



New Jersey Credit Union League

Corporate Credit Union Task Force

Final Report

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I. Executive Summary

Background

The task force was created to bring clarity to the plethora of information regarding corporate credit unions and the overall uncertainty among New Jersey credit unions due to the well-documented disruption in the corporate credit union network. The corporate credit union problems that have hit the credit union system have left credit unions with an important decision to make regarding where they secure future "corporate-like" services. The ultimate question credit unions have to answer is whether to recapitalize and continue to do business with a corporate credit union or to seek out alternative providers.

The Approach

The approach of the task force was to take a broad look at options as well as consider the current state of the corporate credit union network and its prospects going forward. Each member brought a unique perspective to the task force and each meeting brought opposing viewpoints to the table. One constant among all members was to always consider what was best for credit unions in the immediate and long-term future.

II. Key Questions

"Are Corporates Necessary?"

One question that surfaced right away was "Does the credit union movement need a corporate credit union system?" Or more aptly, "Will a corporate credit union system benefit the overall performance of the natural person credit union system going forward?"

The task force believes a corporate credit union system "can" be important to the future of the credit union system and that there is considerable value to credit unions having a credit union-owned solution that is not controlled by our competitors or organizations where our competitors dominate the business.

"Can" is the operable word in terms of a future corporate system. The task force believes the corporate system must be able to deliver value in terms of financial benefits (rates, pricing, etc.), service, and leadership.

Corporates have historically been trusted credit union partners providing excellent service. The task force values that longstanding component of service, specifically for smaller credit unions which have a more difficult road in moving to other providers. That service component must continue for corporates to succeed.

However, trust has been impacted and the new corporate system must work to rebuild that trust. The task force believes leadership will be a key factor in rebuilding trust.

In terms of leadership, the task force believes the credit union system needs a corporate system that can anticipate credit union needs, yet stick to its core

mission of being a liquidity provider, payments processor, and to a lesser extent and investment provider. The task force believes corporates did become too competitive with each other with the advent of national fields of membership as well as diversification into CUSOs that focused on areas that were noncore to corporates. The task force is not against competition, nor innovation, however it pegged the FOM expansion as one of the historical triggers to the ultra-competitive environment that existed prior to the disruption. That competitive landscape needs better leadership going forward, which demands that leadership remember first and foremost the core mission of corporates as liquidity and payments processing providers.

On the issue of CUSOs, the task force believes corporates can still innovate in noncore areas, yet they should strive to innovate in partnership as a system. The task force noted the successful corporate-borne program of SimpliCD, a brokered CD program. While it was borne out of one corporate, it eventually moved across all corporates and is now identified as a corporate system solution. Corporates have done this in other areas. The task force believes the corporate system owes it to credit unions to become more homogeneous and work together on innovation as a secondary driver to its core mission of liquidity and payments provider.

“Can Corporates Add Value Under New Regulation?”

Another key question was could corporates deliver value under NCUA’s new corporate regulation and would CUs be willing to accept a lower return from their corporate to ensure that credit unions have their own credit union-owned system? The task force believes that system cooperation has always been and will continue to be vital for the future success of natural person credit unions. While corporates can not be expected to lead all categories, they should be competitive with the marketplace. Further, the task force believes the corporate system has the ability to outpace their competition and deliver a more affordably priced menu of offerings if the following things happen:

- Credit unions continue to strongly support the corporate system, ensuring a high volume of business that brings scale advantages. The \$7 trillion in payments activity funneling through the corporate system must stay aggregated for the system to deliver value. A key component will be dependent on how U.S. Central’s payments backend is transitioned .
- Corporate credit unions consolidate and drive significant economies of scale. The task force strongly believes that the very nature of corporate credit union business (liquidity and payment services) demands scale. Specifically to the state of New Jersey, where many CUs were members of Members United (now Alloya Corporate), the task force believes Alloya should look to merge with other corporates. The task force identified WesCorp (now United Resources FCU) because of the common back office synergies between the corporates, however other corporates also make sense. The task force was unconcerned about who the so-called "surviving" corporate is, as long as the desired scale is achieved.

“Can a Corporate Meltdown Repeat?”

Credit unions are understandably cautious about whether or not to recapitalize a corporate credit union due to the loss in capital shares and the ongoing NCUA corporate assessments. The task force was understanding of that caution, but believes NCUA’s new corporate regulation has limited corporates’ investment activities so deeply that the likelihood of another corporate disruption of this magnitude is very unlikely. While the task force can make no guarantee this won’t happen and while all CUs must do their own due diligence, NCUA’s new capital and earnings standards and the new concentration limitations on investments, provide significant safeguards to the type of disruption that has occurred. Corporates’ high concentration of private label mortgage-backed securities was a key driver in today’s problems—that same level of concentration risk isn’t possible under NCUA’s new regulation.

The task force wants to be certain credit unions understand the term “perpetual capital.” Perpetual capital is capital that stays with the corporate and cannot be returned to credit unions. Many corporates have made the commitment for perpetual capital very low under their new capital structures, however the task force felt it was important for credit unions to understand that perpetual capital is not returned. The task force does recognize the important role perpetual capital plays in maintaining a strong corporate system going forward and to protect against any future disruptions.

