



*Helping Move Michigan Forward*



# **Michigan Credit Unions**

## **Annual Report, 2009**



## Table of Contents

- **Executive Summary**
- **2009 Credit Unions vs. Banks Performance: Benchmarks and Trends**
- **Credit Unions vs. Banks: Benefits of Membership**
- **Top 10 Michigan Credit Unions, 2009 Ranking**
- **Credit Unions by Asset Size: Key Performance Comparison**
- **Conclusions**

## Executive Summary

- Michigan households struggled under the economic stresses of 2009, which included a high unemployment rate, slow job creation, state budget shortfalls, and falling home prices. Credit unions were challenged by declining credit worthiness, rising loan delinquencies, foreclosures, and personal bankruptcies. While inflation is not an imminent threat, it will remain a risk over the next three to five years according to CUNA projections.
- National and state banks reported significant differences from credit unions in 2009, such as higher rate fees, lower saving rates, lowered credit card limits, and more stringent underwriting standards. Although credit unions provided their members with great financial benefits, compelling and consistent marketing efforts are required to convince consumers to switch from banks to credit unions.
- Credit unions saw balance sheet growth in loans, shares, and capital in 2009. All exceeded national averages and helped credit unions to have high performance metrics: return on assets and high percent of net income.
- Lending to bank customers declined in 2009 compared to credit unions due to households paying down debts and loan charge-offs. While the Federal Reserve reported a 4% annual drop in outstanding consumer credit, credit unions' total loan growth was more than 4% at the end of 2009. Strong deposit growth and lower loan-loss provisions will contribute to credit unions' strong 2010 earnings.
- Capital levels were high at 11% of credit unions' assets. This was higher than Michigan banks or credit unions nationally.
- Credit unions' growth in loans, assets and savings was attributable to larger credit unions with more than \$100 Mil in total assets. Credit unions with less than \$100 Mil in assets lost money in 2009.



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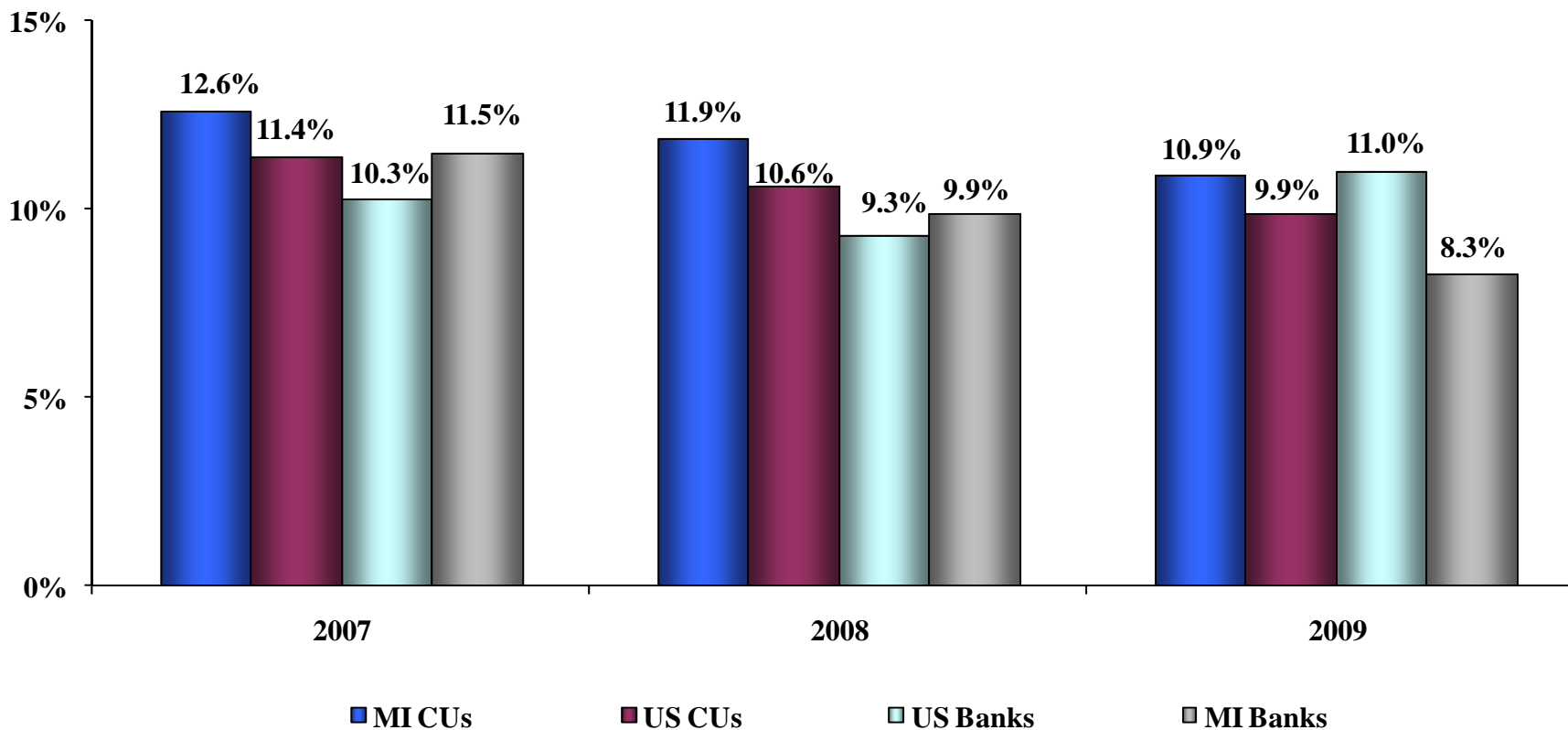
# **Credit Unions vs. Banks**

**2009 Benchmarks & Trends**



Michigan credit unions remained well capitalized in 2009 with a net worth higher than state banks or national credit unions, which was 400 basis points above the 7 % recommended by the NCUA.

### Net Worth/Assets: CUs vs. Banks



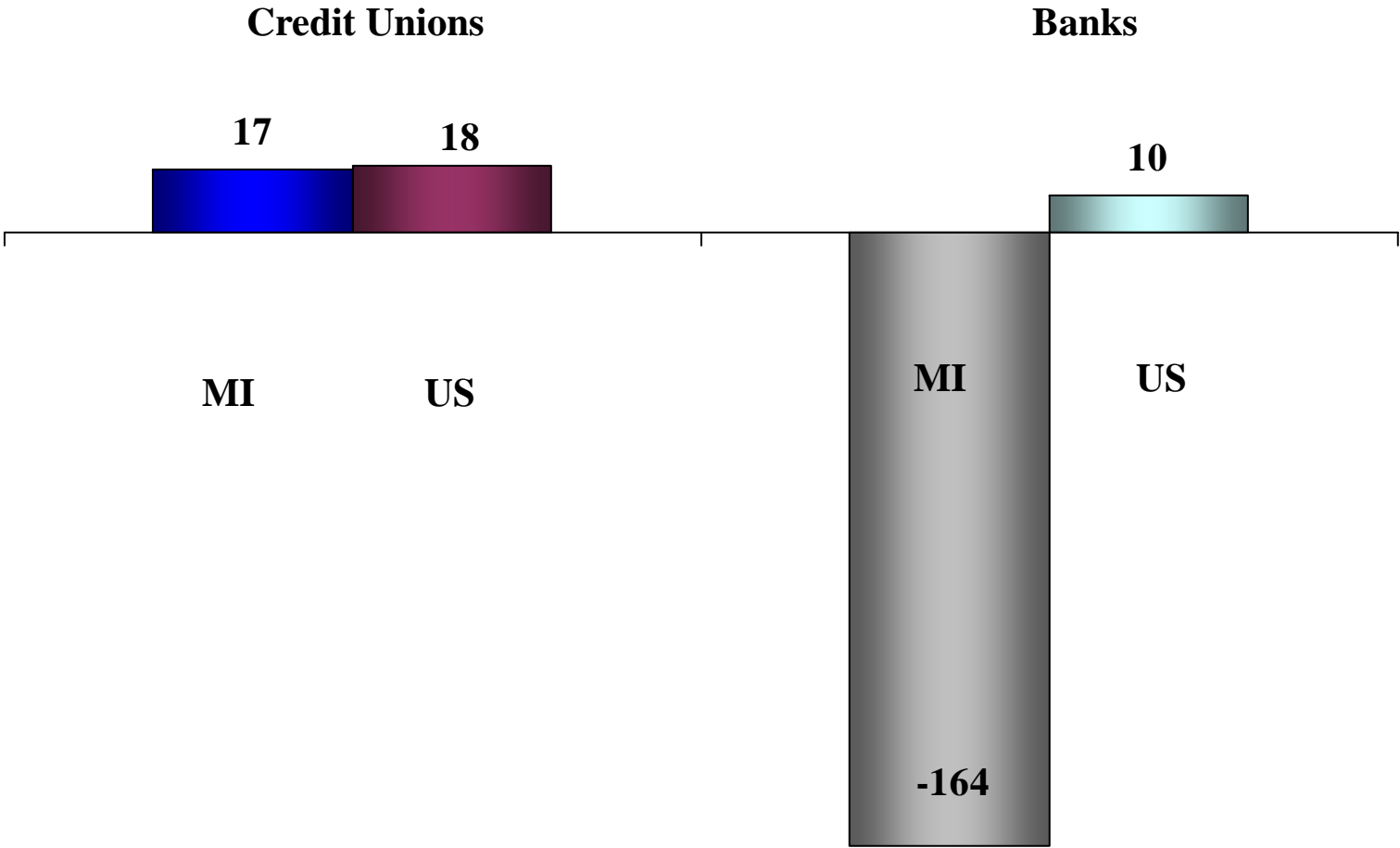
Source: NCUA, CUNA, FDIC



Credit unions continued to improve their cost management in 2009, with higher net income compared to banks.

### Net Income: CUs vs. Banks

As of December 2009



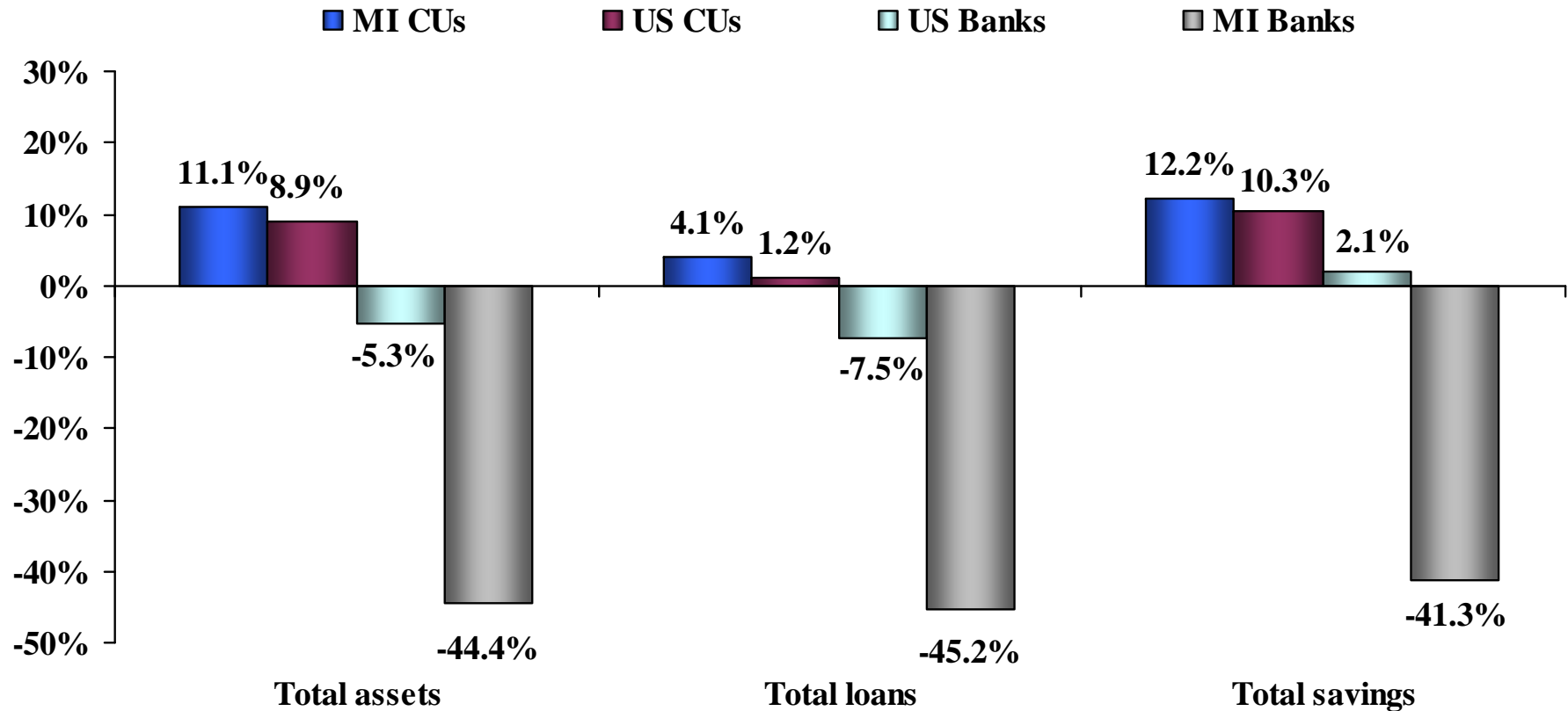
Source: NCUA, CUNA, FDIC, data is in basis points (BP)



Credit unions reported strong deposit flow in 2009, outperforming banks and national credit unions in assets, loans and savings. The BoA/LaSalle merger caused billions in loan loss to “move” from MI to NC.

## 12 Month Growth Rates: CUs vs. Banks

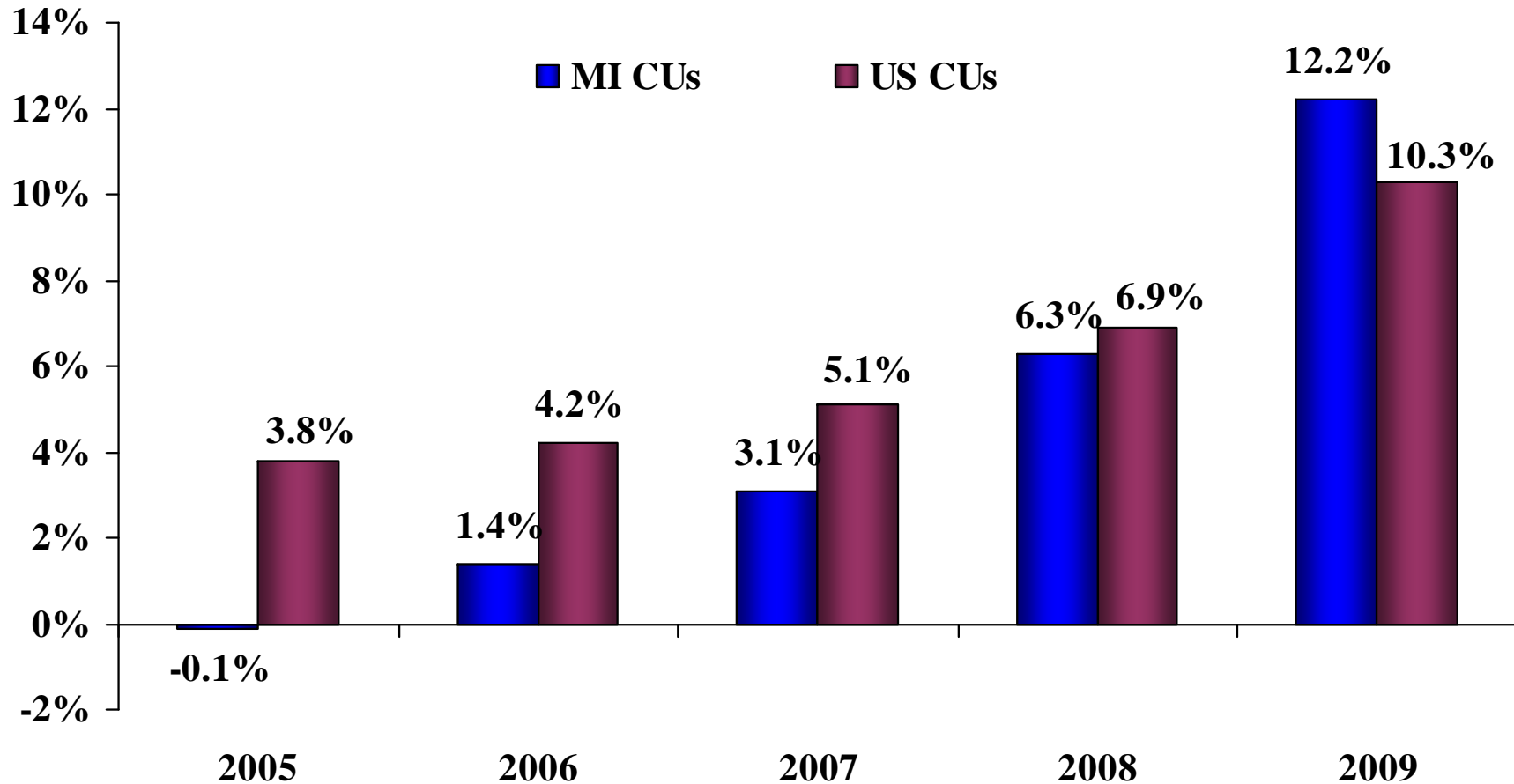
As of December 2009



Source: NCUA, CUNA, FDIC

Reflecting the national consumer trend: spending less and saving more during the economic downturn, Michigan credit unions' savings have been growing quickly for the past few years and faster than the national rate in 2009. The rising savings rate reduces consumer spending and, consequently, economic growth and inflation.

### Savings Growth Trend: 2005-2009



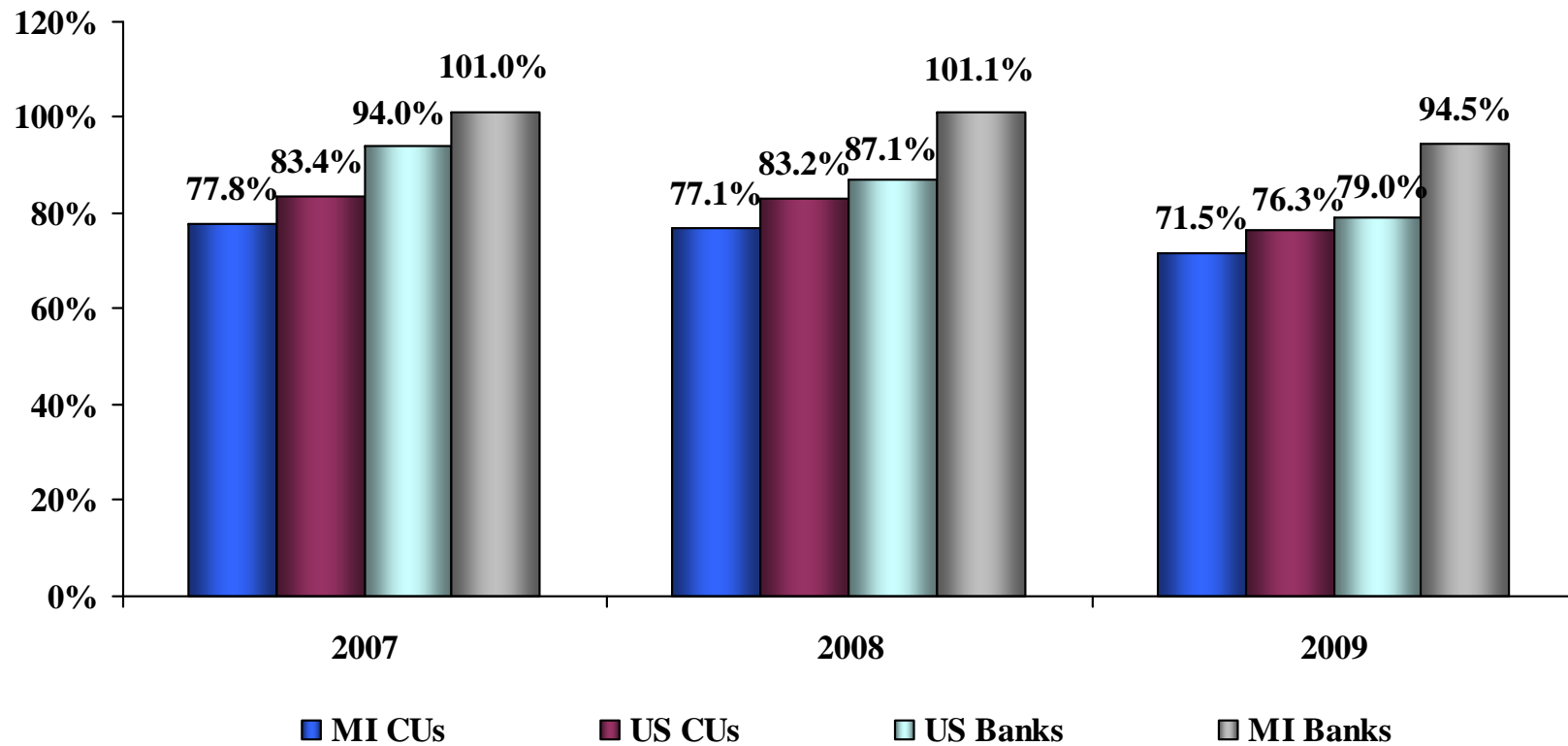
Source: NCUA, CUNA





Rapid deposit growth relative to loan growth lowered Michigan credit unions' average loan-to-savings ratios in 2009, and put downward pressure on earnings since a larger percent of assets is now held in investments with lower returns.

### Loan to Savings Ratio

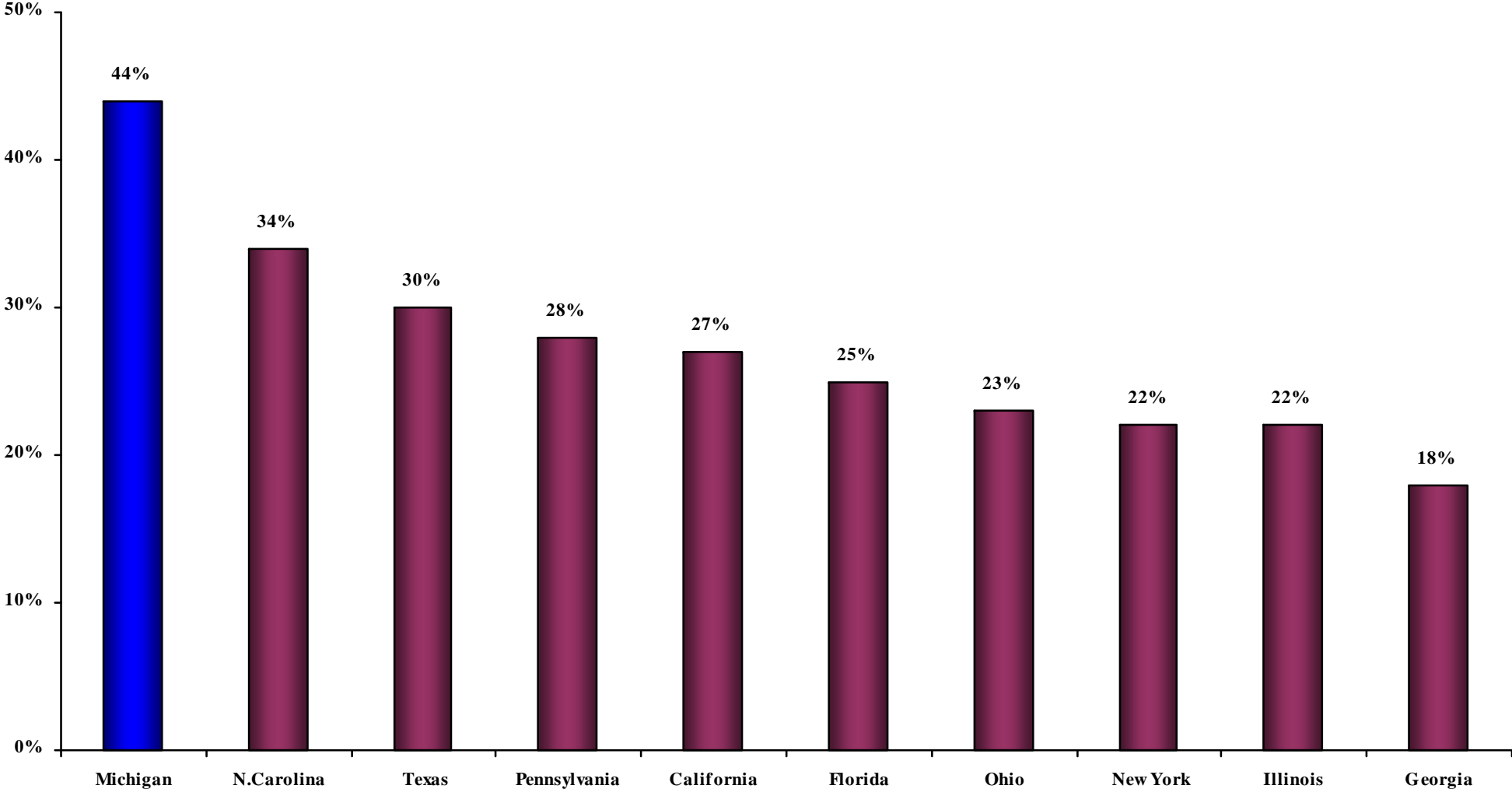


Source: NCUA, CUNA, FDIC



Michigan credit unions have the highest proportion of members to state population among the top ten most populous US states. Overall membership increased by more than 40,000 members in 2009, growing new deposits and helping share growth in several categories.

