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Steve Brewer: Steve Brewer has been the Chief Financial Officer for Michigan Schools and Government Credit Union in Clinton Township, Michigan since 2002. Prior to joining MSGCU, Mr. Brewer held finance and accounting positions with two credit unions, a savings and loan and a cruise line. Mr. Brewer earned a Bachelors degree in Finance and Real Estate from the University of Texas, an M.B.A. from Texas A&M Corpus Christi and is a licensed Texas CPA.

David Colby: Dave Colby is the Chief Economist for the CUNA Mutual Group in Madison, Wisconsin. Mr. Colby joined CUNA Mutual in 1977 as a Corporate Research Specialist and has progressed through the organization holding various corporate, operational and financial planning positions. Mr. Colby is a graduate of the University of Wisconsin - LaCrosse where he received his Bachelor of Science degree in Economics. He holds the designation of Fellow, Life Office Management Institute.

Bruce Fox: Bruce M. Fox is the Executive Vice President and Chief Investment Officer of Southwest Corporate Federal Credit Union. Mr. Fox joined Southwest in January 1991 as an investment adviser. Mr. Fox is a member of Southwest's asset-liability committee and chairman of the loan committee. Prior to that, he was an investment portfolio manager at the Members Insurance Companies of the Texas Credit Union League. Mr. Fox has Bachelor's and Master's degrees in Finance from East Texas State University.

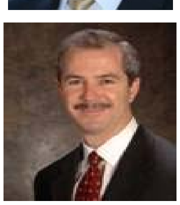
Samuel Inman: D. Samuel Inman is the Chief Financial Officer of Community First Credit Union of Florida. Mr. Inman is responsible for assuring overall financial condition and viability of the credit union, while developing and implementing long-term strategies, policies and operating objectives. During his spare time, Mr. Inman serves on the Board of the Florida CFO Council and Florida CUES Board of Directors. He holds a Master's degree from Brenau University, as well as a Bachelor's degree in Finance from the University of North Florida.

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

Dwight Johnston: Dwight Johnston is the Vice President of Economic and Market Research for Western Corporate Federal Credit Union (WesCorp). Mr. Johnston has more than 30 years' experience in the investment business. Before joining WesCorp in 1998, he spent 13 years as manager of the Capital Markets Division at the Bank of the Southwest in Houston and 11 years at the brokerage firm Rauscher Pierce in Dallas. Mr. Johnston has a Bachelor's degree in Finance and Economics from the University of Texas at Austin.

Glen Olpin: Glen W. Olpin is Senior Vice President, Treasurer & Chief Economist for America First Credit Union in Ogden, Utah, the nation's sixth-largest credit union. Mr. Olpin earned a B.A. in Business Economics from Weber State University and an M.B.A. from the University of Utah. He serves on the America First Credit Union Asset-Liability Management (ALM) and Pension Committees, and is President of the company's Investment & Insurance Services Corporation. Mr. Olpin is a graduate of the Western CUNA Management School at Pomona (California) College, is a member of several professional organizations and has served on several community boards.

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



Eli Vazquez: Eli Vazquez is Senior Vice President and Chief Financial Officer of American Airlines Federal Credit Union in Fort Worth, Texas, a position he's held since 2006. Mr. Vazquez joined AA Credit Union in 2005 as SVP of Financial Services. Prior to American Airlines CU, Mr. Vazquez worked for American Airlines in several capacities. Mr. Vasquez holds a bachelor's degree in chemical engineering from Tulane University and a master's degree in business administration from the University of California at Berkeley.

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

Executive Summary

- As of June 2009, federally insured credit unions' (FICU) asset growth was 8.2 percent. Region II showed the greatest result with a 14.6 percent growth in total assets compared with just 1.7 percent in Region V.

- Return on average assets (ROA) for Region IV was 0.61 percent for the first half of 2009, 33 basis points above the 0.28 percent figure for all FICUs and 104 basis points higher than Region V's negative 0.35 percent. Compared to June 2008, ROA for all FICUs fell 23 basis points in June 2009.

- Share drafts saw an increase of 6.6 percent for all FICUs in the first half of 2009. Region II experienced the largest growth of 12.9 percent, compared to only a negative 1.1 percent in Region V. Overall, share growth was up 8 percent. Money market shares were the principal factor driving share growth in the first half of 2009, growing 13.7 percent and accounting for 32.4 percent of total share growth.

- New auto lending declined by 2.8 percent in the first half of 2009 on the national level, with Region V reporting the strongest decline of 12.3 percent. Region III was the only other region to report a decline (3.6 percent). Region I experienced the largest growth of 9.2 percent.

- First-mortgage real estate loans grew by 3.2 percent during the first half of 2009. Other real estate loans experienced a 3.2 percent decline. First mortgages continued to be the lion's share of FICU loan growth (166.7 percent), although the weakened housing market has caused a slight decline in overall real estate loan growth.

- In June 2009, the delinquency ratio was up by 61 basis points from June 2008 to 1.58 percent for all FICUs. Across the country, the delinquency ratio was as low as 1.2 percent in Region II and as high as 2 percent in Region V. The number of members bankrupt increased 50.7 percent from 107,897 in June 2008 to 162,641 in June 2009.

- All regions cited the current economic conditions as a concern for the upcoming year. This fear coupled with an uncertainty about NCUA premiums in 2010 will leave credit unions cautious moving forward.

- Delinquency ratios and net charge-off's are up in the industry and it will be another difficult year, economically. However, credit unions are still focused on their number one priority: serving members. Credit unions are offering new loan products and also increasing their business loan portfolio balances with higher credit quality borrowers as banks become hesitant to make credit available.

NCUA Region One

NCUA Region I (Northeast) consists of the states Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, Vermont and Nevada. As of June 2009 there were 1,319 federally insured credit unions in the region, with total assets of $140.6 billion and total membership of 14.2 million.

Lending

Loans in Region I during the first half of 2009 grew 4.2 percent to $88.3 billion, less than the 0.6 percent pace for all federally insured credit unions (FICUs) nationwide. During the first half of 2009 loan growth was concentrated in first-mortgage real estate loans and, to a lesser extent, used vehicle loans. The region's credit unions experienced a relatively strong demand for first-mortgage loan products, while home equity lending contracted following positive growth in 2008. During the first half of 2009 first-mortgage lending expanded by 5.2 percent, while other real estate loan demand (home equity/second mortgage) declined by 0.7 percent. As of midyear, real estate loans comprised 61.7 percent of all loans in the region. Light-vehicle loan portfolio growth rose sharply during the first half of 2009. New light-vehicle loans increased 9.2 percent during the first half of 2009 compared to a positive 4.7 percent during the second half of 2008. Used vehicles also rose during the first half of the year, posting gains of 8.2 percent. As banks are tightening lending standards and options, consumer are being funneled into credit unions for their auto lending needs. The government's Cash for Clunkers Program has also helped spawn a demand for auto lending within the credit union industry.

Just like all FICUs, credit unions in Region I experienced a strong decrease in unsecured lending growth. Credit card lending decreased by 0.9 percent during the first half of 2009, while non-credit card unsecured lending decreased by 2 percent. The region's credit unions experienced strong demand for member business loans during the first half of the year. Member business loans outstanding grew 9.2 percent to over $5.1 billion.

