

To: Credit Union Board of Directors

From: Blake Strickland, Chairman of the Board, Volunteer Corporate Credit Union

Date: January 29, 2009

As Board Members of our member credit unions, I'm sure you understand the role Volunteer Corporate (VolCorp) plays in the everyday operations of your individual credit unions. We provide numerous services to your credit union such as investments services, safekeeping of those and other investments, cash vault services that provide your credit union with its daily cash needs, share draft clearing and imaging, electronic check processing and many others.

We are proud that we play a very integral part of your credit union's success, and we wanted to address several issues you may have heard or read about concerning the status of corporate credit unions.

Because of the very nature of the 26 corporate credit unions, one of our primary sources of income comes from taking those deposits made by your credit union and re-investing them into numerous government backed securities. And because of what's happening in the mortgage backed securities market some corporates have experienced both unrealized and realized losses.

You may have read very recently about U.S. Central Corporate Credit Union. This organization is basically the corporate that all corporate credit unions use for liquidity, lending and payment services. Despite the losses in U.S. Central's investment portfolio, these securities continue to perform as expected. The National Credit Union Administration has stepped up to the plate to help the corporate system through this issue. NCUA's action is intended to add stability to and strengthen corporate credit unions by maintaining liquidity and strengthening capital. No taxpayer dollars are being used for the corporates. It is only credit union money paid into the National Credit Union Share Insurance Fund – the insurance fund that is completely funded by credit unions to assist in this type of situation.

How will this current situation at U.S. Central and NCUA's actions impact VolCorp?

- First and foremost, your deposits with Volunteer Corporate Credit Union (VolCorp) will be guaranteed by the NCUA Share Insurance Fund (NCUSIF) until February 2009. A voluntary guarantee program for all uninsured shares of all corporate credit unions will be established through December 31, 2010 and VolCorp will participate in that plan.
- These actions were needed because of the unprecedented downturn in the global credit markets which have affected the Corporate Credit Union network.
- VolCorp had record earnings of \$4.5 million in 2008. All VolCorp investments have been made in accordance with the regulations established by NCUA. Our investment portfolio was thoroughly reviewed by a third party that confirmed there were no other-than-temporary impairments (OTTI). This means VolCorp does not have to charge off any of the securities in the investment portfolio at this time. VolCorp will continue to monitor the investment portfolio as we move through 2009.

Also, NCUA issued a \$1 billion capital note to U.S. Central Corporate Credit Union because of the expected loss of \$1.2 billion from U.S. Central's investment portfolio. We want to again emphasize that all investments by U.S. Central have been made in accordance with regulations established by the NCUA and were originally rated AAA, but because of the unprecedented financial crises, U.S. Central was required to take these losses. According to U.S. Central, "Despite the reported loss, these securities continue to perform as expected, providing U.S. Central with monthly cash flow in the form of regularly scheduled principal and interest payments."

As a result of the losses U.S. Central has taken, a portion of VolCorp's investment in U.S. Central may need to be taken as a loss. If this becomes necessary, VolCorp has enough retained earnings to cover the loss and still maintain the minimum retained earnings and capital requirements required by the NCUA.

NCUA has also issued an Advance Notice of Public Rulemaking (ANPR) on restructuring the corporate credit union system. For a period of 60 days, NCUA will be soliciting strategies from credit unions to help enhance the corporate credit union network. NCUA plans to follow-up the ANPR with public forums to discuss the credit union system so all stakeholders have an opportunity to provide input.

In order to fund these additional expenses and maintain the NCUA Share Insurance Fund at the required fund equity ratio of 1.3%, the NCUA will assess a premium on all federally insured credit unions (including federally insured corporate credit unions) to retain the equity ratio.

The NCUA Letter No.: 09-CU-02, page 3 states: "Success requires credit unions working together in the cooperative spirit that is the very foundation of the credit union system."

I want to thank you for your loyalty to VolCorp. VolCorp will continue to keep us informed. The full text of NCUA's media release is available on their website at [www.ncua.gov](http://www.ncua.gov). Click on the top of the page where it says Corporate Stabilization Program. If you have questions, please contact VolCorp at 800-470-3444 or 615-232-7900. Rick Veach, CEO, ext. 224 or Jeff Merry, CFO, ext. 265 are available to answer your questions.