### CU Membership to State Population



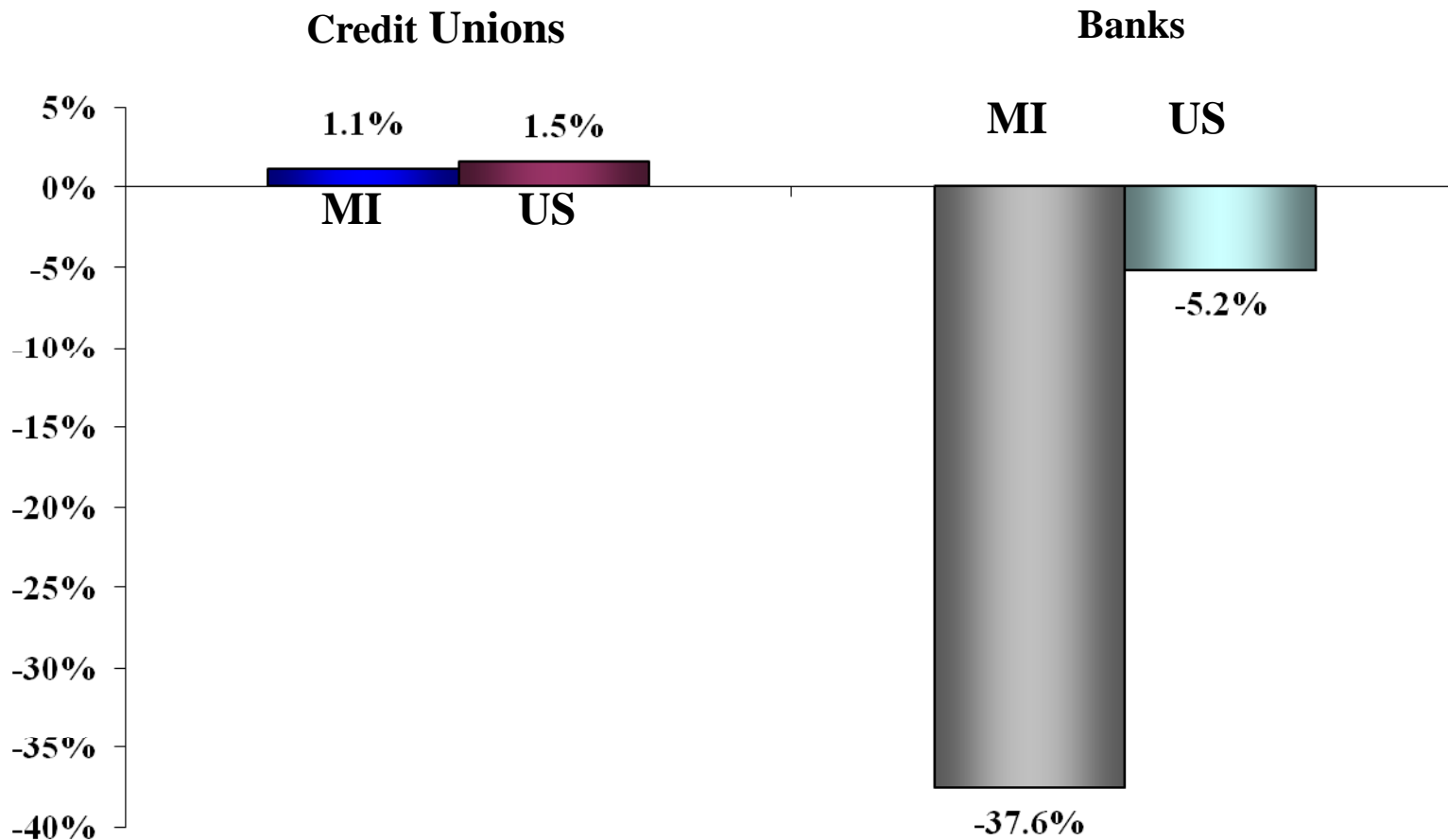
Source: CUNA, Michigan Total Statistics



Credit unions saw positive real estate growth in 2009, while national and state banks pulled back on mortgage loans offerings. Continuing to offer rates below a certain limit increases interest rate risk. CUNA recommends selling loans with an LTV over 80%, which places more emphasis on credit risk than interest-rate risk.

### Real Estate Loan Growth Rate : CUs vs. Banks

As of December 2009

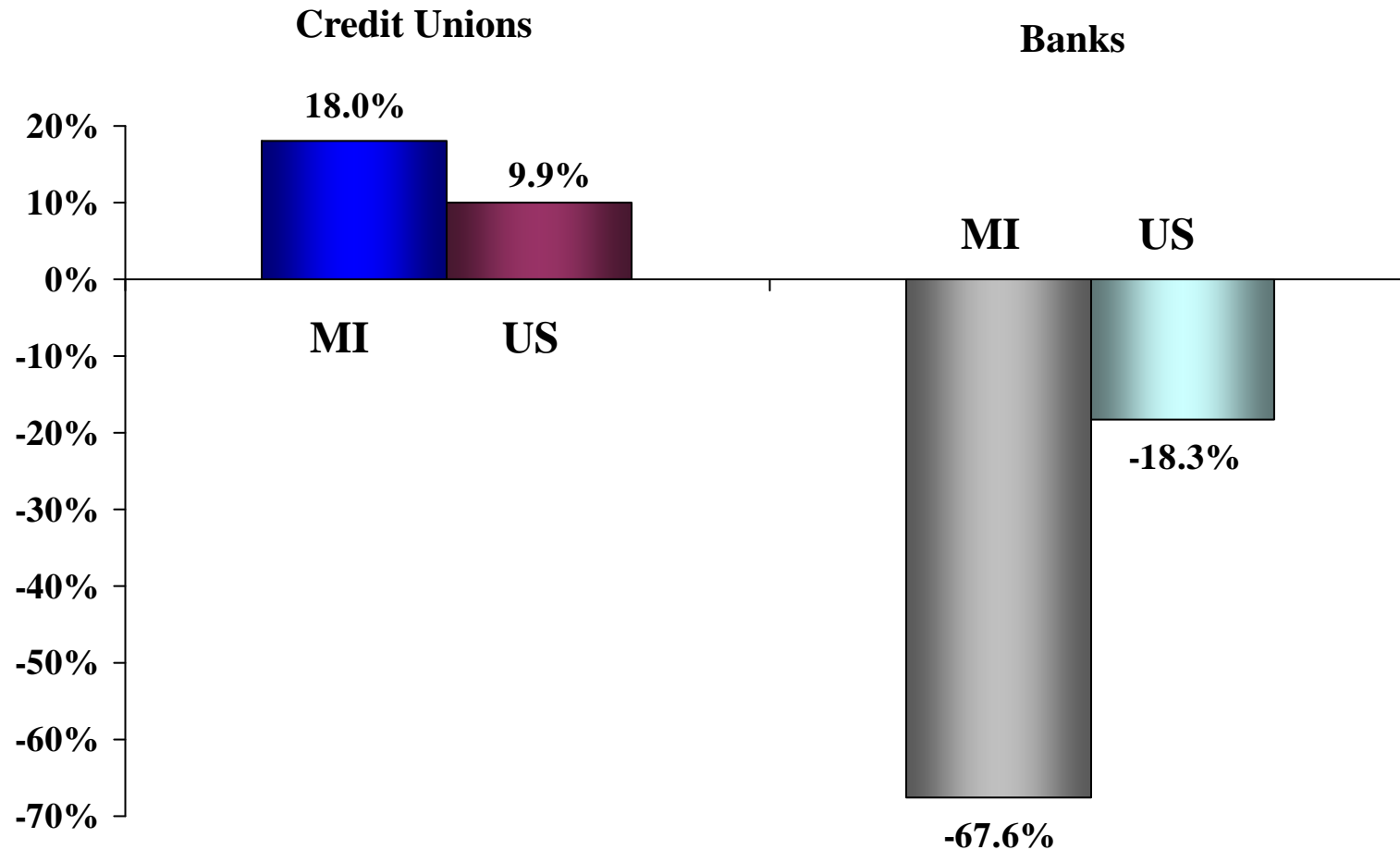


Source: NCUA, CUNA, FDIC

Michigan credit unions' member business loan growth remained very strong compared to national credit union growth and banks' negative rates in 2009, providing small businesses with much-needed credit for their capital spending and growth.

## Commercial Loan Growth Rate : CUs vs. Banks

As of December 2009

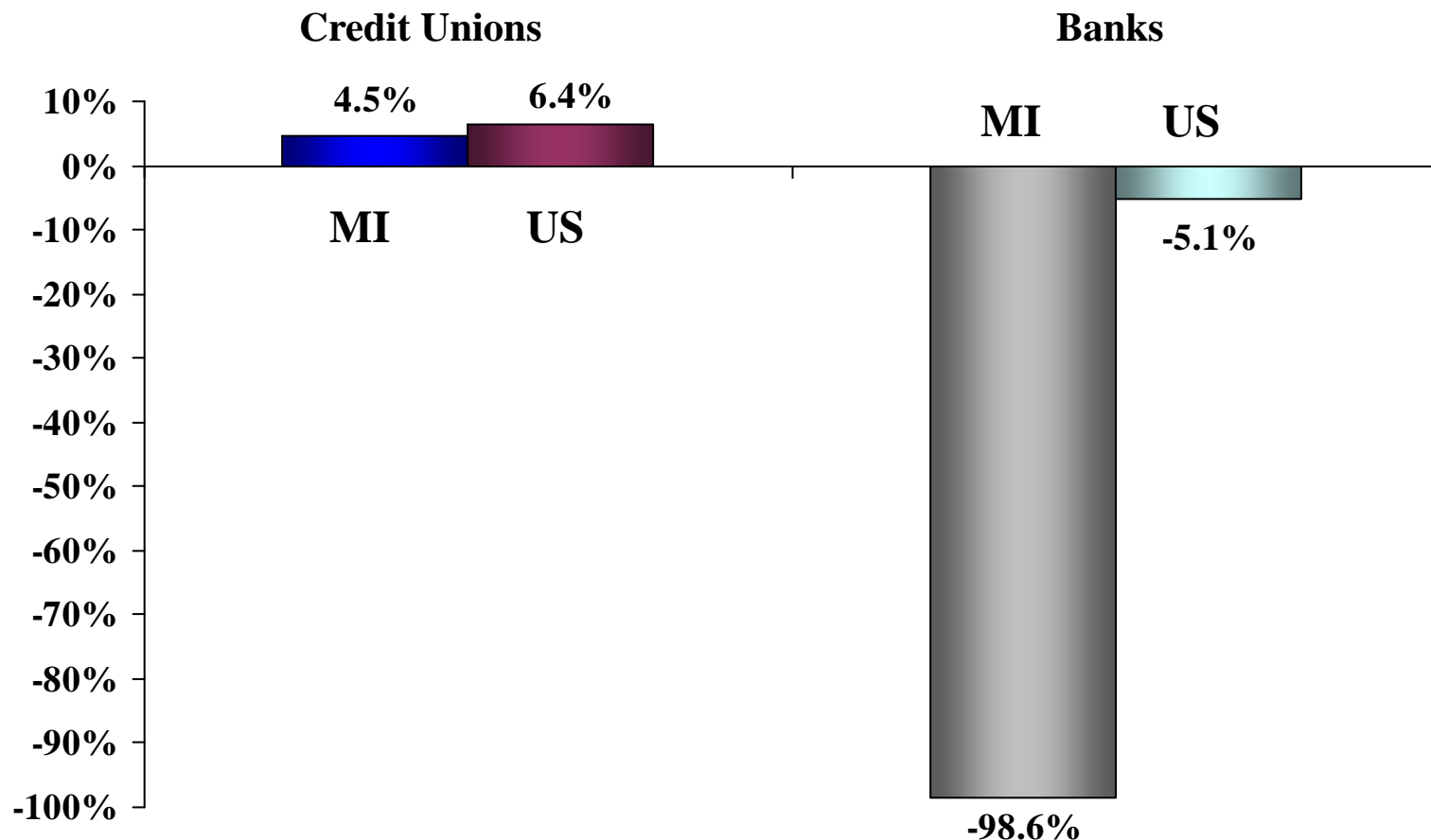


Source: NCUA, CUNA, FDIC

Credit unions continued to offer credit cards to their members when banks were reluctant to lend in 2009, due to capital constraints, high delinquencies and charge-offs. To increase loan volume on credit cards and other loans, credit unions should look (if they have not already) into an automated loan application and approval system since more credit union members are expecting this level of convenience.

### Credit Cards Growth Rate : CUs vs. Banks

As of December 2009



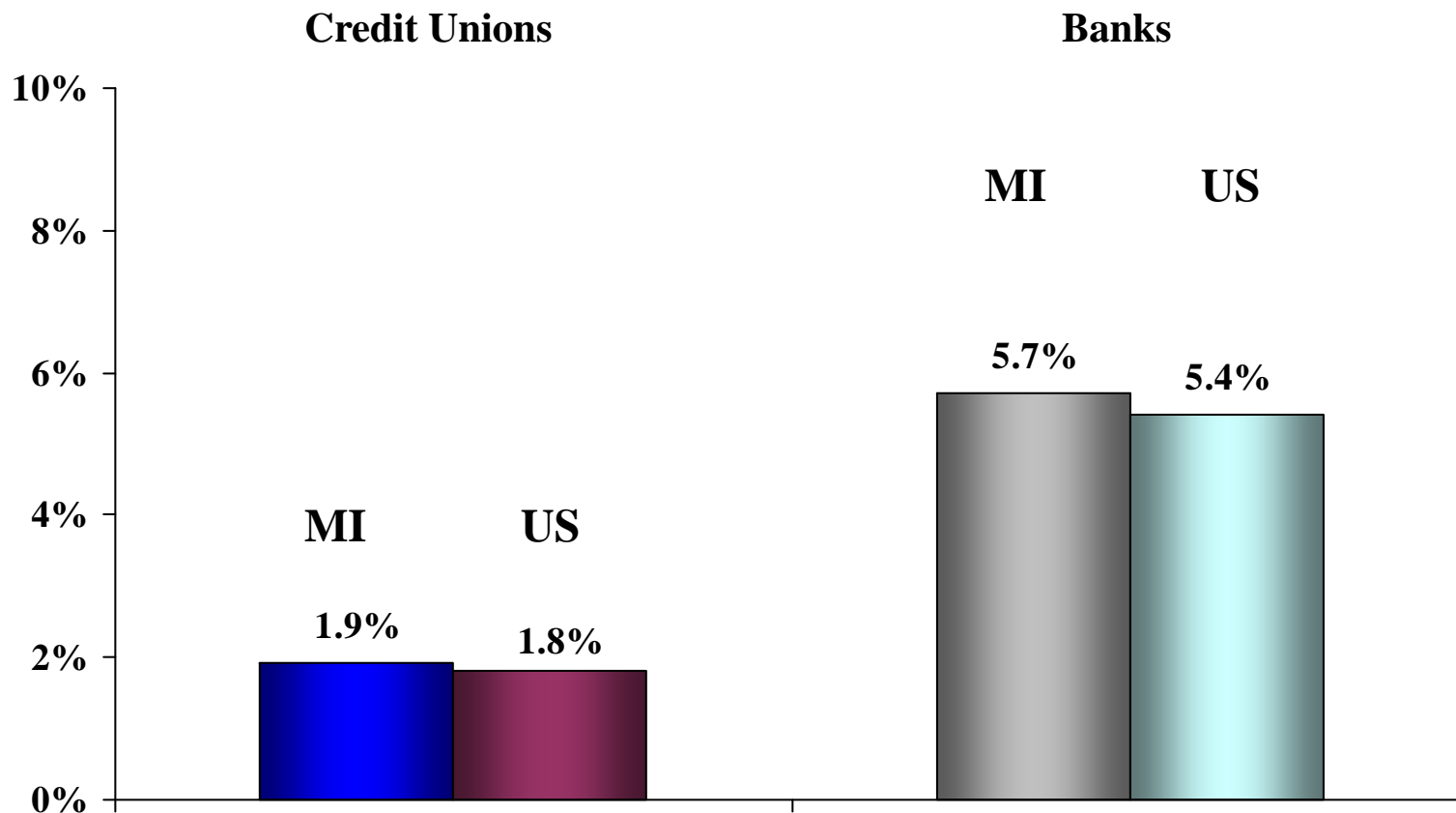
Source: NCUA, CUNA, FDIC



Credit unions' delinquency rates were lower than state and national banks, reflecting better credit management and some labor market revival, reducing the number of delinquent borrowers in 2009 while continuing to increase loan demand.

### Loan Delinquencies: CUs vs. Banks

As of December 2009

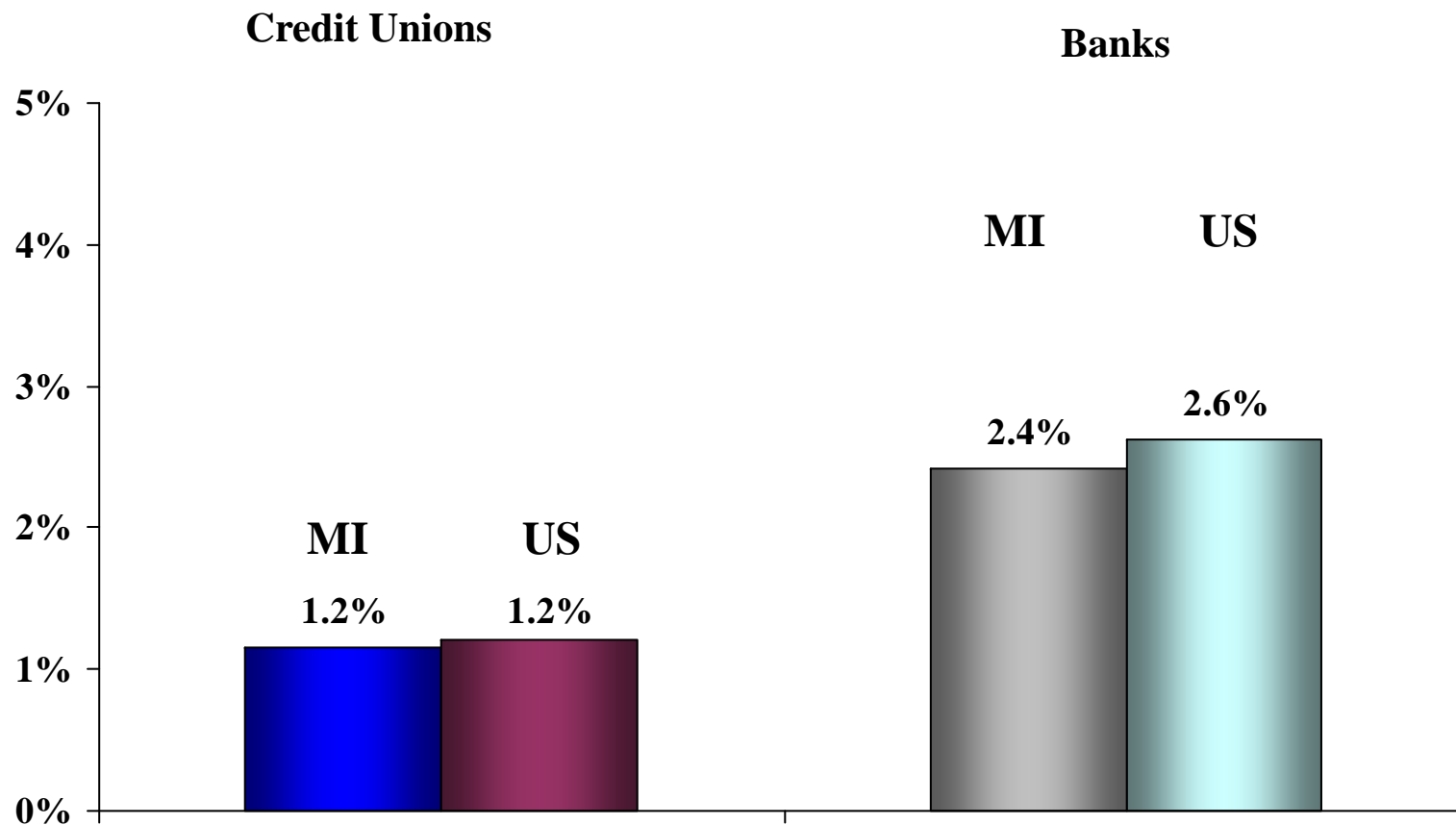


Source: NCUA, CUNA, FDIC

Despite the struggling economy, credit unions' loan charge-offs were half that of banks in 2009, showing overall credit quality stabilization. Some economists predict that loan charge-offs will not decline until the second half of 2010.

### Loan Net Charge-Offs: CUs vs. Banks

As of December 2009



Source: NCUA, CUNA, FDIC

## 2009 Michigan Credit Unions vs. Banks Performance Comparison by Asset Size

	CU's	Banks	CU's	Banks	CU's	Banks	CU's	Banks
Asset Size in Mil	\$0-\$50	\$0-\$50	\$50-\$100	\$50-\$100	\$100-\$500	\$100-\$500	> \$500	> \$500
<b>Demographics (# of inst.)</b>	188	12	61	31	70	82	14	21
<b>Total Assets (\$ Mil)</b>	3320	414	4345	2241	15130	19341	15449	49758
<b>Total Loans (\$ Mil)</b>	1719	225	2524	1509	9636	14289	9395	36127
<b>Total Savings (\$ Mil)</b>	2857	328	3821	1877	12960	15632	12907	37347
<b>12 Month Growth Rates</b>								
<b>Total assets (%)</b>	-1.4	-27.1	-8.1	-6.9	6.1	-9.8	28.2	-52.4
<b>Total loans (%)</b>	-7.5	-33.9	-13.4	-14.5	0.8	-14.8	17.0	-52.6
<b>Total surplus funds (%)</b>	7.6	-16.1	3.2	16.5	20.4	10.4	53.3	-52.9
<b>Total savings (%)</b>	-0.6	-27.9	-6.1	-5.9	7.2	-8.2	29.3	-49.9
<b>Earnings (BP)</b>								
<b>Yield on total assets</b>	480	478	480	511	497	547	492	504
<b>Fee and other income</b>	163	638	151	58	185	101	174	176
<b>Operating expense</b>	433	839	385	364	387	356	302	384
<b>Loss provisions</b>	60	89	83	79	109	134	95	286
<b>Net income</b>	-17	38	-16	-39	2	-29	49	-222
<b>Capital Adequacy</b>								
<b>Net worth/assets</b>	12.6	19.0	11.2	13.0	10.8	9.4	10.5	7.5
<b>Asset Quality</b>								
<b>Delinquencies/loans</b>	1.91	3.23	1.94	2.84	2.16	3.91	1.64	6.55
<b>Net charge-offs/loans</b>	1.01	1.27	1.11	0.93	1.22	1.54	1.11	2.82

Source: NCUA, CUNA, FDIC







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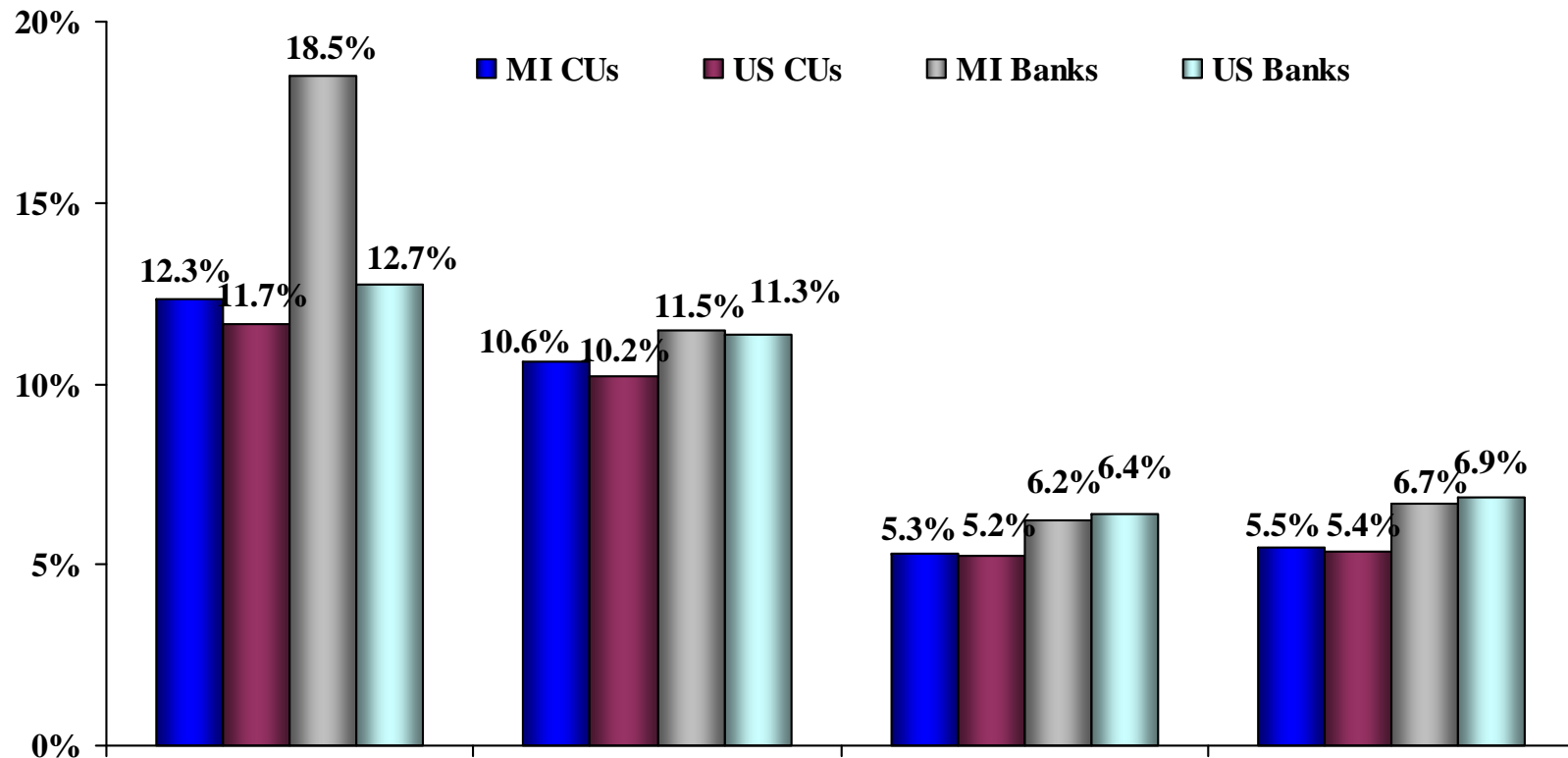
# **Credit Unions vs. Banks**

