



UNITED LABOR BANK f.s.b.
E X E C U T I V E O F F I C E S

January 3, 2011

To: Union Local Financial Secretaries, Business Managers, and Officers

As we continue in this economic recession, the need for improved earnings on our assets weighs heavily on our minds – especially to help support the union local’s operating expenses. It is almost what we call a perfect economic storm: both dues and investment yields are down which produces strains on a local’s operations.

This is also a difficult time for many of the financial providers you deal with at the union local or management/labor trust fund, because their sales are down. We have seen an increase in financial providers attempting to sell the same products to union locals as they do to trust funds. These products are being packaged and sold as a way to improve yields to the union local.

These products have risks that a trust fund most likely can overcome, but would be difficult for a union local. Therefore, I believe it is important to review why investing for a trust fund is completely different than for a union local.

Most non-bank investments are sold with an average yield quoted over an extended period of time – an example would be 5-10 years. Trust funds have the capacity to hold these investments over the long term and see the returns that have been suggested. Union locals do not have the same time element to hold investments. They may be forced to sell the investment at a time that will not produce the expected yields, or worse may even produce a loss of principal. ***This is called duration risk.***

Trust funds have teams of investment analysts who can review the proposed investment from an independent position and make recommendations that serve the benefit of the trust fund. In many cases, union locals may not have this resource, and rely solely on the sales person who is selling the investment. ***This is called education risk.***

Since trust funds handle and invest management/labor funds, losses can be spread over time and more easily absorbed. Union locals only have member’s dues as the primary resource and do not have the ability to spread the risk to other entities. Once the dues money is lost, it is not replaceable. ***This is called replacement risk.***

There is a saying in the financial world that holds true today more than ever before: ***“There is a direct correlation between yield and risk.”*** Remember Bernie Madoff? Mr. Madoff promised yields that were in excess of the market. If it sounds too good to be true, it probably is.



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I am not suggesting that these may be weak investments or the sales people are not acting in the local's best interest. I am suggesting that these types of investments may not be appropriate for union locals.

Whether you bank with United Labor Bank or someone else, more than ever this is a time to be conservative with the members' resources that you have been entrusted. The FDIC insurance accounts may not produce the yields that you could get on the investment circuit. However, the benefit that your funds will be there when you call for them will probably be worth a lot more.

With best regards,

Malcolm F. Hotchkiss
President and Chief Executive Officer