

Credit Union Trends and Prospects

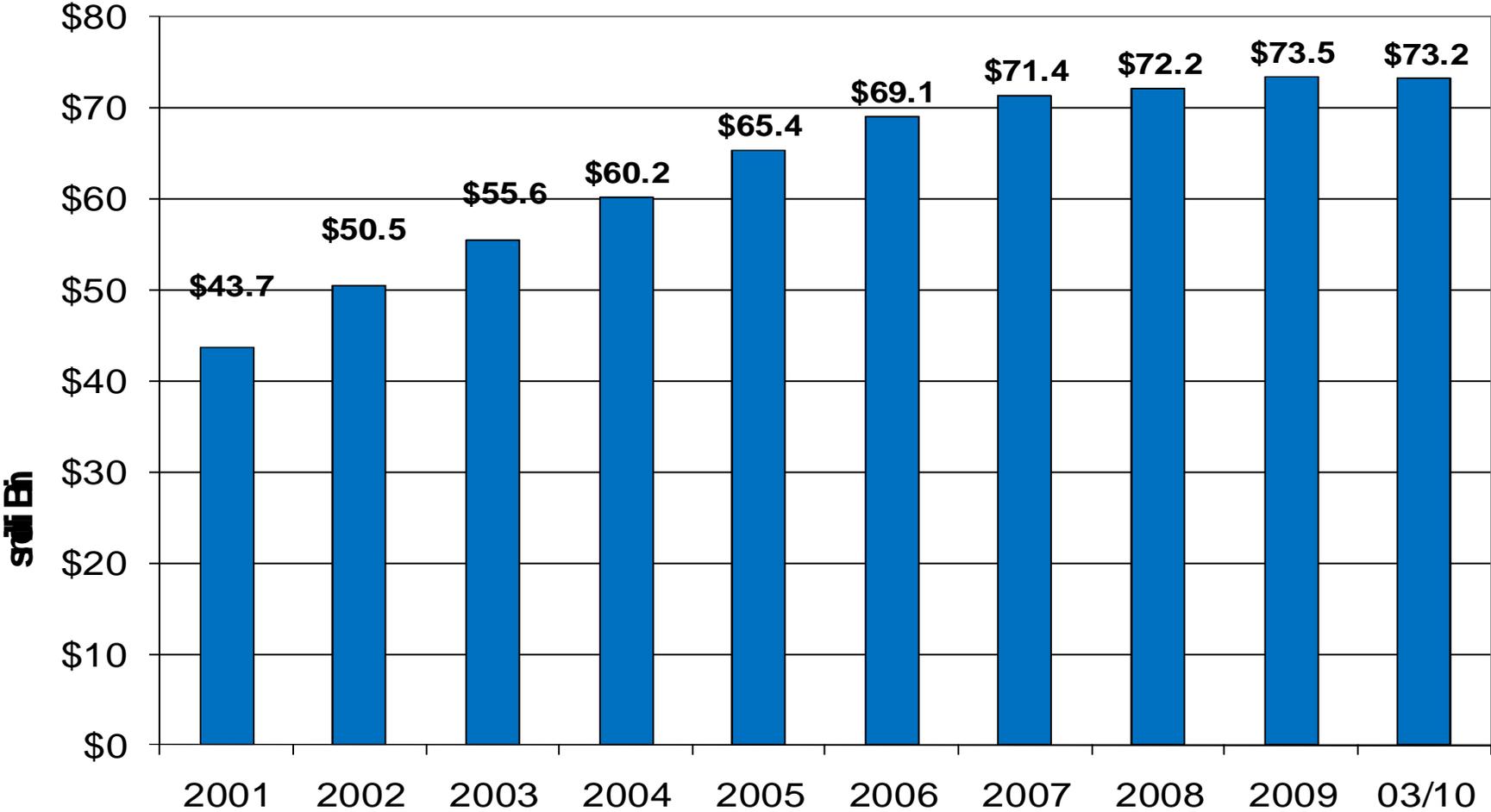
William S. Haraf
Commissioner
California Department of Financial Institutions
June 16, 2010

Discussion Topics for Today

1. Condition of California Credit Unions
2. Credit Market Conditions
3. The Broader Environment
 - a. Economy
 - b. Financial Markets
 - c. Regulatory Reform
4. Lessons Learned from the Crisis

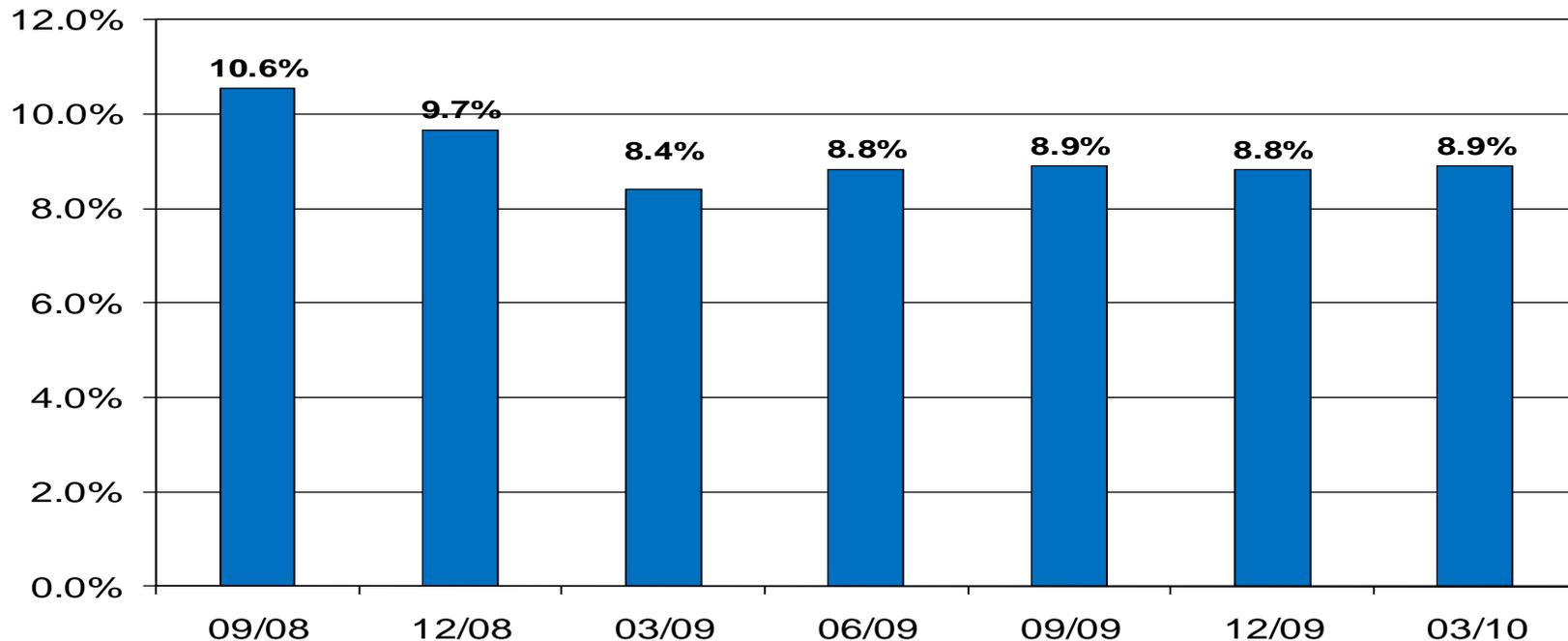
Condition of California Credit Unions

Total Assets



Quarterly Net Worth Trend

Net worth ratio has remained relatively stable, borderline at 9%, over the last four quarters through controlled asset growth.



Note: June 2009 enactment of the Stabilization Fund passed back the 0.69% NCUSIF impairment previously recognized by credit unions and reduced the NCUSIF premium liability from 0.3% to 0.15%.

PCA and Asset Size

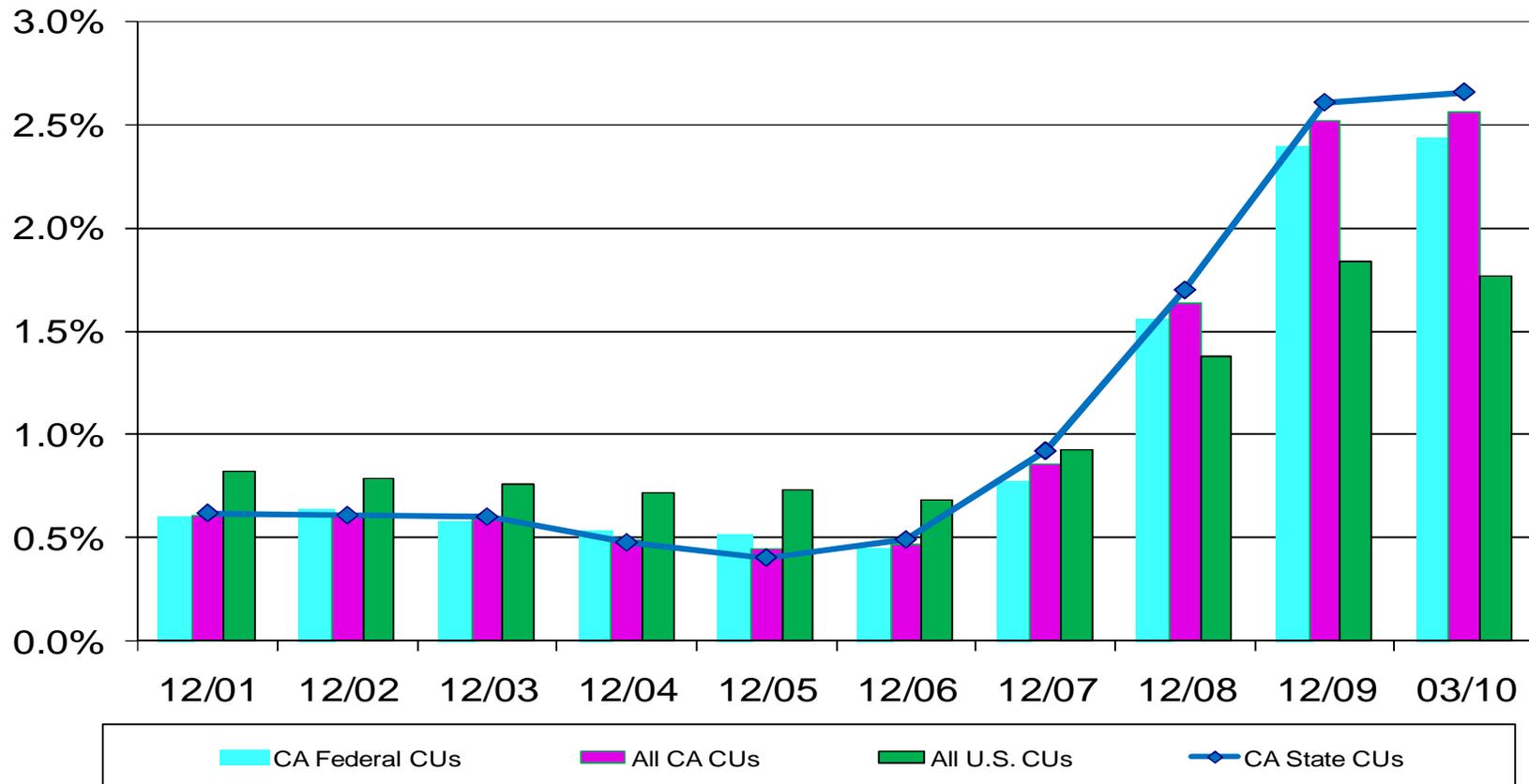
Credit unions subject to PCA reflected 15% of total assets at 1Q-2010, relatively unchanged from the preceding quarter.

	1Q-2010				4Q-2009			
NW Ratio	# of CUs	% of CU	Total Assets	% of Assets	# of CUs	% of CU	Total Assets	% of Assets
less than 3.99%	2	1%	\$ 2,277,092,117	3%	4	2%	\$ 2,313,774,269	3%
4% - 4.99%	3	2%	\$ 3,434,330,883	5%	1	1%	\$ 2,871,525,881	4%
5% - 5.99%	4	2%	\$ 373,877,951	1%	6	4%	\$ 636,477,251	1%
6% - 6.99%	16	10%	\$ 4,879,209,083	7%	17	10%	\$ 5,310,807,684	7%
PCA Level	25	15%	\$ 10,964,510,034	15%	28	16%	\$ 11,132,585,085	15%

PCA – subject to Prompt Corrective Action with NW less than 7%. NW Ratio calculated based on optional total assets election, if used.

