

## FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – December 31, 2011

### HIGHLIGHTS

This report summarizes trends for all federally insured credit unions reporting as of December 31, 2011. Change is measured from December 31, 2010.<sup>1</sup>

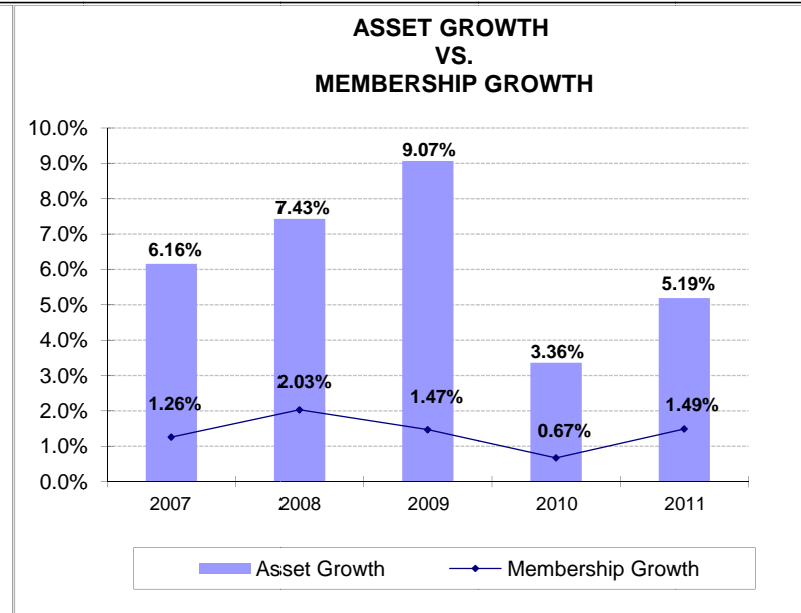
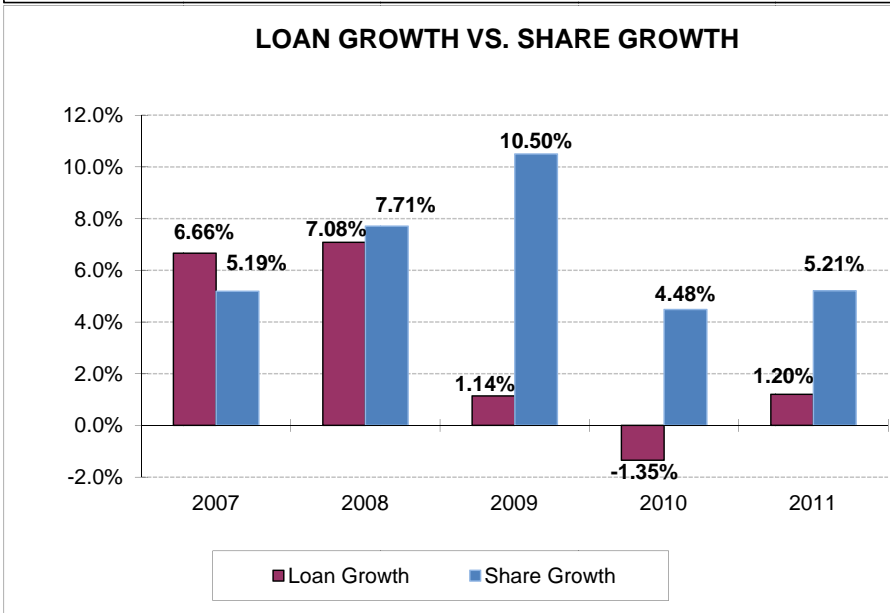
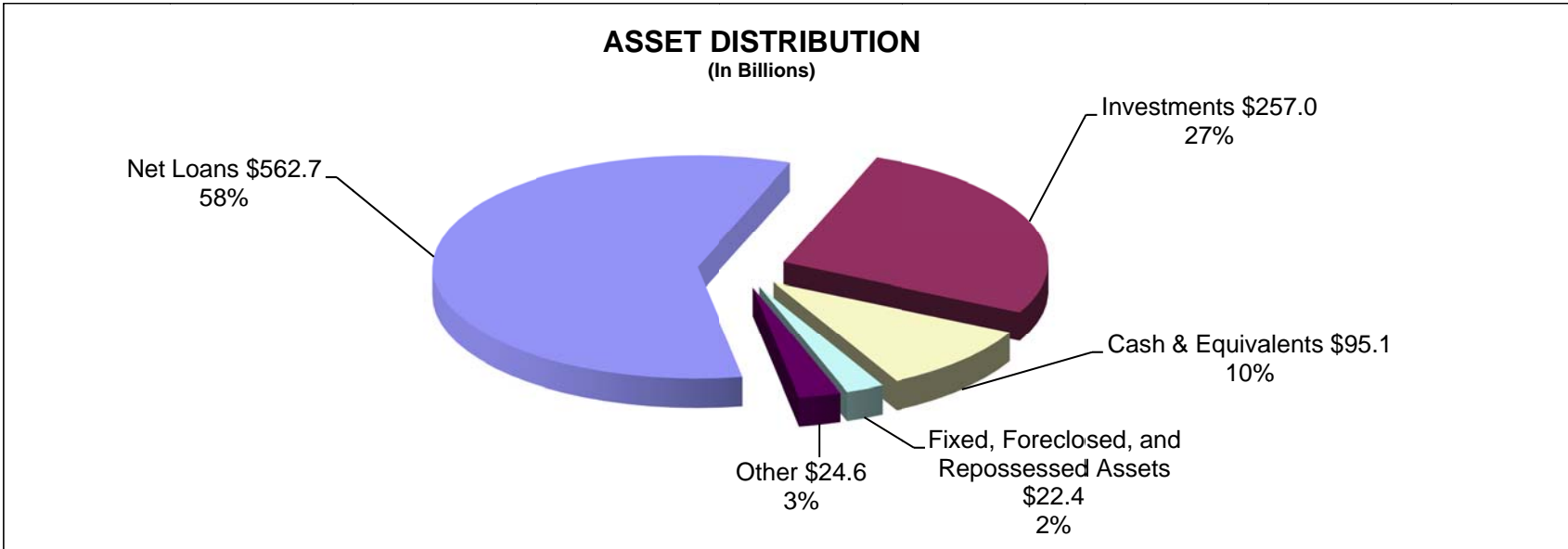
Number of Credit Unions Reporting			
	Federal Charter	State Charter	Total
2007	5,036	3,065	8,101
2008	4,847	2,959	7,806
2009	4,714	2,840	7,554
2010	4,589	2,750	7,339
2011	4,447	2,647	7,094

