

## FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – June 30, 2009

### HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of June 30, 2009. Change is measured from December 31, 2008.<sup>1</sup>

- **Assets** increased \$58.93 billion or 7.26% to \$870.13 billion. This equates to an annualized asset growth rate of 14.53%.
- **Net Worth** increased \$1.11 billion or 1.29%. The net worth to assets ratio decreased from 10.62% to 10.03%.
- **Earnings** as measured by the return on average assets was 0.28%.<sup>2</sup>
- **Loans** increased \$4.04 billion or 0.71% (1.43% annualized). The loan to share ratio decreased from 83.10% to 77.50%.
- **Delinquent** loans as a percentage of total loans increased from 1.37% to 1.58%. Delinquent real estate loans as a percentage of total real estate loans increased from 1.20% to 1.62%.
- **Net Loan Charge-Offs** (annualized) increased \$1.93 billion or 41.60%. The ratio increased from 0.85% to 1.15%.
- **Shares** increased \$54.40 billion or 7.99% (15.97% annualized). The majority of the growth in shares continues to come from money market and certificate accounts.
- **Current members** increased by 1.16 million or 1.31% (2.62% annualized).

<b>Number of Credit Unions Reporting</b>		
	Federal CUs	State CUs
2004	5,572	3,442
2005	5,393	3,302
2006	5,189	3,173
2007	5,036	3,065
2008	4,847	2,959
Jun-09	4,783	2,908

Overall, federally insured credit unions struggled with performance in the first six months of 2009. The delinquent loan ratio increased 21 basis points while the loan loss ratio increased 30 basis points indicating ongoing concern remains in the credit quality of loan portfolios. Provision for loan and lease losses increased significantly impacting the operating results. Real estate loans remain the dominant loan category in credit unions, highlighting the need for continued vigilance in underwriting and sound asset-liability management practices.

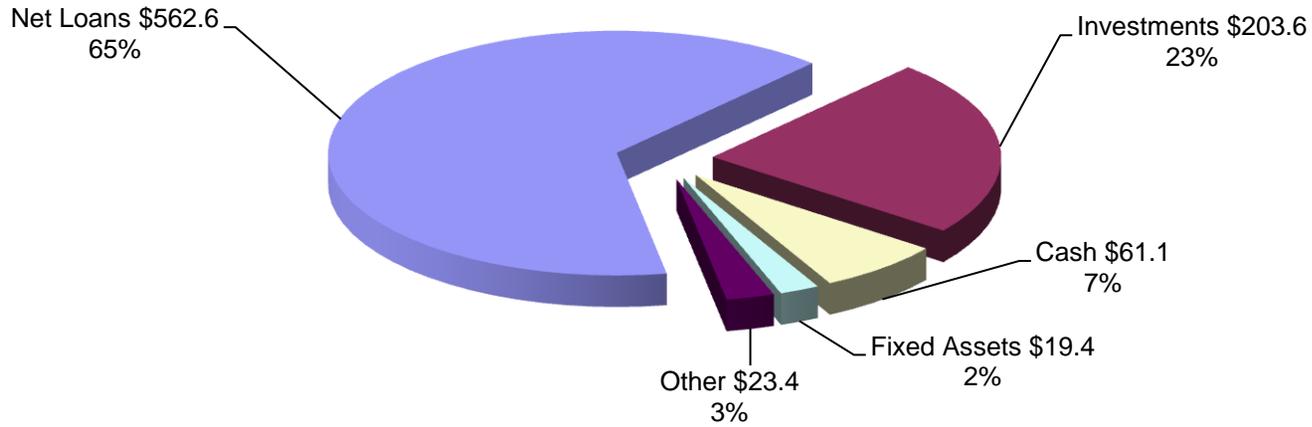
<b>Total Shares and Deposits</b>	<b>2008</b> In Billions	<b>Jun-09</b> In Billions	<b>%</b> <b>Change</b>
Insured Shares & Deposits (\$100,000 level)	\$609.46	\$654.04	7.32%
Insured Shares & Deposits (\$250,000 level)	\$658.92	\$711.40	7.96%
Uninsured Shares & Deposits (\$250,000 level)	\$22.21	\$24.13	8.66%

<sup>1</sup> The financial results for prior periods may reflect changes when compared to the prior period trend letters due to subsequent call report modifications.

