

CUEG
CREDIT UNION ECONOMICS GROUP

BRUCE BEAUDETTE
President/CEO
Sunmark FCU
1 Broadway Center, 8th Floor
Schenectady, NY 12305

STEVE BREWER
Chief Financial Officer
Macomb Schools & Government
CU
40400 Garfield Road
Clinton Township, MI 48038

BOB BURRELL
EVP/Chief Investment Officer
Western Corporate FCU
924 Overland Court
San Dimas, CA 91773

DAVE COLBY
Chief Economist
CUNA Mutual
5910 Mineral Point Road
Madison, WI 53705

DAVE DICKENS
SVP/Asset & Liability Mgt.
US Central CU
9701 Renner Blvd., Suite 100
Lenexa, KS 66219

BRUCE FOX
SVP/Senior Investment Officer
Southwest Corporate FCU
7920 Belt Line Rd., Suite 1100
Dallas, TX 75254

SCOTT MAINWARING
President/CEO
Vystar Financial Group
P.O. Box 45085
Jacksonville, FL 32232

JEFFRY TAYLOR
Senior Economist
NAFCU
3138 10th Street North
Arlington, VA 22201

TUN WAI
Director of Research/Chief
Economist
NAFCU
3138 10th Street North
Arlington, VA 22201

NEWS RELEASE

Credit Union Economics Group (CUEG)

www.cueg.org

Contact:

Rick Uhlmann, CUNA Mutual, (608) 231-8940, rick.uhlmann@cunamutual.com
Roger Dick, U.S. Central Credit Union, (913) 227-6000, rdick@uscentral.org

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CREDIT UNION ECONOMICS GROUP UPBEAT ABOUT 2005 ECONOMY *CUEG Expects Economy to Grow at 3.8%, Though Liquidity is a Concern*

Credit unions can expect marginally improved share growth and moderate loan growth in 2005, a group of the credit union industry's leading economists report in their 2005 Consensus Forecast.

In its recently released February 2005 report, the Credit Union Economics Group (CUEG) forecasts a slightly more upbeat assessment overall for the U.S. economy in 2005 than it did in the previous quarter. CUEG projects an annual Gross Domestic Product (GDP) growth rate of 3.8 percent in 2005, an increase from its prior 2005 forecast (3.7 percent) made in the previous quarter. With the government's advanced estimate showing the economy grew 4.4 percent in 2004, the CUEG expects 2005 to experience a healthy annual growth.

"CUEG expects employment gains to be just adequate enough to hold unemployment at 5.2 percent," said Tun Wai, NAFCU's Director of Research and Chief Economist, and a CUEG member. "Credit unions can also expect further flattening of the yield curve as the Fed Fund rate climbs to 3.7 percent by year-end, while 30-year, fixed-rate mortgages move up to 6.5 percent."

"The consensus view for CPI inflation is under 2.8 percent," said Jeff Taylor, NAFCU's Senior Economist. "While the core inflation rate – excluding the volatile food and energy components – may climb to near 3 percent, we expect some declines in energy prices to dampen the overall inflation rate."

Dave Colby, CUNA Mutual Group Chief Economist, said the economic environment envisioned by CUEG members should produce marginally improved share growth of just over 6 percent in 2005. "Share growth has pretty much stalled since last June. Credit unions have lagged the broader capital markets in raising deposit yields as a means to keep the cost of funds down, but in return, we are seeing stagnant deposit inflows," Colby said. "On the present course, some credit unions may experience some liquidity problems."

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CUEG does not expect loan growth to keep pace with the 10+ percent rate in 2004, but it does anticipate growth above 9 percent with home equity loans being the primary growth driver in 2005.

“While first mortgage and vehicle loan growth should remain steady, home equity loans and business loans – particularly in larger credit unions – should continue to grow,” said Bruce Beaudette, President/CEO of Sunmark Federal Credit Union, Schenectady, NY. “Rising property values over the past several years have created an outstanding home equity market and members are taking advantage of this newfound equity to refinance other debt and make large purchases in the Northeast.” Beaudette cautioned that “funding new loan growth with deposit inflows will be a difficult task for many credit unions.”

“Credit unions will be challenged in 2005 to keep a balance between the need to hold their cost of funds low and adequate liquidity,” said Scott Mainwaring, CEO of Vystar Financial Group of Jacksonville, FL. Mainwaring warned, “Keeping deposit yields so low that it causes a net deposit outflow, implies members are establishing new relationships with credit union competitors.”

CUEG members include:

- Bruce Beaudette, President/CEO, Sunmark FCU, Schenectady, NY
- Steve Brewer, CFO, Macomb Schools and Government CU, Clinton Township, MI
- Bob Burrell, Exec. V.P./CIO, Western Corporate FCU (WesCorp), San Dimas, CA
- Dave Colby, Assistant V.P./Chief Economist, CUNA Mutual Group, Madison, WI
- Dave Dickens, Sr. V.P, Asset/Liability Management, U.S. Central CU, Lenexa, KS
- Bruce Fox, Sr. V.P., Senior Investment Officer, Southwest Corporate FCU, Dallas, TX
- Scott Mainwaring, Chief Executive Officer, Vystar Financial Group, Jacksonville, FL
- Jeff Taylor, Senior Economist, NAFCU, Arlington, VA
- Tun Wai, Director of Research and Chief Economist, NAFCU, Arlington, VA

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. Both are available on the CUEG Web site www.cueg.org.

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