



6/18/2011

Attn: Perry Jones, VP/Credit Risk
Southeast Corporate Federal Credit Union
3692 Coolidge Court
Tallahassee, FL 32311

Clayton IPS Stress Analysis

As requested, IPS has conducted stress scenario analysis on the Southeast Corporate portfolio as of May 31, 2011. The results of the analysis are attached herewith, and described below.

The results of the stresses are presented in terms of projected principal writedown in base, optimistic, and several pessimistic case scenarios. The base case results were obtained using a methodology consistent with what we have been providing to you in previous analyses. The optimistic and pessimistic scenarios were created specifically for this analysis, and are described below.

The IPS base case scenarios reflect our opinion of the most likely performance of each security given our opinion of the most likely economic environment going forward, which is described in general terms below. We also attempt to couch the Optimistic and first Pessimistic scenarios in terms of the general economic environment that would produce such a scenario. The additional Pessimistic scenarios represent successively harsher scenarios from that described for Pessimistic 1, but we have not attempted to describe the economic scenario that might produce such results. All of these descriptions are based on our best judgment, though the general response of RMBS securities to different economic conditions – as well as the behavior of individual borrowers and specific pools of loans – cannot be known for certain.

IPS Base Case Scenario

IPS base case assumptions are created assuming that there is some additional home price depreciation yet to occur in the US housing market. Note that this is deterioration from our base case forecast one quarter ago, as the depreciation we had expected then has mostly already occurred, and yet some economic fundamentals have deteriorated. This leads us to the conclusion that home prices have likely not quite bottomed. The additional depreciation is expected to be approximately 5% from their current level. Such depreciation primarily reflects supply and demand in the housing market, acknowledging that there is a large amount of real and “shadow” inventory in the market for homes, while many new homebuyers have already been drawn into the market via government incentives.

The US economy is not expected to enter into recession in the near term, though growth may continue to be somewhat muted relative to historic recoveries. The official unemployment rate

Information provided by IPS reflects performance solely to a certain date and does not forecast future performance. The information is not investment advice nor is it an offer to buy or sell any security. The information is not intended for distribution to, or use by, any person other than the addressee. Information contained herein is based upon information provided to IPS, and although it has been represented as accurate and complete, IPS is not in a position to independently verify such information.



may improve modestly over the next 12-24 months, though the economy is not likely to be in “full employment” until 2013 at the earliest. New jobless claims may also continue to stay high relative to historic norms, but should not revert to a level materially higher than the current low 400,000’s level.

In this base case scenario, we expect some additional defaults among borrowers who are current on their mortgage; however, the rate of new defaults will not be as high as over the past two years, and will improve slowly but steadily. Loss severities will stay elevated but not worsen materially. Access to credit for seasoned borrowers will remain poor due to lack of equity and poor credit histories, so prepayment rates will stay low over the next 12-24 months before normalizing somewhat. Liquidation timelines will stay extended due to servicer capacity issues as well as some emerging procedural problems at servicing shops, but will normalize somewhat in the next 12 months or so.

IPS Optimistic Case Scenario

In contrast to the IPS Base Case, the Optimistic Case reflects a scenario where the economy returns to more or less normal growth in 2011. The unemployment rate need not immediately return to historic levels, but new unemployment claims should continue to revert to normal levels, while private payroll numbers show steady monthly increases. While home prices continue to make new lows in the most recent reports, they are now likely at or very near their cycle lows and more or less normal positive growth should occur going forward.

In this scenario, new borrower defaults will continue to occur but in much smaller numbers, and cure rates should increase as well. Credit becomes generally more available, and borrower equity increases with home prices. This scenario is reflected by a 25% increase to the base case prepayment rate, and a 25% decrease to the base case default rate.

IPS Pessimistic 1 Case Scenario

In contrast to the IPS Base Case, the Pessimistic 1 Case reflects a scenario where the economic growth is restrained in 2011 to recession or near-recession levels. Employment conditions worsen, with initial jobless claims rising to or beyond the 450k level, no or very little net increase in private sector payrolls, and a likely increase in the headline unemployment rate. US home prices decline by a significantly higher amount than in the base case, such as by 10-20%.

Significantly lower home prices as well as steady job losses cause new borrower defaults to increase relative to their current level. Credit availability worsens along with balance sheet health of US lenders, worsening borrower credit profiles and decreasing borrower equity. This economic scenario is reflected by a 25% decrease to the base case prepayment rate, and a 25% increase to the base case default rate.

Information provided by IPS reflects performance solely to a certain date and does not forecast future performance. The information is not investment advice nor is it an offer to buy or sell any security. The information is not intended for distribution to, or use by, any person other than the addressee. Information contained herein is based upon information provided to IPS, and although it has been represented as accurate and complete, IPS is not in a position to independently verify such information.

1700 LINCOLN STREET, SUITE 1600 DENVER, COLORADO 80203

PHONE: 720-947-6500 FAX: 203-447-8025



An important note about bond insurance

As of May 2011, the IPS Base Case scenario calls for currently defaulted bond insurers (that is, Ambac and FGIC) to remain defaulted, while all insurers currently paying on claims are expected to continue to do so for the life of the securities. IPS does not include recoveries on defaulted claim payments in our base case cashflows, but this does not mean that we expect no recoveries to occur. In fact, some recoveries to claimholders are almost certain, but we do not have sufficient insight into either the timing or the magnitude of such recoveries to include them in our analysis.

Please note that in the optimistic case, we *do not* turn back on either Ambac or FGIC insurance, even though it stands to reason that at the very least, the amount of recoveries to claimholders would increase should this scenario come to fruition. We do, however, call for *immediate default of all monolines in all pessimistic scenarios*. This is not the result of a thorough analysis on any of the insurers' ability-to-pay, but we believe it is prudent to assume some of these entities would have trouble maintaining their statutory capital surpluses, should things get as bad as described in our Pessimistic Case scenarios. The assumption to default FSA/Assured in all Pessimistic Case scenarios is most likely conservative, as FSA is generally viewed as more creditworthy than other currently performing monolines, such as MBIA. As with the Base Case failures of Ambac and FGIC, we do not include any recoveries on defaulted claims from any insurer in our Pessimistic Case cashflows, though we acknowledge that some recoveries would be likely.

* * *

As always, if you have any questions or would like any additional information regarding this analysis, please contact Nathan Callard at (720) 917-1508 or Scott Gibson at (720) 947-6946.

Sincerely,

Clayton IPS LLC

Information provided by IPS reflects performance solely to a certain date and does not forecast future performance. The information is not investment advice nor is it an offer to buy or sell any security. The information is not intended for distribution to, or use by, any person other than the addressee. Information contained herein is based upon information provided to IPS, and although it has been represented as accurate and complete, IPS is not in a position to independently verify such information.

1700 LINCOLN STREET, SUITE 1600 DENVER, COLORADO 80203

PHONE: 720-947-6500 FAX: 203-447-8025