FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – June 30, 2012

HIGHLIGHTS

This report summarizes trends for federally insured credit unions, reporting as of June 30, 2012. Change is measured from December 31, 2011.[1]

Number of Credit Unions Reporting			
	Federal Charter	State Charter	Total
2008	4,847	2,959	7,806
2009	4,714	2,840	7,554
2010	4,589	2,750	7,339
2011	4,447	2,647	7,094
Jun-12	4,366	2,595	6,961

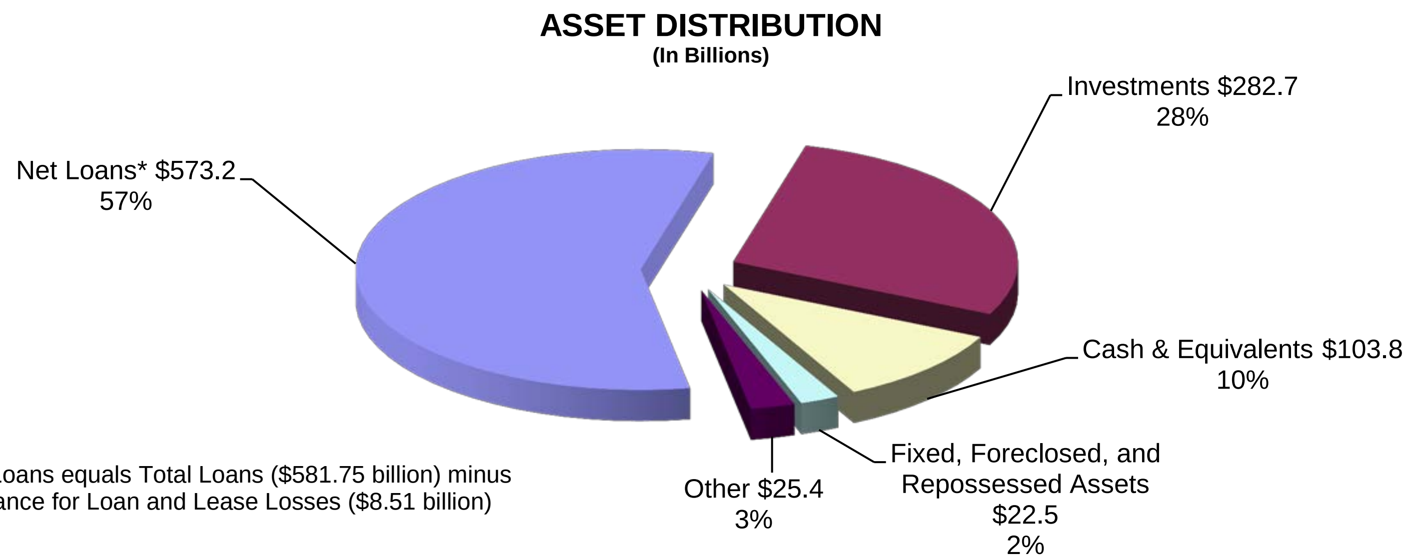
- **Number of Federally Insured Credit Unions** dropped by 133 over the first half of the year. Federal charters accounted for roughly 60% of the decline.
- **Current members** grew 1,317,199 or 2.9% annualized, to 93.1 million.
- **Assets** increased $45.95 billion, or 9.6% on an annualized basis. Viewed another way, total assets of federally insured credit unions topped $1.007 trillion.
- **Net Worth** dollars climbed $4.15 billion, or a robust 8.5% on an annualized basis, to $102.41 billion. Nonetheless, vigorous share and asset growth trimmed the aggregate net worth-to-assets ratio from 10.21% to 10.16%.
- **Earnings**, or return-on-average assets, rose from 0.67% to 0.86% annualized, in spite of continued pressure on margins.
- **Shares** increased $41.39 billion, or 10% annualized. Regular shares accounted for 58% of total share growth, with solid growth also noted in share drafts, money market, and “all other” shares. Declines occurred in share certificates and non-member deposits.
- **Loans** increased $10.28 billion, or 3.6% on an annualized basis, driven by growth in first mortgages and used vehicle loans. Robust share growth, however, cut the loans-to-shares ratio from 69.07% to 66.96%. Modest loan demand is prompting some credit unions to purchase loan participations and whole loans and offer indirect loan programs.
- **Investments, cash on deposit, and cash equivalents** grew by $34.81 billion, or 20.2% annualized.
- **Asset Quality** appeared to improve. Delinquent loans as a percentage of total loans fell from 1.60% to 1.20%. Similarly, delinquent real estate loans as a percentage of total real estate loans declined from 2.00% to 1.50%; delinquent business loans to total business loans (less unfunded commitments) decreased from 3.82% to 2.80%; and delinquent loan participations as a percentage of total loan participations fell from 4.16% to 2.32%. Some of these declines may be traceable to a new NCUA rule that brings delinquency reporting in line with industry norms.[2]
- **Net Loan Charge-Offs** to average loans declined from 0.91% to 0.75% annualized.

---

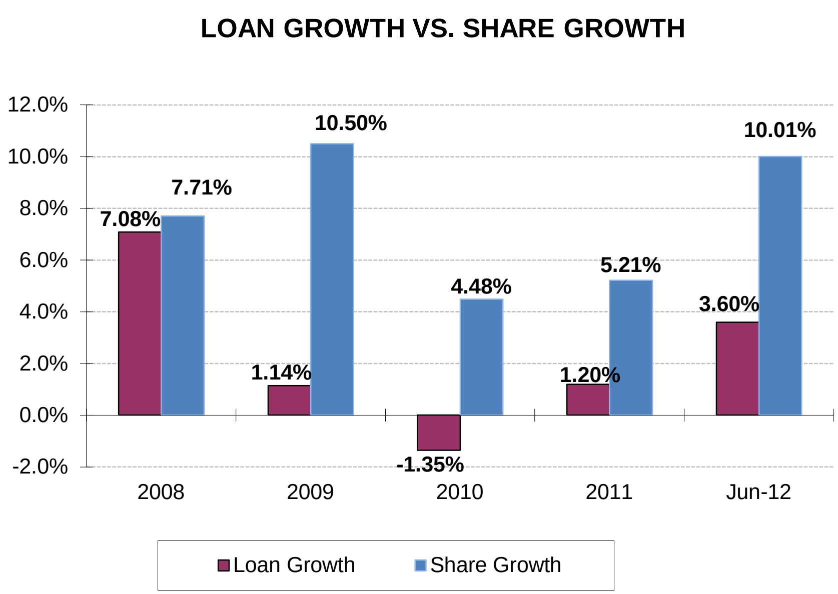
[1] The financial results for prior periods may reflect changes when compared to prior period trend letters because of subsequent Call Report modifications.

