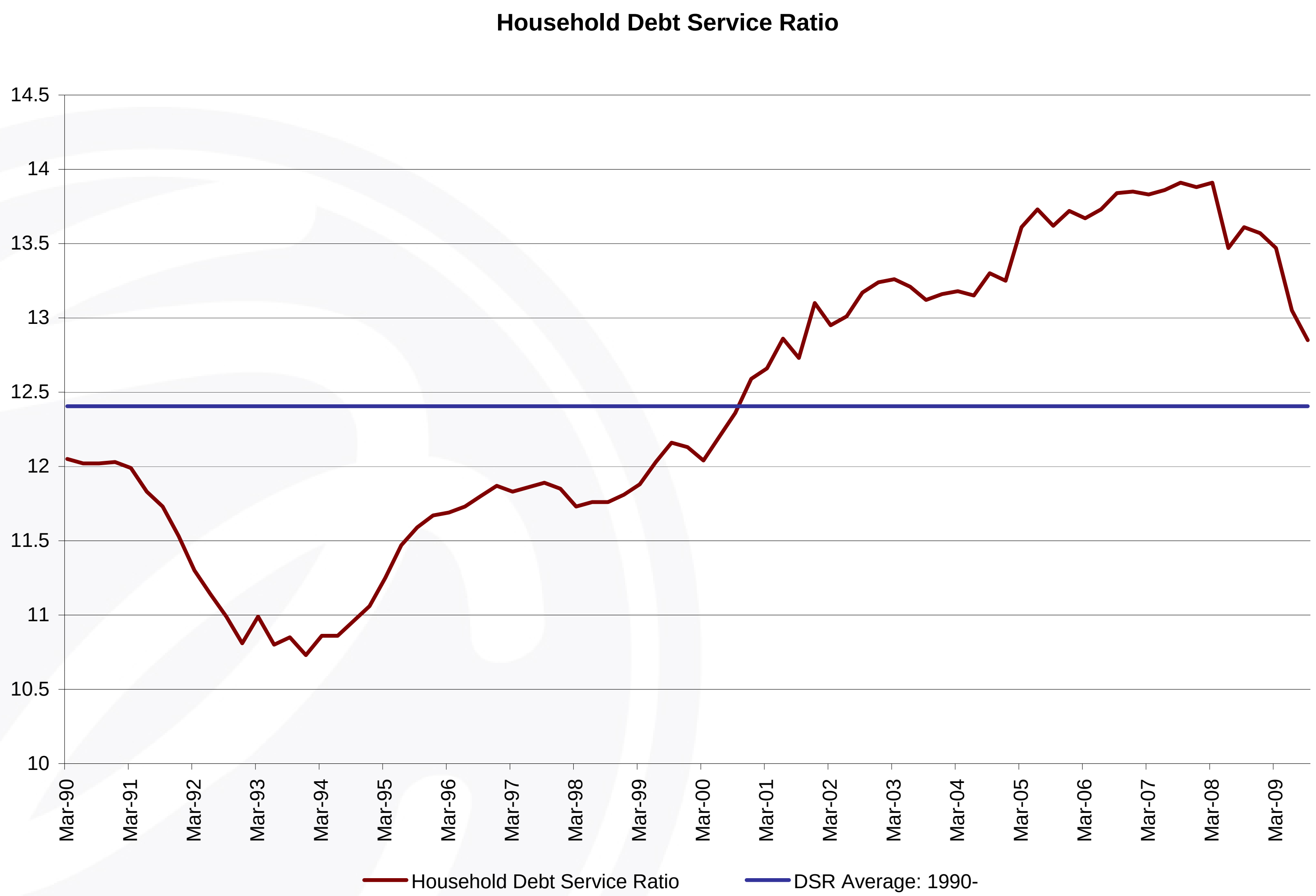
Housing supply approaches an equilibrium



