

## FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – September 30, 2011

### HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of September 30, 2011. Change is measured from December 31, 2010.<sup>1</sup>

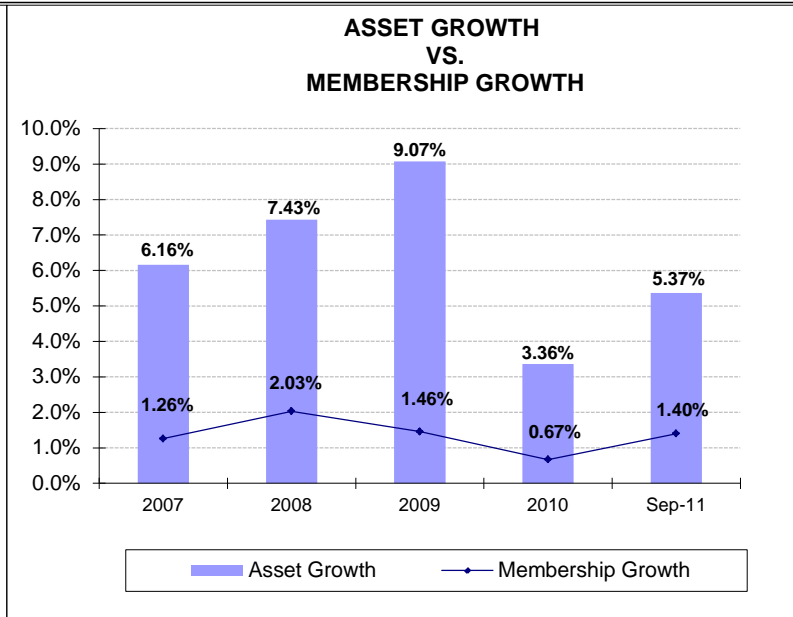
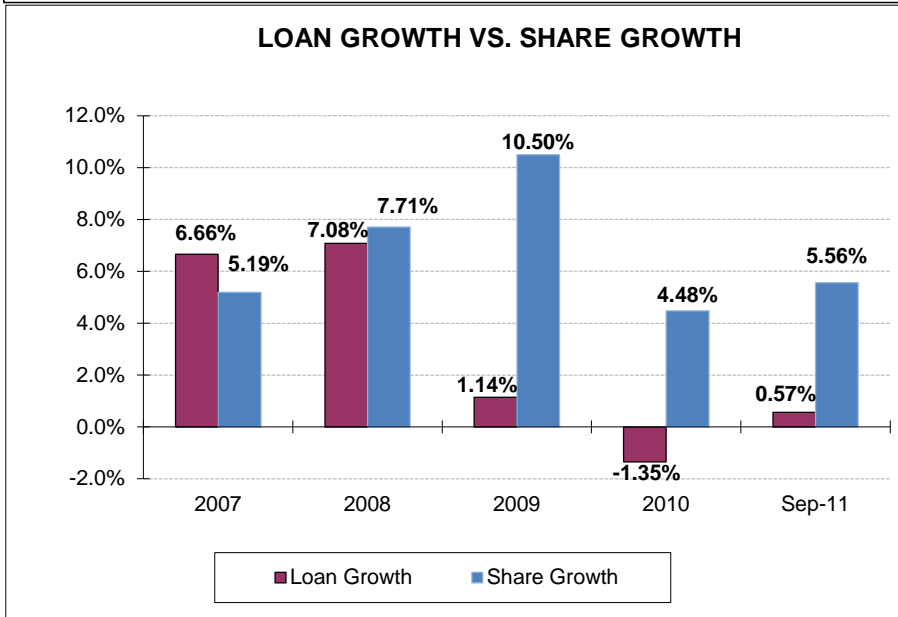
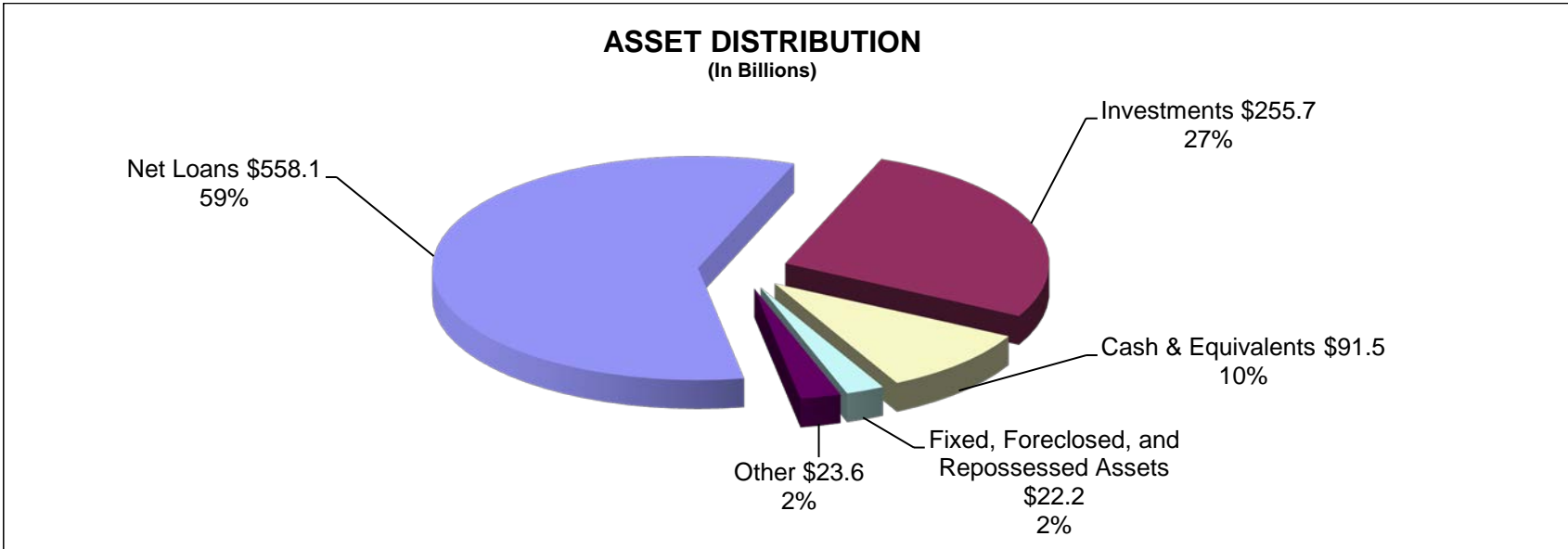
Number of Credit Unions Reporting			
	Federal Charter	State Charter	Total
2007	5,036	3,065	8,101
2008	4,847	2,959	7,806
2009	4,714	2,840	7,554
2010	4,589	2,750	7,339
Sep-11	4,498	2,681	7,179

