NCUA LETTER TO CREDIT UNIONS

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

DATE: December 2008 LETTER NO.: 08-CU-27

TO: Federally Insured Credit Unions

SUBJ: Credit Union Financial Trends for the Third Quarter of 2008

ENCL: Financial Trends in Federally Insured Credit Unions

January 1 - September 30, 2008

Dear Board of Directors:

Enclosed is a report highlighting credit union financial trends for the first nine 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. However, we are continuing to see several industry trends each credit union should be aware of and closely monitor. Delinquency and net charge-offs continue to increase indicating elevated concerns in the credit quality of loan portfolios.

Consistent with the last several years, the majority of the loan growth in the first nine 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. Credit unions with higher levels of liquidity risk or interest rate risk must maintain diligent risk management procedures.

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. All credit unions need to ensure the loans they make reflect not only the needs of the members but also the risk profile of the credit union in order to control future losses. A well-executed strategy to balance risks is essential in the current environment.

I will continue to pursue initiatives and any available assistance to help protect credit unions and your members during the current economic environment. Thank you for your cooperation in submitting your financial and statistical data in a timely manner.

Sincerely,

/S/

Michael E. Fryzel Chairman