

FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – June 30, 2011

HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of June 30, 2011. Change is measured from December 31, 2010.¹

Number of Credit Unions Reporting			
	Federal Charter	State Charter	Total
2007	5,036	3,065	8,101
2008	4,847	2,959	7,806
2009	4,714	2,840	7,554
2010	4,589	2,750	7,339
Jun-11	4,534	2,705	7,239

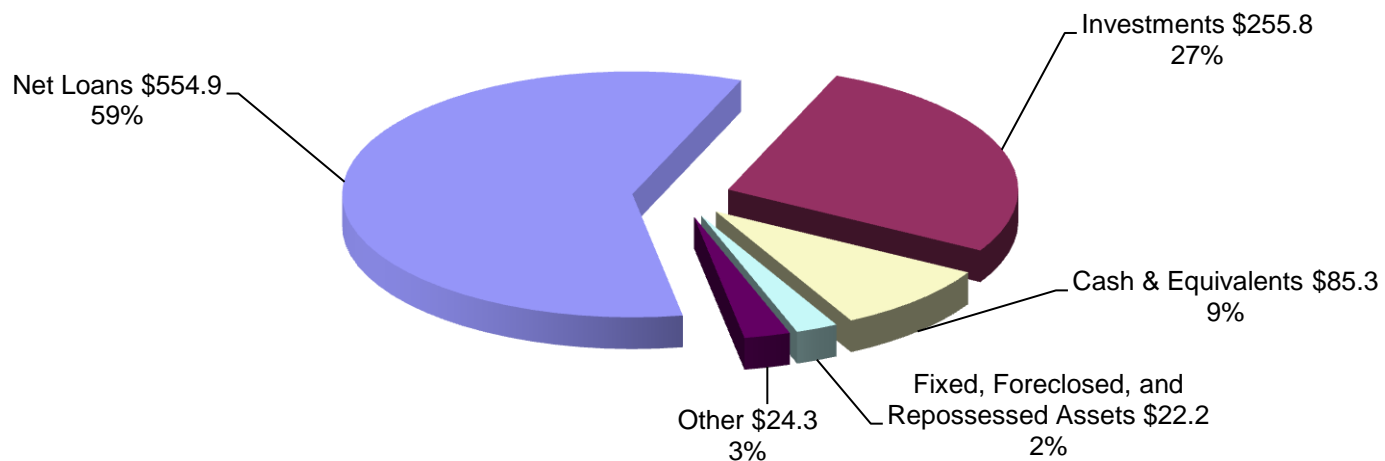
- **Assets** increased \$28.13 billion, or 6.15% annualized. Assets of federally insured credit unions total \$942.48 billion.
- **Net Worth** dollars increased \$3.56 billion, or 7.74% annualized, to \$95.57 billion. Due to slower asset growth, the net worth to assets ratio increased from 10.06% to 10.14%.
- **Earnings**, or return on average assets, increased from 0.51% to 0.77% annualized.
- **Loans** declined \$714.80 million, or -0.25% annualized. The loans to shares ratio decreased from 71.81% to 69.44% with most loan categories experiencing a decline.
- **Delinquent Loans** as a percentage of total loans declined from 1.76% to 1.58%. Delinquent real estate loans as a percentage of total real estate loans declined from 2.10% to 1.98%, while delinquent business loans to total business loans (less unfunded commitments) decreased from 4.01% to 3.64%. Similarly, delinquent loan participations as a percentage of total loan participations dropped from 3.90% to 3.58%. However, overall delinquency continued to rise in the 12 months and over category, which is an indication of delayed loss recognition.
- **Net Loan Charge-Offs** to average loans decreased from 1.13% to 0.95%.
- **Shares** increased \$25.80 billion, or 6.56% annualized. Regular shares accounted for over 70% of all share growth. Declines occurred in non-member deposits and share certificates.
- **Current members** increased by 0.51 million, or 1.14% annualized.

Overall, federally insured credit unions reported improved earnings performance, lower loan delinquency, and lower loan charge-offs. Sustained caution is necessary due to the declining loan volume, with simultaneous increases in first mortgage real estate loans, foreclosures, and loan modifications. Delinquency remains elevated for real estate, member business, and participation loans. Vigilant underwriting and sound asset liability management practices are essential in the current economic environment.

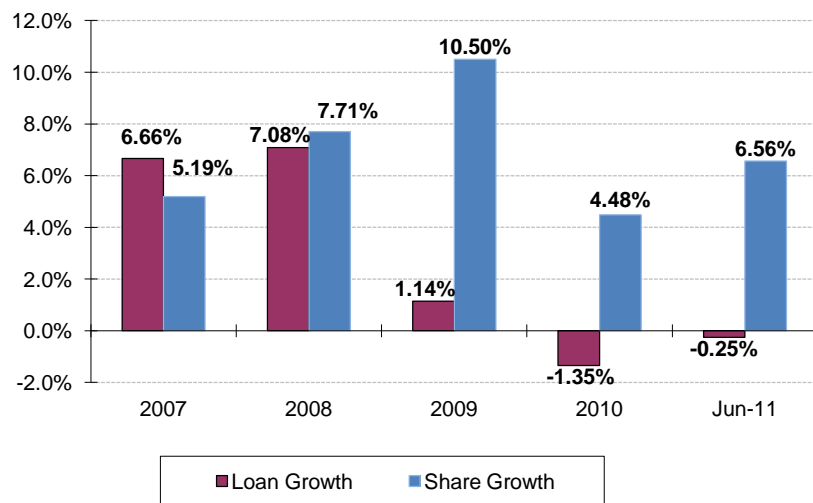
¹ The financial results for prior periods may reflect changes when compared to prior period trend letters, due to subsequent Call Report modifications.

