

# Report of Independent Auditors

To the Board of Directors and  
Supervisory Committee of  
Southwest Corporate Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of Southwest Corporate Federal Credit Union (Southwest Corporate) as of December 31, 2008 and 2007, and the related consolidated statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of Southwest Corporate's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Corporate as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As a result of Southwest Corporate's 2008 net loss, primarily due to losses related to its investment portfolio, and the resulting members' deficit at December 31, 2008, Southwest Corporate has not met certain regulatory requirements as described in Note 13 to the consolidated financial statements. Southwest Corporate has reported these matters to its regulator, the National Credit Union Administration (NCUA), and has received regulatory forbearance. Southwest Corporate's management has also initiated various action steps, which have been accepted by the NCUA. However, NCUA could impose future requirements on Southwest Corporate.

As discussed in Note 16 to the consolidated financial statements, the financial statements include investment securities valued at \$2,708,429,000 (31% of total assets) as of December 31, 2008, whose fair values have been estimated by management in the absence of readily determinable fair values.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2008, Southwest Corporate adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*.

*Crowe Horwath LLP*

Crowe Horwath LLP

Oak Brook, Illinois  
October 14, 2009

## Southwest Corporate Federal Credit Union Consolidated Statements of Financial Condition

December 31, (in thousands)	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 1,683,301	\$ 683,146
Overnight shares in U.S. Central	-	372,191
Trading account assets	26,982	30,143
Interest rate derivative assets	31,831	66,569
Investments available-for-sale	4,000,530	6,585,950
Investments held-to-maturity	71,921	10,034
Other investments	2,013,600	4,285,757
Loans to members (including loans at fair value of \$16,558)	815,248	595,889
Premises and equipment, net	22,296	22,043
Goodwill	2,568	2,263
Accrued receivables and other assets	27,879	59,620
<b>Total assets</b>	<b>\$ 8,696,156</b>	<b>\$ 12,713,605</b>
<b>Liabilities</b>		
Members' share accounts (including certificates at fair value of \$486,897)	\$ 9,421,658	\$ 11,713,471
Membership capital shares	393,898	389,903
Borrowed funds	-	450,000
Interest rate derivative liabilities	478	-
Accrued interest and other liabilities	48,548	95,221
<b>Total liabilities</b>	<b>9,864,582</b>	<b>12,648,595</b>
<b>Members' Equity (Deficit)</b>		
Paid-in capital	-	8,364
Retained earnings (deficit)	(367,016)	324,581
Accumulated other comprehensive loss	(801,410)	(267,935)
<b>Total members' equity (deficit)</b>	<b>(1,168,426)</b>	<b>65,010</b>
<b>Total liabilities and members' equity</b>	<b>\$ 8,696,156</b>	<b>\$ 12,713,605</b>

*The accompanying notes are an integral part of the consolidated financial statements*

## Southwest Corporate Federal Credit Union Consolidated Statements of Income (Loss) on Operations

Years Ended December 31, (in thousands)	2008	2007
<b>Interest income</b>		
Investments and trading account assets	\$ 355,275	\$ 629,777
Loans to members	22,711	32,566
<b>Total interest income</b>	<b>377,986</b>	<b>662,343</b>
<b>Cost of funds</b>		
Dividends on members' share accounts	282,465	583,828
Interest on borrowed funds	13,006	27,151
<b>Total cost of funds</b>	<b>295,471</b>	<b>610,979</b>
<b>Net interest income</b>	<b>82,515</b>	<b>51,364</b>
<b>Net loss on investments</b>		
Impairment of investment securities	(561,531)	(3,816)
Impairment of U.S. Central capital	(194,753)	-
Net gain (loss) on sale/redemption of investments	1,047	(125)
Net loss on trading account assets	(7,789)	(659)
Net gain on derivative transactions	326	1,678
<b>Total net loss on investments</b>	<b>(762,700)</b>	<b>(2,922)</b>
<b>Noninterest income</b>		
Share draft and depository processing fees	20,297	20,918
Other noninterest income	12,049	7,686
<b>Total noninterest income</b>	<b>32,346</b>	<b>28,604</b>
<b>Operating expense</b>		
Compensation and benefits	23,020	24,517
Information technology	6,277	6,205
Outside processing and service fees	5,579	7,097
Professional fees	2,810	2,311
Office occupancy	1,969	2,006
Other operating expense	4,417	4,119
<b>Total operating expense</b>	<b>44,072</b>	<b>46,255</b>
<b>Net (loss) income</b>	<b>(\$691,911)</b>	<b>\$ 30,791</b>

*The accompanying notes are an integral part of the consolidated financial statements*

## Southwest Corporate Federal Credit Union Consolidated Statements of Members' Equity (Deficit)

Years Ended December 31, 2008 and 2007 (in thousands)	Paid-In Capital Shares	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Members' Equity (Deficit)	Comprehensive (Loss) Income
<u>Balance at January 1, 2007</u>	\$8,364	\$294,284	(\$6,422)	\$296,226	
Net income		30,791		30,791	\$30,791
Other comprehensive loss			(261,513)	(261,513)	(261,513)
Dividends paid on paid-in capital shares		(494)		(494)	
<u>Comprehensive loss</u>					<u>(\$230,722)</u>
<u>Balance at December 31, 2007</u>	<u>\$8,364</u>	<u>\$324,581</u>	<u>(\$267,935)</u>	<u>\$65,010</u>	
Net loss		<b>(691,911)</b>		<b>(691,911)</b>	<b>(\$691,911)</b>
Redemption of paid-in capital	<b>(8,364)</b>			<b>(8,364)</b>	
Cumulative effect of adoption of the fair value option		<b>425</b>		<b>425</b>	
Other comprehensive loss			<b>(533,475)</b>	<b>(533,475)</b>	<b>(533,475)</b>
Dividends paid on paid-in capital shares		<b>(111)</b>		<b>(111)</b>	
<u>Comprehensive loss</u>					<u><b>(\$1,225,386)</b></u>
<u>Balance at December 31, 2008</u>	<u>\$ -</u>	<u><b>(\$367,016)</b></u>	<u><b>(\$801,410)</b></u>	<u><b>(\$1,168,426)</b></u>	

*The accompanying notes are an integral part of the consolidated financial statements*

## Southwest Corporate Federal Credit Union Consolidated Statements of Cash Flows

Years Ended December 31, (in thousands)	2008	2007
<b>Cash flows from operating activities</b>		
Net (loss) income	(\$691,911)	\$ 30,791
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	3,081	2,782
Loss on sale of premises and equipment	14	100
(Accretion) amortization of net discounts and premiums on investments	(1,740)	733
Impairment of investment securities	561,531	3,816
Impairment of U.S. Central capital	194,753	-
Net gain on redemption of U.S. Central certificates	(545)	(368)
Net loss on sale of investment securities	-	493
Net loss on trading account assets	7,789	659
Net unrealized gain on interest rate derivatives	(326)	(1,678)
Purchases of trading account assets	(5,128)	(50)
Redemptions of trading account assets	500	-
Net change in:		
Accrued receivables and other assets	31,741	3,804
Interest rate derivatives	22,525	(14,527)
Accrued interest and other liabilities	(46,673)	12,943
<b>Net cash provided by operating activities</b>	<b>75,611</b>	<b>39,498</b>
<b>Cash flows from investing activities</b>		
Net change in overnight shares in U.S. Central	372,191	1,250,717
Proceeds from maturities of investment securities	1,505,922	1,810,777
Proceeds from sales of investments available-for-sale	-	262,606
Purchases of investments held-to-maturity	(78,480)	(3,395,924)
Proceeds from redemption of other investments	262,896	100,613
Net change in other investments	1,815,562	(766,905)
Net change in loans to members	(194,878)	94,511
Proceeds from sale of premises and equipment	15	173
Purchases of premises and equipment	(3,363)	(1,904)
Purchase of additional units of Credit Union Business Group	(600)	-
<b>Net cash provided by (used in) investing activities</b>	<b>3,679,265</b>	<b>(645,336)</b>
<b>Cash flows from financing activities</b>		
Net (decrease) increase in members' share accounts	(2,300,241)	818,841
Net increase in membership capital shares	3,995	5,440
Net decrease in borrowed funds	(450,000)	(376,000)
Redemption of paid-in capital shares	(8,364)	-
Dividends paid on paid-in capital shares	(111)	(494)
<b>Net cash (used in) provided by financing activities</b>	<b>(2,754,721)</b>	<b>447,787</b>
Net increase (decrease) in cash and cash equivalents	1,000,155	(158,051)
<b>Cash and cash equivalents at beginning of year</b>	<b>683,146</b>	<b>841,197</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,683,301</b>	<b>\$ 683,146</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for:		
Interest	\$ 13,476	\$ 27,668
Dividends on members' share accounts	\$ 323,382	\$ 576,393
Non-cash activities:		
U.S. Central members' capital shares converted to paid-in capital II shares	\$67,500	\$-
Stock dividend from Federal Home Loan Bank of Dallas	\$ 1,397	\$ 1,668
Transfer to trading account assets	\$ -	\$ 30,606
Co-op dividend	\$ 270	\$ 248

*The accompanying notes are an integral part of the consolidated financial statements*

# Notes to Financial Statements

## 1. ORGANIZATION

Southwest Corporate Federal Credit Union (Southwest Corporate) is a federally chartered corporate credit union whose principal activity is to provide investment, credit, payment, and correspondent services to its members. Southwest Corporate's members can include federal and state-chartered credit unions, and other credit union organizations throughout the United States.

