

# CREDIT UNION ECONOMICS GROUP (CUEG) PANEL

**National Association of  
Federal Credit Unions  
Annual Conference  
San Diego, California  
July 11, 2008**

For more information on CUEG:

[www.cueg.org](http://www.cueg.org)

**CUEG**

# STRATEGIC THINKING

## ECONOMIC FORECAST AND CAPITAL STRATEGIES

- Tun Wai  
Chief Economist, NAFCU

## A LOOK BACK AND A LOOK FORWARD

- Dave Colby  
Chief Economist, CUNA Mutual Group

# ECONOMIC FORECAST AND CAPITAL STRATEGIES

**Tun A. Wai, NAFCU  
Chief Economist**

DOUBLE, DOUBLE, TOIL AND TROUBLE  
LET'S NOT BLOW ANOTHER BUBBLE

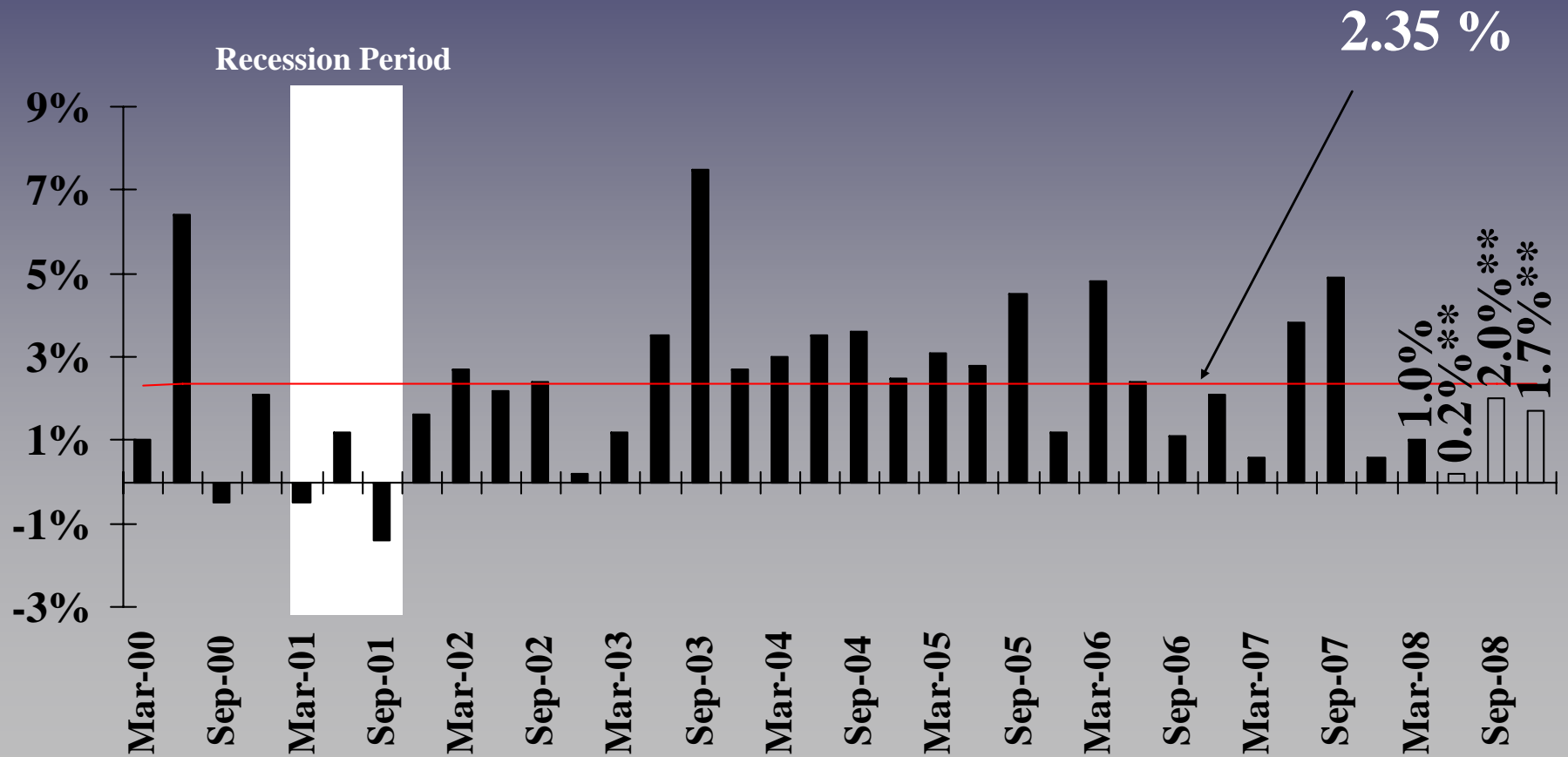


"WHEN SHALL WE THREE MEET AGAIN?"