- **Assets** increased \$47.41 billion, or 5.19%. Assets of federally insured credit unions total \$961.75 billion at year-end.
- **Net Worth** dollars climbed \$6.39 billion, or 6.95%, to \$98.39 billion. Because of comparatively lower asset growth and improving net income, the net worth to assets ratio increased from 10.06% to 10.23%.
- **Earnings**, or return on average assets, rose from 0.50% to 0.68%.
- **Shares** increased \$41.01 billion, or 5.21%. Regular shares accounted for 59% of total share growth, with strong growth also noted in share drafts and “all other” shares. Declines occurred in share certificates and non-member deposits.
- **Current members** increased by 1.35 million, or 1.49%, despite the decline in the number of federally insured credit unions.
- **Loans** increased \$6.78 billion to \$571.48 billion, or 1.20%. However, because of the higher level of share growth, the loans-to-shares ratio dipped from 71.81% to 69.07%.
- **Delinquent Loans** as a percentage of total loans dropped from 1.76% to 1.60%, 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 4.06% to 3.76%. Delinquent loan participations as a percentage of total loan participations rose from 3.96% to 4.16%. Total delinquent loans 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%.

Overall, credit unions reported stronger earnings, lower loan delinquency, and declining charge-offs in 2011. Continuing growth in first mortgage real estate loans and total loan modifications necessitates sustained vigilance in underwriting and sound asset-liability management practices.

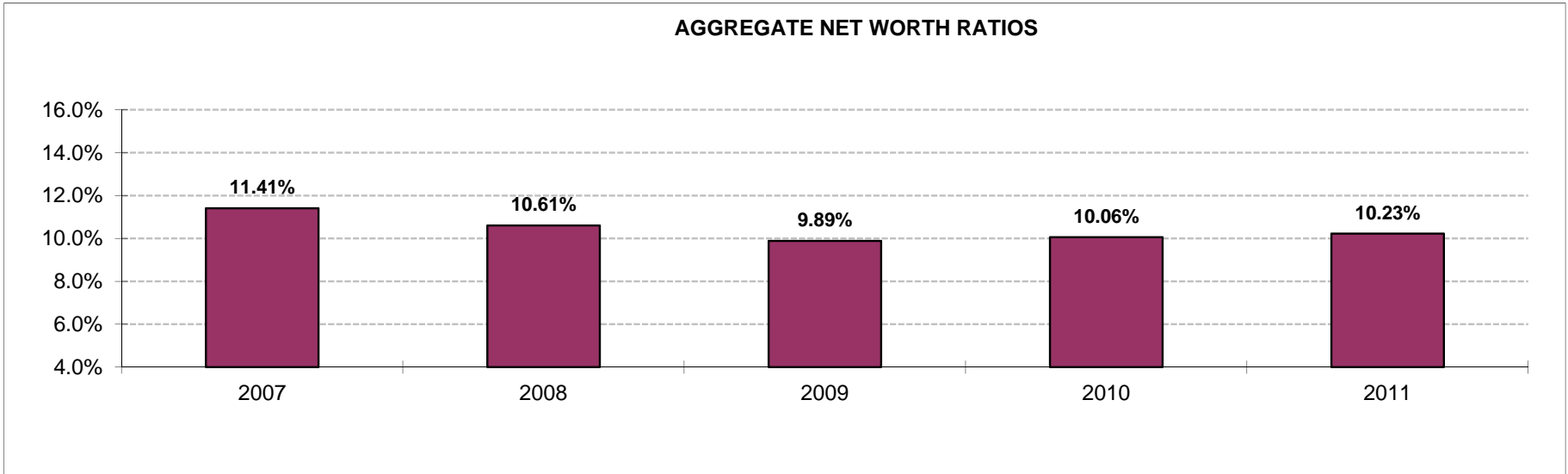
<sup>1</sup> The financial results for prior periods may reflect changes when compared to prior period trend letters because of subsequent Call Report modifications.

# OVERALL TRENDS



# NET WORTH

AGGREGATE NET WORTH RATIOS



	December 2010 In Billions	December 2011 In Billions	% Change (Annualized)
Total Net Worth	\$92.00	\$98.39	6.95%
Secondary Capital*	\$0.156	\$0.168	7.49%

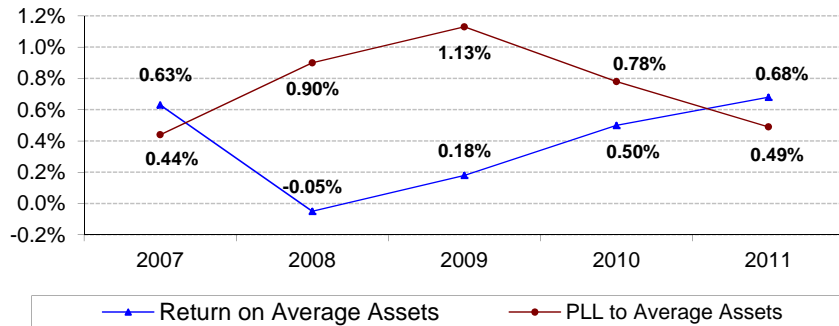
\*For low-income designated credit unions, net worth includes secondary capital.

