FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 - December 31, 2005

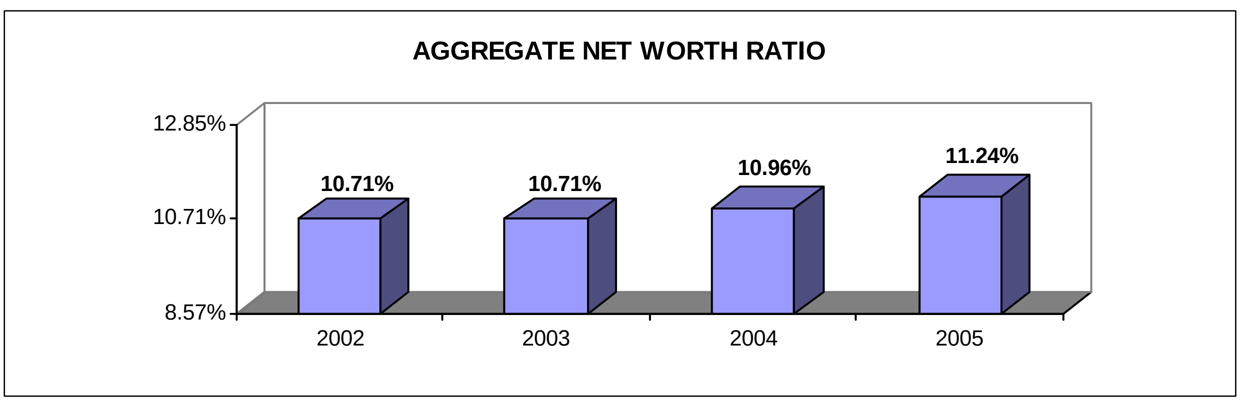
HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of December 31, 2005. Change is measured from the prior year-end (December 31, 2004).[1]

- **Assets** increased $31.7 billion, or 4.90%.
- **Net Worth** increased $5.38 billion, or 7.59%. The Net Worth to assets ratio increased from 10.96% to 11.24%.
- **Loans** increased $44.0 billion, or 10.60%. The loan to share ratio increased from 74.49% to 79.36%.
- **Shares** increased $21.3 billion, or 3.80%.
- ***Cash on hand*, *cash on deposit*, plus short-term investments (less than 1 year)** increased $3.5 billion, or 3.36%.
- **Long-term investments (over 1 year)** decreased $18.4 billion, or 17.53%.
- **Profitability,** as measured by return on average assets, decreased from 0.91% to 0.85%.
- **Delinquent** loans as a percentage of total loans remained stable at 0.73%, up slightly from 0.72%.

CAPITAL

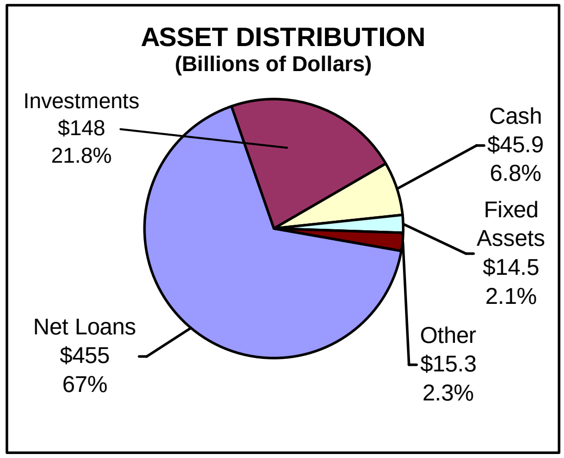
Total Net Worth increased $5.38 billion (7.59%) during 2005. The aggregate net worth to total assets increased from 10.96% at the end of 2004 to 11.24% as of December 31, 2005 due to positive earnings, slowed asset growth, and controlled loan losses. The average (non dollar-weighted) net worth ratio for individual credit unions increased from 13.60% at the end of 2004 to 14.34% as of December 31, 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.

