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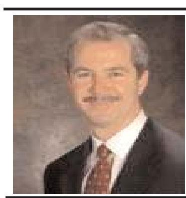

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Executive Summary

- As of December 2008, federally insured credit unions' (FICU) asset growth was 7.7 percent, up 1.5 percentage points from December 2007. Region IV showed the greatest result with a 10.9 percent growth in total assets compared with just 6.5 percent in Region III.

- Return on average assets (ROA) for Region IV was 0.61 percent during 2008, 31 basis points above the 0.3 percent figure for all FICUs and 64 basis points higher than Region V's negative 0.03 percent. Compared to December 2007, ROA for all FICUs fell 34 basis points in December 2008.

- Share drafts saw an increase of 3.8 percent for all FICUs in 2008. Region IV experienced the largest growth of 7.9 percent, compared to only 0.6 percent in Region V. Overall, share growth was up 7.7 percent. Money market shares were the principal factor driving share growth in 2008, growing 15.6 percent and accounting for 35.6 percent of total share growth.

- New auto lending declined by 1.8 percent in 2008 on the national level, with Regions II and V reporting the strongest declines (7.3 and 10.6 percent, respectively). Region IV had the smallest decline of 0.2 percent.

- First-mortgage real estate loans grew by 14.5 percent during 2008, which was the highest growth rate in five years. Other real estate loans experienced 5.8 percent growth. First mortgages continued to be the lion's share of FICU loan growth (70.3 percent), although the weakened housing market has caused a slight decline in overall real estate loan growth.

- The delinquency ratio was up by 44 basis points to 1.37 percent for all FICUs in 2008. Across the country, the delinquency ratio was as low as 1.07 percent in Region II and as high as 1.6 percent in Region V. The number of members bankrupt increased nearly 50 percent from 158,144 in December 2007 to 246,324 in December 2008.

- All regions cited NCUA's corporate stabilization program as a concern for the upcoming year. There is a lot of uncertainty surrounding the timing of the events and the recognition of the losses. The impact from the premium assessment may bring many credit unions below the well-capitalized level.

- Delinquency ratios and net charge-off's are up in the industry and it will be another difficult year, economically. However, credit union's are still focused on their number one priority: serving members. Credit unions are offering new loan products and also increasing their business loan portfolio balances with higher credit quality borrowers as banks become hesitant to make credit available.

NCUA Region One

As of December 31, 2008, NCUA Region I (Northeast) consisted of the states Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, and Vermont. Recently Nevada has been added to this region, though its FICUs will not be included in the figures for this chapter. As of December 2008 there were 1,320 federally insured credit unions (FICUs) in the region, with total assets of $128.2 billion and total membership of 13.7 million.

Lending

Loans in Region I grew 6.7 percent to $84.8 billion during 2008, less than the 7.1 percent pace for all FICUs nationwide. During 2008, loan growth was concentrated in first-mortgage real estate loans and, to a lesser extent, other real estate loans. The region's credit unions experienced a relatively strong demand for first-mortgage loan products, while home equity lending expanded slightly more than it did during 2007. During 2008, first mortgage lending expanded by 10.1 percent, while other real estate loans (home equity/second mortgage) grew by 4.9 percent. As of year-end 2008, real estate loans comprised 62.3 percent of all loans in the region. Light-vehicle loan portfolio growth expanded 3.5 percent during 2008. New light-vehicle loans, however, declined 1.1 percent during 2008 compared to a negative 1.9 percent during 2007. The uncertainty in the economy, rising energy costs, and reduced new vehicle sales have constrained new vehicle loan growth during 2008. In contrast, used light-vehicle loans increased from a positive 0.1 percent during 2007 to a positive 7 percent during 2008.

Just like all FICUs, credit unions in Region I experienced a strong decrease in unsecured lending growth. During 2008, credit card lending increased by 3.7 percent, while other unsecured lending increased by 0.3 percent. The region's credit unions experienced strong demand for member business loans last year. Member business loans outstanding grew 24.6 percent to over $5.2 billion.

According to NAFCU's March 2009 Flash Report, near-term expectations for loan demand in three out of the four loan categories were slightly more favorable in Region I than for all credit unions. The responding credit unions felt that light-vehicle loan growth, especially new light vehicles, would remain sluggish. Many credit unions are developing relationships with auto dealers in their communities as the auto dealers' traditional sources of funds (banks) have reduced credit availability. There id anticipation that real estate lending growth would deteriorate slightly in 2009. The near-term prospects for unsecured lending indicate a slight negative outlook, more so than in other parts of the country.

Member Shares (Savings)

During 2008, total share growth in Region I was 7.5 percent, slightly lower than the share growth experienced among all FICUs. However, many FICUs in the region saw share growth in share drafts and money market shares outpacing the figures for all credit unions, increasing by 4 percent and 17.6 percent, respectively. As many regional credit unions had chosen to decrease their interest rates on share certificates and regular shares, there was a net inflow of 4.6 percent and 4.8 percent, respectively, during 2008. "Other" shares also saw an increase of 6.5 percent last year. Credit unions are seeing net interest margins tighten due to increased deposits and lower investment yields. Although liquidity is increasing, the yield curve has declined. Many credit unions will now resort to extending terms or giving up options (callables) to chase yield.

In 2008, nonmember deposits decreased by 0.95 percent, lower than the positive 4.5 percent growth rate among all FICUs. Many of the region's credit unions expect share growth to remain weak over the near term, a similar viewpoint held by other credit unions nationwide. During last year, the weak loan demand, coupled with strong share growth, caused the region's credit unions' loan-to-share ratio to decrease from 80.6 percent in December 2007 to 80 percent in December 2008. Among all credit unions, the loan-to-share ratio was 83.6 percent and 83.1 percent, respectively, during the same time periods.

Earnings and Asset Quality

During 2008, the credit unions in Region I had an annualized ROA of 0.42 percent, down from 0.59 percent in 2007. This is better than the decline experienced among all FICUs who saw ROA go from 0.63 percent in 2007 to 0.29 percent for last year. While the region's credit unions' loan yields were slightly lower than the average, the region's investment yields were higher than 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. This 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 mixed in comparison to the asset quality of all FICUs during last year. The delinquent loans-to-total-loans ratio in the region was 1.19 percent compared to 1.37 percent for all FICUs, while the net charge-offs to average loans rate of 0.59 percent in the region was lower than the overall rate of 0.84 percent. During 2008, member bankruptcies were an increasing problem in Region I as the annual number of members filing for bankruptcy and loan amounts subject to bankruptcy increased significantly. The total number of bankruptcy filings in the region increased 38.1 percent to 32,189 and the loan amounts subject to bankruptcy increased to $359.8 million. The latter number was up from $252.3 million as of year-end 2007.

Credit unions are seeing increased business loan opportunities as banks become more reluctant to make credit available. Prior to the recession, credit unions were competing with other financial institutions to provide financing. Currently, the tables have turned and borrowers are lobbying financial institutions for credit. Credit unions are taking advantage of this situation and increasing their business loan portfolio balances with higher credit quality borrowers.

Competition and Credit Union Operational Concerns for 2008

Most credit unions are seeing their delinquency rates rise steadily with charge-offs lagging (rising but at a slower pace). Bankruptcies appear to be rising as well. Most credit unions want to make loans and have the necessary liquidity to do so. While banks are tightening credit, credit unions are increasingly becoming the providers of basic household financing (home, car, and credit card).

Most credit unions are still contemplating how the corporate credit union stabilization program will affect their 2008 and 2009 financials and are waiting for congress to pass legislation that will extend the timeframe to expense NCUSIF premiums. As this becomes clearer, most credit unions will have to adjust 2008 financials and 2009 budgets to account for these events.