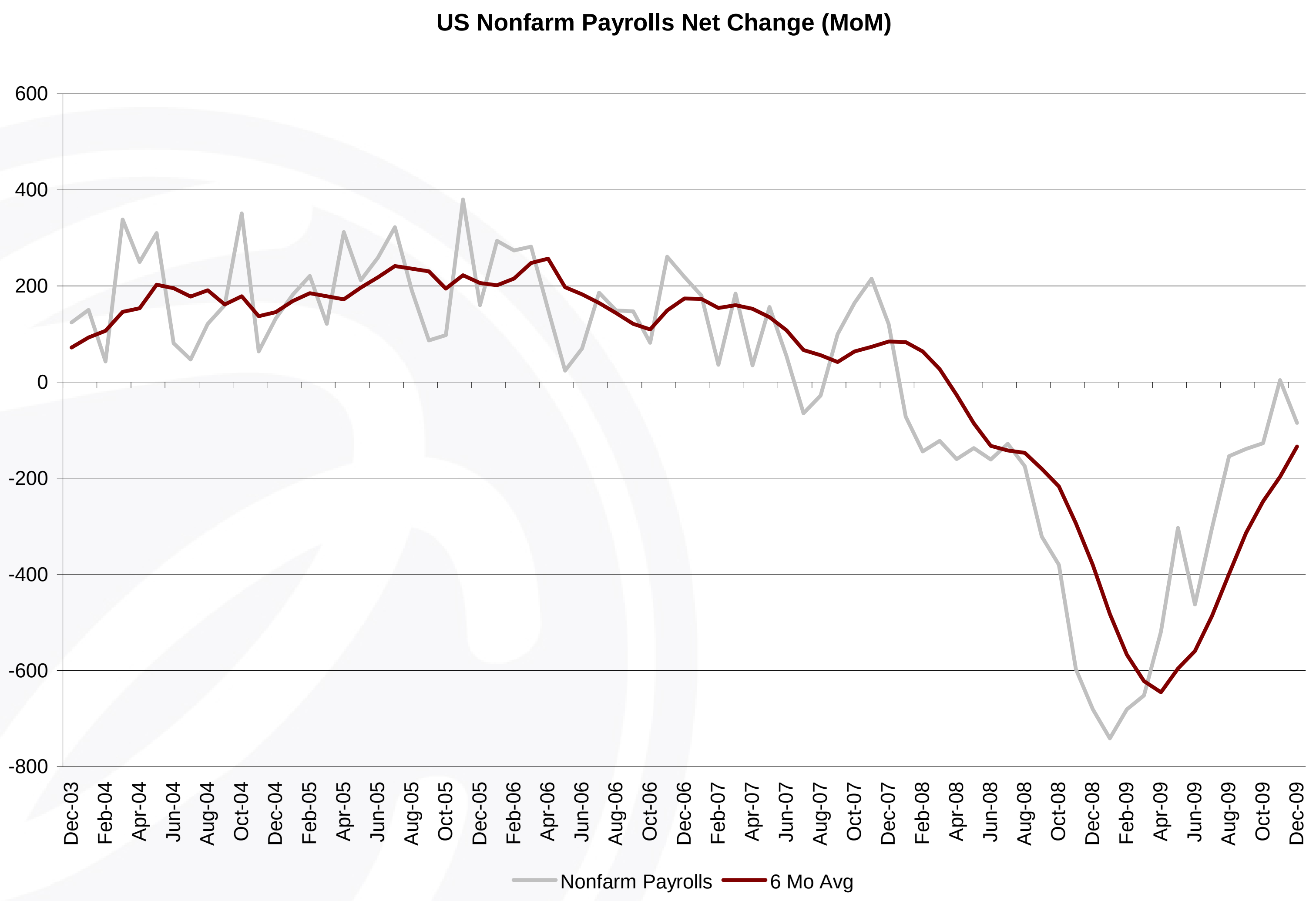
However shadow inventory looms



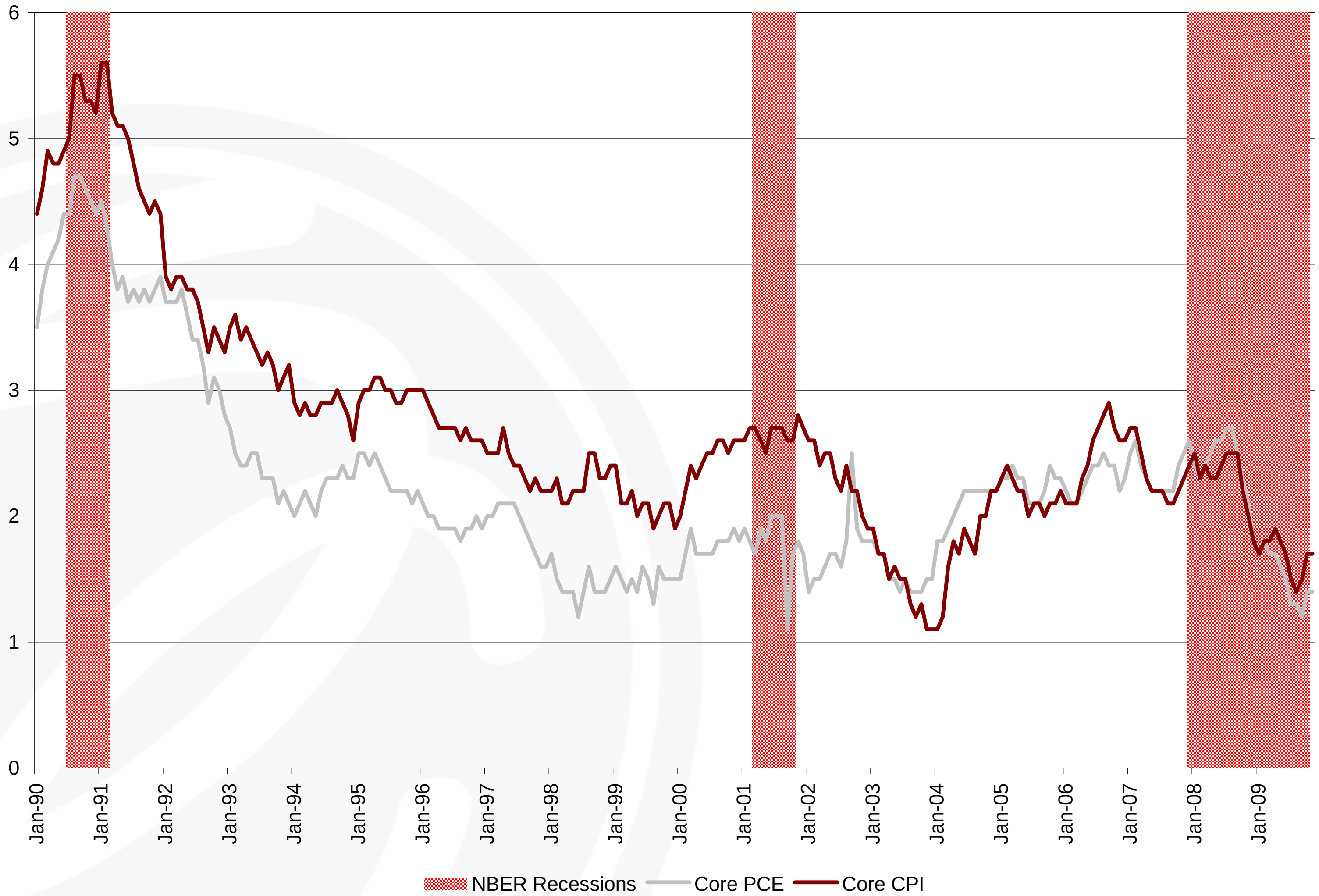
