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Executive Summary

- Loan growth for all FICUs[1] during the first half of 2005 was approximately 4.9 percent. The majority of the loan growth came from first mortgage loans (32 percent of total loans), followed by used vehicle loans (20 percent of total loans) and new vehicle loans (18 percent of total loans).

- Loan growth exceeded share growth by 2.0 percent for all FICUs through June 2005. This disparity has led to a liquidity challenge, with Regions 1, 3 and 4 citing it as a major concern. Share certificates grew by 8.7 percent in the first half of 2005, by far the most brisk growth segment of total share deposits.

- The most noted concerns cited by FICUs, along with maintaining liquidity were operating in the rising interest rate environment, high energy costs, and dealing with local labor markets. Regionally, competition with non-traditional financial institutions (ex. AIG and brokerage firms) is a concern for FICUs in Region 1 and 2.

- Regions 3, 4 and 5 posted strong new vehicle loan growth in the first half of 2005, accounting for 41, 46 and 41 percent, respectively, of the overall loan growth in those regions. This surge was headed by the manufacturers' "buy like an employee" incentive programs.

- The annualized return on average assets (ROA) in Region 2 was 1.05 percent, well above the 0.93 percent average for all FICUs. Some FICU management sees this as a result of the increase in the yield on loans. Meanwhile, Region 3 FICUs are facing the challenge of maintaining ROA in a rising rate environment.

- The 222 Florida FICUs (of 1865 FICUs in Region 3) accounted for 37 percent of Region 3's loan growth.

- While the overall housing market is cooling, FICU leadership in Region 3 is mildly concerned about softening home prices. Housing affordability is an issue in Region 5, particularly in California and Hawaii.

- Region 4 first mortgages grew by 6.7 percent while new vehicle loans grew by 6.5 percent in the first half of 2005.

- Due to the booming real estate market and relatively low mortgage rates, Region 4 saw fixed-rate first mortgages grow 5.3 percent and adjustable-rate first mortgages rise 9.1 percent through June 2005.

- Growth in real estate loans continued to advance at a strong pace in Region 5. Residential first mortgage loans grew by 6.6 percent and other real estate loans grew by 12.8 percent. Member business lending is also a bright spot for Region 5 as member business loans grew sharply to $6.94 billion from $5.9 billion at year-end 2004.

[1] An FICU is a federally insured credit union.

NCUA Region One

NCUA Region 1 (Northeast) consists of 8 states[2]. As of June 2005, there were 1,530 federally insured credit unions in the region, with total assets of $108.9 billion and a total membership of 13.3 million.

Lending

Region 1's loan growth during the first half of 2005 was 3.7 percent, compared to 4.9 percent for all FICUs. During the first half of 2005, loan growth was concentrated in real estate products, and to a lesser extent, light vehicle loan products. The region experienced a slowdown in mortgage refinancing activity, as member demand migrated principally to adjustable rate first mortgage and home equity loans. Over the first half of 2005, first mortgage lending expanded by 3.3 percent, while "other" real estate loan demand (home equity/second mortgage) grew at nearly 8.0 percent. Despite the continuation of manufacturers' incentives, new light vehicle lending expanded by 5.2 percent, supported by indirect lending programs, member education about the true "costs" of dealer incentives, and Internet sales. Used light vehicle loan demand rose by 2.8 percent during the first six months of this year. FICUs in Region 1 experienced a slowdown in unsecured loan demand during the first half of this year. Credit card and non-credit card unsecured lending decreased by 3.1 percent and 0.1 percent respectively, after increasing by 7.4 percent and 3.5 percent, respectively, in 2004. Finally, the region's credit unions experienced relatively weak demand for member business loans during the January to June 2005 period, with FICUs granting $1.3 billion in loans. This compares to nearly $3 billion granted in all of 2004.

According to NAFCU's September 2005 *Flash Report*, near term expectations for loan growth in Region 1 differed significantly by loan category. The responding credit unions felt that both new light vehicle loan growth and unsecured lending would be stronger during the fourth quarter of this year as compared to the third quarter. However, the credit unions in Region 1 are increasingly pessimistic about the near-term prospects for real estate lending. Finally, the region's credit unions are somewhat less optimistic about the prospects for used light vehicle loan demand over the final three months of 2005.

Member Shares

Region 1's share growth was 2.4 percent during the first half of 2005, lower than the 2.9 percent share growth for all FICUs. As with many FICUs, the region's share growth during the first half of 2005 was concentrated in share drafts and share certificates, which rose by 3.7 percent and 8.9 percent respectively. As many credit unions have chosen not to significantly increase the dividend rates of regular shares and money market shares, growth has been slow or even negative in the case of money

[2] The eight states are Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island and Vermont.

market shares. With loan growth remaining strong in the region, some credit unions are experiencing a liquidity squeeze. As a result, many credit unions are promoting CDs with maturities of one to five years to help fund loan demand. Others have increased their borrowings from the FHLB and/or their corporate credit unions. Still, others have engaged in loan participations with other credit unions. In the first half of the year, IRA/KEOGH accounts increased by 1.9 percent, while other shares/non-members shares declined by 7.6 percent. Many credit unions expect share growth to continue to be weak for the remainder of 2005. According to the September *Flash Report*, the responding credit unions in Region 1 indicated that they believe share growth will slow down modestly during the fourth quarter of this year. Because loan demand remains strong at many of the Region's credit unions, liquidity became an issue despite the fact that the region's loan-to-share ratio of 74.1 percent is lower than the 75.9 percent for all FICUs.

