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COMPLETE
ALM
SOLUTIONS

Credit Union Survival in a Challenging Environment

How to Make Balance Sheet Strategy Decisions with Confidence

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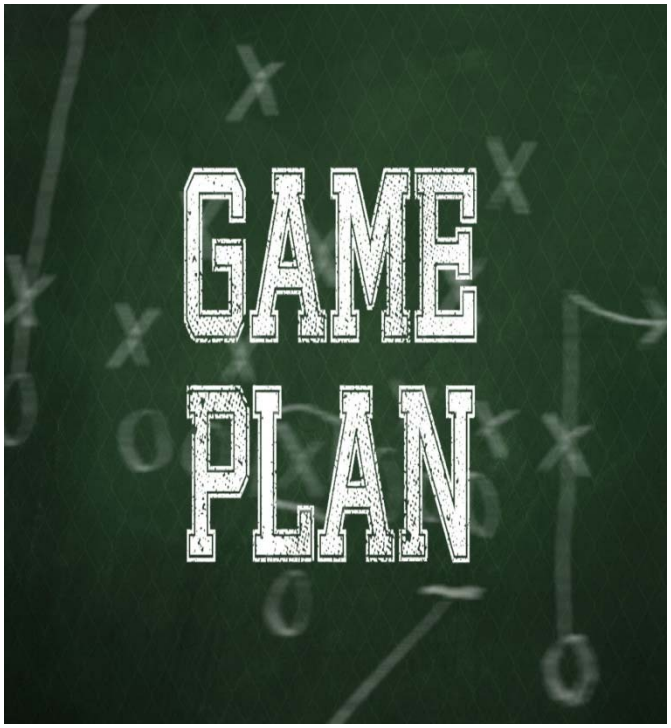
Agenda/Outline

- Current Industry Issues
- CU Earnings Model
  - Basic Business of a Credit Union
  - NEV vs. NII
  - Liquidity Measurement and Management
- Risk/Return Trade-offs
- Regulatory/Accounting vs. Business Issues
- Balance Sheet Management Strategies
- Managing Regulatory Expectations
- Q & A



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RISK MANAGEMENT: A New Day Has Dawned…

Regulatory Pronouncements / Advisories

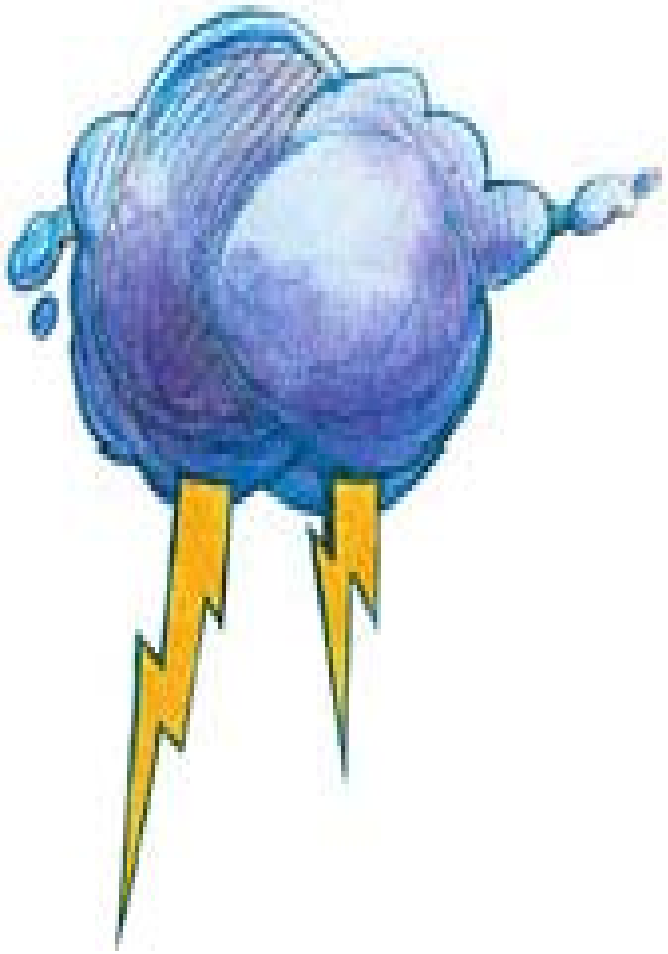
- January 6th Interagency Advisory on Interest Rate Risk
- April 5th Interagency Liquidity Risk Management

Examiners are loaded for bear…

Be prepared!

…In Toughest Regulatory Environment
(since late 80's, early 90's)

- Stories of "Heavy-handed" Exams and Premeditated Downgrades



- Key Issues / Concerns
  - Asset Quality
  - Capital Adequacy & Preservation
  - Liquidity Risk
  - Interest Rate Risk

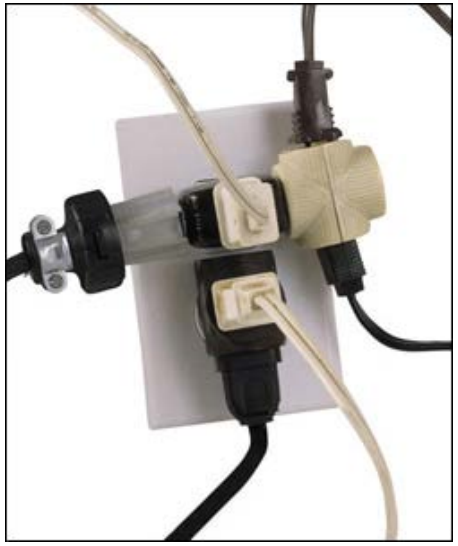
- Assume "Rising Rates Ahead" is Bad!

Joint Agency Guidance on Interest Rate Risk

Advisory on IRR Management

Very Real ISSUE:

Regulatory Inconsistency "In The Field"



Actively Managing the Balance Sheet

- Advisories Clear on This
- Not Enough to Simply Measure
- "What If" Scenarios Key in Understanding Risk
  - IRR and Liquidity
- CUs Are Expected to Assess Action Items to Reduce/Manage Risk

- Documentation & Execution of Strategies Are Key
  - Understanding of Current Position
  - Understanding of Alternatives to Reduce Risk
  - Recommended Strategy to Execute if Appropriate
  - Risk/Return Trade-offs

A Very Real Dilemma

- *Concern:* Stipulations Referencing "Requirements" .....
  that "Not Required"

- *Perception:*

  Checklists vs. Judgment

  (Literal Interpretation) ("Spirit" of guidance)

- *Frustration:* Inconsistency

Advisory on IRR Management

"The regulators expect all institutions to manage their IRR exposures using processes and systems *commensurate with* their earnings and capital levels, complexity, business model, risk profile, and scope of operations"

Seems to Imply "Judgment" is Expected & that There is No One-Size-Fits-All Approach.

Advisory on IRR Management

IRR reports distributed to senior management and the board should provide aggregate information and supporting detail that is sufficient to enable them to assess the sensitivity of the institution to changes in market rates.

Seems to Imply that a Financial Institution's Ability to Demonstrate Its Understanding of Risk Position

= An Important Litmus Test

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Advisory on IRR Management

....interest rate scenarios sufficiently meaningful...parallel shifts in the yield curve of +/-200bp may not be sufficient...institutions should regularly assess IRR exposures beyond typical industry conventions, including changes in rates of greater magnitude (e.g. up and down 300 and 400bp)...changing slopes and twists of the yield curve. Institutions should ensure their scenarios are severe but plausible in light of the existing level of rates and the interest rate cycle.

Seems to Imply that There Isn't a Set
of Advisory Mandated Scenarios
that All Credit Unions are Expected to Run.

Advisory on IRR Management

Depending on an institution's IRR profile, stress scenarios should include but not be limited to:

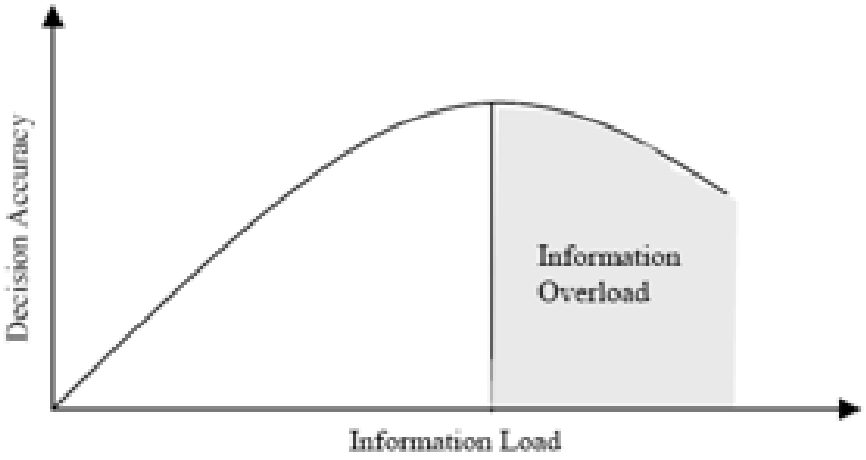
- Instantaneous and significant changes in the level of interest (instantaneous rate shocks);
- Substantial changes in rates over time (prolonged rate shocks)

Seems to Create Some Confusion Regarding Shocks (instantaneous) vs. Ramps (over time)

(Why "prolonged" used to qualify "shock?")

NII Simulation – Establishing Policy Limits

- DCG Position: Reasonableness
- Issue: Potential for Analysis Paralysis / Overkill
  - Which scenarios?
  - Which year(s)?
  - Some scenarios always the same (core scenarios)
  - Some scenarios change every time simulation modeled (steepeners/flatteners)



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Unsettled Weather "Everywhere"

- Regulatory Climate
- Political Environment
- Economic / Interest Rate Environment
- Industry Outlook

Impact on Credit Unions

- Less/Slower Growth
- Pressure on Gross Revenues
  - NIM
  - Fee Income
- Pressure on Cost of Funds
  - NIM
  - Rate Sensitivity and Disintermediation
- Higher Expenses: Risk Management, Regulatory Compliance and including NCUA Assessment!

Implication: NEED to Think Differently

- ....About Deposit Strategy
- ....About Loan Strategy
- ....About Capital Management
- ....About Liquidity
- ....About Wholesale funding
- ....About Earnings at Risk

- ....About Survival of Fittest!

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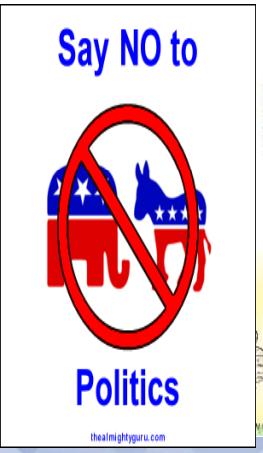
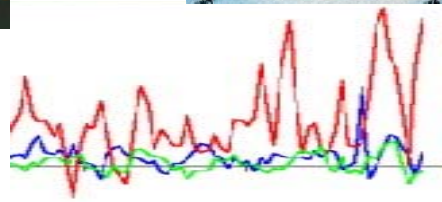
Why Need To Think Differently?



BECAUSE…Market Conditions

Demand It !!!!



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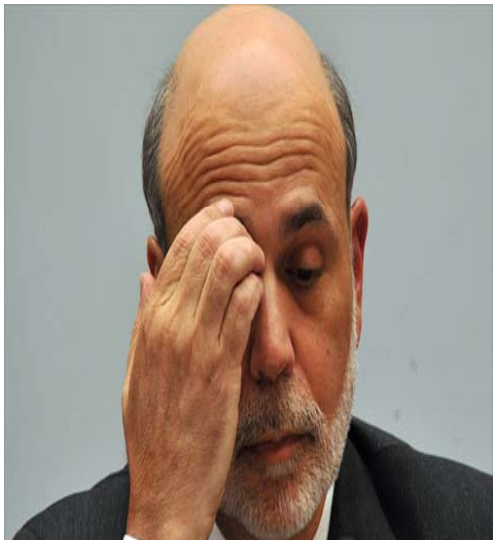
Impact on Economic / Rate Outlook?

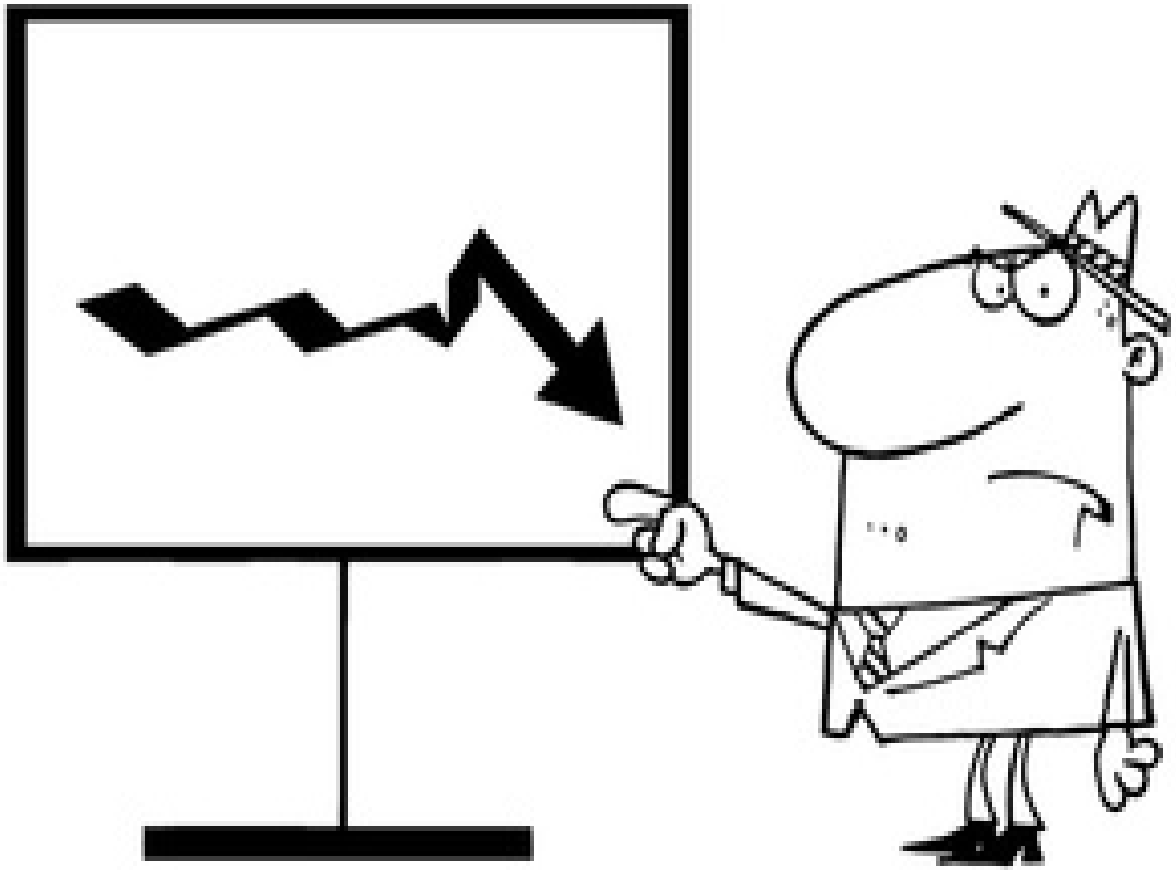


Down For How Long?