# DISCUSSION TOPICS

- Economic Environment
- CUEG Forecast
- Capital Strategies

# GDP GROWTH 2000- MARCH 2008



\*\*Forecast

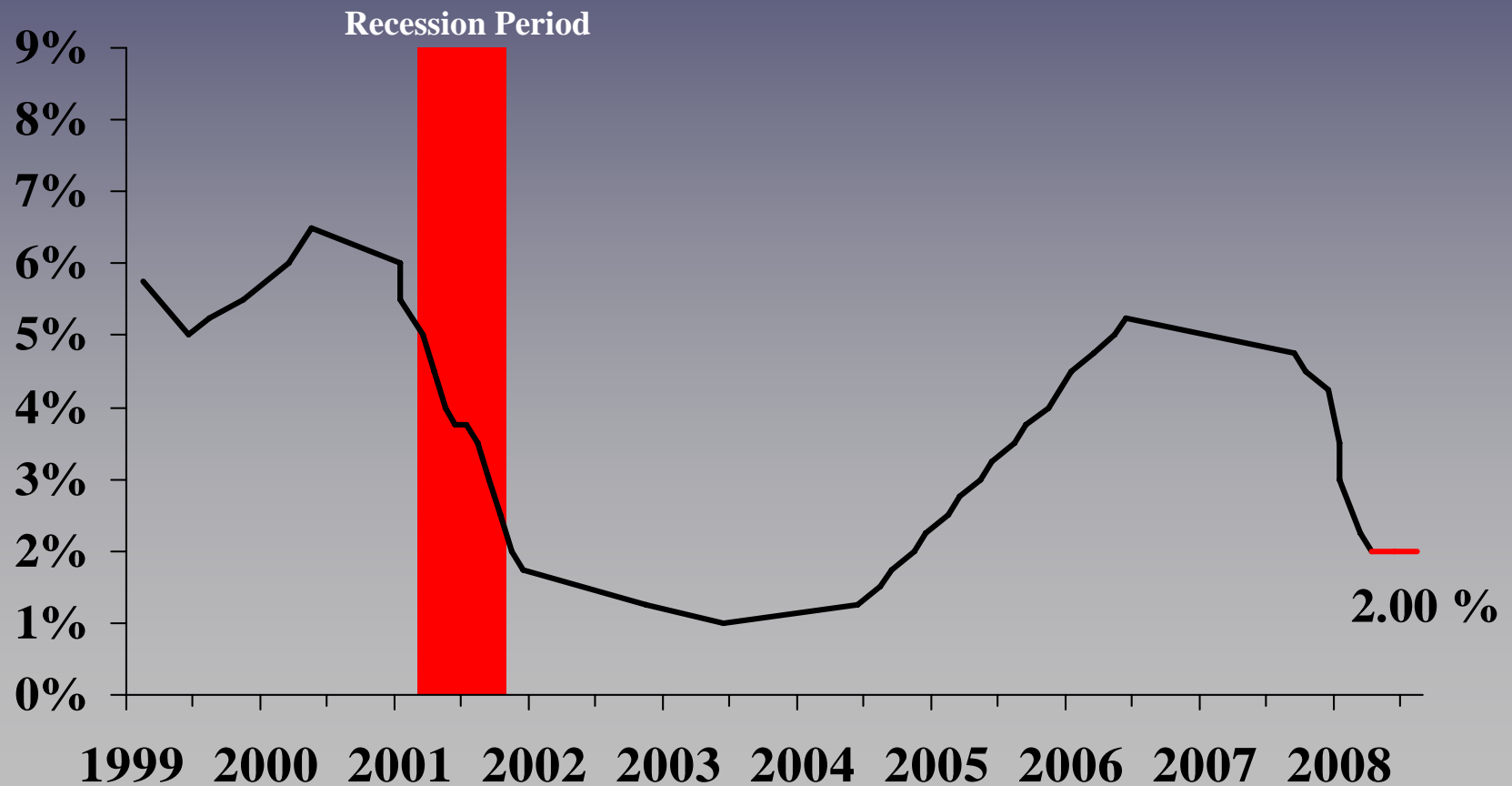
Source: Bureau of Economic Analysis

# CHAIRMAN BERNANKE

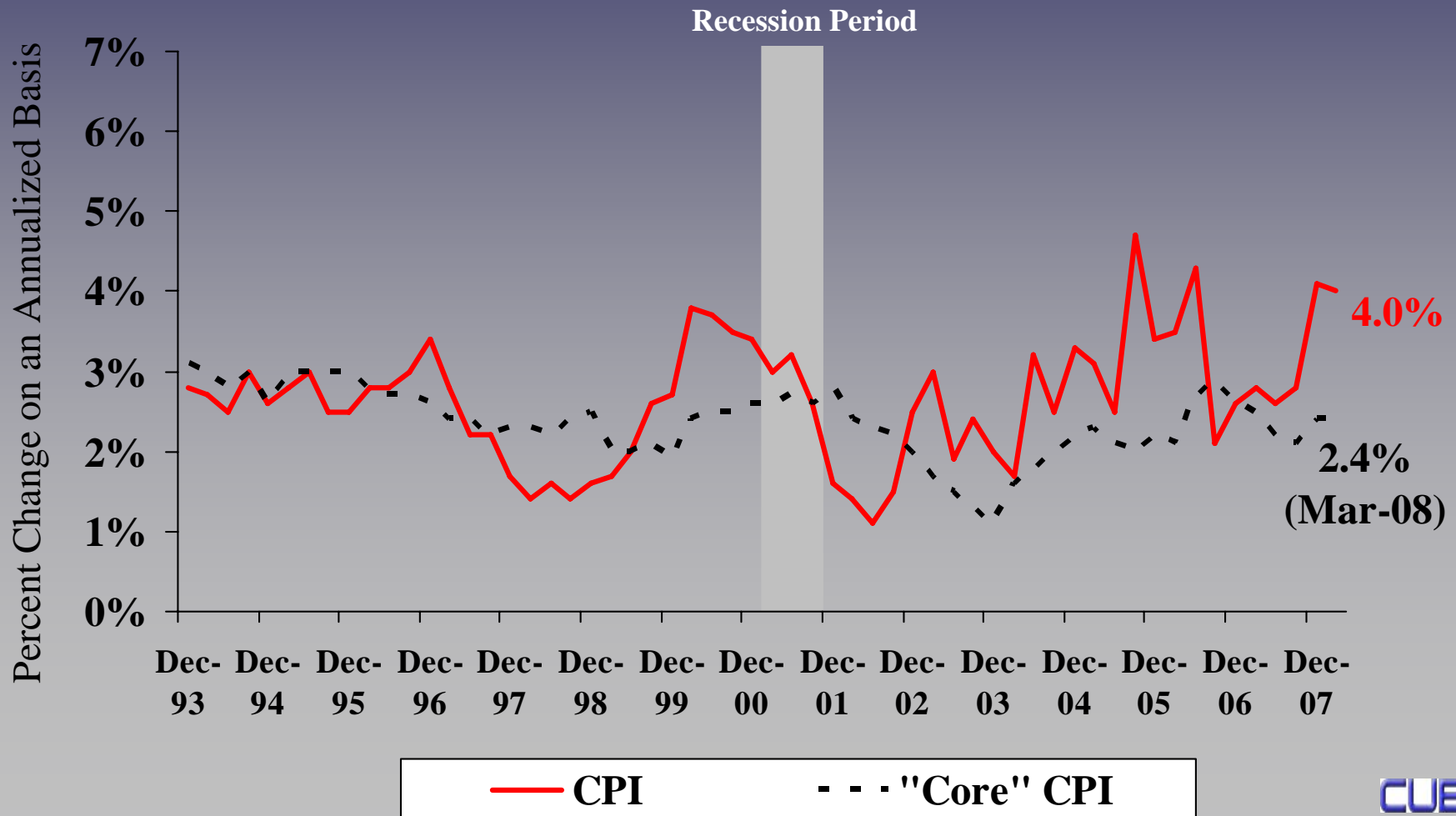
June 9, 2008

“...although activity during the current quarter is likely to be weak, **the risk that the economy has entered a substantial downturn appears to have diminished** over the past month or so. Over the remainder of 2008, the effects of monetary and fiscal stimulus, a gradual ebbing of the drag from residential construction, further progress in the repair of financial and credit markets, and still-solid demand from abroad should provide some offset to the headwinds that still face the economy. However, the ongoing contraction in the housing market and continuing increases in energy prices suggest that growth risks remain to the downside.....”

# TARGET FED FUNDS RATE



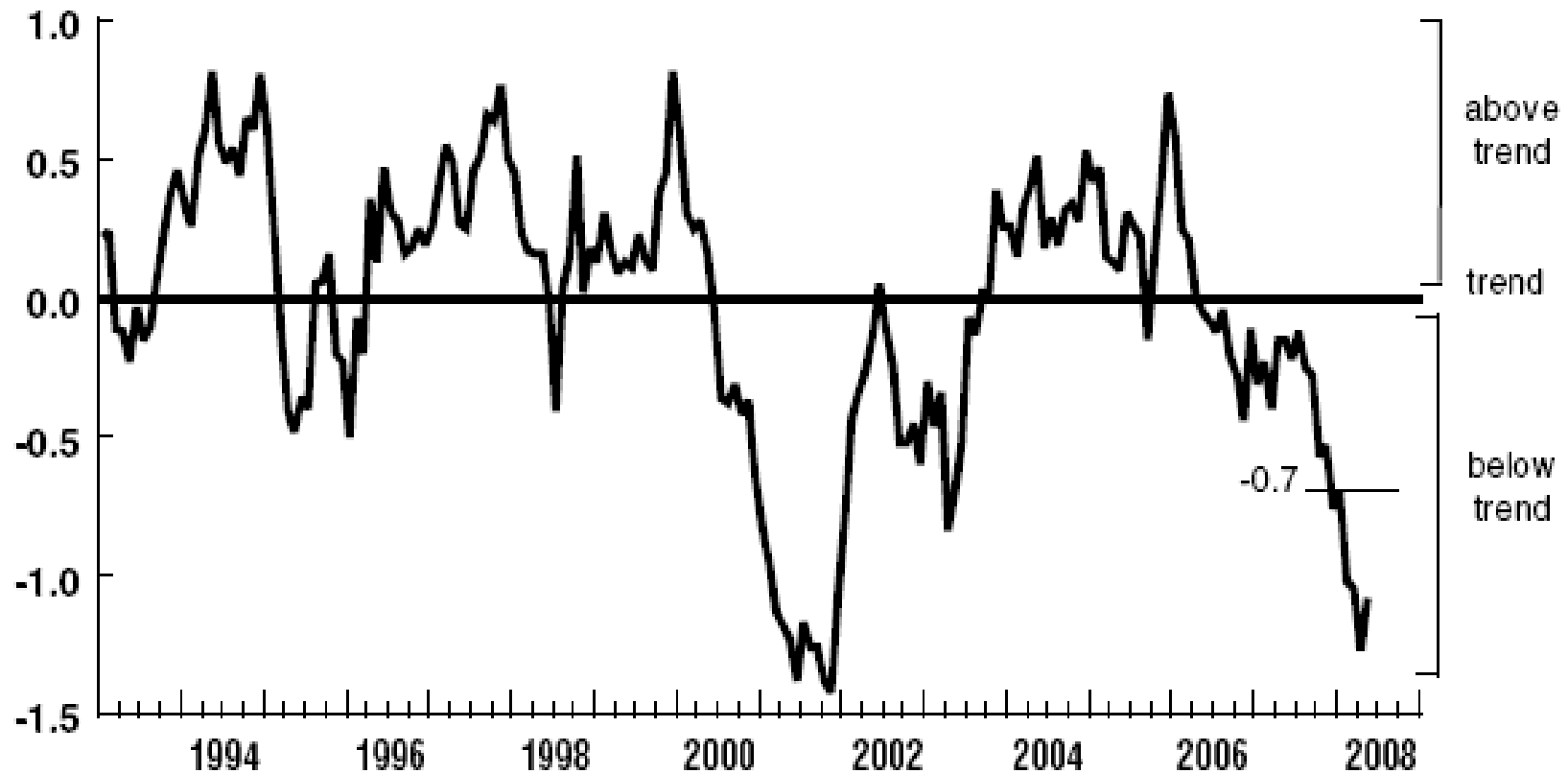
# CONSUMER PRICE INDEX





# CHICAGO FED NATIONAL ACTIVITY INDEX (as of May 2008)

*Chicago Fed National Activity Index, Three-Month Moving Average (CFNAI-MA3)*



# CUEG FORECAST

[www.CUEG.org](http://www.CUEG.org)

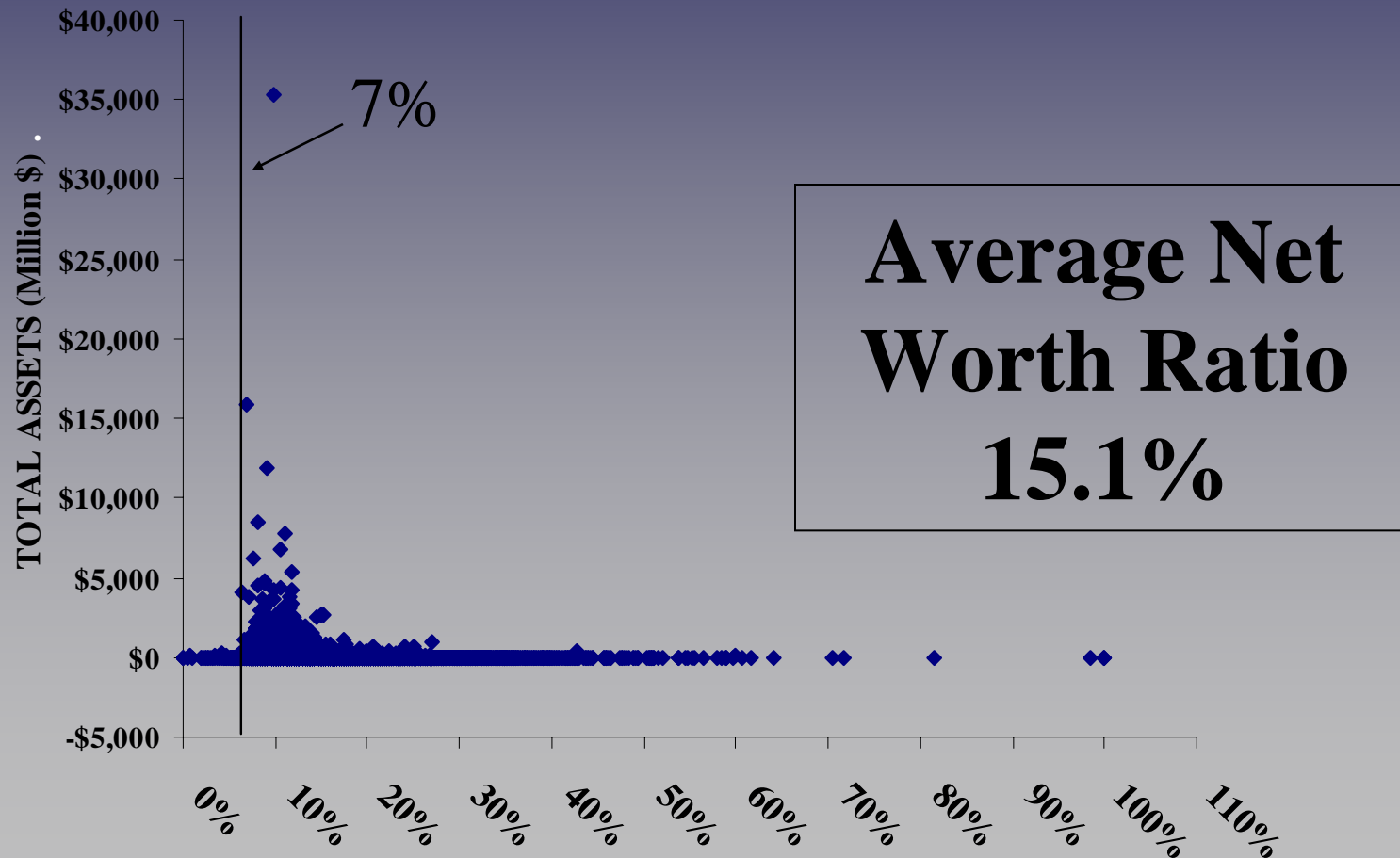
	Actual Results	Annual Forecasts	
	2007	2008	2009
<b>Growth Rates:</b>			
<i>Loan Growth</i>	<b>6.58%</b>	<b>6.0%</b>	<b>6.7%</b>
<i>Savings Growth</i>	<b>5.19%</b>	<b>7.5%</b>	<b>6.7%</b>
<b>CPI-U:</b>			
<i>CPI-U</i>	<b>4.1%</b>	<b>3.7%</b>	<b>2.9%</b>
<b>Interest Rates:</b>			
<i>Fed Funds Rate</i>	<b>4.25%</b>	<b>2.1%</b>	<b>2.8%</b>
<b>GDP:</b>			
<i>GDP</i>	<b>2.2%</b>	<b>1.1%</b>	<b>2.0%</b>