Earnings and Asset Quality

During the first half of 2005, the credit unions in Region 1 had an annualized return on average assets (ROA) of 0.85 percent compared to an ROA of 0.93 percent for all FICUs. While the region's credit unions' loan and investment yields and cost of funds were on par with the average for all FICUs, their relatively high net operating expense and lower net margins resulted in a lower ROA compared to all FICUs. The asset quality in the region was somewhat better than the asset quality of all FICUs during the first half of this year. The delinquent loans-to-total-loans ratio in the region was 0.66 percent compared to 0.65 percent for all FICUs, while the net charge-off rate of 0.40 percent in the region was much lower than the overall FICU charge-off rate of 0.51 percent. However, some credit unions were beginning to experience an increase in delinquent loans during September, particularly unsecured and home equity loans. Bankruptcy remains a problem in Region 1, as both the number of members filing for bankruptcy and the loan amounts subject to bankruptcy are on pace to exceed the numbers experienced during last year. However, the bankrupt loans-to-total loans ratio was only 0.51 percent compared to 0.62 percent for all FICUs. As a result, the region's credit unions did not indicate that bankruptcy was the principal concern for 2005.

Competition and Credit Union Operational Concerns for 2005-2006

Many of the credit unions in the region feel that non-traditional financial entities are now their major competitors. While banks, other credit unions, and thrifts are viewed as competition, mutual funds and insurance companies were cited as the greatest source of competition across Region 1. Further, check cashers/payday lenders were cited as competition in some parts of the region. Many credit unions feel they can gain new members due to their more personalized service. In addition, the region's credit unions are seeking additional business accounts as membership growth has slowed over the past year. The region's credit unions mentioned liquidity, the flattening of the yield curve and possible inversion, and in some instances, local labor market conditions as the major operational concerns during this year.

Member Concerns and Economic Conditions in 2005-2006

When asked to assess their members' confidence/sentiment, the majority of the region's credit unions indicated that their members were cautiously optimistic about the fourth quarter of 2005 and 2006. Many members cited geopolitical uncertainty as a major concern, while others cited the rising interest rate environment, high energy costs, the low share rates, and the condition of the local labor market and/or the local government fiscal balance. While most members felt the economy would continue to grow at a decent pace, there was concern that both consumer spending and business investment could easily be disrupted by an act of terrorism or a major problem in Iraq.

The overall economic and financial conditions throughout Region 1 improved over the course of 2005. However, pockets of weakness remain, particularly where manufacturing and high tech industries make up a large portion of the local economy. In Michigan, the economy as a whole has rebounded, but the financial troubles of the light vehicle manufacturers and the city of Detroit's fiscal imbalance continue to be problems. In Connecticut, Maine, Rhode Island, and Vermont, the economies are in good shape. In Massachusetts and New Hampshire, the economic situations have improved, but the reliance on high tech and defense industries continues to create volatility. Finally, in New York, the tourism industry and Wall Street have recovered, yet economic weakness remains in the manufacturing centers of upstate New York.

NCUA Region Two

NCUA Region 2 (Mid-Atlantic) consists of six states[3] plus the District of Columbia. The region has about 15.4 percent of the total assets of all FICUs. Assets were up by 4.7 percent for the first six months of 2005. There are roughly 12.6 million members in this region, up by 137,000 (1.1 percent) during the first half of this year. These percentages mirror the regional economy where the gross state product is about 13.9 percent of the U.S. gross domestic product. Regional production is more concentrated in government, services, finances, insurance, and real estate industries than the average concentrations found nationwide.

Lending

Region 2 FICUs generated loan growth of 4.7 percent during the first half of 2005, slightly less than the national average of 4.9 percent. Over the course of the first half of 2005, first mortgage real estate supplied 39.1 percent of loan portfolio growth, closely followed by other real estate loans at 35.1 percent. Combined real estate secured lending accounted for 74.2 percent of the gain.

Looking forward to 2006, Region 2 FICUs anticipate higher loan growth for new and used vehicle loans than do other regions' FICUs. Conversely, Region 2 FICUs expect unsecured loans to moderate somewhat over the next 12 months. Real estate loan expectations are slightly more positive than FICUs nationwide.

Total vehicle loans in Region 2 advanced by 3.8 percent during 2005, compared to the rate of all FICUs at 4.8 percent. Region 2 new vehicle loans led the way, rising 5.0 percent for the year, while the used vehicle loan portfolio increased 2.7 percent.

Unsecured loans (excluding credit cards) represent 7.7 percent of all FICU loans in the region. This portfolio segment decreased 0.9 percent during the first half of 2005. Credit card loans increased 1.3 percent during the same period, representing 8.5 percent of all FICU loans in the region. The credit union leadership in the region does believe unsecured loans will be a source of loan growth in 2006, but is more pessimistic in this regard than most other regions in the country.

Member Shares

Member share deposits reached $87.4 billion in June 2005, up $3.2 billion (3.8 percent) from year end. Regular shares contributed 23.2 percent of the increase during the first half of this year. Money market shares declined, resulting in a -7.7 percent contribution to share growth. Add in share drafts at 17.2 percent and the number from highly liquid deposit accounts comes to 32.7 percent of 2005's increase in share growth. In contrast, share certificates contributed 54.9 percent of the regional savings growth, reflecting members' preference for higher returns.