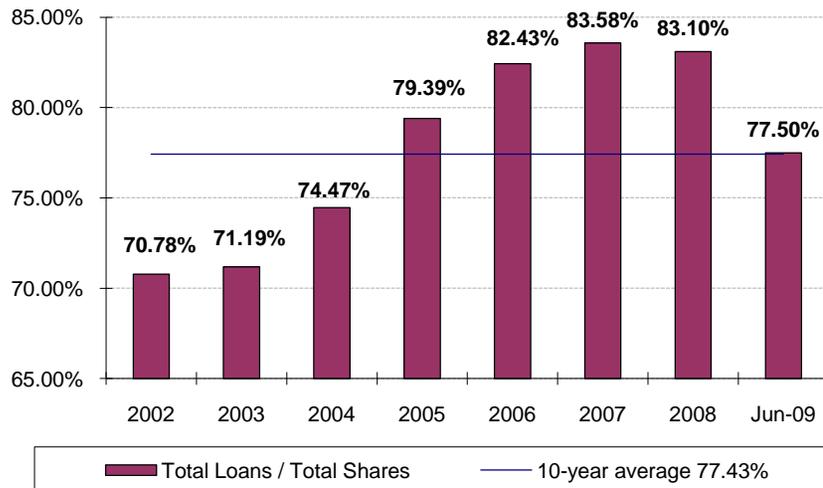
<sup>2</sup> The Return on Average Assets ratio is annualized net income divided by average assets for the period and includes the NCUSIF Stabilization Expense and NCUSIF Stabilization Recovery Income.

# OVERALL TRENDS

## ASSET DISTRIBUTION (Billions of Dollars)



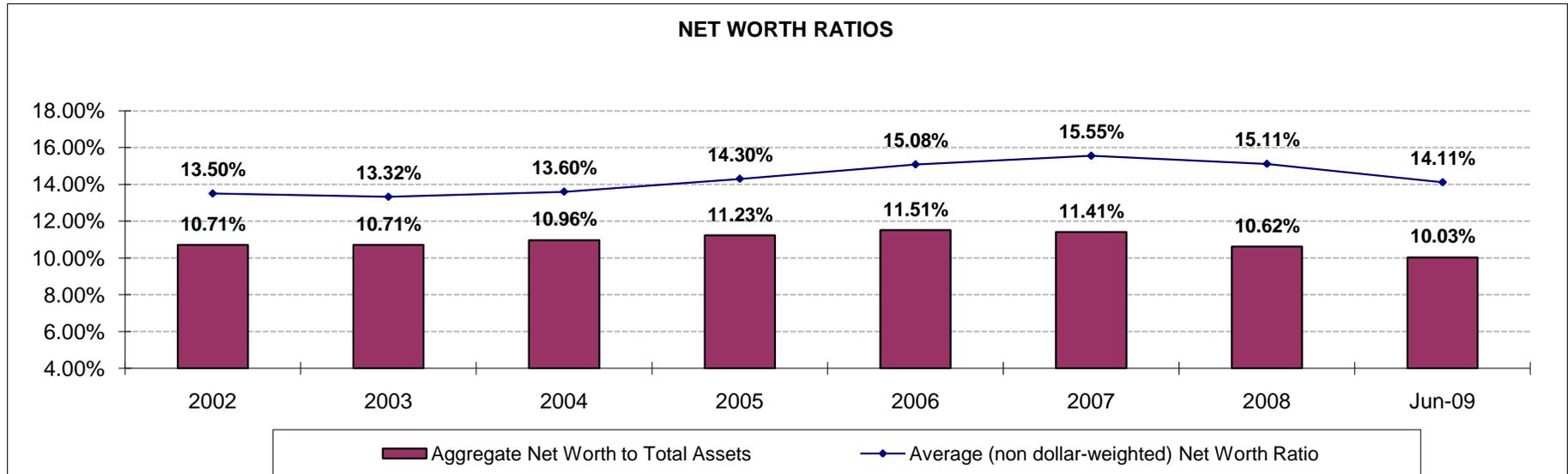
## TOTAL LOANS / TOTAL SHARES



## ASSET GROWTH VS. MEMBERSHIP GROWTH (Jun-09 annualized)



# NET WORTH

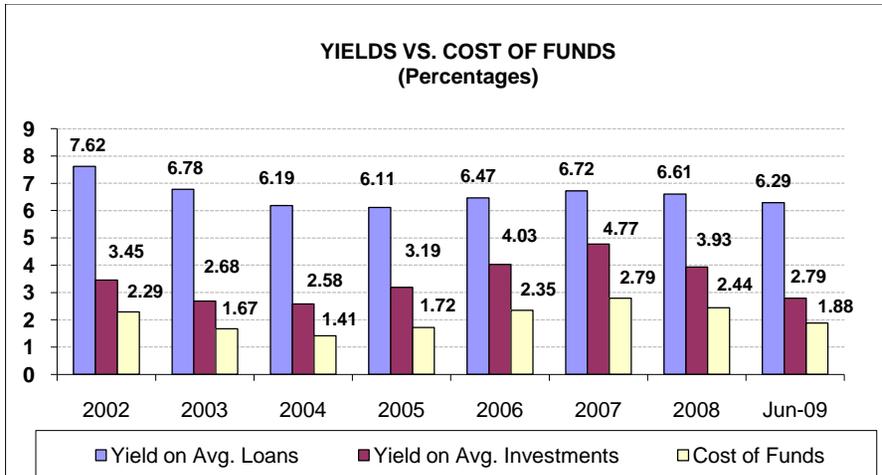
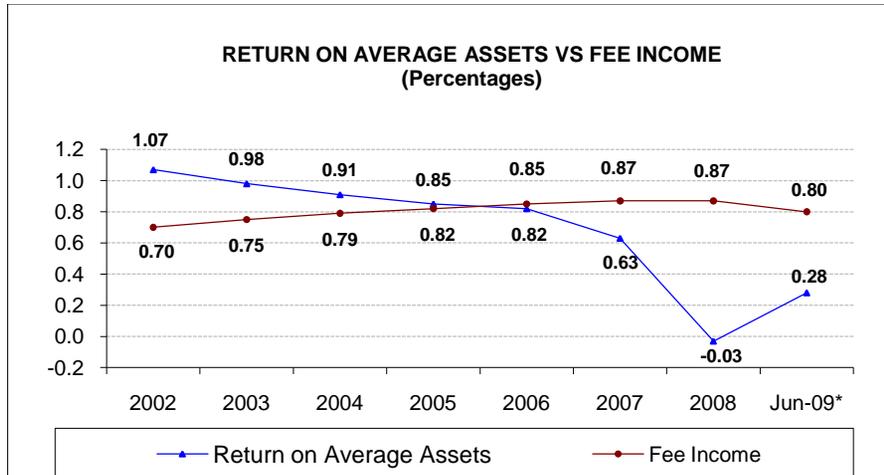