OVERALL TRENDS

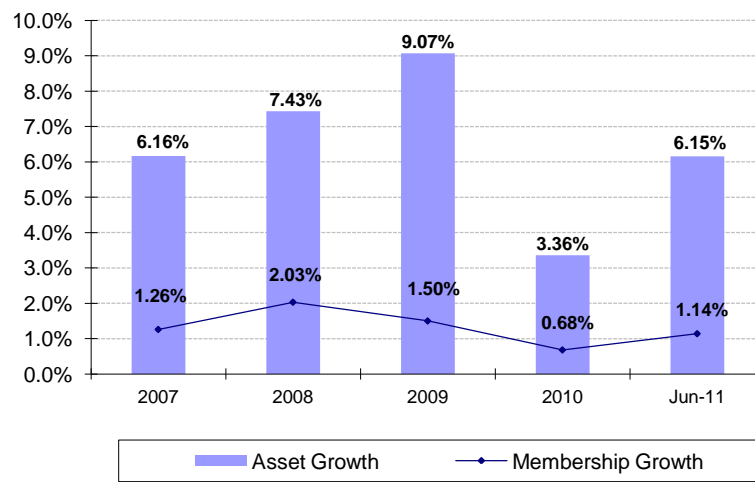
ASSET DISTRIBUTION (In Billions)



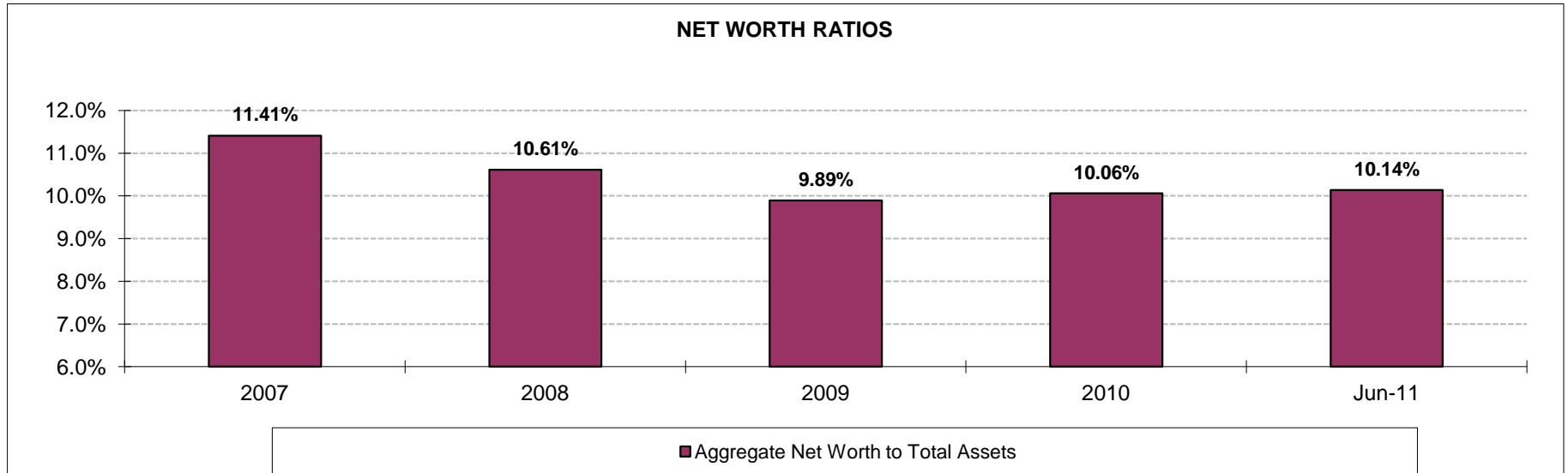
LOAN GROWTH VS. SHARE GROWTH



ASSET GROWTH VS. MEMBERSHIP GROWTH



NET WORTH



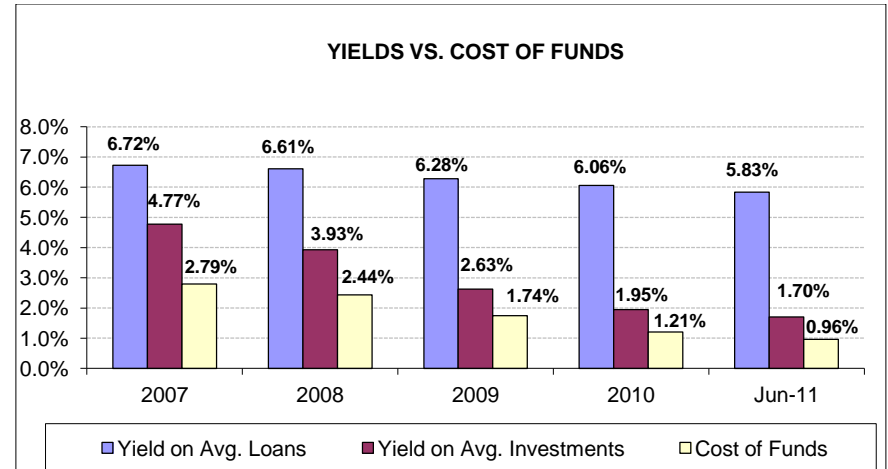
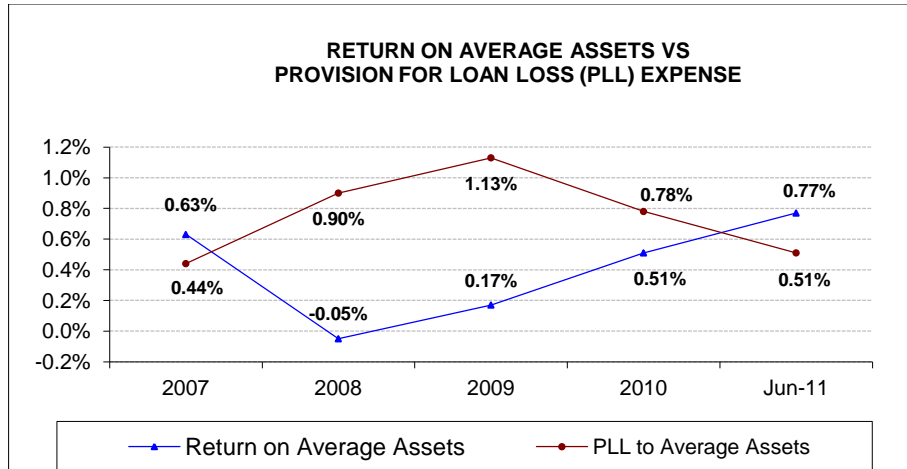
	December 2010 In Billions	June 2011 In Billions	% Change (Annualized)
Total Net Worth	\$92.01	\$95.57	7.74%
Secondary Capital*	\$0.156	\$0.168	15.99%

