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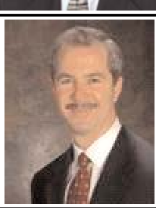

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Executive Summary

- In 2007, federally insured credit unions' (FICU) share growth (4.8 percent) is on pace to exceed loan growth (2.4 percent) for the first time in six years. This trend could be seen in all five regions. Asset growth for all FICUs increased significantly from 4.6 percent in 2006 to an annualized 8.7 percent as of June 2007.

- Unsecured credit card growth slowed down significantly to an annualized rate of 2.6 percent for all FICUs, compared to the 11 percent in 2006. Only Region II reported a strong annualized growth rate of 8.8 percent.

- ROA for Region II was 0.91 percent during the first half of 2007, 16 basis points above the 0.75 percent figure for all FICUs and 35 basis points higher than Region IV's 0.56 percent.

- Share certificates were the principal factor driving share growth in the first half of 2007, growing 7 percent and accounting for 45.4 percent of total share growth. Share certificates in Regions II and III expanded the fastest, growing by 11.9 percent and 7.3 percent, respectively.

- New auto lending declined by 1 percent in the first half of 2007 on the national level, with Regions III and IV reporting the strongest declines (1.8 and 1.9 percent, respectively). Only Region II saw an increase of 2.3 percent as of June 2007. Aggressive financing and incentives from vehicle makers have contributed to the contraction of the demand for new auto loans.

- First mortgage real estate loans grew by 5.7 percent during the first half of 2007, with other real estate loans trailing behind at 2.4 percent growth. First mortgages continued to be the lion's share of FICU loan growth (76.1 percent), although the weakened housing market has seen a slight decline in overall real estate loan growth.

- Most regions cited the tightening of net interest margins as their primary concern. Competitive pressures are another major concern, especially with regard to attracting new members and promoting share growth. There exists a general concern that the pace of economic activity is bound to slow down due to the problems in the housing market.

- The number of FICU members declaring bankruptcy was down 34.3 percent in the first half of 2007 to 78,200, from 119,114 at year-end 2006. Loans charged off due to bankruptcy were down 21.9 percent to 245.7 million as of June 30, 2007.

- Asset quality remained strong in the first half of 2007 as the delinquency ratio for all FICUs increased just slightly from 0.68 percent at year-end 2006 to 0.69 at the end of June 2007. The charge-off ratio also remained at last year's level of 0.45 percent. Much of this can be explained by the only slightly higher number of bankruptcy filings compared to 2006 and the strong decrease in 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, 2007, there were 1,405 federally insured credit unions in the region, with total assets of $117.4 billion and a total membership of 13.6 million.

Lending

Loans in Region I during the first half of 2007 grew 1.1 percent to $77.3 billion, nearly 1.3 percent less than the pace for all federally insured credit unions (FICUs) nationwide. During the first half of 2007, loan growth was concentrated in first-mortgage real estate loans, and to a lesser extent, other real estate loans. The region's credit unions experienced a relatively strong demand for first mortgage loan products, while home equity lending did not expand as much as it did last year. During the first half of 2007, first mortgage lending expanded by 2.8 percent, while "other" real estate loan demand (home equity/second mortgage) grew by 0.7 percent. At the end of June, real estate loans comprised 60.8 percent of all loans in the region. Light-vehicle loan portfolio growth slowed sharply during the first half of 2007. New light-vehicle loans declined 0.4 percent during the first half of 2007 after growing 4.4 percent in 2006. Uncertainty in interest rates, rising energy costs, and aggressive financing and incentives from the vehicle makers have constrained loan growth during 2007. Used light-vehicle loan demand declined as well by 0.2 percent during 2007.

Unlike all FICUs that experienced a modest increase in unsecured loans, credit unions in Region I experienced I slight decline in unsecured lending. Credit card lending declined during the first half of 2007 by 2.1 percent, while non-credit card unsecured lending declined by 0.5 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 8.8 percent to over $4.1 billion.

According to NAFCU's September 2007 Flash Report, near-term expectations for loan demand in Region I were less favorable for all four loan categories than for all credit unions. The responding credit unions felt that light-vehicle loan growth, especially new light vehicles, would be sluggish. There was also anticipation of unsecured lending remaining flat in 2007. As expected, the near-term prospects for real estate lending were less favorable, especially in home equity lines of credit as housing prices have stalled or even dropped in some areas.

Member Shares (Savings)

In the first half of 2007, share growth in Region I was 4.7 percent, slightly lower than the share growth experienced by all FICUs. Unlike many FICUs which saw share growth dominated by share certificates and money market shares, the region's share growth during 2007 was concentrated in regular shares and IRA/KEOGH accounts, which rose by 5.4 percent and 5.2 percent respectively. As many credit unions have chosen to increase the interest rates of share certificates, money market shares and share drafts, there was a net inflow of 5 percent, 4.2 percent and 3.2 percent respectively during 2007. "Other" shares also saw an increase of 3.2 percent this year. Many credit unions are still promoting CDs with maturities of one to five years to help fund loan demand. Other credit unions continue their borrowings from the FHLB and/or their corporate credit unions, and other credit unions are selling their first mortgages as they are closed. In addition, some credit unions are engaging in loan participations especially with MBL's. In 2007, nonmember deposits decreased by 11.7 percent, similar to the negative growth rate among all FICUs of 10.3 percent. Many of the region's credit unions expect share growth to continue to remain strong over the near term. During this year, the weak loan demand, coupled with strong share growth, caused the loan-to-share ratio to decrease to 78 percent from 80.8 percent in 2006. The loan-to-asset ratio as of June 2007 was 65.8 percent compared to 67.7 percent at the end of 2006.

Earnings and Asset Quality

During the first half of 2007, the credit unions in Region I had an ROA of 0.56 percent, down from 0.69 percent in 2006. This is significantly less than the June 2007 ROA of 0.75 percent and a 2006 ROA of 0.82 percent for all FICUs. While the region's credit unions' loan yields were on par with the average for all FICUs, the region's investment yields were lower than for all FICUs. In addition, the region's cost of funds were slightly lower than for the universe of FICUs, however, credit unions in Region I generated substantially less non-interest income than the average for all FICUs. This lower non-interest income is the main reason for the 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 0.82 percent compared to 0.69 percent for all FICUs, while the net charge-offs/average loans rate of 0.42 percent in the region was lower than the overall FICU charge-offs/average loans rate of 0.45 percent. During the first half of 2007, member bankruptcies were an increasing problem in Region I, as the annualized number of members filing for bankruptcy increased significantly while the loan amounts subject to bankruptcy decreased. The annualized total number of bankruptcy filings in the region increased 30.8 percent to 23,494, while the loan amounts subject to bankruptcy decreased to $141.5 million compared with $144.2 million as of the end of 2006. In addition, more and more of the region's credit unions are engaging in member business lending which adds risk to their balance sheets. While credit unions tend to be conservative in their lending standards, overall asset quality may deteriorate as the turmoil in the housing and financial markets impact consumers.

