

# The Financial Crisis and the Challenge Ahead for Credit Unions

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November 19, 2008

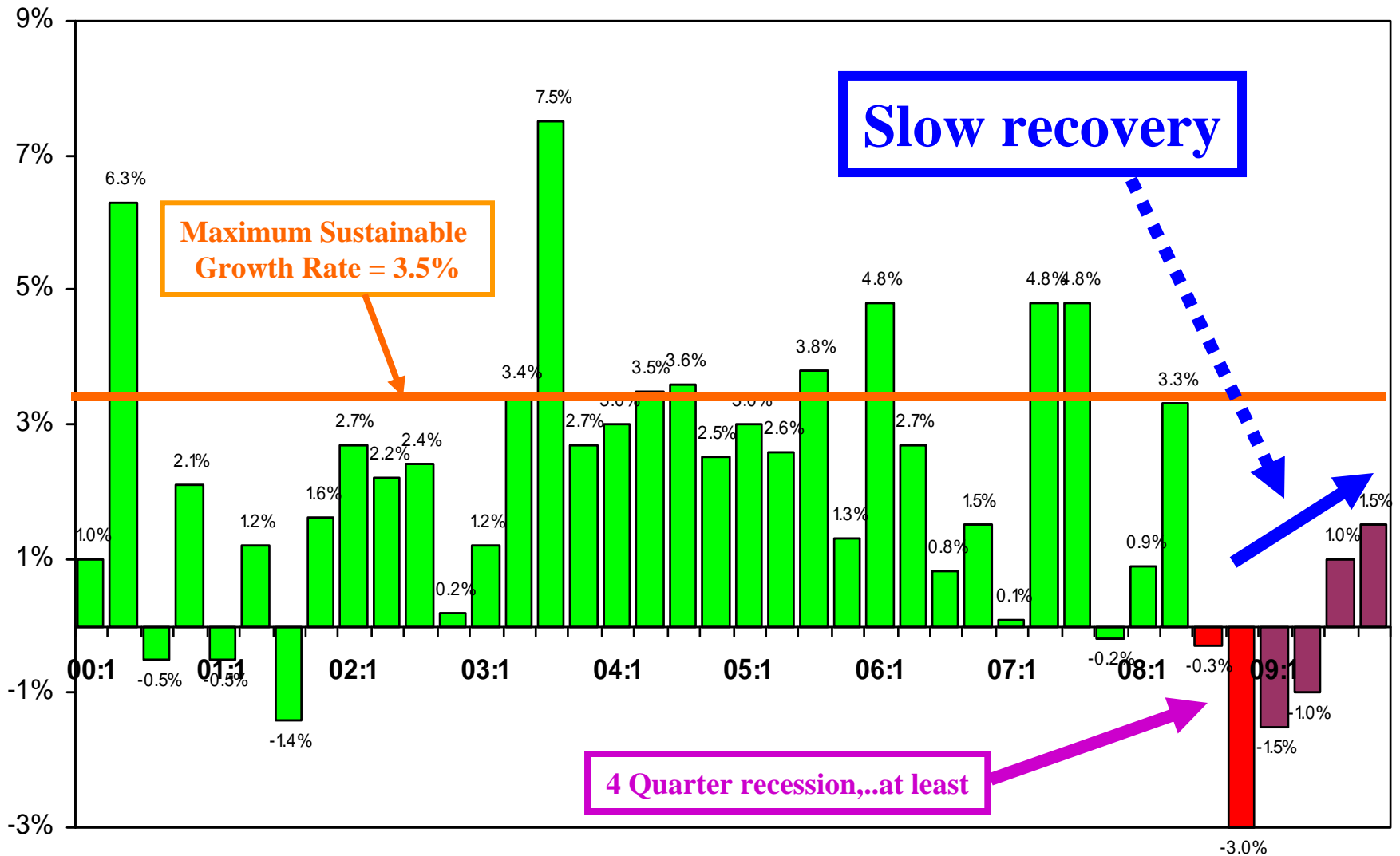


# Recent Economic Trends

1. Two fears hang over the U.S. economy, wrenching recession and spiraling deflation.
2. The deleveraging (flight from debt, dash for cash) and reckoning process (bankruptcies and foreclosures) has begun.
3. Banks, MMMF and households are hoarding resources amid concerns about health (liquidity and solvency) of trading partners.
4. The Federal Reserve is easing monetary policy to liquefy the banking system and monetize the recession.
5. The government is implementing a major policy regime shift.
6. Credit unions are well positioned to “ride the storm out”.

