

CUSP

3Q-10

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Credit Union Strategy & Performance

14

3Q Industry Performance

Credit unions are making big plans for 2011.

47

Anatomy of a Dual Market

Security Service offers best practices for serving different members, different neighborhoods, or different states.

67

CUSO & Network Strategies

Witness the growth of a service organization from cooperative concept to full CUSO.

85

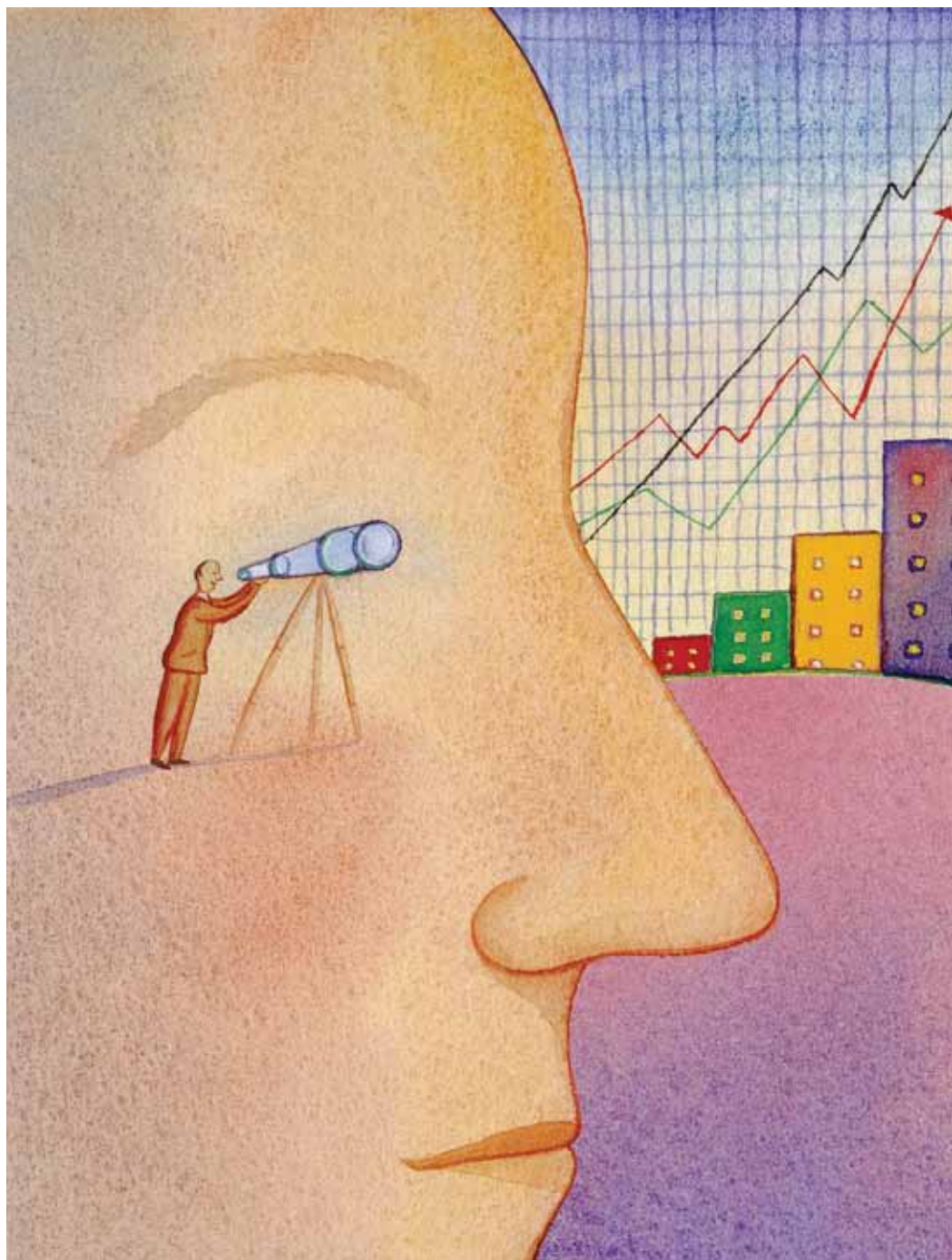
Leadership Perspectives

Boards are taking new strides to educate themselves about industry affairs.

