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Cory Johnston: Cory Johnston has been with Georgia Central since May 2002. In September 2007, he was promoted to Senior Vice President. He is also a key contributor to the senior management team and liaison to the ALCO and regulatory agencies. Before coming to Georgia Central, Cory worked for U.S. Central as a Director/Portfolio Strategist. Cory has a Bachelor's Degree from Kansas State University and a M.B.A. from the Olin School of Business at Washington University in St. Louis.



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Frank Vassallo: Frank Vassallo is currently the Chief Financial Officer at Bank-Fund Staff FCU, a position that he has held for three years. Prior to joining Bank-Fund Staff FCU, Mr. Vassallo was the CFO at Fort Belvoir FCU for six years. Mr. Vassallo is currently a member of the CUNA CFO Council. During his time on the Council, he was elected to be a member of the Executive Committee for four years. Mr. Vassallo has a B.A. in Economics from the State University of New York, College at Geneseo, and a MA in Finance from the Catholic University of America. He was awarded the CFA Charter in 2000.



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Tun Wai: Dr. Tun A. Wai is the Director of Research and Chief Economist for NAFCU in Arlington, Virginia and is in his twenty-first year there. Dr. Wai is responsible for creating many products and services for NAFCU member credit unions. Dr. Wai has a Bachelor of Science in Business Administration in Management and a Ph.D. in Economics from Georgetown University, as well as an M.B.A. in finance from New York University. Prior to NAFCU, he held research positions with the World Bank, the Federal Reserve, and the Brookings Institution.

Executive Summary

- As of December 2009, federally insured credit unions' (FICU) asset growth was 9.1 percent. Region IV showed the greatest result with 11.2 percent growth in total assets compared with just 5.1 percent in Region V.
- Return on average assets (ROA) for Region IV was 0.49 percent for 2009, 29 basis points above the 0.2 percent figure for all FICUs and 78 basis points higher than Region V's negative 0.29 percent. Compared to December 2008, ROA for all FICUs rose by 16 basis points in December 2009.
- Share drafts saw an increase of 15.6 percent for all FICUs in 2009. Region IV experienced the largest growth of 18.4 percent, compared to 11.16 percent in Region V. Overall, share growth was up 10.5 percent. Money market shares were the principal factor driving share growth in 2009, growing 23.5 percent and accounting for 42.1 percent of total share growth.
- New auto lending declined by 7.7 percent in 2009 on the national level, with Region V reporting the strongest decline of 73 percent. Region IV reported the smallest decline (0.5 percent). Used auto lending grew 4.1 percent nationwide in 2009.
- First-mortgage real estate loans grew by 4.4 percent during 2009. Other real estate loans experienced a 4.3 percent decline. First mortgages continued to be the lion's share of FICU loan growth (141.8 percent), although the weakened housing market has caused a slight decline in overall real estate loan growth.
- In December 2009, the delinquency ratio was up by 44 basis points from December 2008 to 1.82 percent for all FICUs. Across the country, the delinquency ratio was as low as 1.4 percent in Region II and as high as 2.4 percent in Region V. The number of members bankrupt increased 42.2 percent from 227,852 in December 2008 to 324,028 in December 2009.
- All regions cited the current economic conditions as a concern for the upcoming year. This fear coupled with an uncertainty about NCUA premiums in 2010 will leave credit unions cautious moving forward.
- Delinquency ratios and net charge-off's are up in the industry and it will be another difficult year, economically. However, credit unions are still focused on their number one priority: serving members. Despite the difficult economic conditions, credit unions remain well capitalized, overall. Although 2010 will be continue to be a difficult year economically, there is a hopeful optimism that the worst of the recession has passed and that conditions will begin to slowly improve.

CUEG Region One

CUEG Region I (Northeast) consists of the states Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island and Vermont. As of December 2009, there were 1,285 federally insured credit unions in the region, with total assets of \$141.5 billion and total membership of 13.9 million.

Lending

Loans in Region I during 2009 grew by 3.6 percent to \$87.8 billion, more than the 1.1 percent pace for all federally insured credit unions (FICUs) nationwide. During 2009, loan growth was concentrated in first-mortgage real estate loans and, to a lesser extent, used vehicle loans. The region's credit unions experienced a relatively strong demand for first-mortgage loan products, while home equity lending contracted following positive growth in 2008. During 2009, first-mortgage lending expanded by 5 percent, while other real estate loan demand (home equity/second mortgage) declined by 2.5 percent. At year-end, real estate loans comprised 61.6 percent of all loans in the region. Vehicle loan portfolio growth rose sharply during 2009. New vehicle loans increased 4.1 percent during 2009 compared to a decrease of 1.1 percent during 2008. Used vehicles also rose during the year, posting gains of 8.4 percent.

Just like all FICUs, credit unions in Region I experienced an increase in unsecured lending growth. (*Note: Credit card (CC) lending was up in all 5 regions. Non-CC unsecured lending was mixed.*) During 2009, credit card lending increased by 5.6 percent, while non-credit card unsecured lending decreased by 0.1 percent over the same period. The region's credit unions experienced strong demand for member business loans during the year. Member business loans outstanding grew 12.2 percent to \$5.3 billion.

Credit union leaders have indicated that their near-term expectations for loan demand in new vehicles, used vehicles, unsecured, and real estate categories were less favorable in Region I than for all credit unions. The closest expectation to that of all credit unions was for used vehicles loans; where the region's credit unions were slightly more negative than all credit unions. The most negative loan outlook was for new vehicle loans. It is expected that real estate lending will remain low in 2010.

Member Shares (Savings)

During 2009, total share growth in Region I was 12.7 percent, much higher than the share growth experienced among all FICUs. Many FICUs in the region saw share growth in regular shares and money market shares outpacing the figures for all credit unions, increasing by 14 percent and 30 percent, respectively. As many regional credit unions have chosen to decrease their interest rates on share certificates and IRA accounts, there was a net inflow of 1.5 percent and 13.5 percent, respectively, during 2009. "Other" shares also saw an increase of 8.6 percent. Among the CD rates offered by credit unions,

the largest decline has occurred for the 1 year CD rate last year. This has helped to keep the cost of funds low and to support the improvements in net income.

In 2009, nonmember deposits rose sharply by 34 percent, outpacing the negative growth rate among all FICUs of 13.2 percent by far. Many of the region's credit unions anticipate share growth to weaken over the near term this year. Last year, weak loan demand- coupled with strong share growth- caused the region's credit unions' loan-to-share ratio to decrease from 80.2 percent in December 2008 to 73.8 percent in December 2009. Among all credit unions, the loan-to-share ratio was 83.4 percent and 76.3 percent over the same time periods.

Earnings and Asset Quality

During 2009, the credit unions in Region I had a return on average assets (ROA) of 0.36 percent, up from 0.18 percent in 2008. This is better than what all FICUs experienced as they saw ROA increase from a negative 0.02 percent in 2008 to 0.2 percent in 2009. While the region's credit unions' loan yields were slightly lower than average, the region's investment yields were higher than those for all FICUs. In addition, the region's cost of funds was lower than for all credit unions. However, credit unions in Region I generated, on average, substantially less non-interest income than everyone else. (*Note: Fee income as a percent of total revenue was fourth highest among the regions*). The higher investment income is the main reason for the higher ROA in Region I when compared to all FICUs.

