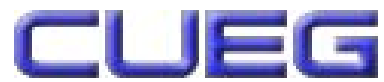

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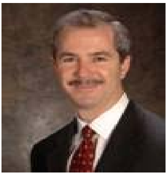

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Executive Summary

- As of June 2010, federally insured credit unions' (FICU) asset growth was 2.2 percent. Region II showed the greatest result with 4.1 percent growth in total assets compared with a negative 0.2 percent in Region V.

- Return on average assets (ROA) for Region II was 0.3 percent for the first half of 2010, 10 basis points above the 0.2 percent figure for all FICUs. Compared to December 2009, ROA for all FICUs rose by only 1 basis point in June 2010. It decline by 6.8 basis points compared to June 2009.

- Share drafts saw an increase of 15.6 percent for all FICUs in 2009. Region IV experienced the largest growth of 18.4 percent, compared to 11.16 percent in Region V. Overall, share growth was up 10.5 percent. Money market shares were the principal factor driving share growth in 2009, growing 23.5 percent and accounting for 42.1 percent of total share growth.

- New auto lending declined by 7.7 percent in 2009 on the national level, with Region V reporting the strongest decline of 73 percent. Region IV reported the smallest decline (0.5 percent). Used auto lending grew 4.1 percent nationwide in 2009.

- First-mortgage real estate loans grew by 4.4 percent during 2009. Other real estate loans experienced a 4.3 percent decline. First mortgages continued to be the lion's share of FICU loan growth (141.8 percent), although the weakened housing market has caused a slight decline in overall real estate loan growth.

- In December 2009, the delinquency ratio was up by 44 basis points from December 2008 to 1.82 percent for all FICUs. Across the country, the delinquency ratio was as low as 1.4 percent in Region II and as high as 2.4 percent in Region V. The number of members bankrupt increased 42.2 percent from 227,852 in December 2008 to 324,028 in December 2009.

- All regions cited the current economic conditions as a concern for the upcoming year. This fear coupled with an uncertainty about NCUA premiums in 2010 will leave credit unions cautious moving forward.

- Delinquency ratios and net charge-off's are up in the industry and it will be another difficult year, economically. However, credit unions are still focused on their number one priority: serving members. Despite the difficult economic conditions, credit unions remain well capitalized, overall. Although 2010 will be continue to be a difficult year economically, there is a hopeful optimism that the worst of the recession has passed and that conditions will begin to slowly improve.

CUEG Region One

CUEG Region I (Northeast) consists of the states Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island and Vermont. As of June 2010, there were 1,264 federally insured credit unions in the region, with total assets of $146.3 billion and total membership of 13.9 million.

Lending

Loans in Region I during the first half of 2010 grew by a positive 0.3 percent to $88.1 billion, more than the negative 1.1 percent pace for all federally insured credit unions (FICUs) nationwide. During the first half of 2010, loan growth was concentrated in first-mortgage real estate loans and, to a lesser extent, used vehicle loans. The region's credit unions experienced a relatively stronger demand for first-mortgage loan products than found nationwide, while home equity lending contracted less than the negative figure found nationwide. During this year, first-mortgage lending expanded by 2.2 percent, while other real estate loan demand (home equity/second mortgage) declined by 1.4 percent. At mid-year, real estate loans comprised 58.5 percent of all loans in the region. Vehicle loan portfolio growth declined during the first half of this year. New vehicle loans decreased 7.3 percent during 2010 compared to an increase of 4.1 percent during 2009. Used vehicles rose during the year, posting gains of 2.8 percent.

Just like all FICUs, credit unions in Region I experienced a decrease in unsecured lending growth. *(Note: Credit card (CC) lending was down in all regions except for Region II. Non-CC unsecured lending was down in all regions.)* During the first half of 2010, credit card lending decreased by 2 percent, while non-credit card unsecured lending decreased by 1.7 percent over the same period. Credit Unions continue to have greater access to higher credit quality commercial loans due to ultra conservative lending by the bank community. This has resulted in increased funding opportunities and an increase in the loan to asset / loan to share ratios. Moving funds from the investment portfolio to the lending portfolio at a time when market interest rates are at historic lows can quickly increase net income.

Member business loans outstanding grew 7.8 percent to $5.7 billion.

Credit union leaders have indicated that their near-term expectations for loan demand in new vehicles, used vehicles, unsecured, and real estate categories were the second most unfavorable (negative) expectation than credit unions in other regions. The closest expectation to that of all credit unions was for used vehicles loans; where the region's credit unions were slightly more negative than all credit unions. The least negative loan outlook was for real estate loans. It is expected that unsecured lending will remain low in 2010.

Member Shares (Savings)

During the first half of 2010, total share growth in Region I was 4.6 percent, much higher than the 3.3 percent share growth experienced among all FICUs. Many FICUs in the region saw share growth in regular shares and money market shares outpacing the figures for all credit unions, increasing by 9.4 percent and 10.8 percent, respectively. As many regional credit unions experience a decrease in share certificates, IRA accounts have seen positive growth, negative 2.5 percent growth and positive 3.1 percent growth, respectively, during 2010. "Other" shares also saw an increase of 14.5 percent. The interest rates among the CD have been declining and the largest decline has occurred for the 1 year jumbo CD rate this year (minus 49 basis points). This has helped to keep the cost of funds low and support the improvements in net income.

Many of the region's credit unions anticipate share growth to weaken over the near term this year while credit unions in other regions expect share growth to expand positively. Last year, weak loan demand- coupled with strong share growth- caused the region's credit unions' loan-to-share ratio to decrease from 73.8 percent in December 2009 to 70.7 percent in June 2010. Among all credit unions, the loan-to-share ratio decreased from 76.3 percent to 73 percent over the same time periods.

Earnings and Asset Quality

During the first half of 2010, the credit unions in Region I had an annualized return on average assets (ROA) before stabilization costs of 0.64 percent, down from 0.69 percent in all of 2009. This is better than what all FICUs experienced as they saw ROA before stabilization increase from a 0.53 percent in 2009 to annualized 0.62 percent in 2010. While the region's credit unions' loan yields were slightly lower than average, the region's investment yields were higher than those for all FICUs. In addition, the region's cost of funds was lower than for all credit unions. However, credit unions in Region I generated, on average, substantially less non-interest income than everyone else. *(Note: Fee income as a percent of total assets was second lowest among the regions).* The higher investment income is the main reason for the higher ROA in Region I when compared to all FICUs.

