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An integral part of a credit union's investment policies, procedures and practices is the analysis of all institutions in which it has invested its surplus funds—including corporate credit unions. Part 703 of the National Credit Union

Administration's (NCUA) Rules and Regulations states,

“Except for investments that are issued or fully guaranteed as to principal and interest by the U.S. Government or its agencies, enterprises, or corporations or fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation, you must conduct and document a credit analysis of the issuing entity and/or investment before you purchase the investment.

You must update the analysis at least annually as long as you hold the investment.”

In its preamble to the regulation, NCUA further clarified its position on the analysis of corporate credit unions.

“NCUA recognizes that a small credit union may be unable to perform a detailed credit analysis. For a small credit union, investing funds in corporate credit unions is an appropriate risk management alternative to investing in securities. NCUA will not take exception to a small credit union investing all of its surplus funds in a corporate credit union.”

## ASSETS

(in thousands)

December 31,	2007	2006	2005	2004	2003
Cash and Uncollected Cash Items	\$ 53,960	\$ 54,464	\$ 39,412	\$ 28,383	\$ 29,446
U.S. Central Credit Union	508,686	730,492	715,065	887,926	1,061,568
Government and Agencies, CMOs, REMICs, & Pass-thrus	63,919	79,525	121,505	139,780	134,384
Commercial Paper/Term Fed Funds	-	-	-	-	-
Repurchase Agreements	-	19,379	4,769	-	-
Asset-backed Securities	8,479	6,554	12,738	17,409	31,428
Other Investments	554,583	134,952	1,502	1,099	10,785
<b>Total Investments</b>	<b>\$1,135,667</b>	<b>\$ 970,902</b>	<b>\$ 855,579</b>	<b>\$1,046,214</b>	<b>\$1,238,165</b>
Unrealized Gains and Losses on AFS	(353)	(635)	(436)	(97)	(234)
Net Investments	\$1,135,314	\$ 970,267	\$ 855,143	\$1,046,117	\$1,237,931
Demand Loans	660	5,417	6,096	3,314	7,334
Accrued Income	11,160	5,839	3,062	3,289	3,390
Fixed Assets	2,783	2,848	3,006	2,942	3,209
NCUSIF Capitalization Deposit	232	230	236	239	242
All Other Assets	2,245	2,063	2,095	2,009	307
<b>TOTAL ASSETS</b>	<b>\$1,206,354</b>	<b>\$1,041,128</b>	<b>\$ 909,050</b>	<b>\$1,086,293</b>	<b>\$1,281,859</b>

NCUA expects a larger credit union, however, to perform a credit analysis whenever there is credit risk. The uninsured portion of an investment in a corporate credit union presents such risk.

"A credit union's membership relationship with its corporate should assist it in evaluating the corporate's operations and financial condition. A credit union should review the corporate credit union's earnings performance, capital level, and investment portfolio. A credit union should also be aware of the corporate's operating level under Part 704 and its exposure to a 300 basis point shift in interest rates."

Though NCUA's investment regulation specifically exempts state-chartered credit unions, most are using the regulation as a guideline in their investment policies, procedures, and practices. Recognizing that the analysis of a corporate credit union, as outlined under Part 703.40(d), can be burdensome and that some information may not be readily available, we are providing you this comprehensive analysis of Volunteer Corporate Credit Union. This analysis addresses the processes outlined in NCUA's investment regulation and explains the new regulatory requirements of NCUA's corporate regulations.

## LIABILITIES AND EQUITY

(in thousands)

