NEWS RELEASE

Credit Union Economics Group (CUEG)
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CUEG EXPECTS MODEST RECOVERY IN 2010, 2011

CHICAGO – Forecasts are mixed for the remainder of 2010 and into 2011 by members of the Credit Union Economics Group, a group of leading credit union economic and financial experts.

The members, who reflect a geographically diverse source of perspectives, said economic activity, measured by gross domestic product, is expected to grow in 2010 at 2.41 percent, an improvement from the prior forecast of 2.29 percent.

CUEG expects unemployment to decline but remain elevated in 2010 and 2011. Inflation is expected to remain tepid for both years, which will give room for the Federal Reserve to keep the target Fed Funds rate close to zero this year. However, as the economy improves next year, the group expects about a 100 basis point increase in the target Fed Funds rate at the close of 2011.

Under these conditions, credit unions are expected to have higher savings growth relative to the lending growth in 2010. Loan growth this year will be just 2.5 percent, while savings will grow slightly more than 7 percent. This inflow of excess funds is expected to slow slightly in 2011 with lending at 4.7 percent and savings growth at 6.4 percent. Mortgage loans are still important to credit unions, but the group does not see mortgage originations improving next year.

CUEG members Tun Wai and Dave Colby joined NCUA Deputy Director of the Office of Examination and Insurance John Kutchey at the National Association of Federal Credit Unions' 43rd Annual Conference to discuss credit union sustainability in a recovering economy.

"Credit unions need to be sensitive to changes in the Federal Reserve balance sheet," said Wai, director of research and chief economist at NAFCU. "By the time the Federal Reserve announces changes to the target Federal Funds rate, it is too late for financial institutions to adjust. I would look at the Federal Reserve balance sheet and notice the trend in declining asset holdings as an early indicator of changing Federal Reserve policy."

An economy on the path to recovery is not what members or credit union leaders are feeling, according to an informal poll taken by Colby, chief economist for CUNA Mutual Group. “After all the bailouts, special programs and stimulus to get the engine of economic growth started; the big question is will it run on its own?” said Colby, who highlighted economic and credit union risks during the discussion.

While none of the usual economic risks have gone away, Colby’s greatest concern was consumer reaction to the loss of federal, state, local and educational sector jobs. “When the average consumer sees traditionally recession-proof jobs disappear, they will turn decidedly more cautious with their spending and borrowing,” he said.

High on the credit union list of risks is the collective bottom-line impact of increased compliance expense and reduced non-spread revenue. Building new capital will present a difficult challenge.

Despite significant risks, Colby optimistically noted credit unions have grown and prospered through 20 economic cycles by constantly evolving to meet member needs, adding, “Why should we expect something different this time around?”

The NCUA’s Kutchey discussed concentration risk issues in credit unions and appropriate risk mitigation practices. He cited growing real estate concentration risk in credit unions as one of the top concerns for NCUA.

Risk mitigation strategies that Kutchey presented include measuring concentration risk across similar product lines and in relation to total net worth, developing appropriate policies for measuring and monitoring the risk, and adjusting credit union practices to meet their established concentration risk limits.

During the question and answer session, Kutchey was asked about large problem natural person credit union resolution. He noted, "supervision comes in many forms, some public like conservatorship and some involve intense on-site work with current management. The type of supervision varies based on the circumstances of each case." He added, "the core driver in NCUA’s resolution action is the least-cost alternative for the NCUSIF."

The Credit Union Economics Group is a working group of credit union officials located throughout the country who are dedicated to the current and future financial well being of the credit union movement. 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 national and 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 biannually as well as a quarterly consensus macroeconomic and industry-trend forecast, available at www.cueg.org.

Caption: Dave Colby, CUNA Mutual Group; John Kutchey, NCUA; and Tun Wai of NAFCU spoke Wednesday as part of the Credit Union Economics Group's presentation at NAFCU's 43rd Annual Conference in Chicago.

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