NET WORTH RATIOS				
Number of Credit Unions	December 2010	% of Total	December 2011	% of Total
7% or above	6,990	95.25%	6,780	95.58%
6% to 6.99%	183	2.49%	184	2.59%
4% to 5.99%	119	1.62%	87	1.23%
2% to 3.99%	38	0.52%	30	0.42%
0% to < 2.00%	6	0.08%	13	0.18%
Less than 0%	3	0.04%	0	0.00%

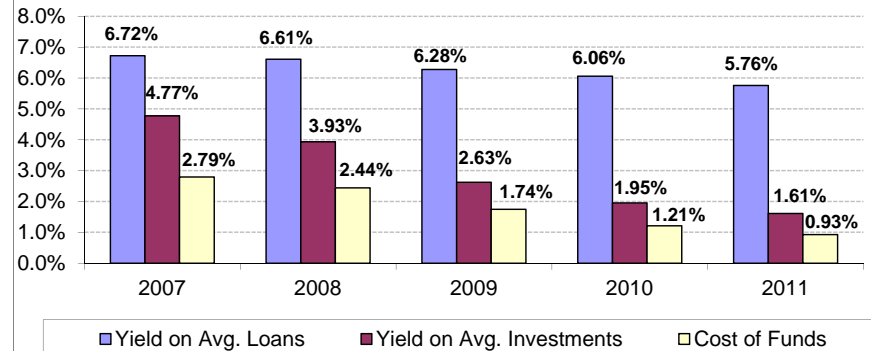
Net worth increased by \$6.39 billion during 2011. Stronger earnings, which resulted in net worth growth outpacing asset growth, boosted the aggregate net worth ratio to 10.23%. The percentage of credit unions subject to Prompt Corrective Action (PCA) dropped 33 basis points to 4.42% over the year. Behind this overall improvement, many individual credit unions are still experiencing financial stress. Indeed, 31.9% of federally insured institutions saw their net worth decline from year-end 2010 to year-end 2011.

# EARNINGS

RETURN ON AVERAGE ASSETS VS PROVISION FOR LOAN LOSS (PLL) EXPENSE

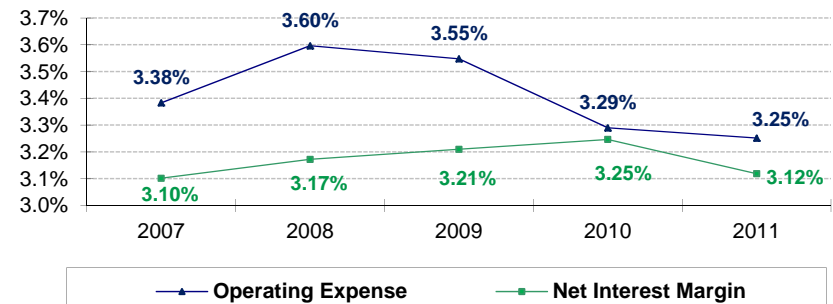


YIELDS VS. COST OF FUNDS



Ratio (% of Average Assets)	December 2010	December 2011	Effect on ROA
Net Interest Margin	3.25%	3.12%	-13 bp
+ Fee & Other Inc.	1.33%	1.30%	-3 bp
- Operating Expenses	3.29%	3.25%	+4 bp
- PLL	0.78%	0.49%	+29 bp
+ Non-Operating Income	0.00%	0.01%	+1 bp
= ROA*	0.50%	0.68%	+18 bp

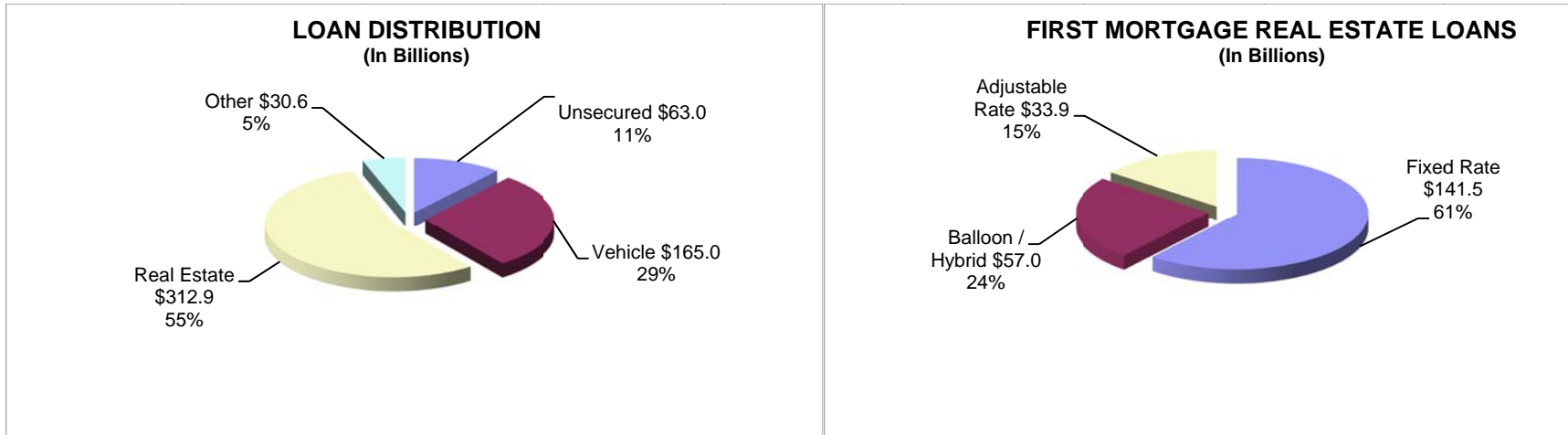
OPERATING EXPENSES VS. NET INTEREST MARGIN



\*ROA calculated using the information in the table may differ slightly because of rounding.

