



Crowe Horwath LLP
Independent Member Crowe Horwath International

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, 2009 and 2008, and the related consolidated statements of income (loss) on operations, 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, 2009 and 2008, 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.

The accompanying financial statements have been prepared assuming that Southwest Corporate will continue as a going concern. As discussed in Note 12 to the consolidated financial statements, as a result of Southwest Corporate's 2009 and 2008 net losses, primarily due to losses related to its investment portfolio and the resulting members' deficit at December 31, 2009 and 2008, Southwest Corporate has not met certain regulatory requirements. Southwest Corporate has reported these matters to its regulator, the National Credit Union Administration (NCUA), and has received regulatory forbearance to-date. The NCUA has also issued a proposed amendment to corporate credit union regulations that would establish a new capital framework for all corporate credit unions, including Southwest Corporate, to meet. In addition, in response to the amount of impaired securities owned by corporate credit unions, the NCUA Board has announced that it expects to implement a plan that may impact the future of the corporate credit union system. Therefore, it is not certain whether the NCUA will continue to provide forbearance. These circumstances raise substantial doubt about Southwest Corporate's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 15 to the consolidated financial statements, the financial statements include investment securities valued at \$1,885,402,000 (22 percent of total assets) and \$2,708,429,000 (31 percent of total assets) as of December 31, 2009 and 2008, whose fair values have been estimated by management with the assistance of an independent third-party in the absence of readily determinable fair values.

As discussed in Note 2 to the consolidated financial statements, effective for the month ended March 31, 2009, Southwest Corporate adopted new accounting guidance for determining whether impairment is other-than-temporary for debt securities. The adoption resulted in a \$300,101,000 cumulative effect adjustment to increase retained earnings and a corresponding adjustment to increase accumulated other comprehensive loss for the non-credit portion of previously recognized other-than-temporary impairment losses.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
April 15, 2010

Southwest Corporate Federal Credit Union Consolidated Statements of Financial Condition

December 31, (in thousands) 2009 2008

Assets

Cash and cash equivalents	\$3,807,127	\$1,683,301
Trading account assets	21,552	26,982
Interest rate derivative assets	14,151	31,831
Investments available-for-sale	2,626,856	4,000,530
Investments held-to-maturity	8,864	71,921
Other investments	1,580,614	2,013,600
Loans to members (including loans at fair value of: 2009 - \$73,431 and 2008 - \$75,118)	460,176	815,248
Premises and equipment, net	20,404	22,296
Goodwill	2,568	2,568
Accrued receivables and other assets	18,028	27,879
Total assets	\$8,560,340	\$8,696,156

Liabilities

Members' share accounts (including certificates at fair value of: 2009 - \$143,990 and 2008 - \$486,897)	\$9,409,772	\$9,421,658
Membership capital shares	240,575	393,898
Interest rate derivative liabilities	278	478
Accrued interest and other liabilities	27,739	48,548
Total liabilities	9,678,364	9,864,582

Members' Deficit

Retained deficit	(134,601)	(367,016)
Accumulated other comprehensive loss	(983,423)	(801,410)
Total members' deficit	(1,118,024)	(1,168,426)
Total liabilities and members' deficit	\$8,560,340	\$8,696,156

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)	2009	2008
Interest income		
Investments and trading account assets	\$95,835	\$355,275
Loans to members	11,189	22,711
Total interest income	107,024	377,986
Cost of funds		
Dividends on members' share accounts	65,303	282,465
Interest on borrowed funds	328	13,006
Total cost of funds	65,631	295,471
Net interest income	41,393	82,515
Net loss on investments		
Other-than-temporary impairment loss		
Total impairment loss on investment securities	(274,987)	(561,531)
Loss recognized in other comprehensive loss	77,227	-
Net impairment loss recognized in earnings	(197,760)	(561,531)
Impairment of U.S. Central capital	(62,269)	(194,753)
Net gain on sale/redemption of investments	51	1,047
Net gain (loss) on trading account assets	442	(7,789)
Net (loss) gain on derivative transactions	(920)	326
Total net loss on investments	(260,456)	(762,700)
Fee income		
Share draft and depository processing fees	18,968	20,297
Other fee income	12,774	12,049
Total fee income	31,742	32,346
Operating expense		
Compensation and benefits	21,144	23,020
Information technology	5,665	6,277
Outside processing and service fees	4,318	5,579
Professional fees	4,049	2,810
Office occupancy	1,637	1,969
Other operating expense	2,326	4,417
Total operating expense	39,139	44,072
Net loss	(\$226,460)	(\$691,911)

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, 2009 and 2008 (in thousands)	Paid-In Capital Shares	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Members' Equity (Deficit)	Comprehensive Loss
<u>Balance at January 1, 2008</u>	\$8,364	\$324,581	(\$267,935)	\$65,010	
Cumulative effect of adoption of the fair value option		425		425	
Net loss		(691,911)		(691,911)	(\$691,911)
Other comprehensive loss			(533,475)	(533,475)	<u>(533,475)</u>
Comprehensive loss					<u>(\$1,225,386)</u>
Redemption of paid-in capital	(8,364)			(8,364)	
<u>Dividends paid on paid-in capital shares</u>		(111)		(111)	
<u>Balance at December 31, 2008</u>	<u>\$ -</u>	<u>(\$367,016)</u>	<u>(\$801,410)</u>	<u>(\$1,168,426)</u>	
Cumulative effect of adoption of other-than-temporary accounting guidance		300,101	(300,101)	-	
Net loss		(226,460)		(226,460)	(\$226,460)
Other comprehensive income			118,088	118,088	<u>118,088</u>
Comprehensive loss					<u>(\$108,372)</u>
Depletion of membership capital shares		158,774		158,774	
<u>Balance at December 31, 2009</u>	<u>\$ -</u>	<u>(\$134,601)</u>	<u>(\$983,423)</u>	<u>(\$1,118,024)</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)	2009	2008
Cash flows from operating activities		
Net loss	(\$226,460)	(\$691,911)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	2,713	3,081
Loss on sale of premises and equipment	2	14
Accretion of net discounts and premiums on investments	(990)	(1,740)
Impairment of investment securities	197,760	561,531
Impairment of U.S. Central capital	62,269	194,753
Net gain on redemption of U.S. Central certificates	-	(545)
Net gain on sale of investments available-for-sale	(51)	-
Net (gain) loss on trading account assets	(442)	7,789
Net unrealized loss (gain) on interest rate derivatives	920	(326)
Purchases of trading account assets	(84)	(5,128)
Redemptions of trading account assets	5,956	500
Federal Home Loan Bank of Dallas stock dividends	91	1,397
Net change in:		
Accrued receivables and other assets	9,851	31,741
Interest rate derivatives	6,968	22,525
Accrued interest and other liabilities	(20,809)	(46,673)
Net cash provided by operating activities	37,694	77,008
Cash flows from investing activities		
Proceeds from maturities of investments available-for-sale	1,240,783	1,489,218
Proceeds from sales of investments available-for-sale	58,874	-
Proceeds from maturities of investments held-to-maturity	63,135	16,704
Purchases of investments held-to-maturity	-	(78,480)
Proceeds from sale/redemption of other investments	145	262,896
Net change in other investments	362,473	1,814,165
Net change in loans to members	344,698	(194,878)
Proceeds from sale of premises and equipment	27	15
Purchases of premises and equipment	(850)	(3,363)
Purchase of additional units of Credit Union Business Group	-	(600)
Net cash provided by investing activities	2,069,285	3,305,677
Cash flows from financing activities		
Net increase (decrease) in members' share accounts	11,396	(2,300,241)
Net increase in membership capital shares	5,451	3,995
Net decrease in borrowed funds	-	(450,000)
Redemption of paid-in capital shares	-	(8,364)
Dividends paid on paid-in capital shares	-	(111)
Net cash provided by (used in) financing activities	16,847	(2,754,721)
Net increase in cash and cash equivalents	2,123,826	627,964
Cash and cash equivalents at beginning of year	1,683,301	1,055,337
Cash and cash equivalents at end of year	\$3,807,127	\$1,683,301
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	\$328	\$13,476
Dividends on members' share accounts	\$90,004	\$323,382
Non-cash activities:		
Depletion of membership capital shares	\$158,774	\$-
U.S. Central membership capital shares converted to paid-in capital II shares	\$-	\$67,500
Co-op dividend	\$186	\$270