These consolidated financial statements give retroactive effect to the 2007 merger of Southwest Corporate and Northwest Corporate Federal Credit Union (Northwest Corporate) accounted for by the pooling of interest method as discussed in Note 3.

Southwest Corporate is one of 26 corporate credit unions established to provide services to member credit unions throughout the United States. Southwest Corporate and the other corporate credit unions are members in U.S. Central Credit Union (U.S. Central), a wholesale corporate credit union established to provide products and services to corporate credit unions. U.S. Central and its member corporate credit unions are collectively known as the Corporate Credit Union Network.

Southwest Corporate derives its authority to operate from the United States federal government under the Federal Credit Union Act (the Act). The National Credit Union Administration (NCUA) serves as the regulatory agency responsible for enforcement of the Act. Pursuant to Section 122 of the Act, Southwest Corporate is exempt from payment of federal and state income taxes.

CUSOURCE, LLC (CUSOURCE) is a wholly-owned subsidiary of Southwest Corporate which provides investment advisory and asset-liability management services to credit unions on a nationwide basis. CUSOURCE does business under the name "Southwest Corporate Investment Services". As a single member limited liability company, CUSOURCE is not subject to federal and state income taxes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Consolidation*

The consolidated financial statements include the accounts of Southwest Corporate and CUSOURCE. All significant intercompany balances and transactions have been eliminated.

### *Cash and cash equivalents*

Cash on deposit, cash items in the process of collection, amounts due from correspondent banks and the Federal Reserve Bank, and federal funds sold are included in cash and cash equivalents in the consolidated statements of financial condition.

### ***Financial instruments and concentrations of credit risk***

Financial instruments that potentially subject Southwest Corporate to concentrations of credit risk consist of investment securities, U.S. Central share and certificate accounts, and securities purchased (sold) under agreements to resell (repurchase). Southwest Corporate's residential mortgage-backed and home equity asset-backed securities were originally highly rated classes and are senior to the subordinate classes. These securities have experienced downgrades during the past year due to the deterioration in collateral performance. Southwest Corporate invests in highly rated domestic corporations and uses nationally recognized broker/dealers in the execution of trades of financial instruments. Southwest Corporate mitigates risks related to these concentrations through evaluation of the creditworthiness of its business counterparties. Risk is managed by ensuring that market counterparties are institutions of high credit quality at the date of purchase, and that appropriate levels of collateral are maintained, if necessary.

### ***Interest rate derivatives***

The fair values of all interest rate derivatives are recognized in the consolidated statements of financial condition as an asset or a liability at fair value. Interest rate derivatives may be designated as fair value hedges, cash flow hedges, or not designated as a hedge. Gains and losses on derivatives designated as fair value hedges are reported in income along with the related gains and losses of hedged financial instruments. Gains and losses on derivatives designated as cash flow hedges, to the extent effective, are reported as a component of accumulated other comprehensive income (loss). Gains and losses on derivatives not designated as hedges are reported in income.

Interest rate swap gains and losses, and related accrued interest receivable and payable, are netted per counterparty in accordance with FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts". An interest rate derivative asset (or liability) is recognized when the net result for an individual counterparty is an asset (or a liability). In accordance with FASB Interpretation No. 39-1, "Amendment of FASB Interpretation No. 39", any cash collateral receivables or payables are also offset against net derivative positions.

Interest income and expense on swaps designated as hedges are recorded in income in conjunction with the income or expense of the hedged financial instrument.

Southwest Corporate formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities or to specific firm commitments or forecasted transactions. Southwest Corporate also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. Southwest Corporate discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, or treatment of the derivative as a hedge is no longer appropriate or intended. Southwest Corporate does not use interest rate derivatives for trading purposes.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as net gain (loss) on derivative transactions in the consolidated statements of income (loss) on operations. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income (loss) are amortized into earnings over the same periods which the hedged transactions will affect earnings.

### ***Investments***

Southwest Corporate classifies investment securities in three categories: held-to-maturity, trading, and available-for-sale. Southwest Corporate evaluates the application of EITF Issue No. 99-20 “Recognition of Interest Income and Impairment on Purchased Beneficial Interest That Continue to Be Held by a Transferor in Securitized Financial Assets” at acquisition.

Held-to-maturity securities are debt securities that Southwest Corporate has the positive intent and ability to hold to maturity. These securities are reported at amortized cost.

Trading securities are debt securities that are bought and held for the purpose of selling them in the near term. These securities are reported at their fair values. Unrealized gains and losses on trading securities are recognized in net gain (loss) on trading account assets in the consolidated statements of income (loss) on operations.

Available-for-sale securities are debt securities not classified as either held-to-maturity or trading securities and are reported at fair value. Net unrealized holding gains and losses on investments available-for-sale (AFS) are reported as a component of accumulated other comprehensive income (loss). Realized gains and losses from the sale of available-for-sale securities, as determined on a specific-identification basis, are reclassified from other comprehensive income (loss) and included in net gain (loss) on investment securities in the consolidated statements of income (loss) on operations. Accreted discounts and amortized premiums of investments available-for-sale are included in interest income on investments on the level yield method.

In accordance with FASB Staff Position (FSP) 115-1 and FAS 124-1, investments available-for-sale and held-to-maturity securities are evaluated to determine if a decline in fair value below the amortized cost is other-than-temporary (OTTI). To determine whether the impairment is other-than-temporary, Southwest Corporate considers whether it has the ability and intent to hold the investment until a price recovery and whether it will be unable to collect all amounts due according to the contractual terms of the investment. Southwest Corporate also considers the reasons for the impairment and the severity and duration of the impairment. The evaluation includes an analysis of the underlying collateral relative to its credit enhancements using techniques that require assumptions about future loss severity, default, prepayment, and other borrower behavior. If the impairment is determined to be other-than-temporary, the cost basis of the security would be written down to fair value as a new cost basis and the amount of the impairment would be included in earnings.

### ***Other investments***

Southwest Corporate maintains other investments, primarily with U.S. Central, Federal Home Loan Bank of Dallas (FHLB), and various investments in credit union service organizations (CUSO's), which are included in other investments. Such investments are generally carried at cost, with the exception of certain investments in CUSO's, which are accounted for using the equity method of accounting.

Southwest Corporate is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

### ***Loans to members***

Loans to members are stated at the current principal amount outstanding. Interest on loans is accrued daily based upon the amount of principal outstanding. Southwest Corporate has not recorded an allowance for loan losses as the loans are generally short term and secured by members' deposits and other assets.

### ***Premises and equipment***

Land is carried at cost. Premises, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation is charged to expense on a straight-line basis over the estimated useful lives of the assets. The building is depreciated over forty years. Leasehold improvements are amortized over the lives of the associated leases or the life of the asset, whichever is shorter. Information technology assets are depreciated from three to ten years based on their estimated useful lives. Furniture and other equipment are depreciated based on estimated useful lives of five to fifteen years.

### ***Goodwill***

The carrying value of goodwill is tested at least annually for impairment, and any impairment is recognized in the period identified. Southwest Corporate purchased 15.5 percent additional ownership in Credit Union Business Group (CUBG) in 2008 resulting in \$305,000 of goodwill recognition.