- **Assets** increased \$36.80 billion, or 5.37% annualized. Assets of federally insured credit unions total \$951.15 billion.
- **Net Worth** dollars increased \$4.57 billion, or 6.63% annualized, to \$96.59 billion. Due to comparatively lower asset growth and positive net income, the net worth to assets ratio increased from 10.06% to 10.15%.
- **Earnings**, or return on average assets, increased from 0.51% to 0.66% annualized.
- **Loans** increased \$2.41 billion to \$567.12 billion, or 0.57% annualized. However, due to the higher level of share growth, the loans to shares ratio decreased from 71.81% to 69.23%. All individual loan categories except used vehicle, first mortgage real estate, and “all other” loans experienced a decline.
- **Delinquent Loans** as a percentage of total loans declined from 1.76% to 1.59%, but delinquency remains elevated in several areas. Delinquent real estate loans as a percentage of total real estate loans declined from 2.10% to 2.00%, while delinquent business loans to total business loans (less unfunded commitments) decreased from 4.04% to 3.84%. Delinquent loan participations as a percentage of total loan participations rose from 3.93% to 3.99%. Delinquency also continued to rise in the 12 months and over category.
- **Net Loan Charge-Offs** to average loans declined from 1.13% to 0.91% annualized.
- **Shares** increased \$32.79 billion, or 5.56% annualized. Regular shares exceeded 60% of total share growth, with strong growth also noted in share drafts and money market shares. Declines occurred in share certificates and non-member deposits.
- **Current members** increased by 0.95 million, or 1.40% annualized.

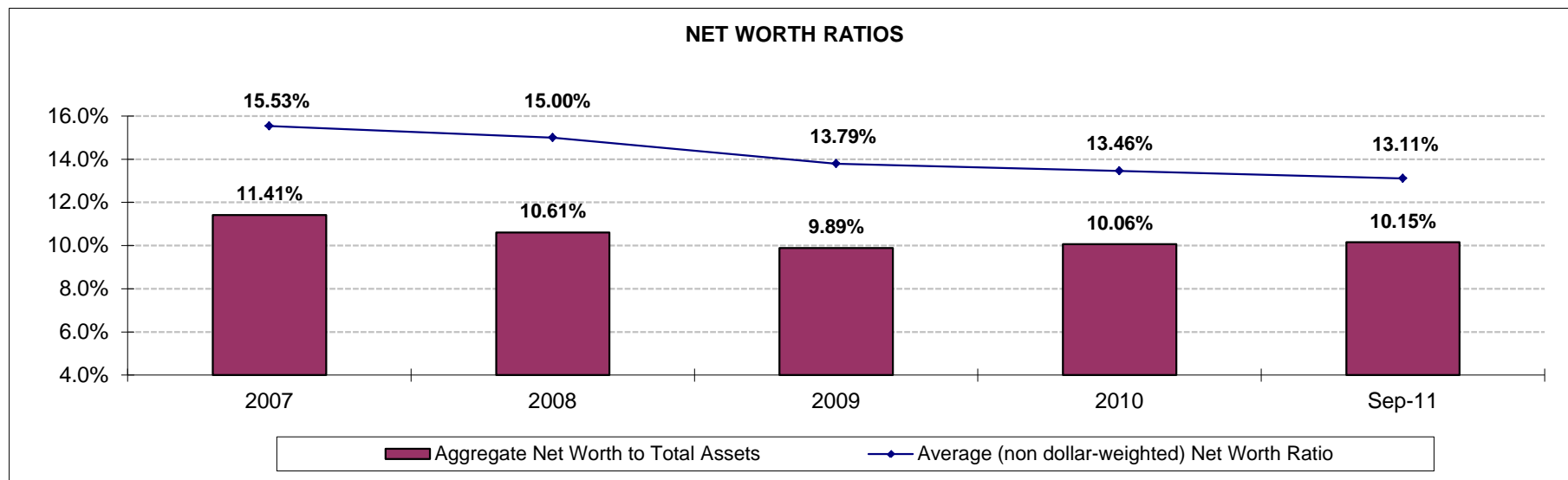
Overall, federally insured credit unions reported improved earnings performance, lower loan delinquency, and lower charge-offs in 2011. Caution remains necessary due to flat loan growth, continued increases in first mortgage real estate loans and total loan modifications, and high foreclosure levels. Vigilant underwriting and sound asset liability management practices are essential in the current economic environment.