Decreased net worth ratios may cause some credit unions to re-evaluate branch expansion and other expenditures. An era of increased focus on operational efficiency is upon us. Emphasis on low cost sources of funds and decreasing the cost of funds ratio will be required for many CUs to decrease costs.

Consolidation within our industry is bound to increase as a result of the expenses related to NCUSIF and because corporate credit union membership capital share deposit is impaired. The result will be a smaller number of larger and stronger credit unions.

Member Concerns and Economic Conditions in 2008

Members of Region I credit unions remain concerned about the financial turmoil and its implication for 2009 and beyond. There has been a significant number of inquiries about credit union safety and soundness in the wake of increased bank failures and the health of both federal insurance funds. Since the Fed moved to lower interest rates and increased access to the discount window last year, there is hope that credit unions' cost of funds will decline further and compressed margins will thus be alleviated to some degree. Credit unions continue to experience increasing delinquency and charge-offs due to bankruptcy and foreclosures. Many members are just one negative event away from financial disaster (death, unemployment, divorce, medical, etc.) and as the economy continues to decline, more of these events are becoming reality.

Most credit unions saw overall lending remain strong last year, especially in real estate loans. New auto loans/sales have been very slow. Home equity loans are not growing due to declining property values and evaporation of equity. Those with equity and good credit are taking advantage of artificially low mortgage rates. Used autos have grown somewhat. Many credit unions are seeing an increase in auto loans as leasing options are more difficult to qualify for and some of the captives are exiting the leasing business. This is an opportunity for credit unions to increase market share in secured lending.

Deposit growth appeared to be healthy overall, especially during the second half of last year. As members curtailed expenditures due to the economic uncertainty, the seasonal rise in loans did not occur.

With all of the uncertainty surrounding the Big Three automakers, their suppliers and the automotive community in general, members are bracing for the worst. Members are putting off major purchases, increasing savings and trying to secure revolving credit.

If GM or Chrysler were to fail, the impact to greater Detroit would be devastating. Although it would not damage property, it would have an impact similar to that of a tornado or earthquake. The financial landscape for thousands of citizens would be changed and many businesses would fail. Unemployment would significantly increase and property values would continue to decline. Local, city, county and state budgets would also feel the impact and the result would be increased taxes or decreased services - neither of which would help the region escape this catastrophe.

NCUA 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. Alaska was recently added to this region, but was not used in calculating the December 2008 figures. The region's federally insured credit unions (FICUs) have about 16.2 percent of the total assets of the nation, down slightly by 0.04 percent from December 2007. There are 13.6 million members in this region as of year-end 2008, up by 313,814 (2.4 percent) from December 2007. These percentages mirror the regional economy where the gross domestic product by state is about 13.9 percent of the U.S. gross domestic product. Regional production is more concentrated in professional services, government and healthcare industries than the average concentrations found nationwide.

Lending

Region II FICUs generated loan growth of 13.7 percent during 2008, more than twice the national average of 6.6 percent. Over the course of 2008, first-mortgage real estate loans supplied 48.9 percent of loan portfolio growth, closely followed by other real estate loans at 23.3 percent. Combined real estate-secured lending (first mortgages and HELOCs) accounted for almost three quarters of the gain.

Looking forward to 2009, Region II FICUs anticipate higher loan growth for real estate loans than do FICUs in other regions. Conversely, Region II FICUs expect new vehicle and used vehicle lending to moderate somewhat over the next 12-month period. Unsecured loan expectations are slightly less negative than those of other FICUs nationwide.

Total auto loans in Region II decreased by 1.9 percent during 2008, compared to the rate of all FICUs at a negative 0.1 percent. In Region II, used auto loans rose by 4 percent but were offset by a decline of 7.3 percent in new auto loans.

Unsecured loans (excluding credit cards) represent 6.3 percent of all FICU loans in the region. This portfolio segment increased 6.4 percent during 2008. Credit card loans increased 13.8 percent during the same period, representing 9.8 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 in the near term, but not as negative as their outlook for overall vehicle loans.

Member Shares

Total savings and deposits reached $105.5 billion in December 2008, up $6.5 billion (6.6 percent growth) from December 2007. Share drafts contributed a positive 6.8 percent to the overall savings growth during the year, while share certificates contributed a positive 29.5 percent. Money market shares grew by 8.2 percent and share certificates grew by 5.7 percent. The overall impact on savings and deposits from highly liquid accounts for 2008 was a 51 percent contribution. In addition, regular shares and IRA/Keogh accounts had a contribution of 41.5 percent. For the next six months, Region II FICUs foresee some increase in share growth, more so than share growth expectations seen in other regions.

During 2008, Region II FICU share drafts (11 percent of Region II shares) increased 3.9 percent since the end of 2007. Regular shares (25.8 percent of Region II shares) increased 5.2 percent during 2008. Money market share accounts (17.5 percent of FICU shares) reached $18.5 billion as of December 2008, up by $1.4 billion (8.2 percent growth) from December 2007. FICU share certificates (33.6 percent of shares) experienced a 5.7 percent increase during 2008.

IRA accounts (11.2 percent of FICU shares) were a safe haven for members' precious retirement funds in 2008. This deposit segment advanced 12.9 percent from last year compared to a national average of 13.7 percent.

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

Despite the decrease in the cost of funds, mainly assisted by lower interest rates during 2008, Region II's credit unions experienced a decrease in consolidated ROA. At 0.46 percent (average ROA for all FICUs was 0.31 percent) this profitability measure decreased 29 basis points since 2007 for the region's credit unions. This is mainly due to the increase in the provision for loan losses (up 42 basis points), the decrease in the cost of funds (down 35 basis points) and the decrease in gross spreads (down 24 basis points). Many FICU management teams have reduced their cost of funds in response to the sharp drop in overnight rates that we saw in the fourth quarter of 2008. Earnings are still under pressure; however, as the corresponding low rate of return on investments has continued to decrease margins, some FICU management teams expect a further decrease in ROA due to the continued increase in delinquency and charge-off rates, which will create a need for additional funding of the provision for loan losses.

Gross income growth decreased by 24 basis points from 7.23 percent in 2007 to 6.99 percent in 2008. The ROA decreased among Region II FICUs because of the 7-basis-point decrease in yield-on-average loans, and a 97-basis-point decrease in the yield on average investments. Fee income and other operating income/average assets were also down (1 basis point).

Loan Loss Trends in 2008

Most FICUs in Region II indicated that their lending growth had been stronger than average for the last several months, due to the historic increase in mortgage originations. The low rates have created a demand for refinancing that has caused some credit unions to stop taking applications until they can catch up with their application pipeline. Others are reporting a 72-96 hour turn-around time to return member inquiries. In the area of loan quality, Region II FICUs had a slightly lower delinquency ratio and slightly higher charge-off ratio than credit unions nationwide in 2008. However, some credit unions are still experiencing a large number of charge-offs, particularly in the home equity and credit card portfolios. The trend in bankruptcy among Region II FICUs saw a lower percentage when compared to the pattern found among credit unions nationwide. In December 2008, the ratio of loans subject to bankruptcy as a percentage of total loans was 0.47 percent among Region II FICUs, while nationwide the ratio was 0.50 percent.

The primary operational concerns for 2009, cited by Region II credit unions, include rising foreclosures (with greater concern about loan quality), risk mitigations, rising compliance costs, and attracting new members. Lower cost of funds and non-interest income were mentioned as positives for future performance.