According to NAFCU's September 2009 *Flash* Report, near-term expectations for loan demand in three of the four loan categories were less favorable in Region I than for all credit unions. Only expectations for used vehicles were greater in Region I than for all credit unions. The responding credit unions felt that new light vehicles and unsecured lending would be sluggish. There was also anticipation of real estate lending remaining down in 2009.

Member Shares (Savings)

During the first half of 2009 total share growth in Region I was 11.4 percent, much higher than the share growth experienced among all FICUs. Many FICUs in the region saw share growth in regular shares and money market shares outpacing the figures for all credit union figures, increasing by 14 percent and 20 percent, respectively. As many regional credit unions had chosen to decrease their interest rates on share certificates and share drafts, there was a net inflow of 3.9 percent and 12.2 percent, respectively, during the first half of 2009. "Other" shares also saw an increase of 16.8 percent this year. Many credit unions are still promoting CDs by maintaining overly competitive rates, however, their rates have not remained as highly competitive as prior to the economic crises. Rather, credit unions are focusing more on interest margins and keeping their rates in line with market levels.

In 2009 nonmember deposits rose sharply by 35.1 percent, far outpacing the negative growth rate among all FICUs of 9.1 percent. Many of the region's credit unions anticipate 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 region's credit unions' loan-to-share ratio to decrease from 80 percent in December 2008 to 74.8 percent in June 2009. Among all credit unions, the loan-to-share ratio was 83.1 percent and 87.5 percent during the same time periods.

Earnings and Asset Quality

During the first half of 2009, the credit unions in Region I had an annualized return on average assets (ROA) of 0.53 percent, up from 0.15 percent in 2008. This is better than what all FICUs experienced as they saw ROA go from negative 0.03 percent in 2008 to 0.28 percent for the first half of this year. While the region's credit unions' loan yields were slightly lower than the average, the region's investment yields were higher than for all FICUs. In addition, the region's cost of funds was lower than for all credit unions. However, credit unions in Region I generated on average substantially less non-interest income than everyone else. The higher investment income is the main reason for the higher ROA in Region I when compared to all FICUs.

The asset quality in the region was 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 1.36 percent compared to 1.58 percent for all FICUs, while the net charge-offs/average loans rate of 0.77 percent in the region was lower than the overall rate of 1.15 percent. During 2009 member bankruptcies were an increasing problem in Region I as the annualized number of members filing for bankruptcy and loan amounts subject to bankruptcy increased significantly. The total number of bankruptcy filings in the region increased an annualized 26.6 percent to 40,776 and the loan amounts subject to bankruptcy increased to an annualized $652.5 million. The latter number was up from $359.1 million as of year-end 2008.

Credit unions are seeing increased business loan opportunities as banks become more reluctant to make credit available. Prior to the recession, credit unions were competing with other financial institutions to provide financing. Currently, the tables have turned and borrowers are lobbying financial institutions for credit. Credit unions are taking advantage of this situation and increasing their business loan portfolio balances with higher credit quality borrowers.

Competition and Credit Union Operational Concerns for 2009

Most credit unions are seeing their delinquency rates rise steadily with charge-offs lagging (rising but at a slower pace). Bankruptcies appear to be rising as well. In Region I, specifically, there has been a rise in home foreclosures, which are only becoming more prevalent as unemployment numbers rise. Credit unions in this region are being forced to adjust their budgets in order to increase funding for allowance for loan losses. Despite these growing trends, most credit unions still want to make loans and have the necessary liquidity to do so.

While banks are tightening lending standards, credit unions are increasing market share of basic household financing (home, car, and credit card). Consumers new to credit unions will likely see the benefits and rewards from becoming a member of a credit union. This will allow credit unions to keep a competitive edge over other financial institutions even as they keep interest rates near or at market level and reduce discretionary spending.

Decreased net worth ratios may cause some credit unions to reevaluate certain expenditures. In particular, infrastructure projects, marketing efforts and education and training initiatives will likely get pushed back. This could create pressure when competing with banks and other financial institutions. Emphasis on low cost sources of funds and decreasing the cost of funds ratio will be required for many CUs.

Like credit unions nation wide, Region I credit unions are still contemplating how the corporate credit union stabilization program will affect their 2009 and 2010 financials. As the financial impact on individual credit unions becomes clearer, most credit unions will have to adjust 2009 financials and 2010 budgets to account for these events.

Consolidation within the industry is bound to increase as a result of the expenses related to NCUSIF and corporate credit union membership capital share deposits. The result will be a smaller number of larger and stronger credit unions.

Member Concerns and Economic Conditions in 2009

Members of Region I credit unions remain concerned about the financial turmoil and its implication for 2009 and beyond. There has been significant number of inquiries about credit union safety and soundness in the wake of increased bank failures and the health of both federal insurance funds. Since the Fed moved to lower interest rates and increased access to the discount window last year, there is hope that credit unions' cost of funds will decline further and compressed margins will thus be alleviated to some degree. Credit unions continue to experience increasing delinquency and charge-offs due to bankruptcy and foreclosures. Many members are just one negative event away from financial disaster (death, unemployment, divorce, medical, etc.) and as the economy continues to decline, more of these events are becoming reality.

Most credit unions have seen overall lending remain strong over the last year, especially in auto loans. New auto loans/sales have surged as a result of the Cash for Clunkers program. While it has created only a temporary demand for new automobiles, it stimulated loan demand and encouraged consumers to start spending again. Home equity loans are not growing due to property values declining and the rising unemployment rate. Concerns will continue to grow as unemployment benefits begin tapering off during the first quarter of 2010 and members cannot afford their mortgage payments.

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

NCUA Region Two

NCUA Region II (Mid-Atlantic) consists of the states Alaska, Delaware, Maryland, New Jersey, Pennsylvania, Virginia and West Virginia, plus the District of Columbia. The region's federally insured credit unions (FICUs) have 17.1 percent of the total assets of the nation, up by 1 percent from June 2008. There are 14.4 million members in this region as of June 2009, up from 13.4 million (7 percent) from June 2008. These percentages mirror the regional economy where the gross domestic product by state is about 11.4 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 9.3 percent between June 2008 and June 2009, compared to the national rate of 4 percent. From December 2008 to June 2009, first mortgage real estate loans supplied 54.2 percent of loan portfolio growth, followed by used vehicle loans at 29.6 percent. Lending was mostly offset by a decline in other real estate loans.

Looking forward to 2009, Region II FICUs anticipate higher loan growth for new and used vehicle loans and real estate loans than do FICUs in other regions. Conversely, Region II FICUs expect unsecured lending to be negative over the next 12-month period.

Total auto loans in Region II increased by 11.1 percent during the first half of 2009, compared to a rate of 0.2 percent for all FICUs. In Region II used auto loans rose by 15.8 percent, followed by an increase of 6.3 percent in new auto loans.

Unsecured loans (excluding credit cards) represent 5.9 percent of all FICU loans in the region. This portfolio segment increased 0.6 percent during 2009. Credit card loans increased 4.3 percent during the same period, representing 9.6 percent of all FICU loans in the region. The credit union leadership in the region believes that unsecured loans will be less of a source for loan growth for the near term, and at a slightly less optimistic level than that found among all credit unions across the country.

