

# The Quarterly Report: 1Q 2009

Callahan and Associates, Inc.

## Key Credit Union Trends

Credit unions ended the first quarter with solid growth and a strong balance sheet, even as the NCUSIF stabilization expense adversely affected the credit union income statement.

Highlights at the end of March were:

- Assets up 7.9% over the last twelve months to \$869.0B
- Credit union loan portfolio grows 5.9% annually
- YTD First mortgage originations up 39.5% versus 2008 as market share reaches record highs
- Share balances grew 8.3% over the last 12 months
- Credit union membership increases 1.8% to 90.5M, the fastest annual growth rate since 2004
- Credit union total income fell 2.8% year-over-year

## 1Q Economic Trends

- The Federal Funds Target Rate held steady in the first quarter of 2009, remaining at the historic low range of between 0-25 basis points
- Although home sales are showing signs of stabilizing, housing prices have continued to decline
- Auto sales continue to slip, down 38% through the first three months of 2009
- Growth in outstanding consumer credit slowed in the first quarter, and revolving credit balances showed an annual decline as of March 2009

## Credit Unions

at 3.31.09

- 7,909 Credit Unions
- \$869.0B Assets
- \$573.4B Loans
- \$735.4B Shares
- \$91.3B Capital
- 90.5M Members

## 1Q Trendwatch

Please join us as we review first quarter data trends and hear from credit unions that are managing for success in today's uncertain environment.

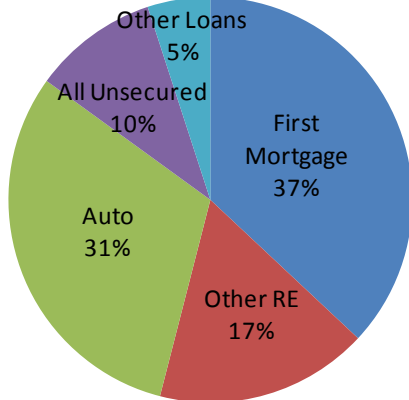
Our complimentary First Quarter 2009 Trendwatch call will be held:

- Wednesday June 3rd  
2:00 PM EST
- Thursday June 4th  
11:30 AM EST

## Loans

### Credit Union Loan Portfolio

\$573.7B as of March 31, 2009

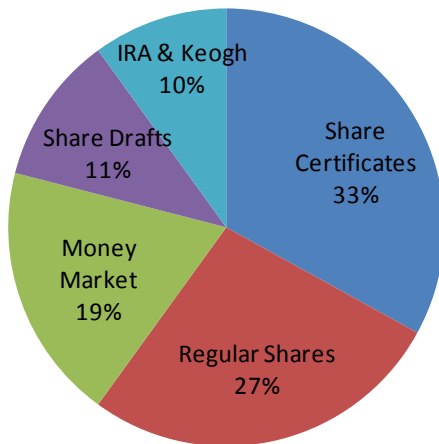


- Credit union loan balances are up 5.9% from a year ago to \$573.7B, but fell slightly from year-end 2008.
- Loan growth is led by a 9.2% increase in real estate loans outstanding. The main driver of real estate loan growth was 1<sup>st</sup> mortgages, which grew at 11.9% for the year to total \$214.5B in March.
- New auto loan balances continued to decline through March, but as used auto lending increased, net auto loan balances rose 72 basis points annually.
- The credit card portfolio was another strong point for credit unions. Balances totaled \$31.9B in March, a 5.6% increase from the previous March.

## Shares

### Credit Union Share Portfolio

\$735.4B as of March 31, 2009

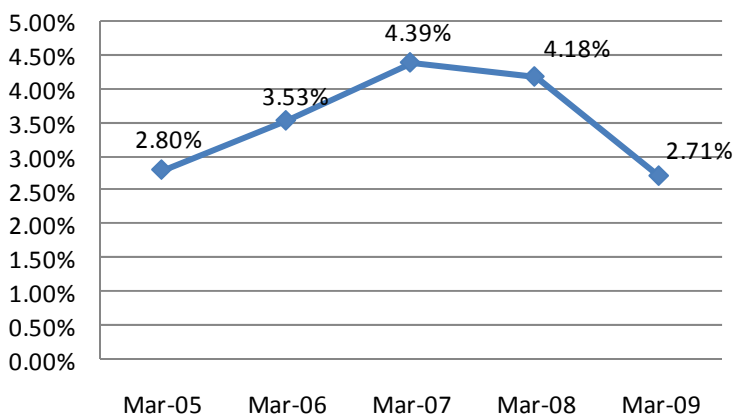


- Credit union shares increased 8.3% on an annual basis, the fastest annual growth since 2004.
- Money market accounts posted double-digit growth during the past year of 15.7% to total \$141.0B, making it the fastest growing component of the share portfolio by volume.
- Share certificates remain the largest share category. Share certificates grew to \$238.7B in March, a 3.8% annual increase.
- Regular shares increased to \$206.2B over the course of the year, notching a 7.8% increase from the previous quarter.

