

Callahan & Associates, Inc.
The Quarterly Report: 2Q 2010

Key Credit Union Trends

Highlights at the end of June were:

- Assets increased 3.8% over the last twelve months to \$916.1B
- Credit union loan originations totaled \$112.1B in the first half of 2010, down from last year’s record pace as consumer borrowing demand slows
- Credit unions are selling nearly half of their first mortgage originations to the secondary market. Secondary market sales through the second quarter totaled \$15.1B
- Delinquency has declined over the last two quarters to 1.74%. As delinquency falls, the coverage ratio (Allowance for Loan Losses/ Delinquent Loans) has increased to 93.2%
- Share balances increased 5.7% over the last 12 months, led by money market deposits
- Total membership rose by over 200,000 since June 2009 to 91.7M
- Net income is up 66.3% annually through the second quarter
- The net worth to assets ratio stands at 9.9% as of June

2Q Economic Trends

- The Federal Funds Target Rate has remained at the historic low range between 0-25 basis points since December 2008
- Existing home sales increased 9.8% from totals reported in June 2009. This growth represents the last of the First Time Home Buyer Credit, and analyst forecasts expect sales to slow in the second half of the year
- Auto sales are back on the rise, up 16.7% through the first 6 months of 2010
- Outstanding consumer credit declined by 3.2% in the second quarter. While non-revolving credit has held constant, revolving credit continues to decline
- The personal savings rate has declined to a preliminary 6.1% in June, still high, but down from the revised 7.2% in the previous year

Credit Unions
at 6.30.10

- 7,600 Credit Unions
- \$916.1B Assets
- \$574.2B Loans
- \$788.6B Shares
- \$100.2B Capital
- 91.7M Members

2Q Trendwatch

Please join us as we review mid-year data trends and hear from credit unions that are managing for success in today’s uncertain environment

Our complimentary Second Quarter 2010 Trendwatch call will be held:

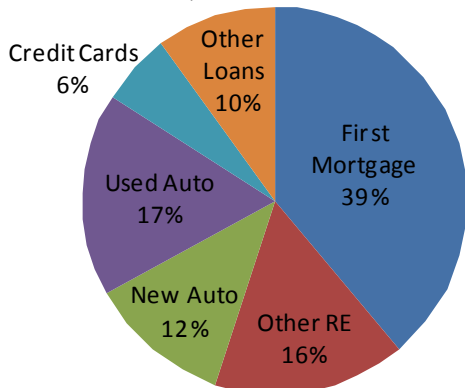
- Wednesday, Sept. 1
2:00PM Eastern
- Thursday, Sept. 2
11:30AM Eastern

If you can’t join us live, the event is available on-demand at: www.creditunions.com/cutv

Loans

Credit Union Loan Portfolio

\$574.2B as of June 30, 2010

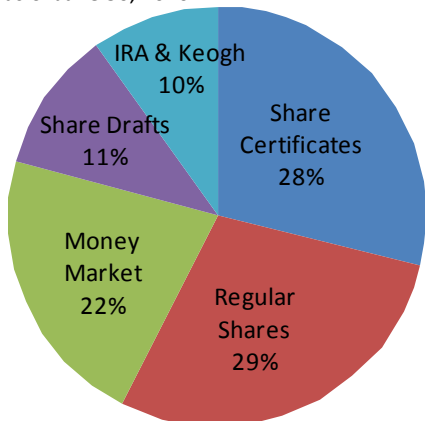


- Credit union loan balances declined slightly over the last 12 months, down 70 basis points to \$574.2B in June, although balances are up from figures reported in March.
- Real estate loan growth came primarily from first mortgages, which grew at 2.4% annually as other real estate balances fell.
- New auto loan balances continued to decline at a sharp pace through June. This drove the total auto loan portfolio down 5.0% annually, even as used auto lending continues to increase.
- The credit card portfolio was a strong point for credit unions. Balances totaled \$34.8B in June, a 6.0% increase from the previous year. Member Business Lending also had a successful year, up 8.7% annually to \$30.6B as of June.