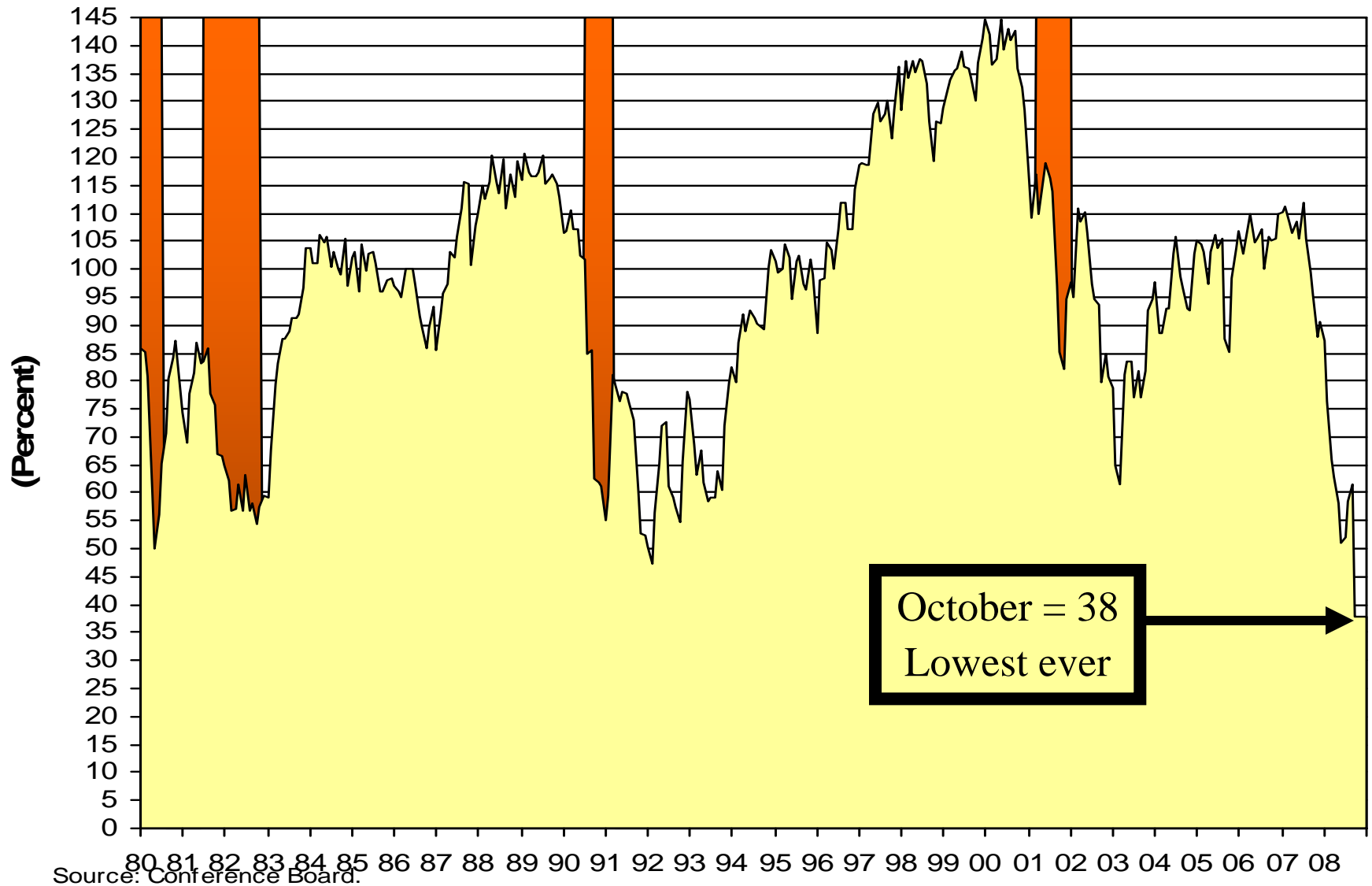
# Quarterly % Change in U.S. Economic Output

(Real GDP - Chainweighted 2000\$)



Source: Department of Commerce.

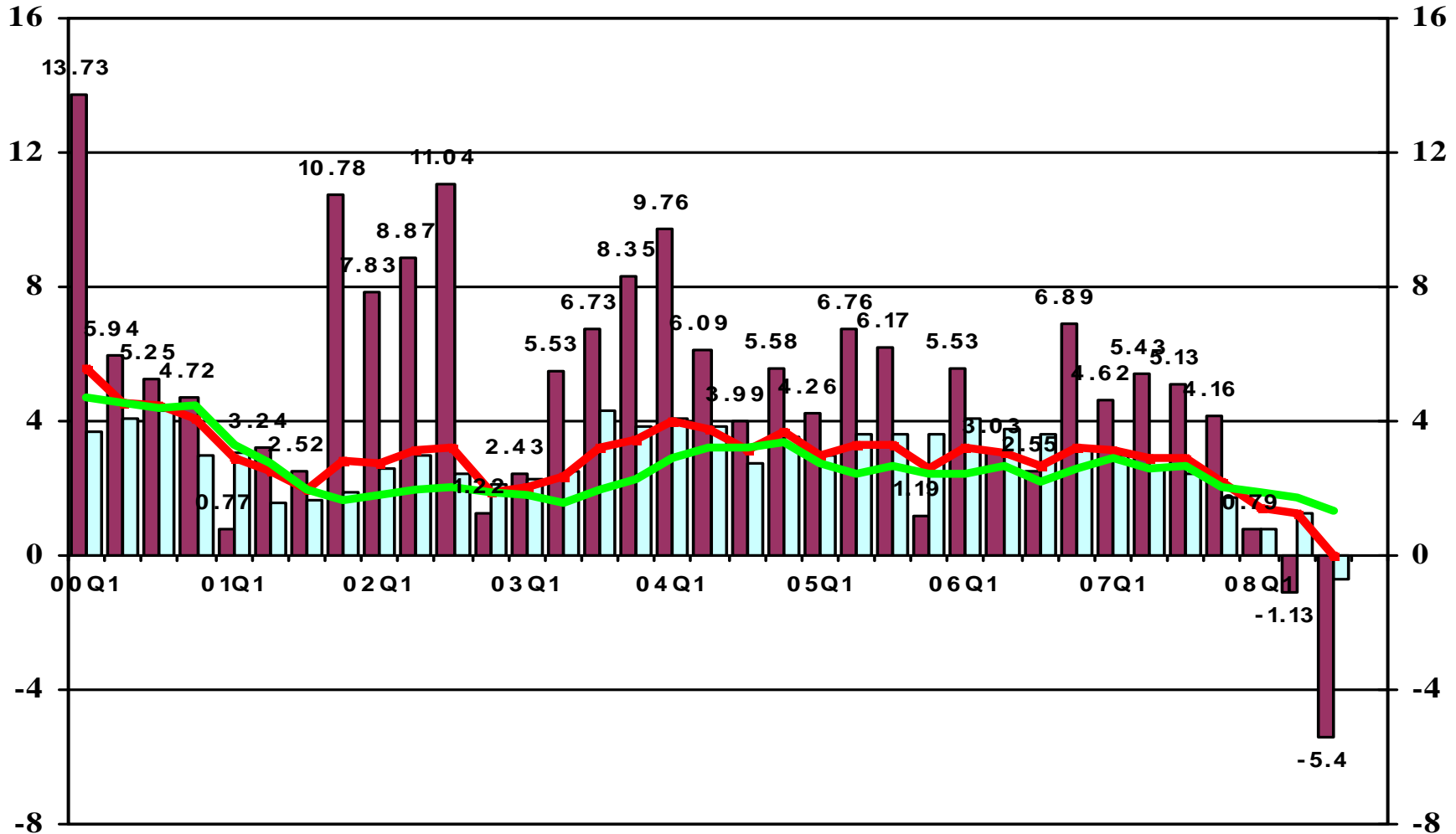
# Consumer Confidence



Source: Conference Board.