The asset quality in the region was better in comparison to the asset quality of all FICUs during last year. The delinquent-loans-to-total-loans ratio in the region was 2.62 percent compared to 3.05 percent for all FICUs, while the net charge-offs-to-average-loans rate of 0.79 percent in the region was lower than the overall rate of 1.13 percent. During 2010, member bankruptcies were less of a problem in Region I when compared to other regions. The loan amounts subject to bankruptcy as a percentage of loans outstanding decreased significantly. However, the total number of bankruptcy filings in the region increased by an annualized 15.1 percent to 45,414 and the loan amounts subject to bankruptcy decreased from $590.1 million in 2009 to $356.9 million.

Many credit unions are working harder than ever to identify cross sell opportunities. Most members have relationships with multiple financial institutions. Converting these loans that have been made to existing members may be more cost effective than recruiting new members. Many credit unions have found this to be a cost effective method of deepening relationships with existing members and at the same time increasing corporate profitability.

Competition and Credit Union Operational Concerns for 2010

Most credit unions are seeing their delinquency rates improve slightly as well as net charge-offs (declining but at a slower pace). However, bankruptcies appear to be rising. In Region I, specifically, there has been a rise in home foreclosures, which are only becoming more prevalent as unemployment numbers remain elevated. Credit unions in this region are being forced to adjust their budgets in order to increase their allowance for loan losses. Despite these growing trends, most credit unions still want to make loans without sacrificing future loan quality.

Although credit unions have not tightened lending standards like other financial institutions, some credit unions have noticed that the quality of lending application have not improved sufficiently. This implies that further improvement in consumer balance sheets is needed to encourage more borrowings. Credit Unions are finding that operational efficiency is necessary in this economic environment. With limitations on the ability to generate income, expense reduction has become the next reasonable alternative to increase net income. Once to some degree ignored, credit unions with low operating expense ratios have a significant competitive advantage over less efficient organizations.

The decline in net worth ratios caused many credit unions to reevaluate certain expenditures. In particular, many credit unions have reduced their marketing and travel/education expenses. Such reductions may increase pressure on future credit union performance, especially when competing with banks and other financial institutions. In addition to cutting expenses, credit unions are trying to attract low cost sources of funds. However, share certificates are a declining source of funds as members seek higher returns.

Like credit unions nationwide, Region I credit unions are still contemplating how the Corporate Credit Union Stabilization Program will affect their future financials. As the prospects for more premium costs continue into the future, most credit unions will have to adjust their budgets to account for these events. These expenses have caused many credit unions to think more about their operational efficiency.

Member Concerns and Economic Conditions in 2010

Members of Region I credit unions remain concerned about the economy and its implication for 2010 and beyond. If the Fed keeps the interest rates low, it is likely that credit unions' cost of funds will decline further and compressed margins will thus be

alleviated to some degree. However, the experience of low loan demand has forced many credit unions to find alternative revenue sources. Credit unions are hoping that the economy will improve further, especially in the area of employment.

The weak lending this year, especially new auto loans coupled with a lower quality of applicants has made weak prospects for strong growth in loans in the near term. The end of government programs, elevated unemployment, consumers not spending but paying down debt will further curtail loan demand. The economy needs to expand significantly for consumers to start spending again. Rising foreclosures and bankruptcies will also depress real estate loan performance. Depressed economic conditions across most industries, has led to an increase in Troubled Debt Restructuring (TDRs). Members who are unemployed or under employed are unlikely to pay their debts in a timely manner. Additionally, decreased home values have caused members to evaluate the pros and cons of continuing to make payments on mortgages that are under water. Provision for loan losses expenses have grown to a significant level for most credit unions. With a high degree of uncertainty in the financial markets, increased unemployment and decreased consumer confidence, it is unlikely that there will be a sharp increase in market interest rates in the foreseeable future.

With the likelihood of non-interest income increasing will depend greatly on new burdensome regulatory reforms (e.g., courtesy pay which will likely reduce fee income). Several credit unions would be left with negative net income if they could not apply non-interest income to their bottom lines. This fear coupled with an uncertainty about NCUA premiums in 2011 will leave many credit unions cautious moving forward.

CUEG Region Two

NCUA Region II (Mid-Atlantic) consists of the states Delaware, Maryland, New Jersey, Pennsylvania, Virginia and West Virginia, plus the District of Columbia. The region's federally insured credit unions (FICUs) have 16.8 percent of the total assets of the nation, up by 0.4 percentage points from June 2009. There are 14.2 million members in this region as of June 2010, up from 14 million (1.5 percent) from December 2009. These percentages mirror the regional economy where the gross domestic product by state is about 13.5 percent of the U.S. gross domestic product. Regional production is more concentrated in professional services, government and health/education services than the average concentrations found nationwide.

Lending

Region II FICUs generated loan growth of negative 0.4 percent through June, compared to the national rate of negative 2.1 percent. Although it is a small component of total loans outstanding, business lending experienced the sharpest growth, increasing 12.3 percent in the first six months of 2010. First mortgage loans have grown by 2.1 percent thus far in 2010. Region II FICUs expects real estate lending to be greater than those in other regions over the next 12-month period.

Total auto loans in Region II decreased by 3.1 percent during the first half of 2010, compared to a rate of negative 3.4 percent for all FICUs. In Region II used auto loans rose by 2.8 percent, while new auto loans decreased by 10.1 percent. Looking forward to 2011, Region II FICUs anticipates lower loan growth for new and used vehicle loans than do FICUs in other regions.

Unsecured loans (excluding credit cards) represent 6.2 percent of all FICU loans in the region. This portfolio segment has declined by 0.9 percent during 2010. Credit card loans increased 0.4 percent during the same period, representing 10.5 percent of all FICU loans in the region. The credit union leadership in the region believes that unsecured loans will be less of a source for loan growth for the near term, and at a slightly less optimistic level than that found among all credit unions across the country.

Member Shares

Total savings and deposits reached $125.1 billion in June 2010, up $5.6 billion (4.7 percent growth) from December 2009. During the period, Region II FICU share drafts (11.2 percent of Region II shares) increased 3.1 percent. Regular shares (26.7 percent of Region II shares) increased 9.2 percent during the same time period. Money market share accounts (19.8 percent of Region II shares) reached $24.8 billion as of June 2010, up by $2.4 billion (10.5 percent growth) from 2009. FICU share certificates (29.9 percent of shares) experienced a 1.9 percent decrease during 2010. IRA accounts (11.3 percent of FICU shares) were a safe haven for members' precious retirement funds in

2010. This deposit segment advanced 3.9 percent from 2009 compared to a national growth rate of 2.9 percent. For the next twelve months, the share growth anticipated by Region II FICUs exceeds the overall expected share growth.

