

The NCUA



R E P O R T

NATIONAL CREDIT UNION ADMINISTRATION

DECEMBER 2010 NUMBER 10

WWW.NCUA.GOV

HIGHLIGHTS

- 2 **Chairman's Corner**
Challenging Year Will Lead to Stronger Future
- 3 **Board Actions**
- 4 **Perspectives**
Looking Ahead Resolutions for the New Year
- 5 **Examination and Insurance Report**
Determining the Overhead Transfer Rate
- 6 **Chief Economist Report**
Foreclosure Controversies
- 7 **General Counsel Report**
New Corporate Proposal
NCUA Issues 2008-2009 Annual Report
- 8 **Regional Report**
Western Economy Slow to Recover

CREDIT UNIONS CAN PLEDGE CORPORATE CAPITAL IN ESCROW

Pledges Will Be Returned If Capital Falls Short

NCUA will require undercapitalized corporate credit unions to establish escrow accounts for members to pledge capital during a four-month capital subscription period in 2011.

The escrow accounts will be designed to provide protection for consumer credit unions.

If a corporate raises enough capital by September 30, 2011, to meet NCUA's new capital standards which take effect October 20, 2011, the pledged capital in escrow will be converted to regulatory capital.

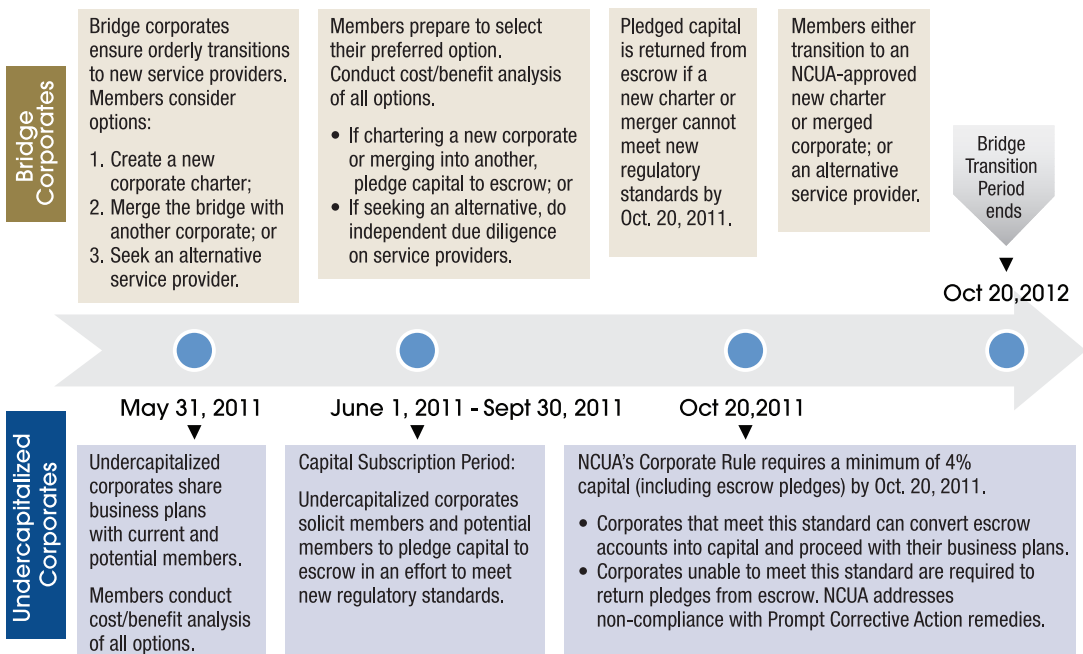
However, if a corporate's capital subscription falls short by the October 20, 2011,

regulatory compliance deadline, all pledged capital in escrow will be returned to members.

NCUA is developing a Fact Sheet with more details on the escrow of capital funds and other important provisions during the transition phase of the corporate system. (See the timeline below.)

The Fact Sheet will be posted under the Reform section of the Corporate System Resolution webpage: <http://www.ncua.gov/Resources/CorporateCU/CSR/Reform.aspx>.

