

June 30, 2011

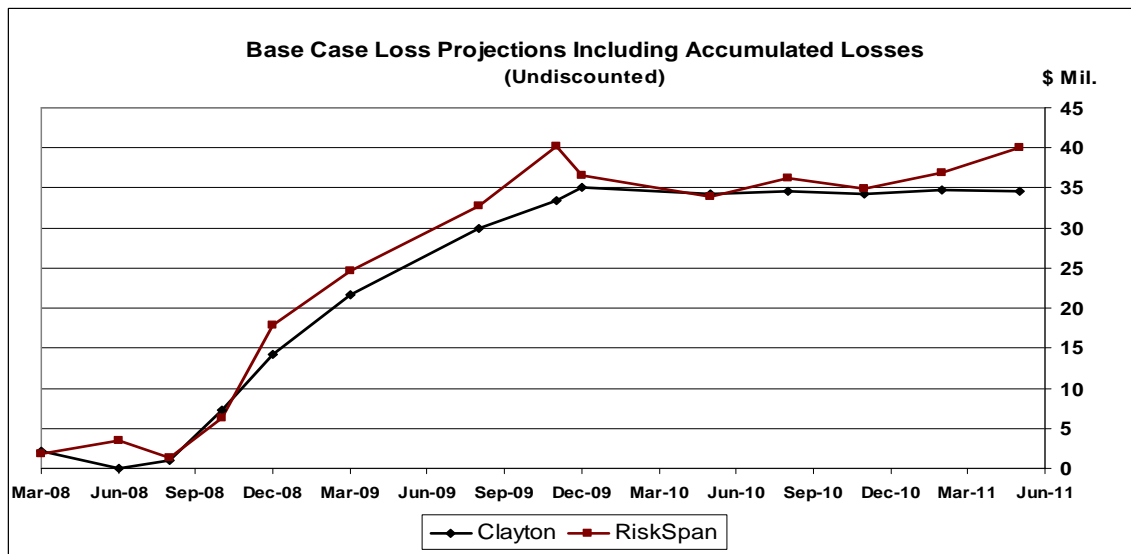
Dear Member/Owner,

This letter provides you with additional detail of the second 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 as of June 30th on this portfolio of assets indicated a loss of \$47 million if these assets were sold immediately. This discounted market value far exceeds the base case credit loss projections of \$5.2 million. Because a sale or mark-to-market of these assets would result in a permanent depletion of your membership capital (MCS) of approximately 74%, management believes retaining these assets remains the best strategy for the foreseeable future. Members should be aware that Southeast's ability to hold these assets at current book values may be at risk if its recapitalization efforts fall short.

Results of the Recent OTTI Analysis

Base case loss projections from the two third-party analytic firms, RiskSpan and Clayton, used by Southeast continued to diverge somewhat in the second quarter. Clayton's undiscounted base-case loss projection declined \$1.1 million while RiskSpan's loss projection increased \$2.3 million over the first quarter projections. The \$37.5 million average undiscounted base-case loss projection represents a \$1.5 million increase from the first 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 two 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 \$5.2 million in the second quarter from \$4.8 million in the first quarter. As more fully explained below, the base case exposure includes: 1) three bonds not yet impaired that project credit losses, 2) eight previously impaired investments that project additional future credit losses, and 3) three Ambac-insured investments that were impaired at year-end 2010. In addition, Southeast holds eleven previously impaired investments that now project lower credit losses than previously estimated, and are considered over-impaired by \$2.9 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	2Q 2011		1Q 2011		4Q2010	
	Count	Mil. \$	Count	Mil. \$	Count	Mil. \$
Not Impaired w/ Projected Losses	3	1.40	3	1.28	3	1.03
Previously Impaired ~ Incremental Impairment	<u>8</u>	<u>1.40</u>	<u>7</u>	<u>1.21</u>	<u>7</u>	<u>1.01</u>
Sub-Total	11	2.80	10	2.49	10	2.04
Ambac (No Claims Payments)	<u>3</u>	<u>2.44</u>	<u>3</u>	<u>2.35</u>	<u>3</u>	<u>2.38</u>
Base Case OTTI Exposure	14	5.24	13	4.84	13	4.42
Over-Impairments	11	(2.93)	12	(3.54)	14	(5.14)