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.

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.

Subsequent events

Southwest Corporate has evaluated subsequent events for recognition and disclosure through April 15, 2010, which is the date the audited financial statements were available to be issued.

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 deposits in U.S. Central 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 and U.S. Central share and certificate accounts. Concentration risk at U.S. Central is mitigated by the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP). TCCUSGP is discussed further in Note 2, Note 3, Note 7, Note 10, and Note 12. 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 two years 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. An interest rate derivative asset (or liability) is recognized when the net result for an individual counterparty is an asset (or a liability). 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 (loss) gain 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* (currently Accounting Standards Codification (ASC) 325-40-15, 35 and 55), at acquisition.

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

Trading account assets 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 account assets are recognized in net gain (loss) on trading account assets in the consolidated statements of income (loss) on operations.

Investments available-for-sale are debt securities not classified as either investments held-to-maturity or trading account assets 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 investments available-for-sale, as determined on a specific-identification basis, are reclassified from other comprehensive income (loss) and included in net gain on sale/redemption of investments 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 and trading account assets in the consolidated statements of income (loss) on operations using the level yield method.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

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. Capital stock in FHLB is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Cash and stock dividends are reported as income. Stock dividends are reinvested in FHLB capital stock.

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

Goodwill recognized prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill determined to have an indefinite useful life is not amortized, but tested for impairment at least annually. Southwest Corporate has selected December 31 as the date to perform the annual impairment test, and any impairment is recognized in the period identified. Goodwill is the only intangible asset with an indefinite life on Southwest Corporate's balance sheet. 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. Southwest Corporate is participating in the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP). The program originally consisted of a guarantee by the NCUSIF of all shares (excluding capital shares) through December 31, 2010. On April 21, 2009, the TCCUSGP was revised to extend the guarantee to a 2-year rolling expiration date with quarterly extension options through December 31, 2012. If the NCUA fully exercises the quarterly extensions, Southwest Corporate shares may be guaranteed through December 31, 2014. The NCUA Board approved an initial extension of the guarantee to September 30, 2011. Subsequently, the NCUA approved additional quarterly extensions of the expiration date of the TCCUSGP from September 30, 2011 to June 30, 2012. In March 2009, the NCUA announced that due to the cost of the Corporate

Stabilization Program, the NCUSIF was impaired by 69 percent. The 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. Accordingly, 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 March, 2009. In June 2009, the 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. The NCUA also announced that the expected premium of insured shares would be reduced from 0.30 percent of insured shares to 0.15 percent. The premium assessment is calculated on insured shares which increased to \$250,000 in 2009 from \$100,000. As a result of these actions, Southwest Corporate recorded income of \$889,000 in June 2009 to recapitalize its NCUSIF deposit and increased the liability for the premium assessment by \$41,000 to \$428,000. In December 2009, the premium assessment was paid.

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.

Southwest Corporate is required by NCUA Letter to Credit Unions 09-CU-10 to deplete membership capital shares to absorb retained deficits. In accordance with NCUA Letter to Credit Union 09-CU-10, Southwest Corporate depleted \$158,774,000 of membership capital shares in October 2009 to cover the retained earnings deficit that existed at August 31, 2009. In addition, Southwest Corporate also depleted \$134,601,000 of membership capital shares in January 2010 to cover the retained earnings deficit that existed at December 31, 2009. Southwest Corporate has depleted a cumulative total of 72.68 percent of the membership capital shares as of January 2010.

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 investments 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 15. 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 2008 financial statements have been reclassified to conform with the 2009 presentation. These reclassifications had no effect on total assets, liabilities, members’ equity (deficit) or net loss.

Regulatory pronouncements

In December 2009, the NCUA issued a Proposed Amendment to its rule governing corporate credit unions contained in Part 704. The major revisions involve corporate credit union capital, investments, asset-liability management, governance, and CUSO activities. The amendments would establish a new capital framework, including risk-based capital requirements; impose new prompt corrective action requirements; place various new limits on corporate investments;

impose new asset-liability management controls; amend some corporate governance provisions; and limit a corporate CUSO to categories of service pre-approved by the NCUA. Corporates are required to meet certain capital requirements one year after the rule is finalized.

The deadline for comments to be received by the NCUA was March 9, 2010. It is not clear at this time what changes will be made to the Proposed Amendment, if potential changes to the Proposed Amendment will be re-sent out for comment, or when the Final Rule will be finalized. See Note 12 for additional discussion regarding the impact of the Proposed Amendment on Southwest Corporate.

Adoption of new accounting pronouncements

In March 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133* (ASC 815), which amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. ASC 815 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. ASC 815 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Southwest Corporate has provided the required disclosures in these financial statements.

In April 2009, the FASB issued Staff Position (FSP) No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (ASC 320-10), which amended 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 as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is determined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. ASC 320-10 was effective for interim and annual reporting periods ending 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. At adoption, Southwest Corporate reversed \$300,101,000 of previously recognized impairment charges, representing the non-credit portion, which was recorded as a cumulative effect adjustment to retained earnings as of March 1, 2009.

In April 2009, the FASB issued Staff Position 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* (ASC 820-10). This FSP emphasizes that the objective of a fair value measurement does not change even when market activity for the asset or

liability has decreased significantly. Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be assigned to the indication of the asset or liability's fair value. Adjustments to those transactions or prices would be needed to determine the appropriate fair value. The FSP, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009 with early adoption 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.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (ASC 855-10). Under ASC 855-10, the effects of events that occur subsequent to the balance-sheet date should be evaluated through the date the financial statements are either issued or available to be issued. Companies should disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Companies are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events). Companies are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for interim and annual financial periods ending after June 15, 2009 with prospective application. The effect of adopting this new guidance was not material.