Timelines for Members of Bridge Corporates and Undercapitalized Corporates



Washington, D.C., December 9, 2010 – Senator Tim Johnson greets NCUA Chairman Debbie Matz before she testifies on the state of the credit union industry.

CHAIRMAN'S CORNER

Challenging Year Will Lead to Stronger Future

Once again, the credit union system has survived an extremely challenging year.

2010 began with the two largest corporate credit unions in conservatorship and several other corporates in danger of insolvency. This posed a grave threat because corporates provide needed liquidity for thousands of consumer credit unions and process electronic payments for tens of millions of credit union members.

If corporates had been forced to sell devalued "legacy assets" to raise liquidity, \$30 billion in losses would have flowed through the system—causing thousands of consumer credit unions to fail.

During the first nine months of 2010, NCUA worked to design a comprehensive plan to stabilize, resolve and reform the corporate system.

On September 24, with concurrence from Treasury Secretary Geithner, NCUA extended the Temporary Corporate Credit Union Stabilization Fund through June 2021. This means the credit union system can spread out payments for the projected \$7-to-\$9 billion in remaining losses from legacy assets over the next 10 years.

Throughout the fall of 2010, NCUA took actions to remove long-term threats from the corporate system. The agency:

- Conserved three additional corporates that were no longer viable;
- Seized control of over 98 percent of all legacy assets;
- Securitized cash flows from those impaired assets to raise billions of dollars in liquidity;
- Created four bridge corporates to effectively wind down the five conserved corporates with no interruption in service to consumers; and
- Finalized a new rule to ensure that remaining corporates operate with much stronger safety and soundness standards.

In future years, there will likely be fewer corporates. But they will be stronger corporates. And they will better protect their members' capital.

By this time next year:

- The corporate system will be fully liquid, as NCUA will have completed sales of more than \$30 billion in securities funded by cash flows from legacy assets.

- Ongoing corporates will have raised sufficient capital to meet NCUA's stronger regulatory requirements. Corporates that cannot meet the new capital thresholds will return any pledged capital to their members.
- Credit unions will have all the information they need to decide among payment systems providers. And credit unions will have up to another full year if they choose to transition to a new provider.

While NCUA is managing the corporate resolution, we continue working diligently to protect the safety and soundness of consumer credit unions. Many are still feeling the effects of the economic downturn. Millions of credit union members are suffering from falling home values, business failures, unemployment, and bankruptcy. Of course, credit union balance sheets reflect their members' struggles.

This situation caused us to re-evaluate NCUA's resource needs as well as examination procedures. As a result, NCUA hired 57 field staff this year. To be effective, however, the field staff needed to be reinforced by more frequent exams. We, therefore, began examining credit unions at least annually. By conducting more frequent exams and increasing off-site supervision, we are identifying issues earlier.

To this end, NCUA has enhanced the "red flag" early warning system. To resolve issues before they become material concerns, examiners review credit union data offsite. When they find credit unions holding high concentrations of fixed-rate mortgages, rising delinquencies or other "red flags," they follow up with immediate corrective actions.

We are taking these actions to save as many credit unions as possible. Reducing losses will keep credit unions' insurance fund premiums as low as possible.

NCUA's increased supervision has contributed to the credit union system's ability to withstand extraordinary economic shocks over the past year. Despite the challenging economy, the credit union system remains strong overall:

- Total assets are over \$900 billion;
- Net worth is holding steady;
- Delinquencies are showing signs of moderating;
- Charge-offs have inched lower; and
- Equity in the National Credit Union Share Insurance Fund is near the high end of its normal operating range.

Our experience this year demonstrates the value of rigorous regulation, diligent oversight, and a healthy insurance fund. Credit unions are now even better positioned to help consumers take advantage of opportunities that a recovering economy will offer. NCUA will continue to work with credit unions so they emerge even stronger.

To all of you who have worked so hard to serve America's 90 million credit union members, I wish you a wonderful holiday and all the best for the new year.