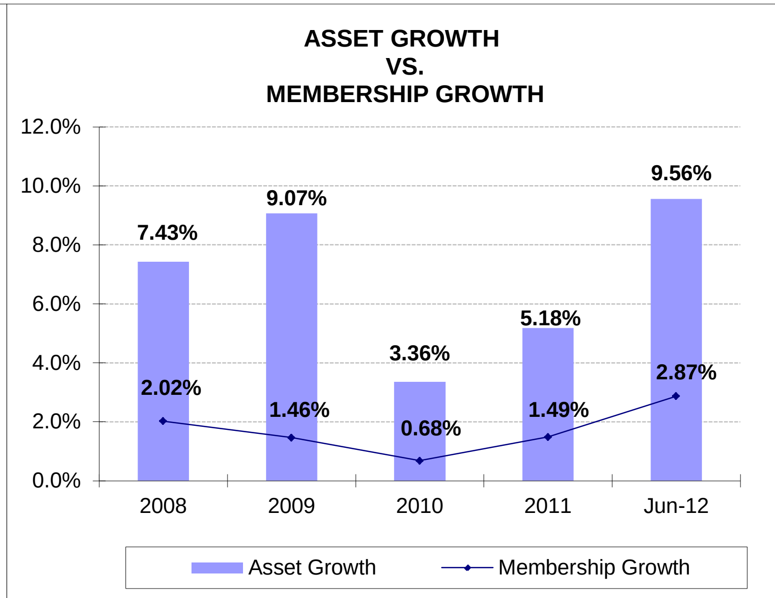
[2] The NCUA Board adopted a final Troubled Debt Restructuring (TDR) rule (Part 741) and loan workout guidance (Part 741, Appendix C) in May 2012. This policy change may have resulted in declines in reported delinquencies as of June 30.

OVERALL TRENDS

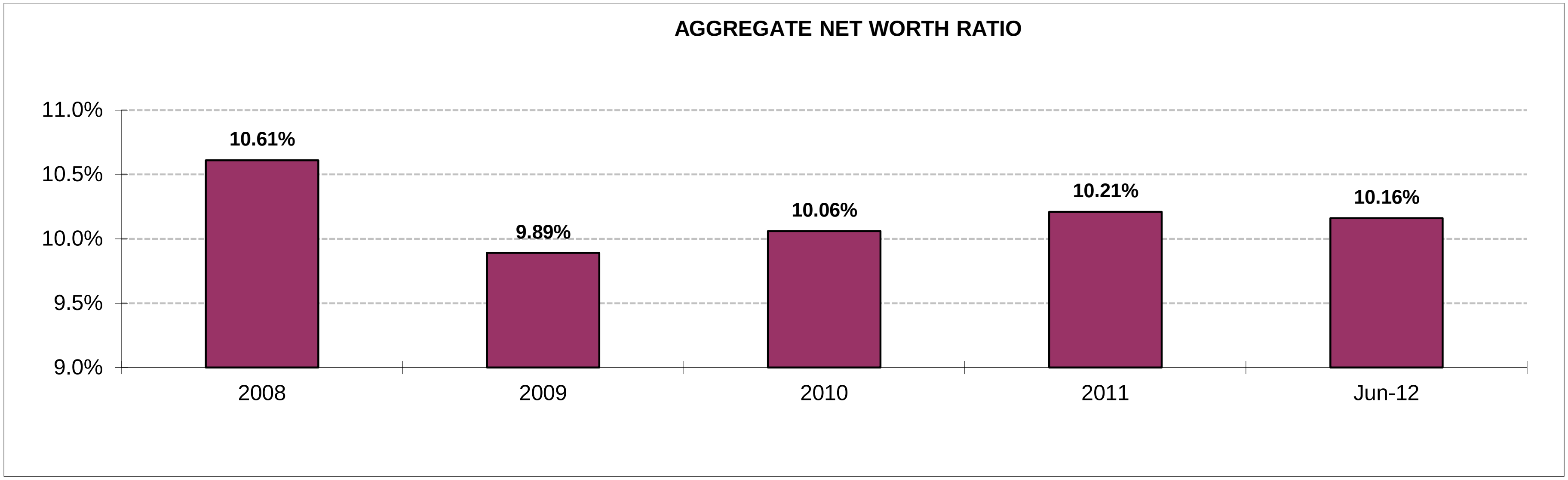


*Net Loans equals Total Loans ($581.75 billion) minus Allowance for Loan and Lease Losses ($8.51 billion)





NET WORTH



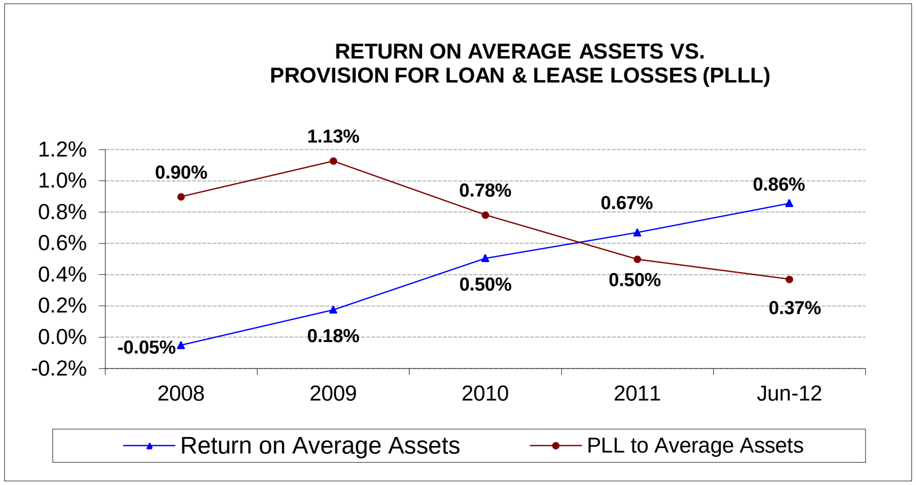
	December 2011 In Billions	June 2012 In Billions	% Change (Annualized)
Total Net Worth	$98.26	$102.41	8.45%
Secondary Capital*	$0.167	$0.167	-0.57%