# NAFCU

## Federally Insured CU Forecast

	Actual Results	Annual Forecasts	
	2007	2008	2009
<b>Growth Rates:</b>			
<i>Loan Growth</i>	6.6%	5.5%	6.5%
<i>Savings Growth</i>	5.2%	7.0%	6.0%
<b>Liquidity:</b>			
<i>Loan-to-Share Ratio</i>	83.3%	82.1%	82.5%
<b>Earnings:</b>			
<i>Return on Average Assets (ROA)</i>	.65%	0.80%	1.00%
<b>Capital Adequacy:</b>			
<i>Net Worth Ratio</i>	11.4%	11.5%	11.8%

# NET WORTH RATIO (FICUs 3/08)



# “BACK OF THE ENVELOPE”



## 10-YEAR NET WORTH CALCULATOR



Use this calculator to estimate the change in your credit union's net worth ratio after 10 years, based on a constant asset growth pattern and annual return on assets (ROA).

Enter your credit union's current year net worth ratio, asset growth, and ROA below.

Ratio	11.43%
Asset Growth	6.10%
ROA	0.64%

### 10-Year Net Worth Calculator

Year	Assets: Beginning of Current Year	Assets: End of Current Year	Net Worth Ratio: Beginning of Current Year	Net Worth: Beginning of Current Year	Net Worth: End of Current Year	Net Worth Ratio: End of Current Year
2008	\$100.00	\$106.10	11.43%	\$11.43	\$12.09	11.39%
2009	\$106.10	\$112.57	11.39%	\$12.09	\$12.79	11.36%
2010	\$112.57	\$119.44	11.36%	\$12.79	\$13.53	11.33%
2011	\$119.44	\$126.72	11.33%	\$13.53	\$14.32	11.30%
2012	\$126.72	\$134.45	11.30%	\$14.32	\$15.16	11.27%
2013	\$134.45	\$142.66	11.27%	\$15.16	\$16.04	11.25%
2014	\$142.66	\$151.36	11.25%	\$16.04	\$16.98	11.22%
2015	\$151.36	\$160.59	11.22%	\$16.98	\$17.98	11.20%
2016	\$160.59	\$170.39	11.20%	\$17.98	\$19.04	11.17%
2017	\$170.39	\$180.78	11.17%	\$19.04	\$20.16	11.15%

**NET WORTH RATIO AFTER 10 YEARS: 11.15%**

# SCENARIOS

- What is the maximum asset growth rate without capital dropping? (6.10% to **5.76%** or 0.34% decrease)
- What is the lowest earnings without capital dropping?(0.640% to **0.676%** or 0.036% increase)
- What combination of asset growth and earnings will prevent capital from dropping?

## SCENARIOS (Cont.)

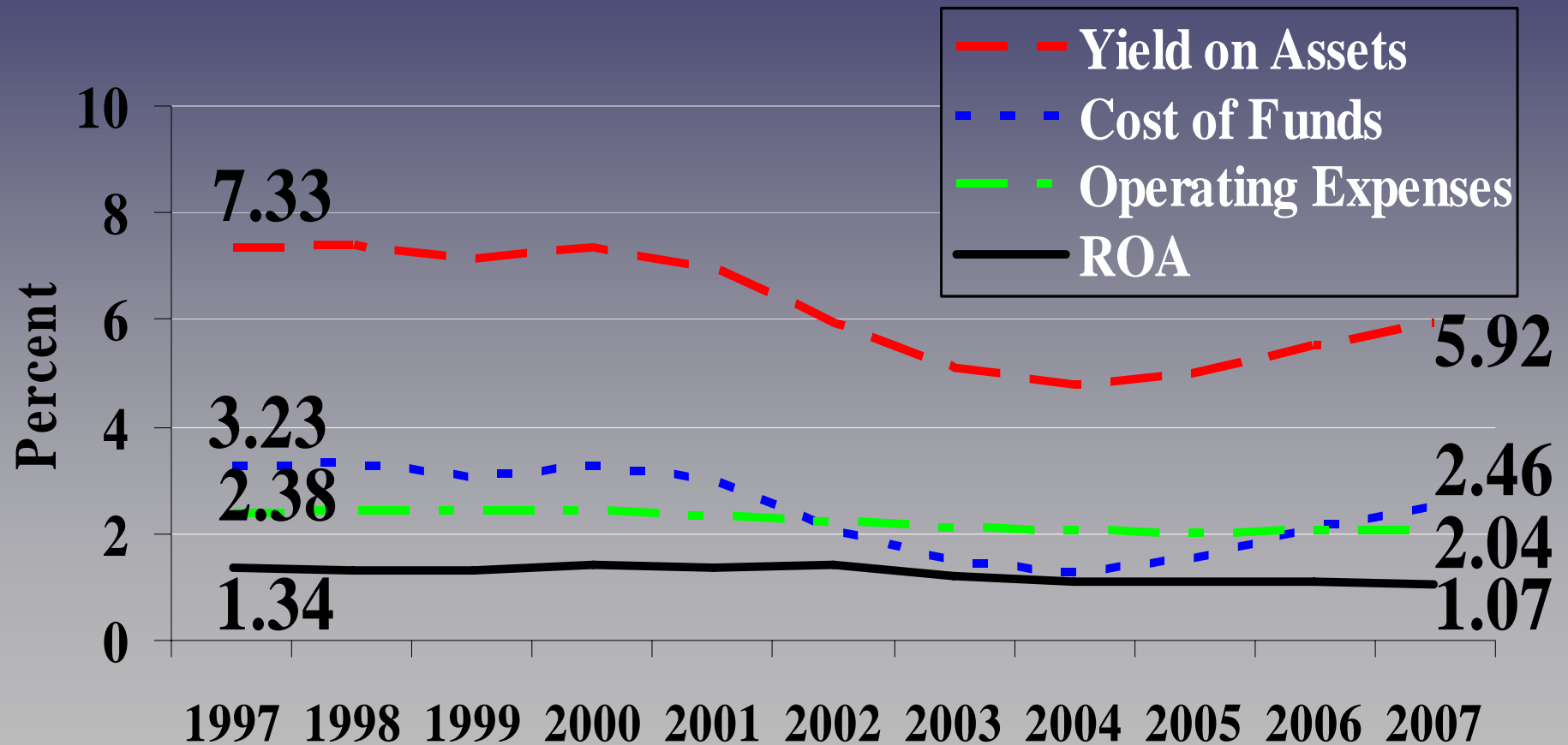
- Which growth rate impacts capital more?

Asset growth  $0.34\%/6.10\% = 0.056\%$

ROA  $0.036\%/0.64\% = 0.056\%$

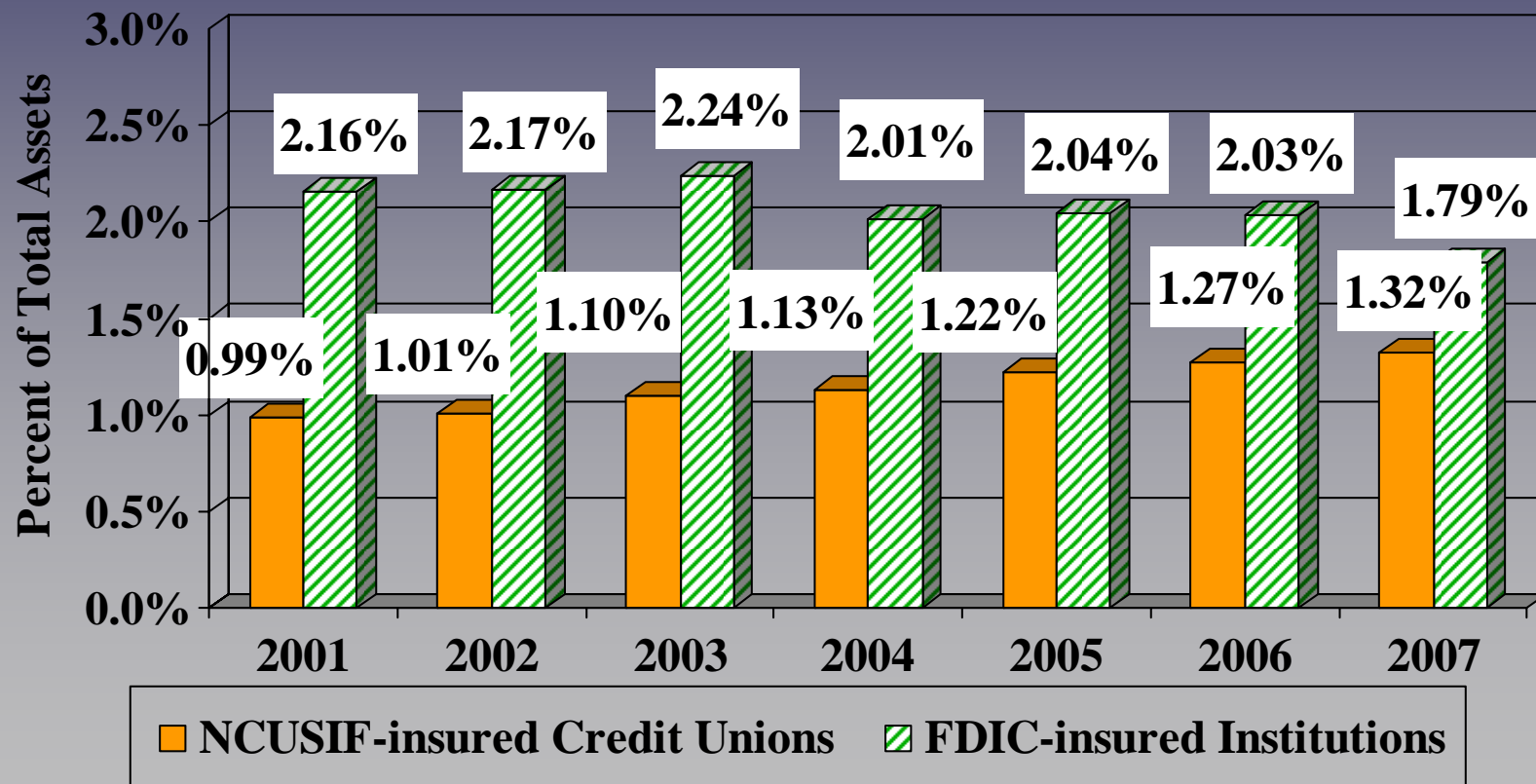
Slowing asset growth = Increasing earnings