December 31,	2007	2006	2005	2004	2003
Accounts Payable	\$ 6,055	\$ 4,119	\$ 1,569	\$ 1,912	\$ 1,957
Uncollected Funds	34,989	31,372	18,750	16,891	10,881
Repurchase Agreements	-	19,379	4,769	-	-
CLF Membership Notes Payable	-	-	-	-	21,317
<b>Total Liabilities</b>	<b>\$ 41,044</b>	<b>\$ 54,870</b>	<b>\$ 25,088</b>	<b>\$ 18,803</b>	<b>\$ 34,155</b>
Daily Shares	671,748	655,081	554,293	438,703	538,847
Term Shares	417,151	258,090	257,995	559,309	642,392
<b>Total Shares</b>	<b>\$1,088,899</b>	<b>\$ 913,171</b>	<b>\$ 812,288</b>	<b>\$ 998,012</b>	<b>\$ 1,181,239</b>
Member Capital Shares	48,370	47,053	46,313	27,820	26,524
Paid-in Capital	-	-	-	17,000	17,000
Reserves and Undivided Earnings	28,394	26,669	25,797	24,755	23,175
Unrealized Gains and Losses on AFS	(353)	(635)	(436)	(97)	(234)
<b>Total Capital</b>	<b>\$ 76,411</b>	<b>\$ 73,087</b>	<b>\$ 71,674</b>	<b>\$ 69,478</b>	<b>\$ 66,465</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$1,206,354</b>	<b>\$1,041,128</b>	<b>\$ 909,050</b>	<b>\$1,086,293</b>	<b>\$1,281,859</b>

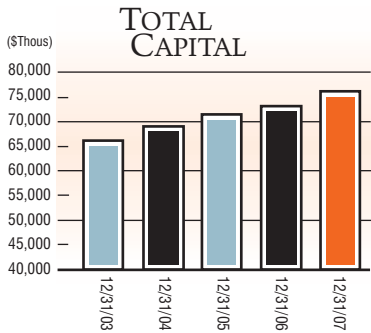
**REGULATORY ISSUES**

Under the regulatory requirements of Part 704 of the NCUA's Rules and Regulations, corporate credit unions' capital is segregated into two categories. These categories are named *Retained Earnings* and *Capital*. The category of *Retained Earnings* is defined as,

"The total of the corporate credit union's undivided earnings, reserves, and any other appropriations designated by management or regulatory authorities."

*Capital* is defined as,

"The sum of a corporate credit union's retained earnings, paid-in capital, and membership capital."



There are two ratios that corporate credit unions calculate to determine the adequacy of capital and reserving requirements. These are the Capital Ratio and the Retained Earnings Ratio. The Capital Ratio equals,

"The corporate credit union's capital divided by its moving daily average net assets,"

and the Retained Earnings Ratio equals,

"The corporate credit union's retained earnings divided by its moving daily average net assets."

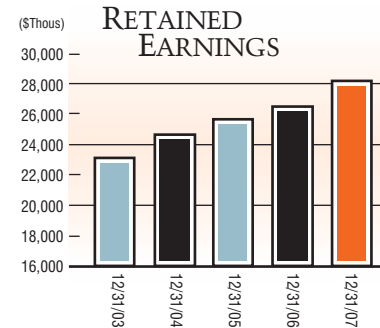
NCUA's capital requirements for corporates are fairly straightforward. According to Part 704.3,

"A corporate credit union will maintain a minimum capital ratio of 4 percent, except as otherwise provided in this Part. A corporate credit union must calculate its capital ratio at least monthly."

"A corporate credit union must increase retained earnings if the prior month-end retained earnings ratio is less than 2 percent. Its retained earnings must increase during the current month, by an amount equal to or greater than the monthly earnings retention amount; or during the current and prior two months, by an amount equal to or greater than the quarterly earnings retention amount.

Earnings retention amounts are calculated as follows:

The monthly earnings retention amount is determined by multiplying the earnings retention factor by the prior month-end moving daily average net assets; and, the quarterly earnings retention amount is determined by multiplying the earnings retention factor by moving daily average net assets for each of the prior three month-ends.



The earnings retention factor is determined as follows:

If the prior month-end retained earnings ratio is less than 2 percent and the core capital ratio is less than 3 percent, the earnings retention factor is .15 percent per annum; or, if the prior month-end retained earnings ratio is less than 2 percent and the core capital ratio is equal to or greater than 3 percent, the earnings retention factor is .10 percent per annum."

### RETAINED EARNINGS AND TOTAL CAPITAL

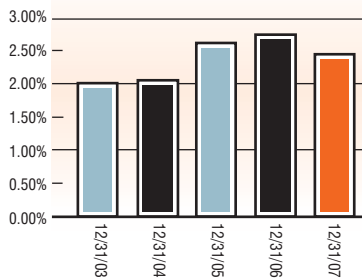
Since its incorporation over 25 years ago, Volunteer Corporate has experienced steady retained earnings growth, with the trend continuing through 2007. As of year-end, total retained earnings (including unrealized gains and losses on available for sale securities) equaled \$28,041,000; representing an increase of \$2,007,000, or 7.7 percent, over year-end 2006 levels. This growth was the result of \$1,725,000 in net earnings and a \$282,000 decrease in the unrealized market loss on our securities portfolio.