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

# OVERALL TRENDS



## NET WORTH



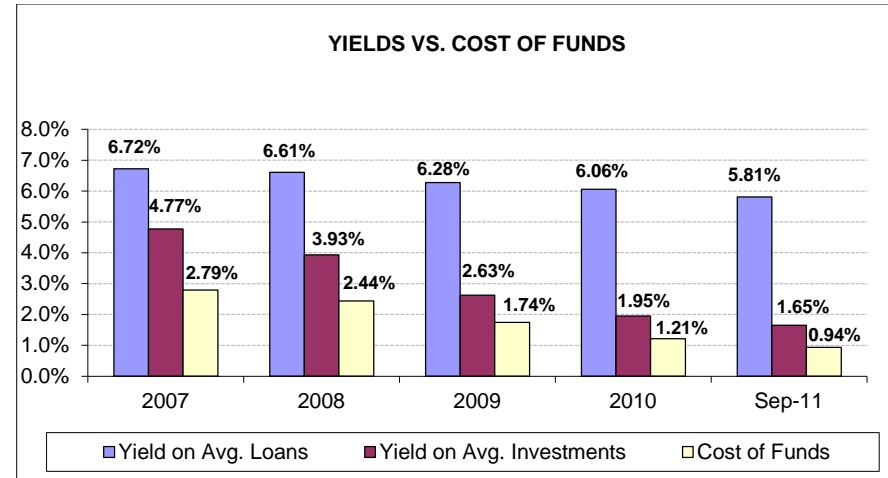
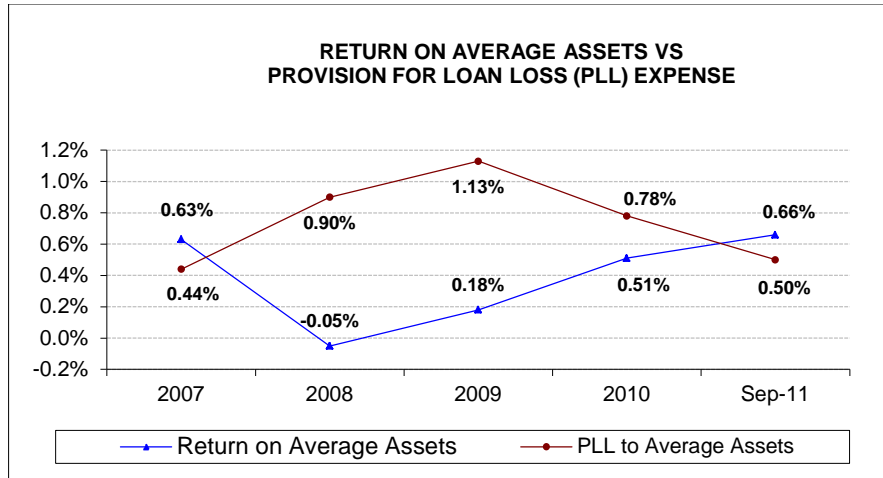
	December 2010 In Billions	September 2011 In Billions	% Change (Annualized)
Total Net Worth	\$92.02	\$96.59	6.63%
Secondary Capital*	\$0.156	\$0.168	9.97%

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

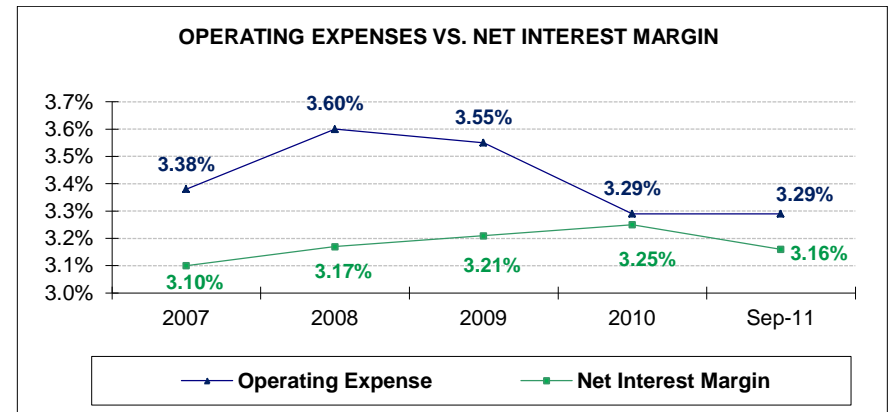
NET WORTH RATIOS				
Number of Credit Unions	December 2010	% of Total	September 2011	% of Total
7% or above	6,990	95.25%	6,822	95.03%
6% to 6.99%	183	2.49%	201	2.80%
4% to 5.99%	119	1.62%	107	1.49%
2% to 3.99%	38	0.52%	36	0.50%
0% to < 2.00%	6	0.08%	8	0.11%
Less than 0%	3	0.04%	5	0.07%

Net worth dollars increased by \$4.57 billion during the first three quarters of 2011. The aggregate net worth ratio increased to 10.15%, mainly due to stronger earnings, which resulted in net worth growth outpacing asset growth. The percentage of credit unions subject to Prompt Corrective Action (PCA) increased slightly, from 4.76% as of December 31, 2010 to 4.97% as of September 30, 2011, indicating some lingering stress on individual credit unions from the economy.