### ***Share insurance fund***

NCUA regulations require that a capitalization deposit be placed in the National Credit Union Share Insurance Fund (NCUSIF) equaling one percent of shares insured through the NCUSIF. The deposit amount is calculated on a semi-annual basis. Each credit union's share balance at Southwest Corporate is insured by the NCUSIF up to \$250,000 in 2008 and \$100,000 in 2007. Southwest Corporate has voluntarily agreed to the conditions of the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) and, as such, members' shares are guaranteed through September 30, 2011. The NCUA approved an extension of the expiration of the TCCUSGP from September 30, 2011 to December 31, 2011. If it exercises the option at the end of each quarter through that time, any share certificate issued prior to December 31, 2012, would be guaranteed until 1) the end of that certificate's term or 2) until December 31, 2014, whichever comes first. NCUA announced that due to the cost of the Corporate Stabilization Program, the

NCUSIF was impaired by 69 percent. NCUA also announced that a premium assessment of 0.30 percent would be charged to bring the fund to 1.30 percent of insured shares. In March 2009, Southwest Corporate recorded an impairment of \$889,000 on the NCUSIF and accrued \$387,000 as a contingent liability for the anticipated premium assessment. In June 2009, NCUA announced the creation of the Temporary Corporate Credit Union Stabilization Fund to mitigate near-term corporate stabilization costs and improve the NCUSIF's equity ratio. The actions taken resulted in a fully restored and fully refundable NCUSIF capitalization deposit. NCUA also announced that the expected premium of insured shares would be reduced from 0.30 percent of insured shares to 0.15 percent. As a result of these actions, Southwest Corporate recorded income of \$889,000 in June 2009. Also, in June 2009, Southwest Corporate increased the contingent liability for the premium assessment by \$41,000 as the insured share calculation was based on \$250,000 instead of \$100,000 per member as originally assessed.

### ***Membership capital shares***

Membership capital shares are funds contributed by members that: are adjustable balances with a minimum withdrawal notice of three years; are available to cover losses that exceed retained earnings; are not insured by the NCUSIF; and cannot be pledged against borrowings. Investment in membership capital shares is optional. Investing members are entitled to higher dividend rates on certain share accounts and lower fees on certain services. Membership capital shares can be withdrawn at the option of the investing credit union after the expiration of a three-year notice period. In the event of liquidation, the claims of secured and unsecured creditors of Southwest Corporate have priority over all shares held by members, and membership capital shares are subordinate to all other shares of Southwest Corporate.

### ***Loss contingencies***

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

### ***Comprehensive income (loss)***

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges which are also recognized as separate components of equity.

### ***Fair value of financial instruments***

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

### ***Loan commitments and related financial instruments***

Southwest Corporate issues lines of credit to its members that are both uncommitted or "stand-by" and committed or "guaranteed." The vast majority of lines of credit issued by Southwest Corporate are uncommitted in that through provisions in its loan agreements, Southwest

Corporate is in no way obligated or committed to make any loan advances under these “stand-by” lines of credit. Approximately 99 percent of these “stand-by” lines of credit are secured lines of credit. Committed lines of credit at Southwest Corporate are called Guaranteed Lines of Credit. Southwest Corporate is committed by provisions of the loan agreement to advance this entire line of credit amount. Southwest Corporate issues letters of credit to its members in various amounts for various purposes. When a letter of credit is issued for a member, the amount of the letter of credit is subtracted from the member’s line of credit. The face amount of the lines of credit represents the exposure to loss, before considering member collateral or ability to repay. Such line of credit amounts are recorded when they are funded.

### ***Use of estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The fair values of financial instruments and the assessment of other-than-temporary impairment on securities and other investments are particularly subject to change. Specifically, management has recorded significant adjustments related to fair values and in the assessment of other-than-temporary impairment of investments based on modeling assumptions from third-party providers. Estimates of future impairment are highly dependent upon assumptions used in the models, and other-than-temporary impairment incurred could be materially higher or lower than the recorded estimates.

### ***Reclassification***

Certain amounts in the 2007 financial statements have been reclassified to conform with the 2008 presentation. These reclassifications had no effect on total assets, members’ equity or net income.

### ***Regulatory Pronouncements***

In January 2009, the NCUA issued an Advance Notice of Proposed Rulemaking (“ANPR”) which seeks to solicit comments and input from credit unions as to the future role of corporate credit unions in the credit union system. Specifically, the NCUA requests comments from credit unions in the areas of payments systems, liquidity and liquidity management, field of membership issues, expanded investment authority, two-tiered corporate credit union structure, capitalization, permissible investments, credit risk management, asset/liability management and corporate governance. The deadline for comments to be received by the NCUA was April 6, 2009. It is not clear at this time what impact, if any, regulatory changes that may be made as a result of this ANPR might have on the corporate credit union system, in general, and Southwest Corporate specifically.

### ***Adoption of new accounting pronouncements***

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, “Fair Value Measurements” (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The

standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, "Effective Date of FASB Statement No. 157". This FSP delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material. In October 2008, the FASB issued Staff Position (FSP) 157-3, "Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active". This FSP clarifies the application of SFAS 157 in a market that is not active. The impact of adoption was not material.

In February 2007, the FASB issued Statement No.159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for Southwest Corporate on January 1, 2008. As of January 1, 2008, Southwest Corporate de-designated certain hedges and elected the fair value option on the related hedged items. The effect of the adoption is described in Note 5.

***Effect of newly issued but not yet effective accounting pronouncements***

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133". FAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. FAS No. 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard is not expected to have a material effect on Southwest Corporate's results of operations or financial position.

In April 2009, the FASB issued Staff Position (FSP) No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amends existing guidance for determining whether impairment is other-than-temporary for debt securities. The FSP requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (loss). Additionally, the FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Southwest Corporate elected to adopt this FSP for the month ended March 31, 2009. The impact of adopting this FSP was recorded as a cumulative effect

adjustment to retained earnings as of March 1, 2009. The effect of the adoption is described in Note 19.

In April 2009, the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The FSP provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The FSP also requires increased disclosures. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Southwest Corporate elected to adopt this FSP for the month ended March 31, 2009. The adoption of this standard did not have a material effect on Southwest Corporate's results of operation or financial position.

### 3. BUSINESS COMBINATION

On December 1, 2007, Northwest Corporate was merged into Southwest Corporate. The merger was accounted for as a pooling of interests, and accordingly, the consolidated statements of financial condition and income (loss) on operations of both institutions were combined as of the merger date. Under a pooling of interests, the combined results of operations of the separate entities are reported for periods prior to the merger date, and the results of operations of the merged entity are reported for periods after the merger date. Therefore, Southwest Corporate's financial statements have been combined to include the results of operations of Northwest Corporate for all periods presented.

Combined and separate results of operations of Southwest Corporate and Northwest Corporate during the periods preceding the merger were as follows (in thousands):

	<u>Eleven Months Ended November 30, 2007</u>		
	Southwest Corporate	Northwest Corporate	Combined
Net interest income	<b>\$40,198</b>	<b>\$5,056</b>	<b>\$45,254</b>
Noninterest income	<b>19,979</b>	<b>4,174</b>	<b>24,153</b>
<u>Operating expense</u>	<b><u>33,873</u></b>	<b><u>7,985</u></b>	<b><u>41,858</u></b>
<u>Net income</u>	<b><u>\$26,304</u></b>	<b><u>\$1,245</u></b>	<b><u>\$27,549</u></b>

All merger costs, primarily consisting of professional fees, personnel costs and integration costs have been expensed as incurred.

#### 4. CASH AND CASH EQUIVALENTS

Southwest Corporate maintained an average required clearing balance with the Federal Reserve Bank of \$2,000,000 for the years ended December 31, 2008 and 2007. These are required clearing balances and may not be withdrawn; however, Southwest Corporate may use earnings credits on these balances to pay for services received from the Federal Reserve Bank. Beginning in December 2008, Southwest Corporate has elected to voluntarily post reserves at the Federal Reserve Bank of Dallas. Southwest Corporate's required reserve requirement at December 31, 2008 is \$389,898,000.