# NET SPREADS FICUs



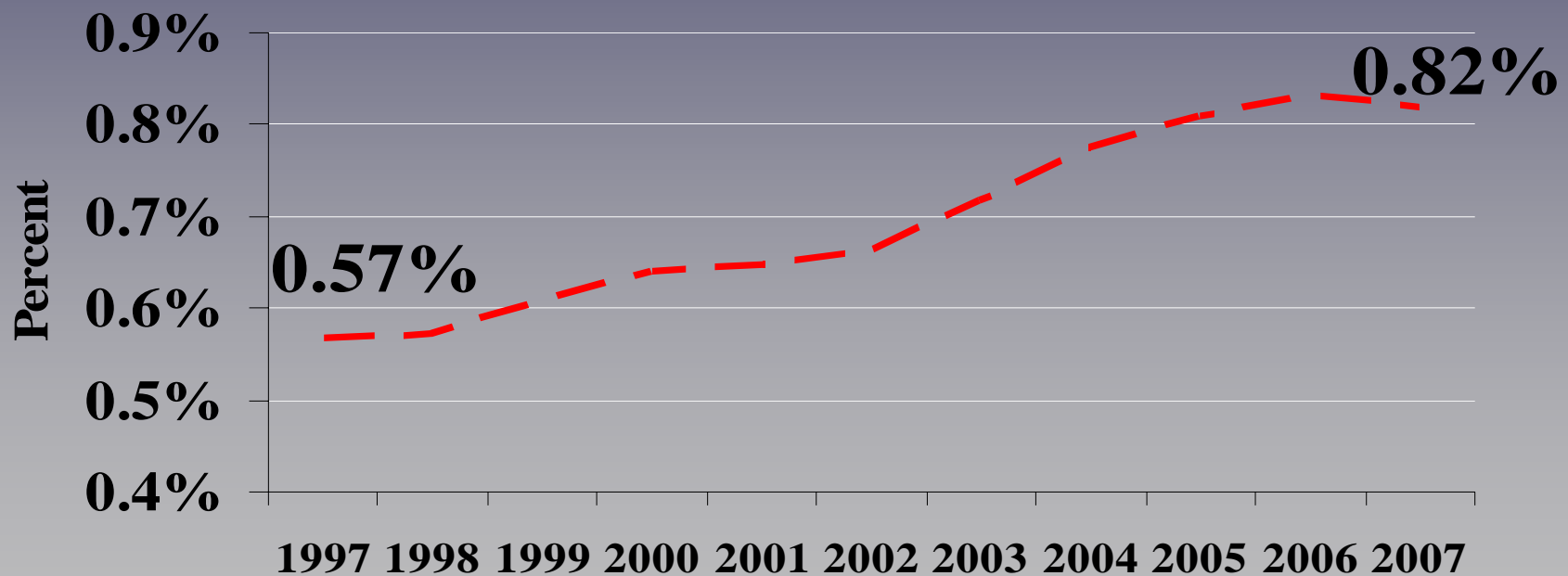
Source: NCUA data applying "same store sales"

# NON-INTEREST INCOME CREDIT UNIONS VS. BANKS



Source: NCUA & FDIC

# FEE INCOME AS PERCENT OF ASSETS FICUs



# A LOOK BACK AND A LOOK FORWARD

**Dave Colby – Chief Economist  
CUNA Mutual Group**

# VERY IMPRESSIVE

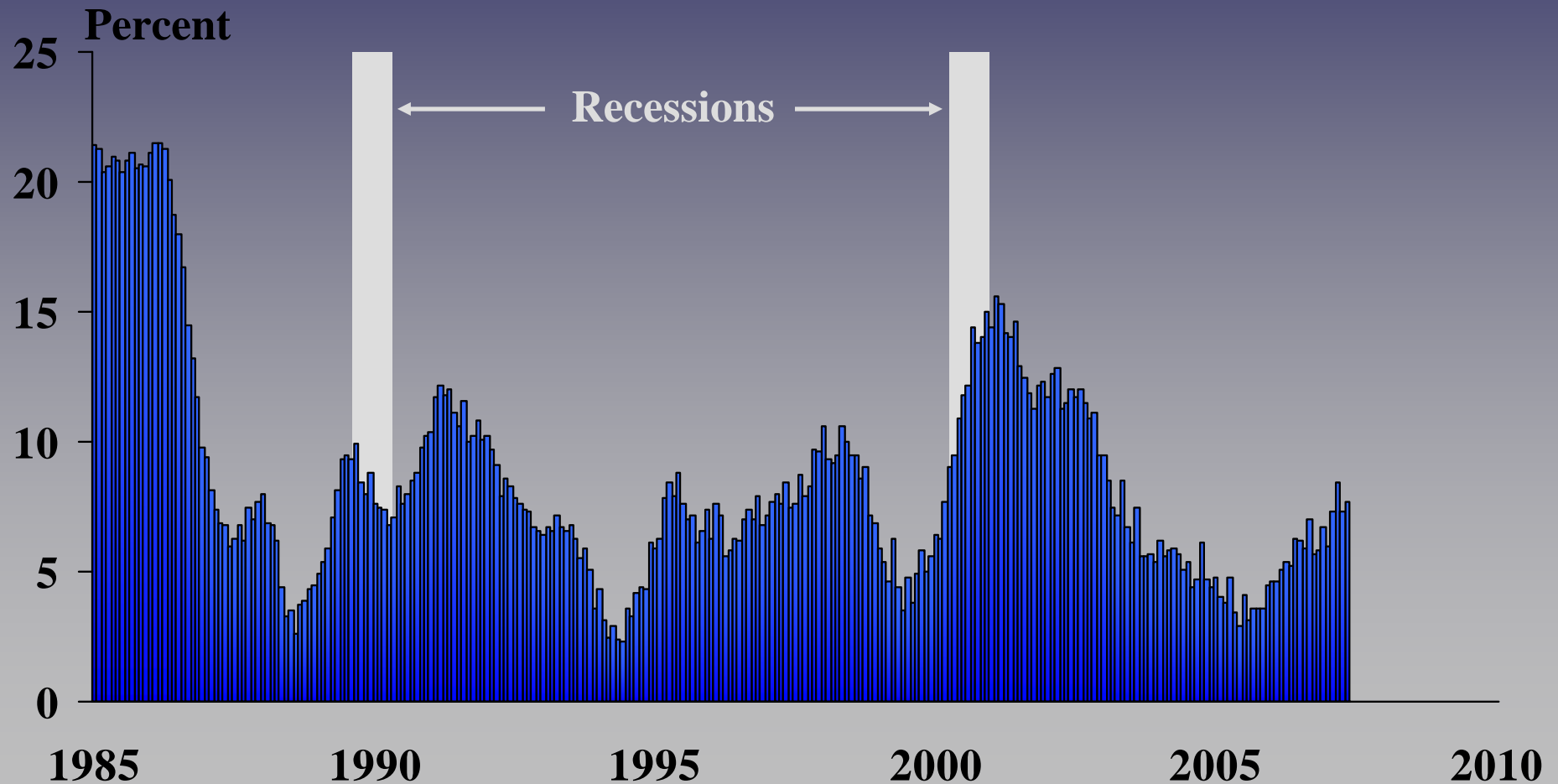
- **Housing market meltdown**
- **Major credit crisis**
- **Record energy costs**
- **Consumer sentiment at historic lows**

# CUs EQUALLY IMPRESSIVE

- **Loan growth above 7%**
- **Asset growth above 7%**
- **Strong capital position**
- **Modest erosion in ROA**

