

Inside EasCorp



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Daylight Saving Time begins on Sunday, March 11, 2007.

Remember to set all clocks ahead.

A glimpse at EasCorp’s 2007 Partnership Conference & 29th Annual Meeting

Please mark your calendar and plan to join us on Thursday, April 26, 2007, for EasCorp’s Partnership Conference and 29th Annual Meeting. The event will be held at the John F. Kennedy Presidential Library & Museum in Boston from 9 a.m. until 2 p.m. and will feature keynote speaker Polly LaBarre. Ms LaBarre is the co-author of *Mavericks at Work: Why the Most Original Minds in Business Win* and former senior editor who helped shape *Fast Company*.

Under Ms. LaBarre, *Fast Company* became the fastest-growing business magazine in history. The publication’s circulation grew from zero to 725,000 with 3.2 million readers in 7 years. By comparison, it took *Forbes* magazine 67 years, *Fortune* magazine 62 years, and *Business Week* 41 years to obtain 3.2 million readers. Polly has appeared on ABC's Good Morning America, and on NBC's Today Show.

LaBarre’s book, *Mavericks at Work*, is the result of comprehensive information obtained from thirty-two of the world's most innovative and disruptive competitors. The book is said to be an inspiring and effective compilation of “next practices”, which illustrates companies that thrive by challenging traditional business processes and rethinks how an organization forms strategies, unleashes ideas, creates an emotional connection with their customers, and enables employees to achieve great results. It is said that the unconventional ideas, intriguing, instructive, and groundbreaking strategies uncovered in this book could be used as a blueprint for a business plan for the 21st century. Shortly after its release, *Mavericks at Work*, made the bestseller lists of the New York Times, Wall Street Journal, and BusinessWeek.

In addition to hearing this world-renowned inspirational speaker, we invite you to take part in EasCorp’s governance at our 29th annual meeting. Please watch for your formal invitation, which will arrive in the next few days. In the meantime, we hope you will put this special event on your calendar. We look forward to seeing you on April 26, 2007.



NII vs. NEV: One or the other, neither, or both?

As ALM professionals, we are often asked the question: Should I be concerned with NII, NEV, or both? Before we can answer that, we need to uncover the purpose of each metric.

Net Interest Income (NII) Simulations

NII simulations aim to answer the question: “How will my net interest income change in the next 12 months if...?” Traditionally, the blank has been filled in with the regulatory standard, i.e. instantaneous rate shocks of up and down 300 basis points. The volatility of a credit union’s net interest income is a key measure of interest rate risk inherent in the balance sheet and, (theoretically) the lower the volatility, the smaller the fluctuation in earnings. However, although the simulation results may be acceptable, there are parts of the picture that may not be seen by the use of NII simulations exclusively. A crucial limitation of NII simulations is its short forecast horizon; i.e. once we move past 12-24 months, the simulations become less reliable and often do not account for the optionality of adjustable rate assets that reprice over longer time horizons. For this, we look to NEV modeling.

Net Economic Value (NEV) Modeling

While NII looks strictly at what happens to net interest income over a finite period of time as rates fluctuate, NEV modeling views the market value of a balance sheet, *independent of earnings performance*. The net economic value is the fair market value of assets minus the fair market value of liabilities at a distinct point in time, and equates to the market value of the credit union’s capital, which may be higher or lower than the book value of capital. Because this is a timeless measure, it identifies more of the risks on the balance sheet. NEV, however, is not without its own limitations. As with NII simulations, a credit union can have low NEV volatility without regard to other risk factors. However, lower volatility does equate to lower interest rate risk. What’s more, NEV generates a liquidation value for the credit union while ignoring the fact that the institution is a going concern. In addition, NEV modeling ignores other assets, both on and off balance sheet, such as land, buildings, equipment, etc.

Where do we go from here?