Member Concerns and Region II Economic Conditions in 2008

Credit union leadership in Region II stated they have gotten increased inquiries about the safety of their credit unions, especially after recent bank failures. In addition, some voiced concerns about the impacts to their membership and to their credit unions. Furthermore, bankruptcies and real estate foreclosures continue to be a focus of their attention. Some credit unions have indicated that the trend of members resolving such problems may continue this year as well as next year.

The corporate credit union stabilization plans have also created some confusion and uneasiness among FICUs. There is too much uncertainty around the overall situation, as the FICUs are receiving conflicting opinions regarding the amount of overall funding needs as well as the timing of the losses. The accounting industry has not been able to agree as to the timing of the events or the recognition of the losses. This has led some FICUs to record these losses against their income in 2008, and others to defer the losses into 2009. Some credit unions in this region are beginning to put business plans on hold or to modify them as a response to the recommended write-down of losses to the NCUSIF.

NCUA Region Three

NCUA Region III (Southeast), consisting of ten states and two territories[1], finished 2008 with 1,616 federally insured credit unions (FICUs). This represents a net decline of 65 basis points or 3.9 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 the region rose to $159 billion. This translates into an annual growth rate of 6.5 percent, which is 1.2 percentage points below the reading for the nation as a whole. Membership in the region climbed to 19.9 million, up 310,000 over the past year. Roughly 68 percent of this increase was generated in the first half of 2008. Membership growth in Region III, at 1.6 percent in 2008, continues to trail the 2 percent national average rate of increase. Total employment (full- and part-time FICU employees) is now 56,695. The 50 largest FICUs in the region hold 53 percent of all assets and 42 percent of the total membership in the region. Included in this group are 31 FICUs with assets in excess of $1 billion.

Region III covers a wide expanse of geography ranging from the north end of Indiana to the southern tip of Florida. Thus, economic and employment conditions vary significantly. In fact, three of the states most often mentioned for major housing market corrections (Florida, Indiana and Ohio) are in Region III and the reasons for the declines vary greatly. The economic cycle, the extreme housing market correction and the credit crisis are clearly impacting the 'decision making' of both members and FICU leadership. We anticipate that the lack of access to affordable credit for both new borrowing and refinances will adversely impact consumers, but provide opportunities for FICUs.

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 that they have money to lend. Throughout 2008, Region III FICUs collectively remained in good health although their collective net worth ratio fell to 11.2 percent from 11.63 percent at year-end 2007. The Region III aggregate ROA (return on average assets) of 31 basis points eroded by 27 basis points over the past year. Loan delinquencies climbed to 1.43 percent of total loans from 1.03 percent last year. Net loan charge-offs moved up sharply as did the provision for loan losses.

The Economic Stimulus Act of 2008, which granted tax rebates of $300 for individuals and $600 for married couples, along with the actions by the Federal Reserve to lower short-term interest rates, seems to have had a positive impact on credit unions in the region in early 2008. However, extraordinary events during the first three months of 2009 will have a materially negative impact on financial performance. On March 20, 2009, NCUA placed U.S. Central Federal Credit Union and Western Corporate Federal Credit Union (WesCorp) under conservatorship. NCUA estimated that credit losses within the two organizations' investment portfolios would total $10.8 billion. This amount exceeds the amount of total capital available at the two organizations. Previous actions to stabilize the corporate credit union network included granting deposit guarantees for corporate credit union depositors vis-à-vis the National Credit Union Share Insurance Fund

[1]Region II is made up of the states Alabama, Florida, Georgia, Indiana, Kentucy, Mississippi, North Carolina, Ohio, South Carolina and Tennessee and 2 territories, Puerto Rico and Virgin Islands.

(NCUSIF) and infusing $1 billion in capital. The cost to credit unions equaled a 69 percent impairment of their existing NCUSIF deposit plus an additional 0.3 percent premium assessment on insured shares. Credit unions may elect to record these losses as of year-end 2008, and revisions to the currently available 5300 data are expected. To date, the only states in Region III with aggregate positive net income for all FICUs are North Carolina with a 4.4 percent increase and Alabama with 2.3 percent. Florida FICUs have posted a 2.05 percent drop in net income, losing $148.7 million.

Lending

At 5.9 percent, year-over-year loan growth in Region III trails the national average by over a full percentage point as 872 FICUs in the region reported declines in total loans. The 5.9 percent annual gain in loans generated by Region III FICUs is 1.2 percentage points below the national average. The 108 FICUs in North Carolina posted the strongest year-over-year loan growth at 10.7 percent and they accounted for 31 percent of the region's gain in 2008. Florida's 185 FICUs held 27 percent of all loans in the region but were only able to generate a 1.2 percent year-over-year increase.

At 79.6 percent, the loan-to-share ratio is down 13 basis points over the past year, but is up 302 basis points compared to the first half of 2008. Region III FICUs are under-performing the total U.S., which has a loan-to-share ratio of 83.1 percent. While the U.S. loan-to-share ratio has declined 48 basis points, year over year and remains at historically elevated levels.

The $5.1 billion gain in first mortgages and lines of credit accounted for 85 percent of all loan growth year over year. Despite the crisis in the overall housing market, first mortgage originations in Region III are almost 19.3 percent above the year-end 2007 level, as much of the competition has left the market. This surge in originations combined with a 23.9 percent surge in loan sales produced a healthy 14.5 percent year-over-year first mortgage portfolio gain. When gains in home equities and second mortgages are added to first mortgages, the combined real-estate portfolio segment accounted for over 98 percent of all loan growth in the region during the year. In 2008, 797 FICUs reported originating first mortgages. Real estate secured-loans now equal 51.6 percent of all loans in the region, up from 48.9 percent at year-end 2007.

The 7 percent contraction year-to-date in new vehicle loans outstanding at Region III FICUs overwhelmed the 4.4 percent used vehicle portfolio gain, thus total vehicle loans outstanding in the region declined 1 percent in 2008.

The economic recession accelerated during the second half of 2008, causing notable migrations in consumers' appetite for credit. Auto and real estate lending tapered off towards year-end while credit card balances grew rapidly. During the first half of 2008, 62 percent of the Region III's growth in first mortgage lending occurred. FICU's in Region III experienced a 7 percent decrease in new automobile loans in 2008, following 2007's 2.3 percent drop. Used auto lending increased 4.4 percent in Region III; all of the growth occurred during the first three quarters of the year.

Credit card lending was flat during the first half of 2008 with 102 percent of the year's growth in this category occurring during the second half of the year.

A total of 334 FICUs in Region III reported having an indirect lending channel (point-of-purchase financing), slightly up from 331 at year-end 2007. Indirect loans outstanding are up 4.7 percent over the past year and now account for over 34 percent of all vehicle loans in the region.

Total Shares

During the first half of 2008, total shares rose 6.1 percent to $135.2 billion. This gain was smaller than the national average, which saw a growth rate of 7.7 percent. The strongest growth was in money market accounts up 15 percent, followed by IRA/KEOGH accounts up 11.5 percent. Combined, these two portfolio segments have accounted for 61.8 percent of the year-over-year gain. While down 3.2 percent through the second half of 2008, regular shares were up 3.7 percent over the past year. Region III's share of share certificates rose slightly from 26 percent at mid-year 2008 to 32.4 percent at year-end. While the 5 FICUs in the Virgin Islands generated the strongest growth in 2008 at 129.8 percent, Florida FICUs held 27 percent of all savings in the region, but posted a year-over-year gain of 7.3 percent.