The asset quality in the region was better in comparison to the asset quality of all FICUs during last year. The delinquent-loans-to-total-loans ratio in the region was 1.45 percent compared to 1.82 percent for all FICUs, while the net charge-offs-to-average-loans rate of 0.77 percent in the region was lower than the overall rate of 1.21 percent. During 2009, member bankruptcies were an increasing problem in Region I as the number of members filing for bankruptcy and the loan amounts subject to bankruptcy increased significantly. The total number of bankruptcy filings in the region increased by 16.5 percent to 37,505 and the loan amounts subject to bankruptcy increased to \$590.1 million. The latter number was up from \$359.1 million as of year-end 2008.

Credit unions are seeing that loan opportunities are sluggish, even when other financial institutions are more reluctant to make credit available. Some credit unions have tried new products and adjusted rates, but lending remains tepid. Loan participations that appear to be one area credit unions are balancing loan growth with savings growth. Credit unions are also looking to expand indirect member usage of their products and services.

Competition and Credit Union Operational Concerns for 2009

Most credit unions are seeing their delinquency rates rise steadily with charge-offs lagging (rising but at a slower pace). Bankruptcies appear to be rising as well. In Region

I, specifically, there has been a rise in home foreclosures, which are only becoming more prevalent as unemployment numbers remain elevated. Credit unions in this region are being forced to adjust their budgets in order to increase funding for allowance for loan losses. Despite these growing trends, most credit unions still want to make loans without sacrificing future loan quality.

Although credit unions have not tightened lending standards like other financial institutions, some credit unions have noticed that they have not seen sufficient improvements in the lending application quality. This implies that further improvement in consumer balance sheets is needed to prevent future delinquencies. Credit unions are increasing their focus on card usage, especially on debit card activity. Some credit unions are finding ways to discourage or prevent credit/debit card pin usage and promote signature usage to increase interchange income. Credit unions have also increased their focus on bill paying activity and e-statements.

The decline in net worth ratios caused many credit unions to reevaluate certain expenditures. In particular, many credit unions have reduced their marketing and travel/education expenses. Such reductions may increase pressure on future credit union performance, especially when competing with banks and other financial institutions. In addition to cutting expenses, credit unions are trying to attract low cost sources of funds and keep such funds with the credit union.

Like credit unions nationwide, Region I credit unions are still contemplating how the Corporate Credit Union Stabilization Program will affect their future financials. As the financial impact on individual credit unions becomes clearer for this year, most credit unions will have to adjust their budgets to account for these events. The expenses related to NCUSIF and corporate credit union membership capital share deposit has caused many credit unions to think more about their operational efficiency.

Member Concerns and Economic Conditions in 2010

Members of Region I credit unions remain concerned about the economy and its implication for 2010 and beyond. If the Fed keeps the interest rates low, it is likely that credit unions' cost of funds will decline further and compressed margins will thus be alleviated to some degree. Credit unions, however, continue to experience increasing delinquency and charge-offs due to bankruptcy and foreclosures. Many credit union members are in survival mode and need the economy to improve further, especially in the area of employment.

Most credit unions have seen overall lending remain weak this year, especially new auto loans. The end of government programs will impact other loans as stimulated loan demand declines. The economy needs to expand significantly for consumers to start spending again. Rising foreclosures and bankruptcies will depress real estate loan performance. In addition, credit unions are finding it hard to modify first mortgage loans because the loan may be classified as Trouble Debt Restructuring (TDR) and it may have a significant impact on the allowance account adequacy. Concerns will continue as

unemployment remains elevated in 2010, especially if credit union members cannot afford their mortgage payments.

With the likelihood of more delinquencies and charge-offs, credit unions will have to adjust to less interest income. Their heavy reliance on non-interest income will become burdensome because regulatory reforms (e.g., courtesy pay) will reduce fee income. Several credit unions would be left with negative net income if they could not apply non-interest income to their bottom lines. This fear coupled with an uncertainty about NCUA premiums in 2010 will leave many credit unions cautious moving forward.

CUEG Region Two

CUEG Region II (Mid-Atlantic) consists of the states Delaware, Maryland, New Jersey, Pennsylvania, Virginia and West Virginia, plus the District of Columbia. The region's federally insured credit unions (FICUs) have 16.5 percent of the total assets of the nation, up by 0.3 percentage points from December 2008. There are 14 million members in this region as of December 2009, up from 13.6 million (3 percent) from December 2008. These percentages mirror the regional economy where the gross domestic product by state is about 10.2 percent of the U.S. gross domestic product. Regional production is more concentrated in professional services, government and health/education services than the average concentrations found nationwide.

Lending

Region II FICUs generated loan growth of 3.1 percent between December 2008 and December 2009, compared to the national rate of 1.1 percent. From December 2008 to December 2009, first mortgage real estate loans supplied 91.3 percent of loan portfolio growth, followed by credit card loans at 29.7 percent. Lending was mostly offset by a decline in other real estate loans.

Looking forward to 2010, Region II FICUs anticipate higher loan growth for used vehicle loans than FICUs in other regions do. Conversely, FICUs in Region II expect unsecured and real estate lending to be as negative as other regions over the next 12-month period.

Total auto loans in Region II increased by 0.7 percent during 2009, compared to a rate of a negative 1.4 percent for all FICUs. In Region II used auto loans rose by 7.2 percent, followed by a decrease of 5.9 percent in new auto loans.

Unsecured loans (excluding credit cards) represented 6.2 percent of all FICU loans in the region. This portfolio segment remained unchanged during 2009. Credit card loans increased 9.5 percent during the same period, representing 10.4 percent of all FICU loans in the region. The credit union leadership in the region believes that unsecured loans will be less of a source for loan growth over the near term, and at a slightly less optimistic level than that found among all credit unions across the country.

Member Shares

Total savings and deposits reached \$119.6 billion in December 2009, up \$14.2 billion (13.5 percent) from December 2008. Share drafts contributed 14.5 percent to the overall savings growth during the year, while share certificates contributed 18.8 percent.

For the next six months, Region II FICUs foresee share growth to remain flat compared to overall slightly negative expectations for all credit unions.

During 2009, Region II FICU share drafts (11.4 percent of Region II shares) increased 17.9 percent. Regular shares (25.6 percent of Region II shares) increased 12.5 percent during the same time period. Money market share accounts (18.8 percent of Region II shares) reached \$22.5 billion as of December 2009, up by \$4 billion (21.4 percent) from 2008. FICU share certificates (31.9 percent of shares) experienced a 7.5 percent increase during 2009.

IRA accounts (11.4 percent of FICU shares) were a safe haven for members' precious retirement funds in 2009. This deposit segment advanced 15.6 percent from 2008 compared to a national growth rate of 13.5 percent.