# Real Personal Consumption Expenditures

(% chg from quarter one year ago)



**Durable**

**Nondurable**

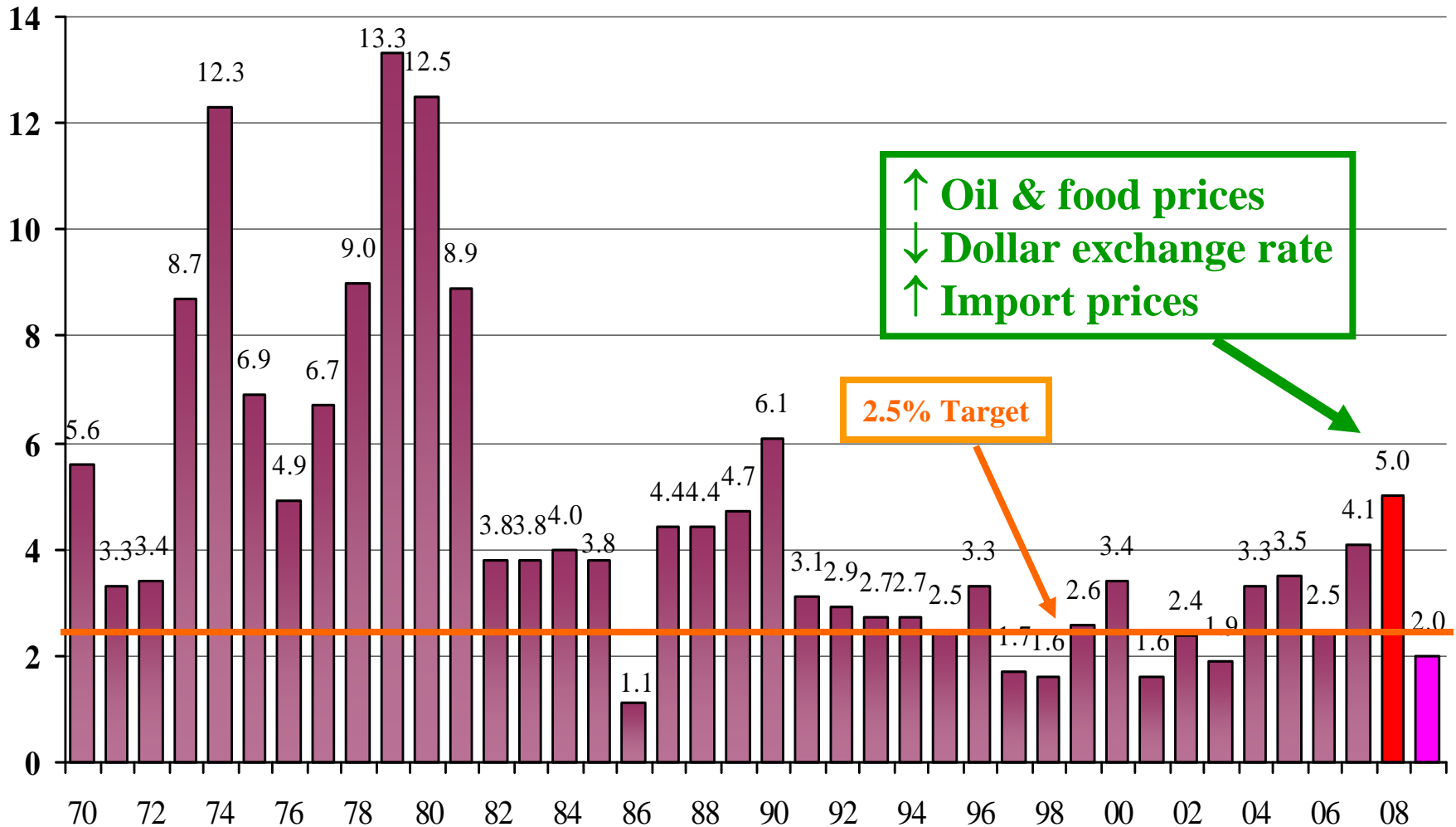
