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CREDIT UNION ECONOMICS GROUP

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NEWS RELEASE

Credit Union Economics Group (CUEG)

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EDITOR'S NOTE: Graph attached

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LEADING CREDIT UNION ECONOMISTS ARE PESSIMISTIC ABOUT OVERALL ECONOMIC GROWTH

WASHINGTON, D.C. – Forecasts by members of the Credit Union Economics Group are modestly pessimistic compared with earlier forecasts this year due to continued corrections in the housing market and rising energy prices.

The members, who reflect a geographically diverse source of perspectives, said their collective outlook for overall economic growth, as measured by real gross domestic product, was reduced from previous forecasts for both final 2007 and 2008. Additionally, they see employment growth continuing to slow with the unemployment rate averaging 5 percent in 2008.

CUEG forecasters also noted the reduction in key interest rates may ease some ARM reset pressures, but overall tightening of credit conditions combined with slower employment and economic growth in 2008 will challenge consumers.

“We are clearly in a correction phase of this economic expansion,” said Dave Colby, chief economist for CUNA Mutual Group. “While our forecast does not indicate a recession in 2008, the chances of economic downturn have increased significantly over the past six months. I would put recession possibilities in the 35 to 40 percent range, and rising. Consumers are becoming decidedly more cautious with respect to big-ticket spending and taking on new debt obligations.”

Colby's assessment is supported by other CUEG members, with the group cutting its 2008 credit union loan growth outlook by nearly 100 basis points from midyear forecasts. Their 2008 share growth outlook was boosted by 110 basis points to 6.4 percent.

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“Just glancing into the rearview mirror back to midyear, most credit unions had felt minimal impact from the housing market problems,” said Kendrick Smith, vice president and chief investment officer of Eastern Financial Florida Credit Union. “But the third quarter call report results may indicate a deteriorating trend.”

Eli Vazquez, senior vice president and chief financial officer of American Airlines Federal Credit Union, recommends credit unions develop a back-up plan for the potentially rocky financial road.

“Although credit union loan and share growth has remained strong, the weak housing market and high energy prices have a continued dampening effect on growth and members’ disposable income,” he said. “The Federal Reserve has responded with recent monetary action, but record levels in oil prices and the threat of inflation could limit the Fed’s ability to provide significant further stimulus. Most credit unions are well-positioned, but need to be prepared with a Plan B in case the economy weakens significantly.”

On the other hand, Bob Burrell, executive vice president and chief investment officer of WesCorp, thinks economic conditions provide opportunities as well as challenges for credit unions.

“While the downturn in housing presents serious challenges for the economy, it may offer a number of opportunities for credit unions to both help members with their home financing needs while also increasing their penetration in the residential mortgage market,” said Burrell. “Credit union balance sheets are particularly well-positioned to absorb well-underwritten mortgage loans at a time when the position of many other lenders, including banks and mortgage companies, is not as comfortable.”

Despite the pessimistic forecast, credit unions appear to be weathering the storm thus far. “Overall, credit unions nationwide appear to be very healthy, without any alarming trends,” said Bruce Beaudette, president and CEO of Sunmark Federal Credit Union. “Growth is generally modest, but not out of line considering a slowing economy. ROA is down from historical levels, but again, this is not a major concern as capital levels are quite strong.

“It’s my opinion that credit union’s ROA will benefit from a steeper yield curve with further Fed interest rate declines going forward. In Region I, growth is more sluggish, and ROA is lower than in most of the country. But credit unions here are doing well overall.”

The Credit Union Economics Group is a working group of credit union officials located throughout the country who are dedicated to the current and future financial well-being of the Credit Union Movement. CUEG's objective is to provide credit unions with consensus macroeconomic forecasts and industry trend analyses that will be helpful in their planning and operations. This independent, non-profit group also

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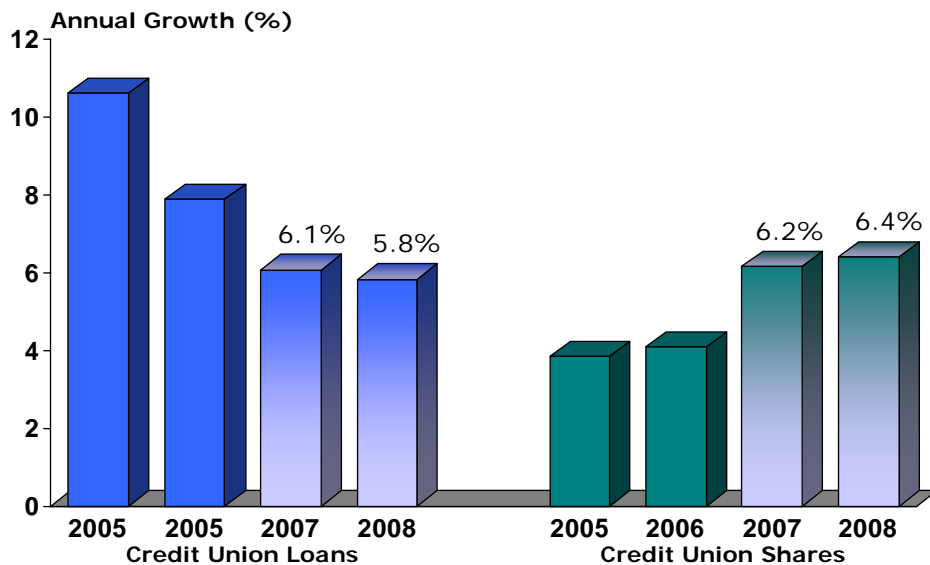
provides a credit union perspective on national and regional economic trends by exchanging information with the NCUA, the Federal Reserve Board and the various Federal Reserve District Banks.

CUEG prepares a regional economic and descriptive credit union trends report bi-annually as well as a quarterly consensus macroeconomic and industry-trend forecast, available at www.cueg.org.

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Credit Union Loan and Share Growth

Credit Union Economics Group 3rd Quarter 2007 Forecast



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