FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – June 30, 2005

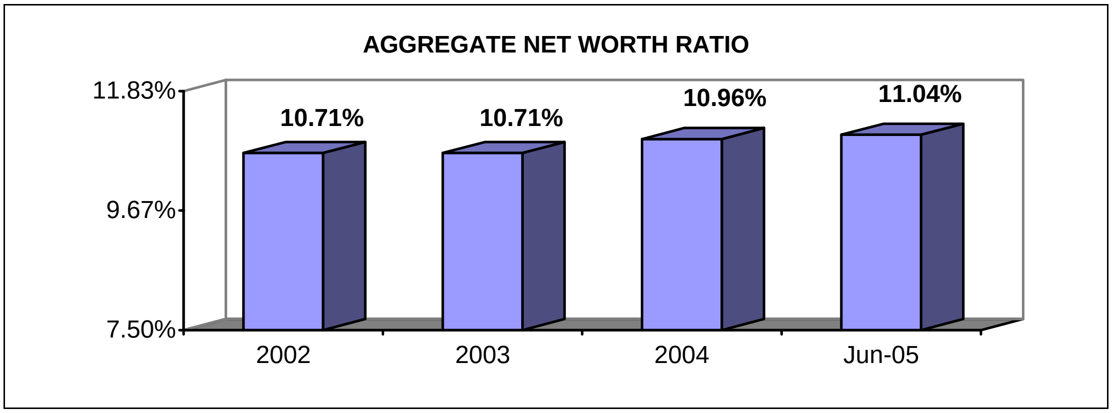
HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of June 30, 2005.[1]

- **Assets** increased $22.7 billion, or 3.51%. This equates to an annualized asset growth rate of 7.03%.
- **Net Worth** increased $3.03 billion, or 4.27%. The Net Worth to assets ratio increased from 10.96% to 11.04%.
- **Loans** increased $20.2 billion, or 4.89%. The loan to share ratio increased from 74.49% to 75.93%.
- **Shares** increased $16.1 billion, or 2.90%.
- ***Cash on hand*, *cash on deposit*, *cash equivalents*, plus short-term investments (less than 1 year)** increased $2.8 billion, or 2.73%.
- **Long-term investments (over 1 year) decreased** $3.8 billion, or 3.60%.
- **Profitability,** as measured by return on average assets, increased from 0.91% to 0.93%.[2]
- **Delinquent** loans as a percentage of total loans decreased from 0.72% to 0.65%.

CAPITAL

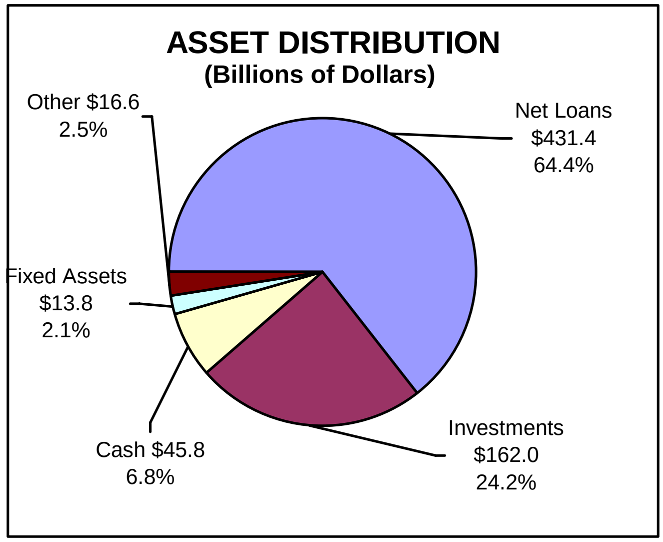
Total Net Worth increased $3.03 billion (4.27%) during the first six months of 2005. The aggregate net worth to total assets ratio increased from 10.96% at the end of 2004 to 11.04% as of June 30, 2005. Annualized net worth growth of 8.54% outpaced annualized asset growth of 7.03%. The average net worth ratio (non-dollar weighted) among individual credit unions increased from 13.60% at the end of 2004 to 13.78% as of June 30, 2005.



1. The financial results for prior periods may reflect changes when compared to the prior period trend letters due to subsequent call report modifications.
2. The Return on Average Assets ratio is annualized net income divided by average assets for the period.