In June 2009, the FASB replaced SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, with Statement 162, *The Hierarchy of Generally Accepted Accounting Principles*, and to establish the *FASB Accounting Standards Codification*TM as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification was effective for financial statements issued for periods after September 15, 2009.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, *Measuring Liabilities at Fair Value* (ASC 820). This update provides amendments to ASC 820 for the fair value measurement of liabilities by clarifying that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or that is consistent with the principles of ASC 820. The amendments in this guidance also clarify that both a quoted price for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance

was effective for the first reporting period beginning after issuance. The impact of adoption was not material.

3. 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, 2009 and 2008. 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 elected to voluntarily post reserves at the Federal Reserve Bank of Dallas to gain access to the Federal Reserve discount window. Southwest Corporate's reserve requirement is \$366,768,000 and \$389,898,000 at December 31, 2009 and 2008, respectively.

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 \$21,246,000 and \$22,519,000 at December 31, 2009 and 2008, respectively. Member credit unions' reserve balances are included in members' share accounts in the consolidated statements of financial condition. Cash on deposit and cash items in the process of collection from correspondent banks and the Federal Reserve Bank are included in cash and cash equivalents in the consolidated statements of financial condition. Cash items in the process of collection totaled \$668,412,000 and \$1,171,856,000 at December 31, 2009 and 2008, respectively. Cash and cash equivalents also include deposits in U.S. Central of \$2,721,031,000 and \$400,220,000 at December 31, 2009 and 2008, respectively. The deposits in U.S. Central are guaranteed under the TCCUSGP through June 30, 2012, and the NCUA may further extend the guarantee.

4. INTEREST RATE DERIVATIVES

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, 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. Derivatives not designated as accounting hedges consist of swaps that have been de-designated as a hedge and swaps for which the fair value option was elected on January 1, 2008.

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 No. 133 (ASC 815). This population included hedges that do not qualify for the short cut method under SFAS No. 133 (ASC 815). Southwest Corporate elected SFAS No.

159 (ASC 825-10-25) 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. The cumulative effect of adoption of the fair value option was an increase to retained earnings of \$425,000 at January 1, 2008.

The following tables summarize the fair value of derivative instruments designated as accounting hedges and the fair value of derivatives not designated as hedges by type of derivative contract on a gross basis as of December 31, 2009 and 2008 (in thousands). Fair values of derivative contracts in an asset position are included in interest rate derivative assets, and fair values of derivative contracts in a liability position are included in interest rate derivative liabilities.

	Assets at December 31, 2009		Liabilities at December 31, 2009	
	Fair Value	Notional	Fair Value	Notional
Derivatives designated as fair value accounting hedges:				
Interest rate swaps related to share certificates	\$11,273	\$778,869	\$450	\$154,650
Interest rate swaps related to loans to members	-	-	8,539	146,867
Total derivatives designated as fair value accounting hedges	11,273	778,869	8,989	301,517
Derivatives designated as cash flow accounting hedges:				
Interest rate swaps related to certificates in U.S. Central	400	15,800	-	-
Interest rate swaps related to investment securities	5,359	76,187	-	-
Total derivatives designated as cash flow accounting hedges	5,759	91,987	-	-
Derivatives not designated as accounting hedges:				
Interest rate swaps related to share certificates	7,517	218,400	-	-
Interest rate swaps related to loans to members	-	-	2,678	78,688
Total derivatives not designated as accounting hedges	7,517	218,400	2,678	78,688
Total derivatives	\$24,549	\$1,089,256	\$11,667	\$380,205
Cash collateral netting	-	-	(991)	-
Counterparty netting	(10,398)	-	(10,398)	-
Total derivatives	\$14,151	\$1,089,256	\$278	\$380,205

	Assets at December 31, 2008		Liabilities at December 31, 2008	
	Fair Value	Notional	Fair Value	Notional
Derivatives designated as fair value accounting hedges:				
Interest rate swaps related to share certificates	\$32,132	\$1,287,929	\$128	\$37,628
Interest rate swaps related to certificates in U.S. Central	-	-	10,974	630,000
Interest rate swaps related to loans to members	-	-	25,428	254,896
Total derivatives designated as fair value accounting hedges	32,132	1,287,929	36,530	922,524
Derivatives designated as cash flow accounting hedges:				
Interest rate swaps related to certificates in U.S. Central	1,906	52,800	-	-
Interest rate swaps related to investment securities	10,079	165,314	-	-
Total derivatives designated as cash flow accounting hedges	11,985	218,114	-	-
Derivatives not designated as accounting hedges:				
Interest rate swaps related to share certificates	21,916	532,190	3	1,500
Interest rate swaps related to certificates in U.S. Central	-	-	1,227	50,000
Interest rate swaps related to loans to members	-	-	5,229	82,320
Interest rate swaps not hedged	1,484	116,000	-	-
Total derivatives not designated as accounting hedges	23,400	648,190	6,459	133,820
Total derivatives	\$67,517	\$2,154,233	\$42,989	\$1,056,344
Cash collateral netting	-	-	(6,825)	-
Counterparty netting	(35,686)	-	(35,686)	-
Total derivatives	\$31,831	\$2,154,233	\$478	\$1,056,344

A net (loss) gain of (\$920,000) and \$326,000 on derivative transactions is recognized within net (loss) gain on derivative transactions in the consolidated statements of income (loss) on operations for the years ended December 31, 2009 and 2008, respectively. Net 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.

The following tables summarize the gains or losses reported on derivative instruments designated and qualifying as accounting hedges for the year ended December 31, 2009 (in thousands).

Derivatives Designated as Fair Value Hedges

	Classification of Gains or (Losses)	Amount of Gain or	Amount of Gain or
		(Loss) recognized in income on derivative	(Loss) recognized in income on hedged item
Interest rate swaps related to share certificates	Net (loss) gain on derivative transactions	(\$4,428)	\$3,501
Interest rate swaps related to loans to members	Net (loss) gain on derivative transactions	1,522	(888)
Total		(\$2,906)	\$2,613

A net loss of \$293,000 was recognized in net (loss) gain on derivative transactions related to hedge ineffectiveness on fair value hedges for the year ended December 31, 2009.

Derivatives Designated as Cash Flow Hedges

	Amount of Gain or (Loss) recognized in OCI (effective portion)	Amount of Gain or (Loss) reclassified from OCI to interest income on investments	Amount of Gain or (Loss) recognized in net (loss) gain on derivative transactions (ineffective portion)
Interest rate swaps related to certificates in U.S. Central and investment securities	(\$4,857)	(\$96)	(\$69)

Reclassifications from other comprehensive income (OCI) to net (loss) gain on derivative transactions as ineffectiveness related to cash flow hedges for the year ended December 31, 2009 were losses of \$69,000. Losses of \$96,000 related to de-designated cash flow hedges were reclassified from OCI into interest income on investments and trading account assets during the year ended December 31, 2009. At December 31, 2009, Southwest Corporate expects \$3,332,000 of the unrealized gain to be reclassified from accumulated other comprehensive income to earnings during 2010.

The table below summarizes gains or losses reported on derivative instruments not designated as accounting hedges for the year ended December 31, 2009 (in thousands).