## **Benefits of Membership**



## Average Interest Rates: CUs vs. Banks

As of December 2009



Credit card classic

Credit card gold

New car

Used car

\$67,810,691

\$62,798,280

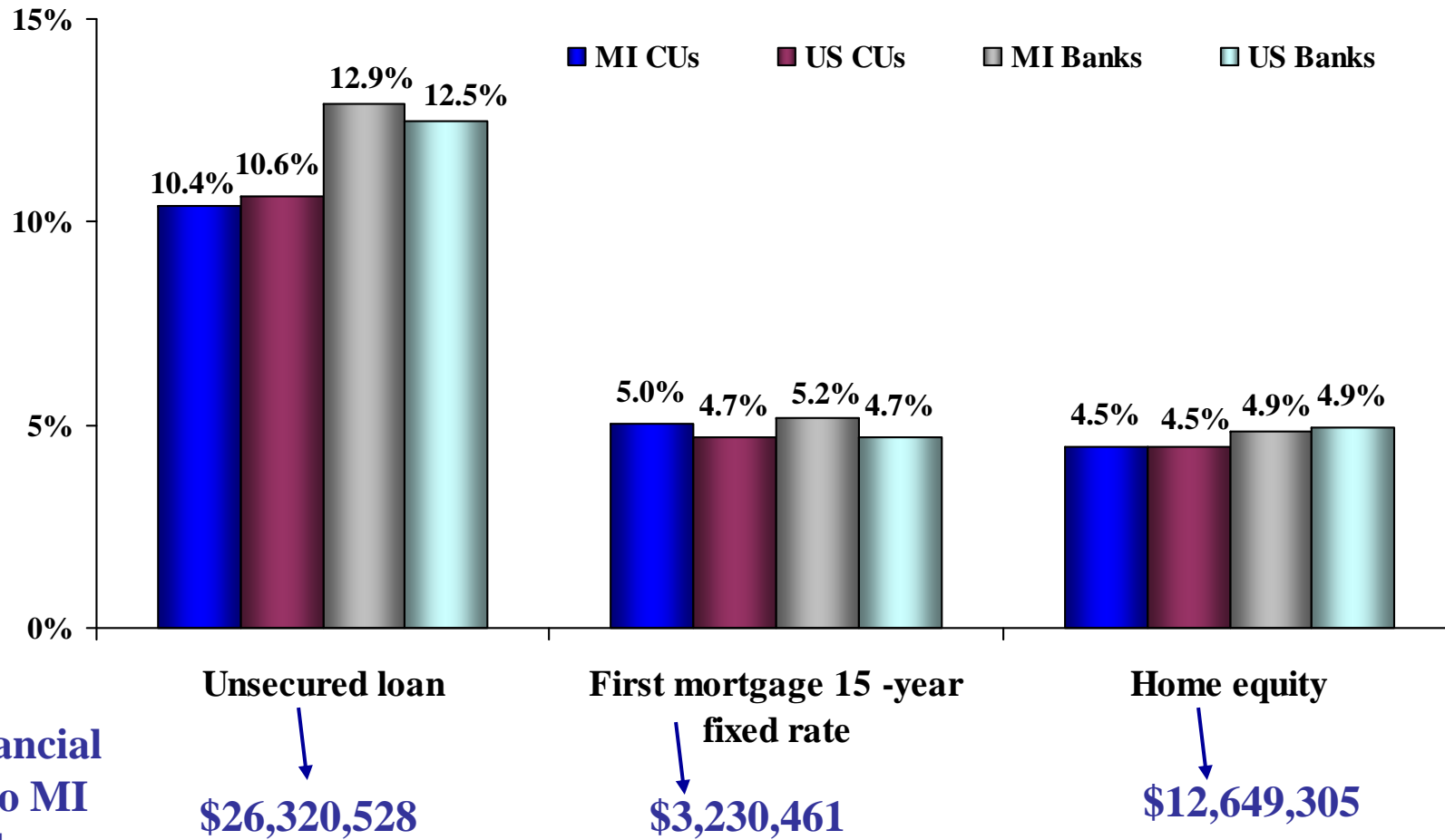
**Total Financial Benefits to MI CU Members**

Source: NCUA, CUNA, FDIC



## Average Interest Rates: CUs vs. Banks

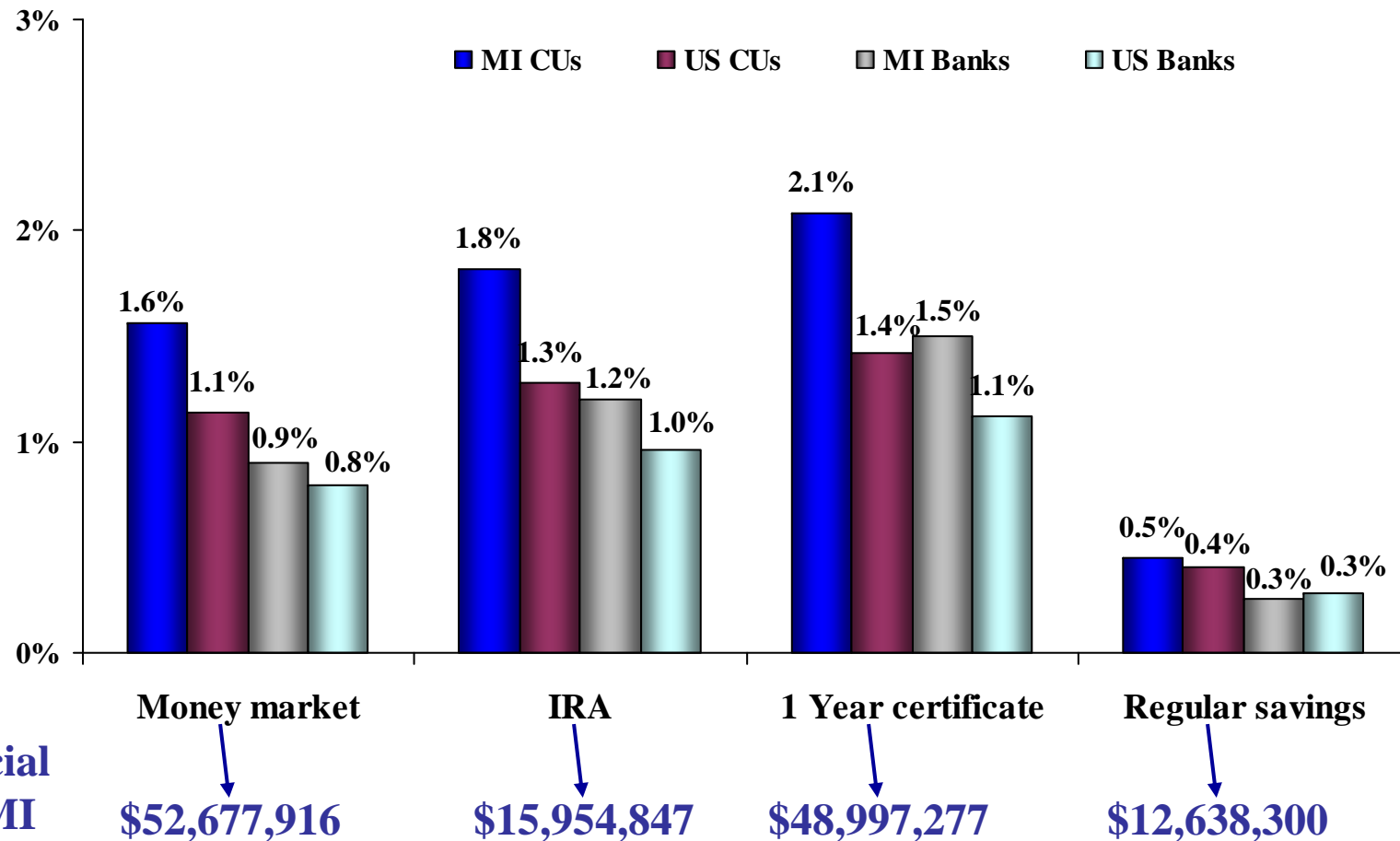
As of December 2009



Source: NCUA, CUNA, FDIC

## Average Interest Rates: CUs vs. Banks

As of December 2009



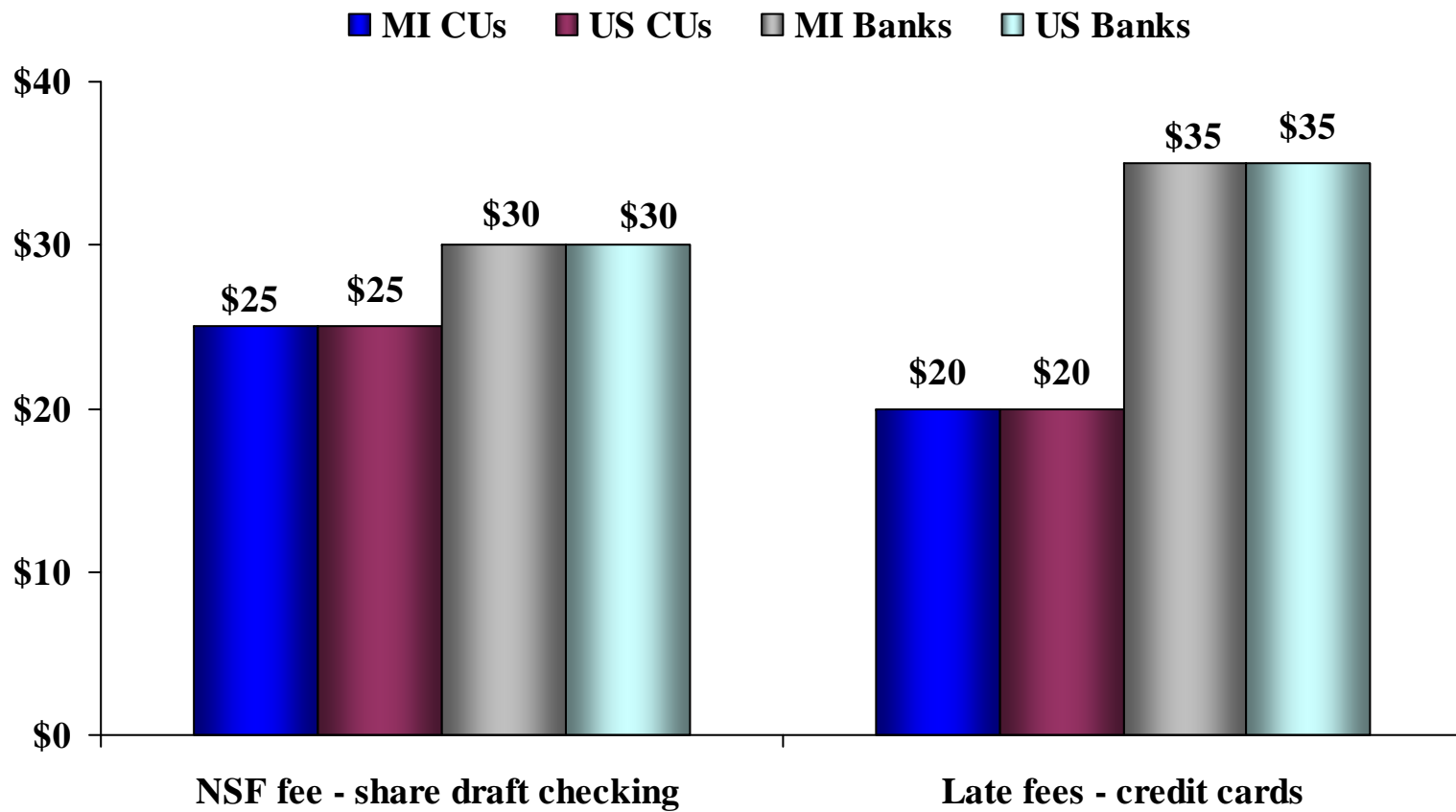
**Total Financial Benefits to MI CU Members**

Source: NCUA, CUNA, FDIC

Credit union member benefits from fewer and lower fees

### Average Fees: CUs vs. Banks

As of December 2009



**Total Financial Benefits to MI CU Members**

**\$81,245,674**

Source: NCUA, CUNA, FDIC



## **CUNA estimates in 2009 Michigan credit unions provided:**

**\$412,917,228** - **direct financial benefits to credit union members**

**\$182** - **per member household**

**\$96** - **per member**



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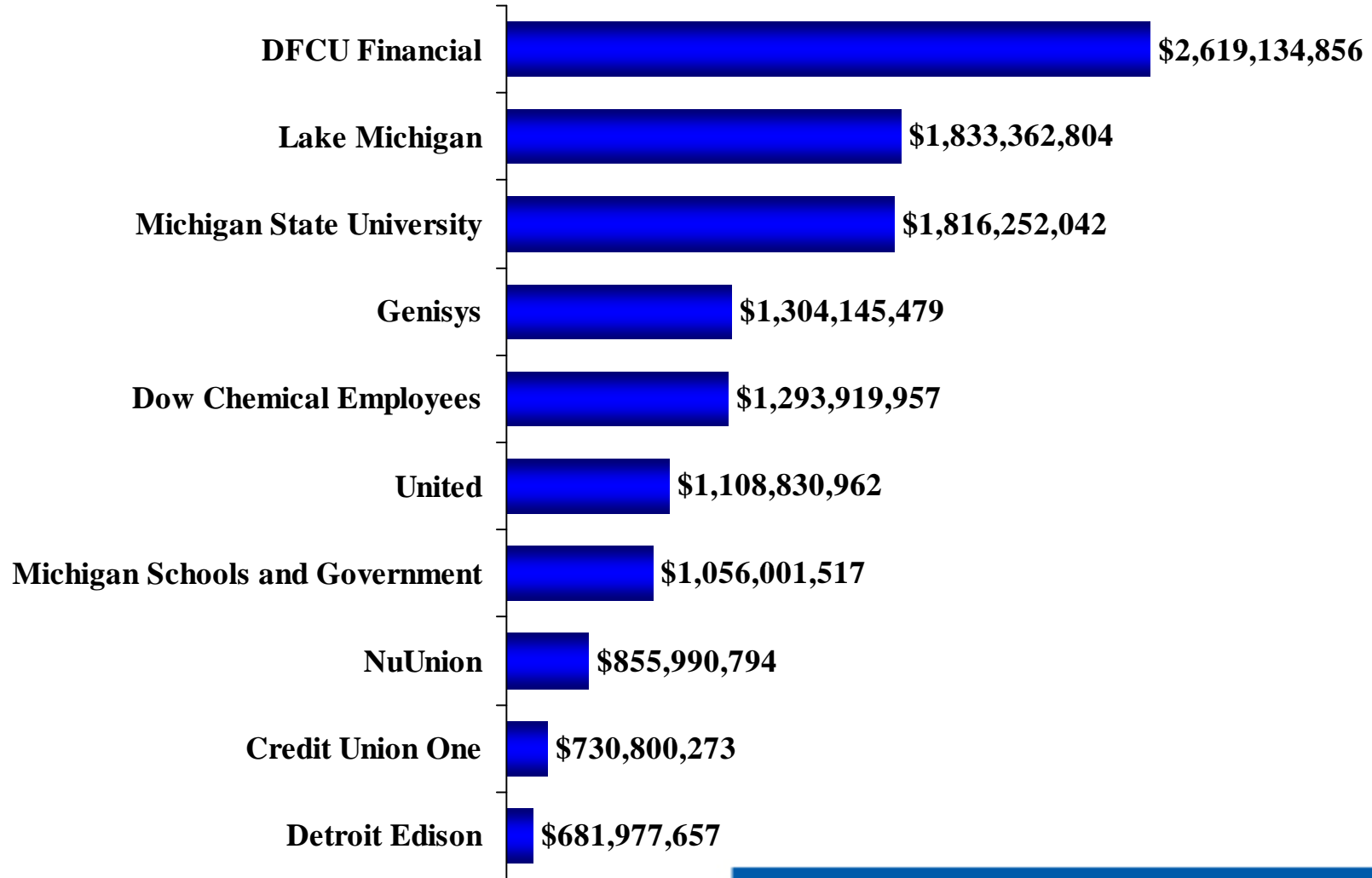
# Michigan Leaders

