

# Option

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A newsletter from American Share Insurance - The nation's largest provider of private share insurance since 1974.

## Insurance Fund Update

*We have all read about the current weakness in the US economy and have likely felt the results of the recession in both our professional and personal lives. Recently, our members have requested an update on the impact of the economy on credit unions and the ASI insurance fund, which we are pleased to provide herein.*

### The Real Estate Crisis – How Did We Get Here?

Catalysts for the current state of affairs include record-level energy prices, a weak US dollar and overly lenient mortgage lending practices. The “easy money” consumer credit market, that proliferated between 2003-2006, has caused much of the turmoil in the financial markets today by encouraging consumers to borrow beyond conventional means to purchase new homes, and/or borrow against the equity in their home. The resulting inability to meet mortgage obligations has resulted in record-level foreclosure rates and an imbalance in the supply and demand for housing. This, in turn, has generated double-digit depreciation in the prices in many regions of the country that are more indicative of an economic depression than a recession.

### ASI's Credit Unions Are Prepared To Weather The Storm

*The good news is that 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, avoiding the direct impact of the sub-prime mortgage mess.* Even so, credit unions must be vigilant against the expected fallout from the current economic conditions and its 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.

Credit unions generally have strong net capital cushions of 11%-12% of assets that will help them weather the storm over the next year or two. However, credit unions involved in second mortgage lending or in construction lending – in those markets where severe housing price depreciation is occurring (e.g., California and Florida) – may feel more immediate pressure and could be forced to merge with

healthier credit unions or even close. Several federally insured credit unions (e.g., Norlarco, Cal State 9, Huron River Area and New Horizons) are in this category and *their activities*

*and subsequent demise have resulted in NCUSIF setting aside loss reserves of \$216 million at year-end 2007, the highest level in the NCUSIF's history.* ASI

primary insured credit unions, on the other hand, have little or no exposure to these types of lending risks and generally show no signs of being unable to weather the current economic crisis.



**The good news is that ASI's primary insured credit unions have little or no direct exposure to many of the problems plaguing the financial markets, avoiding the direct impact of the sub-prime mortgage mess.**

A comparison of four key credit union ratios for ASI and NCUSIF insured credit unions, that best measure a credit union's staying power during these turbulent times, is presented below.

	March 31, 2008		December 31, 2007	
	ASI	NCUSIF	ASI	NCUSIF
Net Capital Ratio	11.35%	11.07%	11.24%	11.45%
Return on Assets	0.51%	0.60%	0.48%	0.65%
Delinquent Loans Ratio	0.90%	0.91%	0.95%	0.93%
Net Charge-off Ratio	0.47%	0.67%	0.54%	0.50%

In addition to reporting a good year in 2007, ASI's insured credit unions have gotten off to a great start in 2008, reporting an average net capital ratio of approximately 11.4% at March 31, 2008, which is comparable to NCUSIF credit unions and up from 11.2% at the end of 2007.

ASI-insured credit unions also reported an average return on assets in the first quarter of 2008 that compares with the levels they attained in 2007 and with the ROA reported by NCUSIF credit unions. ASI's insured credit unions exhibit a stable delinquency ratio through the first quarter of 2008 as does NCUSIF; however, ASI credit unions exhibited a declining net charge-off ratio as compared to a rising net charge-off trend for federally insured credit unions. When combined with ASI's financial strength, noted to the right, the solid performance of our insured credit unions should offer great comfort to our member credit unions and their members as to the safety and soundness of ASI-insured credit unions and the ASI share insurance fund during these unusual economic times.

#### ASI's Proactive Agenda Regarding Mortgage Lending

With regard to mortgage lending issues, ASI member credit unions, like their federally insured counterparts, have on average about 55% of their loans, and 40% of their total assets, invested in mortgage-secured loans; however, our numerous on-site examinations reveal that our insured credit unions generally have very limited exposure to sub-prime mortgage lending risk.

ASI will continue to emphasize extra due diligence when monitoring and examining the mortgage lending area in 2008 as we did in 2007. ASI's examiners visited primary insured credit unions representing almost 80% of the \$14.4 billion in ASI's total primary insured shares in 2007

and we anticipate performing a similar level of on-site examinations in 2008.

ASI's examination coverage supplements the periodic statutory exams completed by state regulators and audits conducted by independent CPA firms. Well over 90% of the total shares in credit unions with ASI's primary share insurance coverage have some level of independent third-party financial review done annually. These various sources of attestation provide a sound basis for our conclusions as to the safety and soundness of ASI's insured credit unions.

#### ASI Is Well-prepared To Weather The Storm

Although it may be simpler to evaluate deposit insurance programs based solely on the existence, or absence, of government backing, no insurance program that is in existence today has ever had to draw upon such government backing. Therefore, the analysis of the ASI insurance program, as with any true insurance program, should be based on specific quantitative factors and the credit unions we insure.

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 1.48% at March 31, 2008, significantly higher than that reported by NCUSIF, as shown in the table below.

	March 31, 2008		December 31, 2007	
	ASI	NCUSIF	ASI	NCUSIF
Primary Equity Ratio	1.48%	1.31%	1.35%	1.29%
No. of Problem CUs as Percent of Total CUs (1)	3.01%	2.80%	2.41%	2.60%
Shares of Problem CUs as Percent of Total Shares (1)	0.39%	1.59%	0.26%	1.04%
Loss Reserves: Insurance- in-Force (basis points)	5.6 bps	3.6 bps	4.6 bps	3.8 bps

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

In addition, the shares held by ASI's problem credit unions as a percent of total insured shares, as shown in the table, is one-fourth the level reported by NCUSIF. Problem credit unions for ASI are less significant and less threatening than they are for the NCUSIF, while at the same time ASI holds 50% more in loss reserves, on a relative basis measured against the funds' respective insured risks.

