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Executive Summary

- FICU loan growth (4.0 percent) is on pace to exceed share growth (2.8 percent) for the sixth consecutive year in 2006.

- Member business lending grew 12.4 percent for all FICUs, with Regions II and III (18.1 and 19.3 percent, respectively) leading the way.

- ROA for Region II was 1.03 percent, 13 basis points higher than for all FICUs, and 31 basis points higher than Region IV's 0.72 percent.

- The number of FICU members declaring bankruptcy was down 83.7 percent in the first half of 2006 to 56,023, from 342,634 at year-end 2005. Loans charged off due to bankruptcy were down 63.4 percent. These decreases are largely explained by the bankruptcy legislation passed in October 2005 with a rush of filings to get in under the old law.

- Share certificates were the principal factor driving share growth in the first half of 2006, growing 9.4 percent and accounting for 89.7 percent of total share growth. Share certificates in Regions I and V accounted for 95.2 and 118.5 percent, respectively, of total share growth for those regions.

- New auto lending fell off in the first half of 2006. Regions IV and V led the way (4.9 and 5.9 percent, respectively) but Region IV saw no change in their new auto lending, an indicator of the current auto market.

- First mortgage real estate loans grew by 7.2 percent in Region II, with other real estate loans trailing just behind at 11.7 percent growth. First mortgages continued to be the lion's share of FICU loan growth, although the weakened housing market has seen a slight decline in overall real estate loan growth.

- Major concerns cited in Region I are geopolitical uncertainty, high energy costs and low share rates. Coupled with weakened consumer spending, home depreciation and high debt burdens makes for a precipitous economic outlook. Region II believes competition from other credit unions, especially community credit unions, will be the greatest obstacle this year. The squeeze on net interest margins continues to be the major concern in Region V while attracting assets and members is the challenge in Region III.

- Asset quality increased in the first half of 2006 as the delinquency ratio for all FICUs dropped from 0.73 percent at year-end 2005 to 0.58 at the end of June 2006. The charge-off ratio also experienced a similar drop, falling 0.09 percent to 0.45 percent. Much of this can be explained by the extreme decrease in bankruptcy filings and loans charged-off due to bankruptcies.

NCUA Region One

NCUA Region I (Northeast) consists of the states of Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, and Vermont. As of June 30 2006, there were 1,461 federally insured credit unions in the region, with total assets of $112.1 billion and a total membership of 13.4 million.

Lending

Loan growth in Region I during the first half of 2006 was 3.0 percent to $74.2 billion, slightly less than the pace for all federally insured credit unions (FICUs). During the January through June time frame, loan growth was concentrated in real estate products, and to a lesser extent, light vehicle loan products. While the region's credit unions experienced a relatively strong demand for first mortgage loan products, home equity lending is on pace to expand by double digits once again. Over the first six months of 2006, first mortgage lending expanded by 3.6 percent, while "other" real estate loan demand (home equity/second mortgage) grew by just over 6.0 percent. At the end of June, real estate loans comprised 59.7 percent of all loans in the region. Light vehicle loan portfolio growth slowed sharply over the first half of this year. New light vehicle lending expanded by 2.1 percent after growing by over 17 percent in 2005. Rising interest rates, forward buying, and aggressive financing and incentives from the vehicle makers have constrained loan growth so far in 2006. Used light vehicle loan demand rose by less than 1 percent during the first half of 2006. Unlike all FICUs, credit unions in Region I did not experience strong demand for unsecured lending. Credit card lending declined by 2.3 percent, while non-credit card unsecured lending expanded by only 0.3 percent. Finally, the region's credit unions experienced strong demand for member business loans during the first half of this year. Member business loans outstanding grew by 11.9 percent to over $3.2 billion.

According to NAFCU's October 2006 Flash Report, near term expectations for loan demand in Region I were less favorable for three of the four loan categories. The responding credit unions felt that both new and used light vehicle loan growth would be less robust, while there was anticipation of a moderate acceleration in unsecured loan demand. The credit unions in Region I appear to be projecting a decent pace of holiday spending, and thus, a pick-up in unsecured lending. As expected, the near-term prospects for real estate lending were less favorable. However, the credit unions believe that high inventory levels are likely to force home builders to offer incentives and limit pricing which should allow for a moderate demand for first mortgage loans.

Member Shares (Savings)

Over the first six months of 2006, share growth in Region I was 2.8 percent, the same share growth experienced by all FICUs. As with many FICUs, the region's share growth during the first half of 2006 was concentrated in share certificates and regular shares, which rose by 9.9 percent and 2.3 percent respectively. As many credit unions have chosen not to significantly increase the dividend rates of share drafts and money market shares, there was a net outflow of 4.4 percent and 2.3 percent respectively during the first six months of 2006. Over the first half of this year, many credit unions promoted CDs with maturities of one to five years to help fund loan demand. Other credit unions increased their borrowings from the FHLB and/or their corporate credit unions, and other credit unions chose to sell a portion of their first mortgage loan portfolio. In addition, some credit unions engaged in loan participations, while others promoted Web-based share accounts similar to those offered by ING financial corporation. In the first half of 2006, IRA/KEOGH accounts increased by 3.0 percent, while other shares and non-member shares rose by 9.1 percent and 3.6 percent, respectively. Many of the region's credit unions expect share growth to continue to remain weak over the near-term. However, according to the October Flash Report, the responding credit unions indicated that they believe share growth will increase modestly from the pace over the first half of 2006. During the first six months of this year, the strong loan demand, coupled with relatively weak share growth, caused the loan-to-share ratio to increase to 78.6 percent from 78.5 percent in 2005 and 73.1 percent in 2004. The loan-to-asset ratio at the end of June 2006 was 66.2 percent compared to 65.8 percent in 2005 and 62.1 percent in 2004.

Earnings and Asset Quality

During the first half of 2006, the credit unions in Region I had an ROA of 0.74 percent, down from 0.79 percent in 2005. This is slightly less than the June 2006 ROA of 0.90 percent and a 2005 ROA of 0.85 percent figure for all FICUs. While the region's credit unions' loan and investment yields were on par with the average for all FICUs, the region's cost of funds was lower than all FICUs. However, the credit unions in Region I generated substantially less non-interest income than the average for all FICUs and, as a result, had a lower ROA compared to all FICUs. The asset quality in the region was mixed in comparison to the asset quality of all FICUs during the first half of this year. The delinquent loans-to-total-loans ratio in the region was 0.66 percent compared to 0.58 percent for all FICUs, while the net charge-offs/average loans rate of 0.40 percent in the region was lower than the overall FICU charge-offs/average loans rate of 0.45 percent. During the first half of 2006, member bankruptcies were not a problem in Region I, as both the number of members filing for bankruptcy and the loan amounts subject to bankruptcy decreased significantly. Total number of bankruptcy filings in the region declined 82 percent to 8,201, while loan amounts subject to bankruptcy fell to $117.2 million compared with $360.6 million as of the end of 2005. In addition, more and more of the region's credit unions are engaging in member business lending and indirect light vehicle lending which adds risk to their balance sheets. While credit unions tend to be risk-averse and tend to conservatively manage their balance sheets, overall asset quality could deteriorate modestly as the yield curve becomes more normal.

