

# Impact of Recent Economy on Credit Unions

Central Minnesota Chapter  
of  
Credit Unions

Chapter Meeting  
Thursday, March 11, 2010  
Eagles Club, St. Cloud, MN

NOTICEABLY DIFFERENT

**LarsonAllen**  
LLP  
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# How We Got Here

**Aggressive Underwriting**

**Perception that RE Values only Go Up.**

# What has Happened

## **Foreclosures**

- **Monthly ranged from 808-1,111 in January to July 2007 (Statewide)**
- **Peaked at 4,125 in July of 2009**
- **2,813 for January 2010, Stearns Co. had 56, St. Cloud had 33**
- **Delinquencies followed a similar trend**
- **Unemployment**
- **Issues are more problematic for urban vs. rural areas**

# Auto Industry Collapse

- **GM and Chrysler filed bankruptcy**
- **Vehicle values dropped**
- **Dealerships struggled**
- **Losses on Repos Increased**

# Fed Reserve Cutting Interest Rates

- **Investment Yields have Tanked**
- **Cost of Funds are Low**
- **Opportunity for FI's to Earn Their Way Out**
- **Individual Depositors are Carrying the Load**

# Changing Environment for Other Income

- **New Reg E rules on overdraft services and charging of fees**
- **New credit card regulations**
- **Changes in interchange revenue volume**

# Corporate Credit Union Losses and NCUSIF

- **US Central**
- **WesCorp**
- **Members United**

# Impact of Recent Economy on Credit Unions

- **Financial**
  - **Narrowed interest margin**
  - **High loan losses**
  - **Historical loan loss model largely irrelevant for estimating the ALL**
  - **Decreased overdraft and credit card income**
  - **Potential for mortgage origination income**
  - **NCUSIF premiums**
  - **Losses on Regulatory Capital at Corporates**
  - **Record negative ROAs**
  - **Reduced equity**

# Impact of Recent Economy on Credit Unions (Continued)

- **Operational**
  - **Reduced staffing**
  - **Outsourced assistance to assess loss exposure on RE portfolios**
  - **Reduced programs and/or services**
  - **Delayed implementation of services**
  - **Delayed expansion of facilities**
  - **Increased focus on loan work-outs**
  - **Increased value of collections activity**

# Impact of Recent Economy on Credit Unions (Continued)

- **Regulatory**
  - **Tightened oversight**
  - **Increased potential for friction**
  - **Focus on “safety and soundness”**

# Impact of Recent Economy on Credit Unions (Continued)

- **Congress**
  - **Consumer oriented legislation**
  - **Consideration of increased oversight**

# Impact of Recent Economy on Credit Unions (Continued)

## Market Place Reputation

- **Worst of Times**
  - **Some Regulator-encouraged Mergers**
  - **Negative front page articles**
- **Best of Times**
  - **Endorsement of value of being a CU member**
    - ◇ **TV Investment/Money Commentators**
    - ◇ **Business articles**