Return on Average Assets (ROA), Spreads and Asset Quality

With a decrease in the cost of funds, mainly assisted by lower interest rates during 2009, credit unions in Region II experienced an increase in consolidated ROA. At 0.49 percent (ROA for all FICUs was 0.2 percent) this profitability measure increased by 25 basis points since 2008 for the region's credit unions. This is mainly due to the decrease in fee and other operating income (down 0.51 percent) that was matched by a decrease in cost of funds (down 0.57 percent) and a decrease in operating expense (down 0.32 percent). We expect to see asset yields stabilize as most of the older loans and investments have repriced to current market rates, and the overall cost of funds remain low throughout 2010. We continue to see non-interest income and expenses remain steady. These factors, when taken together, point to a fairly steady or slightly increasing ROA.

Gross income decreased by 0.6 percent from \$8.13 billion in December 2008 to \$8.08 billion in 2009. The ROA increased slightly among Region II FICUs despite the 3-basis-point decrease in gross spreads, and a 1.8-percentage-point decrease in the yield on average investments. The ratio of fee income and other operating income to average assets was down (4 basis points).

Loan Loss Trends in 2009

Several FICUs in Region II indicated that their lending growth is expected to fall less than the national average. This is especially true for new vehicle and real estate loans, but not for unsecured loans. In the area of used auto loans some have seen very strong growth. Overall, the vehicle loans remain very sluggish among Region II credit unions. In the area of loan quality, Region II FICUs had a lower delinquency ratio and charge-off ratio than credit unions nationwide in 2009. However, some credit unions have experienced a significant rise in charge-offs, as gross charge-offs increased by 47 percent in 2009 over 2008. All categories increased, but the largest increases was seen for home equity loans, which increased by 66 percent and for credit card loans, which increased by 61 percent over 2008. The trend in bankruptcies among Region II FICUs saw a lower percentage when compared to the pattern found among credit unions nationwide. In 2009, loans subject to bankruptcies as a percentage of total loans was 0.7 percent among Region II FICUs, while the ratio nationwide was 0.8 percent.

Member Concerns and Region II Economic Conditions in 2010

Credit union leaders in Region II stated that they have had strong savings growth despite reduced interest rates, which is making it more difficult to manage asset growth. Some credit unions believe that this savings growth may be due to the more stable economy found in the region when compared to other parts of the country.

Bankruptcies and real estate foreclosures will continue to be a focus over the coming year. The region has not reached a point of price stability in the housing markets, so there will be continued pressure from first mortgage loans that are “upside down” and second mortgage loans that are essentially unsecured. There is similar concern that credit card loan portfolios will continue to underperform because of large losses. Some credit unions have indicated that the trend of members resolving such problems may continue throughout the year.

The anticipation of Corporate Credit Union Stabilization costs this year has created some anxiety and uneasiness among regional FICUs. There is too much uncertainty around the amount of the premium for this year. The amount budgeted by credit unions has been anywhere from 15 to 40 basis points. Some credit unions in this region have put business plans on hold or are modifying them as a response to the recommended premium range. This is a major source of concern among FICUs, and the NCUA needs to continue working with FICUs in order to provide more transparency of the situation.

CUEG Region Three

CUEG Region III (Southeast) consists of the states Alabama, Florida, Georgia, Indiana, Kentucky, Mississippi, North Carolina, Ohio, South Carolina, and Tennessee, and of the territories Puerto Rico and U.S. Virgin Islands. It finished 2009 with 1,555 federally insured credit unions (FICUs). This represents a net decline of 61 or 3.77 percent of Region III FICUs over the past year. Region III holds 21 percent of all FICUs, 20 percent of all assets and 23 percent of all FICU members. Total assets in the region rose to \$174 billion. This translates into an annual growth rate of 9.7 percent, which is 0.7 percentage points above the reading for the nation as a whole. Membership in the region climbed to 20.2 million, up 263,000 over the past year. Membership growth in Region III was at 1.3 percent in 2009 and continued to trail the 1.5 percent national average rate of increase. Total employment (full- and part-time FICU employees) was 55,538, which was a 2 percent year-over-year reduction. The 50 largest FICUs in the region hold 54 percent of all assets and 43 percent of the total membership in the region. Included in this group are 33 FICUs with assets in excess of \$1 billion.

Region III covers a wide expanse of geography. The impact of the recession continues to affect this region, especially credit unions in Florida, which is known as one of the sand states most impacted by declining home values. Mergers continue to be a major factor impacting credit unions in the region as today there are 61 fewer credit unions in the region when compared to our last analysis. Growing loans and leveraging the opportunities to attract members and deposits from individuals who are now ready to hear the credit union message are major priorities for credit unions in the region. Managing the margin squeeze along with improving loan quality are also priorities for credit unions in the region as members remain concerned over historically high levels of unemployment.

Credit unions in the region are working to get the message out to consumers and businesses that, as an industry, credit unions remain fiscally safe and sound and have money to lend. As of December 2009, Region III FICUs collectively remained in good health although their net worth ratio fell to 10.2 percent from 10.9 percent at year-end 2008. Region III annualized Return on Average Assets (ROA) increased by 31 basis points to 0.28 percent over the past year. Loan delinquencies climbed to 1.9 percent of total loans, up from 1.5 percent at the end of 2008. Net loan charge-offs moved up 25 basis points while provision for loan losses increased 23 basis points.

Extraordinary events during the first half of 2009 have had a materially negative impact on financial performance. On March 20, 2009, the NCUA placed U.S. Central Federal Credit Union and Western Corporate Federal Credit Union (WesCorp) under conservatorship. The NCUA estimated that credit losses, in excess of capital, within the two organizations' investment portfolios would total \$5 billion.

The NCUA, as part of its Corporate Stabilization Plan, also guaranteed deposits at all corporate credit unions at an estimated cost of \$900 million to the National Credit Union Share Insurance Fund (NCUSIF). The cost of the conservatorship and deposit guarantee equaled a 69 percent impairment of their existing NCUSIF deposit plus an additional 0.3 percent premium assessment on insured shares. Legislative efforts eventually led to the creation of the Corporate Stabilization Fund, which will allow the NCUSIF to defer its \$5.9 billion liability and give natural person credit unions the ability to amortize the 99 basis points of losses over a seven-year period. NCUSIF-related losses reported in 2009 net to 15 basis points of insured deposits. Additionally, many credit unions have been or will be required to write-off their contributed capital investment at corporate credit unions in 2009. Region III FICUs recorded NCUSIF stabilization expenses of \$496 million in 2009. The reduction in corporate credit union Member Capital Shares (MCS) and Paid-In Capital Shares (PIC) investments totaled \$199 million during 2009.

Lending

At 1.7 percent, annual loan growth in Region III exceeded the national average of 1.1 percent. The 163 FICUs in Georgia posted the strongest annual loan growth at 6.6 percent. FICUs in Florida and South Carolina posted the lowest performance in loan growth with decreases of 3.6 and 0.1 percent, respectively.