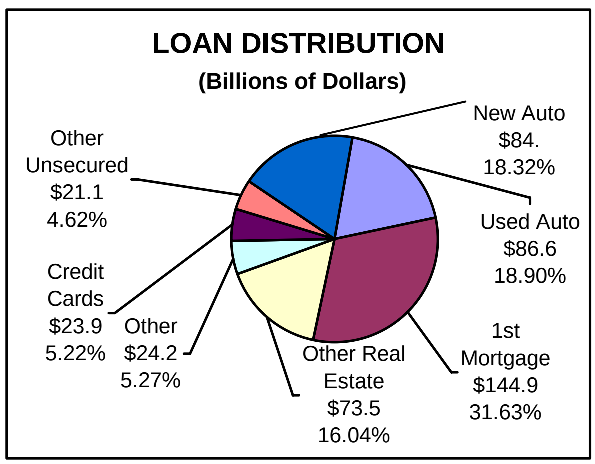
ASSET QUALITY

LOAN TRENDS: Loans grew $44.0 billion in 2005, (or 10.60%). Loan growth was higher than share growth, causing the loan to share ratio to increase from 74.49% in 2004 to 79.36% as of December 31, 2005. First Mortgage loans experienced the greatest increase at $14.9 billion (or 11.40%), followed closely by New Auto loans at $12.7 billion or (17.80%) and Other Real Estate loans at $11.6 billion (or 18.70%). Growth in the various loan categories is as follows:

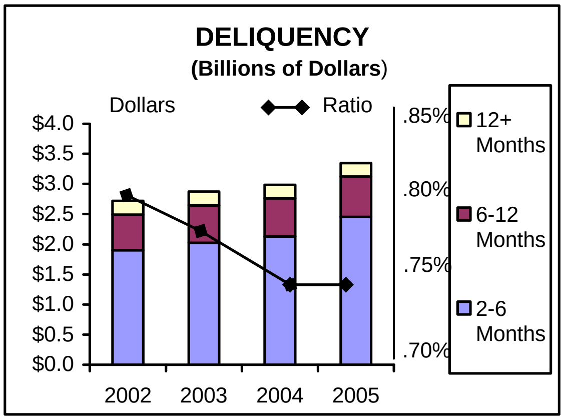


Loan Category	2004 Balance In Billions	2005 Balance In Billions	Growth In Billions	Growth Rate
Unsecured Credit Card	$22.5	$23.9	$1.4	6.2%
All Other Unsecured	$20.9	$21.2	$0.3	1.4%
New Vehicle	$71.3	$84.0	$12.7	17.8%
Used Vehicle	$84.7	$86.6	$1.9	2.3%
First Mortgage Real Estate	$130.0	$144.9	$14.9	11.4%
Other Real Estate	$61.9	$73.5	$11.6	18.7%
Leases Rec & All Other	$22.9	$24.2	$1.3	5.5%

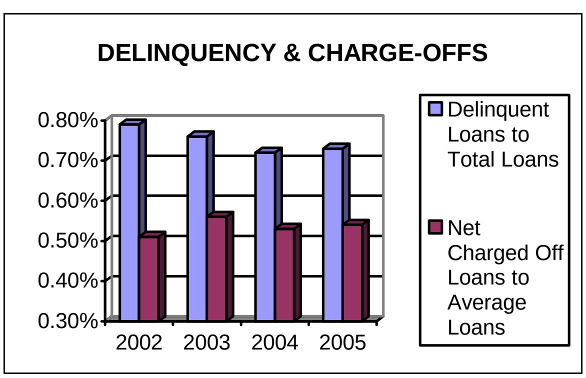
Real Estate loans were 47.7% of total loans outstanding in 2005, up from 40.9% in 2004. First Mortgages account for 31.63% ($144.9 billion) of total loans with Other Real Estate loans accounting for 16.04% ($73.5 billion). Used Vehicle loans followed at 18.90% ($86.6 billion) and New Vehicle loans comprise 18.32% ($84 billion) of the industry's loan portfolio as of December 31, 2005.