Southwest Corporate acts as a pass-through correspondent for member credit unions that are required to deposit reserves with the Federal Reserve Bank. Cash and cash equivalents include pass-through reserves deposited with the Federal Reserve Bank of \$22,519,000 and \$8,329,000 at December 31, 2008 and 2007, respectively. Member credit unions' reserve balances are included in members' share accounts in the consolidated statements of financial condition. Cash on deposit, cash items in the process of collection from correspondent banks and the Federal Reserve Bank, and federal funds sold are included in cash and cash equivalents in the consolidated statements of financial condition. Cash items in the process of collection totaled \$1,171,856,000 and \$665,316,000 at December 31, 2008 and 2007, respectively.

#### 5. INTEREST RATE DERIVATIVES

Interest rate derivatives at December 31, 2008 and 2007 are comprised of interest rate swap agreements. The impact of netting interest rate swap gains and losses, interest and cash collateral receivable and payable, per counterparty at December 31 is summarized in the following table (in thousands):

<b>Interest rate derivative assets</b>	<b>2008</b>	2007
Interest rate swap gains	<b>\$48,135</b>	\$36,899
Interest rate swap losses	<b>38,424</b>	15,577
Net interest rate swap gains	<b>9,711</b>	21,322
Interest receivable	<b>22,394</b>	68,316
Interest payable	<b>7,099</b>	23,069
Cash collateral pledged	<b>6,825</b>	-
Net interest receivable	<b>22,120</b>	45,247
Interest rate derivative assets	<b>\$31,831</b>	\$66,569

<b>Interest rate derivative liabilities</b>	<b>2008</b>	2007
Interest rate swap gains	\$-	\$-
Interest rate swap losses	466	-
Net interest rate swap losses	466	-
Interest receivable	49	-
Interest payable	61	-
Net interest payable	12	-
Interest rate derivative liabilities	\$478	\$-

A net unrealized gain of \$326,000 and \$1,678,000 on derivative transactions is recognized within net gain on derivative transactions in the consolidated statements of income (loss) on operations for the years ended December 31, 2008 and 2007, respectively. Net unrealized gains or losses recognized in the consolidated statements of income (loss) on operations pertain to interest rate swaps that are not designated as hedges and the ineffective portion of hedges.

A summary of Southwest Corporate's outstanding hedging activity per SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) at December 31 is included in the following table (in thousands):

	<b>2008</b>	2007
	<b>Notional Amount</b>	Notional Amount
Fair value hedges	\$ 2,210,454	\$ 4,788,988
Cash flow hedges	218,113	935,712
No hedge designation	181,265	101,304
Total	\$ 2,609,832	\$ 5,826,004

Fair value and cash flow hedges are comprised of interest rate swap agreements in which Southwest Corporate pays a floating rate and receives a fixed rate in return, or pays fixed and receives floating. Southwest Corporate utilizes swap agreements to manage interest rate risk. The fair value hedges consist of swaps that hedge the exposure to changes in the fair values of Southwest Corporate share certificates, investment securities, certificates in U.S. Central or member term loans. The cash flow hedges consist of swaps that hedge the variability of expected future interest payments on floating rate investments.

At December 31, 2008 Southwest Corporate has a receivable of \$2,531,000 from Lehman Brothers Special Financing resulting from swap transactions that were outstanding at September 15, 2008. These swaps have been terminated and a claim has been filed with Lehman Brothers Special Financing. The bankruptcy Court issued an order on December 16, 2008 authorizing

Lehman Brothers Special Financing to settle claims that relate to prepetition derivative contracts. The settlement of these claims will be handled separately from the core bankruptcy proceedings.

In the event of counterparty default, credit risk on interest rate swap transactions is limited to the balance of interest rate derivative assets. Southwest Corporate manages credit risk arising from interest rate swap transactions through credit approval procedures that include specific limits for individual counterparties, and ongoing monitoring procedures to measure outstanding swap exposure against the established limits. Southwest Corporate's policies require swap transactions to be executed with counterparties that possess a credit rating of A- or better. Credit risk is further mitigated by contractual arrangements with each of Southwest Corporate's counterparties that provide for the netting of replacement cost gains and losses and accrued interest receivable and payable on multiple swap transactions with the same counterparty. Southwest Corporate pledged cash of \$6,825,000 as collateral at December 31, 2008. Swap counterparties pledged securities with a fair value of \$8,223,000 as collateral at December 31, 2007. In accordance with the provisions of FSP FIN 39-1, Southwest Corporate offset cash collateral receivables of \$6,825,000 against net derivative liability positions at December 31, 2008.

***Fair Value Option***

On January 1, 2008, Southwest Corporate elected to carry at fair value certain member share certificates, U.S. Central certificates, and member term loans which had previously been designated fair value hedges using receive fixed/pay floating interest rate swaps, pursuant to the provisions of SFAS 133. This population included hedges that do not qualify for the short cut method under SFAS 133. Southwest Corporate elected SFAS 159 on these financial instruments in order to align the accounting for these instruments with the accounting for the derivatives without having to account for these transactions under hedge accounting. As of December 31, 2008 Southwest Corporate's outstanding hedging activity for which SFAS 159 was elected consists of fair value hedges with a notional of \$600,745,000.

The following table summarizes the impact of adopting the fair value option for certain eligible instruments on January 1, 2008. Amounts shown represent the carrying value of the affected instruments before and after the changes in accounting resulting from the adoption of SFAS 159 (in thousands).

	Balance Sheet 1/1/08 Prior to Adoption	Net Gain/(Loss) to Retained Earnings Upon Adoption	Balance Sheet 1/1/08 After Adoption of Fair Value Option
<b>Assets:</b>			
Other investments	\$24,997	\$7	\$25,004
Loans to members	30,253	57	30,310
<b>Liabilities:</b>			
Share certificates	1,490,045	361	1,489,684
Cumulative effect of adoption of the fair value option		425	

The following table presents the amount of gains and (losses) from changes in fair value for items measured at fair value pursuant to the fair value option election for the year ended December 31, 2008 (in thousands.)

	Other Gains and (Losses)	Total Changes in Fair Value Included in Current Period Earnings
<b>Assets:</b>		
Other investments	<b>(\$4)</b>	<b>(\$4)</b>
Loans to members	<b>1,248</b>	<b>1,248</b>
<b>Liabilities:</b>		
Share certificates	<b>(\$130)</b>	<b>(\$130)</b>

The total changes in fair value included in current period earnings are included within net gain on derivative transactions within the consolidated statement of income (loss) on operations for the year ended December 31, 2008.

## 6. INVESTMENTS AVAILABLE-FOR-SALE

The estimated fair value of investments available-for-sale at December 31 is as follows (in thousands):

	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
<b>2008</b>			
Mortgage-backed securities	<b>\$1,698,244</b>	<b>\$3,768</b>	<b>\$380,345</b>
Asset-backed securities - home equity	<b>1,156,494</b>	<b>79</b>	<b>312,029</b>
Asset-backed securities – other	<b>692,003</b>	<b>-</b>	<b>91,578</b>
Corporate bonds	<b>453,789</b>	<b>-</b>	<b>30,986</b>
<b>Total</b>	<b>\$ 4,000,530</b>	<b>\$3,847</b>	<b>\$814,938</b>

	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
<b>2007</b>			
Mortgage-backed securities	\$2,793,988	\$2,345	\$84,154
Asset-backed securities - home equity	1,861,187	-	178,550
Asset-backed securities – other	1,331,439	912	8,379
Corporate bonds	599,336	23	6,987
<b>Total</b>	<b>\$ 6,585,950</b>	<b>\$3,280</b>	<b>\$ 278,070</b>

There were no sales of investments available-for-sale for the year ended December 31, 2008. Sales of investments available-for-sale for the year ended December 31, 2007 consisted of proceeds of \$262,606,000, gross gains of \$275,000 and gross losses of \$768,000.

The estimated fair value of investments available-for-sale at December 31, 2008 is shown below by maturity (in thousands). Because mortgage-backed and asset-backed securities are not due at a single maturity date and the structure of these securities may include the right to prepay obligations with or without pre-payment penalties, these securities are included in the table below based on their weighted average estimated lives. All other investments are included in the table below based on contractual maturity.

	Estimated Fair Value
Due in one year or less	<b>\$1,148,357</b>
After one year through five years	<b>2,723,759</b>
Five to ten years	<b>125,848</b>
Thereafter	<b>2,566</b>
<b>Total</b>	<b>\$4,000,530</b>

Certain investments available-for-sale are pledged as collateral to secure borrowings and clearing activities. The carrying value of pledged securities was \$4,877,000 and \$504,938,000 at December 31, 2008 and 2007, respectively.