## 2009 Ranking



# Top 10 Michigan Credit Unions

2009 Total Assets



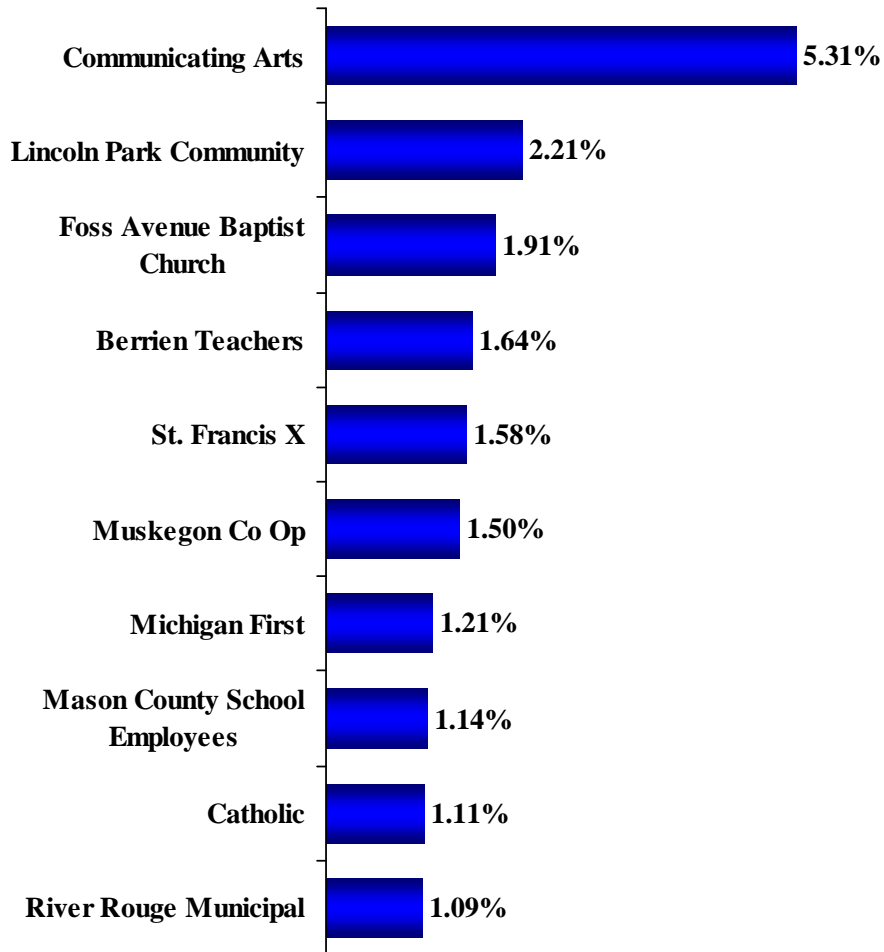
Source: CUNA, NCUA



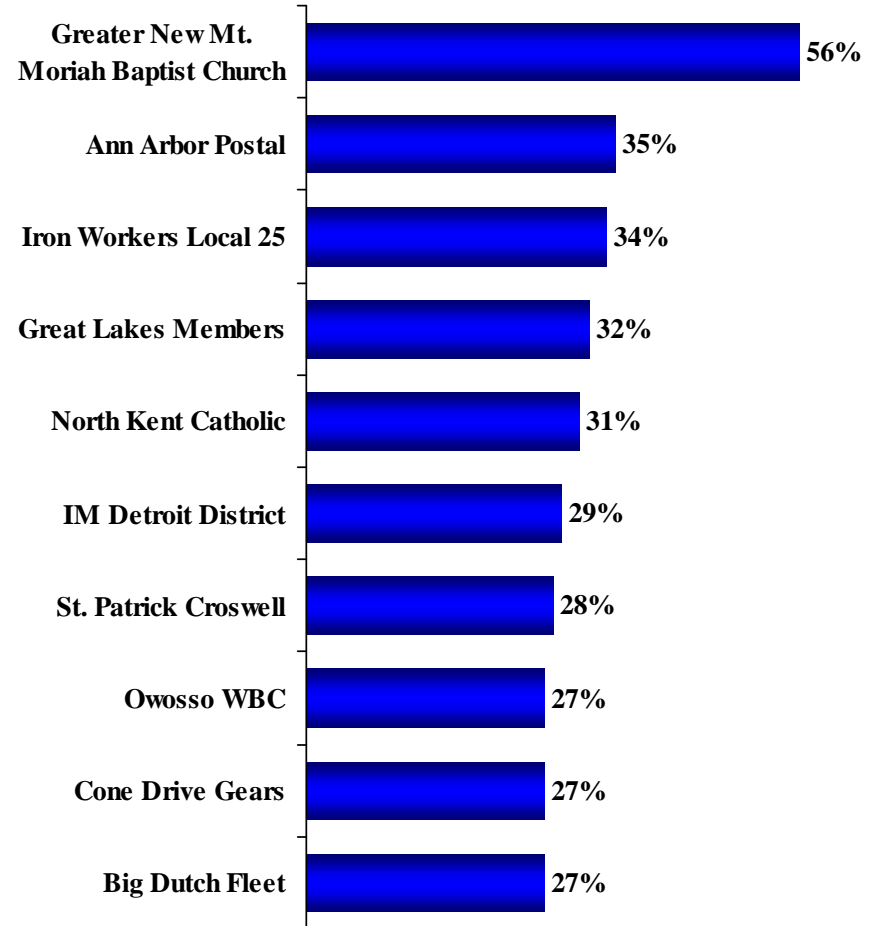


## Top 10 Michigan Credit Unions

### 2009 Return on Assets



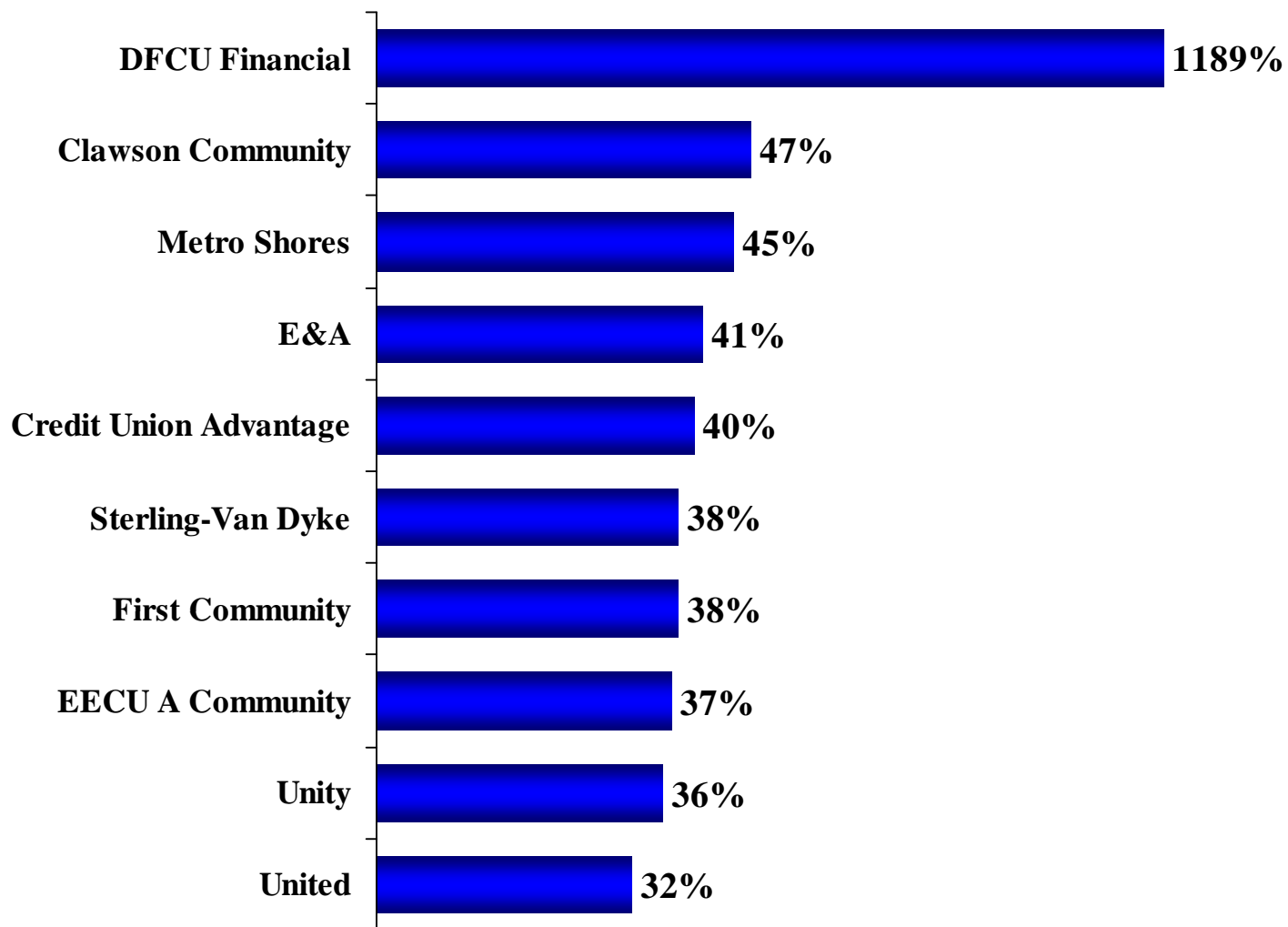
### 2009 Net Worth to Assets



Source: CUNA, NCUA

## Top 10 Michigan Credit Unions

### 2009 Asset Growth

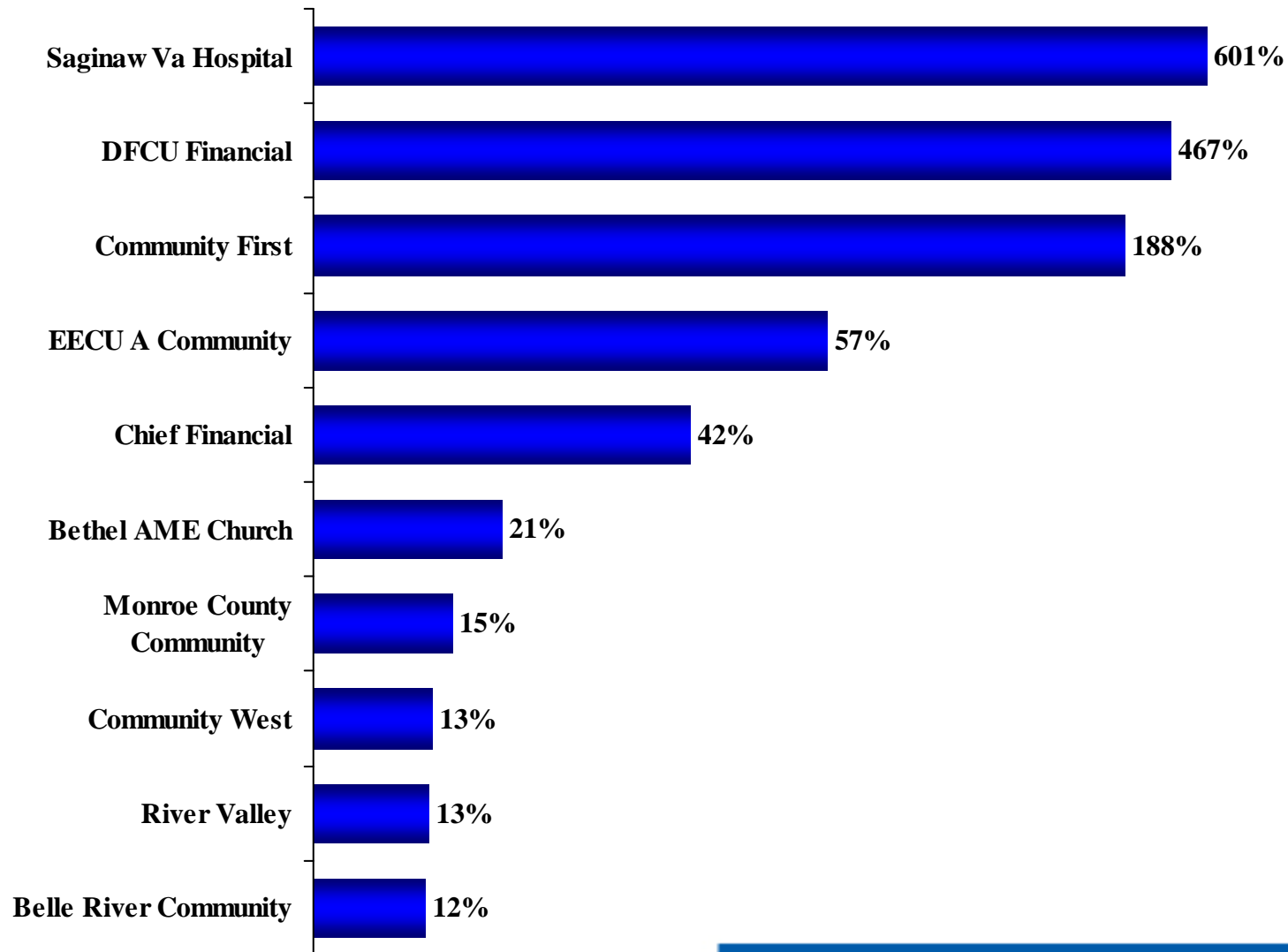


Source: CUNA, NCUA



# Top 10 Michigan Credit Unions

## 2009 Member Growth

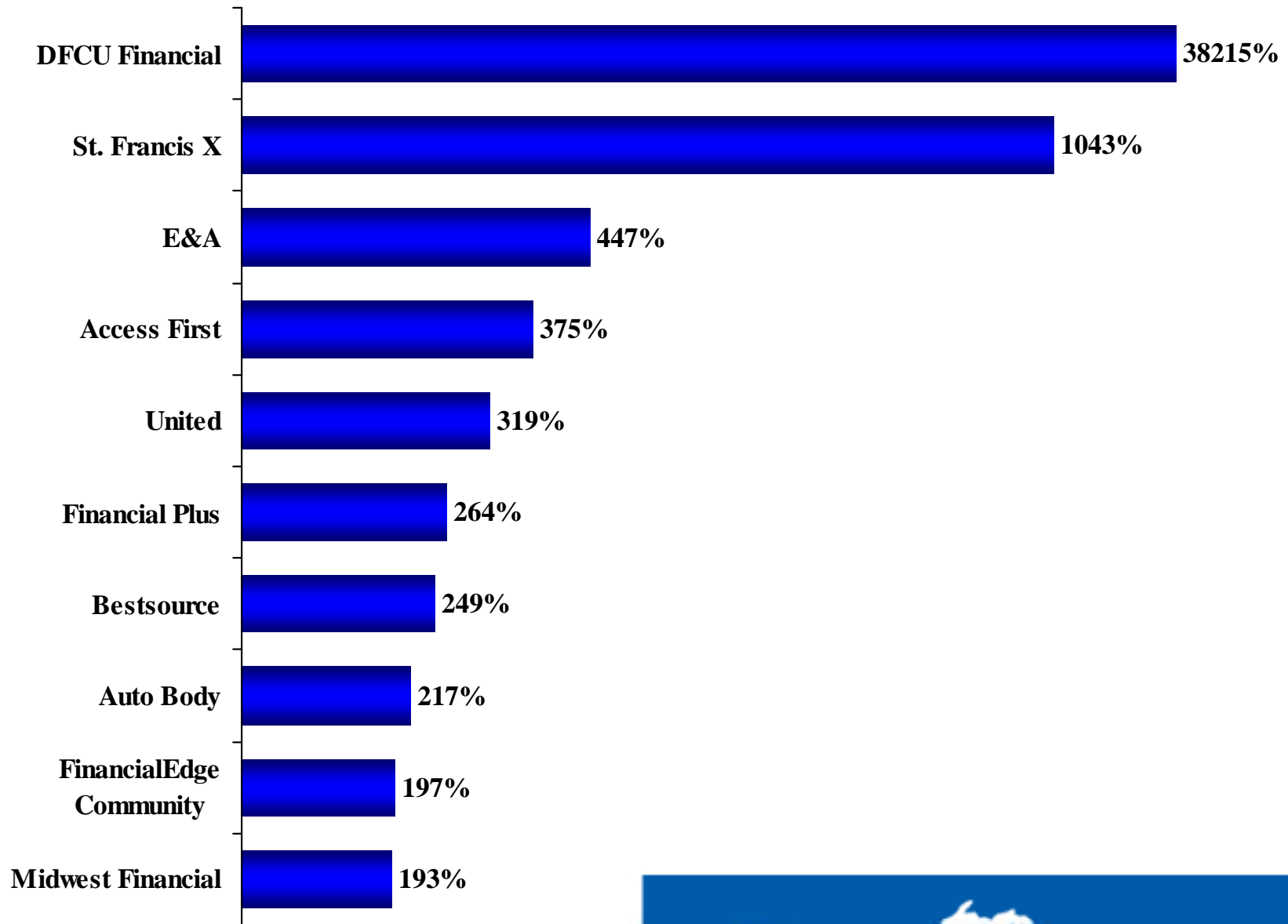


Source: CUNA, NCUA



# Top 10 Michigan Credit Unions

## 2009 Investments Growth

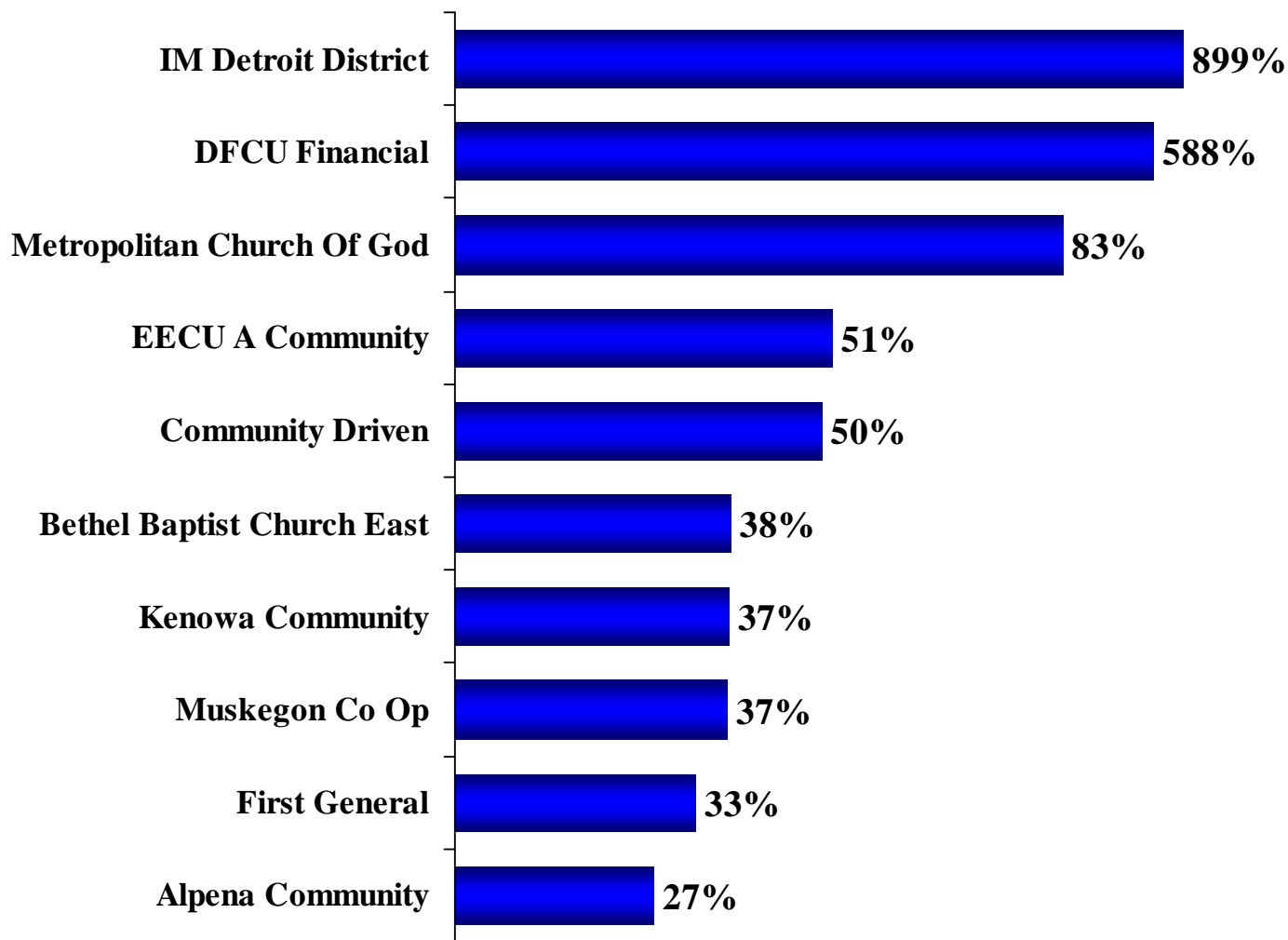


Source: CUNA, NCUA



# Top 10 Michigan Credit Unions

## 2009 Loan Growth

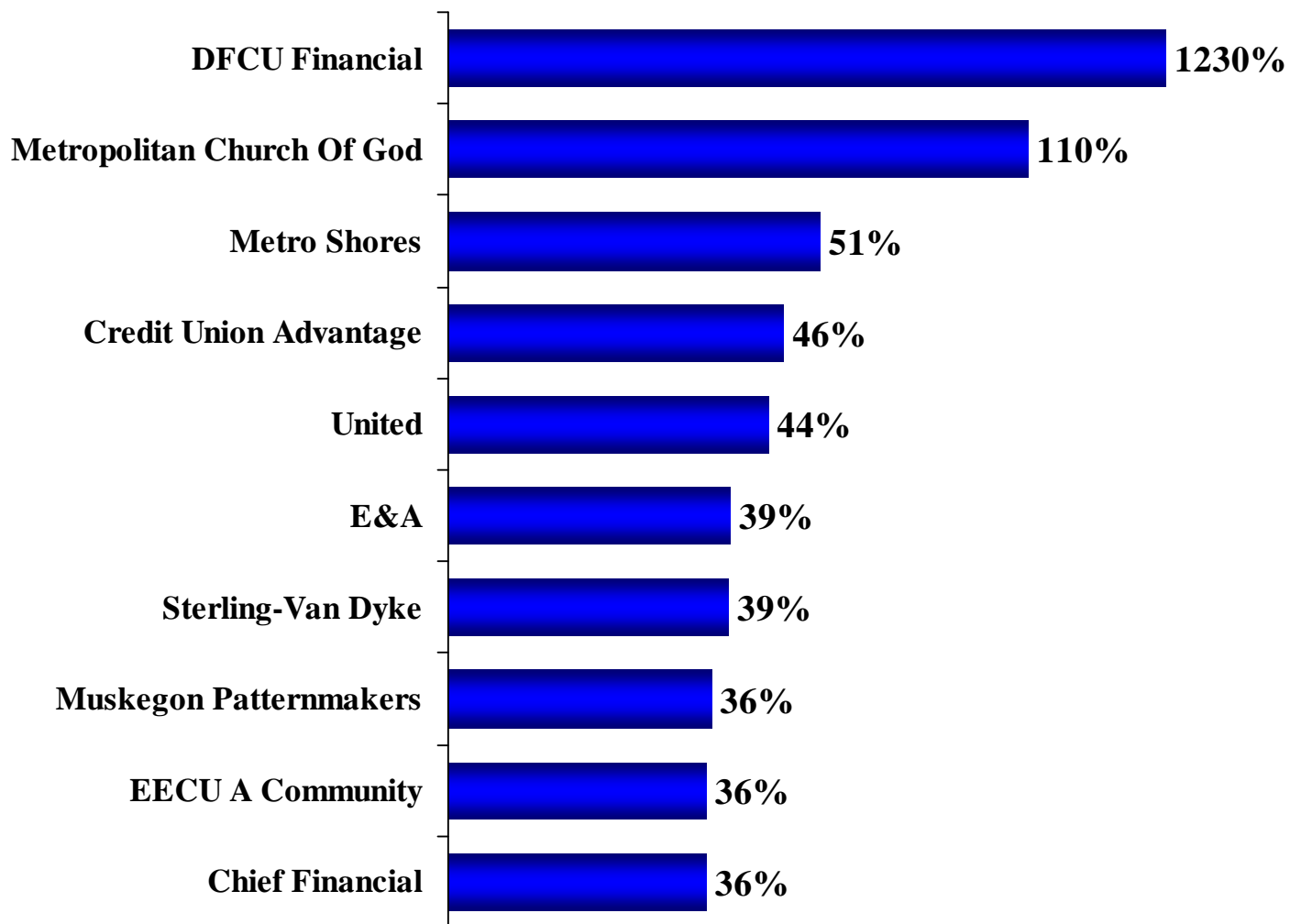


Source: CUNA, NCUA



## Top 10 Michigan Credit Unions

### 2009 Share Growth

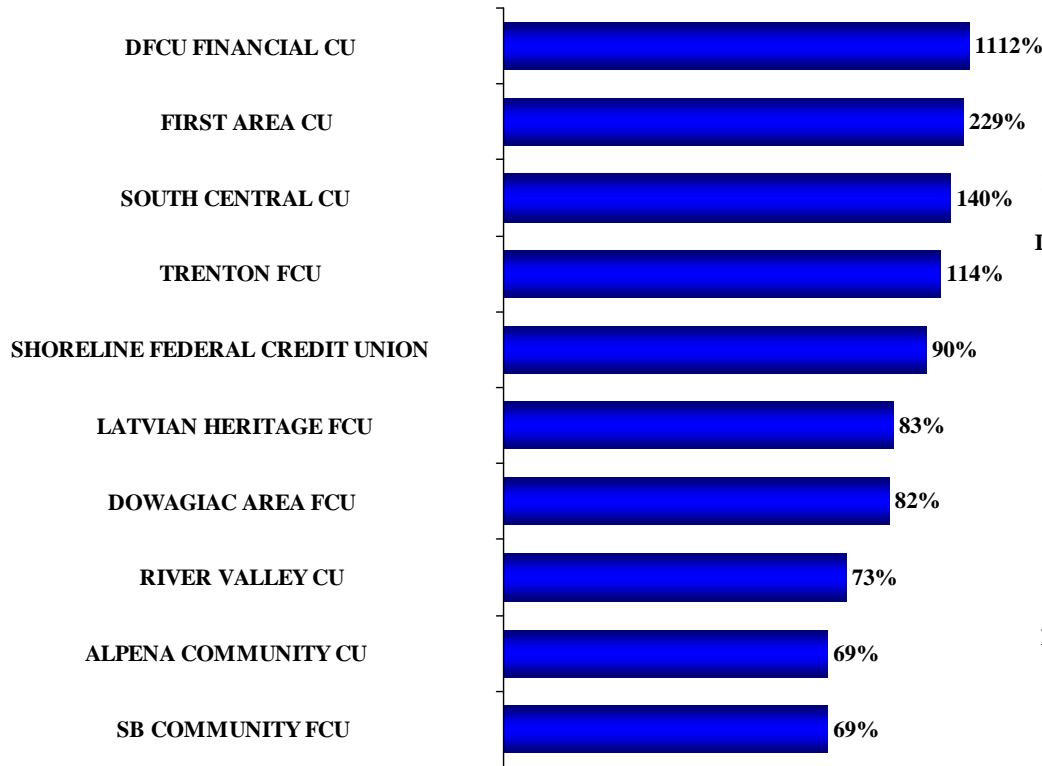


Source: CUNA, NCUA

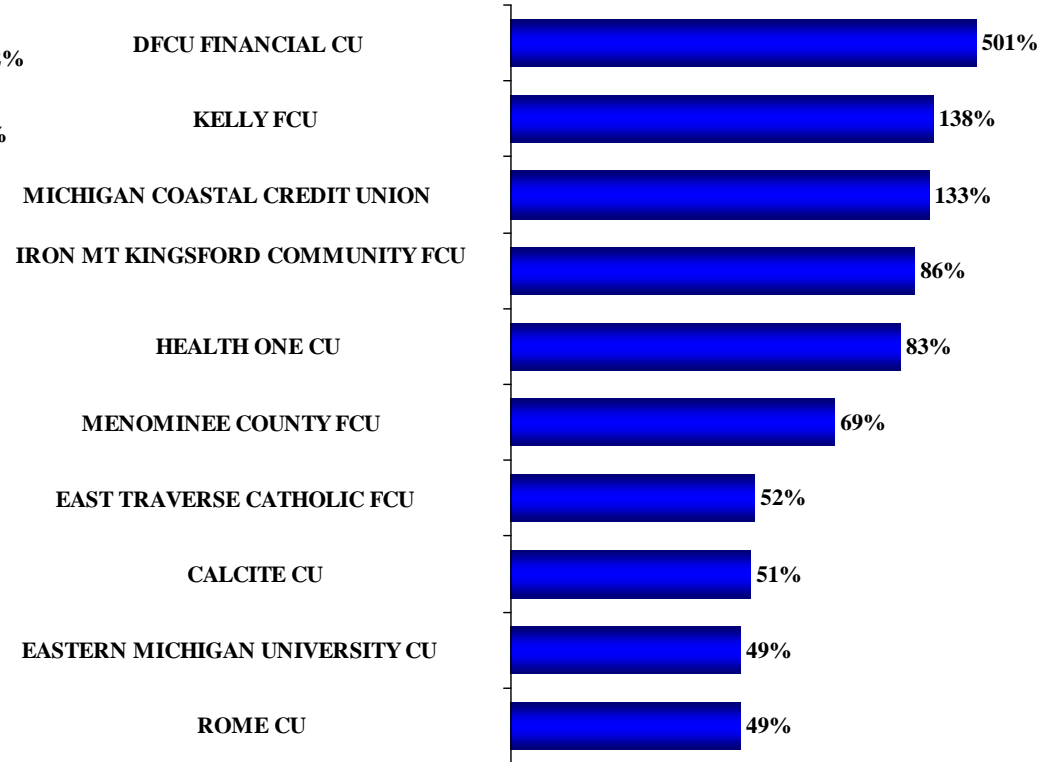


# Top 10 Michigan Credit Unions

## 2009 First Mortgage Growth



## 2009 Other Mortgage Growth

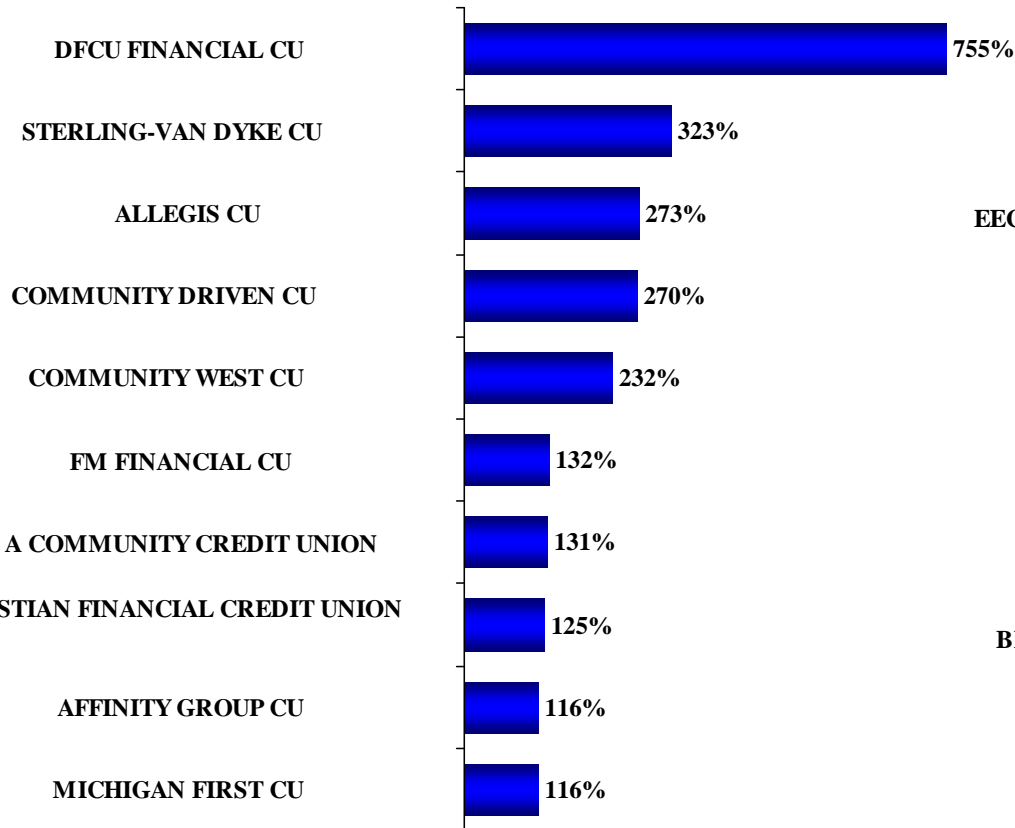


Source: CUNA, NCUA

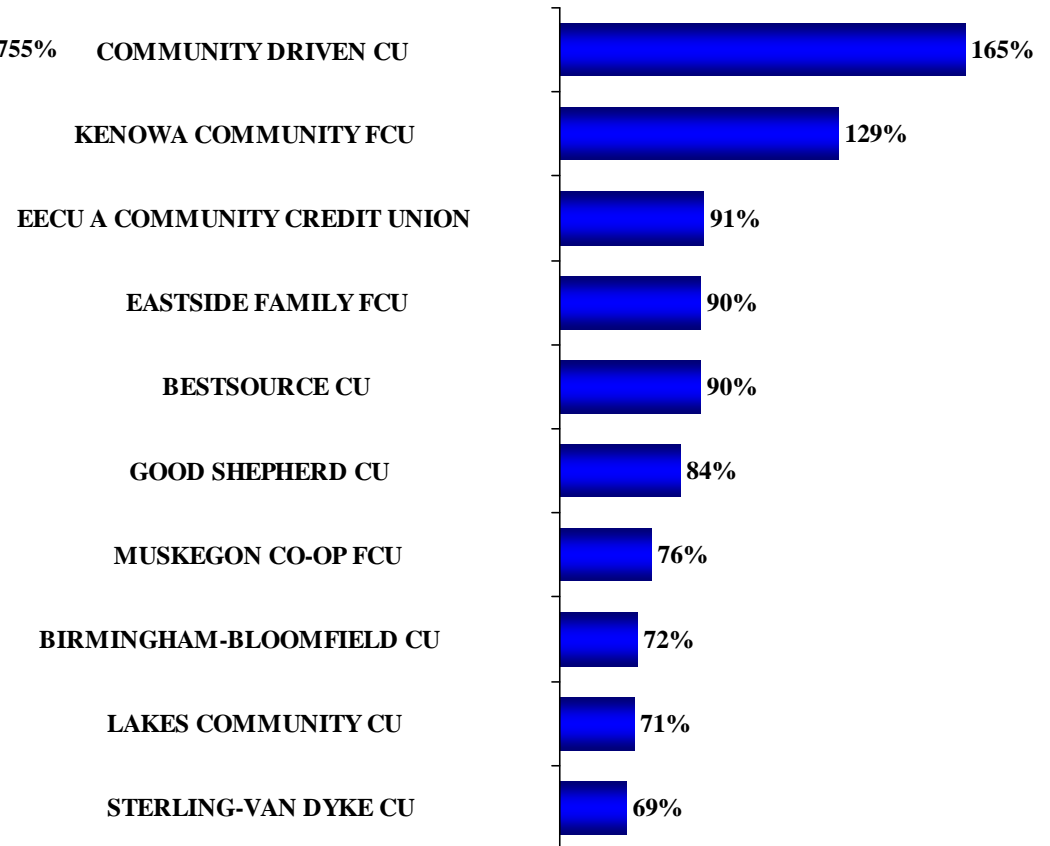


## Top 10 Michigan Credit Unions

### 2009 New Auto Loan Growth



### 2009 Used Auto Loan Growth



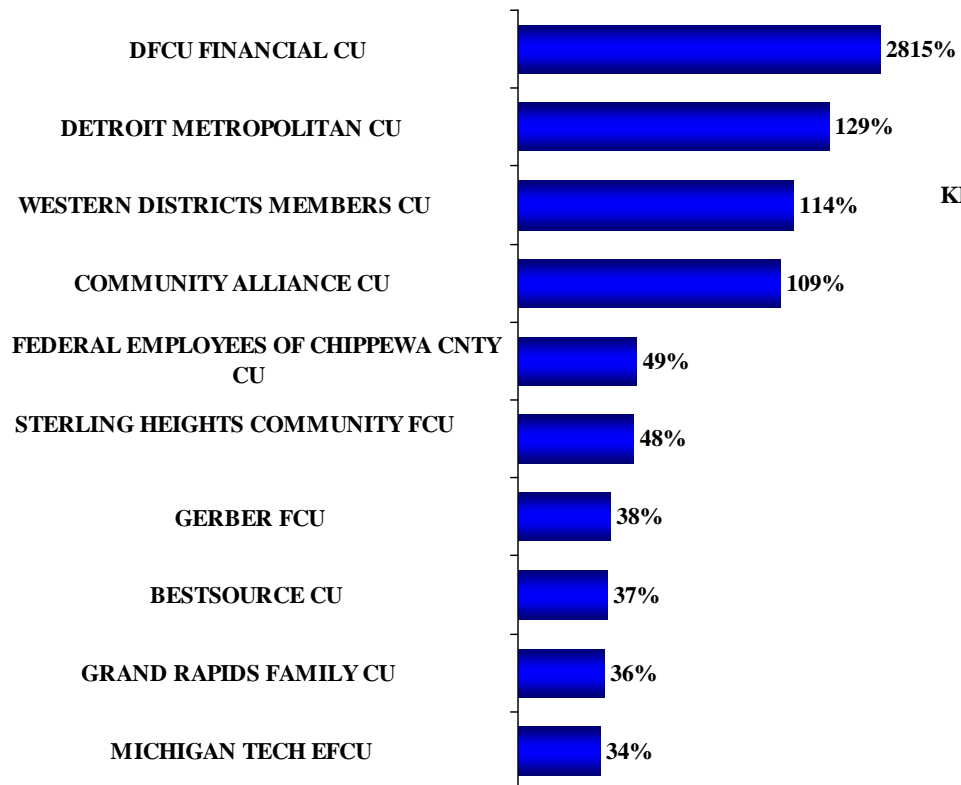
Source: CUNA, NCUA



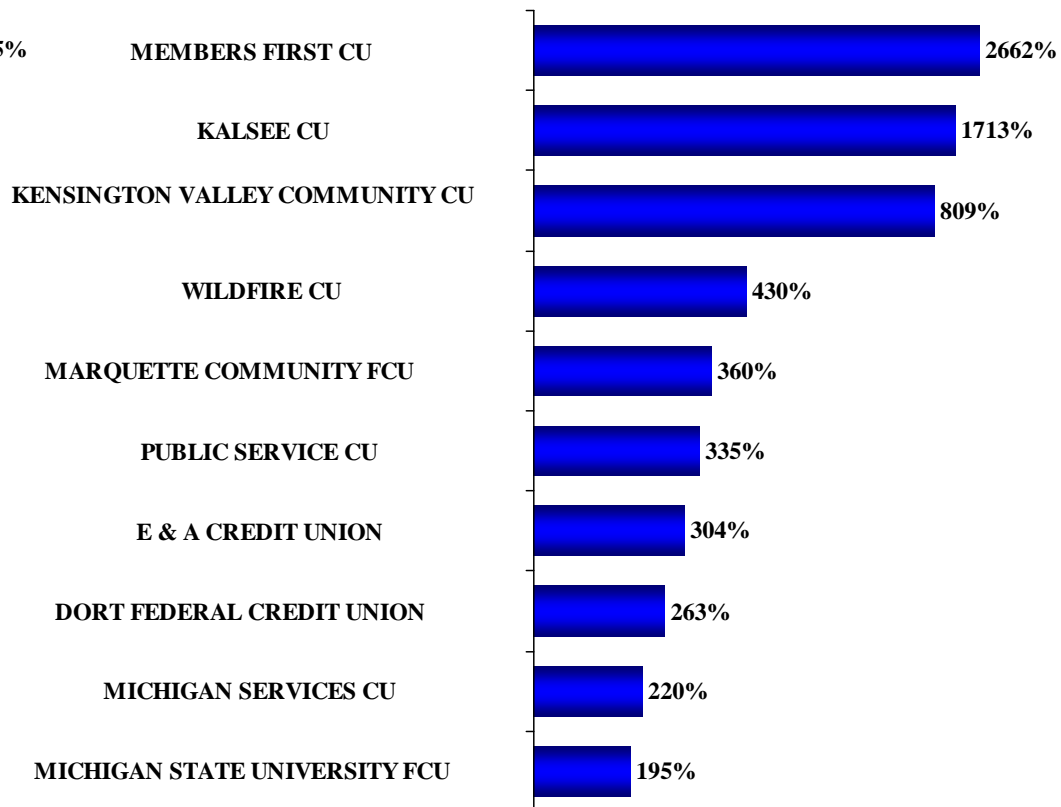


# Top 10 Michigan Credit Unions

## 2009 Credit Card Growth



## 2009 MBL Growth



Source: CUNA, NCUA





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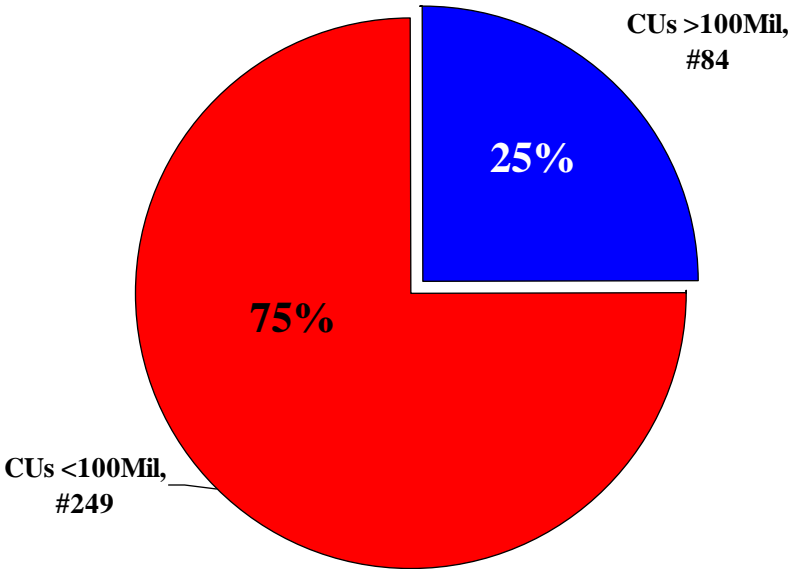
# **Michigan Credit Unions by Asset Size**

