

Unleash the Power of Data for Better Decision Making

Special Focus: **Efficiency**



August 25, 2009

Host: Nick Connors

Agenda

- **Credit Union Analysis**
 - Efficiency Measures
 - Productivity Metrics
 - Comparison to Other Financial Institutions
- **Creating Comparisons**
 - Averages v. Best Performance
 - Regional Variations
 - “Traditional” Asset or FOM-based
- **A Look Ahead**
 - FirstLook 2Q09

CREDIT UNION EFFICIENCY METRICS IN 2009

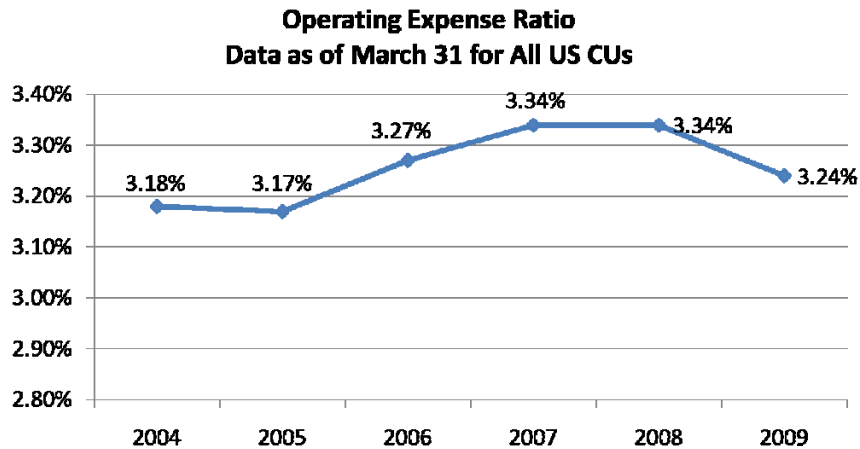
Current Context

“If you can’t get your efficiency ratio in the low 50s, I don’t believe you can survive the next 10 years.”

~ Ivo Tjan, CommerceWest Bank, Calif.

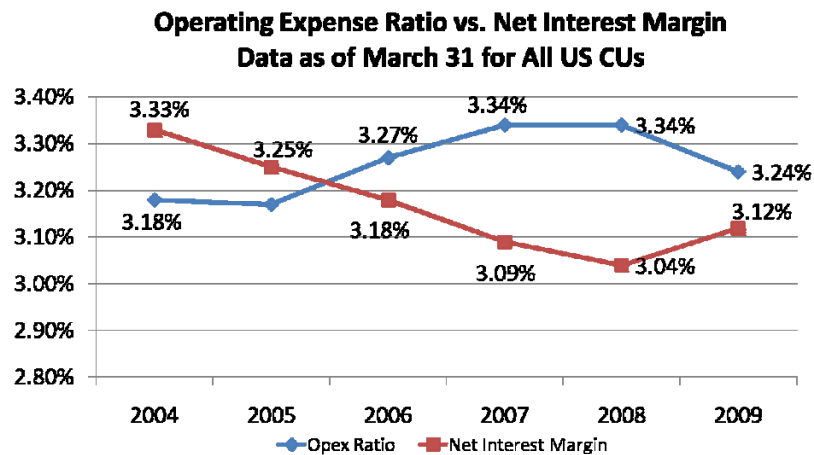
American Banker’s Community Banking Roundtable, February 2009

Operating Expense Ratio Dips Slightly as Asset Growth Remains Strong



Source: Callahan's Peer to Peer Software

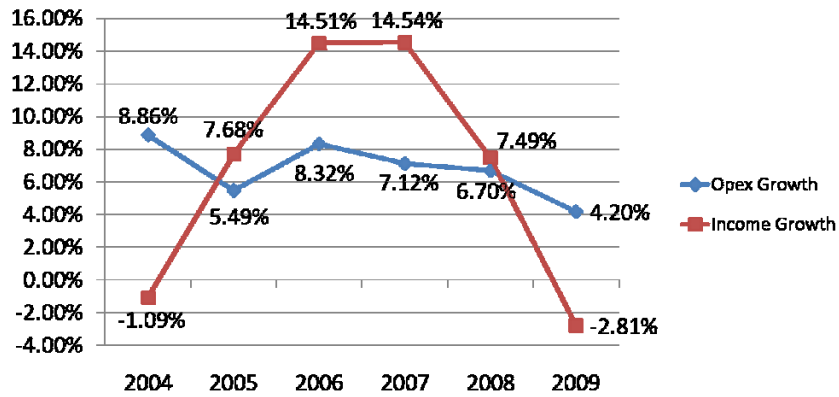
Net Interest Margin Does Not Cover the Daily Cost of Operations