Shares

Credit Union Share Portfolio

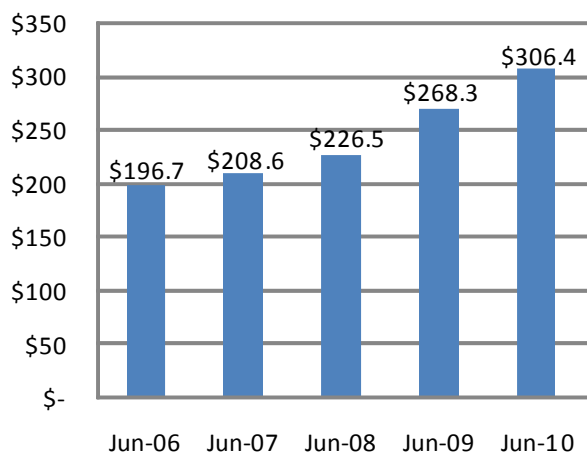
\$788.6B as of June 30, 2010



- Credit union shares increased 5.7% on an annual basis. Growth remains strong, but has slowed from the record highs in December.
- Money market accounts posted double-digit growth during the past year, up 16.9% to total \$173.2B. Money market shares are the fastest growing component of the share portfolio by both volume and percent.
- After a 5.9% annual decline to \$221.2B, share certificates are no longer the largest component of the share portfolio.
- Regular shares and deposits, now the largest component, increased to \$230.5B over the course of the year, notching a 9.1% increase from the previous June.

Investments

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

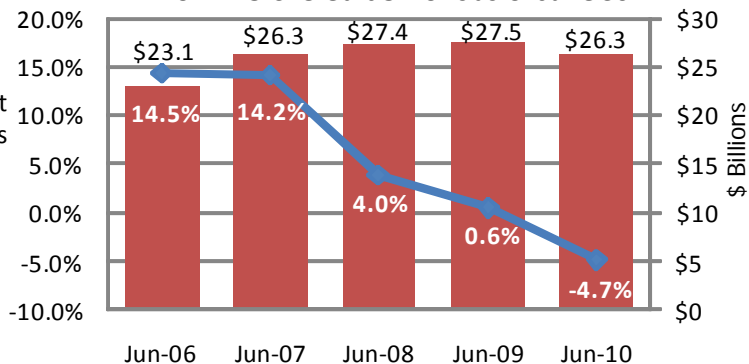


- Total credit union investments reached \$306.4B in June, a 14.2% annual increase, as investment levels stand at record highs.
- Government and agency securities are the largest component of the credit union investment portfolio. Government and agency securities totaled \$141.2B in June, up 34.9% from the year before.
- Investments in corporate credit unions remained the second largest component of the investment portfolio, even with a 12.3% decline annually. Investments in corporate credit unions totaled \$67.4B as of June.
- Credit unions have extended their investment maturities over the last year in an attempt to generate a higher rate of return. However, even with this shift, more than half of the investment portfolio is comprised of investments with maturities of less than one year.

Revenue

- Credit union income declined as compared to the first half of 2010. Through the end of June, credit union income totaled \$26.3B, a decline of 4.7% from levels reported in 2009.
- This slowdown in income is due in large part to the current interest rate environment. As historically low interest rates have continued into 2010, this drove investment income down 10.3% from the prior year, though declining loan balances have also impacted interest income levels.
- Fee income increased 1.7% annually, helped by continued sales of first mortgages in the secondary market.

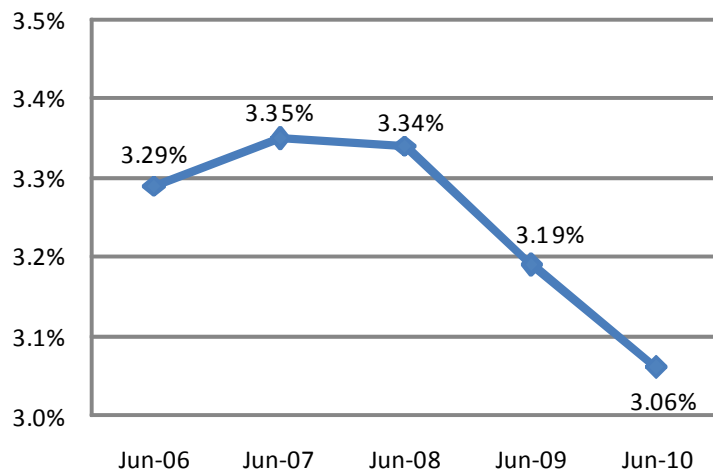
YTD Total Income v. Total Income Growth
For All U.S. Credit Unions as of June 30



Operating Expenses

- Credit union operating expenses increased 1.8% over figures reported at mid-year 2009. This increase was driven largely by growth in salary & benefits and accruals for a second NCUSIF assessment in the second half of 2010.
- Credit unions also saw the operating expense ratio at a near-record low, coming in at 3.06% in June as asset growth remains strong.
- Total compensation and benefits reached \$7.0B through the second quarter of 2010, a 1.2% annual increase.
- Marketing expenses are back on the rise, up 1.7% annually, the first annual increase in this metric since 2008.