In July 1996, Volunteer Corporate restructured its Membership Share Accounts to reflect changes under the then proposed revision to Part 704 of NCUA's Rules and Regulations. With this restructuring, these accounts are treated as capital under Part 704.3 of the NCUA's Rules and Regulations.

In August 2000, Volunteer Corporate offered its members the option of converting all or part of their Membership Shares to Paid-in Capital Shares. Our members were also given an option to

invest additional funds. Paid-in Capital was structured so that it was treated as capital reserves when calculating VolCorp's regulatory reserve ratio. These shares were callable at the sole discretion of VolCorp's Board of Directors after an initial three-year no call period. Effective January 1, 2003, the NCUA revised Part 704 of its Rules and Regulations and removed the reserve ratio calculation and replaced it with a retained earnings ratio calculation, which did not include Paid-in Capital Shares. Therefore, effective September 1, 2005, VolCorp's Board of Directors called the Paid-in Capital Shares. The majority of these shares were transferred to Membership Shares.

RETAINED EARNINGS RATIO



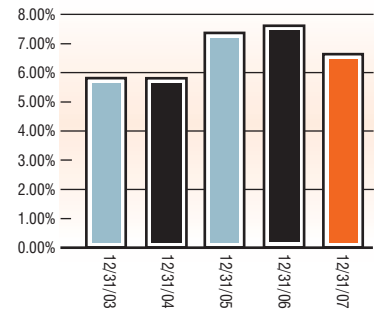
Corporate credit unions' balance sheets reflect the liquidity needs and cash flows of its members. Therefore, it is not unusual for a corporate credit union to experience asset fluctuations of 25 percent or more not only from month-to-month but also within periods of less than 30 days. In addition, corporate credit unions' month-end assets are often significantly inflated due to routine payrolls that flow in to their member credit unions. As a result, it can be misleading to analyze a corporate credit union's retained earnings and capital ratios using month-end data. NCUA recognized the distortion such fluctuations can cause, and, in its corporate credit union regulations, adopted the concept of using the corporates' moving daily average net assets when calculating the retained earnings and capital ratios.

For the twelve-month period ending December 31, 2007, Volunteer Corporate's moving daily average net assets, (DANA) equaled \$1,142,290,941 compared with \$958,540,007 for 2006. This reflects a 19.2 percent growth rate during 2007, well above the Corporate system as a whole which reported an average 12.6 percent growth in assets.

The growth in assets at the corporate level was in response to the Credit Union Industry's solid performance and strong liquidity over the past year. At the same time Corporates reached record highs in credit union investments and market share.

Retained earnings grew during the year at a rate of 6 percent. Despite record earnings during the year, asset growth outpaced earnings resulting in a retained earnings ratio of 2.48 percent at December 31, 2007, as compared to 2.78 percent in 2006. For the same reasons, the capital ratio also declined from 7.69 percent in 2006 to 6.70 percent at year-end 2007.

CAPITAL RATIO



**NET ECONOMIC VALUE (NEV) ANALYSIS** is the net present value of a corporate's assets and the value of the assets' embedded options, minus the net present value of the corporate's shares and liabilities and the value of the shares' and liabilities' embedded options. A corporate's NEV Ratio is computed by dividing the NEV by the mark-to-market value of assets. NEV and the NEV Ratio are used to measure the inherent risk in a financial institution's balance sheet and as a proxy assessment of the liquidation value of the financial institution under certain interest environments.