Debbie Matz



Debbie Matz
Chairman

BOARD ACTIONS November 18, 2010

NCUA adopts 2011 budget

The NCUA Board approved a 2011 operating budget of \$225.4 million. The budget increased by \$24.5 million or 12 percent over 2010. It includes 78 additional staff positions and accommodates program adjustments to ensure the successful execution of the agency's safety and soundness mission. The most significant increase in personnel relates to the annual examination program, which was started in 2010. This program adds 60 field positions to the regions and incorporates more frequent onsite contact for all federal credit unions. Increased examiner resources are required for examination of every federal credit union every year, and problem code credit unions are more closely monitored.

More frequent examinations will eventually reduce costs to insured credit unions by minimizing National Credit Union Share Insurance Fund (NCUSIF) losses and by eliminating premiums.

Many 2011 budget expenditures are based on contractual and statutory requirements beyond NCUA control. Specifically, the bulk of the budget increase is due to salary and benefit adjustments mandatory under a Collective Bargaining Agreement. Creation of the new Office of Minority and Women Inclusion is mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Also, a building renovation project is necessary to bring NCUA into compliance with the Americans with Disabilities Act.

Chairman Debbie Matz mentioned during the budget discussion that current Office of Small Credit Union Initiatives Director Tawana Y. James has been selected to lead the new Office of Minority and Women Inclusion (OMWI) effective January 21, 2011. Budget details are available online at www.ncua.gov under Agency Leadership/NCUA Board and Actions/Draft Board Actions.

Overhead transfer rate set

The NCUA Board approved a 58.9 percent overhead transfer rate (OTR)

for 2011 based on federal and state examination and supervision workload, staff time spent on insurance related duties, and the increased cost of NCUA resources and programs.

The NCUSIF covers agency expenses associated with insurance-related functions of NCUA operations. In addition to federal credit union operating fees, the OTR is a funding source for the NCUA budget; however, it does not affect the amount of the budget, which the Board approves separately. The OTR is applied to actual expenses incurred each month.

The method used to calculate the OTR, which is detailed in the Board Action Memorandum, was evaluated by an independent, expert firm. Initial draft reports indicate NCUA's OTR methodology is equitable and has no material weaknesses. (See the related OTR story on page 5.)

Corporate amendments proposed

The NCUA Board issued proposed amendments to Part 704 as a follow-on rulemaking to the recently approved final corporate credit union rule. (See the General Counsel Report on page 7 for details.)

FCU operating fee declines

The NCUA Board reduced the 2011 natural person federal credit union operating fee by 2.86 percent while maintaining Operating Fund cash reserves and contingency funds based on predicted NCUA operating costs.

Assets of natural person federal credit unions are predicted to increase approximately 3.40 percent during 2010; thus, the asset level dividing points for the 2011 operating fee scale are increased by 3.4 percent. Operating fees are due by April 15, 2011.

2011 Natural Person Federal Credit Union Fee Scale			
Projected FCU asset growth rate	3.40%	Change in asset level dividing points	
Operating fee rate change	-2.86%	Change in assessment rate percentages	
Asset Level		Operating Fee Assessment	
\$0	\$500,000	\$0.00	+ 0.00000000 X total assets over \$0.00
\$500,000	\$750,000	\$100.00	+ 0.00000000 X total assets over \$0.00
\$750,000	\$1,000,254.56	\$0.00	+ 0.00022761 X total assets over \$0.00
\$1,000,254.563	\$3,026,755.281	\$227,667.94	+ 0.00006634 X total assets over \$1,000,254,563.00
\$3,026,755.281	and over	\$362,106.00	+ 0.00002215 X total assets over \$3,026,755,281.00



Interim corporate rule addresses technical corrections

The NCUA Board approved an interim final rule that includes three technical corrections to clarify the intent of the new, Part 704, corporate credit union rule published in the *Federal Register* in October.

The interim rule revises the definition of collateralized debt obligation, investments now prohibited for corporate credit unions. The revised definition excludes the following types of permissible investments – commercial mortgage-backed securities, securities fully guaranteed by the U.S. government or government-sponsored enterprises, and securities collateralized by government guaranteed securities.

The interim rule also corrects the list of investments exempt from single obligor limits and credit rating requirements in §704.6; and it corrects Model Form “H” instructions, clarifying that the form is only for use on or after October 20, 2011. Effective January 18, 2011, the interim final rule was issued with a 30-day comment period.

