



FIRST QUARTER 2010 REPORT

Retain this report as part of the credit analysis under Regulation 703

Executive Summary

Missouri Corporate Credit Union's (MCCU) Credit Worthiness Report is published quarterly. It is intended to provide member credit unions with current information on the financial soundness of MCCU and to help you in meeting regulatory requirements.

As noted in MCCU's 2009 audited financial statements (click here www.mocorpcu.coop for 2009 audited financial statements), MCCU has suffered losses resulting from the depletion of its investments in U.S. Central Federal Credit Union (U.S. Central) that have left MCCU with very little retained earnings and capital ratios below the regulatory minimum required levels, similar to other corporate credit unions in the United States. The NCUA has proposed new regulations to allow MCCU and other corporate credit unions to operate under new capital levels that MCCU would have to meet within one year after the proposed rule is finalized and published in the Federal Register.

Even though MCCU's capital is less than the regulatory minimum, the manner in which the funds are matched and invested well positions MCCU to meet the liquidity demands of its member credit unions.

Here is a recap of the financial highlights for the first quarter:

❑ **Assets decreased** in the first quarter of 2010 compared to the

fourth quarter of the previous year. MCCU's total assets fluctuated in a see-saw manner in the interim months of the first quarter, with a significant decline in the third month primarily due to the day of the week on which the month ended. Members' overnight borrowings from MCCU dropped significantly toward the end of the first quarter at \$797,752 while term loans remained unchanged.

❑ **Capital – we still have some!** Total capital consists of \$48,923 in Retained Earnings for the first quarter and \$23,807,772 in Membership Shares as of March 31, 2010. Total capital ratio of 2.58% at the end of the first quarter was slightly higher than the 2.51% as of December 31, 2009.

❑ **Earnings for the first quarter were suppressed** as rates continued to remain uncharacteristically low. Net income for the three months ended March 31, 2010 of \$48,923, was significantly less than the same period as last year of \$134,733 when excluding the \$13,066,923 U.S. Central depletion and the \$146,690 NCUSIF stabilization expense.

❑ **Conservative investment strategies** continue to minimize MCCU's interest rate risk. MCCU's NEV ratio for the month ended March 31, 2010, was 2.763% compared to the regulatory minimum of 2.00%. Shocking the portfolio up or down 300 basis points (bps) generated a maximum projected

decline of only -7.055%. The regulatory maximum is 15.00%.

Assets Decrease

Assets decreased by 13.6% in the first quarter of 2010 compared to the fourth quarter of 2009. As of March 31, 2010, assets were \$774,488,111 compared to \$896,555,705 for the fourth quarter of 2009 and 26.9% less than the same period last year. Moving daily average net assets (DANA) as of March 31, 2010, however increased

TABLE 1

INTEREST RATE RISK

Interest Rate Scenario	NEV \$	% Change From Base	NEV Ratio %
+ 300 bps	23,104,257	-7.055	2.598
Base	24,857,988	0.000	2.763
- 300 bps	24,857,988	0.000	2.763

slightly by \$5,231,463 or 0.6% compared to March 31, 2009. Growth in 12-month moving DANA has stabilized over the past two quarters while the respective month's DANA has trended downward.

Asset/Liability Management

Under NCUA Regulation 704, which governs the operation of corporate credit unions, MCCU operates under the "Base" level of authority. "Base" level corporates are restricted to the most conservative Asset/Liability Management parameters outlined in the regulation.