At 73.2 percent, the loan-to-share ratio was down 6.3 percent over the past year. Region III FICUs are under-performing the total U.S. which had a loan-to-share ratio of 76.1 percent. The U.S. loan-to-share ratio has declined 7 percent year-over-year.

The \$2.7 billion gain in first mortgages and lines of credit accounted for 144 percent of all loan growth year-over-year while new vehicle lending fell \$1.7 billion during the year. Despite the crisis in the overall housing market, first mortgage originations of \$13.5 billion in Region III are 11 percent above 2008 levels as much of the competition has left the market. This surge in originations, which really started in 2007, netted with \$5.6 billion in first mortgage loan sales and produced a 6.5 percent year-over-year first mortgage portfolio gain. When the 1.9 percent drop in home equity and second mortgages is added to first mortgages, the combined real-estate portfolio segment accounted for 53 percent of total loans for FICUs in Region III. Credit card and used automobile lending were also growth segments in 2009 with 6 and 3.1 percent growth rates, respectively.

A 10.1 percent contraction in new vehicle loans outstanding for Region III FICUs exceeded the 3.1 percent used vehicle portfolio gain; total vehicle loans outstanding in the region declined 2.8 percent in 2009.

The economic recession remained firmly entrenched during the first half of 2009, causing notable migrations in consumers' utilization of credit. Auto and home equity lending tapered off while credit card balances and first mortgages grew rapidly. There has also been a shift in the repayment patterns of members. Keeping access to credit card lines of

credit is a priority for individuals whose home values have declined, and a new term of “strategic default” became a real consideration for many borrowers who felt their home values will never rise above the outstanding balance of their mortgages. Unemployment concerns and falling home values continue to impact the willingness of consumers to take on new debt. However, low mortgage loan rates, especially for terms of 15 years or less, kept the mortgage refinance market alive for the remaining part of the year. Additionally, the cash for clunkers spurred automobile activity during the later part of the year.

A total of 360 FICUs in Region III reported having an indirect lending channel, compared to 334 FICUs at year-end 2008. Indirect loans outstanding are up 1.5 percent over the past year and now account for 11.95 percent of total loans.

Total Member Shares

During 2009, total shares in Region II rose a healthy 10.5 percent to \$149.5 billion. This gain matched the national average. Share drafts, regular shares, money market shares and IRA/KEOGH accounts all posted double digit annual growth while share certificate balances fell 0.6 percent across Region III. Sharp increases in regular shares and money market accounts combined with falling certificate concentrations indicate an increasing balance of “hot” money on the balance sheet. The 163 FICUs in Georgia and 101 FICUs in North Carolina generated the strongest rates of share growth during 2009, recording gains of more than 16 percent.

The lower interest rate environment and a shift in the savings structure away from higher cost CDs has moved Region III FICUs’ cost-of-funds down 69 basis points to 1.8 percent of average assets over the past 12 months. Given the economic uncertainty, slowing loan demand and a growing savings rate, we expect the cost-of-funds to continue drifting downward, although at a slowing rate by the middle of 2010. Managing the cost-of-funds will continue to be important as one of the tools that credit unions in the region exercise in working to absorb higher loan losses and the anticipated additional charges from the NCUA. It will be imperative that credit unions manage growth in deposits in relation to loan demand and capital growth.

Asset Quality and Operational Results

At year-end 2009, the annualized ROA for Region III FICUs was 0.28 percent, reflecting a 31 basis point increase from the December 2008 level. A total of 864 FICUs (56 percent of the region’s FICUs) reported a positive ROA, while 691 reported losses or no gain for 2009. The FICUs with a negative ROA represented 24 percent of the region’s assets. This is a slight improvement from the prior year, which showed 30 percent of the region’s assets were at a negative ROA institution.

A pervasive combination of recession, credit crisis and steep job losses has adversely impacted asset quality. The loan delinquency rate was up 42 basis points in 2009 to 1.9 percent of total loans. The national FICU delinquency rate at year-end 2009 was 1.82

percent of total loans, up 44 basis points year-over-year. Over the same period, net charge-offs rose from 0.9 percent of average loans to 1.2 percent nationwide and from 0.9 to 1.2 percent among FICUs in Region III.

One measure of operating efficiency (the ratio of operating expenses to average assets) was down 10 basis points year-over-year to 2.6 percent. Expenses related to share insurance, office occupancy and loan servicing were growing the fastest. This growth is reflective of costs associated with the corporate credit union stabilization, recession level loan performance and loan growth plus credit unions growing to fill the void created by traditional competitors pulling back.

Loan demand and credit quality continue to be a concern. Auto loan growth has been anemic and while there have been pockets of demand for mortgage refinances; the purchase mortgage market has been slow to return. Home values have not fully stabilized and are not expected to until a back-log of foreclosures are liquidated and unemployment improves. Falling gas prices have had a modest impact on the value of used automobiles but the pipeline of repos remains constant. As far as improved efficiencies relating to operating expenses are concerned, credit unions have taken steps to reduce staffing as a result of lower production volumes and, in some areas, branch closures. The challenge will be to leverage technology and to assure that service does not suffer as the result of these reductions.

Looking forward, we see significant challenges and opportunities for Region III and all FICUs. Economic and credit conditions will continue to get worse before some stabilization in employment in late 2010. Credit unions will be facing considerable expenses for supporting the Corporate Credit Union Stabilization Plan. Cooperative effort will be required to make sure credit unions continue to benefit from their ownership of corporate credit unions, which includes vital access to payment systems, investments and liquidity. These challenges will eventually lead to a more rapid rate of consolidation in Region III.

In aggregate, the capital cushion appears to be adequate, but individual FICUs will struggle to increase their provision for loan losses and to maintain capital levels. As the economy recovers and employment improves, additional challenges will be slower loan growth and the impact of governmental regulations like the Overdraft Privilege program that will put fee and other income at risk. The opportunity will be to leverage the disruption that consumers faced during the crisis and gain the ability to attract new profitable members. Too much deposit growth with slow loan growth would weaken the already strained capital levels. Coming out on the other side will require strong lending initiatives and a culture that seeks to acquire and maintain accounts in a cost effective manner.

CUEG Region Four

CUEG Region IV (Midwest) consists of 2,250 federally insured credit unions (FICUs) in the states of Arkansas, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin. The credit unions in this region represent 29.8 percent of all FICUs and, with total assets of \$179 billion, hold 20.3 percent of all FICU assets. Total membership in Region IV reached 19.8 million and now accounts for 22.1 percent of all FICU members. A high-level summary shows a net loss of 72 Region IV FICUs during 2009, but asset growth in excess of 11 percent. Region IV FICUs added 462,000 members in 2009 and loan growth of 6.1 percent was over five times the national average. The net worth ratio was just fractionally below 10.1 percent. At the end of 2009, total employment (full and part-time FICU employees) was 58,054 and there were 5,369 branches within the region. The 50 largest FICUs in the region held 45 percent of all assets and 34 percent of the total membership. Included in this group are 28 FICUs with assets in excess of \$1 billion.