NCUSIF equity replenished

The NCUSIF equity ratio was reported at 1.29 percent as of October 31, 2010. The increase from the September 30, 2010, equity ratio of 1.18 percent was due to invoicing the semi-annual capitalization deposit adjustment and the 0.1242 percent premium assessment, which were due November 22, 2010.

CONTINUED ON PAGE 7



Looking Ahead

FROM GIGI HYLAND

For me, December is a month of reflection—a time to stop, look around and evaluate the year. This year was certainly one for the record books. Similar to 2009, 2010 offered up a series of unprecedented challenges for NCUA and the credit union system. Everywhere one turned, there were issues to be addressed—from the economic impact on natural person credit unions to the all-consuming efforts to formulate a strategy for resolving the corporate credit union crisis. I'm extraordinarily

proud of the agency's ability to successfully meet 2010's challenges in a manner evidencing the agency's commitment to greater substantive transparency and communication.

That said, there is still a great deal of work to do as we transition to 2011. NCUA will be working to finalize the securitization of the corporate legacy assets in early 2011. We will be working with corporates as they develop business plans by March 31, 2011. We will continue our efforts in implementing annual examinations and focusing natural person credit unions' efforts on third-party due

diligence and asset liability management as we all await the eventual rise in interest rates. Amidst all of these business challenges, credit unions need to stay constant and true to their mission of serving members.

Thinking about the tasks ahead has the potential to leave one wearied. While none of us will be bored in 2011, everyone needs to rebuild their energy to creatively and cooperatively meet the issues ahead. So take some time this month to reflect, to think about all the wonderful things in your life and to recharge for whatever 2011 may bring.



Resolutions for the New Year

FROM MICHAEL E. FRYZEL

The start of a New Year can mean many things to many people: a new beginning, a fresh start, a recommitment, a rededication to do things better. Whatever path is chosen, it is an acknowledgement that we hope the future will be better than the past.

Our country has struggled through two years of economic stagnation, unemployment, rising prices, mortgage problems and bankruptcies causing individuals to lose faith and question what the future may hold.

But as this year comes to a close, there is a resurgence of hope and renewed optimism that next year will be better than the year before.

For that to occur, we all acknowledge that a lot of things need to happen. Major changes in every area that impacts

our nation's economy must take place. Good things that will make life better must start to happen. Difficult? Absolutely! Impossible? Not on your life.

In order to achieve the success needed to make things better, there must be a cooperative effort. Everyone must do their share.

Enter the credit union world where financial institutions work in a cooperative environment to provide the services their members need.

During the entire time our economy has struggled, credit unions have remained committed to their philosophy of people helping people. Their accomplishment is supported by the sheer number of individuals who have joined credit unions over the last two years, showing their confidence in the system.

Great job! Credit unions were there when they were needed most.

And as we move into the New Year, now more than ever credit unions must continue to help provide a new beginning and a fresh start, the recommitment and rededication people need to begin the coming year with confidence and a renewed outlook.

Credit unions must continue to provide the loans, the financial consulting, the member services, and most importantly, the one-on-one personal contact that everyone has come to expect.

As the holidays approach, I would like to take this opportunity to thank you for your continued partnership. It is because of the unique, cooperative credit union spirit that working together we can build a renewed energy, optimism and belief that 2011 can be better. I look forward to continuing to work together with you in the coming year.

The NCUA Report is published by the National Credit Union Administration, the federal agency that supervises and insures most credit unions.

Debbie Matz, Chairman
Christiane Gigi Hyland, Board Member
Michael E. Fryzel, Board Member

Office of Public & Congressional Affairs
Cherie Umbel, Editor
National Credit Union Administration
1775 Duke Street, Alexandria, Va. 22314-3428

Examination & Insurance Report

DETERMINING THE OVERHEAD TRANSFER RATE

The overhead transfer rate (OTR) is one of the funding sources for NCUA's budget. The calculation is designed to provide equitable distribution of costs associated with the dual role of the agency as an insurer and a regulator. Each year at this time there is peaked interest in the OTR calculation because NCUA sets the rate for the following year during the fourth quarter. This article covers background information and the current calculation. Additional articles related to this subject are planned for future publications.

