

SOUTHEAST CORPORATE

May 11, 2011

Dear Member/Owner,

This communication serves to provide you with additional detail of our first quarter financials, the results of the latest Other Than Temporary Impairment (OTTI) analysis, which includes updated stress loss projections, and commentary on the potential for future impairments. Our March 31, 2011 financial statements are on our website in the Member Owner Information Center.

Earnings and Capital

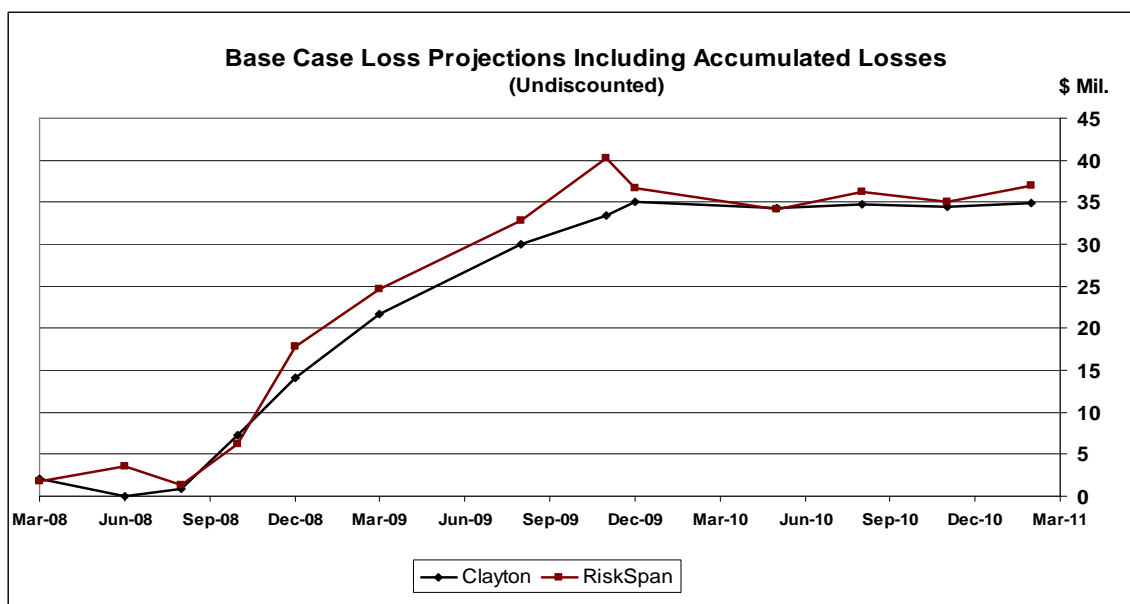
During March, we recorded \$218 thousand in operating earnings prior to recording OTTI on one previously impaired investment that matured in March. The OTTI totaled \$35 thousand, which lowered net income for March to \$183 thousand. Year-to-date Southeast Corporate recorded operating earnings of \$460 thousand and net security gains of \$464 thousand, which resulted in net income of \$924 thousand for the first quarter. This compares favorably with first quarter 2010 net income of \$397 thousand.

The year to date earnings have been transferred to retained earnings, which now totals \$1.2 million. Retained earnings serves as first loss protection for your membership capital, which currently totals \$62.8 million (unamortized) at March 31, 2011.

Results of the Recent OTTI Analysis

In the chart below, base case loss projections from two third-party analytic firms remain range bound for the fifth consecutive analysis. Undiscounted base-case losses averaged \$36 million, which is largely covered by previously reported OTTI of \$43.5 million. The difference primarily represents maturities and one divestiture of previously impaired investments.

The flattened loss projections are due to stabilization of delinquency rates on the underlying mortgage collateral. Early stage delinquencies are generally following seasonal trends albeit at higher levels than rates experienced in the early to mid 2000s. The stabilization in delinquencies is attributed to lower new jobless claims and continued loan modifications, which typically brings the loan current. The growth of late-stage delinquencies has slowed or flattened, but they currently remain elevated due to previous foreclosure moratoriums and an increased foreclosure timeline. Late stage delinquencies are the primary determinant of defaults and losses and with the range bound loss projections the expectation is for defaults to subside. However, the economy remains vulnerable and future performance of the underlying collateral will closely mimic new jobless claims and the overall unemployment levels.



