

CREDIT UNION ECONOMICS GROUP (CUEG) PANEL

**National Association of
Federal Credit Unions
Annual Conference
San Diego, California
July 11, 2008**

For more information on CUEG:

www.cueg.org

CUEG

STRATEGIC THINKING

ECONOMIC FORECAST AND CAPITAL STRATEGIES

- Tun Wai
Chief Economist, NAFCU

A LOOK BACK AND A LOOK FORWARD

- Dave Colby
Chief Economist, CUNA Mutual Group

ECONOMIC FORECAST AND CAPITAL STRATEGIES

**Tun A. Wai, NAFCU
Chief Economist**

DOUBLE, DOUBLE, TOIL AND TROUBLE
LET'S NOT BLOW ANOTHER BUBBLE

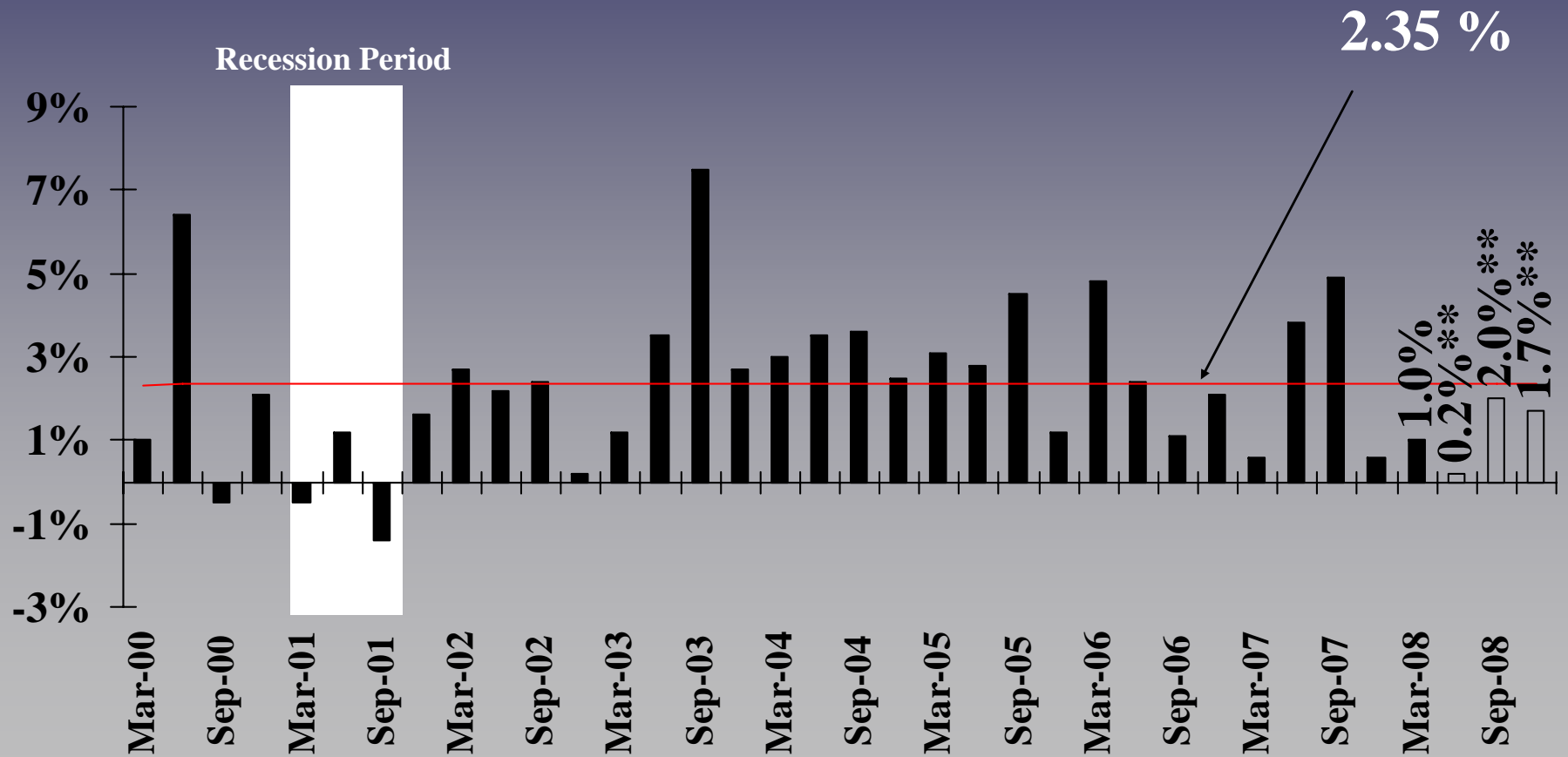


"WHEN SHALL WE THREE MEET AGAIN?"