	<b>December 2008</b> In Billions	<b>June 2009</b> In Billions	<b>% Change</b>
Total Net Worth	\$86.23	\$87.34	1.29%
Secondary Capital	\$.032	\$.047	45.99%

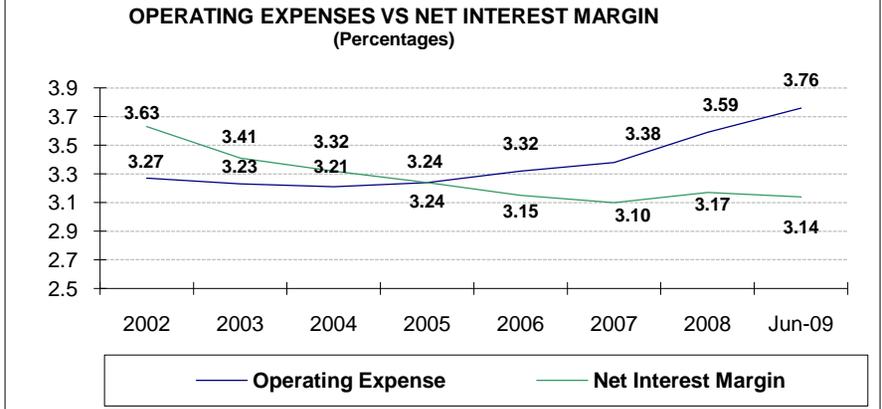
<b>NET WORTH RATIOS</b>				
<b>Number of Credit Unions</b>	<b>December 2008</b>	<b>% of Total</b>	<b>June 2009</b>	<b>% of Total</b>
7% or above	7,649	98.00%	7,390	96.09%
<b>Net Worth Ratios</b>				
6% to 6.99%	83	1.06%	174	2.26%
4% to 5.99%	48	0.61%	81	1.05%
2% to 3.99%	8	0.10%	21	0.27%
0% to 2.00%	15	0.19%	17	0.22%
Less than 0%	3	0.04%	8	0.10%

Net Worth remains strong and the total dollars increased \$1.11 billion or 1.29% during the first half of 2009. The Net Worth Ratio declined to 10.03% as a result of the elevated share growth and NCUSIF stabilization expenses incurred during the same time period. The number of credit unions subject to Prompt Corrective Action, as a percentage of total credit unions, increased from 2.00% as of December 31, 2008, to 3.91% as of June 30, 2009, indicating increased stress on individual credit unions from the current economic environment.

# EARNINGS



Ratio (% Average Assets)	As of 2008	As of June 2009	Effect on ROA
Net Interest Margin	3.17%	3.14%	- 3bp
+ Fee & Other Inc.	1.34%	1.44%	+10bp
- Operating Expenses	3.59%	3.76%	-17bp
- PLLL	0.89%	1.09%	-20bp
+ Non-Opr. Income	-0.06%	0.55%**	+61bp
= ROA	-0.03%	0.28%*	+31bp