Return on Average Assets (ROA), Spreads and Asset Quality

Region II's credit unions experienced growth in consolidated ROA during the first half of 2010. At 0.60 percent (ROA for all FICUs was 0.41 percent) this profitability measure increased by 10 basis points since 2009 for the region's credit unions. However, this figure does not include the National Credit Union Share Insurance Fund (NCUSIF) assessment of 13.4 basis points, which was announced in September. Comparing income before stabilization costs, Region II ROA was 0.80 percent through June 2010, down from 0.84 percent in 2009. This is mainly due to the decrease in investment yield, which has declined from 2.9 percent in 2009 to 2.5 percent in 2010. We expect to see asset yields stabilize as most of the older loans and investments have re-priced to current market rates, and the overall cost of funds remain low throughout 2010. We continue to see non-interest income and expenses remain steady. These factors, when taken together, point to a fairly steady or slightly increasing ROA.

Annualized gross income increased by 0.3 percent from $8.08 billion in 2009 to $8.11 billion in 2009. Fee income was unchanged from 2009 and operating expenses/average assets declined by two basis points.

Loan Loss Trends

In the area of loan quality, Region II FICUs had lower delinquency and charge-off ratios than credit unions nationwide in the first half of 2010. Reportable delinquencies (those which are 60 days late or more), fell from 1.41 percent in 2009 to 1.28 percent. The decline in reportable mortgage loan delinquencies contributed 34.2 percent of the overall decline. Net charge-offs declined slightly, from 1.13 percent in 2009 to 1.10 percent through June. During this period, mortgage charge-offs decreased from 0.25 percent to 0.24 percent. Region II FICUs experienced a lower loan exposure to bankruptcies compared to the pattern found among credit unions nationwide. Through the first half of 2010, the portion of total loans subject to bankruptcy was 0.82 percent among Region II FICUs; while nationwide the ratio was 1.05 percent.

Member Concerns and Region II Economic Conditions in 2010

Credit union leadership in Region II stated they have gotten strong savings growth, despite having reduced the interest rate and this is making managing asset growth more difficult. Some credit unions believe that this savings growth may be due to the more stable economy found in the region when compared to other parts of the country.

Bankruptcies and real estate foreclosures will continue to be a focus over the coming year. The region has not reached a point of price stability in the housing markets, so there will be continued pressure from 1st mortgage loans that are “upside down” and 2nd mortgage loans that are essentially unsecured. There is similar concern that credit card loan portfolios will continue to underperform because of large losses. Some credit unions have indicated that the trend of members resolving such problems may continue throughout the year.

The anticipation of Corporate Credit Union Stabilization costs this year has created some anxiety and uneasiness among regional FICUs. There is too much uncertainty around the amount of the premium for this year. The amount budgeted by credit unions have been anywhere from 15 to 40 basis points. Some credit unions in this region have put business plans on hold or modifying them as a response to the recommended premium range. This is a major source of concern among FICUs, and the NCUA needs to continue working with FICUs in order to provide more transparency to the situation.

CUEG Region Three

NCUA Region III consists of ten states and two territories including: Alabama, Florida, Georgia, Indiana, Kentucky, Mississippi, North Carolina, Ohio, South Carolina, Tennessee, Virgin Islands and Puerto Rico. Region III finished mid-year 2010 with 1,530 federally insured credit unions (FICUs). This represents a net decline of 59 or 3.7 percent of Region III FICUs over the past year. Region III holds 21 percent of all FICUs, 20 percent of all assets and 22 percent of all FICU members.

Total assets in region III rose to $177 billion. This translates into a year-over-year growth rate of 3.5 percent, which is 0.4 percentage points below the reading for the nation as a whole. Membership in the region climbed to 20.26 million, up 151,000 over the past year. Membership growth in Region III at 0.75 percent year-over-year continues to trail the 0.92 percent national average rate of increase. Total employment (full- and part-time FICU employees) is now 55,198 which is a 2.4 percent year-over-year reduction. The 50 largest FICUs in the region hold 54 percent of all assets and 44 percent of the total membership in the region. Included in this group are 35 FICUs with assets in excess of $1 billion.

Region III covers a wide expanse of geography. Despite news of the recovery, high unemployment and falling home values continue to impact consumer confidence. In this region Florida based credit unions continue to be impacted by declining home values. Growing loans and leveraging the opportunities to attract members while managing deposit growth are major priorities for credit unions in the region. Managing margin squeeze along with improving loan quality are also priorities for credit unions in the region as members remain concerned over historically high levels of unemployment.

Credit unions in the region are working to get the message out to consumers and businesses that as an industry, credit unions remain fiscally safe and sound and have money to lend. As of June 2010, Region III FICUs collectively remained in good health as their collective net worth ratio increased to 10.20 percent from 10.19 percent at year-end 2009. The Region III annualized ROA (return on average assets) of 39 basis points increased by 13 basis points from year-end 2009. Loan delinquencies climbed to 1.80 percent of total loans from 1.62 percent at mid-year of 2009 but have dropped from 1.90 percent compared to year-end 2009. Year-over-year net loan charge-offs moved down 1 basis point while provision for loan losses decreased 24 basis points.

Extraordinary events stemming from the negative effects that the global credit crises had on the corporate credit union network have had a materially negative impact on financial performance. On March 20, 2009, the NCUA placed U.S. Central Federal Credit Union and Western Corporate Federal Credit Union (WesCorp) under conservatorship. The NCUA estimates that future credit losses, in excess of capital, within the corporate credit union network's investment portfolios could total $8 billion.

The NCUA, as part of its Corporate Stabilization Plan, also guaranteed deposits at all corporate credit unions at an estimated cost of $900 million to the NCUSIF. In 2009 the cost of the conservatorship and deposit guarantee equaled a 69 percent impairment of existing NCUSIF Deposits plus an additional 0.30 percent premium assessment on insured shares. Legislative efforts eventually led to the creation of the Corporate Stabilization Fund, which will allow the NCUSIF to defer its $8 billion liability and give natural person credit unions the ability to amortize the losses over a ten year period. NCUSIF stabilization related expenses reported thus far in 2010 net to 13.25 basis points of insured deposits. Additionally, many credit unions have been or will be required to write-off additional contributed capital investments at corporate credit unions in 2010. Region III FICUs recorded NCUSIF stabilization expenses of $507 million in 2009 and $184 million thus far during 2010. The reduction in corporate credit union MCS and PIC investments totaled $39.5 million as of mid-year 2010.