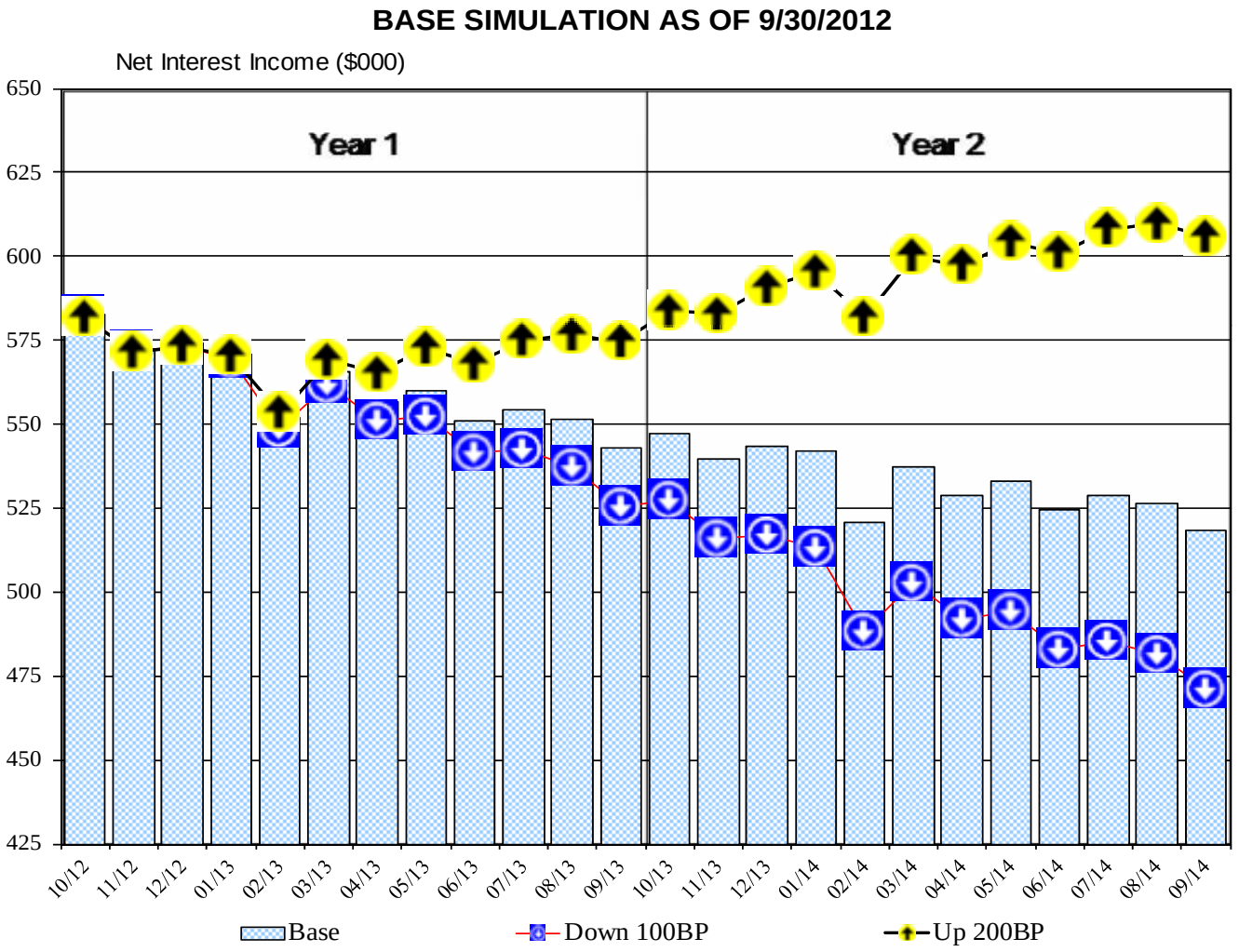
- Interest Rates: Tale of Two Worlds
  - Short Rates (Fed Between Rock & Hard Place)
    - On Record: Low Until 2014...at least!

  - Longer-Term Rates: Yield Curves Will Steepen... Before Fed Tightens

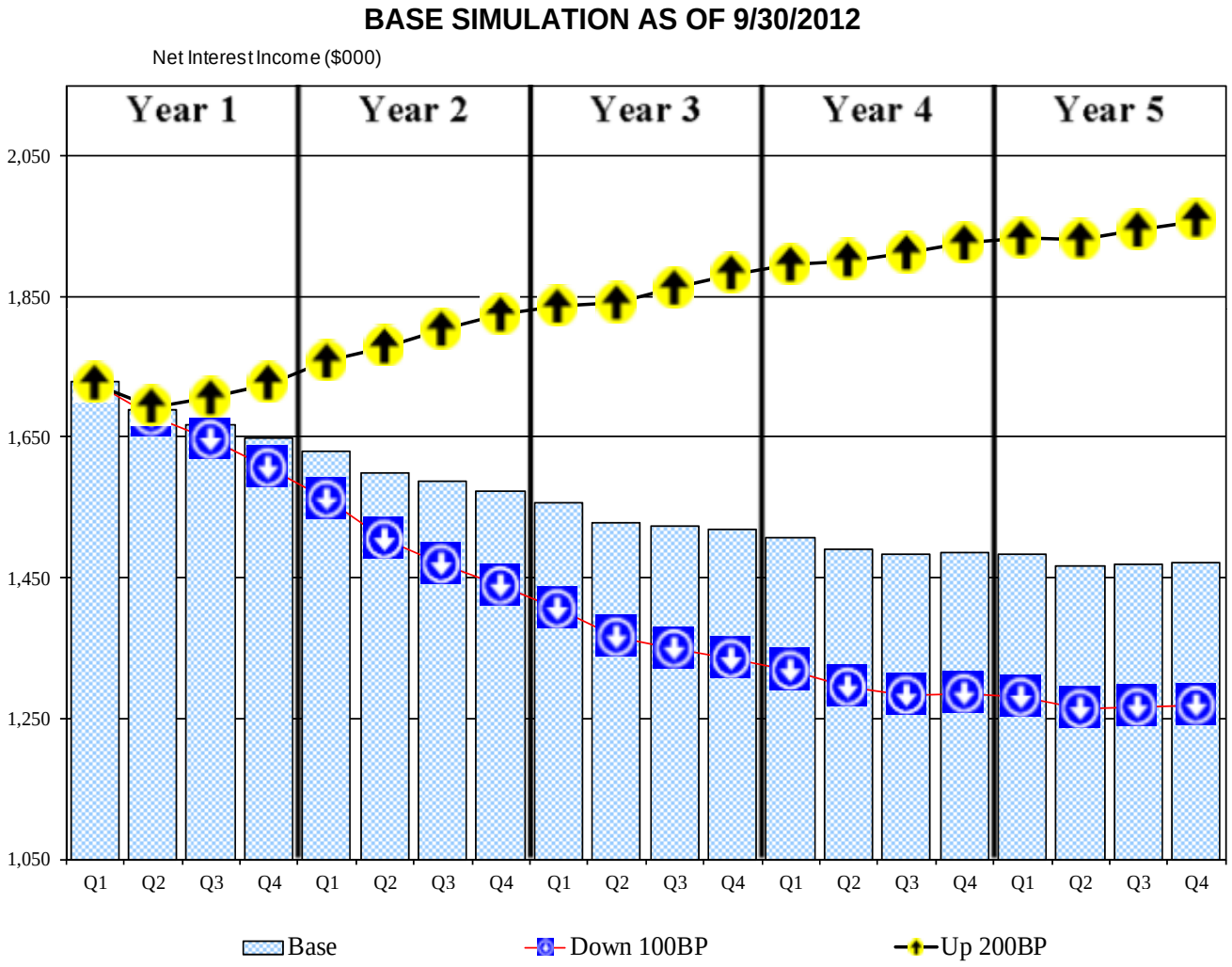
Implication: Margins Under Siege For Most