	Classification of Gains or (Losses)	Amount of Gain or (Loss) recognized in income
Interest rate swaps related to share certificates	Net (loss) gain on derivative transactions	(\$978)
Interest rate swaps related to certificates in U.S. Central	Net (loss) gain on derivative transactions	11
Interest rate swaps related to loans to members	Net (loss) gain on derivative transactions	906
Interest rate swaps – other	Net (loss) gain on derivative transactions	(497)
Total		(\$558)

A net loss of \$558,000 was recognized in net (loss) gain on derivative transactions related to changes in fair value of derivative instruments not designated as accounting hedges.

At December 31, 2009 and 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 both Lehman Brothers Special Financing and Lehman Brothers Holdings Inc. 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. Certain of Southwest Corporate's derivative contracts contain provisions that require Southwest Corporate to provide additional collateral or immediately settle any outstanding liability balances with certain

counterparties in the event of a credit ratings downgrade. The aggregate fair value of derivative contracts with credit-risk-related contingent features that are in a net liability position at December 31, 2009 and 2008, is \$513,000 and \$6,548,000, respectively, for which Southwest Corporate has pledged cash of \$991,000 and \$6,825,000 as collateral at December 31, 2009 and 2008, respectively, in the normal course of business.

5. INVESTMENTS AVAILABLE-FOR-SALE

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

2009	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Mortgage-backed securities-agency residential	\$84,227	\$2,299	\$657	\$85,869
Mortgage-backed securities-non-agency residential	1,619,640	276	462,928	1,156,988
Asset-backed securities - home equity	1,230,637	6	502,230	728,413
Asset-backed securities – other	438,357	12	23,943	414,426
Corporate bonds	242,407	53	1,300	241,160
Total	\$3,615,268	\$2,646	\$991,058	\$2,626,856

2008	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Mortgage-backed securities-agency residential	\$146,653	\$1,872	\$2,215	\$146,310
Mortgage-backed securities-non-agency residential	1,928,168	1,896	378,130	1,551,934
Asset-backed securities - home equity	1,468,444	79	312,029	1,156,494
Asset-backed securities – other	783,581	-	91,578	692,003
Corporate bonds	484,775	-	30,986	453,789
Total	\$4,811,621	\$3,847	\$814,938	\$4,000,530

Asset-backed securities-other consists of securities backed by student loans, automobiles, credit cards, and equipment.

Sales of investments available-for-sale for the year ended December 31, 2009 consisted of proceeds of \$58,874,000, gross gains of \$661,000 and gross losses of \$610,000. There were no sales of investments available-for-sale for the year ended December 31, 2008. Southwest Corporate redeemed 11,747 shares of Visa Inc. stocks 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 of Class B Common Stock outstanding with a zero cost basis as of December 31, 2009. Southwest Corporate expects that its proceeds from the anticipated share redemption will ultimately result in a gain.

The amortized cost and fair value of investments available-for-sale at December 31, 2009 are 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.

	Amortized Cost	Fair Value
Within one year	\$1,156,338	\$913,544
One to five years	2,098,985	1,456,713
Five to ten years	348,601	245,543
Beyond ten years	11,344	11,056
Total	\$3,615,268	\$2,626,856

Certain investments available-for-sale are pledged as collateral to secure borrowings and clearing activities. The carrying value of pledged securities was \$5,567,000 and \$4,877,000 at December 31, 2009 and 2008, respectively.

The following tables summarize investments available-for-sale with unrealized losses as of December 31, 2009 and December 31, 2008 (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.

2009	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-agency residential	\$2,509	\$16	\$37,611	\$641	\$40,120	\$657
Mortgage-backed securities-non-agency residential	71,487	32,846	1,081,270	430,082	1,152,757	462,928
Asset-backed securities-home equity	2,693	1,535	725,683	500,695	728,376	502,230
Asset-backed securities-other	-	-	395,442	23,943	395,442	23,943
Corporate bonds	-	-	152,503	1,300	152,503	1,300
Total	\$76,689	\$34,397	\$2,392,509	\$956,661	\$2,469,198	\$991,058

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-agency residential	\$10,483	\$118	\$55,151	\$2,097	\$65,634	\$2,215
Mortgage-backed securities-non-agency residential	351,009	145,794	623,101	232,336	974,110	378,130
Asset-backed securities-home equity	-	-	822,718	312,029	822,718	312,029
Asset-backed securities-other	125,801	9,201	566,202	82,377	692,003	91,578
Corporate bonds	33,681	749	410,207	30,237	443,888	30,986
Total	\$520,974	\$155,862	\$2,477,379	\$659,076	\$2,998,353	\$814,938

The total number of investments available-for-sale in an unrealized loss position at December 31, 2009 and December 31, 2008, respectively, was 517 out of a total of 537 available-for-sale securities held by Southwest Corporate and 467 out of a total of 625 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, are consistent with the broader credit markets, and are not a result of the performance of the underlying collateral or credit quality supporting the securities as other-than-temporary impairments have been recorded representing the credit losses on these securities. As other-than-temporary impairments have been recorded to recognize the credit losses, the fair value is expected to recover as the securities approach maturity.

In determining OTTI for debt securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether Southwest Corporate has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. In the assessment of the non-agency residential mortgage-backed securities, Southwest Corporate, in part, relies on the assistance of independent third-party valuation firms. The independent third-party valuations provide a base case estimate of projected credit losses by reviewing factors such as the current performance of the underlying collateral, deferral/default rates, collateral coverage ratios, the financial condition of the issuer(s), and the prepayment speeds. The following table presents the ranges and averages of some of the significant inputs and assumptions used in the projection of credit losses of Southwest Corporate's non-agency residential mortgage-backed securities by collateral type as of December 31, 2009.

Collateral Type	Conditional Prepayment Rate (%)	Conditional Default Rate (%)	Loss Severity Rate (%)	Liquidation Rate (%)	60+ Day Delinquency (%)
Prime collateral	0.25 to 31.29	0 to 33	20 to 103	0.43 to 65.07	11.65
Near-prime collateral	0.20 to 35	0 to 45	30 to 105	0 to 83.46	30.76
Sub-prime collateral	0 to 8	0 to 34	60 to 100	16.02 to 81.49	47.95

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether Southwest Corporate intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If Southwest Corporate intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If Southwest Corporate does not intend to sell the security and it is not more likely than not that Southwest Corporate will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income (loss).

The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. Southwest Corporate does not intend 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. It is not more likely than not that Southwest Corporate will be required to sell its existing portfolio of non-agency residential mortgage-backed available-for-sale securities as the NCUA has approved investment action plans which allow Southwest Corporate to continue to hold these securities.

The table below presents a rollforward of the credit losses recognized in earnings within other-than-temporary loss on investment securities for the year ended December 31, 2009 (in thousands).