Background:

The NCUA's operating budget is funded by two sources.

- Operating Fees – fees collected from federal credit unions and corporate credit unions.
- Overhead Transfer – a transfer of insurance-related expenses to the NCUSIF shared by federal and state-chartered credit unions.

Authorization for the transfer is Section 1783(a) of the Federal Credit Union Act. It establishes the National Credit Union Share Insurance Fund (NCUSIF) as a "revolving fund for carrying out the purposes of Title II of the Act," and authorizes the NCUA Board to use monies in the NCUSIF for "such administrative and other expenses incurred in carrying out the purpose of [Title II] as [the Board] may determine to be proper." Therefore, the Board may transfer money from the NCUSIF to cover insurance-related expenses (such as personnel and other examination-related costs) paid from the Operating Fund.

The calculation process has evolved over time. In 2003, NCUA developed a more equitable methodology. Prior to that, OTR was set as follows:

- 1985-2000: Maintained the OTR at 50 percent.
- 2001: Increased the OTR to 66.72 percent.
- 2002: Reduced the OTR to 62 percent with an analysis range of 62-70 percent.

New Methodology:

The revised methodology was designed to be more comprehensive taking additional factors into account when setting the rate. Key components of the current OTR calculation include:

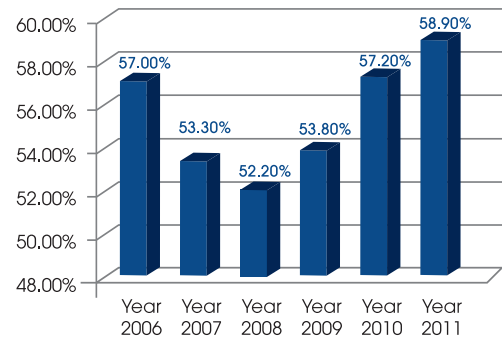
- *An exam time survey is completed on a flow basis by designated examiners to track the hours spent on insurance related and compliance functions;*
- *NCUA's resource workload budget is a breakdown of the number of hours budgeted for field staff in all examination, supervision, and administrative areas;*
- *NCUA's financial budget;*
- *The distribution of insured shares between federal credit unions (FCUs) and federally insured state-chartered credit unions (FISCUs); and*
- *The imputed value of work performed by state supervisory authorities (SSAs).*

Recent OTR Calculations:

Over the last several years, the OTR has fluctuated based on changes to the factors noted above. The accompanying graph documents OTR changes from 2006 through 2011.

Due to difficult economic times, total core budgeted examination and supervision hours have increased. With this comes an increase in the number of hours that NCUA is expending on FISCUs.

Overhead Transfer Rate



In the current economic environment, the exam scope has appropriately focused more on safety and soundness issues (insurance related activities). This intensified activity requires a higher OTR.

As a result, the need for additional exam time in both FCUs and FISCUs requires an increase in the overall financial budget, another factor in increasing OTR.

Summary:

The goal of revising the OTR calculation was to develop a methodology that allocates NCUA's costs as fairly as possible. To validate the methodology, PriceWaterhouseCoopers was engaged this year to conduct an independent review of the methodology and to evaluate the appropriateness of NCUA's calculation. The review just concluded, and NCUA will consider any recommendations to improve the methodology to ensure a fair and equitable transfer rate.

Future articles will discuss misconceptions regarding OTR as well as any changes made based on the PriceWaterhouseCoopers report.

Financial Performance Reports Available

September 2010 peer average ratios are available for single credit union Financial Performance Reports (FPRs) requested via NCUA's website at <http://webapps.ncua.gov/ncuafpr/>. Users can view a 2-page summary FPR online or request a more detailed FPR that arrives via email. Aggregate credit union group FPRs are also available. Please note, aggregate FPRs contain consolidated ratios for the group of credit unions included in the report and do not represent peer averages for that group.



