Second Quarter 2009 Planning Insights

OnBalance, A Service of Credit Union Resources, Inc.

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Planning Insights is a quarterly eNewsletter produced by OnBalance, a service of Credit Union Resources, Inc. Each issue contains asset group peer data for Oklahoma credit unions along with economic and planning insights to guide you toward fulfilling your credit union's Mission and Vision. We hope that our Insights will help you with your insights.

June 30, 2009	ROA	Net Worth	Loans / Shares	Del	NCO	Loan Yield	COF	Assets / FTE	Mbrs / FTE	NOER
Your Credit Union										
All in U.S.	0.28%	10.04%	77.48%	1.59%	1.16%	6.31%	1.88%	$3,674,693	379	2.40%
OK $0-$2M	0.31%	12.70%	83.36%	4.30%	3.34%	8.43%	1.68%	$1,250,744	498	3.47%
OK $2M-$5M	-1.93%	15.87%	55.33%	3.96%	1.73%	7.85%	1.51%	$1,500,478	358	3.43%
OK $5M-$10M	0.06%	14.12%	66.39%	1.28%	0.69%	7.73%	1.37%	$2,046,334	474	3.66%
OK $10M-$20M	0.29%	15.92%	59.58%	0.69%	0.81%	7.37%	1.39%	$2,474,900	502	2.99%
OK $20M-$50M	0.43%	11.14%	56.28%	1.07%	0.54%	7.33%	1.65%	$2,576,589	439	2.96%
OK $50M-$100M	0.60%	9.49%	67.86%	0.90%	0.97%	6.68%	1.48%	$2,395,208	359	2.76%
OK $100M-$250M	0.95%	9.40%	70.10%	0.82%	0.48%	6.36%	1.51%	$2,455,176	341	3.11%
OK $250M-$500M	0.89%	10.34%	65.17%	0.95%	0.55%	6.53%	2.00%	$3,057,639	348	2.46%
OK $500M+	1.14%	11.17%	71.41%	1.04%	0.83%	6.48%	1.99%	$3,882,338	366	1.87%

Get Back to Basics – Make Loans

Chip Filson, President, Callahan & Associates, describes credit union performance in the first half of 2009 as "Extraordinary Business as Usual." Well said Mr. Filson…

Over the twelve months spanning July 2008 through June 2009, credit unions have posted asset growth of 8.2%, share growth of 8.4%, loan growth of 4.1%, and new member growth of 1.9%. And, despite the effects of write-downs resulting from NCUA "stabilization" efforts, industry capital has GROWN 1.4% while credit unions have expanded branches by an additional 1%. Truly remarkable performance in an economic environment the likes of which this nation has not seen in almost 80 years.

That's the good news. The "even better" news is that there is evidence that the US is beginning to emerge from the recession, or a least we are at or near its bottom. Although unemployment is not expected to peak until sometime in 2010, job losses seem to be abating. Projections suggest that the gross domestic product (GDP) will return to positive territory later this year. And, homes are actually beginning to sell again.

Based on the theory that a rate increase could trigger an "echo" recession and the fact that the Fed has never increased interest rates while unemployment is growing, John Olivo, VP, Goldman Sachs Asset Management, projects that the Fed will maintain its 0-0.25% Fed Funds target rate well into 2010. No significant rate increase means no real threat of inflation in the foreseeable future. All told, the general economic consensus seems to be that recovery, although projected to be slow, is at hand.

So, what does that mean for credit unions?

Challenges will persist as credit unions continue to deal with the effects of NCUA stabilization assessments and Corporate membership capital write-downs. Implementation of additional provisions of the Credit Card Act of 2009 and potential new oversight stemming from the "new consumerism" could deal a blow to card interchange and courtesy pay income. Nobody said it would be easy…

But, disdain for banks is drawing people who have never considered a credit union to join the cooperative movement. Liquidity created by the recent inflows of new deposits presents a tremendous lending opportunity for credit unions as the country rebounds from recession and consumers begin to satisfy pent-up demand for goods and services. Reduce dependence on fee income by putting on your underwriting hat…

The Planning Horizon

By definition, a strategic plan establishes a mid-to-long term view of the direction the credit union should take to progress toward its Vision. Strategic thinking may be directed within a two, five, or even ten-year horizon but the generally accepted timeframe for strategic planning is two to five years with a minimum expectation of two to three years. Successive strategic planning time horizons become waypoints along a credit union's journey to attain its Vision. It should be noted, however, that a credit union's vision may change because of a variety of influences including, but not limited to demographic shifts, economic conditions, or a change in organizational philosophy.

The credit union's business (operational) plan is budget and capacity driven and is therefore generally aligned within a time horizon of one year. Strategies and tactics (actions plans) are formulated (generally by management) and deployed to achieve benchmark steps toward attaining objectives defined in the strategic plan.

Responsibility for successful implementation of tactical action plans is typically assigned to an organizational leader for whom it becomes a personal performance criterion for a calendar year. The outcomes of individual tactical action plans combine to define annual business plan and budget success / failure.

Balance Sheet Insights

The second quarter of 2009 brought some good news and another challenge to credit unions. Credit unions were allowed to offset their NCUSIF write-down with a return of capital, referred to by regulators as a "passback." The "passback" allowed credit unions to expense only the September NCUSIF premium accrual, resulting in a significant boost to earnings at the end of the second quarter.

But, we're not without our challenges. Assets are growing at an alarming pace. A majority of credit unions have lowered share and CD rates to historic lows. But, as deposits continue to flow in and assets rise, earnings decline, net worth ratios deteriorate, and loan mix degrades, forcing more reliance on investment income and fees to support operations.

Some credit unions have been reluctant to reduce share and certificate rates below a perceived floor, which raises two questions: Can the credit union afford the expense? Can the credit union afford the negative impact on net worth and loan mix resulting from rapid asset growth? The answer is "Yes" and "No." Credit unions continuing to pay above market dividends often CAN afford the expense. But, in the long term, they cannot afford the negative impact on net worth and loan mix.

A healthy balance sheet is in members' best long-term interest. If your credit union is growing too rapidly, lowering dividends is an appropriate action. Make certain a review of dividend rates is a main agenda item at your next ALCO meeting.

OnBalance provides strategic planning facilitation, training and consulting services designed exclusively for credit unions. For more information, visit our web site at http://www.curesources.coop/OnBalance.html.