Under part 704.8(d)(ii) of its Rules and Regulations, the NCUA Board set a minimum base NEV Ratio of 2 percent for all corporate credit unions. In addition, the Board set a minimum NEV Ratio and maximum permissible downward NEV shifts under industry-standard +/- 100, 200, and 300 basis point rate shocks. Shocking a corporate's balance sheet means determining the impact on the NEV and the NEV

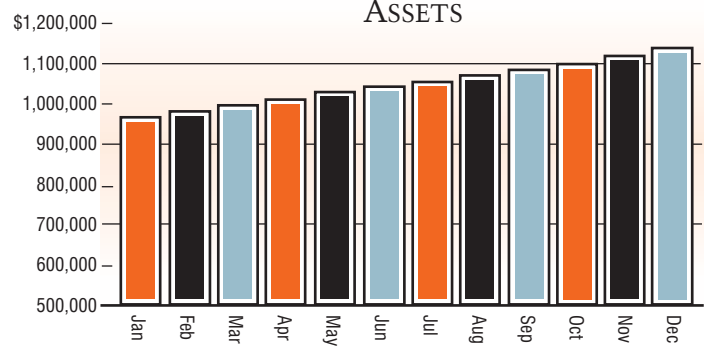
Ratio of an immediate, parallel, and sustained upward and downward shift in market interest rates. The NEV shift is the percent increase and percent decrease of current capital. Current capital is the difference between the mark-to-market value of assets and liabilities at current interest rates.

The permissible, downward NEV shift is dependent, in part, upon the level of authority granted each corporate by the NCUA Board. As a starting point, all corporate credit unions have the authority to operate at Base level. At this level, the permissible negative shift in the corporates' NEV Ratios is 15 percent under a +/- 100, 200, and 300 basis point rate shocks. Each corporate credit union may petition the NCUA Board to operate under expanded authority. To obtain such authority, the corporate credit union must meet all the requirements of Part 704 of NCUA's Rules and Regulations and fulfill additional capital, management, infrastructure, and asset-liability requirements.

2007 MONTH-END ASSETS



2007 MOVING AVERAGE ASSETS

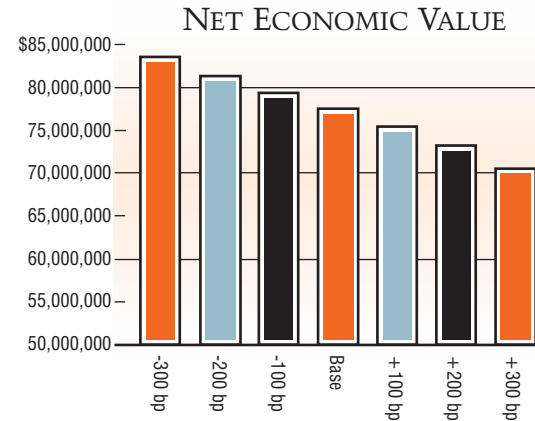
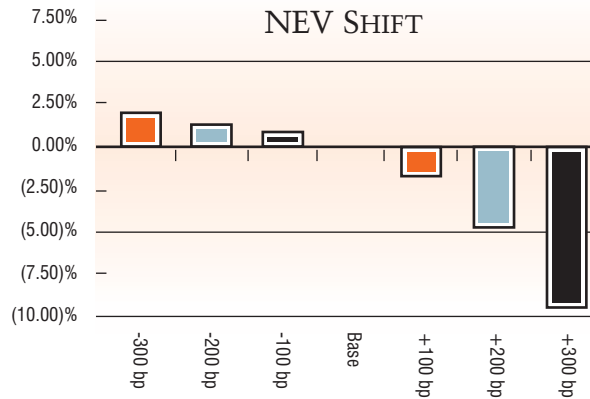


In September 1997, Volunteer Corporate's Board of Directors requested authority to operate at the expanded level termed Base Plus. In November 1997, Volunteer Corporate became the first corporate credit union to receive authority by the NCUA Board to operate above Base level. At Base Plus, the Corporate's permissible, negative, NEV shift increased from 15 percent to 20 percent.

As of December 31, 2007, the cumulative change in Volunteer Corporate's NEV is a decrease of \$6,912,000 in an immediate up 300-basis point scenario and an increase of \$6,171,000 in an immediate down 300-basis point scenario. This equates to NEV shifts of negative 8.89 percent and positive 7.93 percent, respectively—well below the maximum 20 percent negative shift permitted by Federal law.