Lending

Annualized loan growth in Region III stands flat at 0 percent while the national average is 0.1 percent. At 70.4 percent, the loan-to-share ratio is down 4 percent over the past year. Region III FICUs are under-performing the national loan-to-share ratio of 72.8 percent. The U.S. loan-to-share ratio has declined 4.7 percent year-over-year.

A $550 million gain in first mortgages and lines of credit accounted for the lion's share of loan growth during the first half of 2010 while new vehicle lending fell $1.6 billion. Despite the crisis in the overall housing market, first mortgage originations totaled $4.47 billion in Region III during the first half of 2010. This represents a 43 percent decline from same period in 2009. When the $225 million drop in home equity and second mortgages is added to first mortgages, the combined real-estate portfolio segment accounted for 54 percent of total loans for FICUs in Region III. Used automobile lending also was a growth segment in the first half of 2010 with a 1.5 percent growth rate.

A 10.6 percent contraction in year-to-date new vehicle loans outstanding at Region III FICUs exceeded the 1.5 percent used vehicle portfolio gain; total vehicle loans outstanding in the region declined 3.4 percent.

The historically lower mortgage rates are resulting in strong mortgage refinance volumes for credit unions in the region. Auto lending continues to be weak while demand for home equity lending has tapered off due to lower home values and the opportunity to refinance 2nd mortgages into a new first mortgage when equity is present. Consumers continue to pay down debt but keeping access to credit card lines of credit is a priority for individuals. Unemployment concerns and falling home values continue to impact the willingness of consumers to take on new debt. However, low mortgage loan rates, especially with terms of 15 years or less, kept the mortgage refinance market alive for the remaining part of the year.

A total of 369 FICUs in Region III reported having an indirect lending channel, an increase to this measure at year-end 2009 of 358 FICUs. Indirect loans outstanding are down 5.1 percent over the past year and now account for 11.65 percent of total loans.

Total Member Shares

During the first half of 2010, total shares rose 3 percent to $153.9 billion. This gain was slightly below the national average of 3.3 percent. Share drafts, regular shares, money market shares and IRA/KEOGH accounts all posted modest growth while share certificate balances fell 4 percent across Region III. Increases in regular shares and money market accounts, combined with falling certificate concentrations, indicates an increasing balance of hot money is on the balance sheet.

The lower interest rate environment and a shift in saving structure away from higher cost CDs has moved Region III FICUs' cost-of-funds down 56 basis points to 1.31 percent of average assets over the past 12 months. Given economic uncertainty, slowing loan demand and a growing savings rate, we expect the cost-of-funds to continue drifting downward although at a slowing rate by the middle of 2011. Managing the cost-of-funds will continue to be important as one of the tools credit unions in the region exercise in working to absorb higher loan losses and anticipate additional charges from the NCUA. It will be imperative that credit unions manage growth in deposits in relation to loan demand and capital growth.

Asset Quality and Operational Results

At mid-year 2010 the annualized ROA for Region III FICUs was 0.39 percent, reflecting a 13 basis point increase from the December 2009 level. A total of 905 FICUs (59 percent of the region's FICUs) reported positive ROAs, while 625 reported losses or no gain thus far in 2010. The FICUs with negative ROAs represented 17 percent of the region's assets. This is a slight improvement from 2009 year-end results which showed 24 percent of the region's assets at negative ROA institutions.

The loan delinquency rate as a percent of total loans is down 10 basis points over the past six months to 1.80. The national FICU delinquency rate at mid-year 2010 was 1.73 percent of total loans down 11 basis points from year-end 2009. Over the same period, net charge-offs fell from 1.21 percent of average loans to 1.16 percent nationally and from 1.18 to 1.11 percent among FICUs in Region III.

Looking at one measure of operating efficiency (the ratio of annualized operating expenses to average assets) at 3.17 percent is down four basis points year-over-year. Expenses related to share insurance, office occupancy and loan servicing are growing the fastest. This growth is reflective of costs associated with the corporate credit union stabilization, recession level loan performance and loan growth plus credit unions growing to fill the void created as traditional competitors pull back.

Loan demand and credit quality continue to be a concern. Auto loan growth has been anemic and while there have been strong demand for mortgage refinances; the purchase mortgage market has been slow to return. Home values have not fully stabilized and are not expected to until a backlog of foreclosures is liquidated and unemployment improves. As far as improved efficiencies relating to operating expenses, credit unions have taken steps to reduce staffing as a result of lower production volumes and in some areas branch closures. The challenge will be to leverage technology and assure service does not suffer as the result of these reductions.

Looking forward, we see significant challenges and opportunities for Region III and all FICUs. It appears that credit unions and consumers are adapting to what will be the new normal, which is defined as lower loan demand and higher savings growth. Economic and credit conditions will continue to get worse before some stabilization in employment late in 2011. Despite the recent extension of the loan from the Treasury and consequently lower assessment from the NCUA, credit unions will be facing considerable expense for supporting the Corporate Credit Union Stabilization Plan for the extended future. Credit Unions are navigating a new path for managing investments as the result of the recent adjustments to the terms of Certificates available from corporate credit unions. Seeking alternatives for investments will be a challenge in today's lower yielding investment environment. These challenges will eventually lead to a more rapid rate of consolidation in Region III.

In aggregate, the capital cushion appears to be adequate, but individual FICUs will struggle to increase their provision for loan losses and maintain capital levels. As the slow economic recovery continues and employment improves, the additional challenges will be slower loan growth and the impact of governmental regulations of programs like Overdraft Privilege that have put fee and other income at risk. The opportunity will be to leverage the disruption that consumers faced during the crisis and gain the ability to attract new profitable members. Too much deposit growth with slow loan growth would weaken the already strained capital levels. Coming out on the other side will require strong lending initiatives and a culture that seeks to acquire and maintain accounts in a cost efficient manner.

CUEG Region Four

NCUA Region IV (Austin) consists of 2,222 federally insured credit unions (FICUs) in the states of Arkansas, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin as of mid-year 2010. The credit unions in this region represent 29.8 percent of all FICUs and with total assets of $185 billion, hold 20.5 percent of all FICU assets. Total membership in Region IV reached 20.1 million and now accounts for 22.2 percent of all FICU members. A high level summary shows a net loss of 71 Region IV FICUs over the past year, but just 28 during the first half of 2010. Asset growth of 6.6 percent was almost double the national average. Region IV FICUs added almost 325,000 members over the past year. Annual loan growth was 3.7 percent versus a decline nationally and the net worth ratio was fractionally above the national average at 9.95 percent. At mid-year, total employment (full and part-time FICU employees) was 58,304 and there were 5,380 branches within the region. The 50 largest FICUs in the region held 45 percent of all assets and 34 percent of the total membership. Included in this group are 30 FICUs with assets in excess of $1 billion.