III. Credit Union Options for Future Service of "Corporate-Like" Services

The task force strongly believes that it can not recommend any one provider over another for “corporate-like” services in the future. However, the task force has thoroughly examined a core group of corporates and corporate alternatives that it recommends credit unions consider in evaluating their need for corporate-like services. The task force found enough compelling reasons to position these providers as viable potential providers for New Jersey credit unions to fulfill their core needs of payments and liquidity.

Non-Corporate CU Alternatives

The task force delved into the value of credit unions utilizing non-corporate CU options for payments, liquidity, and loans. The task force ultimately found that these providers could bring value to credit unions, but caution is needed depending on a CU’s size and skillset in these services, and that none of these providers can provide a single solution to replace current corporate services.

These options are fully highlighted in the addendum to this report. Below are high-level highlights of each:

Federal Reserve

The Federal Reserve is a viable option for credit unions in the area of payments. The Federal Reserve is not a complete provider, like corporates, in that it is not a liquidity or investment provider. Clearly from a risk standpoint, the Federal Reserve is very low-risk. It is the backbone of the payments system and by utilizing the Fed CUs are "going direct" for payments.

However, the task force found, based on Fed presentations and CU feedback, that smaller credit unions may have difficulty in dealing with the Fed. The same one-on-one service smaller credit unions receive from their corporate will likely not be duplicated by the Fed. This is not unique just to small CUs. Even mid-sized and larger CUs may need to staff up or add additional resources to manage the relationship.

Federal Home Loan Bank

The Federal Home Loan Bank system is an option for credit unions in the area of liquidity and lending. Like the Fed, FHLB is not a complete solution. The task force found considerable value in FHLB's offerings in times of low liquidity and as an alternative lending option. The task force does caution CUs that there is considerable upfront work to be done to move to the FHLB, including filing a business plan with the FHLB. A stock purchase is required and mortgage backed securities count in maintaining a certain mortgage portfolio to participate in the FHLB.

FSI

Vendor item processing options were also identified by the task force. FSI, based in Glen Rock, NJ, was found to be an attractive alternative for credit unions of all sizes and FSI does have a special package for smaller credit unions. FSI has excellent technology and a strong record serving community banks. Key questions credit unions need to ask revolve around interfacing with their core system and they should have an understanding of how their previous items can be accessed if they move away from their current provider.

Palmetto Services Corp.

The task force also evaluated Palmetto Services Corp. to bring a "system" player into the discussion. Palmetto is a CUSO owned by credit unions primarily in the Carolinas. Palmetto certainly understands the credit union system and has a long history of service. It is aggressively marketing its services to CUs across the country and is another viable option.

Corporate Credit Union Options

Due to either history, proximity, or current business model, the task force identified three corporate credit union options for New Jersey credit unions.

- Alloya Corporate
- Mid-Atlantic Corporate
- Corporate One

Alloya Corporate

Alloya Corporate, Naperville, Ill., formerly Members United, brings the following valued qualities to the future corporate system:

- **Scale:** Alloya is one of the largest corporates in terms of number of CUs served. It brings considerable volume to the marketplace. It is unclear what that volume will ultimately be given credit unions are still deciding whether or not to recapitalize, but based on current usage the task force believes their scale going into their new charter will make them a long-term viable player. The task force also believes Alloya will be well-positioned to be involved in future corporate mergers that will add to its strength or to that of the surviving corporate. The task force noted Alloya's ability to merge with Constitution Corporate as an example of its ability to handle those transactions.
- **Capital Requirements:** Alloya in particular has adopted a capital model that, at least initially, allows credit unions to utilize services for a very low capital buy-in level. The task force found it to be one of the lowest in the system. Alloya has adopted the so-called "pay to play" model. The capital buy-in deepens with more services. The task force believes its capital structure will be attractive to credit unions that are wary of a major capital commitment.

Mid-Atlantic Corporate

Mid-Atlantic Corporate, Middletown, Pa., brings the following valued qualities to the future corporate system.

- **Leadership.** The task force identified the need for corporates to stay focused on the core services of payments processing and liquidity. Mid-Atlantic enters the new system with long-time, established leadership that has excelled in staying to its core. The task force believes that positions Mid-Atlantic well for future viability. Historically, Mid-Atlantic has innovated, including being the first corporate with a national field of membership and establishing a CUSO focused on electronic bill payment. Bill pay is still core to what a corporate does and many corporates now work with that bill pay CUSO. The task force believes Mid-Atlantic's historical success is indicative of its future given its stable, well-established leadership that some other corporates won't have to that extent going into the new system.

- **Adapting to New Regulation:** Mid-Atlantic Corporate enters the new system with more than \$120 million of capital support from 650 CUs. The task force notes that Mid-Atlantic has received such considerable system support due to its performance during the corporate downturn. Mid-Atlantic was noticeably more conservative with its own portfolio. While it did have exposure to U.S. Central's losses as a pass through, its conservative nature did help limit member losses. The task force believes the corporate's previous operating philosophies and policies are more in line with NCUA's new regulation and position the corporate well for future viability.

Corporate One

Corporate One, Columbus, Ohio, brings the following valued qualities to the future corporate system:

- **Financial Strength/Revenue Streams:** Corporate One has a strong financial position, and has an ongoing earnings engine that appealed to the task force. Through various well-established CUSO operations, Corporate One is able to pay the bulk of its operating expenses through non-interest income. In 2010, Corporate One had \$12 million in net income with ROA of .36%. The task force believes this is an advantage given the earnings limitations corporates will face with their investment portfolio going forward.