The following table shows the impact on Volunteer Corporate's Net Economic Value of the various interest rate scenarios:

	(300) bp	(200) bp	(100) bp	Base	100 bp	200 bp	300 bp
NEV (thous.)	\$83,962	\$81,648	\$79,713	\$77,791	\$75,790	\$73,567	\$70,879
ΔNEV (from Base)	6.80%	6.65%	6.54%	6.42%	6.29%	6.12%	5.96%
%ΔNEV (from Base)	7.93%	4.96%	2.47%	0.00%	-2.57%	-5.43%	-8.89%



The quality of a financial institution's assets is one of the most important factors contributing to its financial soundness. In its 1997 study of the credit union movement, the Treasury addressed the quality of the corporate credit unions' assets in general when it said,

"Corporate credit unions invest in high-quality assets and thus have limited exposure to credit risk...In General, corporate credit unions' investment portfolios are of very high credit quality. At year-end 1996, deposits at U.S. Central, asset-backed securities, corporate debt, and federal agency securities comprised 96 percent of all corporate credit union investments."

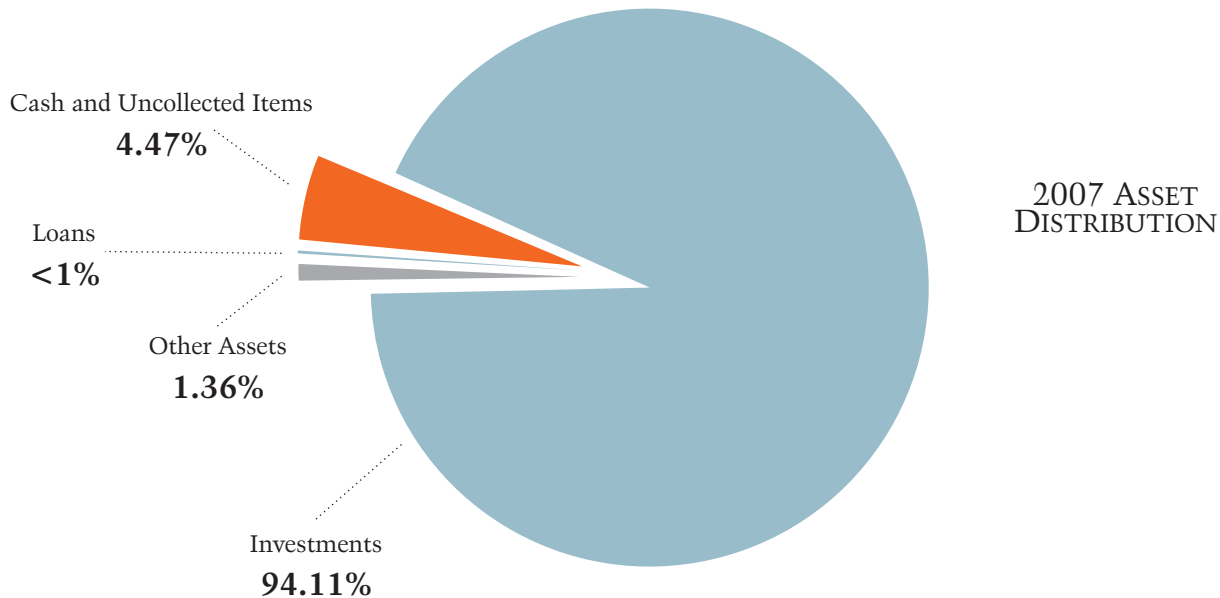
Volunteer Corporate's balance sheet mirrors the aggregate corporate balance sheet mentioned in the Treasury study. As of December 31, 2007, 98.6 percent of the Corporate's assets consisted of cash and uncollected cash items, loans to

member credit unions, and high-quality, low credit-risk investments. Volunteer Corporate monitors the quality of its assets through extensive monthly credit analysis and portfolio modeling.

**MEMBER LOANS**

The Corporate has a responsibility to meet the liquidity needs of its membership, while protecting the deposits of its member credit unions. As of December 31, 2007, the Corporate's total outstanding loans and lines of credit to its members equaled only \$660,000, well below one percent of total assets. However, member credit unions had 199 approved lines established with Volunteer Corporate totaling \$607,437,000.

The quality of the loan portfolio is governed by the loan policies established by the Board of Directors and by the procedures followed by management in implementing these



policies. All lines are reviewed on a semi-annual basis and detailed financial analyses are performed. From this review, it is determined which credit unions will be monitored on a more frequent basis and which credit unions may need additional attention. Moreover, each line of credit is secured by a general pledge of the borrowing credit union's assets. No loans at Volunteer Corporate are currently delinquent and delinquency is extremely rare. Since its charter, Volunteer Corporate has never charged off a loan to a member credit union.