Competition and Credit Union Operational Concerns for 2006

In Region I, credit unions are seeing tough competition from regional banks, particularly for member business and indirect light vehicle loans. Bank of America, Citizens and Berkshire Bank are formidable competitors now for loans, while Flagstar Bank, People's Bank, and TFC Bank have been very aggressive in pricing deposits. Because of this, the competition for credit unions is very keen for deposits, particularly share certificates.

This, and rising short-term interest rates, has increased the costs of funds for many of the region's credit unions. However, many of the credit unions in Region 1 are focusing on operational efficiencies and growing non-interest income in order to counterbalance this and the margin compression of late.

Member Concerns and Economic Conditions in 2006

When asked to assess their members' confidence/sentiment, the majority of the region's credit unions indicated that their members were cautiously optimistic about 2007. Many members cited geopolitical uncertainty as a major concern, while others cited the rising interest rate environment, high energy costs, low share rates, and the condition of the local labor market and/or the local government fiscal balance. While most members felt the economy will continue to grow at a decent pace, there are concerns that consumer spending could weaken due to the slowdown in home appreciation and the debt burden of some members.

The overall economic and financial conditions throughout Region 1 improved over the course of 2005. However, pockets of weakness remain, particularly where manufacturing and high tech industries make up a large portion of the local economy. In addition, the region's economies are suffering from high energy costs. In Michigan, the economy continues to suffer from the financial troubles of the light vehicle and parts manufacturers. In Connecticut, Maine, Rhode Island, and Vermont, the economies are in relatively good shape. In Massachusetts and New Hampshire, the economic situations have improved, but the reliance on high tech and defense industries continues to create volatility. Finally, in New York, revenue generation on Wall Street is solid, yet economic weakness remains in the manufacturing centers of New York.

NCUA Region Two

NCUA Region II (Mid-Atlantic) consists of the states Delaware, Maryland, New Jersey, Pennsylvania, Virgina and West Virgina, plus the District of Columbia. The region's federally insured credit unions (FICUs) have about 15.3 percent of the total assets of the nation, up by 0.1 percent from 2005. There are 12.9 million members in this region, up by 196,097 (1.5 percent) from the end of last year. These percentages mirror the regional economy where the gross state product is about 13.8 percent of the U.S. gross domestic product. Regional production is more concentrated in government, professional services, and the healthcare industries than the average concentrations found nationwide.

Lending

Region II FICUs generated loan growth of 6.0 percent during 2005, slightly more than the national average of 4.0 percent. Over the course of 2006, other real estate loans supplied 42.9 percent of loan portfolio growth, closely followed by first mortgage real estate loans at 35.7 percent. Combined real estate secured lending (first mortgages and HELOCs) accounted for 78.6 percent of the gain.

Looking forward to 2006, Region II FICUs anticipate higher loan growth for used vehicle loans and unsecured loans than do other regions' FICUs. Conversely, Region II FICUs expect new vehicle lending to moderate somewhat over the next 12-month period. Real estate loan expectations are slightly more negative than for other FICUs nationwide.

Total auto loans in Region II advanced by 3.3 percent during 2006, compared to the rate of all FICUs at 1.8 percent. Region II new auto loans led the way, rising 4.9 percent for this year, while the used auto loan portfolio increased 1.5 percent.

Unsecured loans (excluding credit cards) represent 6.9 percent of all FICU loans in the region. This portfolio segment decreased 0.3 percent during 2006. Credit card loans increased 3.0 percent during the same period, representing 8.5 percent of all FICU loans in the region. The credit union leadership in the region does not believe new vehicle loans will be a source of loan growth in 2007, and this negative view is shared by credit unions in other regions in the country.

Member Shares

Total savings/deposits reached $90.4 billion in June 2006, up $3.2 billion (3.7 percent) from 2005. Share certificates contributed 73.4 percent of the increase during this year, but this was offset by a decrease in share drafts, which deducted 88.4 percent. Add in money market shares at 16.6 percent and the number comes to only 1.6 percent of 2006's increase from highly liquid accounts. In contrast, regular shares contributed a positive 81.5 percent of the regional savings growth, reflecting members' preference for safety.

For the next six months, Region II FICUs foresee little increase in share growth, and are somewhat less negative than the share growth expectation found in most other regions.

During the 2006 year, Region II FICUs' share drafts (9.3 percent of Region II FICU shares) decreased substantially (25.3 percent) since year-end 2005. Regular shares (38.1 percent of Region II FICU shares) grew at 8.3 percent during 2006. Money market share accounts (15.4 percent of FICU shares) reached $13.9 billion in June 2006, up by $0.5 billion. FICU share certificates (26.3 percent of FICU shares) experienced an 11.0 percent increase during 2006.

IRA accounts (9.8 percent of FICU shares) were a safe haven for members' precious retirement funds in 2006. This deposit segment advanced 5.3 percent for this year compared to a national average of 3.3 percent.

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

With an increase in the gross income mainly assisted by higher interest rates during 2005, Region II's credit unions experienced a slight increase in consolidated ROA. At 1.03 percent (average ROA for all FICUs was 0.86 percent), this profitability measure increased 8 basis points since 2005 for the region's credit unions. This is mainly due to the increase in yield on average loans (up 17 basis points) and yield on average investments (up 57 basis points). Some FICU management teams, however, expect a slight decrease in ROA this year due to the higher cost of funds.

Gross spreads increased by 39 basis points from 6.18 percent in 2005 to 6.57 percent in 2006. The ROA increased among Region 2 FICUs despite the 35 basis points increase in cost of funds/average assets, and little change in the operating expense. Changes in the provision for loan losses/average assets (down 16 basis points) also help improve the ROA.

Loan Loss Trends in 2005

Several Region II FICUs indicated that their lending growth had not risen as strongly as the regional average for the last several months, especially in the areas of auto loans. In the area of loan quality, the 2005 Region II FICUs had a slightly lower delinquency ratio and slightly higher charge-off ratio than credit unions nationwide. The trend in bankruptcy among Region II FICUs follows a similar pattern as credit unions nationwide. In 2006, loans subjected to bankruptcies decreased by 67.6 percent in Region II FICUs, while nationwide the growth was a negative 79.1 percent.

