2008 NACUSO Annual Conference

The Credit Union Business Model

Market Forces at Work
How will your Credit Union Respond?

pduffy@sandleroneill.com

GENERAL INFORMATION AND LIMITATIONS

This presentation, and the oral or video presentation that supplements it, have been developed by and are proprietary to Sandler O'Neill & Partners, L.P. and were prepared exclusively for the benefit and internal use of the recipient. Neither the printed presentation nor the oral or video presentation that supplements it, nor any of their contents, may be reproduced, distributed or used for any other purpose without the prior written consent of Sandler O'Neill & Partners, L.P.

The analyses contained herein rely upon information obtained from the recipient or from public sources, the accuracy of which has not been verified, and cannot be assured, by Sandler O'Neill & Partners, L.P. Moreover, many of the projections and financial analyses herein are based on estimated financial performance prepared by or in consultation with the recipient and are intended only to suggest reasonable ranges of results. Finally, the printed presentation is incomplete without the oral or video presentation that supplements it.

Sandler O'Neill & Partners, L.P. prohibits employees from offering, directly or indirectly, favorable research, a specific rating or a specific price target, or offering or threatening to change research, a rating or a price target to a company as consideration or inducement for the receipt of business or compensation. The Firm also prohibits research analysts from being compensated for their involvement in, or based upon, specific investment banking transactions.

Sandler O'Neill & Partners, L.P. is a limited partnership, the sole general partner of which is Sandler O'Neill & Partners Corp., a New York corporation. Sandler O'Neill & Partners, L.P. is a registered broker-dealer and a member of the National Association of Securities Dealers, Inc. Sandler O'Neill Mortgage Finance Corp. is a wholly-owned indirect subsidiary of Sandler O'Neill & Partners Corp.

We have provided this analysis at your request on the understanding that you will make an independent judgment regarding the reliability and use of the analysis and its outputs. We also understand that you will not represent that Sandler O'Neill is the source of, or has vouched for the accuracy of, this analysis in any public statement or filing you might make, including reports or other filings submitted to your regulators.

Introduction to Sandler O'Neill + Partners, L.P.

A Leading Financial Institutions Advisor

Sandler O'Neill + Partners, L.P.

212 Employees and 40 Partners

New York Atlanta Boston Chicago San Francisco

Investment Banking

- 55 Bankers
- Leading M&A Advisor
  - Top Financial Advisor in 2006
  - 2006 #1 number of deals in all financial services nationwide (65 deals)
  - 2006 #6 total transaction value in all financial services deals ($36.6 billion)
  - 2006 #1 number of bank and thrift deals (50 deals)
  - 2006 #3 total transaction value in bank and thrift deals ($34.7 billion)

Capital Markets

- 4 Professionals
- Flexibility in capital issuance: Equity, Fixed Income, Trust Preferred, Asset & Mtg. Backed, and Hybrid securities
- Leading Financial Institutions Market Strategist
- Leading Advisor for Conversion Offerings > $100 million since 2002 with proceeds of $3.3 billion
- Leader in Bank and Thrift Equity Offerings with proceeds of approximately $5.8 billion since 2003

Balance Sheet Management

- 51 Professionals
- MBS, CMO, Agency, Corporates, Trading/Sales
- Asset/ liability analysis
- Investment portfolio analysis
- Publish Financial Debt Quarterly

Mortgage Finance

- 15 Professionals
- Advise on sale, securitization and acquisition for all bank asset classes
- Portfolio analytics and valuation

Equity Sales & Trading

- 40 Professionals
- Market maker in over 470 stocks
- Executed over 200 stock repurchase programs over last 3 years

Research

- 19 Analysts covering more than 160 financial services companies
- 6 Sectors Covered
  - Banks & Thrifts
  - Specialty Finance
  - eFinance
  - Insurance
  - Broker/ Dealers
  - Asset Management

Industry Trends

Overall Themes

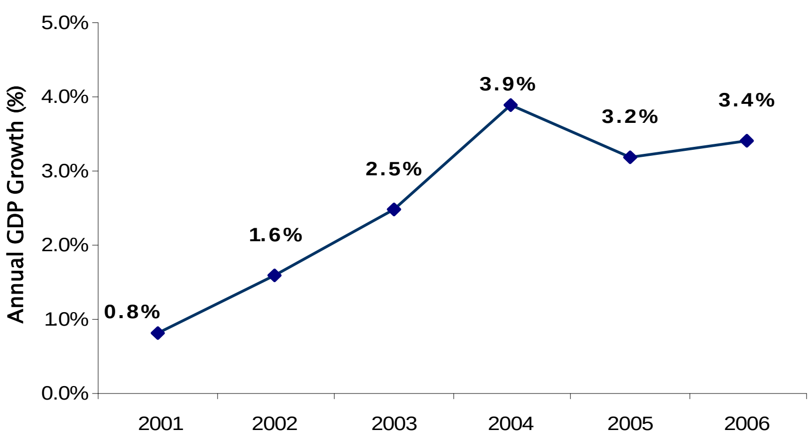
- The rate of change in financial services continues:
  - **Convergence**: A blurring of bank, brokerage and asset management industries
  - **Competition**: New regional giants; more and bigger single product competitors; more and larger credit unions with expanded powers
  - **Compliance**: Regulatory pressures are especially influential (CRA, Sarbanes-Oxley and 404, Patriot Act, BSA)
  - **Consolidation**: 68% of US deposits controlled by the 50 largest banks vs. 60% in 1996

[1] Top 50 banks & thrifts (based on assets) with available earnings estimates
Source: SNL Financial, FactSet

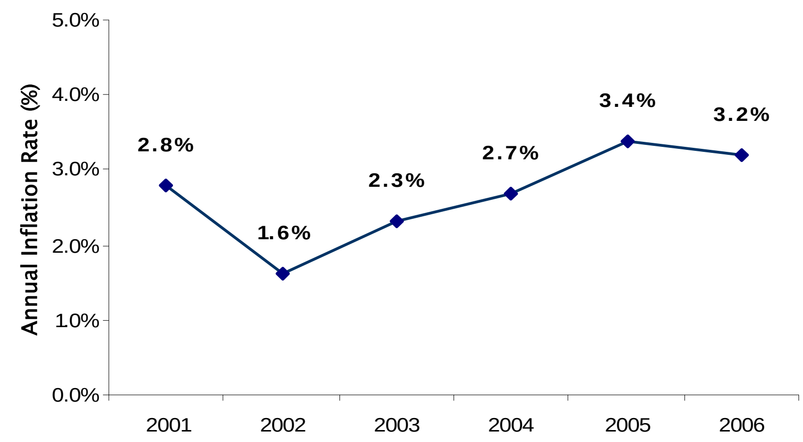
Industry Trends

The Macro Economic Environment

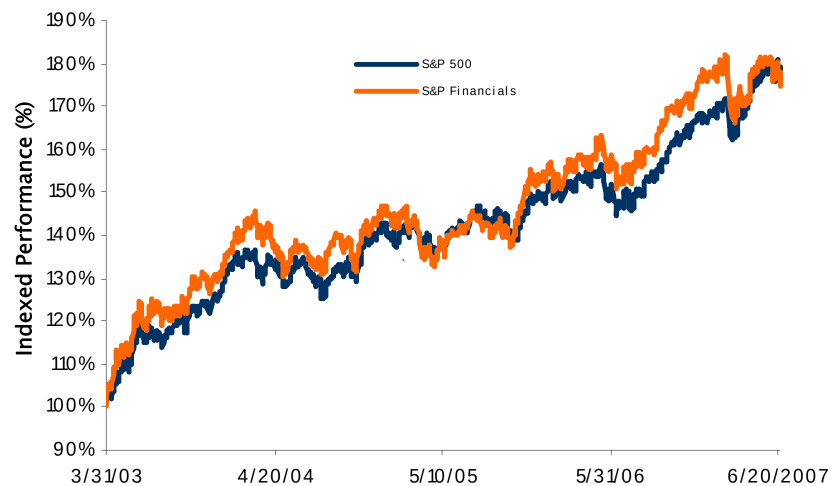
Strong Real GDP Growth



Moderate CPI Inflation Outlook



Equity Market Rally Since March 2003



Source: Department of Commerce, Bureau of Labor Statistics, FactSet

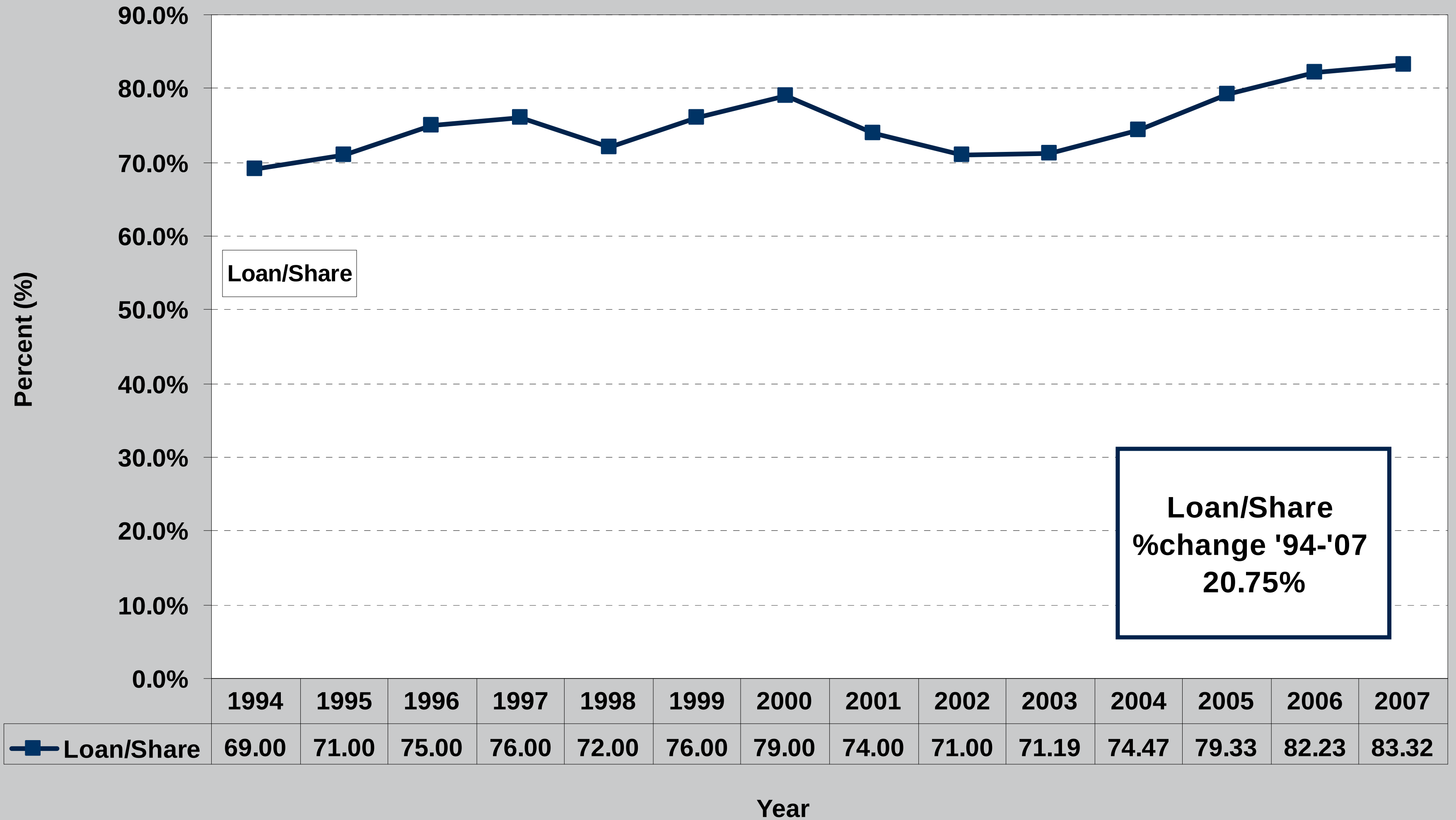
“The best of times?”

