

CREDIT UNION ECONOMICS GROUP (CUEG) PANEL DISCUSSION

**National Association of
Federal Credit Unions
Annual Conference
Vancouver, BC, Canada
July 15, 2004**

For more information on CUEG:

www.cueg.org

CUEG DISCUSSION



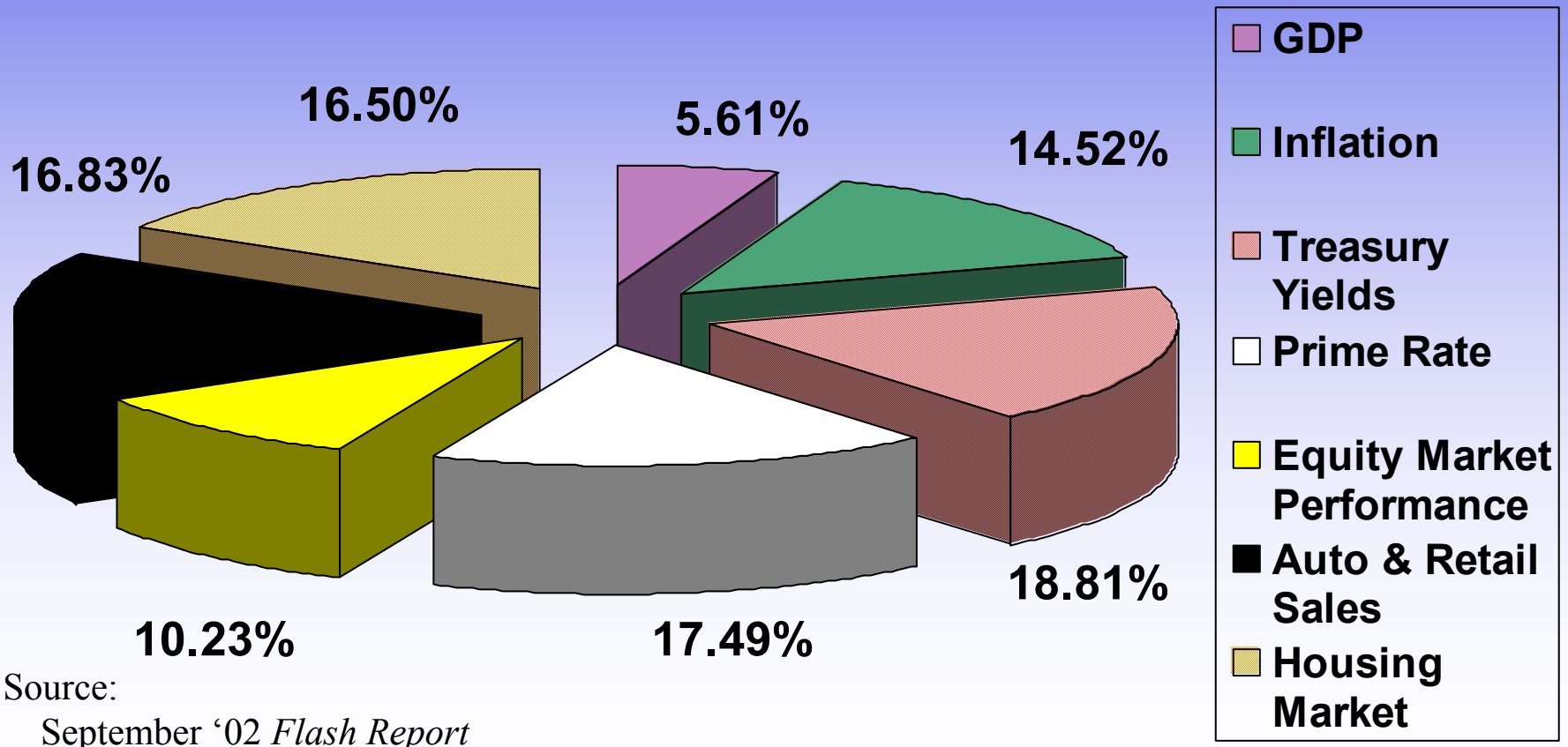
- ECONOMIC ENVIRONMENT
- RISING INTEREST RATES
- REGIONAL ECONOMICS
- STRATEGIC PREPAREDNESS

...Credit Union Flexibility



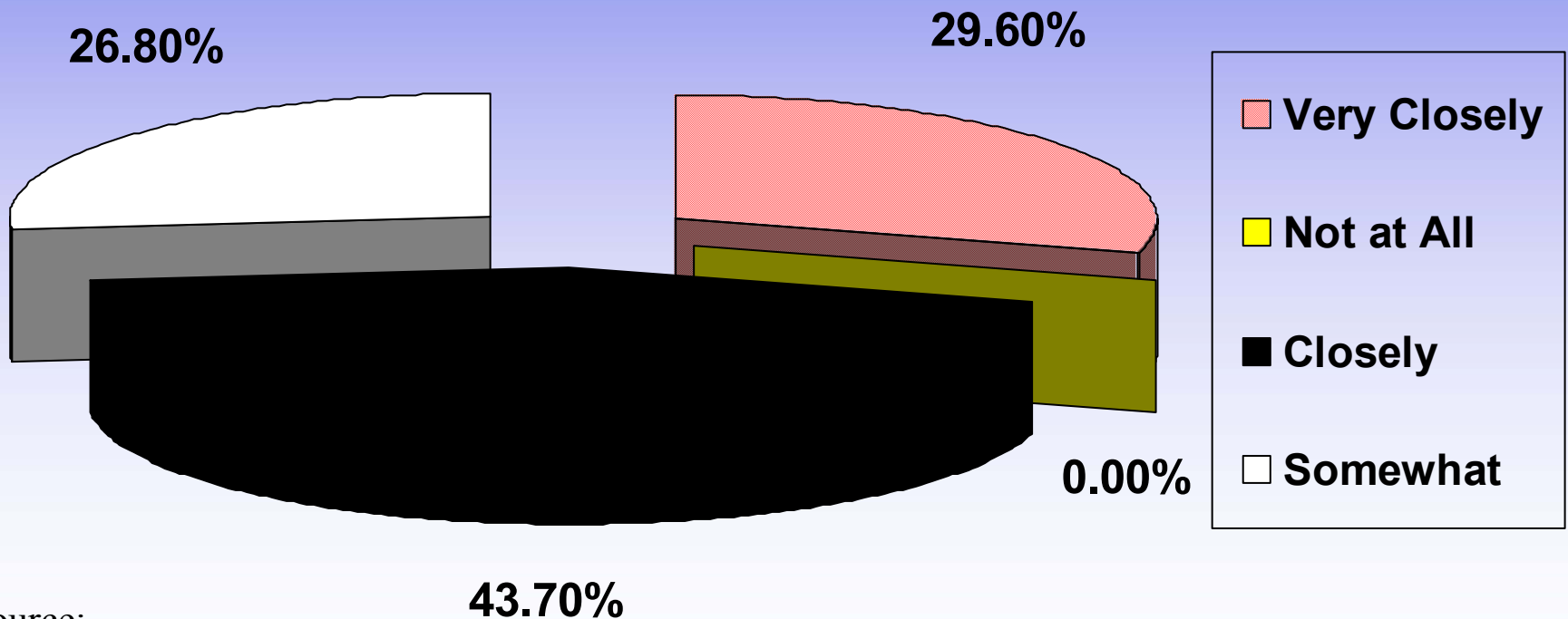
Economic Environment...

IMPORTANT ECONOMIC DATA USED BY YOUR CREDIT UNION FOR PLANNING DECISIONS



Source:
September '02 *Flash Report*

HOW CLOSELY DOES YOUR CREDIT UNION FOLLOW ECONOMIC TRENDS IN YOUR REGION?

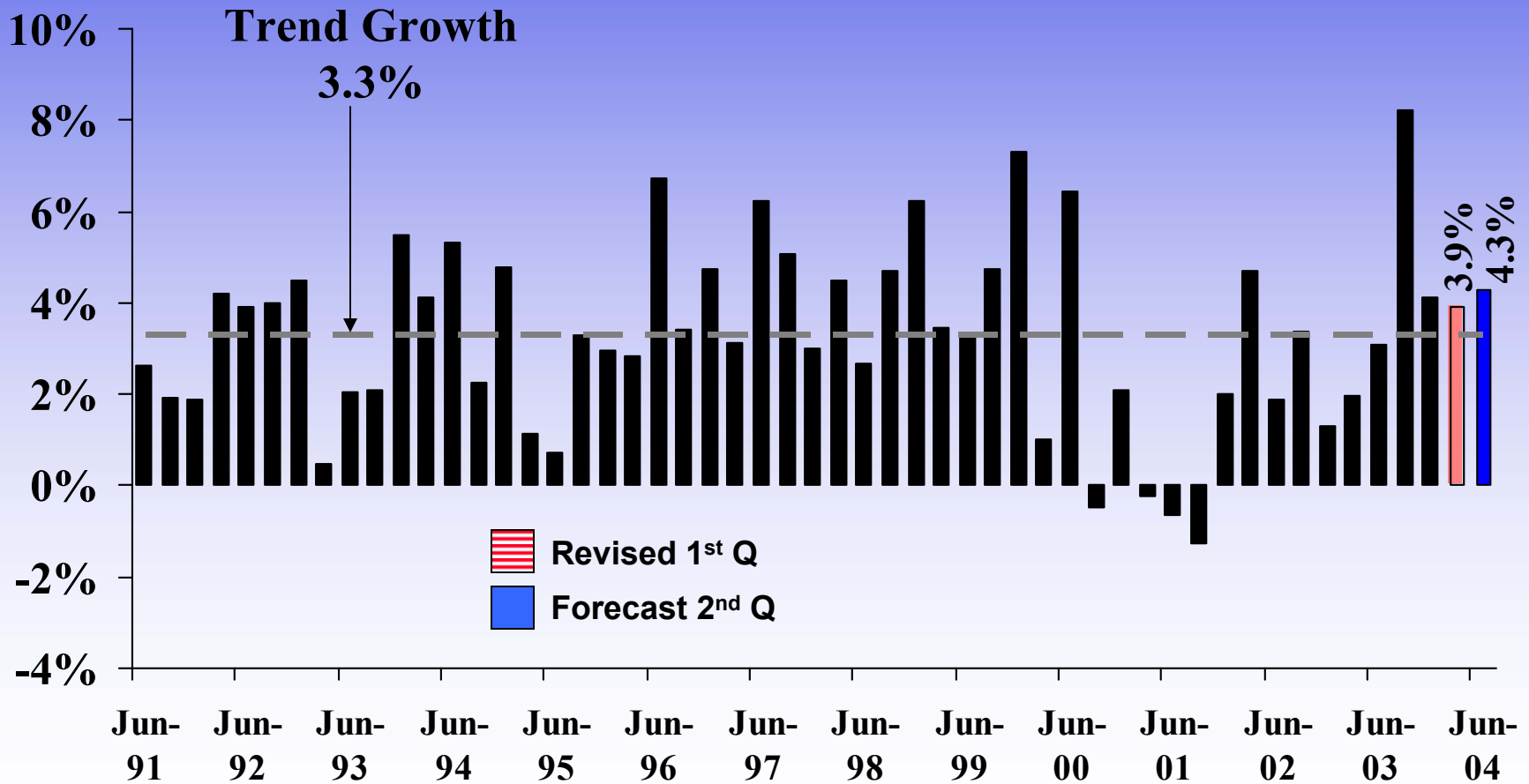


Source:

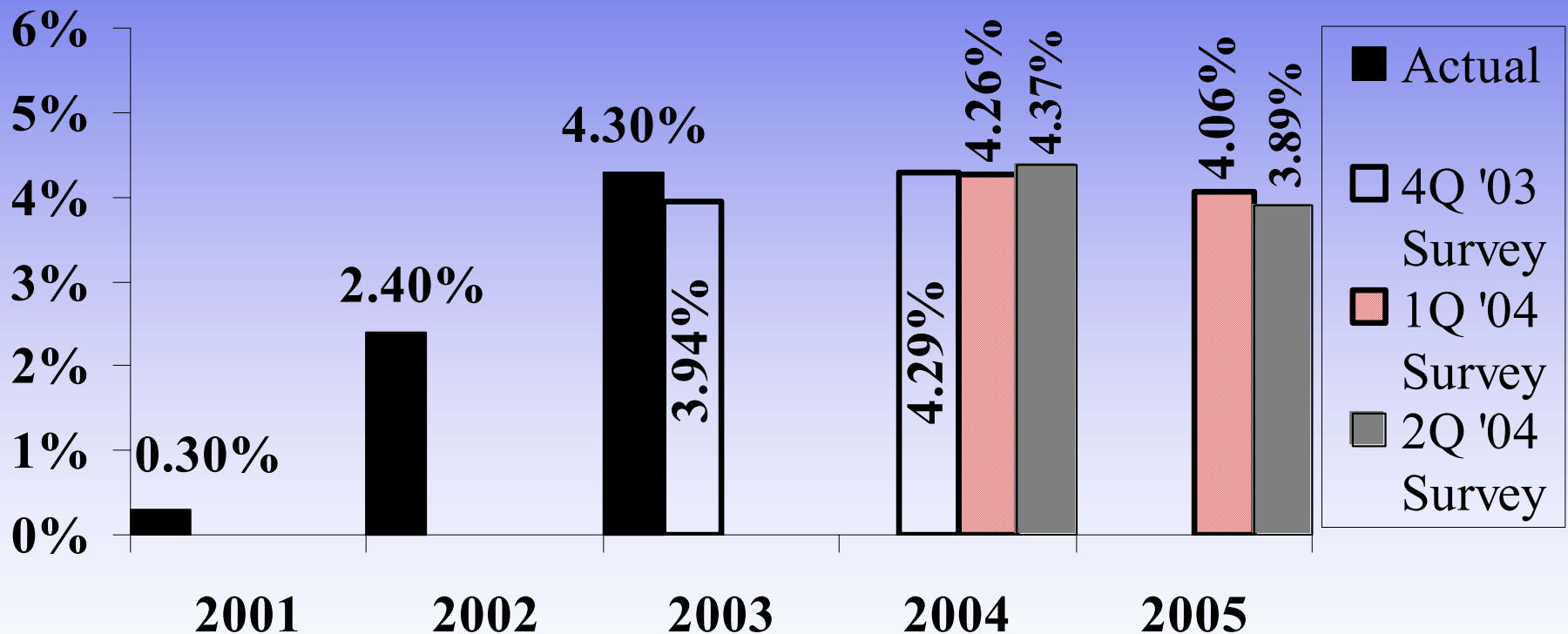
September '02 *Flash Report*

GDP GROWTH

Strong 2004 Fundamentals!



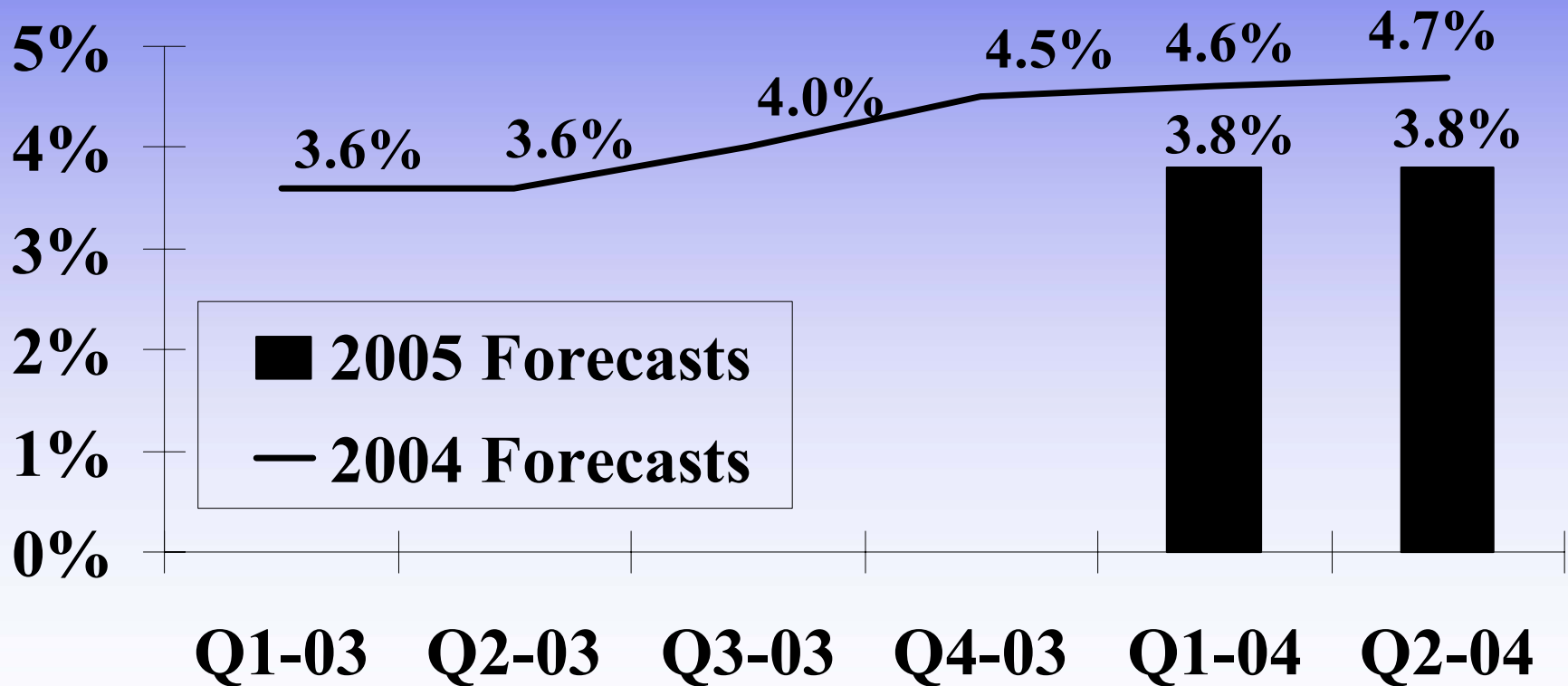
CHANGES IN CUEG* GDP FORECASTS (Mean Reported)