The primary operational concerns for 2006, cited by our regional credit unions, were attracting savings and members changing from adjustable home equity loans to fixed-rate home equity loans. Higher loan revenue (especially from indirect auto sales) and a sanguine liquidity situation were mentioned as positives for future performance.

Member Concerns and Region II Economic Conditions in 2006

Credit union leadership in Region II viewed competition with other credit unions, especially from community credit unions, as a concern. Hiring of staff was mentioned as tight as overall employment conditions were improving in the region. Another, concern cited was a possible decline in real estate values. Non-traditional financial institutions (e.g., ING and brokerage firms) were viewed as the primary competition for savings, while banks and finance companies were viewed as primary competitors for loans.

NCUA Region Three

NCUA Region III (Southeast), consisting of ten states which include Alabama, Florida, Georgia, Indiana, Kentucky, Mississippi, Ohio, North Carolina, South Carolina, and Tennessee, and the territories of Puerto Rico and the U.S. Virgin Islands, finished mid-year with 1,784 federally insured credit unions (FICUs). This represents a net decline of 38 FICUs through the first half of year and 81 FICUs over the past year. Region III continues to hold 21 percent of all FICUs, 20 percent of all assets and 23 percent of all FICU members. Total assets in the region rose to $140.8 billion. Year-over-year growth rate is 4.3 percent, which was marginally better than the 4.1 percent reading for the nation as a whole. Through June 2006, Region III growth of 2.8 percent is fractionally above figures for the entire U.S. Membership in the region climbed to 19.3 million, up just 1.5 percent over the past year. Through June 2006, membership has gained 1.1 percent, slightly above the national average rate of increase. Total employment (full and part-time FICU employees) is now almost 53,400. The 50 largest FICUs in the region hold 51 percent of all assets and 39 percent of the total membership.

Two important considerations must be noted for this report. First, Region III covers a wide expanse of geography ranging from the north end of Indiana to the southern tip of Florida. Thus, economic and employment conditions vary significantly. Taking a high level view of savings and borrowing trends, we can generalize that members were comfortable with their current conditions through the second quarter, but may be backing away from spending / borrowing and turning their focus to rebuilding liquid assets. The second factor to note is all financial data reflects post hurricane (Katrina and Rita) results. Five states in Region III were impacted by the 2005 hurricane season. In many cases, deposits in these states are temporarily inflated as rebuilding is not finished due to the lack of construction resources. Insurance settlements remain on deposit, waiting for repairs to be completed.

Through the first half of 2006, Region III FICUs collectively remain in good health as they improved their net worth ratio to 11.48 percent by generating an ROA (return on average assets) of 85 basis points. At the same time, loan delinquencies fell nicely. Going forward, the big challenge continues to be deposit/asset growth (thus liquidity) and maintaining ROA as the cost of funds climbs.

Lending

Loan growth has slowed significantly. Region III FICUs posted a 2.9 percent year-to-date gain in total loans outstanding versus a 9.6 percent growth rate for all of 2005. Region III FICUs trail the national average loan growth rate by 1.1 percentage points as 724 FICUs in the Region reported year-to-date declines in total loans. These FICUs represented 18 percent of the region's assets. While the 187 Georgia FICUs posted the highest growth (4.7 percent), the 211 FICUs in Florida accounted for 40 percent of the gain and now hold 28 percent of all loans in the region.

At 77.2 percent, the loan-to-share (L/S) ratio is up a solid 280 basis points over the past year, but down fractionally through the first half of 2006. Region III FICUs are under performing the total U.S. which has an L/S ratio of 80.2 percent and is up almost a full percentage point from the beginning of the year.

The $1.7 billion gain in first mortgages accounted for 62 percent of the all loan growth year-to-date. Despite a slowdown in the overall housing market, first mortgage originations in Region III are 6.2 percent above the 2005 mid-year level. Stronger originations and a 10 percent decline in loan sales produced a strong 5.5 percent year-to-date first mortgage portfolio gain. When gains in home equities and second mortgages are added to first mortgages, the combined real estate portfolio segment accounted for over 87.4 percent of all loan growth in the region since the beginning of the year. Currently, 762 FICUs reported originating first mortgages in 2006. Real estate-secured loans now equal 46.3 percent of all loans in the region, up from 44.8 percent at mid-year 2005.

Although real estate-secured loans are growing, this does not tell the whole story. The volume of new real estate loans is slowing. Several credit unions have indicated that their first mortgage originations are slowing dramatically. The mortgage business is very competitive as evident by the number of providers leaving due to over capacity. At the same time, the yields on first mortgage loans are attractive versus the relatively low rates seen in the prior few years. This combination is causing some credit unions to price for portfolio rather than for sale to maintain volume. With the volume of payoffs ebbing, this combination is driving up the balance of loans on the books and masking the slowdown that is taking place.

Vehicle loan portfolio growth has seen a significant slowdown. When the year-to-date gain in new vehicles of 1.5 percent is combined with the used vehicle gain of 0.2 percent, the total vehicle loan portfolio gain for the first half of 2006 is just 0.8 percent. Most FICUs cite very stiff competition from manufacturers' discounted financing, at the point-of-purchase, as the primary reason for such weak performance. Few see this competitive environment changing. In fact, with all the troubles the automakers are having, many FICUs see the problem only getting worse. Ford was so desperate to move the metal that it offered zero percent financing to sub-prime borrowers on some of its models for a few days recently. With all the domestic automakers burdened by excess inventory, this could be a sign of things to come.

A total of 339 FICUs in Region III reported having an indirect lending channel (point-of-purchase), up from 311 at mid-year 2005. While this channel accounted for 66 percent of the annual change in total vehicle loans, on a year-to-date basis, indirect loans are actually down fractionally. As of June 2006, a total of 31.9 percent of vehicle loans were listed as indirect.

Many FICUs in Region III are bracing for an extended "soft patch" in loan growth. There are few bright spots on the horizon for vehicle loans and the nation-wide slowdown in the housing sector is beginning to be felt. In addition, the impact of the 17 consecutive Fed rate increases has priced some borrowers out of the market. The Fed does this to slow growth and reduce inflation pressures. As has been the case historically, it appears to be working.

Member Shares

During the first half of 2006, total shares rose 3.0 percent to $121.2 billion and this gain was slightly above the national average. The strongest growth in dollar amount was in time deposits (CDs). This deposit segment is up 8.3 percent year-to-date and has accounted for 71 percent of the gain. Regular shares (32.9 percent of all deposits) are down 2.1 percent year-to-date and money market accounts increased 3.8 percent. While the 125 FICUs in North Carolina generated the strongest year-to-date growth at 4.4 percent, Florida FICUs hold 28 percent of all deposits in the region and posted a year-to-date gain of 3.6 percent.