# EARNINGS

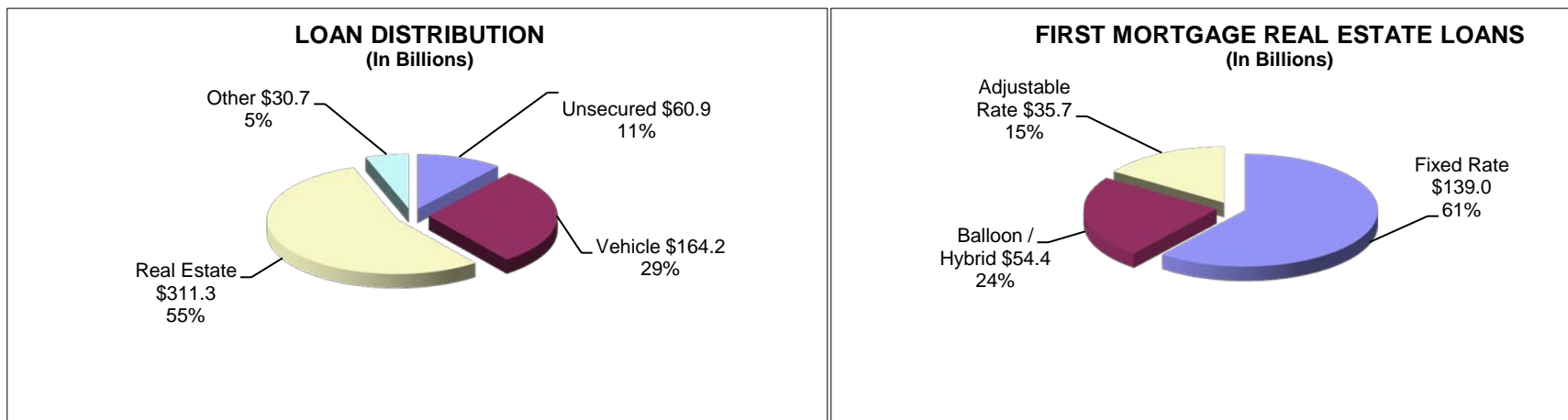


Ratio (% of Average Assets)	December 2010	September 2011	Effect on ROA
Net Interest Margin	3.25%	3.16%	-9 bp
+ Fee & Other Inc.	1.33%	1.27%	-6 bp
- Operating Expenses	3.29%	3.29%	0 bp
- PLL	0.78%	0.50%	+28 bp
+ Non-Operating Income	0.00%	0.02%	+2 bp
= ROA	0.51%	0.66%	+15 bp



Significant declines in Provision for Loan Loss expense, combined with lower cost of funds, contributed to the rise in the annualized return on average assets (ROA) ratio to 0.66% in the first three quarters of 2011. Operating expenses, including National Credit Union Share Insurance Fund (NCUSIF) premiums and stabilization fund assessments, have remained stable compared to year-end 2010. However, the net interest margin to average assets ratio declined due to lower yields on loans and investments. Examiners will take into consideration the impact of any NCUSIF premiums and stabilization fund assessments when evaluating 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.

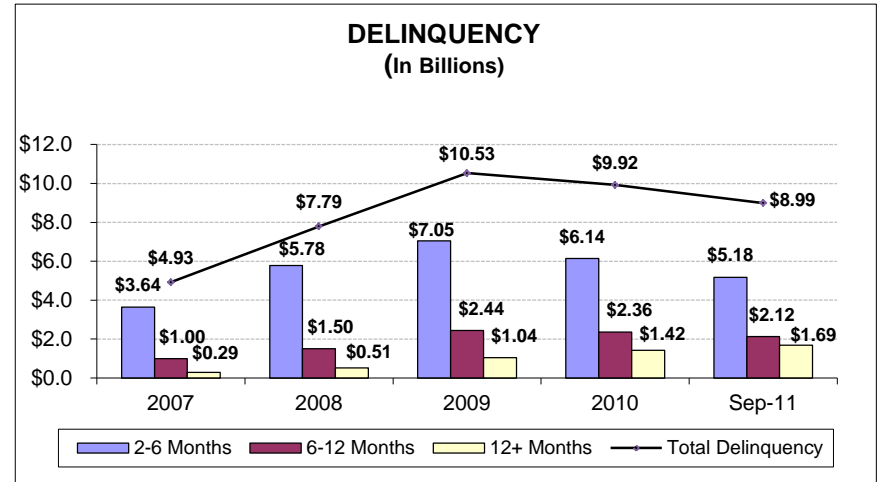
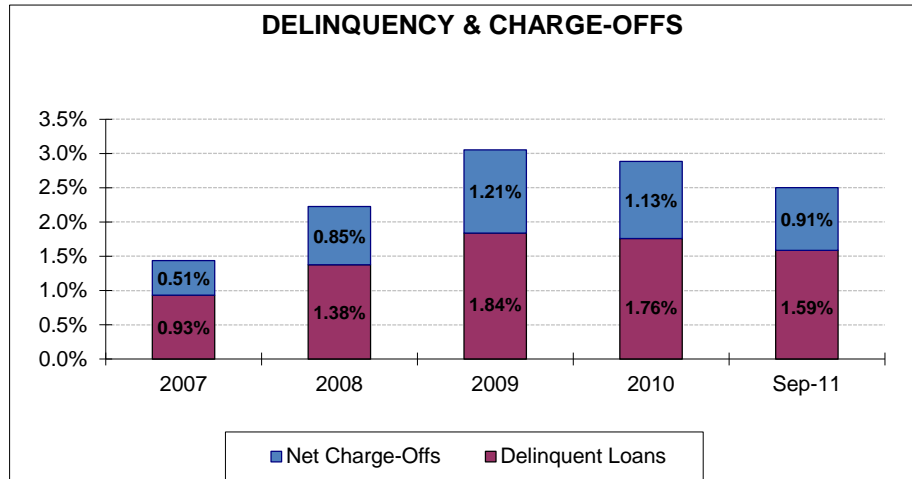
## LOAN DISTRIBUTION