Let’s proceed with the notion that NII examines income while ignoring valuation, and NEV examines valuation while ignoring income, and investigate how the two work together. Sample CU, a \$75 million credit union with a \$40 million mortgage portfolio, uses NII simulations to evaluate interest rate risk. While NII may fall 18% in an extreme interest rate environment, the drop is within policy guidelines and the credit union’s ROA is near the top of its peer group. However, without looking at its NEV volatility, the credit union is ignoring what may happen to the value of the mortgages as rates rise, as well as the longer term impact of adjustable rate mortgages with contractually capped rates. Due to the inverse relationship between interest rates and price, the value of the mortgage portfolio (and especially the longer term, fixed rate loans) will drop substantially when rates rise. At some point, as rates rise, members will demand higher rates on shares and CDs, squeezing margins and pressuring earnings. Here is where NII and NEV work well together - although NEV does not specifically look at income, it can provide an early warning for potential future problems. NEV modeling would have provided such an early warning i.e. while its ROA was strong, there was an underlying reason — too much interest rate risk was being taken in order to generate those numbers.

Conclusions

To gain the best possible understanding of the risks that may affect your credit union, a combination of NII and NEV is the best course of action. While NII may provide more practical

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The growth of a corporate credit union *by Jane Melchionda, President/CEO of EasCorp*



For the last several months, our member newsletter has featured several guest writers who have described significant milestones in Massachusetts credit union history. They have been interesting, informative, and, most especially, instructive as they chronicled the early stages of our industry's development, and the people whose innovative minds and tireless efforts shaped our modern, interdependent system of cooperative credit.

Although we have several more guests in the queue, I thought it would be fun to write of an historical development within our industry of which I am familiar, and so, at the risk of seeming immodest; I'd like to tell you about the origins of EasCorp.

It was the mid-1970s. There were many more credit unions than today, although they were much smaller and less complex financial institutions. No share drafts, credit or debit cards. No ATMs. Due to the nature of their sponsor companies, many credit unions had broad seasonal variations in their deposit and lending activities, and would borrow from one another on a fairly regular basis. However, there was little structure to this system and its long-term dependability was suspect. What's more, credit union investment trades were small and inefficient, no one had a CFO, and due diligence was not what it is today. Inevitably, there were investment losses.

The conditions were right for a corporate credit union and the leaders of the former Massachusetts CUNA Credit Union Association took the lead in the organization process. I should know because I was on the staff, did a lot of the paperwork, and ran around the state asking credit union Boards of Directors to give our new company a chance. In 1978, we opened for business and have been growing ever since. Some people mistakenly believe that I was the first employee; however, that honor belongs to Dorothy (Dotti) Dellemonico who did our accounting until she retired from EasCorp a

few years ago.

For many years, the company's identity was narrowly defined by investments and credit, but that changed dramatically in the 1980s when our industry was "admitted" into the national financial payments system through the Monetary Control Act of 1980, and it became natural for corporate credit unions to serve their members daily working capital needs, i.e. funds transfers, settlements, etc. for a more efficient operation. In the late 1980s and early 1990s, we dug deep roots in the payments business with the creation of our item processing center and IT department. To our delight, we discovered a special talent for innovation and product development, which eventually led to many "firsts" among corporate credit unions, including the first check image processing system, check image statements and statement mailing services, online check research tools, and online delivery of checks and statements directly to credit union members. Even today, we continue this tradition through the development of proprietary technologies that enable credit unions to take advantage of many benefits attributable to the post-Check 21 era.

We also discovered that whenever we entered a business, our competitors would lower their prices to match ours, saving credit unions millions of dollars over time, whether they used our services or not.

In the 1990s, we changed our name to EasCorp to reflect our members' more broad geographic diversity. We have and have had successful CUSOs to support a variety of members' special interest needs. Our record of growth, both on and off-balance sheet, has been unimpeded to date. We are, in fact, one of the most successful corporate credit unions in the nation today. We know who we are and the traditions we are expected to uphold. We are headquartered in Massachusetts—home of the credit union industry's greatest historical achievements.

This is the third in a series of stories featuring milestones in Massachusetts Credit Union history.

Charitable Trusts — an overview

A message from 1909 Financial Advisors, LLC and Members Trust Company



Credit union members that wish to give part of their estate to charity may be a candidate for a charitable trust. A charitable trust is a unique giving opportunity that allows the member to give to the charity of his or her choice on a predefined schedule as well as to secure a current income-tax deduction.

