

Meaningful Comparisons In the Age of the NCUSIF Stabilization Expense



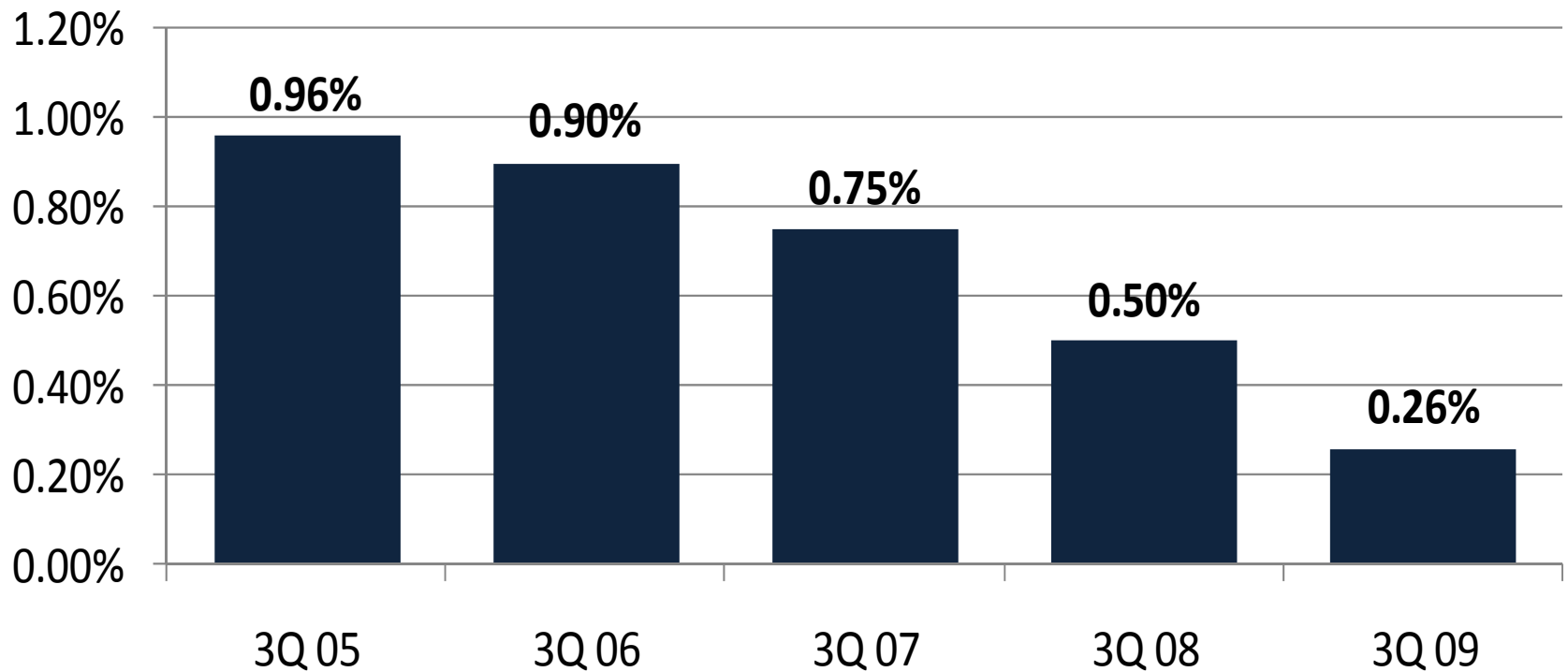
December 16, 2009