DISCUSSION TOPICS

- Economic Environment
- CUEG Forecast
- Capital Strategies

GDP GROWTH 2000- MARCH 2008



**Forecast

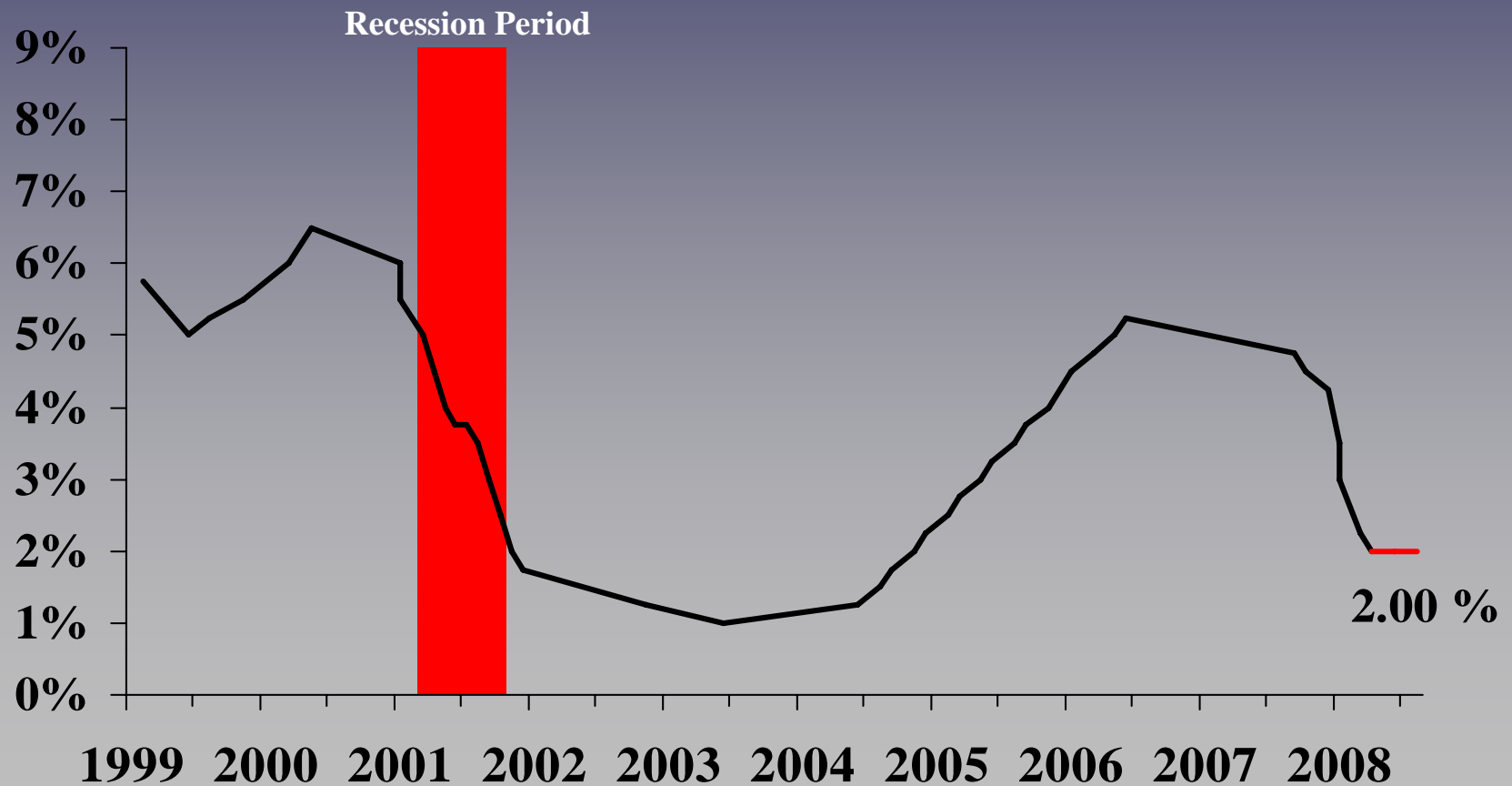
Source: Bureau of Economic Analysis

CHAIRMAN BERNANKE

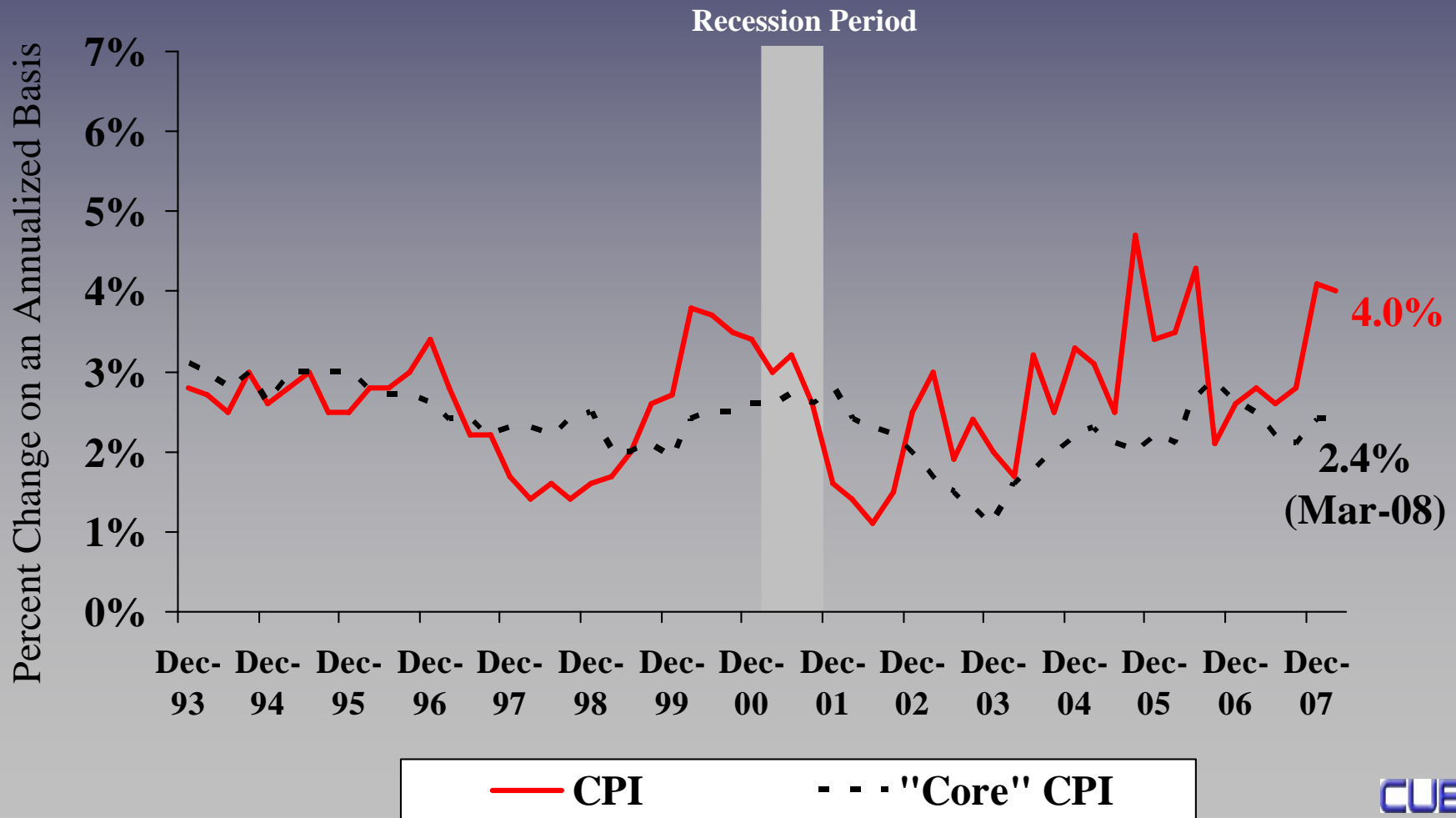
June 9, 2008

“...although activity during the current quarter is likely to be weak, **the risk that the economy has entered a substantial downturn appears to have diminished** over the past month or so. Over the remainder of 2008, the effects of monetary and fiscal stimulus, a gradual ebbing of the drag from residential construction, further progress in the repair of financial and credit markets, and still-solid demand from abroad should provide some offset to the headwinds that still face the economy. However, the ongoing contraction in the housing market and continuing increases in energy prices suggest that growth risks remain to the downside.....”

TARGET FED FUNDS RATE



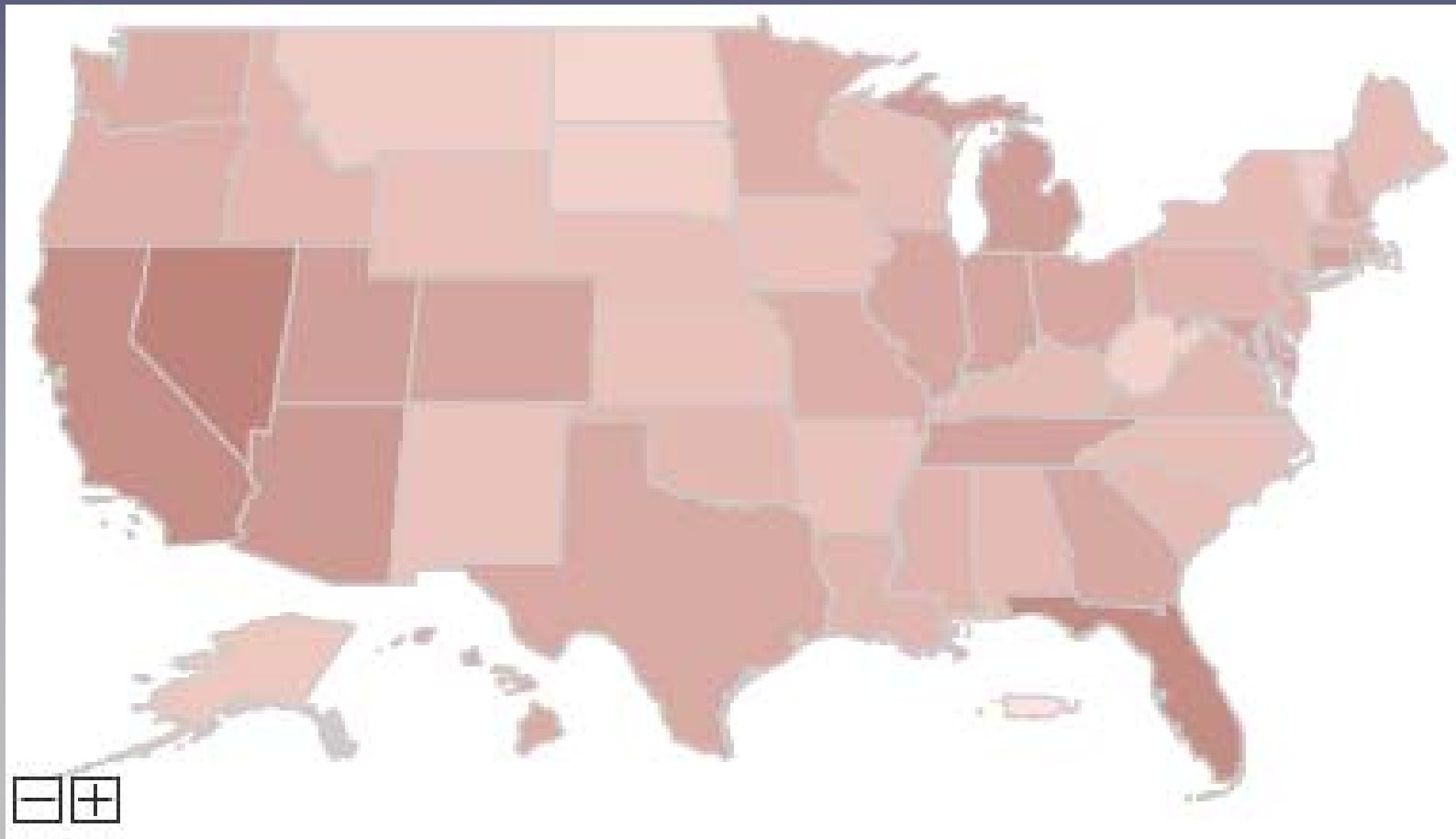
CONSUMER PRICE INDEX



SUBPRIME LOANS

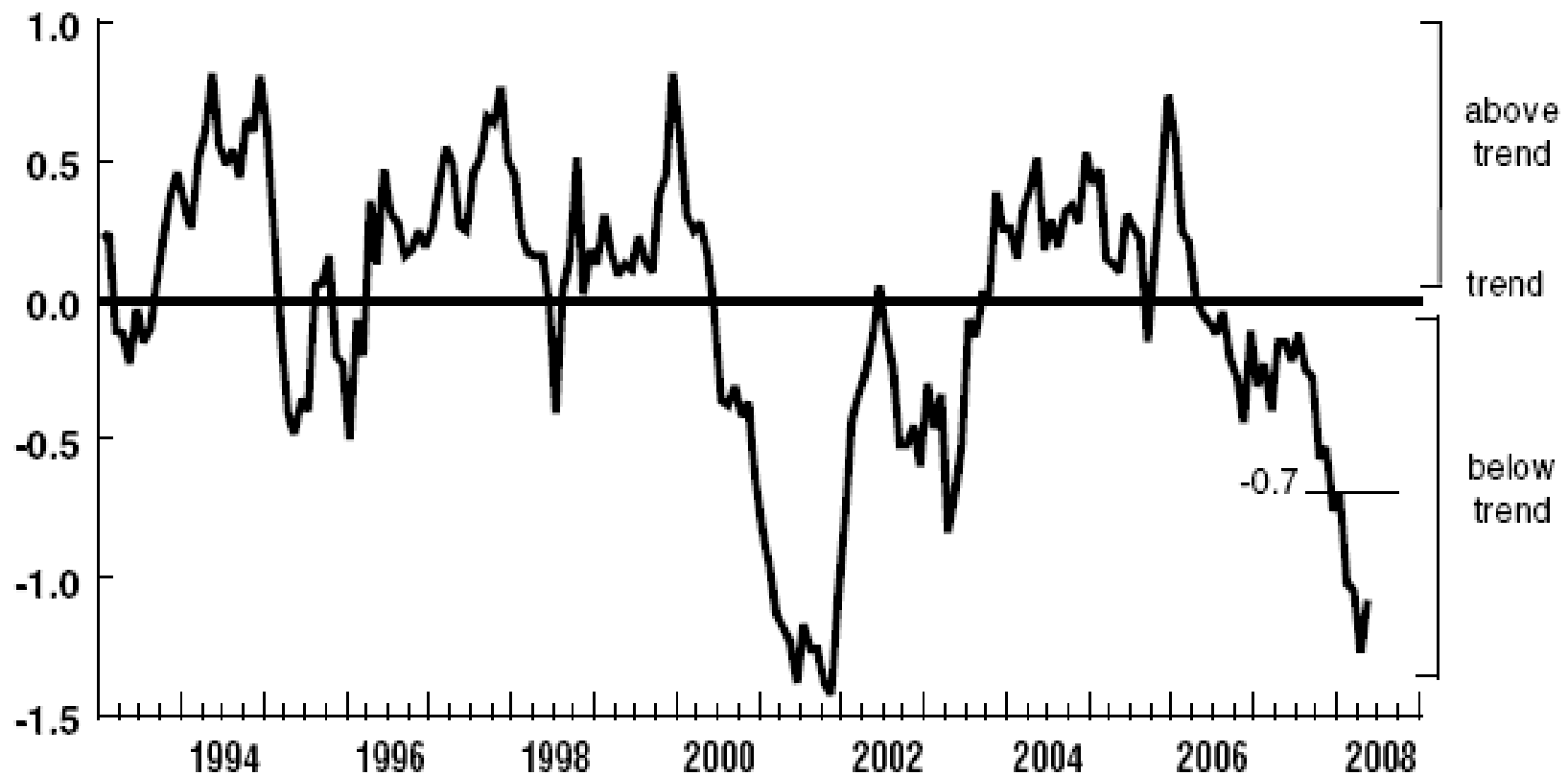
February 2008

Loans per 1,000 housing units



CHICAGO FED NATIONAL ACTIVITY INDEX (as of May 2008)

Chicago Fed National Activity Index, Three-Month Moving Average (CFNAI-MA3)



