

**NEAR-TERM & LONG-TERM CREDIT
UNION CHALLENGES
CREDIT UNION ECONOMICS GROUP (CUEG)**

**National Association of
Federal Credit Unions
Annual Conference
Toronto, Ontario, Canada**

July 13, 2006

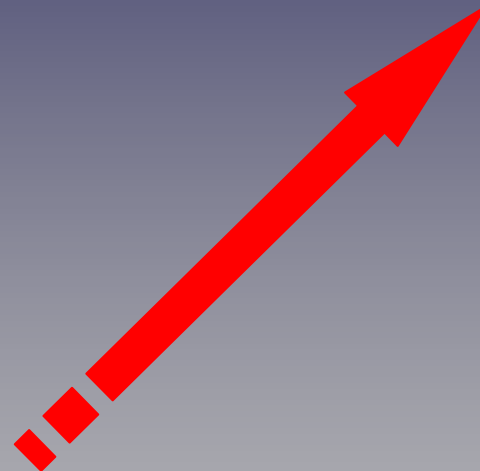
For more information on CUEG:

www.cueg.org

CUEG DISCUSSION TOPICS

- **CUEG ECONOMIC FORECAST**
 - Tun Wai, NAFCU
- **CREDIT UNION LIQUIDITY**
 - Bob Burrell, WesCorp
- **MEMBERSHIP GROWTH TRENDS**
 - Dave Colby, CUNA Mutual Group
- **REGULATORY COSTS**
 - Kendrick Smith, Eastern Financial CU
 - Bruce Beaudette, Sunmark FCU

CU Performance

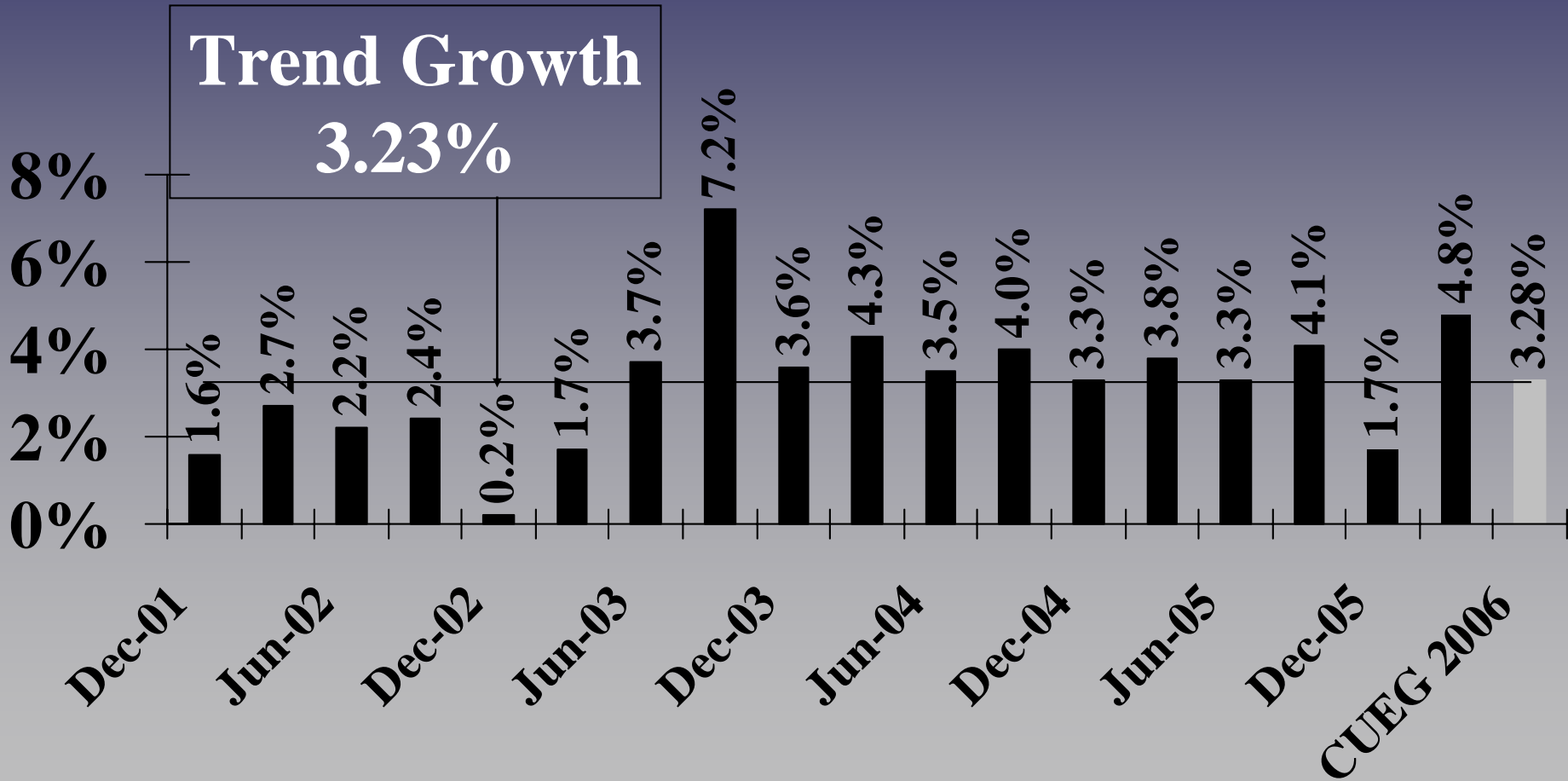


Economic Environment

CUEG ECONOMIC FORECAST

**Tun A. Wai, NAFCU
Chief Economist**

GDP GROWTH



Source: Bureau of Economic Analysis

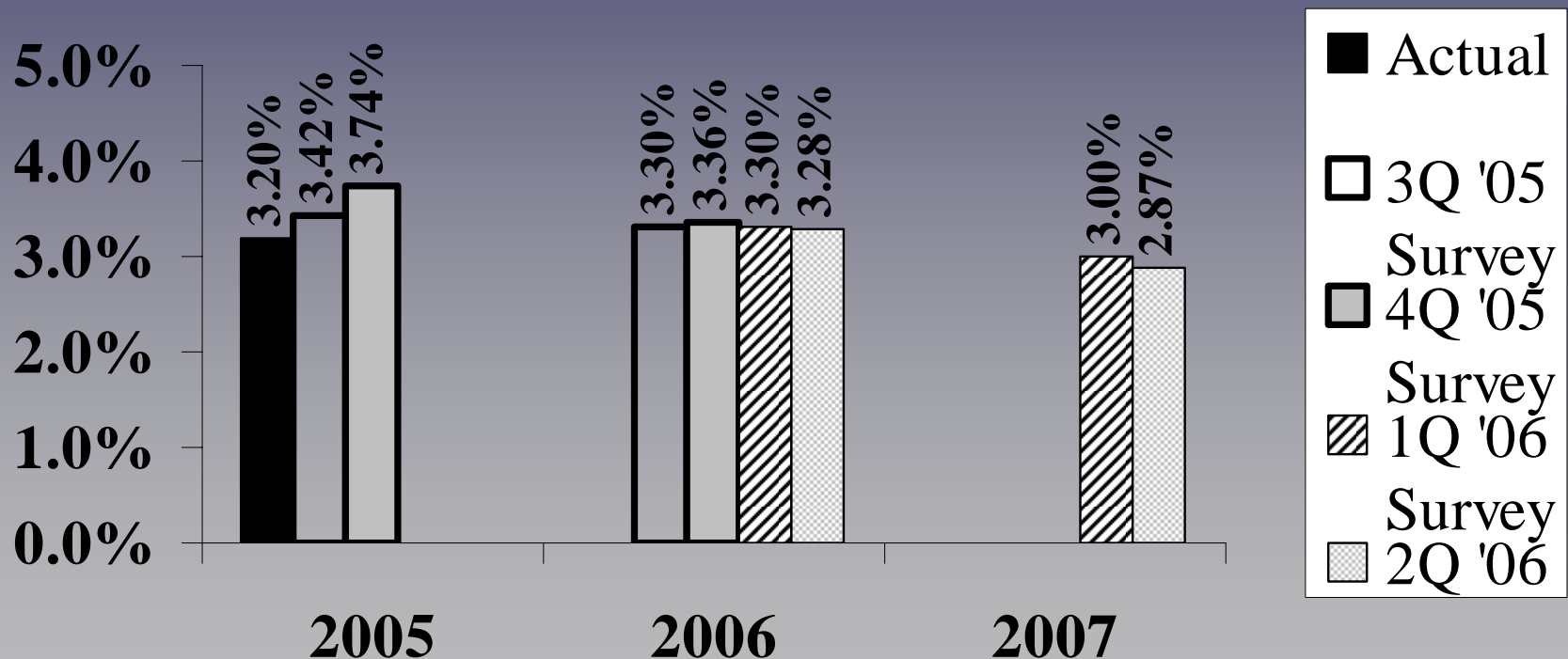
FEDERAL RESERVE BOARD MACROECONOMIC FORECAST

	Actual Results	2006 and 2007 Forecasts (Central Tendency)	
	2005	2006	2007
Nominal GDP*	6.4%	5.5-6.0%	5.0-5.75%
Real GDP*	3.2%	3.0-3.5%	3.0-3.5%
PCE price index (excluding food and energy)	2.0%	2.0%	1.75-2.0%
Civilian unemployment**	4.9%	4.75-5.0%	4.75-5.0%

* Fourth Quarter to Fourth Quarter Change. ** Fourth Quarter-Average Levels.