As further evidence of the quality of the ASI program, ASI's balance sheet at March 31, 2008 continues to exhibit solid characteristics with 97% of the fund's assets safely invested in cash, cash equivalents, US Treasury and US government agency securities; with none of its assets being invested in mortgage-backed securities, CMOs or CDOs. Within this strong portfolio, ASI also reports a record level of liquidity (cash and cash equivalents) of 31% of total assets at March

31, 2008. To further back the program, ASI also has \$135 million of committed lines of credit from five major financial institutions.

*Clearly, ASI boasts of a strong, high-quality program that is established so as to always be around for its members regardless of changes in economic conditions – a program that its members can be proud to call their share insurer!*

## ASI Personnel Changes



### **Bruce Ingraham Joins ASI Board**

Bruce Ingraham, President of Beacon Credit Union (Indiana), was appointed to the Board of Directors of American Share Insurance earlier this year to fill the unexpired term of retiring board member Andy Hunter.

Bruce Ingraham

A graduate of Kent State University, Mr. Ingraham has been president of Beacon Credit Union since 1980, and sits on the Indiana Credit Union League's Audit and Finance Committee. He also serves as the treasurer of the Cooperative Financial Association, an organization where he has been a board member since 1982 and a past president. Mr. Ingraham's qualifications also include sitting on the Board of Directors of ASI's wholly owned subsidiary, Excess Share Insurance Corporation (ESI), from 2002-2004.

Mr. Ingraham was also a board member and served on the supervisory committee at INDICORP, and was a member of the Indiana Department of Financial Institutions' board in the mid-1980s. Last year Mr. Ingraham was presented with the 2007 Professional Achievement Award by the Indiana Credit Union League.



### **ASI Promotes Kurt Loose to VP of Audit and Examination**

Kurt Loose, CPA, has been promoted to the company's newly created position of Vice President of Audit and Examination. Kurt will be responsible for the oversight of field examinations of credit unions insured by both ASI and ESI, and the recruiting, training and supervision of the audit and examination staff. "Kurt has been a devoted employee and manager for ASI for 10 years and has

worked hard to promote safety and soundness within our insured credit unions by way of the exam and risk management functions," stated ASI President/CEO, Dennis Adams.

Since 1998, Kurt has served ASI in various exam and risk management capacities, most recently as Director of Audits. He is a graduate of Bowling Green State University and has earned an MBA from Capital University in

Columbus, Ohio. While employed at ASI, he has successfully obtained his Certified Public Accountant license in the state of Ohio.



### **Lori Solberg Becomes ASI VP of Sales and Marketing**

ASI announces that Lori Solberg has been promoted to Vice President of Sales and Marketing, effective July 14. She will be responsible for all sales, marketing, public relations and communications activities for the organization.

Lori Solberg

Lori has previously served as ASI's West Coast Sales Manager, based in California, since she joined the corporation in May 2000. She brings to the job a thorough understanding of ASI and the movement as she has worked with credit unions for the past 16 years. Prior to ASI, she worked at Autoland, Inc. as a regional account executive and marketing director.

"Lori's dedication, sales experience, knowledge of the business and contributions to the growth of the company for the past eight years will greatly benefit ASI," said ASI President/CEO, Dennis Adams.



### **Rick Smith Joins ASI as Sales Manager**

Rick Smith has been hired as Sales Manager following the retirement of long-time employee John Dorsey. Rick has assumed a broad based sales territory that includes the eastern half of the United States, where he will be responsible for developing new credit union contacts as well as furthering relations with current ASI/ESI insured credit unions.

Rick Smith

Rick has more than 12 years of credit union experience, most recently serving as Senior Director of Business Development with Aimbridge Indirect Lending, and has more than 25 years experience in the financial institutions arena in lending and risk management capacities. "We believe Rick is dedicated to the credit union movement and has a strong commitment to the continued success of ASI and ESI," stated ASI President/CEO, Dennis Adams.

# Election of ASI Board Directors Announced at Annual Meeting



Dennis Adams



Jan Thomas



Bill Herring



Paul Simons

The Annual Meeting of Participating Credit Unions of American Mutual Share Insurance Corporation was held on April 23 at ASI's corporate headquarters in Dublin, Ohio. Both the Nominating Committee and Proxy Committee reports were presented during the meeting along with other reports by management. The results of balloting were reported and it was announced that Dennis Adams (President/CEO of American Share Insurance), Bill Herring (President of Cincinnati Central Credit Union) and Jan Thomas (President of PSE Credit Union) have been

re-elected to the ASI Board of Directors by the membership. Each will serve three-year terms. It was also announced that the number of directors will continue to be set at seven.

On the same day, the corporation also held its Reorganization Meeting, during which Bill Herring was elected to serve as Chairman of the Board, and Paul Simons (President of Credit Union 1) was elected to serve as Vice Chairman. The Board also re-elected Dennis Adams to continue to serve as President, Duane Welsh as Secretary and Curt Robson as Treasurer.

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



**American Share Insurance**

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