## **Key Performance Comparisons**

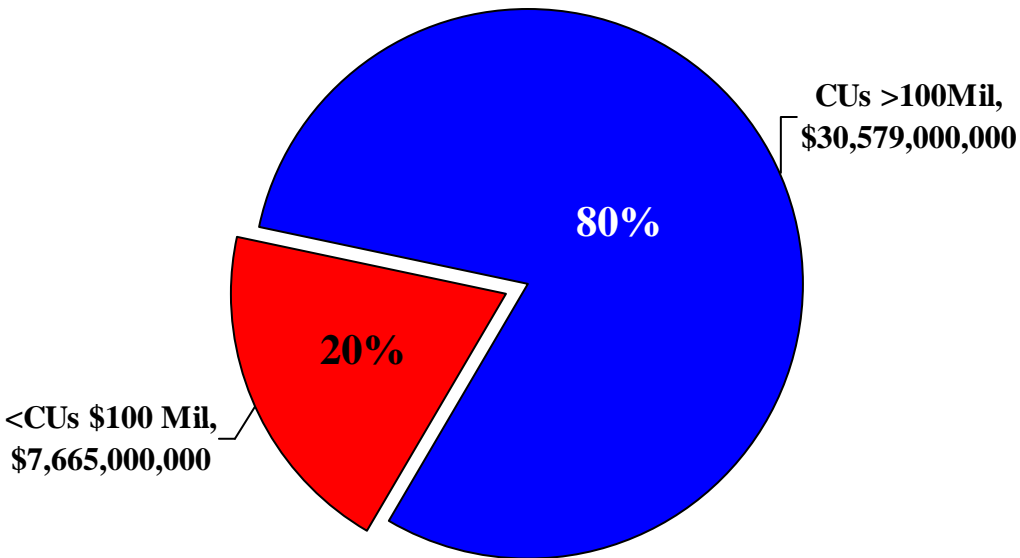


75 percent of Michigan credit unions have less than \$100 million in assets. The other 25 percent have more than \$100 million in total assets. The latter (84 CUs) accounted for the majority of all Michigan credit unions' assets in 2009.

**Credit Unions Composition by Asset Size**



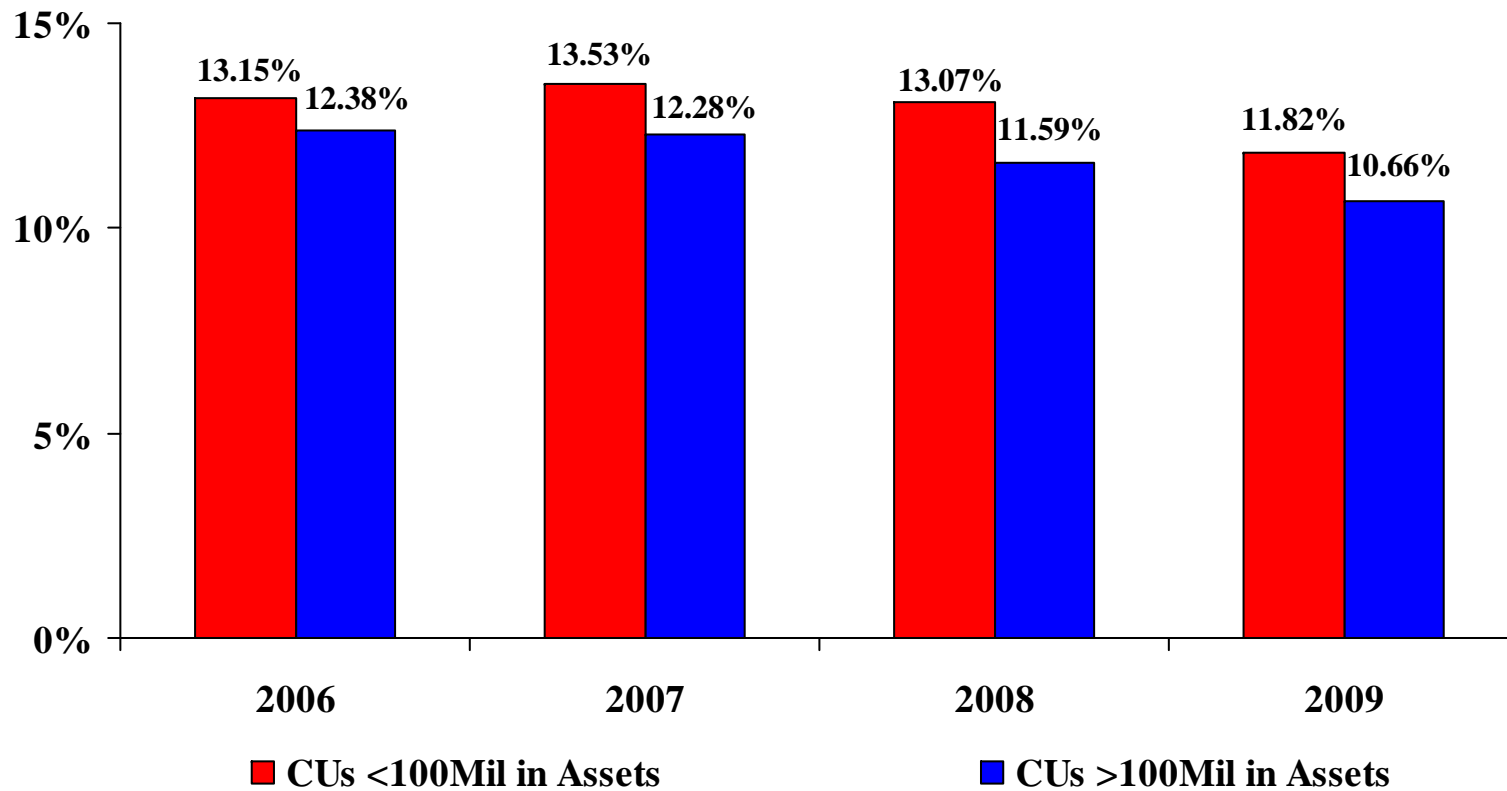
**Credit Unions Allocation of Assets**



Source: CUNA

As capital contributions fail to keep pace with rapid asset growth, credit unions net worth to asset ratios declined slightly over the past three years.

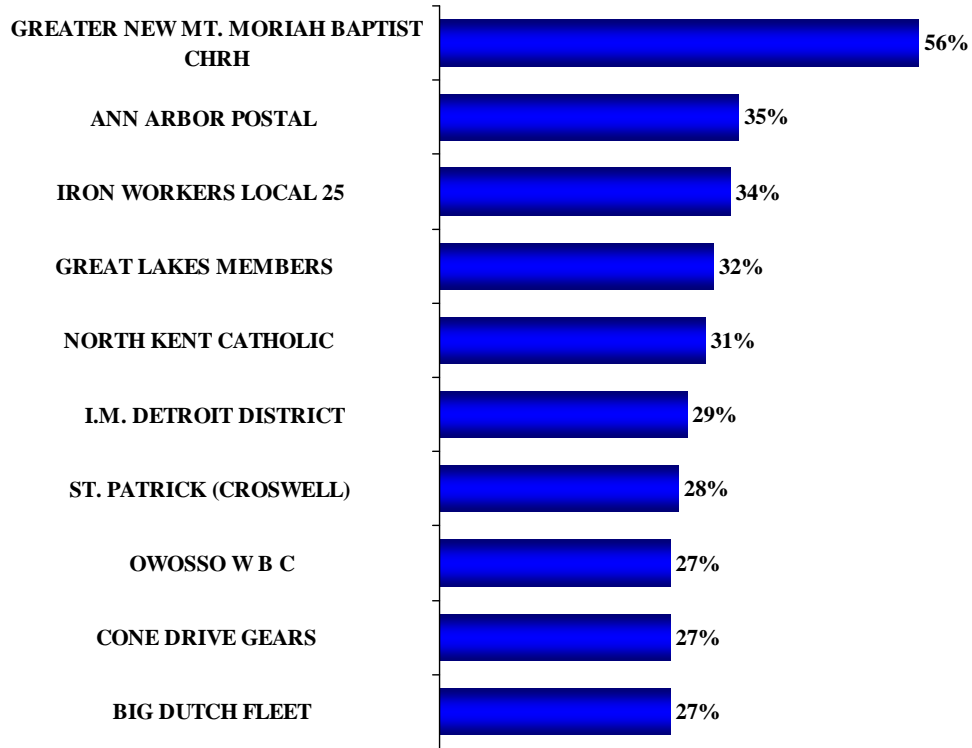
### Net Worth/Asset Ratio Profile



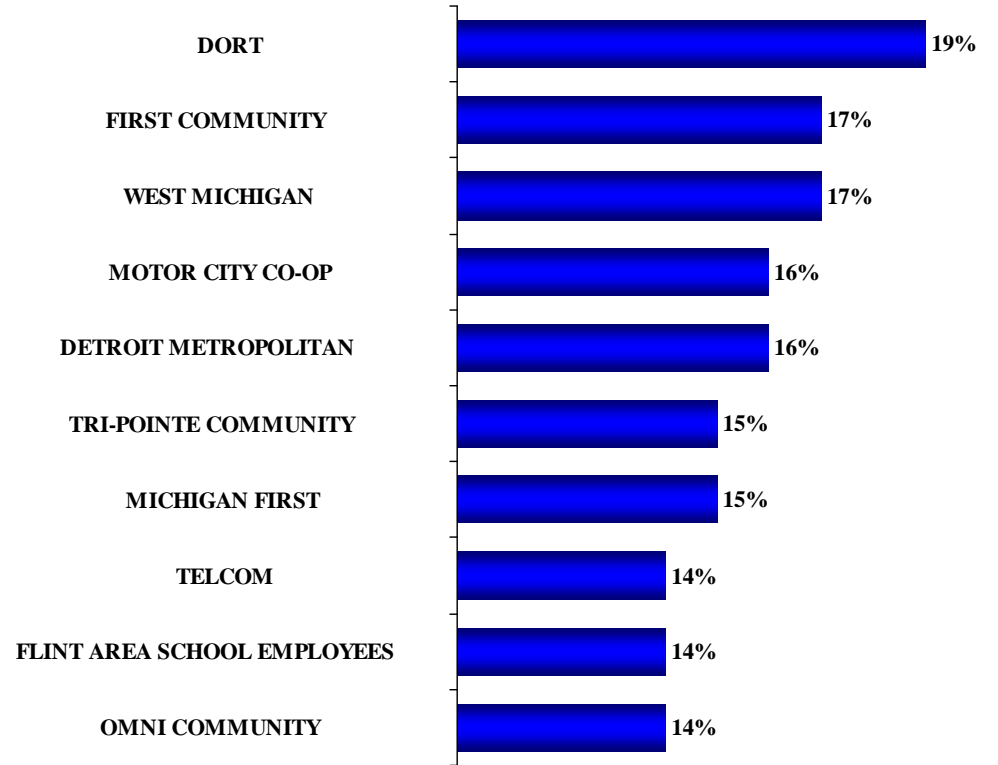
Source: CUNA

## Top 10 Michigan Credit Unions

2009 Net Worth/Asset CUs <100 Mil in Assets



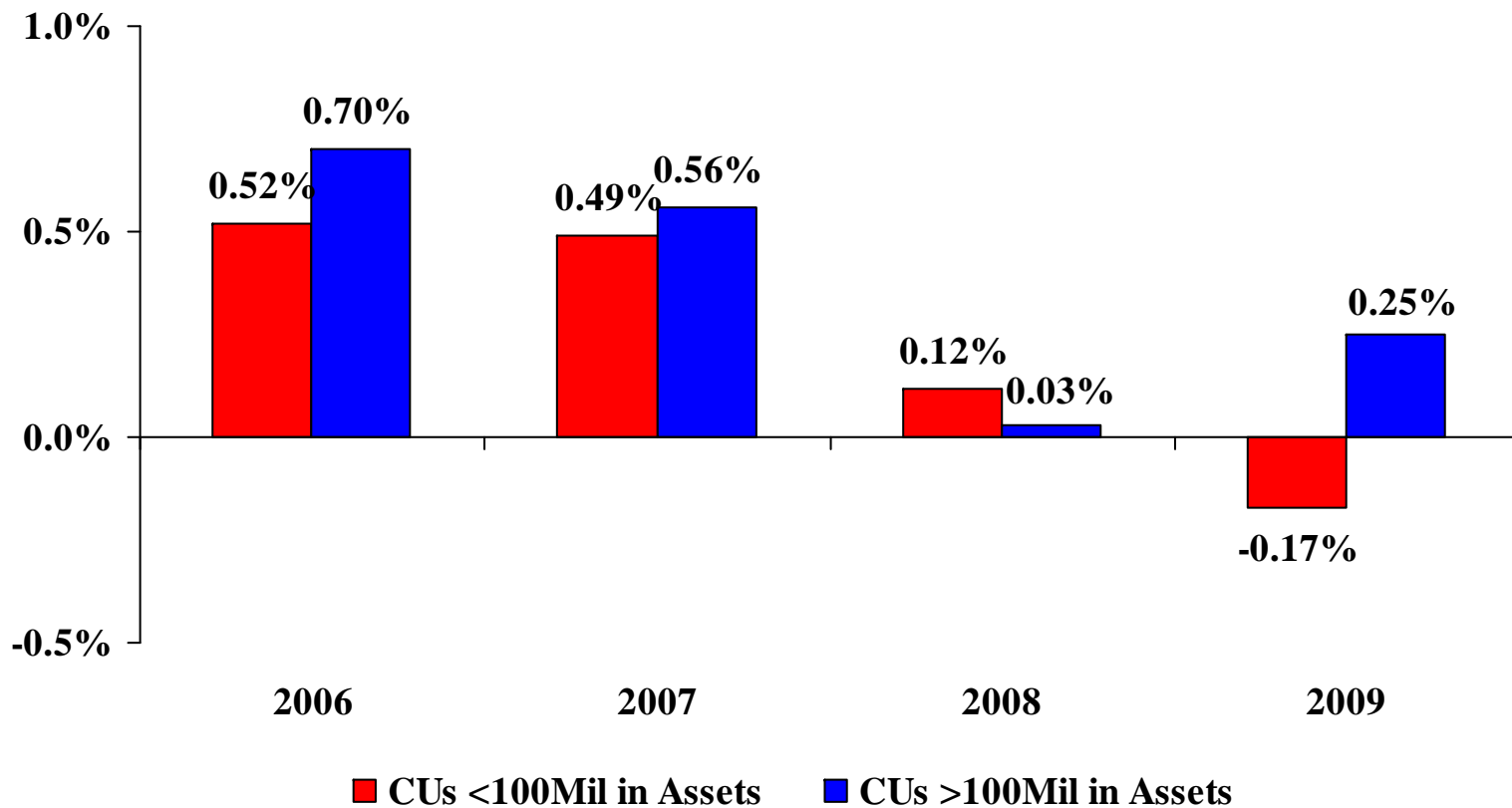
2009 Net Worth/Asset CUs >100 Mil in Assets



Source: CUNA

Starting from 2008 it has been difficult for credit unions to grow capital, as they had to account for the NCUSIF assessment in response to corporate credit unions' losses. Large-size credit unions report positive return on assets in 2008 and managed to increase net income in 2009, while smaller asset size credit unions report negative returns at the end of the year.

### Return on Average Assets

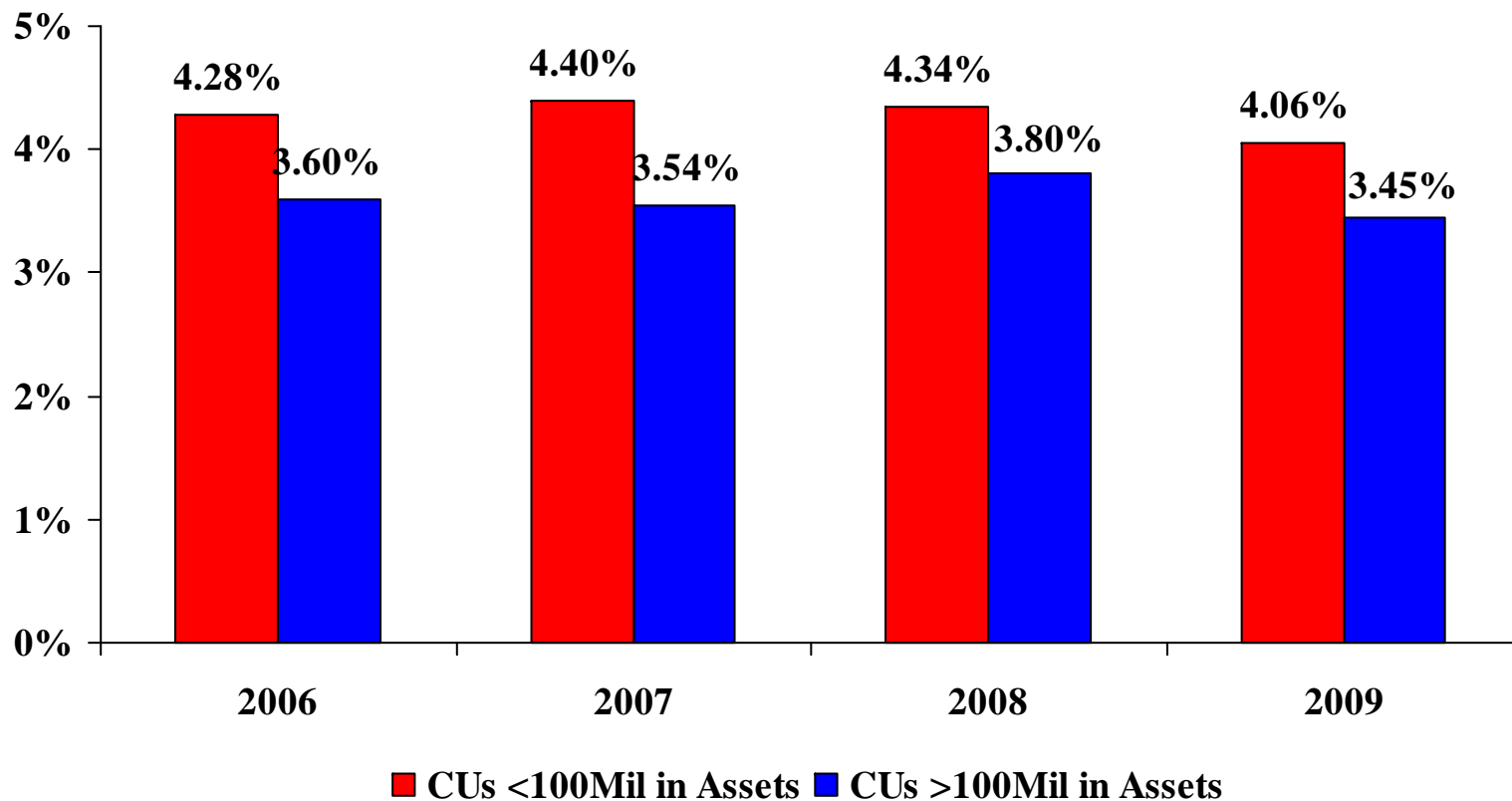


Source: CUNA



Although smaller-size credit unions have been reducing their operating expenses during the past three years, expenses still remain higher than larger-size credit unions' expenses.

### Operating Expense/Average Assets

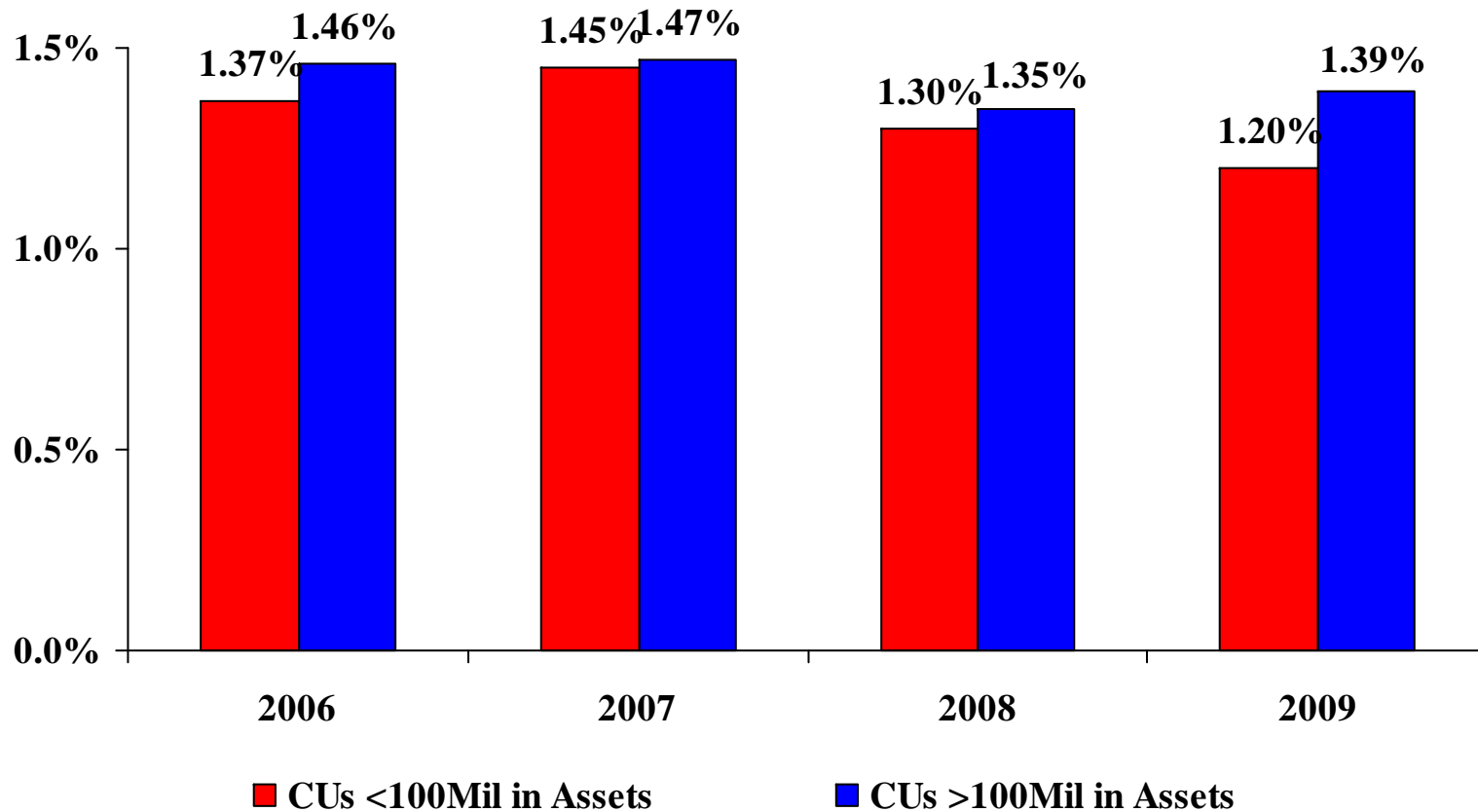


Source: CUNA



Large-size credit unions have been reporting higher fee income to asset ratio for the past three years compared to the smaller-size credit unions, specifically during 2009, which helped them boost their net interest margins.

