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NEWS RELEASE

Credit Union Economics Group (CUEG)

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ECONOMISTS TARGET KEY ISSUES FACING CUs AT NAFCU EVENT ***Home Values, Liquidity, Indirect Lending Topics of Credit Union Economics Group***

LAS VEGAS – Five leading credit union-industry economists on Thursday assessed the current state of housing prices, liquidity and indirect lending during a panel discussion at NAFCU's 38th Annual Conference and Exhibition.

Members of the Credit Union Economics Group (CUEG) honed in on these emerging issues facing credit unions and their members at the National Association of Federal Credit Unions' annual event. Thursday afternoon's panel discussion attracted approximately 170 attendees and was moderated by Chris Bradberry, CFO of Fibre FCU, Longview, WA.

Organized in April of 2003, CUEG provides consensus macroeconomic forecasts and industry trend analyses aimed at helping credit unions with their planning and operations.

Tun Wai, NAFCU's chief economist and director of research, led off the group's presentation with a discussion on whether a national home-price "bubble" exists. Wai cited figures showing national home-price growth reached an all-time high versus inflation and income growth in 2004.

"Twenty-five out of 100 of the top MSAs (Metropolitan Statistical Areas) had home price appreciation of 20 percent or more last year – the highest percentage since 1979, when appreciation CPI inflation was 13 percent," Wai said. "It appears a housing 'bubble' exists in various regions of the country, but low interest rates and high demand for second homes will keep home prices sustainable in the near term."

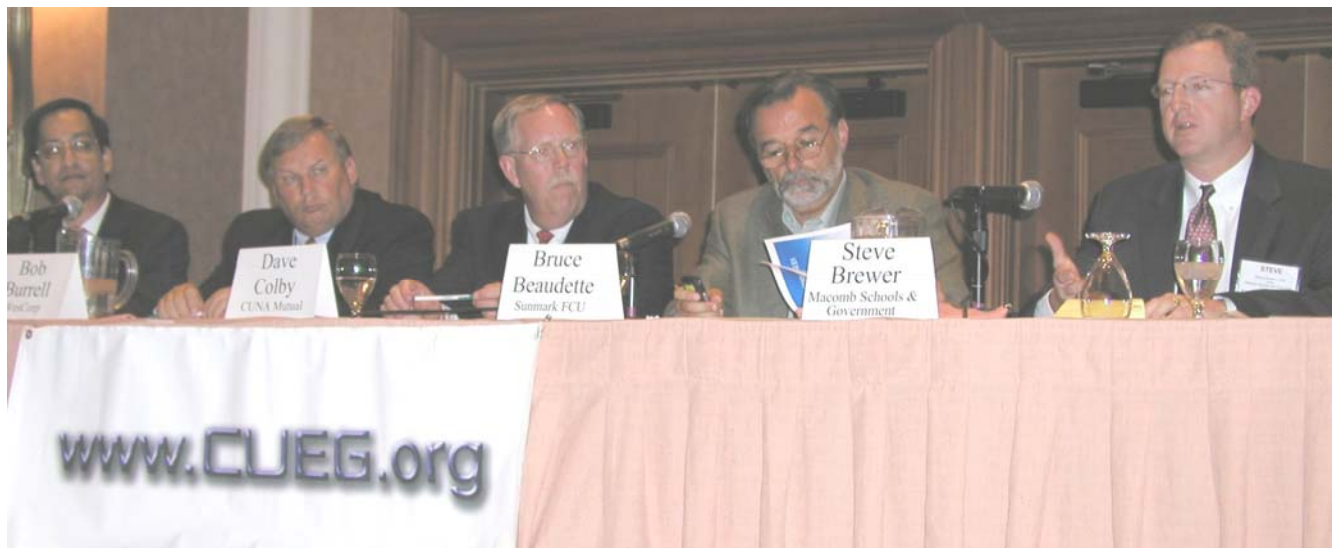
Bob Burrell, executive vice president/CIO of Western Corporate FCU (WesCorp) and Dave Colby, CUNA Mutual Group's chief economist, offered differing views on whether credit unions are facing a "liquidity crunch."