Loan Growth

Region IV FICUs generated 6.1 percent loan growth in 2009, down from 8.8 percent in 2008. Region IV loan growth exceeded the national average by almost five percentage points. Total loans outstanding in Region IV now equal \$116 billion, representing 64.6 percent of total assets, down from 67.7 percent at year-end 2008. Roughly 59 percent of all loan growth in 2009 was attributable to the 50 largest FICUs.

Over the course of 2009, first mortgages were the largest component of loan growth. This portfolio segment increased 8.5 percent during the year and accounted for almost 43 percent of all loan growth. Used vehicle loans rose 10.5 percent in 2009 and accounted for over 36 percent of Region IV loan growth.

A record number of members were helped by Region IV credit unions, originating historically high levels of mortgages in 2009. A total of \$19.8 billion in first mortgages were originated in 2009, a 45.7 percent increase over excellent 2008 volumes. Roughly 77 percent of 2009 originations were in fixed-rate products, 14 percent in balloon/hybrid and just 9 percent in adjustable-rate loans. Refinancing activity was a major driver of growth in first mortgage loans granted. In 2009, the region's credit unions experienced a five-year low for "first mortgage loan growth-to-first mortgage loans granted" ratio of 14 percent, compared to a 2008 ratio of 34 percent. In 2009, \$6.2 billion of first mortgage loans granted resulted in \$2.8 billion of growth in first mortgage loan balances; while in 2008 a much lower \$3.6 billion in first mortgages granted resulted in a much higher growth in balances of \$4.6 billion. Other real estate loans granted were down 10 percent in 2009; with the 7.3 percent growth in HELOCs granted being more than offset by significant declines in second mortgage originations.

FICUs nationwide continue to struggle with generating enough vehicle loans to keep portfolio growth positive. While Region IV FICUs saw new vehicle loans decline 0.6 percent, used vehicle loan growth was brisk, increasing 10.5 percent during the year. In total, the vehicle loan portfolio in Region IV rose 5.4 percent. This is in sharp contrast to the to the entire FICU market which posted a 1.4 percent decline. The impact of the cash-for-clunkers program is apparent from the quarterly change in new vehicle loan balances. New vehicle loan balances surged in the second and third quarter of 2009 by \$227 million and \$311 million respectively, only to tumble \$604 million in the fourth quarter of 2009. In 2009, just 46 percent of Region IV FICUs reported vehicle loan portfolio gains and only 31 percent reported gains in new vehicle loans outstanding. In total, Region IV vehicle loans increased \$2.3 billion in 2009 with roughly 98 percent of the gain accounted for by the change in point-of-sale indirect loans.

Region IV credit card balances grew 8.3 percent in 2009 and their share of loans increased fractionally to 4.5 percent. Member business loan (MBL) growth of 12.8 percent was solid, but well below 2008's growth rate of 14.8 percent. MBLs now equal 7.1 percent of total loans, up 76 basis points over the past year. FICUs in Region IV granted \$3 billion in MBLs in 2009, up 2.7 percent over 2008 origination volumes.

Shares and Deposits

Total shares and deposits finished the year up \$17.5 billion or 12.8 percent. Growth results in 2009 were almost two percentage points above a very strong 2008 and 2.3 percentage points more than the national average. Given historically low deposit yields, gains were driven by a member "flight to safety". Over half of the growth in shares occurred in the first quarter of 2009. Total shares and deposits finished the year at \$154 billion, with almost 71 percent of the gain coming from highly liquid accounts (share drafts, regular shares, and money market accounts).

CD (or share certificate) growth was surprisingly strong, up 7.3 percent for the year. This is in sharp contrast to the 0.2 percent decline reported for all FICUs. Most of the growth in CD balances occurred in the first quarter as members locked in rates before the region's credit unions reduced rates on share accounts. The cost of funds declined in 2009 by 67 basis points to a low of 1.76 percent; last seen in the fourth quarter of 2005. This portfolio segment of term deposits accounted for 18 percent of all Region IV deposit growth, but with slower growth in 2009, CD's share of all deposits slipped two percentage points to 30 percent. The "flight to safety" noted above is clearly evidenced by 16.5 percent gain in IRA/KEOGH balances in 2009, which follows a 14 percent gain in 2008. At \$13.8 billion, this portfolio segment now represents 9 percent of all deposits.

Regular shares grew 9.9 percent during the year, but fourth-quarter growth slipped to just 0.8 percent. Regular shares were the second largest component of deposit growth despite yields of 0.78 percent at year-end. The \$4.1 billion increase in this portfolio segment accounted for 23 percent of all deposit growth in 2009 and regular shares now equal 30 percent of all deposits.

At year-end 2008, the average rate paid on a CD was 156 basis points above the money market rate. By year-end 2009, CDs were paying just 1.38 percent and the yield advantage had slipped to a modest 99 basis points. Thus members are sacrificing little yield for liquidity and this helps explain the 25.6 percent gain in money market accounts. This portfolio segment accounted for 31 percent of all deposit growth in 2009. After two exceptional years of growth, money market shares now equal 17 percent of Region IV FICU deposits, up from 15 percent at year-end 2007.

2010 will be a year where credit unions will intentionally keep deposit rates low. Given loan and investment yields, this is necessary. This benefits cost of funds in the near term and will help improve spreads. We expect members to remain liquid in anticipation of higher CD yields likely over the next couple of years. Expect some credit unions to intentionally manage deposit and asset growth down (to improve their net worth and other key ratios), which implies reduced share and deposit growth in 2010.

Loan Quality

Over the course of 2009, loans two or more months delinquent as a percentage of total loans outstanding (delinquency ratio) rose to 1.56 percent or 23 basis points above the year-end 2008 level. Delinquent loans now equal 1.01 percent of assets. In addition to higher delinquencies, charge-offs moved up from 0.63 percent of average loans in 2008 to 0.86 percent at year-end 2009. While both key measures of loan quality in Region IV deteriorated in 2009, they remained better than the results for the nation as a whole. While the delinquent loans to net worth ratio rose from 8.32 percent to 9.98 percent, the ratio remained below the national average of 11.88 percent. Looking at high level detail, we see that real estate secured loans (first mortgages, second mortgages and home equity loans/lines of credit) two or more months delinquent rose 38 percent in 2009 to 1.52 percent of outstanding real estate balances and credit card delinquencies were up 13 percent to 1.96 percent of outstanding balances. With net charge-offs rising 46 percent in 2009 and the provision for loan losses climbing 45 percent, credit union leadership continues to brace for tough times in 2010. Key credit quality indicators are unlikely to change course until we see several months of improving employment conditions within the region.

Investments

With deposit inflows outpacing loan growth by almost 6.7 percentage points, Region IV credit union investments rose by almost 20 percent to \$42.5 billion. Investments now equal 24 percent of Region IV assets, up from 20 percent at the end of 2007. When combined with cash and cash equivalents the year-end 2009 ratio climbed to 31 percent. Given that the yield on average loans was 381 basis points above the yield on average investments, this higher share of cash and investments is dampening growth in the bottom line. Credit unions remained disciplined with moderate investment maturities and did not chase yield by unreasonably lengthening investment maturities.