Potential OTTI

Presented in the table below are the three investments not currently impaired that have shown modest projected losses in the past. The second quarter analysis projected \$1.4 million in losses over the life of the bonds, up slightly from \$1.3 million in losses projected in the first quarter analysis. Members should be aware that RiskSpan and Clayton have materially different views on one particular bond, noted below as 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	Average as % of Book	Clayton/RiskSpan Shortfall %/ First Loss	Actual/ Implied Losses
IMM 2004-11	\$ 2,478,317	\$ -	\$ 26,145	\$ -	\$ 13,073	1%	1%	3%, 11/17 0%	\$ -
RAAC 2005-SP2	\$ 11,683,442	\$ -	\$ 286,180	\$ -	\$ 143,090	1%	1%	3%, 11/15 0.4%, 8/20	\$ -
SARM 2007-6	\$ 8,467,124	\$ -	\$ 676,948	\$ 1,809,960	\$ 1,243,454	15%	15%	9%, 11/13 24%, 2/13	\$ -
Subtotal	\$ 22,628,882	\$ -	\$ 989,273	\$ 1,809,960	\$ 1,399,617				\$ -

Presented in the table below is the second quarter analysis on eight previously impaired investments. The indicated average loss on these bonds was \$1.4 million, up from \$1.2 million projected in the first quarter. Once again, the analytics firms have different views on a number of bonds which leads to a significant difference in the total projected losses on these eight bonds. In aggregate, Clayton projects \$600 thousand of additional losses, which includes two over-impairments, while RiskSpan projects additional losses of \$2.2 million. None of the investments reached the internal thresholds used to record additional OTTI in June.

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	\$ 1,864,534	\$ 265,355	\$ 205,815	\$ 292,543	\$ 249,179	12%	13%	2036 2036	\$ -
CWALT 2007 16CB	\$ 4,272,635	\$ 718,667	\$ 36,790	\$ 251,102	\$ 143,946	3%	3%	2037 2037	\$ -
GSAA 2006-1	\$ 574,752	\$ 112,585	\$ 52,375	\$ 117,273	\$ 84,824	12%	15%	2035 2036	\$ 39,803
MABS 2007-WMC1	\$ 3,416,723	\$ 3,565,764	\$ (93,595)	\$ 171,268	\$ 38,837	1%	1%	2037 2037	\$ 2,006,450
MSM 2006-17XS	\$ 2,114,361	\$ 634,283	\$ 53,337	\$ 293,092	\$ 173,215	6%	8%	2036 2036	\$ 157,608
NAA 2007-1	\$ 2,459,840	\$ 827,873	\$ 263,015	\$ 583,245	\$ 423,130	13%	17%	2038 2047	\$ 204,501
NHELI 2006-AF1	\$ 2,318,800	\$ 1,114,779	\$ 147,509	\$ 246,463	\$ 196,986	6%	8%	2036 2036	\$ 342,541
RALI 2007-QS7	\$ 4,091,744	\$ 1,520,192	\$ (75,333)	\$ 260,212	\$ 92,440	2%	2%	2037 2037	\$ 328,182
Subtotal	\$ 21,113,388	\$ 8,759,498	\$ 589,913	\$ 2,215,198	\$ 1,402,556				\$ 3,079,085

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 second quarter analysis projects additional claims payments of \$1.4 million, which is down from \$1.6 million in the first quarter, however, accumulated claims increased to \$1.6 million during the second quarter. As a result the total exposure to these Ambac insured investments was flat for the second quarter and totals \$2.4 million. Members should note that the two firms' analysis is again quite different, only this time it is RiskSpan with the more optimistic view. The \$2.4 million incremental exposure shown below represents a worst case scenario in which no additional claims are satisfied by Ambac.

Investment	Current SEC Book Value	Total Impairments to Date	Clayton	Riskspan	Average	Average as % of Par	Average as % of Book	Clayton & RiskSpan Expected Maturity	Accumulated Claims
RAMP 2003-RS1	\$ 581,362	\$ 12,378	\$ 46,267	\$ 32,328	\$ 39,297	7%	7%	2029 2031	\$ -
RASC 2002-KS4	\$ 1,111,527	\$ 27,928	\$ 57,327	\$ 82,560	\$ 69,943	6%	6%	2027 2032	\$ 27,877
SACO 2006-2	\$ 3,359,260	\$ 616,006	\$ 1,794,098	\$ 799,033	\$ 1,296,566	33%	39%	2036 2036	\$ 1,666,721
Subtotal	\$ 5,052,149	\$ 656,312	\$ 1,897,692	\$ 913,920	\$ 1,405,806				\$ 1,694,598
Ambac Accumulated Unpaid Claims Less OTTI Taken					\$ 1,038,286				
Aggregate Incremental Exposure					\$ 2,444,092				