When a credit union member makes a charitable contribution in his or her will, the amount of the member's contribution will be deductible for estate-tax purposes. Therefore, the member's estate pays no estate tax on the donated assets. Members can also receive an income tax deduction for current gifts made during their lifetime. A charitable trust, however, allows a member to make a gift, avoid estate taxes on the donated assets, and get a current income-tax deduction at the time the gift is made without having to give up total control of the amount given.

Charitable Remainder Trust: Say the member wants to donate some of his or her assets to charity, but also wants to obtain the income from those assets for himself, someone in the family, or another beneficiary for a certain amount of time. A charitable remainder trust will allow the member to do that. When the trust is established, the credit union member can designate an individual including himself, to receive income from the trust for life. The designated charity will receive the remaining assets after the beneficiary dies.

The question often arises how can the amount of the deduction be determined if the charity will not actually receive the gift until some future date? IRS tables and formulas are available to determine the value of a future gift to charity. The higher the value of the gift, the higher the deduction will be. The value of the gift can be deducted for income-tax purposes, assuming all tax law requirements

are met.

Usually the charitable remainder trust is set up as either a unitrust, which pays the income beneficiary a percentage of the trust fund each year, or an annuity trust, which pays a fixed dollar amount each year.

Below is an example of how your member may establish a charitable trust as an annuity trust. Suppose the credit union member is 65 years old and wants to contribute \$1 million to charity. In addition, the member wants \$50,000 of trust income to be paid to him annually for life. In this example, the member would be entitled to an immediate income-tax charitable contribution deduction of about \$490,000 (within tax law limits). At the member's death, the entire value of the assets passing to the charity would also avoid estate taxes.

The Charitable Lead Trust: A charity may also be named as the income beneficiary of the trust. The charity will then receive the annual income payments from the trust, and the designated individual will receive the remainder. This is a good strategy if the member has little immediate need for additional income and is willing to provide an income stream for a favorite charity. In this type of trust, as with the charitable remainder trust, the IRS tables determine the value of the gift and the deduction is based on the amount of income the charity receives each year as well as the number of years the trust is operative.

1909 Financial Advisors, LLC and Members Trust recognize that some of your credit union members may want additional information on charitable giving or charitable trusts. If you would like to find out more about how your members might benefit from our trust services program, please call Alan Bernstein at extension 3316 or Tim Madigan at extension 3361.

EasCorp completes SAS 70 Audit



EasCorp has posted its newest SAS 70 Type II Audit, "Report on Controls Placed in Operation and Tests of Operating Effectiveness", on its Ease-Link home page.

The report details the review that was performed by the firm of Crowe Chizek and Company LLC of South Bend, Indiana. Crowe Chizek's SAS 70 Type II Audit includes a comprehensive review of the EasCorp's processes including check processing, wire transfer, security safekeeping, and member account processing systems. The Audit also includes an opinion as to the operating controls in-place for the period July 1, 2006 through December 31, 2006.

In order to access the SAS 70 report, you must be an authorized Ease-Link user and have a valid digital certificate.

NII vs. NEV: One or the other, neither, or both
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information for business purposes, relying on just one or the other could potentially subject your credit union to undue risk- risk that could have been actively managed if detected earlier. Rather than approaching your ALM service as purely a regulatory necessity, it should be viewed as a valuable management resource that provides unbiased insight into management decisions. To this end, some models now offer additional features that allow users to model more realistic interest rate forecasts. For example, the probability of interest rates rising 300 basis points overnight is remote, so the option of 'ramping' rates (up and down) is beneficial; the model will simulate a 100 or 200 basis point increase over a 12 month period. At last, the models transcend their regulatory purpose, and become true management planning tools.

UPCOMING EVENTS

ALM & Investment Academy

March 7 - 9, 2007 at the Executive Conference Center, Babson College, Wellesley, Mass.

Association of Credit Union Senior Officers Meeting

Turning Heads and Wowing the Community

March 22, 2007 at EasCorp, Burlington, Mass.

Boston Marathon Benefiting Children's Hospital, Boston

April 16, 2007

EasCorp's Partnership Conference and 29th Annual Meeting

April 26, 2007 at the John F. Kennedy Presidential Library & Museum, Boston, Mass.

