



# **Louisiana Corporate**

## ***2007 Year-End Financial Soundness Report***

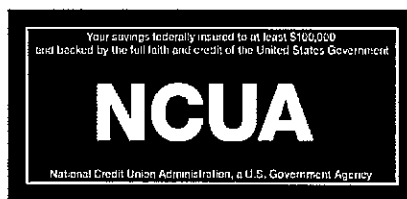
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***This report should be retained as part of the credit analysis required under Regulation 703.***

### **Executive Summary**

Louisiana Corporate continues to maintain a high quality investment portfolio which adheres to the corporate's strict asset liability management guidelines. Exposure to interest rate fluctuations (interest rate risk) is minimal, due to a high percentage of liquid and floating rate investments and an active and stringent asset liability management process.

Louisiana Corporate's total assets were \$189 million as of December 31, 2007. Net income for 2007 was \$232 thousand.



### Asset Liability Management

Louisiana Corporate's asset liability management policies are stricter than minimum regulatory requirements and require the corporate to closely match the maturity and repricing characteristics of its member liabilities to its assets. Louisiana Corporate operates at the "Base" level of NCUA Rules and Regulations Part 704, which provides for the most conservative of several operating levels available to Corporate Credit Unions. This effectively minimizes the corporate's interest rate risk, or its exposure to net income fluctuations during periods of changing market interest rates and liquidity levels.

Louisiana Corporate monitors its exposure to changing interest rate levels by performing a number of analytical procedures, including Net Economic Value (NEV) analysis. This analysis is performed quarterly and measures the effect of an immediate and sustained 300 basis point upward and 300 basis point downward change in interest rates on the corporate's net interest income and NEV. Louisiana Corporate's NEV ratio at December 31, 2007 exceeds regulatory requirements; equivalent to 162% of the regulatory minimum.

The following table summarizes the results of Louisiana Corporate's NEV analysis as of December 31, 2007:

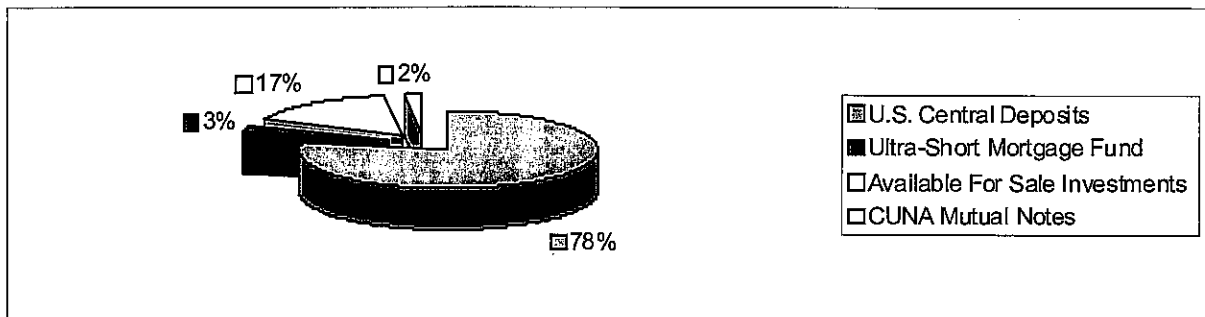
<u>Interest Rate Scenario</u>	<u>NEV Ratio</u>	<u>NEV in \$</u>	<u>% Change from Base</u>	<u>Regulatory Requirement</u>
+300 bps	7.47%	13,927,159	-6.95%	<-15%
Base	7.85%	14,967,853		> 3%
-300 bps	7.80%	15,144,104	+1.18%	<-15%

### Capital

A corporate credit union's capital strength level is gauged in relation to the degree of investment risk it assumes. Louisiana Corporate continues to maintain a strong capital level combined with a low degree of credit and interest rate risk. As of December 31, 2007, Louisiana Corporate's retained earnings totaled \$3,693,371. Membership Capital Accounts totaled \$7,856,154. Member Paid-In-Capital was an additional \$3,984,021. Core Capital, as defined by NCUA Rules and Regulations equaled \$7,677,392 and the Core Capital Ratio was 4.63%; the Capital Ratio, as defined by NCUA Rules and Regulations was 9.38% and exceeded regulatory requirements; equivalent to 134% of the regulatory minimum.

