

Minnesota Valley Federal Credit Union still in GREAT shape.

As of our most recent federal examination dated 3-31-09 by the National Credit Union Administration, (NCUA), we remain a CAMEL (Capital / Asset quality / Management / Earnings / asset-Liability management) Code 1 (scale of 1 to 5 with 1 being the best). Our CPA opinion audit was again, unqualified. And again, for the period ending 6/30/09, Callahan and Associates rated MVFCU in the top 20% of the nation in "Return to the Member" (16 measures of member usage of products and services).

At August 31, 2009, the more recent month end close, MVFCU has \$65 million in assets, about \$60 million in deposits, \$43 million in loans, \$19 million in investments, \$2 million in liquid funds and member owned capital (aka equity) of \$5.6 million (about 9%). Net income for the year (first 8 months) is \$322 thousand which equals a very healthy .80% return on assets. Credit unions need to retain some net income to ensure capital growth keeps pace with asset / deposit growth. In 2009, deposits are growing at over 14%. Overall, we're having another good year. That's good for members as they are the owners. That's the co-op advantage!

Net loan growth is relatively flat in 2009 (our 5 year average is about 12% growth per year) though extraordinarily active in first mortgage lending given near historically low interest rates. Often when members refinance their first mortgages, if applicable, they wisely wrap their second mortgage and perhaps car loan and unsecured loan, within the first mortgage, thereby reducing their effective interest rate. Naturally, like most other lenders, MVFCU doesn't tend to hold in our portfolio the traditional 30 year, fixed-rate, low-rate, first mortgages in-house (to reduce interest rate risk...remember the S&L Crisis of the 1980s) but rather transfers / sells the big loan to PHH (about the 7th largest first mortgage servicer in the USA).

Today, loan delinquency is at 1.84% (including federally insured student loans) and loan charge offs at 0.21% for a combined 2.05%. Our provision for loan loss (PLL) expense so far is 0.24%. The national average for credit unions between \$50 to \$100 million in assets for combined delinquency and charge offs is 2.37% and PLL of .66%. For Minnesota credit unions of \$50 to \$100 million, the combined delinquency and charge offs total 3.29% and PLL of .83%. Indeed, our 2.05% and 0.24% compares very favorably.

As of June 30, 2009 (most recent national quarterly comparison data), credit unions across the country (about 8,000) had a combined loan delinquency percentage of 1.59% compared to all FDIC-insured banks with delinquency of 4.35%. Assets were growing in the nation's credit unions by 8.2% and FDIC insured banks at 0%. Loans at credit unions were growing by 4.1% and at FDIC-insured banks, loans shrunk by negative <4.6%>, for the first six months of 2009. Credit unions are in great shape.

=====

Despite the recent turmoil in the economy, the credit union system overall is healthy and sound. Consumers' money is safe in a credit union.

- Credit unions, the ones where 92 million Americans save and borrow, are well capitalized and strong (10.03% capital to assets). Minnesota credit unions – serving 1.5 million members in the state – have a 10.19% capital ratio (as of June 30, 2009).
- Credit unions are still actively extending credit, keeping the country's lending wheels in motion when many other financial institutions have cut back.
- Credit unions are lending responsibly. Credit unions typically hold onto their loans, and do not "originate to distribute," a practice that ultimately caused so many other financials big problems.
- Consumers benefit on both sides of the balance sheet by using a credit union. Deposit rates on average are higher than at banks and loan rates on average are lower in almost every category. Coupled with lower fees typically found at credit unions, that translates into consumer savings of about \$9 billion a year, or about \$200 per credit union family.

As one would expect, some credit unions are feeling the strain from the current economic environment.

- The steep decline in the economy is having its impact. As of June 2009, the delinquency ratio among U.S. credit unions was 1.58%. While this ratio is higher than the typical ratio of 0.97% as seen in the first six months of 2008, credit unions are still healthy and strong.
- Despite higher-than-typical numbers, very few credit unions have been closed or taken into conservatorship in 2009 (eight out of 7,600+ nationwide, as of Sept. It is acknowledged that there will likely be more, but credit unions overall are in strong shape and will weather this financial storm.

There is no problem that can't be handled by our existing deposit insurance system (NCUSIF = National Credit Union Share Insurance Fund = balance maintained is 1.30% of insured funds, so about \$9 billion today).

- Not one penny of federally-insured deposits has ever been lost in a credit union.

Credit unions are safe and secure – funds on deposit are insured by the full faith and credit of the U.S. government.

- By and large, members of the general public do not need to worry about the security of their funds on deposit at credit unions. Funds are insured by the full faith and credit of the U.S. government. Similar to the FDIC, the National Credit Union Share Insurance Fund (NCUSIF) insures a member's shares on deposit at

a credit union up to a minimum of \$250,000.

□ Not one penny of insured savings has ever been lost by a member of a federally insured credit union – and every Minnesota credit union is federally insured. Minnesota is home to 156 credit unions, serving more than 1.5 million.

Credit unions are well-positioned to weather the economic storm.

□ As consumers weather this economic storm, credit unions remain a safe haven for members' deposits. Credit unions operate more conservatively with less risk and focus on serving and educating members.

□ Since credit unions are member-owned, not-for-profit cooperatives, we exist to serve our members, not profit from them. Credit unions haven't been forcing loans on members just to make a quick buck.

□ Credit unions are still very interested in making loans – including real estate loans – to our members. There is no liquidity crunch, and our loan rates continue to be favorable compared to most banks and auto finance companies.

□ Minnesota credit unions have very strong and stable capital ratios. As of June 30, 2009, the end of the most recent reporting period, that ratio stood at 10.19%. The NCUA's definition of "well capitalized," which is their highest rating, is 7.0%.

□ The delinquency rate (60 days and over) for Minnesota credit unions, including all consumer, commercial, and real estate loans, is 2.31% of total assets. They could charge-off every delinquent loan on their books (which would never happen) and still have a capital ratio of 8.67%, well above the NCUA standard of 7.0%.