Source: www.cueg.org

* Credit Union Economics Group

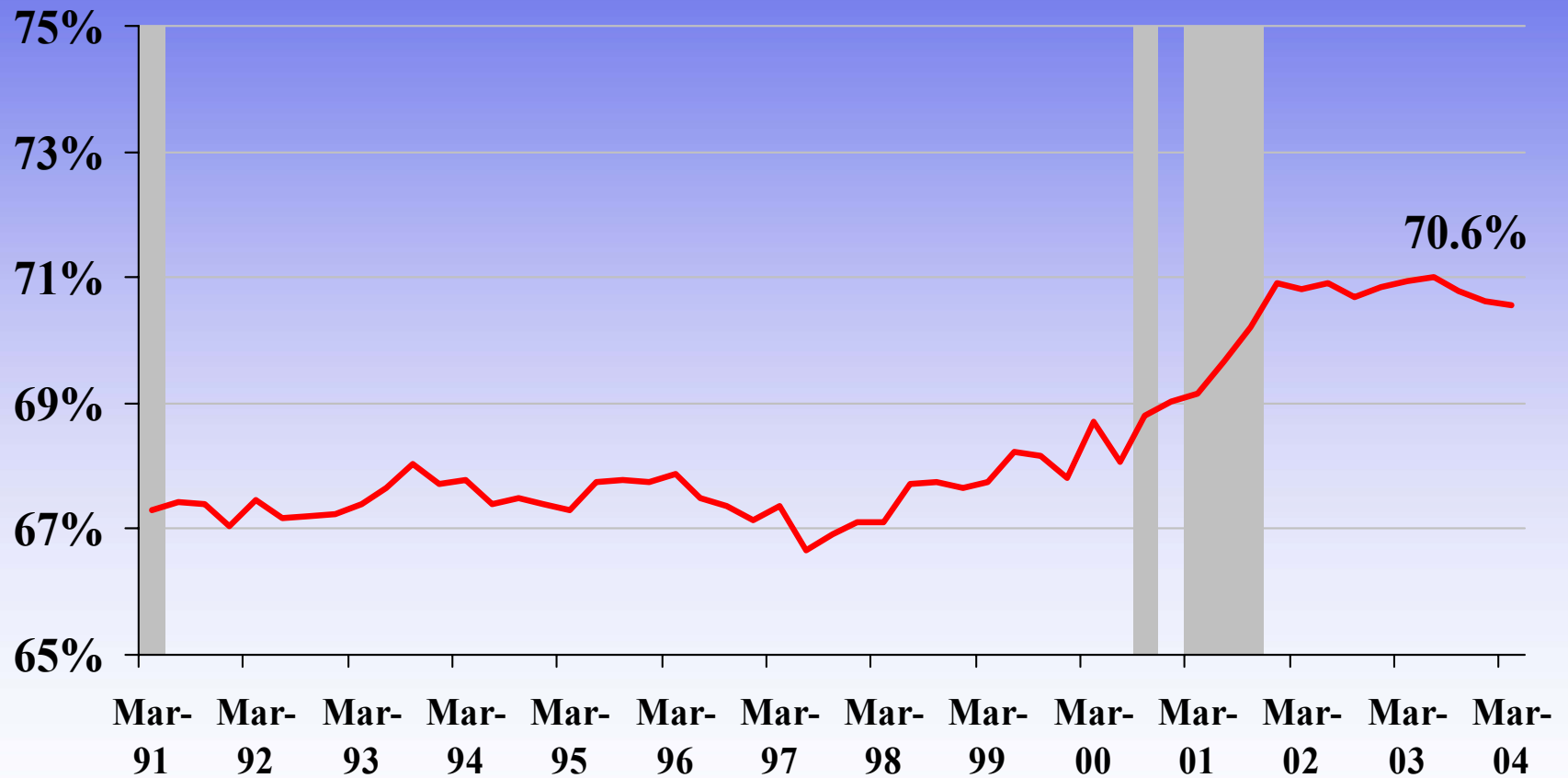
CHANGES IN NABE* GDP FORECASTS (median reported)



* National Association for Business Economics

CONSUMPTION EXPENDITURES

Major Part of GDP



CONSUMPTION EXPENDITURE

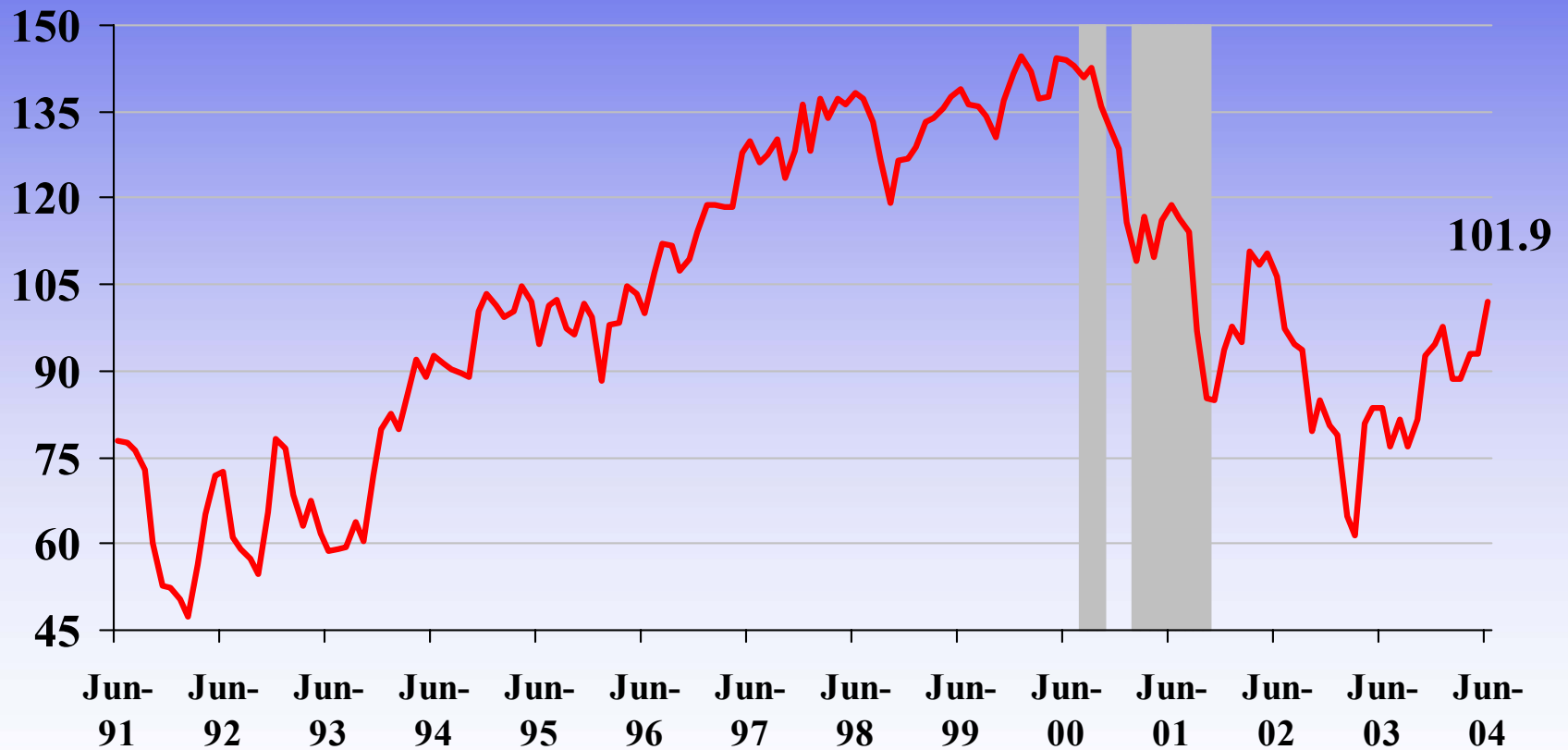
A Key Factor For Growth Prospects

Year over Year Percent Change



CONSUMER CONFIDENCE

Some Improving Signs



1985=100

THE FINANCIAL OBLIGATIONS RATIO

Is The Consumer Overextended?

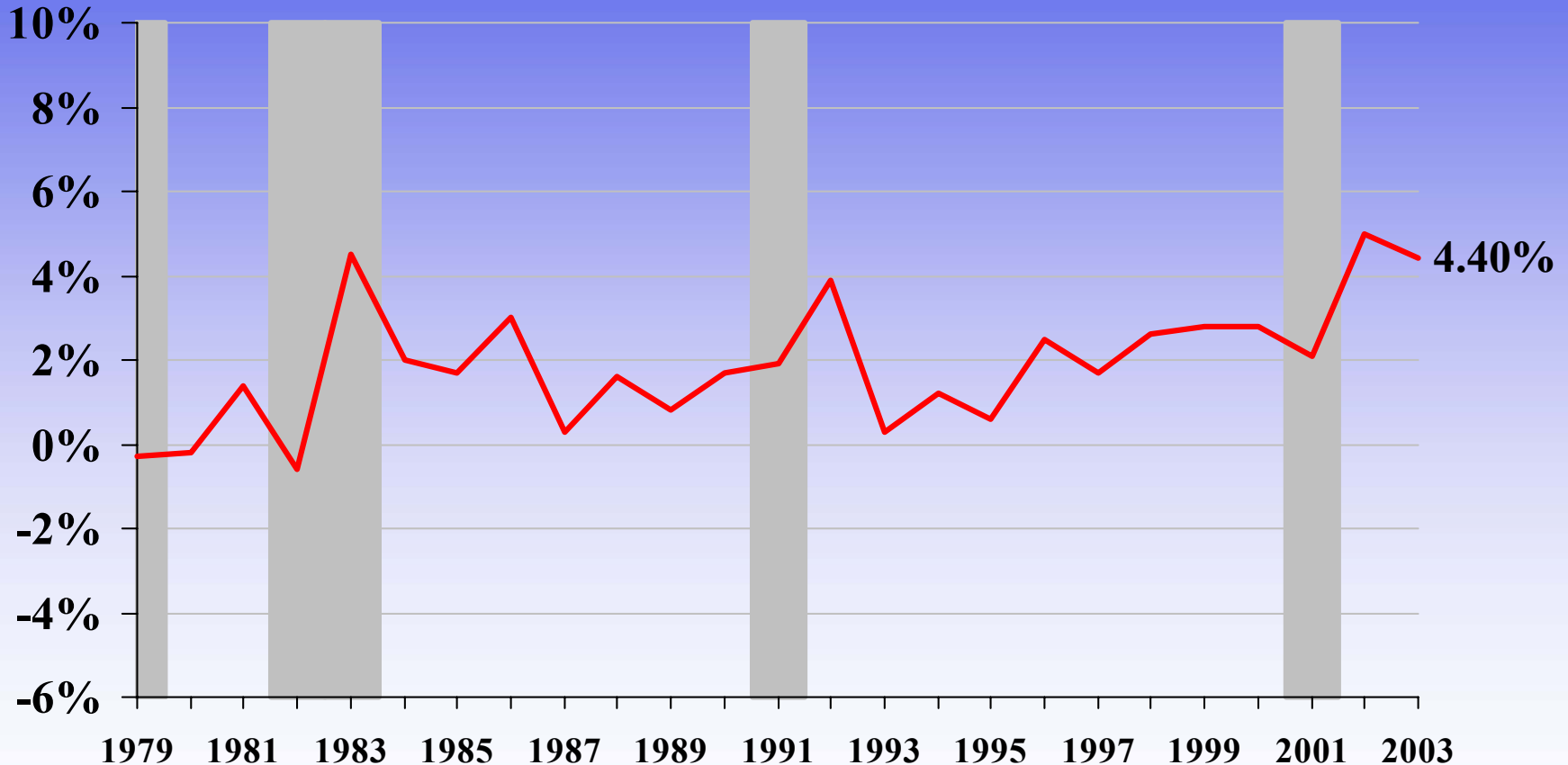


Source: Federal Reserve Board

PRODUCTIVITY GROWTH

A Key Element To Outlook

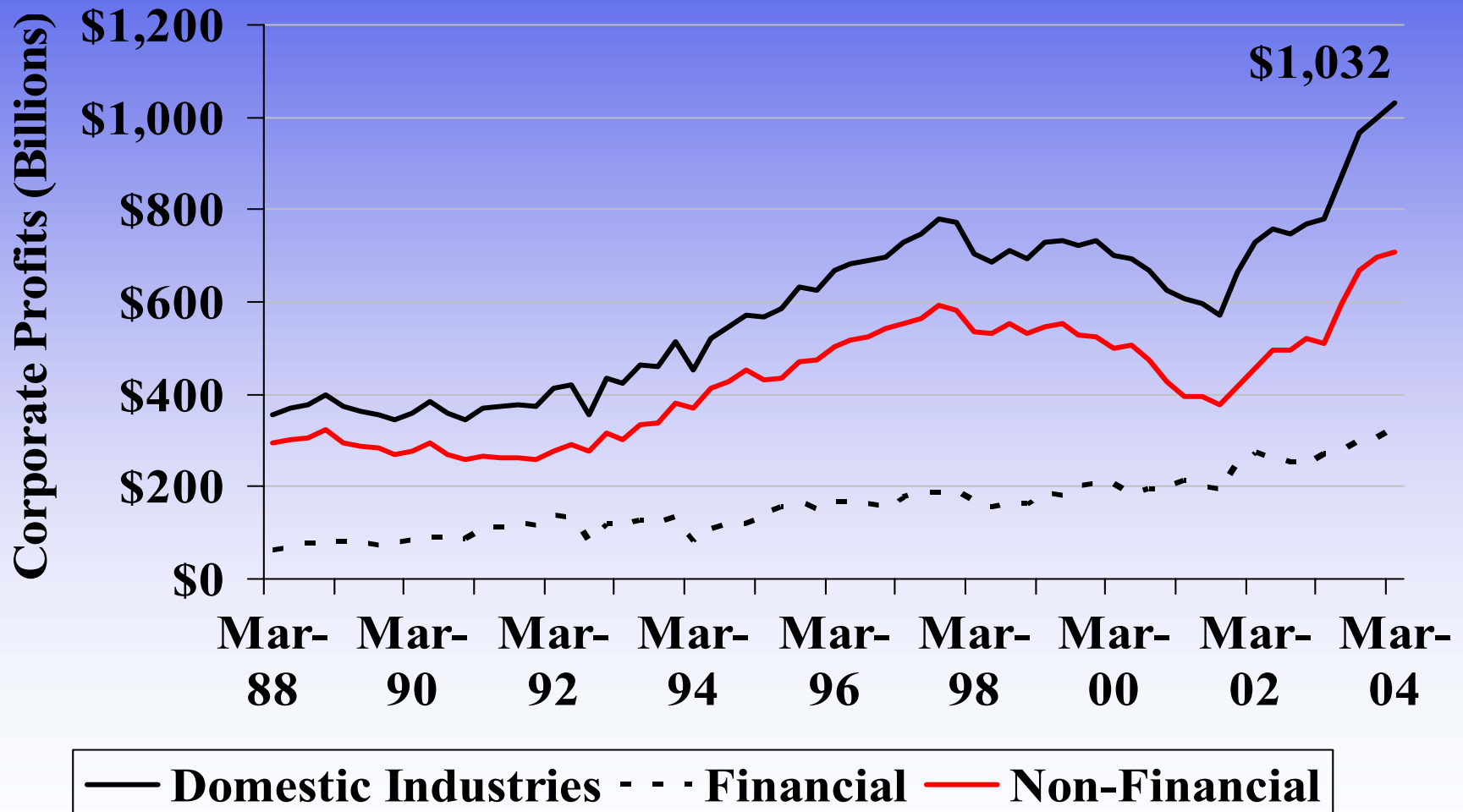
Annualized Change Quarter Over Quarter



CORPORATE PROFITS

Positive Outlook

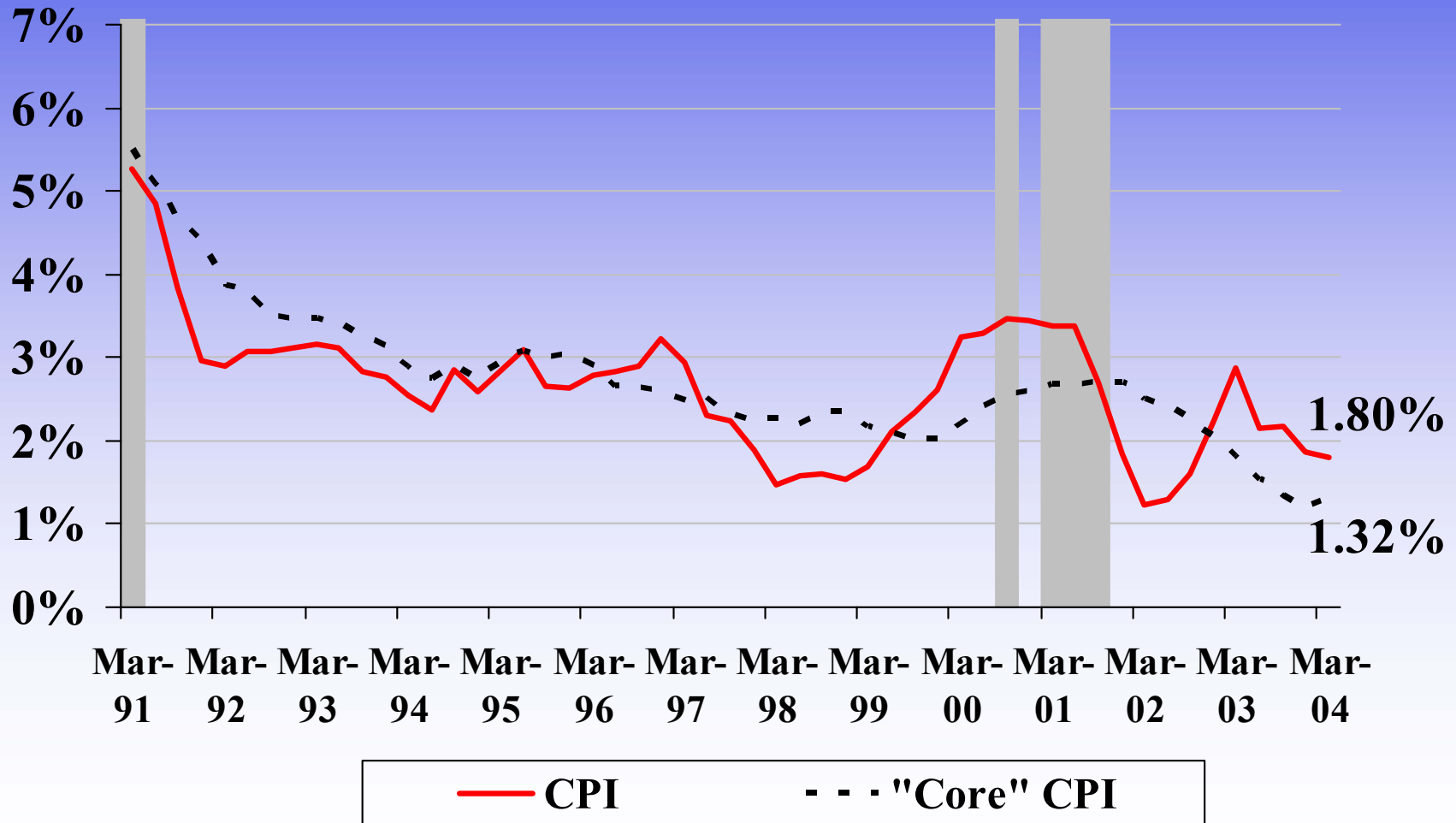
Seasonally adjusted at annual rates



Source: Bureau of Economic Analysis

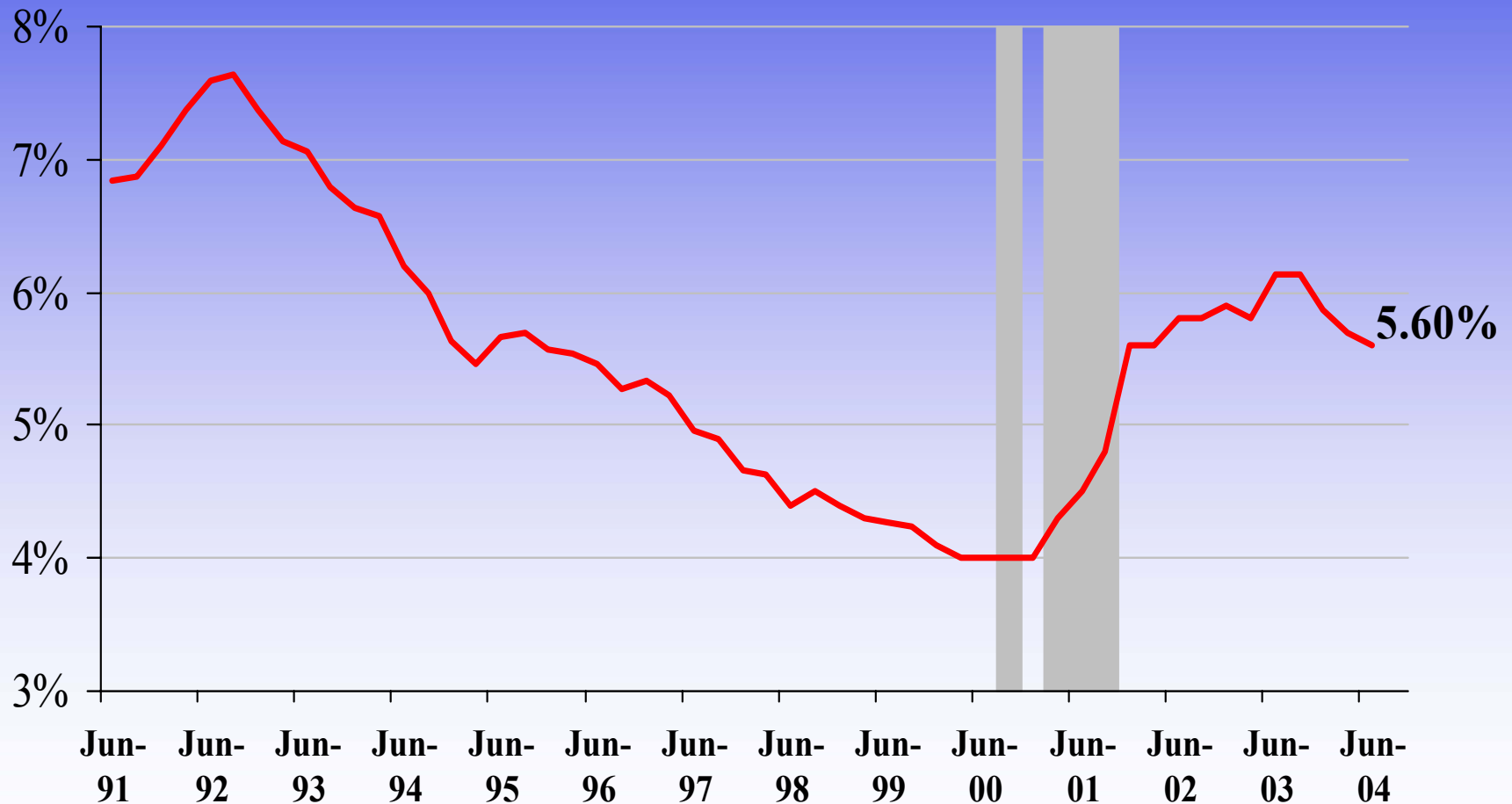
CONSUMER PRICE INDEX

Source of Risk To Outlook



UNEMPLOYMENT RATE

End of Jobless Recovery?