Host: Nick Connors



ROA continues to decline

Return on Assets

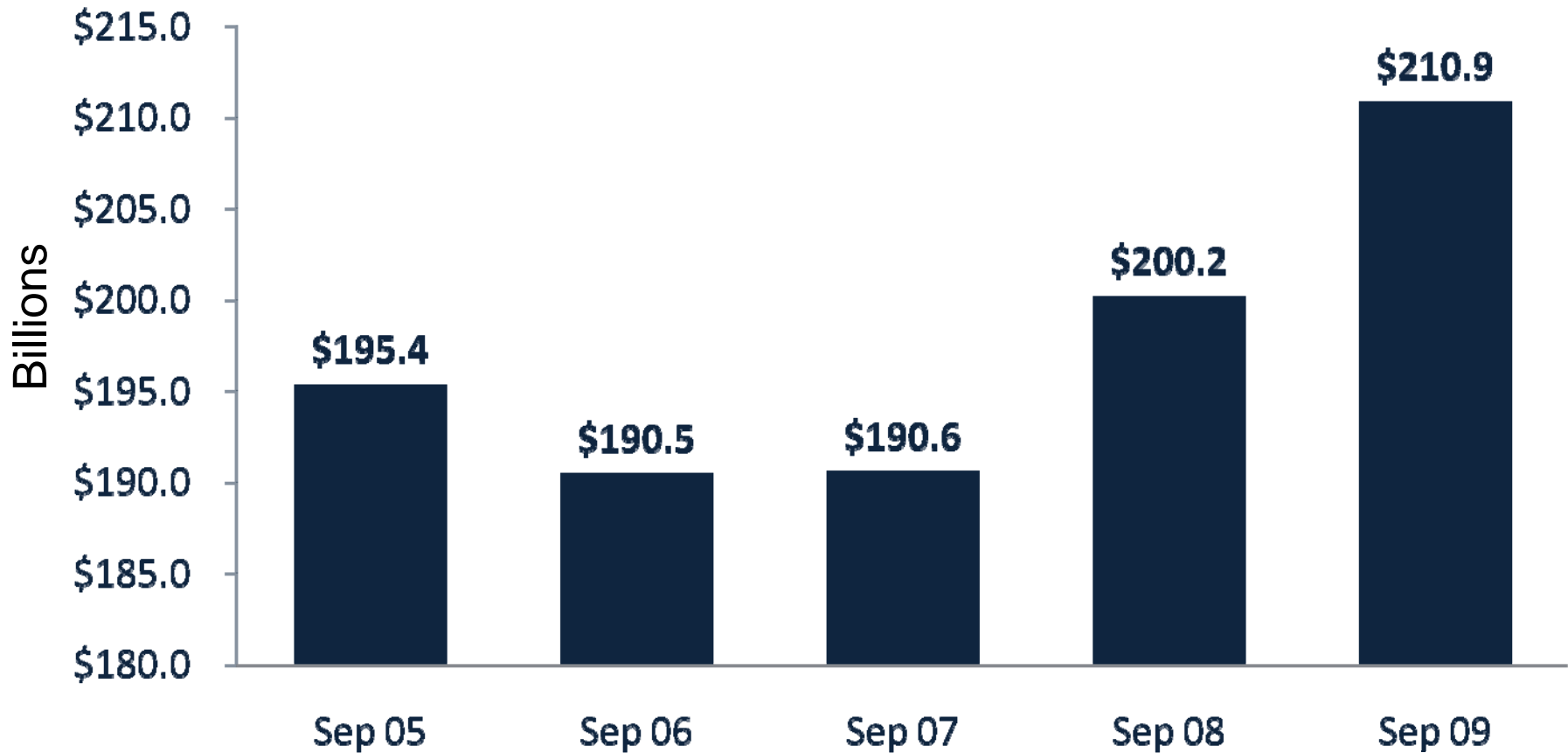
Data as of September 30 for All US CUs