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 eleven previously impaired investments whose improved outlook now indicates they have been over-impaired. The latest projections presented below now indicate these bonds have been over-impaired by an average of \$2.9 million. This compares to a \$3.5 million over-impairment indicated in the first quarter. As shown below, Clayton projects these eleven investments to be over-impaired by \$4.4 million, while RiskSpan's projected over-impairment totals \$1.5 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	Average OI as % of Book	Clayton & RiskSpan Expected Maturity	Actual/Implied Losses
ACE 2007 ASL1	\$ 1,832,669	\$ 6,495,276	\$ (513,019)	\$ 4,238	\$ (254,390)	-3%	-14%	2036	\$ 4,898,293
ARSI 2005-W1	\$ 2,973,493	\$ 949,823	\$ (359,599)	\$ (91,215)	\$ (225,407)	-6%	-8%	2035	\$ -
BSABS 2007-HE4	\$ 18,993,073	\$ 1,000,000	\$ (1,000,000)	\$ 593,285	\$ (203,358)	-1%	-1%	2017	\$ -
CWHEL 2006-S3	\$ 292,325	\$ 595,814	\$ (19,353)	\$ (21,341)	\$ (20,347)	-2%	-7%	8/2011	\$ 574,118
CWHEL 2007-1	\$ 8,878,947	\$ 1,115,244	\$ (295,406)	\$ (1,049,817)	\$ (672,611)	-7%	-8%	10/2013	\$ -
GMACM 2005-HE1	\$ 3,504,899	\$ 1,077,742	\$ (568,227)	\$ (602,984)	\$ (585,606)	-13%	-17%	2035	\$ 280,277
GSAA 2006-17	\$ 2,636,453	\$ 1,683,968	\$ (435,168)	\$ (51,958)	\$ (243,563)	-6%	-9%	2036	\$ 310,338
LXS 2006-15	\$ -	\$ 4,398,414	\$ (104,333)	\$ (108,551)	\$ (106,442)	-2%	N/M	1/2012	\$ 2,632,468
MSABS 2007-HE5	\$ 3,180,993	\$ 1,726,932	\$ (500,315)	\$ (126,304)	\$ (313,309)	-6%	-10%	2037	\$ -
MSABS 2007-HE6	\$ 4,701,418	\$ 1,925,155	\$ (432,147)	\$ (43,541)	\$ (237,844)	-4%	-5%	2037	\$ -
MSM 2005-8SL	\$ 2,885,039	\$ 134,478	\$ (134,478)	\$ 4,042	\$ (65,218)	-2%	0%	2022	\$ -
Subtotal	\$ 49,879,310	\$ 21,102,846	\$ (4,362,044)	\$ (1,494,145)	\$ (2,928,095)				\$ 8,695,494

Stress Analysis & Unrealized Losses

Southeast utilized Clayton to provide a third “stress” analysis as of the end of May, 2011. The intent of the analysis remains 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. Attached is Clayton’s updated commentary that details the economic conditions that underlie their optimistic, base-case, and pessimistic assumptions. Clayton does not attempt to couch the economic assumptions that underlie the three additional pessimistic scenarios (labeled Pessimistic 2, 3 and 4) conducted at the request of Southeast. These three additional pessimistic scenarios represent successively harsher economic environments than the pessimistic environment provided by Clayton. Southeast requested these additional pessimistic scenarios to assess the severity of an economic/housing slump necessary to erode the remaining MCS due to credit losses. Given Clayton’s description of their pessimistic economic environment, Southeast management currently believes the realization of the conditions presented in Pessimistic 2, 3, and 4 scenarios is unlikely.

As noted earlier, the base case loss projection is estimated at \$5.2 million. Clayton’s pessimistic assumptions represent a return to a recessionary environment with an additional 10-20% of home price depreciation and initial jobless claims above 450 thousand claims per week. While most current economic projections indicate this environment to be unlikely, this scenario yields an additional \$10 million in OTTI.

Pessimistic scenarios 2 through 4 produce additional losses ranging from \$32 million to \$75 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	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. \$)	(\$13.2)	\$5.2	\$15.0	\$31.9	\$54.4	\$74.8
Unrealized Market Losses 3/31/2011 (Mil. \$)		\$47				

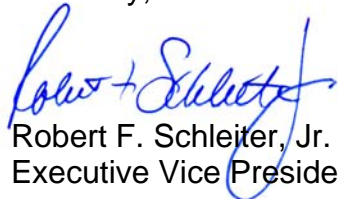
The bond level detail of this analysis is attached and, overall, results from the second quarter 2011 stress analysis improved slightly from the first quarter analysis.

Looking Ahead

While there are perils in using historical trends as a basis for looking into the future, in the aggregate the performance of Southeast's private label mortgage backed securities appears to have stabilized over the past eighteen months, or since December of 2009. We will continue to update you on at least a quarterly basis as these amounts will undoubtedly differ in future analyses based on the performance of the underlying collateral and the expectation of future economic conditions.

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, Jr.
Executive Vice President