- **Innovation:** While the task force believes corporates must stay focused on liquidity and payment processing first and foremost going forward, the ability to lead by innovation will also be important. Corporate One has a long track record with the creation of SimpliCD, the popular national brokered CD program, as well as AllianceOne, a selective surcharging program. More recently, the corporate has created a new investment vehicle for credit unions to invest funds to benefit The National Credit Union Foundation. It is this long history of innovation that the task force believes will position Corporate One well in the new system.

Appendix A



Strategic and Capital Plan Highlights

This document includes an overview of important aspects and benefits of the strategic and capital plans of Alloya Corporate Federal Credit Union (Alloya). For additional information concerning Alloya, its Strategic Plan Digest, its full Strategic Plan (Forward Together), or to request a copy of the Private Placement Memorandum in order to capitalize and become a member (qualified investors only), please visit our website at www.alloyacorp.org.

Summary Information about Alloya and its Strategic Plan

- Credit Union members of Members United Bridge Corporate are in the process of forming a new corporate credit union to absorb the valuable resources of the bridge – the people, processes, and systems necessary to provide the services credit unions need most.
- Alloya is targeting to raise \$100 million in capital to operate a balance sheet of \$2 billion.
- The new corporate will utilize a different business model based on each individual member's usage of Alloya, not just a smaller version of a traditional corporate.
- Alloya is being built specifically with the new corporate regulation in mind. It will be well capitalized, profitable, and risk averse from day one.
- The new corporate will have a clean balance sheet, with no legacy assets.
- Alloya's product set will focus on the things credit unions have said they need most – correspondent services, single point settlement, overnight lines of credit, and technology, all of which can be accessed securely and conveniently through our online transaction and information portal – Premier View. See our website for a list of services.
- The investment needs of member credit unions (advice and execution) will be provided by Balance Sheet Solutions, the corporate's wholly owned broker/dealer subsidiary. In operation for eight years, Balance Sheet Solutions serves the needs of many credit unions, and is profitable today. No other corporate owns an approved CUSO like this.
- Relationships are important to you, and they are important to us. Alloya will be headquartered in Warrenville, Illinois with major operations in Albany, New York. These two facilities will allow us to provide great regional service to you while providing an effective business continuity hedge utilizing separate data centers.

Capital

- As with any business, capital is necessary. To comply with the new regulations, permanent capital (Perpetual Contributed Capital, PCC) will be required of all members.
- Because of its permanent nature, the capital contribution being asked of credit unions is as small as possible, while still creating a viable entity that complies with the regulations.

- Capital is based on usage of the corporate– your loan and investment portfolios, as well as your fixed assets, will not impact our balance sheet, so why should your capital contribution take them into account? At Alloya Corporate, they don't.
- Capital contributions will be based on three days average daily debit settlement, not your assets. This is a good proxy for how you will impact our balance sheet, and protects all members from the risk of loss from settlement and correspondent activities.
- The capital calculation will be:

$$\text{PCC amount} = (\text{avg. daily debit settlement for the most recent calendar quarter}) \times (3 \text{ days}) \times (5\%).$$
- With your capital contribution, your credit union will receive a deposit cap of twenty times capital, and a line of credit cap of thirty times capital (subject to credit approval) if you capitalize before August 31, 2011. After August 31, the maximum line of credit is twenty times capital.
- Alloya will monitor each credit union's debit settlement quarterly. If significant increases occur in a credit union's debit settlement for two consecutive quarters, Alloya may require additional capital to cover the difference and bring the ratio back to 5%.
- Since new members do not have a history of debit settlement with us, they may join for a minimum permanent capital amount based on assets, as noted below. Once sufficient time has elapsed to determine a debit settlement level, new members will be required to add PCC based on debit settlement as noted above, to the maximum as shown in the table below.

Credit Union Size	Minimum Capital	Maximum Capital	Capital Based on Debit Settlement # of Days
<\$10 million	10,000	50,000	3
\$10 - \$50 million	40,000	200,000	3
\$50 - \$250 million	80,000	650,000	3
\$250 - \$1000 million	150,000	2,000,000	3
> \$1 billion	250,000	5,000,000	3

- Capitalizing at this time affords you advantages that won't be offered after August 31, 2011. Between now and August 31, 2011, your credit union will receive a line of credit equal to thirty times your capitalization – it will be twenty times capital later. And if you choose, once your minimum permanent capitalization requirement has been satisfied, you may contribute non-perpetual capital in whatever amount you desire to increase your line of credit further (all lines are subject to credit approval).

Continued...

Why capitalize Alloya Corporate?

- Capitalizing Alloya Corporate will provide you with a credit union owned and controlled solution with scale that aggregates volumes and creates opportunities for new products. Fragmenting volumes among multiple sources reduces the buying power for all, and puts your future in the hands of those who might not have your best interests in mind. All businesses are beholden to their owners – who owns the other guy?
- By joining and capitalizing Alloya Corporate, credit unions will be maintaining the concepts and values of a cooperative network. There is strength in numbers and even more strength when those numbers control the entity.
- Alloya corporate provides outstanding support when you need it. Will third party providers or the Fed cover an encoding error or other adjustment for you? Not likely. And with the power that aggregation brings, Alloya will be able to bring resolution to adjustments faster than your credit union can on its own.
- Our plan provides the lowest capital buy-in for individual members of any in the corporate system. On average, our plan approximates 20 basis points of capital or less (based on assets) for most members.
- Unparalleled service, from one credit union to another. Our people are credit union people, and view member service with the same importance that you do.
- Alloya Corporate will have more merger experience than any other corporate in the system. Consider the fact that the bridge completed the merger of Constitution Corporate FCU in only 90 days, with minimal disruption to Connecticut credit unions and their members, and with no disruption to the remainder of the bridge's member base. Having completed eight, we know how to merge.
- Alloya will be profitable on day one. While fees are always subject to market conditions and change, doubling and tripling fees is not part of the financial viability of Alloya.