Loan Growth

Annual loan growth in Region IV FICUs was 3.7 percent, but the year-to-date gain is just 0.9 percent, although second quarter loan growth was marginally stronger at 1.4 percent. Region IV annual loan growth exceeded the national average by 4.4 percentage points. Total loans outstanding in Region IV now equal $117.2 billion. They represent 63.2 percent of total assets down from 65 percent at mid-year 2009. Lack of member demand and credit union mortgage retention strategies are dampening growth.

Over the past year, first mortgages were the largest component of loan growth. This portfolio segment increased 6.6 percent during the year and accounted for over 55 percent of all loan growth. When combined with “other real estate loans,” the total real estate component accounted for 58 percent of annual loan growth in Region IV. We caution; growth through the first half of 2010 has slowed significantly. The $50 billion in real estate secured loans now equal 44.4 percent of all loans, up from 43.9 percent at mid-year 2009.

Despite record low mortgage interest rates and tax credit incentives, member demand for first mortgages was down sharply. Year-to-date, first mortgage lending activity was extremely soft. Total originations of $6.8 billion were 41 percent below 2009 same period results. Roughly 69 percent of year-to-date originations were in fixed-rate product, 20 percent in balloon/hybrid and just 11 percent in adjustable-rate loans. Other real estate loans granted were 17 percent below same period 2009 results as seconds and HELOCs granted declined.

Total vehicle loan growth in Region IV FICUs was positive, whereas the national average showed a portfolio decline. This portfolio segment was up 1 percent over the past year in Region IV while the nation as a whole contracted 4.9 percent. Used vehicle loans increased 8 percent over the past year and 4 percent year-to-date. New vehicle portfolios in Region IV were down 7.4 percent over the past year and 6 percent year-to-date. The higher weighting of growth in auto balances towards used auto is likely due to more conservative spending by members and loans being refinanced away from other financial institutions and with credit unions. Total vehicle loans are down 0.4 percent year-to-date in Region IV versus a 3.4 percent decline nationally. Indirect lending is a key contributor to vehicle loan growth success in the region. Indirect loans climbed 4.7 percent ($920 million) over the past year, accounting for 200 percent of the change in total vehicle loans.

Region IV credit card balances grew 8.7 percent in over the past year, but are down 0.1 percent through the first half of 2010. Business loans were up 13.6 percent over the past twelve months (6 percent year-to-date) and now equal roughly 4.4 percent of assets, up from 4.3 percent at the end of June 2009. FICUs in Region IV granted $1.7 billion in member business loans year-to-date, up 13.6 percent over same period 2009 results.

Shares and Deposits

Total shares and deposits increased 8.4 percent over the past year with 72 percent of the increase coming in the third quarter 2009 and first quarter 2010. Over the past year, Region IV FICUs grew shares and deposits 2.6 percentage points faster than the national average. Total shares and deposits were $161 billion at the end of June. Members continue to prefer short duration instruments with regular shares, share drafts and money market shares accounting for 82 percent of all growth. Surprisingly, CDs were up 1.3 percent while the nation as a whole experienced a 5.8 percent decline.

The 18.8 percent annual gain in money market shares accounted for 37 percent of share growth with 53 percent of that gain occurring in the first half of 2010. Regular share growth of 7.9 percent contributed 29.2 percent of the annual gain and 93.7 percent of that increase happened in the first six months of 2010. Liquid deposits (share drafts, money market shares, and regular shares) accounted for 82 percent of all share and deposit growth over the past year and 91 percent year-to-date.

Annual CD (or share certificate) growth slowed to 1.3 percent, but more importantly member CD holdings declined 0.5 percent year-to-date. Given the minimal durational yield premiums, it is easy to see why members prefer liquidity. The combination of lower overall interest rates and members directing more of their deposits into low-cost liquid accounts has lowered Region IV FICUs' cost-of-funds to 134 basis points, a 29 percent decline over the past year. We caution, these cheaper funds could move quickly to higher yielding accounts at the competition or migrate back into the equity markets.

One area where we see cautious deposit behavior is IRA/KEOGH accounts. Members preferring the fixed-rate safety of insured deposits have driven this portfolio segment up 8.6 percent over the past year, but lower yields have slowed the year-to-date gain to 3.9 percent.

Some credit unions are intentionally managing deposit and asset growth down (to improve the net worth and other key ratios); this implies slower share and deposit growth going forward.

Loan Quality

At mid-year, the loan delinquency ratio (loans two or more months delinquent as a percent of total loans outstanding) stood at 1.40 percent, down four basis points over the past year and five basis points year-to-date. Delinquent loans are just below 0.9 percent of total assets at Region IV FICUs. In addition to the stabilization in delinquencies, at 0.81 percent, net charge-offs as a percent of loans are down year-to-date and have remained in a fairly stable range for the past year. While both key measures of loan quality in Region IV are above historical levels, they remain significantly better than the results for the nation as a whole. Looking at high level detail, we see that real estate secured loan delinquencies and charge-offs were up over mid-year 2009, but many leaders in Region IV believe this portfolio segment will soon see some stability in loan quality readings, barring any further shocks to the housing market.

Investments

Despite reduced asset growth, even slower loan growth translated into increased investments. Total investments have grown 10.3 percent over the past year and a strong 9.7 percent through the first half of 2010. Liquidity levels are more than comfortable, but given our current rate environment, the yield on average investments has fallen 83 basis points over the past year (60 basis points through the first half of 2010). At 1.99 percent, the yield on average investments is just 65 basis points above cost-of-funds. Investments in Region IV now equal 25 percent of assets, up from 24 percent last year.

Earnings and Capital Adequacy

Region IV annualized mid-year ROA was 44 basis points (67 basis points before effects of NCUSIF stabilization expense), while results are down from mid-year 2009, they improved from year-end 2009. Region IV FICUs outperformed ROA results for the nation as a whole by a small margin. Year-to-date, 46 percent of the credit unions in the Region reported a negative ROA, but these 1,029 credit unions held just 17 percent of the Region's total assets.

The combination of moderate asset growth and reduced gains in net worth due to assessments, credit quality charges and a lower net interest margin, led to a 36 basis point decline in the net worth ratio over the past year. At year 9.95 percent, the Region average

remains very strong. A look at the detailed data shows 118 FICUs with a net worth ratio below seven percent. These FICUs held just 4 percent of the Region's assets. At mid-year 2009, there were just 62 FICUs with a net worth ratio below 7 percent.

