



Central Corporate Credit Union
Financial Results for the First Half of 2009

SUMMARY

CenCorp's regular release of financial results was interrupted due to delays in the completion of the US Central Federal Credit Union (US Central) 2008 audit. This audit was completed in September 2009. With the US Central audit complete, CenCorp finalized its [2008 audit](#) and prepared this report for the first half of 2009.

As noted in other communications to members in 2009, CenCorp's operating results have been adversely impacted principally by the impairment of CenCorp's capital investment in US Central. Of CenCorp's original \$149 million capital investment at US Central, \$103 million was impaired as of June 30, 2009. CenCorp had total capital of \$124 million at June 30, 2009. This consists of member capital share deposit (MCSD) accounts of \$113 million and retained earnings of \$11 million.

The U.S. housing and related mortgage markets have performed poorly in recent years. Defaults far exceeded historical levels and have deteriorated further in 2009. Although there have been some signs of the markets stabilizing, additional losses are anticipated in the last half of 2009. Expected credit losses on non-agency mortgage-backed securities are the underlying cause of the losses at US Central and CenCorp. A summary of the impairment charges and CenCorp's overall operating results for 2008 and the first half of 2009 (in millions) is as follows.

	<u>Impairment Charges</u>	<u>Net Loss</u>
Year Ended 12/31/08	\$23	\$12
Six Months Ended 6/30/09	\$81	\$78

New member deposits with a maturity of up to two years continue to be guaranteed by the NCUSIF. Member overnight deposits at CenCorp have run higher than seasonal norms in 2009 while loans to members have been lower. CenCorp's current overall liquidity is higher than normal at this time of year.

The NCUA is expected to issue changes to the regulations regarding Corporate credit unions before the end of 2009, with the changes to become effective in subsequent years.

The remainder of this document summarizes the primary issues that impact CenCorp. They are presented in the following sections.

1. Market Developments
2. US Central
3. Credit Quality
4. Liquidity
5. Asset/Liability Management
6. Capital
7. Earnings
8. Regulation

MARKET DEVELOPMENTS

The weakened U.S. housing market that began in 2006 continued into 2009. Delinquency/foreclosures in loans secured by residential real estate remain at historically high levels. The supply of houses for sale relative to demand is currently in excess of historical norms and new home construction is down. Housing prices fell further in 2009 and showed some signs of stabilizing around mid-year. The predominant economic outlook is that the housing sector will struggle into 2010.

Developments in the housing market since 2007 have prompted the major credit rating agencies to reevaluate their ratings of privately-issued securities backed by residential loans. The credit rating criteria is now significantly more stringent. The ratings on several thousand mortgage-backed securities have been lowered in recent years, some on

multiple occasions. There are also some significant differences in the credit ratings on the same securities from the credit rating agencies (mainly Standard & Poor's and Moody's).

Higher mortgage defaults have negatively impacted the claims paying ability of the companies that insure the payments on securities (a.k.a. monolines). Two of the larger monolines (Ambac and MBIA) raised additional capital in 2008 in an attempt to keep their high (AAA) credit rating. The capital raised was ultimately not enough and the credit ratings of these firms were initially downgraded in 2008 and then downgraded further in 2009. Another large monoline that was also initially downgraded in 2008, FGIC, was downgraded further and then had its credit rating withdrawn in 2009.

Mortgage-backed securities are often structured with a hierarchy of tranches¹. The most senior tranches, rated AAA, are supported by subordinated (lower credit-rated) tranches or other credit enhancements that absorb the first losses on any underlying loans that default. The senior tranches are impacted if the losses are projected to exceed the credit enhancement and/or subordinated tranches. Although most of the existing securities in the market continue to make their principal and interest payments currently, the estimates of future losses indicate that losses on the underlying loans of many of the originally AAA-rated securities will be higher than the credit enhancements and subordinated tranches. Principal losses are more likely than they were at the issuance of the securities and have resulted in security downgrades. In the past two years, investors have avoided most existing privately-issued securities due primarily to the rising credit quality problems with mortgage loans nationally and the downgrades from the credit rating agencies.

FNMA/FHLMC, investment banks, hedge funds and other investors have incurred losses related to their mortgage or security holdings. Entities that leveraged their holdings by using the securities as collateral have been forced to pay higher interest rates on the borrowed funds, sell securities, and/or pledge additional collateral. These actions have a self-reinforcing, downward effect on current security pricing. Both bond and equity markets have reacted negatively to these events. Short-term (under 90 day) rates for loans between financial institutions have historically stayed near the Fed Funds target rate. These rates were consistently well above the Fed Funds target rate from the last half of 2007 through 2008. In the first half of 2009, the short-term rates were closer to the Fed Funds target rates.