Source: Callahan's Peer to Peer Software



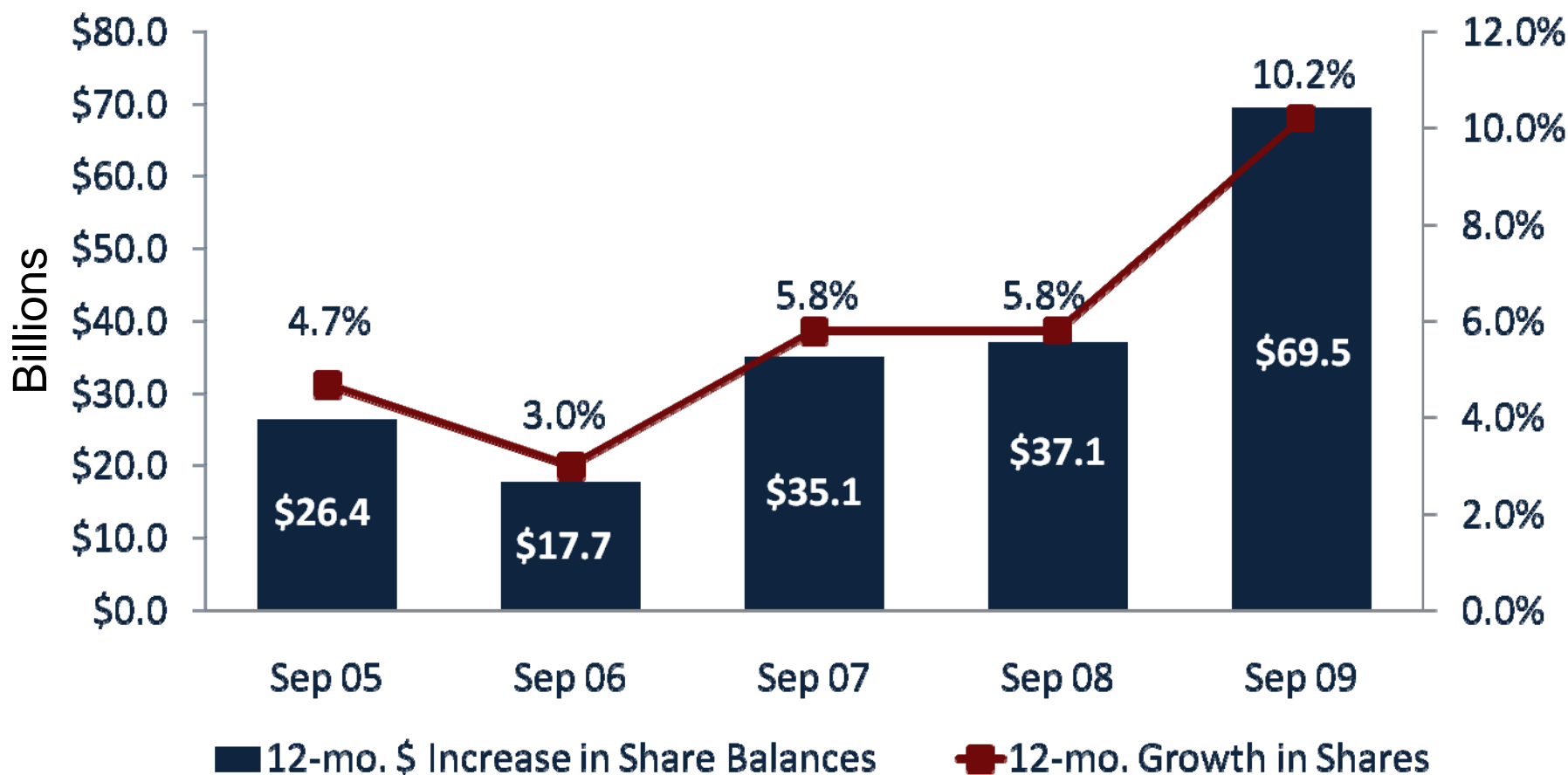
YTD loan originations are at record levels