The strategy of holding rates low on share drafts and regular shares (core accounts) to control the cost-of-funds is not totally effective. The net effect of losing regular shares and rapidly growing CDs is that the cost-of-funds/average assets has risen 43 basis points year-to-date (59 basis points over the past year) to 2.20 percent. FICU leaders have growing concerns about potential liquidity constraints, but they continue to keep rates low on core accounts in an effort to reverse the trend of declining gross spreads and ROAs.

Given that most credit union members try to keep their money invested in short-term deposit alternatives like money market accounts and certificates with less than one year to maturity, it is not surprising that cost-of-funds has continued to rise after the Fed paused. This trend seems likely to continue at least through the end of the year and perhaps through the end of the first quarter of 2007. However, most credit union consumer loans have two year average lives and thus will continue to re-price upward long after the cost-of-funds has peaked. Thus, if all other factors remain equal, we would expect to see net interest margins and ROAs begin to trend upward in the second quarter of 2007 if the Fed is done for this cycle.

Asset Quality and Operational Results

The consolidated ROA for Region III FICUs was 0.85 percent, reflecting no change from year-end 2005, but up 3 basis points from June 2005. A total of 1,574 FICUs (88 percent of the region's FICUs), reported positive ROAs, while 206 reported losses or no gain. The FICUs with negative ROAs represented just 2.5 percent of the region's assets. There were 591 FICUs in the region (38 percent of all assets) reporting an ROA of 1.0 percent or better.

Asset quality as measured by the ratio of delinquent loans to total loans (0.62 percent) and net charge-offs to average loans (0.46 percent) have both improved year-to-date and over the past year. Looking at one measure of operating efficiency (operating expenses to average assets) we see this measure is up 5 basis points year-to-date and 10 basis points over the past year to 3.4 percent. Rising employment costs and the need to invest in member service combined with weak asset growth, is driving this unfavorable trend.

Looking forward, we see significant challenges for Region 3 and all CU's. Attracting sufficient deposits at a reasonable cost and quality membership growth are the biggest current challenges. Sooner or later, we will see a steeper yield curve and this is likely to improve credit union growth and earnings. Longer term, generating a bottom line adequate to fund investments in growth and maintain safety and soundness will be the principal challenge. Beginning with a solid capital position is a good starting point.

NCUA Region Four

NCUA Region IV (Midwest) consists of 2,505 federally insured credit unions in the states of Arkansas, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin as of June 30, 2005. The credit unions in this region represent 29.3 percent of all federally insured credit unions (FICUs) and held $135.5 billion in total assets or 19.4 percent of the country's total credit union assets. There are approximately 18.7 million members in this region, up 122,876 (0.7 percent) since year-end 2005. Since 2005, total assets have grown 2.1 percent through June 2006 and reserves and undivided earnings increased 2.7 percent to a total of $15.3 billion. Shares grew $2.4 billion (2.1 percent) during the six-month period while loan balances increased $2.0 billion (2.2 percent). As of June 30, 2006 share balances totaled $114.7 billion while outstanding loan balances were $93.6 billion.

Lending

Loan growth in Region IV was modest in the first half of 2006, growing 2.2 percent since year-end 2005 levels. Total loans outstanding for Region IV as of June 30, 2006 totaled $93.6 billion, up only $2 billion over the six-month period. Loans by category experienced mixed success, with the only real growth in the mortgage lending area. Specifically, first mortgage real estate loans grew by 6.1 percent ($1.4 billion) and other real estate loans grew 4.7 percent ($0.6 billion). Under heavy market competition, new auto loan growth was flat at $20.5 billion, while used auto loans actually fell by 0.4 percent to $20.6 billion. Despite tepid loan growth, the loan-to-share ratio in Region IV actually improved to 81.6 percent, second highest among NCUA regions, continuing the recent trend toward increased asset concentration in loans.

Several notable trends were revealed with a closer look inside the broader total real estate loan asset category. Most notable was the divergence in the type of first mortgages granted during the first half of 2006. Fixed-rate first mortgage production grew by only 3.0 percent to $13.1 billion. Alternatively, adjustable-rate first mortgages grew at a brisk 24.8 percent pace, to $4.89 billion, their highest level since December, 2003. That said, of first mortgage loans outstanding on Region IV's credit union books, fixed-rate loans continue to comprise the majority at 52.8 percent of the total. In the other real estate loans category, closed-end fixed-rate loans increased by an 11.6 percent rate to $7.1 billion, while adjustable HELOCs fell by 5.1 percent to $4.59 billion. Consistent with history, the other real estate loans category made up 33.5 percent of total real estate loans outstanding.

While the pace of improvement in first mortgage lending moderated somewhat in 2006, rising interest rates have not had as significant an impact as previously expected. The purchase money mortgage business has traditionally been more difficult business for credit unions to attract than the refinancing business. Even so, total first mortgage loans outstanding were up nearly 30 percent over the past 30 months.

Auto lending should remain stable, deviating little from the last several years.

Finally, activity in loan participations continued its strong growth, albeit from modest historical levels. Growth of 9.5 percent brings total participation loans outstanding to $1.78 billion.

Member Shares

Shares and deposits grew modestly during the first half of 2006, up only 2.1 percent from December 2005 levels. Total shares and deposits stood at $114.7 billion as of June 30, 2006. Most of the growth occurred in share certificates, up 6.5 percent to $31.4 billion. Both regular shares ($41.0 billion) and money market shares ($16.3 billion) actually shrank modestly from year-end 2005 levels.

Prospects for share and deposit growth for the balance of 2006 and into 2007 will depend in large part on the relative performance of the stock market as an alternative for members' excess funds. Job and income growth continues to improve, and could add to the credit union deposit base in Region IV. However, overall savings growth is likely to lag loan growth, putting further upward pressure on the loan/share ratio.

Loan Quality

As the Region IV economic environment has continued to improve, its credit unions continue to do a good job managing credit risk. Total delinquent loans/net worth declined to 4.79 percent from 6.09 percent in December, 2005. The net charge-offs /average loans ratio as of June 30 was slightly improved at 0.49 percent versus 0.54 percent at year-end 2005.

Investments

With loan growth strong relative to share growth, total investments were nearly flat at $27.2 billion, versus $26.9 billion at year end 2005. Total cash and cash equivalents added another $9.1 billion to the total, and were slightly higher than the $8.7 billion held at the end of 2005. This level of liquid investment holdings is consistent with historical norms. The largest category of gain within the investments asset category, both in dollar amount and percentage, was investments in corporate credit unions, growing 20.7 percent to $5.1 billion.