In an effort to provide the most accurate picture of credit risk, impaired bonds that have matured, been sold or bonds with no remaining book value (described more fully below) are removed from the base case loss projections presented above since they pose no further credit risk. As a result, base case loss projections declined approximately \$14 million since the previous analysis and disclosure.

Cumulative & Potential OTTI

To date, Southeast has recorded \$43.5 million (discounted value) of OTTI on twenty-five mortgage related securities. Three of the previously impaired investments have either matured or been sold. One investment has been written down to \$0 due to a nominal over-impairment. Thus, twenty one impaired investments remain on the balance sheet with additional detail provided below.

This quarter's analysis showed additional losses on seven previously impaired investments (presented below) of \$1.2 million, which is up from \$1.0 million from the fourth quarter 2010 analysis. The additional losses do not reach our materiality thresholds for impairment and were not recorded in earnings for March. In addition, these seven investments project extended payment horizons with maturities ranging from 2035 to 2037.

Investment	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average as % of Par	Average as % of Book	Clayton & RiskSpan Expected Maturity	Actual/Implied Losses
CWALT 2006 19CB	\$ 1,911,227	\$ 265,355	\$ 167,851	\$ 302,718	\$ 235,285	11%	12%	2036 2036	\$ -
CWALT 2007 16CB	\$ 4,361,351	\$ 718,667	\$ 83,376	\$ 204,170	\$ 143,773	3%	3%	2036 2037	\$ -
GSA 2006-1	\$ 592,744	\$ 112,585	\$ 50,389	\$ 100,144	\$ 75,267	11%	13%	2035 2036	\$ 27,082
MSM 2006-17XS	\$ 2,167,340	\$ 634,283	\$ 63,964	\$ 268,688	\$ 166,326	6%	8%	2036 2036	\$ 109,311
NAA 2007-1	\$ 2,510,080	\$ 827,873	\$ 206,934	\$ 505,887	\$ 356,410	11%	14%	2037 2037	\$ 154,466
NHELI 2006-AF1	\$ 2,368,941	\$ 1,114,779	\$ 203,533	\$ 173,932	\$ 188,733	5%	8%	2036 2036	\$ 263,014
RALI 2007-QS7	\$ 4,225,006	\$ 1,520,192	\$ (56,400)	\$ 137,471	\$ 40,535	1%	1%	2037 2037	\$ 263,359
Subtotal	\$ 18,136,690	\$ 5,193,734	\$ 719,647	\$ 1,693,010	\$ 1,206,328				\$ 817,232

The three Ambac insured investments seen below, which we recorded \$656 thousand of impairments in December, project additional claims payments of \$1.6 million. Also, current accumulated claims total \$1.4 million. Therefore, the current incremental

exposure to the Ambac insured investments totals \$2.4 million. Ambac's "rehabilitation plan" was approved January 24, 2011, but the Wisconsin Insurance Commissioner has yet to implement the plan. Upon implementation, we expect to receive 25% of accumulated and future claims in cash with the remaining 75% of claims being satisfied by paid in kind Surplus Notes that are expected to earn 5.1% interest.

Investment	Insurer	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average as % of Par	Average as % of Book	Clayton & RiskSpan Expected Maturity	Actual/Implied Losses
RAMP 2003-RS1	Ambac	\$ 594,593	\$ 12,378	\$ 82,808	\$ 18,764	\$ 50,786	8%	9%	2026 2025	\$ -
RASC 2002-KS4	Ambac	\$ 1,131,571	\$ 27,928	\$ 76,674	\$ 79,035	\$ 77,855	7%	7%	2026 2026	\$ 25,062
SACO 2006-2	Ambac	\$ 3,642,817	\$ 616,006	\$ 2,042,557	\$ 830,237	\$ 1,436,397	34%	39%	2036 2036	\$ 1,420,137
Subtotal		\$ 5,368,982	\$ 656,312	\$ 2,202,040	\$ 928,036	\$ 1,565,038				\$ 1,445,199
Ambac Accumulated Unpaid Claims Less OTTI Taken						\$ 788,887				
Aggregate Incremental Exposure						\$ 2,353,925				

