

November 7, 2011

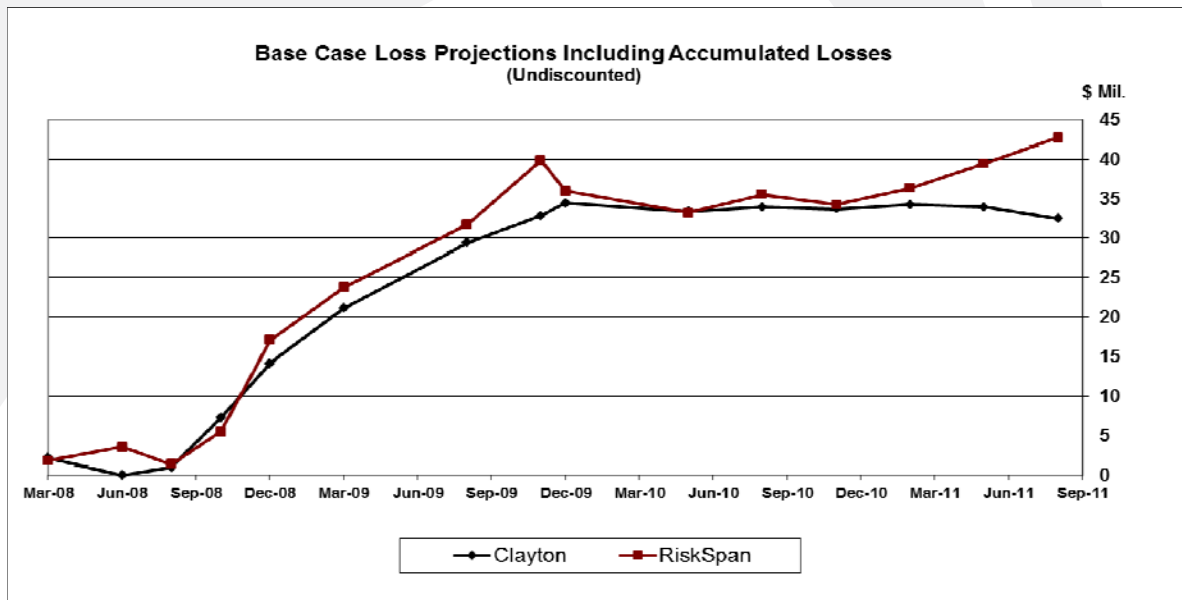
Dear Member/Owner:

This letter provides you with additional detail of the third quarter analysis of Southeast's portfolio of private label mortgage backed securities. It includes updated base case Other Than Temporary Impairment (OTTI) estimates as well as loss projections under a number of more stressful economic conditions.

Market prices on the private label mortgage backed securities deteriorated during the third quarter by approximately \$10 million and, as of September 30th, this portfolio of assets indicated a market loss of \$57 million. Because a sale or mark-to-market of these assets would result in a permanent depletion of your membership capital (MCS) of approximately 87%, management believes retaining these assets remains the best strategy for the foreseeable future. This discounted market value continues to far exceed the base case credit loss projections of \$5.9 million. Members should be aware that the value of your member capital is at a significant and material risk if the capitalization required for a successful merger with Corporate One is not achieved.

Results of the Recent OTTI Analysis

Base case loss projections from the two third-party analytic firms, Clayton and RiskSpan, continued to diverge in the third quarter. Clayton's undiscounted base-case loss projection declined \$2.1 million while RiskSpan's loss projection increased \$2.7 million over the second quarter projections. On average, the \$37.6 million undiscounted base-case loss projection represents a \$0.1 million increase from the second quarter.



These projected losses have already largely been covered by Southeast's recognition of \$43.5 million in OTTI. (The reason OTTI recorded is higher than the loss projections shown above is primarily because OTTI includes losses recorded on three bonds that have matured and one bond that was sold and thus are no longer in our portfolio.)

