

The Quarterly Report: 2Q 2009

Callahan and Associates, Inc.

Key Credit Union Trends

Credit unions ended the second quarter with record loan volume and share growth as they continue to fill the void left by other financial institutions.

Highlights at the end of June were:

- Assets increase 8.2% over the last twelve months to \$882.4B
- Record loan originations of \$144.2B through the first six months of 2009
- YTD first mortgage originations up 36.3% versus 2008 levels as market share reaches record highs
- Share balances grew \$58.1B over the last 12 months, the largest increase this decade
- Credit union membership increases 1.9% to 91.0M, the fastest annual growth rate since 2004
- Net worth to assets ratio stands at 10.0% as of June

2Q Economic Trends

- The Federal Funds Target Rate remains at the historic low range of between 0-25 basis points
- Home sales begin to increase once again, up in the last four consecutive months; the Case-Shiller home price index also shows signs of stabilizing
- Auto sales continue to slip, down 35% through the first half of 2009
- Growth in outstanding consumer credit slowed in the first and second quarters of 2009, affecting both revolving and non-revolving credit balances
- The personal savings rate has increased to 5% in the second quarter after falling to levels near 1% in 2008.

Credit Unions

at 6.30.09

- 7,848 Credit Unions
- \$882.4B Assets
- \$578.2B Loans
- \$746.2B Shares
- \$94.7B Capital
- 91.0M Members

2Q Trendwatch

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

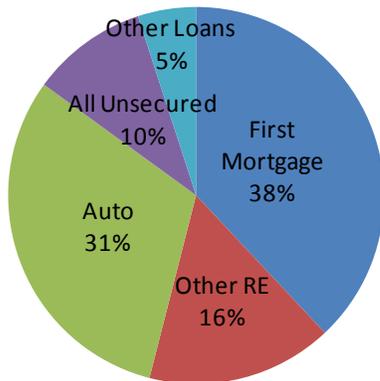
Our complimentary Second Quarter 2009 Trendwatch call will be held:

- Wednesday Sept. 2nd
2:00 PM EDT
- Thursday Sept. 3rd
11:30 AM EDT

Loans

Credit Union Loan Portfolio

\$578.2B as of June 30, 2009

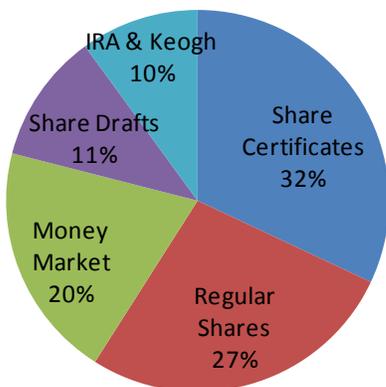


- Credit union loan balances increase 4.1% from a year ago to \$578.2B.
- Loan growth is driven by a 5.7% increase in real estate loans outstanding. Real estate loan growth was primarily in 1st mortgages, which grew at 8.1% annually to total \$218.2B as of June.
- New auto loan balances continued to decline through June, but as used auto lending increased, net auto loan balances rose 94 basis points annually.
- The credit card portfolio was another strong point for credit unions. Balances totaled \$32.9B in June, a 6.0% increase from the previous June.