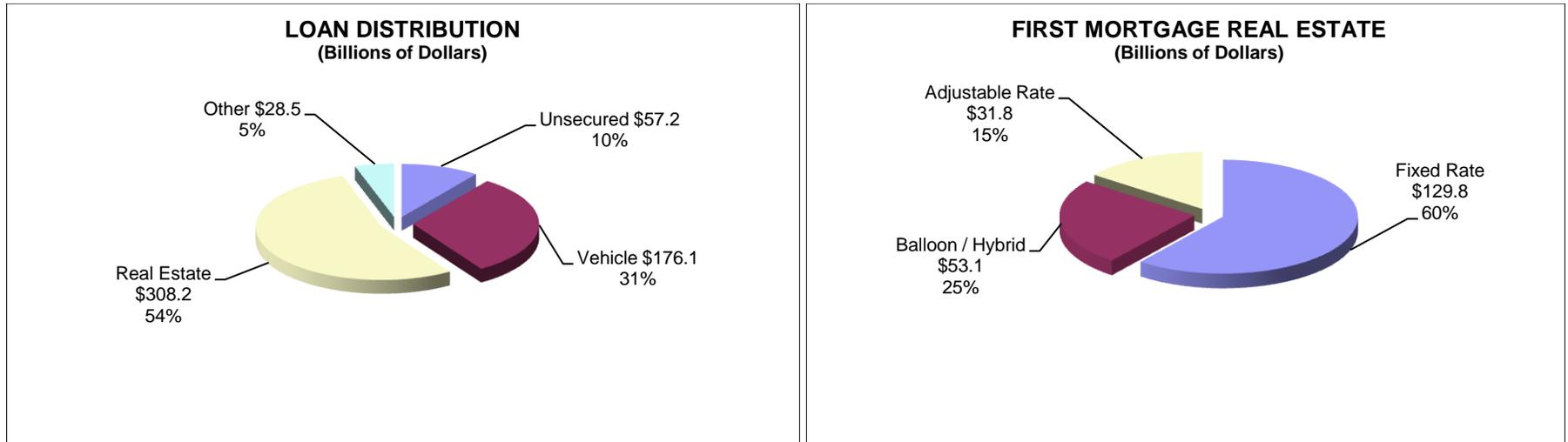


\*ROA in an annualized figure after NCUSIF Stabilization Expense and Stabilization Recovery Income.

\*\*Includes NCUSIF Stabilization Recovery Income .

There are data irregularities related to the reported December 31, 2008 and June 30, 2009 earnings ratios due to the inconsistent recording of the corporate stabilization expense and recovery income by credit unions. Based on the reported information, the level of earnings is reflecting the increasing Provision for Loan & Lease Loss expense and the declining Net Interest Margin. Current earnings are covering the cost of operations and assisting in increasing the dollars of net worth in credit unions. The increasing Provision for Loan & Lease Loss expense continued to rise in relation to average assets and had the largest impact on the Return on Average Assets level. Non-Operating Income increased 61 basis points due to credit unions recording the NCUSIF Stabilization Recovery Income.

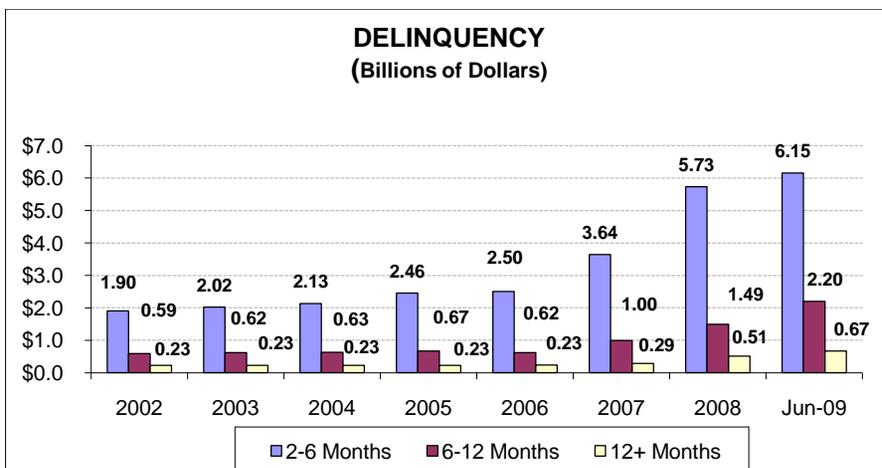
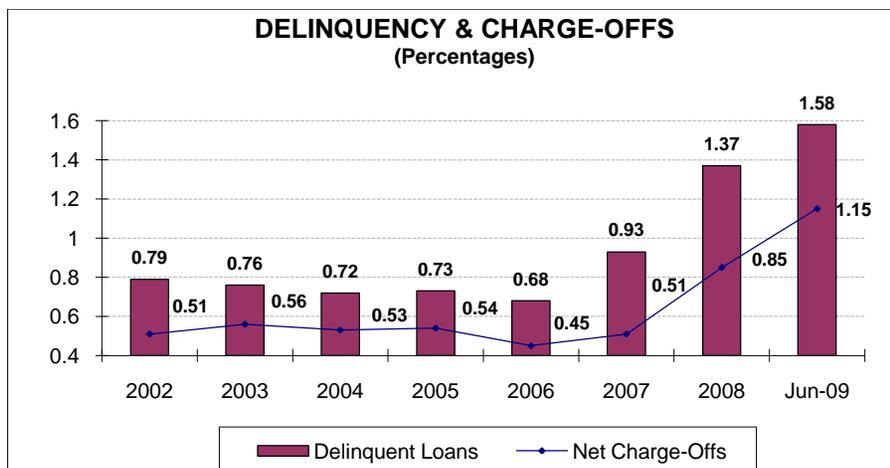
## LOAN DISTRIBUTION