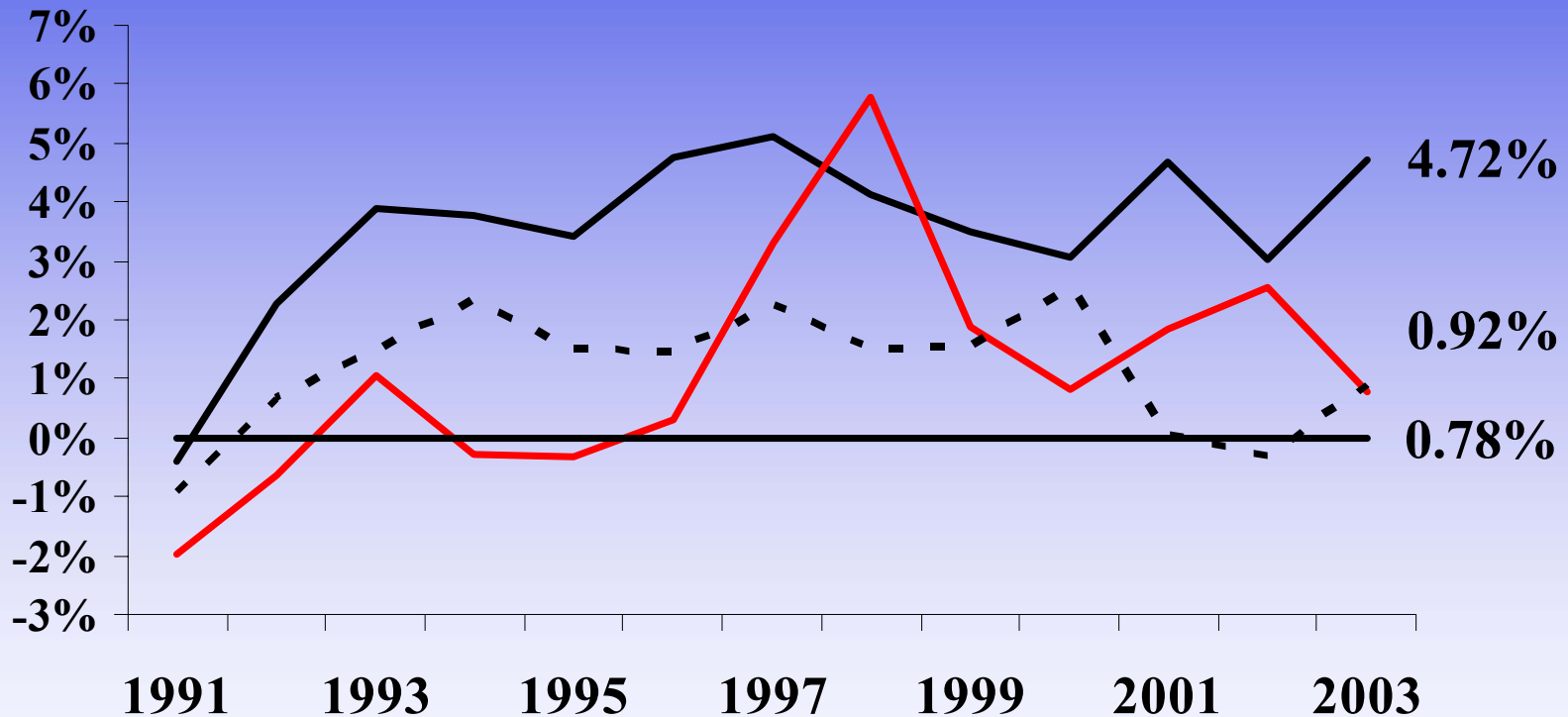


MEAN LENGTH OF UNEMPLOYMENT IN WEEKS



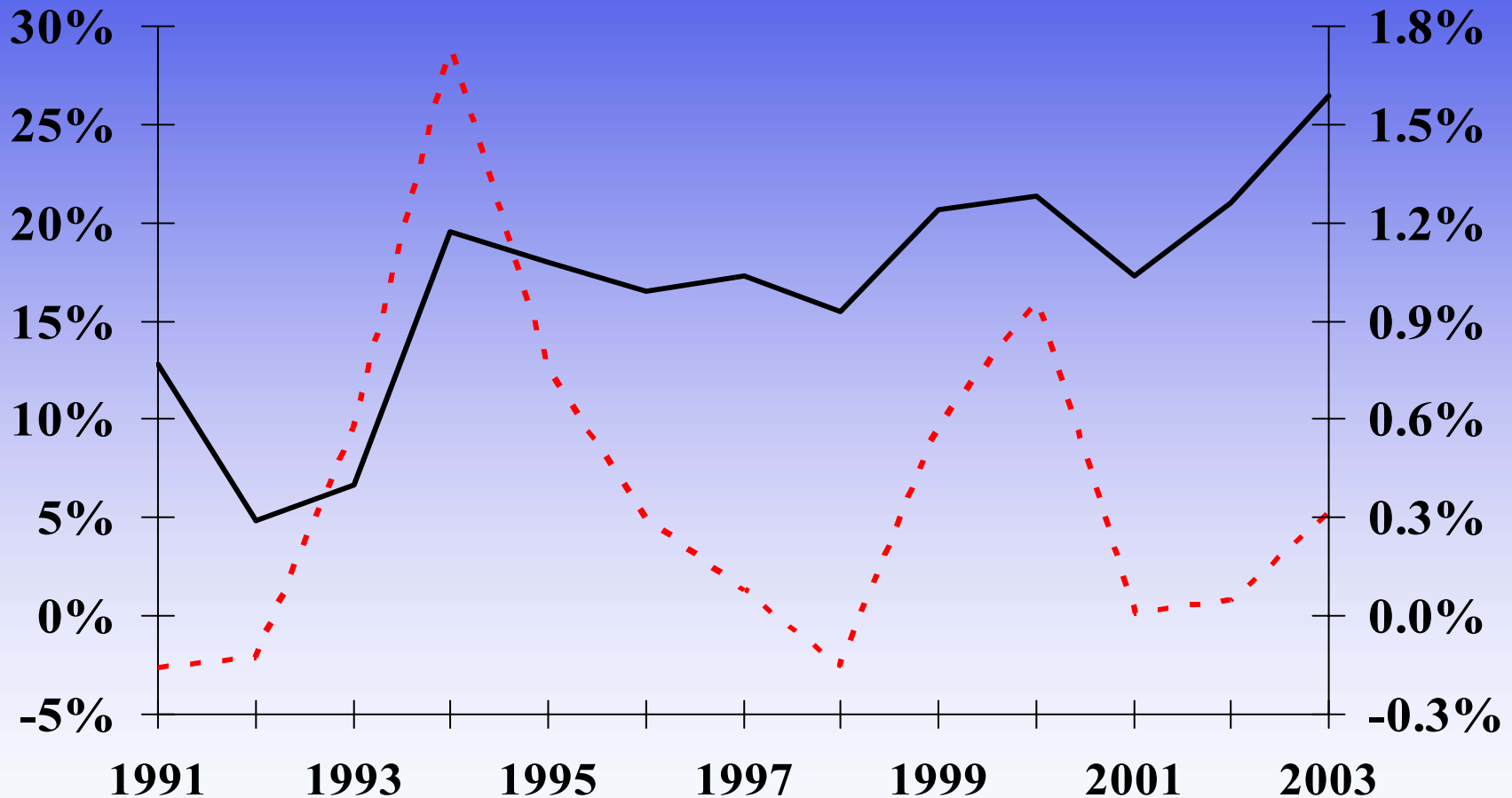
EMPLOYMENT GROWTH

Positive Outlook



WHY FOLLOW INTEREST RATES?

New Auto Loan Growth and Rates

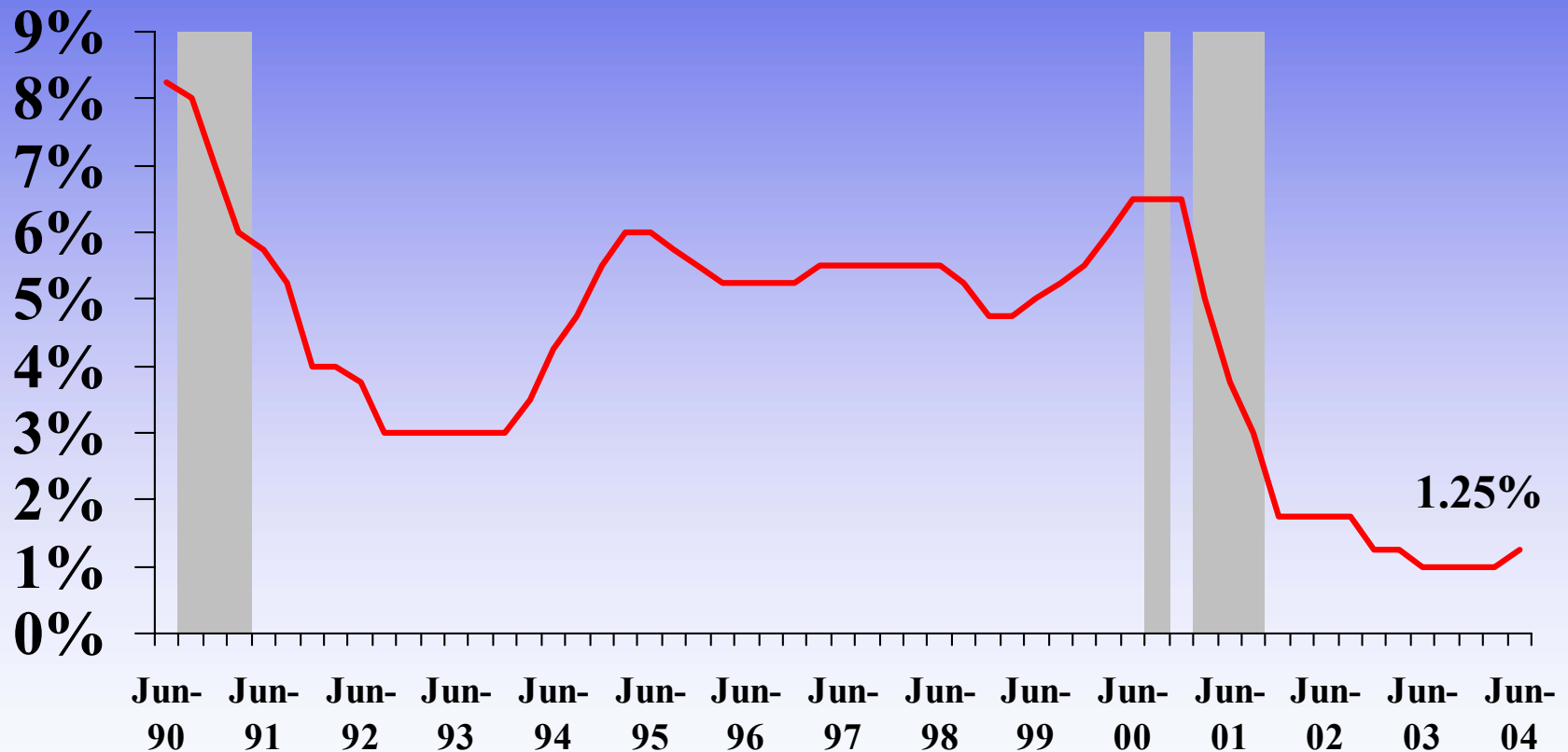


- - - New Auto CU Growth Rate

— CU/Bank New Auto Rate Difference (Right Axis)

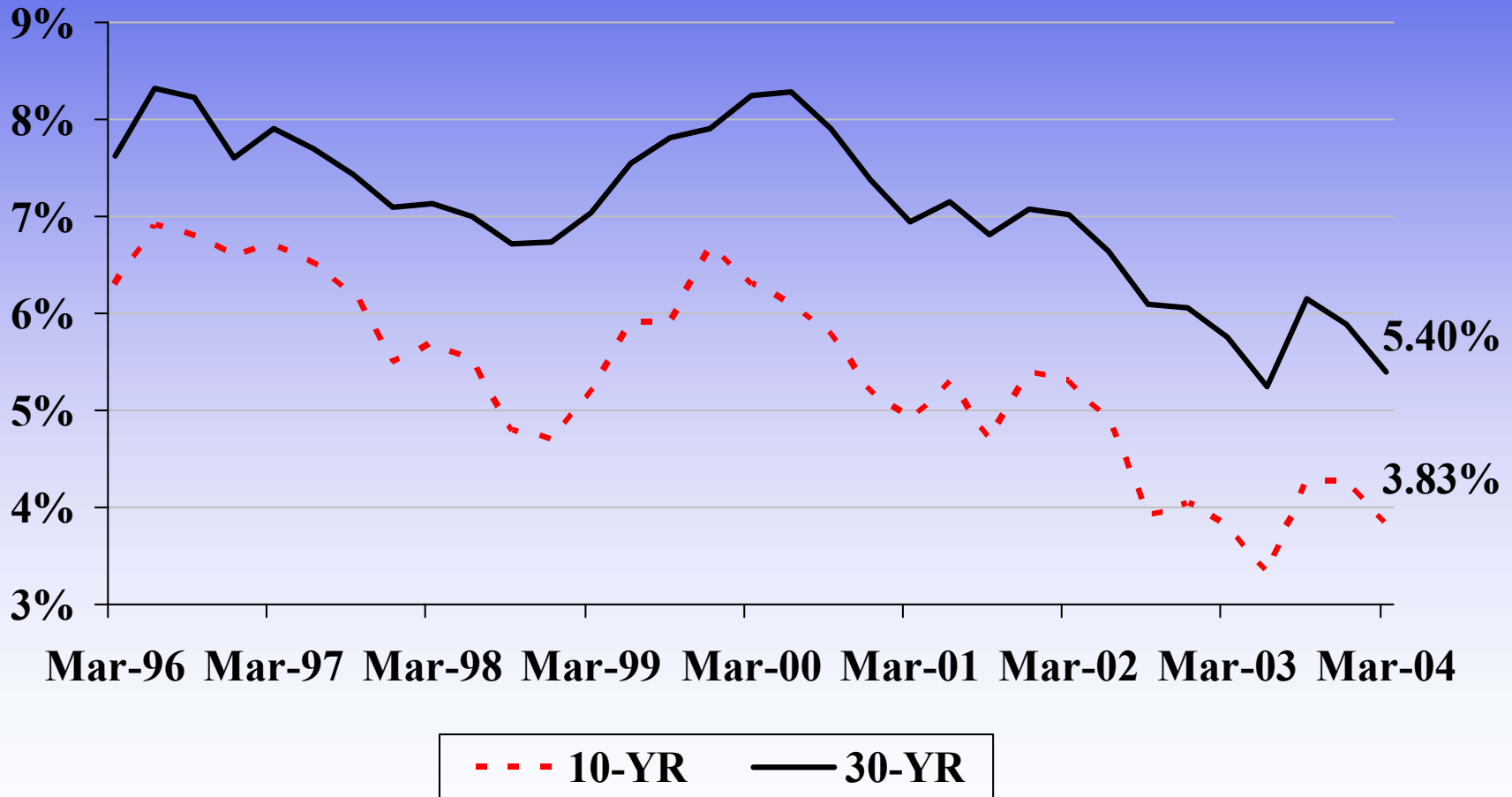
FED FUNDS RATE

When Will the FOMC Raise Rates?