	Beginning Balance, January 1, 2009	Amounts related to credit loss for which OTTI was previously recognized in 2008	Amounts related to credit loss for which OTTI was not previously recognized	Amounts related to credit loss for which OTTI was previously recognized	Ending Balance, December 31, 2009
Mortgage-backed securities-non-agency residential					
Prime collateral	\$66,071	(\$39,400)	\$9,457	\$18,513	\$54,641
Near-prime collateral	258,679	(136,143)	23,125	62,667	208,328
Insured by monolines	7,608	(5,924)	2,248	279	4,211
	332,358	(181,467)	34,830	81,459	267,180
Asset-backed securities-home equity					
Near-prime collateral	26,494	(11,925)	1,653	7,121	23,343
Sub-prime collateral	114,632	(64,630)	24,597	41,481	116,080
Insured by monolines	52,268	(42,079)	4,663	1,956	16,808
	193,394	(118,634)	30,913	50,558	156,231
Corporate bonds	39,595	-	-	-	39,595
Total	\$565,347	(\$300,101)	\$65,743	\$132,017	\$463,006

There were no additions or subtractions of credit losses during the year ended December 31, 2009 for (1) amounts realized for securities sold during the period (2) amounts related to securities for which Southwest Corporate intends to sell or that it will be more likely than not that Southwest Corporate will be required to sell prior to recovery of amortized cost basis, or (3) reductions for increase in cash flows expected to be collected that are recognized over the remaining life of the security.

For the year ended December 31, 2009, Southwest Corporate has recorded total other-than-temporary impairment charges of \$197,760,000 related to credit losses on non-agency residential mortgage-backed available-for-sale securities. The beginning balance of credit losses at January 1, 2009 also include impairments of \$3,816,000 recorded in 2007.

The following table summarizes investments available-for-sale as of December 31, 2009 for which credit losses have been recognized in earnings (in thousands). Securities with actual principal losses reduce the par values.

	Par Value	Actual Principal Losses	Credit Losses (recognized in Earnings)	Amortized Cost	Non-credit Losses (recognized in AOCI)	Fair Value
Mortgage-backed securities-non-agency residential						
Prime collateral	\$226,650	\$615	\$54,641	\$172,204	\$57,145	\$115,059
Near-prime collateral	881,343	10,754	208,328	683,736	239,877	443,859
Insured by monolines	59,206	231	4,211	55,228	26,162	29,066
	1,167,199	11,600	267,180	911,168	323,184	587,984
Asset-backed securities-home equity						
Near-prime collateral	58,424	3,399	23,343	38,653	14,746	23,907
Sub-prime collateral	542,359	-	116,080	426,275	203,703	222,572
Insured by monolines	247,907	1,025	16,808	232,169	114,146	118,023
	848,690	4,424	156,231	697,097	332,595	364,502
Corporate bonds	49,500	-	39,595	9,900	-	9,900
Total	\$2,065,389	\$16,024	\$463,006	\$1,618,165	\$655,779	\$962,386

In 2008 Southwest Corporate 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 non-agency residential mortgage-backed securities also have insurance coverage to further support the senior classes in the event of deteriorating collateral performance. Typically, the underlying collateral for these securities is home equity 2nd liens as opposed to 1st lien mortgages. In order for the securities to be rated AAA at time of issuance, the originators purchased insurance wraps from the monoline insurers to pay principal and interest shortfalls. The insurance coverage provided by the monoline insurers increases the existing credit enhancement provided to the senior class owned by Southwest Corporate.

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

2009	Lowest Rating	Par Value	Amortized Cost	Fair Value
Ambac Financial Group	CC	\$211,996	\$205,109	\$109,813
MBIA	B3	110,325	110,389	61,012
FGIC	n/a	116,330	106,251	56,502
FSA	Aa3	55,588	55,588	31,331
Syncora Guarantee Inc.	Ca	5,823	3,087	1,670
Total		\$500,062	\$480,424	\$260,328

2008	Lowest Rating	Par Value	Amortized Cost	Fair Value
Ambac Financial Group	Baa1	\$264,388	\$264,431	\$167,361
MBIA	Baa1	163,330	163,357	103,491
FGIC	CCC	152,046	96,069	90,971
FSA	Aa3	70,629	70,630	42,838
Syncora Guarantee Inc.	Caa1	7,542	3,653	3,653
Total		\$657,935	\$598,140	\$408,314

The New York Insurance Department ordered Syncora Guarantee Inc. (Syncora) to suspend claim payments effective April 29, 2009, unless it successfully commuted a portion of its guarantee obligations and restored 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 and placed no reliance on the insurer for future principal and interest shortfalls. Total OTTI related to credit losses recorded on securities insured by Syncora totaled \$572,000 and \$2,919,000 for the years ended December 31, 2009 and 2008, respectively. During 2009, Southwest Corporate received pay-downs of \$967,000 from securities insured by Syncora. Actual principal shortfalls during 2009 totaled \$752,000.

The New York Insurance Department issued an order requiring FGIC to suspend claim payments effective November 24, 2009. The New York Insurance Department also ordered FGIC to take other actions including providing the New York Insurance Department with a proposed Surplus Restoration Plan no later than January 5, 2010 (submitted by FGIC accordingly) and removing the impairment of its capital and returning to compliance with its minimum surplus to policyholders' requirement no later than March 25, 2010. On March 25, 2010, the New York Insurance Department extended this deadline to June 15, 2010. Southwest Corporate had previously concluded that it was unlikely that FGIC would pay all future principal and interest claims and, as a result, other-than-temporary impairments were recorded on all securities which were dependent upon FGIC. Based on input from Moody's Investors Services (Moody's), Southwest Corporate placed a 70 percent reliance on FGIC for future principal and interest shortfalls. Southwest Corporate will monitor FGIC's plans and ability to return to regulatory compliance. Total OTTI related to credit losses recorded on securities insured by FGIC totaled \$1,663,000 and \$8,954,000 for the years ended December 31, 2009 and 2008, respectively. During 2009, Southwest Corporate received pay-downs of \$35,212,000 from securities insured by FGIC. Actual principal shortfalls during 2009 totaled \$504,000.

In March 2010, Ambac Financial Group (Ambac) established a segregated account for certain liabilities, primarily policies related to credit derivatives, residential mortgage-backed securities and other insured financial transactions. The Office of the Commissioner of Insurance of the State of Wisconsin (OCI), Ambac's regulator, filed a petition with the Lafayette County Circuit Court of Wisconsin to place the segregated account under rehabilitation. The petition states that the plan of rehabilitation calls for the future payment of claims out of the segregated account to be made with a combination of cash, surplus notes from the segregated account, and unspecified payouts from a reinsurance guarantee from the parent company. All claims payments related to the segregated account are suspended until the rehabilitation plan is approved by the Court. Southwest Corporate previously concluded that it was unlikely that Ambac would pay all future

principal and interest claims and, as a result, other-than-temporary impairments were recorded on all securities which were dependent upon Ambac. Based on input from Moody's, Southwest Corporate placed a 90 percent reliance on Ambac to pay future principal and interest shortfalls. Total OTTI related to credit losses recorded on securities insured by Ambac totaled \$6,911,000 for the year ended December 31, 2009. Southwest Corporate will continue to monitor Ambac's plans and the impact that such efforts may have on Southwest Corporate's reliance on Ambac's coverage.

With the assistance of third-party valuations at December 31, 2009, Southwest Corporate's securities relied on Ambac for principal and interest shortfalls totaling \$61,998,000. During the first two months of 2010, Southwest Corporate received pay-downs of \$6,978,000 on securities insured by Ambac. Due to a change in projected collateral performance and pay-downs received during the first two months of 2010, the projected reliance on Ambac was reduced by \$17,193,000 as of February 2010. At February 28, 2010, assuming no further payments from Ambac, the possible additional OTTI could be \$44,805,000.