CUEG FORECAST

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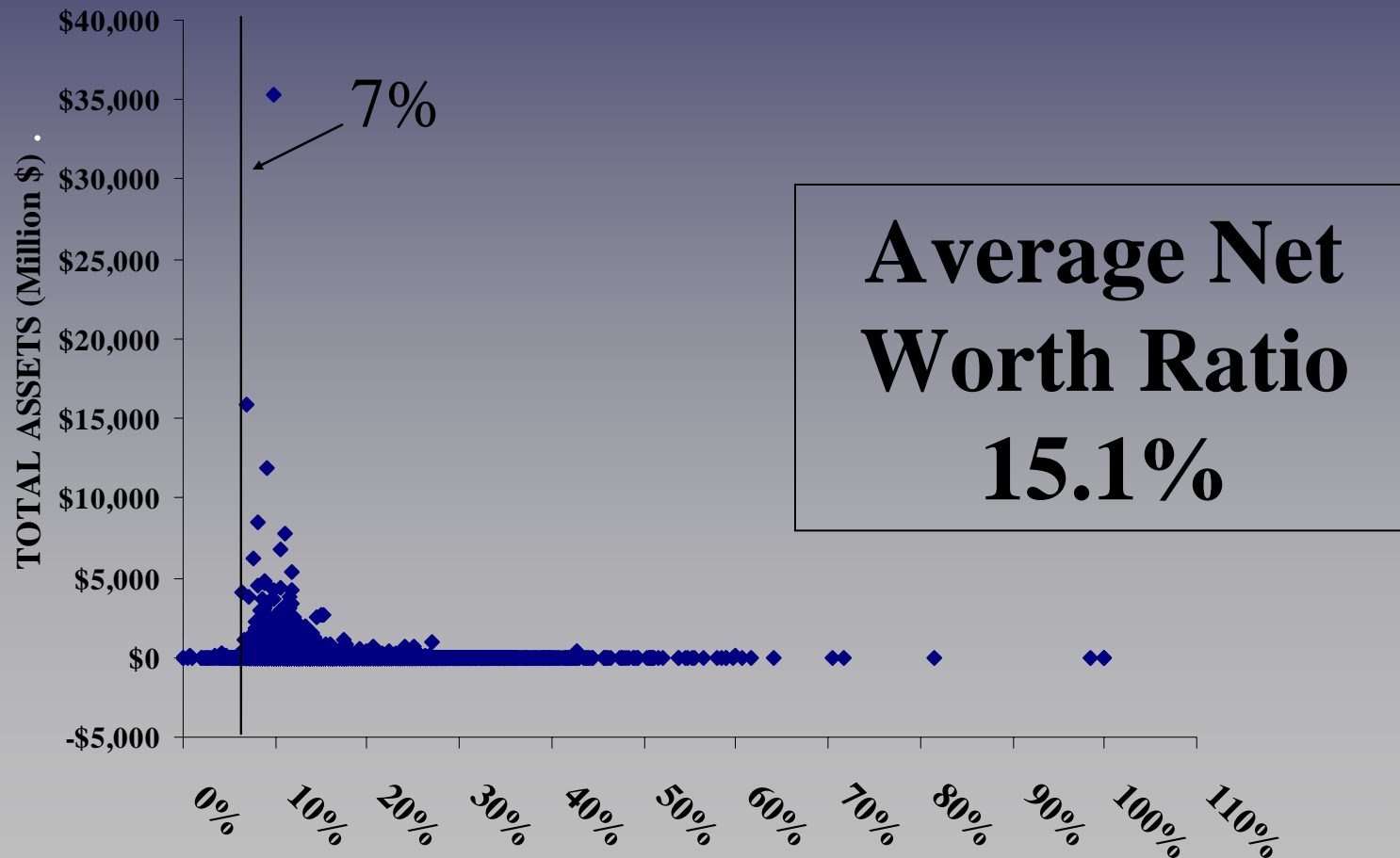
| | Actual Results | Annual Forecasts | |
|------------------------|----------------|------------------|-------------|
| | 2007 | 2008 | 2009 |
| Growth Rates: | | | |
| <i>Loan Growth</i> | 6.58% | 6.0% | 6.7% |
| <i>Savings Growth</i> | 5.19% | 7.5% | 6.7% |
| CPI-U: | | | |
| <i>CPI-U</i> | 4.1% | 3.7% | 2.9% |
| Interest Rates: | | | |
| <i>Fed Funds Rate</i> | 4.25% | 2.1% | 2.8% |
| GDP: | | | |
| <i>GDP</i> | 2.2% | 1.1% | 2.0% |

NAFCU

Federally Insured CU Forecast

| | Actual Results | Annual Forecasts | |
|---------------------------------------|----------------|------------------|-------|
| | 2007 | 2008 | 2009 |
| Growth Rates: | | | |
| <i>Loan Growth</i> | 6.6% | 5.5% | 6.5% |
| <i>Savings Growth</i> | 5.2% | 7.0% | 6.0% |
| Liquidity: | | | |
| <i>Loan-to-Share Ratio</i> | 83.3% | 82.1% | 82.5% |
| Earnings: | | | |
| <i>Return on Average Assets (ROA)</i> | .65% | 0.80% | 1.00% |
| Capital Adequacy: | | | |
| <i>Net Worth Ratio</i> | 11.4% | 11.5% | 11.8% |

NET WORTH RATIO (FICUs 3/08)



“BACK OF THE ENVELOPE”



10-YEAR NET WORTH CALCULATOR



Use this calculator to estimate the change in your credit union's net worth ratio after 10 years, based on a constant asset growth pattern and annual return on assets (ROA).

Enter your credit union's current year net worth ratio, asset growth, and ROA below.

| | |
|--------------|--------|
| Ratio | 11.43% |
| Asset Growth | 6.10% |
| ROA | 0.64% |

10-Year Net Worth Calculator

| Year | Assets: Beginning of Current Year | Assets: End of Current Year | Net Worth Ratio: Beginning of Current Year | Net Worth: Beginning of Current Year | Net Worth: End of Current Year | Net Worth Ratio: End of Current Year |
|------|-----------------------------------|-----------------------------|--|--------------------------------------|--------------------------------|--------------------------------------|
| 2008 | \$100.00 | \$106.10 | 11.43% | \$11.43 | \$12.09 | 11.39% |
| 2009 | \$106.10 | \$112.57 | 11.39% | \$12.09 | \$12.79 | 11.36% |
| 2010 | \$112.57 | \$119.44 | 11.36% | \$12.79 | \$13.53 | 11.33% |
| 2011 | \$119.44 | \$126.72 | 11.33% | \$13.53 | \$14.32 | 11.30% |
| 2012 | \$126.72 | \$134.45 | 11.30% | \$14.32 | \$15.16 | 11.27% |
| 2013 | \$134.45 | \$142.66 | 11.27% | \$15.16 | \$16.04 | 11.25% |
| 2014 | \$142.66 | \$151.36 | 11.25% | \$16.04 | \$16.98 | 11.22% |
| 2015 | \$151.36 | \$160.59 | 11.22% | \$16.98 | \$17.98 | 11.20% |
| 2016 | \$160.59 | \$170.39 | 11.20% | \$17.98 | \$19.04 | 11.17% |
| 2017 | \$170.39 | \$180.78 | 11.17% | \$19.04 | \$20.16 | 11.15% |

NET WORTH RATIO AFTER 10 YEARS: 11.15%

SCENARIOS

- What is the maximum asset growth rate without capital dropping? (6.10% to **5.76%** or 0.34% decrease)
- What is the lowest earnings without capital dropping?(0.640% to **0.676%** or 0.036% increase)
- What combination of asset growth and earnings will prevent capital from dropping?

SCENARIOS (Cont.)

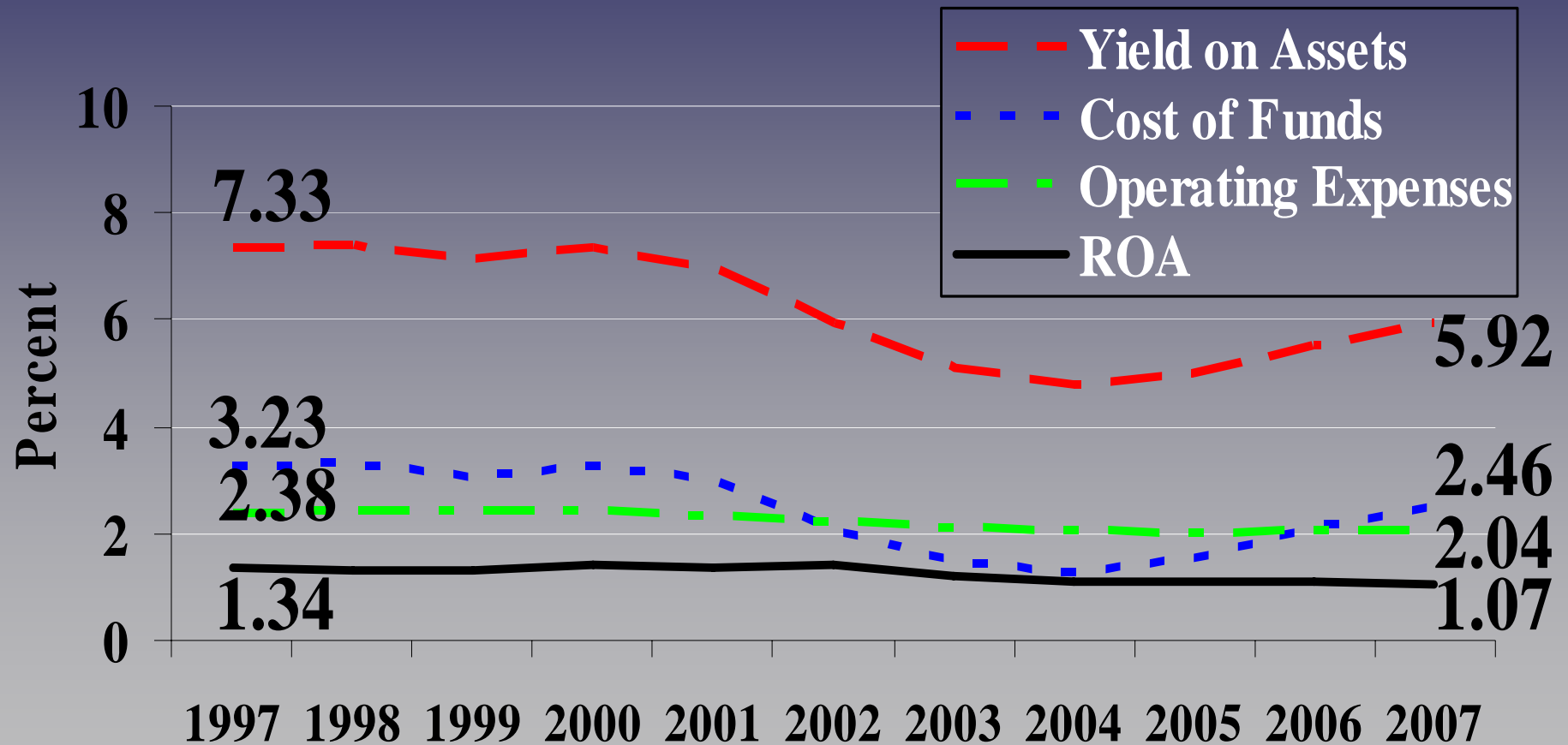
- Which growth rate impacts capital more?