### Fee & Other Income/Average Assets



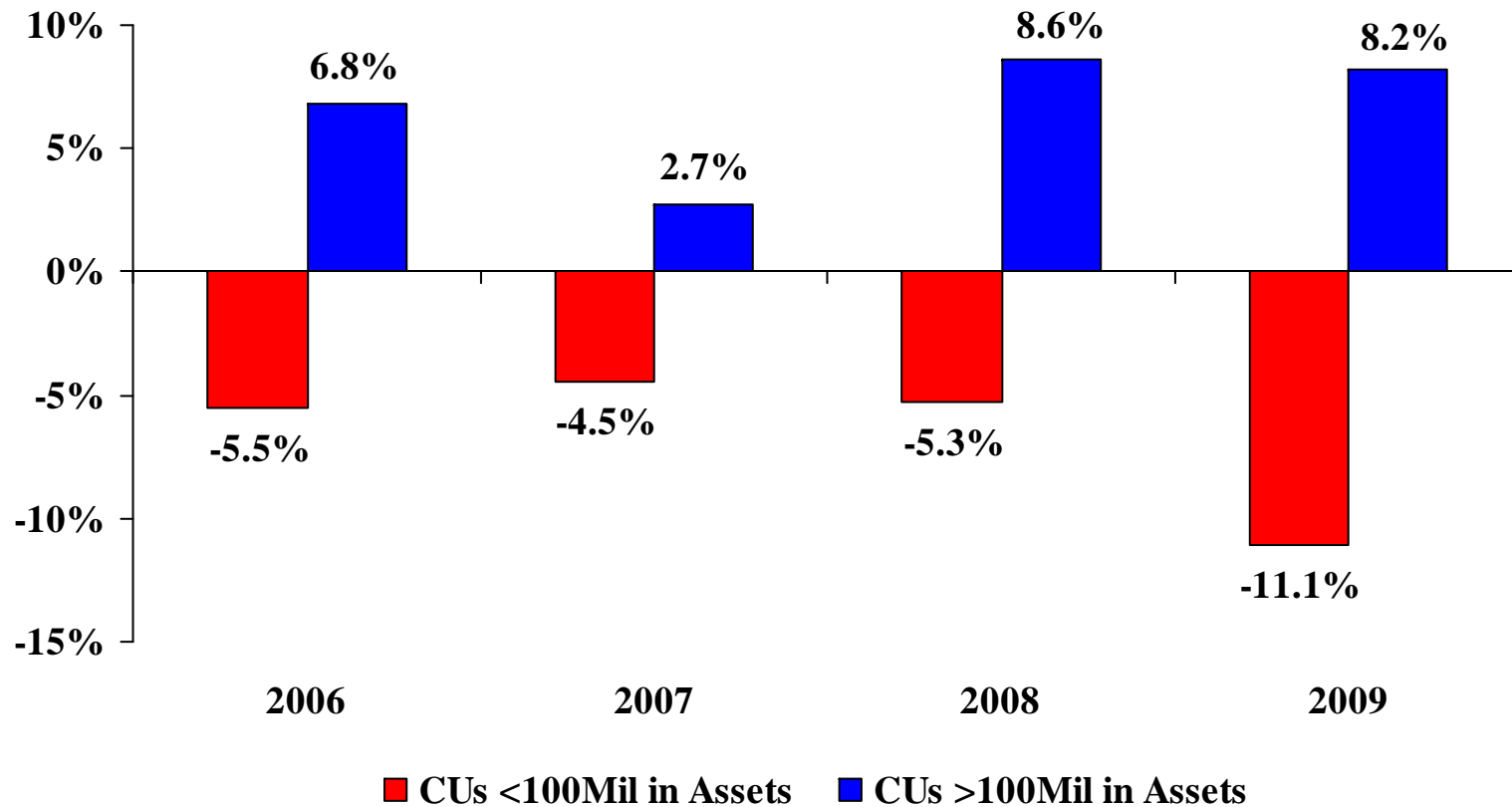
Source: CUNA





Experiencing a significant decline in credit demand, smaller-size credit unions reported the greatest loan drop in 2009. Large-size credit unions have been growing their loans on a steady fast pace during 2008 and 2009. As the economy continues to recover (household income increases, unemployment declines and members have more confidence in their financial situation), credit union borrowers will increase their loan demand.

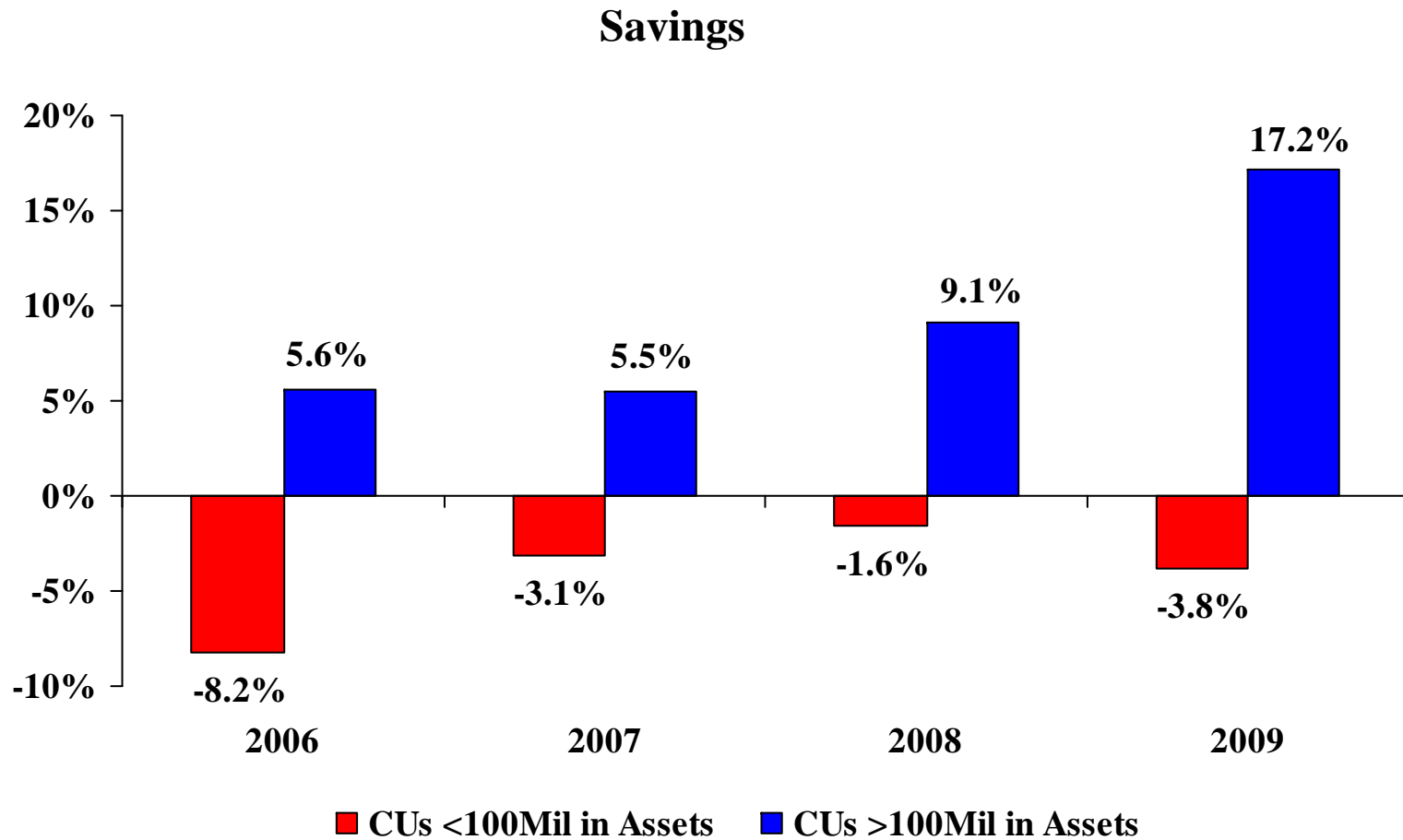
### Loans



Source: CUNA

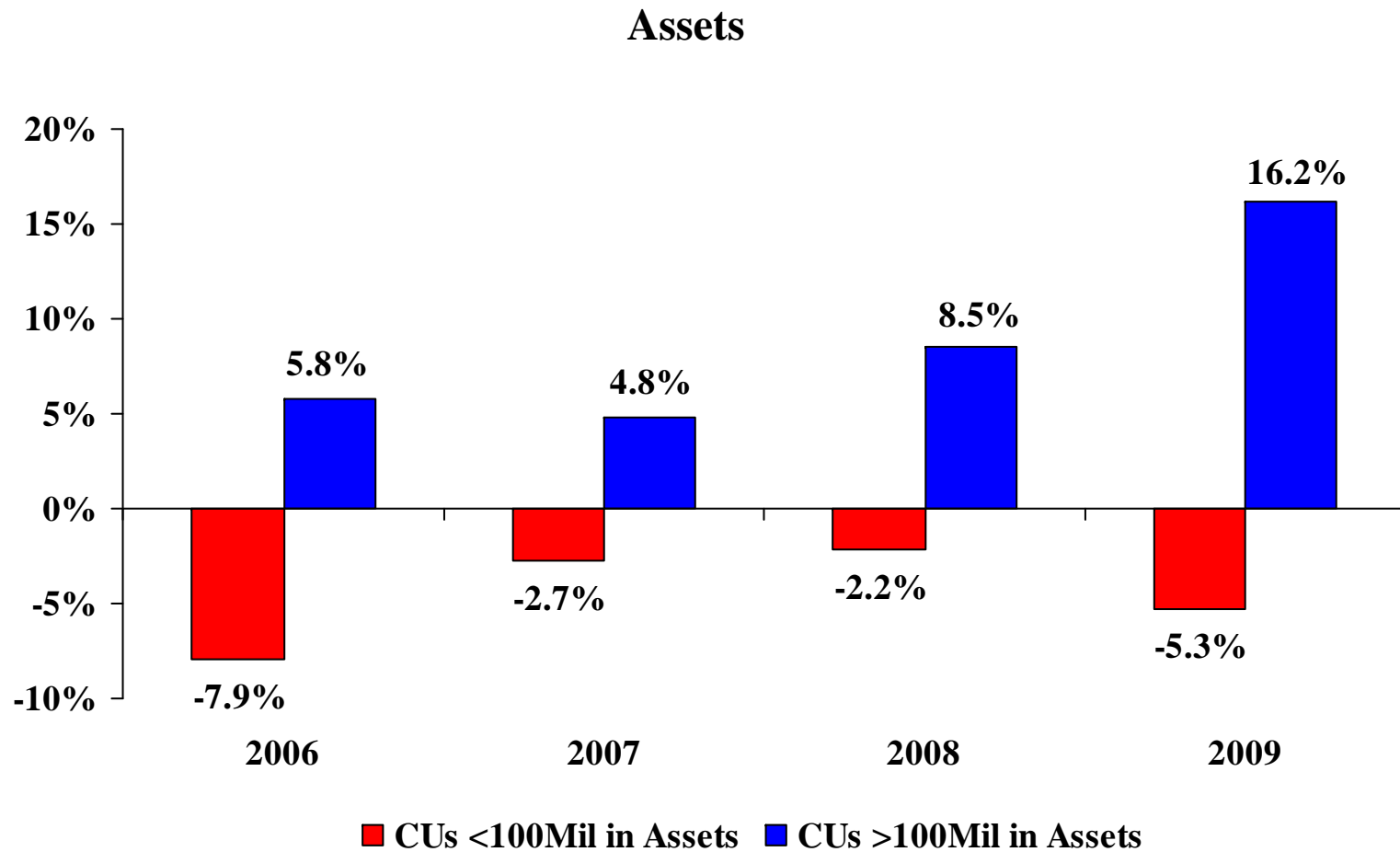


Posting a very strong savings balance growth in 2009, large-size credit unions managed to reduce liquidity risk. Small-size credit unions have been experiencing negative growth in member savings, slowing down even more in 2009.



Source: CUNA

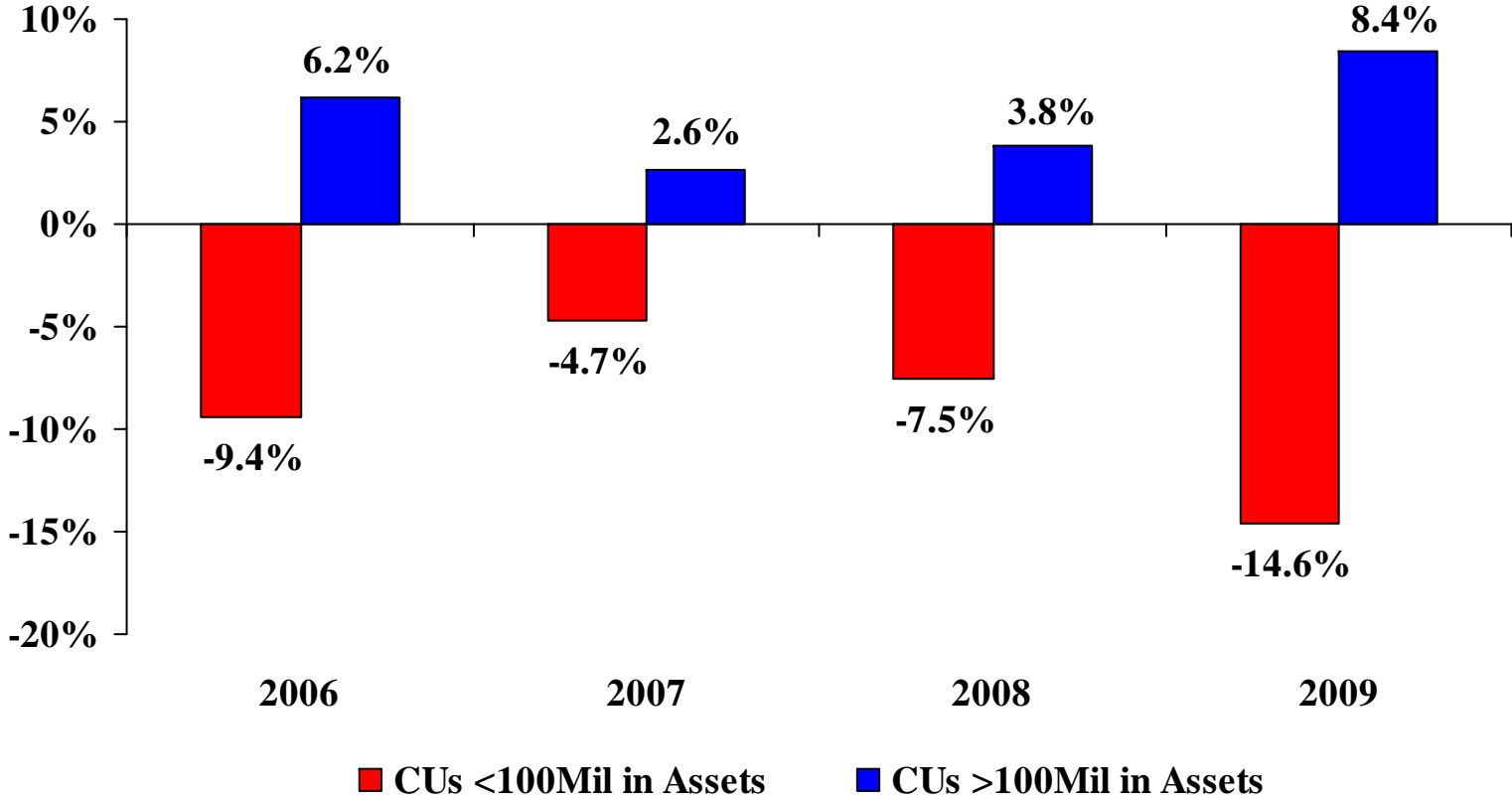
For smaller-size credit unions, NCUSIF capital impairment impacted the rate of asset growth in 2009 more than during previous two years, while large size credit unions were enjoying high asset growth at an extremely fast pace, which almost doubled in 2009 compared to 2008.



Source: CUNA

Growing membership and a focus on retention is especially important during a time of instability in the banking sector. Large-size credit unions recognized this opportunity and continued to attract new members in 2009 at a faster pace than during previous years. While new member growth is a sign of a shift in preference among consumers regarding financial institutions, smaller-size CUs have been unable to capitalize on the opportunity.

### Members

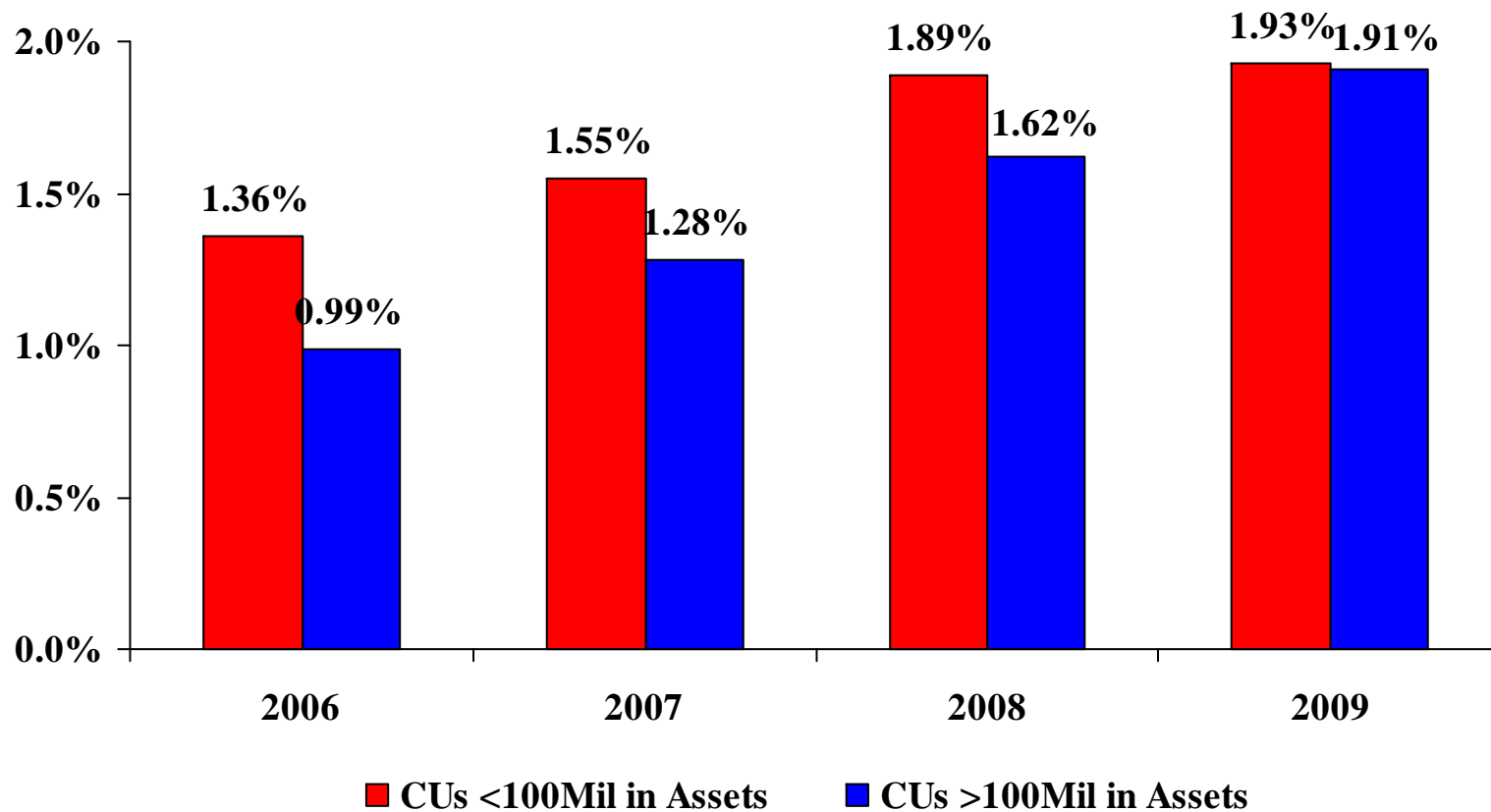


Source: CUNA



Michigan had the highest state unemployment rate among all 50 states in 2009. This contributed to continued increase in delinquent loans. The deterioration of credit quality will not improve until the unemployment rate improves.

### Asset Quality: 60+ Day Dollar Delinquency

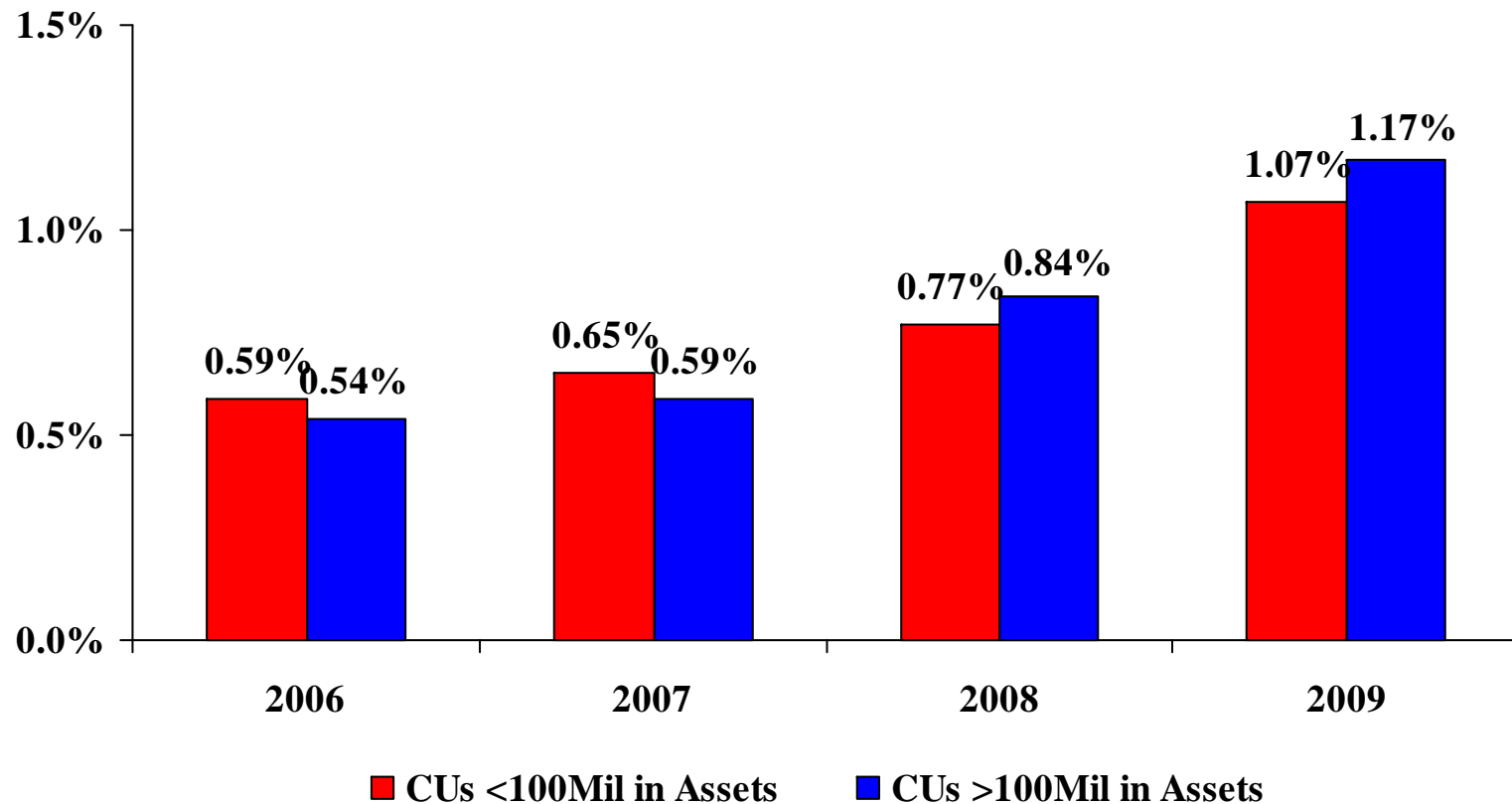


Source: CUNA



The foreclosure crisis and weaken Michigan economy has taken its toll on Michigan credit unions loan portfolios resulting in a significant increase in charge offs. Loss mitigation efforts, including early identification of members experiencing financial difficulty will remain a high priority for Michigan credit unions.

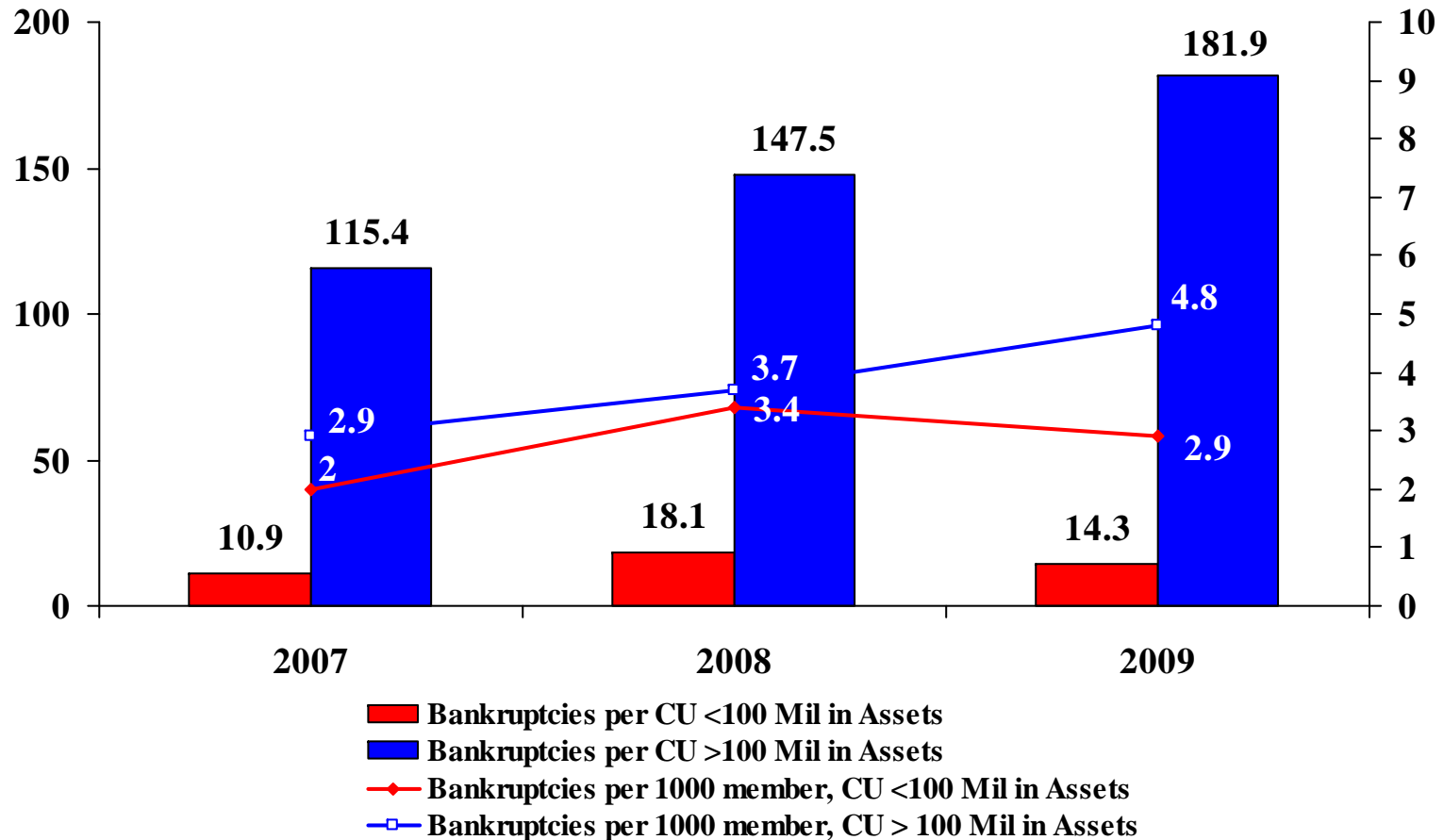
### Asset Quality: Net Charge-offs



Source: CUNA

The economic stress continued to force more members into bankruptcy. Among the most common factors for bankruptcy filing in 2009 were rising unemployment, reduced income, mortgage crisis, and home foreclosures. Large-size credit unions saw more bankruptcies during the past three years than smaller-size credit unions, mainly due to their size.