*For low-income designated credit unions, net worth includes secondary capital.

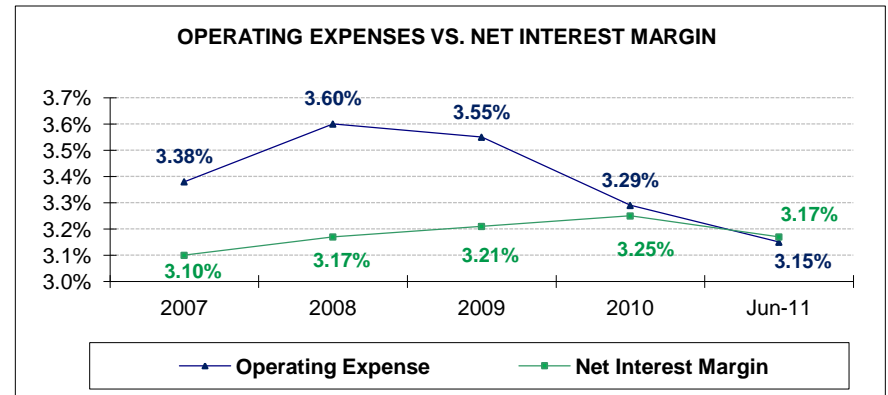
NET WORTH RATIOS				
Number of Credit Unions	December 2010	% of Total	June 2011	% of Total
7% or above	6,974	95.03%	6,892	95.21%
6% to 6.99%	198	2.70%	206	2.84%
4% to 5.99%	120	1.63%	103	1.42%
2% to 3.99%	38	0.52%	31	0.43%
0% to < 2.00%	6	0.08%	2	0.03%
Less than 0%	3	0.04%	5	0.07%

Net worth dollars increased by \$3.56 billion during the first half of 2011, and the aggregate net worth ratio increased to 10.14%, mainly due to stronger earnings and slower asset growth. The number of credit unions subject to Prompt Corrective Action (PCA), as a percentage of total credit unions declined slightly, from 4.97% as of December 31, 2010 to 4.79% as of June 30, 2011, indicating some enduring stress on individual credit unions in the present economic climate.

EARNINGS

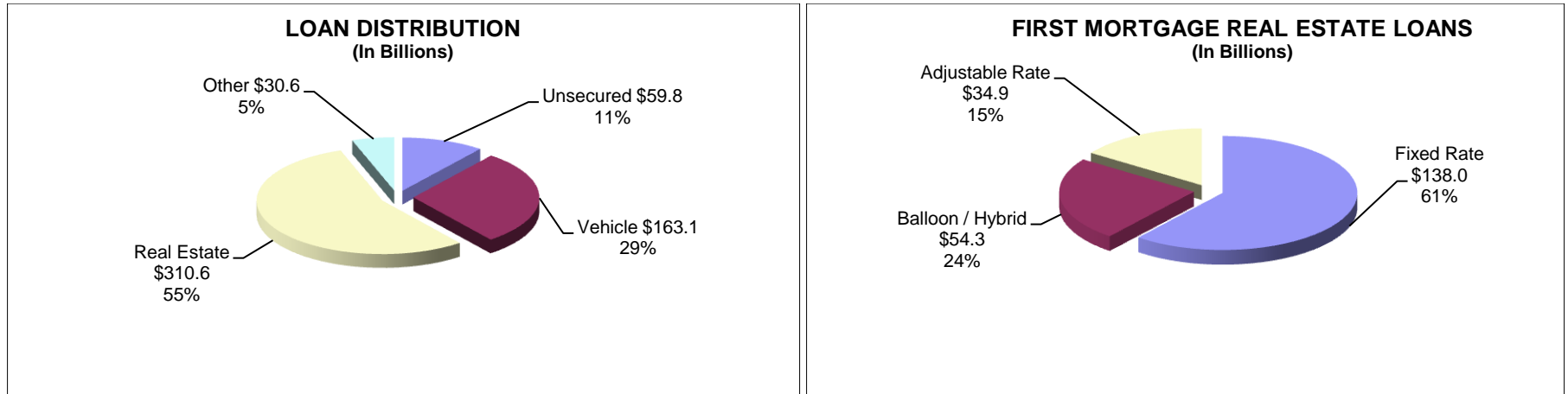


Ratio (% of Average Assets)	December 2010	June 2011	Effect on ROA
Net Interest Margin	3.25%	3.17%	-8 bp
+ Fee & Other Inc.	1.33%	1.25%	-8 bp
- Operating Expenses	3.29%	3.15%	+14 bp
- PLL	0.78%	0.51%	+27 bp
+ Non-Operating Income	0.00%	0.01%	+1 bp
= ROA	0.51%	0.77%	+26 bp



Significant declines in Provision for Loan Loss expense, combined with lower operating expenses and cost of funds, contributed to the rise in the return on average assets (ROA) ratio to 0.77% in the first half of 2011. Credit unions continue to improve efficiencies and eliminate unnecessary expenses, as indicated by the lower operating expenses to average assets ratio. However, the net interest margin to average assets ratio declined as well, due to lower yields on loans and investments and moderate asset growth. Examiners will evaluate a credit union's earnings level in relation to its overall risk profile, net worth needs, financial and operational structure, and strategic plans, within the context of the current economic climate.