Competition and Credit Union Operational Concerns for 2007

In Region I, credit unions are still seeing tough competition from regional banks, particularly for member business, indirect light-vehicle loans and especially share certificates on the deposit side. Because of this, the competition for credit unions is very keen in all key areas. The cost of funds remains very high and margins are still tight for most of the region's credit unions. The reasons for a rising cost of funds are a greater reliance on share certificates and less reliance on traditional sources (such as regular shares and share drafts). This has made credit unions in Region I continue to focus on operational efficiencies and a growing reliance on non-interest income in order to counterbalance this trend and the margin compression of late.

<u>Member Concerns and Economic Conditions in 2007</u>

Credit unions in Region I remain cautiously optimistic about the remainder of 2007 and into 2008. There is some new optimism since the Fed moved to lower interest rates and with the assumption that further loosening may occur this year. There is hope that their cost of funds will decline and compressed margins will thus be alleviated to some degree. Intense competition from the large regional banks is still a big concern but credit unions here are doing their best to deal with it as it is not going away.

Overall, the housing market in Region I is in pretty good shape compared to many areas of the country. Although there are small pockets where foreclosures are rising, that is not the norm in Region I. Credit quality is still solid even in the real estate portfolios. Credit unions in Region I have not engaged in sub-prime lending and some are even looking for opportunities to assist non-member homeowners who are faced with re-pricing mortgage difficulties.

The domestic vehicle manufacturers are dealing with labor workers that are looking for job security and retention of wages/benefits. Such negotiations may have a negative impact on long-term vehicle sale prospects. Some manufacturers have already indicated further job cuts which will not help certain local economies.

NCUA Region Two

NCUA 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 about 15.7 percent of the total assets of the nation, up by 0.3 percent from December 2006. There are 13.2 million members in this region as of June 2007, up by 120,303 (0.9 percent) from the end of 2006. These percentages mirror the regional economy where the gross state product is about 13.6 percent of the U.S. gross domestic product. Regional production is more concentrated in professional services, government and healthcare industries than the average concentrations found nationwide.

Lending

Region II FICUs generated loan growth of 5.6 percent during the first half of 2007, more than twice the national average of 2.4 percent. Over the course of 2007, first mortgage real estate loans supplied 52.5 percent of loan portfolio growth, closely followed by other real estate loans at 22.5 percent. Combined real estate-secured lending (first mortgages and HELOCs) accounted for three quarters of the gain.

Looking forward to 2008, Region II FICUs anticipate higher loan growth for used vehicle loans than do FICUs in other regions. 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 those of other FICUs nationwide.

Total auto loans in Region II advanced by 2.9 percent during 2007, compared to the rate of all FICUs at negative 0.1 percent. In Region II the used auto loans led the way, rising 3.5 percent during the first half of this year, while new auto loan portfolios increased 2.3 percent.

Unsecured loans (excluding credit cards) represent 6.6 percent of all FICU loans in the region. This portfolio segment increased 2.2 percent during 2007. Credit card loans increased 4.4 percent during the same period, representing 9 percent of all FICU loans in the region. The credit union leadership in the region believes that unsecured loans will a be positive source for loan growth for the near term, but at a slightly less optimistic level than that found among all credit unions across the country.

Member Shares

Total savings/deposits reached $97.6 billion in June 2007, up $6 billion (6.6 percent) from December 2006. Share certificates grew 11.9 percent during this year, while share drafts increased 2.1 percent. Add in money market shares at 9.4 percent and the number comes to 80.2 percent of 2007's increase from highly liquid accounts. In contrast, regular shares did not contribute significantly at 4.6 percent of the regional savings growth, reflecting members' preference for higher returns.

For the next six months, Region II FICUs foresee a significant increase in share growth, and somewhat more than the other credit union share growth expectation found in most other regions.

During the first half of 2007, Region II FICUs share drafts (8.7 percent of Region II FICU shares) increased slightly (2.1 percent) since year-end 2006. Regular shares (32.2 percent of Region II FICU shares) increased at 0.9 percent during 2007. Money market share accounts (16.4 percent of FICU shares) reached $16 billion as of June 2007, up by $1.4 billion (9.4 percent growth). FICU share certificates (31.4 percent of FICU shares) experienced an 11.9 percent increase during 2007.

IRA accounts (10.3 percent of FICU shares) were a safe haven for members' precious retirement funds in 2007. This deposit segment advanced 8.6 percent for this year compared to a national average of 5.7 percent.

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

With an increase in the cost of funds mainly assisted by higher interest rates during 2007, Region II's credit unions experienced a slight decrease in consolidated ROA. At 0.91 percent (average ROA for all FICUs was 0.75 percent), this profitability measure decreased 12 basis points since 2006 for the region's credit unions. This is mainly due to the increase in cost of funds (up 36 basis points), provision for loan losses (up 7 basis points) and operating expenses (up 2 basis points). Some FICU management teams, however, expect further decrease on ROA this year due to the length of time for any Federal Reserve actions to impact their cost of funds.

Gross spreads increased by 30 basis points from 6.8 percent in 2006 to 7.1 percent in June 2007. The ROA decreased among Region II FICUs despite the 14-basis-point increase in yield on average loans, and a 66-basis-point increase in the yield on average investments. Fee income and other operating income/average assets (down 1 basis point) also did not help the ROA level for the regional credit unions.

Loan Loss Trends in 2007

Several FICUs in Region II indicated that their lending growth had not risen as strongly as the regional average for the last several months, especially in the areas of new auto loans. In the area of loan quality, the 2006 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 saw a further rise when compared to the pattern found among credit unions nationwide. In 2007, the annualized loans subject to bankruptcies increased by 85.3 percent in Region II FICUs, while nationwide the growth was 65.6 percent.

The primary operational concerns for 2007, cited by our regional credit unions, included attracting savings (with greater reliance on share certificates), rising compliance costs, and attracting new members. Higher loan revenue (especially from fee income) and improving liquidity situation were mentioned as positives for future performance.

Member Concerns and Region II Economic Conditions in 2007

Credit union leadership in Region II state concern about the performance of some loan products because members are using them to save their houses. Because of turmoil in the real estate markets and because credit unions do not issue sub-prime real estate loans, increases in the delinquency rate are noted among home equity loans, auto loans, and credit cards. Furthermore, the number of bankruptcies has increased in the past several months. Some credit unions have indicated that the trend of members resolving such problems may continue well into next year.