John D. Worth
Chief Economist

Chief Economist Report FORECLOSURE CONTROVERSIES AND CREDIT UNIONS

A number of irregularities in foreclosure processes at major mortgage servicers have been revealed in recent months. These irregularities were primarily caused by improper shortcuts taken in foreclosure documentation and processing. The preliminary results of an interagency investigation related to these practices were presented at a recent briefing to the Financial Stability Oversight Council (FSOC).

Preliminary findings indicate that breakdowns in the foreclosure process occurred at several large financial institutions. NCUA has joined other federal regulators as part of the interagency team and is actively reviewing foreclosure action and processes at several large credit unions. NCUA will join other regulators in presenting findings at the January FSOC meeting.

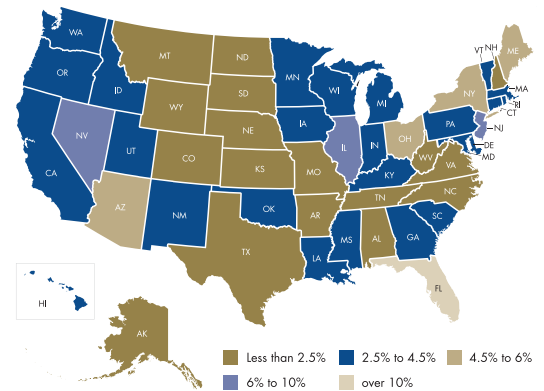
Clearly, no one should lose their home as the result of a mistake. However, foreclosure process irregularities and potential remedies may also cause broader impacts on credit unions and the housing market.

One measure of foreclosure activity among credit unions is the amount of foreclosed assets on credit union balance sheets. While this does not provide a measure of total or year-to-date foreclosure activity, larger amounts of foreclosed assets are indicative of foreclosure activity. As the figure indicates, foreclosed homes are increasing as a share of credit union

assets as a result of the housing crisis. Based on third quarter call report data, there are over 8,700 foreclosed loans on credit union balance sheets, and their value has risen from around \$190 million, or just over 1/10th of 1 percent of first lien real estate loans outstanding in the first quarter of

2007, to over \$1.5 billion or nearly 7/10th of a percent of first lien real estate loans outstanding in the third quarter of 2010. Clearly, credit unions are not immune from national trends in default and foreclosure. The majority of credit union mortgages remain on credit union balance sheets and are serviced by

Share of Loans in Foreclosure, 2010 Q3

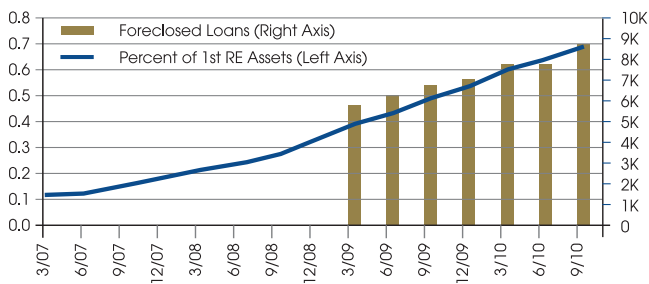


the originating credit union, limiting the number of credit union-originated mortgages that are likely to be serviced by the major national servicers that are the primary focus of complaints. However, this puts the onus on credit unions to ensure their foreclosure system has appropriate safeguards and oversight is consistent and well-documented.

More generally, the foreclosure controversy may have a number of potential effects on the housing market recovery and credit union losses from distressed mortgages. The above map shows the share of mortgages currently in the foreclosure process, according to the Mortgage Bankers Association. Regional impacts from the foreclosure controversies are likely to have the most impact in states with large shares of mortgages in foreclosure. Additional foreclosure moratoria, as well as delays on individual foreclosure packages as issues are discovered and corrected, are likely to lengthen foreclosure timelines. This can result in greater losses to lien-holders as well as local communities and housing markets, as vacant and abandoned homes weigh down local housing prices.

More speculative and less likely is that foreclosure controversies spill over to the home sales market. Spillover may occur in the form of fewer foreclosed homes coming on the market as a result of foreclosure process delays and moratoria. More concerning is the prospect of potential homeowners avoiding foreclosure sales because of worries about the sale process or uncertainty about title or ownership. Distressed sales are accounting for more than 30 percent of existing home sales, so any impact on this market could destabilize the housing market.

