

# Option

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A newsletter from American Share Insurance - Providing share insurance since 1974.

## ASI Reduces Cost of Insurance

### Savings to Begin in 2009

The American Share Insurance Board of Directors approved a change in the corporation's current pricing formula for primary share insurance, which was also approved by the Ohio Department of Insurance. The change results in a significant savings to a majority of ASI's primary insured member credit unions beginning in 2009. During these uncertain economic times, with credit unions facing rising costs and tightening net spreads, ASI has stepped up to provide a positive benefit for its member credit unions by reducing the deposit requirements for specific credit unions. The new pricing structure became effective December 31, 2008, and will reduce the share insurance capital contribution rate (deposit) required of CAMEL 2 or CAE 2-rated member credit unions from 1.1% of total shares to 1.0% of total shares.

The new rate matches that being charged CAMEL 1 or CAE 1-rated credit unions (see chart below).

**"The ability to effectuate this price restructuring during such difficult economic times is a testament to the ASI Board of Directors' commitment to our members' needs and to the financial stability of ASI and its insurance fund."**

**Dennis Adams, President/CEO of ASI**

This change effectively represents a 9.1% annual savings in the current cost of share insurance for the affected member credit unions. It also frees up millions of dollars of funds that can be used to better serve individual credit union members' needs. No other share insurance rates are affected by this change.

ASI President/CEO Dennis Adams said, "This initiative by the ASI Board benefits many of our member credit unions at a time when resources are needed to aid individual members. The Company was projecting a year-end equity ratio of 1.50% for the insurance fund, and the Board wanted

to reward those healthy credit unions that allowed us to achieve this milestone of financial stability. The ability to effectuate this price restructuring during such difficult economic times is a testament to the

ASI Board of Directors' commitment to our members' needs and to the financial stability of ASI and its insurance fund."

The annual notice of capital contribution due for 2009 for ASI member credit unions will apply this new pricing formula and be based on each credit union's rating and reported total shares as of December 31, 2008. Member credit unions' statements of account with ASI for 2009 will be mailed in the first quarter of the year, and the billing adjustment will reflect this change in rates.

### NEW CAPITAL CONTRIBUTION (DEPOSIT) REQUIREMENTS FOR 2009

CAMEL/CAE 1	1.0% of Total Shares
<b>CAMEL/CAE 2*</b>	<b>1.0% of Total Shares</b>
CAMEL/CAE 3	1.2% of Total Shares
CAMEL/CAE 4/5	1.3% of Total Shares

\* CAE: Rating calculated based on the credit union's capital, asset quality and earnings ratios compared to regulatory benchmarks.

### Member Credit Unions Notified

Per Section XV of the ASI Primary Share Insurance Policy, advance notice of this rate change is required. On November 21, 2008, ASI sent a Notice of Lower Share Insurance Rates to all ASI primary insured credit unions informing them of the change. A new Capital Contribution Rate Schedule was included with the communication which credit unions should file with their ASI Primary Insurance Policy for future reference as the pricing change represents an amendment or modification to ASI's Policy.

### ASI's Equity Ratio Remains Strong Following Price Reduction

ASI is also pleased to report that after considering the financial impact of this reduction in the cost of share insurance, ASI's equity ratio at year-end will be at approximately 1.47%, or \$1.47 for each \$100 of insured shares. This equity ratio reflects the financial stability and strength of the ASI fund and is still significantly higher than that of the NCUSIF, which is estimated to be about 1.27% at year-end 2008 per published reports.

## Insurance Fund Update

*In our July and October 2008 newsletters, we provided our members with a detailed assessment of the housing market and the mortgage meltdown, emphasizing ASI's proactive approach in its monitoring and examination of the mortgage loan exposure within our insured credit unions. We continue to find that ASI's primary insured credit unions have little or no direct exposure to many of the problems plaguing the financial markets; in turn, avoiding the direct impact of the sub-prime mortgage mess. However, it is becoming more apparent that credit unions must remain vigilant against the "trickle down" effect of a variety of economic pressures in these troubling times. In response to our members' request for an update on the economic impact on credit unions and on the ASI insurance fund, we are pleased to provide the reporting that follows.*