- From 2001to 2006 the US economy, stock market, home prices all accelerated to “never before seen” levels while inflation remained low…
- …making most consumers “feel” rich.

- Borrowing rates were so low for so long that they became the reason to consume and “act” rich (consumer credit totals increased 250%, 1995-2008).

- The American consumer enjoyed a 6-7 year celebration of consumption…did CUs join the party?
- US Federal Reserve/Bloomberg.

Loan/Share Ratio – All FICU

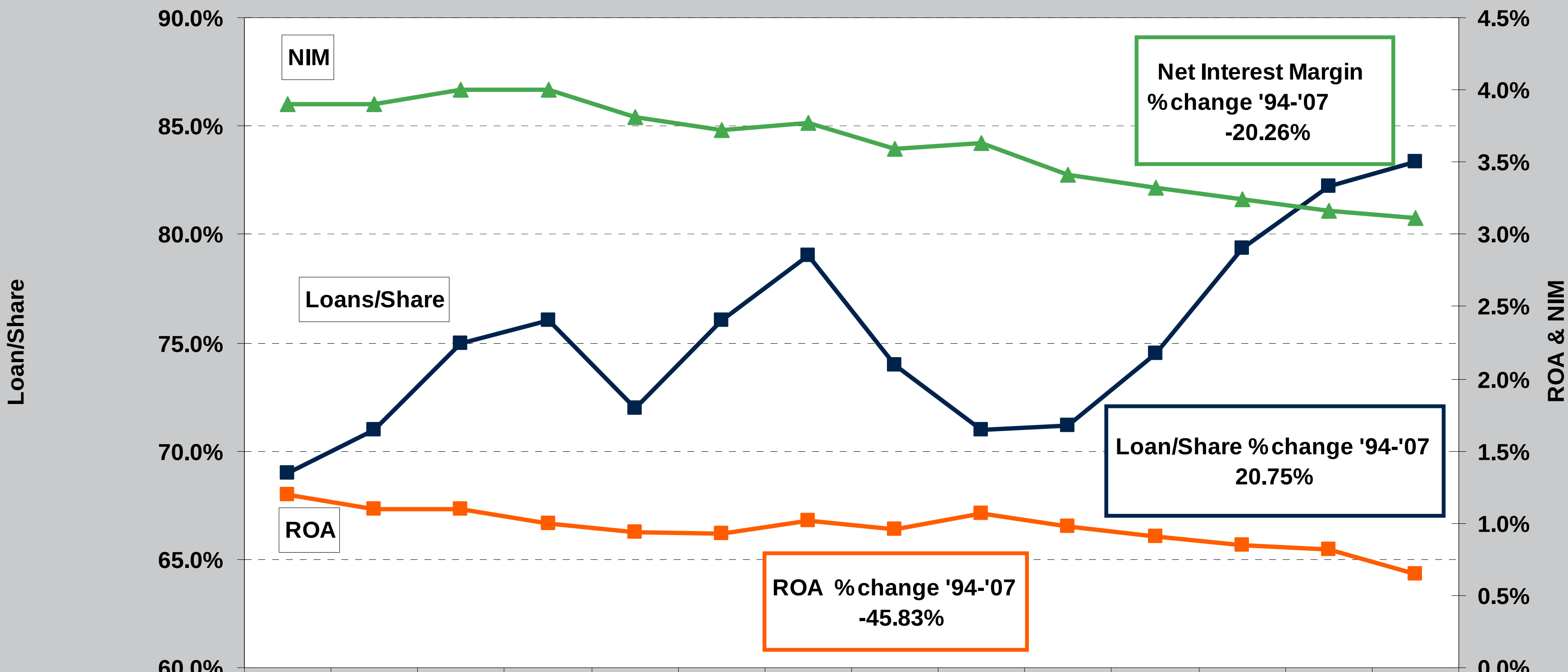


	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Loan/Share	69.00	71.00	75.00	76.00	72.00	76.00	79.00	74.00	71.00	71.19	74.47	79.33	82.23	83.32

Note:
(1) Trend data reflects annual averages

Source: NCUA Call Report Data

Earnings Disconnect



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Loans/Share	69.00%	71.00%	75.00%	76.00%	72.00%	76.00%	79.00%	74.00%	71.00%	71.19%	74.47%	79.33%	82.23%	83.32%
ROA	1.20%	1.10%	1.10%	1.00%	0.94%	0.93%	1.02%	0.96%	1.07%	0.98%	0.91%	0.85%	0.82%	0.65%
NIM	3.90%	3.90%	4.00%	4.00%	3.81%	3.72%	3.77%	3.59%	3.63%	3.41%	3.32%	3.24%	3.16%	3.11%

Year

Note:
(1) Trend data reflects annual averages

Source: NCUA Call Report Data

Overall Themes

Earnings pressure results from the combination of:

- a significant imbalance in supply and demand (more lending capacity than loan demand)…
- the internet and…
- a razor sharp consumer leading to…
- … intense pricing competition and margin erosion.

This has occurred over a long period of time (15+ years) and against a back drop of increased compliance costs and an upswing in credit losses.

Thus, consolidation continues in earnest in financial services (35,000 banks and CUs in 1985 down to < 16,000 today)

[1] Top 50 banks & thrifts (based on assets) with available earnings estimates
Source: SNL Financial, FactSet

CU "Movement" hot topics

- Margin pressure
- Lack of growth (members, shares, household penetration)
- Indirect lending and losses
- Deterioration of credit quality resulting in potential "reputation risk"
- Fear of taxation and banks
- Lack of progress/internal wrangling on CURIA; proposed increased regulation:
- Merger/acquisition
- Charter conversion

CUs of all sizes are evaluating their options

- Remain independent with no apparent need for CURIA
- Remain Independent-hold out for regulatory relief thru CURIA
- Merge

CU to CU merge?

CU/Bank merge?

Remain Independent thru charter conversion-accomplishes immediate regulatory relief – a "last resort" option.

Some CUs are searching for "cost saves" thru collaboration

TOUGH CHOICES

- The “MARKET” has evolved while the CU BUSINESS MODEL attempts to evolve…
- …with little regulatory progress (for those CUs that have transitioned away from the original sponsor).

- The lack of flexibility in CU regulations (compared to other FIs) has led to a deterioration in both “Financial Competitiveness” and growth; leading to a possible erosion in the CU value proposition
(while some put the business at risk by reaching for growth/income in the loan portfolio)…

- …because Evolving CUs can’t grow and generate earnings on the same basis as competition and no longer enjoy the growth opportunity of the original sponsor.

Central Themes

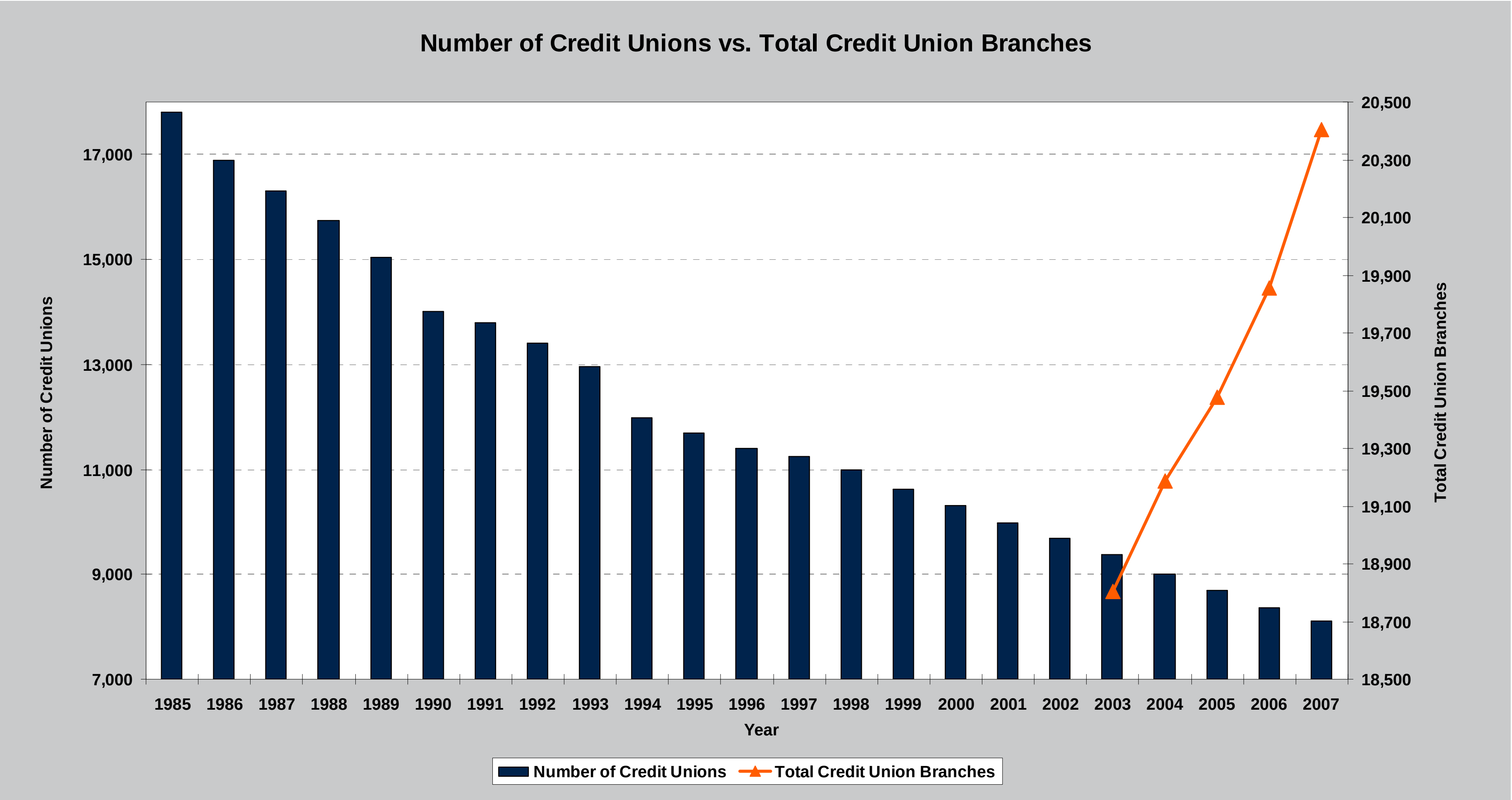
- Trends in Financial Institutions
- Earnings trends and perspectives
- Growth trends and perspectives
- The interlocking nature of earnings and growth AND why you must care

Financial Institution Trends

- The imbalance in supply and demand leads to price compression, margin erosion resulting in an acceleration of consolidation trends.