The following tables summarize investments available-for-sale with unrealized losses as of December 31, 2008 and December 31, 2007 (in thousands). The investments are presented by investment category and the length of time that individual securities have been in a continuous unrealized loss position.

2008	Continuous unrealized loss position less than 12 months		Continuous unrealized loss position 12 months or greater		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	Mortgage-backed securities	<b>\$361,492</b>	<b>\$145,912</b>	<b>\$678,252</b>	<b>\$234,433</b>	<b>\$1,039,744</b>
Asset-backed securities-home equity	-	-	<b>822,718</b>	<b>312,029</b>	<b>822,718</b>	<b>312,029</b>
Asset-backed securities-other	<b>125,801</b>	<b>9,201</b>	<b>566,202</b>	<b>82,377</b>	<b>692,003</b>	<b>91,578</b>
Corporate bonds	<b>33,681</b>	<b>749</b>	<b>410,207</b>	<b>30,237</b>	<b>443,888</b>	<b>30,986</b>
<b>Total</b>	<b>\$520,974</b>	<b>\$155,862</b>	<b>\$2,477,379</b>	<b>\$659,076</b>	<b>\$2,998,353</b>	<b>\$814,938</b>

2007	Continuous unrealized loss position less than 12 months		Continuous unrealized loss position 12 months or greater		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	Mortgage-backed securities	\$2,070,949	\$75,311	\$423,270	\$8,843	\$2,494,219
Asset-backed securities-home equity	1,684,685	160,605	171,858	17,945	1,856,543	178,550
Asset-backed securities-other	731,945	7,449	52,161	930	784,106	8,379
Corporate bonds	532,208	6,887	14,900	100	547,108	6,987
<b>Total</b>	<b>\$5,019,787</b>	<b>\$250,252</b>	<b>\$662,189</b>	<b>\$27,818</b>	<b>\$5,681,976</b>	<b>\$278,070</b>

The total number of investments available-for-sale in an unrealized loss position at December 31, 2008 and December 31, 2007, respectively, was 467 out of a total of 625 available-for-sale

securities held by Southwest Corporate and 667 out of a total of 761 available-for-sale securities held by Southwest Corporate, after other-than-temporary impairments. Southwest Corporate believes the decline in fair values recorded as unrealized losses are primarily attributable to the deterioration of liquidity and larger risk premiums in the market, consistent with the broader credit markets, and are not a result of the performance of the underlying collateral or credit quality supporting the securities.

Southwest Corporate records an other-than-temporary impairment when it is determined that the security will not recover to cost prior to maturity. Southwest Corporate is basing this determination on a third party review of all residential mortgage-backed securities. The third party provides a base case estimate of projected credit losses. Southwest Corporate recorded other-than-temporary impairment on securities which the third party reported a credit loss. The other-than-temporary impairment is recorded to the fair value at the impairment date in accordance with SFAS 115. As of December 31, 2008, Southwest Corporate has recorded other-than-temporary impairment charges of \$521,936,000 related to residential mortgage-backed securities. Except for one residential mortgage-backed security which an other-than-temporary impairment charge was recorded in 2007, all other residential mortgage-backed securities are still performing.

In addition, Southwest Corporate has also recorded other-than-temporary impairment charges of \$39,595,000 on \$49,500,000 of senior debt holdings in Lehman Brothers. The impairment charges represent a 20 percent recovery estimate on these holdings. The recovery estimate is subject to further change based on bankruptcy proceedings.

A portion of Southwest Corporate's residential mortgage-backed securities also have insurance coverage to further support the senior classes in the event of deteriorating collateral performance. The insurance coverage provided by the monoline insurers increases the existing credit enhancement provided to the senior class owned by Southwest Corporate. The New York Insurance Department announced that Syncora Guarantee Inc. will suspend claim payments effective April 29, 2009, unless it successfully commutes a portion of its guarantee obligations and restores its minimum regulatory surplus by May 29, 2009. As a result, Southwest Corporate recorded other-than-temporary impairments on securities which were dependent upon Syncora Guarantee Inc. Management has also concluded that it is unlikely that FGIC will pay all future principal and interest claims; as a result, other-than-temporary impairments were recorded on all securities which were dependent on FGIC for the payment of future principal and interest claims. Even though FGIC is timely paying 100 percent of all principal and interest claims, all three rating agencies have withdrawn external ratings for FGIC. Southwest Corporate has placed reliance on FSA, Ambac, and MBIA. These three insurers are also currently paying principal and interest claims timely. Management currently believes that they will continue to pay future claims. Further deterioration of these monoline insurers could result in additional other-than-temporary impairments.

The following table details the exposure to each monoline insurer for non-agency residential mortgage-backed securities at December 31, 2008 (in thousands):

	Par Value	Amortized Cost	Fair Value
Ambac	<b>\$264,388</b>	<b>\$264,431</b>	<b>\$167,361</b>
MBIA	<b>163,330</b>	<b>163,357</b>	<b>103,491</b>
FGIC	<b>152,046</b>	<b>96,069</b>	<b>90,971</b>
FSA	<b>70,629</b>	<b>70,630</b>	<b>42,838</b>
Syncora Guarantee	<b>7,542</b>	<b>3,653</b>	<b>3,653</b>
<b>Total</b>	<b>\$657,935</b>	<b>\$598,140</b>	<b>\$408,314</b>

Other-than-temporary impairment charges are recorded within impairment of investment securities in the consolidated statement of income (loss) on operations.

Southwest Corporate has the intent and ability to hold its existing portfolio of available-for-sale securities and does not plan to sell the securities into the current distressed market and realize the current unrealized losses as the economic value of holding the securities to recovery or maturity is believed to be significantly greater than the current market prices.

## 7. INVESTMENTS HELD-TO-MATURITY

The amortized cost and estimated fair value of investments held-to-maturity at December 31, is as follows (in thousands):

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	<b>\$21,918</b>	<b>\$ -</b>	<b>\$ 169</b>	<b>\$21,749</b>
Asset-backed securities-home equity	<b>19</b>	<b>-</b>	<b>11</b>	<b>8</b>
Asset-backed securities-other	<b>49,984</b>	<b>-</b>	<b>921</b>	<b>49,063</b>
<b>Total</b>	<b>\$71,921</b>	<b>\$ -</b>	<b>\$ 1,101</b>	<b>\$70,820</b>

2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	\$ 7	\$ -	\$ -	\$ 7
Asset-backed securities-home equity	27	-	1	26
Other investments	10,000	-	-	10,000
<b>Total</b>	<b>\$10,034</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$10,033</b>

The amortized cost of investments held-to-maturity at December 31, 2008 is shown below by maturity (in thousands). Because mortgage-backed and asset-backed securities are not due at a single maturity date and the structure of these securities may include the right to prepay obligations with or without pre-payment penalties, these securities are included in the table below based on their weighted average estimated lives.

	Amortized Cost
Due in one year or less	<b>\$60,382</b>
After one year through five years	<b>11,539</b>
<b>Total</b>	<b>\$71,921</b>

The following tables summarize investments held-to-maturity with unrealized losses as of December 31, 2008 and December 31, 2007 (in thousands). The investments are presented by investment category and the length of time that individual securities have been in a continuous unrealized loss position.

<b>2008</b>	Continuous unrealized loss position <u>less than 12 months</u>		Continuous unrealized loss position <u>12 months or greater</u>		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Mortgage-backed securities	<b>\$21,749</b>	<b>\$169</b>	<b>\$ -</b>	<b>\$-</b>	<b>\$21,749</b>	<b>\$169</b>
Asset-backed securities-home equity	-	-	<b>8</b>	<b>11</b>	<b>8</b>	<b>11</b>
Asset-backed securities-other	<b>49,063</b>	<b>921</b>	-	-	<b>49,063</b>	<b>921</b>
<b>Total</b>	<b>\$70,812</b>	<b>\$1,090</b>	<b>\$8</b>	<b>\$11</b>	<b>\$70,820</b>	<b>\$1,101</b>

2007	Continuous unrealized loss position <u>less than 12 months</u>		Continuous unrealized loss position <u>12 months or greater</u>		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities-home equity	\$26	\$1	\$-	\$-	\$26	\$1
<b>Total</b>	<b>\$26</b>	<b>\$1</b>	<b>\$-</b>	<b>\$-</b>	<b>\$26</b>	<b>\$1</b>

The total number of investments held-to-maturity in an unrealized loss position at December 31, 2008 and December 31, 2007, respectively, was 8 out of a total of 8 held-to-maturity securities and 2 out of a total of 3 held-to-maturity securities. Southwest Corporate believes the decline in fair values recorded as unrealized losses are primarily attributable to the deterioration of liquidity and larger risk premiums in the market, consistent with the broader credit markets, and are not a result of the performance of the underlying collateral or credit quality supporting the securities.