Even with the lack of growth in total investments, there continues to be ample liquidity to fund future loan growth.

Earnings

Return on average assets held steady as of mid-year 2006 at 0.72 percent, virtually unchanged from the 0.71 percent recorded during all of 2005. Spread compression readily explains the persistently low ROA. Versus December 2005, the yield on average loans increased only 17 basis points to 6.26 percent and the yield on average investments increased 81 basis points (to 3.92 percent). Also, the cost of funds/average assets increased by a full 40 basis points to 2.17 percent.

These factors combined to hold Region IV's net interest margin/average asset ratio steady at 3.16 percent, down fractionally from 3.20 percent at the end of 2005. Interest rates rising steadily from the 45-year lows experienced several years ago have not helped net income as much as predicted, with more members shifting their deposits from shares to higher yielding share certificates. The positive impact of rising rates was most pronounced on credit unions with low concentrations of fixed-rate assets in their loan and investment portfolios.

Finally, capital adequacy remained strong among Region IV credit unions. The net worth/total assets ratio increased by 10 basis points to 11.46 percent, versus 11.36 percent at year-end 2005. Total delinquent loans/net worth fell to 4.79 percent from 6.09 percent in 2005.

General Economic Conditions

Economic conditions in the Midwest continue to expand at a moderate pace, consistent with the nation as a whole. Manufacturing activity remains solid, with increases broadly reported in production, shipments and orders. Employment has increased steadily so far in 2006, and is yet to show signs of leveling off. Hiring announcements continue to outpace layoffs.

Even though manufacturing is still a key economic component to the region's economic health, other sectors such as finance, healthcare and technology have grown in importance and impact. And the outlook for agriculture, another key sector, remains generally solid, although concerns linger over rising energy costs, crop prices and whether the drought is finally over. While housing conditions continue to soften in most of the Midwest, the impact on consumers there versus those in coastal regions should be muted. Thus, the Midwest will likely continue to post positive statistics demonstrating that the economic expansion continues on solid footing.

NCUA Region Five

Region V (West) consists of 13 states and two territories: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, Wyoming, and the Territories of Guam and American Samoa. As of June 30, 2006, the region's 1386 federally insured credit unions comprised 15 percent of all federally insured credit unions and held nearly $202 billion in total assets, 28.9 percent of the nation's total credit union assets. Credit unions across the country continue to attract new members and the credit unions in Region V saw membership increase by 280 thousand since year-end 2005, with 20.9 million members as of June 30, 2006. Total assets grew by 2.8 percent in the first six months of 2006 and reserves and undivided earnings increased 4.2 percent to a total of $21.4 billion. Shares grew $4.3 billion (2.5 percent) over the six-month period, while loans increased $7.3 billion (5.3 percent). As of June 30, 2006 share balances totaled $172.9 billion, while outstanding loans were $143.4 billion. The loan-to-share ratio rose from 80.7 in December 2005 to 82.9 in June 2006.

Loan Growth

Loan growth in Region V for the first six months of 2006 was 5.3 percent or 10.6 percent annualized. Should this pace hold, the growth rate for 2006 will decline from the 2005 growth rate of 13.9 percent. This lower percentage will still put 2006 ahead of the long-term average pace of loan growth. Total loans for Region V are $143.4 billion as of June 30, 2006, or 71.1 percent of total assets. Loans comprised 69.4 percent of assets at the end of 2005.

Growth in real estate loans continued at a strong pace. Residential first mortgage loans grew by 6.5 percent and other real estate loans grew by 9.3 percent for the first six months of the year. Both are down from the pace of growth in 2005.

The volume of new real estate loans granted actually fell by 13.7 percent from year-end 2005. Total first mortgage loans stood at $46.4 billion as of June 30, 2006. While total first mortgage adjustable-rate loans held on the balance sheet of credit unions shrank by 3.5 percent in 2006, total new adjustable-rate loans held on the balance sheet as of June 30, 2006 grew 11.4 percent. Hybrid loans grew at a rate of 14.1 percent. At year-end 2005, ARMs and hybrids comprised 41 percent of the first mortgage category held by credit unions. As of June 30, 2006, ARM and hybrids comprised 43 percent of first mortgages. HELOCs grew by only 0.5 percent, bringing the total value of HELOCS to $12.6 billion. This growth rate is down sharply from the 19.7 percent growth in all of 2005. For the region, real estate loans made up 48.8 percent of total loans, which is slightly higher than the 47.8 percent mark at the end of 2005.

Auto loans grew 3.6 percent during the first six months of 2006. New auto lending rose 5.9 percent, while used auto lending rose by only 1.3 percent. With the Big Three automakers turning toward price incentives instead of financing incentives to sell autos, this has opened up the new car lending market to credit unions. Many credit unions in Region V have been aggressive in building market share by offering attractive auto lending rates. Growth in indirect auto lending has been the primary factor fueling portfolio growth.

Member business lending activity continues to grow as credit unions start to assist members in this area. Originations increased sharply to $9.1 billion from $8.1 billion at year-end 2005. While this sector still represents a small percentage of total loans at credit unions, it is growing at the fastest pace of any loan category.

Credit unions have mixed views on the outlook for loan growth for the 2006 year. Refinancing activity has declined sharply in the last few months and further declines are predicted. However, reasonably low interest rates and more aggressive marketing of Hybrid ARMs should help support purchase activity for credit unions with competitive mortgage lending programs. Credit unions are hoping to capitalize on refinancing opportunities as some borrowers who are in rapidly adjusting mortgage products attempt to lock in a fixed rate for a period of time. Despite the cooling in the housing market, some credit unions, especially in Hawaii and California, are becoming concerned that affordability will be a significant factor for members seeking to buy that first home or move homes. Credit unions in those areas are concerned that real estate lending could slow further due to that factor. Higher short-term rates are expected to continue to curtail growth in HELOCs.

Auto lending for new autos is expected to continue at a brisk pace for the remainder of the year, and credit unions expect to see continued growth in indirect auto lending as existing players increase their activity and new credit unions enter the market. Credit unions are hopeful that the Big Three strategy of focusing on pricing as opposed to financing incentives will continue.

Loan Quality

Credit unions continue to do a good job in managing credit risk and generally remain positive about the outlook for the year. The delinquency/total loans ratio declined from 0.52 percent from year-end 2005 to 0.40 percent as of June 30, 2006. Net charge-offs/average loans ratio also showed improvement, decreasing from 0.52 percent to 0.41 percent. For those credit unions with heavy concentrations of mortgage loans, there were concerns that a decline in home prices would increase delinquencies and charge-offs, especially in the home equity lending area. But those concerns are now minor.