Significant declines in provision for loan loss expense, combined with lower cost of funds, contributed to the rise in the return on average assets (ROA) ratio to 0.68% for 2011. Operating expenses remained stable compared to 2010. However, the net interest margin to average assets ratio declined because of lower yields on loans and investments. Examiners will continue to evaluate a credit union's earnings level in relation to its overall risk profile, net worth needs, financial and operational structure, and strategic plans – considering the impact of any premiums and assessments and the current economic environment.

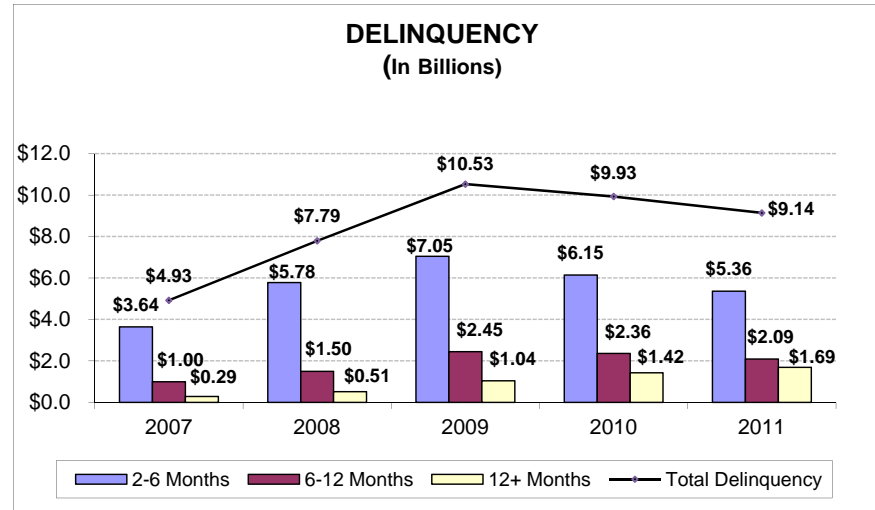
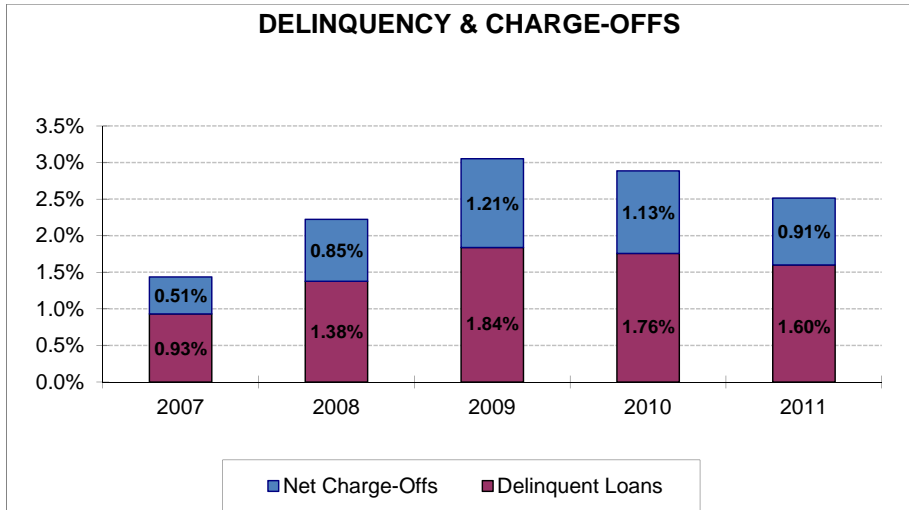
## LOAN DISTRIBUTION



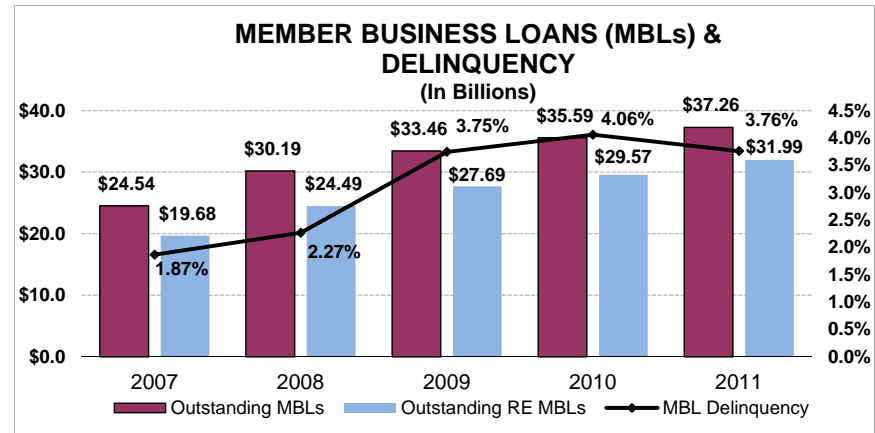
Loan Category	December 2010 Balance In Billions	% of Total Loans December 2010	December 2011 Balance In Billions	% of Total Loans December 2011	Growth In Billions	Growth Rate
Unsecured Credit Card	\$35.95	6.37%	\$37.38	6.54%	\$1.44	4.00%
All Other Unsecured	\$25.48	4.51%	\$25.60	4.48%	\$0.12	0.47%
New Vehicle	\$62.87	11.13%	\$58.29	10.20%	-\$4.58	-7.29%
Used Vehicle	\$101.54	17.98%	\$106.73	18.68%	\$5.19	5.11%
First Mortgage Real Estate	\$223.28	39.54%	\$232.42	40.67%	\$9.14	4.09%
Other Real Estate	\$86.36	15.29%	\$80.51	14.09%	-\$5.85	-6.78%
Leases Receivable & All Other	\$29.23	5.18%	\$30.55	5.34%	\$1.32	4.54%
<b>Total Loans</b>	<b>\$564.71</b>		<b>\$571.48</b>		<b>\$6.78</b>	<b>1.20%</b>

Total loans grew \$6.78 billion in 2011. Real estate loans increased by \$3.29 billion and continue to account for the largest portion of total loans at 54.76%, followed by vehicle loans at 28.88% and unsecured loans at 11.02%. The majority of first-mortgage real estate loans (60.90%) are fixed rate. Further, total fixed rate real estate loans make up 34.78% of total loans and 20.67% of total assets. Used vehicle loans experienced the highest rate of growth in 2011, while new vehicle and other real estate loans both declined. Credit unions with higher levels of interest rate or liquidity risk must demonstrate strong asset liability management practices to control these risks.