NCUA Region Three

NCUA Region III (Southeast) consists of the ten states 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. This review excludes 100 credit unions with a state charter and private share insurance. Their total assets were $3.7 billion. Region III finished mid-year 2007 with 1,706 federally insured credit unions (FICUs). This represents a net decline of 28 FICUs through the first half of year and 78 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 $148 billion. This translates into an annual growth rate of just 5.3 percent, which is a full percentage point below the reading for the nation as a whole. On a year-to-date basis, Region III growth of 4.2 percent gain is fractionally below that of the total U.S. Membership in the region climbed to 19.5 million, up just 1.1 percent over the past year. The year-to-date gain is 1.0 percent, equaling the national average rate of increase. Total employment (full and part-time FICU employees) is now 55,254. The 50 largest FICUs in the region hold 53 percent of all assets and 40 percent of the total membership and these shares are growing.

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. In fact, three of the states most often mentioned for major housing market corrections (Florida, Indiana and Ohio) are in Region III and the reasons for the declines vary greatly. Taking a high level view of savings and borrowing trends, we can generalize that members are growing increasingly concerned about employment conditions, housing affordability and cash-flow to service debt and maintaining lifestyles. Many are concerned about their existing debt levels. They intend to reduce spending/borrowing and move into a personal balance sheet repair mode, including switching debt to fixed-rate products. It now looks like the Region III credit unions with hurricane exposures will see little or no adverse impact from the 2007 hurricane season.

Through the first half of 2007, Region III FICUs collectively remain in good health although their collective net worth ratio of 11.5 percent is down fractionally year-to-date. The ROA (return on average assets) of 75 basis points has declined 10 basis points over the past year. Loan delinquencies remain low at 0.71 percent and net loan charge-offs are unchanged from the prior year's level. Going forward, the big challenges continue to be deposit/asset growth (thus liquidity) and maintaining ROA, as the cost of funds climbs.

Lending

Loan growth continues to slow significantly. Region III FICUs generated a 1.5 percent year-to-date gain in total loans outstanding versus a 6.2 percent growth rate for all of 2006. Region III FICUs trail the national average year-to-date loan growth rate by one percentage point as 863 FICUs in the region reported year-to-date declines in total loans. These FICUs represented 35 percent of the region's assets. The 181 Georgia FICUs posted the highest growth (3.9 percent), the

198 FICUs in Florida accounted for 40 percent of the gain and now hold 29 percent of all loans in the region.

At 76.8 percent, the loan-to-share (L/S) ratio is down 40 basis points over the past year, but is off 248 basis points through the first half of 2007. Region III FICUs are under-performing the total U.S. which has an L/S ratio of 80.3 percent. The U.S. L/S ratio has declined 189 basis points from the beginning of the year.

The $1.5 billion gain in first mortgages accounted for 102 percent of the all loan growth year-to-date. Despite a slowdown in the overall housing market, first mortgage originations in Region III are 0.7 percent above the mid-year 2006 level. Slightly stronger originations and an eleven percent decline in loan sales produced a healthy 4.4 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 124 percent of all loan growth in the region since the beginning of the year. Currently, 726 FICUs reported originating first mortgages in 2007. Real estate-secured loans now equal 48 percent of all loans in the region, up from 46 percent at mid-year 2006.

Vehicle loan portfolio growth has seen a significant slowdown. Year-to-date, the new vehicle loan portfolio is down 1.8 percent and when combined with a used vehicle gain of just 0.2 percent, the total vehicle loan portfolio contracted 0.8 percent. Most FICUs cite weak vehicle sales, very stiff competition from manufacturers' financing arms and faster payoffs from their existing portfolios. Many FICU lenders see little improvement in the near term, although a slowdown in payoffs will make it easier to show positive results.

A total of 345 FICUs in Region III reported having an indirect lending channel (point-of-purchase financing), up from 334 at mid-year 2006. This channel has accounted for all vehicle loan growth year-to-date, despite growing just 0.5 percent through the first half of 2007.

Total Member Shares

During the first half of 2007, total shares rose 4.8 percent to $128 billion and this gain equaled the national average. The strongest growth was in money market accounts up 8.5 percent year-to-date followed by time deposits (CDs) up 7.3 percent year-to-date. Combined, these two portfolio segments have accounted for 76 percent of the gain. While up 1 percent through the first half of 2007, regular shares are down 8.7 percent over the past year. Their share of total deposits has slipped from 33 percent in June 2006 to 29 percent at mid-year 2007. While the 95 FICUs in Kentucky generated the strongest year-to-date growth at 6.6 percent, Florida FICUs hold 28 percent of all deposits in the region and posted a year-to-date gain of 5.2 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 money market shares and CDs is that the average cost-of-funds has risen 33 basis points year-to-date (53 basis points over the past year) to 2.73 percent. It will be interesting to see if the cost of funds declines following the Federal Reserve's 50 basis point rate cut in September.

Asset Quality and Operational Results

The consolidated ROA for Region III FICUs was 0.75 percent, reflecting a five basis point reduction from year-end 2006 and ten basis points below the June 2006 level. A total of 1,508 FICUs (88 percent of the region's FICUs), reported positive ROAs, while 200 reported losses or no gain. The FICUs with negative ROAs represented just 2.6 percent of the region's assets. There were 531 FICUs in the region (28 percent of all assets) reporting an ROA of 1 percent or better.

Asset quality as measured by the ratio of delinquent loans to total loans (0.71 percent) and net charge-offs to average loans (0.46 percent) were basically unchanged year-to-date. Delinquencies were up by nine over the past year, but net charge-offs did not change. Total real estate-secured loan two or more months delinquent as a percent of total real estate loans is 0.46 percent. This measure is twelve basis points above both the prior year level and up five basis points since year-end 2006. Looking at one measure of operating efficiency (operating expenses to average assets), at 3.51 percent, it is up four basis points year-to-date and ten basis points above the mid-year 2006 level. Non-interest expenses are up 7.6 percent over the past year while asset growth was 5.3 percent.

Looking forward, we see significant challenges for Region III and all FICUs. Managing through narrowing margins and quality membership growth are the biggest current challenges. Longer term, maintaining relevance in an increasingly commoditized world will be the toughest test.

NCUA Region Four

NCUA Region IV (Midwest) consists of 2,432 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 as of June 30, 2007. The credit unions in this region represent 29.5 percent of all FICUs and held $144.7 billion, or 19.5 percent, of total assets held by FICUs. There are approximately 19 million members in this region, up 151,236 (0.8 percent) since year-end 2006. Since 2006, total assets have grown 4.1 percent through June 2007 and reserves and undivided earnings increased 3 percent to a total of $16.5 billion. Savings growth has increased strongly since December of 2006 while loan growth has declined. Shares grew $5.6 billion (4.7 percent) during the six-month period while loan balances increased $1.6 billion (1.6 percent). As of June 30, 2007, share balances totaled $122.8 billion while outstanding loan balances were $97.8 billion. The loan-to-share ratio is 79.6 percent, slightly lower than the year-end 2006 ratio of 82.1 percent.