CUEG Region Five

CUEG Region Five (West) consists of 13 states including Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, Wyoming, and the territory Guam. 2010 continues to be a difficult year for Region Five credit unions as unemployment still dominates the country's economic environment. Nevada and California are feeling the majority of the pain with two of the country's three worst unemployment rates. Most credit unions across the country are showing slow, albeit positive membership growth, while Region Five credit unions again have lost membership as they have done for the past three quarters. Total Region Five membership declined by 49,108 during the second quarter to just over 21.5 million by the end of June 2010. Assets also declined at a 0.72 percent annualized rate; down $431 million from the first quarter to a total of $239.7 billion. Net worth ratios nationally show a respectable 9.92 percent, reflecting strength of the industry overall, however Region Five again falls to the bottom with an average of 9.21 percent for the second quarter. Driven by capital concerns, historically low market rates, and sluggish demand, many credit unions have drastically lowered share rates, sending members into the market to find alternatives. This has pressured share growth throughout the country, but even more dramatically in the west, where second quarter growth slipped into negative territory. As of mid-year, share balances totaled $208.6 billion while outstanding loans fared even worse, coming in at $151.4 billion; over 7.6 percent lower than last year at this time. The loan-to-share ratio fell to 72.57 percent compared to 76.48 percent at year end.

Loan Growth

Similar to the other regions, Region Five showed a marked improvement in loan growth during the second quarter compared to the first quarter, although Region Five continues to drag the average down. While most regions experienced at least positive change, credit unions in this region are still suffering from the countries weakest employment market. Driven to higher underwriting standards, credit unions report unseasonably low loan demand. Region Five credit unions have lost nearly $13 billion in loan balances during the past 12 months.

Auto loans suffered the worst, with new autos down anywhere from 7.3 percent to 21.7 percent nationwide. Most regions experienced fairly strong growth in the used car market while in Region Five, used car loans were down 7.14 percent from 12 months ago. Second quarter numbers suggest an improvement, but not one sufficient to bring about positive growth.

Region five real estate loans also ran contrary to national trends, with most of the country experiencing approximately 4 percent growth in first mortgage lending, while here in the west those balances declined nearly 4 percent.

National reporters and politicians complain about Banks being unwilling to lend to small businesses, but credit unions' member business loans are growing at a fairly strong pace. Even in Region Five, that trend is evident. While no one would call 1 percent growth a pillar of strength, Region Five credit unions have added nearly $74 million in member business loans in the past 12 months, and in this environment, it might be labeled impressive. Quarter over quarter trends also suggest that the rate of growth has also improved from the first quarter.

Weak job markets, staggering unemployment, lower incomes, and political uncertainty will likely continue to depress loan demand into 2011 and beyond.

Loan Quality

Loan quality concerns continue to plague credit unions in all regions of the country, but again, Region Five seems to be the hardest hit. The delinquency to total loans ratio rose to 3.8 percent in the second quarter compared to 3.4 percent 12 months ago. However, second quarter numbers suggest a possible leveling off or even a slight downward trend from the 4.1 percent reported at year end. Reportable delinquency for the region is also showing some signs of leveling off, with June reports showing 2.42 percent, nearly identical to year end. Net charge-offs to total loans also show a similar downward trend from 1.88 percent at year end to 1.68 percent and the end of June. While two quarters don't necessarily represent a long term trend, it offers some hint of light breaking through the dark clouds of the Great Recession.

Share Growth

In comparison to the sluggish loan performance, share growth for nearly all regions show fairly robust growth; with Region Five even holding its own in most areas. 12 month change for the nation's credit unions ranged from a high of 8.4 to a low of 0 percent, with Region Five at the bottom. This growth trend seems to have largely reversed itself in the second quarter however. The interesting trend is the seemingly strong preference for Regular Shares, given the relatively low rates on these accounts. The average of all regions is a surprising 8.6 percent growth in Regular Shares during the past 12 months. The market sensitivity of the Money Market Shares didn't even frighten members away with national 12 month growth rates averaging nearly 17 percent. Region five faired quite well in these two areas, with growth rates of 6.2 percent 10.8 percent respectively. Time deposit balances declined on average over 6 percent over the past 12 months and Region Five credit unions lost 15.5 percent during that same time period.

Investments

Liquidity continued to climb during the past 12 months as deposits grew, and success on the loan side of the balance sheet was less than exceptional. Region Five investments rose 12 percent since June 2009, with total investments increasing by $6.4 billion to $60.2 billion at the end of second quarter 2010. Total cash increased an additional 13

percent, up over $2 billion from June of last year, but that growth slowed dramatically during the first quarter as region credit unions pushed rates down and share growth slowed. Maturities are shorter and yields are lower as portfolio managers struggle to find value in a market flooded with cash and Fed intervention. Not surprisingly, borrowing in the region decreased nearly 45 percent from June of 2009.

Earnings

As members continue to move dollars out of term deposits into liquid accounts and credit unions become serious about lowering deposit rates, credit unions have generally benefited from improving interest margins. Region Five credit unions surprisingly lead the nation; ending the second quarter with a net income margin (as a percentage of total assets) at an elevated 3.4 percent percent, substantially above the national average of 3.21 percent. Fee income remained relatively flat during the period, ending at 0.77 percent .Credit unions appear to be holding the line on operating expenses which have remained in check. Region Five credit unions' operating expense ratio has averaged just above 3 percent for 4 consecutive quarters. The second quarter ended at 3.03 percent, just 1 basis point above the national average. Region Five Return on Average Assets (ROA) came in at 0.24 percent, still below the national average of 0.31 percent, but this represents a return to the black and should be considered a very positive accomplishment.

General Economic Conditions and Credit Union Concerns

Though the National Bureau of Economic Research recently proclaimed that the recession ended in June 2009, there is little evidence to suggest that much of the western United States is benefitting from this newly declared prosperity. Lingering unemployment and the resulting decrease in the demand for consumer loans continue to pressure credit unions bottom lines. Among the areas hit hardest by collapse of the real estate market, many Region Five credit unions still find themselves plagued by high delinquency and write-off levels in their once-profitable real estate loan portfolios. If the region is to join in with the rest of the nation's economic turnaround, then several key measures need to see significant improvement.

Unemployment is the single largest barrier to a Western economic recovery. Though several states have seen some employment gains in recent months, they have been modest at best. California and Nevada have been hit especially hard, and a significant improvement seems to be yet far off in the distance. Many are viewing the latest improvement in economic indicators to be a "jobless recovery." If that is indeed the case, then it will continue to present significant challenges to credit unions.