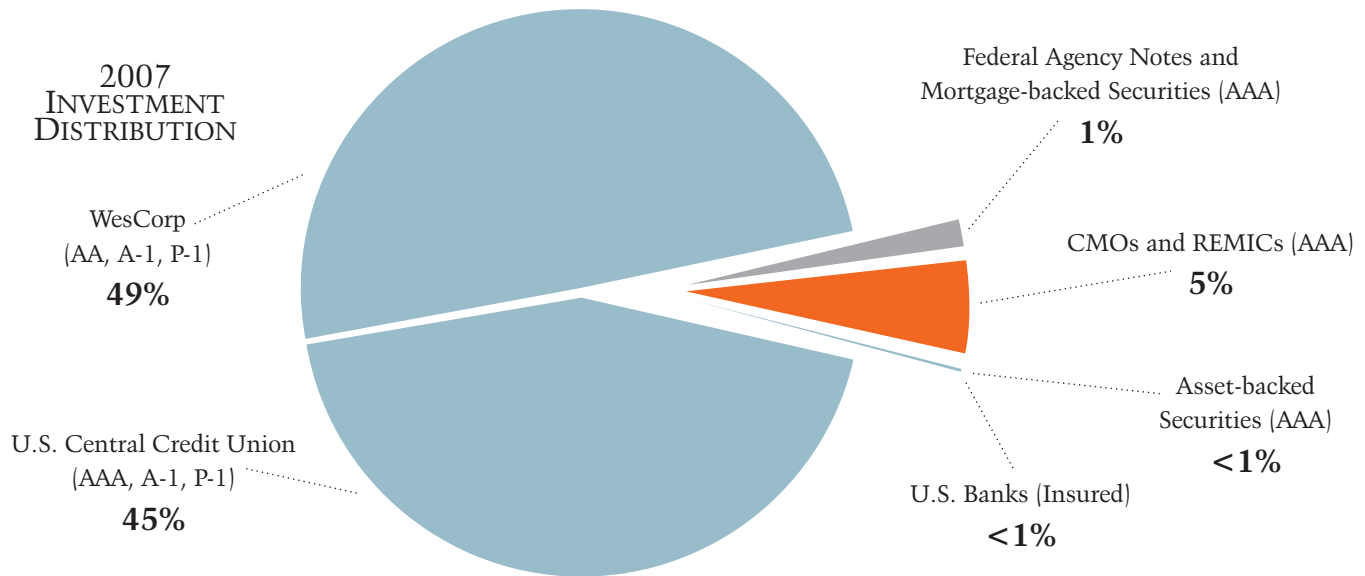
**INVESTMENTS**

When making investment decisions, Volunteer Corporate closely adheres to the "SLY" principle of safety, liquidity, and yield. In order to minimize credit risk, Volunteer Corporate's policies allow funds to be placed only in U.S. Central and

other Corporate Credit Unions, U.S. Government securities, federal agency securities or in the top-rated banks and domestically chartered corporations. These policies further limit investments in banks and corporations individually and in aggregate and require extensive analysis and monitoring.

The Corporate's approved-institution analysis considers size, capital adequacy, asset quality, management, earnings performance, and liquidity.

As markets became more volatile during the latter part of 2007, Volunteer Corporate's portfolio remained strong with only 6 percent of total investments in the open market all rated AAA. At year-end 94 percent of investments were in U.S. Central or other Corporates.



Like all other credit unions, Volunteer Corporate is a not-for-profit organization, existing solely for the benefit of its members. The corporate's policy is to help its members increase their net income by providing cost-effective services and attractive investment yields. Since any profit would come at the expense of its owner/members, it is not the policy of Volunteer Corporate to earn the maximum net income possible. Even so, the corporate must maintain a stable earnings position in order to pay dividends, cover budgeted expenses, develop new services, maintain capital adequacy, and meet statutory reserve requirements.

Because the corporate strives to pay the highest possible dividend on members' shares while charging the lowest rate

on loans, maintaining stable earnings at the corporate level is not always an easy task. It is also the policy of the corporate's Board of Directors to not increase earnings by sacrificing the safety of the members' shares through high-risk investments or investment practices. As a result, Volunteer Corporate operates on an extremely thin operating margin and can do so only if efficiencies are maximized and expenses are controlled.