### Asset Quality: Bankruptcy Profile

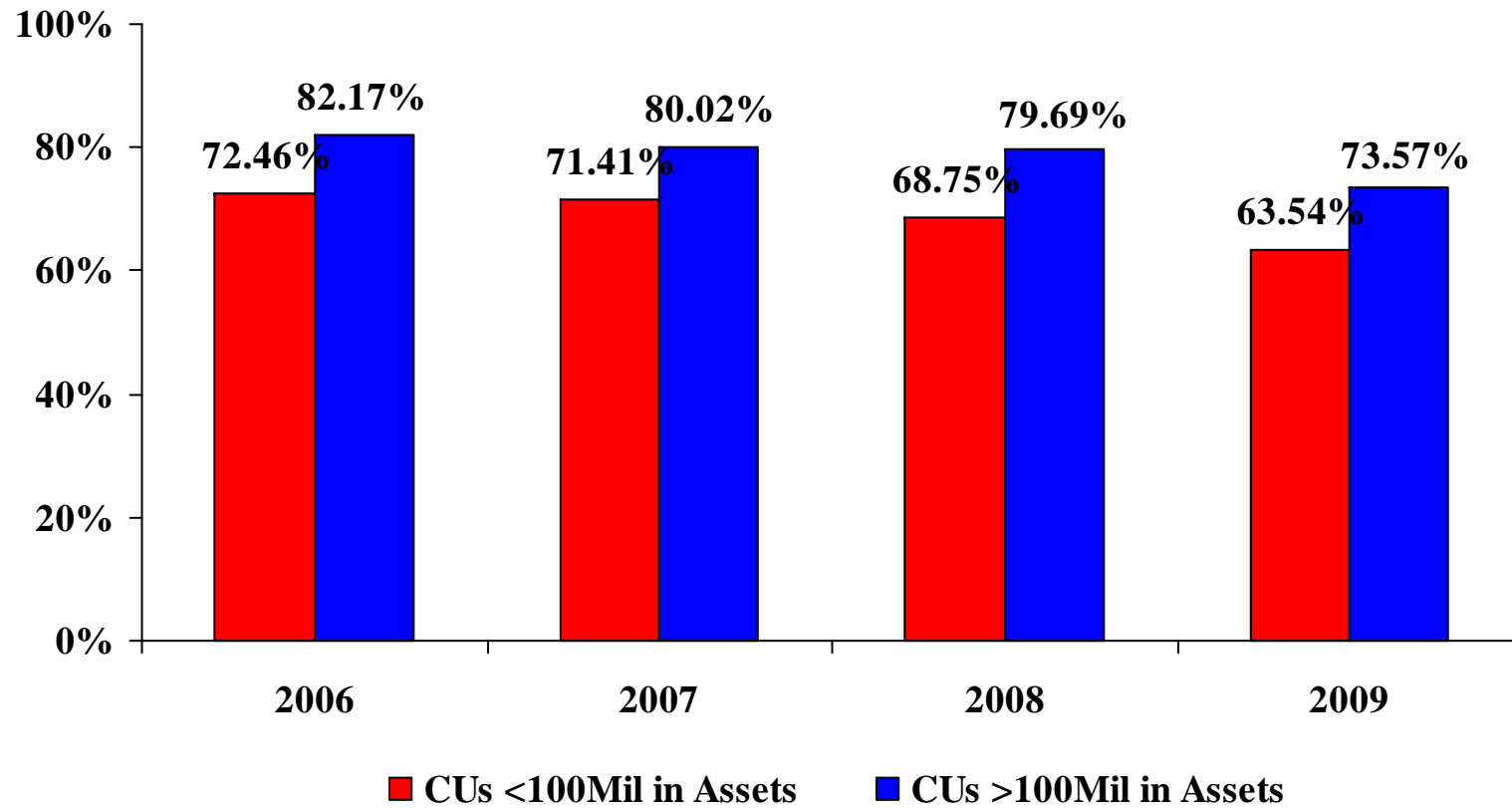


Source: CUNA, data reflects # of bankruptcies



During the four-year period of economic crisis, all credit unions slowly decreased loan-to-savings ratios.

### Asset Quality: Loans-to-Savings Ratios



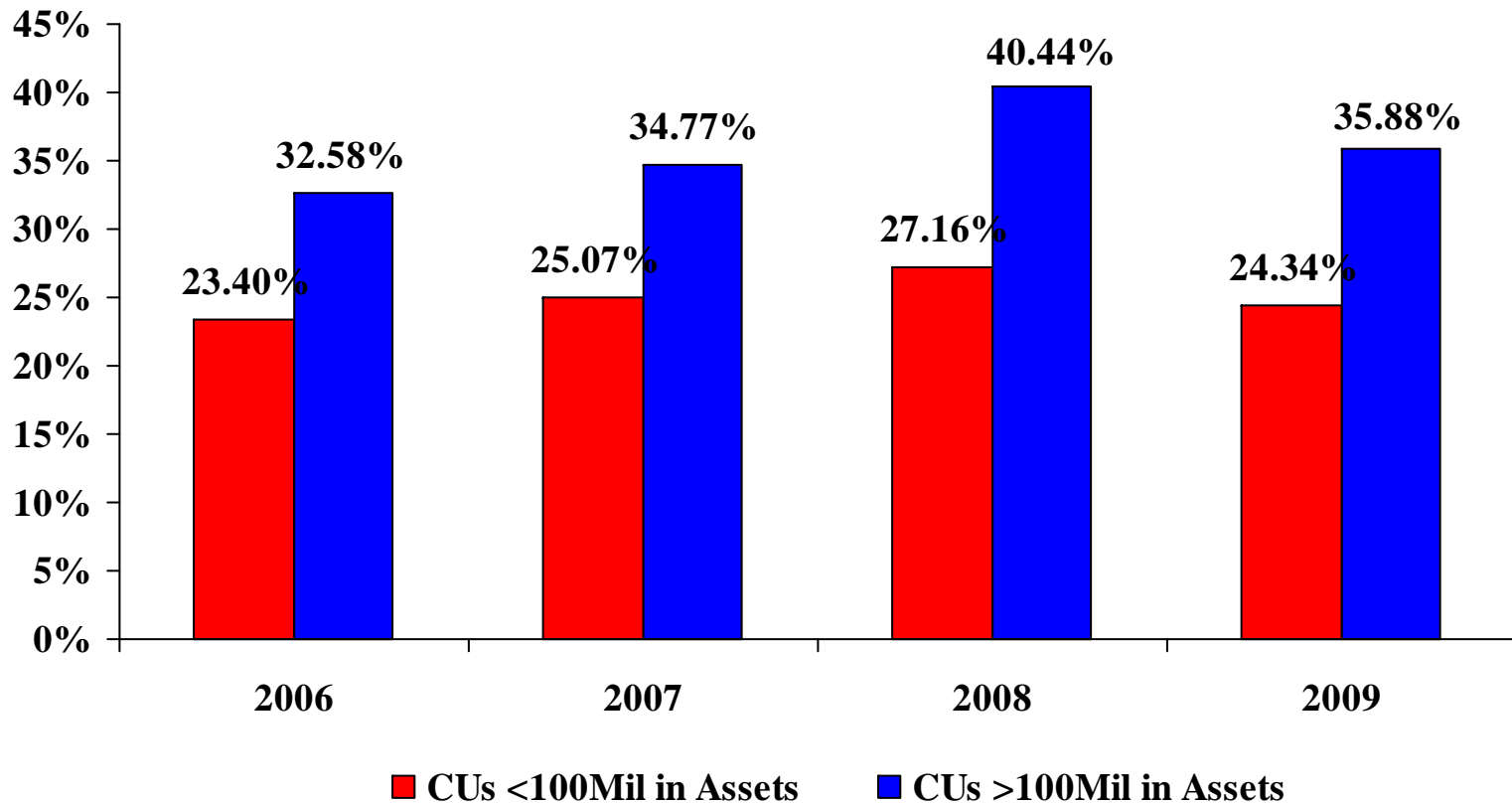
Source: CUNA





Longer-term assets/assets peaked in 2008 among large-size credit unions as financial crisis hit 2008 and went back to usual state in 2009. Smaller-size credit unions' longer-term assets/assets ratio remained at a steady rate.

### Asset Quality: Long-Term Assets/Assets

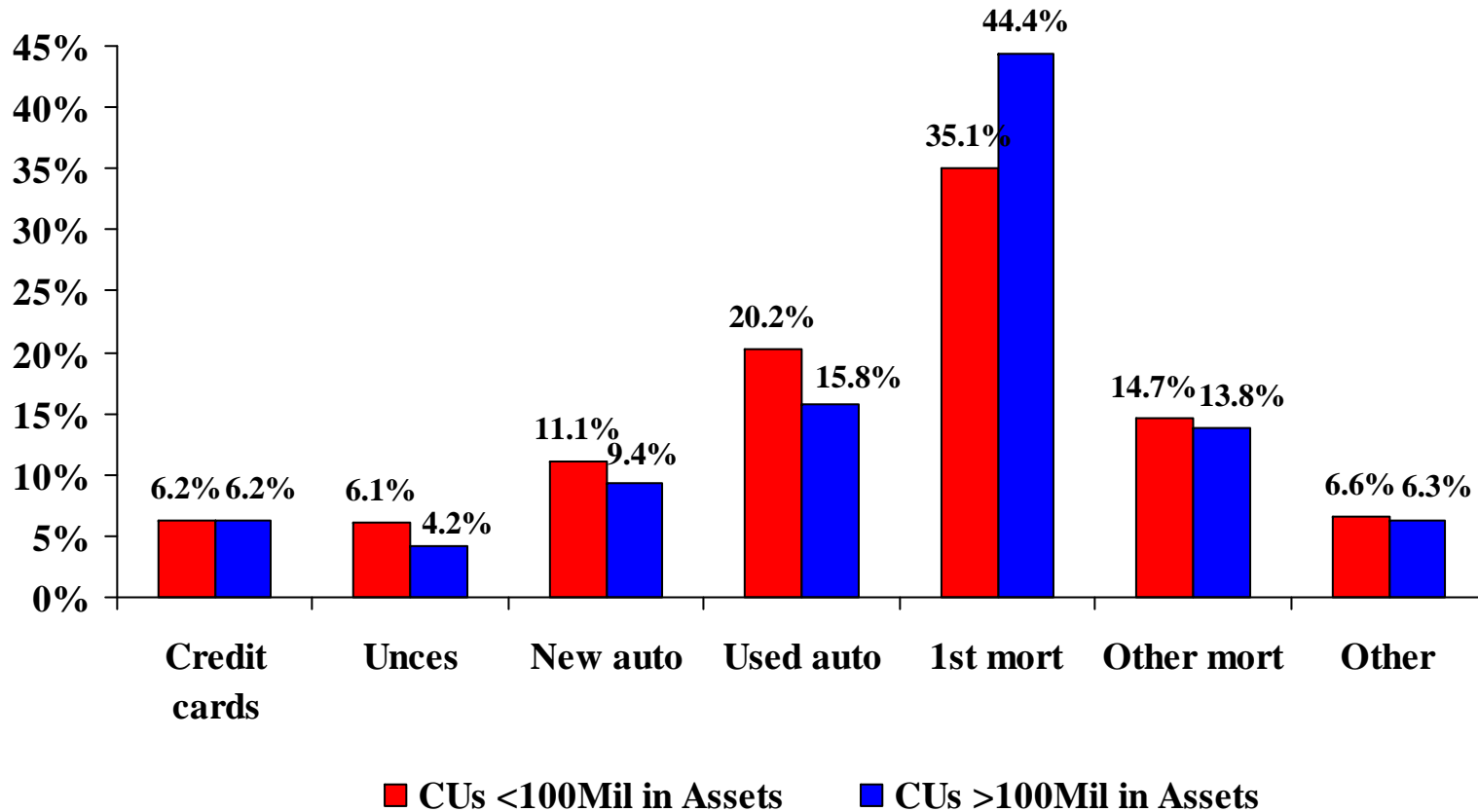


Source: CUNA



The mortgage sector provided the strongest lending opportunity to all credit unions in 2009, followed by auto loans. Almost 25% of all U.S. auto loans came from credit unions in 2009, according to CUNA.

### Distribution of Loans

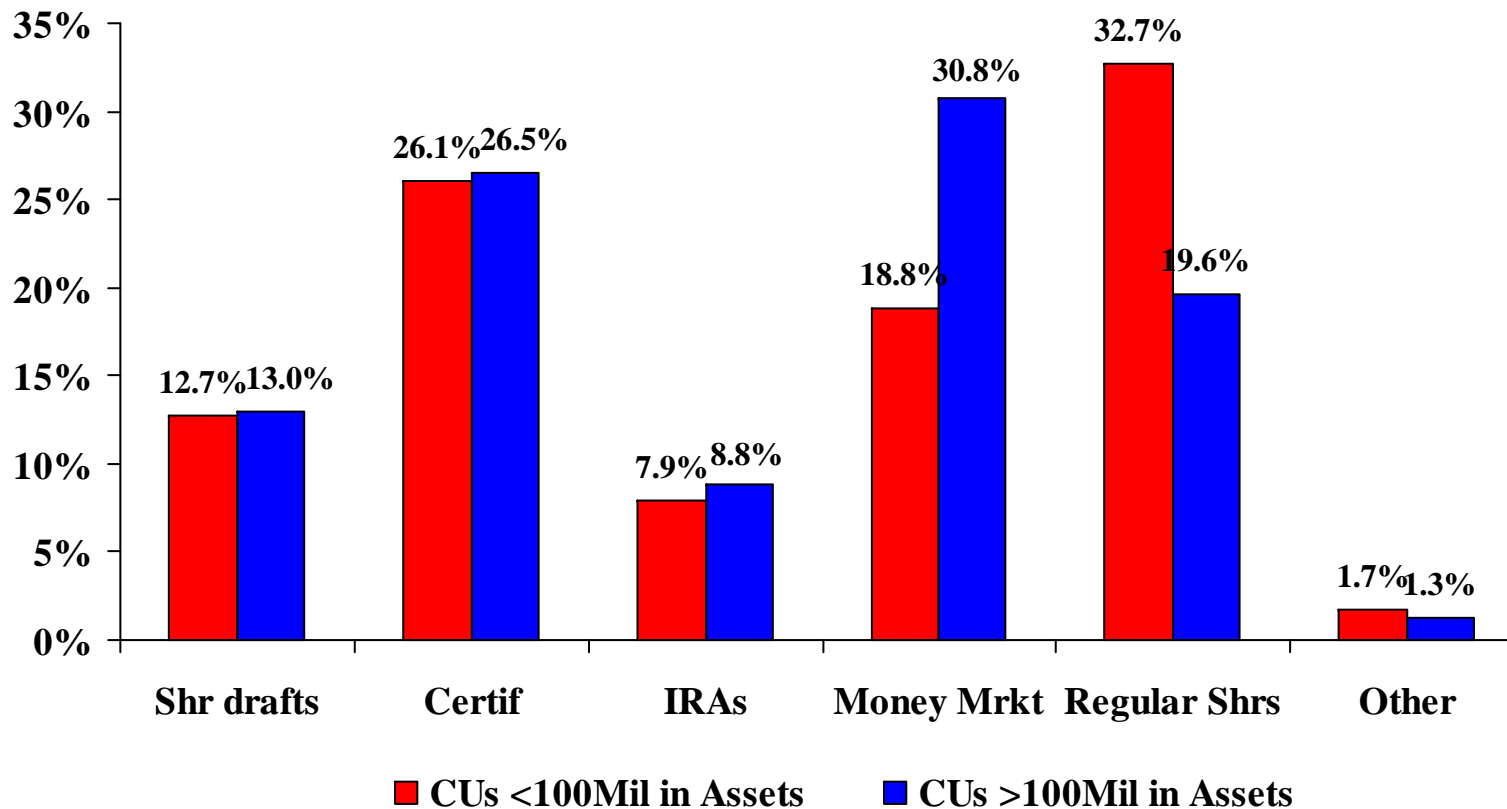


Source: CUNA



The distribution of savings accounts remained similar in 2009 among small and large-size CUs with one exception: Large-size credit unions had the higher share of money market accounts and smaller-size credit unions had larger regular share portfolios.

### Distribution of Savings

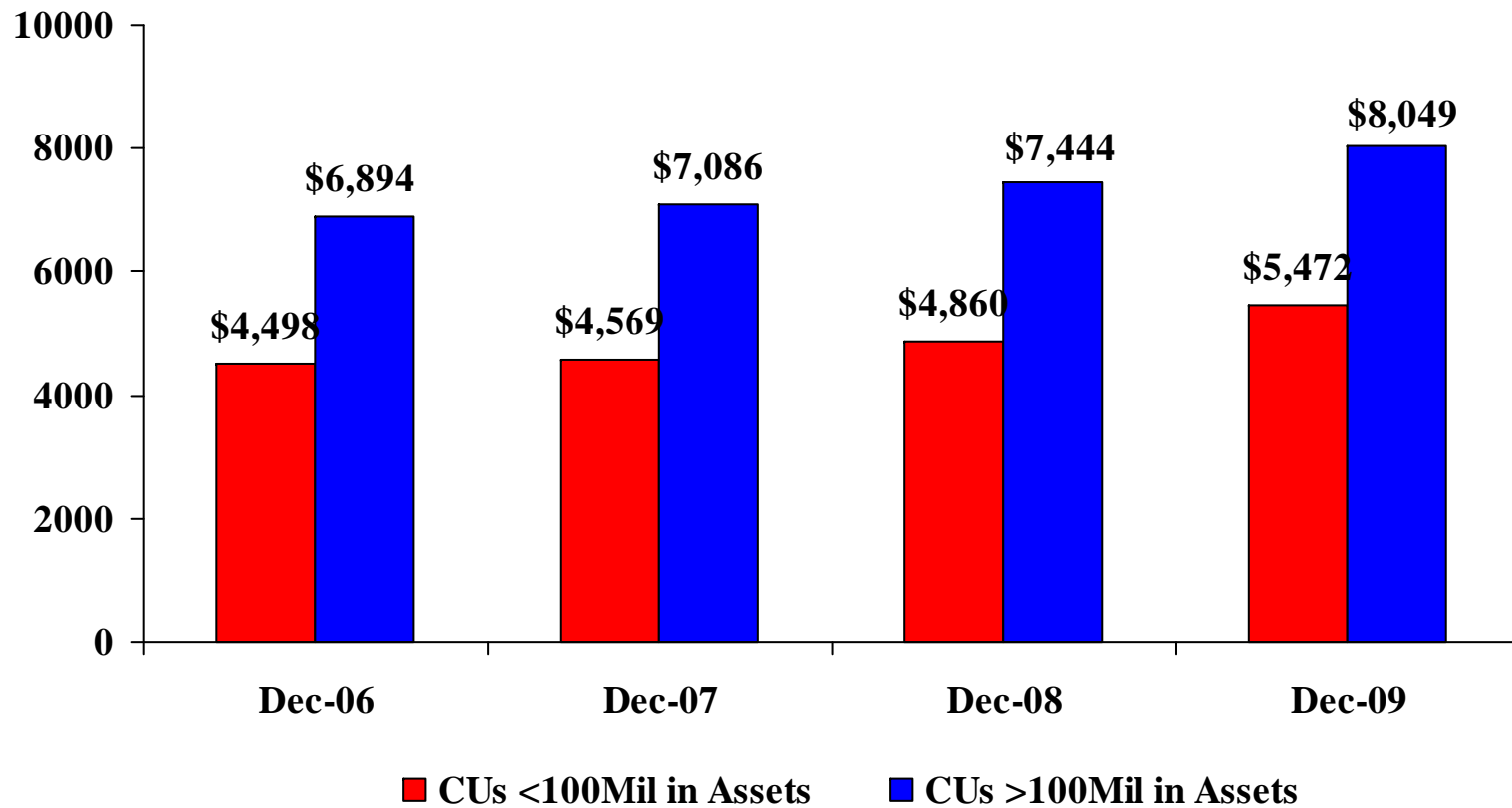


Source: CUNA



Savings per member have been growing steadily for all credit unions in 2009, with overall higher account balances in large-size credit unions.

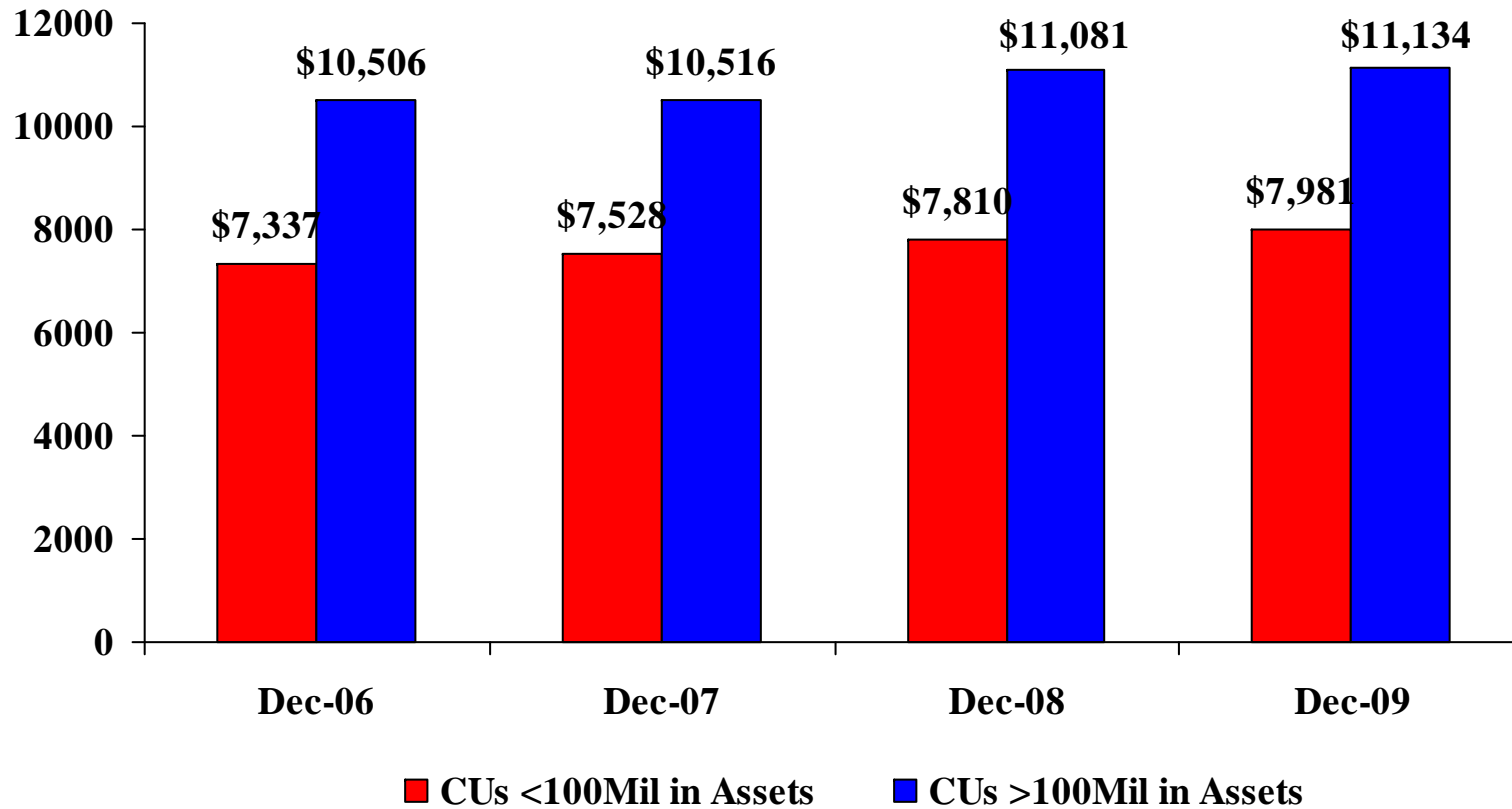
### Savings per Member



Source: CUNA

Loan balances showed slow growth during the past several years due to economic constraints.