Foreclosed Real Estate Assets



Source NCUA Call Reports

General Counsel Report

NEW CORPORATE PROPOSAL

Last September, the NCUA Board substantially revised Part 704 rules governing corporate credit unions. The revisions, developed in response to the problems leading to the failure of five corporate credit unions, are designed to ensure strong levels of capital, diversification of investments, better matching of asset and liability cash flows, and transparency of corporate governance to member-owners.

When adopting the final rule, the Board noted NCUA received many good ideas during the rulemaking process that went beyond the scope of the proposed rule and could not be incorporated into the final rule. As promised, in November the Board issued another proposed corporate rule that contains suggested amendments to seven aspects of corporate credit union operations.

Designed to further strengthen the corporate credit union system, the proposed amendments would:

- Require corporates to conduct all board of director votes as recorded votes and include the votes of

individual directors in meeting minutes.

- Add audit, reporting, and supervisory committee requirements. Require corporates to prepare an annual management report acknowledging certain responsibilities and assessing compliance with certain laws and regulations, impose certain duties on corporate independent public accountants, and provide additional rights and responsibilities for corporate supervisory committees.
- Provide the equitable sharing of Temporary Corporate Credit Union Stabilization Fund (TCCUSF) expenses among all corporate credit union members, including credit union and noncredit union members, by establishing procedures for requesting members not insured by NCUSIF (i.e., “non FICUs”) to make voluntary premium payments to TCCUSF when TCCUSF assesses FICUs. If a non FICU fails to make a requested payment, corporate members must vote on whether to expel the non FICU.



- Limit natural person credit unions (NPCU) to membership in one corporate at a time. No NPCU would be required to resign any current corporate membership unless it plans to join a new corporate. Limit NPCU investments to corporates where it is a member.
- Require that corporates establish enterprise-wide risk management committees. Each committee must include at least one risk management expert who is independent from the corporate.
- Grow retained earnings by allowing corporates to charge members reasonable one-time or periodic membership fees.
- Require highly compensated corporate employees, who are dual employees of a corporate CUSO, to disclose all CUSO compensation to members.

The public comment period ends January 28, 2011.

BOARD ACTIONS (FROM PAGE 3)

Year-to-date, the NCUSIF is reporting net income of \$323.5 million. Through October, the NCUSIF recorded \$694.4 million in insurance loss expense, bringing the month-end reserve balance to \$1.21 billion.

On October 31, 2010, nearly 23 percent of all assets were in CAMEL code 3, 4 or 5 credit unions. Through October, 27 federally insured credit unions have failed in 2010 – 17 liquidations and 10 assisted mergers.

The Temporary Corporate Credit Union Stabilization Fund reported a total liabilities and net position of \$4.37 billion, up from \$370 million reported at September 30, 2010. The change reflects the \$4 billion borrowed from the U. S. Treasury and loaned to Western Bridge Corporate Federal Credit Union. The Stabilization Fund also reported revenue of \$554,000.

Assessment predictions in 2011

A combined NCUSIF premium and Stabilization Fund assessment are projected to range between 20 and 35 basis points in 2011.

The NCUSIF premium is based primarily on three credit union variables: failed credit unions' losses; troubled credit unions' potential losses; and total insured shares. The Stabilization Fund considers borrowed funds, cash flows and affordability.

Board votes are unanimous unless otherwise indicated. All Board Action Memorandums are available online at www.ncua.gov under Agency Leadership/NCUA Board and Actions/Draft Board Actions, and NCUA rule changes are posted online at www.ncua.gov under Resources/Regulations, Legal Opinions and Laws.

Stability Through the Crisis

National Credit Union Administration
2008-2009
Annual Report

NCUA Issues 2008-2009 Annual Report

The NCUA 2008-2009 Annual Report, *Stability Through the Crisis*, describes the actions NCUA took over the past two years to stabilize the credit union system during the worst financial crisis since the Great Depression. This is the agency's official report to the President and Congress about NCUA and credit union operations. It contains messages from the NCUA Board and the executive director and articles from major agency offices, plus detailed information about the NCUSIF, including the auditor's reports. Statistical tables provide 10 years of pertinent credit union data.