Member Shares

Total savings and deposits reached $121.1 billion in June 2009, up $16.8 billion (16.1 percent growth) from June 2008. Share drafts contributed 9.5 percent to the overall savings growth during the first half of this year, while share certificates contributed 26.7 percent. Money market shares increased by 22.4 percent, while regular shares surged by 29.4 percent.

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

During the first half of 2009, Region II FICU share drafts (10.8 percent of Region II shares) increased 12.9. Regular shares (26.3 percent of Region II shares) increased 16.9 percent during the same time period. Money market share accounts (18.2 percent of Region II shares) reached $23 billion as of June 2009, up by $3.5 billion (18.9 percent growth) from 2008. FICU share certificates (32.8 percent of shares) experienced a 11.8 percent decrease during the first half of 2009.

IRA accounts (11.1 percent of FICU shares) were a safe haven for members' precious retirement funds in the first half of 2009. This deposit segment advanced 14.2 percent from 2008 compared to a national growth rate of 10.1 percent.

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

With a decrease in the cost of funds, mainly assisted by lower interest rates during 2009, Region II's credit unions experienced an increase in consolidated ROA. At 0.62 percent (ROA for all FICUs was 0.28 percent) this profitability measure increased 1.90 percent since 2008 for the region's credit unions. This is mainly due to the increase in fee and other operating income (up 27 basis points), a decrease in cost of funds (down 6 basis points) and a decrease in operating expense (down 125 basis points). We expect to see continued pressure on the ROA due to the continued decline in loan and investment yields that is occurring as older assets re-prices. The cost of funds has reached a point where it is extremely low, so the potential to offset declining asset yields is somewhat limited. We continue to see non-interest income and expenses remain steady. These factors, when taken together, point to a steady or slightly declining ROA

Gross income increased by 13.7 percent from $4.5 billion in June 2008 to $5.1 billion percent in 2008. The ROA increased slightly among Region II FICUs despite the 20-basis-point decrease in gross spreads, and a 7-basis-point decrease in the yield on average investments. Fee income and other operating income/average assets were up (23 basis points).

Loan Loss Trends in 2009

Several FICUs in Region II indicated that their lending growth is expected to rise more strongly than the national average. This is especially true for vehicle and real estate loans, but not for unsecured loans. In the area of real estate loans some have seen very strong growth in variable rate mortgage loans. This growth was also evident among other variable rate loans by some credit unions as well. The overall in the area of loan quality, Region II FICUs had a lower delinquency ratio and charge-off ratio than credit unions nationwide in June 2009. However, some credit unions have experienced a significant rise in charge-offs. The trend in bankruptcy among Region II FICUs saw a lower percentage when compared to the pattern found among credit unions nationwide. In June

2009, the annualized loans subject to bankruptcies as a percentage of total loans was 0.72 percent among Region II FICUs, while nationwide the ratio was 0.84 percent.

Member Concerns and Region II Economic Conditions in 2009

Credit union leadership in Region II stated they have gotten increased savings growth, despite having reduced the interest rate and this is making managing asset growth more difficult. Some credit unions believe that this savings growth may be due to the more stable economy found in the region when compared to other parts of the country. In addition, some voiced concerns about the impacts of slow membership growth and its impact to their credit unions. Furthermore, bankruptcies and real estate foreclosures continue to be a focus of their attention. Some credit unions have indicated that the trend of members resolving such problems may continue this year as well as next year.

The Corporate Credit Union Stabilization plans have also created some confusion and uneasiness among FICUs. There is too much uncertainty around the overall situation, as the FICUs are receiving conflicting opinions regarding the amount of the overall funding needs as well as the timing of the losses. The accounting industry has not been able to agree as to the timing of the events or the recognition of the losses. This has led some FICUs to set aside an expense in their operating budgets for 2010 this year with little agreement as to the expected amount. Some credit unions in this region are beginning to put business plans on hold or modifying them as a response to the recommended write down of losses to the NCUSIF. This is a major source of concern among FICUs, and the NCUA needs to continue working with FICUs in order to provide more transparency to the situation.

NCUA Region Three

NCUA Region III (Southeast), consisting of ten states and two territories, finished mid-year 2009 with 1,589 federally insured credit unions (FICUs). This represents a net decline of 60 or 3.64 percent of Region III FICUs over the past year. Region III holds 21 percent of all FICUs, 20 percent of all assets and 22 percent of all FICU members. Total assets in the region rose to $171 billion. This translates into an annual growth rate of 7.6 percent, which is 0.6 percentage points below the reading for the nation as a whole. Membership in the region climbed to 20.1 million up 327,000 over the past year. Membership growth in Region III at 2.3 percent in 2009 continues to trail the 2.6 percent national average rate of increase. Total employment (full- and part-time FICU employees) is now 56,531. The 50 largest FICUs in the region hold 53 percent of all assets and 43 percent of the total membership in the region. Included in this group are 32 FICUs with assets in excess of $1 billion.

Region III covers a wide expanse of geography ranging from the north end of Indiana to the southern tip of Florida and also includes Puerto Rico and the U.S. Virgin Islands. Just like the geography the loan quality varies significantly. In fact, one state in the region, Tennessee, has one of the lowest delinquency rates, 0.88, in the nation while two other states in the region Florida and North Carolina have delinquency rates that are among the highest. The reasons for the variance are diverse. The economic cycle, unemployment, the extreme housing market correction and the credit crisis are clearly impacting the 'decisioning' of both members and FICU leadership. One such decision is whether to merge or not. This year, large credit union merger activity was especially active in Florida. The liquidation of Eastern Credit Union and eventual take over by Space Coast credit union made headlines earlier this year. This was followed by talks of a merger agreement between SunState and GTE which has since ended. However, dealing with an economy in recession and extreme credit losses continues to be major factors shaping the future for credit unions in this region.

Credit Unions in the region are working to get the message out to consumers and businesses that as an industry credit unions remain fiscally safe and sound and that they have money to lend. Through June 2009 month-end, Region III FICUs collectively remained in good health although their collective net worth ratio fell to 10.33 percent from 11.63 percent at year-end 2008. The Region III annualized ROA (return on average assets) of 45 basis points eroded by 8 basis points over the past year. Loan delinquencies climbed to 1.62 percent of total loans from 1.44 percent at the end of 2008. Net loan charge-offs moved up sharply as did the provision for loan losses. Extraordinary events during the first half of 2009 have had a materially negative impact on financial performance. On March 20, 2009 the NCUA placed U.S. Central Federal Credit Union and Western Corporate Federal Credit Union (WesCorp) under conservatorship. The NCUA estimated that credit losses, in excess of capital, within the two organization's investment portfolios would total $5 billion.

The NCUA as part of its Corporate Stabilization Plan also guaranteed deposits at all corporate credit unions at an estimated cost of $900 million to the NCUSIF. The cost of the conservatorship and deposit guarantee equaled a 69 percent impairment of their existing NCUSIF Deposit plus an additional 0.30 percent premium assessment on insured shares. Legislative efforts eventually led to the creation of the Corporate Stabilization Fund which will allow the NCUSIF to defer its $5.9 billion liability and give NPCUs the ability to amortize the 99 basis points of losses over a seven year period. NCUSIF related losses reported in 2009 net to 15 basis points of insured deposits. Additionally, many credit unions have been or will be required to write-off their contributed capital investment at corporate credit unions in 2009. Despite this, the only state in Region III with aggregate negative net income for all FICUs is Florida. Florida FICUs have posted a $22.2 million drop in net income for the first half of 2009.