Net income for 2006 equaled \$872,000 for a 8 basis point return on assets. For the year ending December 31, 2007, Volunteer Corporate was able to continue aggressive rate paying strategies and realize \$1,725,000 in net income, maintaining a 14 basis point return on assets.

## COMPARATIVE INCOME

(in thousands)

December 31,	2007	2006	2005	2004	2003
<b>Interest Income</b>					
U.S. Central	\$51,330	\$35,181	\$24,026	\$19,315	\$14,574
Investment Securities	4,310	6,125	5,528	2,813	4,217
Loans	322	872	316	182	52
<b>Total Interest Income</b>	<b>55,962</b>	<b>42,178</b>	<b>29,870</b>	<b>22,310</b>	<b>18,843</b>
<b>Interest Expense</b>					
Dividends on Shares	51,955	38,543	26,002	18,022	15,104
Interest on Borrowed Funds	276	1,138	981	824	258
<b>Total Interest Expense</b>	<b>52,231</b>	<b>39,681</b>	<b>26,983</b>	<b>18,846</b>	<b>15,362</b>
<b>Net Interest Income</b>	<b>3,731</b>	<b>2,497</b>	<b>2,887</b>	<b>3,464</b>	<b>3,481</b>
<b>Non-Interest Income</b>					
Item Processing	3,249	3,017	2,871	2,783	2,713
Gain(Loss) on Securities	-	-	51	(31)	(122)
Other	2,312	2,253	1,707	1,286	1,145
<b>Total Non-Interest Income</b>	<b>5,561</b>	<b>5,270</b>	<b>4,629</b>	<b>4,038</b>	<b>3,736</b>
<b>Non-Interest Expenses</b>					
Salaries and Benefits	3,771	3,260	3,270	3,042	2,668
Other	3,796	3,635	3,204	2,880	2,588
<b>Total Non-Interest Expenses</b>	<b>7,567</b>	<b>6,895</b>	<b>6,474</b>	<b>5,922</b>	<b>5,256</b>
<b>Net Contribution to Reserves</b>	<b>\$ 1,725</b>	<b>\$ 872</b>	<b>\$ 1,042</b>	<b>\$ 1,580</b>	<b>\$ 1,961</b>

Volunteer Corporate is the primary depository institution and source of liquidity for the majority of its member credit unions. As such, the corporate has the responsibility of protecting the safety of its members' deposits while providing sufficient liquidity to meet their cash flow needs.

To meet this responsibility, Volunteer Corporate maintains sufficient cash and overnight investments to provide for reasonable cash flow demands. The corporate's liquidity position is monitored daily and adjusted, as necessary, for

seasonal and anticipated fluctuations in our members' liquidity needs.

By virtue of their membership in Volunteer Corporate, our member credit unions have access to the Central Liquidity Facility (CLF) without having to purchase CLF stock. Acting as an agent member of the CLF, the corporate can assist its members in meeting their liquidity needs through access to this Federal liquidity center chartered exclusively for credit unions.

# OFFICE INFORMATION

**ADDRESS:**

2460 Atrium Way  
Nashville, Tennessee 37214

**WEBSITES:**

[www.volcorp.org](http://www.volcorp.org)  
[www.volcorpdesign.org](http://www.volcorpdesign.org)

**NUMBERS:**

(615) 232-7900  
(800) 470-3444  
Main Fax: (615) 232-7999  
Item Processing Fax: (615) 232-7979

**DIRECT-DIAL EXTENSIONS:**

Member Services/Operations/Item Processing/ACH . . . 1  
Investments and Finance . . . 2  
Marketing and Business Development . . . 3  
Administration and President's Office . . . 4  
Product Support . . . 5  
Operator . . . 0

**OFFICE HOURS:**

VolCorp is open Monday, Tuesday, Wednesday and Friday from 7:30 a.m. to 4:30 p.m. (Central time). On Thursdays, hours are from 8:30 a.m. to 4:30 p.m. (Central time). Our Member Services Department closes at 4:00 p.m. (Central time) each day. Office closings are coordinated with the Federal Reserve Bank holiday schedule.





**VOLCORP**

2460 Atrium Way  
Nashville, TN 37214

(615) 232-7900

(800) 470-3444

[www.volcorp.org](http://www.volcorp.org)