## LOAN AND DELINQUENCY TRENDS

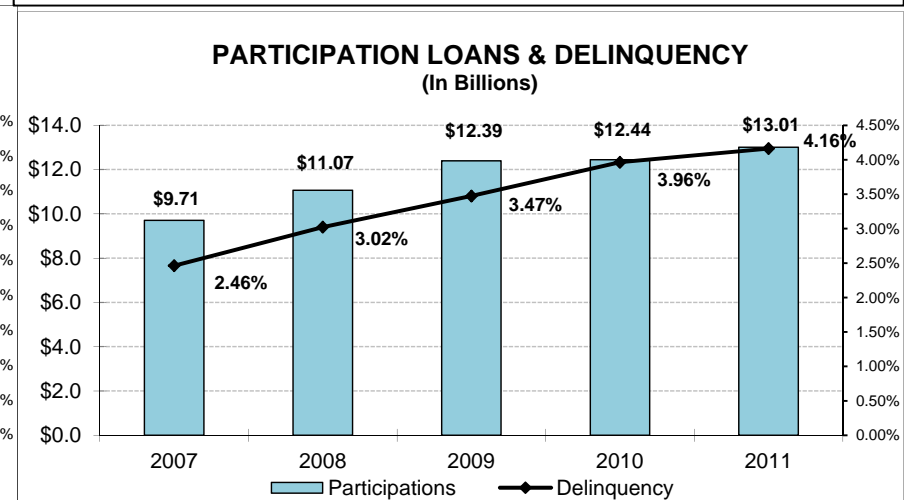
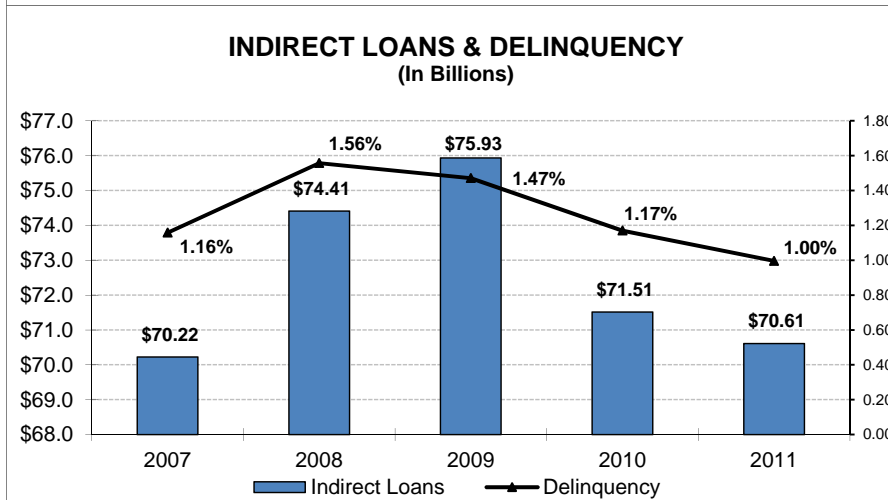
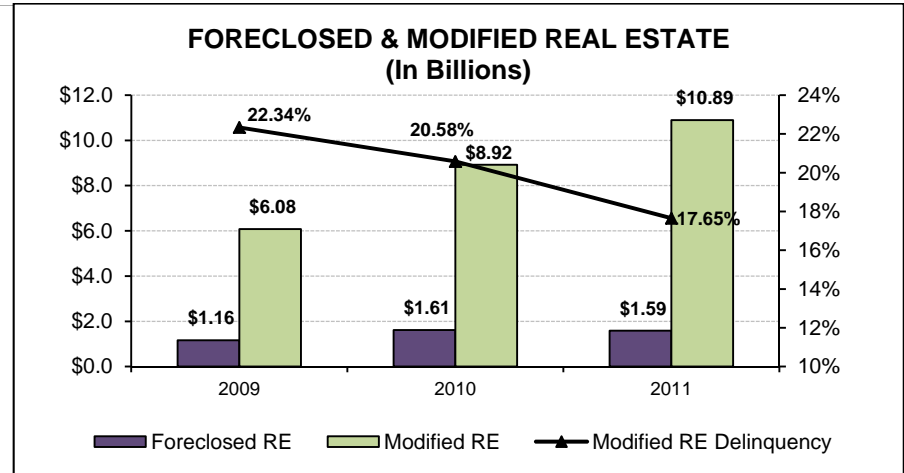
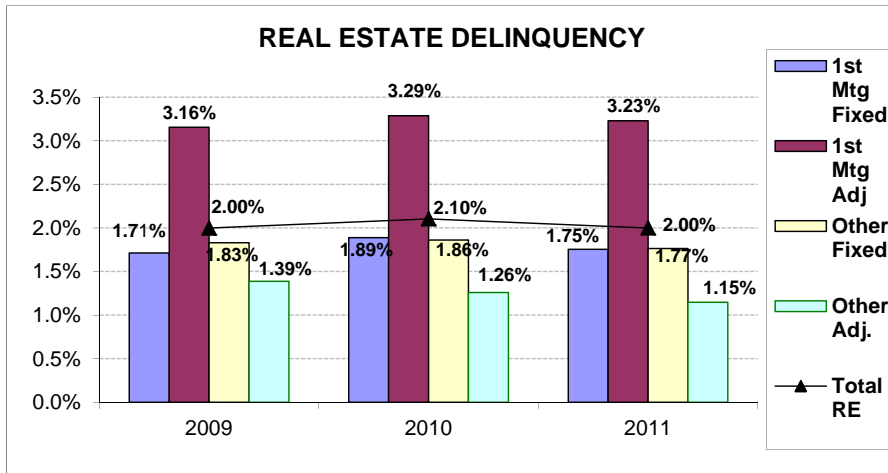