# A Look Back

# ASSET GROWTH AT CUs

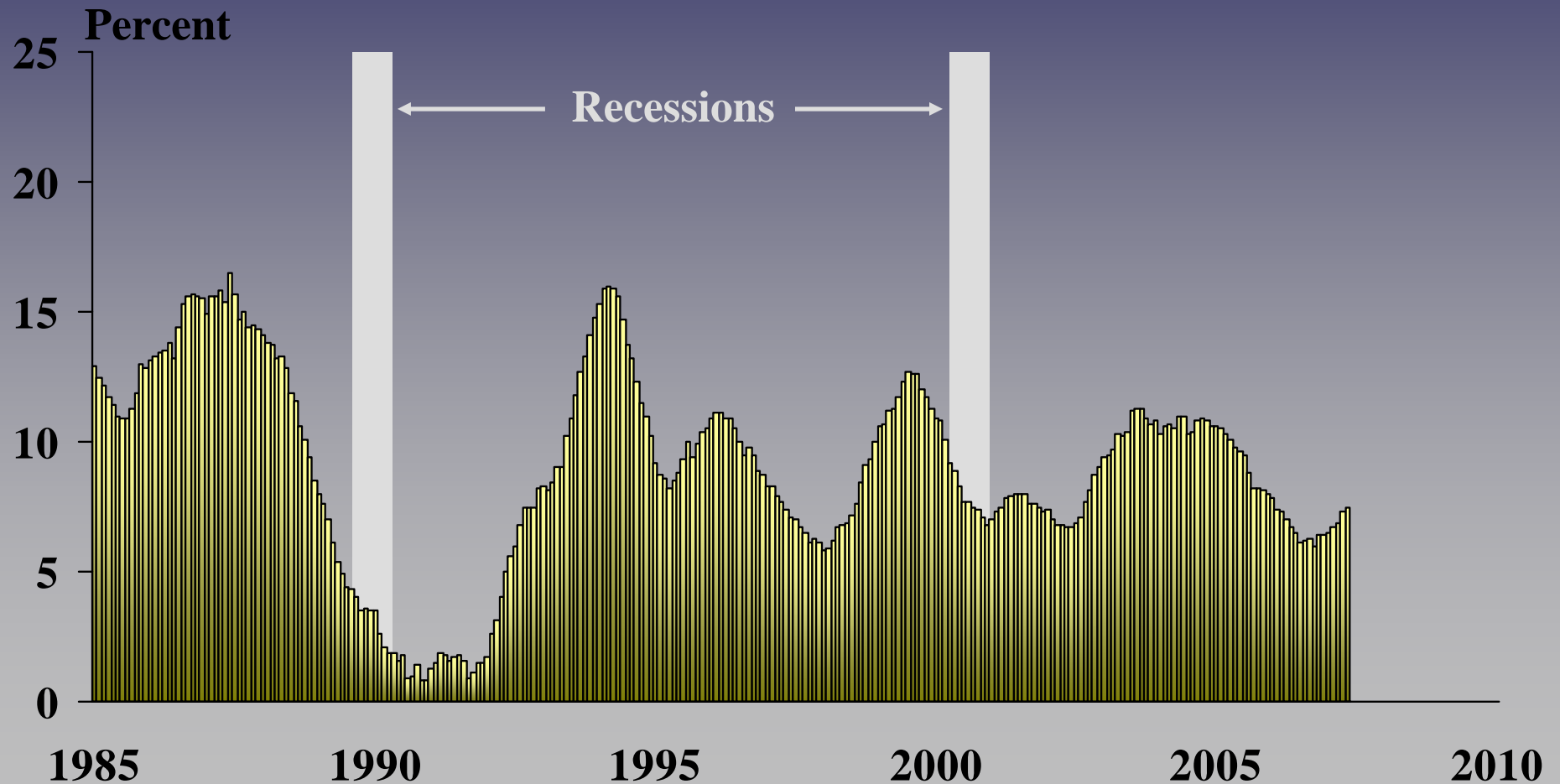


Source: CUNA Economics & Statistics and CUNA Mutual - Economics

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# A Look Back

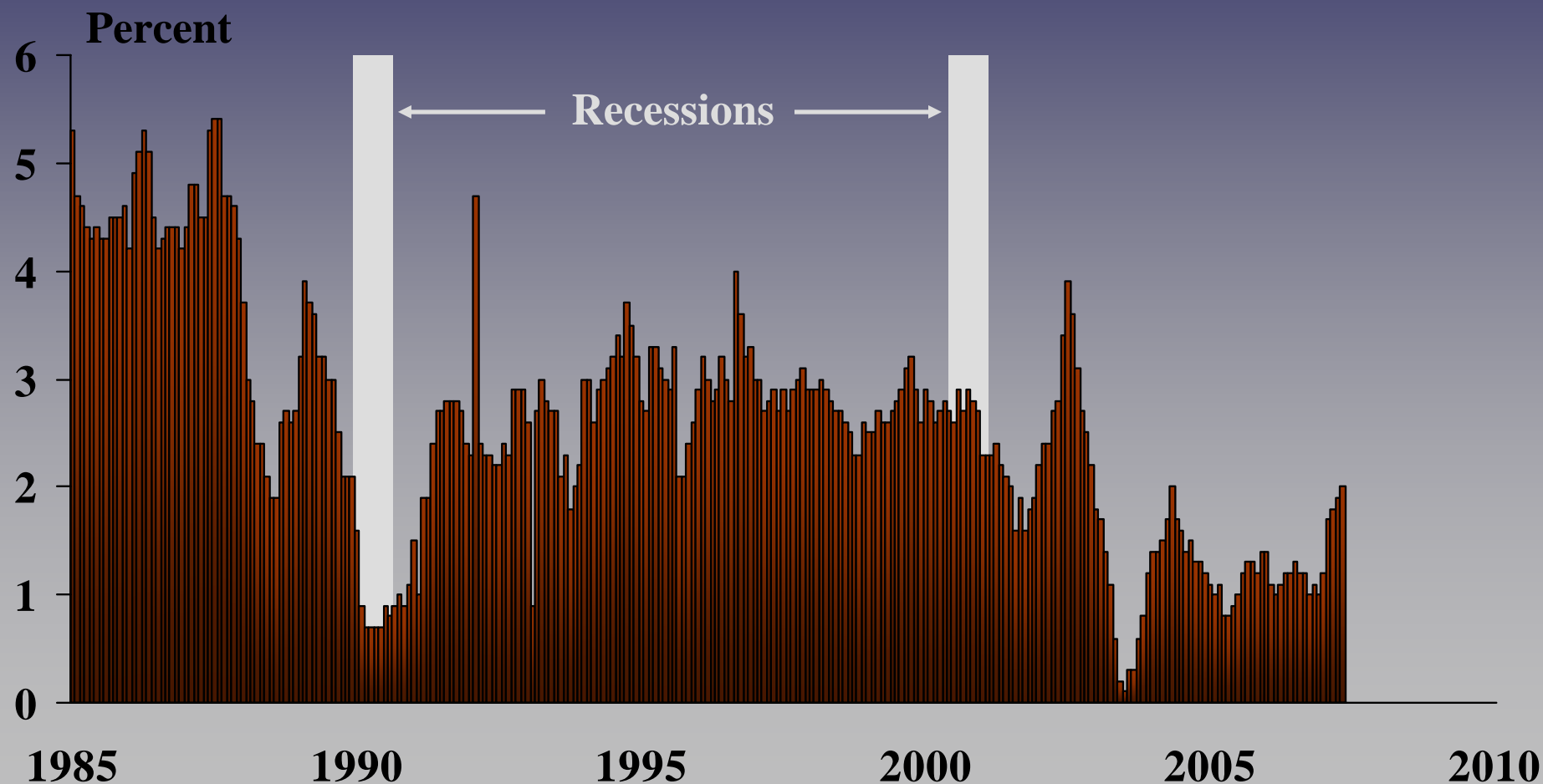
# LOAN GROWTH AT CUs



Source: CUNA Economics & Statistics and CUNA Mutual - Economics

# A Look Back

## MEMBERSHIP GROWTH AT CUs

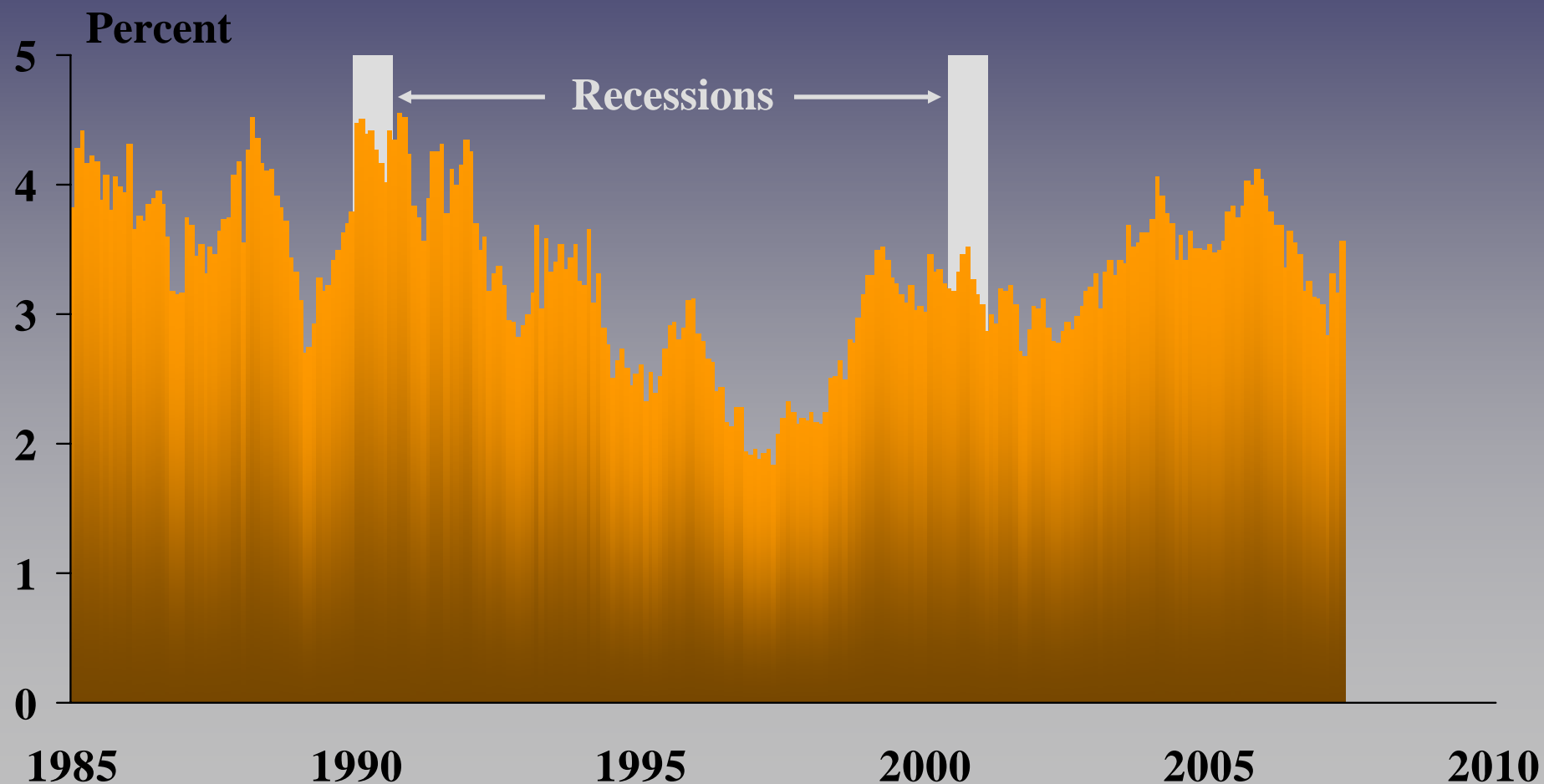


Source: CUNA Economics & Statistics and CUNA Mutual - Economics

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# A Look Back