[3] The six states are Delaware, Maryland, New Jersey, Pennsylvania, Virginia and West Virginia.

According to NAFCU's September *Flash Report*, Region 2 FICUs foresee no increase in share growth, which is different from the slight positive share growth expectation found in most other regions.

During the first half of 2005, Region 2 FICUs share drafts (13 percent of Region 2 FICU shares) increased at a slightly higher rate (5.1 percent) than during the same period last year (5.0 percent growth). Regular shares (38.9 percent of Region 2 FICU shares) grew 2.3 percent during the first half of 2005. Money market share accounts (14.7 percent of FICU shares) reached $12.9 billion in June 2005, down by 1.9 percent. FICU share certificates (22.8 percent of FICU shares) experienced a 9.8 percent increase during the first half of 2005.

IRA/KEOGH accounts (9.5 percent of FICU shares) were a safe haven for members' precious retirement funds in 2005. This deposit segment advanced 4.3 percent for the first half of the year compared to a national average of 2.3 percent.

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

With loans re-pricing faster than savings during the first half of 2005, credit unions experienced a slight increase in Region 2's consolidated ROA. At 1.05 percent (average ROA for all FICUs was 0.93 percent), this profitability measure increased 1 basis point over 2004 for the region's credit unions. Some FICU management teams expect a slight increase in ROA as a result of the increase in yields on loans.

Gross spreads increased by 11 basis points from 5.80 percent in 2004 to 5.91 percent as of June 2005. The ROA increased among Region 2 FICUs despite the 12 basis point increase in cost of funds, and little change in the operating expense plus the net charge-off expense.

Loan Loss Trends in 2005

Several Region 2 FICUs indicated that their lending growth had risen in the last several months, especially in the areas of indirect auto loans and mortgage loans. In the area of loan quality the June 2005 Region 2 FICUs have a slightly lower delinquency ratio and slightly higher charge-off ratio than credit unions nationwide. The trend in bankruptcy is much lower among Region 2 FICUs than among credit unions nationwide. In June 2005, loans subjected to bankruptcies is 0.54 percent in Region 2 FICUs while nationwide it is 0.62 percent.

The primary operational concerns for 2005 cited by our regional credit unions were savings growth, and satisfying members in a community charter credit union. Some credit unions are noticing that members are moving savings out of credit unions to renovate homes or get back into the stock markets. Higher loan revenue (especially from auto sales) and increasing memberships were mentioned as examples of positive future performance.

Member Concerns and Region 2 Economic Conditions in 2005

Credit union leadership in Region 2 viewed competition with non-traditional financial institutions as a primary concern for the region. Except for D.C. and Delaware, their assessments of employment conditions were improving in the region. On the negative side, concerns about a possible decline in real estate values were cited. Non-traditional financial institutions (e.g., AIG and brokerage firms) were viewed as primary competition for savings, while banks and finance companies were viewed as primary competitors for loans; a similar view is held nationwide.

NCUA Region Three

NCUA Region 3 (Southeast) consisting of ten states and two territories[4] finished mid-year with 1,865 credit unions (FICUs). This represents a net decline of 38 FICUs through the first half of year and 85 FICUs over the past year. Region 3 now holds 21 percent of all FICUs, 20 percent of all assets and 23 percent of all FICU members. Total assets in the region rose to $135 billion. This translates into an annual growth rate of 5.7 percent, which was marginally better than the 5.4 percent reading for the nation as a whole. On a year-to-date basis, Region 3 matched the national average asset growth of 3.5 percent. Membership in the region climbed to 19.1 million, up just 1.4 percent over the past year. The year-to-date gain is a solid 1.3 percent and is outpacing the national average rate of increase. Total employment (full and part-time FICU employees) is now just over 51,800. The 25 largest FICUs in the region hold 37 percent of all assets and 27 percent of the total membership.

Two important considerations must be noted for this report. First, Region 3 covers a wide expanse of geography ranging from the north end of Indiana to the southern tip of Florida. Thus, economic and employment conditions vary significantly. Taking a high-level view of savings and borrowing trends, Region 3 can generalize that members were comfortable with their current conditions through the second quarter, but going forward the levels of pessimism are rising. The second factor to note is that all financial data is pre- hurricanes Katrina and Rita. Five states in Region 3 have been impacted this hurricane season.

Through the first half of 2005, Region 3 FICUs have collectively preformed well. They improved their net worth ratio to 11.2 percent, generated an annualized return on average assets (ROA) of 89 basis points and lowered their loan delinquency rate. Going forward, the big near-term challenges include attracting adequate deposits (thus liquidity) and maintaining ROAs in a rising interest rate environment.

Lending

Year-to-date, total loan growth was 4.3 percent despite 734 FICUs reporting declines in their loan portfolios. These FICUs held roughly 17 percent of the region's assets. The 222 FICUs in Florida reported the strongest loan growth, up 6.2 percent year-to-date. They accounted for 37 percent of all loan growth in the region. The 133 FICUs in North Carolina who hold 16 percent of the region's loans accounted for 19 percent of the region's gain, but their growth slipped to 4.4 percent. In total, Region 3 FICUs fractionally trail the national year-to-date gain of 4.9 percent.

[4] The ten states include Alabama, Florida, Georgia, Indiana, Kentucky, Mississippi, Ohio, North Carolina, South Carolina, and Tennessee, and the territories of Puerto Rico and the U.S. Virgin Islands. This review excludes 100 credit unions with a state charter and private share insurance. Their total assets were $3.7 billion.