Source: Callahan's Peer to Peer Software

Compared to income growth,
operating expense growth has been steady

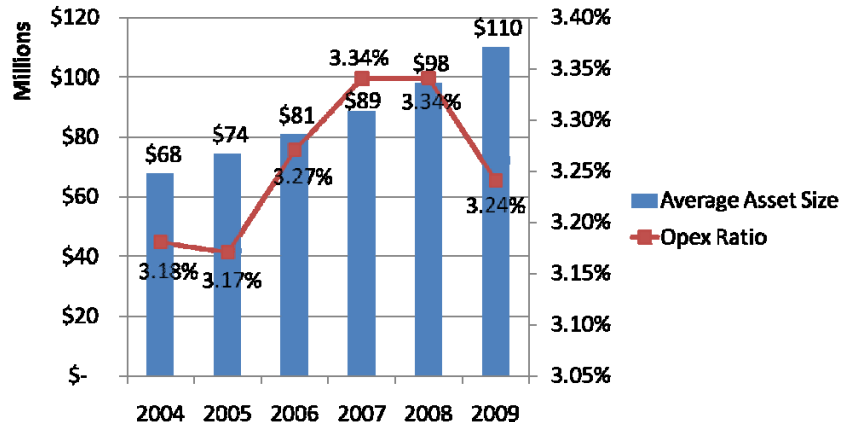
Operating Expense Growth vs. Income Growth
Data as of March 31 for All US CUs



Source: Callahan's Peer to Peer Software

Does Larger Size Result in
Economies of Scale?

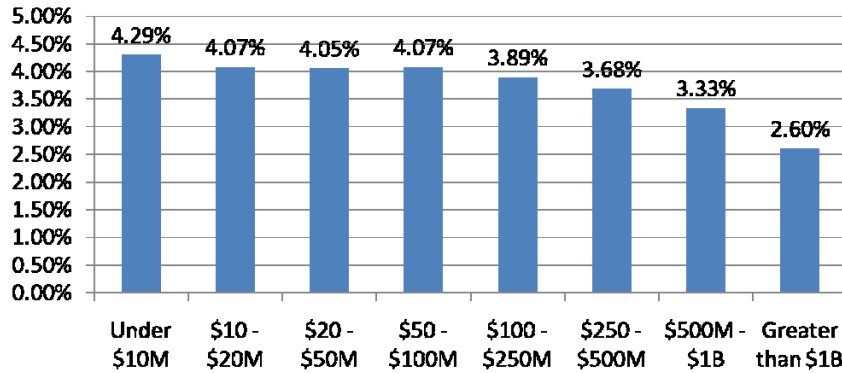
Average CU Size vs. Operating Expense Ratio
Data as of March 31 for All US CUs



Source: Callahan's Peer to Peer Software

Operating Expense Ratio Consistent for Most Smaller Peer Groups

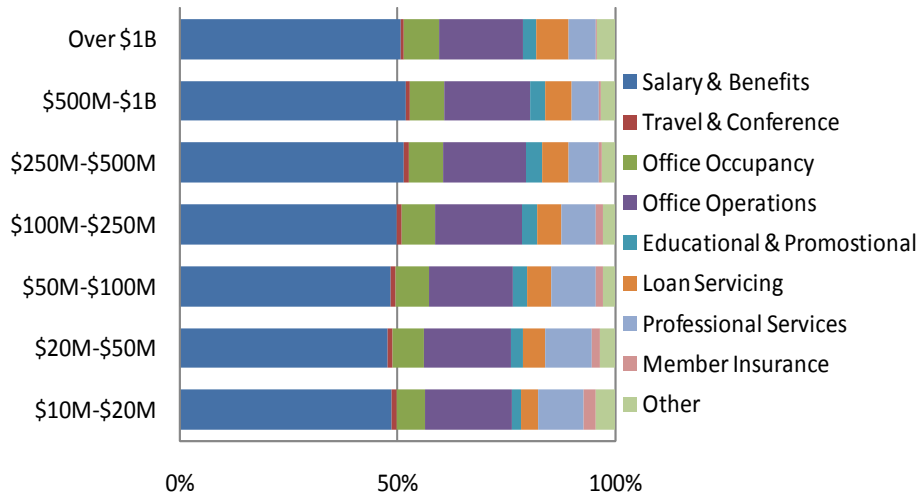
Operating Expense Ratio by Peer Group
Data as of March 31, 2009



