



October 15, 2009

Southwest Corporate's 2008 audited financial statements have been issued and are available on our website. The only difference between our 2008 audited and unaudited financial statements is that the audited statements reflect the \$67,581,000 of U.S. Central membership capital that was depleted in July 2009 as being depleted effective December 31, 2008 as a Type I subsequent event. All charges related to U.S. Central's depletion of our accounts to date have been recorded as adjustments to our 2008 earnings.

Due to this change, Southwest Corporate's 2009 investment losses were reduced by the same amount. As a result, there is no impact on the August 31, 2009 retained deficit of \$158,774,000 which has been previously reported. The January 2009 through August 2009 financial statements have been restated to reflect this timing difference.

If you have any questions, please call either me or Bruce Fox, EVP/Chief Investment Officer.

Melissa Wardell
SVP/Chief Financial Officer



southwest corporate

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Financial Statements and Management Discussion

January 2009
(Restated)



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Management's Discussion and Analysis

U.S. Central Reduction of Capital

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

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

Additional Investment Losses

Economic conditions and mortgage payment performance continued to deteriorate over the first quarter of 2009, causing Southwest Corporate's mortgage-backed security loss projections to rise 150 percent. In addition, FSP 115-2 requires impairment charges to include loss projections of all securities regardless of the probability of loss. Therefore, unlike the \$42 million in impairment losses previously recorded in 2008 on 12 securities in which losses were deemed probable, the other-than-temporary impairment represents all securities which project a credit loss. Southwest Corporate's estimated credit losses are based on a third-party analysis of all of Southwest Corporate's residential mortgage-backed securities at March 31, 2009.

A portion of Southwest Corporate's residential mortgage-backed securities also have insurance coverage to further support the senior classes in the event of deteriorating collateral performance. The insurance coverage provided by the monoline insurers increases the existing credit enhancement provided to the senior class owned by Southwest Corporate. The New York Insurance Department announced that Syncora Guarantee Inc. will suspend claims payments effective April 29, 2009, unless it successfully commutes a portion of its guarantee obligations and restores its minimum regulatory surplus by May 29, 2009. As a result, Southwest Corporate recorded other-than-temporary impairments on securities which were dependent upon Syncora Guarantee Inc. Management has also concluded that it is unlikely that FGIC will pay all future principal and interest claims; as a result, other-than-temporary impairments were recorded on all securities which were dependent on FGIC for the payment of future principal and interest claims. Southwest Corporate has placed a 70 percent reliance on FGIC for future interest and principal shortfalls. Even though FGIC is currently timely paying 100 percent of all principal and interest claims, all three rating agencies have withdrawn external ratings for FGIC. Southwest Corporate also has placed reliance on FSA, Ambac, and MBIA. These three insurers are also currently paying principal and interest claims timely. Management

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currently believes that they will continue to make future claims. Further deterioration of these monoline insurers could result in additional other-than-temporary impairments.

FSP 115-2 allows other-than-temporary impairments to be recorded to the credit loss instead of the current fair value. The new standard is not retroactive to December 31, 2008; however, upon adoption prior non-credit losses can be reversed. As a result of the continued deterioration of the collateral performance experienced in the first quarter 2009, Southwest Corporate has determined that this is a Type I subsequent event, meaning any additional impairments resulting from the deterioration should be recorded effective December 31, 2008. As FSP 115-2 is not retroactive to December 31, 2008, Southwest Corporate has recorded an additional other-than-temporary impairment charge on mortgage-backed securities of \$479,872,000 at December 31, 2008 to the fair value of the holdings. Southwest Corporate adopted the new impairment standard effective March 1, 2009 and reversed \$300,101,000 in non credit charges. As a result, Southwest Corporate recorded an additional net credit loss of \$179,771,000 on the residential mortgage-backed securities portfolio.

Southwest Corporate also recorded additional \$9,900,000 impairment on Lehman Brothers' corporate bonds effective December 31, 2008. Therefore, Southwest Corporate has recorded total other-than-temporary impairment charges of \$39,595,000 on \$49,500,000 of senior debt holdings in Lehman Brothers in 2008. The impairment charges represent a 20 percent recovery estimate on these holdings.

Regulatory Capital

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 5.0 percent. Capital is defined in Part 704 as retained earnings and members' capital accounts. The 5.0 percent requirement is based upon Southwest Corporate's election to operate under an NEV limit of 28.0 percent.