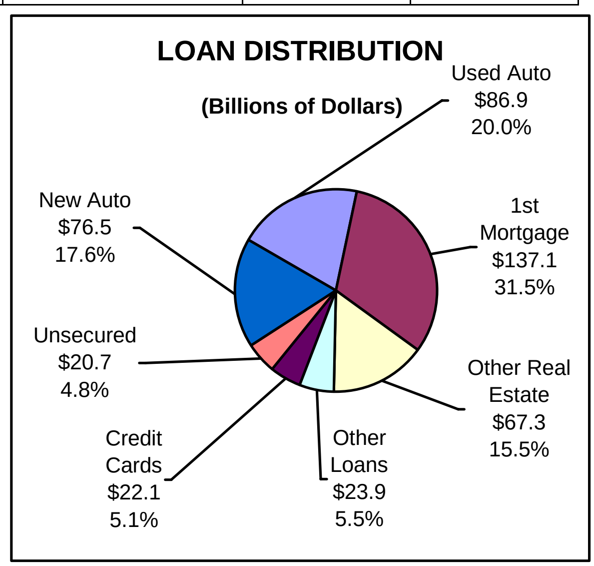
ASSET QUALITY

LOAN TRENDS: Loans grew $20.2 billion in the first half of 2005, (or 9.77% annualized). Loan growth was higher than share growth, causing the loan to share ratio to increase from 74.49% in 2004 to 75.93% as of June 30, 2005. First Mortgage loans experienced the greatest increase at $7.1 billion (or 10.82% annualized), followed closely by Other Real Estate loans at $5.4 billion (or 17.40% annualized) and new vehicle loans at $5.2 billion (or 14.84 annualized). Growth in the various loan categories is as follows:

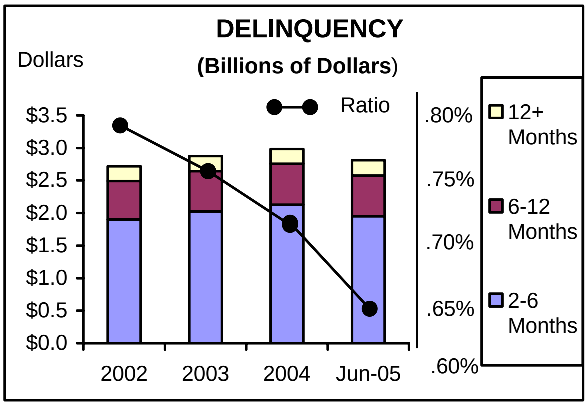


Loan Category	2004 Balance In Billions	June 2005 Balance In Billions	Growth In Billions	Growth Rate
Unsecured Credit Card	$22.5	$22.1	-$0.4	-1.8%
All Other Unsecured	$20.9	$20.7	-$0.2	-0.8%
New Vehicle	$71.3	$76.5	$5.2	7.4%
Used Vehicle	$84.7	$86.9	$2.2	2.6%
First Mortgage Real Estate	$130.0	$137.1	$7.1	5.4%
Other Real Estate	$61.9	$67.3	$5.4	8.7%
Leases Receivable	$1.6	$1.5	-$0.1	-4.8%
All Other	$21.4	$22.4	$1.0	4.6%

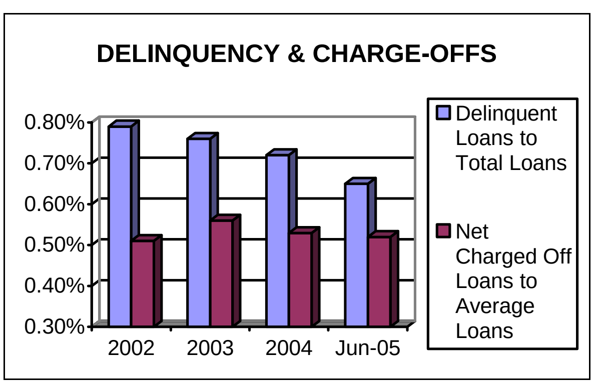
First Mortgage real estate loans account for 31.5% ($137.1 billion) of all loans as of June 30, 2005, compared to 25.4% ($76.4 billion) effective December 31, 2000. New vehicle loans account for 17.6% ($76.5 billion) of all loans, although they account for a smaller percentage of total loans when compared to 20.1% ($60.6 billion) effective December 31, 2000. However, used vehicles have managed to increase slightly as a percentage of total loans, increasing from 19.9% ($60.1 billion) to 20% ($86.9 billion) since December 31, 2000.



