

NCUA LETTER TO CREDIT UNIONS

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

DATE: March 2009 **LETTER NO.:** 09-CU-05

TO: Federally Insured Credit Unions

SUBJ: State of the Credit Union Industry as of December 31, 2008

ENCL: Financial Trends in Federally Insured Credit Unions
January 1 – December 31, 2008

Dear Board of Directors:

Enclosed is a report highlighting credit union financial trends for 2008. The analysis is based 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, the current financial environment and adverse economic conditions are having an impact on credit union trends. Delinquency and net charge-offs continue to increase, especially in the real estate sector, indicating elevated concerns in the credit quality of loan portfolios.

Consistent with the last several years, the majority of loan growth in 2008 came from the real estate sector with the primary funding sources being higher cost share accounts 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 or interest rate risk must maintain diligent risk management procedures.

Given the current issues within the mortgage and credit markets, credit unions originating real estate loans are encouraged to remain vigilant and enforce sound underwriting practices. Management is not only accountable to ensure the loans they make meet the needs of their member but also to ensure proper risk management practices are followed to mitigate future losses.

With safety and soundness the priority, I will continue to pursue initiatives and any available assistance to help protect credit unions and your members. Thank you for your cooperation in submitting your financial and statistical data in a timely manner.

Sincerely,

Michael E. Fryzel
Chairman