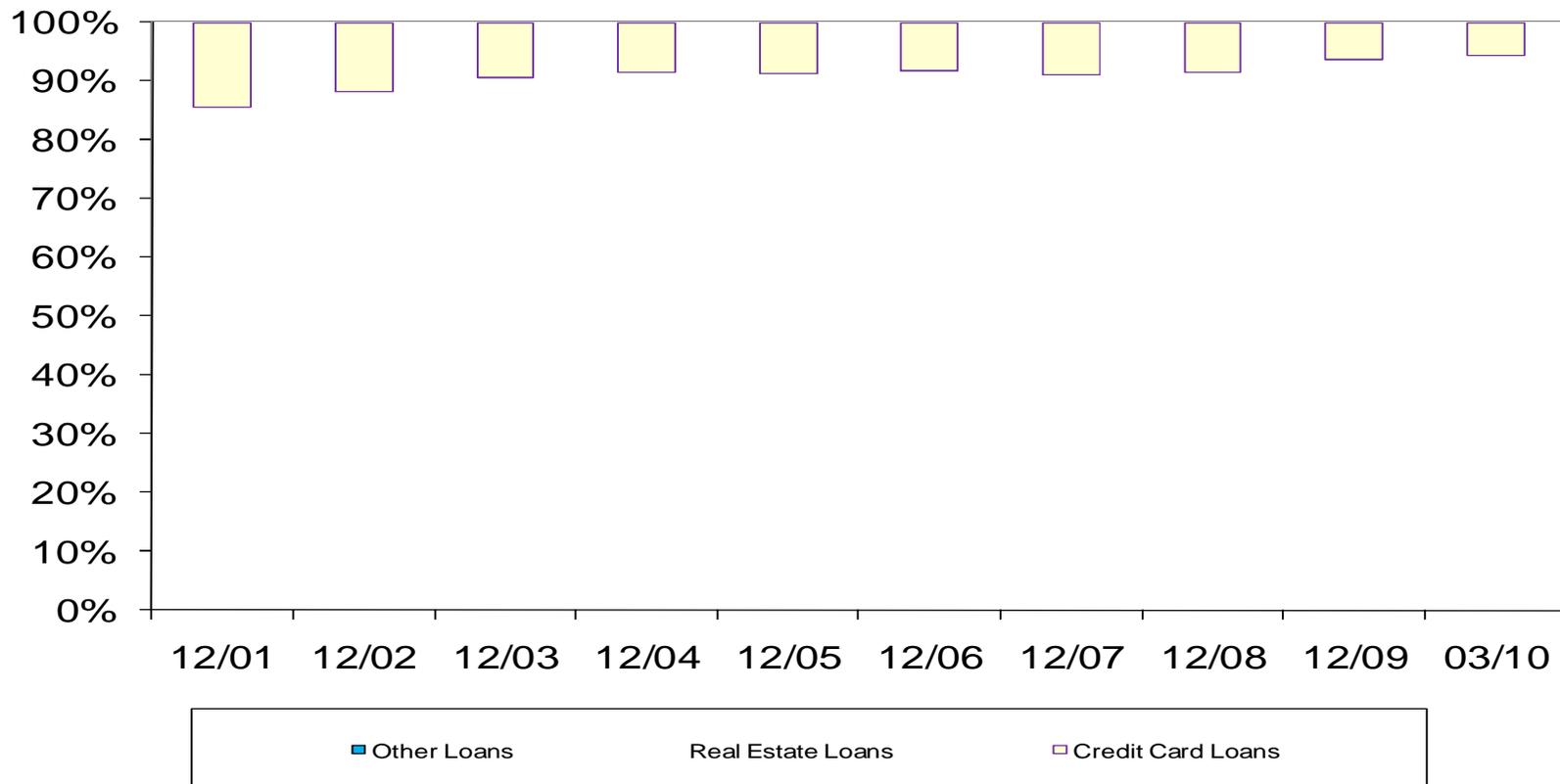
Delinquent Loans to Total Loans

CA state-chartered delinquency climbed to 2.66% at 1Q 2010, mostly driven by the continued real estate deterioration and exacerbated by a 3% loan decline.



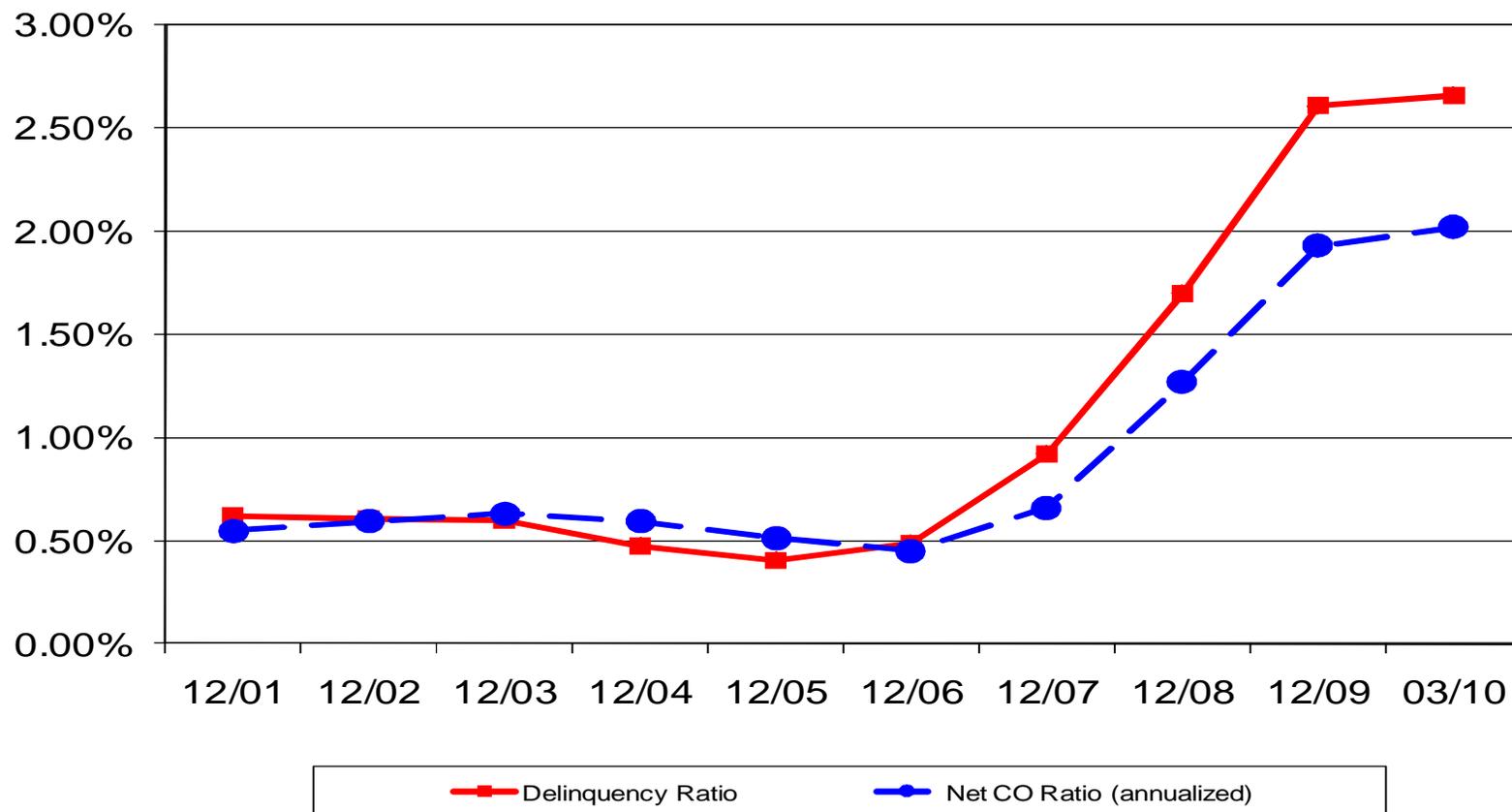
Delinquency by Type

Real estate related loans continue to show stress. Real estate delinquency represents 75% of total reportable delinquency, compared to 70% in 2009, and 49% in 2008.



Asset Quality Trends

Delinquency pace slowed in 1Q-2010, after rapidly expanding over the past two years.



Net Charge-Offs / Average Loans by Quintile*

State Chartered Credit Unions

Annualized year-to-date through March 31, 2010

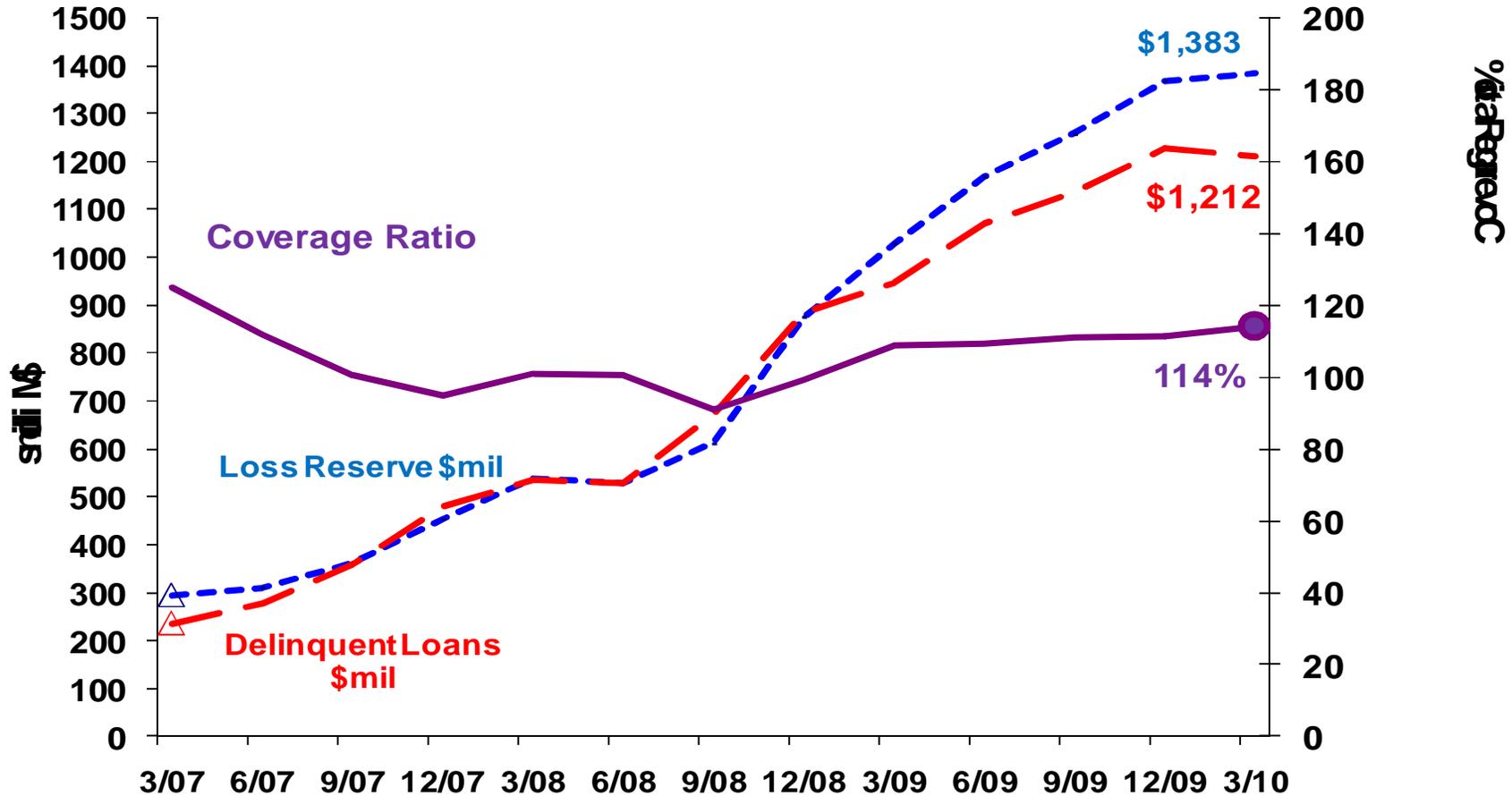
Asset Size	Less than \$10MM**	\$10 to \$50MM	\$50 to \$100MM	\$100 to \$500MM	\$500MM to \$1 Billion	\$1 Billion and More**	Total
# of Credit Unions	17	44	20	47	20	19	167
First Quintile	0.7	2.7	4.5	3.3	4.0	2.8	3.5
Second Quintile	0.0	1.3	2.5	2.2	2.1	2.2	2.1
Third Quintile	0.0	0.7	1.5	1.8	1.4	1.9	1.3
Fourth Quintile	-0.4	0.3	0.6	1.1	0.9	0.8	0.6
Fifth Quintile		0.0	0.0	0.5	0.5		0.0
Total	0.3	1.0	2.2	2.0	2.0	2.1	2.0

* Quintiles of equal sizes are created by dropping off first the highest then the lowest ratio in each group until the number of institutions is divisible by 5.