Lending

At 1.6 percent, annualized loan growth in Region III matches the national average however, 794 FICUs in the region reported declines in total loans. The 98 FICUs in Mississippi posted the strongest year-to-date loan growth at 5.9 percent. FICUs in Ohio and North Carolina posted the strongest gains in aggregate loan volume with increases of approximately $282 million each.

At 74.4 percent, the loan-to-share ratio is down 2.2 percent over the past year. Region III FICUs are under-performing the total U.S. which has a loan-to-share ratio of 77.5 percent. The U.S. loan-to-share ratio has declined 3.5 percent year-over-year.

The $3.4 billion gain in first mortgages and lines of credit accounted for 84 percent of all loan growth year-over-year. Despite the crisis in the overall housing market, first mortgage originations of $7.8 billion in Region III are 8.4 percent above the mid-year 2008 level, as much of the competition has left the market. This surge in originations, which really started in 2007, netted with $3.4 billion in first mortgage loan sales produced an 8.6 percent year-over-year 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 89 percent of all loan growth in the region over the past 12 months. Almost all of the other 11 percent in year-over-year loan growth came from the unsecured credit card loan classification. In the first half of 2009, 732 FICUs reported originating first mortgages. Real estate secured loans now equal 52 percent of all loans in the region, up from 51 percent at mid-year-2008.

A 3.6 percent contraction in year-to-date new vehicle loans outstanding at Region III FICUs exceeded a 2 percent used vehicle portfolio gain; total vehicle loans outstanding in the region declined one-half of one percent through mid-year 2009.

The economic recession remained firmly entrenched during the first half of 2009 causing notable migrations in consumers' utilization of credit. Auto and home equity lending tapered off while credit card balances and first mortgages grew rapidly.

A total of 334 FICUs in Region III reported having an indirect lending channel (point-of-purchase financing), equal to this measure at year-end 2008. Indirect loans outstanding are up 8.2 percent over the past year and now account for over 36.2 percent of all vehicle loans in the region.

Total Member Shares

During the first half of 2009, total shares rose a healthy 7.8 percent to $145.8 billion. This gain was slightly smaller than the national average, which saw a growth rate of 8 percent. The strongest percentage growth was in money market accounts up 13 percent followed by IRA/KEOGH accounts up 10.2 percent. The strongest growth in terms of dollar balances was in regular shares at $3.43 billion and money market shares at $3.36 billion. Combined, these two portfolio segments have accounted for 64 percent of the year-to-date gain. Region III's share certificates as a percent of total shares fell from 32.4 percent at year-end 2008 to 30.7 percent at mid-year. Sharp increases in regular shares and money market accounts combined with falling certificate concentrations indicates an increasing balance of hot money is on the balance sheet. The 167 FICUs in Georgia generated the strongest rate of share growth during the first half of 2009 with 11.1 percent gains recorded. The 106 FICUs in North Carolina brought in $2.57 billion in shares which was the highest aggregate volume in Region III.

The lower interest rate environment and a shift in saving structure away from higher cost CDs has moved Region III CUs' cost-of-funds down 69 basis points to 1.87 percent of average assets over the past 12 months. Given economic uncertainty, a sustained flight to safety and a growing savings rate we expect the cost-of-funds to continue drifting downward although at a slowing rate. Managing the cost of funds will continue to be important as one of the tools credit unions in the region exercise in working to absorb higher loan losses and the recent actions of the NCUA. It will be imperative that credit unions manage growth in deposits growth in relation to capital growth.

Asset Quality and Operational Results

Through mid-year the annualized ROA for Region III FICUs was 0.45 percent, reflecting an 8 basis point reduction from the June 2008 level and a 44 basis point increase from year-end 2008. A total of 870 FICUs (55 percent of the region's FICUs) reported positive ROAs, while 719 reported losses or no gain for the first half of 2009. The FICUs with negative ROAs represented 27 percent of the region's assets. This is a significant deterioration from prior year, same period, results which showed just 14 percent of region's assets at negative ROA institutions. On a year-over-year basis 1,083 FICUs reported declines in their ROAs. These FICUs hold 53 percent of the region's assets.

A pervasive combination of recession, credit crisis, and steep job losses has adversely impacted asset quality. The loan delinquency rate is up 55 basis points over the past year to 1.62 percent of total loans. The combined FICU delinquency rate at mid-year 2009 was 1.58 percent of total loans up 61 basis points year-over-year. Over the same period, net charge-offs rose from 0.75 percent of average loans to 1.12 percent. Looking at one measure of operating efficiency (the ratio of operating expenses to average assets) at 3.81 percent is up 31 basis points year-over-year. Expenses related to share insurance, office occupancy and loan servicing are growing the fastest. This growth is reflective of costs associated with the corporate credit union stabilization, recession level loan performance and loan growth plus credit unions growing to fill the void created as traditional competitors pull back.

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

Looking forward, we see significant challenges for Region III and all FICUs. Economic and credit conditions will continue to get worse before some stabilization in employment late in 2010. Credit unions will be facing considerable expense for supporting the Corporate Credit Union Stabilization Plan. Cooperative effort will be required to make sure credit unions continue to benefit from their ownership of corporates which includes vital access to payment systems, investments and liquidity. These challenges will eventually lead to a more rapid rate of consolidation in Region III. In aggregate, the capital cushion appears to be adequate, but individual FICUs will struggle to increase their provision for loan losses and maintain capital levels. Liquidity is also critically important for credit constrained credit unions in the region and controlled asset growth will be critical for coming out on the other side of this economy. This may not be all bad as credit unions' in the region develop a laser focus on their products and markets.

NCUA Region Four

NCUA Region IV (Austin) consists of 2,293 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 mid-year 2009. The credit unions in this region represent 29.8 percent of all FICUs and with total assets of $174 billion, hold 20 percent of all FICU assets. Total membership in Region IV reached 19.7 million and now accounts for 22 percent of all FICU members. A high level summary shows a net loss of 72 Region IV FICUs over the past year, but just 29 during the first half of 2009. Asset growth of 10.9 percent was above the national average. Region IV FICUs added in excess of 597,000 members over the past year. Annual loan growth was above the national average at 9 percent and the net worth ratio was also above the national average at 10.3 percent. At mid-year, total employment (full and part-time FICU employees) was 57,760 and there were 5,457 branches within the region. The 50 largest FICUs in the region held 44 percent of all assets and 33 percent of the total membership. Included in this group are 27 FICUs with assets in excess of $1 billion.

Loan Growth

Annual loan growth in Region IV FICUs was 9 percent, but the year-to-date gain is just 3.3 percent, although second quarter loan growth was solid at 2.5 percent. Region IV annual loan growth exceeded the national average by five percentage points. Total loans outstanding in Region IV now equal $112.9 billion. They represent 65 percent of total assets down from 66.1 percent at mid-year 2008.

Over the past year, first mortgages were the largest component of loan growth. This portfolio segment increased 12.3 percent during the year and accounted for over 41 percent of all loan growth. When combined with "other real estate loans," the total real estate component accounted for 46 percent of annual loan growth in Region IV. The $50 billion in real estate secured loans now equal 44 percent of all loans, up from 43 percent at mid-year 2008.