The compounded result of the various factors noted above is that production of new privately-issued mortgage-backed securities and secondary market trading is nearly non-existent today. The previously liquid market of mortgage origination and securitization that has grown over the last two decades is now illiquid and contracting. The few security sales taking place appear to be forced and at prices that are substantially less than what they were under historical market conditions. This is also negatively impacting the market values of any non-Treasury debt securities.

The valuation of mortgage-backed securities is now more difficult and subjective than it has been historically and appears to be heavily driven by the illiquid environment. Tighter credit standards are leaving consumers with fewer refinance options and slowing down the prepayment speeds on securities.

US CENTRAL

US Central is primarily an investment alternative for corporate credit unions. As a wholesale corporate credit union, US Central typically has the vast majority of its assets in investments. As noted in previous CenCorp communications, these investments have incurred substantial losses and US Central was put into NCUA conservatorship in March 2009. Corporate deposits at US Central are guaranteed by the NCUSIF through December 31, 2011. This date may be extended by the NCUSIF in the future. New deposits at US Central with a maturity of two years and under are also covered by this guarantee.

To benefit from the deposit guarantee and provide US Central with liquidity, CenCorp has directed substantially all of its new investments to US Central since this guarantee went into effect in February 2009. New investments have been made for a maximum of two years. CenCorp anticipates that it will continue this practice in the near future.

¹ A tranche is a separate security within a mortgage-backed security structure. Tranches are allocated specific cash flow (principal and interest) that is received on the underlying collateral. Certain tranches receive cash flow before other tranches.

US Central reported a net \$1.3 billion in investment impairment charges for 2008. The accounting for the impairment charges was complicated by new accounting rules that initially went into effect in 2008 but were partially modified in the first quarter of 2009. The net \$1.3 billion amount noted above includes a charge in 2008 and a reversal in 2009. This is explained in more detail in footnote #7 to US Central's [audited financial statements](#). Another \$1.1 billion in investment impairment charges were incurred by US Central in the first half of 2009. Additional impairment charges are expected in the last half of 2009.

The investment impairment charges at US Central resulted in net losses in 2008 and in the first half of 2009 that exceeded US Central's retained earnings. CenCorp and other Corporates proportionately reduced their capital investments at US Central by the amount that the impairment charges exceeded retained earnings. The write-down of CenCorp's capital investment at US Central accounted for all of CenCorp's \$23 million in impairment charges for 2008 and all except for \$0.6 million of the \$81 million recorded in the first half of 2009. CenCorp had \$46 million in remaining capital investments at US Central at June 30, 2009. Additional impairment charges expected at US Central in the last half of 2009 would result in a further impairment of CenCorp's capital investment at US Central.

US Central's net loss for the first half of 2009 was \$1.0 billion. The loss was primarily the result of the investment impairment charges discussed above, partially offset by operating income. US Central's operating expenses for the first half of 2009 declined by about \$6 million compared to the first half of 2008.

Unrealized losses on available-for-sale securities have increased significantly since 2008 and totaled \$11.1 billion at June 30, 2009. US Central's investment securities by investment type and credit ratings are presented in the tables below. The amounts shown are the principal values of the investments, net of any unamortized discounts/premiums, at June 30, 2009 (dollars in millions).

	<u>Amount</u>	<u>Percent</u>
Residential Mtg-backed Securities (RMBS)		
Privately Issued	\$16,059	52.7%
Agency Issued	1,437	4.7%
Total	<u>17,496</u>	<u>57.3%</u>
Asset-backed Securities		
Credit Card	6,103	20.0%
Student Loan	2,645	8.7%
Auto	1,870	6.1%
Commercial loan	388	1.3%
Other	438	1.4%
Total	<u>11,444</u>	<u>37.5%</u>
US Government and Agency Debt	165	0.5%
Corporate Bonds & Notes	1,405	4.6%
Total Investment Securities	<u>\$30,510</u>	<u>100.0%</u>

	<u>Amount</u>	<u>Percent</u>
Credit Ratings		
AAA	\$12,721	41.7%
AA	2,982	9.8%
A	1,619	5.3%
BBB	1,901	6.2%
<BBB	11,287	37.0%
Total Investment Securities	<u>\$30,510</u>	<u>100.0%</u>