Source: Callahan's Peer to Peer Software

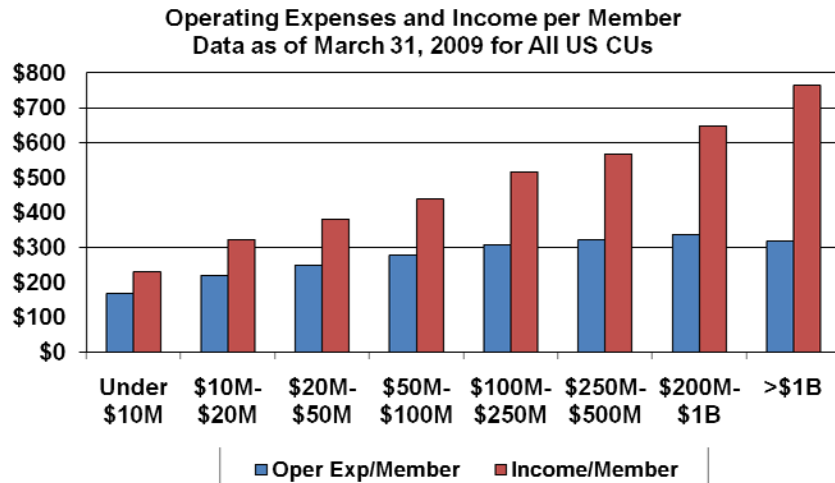
Peer Group Comparison for Operating Expense Composition

Data as of March 31, 2009 for All U.S. CU



Source: Callahan's Peer to Peer Software

The ability to generate higher income per member is the key difference between large and small credit unions



Measuring the Return Generated from Expenses

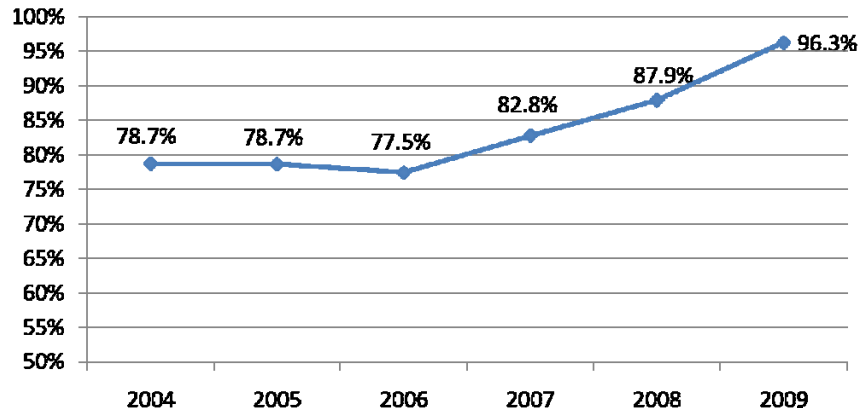
Efficiency Ratio =

Operating Expenses

*(Net Interest Income +
Fee Income + Other Operating Income +
Provision for Loan Losses)*

The Efficiency Ratio Continues to Rise

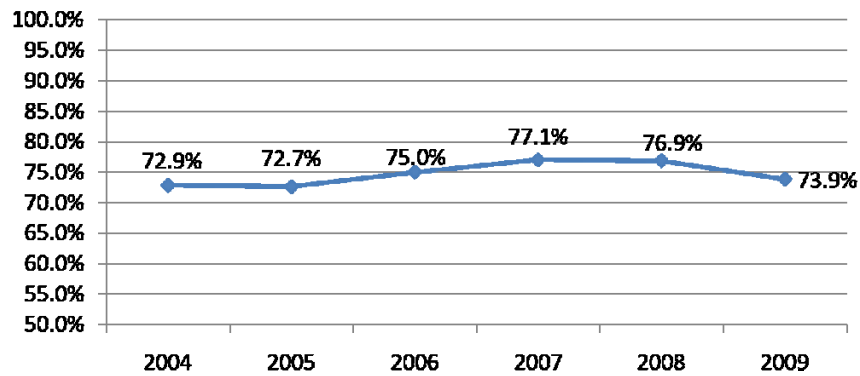
Efficiency Ratio
Data as of March 31 for All US CUs