Year-to-date, first mortgage lending activity was extremely strong. Total originations of $11.1 billion were 51 percent above 2008 same period results. Refinancing activity was a large part of the record production since total first mortgage loans outstanding grew by only $1.7 billion or a 15 percent "stick-rate" (*growth in balances to total production*). The comparable "stick rates" in 3Q2008 and 4Q2008 were 44 percent and 26 percent respectively. Members were clearly locking in historically low mortgage rates in the first half if the year. Roughly 79 percent of year-to-date originations were in fixed-rate product, 13 percent in balloon/hybrid and just 9 percent in adjustable-rate loans. Other real estate loans granted were 14.7 percent below same period 2008 results as seconds were down 28 percent and HELOCs granted were up 13 percent.

Total vehicle loan growth in Region IV FICUs significantly outperformed the national average. This portfolio segment was up 8.4 percent over the past year in Region IV while growth for the nation as a whole was just 1.1 percent. Used vehicle loans (up 12.2 percent over the past year) accounted for 76 percent of total vehicle loan growth over the past year. Used vehicle loans have accounted for roughly 89 percent of the YTD gain in total vehicle loans. The new vehicle component of vehicle loans was up 0.9 percent through the first half of 2009 versus a decline of 2.8 percent for the entire credit union market. Indirect lending is a key contributor to vehicle loan growth success in the region. Total indirect loans climbed 10 percent ($1.7 billion) in the first six months of 2009.

Region IV credit card balances grew 6.7 percent in over the past year, but are down 0.3 percent through the first half of 2009. Business loans were up 14.8 percent over the past twelve months (6.8 percent year-to-date) and now equal roughly 4.3 percent of assets, up from 4.1 percent at the end of June 2008. FICUs in Region IV granted $1.5 billion in member business loans year-to-date, up just 0.6 percent over same period 2008 results.

Shares and Deposits

Total shares and deposits increased 12 percent over the past year with 59 percent of the increase coming in the first quarter of 2009. Over the past year, Region IV FICUs grew shares and deposits 3.3 percentage points faster than the national average. Total shares and deposits were $148 billion at the end of June. The member flight to safety continues. Regular shares, money market shares and CDs were the top three contributors to annual growth.

The 20 percent annual gain in money market shares accounted for 26.3 percent of share growth with 77 percent of that gain occurring in the first half of 2009. Regular share growth of 9 percent contributed 25.8 percent of the annual gain and 103 percent of that increase happened in the first six months of 2009. Liquid deposits (share drafts, money market shares, and regular shares) accounted for 61 percent of all share and deposit growth over the past year and 70 percent year-to-date.

Annual CD (or share certificate) growth slowed to 8 percent. After first quarter only growth of 4.8 percent, the quarter-only gain (April-June) was just 0.6 percent. Given the narrowing yield spread between liquid deposits and CDs, it is easy to see why members prefer liquidity. The combination of lower overall interest rates and members directing more of their deposits into low-cost liquid accounts has lowered Region IV FICUs' cost-of-funds to 188 basis points, a 26 percent decline over the past year. We caution, these cheaper funds could move quickly to higher yielding accounts at the competition or migrate back into the equity markets.

One area where we continue to see very cautious deposit behavior is IRA/KEOGH accounts. Members preferring the fixed-rate safety of insured deposits have driven this portfolio segment up 19 percent over the past year and 11.4 percent through the first six months of 2009.

Rising competition for deposits, the need to recover equity market losses and some credit unions intentionally managing deposit and asset growth down (to improve the net worth and other key ratios), implies slower share and deposit growth once the employment picture stabilizes.

Loan Quality

At mid-year, the loan delinquency ratio (loans two or more months delinquent as a percent of total loans outstanding) stood at 1.44 percent, up 43 basis points over the past year, but up by just 12 basis points year-to-date. Delinquent loans remain below one percent of total assets at Region IV FICUs. In addition to higher delinquencies, net charge-offs moved up from 0.56 percent of loans in June 2008 to its current level of 0.78 percent. While both key measures of loan quality in Region IV deteriorated over the past year, they remained better than the results for the nation as a whole. Looking at high level detail, we see that real estate secured loans (first mortgages, second mortgages and home equity loans/lines of credit) two or more months delinquent rose 98 percent ($328 million) over the past year and credit card delinquencies were up $27 million or 42 percent. Year-to-date charge-offs of $435 million were 53 percent above same period 2008 results, with 21 percent of the charge-offs due to bankruptcy. The allowance for loan and lease loss in Region IV grew by 39 percent to almost $1.1 billion. Many credit union leaders in Region IV believe we will soon see some stability in loan quality readings, but an improvement will come only as the unemployed return to work.

Investments

With annual asset growth outpacing loan growth by 1.9 percentage points, Region IV credit union investments climbed $7 billion (19.9 percent) to $42.2 billion. Investments now equal 24 percent of Region IV assets, up from 22 percent at mid-year 2008. When combined with cash and cash equivalents the mid-year ratio moves to 31 percent.

Over the past year, cash and cash equivalents were fractionally positive moving up to 11.4 billion. Liquid investments (maturities of one year or less) held at 57 percent of investments. Region IV credit unions had $6.3 billion in investments (MCSD and PIC in Corporate Credit Unions plus all other investments at corporates).

Earnings and Capital Adequacy

Region IV annualized mid-year ROA was 61 basis points (129 basis points before effects of NCUSIF stabilization expense), down slightly from mid-year 2008, but improved from year-end 2008. Due to the timing variations in the booking of stabilization expenses, results between time periods may be misleading. Region IV FICUs outperformed ROA results for the nation as a whole by 33 basis points. Year-to-date, 33 percent of the credit unions in the Region reported a negative ROA, but these 760 credit unions held just 18 percent of the Region's total assets.

Regional net interest margin (NIM) at mid-year was 3.18 percent, a fractional improvement from both mid-year and year-end 2008. Stronger deposit growth in lower cost funds is the primary reason for improvement. The NIM in Region IV was just four basis points above the national average.

The combination of strong asset growth (10.9 percent) and weaker net worth growth (2.8 percent) caused the net worth to asset ratio to fall 80 basis points over the past year to 10.31 percent. Near-term results are improving as the net worth ratio appears to have bottomed out in March at 9.89 percent. Region IV FICUs' net worth ratio is 28 basis points above the national average. When you consider the NCUA has determined credit unions with a net worth ratio of seven percent or greater are more than adequately capitalized, the 10.31 percent mid-year level in Region IV is solid. A more detailed look at the data indicates 62 Region IV credit unions had a net worth ratio below 7 percent. These credit unions held just 2.5 percent of the Region's assets.

NCUA Region Five

Region V (West) previously consisted 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. The NCUA has recently made some realignments within Region V and moved Nevada and Alaska to other regions. As of June 30, 2009, the region's 1,208 federally insured credit unions comprised 15 percent of all federally insured credit unions and held almost $236 billion in total assets, 27 percent of the nation's total credit union assets. Credit unions across the country continue to attract new members, but membership declined in Region V by 627 thousand to 21.3 million by the end of June 2009 due to the changes of Nevada and Alaska to other regions. Despite this decline in membership, total assets grew by 1.6 percent in the first six months of the year. Reserves and undivided earnings decreased by 5.9 percent to $24.7 billion since the end of 2008 and by 11 percent over the past twelve months. Despite the decline in membership, shares grew $4.9 billion (2.5 percent) since year end, while loans decreased by almost $9.5 billion (5.7 percent). As of June 30, 2009, share balances totaled $202.7 billion while outstanding loans came in at $158.4. The loan-to-share ratio fell to 78.3 by June 30, 2009 compared to 85.6 one year prior.