Total Loan Charge-Offs and Recoveries	December 2010 In Billions	December 2011 In Billions	% Change
Total Loans Charged Off	\$7.24	\$6.00	-17.13%
Total Loan Recoveries	\$0.82	\$0.83	0.30%
Total Net Charge-Offs	\$6.42	\$5.17	-19.37%



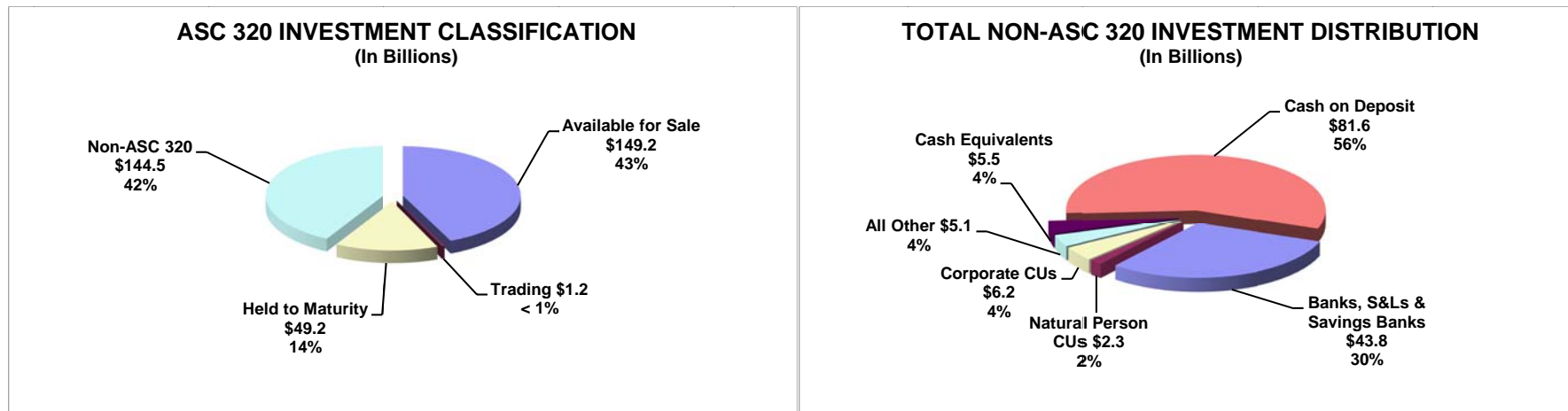
Overall, the dollar value of delinquencies fell \$790.0 million to end the year at 1.60% of total loans. The combined total loan delinquency and net charge-off ratio similarly declined, from 2.89% to 2.51%. These trends are encouraging, but loans delinquent in excess of 12 months jumped \$266.5 million or 18.71%. Member business loan (MBL) delinquencies fell by \$45.8 million but remain elevated at 3.76% of total MBLs (less unfunded commitments). At the same time, modified business loans grew by \$275.1 million. Credit unions engaged in business lending must closely monitor portfolio trends and employ sound underwriting, risk management, and collection practices.

## LOAN AND DELINQUENCY TRENDS (continued)



Over the year, total real estate loan delinquencies as a percentage of real estate loans declined 10 basis points to 2.00% while net real estate loan charge-offs to average real estate loans fell 2 basis points to 0.62%. Foreclosed real estate dropped \$24.33 million, while modified real estate loans rose by \$1.97 billion. As of December 31, 2011, credit unions held \$10.89 billion in modified real estate loans, with 17.65% of these loans reported delinquent. Participation loan delinquency increased by \$48.18 million to 4.16% of total participation loans, a large majority of which are business and/or real estate loans. While 2011 showed modest improvements in overall delinquency and net charge-offs, credit risk remains an area requiring the attention of credit union management.