Source: Callahan's Peer to Peer Software

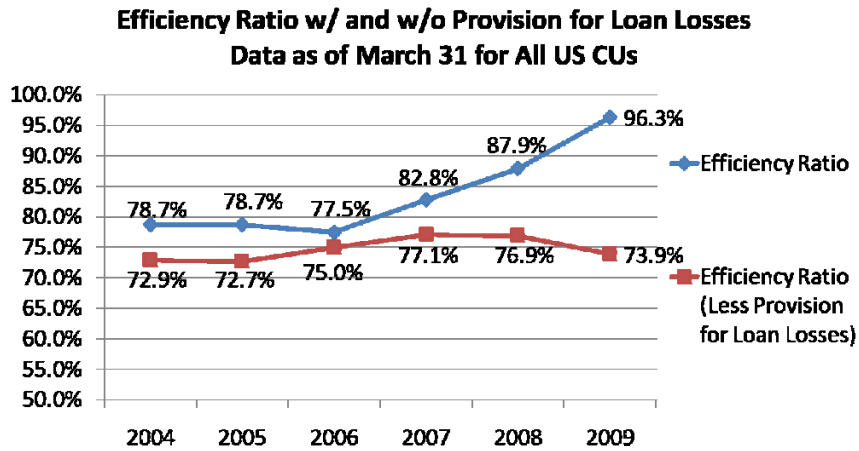
Removing Loan Loss Provisions Stabilizes the Efficiency Ratio

Efficiency Ratio (Less Provision for Loan Losses)
Data as of March 31 for All US CUs



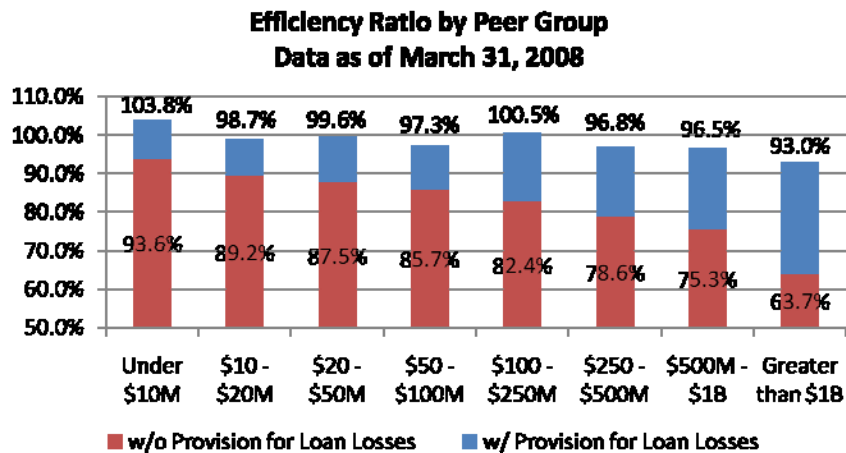
Source: Callahan's Peer to Peer Software

Gap Widens as Provisions Increase



Source: Callahan's Peer to Peer Software

Provision Expense Impact Differs by Peer Group



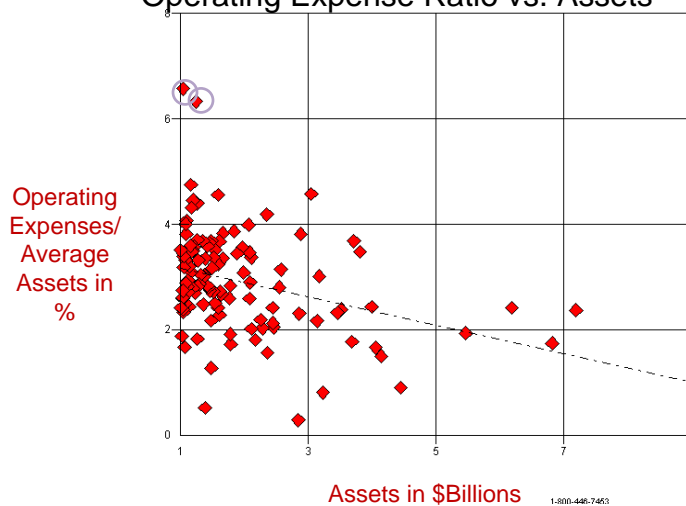
Source: Callahan's Peer to Peer Software

NCUSIF Stabilization Expense

- Current data is 1Q, will be unaffected
- Largest section is Member Insurance
 - \$103M in original 4Q08
 - \$1.04B in restated 4Q08
- Be aware of 2Q09 operating expense statements and 4Q09 Comparisons