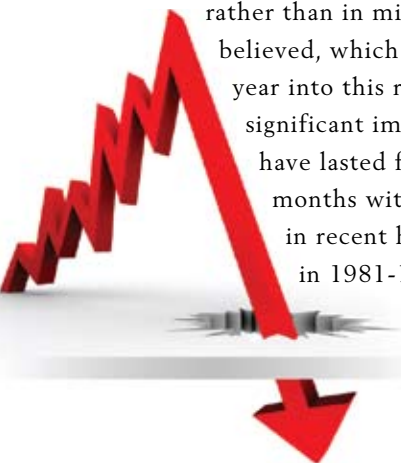
### Implications of the Current Recession

On December 1, 2008, the National Bureau of Economic Research (NBER) officially proclaimed what many of us have suspected for some time: **The U.S. is in a recession.** What likely was a surprise to many, though, is that the NBER stated that the recession began in December 2007, rather than in mid-2008, as previously believed, which means we are now a full year into this recessionary cycle. This has significant implications. Past recessions have lasted from six months to 16 months with the two most severe in recent history being 16 months in 1981-1982 and in 1973-1975.

Does this mean that we could come out of this recession in the next six months? Or, could we be headed for an abnormally long period of weak economic growth not seen since the 43-month long recession from August 1929 to March 1933 that occurred during the Great Depression? Possibly... but probably not.

Signs supporting the argument that the recession will give way to economic growth that could start as soon as the second half of 2009 include: (1) the current unemployment rate of 7.2% is far less than the 10%+ peak unemployment rates incurred during the longest recessions of the past 35 years and is a fraction of the 25% rate experienced during the 1930s; (2) interest rates are at historical lows, not highs, as they were in the 1981-1982 recession, which should eventually encourage consumer and business spending; and, (3) increased fiscal spending of over \$2 trillion from the TARP program and the planned programs under incoming President Barack Obama to rebuild major components of the U.S. physical and technological infrastructures in a way not seen since the development of the Interstate highway system in the 1950s and 1960s. However, unlike past economic recoveries that tend to roar back, this recovery will likely be slow to unfold and take several years, not months, to recover to more normalized levels.

Threats to a 2009 recovery are factors such as: (1) the recession is global, not just U.S.-based; (2) there are many "excesses" that are being purged, such as asset valuations in the real estate and stock markets, over-extension of credit, etc.; and, (3) critical weaknesses exist in key U.S. industries (automobile, retail, housing, financial institutions, etc.).



## The Second Great Depression or The Great Purge of 2008?

Many individuals are calling our current economic environment the beginning of the Second Great Depression, since depressions tend to occur cyclically every 70-100 years. Also, deflationary trends are being seen in energy prices, food and other commodity prices, which could translate into a downward spiral for an economy that has already lost \$30 trillion in market values this past year! However, as our economy is currently postured, a depression appears unlikely this time around due to the aggressive and unprecedented monetary and fiscal stimulus efforts undertaken by the U.S. Government to get the economy back on its feet. In addition, the Great Depression saw massive bank failures, something not likely to occur due to deposit insurance and the U.S. Government's recent intervention in that area to ensure consumer confidence in the banking system this time around. Instead, we will likely look back on this period as being the Great Purge of 2008 with declines in: asset valuations; personal wealth; credit availability; the number of financial institutions; the number of business entities, etc. Recovery will take years and we most likely will see inflationary pressures begin to take hold within the next two years due to low interest rates and increased government spending. In addition, financial institutions need to prepare themselves for a significant increase in regulatory oversight and burden, most likely beginning in 2009.

## Insurance Fund Update

In ASI's prior newsletters, we provided four key credit union ratios and four key insurance fund statistics as of December 31, 2007 and through June 30, 2008, which presented ASI and its insured credit unions in a positive light compared to national averages, largely as a result of ASI's tightened underwriting standards and heightened examination efforts over the past several years. We have updated these comparative statistics below to include September 30, 2008 results.

	September 30, 2008		June 30, 2008		March 31, 2008		December 31, 2007	
	ASI	Federally Insured (1)	ASI	Federally Insured (1)	ASI	Federally Insured (1)	ASI	Federally Insured (1)
	Net Capital Ratio	<b>11.55%</b>	11.16%	<b>11.26%</b>	11.04%	<b>11.35%</b>	11.07%	<b>11.24%</b>
Return on Assets	<b>0.41%</b>	0.51%	<b>0.48%</b>	0.52%	<b>0.51%</b>	0.60%	<b>0.48%</b>	0.64%
Delinquent Loans Ratio	<b>1.26%</b>	1.13%	<b>0.96%</b>	0.97%	<b>0.90%</b>	0.91%	<b>0.95%</b>	0.93%
Net Charge-off Ratio	<b>0.56%</b>	0.75%	<b>0.52%</b>	0.71%	<b>0.47%</b>	0.67%	<b>0.54%</b>	0.51%

(1) Source: NCUA website.