Burrell said despite the turnaround in liquidity -- which peaked mid-year 2003 -- loans still made up less than two thirds of the credit union system's total assets. He added that

over the last four years the system had built up an additional \$98 billion in excess funds, largely being held in cash and short-term investments. As of March 31, 2005, federally insured credit unions (FICU's) held \$36 billion in overnight deposit accounts and over half of their \$180 billion term investments were scheduled to mature within 12 months.

Burrell stated liquidity was not a short-term issue for the system as a whole, but said many credit unions face liquidity issues. At the end of the first quarter, 124 of the 5,000 FICUs with assets of \$25 million or more had loan-to-share ratios greater than 100 percent. He said there are numerous tools to address this imbalance, including a growing range of liquidity products from corporate credit unions and the regional Federal Home Loan Banks.

He concluded that while loan growth is clearly outpacing share growth, there is no real evidence of any major outflows of funds even though credit unions have been slow to follow the increases in wholesale market interest rates.



The CUEG Panel at NAFCU's Annual Conference and Exhibition included (From Left) Dr. Tun Wai, Bob Burrell, Dave Colby, Bruce Beaudette and Steve Brewer.

Colby expressed concerns about the lack of response by credit unions to the Fed raising its target rate by 225 basis points over the past year. He said credit unions are attempting to hold down their cost of funds and maintain their return on assets. "This strategy has worked in the short-run, but in the long-run there may be liquidity implications," Colby said.

He also alluded to the changing face of loan portfolios, saying real estate-secured loans have climbed from 21 percent in 1986 to 47 percent today. "It brings into question how much real estate loan exposure can we manage?" Colby concluded: "Even without overall liquidity problems, credit unions may need to limit portfolio growth and risk exposures in certain loan classes." Colby and Burrell did agree that successful credit unions will look beyond their balance sheets and use ALM and capital market tools to manage the balance between meeting member loan demand and credit union liquidity.

Bruce Beaudette, president/CEO of Sunmark FCU, Schenectady, NY, and Steve Brewer, chief financial officer, Macomb Schools & Government CU, Clinton Township, MI, teamed up on “in-house” and “third-party” indirect lending options available to credit unions.

Brewer called indirect lending “very different from traditional retail lending. “It can be a complex business relationship with either a third party or series of dealers and there are many interdependent areas of negotiation that need analysis in order to ensure a reasonable ROI.”

Brewer said indirect lending presents ‘unique’ risks and that lending, servicing and collection procedures need to be modified to address those risks. “Some of the risks are lack of familiarity with borrowers and a dependence upon dealers to verify that borrower information is accurate,” Brewer added.

Credit unions are looking to indirect lending as a way to add good short-term assets to their balance sheets, Beaudette said. “But indirect lending can be a challenging product that does include pitfalls. If managed properly, though, it can address what is a shrinking direct auto lending market and improve asset yields.”

Beaudette cited advantages and disadvantages of managing indirect programs in-house versus through third parties. “With no middleman, yields are maximized and quality control can be more manageable in-house,” Beaudette said. “But there is established expertise, economies of scale and it is much easier to start a program by working through a third party.”

The Credit Union Economics Group (CUEG) is a working group of geographically dispersed credit union officials who have dedicated themselves to the current and future financial well being of these not-for-profit cooperatives. CUEG's objective is to provide credit unions with consensus macroeconomic forecasts and industry trend analyses that will be helpful in their planning and operations. This independent, non-profit group also provides a credit union perspective on regional economic trends by exchanging information with the NCUA, the Federal Reserve Board and the various Federal Reserve District Banks.

CUEG prepares a regional economic and descriptive credit union trends report bi-annually as well as a consensus macroeconomic and industry-trend forecast, available at www.cueg.org.

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