Loan Growth

Loan growth in Region IV was modest in the first half of 2007, increasing $1.6 billion, or 1.6 percent, since year-end 2006 levels. This growth rate is somewhat slower than the national average rate of growth of 2.4 percent. Total loans outstanding for Region IV at June 30 totaled $97.8 billion representing 67.6 percent of total assets versus 69.2 percent at December 31, 2006.

At mid-year 2007, the only significant growth realized in the loan portfolios of credit unions in Region IV was in first mortgage real estate loans and other real estate loans. Total first mortgage loan balances outstanding were $27.3 billion and other real estate loans outstanding were $13.3 billion. First mortgage loans increased 5.3 percent ($1.4 billion) and other real estate loans grew 2.4 percent ($0.3 billion).

Though growth continues in real estate lending in the region, the increases in these categories were not at the growth pace experienced in 2006. However, the volume of first mortgage real estate loans *granted* during the first six months of 2007 of $5.2 billion represents slightly over 50 percent of the total first mortgage loans granted during the year 2006. At June 30, 2007, the $27.3 billion first mortgage balances were comprised of 53.7 percent in fixed-rate loans ($14.7 billion), 19.8 percent in adjustable-rate loans ($5.4 billion), and 26.5 percent in balloon/hybrid loans ($7.2 billion). Adjustable-rate first mortgage loans grew 7.5 percent from year-end 2006, significantly off the growth pace set for 2006 of 28.5 percent. In light of the turmoil in the mortgage loan markets, it is not surprising that fixed-rate mortgage loans reflect a 6.5 percent growth rate for the first six months of 2007, a robust growth pace when compared to the 8.6 percent growth for all of 2006.

In the category of other real estate loans, closed-end fixed-rate loans increased by a rate of 6.2 percent to $8.2 billion, while open-end adjustable HELOC loans continued the downward trend set in 2006 reflecting a 5.9 percent decline to $4.2 billion. Continuing a historical trend, the “other” real estate loans category represents almost 33 percent of total real estate loans outstanding.

Under continued heavy market competition, new auto loan balances declined 1.9 percent to $20.2 billion while used auto loan balances increased only 0.4 percent to $20.7 billion. The lack luster performance in the regional auto lending sector follows national trends.

Of the total loans outstanding ($97.8 billion) in Region IV, total real estate loans and total auto loans are almost equal in portfolio representation. Total real estate loans ($40.6 billion) comprise 41.6 percent of total loans outstanding while total auto loans ($40.9 billion) comprise 41.9 percent. These figures are in contrast to all FICUs in the nation in that total real estate loans outstanding are significantly ahead of auto loans. That is, total real estate loans represent 50.4 percent of total loans outstanding while total auto loans represent 34.7 percent.

The volume of member business loans increased $0.4 billion, or 7.3 percent, to $5.7 billion at mid-year 2007. This growth is off the pace of the growth rate of 27 percent for the year 2006. However, Region IV's member business loan volume is on target with the national FICU growth rate of 7.9 percent for mid-year 2007, and total member business loans for the region represent 23.1 percent of total FICU member business loans outstanding at June 30, 2007.

Participation loans outstanding at June 30 were $2.0 billion, an increase of 7.4 percent since year-end 2006 and on pace with loan participation activity in 2006. The ratio of loan participations outstanding to total loans outstanding is 2.07 percent, up slightly from 1.96 percent at December 31, 2006. Loan participations purchased year-to-date by FICUs in the region were $0.3 billion, equating to approximately one half of the $0.7 billion purchased in 2006.

Member Shares

Shares and deposits experienced fairly strong growth in the first six months of 2007 reflecting an increase of 4.7 percent, up $5.6 billion. The growth rate for the first half of the year exceeds slightly the growth rate for the entire year of 2006 and puts the prospect of further deposit growth on a stronger course for the year. Total balances outstanding were $122.8 billion. For the first six months of 2007, the growth of shares and deposits in Region IV is on target with the national FICU growth rate of 4.8 percent. While balances grew in regular shares and share draft accounts, the major growth occurred in the higher-cost share certificates and money market shares. From a historical perspective, in the past three and one half years, we observe that approximately 82 percent of all share growth was in share certificate balances, though a resurgence has occurred in growth in money market accounts during the first six months of 2007 after declines have been experienced for the past two and one half years.

For the first six months of 2007, share certificate balances increased $2.4 billion or 6.9 percent while money market share balances grew $1.4 billion or 8.4 percent. The pace of national growth in share certificates slowed to a 7 percent compared to 23.8 percent growth rate for the entire year of 2006. Accompanying this change at mid-year 2007 is the national growth in money market accounts reflected by a 7.4 percent increase compared to only 1.4 percent for all of 2006.

Regular share balances increased $0.8 billion, or 2.1 percent, while share draft balances grew at a slightly faster pace of 2.7 percent, or $0.4 billion. Regular shares and share draft accounts represent approximately 45 percent of the funding for credit unions in Region IV.

Although growth in shares and deposits was strong during the first six months of 2007, future share and deposit growth for the remainder of the year will depend in large part on the relative performance of the stock market and the competitiveness of interest rates paid on other short-term investment options as an alternative for members' excess funds. We observe that as job and income growth remain strong, the prospects are likely that the credit union savings base in Region IV will improve.

Loan Quality

The quality of the loan portfolios of FICUs in Region IV remains good as credit risk is managed well. For the first half of 2007, the ratio of delinquent loans to total loans was 0.85 percent compared to 0.9 percent for December 2006, and the ratio of total delinquent loans to net worth was 4.99 percent, a decline from 5.35 percent at year-end 2006. Concurrently, the ratio of net charge-offs to average loans was slightly improved at 0.45 percent versus 0.52 percent for December 2006.

In the mortgage loan category, the ratio of total real estate loans greater than two months delinquent to total real estate loans rose to 0.56 percent at June 30, 2007, compared to 0.45 percent at December 2006. In the category of other real estate loans, the ratio of fixed/hybrid/balloon loans delinquent two months and over to total fixed/hybrid/balloon loans was 0.60 percent at the end of June. This compares to a ratio of 0.36 percent for December 2006. This increase is partially attributable to the mortgage loan types that converted to an adjustable rate. In the category of interest only and payment option first mortgage loans, a new ratio is now available. This ratio is interest only and payment option first mortgage loans delinquent two months and over to total interest only and payment option first mortgage loans. For Region IV, this ratio is 1.58 percent. In future reports, we will observe the changes to this percentage.

Investments

The relatively strong share growth in Region IV during the first half of 2007, combined with modest loan growth, fueled the increase in total investments. For the period ending June 30, 2007, total investment balances were $29.4 billion reflecting a robust growth rate of 9.5 percent, up $2.6 billion. This represents a significant change when compared to the previous three-year pattern of investments decline. Namely, the year 2006 experienced relatively flat growth in investments while balances fell 9.2 percent in 2005 and 2.1 percent in 2004. Region IV FICUs' growth rate at June 30, 2007 of 9.5 percent was notable when compared to the national FICU growth of 5.5 percent during this same period.