As does the consumer's debt burden



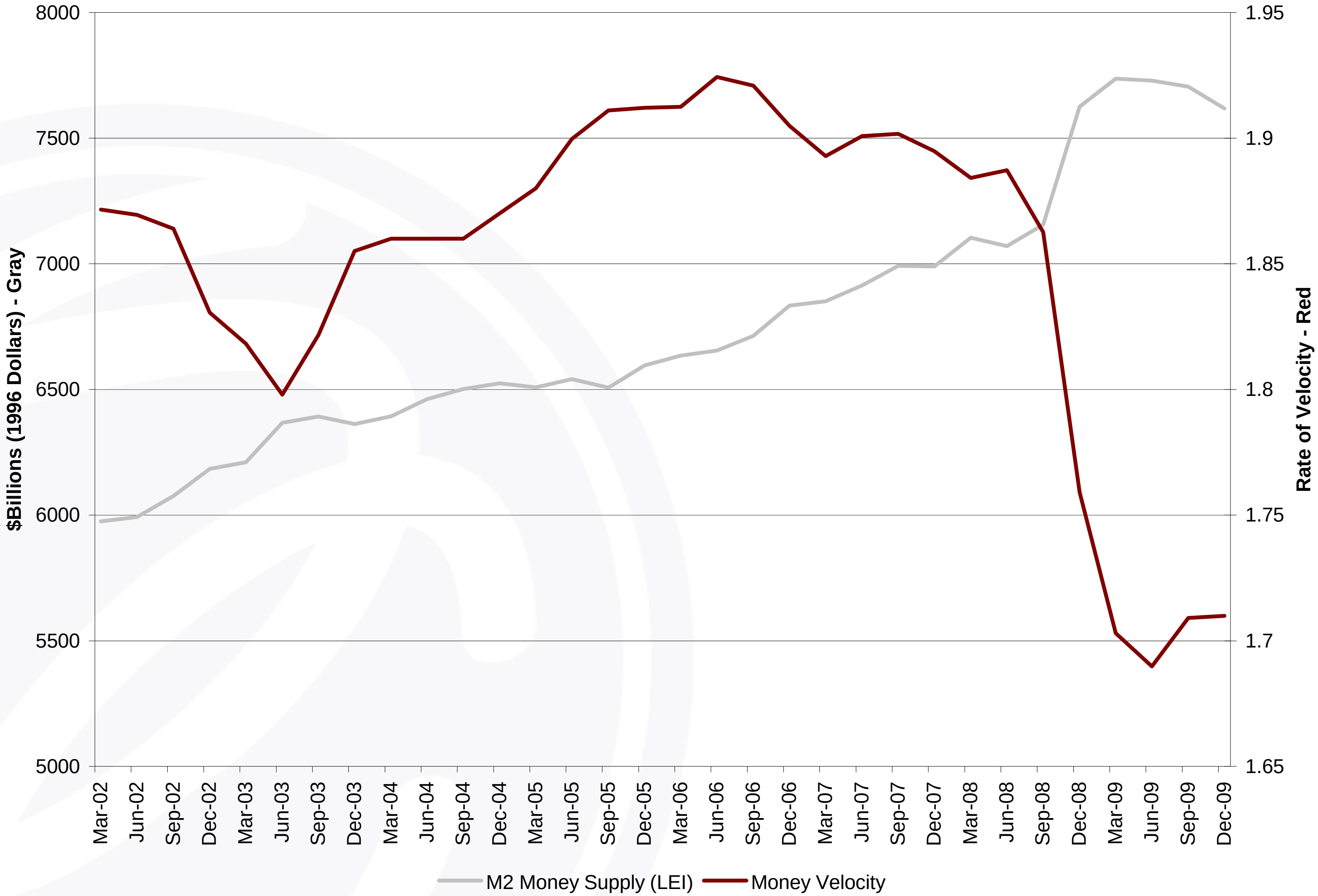
As is typical, labor markets are slow to improve