Get started – today

We will be happy to supply you with the additional information and resources necessary to help you with your decision and in your presentation to your board. To learn more about the plan and the corporate, visit our website (www.alloyacorp.org), call the Member Service Department at (800) 342-4328, or email them at mgmtmemsvcs@membersunited.org.

PROVIDER COMPARISON TOOL
Conversion Impact Evaluator

CHECK PROCESSING

Operational Requirements*	Considerations	Risk	Effort	Cost
Credit union must buy software to create its own central site to accept Fed x9 files for in-clearings.	Costs and support vary for in-sourcing versus out-sourcing systems.	Operational Financial	Complete RFI or RFP for vendor selection	Software: \$80,000-100,000 (one-time) Maintenance: \$10,000-\$20,000 (annually)
Branch capture software must be purchased to handle image deposits.	---	Operational Financial	Complete RFI or RFP for vendor selection	Included in costs above
Hardware may need to be purchased to accommodate processing of in-clearings and deposits in-house.	---	Operational Financial	Complete RFI or RFP for vendor selection	\$5,000-10,000 for additional server
Images for in-clearings and deposits must be archived for up to 7 years.	Will images be archived by a third party or in-house? Will images archived at Members United be converted to new archive format? How will home banking image access be provided? Will provider allow OTC captured items to be archived?	Operational Compliance Reputational	---	Fed Fees Image Capture: \$5/file and \$.007/item 7-year archive: \$.0016/item
Fedline access must be established for staff performing share draft- and check collection-related functions.	For considerations and fees related to the online account system, see the Federal Reserve Bank Account Impact Evaluator grid.			
Research and adjustment processing must be handled in-house.	A detailed knowledge of Federal Reserve operating policies and procedures is key to avoiding delays that occur when procedures are not followed.	Operational Compliance Financial	1 full-time staff person	Research/Adjustment Clerk – Base salary \$25,000 plus \$6,250 in benefits
Payments Specialist position to support daily operations and payment file processing.	Daily tasks include: <ul style="list-style-type: none"> ▪ Pulling, processing files ▪ Keying MICR rejects ▪ Processing of large dollar return notifications ▪ Monitoring branch capture files ▪ Duplicate detection /resolution 	Operational Compliance	1 full-time staff	Base salary – \$40,000 plus \$10,000 in benefits
Technical support must be available to handle server maintenance, payment system maintenance and connectivity to the Fed.	---	Operational Reputational	10 hours per week	10 hours at hourly rate of \$50 or \$500/week
Protocols must be developed to handle: quality assurance on files received from the Federal Reserve (detect/repair rejects), archive security, disaster recovery, software release testing.	Training and collaboration with peer organizations is necessary to stay abreast of changing regulations.	Operational Reputational Financial	Various and ongoing	Costs may be included in Payments Specialist position. Efforts contributed by other management in the organization should be considered.

*Staff resources are calculated at \$25 per hour based on salary of \$40,000 plus \$10,000 in benefits.

PROVIDER COMPARISON TOOL
Conversion Impact Evaluator

CHECK PROCESSING

Other Considerations*
<i>*Based on credit union moving processing in-house and going directly to the Federal Reserve (rather than to a third party processor).</i>
Line of credit access – The credit union must maintain a line of credit to ensure processing does not halt as a result of encoding or other adjustments (see next two related considerations).
If using the FRB to settle transactions, a credit union will need to manage daily activity to meet overnight reserve account requirements. If the account overdrafts, transaction processing may be revoked, including intra-day overdrafts and listing error debit overdrafts.
Listing errors (when the bank of first deposit encodes a share draft for the incorrect amount) are charged directly to the credit union's Fed account. Charges must be funded by the credit union until the adjustment is processed (errors can be in the \$10s of millions).
Back-up staffing must be available to maintain daily operations and payment systems.
Fraud protection software/procedures must be put in place.
Education/training – Staff must stay informed about changes to industry rules and regulations to ensure that they are in compliance.
Business continuity/disaster recovery plans must ensure backup/redundant processing sites are in place.
Telecommunication compatibilities – Members must have the necessary bandwidth to send and receive files.
Data security measures must be taken to prevent unauthorized access to confidential data.
Least cost routing – Credit unions should continually evaluate the least expensive means to process items (via image exchange/direct send versus FRB).
Handling of non-imageables, foreign items and other paper items (i.e. savings bonds) – Procedures and controls must be established to handle these types of items.
Credit union must establish return processing controls and procedures.
Same-day presentment (SDS) rules allow any institution to present the credit union's share draft items to credit union branch, typically via paper delivery.

