ACUIA
Association of Credit Union Internal Auditors

Credit Impairment Standards and Credit Risk Monitoring

Presented by Bob Parks

Tuesday June 25, 2013

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CPAs AND ADVISORS

Michigan • Texas • Florida

Insight. Oversight. Foresight. SM

Agenda

Financial Institutions Group

- Loan Loss Trends
- How Did We Get Here?
- Existing vs. Proposed
- Current Expected Credit Loss (CECL) Model Methodology
- Examples
- Transition, Implementation, and Disclosures
- Capital Implications
- FASB Comment Letters – What Do You Think?
- What's Next?
- Global Credit Risk Management Program
- Questions

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Loan Loss Trends

Delinquent Loans / Total Loans

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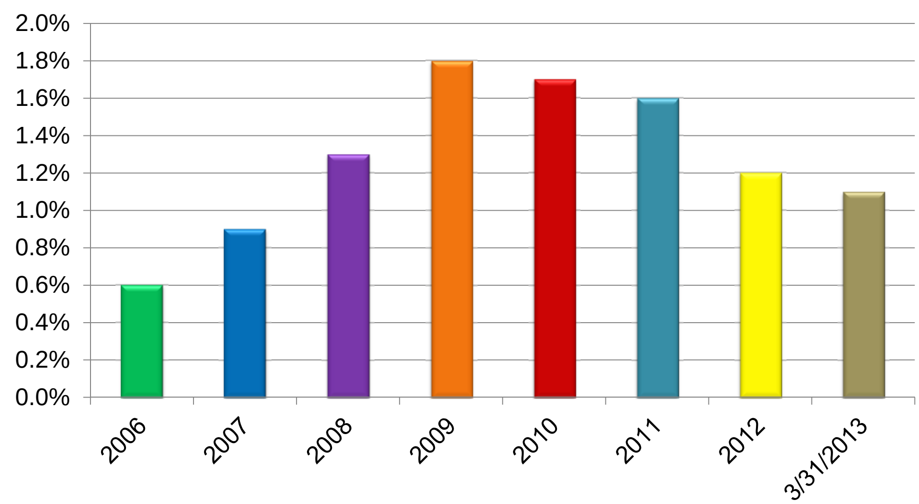