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TABLE 2

	INVESTMENTS				
	Mar-2010	Dec-09	Sep-09	Jun-09	Mar-09
U.S. Central Federal Credit Union:					
Daily and Overnight Shares	26.7%	14.0%	28.8%	27.3%	33.6%
Federal Funds Overnight	0.0	0.0	0.0	0.0	0.0
Community Investment Fund	0.9	0.7	0.7	0.6	1.0
Member Paid-In Capital	0.0	0.0	0.0	0.0	0.0
Membership Capital Shares	0.0	0.0	0.4	1.1	2.1
Other Floating Rate Certificates	10.8	11.7	10.3	10.0	11.0
Indexed Amortizing Certificates	0.0	0.0	0.0	0.0	0.0
Fixed Term Certificates	41.2	48.5	59.0	61.0	52.3
Other:					
Interest Bearing Deposits	15.5	21.4	0.5	0.0	0.0
Shares & Share Certs of other fin inst	0.4	0.3	0.3	0.0	0.0
HTM – Agency Securities	0.2	0.4	0.0	0.0	0.0
AFS – Agency Securities	4.3	3.0	0.0	0.0	0.0
Asset Backed Securities	0.0	0.0	0.0	0.0	0.0
	100.0%	100.0%	100.0%	100.0%	100.0%

Conservative Investment Strategy Limits Exposure to Interest Rate Changes

MCCU has long followed a conservative approach to investing. Investments made in MCCU by its member credit unions are closely matched in similar investments with the same maturity and options. Table 2 provides detail on MCCU's investment portfolio over the last five quarters. Based on the NCUA's desire to maintain liquidity within the corporate network so as not to put U.S. Central in a position to sell some of its toxic assets and recognize realized losses, MCCU kept the majority of its investable funds at U.S. Central during 2009.

In the latter part of 2009, MCCU began to invest in Agency Securities, all of which are pledged as collateral to the Federal Reserve Bank of St. Louis, in accordance with the daily settlement agreement therewith. MCCU does not hold any toxic assets ("legacy assets") and therefore, does not expect to generate any future losses related to investments. MCCU's Agency Securities classified as "available-for-sale" are subject to mark-to-market adjustments as part of the equity section within the

Balance Sheet. As such, a new line item on MCCU's financial statements includes Accumulated Other Comprehensive Income which is entirely comprised of unrealized gains and losses on available-for-sale securities.

NCUA Regulation 704.8 limits corporates to a minimum NEV Ratio of 2.00%. For "Base" level corporates, the NEV cannot decline more than 15.00% when the portfolio undergoes an interest rate shock test of plus or minus 300 bps.

The NCUA defines NEV as "the fair value of assets minus the fair value of liabilities." The NEV ratio is calculated by dividing NEV by "the fair value of assets." MCCU's base case NEV for the month ended March 31, 2010, was \$24,857,988 or 2.763% compared to \$24,977,320 or 2.725% as of December 31, 2009 (see Table 1). There is a moderate change in MCCU's NEV Ratio when the portfolio is shocked up or down 300 bps. The regulation limits the decline to 15.00%, and in MCCU's case, the maximum projected decline is -7.055%. This percentage change is planned to increase as MCCU continues to look for investment opportunities outside of U.S. Central.

MCCU Capital

NCUA Regulation 704 allows corporate credit unions to include as capital their Reserves, Undivided Earnings and Membership Shares, provided Membership Shares have a minimum three (3) year withdrawal notice. Since MCCU's membership shares have a three-year notice requirement, they can be counted as capital under the regulation. In June, October and December of 2009, MCCU received such notices of withdrawal from members, mostly related to mergers at the member credit union level, and have begun to amortize their respective Membership Shares in compliance with the regulations. The amortized portion of Membership Shares is no longer counted toward capital. The amortized amounts continue to share in the same risks as Membership Shares that have not been put on notice.

As of December 31, 2009, MCCU had depleted all of its capital investment in U.S. Central which totaled \$43,949,882. As a result, all of MCCU's Reserves, Undivided Earnings, Members' Paid-in Capital and approximately 10% of Membership Capital Share Deposits were needed to offset the losses recorded at the end of 2008 and throughout 2009.

