

December 31, 2008

TO: VolCorp Membership

FROM: Rick Veach, President/CEO

SUBJECT: Corporate Credit Union Network steps up to assist U.S. Central

I want to share with you an initiative that the Corporate Credit Union Network has pursued to ensure consistent availability of liquidity for the credit union movement. Specifically, corporates will convert a portion of the Membership Capital Shares (MCS) they hold in U.S. Central to a new type of Paid-In Capital II Shares (PIC II) on Dec. 31, 2008.

While U.S. Central's current capital exceeds minimum regulatory requirements, this initiative will allow existing capital dollars to qualify as equity across a broader range of criteria set forth by Generally Accepted Accounting Principles (GAAP), rating agencies, and the National Credit Union Administration (NCUA).

It is important to emphasize that U.S. Central has not issued a call for new capital; the proposed transaction is a dollar-for-dollar exchange of one existing form of capital into another. Ensuring adequate liquidity for U.S. Central is essential to its ongoing ability to hold undervalued securities through the market dislocation, thereby avoiding realized losses on its investment portfolio. While increasing GAAP capital, U.S. Central also is working prudently to manage towards a smaller balance sheet and limit its use of borrowed funds.

By virtue of this endeavor, the Corporate Credit Union Network is taking a proactive approach as an alternative to taxpayer funded assistance that has become a necessity for so many public financial firms. I believe that this effort truly represents the cooperative spirit that drives our credit union movement. The PIC II conversion will not cause changes in the products or services currently provided by U.S. Central.

Please see additional questions and answers to this PIC II initiative with U.S. Central on the next two pages.

We welcome your comments on this matter, and invite you to contact me at extension 224 or Jeff Merry at extension 265 if you would like further information.

PIC II Questions & Answers

1. Why is U.S. Central converting \$450 million from MCS to PIC II?

Ratings agencies do not recognize Membership Capital Shares (MCS) as core equity capital at U.S. Central, even though U.S. Central has always maintained sufficient total regulatory capital. As structured, PIC II will constitute equity under Generally Accepted Accounting Principles (GAAP), be positively viewed by rating agencies and qualify as "Paid-In Capital," deemed as core capital by the National Credit Union Administration (NCUA). In light of the continued stress in the capital and credit markets, we believe this action will help protect U.S. Central's ratings and ensure it maintains sufficient access to liquidity. This action is an important first step in a plan to both accumulate capital and boost capital ratios.

2. How did this come about?

Corporate credit union CEOs recognize that ensuring adequate liquidity for U.S. Central is essential to its ongoing ability to hold undervalued securities until the market dislocation has passed, thereby avoiding realized losses on its investment portfolio. By virtue of this endeavor, the Corporate Credit Union Network is taking a proactive approach to the resolution of concerns as an alternative to taxpayer funded assistance that has become a necessity for so many public financial firms.

3. Is this a capital call? Does U.S. Central have adequate capital?

This is not a call for new capital; rather, it is a conversion of existing capital, in the form of MCS to a permanent capital vehicle (PIC II).

Yes, U.S. Central believes it is adequately capitalized based on the current levels of risk in its portfolio and based on the fact U.S. Central believes they will manage a smaller balance sheet in the future. U.S. Central currently exceeds all regulatory capital requirements. It has a retained earnings ratio of 1.6% and a total capital ratio of approximately 6%.

4. How did U.S. Central allocate conversion amounts for each corporate?

Conversion amounts for each corporate were based on corporates' asset levels. Specifically, 12 month Daily Average Net Assets (DANA) as of July 31, 2008 were utilized to determine each corporate's fair share. No corporate will have the ability to exchange more than 15% of the \$450 million total (i.e. a corporate's maximum conversion amount will total \$67.5 million). U.S. Central's Board of Directors believes this is the best way to ensure "fair share" involvement from each corporate.

5. How will this capital conversion affect the credit union members of VolCorp?

The conversion of capital will allow U.S. Central to maintain credit ratings sufficient to ensure access to liquidity for credit unions. Not doing so could raise the cost and possibly lower the amount of liquidity available to America's credit unions. Credit unions should see no change in services provided by VolCorp based on the conversion of MCS to PIC II.

6. What is U.S. Central's long-term capital accumulation plan?

One key element of its long-term capital strategy involves more aggressive capital accumulation. The conversion of MCS to PIC II is the first step.

In addition, U.S. Central is looking for ways to increase its retained earnings, which includes both increasing revenue and reducing operating expenses. For the last three years, U.S. Central has focused on cutting expenses, and management continues to seek ways to hone the efficiency with which it runs its business while ensuring that product and service quality are uninterrupted.

Finally, U.S. Central is deploying strategies to prudently decrease the size of its balance sheet as a means of further improving its capital ratios.

7. What are the specific benefits of restructuring existing capital for corporate and natural person credit unions?

The key benefit of the conversion is to ensure continued access to varied sources of liquidity for the credit union movement. Failure to protect U.S. Central's rating and access to liquidity will lead to higher costs and less access to sources of liquidity. The PIC II conversion has been viewed positively by the rating agencies, which should help ensure that U.S. Central's access to liquidity is not impeded by a reduction in ratings.

8. Will the products and services that U.S. Central offers be impacted by its capital accumulation strategy?

At this time, there are no plans to change the product and services provided to corporate credit unions – and their members – in light of the heightened focus on capital accumulation. In fact, the focus on capital accumulation will support and strengthen U.S. Central's ongoing ability to provide such services.

9. What are the characteristics of this new capital vehicle?

As structured, PIC II will constitute equity under GAAP, has been positively viewed by rating agencies and will qualify as "Paid-In Capital" for NCUA regulatory purposes. Other key aspects of PIC II are as follows:

- Uninsured
- No maturity date
- May only be redeemed when called for redemption by U.S. Central, but not before the fifth anniversary of issuance, except as necessary or appropriate in response to applicable law or regulatory requirements.
- May not be redeemed if redemption would cause U.S. Central to violate its minimum capital requirements.
- No stated/targeted dividend rate and no dividends paid until certain capital targets are met

10. What could rating downgrades mean to America's credit unions?

Ratings downgrades can potentially reduce the range of liquidity sources to which credit unions have access and/or the cost of liquidity could rise substantially. This corporate believes it is important to maximize U.S. Central's access to liquidity for the benefit of our members. U.S. Central maintains ratings from Moody's, Standard & Poor's and Fitch so that it does not rely solely on the view of any single rating agency.

11. Has U.S. Central considered/pursued a capital infusion from sources other than the conversion?

The Corporates and U.S. Central believe the conversion to PIC II is the most efficient and practical means of achieving U.S. Central's near-term capital objectives. In due course, U.S. Central may consider other means of strengthening its capital that are appropriate, cost-effective and consistent with its mission.

12. When will this restructuring of existing capital take place?

The transaction will take place on Dec. 31, 2008

13. Why did Moody's downgrade U.S. Central if they knew the PIC II conversion was underway?

While Moody's stated that they view PIC II very favorably and believe that any realized losses will be much less severe than the current unrealized losses, they believe this is a prudent action based on the extended period of illiquidity in asset-backed securities markets and the substantial unrealized valuation losses on U.S. Central's books.