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Key Issues Dialogue Small Asset-size CUs (CUs \$70 million & below)

Presented by Drew Egan
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MCUL & Affiliates

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Session Agenda

- Environmental Scan Framework
- Issue Summary - Four Key Areas
 - 10 minutes of presentation on each issue
- Dialogue on each key issue
 - 15 minutes of dialogue on each issue

Environmental Scan Framework

➤ Top Ten Insights

1. Shrinking Middle Class
2. Economic Recovery
3. Unemployment
4. Lending
5. Mortgages
6. Earnings
7. Bank backlash
8. Compliance
9. Corporate Restructure
10. Credit-impaired

➤ 9 Areas of Focus

1. Plight of Middle Class
2. Demographics
3. Economics
4. Marketing
5. Lending
6. Financial Literacy
7. Digital Transformation
8. Human Resources
9. Legislation/Regulation

Environmental Scan Boiled Down

➤ For the purpose of this dialogue session we have summarized each insight and key area into four main categories:

The Economy

Marketing/Growth

Legislative & Regulatory

Earnings

Environmental Scan Framework

Overview

The environmental scan is designed to:

1. Break the marketplace down according to the segments described above
2. To provide a brief snapshot of trends by segment
3. To address associated implications.

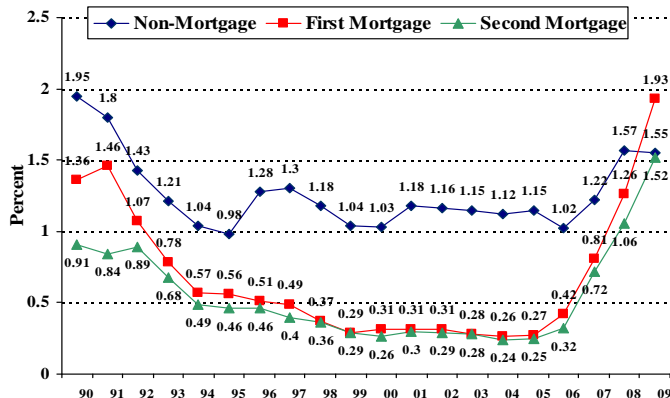
In each section we will provide some background and charts, summarize the findings and then open it up for dialogue with a few discussion-starter questions in each section.

Issue One – The Economy

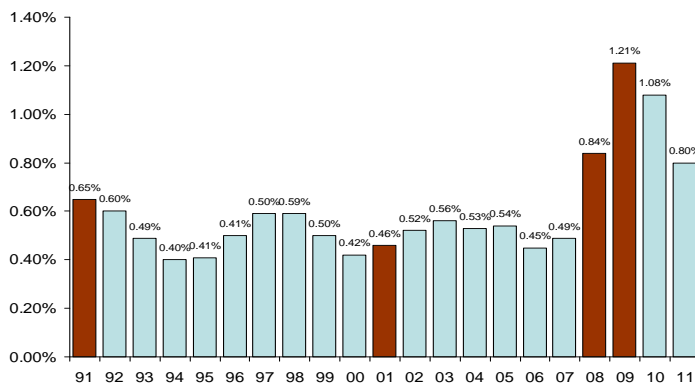
Primary effects of the economy on Credit Unions

- *Increased delinquency*
- *Increased bankruptcy and charge-offs*
- *Slower loan growth*
- *Shrinking margins*

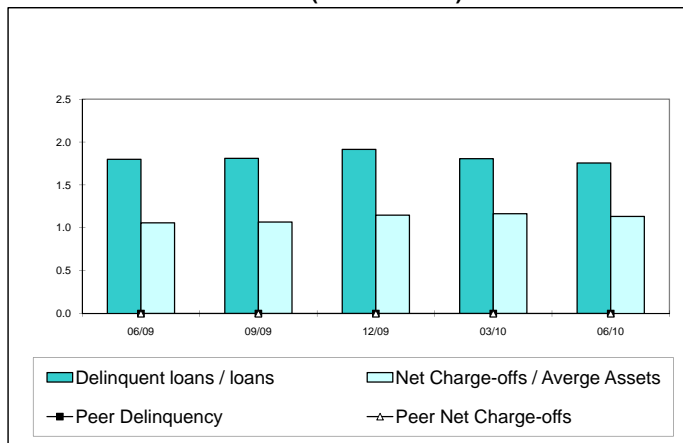
CU Mortgage Delinquency Rates Mortgage & Consumer Loans



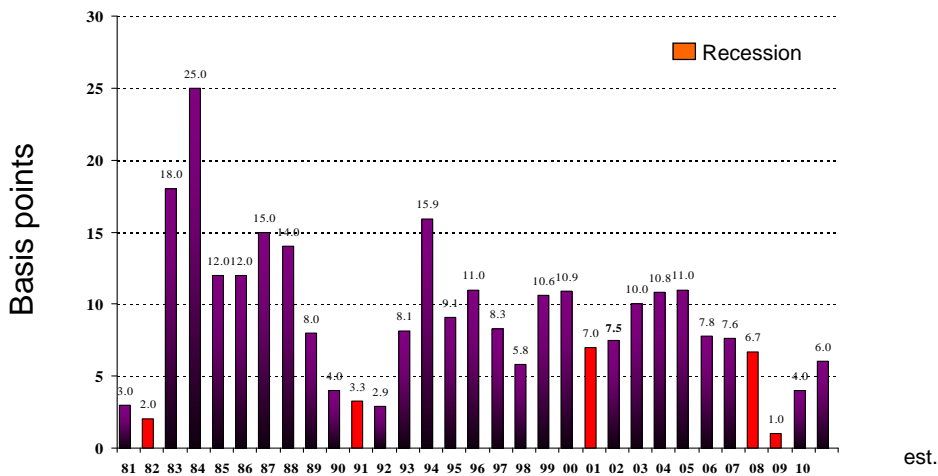
CU Net Charge-off Rates (Loans Charged Off Net of Recoveries as % of Average Loans)