Loan Category	December 2008 Balance In Billions	% of Total Loans 2008	June 2009 Balance In Billions	% of Total Loans Jun-09	Growth In Billions	Growth Rate
Unsecured Credit Card	\$32.72	5.78%	\$32.47	5.70%	-\$0.24	-0.74%
All Other Unsecured	\$25.35	4.48%	\$24.70	4.33%	-\$0.65	-2.56%
New Vehicle	\$81.52	14.40%	\$79.22	13.90%	-\$2.30	-2.82%
Used Vehicle	\$94.28	16.66%	\$96.90	17.00%	\$2.62	2.78%
First Mortgage Real Estate	\$207.99	36.75%	\$214.70	37.66%	\$6.71	3.23%
Other Real Estate	\$96.53	17.06%	\$93.46	16.40%	-\$3.07	-3.18%
Leases Rec & All Other	\$27.61	4.87%	\$28.59	5.01%	\$0.97	3.51%
<b>Total Loans</b>	<b>\$566.00</b>		<b>\$570.04</b>		<b>\$4.04</b>	<b>0.71%</b>

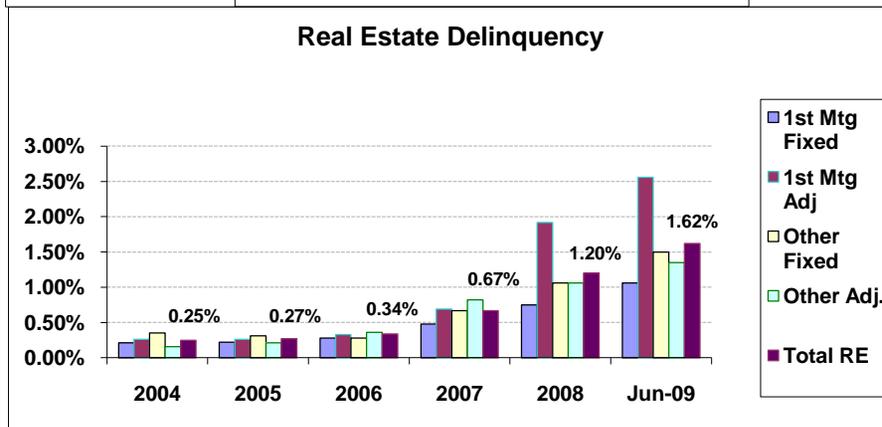
Share growth outpaced loan growth during the first half of 2009 with total loans increasing \$4.04 billion, resulting in the loan to share ratio decreasing from 83.10% to 77.50%. The growth continues to be fueled by first mortgage real estate. Real estate loans comprise the largest portion of total loans at 54.06%, followed by vehicle loans at 30.90%. During the first half of 2009, fixed rate first mortgages increased \$6.95 billion (5.66%), adjustable rate first mortgages increased \$0.65 billion (2.10%), and balloon/hybrid first mortgages decreased \$0.90 billion (-1.66%). Credit unions are reporting \$7.18 billion or 3.34% of total first mortgage loans in Interest Only & Optional Payment First Mortgage Loans.

## DELINQUENCY TRENDS



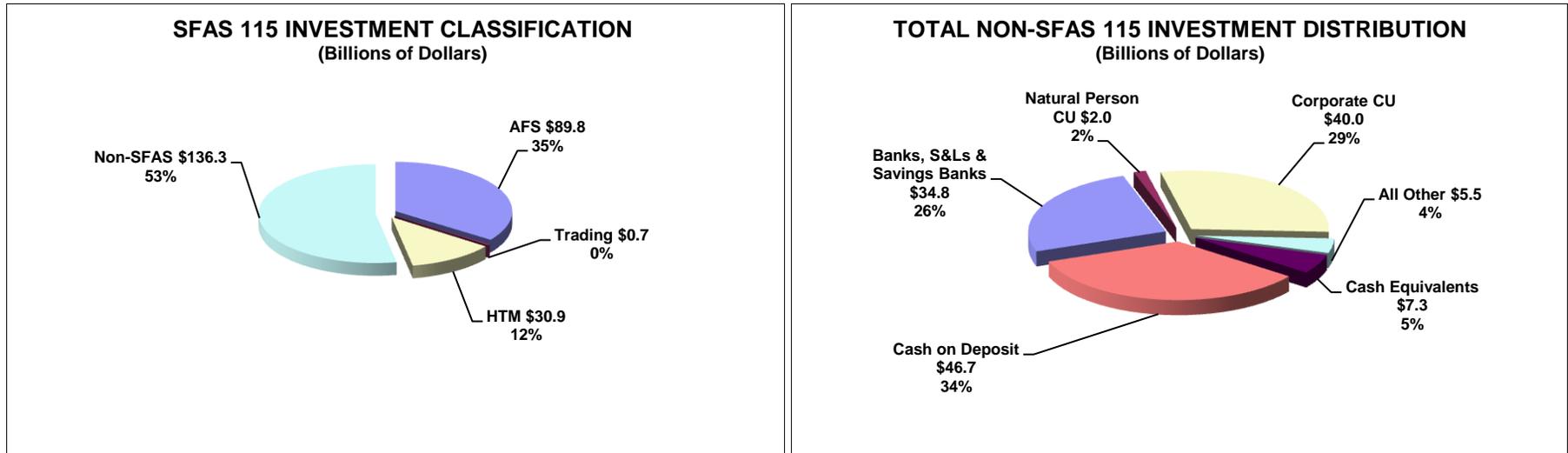
Total Loan Charge-Offs and Recoveries and Outstanding Foreclosed Real Estate	December 2008 In Billions	June 2009 In Billions	% Change
Total Loans Charged Off	\$5.22	\$7.24*	38.81%*
Total Loan Recoveries	\$0.59	\$0.69*	16.92%*
Total Net Charge-Offs	\$4.63	\$6.55*	41.60%*
Foreclosed Real Estate	\$0.69	\$0.93	35.80%
Repossessed Autos	\$0.31	\$0.28	-10.41%