Source: Federal Reserve Board

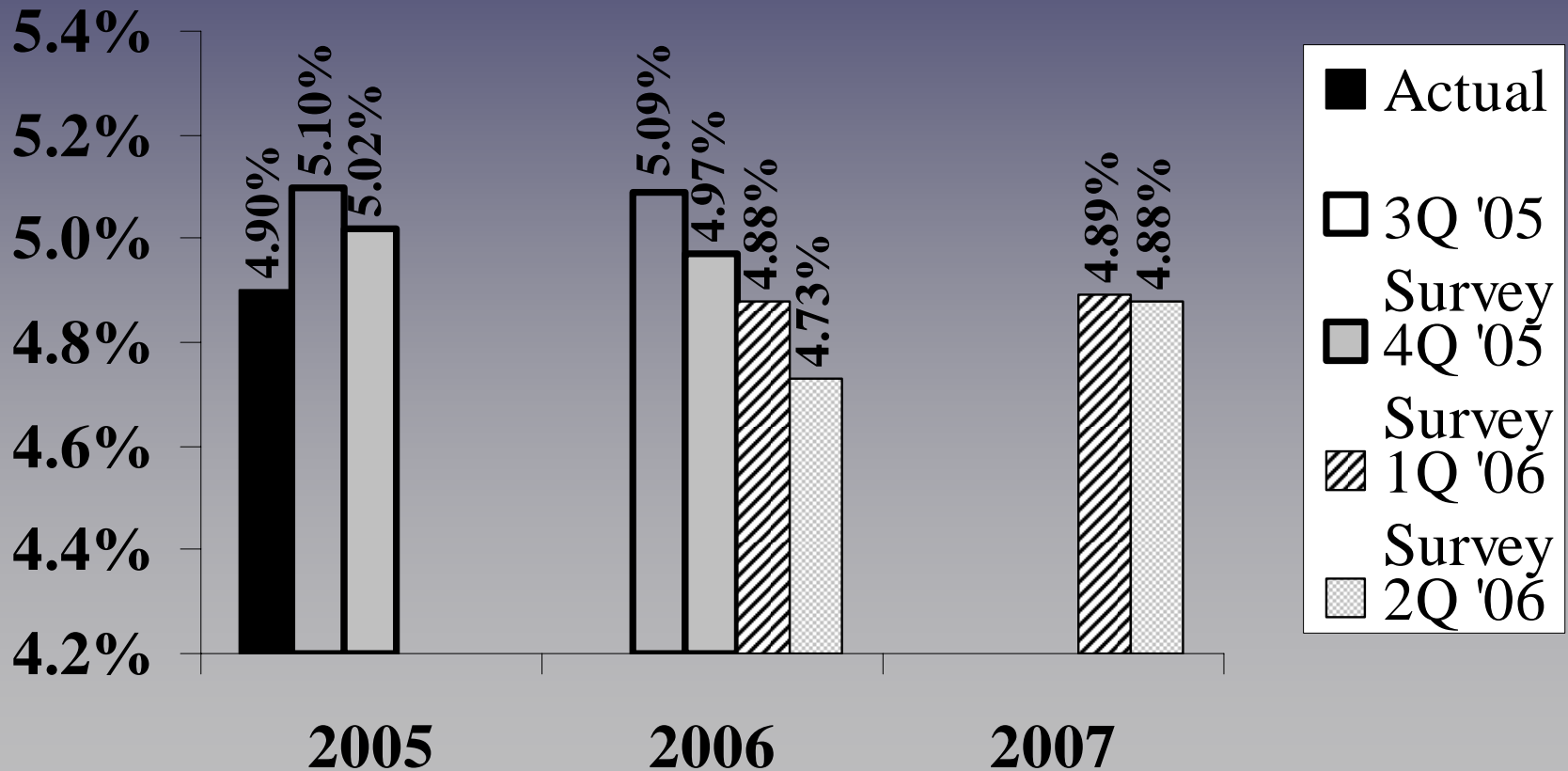
CHANGES IN CUEG* GDP FORECASTS (Mean Reported)



Source: www.cueg.org

* Credit Union Economics Group

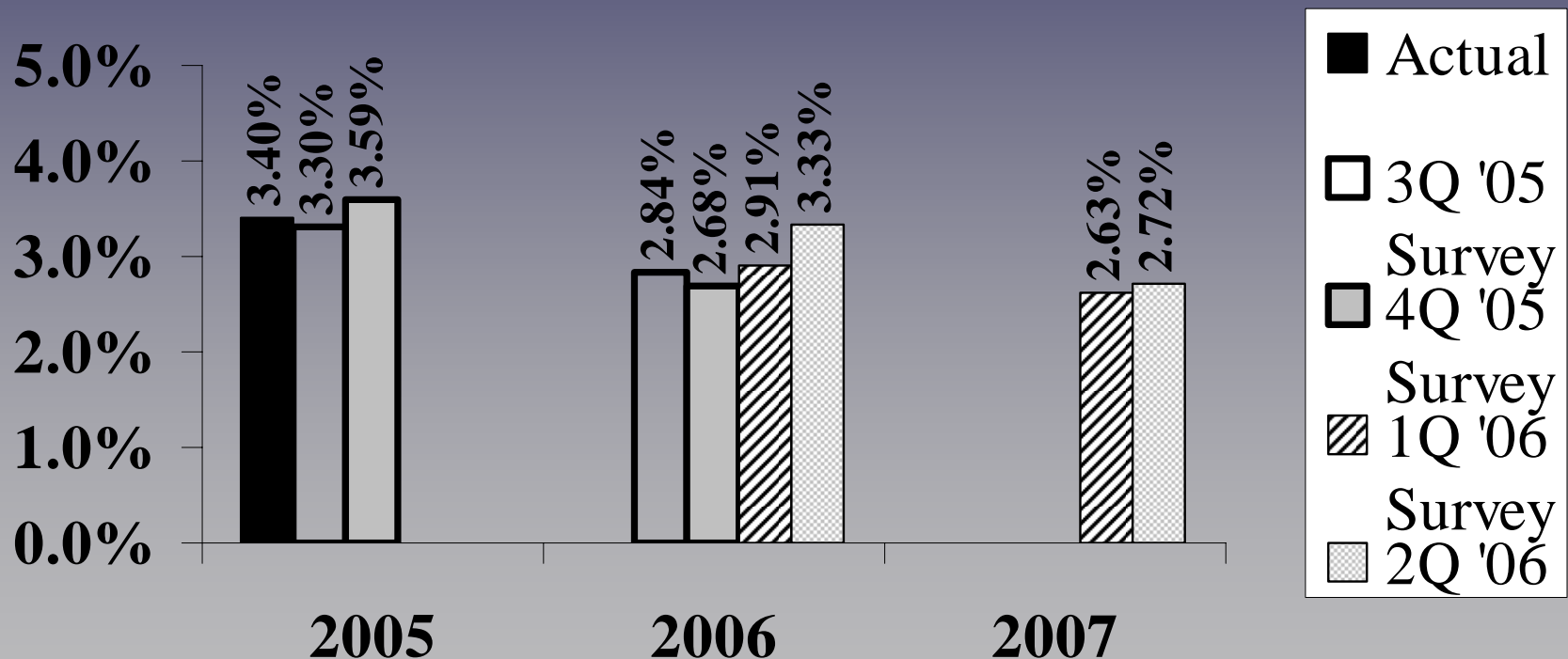
CHANGES IN CUEG* UNEMPLOYMENT FORECAST (Mean Reported)