**Total**

**Services**

# Consumer Price Index

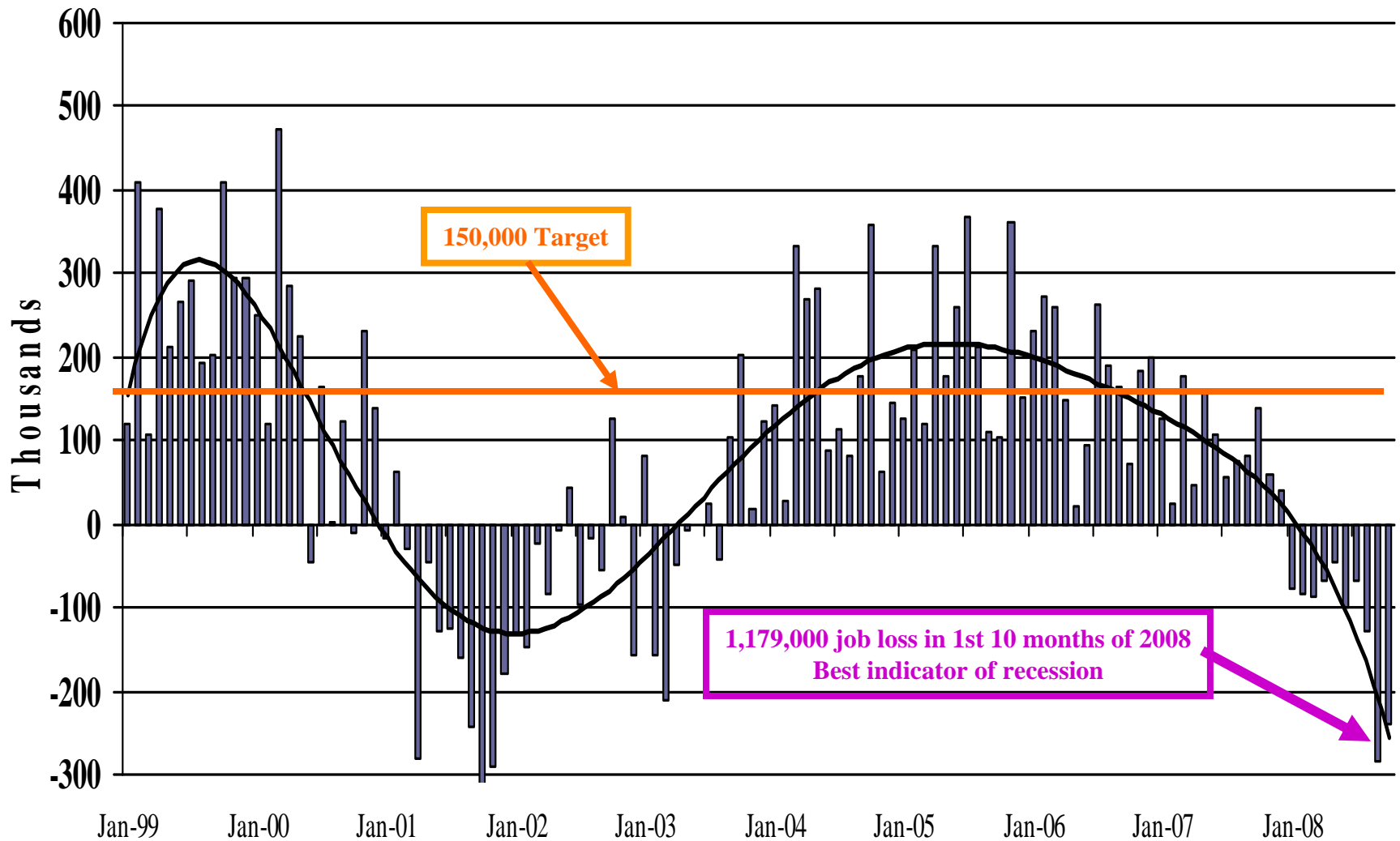
## 1970 to Present

Annual Percentage Change



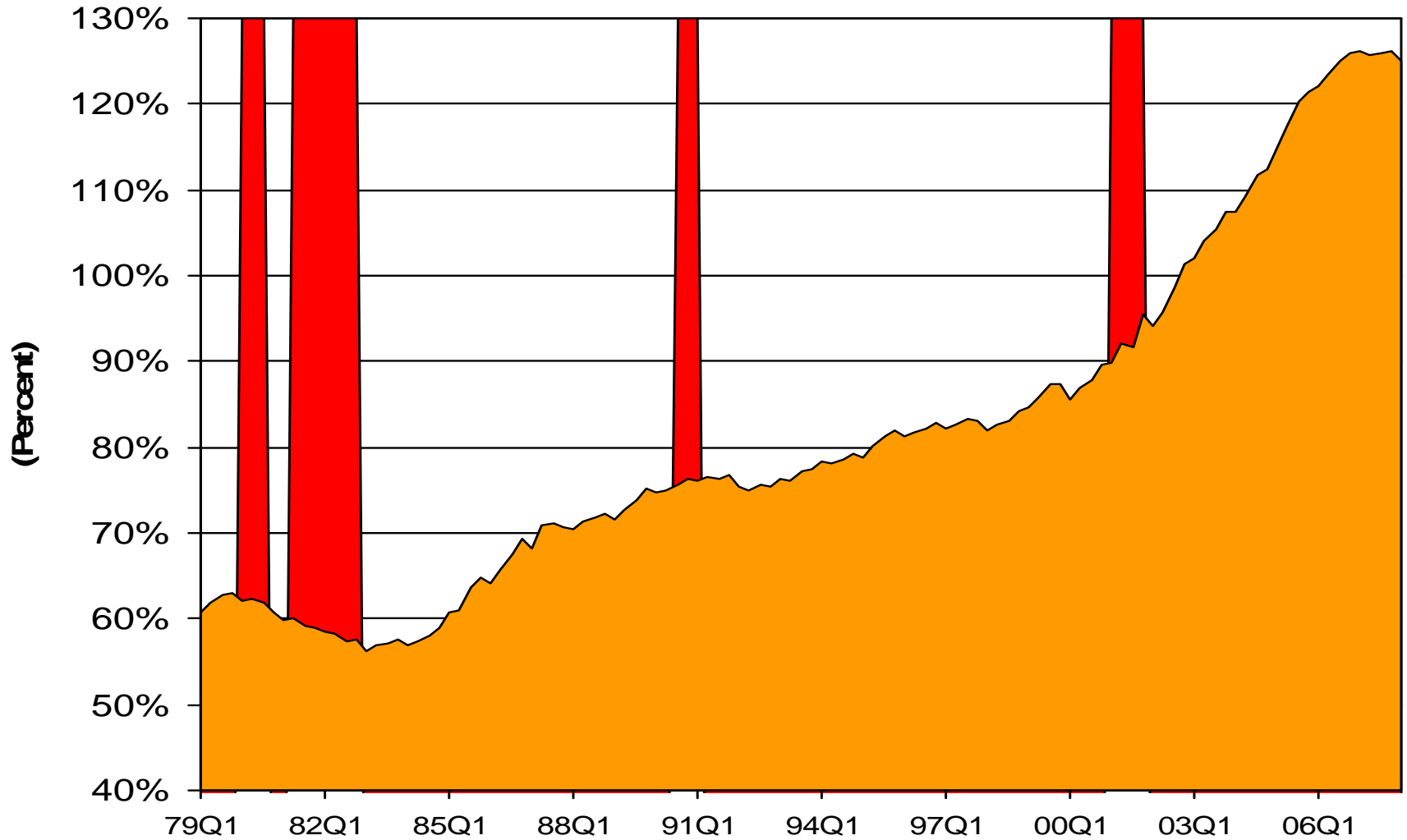