** Due to the small population in this category, the number of institutions was divided into four equal sized groups

Loan Loss Reserves to Delinquent Loans

Coverage ratio improved to 114 % as credit unions continue to reserve for potential losses.



Loss Reserves / Delinquent Loans by Quintile*

State Chartered Credit Unions

As of March 31, 2010

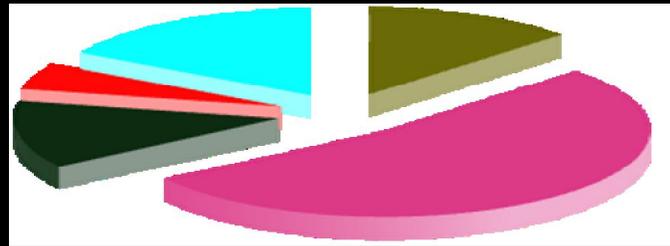
Asset Size	Less than \$10MM**	\$10 to \$50MM	\$50 to \$100MM	\$100 to \$500MM	\$500MM to \$1 Billion	\$1 Billion and More**	Total
# of Credit Unions	17	44	20	47	20	19	167
First Quintile	308.4	406.1	456.9	452.7	273.6	197.7	453.0
Second Quintile	86.1	143.8	222.5	207.4	213.1	149.1	193.2
Third Quintile	52.6	78.8	162.0	135.3	147.8	117.2	122.7
Fourth Quintile	17.5	54.0	111.4	98.9	107.7	82.7	77.5
Fifth Quintile		30.0	60.6	52.9	59.1		37.4
Total	56.1	77.0	136.9	108.4	136.9	110.4	114.4

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Loan Portfolios (in billions)

Total loans decreased 12% annualized at 1Q-2010, reflecting the sixth consecutive quarter of negative growth. Real estate loans represent over half of the entire loan portfolio.



Real Estate Loans / Net Worth by Quintile*

State Chartered Credit Unions

As of March 31, 2010

Asset Size	Less than \$10MM**	\$10 to \$50MM	\$50 to \$100MM	\$100 to \$500MM	\$500MM to \$1 Billion	\$1 Billion and More**	Total
# of Credit Unions	17	44	20	47	20	19	167
First Quintile	149.4	481.2	781.0	768.8	851.2	729.9	770.2
Second Quintile	1.0	318.1	498.9	493.8	725.4	529.0	485.7
Third Quintile	0.0	206.4	268.7	374.6	568.9	426.3	321.2
Fourth Quintile	0.0	129.3	130.9	277.8	418.8	253.2	174.0
Fifth Quintile		44.2	74.9	133.3	240.1		36.0
Total	90.5	236.6	307.1	384.4	506.8	468.6	453.0

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Real Estate Delinquency / Real Estate Loans by Quintile* State Chartered Credit Unions

As of March 31, 2010

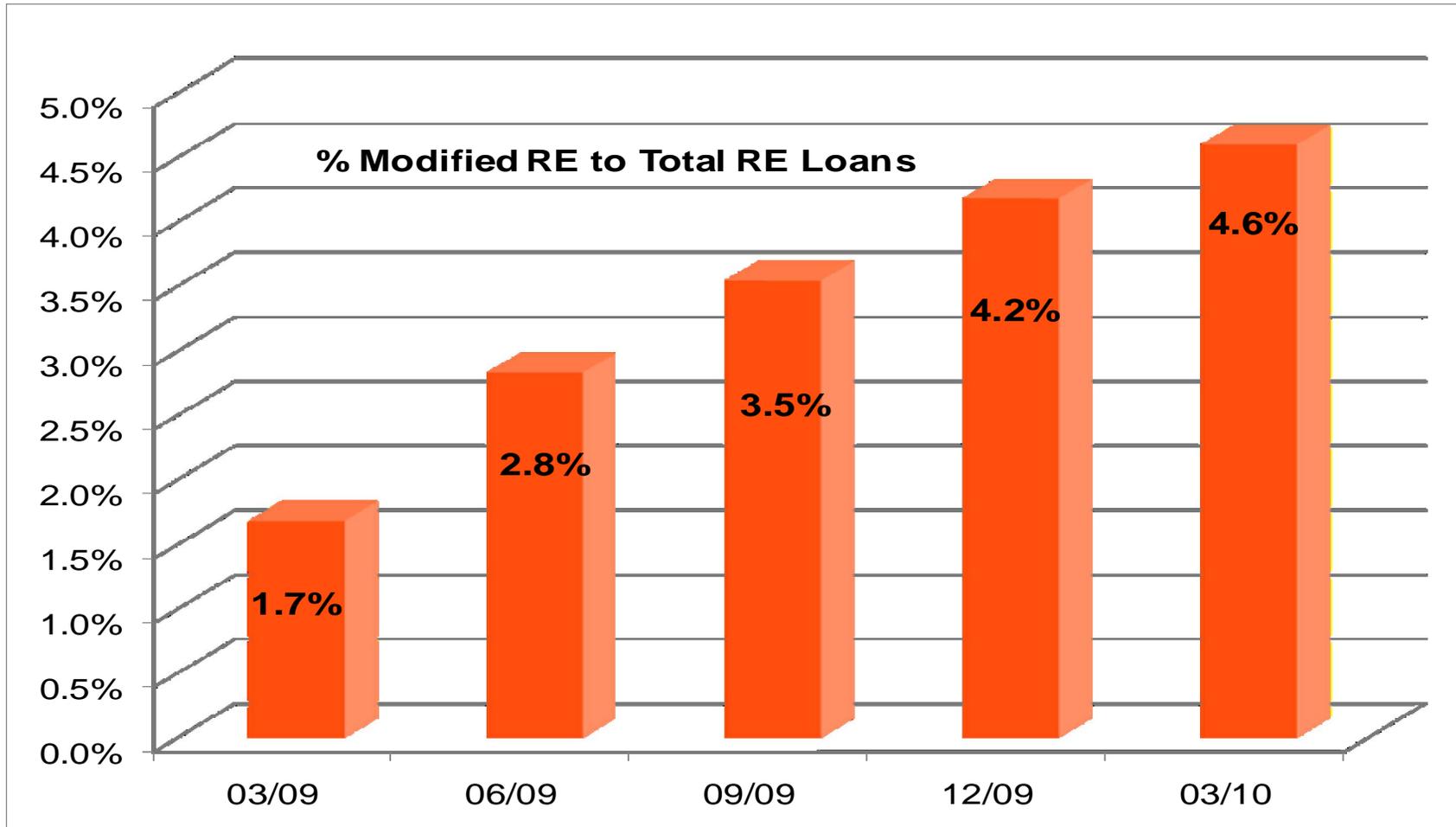
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# of Credit Unions	17	44	20	47	20	19	167
First Quintile	∞	9.7	6.1	6.7	4.5	5.0	13.7
Second Quintile	∞	3.3	2.1	2.9	2.9	3.9	3.7
Third Quintile	54.3	0.9	1.3	1.9	1.6	1.8	1.9
Fourth Quintile	0.4	0.0	0.3	1.0	1.1	1.1	0.8
Fifth Quintile		0.0	0.0	0.2	0.3		0.0
Total	2.4	3.0	3.0	3.3	2.2	3.4	3.1

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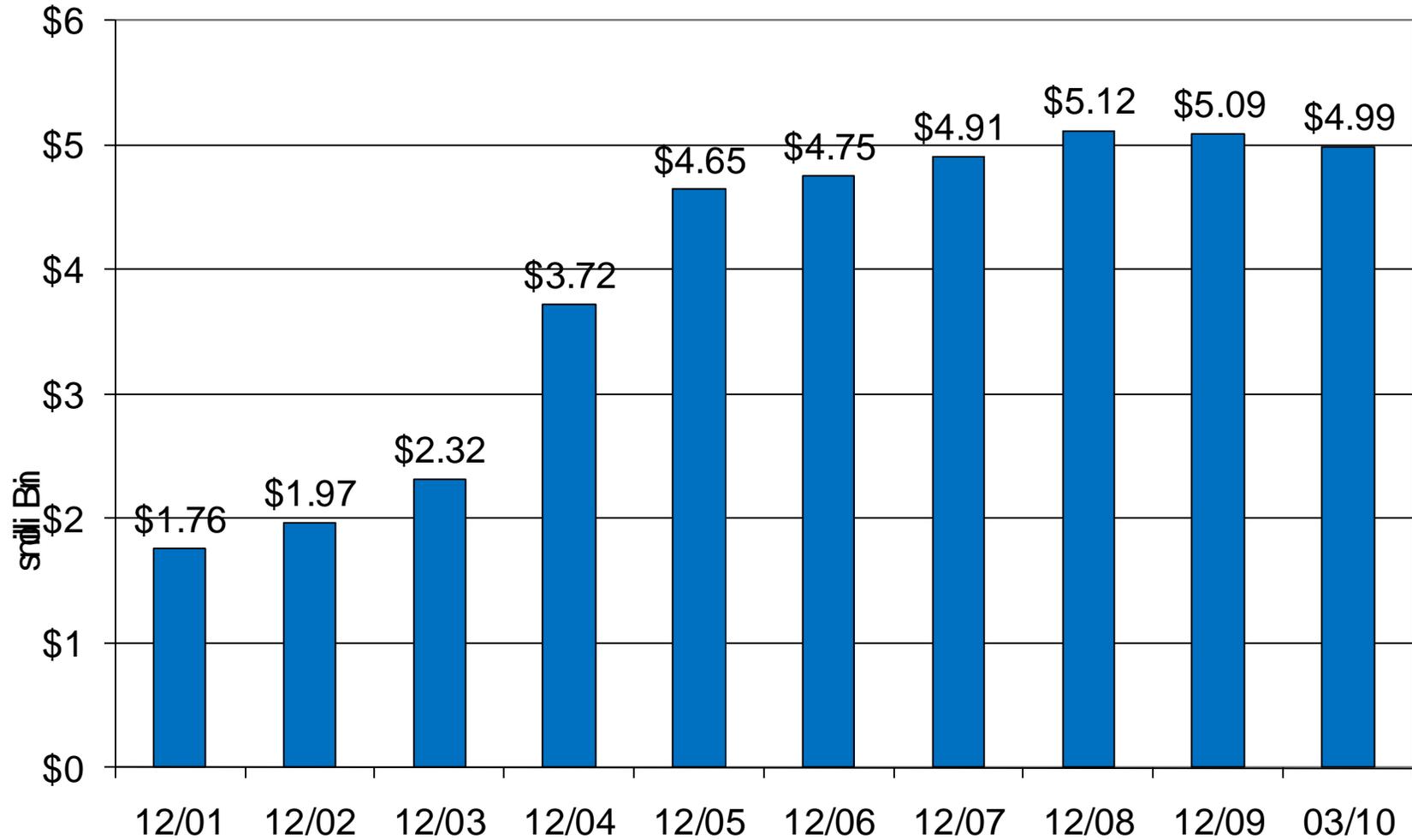
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Modified Real Estate Loans

Real estate loan modifications increased another 8% from YE 2009, totaling \$1.4B at Q1-2010.