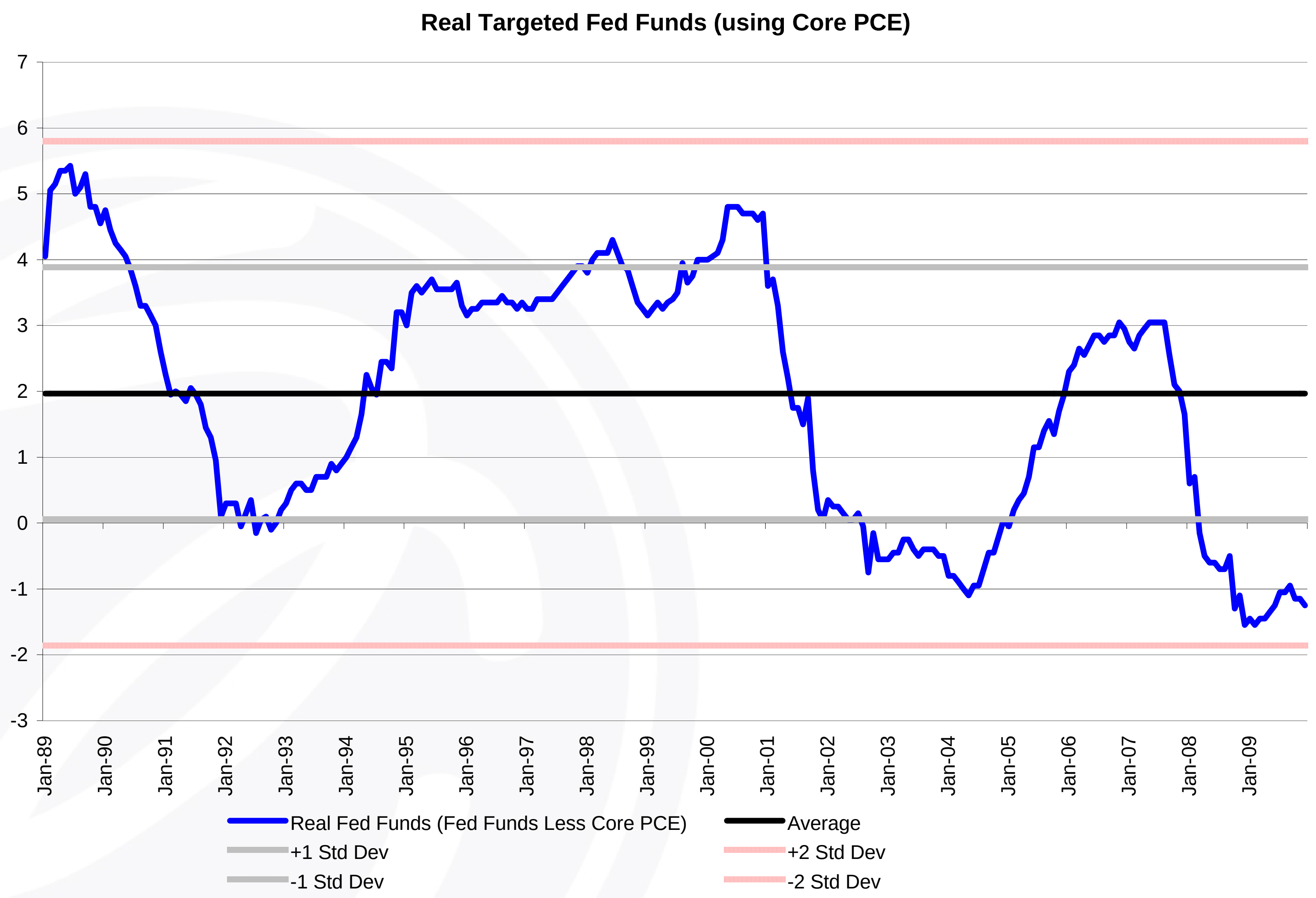
Deflation, not inflation has been the concern