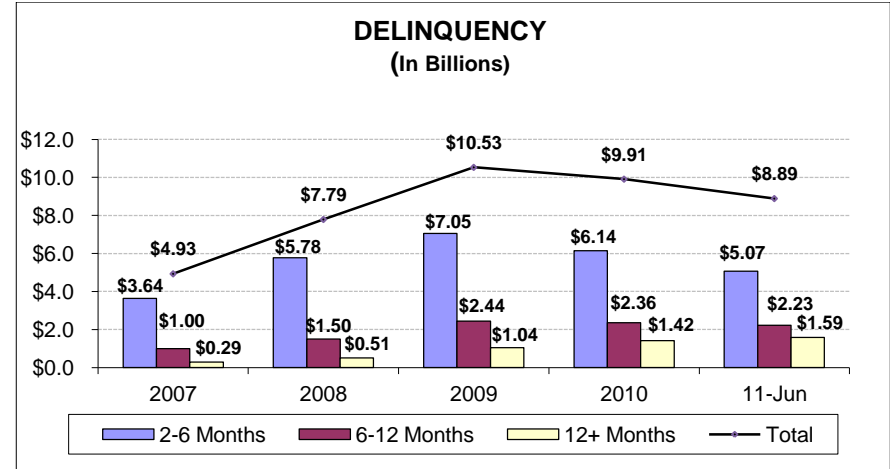
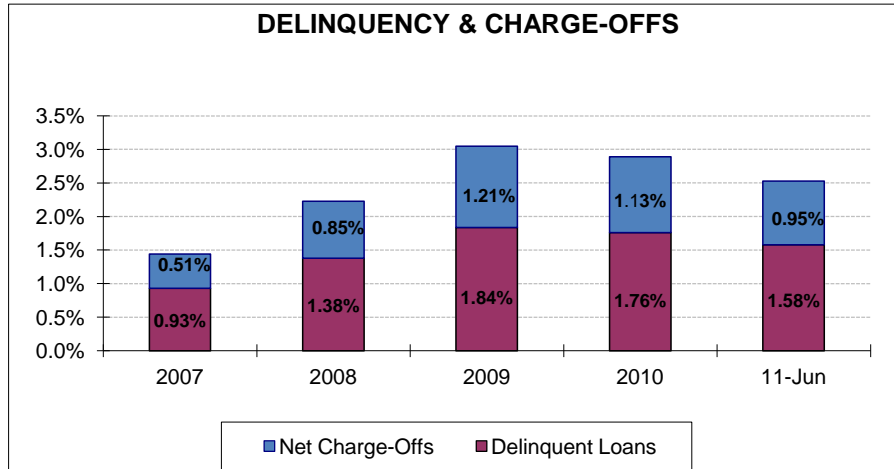
LOAN DISTRIBUTION



Loan Category	December 2010 Balance In Billions	% of Total Loans December 2010	June 2011 Balance In Billions	% of Total Loans June 2011	Growth In Billions	Growth Rate (Annualized)
Unsecured Credit Card	\$35.95	6.37%	\$35.25	6.25%	-\$0.70	-3.89%
All Other Unsecured	\$25.49	4.51%	\$24.57	4.36%	-\$0.91	-7.19%
New Vehicle	\$62.89	11.14%	\$59.51	10.55%	-\$3.37	-10.73%
Used Vehicle	\$101.52	17.98%	\$103.58	18.36%	\$2.05	4.05%
First Mortgage Real Estate	\$223.09	39.50%	\$227.26	40.29%	\$4.17	3.73%
Other Real Estate	\$86.48	15.31%	\$83.30	14.77%	-\$3.18	-7.36%
Leases Receivable & All Other	\$29.32	5.19%	\$30.56	5.42%	\$1.23	8.42%
Total Loans	\$564.74		\$564.03		-\$0.71	-0.25%

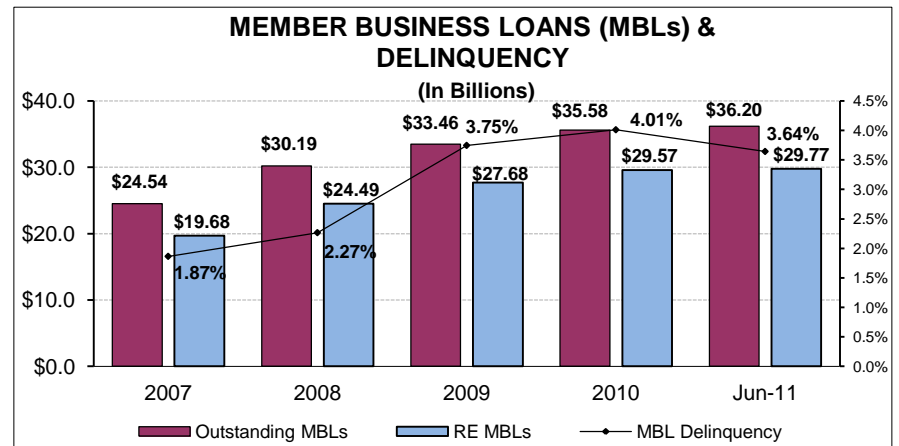
Loans declined by \$714.80 million in the first two quarters of 2011. This decline, coupled with moderate share growth, resulted in a decrease in the loans to shares ratio to 69.44%, the lowest since 2002. Total real estate loans increased by \$985.03 million in 2011 and continue to comprise the largest portion of total loans at 55.06%, followed by vehicle loans at 28.92%. Reversing the declining loan trend and originating good quality loans safely and soundly will continue to be a challenge in the current economic environment.