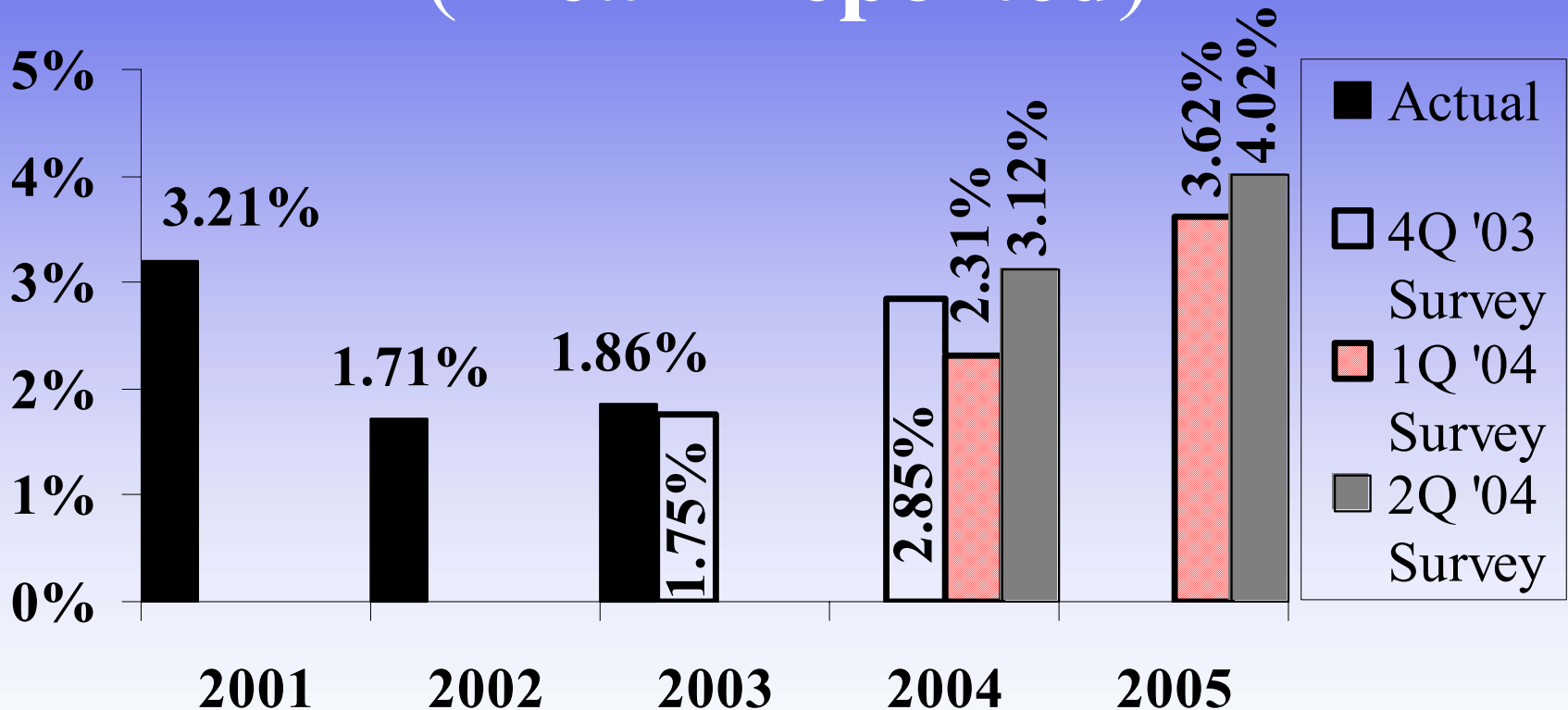


LONG-TERM INTEREST RATES

Pattern Still Consistent



CUEG* 2-Year Treasury FORECASTS (Mean Reported)

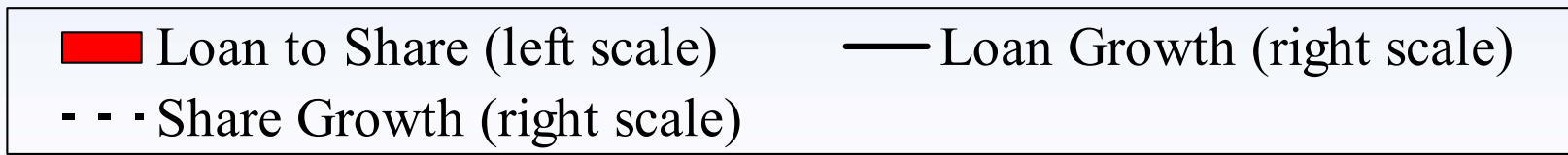
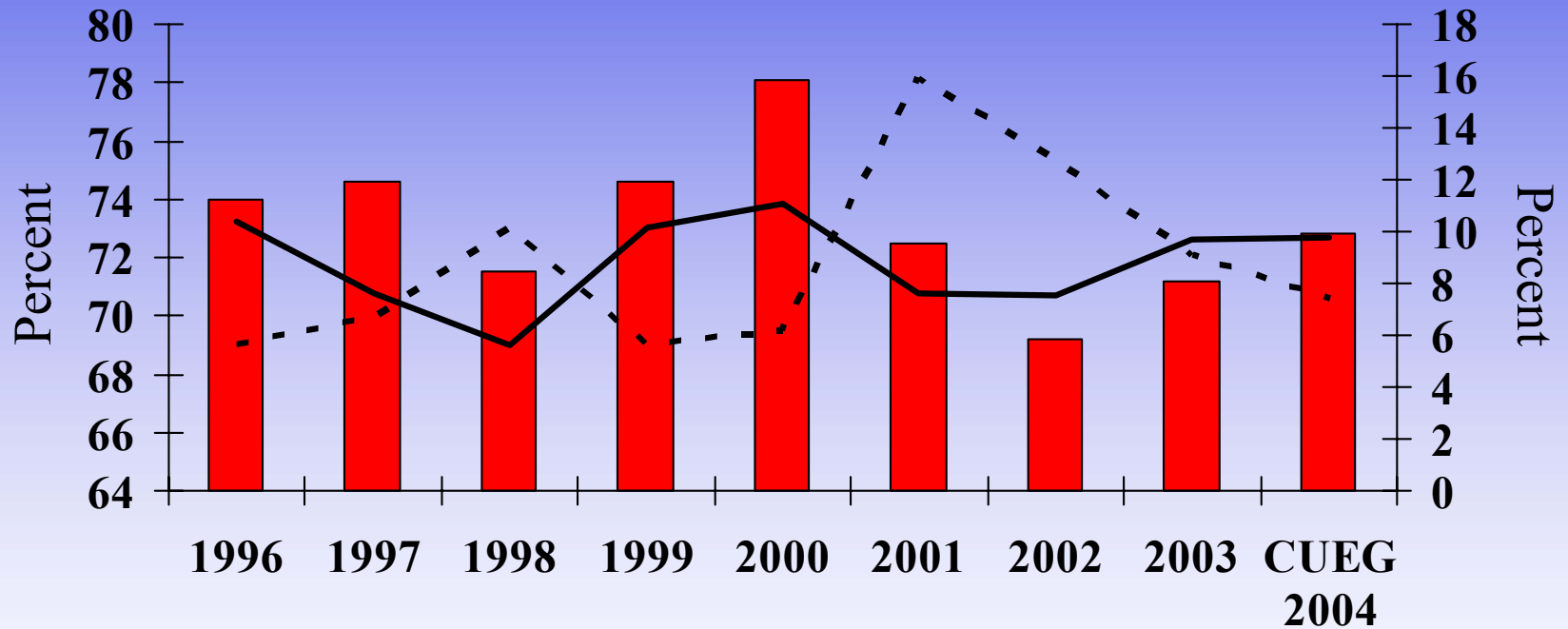


Source: www.cueg.org

* Credit Union Economics Group

FICU LOAN AND SHARE GROWTH

Liquidity Implications

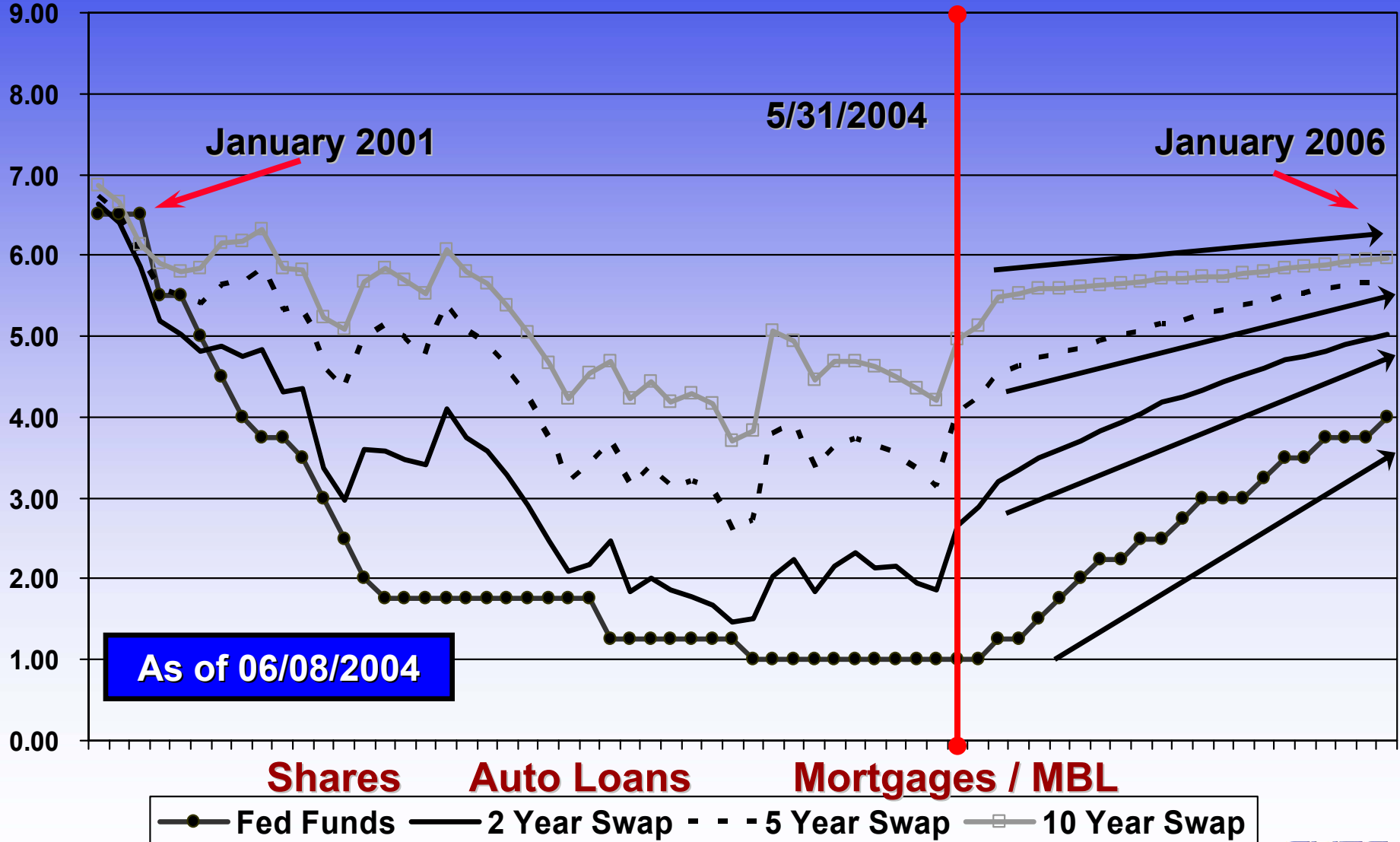


...Key Balance Sheet Issues



Rising Interest Rates...

IMPLIED FORWARD INTEREST RATES



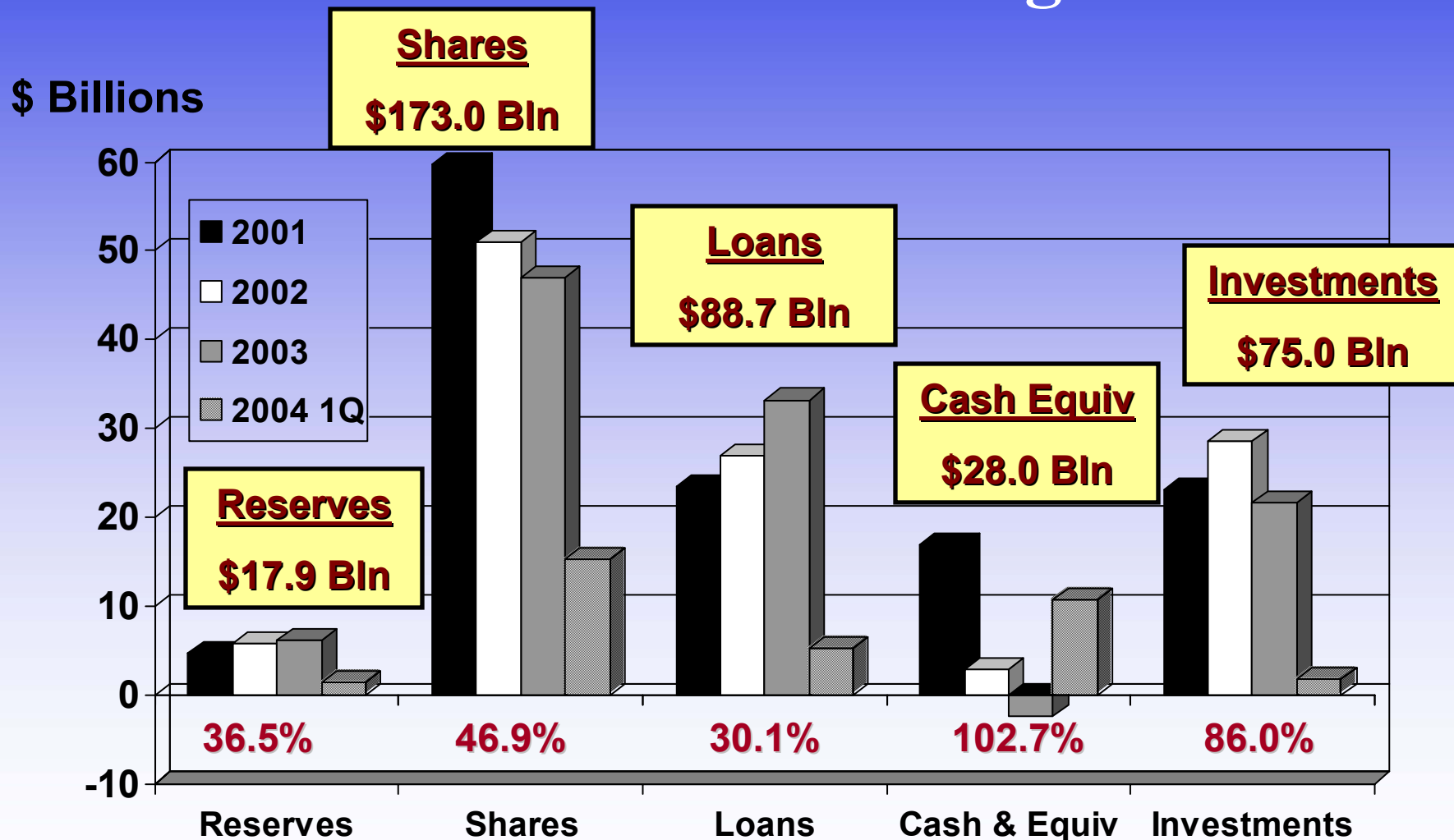
CREDIT UNION STATISTICS

	12/31/2000	03/31/2004	Change	%
Number of CU Members	75.3 Mln	82.9 Mln	7.6 Mln	10.0%
Reserves	\$48.9 Bln	\$66.8 Bln	\$17.9 Bln	36.5%
Total CU Assets	\$427.8 Bln	\$627.2 Bln	\$203.2 Bln	46.6%
Total CU Shares	\$368.9 Bln	\$541.9 Bln	\$173.0 Bln	47.9%
Total CU Loans	\$294.3 Bln	\$383.0 Bln	\$88.7 Bln	30.1%
Loans-to-Shares	79.8%	70.4%	(9.4%)	
Borrowings	\$4.3 Bln	\$11.7 Bln	\$7.4 Bln	174.0%
Investable Funds	\$114.6 Bln	\$217.6 Bln	\$103.0 Bln	90.0%

All Federally Insured Credit Unions (FICU's)