As a result of the increase in RiskSpan's loss projections the average base case loss exposure increased slightly to \$5.9 million in the third quarter from \$5.3 million in the second quarter. As more fully explained below, the base case exposure includes: 1) three bonds not yet impaired that project credit losses, 2) ten previously impaired investments that project potential incremental credit losses, and 3) three Ambac-insured investments that were impaired at year-end 2010. In addition, Southeast holds eight previously impaired investments that project lower credit losses than previously estimated, and are considered over-impaired by \$2.8 million. Although these over-impairments indicate unrealized value, management does not include this value in the base case loss estimates. Bond level results and discussion are provided below.

Average Base Case OTTI Projections						
Bond Classification	3Q 2011		2Q 2011		1Q 2011	
	Count	Mil. \$	Count	Mil. \$	Count	Mil. \$
Not Impaired w/ Projected Losses	3	1.37	3	1.40	3	1.28
Previously Impaired ~ Incremental Exposure	<u>10</u>	<u>1.96</u>	<u>8</u>	<u>1.40</u>	<u>7</u>	<u>1.21</u>
Sub-Total	13	3.33	11	2.80	10	2.49
Ambac (No Further Claims Payments)	<u>3</u>	<u>2.61</u>	<u>3</u>	<u>2.44</u>	<u>3</u>	<u>2.35</u>
Base Case OTTI Exposure	16	5.94	14	5.25	13	4.84
Over-Impairments	8	(2.75)	11	(2.93)	12	(3.54)

Potential OTTI

Presented in the table below are the three investments not currently impaired that have shown modest projected losses in the past. On average, the third quarter analysis projected \$1.4 million in losses over the life of these bonds. Members should be aware that Clayton and RiskSpan have materially different views on all three bonds, but particularly the SARM 2007-6. The projected losses on these three investments do not satisfy the materiality and/or timing criteria set forth in our internal OTTI procedures and no OTTI was recorded.

Investment	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average as % of Par	Clayton & RiskSpan Shortfall %, First Loss	Actual/Implied Losses
IMM 2004-11	\$ 2,381,642	\$ -	\$ 15,178	\$ -	\$ 7,589	0%	2%, 5/19	\$ -
RAAC 2005-SP2	\$ 11,213,096	\$ -	\$ -	\$ 187,294	\$ 93,647	1%	- 2%, 6/16	\$ -
SARM 2007-6	\$ 8,290,039	\$ -	\$ 626,177	\$ 1,908,357	\$ 1,267,267	15%	9%, 4/14 24%, 4/13	\$ -
Subtotal	\$ 21,884,777	\$ -	\$ 641,355	\$ 2,095,651	\$ 1,368,503			\$ -

Below is the third quarter analysis on ten previously impaired investments. The indicated average loss on these bonds was \$2 million, up from \$1.4 million projected in the second quarter. You should note the analytics firms have very different views on a number of bonds which leads to a significant difference in the projected losses on these ten bonds. Clayton projects \$700 thousand of additional losses on six bonds and four bonds are projected to be over-impaired by \$1.3 million. In total, Clayton's analysis suggests these ten bonds are over-impaired by almost \$600 thousand. In contrast, RiskSpan results project additional losses of \$4.5 million. Thus the projections differ by over \$5 million. None of the individual results reached the internal thresholds used to record additional OTTI in September.