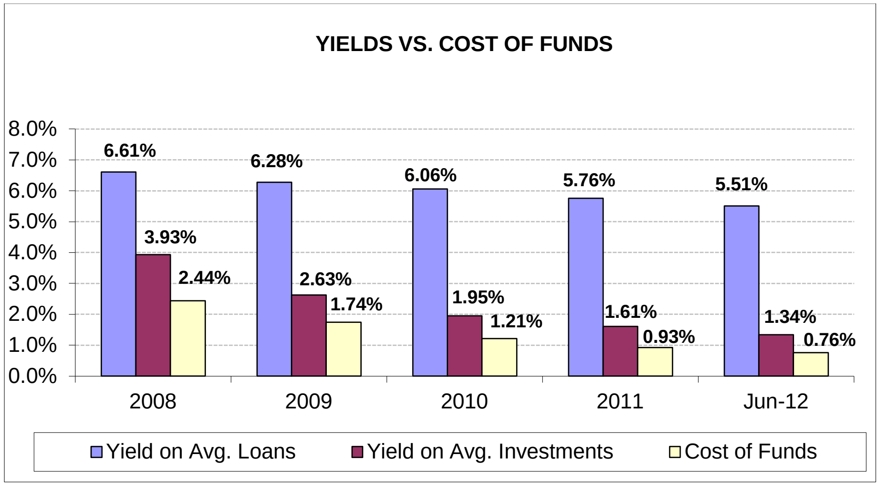
*For low-income designated credit unions, net worth includes secondary capital.

NET WORTH RATIOS				
Number of Credit Unions	December 2011	% of Total	June 2012	% of Total
7% or above	6,777	95.53%	6,668	95.79%
6% to 6.99%	184	2.59%	183	2.63%
4% to 5.99%	88	1.24%	83	1.19%
2% to 3.99%	31	0.44%	20	0.29%
0% to < 2.00%	12	0.17%	4	0.06%
Less than 0%	2	0.03%	3	0.04%

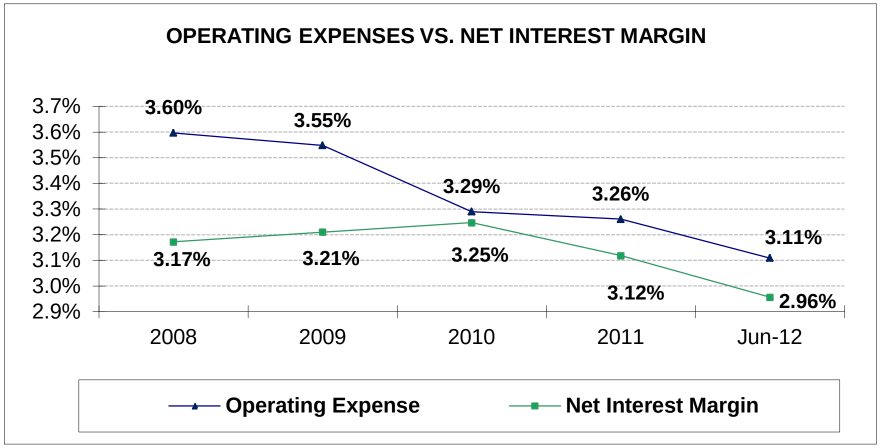
Overall, credit unions still boast strong levels of net worth. Net worth dollars increased by $4.15 billion, while secondary capital dipped $476 thousand in the first half of 2012. Despite strong earnings, asset growth outpaced net worth growth, dropping the aggregate net worth ratio slightly to 10.16%. Indeed, 71.4% of federally insured credit unions experienced a decline in their net worth ratios between year-end 2011 and June 30, 2012. On the other hand, the net worth ratio of most credit unions remains above 7%, and the percentage of credit unions subject to Prompt Corrective Action (PCA) slipped 26 basis points to 4.21%.

EARNINGS



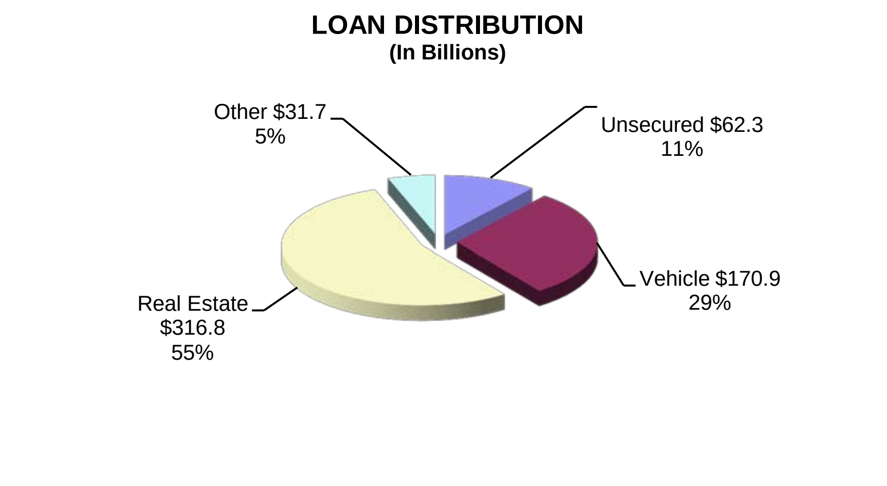


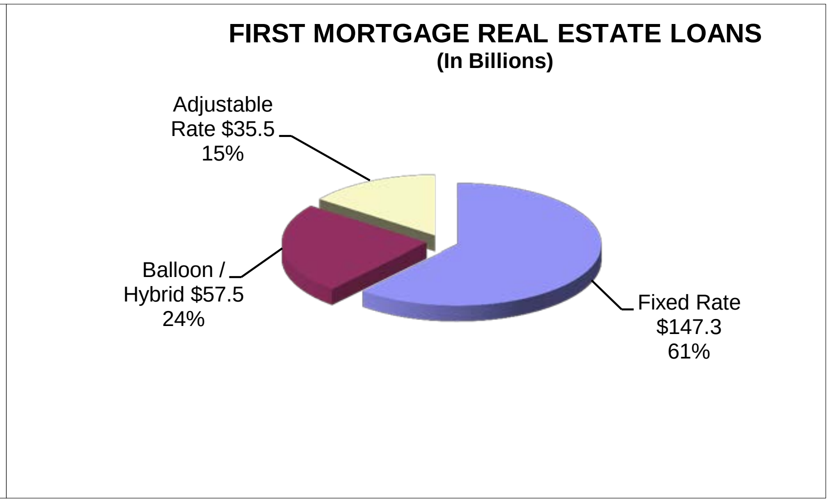
Ratio (% of Average Assets)	December 2011	June 2012	Effect on ROA
Net Interest Margin	3.12%	2.96%	-16 bp
+ Fee & Other Inc.	1.30%	1.35%	+5 bp
- Operating Expenses	3.26%	3.11%	+15 bp
- PLLL	0.50%	0.37%	+13 bp
+ Non-Operating Income	0.01%	0.03%	+2 bp
= ROA	0.67%	0.86%	+19 bp



Despite continued pressure on margins, overall credit union earnings continued to improve. Lower operating expense, cost of funds, and provision expense, as well as higher fee and other operating and non-operating income, boosted return on average assets (ROA) to 0.86%. At the same time, the net interest margin to average assets ratio continued to decline because of reduced yields on loans and investments brought on by a low interest rate environment. A credit union's earnings requirements depend on its overall risk profile, net worth needs, financial and operational structure, and strategic plans. Examiners will consider the impact of insurance fund assessments and the current economic environment on earnings.