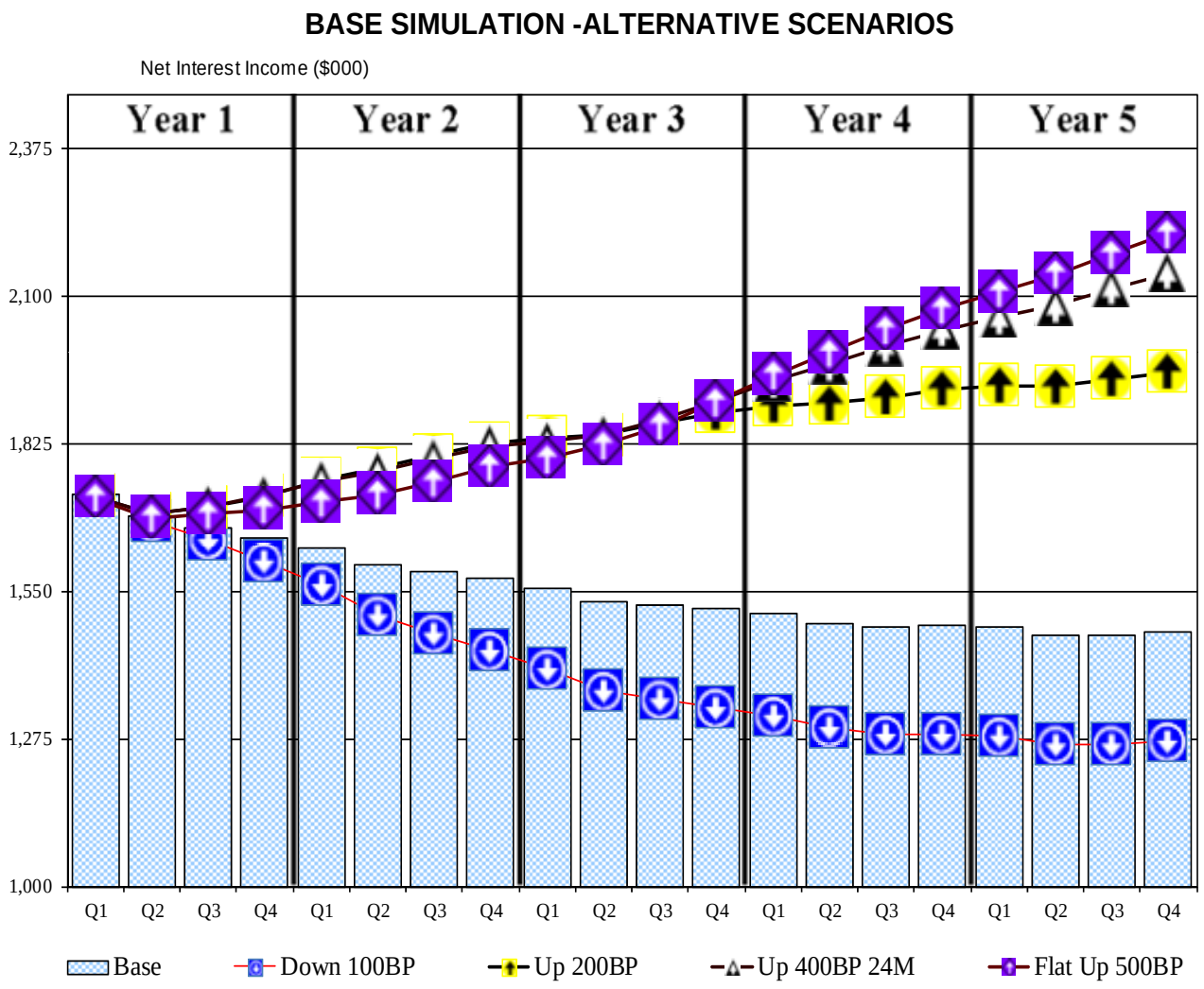
Typical Credit Union IRR profile



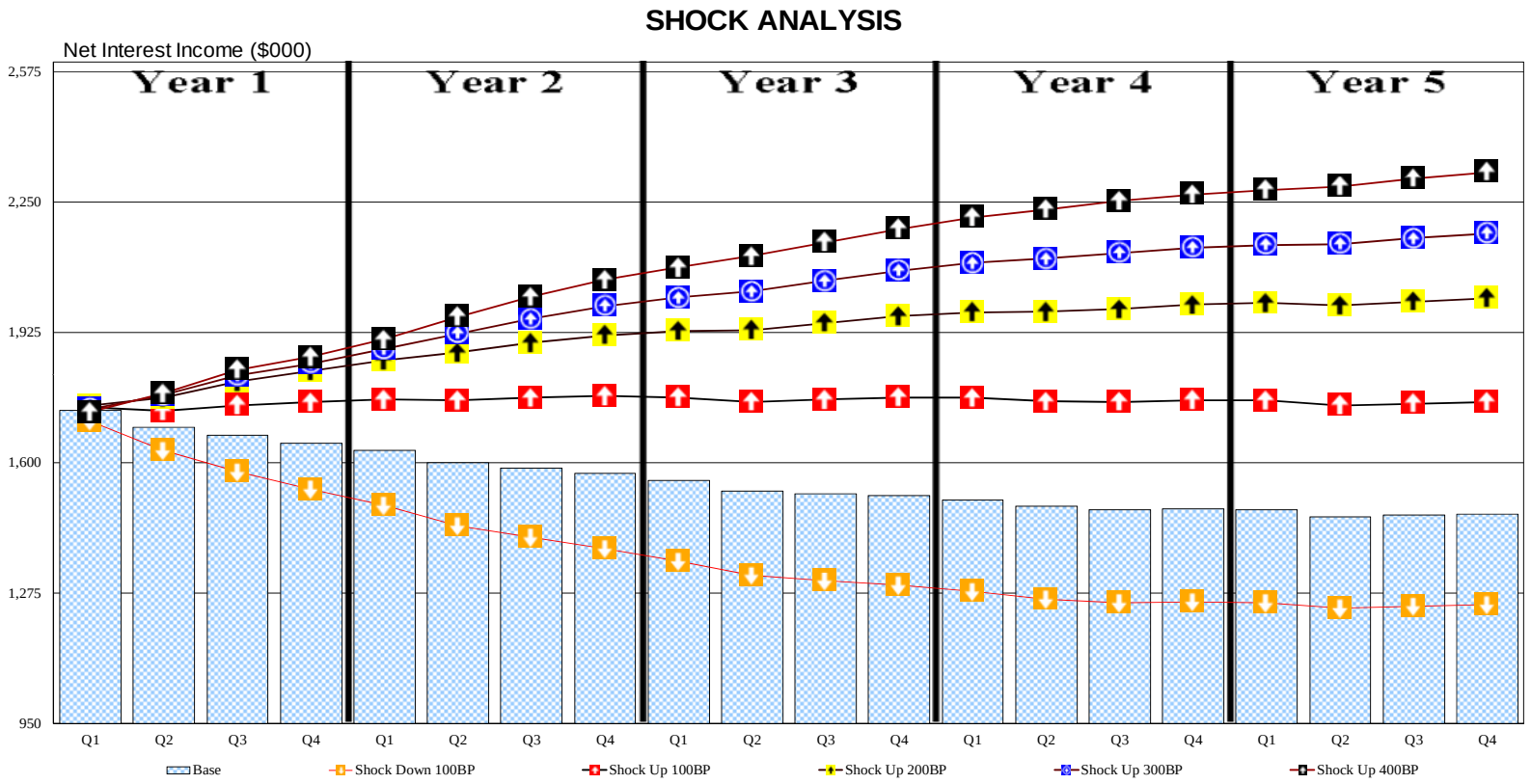
Typical Credit Union IRR Profile



Typical Credit Union IRR Profile Cont.



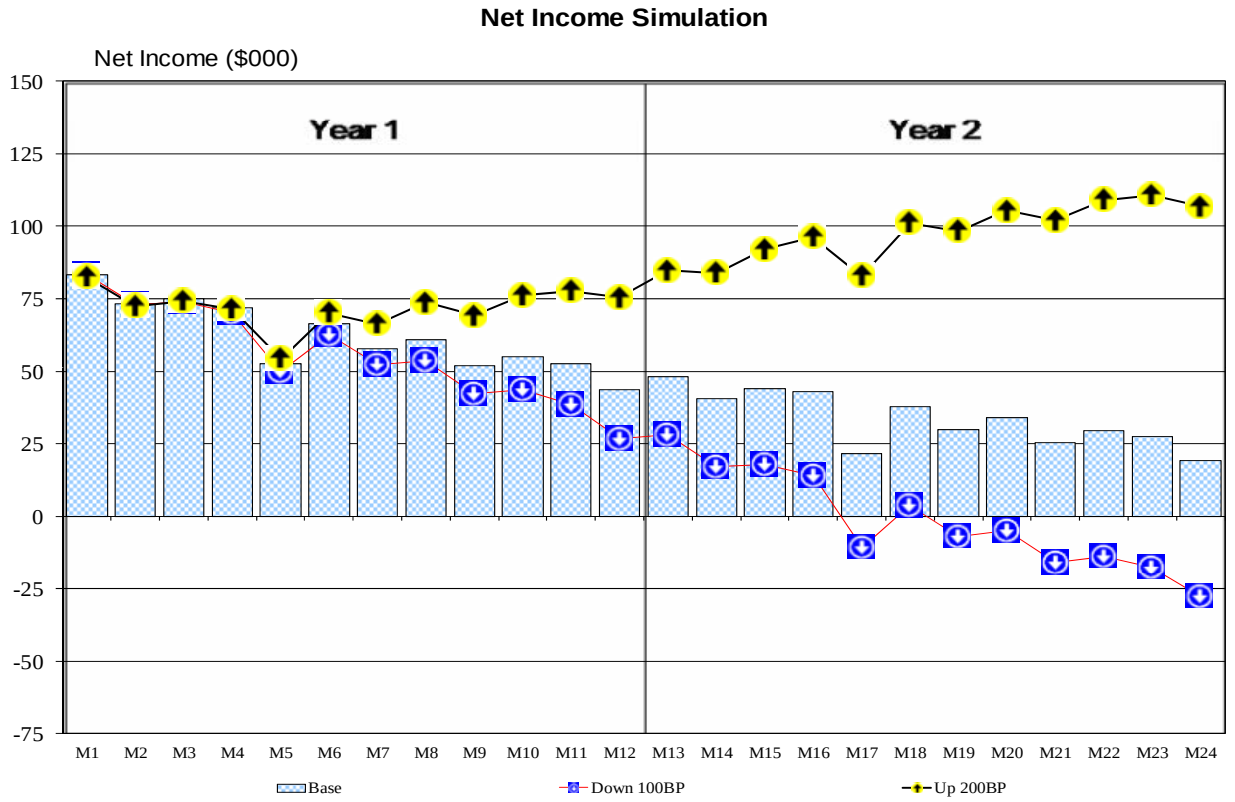
Earnings Simulations – "Shocks"… Most CUs Do "Best" When Rates Rise!



NII SUMMARY

	Shock Down 100BP	Base	Shock Up 100BP	Shock Up 200BP	Shock Up 300BP	Shock Up 400BP
Year-1 NII	6,444	6,733	6,960	7,133	7,166	7,193
Year-2 NII	5,735	6,390	7,040	7,546	7,754	7,941
Year-3 NII	5,272	6,125	7,034	7,771	8,170	8,534
Year-4 NII	5,039	5,965	7,021	7,927	8,465	8,964
Year-5 NII	4,974	5,888	6,996	8,002	8,619	9,202

Net Income



NI SUMMARY

	Down 100BP	Base	Up 200BP
Year-1 NI	670	745	863
Year-2 NI	-17	402	1,173

Simulation includes anticipated 2012 NCUA assessment expense of $156K.

Industry Dynamics Will Change

- Fewer, Larger CUs
- Mergers of Small CUs
- Lower Returns/Profits
  - .75% ROA the "New 1%"

- Many Will Seek More Fee Related Income
- Use of Wholesale Funding Will Be "Needed" to Control COF and Manage IRR and Capital

- ***But….NII Will Remain Driver for Most***

Net Interest Income (NII)

Meaningful Reference Point

for Risk Measurement

& Management

NII: Pressures Mounting

Function of:

- Yield on Assets (Mix)
- Cost of Funds
- Size of Balance Sheet

CU Business Model Issues: NII

Are Industry and Regulatory

Trends

Putting NII Dependent

"Business Model"

At RISK?

Implication

CUs Must Think *Differently*

About the Creation

&

Management of NII

ALCO - Objective

Optimize Net Interest Income (Both Short term and Long Term) While Managing Levels Of:

- Liquidity
- Interest Rate Risk
- Capital Adequacy

Key Business Issues/Questions

- Do We Have Adequate Capital?
- How Much Liquidity Do We Have?
- How Much Liquidity Do We Need?
- How Much Do We Want to Pay?
- How Much Exposure Do We Have to Change in Rates?
- Are We Being Paid Adequately for the Risks We Take?

Creating Appropriate Perspective

WHAT IS THE BASIC BUSINESS OF A CREDIT UNION?

Profit/Loss (Manufacturing Analogy)

REVENUES: *Products Sold*

LESS: *Cost Of Goods*

GROSS PROFIT MARGIN

Are A Credit Union's Products:

- Assets?
  - Loans/Investments
- Liabilities?
  - Savings/NOW
  - CDs, etc.
- Both Assets & Liabilities?

Profit/Loss (Credit Union)

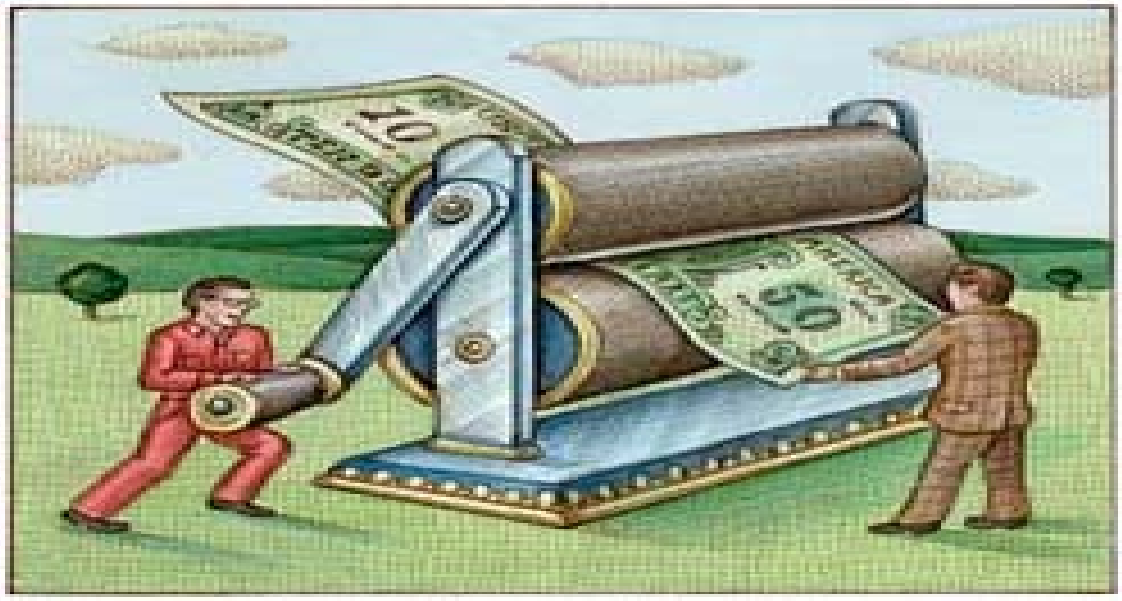
REVENUES: *Loans & Investments*

LESS: *Cost Of Funds*

=NET INTEREST INCOME

Financial Intermediary

That Buys and Sells Money



NII vs. NEV…What's Your Position?

Primary Focus = Income (NII Simulation)

Secondary Focus = Value (NEV)

WHY?

- A Credit Union's Income is Primarily Result of its Intermediation Function Not *Changes in Value*

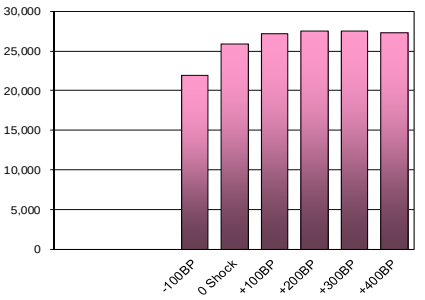
- FASB & Fair Value = Potential Real Problem

NEV…A Useful Tool?

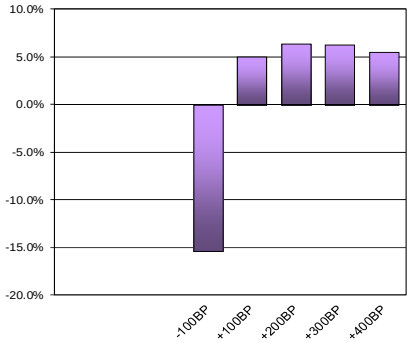
RATE SHOCK SCENARIOS

	Book Value	-100BP	0 Shock	+100BP	+200BP	+300BP	+400BP
ASSETS							
Investments	42,498	42,462	42,513	41,908	40,985	39,982	38,992
Loans	142,562	148,537	148,453	145,962	143,152	140,281	137,487
Other Assets	10,668	10,668	10,668	10,668	10,668	10,668	10,668
TOTAL ASSETS (EVA)	**195,728**	**201,668**	**201,634**	**198,539**	**194,805**	**190,931**	**187,147**
% Chg from 0 Shock	*-2.93%*	*0.02%*		*-1.54%*	*-3.39%*	*-5.31%*	*-7.18%*
LIABILITIES							
Non Maturity Deposits	104,161	107,236	103,551	99,978	96,671	93,606	90,760
Time Deposits	65,514	66,970	66,633	65,820	65,028	64,256	63,504
Borrowings	0	0	0	0	0	0	0
Other Liabilities	5,530	5,530	5,530	5,530	5,530	5,530	5,530
TOTAL LIABILITIES (EVL)	**175,205**	**179,736**	**175,714**	**171,328**	**167,229**	**163,392**	**159,793**
% Chg from 0 Shock	*-0.29%*	*2.29%*		*-2.50%*	*-4.83%*	*-7.01%*	*-9.06%*
NET ECONOMIC VALUE (NEV)	**20,524**	**21,932**	**25,920**	**27,211**	**27,576**	**27,540**	**27,354**
% Chg from 0 Shock		**-15.4%**		**5.0%**	**6.4%**	**6.2%**	**5.5%**
Policy Limits		*-10.0%*		*-10.0%*	*-20.0%*	*-30.0%*	*-35.0%*
NEV Ratio (NEV/EVA)	**10.49%**	**10.88%**	**12.85%**	**13.71%**	**14.16%**	**14.42%**	**14.62%**
BP Chg from 0 Shock		**-198**		**85**	**130**	**157**	**176**

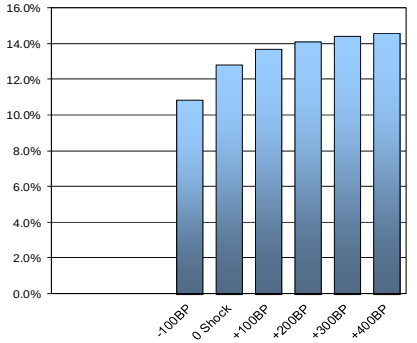
Net Economic Value($000s)



NEV ($) - Pct. Chg from 0 Shock



NEV Ratio (NEV/EVA)



Risk Summary Grid*

Post Shock NEV/EVA Ratio	0 to 100bp	100 to 200bp	200 to 400bp	Over 400bp
Over 10%	Min. Risk -1	**MIN. RISK (1)**	Min. Risk -1	Mod. Risk -2
6.00% to 10.00%	Min. Risk -1	Min. Risk -1	Mod. Risk -2	Sig. Risk -3
4.00% to 6.00%	Min. Risk -1	Mod. Risk -2	Sig. Risk -3	High Risk -4
Below 4.00%	Mod. Risk -2	Sig. Risk -3	High Risk -4	High Risk -4

*Included for discussion purposes only. Grid evaluates +200/-100 scenarios for risk assessment.
*Current risk assessment for Risk Summary Grid is based on -100 scenario.