Loan Category	December 2010 Balance In Billions	% of Total Loans December 2010	September 2011 Balance In Billions	% of Total Loans September 2011	Growth In Billions	Growth Rate (Annualized)
Unsecured Credit Card	\$35.95	6.36%	\$35.84	6.32%	-\$0.10	-0.39%
All Other Unsecured	\$25.48	4.51%	\$25.08	4.42%	-\$0.40	-2.10%
New Vehicle	\$62.88	11.14%	\$58.53	10.32%	-\$4.35	-9.22%
Used Vehicle	\$101.52	17.98%	\$105.65	18.63%	\$4.13	5.43%
First Mortgage Real Estate	\$223.23	39.53%	\$229.13	40.40%	\$5.90	3.52%
Other Real Estate	\$86.37	15.29%	\$82.17	14.49%	-\$4.20	-6.48%
Leases Receivable & All Other	\$29.28	5.19%	\$30.72	5.42%	\$1.43	6.54%
<b>Total Loans</b>	<b>\$564.71</b>		<b>\$567.12</b>		<b>\$2.41</b>	<b>0.57%</b>

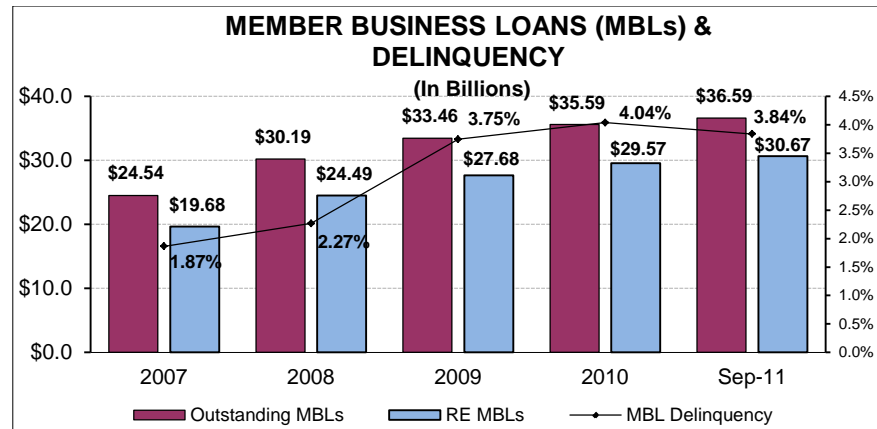
Loans grew by \$2.41 billion through September 30, 2011. Share growth outpaced loan growth, resulting in a decrease in the loans to shares ratio to 69.23%. Total real estate loans increased by \$1.70 billion in the first three quarters of 2011 and continue to comprise the largest portion of total loans at 54.89%, followed by vehicle loans at 28.95% and unsecured loans at 10.74%.

## LOAN AND DELINQUENCY TRENDS



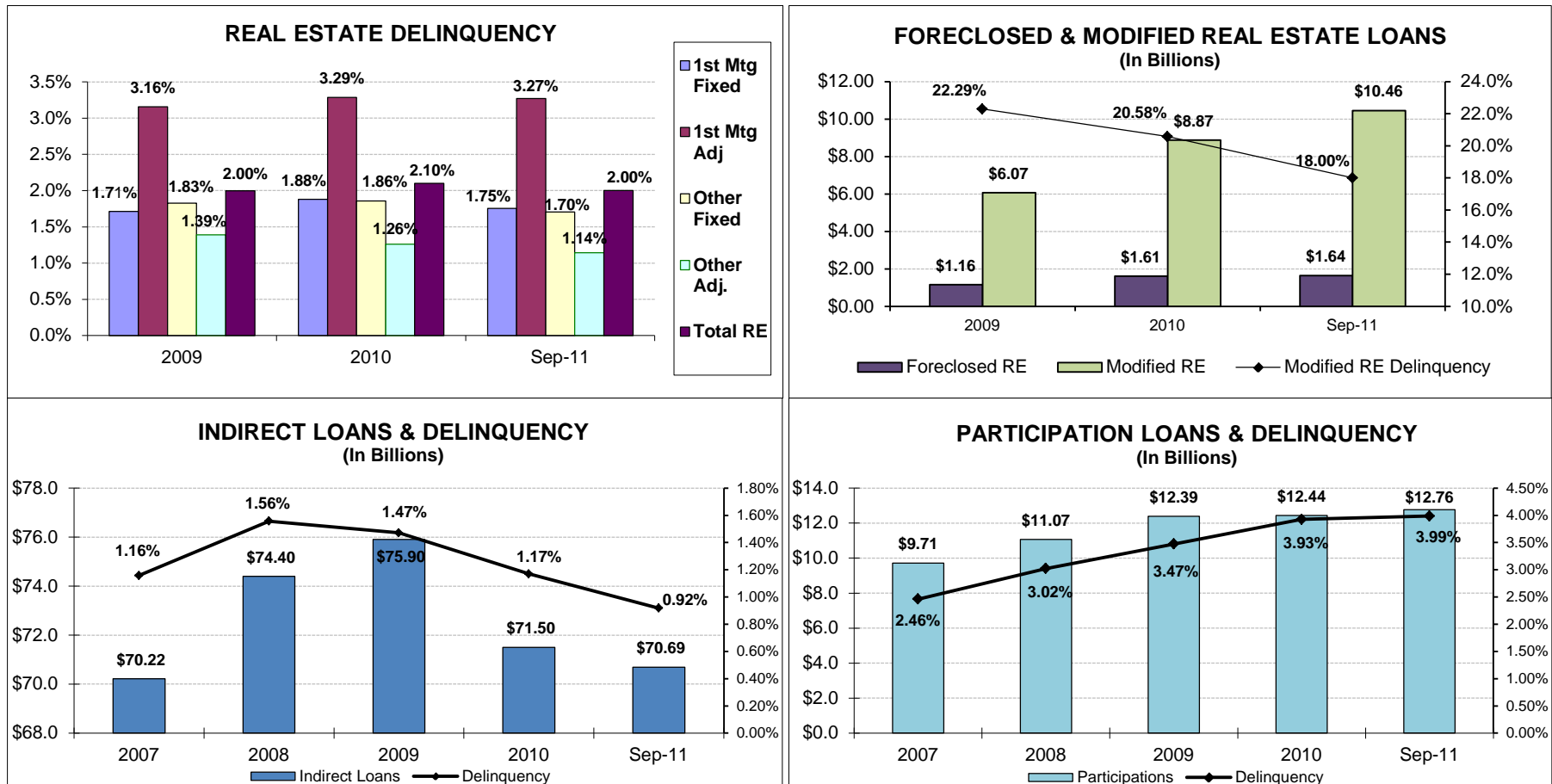
Total Loan Charge-Offs and Recoveries	December 2010 In Billions	September 2011 In Billions*	% Change
Total Loans Charged Off	\$7.24	\$6.01	-16.91%
Total Loan Recoveries	\$0.82	\$0.84	2.76%
Total Net Charge-Offs	\$6.42	\$5.17	-19.42%