Region 3's loan-to-share ratio is up a healthy 338 basis points over the past year and 99 basis points year-to-date. At 74.4 percent, Region 3 trails the national average loan-to-share ratio by a full 150 basis points. The lowest average loan-to-share ratio in the region was reported by Ohio at 63.7 percent and South Carolina reported the highest at 76.4 percent.

A $1.1 billion gain in first mortgages contributed 32 percent of all the loan growth year-to-date and this occurred despite loan sales totaling $2.1 billion. New vehicles added 29 percent and when combined with used, total vehicle loan growth accounted for almost 48 percent of the gain.

Overall, Region 3's vehicle loan results were good with the total portfolio year-to-date increase coming in at 5.1 percent. This compares favorably to a national average gain of 4.8 percent. While new vehicle loan growth in Region 3 was below the national average, the 3.6 percent year-to-date gain in the used vehicle loan portfolio more than made up the difference. NCUA data now shows that 71 percent of the change in vehicle loans outstanding is attributable to indirect loans. Currently, 30 percent of all vehicle loans in the region are indirect loans.

FICU leadership is uncertain about future growth prospects. In the wake of two major hurricanes, higher energy prices, and falling consumer confidence, the market may tighten. So much of what happens to origination volumes and loan portfolios going forward will depend on the next rounds of manufacturers' incentives (financing, discounting, or both). Anecdotally, FICU leaders were very pleased with July's vehicle lending results. FICUs benefited from manufacturers' "buy like an employee" promotions as they backed away from financing incentives.

A total of 797 FICUs reported originating first mortgage loans in Region 3 year-to-date, down 24 from June 2004 results. The dollar value of originations totaled $4.4 billion, off just 1.5 percent from mid-year 2004 activity. About 72 percent of Region 3's first mortgage growth year-to-date is from adjustable rate loans. This implies a large share of fixed-rate loans was sold so as to remove interest rate risk exposures. FICUs in the region grew their real estate secured loan portfolios (first mortgages, home equity, and second mortgages) by 5.0 percent year-to-date, well below the 6.5 percent national average. Currently, real estate secured loans equal just under 45 percent of all loans at Region 3 FICUs.

Although the overall housing market is cooling as affordability declines (higher home prices combined with higher interest rates), FICU leadership in the region sees adequate loan demand in the near-term, but is mildly concerned about softening home prices (collateral values).

Total Member Shares

During the first half of 2005, total shares rose 2.9 percent to $116 billion and this gain matched the national average. The strongest growth was in time deposits (CDs). This deposit segment is up 8.7 percent year-to-date and has accounted for 69 percent of the gain. Regular shares (35 percent of all deposits) are up just 1.5 percent year-to-date and money market accounts are down 1.8 percent. Florida FICUs continue to hold about 27 percent of all deposits in the region and generated year-to-date growth of 3.6 percent

FICUs are intentionally keeping rates on share drafts and regular shares low in an attempt to hold down their cost-of-funds. With more dollars directed into higher cost CDs, the average cost-of-funds has risen 14 basis points year-to-date to 1.61 percent, which is 6 basis points above the national average. While FICU leaders have growing concerns about potential liquidity constraints, they are opting to keep rates low on stable money in an effort to reverse the trend of declining gross spreads and ROAs.

Asset Quality and Operational Results

The consolidated ROA for Region 3 FICUs was 0.89 percent, up 7 basis points from year-end 2004, but down 5 basis points from June 2004. A total of 1,635 FICUs (88 percent of the region's FICUs) reported positive ROAs, while 230 reported a loss or no gain. The FICUs with negative ROAs represented just 2.1 percent of the region's assets. There were 559 FICUs in the region (41 percent of all assets) reporting an ROA of 1.0 percent or better.

Asset quality, as measured by the ratio of delinquent loans to total loans (0.69 percent) and net charge-offs to total loans (0.51 percent), have both improved year-to-date and over the past year. Looking at one measure of operating efficiency (operating expenses to average assets), they see this measure is stable at 3.3 percent. The overall health of Region 3 FICUs can be described as solid to improving, although many leaders are anticipating a more challenging operating environment through year-end 2005 and in 2006.

Looking forward, Region 3 FICUs see challenging times ahead for themselves and their membership. Historically, when times get tough, FICUs perform very well.

NCUA Region Four

NCUA Region 4 (Midwest) consists of thirteen states[5] and 2,591 credit unions as of June 30, 2005. The credit unions in this region represent 29.2 percent of all federally insured credit unions and hold some $133 billion in total assets or 19.9 percent of the country's total credit union assets. There are an estimated 19 million members in this region, up 265,000 (1.4 percent) over the past 12 months. For the first six months of 2005, total assets grew by 2.7 percent and reserves and undivided earnings increased 2.6 percent to a total of $14.7 billion. Shares grew $2.2 billion (2.0 percent) during the six month period while loan balances increased $3.9 billion (4.5 percent). As of June 30, 2005 share balances totaled $112.7 billion while outstanding loan balances were $89.7 billion. Region 4's loan-to-share ratio increased from 77.7 percent in December 2004 to 79.6 percent in June 2005.