\*Annualized



The growth rate in delinquency and loan losses indicates deterioration in credit quality continues to accelerate. The quality of the loan portfolio deteriorated as noted by delinquency increasing from 1.37% to 1.58% (21 basis points) and the net charge-off ratio increasing from 0.85% to 1.15% (30 basis points). There are continued signs of stress in the performance of real estate loans, and the increasing real estate delinquency and loan losses are continuing to impact the performance of the overall loan portfolio. Total delinquent real estate loans greater than 2 months increased from 1.20% at year-end 2008 to 1.62% as of June 30, 2009. All real estate delinquency categories increased with the largest being in 1<sup>st</sup> Mortgage Adjustable Rate and Hybrid/Balloon loans which increased from 1.92% as of year-end 2008 to 2.56% as of June 30, 2009.

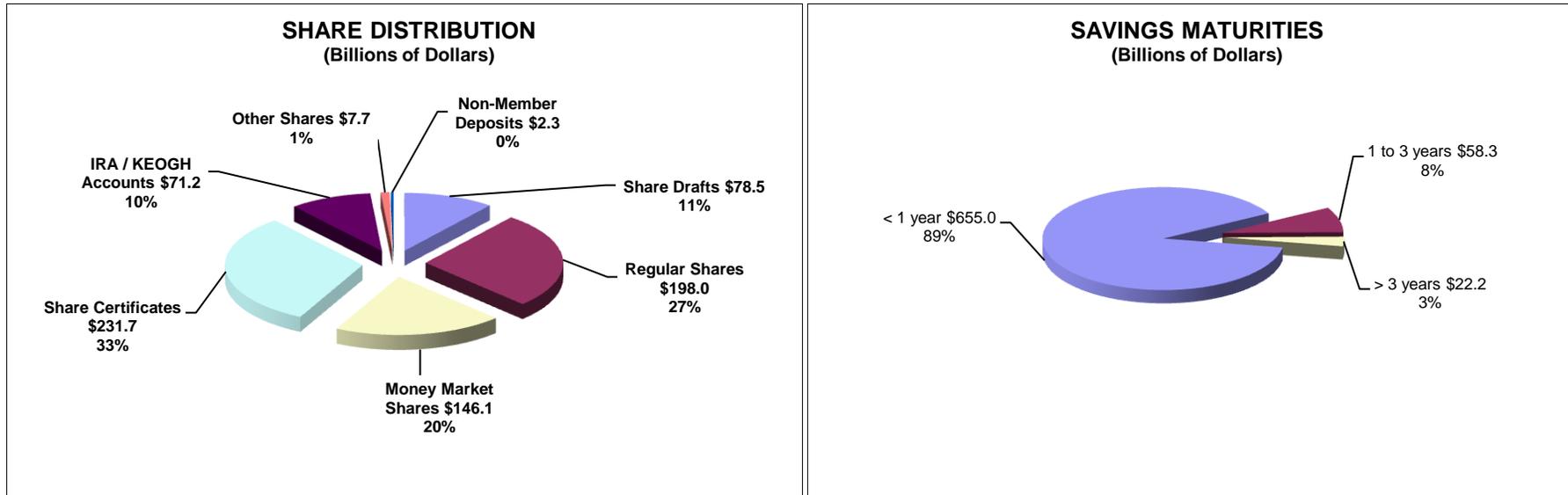
## INVESTMENT TRENDS



Investment Maturity or Repricing Intervals	December 2008 In Billions	% of Total Investments 2008	June 2009 In Billions	% of Total Investments Jun-09
<b>Less than 1 year</b>	\$111.18	53.86%	\$140.04	54.34%
<b>1 to 3 years</b>	\$57.57	27.89%	\$74.72	28.99%
<b>3 to 5 years</b>	\$25.11	12.17%	\$29.00	11.25%
<b>5 to 10 years</b>	\$9.24	4.48%	\$10.40	4.03%
<b>Greater than 10 years</b>	\$3.32	1.60%	\$3.57	1.39%
<b>Total Investments</b>	\$206.42		\$257.73	