\* Annualized



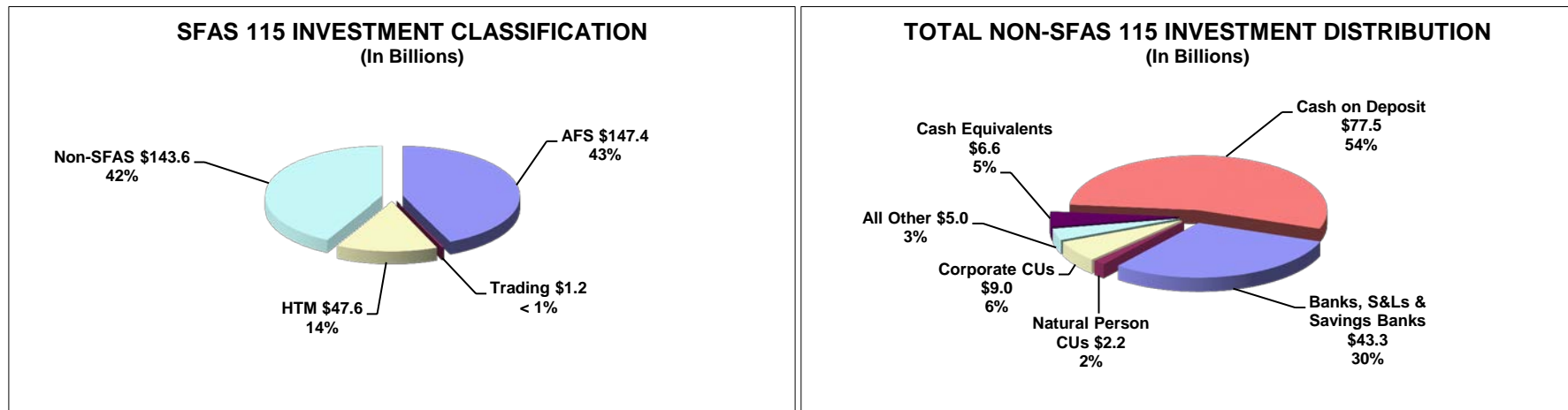
Overall, delinquent dollars declined by \$928.7 million and ended the quarter at 1.59% of total loans. The combined total loan delinquency and net charge-off ratio similarly declined, from 2.89% to 2.50%. These trends are encouraging, but loans delinquent in excess of 12 months have increased, rising 18.85% (or 25.13% annualized) in the first three quarters of 2011. Member business loan (MBL) delinquency decreased by \$32.2 million but remains elevated at 3.84% of total MBLs, less unfunded commitments. At the same time, modified business loans grew by \$170.4 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 2.00%, and net real estate loan charge-offs to average real estate loans decreased from 0.64% to 0.61% annualized in the first three quarters of 2011. Foreclosed real estate increased by \$23.21 million, while modified real estate loans increased by \$1.59 billion. As of September 30, 2011, credit unions held \$10.46 billion in modified real estate loans, with 18.00% of these loans reported as delinquent. Participation loan delinquency increased by \$20.28 million to 3.99% of total participation loans, a large majority of which are business and/or real estate loans. While the first three quarters of 2011 indicate modest improvements in overall delinquency, credit risk remains an area that requires the full attention of credit union management.