Economies of Scale in Billion-Dollar Credit Unions*

Operating Expense Ratio vs. Assets

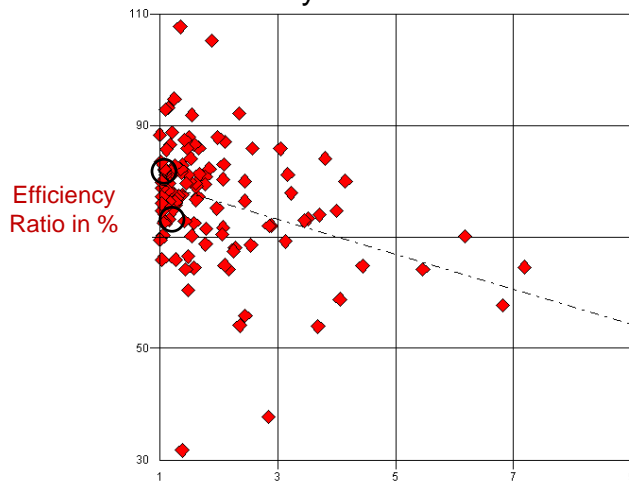


Source: Callahan's Peer to Peer Software

1-800-446-7453
*Less Navy, SECU and Pentagon

Economies of Scale in Billion-Dollar Credit Unions*

Efficiency Ratio vs. Assets



*Less Navy, SECU and Pentagon

Assets in \$Billions 9-7453

Sources: Callahan's Peer to Peer Software

COMPARISON TO OTHER FINANCIAL INSTITUTIONS

FDIC State Profiles

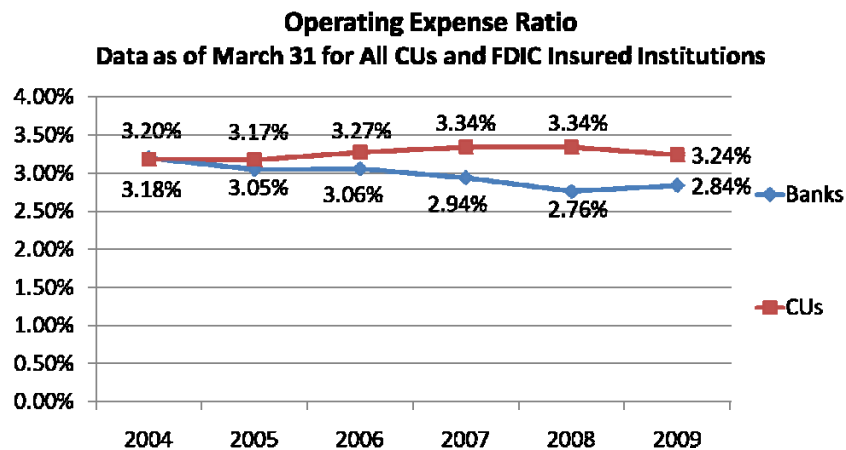
FDIC State Profile California

First Quarter 2009

Capital / Earnings	01-09	04-08	01-08	2008	2007
Tier 1 Leverage (median %)	10.86	10.67	11.18	10.67	11.06
Return on Assets (median %)	0.05	-0.55	0.50	0.00	0.71
Pretax Return on Assets (median %)	0.06	-0.92	0.68	-0.10	1.08
Net Interest Margin (median %)	3.72	3.87	4.16	4.00	4.56
Yield on Earning Assets (median %)	5.51	5.94	6.78	6.26	7.42
Cost of Funding Earning Assets (median %)	1.63	1.93	2.53	2.11	2.93
Provisions to Avg. Assets (median %)	0.71	1.23	0.32	0.95	0.27
Noninterest Income to Avg. Assets (median %)	0.30	0.28	0.38	0.33	0.37
Overhead to Avg. Assets (median %)	3.35	3.36	3.51	3.46	3.49