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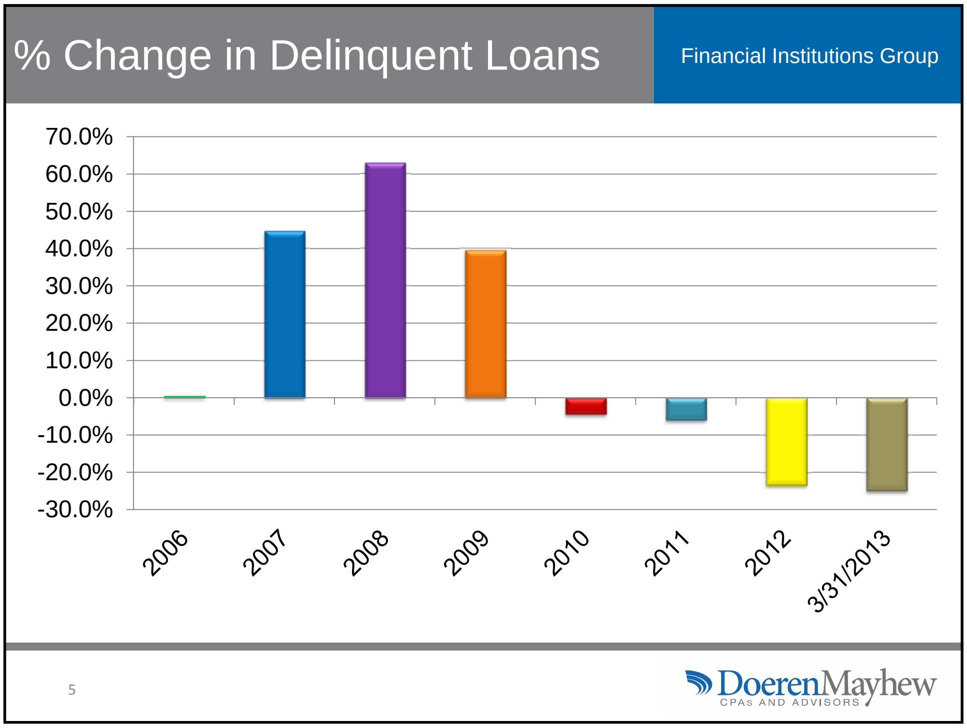
% Change in Delinquent Loans
Financial Institutions Group
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
2006
2007
2008
2009
2010
2011
2012
3/31/2013
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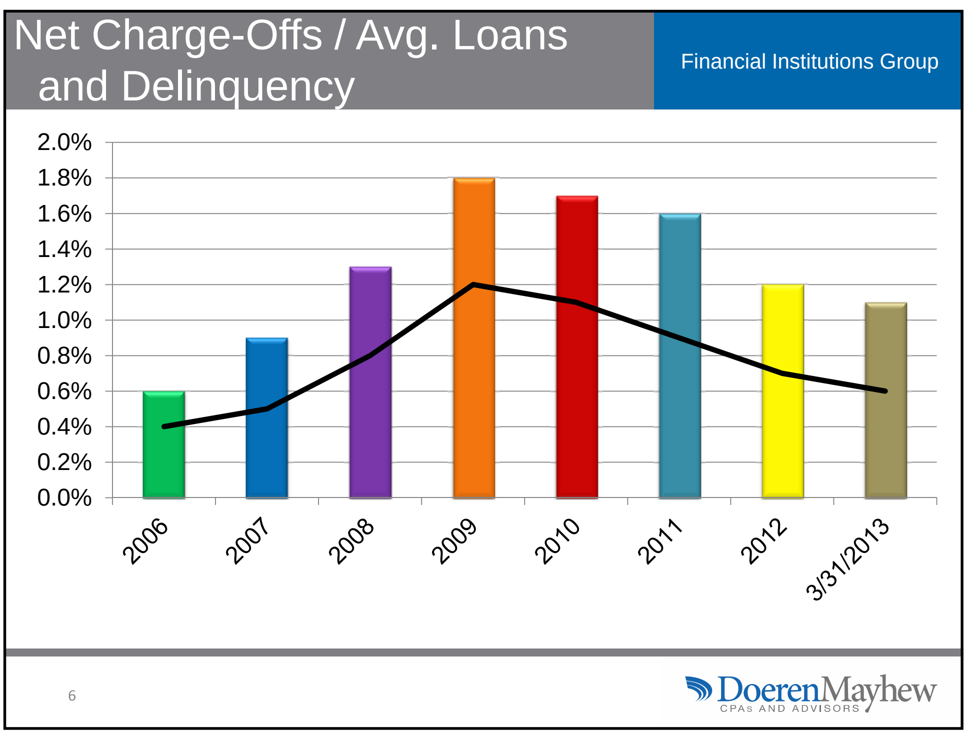
Net Charge-Offs / Avg. Loans and Delinquency
Financial Institutions Group
2.0%
1.8%
1.6%
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
2006
2007
2008
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2011
2012
3/31/2013
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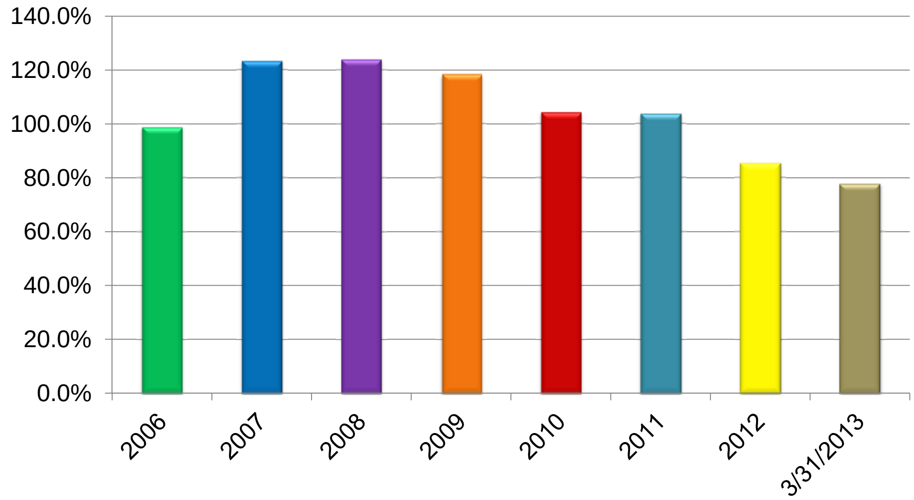
Delinquent Loans / ALL