Total cash and cash equivalents added another $1.4 billion to the total, and were 13.8 percent higher than the $10.0 billion held on December 31, 2006. This level of liquid investment holdings, though higher than the past four and one half years, is consistent with historical norms. Further, Region IV FICU portfolios are comprised of relatively short-term investments in that 63.2 percent of all investments have remaining maturities of less than one year.

The largest category of gain within the region's investment portfolios, both in dollar amount and percentage, was in all other investments in corporate credit unions, growing 31.9 percent to $7 billion. Similarly, cash on deposit in corporate credit unions make up an additional $7.4 billion of the cash and cash equivalents category, growing by 21.5 percent year-over-year. Added together, corporate credit unions hold 35 percent of Region IV FICU investments and cash equivalents, up from 31 percent at December 2006. The growth that occurred in total investments during the first half of the year, coupled with modest loan growth, provides continued ample liquidity for the region's credit unions.

Earnings

At mid-year 2007, the return on average assets reflects a slight increase to 0.74 percent from 0.68 percent at year-end 2006. This ratio is on target with the national average of 0.75 percent.

Spread compression continues as shown by the increased cost of funds continuing to offset the increase in the yield on assets. Specifically, the yield on assets (gross income/average assets) increased 29 basis points. This gain in yield was driven by increases in the yield on average loans (+24 basis points) and the yield on average investments (+53 basis points). Offsetting the rise in the asset yield was the 30-basis-point increase in the cost of funds. The operating expense and fee income ratio measurements remained level and virtually unchanged from December 2006. These factors combined to hold the Region IV net interest margin/average assets ratio steady at 3.15 percent, down only one basis point from December.

Finally, capital adequacy remained strong for FICUs in Region IV. The net worth to total assets ratio for June 30, 2007 was 11.52 percent versus 11.63 percent at December 31, 2006 – a decline of 11 basis points. For the first six months of the year, earnings were not able to keep pace with the 4.1 percent asset growth since year-end 2006. The net worth to total assets ratio for all FICUs nationwide was 11.4 percent. Total delinquent loans as a percent of net worth in Region IV fell to 4.99 percent in comparison to 5.35 percent at December 31, 2006.

General Economic Conditions

The pace of economic activity in the Midwest Region was moderately strong in the first half of 2007. However, the pace of economic activity showed signs of decelerating in late May and June. Manufacturing activity slowed due to slower demand for construction-related products as a result of the softness in the housing market. Energy-related activity remains strong. Most retailers reported weaker sales as consumer spending continued to be affected by higher energy prices. The labor market remained tight and wage increases average between 3 and 4 percent.

Credit union CEOs are reasonably upbeat about their credit unions' current financial performance. However credit union executives continue to express concerns about the downward trends in net interest margins and the continued flatness of the yield curve.

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, 2007, the region's 1334 federally insured credit unions comprised 16 percent of all federally insured credit unions and held some \$214 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 285,137 since year-end 2006, ending June 2007 with 21.32 million members. Total assets grew by 3.5 percent for the first six months of 2007 and reserves and undivided earnings increased 3.4 percent to a total of \$23.2 billion. Shares grew \$7.3 billion (4.1 percent) over the six-month period, while loans increased \$4 billion (2.6 percent). At June 30, 2007 share balances totaled \$183 billion while outstanding loans came in at \$153 billion. The loan-to-share ratio fell from 84.7 in December 2006 to 83.4 in June 2007.

Loan Growth

Loan growth in Region V for 2007 year-to-date was 2.6 percent, an annualized rate of 5.2 percent. This rate of growth rate represented a decline from 2006 growth rate of 9.4 percent. Total loans for Region V are \$153 billion at June 30, 2007, or 71.53 percent of total assets. Loans comprised 72.13 percent of assets at the end of 2006.

Growth in real estate loans in 2007 remained a bright spot for credit unions. Residential first mortgage loans grew by 6.7 percent in the first half of 2007. On an annualized basis, this would bring the growth rate to 13.4 percent and exceed the 2006 growth rate of 10.6 percent. The growth rate for other real estate loans fell appreciably in 2007, to a rate of growth of 1.5 percent compared to the 16.8 percent for the year 2006. We are seeing the various states within Region V begin to show very different profiles. Real estate lending in the Northwest, Idaho and Utah continues to be show strong growth, while there was a noticeable slowing in growth in California, Nevada, and Arizona. This no doubt reflects the slowdown in those once hot markets.

The volume of new real estate loans actually granted fell by 0.2 percent from the year-end 2006. Total first mortgage loans stood at \$51.4 billion as of June 30, 2007. The growth rate in fixed-rate loans held on the balance sheet of credit unions has grown by 8.5 percent to date in 2007; total new adjustable rate loans held on the balance sheet fell by 2.7 percent. Hybrid loans grew at a rate of 6.6 percent. At June 30, 2007, ARMs and hybrids comprised 42 percent of the first mortgage category held by credit unions. HELOCs fell by 1.1 percent, bringing the total value of HELOCS to \$12.5 billion. This reflects the sharp slowdown in this category that began in 2006. For the region, real estate loans made up 50 percent of total loans, which is slightly higher from the end of 2006.

Auto loans are virtually flat compared to year-end 2006. New auto lending declined by 1.2 percent, while used auto lending rose by 0.8 percent. Many credit unions in Region V, which aggressively built market share in 2005 by offering attractive auto lending rates through indirect lending programs, appeared to have reduced demand. However, indirect auto lending remains a primary avenue for increasing auto lending in some areas of Region V.

Member business lending activity continues to grow as credit unions start to assist members in this area. Originations increased sharply to $10.9 billion from $9.7 billion at year-end 2006. 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 generally lowered expectations on the outlook for loan growth for 2007 for the remainder of 2007 and into 2008. The problems in the housing market are mostly responsible. That being said, many credit unions hope to seize some opportunities to fill the void that has been left with the exit of so many mortgage brokerage concerns. In a recent poll conducted at WesCorp's CU Outlook, 70 percent of the 120 respondents said they plan to be more aggressive in mortgage lending in 2008. Anecdotally, several credit unions in California have noted a sharp increase in refinancing loan applications for buyers with adjustable-rate mortgages with teasers. However, a disappointing number of those applications have resulted in loans due to the borrowers' credit ratings and/or negative equity in the home. With the return of a positively shaped yield curve, credit unions are hoping to develop stronger interest in the Hybrid ARM product.

As cited earlier, credit unions in the Northwest states of Region V, as well as Idaho and Utah are reporting that mortgage demand remains robust. However, those markets are beginning to see a sharp increase in the supply of available homes for sale, and this could be an early warning sign that they are also due to cool.

Auto lending growth has been another disappointing area in a sector that is traditionally strong for credit unions. An increase in financing incentives offered by the manufacturers has been one factor, but credit unions are noticing that general economic concerns seem to be causing some consumers to react more cautiously.