## CU MARKET CONSOLIDATION

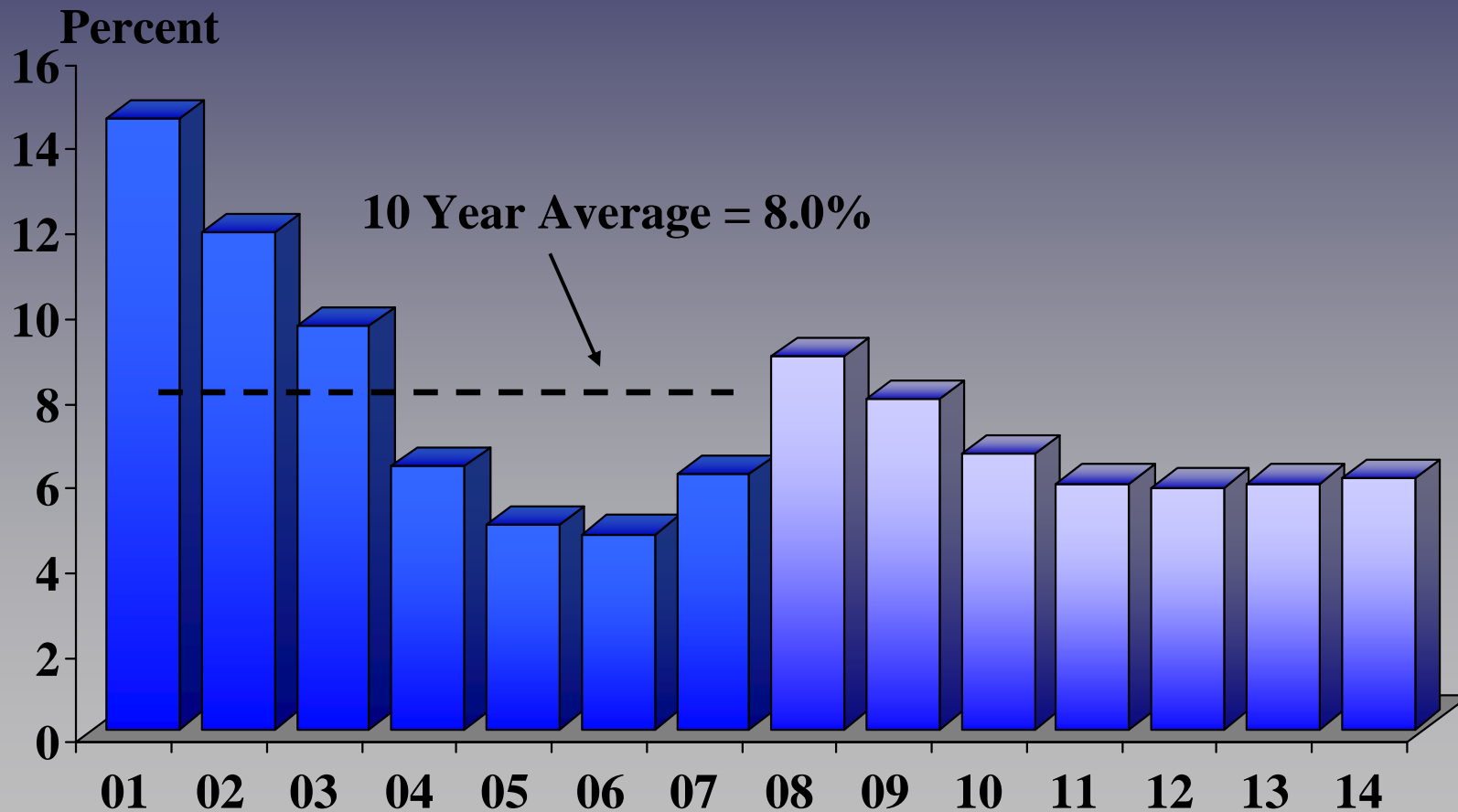


Source: CUNA Economics & Statistics and CUNA Mutual - Economics

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# A Look Forward

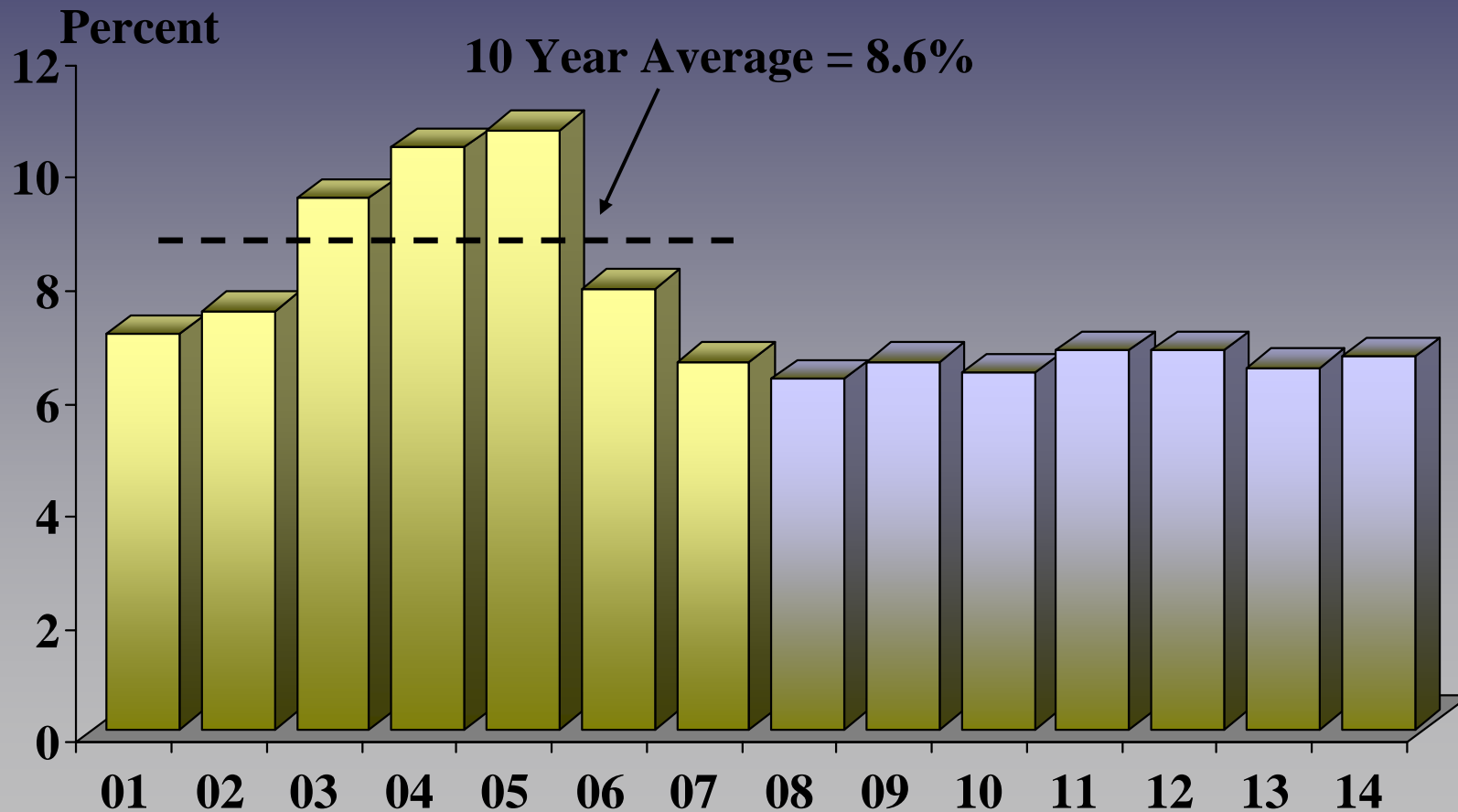
## ASSET GROWTH AT CUs



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

# A Look Forward

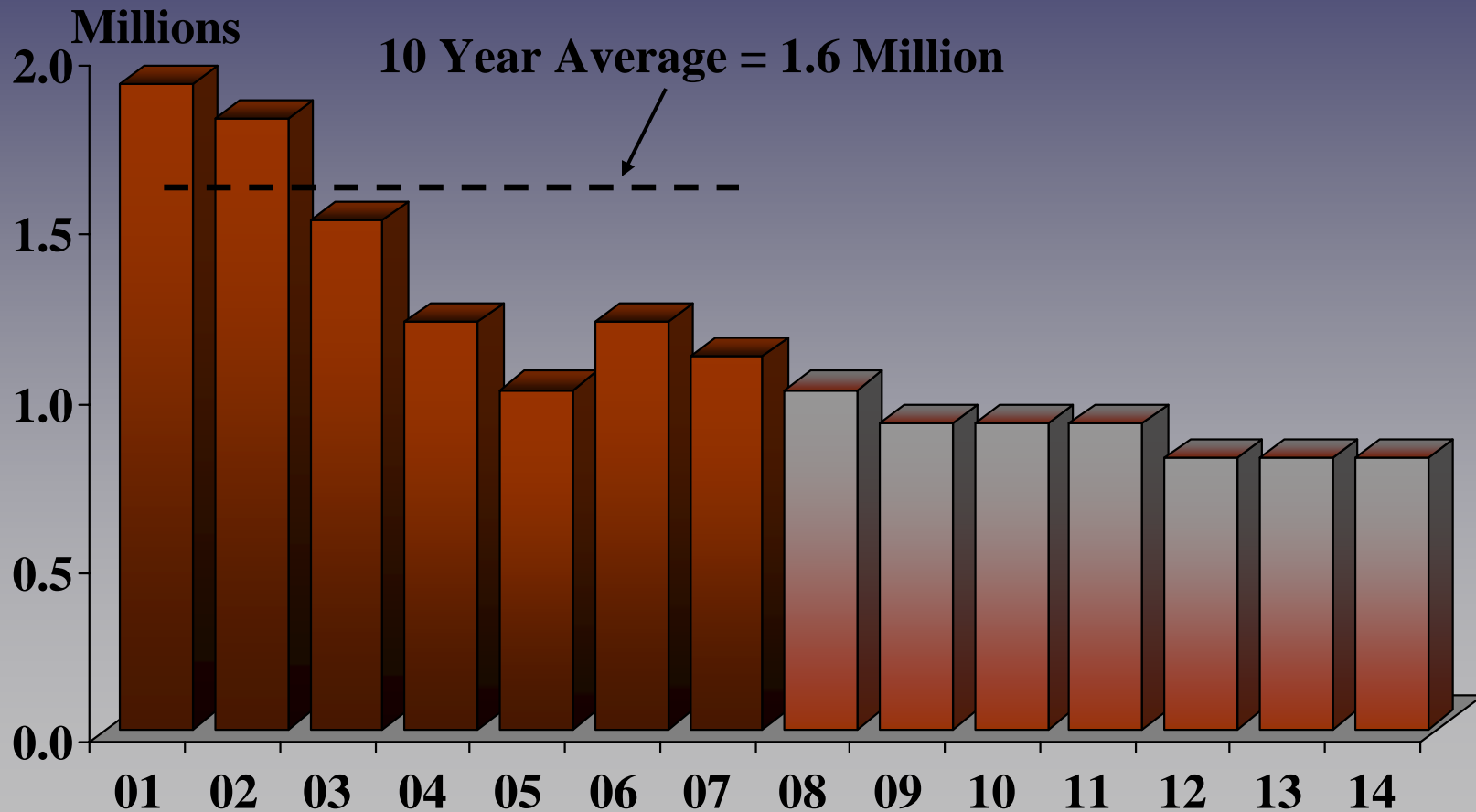
## LOAN GROWTH AT CUs



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

# A Look Forward

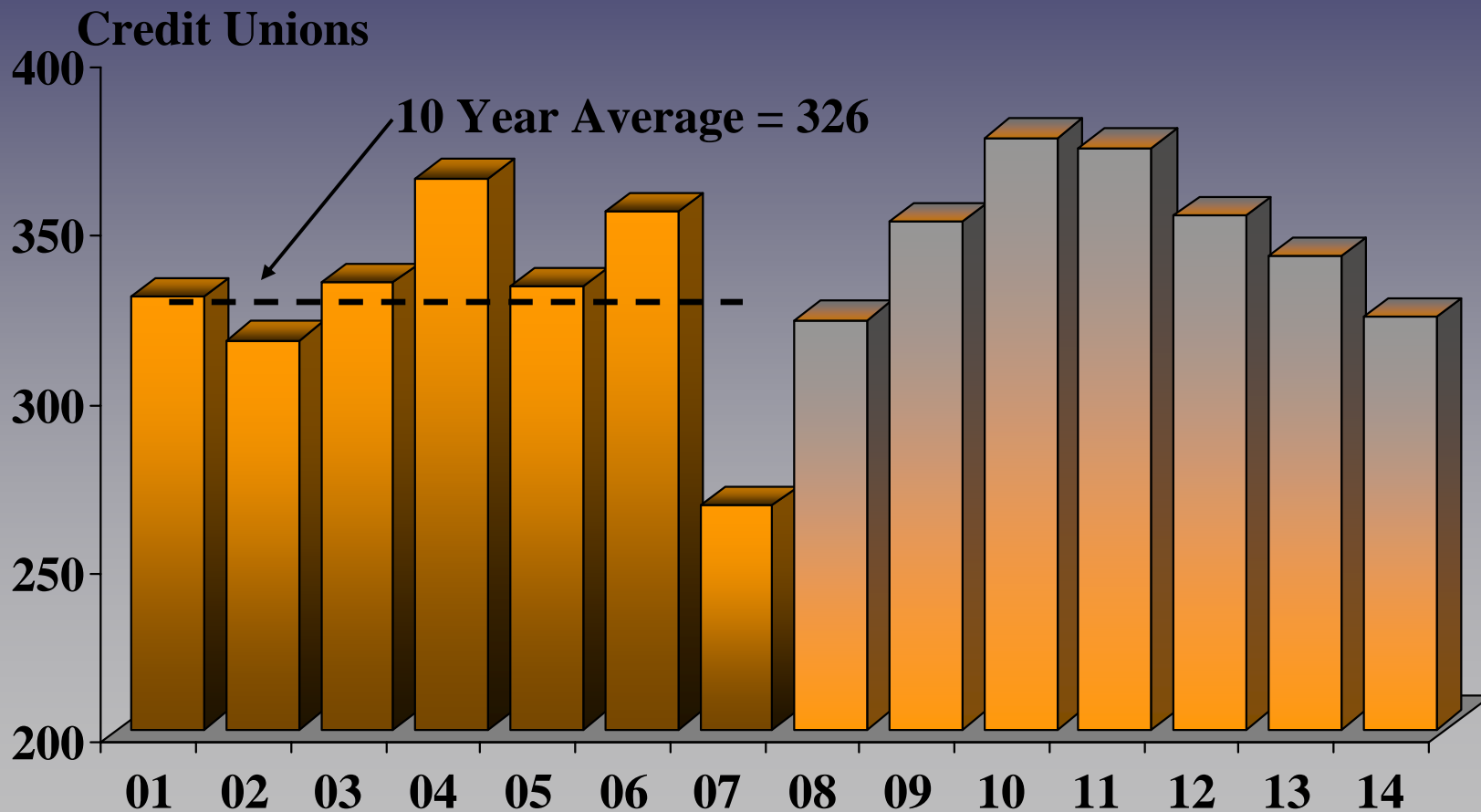