NEV with Core Deposits – No Premium

RATE SHOCK SCENARIOS	Book Value	-100BP	0 Shock	+100BP	+200BP	+300BP	+400BP
ASSETS							
Investments	42,498	42,462	42,513	41,908	40,985	39,982	38,992
Loans	142,562	148,537	148,453	145,962	143,152	140,281	137,487
Other Assets	10,668	10,668	10,668	10,668	10,668	10,668	10,668
TOTAL ASSETS (EVA)	**195,728**	**201,668**	**201,634**	**198,539**	**194,805**	**190,931**	**187,147**
% Chg from 0 Shock	*-2.93%*	*0.02%*		*-1.54%*	*-3.39%*	*-5.31%*	*-7.18%*
LIABILITIES							
Non Maturity Deposits	104,161	104,161	104,161	104,161	104,161	104,161	104,161
Time Deposits	65,514	66,970	66,633	65,820	65,028	64,256	63,504
Borrowings	0	0	0	0	0	0	0
Other Liabilities	5,530	5,530	5,530	5,530	5,530	5,530	5,530
TOTAL LIABILITIES (EVL)	**175,205**	**176,660**	**176,324**	**175,510**	**174,718**	**173,946**	**173,194**
% Chg from 0 Shock	*-0.63%*	*0.19%*		*-0.46%*	*-0.91%*	*-1.35%*	*-1.77%*
NET ECONOMIC VALUE (NEV)	**20,524**	**25,008**	**25,310**	**23,029**	**20,087**	**16,985**	**13,953**
% Chg from 0 Shock		**-1.2%**		**-9.0%**	**-20.6%**	**-32.9%**	**-44.9%**
Policy Limits		*-10.0%*		*-10.0%*	*-20.0%*	*-30.0%*	*-35.0%*
NEV Ratio (NEV/EVA)	**10.49%**	**12.40%**	**12.55%**	**11.60%**	**10.31%**	**8.90%**	**7.46%**
BP Chg from 0 Shock		**-15**		**-95**	**-224**	**-366**	**-510**

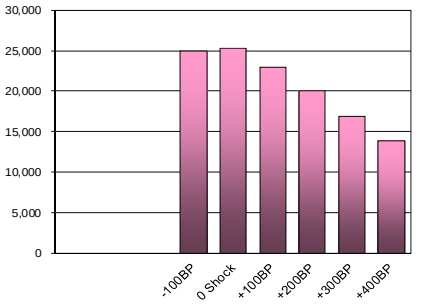
Risk Summary Grid*

Post Shock NEV/EVA Ratio	0 to 100bp	100 to 200bp	200 to 400bp	Over 400bp
Over 10%	Min. Risk -1	Min. Risk -1	**MIN. RISK (1)**	Mod. Risk -2
6.00% to 10.00%	Min. Risk -1	Min. Risk -1	Mod. Risk -2	Sig. Risk -3
4.00% to 6.00%	Min. Risk -1	Mod. Risk -2	Sig. Risk -3	High Risk -4
Below 4.00%	Mod. Risk -2	Sig. Risk -3	High Risk -4	High Risk -4

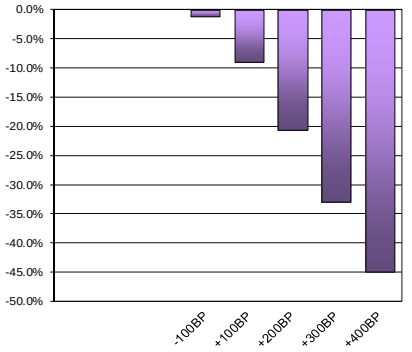
*Included for discussion purposes only. Grid evaluates +200/-100 scenarios for risk assessment.
*Current risk assessment for Risk Summary Grid is based on +200 scenario.

NMD market value is equal to book value in all scenarios.

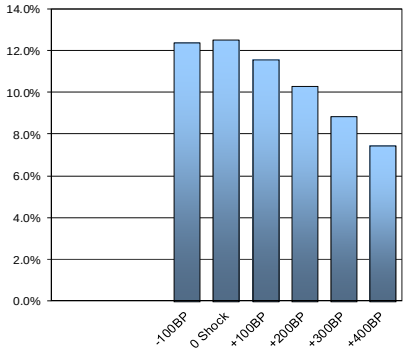
Net Economic Value($000s)



NEV ($) - Pct. Chg from 0 Shock



NEV Ratio (NEV/EVA)



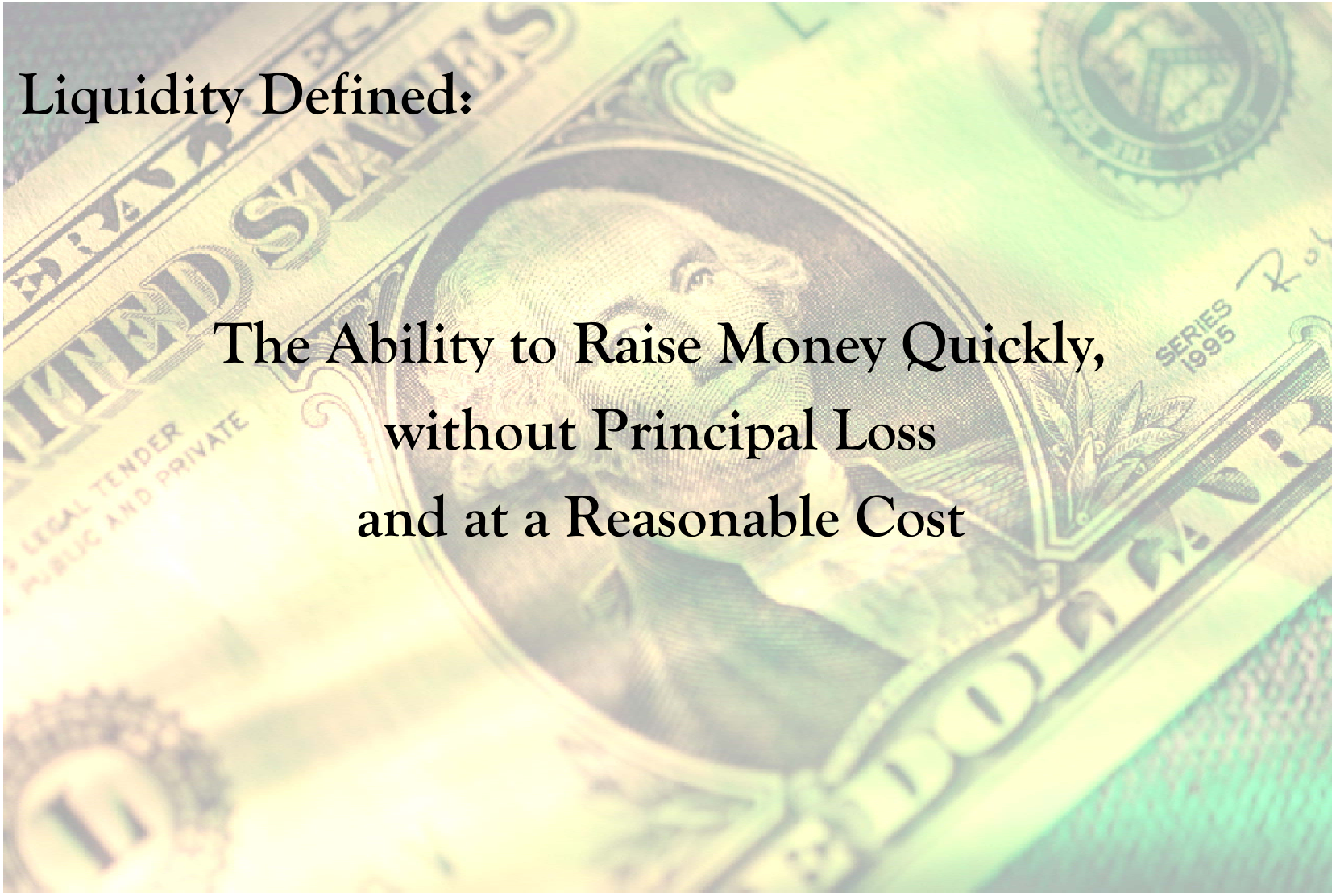
Your Credit Union's Position

You MUST be Able to Articulate and Defend the Basis Upon Which You Decide To Measure and Manage Interest Rate Risk:

- Economic/Liquidation Value (NEV), or
- Ongoing Reporting Earnings (EAR)

Liquidity / Funds Management & Measurement

Traditional Measures



Liquidity Defined:

The Ability to Raise Money Quickly,
without Principal Loss
and at a Reasonable Cost

How Do YOU Measure It?

- Loan to deposit ratio?
  - Loans illiquid / deposits our only source of funds
- Excess Cash and short term investments on hand?
  - Looks good on paper, but what about yield?
- Very crude barometers of liquidity
  - Easy to understand
  - Do not reflect evolution of markets
- How do we look at it?

Traditional Measures

Theory vs. Practice: Does it fit with our Liquidity Definition?

- Loan/Deposit
- Short-term investments/assets
- Non-Core Funding Dependency
  - "Volatile Liabilities"
- Cash flow (liquidity gap)
  - < 12 Months
  - < 60 Months

Traditional Measures Modern Day Reality

Raising Cash Does Not REQUIRE Asset Sales or High Cost Deposit Specials

"Just in Time Inventory Management"

- Collateralized Borrowings (e.g. Repos and FHLB)
- Brokered CDs
- National CD Networks
- Etc.

Basic Surplus Approach – Advantages

- Real world liquidity/funding capacity
- AFS vs. HTM not important (found in call report)
- Optimizes "Liquidity Yield"
  - No requirement to maintain cash on hand

Example: 15-year mortgage yield today 3.25% vs. 0.25% in Fed Funds, or 3.00% less yield for negligible give-up in liquidity.

FHLB will lend up to 90% on the book value of the 15-year mortgage.

(Interest rate risk discussed later…)

How Much Liquidity Do We Need? - Liquidity Forecast – 90 Days

	Current Basic Surplus / Deficit
Less:	*Net New* Loans
Plus:	Deposit Growth/Runoff
Plus:	"Non-Liquid" Investment Maturities *
Equals:	**Expected Liquidity Position**

* Investments not included in Basic Surplus/Deficit

90-Day Liquidity Projection & Net Wholesale Cash In/Out Flows

LIQUIDITY FORECAST @ 90-DAY HORIZON	Current	Previous Forecast	Actual	Forecast Variance
Current Basic Surplus w/ FHLB	**170,747**	**0**	**0**	
Less: Net New Loan Fundings	0	0	0	0
Plus: Net Customer Deposit Flows	0	0	0	0
Plus: Non-Pledgable Investment Cash flow	1,497	0	0	0
Equals: Projected Basic Surplus (Deficit) at 90-Days	**172,244**	**0**	**0**	**0**

24-MONTH WHOLESALE CASH FLOW PROJECTIONS	Q1Y1	Q2Y1	Q3Y1	Q4Y1	Q1Y2	Q2Y2	Q3Y2	Q4Y2
Cash Investments	39,696	0	0	0	0	0	0	0
Investments	8,040	6,420	5,507	5,950	4,916	5,219	3,933	4,023
Total Inv. Cash Flow	47,736	6,420	5,507	5,950	4,916	5,219	3,933	4,023
Brokered Deposits	0	0	0	0	0	0	0	0
National CDs	0	0	0	0	0	0	0	0
Borrowings	0	0	0	0	0	0	0	0
Total Funding Maturities	0	0	0	0	0	0	0	0

How Much Do We Want To Pay for Liquidity?

MARGINAL COST OF FUNDS ANALYSIS

MCOF - NOW/MMDA

The matrix below identifies the effective marginal cost of foregoing rate reductions in an effort to protect various levels of expected runoff in the CU's MCOF - NOW/MMDA account balances.

For example, the incremental cost of foregoing a 0.30% rate reduction is 4.03% on the most volatile 10.00% of the balances.

The effective cost of protecting these balances should be compared to the incremental cost of alternative funding sources.

BALANCE:	86,022	
CURRENT RATE:	1.33%	

		RATE REDUCTION	
		0.30%	0.60%
RUNOFF PROTECTED	10.00%	4.03%	6.73%
	25.00%	2.23%	3.13%
	50.00%	1.63%	1.93%

Remember…

A Credit Union's Perspective on Liquidity and the Role of Wholesale Funding WILL IMPACT:

- Deposit Pricing
- Investment Strategy
- Loan Strategy
- Growth Strategy
- and, Therefore, ITS EARNINGS!

Balance Sheet Management Objective

Optimize Net Interest Income (Both Short term and Long Term) While Managing Levels Of:

- Liquidity
- Interest Rate Risk
- Capital Adequacy

Key Challenge

BALANCE RISK AND RETURN

	MAXIMUM RISK		MANAGED RISK		MINIMAL RISK
CAPITAL	*Low*	⟷	*Managed*	⟷	*High*
GROWTH	*High*	⟷	*Managed*	⟷	*Low*
CREDIT RISK	*High*	⟷	*Managed*	⟷	*Low*
LIQUIDITY	*Low*	⟷	*Managed*	⟷	*High*
INT. RATE RISK	*High*	⟷	*Managed*	⟷	*Low*

MAXIMIZE INCOME ??	OPTIMIZE INCOME	MINIMIZE INCOME
ONGOING CONCERN ??	ONGOING CONCERN	LIQUIDATION
	GAAP	MVPE A.K.A. NEV

Purpose of ALM Software

Build Models? NO.

Support Decision-Making? YES!

D·C·G
DARLING CONSULTING GROUP

So, What IS a Credit Union To Do ???

Viable Strategies?????????