Credit unions can obtain a free annual report by calling the NCUA Distribution Center at 703.518.6414, or FAX your request to 703.518.6417.

Regional Report WESTERN ECONOMY SLOW TO RECOVER

Region V, headquartered in Tempe, Arizona, currently supervises 733 federally insured credit unions with assets totaling \$119.4 billion. With supervision of the states of Nevada and California transferred to other regions earlier this year, the region now encompasses 11 states and 1 territory.

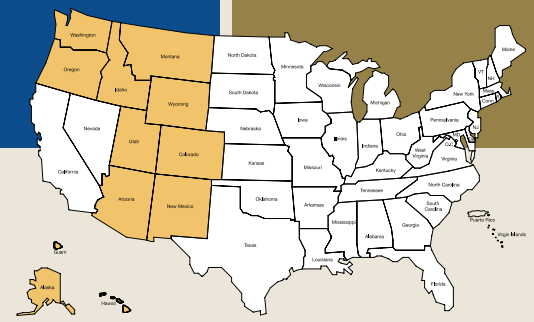
Based on semiannual data analysis, at June 30, 2010, Region V credit unions remained strong, while operating trends reflect results of the economic downturn, further hampered by corporate credit union issues facing the industry. In aggregate, Region V credit unions have positive earnings, increasing net worth, and delinquency and loan loss levels that remain elevated, although down slightly from year-end 2009 levels.

The West has been the hardest hit region in the country and will likely be the slowest to recover. The nation as a whole is anticipated to return to pre-recession level employment by year-end 2012; however, Region V does not expect to reach this milestone until the end of 2013. The region's unemployment rate has risen slightly to 11 percent. As of June 30, 2010, the national unemployment rate was 9.5 percent, down from 10.0 percent in 2009. Unemployment has increased in four states in the region (Arizona, Colorado, Montana, and Utah) and two states (Arizona and Oregon) have unemployment rates above the national average.

Net worth increased to 9.1 percent due to controlled asset growth and a positive return on average assets (ROA) of 0.3 percent. These are encouraging trends; however, when comparing Region V operating results to those of credit unions across the nation, the results are not as favorable. Nationally, net worth was 9.9 percent and ROA averaged 0.4 percent.

The worsening economy and real estate market, especially in Arizona and Utah, is causing many credit unions to experience significant loan losses which may continue for some time. As of June 30, 2010, delinquency and net loan loss ratios declined, but remain elevated at 2.3 percent and 1.5 percent, respectively. Nationally, the numbers were more favorable, with delinquency of 1.7 percent and net charge-offs of 1.2 percent. Though underlying delinquency numbers fell, loan modifications are on the rise. Modified loans outstanding in the region total \$1.6 billion and represent 14.4 percent of net worth.

As other major categories of loans declined, member business loans (MBLs) grew in the first half of 2010. This was true on both the regional and national level. Region V MBLs increased 4.9 percent and represent 5.1 percent of assets. However, MBL delinquency shot up 39.0 percent. There is concern in the marketplace that



REGION V

commercial real estate poses a major risk to economic recovery. The region's increasing delinquency and loss ratios may support this premise.

Real estate loans grew at a much slower pace than in prior years, as the region's mortgage-related investments experienced strong growth. Mortgage backed securities (MBSs) grew 25 percent and collateralized mortgage obligations (CMOs) grew 34 percent from year-end 2009 levels. This growth increased net long-term assets to 29.6 percent. Total real estate exposure, which includes both mortgage loans and mortgage backed securities, represents 40 percent of the region's assets.

The region's credit unions remain sound while continuing to reflect the impact of a lagging economy and increasing unemployment. The region has continued to accelerate hiring to ensure our field examiners have sufficient resources and time to monitor significant risk areas. With proactive supervision measures in place, Region V will continue NCUA's mission to ensure the safety and soundness of credit unions.

¹ Source: Economy.com Précis State April 2010

The NCUA REPORT

1775 Duke Street | Alexandria, VA 22314-3428