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F O C U S

MISSOURI CORPORATE CREDIT UNION UPDATE

BY DENNIS DEGROODT, CEO

Now that we have completed a very successful capital campaign, it's a good time to bring you up-to-date on events at your Missouri Corporate Credit Union (MCCU). First of all, THANK YOU for capitalizing MCCU! As you know, your response far and away exceeded our need, so we were even able to return a total of \$2.6 million in escrow funds to our member credit unions! What a tremendous show of support!

This message describes how we are moving forward and what you can expect to see in three critical areas: payment processing, rates paid on capital/overnight accounts, and liquidity sources. Here is a breakdown of each area...

PAYMENT PROCESSING

As with most corporate credit unions, MCCU relies on U.S. Central Bridge Corporate Federal Credit Union (U.S. Central Bridge) for payment processing. Since U.S. Central Bridge is winding down, what happens next? In October 2011, the NCUA put U.S. Central Bridge payment products out for bid. It is our understanding the bidders must agree to a "lockout" period during which U.S. Central Bridge products must continue to be delivered in the same fashion they are today. That is meant to minimize disruption of service to credit unions. So, no matter who wins the bids, we expect U.S. Central Bridge payment products to be delivered for a period of several months to allow corporates to either continue with the winning bidder or find a replacement vendor. There are four payment products that must be replaced: ACH processing, auto settlement, international services and bill pay. Here's a look at each of the four:



ACH PROCESSING – Recently, MCCU and five other corporates signed a letter of commitment with LendingTools.com to process ACH transactions. LendingTools.com has provided payment processing to the nation's bankers' banks for many years, and we are confident they will do a superb job with ACH processing. This will necessitate a conversion from the current APEX-ACH product to the LendingTools product. We hope to convert APEX users to the LendingTools product by the end of the first quarter 2012.

Will ACH processing costs go up? Regardless of what happens with LendingTools.com, ACH pricing will go up as noted in our 2011 Strategic Plan distributed to you during the capitalization process. The new ACH pricing, effective January 1, 2012, is as follows:

- Origination per item fee from \$.05 to \$.10
- NOC/Return per item fee from \$.05 to \$.35
- Monthly access fee from \$30 to \$40
- NOC/Return file transmission fee from \$1.50/day (when files are transmitted) to \$1.00 per file, and
- Origination file transmission fee from \$1.50/day (when files are transmitted) to \$1.00 per file

MISSOURI CORPORATE CREDIT UNION UPDATE *(continued)*

As we have always done, any increases in Federal Reserve ACH costs will also be passed on to you. I'll keep you posted as we learn more about the new ACH product from LendingTools.com.

AUTO SETTLEMENT

The future of auto settlement depends upon which company wins the bid. Auto settlement must flow through a financial institution (*with a valid R/T number*), so no matter which company wins the bid, a financial institution will be needed to "settle" the transactions. Likely that would be either a bank or a corporate credit union. We'll have to wait and see who wins the bid and then see what that vendor plans to do with auto settlement.

If necessary, we can use ACH as an alternative to auto settlement, but I'm hopeful we can keep auto settlement intact. ACH is a bit more cumbersome.

INTERNATIONAL SERVICES

International services can be provided by any number of vendors, so we're not concerned about locating a vendor to replace this service. The key to international services is the "connectivity" to that service that enables credit unions to enter transactions online. LendingTools will soon have a connection with TravelEx (*an international service provider*) through the ACH platform. We will be looking closely at this option.

BILL PAY

At the present time, several MCCU member credit unions use U.S. Central Bridge's bill pay product (*called Corporate Network eCom*) through MCCU. This is not to be confused with the bill pay product called "MyCU" which is delivered

through another corporate and is not affected by the wind-down of U.S. Central Bridge. The future of Corporate Network eCom depends on the vendor that wins the NCUA bid, which has not been announced. If the winning bidder's product is not satisfactory, credit unions can switch to the MyCU product or to another vendor.

OTHER SERVICES

In the "old days" we used the income from investments to subsidize service fees. Because of the extraordinarily low rate environment we find ourselves in – and the spread compression that results from that rate environment – we can no longer subsidize fees. As a result, we expect the annual line-of-credit fee will increase from 2 bp to 3 bp effective January 1, 2012, and other correspondent services fees will increase March 1, 2012. Details will be sent to you as soon as possible.

INTEREST ON CAPITAL AND OVERNIGHT ACCOUNTS

CAPITAL ACCOUNTS – As indicated in the PCC Offering Memorandum, the target rate for PCC is one-month LIBOR plus 50 basis points (*bp*). In today's environment, that is about 70 bp. MCCU paid 35 bp on PCC in September 2011 (*the first month PCC was in existence*), and we hope to pay 35 bp on PCC for the fourth quarter 2011.