Lending

Loan growth in Region 4 was strong in the first half of 2005, growing 4.5 percent. Total outstanding loans for Region 4 were $89.7 billion, up nearly $4 billion from December 2004. Most loan categories experienced positive growth in the first half of 2005. Gains were particularly strong in mortgage lending and in new vehicle loans. Specifically, first mortgage loans grew by 6.7 percent (or $1.4 billion) and other real estate loans grew 5 percent (or $0.5 billion). Credit unions were able to grow new vehicle loans by 6.5 percent to $19.9 billion. Used vehicle loan demand rose by 2.6 percent during the first half of 2005. Credit card and unsecured loans declined by 1.9 percent and 1.8 percent respectively. The Region 4 loan-to-share ratio improved to 79.6 percent, the highest quarter-end ratio since December, 2000.

Mortgage originations activity remained strong in the first half of 2005 as a result of the booming real restate market and relatively low mortgage rates. Fixed-rate first mortgage loans grew 5.3 percent and adjustable-rate first mortgage loans rose 9.1 percent in the first half of 2005. Adjustable-rate mortgage loans as a percent of total mortgage loans outstanding increased to 37 percent.

Finally, activity in loan participations continued its strong growth, albeit from modest 2004 levels. Growth of 15 percent during 2005 brings total loan participation outstanding to $1.6 billion.

Asset Quality

Credit unions in Region 4 continue to do a good job in managing credit risk and the outlook for loan quality remains very positive. The region's average delinquency rate was 0.85 percent, slightly higher than the national average of 0.64 percent. Total

[5] The thirteen states are Arkansas, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas and Wisconsin.

delinquent loans as a percentage of net worth declined to 5.10 percent from 5.51 percent in December, 2004.

Investments

With loan growth strong relative to share growth, total cash and investment decreased modestly, down 2.2 percent in the first half of 2005. Total investments grew only $40 million, while total cash declined $894 million in the first half of 2005. Credit unions continued to keep the majority of their investment maturities short term. Approximately 88 percent of all cash and investments are expected to mature or reprice within three years and over 55 percent are expected to mature or reprice within 12 months. The largest category of gain in dollar amount within the investments category was investments in corporate credit unions, adding 9.7 percent to $4.2 billion. Investment categories that experienced declines in the first half of 2005 included federal agencies, mutual funds, and bank and S&L certificates of deposits.

Member Shares and Liabilities

Shares grew slightly during the first half of 2005, up 2 percent from December 2004 levels. Total shares stood at $112.7 billion as of June 2005. Most of the growth occurred in three categories: share certificates, up $1.85 billion to $27.2 billion (7.3 percent growth); regular shares, up $490 million to $42.6 billion (1.2 percent growth); and IRA/KEOGH accounts, up $143 million to $9.1 billion (1.6 percent growth).

Prospects for share growth will depend on the relative performance of the stock market and short-term money market accounts as an alternative for members' excess funds. Job and income growth continues to improve, and could add to the credit union share base in Region 4. Share growth is expected to lag loan growth, putting further upward pressure on loan-to-share ratios.

Credit unions in Region 4 continued to generate liquidity through the use of borrowed funds in the first half of 2005. Notes payable increased 20 percent to $3.9 billion.

Earnings

The annualized return on average assets increased to 0.89 percent as of June 30, 2005 from 0.85 percent at year-end 2004. During the first half of 2004, the yield on average loans fell 16 basis points to 6.04 percent and the yield on average investments increased 50 basis points to 2.97 percent. However, the cost of funds-to-average assets ratio increased by 17 basis points to 1.62 percent and operating expenses-to-average assets ratio increased 2 basis points to 3.41 percent.

These factors combined to bring average Region 4 net interest margin-to-average assets ratio down to 3.25 percent from 3.33 percent.

Member Concerns for 2006

When managers are asked to assess their primary concerns, the majority of the region's credit unions are cautiously optimistic about 2006. However, most credit unions express concern over declining net interest margin and liquidity as major challenges in the foreseeable future, while others cited low share rates, a rising interest rate environment and uncertainty about local labor market conditions. Most credit unions believe that overall economic and financial conditions will remain healthy going forward. However, some executives expressed concerns about inflation, consumer spending and the housing market.

General Economic Conditions

Economic activity in the Midwest continued to expand at a moderate pace in the first half of 2005. Consumer spending continued to increase gradually supported by strong income and employment gains, but high energy prices have some concerned about the economic outlook. Business spending and hiring expanded at a modest pace while construction-related activity remained brisk. Additionally, manufacturing activity continued at a solid pace while activity in the service sector was also expanding moderately and agricultural conditions declined slightly. Price pressures remain modest outside the energy-related sectors. The labor market continues to tighten.

NCUA Region Five

Region 5 (Western) consists of 13 states and two territories[6]. As of June 30, 2005, the region's 1,432 FICUs comprised 16.1 percent of all FICUs and held some $189.6 billion in total assets, 28 percent of the nation's total credit union assets. Credit unions across the country continue to attract new members; the credit unions in Region 5 saw membership increase by 200,000 since year-end 2004, ending the period with 20.4 million members. Total assets grew by 3.9 percent and reserves and undivided earnings increased 4.6 percent to a total of $19.8 billion. Shares grew $5.2 billion (3.3 percent) over the six-month period, while loans increased $7.5 billion (6.2 percent). At June 30, 2005 share balances totaled $163.7 billion while outstanding loans came in at $127 billion. The loan-to-share ratio rose from 75.43 in December 2004 to 77.59 in June 2005.