Source: Callahan's Peer to Peer Software



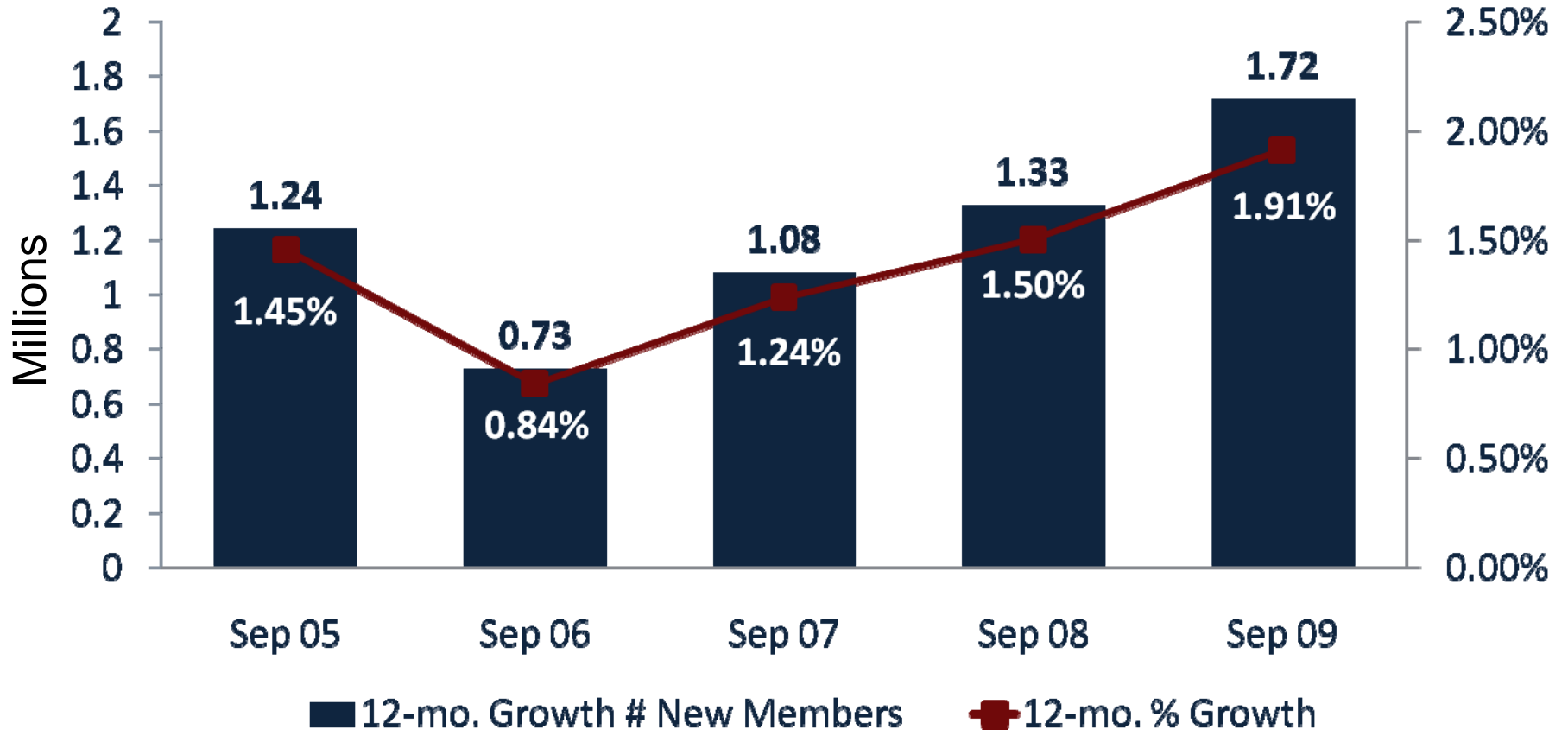
Record growth in share balances continues in 3Q



Source: Callahan's Peer to Peer Software



Member Growth continues to accelerate



Source: Callahan's Peer to Peer Software



Agenda

- The NCUSIF Stabilization Expense
 - Call Report Timeline
 - Locating Impacted Account Codes
 - Comparison to Other Financial Institutions
- Creating Comparisons
 - Meaningful Comparisons
 - Peer Group Selection
 - Member-focused Metrics



