



## It's a Balancing Act...

### The VolCorp Investment Philosophy

Some of you may be asking yourself "how has VolCorp avoided the investment pitfalls so many others currently face?" A primary contributing factor is VolCorp's conservative investment philosophy. But what does a conservative investment philosophy really mean, and why has VolCorp remained strong when others have not?

For starters, VolCorp has a modest Base Plus investment authority. There are six distinct expanded authority alternatives (Base Plus, Parts I, II, III, IV, and V) set forth under Appendix B of Part 704 of NCUA's Rules and Regulations. Base Plus and Parts I, II, III, IV, and V authorities, once granted to a corporate credit union, grant the corporate credit union the ability to invest in investments not otherwise permitted. Many of the corporates currently experiencing investment losses have NCUA expanded authorities greater than Base Plus.

Secondly, actions speak louder than words, and VolCorp's conservative investment philosophy is clearly demonstrated by our portfolio. As of June 18, 2009, VolCorp has 91 marketable securities in total. Of those 91 securities, 77, or 85%, are agency CMOs (collateralized mortgage obligations) or agency debentures, both of which have the full faith and credit of the U.S. government. Of the remaining 14 non-agency backed securities, nine are credit card securities and five are HELOC's. The nine credit card securities are AAA-rated, short-term (2-3 year maturities) with high excess spreads, low charge-offs, and low delinquencies. Furthermore, VolCorp has an impairment analysis performed on all of our non-agency securities twice a year. This impairment analysis enables VolCorp to determine whether or not they have any OTTI, or other-than-temporary impairment. Also very relevant in the current environment is the fact that VolCorp's investment philosophy prohibits the purchase of CDOs (collateralized debt obligations) and private placement securities.



According to CFO, **Jeff Merry**, while VolCorp has always had a very conservative investment philosophy, we have reigned in collateral requirements on new purchases even further over the past 16 months. VolCorp currently only purchases paper with a minimum 90% owner occupancy rate, limiting exposure to rental/vacation homes. Furthermore, VolCorp only purchases bonds with loans originated prior to the housing crisis, with an average FICO score of at least 720 and Loan-to-Value (LTV) less than 70%. VolCorp does not currently buy any bonds with material exposure to loans originated in 2006, 2007, or 2008, a time period saturated with questionable underwriting practices at many issuing institutions.

Last, but definitely not least, all of VolCorp's securities are classified as available-for-sale (AFS). AFS securities are required to be mark-to-market, using fair value accounting, thus providing transparency to our members. In contrast, held-to-maturity (HTM) securities do not require mark-to-market practices, and therefore, provide less transparency of their true fair value to members. Consistent with VolCorp's conservative investment policy and total commitment to transparency, none of VolCorp's securities are classified as HTM.

Overall, VolCorp has a marketable securities portfolio of approximately \$300 million with only \$6 million worth of unrealized losses (or 2%) and no OTTI to date. (VolCorp's next OTTI analysis is scheduled for the end of June and will be available in July.) According to Jeff Merry, this investment success is "attributed in large part to a good balance on the risk-reward spectrum. We have always remained very conservative in our investment portfolio; taking on just enough risk to be able to provide competitive rates to our members without putting their capital in harm's way. So far, it is an approach that has worked well for us and for our members."

If you have specific questions related to VolCorp's investment philosophy and/or policy, please contact VolCorp at 800-470-3444 or 615-232-7900. **Rick Veach**, CEO, extension 224 or **Jeff Merry**, CFO, extension 265 are always available to answer your questions.