### Average Loan Balance

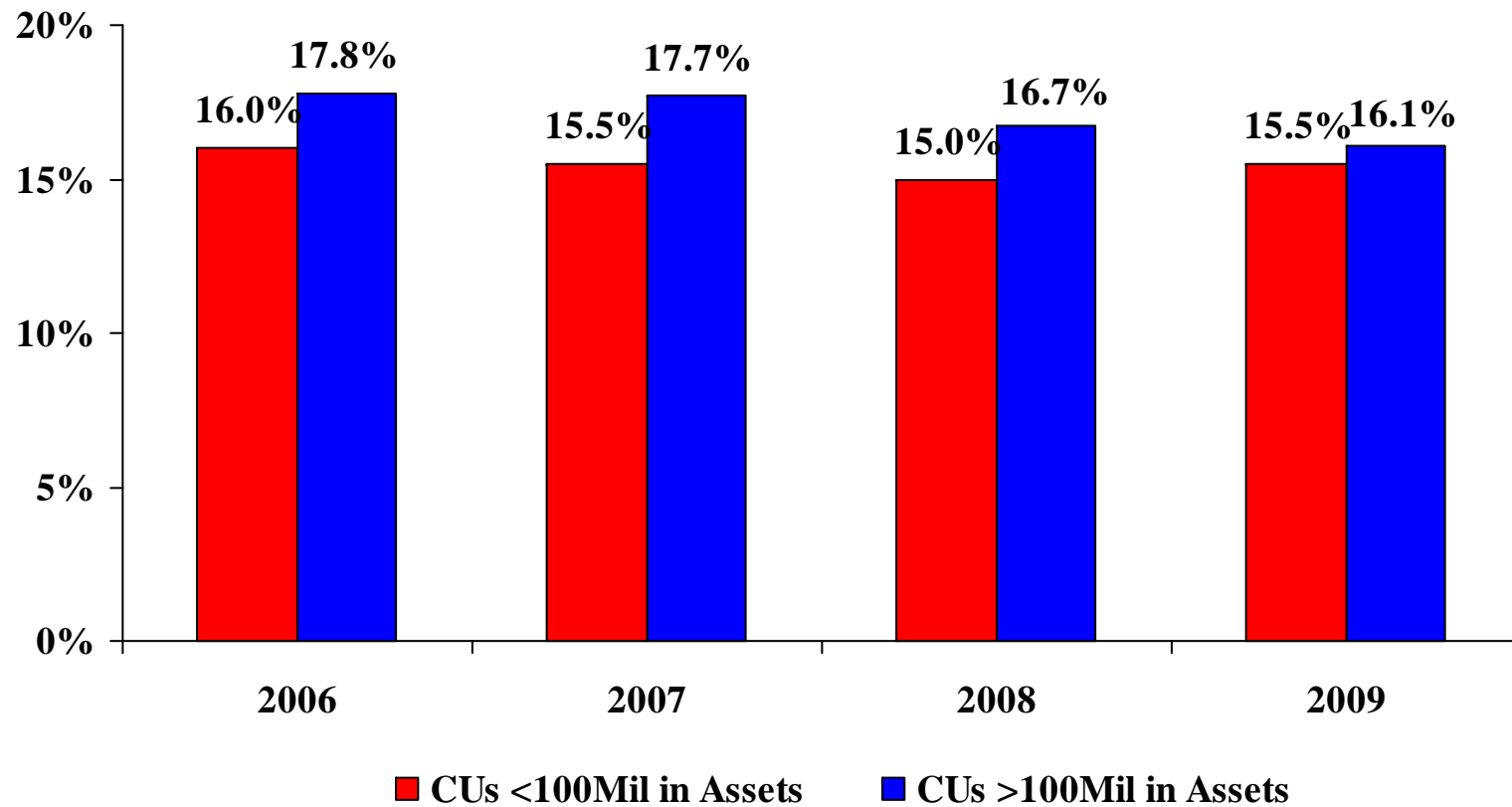


Source: CUNA



Michigan credit unions have seen a slight decrease in regards to their credit card penetration. Consumers have been scaling back on their use of credit and Michigan credit union members have been no exception.

### Credit Card Penetration

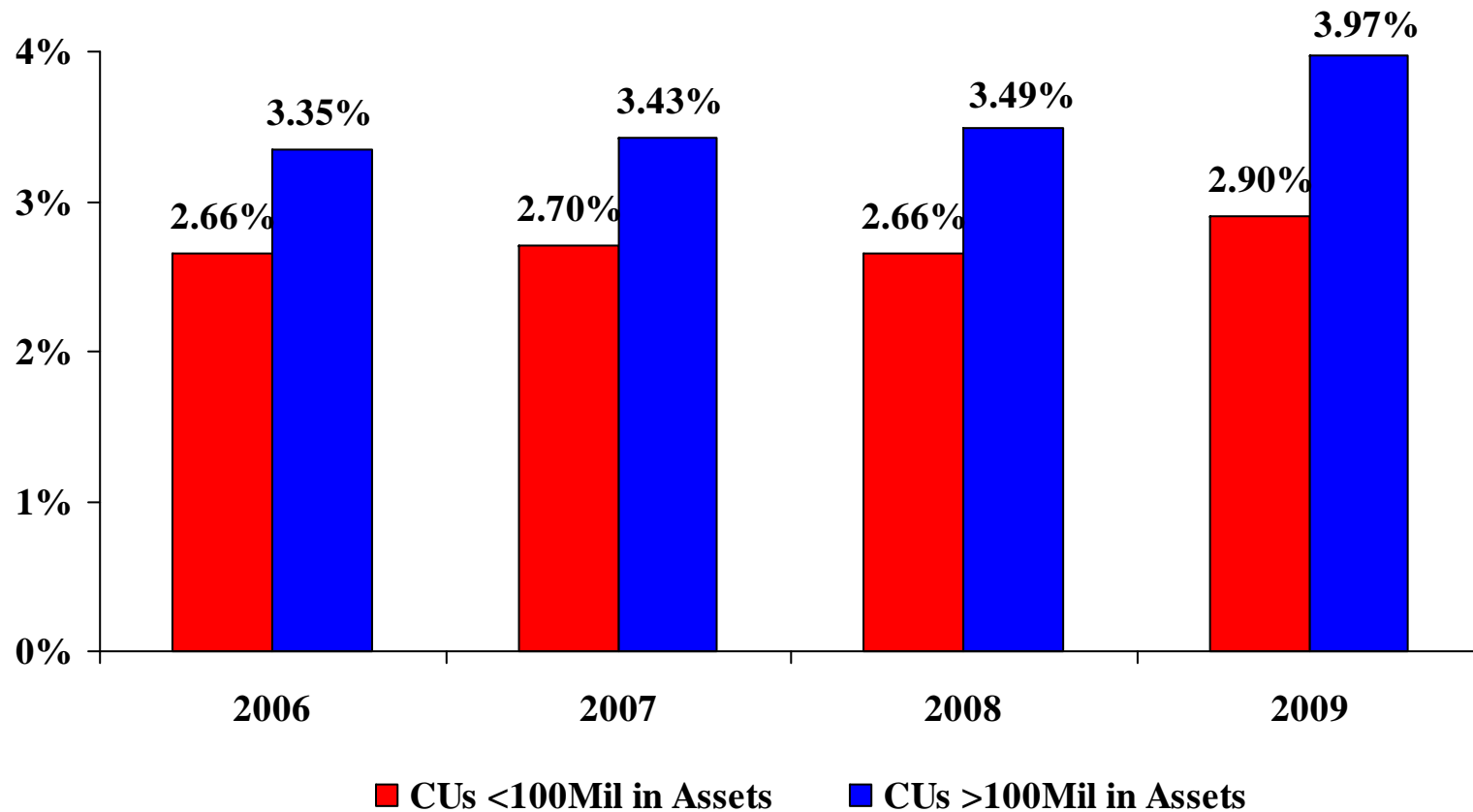


Source: CUNA



Large credit unions grew their new auto lending portfolios faster than smaller credit unions. Most of the auto lending growth in the next couple of years will come from used auto loans, according to CUNA projections.

### New Auto Loan Penetration

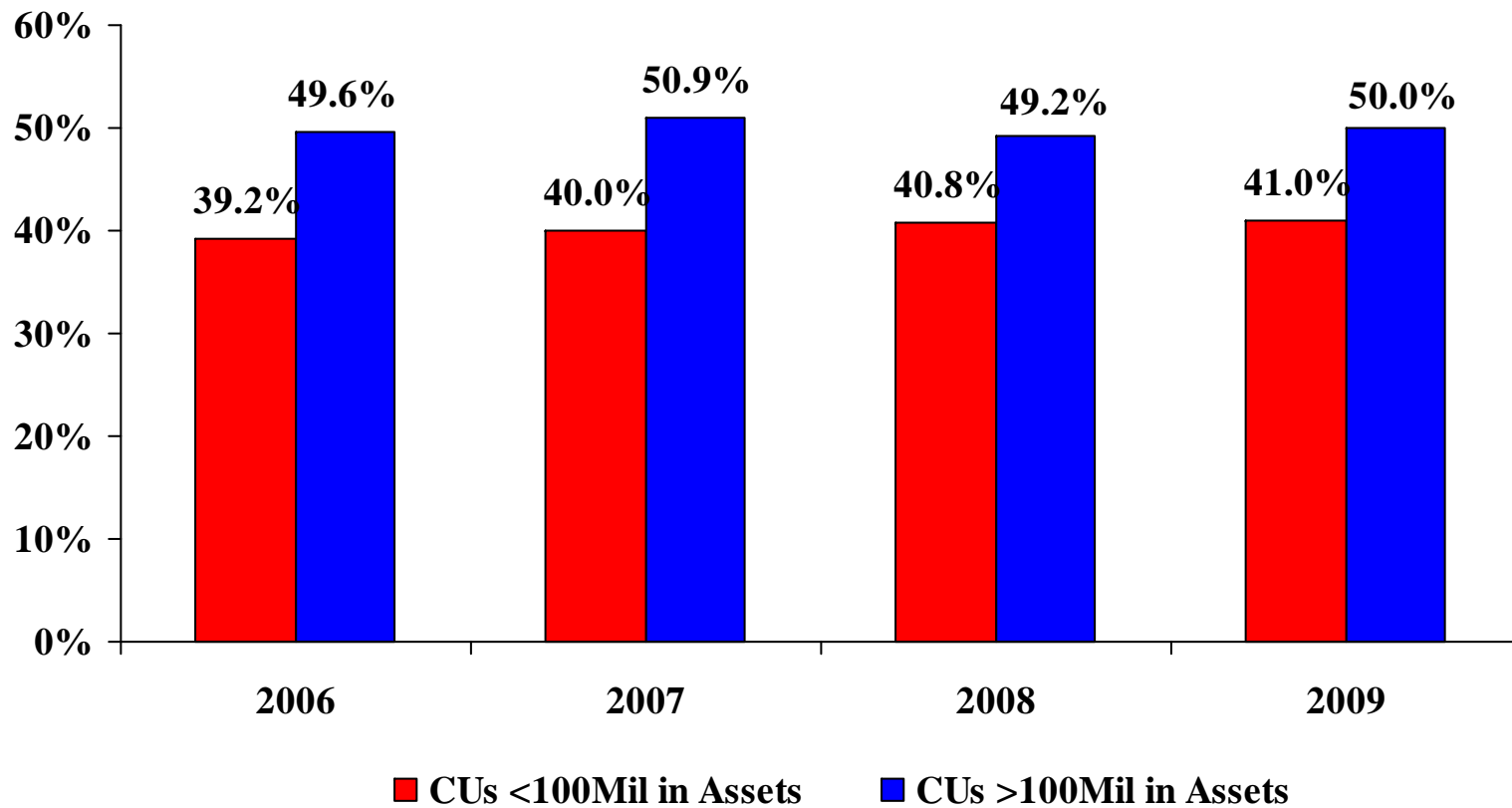


Source: CUNA



Michigan credit unions remain consistent in regards to their share draft penetration. The changes to Regulation E along with the increasing membership rolls will require that management monitor this area for costs vs. benefits.

### Share Draft Penetration



Source: CUNA

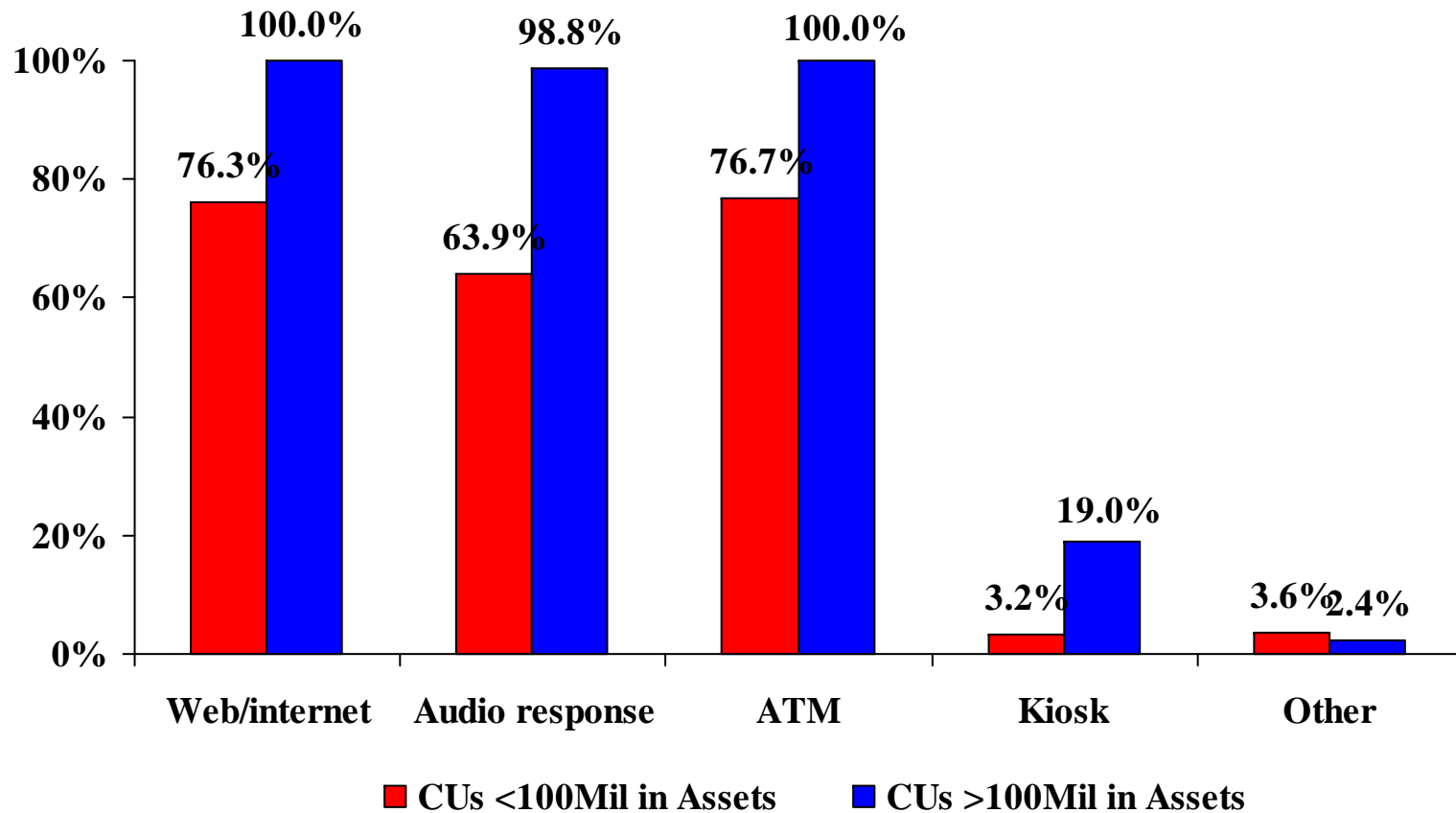




Digital/electronic services, or the ability to offer multiple channels and access options, is an important component of member satisfaction. Anticipating member preferences in access channels will help credit unions deliver a satisfying experience and exceed member expectations.

## Percent Accessing Electronic Services

As of December 2009



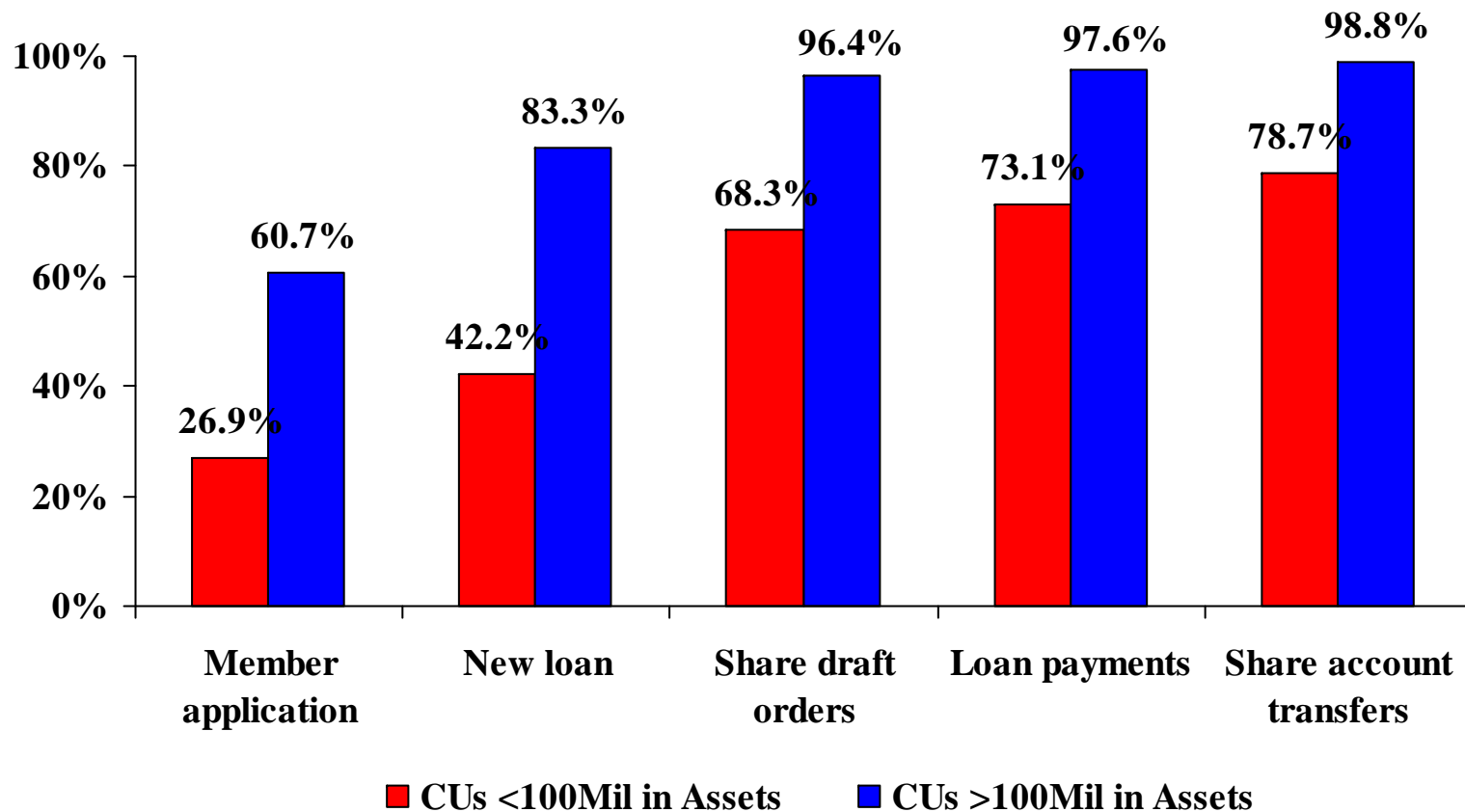
Source: CUNA



The number of electronic services that large-size credit unions offered to their members in 2009 was considerably higher than among smaller-size credit unions. Delays in adopting a new technologies might create additional stumbling blocks for smaller-size credit unions, while offering electronic services will empower members and credit unions with ease and simplicity of financial operations. It will also have a profound impact on the number of accounts, transactions, and services consumed.

## Percent Offering Electronic Services

As of December 2009



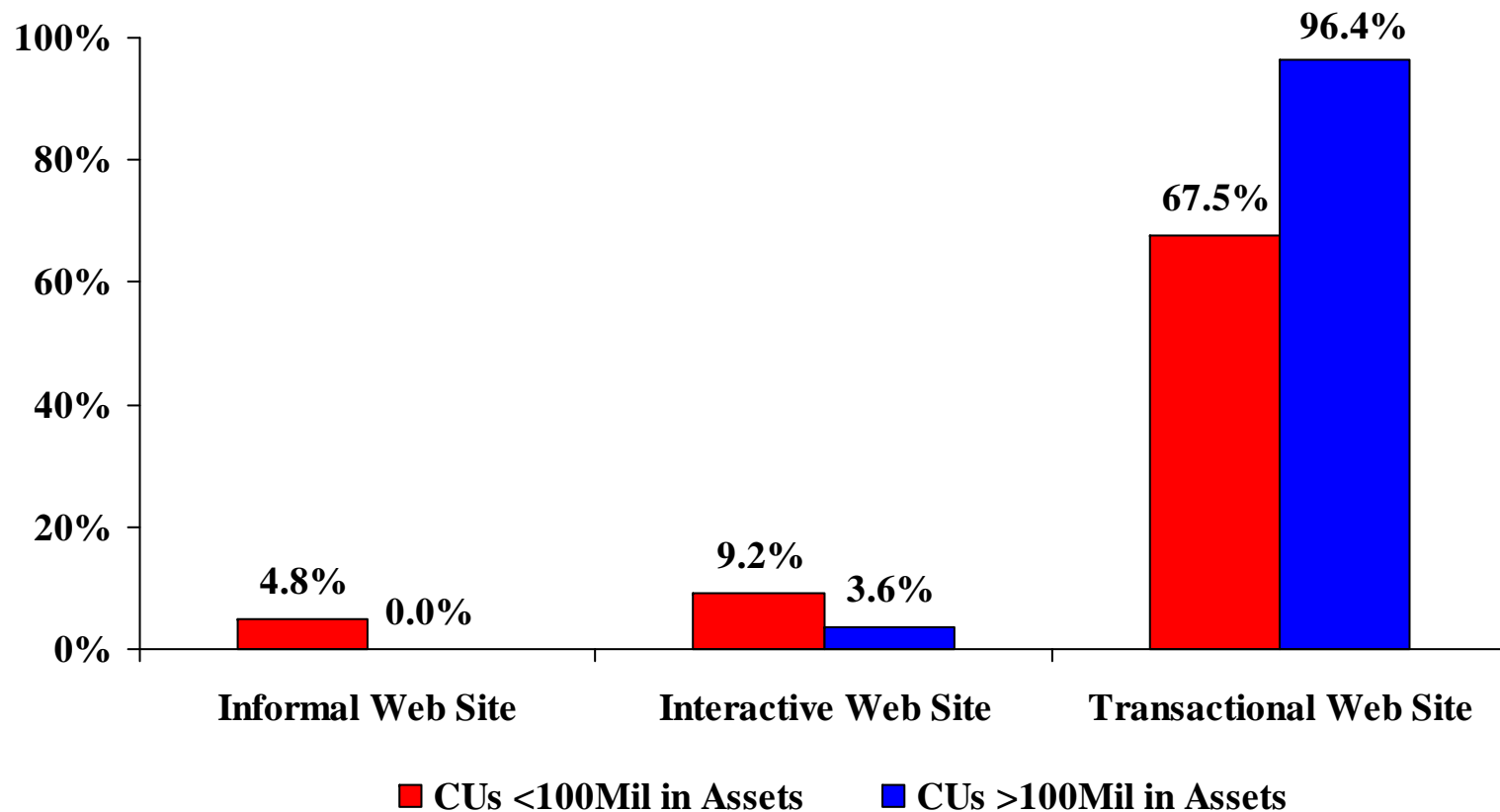
Source: CUNA



One of the greatest differences in technology between smaller-size and large-size credit unions is in their capability to transform digitally. A vast majority of large-size credit unions use transactional web-sites, compared to 68 percent of smaller-size credit unions that report using the technology.

## Credit Unions has Web Site

As of December 2009




Source: CUNA

## 2009 Michigan CUs Performance Comparison by Asset Size

	< \$5 Mil	\$5-\$10 Mil	\$10-\$20 Mil	\$20-\$50 Mil	\$50-\$100 Mil	\$100-\$500 Mil	> \$500 Mil	MI CUs	US CUs
<b>Demographics (# of CUs)</b>	42	27	47	72	61	70	14	333	7708
<b>Total Assets (\$ Mil)</b>	78	191	689	2362	4345	15130	15449	38244	896824
<b>Total Loans (\$ Mil)</b>	34	100	353	1233	2524	9636	9395	23274	582791
<b>Total Savings (\$ Mil)</b>	64	164	598	2031	3821	12960	12907	13294	763341
<b>12 Month Growth Rates</b>									
<b>Total assets (%)</b>	-26.0	-6.6	-7.7	2.2	-8.1	6.1	28.2	11.1	8.9
<b>Total loans (%)</b>	-33.7	-14.8	-9.4	-5.3	-13.4	0.8	17.0	4.1	1.2
<b>Total surplus funds (%)</b>	-23.1	2.7	-10.1	4.1	-5.6	11.5	52.0	27.3	29.8
<b>Total savings (%)</b>	-25.5	-3.9	-6.2	2.6	-6.1	7.2	29.3	12.2	10.3
<b>Total members (%)</b>	-25	-14	-14	-10	-17	1	21	0.9	1.4
<b>Earnings (BP)</b>									
<b>Yield on total assets</b>	426	484	476	482	480	497	492	491	491
<b>Fee and other income</b>	66	98	137	129	115	146	132	135	123
<b>Operating expense</b>	434	438	472	422	385	387	302	358	316
<b>Loss provisions</b>	51	54	62	61	83	109	95	96	111
<b>Net income</b>	-94	-32	-39	-7	-16	2	49	13	15
<b>Capital Adequacy</b>									
<b>Net worth/assets</b>	18.2	14.0	12.2	12.4	11.2	10.8	10.5	10.9	9.9
<b>% CUs with NW &gt; 7%</b>	97.6	100.0	95.7	94.4	91.8	95.7	100.0	95.5	94.7
<b>Asset Quality</b>									
<b>Delinquencies/loans</b>	4.81	2.66	1.77	1.81	1.94	2.16	1.64	1.91	1.82
<b>Net chargeoffs/loans</b>	1.73	0.93	1.04	0.99	1.11	1.22	1.11	1.15	1.21
<b>Bankruptcies per CU</b>	0.5	2.9	6.7	14.3	34.6	131.2	435.2	56.6	42.8
<b>Bankruptcies/1000 memb.</b>	0.9	1.8	2.2	2.7	3.4	4.9	4.6	4.3	3.6

 CUs with lower than state or national growth rate

 CUs with higher than state or national growth rate

Source: CUNA



## Conclusions

Overall, 2009 was a successful year for Michigan credit unions. Credit unions granted more than \$23 billion in new or refinanced loans, a 4.1 percent increase from 2008. Importantly, credit union members saved hundreds or thousands of dollars on each loan granted compared to bank borrowers due to more favorable rates.

Lending has decreased at levels unseen since World War II, banks experienced a lending decline of 7.5% in 2009 in the US, and a 45% decline in Michigan, leaving consumers with few alternatives for their loans. Credit union lending grew in 2009 and empowered thousands of members to buy new cars, homes, and attend schools. The direct financial benefits to Michigan credit union members in 2009 by CUNA estimates was \$412,917,228. Members saved \$182 per household, and \$96 per person in fees and interests.

Michigan credit unions added more than \$32.5 billion in savings (a 12.2% increase in 2009), providing fresh money for growth as members sought a trustworthy place to put their money. Membership grew by more than 40,000 during the 12 month period. Earnings improved and net/worth to assets was strong. These results demonstrate credit unions' ability to thrive during the hardest economic environment since the Great Depression and the ability to stay focused on their members.

Although Michigan credit unions collectively performed very well in 2009, smaller-sized credit unions experienced some difficulties in growing their loan portfolios and managing risk. To overcome the challenges of the current economic conditions, credit unions should consider implementing new processes to identify opportunity areas, implement enhancements, and adopt new strategies for growth.

MCUL provides a number of programs to support credit unions with successful plans for growth and development. Educational programs on marketing, compliance, lending, as well as events such as its executive summit and annual convention are designed to assist, educate, and inform employees and their leaders to plan for a successful future for Michigan credit unions.