For the remaining twelve previously impaired investments presented below, the latest projections indicate these bonds have been over-impaired by \$3.5 million. This compares to a \$4.3 million over-impairment indicated in the fourth-quarter. The difference represents the dynamic nature of the projections, one investment divestiture, and partial recapture of OTTI on one investment whose book value has amortized to \$0 due to the over-impairment. On this investment, we recorded \$4.4 million of OTTI, but we have received additional principal and interest of \$112 thousand since the book value amortized to \$0 and the discounted value of future principal and interest payments is \$213 thousand. Although GAAP does not provide for immediate recapture of over-impairments, management is assessing these bonds on an individual basis to recover previous losses over the remaining life of these securities.

Investment	Insurer	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average OI as % of Par	Average OI as % of Book	Clayton	RiskSpan	Actual/Implied Losses
ACE 2007 ASL1		\$ 1,924,188	\$ 6,495,276	\$ (414,157)	\$ (313,887)	\$ (364,022)	-4%	-19%	2036	2036	\$ 4,718,851
ARSI 2005-W1	FGIC	\$ 3,047,325	\$ 949,823	\$ (283,912)	\$ (371,507)	\$ (327,709)	-8%	-11%	2035	2035	\$ -
BSABS 2007-HE4		\$ 18,994,145	\$ 1,000,000	\$ (1,000,000)	\$ (88,011)	\$ (544,006)	-3%	-3%	2017	2015	\$ -
CWHEL 2006-S3	FGIC	\$ 615,703	\$ 595,814	\$ (23,532)	\$ (35,101)	\$ (29,316)	-2%	-5%	8/2011	9/2011	\$ 558,144
CWHEL 2007-1		\$ 8,879,891	\$ 1,115,244	\$ (10,566)	\$ (949,330)	\$ (479,948)	-5%	-5%	6/2013	5/2013	\$ -
GMACM 2005-HE1	FGIC	\$ 3,648,568	\$ 1,077,742	\$ (579,142)	\$ (490,703)	\$ (534,923)	-11%	-15%	2035	2035	\$ 245,458
GSAA 2006-17		\$ 2,747,697	\$ 1,683,968	\$ (386,613)	\$ (64,608)	\$ (225,610)	-5%	-8%	2036	2036	\$ 258,125
LXS 2006-15		\$ -	\$ 4,398,414	\$ (195,680)	\$ (231,160)	\$ (213,420)	-5%	N/M	11/2011	3/2012	\$ 2,031,004
MABS 2007-WMC1		\$ 3,510,253	\$ 3,565,764	\$ (158,300)	\$ 120,396	\$ (18,952)	0%	-1%	2036	2037	\$ 1,726,594
MSABS 2007-HE5		\$ 3,182,799	\$ 1,726,932	\$ (419,402)	\$ (301,098)	\$ (360,250)	-7%	-11%	2037	2037	\$ -
MSABS 2007-HE6		\$ 4,703,242	\$ 1,925,155	\$ (137,245)	\$ (487,001)	\$ (312,123)	-5%	-7%	2037	2037	\$ -
MSM 2005-BSL		\$ 3,110,269	\$ 134,478	\$ (134,478)	\$ (134,478)	\$ (134,478)	-4%	0%	2025	2028	\$ -
Subtotal		\$ 54,364,079	\$ 24,668,610	\$ (3,743,027)	\$ (3,346,488)	\$ (3,544,758)					\$ 9,538,176

Presented in the table below are three investments not currently impaired that have shown modest projected losses in the past. The first quarter analysis projected \$1.3 million in losses over the life of the bonds, up from \$1.0 million in losses projected in the fourth quarter analysis. The projected losses on these investments do not satisfy the materiality and/or timing criteria set forth in our internal OTTI procedures and no losses were recorded.