The lower interest rate environment and a shift in saving structure away from higher cost CDs have moved Region III credit unions' cost-of-funds down 38 basis points since the beginning of 2008 to 2.45 percent. Given economic uncertainty, Fed rate cuts and an overall flight to safety, we expect the cost-of-funds to decline. 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 the recent actions of NCUA. It will be imperative that credit unions manage increases in deposit growth in relation to capital growth.

Asset Quality and Operational Results

The consolidated ROA for Region III FICUs was 0.29 percent, reflecting a 24 basis point reduction from the June 2008 level and a 29 basis point decline from year-end 2007. A total of 1,215 FICUs (75.2 percent of the region's FICUs) reported positive ROAs, while 401 reported losses or no gain. The FICUs with negative ROAs represented just 19.1 percent of the region's assets. This is a significant deterioration from prior year results which showed just 4.8 percent of region's assets at negative ROA institutions. On a year-over-year basis 1,204 FICUs reported declines in their ROAs. These FICUs hold 68 percent of the region's assets.

A pervasive combination of recession, the credit crisis, and unwinding of speculative excesses in the real estate sector has adversely impacted asset quality. The loan delinquency rate is up 40 basis points over the past year to 1.43 percent. Over the same period, net charge-offs rose from 0.53 percent of average loans to 0.91 percent. Both measures are above the national averages and much of this is due to the significant challenges in the Southern markets. Looking at one measure of operating efficiency (the ratio of operating expenses to average assets), at 3.62 percent is basically unchanged for the year. It is expected that this trend will reverse as credit unions carefully manage the growth in expenses in relationship to the growth in assets as they react and respond to the recession. Controlling growth in operating expenses is another important tool to be exercised. The challenge will be to gain efficiencies that will not damage the long-term value proposition and growth opportunities.

Credit quality continues to be a concern, especially in terms of real estate. Home values have not fully stabilized, although, low interest rates and falling home prices have led to modest increases in new and existing home sales during early 2009. Increases in the number of repo automobiles, especially trucks and SUVs, have increased and credit card delinquencies are increasing. As far as improved efficiencies relating to operating expenses, credit unions may have to staff up to support the surge in mortgage refinances as well as having added staff for collections. On a positive note, credit unions continue to increase hours of operations and branch networks to better serve members, while at the same time working to leverage investments in technologies and manage employee costs by filling vacancies via attrition and benefit costs.

Looking forward, we see significant challenges for Region III and all FICUs. Economic and credit conditions will likely get worse before some stabilization late in 2009. Credit unions will be facing considerable expense for supporting the corporate credit union stabilization plan. Cooperative effort will be required to make sure credit unions continue to benefit from their ownership of corporates which includes vital access to payment systems, investments and liquidity. 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. Liquidity is also critically important for credit unions in the region. As competition for insured savings continues and credit conditions intensify, "cash will be king" so that credit unions will have options to manage growth and focus their cost of funds dollars on their most loyal members. Keeping communications with members and staff will also be vitally important to maintain trust and confidence. As noted several times in the credit union trade publications, credit unions did not cause the problem and are in fact part of the solution. Getting this message out at every opportunity while working to align operations to fulfill our not-for-profit charters is critically important.

NCUA Region Four

NCUA Region IV consists of 2,322 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 year-end 2008. The credit unions in this region represent 29.7 percent of all FICUs and, with total assets of $162 billion, hold 19.9 percent of all FICU assets. Total membership in Region IV reached 19.4 million and now accounts for 21.9 percent of all FICU members. A high level summary shows a net reduction of 71 Region IV FICUs during 2008, but asset growth in excess of 10 percent, 447,000 additional members, loan growth above the national average at 8.8 percent and a net worth ratio of just fractionally below 11 percent. At the end of 2008, total employment (full and part-time FICU employees) was 57,512 and there were 5,360 branches within the region. The 50 largest FICUs in the region held 45 percent of all assets and 33 percent of the total membership. Included in this group are 25 FICUs with assets in excess of $1 billion.

Loan Growth

Region IV FICUs generated 8.8 percent loan growth in 2008, up from just 4.5 percent in 2007. Region IV loan growth exceeded the national average by almost two percentage points. Total loans outstanding in Region IV now equal $109.3 billion, representing 67.6 percent of total assets, down from 68.7 percent of assets at year-end 2007.

Over the course of 2008, first mortgages were the largest component of loan growth. This portfolio segment increased 15.8 percent during the year and accounted for almost 52 percent of all loan growth. When combined with other real estate loans, the total real estate component accounted for 62 percent of all loan growth in Region IV. The $48 billion in real estate secured loans now equals 44 percent of all loans, up from 42 percent at year-end 2007.

First mortgage lending activity was extremely strong in 2008. A total of $13.4 billion in first mortgages were originated in 2008, a 25.5 percent increase over 2007 volumes. Roughly 62 percent of 2008 originations were in fixed-rate product, 23 percent in balloon/hybrid and just 15 percent in adjustable-rate loans. Other real estate loans granted were up just 0.6 percent in 2008 with 21 percent growth in HELOCs granted being offset by declines in open- and closed-end fixed-rate loans. Net growth in first mortgage balances was 34 percent of first mortgages granted in 2008 versus a comparable rate of 27 percent in 2007.

Last year was a very difficult for new vehicle sales and Region IV FICUs failed to have new loans booked keep pace with amortizations and payoffs. The new vehicle component of vehicle loans declined for the second consecutive year. The 0.2 percent decline was much better than the national contraction of 6.2 percent and better when compared to national vehicle sales trends. On a positive note, the used vehicle portfolio segment surged 9.5 percent over the past year, up from 1.8 percent growth in 2007 and 3.7 percentage points above the national average. In total, Region IV vehicle loans were up 4.8 percent ($2 billion) in 2008, while the nation as a whole posted a 0.1

percent decline. Much of the success in the region was attributable to indirect point-of-sale arrangements, up 15 percent ($1.9 billion) for the year.

Region IV credit card balances grew 4.9 percent in 2008, well below the 8.6 percent growth generated nationwide. Recent observations from some credit unions in the region indicate that in the first quarter of 2009 credit card purchases have declined, implying potentially lower growth in credit card balances for 2009. Business loans were up 16.9 percent in 2008 and now equal roughly 4 percent of assets, up from 3.7 percent in 2007. FICUs in Region IV granted $2.9 billion in member business loans in 2008, up 11.4 percent over 2007 origination volumes.

Member Shares

Total shares and deposits finished the year up a solid 10.9 percent, a full six percentage points above 2007 growth and three percentage points above the national average rate of increase. We clearly witnessed a flight to the safety of insured deposits along with a more cautious member base given rising employment uncertainty and performance/volatility in the equity markets. Total shares and deposits finished the year at $136 billion with the largest gains coming from CDs, regular shares and money market accounts.

CD growth slowed to 9 percent, down from a 13.6 percent surge in 2007. This portfolio segment of term deposits accounted for 27 percent of share and deposit growth in 2008 and now equals 32 percent of all credit union deposits. Member flight to safety is also reflected in IRA/KEOGH balance growth of 14 percent, almost double last year's rate of increase.

After declining almost 4 percent in 2007, regular shares were the second largest component of deposit growth in 2008. Regular share growth of 8.4 percent accounted for 24 percent of deposit growth in 2008 and this portfolio segment now equals 30 percent of all deposits at Region IV credit unions.

Given the narrowing of spreads between CDs and money market accounts, it was not surprising to see money market growth in excess of 17 percent in 2008. This smaller, but rapidly growing segment of credit union deposits accounted for 23 percent of 2008 deposit growth and now equals roughly 16 percent of total deposits.