US Central has historically concentrated its purchases in AAA-rated securities. These securities have credit enhancements, such as subordinated tranches, excess collateral, or monoline insurance, which incur any initial losses and protect the more highly-rated tranches. The poor recent credit performance of the underlying collateral has resulted in an increasing number of security downgrades at US Central in 2009, including further downgrades in the third quarter of 2009. US Central has reviewed its investment portfolio internally and used third-parties to evaluate the need to record any other-than-temporary impairments in its investment portfolio. Other-than-temporary impairments have been recognized as realized losses previously.

US Central has \$1.4 billion in total regulatory capital at June 30, 2009. In April 2009, the NCUA issued an order authorizing Corporate credit unions, including US Central, to use capital levels as reported at November 30, 2008 for determining compliance with regulatory capital and retained earnings ratio requirements. Its total regulatory capital ratio of 6.9% at June 30, 2009 (using November 2008 capital) was in excess of its 5.0% regulatory requirements. Using actual capital balances at June 30, 2009, its total capital ratio was 3.7%.

Additional information on US Central at June 30, 2009 is available on their [financial statements](#).

CREDIT QUALITY

Approximately 93% of CenCorp's assets at June 30, 2009 are investments. Member loans (6%) make up most of the remainder. CenCorp's investment portfolio (at book value) consisted of the following at June 30, 2009 (dollars in millions).

	<u>Amount</u>	<u>Percent</u>
US Central investments	\$2,563	90.8%
US Central capital	46	1.6%
US Agency securities	159	5.6%
Non-Agency mortgage securities	48	1.7%
Bank obligations	9	0.3%
Total	<u>\$2,825</u>	<u>100.0%</u>

A total of 94% of CenCorp's US Central investments are guaranteed by the NCUSIF under the Corporate guarantee program noted previously. Unguaranteed US Central investments (\$110 million) are those that mature after the December 31, 2011 expiration date of the NCUSIF guarantee and were purchased prior to the existing guarantee becoming effective. The NCUSIF may extend this guarantee date in the future.

A summary of CenCorp-owned securities at June 30, 2009 (dollars in millions) is as follows.

	<u>Amortized Cost</u>	<u>Unrealized Gains (Losses)</u>	<u>Market Value</u>	<u>Percent of Total</u>
US Agency securities	\$159	\$2	\$161	77%
Non-Agency mortgage securities	82	(34)	48	23%
Total Securities	<u>\$241</u>	<u>(\$32)</u>	<u>\$209</u>	<u>100%</u>

Note:

Table includes \$2 million in unrealized gains on US Agency securities classified as held-to-maturity for accounting purposes.

The defaults in the underlying collateral of securities owned by CenCorp increased sharply over the last two years and are higher than what was anticipated at the time CenCorp purchased the securities. Scheduled principal and interest payments thus far have been made when they were due. The higher underlying collateral losses experienced on some securities have been covered by the credit enhancements that protect the investors (primarily subordinated tranches, overcollateralization and monoline insurance payments).

Securities owned by CenCorp were AAA-rated when purchased. The poor performance of the underlying collateral and financial condition of the monoline insurers have resulted in security downgrades from the rating agencies. This and other conditions in the investment markets have made the valuation of these securities difficult. A summary of the most recent S&P ratings for non-agency security balances at June 30, 2009 and after principal paydowns through September 2009 (dollars in millions) is as follows.

	<u>6/30/09</u> Amortized Cost	<u>9/30/09</u> Amortized Cost
AAA	\$11	\$10
Other Investment Grade	32	29
Non-Investment Grade	<u>39</u>	<u>36</u>
Total Non-Agency Securities	<u>\$82</u>	<u>\$75</u>

CenCorp recorded an Other-Than-Temporary Impairment (OTTI) charge of \$0.6 million for one of the non-investment grade securities in 2009. An analysis of the non-investment grade securities owned by CenCorp is presented on [Schedule 1](#).

CenCorp lends funds to members and affiliates on a secured basis only. All loans are current as of June 30, 2009.

LIQUIDITY

As background, member overnight deposits at CenCorp (Hi-Yield accounts) follow a fairly predictable annual pattern of a peak in early April with low points in late August and late September. Member overnight deposits have been well in excess of overnight loans at CenCorp for decades. Established internal funds management practices anticipate member liquidity needs, which can be volatile. CenCorp and other corporate credit unions typically maintain a higher amount of liquidity and/or access to external liquidity sources than other financial institutions to compensate for this volatility.