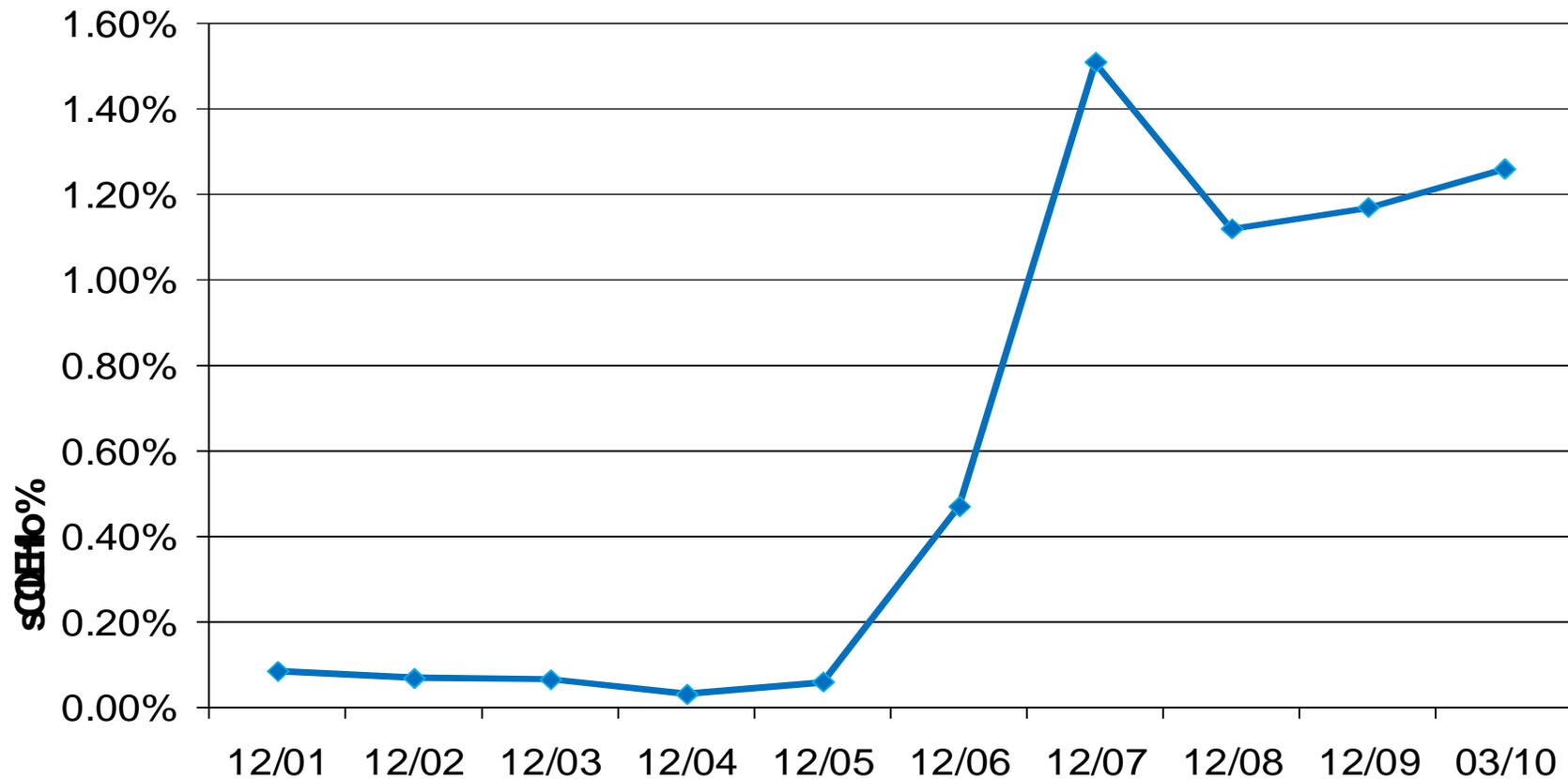


CAState Charter HELOC Dollars

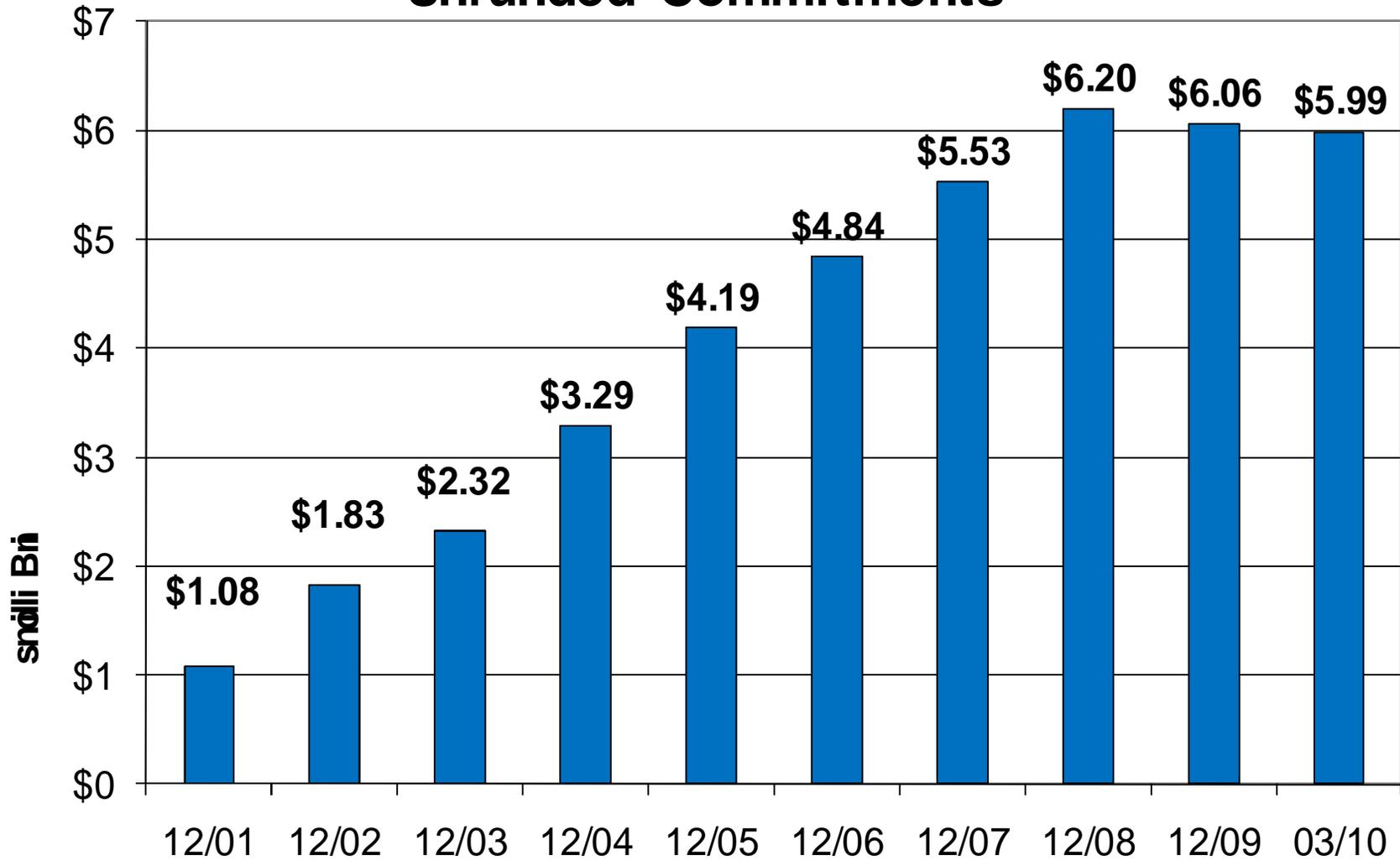


HELOC Delinquency Ratio

HELOC delinquency ratio rose considerably to 1.5% in 2007 due to Cal State 9 indirect portfolio. After several cycles of improvement, HELOC delinquency has edged up.