Why are we not paying the target rate? Primarily because of spread compression. We find ourselves in a historically low interest rate environment. The last time rates were as close to being this low was in 2004 to early 2007. During that period we paid a rate on Paid-In Capital (PIC) that was less than the target

rate. As soon as rates returned to a more normal level we paid a rate on PIC that was above the target to make up lost ground. Fortunately, we were able to pay above the target rate so that PIC owners received dividends commensurate as if the target rate had been paid throughout their holdings of PIC. We hope to eventually do the same with PCC.

OVERNIGHT ACCOUNT – We continue to pay zero interest on the overnight account. Our ALCO Committee and Board have wrestled with this issue for the past several months. During that time we surveyed credit unions to see how much it will take to get excess overnight dollars to return to MCCU. Most credit unions indicated it would take a rate of at least 5 bp, and more than likely above 10 bp. (*Some credit unions have invested excess overnight dollars in short-term CDs that are paying 5-10 bp*). Right now, we can't pay those rates on the overnight account for two primary reasons:

1. **SPREAD COMPRESSION** – rates are so low that we have a difficult time covering operating expenses even though we've reduced operating expenses significantly over the past several years. Just like natural person credit unions, we pay the NCUA assessments which elevate operating expenses substantially.
2. **LOW RISK PORTFOLIO** – currently, our investments are in government agency securities, guaranteed investments at U.S. Central Bridge, Federal Reserve investments or insured investments in banks. We do not own any mortgage-backed securities or

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private label securities. This very low risk approach helps secure your capital dollars, but doesn't generate much income. We also believe rates will rise, and have kept our portfolio short. This reduces volatility, but it also reduces income.

A few credit unions have said to me, "Just pay something on the overnight account – even 3 bp is better than zero!" We are as frustrated as you are with the zero rate. But keep in mind that 3 bp on \$1 million in excess overnight funds (*not settlement funds*) amounts to only \$25 per month income to your credit union, while it costs MCCU over \$4,000 per month in interest when paid on all existing accounts.

MCCU recently received approval to offer the Federal Reserve Excess Balance Account (*EBA*) to credit unions. The *EBA* allows MCCU to move funds off-balance sheet which enhances our capital ratios. According to our analysis, it would require at least \$75 million in new overnight funds in the *EBA* account (*assuming a 3 bp yield*) to break-even. Based on the survey, we don't believe there is \$75 million in excess overnight deposits available to go into the *EBA* account, so the *EBA* doesn't appear to be a good solution at the present time. When rates rise and liquidity increases, the *EBA* account may become more attractive. The ALCO and Board will re-visit the issue in 2012 after looking at the 2012 budget and our ability to reach the 45 bp retained earnings threshold by October 20, 2013.

For increased investment yields, consider purchasing your bonds and securities through CU Investment Solutions, LLC (*ISI*).

Formerly a subsidiary of U.S. Central Bridge FCU, *ISI* is now a stand-alone organization capitalized by ten corporate credit unions, including MCCU. Because of the corporate ownership and long-standing partnership, *ISI* has embraced the cooperative culture of the Corporate Network and therefore has a track record of consistently offering securities at very competitive prices. In addition, while receiving great service from *ISI* because of MCCU's investment in *ISI*, when you use *ISI* for your investment needs, your credit union supports all products and services that MCCU is proud to offer to its members.

Unlike other brokers, *ISI* agents are actually fulltime corporate employees. This partnership ensures that *ISI* is aligned with MCCU in placing your credit union's best interests at the forefront. For superior service in your portfolio needs, please contact our *ISI* agent, Julie Chapin, at jchapin@mocorpcu.coop for more information.

Also, for those of you using a CD brokerage service, take a look at our SimpliCD rates. SimpliCD added a new feature – Depository Trust Company (*DTC*) CDs – that pay rates similar to, if not the same as, brokered CDs. If you purchase SimpliCD *DTC* instruments, you enjoy more competitive rates, a broader array of institutions from which to choose, plus the same superior administrative support offered by SimpliCD that you may not get from brokerage services. E-mail Julie Chapin at jchapin@mocorpcu.coop for more information.

LIQUIDITY SOURCES

By capitalizing MCCU, your credit union has access to a line of credit.

In addition, you have access to the NCUA's Central Liquidity Facility (*CLF*) through MCCU because corporate credit unions function as "agents" of the *CLF*. When the *CLF* was first created, credit unions could join directly by purchasing *CLF* stock. When the corporate network was formed, U.S. Central purchased the stock on behalf of credit unions and corporate credit unions became agents of the *CLF*.