“Hats off” to Saugus FCU

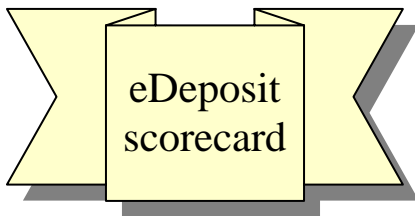


Saugus Federal Credit Union recently held a Super Bowl raffle to benefit Children's Hospital Boston. The raffle raised \$1,500.

The winner, a long-time member of the credit union, received a tailgate gift basket, including a party platter to feed ten people from J & M Specialty store, as well as snacks, dips, and paper goods. Congratulations!

Tellers and member service representatives sold raffle tickets to members over a two-week period. To raise additional funds, employees were able to wear jeans on the Friday before the Super Bowl for a nominal donation of five dollars.

We would like to thank all participants with special thanks to all who helped make this fundraiser a success. Pictured above from left to right are Kerri Murray, vice president of accounting, Marie Cabral, teller, and John Smolinsky, president, all of Saugus Federal Credit Union. This is an example of the credit union philosophy, “People Helping People”, in action.



We are pleased to report on the progress of EasCorp's eDeposit program (remote-capture).

- 102 credit unions are currently participating
- 334 licenses distributed
- Cash letters are being received from 13 states

EasCorp processed 3 million image cash letter items for the month of February.

EASCORP'S ONLINE RESOURCES



Quick tip: Archiving Bundles

The eDeposit program has a feature providing you the capability to create a daily archive that includes itemized reports and individual check images for every item in your electronic deposit. This provides you the ability to research items later.

To archive:

1. Make sure all of your bundles have been released and extracted.
2. Select File from the eDeposit menu, click on Maintenance from the drop-down menu, and Archive Database from the Maintenance options.
3. eDeposit asks you to confirm that you intend to create an archive folder for this processing date. Choose Yes to continue with the Archive process.
4. A folder is automatically created for this processing date in the archive directory (This directory was designated in the eDeposit configuration when your program was initially set-up). Within this folder you will find:
 - a. Index reports (in both .CSV and .PDF formats) detailing the items contained in each bundle
 - b. Audit reports (in both .CSV and .PDF formats)

Subfolders representing each bundle of checks containing the front and back image of every item, as well as detailed information captured about that item.

If you prefer to store your check image archive “off line”, the archive file structure can easily be copied to CD or DVD-ROM for more permanent storage.

New product users

The following members started new services in February.

eDeposit

Coastway Credit Union
Cranston, RI.

Pioneer Valley Federal CU
Springfield, Mass.

SimpliCD

Delta-Wye Federal CU
Dorchester, Mass.

Goldmark Federal Credit
Union
Attleboro, Mass.

Statement Rendering

M/A-COM Federal CU
Fairhaven, Mass.

Sturdy Credit Union
Attleboro, Mass.

Commercial Lending Services

GFA Federal Credit Union
Gardner, Mass.

St. Anne's CU of Fall River
Fall River, Mass.

Winthrop FCU
Winthrop, Mass.

EasCorp

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EasCorp Officers

Jane Melchionda
President/CEO

Alan Bernstein
Senior Vice President, Business Development
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Cynthia Nelson, CFA
Senior Vice President, Asset Liability
Management

Christopher Smith
Senior Vice President, CIS

Donald Cross
Vice President, Finance

Diane Johnstone-DeRosa
Vice President, Operations

Kathleen Loughlin, PHR
Vice President, Human Resources

Eleanor Melchionda
Vice President, Member Relations

Asim Mian
Vice President, CIS

Stephen O'Sullivan
Vice President, Risk & Compliance

George Dow
Assistant Vice President, Member Relations

Darlene Howlett
Assistant Vice President, E-Commerce

James Newson
Assistant Vice President, Payment Systems
Operations

Jonathan Rankin
Assistant Vice President, Asset Liability
Management

Edward Wilk
Assistant Vice President, Member Services
and Support

Statement Rendering Facility

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For the month of February,
EasCorp Perpetual Paid-In
Capital accounts paid a
dividend rate of 6.429%.

EasCorp
What together we can do.®

Your savings federally insured to \$100,000.



National Credit Union Administration,
a U.S. Government Agency