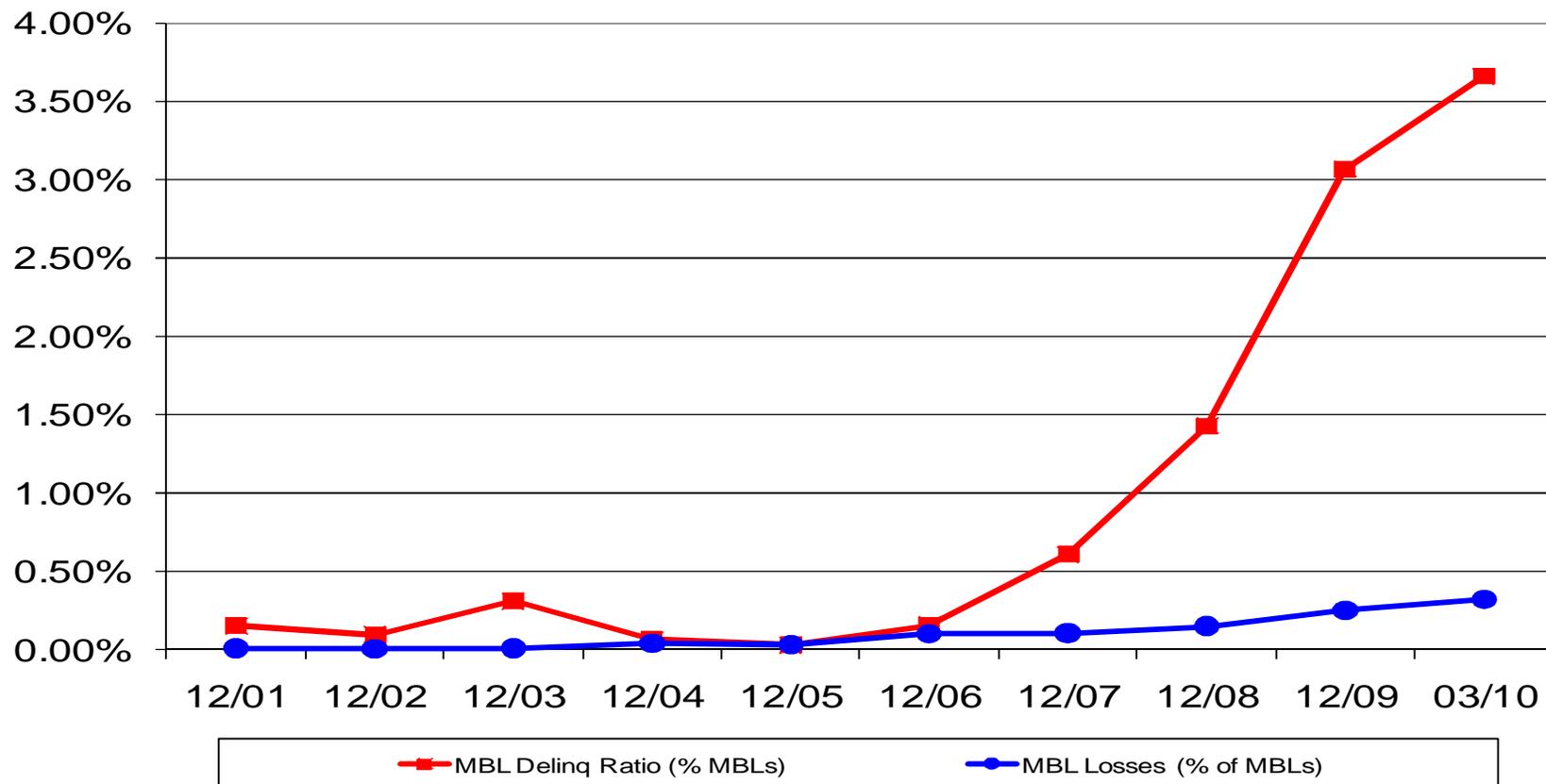


CA State Chartered MBL Dollars, including Unfunded Commitments



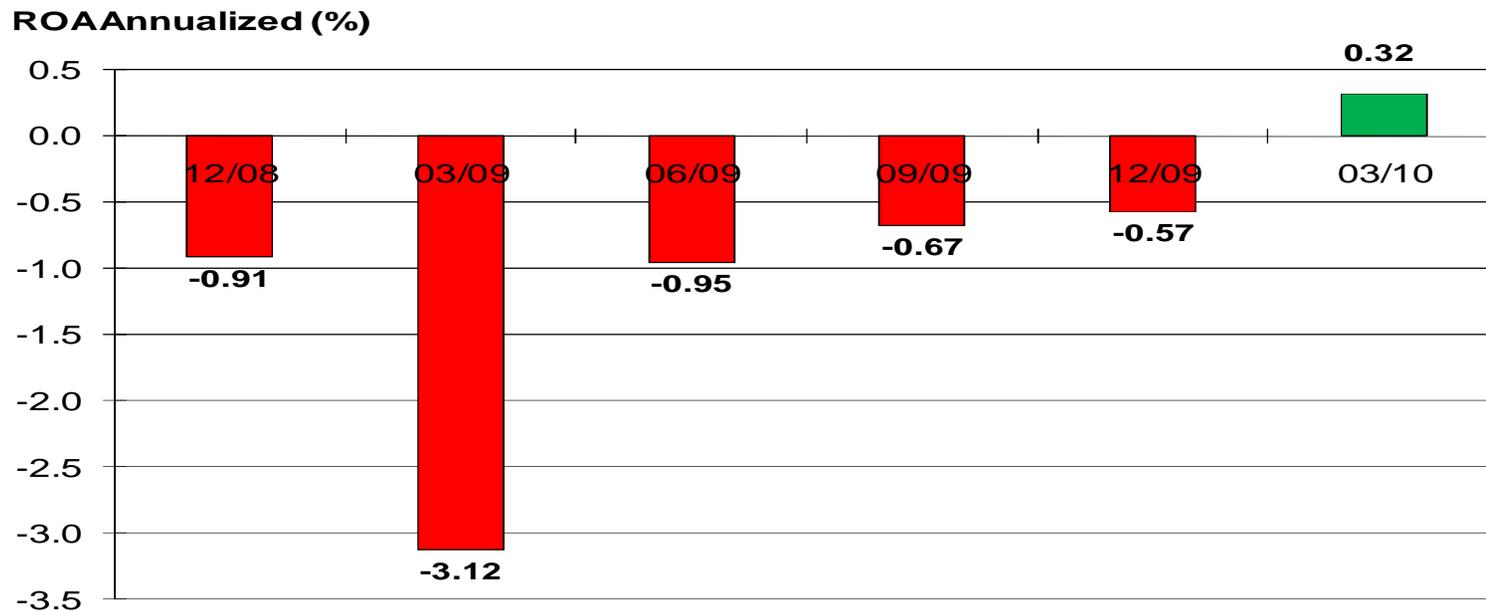
MBL Delinquency and Losses

Reportable MBL delinquencies rapidly increased to \$211M, up 18% from 2009 and 150% from 2008. Continued deterioration in credit quality will worsen losses in the business loan portfolio.



Quarterly Earnings Trend

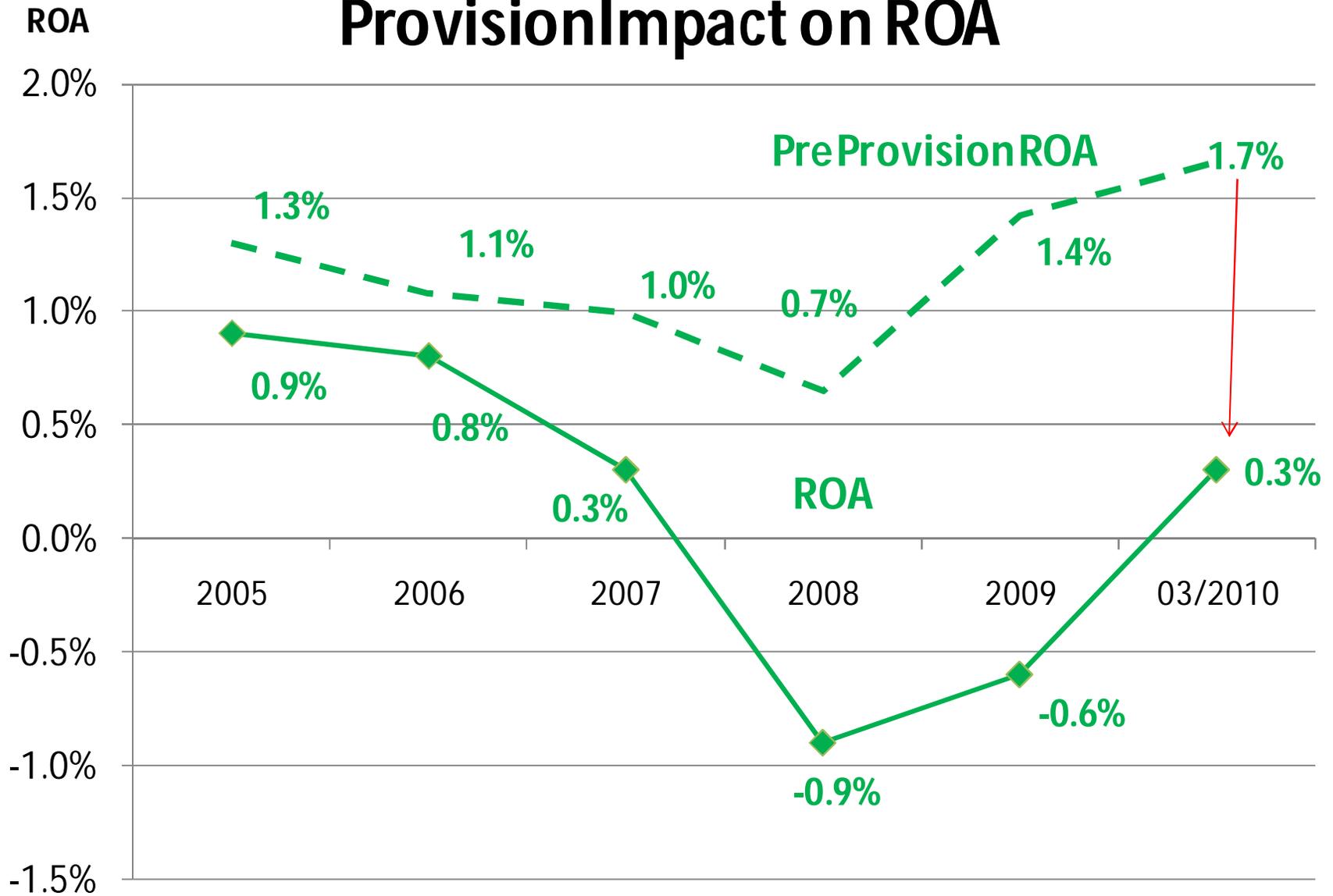
Credit unions posted a first quarter net income of \$58.5M, reversing the negative trend experienced since YE 2008. ROA improved due to lower cost of funds, operating expense and PLL funding ratios, combined with negative asset growth.



Notes: June 2009 Stabilization Fund implementation lowered the NCUSIF liability, allowing credit unions to mitigate the stabilization effects on net losses during the last two quarters.

Prior cycle ROA based on amended call reports submitted as of 5/8/2010.

Provision Impact on ROA



Return on Average Assets by Quintile*

State Chartered Credit Unions

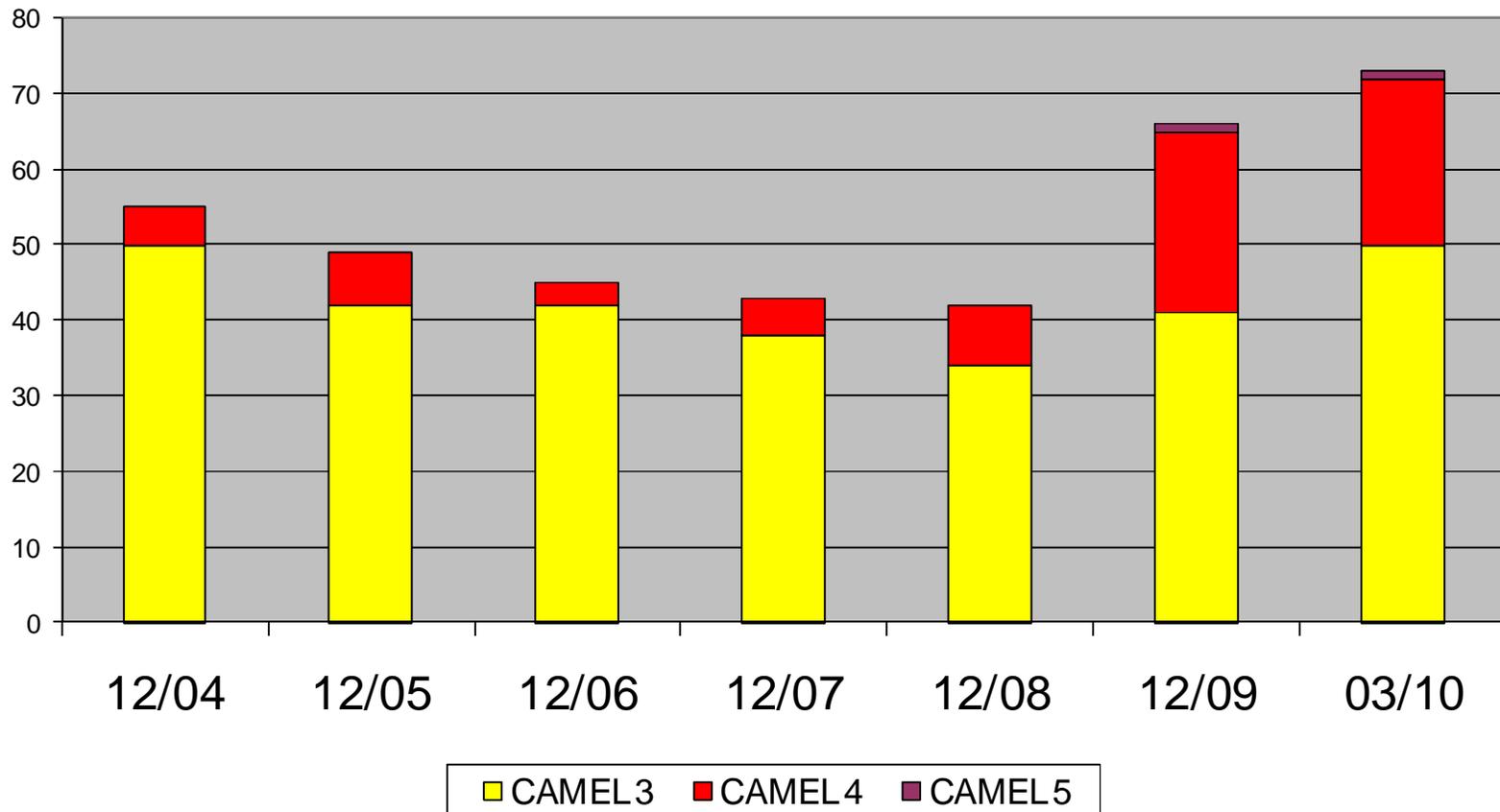
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# of Credit Unions	17	44	20	47	20	19	167
First Quintile	0.3	1.0	1.0	1.0	1.0	1.0	1.2
Second Quintile	-0.1	0.5	0.6	0.5	0.6	0.4	0.5
Third Quintile	-0.7	0.1	0.2	0.2	0.5	0.1	0.2
Fourth Quintile	-2.1	-0.1	0.1	-0.1	0.2	-0.2	-0.1
Fifth Quintile		-0.9	-1.2	-0.9	-1.9		-1.4
Total	-0.7	0.1	0.1	-0.1	0.1	0.5	0.3

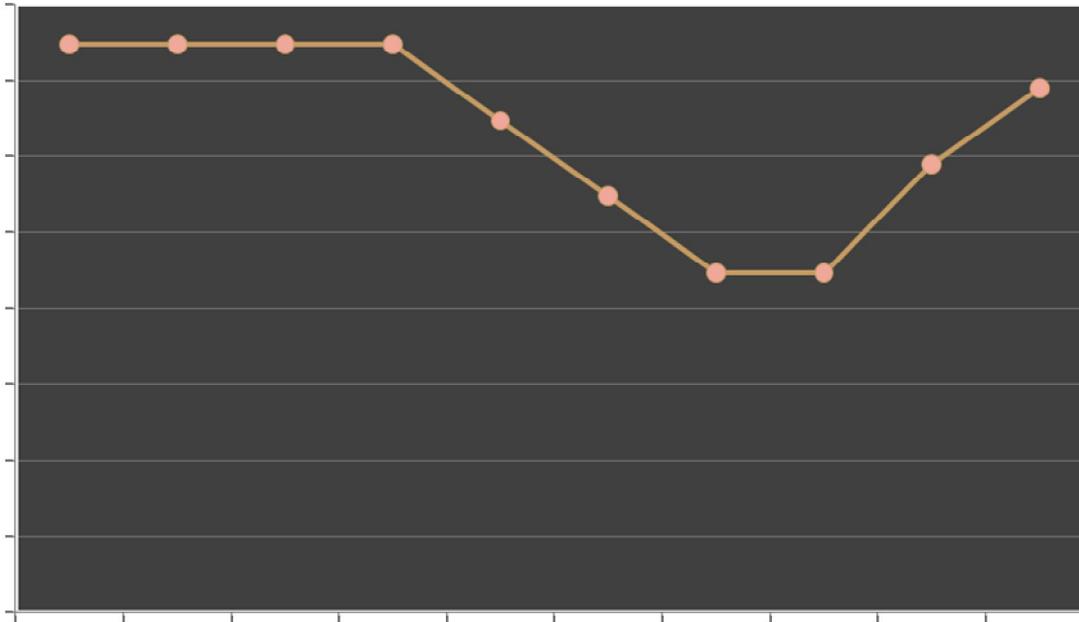
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Number of Problem Credit Unions