Earnings and Capital Adequacy

Region IV full-year return on average assets (ROA) was 40 basis points, an increase of 12 basis points from full-year 2008, but some of the improvement may be due to the reversal of assessments booked in 2008. The collective ROA for the region was double that of the nation as a whole. At the end of 2009, 47 percent of the FICUs in the region reported a negative ROA and these FICUs held 23 percent of the region's assets. The 50 largest FICUs had a collective ROA of 70 basis points, although four FICUs with assets in excess of \$1 billion reported a negative ROA. The net interest margin improved slightly in 2009 to 3.2 percent as the cost of funds declined 67 basis points.

The combination of above-trend asset growth, corporate credit union and loan write-offs, plus NCUSIF assessments, pulled the net worth ratio down 68 basis points in 2009. At 10.1 percent, this key measure of safety and soundness for the region is 17 basis points above the national average. We see the potential for additional declines in 2010 unless charge-offs subside and/or share balances decline. A closer look at the data indicates 91 Region IV FICUs had a net worth ratio below 7 percent. These credit unions held just 3.8 percent of the region's assets.

CUEG Region Five

CUEG Region V (West) consists of 13 states including Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, Wyoming as well as the territory Guam. 2009 was a difficult year for Region V credit unions as the unemployment rate in many of the states approached or exceeded the national average. Credit unions across the country struggled to attract new members in the fourth quarter, but membership in Region V credit unions seemed to be the worst hit. Total membership declined by 284,000 to 21.5 million by the end of December 2009. Despite this decline in membership, total assets grew by 1.1 percent. For 2009, membership growth was basically flat. Net worth continued to decrease in the fourth quarter, down by 2.3 percent to \$21.8 billion. Despite the decline in membership, shares grew \$1.7 billion or an annualized 3.5 percent during the fourth quarter, while loans decreased by almost \$2.8 billion or 7 percent annualized. As of year-end, share balances totaled \$205.8 billion while outstanding loans came in at \$157.3 billion. The loan-to-share ratio fell to 76.4 percent by December 31, 2009 compared to 85.4 one year prior.

Loan Growth

Loan growth throughout the region was severely impacted by concerns surrounding the weak labor market. Total loans declined in Region V during 2009 by 53 percent and the worst of that was experienced during the fourth quarter which saw a nearly 7 percent annualized decrease over the prior quarter. Credit unions reported that economic fears sharply reduced the normal seasonal loan demand. Loans comprised 67 percent of total assets as of December 31, 2009.

Region V real estate lending declined during 2009 while all other regions reported improvements of greater than 4 percent. Residential first mortgage loans fell by a 4 percent annual rate during the fourth quarter, and the decline in other real estate loans was 5.8 percent.

Auto loans were down 9.5 percent for 2009. New auto loan balances decreased by nearly 16 percent, while used auto loans only lost 3.6 percent. All regions reported the worst performance of the year during the fourth quarter, and the Region V credit unions reported the worst among the regions.

Member business loan growth was impressive in the first quarter of 2009 showing an annualized increase of over 10 percent, but that improvement faded progressively throughout the year, ending up with only a break-even in the fourth quarter. However, because of gains obtained early in the year the annual change over last year's position was 5.2 percent.

Credit unions will continue to suffer as loan growth will likely remain subdued at best during 2010. Loan policies have tightened to prevent further losses and qualifying

borrowers, still concerned about the employment picture, are not expected to create any kind of demand improvements.

Loan Quality

Loan quality concerns continue to plague credit unions in all regions of the country, but Region V seems to be the worst hit driven by the region's unemployment situation. The delinquency to total loans ratio rose from 3.1 percent in 2008 to 4.1 percent at year end 2009. Net charge-offs to total loans increased to 1.8 percent at year-end, again with Region V showing the highest amount among all regions. We can expect 2010 to be another difficult year for managing loan portfolios. Lingering high unemployment rates will continue to depress loan demand, and the elevated levels of jobless credit union members will continue to struggle to pay their loans on time.

Share Growth

In comparison to the weak loan portfolio performance for nearly all regions during 2009, share growth was fairly impressive as members, fleeing from failing financial institutions, and implementing more fiscal restraint, consolidated their money into credit unions for safety. Total share growth of 6.2 percent annually may not be considered stellar in a normal market, but compared to other regions that approached 14 percent growth, and in an environment of declining loan balances, share growth may be considered one of Region V's shining stars for 2009. Regular share balances increased by 12.6 percent during 2009 in the region and share certificate balances actually decreased by more than 10 percent during the same period as members moved their money to cash, waiting for higher rates as well as preparing for possible liquidity needs ahead.

At year-end 2009, regular shares accounted for over 25 percent of Region V's share balances with a similar amount for money market shares and 28.6 percent for share certificates, compared to 24 percent, 22.1 percent, and 33.8 percent, respectively in 2008.

Investments

Liquidity reigned supreme during 2009 as deposits continued to grow, while success on the loan side of the balance sheet was less than exceptional. Investments, excluding cash, rose over 33 percent from year-end 2008, with total investments increasing by \$13.8 billion to \$55.6 billion at the end of 2009. Additionally, total cash increased an amazing 48 percent, up over \$6 billion from year-end 2008. Maturities are shorter and yields are lower as portfolio managers position themselves for that great hopeful day in the future when the clouds will part as loan demand warms the region and market rates begin to increase. Surprisingly enough, while most of the region's credit unions are floundering in this sea of liquidity, borrowing in the region actually increased 9.5 percent during the year, up \$844 million to end the year with \$9.7 billion. Most of the borrowing happened during the first quarter.

Earnings

As a result of members' preference to move dollars out of term deposits into liquid accounts, credit unions in the region have generally benefited from improving interest margins, with Region V credit unions ending the year with the net income margin as a percentage of total assets at an elevated 4.4 percent. Another positive trend is the growth in fee income, driven by credit unions rethinking their pricing strategies to combat the effects of poor asset quality and the effects of NCUA's Stabilization Fund. Operating expenses have also remained in check as a rule, with Region V credit unions seeing their numbers' decrease 8.6 percent during 2009; but these positive trends have not offset the increases associated with bad debt and corporate stabilization assessments. Region V Return on Average Assets (ROA) remained negative for another year, ending at a negative 0.29 percent while the other four regions seem to have turned the corner showing 2009 ROA averages in the black from 20 to 50 basis points.

General Economic Conditions and Credit Union Concerns

Economic conditions remained weak throughout Region V in the fourth quarter of 2009 and into 2010 as the fallout from the economic credit crisis worked its way more heavily throughout the region. Unemployment appears to have peaked in some states but others are still experiencing increases in unemployment which continues to negatively impact credit union growth and profitability.