The financial condition of the ASI share insurance fund has never been more secure than it is now. We are proud to report a very strong equity ratio of 1.49% at September 30, 2008, as shown in the table below.

	September 30, 2008		June 30, 2008		March 31, 2008		December 31, 2007	
	ASI	NCUSIF (1)	ASI	NCUSIF (1)	ASI	NCUSIF (1)	ASI	NCUSIF (1)
	Primary Equity Ratio	<b>1.49%</b>	1.28%	<b>1.49%</b>	1.24%	<b>1.48%</b>	1.31%	<b>1.35%</b>
No. of Problem CUs as Percent of Total CUs (2)	<b>2.47%</b>	3.11%	<b>2.45%</b>	3.07%	<b>3.01%</b>	2.80%	<b>2.41%</b>	2.60%
Shares of Problem CUs as Percent of Total Shares (2)	<b>0.39%</b>	2.48%	<b>0.40%</b>	1.37%	<b>0.39%</b>	1.59%	<b>0.26%</b>	1.04%
Loss Reserves to Insurance-in-Force (basis points)	<b>5.9bps</b>	2.1bps	<b>5.7bps</b>	5.6bps	<b>5.6bps</b>	3.6bps	<b>4.6bps</b>	3.8bps

(1) Source: NCUA website and/or from data from the NCUA website.

(2) Problem credit unions are defined as those credit unions with a CAMEL/CAE rating of 4 or 5.

Although credit unions in general, and ASI's primary insured credit unions specifically, have little or no direct exposure to many of the problems plaguing the financial markets; in turn, avoiding the direct impact of the sub-prime mortgage mess, credit unions may still be vulnerable to unnecessary losses. The ever-tightening availability of credit to consumers from banks and other lenders will likely result in credit unions seeing an increase in loan demand from consumers who are denied access to credit by banks; however, a portion of this loan demand will likely represent weak credit relationships that would best be avoided. We continue to stress that credit unions continue to be vigilant against the expected fallout

from the current economic conditions and the impact on their members and their operations caused by higher unemployment and escalating loan delinquency rates. This can best be accomplished by maintaining stronger than normal operations and safe and sound lending and collections programs.

*In conclusion, we believe that the ASI insurance fund provides its credit unions with a strong, high-quality program that is structured so as to assure longevity and financial stability regardless of changes in economic conditions.*



**American Share Insurance congratulates ASI Board Member Bruce Ingraham for being inducted into the Indiana Credit Union Hall of Fame.**

Bruce Ingraham, CEO of ASI primary insured Beacon Credit Union (IN) and a member of the ASI Board of Directors, was inducted into the Indiana Credit Union Hall of Fame in September. Mr. Ingraham was honored at the Chairman's Awards Banquet on September 27 during the Indiana Credit Union League's 74th Annual Convention in Indianapolis. The previous year he also received the 2007 Professional Achievement Award by the Indiana Credit Union League. ASI extends its thanks to Bruce Ingraham for his dedication and commitment to the credit union community.

# ASI Advisory Council Meets

The 2008 edition of the ASI Primary Insured Credit Union Advisory Council ("Council") convened for its annual meeting on September 30 in Dublin, Ohio. The Council is comprised of CEOs from ASI primary insured member credit unions, and meets annually to review the performance of the insurance fund and to discuss topics relevant to ASI and its insured credit unions.



The 2008 ASI Primary Insured Credit Union Advisory Council.

This year's forum had productive dialogue with ASI management on pertinent issues, particularly ASI's response to the most recent economic and legislative turn of events. Immediately following the Council meeting, management embraced its charge and pursued a campaign of constant communication with its primary and excess-insured credit unions regarding current events and share insurance as they unfolded almost daily in October and November.