As of March 31, 2010, MCCU had \$48,923 in Undivided Earnings and \$23,807,772 in Membership Capital Share Deposits. Total capital therefore was \$23,856,695. Because the assets of corporate credit unions tend to fluctuate significantly, corporate credit unions' capital-to-asset ratios are calculated using a twelve (12) month "moving" DANA formula. Using this regulatory formula, MCCU's capital-to-asset ratio as of March 31, 2010, was 2.58%, which was slightly higher than the previous quarter's 2.51%.

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TABLE 3

MISSOURI CORPORATE CREDIT UNION BALANCE SHEET

	(unaudited) March 31,		(audited) December 31,
	2010	2009	2009
ASSETS			
Cash & Uncollected Deposits	\$ 24,302,225	\$ 29,667,628	\$ 27,057,132
Loans, Net of Participations Sold	5,797,752	14,524,185	8,499,953
Investments:			
Interest Bearing Deposits	114,972,390	501,791	183,973,613
U.S. Central FCU	590,654,377	1,011,019,491	642,603,968
HTM – Outside U.S. Central FCU	1,600,000	—	3,600,000
AFS – Outside U.S. Central FCU	31,729,765	—	25,426,815
Other	2,845,000	549,000	2,597,000
Total Investments	<u>741,801,532</u>	<u>1,012,070,282</u>	<u>858,201,396</u>
Other Assets	2,586,602	3,395,058	2,797,224
TOTAL ASSETS	<u>\$ 774,488,111</u>	<u>\$ 1,059,657,153</u>	<u>\$ 896,555,705</u>
LIABILITIES & MEMBERS' EQUITY			
Liabilities:			
Future Dated Deposits	\$ 22,362,380	\$ 27,856,280	\$ 26,313,497
Borrowings Under Reverse Repo	—	—	—
Other Liabilities	1,886,018	3,230,501	2,004,996
Total Liabilities	<u>24,248,398</u>	<u>31,086,781</u>	<u>28,318,493</u>
Members' Equity:			
Daily Shares	377,269,986	462,408,506	381,864,016
Share Certificates	348,934,302	521,371,643	462,388,824
Membership Shares, Amortized Portion	249,785	—	117,935
Total Shares	<u>726,454,073</u>	<u>983,780,149</u>	<u>844,370,775</u>
Membership Shares, Net of Amortization	23,807,772	26,690,400	23,939,622
Reserves	—	8,425,123	—
Undivided Earnings	48,923	—	—
Paid-in Capital	—	9,674,700	—
Total Capital	<u>23,856,695</u>	<u>44,790,223</u>	<u>23,939,622</u>
Accumulated Other Comprehensive Income	(71,055)	—	(73,185)
Total Members' Equity	<u>750,239,713</u>	<u>1,028,570,372</u>	<u>868,237,212</u>
TOTAL LIABILITIES & MEMBERS' EQUITY	<u>\$ 774,488,111</u>	<u>\$ 1,059,657,153</u>	<u>\$ 896,555,705</u>

NCUA informed the corporates on April 29, 2009, that their respective capital ratios as of November 30, 2008 will be used for purposes such as computing member credit unions' lines of credit and determining earnings retention requirements. MCCU's capital ratios as of November 30, 2008 were as follows:

- Retained Earnings Ratio 3.39%
- Core Capital Ratio 4.45%
- Total Capital Ratio 7.34%

Since the Retained Earnings Ratio as of November 30, 2008 was above 2.00%, MCCU is not subject to the earnings retention requirement even after recording the U.S. Central capital depletion.

On November 19, 2009, NCUA proposed new regulations which

would allow MCCU and other corporate credit unions to operate with capital levels below the current required capital levels, with plans for increasing capital in future years. The proposed regulation establishes three standards that a corporate credit union must satisfy in order to meet its capital requirement: a leverage ratio of 4.0%, a tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%.