Shares

Credit Union Share Portfolio

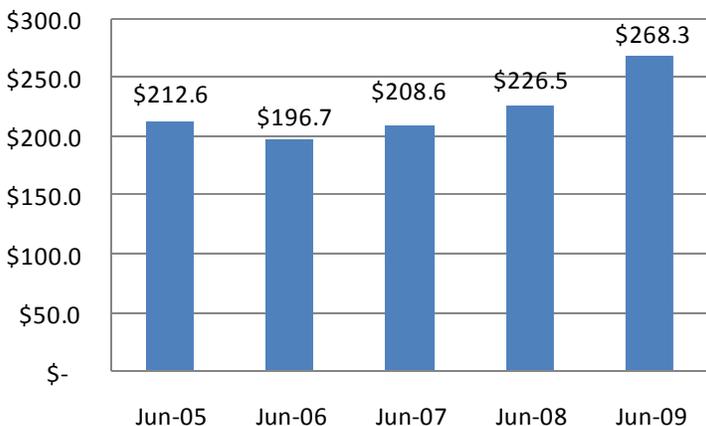
\$746.2B as of June 30, 2009



- Credit union shares increased 8.4% on an annual basis, the fastest annual growth since 2004.
- Money market accounts posted double-digit growth during the past year, up 15.2% to total \$148.1B. Money market shares are the fastest growing component of the share portfolio by volume.
- Share certificates remain the largest share category. They increased 4.0% annually to total \$235.1B in June.
- Regular shares increased to \$211.3B over the course of the year, notching an 8.3% increase from the previous June.

Investments

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



- Total credit union cash and investments reached \$268.3B in June, an 18.5% annual increase, as liquidity stands at record highs.
- Government and agency securities are the largest component of the credit union investment portfolio. Government and agency securities totaled \$104.6B in June, up 28.4% from the year before.
- Investments in corporate credit unions remained the second largest component of the investment portfolio as growth in corporate investments returned, up 6.0% annually. Investments in corporate credit unions totaled \$76.8B as of June.
- Credit unions have extended investment maturities slightly over the past three months. However, even with this shift, more than half of the investment portfolio is comprised of invest-

Revenue

- Credit union income is back on the rise after annual declines in the first quarter. Year-to-date credit union income totaled \$27.5B through June 2009, an increase of 57 basis points from the previous June.
- This slowdown in income growth comes even with the solid growth in the balance sheet, due to the impact of the interest rate environment. Historically low interest rates drove interest from investments down 21.6% from the prior year.
- Fee Income increased 1.6% annually, helped by record sales of 1st mortgages in the secondary market.

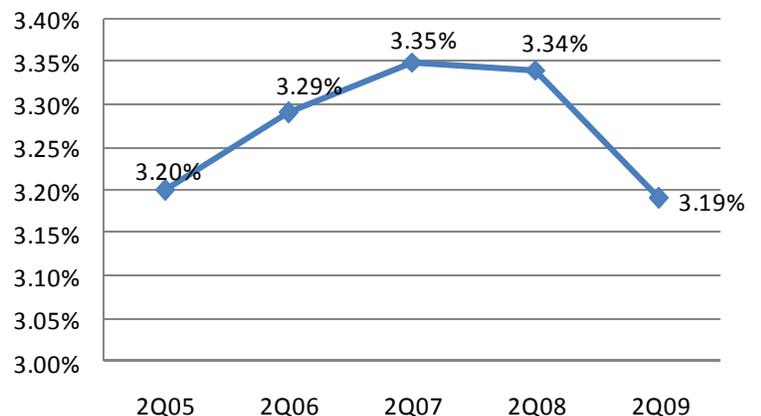
Total Income v. Total Income Growth For All U.S. Credit Unions as of June 30



Operating Expenses

- Credit union operating expenses increased 3.1% versus 2008 as employee compensation increased and physical expansion continued.
- Credit unions also saw the operating expense ratio at a five year low in 2009, coming in at 3.19%, as asset growth outpaced the increase in expense levels.
- Total compensation and benefits reached \$6.9B through the second quarter, a 3.1% annual increase.
- Marketing expenses have fallen 11.3% annually as credit unions use more non-traditional forms of marketing to get the word out on the benefits of membership.