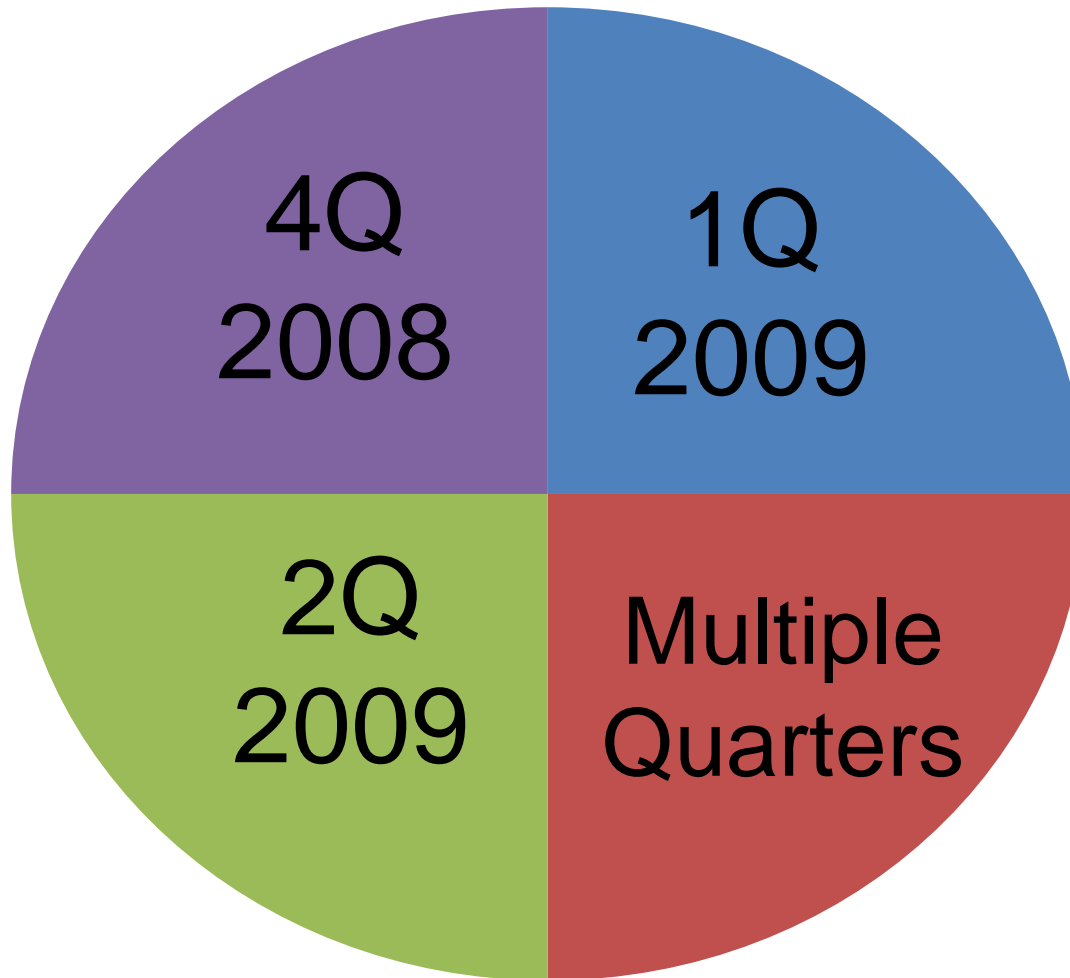
NCUSIF – Part 1

December 2008

- Lack of official guidance leads to numerous accounting practices
- 3 Examples
 - Member Insurance Expense
 - Investment Write-Down
 - Non-Operating Gain/Loss



Not limited to a single cycle



NCUSIF – Part 2

March 2009

- New Account Code
 - A311 – NCUSIF Stabilization Expense (\$3.14B)
 - A660a – Net Income Before Stabilization Expense (\$64.9M)
- Problems with ROA calculation
 - Traditional ROA: -40 basis points
 - ROA prior to Stabilization Expense: -3 basis points
- ROA not the only metric impacted



NCUSIF – Part 3

June 2009 and December Restatements

- December Restatements
 - More than 1,400 credit unions restated their data
 - Those CUs represented 45% of industry assets

- June 2009
 - Adjustments for those accounting for the expense in March/Dec
 - Some expense line items became negative on YTD basis



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Thousands of \$ as of December 31, 2008