LOAN DISTRIBUTION

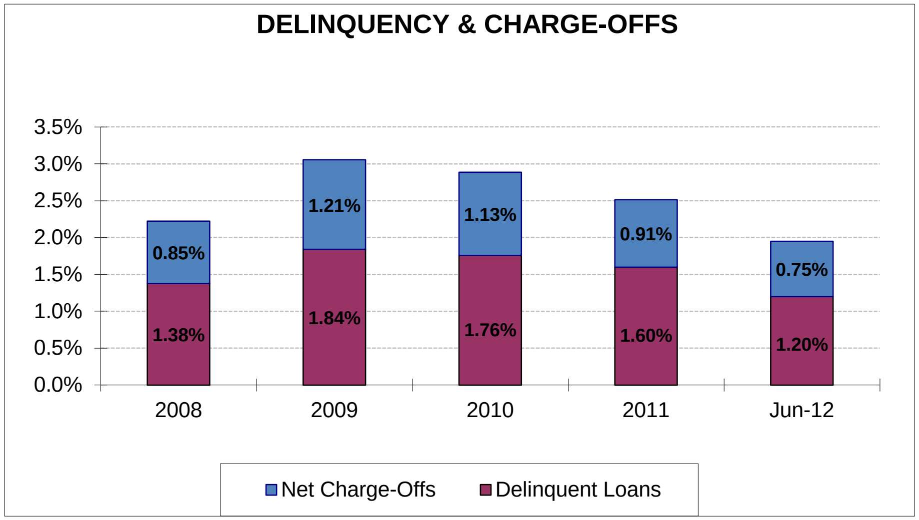


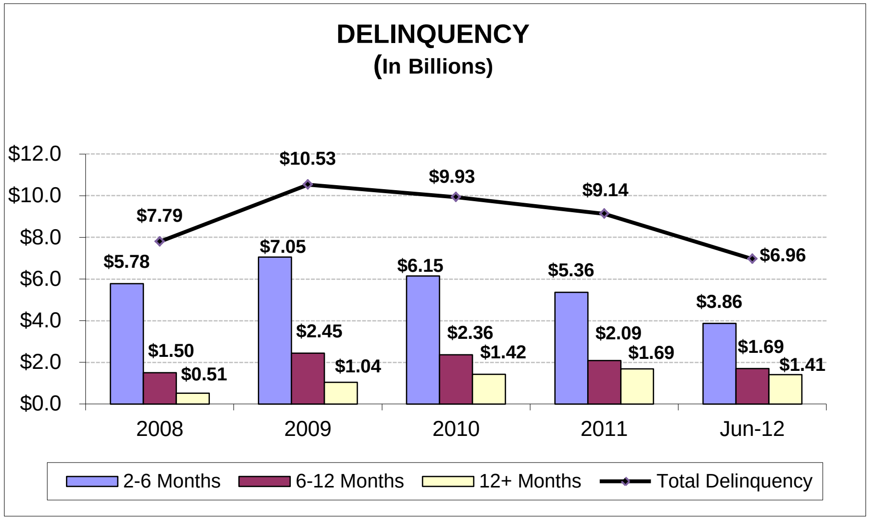


Loan Category	December 2011 Balance In Billions	% of Total Loans December 2011	June 2012 Balance In Billions	% of Total Loans June 2012	Growth In Billions	Growth Rate (Annualized)
Unsecured Credit Card	$37.38	6.54%	$36.92	6.35%	-$0.46	-2.48%
All Other Unsecured	$25.57	4.47%	$25.35	4.36%	-$0.22	-1.75%
New Vehicle	$58.27	10.20%	$59.93	10.30%	$1.66	5.71%
Used Vehicle	$106.75	18.68%	$111.01	19.08%	$4.26	7.98%
First Mortgage Real Estate	$232.95	40.76%	$240.32	41.31%	$7.37	6.33%
Other Real Estate	$80.06	14.01%	$76.50	13.15%	-$3.56	-8.90%
Leases Receivable & All Other	$30.49	5.34%	$31.72	5.45%	$1.23	8.10%
Total Loans	**$571.47**		**$581.75**		**$10.28**	**3.60%**

Loan growth continued to strengthen in the first half of 2012. Indeed, total loans grew $10.28 billion – or an annualized rate of 3.6%. First mortgages accounted for the bulk of this growth. Overall, real estate loans continued to make up the largest chunk of total loans at 54.5%, followed by vehicle loans at 29.4% and unsecured loans at 10.7%. Interest rate risk remains a concern in that 70.4% of first mortgages, including hybrids/balloons in excess of 5 years, are fixed-rate. Viewed another way, fixed-rate real estate loans account for 34.8% of loans and 20.1% of assets.

