

# Callahan & Associates, Inc.

## The Quarterly Report: 3Q 2011

### Key Credit Union Trends

#### Highlights at the end of September were:

- Net income is up 54.2% annually through the third quarter. The \$4.6B in net income through the first nine months exceeds 2010's total earnings. Pre-assessment earnings of \$6.5B are the highest on record for credit unions.
- Credit unions originated \$190.1B in loans through September 30, a 4.6% increase over the first nine months of 2010.
- Delinquency increased a single basis point from June to 1.60%, still down 16 basis points from September 2010. The coverage ratio (Allowance for Loan Losses/Delinquent Loans) increased to 99.7%.
- Share balances increased 5.0% over the last 12 months, led by share draft balances. The media's focus on checking accounts through the third quarter led to a 3.6% annual increase in the number of share draft accounts.
- Assets increased 4.7% over the last twelve months to \$963.4B.
- Total membership rose by nearly 628K over the last 12 months to 92.6M.
- The net worth-to-assets ratio stands at 10.2% as of September as total capital nears \$108B.

### 3Q Economic Trends

- Outstanding consumer credit grew by 1.6% in the third quarter, a significant improvement over the -2.1% change posted in the third quarter of 2010.
- Real GDP increased at an annual rate of 2.0% in the third quarter of 2011, up from the revised 1.3% increase in the second quarter of 2011.
- Year-to-date auto sales increased 8.7% over the first nine months of 2010.
- The Federal Funds Target Rate has remained at the historic low 0-25 basis points range since December 2008. The Federal Reserve indicated at the most recent meeting the rate would likely remain at this level through mid-2013.

### Credit Union Quick Facts

- 7,325 Credit Unions
- \$963.4B Assets
- \$574.6B Loans
- \$830.1B Shares
- \$107.7B Capital
- 92.6M Members

### 3Q Trendwatch

Please watch Callahan & Associate's quarterly Trendwatch call for a review of third quarter data trends and insight from credit unions that are posting strong performance numbers in today's uncertain environment

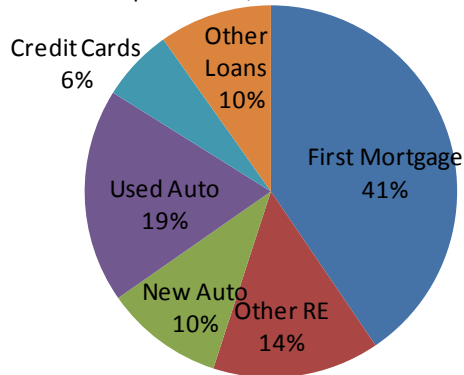
The event is available On-Demand at:

[www.creditunions.com/cutv](http://www.creditunions.com/cutv)

## Loans

### Credit Union Loan Portfolio

\$574.6B as of September 30, 2011

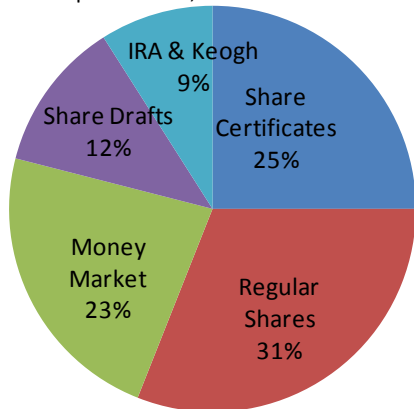


- Loan balances have increased over both June and March. Annually loan balances are down just 5 basis points, a significant improvement from the -1.5% decline posted in the third quarter of 2010.
- Real estate loan growth came primarily from first mortgages, which grew at 3.3% annually as other real estate balances fell.
- New auto loan balances declined through September. This drove the total auto loan portfolio down 1.7% annually, although used auto lending continues to increase.
- The credit card portfolio increased at a modest pace. Balances totaled \$36.2 billion in September, a 2.7% increase from the previous year.

## Shares

### Credit Union Share Portfolio

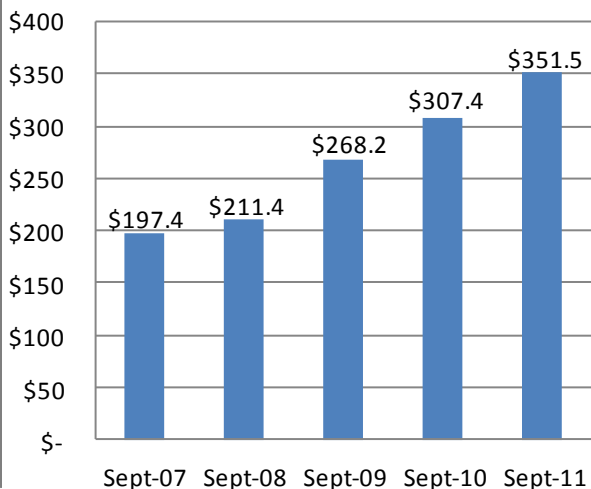
\$830.1B as of September 30, 2011



- Credit union shares increased 5.0% on an annual basis. Growth remains strong as credit unions added more than \$39B in new balances over the last year.
- Share drafts and regular shares accounts each posted double-digit growth during the past year. Share drafts increased 14.7% and now total over \$100B.
- Regular shares and deposits, the largest component of the share portfolio, increased to \$256.3B over the course of the year, achieving a 10.8% increase from the previous September.
- Money market share accounts posted a strong annual increase of 7.0% to \$187.4B.