MI CU Delinquency & Charge-offs All Loans (as of Q2 2010)

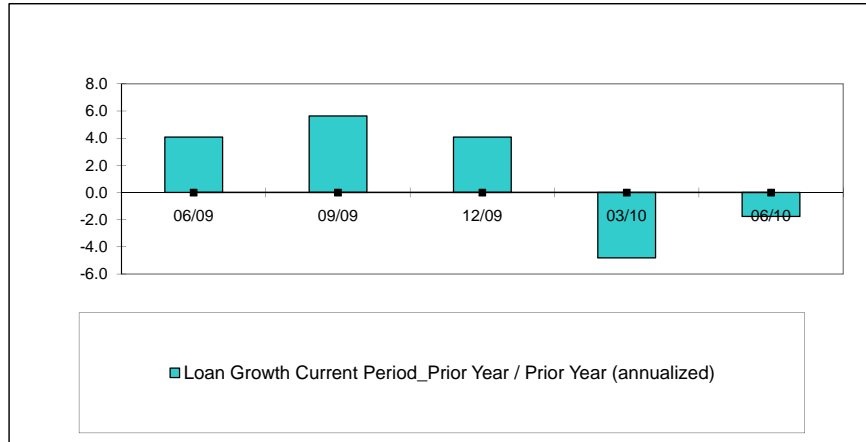


U.S. Credit Union Loan Growth



Source: CUNA economics & statistics

MI Credit Union Loan & Share Growth (as of Q2 2010)



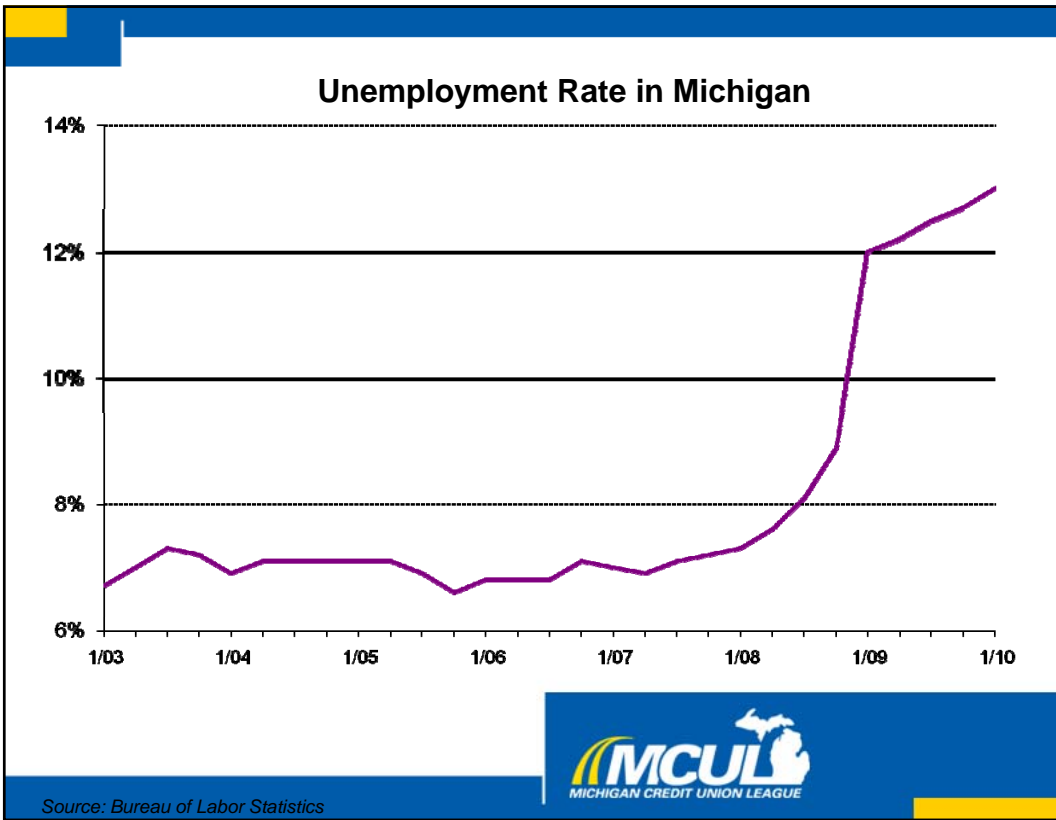
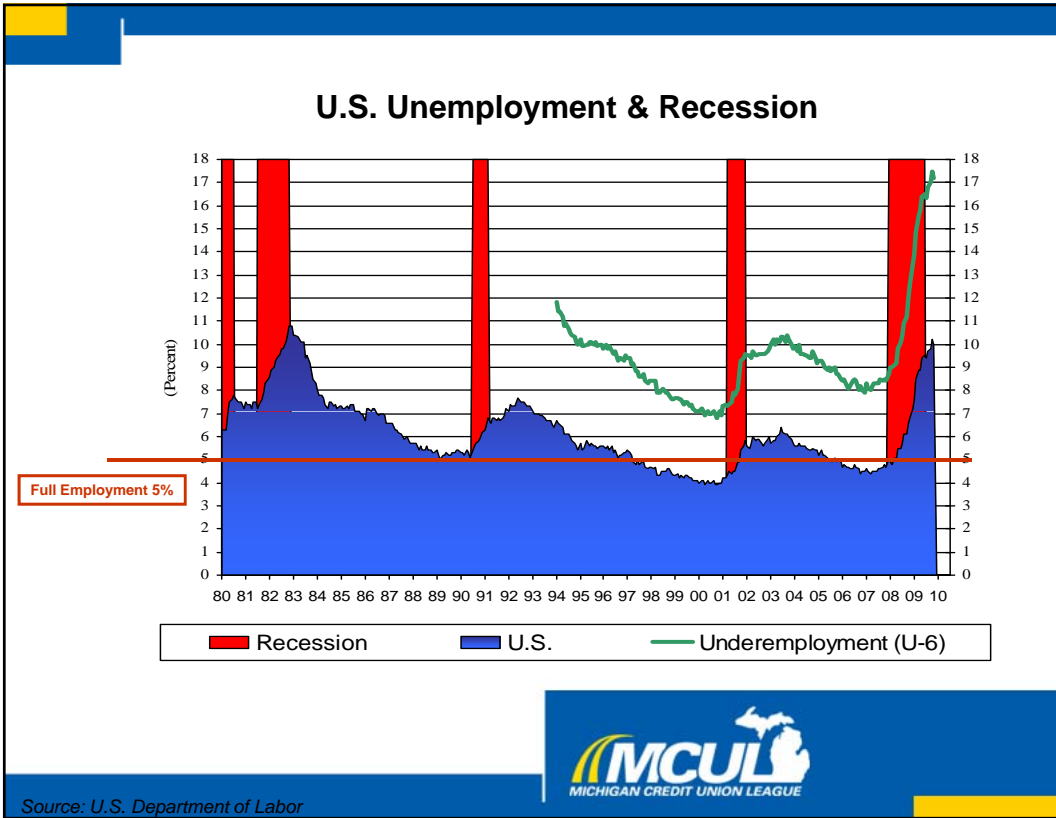
Source: CUNA economics & statistics