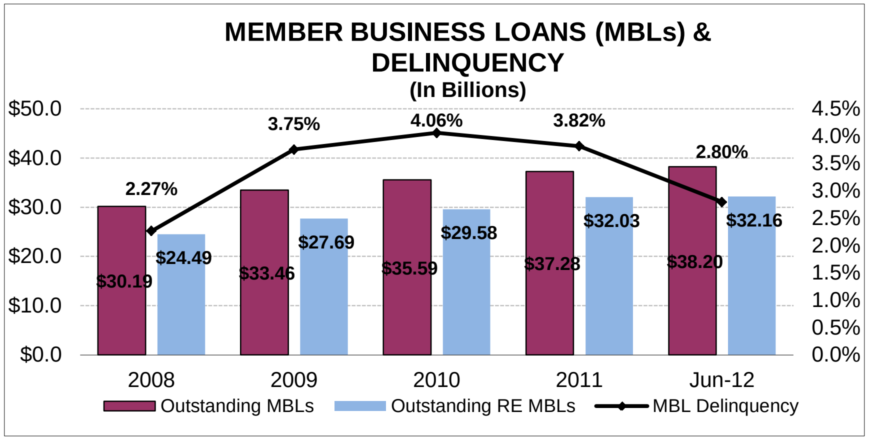
LOAN AND DELINQUENCY TRENDS





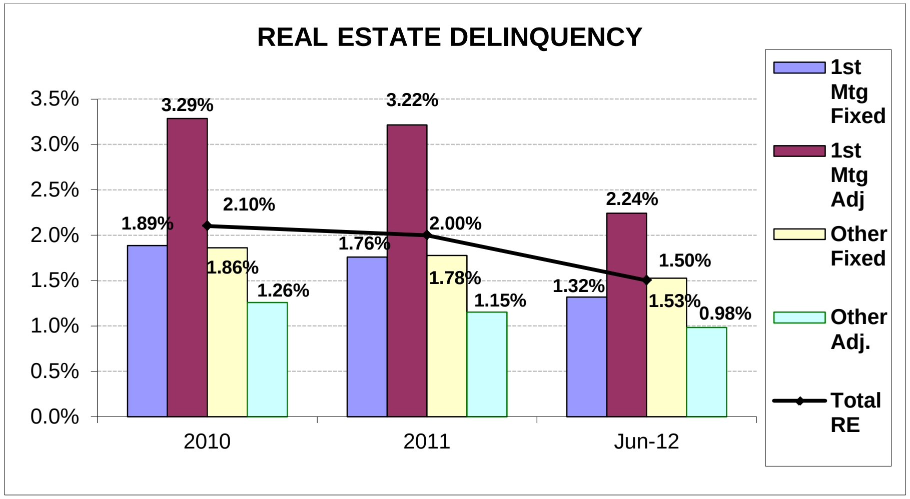
Total Loan Charge-Offs and Recoveries	December 2011 In Billions	June 2012* In Billions	% Change
Total Loans Charged Off	$6.01	$5.23	-12.98%
Total Loan Recoveries	$0.83	$0.89	7.35%
Total Net Charge-Offs	$5.18	$4.34	-16.23%

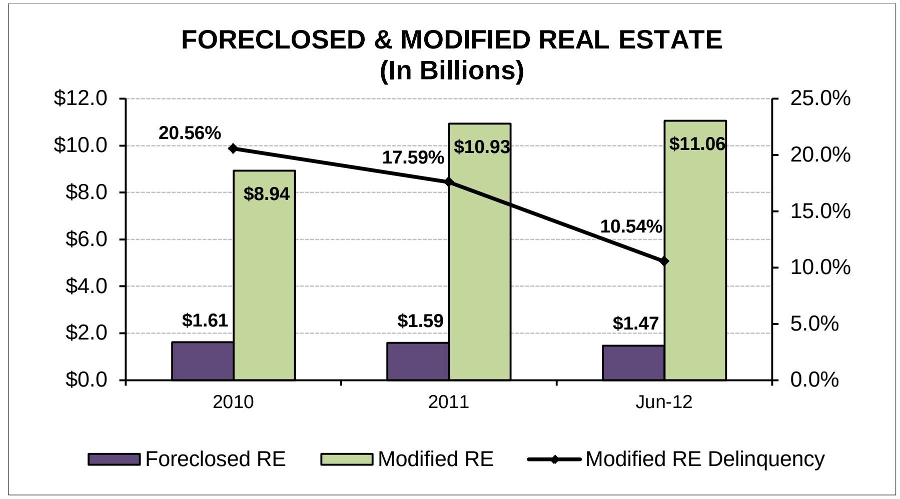
* Annualized

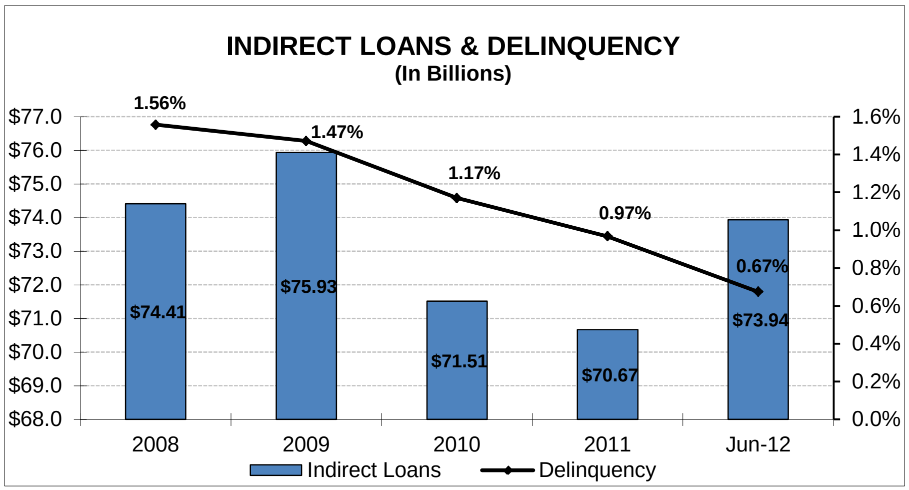


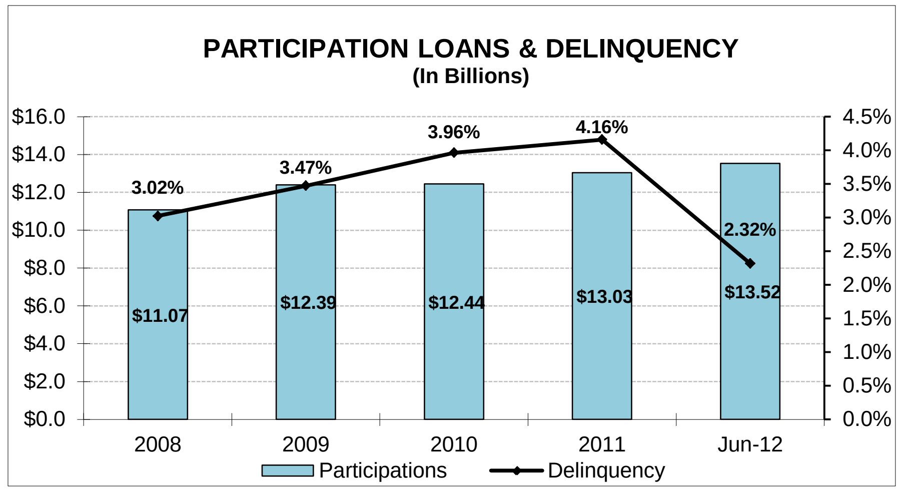
The NCUA Board approved a regulatory/policy change in May 2012, revising delinquency reporting requirements for troubled debt restructured (TDR) loans. This policy change may result in a decline in delinquent loans reported as of June 2012. Overall, the dollar value of delinquencies fell $2.17 billion to end the first half of 2012 at 1.20% of total loans. All delinquency categories and loan types, with the exception of leases over 12 months delinquent, reported declines. The combined total loan delinquency and net charge-off ratio similarly declined from 2.51% to 1.95%. NCUA will continue monitoring delinquency reporting to discern actual improvements from the effects of the regulatory/policy change.