Loan Growth

Total loans declined in the first six months of 2009 Region V by 5.7 percent, a significant reversal of the 2008 growth rate of 6 percent. Credit unions reported that economic fears sharply reduced the normal seasonal loan demand. Loans comprised 67 percent of total assets as of June 30, 2009.

Real estate lending declined modestly in 2009. Residential first mortgage loans fell by 2.2 percent during this period, despite many aggressive marketing campaigns. The decline in other real estate loans was 5.8 percent.

The volume of new real estate loans granted in 2009 fell by 3.3 percent, a sharp contrast to the 8.3 percent growth rate of 2008. Total first mortgage loans stood at $60.8 billion at quarter end. Fixed rate real estate loans held on the balance sheet of credit unions was 19.8 percent of total assets and 53 percent of total first mortgage loans; total adjustable rate real estate loans held on the balance sheet fell by 2 percent. Hybrid loans fell at a rate of 3.4 percent. At quarter end, ARMs and hybrids comprised 47 percent of the first mortgages held by credit unions. HELOCs were virtually unchanged through June.

Auto loans were down 9 percent for 2009. New auto loan balances decreased by 12 percent, while used auto loan balances fell by 6.5 percent. Indirect lending activity fell throughout the region, decreasing by 9.8 percent after increasing 2.5 percent in 2008.

After several years of growth, member business loan balances fell by $3.7 billion to $10.1 billion, compared to year end 2008. While this sector represents 6.4 percent of total loans at credit unions in this region, the outlook for continued gains remains promising once an economic rebound takes hold.

Credit unions expect loan growth to remain problematic for 2009 as members' financial positions further deteriorate, limiting their ability to borrow. Some credit unions' lending activity will be curtailed by capital requirements. Anecdotally, several credit unions have seen an increase in mortgage originations but many have resorted to selling these loans due to concerns over credit and interest rate risk and asset growth considerations. There is some optimism that declines in both new and used vehicle lending will end. After the sharp declines the past two years, there is some minor anecdotal evidence that the cash-for-clunkers program generated a brief uptick from historically low auto sales volumes.

Loan Quality

Many credit unions have done a good job in managing credit risk while others have seen record increases in delinquencies and write offs as credit conditions deteriorated sharply in the first six months of 2009. At the end of 2008, many credit unions aggressively added to loan loss reserves to get ahead of expected losses. However, delinquencies and losses have accelerated beyond forecasts. The delinquency to total loans ratio rose from 1.60 percent in 2008 to 2.04 percent at quarter end. The net charge-offs to average loans rate increased from 1.08 percent to 1.67 percent. While there has been some evidence of stabilization in the housing market in the region, there are concerns that damage already done to the housing market and the strong rise in unemployment rates across the region will increase delinquencies and charge-offs throughout Region V. Many credit unions with sizeable mortgage portfolios have implemented programs in an effort to help members remain in their homes. All loan products, though, are facing these pressures, resulting in many credit unions more actively managing their portfolios and attempting to identify issues before they become too problematic.

Share Growth

Total share growth of 2.53 percent was unremarkable but in light of the loss in membership totals, due to the changes in NCUA regional data, the slow growth rate doesn't look too bad. For all of 2008, share accounts increased by 4.1 percent, market share balances rose 8.5 percent, and share certificates increased 7 percent. In 2009, share certificate balances fell by 5.2 percent.

At quarter end, money market shares represented 23.4 percent of total balances, compared to 21.3 percent in 2008. Share certificates still represent the greatest proportion of total balances at 31.47 percent, down from 2008's 33.8 percent. While borrowing was up relative to 2008, the increase was not significant and was mostly related to arbitrage opportunities as opposed to liquidity needs. With loan growth expected to remain moderate in 2009 as share growth remains strong, borrowing by Region V credit unions should remain relatively flat if not decline.

Investments

Investments, excluding cash, rose from year end 2008, with total investments increasing from $42.3 billion at the end of 2008 to $52.2 as of June 30, 2009. This represented 22.1 percent of total assets compared to 18 percent in December 2008. Holdings of federal agency securities rose by 23 percent to a total of $23.2 billion, with Agency mortgage-backed securities representing 59 percent of the total outstanding. Holdings of corporate certificates rose by a big 37 percent, from $11.4 billion in 2008 to $15.6 billion as of June 30. Most of that increase is attributable to the NCUA guarantee and the special SIP liquidity program for corporate credit unions. Investments maturing in less than one year were 44.8 percent of total investments, while investments between one and three years comprised 37 percent of the total. The average yield on investments fell sharply from 4.03 percent to 2.24 percent. In the pervasively low interest rate environment, the short-term nature of credit union portfolios continues to rapidly reduce the overall portfolio yield as maturities are rolled over at ever declining rates. Credit unions have remained quite conservative in their portfolio investing philosophy. Credit unions have also allowed cash and equivalent balances to grow by 32.9 percent in the first six months of 2009. While some of this growth in cash is based on historical trends of deposit drains in the summer months, the growth in cash is extraordinary nonetheless.

Earnings

After falling sharply at year-end 2008 to a negative 0.53 percent, average return on assets remained negative at a negative 0.35 percent. While this continues a long-term downward trend, it also represents a sharp, one-year deterioration. Significant additions to loan loss reserves, $3 billion for the first six months of 2009, were responsible for much of the decline. However, additional losses of $1.7 billion were recorded as a result of the corporate stabilization expense. The average yield on loans decreased from 6.56 percent in 2008 to 6.18 percent. The cost of funds to average assets ratio fell from 2.45 percent to 1.81 percent. The overall net interest margin fell by 0.08 percentage points to 3.16 percent. Operating expense to gross income was at 47.9 percent in June 2009 versus 48.1 percent for 2008. Given loan losses and declining yields, credit unions are making considerable efforts to reduce expenses. Through the first six months of 2009, expenses are declining at a 10 percent annualized pace.

General Economic Conditions and Credit Union Concerns

Economic conditions worsened considerably throughout Region V in the fourth quarter of 2008 and into 2009 as the fallout from the economic credit crisis worked its way through the entire economic system in all parts of the country. The unemployment rates for Oregon and California both now exceed 11 percent with Arizona and Washington unemployment rates is excess of 9 percent. Even the usual low unemployment states like Utah, Idaho, and Hawaii have seen sharp increases in unemployment. Hawaii's rate of 7 percent is the highest rate in that state on record. While enjoying a comparatively lower rate of 6 percent, Utah has seen the rate rise from the 2007 low of 2.4 percent.