Asset growth $0.34\%/6.10\% = 0.056\%$

ROA $0.036\%/0.64\% = 0.056\%$

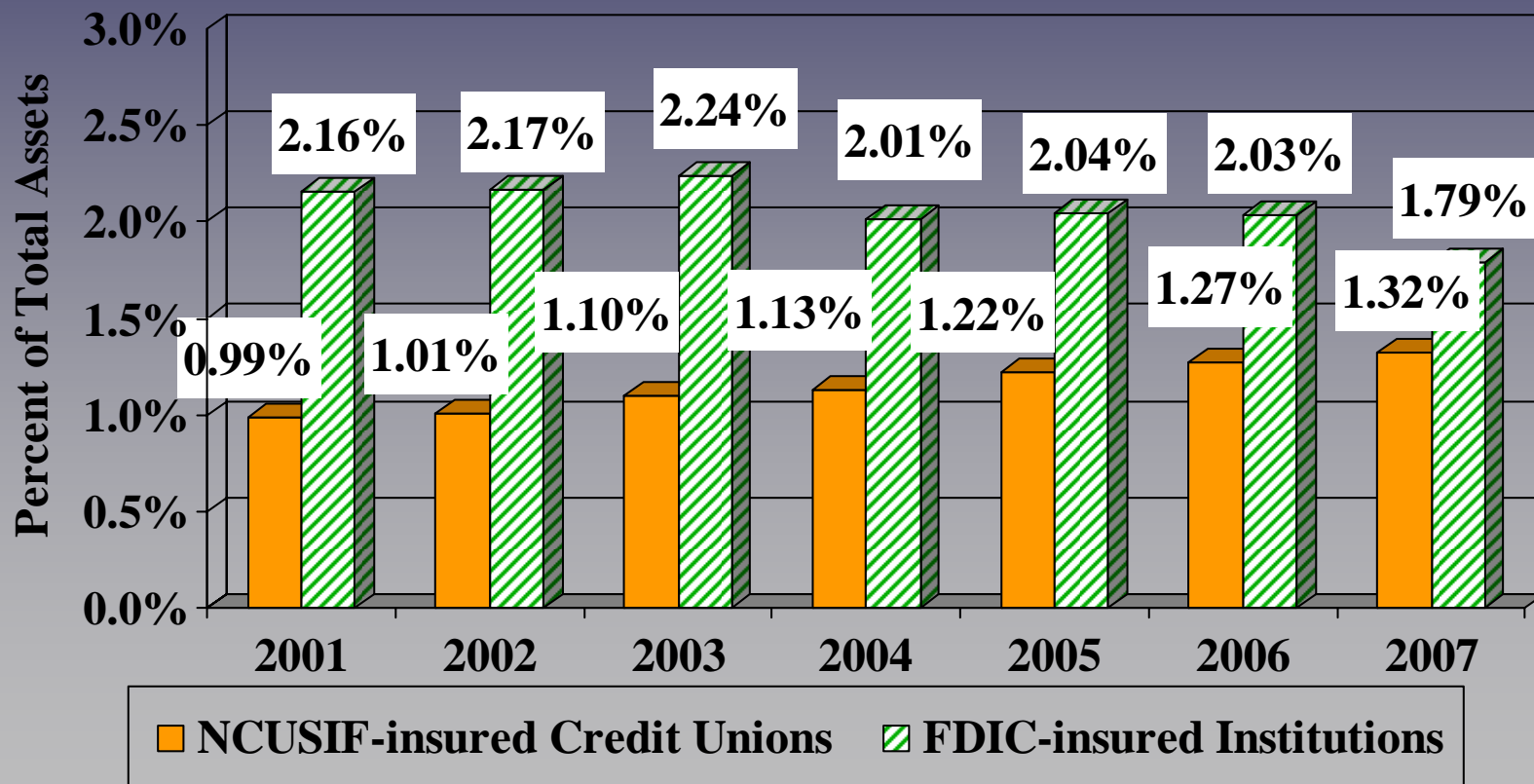
Slowing asset growth = Increasing earnings

NET SPREADS FICUs



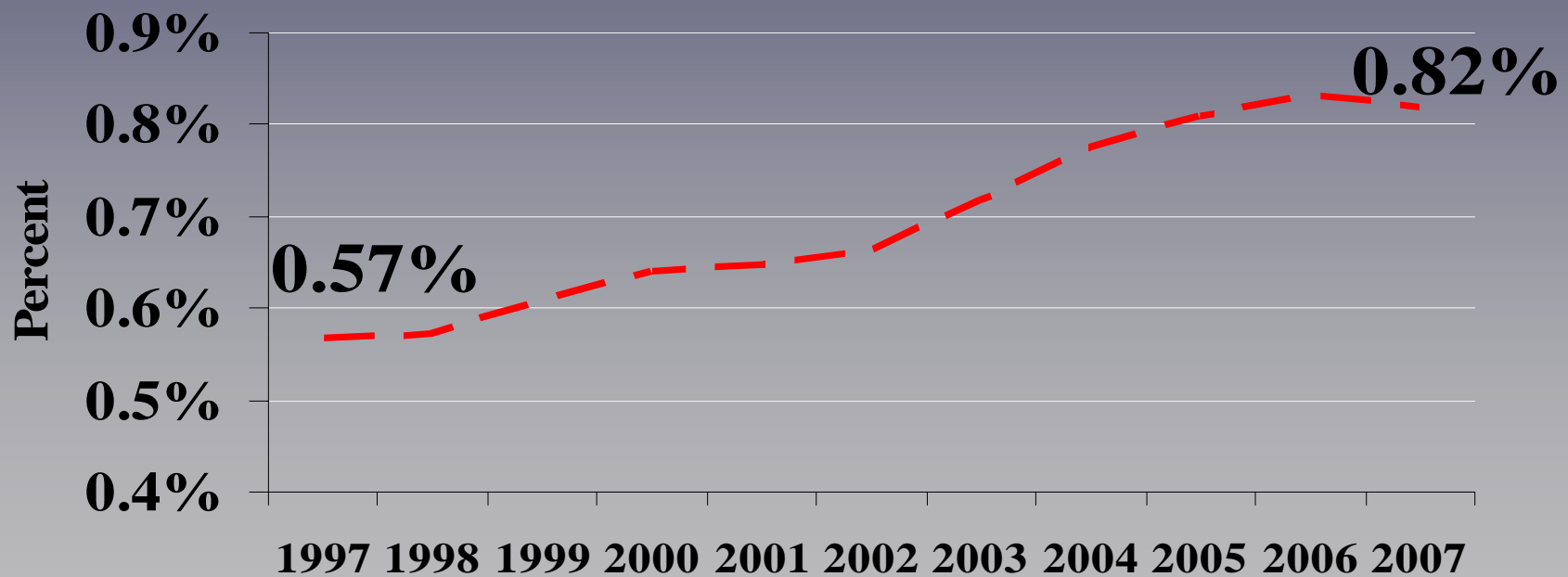
Source: NCUA data applying "same store sales"

NON-INTEREST INCOME CREDIT UNIONS VS. BANKS



Source: NCUA & FDIC

FEE INCOME AS PERCENT OF ASSETS FICUs



A LOOK BACK AND A LOOK FORWARD

**Dave Colby – Chief Economist
CUNA Mutual Group**

VERY IMPRESSIVE

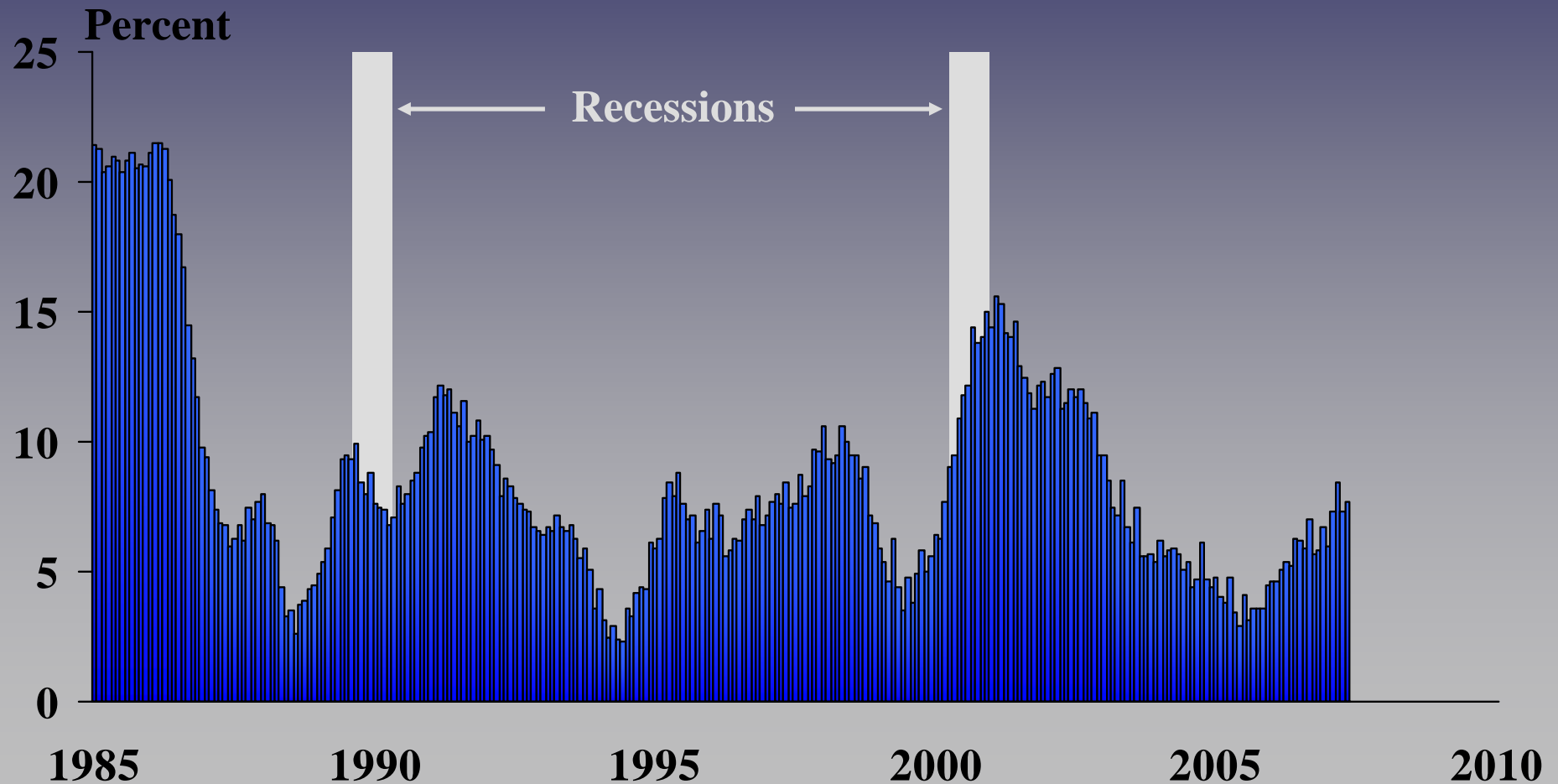
- **Housing market meltdown**
- **Major credit crisis**
- **Record energy costs**
- **Consumer sentiment at historic lows**