Strategy/Business Development: First Step

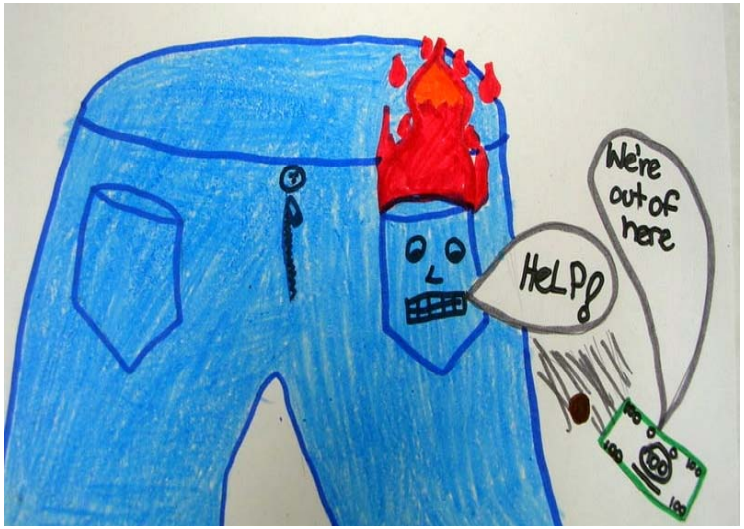
TAKE REALISTIC LOOK INTO THE MIRROR

Strategies…A Few Thoughts

- Liquidity Issues
- Deposits
- Lending
- Investments
- Rate Risk Management
- Wholesale Funding
- Capital Planning

CUs "AWASH in LIQUIDITY"

…And No End in Sight !



Too Much Cash (Current & Incoming)

"Invest"

Or

Must Reduce Cost!

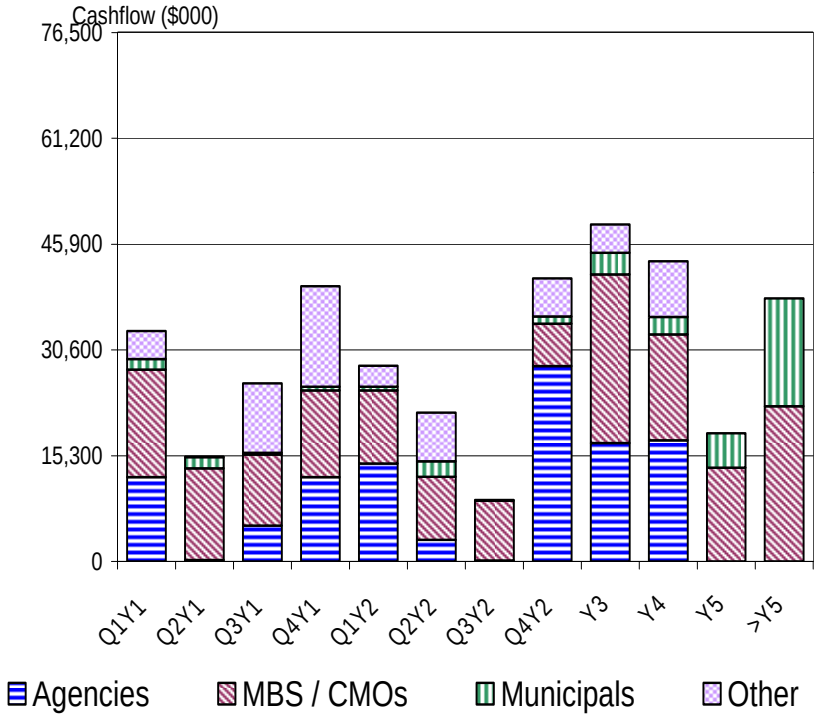
Impact on Strategy?

- **Deposits**
- **Lending**
- Investments

Sobering Exercise

$1 billion institution, with $50 million in cash, negative loan demand, and more fuel for the fire coming in…

	Q1Y1	Q2Y1	Q3Y1	Q4Y1
Agencies	12,215	218	5,217	12,215
MBS / CMOs	15,524	13,276	10,245	12,520
Municipals	1,558	1,589	241	527
Other	4,042	43	10,043	14,543
TOTAL	33,339	15,126	25,746	39,805
CUMULATIVE	33,339	48,465	74,212	114,016



Deposit Pricing In Perspective

- $90 Million in Checking @ 0.10%
- $265 Million in Savings @ 0.25%
- $150 Million in MMDA @ 0.85%

15bp Average Cost Relief = $757,000

Equals Reaching for 1.76% Security Yield (FF + 1.51%)

Deposit Strategy: KEY ISSUE

- *ALL CUs* … Have Deposits That *WILL LEAVE* !!!!

Deposit Pricing: An Implicit Strategy

- *Whom Are You Attracting … or Holding Onto?*
  - *How Do You Know?*
  - *At What Cost?*

Better the "Devil You Know?"

Reducing Cost of Funds

- Prepare Marginal Cost of Funds
- Quantify/Model Results

MARGINAL COST OF FUNDS

MARGINAL COST OF FUNDS ANALYSIS

Preferred MMDA ($50K+) and Preferred MMDA Plus

The matrix below identifies the effective marginal cost of foregoing rate reductions in an effort to protect various levels of expected runoff in the CU's Preferred MMDA ($50K+) and Preferred MMDA Plus account balances.

For example, the incremental cost of foregoing a 0.10% rate reduction is 2.50% on the most volatile 5.00% of the balances.

The effective cost of protecting these balances should be compared to the incremental cost of alternative funding sources.

BALANCE: 250,637

CURRENT RATE: 0.60%

		RATE REDUCTION	
		0.10%	0.20%
RUNOFF PROTECTED	5.00%	2.50%	4.40%
	10.00%	1.50%	2.40%
	20.00%	1.00%	1.40%

Issue: EVERYONE Wants Deposits

Is "Cost of Funds Management"

(e.g. Lowering Deposit Rates)

INCONSISTENT

with a "Deposit Growth Strategy" ??

Business Issue

- The Depositor: Relationship or Acquaintance?
- Deposit Growth, At What Cost?
- ***How Differentiate on Variables Other Than Rate?***

Liquidity Trends

- Many CUs Facing Huge Liquidity Challenges..
- ...TOO MUCH!

- **Impact on Loan Strategy?**

Loan Pricing Trends…

Loan Discussion Items

- ***Residential Lending***
  - Portfolio vs. Sale Strategy
  - Conforming vs. Non-Conforming
- ***Consumer Lending***
  - HELOC
  - Auto

Investments: Buying Bonds Today…

Determining the Lesser of Evils…

Investment Strategy

- Opportunity or Trap?

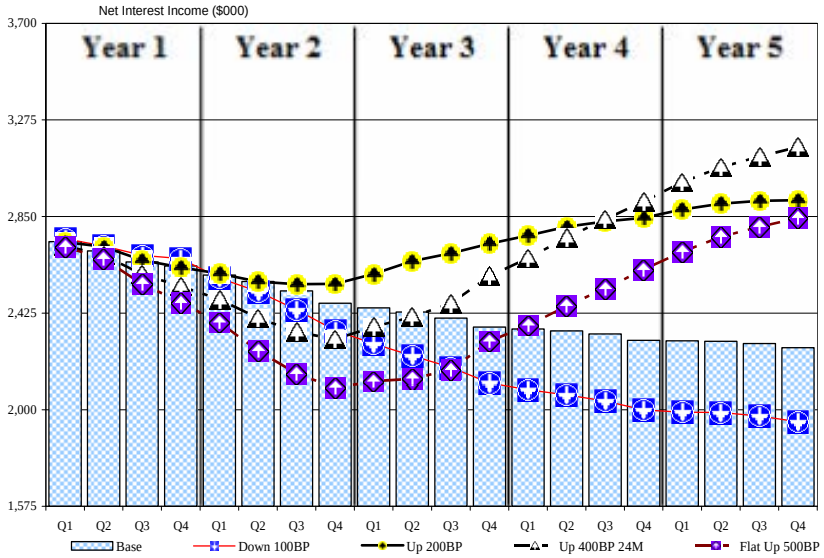
- Extension Risk: Requires Active Management and Documentation
- Key Q: How "Badly" Need Additional Earnings? Impact on IRR, NEV and NII

Interest Rate Risk

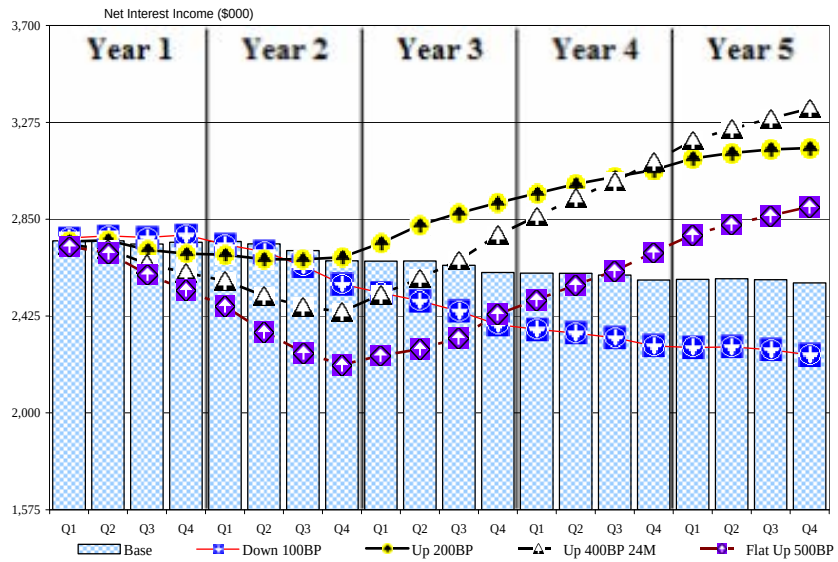
- Asset Sensitive?
- Liability Sensitive?
- Both?

Example #1
Roll Investments Longer vs Short Term

Base Model as of 3/31/2011



Alternative Investment Assumption



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	10,817	10,721	10,739	10,540	10,404
Year-2 NII	9,887	10,149	10,270	9,540	8,899
Year-3 NII	8,833	9,645	10,670	9,827	8,738
Year-4 NII	8,191	9,341	11,244	11,177	9,976
Year-5 NII	7,895	9,168	11,630	12,337	11,104

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	11,096	11,000	10,925	10,726	10,581
Year-2 NII	10,658	10,874	10,725	10,003	9,302
Year-3 NII	9,853	10,598	11,369	10,562	9,295
Year-4 NII	9,340	10,414	12,070	11,923	10,386
Year-5 NII	9,108	10,331	12,575	13,071	11,381

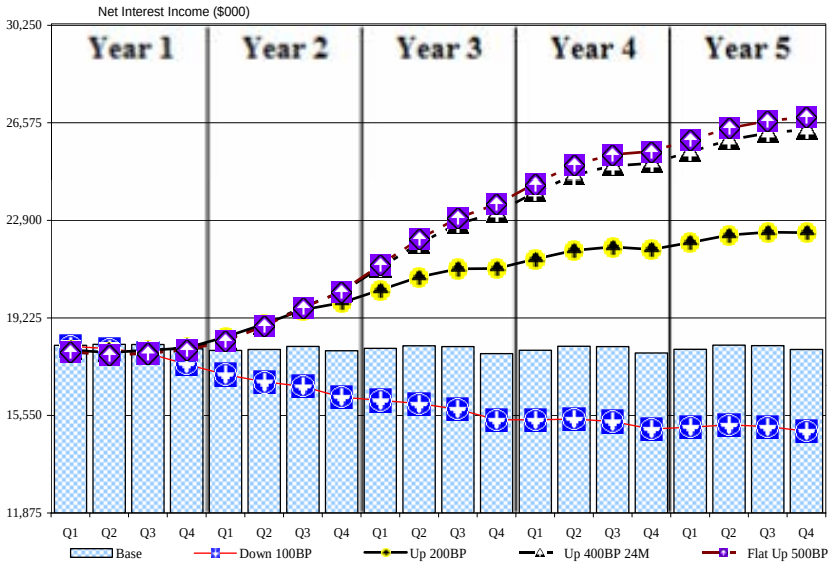
CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	279	279	186	186	177
Year-2 NII	771	725	455	463	403
Year-3 NII	1,020	953	698	735	557
Year-4 NII	1,150	1,074	826	746	410
Year-5 NII	1,213	1,162	946	733	277

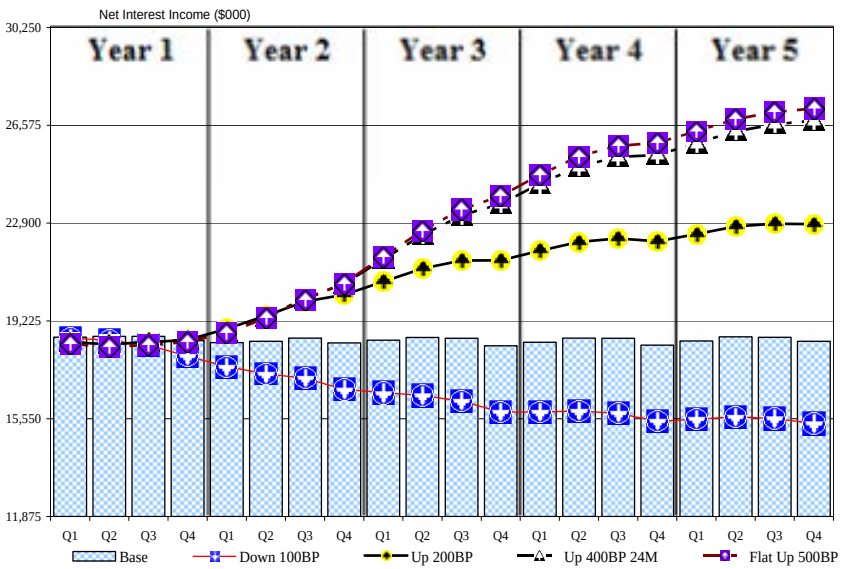
Assume all investment cash flow rolls into a 75/25 mix of 15 and 20 Year MBS.

CU Example #2: Model Validation ("Assumed" to Be Liability Sensitive!)