Source: www.cueg.org

* Credit Union Economics Group

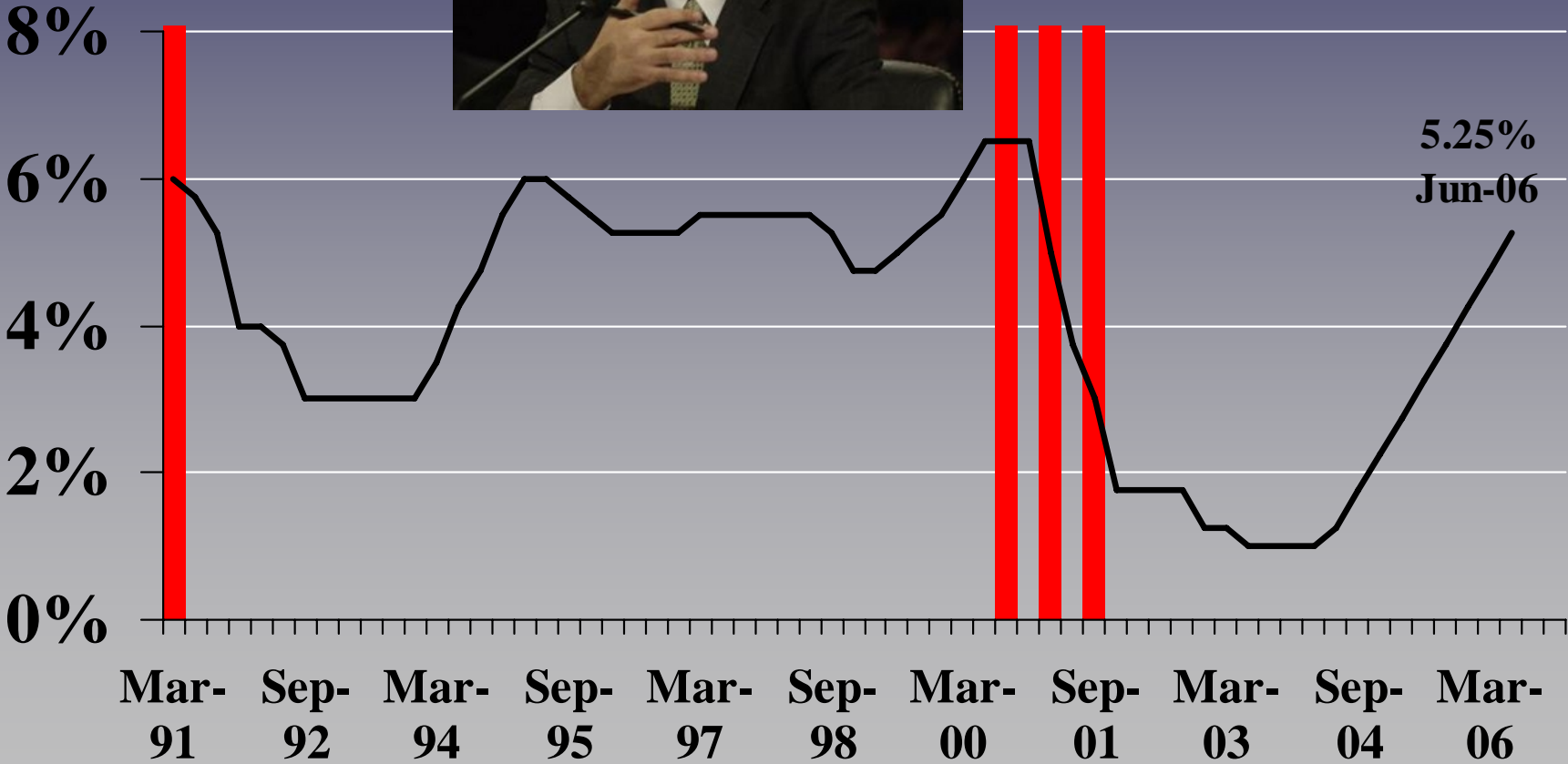
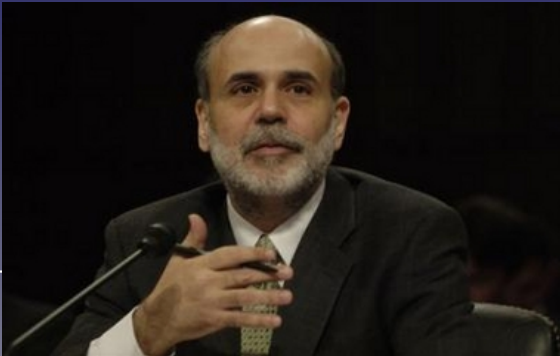
CHANGES IN CUEG* CONSUMER PRICES (CPI-U) (Mean Reported)



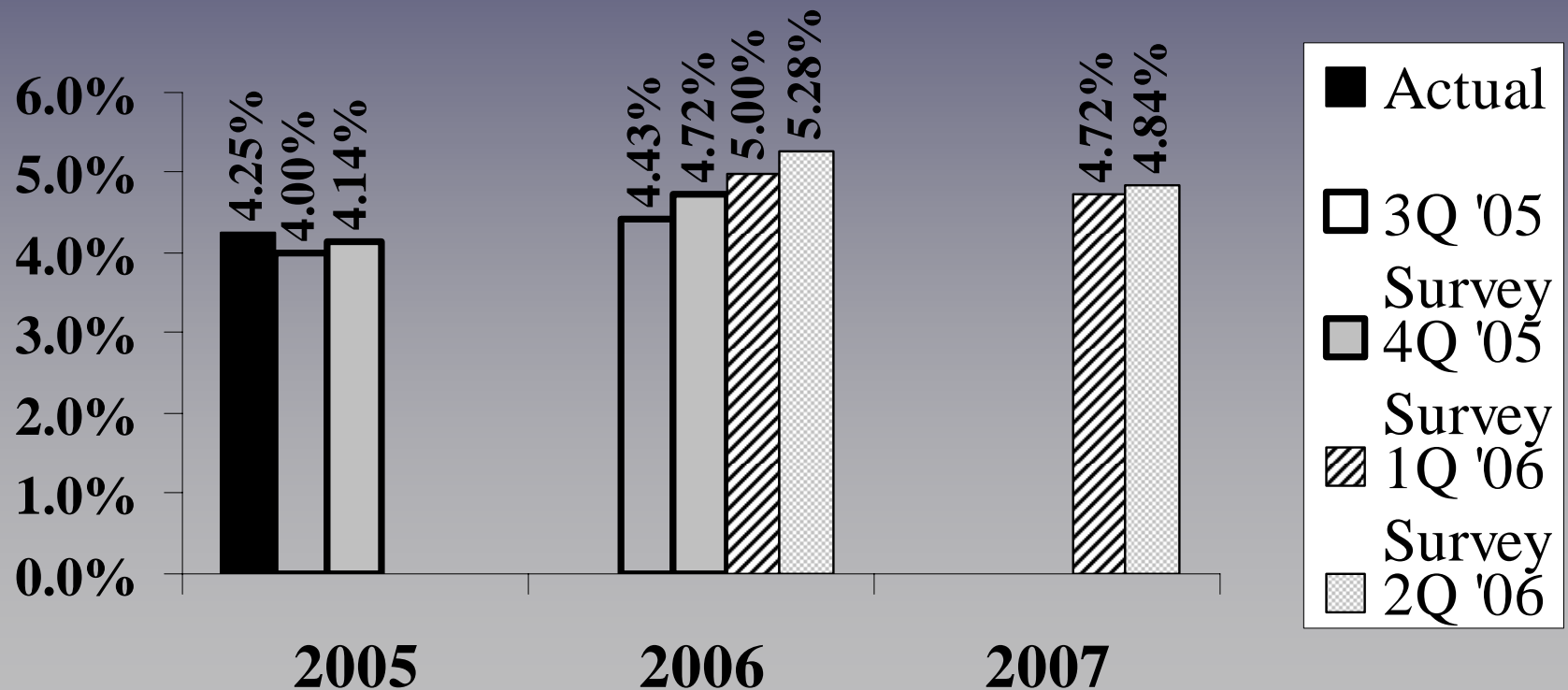
Source: www.cueg.org

* Credit Union Economics Group

TARGET FED FUNDS RATE



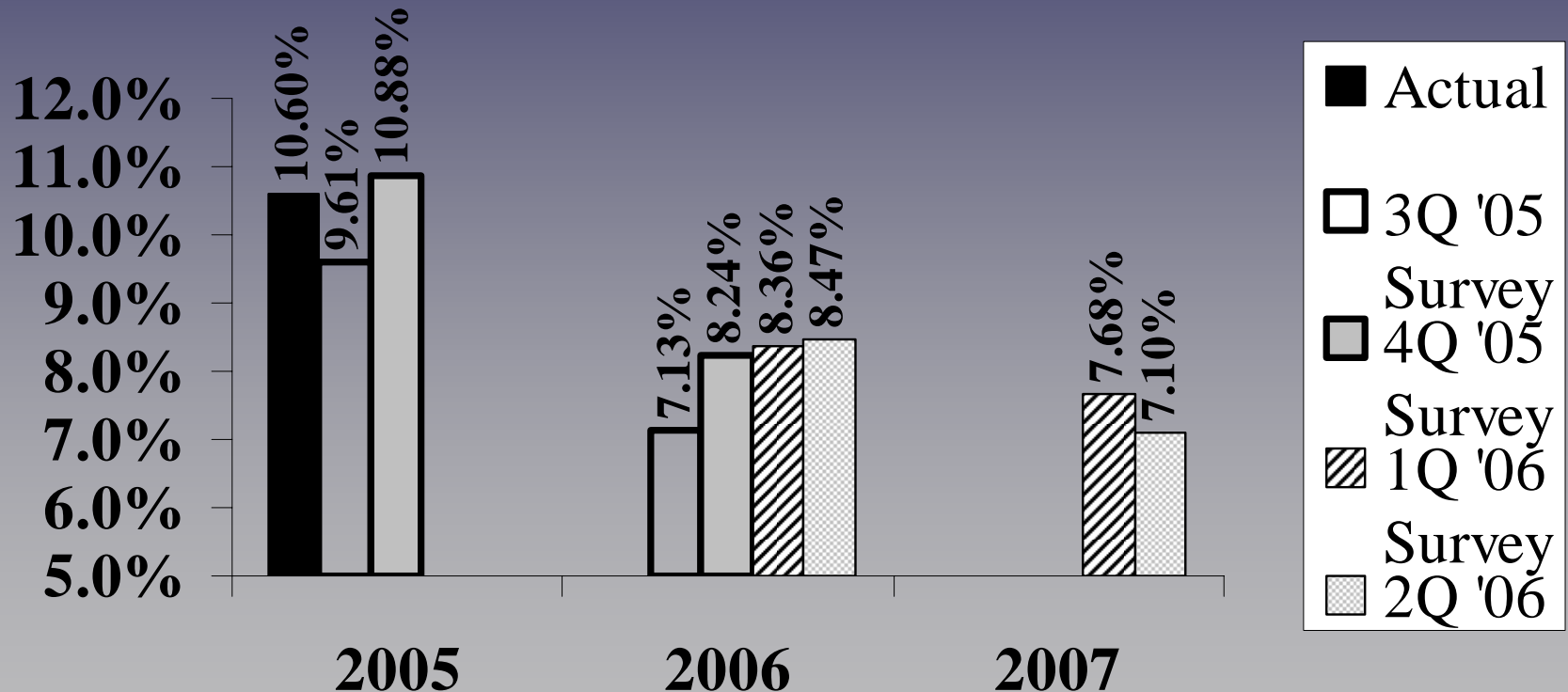
CHANGES IN CUEG* FEDERAL FUNDS RATE FORECAST (Mean Reported)