Another topic discussed at the meeting, and previous meetings, that resulted in a quick response was that of suggested changes to the corporation's current pricing formula for primary share insurance; more specifically, the reduction in the requisite capital contribution rate for

CAMEL 2 or CAE 2-rated member credit unions from 1.1% of total shares to 1.0% of total shares (see front-page article). The reduction in the capital contribution rate, approved by the ASI Board of Directors, is just one of many examples of how the ASI management team and Board of Directors work together in response to the Council's input and recommendations to implement changes of value to its member credit unions.

Other topics discussed at this year's Council meeting included: the state of the

economy; member credit unions' needs for share insurance promotional materials; ASI's pending new business opportunities; and, ASI's legislative, regulatory and operational agendas, among others.

New CEOs joining the 2008 Council meeting included: Tom Frohne, Abbott Laboratories Employees Credit Union (IL); James Miles, MidFirst Credit Union (OH); Lee Robinson, MCT Credit Union (TX); and, Karla Salisbury, Kemba Indianapolis Credit Union (IN). To view a complete list of ASI's current Council members, check out the "Advisory Council" under the "Company" link on the ASI homepage at [www.americanshare.com](http://www.americanshare.com).

## Board Member Nominations Process Begins

In mid-November ASI mailed the first of a series of announcements regarding its 2009 board nominations and elections process. ASI President/CEO Dennis Adams notified all ASI participating member credit unions of the timeline and procedures for nominating an individual for election to the corporation's board of directors. There are two open seats both currently being held by incumbents Paul Simons, CEO of Credit Union 1 (IL) and Stewart Fuller, CEO of Monterey Credit Union (CA). Voting results of the election of the directors will be announced Wednesday, April 22, 2009, during ASI's annual meeting of participating credit unions at its corporate office in Dublin, Ohio. The letter announcing the start of the board nominations/election process also introduced the nominating committee. The committee is comprised of the following three participating member credit unions through their designated representatives:

- AurGroup Financial Credit Union (OH), Designee: Tim Boellner (CEO)
- Fiscal Credit Union (CA), Designee: Michael Gomez (CEO)
- Frontier Financial Credit Union (NV), Designee: Bruce Rodela (CEO)



Bruce Rodela, chairman of the ASI board nominating committee.

The nominating committee, chaired by Bruce Rodela, will review applications and nominate at least one candidate for each open seat. All completed applications for nomination must be received by the committee chairman before the close of business on Friday, January 16, 2009. Individuals may also submit a petition for nomination by Friday, February 20, 2009. No nominations will be accepted after February 20, 2009. When seeking nomination through petition, the petition must be duly signed by no less than 10 participating member credit unions and timely delivered to the corporation's secretary, G. Duane Welsh, at the ASI corporate office. A ballot, along with a notice of the annual meeting, will be sent to each participating member credit union in early March along with the corporation's 2008 Annual Report. Questions regarding the nominating and elections process should be directed to Mr. Welsh (e-mail: [dwelsh@americanshare.com](mailto:dwelsh@americanshare.com)).

# ASI Contributes to Hurricane Ike CU Victims in Texas



The celebrity golf tournament featured entertainer Charley Pride (center) grouped with ASI Chairman Bill Herring (far left), ASI CEO Dennis Adams (middle left), ASI VP of Sales & Marketing Lori Solberg (middle right) and MCT Credit Union Executive VP Thad Angelle (far right).

American Share Insurance (ASI) contributed to Hurricane Ike disaster relief efforts by sponsoring the Texas Credit Union Foundation's "Golf for the Gulf" Celebrity Golf Tournament in mid-November. ASI/ESI was one of 12 key sponsors of the event which helped raise \$60,000 to benefit credit union employees and their families affected by the Hurricane Ike disaster on September 13 and its subsequent flooding.

The celebrity golf tournament raised funds to address the needs of the most severely harmed credit union employees and their families. Along with ASI's sponsorship and generous support from the credit union community, the Texas CU Foundation has been able to help over 900 credit union families since the hurricane.

ASI also made a contribution to ASI primary insured member MCT Credit Union of Port Neches, TX. This donation was earmarked specifically to help alleviate some of the personal difficulties suffered by MCT CU employees who had suffered because of the disaster.

MEMBERS' ACCOUNTS ARE NOT INSURED OR GUARANTEED BY ANY GOVERNMENT OR GOVERNMENT-SPONSORED AGENCY.



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