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Govt & Agencies	84,689,673	84,864,408	0.21%	(Less Rebates)	(66,183)	(65,732)	-0.68%
Corporate Credit Union	32,810,848	32,372,988	-1.33%	Investments	7,888,390	7,881,101	-0.09%
Banks and S&Ls	28,082,676	28,104,783	0.08%	Fee Income	6,919,446	6,907,878	-0.17%
Mutual Funds	2,032,160	2,032,160	0.00%	Trading+Other Operating	3,770,603	3,763,182	-0.20%
All Other Inv & Ins	20,921,014	20,683,611	-1.13%	Total Income	55,318,298	55,295,573	-0.04%
Total Investments, Cash & Cash Eq.	217,879,774	217,490,907	-0.18%	Expenses:			
Real Estate Loans	309,680,682	309,704,585	0.01%	Employee Compensation and Benefits	13,488,701	13,490,596	0.01%
Auto Loans	178,229,818	178,198,131	-0.02%	Travel & Conference	335,141	335,143	0.00%
All Other Loans	86,841,677	86,848,885	0.01%	Office Occupancy	2,019,434	2,020,067	0.03%
Total Loans	574,752,176	574,751,601	0.00%	Office Operations	5,287,732	5,296,534	0.17%
(Loan Loss Allow)	(6,085,124)	(6,251,648)	2.74%	Education & Promotional	1,062,928	1,062,938	0.00%
Foreclosed & Repossessed Assets	1,070,853	1,067,431	-0.32%	Loan Servicing	1,600,652	1,602,010	0.08%
Land & Buildings	15,380,519	15,382,000	0.01%	Professional Services	2,022,745	2,025,367	0.13%
Other Fixed Assets	3,862,173	3,867,844	0.15%	Member Insurance	103,122	1,340,826	1200.23%
All Other Assets	18,952,379	17,638,219	-6.93%	Operating Fees	127,979	181,402	41.74%
Total Assets	825,812,751	823,622,835	-0.27%	Miscellaneous	817,077	1,030,375	26.11%
Liabilities & Capital:				Operating Expense Subtotal	26,870,566	28,386,657	5.64%
Dividends Payable	675,441	675,485	0.01%	Prov/Loan Loss	6,860,274	7,052,610	2.80%
Notes Payable	36,644,412	36,670,388	0.07%	Expense Subtotal	33,730,840	35,439,267	5.06%
Reverse Repurchase Agreements	750,749	750,749	0.00%	Non-Operating Gain (Loss)	250,737	(223,864)	-189.28%
Other Liabilities	6,914,811	7,460,451	7.89%	Income before Dividends	21,838,195	19,632,442	-10.10%
Total Liabilities	44,985,412	45,557,073	1.27%	Cost Of Funds:			
Regular Shares & Deposits	191,222,583	191,207,971	-0.01%	Interest on Borrowed Funds	1,384,849	1,385,119	0.02%
Money Market Shares	130,408,049	130,409,839	0.00%	Dividends	17,997,856	17,998,338	0.00%
Share Drafts	74,917,159	74,896,353	-0.03%	Net Income	2,455,490	248,985	-89.86%
IRA & Keogh	65,486,300	65,493,916	0.01%				
Share Certificates	229,732,150	229,718,556	-0.01%	Total Number of Credit Unions	7,968	7,968	0.00%
Total Shares	691,766,240	691,726,634	-0.01%	# of FCU's	4,852	4,852	0.00%
Regular Reserve	19,332,869	19,272,091	-0.31%	# of SCU's - Federally Insured	2,952	2,952	0.00%
FASB 115 Valuation Reserve	(1,285,374)	(1,415,800)	10.15%	# of SCU's - Cooperatively Insured	164	164	0.00%
Undivided Earnings & Other Reserves	71,013,604	68,682,277	-3.28%	Members	89,899,599	89,897,193	0.00%
Total Reserves & Undivided Earnings	89,061,099	86,538,569	-2.83%	Employees	241,691	241,682	0.00%
Total Liabilities & Capital	825,812,751	823,622,835	-0.27%	Average Share Balance	7,695	7,695	0.00%
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NCUSIF – Part 4

September 2009

- NCUSIF Stabilization Income
 - Represents “the pass-back and recapitalization of your NCUSIF Deposit”
 - Some are forced to adjust in 2009 for an expense taken in 2008

- Net Stabilization Expense
 - YTD Stabilization Expense: \$2.56 billion
 - Sept Stabilization Income: \$3.00 billion
 - Net Expense: **(\$144 million)**



CREATING MEANINGFUL COMPARISONS



Income Measures

- ROA
 - Still useful when comparing CUs that all accounted for the stabilization expense in the same way
 - Some manual work necessary to determine these CUs
- Pre-Stabilization Expense ROA
 - Avoids annualizing NCUSIF expense
 - Some adjustments still necessary for CUs that accounted for the expense in Non-Operating Losses or Member Insurance Expense



Income Measures

- Core Earnings
 - Earnings from Operations
 - Eliminates external factors

- Calculation=

$$\frac{\text{Total Income} - \text{Operating Expenses} - \text{Interest Expense}}{\text{Average Assets}}$$



Member-Focused Metrics

- Average Member Relationship
- Loan Originations
- Loan-to-Share Ratio
- Product Penetration
- Dividends as a % of Total Income



ROM Scores

- Return to the Member Index
 - Savings
 - Lending
 - Service Usage
- Raw scores are given a percentile ranking based on the peer group you have selected



Questions?

Nick Connors

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