Regions Five loan growth has been severely hindered by adverse market conditions, which has in turn limited most Western credit unions' ability to return to comfortable levels of profitability and capitalization. With many consumers facing an uncertain job market and significantly diminished values for their homes, it appears they are still circling the wagons and eschewing spending on anything but basic needs. Additionally,

tighter underwriting standards have lessened credit unions' willingness to extend loans to their members. The offsetting result of a decrease in loan demand is deposit growth experienced over the past year. In response, many credit unions have lowered deposit rates, giving their members less incentive to save and decreasing their liabilities on the balance sheet. While this can be effective in the short term, its price could be a loss of market share and member loyalty in the long run.

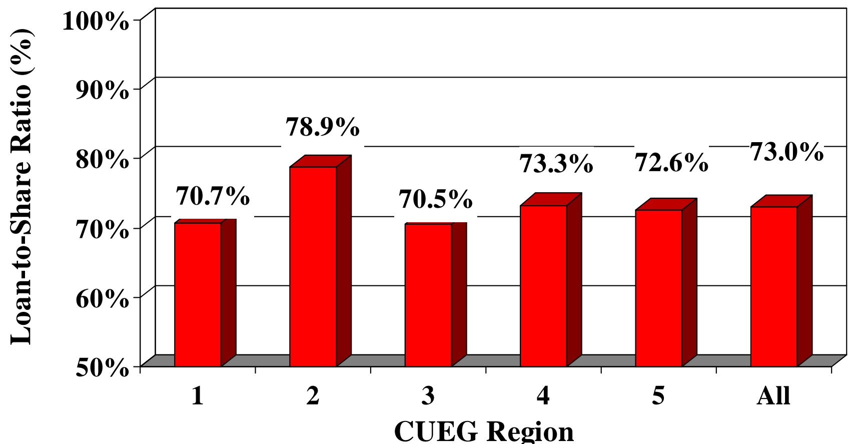
On the brighter side, it does appear that both consumer and real estate loan delinquency are beginning to recede. This is very welcome news to credit unions on two fronts. First is the obvious gain that comes from regular cash flows as members make their scheduled payments. Second is the decrease in loss allowance transfers, which have depleted capital levels. In most cases, delinquency rates have not yet returned to acceptable levels, but as they do, credit unions will see positive impacts to their bottom line and to their capitalization. With consumer delinquency improving, business delinquency is becoming a greater concern, as it has not improved to the same degree.

There is ongoing concern as to the condition of the corporate credit union system and NCUA efforts towards stabilization. NCUA assessments meant to prop up these corporate credit unions have placed a significant burden on natural person credit unions already laboring under the worst market conditions in a generation. As more corporate have failed and been taken into conservatorship, there is growing concern that additional assessments will rob credit unions of the meager gains they have made. Much uncertainty still surrounds the future of the corporate system.

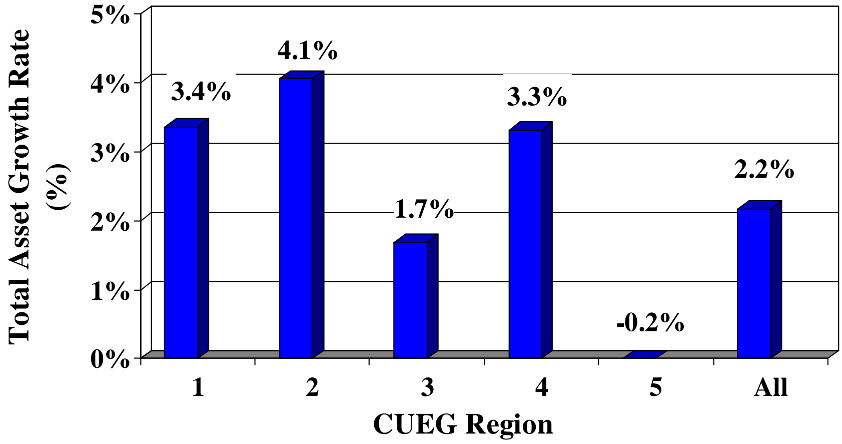
Going forward, it appears that this challenging environment will continue into 2011. As credit unions meet these challenges, there will be opportunities for success and growth. As unemployment eases and loan demand rebounds, credit unions are well positioned with record cash reserves to meet member loan demand. Many consumers have forgone big ticket purchases like cars, appliances and vacations; creating a pent up demand. As consumer confidence rebounds and a recovery takes hold, that demand will begin to break through. That presents a powerful opportunity for growth and a return to prosperity, though at a slower pace than many would like to see.