# US Payroll Employment

## Monthly Changes SA



# Household Debt

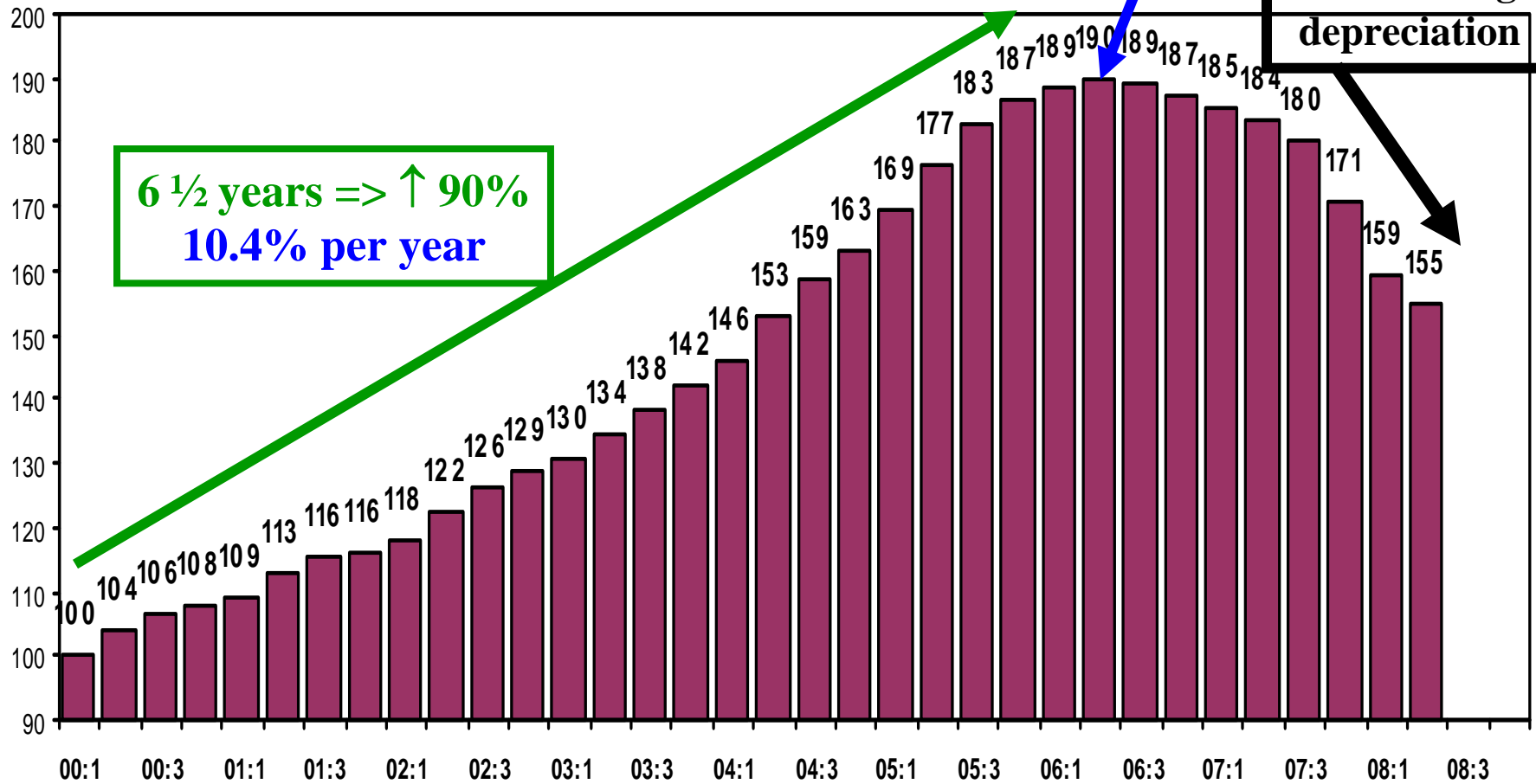
(As a Percent of Disposable Household Income)