Rising competition for deposits, the need to recover equity market losses and some credit unions intentionally managing deposit and asset growth down (to improve the net worth and other key rations), implies slower share and deposit growth in 2009 and possibly into 2010.

Loan Quality

Over the course of 2008, the delinquency ratio rose to 1.32 percent. This was 23 basis points above the year-end 2007 level. Delinquent loans now equal 0.89 percent of assets. In addition to higher delinquencies, charge-offs moved up from 0.49 percent of average loans in 2007 to 0.63 percent at year-end 2008. While both key measures of loan quality in Region IV deteriorated in 2008, they remained better than the results for the nation as a whole. Looking at high level detail, we see that real estate-secured loans (first mortgages, second mortgages and home equity loans/lines of credit) two or more months delinquent rose 56 percent ($200 million) in 2008 and credit card delinquencies were up $26 million or 39 percent. Given the charge-offs that have already occurred and the high volumes of new mortgages that were generated in 2008, it is disturbing to see the continued erosion in credit quality. Many credit union leaders in Region IV believe it will get worse over the next several quarters, however, members appear to be more prudent in spending since credit card and debit card purchase volumes have reflected declines in early 2009.

Investments

With asset growth outpacing loan growth by almost two percentage points, Region IV credit union investments rose $6.1 billion (20.9 percent) to $35.5 billion. Investments now equal 22 percent of Region IV assets, up from 20 percent at the end of 2007. When combined with cash and cash equivalents the year-end 2008 ratio climbs to 28 percent.

Cash and cash equivalents were basically unchanged at $10 billion, although liquid investments fell to 58 percent of investments from 62 percent at the end of 2007. Credit unions in Region IV also slightly extended investment portfolio maturities, with 42 percent of investments maturing in greater than one year versus 38 percent at year-end 2007. Region IV credit unions had $5.8 billion in cash on deposit at corporate credit unions, an 8.3 percent decline from 2007 levels.

Earnings

Region IV year-end return on average assets (ROA) was 50 basis points, a decline of 18 basis points from year-end 2007, but well above the 31 basis point level posted for the nation as a whole. In 2008, 19 percent of the credit unions in the Region reported a negative ROA, but these 445 credit unions held just nine percent of the Region's total assets.

Regional net interest margin for 2008 was 3.16 percent, a fractional improvement from the year-end 2007 level of 3.13 percent. Stronger deposit growth in lower cost funds is the primary reason for improvement. The net interest margin in Region IV was roughly equal to the national average in 2008.

The combination of strong asset growth (10.5 percent) and weakening net worth growth (4.6 percent) caused the net worth to asset ratio to fall 61 basis points over the course of 2008 to 10.96 percent. Results for Region IV credit unions were fractionally better than those reported nationally. Going forward we anticipate further deterioration in this key measure due to NCUSIF assessments and continued credit quality issues. When one considers that NCUA has determined credit unions with a net worth ratio of seven percent or greater are more than adequately capitalized, the 10.96 percent year-end level in Region IV is solid. A more detailed look at the data indicates 42 Region IV credit unions had a net worth ratio below 7 percent. These credit unions held just 1.4 percent of the region's assets.

Stabilizing the corporate credit union system was necessary, but it will have a material impact on many credit unions. The combined impact of this action on income and net worth, as well as the deteriorating economic situation, will force some credit unions to take action to grow net worth and increase net income. The consequences will be curtailed growth plans and pricing slightly tilted to grow net interest margin, which could moderate the high growth levels seen in 2008.

NCUA Region Five

Region V (West) consists of 13 states and two territories: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, Wyoming, and the Territories of Guam and American Samoa. As of December 31, 2008, the region's 1,259 federally insured credit unions (FICUs) comprised 16 percent of all FICUs and held almost $233 billion in total assets, 29 percent of the nation's total credit union assets. Credit unions across the country continue to attract new members and Region V FICUs were no different with membership increasing by 558,137 over the course of 2008, closing the year with 22.01 million members. Total assets grew by 6.7 percent during 2008, while reserves and undivided earnings increased by 0.1 percent to $23.7 billion. Shares grew $13.7 billion (7.4 percent) over the year, while loans increased $9.5 billion (6 percent). At year-end 2008, share balances totaled $198 billion while outstanding loans came in at $168 billion. The loan-to-share ratio fell to 85 percent in 2008 compared to 86.1 percent one year prior.

Loan Growth

Loan growth in Region V for 2008 was 6 percent, representing a deceleration from the 2007 growth rate of 6.6 percent. The fourth quarter of the year saw loan gains softened to 0.2 percent, after having logged gains of approximately 2 percent in each of the three subsequent quarters. Total loans for Region V were over $168 billion as of year-end 2008, or 72.26 percent of total assets. Loans comprised 72.77 percent of total assets at the end of 2007.

Real estate lending remained a bright spot for credit unions during 2008. Residential first mortgage loans grew by 13.6 percent during this period, matching the percentage gain realized in 2007. The growth rate for other real estate loans slowed to 8.2 percent, slightly off of the 8.6 percent logged in 2007. This deceleration was undoubtedly largely due to the 23.9 percent contraction in the open-end fixed-rate portion of the other real estate portfolio.

The volume of new real estate loans granted in 2008 rose by 8.3 percent, slowing markedly from the 16.5 percent pace set in 2007. Total first mortgage loans stood at $62.2 billion at year-end. The growth rate in fixed rate real estate loans held on the balance sheet of credit unions was 11.1 percent; total adjustable rate real estate loans held on the balance sheet increased by 5 percent. Hybrid loans grew at a rate of 19.8 percent. At the close of 2008, ARMs and hybrids comprised 44.3 percent of the first mortgages held by credit unions. HELOCs increased by 14.7 percent over the course of the year, bringing the total value of HELOCs to $14.9 billion. For the region, real estate loans made up 54.6 percent of total loans, which is slightly higher than the level seen in 2007.

Auto loans were down 3.5 percent for 2008. New auto loan balances decreased by 10.6 percent, while used auto loan balances rose 4.3 percent. Indirect lending activity rose throughout the region, increasing 2.5 percent in 2008 compared to 2007's 0.6 percent gain.

Member business lending activity continues to grow as credit unions expand their offerings to members in this area and more members seek out their credit unions for such services. Member business loan balances increased to $13.3 billion, from $11.6 billion in 2007. While this sector represents 8.3 percent of total loans at credit unions in this region, the outlook for continued gains remains promising.

Credit unions expect less robust loan growth for 2009 as members' financial positions further deteriorate, limiting their ability to borrow. Some credit unions' lending activity will be curtailed by capital requirements. Anecdotally, several credit unions continue to see an increase in mortgage originations but many have resorted to selling these loans due to historically low interest rates and asset growth considerations. New vehicle lending is also expected to further slow ahead given the dire economic outlook throughout the region and the increased competitiveness of dealer financing. Used auto lending is expected to provide vehicle lending gains in 2009.

Loan Quality

Credit unions are doing a good job in managing credit risk, but credit conditions deteriorated further in 2008. The delinquency to total loans ratio rose from 0.88 percent in 2007 to 1.6 percent in 2008. The net charge-offs to average loans rate increased from 0.52 percent to 1.08 percent. There are concerns that the continued decline in home prices and the strong rise in unemployment will increase delinquencies and charge-offs throughout Region V. Many credit unions with sizeable mortgage portfolios have implemented programs in an effort to help members remain in their homes. All loan products, though, are facing these pressures, resulting in many credit unions more actively managing their portfolios and attempting to identify issues before they become too problematic.