Base Simulation as of 3/31/2011



Alternative Deposit Rates



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	71,593	72,699	72,024	72,026	71,669
Year-2 NII	66,786	72,165	76,825	77,190	77,083
Year-3 NII	63,284	72,275	83,205	89,110	89,902
Year-4 NII	61,156	72,205	86,906	98,564	100,150
Year-5 NII	60,380	72,465	89,309	103,910	105,741

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	73,283	74,389	73,714	73,716	73,359
Year-2 NII	68,469	73,848	78,508	78,873	78,766
Year-3 NII	64,970	73,961	84,892	90,796	91,589
Year-4 NII	62,843	73,891	88,593	100,250	101,836
Year-5 NII	62,071	74,155	90,999	105,600	107,431

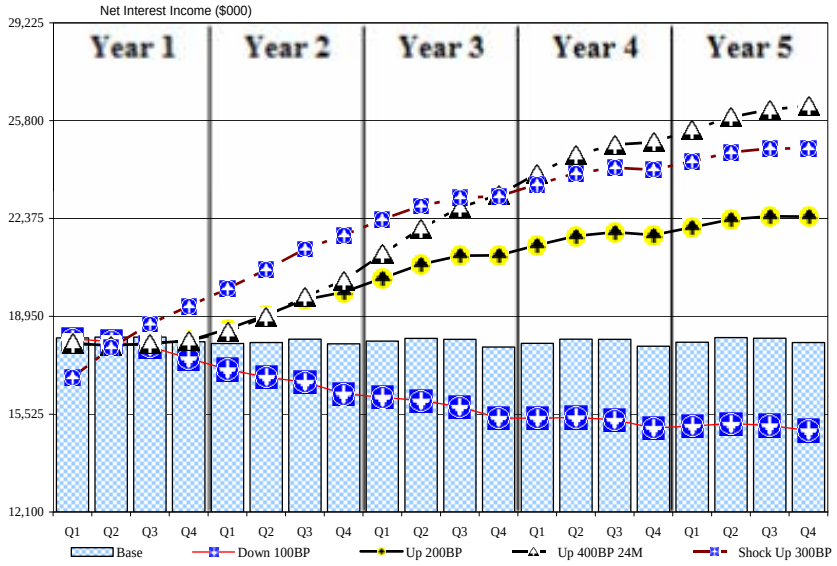
CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	1,690	1,690	1,690	1,690	1,690
Year-2 NII	1,683	1,683	1,683	1,683	1,683
Year-3 NII	1,687	1,687	1,687	1,687	1,687
Year-4 NII	1,687	1,687	1,687	1,687	1,687
Year-5 NII	1,690	1,690	1,690	1,690	1,690

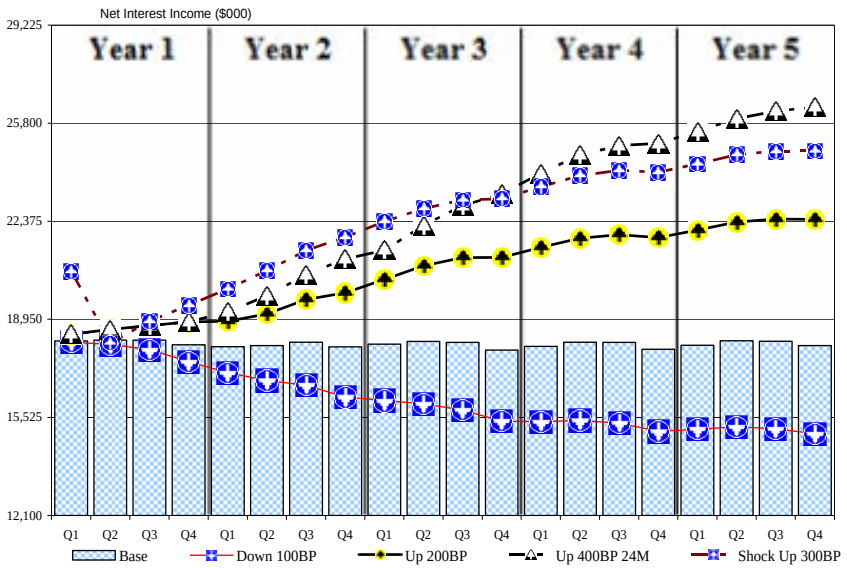
Lower high yield MMDA to50 bps

Example #2: Liability Sensitive??? (Previous Focus: 1 Year Gap and NEV)

Base Simulation as of 3/31/2011



Lag Rate Movements (Rising Rates)



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Shock Up 300BP
Year-1 NII	71,593	72,699	72,024	72,026	72,643
Year-2 NII	66,786	72,165	76,825	77,190	83,592
Year-3 NII	63,284	72,275	83,205	89,110	91,416
Year-4 NII	61,156	72,205	86,906	98,564	95,776
Year-5 NII	60,380	72,465	89,309	103,910	98,733

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Shock Up 300BP
Year-1 NII	71,593	72,699	74,615	74,617	77,090
Year-2 NII	66,786	72,165	77,540	80,544	83,830
Year-3 NII	63,284	72,275	83,383	89,825	91,462
Year-4 NII	61,156	72,205	86,968	98,844	95,792
Year-5 NII	60,380	72,465	89,318	104,050	98,739

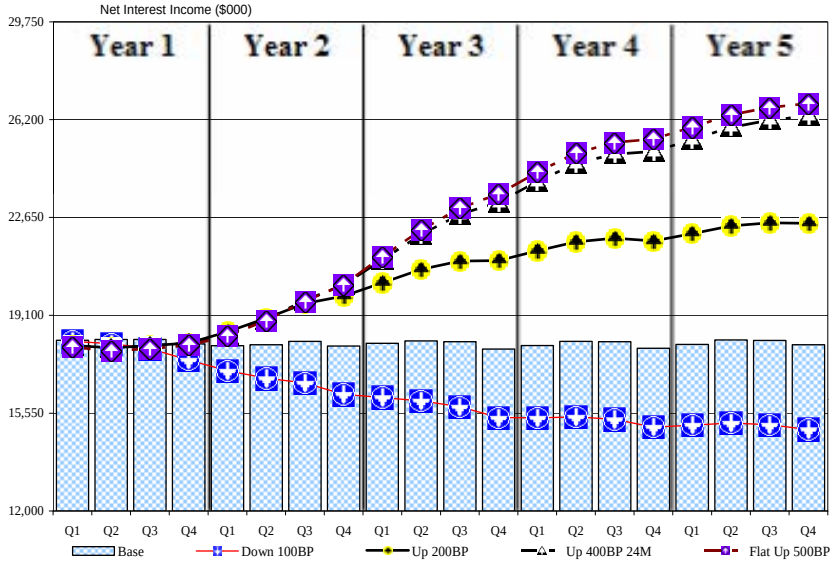
CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Shock Up 300BP
Year-1 NII	0	0	2,591	2,591	4,447
Year-2 NII	0	0	715	3,354	238
Year-3 NII	0	0	178	716	46
Year-4 NII	0	0	62	280	16
Year-5 NII	0	0	9	140	7

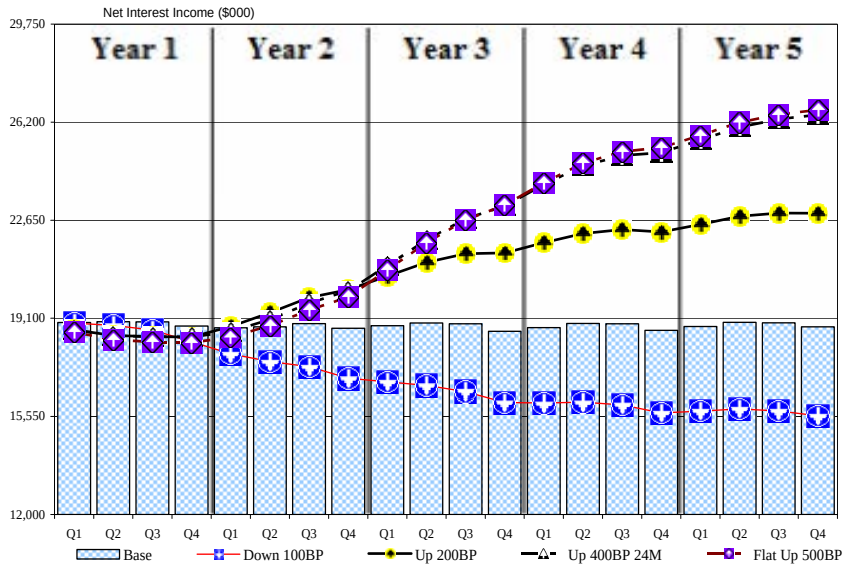
Lag all deposit rate movements by 3 months in rising rate scenarios.

CU Example #2 "Reality"… Asset Sensitive…Extend Cash

Base Simulation as of 3/31/2011



Extend Cash



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	71,593	72,699	72,024	72,026	71,669
Year-2 NII	66,786	72,165	76,825	77,190	77,083
Year-3 NII	63,284	72,275	83,205	89,110	89,902
Year-4 NII	61,156	72,205	86,906	98,564	100,150
Year-5 NII	60,380	72,465	89,309	103,910	105,741

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	74,698	75,729	74,022	74,025	73,392
Year-2 NII	69,629	75,194	78,094	77,420	76,513
Year-3 NII	65,972	75,304	84,669	88,810	88,534
Year-4 NII	63,735	75,234	88,549	98,653	99,131
Year-5 NII	62,879	75,494	91,117	104,356	105,043

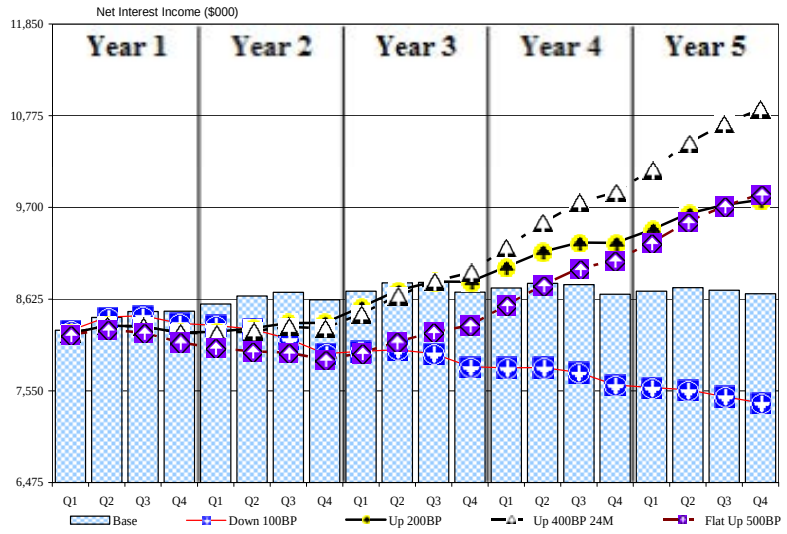
CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	3,105	3,030	1,999	1,999	1,722
Year-2 NII	2,843	3,030	1,269	230	-570
Year-3 NII	2,689	3,029	1,463	-299	-1,368
Year-4 NII	2,579	3,029	1,643	89	-1,019
Year-5 NII	2,499	3,029	1,808	446	-699

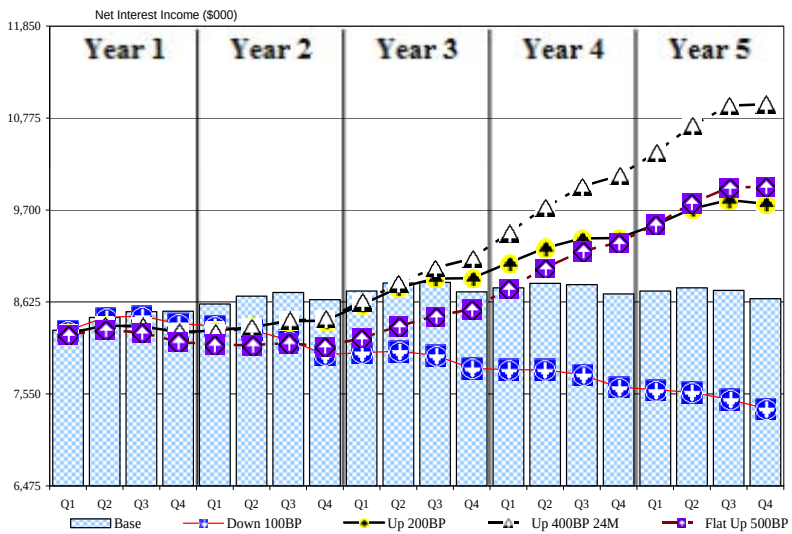
Extend $100 million of cash into a 50/50 split of 15YR MBS @ 3.09% and 20YR MBS @ 3.47%.