Trend CU Roster

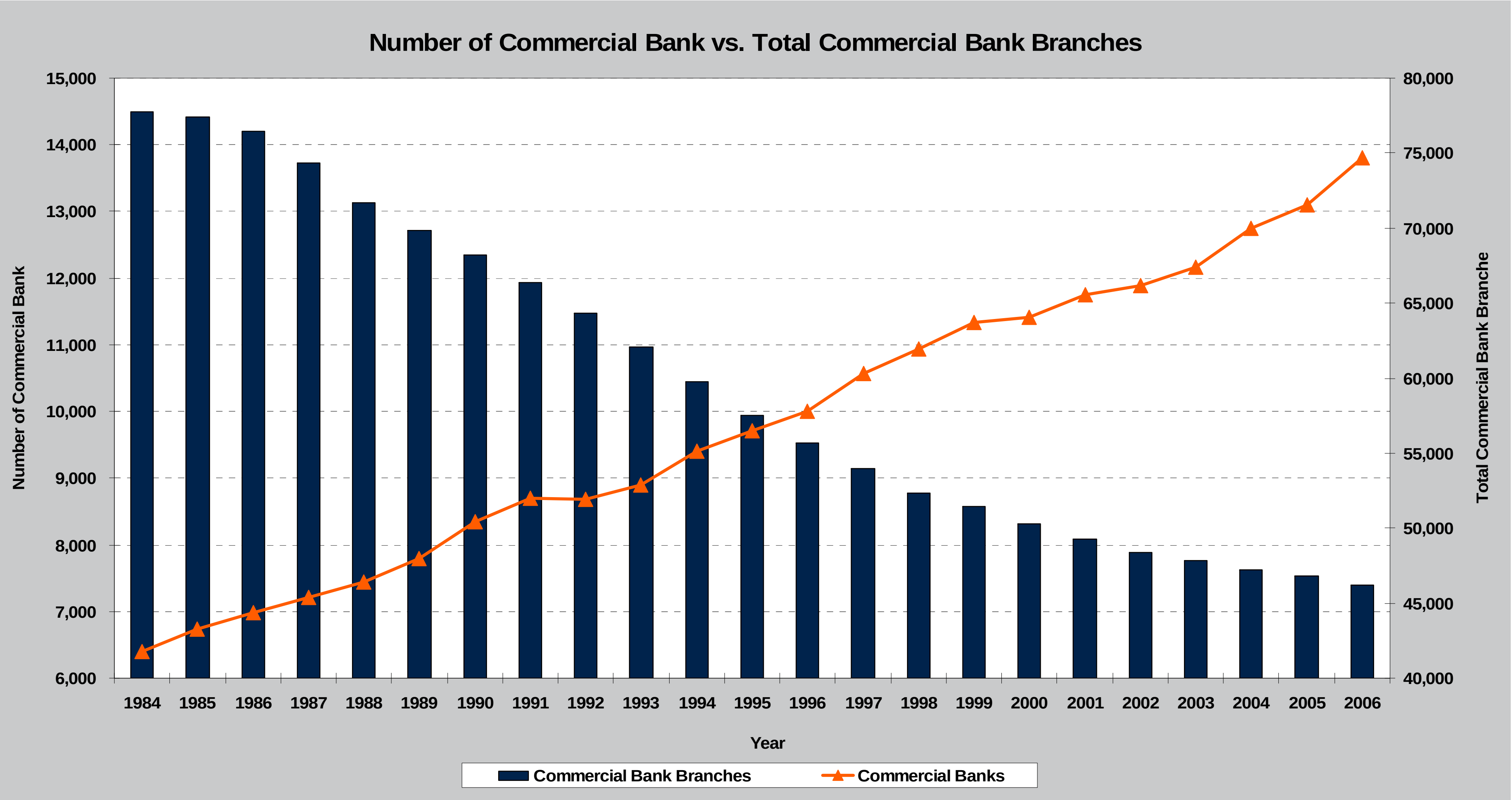
Increased Concentration



Source: NCUA Call Report Data

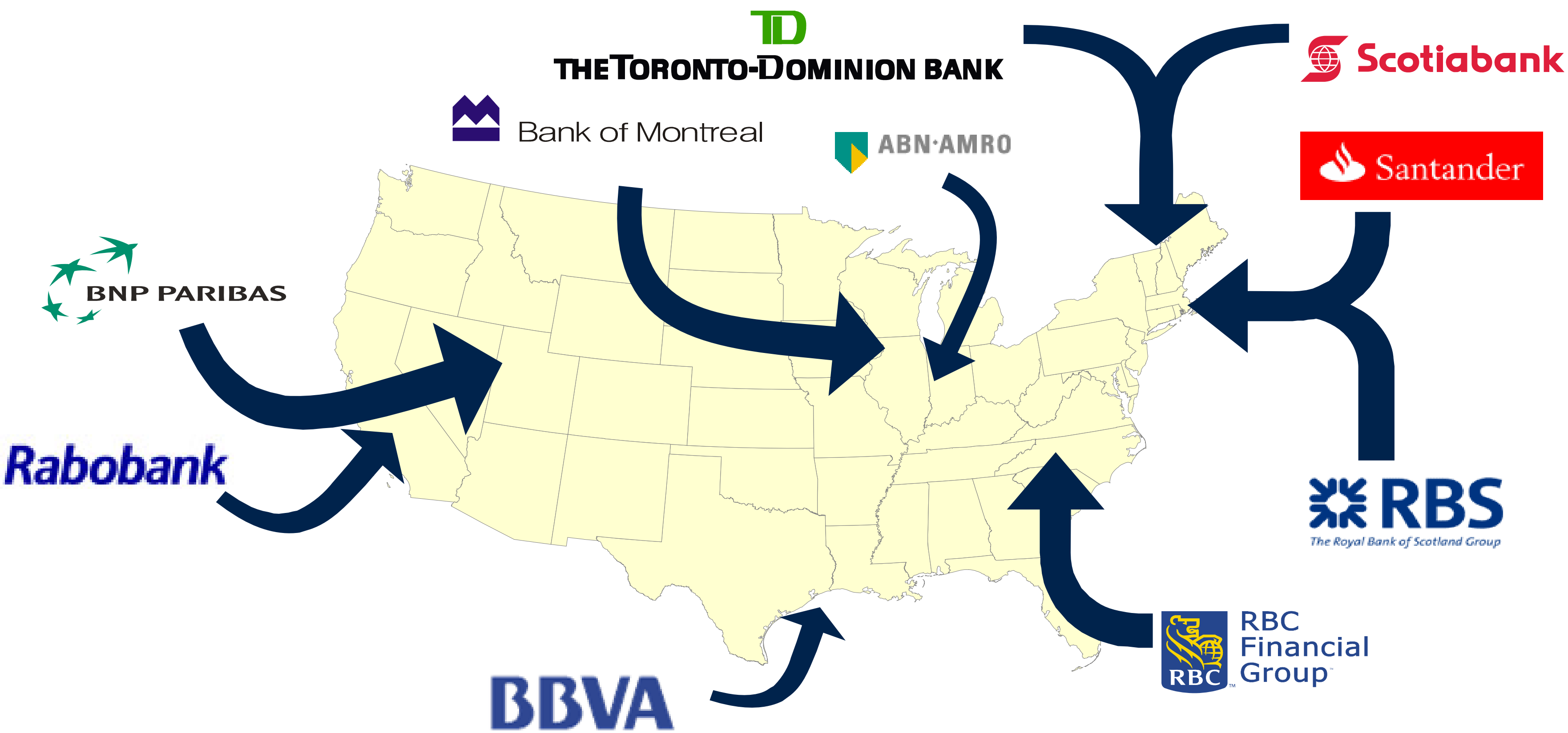
Trend Bank Roster

Increased Concentration



Source: FDIC Call Report Data

- Foreign Buyers
  - Foreign banks will continue to explore US acquisitions
    - Extremely weak US dollar
    - Limited opportunities in Europe
    - Significant consolidation opportunities in the United States



Financial Industry Consolidation

- Top 25 mortgage originators represent 85% of originations
- Top 10 issuers represent 88% of the credit card market
- Top 50 BHC represent 68% of US deposits
- Overall deposit market share for Banks is 78%, Thrifts 16% and CUs 6%.

- Despite the consolidation to-date, over 16,000 banks, CUs and finance companies remain.

Source: Brookwood Capital, LLC and FDIC, NCUA call report data.

With no pricing power, more consolidation on the way

Banking

MBNA → Countrywide → Bank of America

Providian → Washington Mutual

Metris HSBC

Manufacturers Hanover → Chemical → Chase → JP Morgan Chase → JPM/Chase/Bank One/Bear Stearns

Painewebber → UBS Painewebber

Dean Witter → Morgan Stanley D.W.

Airlines

American West → US Air

TWA → American Airlines

Northwest → Delta

Braniff, Midway, Eastern, PanAm

Auto

AMC → Chrysler → Daimler

Daewoo → GM

Oldmobile

Stores

Macy's, Bloomingdale's → Federated → A&S Out

Waldbaums → A&P

Wollworth, Gimbels, Caldor, Bradlees, Pergament

The strong can survive the market-driven downsizing.

Themes

- Imbalance of supply and demand is wreaking havoc on margins for many industries including Credit Unions
- Consolidation addresses margin erosion
- Credit Unions are experiencing more earnings anguish with less flexibility than competition due to the regulatory imbalance which lacks “market reality”
- Over-reliance on indirect lending and share draft protection has led to “The Seven (now Ten) Year Glitch”*, delaying progress on developing the right brand/sales message.

