NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: **August 2008** **LETTER NO.: 08-CU-21**

TO: **Federally Insured Credit Unions**

SUBJ: **Credit Union Financial Trends for the First Half of 2008**

ENCL: **Financial Trends in Federally Insured Credit Unions January 1 – June 30, 2008**

Dear Board of Directors:

Enclosed is a report highlighting credit union financial trends for the first six months of 2008. We based our analysis on data compiled from the quarterly call reports submitted by all federally insured credit unions.

Overall the financial condition of the credit union industry remains sound, as indicated by high net worth levels and continued net worth growth. We are continuing to see several aggregate industry trends each credit union should monitor.

- Consistent with the last several years, the majority of the loan growth in the first six months came from the real estate sector with the primary funding sources being share certificates, money markets, and borrowed funds. This could result in elevated interest rate, liquidity, and credit risk within individual credit unions.
- Delinquency and net charge-offs continue to increase indicating elevated concerns in the credit quality of loan portfolios. It is important to note the increase does not threaten the overall financial stability of the credit union industry. Each credit union must ensure the loans they make reflect not only the needs of the members but are also consistent with the risk profile of the credit union.
- The level of industry earnings continues to fall; however, lower levels in individual credit union earnings can be acceptable depending on the quality of assets, financial stability, and overall strategic goals. Credit unions should not add high-risk concentrations of assets simply to maintain a higher earnings ratio.

Given the issues facing the mortgage and credit markets, credit unions originating real estate loans are encouraged to remain vigilant with enforcing sound underwriting practices and with their strategic planning and risk management processes. A well-executed strategy to balance risks is essential in the current environment.

Thank you for your cooperation in submitting your financial and statistical data in a timely manner.

Sincerely,

/s/

Michael E. Fryzel
Chairman