Financial Institutions Group



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Net Charge-Offs / PY Delinquent Loans

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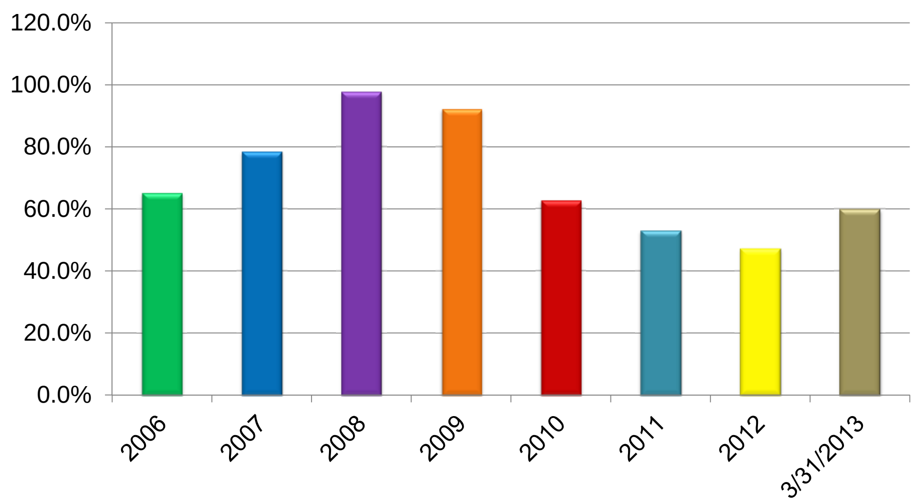

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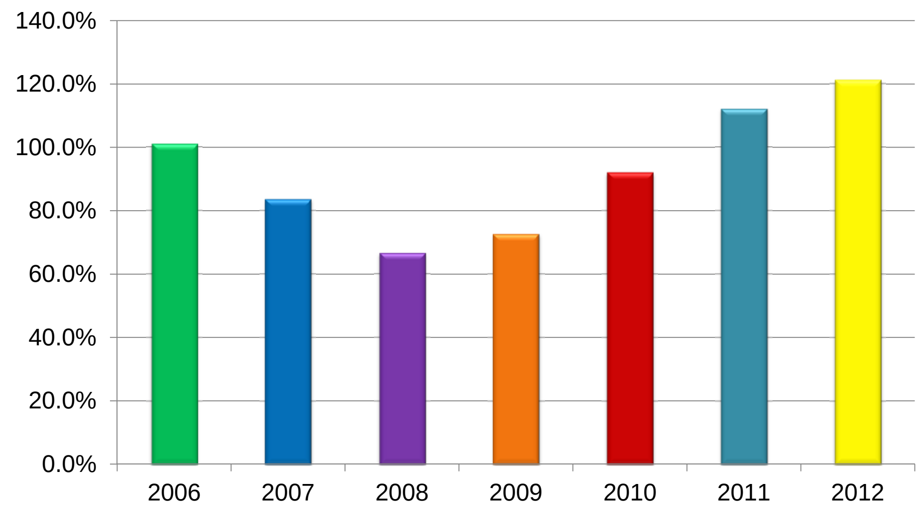
Net Charge-Offs / PLLL