Loan Growth

Loan growth in Region 5 for the first six months of 2005 was 6.2 percent, pushing total loans for Region 5 up to $127 billion, or 67 percent of total assets. Loans comprised 65.5 percent of assets at the end of 2004.

Growth in real estate loans continued to advance at a strong pace. Residential first mortgage loans grew by 6.6 percent and other real estate loans grew by 12.8 percent.

The volume of new real estate loans granted actually grew by 8.2 percent from the year-end 2004. The growth was most evident in fixed rate mortgages and other real estate loans. Total first mortgage loans stood at $40.7 billion as of June 30, 2005. While first mortgage adjustable rate loans have grown in the first six months of 2005 by 4.8 percent, this is well off the growth pace of 25 percent in 2004. At year-end 2004, adjustable rate mortgages (ARMs) comprised 32.8 percent of the first mortgage category held by credit unions. On June 30, 2005, ARMs comprised 32.2 percent of first mortgages. Home equity lines of credit (HELOCs) grew by 12.2 percent, bringing the total value of HELOCs to $11.7 billion. For the region, real estate loans made up 47.4 percent of total loans, which is slightly higher from the end of 2004.

Vehicle loans grew 5.8 percent in the first six months of 2005. New vehicle lending surged by 10 percent, while used vehicle lending rose by only 1.7 percent. With the Big Three automakers turning toward price incentives instead of financing incentives to move the metal, this re-opened up the new vehicle lending market to credit unions. Many credit unions in Region 5 have been aggressive in building market share by offering attractive financing rates. Growth in indirect vehicle lending has been the primary factor fueling portfolio growth.

[6]The thirteen states are Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, Wyoming, and the two Territories of Guam and American Samoa.

Member business lending activity continues to grow as credit unions start to assist members in this area. Originations increased sharply to $6.9 billion from $5.9 billion at year-end 2004.

Credit unions have mixed views on the outlook for loan growth for the rest of 2005. Refinancing activity has declined sharply in the last few months and further declines are predicted. However, reasonably low interest rates and more aggressive marketing of Hybrid ARMs should help support purchase activity for credit unions with competitive mortgage lending programs. Some credit unions, especially in Hawaii and California, are concerned that affordability is becoming a significant factor for members seeking to buy that first home or trade up. Credit unions in those areas are concerned that real estate lending could slow due to that factor. Lending for new vehicles is expected to cool for the rest of 2005, but credit unions expect to see continued growth in indirect vehicles lending as existing players increase their activity and new credit unions enter the market. Member business lending is another bright spot for some credit unions. The outlook for unsecured lending continues to be very weak.

Loan Quality

Credit unions continue to do a good job in managing credit risk and generally remain very positive about the outlook for 2005. The delinquent loans-to-total loans ratio declined to 0.47 percent from 0.57 percent on December 2004. Net charge-offs-to-average loans ratio also showed improvement falling from 0.59 percent to 0.53 percent.

Share Growth

Shares advanced 3.3 percent to $163.7 billion. Regular share accounts grew by 1.3 percent and share drafts by 5.4 percent. Share certificate balances grew by 9.6 percent, as higher interest rates enticed members to lock in longer-term rates. Most of the growth in certificates was in maturities between 1 to 3 years. As of June 30, 2005, regular share accounts (31.6 percent), share certificates (24.8 percent) and money market accounts (20.8 percent) made up the major portion of share accounts. Although liquidity is not a big issue for most credit unions, they are seeing an increase in borrowing for liquidity. This demand is generally coming from credit unions that have been aggressive in the indirect lending programs. Borrowings increased $700 million (18 percent) in 2005 but remains a modest $4.3 billion. Several credit unions are looking to the derivatives market to hedge the cost of share balances and short-term certificate issuance. Region 5 credit unions generally expect share growth will be relatively weak for the balance of 2005.

Investments

Investments were flat for the first two quarters of 2005 with the balance at $44.6 billion or 23.5 percent of total assets. Holdings of federal agency securities held steady at $21.7 billion. Holdings of corporate certificates grew by 5.1 percent, from $12.5 billion to $13.1 billion. Investments maturing in less than one year were 47 percent of total investments, while investments between one and three years comprised 37 percent of the total. The average yield on investments increased 2.64 percent to 3.08 percent, as low yielding investments purchased in 2003 and 2004 matured and were replaced by higher yielding investments. Credit unions should continue to see increases in portfolio yields.

Earnings

The annualized return on average assets in 2005 has been 0.97 percent, which is unchanged from the end of 2004. The average yield on loans declined from 6.11 percent to 5.93 percent. The cost of funds-to-average assets ratio rose from 1.31 percent to 1.47 percent. The overall net interest margin declined from 3.44 percent to 3.35 percent. Operating expense-to-gross income was at 53.76 percent, down from 55.22 percent. Fee income rose modestly from $1.35 billion to $1.41 billion.