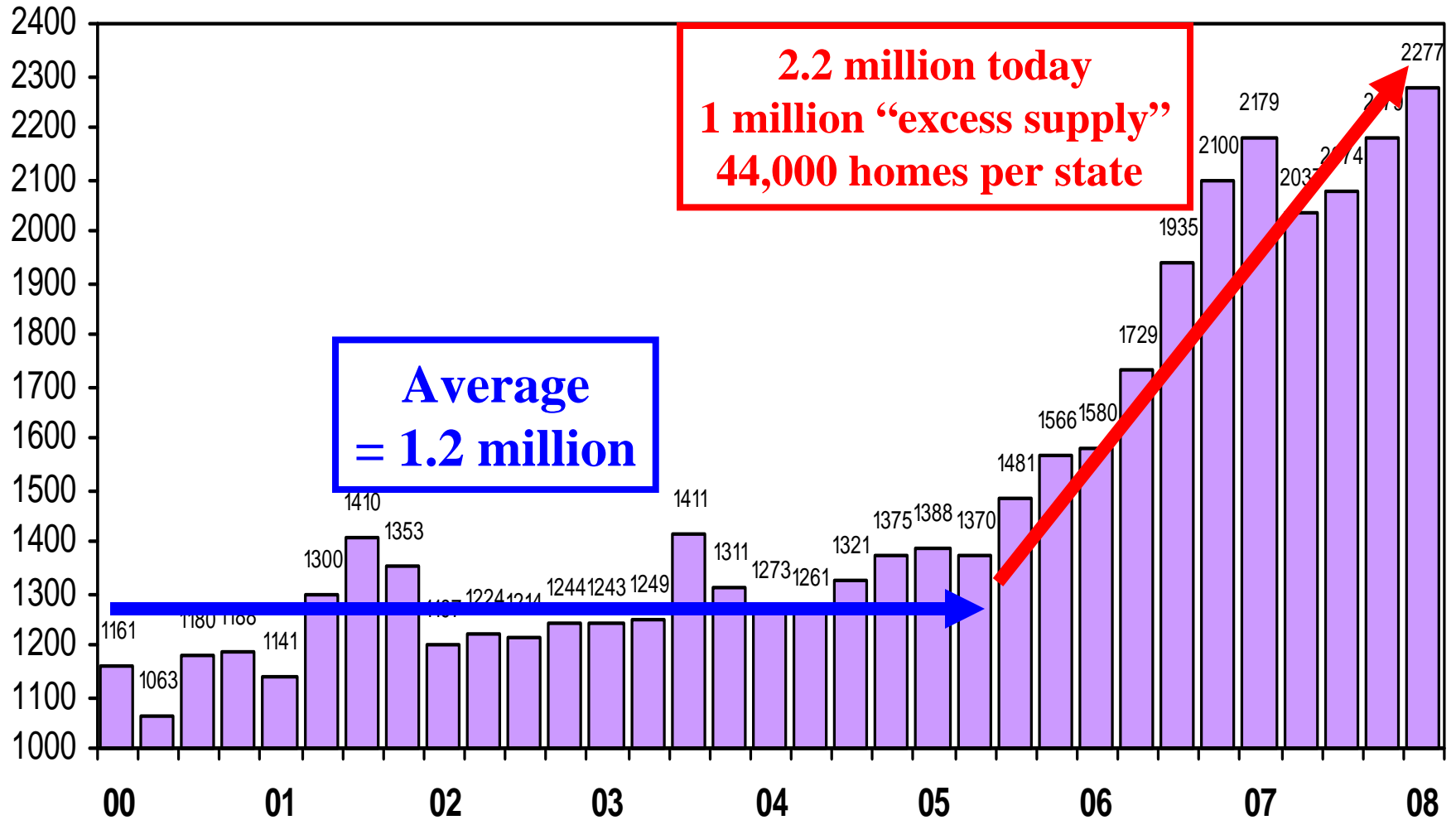
Source: Department of Labor & Federal Reserve.