- (CUES on-line column 12/06).*

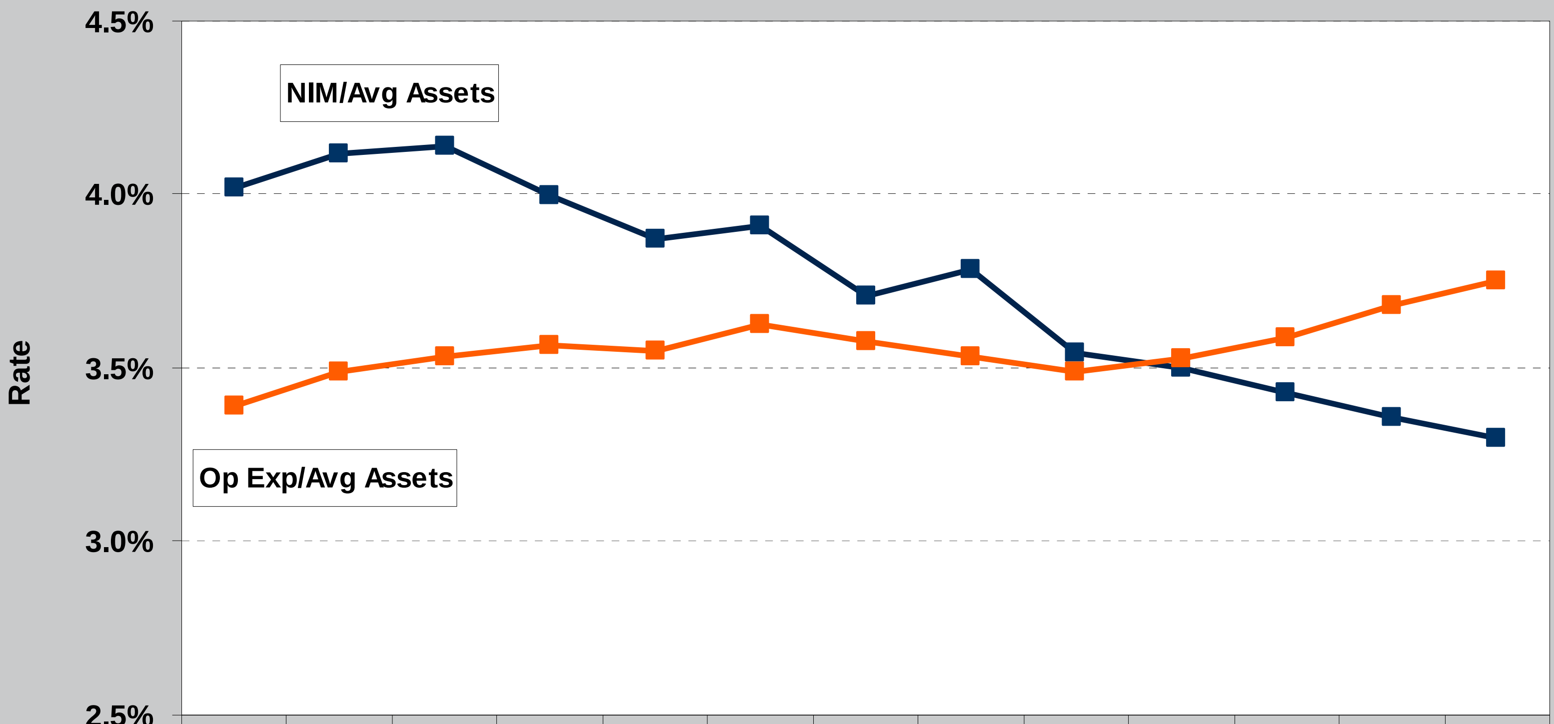
Summary Statement on the Need to Grow

- Profit is a function of adding customers not expanding margin
- The balance sheet of banks and CUs is a commodity with the possible exception of business loans
- Members will continue to expect more branches, convenience, technology improvements and happy/well trained people to serve them…while management deals with increased regulatory costs

Earnings trends and perspectives

- CU lack of Financial Competitiveness is putting the franchise at risk

CUs- lose 45 b.p. before fees



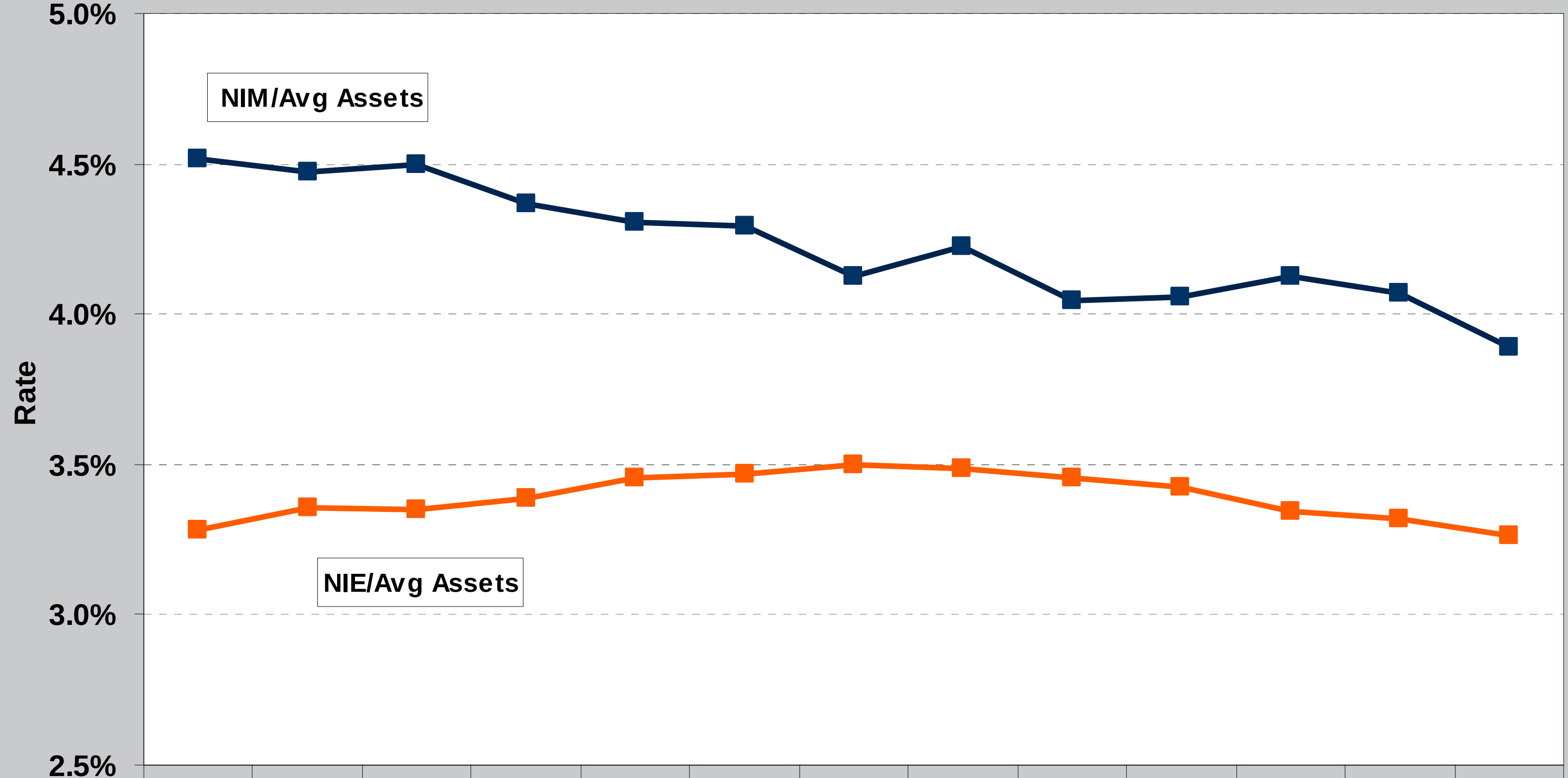
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
NIM/Avg Assets	4.02%	4.12%	4.14%	4.00%	3.87%	3.91%	3.71%	3.78%	3.54%	3.50%	3.43%	3.36%	3.30%
Op Exp/Avg Assets	3.39%	3.49%	3.53%	3.57%	3.55%	3.62%	3.58%	3.53%	3.49%	3.53%	3.59%	3.68%	3.75%
bp difference	0.63%	0.63%	0.60%	0.43%	0.32%	0.29%	0.13%	0.25%	0.06%	-0.03%	-0.16%	-0.32%	-0.45%

Year

Notes:
(1) All Credit Unions screened for Total Assets between $100 million and $33.1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource

Banks–generate 63 b.p. income before fees



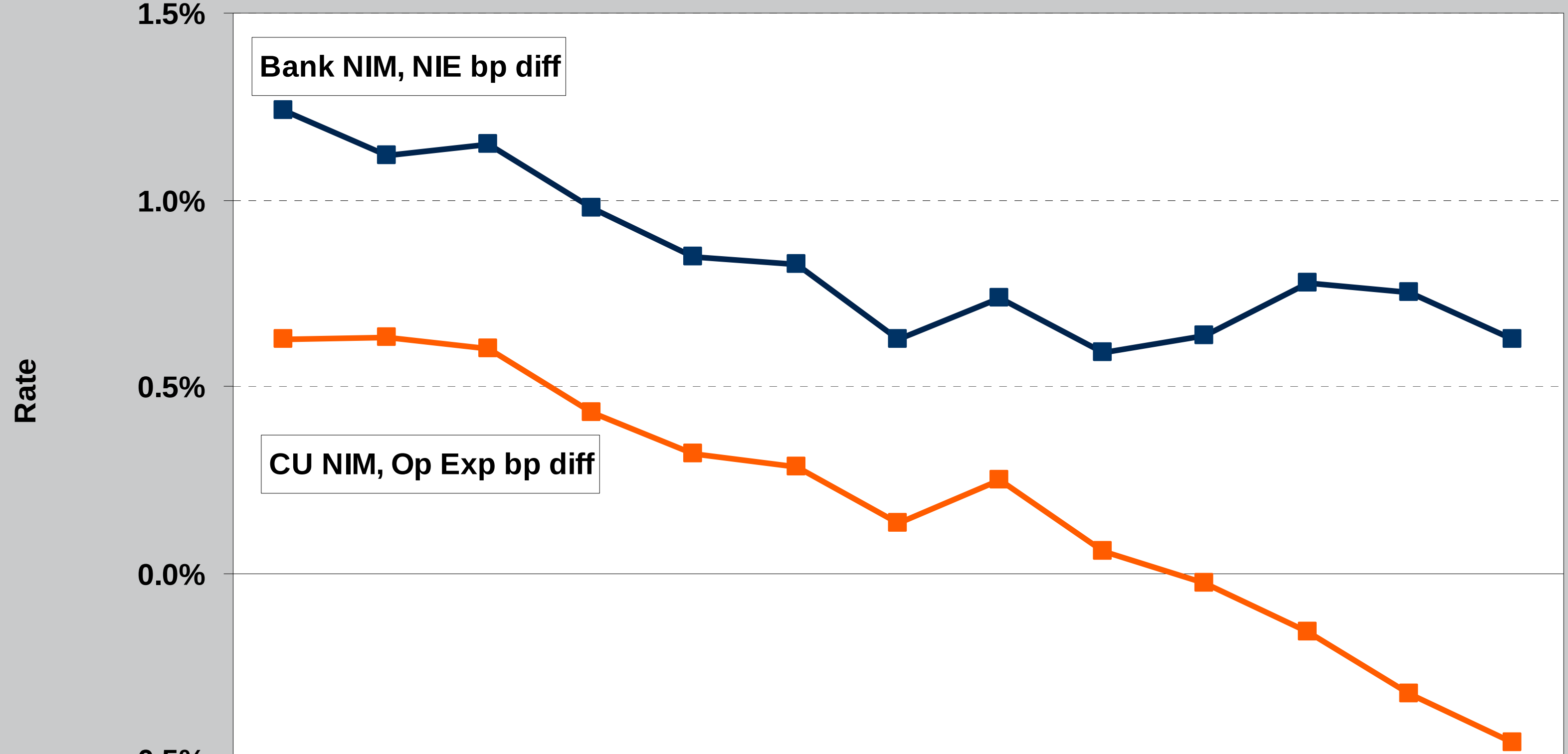
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
NIM/Avg Assets	4.52%	4.47%	4.50%	4.36%	4.30%	4.29%	4.13%	4.22%	4.05%	4.06%	4.12%	4.07%	3.89%
NIE/Avg Assets	3.28%	3.36%	3.35%	3.39%	3.46%	3.47%	3.50%	3.49%	3.45%	3.42%	3.34%	3.32%	3.26%
bp difference	1.24%	1.12%	1.15%	0.98%	0.85%	0.83%	0.63%	0.73%	0.59%	0.64%	0.78%	0.75%	0.63%

Year

Notes:
(1) All Banks screened for Total Assets between $100 million and $33.1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource

Banks generate 108 b.p. *incremental* income vs. CUs, before fees



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Bank NIM, NIE bp diff	1.24%	1.12%	1.15%	0.98%	0.85%	0.83%	0.63%	0.73%	0.59%	0.64%	0.78%	0.75%	0.63%
CU NIM, Op Exp bp diff	0.63%	0.63%	0.60%	0.43%	0.32%	0.29%	0.13%	0.25%	0.06%	-0.03%	-0.16%	-0.32%	-0.45%
bp difference	0.61%	0.49%	0.55%	0.55%	0.53%	0.54%	0.49%	0.49%	0.54%	0.66%	0.94%	1.08%	1.08%