Asset or Liability Sensitive? Both! Consider Mismatched Leverage

Base as of 03/31/2011



$20MM Leverage



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	33,444	33,635	33,079	33,079	32,831
Year-2 NII	32,740	34,553	33,220	33,057	31,983
Year-3 NII	31,866	35,066	34,919	34,880	32,676
Year-4 NII	31,030	35,047	36,759	38,380	35,410
Year-5 NII	30,046	34,895	38,585	42,124	38,393

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	33,568	33,767	33,225	33,225	32,971
Year-2 NII	32,837	34,687	33,428	33,429	32,495
Year-3 NII	31,933	35,199	35,186	35,624	33,544
Year-4 NII	31,072	35,181	37,074	39,233	36,344
Year-5 NII	30,033	34,968	38,831	42,909	39,245

CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	125	132	146	146	141
Year-2 NII	97	134	207	372	512
Year-3 NII	67	134	267	745	868
Year-4 NII	43	134	316	853	934
Year-5 NII	-14	73	246	785	852

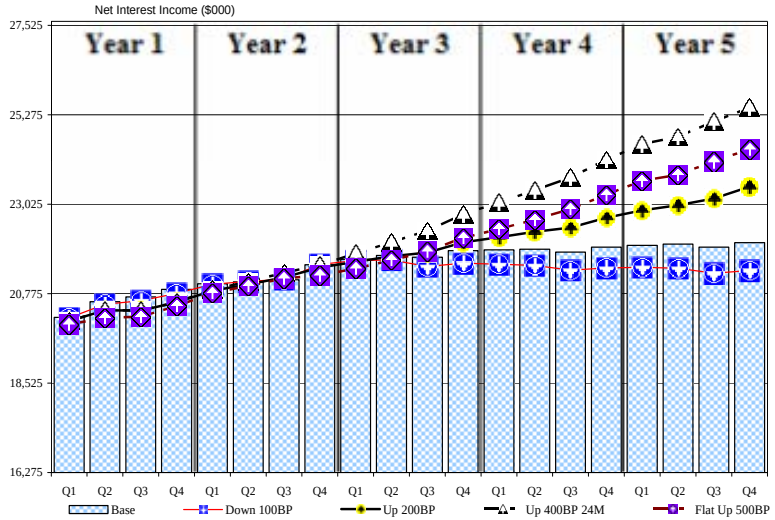
IRR Management Issues: "Liability Sensitive"

- ***Funding: "High Cost" of insurance to extend***
  - How far?
  - Do I Pay for Credit or IRR?
  - Recent Bond Market Rally = MORE ATTRACTIVE
  - But, 2013 Margin Pressures for Many Credit Unions

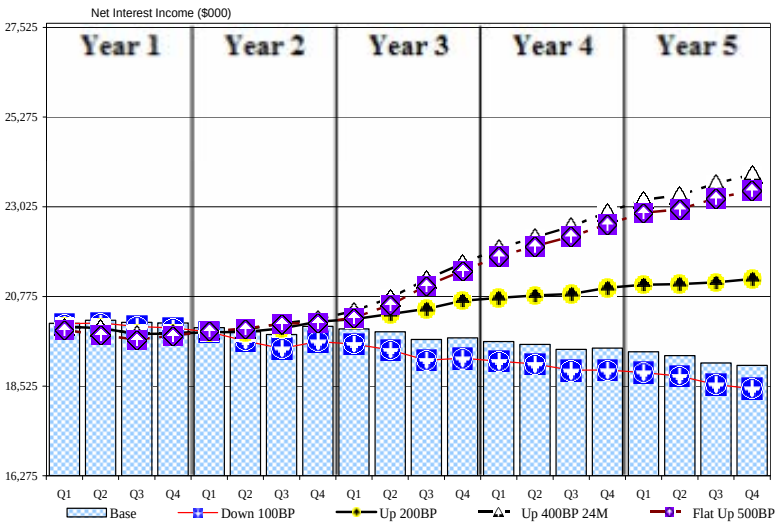
- ***How Extend Funding?***
  - Borrowings? (Many CUs "Knee Jerk" Reaction Is To Pay Down Advances)
  - Borrowings: Restructure Advances? Forward Commitments? Pre-fund?
  - Capped Floating Rate Advances (Cost vs. "Ride the Curve Up")
  - Local Market CDs? Forget about it!
  - Replace CD-only "Customers" w/ Wholesale?
  - Brokered?
  - Derivatives? Embedded?

"Cost" of Rolling Investment Cash Flow Into 2 Year Bullets vs. 15 & 20 Year Mortgages!

BASE SIMULATION AS OF 6/30/2010



2 YR BULLET INVESTMENT REPLACEMENT



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	82,055	82,328	81,352	81,352	80,827
Year-2 NII	84,744	84,726	84,487	84,754	84,157
Year-3 NII	86,236	86,932	87,164	88,981	87,045
Year-4 NII	85,795	87,531	89,652	94,273	91,196
Year-5 NII	85,502	88,018	92,509	99,822	95,887

NII SUMMARY

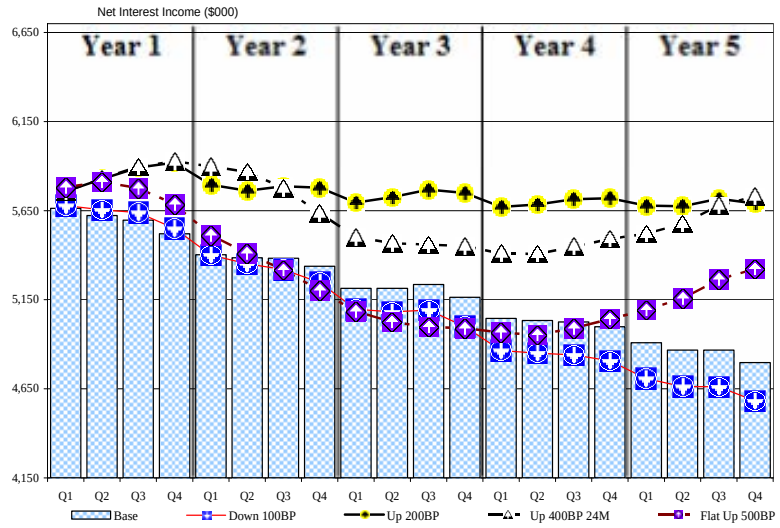
	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	80,206	80,519	79,678	79,678	79,223
Year-2 NII	78,660	79,727	79,877	80,147	80,084
Year-3 NII	77,413	79,284	81,668	83,949	83,253
Year-4 NII	76,082	78,137	83,365	89,643	88,666
Year-5 NII	74,668	76,833	84,500	93,954	92,507

CHANGE / DIFFERENCE IN RESULTS

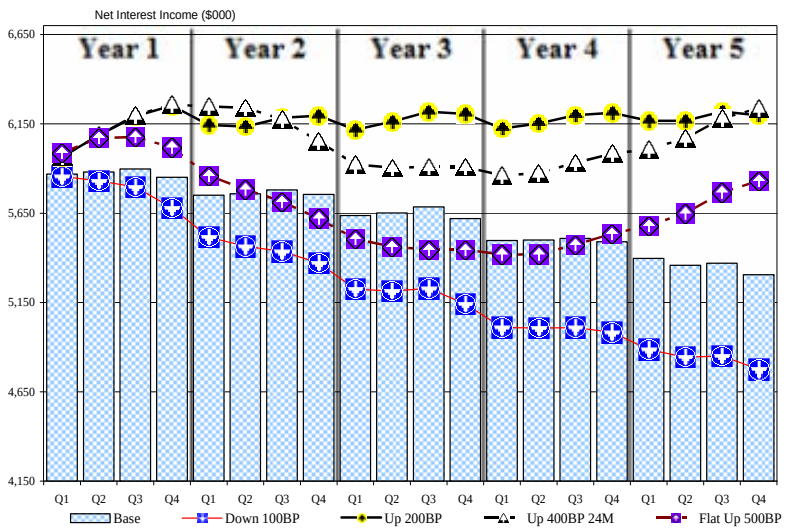
	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	-1,849	-1,809	-1,675	-1,675	-1,604
Year-2 NII	-6,084	-4,999	-4,610	-4,607	-4,073
Year-3 NII	-8,823	-7,648	-5,496	-5,033	-3,792
Year-4 NII	-9,712	-9,394	-6,286	-4,630	-2,531
Year-5 NII	-10,834	-11,184	-8,009	-5,867	-3,380

CU #3: Margins Falling *Fast*! Alternative Deposit Pricing Strategy

Base as of 12/31/2011



Alternative Deposit Pricing



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	22,523	22,402	23,398	23,411	23,056
Year-2 NII	21,319	21,508	23,123	23,178	21,442
Year-3 NII	20,270	20,828	22,939	21,880	20,096
Year-4 NII	19,362	20,102	22,791	21,755	19,951
Year-5 NII	18,613	19,440	22,760	22,504	20,836

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	23,163	23,499	24,496	24,509	24,153
Year-2 NII	21,788	23,045	24,660	24,715	22,979
Year-3 NII	20,811	22,594	24,704	23,645	21,861
Year-4 NII	20,010	21,997	24,686	23,650	21,846
Year-5 NII	19,357	21,431	24,751	24,495	22,827

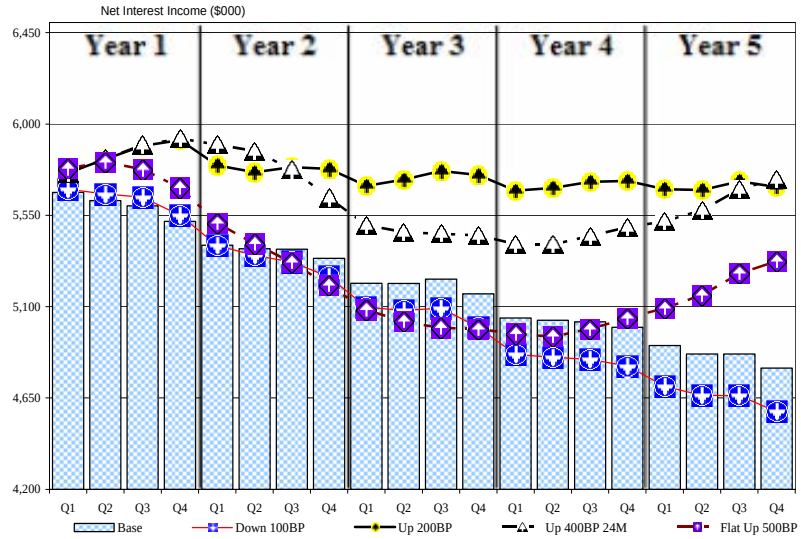
CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	640	1,098	1,098	1,098	1,098
Year-2 NII	469	1,537	1,537	1,537	1,537
Year-3 NII	540	1,766	1,766	1,766	1,766
Year-4 NII	648	1,895	1,895	1,895	1,895
Year-5 NII	744	1,991	1,991	1,991	1,991

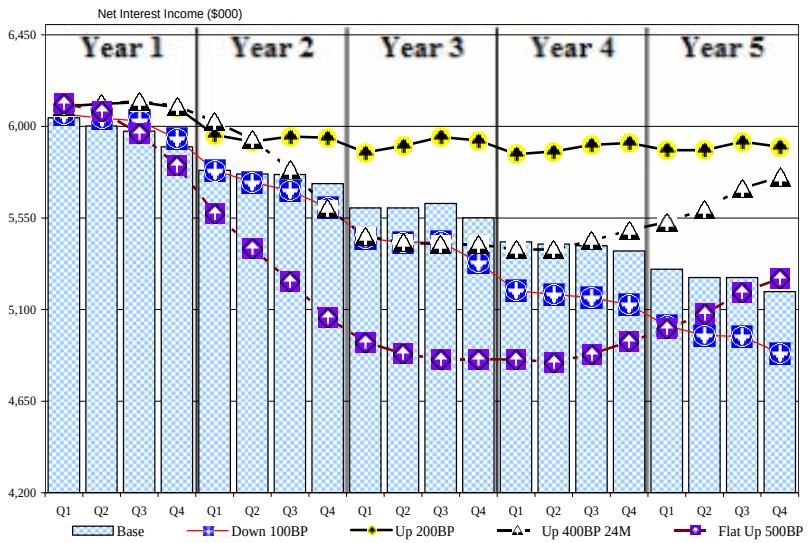
Lower CD Rates: 6 Mo -35bps (.65%), 1 Yr -35bps (.80%), 2 Yr -50bps (0.75%), 3 Yr -50bps (1.00%), 4 Yr -40bps (1.25%), 5 Yr -40bps (1.55%)
Lower all NM Deposits 15bp-20bp
Lower Repo rate to 0.25%

CU #3 (Cont'd) Fed Funds Deployment Into Portfolio Residential Loans

Base as of 12/31/2011



$45M Fed Funds Sold Deployment



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	22,523	22,402	23,398	23,411	23,056
Year-2 NII	21,319	21,508	23,123	23,178	21,442
Year-3 NII	20,270	20,828	22,939	21,880	20,096
Year-4 NII	19,362	20,102	22,791	21,755	19,951
Year-5 NII	18,613	19,440	22,760	22,504	20,836

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	24,067	23,921	24,421	24,434	23,958
Year-2 NII	22,796	23,032	23,778	23,345	21,276
Year-3 NII	21,645	22,371	23,654	21,732	19,534
Year-4 NII	20,650	21,655	23,567	21,717	19,518
Year-5 NII	19,845	21,001	23,590	22,568	20,520

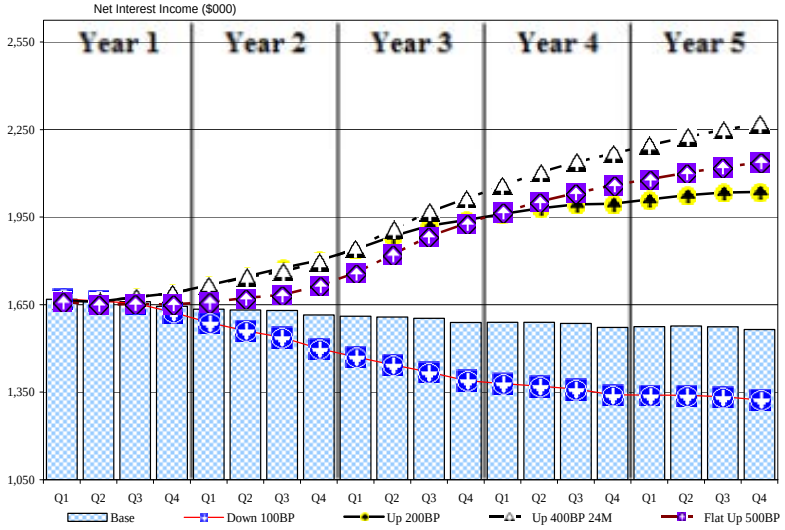
CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	1,545	1,519	1,023	1,023	902
Year-2 NII	1,477	1,524	655	167	-165
Year-3 NII	1,375	1,543	716	-148	-562
Year-4 NII	1,288	1,553	775	-38	-433
Year-5 NII	1,232	1,561	830	64	-316

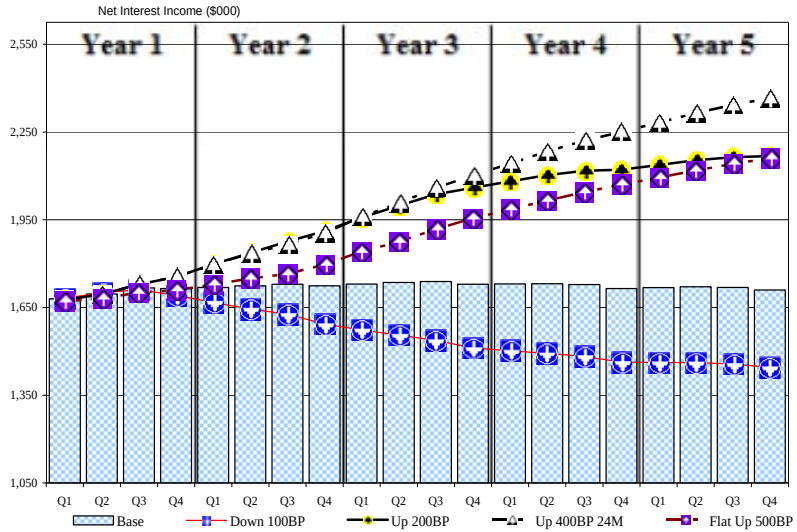
Portfolio 50% 15Y Residential Mortgages @ 3.25% & 50% Residential Mortgages @ 4.00%