Another wave of foreclosures is expected nationally as a large wave of option adjustable-rate mortgages reset to higher payments and as delays in foreclosures due to political pressures expire. Nevada is the number one state in the nation for foreclosures and Utah is ranked seventh. Consumer credit fell last month further raising speculation that household spending will be too weak to drive the economic recovery from recession; however, total outstanding consumer credit among credit unions increased. Even in this depressed environment, credit unions may have an opportunity to gain additional market share as financially stressed banks remain less willing to grant credit to consumers and businesses. The increase in consumer credit among credit unions was more pronounced in other regions of the nation as credit unions in many western states continue to struggle to grow their loan portfolios. Rising unemployment continues to put pressures on borrowers and delinquency rates are expected to continue to rise, but credit unions are hoping the rate of growth in delinquencies is slowing. Bankruptcy filings continue to reach high levels putting added pressures on credit unions to add to their allowance for loan losses. Home prices have also dropped dramatically. Even though the stock market (a leading indicator of the economic recovery) has shown signs of strength, which should boost consumer confidence due to the wealth effect, wary consumers are expected to continue to show restraint in spending and borrowing as well as in investing and saving. This will continue to make it difficult for credit unions to stimulate loan growth. Savings growth is also expected to slow in 2010 as the stock market continues a slow climb and as consumers struggle to make ends meet in their family budgets.

Credit unions in the southwestern portion of the NCUA Western Region are struggling. With economic uncertainty, flexibility in balance sheets will be critical for credit unions to be able to return to profitability and stability in net worth. There are some credit unions in the region that are insolvent. Many credit unions have had to close branches, freeze salaries, layoff staff, and take other drastic measures to cut expenses and services. A quick look at some of the ratios for the Western Region as of June 30, show some interesting trends. Nationally, credit union delinquency as of June 30 averaged 1.59 percent, but in Utah the average was almost double that. Nevada and Utah are number one and two nationally with the highest credit union delinquency ratios, and also rank very high in charge-offs. The excesses of the past economic growth cycle have placed extreme pressures on consumers nationally and the lagging effects of the recession are now being heavily placed on many credit union members in Region V resulting in severe constraints on income among many credit unions. While it will be difficult for credit unions to replenish capital for long term safety and growth, the long term outlook is positive for credit unions that are able to maintain balance sheet flexibility and find ways to strengthen themselves to take advantage of the economic recovery that lies ahead.

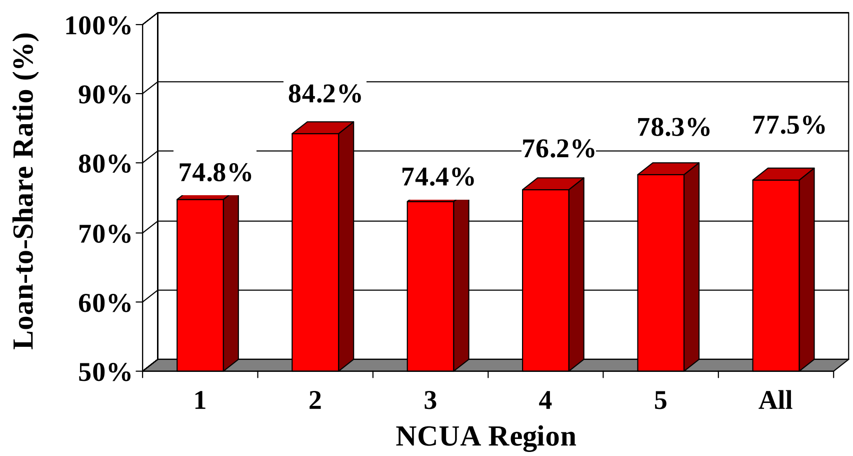
While recent data indicates that the recession may have ended statistically in the second quarter of 2009, there are very few signs that the end of the recession has resulted in anything beneficial for jobs and income in Region V. The rate of economic decline may have been arrested, but conditions are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

As the numbers show, credit unions added substantially to loan loss provisions. After adding substantially to loan loss reserves at the end of 2008, most credit unions expressed the feeling that those additions would set the stage for a better 2009/2010. That has not been the case yet, as credit unions have continued to add to their loan loss reserves. The Corporate Stabilization Plan and the accounting for the assessment caused considerable confusion and concern in the first half of 2009. The decision to allow the assessment to be spread over seven years has significantly alleviated some capital concerns at some credit unions. Pressure on credit union earnings will continue, however, as increasing delinquency, write-offs and more premium increases from NCUA are expected this year and next. Despite the difficult economic conditions and the corporate restructuring, credit unions overall remain well capitalized.

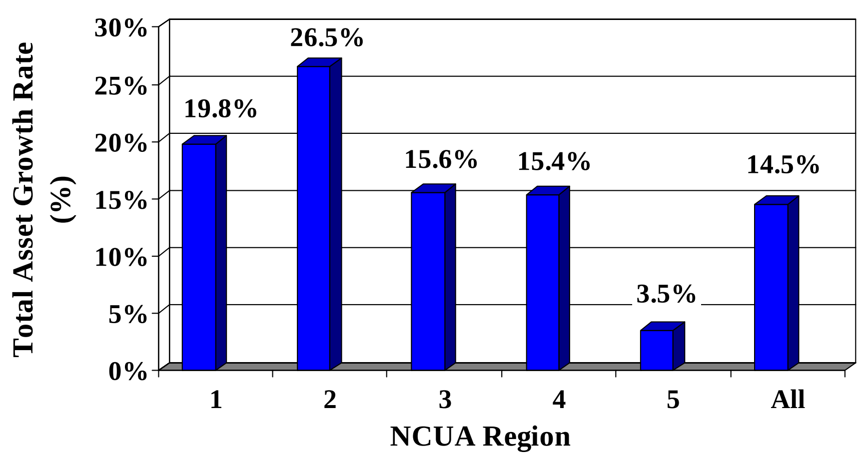
The general sense of credit unions in Region V is that rest of 2009 and 2010 will continue to be difficult economically, but there is hopeful optimism that perhaps the worst of the recession has passed and that conditions are beginning to slowly improve.

Appendix A:
NCUA Regional Financial Ratio Analysis

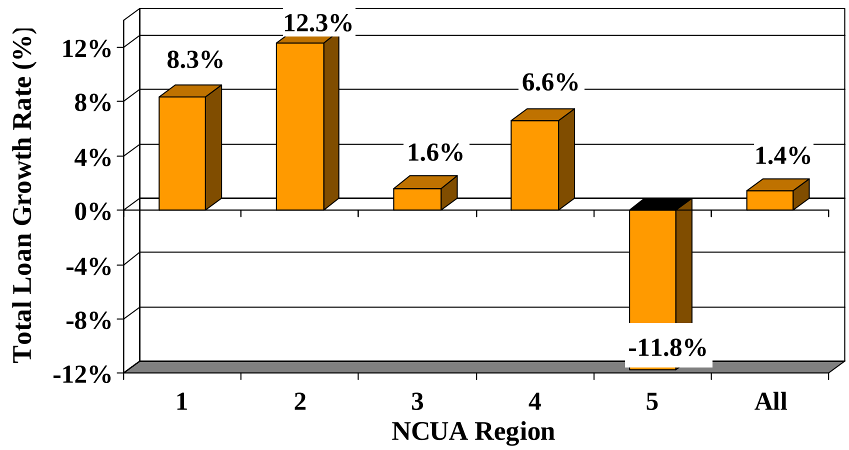
Loan-to-Share Ratio
Federally Insured Credit Unions by NCUA Region
June 2009