Source: www.cueg.org

* Credit Union Economics Group

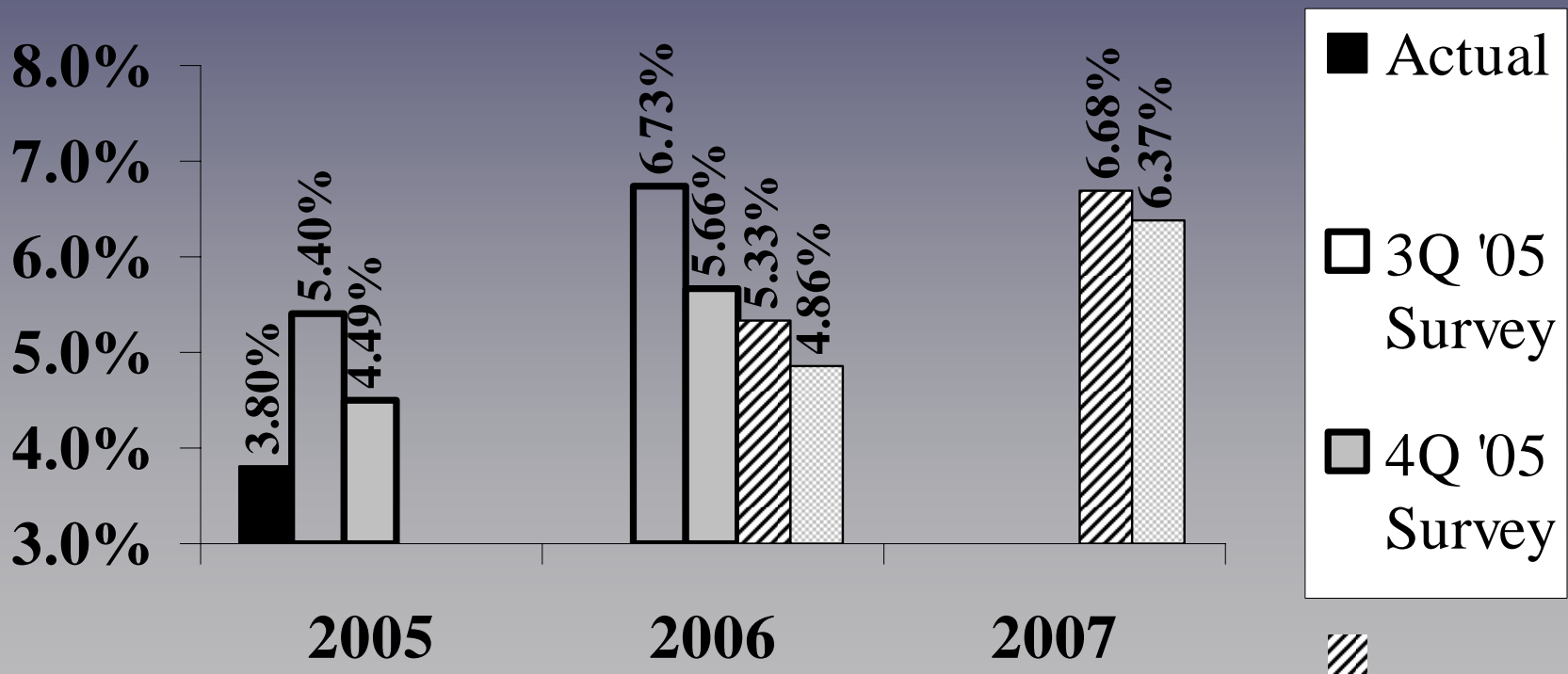
CHANGES IN CUEG* FICU'S LOAN GROWTH FORECAST (Mean Reported)



Source: www.cueg.org

* Credit Union Economics Group

CHANGES IN CUEG* FICU'S SHARE GROWTH FORECAST (Mean Reported)



Source: www.cueg.org

* Credit Union Economics Group

...Credit Union Liquidity



Rising Interest Rates...