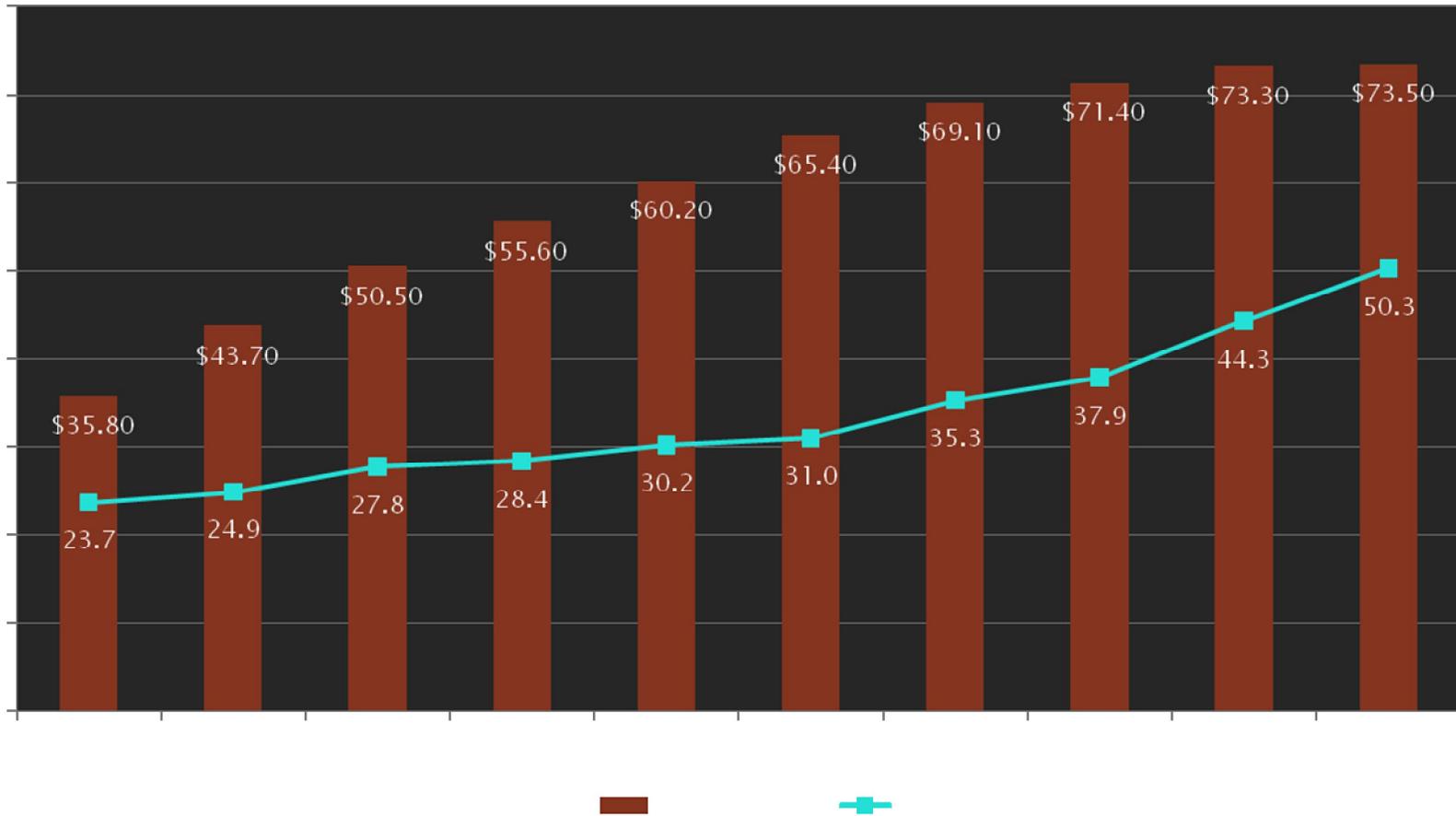


Assessment Rates



Fiscal Year	Assessment Rates
2000-01	\$0.75
2001-02	\$0.75
2002-03	\$0.75
2003-04	\$0.75
2004-05	\$0.65
2005-06	\$0.55
2006-07	\$0.45
2007-08	\$0.45
2008-09	\$0.59
2009-10	\$0.69

Credit Union Assets and Examiners



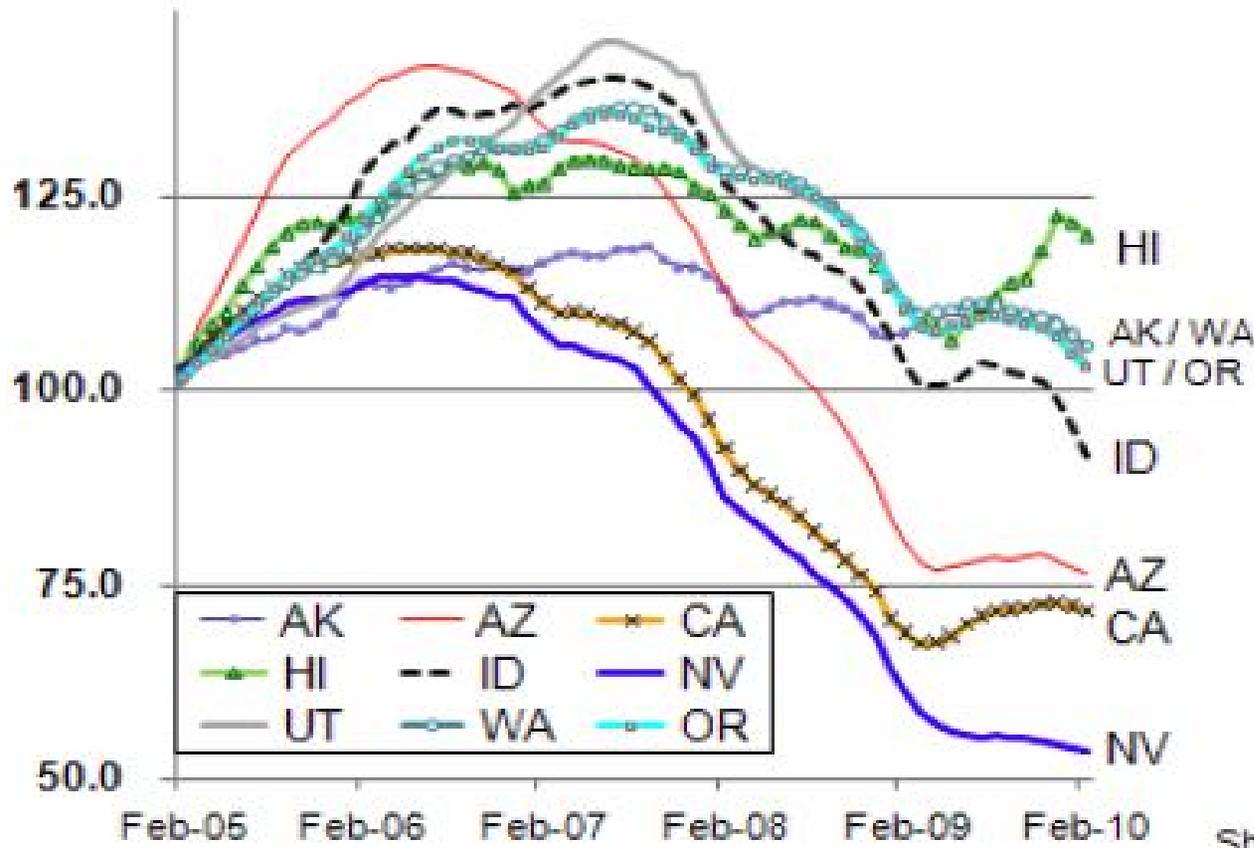
Credit Union Fund Condition

(months of reserve)

	2010-11	2011-12
Without loan repayment and no assessment increase	2.1	0.4
Without loan repayment and an increase to \$0.77	3.2	1.5
If loan is repaid in 2010-11	7.5	5.8
If loan is repaid in 2011-12	3.2	5.8

Credit Market Conditions

1) Median Home Prices Edged Up Recently in CA & HI, but Continued to Trend Down Elsewhere



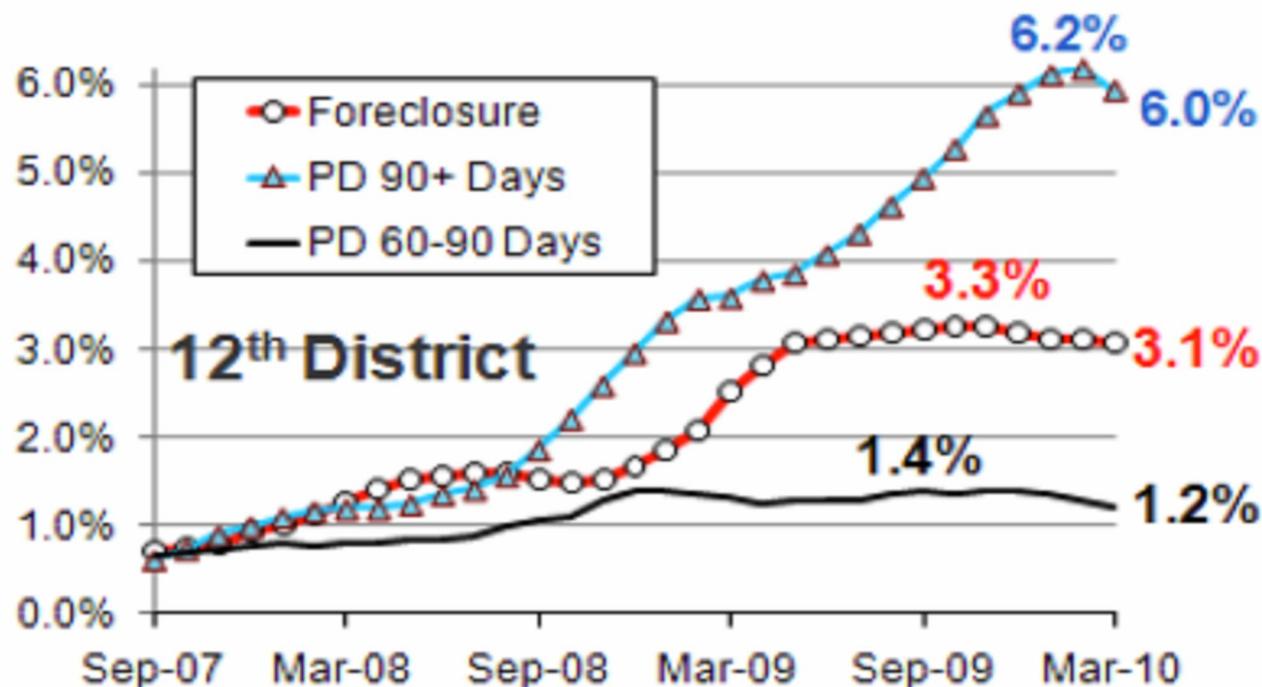
Median Home Prices		
State	Chg from Peak	1 year Chg
NV	-53%	-12%
AZ	-46%	-5%
CA	-39%	+4%
ID	-35%	-12%
UT	-29%	-7%
OR	-24%	-7%
WA	-23%	-5%
AK	-11%	-2%
HI	-7%	+8%
Nation	-30%	+1%

Shaded: Positive price trend

Source: First American CoreLogic HPI (Seasonally Adjusted, re-indexed Jan 2005=100)

3) Problem Mortgage Rates Soared (but may have peaked: rates down slightly in every District state in last 1-2 months)

12th District Loans Past Due 60+ Days or in Foreclosure – All 1st Lien Mortgage Loans



Problem Mortgage Rates 3/2010
(60+ days PD or in foreclosure)