Investment	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average as % of Par	Average as % of Book	Clayton	RiskSpan	Actual/Implied Losses
IMM 2004-11	\$ 2,562,010	\$ -	\$ 104,430	\$ 6,247	\$ 55,338	2%	2%	7%, 5/14	0%	\$ -
RAAC 2005-SP2	\$ 12,226,899	\$ -	\$ 289,687	\$ (38,326)	\$ 125,680	1%	1%	3%, 8/15	1%, 9/17	\$ -
SARM 2007-6	\$ 8,784,665	\$ -	\$ 645,042	\$ 1,553,918	\$ 1,099,480	13%	13%	9%, 9/13	19%, 12/12	\$ -
Subtotal	\$ 23,573,574	\$ -	\$ 1,039,159	\$ 1,521,839	\$ 1,280,499					\$ -

In summary, we believe the future performance of our private label mortgage-backed bonds will track the performance of the greater economy. As of March, approximately \$2.5 million in additional projected losses (\$1.2 million on the seven previously impaired investments plus \$1.3 million on the three investments for which no impairment has yet been taken) have not been recorded since the amounts and/or timing of the losses on the individual investments do not meet the internal criteria used to record OTTI. Also, the current incremental exposure on the three Ambac insured investments totals \$2.4 million and assumes no additional insurance payments are received from Ambac. As a result, our base case loss projections increased \$1 million during the first quarter to \$4.8 million, which is primarily attributable to the increasing exposure to Ambac. The base case loss projections exclude the projected over-impairments of \$3.5 million.

Stress Analysis & Unrealized Losses

As we presented in our March 12, 2011 Quarterly Financial Update webinar (available on the Member-Owner page of our website), we engaged Clayton IPS to provide four stressed scenarios of our portfolio of private label MBS portfolio. The intent of the analysis remains to analyze the sensitivity of the portfolio to further deterioration in performance and the resulting impact on retained earnings and membership capital. Clayton provided an updated commentary, which is attached, that details the economic environment that underlies their optimistic, base-case, and Pessimistic 1 Case assumptions. Again, Clayton did not attempt to couch the economic assumptions that underlie the three additional pessimistic scenarios requested by Southeast. These three additional pessimistic scenarios represent successively harsher assumptions and seek to determine the performance that could erode all remaining membership capital.

As previously indicated, the base case losses are calculated at \$4.8 million. Losses increase \$11.6 million using Clayton's pessimistic assumptions, which result in \$16.4 of additional losses. Under this scenario, the only additional bonds that project losses are insured bonds where it is assumed that they fail to make further claims payments. Aside from the insured bonds, the additional losses are attributed to the twenty one bonds described above.

Pessimistic scenarios 2 through 4 produce additional losses ranging from \$35 million to \$80 million. In order for all remaining capital to be depleted due to OTTI, performance would have to deteriorate beyond that assumed in pessimistic scenario 3 where prepayments decline 50%, defaults increase 75%, loss severities increase 20% and all bond insurers fail.

	Optimistic Clayton	Base Clayton	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. \$)	(\$13.4)	\$4.8	\$16.4	\$34.9	\$60.7	\$80.4
Unrealized Market Losses 3/31/2011 (Mil. \$)		\$45.2				

Unrealized losses of \$45 million on this portfolio of assets continue to greatly exceed the base case loss projections of \$4.8 million, which prohibits a wholesale resolution of these assets. If these assets were sold or marked to fair value, the approximate impact to membership capital would be a loss of 70%.

The bond level detail of this analysis is attached and, overall, results from the first quarter 2011 analysis are in line with the fourth quarter 2010 analysis.

Looking Ahead

We will continue to update you as these amounts will undoubtedly differ in future analyses based on the performance of the underlying collateral and the expectation of future economic conditions which drive model assumptions. Our objective is to provide you with the most accurate account of our financial position while striving to protect your membership capital. While future events will dictate our investment portfolio's performance going forward, it is encouraging to see that the loss projection trends for our investment portfolio remain stable.

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