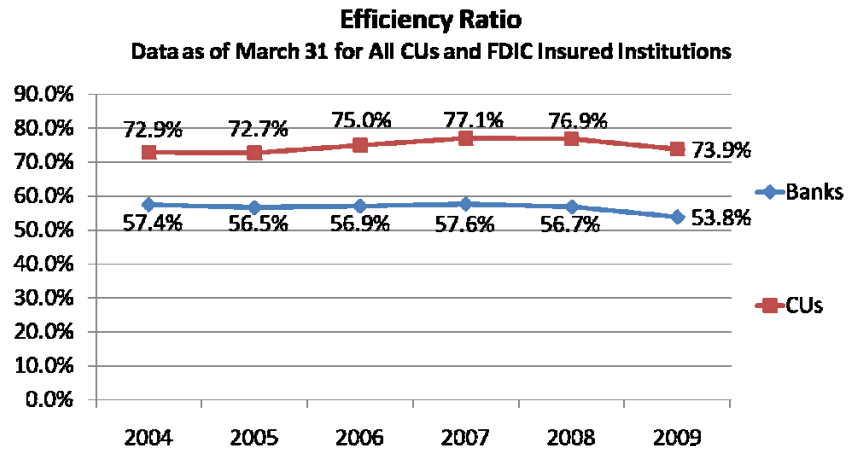
<http://www.fdic.gov/bank/analytical/stateprofile/index.html>

Credit Unions Close the Gap on Banks in the Operating Expense Ratio.....



Source: Callahan's Peer to Peer Software, FDIC

...But See the Divide in the Efficiency Ratio Remain



Source: Callahan's Peer to Peer Software, FDIC

PRODUCTIVITY TRENDS THROUGH 1Q09

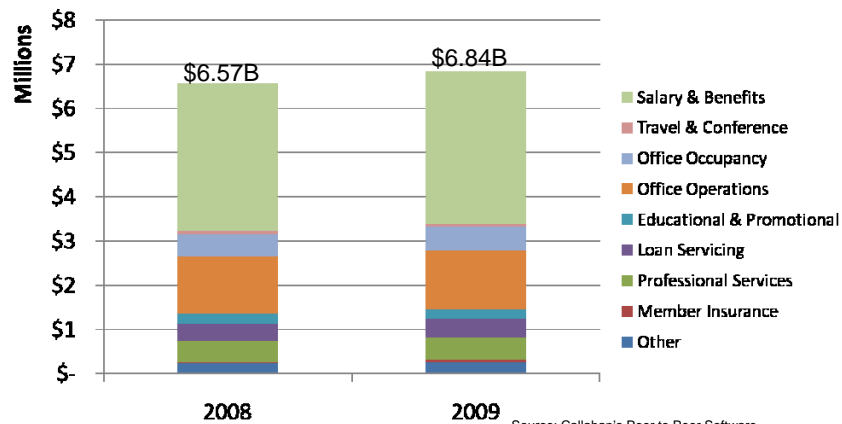
Current Context

At Goldman Sachs, Trimming Costs Means Bunking at Embassy Suites

~ Wall Street Journal, March 12, 2009

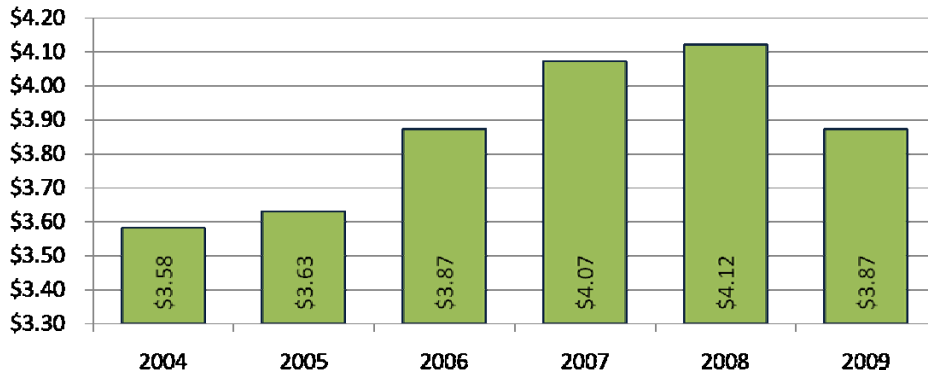
Salary and Benefit Expense Drives Opex Increase

Operating Expense Composition
Data as of March 31 for All US CUs



For every dollar spent on salary and benefits,
credit unions realize \$4.10 in income