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CUs in the News	9
Voices in the Industry	9
Contributors	10
Letter from the Editor	11

3Q 2010 Industry Performance

Make Big Plans for 2011	14
Consolidated Credit Union Financial Statement	26
Performance Data	27
The Outlook for the U.S. Economy	37

Callahan Report

Highlights from <i>Corporate Crisis & Regulatory Reform: A Callahan Report Special</i>	43
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Anatomy of a Dual Market

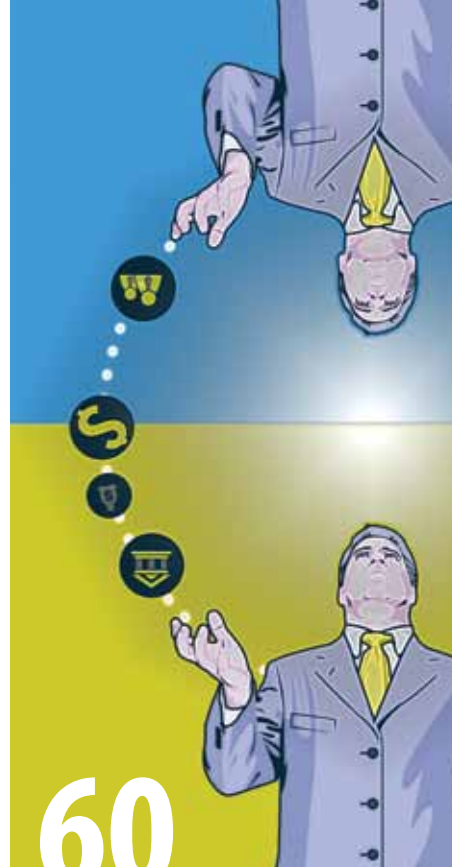
Anatomy of a Dual Market	48
From Mountain High to Valley Low	52
Direct Impact	60
One Size Fits None	64
Thank You. Gracias.	66

ON THE CUSP

Mountains, Prairies, Deserts, Oceans	68
One If By Land	72
Credit Unions Expand Across America	73

“ Changing dynamics are leading economists to revise 2011 growth estimates upward, with many expressing concern they are understating where the growth numbers will ultimately come in.”

Jay Johnson, Make BIG Plans for 2011



“As long as we can be where the member needs us to be, we’ll be successful.”

Mike Chapman, Direct Impact

“The search for branching opportunities can take a credit union across town and state lines. Or it may take them across the ocean.” Aaron Pugh, One If By Land



