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## **NEWS RELEASE**

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

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

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### **CHALLENGES CITED, SOLUTIONS PROVIDED FOR ISSUES FACING TODAY'S CREDIT UNIONS**

HONOLULU – Representatives of the Credit Union Economics Group laid out three critical challenges they see facing credit unions and provided strategies to address them during a panel discussion today at the National Association of Federal Credit Union's 40th Annual Conference in Honolulu.

Formed in 2003, CUEG is comprised of senior credit union officials with economic or financial backgrounds who share an interest in providing the nation's credit unions with a strategic view on both the general economy and in the area of consumer financial services.

Tun Wai, NAFCU's chief economist and director of research, kicked off the group's presentation with a discussion of inverted yield curve, which occurs when long-term yields fall below short-term yields. Under this abnormal and contradictory situation, long-term investors may settle for lower yields now if they think the economy will slow or decline in the future. According to Wai, conditions exist for an inverted or flat yield curve to continue for the foreseeable future.

"The Federal Reserve is not expected to make any changes to its target federal funds rate for the remainder of this year, and prospects for an inverted or flat yield curve to continue remain high," he said. "This implies that low returns on credit union long-term loans and investments will continue to put pressure on earnings. Under this environment, the challenge is to find alternative earning sources."

Bob Burrell, executive vice president and chief investment officer of Western Corporate FCU of San Dimas, Calif., said that although "a flat curve is unusual," there are ways for credit unions to position themselves against the curve.

"While the flat curve eliminates the opportunities to 'ride the curve,' credit union balance sheets are well positioned to capitalize on other opportunities to boost

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earnings,” said Burrell during the panel discussion. He added that interest rate risk and credit exposures are modest at most credit unions, while some have too much liquidity.

Bruce Fox, executive vice president and chief investment officer for Southwest Corporate in Plano, Texas, examined the problems associated with future funding sources. According to Fox, core funding is declining as a percent of aggregate funding for a number of reasons; members are better informed because they have access to more financial information, so they’re seeking better rates on deposits while competition for deposits increases with non-traditional sources, such as brokerage accounts and e-banking.

Fox said other problems affecting future funding sources include limited access by credit unions to capital markets as well as a limited robust loan participation market.

Eli Vasquez, senior vice president and chief financial officer at American Airlines FCU, acknowledged the pressures facing credit unions, but offered a few solutions to the challenges cited by Fox.

“High loan to share ratios and intense competition for core deposits present increasing funding and liquidity challenges for credit unions,” said Vasquez. “These challenges can be overcome through various channels, such as loan participation networks and borrowing funds.

“Deposits can also be attracted by returning more value to members, using excess capital to fund creative features and superior pricing of deposit products. Pooling of credit union resources and maintaining lean and efficient operations also create more value for our members.”

Vasquez said credit unions can minimize their operating costs through automation; by increasing their cooperation with other credit unions through pooled resources and purchasing, shared branch and ATM networks and CUSOs, and by taking a focused approach to developing sound and efficient expansion strategies.

Rounding out the panel discussion were CUNA Mutual’s chief economist, Dave Colby, and president and CEO of Sunmark FCU, Bruce Beaudette.

Colby, who identified relevance as the greatest strategic challenge facing credit unions, said the high level look at membership numbers can be deceiving.

“At a high level, credit union memberships trends look great, more than 89 million members and growing,” said Colby. “But a closer look reveals slower growth rates in both the number of members and in loans and savings per member.”

It’s the membership trends that led Colby to cite relevance as a key issue. “Credit unions are at a critical crossroad for relevance. It’s more than ever to understand your credit union’s demographics so that you’re able to influence them,” Colby said.

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In response, Beaudette said credit unions need to “constantly test new strategies, because consumers are a moving target. The numbers may look good now, but the combination of a highly dynamic financial services market for consumers and a major demographic shift has the ability to overwhelm credit unions that are comfortable with their current results.”

The Credit Union Economics Group 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 quarterly 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 quarterly consensus macroeconomic and industry-trend forecast, available at [www.cueg.org](http://www.cueg.org).

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**CUTLINE:** Members of the Credit Union Economic Group present a panel discussion at last week’s NAFCU Conference. Pictured are (from left) Bruce Beaudette of Sunmark FCU, Dave Colby of CUNA Mutual Group and Eli Vasquez of American Airlines FCU.