Strong share demand outpaced loan growth, increasing the amount of funds available for investment in the first six months of 2009. The maturity structure of the investment portfolio remains very short, resulting in a low interest rate risk profile for this portion of the balance sheet. Credit unions maintain their investments in high quality, safe instruments. Almost 67% of investments are in cash or equivalents, deposits in corporate credit unions, and deposits in other financial institutions. These provide liquidity and are generally not vulnerable to changing market values. Of the remaining investments, which are subject to SFAS 115 classification, 85.36% are in U.S. Government or Federal Agency Securities.

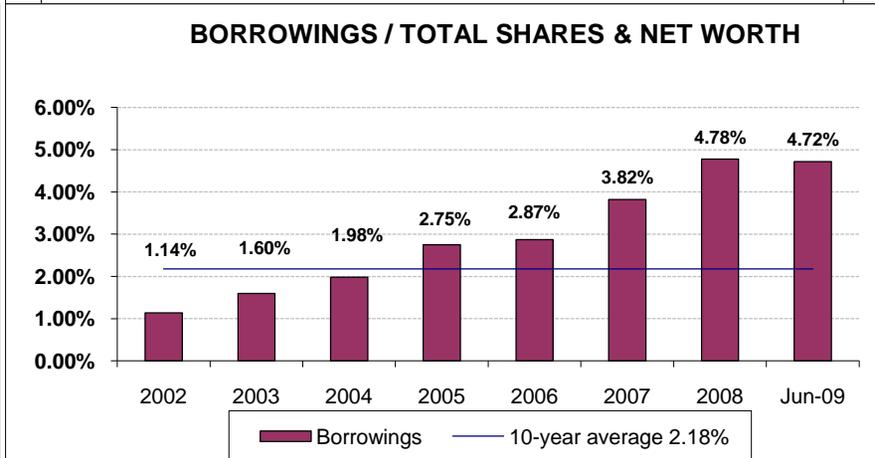
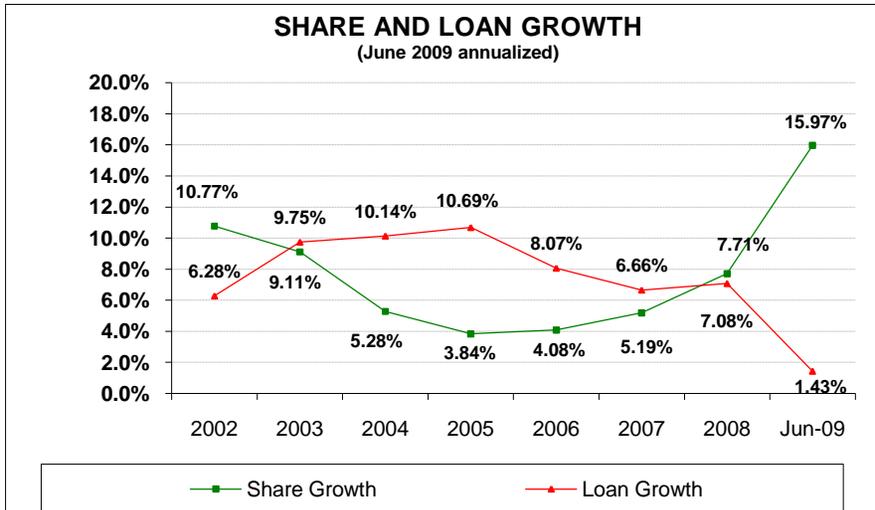
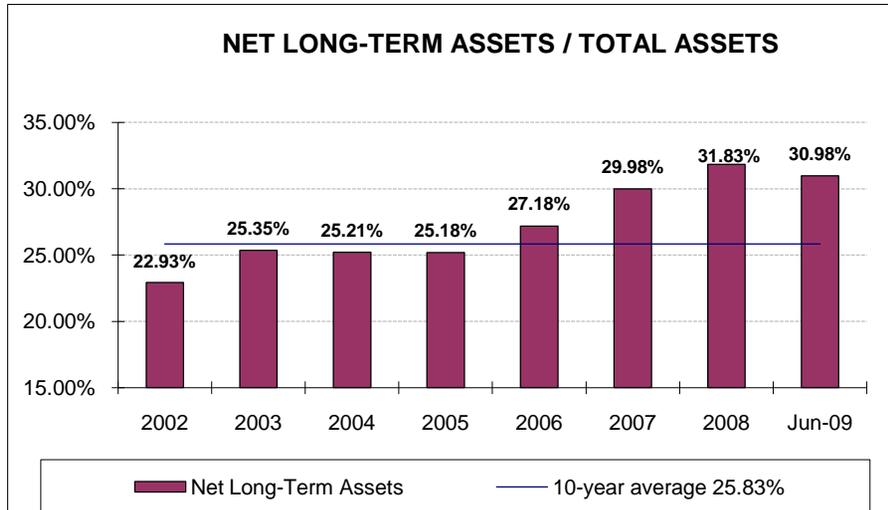
## SHARE TRENDS