Financial Institutions Group



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Bank ALLL

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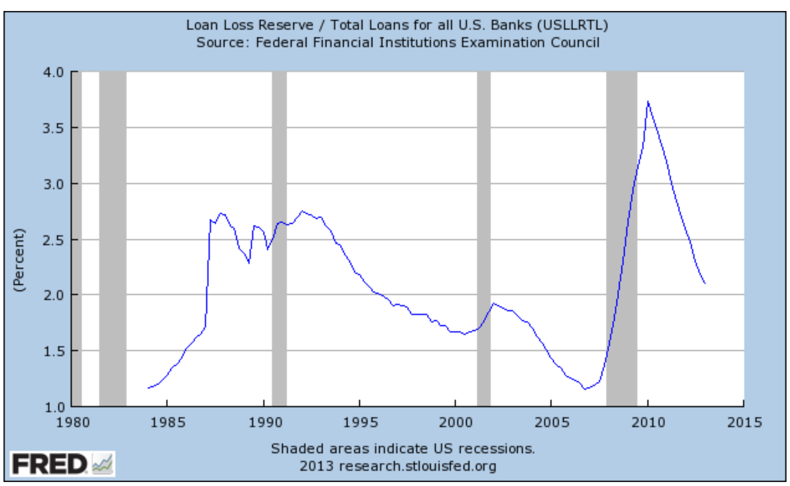

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Bank Delinquency

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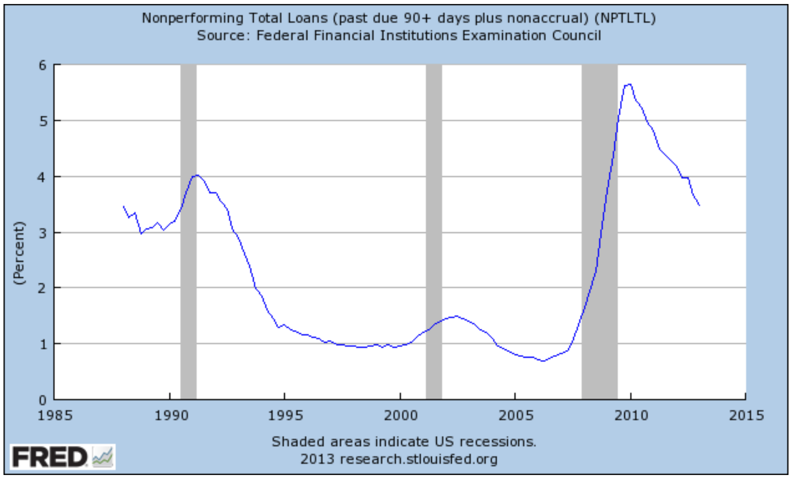

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Bank Net Charge-offs

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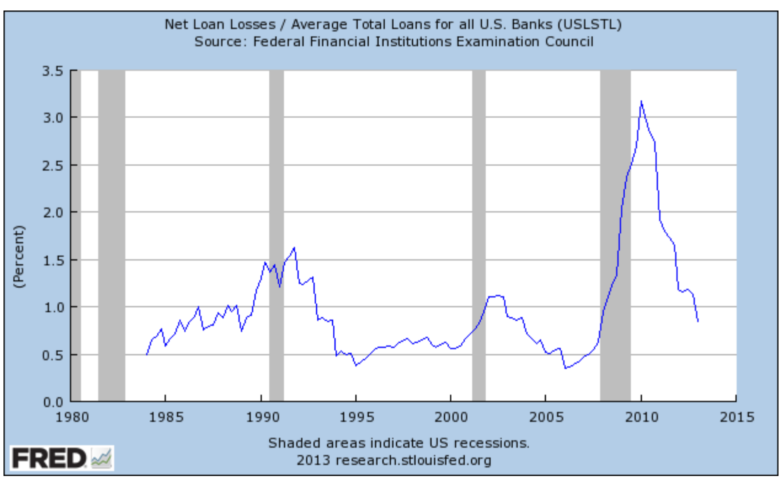

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How Did We Get Here?

Timeline

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2008

The FASB and the IASB began a joint project to revise each board's accounting guidance for financial instruments and credit losses, with the goal of developing a converged, forward-looking current credit loss model. At this time, the two boards created a joint taskforce, the Financial Crisis Advisory Group (FCAG), to make recommendations on improvements that can influence new accounting guidance.