Share Growth

Share growth was 7.4 percent, marking an increase from 2007's 4.7 percent gain. After declining by 4.5 percent in 2007, balances in all transaction and regular share accounts increased by 4.1 percent this past year. Money market share balances rose 17.8 percent while share certificates increased 2.7 percent, representing a significant deceleration after years of double-digit gains that are most likely due to members seeking liquidity for their funds or credit unions being outbid by competitors needing funding.

Over 47 percent of the $13.7 billion gain in shares can be attributed to increases in money market funds. As of year-end, money market shares represented 21.9 percent of total balances, compared to 19.9 percent in 2007. Share certificates still represent the greatest proportion of total balances at 33.8 percent, down slightly from 2007's 35.4 percent. While borrowing was up relative to 2007, the annual increase was not as sizeable. With loan growth expected to further moderate in 2009 as share growth remains strong, borrowing by Region V credit unions is expected to remain relatively flat.

Investments

Investments, excluding cash, rose in 2008, with total investments increasing from $37.1 billion at the end of 2007 to $42.8 billion in 2008. This represented 18.4 percent of total assets. Holdings of federal agency securities rose by 25.6 percent to a total of $18.8 billion, with agency mortgage-backed securities representing 61.8 percent of the total outstanding. Holdings of corporate certificates fell 11.8 percent, from $12.9 billion in 2007 to $11.4 billion in 2008. Most of the decline occurred in the final quarter of the year. Investments maturing in less than one year were 53.6 percent of total investments, while investments between of one and three years comprised 28.5 percent of the total. The average yield on investments decreased from 4.7 percent to 4.03 percent. After a decrease in investment yields in 2008, credit unions should continue to experience a decline in the overall portfolio yield as the portfolios turn over and re-price at current market yields. In the final months of 2008, credit unions opted to move to the very short end of the market and cash given the yield environment.

Earnings

Average return on assets (ROA) fell sharply to negative a 0.04 percent for 2008 compared to 0.6 percent in 2007. While this continues a long-term downward trend, it also represents a sharp, one-year deterioration. Significant additions to loan loss reserves, up $1.8 billion (or 169 percent) year over year were responsible for much of the decline. The average yield on loans decreased from 6.69 percent in 2007 to 6.56 percent in 2008. The cost of funds to average assets ratio fell from 2007's 2.79 percent to 2.44 percent. The overall net interest margin rose 0.12 percentage points to 3.23 percent. Operating expenses to gross income was at 48.1 percent for 2008, up from 46.4 percent one year prior. Operating expenses increased 6.8 percent in 2008, with travel and conference expenses down 3.1 percent and educational and promotional expenses seeing a slight 2.7 percent gain. Fee income rose 7.5 percent while interest income logged a 1.9 percent gain.

General Economic Conditions and Credit Union Concerns

Economic conditions worsened considerably throughout Region V in the fourth quarter of 2008 and into 2009 as the fallout from the credit crisis worked its way through the entire economic system and all parts of the country. The unemployment rates for Oregon and California now exceed 10 percent. Through the first half of 2008, several states in Region V seemed to be weathering the storm better than the crisis epicenter state of California, but that changed. Traditionally low unemployment states such as Hawaii, Idaho, and Utah felt the impact. While the unemployment rates in those states are still relatively low compared to California, all three experienced a sharp increase in unemployment. At the low point in 2007, the unemployment rate in Utah stood at 2.4 percent, Idaho 2.8 percent, and Hawaii registered 2.2 percent. Those states are now at 5.1 percent, 6.8 percent, and 6.5 percent respectively.

As rising unemployment and fears of job losses gripped the region, economic activity stalled in most regions. In the very distressed housing area, home sales activity has increased but the region's foreclosure sales have not resulted in any noticeable signs of stabilization. While the closing of large retailers make the headlines, many credit unions are reporting that escalating closures of smaller businesses are having a bigger impact on their members. Due to strong capital positions, credit unions did continue to aggressively market loan products despite the slowdown. Loan growth did slow considerably in the fourth quarter of 2008, but the region reported an increase in lending for the quarter and for the entire year. Additionally, many credit unions either began or beefed up existing programs to counsel members who were having financial difficulties.

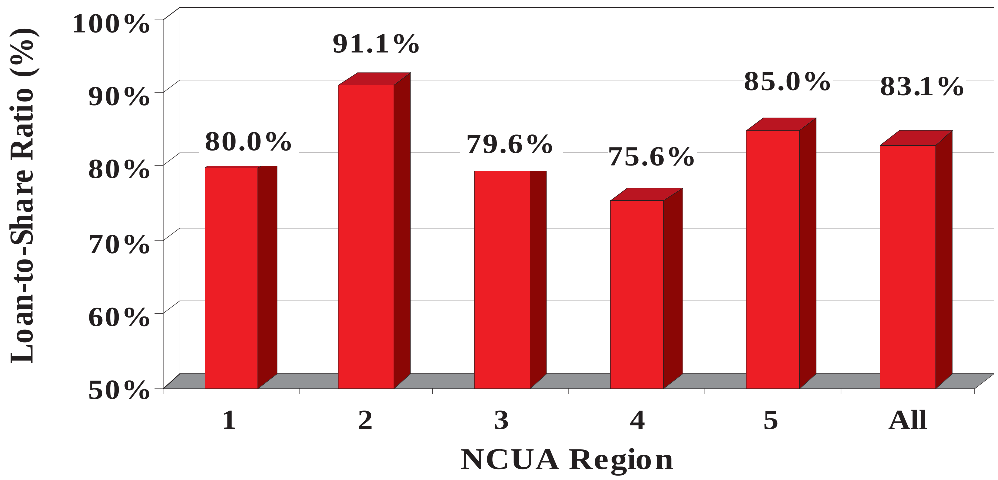
As the numbers show, credit unions added substantially to fourth quarter loan loss provisions. Most credit unions expressed that these additions would set the stage for a better 2009. There were exceptions to this, most notably from a few large credit unions in which losses have put pressure on capital ratios. However, for the most part, the region's credit unions with excess capital were eager to implement strategies for increasing loans in 2009. In the first quarter of 2009, events in the credit union industry have now threatened those lending strategies. NCUA's corporate stabilization plan, as it is currently designed, will significantly depress ROAs of most credit unions with the premiums paid to NCUISF escalating sharply. For those credit unions with ample capital, this can be overcome. But for many credit unions that are closer to the low end of the well capitalized definition, this will cause them to retreat from plans for growth.

Credit unions in the region were dealt another severe blow by NCUA’s placement in conservatorship of WesCorp. The NCUA required all members of WesCorp to immediately impair both forms of capital that credit unions hold in the corporate credit union. The total was just under $1.2 billion. WesCorp has a total membership of 1,059 credit unions, with over 850 of those credit unions in Region V. NCUA has reported that this will in fact result in ninety credit unions falling below the necessary capital ratio, but NCUA has pledged to work with those credit unions on plans to increase capital to the required ratio. However, the combination of the NCUISF premiums and the capital charge will clearly cause many of the region's credit unions to revisit strategic lending goals for 2009.