LOAN AND DELINQUENCY TRENDS



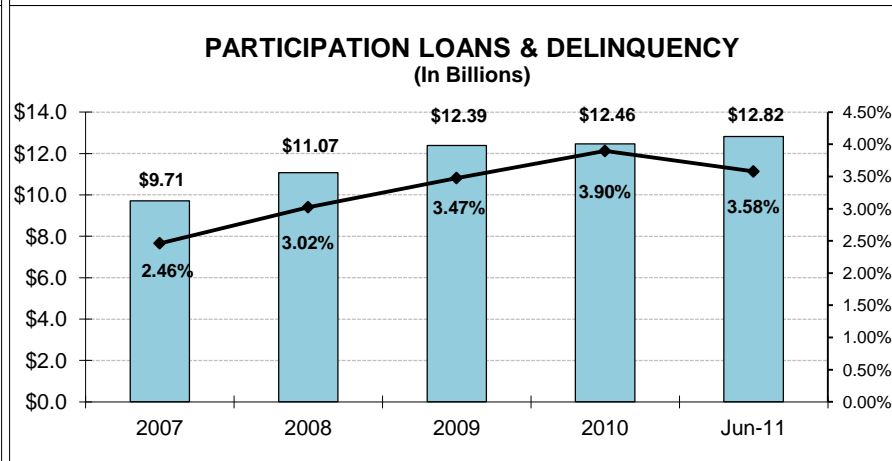
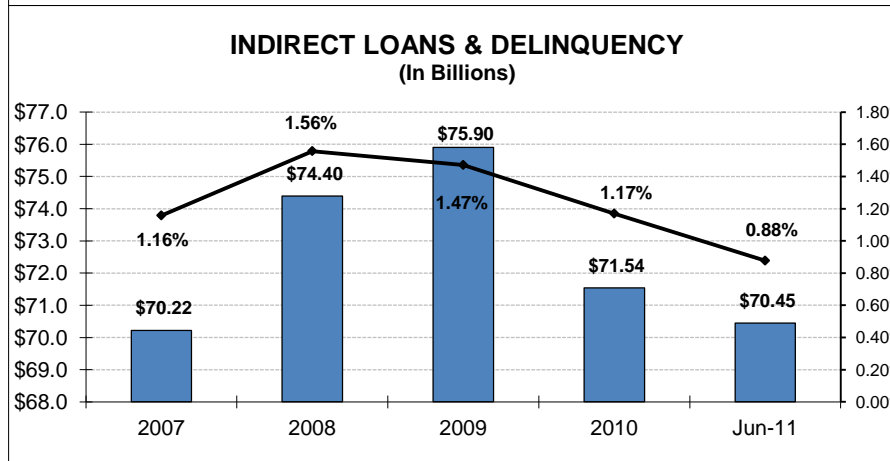
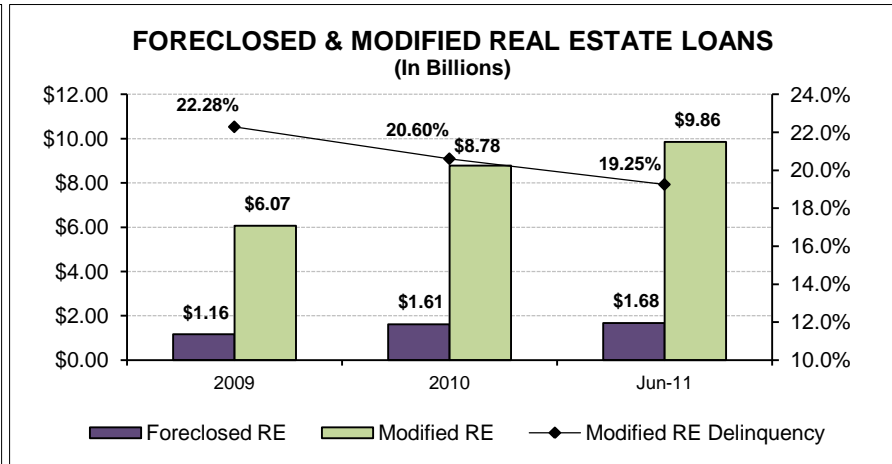
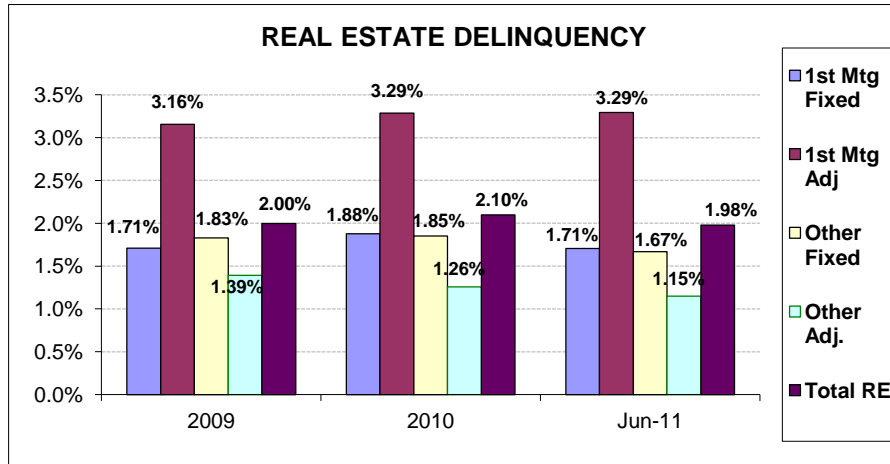
Total Loan Charge-Offs and Recoveries	December 2010 In Billions	June 2011 In Billions*	% Change
Total Loans Charged Off	\$7.24	\$6.20	-14.37%
Total Loan Recoveries	\$0.82	\$0.85	3.90%
Total Net Charge-Offs	\$6.42	\$5.35	-16.70%