Appendix A:
CUEG Regional Financial Ratio Analysis

Loan-to-Share Ratio
Federally Insured Credit Unions by CUEG Region
June 2010



Total Asset Growth
Federally Insured Credit Unions by CUEG Region
June 2010



Total Loan Growth
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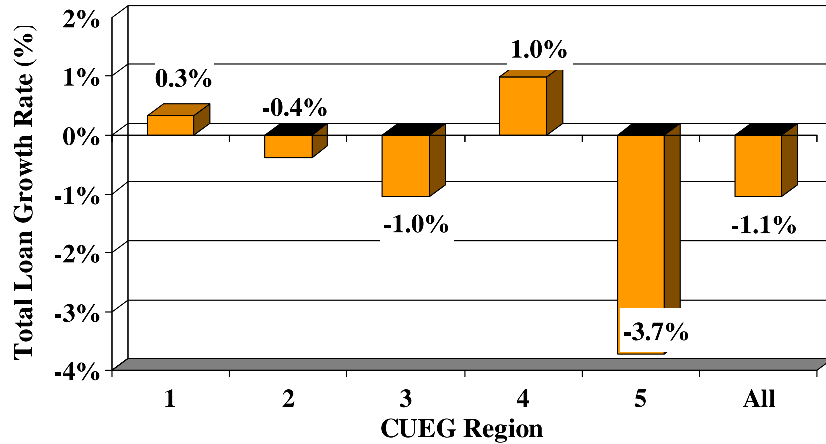
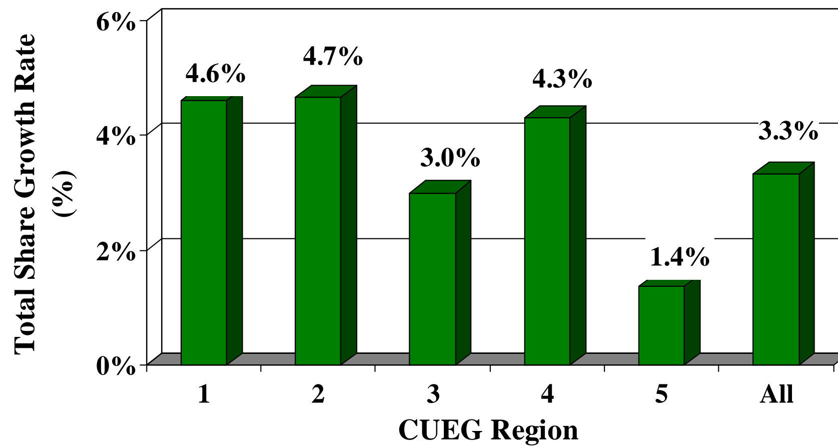
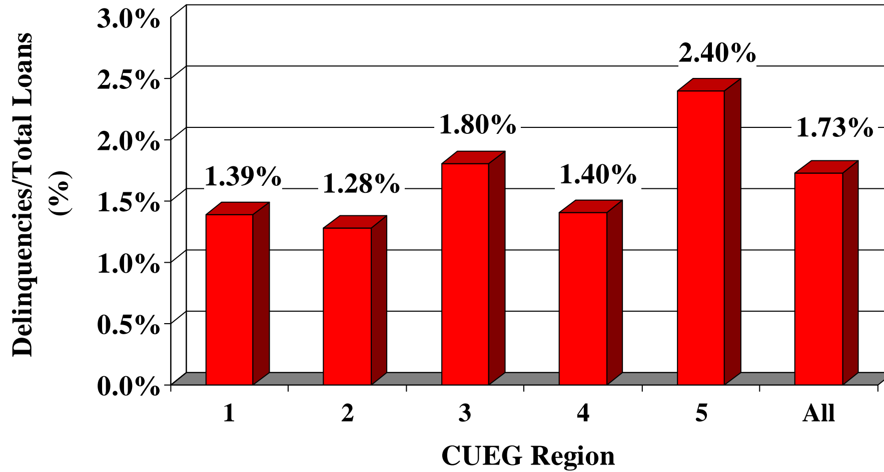
June 2010



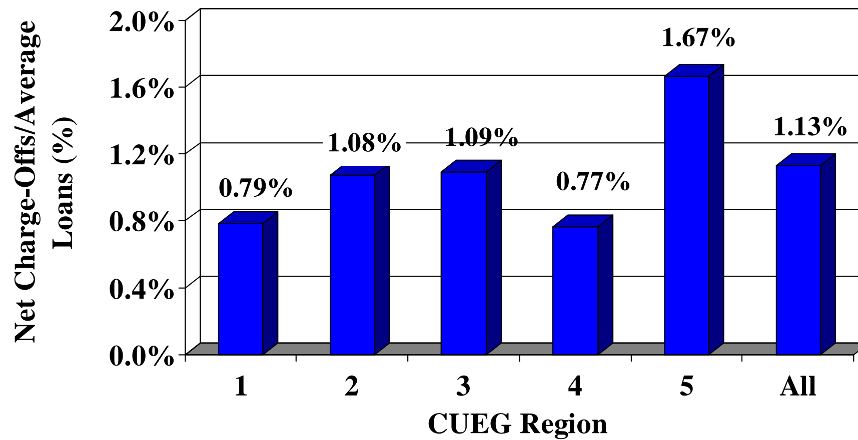
Total Share Growth
Federally Insured Credit Unions by CUEG Region
June 2010



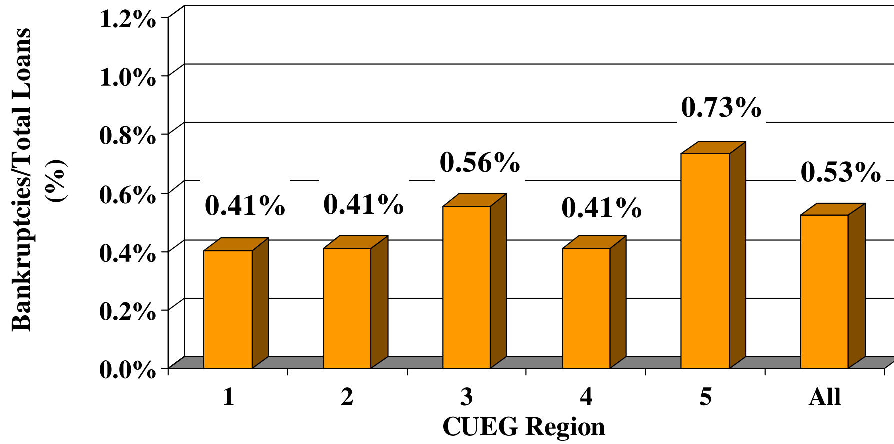
Delinquency Ratio
Federally Insured Credit Unions by CUEG Region
June 2010



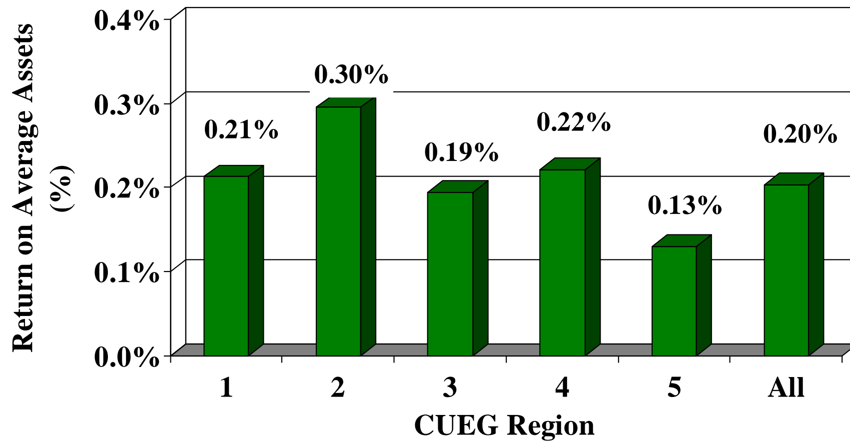
Net Charge-Offs/Average Loans
Federally Insured Credit Unions by CUEG Region
June 2010



Bankruptcies/Total Loans
Federally Insured Credit Unions by CUEG Region
June 2010



Return on Average Assets (ROA)
Federally Insured Credit Unions by CUEG Region
June 2010



Appendix B: CUEG Regions

CUEG REGIONAL BREAKDOWN