## MEMBERSHIP GAINS AT CUs



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

# A Look Forward

## CU MARKET CONSOLIDATION



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

# A Look Forward

## FORECAST SUMMARY

- Economy dampens growth
- Competitive evolution dampens growth potential
- Business as usual is a recipe for a slow demise

# MARKET DISTRACTIONS

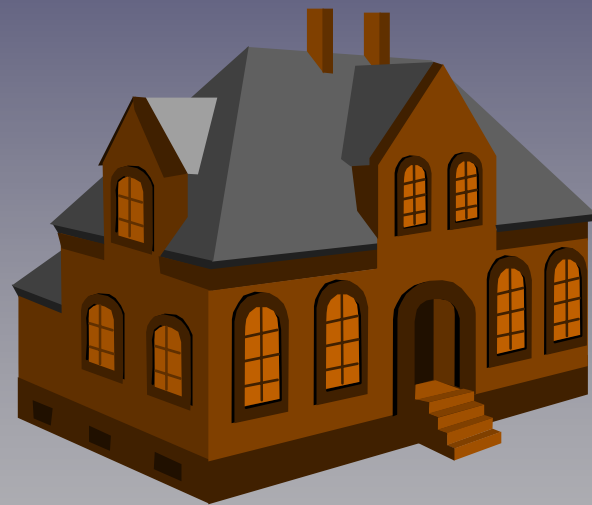
Economic Cycle

Shirking Auto Loan  
Portfolio

Credit Crisis

Banker Attacks

Mistakes hitting  
bottom line



**Credit Unions**

Taxation

Treasury's  
"Blueprint"