Money velocity offsets the increase in money supply



Real rates are historically low



Summation

- The surprising fourth quarter growth occurs even as inventories are further depleted
- An improvement in risk asset valuations improve the household and business balance sheets
- Consumer debt capacity improves
- Inventory replenishment has still not yet begun
- Labor markets are beginning to stabilize
- The Fed will tighten in late third quarter 2010

ACCOLADE
INVESTMENT ADVISORY

Portfolio Management and Regulatory Oversight

Peter Gibson
Director, Investment Advisory Services

February 3, 2010

Changes are a-coming…

- Jan. 7 joint agency advisory reflects forecasted rate environment
  - Unless liability duration is extending, asset duration shouldn't be either

- Difference between duration and average life
  - Longer cashflow windows might be okay…

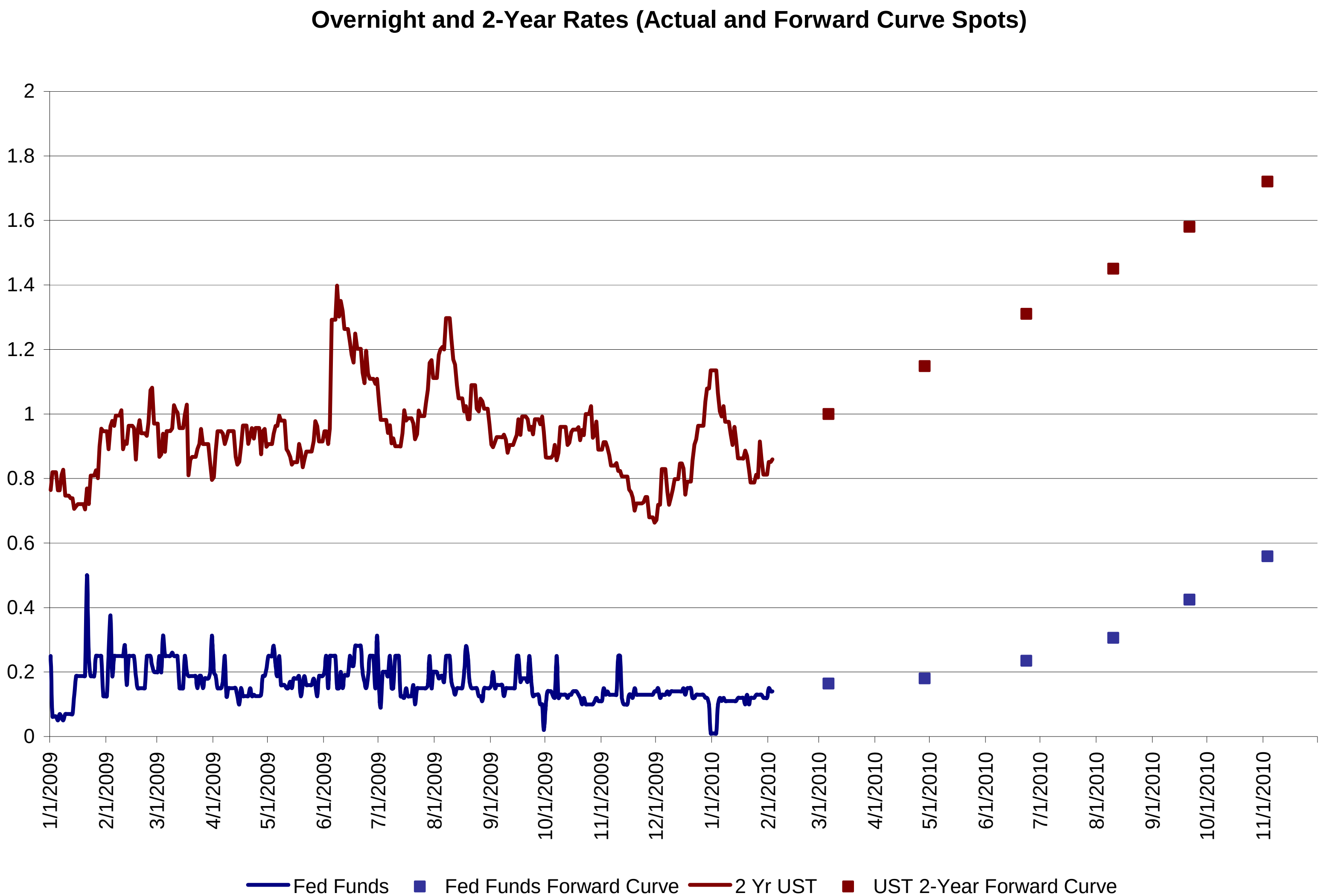
- Review of current strategies/products
  - Short fixed-rate or floating rate (if you can find them)

FFIEC IRR Advisory on Jan. 7

- "…reminding institutions of supervisory expectations for sound practices to manage interest rate risk"
  - Directly addresses need of robust ALM monitoring/measuring process
    - Also has investment portfolio implications

http://www.ncua.gov/news/press_releases/2010/JR10-0107.pdf

Why the Advisory Now?