CUSO & Network Strategies

Collaboration from the Ground Up	76
Meeting of the Minds	80
Grow Up	82

Leadership Perspectives

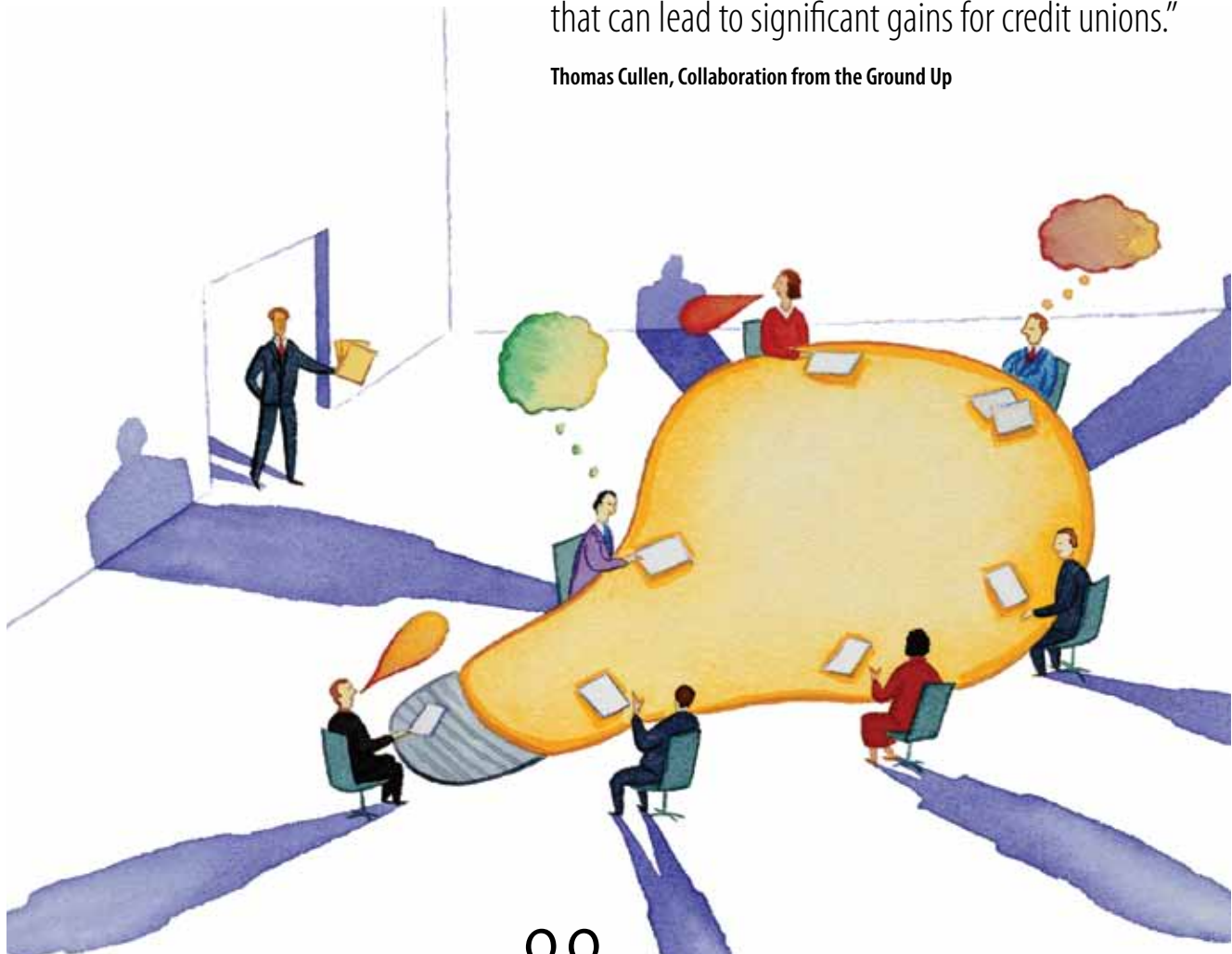
More Information Exchange	86
Each Expecting More of the Other	88
Effective and Proactive Communication Fosters a Good Relationship	90



76

“Forming a CUSO is an arduous but rewarding process that can lead to significant gains for credit unions.”

Thomas Cullen, *Collaboration from the Ground Up*



88

“Directors have had to absorb and understand critical issues much faster in order to make timely evaluations and decisions.” Winky Burks, *Each Expecting More of the Other*

Eyes on the Horizon

Jacques Cousteau once said “If we were logical, the future would be bleak, indeed.

But we are more than logical. We are human beings, and we have faith, and we have hope, and we can work.”

No one has proven that concept to be true more than credit unions, which carried forward with a positive mindset and hope for the future when it was more popular to let projections of fear and pessimism rule one’s actions. Much like that famous explorer of the aquatic world, credit unions explored the full realm of possibility in a financial environment others might have considered near uninhabitable.

Despite the year’s challenges, the quarter brought 80% growth and positive earnings as the industry provided \$1 billion of liquidity nationally per business day (the highest 3Q lending activity in five years!). Our snapshot of credit unions during the third quarter shows an industry growing stronger and brighter as the financial world stands primed, calling out for improvements, innovation, and revolution in both thought and practice.

Just shy of 150 for-profit institutions have disappeared this year, leaving gaps in financial coverage and a precarious (at best) perch for the communities and consumers they once supported. Ever conscious of their social policy, the three credit unions highlighted in our ON THE CUSP section fill these service gaps and expand cooperative values across the nation. From supporting their not-for-profit peers, to acquiring assets and consumers from the banking world, credit unions are a stabilizing force in cases of consumer turbulence when other institutions change or falter.

Credit unions did not escape the recession unscathed, but as economic

beacons burn brighter in year’s end than expected, we can see the true progress the industry has made in territories both familiar and novel. In our Industry Performance section, Jay Johnson’s article, “Make Big Plans for 2011,” provides more than 13 pages of good news found in the U.S. economic outlook and mirrored in the fundamentals of our industry’s performance. Across both sides of the balance sheet, we drill down on the activities and mindsets of credit unions hard at work in their local economies, greasing the wheels of the larger national turnaround.