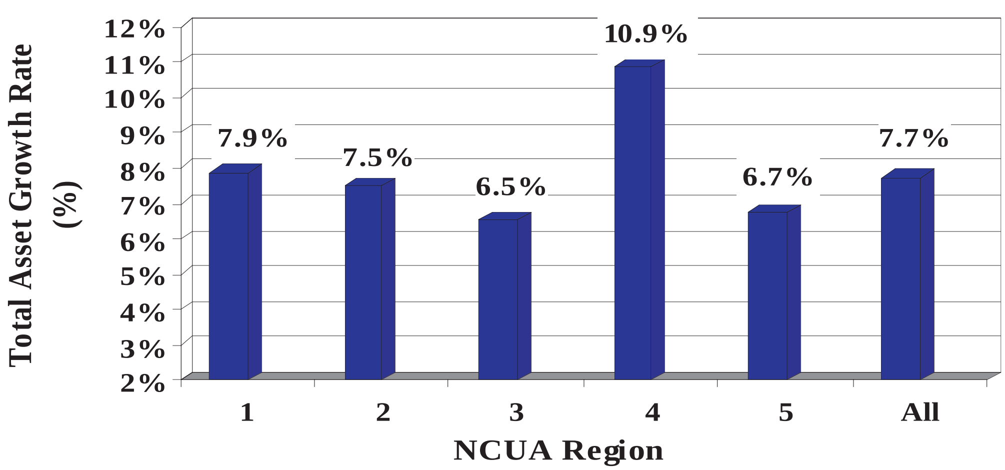
The general sense of credit unions in Region V is that 2009 will be another difficult year economically, but credit unions plan to continue to use this period of time to develop stronger member relationships.

Appendix A:
NCUA Regional Financial Ratio Analysis

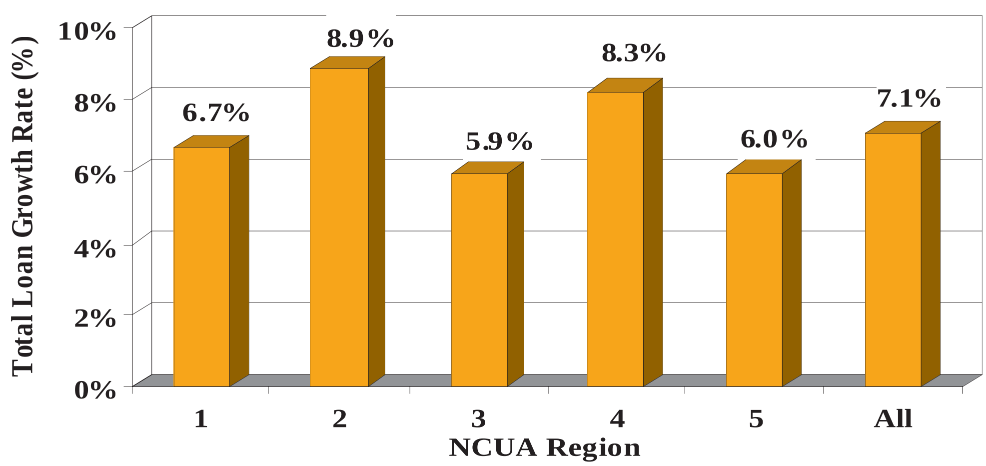
Loan-to-Share Ratio
Federally Insured Credit Unions by NCUA Region
December 2008



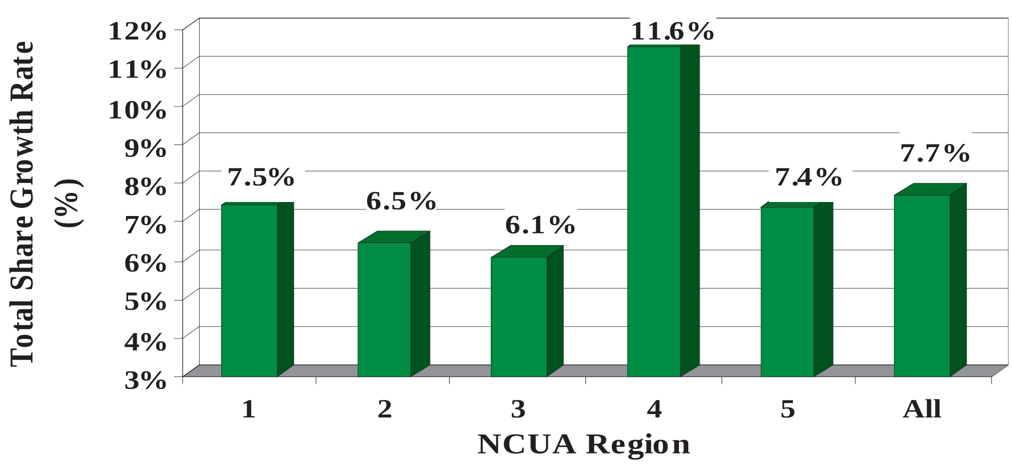
Total Asset Growth
Federally Insured Credit Unions by NCUA Region
December 2008



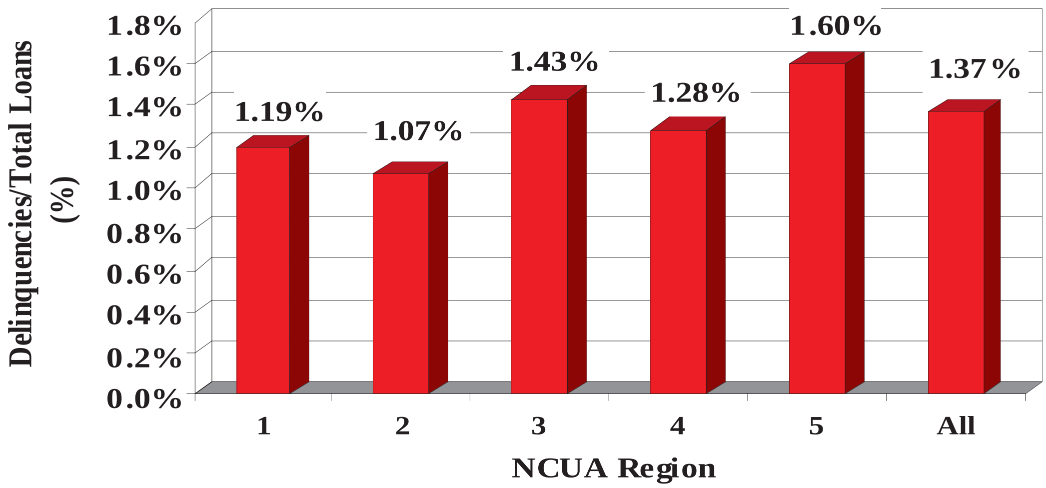
Total Loan Growth
Federally Insured Credit Unions by NCUA Region
December 2008



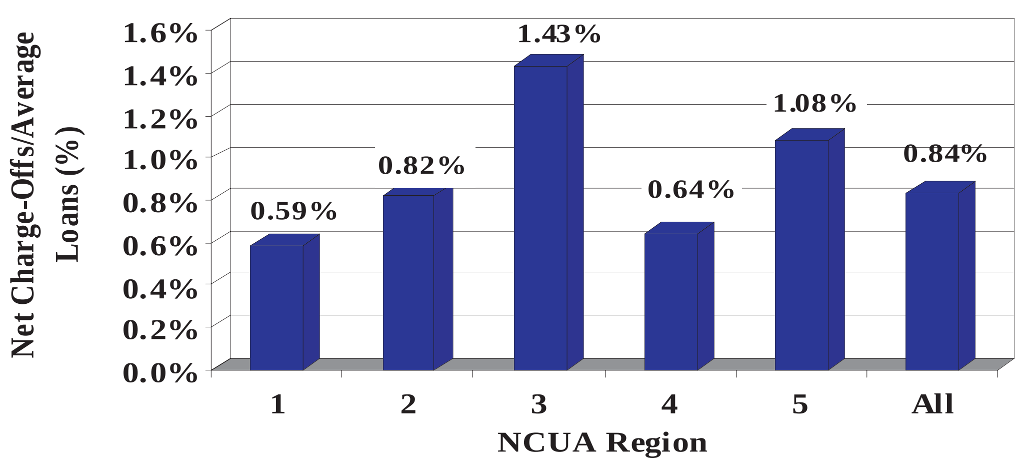
Total Share Growth
Federally Insured Credit Unions by NCUA Region
December 2008