* Annualized



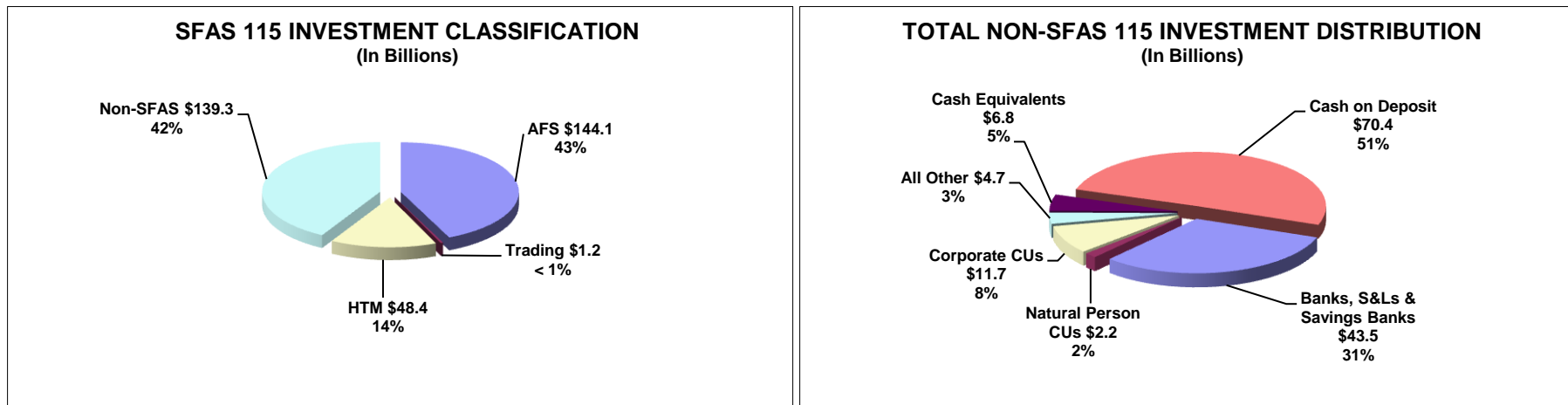
Overall, delinquent dollars declined by \$1.02 billion and ended the quarter at 1.58% of total loans. The combined total loan delinquency and net charge-off ratio similarly declined, from 2.88% to 2.52%. These trends are encouraging, but loans delinquent in excess of 12 months have increased, rising 11.97% (or 23.94% annualized) in the first half of 2011. Member business loan (MBL) delinquency decreased by \$109 million but remains elevated at 3.64% of total MBLs, less unfunded commitments. At the same time, modified business loans grew by \$156.9 million. Credit unions engaged in commercial lending must closely monitor trends and employ sound underwriting, risk management, and collection practices.

LOAN AND DELINQUENCY TRENDS (continued)



Total real estate loan delinquencies declined from 2.10% to 1.98%, and net real estate loan charge-offs to average real estate loans decreased from 0.64% to 0.62%, annualized, in the first half of 2011. Foreclosed real estate increased by \$64.07 million, while modified real estate loans increased by \$1.08 billion. As of June 30, 2011, credit unions held \$9.86 billion in modified real estate loans, with 19.25% of these loans reported as delinquent. Participation loan delinquency decreased by \$26.78 million to 3.58% of total participation loans, a large majority of which are business and/or real estate loans. While the first half of 2011 indicates modest improvements, credit risk remains an area that requires the full attention of credit union management.

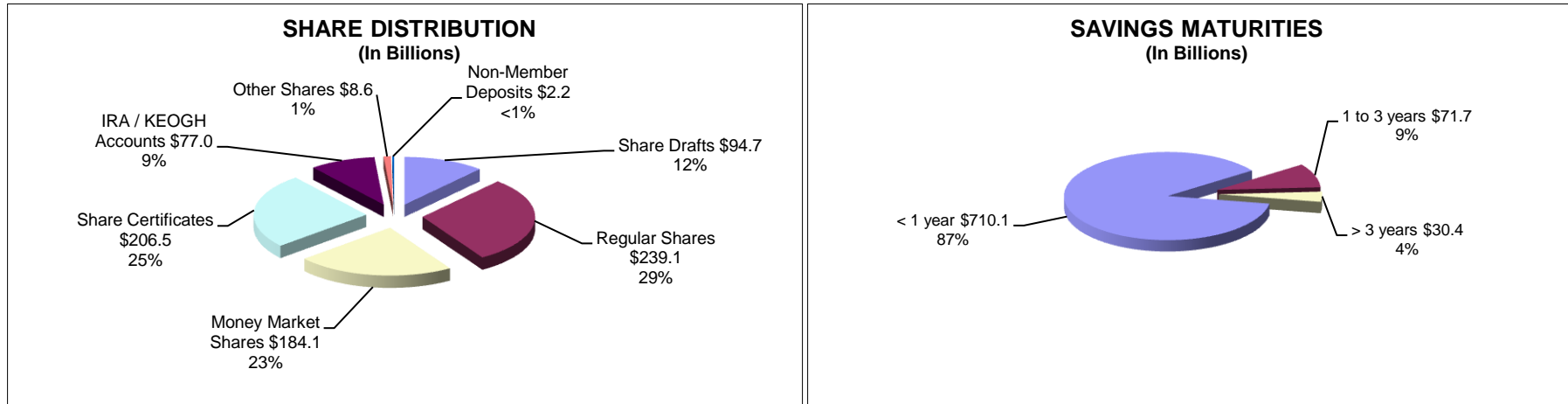
INVESTMENT TRENDS



Maturity or Repricing Intervals for Investments and Cash Deposits & Equivalents	December 2010 In Billions	% of Total Investments December 2010	June 2011 In Billions	% of Total Investments June 2011
Less than 1 year	\$139.62	45.68%	\$147.97	44.45%
1 to 3 years	\$94.04	30.77%	\$93.20	27.99%
3 to 5 years	\$46.76	15.30%	\$61.71	18.53%
5 to 10 years	\$20.13	6.58%	\$24.01	7.21%
Greater than 10 years	\$5.11	1.67%	\$6.05	1.82%
Total Investments	\$305.66		\$332.94	