Loan Quality

Credit unions continue to do a good job in managing credit risk and generally remain positive about the outlook for the rest of 2007 and 2008. The delinquency/total loans ratio did rise, however, from 0.51 percent in 2006 to 0.58 percent as of June 30, 2007. Net charge-offs/average loans ratio worsened slightly from 0.41 to 0.44. For those credit unions with heavy concentrations of mortgage loans, there are concerns that a decline in home prices would increase delinquencies and charge-offs, especially in the home equity lending area.

Share Growth

Shares grew at a 4.1 percent growth rate to $183 billion in the first six months of 2007. After declining by 8.7 percent in 2006, regular share accounts rose by 0.7 percent, while share drafts rose by 1.8 percent. Money market share balances rose by 7 percent. This was the strongest showing in that category since 2003. With rising interest rates in the first half of 2007, share certificate balances grew by 5.7 percent. Credit unions have continued to place emphasis on a strategy of competing for deposits with aggressive certificate rates. While much of the growth in deposits in the first half of 2007 can be attributed to normal seasonal flows, credit unions have reported that shares seem "stickier" this year than in the past three years.

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, 2007, share certificates represented 33.3 percent of total balances, compared to 32.8 percent at the end of 2006.

Borrowings decreased sharply in the first half of 2007 as seasonal deposit inflows allowed credit unions to reduce their borrowed liabilities. With loan growth generally weaker than expected and share growth stable, Region V credit unions generally do not anticipate needing to tap liquidity lines for the balance of 2007.

Investments

Investments increased through June of 2007, with total investments growing from $47.3 billion in 2006 to $50.5 billion at the end of June 2007. This represented 23 per cent of total assets. Holdings of federal agency securities declined by 1.7 percent in 2007 to a total of $15.8 billion. Holdings of corporate certificates rose by 11.4 percent from $11.9 billion to $13.3 billion. Investments maturing in less than one-year were 57 percent of total investments, while investments between one and three years comprised 29 percent of the total. The average yield on investments increased 3.92 percent to 4.63 percent as low yielding investments purchased in 2003 through 2006 matured and were replaced by higher yielding investments. Credit unions should continue to see increases in portfolio yields.

Earnings

Average return on assets in 2007 slipped to 0.78 percent on an annualized basis from 0.89 percent the end of 2006. The average yield on loans increased from 6.4 percent to 6.6 percent. The cost of funds/average assets ratio rose from 2.30 percent to 2.71 percent. The overall net interest margin declined from 3.19 percent to 3.11 percent. Operating expense/gross income was at 46.7 percent, down from 48.7 percent. Fee income rose at an annualized pace of 5.7 percent.

General Economic Conditions and Credit Union Concerns

Economic conditions in the Western Region were generally stable in the first half of 2007, but there has been a pronounced and growing disparity between states. Alaska, the Northwest, Idaho, Utah, and Wyoming are all reporting relatively good economic growth and are optimistic about the balance of 2007 and into 2008. But the states of California, Nevada, and Arizona are exhibiting weaker conditions as a result of the housing slowdown. Employment conditions and retail sales in those states are showing clear signs of deterioration. The bright spots for California seem to be related to the shipping and related transportation businesses, but on a relative scale to the construction and mortgage-related sectors, this is not expected to provide much of a cushion. Falling tax revenues might also restrict growth of government and education related jobs in 2008.

Although some states are reporting healthy housing markets, the volume of home sales fell noticeably throughout the region in 2007. Some areas are reporting home sales that are 40 percent or more below sales 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. Some credit unions are concerned about the outlook for real estate values and the credit implications, but most credit unions have maintained a conservative lending profile and should weather any downturn without great difficulties. There is some apprehension, however, that a sharp fall in housing activity might result in a general economic slowdown.

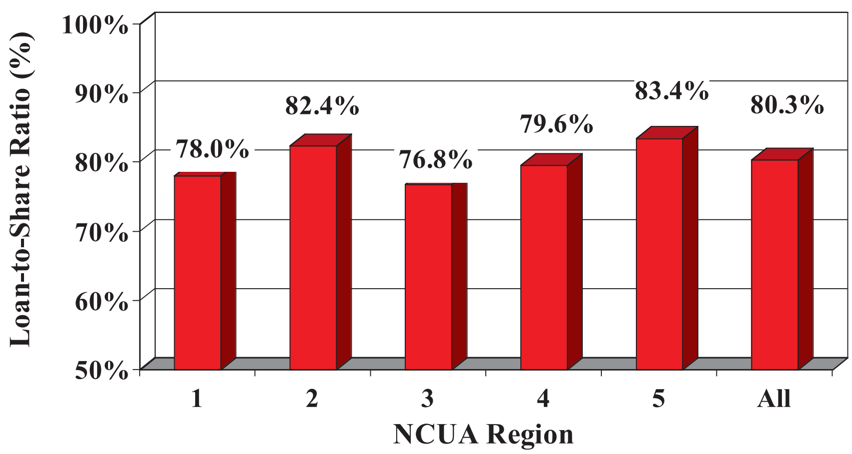
While shrinking net interest margins remains the number one concern expressed by credit union executives, the recent easing by the Federal Reserve Bank is offering some hope for relief. But competitive pressure on rates will likely cause most credit unions to lag rates on the way down. To offset declining 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.

Through the first three months of 2007, there has been a surge in liquidity at credit unions. While this is the usual seasonal trend, it was more pronounced this year as loan growth has slowed. Since the end of March, some liquidity has flowed out of the system, but the decline has been far short of historical patterns. While the outlook for the economy has worsened, resulting in an increase in expectations for lower rates in 2008, most credit unions remain wary of putting long-term assets on their books at a time when longer-term yields are lower than shorter-term yields.

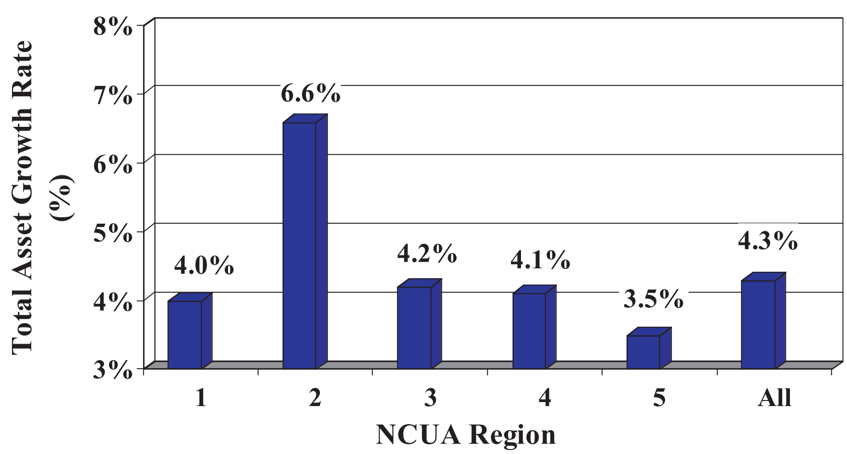
In past reports, we have observed that economic conditions and results from credit unions have been fairly consistent throughout Region V states. Certainly California, Nevada, and Arizona reported stronger conditions than the rest during the housing boom years. But the rest of the region's states did continue to report good conditions. In the last six months, however, it seems that the region has begun to develop materially different characteristics. The feedback we have received from credit unions in those different states also reflects the disparity. While credit quality ratios do not seem to be waving any red flags, we are hearing a growing concern about delinquencies from credit unions in the impacted states. Perhaps these concerns are misplaced, but they could become a factor in credit union lending decisions into 2008.