State	Rate
NV	18.7%
AZ	11.6%
CA	11.0%
HI	8.7%
ID	7.1%
UT	6.9%
WA	6.2%
OR	6.1%
AK	3.4%
12 th Dist.	10.3%
Nation	9.1%

Source: Lender Processing Services
Applied Analytics

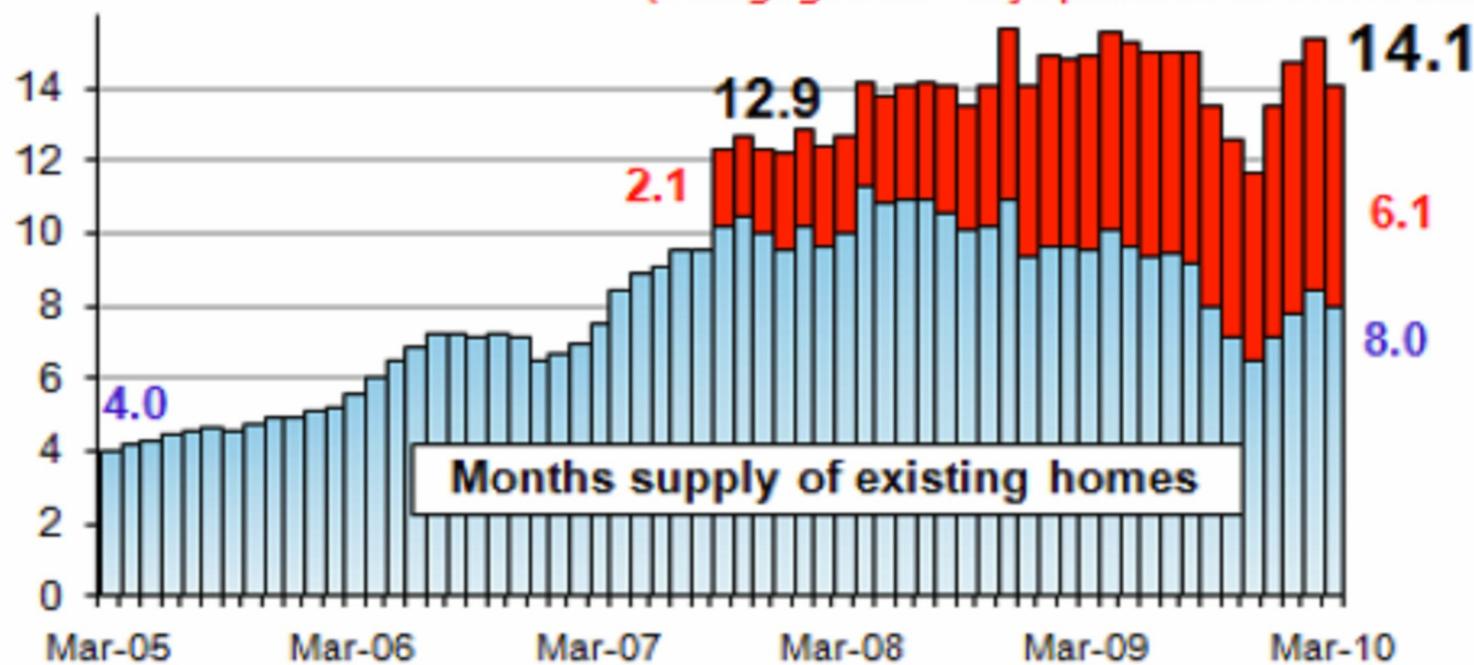
NV, AZ & CA rank 2nd, 3rd, and 4th nationally (FL is highest at 18.9%)

2) Home Prices Likely to be Further Pressured by “Shadow Inventory” of Homes

(potential foreclosed inventory for sale if troubled mortgages are not brought current)

Nationwide Months Supply of Existing Homes + Potential Supply via Foreclosure

Shadow supply in months
(mortgages 60+ days past due or in foreclosure)

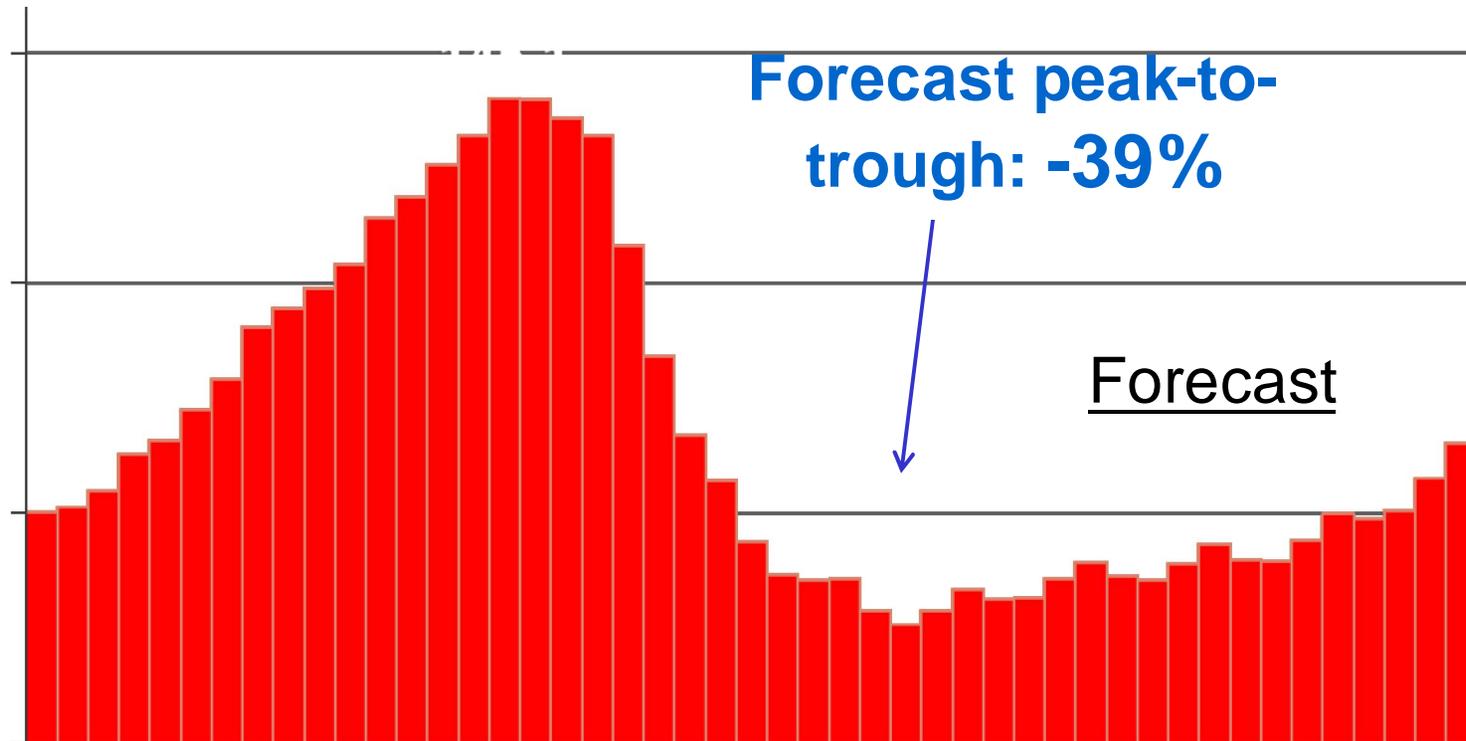


Source: Nat'l Assoc. of Realtors (SA); LPS Applied Analytics – available starting 2007 – computed based on monthly existing home sales (seasonally adjusted annual rate)

CRE Property Values are Down Sharply

Transaction-Based & Appraisal-Based Indices Show Similar Results

Appraisal based CRE property value index & forecast (all sectors): 1Q'04=100

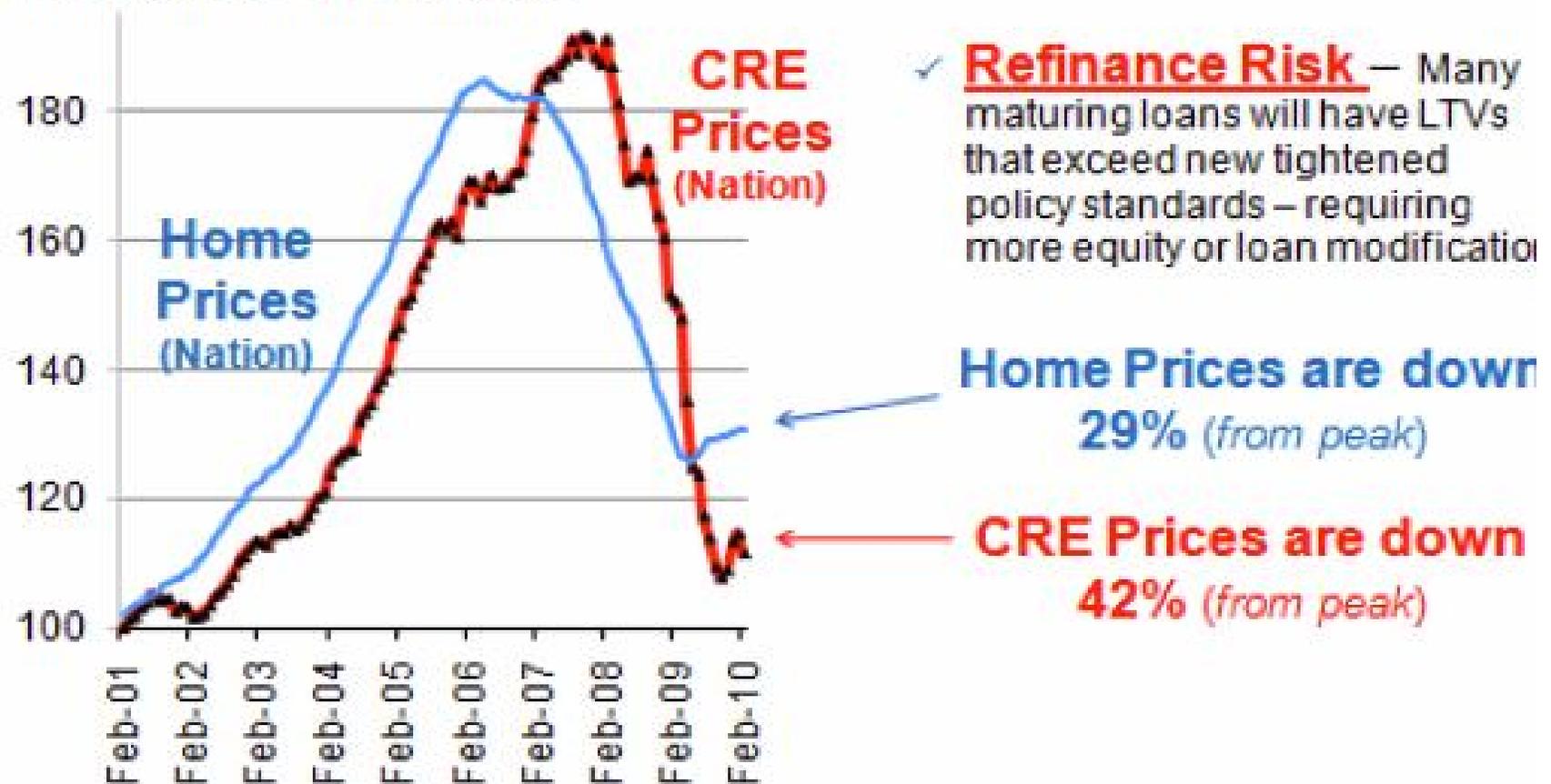


Source: Derived from CBRE Econometric Advisors Investment Outlook, Winter 2010 (NCREIF appraisal based index w/ CBRE forecast, sector weights: office 39%, apartments 28%, retail 20%, industrial 13%; indexed to 100 at Q1-2004)