U.S. CU Outlook

CU outlook	Five-year average	2009	2010	2011
Savings growth	5.9%	10.6%	8.0%	6.0%
Loan growth	6.8	1.0	4.0	6.0
Asset growth	6.3	8.8	7.0	6.0
Membership growth	1.4	1.5	1.5	1.5
Loan-to-share ratio	79.9	78.0	75.3	75.3
Delinquency rate	0.94	1.61	1.93	1.60
Net charge-off rate	0.71	1.21	1.08	0.80
Return on average assets (ROA)	0.49	0.15	0.40	0.60
Net worth ratio	10.9%	9.9%	9.6%	9.6%





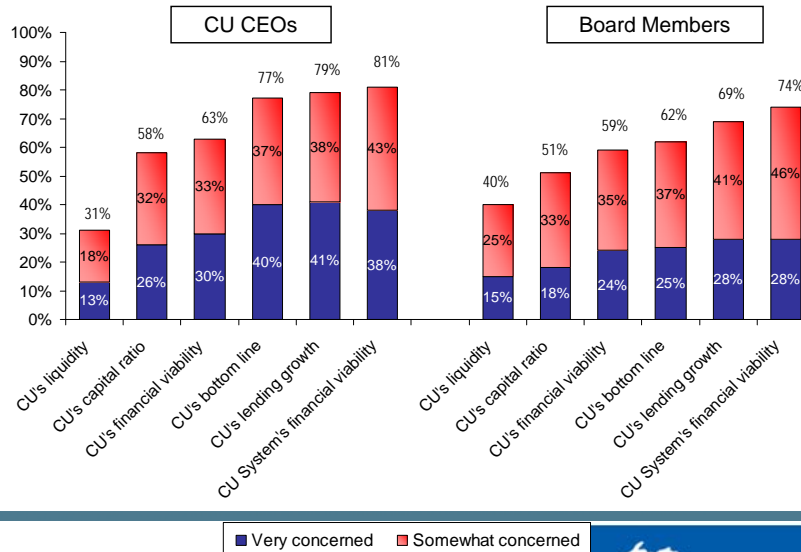
U.S. Economic Forecast

Economic forecast	Five-year average	2009	2010	2011
Economic growth (% change in GDP)	1.2%	-2.4%	3.0%	3.0%
Inflation (% change in CPI)	2.5	2.8	2.0	2.5
Core inflation	2.1	1.8	1.5	2.0
Unemployment rate	5.9	9.3	9.5	8.5-9
Fed-funds rate average	3.06	0.16	0.23	1.5
10-year Treasury rate average	4.13%	3.28%	3.93%	4.50%

* MI Unemployment is 13.1% in July 2010 (michigan.gov)



Concern Over Economic Issues Impacting Credit Unions





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Economic Highlights

- *The collapse of home prices and the eroding sense of job security will change how consumers spend, save, and manage debt.*
- *The economy will move to a self-sustaining, subdued recovery in 2010 and continue to expand in 2011, with a 3% growth rate for both years.*
- *Inflation isn't an imminent threat. But it remains a risk three to five years from now.*



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Economic Highlights

- *Expect loan growth to be 4% in 2010 and 6% in 2011, below its recent five-year average of 6.8%. Loan delinquency rates will remain above 1.9% in 2010 and fall below 1.6% in 2011.*
- *Earnings will improve during the next two years. The average return on assets is expected to recover to 40 basis points (bp) in 2010 and 60 bp in 2011.*