## INVESTMENT TRENDS

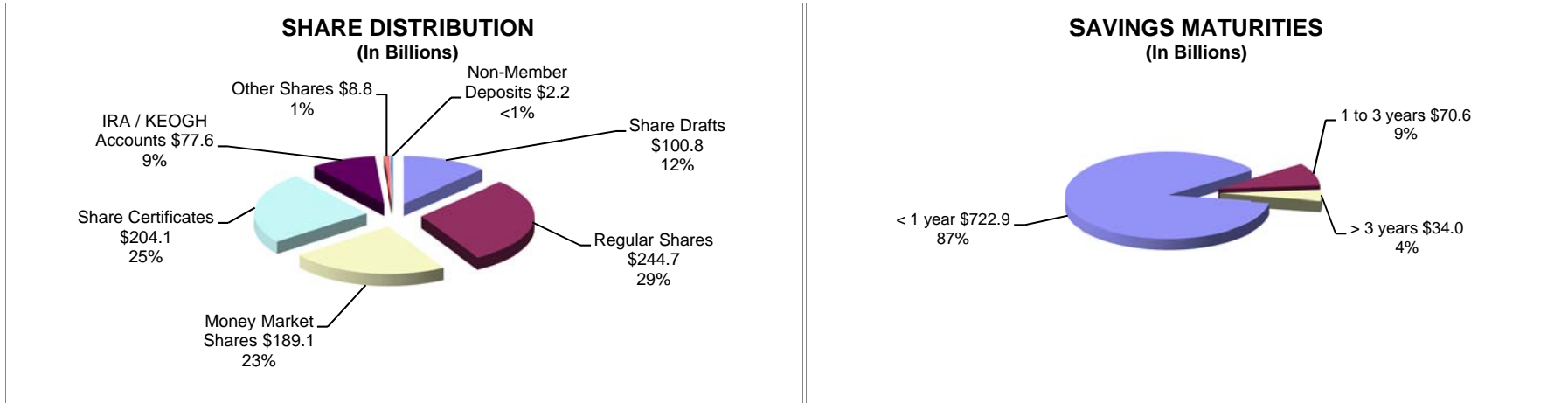


Maturity or Repricing Intervals for Investments and Cash on Deposit & Equivalents	December 2010 In Billions	% of Total Investments December 2010	December 2011 In Billions	% of Total Investments December 2011	Growth in Billions	Growth Rate
<b>Less than 1 year</b>	\$139.56	45.65%	\$158.52	46.06%	\$18.96	13.59%
<b>1 to 3 years</b>	\$94.03	30.76%	\$105.67	30.71%	\$11.64	12.37%
<b>3 to 5 years</b>	\$46.73	15.29%	\$54.15	15.74%	\$7.42	15.87%
<b>5 to 10 years</b>	\$20.17	6.60%	\$19.53	5.67%	-\$0.64	-3.20%
<b>Greater than 10 years</b>	\$5.19	1.70%	\$6.27	1.82%	\$1.08	20.88%
<b>Total Investments</b>	<b>\$305.68</b>		<b>\$344.14</b>		<b>\$38.46</b>	<b>12.58%</b>

Credit union investment holdings increased in 2011 because of moderate share growth and limited loan growth. Natural person credit unions continue to maintain investments in high quality, safe instruments. Almost 41% of all investments are in cash on deposit 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 rates. Of the investments subject to Accounting Standards Codification 320 (formerly Statement of Financial Accounting Standards 115) classification, 91% are in U.S. Government or Federal Agency Securities. Mortgage backed securities, most of which are Federal Agency Securities, grew 23.39% to \$87.3 billion.



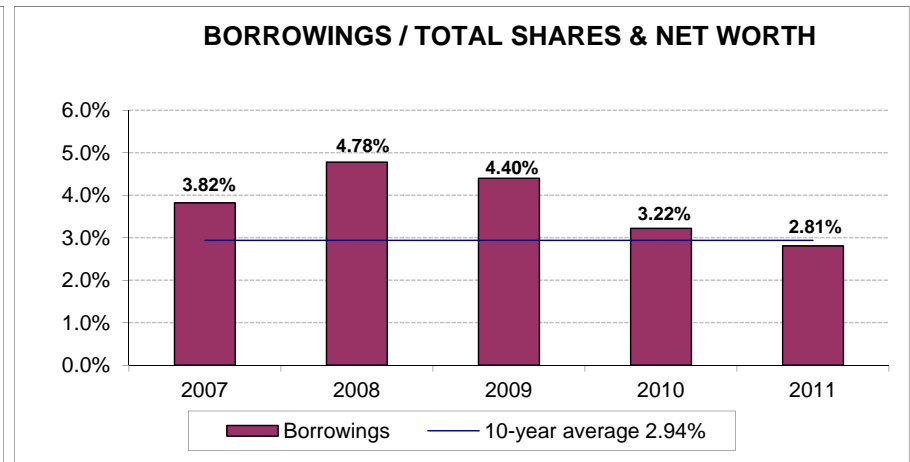
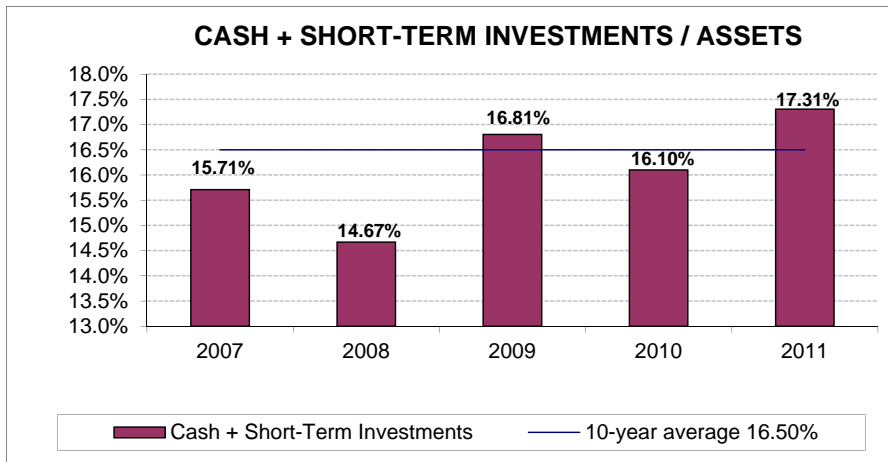
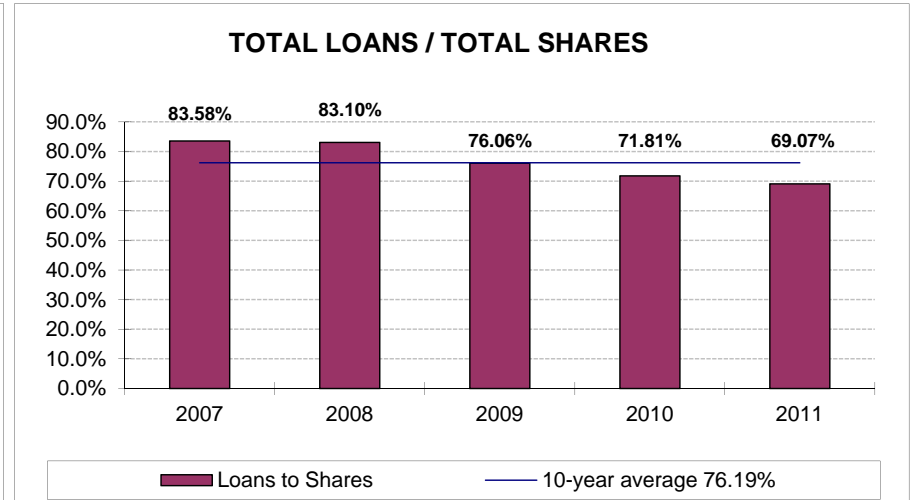
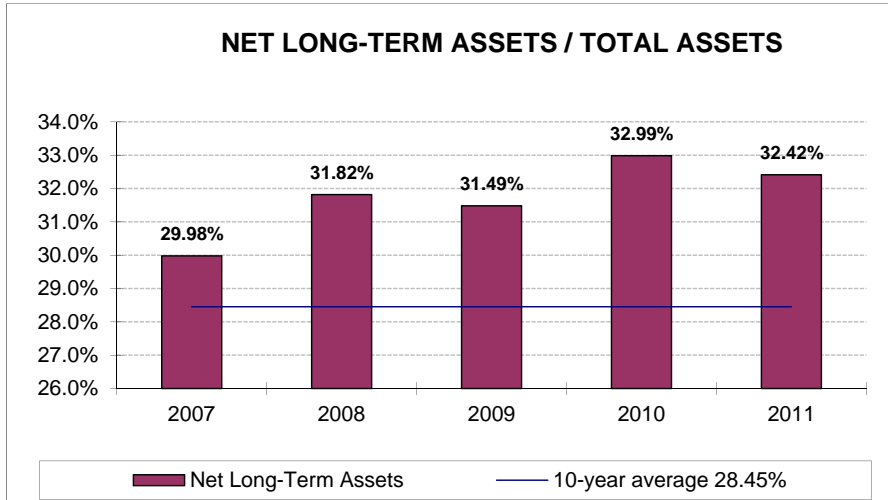
## SHARE TRENDS