## 8. OTHER INVESTMENTS

Other investments are comprised of the following investments at December 31 (in thousands):

	2008	2007
Share certificates in U.S. Central	<b>\$1,865,551</b>	\$3,923,287
Membership capital shares in U.S. Central	<b>62,269</b>	227,036
Member paid-in capital shares in U.S. Central	-	20,290
Other shares in U.S. Central	<b>30,750</b>	27,989
Capital stock in FHLB	<b>52,910</b>	85,246
Equity investments in CUSO's	<b>1,140</b>	699
Other investments	<b>980</b>	1,210
<b>Total</b>	<b>\$2,013,600</b>	<b>\$4,285,757</b>

On December 31, 2008, Southwest Corporate converted \$67,500,000 of membership capital shares in U.S. Central to paid-in capital shares.

On March 20, 2009, NCUA placed U.S. Central into conservatorship due to projected credit losses on their investment portfolio. This action follows a capital note investment in U.S. Central of \$1 billion on January 28, 2009 by the NCUSIF.

U.S. Central has recorded other-than-temporary impairments on their investment portfolio that are in excess of their retained earnings. As such, U.S. Central has depleted 100 percent of paid-in capital and approximately 63 percent of membership capital shares to cover the deficit. Because Southwest Corporate considers the events at U.S. Central to be a Type I subsequent event, Southwest Corporate has recorded an impairment of \$194,753,000 effective December 31, 2008 to reflect the depletion of 100 percent paid-in capital and approximately 63 percent of membership capital shares held at U.S. Central. Southwest Corporate has \$62,269,000 in membership capital shares remaining at U.S. Central. Southwest Corporate will continue to evaluate for impairment and that future events such as additional credit losses at U.S. Central could result in further impairments of membership capital shares.

Investment in membership capital shares in U.S. Central is a requirement of membership. Membership capital shares are subordinate to all other shares, share certificates, and liabilities of U.S. Central except for member paid-in capital shares. Membership capital shares can be withdrawn after the expiration of a three-year notice period.

Share certificates in U.S. Central are stated at cost. Interest is paid on a scheduled term or at maturity. Share certificates in U.S. Central are redeemable prior to maturity at fair value.

Other shares consist of an account in which U.S. Central directs the associated earnings to various organizations promoting the development of the credit union industry. Funds can be withdrawn from this account after a 90-day notice period.

Share accounts and share certificates are not considered impaired as of December 31, 2008, as all overnight share accounts and share certificates are 100 percent guaranteed by the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) through September 30, 2011. In addition, the NCUA will have the ability to extend the program quarterly through 2012 on a rolling two-year basis. The NCUA approved an extension of the expiration of the TCCUSGP from September 30, 2011 to December 31, 2011. If it exercises the option at the end of each quarter through that time, any share certificate issued prior to December 31, 2012, would be guaranteed until 1) the end of that certificate's term or 2) until December 31, 2014, whichever comes first.

FHLB capital stock is a requirement for membership and borrowings. Capital stock may be redeemed after a five year written notice to the FHLB. In 2008, Southwest Corporate's FHLB capital stock decreased as the amount of outstanding borrowings from FHLB declined.

The contractual maturity of share certificates in U.S. Central at December 31, 2008 is shown below (in thousands):

<b>2009</b>	<b>\$907,708</b>
<b>2010</b>	<b>854,554</b>
<b>2011</b>	<b>66,603</b>
<b>2012</b>	<b>23,486</b>
<b>2013</b>	<b>13,200</b>
<b>Total</b>	<b>\$1,865,551</b>

## 9. LOANS TO MEMBERS

Loans to members are comprised of the following loan types at December 31 (in thousands):

	<b>2008</b>	2007
Open-end credit lines	<b>\$247,136</b>	\$145,768
Term loans	<b>568,112</b>	450,121
<b>Total</b>	<b>\$815,248</b>	\$595,889

Open-end credit lines are provided at a variable interest rate and must be repaid within twelve months of the date of each advance or upon demand. All of these lines are backed by either a general or specific pledge of the borrowing credit union's assets.

Term loans are provided at a fixed or variable interest rate and require payment on a fixed maturity date or over a scheduled repayment term. These loans are backed by either a specific or general pledge of the borrowing credit union's assets.

There were no nonaccrual or impaired loans during 2008 and 2007.

## 10. PREMISES AND EQUIPMENT

Premises and equipment are comprised of the following asset categories at December 31 (in thousands):

	2008	2007
Information technology assets	\$ 17,657	\$ 19,129
Building	14,695	14,727
Furniture and other equipment	2,477	2,447
Land	2,296	2,296
Leasehold improvements	553	978
Total	37,678	39,577
Accumulated depreciation	(15,382)	(17,534)
Total	\$ 22,296	\$ 22,043

## 11. MEMBERS' SHARE ACCOUNTS

Members' share accounts are comprised of the following account types at December 31 (in thousands):

	2008	2007
Cash management	\$2,095,530	\$1,581,377
Performance tiered	2,888,867	3,519,137
Standard tiered	232,900	195,259
Share certificates	4,079,355	6,326,823
Other shares	125,006	90,875
Total	\$9,421,658	\$11,713,471

The following is a summary of the share certificate balances at December 31, 2008 by maturity (in thousands):

2009	\$ 2,506,198
2010	774,632
2011	434,568
2012	164,258
2013	168,809
Thereafter	30,890
Total	\$ 4,079,355

The members' share accounts are 100 percent guaranteed by TCCUSGP through September 30, 2011. In addition, the NCUA will have the ability to extend the program quarterly through 2012 on a rolling two-year basis. The NCUA approved an extension of the expiration of the TCCUSGP from September 30, 2011 to December 31, 2011. If it exercises the option at the end of each quarter through that time, any share certificate issued prior to December 31, 2012, would

be guaranteed until 1) the end of that certificate's term or 2) until December 31, 2014, whichever comes first.

## 12. BORROWED FUNDS

Southwest Corporate had no borrowed funds outstanding as of December 31, 2008. Borrowed funds at December 31, 2007 consisted of fixed rate borrowings from Federal Home Loan Bank of Dallas totaling \$400,000,000 which matured in January 2008 and floating rate borrowings totaling \$50,000,000 from Federal Home Loan Bank of Dallas which matured in March 2008. The borrowings at December 31, 2007 were collateralized by marketable securities with a fair value of \$501,971,000.

As of December 31, 2008, Southwest Corporate's borrowing capacity includes a secured line of credit at FHLB of Dallas for \$1,627,491,000. In December 2008, Southwest Corporate began to post voluntary reserves at the Federal Reserve Bank of Dallas. Southwest Corporate has obtained a secured a line of credit from the Federal Reserve of \$1,075,273,000 at December 31, 2008. Southwest Corporate's other liquidity sources also include Fed Funds lines of credits, reverse repurchase transactions and secured lines of credit with U.S. Central. As of September 30, 2009, Southwest Corporate's borrowing capacity includes a secured line of credit at FHLB of Dallas of \$1,257,784,000 and the Federal Reserve Bank of Dallas of \$633,585,000.

## 13. REGULATORY CAPITAL REQUIREMENTS AND MANAGEMENT'S PLANS

Southwest Corporate is required under the terms of Part 704 of the NCUA's rules and regulations to maintain a minimum capital to average assets ratio of 5 percent (capital ratio). Capital is defined in Part 704 as retained earnings, paid-in capital shares and membership capital shares. The 5 percent requirement is based upon Southwest Corporate's level of expanded authorities under Part 704, and the Corporate's election to operate under an NEV limit of 28 percent.