2009

The FCAG recommended that the boards jointly explore and create a converged accounting standard to use a forward-looking current loss model.

2011

The two boards jointly proposed a new model, the Three Bucket Model (TBM). Following the proposed update, the FASB received multiple negative comments from stakeholders who viewed the model as too difficult to understand, implement and/or audit.

2012

Due to these pressures, the FASB discontinued the development of the TBM and in December 2012, issued a different proposal. However, the IASB has decided to continue to refine the TBM, and is planning to have an updated proposal issued by end of the first quarter of 2013.

2013

On March 7, 2013, the International Accounting Standards Board (IASB) published an accounting exposure draft related to a forward-looking loss model, which recognizes expected credit losses on a more timely basis. The public can comment on the exposure draft until July 5, 2013.

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Why Address the Topic?

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- After substantial criticism, the financial crisis and many iterations of a different impairment model, the FASB completed the Exposure Draft (ED) to address financial asset impairment, classification, and measurement perceived limitations in the current accounting guidance.
- Loan impairment changes proposed to respond to financial crisis criticism: "too little, too late."
- Various assertions surfaced commenting (investors and regulators) financial institutions were inadequately reserved prior to the crisis, due to inherent constraints of the "incurred loss" impairment model used.

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Why Address the Topic?

Financial Institutions Group

- Impairment for both loans and securities will now use the same model.
- The ED will address current accounting guidance limitations related to financial assets that have characteristics of loss but not yet past the 12 month threshold for Other Than Temporary Impairment (OTTI).
- The most visible criticism of the current incurred loss model comes from the financial sector, U.S. Security and Exchange Commission (SEC), investors, and regulators.

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Why Address the Topic?

Financial Institutions Group

- Investors and regulators believe financial institutions knew about higher risk in their subprime portfolios, however delayed provision funding because the losses had not yet been incurred.
- Develop a model to capture such risks and ensure timely loss recognition and ALLL funding.
- A credit impairment model that is easier for investors, regulators and other stakeholders to understand.

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Investor Feedback

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- FASB Investor Feedback Summary – June 11, 2013
- Remain concerned about delayed recognition of losses and adequacy of reserves
- Investor analysis now:
  - Adjust the reported amounts for analysts forecasts of expected credit losses
  - Determine near-term or long-term earnings risk and capital risk
  - Determine if risk based pricing model is appropriate
- Seek transparency
- Support change from incurred loss to expected loss model

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Investor Concerns

Financial Institutions Group

- View allowance as capital set aside for future expected losses
- Do not like concept of triggers for recognizing expected losses
- *Having a trigger event is awful accounting. We have seen that. The application is inconsistent. How much deterioration is enough to warrant the full loss? I don't like the subjectivity in that. Will it actually cause banks to take more risk in the securities portfolio because they can hide behind the fact that a lot of the risk was already "priced in."* [U.S. largecap bank analyst]
- *Reserves should be built as volume grows, now just as things deteriorate.* [U.S. large and midcap bank analyst]

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Investor Concerns

Financial Institutions Group

- Agreed with FASB's decision to revert to historical averages for periods beyond the foreseeable future
  - Historical average would be more informative than an uneconomic assumption of zero credit losses
- *You shouldn't assume zero losses in the future just because they are hard to predict. Most banks have a lot of history that should help them.* [Global large and midcap bank analyst]
- *Booking anything other than lifetime losses introduces timing subjectivity.* [U.S. mid and largecap bank analyst (sell side)]

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Investor Concerns

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- Should be required to include both historical loss experience and supportable forecasts
- Adequate disclosure is critical due to subjectivity
- About 25% did not agree with the expected loss model

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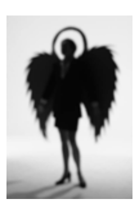
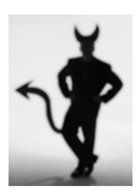
Existing vs. Proposed





Existing Model: Incurred Loss

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- Accounting Standards Codification (ASC) 310 (former FAS 114)
  - Individually significant loans – non-performing and TDRs
  - Individual impairment
- ASC 450, Contingencies (former FAS 5)
  - Historical Loss Ratio (12 months)
- Environmental factors
  - Qualitative and quantitative
- Current GAAP for ALLL is based on an “incurred loss” basis; ALLL represents what you think you will lose on events “*that have already occurred*.”