In the end, no one knows “local” like credit unions, which makes expanding and sustaining business over multiple marketplaces a challenge the industry is well capable of undertaking. In this quarter’s Anatomy of a Community Credit Union, we look at how one institution, \$6 billion Security Service Federal Credit Union, positions itself as a financial cornerstone of two diverse markets: San Antonio, TX, and Colorado Springs, CO (and as of mid-December, SSFCU is entering yet another market, Nevada). From high-level market analysis to the detailed framework of institutional goals, product lines, training, and marketing that allow the credit union to be in two places at once, writer Rebecca Wessler brings the talents and insights of SSFCU’s executive team right to your fingertips.



Alix Patterson | Editor



Peer-to-Peer Data!

If you are a Peer user, visit CUSP Online and download the custom graphing files to pull the data shown in these graphs, tables, and charts. You can overlay your credit union’s performance to see how it compares.



Look for this symbol for expanded coverage on CUtv!

CUtv is Callahan & Associates’ educational webinar network hosted at CUtv.CreditUnions.com. To access the event, type the number listed into the CUtv Search box.



Industry Performance

Make Big Plans for 2011	14
<small>By Jay Johnson, Callahan & Associates</small>	
Consolidated Credit Union Financial Statement	26
PERFORMANCE DATA	
Credit Union 3Q 1st Origination Mortgage Market Share by State	27
Credit Union 3Q Jr. Mortgage Origination Market Share by State	28
YTD Credit Union Auto Loan Origination Market Share by State	30
PEER GROUP DATA	
Peer Group Performance Comparison	32
Distribution of Assets & Institutions Across all Peer Groups	34
Asset Quality by Peer Group	35
THE OUTLOOK FOR THE U.S. ECONOMY	
A Return to Federal Reserve Easing	37
<small>By Ed McKelvey, Senior U.S. Economist, Goldman, Sachs & Co.</small>	



Make **BIG** Plans for 2011

By Jay Johnson

As 2010 comes to a close, economic releases are revealing surprising strength in the U.S. economy. Same store retail sales jumped the most in eight months during November as Black Friday weekend and Cyber Monday online sales surged more than 15%. Auto sales are up 9% for the year, with November sales up 17% compared to November 2009. The Mortgage Bankers Association purchase application index reached its highest level since May during the month as homebuyers looked to take advantage of another drop in interest rates.

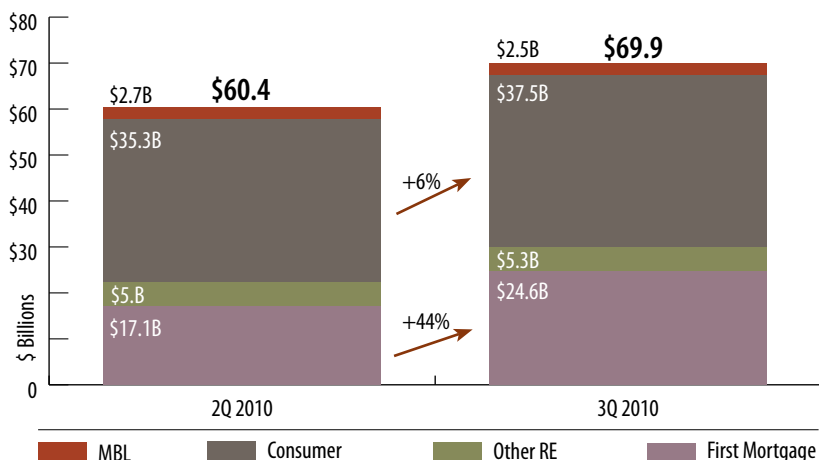
The rise in consumer spending comes as the private sector picks up the pace of hiring. November marked the 10th straight month of private sector job gains and the fourth straight month of at least 100,000 in new private sector jobs. It has been over four years since the economy recorded that level of hiring.

The government is playing a role as well with the Federal Reserve launching “QE 2,” a second round of “quantitative rate easing” via Treasury purchases. In December, the Obama administration cut a compromise deal with Republicans to extend the Bush tax cuts for another two years.