From IRR Advisory

- "…funding longer-term assets with shorter-term liabilities can generate earnings, but also poses risks to an institution's capital and earnings"

- Don't extend portfolio duration (unless your liabilities are extending as well)

From IRR Advisory

- "…institutions should understand the implications of the IRR strategies they pursue, including their potential impact on market, liquidity, credit, and operating risks"

- Don't purchase securities without knowing how their value changes in varying interest rate environments (and how market value declines may negatively affect your portfolio's liquidity)
  - Are you performing interest rate shock tests on callables/CDs?

Moving on to investments

- “…although institutions may rely on third-party IRR models, they are expected to fully understand the underlying analytics, assumptions, and methodologies and ensure such systems and processes are incorporated appropriately in the strategic (long-term) and **tactical (short-term) management of IRR exposures**”

Tactical IRR Management

- Short duration
  - From an ALM perspective, floating rate products have a 100% beta (exposure to changes in underlying rates)
  - Fixed rate products have a 0% beta (unless purchased with a large premium)

Fixed Coupon – Varying Yield

Mtge **YT**

FGG12679 5.5% 8/ 1/20 ADV:<PAGE>

66 <GO> 3128MBFU6 MBS:FHG1 (Gold) LOANS: 81,568 Vectors 99 <Go>

65 <GO> FGCI 5.5 S 5.862(106)68 WAC(WAM)WALA JAN10

JAN 1mo	115P	6.9C	
'10 3mo	261	15.6	
6mo	257	15.4	
12mo	245	14.7	
Life	211	12.7	

4/ 1/07: 19,575,486
1/ 1/10: 11,051,337
factor 0.564549840000

next pay 2/15/10 (monthly)
rcd date 1/31/10 (14 Delay)
accrual 1/ 1/10- 1/31/10

CA	NY	FL	OTHR
15.0	10.9	6.0	68.1
2004	2003	2005	OTHR
86.3	12.0	0.8	0.9

1/19/10 **YIELD TABLE**

B.Median:	0bp 291	+300bp 160	+200bp 187	+100bp 248	-100bp 453	-200bp 571	-300bp 618
Vary PRICE $\frac{1}{32}$	291 PSA	160 PSA	187 PSA	248 PSA	453 PSA	571 PSA	618 PSA
107-15	2.700	3.218	3.118	2.879	1.942	1.298	1.017
AvgLife	2.90	3.63	3.46	3.12	2.24	1.87	1.74
Mod Dur	2.66	3.23	3.11	2.84	2.12	1.81	1.70
DateWindow	2/10-11/15/18	2/10-11/15/18	2/10-11/15/18	2/10-11/15/18	2/10-11/15/18	2/10-11/15/18	2/10-11/15/18
Spread I	+132/AL	+148/AL	+146/AL	+139/AL	+94/AL	+50/AL	+29/AL

JAN10	DEC09	NOV	OCT	SEP	AUG	JUL	JUN	MAY	APR	MAR	FEB09
115	301	355	173	151	420	350	277	202	169	172	215p
6.9	18.0	21.3	10.4	9.1	25.2	21.0	16.6	12.1	10.2	10.3	12.9c

Treasury Curve - BGN 11:04 +

6mo	-1-	-2-	-3-	-5-	-7-	-10-	-30-
0.14	0.29	0.87	1.41	2.40	3.14	3.65	4.55

15-year standard Giant (New Gold) Format# 1-YT

Avg Life vs. Duration

- Average Life:

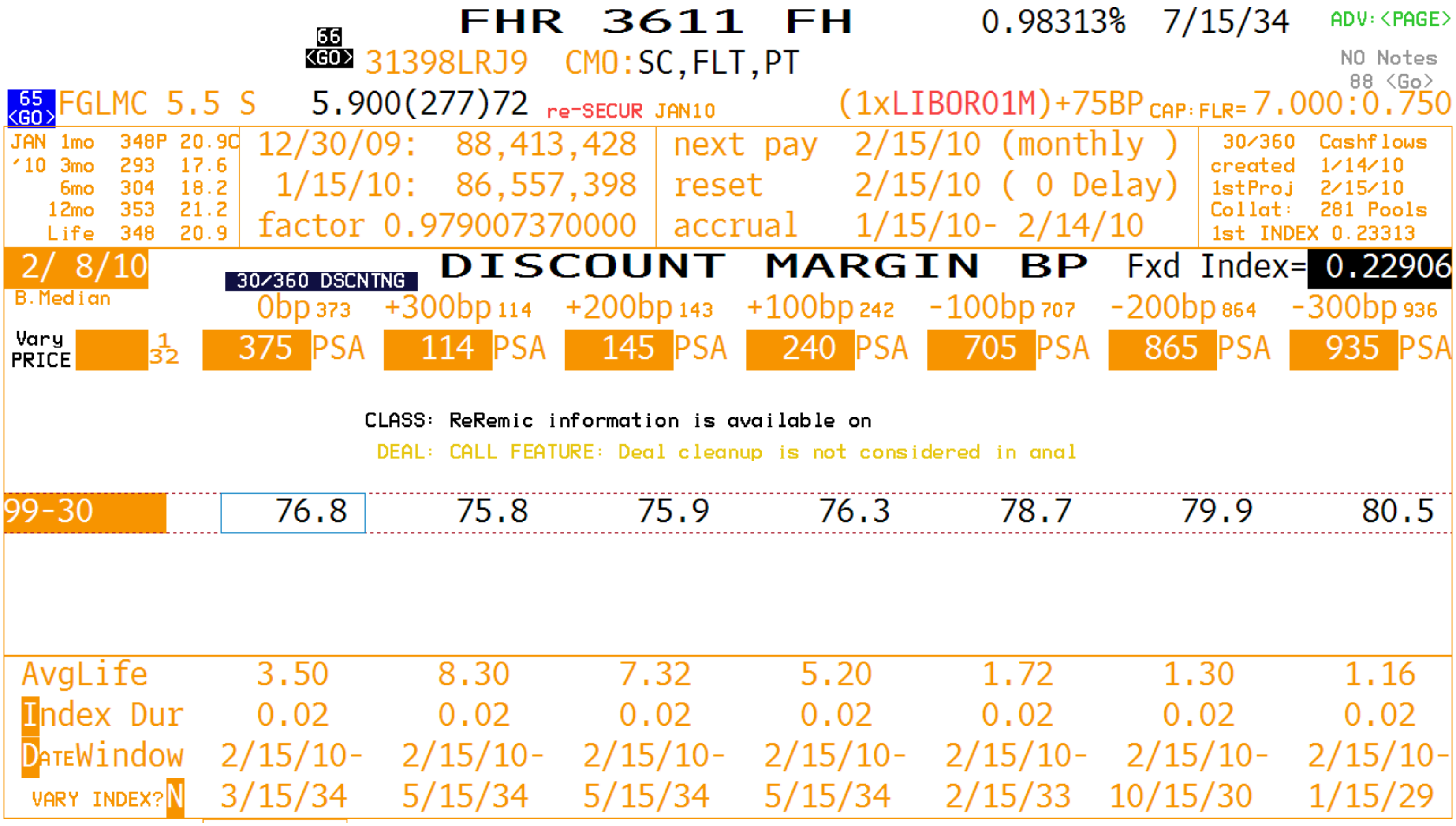
  How long it takes, on average, for a security to repay its principal

- Duration:

  The sensitivity of a bond's, or portfolio's, price to changes in interest rates

  (The key measure in IRR models)

Trading IRR for liquidity risk



Considerations

- Potential of cap comes into play
- Liquidity can be a concern (partially offset by monthly P&I)

- Floating rate products can be structured off any type of mortgage collateral
  - However, short final maturities are in heavy demand, so most <15 yr paper moves quickly

Strategy Review

- Repeat from 4Q webinar: "keep final maturities as short as possible"
  - Maintain ladder discipline
  - CMOs and callables have similar underlying valuation methodologies – evaluate the same way (using price sensitivity and option-adjusted valuation)

Thank You

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SOUTHEAST CORPORATE

CMO AND MBS SPREADSHEETS DECIPHERED AND A GSE UPDATE

Michael J. Alexandre
Southeast Corporate FCU

GSE MBS PASS-THROUGHS

DESCRIPTION	COUPON	COLLATERAL	WAL	WINDOW	PRICE	YIELD	AL +300	YLD +300	AL -300	YLD -300	MATURITY
FG G13753	5.50%	15YR	2.2	3/10-2/16	107-22	1.89%	2.6	2.38%	1.5	0.28%	Feb-21
FG G13751	5.50%	15YR	2.4	3/10-7/22	107-00	2.41%	4.9	3.86%	1.2	-0.52%	Dec-24
FG G18095	5.00%	15YR	2.4	3/10-7/20	106-08	2.28%	4.3	3.36%	1.1	-0.79%	Jan-21
FN 888595	5.00%	15YR	2.5	3/10-1/21	106-08	2.29%	4.5	3.39%	1.3	-0.10%	Jan-22
FG G13757	5.50%	15YR	2.5	3/10-4/21	107-04	2.46%	4.5	3.70%	1.3	0.00%	Sep-24
FN 896880	5.50%	15YR	2.6	3/10-12/21	107-12	2.40%	4.8	3.70%	1.3	-0.19%	May-22
FN 995960	5.00%	15YR	2.6	3/10-5/22	105-30	2.48%	4.8	3.56%	1.3	0.17%	Dec-23
FG G12619	5.00%	15YR	2.6	3/10-8/21	106-00	2.47%	4.7	3.54%	1.1	-0.52%	Apr-22
FN AD0629	5.00%	15YR	2.6	3/10-11/21	106-08	2.35%	4.7	3.47%	1.3	-0.05%	Feb-24
FN AA4547	4.50%	15YR	3.3	3/10-3/24	104-10	3.02%	5.9	3.63%	1.0	0.04%	May-24
FG G18323	4.50%	15YR	3.6	3/10-7/24	104-06	3.21%	6.1	3.70%	1.1	0.76%	Sep-24
FG G13746	4.50%	15YR	3.7	3/10-10/24	104-04	3.26%	6.2	3.72%	1.3	1.16%	Jan-25
FN AA4315	4.00%	15YR	4.4	3/10-1/24	102-00	3.45%	5.9	3.58%	0.8	1.42%	Apr-24
FG J11644	4.00%	15YR	5.0	3/10-1/25	101-20	3.55%	6.4	3.65%	1.4	2.52%	Feb-25