Appendix A:
NCUA Regional Financial Ratio Analysis

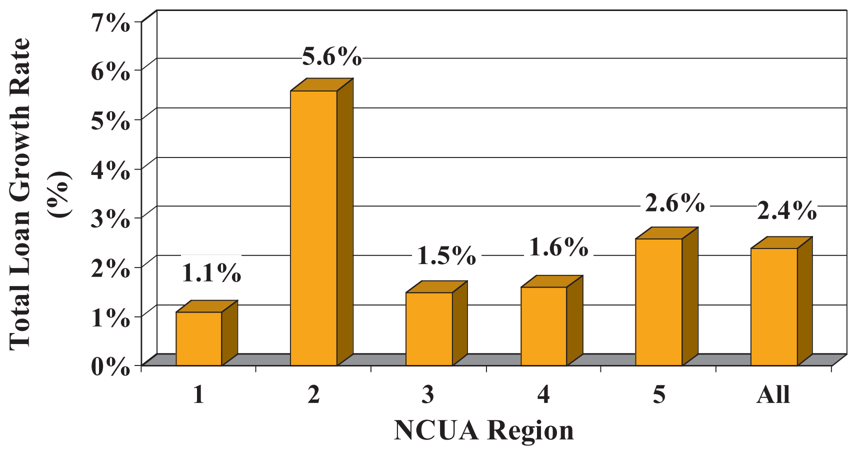
Loan-to-Share Ratio
Federally Insured Credit Unions by NCUA Region
June 2007



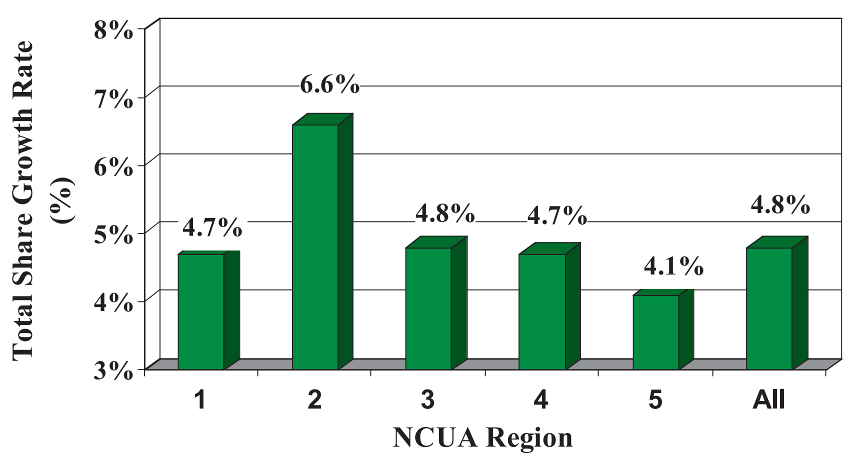
Total Asset Growth
Federally Insured Credit Unions by NCUA Region
June 2007



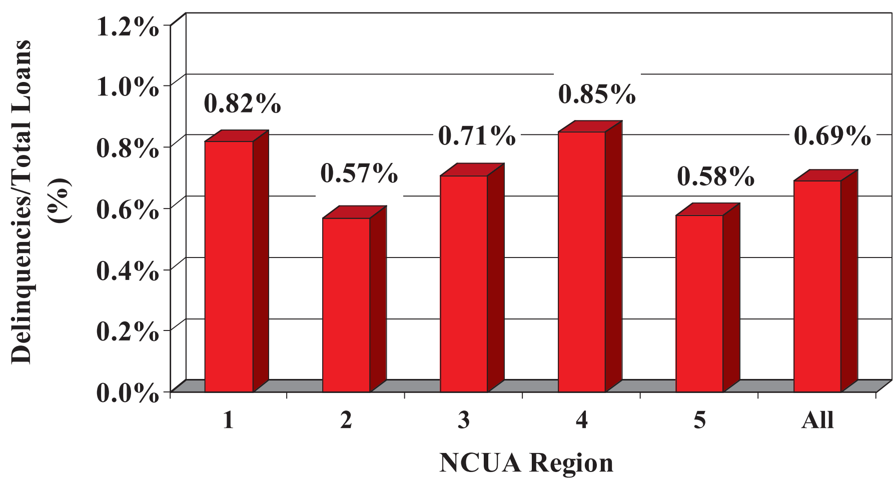
Total Loan Growth
Federally Insured Credit Unions by NCUA Region
June 2007



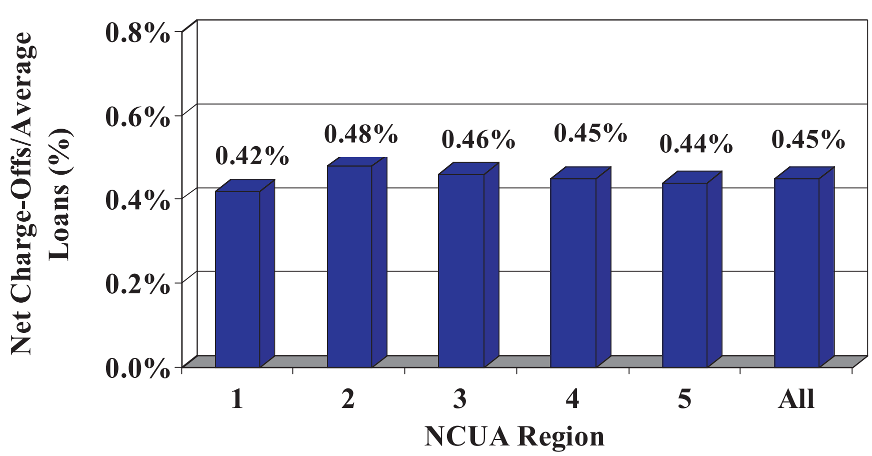
Total Share Growth
Federally Insured Credit Unions by NCUA Region
June 2007