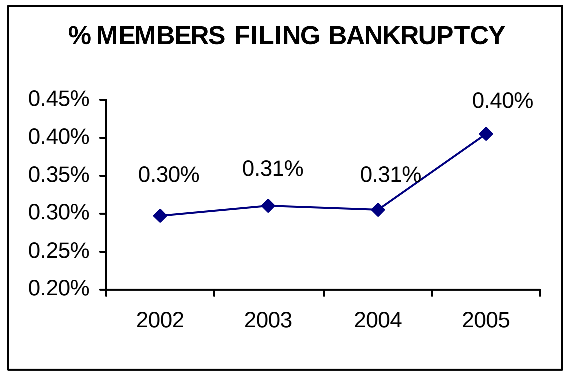
***DELINQUENCY TRENDS**:* Delinquent loans increased 12.1% ($360 million). However, the level of delinquent loans in relation to total loans remained relatively constant. The delinquent loans to total loans ratio for 2005 was 0.73%, up slightly from 0.72% as of December 31, 2004.



Loan dollars charged off increased 12.40% ($309.3 million) and recoveries on charged-off loans increased 16.70% ($64.1 million). This resulted in net charged-off loans increasing by $245 million. However, net charge off loans in relation to average loans remained relatively constant, with the average net charge-off ratio increasing slightly to 0.54% as of December 31, 2005.

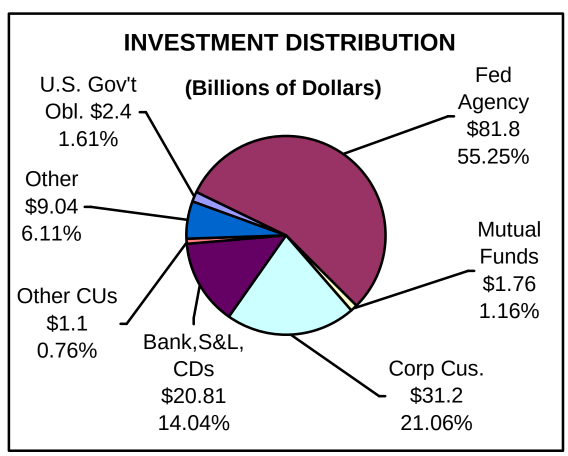


Federally insured credit unions reported a 34.2% increase in the number of members filing bankruptcy compared to 2004. Outstanding loans subject to bankruptcy totaled $2.6 billion. Bankruptcies represented 36.64% of all loans charged off and accounted for a 21% ($178.6 million) increase compared to 2004. Some of the increase may be due to the bankruptcy reform legislation effective in October 2005.



***INVESTMENT TRENDS**:* Cash on hand and cash equivalents decreased 6.50% ($3.2 billion). These combined categories, along with investments with maturities of less than one year, increased 3.36% ($3.5 billion).

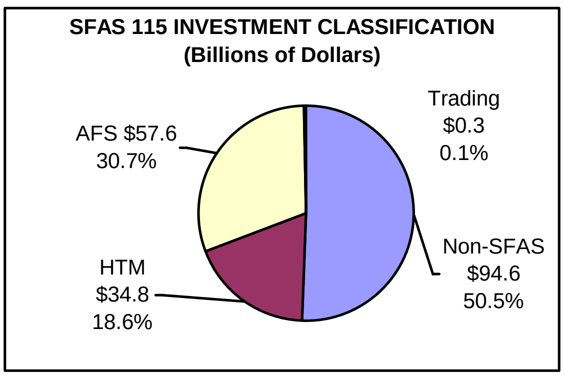
Federally insured credit unions reduced their long-term investment portfolios to fund loan grow. This resulted in investments with maturities greater than a year decreasing 17.53% (or $18.4 billion).



Non-SFAS 115 investments (including cash equivalents) decreased 7.50% ($7.6 billion) to $94.6 billion.