CenCorp keeps much of the larger inflow of overnight deposits from members in the first half of the year in overnight or short-term investments, anticipating seasonal outflow demands by members in the third quarter. A portion of the overnight deposits are invested in higher-yielding floating rate investments. These floating rate investments have weighted average lives of several years at the time of purchase and often have monthly principal repayments. In percentage terms, the floating rate investments relative to member overnight accounts is greatest during the third quarter when member balances are typically at their lowest. In practice, CenCorp has maintained ample on-balance sheet liquidity and/or external borrowing sources and has not sold its floating rate investments prior to maturity. CenCorp's borrowing from external sources is typically for a few days in the third quarter of the year. The external funds were generally accessed from US Central or through CenCorp's commercial paper program.

Credit markets became erratic in the past two years, culminating in a series of events in the fall of 2008 (FNMA/FHLMC conservatorships, Lehman bankruptcy, etc.). The commercial paper and other non-government-backed credit markets were not working as usual. This restricted US Central's and CenCorp's ability to access external funding. Government guarantees of commercial paper and other borrowings became prevalent. Credit unions began using the Central Liquidity Facility (CLF) as an emergency funding source. US Central turned to other sources of funds, using its investment security portfolio as collateral.

In 2009, the NCUSIF began guaranteeing deposits at US Central and Corporate credit unions. This guarantee currently extends through December 31, 2011 and may be extended by the NCUSIF in the future. New deposits at US Central and CenCorp with a maturity up to two years are guaranteed.

CenCorp and other Corporates have seen an inflow of deposits in 2009. We believe that this is primarily attributable to the deposit guarantee and an inflow of member deposits into credit unions in general. Member overnight deposits

at CenCorp followed closely to the cyclical pattern in the first half of 2009. With the continued uncertainties in the external funding markets, CenCorp elected to keep a larger portion of investments in overnight/short-term investments than it has done historically. A breakdown of CenCorp's reinvestment of member overnight deposits at June 30, 2009 is presented below (dollars in millions).

	<u>Amount</u>	<u>Percent</u>
Overnight/short-term investments	\$1,213	59%
Short-term member loans	63	3%
Floating rate investments over 90 days	<u>774</u>	<u>38%</u>
Member overnight deposits	<u>\$2,050</u>	<u>100%</u>

In the third quarter of 2009, the *outflow* of overnight funds that typically occurs at this time of the year has been less than usual. Member overnight borrowings from CenCorp were less than half of the previous year levels. CenCorp met member borrowing needs through its on-balance sheet resources (i.e., CenCorp did not borrow external funds for liquidity purposes in the third quarter of 2009).

The principal external source of liquidity for CenCorp is a \$725 million line of credit through US Central. Secondary sources are the pledge of CenCorp's \$159 million in agency securities for borrowings (reverse repurchase agreements) or borrowing up to \$100 million under the NCUA's Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). The TCCULGP, administered by the NCUA, allows CenCorp to issue debt obligations that are guaranteed. Considering its current on-balance sheet liquidity and the sources of external liquidity noted above, CenCorp has ample liquidity to meet member needs.

As noted previously, the issuance of commercial paper became difficult in 2008. These conditions persisted into 2009 and have been complicated further by the investment losses at US Central and their impact on CenCorp. CenCorp evaluated the benefit of continuing its commercial paper program in light of its needs and the costs of the program. The commercial paper program was discontinued in April 2009.

ASSET/LIABILITY MANAGEMENT

CenCorp limits its interest rate risk. The maturity/repricing characteristics of CenCorp's interest-earning assets (primarily investments) generally correspond closely with CenCorp's interest-bearing liabilities (primarily member accounts).

CenCorp performs regular asset/liability modeling (commonly known as "shock analysis"). The shock analysis quantifies the impact that an instantaneous and sustained change of up to 300 basis points (3%) in market interest rates would have on CenCorp. This analysis calculates the change in the Net Economic Value (NEV) of CenCorp's assets minus liabilities assuming changes in market interest rates. For calculation purposes, CenCorp's Member Capital Share Deposit (MCSD) accounts are considered a component of equity.

The following table summarizes the impact on CenCorp's NEV under different interest rate scenarios. The change in NEV is expressed in dollars and as a percent of NEV at June 30, 2009.

