

**CUEG**  
**CREDIT UNION ECONOMICS GROUP**

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**NEWS RELEASE**

**Credit Union Economics Group (CUEG)**

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February 12, 2007

**LEADING CREDIT UNION ECONOMISTS FORECAST MODEST  
ECONOMIC AND LENDING GROWTH FOR 2007 AND 2008**

**DAVE COLBY**

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WASHINGTON, D.C. – Gathering information from different parts of the country, the Credit Union Economics Group (CUEG) is forecasting healthy variations in key economic indicators for 2007. While many in the group are more optimistic in their outlook from the last quarter, the consensus forecast suggests economic growth for 2007 will be slightly below 2006, but 2008 will have modest gains.

**DAVE DICKENS**

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CUEG members see interest rates coming down this year, with a 25-basis-point cut to the key Federal Reserve target rate in 2007. Rates on longer duration investments are expected to recede fractionally, thus adding some steepness to the yield curve. The group predicts a flat to slightly positive shape in the yield curve for the next two years.

**BRUCE FOX**

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Dave Colby, CUNA Mutual Group's chief economist, noted that the housing sector continues to be soft at best and this has dampened economic growth. "With real estate loans contributing a substantial portion of credit union loan growth, the softening in housing may force credit unions to more aggressively pursue other lending opportunities. In total, we expect loan growth to slow in 2007."

**KENDRICK SMITH**

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While the CUEG forecast shows a modest downturn in employment this year, this is coming off a very strong position in 2006. Inflation, while above the Federal Reserve's target range, is forecast to dip in 2007 with less pressure from oil prices and modest income growth.

**JEFFRY TAYLOR**

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"Liquidity among credit unions seems to be growing noticeably faster than normal seasonal factors would suggest" said Bob Burrell, executive vice president/CIO of Western Corporate FCU (WesCorp), San Dimas, Calif. "Member balances are well ahead of our forecast. Many credit unions have rolled out aggressive CD campaigns, and loan growth seems to be slowing down in the three key areas- residential mortgages, vehicles and member business loans."

**TUN WAI**

*Director of Research/Chief  
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"Earnings compression among credit unions is expected to continue," noted Tun Wai, NAFCU's chief economist and director of research. "The flat to slightly positive yield

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curve for loans and investments, coupled with a rising cost of funds, will be a challenge for credit unions this year.”

“The composition of savings has shifted to share certificates, indicating a member preference for higher returns,” said Wai. “However, savings growth is still expected to be lower than loan growth in the near term,” Wai added.

Kendrick Smith, vice president/CIO at Eastern Financial Florida Credit Union, Miramar, Fla., noted that the competition for checking accounts is fierce with incentives given for new accounts at many credit unions.

“The rising cost of funds and reductions in fee income and net interest margin will reduce return on assets (ROA),” said Smith. “We have also noted in the Southeast, credit unions have seen a decline in non-interest margins due to the growing concentration of certain loan products that have thin risk-adjusted margins and a continued erosion of core deposits due to changing interest rate sensitivities.”

The Credit Union Economics Group (CUEG) is a working group of credit union officials located throughout the U.S. 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](http://www.cueg.org).

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