CUs EQUALLY IMPRESSIVE

- **Loan growth above 7%**
- **Asset growth above 7%**
- **Strong capital position**
- **Modest erosion in ROA**

A Look Back

ASSET GROWTH AT CUs

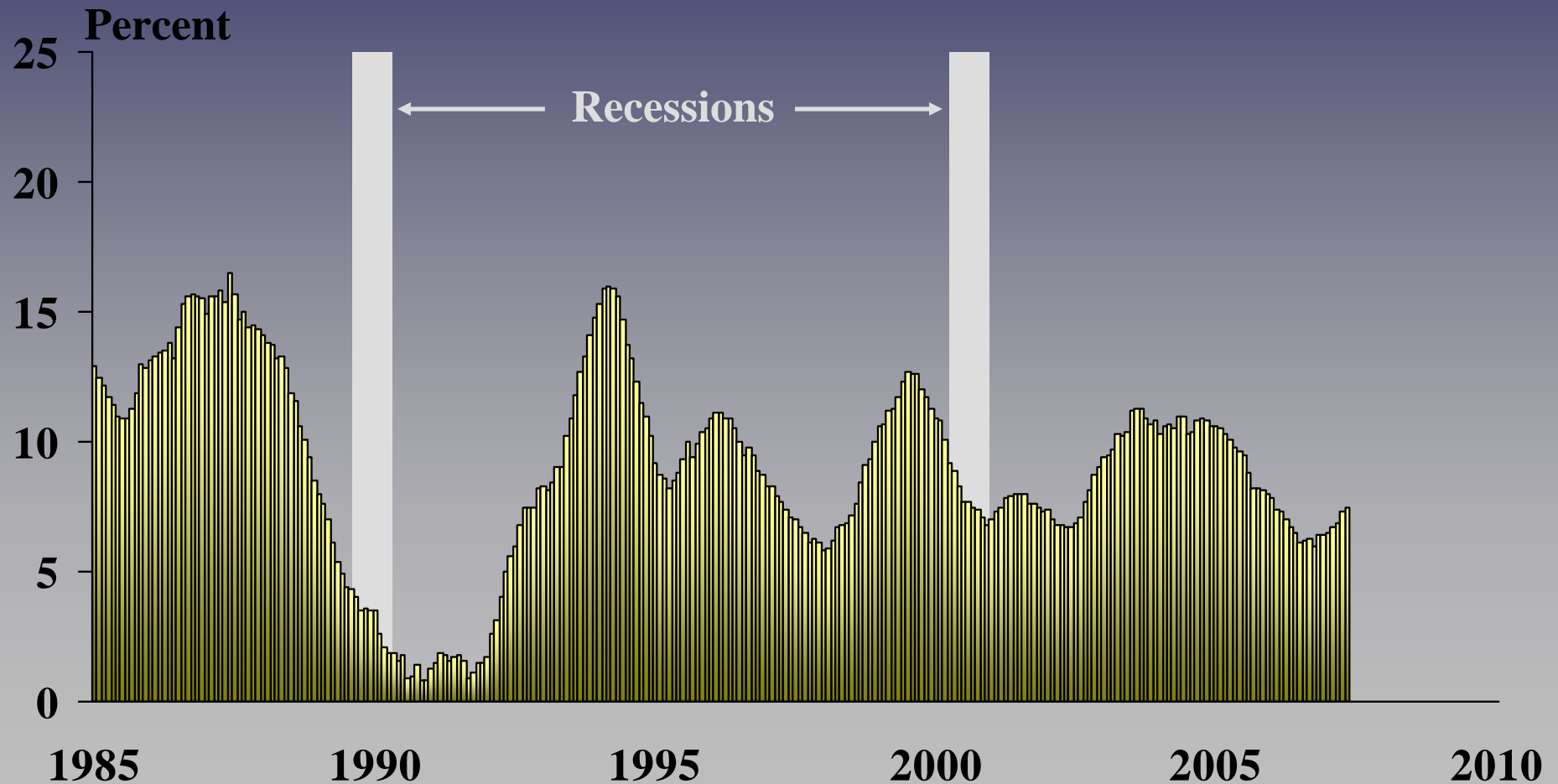


Source: CUNA Economics & Statistics and CUNA Mutual - Economics

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A Look Back

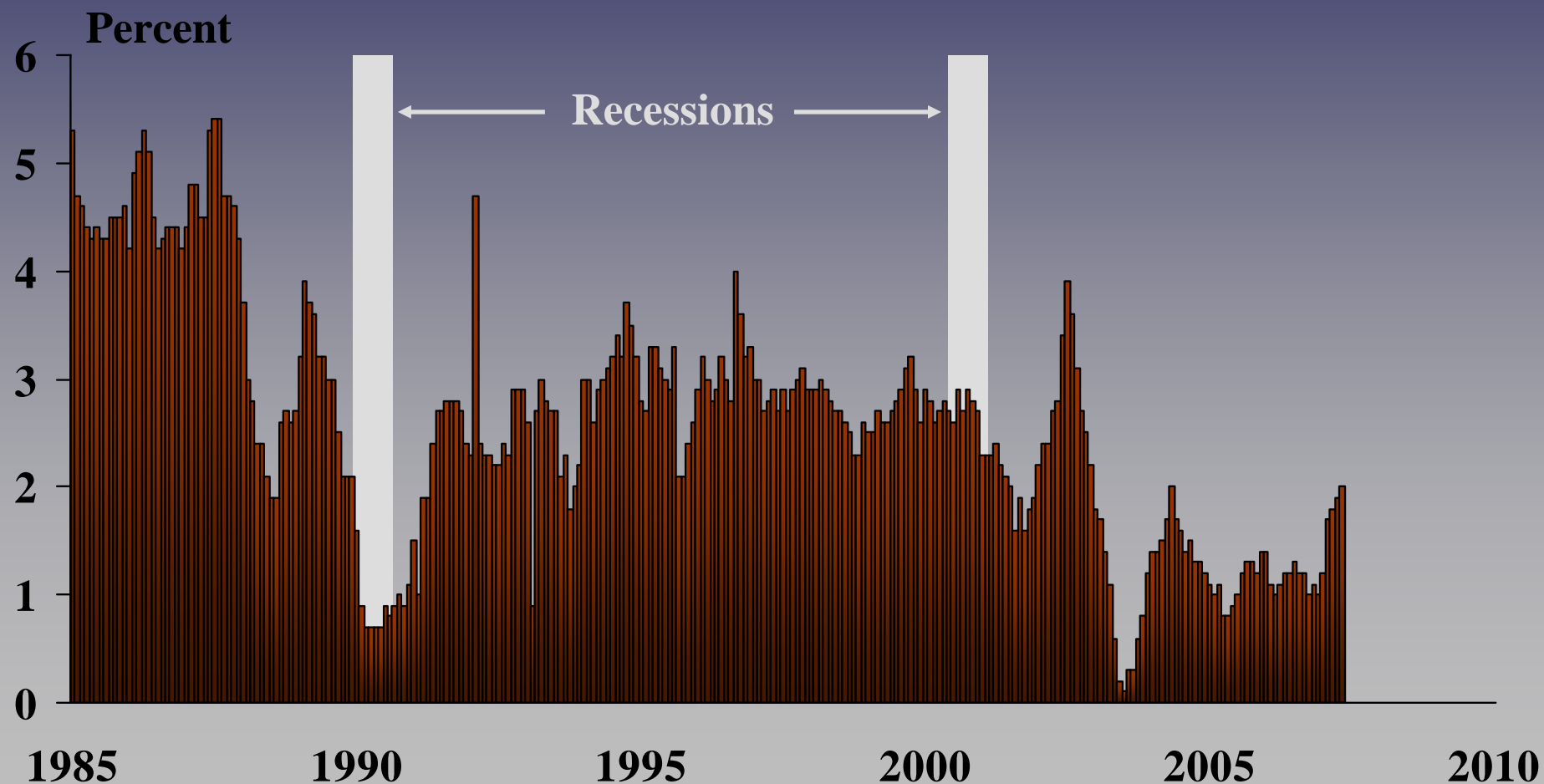
LOAN GROWTH AT CUs



Source: CUNA Economics & Statistics and CUNA Mutual - Economics

A Look Back

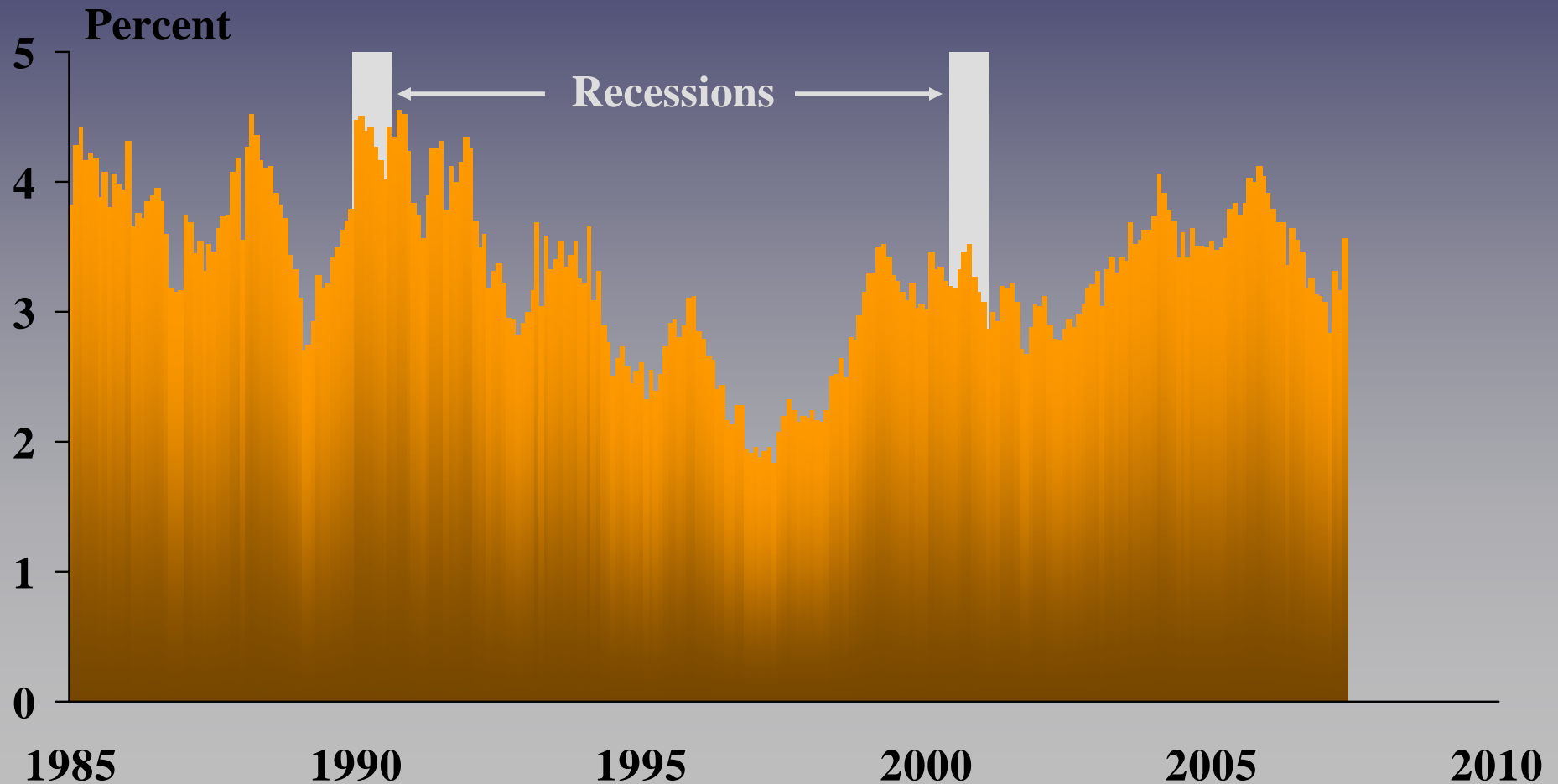
MEMBERSHIP GROWTH AT CUs