	Market Interest Rates		
	<u>Decrease by 1%</u>	<u>Stay the Same</u>	<u>Increase by 3%</u>
NEV	\$83 million	\$83 million	\$63 million
Percent Change	+0%	N/A	-24%

CAPITAL

CenCorp had total capital of \$124 million at June 30, 2009. This consists of MCSD accounts of \$113 million and retained earnings of \$11 million. CenCorp's total capital to average net assets over the past year ratio (standard regulatory computation) at June 30, 2009 was 5.7%. This is higher than the 4.0% minimum regulatory requirement.

Due to the various issues involving Corporate credit unions, the NCUA Board issued an order regarding regulatory capital levels in April 2009. Corporate credit unions were instructed to use their capital levels at November 30, 2008 to determine compliance with NCUA Regulation 704. CenCorp's regulatory capital ratio at November 30, 2008 was 7.0%.

EARNINGS

CenCorp is a cooperative owned primarily by Michigan credit unions. It typically operates on very narrow interest margins when compared to most other financial institutions. CenCorp's net earnings as a percent of assets (return on assets) are lower than other financial institutions for this reason. The net loss for the first half of 2009 was \$77.9 million compared to net income of \$6.8 million during the same period last year.

The net loss is primarily attributed to losses on US Central capital investments (\$79.9 million) that were discussed previously. CenCorp's net interest income for the first half of 2009 was lower by \$4.5 million compared to the same period last year. The lower net interest income is primarily due to lower Libor rates during the first half of 2009 compared to 2008. Libor rates (the index for most of CenCorp's floating rate investments) were consistently higher than their historical relationship to Fed Funds rates (the primary index for member overnight deposits) during 2008. The Libor rates were closer to the historical relationship to Fed Funds during the first half of 2009. Also, CenCorp paid higher rates (about 5 basis points) on overnight member accounts compared to Fed Funds than in 2008.

Other income was higher by about \$0.5 million primarily due to increased SimpliCD and securities sales and the recognition of income from the NCUSIF recapitalization in the first half of 2009. Operating expenses increased by a net \$0.2 million for the first half of 2009 compared to the same period last year. CenCorp accrued NCUSIF premiums of \$0.4 million while other expenses were about \$0.2 million lower.

REGULATION

CenCorp is a state-chartered credit union authorized under the Michigan Credit Union Act. CenCorp's primary regulator is the Office of Financial and Insurance Regulation (OFIR) of the State of Michigan, but is subject to additional regulation by the NCUA.

The NCUA has indicated that substantial changes to the regulations regarding Corporate credit unions are forthcoming. The NCUA began a series of meetings with credit unions in September 2009. Concepts set forth for discussion by the NCUA thus far include new capital requirements and additional investment concentration limits. The new capital requirements are modeled along the lines of the Basel² standards. If implemented, this would require change to the MCSD account terms at CenCorp and/or changes to CenCorp's asset size and operations.

Proposed changes are expected to be issued for public comment before the end of 2009, with a phase-in of the requirements in subsequent years.

CONDENSED FINANCIAL STATEMENTS

Condensed financial statements for June 30, 2009 and 2008, and a trend analysis are presented on the following pages.

² Basel refers to the international capital standards for financial institutions that were originally developed in Basel, Switzerland.

CENTRAL CORPORATE CREDIT UNION
CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLARS IN MILLIONS)

BALANCE SHEETS

	<u>6/30/2009</u>	<u>6/30/2008</u>
Assets		
Cash and uncollected funds	\$39	\$37
Investments	2,779	2,924
Capital investments at US Central FCU	46	131
Loans	171	173
Other assets	<u>11</u>	<u>21</u>
Total assets	<u><u>\$3,046</u></u>	<u><u>\$3,286</u></u>
Liabilities and Members' Equity		
Borrowings	\$103	\$133
Uncollected funds	10	30
Other liabilities	<u>8</u>	<u>16</u>
Total liabilities	<u>121</u>	<u>179</u>
Members' shares	2,050	2,018
Members' certificates	785	887
MCSD accounts	113	113
Retained earnings	11	108
Other comprehensive income (loss)	<u>(34)</u>	<u>(19)</u>
Total members' equity	<u>2,925</u>	<u>3,107</u>
Total liabilities and members' equity	<u><u>\$3,046</u></u>	<u><u>\$3,286</u></u>

