

# First Quarter 2009 **Planning Insights**

OnBalance, A Service of Credit Union Resources, Inc.

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## Introducing Planning Insights

Welcome to the first issue **Planning Insights**, a quarterly eNewsletter produced by OnBalance, a service of Credit Union Resources, Inc. Each issue will contain asset group peer data for Texas 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.

March 31, 2009	ROA	Net Worth	Loans / Shares	Del	Net Charge-Off	Loan Yield	Cost of Funds	Assets / FTE	Mbrs / FTE	NOER
All in U.S.	-0.40%	9.71%	78.00%	1.44%	1.11%	6.36%	1.97%	\$3,603,562	375	2.46%
<b>TX 0 - 2M</b>	<b>-0.52%</b>	<b>18.21%</b>	<b>72.76%</b>	<b>2.92%</b>	<b>0.63%</b>	<b>8.44%</b>	<b>1.34%</b>	<b>\$983,906</b>	<b>386</b>	<b>4.17%</b>
TX 2M - 5M	-0.18%	18.31%	69.62%	2.28%	0.61%	8.17%	1.38%	\$1,655,378	415	3.75%
<b>TX 5M - 10M</b>	<b>-0.22%</b>	<b>15.66%</b>	<b>64.60%</b>	<b>1.50%</b>	<b>0.52%</b>	<b>8.00%</b>	<b>1.66%</b>	<b>\$2,232,360</b>	<b>434</b>	<b>3.39%</b>
TX 10M - 20M	-0.27%	15.10%	62.64%	1.56%	0.76%	7.90%	1.52%	\$2,307,049	407	3.32%
<b>TX 20M - 50M</b>	<b>-0.05%</b>	<b>12.62%</b>	<b>65.79%</b>	<b>1.08%</b>	<b>0.68%</b>	<b>7.66%</b>	<b>1.54%</b>	<b>\$2,203,118</b>	<b>373</b>	<b>3.22%</b>
TX 50M - 100M	-0.32%	10.85%	66.25%	1.31%	1.75%	7.38%	1.63%	\$2,220,178	342	3.17%
<b>TX 100M - 250M</b>	<b>-0.04%</b>	<b>10.32%</b>	<b>71.53%</b>	<b>0.93%</b>	<b>0.87%</b>	<b>7.06%</b>	<b>1.72%</b>	<b>\$2,495,866</b>	<b>337</b>	<b>2.90%</b>
TX 250M - 500M	0.03%	10.27%	72.45%	0.70%	0.87%	6.86%	1.78%	\$2,777,840	362	2.58%
<b>TX 500M - 1B</b>	<b>0.26%</b>	<b>8.71%</b>	<b>72.84%</b>	<b>0.91%</b>	<b>0.84%</b>	<b>6.54%</b>	<b>2.04%</b>	<b>\$3,517,202</b>	<b>361</b>	<b>2.25%</b>
TX 1B +	0.37%	8.13%	82.78%	1.87%	0.74%	6.08%	2.08%	\$4,357,633	419	2.00%

### Things Are Starting to Look Up

For now, the near-term outlook for credit unions appears to be mixed. The Housing Bill signed into law by President Obama on May 20 should provide some relief from NCUA corporate stabilization assessments thereby helping protect credit union net worth but there's no question that ROA is hard to come by. On the other hand, the credit union industry is experiencing robust deposit, loan and membership growth. Credit unions with efficient work processes and high performing loan portfolios are posting a good (pre-assessment) return on assets. Credit unions with loan quality challenges and / or high operating expense are struggling to make ends meet.

The good news is that there are signs the Great Recession may be nearing a bottom. The stock market has posted

impressive gains since mid-March, housing inventories are beginning to decline, and pending home sales took a giant leap forward in April.

The bad news is that unemployment continues to climb. It's anticipated that employers will cautiously begin to add employees only after sustained gains in consumer spending and the housing markets are realized. And, the Chrysler and GM bankruptcies will undoubtedly add to an already bleak unemployment picture. Joblessness is expected to continue to increase well into 2010 when it is projected to peak somewhere in the realm of 10%.

During the Callahan & Associates First Quarter 2009 Trendwatch webinar on June 4, Goldman Sachs' John Olivo projected that the Fed will not tighten in 2009 or 2010. The prevailing assumption is that there is less downside to leaving

rates near their current level than raising rates too soon or too quickly so Goldman Sachs predicts that the Fed will be looking for stability in employment, housing, and the financial markets before making any significant interest rate moves.

So, the Great Recession may be about to hit bottom but recovery will be slow and inevitably contain some pitfalls. The best news is that consumer confidence in commercial banks continues to decline and credit unions have been more widely recognized as a viable financial alternative. The resulting growth in membership and deposits should position credit unions to be on the forefront of lending activities as consumers move to satisfy recession suppressed needs – there will undoubtedly be lots of Texans in need of new pickup trucks as things improve. Credit unions should be ready...

### Strategic vs. Business (Operational) Planning

Although closely linked, "strategic" and "business" plans are distinctly separate by virtue of each plan's time horizon and focus. The strategic plan defines **WHERE** the credit union is headed and describes **WHAT** the end result of the organization's efforts will be in alignment with the organization's Mission and Vision. A strategic plan should establish critical performance areas and create objectives to progress toward fulfilling the Mission and Vision.

Once strategy is clearly defined, the credit union can move into the process of defining a business (operational) plan and ultimately an operating budget. The credit union business plan is generally a product of senior leaders and managers. But, based on the credit union's charter (state or federal) and size, business plan development may involve a variety of volunteers including directors and/or committee members in addition to paid staff.

The business (operational) plan defines **HOW** the credit union will achieve its strategic objectives, **WHO** is responsible for making each action happen, and **WHEN** the activity will be completed. Business plan discussions focus on the credit union's operational and intellectual capabilities, capacities, and budgets. Strategies and tactics created in business (operational) planning must support strategic objectives and lead to an outcome that is aligned with the credit union's Mission and Vision.

### Balance Sheet Insights

As the current economy continues to place challenges in our path, there are things we want to pay close attention to on our balance sheets. With delinquencies and charge-offs trending upward we certainly want to monitor our Allowance for Loan and Lease Losses (ALLL) account, maintaining an adequate percentage of the loan portfolio available for possible losses. According to 1<sup>st</sup> quarter peer data, ALLL as a percentage of delinquencies has trended downward while delinquencies have trended upward. This may indicate that we are slow in responding to funding our ALLL accounts.

Liquidity for most credit unions is elevated. It's important that we evaluate liquidity needs and utilize the yield curve to enhance return on investments. It may be possible to extend maturities on investments out to 18 – 24 months to earn 100 basis points better than overnight funds. Of course, laddering those investments would be a must.

Fee income seems to be trending downward as consumers become more frugal with their money. What may have been a way of life in the past has changed as consumers have become more cognizant of where their money goes. By offsetting operating expenses, fee income has become a critical component of the income statement. As fee income trends downward it is being reflected in higher NOER (Net Operating Expense Ratios) and declining ROAs (Return on Assets).

**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>.