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Key Economic Discussion Questions

- *What are credit unions doing differently to survive these tough economic times?*
- *What innovations are you pursuing to deal with the foreclosure and housing crisis?*
- *What are credit unions doing to come out of this recession in a stronger position?*
- *What PR/Service opportunities exist?*



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Key Economic Discussion Questions

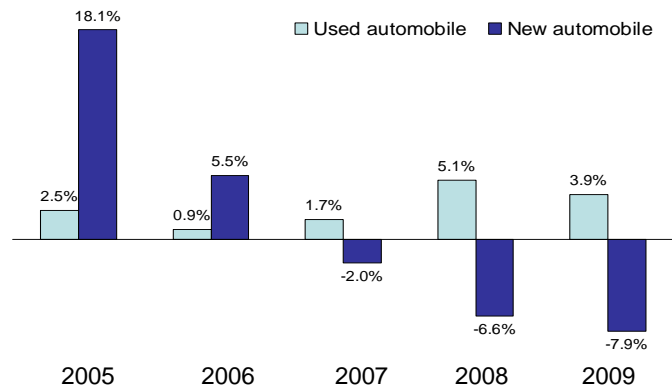
- *How is the economy effecting our members and the community and what can CUs do to stand out as leading financial institutions, i.e., small business loans, Save to Win, etc.?*
- *How is the economy effecting our competitors and how might we use this to gain competitive advantage?*

Issue Two – Marketing and Growth

Key growth target areas for Credit Unions

- *Loans*
- *Deposits*
- *Young Members (25-34)*
- *Minority Groups*
- *Managing fee and new income sources, i.e., ODP, interchange and other fee income.*

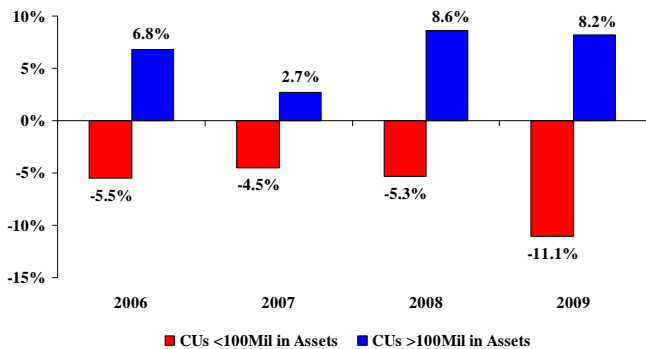
CU Auto Loan Growth Rates



Sources: CUNA's 2009-2010 National Member Survey.



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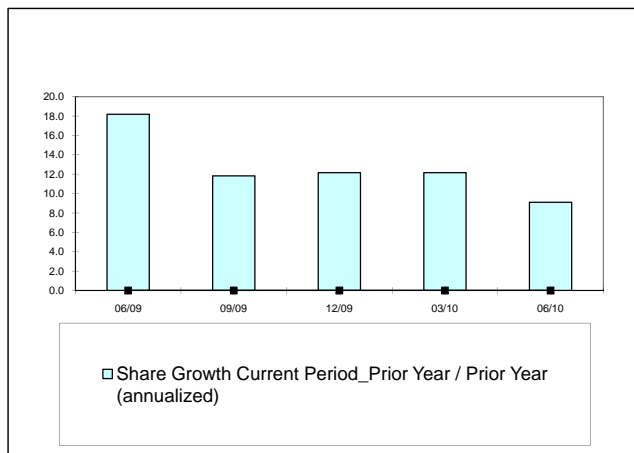


Michigan CU Loan Growth by Assets

Growth thru 2009



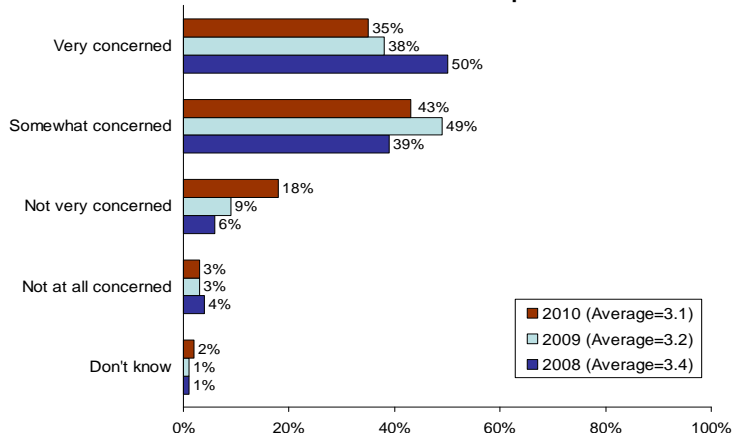
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Michigan CU Share Growth

Growth thru Q2 2010

CU CEO Concern Over Membership Growth



Michigan CU Cooperative Advertising

Percentage of MI CUs Participating

2006 – 44%
 2007 – 43%
 2008 – 48%
 2009 – 52%
 2010 – 58%

CU Contributions

2006 – \$807k
 2007 – \$752k
 2008 – \$767k
 2009 – \$842k
 2010 – \$938k



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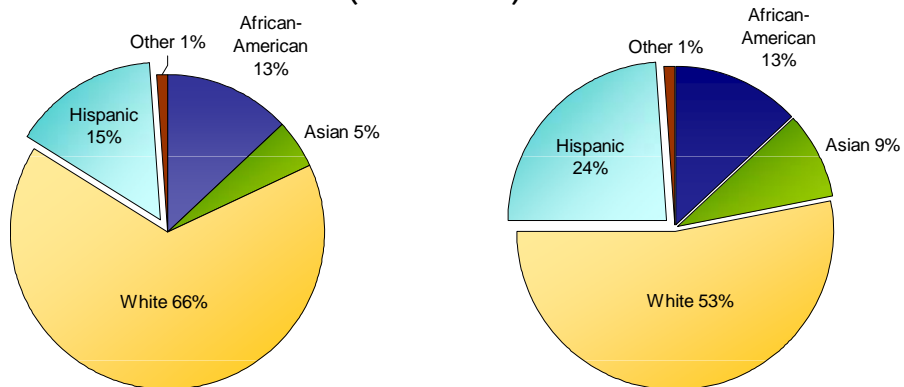
Michigan CU Cooperative Advertising