### Credit Quality

As of December 31, 2007, 92.4% of Louisiana Corporate's assets were invested, 5.8% were cash or cash equivalents, and 1.1% were in outstanding loans to member credit unions. Loans are secured by shares on deposit and assets of the credit unions. The following chart depicts the distribution of Louisiana Corporate's investments at December 31, 2007:



### U.S. Central Investments

As of December 31, 2007, 78% of Louisiana Corporate's total investment portfolio was invested in shares of U.S. Central Federal Credit Union, Lenexa, Kansas. U.S. Central is a \$45 billion, highly rated wholesale corporate credit union that serves the nations' corporate credit unions much in the same way as Louisiana Corporate serves its member credit unions. U.S. Central's strong reserves, high quality investments and strong liquidity position has continued to allow it to be among the world's highest rated financial institutions. U.S. Central recently received a AA+ rating from Standard & Poor's, one of only three U.S.-based financial institutions to receive this high rating. In fact, only one other U.S.-based depository institution has a rating higher than U.S. Central from Standard & Poor's. The other nationally recognized rating agencies continue to give U.S. Central their highest ratings possible.

Standard & Poor's adjustment of U.S. Central's rating in February, 2008 was attributed largely to unrealized losses on mortgage backed securities. A lack of liquidity in the mortgage securities markets worldwide has caused a current dampening in the price of mortgage backed securities. As these investments approach maturity, these unrealized losses reduce to zero in normal circumstances. U.S. Central's high degree of liquidity and liquidity sources allow it to hold its mortgage securities to maturity, thereby avoiding realized losses. U.S. Central management has stated its intention and ability to hold mortgage backed securities with unrealized losses to full maturity. Despite realizing losses on a small portion of the investment portfolio, U.S. Central still reported net income of \$6.9 million for 2007.

U.S. Central's complete quarterly financial reports can be accessed on their website at <http://www.uscentral.org>.

**U.S. Central Credit Ratings:**

**Long-Term Debt**

<u>Rating Service</u>	<u>Rating</u>
Standard & Poors	AA+
Moody's	Aa1
Fitch, Inc.	AAA

**Short-Term Debt**

<u>Rating Service</u>	<u>Rating</u>
Standard & Poors	A1+
Moody's	P1
Fitch, Inc.	F1+

**Asset Backed Securities (ABS)**

Louisiana Corporate utilizes limited investment in asset backed securities to diversify its portfolio, and maximize return to members consistent with sound asset liability management policies. These securities comply with NCUA Rules and Regulations Part 704, as well as the corporate's investment policies, which further restrict the types and amounts of securities which may be held. All LaCorp ABS carry the highest credit ratings attainable from major ratings agencies at the time of purchase, and are diversified by collateral type, geographic location of underlying collateral, and interest rate index type.

**Mortgage Backed Securities (MBS) and Other Investments**

Like ABS, Mortgage Backed Securities (MBS) and other investments are utilized to provide further diversification of the portfolio, while enabling the corporate to maximize its return to members consistent with sound asset liability management principles. These securities must pass industry standard volatility tests at the time of purchase, and are subjected to monthly re-testing. These practices provide for a qualification and testing procedure which is even more stringent than required regulatory standards. In accordance with LaCorp policies, these securities are limited in amount and maturity and must be adequately diversified in terms of collateral type, geographic location, and interest rate indices. The remainder of LaCorp's investment portfolio is invested in CUNA Mutual Medium-Term Notes, which matured in full in January 2008, the Shay Ultra-Short Mortgage Fund, CNBS, LLC, Primary Financial, LLC, CU Business Group, LLC & the Federal Home Loan Bank (FHLB) of Dallas. CNBS, LLC. is a