There is a noticeable shift in investment maturities to those greater than three years. Credit union investment holdings have increased in the first half of 2011, due to positive share growth and declining loans. Natural person credit unions maintain their investments in high quality, safe instruments. Forty percent of all investments are in cash deposits or cash equivalents, deposits in corporate credit unions, and deposits in other financial institutions. These investments provide liquidity and are generally not vulnerable to changing market values. Of the remaining investments, which are subject to Statement of Financial Accounting Standards (SFAS) 115 classification, 91% are in U.S. Government or Federal Agency Securities.

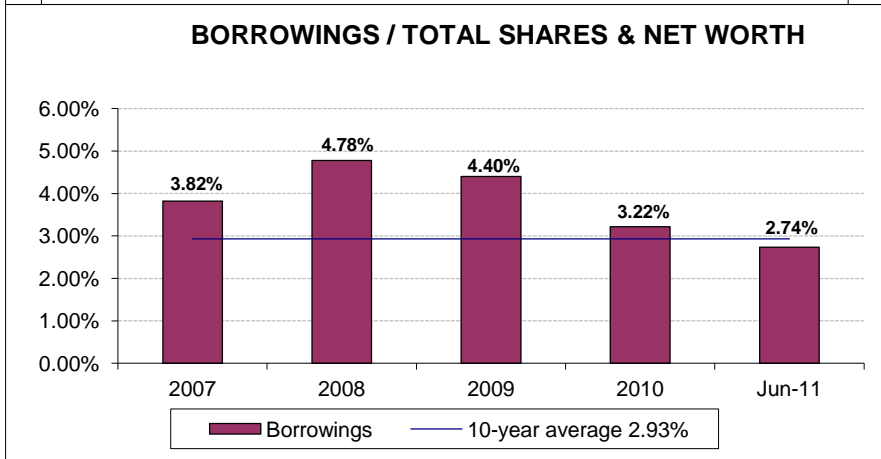
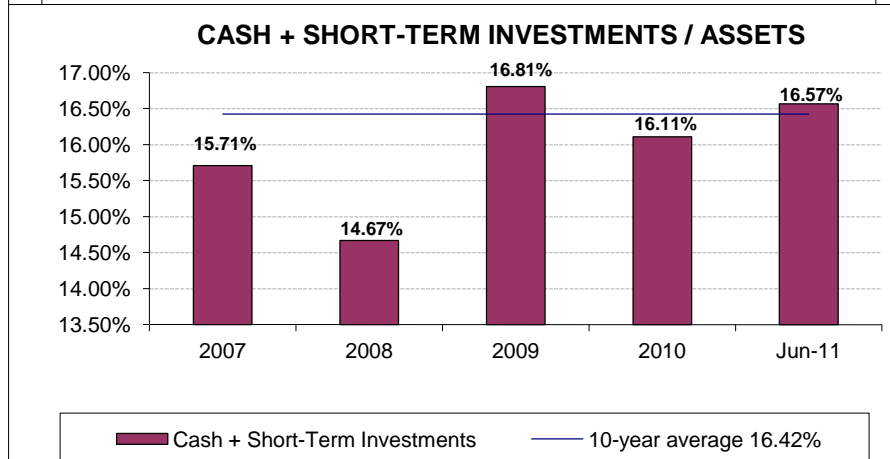
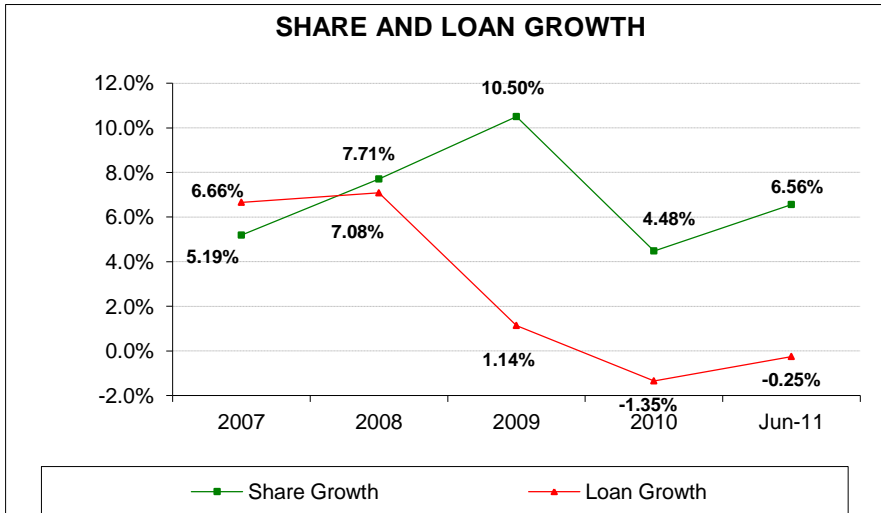
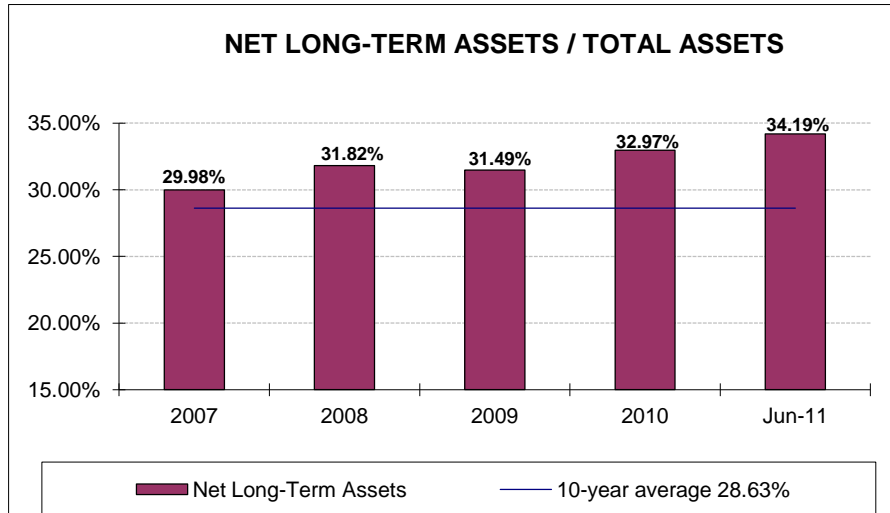
SHARE TRENDS