FSA and MBIA are currently paying principal and interest claims timely. Southwest Corporate continues to place reliance on FSA and MBIA to pay all claims. Further deterioration of the financial condition of the monoline insurers could result in additional other-than-temporary impairment charges.

6. INVESTMENTS HELD-TO-MATURITY

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

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities-agency residential	\$8,851	\$36	\$-	\$8,887
Asset-backed securities-home equity	13	-	2	11
Total	\$8,864	\$36	\$2	\$8,898
2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities-agency residential	\$21,918	\$-	\$169	\$21,749
Asset-backed securities-home equity	19	-	11	8
Asset-backed securities-other	49,984	-	921	49,063
Total	\$71,921	\$-	\$1,101	\$70,820

Asset-backed securities-other consists of securities backed by student loans and credit cards.

The amortized cost and fair value of investments held-to-maturity at December 31, 2009 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	Fair Value
Within one year	\$8,851	\$8,887
Over five years	13	11
Total	\$8,864	\$8,898

The following tables summarize investments held-to-maturity with unrealized losses as of December 31, 2009 and December 31, 2008 (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.

	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
	2009					
Asset-backed securities-home equity	\$-	\$-	\$11	\$2	\$11	\$2
Total	\$-	\$-	\$11	\$2	\$11	\$2

	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
	2008					
Mortgage-backed securities-agency residential	\$21,749	\$169	\$-	\$-	\$21,749	\$169
Asset-backed securities-home equity	-	-	8	11	8	11
Asset-backed securities-other	49,063	921	-	-	49,063	921
Total	\$70,812	\$1,090	\$8	\$11	\$70,820	\$1,101

The total number of investments held-to-maturity in an unrealized loss position at December 31, 2009 and December 31, 2008, respectively, was 1 out of a total of 4 held-to-maturity securities and 8 out of a total of 8 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.

7. OTHER INVESTMENTS

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

	2009	2008
Share certificates in U.S. Central	\$1,545,624	\$1,865,551
Membership capital shares in U.S. Central	-	62,269
Other shares in U.S. Central	27,616	30,750
Capital stock in FHLB	4,682	52,910
Equity investments in CUSO's	1,526	1,140
Other investments	1,166	980
Total	\$1,580,614	\$2,013,600

U.S. Central depleted \$43,190,000 and the remaining \$19,079,000 of Southwest Corporate's membership capital shares in October 2009 and March 2010, respectively. Southwest Corporate has recorded impairment charges on its membership capital shares in U.S. Central of \$62,269,000 and \$194,753,000 for 2009 and 2008, respectively.

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.

U.S. Central share certificates are not considered impaired as of December 31, 2009 as all overnight share accounts and share certificates are 100 percent guaranteed by the TCCUSGP through June 30, 2012. The TCCUSGP program originally consisted of a guarantee by the NCUSIF of all shares (excluding capital shares) through December 31, 2010. On April 21, 2009, the TCCUSGP was revised to extend the guarantee to a 2-year rolling expiration date with quarterly extension options through December 31, 2012. If the NCUA fully exercises the quarterly extensions, U.S. Central share certificates may be guaranteed through December 31, 2014. The NCUA Board approved an initial extension of the guarantee to September 30, 2011. Subsequently, the NCUA approved additional quarterly extensions of the expiration date of the TCCUSGP from September 30, 2011 to June 30, 2012. The U.S. Central share certificates are all covered by the guarantee.

The contractual maturity of share certificates in U.S. Central at December 31, 2009 is shown below (in thousands):

2010	\$1,314,636
2011	194,413
2012	28,875
2013	7,700
Total	\$1,545,624

Capital stock in FHLB is a requirement for membership and borrowings. Capital stock may be redeemed after a five year written notice to the FHLB. In 2009, Southwest Corporate's FHLB capital stock decreased as the amount of outstanding borrowings from FHLB declined. There were no outstanding borrowings from FHLB as of December 31, 2009 or 2008.

8. LOANS TO MEMBERS

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

	2009	2008
Open-end credit lines	\$10,887	\$247,136
Term loans	449,289	568,112
Total	\$460,176	\$815,248

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 2009 or 2008.

9. PREMISES AND EQUIPMENT

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

	2009	2008
Information technology assets	\$17,246	\$17,657
Building	14,695	14,695
Furniture and other equipment	2,412	2,477
Land	2,296	2,296
Leasehold improvements	558	553
Total	37,207	37,678
Accumulated depreciation	(16,803)	(15,382)
Total	\$20,404	\$22,296

10. MEMBERS' SHARE ACCOUNTS

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

	2009	2008
Cash management	\$1,788,154	\$2,095,530
Performance tiered	4,603,510	2,888,867
Standard tiered	260,148	232,900
Share certificates	2,595,574	4,079,355
Other shares	162,386	125,006
Total	\$9,409,772	\$9,421,658

The following is a summary of the share certificate balances at December 31, 2009 by maturity (in thousands):

2010	\$1,655,028
2011	706,073
2012	151,887
2013	69,619
2014	12,967
Total	\$2,595,574

The members' share accounts are guaranteed by TCCUSGP through June 30, 2012. The TCCUSGP program originally consisted of a guarantee by the NCUSIF of all shares (excluding capital shares) through December 31, 2010. On April 21, 2009, the TCCUSGP was revised to extend the guarantee to a 2-year rolling expiration date with quarterly extension options through December 31, 2012. If the NCUA fully exercises the quarterly extensions, Southwest Corporate shares may be guaranteed through December 31, 2014. The NCUA Board approved an initial extension of the guarantee to September 30, 2011. Subsequently, the NCUA approved additional quarterly extensions of the expiration date of the TCCUSGP from September 30, 2011 to June 30, 2012. Share certificates issued after April 21, 2009 that have a maturity greater than two years are not guaranteed under the TCCUSGP.

11. BORROWED FUNDS

Southwest Corporate had no borrowed funds outstanding as of December 31, 2009 or 2008.

Southwest Corporate's borrowing capacity includes a secured line of credit at FHLB of Dallas for \$1,256,818,000 and \$1,627,491,000 at December 31, 2009 and 2008, respectively. In December 2008, Southwest Corporate began to post voluntary reserves at the Federal Reserve Bank of Dallas to gain access to the Federal Reserve discount window. Southwest Corporate's secured line of credit at the Federal Reserve is \$482,642,000 and \$1,075,273,000 at December 31, 2009 and 2008, respectively. 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.

12. REGULATORY MATTERS, GOING CONCERN CONSIDERATIONS, 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 Southwest 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>2009</u>	<u>2008</u>
Membership capital shares	\$240,575	\$393,898
Retained deficit	(134,601)	(367,016)
<u>Total regulatory capital</u>	\$105,974	\$26,882
<u>12-month daily average net assets</u>	\$8,572,850	\$10,990,579
Capital ratio	1.24%	0.24%
Retained deficit ratio	(1.57%)	(3.34%)

The membership capital shares reported above is net of \$4,307,000 and \$2,970,000 related to the portion of shares on notice that cannot be counted as capital as of December 31, 2009 and 2008, respectively.