Held-to-maturity investments decreased 4.4% ($1.6 billion). Available-for-sale investments decreased 9.1% ($5.7 billion). Trading securities decreased 19.8% ($67.5 million).

As of December 31, 2005, SFAS 115 investments made up 49.47% of the investment portfolio. Non-SFAS 115 investments, cash on deposit, and cash equivalents accounted for 50.53% 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 2005
Less than 1 year	48.22%	53.86%
1 to 3 years	35.33%	33.58%
3 to 10 years	15.26%	11.57%
Greater than 10 yrs	1.18%	0.99%

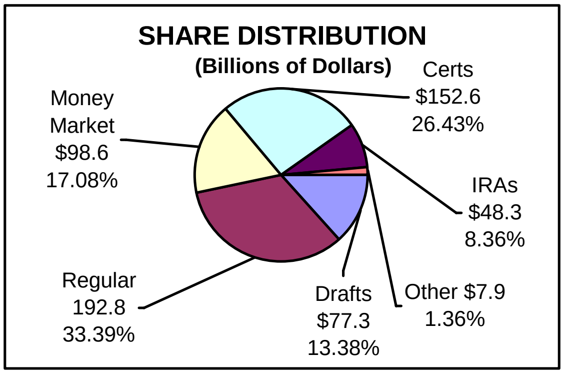
EARNINGS

Interest on loans and income on investments increased 9.1% and 18.3%, respectively. However, the return on average assets decreased 6 basis points to 0.85%. The net interest margin declined 8 basis points to 3.24% due to the cost of funds to average assets increasing 31 basis points. Also, an increase in operating expenses by 3 basis points and provision for loan loss expenses by 4 basis points contributed to a lower net income. In 2005, credit unions partially offset the pressure on earnings with increased fees and other income totaling 9 basis points.

Ratio (% Ave. Assets)	As of 2004	As of 2005	Effect on ROA
Net Interest Margin	3.32%	3.24%	- 8bp
+ Fee & Other Inc.	1.13%	1.22%	+ 9bp
- Operating Expenses	3.21%	3.24%	- 3bp
- PLL	0.36%	0.40%	-4bp
+ Non-Opr. Income	0.03%	0.03%	+0bp
= ROA	0.91%	0.85%	- 6bp

ASSET/LIABILITY MANAGEMENT

***SHARE TRENDS**:* Total shares increased 3.8% ($21.3 billion) in 2005, compared to 5.26% ($27.8 billion) in 2004. Regular shares account for 33.39% of total shares with $192.8 billion on deposit down from $200.1 billion in 2004, a 3.7% decline. Share certificates reported the largest share growth with a 20.4% (or $25.9 billion) increase in 2005.



Growth rates for the various share categories are as follows:

Type of Share Account	Growth Rate
Share Drafts	6.90%
Regular Shares	-3.70%
Money Market	-3.90%
Certificates	20.40%
IRA/Keogh	3.40%
Other Shares	-7.50%
Non-member Deposits	38.80%
Total	3.80%

Share maturities extended slightly as the following chart indicates.

Share Maturity or Repricing Interval	% of Total Shares Dec. 2004	% of Total Shares Dec. 2005
Less than 1 year	88.51%	87.33%
1 to 3 years	8.06%	8.86%
3 or more years	3.44%	3.81%

OVERALL LIQUIDITY TRENDS: In 2005, credit unions had approximately 15.84% 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 re-pricing intervals greater than 3 years – 5 years for real estate loans), equaled 25.12% of total assets as of December 31, 2005, compared to 25.18% as of December 31, 2004.

CONCLUSION

Federally insured credit unions continued their strong performance in 2005. This is reflected by record net worth levels and healthy earnings. Credit unions achieved favorable operating results despite a flattening yield curve, which reduced the net interest margin.

Credit unions face many challenges in 2006. Continued success depends on how well individual credit unions manage their balance sheets while monitoring net worth. However, it may be necessary to adjust operations to adapt to this ever-changing financial environment.