Share Growth

As of June 30, 2006, shares grew 2.5 percent to $172.9 billion from $168.7 billion at year-end 2005. However, shares in all categories of short-term deposits fell. Regular share accounts declined by 0.5 percent, while share drafts declined by 1.2 percent. money market share balances declined by 2.3 percent. With rising interest rates, share certificate balances grew by a strong 11.1 percent, as higher interest rates enticed members to lock in long-term rates. With many credit unions facing liquidity and competitive pressures for deposits, most credit unions have adopted the strategy of competing with aggressive certificate rates while lagging on the short-term.

The growth in certificates was evenly split between maturities of one year to three years and maturities greater than three years. As of June 30, 2006, share certificates represented 29.5 percent of total balances, compared to 27.2 percent at the end of 2005. After the initial seasonal surge in liquidity during the first quarter, liquidity issues have surfaced at some credit unions. However, the liquidity of most credit unions in Region V is not a big issue. The demand is generally coming from credit unions that have been aggressive in the indirect lending programs. Borrowings increased sharply in 2005 but have only increased by 7 percent in 2006. Several credit unions are looking to the derivatives market to hedge the cost of share balances and short-term certificate issuance, although the rate increase so far this year has caused those credit unions to refrain from taking action. Region V credit unions generally expect share growth to be relatively weak for the balance of 2006.

Investments

Investments have declined in the first six months of 2006, with the balance at $39.5 billion or 19.6 percent of total assets. Holdings of federal agency securities declined by 9.3 percent to a total of $18.6 billion. Holdings of corporate certificates fell by 1.2 percent from $12.3 billion to $12.1 billion as of June 30, 2006. Investments maturing in less than one year were 52.1 percent of total investments, while investments between one and three years comprised 34.3 percent of the total. The average yield on investments increased 3.23 percent to 3.82 percent as low yielding investments purchased in 2003, 2004 and 2005 matured and were replaced by higher yielding investments. Credit unions should continue to see increases in portfolio yields.

Earnings

Average return on assets in 2006 was 0.94 percent on an annualized basis, which is an increase from 0.93 percent the end of 2005. The average yield on loans increased from 6.02 percent to 6.19 percent. The cost of funds/average assets ratio rose from 1.65 percent to 2.08 percent. The overall net interest margin/average assets declined from 3.31 percent to 3.23 percent. Operating expense/gross income was at 50.06 percent, down from 52.50 percent. Fee income rose at an annualized pace of 4.0 percent.

General Economic Conditions and Credit Union Concerns

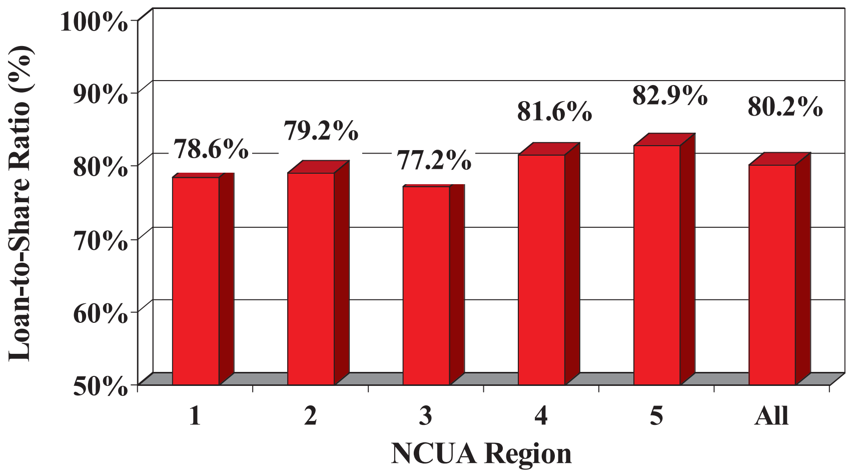
Economic conditions in the Western Region have been generally stable so far in 2006. The slowing in the housing market is of concern to credit unions, yet that slowdown in housing has not fed into any significant slowdown in the general economy of the region. Recent data shows improvements in the labor market, consumer spending, commercial real estate, information technology, service and manufacturing industries. The most critical factor, the labor market, has improved in 2006 but significant gains are not being reported, as was the case in 2005. Increased household spending, driven by the rise in home prices, resulted in gains in services, travel and home furnishings.

Home sales fell noticeably throughout the region in 2006. Many areas are reporting home sales that are 25 percent or more below last year. Home price increases have all but disappeared, and a few areas are reporting declines. The central California area seems to have been hit particularly hard.

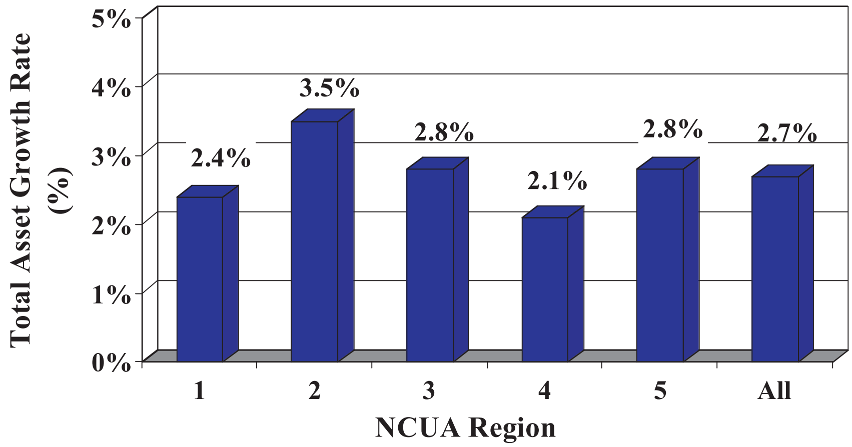
The number one concern expressed by credit union executives is the squeeze on net interest margins. While the string of increases in the Fed Funds Rate has ceased for the time being, the continued flatness of the yield curve continues to drive compression of spreads. The full impact of higher rates has yet to be felt because retail deposit rates at credit unions are dramatically lagging changes in the wholesale market. Credit unions are finding that a more competitive deposit landscape is impeding progress on lessening the impact of margin compression. To offset declining margins, many credit unions are seeking ways to increase fee income, enter new lending sectors, and/or become more competitive in the mortgage lending area. Most credit unions remain wary of putting long-term assets on their books in the current environment because they do not want to increase their interest rate sensitivity as rates continue to increase. Additionally, the flat yield curve does not offer an attractive risk/reward ratio for extending investments and other assets.