A summary of Southwest Corporate's regulatory capital information at December 31 is as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Membership capital shares	\$ 393,898	\$ 389,903
Paid-in capital shares	-	8,364
Retained earnings (deficit)	<u>(367,016)</u>	<u>324,581</u>
Total regulatory capital	<u>\$ 26,882</u>	<u>\$ 722,848</u>
12-month daily average net assets	<u>\$10,990,579</u>	<u>\$12,980,937</u>
Capital ratio	<b>0.24%</b>	5.57%
Core capital ratio	<b>(3.34%)</b>	2.56%
Retained earnings (deficit) ratio	<b>(3.34%)</b>	2.50%

Southwest Corporate's capital ratio is below the regulatory minimum of 5 percent at December 31, 2008. On April 21, 2009, the NCUA Board issued an order that for purposes of compliance with regulatory capital levels, corporate credit unions may use their capital levels, as reported on their November 30, 2008 call report, for purposes of determining regulatory compliance. This waiver will remain in effect until modified or rescinded by the NCUA Board or until the effective date of a final rulemaking for Part 704 of NCUA Rules and Regulations that is currently in the pre-rule stage. Southwest Corporate capital ratio and retained earnings ratio was 6.46 percent and 3.0 percent at November 30, 2008, respectively, and therefore was in compliance based on the NCUA Board order.

Southwest Corporate has executed a supervisory agreement with the NCUA in order to obtain the share guarantee provided by the TCCUSGP. Generally, the supervisory agreement imposes certain restrictions and requires NCUA approval for certain actions.

The TCCUSGP provides a 100 percent guarantee on members' share accounts through September 30, 2011. In addition, the NCUA will have the ability to extend the program quarterly through 2012 on a rolling two-year basis. The NCUA approved an extension of the expiration of the TCCUSGP from September 30, 2011 to December 31, 2011. If it exercises the option at the end of each quarter through that time, any share certificate issued prior to December 31, 2012, would be guaranteed until 1) the end of that certificate's term or 2) until December 31, 2014, whichever comes first.

Part 704 of NCUA Rules and Regulations establishes minimum Net Economic Value (NEV) and NEV ratio thresholds. If any violation of these regulatory limits persists for 30 calendar days, a detailed, written action plan must be submitted to NCUA. Southwest Corporate's NEV rate shock at plus 300 basis points exceeds the 28 percent regulatory limit at December 31, 2008. Southwest Corporate filed the necessary NEV Plan with the NCUA and the NCUA has accepted Southwest Corporate's plan.

Under the NCUA expanded authorities granted to Southwest Corporate under Part 704, long-term ratings for investment purchases are required to be no lower than BBB or equivalent. As of December 31, 2008, Southwest Corporate owned 82 securities totaling \$458,636,000 that had been downgraded below the NCUA minimum requirement.

As a result of these credit downgrades, Southwest Corporate filed the required Investment Action Plans with NCUA in accordance with Part 704.10 and requested permission to continue to hold the downgraded securities. Southwest Corporate has received such approval from NCUA to continue to hold these securities. Subsequent to December 31, 2008, 214 additional securities totaling \$1,635,530,000 had been downgraded below the NCUA minimum requirement. Southwest Corporate had requested permission from the NCUA to continue to hold these securities and received permission to hold 195 securities totaling \$1,552,450,000. Management expects to receive permission from NCUA to continue to hold the remaining securities for which permission has not yet been received.

### *Management's Plans*

Southwest Corporate's investment portfolio has experienced significant deterioration during 2008 and continuing into 2009. The net loss of \$691,911,000 in 2008, of which \$300,101,000 (unaudited) was reversed on March 1, 2009 as disclosed in Note 19, was primarily the result of investment impairment charges totaling \$756,284,000. In addition, the investment impairment charges and unrealized losses on investments resulted in a members' deficit of \$1,168,426,000 at December 31, 2008. Our financial condition has resulted in Southwest Corporate not meeting certain critical regulatory requirements as discussed above. While these matters raise concerns regarding our ability to continue as a going concern, Southwest Corporate has reported these matters to its regulator, the NCUA, and has received regulatory forbearance as discussed above. In addition, Southwest Corporate has submitted certain action steps (covering 2009-2011) to the NCUA, which have been accepted by the NCUA. However, the NCUA could impose future requirements on Southwest Corporate. Southwest Corporate has initiated various action steps, and believes it has complied with the steps to-date, and plans to continue to meet these steps which allow it to continue as a going concern.

## **14. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

Accumulated other comprehensive (loss) income is comprised of the following components (in thousands):

	Unrealized Losses On AFS Securities	Unrealized (Losses) Gains On Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at January 1, 2007	(\$4,632)	(\$1,790)	(\$6,422)
Net change	(270,158)	8,645	(261,513)
Balance at December 31, 2007	(\$274,790)	\$6,855	(\$267,935)
Net change	<b>(536,301)</b>	<b>2,826</b>	<b>(533,475)</b>
Balance at December 31, 2008	<b>(\$811,091)</b>	<b>\$9,681</b>	<b>(\$801,410)</b>

The net change in unrealized gains (losses) on AFS securities is as follows for the years ended December 31 (in thousands):

	<b>2008</b>	2007
Unrealized holding losses arising during the period	<b>(\$1,097,832)</b>	(\$274,104)
Less: reclassification adjustment for losses included in net income (loss) on operations	<b>561,531</b>	3,946
Net change	<b>(\$536,301)</b>	(\$270,158)

Reclassification adjustments include amounts recognized in net income (loss) on operations during the current year that had been previously recorded in other comprehensive income (loss).

Reclassifications to income as ineffectiveness related to cash flow hedges for the years ended December 31, 2008 and 2007, were losses of \$67,000 and gains of \$148,000, respectively.

## **15. RETIREMENT PLANS**

Southwest Corporate sponsors defined contribution plans established under Section 401(k) of the Internal Revenue Code. These plans allow employees to contribute up to the IRS maximum allowable percentage of their compensation. Southwest Corporate provides matching contributions and a discretionary contribution as designated by the Board of Directors. Plan expense was \$588,000 and \$1,476,000 for the years ended December 31, 2008 and 2007, respectively.

Southwest Corporate also offers non-qualified defined contribution plans for certain employees. These plans are either funded by employee salary deferrals, company contributions, or the gains and losses realized on the deemed investments. All assets associated with the funding of these plans are Southwest Corporate assets and are included in trading account assets. As of December 31, 2008 and 2007, the liability for these plans totaled \$414,000 and \$612,000, respectively.

## **16. FAIR VALUE**

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of trading securities and securities available-for-sale other than residential mortgage-backed or home equity asset-backed securities are determined by obtaining quoted prices from brokers or pricing services, or market listings as of the last day of the year. Due to the current market conditions with limited trading, most of these prices are considered to be determined based on matrix pricing, which is a mathematical technique widely used in the

industry to value debt securities without relying on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Southwest Corporate engages independent third-party experts to value our residential mortgage-backed and home equity asset-backed securities. The third-party experts use their internal models for pricing these securities. Information such as historical and current performance of the underlying collateral, deferral/default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a market participant, are utilized in determining individual security valuations. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

Trading account assets and investments available-for-sale and held-to-maturity: The estimated fair value is determined based on quoted market prices, matrix pricing, or third-party internal models.

Interest rate derivative assets and liabilities: The estimated fair value of interest rate swap agreements is determined based on quoted prices from brokers as of the last business day of the year. These interest rate swaps are traded in liquid markets. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgments.

Loans to members: The estimated fair value of loans to members is determined by calculating the present value of expected future cash flows of the loans. The discount rates used in these calculations are the replacement loan rates as of the last business day of the year for loans with similar terms.

Members' share accounts: The estimated fair value of members' share accounts is determined by calculating the present value of expected future cash flows from the members' share accounts. The discount rates used in these calculations are the replacement share rates as of the last business day of the year for members' share accounts with similar terms.

***Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2008***

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which Southwest Corporate has elected the fair value option, are summarized below (in thousands).

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2008
<b>Assets:</b>					
Trading account assets	\$26,982	\$-	\$-	\$-	\$26,982
Interest rate derivative assets	-	25,006	-	6,825	31,831
Investments available-for-sale	-	1,292,101	2,708,429	-	4,000,530
Loans to members	-	16,558	-	-	16,558
<b>Liabilities:</b>					
Members' share accounts	-	486,897	-	-	486,897
Interest rate derivative liabilities	-	478	-	-	478

The table below presents a reconciliation and income statement classification of gains and (losses) for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2008 (in thousands).