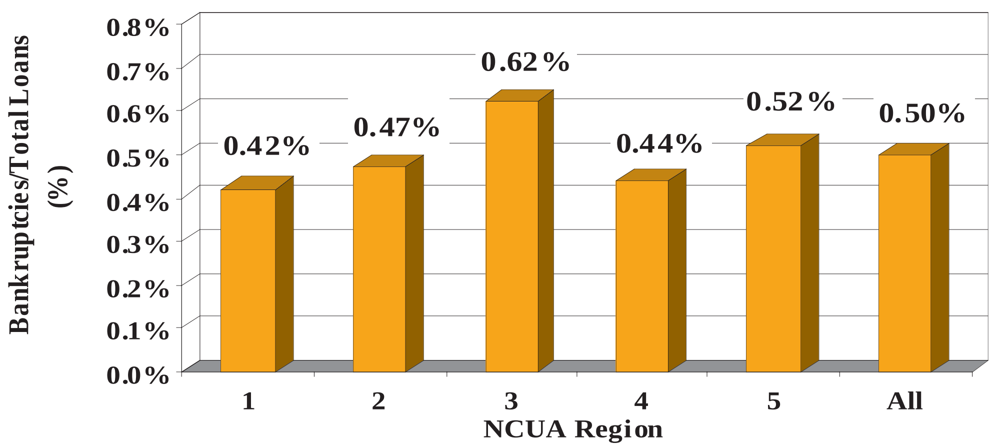
Delinquency Ratio
Federally Insured Credit Unions by NCUA Region
December 2008



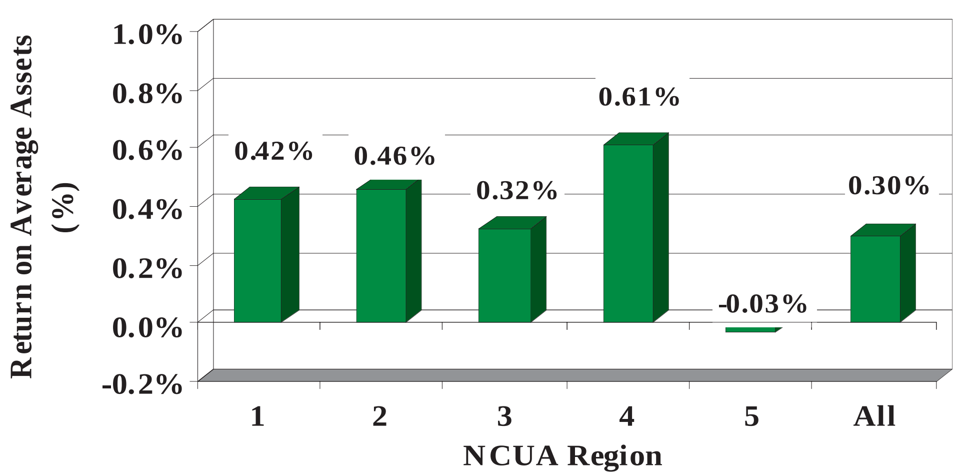
Net Charge-Offs/Average Loans
Federally Insured Credit Unions by NCUA Region
December 2008



Bankruptcies/Total Loans
Federally Insured Credit Unions by NCUA Region
December 2008

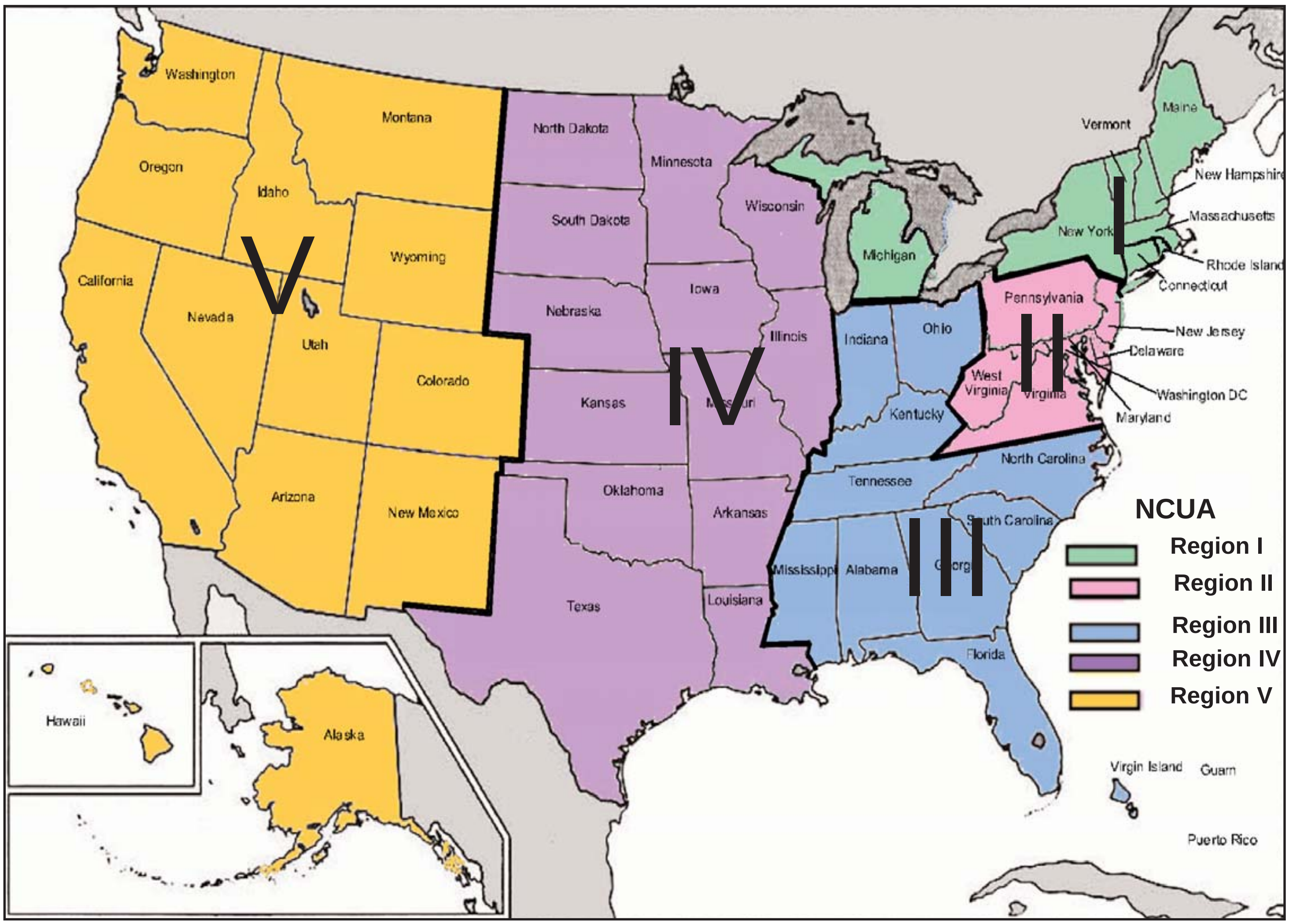


Return on Average Assets (ROA)
Federally Insured Credit Unions by NCUA Region
December 2008



Appendix B: NCUA Regions

NCUA Regional Breakdown*



Source: NCUA

*As of Dececember 2008