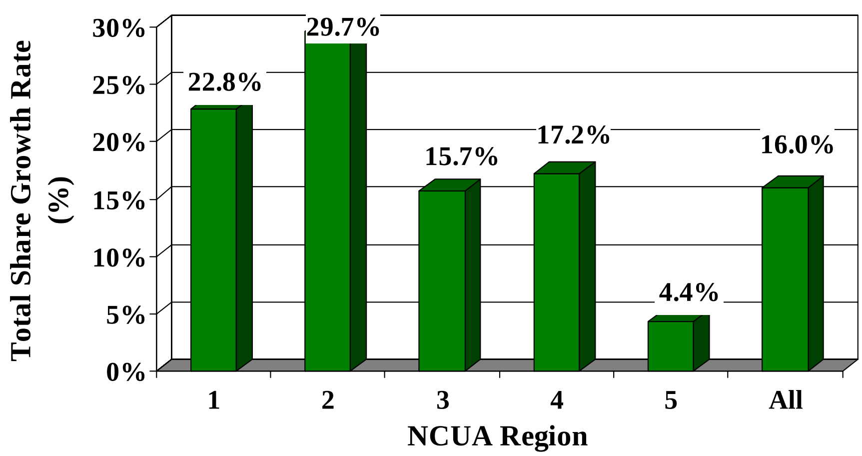
Total Asset Growth
Federally Insured Credit Unions by NCUA Region
June 2009



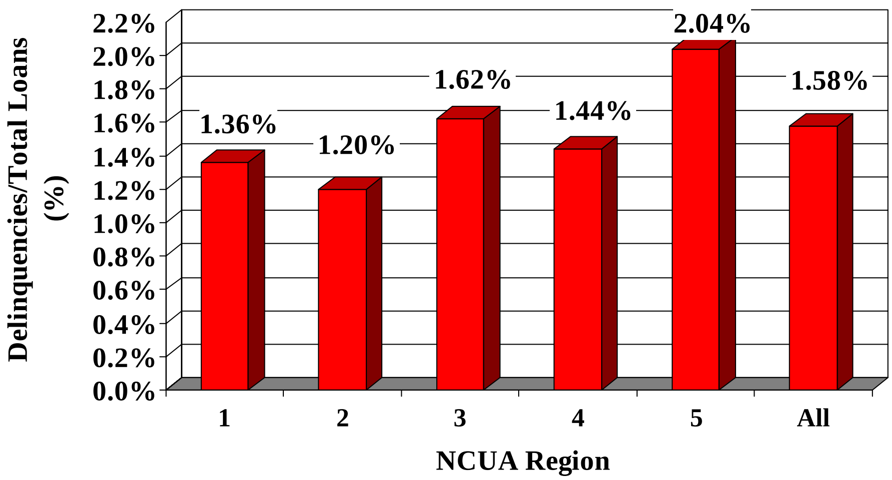
Total Loan Growth
Federally Insured Credit Unions by NCUA Region
June 2009



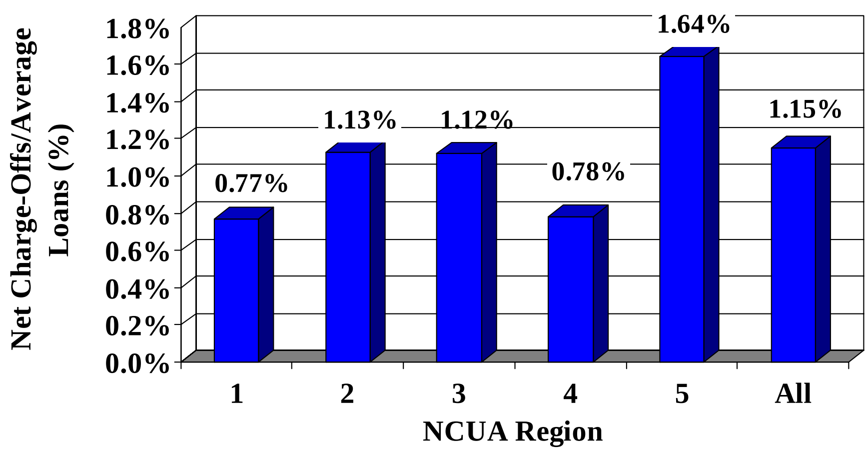
Total Share Growth
Federally Insured Credit Unions by NCUA Region
June 2009



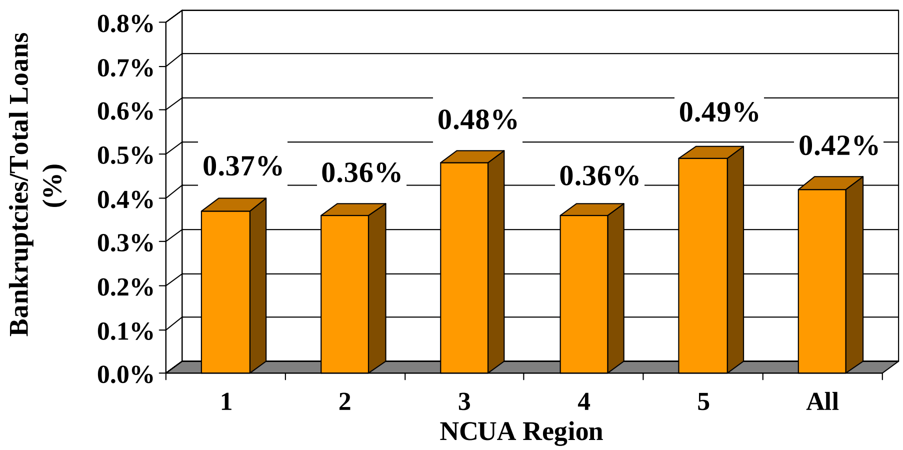
Delinquency Ratio
Federally Insured Credit Unions by NCUA Region
June 2009



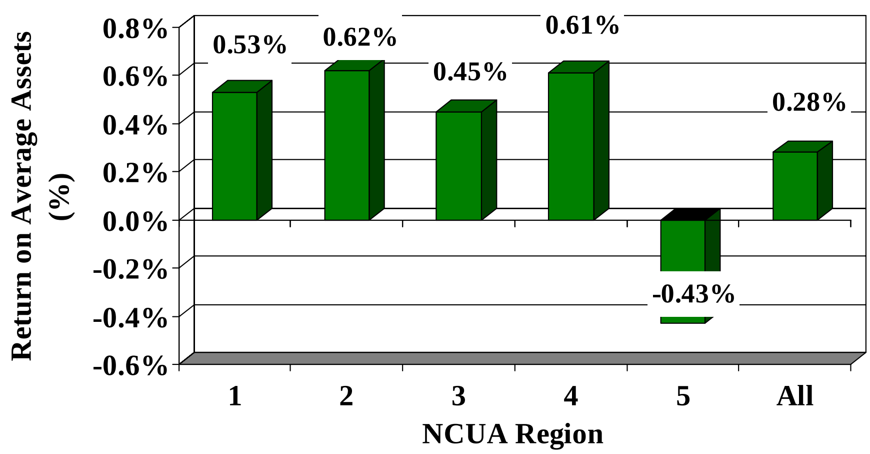
Net Charge-Offs/Average Loans
Federally Insured Credit Unions by NCUA Region
June 2009



Bankruptcies/Total Loans
Federally Insured Credit Unions by NCUA Region
June 2009



Return on Average Assets (ROA)
Federally Insured Credit Unions by NCUA Region
June 2009



Appendix B: NCUA Regions

NCUA REGIONAL BREAKDOWN