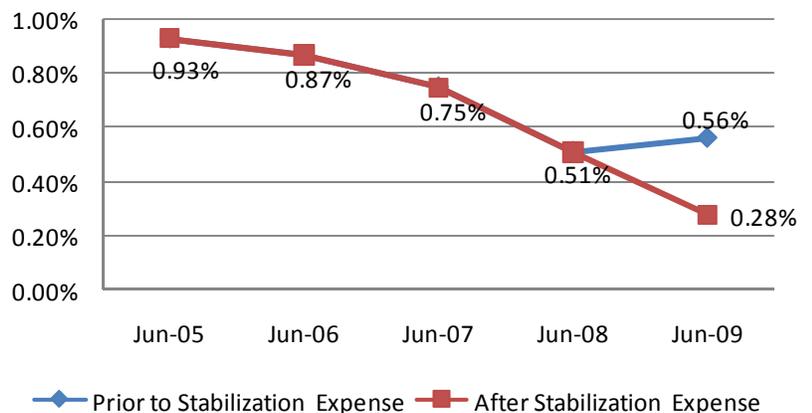
Annualized Operating Exp./Avg. Assets For All U.S. Credit Unions as of June 30



Operating Earnings and Capital

- Credit union capital levels rose slightly from March to \$94.7B in June.
- The Net Worth/Assets ratio is down in the second quarter, coming in at 10.0% in June as asset growth outpaced increases in net worth.
- Credit union ROA is back in positive territory with a 56 basis point ROA prior to the NCUSIF stabilization expense, and a 28 basis point ROA after the assessment is accounted for.
- The Net Interest Margin stands at 3.15%, up from levels reported in March.

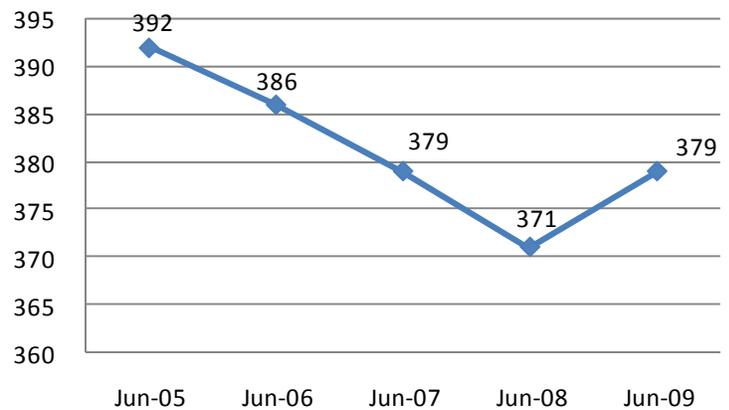
Return on Assets For All U.S. Credit Unions as of June 30



Productivity

- Membership increased 1.9% as the employee base remained stable, resulting in an increase in the members per employee ratio, which averaged 379 as of June.
- Branch expansion remained a priority for many credit unions in 2009 with 294 branches added during the past 12 months for a total of 21,442.
- Income per employee rose in the second quarter of 2009 as total income increased. Income per employee was \$229K in June 2009, as compared to \$228K in the previous year.
- Loan originations picked up in the first quarter of 2009, resulting in an increase in loan originations per employee to \$1.14M.

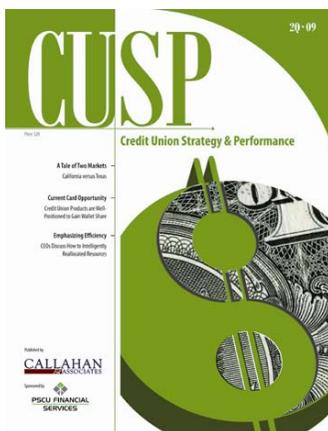
Members per Employee
For All U.S. Credit Unions as of June 30



Member Relationships

- Average loan balance increased 2.1% from the previous June to \$12,649.
- Average share balance was \$8,199 in June, a 6.5% annual increase.
- Credit card penetration was 14.2% as of June, holding steady from levels in the previous year.
- Share draft penetration picked up slightly again in the second quarter. As of last June, share draft penetration was 46.0%. Share draft penetration as of June 2009 is 46.2%.

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



2nd Quarter Edition

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The Formula for Membership Success: growing new, retaining existing, & deepening relationships

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