	Investments available-for-sale
Beginning balance, January 1, 2008	\$4,453,702
Total realized and unrealized gains or (losses)	
Included in earnings	
Other changes in fair value – OTTI	(521,936)
Gains (losses) on sales of securities	-
Included in other comprehensive loss	(451,088)
Purchases, issuances, settlements, net	(772,249)
Ending balance, December 31, 2008	\$2,708,429

### ***Fair Value Measurement***

The estimated fair values of Southwest Corporate's financial instruments at December 31 are as follows (in thousands):

	2008		2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b><u>Financial Assets:</u></b>				
Cash and cash equivalents	\$1,683,301	\$1,683,301	\$ 683,146	\$ 683,146
Overnight shares in U.S. Central	-	-	372,191	372,191
Trading account assets	26,982	26,982	30,143	30,143
Interest rate derivative assets	31,831	31,831	66,569	66,569
Investments available-for-sale	4,000,530	4,000,530	6,585,950	6,585,950
Investments held-to-maturity	71,921	70,820	10,034	10,033
Other investments	1,898,421	1,909,632	3,953,185	3,962,230
Capital stock in FHLB	52,910	N/A	85,246	N/A
U.S. Central capital	62,269	N/A	247,326	N/A
Loans to members	815,248	822,280	595,889	596,482
Accrued interest receivable	18,843	18,843	53,971	53,971
<b><u>Financial Liabilities:</u></b>				
Members' share accounts	\$9,421,658	\$9,450,361	\$11,713,471	\$11,721,286
Membership capital shares	393,898	381,862	389,903	397,902
Borrowed funds	-	-	450,000	450,071
Interest rate derivative liabilities	478	478	-	-
Accrued dividends payable	39,424	39,424	80,341	80,341
Accrued interest payable	-	-	470	470

The methods and assumptions used to estimate fair value are described as follows:

Cash, cash equivalents, overnight shares in U.S. Central, accrued interest receivable, accrued dividends payable, and accrued interest payable: The estimated fair value is the carrying value of the financial instruments.

Trading account assets and investments available-for-sale and held-to-maturity: The estimated fair value is determined based on quoted market prices, matrix pricing, or third-party internal models. Refer to the SFAS 157 disclosures above.

Interest rate derivative assets and liabilities: The estimated fair value of interest rate swap agreements is determined based on quoted prices from brokers as of the last business day of the year. These interest rate swaps are traded in liquid markets. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgments.

Loans to members: The estimated fair value of loans to members is determined by calculating the present value of expected future cash flows of the loans. The discount rates used in these calculations are the replacement loan rates as of the last business day of the year for loans with similar terms.

Borrowed funds: The estimated fair value of borrowed funds is determined by calculating the present value of expected future cash flows of the borrowings. The discount rates used in these calculations are the replacement borrowing rates as of the last business day of the year for borrowings with similar terms.

Members' share accounts: The estimated fair value of members' share accounts is determined by calculating the present value of expected future cash flows from the members' share accounts. The discount rates used in these calculations are the replacement share rates as of the last business day of the year for members' share accounts with similar terms.

It was not practicable to determine the fair value of FHLB stock or U.S. Central capital due to restrictions placed on its transferability. Certain of Southwest Corporate's above financial instruments lack an available market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

Present value calculations have been used by Southwest Corporate for purposes of determining estimated fair values of such financial instruments. Accordingly, these fair values may not represent actual values of the financial instruments that could have been realized as of year-end or that will be realized in the future. Carrying value is assumed to approximate fair value for financial instruments with three months or less to maturity.

## 17. COMMITMENTS

Southwest Corporate had unused open-end credit lines issued to member credit unions of \$7,149,379,000 at December 31, 2008 and \$6,006,690,000 at December 31, 2007. Southwest Corporate had an unused guaranteed line of credit of \$50,000,000 issued to a member credit union at December 31, 2008 and 2007. Southwest Corporate had stand-by letters of credit issued to member credit unions of \$978,000 and \$691,000 at December 31, 2008 and 2007, respectively.

The guaranteed line of credit was issued for one year as a guarantee of liquidity for a member credit union, and it expires March 2009. The stand-by letters of credit are issued with a term of one to five years and are generally used for various operational reasons. Both the guaranteed line of credit and the stand-by letters of credit are secured by either a general or a specific pledge of the member credit union assets. Southwest Corporate recognizes a fee for the guarantees over the life of the commitment. The unearned portion of the fee is \$7,500 and \$10,000 at December 31, 2008 and 2007, respectively, and is included in accrued interest and other liabilities in the consolidated statements of financial condition.

### *Visa commitment*

Southwest Corporate recorded a \$193,000 litigation liability in 2007 related to a possible indemnification obligation related to VISA USA. Southwest Corporate recorded a receivable of \$193,000 in 2008 upon the initial public offering of Visa, Inc. Southwest Corporate anticipates that Visa Inc.'s escrow account will be used to settle such litigation judgments and settlements, and the liability recorded on the Southwest Corporate's books will be offset by Southwest Corporate's interest in the escrow account. Southwest Corporate redeemed 11,747 shares in 2008 for a gain of \$502,000, which was recorded within net gain (loss) on sale/redemption of investments in the consolidated statement of income (loss) on operations for the year ended December 31, 2008. Southwest Corporate has 18,636 shares outstanding with a zero cost basis.

Southwest Corporate expects that its proceeds from the anticipated share redemption will ultimately result in a gain.

## 18. RELATED PARTY TRANSACTIONS

Southwest Corporate, as a corporate credit union, is owned by its credit union members and each member holds one vote. Each of Southwest Corporate's directors is affiliated with member credit unions which engage in financial transactions with Southwest Corporate such as share and certificate deposits, brokerage and advisory services, and lending transactions. Members' share accounts and loans to members outstanding to related parties as of December 31, 2008 were \$171,364,000 and \$135,992,000, respectively. Members' share accounts and loans to members outstanding to related parties as of December 31, 2007 were \$454,115,000 and \$88,648,000, respectively.

Southwest Corporate holds investments in various credit union service organizations. Senior management members from Southwest Corporate serve on the boards of three of these organizations - CU Business Group, LLC, Primary Financial LLC, and CU National Item Capture. One senior management member serves as principal of Southwest Corporate Investment Services.

## 19. SUBSEQUENT EVENTS (UNAUDITED)

Southwest Corporate's consolidated statement of financial condition at August 31, 2009 and consolidated statement of income for the eight months ended August 31, 2009 are as follow (in thousands).

Assets	<b>\$7,972,932</b>
Borrowed funds	-
Members' share accounts	<b>8,925,038</b>
Members' capital accounts	<b>389,385</b>
Retained deficit	<b>158,774</b>
Accumulated other comprehensive loss	<b>1,222,809</b>
Net interest income	<b>\$ 29,275</b>
Net loss on investments (including credit losses)	<b>115,699</b>
Noninterest income	<b>21,813</b>
Operating expense	<b><u>27,248</u></b>
Net loss	<b><u>(\$ 91,859)</u></b>

Southwest Corporate's regulatory capital ratio and retained earnings ratio at August 31, 2009 was 2.55 percent and (1.75) percent, respectively. On April 21, 2009, the NCUA Board issued an order that for purposes of compliance with regulatory capital levels, corporate credit unions may use their capital levels, as reported on their November 30, 2008 call report, for purposes of

determining regulatory compliance. Southwest Corporate's capital ratio and retained earnings ratio was 6.46 percent and 3.0 percent at November 30, 2008, respectively.

Southwest Corporate is adopting FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," for the month ended March 31, 2009. As such, Southwest Corporate recognized the cumulative effect of initially applying this FSP as an adjustment to the opening balance of retained earnings at March 1, 2009 with a corresponding adjustment to accumulated other comprehensive income (loss). The cumulative effect on retained earnings is calculated by comparing the present value of the cash flows expected to be collected with the amortized cost basis of the debt security as of March 1, 2009. Southwest Corporate reversed \$300,101,000 in non-credit losses upon adoption.

Southwest Corporate is required by NCUA Letter to Credit Union 09-CU-10 to deplete Membership Capital Shares to absorb retained deficits. The NCUA requires the depletion to be recorded no later than October 31, 2009. Had Southwest Corporate applied this provision at December 31, 2008, approximately \$67,000,000 (or 17 percent) of membership capital shares would have been depleted. Southwest Corporate expects to deplete approximately 40 percent of Membership Capital Shares in October 2009 to cover the retained deficit.