BALANCE SHEET CHANGES

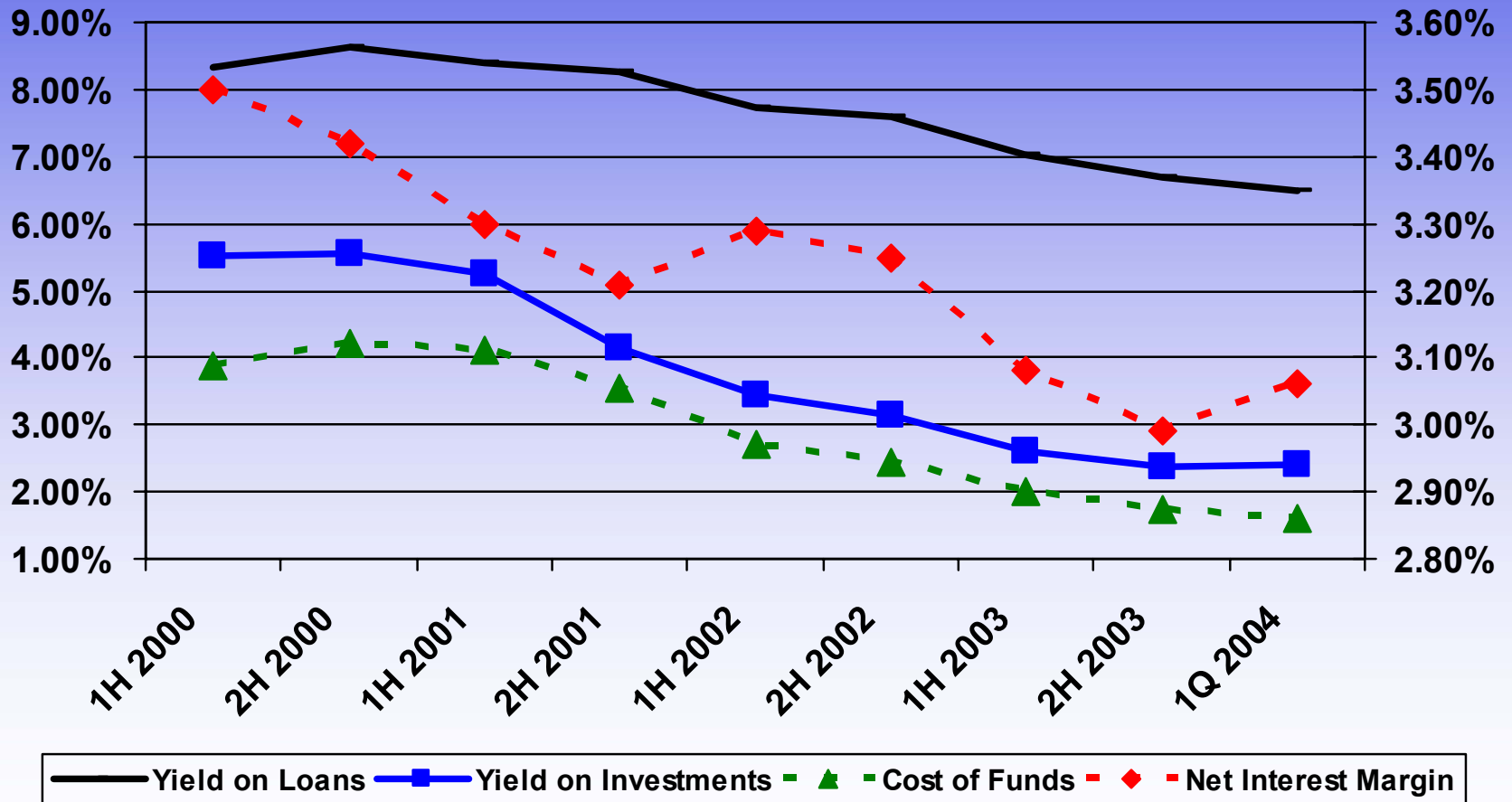
All FICU's 39 Months Through 3/31/2004



NET INTEREST MARGIN

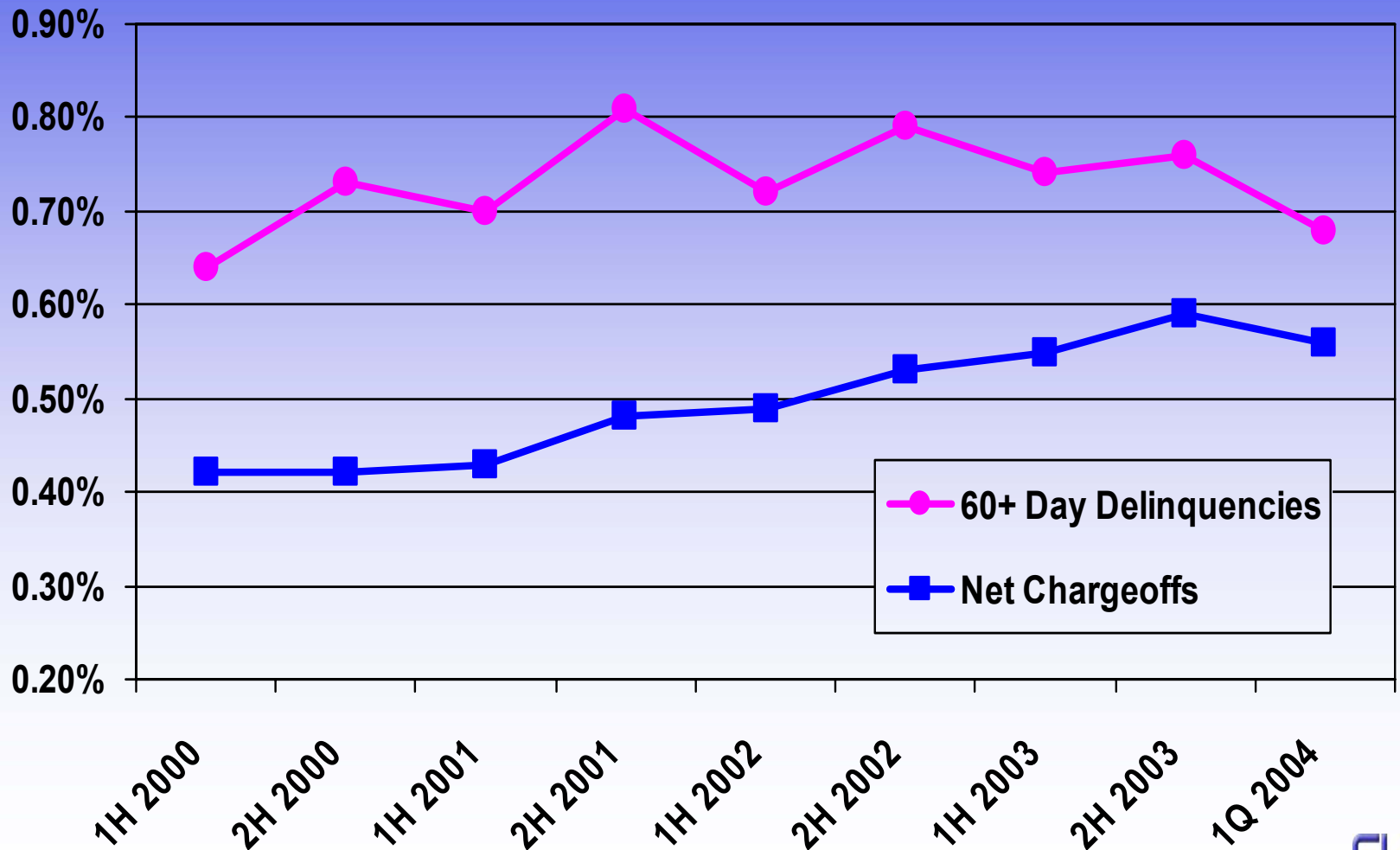
Asset Yields / Cost of Funds

Net Interest Margin



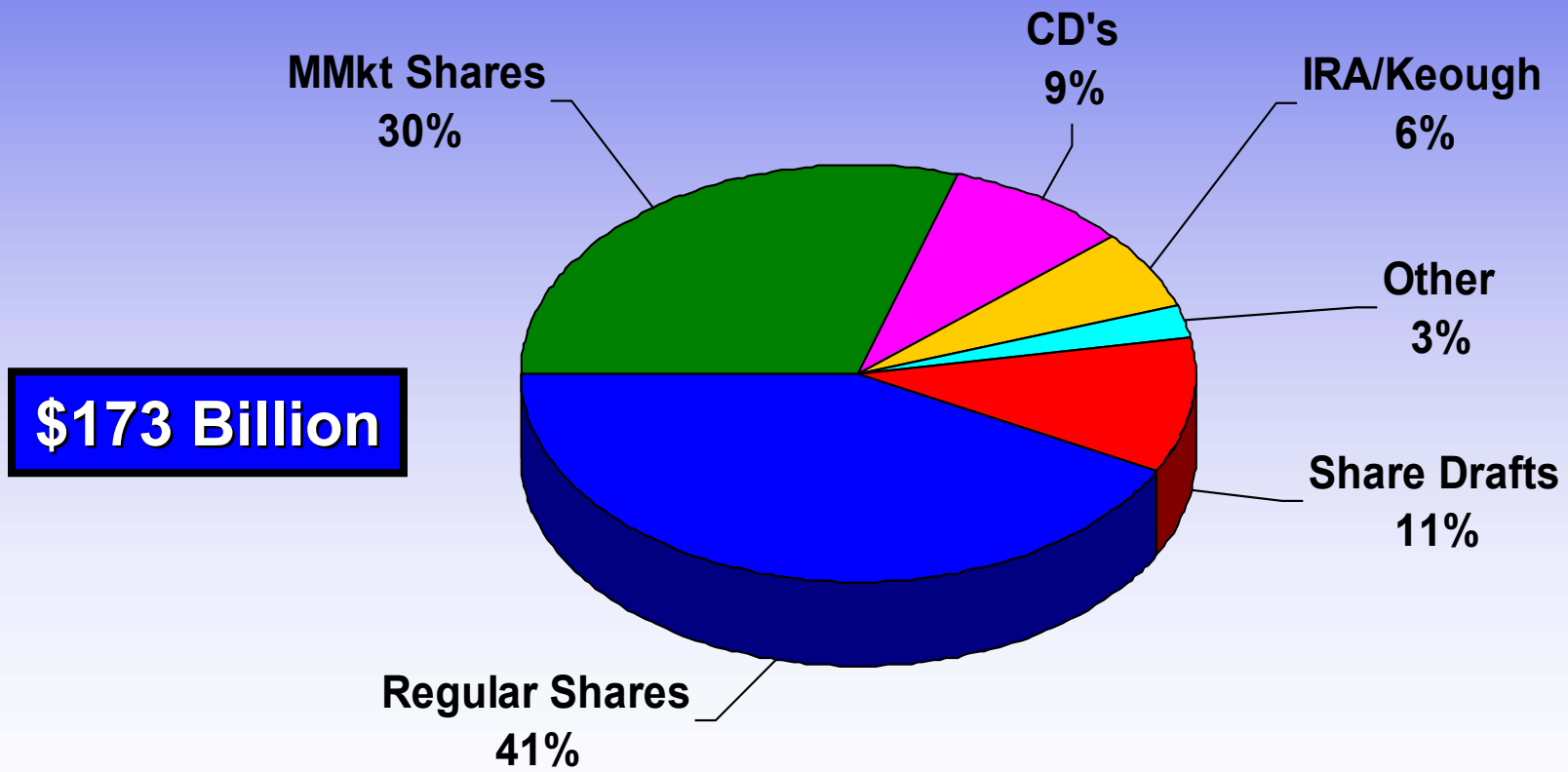
DELINQUENCIES & CHARGEOFFS

Percent of Loans

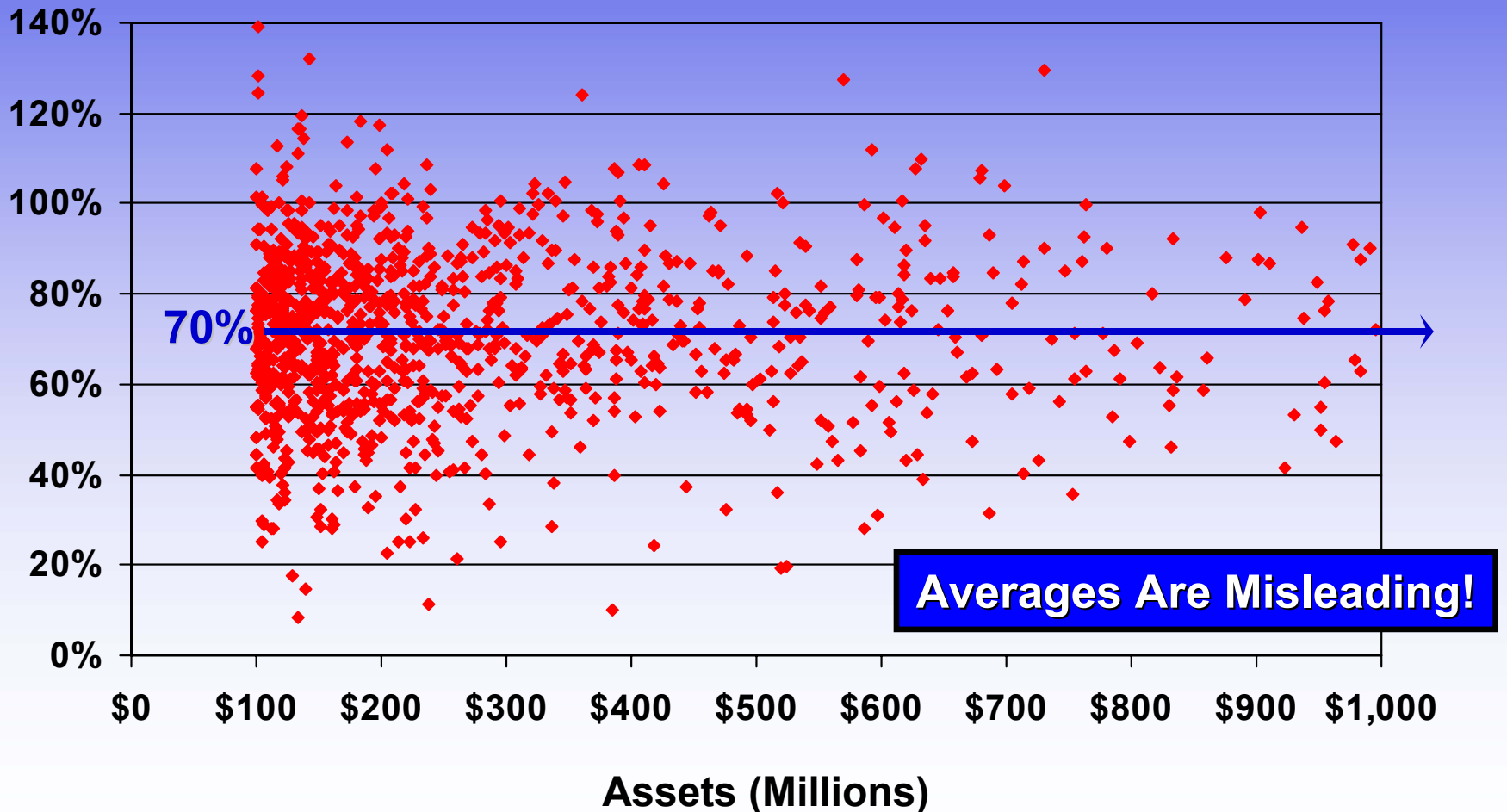


SHARE GROWTH

All FICU's 39 Months Through 3/31/2004

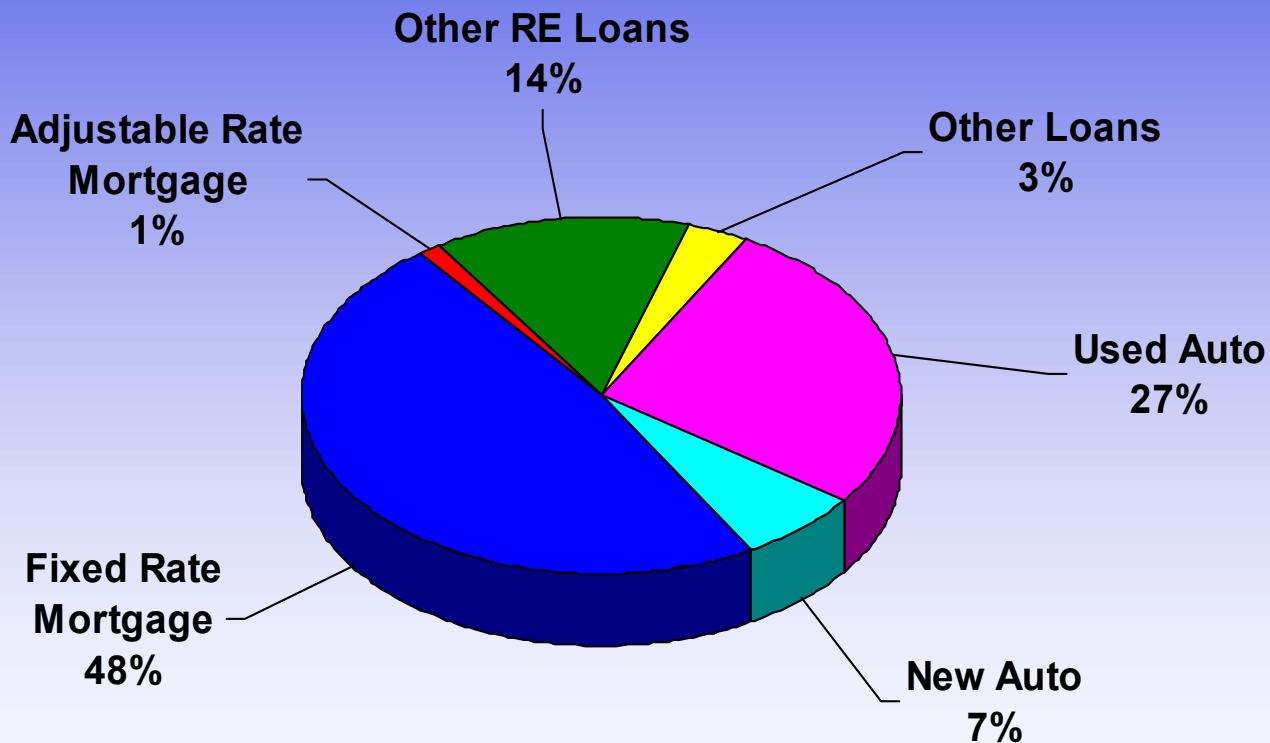


LOAN-TO-SHARE RATIOS FICU's With Assets Between \$100 Million & \$1 Billion



LOAN GROWTH

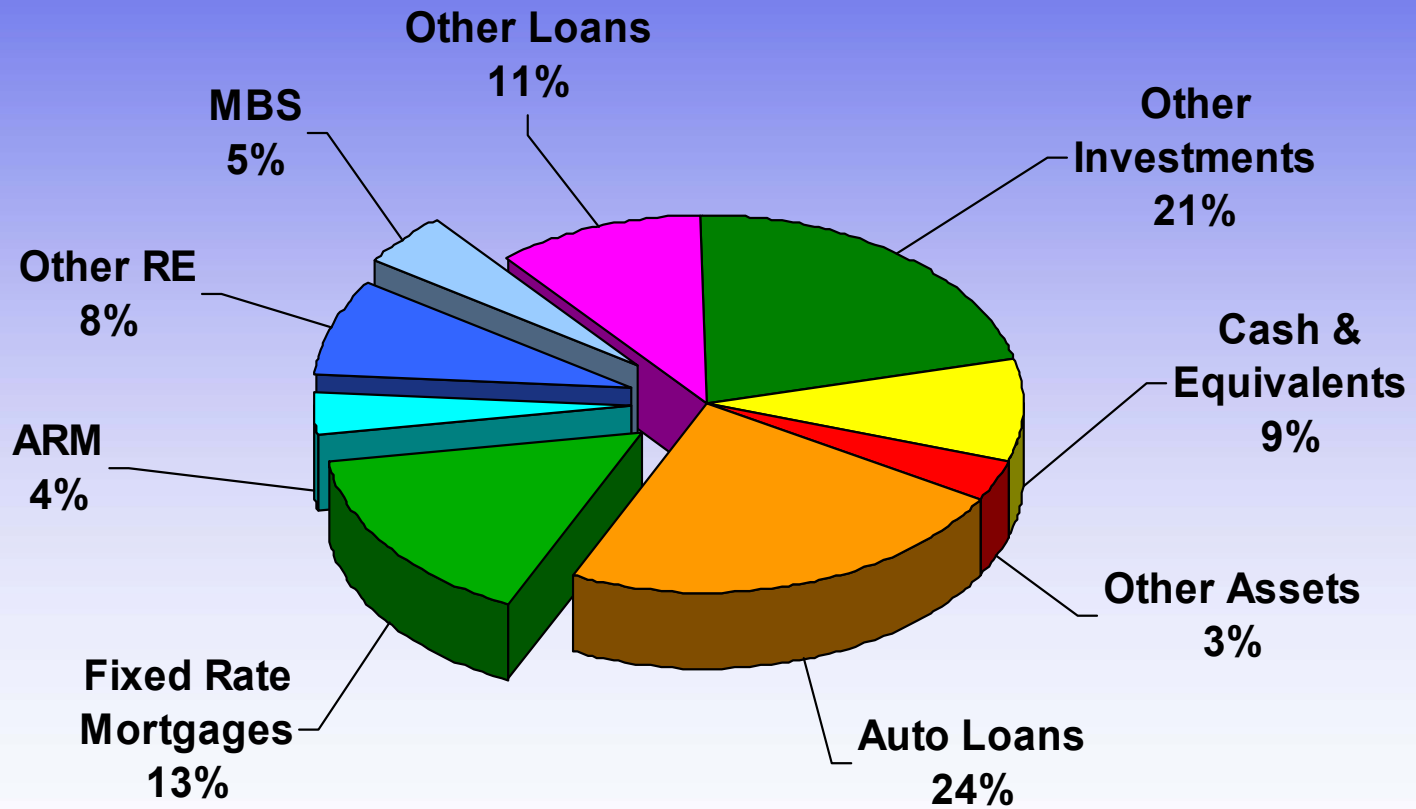
All FICU's 39 Months Through 3/31/2004



\$88.7 Billion

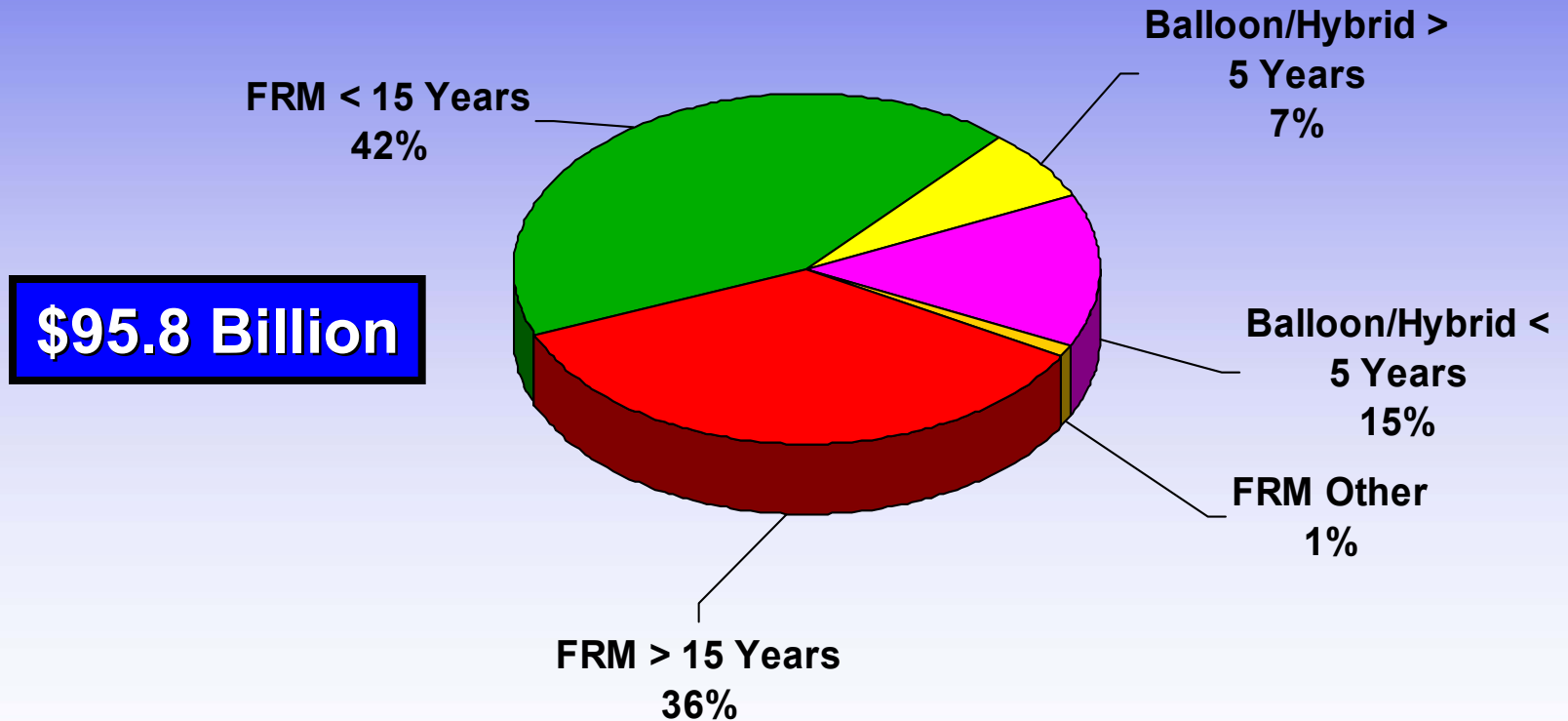
MORTGAGE RELATED ASSETS

All FICU's



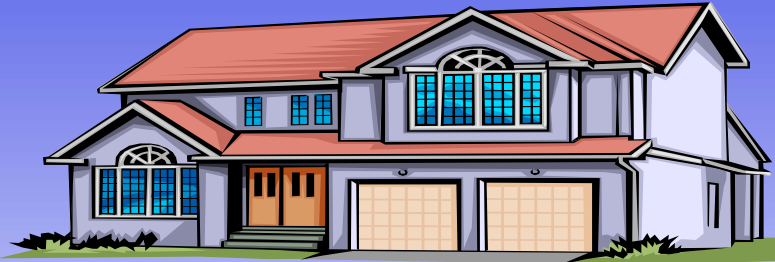
As of 3/31/2004

FIXED RATE FIRST MORTGAGES All FICU's



As of 3/31/2004


RISK FACTORS FOR RESIDENTIAL MORTGAGE LOANS



		Book	
	<u>-300 Bps</u>	<u>Value</u>	<u>+300 Bps</u>