LOAN AND DELINQUENCY TRENDS (continued)



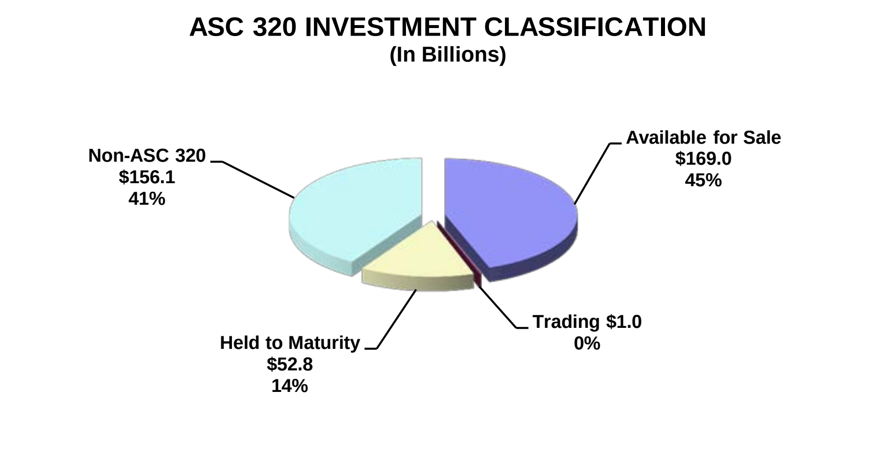


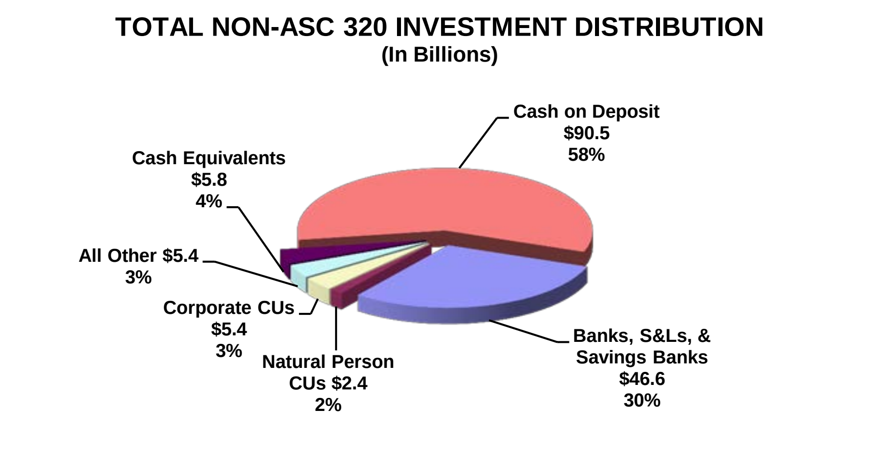




Asset quality measurements continued to show improvement in the first half of 2012. Delinquent real estate loans as a percentage of total real estate loans dropped 50 basis points to 1.50%, and net real estate loan charge-offs to average real estate loans fell 8 basis points to 0.54%. Foreclosed real estate declined $120.43 million, but modified real estate loans rose by $133.64 million. As of June 30, 2012, credit unions held $11.06 billion in modified real estate loans, with 10.54% of these reported as delinquent. Total modified loans as a percentage of total loans fell 6 basis points, from 2.46% at year-end 2011 to 2.40%. Participation loan delinquency fell $229.06 million to 2.32% of total participation loans, a large majority of which are business and/or real estate loans.