Measure	2004 (baseline)	2007	2008	2009
Advertising awareness	48%	49%	55%	55%
Nonmember advertising awareness	40%	47%	49%	52%
Unaided advertising awareness	18%	21%	27%	26%
Understanding that anyone can join	29%	40%	45%	55%
Consumers who believe membership is restricted	62%	45%	43%	28%
Nonmember perception that deposits are federally insured (scale of 1-10)	8.3	7.9	8.4	7.6
CU consideration for a new deposit account	56%	57%	62%	64%
Awareness of IIA discounts (GM/Chrysler)	n/a	n/a	n/a	36%

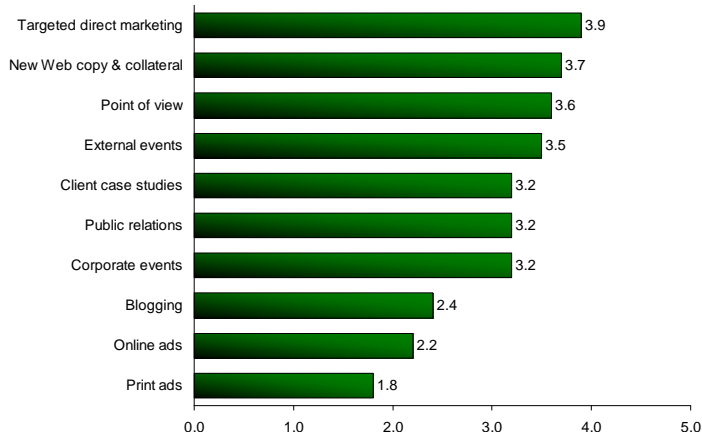


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Shifting Ethnicity (2008 to 2050)



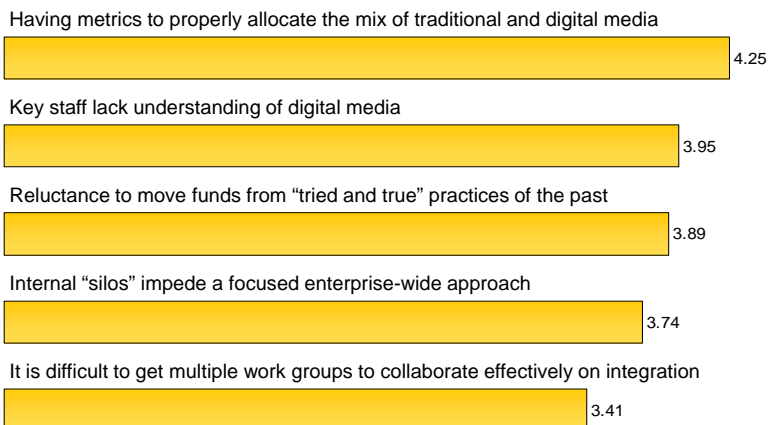
Importance of Marketing Vehicles*



Marketing Strategies Used by Credit Unions

	Today	Next 12 months	Beyond one year	No plans to employ
Facebook fan page	86%	10%	3%	1%
Twitter publishing	65	19	7	9
Customer reviews	55	26	13	6
Blogs	55	25	12	8
Viral videos	50	22	13	15
Facebook connect	43	31	10	16
Social listening	36	31	19	14
Questions and answers	29	20	25	26
Community forums	27	18	23	32
Product suggestion box	19%	26%	20%	35%

Challenges of Integrating Online Media



Innovations to Attract New Growth

- Invest in America
 - General Motors
 - Preferred Lender Concept
 - Sprint
 - Save to Win
- Biz Kids
 - Public TV Show
 - Kids talk about money and business
 - Potential underwriting by leagues, credit unions and CU Solutions Group
- Cooperative Advertising
 - Participation is building
 - 2010 campaign tied to Invest in America



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Potential Growth Strategies

- *Credit unions need to continue to attract more consumers in their peak borrowing years—age 25 to 44—and attract even younger ones—age 18 to 24.*
- *Although youth development is critical for growth, most credit unions don't have a comprehensive generational marketing plan.*
- *No youth marketing strategy is complete without a plan to serve minorities. Credit unions must adapt to the minorities market instead of waiting for minorities to adapt to your credit union.*



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Potential Growth Strategies

- *More than two-thirds of pre-retirees lack a formal retirement savings or spending plan. Boomers expect their primary financial institution to offer retirement products and to provide guidance. Nearly one-third of credit union members would switch financial institutions for retirement expertise.*
- *Credit unions must be ready to analyze the borrowing needs of credit-impaired members and determine who deserves a second chance.*
- *Cutting your marketing budget in a recession, while it might seem intuitive, could be a mistake. Marketing in a recession can actually improve long-term results.*