30-year Fixed Rate	+9%	100	-16%
15-Year Fixed Rate	+8%	100	-13%
Hybrid ARM - 7/23	+7%	100	-10%
Hybrid ARM - 5/25	+6%	100	-9 %
Hybrid ARM - 3/27	+6%	100	-5%

INCREASING INTEREST RATE RISK

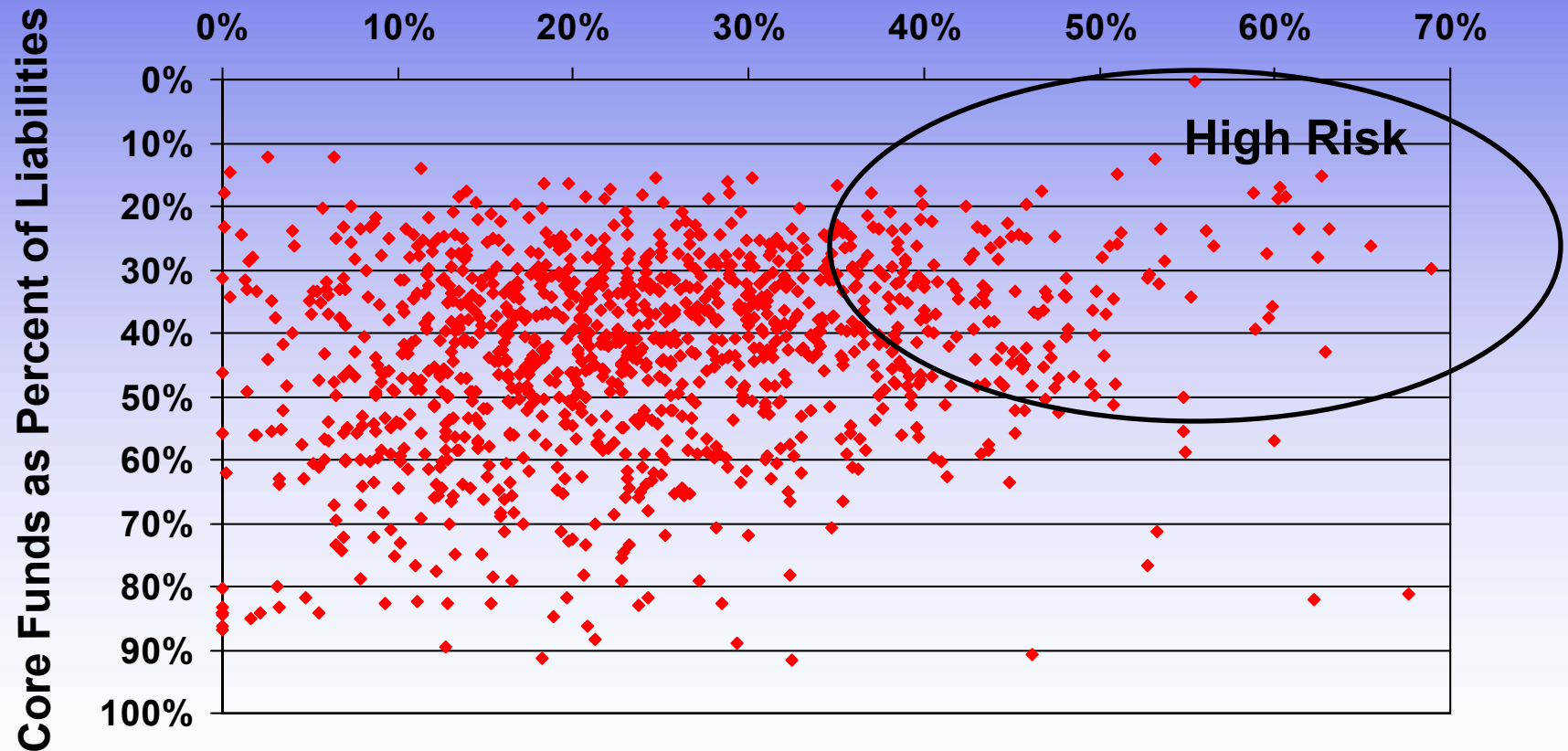
Estimated NEV Volatility + 300 Bps

		% of Mortgage Loans					
% of Core Deposits		10	20	30	40	50	60
		 Growing Mortgage Holdings					
Hot Money ↑	10	-19%	-27%	-35%	-44%	-53%	-62%
	20	-16%	-23%	-31%	-39%	-47%	-56%
	30	-12%	-19%	-27%	-34%	-42%	-50%
	40	-11%	-17%	-24%	-31%	-39%	-46%
	50	-9%	-16%	-22%	-29%	-36%	-43%
	60	-5%	-11%	-18%	-24%	-31%	-38%
	70	-2%	-8%	-14%	-21%	-27%	-34%

INTEREST RATE RISK SENSITIVITY

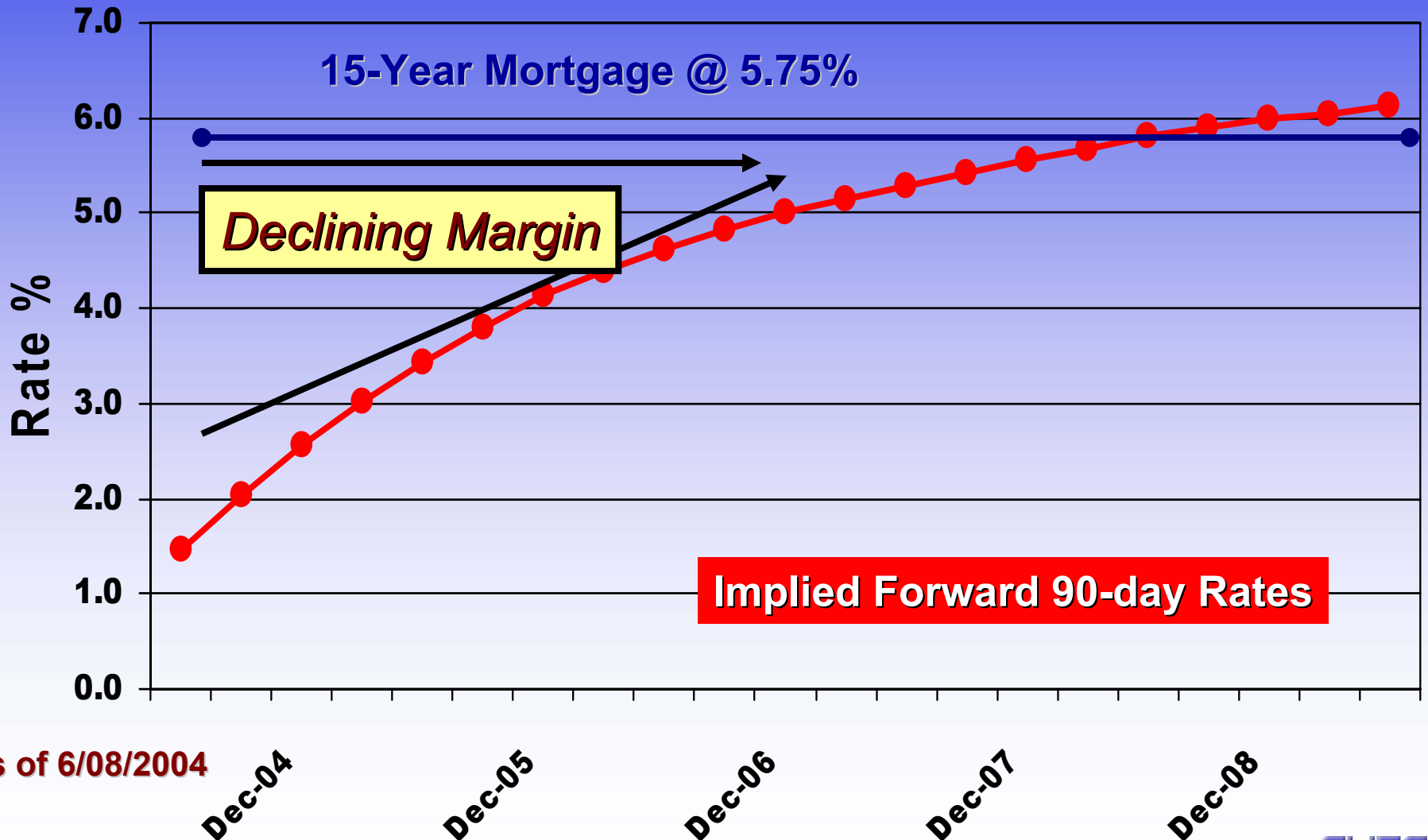
All FICU's With Assets Over \$100 Million

Fixed Rate Mortgage Assets as Percent of Assets



As of 3/31/2004

PRESSURE ON FUTURE MARGINS



As of 6/08/2004

PUTTING TOGETHER A GAME PLAN

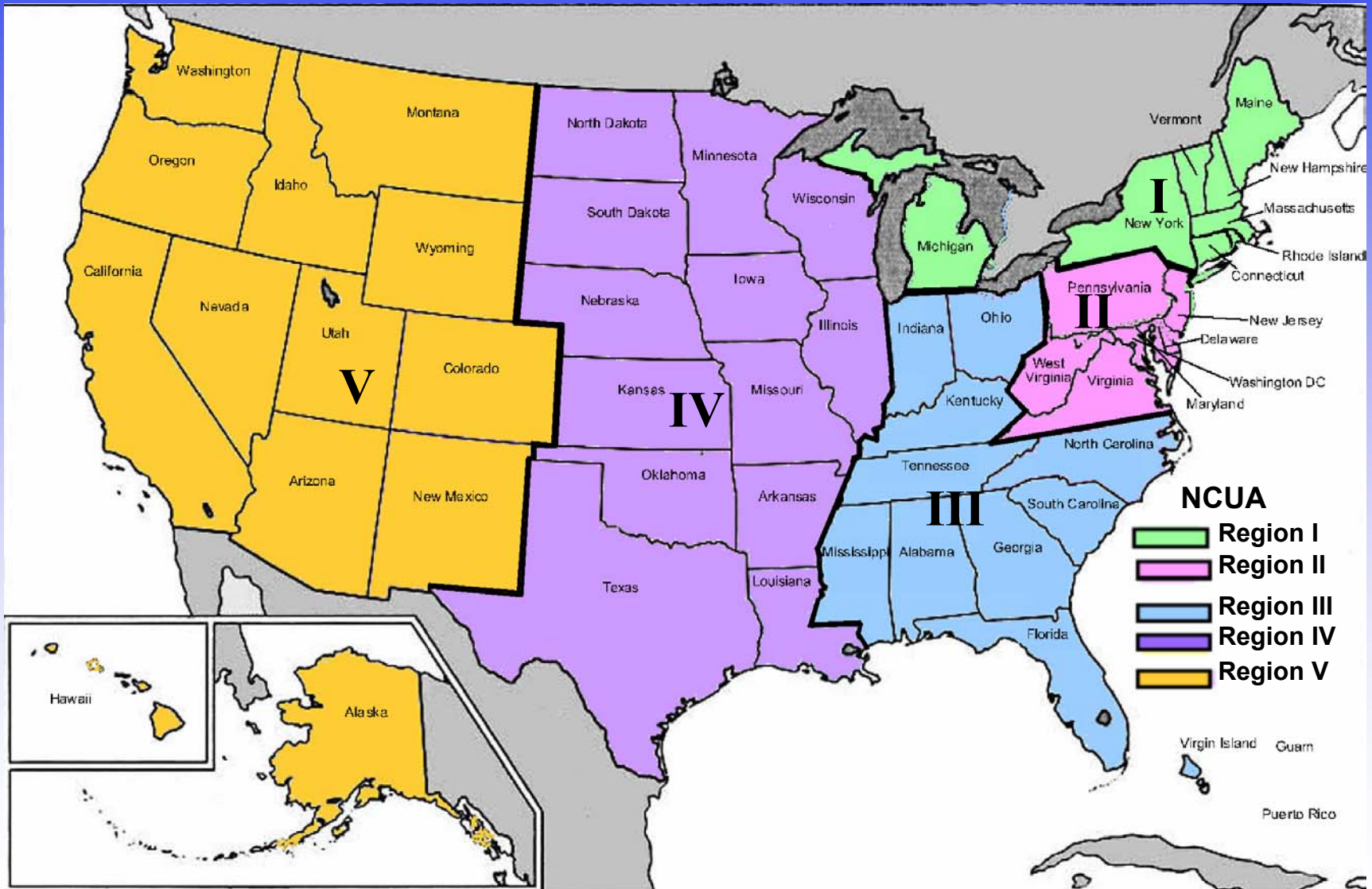


...Fine Tuning



Regional Economics...