DELINQUENCY TRENDS: Delinquent loans decreased $172 million (5.76%) since December 2004. The delinquent loans to total loans ratio also declined from 0.72% at the end of 2004 to 0.65% as of June 30, 2005. Charge offs played a key role in controlling delinquency.



Loan dollars charged off (annualized) increased $149.7 million (6.00%), whereas recoveries (annualized) on charged off loans increased $61.6 million (16.02%). This resulted in net charged off loans increasing by $88.0 million; however, due to sustained loan growth, the annualized average net charge-off ratio declined to 0.52% as of June 30, 2005.



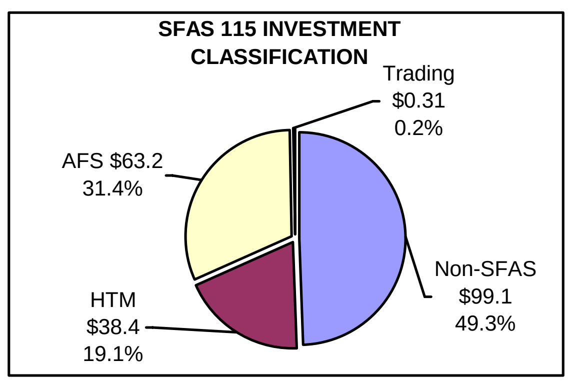
INVESTMENT TRENDS: Cash on hand, *cash on deposit*, and *cash equivalents* decreased 6.82% ($3.3 billion). These combined categories, along with investments with maturities of less than one year, increased 2.73% ($2.8 billion).

Investments with maturities greater than a year decreased 3.60% ($3.8 billion).

Non-SFAS 115 investments (including cash on deposit and cash equivalents) decreased 3.08% ($3.2 billion) to $99.0 billion.

Held-to-maturity investments increased 5.55% ($2.0 billion). *Available-for-sale* investments decreased 0.31% ($193.7 million). Trading securities decreased 9.62% ($32.8 million).

As of June 30, 2005, SFAS 115 investments made up 50.69% of the investment portfolio. Non-SFAS 115 investments, cash on deposit, and cash equivalents accounted for 49.31% of the portfolio.



The following table compares the changes in the maturity structure of the investment portfolio over the past year:

Investment Maturity or Repricing Interval	% of Total Investments 2004	% of Total Investments June 2005
Less than 1 year	48.23%	49.75%
1 to 3 years	35.31%	35.79%
3 to 10 years	15.28%	13.50%
Greater than 10 yrs	1.18%	0.96%

EARNINGS

The return on average assets increased 2 basis point to 0.93%. The net interest margin declined 6 basis points to 3.26% due to the cost of funds to average assets ratio increasing by 14 basis points. However, interest on loans increased and the income on investments increased 2.35% and 7.90% respectively. A reduction in operating and provision for loan losses expenses coupled with increases in fees and other incomes compensated for the lower net interest margin.

Ratio (% Ave. Assets)	As of 2004	As of June 2005	Effect on ROA
Net Interest Margin	3.32%	3.26%	- 6bp
+ Fee & Other Inc.	1.13%	1.17%	+ 4bp
- Operating Expenses	3.21%	3.20%	+ 1bp
- PLL	0.36%	0.35%	+ 1bp
+ Non-Opr. Income	0.03%	0.05%	+ 2bp
= ROA	0.91%	0.93%	+ 2bp

ASSET/LIABILITY MANAGEMENT

SHARE TRENDS: On an annualized basis, total shares increased 5.80% ($16.1 billion) in the first six months of 2005, compared to 5.26% ($27.8 billion) in 2004.

OVERALL LIQUIDITY TRENDS: In the first six months of 2005, credit unions had approximately 15.96% of total assets in cash and short-term investments, compared to 16.08% at the end of 2004. Net long-term assets (defined as assets with maturities or repricing intervals greater than 3 years - 5 years for real estate loans), equaled 24.81% of total assets as of June 30, 2005, compared to 25.21% as of December 31, 2004.

CONCLUSION

Financial performance of the industry remains strong. However, short-term interest rates have continued to rise. Sound liquidity planning and balance sheet management remain critical to managing the effects of an ever-changing environment.

Success in 2005 will continue to depend upon how well individual credit unions position their balance sheets. Credit unions are encouraged to assess their net worth level as it relates to their risk profile and business needs, and recognize lower levels of profitability may occur for those credit unions taking action to reduce interest rate or other types of risk.