STATEMENTS OF OPERATIONS

	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>6/30/2009</u>	<u>6/30/2008</u>
Interest income	\$11.4	\$29.6	\$23.4	\$65.9
Interest expense	9.1	25.4	19.4	57.4
Net interest income	<u>2.3</u>	<u>4.2</u>	<u>4.0</u>	<u>8.5</u>
Other-than-temporary impairments on investments	<u>(51.0)</u>	<u>-</u>	<u>(80.5)</u>	<u>-</u>
Other income (including \$0.2 million in income from the NCUSIF recapitalization in the second quarter of 2009)	<u>2.3</u>	<u>2.0</u>	<u>4.3</u>	<u>3.8</u>
Earnings before general and administrative expenses	<u>(46.4)</u>	<u>6.2</u>	<u>(72.2)</u>	<u>12.3</u>
Compensation and benefits	1.2	1.2	2.5	2.5
Correspondent bank charges	0.6	0.6	1.1	1.2
Occupancy and equipment	0.5	0.5	1.0	0.9
NCUSIF premium	-	-	0.4	-
Other expense	<u>0.3</u>	<u>0.4</u>	<u>0.7</u>	<u>0.9</u>
Total general and administrative expenses	<u>2.6</u>	<u>2.7</u>	<u>5.7</u>	<u>5.5</u>
Net income	<u><u>(\$49.0)</u></u>	<u><u>\$3.5</u></u>	<u><u>(\$77.9)</u></u>	<u><u>\$6.8</u></u>

**CENTRAL CORPORATE CREDIT UNION
TREND ANALYSIS
(DOLLARS IN MILLIONS)**

	For the Year-Ended December 31,							Year-to- Date
	2002	2003	2004	2005	2006	2007	2008	6/30/2009
ASSET AND CAPITAL SUMMARY								
Total assets	\$2,560	\$2,311	\$2,268	\$2,027	\$2,557	\$3,106	\$2,295	\$3,046
MCS D accounts	125	130	135	135	133	113	113	113
Retained earnings	79	84	88	92	95	101	89	11
Total capital to total assets	8.0%	9.3%	9.8%	11.2%	8.9%	6.9%	8.8%	4.1%
Retained earnings to total assets	3.1%	3.6%	3.9%	4.5%	3.7%	3.3%	3.9%	0.4%
 INCOME STATEMENT SUMMARY								
Net interest income	\$8.0	\$6.5	\$6.5	\$5.7	\$6.0	\$10.1	\$14.8	\$4.0
Other-than-temporary impairments on investments	0.0	0.0	0.0	0.0	0.0	0.0	(23.1)	(80.5)
Other income	8.5	8.6	8.0	7.4	7.2	6.5	6.8	4.3
Gross income	16.5	15.1	14.5	13.1	13.2	16.6	(1.5)	(72.2)
Operating expenses	11.4	10.3	9.9	10.0	10.1	10.6	10.8	5.7
Net income	\$5.1	\$4.8	\$4.6	\$3.1	\$3.1	\$6.0	(\$12.3)	(\$77.9)

Note:

CenCorp's assets traditionally increase during the first quarter of the year and then decline in the second and third quarters.

Analysis of Non-Investment Grade Securities
June 30, 2009

The non-investment grade securities owned by CenCorp by issuer (in millions) are summarized in the table below. Each security is then discussed individually.

	<u>6/30/09</u>	<u>9/30/09</u>
	<u>Book</u>	<u>Book</u>
	<u>Value</u>	<u>Value</u>
GMAC	\$29.1	\$27.4
Fremont	10.0	9.1
	<u>\$39.1</u>	<u>\$36.5</u>

GMAC

The GMAC security was originated in March 2006 and is collateralized by home equity loans throughout the U.S. The credit enhancements beyond the underlying loans are monoline insurance from FGIC, overcollateralization³, and excess spread⁴. Information on the underlying loans is as follows.

Average original FICO score of borrowers	713
Average original LTV	75%
Owner occupancy percent	100%
Loans over 60 days past due	5.3%
Loans in foreclosure	0.3%

The delinquency/foreclosures on the underlying loans have been greater than anticipated. Cumulative net losses on the underlying loans have totaled 11% of the original principal balance. Investors in the GMAC security, including CenCorp, have been protected from losses to date by the overcollateralization structure of the GMAC security and the reimbursement of the collateral losses made by FGIC. The overcollateralization amount was exceeded in April 2009 and FGIC began paying the investors for losses incurred on the underlying loans at that time.