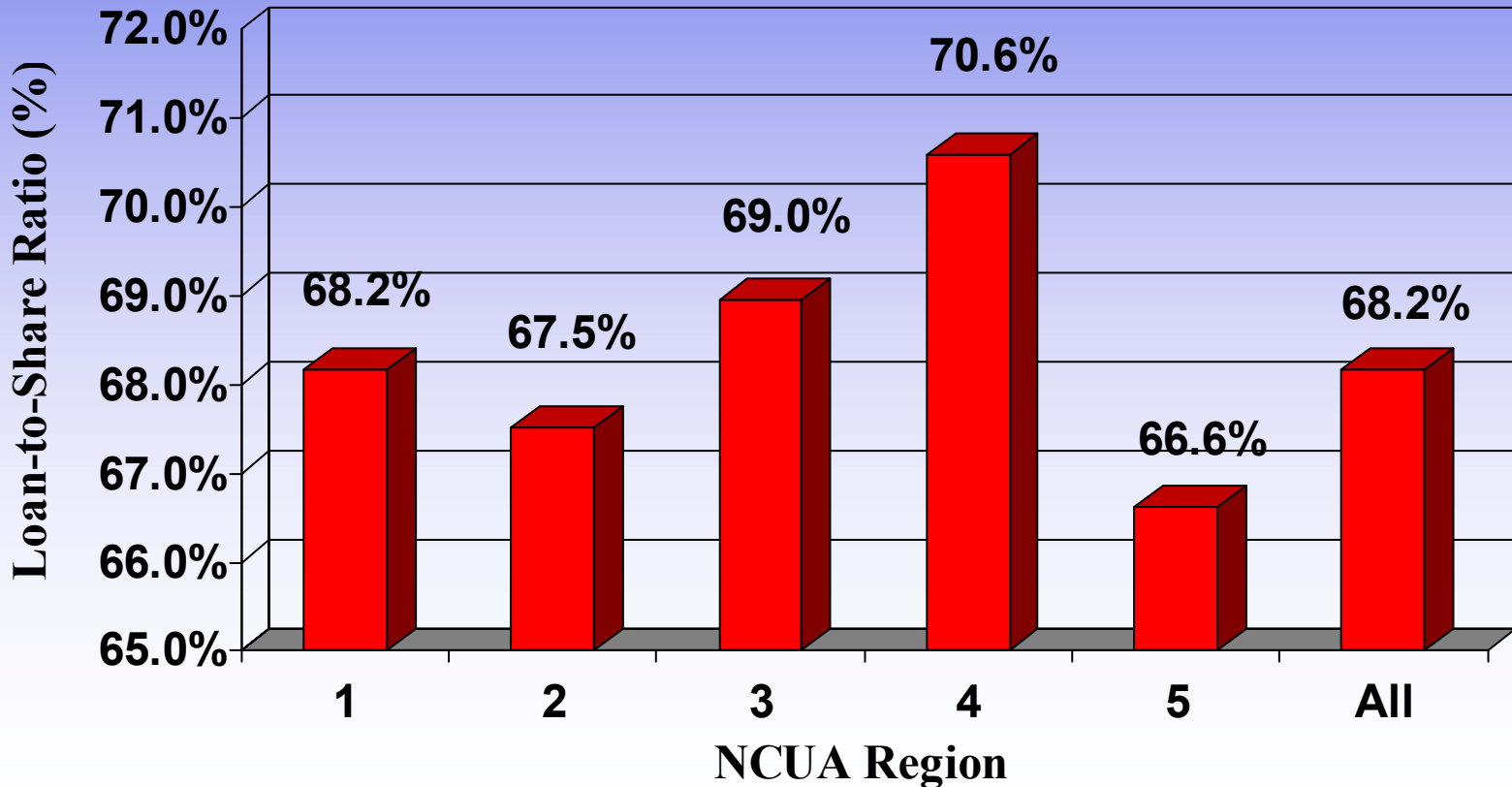
NCUA REGIONS



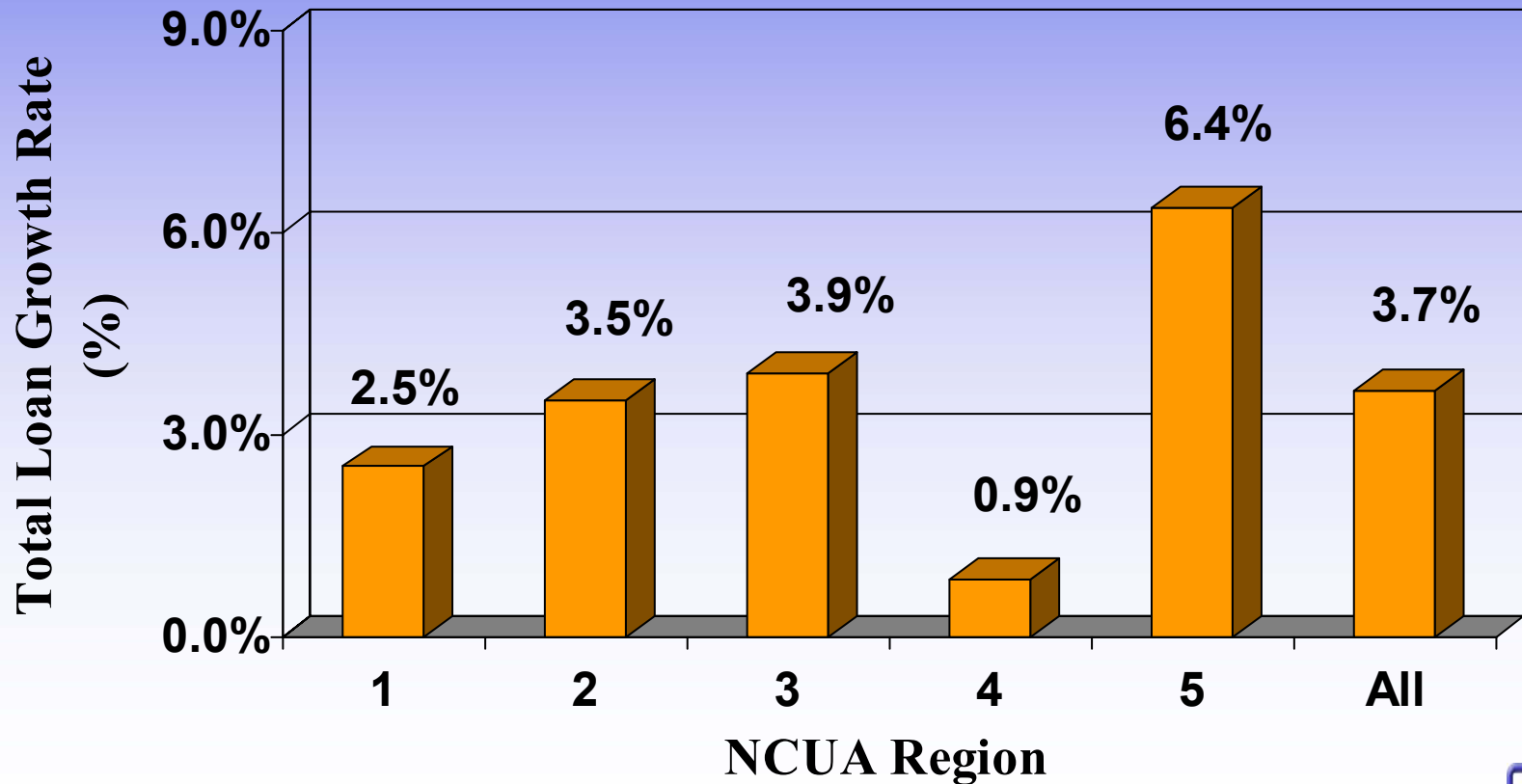
LOAN-TO-SHARE RATIO

FICUs

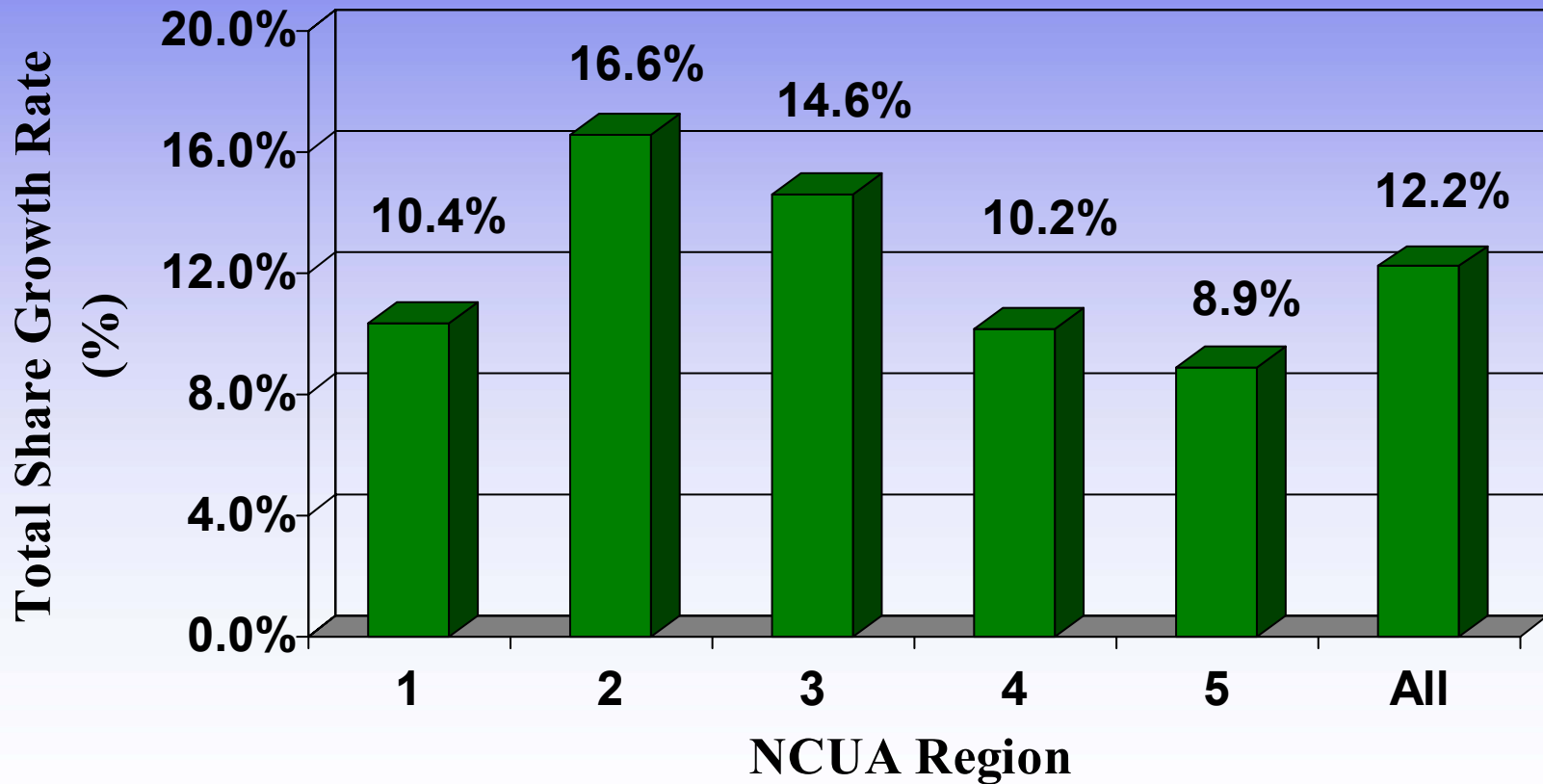
MARCH 2004



TOTAL LOAN GROWTH FICUs MARCH 2004



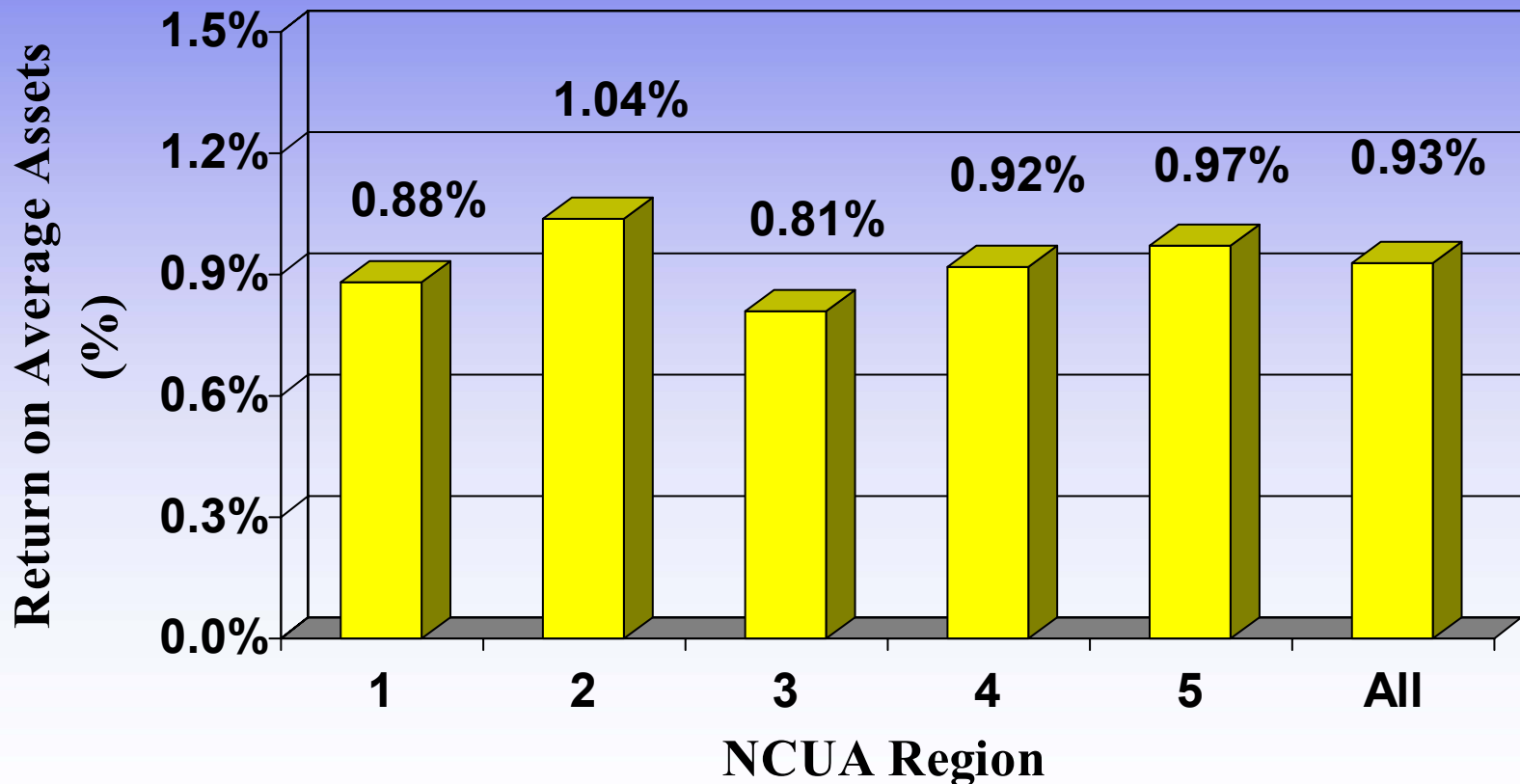
TOTAL SHARE GROWTH FICUs MARCH 2004



RETURN ON AVERAGE ASSETS

FICUs

MARCH 2004



COMPARATIVE FINANCIAL ANALYSIS

- CUEG Economic and Financial Data has a Regional Focus
 - Regional Data assists in comparing your credit union's financial performance
 - Look at your credit union's ratios compared to your Region or use other credit union peer data
 - Size of credit union
 - Geographic location
 - Type of credit union (defense related, community charter, etc.)

COMPARATIVE FINANCIAL ANALYSIS

- Various financial ratios for measuring loan performance >
 - Loan Performance Measurement Ratios
 - Loan growth
 - Loan mix (consumer, mortgage, business)
 - Delinquency ratio
 - Net charge-off ratio
 - Net loan yield

COMPARATIVE FINANCIAL ANALYSIS

- Talk to other Credit Unions about these loan performance measurement ratios
 - Loan underwriting practices
 - Loan collection procedures
 - Accounting practices
 - Tiered loan pricing (Risk based lending)
 - Loan mix
 - Member mix

OTHER ECONOMIC DATA

- Economic Data can be reviewed on a national, state or local level
 - Employment data
 - Loan and deposit growth rates
 - Bankruptcy data
 - Home sales
 - Car sales
 - Retail sales

EMPLOYMENT DATA – AS OF MARCH 2003 AND 2004

	Unemployment Rate 2003 / 2004	# of Jobs 2003 / 2004
National	6% / 5.6%	137.6 million / 138.6 million
Florida	5.3% / 4.6%	7.7 million / 7.95 million
Jacksonville MSA	5.1% / 4.9%	552,000 / 574,000

CHANGE IN EMPLOYMENT - YEAR ENDED MARCH 2004

	Jobs Added	Percentage Change to Labor Force
National	1 million	.7%
Florida	246,000	3.2%
Jacksonville MSA	22,000	4%

LOAN AND DEPOSIT GROWTH FIRST QUARTER 2004

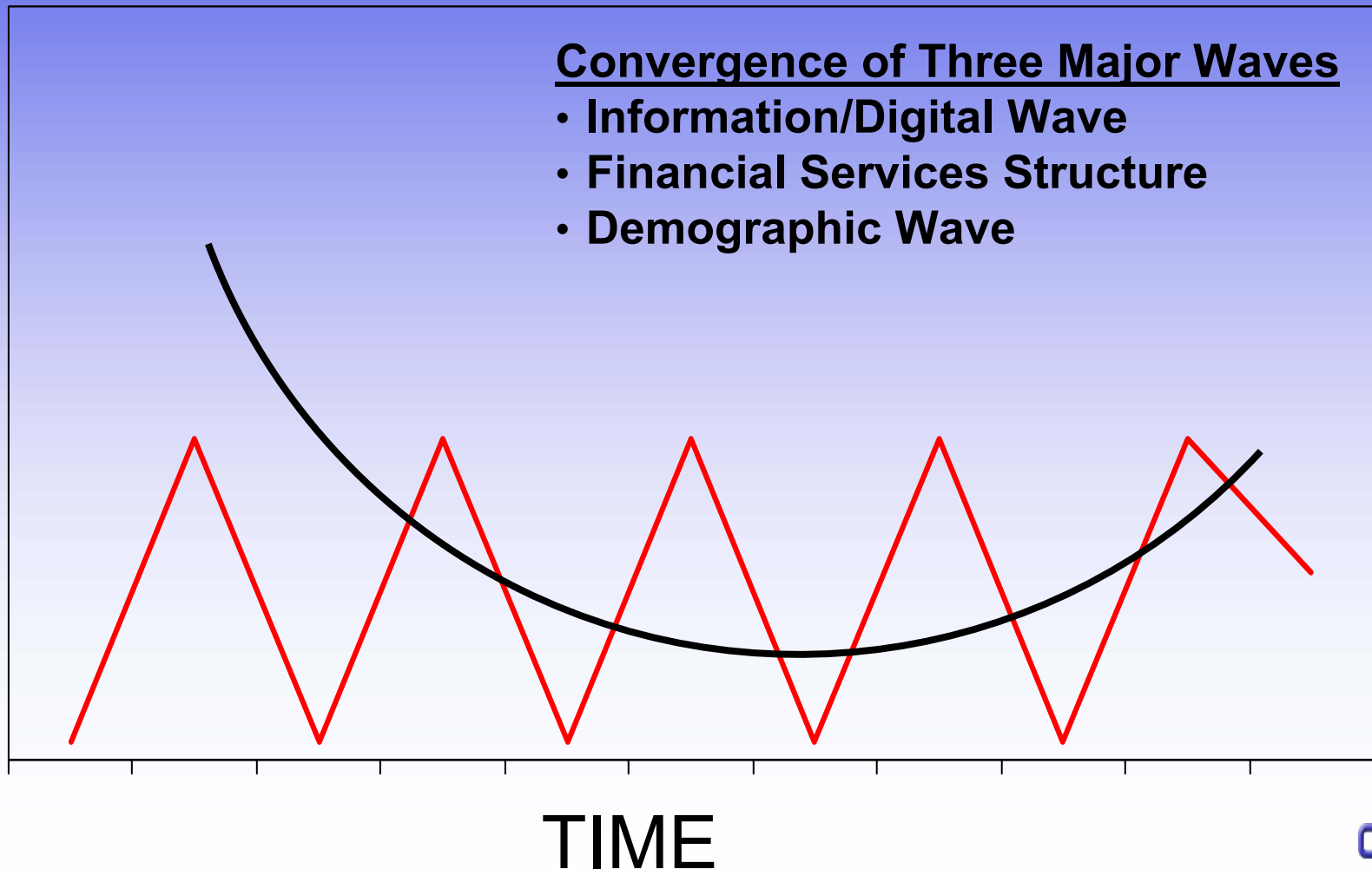
	Florida (FDIC insured)	Region 3
Loan Growth	19.1%	3.9%
Deposit Growth	22.6%	14.6%

...Strategic Preparedness



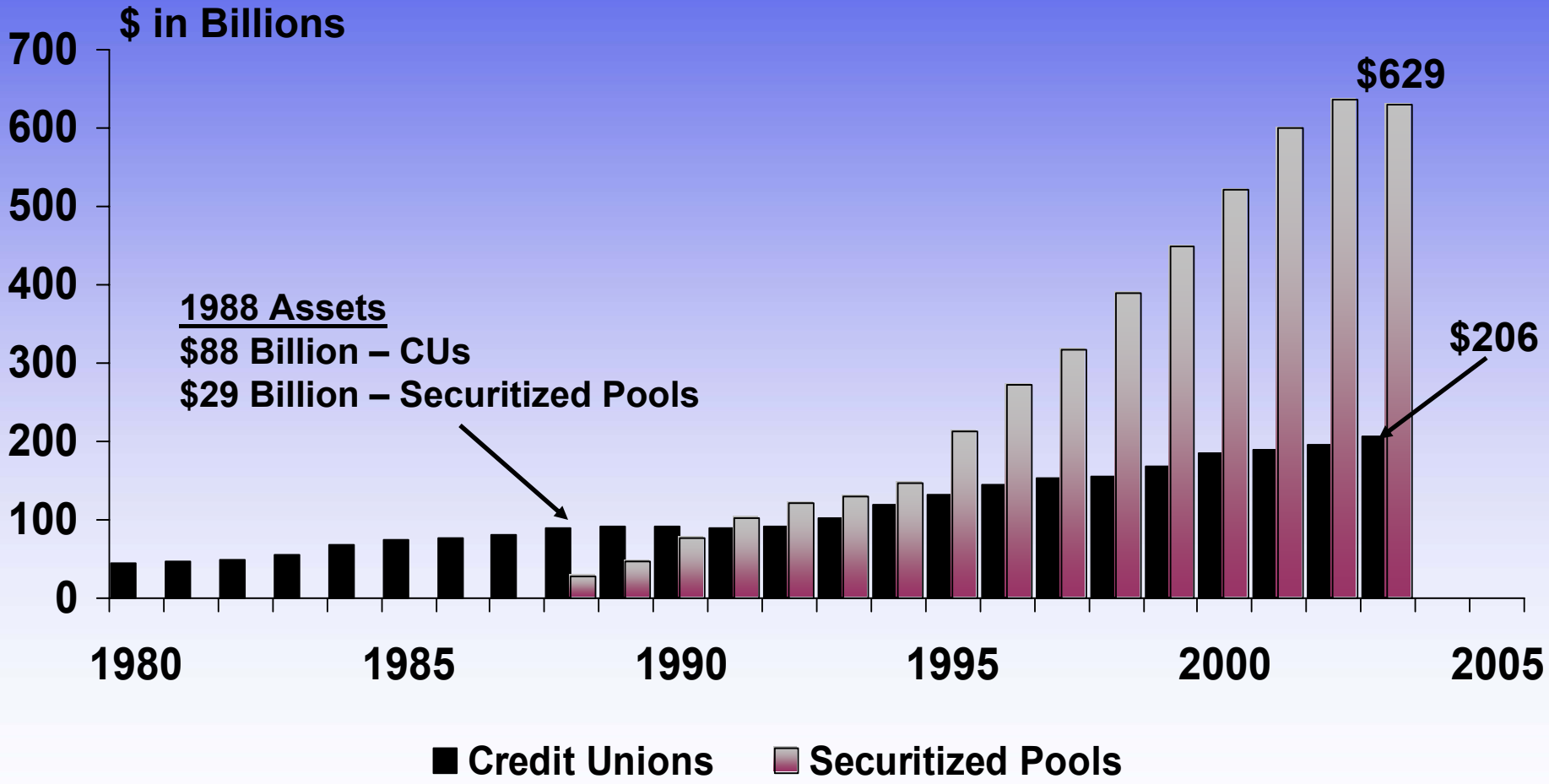
Current Economics...