## Investments

### Yield on Investments

For All U.S. Credit Unions as of March 31

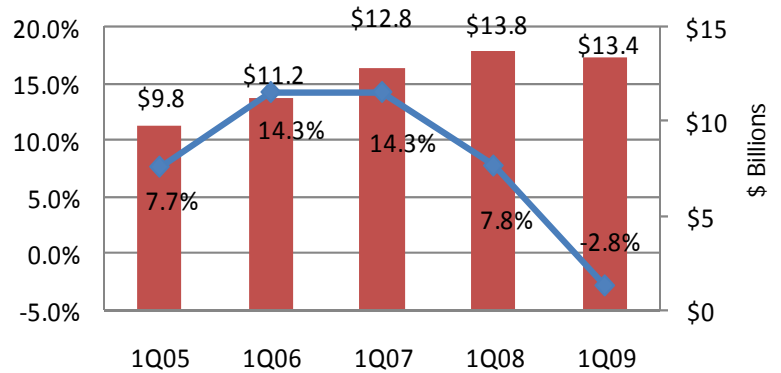


- Total credit union cash and investments in March reached \$265.4B, an 15.3% annual increase.
- Government and agency securities are the largest component of the credit union investment portfolio. Government and agency securities totaled \$95.9B in March, up 26.4% from the year before.
- Investments in corporate credit unions are the second largest component of the investment portfolio, even with balances down over the last year. Investments in corporate credit unions totaled \$80.4B as of March.
- Credit unions have shortened maturities over the past three months. As of March, nearly two-thirds of all investments have maturities of less than one year.

## Revenue

- Credit union income has fallen in 2009, even as the balance sheet grows. Year-to-date credit union income totaled \$13.4B in the first quarter of 2009, a 2.8% decline from the previous March.
- One component of the decline in revenue is investment income. Interest from investments fell 23.3% from the prior year as interest rates hovered near historic lows.
- Fee Income also remains a key component of total income. Fee income totaled \$1.6B through March, up slightly from the previous year.

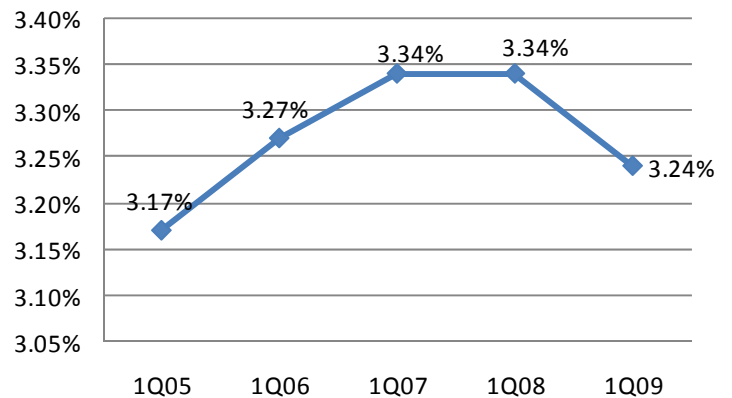
**Total Income v. Total Income Annual Growth For All U.S. Credit Unions as of March 31**



## Operating Expenses

- Credit union operating expenses increased 4.2% versus 2008 as staffing and physical expansion continued.
- Employee compensation and benefits continued to rise with staffing levels. Total compensation and benefits reached \$3.5B through the first quarter, a 3.5% annual increase.
- Marketing expenses have fallen 9.3% annually as credit unions use more non-traditional forms of marketing to get the word out on the benefits of membership.
- As credit unions look to control costs, travel and conference expenses declined 17.8%.