# U.S. Home Prices

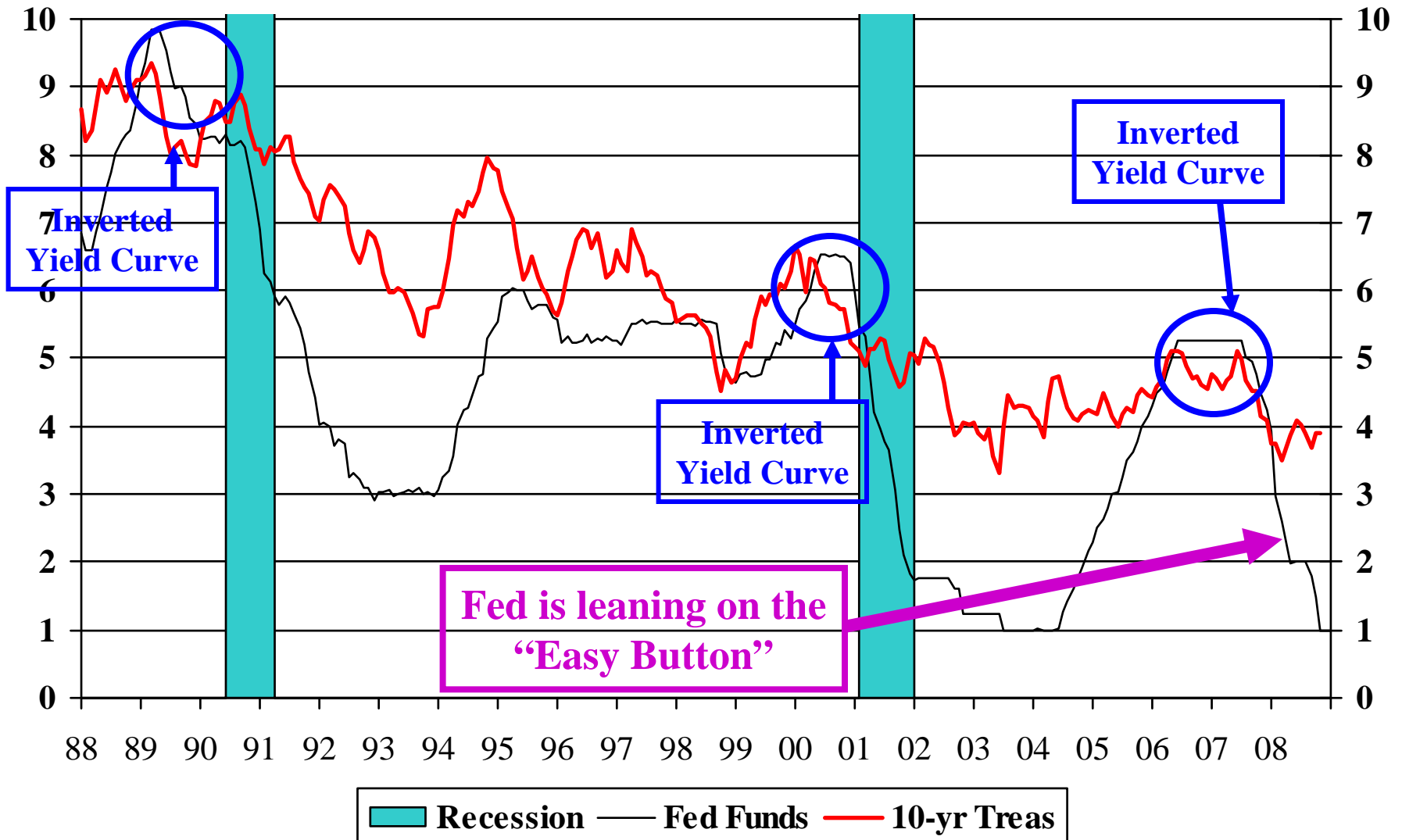
## S&P/Case-Shiller National Index



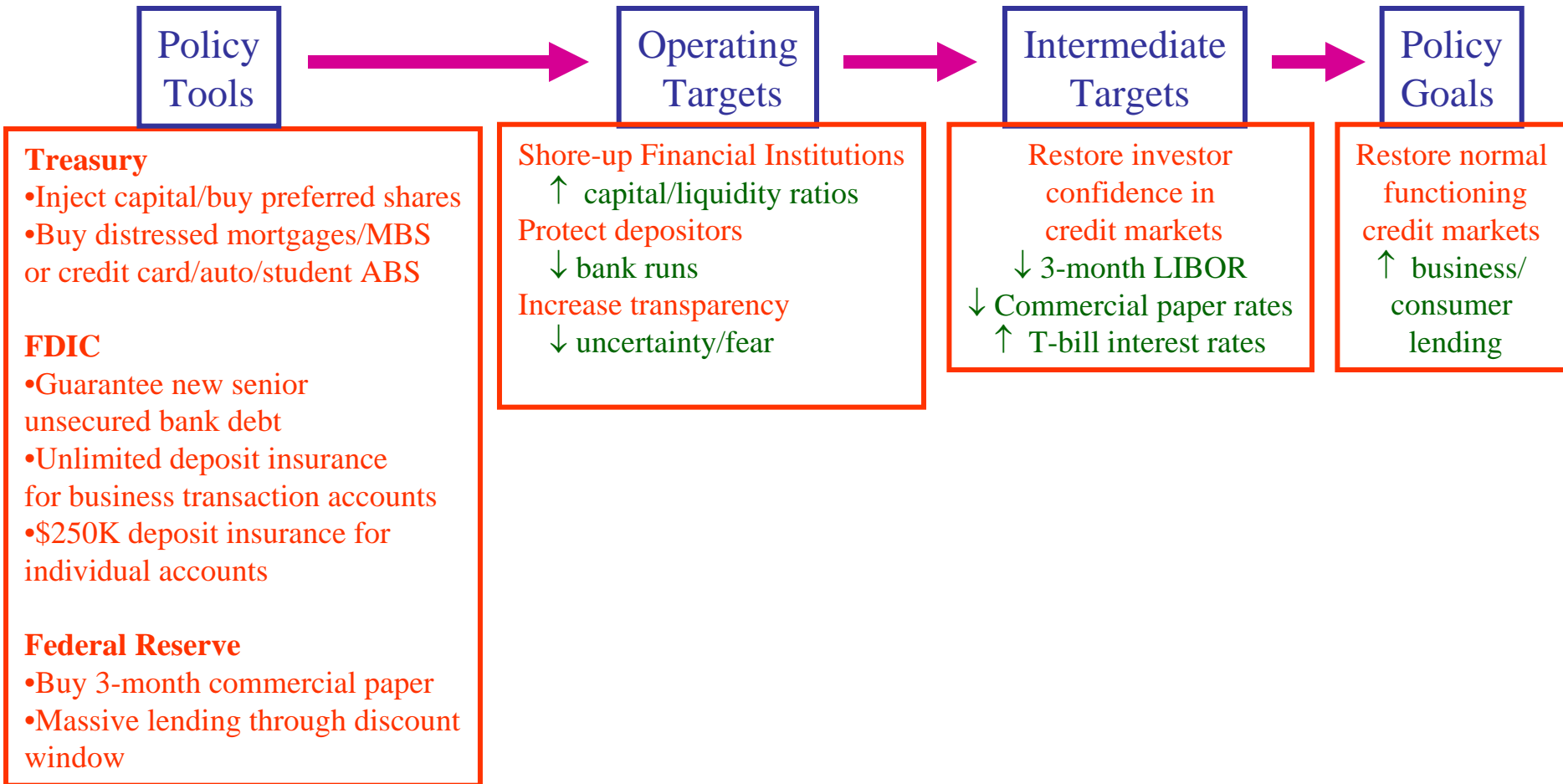
# Total Vacant Housing Units For Sale



# Interest Rates and Recessions 1988-2008

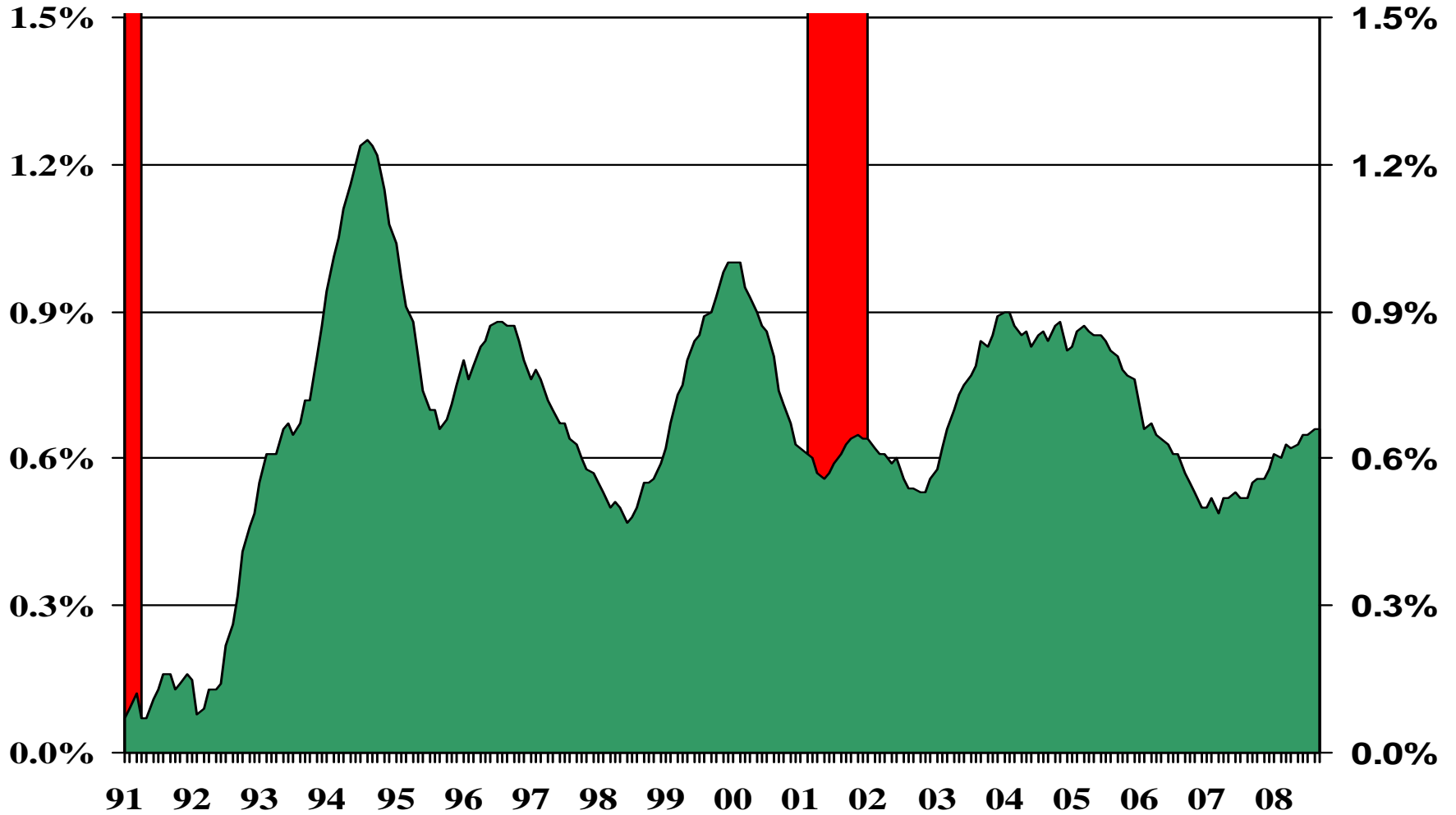


# Government Intervention to Solve the Credit Crisis



# CU Loan Growth

Monthly Growth



Source: CUNA's E&S

**Strength of the CU Cooperate Model  
to Deal with  
Credit & Housing Crisis**

# CU Balance Sheet

(% of Assets)

## Assets

Cash (1%)

Investments (25%)

Loans (70%)

Consumer (30%)

Mortgage (36%)

Business (4%)

Building (4.6%)

## Liabilities + NW

Deposits (84%)

Share Draft (10%)

Regular Share (23%)

MMA (15%)

CDs (29%)

IRAs (8%)

Borrowings (4%)

Net Worth (11.4%)

$$\begin{aligned} \text{YOA} & - \text{COF} = \text{NIM} \\ & + \text{Fee/Other Inc.} \\ & - \text{Operating Exp.} \\ & - \text{PLL} \\ & = \text{Net Income} \end{aligned}$$

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Limited credit risk exposure

No short-term stockholder pressure

# The 111<sup>th</sup> Congress

- **House of Representatives**

- 256 Democrats
- 176 Republicans
  - 3 Races Undecided

- **Senate**

- 55 Democrats
- 40 Republicans
- 2 Independents
  - 3 Races Undecided/Run-offs

# Other Factors

- **Blue Dogs: 48**
  - 4 new freshman members
- **New Democratic Coalition: 72**
  - 16 new freshman members
- **Republican Study Committee: 88**
  - 15 new freshman additions
- **Main Street Partnership: 29**

# Lame Duck Session

- Congress has reassembled for a lame duck session
  - Economic Stimulus Legislation
  - Auto Industry Bailout
  - Unemployment Benefits
- Enactment of significant legislation is unlikely during this session due to the narrow majority in the Senate and opposition from the White House.

# Agenda for the 111<sup>th</sup> Congress

Advocate for legislation that enables credit unions to serve their members even better.

- Capital Reform
- Business Lending
- Underserved Field of Membership

# Agenda for the 111<sup>th</sup> Congress

Instead of a broad industry bill, the focus will be on getting smaller bills through the process and attaching our priorities to other bills that Congress “must pass.”

- Capital Reform / Regulatory Restructuring
- Business Lending / Economic Stimulus

Our focus will be on making our issues relevant to the debates and discussions going on in Congress.

# Agenda for the 111<sup>th</sup> Congress

The Congressional Agenda in the next Congress includes many issues that could adversely affect the way credit unions and other financial institutions operate:

- Regulatory Restructuring
- Interchange Fees
- Credit Card Billing Practice Reform
- Overdraft Protection Reform
- Usury Ceiling Legislation
- Bankruptcy Reform
- Community Reinvestment Act
- Taxation

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