Year

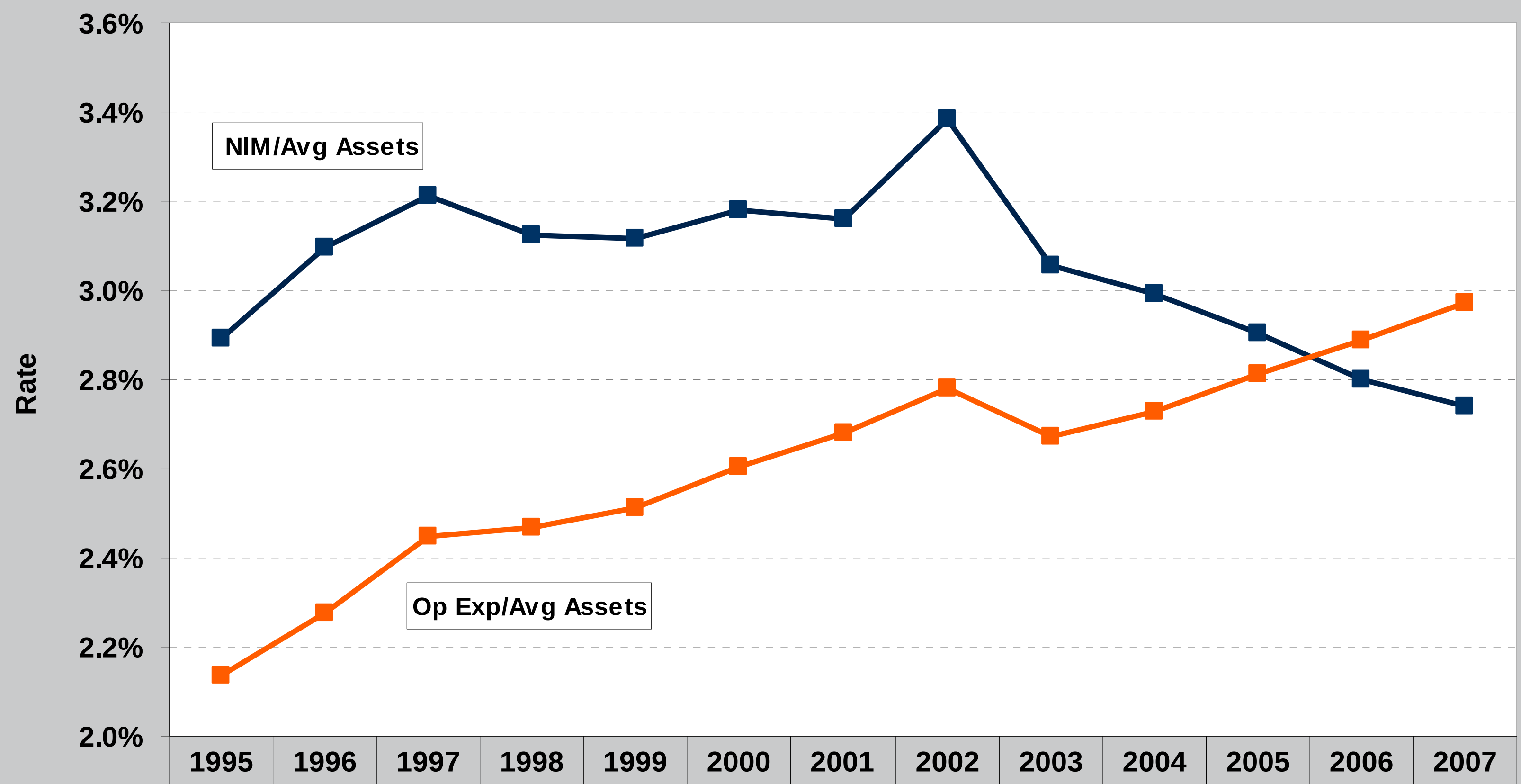
Notes:

(1) All institutions screened for Total Assets between $100 million and $33.1 billion

(2) Trend data reflects annual averages

Source: SNL DataSource

CUs (+1bb assets) *lose* 23 b.p. before fees



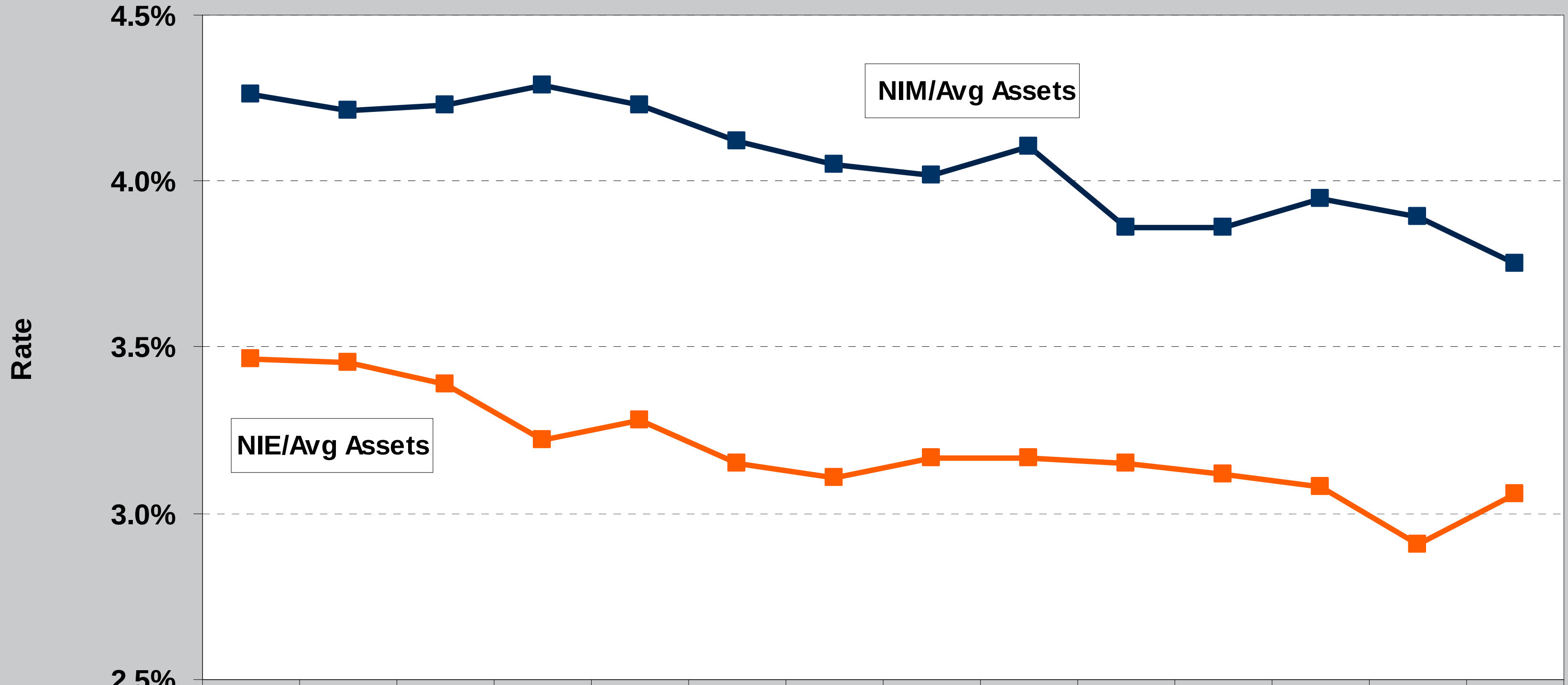
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
NIM/Avg Assets	2.89%	3.10%	3.21%	3.12%	3.12%	3.18%	3.16%	3.39%	3.06%	2.99%	2.90%	2.80%	2.74%
Op Exp/Avg Assets	2.14%	2.28%	2.45%	2.47%	2.51%	2.60%	2.68%	2.78%	2.67%	2.73%	2.81%	2.89%	2.97%
bp difference	0.76%	0.82%	0.77%	0.66%	0.60%	0.58%	0.48%	0.60%	0.38%	0.26%	0.09%	-0.09%	-0.23%

Year

Notes:
(1) All Credit Unions screened for Total Assets > $1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource

Banks (1bb–33.1 bb assets) generate 70 b.p. before fees



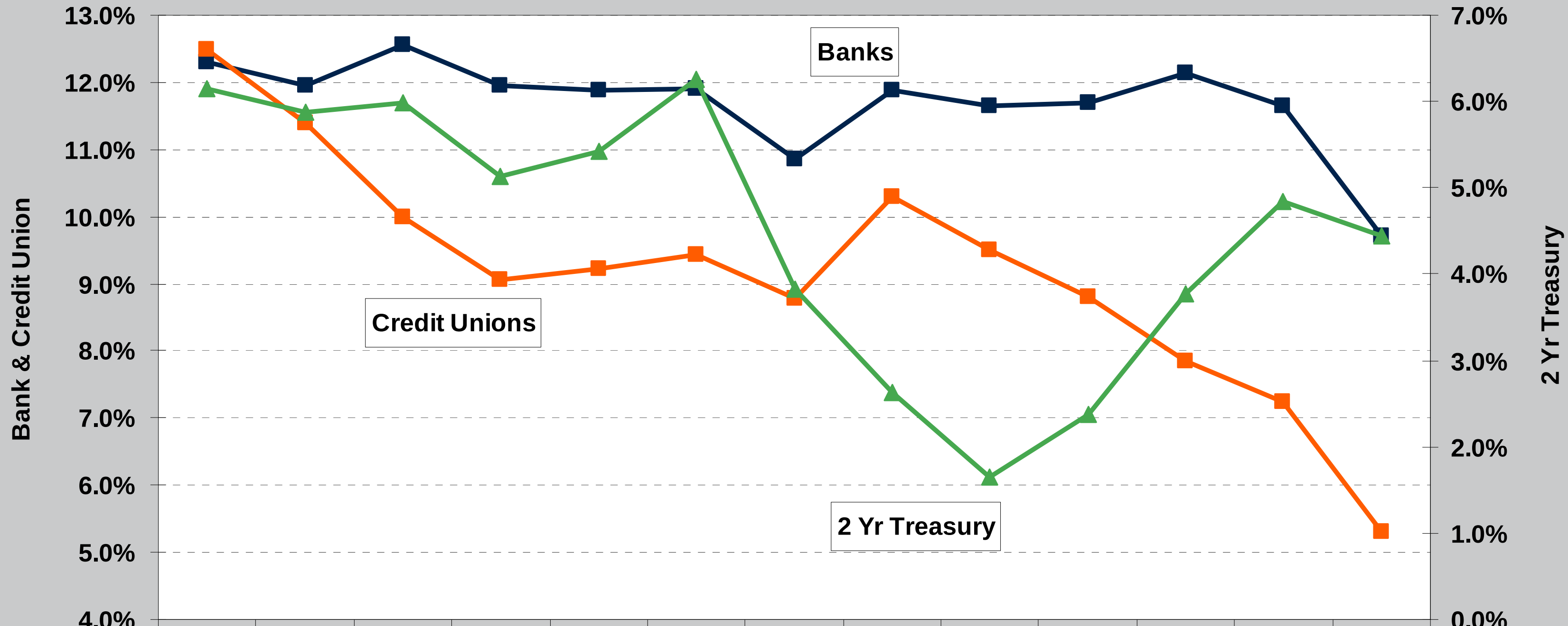
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
NIM/Avg Assets	4.26%	4.21%	4.23%	4.29%	4.23%	4.12%	4.05%	4.02%	4.11%	3.86%	3.86%	3.94%	3.89%	3.75%
NIE/Avg Assets	3.47%	3.46%	3.39%	3.22%	3.28%	3.15%	3.11%	3.16%	3.17%	3.15%	3.12%	3.08%	2.91%	3.06%
bp difference	0.80%	0.76%	0.84%	1.07%	0.94%	0.97%	0.94%	0.85%	0.94%	0.71%	0.74%	0.86%	0.98%	0.70%