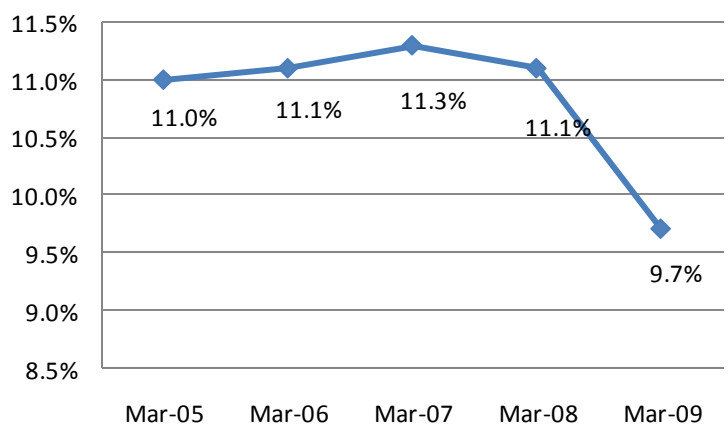
**Annualized Operating Exp./Avg. Assets For All U.S. Credit Unions as of March 31**



## Operating Earnings and Capital

- Credit union capital levels fell in March due to the impact of the NCUSIF stabilization expense, down 2.7% to \$91.3B in March.
- Net Worth/Assets ratio is down in the first quarter, coming in at 9.7% in March as asset growth outpaced increases in net worth.
- Credit union ROA declined to -3 basis points prior to the NCUSIF stabilization expense, and -40 basis points after the assessment is accounted for.
- Cost of funds is down to 2.21% from 3.05% in the previous March as interest rate cuts take hold.

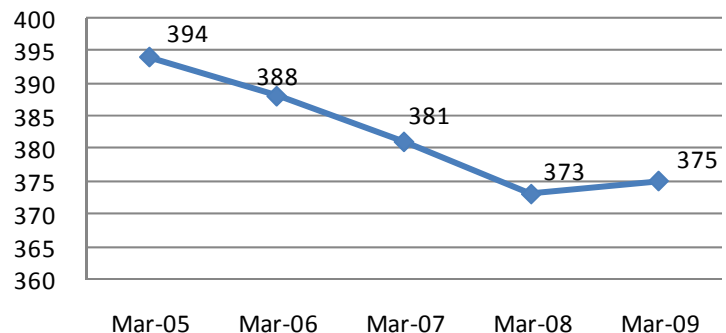
**Net Worth/Assets For All U.S. Credit Unions as of March 31**



## Productivity

- A 1.8% increase in membership outpaced the 1.1% increase in employees, resulting in an increase in the members per employee ratio, which averaged 375 as of March.
- Branch expansion remained a priority for many credit unions in 2009 with 293 branches added during the past 12 months for a total of 21,415.
- Income per employee fell in the first quarter of 2009 as total income declined. Income per employee was \$222K in March 2009, as compared to \$231K in the previous year.

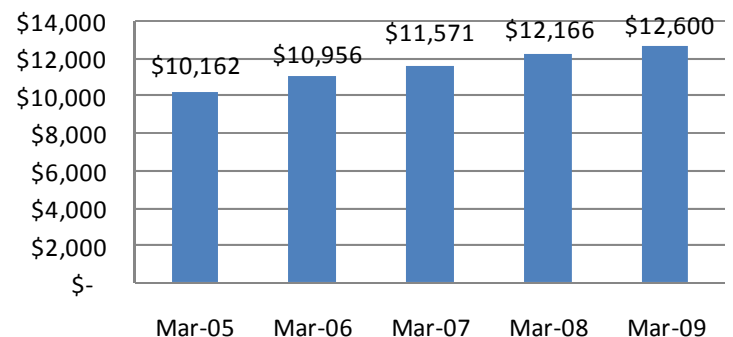
**Members per Employee**  
For All U.S. Credit Unions as of March 31



## Member Relationships

- Average loan balance increased 3.6% from the previous March to \$12,600.
- Average share balance was \$8,122 in March, a 6.3% annual increase.
- Credit card penetration was 14.3% as of March, holding steady from levels in the previous year.
- Share draft penetration picked up again in the first quarter. As of last March, share draft penetration was 45.6%. Share draft penetration as of March 2009 is 45.9%.

**Average Loan Balance**  
For All U.S. Credit Unions as of December 31



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- **1Q Performance:** the country's credit unions show a wide variation in first quarter operating results
- **Credit where credit is due:** A look at mortgage, auto and student lending
- **Marketing in a recession:** talking to members about issues that matter to them
- **Leadership Perspectives:** Moving on...how CEOs are getting past NCUA's actions and serving their members

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