Southwest Corporate's capital ratio is below the regulatory minimum of 5 percent at December 31, 2009 and 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 proposed-rule stage. Southwest Corporate's 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 guarantee on members' share accounts through June 30, 2012. The TCCUSGP program originally consisted of a guarantee by the NCUSIF of all shares (excluding

capital shares) through December 31, 2010. On April 21, 2009, the TCCUSGP was revised to extend the guarantee to a 2-year rolling expiration date with quarterly extension options through December 31, 2012. If the NCUA fully exercises the quarterly extensions, Southwest Corporate shares may be guaranteed through December 31, 2014. The NCUA Board approved an initial extension of the guarantee to September 30, 2011. Subsequently, the NCUA approved additional quarterly extensions of the expiration date of the TCCUSGP from September 30, 2011 to June 30, 2012. Share certificates issued after April 21, 2009 that have a maturity greater than two years are not guaranteed under the TCCUSGP.

Southwest Corporate is required by NCUA Letter to Credit Unions 09-CU-10 to deplete membership capital shares to absorb retained deficits. In accordance with NCUA Letter to Credit Unions 09-CU-10, Southwest Corporate depleted membership capital shares in October 2009 by \$158,774,000 to cover the retained deficit that existed at August 31, 2009. Southwest Corporate depleted membership capital shares in January 2010 by \$134,601,000 to cover the retained deficit that existed at December 31, 2009. This represents a cumulative 72.68 percent depletion of membership capital shares.

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 the NCUA. Southwest Corporate's NEV rate shock at plus 300 basis points exceeds the 28 percent regulatory limit at December 31, 2009 and 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, 2009, Southwest Corporate owned 296 securities totaling \$1,508,472,000 that had been downgraded below the NCUA minimum requirement. As of December 31, 2008, Southwest Corporate owned 82 securities totaling \$458,636,000 that had been downgraded below the NCUA minimum requirement.

In response to these credit downgrades, Southwest Corporate filed the required Investment Action Plans with the NCUA in accordance with Part 704.10 and requested permission to continue to hold the downgraded securities. Southwest Corporate has received such approval from the NCUA to continue to hold these securities. Subsequent to December 31, 2009, three additional securities totaling \$13,757,000 at December 31, 2009 have been downgraded below the NCUA minimum requirement. Southwest Corporate has requested permission from the NCUA to continue to hold these securities.

Going concern considerations and management's plans

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. However, the events and circumstances described below create an uncertainty about Southwest Corporate's ability to continue as a going concern. These financial statements do not include any adjustments that may result should Southwest Corporate be unable to continue as a going concern.

Southwest Corporate's investment portfolio has experienced significant deterioration during 2008 and continuing into 2009, resulting in a members' deficit of \$1,118,024,000 and \$1,168,426,000 at December 31, 2009 and 2008, respectively. Southwest Corporate recognized impairment charges of \$260,029,000 in 2009 and \$756,284,000 in 2008; of which \$300,101,000 was reversed on March 1, 2009 as disclosed in Note 2 with the adoption of FSP No. 115-2 (ASC 320-10). Southwest Corporate's financial condition has resulted in Southwest Corporate not meeting certain critical regulatory requirements as discussed above. Southwest Corporate has reported these matters to its regulator, the NCUA, and has received regulatory forbearance to-date 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. Southwest Corporate has initiated various action steps, and believes it has complied with the steps to-date. However, it is not certain whether NCUA will continue to provide forbearance, and the NCUA could impose future requirements on Southwest Corporate.

As discussed in Note 2, the NCUA issued a Proposed Amendment to its rule governing corporate credit unions contained in Part 704. The major revisions involve corporate credit union capital, investments, asset-liability management, governance, and CUSO activities. The amendments would establish a new capital framework, including risk-based capital requirements; impose new prompt corrective action requirements; place various new limits on corporate investments; impose new asset-liability management controls; amend some corporate governance provisions; and limit a corporate CUSO to categories of service pre-approved by the NCUA. The Proposed Amendment requires corporate credit unions to meet a tier 1 risk-based capital ratio of 4 percent or greater, a leverage ratio of 4 percent, and a total risk-based capital ratio of 8 percent. The effective date for the two new risk-based capital requirements would be 1 year after the publication of Part 704 in Final Rule form. Tier 1 risk-based capital is defined as Retained Earnings and Permanent Contributed Capital. Total risk-based capital is calculated as Retained Earnings, Permanent Contributed Capital and a 5 year notice Non-perpetual Contributed Capital. The Proposed Amendment requires new retained earnings requirements over a 10 year phase-in period (i.e., 45 basis points after 3 years, 100 basis points after 6 years, and 200 basis points after 10 years). The deadline for comments to be received by the NCUA was March 9, 2010. It is not clear at this time what changes will be made to the Proposed Amendment, if potential changes to the Proposed Amendment will be re-sent out for comment, or when the Final Rule will be issued. In conjunction with the Proposed Amendment, the NCUA is considering various alternatives to address legacy assets held by corporate credit unions. As of December 31, 2009, Southwest Corporate is not in compliance with several provisions of the Proposed Amendment. Southwest Corporate anticipates that it would need to make significant changes to its present business and capitalization model to enable it to secure a sufficient amount of Permanent Contributed Capital from its members and comply with the Proposed Amendment.

13. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

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

	Unrealized Losses On AFS Securities	Unrealized Gains (Losses) On Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at January 1, 2008	(\$274,790)	\$6,855	(\$267,935)
Net change	(536,301)	2,826	(533,475)
Balance at December 31, 2008	(\$811,091)	\$9,681	(\$801,410)
Net change	(177,321)	(4,692)	(182,013)
Balance at December 31, 2009	(\$988,412)	\$4,989	(\$983,423)

The net change in unrealized gains (losses) on AFS securities is as follows for the year ended December 31, 2009 (in thousands):

	AFS Securities with OTTI	AFS Securities without OTTI	Total
Unrealized holding (losses) gains arising during the period	(\$289,722)	\$214,793	(\$74,929)
Less: reclassification adjustment for losses (gains) included in net income (loss) on operations	197,760	(51)	197,709
Plus: reclassification adjustment for cumulative effect of adoption of other-than-temporary impairment accounting guidance	(300,101)	-	(300,101)
Net change	(\$392,063)	\$214,742	(\$177,321)

The net change in unrealized gains (losses) on AFS securities is as follows for the year ended December 31, 2008 (in thousands):

	AFS Securities with OTTI	AFS Securities without OTTI	Total
Unrealized holding losses arising during the period	(\$444,268)	(\$653,564)	(\$1,097,832)
Less: reclassification adjustment for losses included in net income (loss) on operations	561,531	-	561,531
Net change	\$117,263	(\$653,564)	(\$536,301)

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 net (loss) gain on derivative transactions as ineffectiveness related to cash flow hedges for the years ended December 31, 2009 and 2008, were losses of \$69,000 and \$67,000, respectively. Losses of \$96,000 related to de-designated cash flow hedges were reclassified from other comprehensive income into interest income on investments during the year ended December 31, 2009.