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Proposed Changes - Overview

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- Proposed Accounting Standards Update (ASU) – Financial Instruments – Credit Losses – December 20, 2012
- Applies to the following:
  - Debt instruments (e.g. debt securities and loans), receivables resulting from revenue transactions & reinsurance receivables;
  - Lease receivables recognized by a lessor; and
  - Loan commitments (lines of credit).

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Proposed Changes - Overview

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- The proposed ASU redefines how financial institutions will measure Allowance for Loan and Lease Losses (ALLL) and OTTI on debt securities.
- Impairment for both loans and securities will use the same loss model, the current expected credit loss (CECL) model.

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Proposed Changes - Overview

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- Individually impaired loans currently accounted for under ASC 310-10 (old FAS 114); there will be little change.
  - ***TDRs Live On***
- Performing loans currently accounted for under ASC 450 (old FAS 5); anticipate significant methodology and value changes.
- "Purchased credit impaired loans" will be accounted for differently.
- Provides guidance/definitions on collateral dependent financial assets, nonaccrual principle and write-offs for consistency with regulatory definitions.
- Additional footnote disclosure enhancements.

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Purchased Credit Impaired

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- **Purchased Credit-Impaired Financial Assets**
- Acquired individual or groups of financial assets with shared risk characteristics at the date of acquisition
  - Asset type
  - Credit risk rating
  - Delinquency status
  - Collateral type
  - Date of origination
  - Other factors influencing the likelihood of default
- Significant deterioration in credit quality since origination

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Collateral Dependent

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- **Collateral-Dependent Financial Asset**
- Repayment is expected to be provided primarily or substantially through the operation (by the lender) or sale of the collateral, based on an entity's assessment as of the reporting date.

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Write-offs

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- An entity shall directly reduce the cost basis in a financial asset (or portion of a financial asset) in the period in which the entity determines that it has no reasonable expectation of future recovery.
- The allowance for expected credit losses shall be reduced by the amount of the financial asset balance written off.
- Recovery of a financial asset previously written off shall be recognized by recording an adjustment to the allowance for expected credit losses only when consideration is received.

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Key Concept Changes

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- The proposed change will remove the existing Incurred Loss (IL) "probable" threshold with a new concept of CECL. This model will interpret credit loss as “expected”.
- How you interpret “expected” will change the frequency and type of data and documentation required to support the estimate. It could significantly change the amount of ALLL that is ultimately recorded.

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Key Concept Changes

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An allowance for credit losses represents “an estimate of all contractual cash flows **not expected** to be collected from a recognized financial asset or **commitment to extend credit**.”

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Loan Commitments

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- Legally binding commitments to extend credit with prespecified terms and conditions
- Fixed or Variable Rate
  - Revolving - amount of the overall commitment is reestablished upon repayment of previously drawn amounts
  - Nonrevolving amount of the overall commitment is not reestablished upon repayment of previously drawn amounts.

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Loan Commitments

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- **Estimation of Expected Credit Losses**
- estimate credit losses over the full contractual period the entity is exposed to credit risk
- present legal obligation to extend credit, unless unconditionally cancellable by the issuer.
- For period of exposure, the estimate of expected credit losses should consider
  - both the likelihood that funding will occur (which may be affected by, for example, a material adverse change clause)
  - and an estimate of expected credit losses on commitments expected to be funded.

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IASB Exposure Draft

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Differences from FASB's expected credit loss proposals?

- FASB's proposed 'CECL' model, expected credit losses are always recognized at what is described as 'lifetime expected credit losses'
- IASB's measures expected credit losses for some financial instruments at amount equal to 12-month expected credit losses.
- Difference in timing of the recognition of lifetime expected credit losses between the two models.
- IASB and FASB plan to discuss jointly the comments received on their proposals
- Boards will determine if they can more closely align their models.