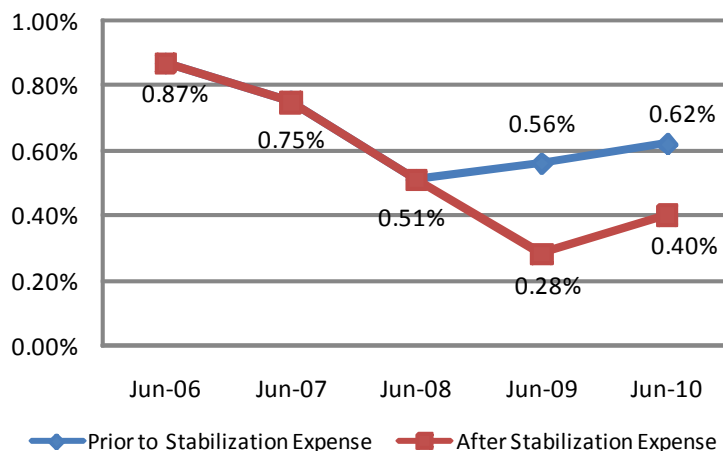
Annualized Operating Exp./Avg. Assets
For All U.S. Credit Unions as of June 30



Operating Earnings and Capital

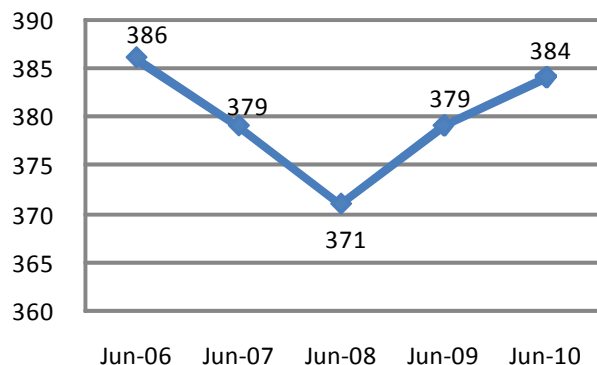
- Credit union capital increased 5.8% to \$100.2B from levels in the previous June.
- The Net Worth/Assets ratio stands at 9.9% as of June, down slightly from the 10.0% reported 12 months ago.
- Credit union ROA remains in positive territory with a 62 basis point ROA prior to the NCUSIF stabilization expense, and an 40 basis point ROA after the assessment.
- The Net Interest Margin stands at 3.26%, up from levels reported in the previous year.

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



Productivity

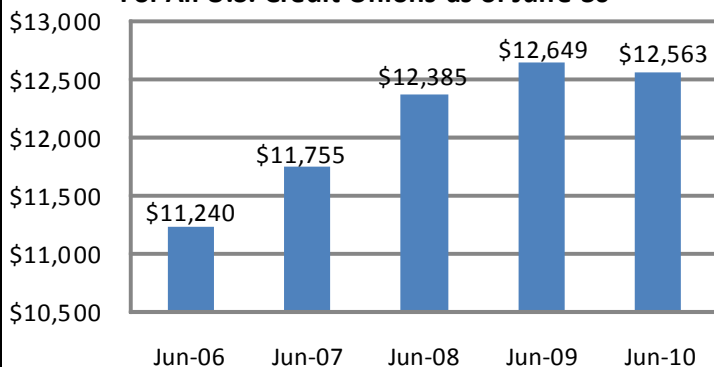
Members per Employee
For All U.S. Credit Unions as of June 30



- Membership increased 81 basis points as the employee base fell slightly, resulting in an increase in the members per employee ratio, which averaged 384 as of June.
- Income per employee fell slightly over the past 12 months, coming in at \$219K in June of 2010.
- As credit union loan originations slowed from the refinance-driven highs of 2009, loan originations per employee also fell. Through June, credit unions reported an average annualized loan origination per employee of \$937K.

Member Relationships

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



- The average loan balance fell slightly from the previous June to \$12,563 as credit card loan growth outpaced growth in the real estate portfolio.
- The average share balance was \$8,595 in June, a 4.8% annual increase.
- Credit card penetration holds steady at 14.4% in June as credit unions make credit available to members during this period of financial difficulty.
- Share draft penetration increased once again in the second quarter. The current share draft penetration rate stands at 47.4% as of June, up from the 46.2% reported in the previous year.

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)** journal.

Coming soon in the 2Q issue of CUSP and Technology@CU:

-**2Q Analysis:** An in-depth look at how the latest trends could impact your planning for 2011

-**CUSO Spotlight:** Everything You Need to Know About Mortgage CUSOs

-**Small is the New Big:** Leading CEOs from smaller credit unions discuss how they are achieving success in the current market

-**Technology@CU Special Feature:** The 2010 Credit Union Technology Spending Survey

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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