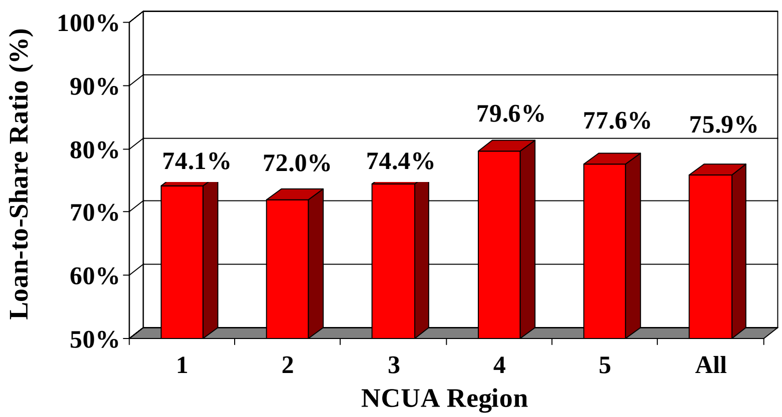
General Economic Conditions and Credit Union Concerns

Economic conditions in this region generally improved in the first six months of 2005. Recent data shows improvements in the labor market, consumer spending, commercial real estate, information technology, service, and manufacturing industries. The most critical factor, the labor market, has shown marked improvement in 2005 with job growth becoming more consistent and less sporadic. Household spending was driven by gains in services, travel, and home furnishings.

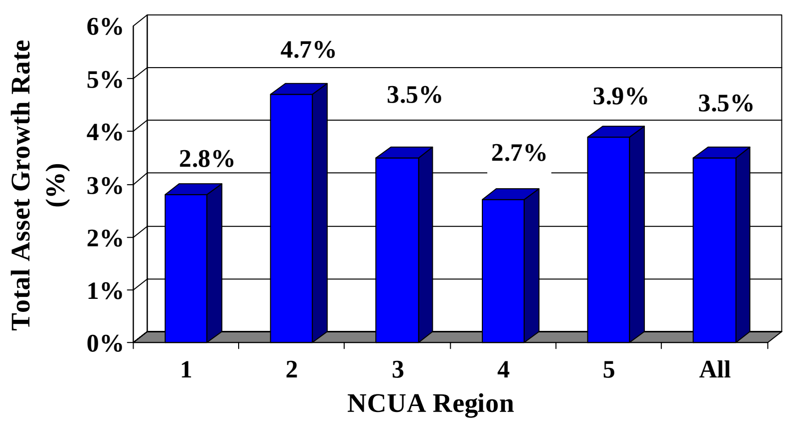
Home sales were strong throughout the region in 2005, but the housing market has recently shown signs that it might be "cooling off." Affordability is becoming a particular issue in the states of California and Hawaii.

The number one concern expressed by credit union executives is the squeeze on net interest margins. The pace at which the Fed raises short-term interest rates as well as the shape of the yield curve will primarily drive the speed of compression. The full impact of higher rates has yet to be felt because retail deposit rates at credit unions are dramatically lagging changes in the wholesale market. Early in 2005 most all financial institutions were lagging the market, but that seems to be shifting. Credit unions may find that a more competitive deposit landscape will speed margin compression. To offset declining margins, many credit unions are seeking ways to increase fee income, enter new lending sectors, and/or become more competitive in the mortgage lending area. Most credit unions remain wary of putting long-term assets on their books in the current environment because they do not want to increase their interest rate sensitivity as rates continue to increase. Additionally, the flat yield curve does not offer an attractive risk/reward ratio for extending investments and other assets

Loan-to-Share Ratio
Federally Insured Credit Unions
by NCUA Region
June 2005

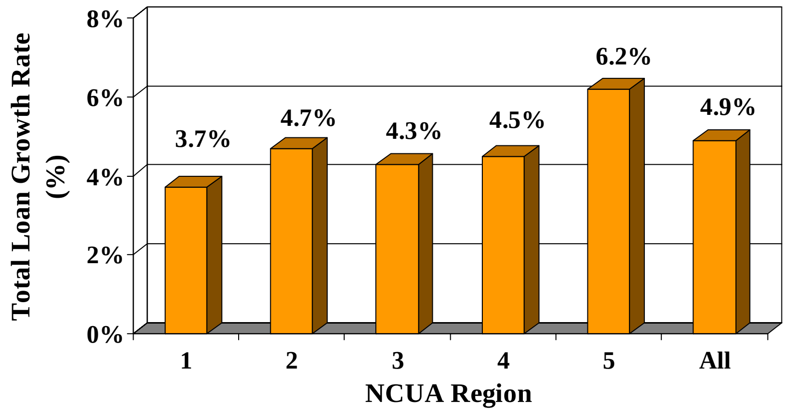


Total Asset Growth
Federally Insured Credit Unions
by NCUA Region
June 2005*



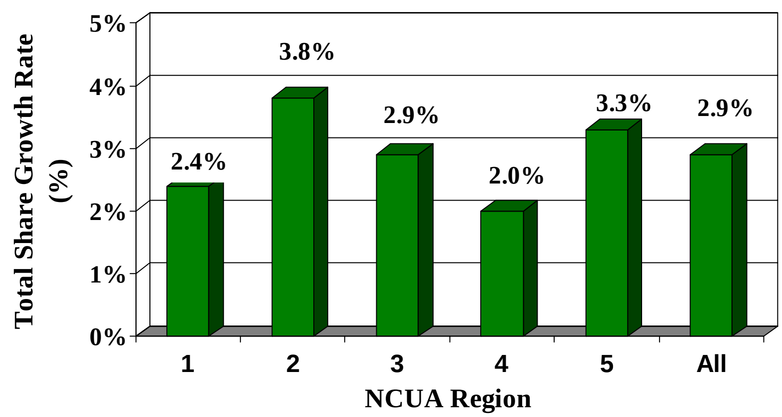
*Figures are not annualized.