CREDIT UNION LIQUIDITY

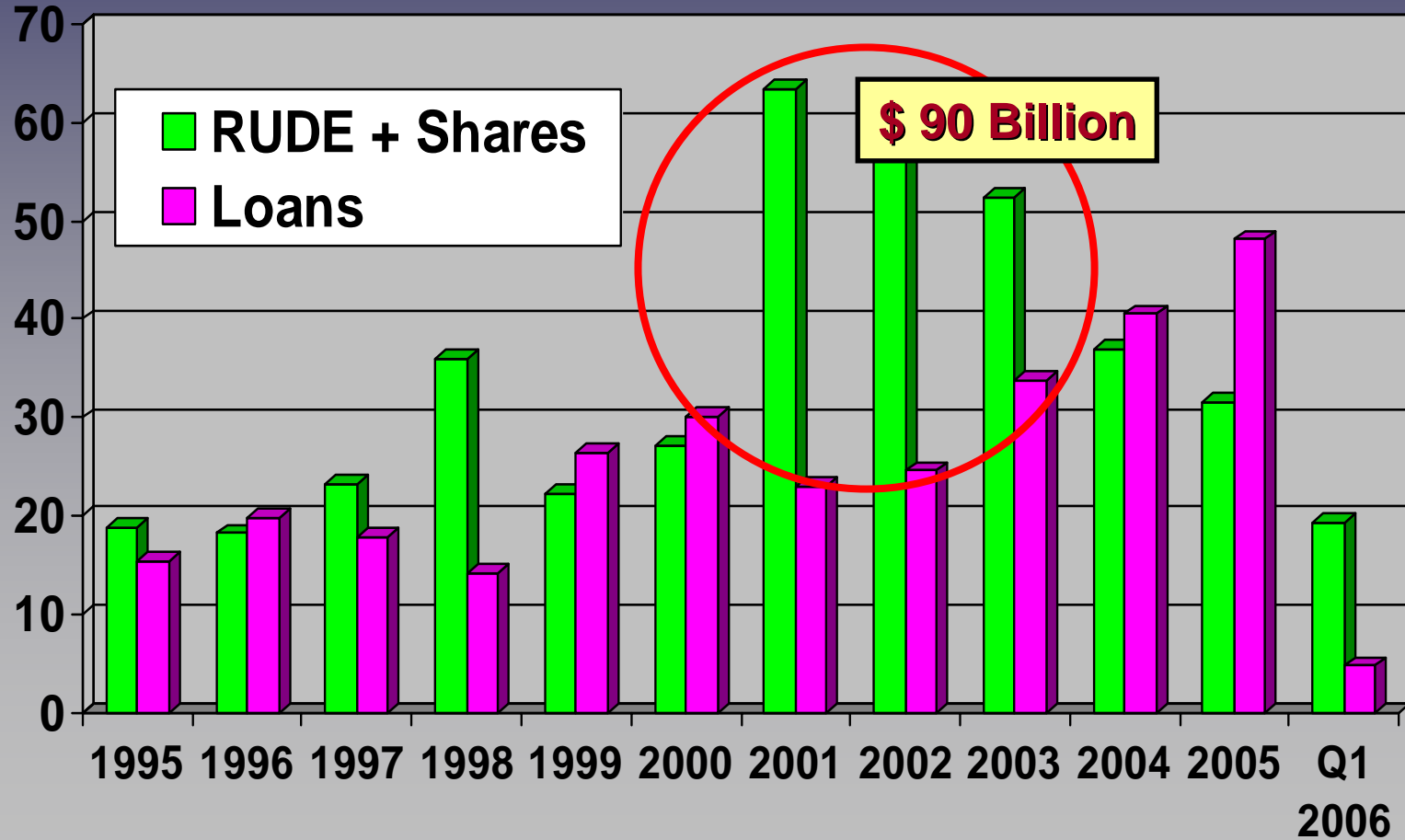
Bob Burrell, WesCorp

**Executive Vice President & Chief Investment
Officer**

CU SYSTEM REMAINS VERY LIQUID

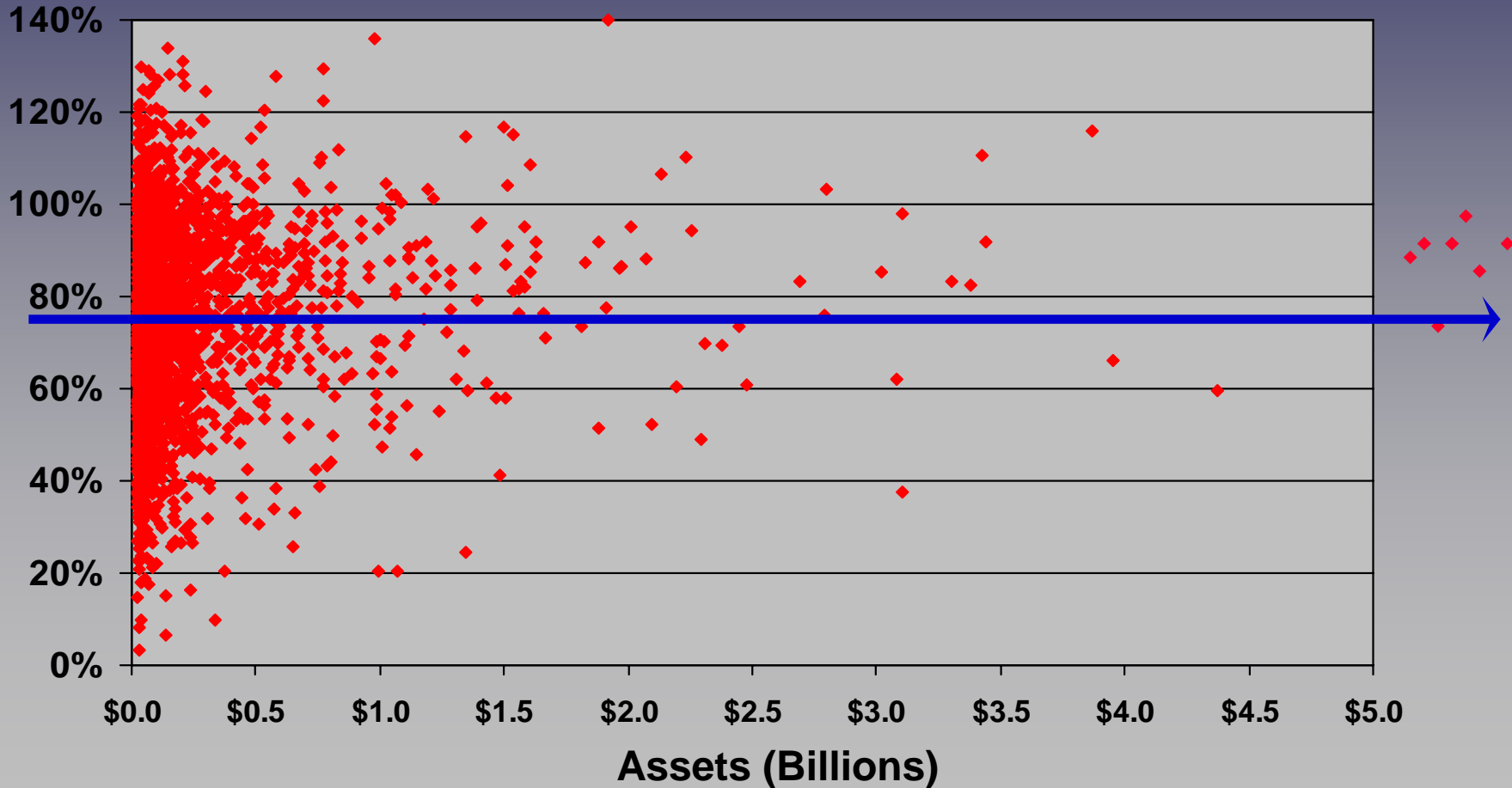
All FICU's

Growth - \$ Billions



LIQUIDITY NEEDS VARY WIDELY

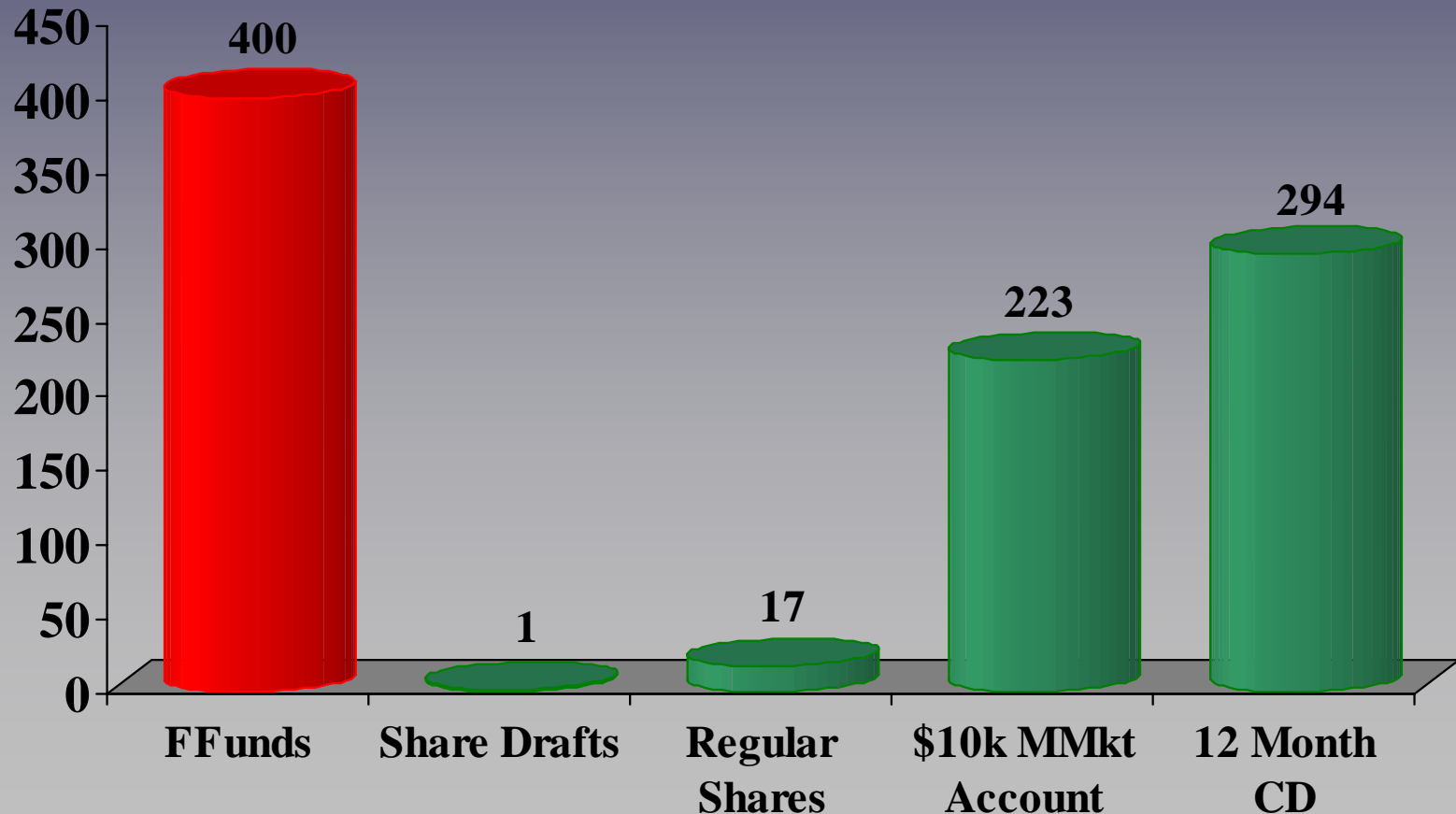
FICU's > \$25 Million Assets



As of 3/31/2006

CU RATES CONTINUE TO LAG WHOLESALE RATES

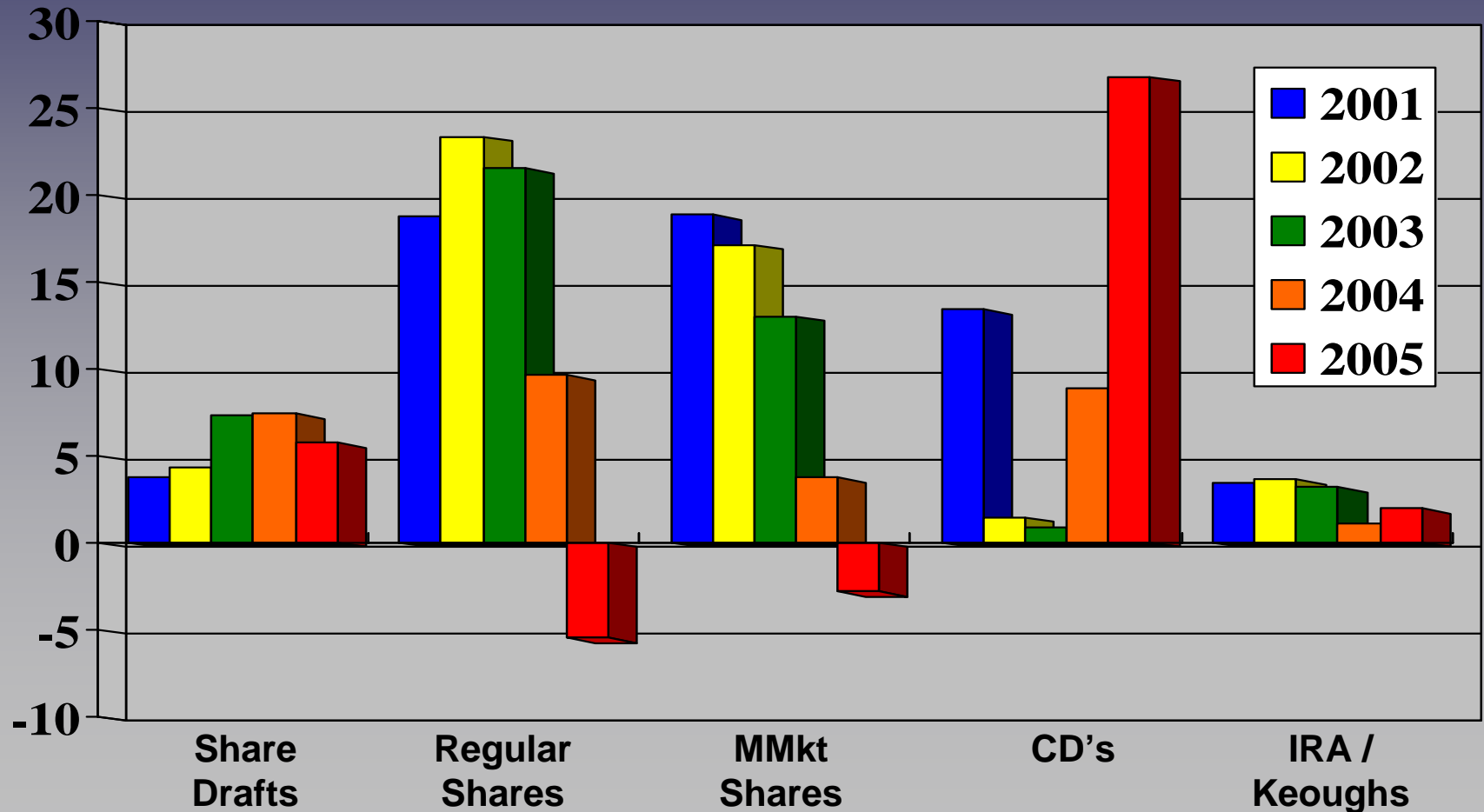
Rate Change in Basis Points (June 2004 – June 2006)