Share Category	December 2010 Balance In Billions	% of Total Shares December 2010	December 2011 Balance In Billions	% of Total Shares December 2011	Growth In Billions	Growth Rate
Share Drafts	\$89.87	11.43%	\$100.84	12.19%	\$10.96	12.20%
Regular Shares	\$220.52	28.04%	\$244.68	29.57%	\$24.16	10.95%
Money Market Shares	\$175.77	22.35%	\$189.13	22.86%	\$13.37	7.61%
Share Certificates	\$213.42	27.14%	\$204.10	24.67%	-\$9.31	-4.37%
IRA / KEOGH Accounts	\$76.40	9.71%	\$77.63	9.38%	\$1.22	1.60%
All Other Shares	\$8.00	1.02%	\$8.84	1.07%	\$0.84	10.52%
Non-Member Deposits	\$2.42	0.31%	\$2.19	0.26%	-\$0.23	-9.36%
<b>Total Shares and Deposits</b>	<b>\$786.40</b>		<b>\$827.41</b>		<b>\$41.01</b>	<b>5.21%</b>

Total shares increased \$41.01 billion in 2011. The largest dollar growth was in regular share accounts, while the largest percentage growth was in share drafts. Although the growth in share drafts and regular shares reflects continuing member loyalty, 57% of total shares are in rate-sensitive accounts. Share certificates declined 4.37%, continuing a trend which started in the second quarter of 2009. However, share certificates still account for 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



Credit unions were able to improve their liquidity positions and reduce reliance on borrowings in 2011. The increase in the cash and short-term investments to assets ratio was mainly due to an increase in cash on deposit. Share growth outpaced loan growth, resulting in a decrease in the loans to shares ratio to 69.07%. The elevated net long-term assets ratio of 32.42% 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 strong 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	2,572	3,121	1,014	387
Total Assets	\$10.06 billion	\$112.28 billion	\$222.99 billion	\$616.43 billion
Average Assets/CU	\$3.91 million	\$35.97 million	\$219.92 million	\$1.59 billion
Net Worth / Total Assets	14.65%	11.51%	10.38%	9.87%
Average Net Worth (non-dollar weighted)	16.21%	12.03%	10.39%	10.11%
Net Worth Growth*	-0.97%	2.73%	5.93%	9.63%
Return on Average Assets (ROA)	-0.17%	0.28%	0.54%	0.83%
Net Interest Margin/Average Assets	3.62%	3.44%	3.32%	3.00%
Fee & Other Income/Average Assets	0.66%	1.15%	1.46%	1.28%
Operating Expense/Average Assets	4.10%	3.95%	3.79%	2.93%
Members / Full-Time Employees	441.73	401.94	351.67	403.31
Provision for Loan Loss/Average Assets	0.38%	0.37%	0.46%	0.53%
Loans / Shares	56.50%	59.92%	67.32%	71.64%
Delinquent Loans / Total Loans	2.39%	1.55%	1.49%	1.64%
% of Real Estate Loans Delinquent > 2 Months	2.13%	1.81%	1.82%	2.08%
% of Member Business Loans Delinquent > 2 Mos.	2.24%	2.35%	2.98%	4.10%
Net Charge-Offs/Average Loans*	0.76%	0.69%	0.85%	0.97%
Share Growth*	1.96%	4.40%	4.96%	6.94%
Loan Growth*	-1.85%	-0.33%	1.10%	2.79%
Asset Growth*	1.51%	4.25%	5.07%	6.82%
Membership Growth*	-1.35%	-0.13%	1.18%	4.36%
Net Long-Term Assets / Total Assets	9.63%	24.10%	32.61%	34.23%
Cash + Short-Term Investments / Assets	33.23%	23.70%	17.29%	15.89%
Borrowings / Shares & Net Worth	0.08%	0.23%	1.13%	3.97%

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

Net worth ratios remain strong in all four asset groups, particularly in the under \$10 million category. However, smaller credit unions continue to face the greatest challenge in earnings, loan growth, delinquency, and membership growth. Larger credit unions benefit from economies of scale (as reflected in lower operating expense ratios) that lead to greater net income.