A summary of Southwest Corporate's unaudited regulatory capital position at January 31, 2009 is as follows (in thousands).

Members' capital accounts	\$394,700
Retained deficit	(363,630)
<u>Total regulatory capital</u>	<u>\$ 31,070</u>
12-month daily average net assets	10,641,859

Capital ratio	0.29%
Retained earnings ratio	(3.42%)

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 3.00 percent at November 30, 2008, respectively.

**Southwest Corporate Federal Credit Union
Consolidated Statement of Financial Condition
January 31, 2009 (Restated)**

(in thousands)

unaudited

Assets

Cash and cash equivalents	\$ 2,165,053
Federal funds sold	15,390
Trading account assets	27,005
Interest rate derivative assets	25,146
Investments available-for-sale	3,934,476
Investments held-to-maturity	56,228
Other investments	2,008,099
Loans to members	758,714
Premises and equipment, net	22,187
Goodwill	2,568
Accrued receivables and other assets	26,570
Total assets	\$ 9,041,436

Liabilities

Members' share accounts	9,755,739
Borrowed funds	-
Interest rate derivative liabilities	984
Accrued expenses and other liabilities	47,374
Total liabilities	9,804,097

Members' Deficit

Members' capital accounts	394,700
Retained deficit	(363,630)
Accumulated other comprehensive loss	(793,731)
Total members' deficit	(762,661)
Total liabilities and members' deficit	\$ 9,041,436

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

Southwest Corporate Federal Credit Union
Consolidated Statement of Income
For the Period Ended January 31, 2009 (Restated)

(in thousands)

unaudited

Interest income

Investments and trading account assets	\$ 10,793
Loans to members	1,368
Total interest income	12,161

Cost of funds

Dividends on members' share accounts	8,034
Interest on borrowed funds	328
Total cost of funds	8,362

Net interest income **3,799**

Noninterest income

Share draft and depository processing fees	1,571
Net gain on investments	23
Net loss on derivative transactions	(256)
Other noninterest income	1,717
Total noninterest income	3,055

Operating expense

Compensation and benefits	1,957
Information technology	466
Outside processing and service fees	471
Professional fees	203
Office occupancy	144
Other operating expense	227
Total operating expense	3,468

Net income **\$ 3,386**

**Southwest Corporate Federal Credit Union
Consolidated Statement of Members' Equity (Deficit)
For the Period Ended January 31, 2009 (Restated)**

(in thousands)	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss) unaudited	Comprehensive Income
Balance at December 31, 2008	(\$367,016)	(\$801,410)	
Net income	3,386		\$ 3,386
Other comprehensive income		7,679	7,679
Comprehensive income			\$ 11,065
Balance at January 31, 2009	(\$363,630)	(\$793,731)	

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

Notes to Financial Statements

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include pass-through reserves deposited with the Federal Reserve Bank of \$19,941,000 at January 31, 2009. Member credit unions' reserve balances are included in the members' share accounts in the consolidated statement 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 statement of financial condition. Cash items in the process of collection at January 31, 2009 totaled \$710,992,000. Also included in cash and cash equivalents are U.S. Central certificates of deposit maturing the next business day.

2. INTEREST RATE DERIVATIVES

Interest rate derivatives at January 31, 2009 are comprised of interest rate swap agreements. The impact of netting interest rate swap gains and losses, interest and collateral receivable and payable, per counterparty at January 31, 2009, is summarized in the following table (in thousands):

<u>Interest rate derivative assets</u>	
Interest rate swap gains	\$29,221
Interest rate swap losses	(17,221)
<u>Net interest rate swap gains</u>	<u>12,000</u>
Interest receivable	12,921
Interest payable	(4,454)
Cash collateral pledged	4,679
<u>Net interest receivable</u>	<u>13,146</u>
<u>Interest rate derivative assets</u>	<u>\$25,146</u>
<u>Interest rate derivative liabilities</u>	
Interest rate swap gains	\$12,915
Interest rate swap losses	(17,659)
<u>Net interest rate swap losses</u>	<u>(4,744)</u>
Interest receivable	7,237
Interest payable	(3,477)
<u>Net interest receivable</u>	<u>3,760</u>
<u>Interest rate derivative liabilities</u>	<u>(\$984)</u>

A net unrealized loss on derivative transactions of \$256,000 is recognized in the consolidated statement of income for the one month ended January 31, 2009. Net unrealized gains or losses recognized in the consolidated statement of income (loss) on operations pertain to interest rate swaps that are not designated as hedges and the ineffective portion of designated hedges.