## Investments

### Total Investments (in \$ Billions) For All U.S. Credit Unions as of September 30

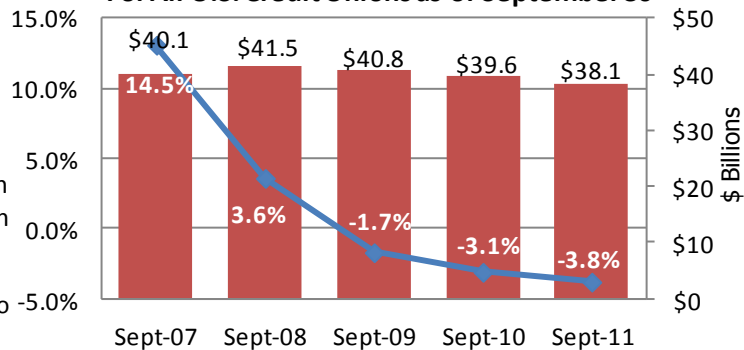


- Total credit union investments reached \$351.5B in September, a 14.4% annual increase. Investment balances, and credit union liquidity, are at record highs.
- Government and agency securities are the largest component of the credit union investment portfolio. Government and agency securities totaled \$179.4B in September, up 29.9% from the year before.
- Investments in corporate credit unions remained the second largest component of the investment portfolio, even with a 27.1% decline annually. Investments in corporate credit unions totaled \$46.2B as of September.
- Credit unions have extended their investment maturities over the last year in an attempt to generate a higher rate of return. Now, 53.0% of the portfolio is in holdings with maturities of more than one year.

## Revenue

- Total revenue is down \$1.5B from this point last year. Through the end of September credit union income totaled \$38.1B, a decline of 3.8% from levels reported in 2010.
- Credit union operating revenue (net interest income + fee income + and other operating income) increased 1.0% to \$31.4B at September 30.
- Total non-interest income grew 4.0% on strong increases in other operating income, a category which includes gains on mortgage sales to the secondary market.
- Credit unions reduced their provision expenses by one-third to \$3.6B, down from \$5.4B in 2010 driving an increase in the bottom line.

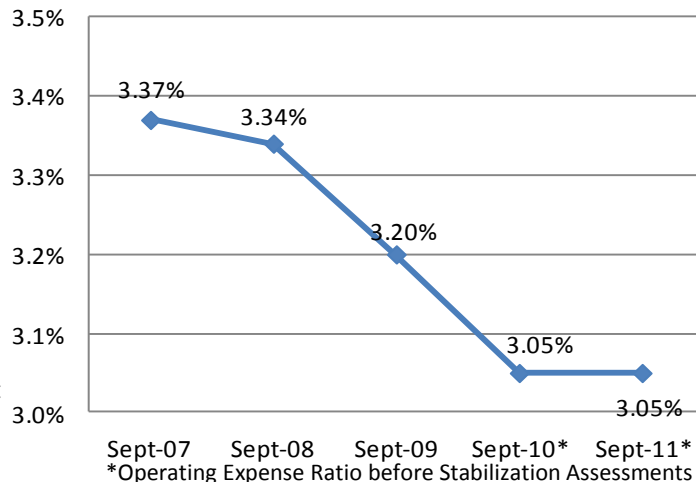
**YTD Total Revenue v. Total Revenue Growth For All U.S. Credit Unions as of September 30**



## Operating Expenses

- With the corporate credit union assessment recorded in the third quarter, the operating expense ratio including the stabilization expenses was 3.32%.
- Excluding the stabilization expenses, credit union operating expenses decreased so slightly that the operating expense ratio remained steady from September 2010 after four years of decline.
- Total employee compensation and benefits reached \$10.9B through the third quarter of 2011, a 3.3% annual increase.
- Travel and conference expenses posted the strongest year-over-year growth of 8.4%, a further indication of minor, but strategic, expansions in credit union budgets.