CorporateOne Federal Credit Union

Capitalization Requirement Formula Comparisons

The issue with comparing capitalization formulas alone is that the formula at each corporate is not the comparable. As we pride ourselves on being a one stop resource for daily cash management and short term investment and Line of Credit needs for our members we have structured our capital program in a simple manner that allows the credit union to use us as they have in the past without complicated restrictions or requirements for additional capital. Doing so allows credit unions to use us as they need and not place any requirements on them to monitor the dollars on deposit for fear of increasing the needed capital, or requiring the funds to be swept to a low yielding money market account that may or may not fluctuate in value or else put up more capital. We ask for a fair level of capital that allows you access to investment options, settlement and a line of credit all within one simple formula.

As an example a formula that is based on three days average clearing but that requires additional capital be put up for a lines of credit and or to have investments, needs to be standardized when compared to another formula that is not based on these same restrictions. We have provided a chart that helps summarize our formula and provides an example of how a comparison might better be approached to standardize the measures.

The best question to ask is “What do you need from your corporate” and “How do you intend to use the corporate” then compare formulas based on those guidelines.

As an example we serve many credit unions that have routinely placed up to 20% or more (our average in our membership)of their assets with us in investment products as well as provide them a line of credit typically at 10% of their assets as part of our membership and as part of our standard capitalization formula. As an example a formula based on the average clearing dollars would produce a very low (on the surface) capital requirement, but that requires the credit union to put up more capital to support a line of credit and even more to support any investment activity above just the clearing balance. The calculations are not comparable unless you decide how you want to use your corporate.

With these thoughts in mind we have constructed a chart that shows our capital requirements for credit unions, but we would request that if comparisons are being made they are reviewed and “standardized” based on the intended use by the credit union to determine the “real” capital requirement.

Also please note than any firm assumptions regarding required capital ratios now may change when the final version of the capital plan is provided.

Other Thoughts for the committee

If off balance sheet sweep is critical to the decision, demand to know what the sweep will go into, and demand to know the yield. Money Market accounts qualifying as Regulation 704 compliant are paying below 10bp, and have recently been paying as low 1 bp ! The Callahan Fund for Credit unions is an

excellent example. Non money market accounts have a fluctuating NAV (Net asset Value) and are not designed to handle daily sweeps , and will fluctuate in market value that must be reflected monthly on each credit unions balance sheet!

Sample of an “Apples to Apples” Comparison Chart

CORPORATE ONE FCU

Example below assumes a credit union has 20% of their assets on deposit and a LOC of 10% of their assets.

Asset Range in millions	Capital Requirement Formula .9% of most current reported assets, max. of \$900,000	Additional Capital Required for LOC up to 10% of assets	Additional Capital Required for Deposits/Investment Activity greater than 5% of Three days Settlement	Total Required for Example
\$5	\$45,000	\$0	\$0	\$45,000
\$10	\$90,000	\$0	\$0	\$90,000
\$50	\$450,000	\$0	\$0	\$450,000
\$100	\$900,000	\$0	\$0	\$900,000
\$250	\$900,000	\$0	\$0	\$900,000
\$500	\$900,000	\$0	\$0	\$900,000
\$1,000	\$900,000	\$0	\$0	\$900,000

OTHER CORPORATE (S)

Example below assumes a credit union that has 20% of their assets on deposit and needs a LOC of 10% of their assets.

Asset Range in millions	Capital Requirement Formula??? 5% of three days settlement	Additional Capital Required for LOC up to 10% of assets	Additional Capital Required @5% for Deposits/Investment Activity greater than 5% of Three days Settlement	Total Required for Example
\$5	\$5,000 ??	\$12,500 ??	\$50,000 ??	\$67,500 ??
\$10				
\$50				
\$100				
\$250				
\$500				
\$1,000				

Capital Plan Submission - News

I would also like to announce that Corporate One FCU not only currently meets all required ratios as demanded by the agency, but on March 31, 2011 when we submitted our Plan we actually already exceed the “Well Capitalized” standards of all ratios! These ratios are not based on promises from our members; these are based on hard dollars on hand and in an account!

We have had tremendous support from our current members, as we have acted responsibly during this crisis, have not cost our members “one thin dime” of their membership capital, and have continue to serve them well throughout! We are well prepared for the future.

The following is an excerpt from our Plan submission to the NCUA.....

Dear Mr. Hunt:

Corporate One’s mission is to help our members succeed. We intend to do so by continuing to be a strong, viable corporate focused on meeting the ever-changing needs of credit unions now and into the future.

We have agreements from our members and amounts in escrow today that allow us to meet all of the capital and NEV ratios set forth in the new Regulation 704 that will be in effect in October 2011. The following chart summarizes our capital and NEV ratios as of 3/30/11.

Regulatory Capital/NEV Ratios	As of 3/30/11 if we close our PCC and NCA offering	Well capitalized	Adequately capitalized
RUDE ratio	1.12%	.45%	.45%
Leverage ratio	7.35%	5.00%	4.00%
Tier 1 risk-based capital ratio	8.58%	6.00%	4.00%
Total risk-based capital ratio	17.35%	10.00%	8.00%
NEV ratio – base case	2.81%	2.00%	2.00%
NEV ratio – up 300	2.12%	2.00%	2.00%

Membership Levels

The following levels of membership are available to all credit unions:

Membership Options	Capital Type	Capital Dividend Rates	Capital Requirements	Certificate Rates	Loan Rates	Fees
Platinum	PCC ¹	Highest capital rate	.5% (0.005) of most recent month-end assets <u>or</u> minimum \$5 million (whichever is less)	Highest share and certificate rates available	Lowest loan rates available	Lowest fees available for all programs and services
Gold	PCC ¹	Highest capital rate	.4% (0.004) of most recent month-end assets <u>or</u> minimum \$1 million (whichever is less)	2 to 15 bps (depending on term) lower than Platinum	2 to 15 bps (depending on term) higher than Platinum	10% higher than Platinum level fees
Silver	PCC ¹	Highest capital rate	.3% (0.003) of most recent month-end assets <u>or</u> minimum \$250,000 (whichever is less)	4 to 20 bps (depending on term) lower than Platinum	4 to 20 bps (depending on term) higher than Platinum	15% higher than Platinum level fees
Bronze	NCA ²	Lowest capital rate	.5% (0.005) of most recent month-end assets	6 to 25 bps (depending on term) lower than Platinum	6 to 25 bps (depending on term) higher than Platinum	20% higher than Platinum level fees

¹PCC = Perpetual Contributed Capital

²NCA = Nonperpetual Capital Account

Appendix B

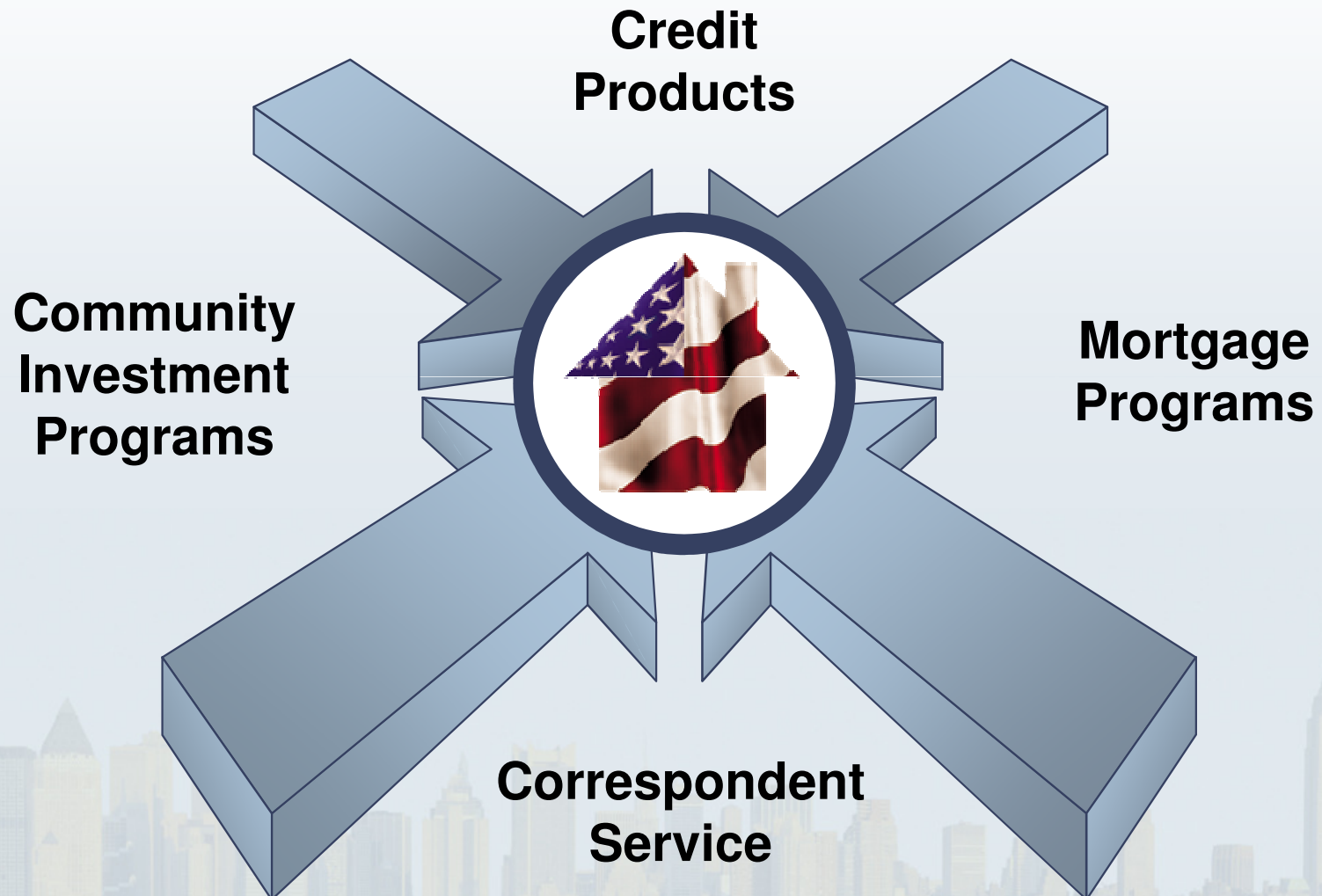


FHLBNY Membership

- Reliable low-cost funding to help meet liquidity needs
- Fixed, floating, forward-starting and amortizing advances with flexible terms to enhance your interest rate risk management
- AAA-rated Letters of Credit to secure various obligations, such as public-sector deposits
- Community Investment and Affordable Housing products to aid your CRA efforts
- High quality Correspondent Services to help meet your daily operating needs
- Better operating efficiencies through 1Linksm, our secure internet banking system
- Innovative mortgage funding and purchase programs to improve your competitive position



Lines of Business





Credit Union Membership Requirements

- Organized under the laws of the United States, New York, New Jersey, Puerto Rico, or U.S. Virgin Islands.
- Originates or purchases first lien one-to-four family residential loans, multifamily residential loans, or mortgage-backed pass-through securities with a term to maturity of at least 5 years (the “makes” test)
- Residential mortgage loans or assets must be at least 10% of total assets
- Positive adjusted net income for 4 of most recent 6 quarters, NPA to TA of less than 10%, ALLL to NPLs of 60% or greater for 4 of most recent 6 quarters.