The NCUA Board has indicated its understanding that the proposed amendments to the capital regulations are complex and that many corporate credit unions would not meet the targets upon issuance of the final regulation. Instead of an immediate implementation, the

NCUA has proposed to phase in the new capital requirements over a 10-year period of time. In order to comply with these proposed capital requirements, MCCU will need to minimize dividend payments, raise additional capital and/or raise fees on products and services. On the expense side, MCCU has always operated in a very lean manner, and according to the most recent national data, MCCU has the fourth-lowest operating expenses of all corporate credit unions. MCCU management plans to continue to monitor operating expenses, but with expenses already as low as they are, cutting expenses beyond what has already been cut may not be an option.

The NCUA has also recently announced its intention to develop a plan to isolate those non-agency residential mortgage-backed securities on corporate credit unions' balance sheets that in essence would shield member credit unions' new capital from future actions (i.e., other than temporarily impaired (OTTI) losses), which may cause the NCUA to revise portions of the proposed regulation and solicit additional comments. **As of March 31, 2010, MCCU did not hold any such assets in its investment portfolio.**

Conservative Investment Portfolio

As of March 31, 2010, 79.6% of MCCU's investments were in U.S. Central. The remaining 20.4% was invested in overnight interest-bearing deposits at the Federal Reserve Bank of St. Louis, Agency Securities and certificates of deposit with other financial institutions (SimpliCD). Within U.S. Central, MCCU's investments consist of 41.2% in term certificates, 26.7% in Overnight Accounts, 10.8% in floating rate certificates, and 0.9% in Community Investment Funds (see Table 2).

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U.S. Central Analysis

As a pass-through corporate, MCCU has a large percentage of its funds in U.S. Central and therefore, a credit worthiness analysis of MCCU should include a review of U.S. Central's financial performance. However, since MCCU's capital in U.S. Central has been totally depleted by the end of 2009, MCCU is not subject to any further OTTI investment losses in U.S. Central's portfolio. The latest financial statements for U.S. Central may be found at www.uscentral.org.

Earnings Consistent With Low-Rate Environment

MCCU's net earnings for the three months ended March 31, 2010, were \$48,923 or \$13,127,803 more than the same period last year (see Table 4). Excluding the U.S. Central capital depletion of \$13,066,923 and the NCUSIF Replenishment of \$146,690 from prior period net income, the net earnings for the first quarter of 2010 were \$85,810 or 63.7% less than the same period last year. Net interest income for the three months ended March 31, 2010, was \$121,411 less than for the same period in 2009, and operating expenses were less by \$144,626 (primarily due to NCUSIF Replenishment expense incurred in March 2009). Fee income and other income were up \$6,571 compared to last year's numbers. Management continues to monitor operating expenses.

The cost-of-funds as a percentage

TABLE 4

MISSOURI CORPORATE CREDIT UNION INCOME STATEMENT

	For The Three Months Ended March 31,	
	2010	2009
Loan Income	\$ 162,855	\$ 505,864
Investment Income	1,956,432	3,731,531
Total Interest Income	2,119,287	4,237,395
Interest & Dividend Expense	1,633,419	3,630,116
Net Interest Income	485,868	607,279
Net Realized Gains (Losses) on		
Financial Instruments	—	(31,094)
Depletion of U.S. Central Federal C.U. Capital	—	(13,066,923)
Operating Expenses	565,424	710,050
Fee & Other Income	128,479	121,908
Net Income (Loss)	\$ 48,923	\$ (13,078,880)

of interest income averaged 77.1% for the three months ended March 31, 2010. This is lower than the 85.7% for the same period in 2009 due to management and the board's desire to begin to rebuild retained earnings in anticipation of a final rule on the proposed corporate Reg. 704, which would require corporate credit unions to reach certain milestones regarding earnings within three, six and 10 years after issuance of the final rule.

Loan Demand Decreased

Loan demand for overnight borrowings declined significantly during the first quarter of 2010 while term loans remained unchanged. The total loans of

\$5,797,752 as of March 31, 2010 were 60.1% lower than the same period last year.