A summary of Southwest Corporate's hedging activity at January 31, 2009 is included in the following table (in thousands):

Fair value hedges	\$2,631,373
Cash flow hedges	215,369
No hedge designation	167,792
Total	\$3,014,534

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

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. As of January 31, 2009 Southwest Corporate has pledged cash of \$4,679,000 as collateral.

3. TRADING ACCOUNT ASSETS

Trading account assets are primarily comprised of fixed income mutual funds that invest in Treasury, agency and investment-grade residential mortgage-backed securities.

4. INVESTMENTS AVAILABLE-FOR-SALE

The amortized cost and estimated fair value of investments available-for-sale at January 31, 2009 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value	Unrealized Gain/(Loss)
Mortgage-backed securities	\$1,961,352	\$1,593,833	(\$367,519)
Asset-backed securities	2,300,935	1,889,112	(411,823)
Corporate bonds	474,784	451,531	(23,253)
Total	\$4,737,071	\$3,934,476	(\$802,595)

Certain investments available-for-sale are pledged as collateral to secure borrowings and clearing settlements. The fair value of pledged cash and securities is \$4,970,000 at January 31, 2009.

5. INVESTMENTS HELD-TO-MATURITY

The amortized cost and estimated fair value of investments held-to-maturity at January 31, 2009 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value	Unrealized Gain/(Loss)
Mortgage-backed securities	\$21,184	\$21,029	(\$155)
Asset-backed securities	35,044	34,710	(334)
Total	\$56,228	\$55,739	(\$489)

Southwest Corporate has not reclassified any securities from available-for-sale to held-to-maturity.

6. OTHER INVESTMENTS

Other investments are comprised of the following investments at January 31, 2009 (in thousands):

Share certificates in U.S. Central	\$1,890,943
Membership capital shares in U.S. Central	62,269
Other shares in U.S. Central	30,750
Capital stock in Federal Home Loan Bank of Dallas	21,978
Other investments	2,159
Total	\$2,008,099

Southwest Corporate has \$62,269,000 in membership capital shares remaining at U.S. Central, after the action taken by U.S. Central to reduce \$194,753,000 in paid-in capital and membership capital shares. Southwest Corporate will continue to evaluate for impairment and that future events such as additional credit losses at U.S. Central could result in further impairments of membership capital shares.

7. LOANS TO MEMBERS

Loans to members are comprised of the following loan types at January 31, 2009 (in thousands):

Open-end credit lines	\$201,781
Term loans	556,933
Total	\$758,714

8. MEMBERS' SHARE ACCOUNTS

Members' share accounts are comprised of the following account types at January 31, 2009 (in thousands):

Cash management	\$1,838,839
Performance tiered	3,851,072
Standard tiered	177,704
Share certificates	3,803,612
Other shares	84,512
Total	\$9,755,739

On February 5, 2009, Southwest Corporate extended its participation in NCUA's voluntary guarantee program in which all overnight share accounts and share certificates are 100 percent insured through December 31, 2010.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss at January 31, 2009 is comprised of the following components (in thousands):

	Unrealized Losses On AFS Securities	Unrealized (Losses) Gains On Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at December 31, 2008	(\$811,091)	\$9,681	(\$801,410)
Net change	8,496	(817)	7,679
Balance at January 31, 2009	(\$802,595)	\$8,864	(\$793,731)

The net change in unrealized (losses) gains on available-for-sale securities is as follows for the period ended January 31, 2009 (in thousands):

Unrealized holding gains arising during the period	\$8,496
Less: reclassification adjustment for losses (gains) included in net income	-
Net change	\$8,496

10. CAPITAL RATIOS

Southwest Corporate is required by Part 704 of the NCUA Rules & Regulations to maintain a minimum capital ratio (i.e., retained earnings and members' capital accounts over net average assets) of 5.00 percent. Southwest Corporate's capital ratio at January 31, 2009 is 0.29 percent. Southwest Corporate's retained earnings ratio (i.e., retained earnings over net average assets) at January 31, 2009 is a negative 3.42 percent. 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.