Appendix A:
NCUA Regional Financial Ratio Analysis

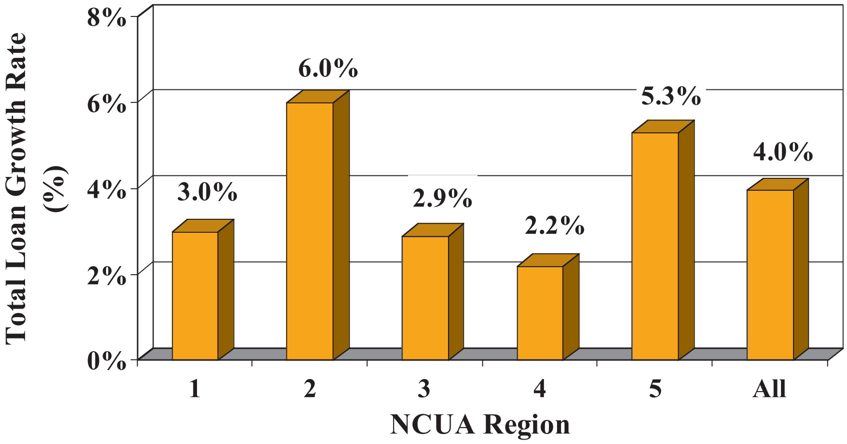
Loan-to-Share Ratio
Federally Insured Credit Unions by NCUA Region
June 2006



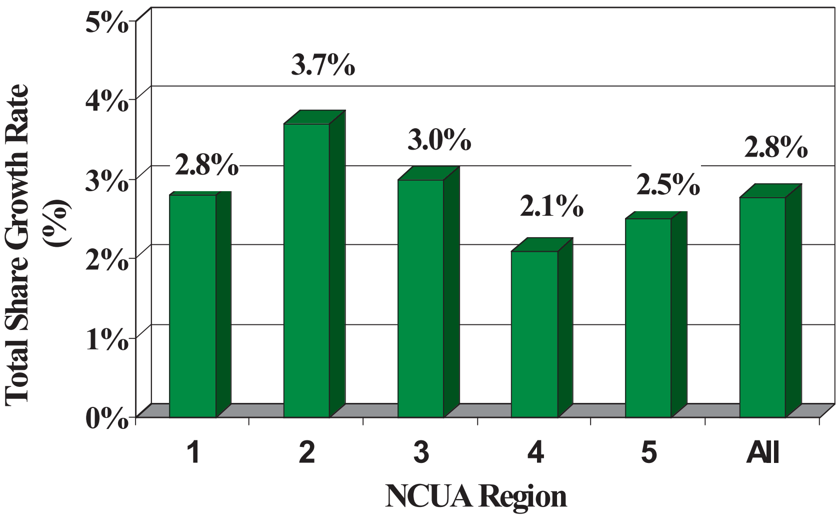
Total Asset Growth
Federally Insured Credit Unions by NCUA Region
June 2006



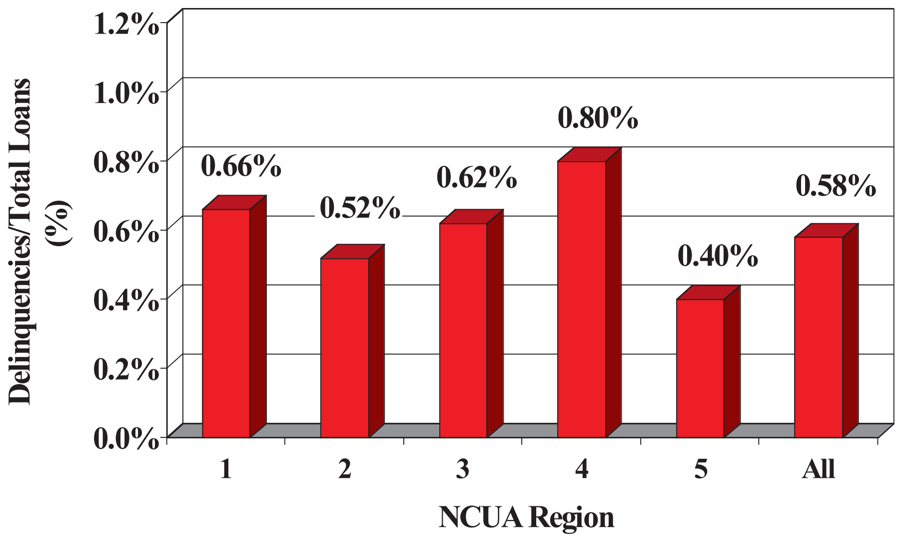
Total Loan Growth
Federally Insured Credit Unions by NCUA Region
June 2006



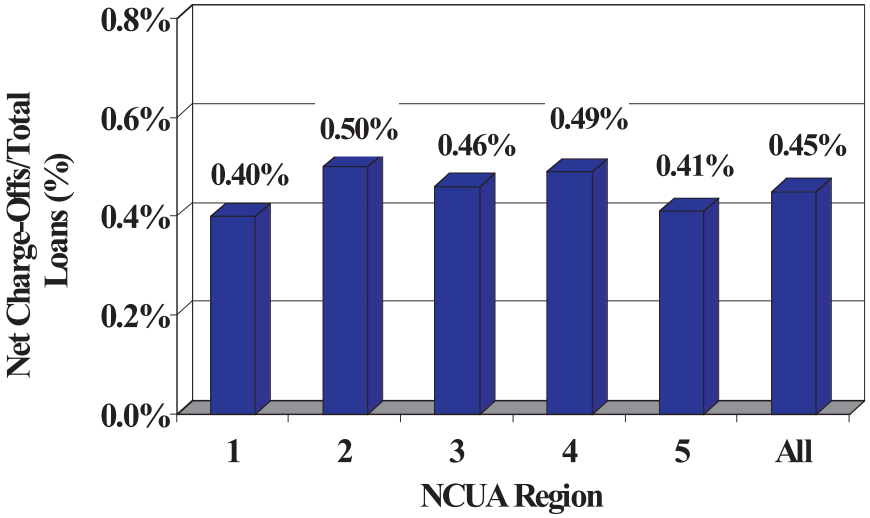
Total Share Growth
Federally Insured Credit Unions by NCUA Region
June 2006