14. 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 \$647,000 and \$588,000 for the years ended December 31, 2009 and 2008, respectively. No discretionary contribution was made for 2009 or 2008.

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, 2009 and 2008, the liability for these plans totaled \$666,000 and \$414,000, respectively.

15. FAIR VALUE

Fair value is defined 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. A fair value hierarchy 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 account assets and investments available-for-sale other than non-agency 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, some 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 estimates the value of non-agency residential mortgage-backed and home equity asset-backed securities with the assistance of independent third-parties. The third-parties use 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, and similar trades 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

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities at December 31 for which Southwest Corporate has elected the fair value option, are summarized below (in thousands).

2009

	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	Carrying Value as of December 31, 2009
Assets:					
Trading account assets	\$21,552	\$-	\$-	\$-	\$21,552
Interest rate derivative assets	-	24,549	-	(10,398)	14,151
Investments available-for-sale					
Mortgage-backed securities-agency residential	-	85,869	-	-	85,869
Mortgage-backed securities-non-agency residential	-	-	1,156,988	-	1,156,988
Asset-backed securities - home equity	-	-	728,413	-	728,413
Asset-backed securities-other	-	414,426	-	-	414,426
Corporate bonds	-	241,160	-	-	241,160
Loans to members	-	73,431	-	-	73,431
Liabilities:					
Members' share accounts	\$ -	\$143,990	\$-	\$ -	\$143,990
Interest rate derivative liabilities	-	11,667	-	(11,389)	278

2008

	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	Carrying Value as of December 31, 2008
Assets:					
Trading account assets	\$26,982	\$-	\$ -	\$ -	\$26,982
Interest rate derivative assets	-	67,517	-	(35,686)	31,831
Investments available-for-sale					
Mortgage-backed securities-agency residential	-	146,310	-	-	146,310
Mortgage-backed securities-non-agency residential	-	-	1,551,934	-	1,551,934
Asset-backed securities – home equity	-	-	1,156,494	-	1,156,494
Asset-backed securities-other	-	692,003	-	-	692,003
Corporate bonds	-	453,789	-	-	453,789
Loans to members	-	75,118	-	-	75,118
Liabilities:					
Members' share accounts	\$-	\$486,897	\$-	\$-	\$486,897
Interest rate derivative liabilities	-	42,989	-	(42,511)	478

There were no assets or liabilities measured at fair value on a non-recurring basis at December 31, 2009 or 2008.

The following tables present 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 (in thousands).

2009	Mortgage-backed securities – non-agency residential	Asset-backed securities – home-equity
Beginning balance, January 1, 2009	\$1,551,934	\$1,156,494
Total realized and unrealized gains or (losses)		
Included in earnings		
Other changes in fair value – OTTI	(116,288)	(81,472)
Included in other comprehensive income	107,501	(68,148)
Principal paydowns	(386,159)	(278,461)
Ending balance, December 31, 2009	\$1,156,988	\$728,413

2008	Mortgage-backed securities – non-agency residential	Asset-backed securities – home-equity
Beginning balance, January 1, 2008	\$2,597,492	\$1,856,211
Total realized and unrealized gains or (losses)		
Included in earnings		
Other changes in fair value – OTTI	(332,359)	(189,578)
Included in other comprehensive loss	(293,544)	(132,329)
Principal paydowns	(419,655)	(377,810)
Ending balance, December 31, 2008	\$1,551,934	\$1,156,494

Fair value measurement

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

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial Assets:</u>				
Cash and cash equivalents	\$3,807,127	\$3,807,127	\$1,683,301	\$1,683,301
Trading account assets	21,552	21,552	26,982	26,982
Interest rate derivative assets	14,151	14,151	31,831	31,831
Investments available-for-sale	2,626,856	2,626,856	4,000,530	4,000,530
Investments held-to-maturity	8,864	8,898	71,921	70,820
Other investments	1,575,932	1,577,880	1,898,421	1,909,632
Capital stock in FHLB	4,682	N/A	52,910	N/A
U.S. Central membership capital shares	-	-	62,269	N/A
Loans to members	460,176	461,736	815,248	822,280
Accrued interest receivable	6,307	6,307	18,843	18,843
<u>Financial Liabilities:</u>				
Members' share accounts	\$9,409,772	\$9,417,337	\$9,421,658	\$9,450,361
Membership capital shares	240,575	110,281	393,898	329,953
Interest rate derivative liabilities	278	278	478	478
Accrued dividends payable	14,723	14,723	39,424	39,424

The estimated fair value is the carrying value for cash and cash equivalents, accrued interest receivable and accrued dividends payable. The methods for determining the fair values for trading account assets, investment securities, interest rate derivative assets and liabilities, loans to members and members share accounts were described previously. The fair value for other investments is based on present value of expected future cash flows. The discounted rates used in these calculations are market rates as of the last business day of the year. The fair value of membership capital shares represents the remaining membership capital shares' balance after projected depletion.

It was not practicable to determine the fair value of capital stock in FHLB or U.S. Central membership capital shares 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 a willing seller engaging in an exchange transaction. Southwest Corporate has fully impaired its remaining balance of membership capital shares in U.S. Central at December 31, 2009.

16. COMMITMENTS

Southwest Corporate had unused open-end credit lines issued to member credit unions of \$7,501,859,000 at December 31, 2009 and \$7,149,379,000 at December 31, 2008. Southwest Corporate did not have any guaranteed lines of credit issued to member credit unions at December 31, 2009 and had an unused guaranteed line of credit of \$50,000,000 at December 31, 2008. Southwest Corporate had stand-by letters of credit issued to member credit unions of \$6,792,000 and \$978,000 at December 31, 2009 and 2008, respectively.

The guaranteed line of credit outstanding at December 31, 2008 was issued in 2008 for one year as a guarantee of liquidity for a member credit union, and it expired 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 at December 31, 2008 was \$7,500 and is included in accrued interest and other liabilities in the consolidated statements of financial condition.

17. 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, 2009 were \$302,435,000 and \$127,268,000, respectively. 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.

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

18. SUBSEQUENT EVENTS (UNAUDITED)

Southwest Corporate's condensed consolidated statement of financial condition at February 28, 2010 and condensed consolidated statement of income for the two months ended February 28, 2010 are as follows (in thousands).

Assets	\$10,445,555
Cash and cash equivalents	6,507,257
Borrowed funds	-
Members' share accounts	11,246,804
Membership capital shares	107,723
Retained earnings	4,684
Accumulated other comprehensive loss	938,029
Net interest income	\$ 5,803
Net loss on investments	349
Fee income	4,904
Operating expense	5,674
Net income	4,684

Southwest Corporate's regulatory capital ratio and retained earnings ratio at February 28, 2010 was 1.33 percent and 0.06 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 required by NCUA Letter to Credit Unions 09-CU-10 to deplete membership capital shares to absorb retained deficits. Southwest Corporate depleted \$134,601,000 of membership capital shares in January 2010 to cover the retained deficit that existed at December 31, 2009. After the depletion action taken in October 2009 and the depletion action in January 2010, membership capital shares have been depleted by a cumulative total of 72.68 percent.