Year

Notes:
(1) All Banks screened for Total Assets between $1 billion and $33.1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource

ROAE-CUs & Banks



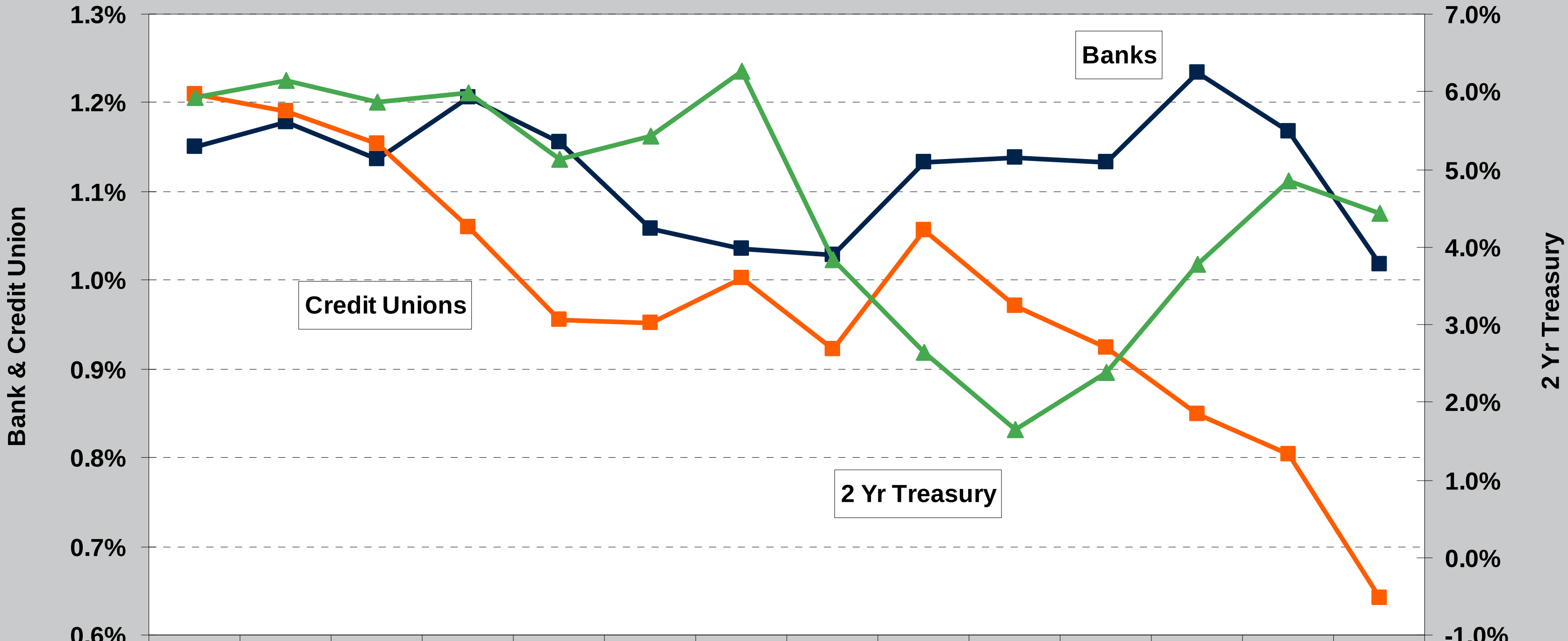
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Banks	12.29%	11.95%	12.55%	11.96%	11.88%	11.90%	10.85%	11.88%	11.66%	11.69%	12.13%	11.64%	9.71%
Credit Unions	12.48%	11.40%	9.98%	9.06%	9.21%	9.43%	8.77%	10.29%	9.50%	8.81%	7.84%	7.24%	5.31%
2 Yr Treasury	6.15%	5.87%	5.99%	5.13%	5.43%	6.26%	3.83%	2.64%	1.65%	2.38%	3.78%	4.85%	4.44%
bp difference	-0.19%	0.55%	2.57%	2.90%	2.67%	2.47%	2.08%	1.59%	2.16%	2.88%	4.29%	4.40%	4.40%

Year

Notes:
(1) All institutions screened for Total Assets between $100 million and $33.1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource

ROAA–CUs & Banks



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Banks	1.15%	1.18%	1.14%	1.21%	1.16%	1.06%	1.04%	1.03%	1.13%	1.14%	1.13%	1.23%	1.17%	1.02%
Credit Unions	1.21%	1.19%	1.15%	1.06%	0.96%	0.95%	1.00%	0.92%	1.06%	0.97%	0.92%	0.85%	0.80%	0.64%
2 Yr Treasury	5.93%	6.15%	5.87%	5.99%	5.13%	5.43%	6.26%	3.83%	2.64%	1.65%	2.38%	3.78%	4.85%	4.44%
bp difference	-0.06%	-0.01%	-0.02%	0.15%	0.20%	0.11%	0.03%	0.11%	0.08%	0.17%	0.21%	0.39%	0.36%	0.38%

Year

Notes:
(1) All institutions screened for Total Assets between $100 million and $33.1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource

Understanding the income difference

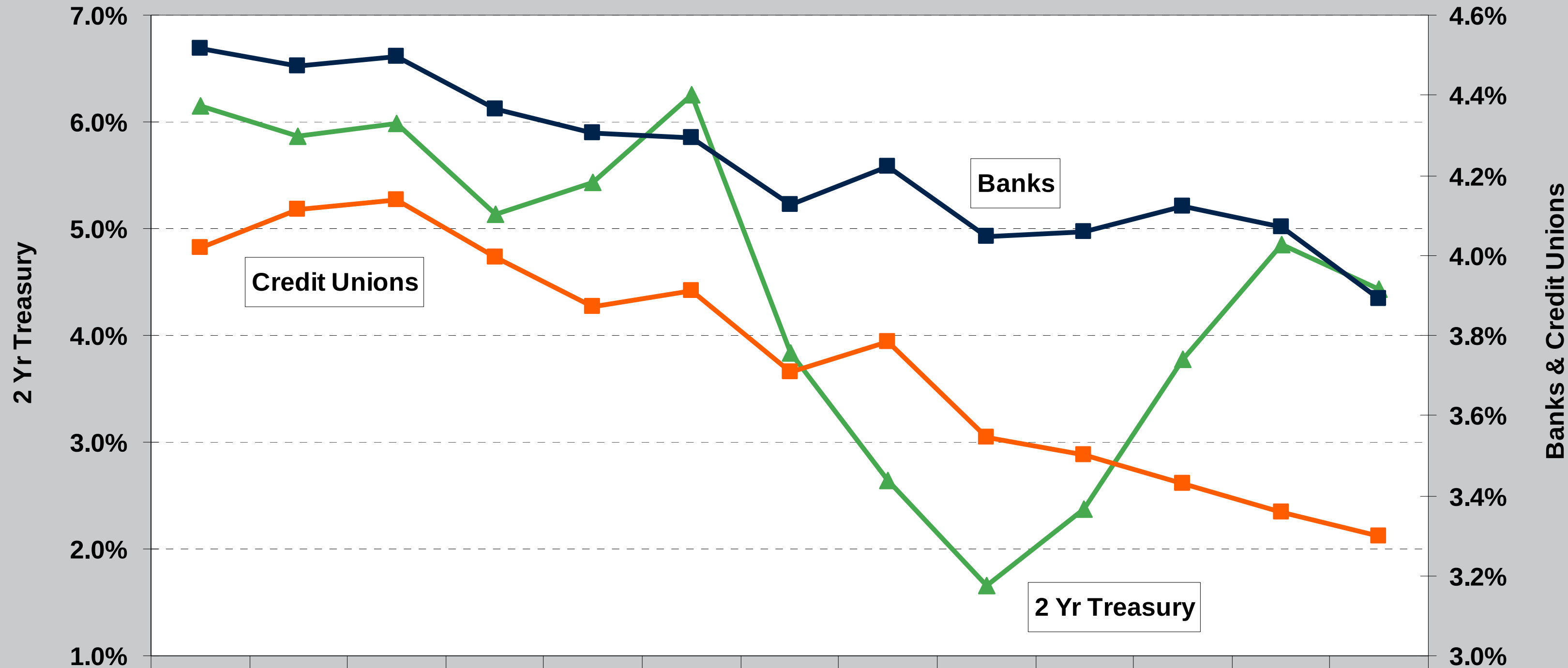
- The margin and income difference between banks and CUs has been, until recently, misunderstood amongst CUs and is a function of:
- The “Stealth Impact of Regulation”
- Traditional measures of performance
- Vendor community
- Over reliance on peer analysis
- The evolution of CUs which finds “The Silent Majority” CUs’ needs not being met on regulatory relief.

Tax versus Regulatory Tax

Institution	Regulatory Calculation
Banks	Credit Risk
Credit Unions	Interest Rate Risk

- Key components of the business are negatively impacted by the regulatory difference…

Net Interest Margin–CUs & Banks



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
2 Yr Treasury	6.15%	5.87%	5.99%	5.13%	5.43%	6.26%	3.83%	2.64%	1.65%	2.38%	3.78%	4.85%	4.44%
Banks	4.52%	4.47%	4.50%	4.36%	4.30%	4.29%	4.13%	4.22%	4.05%	4.06%	4.12%	4.07%	3.89%
Credit Unions	4.02%	4.12%	4.14%	4.00%	3.87%	3.91%	3.71%	3.78%	3.54%	3.50%	3.43%	3.36%	3.30%
bp difference	0.50%	0.36%	0.36%	0.37%	0.43%	0.38%	0.42%	0.44%	0.50%	0.56%	0.69%	0.71%	0.59%

Year

Notes:
(1) All institutions screened for Total Assets between $100 million and $33.1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource

“How do they do it?”