FHLBNY Membership Application Process

Information For Prospective New Members Is Now Online

- Worksheets for calculating:
 - Eligibility testing
 - Estimating initial FHLBNY stock subscription amount
 - Financial ratios and real estate collateral ratios
- Membership application with checklist
- All required FHLBNY member forms & agreements

Application Submission

- Applications may be submitted at any time
- The FHLBNY will act on complete applications only

Membership Approval

- In accordance with applicable regulations, the FHLBNY shall act on an application within 60 calendar days of the date the FHLBNY deems the application to be complete.

Please contact George Wang at (212) 441-6724 for additional information

Federal Reserve Bank

1. The first weblink/service is called FedForward (i.e. deposit Forward images). Deposit basically anytime, but before 8pm has a better price (\$3.50 fixed fee per deposit, and approximately 1.1 cents per item fee on average. Here is the weblink...

http://www.frbservices.org/files/servicefees/xls/check21/2011_fedforward.xls

2. The second weblink/service is called FedReturn (i.e. deposit Return Images). Deposit before 2am, but before 8pm has a better price (\$3.50 fixed fee per deposit, and approximately 39 cents per item fee on average. Here is the weblink...

http://www.frbservices.org/files/servicefees/xls/check21/2011_fedreturn.xls

3. The third weblink/service is called FedReceiptPlus (i.e. receive images from the Federal Reserve Bank). The fee is a \$2 fixed fee per day for the in-clearing image transmissions (forward and return) from the Federal Reserve Bank. There is also a per image fee of a half penny, but we usually credit the half penny back to you if you deposit images with the Federal Reserve. Here is the weblink...

http://www.frbservices.org/files/servicefees/xls/check21/2011_fedreceipt.xls

FSI Pricing

1. We have no “buy-in” to FSI for our services. Our initial costs consist of Branch Capture software licenses which are approximately \$1400.00 per license/or branch. We also have 2 optional services with 1 time upfront fees which we will waive with a 5 year contract.
2. The archive is the Credit Unions for NCUA mandated 7 years at no additional cost. Today they pay approximately \$5.00 to retrieve every image after a 90 day period under Members United pricing structure.
3. Based upon assets here are our range of pricing that you could speak about with your members.
 - a. Inclearing- \$.01- \$.04
 - b. Branch Capture- \$.015- \$.06
 - c. Returns- \$.80- \$1.00
 - d. Statement Processing- \$.20-\$.35 per statement.
4. For the smaller Credit Unions, we would be willing to package pricing based upon how many we can get to come aboard! We are completely flexible.
5. For Core Processing, that is a completely other animal but let’s discuss real soon how to price.

Palmetto Cooperative Services, LLC.

General Information:

Corporate Name: PCS images, LLC
Mailing Address: P.O. Box 1787, Columbia, SC 29202
Street Address: 7440 Broad River Rd, Irmo, SC 29063
Web Address: <http://www.palmettocoop.com>

Primary Contact: John Slack
Chief Sales Officer
jslack@palmettocoop.com
(803) 237-9319

About PCS images, LLC (PCSi) and Palmetto Cooperative Services, LLC (PCS):

PCS images is a subsidiary of Palmetto Cooperative Services, LLC. PCS images was formed as a result of the merger between Palmetto's item processing division and Georgia based CSI.

PCS is a Credit Union Service Organization (CUSO), owned by 3 state credit union League Service Corporations and 35 individual credit unions. Our primary market consists of credit unions in South Carolina, North Carolina, Virginia, Georgia and West Virginia, however, we have a total of 402 credit union clients from 20 different states.

PCS has been serving credit unions since 1969. We offer a full array of item processing and ACH solutions. We also provide statement, e-statement, notice, e-notice, tax notice services in addition to operating a fully functional print facility.

Today, we are a fully image-enabled Item Processor handling more than 10 million check items each month. Each item is stored electronically in our secure servers. From there, we provide 7 years of unlimited access for authorized users. Access is given to authorized staff from the credit union, as well as the members. Members can view images of their cleared Share Draft items through a link from the credit union's Home Banking system.

We offer a full range of Remote Deposit Capture (Check 21) solutions, including Branch Capture, Teller Capture, Home Capture, Merchant Capture, ATM Capture and Mobile Capture.

Daily settlement services for all Item Processing solutions can be directed into the account of the credit union's choice, at any financial institution, or directly into the credit union's account at the Federal Reserve.

Competitive Advantages:

- 1) PCSi is capable of handling many settlement relationship. We do not offer settlement services.
- 2) Our pricing is very basic and competitive. We do not subscribe to hidden fees or monthly charges.
- 3) We do not charge for access to images. Our focus is the same as our credit union customers – member service.
- 4) The Senior Sales Executive we have assigned to New Jersey has almost 30 years experience serving credit unions of all asset sizes. He is well respected among his credit union peers and a consummate professional.
- 5) We have shown a history of passing along savings gained from operating efficiencies back to our customers in the form of lower prices.
- 6) As a CUSO, we are owned by credit unions and credit union organizations so we understand and celebrate the credit union difference.