Source: CUNA Economics & Statistics and CUNA Mutual - Economics

A Look Back

CU MARKET CONSOLIDATION

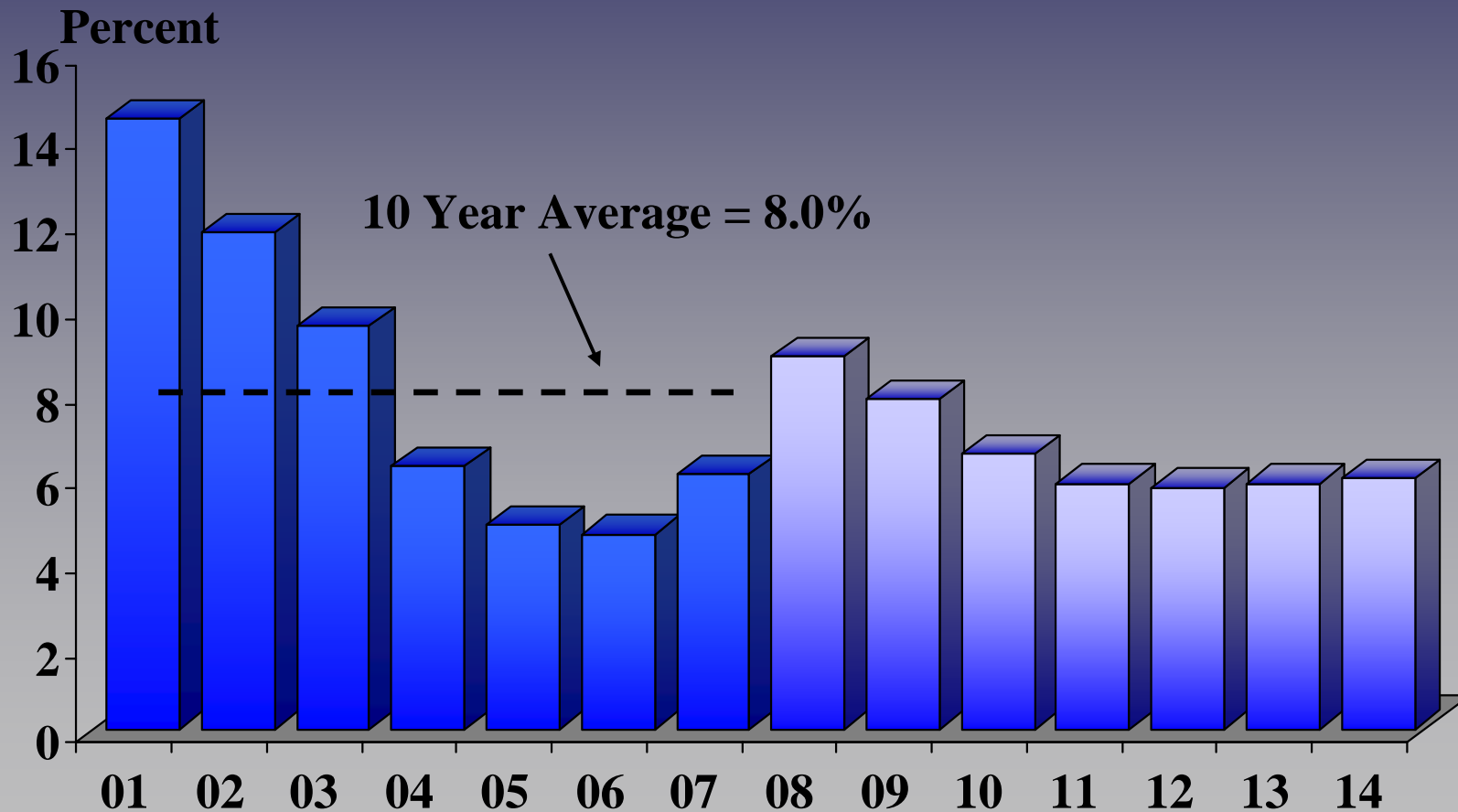


Source: CUNA Economics & Statistics and CUNA Mutual - Economics

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A Look Forward

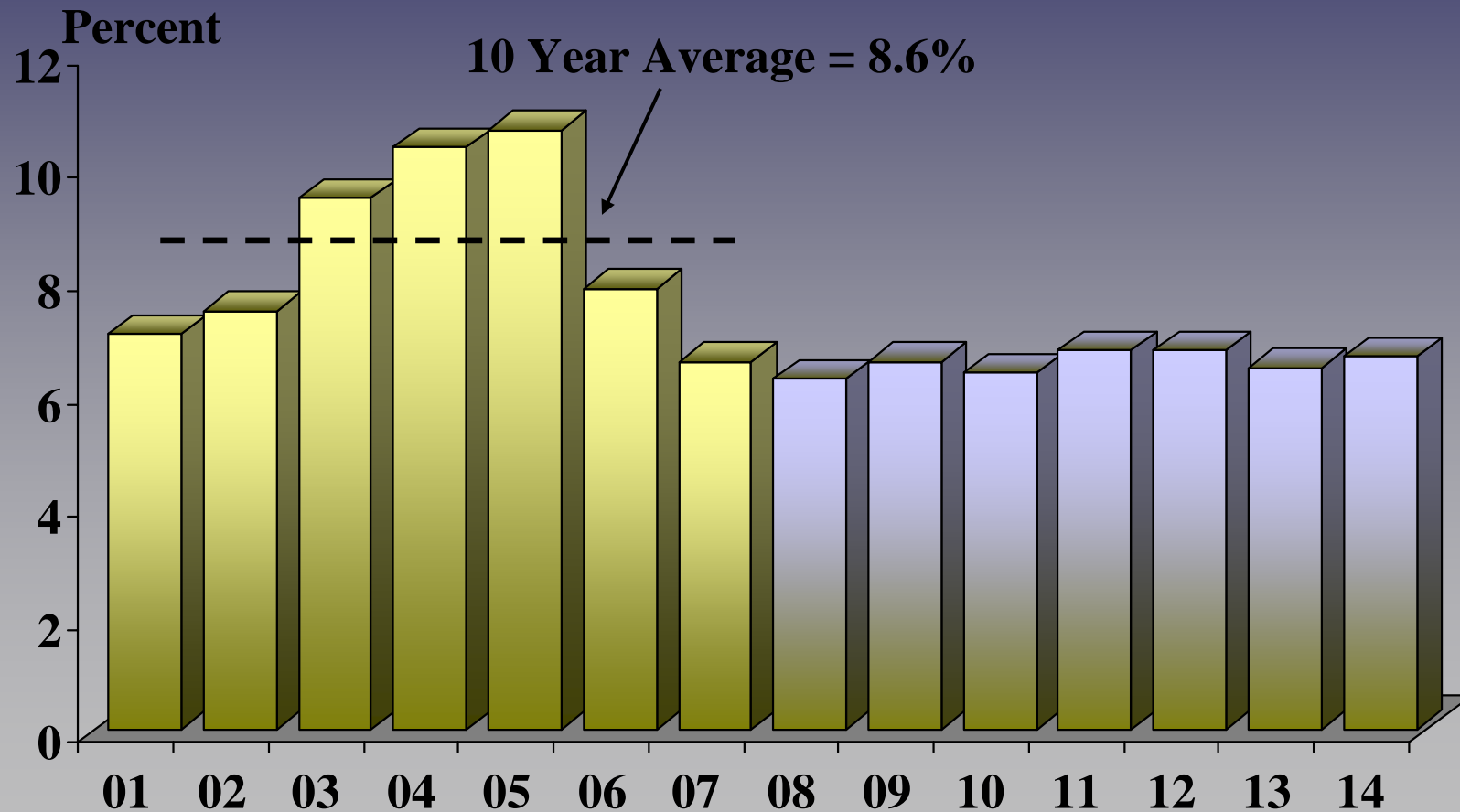
ASSET GROWTH AT CUs



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

A Look Forward

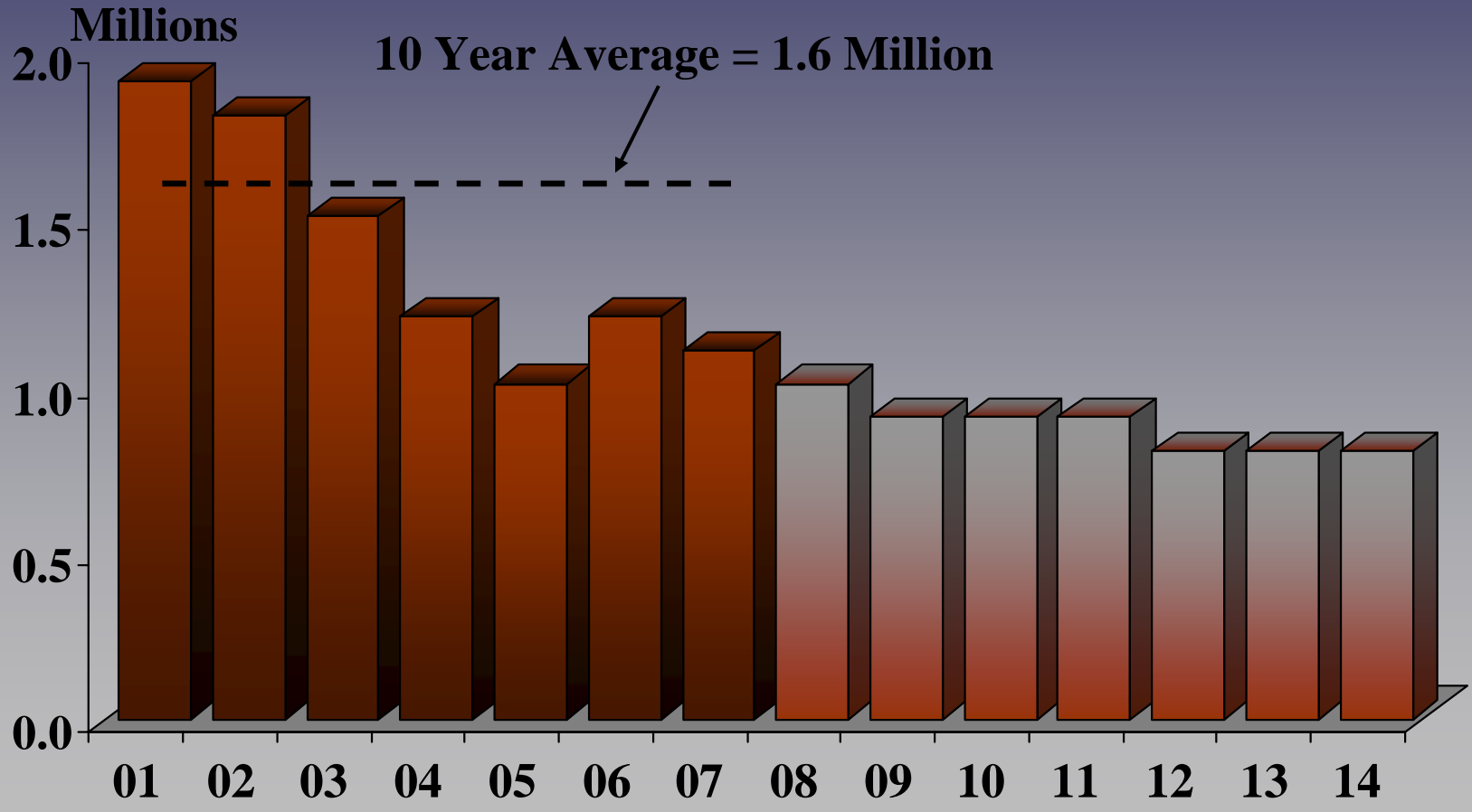
LOAN GROWTH AT CUs



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

A Look Forward

MEMBERSHIP GAINS AT CUs