## INVESTMENT TRENDS

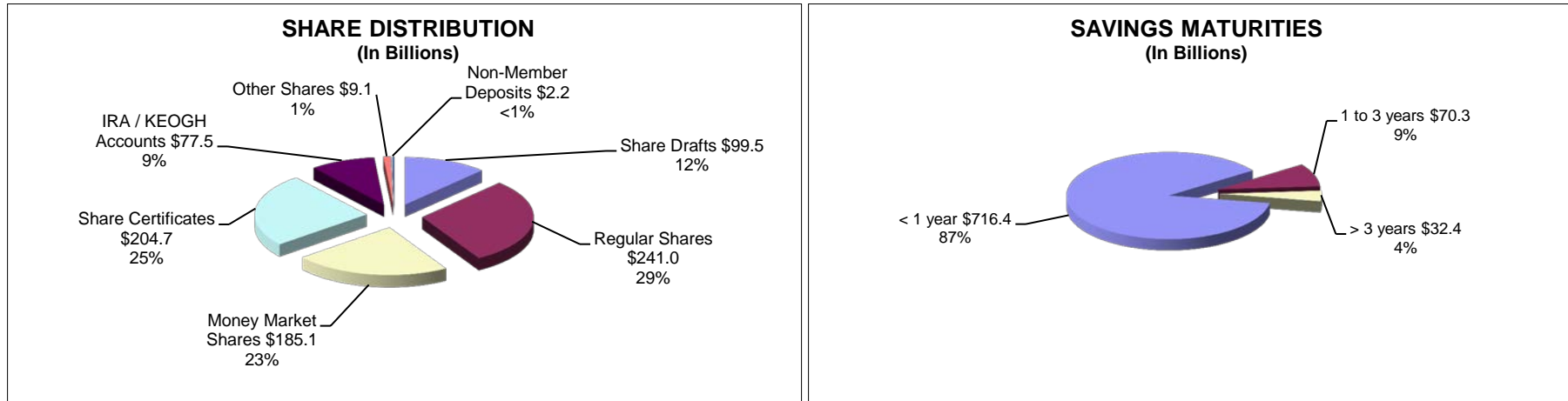


Maturity or Repricing Intervals for Investments and Cash Deposits & Equivalents	December 2010 In Billions	% of Total Investments December 2010	September 2011 In Billions	% of Total Investments September 2011
<b>Less than 1 year</b>	\$139.54	45.65%	\$155.22	45.69%
<b>1 to 3 years</b>	\$94.03	30.76%	\$99.50	29.29%
<b>3 to 5 years</b>	\$46.75	15.29%	\$58.41	17.19%
<b>5 to 10 years</b>	\$20.18	6.60%	\$20.91	6.15%
<b>Greater than 10 years</b>	\$5.19	1.70%	\$5.71	1.68%
<b>Total Investments</b>	<b>\$305.69</b>		<b>\$339.75</b>	

There is a noticeable shift in the percentage of total investments from the 1 to 3 year maturity category to 3 to 5 years. Credit union investment holdings have increased in the first three quarters of 2011 due to positive share growth and sluggish loan growth. Natural person credit unions maintain their investments in high quality, safe instruments. Over 40% 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 Accounting Standards Codification 320 (formerly Statement of Financial Accounting Standards 115) classification, 91% are in U.S. Government or Federal Agency Securities.



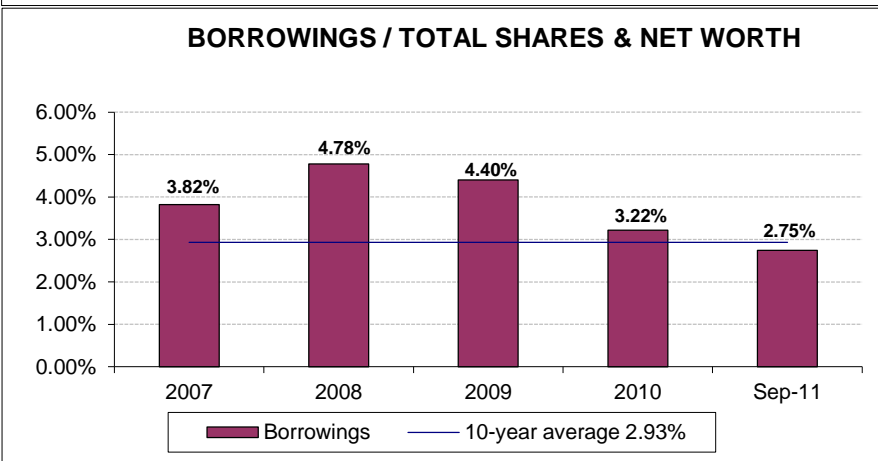
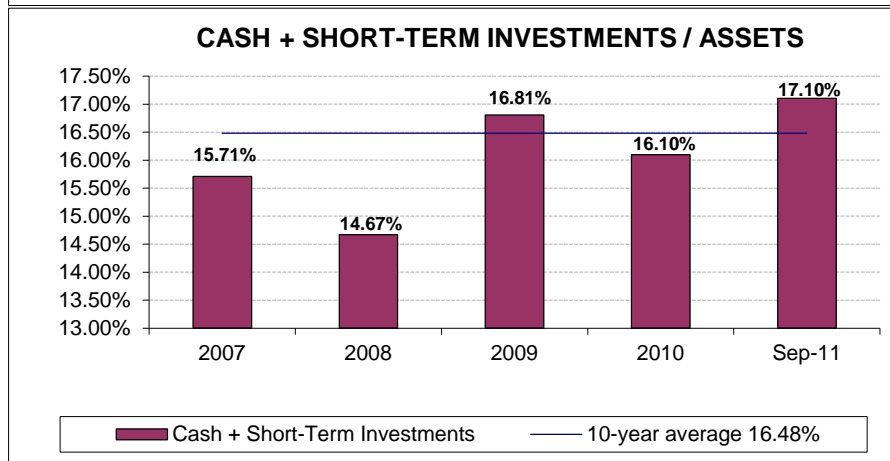
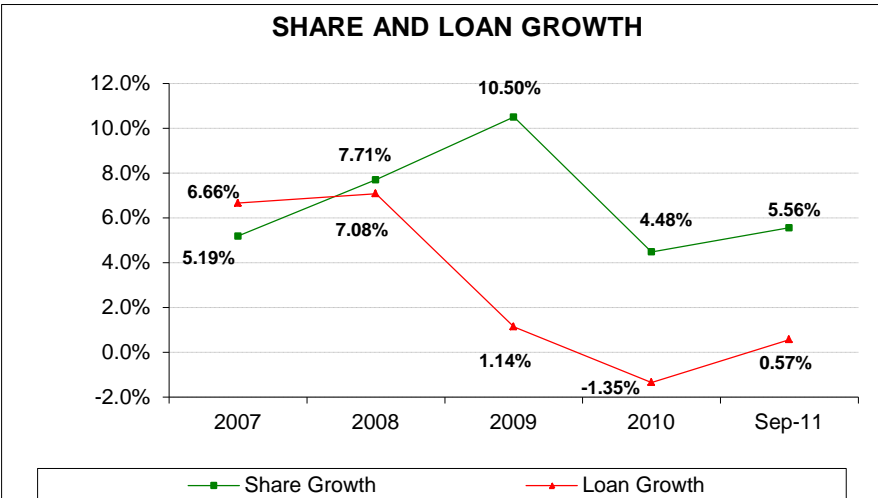
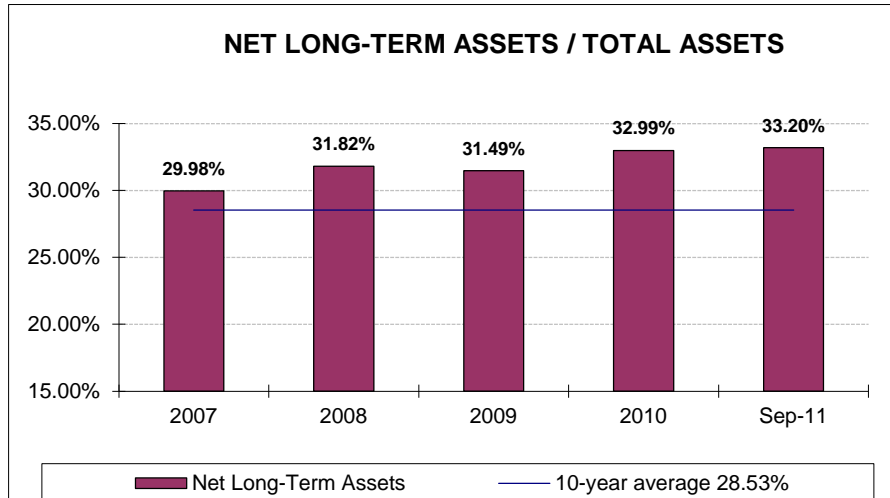
## SHARE TRENDS