Investment	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average as % of Par	Clayton & RiskSpan Incremental Loss Date		Actual/Implied Losses
BSABS 2007-HE4	\$ 18,991,986	\$ 1,000,000	\$ (1,000,000)	\$ 1,304,107	\$ 152,054	1%			\$ -
CWALT 2006 19CB	\$ 1,817,308	\$ 265,355	\$ 145,934	\$ 354,719	\$ 250,327	12%	9/14	10/13	\$ 14,748
CWALT 2007 16CB	\$ 4,160,296	\$ 718,667	\$ (60,307)	\$ 219,073	\$ 79,383	2%			\$ -
GSA 2006-1	\$ 558,918	\$ 112,585	\$ 52,626	\$ 114,240	\$ 83,433	12%	6/13	np	\$ 52,736
MABS 2007-WMC1	\$ 3,334,312	\$ 3,565,764	\$ 59,057	\$ 434,079	\$ 246,568	4%			\$ 2,171,752
MSM 2005-8SL	\$ 2,780,521	\$ 134,478	\$ (134,478)	\$ 534,004	\$ 199,763	7%			\$ -
MSM 2006-17XS	\$ 2,073,113	\$ 634,283	\$ 64,468	\$ 312,143	\$ 188,306	7%			\$ 204,480
NAA 2007-1	\$ 2,398,713	\$ 827,873	\$ 281,123	\$ 599,203	\$ 440,163	14%	4/13	8/13	\$ 260,156
NHELI 2006-AF1	\$ 2,282,098	\$ 1,114,779	\$ 93,039	\$ 365,980	\$ 229,509	7%			\$ 399,868
RALI 2007-QS7	\$ 3,964,032	\$ 1,520,192	\$ (73,829)	\$ 262,164	\$ 94,167	2%			\$ 397,480
Subtotal	\$ 42,361,298	\$ 9,893,976	\$ (572,368)	\$ 4,499,714	\$ 1,963,673				\$ 3,501,220

Southeast owns three Ambac-insured investments that have undergone analysis for impairment. To date, Southeast has recorded \$656 thousand of impairments due to the uncertainty regarding Ambac's ability to make claims payments. The third quarter analysis projects additional claims payments of \$1.4 million, while accumulated claims increased to \$1.9 million during the third quarter. The total exposure to these Ambac insured investments increased to \$2.6 million from \$2.4 million.

Investment	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average as % of Par	Clayton & RiskSpan Expected Maturity		Accumulated Claims
RAMP 2003-RS1	\$ 569,861	\$ 12,378	\$ 56,882	\$ 100,448	\$ 78,665	14%	2029	2031	\$ -
RASC 2002-KS4	\$ 1,082,266	\$ 27,928	\$ 34,294	\$ 93,873	\$ 64,084	6%	2027	2032	\$ 30,371
SACO 2006-2	\$ 3,085,560	\$ 616,006	\$ 1,435,840	\$ 1,013,164	\$ 1,224,502	33%	2036	2036	\$ 1,853,729
Subtotal	\$ 4,737,688	\$ 656,312	\$ 1,527,017	\$ 1,207,484	\$ 1,367,251				\$ 1,884,100
Ambac Accumulated Unpaid Claims Less OTTI Taken					\$ 1,240,166				
Aggregate Incremental Exposure					\$ 2,607,417				

Ambac's rehabilitation plan to fulfill its claims payment obligations was approved January 24, 2011. Under the plan, insured bond holders were to receive 25% of accumulated and future claims in cash with the remaining 75% of claims being satisfied by paid in-kind Surplus Notes. However, the Wisconsin Insurance Commissioner has yet to implement the plan due to several legal challenges, including a potentially significant challenge from

the Internal Revenue Service. If the IRS is successful regarding the full value of their challenge, Ambac's rehabilitation plan could not be implemented as currently proposed and adjustments to the proposed rehabilitation plan would be required.

Management believes the exposure to Ambac represents the most significant near term credit risk to the portfolio.

Over-Impairments

Southeast owns eight previously impaired investments whose improved outlook now indicates they have been over-impaired. The latest projections presented below indicate these bonds have been over-impaired by an average of \$2.8 million. As shown below, Clayton projects these eight investments to be over-impaired by \$4.5 million, while RiskSpan's projected over-impairment totals \$1.1 million. Over-impairments remain difficult to recapture quickly as accounting rules require the over-impairment to be recaptured over the remaining life of the investment.