Credit unions continue to have an opportunity to gain additional market share as financially stressed banks remain less willing to grant credit to consumers and businesses. The increase in consumer credit among credit unions was more pronounced in other regions of the nation as credit unions in many western states continue to struggle to grow their loan portfolios. Rising unemployment continues to put pressures on borrowers and delinquency rates are expected to continue to rise, but credit unions are hopeful that the rate of growth in delinquencies is slowing. Bankruptcy filings continue to reach high levels, putting added pressures on credit unions to add to their allowance for loan losses. Home prices are still depressed. Even though the stock market (a leading indicator of the economic recovery) has shown signs of strength, which should boost consumer confidence due to the wealth effect, wary consumers are expected to continue to show restraint in spending and borrowing. This will continue to make it difficult for credit unions to stimulate loan growth. Savings growth is also expected to slow in 2010 as the stock market continues a slow climb and as consumers struggle to make ends meet in their family budgets.

Many credit unions in the western region are struggling. With economic uncertainty, flexibility in balance sheets will be critical for credit unions to be able to return to profitability and stability in net worth. There have been a number of credit union failures, mergers, and acquisitions. Many credit unions have had to close branches, freeze salaries, layoff staff, and take other drastic measures to cut expenses and services.

The excesses of the past economic growth cycle have placed extreme pressures on consumers nationally and the lagging effects of the recession are now being heavily placed on many credit union members in Region V, resulting in severe constraints on income among many credit unions. While it will be difficult for credit unions to replenish capital for long-term safety and growth, the long-term outlook is positive for credit unions that are able to maintain balance sheet flexibility and find ways to strengthen themselves to take advantage of the economic recovery that lies ahead.

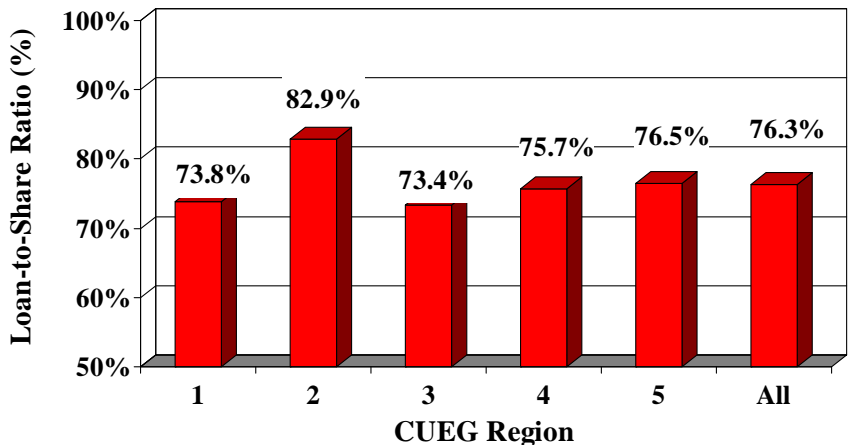
While recent data indicates that the recession may have ended statistically in the second quarter of 2009, there are only a few signs that the end of the recession has resulted in anything beneficial for jobs and income in Region V. The rate of economic decline may have been arrested, but conditions are exhibiting signs that only very slow growth lies ahead. A long-term economic recovery cannot be expected without improved consumer sentiment and consumer spending. On the plus side, new home builders have made progress reducing bloated inventories in some areas, but there is still a massive surplus of inventory to unload. Ultimately, this should result in some hiring in the construction sector, which should provide welcome relief to the construction industry which has seen declines of over 20 percent in employment in many parts of the region. Many credit unions are reporting that small businesses are struggling which has resulted in rising delinquency in business loan portfolios. This is adding to the pressure on credit union capital which is already pressured by losses in consumer and real estate loan portfolios. Even with weakened capital positions, many credit unions did continue to aggressively market loan products despite the slowdown. Additionally, many credit unions either began or beefed up existing programs to counsel members who were having financial difficulties.

As the numbers show, credit unions added substantially to loan loss provisions at the end of 2009. Most credit unions expressed the feeling that those additions would set the stage for a better 2010/2011. However credit unions have continued to add to their loan loss reserves in 2010. The Corporate Stabilization Plan and accounting for the assessment have caused considerable confusion and concern in the first half of 2009. Pressure on credit union earnings will continue as rising delinquency, write-offs and higher premium assessments from NCUA are expected this year. Despite the difficult economic conditions and the corporate restructuring, credit unions overall remain well capitalized.

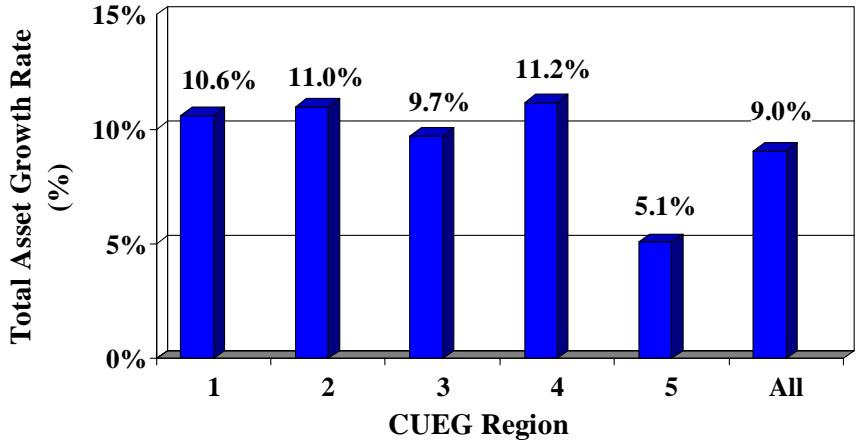
The general sense of credit unions in Region V is that the rest of 2010 will continue to be difficult economically, but there is hopeful optimism that perhaps the worst of the recession has passed and that conditions are beginning to slowly improve.

Appendix A: CUEG Regional Financial Ratio Analysis

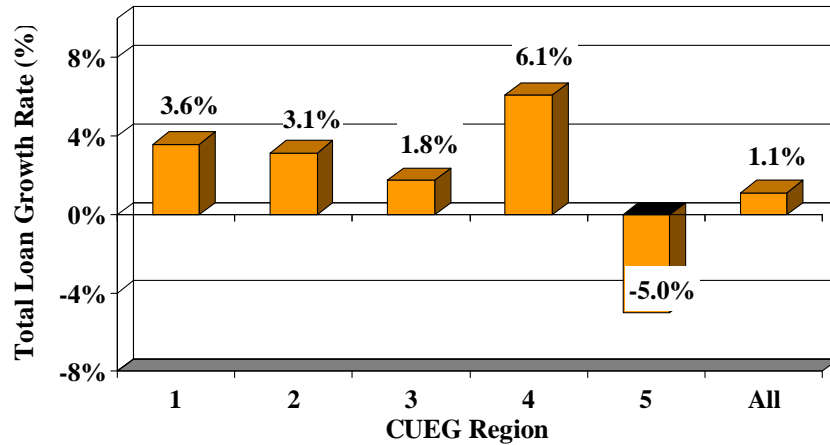
Loan-to-Share Ratio
Federally Insured Credit Unions by CUEG Region
December 2009



