

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

**BRUCE BEAUDETTE**  
President/CEO  
Sunmark FCU  
1 Broadway Center, 8<sup>th</sup> 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 10<sup>th</sup> Street North  
Arlington, VA 22201

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

## **NEWS RELEASE**

### **Credit Union Economics Group (CUEG)**

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

#### **Contact:**

Rick Uhlmann, CUNA Mutual, (608) 231-8940, [rick.uhlmann@cunamutual.com](mailto:rick.uhlmann@cunamutual.com)  
Rebecca Somers, NAFCU, (703) 842-2820, [rsomers@nafcu.org](mailto:rsomers@nafcu.org)  
Roger Dick, U.S. Central Credit Union, (913) 227-6000, [rdick@uscentral.org](mailto:rdick@uscentral.org)

**Editor's note:** Photo attached.

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### **CU ECONOMISTS MEET WITH K.C. FED BANK PRESIDENT** *Credit Union Economics Group Shares CU Views with Thomas Hoenig*

KANSAS CITY, MO – A group of the credit union industry's leading economic observers on Tuesday shared their views on credit unions' role in delivering financial services to consumers during a meeting with officials of the Federal Reserve Bank of Kansas City.

Participating in the 90-minute meeting with members of the Credit Union Economics Group (CUEG) were: Thomas M. Hoenig, President/CEO of the Federal Reserve Bank of Kansas City, and staff members Craig Hakkio, Senior Vice President/Director of Research; Esther George, Senior Vice President, and Diane Raley, Vice President/Public Information Officer.

Kansas City is home to one of 12 Federal Reserve Banks nationwide that, together with the Fed's Board of Governors in Washington, D.C., serve as the country's central bank. The 10th Federal Reserve District includes the states of Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico and the western third of Missouri.

"Meeting influential policymakers like the Federal Reserve and conveying current trends in the consumer finance sector is important for all credit unions," said Tun Wai, CUEG member and Director/Research and Chief Economist, NAFCU, who opened Tuesday's discussion with Fed officials. "We believe CUEG provided President Hoenig and his 10th Federal District staff with insights about consumers and credit unions they might not have otherwise received."

Among the topics the six CUEG economists discussed during the informal, yet interactive session were: lending trends and consumer finance; credit unions' balance sheet performance; risk mitigation practices and the group's economic outlook.

Two trends in lending were identified by Dave Colby, CUNA Mutual Group Chief Economist. He told Fed staff that credit unions have experienced growth in adjustable-rate mortgages as rates and home prices increase, and there has been a slowdown in vehicle loan portfolio gains due to competition from manufacturers and home equity loans being used as a substitute. “On the consumer front, we sense a tone of caution in our members as job and income concerns remain and there is growing frustration with low deposit yields and weak equity market performance.”

Bob Burrell, Executive V.P./CIO Western Corporate FCU (WesCorp), said interest rate risk levels remain fairly modest at most credit unions. Those credit unions experiencing the largest increases have utilized secondary mortgage markets, term borrowings and interest rate hedges to mitigate some of the risk. “Credit unions have also been very focused on determining the real interest rate sensitivity of their administered rate non-maturity share accounts and many have commissioned their own deposit studies,” Burrell added.



The CUEG members at the Kansas City Reserve.

Regarding liquidity risk, Scott Mainwaring, CEO, Vystar Financial Group, said credit unions have plenty of liquidity currently, but should use caution in investing or lending funds excessively in longer-term areas, given the low-rate environment. “Credit unions striving to improve their yield and grow portfolios through risk-based, indirect and business lending have increased their credit risk and need to ensure these programs are being implemented conservatively, and that loans are properly priced for potential losses,” Mainwaring said.

Dave Dickens, Sr. V.P. Asset/Liability Management, U.S. Central Credit Union, told Fed staff credit union loan portfolio growth outpaced share growth during 2004, taking the national loan-to-share ratio to 74.5 percent at year-end. He added that adjustable rate first mortgages, new auto loans and home equity loans were major growth contributors. “This trend of loan growth outpacing share growth is likely to continue in 2005, which should contribute to somewhat improved earnings picture,” he said.

NAFCU Senior Economist Jeff Taylor told the group CUEG expects the pace of U.S. economic activity to be above 3.5 percent in 2005 with moderately higher inflation, and that loan demand should remain relatively strong, despite a slowdown in first-mortgage activity. “The expected increases in short- and long-term interest rates will be a challenge for credit unions. However, they have shown a propensity to operate efficiently in such an environment,” Taylor said.

CUEG’S meeting in Kansas City follows two similar meetings with U.S. Federal Reserve Bank officials in 2004 – an April gathering in San Francisco and an October session with Fed officials in Richmond, 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, available at [www.cueg.org](http://www.cueg.org).