INVESTMENT TRENDS



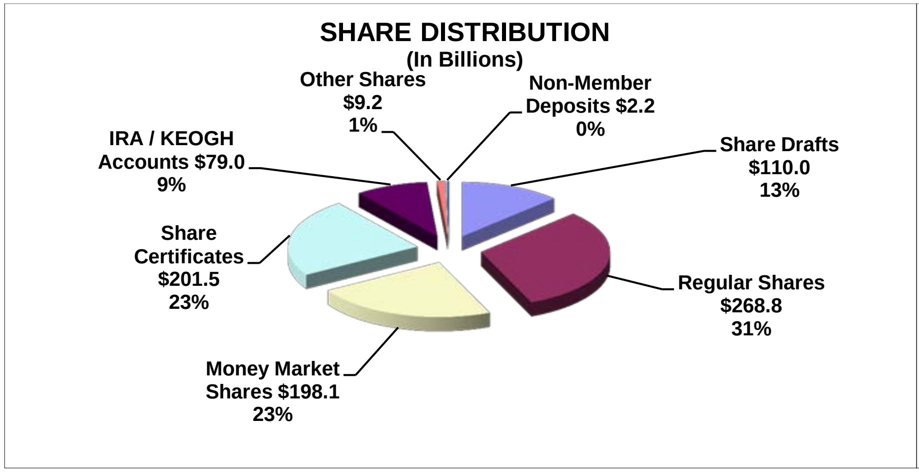


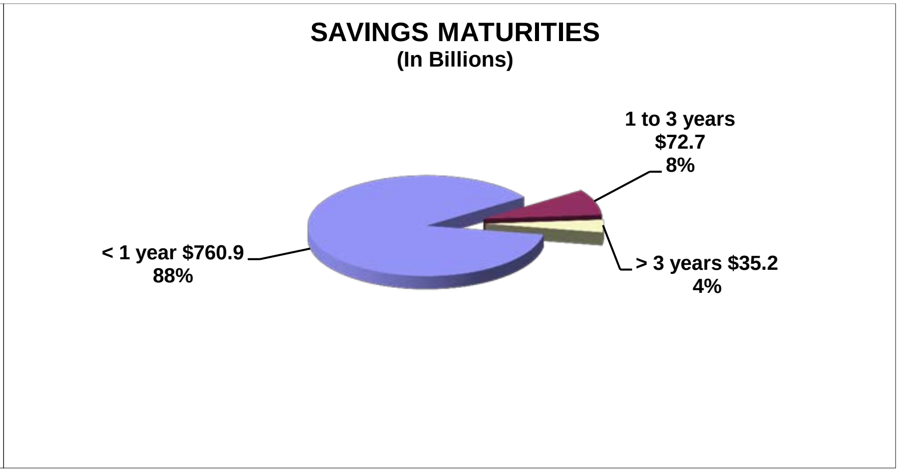
Maturity or Repricing Intervals for Investments and Cash on Deposit & Equivalents	**December 2011** In Billions	**% of Total Investments December 2011**	**June 2012** In Billions	**% of Total Investments June 2012**	**Growth** in Billions	**Growth Rate** (Annualized)
Less than 1 year	$158.42	46.03%	$171.19	45.17%	$12.77	16.13%
1 to 3 years	$105.96	30.79%	$109.34	28.86%	$3.38	6.37%
3 to 5 years	$54.46	15.83%	$67.20	17.73%	$12.74	46.79%
5 to 10 years	$19.34	5.62%	$25.34	6.69%	$6.00	62.08%
Greater than 10 years	$5.97	1.73%	$5.89	1.55%	$(0.08)	-2.67%
Total Investments*	**$344.15**		**$378.96**		**$34.81**	20.23%

*Includes borrowing repurchase agreements placed in investments for positive arbitrage

Credit unions continued to allocate a large portion of share growth to investments. Indeed, investment holdings grew by nearly $35 billion (20.2% annualized) in the first half 2012. The bulk of the growth was in instruments with less than 1 year and 3-to-5 year maturities. Consumer credit unions continue to hold high quality, safe instruments: Forty percent of all investments are in cash-on-deposit or cash equivalents, deposits in corporate credit unions, and deposits in other financial institutions. These investments provide liquidity and less exposure to changing market rates. Of the investments subject to Accounting Standards Codification (ASC) 320, formerly Statement of Financial Accounting Standards 115, a stable 91% are in U.S. Government or Federal Agency Securities. Contributing to higher levels of concentration risk, mortgage-backed securities (most of which are Federal Agency Securities), grew $11.92 billion to $99.05 billion in the first half of 2012, or 27.4% on an annualized basis.