Investment	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average OI as % of Par	Clayton & RiskSpan Expected Maturity		Actual/Implied Losses
ACE 2007 ASL1	\$ 1,757,956	\$ 6,495,276	\$ (743,604)	\$ (20,017)	\$ (381,810)	-5%	2036	2036	\$ 4,973,188
ARSI 2005-W1	\$ 2,805,812	\$ 949,823	\$ (510,512)	\$ 75,571	\$ (217,471)	-6%	2035	2027	\$ -
CWHEL 2007-1	\$ 8,878,118	\$ 1,115,244	\$ (1,115,244)	\$ (1,006,680)	\$ (1,060,962)	-11%	5/13	9/13	\$ -
GMACM 2005-HE1	\$ 3,345,799	\$ 1,077,742	\$ (683,519)	\$ (572,054)	\$ (627,786)	-14%	2035	2034	\$ 287,347
GSA 2006-17	\$ 2,544,184	\$ 1,683,968	\$ (444,241)	\$ 29,611	\$ (207,315)	-5%	2036	2036	\$ 386,783
LXS 2006-15	\$ -	\$ 4,398,414	\$ (43,918)	\$ (40,631)	\$ (42,275)	-1%	2/12	1/12	\$ 3,221,595
MSABS 2007-HE5	\$ 3,173,563	\$ 1,726,932	\$ (464,536)	\$ 178,760	\$ (142,888)	-3%	2037	2037	\$ -
MSABS 2007-HE6	\$ 4,699,783	\$ 1,925,155	\$ (448,005)	\$ 301,685	\$ (73,160)	-1%	2037	2037	\$ -
Subtotal	\$ 27,205,216	\$ 19,372,554	\$ (4,453,580)	\$ (1,053,755)	\$ (2,753,668)				\$ 8,868,913

Stress Analysis

Southeast utilized Clayton to provide an additional stress analysis on the bonds this quarter, which is the fourth consecutive stress analysis. The intent of the stress analysis is to assess the sensitivity of the portfolio to further deterioration in the economic environment and the potential downstream risk to retained earnings and members' MCS. Clayton develops the Pessimistic 1 scenario based on their assumption of a pessimistic economic environment. Their assumptions include:

- Initial jobless claims are at or above \$450k
- No or very little increase in private sector payrolls
- A likely increase in the headline unemployment rate
- Home prices decline an additional 10-20%, approximately

The Pessimistic 1 scenario projects \$14 million of additional losses, which includes the base case losses of \$5.9 million, and represents an improvement of \$1 million over the stress scenario analysis conducted last quarter.

Pessimistic scenarios 2 through 4 requested by Southeast represent successively harsher collateral performance assumptions as seen below. Pessimistic scenarios 2 through 4 project losses ranging from \$26 million to \$65 million.

Southeast management currently believes the realization of the conditions presented in Pessimistic 2, 3, and 4 scenarios is very unlikely. Overall, the stress case loss projections improved for the second consecutive quarter under each of the four stressed scenarios.

	Optimistic Clayton	Aver. Base Case	Pessimistic			
			1 Clayton	2 Southeast	3 Southeast	4 Southeast
Prepayments	+25%	Base	-25%	-25%	-50%	-50%
Defaults	-25%	Base	+25%	+50%	+75%	+100%
Loss Severities	Base	Base	Base	+10%	+20%	+30%
Insurers	Ambac, FGIC	Ambac, FGIC	All Fail	All Fail	All Fail	All Fail
Projected Losses (Mil. \$)	(\$12.5)	\$5.9	\$14.0	\$25.8	\$45.6	\$64.9
Unrealized Market Losses 9/30/2011 (Mil. \$)		\$57				

Looking Ahead

Due to the continued wide gulf between the unrealized market losses and average base case OTTI, a 'hold' strategy remains the lowest impact strategy as it relates to your MCS. Our ability to maintain this strategy and provide what we believe to be the best protection of your membership capital is contingent on the membership collectively supporting the capitalization effort associated with the Corporate One merger.

We thank you for your continued support of Southeast Corporate. If you have any questions regarding our OTTI process, please contact me at 1-800-342-0203 ext. 4043; Perry Jones, Vice President Credit Risk ext. 4030, or Steve Upton, Controller ext. 4010.

Sincerely,

Robert F. Schleiter
Executive Vice President