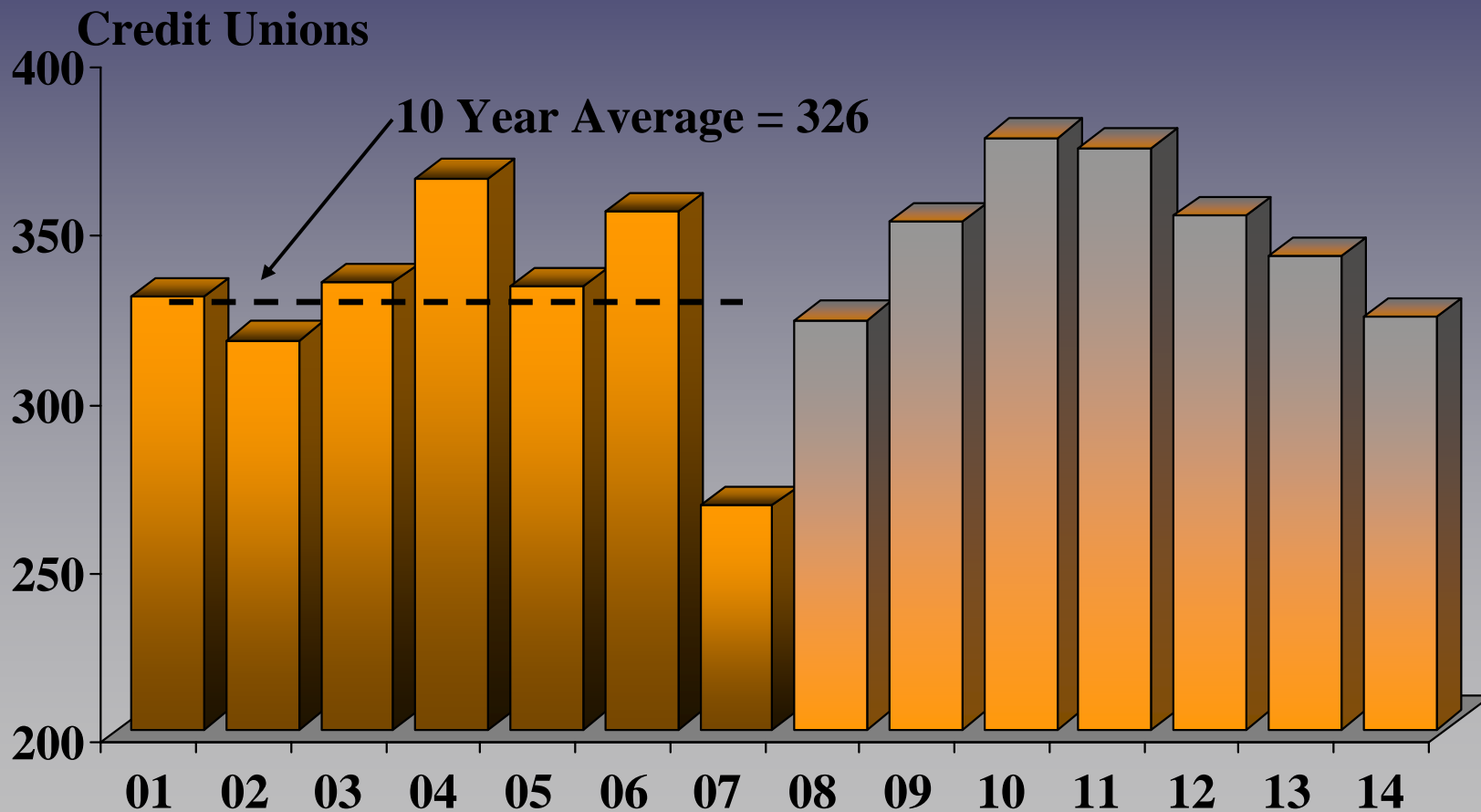


Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast



A Look Forward

CU MARKET CONSOLIDATION



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

A Look Forward

FORECAST SUMMARY

- Economy dampens growth
- Competitive evolution dampens growth potential
- Business as usual is a recipe for a slow demise

MARKET DISTRACTIONS

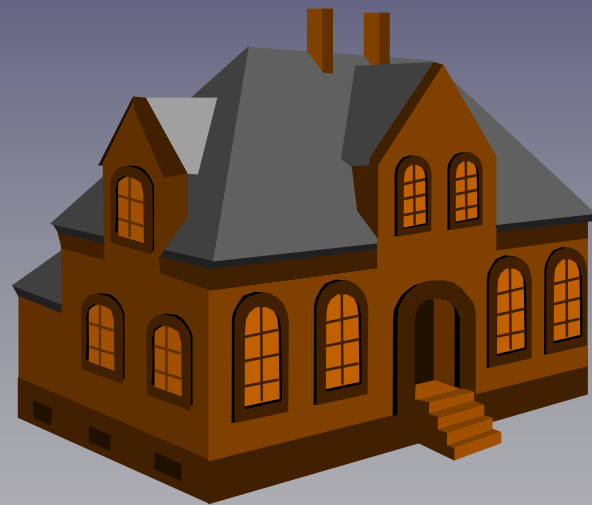
Economic Cycle

Shirking Auto Loan
Portfolio

Credit Crisis

Banker Attacks

Mistakes hitting
bottom line



Credit Unions

Taxation

Treasury's
"Blueprint"