GSE CMO ISSUES

DESCRIPTION	COUPON	COLLATERAL	WAL	WINDOW	PRICE	YIELD	AL +300	YLD +300	AL -300	YLD -300	MATURITY
FHR 3158 GA	5.75%	20YR 6%	1.4	2/10-7/13	106-00	1.24%	3.4	3.81%	0.6	-4.61%	Sep-24
FNR 05-21 BK	4.75%	20YR 5%	1.9	2/10-11/14	105-08	1.83%	3.5	3.08%	0.5	-5.10%	Jul-23
FNR 10-13 KA	2.00%	15YR 5%	2.4	3/10-10/17	100-04	1.89%	3.3	1.93%	1.3	1.81%	Dec-18
FHR 3571 BA	4.50%	15YR 4.5%	2.6	2/10-9/16	104-26	2.51%	4.8	3.37%	0.9	-0.87%	Apr-23
FNR 10-3 GA	4.00%	15YR 5%	2.7	3/10-10/18	104-08	2.25%	3.8	2.74%	1.4	0.89%	Feb-25
FNR 10-5 BA	4.50%	20YR 4.5%	3.3	3/10-11/17	104-08	3.06%	5.9	3.64%	0.8	-0.95%	Oct-27
FHR 3586 GA	4.50%	20YR 4.5%	3.4	2/10-10/17	104-14	3.07%	5.8	3.62%	0.9	-0.30%	Mar-27
FHR 2685 VP	4.00%	20YR 4%	5.4	5/11-4/23	102-12	3.50%	7.0	3.61%	1.6	2.40%	Oct-23

GSE UPDATE

- On December 24, 2009 the U.S. Department of the Treasury announced changes under the Housing and Economic Recovery Act (HERA) of 2008 including the termination of several HERA programs and amendments to the Preferred Stock Purchase Agreements (PSPAs) with the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC)

GSE UPDATE

- The changes announced by Treasury would affect the GSE entities in three major areas:
  - MBS Purchase Programs
  - Balance Sheet Limits
  - Funding Support

GSE UPDATE

- MBS Purchase Program
  - Original Plan
    - Treasury to purchase $750B (raised to $1.25T) GSE MBS securities to provide market support and liquidity
  - Amended Plan
    - Purchase program to end 12/31/09 (revised to 3/31/10). As of January 2010, the Treasury had purchased 92.9% of the allocated total amount. Treasury retains the future option to purchase MBS issues from “time to time”

GSE UPDATE

- Balance Sheet Limits
  - Original Plan
    - GSEs to cap their balance sheets at $850B (revised to $900B) by year-end 2009 and to shrink that balance by 10% per year until reaching $250B
  - Amended Plan
    - Balance sheet reduction to be based upon $900B cap instead of year-end 2009 balance (approximately $760B each). Percentage decline and ending balance remain unchanged.

GSE UPDATE

- Funding Support
  - Original Plan
    - Under the PSPAs each GSE to have a $200B funding (currently $140B combined drawn) commitment to accommodate any cumulative reduction in net worth.
  - Amended Plan
    - Treasury to employ a flexible funding commitment cap over the next three years to support the mortgage GSE functions.

GSE UPDATE

- What does this mean to you?
  - Treasury is assuming a more supportive role in backing the functions and debt of these GSEs.
  - Debt issuance by FNMA and FHLMC will not decline as originally expected which should eventually widen spreads.
  - MBS spreads may widen as purchase program ends but market participants, mostly foreign, will pick up the slack resulting in minimal impact.

Thank you!

Town Hall Meetings

All meetings will be held from 1 p.m. to 3 p.m. with light refreshments.

Jackson, MS - February 9 - MS Credit Union Association
Gulfport, MS - February 10 - Keesler FCU Administration Building
Pensacola, FL - February 11 - New World Inn, 600 South Palafox
Orlando, FL - February 16 - Insight Financial CU Community Room
Miami Lakes, FL - February 17 - Don Shula’s Hotel
Jacksonville, FL - February 18 - Southeast Corporate