Now that U.S. Central Bridge is going away, the NCUA is trying to figure out how to fund the *CLF*. Credit unions can still join directly by purchasing *CLF* stock (*less than 100 credit unions nationwide hold CLF stock*), but the *CLF* is not set up to deal with thousands of individual credit unions. We have been working closely with the NCUA to craft a solution to the *CLF* issue. I believe the NCUA intends to publish an Advanced Notice of Proposed Rulemaking (*ANPR*) very soon to solicit input. I'm optimistic that corporates will continue to play a major role in the administration of *CLF* dollars, and your credit union will gain that advantage since you made the decision to capitalize MCCU.

As always, please contact me at ddegroodt@mocorpcu.coop or at 314-542-1367 if you have questions.

Best personal regards,



Dennis J. DeGroot, CCUE
President/CEO
Missouri Corporate Credit Union

NEWS BRIEFS

CUNA GOVERNMENTAL AFFAIRS CONFERENCE MARCH 18-22, 2012 IN WASHINGTON, DC

HOLIDAY SCHEDULE

Missouri Corporate Credit Union will be closed in observance of the following federal holidays:



New Year's Day
Monday,
January 2, 2012

Martin Luther King, Jr. Day
Monday,
January 16, 2012

Presidents' Day
Monday,
February 20, 2012

Memorial Day
Monday,
May 28, 2012

Independence Day
Wednesday,
July 4, 2012

Labor Day
Monday,
September 3, 2012

Columbus Day
Monday,
October 8, 2012

Veterans Day
Monday,
November 12, 2012

Thanksgiving Day
Thursday,
November 22, 2012

Christmas Day
Tuesday,
December 25, 2012



The 2012 CUNA Governmental Affairs Conference (GAC) offers the opportunity to network with peers, hear from key legislative and political leaders, and experience a variety of breakout sessions on credit unions' hot issues.

You'll learn how to effectively deliver the credit union message, make the most of your Capitol Hill visits, and communicate with the media. You will also learn about developments in political fundraising and campaign involvement.

WHO SHOULD ATTEND?

Credit union CEOs/presidents, COOs, CFOs, board members, public relations officers, government affairs specialists, CUNA Council members, association officials, supervisory committee, and others with an interest in the future of credit unions.

REGISTER TODAY!

You can register for the 2012 CUNA Governmental Affairs Conference online at www.gac.cuna.org. For assistance, please e-mail gacinfo@cuna.com or call 800-356-9655, ext. 5700.

FINANCIAL SOUNDNESS REPORT AVAILABLE ONLINE

The Credit Worthiness Report, a quarterly publication documenting the safety and soundness of Missouri Corporate Credit Union, can be found online at www.mocorpcu.coop/about/fin.htm. It appears in a scrollable .pdf file format, and can be viewed using Adobe Acrobat Reader. You may print

out the document from the web site, if you wish. To ensure that you receive notification in a timely manner, please send your email address to Michelle Thompson at mthompson@mocorpcu.coop.

If you have any questions about the contents of the *Credit Worthiness Report*, please feel free to contact Kitty Gray, Chief Financial Officer, at (314) 542-1335 or (800) 826-5228, ext. 1335.



Missouri Corporate Credit Union

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OFFICE HOURS

MONDAY, TUESDAY, THURSDAY & FRIDAY
8:00 AM TO 4:30 PM CT
WEDNESDAY
8:00 AM TO 4:00 PM CT

CUT-OFF REMINDERS

Please make a note of the following operational cut-off times for Missouri Corporate Credit Union (*all times are Central Time*):

CURRENCY ORDERS

Springfield	10:30 a.m. CT
St. Louis & Kansas City	11:30 a.m. CT

WIRE TRANSFERS

Outgoing Wires:	
International Wire International	11:00 a.m. CT
Draft/Currency Domestic Wire	11:00 a.m. CT
Western Union	3:00 p.m. CT
Incoming Wires	4:00 p.m. CT

ACH

NOC>Returns	9:30 a.m. CT
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PRIVACY POLICY

Except to the extent permitted by law, Missouri Corporate Credit Union (MCCU) will not sell, transfer or disclose nonpublic personal information provided by members. MCCU will not use information provided by members for any purpose other than that for which it was provided.

MCCU MISSION STATEMENT

The mission statement of Missouri Corporate Credit Union is to help our members succeed.

ARE YOU ON THE FOCUS MAILING LIST?

If you or someone else at your credit union would like to receive your own copy of the *FOCUS* newsletter each quarter, please contact Michelle Thompson at 314-542-1373 or 1-800-826-5228, ext. 1373. We'll be happy to add you to our mailing list.