The financial condition of FGIC has deteriorated as losses on securities that it committed to insure have increased beyond the levels estimated when the securities were originated. FGIC issued its financial statements as of June 30, 2009 in September 2009. Higher estimated insurance losses in the 2nd quarter of 2009 resulted in FGIC's capital falling below the minimum statutory capital requirement set by the FGIC's regulator (New York State Insurance Department). No formal regulatory action by the regulator against FGIC has been disclosed to date. FGIC has continued to pay claims in the 3rd quarter of 2009 and has additional assets to pay claims.

The outcome of any potential regulatory action regarding FGIC, as well as the future defaults on the underlying collateral, is uncertain at this time. Losses on the underlying collateral have exceeded the excess spread in recent months. Projected losses on the GMAC security similar to recent experience combined with FGIC ceasing to make

³ Overcollateralization is the pledge of loans in excess of the original principal amount of the securities sold to investors. This provides additional principal protection to the investors and the monoline insurer.

⁴ Excess Spread is the interest and fees collected on the underlying loans less (1) the contractual interest due to the security investors and (2) servicing and guarantee fees. These funds are available to the investors and the monoline insurer to offset principal losses. The annualized Excess Spread on the GMAC security in the most recent month was 3.5%.

payments due would result in a loss to CenCorp. CenCorp has not recorded an impairment charge on this security at this time. The need for an impairment charge will be evaluated in subsequent quarters.

Fremont

Fremont is a multi-tranche security collateralized with residential mortgage loans. It had an original total principal value in April 2006 of \$1 billion that has been reduced to a principal value of \$318 million through September 2009. The credit enhancements to the tranche owned by CenCorp beyond the underlying loans are subordinated tranches, overcollateralization, and excess spread. The delinquency/foreclosure of the loans has been significantly higher than what CenCorp anticipated when the security was purchased. Below is a summary of the Fremont security through September 30, 2009 (in millions).

	Original Face Value	Principal Repayments	Incurred Losses	Current Principal Balance
Senior Tranches (including CenCorp)	\$ 772	\$(585)	\$ -	\$187
Subordinated Tranches	224	-	(93)	131
Excess Spread	-	57	(57)	-
Overcollateralization Amount	14	-	(14)	-
Totals	<u>\$1,010</u>	<u>\$(528)</u>	<u>\$(164)</u>	<u>\$318</u>

As can be seen in the table above, the losses to date (about 16% of the original principal balance) have been absorbed by the original overcollateralization amount, excess spread, and the subordinated tranches. The remaining subordinated tranches total \$131 million. CenCorp and the owners of the other senior tranches would share in any losses that exceed the subordinated tranches and future excess spread (the subordinated tranches currently represent 41% of the remaining principal balance). If future losses exceed the subordinated tranches, they would be shared by the senior tranches in proportion to the then outstanding principal amounts of the senior tranches. There are three senior tranches remaining. Two tranches, including the tranche partially-owned by CenCorp, are receiving principal repayments today. The third tranche, totaling \$39 million, would not receive any principal repayment until the CenCorp-owned tranche has been repaid or losses in the future exceed the remaining subordinated tranches.

Information on the remaining underlying collateral is as follows.

Average original FICO score of borrowers	632
Average original LTV	81%
Owner occupancy percent	96%
Loans over 60 days past due	19.2%
Loans in foreclosure/REO	45.9%

The remaining pool has a disproportionately high share of non-performing loans and foreclosures. Whether or not the security owned by CenCorp will incur a loss of principal in the future is dependent on many factors, including the severity of losses on the liquidation of collateral, additional non-performing loans, and excess spread. Monthly principal repayments to CenCorp have averaged about \$0.3 million since payments began to be received in September 2008.

At a minimum, future losses would have to exceed the \$131 million in subordinated tranches before the tranche owned by CenCorp is paid-off for CenCorp to incur a loss of principal. Given the uncertainty in the housing market nationally, it is difficult to accurately estimate if CenCorp will incur a loss of principal before the security is paid-off. CenCorp projects that losses on the remaining pool will exceed the subordinated tranches in late 2011. This is prior to when CenCorp anticipates receiving the repayment of all the principal due on the tranche that it owns. CenCorp recorded an Other-Than-Temporary Impairment charge of \$600,000 in June 2009 to reflect the estimated shortfall.

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