The hiring data and government efforts are giving rise to increased consumer confidence. November results were the highest in five months. Perhaps even more significant was the data about consumer expectations for the economy in six months. Expectations about the job market

First Mortgage and Consumer Lending Drive Third Quarter Origination Increase

Quarterly Loan Originations for all U.S. Credit Unions



Source: Callahan's Peer-to-Peer Software

and economy are at their highest level since May, a strong sign that consumers are more willing to spend as 2011 approaches.

An understated element in the resurgence of consumers is the change in their financial profile that has occurred since the economic downturn. Consumer debt is down \$812 billion since September 2008, a drop of 7%. Meanwhile, the savings rate remains over 5% in 2010 as consumers re-shape their personal balance sheets and put themselves in a better position to make purchases.

Another key factor in the consumer financial profile is the effect of the continued low interest rate environment on debt payment burdens. Historically low rates are giving consumers the opportunity to become smarter about how they manage their money by refinancing to reduce their monthly interest payments. Credit unions are playing a critical role in helping their consumers realize this opportunity.

CUtv #680 – 3Q 2010 Trendwatch

“Excellent presentation. Loved the theme: Make Big Plans for 2011! Not only was it upbeat, but there was no marshmallow topping. It was all statistically solid facts.”

Lending Activity Jumps, Members Benefit

- Loan origination volume is up 16% from 2Q
- National mortgage market share in third quarter hits 6.2%

Credit unions originated a billion dollars in loans to members every business day in the third quarter. The \$69.9 billion in originations is their highest third quarter volume in five years and one of the highest quarters on record. Volume was up 16% from second

quarter results. Refinancing was a catalyst for a portion of the activity, particularly in first mortgage lending.

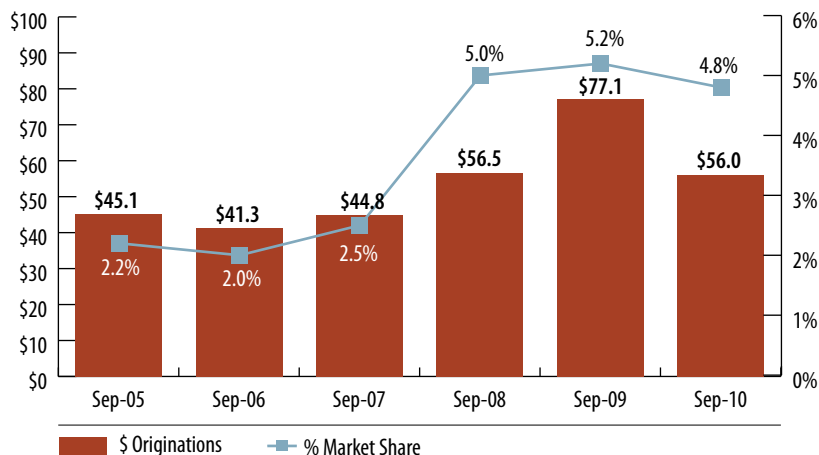
As mortgage interest rates dropped further in September, credit unions ramped up their marketing and member outreach to help them take advantage of the savings. With analysts estimating that two-thirds of U.S. households would benefit from a new mortgage loan, credit union pipelines grew.

The value credit unions are providing to members is remarkable. Bethpage FCU (\$3.9B, Bethpage, NY) offers a no points, 5/1 ARM at 3.0%. Pentagon FCU (\$14.9B, Alexandria, VA) is promoting a no points, 3.5% 5/5 ARM. Fixed rate 15-year mortgages at 3.75% have been highlighted in many credit union marketing materials.

The attractive rates resulted in \$24.6 billion in first mortgage originations during the quarter, soaring 44% versus second quarter volume. This level of activity translated to a 6.2% share of the national mortgage market during the quarter, just below the record 6.6% share credit unions captured during the refinance boom in the first quarter of 2009. The market share gain took place in a quarter in which the Federal Reserve's Senior Bank Loan Officer Survey indicated that banks tightened their con-

Credit Union Share of Mortgage Market Remains Near Record High

YTD First Mortgage Originations & Market Share as of September 30 for all U.S. Credit Unions



Source: Callahan's Peer-to-Peer Software & Mortgage Bankers Association