CU #4: Extend Investments to "Increase" NII & Reduce IRR

Base Simulation as of 3/31/2011



Alternative Investment Assumption



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	6,612	6,634	6,688	6,688	6,613
Year-2 NII	6,187	6,510	7,040	7,017	6,729
Year-3 NII	5,724	6,410	7,584	7,730	7,392
Year-4 NII	5,452	6,337	7,931	8,466	8,061
Year-5 NII	5,337	6,289	8,106	8,939	8,441

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	6,784	6,807	6,854	6,854	6,763
Year-2 NII	6,533	6,896	7,421	7,400	7,038
Year-3 NII	6,179	6,933	8,052	8,127	7,588
Year-4 NII	5,941	6,905	8,422	8,795	8,115
Year-5 NII	5,825	6,867	8,622	9,304	8,514

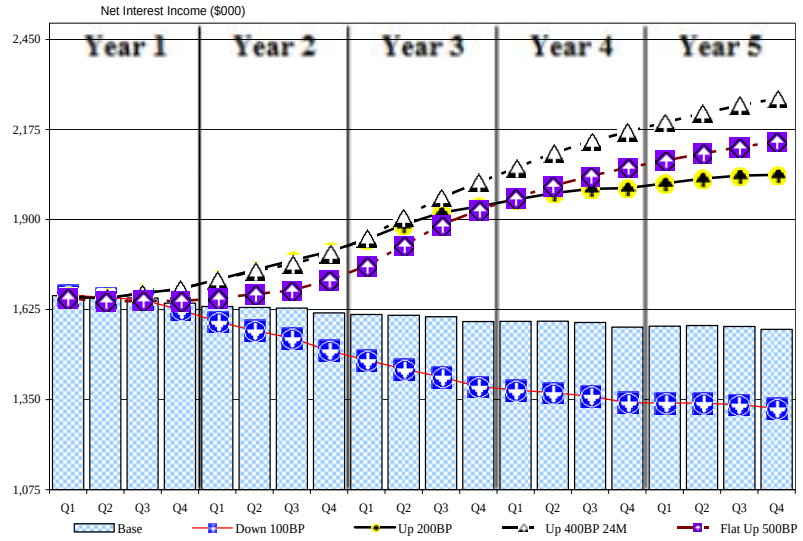
CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	172	173	166	166	151
Year-2 NII	345	386	381	383	309
Year-3 NII	455	524	468	397	197
Year-4 NII	489	568	492	329	54
Year-5 NII	488	578	516	365	73

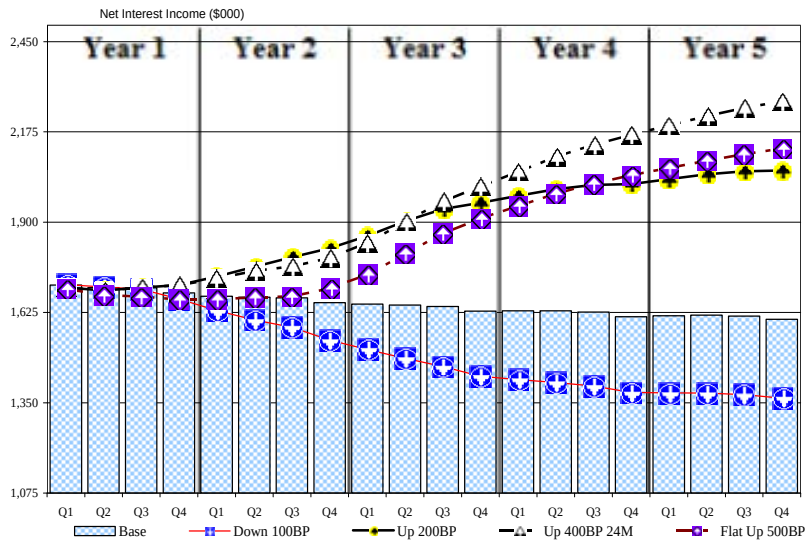
Reinvest all investment cash flow with 15 Year MBS at 3.01% (vs a mix of 18 Month Investment CDs, 2 Year Agencies, 10 Year MBS and 15 Year MBS).

CU #4 (Cont'd)…Cash Redeploy To Increase NII, Reduce IRR

Base Simulation as of 3/31/2011



Cash Redeploy



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	6,612	6,634	6,688	6,688	6,613
Year-2 NII	6,187	6,510	7,040	7,017	6,729
Year-3 NII	5,724	6,410	7,584	7,730	7,392
Year-4 NII	5,452	6,337	7,931	8,466	8,061
Year-5 NII	5,337	6,289	8,106	8,939	8,441

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	6,775	6,795	6,804	6,804	6,714
Year-2 NII	6,354	6,671	7,113	7,036	6,709
Year-3 NII	5,889	6,571	7,661	7,710	7,321
Year-4 NII	5,615	6,498	8,010	8,454	7,997
Year-5 NII	5,499	6,450	8,190	8,935	8,385

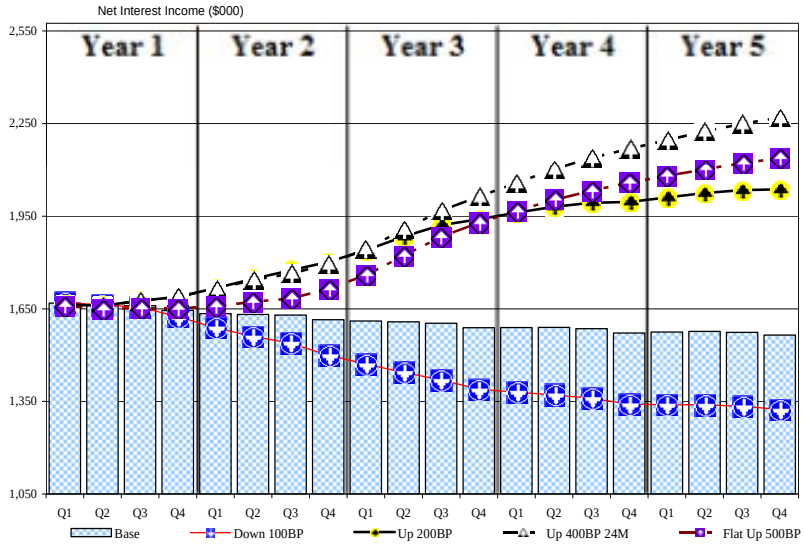
CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	163	161	116	116	102
Year-2 NII	167	161	73	19	-20
Year-3 NII	165	161	76	-20	-71
Year-4 NII	163	161	80	-12	-64
Year-5 NII	161	161	84	-4	-57

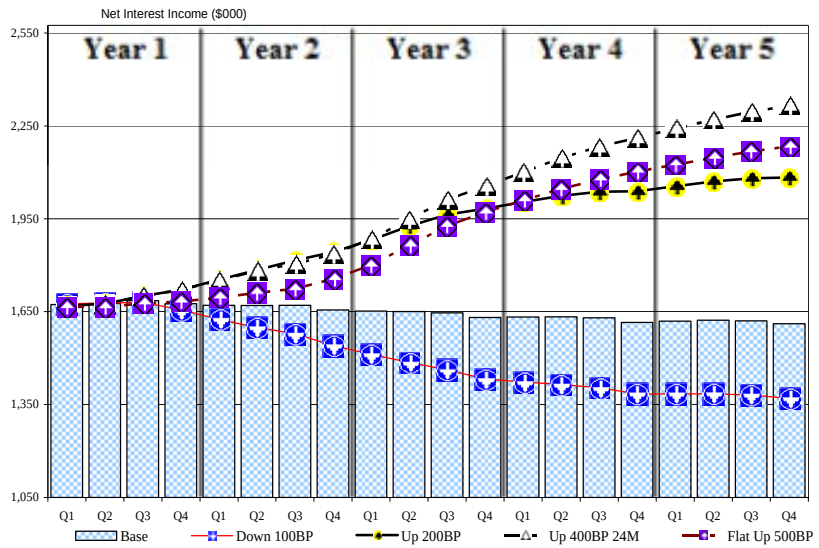
$5 million in overnight investments are extended into 20 year MBS @ 3.47%.

CU #4 (Cont'd) Cost of Funds Mgm't: Lower Deposit Rates to FHLB Curve

Base Simulation as of 3/31/2011



Deposit Rate Reduction



NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	6,612	6,634	6,688	6,688	6,613
Year-2 NII	6,187	6,510	7,040	7,017	6,729
Year-3 NII	5,724	6,410	7,584	7,730	7,392
Year-4 NII	5,452	6,337	7,931	8,466	8,061
Year-5 NII	5,337	6,289	8,106	8,939	8,441

NII SUMMARY

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	6,689	6,711	6,766	6,766	6,690
Year-2 NII	6,343	6,667	7,197	7,174	6,886
Year-3 NII	5,893	6,579	7,754	7,900	7,562
Year-4 NII	5,626	6,512	8,106	8,641	8,236
Year-5 NII	5,520	6,473	8,290	9,123	8,625

CHANGE / DIFFERENCE IN RESULTS

	Down 100BP	Base	Up 200BP	Up 400BP 24M	Flat Up 500BP
Year-1 NII	77	78	78	78	78
Year-2 NII	156	157	157	157	157
Year-3 NII	169	170	170	170	170
Year-4 NII	174	175	175	175	175
Year-5 NII	183	183	183	183	183

Reduce all CD rates 25bps immediately.

Capital

- Capital Plans Becoming the "Norm"
- Increasing Capital Ratio By Shrinking "Not" Generally the Best Thing To Do!
- Capital Management Is KEY

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Strategy Development: Taking Action in These Uncertain Times

…A Final Thought

Managing Regulatory Expectations

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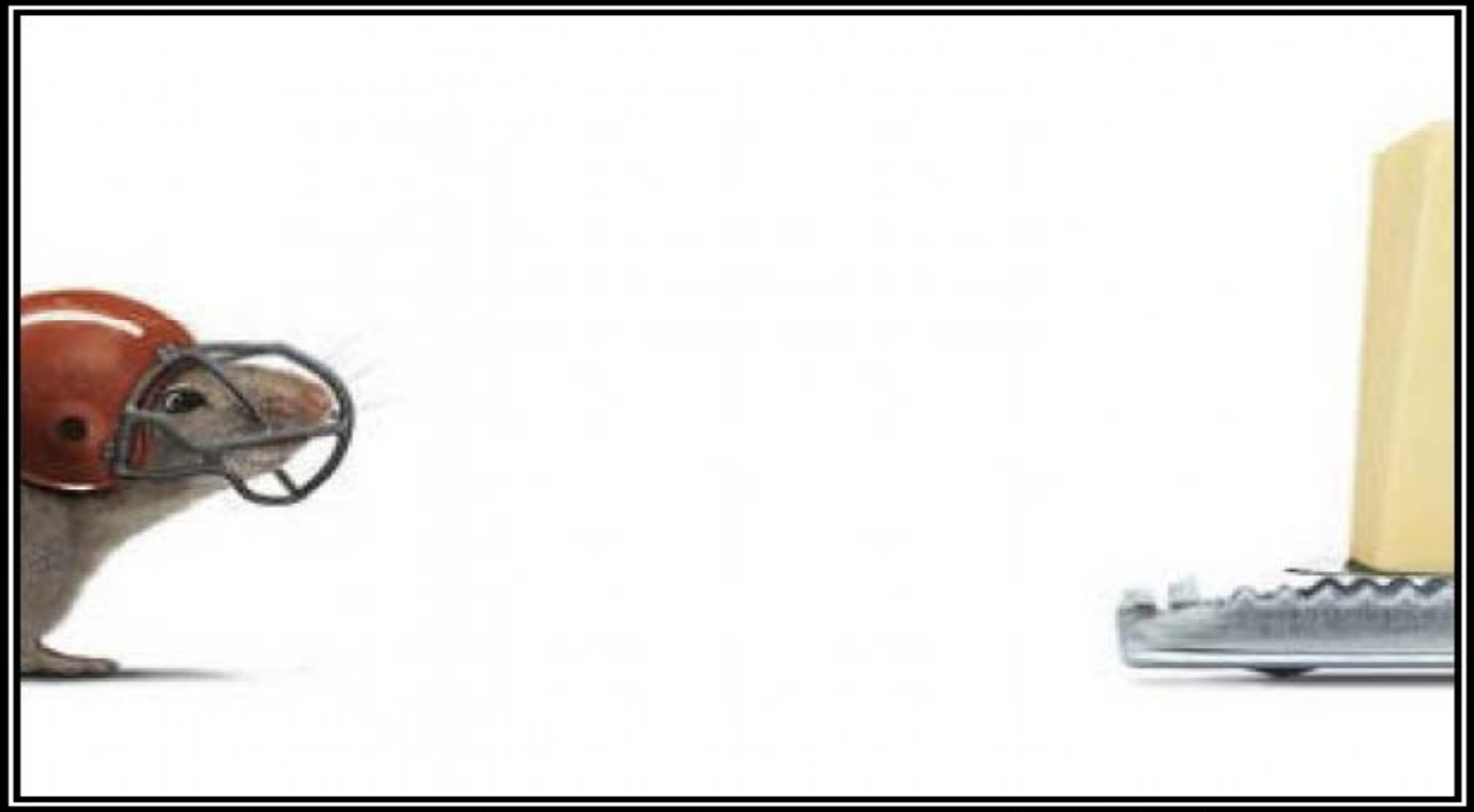
Managing Regulatory Expectations



Walk the Talk

Risk Management → Strategy Development → Better Performance

- Loan Pricing & Product
- Deposit Pricing & Product
- Investments
- Wholesale Funding
- Hedging Strategy
- Liquidity Management
- Capital Management