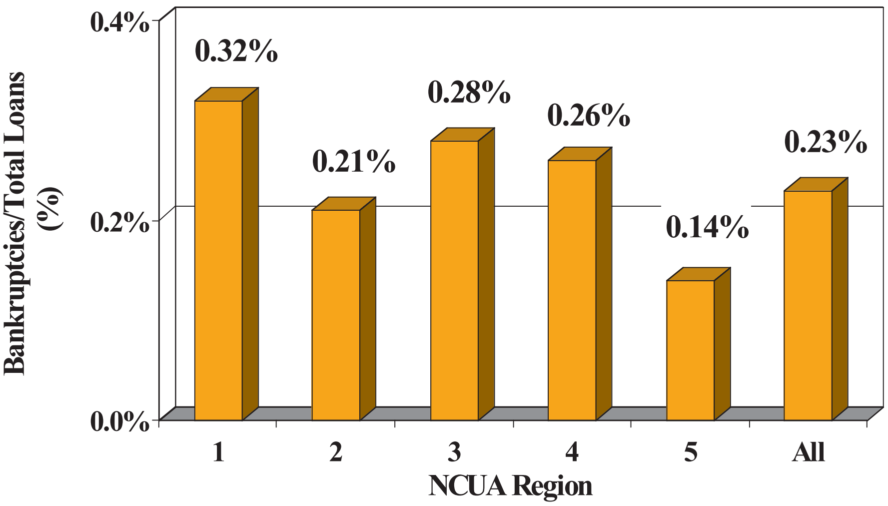
Delinquency Ratio
Federally Insured Credit Unions by NCUA Region
June 2006



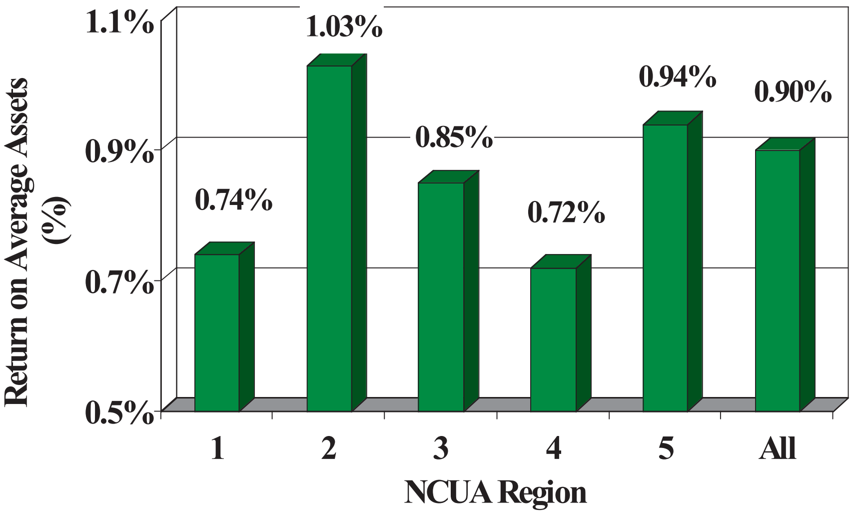
Net Charge-Offs/Average Loans
Federally Insured Credit Unions by NCUA Region
June 2006



Bankruptcies/Total Loans
Federally Insured Credit Unions by NCUA Region
June 2006

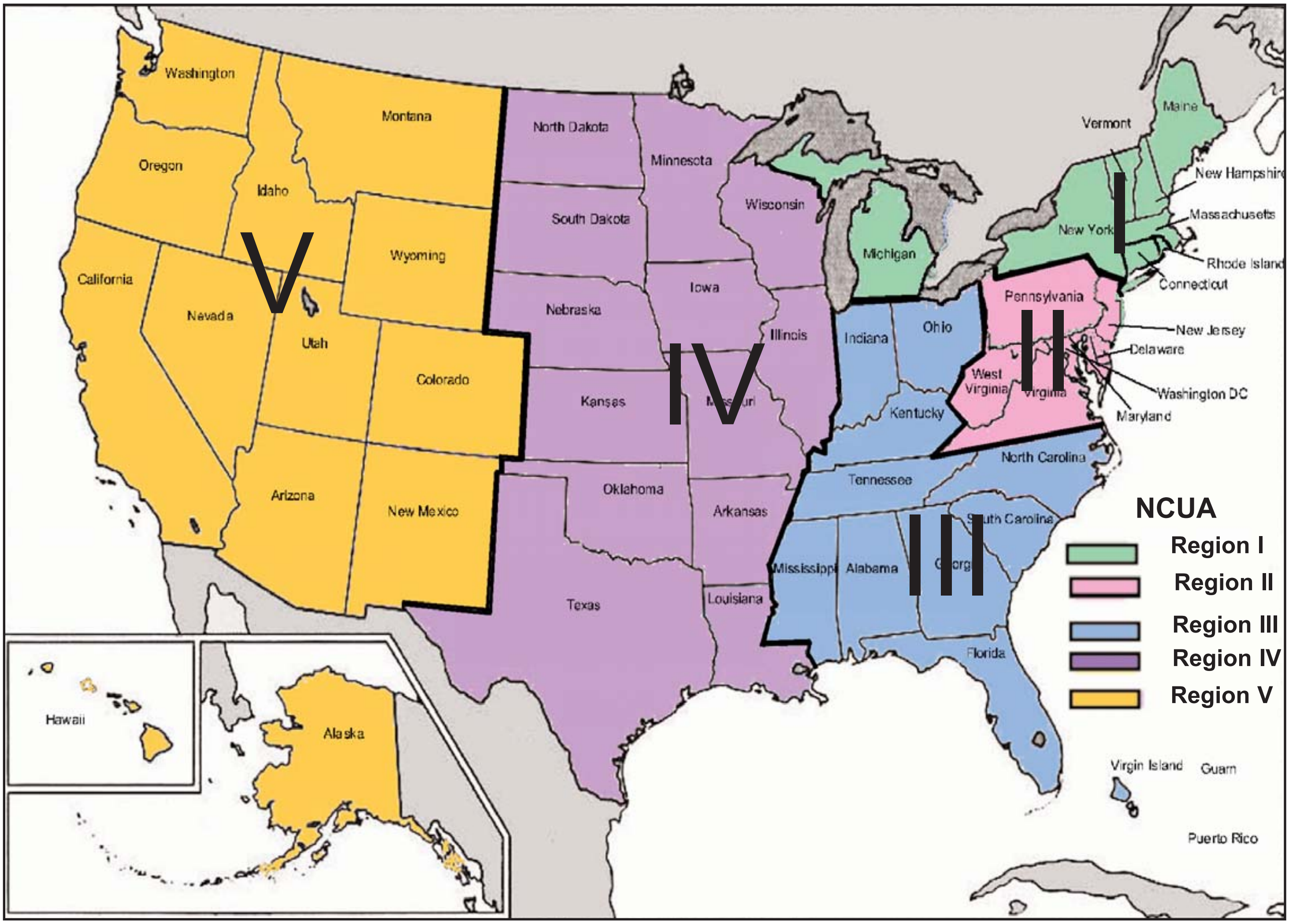


Return on Average Assets (ROA)
Federally Insured Credit Unions by NCUA Region
June 2006



Appendix B: NCUA Regions

NCUA Regional Breakdown



Source: NCUA