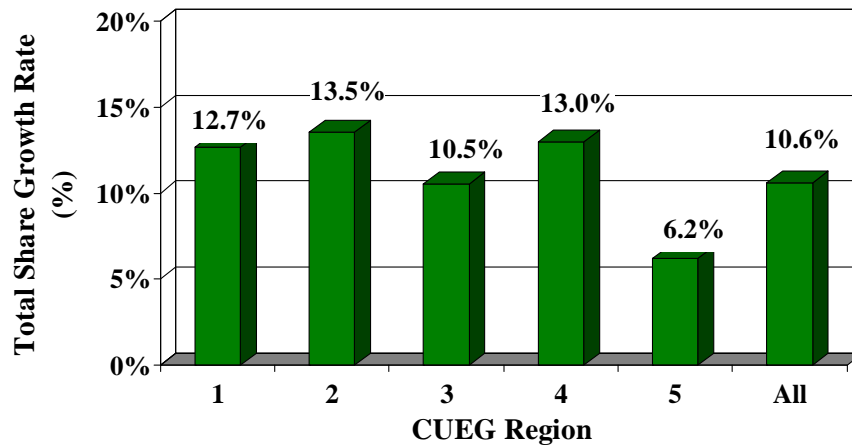
Total Asset Growth
Federally Insured Credit Unions by CUEG Region
December 2009



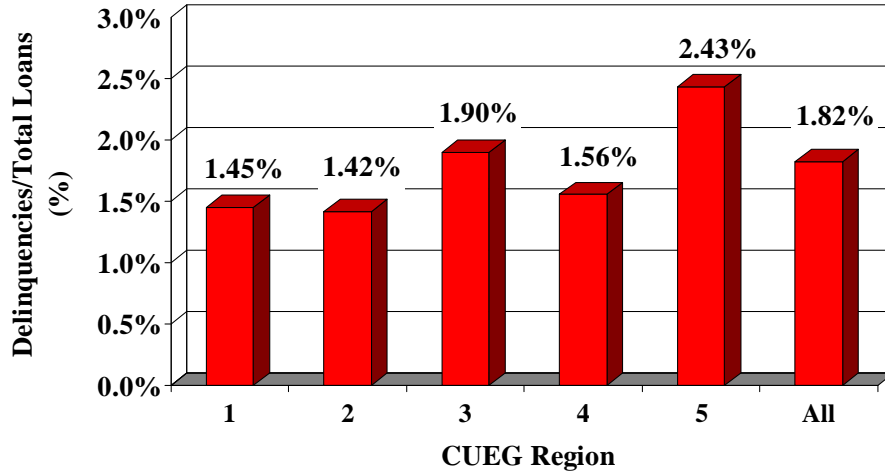
Total Loan Growth
Federally Insured Credit Unions by CUEG Region
December 2009



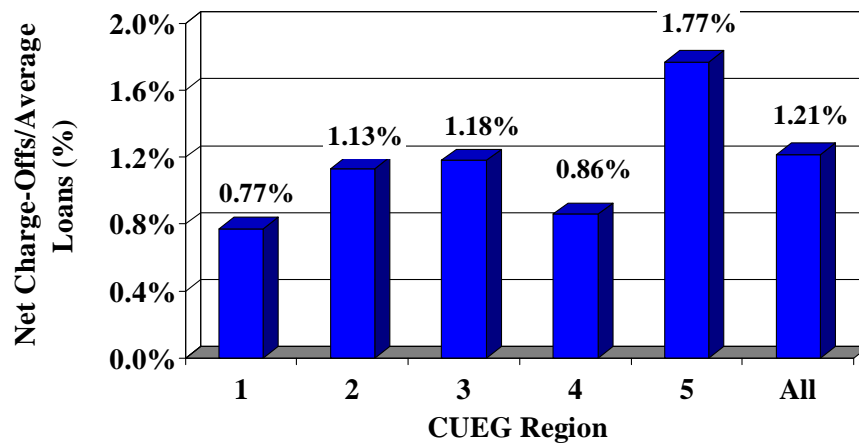
Total Share Growth
Federally Insured Credit Unions by CUEG Region
December 2009



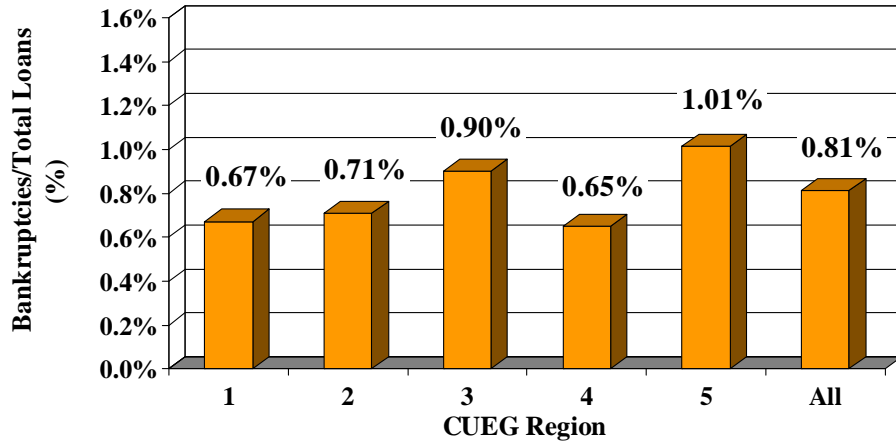
Delinquency Ratio
Federally Insured Credit Unions by CUEG Region
December 2009



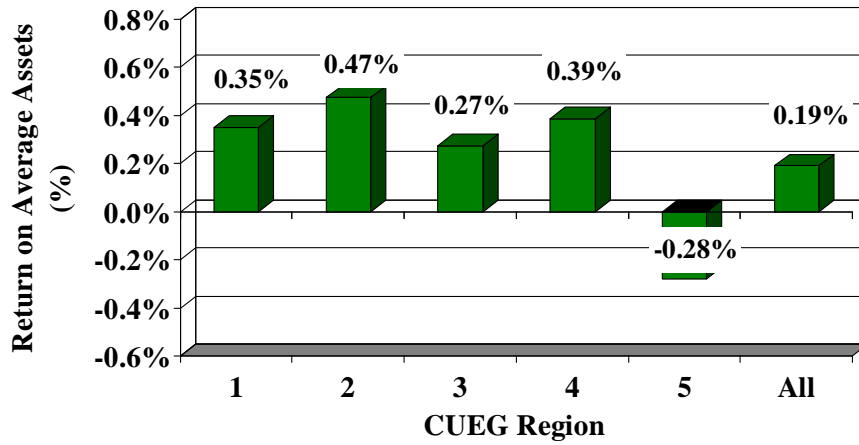
Net Charge-Offs/Average Loans
Federally Insured Credit Unions by CUEG Region
December 2009



**Bankruptcies/Total Loans
Federally Insured Credit Unions by CUEG Region
December 2009**



**Return on Average Assets (ROA)
Federally Insured Credit Unions by CUEG Region
December 2009**



Appendix B: CUEG Regions

CUEG REGIONAL BREAKDOWN