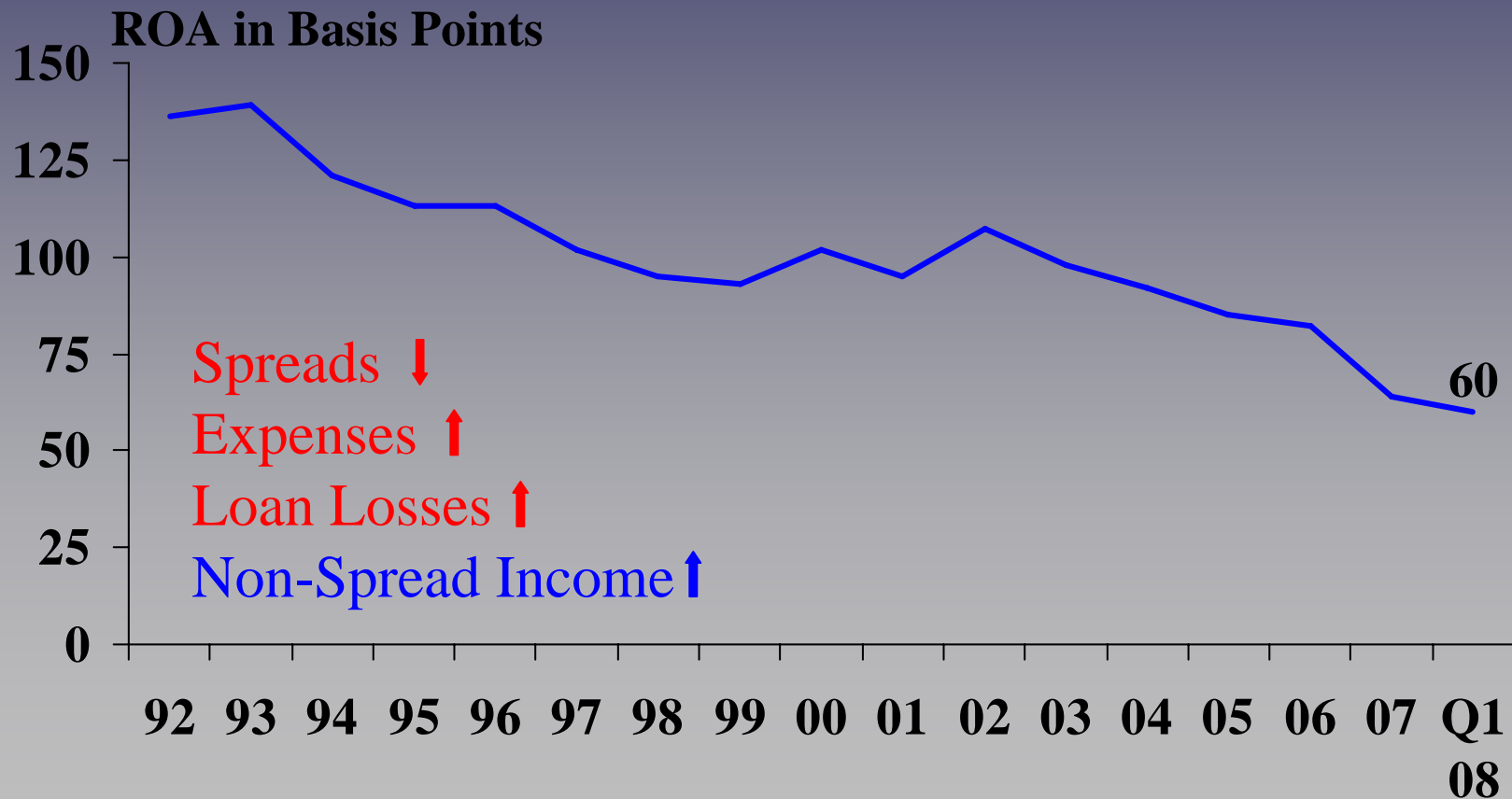
Rising delinquencies
and charge-offs

STRATEGIC PRIORITIES

- Managing the ROA Trend
- Member Relevance

Strategic Priorities

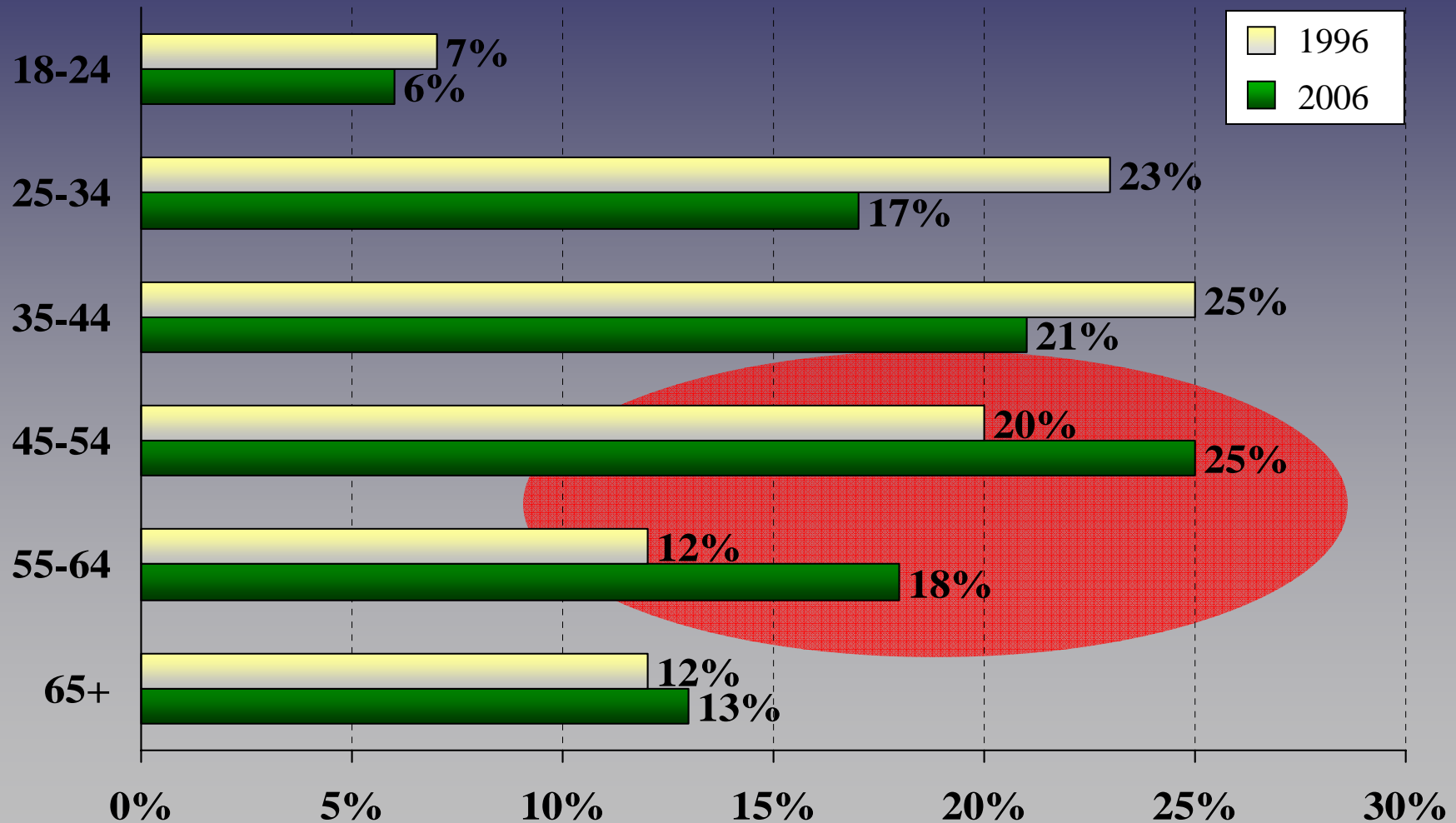
THE BOTTOM-LINE



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

CU MEMBER AGE DISTRIBUTION

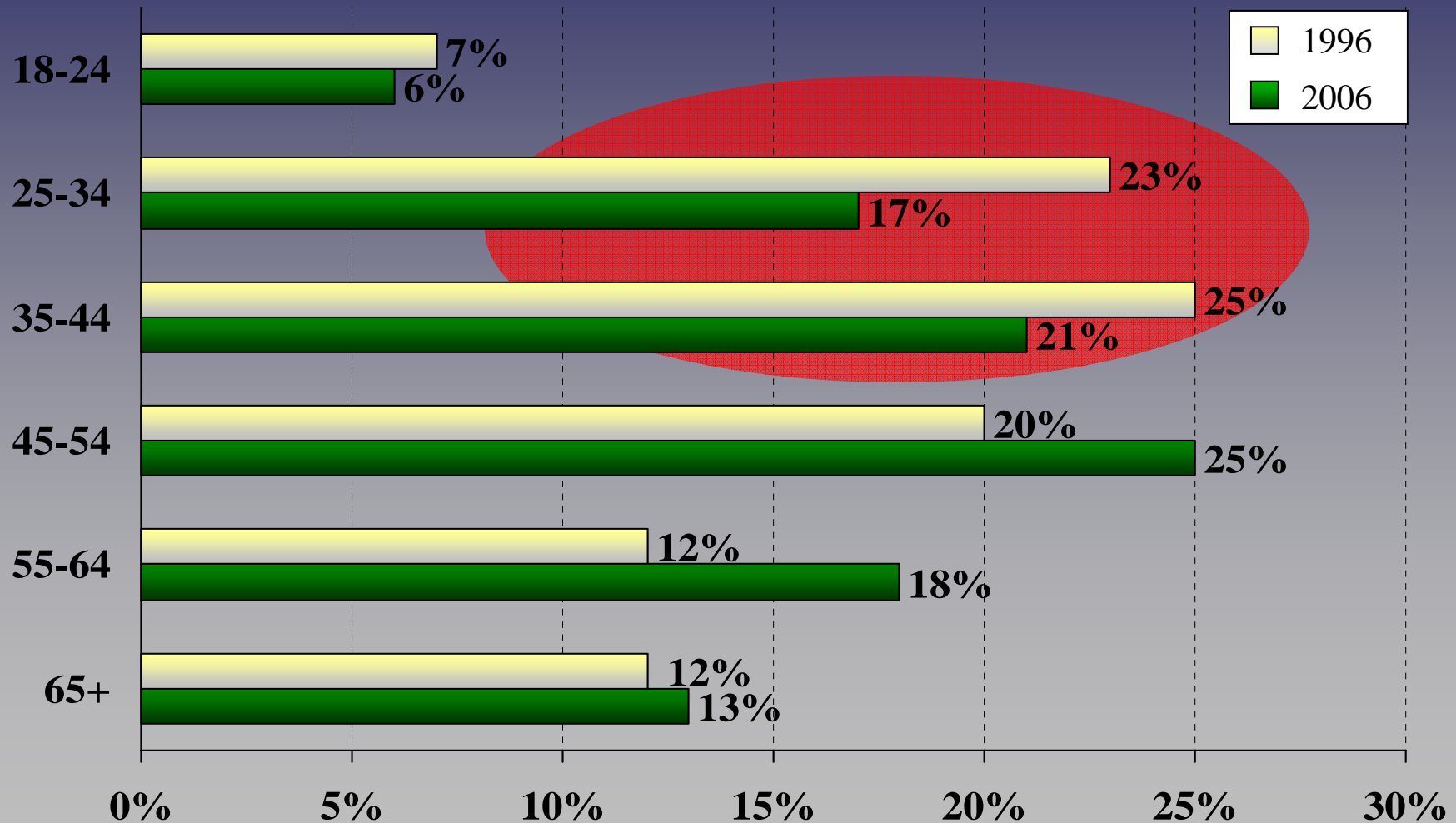
1996 - 2006



Source: CUNA'S 2006-2007 National Member Survey

CU MEMBER AGE DISTRIBUTION

1996 - 2006



Source: CUNA'S 2006-2007 National Member Survey

Strategic Priorities

MEMBER RELEVANCE

- Why will they stay?
- Why will they come?
- What are we doing?

SUMMARY



- Environmental challenges – risks and opportunities
- Capital management critical for safety and growth
- We will survive the cycle, but growth is constrained by business as usual
- Member relevance is the key to long-term success

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