Total Loan Growth
Federally Insured Credit Unions
by NCUA Region
June 2005*



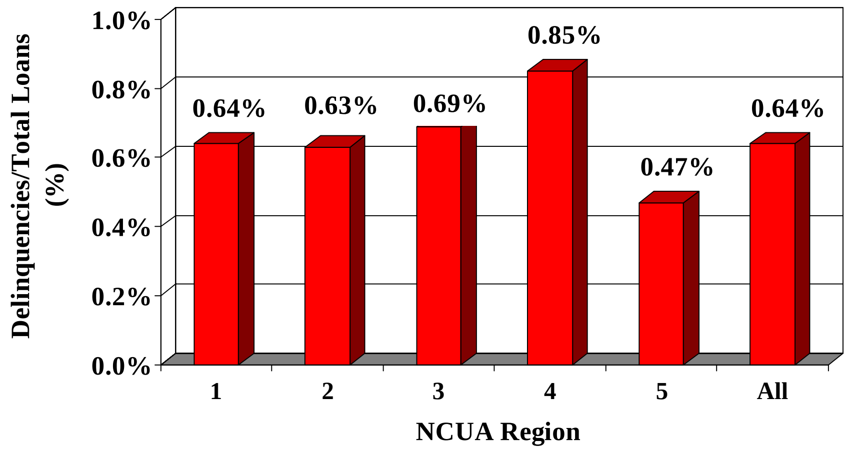
*Figures are not annualized.

Total Share Growth
Federally Insured Credit Unions
by NCUA Region
June 2005*

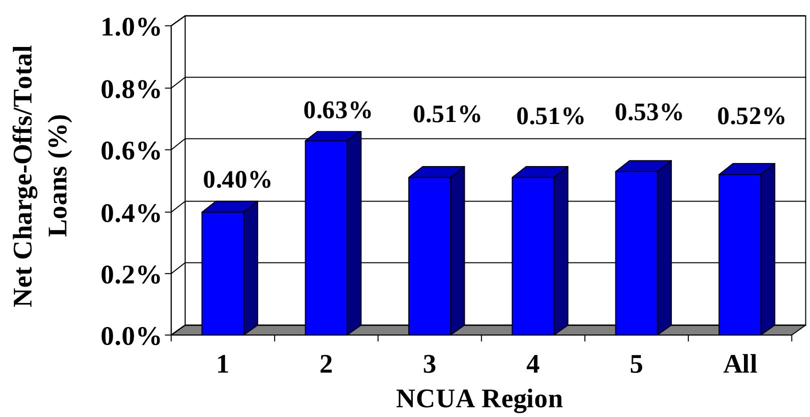


*Figures are not annualized.

Delinquency Ratio
Federally Insured Credit Unions
by NCUA Region
June 2005

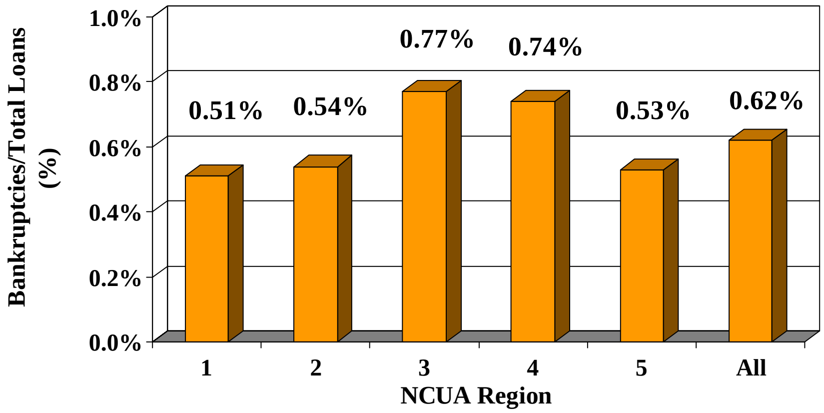


Net Charge-Offs/Total Loans
Federally Insured Credit Unions
by NCUA Region
June 2005*



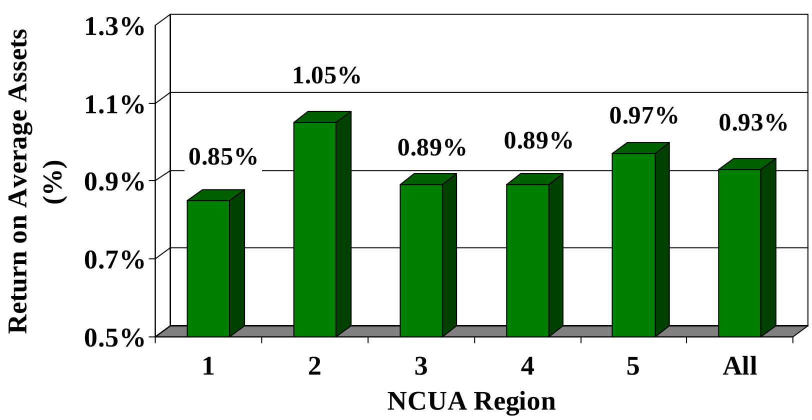
*Figures are annualized.

Bankruptcies/Total Loans
Federally Insured Credit Unions
by NCUA Region
June 2005*



*Figures are annualized.

Return on Average Assets (ROA)
Federally Insured Credit Unions
by NCUA Region
June 2005*



*Figures are annualized.

Appendix B: NCUA Regions

NCUA REGIONAL BREAKDOWN