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Potential Growth Strategies

- *In Michigan, credit unions need to be sensitive and aggressive in working with members on housing, foreclosure and credit needs.*
- *As Michigan's economy depends less on the automotive sector, Michigan credit unions need to keep an eye on emerging businesses as potential SEGs.*
- *As the investment market continues to be sluggish, credit unions can attract new members with education and services to assist with investments. This is especially true in Michigan with higher than average job transitions.*



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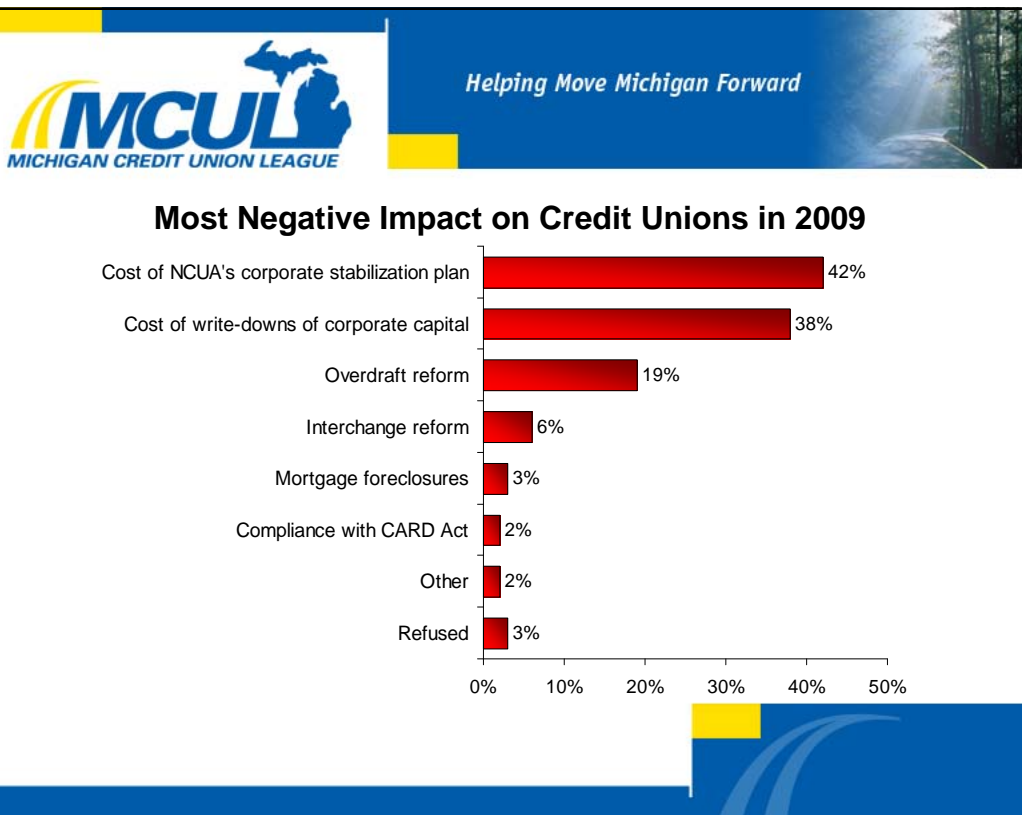
Key Marketing Discussion Questions

- *What is contributing to:*
 - *Membership Growth*
 - *Loan Growth*
 - *Deposit Growth*
 - *Fee Income*
- *How are CUs collaborating to get more bang for the buck?*
- *What innovations have your credit union pursued to gain growth in key membership, auto loan and deposits segments?*

Issue Three – Legislative and Regulatory

Key Legislative and Regulatory Issues

- Corporate Stabilization
- Overdraft & Interchange Reform
- Mortgage Foreclosures
- Election Impact

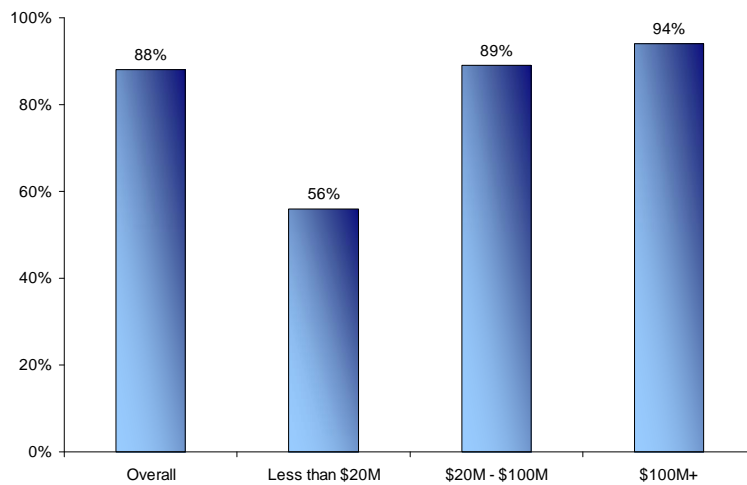


➤ *We haven't seen the end of foreclosures. In a recession, foreclosures don't decline until about six months after unemployment peaks. With mortgage servicers waiting until a loan is 12 months past-due to foreclose, fore-closures might not peak until 2011.*