CUSO which provides brokerage & ALM services to financial institutions and is owned by a network of corporate and natural person credit unions. Primary Financial, LLC is a corporate credit union owned CUSO which provides certificate of deposit brokerage services to credit unions. CU Business Group, LLC is a corporate credit union owned CUSO providing business loan and services consulting to credit unions. The corporate membership in the FHLB of Dallas provides an additional potential source of liquidity and investment opportunity. The Shay Ultra-Short Mortgage Fund invests in mortgages with extremely short duration and carries a Standard & Poor's fund rating of AAAf (fund) and a Standard & Poor's volatility rating of S1+, the highest and best credit and volatility ratings attainable. Despite the current global credit dislocations in the mortgage securities markets, Louisiana Corporate maintains 92% of its available for sale investments in securities rated AAA or government sponsored enterprise equivalent, and maintains ample liquidity to hold all of its securities to maturity.

### **Liquidity**

Louisiana Corporate acts to manage its investment portfolios in accordance with its member's needs for liquidity. Accordingly, LaCorp monitors the liquidity of member deposits on a monthly basis. Louisiana Corporate maintains a high percentage of its investments in overnight deposits and further strengthens its liquidity position by maintaining \$53 million in committed and advised lines of credit with U.S. Central Credit Union. Louisiana Corporate maintains membership in the Federal Home Loan Bank of Dallas which provides an additional alternative source of liquidity.

### **Oversight**

Louisiana Corporate Credit Union is chartered by the State of Louisiana and insured by the National Credit Union Share Insurance Fund (NCUSIF). The National Credit Union Administration, Office of Corporate Credit Unions, and the State of Louisiana, Office of Financial Institutions conduct annual Regulatory examinations and insurance reviews jointly. The corporate receives an annual CPA opinion audit, and engages an external firm to perform quarterly internal control reviews and an annual ACH compliance review. The corporate also engages an external financial advisory firm to perform quarterly asset-liability management reviews and net economic value modeling. An external computer-consulting firm performs monthly on-site network security services and tests of retrieval of remotely stored data. The corporate also engaged a public accounting firm whose practice is limited to Information Technology Security and Intrusion testing to perform an IT security review and intrusion test in 2007.

**Financial Statements****Statement of Financial Position-Unaudited**

Assets:	<u>12/31/07</u>	<u>12/31/06</u>	<u>Change</u>
Cash	10,929,566	12,683,303	-13.8%
Investments	175,266,049	138,813,303	+26.3%
Loans to Members	2,024,119	5,745,792	-64.5%
Other Assets and Accrued Receivables	1,543,200	1,137,713	+35.6%
Total Assets	189,762,934	158,380,111	+19.8%
Liabilities and Equity:			
Liabilities and Accrued Expenses	18,715,046	13,233,156	+41.4%
Shares and MCS	167,912,321	142,029,603	+18.2%
Reserves and Undivided Earnings	3,693,371	3,461,262	+6.7%
Unrealized Gain/(Loss) on AFS securities	(557,804)	(343,910)	+62.2%
Total Liabilities and Equity	189,762,934	158,380,111	+19.8%

**Statement of Operations-Unaudited**

	<u>Year Ended</u> <u>12/31/07</u>	<u>Year Ended</u> <u>12/31/06</u>
Interest Income	\$8,242,833	\$7,606,065
Dividend and Interest Expense	<u>6,522,441</u>	<u>6,159,839</u>
Net Interest Income	<u>1,720,392</u>	<u>1,446,226</u>
Other Income	160,906	448,143
Service Fee Income	435,859	473,950
Gain on Sales of Securities	18,122	0
Income (less Interest Expense)	2,335,279	2,368,319
Operating Expense	<u>1,606,488</u>	<u>1,402,930</u>
Net Income before Dividend on Capital Shares	<u>728,791</u>	<u>965,389</u>
Dividends on Capital Shares	271,208	206,821
Net Income before Dividends on PIC	<u>457,583</u>	<u>758,568</u>
Dividends on PIC	225,474	216,365
Net Increase in Undivided Earnings	<u>\$232,109</u>	<u>\$542,203</u>