- Risk weighting difference leads to a “stealth” income advantage:

  investments

  freedom to extend balance sheet duration

  capital treatment (more leverage/more income)

  business lending and the “free money” impact

  funding thru borrowings not deposit promotions

  better efficiency

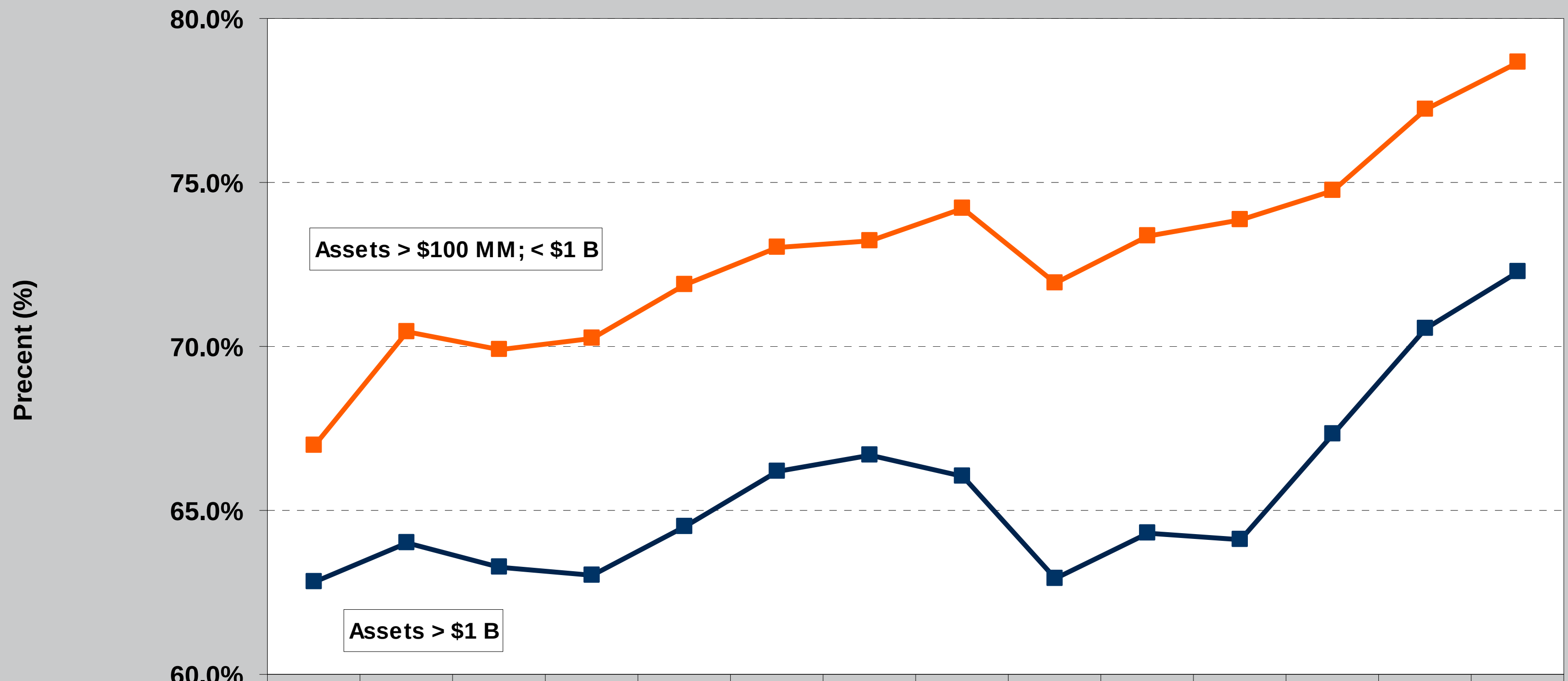
the incremental income has become a competitive advantage

because they use it, they don’t “pocket” it.

Competitive Dis-advantge

- Lack of “Financial Competitiveness” amongst “Evolving CUs” impacts efficiency…

Credit Union Efficiency Ratio



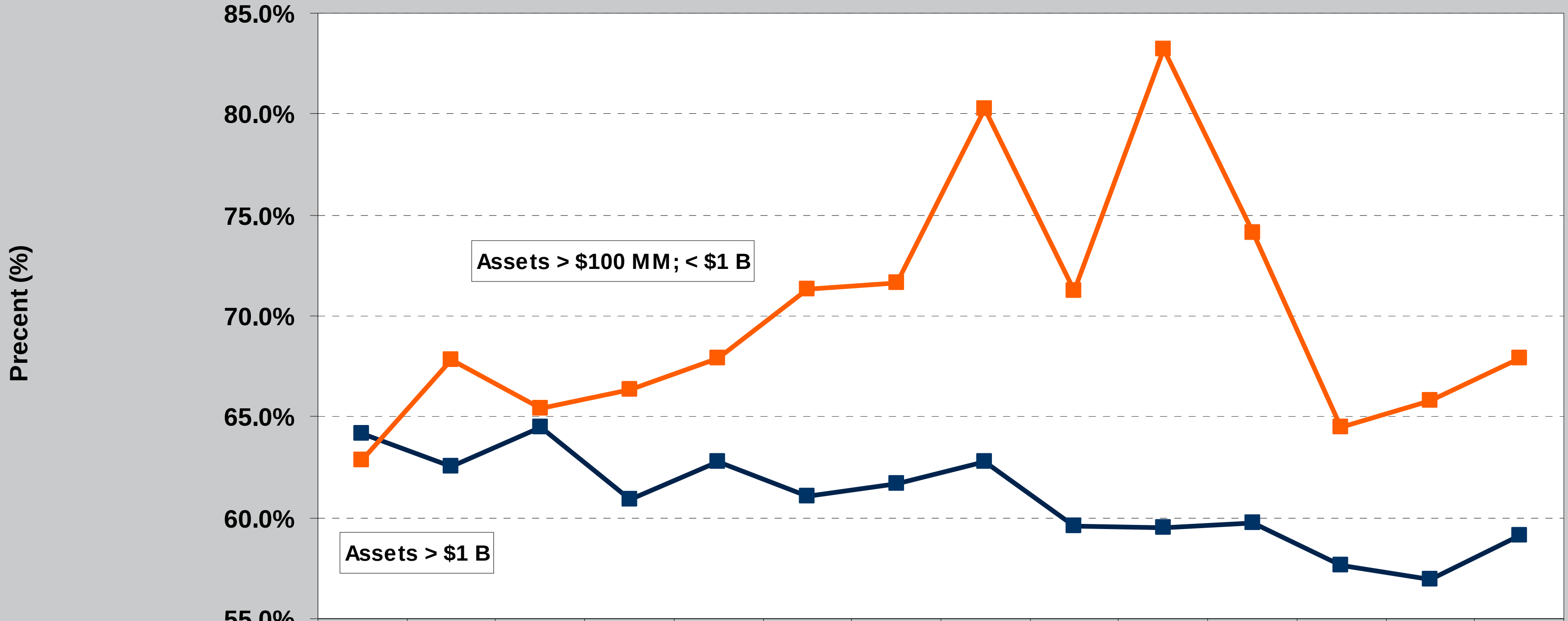
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assets > $1 B	62.83	63.99	63.26	63.03	64.50	66.17	66.69	66.03	62.92	64.32	64.11	67.31	70.53	72.26
Assets > $100 MM; < $1 B	67.00	70.44	69.91	70.23	71.89	73.03	73.20	74.22	71.93	73.35	73.85	74.77	77.24	78.65
bp difference	-4.17%	-6.45%	-6.65%	-7.19%	-7.39%	-6.86%	-6.50%	-8.19%	-9.01%	-9.03%	-9.75%	-7.46%	-6.71%	-6.39%

Year

<u>Notes:</u>
(1) All institutions screened for Total Assets between $100 million and $33.1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource Banks above 1bb/assets 55%; below 1bb/assets 65%

Banks Efficiency Ratio



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assets > $1 B	64.19	62.52	64.51	60.94	62.79	61.03	61.70	62.78	59.60	59.50	59.74	57.67	56.92	59.15
Assets > $100 MM; < $1 B	62.88	67.81	65.39	66.34	67.90	71.32	71.66	80.29	71.22	83.18	74.12	64.52	65.82	67.90
bp difference	1.31%	-5.30%	-0.88%	-5.40%	-5.11%	-10.29	-9.96%	-17.51	-11.62	-23.69	-14.38	-6.84%	-8.90%	-8.76%

Year

Notes:
(1) All institutions screened for Total Assets between $100 million and $33.1 billion
(2) Trend data reflects annual averages

Source: SNL DataSource

Scale and efficiency

- CUs don’t enjoy economy of scale on the same basis as competition or other industries…

- …because efficiency in CUs is a function of both scale and field of membership

A Tale of Two Cities–2005

	The "Haves"	The "Have Nots"
# of Credit Unions	66	1161
Assets per Credit Union	$794.6 million	$334.6 million
Branches per Credit Union	6.06	7.66
Assets/Branch	$118,566	$47,042
Operating Expenses/Avg Assets (%)	2.08	4.16
Net Interest Margin/Avg Assets (%)	2.59	3.75
Average Expense Coverage	.51	–.41
ROAA (%)	.78	.79
ROAE (%)	6.40	7.58
Efficiency (%)	58.41	79.65
Cost of Int. Bear. Liabilities (%)	2.86	2.09
Capital Ratio	12.07	11.13
% Single Field of Membership	100%	0%

Source: SNL DataSource

The earnings impact on the value "package"

- Although "not for profit"….

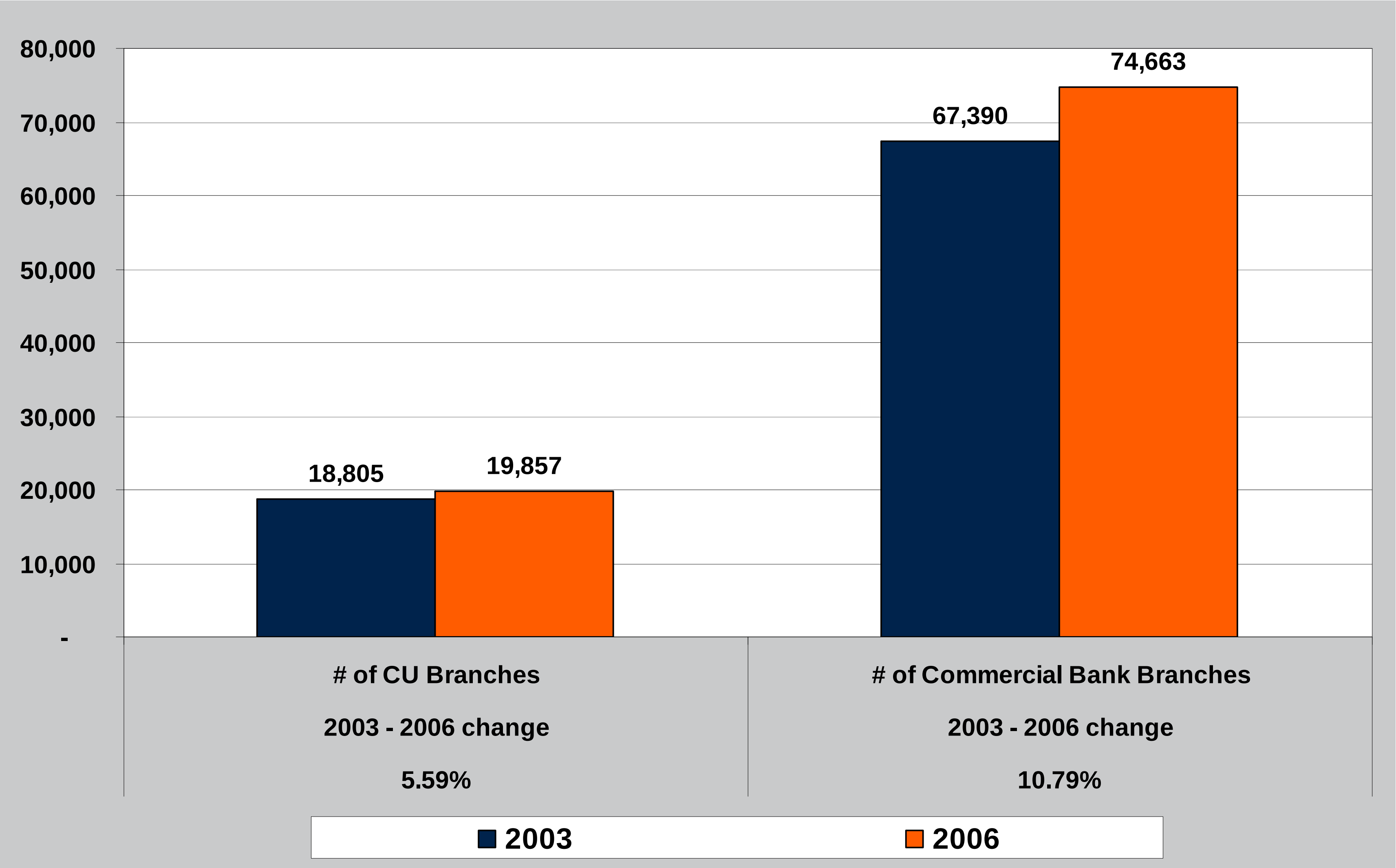
- The consumer expects competitive earnings so that the earnings/capital are invested in the overall "value package".