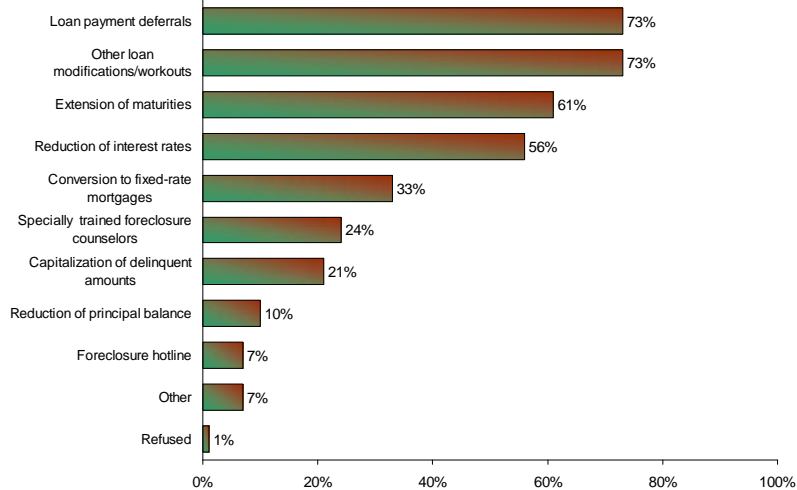
➤ *The recession has given rise to a new category of borrower—the “newly credit impaired.” You'll need to improve processes, such as income verification, collateral valuation and inspection, and collections to safely capture this emerging segment of the market.*



Credit Unions Proactively Offering Services Aimed at Preventing Foreclosures by Asset Size



Services CUs Offering to Prevent Foreclosures



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Legislative and Regulatory Highlights

- *Key credit union issues on the legislative agenda are member business lending, interchange fees, overdraft protection, and regulatory restructuring.*
- *Credit unions are struggling under the weight of a growing compliance burden.*
- *Some of the biggest compliance issues facing credit unions are major revisions to Regulation Z and amendments to Regulation E requiring credit unions to get members to formally “opt in” to overdraft-protection programs.*



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Legislative and Regulatory Highlights

- Another goal will be to modify the definition of credit union net worth to include alternative forms of capital.
- Watch for developments from NCUA related to corporate restructuring, field-of-membership and chartering guidelines, and alternative capital.
- One of the most important compliance issues in the coming years is data security and implementing the new “red flag” identity theft regulations.



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Key Legislative Discussion Questions

- *What happens next with corporate stabilization?*
- *What are our key legislative issues?*
- *How do we position for post-election relationship building?*
 - *New Governor*
 - *Over 50 new state house members*
 - *29 of 38 new state senators*
 - *Four new US Congressmen*