Should the need for liquidity arise, MCCU has in place two sources; a \$400,000,000 advised line-of-credit with U.S. Central and a \$100,000,000 Federal Funds discretionary line of credit with an unaffiliated financial institution which is fully guaranteed under the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). Due to the direct matching strategy employed for investments, MCCU's investment maturities match their corresponding liabilities – which further enhance MCCU's liquidity position.

TABLE 5

MISSOURI CORPORATE CREDIT UNION STATEMENT OF RESERVES, UNDIVIDED EARNINGS AND PAID-IN CAPITAL

	Reserves	Undivided Earnings	Paid-in Capital	Accumulated	Total
				Other Comprehensive Income	
Balance as of December 31, 2009	\$ —	\$ —	\$ —	\$ (73,185)	\$ (73,185)
Net Income		48,923			48,923
Change in valuation of AFS debt securities				2,130	2,130
Balance as of March 31, 2010	\$ —	\$ 48,923	\$ —	\$ (71,055)	\$ (22,132)

TABLE 6

MISSOURI CORPORATE CREDIT UNION
INVESTMENTS OUTSIDE U.S. CENTRAL – DETAIL MARCH 31, 2010

	Maturity Date	Rating	CUSIP	Par Value	Amortized Cost	Fair Value
Investment Securities – HTM						
FHLB VAR	10/05/12	AAA	3133XUZS5	\$ 1,600,000	\$ 1,600,000	\$ 1,600,085
				\$ 1,600,000	\$ 1,600,000	\$ 1,600,085
Investment Securities – AFS						
FFCB 1.00 12/7/2011	12/07/11	AAA	31331G4V8	3,000,000	3,000,000	2,996,358
FFCB .875 12/9/2011	12/09/11	AAA	31331G6D6	2,000,000	2,000,000	1,992,692
FFCB 1.04 12/15/2011	12/15/11	AAA	31331G5P0	3,000,000	3,000,000	2,992,605
FHLB .50 12/28/10	12/28/10	AAA	3133XW5X3	5,000,000	5,000,000	4,996,395
FHLB .45 12/29/10	12/29/10	AAA	3133XW3U1	5,000,000	5,000,000	4,994,505
FHLB .375 01/19/11	01/19/11	AAA	3133XWQ28	5,000,000	5,002,428	4,998,790
FHLB 2.00 07/26/13	07/26/13	AAA	3133XWQV4	2,000,000	2,000,000	1,994,170
FHLB 1.84 02/01/13	02/01/13	AAA	3133XWR84	2,000,000	2,000,000	1,996,890
FHLB 2.05 09/10/13	09/10/13	AAA	3133XXHK6	2,500,000	2,500,000	2,482,308
FFCB 3.15 09/30/15	09/30/15	AAA	31331JJS3	1,600,000	1,600,000	1,587,043
FFCB 2.95 03/30/15	03/30/15	AAA	31331JJJ3	700,000	698,392	698,009
				31,800,000	31,800,820	31,729,765
				\$ 33,400,000	\$ 33,400,820	\$ 33,329,850

CREDIT WORTHINESS

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2055 Craigshire Drive
St. Louis, MO
63146-4009

Phone: 1-800-826-5228
Fax: 1-314-542-1347
www.mocorpcu.coop

Chris McCreary
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Ron Miller
Secretary-Treasurer and
ALCO Committee Chairman

Dennis J. DeGroodt
President/CEO

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REQUIRED CREDIT ANALYSIS UNDER REGULATION 703

“Except for investments that are issued or fully guaranteed as to principal and interest by the U.S. government or its agencies, enterprises, or corporations or fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation, you must conduct and document a credit analysis of the issuing entity and/or investment before you purchase the investment. You must update the analysis at least annually as long as you hold the investment.”

Retain this report as part of the credit analysis required under regulation 703

Reviewed by: _____ Date Reviewed: _____

Comments: _____