5) CRE Property Values Down Even More Than Housing

Maturing CRE Loans Increasingly to Require Extensions & Restructuring

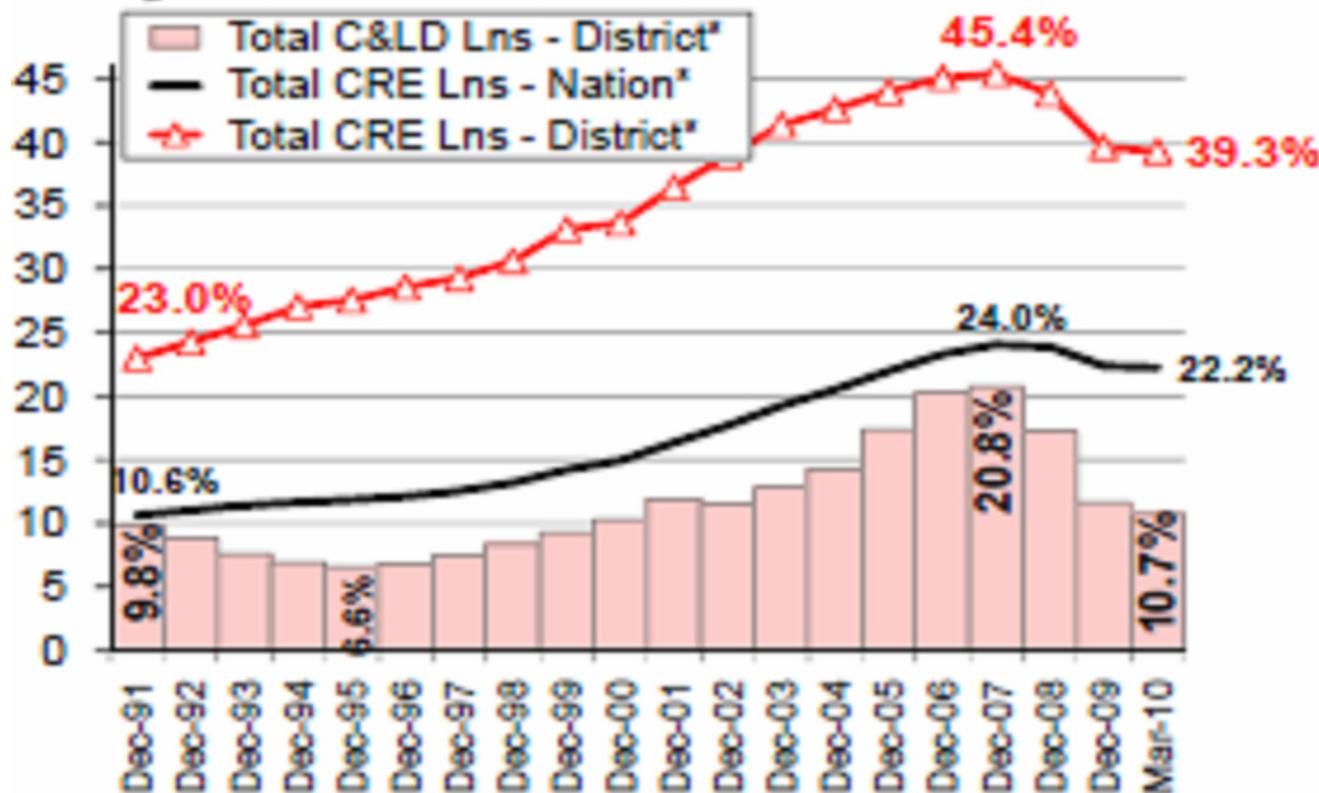
Home and CRE Price Indices



Sources: Moody's/REAL Commercial Property Index; S&P Case-Shiller Home Price Composite 20 Index, SA; Haver Analytics; re-indexed to 100 at Dec 2000. Note: the CRE index is based on very few transactions -- the value decline may be overstated

District Avg. Total CRE Loan Concentrations Have Declined But are Still Well Above the Nation

Average Loan Concentrations as a Pct of Total Loans – %



CRE Lns / Tot. Lns excl. owner occupied NFNR		
U.S. Rank	State	State Avg
1	NV	46%
2	CA	42%
5	AZ	38%
6	WA	38%
7	OR	37%
10	HI	34%
11	UT	34%
16	AK	31%
17	ID	30%
12 th District		38%
Nation		22%

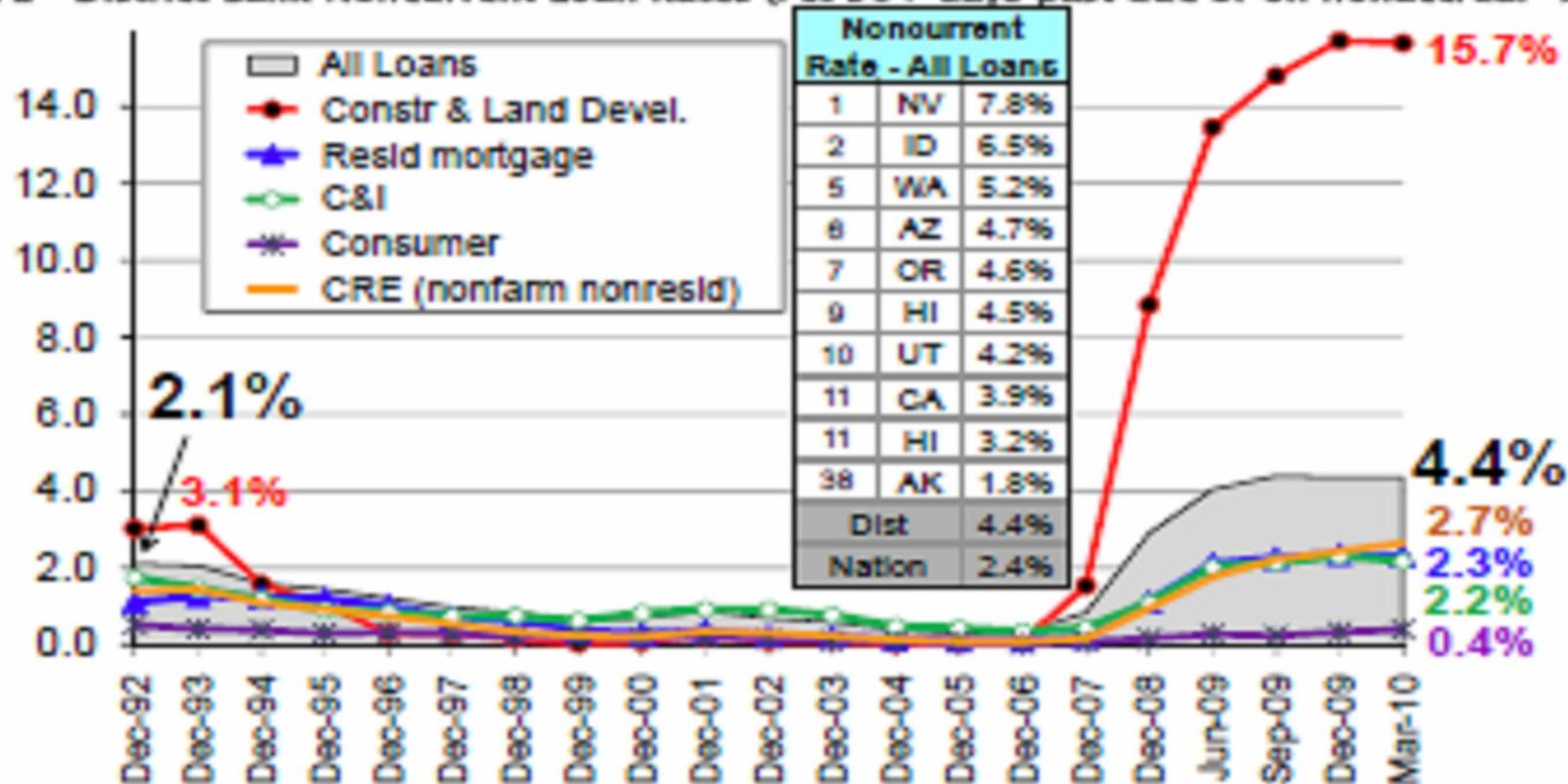
FRB-SF

Commercial banks only (excludes industrials); trimmed means; * Total CRE loans include C&LD loans, and exclude owner-occupied nonfarm nonresidential secured loans, as estimated prior to 2000, preliminary 2/2010 data.

Noncurrent Loan Rates Plateaued, Due Largely to Charge-offs

Only CRE Income Property Noncurrent Rates Rose Materially in 1Q10

12th District Bank Noncurrent Loan Rates (Pct 90+ days past due or on nonaccrual -%)



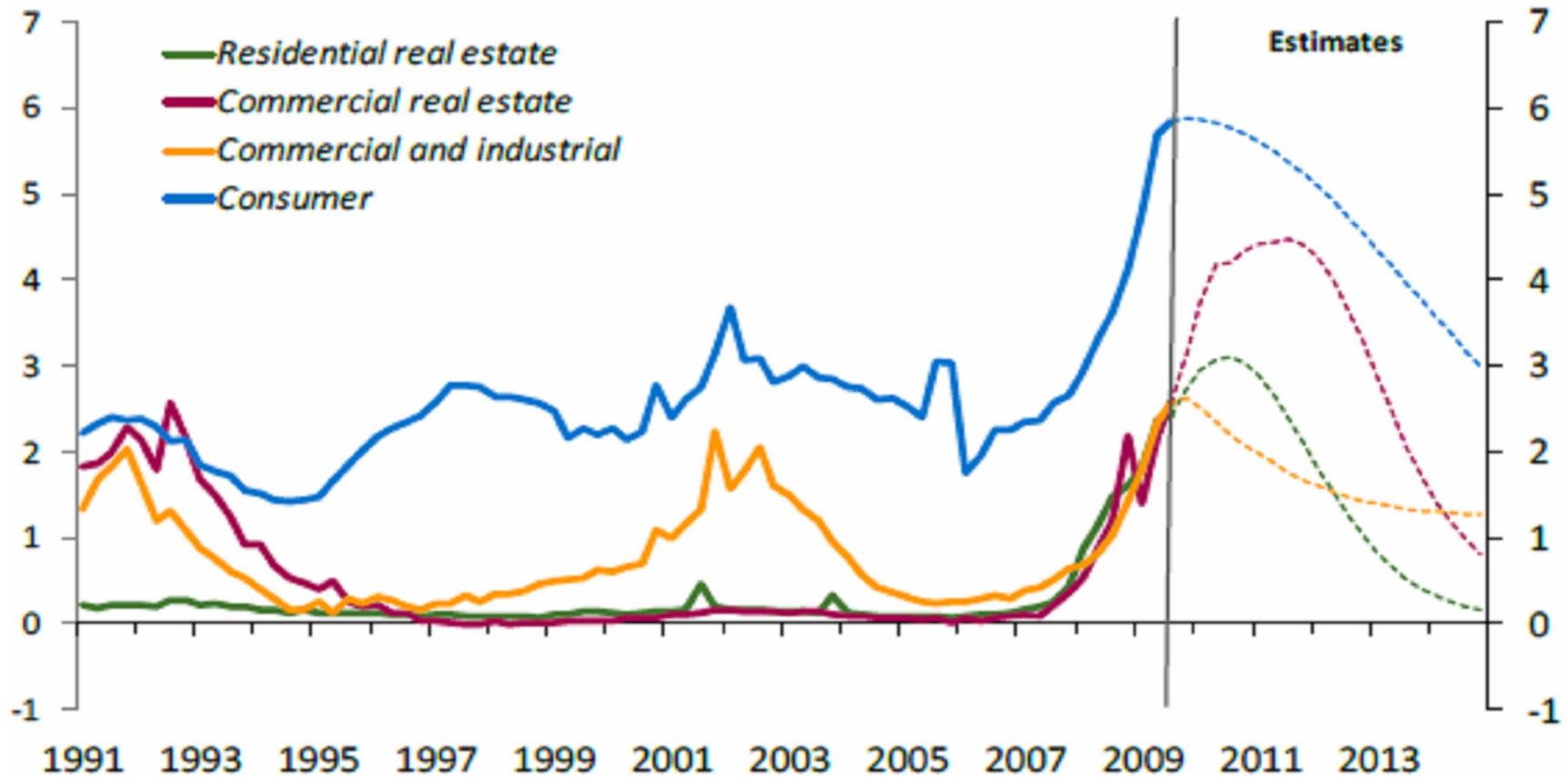
FRB-SF

First Glance 12L - May 2010

Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means, preliminary 1Q10 data.

U.S. Loan Charge-Off Rates (Including IMF Forecasts)

(In percent of total loans)



Sources: Federal Reserve; and IMF staff estimates.

The Broader Environment

1. Economy
2. Financial Markets
3. Regulatory Reform

Lessons Learned from the Crisis

A Guy Walks Into a Bar



Thank You and Best Wishes!!!

Bill Haraf