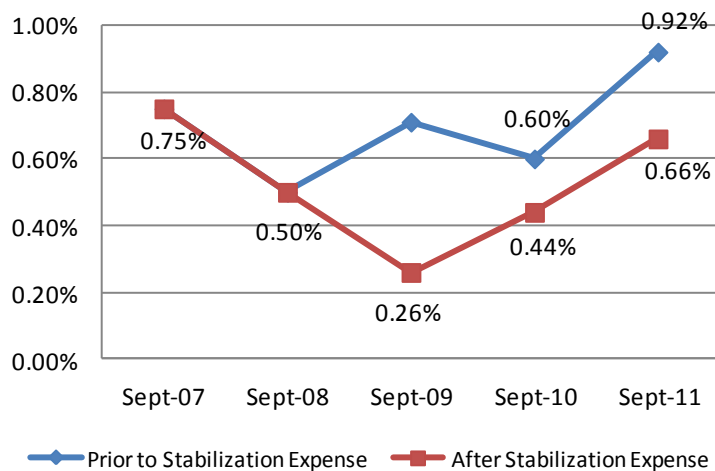
**Annualized Operating Exp./Avg. Assets For All U.S. Credit Unions as of September 30**



## Operating Earnings and Capital

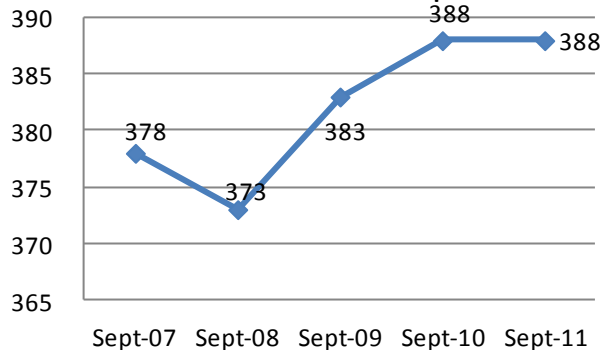
- The Net Interest Margin narrowed on lower interest income, down to 3.18% from 3.27% in September 2010.
- Credit unions reported record net income. The pre-assessment figure of \$6.5B resulted in an ROA of 92 basis points, in-line with levels from before the economic crisis.
- ROA after the NCUSIF assessment rose as well, coming in at 66 basis points, up 22 basis points from September 2010.
- Credit union capital increased 6.1% to \$107.7B.
- The net worth-to-assets ratio stands at 10.2% as of September, up from 10.0% last September.

**Return on Assets For All U.S. Credit Unions as of September 30**



## Productivity

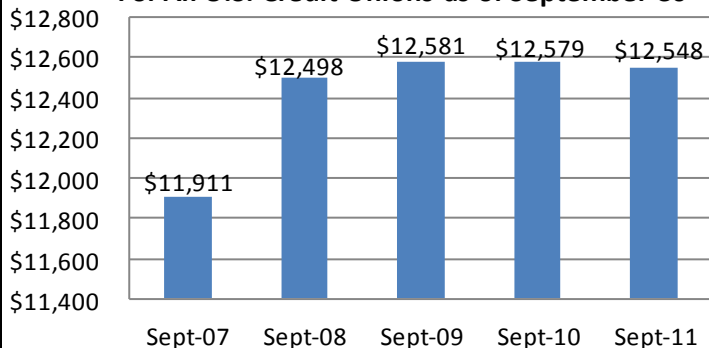
**Members per Employee**  
For All U.S. Credit Unions as of September 30



- Membership increased 68 basis points while the employee base grew 41 basis points, resulting in an unchanged members per employee ratio, which averaged 388 as of September.
- Through September, credit unions reported an average annualized loan origination per employee of \$1.05M, up from \$1.01M in the second quarter.
- Annualized income per employee fell slightly over the past 12 months, coming in at \$213K in September of 2010.
- On average each credit union employee services 912 loan and share accounts, a slight increase from the 910 accounts in September 2010.

## Member Relationships

**Average Loan Balance**  
For All U.S. Credit Unions as of September 30



- The average loan balance fell slightly from the previous September to \$12,548 as loan growth remains strongest in categories with lower average balances.
- The average share balance was \$8,960 in September, a 4.3% annual increase.
- Share draft penetration increased once again in the third quarter. The current share draft penetration rate stands at 49.2% as of September, up from the 47.8% reported in the prior year.
- Credit card penetration increased from 14.3% in September 2010 to 14.7% in 2011 as members sought additional credit lines.

Stay up-to-date on the latest trends and learn actionable strategies for navigating through the latest industry challenges with a subscription to Callahan's quarterly **Credit Union Strategy & Performance (CUSP)**.

### Coming soon in the 3Q issue of CUSP and Technology@CU:

- **3Q 2011 Analysis:** An in-depth look at how the latest trends and where strategic opportunities for growth lie in 2012.
- **On the CUSP—Deposit Strategies:** Why deposits still matter in today's market.
- **Leadership Perspectives:** Mentoring the next generation of leaders.
- **Technology@CU:** What innovations are credit union's budgeting for in 2012?

CUSP and Technology@CU also include timely thoughts from credit union executives and industry leaders on the role of cooperatives and how the larger network of agencies, associations, and CUSOs will shape the future.

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