SHARE TRENDS

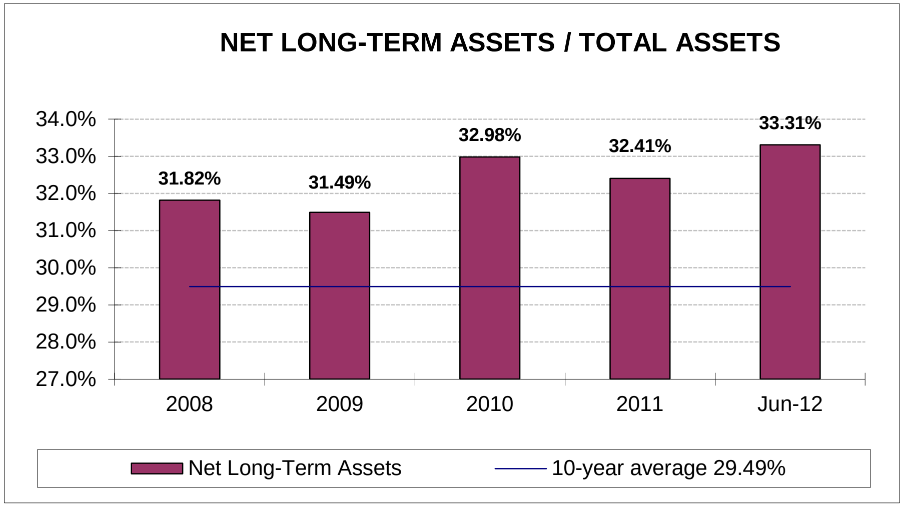


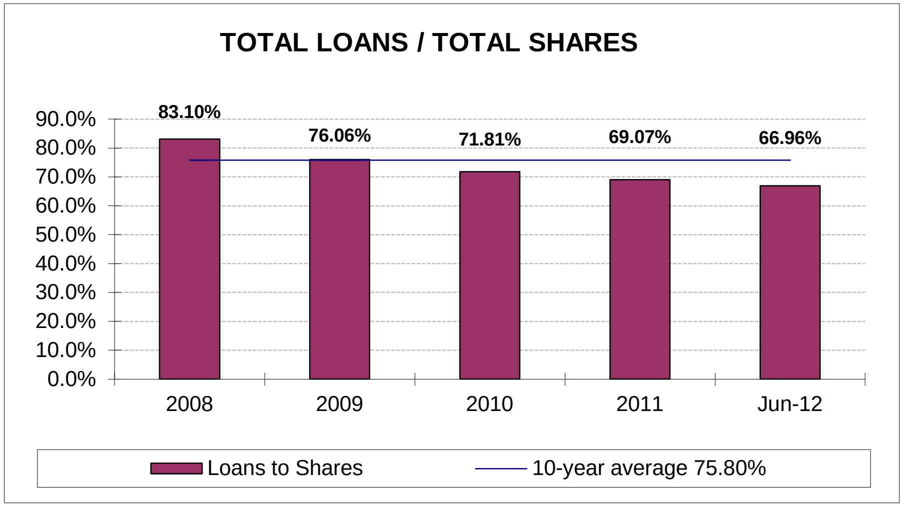


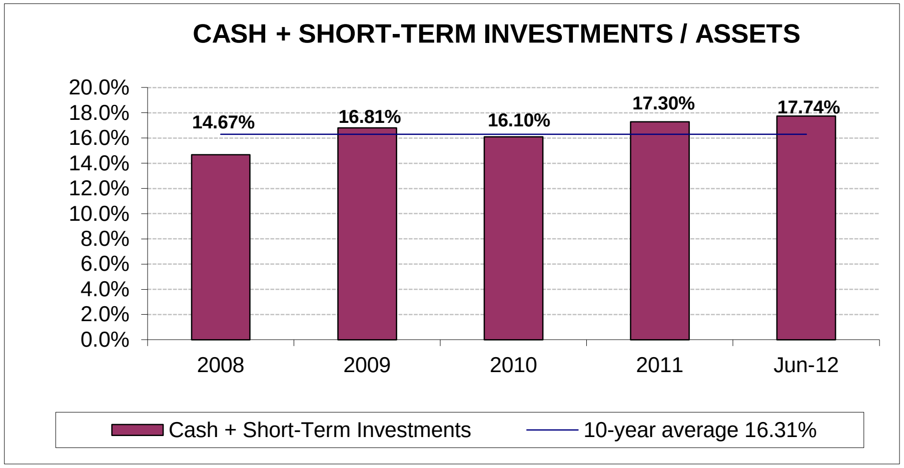
Share Category	December 2011 Balance In Billions	% of Total Shares December 2011	June 2012 Balance In Billions	% of Total Shares June 2012	Growth In Billions	Growth Rate (Annualized)
Share Drafts	$100.64	12.16%	$110.00	12.66%	$9.36	18.60%
Regular Shares	$244.87	29.60%	$268.83	30.94%	$23.96	19.57%
Money Market Shares	$189.14	22.86%	$198.07	22.80%	$8.93	9.45%
Share Certificates	$204.10	24.67%	$201.52	23.20%	$(2.58)	-2.53%
IRA / KEOGH Accounts	$77.64	9.38%	$79.01	9.09%	$1.37	3.53%
All Other Shares	$8.82	1.06%	$9.18	1.06%	$0.36	8.08%
Non-Member Deposits	$2.20	0.27%	$2.19	0.25%	$(0.01)	-0.83%
Total Shares and Deposits	**$827.41**		**$868.80**		**$41.39**	**10.01%**

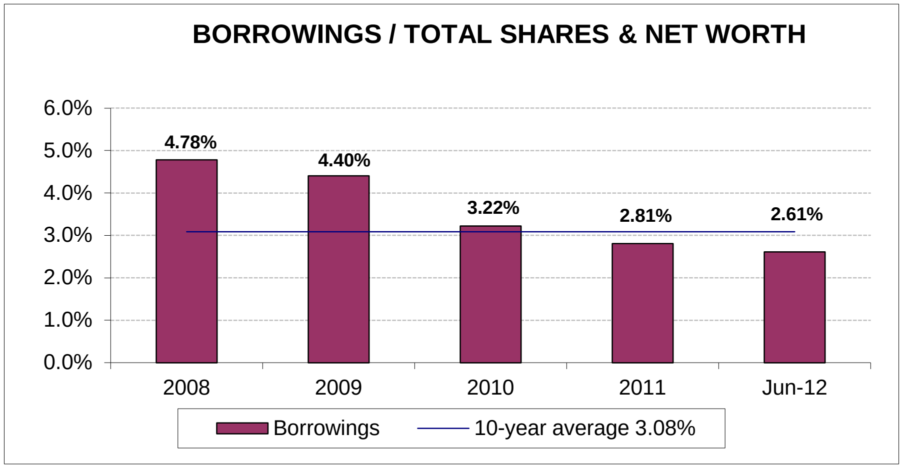
Credit unions continued to enjoy healthy share growth in the first half of 2012. Total shares increased $41.39 billion or 10% on an annualized basis. Regular share accounts experienced the largest growth. Although the growth in regular shares and share drafts reflects member loyalty, 55% of total shares are in rate-sensitive accounts. Share certificates continued to decline, dropping 2.5% annualized, but still account for 23.2% of total shares and deposits, second only to regular shares. Share maturities remain short-term overall, with 88% of total shares maturing within one year. The potential for runoff highlights the importance of liquidity risk management.

ASSET-LIABILITY MANAGEMENT TRENDS









Credit union liquidity positions continued to strengthen, further reducing the need for borrowed funds in the near term. Indeed, total borrowings declined $665.83 million in the first half of 2012 for an annualized decline of 5.1%. Cash plus short-term investments to assets increased 44 basis points to 17.7% as of June 30. Share growth outpaced loan growth, dropping the loans to shares ratio to 67%. The net long-term assets ratio of 33.3% remains elevated and represents potential interest rate risk exposure going forward. Credit unions with elevated levels of interest rate or liquidity risk must demonstrate strong asset-liability management practices, such as proactive structuring of the balance sheet, to control these risks.

SUMMARY OF TRENDS BY ASSET GROUP

	Asset Group Under $10 million	**Asset Group** $10 million to $100 million	**Asset Group** $100 million to $500 million	**Asset Group** Over $500 million
# of Credit Unions	2,438	3,089	1,033	401
Total Assets	$9.73 billion	$113.09 billion	$229.89 billion	$654.94 billion
Average Assets/CU	$3.99 million	$36.61 million	$222.54 million	$1,633.26 million
Net Worth / Total Assets	14.34%	11.27%	10.23%	9.88%
Average Net Worth (non-dollar weighted)	15.77%	11.79%	10.25%	10.10%
Net Worth Growth*	0.19%	3.73%	7.05%	10.61%
Return on Average Assets (ROA)	0.02%	0.39%	0.68%	1.01%
Net Interest Margin/Average Assets	3.50%	3.22%	3.13%	2.85%
Fee & Other Income/Average Assets	0.65%	1.13%	1.45%	1.36%
Operating Expense/Average Assets	3.86%	3.71%	3.62%	2.82%
Members / Full-Time Employees	410.18	403.31	350.09	401.33
Provision for Loan Loss/Average Assets	0.29%	0.27%	0.31%	0.41%
Loans / Shares	54.31%	57.27%	65.00%	69.58%
Delinquent Loans / Total Loans	2.16%	1.28%	1.19%	1.17%
% of Real Estate Loans Delinquent > 2 Months	1.87%	1.50%	1.52%	1.50%
% of Member Business Loans Delinquent > 2 Mos.	1.51%	1.63%	2.62%	2.92%
Net Charge-Offs/Average Loans	0.66%	0.58%	0.67%	0.81%
Share Growth*	8.40%	9.95%	10.23%	10.68%
Loan Growth*	-0.44%	1.55%	3.61%	4.62%
Asset Growth*	7.15%	9.30%	9.92%	10.19%
Membership Growth*	-1.49%	1.03%	2.49%	4.97%
Net Long-Term Assets / Total Assets	9.66%	24.70%	33.34%	35.13%
Cash + Short-Term Investments / Assets	33.78%	24.34%	18.00%	16.26%
Borrowings / Shares & Net Worth	0.06%	0.19%	1.02%	3.66%

***Note: The growth trends are based on the same federally insured credit unions reporting at 12/31/11 and 6/30/12, based on 6/30/12 assets.**

Net worth ratios remain strong for all asset groups, particularly in the under $10 million category. Smaller credit unions continue to face the greatest earnings challenge because of declining loan volume and membership (potential borrowers), diminished opportunities for fee income, and higher operating expenses. These small credit unions also experience higher loan delinquency. Credit unions in the largest asset group benefit from economies of scale, resulting in lower operating expenses and higher net income.