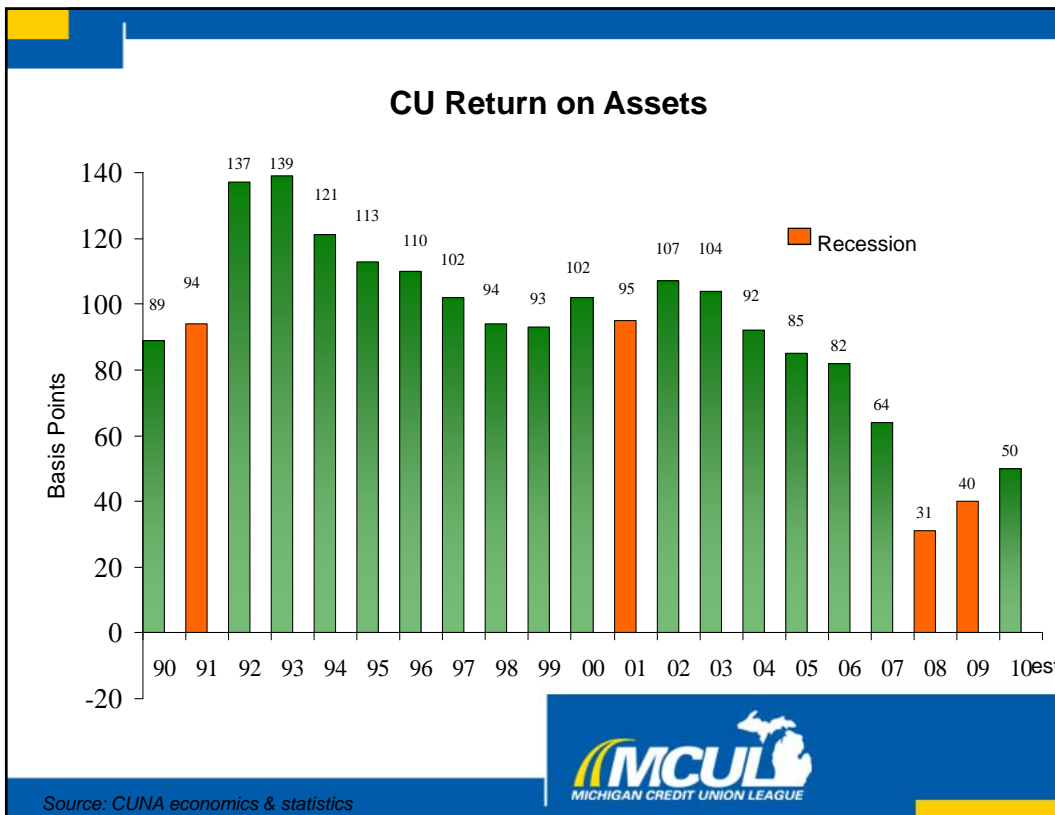


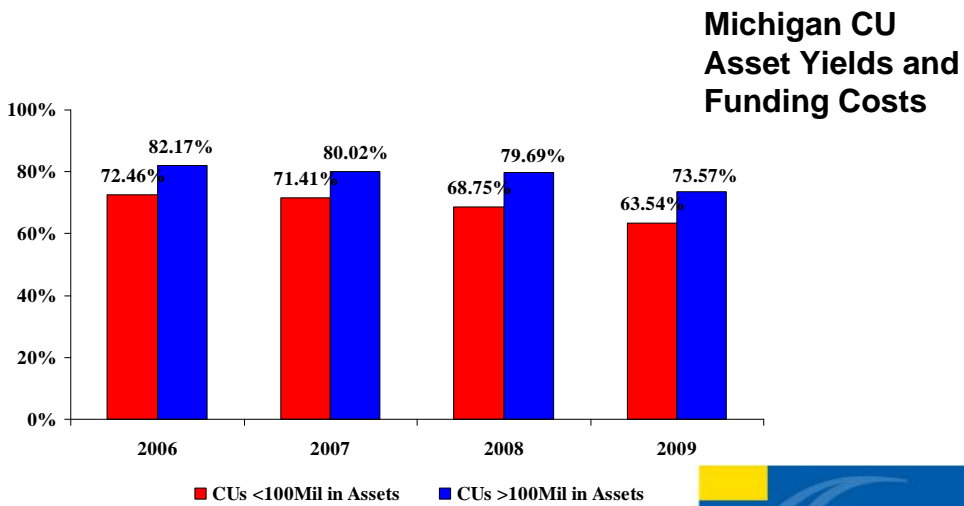
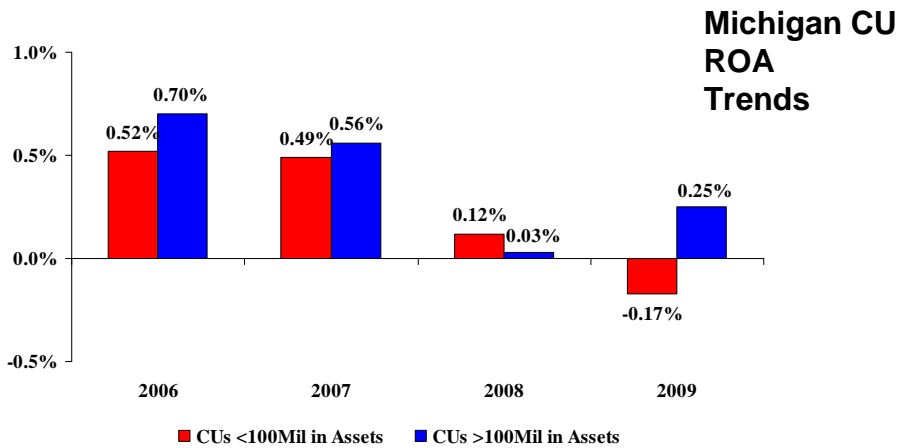
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Issue Four – Controlling Cost and Improving Earnings

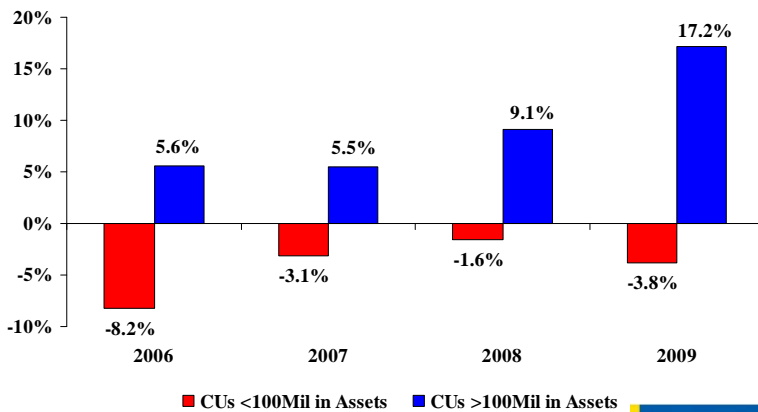
Key Considerations

- *Financial Trends*
- *Fee & Other Income*
- *Risk Management and Pricing*
- *Controlling Operating Costs*
- *Collaboration*

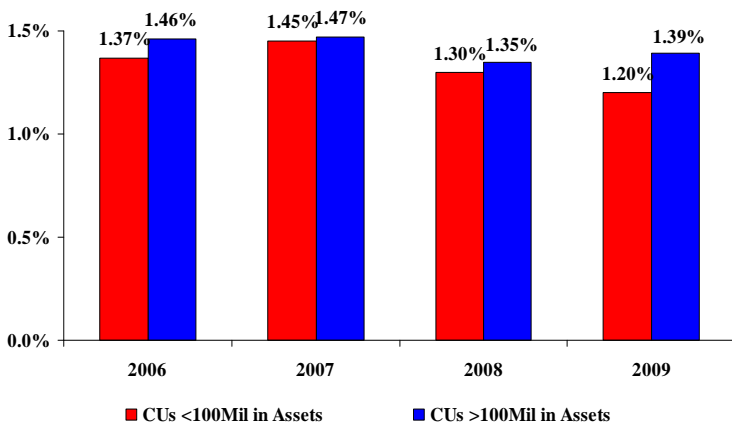




Michigan CU Savings Growth



Michigan CU Fee & Other Income/Avg. Assets





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Key Cost and Earnings Discussion Questions

- *What are your main operating cost issues?*
 - *Healthcare*
 - *Charge-offs*
 - *Other*
- *What strategies are you pursuing to increase fee income and how do you balance the income opportunity with potential negative member impact?*
- *What ALM strategies need to be revisited?*
- *How can CUs collaborate more to reduce operating expense and increase earnings?*



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Open Dialogue

- *Are there other questions or key issues that you want to discuss that we have not covered?*



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