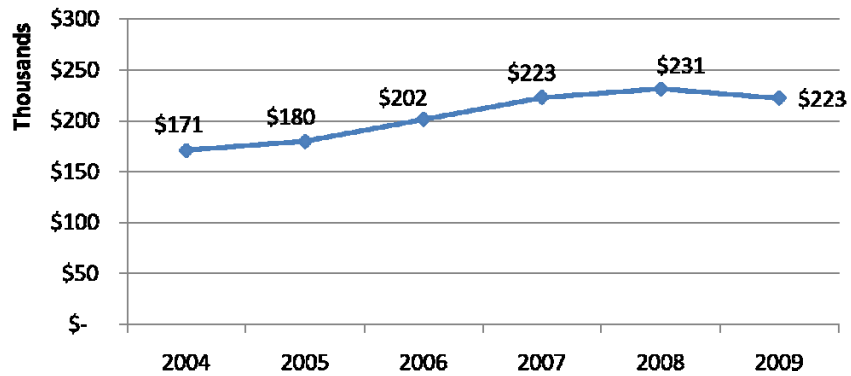
\$ Income per \$ Salary and Benefits
Data as of March 31 for All US CUs



Source: Callahan's Peer to Peer Software

Revenue per Employee Slows After a
Period of Consistent Increases

Revenue per Employee
Data as of March 31 for All US CUs



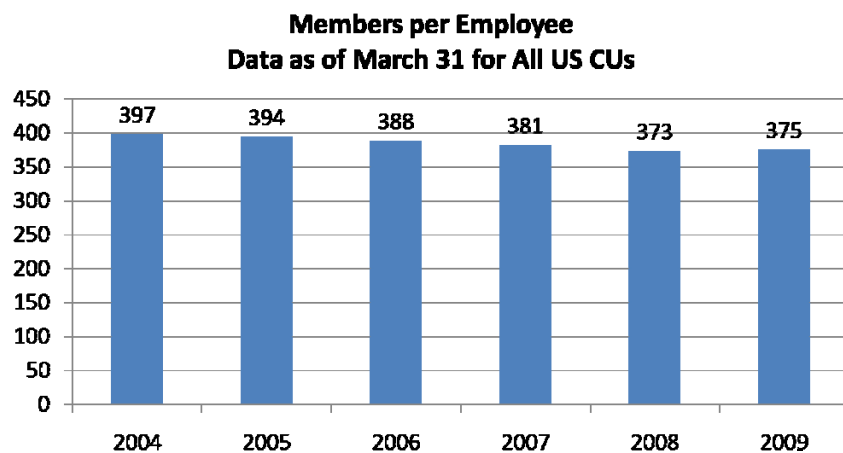
Source: Callahan's Peer to Peer Software

Declining Revenue Levels Impact Revenue per Member Levels, Despite Strong Relationship Increases



Source: Callahan's Peer to Peer Software

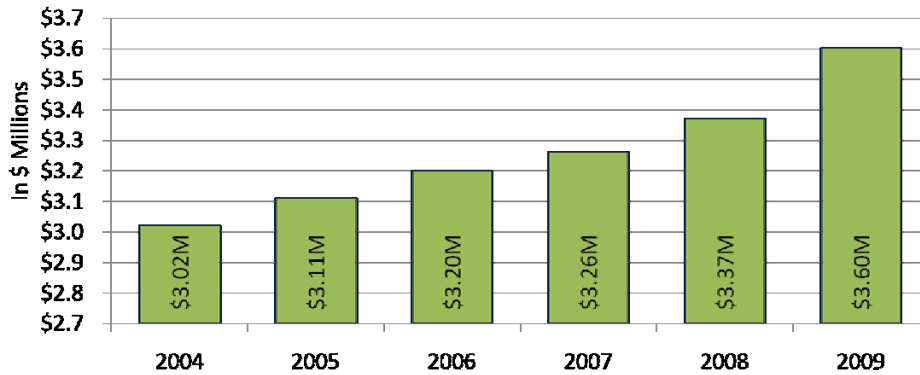
Credit Union Maintain Focus on Member Service Levels



Source: Callahan's Peer to Peer Software

Asset Levels Continue to Increase at a Faster Pace than Employees

Assets per Employee
Data as of March 31 for All US CUs



Source: Callahan's Peer to Peer Software

Banks struggling with employee levels

Assets per employee at selected large banking companies.
Dollars in millions.