SHARE GROWTH BACK IN CD'S

All FICU's

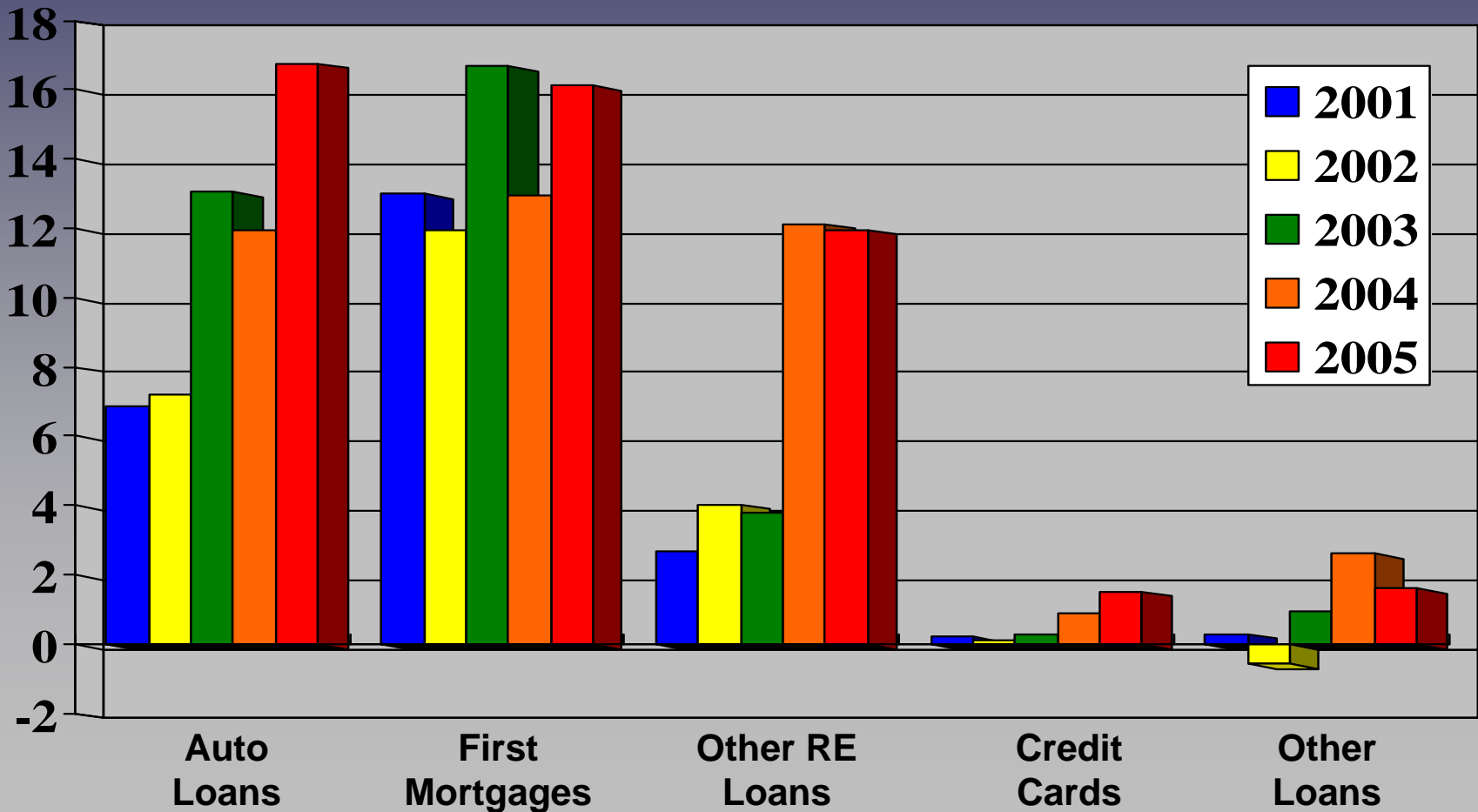
Growth - \$ Billions



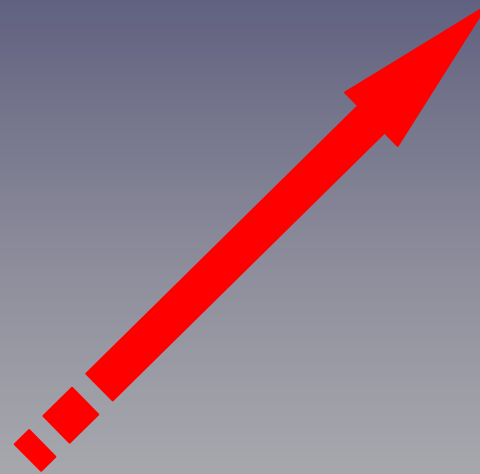
LOAN GROWTH DRIVEN BY MORTGAGES & AUTO LOANS

All FICU's

Growth - \$ Billions



...Credit Union Membership Issues

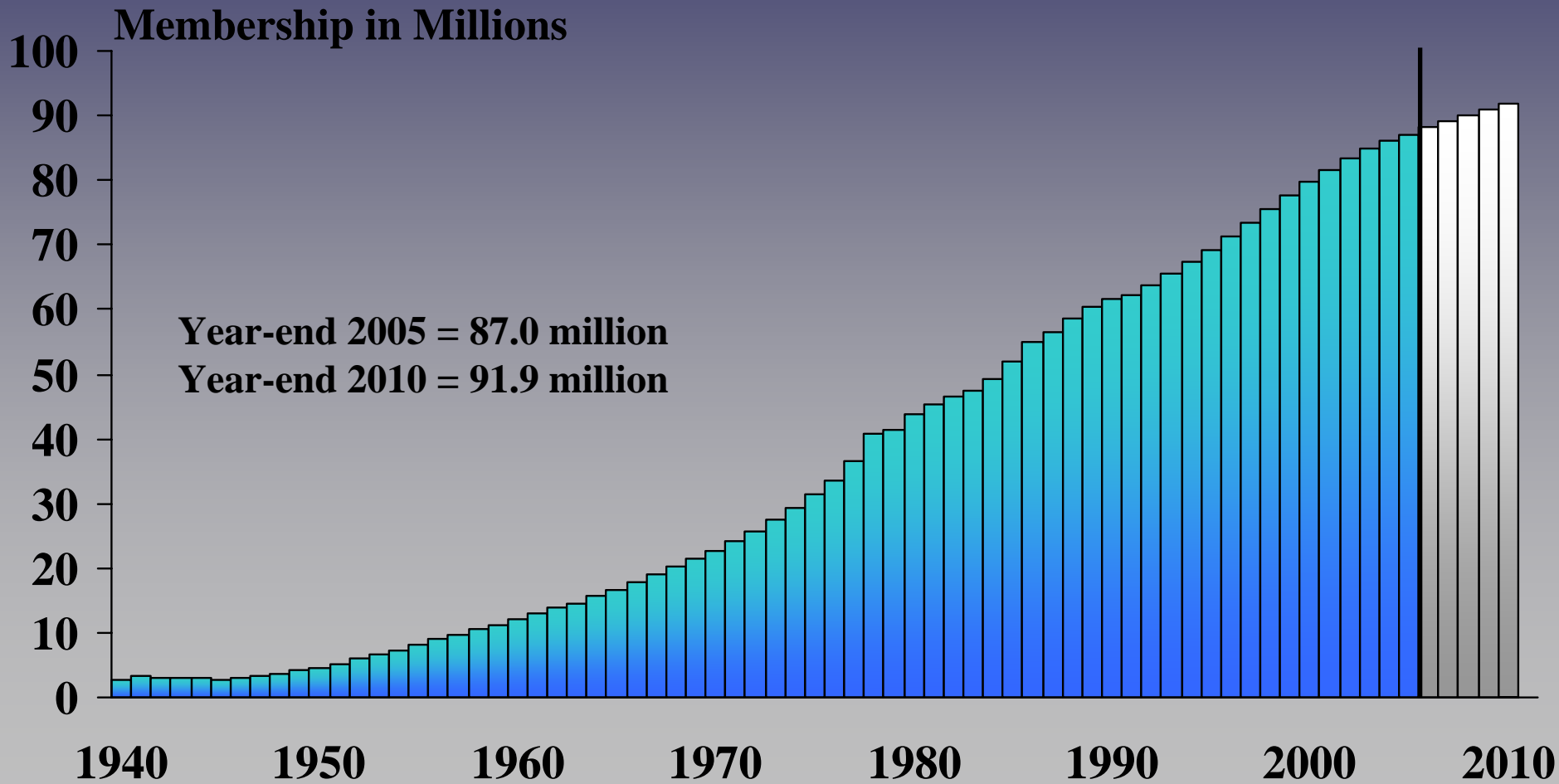


Expansion Strategies...