The perfect storm….

- Once the competitor generates more earnings, all that is left is how shrewd they use the incremental income:
- Branching
- Service
- Fees
- Rates
- Value…..
- ….and MARKETING….getting the word out

Banks are increasing branches at a greater pace

- From 2003-2006, banks added 7x more branches than CUs



Source: FDIC, NCUA Call Report data

Large banks love retail, again

- Capital One purchase of North Fork Bank is a recognition of both the need for diversity and the strength of a solid retail brand
- WAMU, BONY, MetLife Bank, National City, Suntrust (many others) offering cash bonuses for new deposits while lowering/ eliminating fees…WAMU, PNC and TD Bank North are eliminating fees for customers who get cash at competitor ATMs
- Massive marketing campaigns across all media and adding “frequent banking points”.
- B of A enters NYC CEO mystery shops and measures “customer delight”

Source: Wall Street Journal, March 14, 2006; Sandler O’Neill advised North Fork

Your hometown…*

- Has your local market experienced a noticeable increase in bank branches (or announced expansion)? 82% Yes

- Has your local market experienced a noticeable increase in bank advertising and marketing?   90% Yes

*The following questions were asked of attendees at my CUES CEO Network session 11/06.

Fee Income / Gross Income

Institution Type	1998	2007
Credit Unions	7.75%	13.33%
Banks & Thrifts	7.37%	5.01%

Notes:
(1) All institutions screened for Total Assets between $100 million and $33.1 billion
(2) Trend data reflects annual averages
(3) Gross Income for Banks & Thrifts defined as Interest Income plus Non Interest Income
Source: SNL DataSource

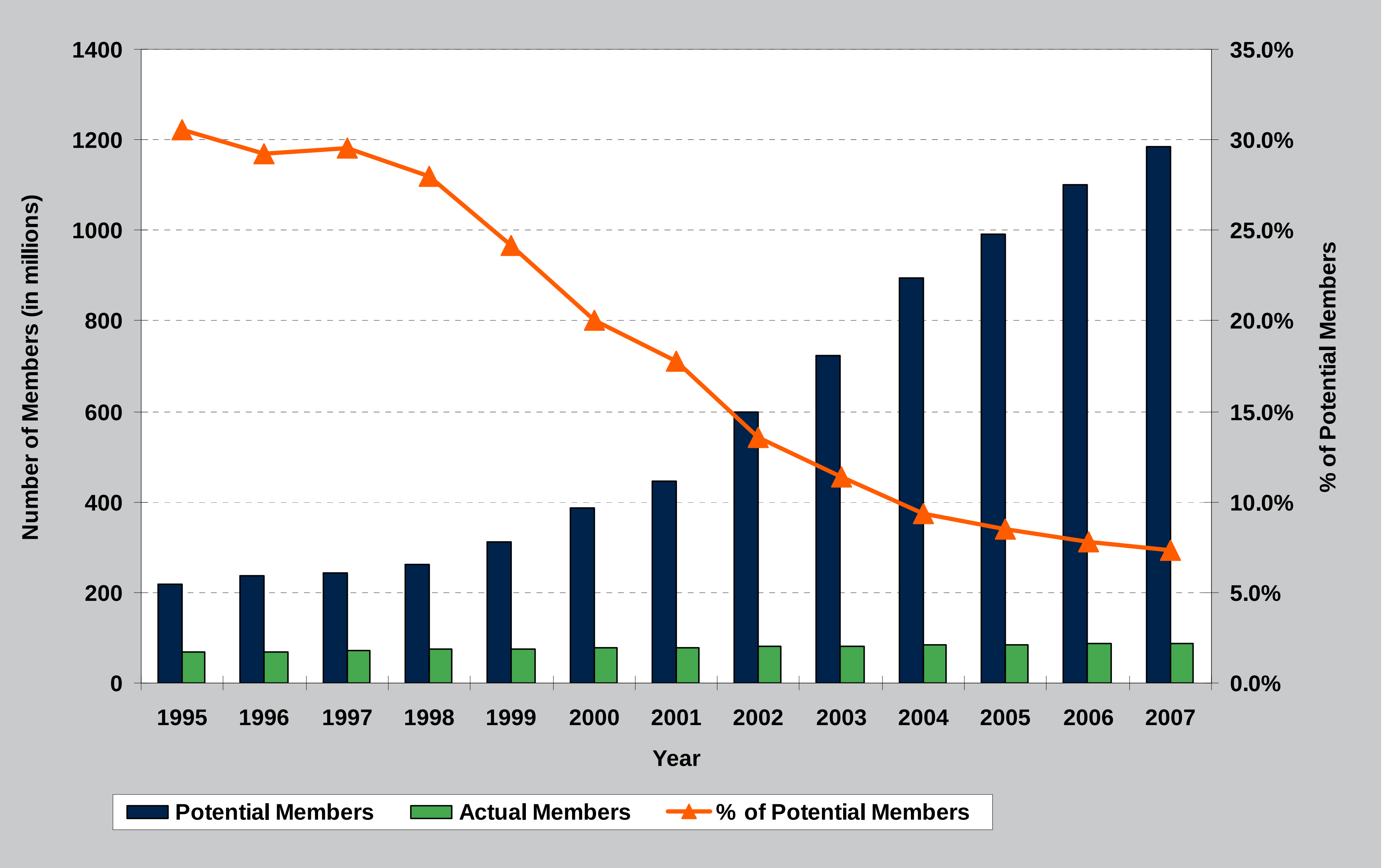
Putting the brand at risk

- The percentage of "very satisfied" consumers for banks and Credit Unions is now closer than ever before at 8% (CUs 71%, Banks 63%).
- In 2002 the difference was 20%
- "They're becoming more like us" (CONVERGENCE)
- "We're losing our service edge", while the banks increase the advantage on income and put the dollars to work for growth.

CU Growth trends and perspectives

- Lets take a look at the impact of "Financial Competitiveness" on growth…

CUs Membership Growth



Source: NCUA Call Report Data

Real growth?

- Membership growth since 1997 has averaged 2.2% per year (1.5% since 2002)

- 85% of the new auto loan business in CUs nationally is indirect.

Source: NCUA/FDIC Call Report Data and Credit Union Times, March 15, 2006 and Credit Union Times September 27, 2006.

A closer look at Fastest Growing 15- (2007 totals)-perhaps a trend?

- 7 have done multiple mergers or one large merger.(8)
- 6 have del. loans/total loans > .9% (3)
- Indirect+participation loans @ 27% total loans = 7 CUs. (3)
- Indirect+participation loans @ 40+% of total loans= 4 CUs. (1)
- 13 are in one of the 3 categories. (12)
- 8 of the Top 15 in 2006 dropped out in 2007 (4 were heavily reliant on indirect lending for growth).

- NCUA call report statistics, 6/30/07 and 12/31/07.

More growth perspective- 2006 (2007)

- Of the 150 fastest growing CUs ($100mm-29bb):

  61 (35) have indirects+participations/total loans > 20% (avg. is 18.5%)

  28 (49) have delinq. loans/total loans > .9% (avg. is .63%).

- HELOCS nearly quadrupled (395%) to $36bb and now represent 14% of all CU loans.

- NCUA call report data 6/07 and 12/07

	Total Assets 5 Yr. CAGR 2002 - 2007	Capital YTD 12/07	ROAE LTM	Non Int. Inc./ Avg Assets LTM
Credit Unions- Assets: $100MM to $33.1B	6.89%	11.68%	5.31%	1.50%
Banks & Thrifts- Assets: $100MM to $33.1B	11.11%	10.76%	9.73%	1.25%
15 Fastest Growing Credit Unions- Assets > $500MM	20.93%	10.22%	11.78%	2.11%
15 Fastest Growing Banks & Thrifts- Assets: $500MM to $33.1B	148.06%	10.77%	7.88%	4.29%

As a result, banks are less reliant on non-interest income in many cases.

CAGR is cumulative average growth rate, ROE is return on equity.

Source: SNL DataSource

Evolving CUs and our “free enterprise” system

- Once the CU begins competing (off the “factory floor”) for customers in the open community…

- …the marketing, customer profile, cross-selling, earnings, capital utilization, key metric and efficiency of the institution is on the same basis as the competitor….

- …because that is how the consumer decides who to bank with in their search for the most effectively managed dollar

The Fundamentals of Winning Market Share

- The most effectively managed dollar changes the metrics to market share, ROE and the efficiency ratio

- As the consumer focuses on:
- Rates on shares and loans
- Fees
- Significant investment in marketing and branching
- Service and delivery standards
- (CU sales message is more challenging because you have to educate and then sell)

Key Success Factors for Credit Unions–change the focus, not the culture

- Make market share your key ratio not loan to share
- Develop the sales, marketing, branding and advertising approach that leverages your culture into more households
- Increase earnings competitiveness
  - Investments, capital utilization, ALM/Balance Sheet management
- Change metrics to ROE and Efficiency Ratio
- Develop Board awareness–NOW
- Reduce the conflicting influence of regulation and traditional leadership/advisors on growth and earnings…

How does the member benefit…leave all your options open.

- CU to CU merger
- Acquisition of CU
- “Stay the course”
- Increase of “Financial Competitiveness” to the maximum allowable under regulation
- Collaboration
- Charter conversion

Peter F. Duffy

Associate Director

919 Third Avenue, 6th Floor

New York, NY 10022

800 – 635 – 6851

pduffy@sandleroneill.com

SANDLER O'NEILL + PARTNERS

New York   Atlanta   Boston   Chicago   San Francisco

Description of fee income–Banks

- Banks….amounts charged depositors in domestic offices for the maintenance of their deposit accounts, for their failure to maintain specified minimum deposit balances, based on the number of checks drawnon and deposit made in their deposit Amounts charged depositors in domestic offices: for the maintenance of their deposit accounts with the institution; for their failure to maintain specified minimum deposit balances; based on the number of checks drawn on and deposit made in their deposit accounts; for checks drawn on "no minimum balance" deposit accounts; for withdrawals from nontransaction deposit accounts; for the closing of savings accounts before a specified minimum period of time has elapsed; for accounts which have remained inactive for extended periods of time or which have become dormant; for deposits to or withdrawals from deposit accounts through the use of automated teller machines or remote service units; for the processing of checks drawn against insufficient funds that the institution assesses regardless of whether it decides to pay, return, or hold the check; for issuing stop payment orders; for certifying checks; and for the accumulation or disbursement of funds deposited to IRAs or Keogh Plan accounts when not handled by the institution's trust department…and
- The amount of service charges, commissions, and fees not required to be reported elsewhere in the Income Statement for the calendar year– to-date

CU fee income

- Fees charged to members for services or membership (i.e., overdraft fees, ATM fees, credit card fees, etc.). (Credit Union Call Report field: Acct_131