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**To: Member Credit Unions**  
**From: Rob Schleiter, EVP**  
**Date: April 16, 2009**  
**Re: Update Regarding NCUA's Conservatorship of U.S. Central**

We want to provide an update regarding the impact of NCUA's conservatorship of U.S. Central, and what impact their actions may have on both Southeast Corporate's \$130 million in capital shares and your capital shares at Southeast.

Additional details are provided below, but in summary, the situation remains very fluid and uncertain.

As you recall, at the time of the conservatorship NCUA advised all corporates their capital at U.S. Central was fully impaired. We understand this determination was made based on an internal analysis of U.S. Central's investment portfolio and supported by a similar analysis of the portfolio conducted by a third party analytics firm, PIMCO. We believe U.S. Central would need to record an impairment of approximately \$3.7 billion in order to fully impair all member corporates' capital shares and a \$1 billion NCUA capital note.

NCUA has advised us that they have engaged Clayton Analytics, a third party valuation firm, to analyze the investment portfolio of U.S. Central, and use their analysis to determine December 2008's credit loss and other-than-temporary-impairment (OTTI). The Clayton analysis is not expected to be completed until April month end and we do not know if Clayton's analysis will reflect a higher or lower loss estimate. Further, we understand NCUA is now leaning towards making any additional OTTI charge a 2008 event, whereas their earlier indication was that any additional markdown would be a March 2009 event. **If this schedule holds, we will not know the impact of U.S. Central's OTTI on Southeast and the downstream impact on your credit union until sometime in May at the earliest.**

NCUA also introduced the notion of "extinguishment" at yesterday's weekly corporate update. In contrast to impairment, where any future recoveries go to the capital holder, apparently extinguishment permanently erases ownership, and with it, rights to future recoveries of capital. Yesterday's call was the first we had learned NCUA was considering extinguishment, and it obviously has important financial consequences to both Southeast and your credit union.

On a related topic, you are likely aware that the Financial Accounting Standards Board (FASB) issued final amendments clarifying OTTI and fair value accounting in distressed markets. The amended language provides clearer guidance on both issues, notably, allowing credit losses to be separated from other factors when determining OTTI. Unfortunately, FASB refused to allow early adoption to 2008's financial results, where widespread interpretations and the resultant turmoil provided the catalyst for these changes.

Lastly, an NCUA Media Advisory release posted April 10, stated the NCUA will be issuing guidance this week on the subject of how credit unions will account for any impairments or write-downs of paid-in-capital and membership capital held at corporate credit unions. The link to that release is:

[http://www.ncua.gov/news/press\\_releases/2009/MA09-0410.htm](http://www.ncua.gov/news/press_releases/2009/MA09-0410.htm)

We will continue to keep you abreast of the progress related to these issues. Please do not hesitate to contact me at 800-342-0203, extension 4043, or [rschleiter@secorp.org](mailto:rschleiter@secorp.org) if you have any questions.