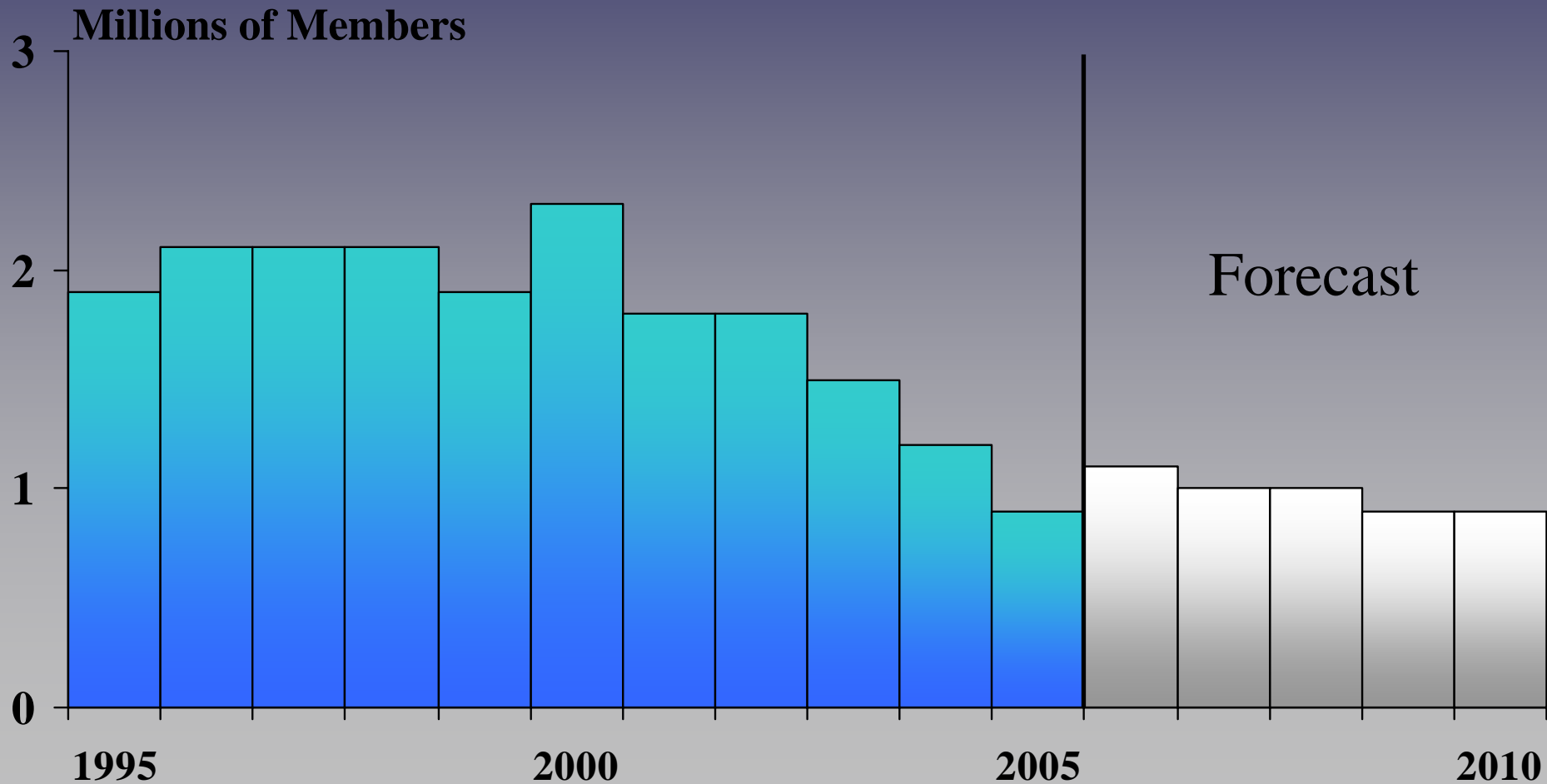
CREDIT UNION MEMBERSHIP TRENDS

**Dave Colby, CUNA Mutual Group
Chief Economist**

LONG-TERM CREDIT UNION MEMBERSHIP TREND

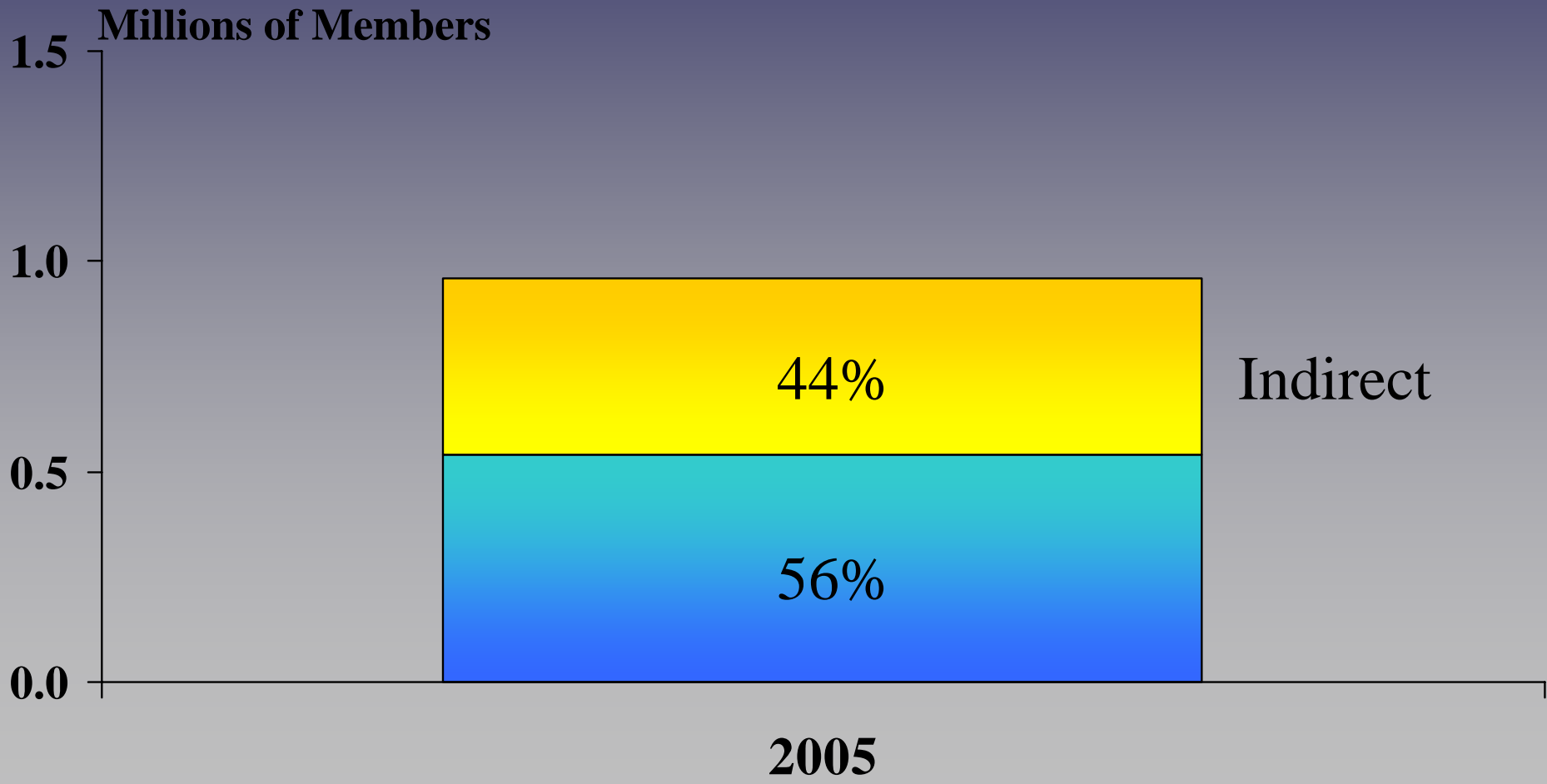


SHORT-TERM CREDIT UNION MEMBERSHIP GROWTH TREND



Source: CUNA Economics & Statistics and CUNA Mutual

2005 MEMBERSHIP BOOSTED BY INDIRECT LENDING



GROWTH FACTORS

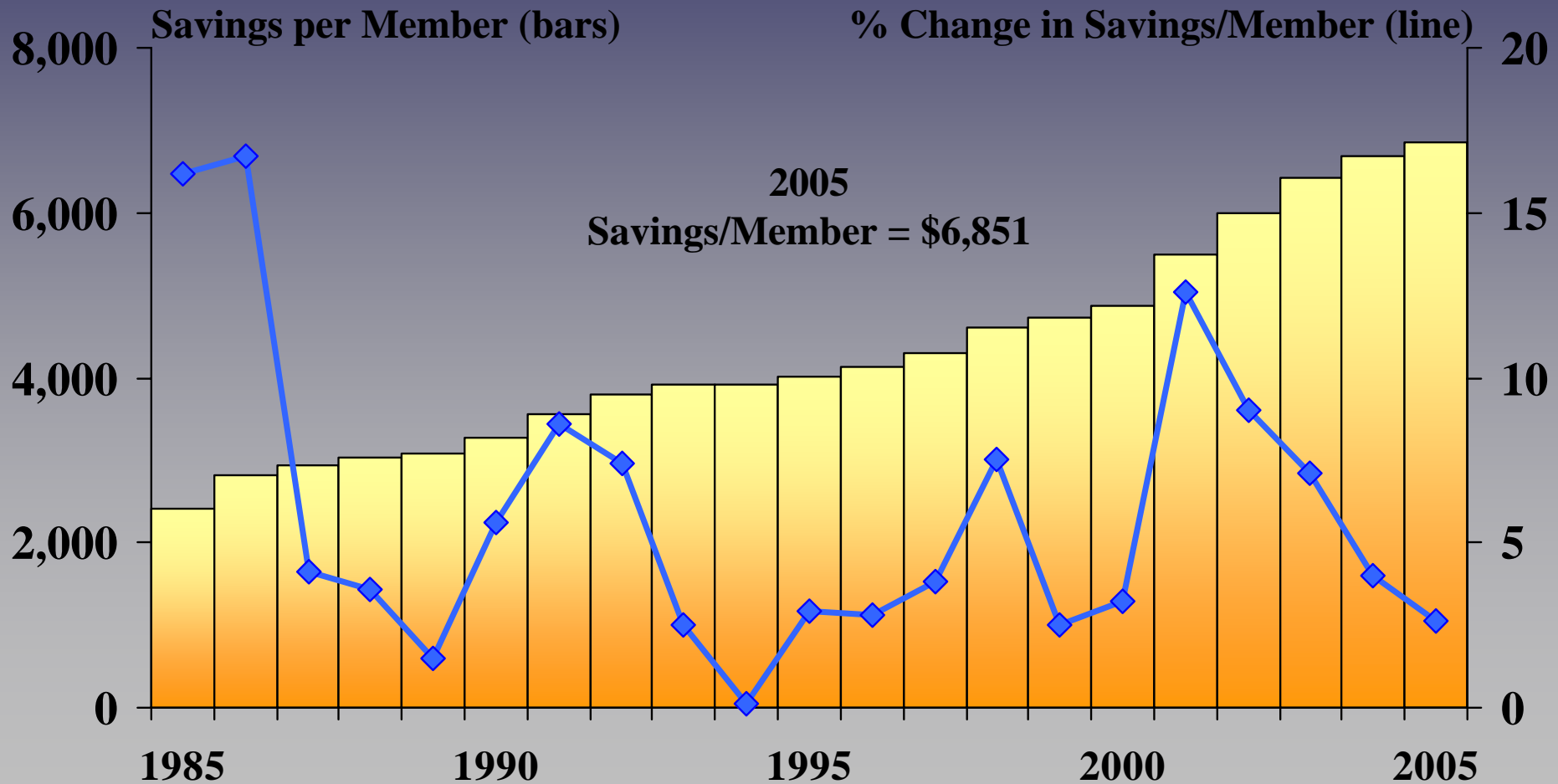
Positive

- Charter Expansions
- Indirect Lending
- CU Strategies

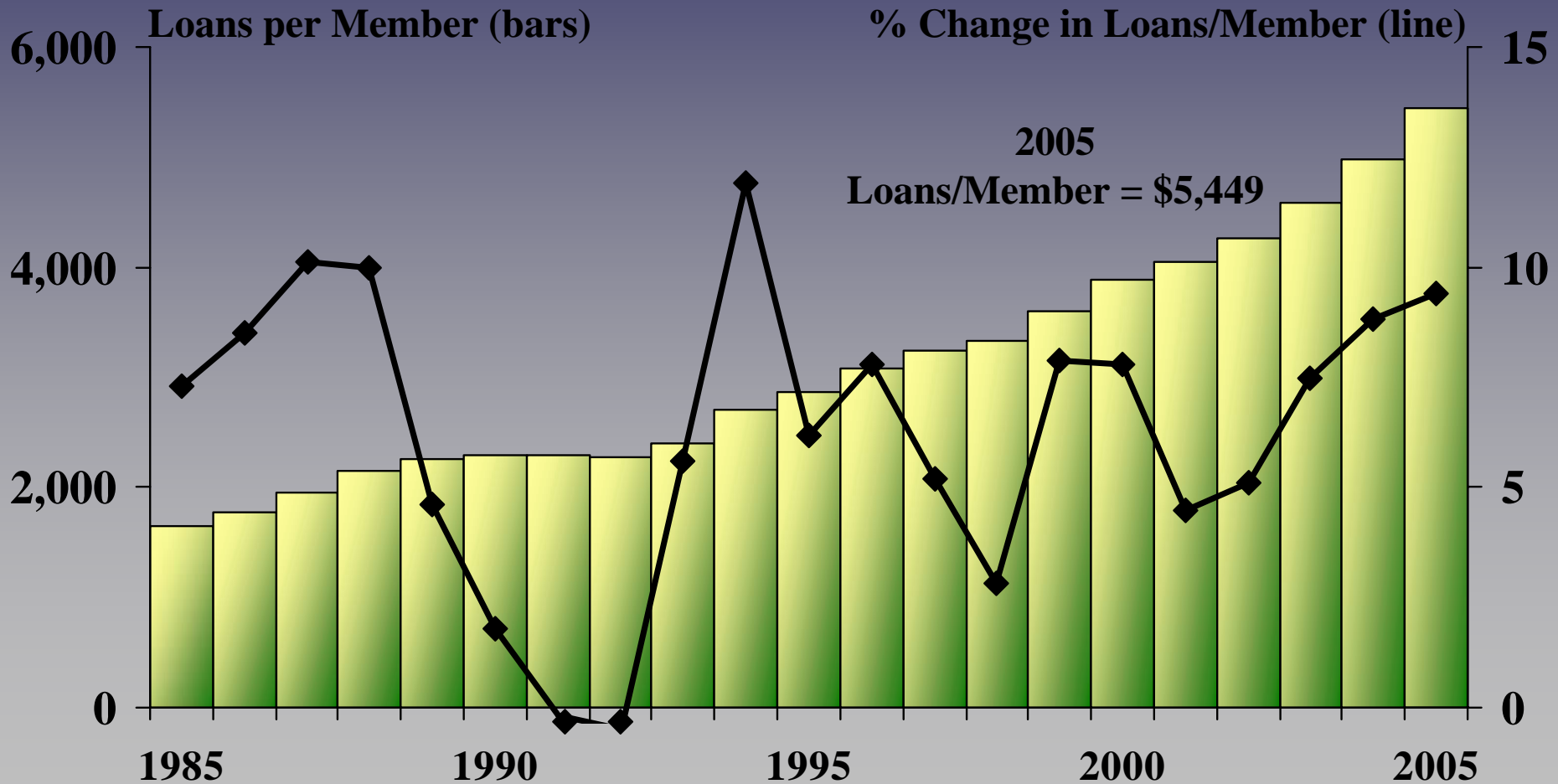
Negative

- Culling
- Indirect Lending
- Competition

MEMBER RELATIONSHIP DEPTH MEASURERS



MEMBER RELATIONSHIP DEPTH



MEMBERSHIP CHALLENGES

- Positive Growth
- Divergent Demographics
- Understanding “Who” and “What”

...Credit Union Burden



Regulatory Costs...

REGULATORY COSTS

**Kendrick Smith, Eastern Financial Florida CU
Vice President/Chief Investment Officer**

**Bruce Beaudette, Sunmark FCU
President/CEO**

OFAC

Eastern

- Bridger software
- Check all new accounts, non-member cash advances
- \$40,000 per year

Sunmark

- Bridger
- (Same)
- \$2,000 per year

BSA

Eastern

- 4 hours of CBT for most employees
- Class room for all Branch Personnel
- Employees must score at least 90% to pass.

Sunmark

- Annual board training
- Online module (CUES) for all staff
- Testing for all staff

AML

Eastern

- Compliance Dept. with 3 staff
- Banker's Tool Box Software
- \$125,000

Sunmark

- Accurint- \$8,400 per year
- ChexSystems- \$18,000 per year
- Andera- \$16,000 start up, \$5,000 per year

On the Horizon

- Blocking Internet Gambling transactions
- FASB proposals

SUMMARY



- **Slower economic pace will affect credit union lending.**
- **Liquidity position should improve for most FICU's.**
- **The membership challenge is about making a difference, not the numbers.**
- **The cost of compliance is going in one direction- up!**

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