Share Category	December 2010 Balance In Billions	% of Total Shares December 2010	September 2011 Balance In Billions	% of Total Shares September 2011	Growth In Billions	Growth Rate (Annualized)
Share Drafts	\$89.88	11.43%	\$99.47	12.14%	\$9.59	14.22%
Regular Shares	\$220.51	28.04%	\$241.04	29.42%	\$20.53	12.41%
Money Market Shares	\$175.77	22.35%	\$185.14	22.60%	\$9.37	7.11%
Share Certificates	\$213.42	27.14%	\$204.70	24.99%	-\$8.72	-5.44%
IRA / KEOGH Accounts	\$76.40	9.71%	\$77.49	9.46%	\$1.08	1.88%
All Other Shares	\$8.00	1.02%	\$9.15	1.12%	\$1.15	19.22%
Non-Member Deposits	\$2.42	0.31%	\$2.21	0.27%	-\$0.21	-11.55%
<b>Total Shares and Deposits</b>	<b>\$786.40</b>		<b>\$819.20</b>		<b>\$32.79</b>	<b>5.56%</b>

Total shares increased \$32.79 billion in the first three quarters of 2011. The largest dollar growth was in regular share accounts, while the largest percentage growth was in all other shares. While the growth in regular shares and share drafts reflects sustained member loyalty, 57% of total shares are in rate-sensitive accounts. Share certificates declined 5.44% annualized, continuing a trend which started in the second quarter of 2009. However, share certificates still comprise 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 limited 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 33.20% 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

	<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	2,617	3,162	1,014	386
Total Assets	\$10.23 billion	\$113.27 billion	\$221.90 billion	\$605.76 billion
Average Assets/CU	\$3.91 million	\$35.82 million	\$218.84 million	\$1.57 billion
Net Worth / Total Assets	14.50%	11.42%	10.27%	9.80%
Average Net Worth (non dollar-weighted)	16.06%	11.94%	10.29%	10.04%
Net Worth Growth*	-1.37%	2.28%	5.24%	9.38%
Return on Average Assets (ROA)	-0.20%	0.23%	0.50%	0.81%
Net Interest Margin/Average Assets	3.62%	3.45%	3.33%	3.04%
Fee & Other Income/Average Assets	0.64%	1.15%	1.43%	1.26%
Operating Expense/Average Assets	4.16%	4.01%	3.82%	2.96%
Members / Full-Time Employees	440.14	402.64	352.10	403.26
Provision for Loan Loss/Average Assets	0.34%	0.36%	0.45%	0.55%
Loans / Shares	56.05%	60.12%	67.59%	71.82%
Delinquent Loans / Total Loans	2.39%	1.49%	1.50%	1.62%
% of Real Estate Loans Delinquent > 2 Months	2.14%	1.76%	1.86%	2.08%
% of Member Business Loans Delinquent > 2 Mths	4.22%	2.48%	3.56%	4.02%
Net Charge-Offs/Average Loans*	0.67%	0.69%	0.84%	0.98%
Share Growth*	4.17%	5.42%	5.32%	7.05%
Loan Growth*	-2.09%	-0.40%	0.53%	1.97%
Asset Growth*	3.31%	5.12%	5.38%	6.73%
Membership Growth*	-0.81%	0.03%	0.82%	4.09%
Net Long-Term Assets / Total Assets	9.63%	24.21%	32.87%	35.40%
Cash + Short-Term Investments / Assets	34.11%	24.06%	17.66%	15.31%
Borrowings / Shares & Net Worth	0.07%	0.24%	1.13%	3.89%

\*Note: The growth trends are based on the same FICUs reporting at 12/31/10 and 9/30/11, based on 9/30/11 assets.

Net worth ratios remain strong in all four asset groups, particularly in the under \$10 million category. However, these smaller credit unions continue to have the greatest challenge with earnings, loan growth, 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.