PCS can provide comprehensive solutions for each of the following services:

Item Processing:

Item Processing (Share Drafts)

Imaging Services (7 Year Check Image Archive)

Return Services (Image Returns)

Research and Adjustments (Liaison with the Federal Reserve)

Paper Processing

Foreign Items

Bonds

Remote Deposit:

Branch Capture

Teller Capture

Merchant Capture

Mobile Capture

Remote Deposit Available Solutions (cont.)

Member Capture (From any TWAIN-enabled Flatbed Scanner)

ATM Capture (Interface with Diebold and NCR Machines)

Item Presentment & Collection (Least Cost Routing)

Image Archive (7 Year Check Image Archive)

Deposit Corrections & Returns (Electronic Returns)

Savings Bond Processing (Encoding & Presentment Services)

Exchange Items (Multiple Exchange Partners)

Basic Product Listing and Pricing:

Share Draft Processing:

In-Clearings

<u>If The CU's Total Monthly Volume Is:</u>	<u>Per Item Fee Is:</u>
1 – 12,500 Items	\$0.03 each (minimum fee of \$100.00)
12,501 – 25,000 Items	\$0.018 each
25,001 – 75,000 Items	\$0.0175 each
75,001 – 299,999 Items	\$0.014 each
300,000 Items and Up	\$0.0118 each

Returns

<u>If The CU's Total Monthly Volume Is:</u>	<u>Then, The Return Fee Is:</u>
1 – 500 Returns	\$2.00 per Return
501 – 2,000 Returns	\$1.40 per Return
2,001 Returns and Up	\$1.10 per Return

Image File Creation and Presentment (Optional at CU's Request)

Daily File	\$300.00 per month
Weekly File	\$200.00 per month
Monthly File	\$100.00 per month

Custom Services

Quotes Provided, As Needed

Remote Deposit Capture:

Remote Capture Presentment

All Items Presented \$0.0275 per Item

Forward Collection Service

<u>If The CU's Total Monthly Volume Is:</u>	<u>Per Item Fee Is:</u>
1 – 1,000 Forward Collection Items	\$0.07 per Item
1,001 – 3,500 Forward Collection Items	\$0.04 per Item
3,501 – 5,000 Forward Collection Items	\$0.03 per Item
5,001 – 10,000 Forward Collection Items	\$0.028 per Item
10,001 – 35,000 Forward Collection Items	\$0.026 per Item
35,001 – 100,000 Forward Collection Items	\$0.022 per Item
100,001 Forward Collection Items and Up	\$0.02 per Item

Image Returns (Optional, at the CU's Request)

Returns Cash Letter	\$1.50 per Cash Letter
All Image Return Items	\$0.50 per Image Return

Deletion Requests (Optional, at the CU's Request)

Batch Deletions	\$25.00 each
Individual Item Deletions	\$ 2.00 each

Non-Imageable Items (Optional, at the CU's Request)

Bonds, Foreign Items, Mutilated, etc. \$6.00 per Batch

Note - Through EZClear program credit union receives \$.30 credit per bond

Remote Deposit Return Services:

Hardware (Optional)

MICR Printer, MICR Ink and Check Stock \$650.00

Image Returns

Daily File Fee	\$1.50 per day
Image Returns	\$0.50 each
Monthly Maximum Fee	\$500.00 per month

Shipping

FedEx Fees (or Other Shipping)	At Cost
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Automated Clearing House Services:

ACH Processing Services:

File Received from PCSi	\$3.00 each
File Originated by PCSi	\$6.75 each
Return Items from PCSi Received Files	\$1.00 each
Return Items from Non-PCSi Files	\$2.00 each
NOCs Originated by PCSi	\$1.00 each
NOCs from Non-PCSi Files	\$2.00 each
Standard Recurring Items Originated by PCSi	\$0.10 each
On Demand Items Originated by PCSi	\$1.00 each

Lock Box/Remittance Processing Services:

Fee per remittance advice processed	\$0.25
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Conclusion:

PCS images is very proud of our relationship with over 400 credit unions in 20 states. We are extremely appreciative of the opportunity to expand our relationship and the confidence your organization has placed with us by including us in this process. We are equally as proud of our relationships with multiple state credit union leagues. We know the level of responsibility the league carries when deciding on organizations to present to their credit union members and we are always respectful of that relationship.

As a CUSO we operate with much the same philosophy as our credit union owners and partners as evidenced by our recent price reductions as a result of our merger with CSI. We are in the business of serving our credit unions and credit union members by providing a great product and superior service, so our credit unions can focus on exceeding the expectations of their members.

Appendix C

**New Jersey Corporate
Credit Union Task Force**

Carolyn Anderson – Financial Assurance Federal Credit Union

Chris Chichester – Jersey Central Federal Credit Union

Raymond Del Nero – Merck Employees Federal Credit Union

Kenneth Fredriksen – First Financial Federal Credit Union

Elizabeth Frentz – Public Service Federal Credit Union

Paul Gentile – New Jersey Credit Union League

William Kennedy – Jersey Shore Federal Credit Union

Sandra Mullins – West Orange Municipal Federal Credit Union

Rina Pantano – NJ Gateway Federal Credit Union