Share Category	December 2010 Balance In Billions	% of Total Shares December 2010	June 2011 Balance In Billions	% of Total Shares June 2011	Growth In Billions	Growth Rate (Annualized)
Share Drafts	\$89.88	11.43%	\$94.66	11.65%	\$4.77	10.62%
Regular Shares	\$220.51	28.04%	\$239.08	29.44%	\$18.57	16.85%
Money Market Shares	\$175.77	22.35%	\$184.07	22.66%	\$8.30	9.45%
Share Certificates	\$213.42	27.14%	\$206.54	25.43%	-\$6.88	-6.45%
IRA / KEOGH Accounts	\$76.40	9.71%	\$76.97	9.48%	\$0.57	1.49%
All Other Shares	\$8.00	1.02%	\$8.64	1.06%	\$0.64	16.07%
Non-Member Deposits	\$2.42	0.31%	\$2.24	0.28%	-\$0.17	-14.58%
Total Shares and Deposits	\$786.40		\$812.20		\$25.80	6.56%

Total shares increased \$25.80 billion in the first half of 2011. The largest percentage growth was in regular share accounts. While the growth in regular shares reflects continued member loyalty, 58% of total shares are in rate-sensitive accounts. Share certificates declined 6.45% annualized, continuing a trend which started in the second quarter of 2009. However, share certificates still comprise more than a quarter of total shares and deposits. Share maturities remain short-term overall, with 87% of total shares maturing within one year.

ASSET LIABILITY MANAGEMENT TRENDS



Due to the continued growth in shares coupled with stagnant loan growth, credit unions were able to improve their liquidity positions and reduce their reliance on borrowings. The increase in the cash and short-term investments to assets ratio is mainly due to an increase in cash on deposit and cash equivalents. The higher net long-term assets ratio of 34.19% represents potential interest rate risk exposure in a rising interest rate environment. Credit unions with higher levels of interest rate or liquidity risk must demonstrate diligent asset liability management practices to control these risks.

SUMMARY OF TRENDS BY ASSET GROUP

	Asset Group Under \$10 million	Asset Group \$10 million to \$100 million	Asset Group \$100 million to \$500 million	Asset Group Over \$500 million
# of Credit Unions	2,660	3,190	1,008	381
Total Assets	\$10.34 billion	\$114.42 billion	\$222.24 billion	\$595.48 billion
Average Assets/CU	\$3.89 million	\$35.87 million	\$220.48 million	\$1.56 billion
Net Worth / Total Assets	14.54%	11.46%	10.24%	9.77%
Average Net Worth (non dollar-weighted)	16.19%	11.97%	10.28%	10.02%
Net Worth Growth*	-0.87%	3.52%	6.25%	10.63%
Return on Average Assets (ROA)	-0.11%	0.37%	0.61%	0.93%
Net Interest Margin/Average Assets	3.60%	3.44%	3.33%	3.06%
Fee & Other Income/Average Assets	0.63%	1.12%	1.40%	1.24%
Operating Expense/Average Assets	4.03%	3.85%	3.68%	2.81%
Members / Full-Time Employees	406.48	401.24	350.58	400.13
Provision for Loan Loss/Average Assets	0.33%	0.34%	0.45%	0.57%
Loans / Shares	55.63%	60.24%	67.79%	72.14%
Delinquent Loans / Total Loans	2.36%	1.44%	1.52%	1.61%
% of Real Estate Loans Delinquent > 2 Months	1.87%	1.64%	1.89%	2.04%
% of Member Business Loans Delinquent > 2 Mths	2.25%	2.37%	3.56%	3.76%
Net Charge-Offs/Average Loans	0.64%	0.68%	0.86%	1.03%
Share Growth*	6.91%	7.15%	6.51%	7.99%
Loan Growth*	-3.66%	-1.24%	-0.36%	1.32%
Asset Growth*	5.81%	6.89%	6.55%	7.34%
Membership Growth*	-2.76%	0.54%	0.55%	3.76%
Net Long-Term Assets / Total Assets	9.39%	24.46%	33.71%	36.68%
Cash + Short-Term Investments / Assets	35.15%	24.08%	17.21%	14.56%
Borrowings / Shares & Net Worth	0.06%	0.24%	1.15%	3.89%

*Note: The growth trends are based on the same FICUs reporting at 12/31/10 and 6/30/11, based on 6/30/11 assets.

Net worth ratios remain strong in all four asset groups, particularly in the under \$10 million category. However, these smaller credit unions are having the greatest challenge with earnings, loan growth, overall delinquency, and membership growth. The larger credit union categories benefit from their economies of scale, as reflected in lower operating expense ratios, generating greater net income due to these efficiencies.