

# NCUA LETTER TO CREDIT UNIONS

## NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

**DATE:** July 2010 **LETTER NO.:** 10-CU-12

**TO:** Federally Insured Credit Unions

**SUBJ:** State of the Credit Union Industry as of March 31, 2010

**ENCL:** Financial Trends in Federally Insured Credit Unions  
January 1 – March 31, 2010

### Dear Board of Directors:

Enclosed is a report analyzing credit union financial trends for the first three months of 2010. While the analysis is based on data compiled from first-quarter call reports, it is intended to inform you about national trends and risks that NCUA will continue to focus on throughout 2010.

The overall financial condition of the credit union system remains sound. However, NCUA has identified negative trends affecting certain types of products. In particular, real estate and business loan delinquencies are increasing as economic uncertainties persist. As a result, credit risks remain a crucial issue for credit unions and will be closely monitored by our field staff. We expect credit unions to implement plans to mitigate these risks.

Interest rate risk is another concern for credit unions going forward. The credit union industry continues to hold a significant amount of long-term fixed rate loans, while shares are primarily in rate-sensitive or short-term accounts. Proactive structuring and proper control over loan concentrations and share products will be fundamental to the future viability of credit unions. For these reasons, interest rate risk will be another area of emphasis during examinations.

Several positive signs emerged during the first quarter of 2010:

- Credit unions were able to reduce their provisions for loan losses by 29 basis points, which led to an increase in earnings of 29 basis points.
- Credit unions lowered their cost of funds at a faster rate than their loss in loan yields. Both of these factors widened credit unions' net interest margin.
- Credit unions cut operating expenses even further. For the first time in five years, operating expenses were lower than the net interest margin.

Thank you for submitting your financial and statistical data in a timely manner. While some short-term numbers are moving in the right direction, credit unions still have a long way to go before overcoming all the effects of the economic downturn. NCUA will continue work with you to take proactive steps to protect the safety and soundness of the credit union industry.

Sincerely,

*/s/*

Debbie Matz  
Chairman

Enclosure