BEYOND CURRENT ECONOMICS



CAPITAL MARKET REALITIES

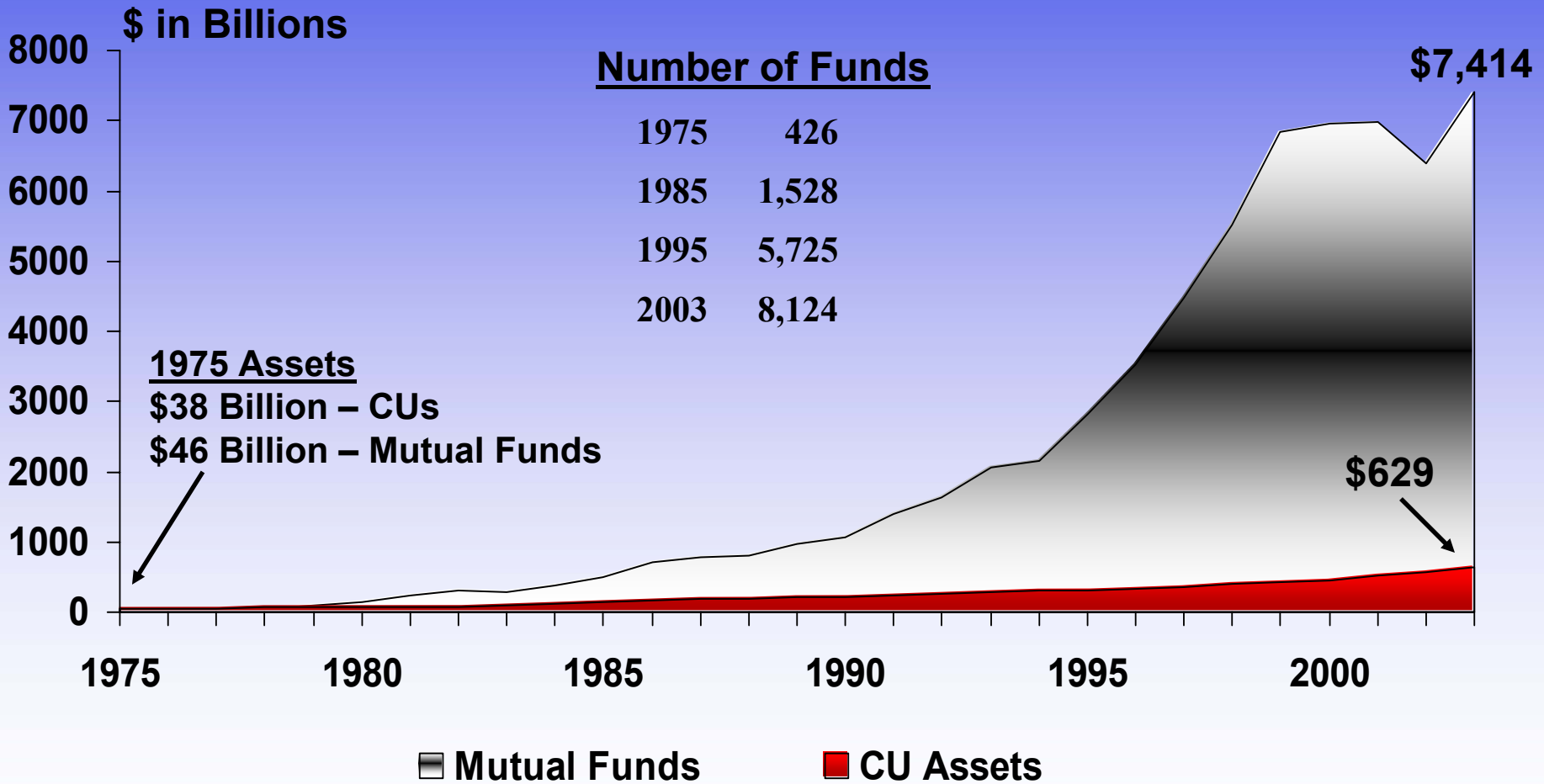
CONSUMER INSTALLMENT CREDIT



Source: Federal Reserve Statistical Release G.19

CAPITAL MARKET REALITIES

CONSUMER FINANCIAL ASSETS



FUTURE ROLE OF FINANCIAL INTERMEDIARIES?

- Dealing in Commodities

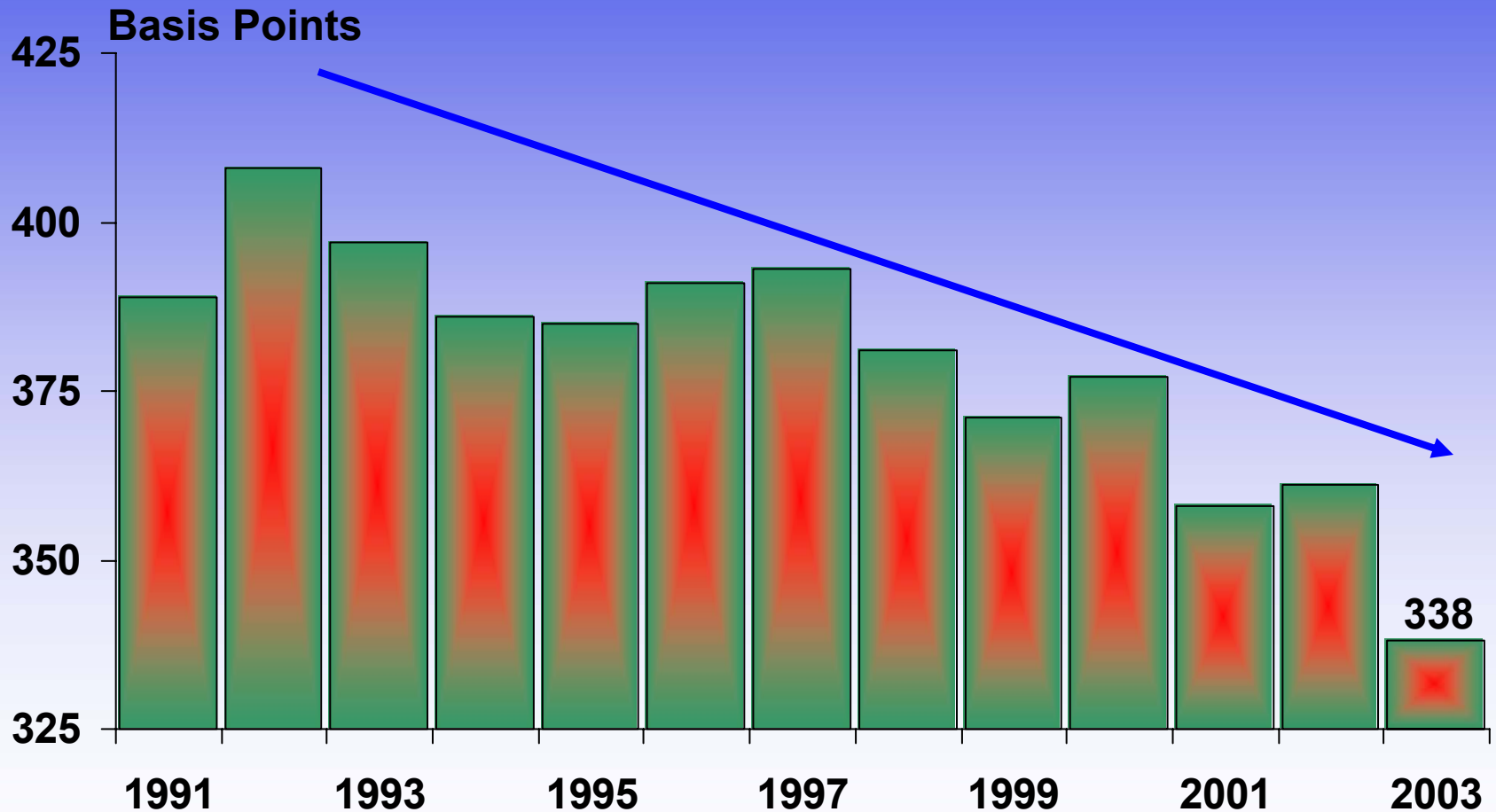
- No Boundaries



- Financing – A Product Feature

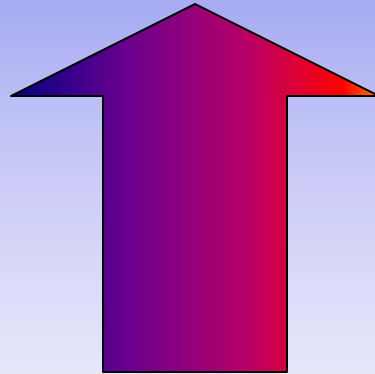


GROSS SPREADS AT CUs



CREDIT UNION EVOLUTION

Member Financial Well-being



Promote Thrift

CREDIT UNION MOVEMENT'S BIGGEST CHALLENGES

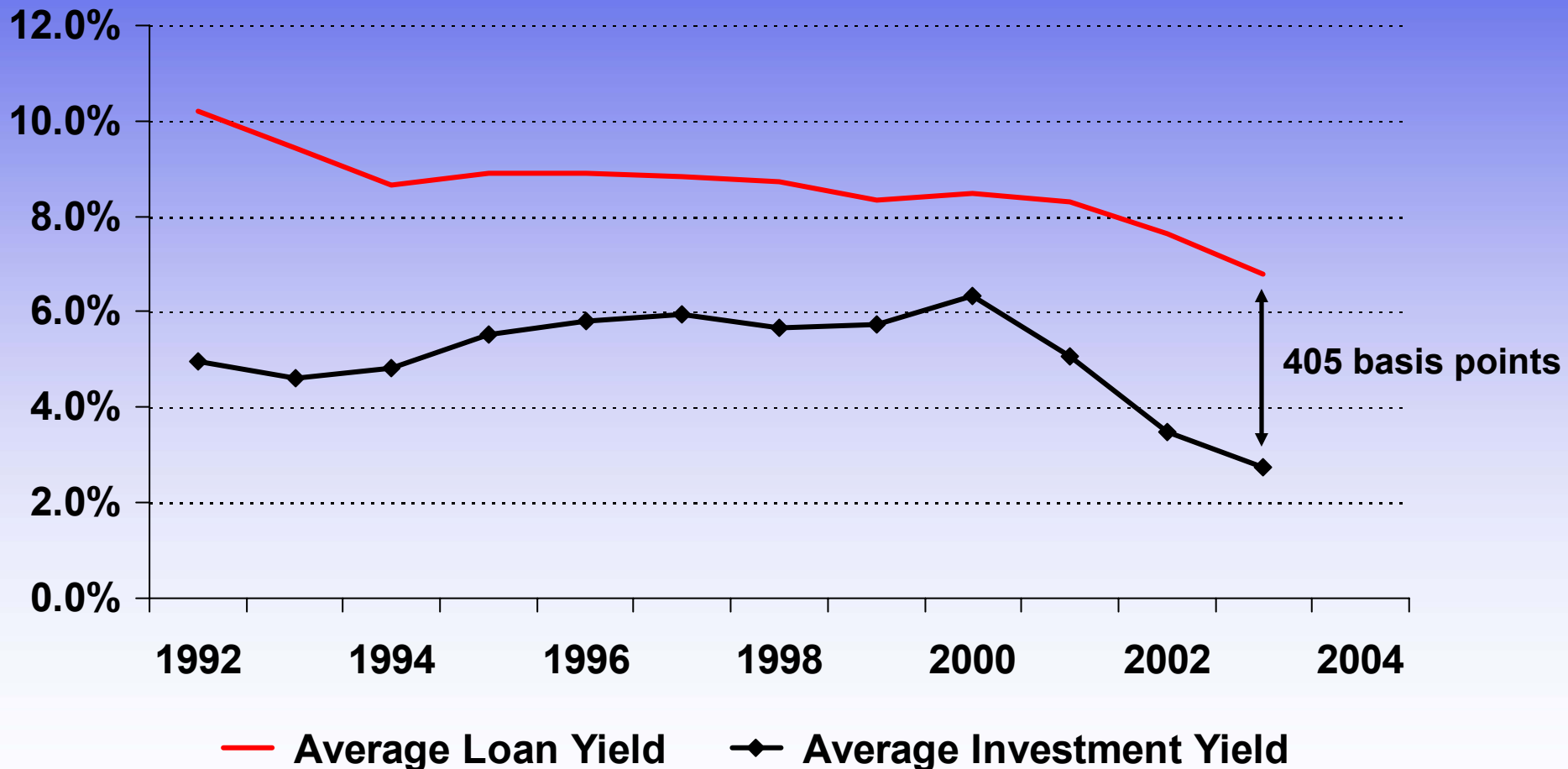
- Serving baby-boomers financial needs in retirement
- Replacement borrowers
- Expenses

BOOMERS FUTURE NEEDS

- Transactions - mobile
- Advice - who will get their 401k?
- Preserve and protect from:
 - catastrophic event
 - inflation
 - government

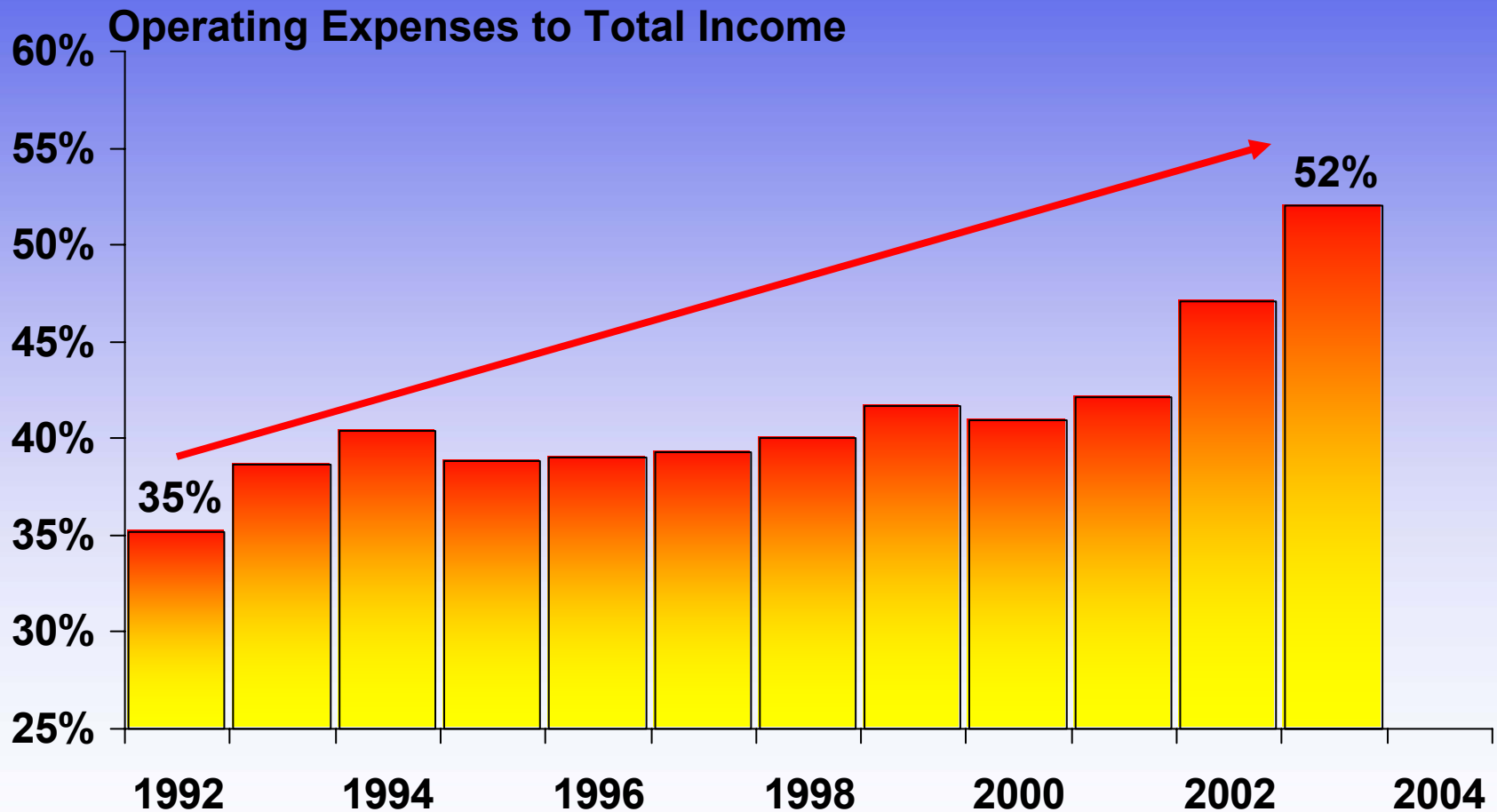
Small mistakes have big consequences

BORROWERS PROVIDE MARGINS



Source: NCUA 5300

INCREASING COSTS OF MEMBER SERVICE



MARKET PRESSURES ARE CHANGING

- Traditional and non-traditional competition
- Fluctuating margins
- Constraints of regulation

The Future Won't Wait

TO ENSURE OUR SUCCESS

- Devote more time to the strategic
 - beyond traditional CU definitions
 - focus on member needs in the future
- Leverage cooperative system
 - generate economies of scale
 - create bargaining power
 - avoid redundancies

THE CHALLENGES

- *Continue to provide the competitive alternative in consumer borrowing and savings*
- *Expand this philosophy to provide a competitive alternative in serving the retirement needs of current and potential members*

SUMMARY



- **Prepare for rising interest rates and the consequences.**
- **Factor in regional economics patterns.**
- **Competition will only escalate.**
- **Strategic planning and preparedness.**

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