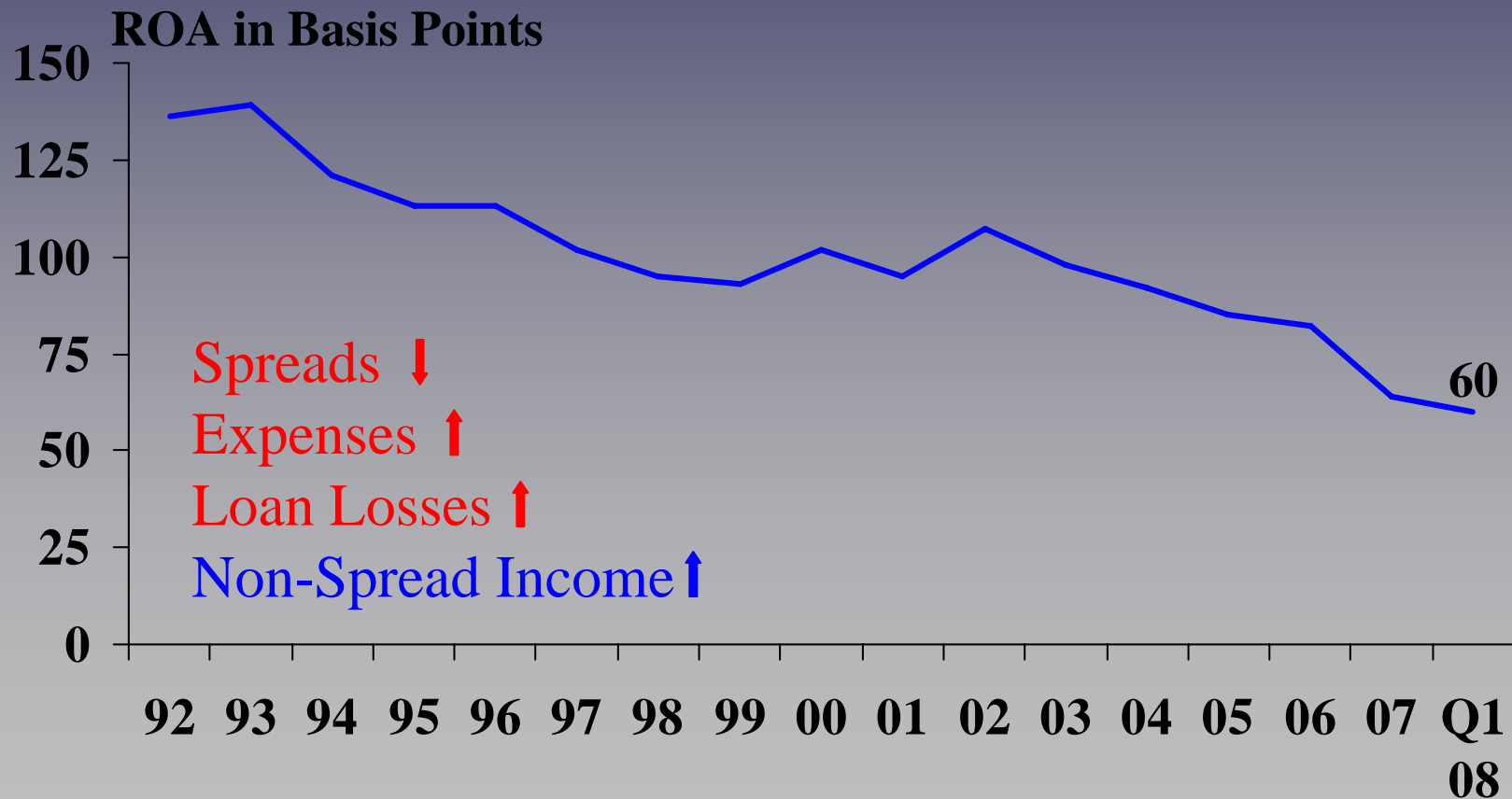
Rising delinquencies  
and charge-offs

# STRATEGIC PRIORITIES

- Managing the ROA Trend
- Member Relevance

# Strategic Priorities

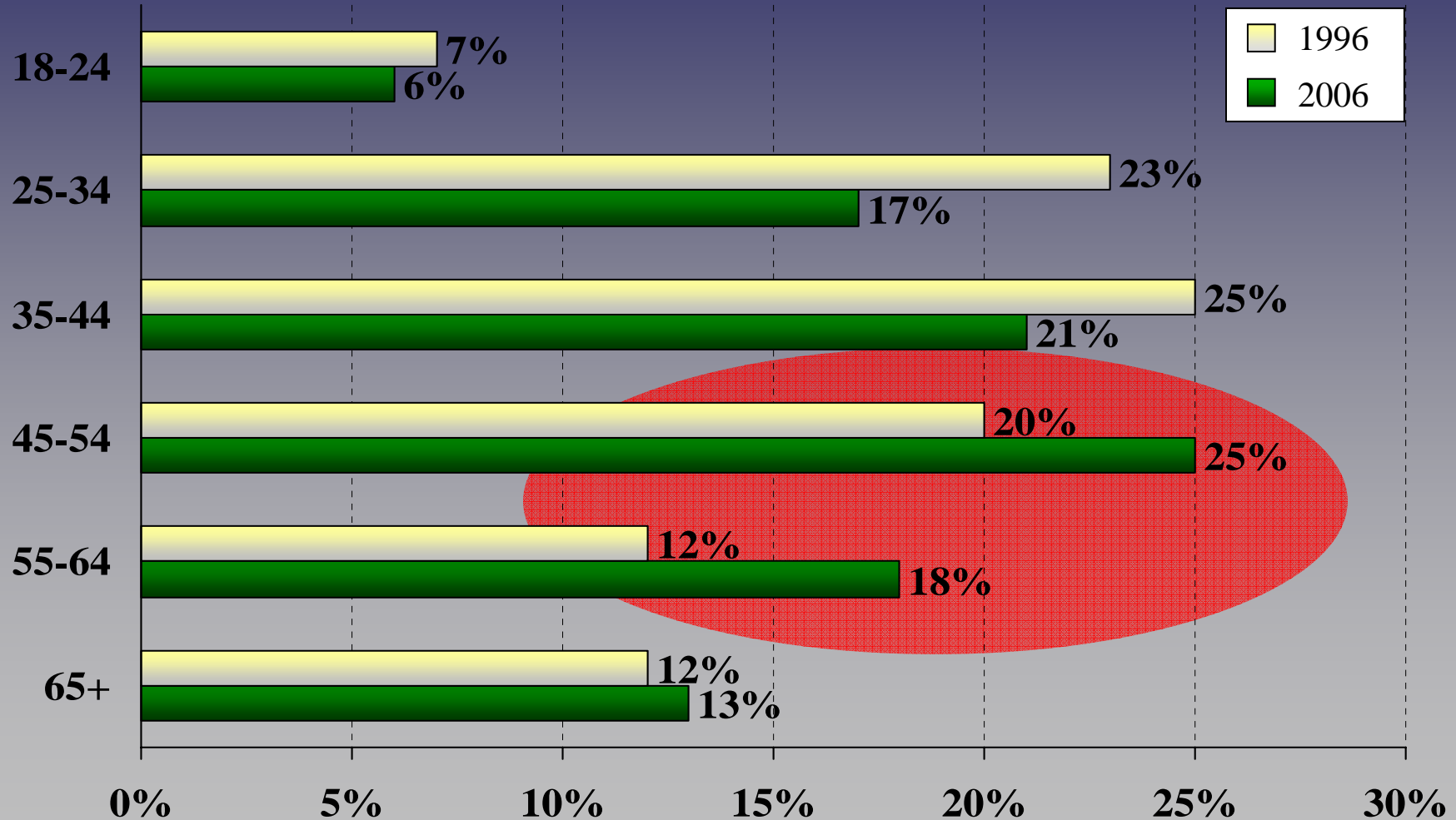
## THE BOTTOM-LINE



Source: CUNA Economics & Statistics and CUNA Mutual – Economics 2008 Forecast

# CU MEMBER AGE DISTRIBUTION

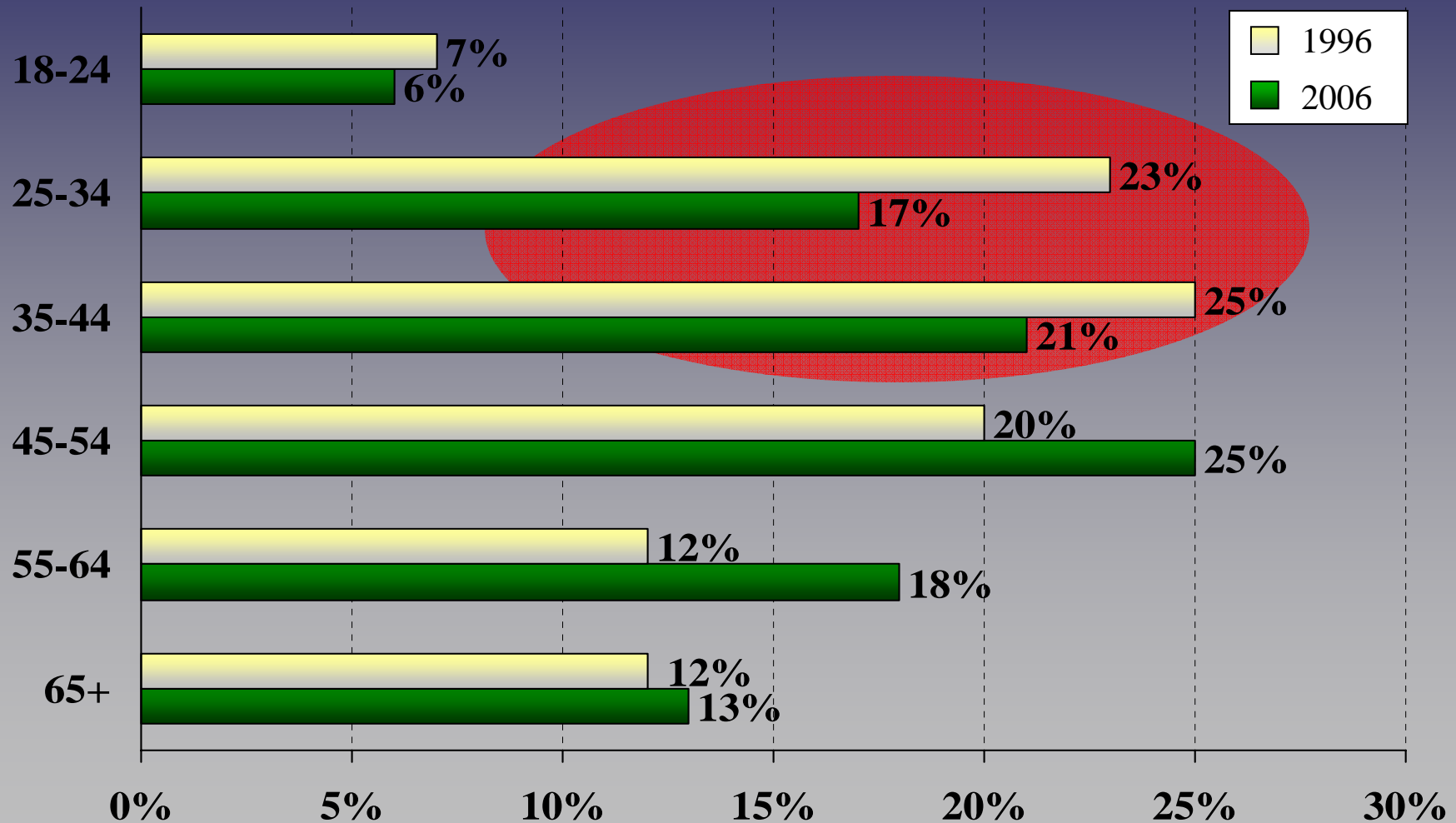
1996 - 2006



Source: CUNA'S 2006-2007 National Member Survey

# CU MEMBER AGE DISTRIBUTION

1996 - 2006



Source: CUNA'S 2006-2007 National Member Survey

# Strategic Priorities

## MEMBER RELEVANCE

- Why will they stay?
- Why will they come?
- What are we doing?

# SUMMARY



- Environmental challenges – risks and opportunities
- Capital management critical for safety and growth
- We will survive the cycle, but growth is constrained by business as usual
- Member relevance is the key to long-term success

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