Share Category	December 2008 Balance In Billions	% of Total Shares 2008	June 2009 Balance In Billions	% of Total Shares Jun-09	Growth In Billions	Growth Rate
Share Drafts	\$73.63	10.81%	\$78.48	10.67%	\$4.86	6.59%
Regular Shares	\$178.70	26.24%	\$197.99	26.92%	\$19.28	10.79%
Money Market Shares	\$128.50	18.87%	\$146.13	19.87%	\$17.63	13.72%
Share Certificates	\$226.26	33.22%	\$231.68	31.50%	\$5.42	2.40%
IRA / KEOGH Accounts	\$64.66	9.49%	\$71.20	9.68%	\$6.54	10.11%
All Other Shares	\$6.78	0.99%	\$7.69	1.05%	\$0.92	13.53%
Non-Member Deposits	\$2.60	0.38%	\$2.36	0.31%	-\$0.25	-9.49%
<b>Total Shares</b>	<b>\$681.13</b>		<b>\$735.53</b>		<b>\$54.40</b>	<b>7.99%</b>

Total shares grew 7.99% or \$54.40 billion in the first six months of 2009. The trend of the movement to rate-sensitive shares continued in the first half of 2009 with strong growth in money market shares, certificates, and IRA/KEOGH accounts accounting for the majority of the growth. Regular shares and share drafts increased 10.79% and 6.59%, respectively. Share certificates remain the largest category since first exceeding regular shares in 2006.

# ASSET LIABILITY MANAGEMENT TRENDS



Credit unions hold adequate levels of liquidity; however, in a rising interest rate environment the potential for increasing interest rate and liquidity risk exists. The increase in cash and short-term investments during the first half of 2009 is due to the strong share growth outpacing loan growth. The Net Long-Term Asset Ratio of 30.98% presents potential interest rate risk exposure, particularly since the majority of the funding for the growth in long-term loans is coming from rate sensitive shares. Credit unions with higher levels of liquidity risk or interest rate risk must maintain diligent risk management procedures.

## SUMMARY OF TRENDS BY ASSET GROUP

	<b>Asset Group</b> Under \$10 million	<b>Asset Group</b> \$10 million to \$100 million	<b>Asset Group</b> \$100 million to \$500 million	<b>Asset Group</b> Over \$500 million
# of Credit Unions	3,089	3,244	1,010	348
Total Assets	\$11.82 billion	\$113.66 billion	\$220.23 billion	\$524.43 billion
Average Assets	\$3.83 million	\$35.04 million	\$218.05 million	\$1.51 billion
Net Worth/Total Assets	15.66%	12.08%	10.33%	9.34%
Average Net Worth (non dollar-weighted)	17.22%	12.76%	10.42%	9.82%
Net Worth Growth*	-1.71%	0.12%	1.80%	5.34%
Return on Average Assets (ROA)	-0.31%	-0.02%	0.20%	0.39%
Net Interest Margin/Average Assets	3.67%	3.44%	3.29%	3.00%
Fee & Other Income/Average Assets	0.71%	1.24%	1.57%	1.45%
Operating Expense/Average Assets	4.81%	4.65%	4.34%	3.29%
Members / Full-Time Employees	421.16	397.95	347.91	391.16
Provision for LLL/Average Assets	0.43%	0.58%	0.92%	1.29%
Loans/Shares	62.32%	66.97%	75.10%	81.22%
Delinquent Loans/Total Loans	2.56%	1.61%	1.58%	1.56%
% of Real Estate Lns Delinquent > 2 Mths	1.54%	1.56%	1.69%	1.60%
Net Charge-Offs/Average Loans	0.91%	0.77%	1.01%	1.29%
Share Growth*	13.73%	16.68%	17.09%	17.33%
Loan Growth*	-2.09%	2.61%	3.01%	2.20%
Asset Growth*	11.41%	15.49%	16.66%	15.43%
Membership Growth*	-1.11%	1.54%	2.86%	5.99%
Net Long-Term Assets/Total Assets	7.74%	22.18%	30.14%	33.76%
Cash + Short-Term Invest./Assets	35.48%	24.01%	17.73%	14.60%
Borrowings/Shares & Net Worth	0.24%	1.13%	3.09%	6.36%

\*Note: The growth trends are based on the same FICUs reporting 12/31/08 and 06/30/09 using assets as of 06/30/09.

There is a distinct difference in the performance among the different asset groups. Net worth ratios are solid among all asset groups with the largest percentages being reported in the under \$10 million category. The highest membership growth, share growth, loan to share ratio, and net charge-off ratio is noted in the over \$500 million asset group.