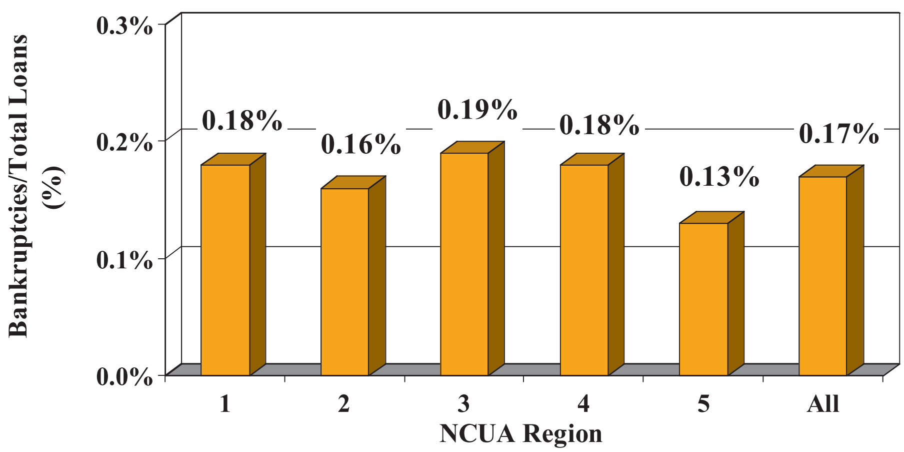
Delinquency Ratio
Federally Insured Credit Unions by NCUA Region
June 2007



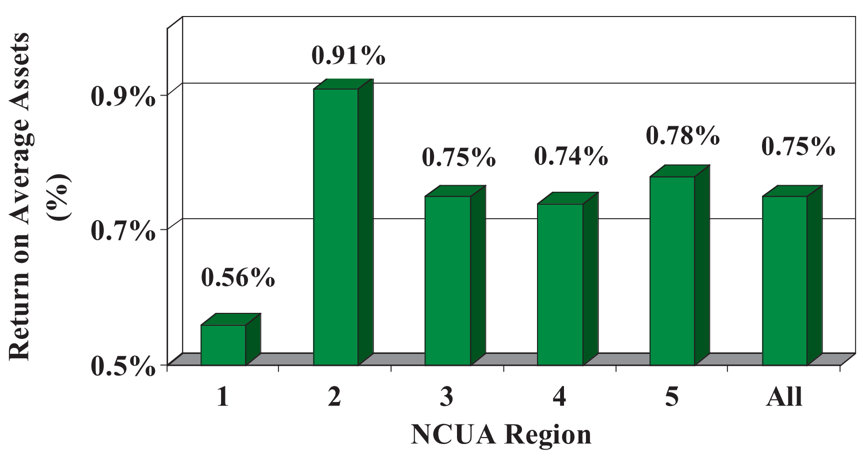
Net Charge-Offs/Average Loans
Federally Insured Credit Unions by NCUA Region
June 2007



Bankruptcies/Total Loans
Federally Insured Credit Unions by NCUA Region
June 2007

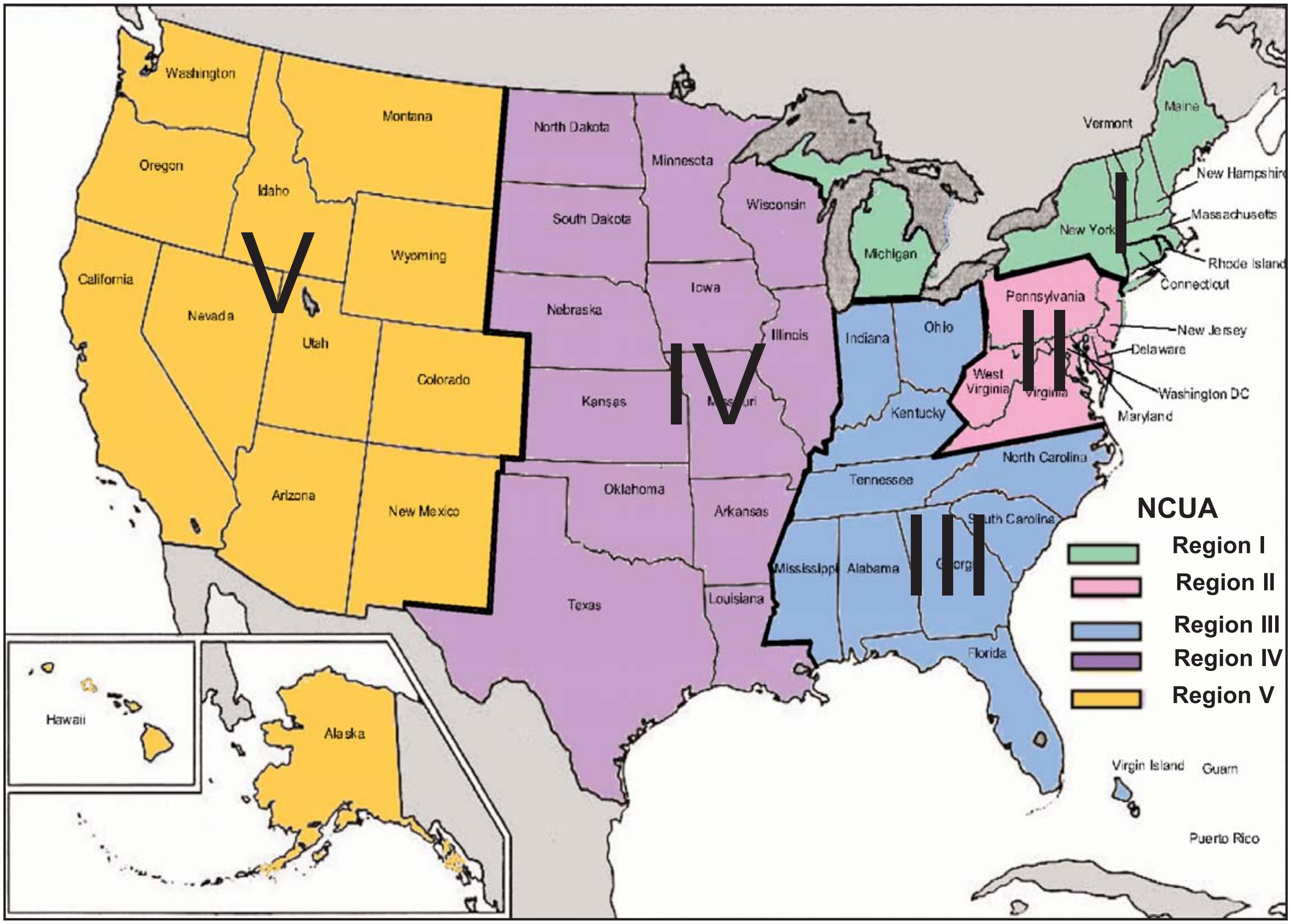


Return on Average Assets (ROA)
Federally Insured Credit Unions by NCUA Region
June 2007



Appendix B: NCUA Regions

NCUA Regional Breakdown



Source: NCUA