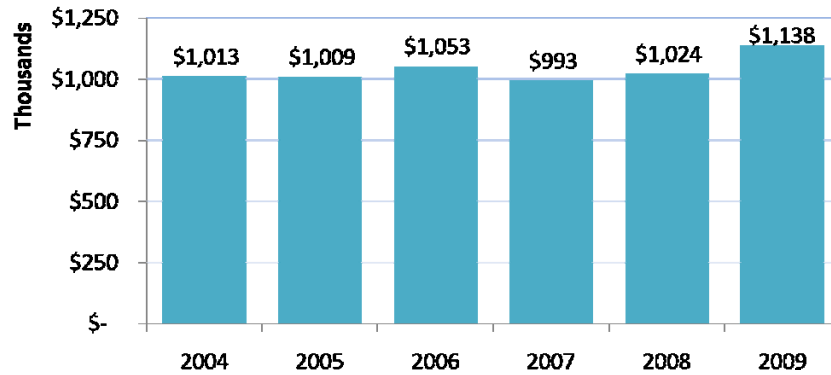
Company	Assets per Employee (in \$ Millions)	Number of employees	Change from year earlier
JPMorgan Chase	\$10M	217,965	▲ 25.6%
Bank of America	7.6M	240,202	▲ 14.7
Citigroup	5.6M	344,177	▼ 16.0
PNC	5.1M	57,391	▲ 107.3
BB&T	5.1M	29,633	▲ 0.8
Wells Fargo	4.8M	270,816	▲ 69.5
Regions	4.8M	30,784	▼ 7.2
U.S. Bancorp	4.6M	57,904	▲ 10.8

As of Dec. 31

Source: SNL Financial

Shift Towards Real Estate Lending Drives Increase in Originations per Employees

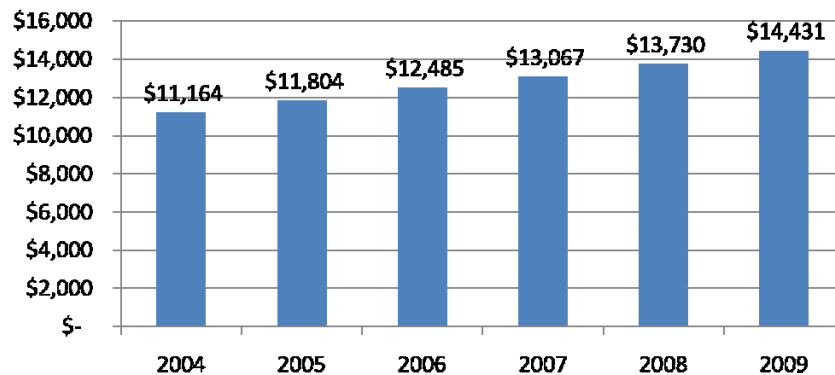
Annualized Loan Originations per Employee
Data as of March 31 for All US CUs



Source: Callahan's Peer to Peer Software

Average Member Relationship Continues to Increase

Average Member Relationship
Data as of March 31 for All US CUs



Source: Callahan's Peer to Peer Software

**CREATING COMPARISONS
USING PEER TO FURTHER ANALYSIS**

**A LOOK AHEAD –
PRELIMINARY 2Q09 TRENDS**

A First Look at Second Quarter Data

	2Q09 FL	1Q09 FL	1Q09 Industry
Assets	\$870.5B	\$854.9B	\$869.0B
Opex / Ave Assets	3.19%	3.22%	3.24%
Efficiency Ratio	69.21%	73.73%	73.88%
Members/Employee	381	376	375
\$ Rev. per \$ S&B	\$4.01	\$3.89	\$3.87
Revenue / Employee	\$230,186	\$223,282	\$222,507
Avg. Member Relationship	\$14,485	\$14,489	\$14,431

Source: Callahan's Peer to Peer Software

Questions?

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Upcoming Live Events

From Information to Action: What Members Really Want from Their Credit Union Website

■ **Wednesday, August 26th**

This complimentary webinar will share insights from recent Internet Strategy Consortium surveys to help credit unions identify improvements to their website and demonstrate the value of this shared cost research group.

2Q 2009 Trendwatch

■ **Wednesday, September 2nd**

■ **Thursday, September 3rd**

What has been the role of credit unions during the recession? How have credit unions performed? How are they positioned as the economy crawls toward recession?

www.CreditUnions.com/UpcomingEvents

Ready Now

Check out CUTv's On-Demand library

CUtv Short: *Learn in Minutes* **The Twitter Experiment** *(25 Minutes)*

Twitter can be a confusing method of communication if not introduced properly. Callahan & Associates gives background and resources for new Twitter users to get started off on the right foot.

Growth Opportunities for Credit Unions in the Credit CARD Act of 2009

How will the CARD Act of 2009 affect your credit union? As credit unions were largely uninvolved in the questionable practices that led to the creation of this act, they are strongly positioned to capitalize on the opportunities it creates as individuals look to establish credit with a financial institution they can trust.

www.CreditUnions.com/OnDemand