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IASB Exposure Draft

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"3 Bucket Model" – excluded from FASB ED

- Stages of credit deterioration
- **Stage 1:** financial instruments that *have not* deteriorated significantly in credit quality since initial recognition or have low credit risk at the reporting date.
- 12-month expected credit losses are recognized

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IASB Exposure Draft

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3 Bucket Model – excluded from FASB ED

- **Stage 2:** financial instruments that *have* deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event. For these items, lifetime expected credit losses are recognized.
- **Stage 3:** financial assets that *have* objective evidence of impairment at the reporting date. For these items, lifetime expected credit losses are recognized.

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Current Expected Credit Loss (CECL) Model

Loss Model: Current Expected Credit Loss (CECL)

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- ALLL for performing loans will include losses for events that have occurred and may be expected over the life of the loan (LOL).
- Forward-looking factors **must** be considered in estimating the ALLL, including how you think the economic cycle will progress and how your portfolio will perform over long time periods.

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Loss Model: Current Expected Credit Loss (CECL)

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- Management's CECL model will have to:
  - Use the entire **contractual term** of the financial asset as the time horizon for estimating credit losses;
  - Consider relevant information about past events, current conditions and reasonable supportable forecasts;
  - Reflect the time value of money; and
  - Consider at least two possible outcomes
    - Cannot reflect a worst case or best case scenario (possibility that credit loss results or no credit loss results).

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Multiple Possible Outcomes

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- Estimate should always reflect both possibility that a credit loss results and that no credit loss results.
- Scenarios not required to be identified when a range of at least two outcomes is implicit in the method.
- Some methods (such as a loss-rate method, a roll-rate method, a probability-of-default method, and a provision matrix method using loss factors) rely on an extensive population of actual historical loss data.
- Therefore, they implicitly satisfy the requirement.
- Similarly, as a practical expedient, an entity may use the fair value of collateral (less estimated costs to sell, as applicable) in estimating credit losses for collateral-dependent financial assets.

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Time Value of Money

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- Requires that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly.
- Discounted cash flow model is an example of a method that explicitly reflects the time value of
- Other methods implicitly reflect the time value of money by developing loss statistics
- For collateral-dependent financial assets, an entity may use, as a practical expedient, methods that compare the amortized cost basis with the fair value of collateral.

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What Needs to Be Done Now? Data Collection!

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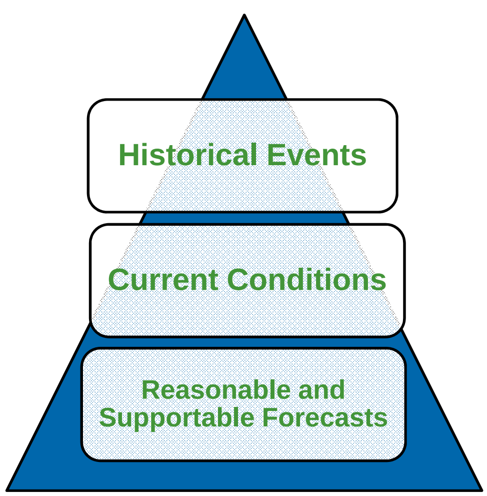

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CECL Model: Data

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- Historical Events
  - Historical loss experience of similar assets
  - Delinquency analysis
  - Credit ratings - Consumer
  - Risk ratings – Commercial
  - Loan to Values (LTV)
  - Loss factors from migration data
  - Aging analysis of amortized cost for past due debt instruments

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CECL Model: Data

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Data Example (Historical Events) – Loss Severity

FICO Score & Delinquency Matrix

	Delinquency			
FICO Score	<30	≥ 30 and <60	≥ 60 and <90	≥ 90
720 -850	1.97%	2.13%	2.33%	5.49%
690 -719	2.19%	3.19%	4.45%	6.49%
660 -689	2.28%	3.58%	5.24%	7.91%
620 -659	2.71%	5.62%	9.32%	15.30%
600 -619	4.16%	12.54%	23.13%	40.31%
1 -599	4.16%	12.54%	23.13%	40.31%
	2.74%	**10.68%**	**18.92%**	**34.59%**

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CECL Model: Data
Historic Events

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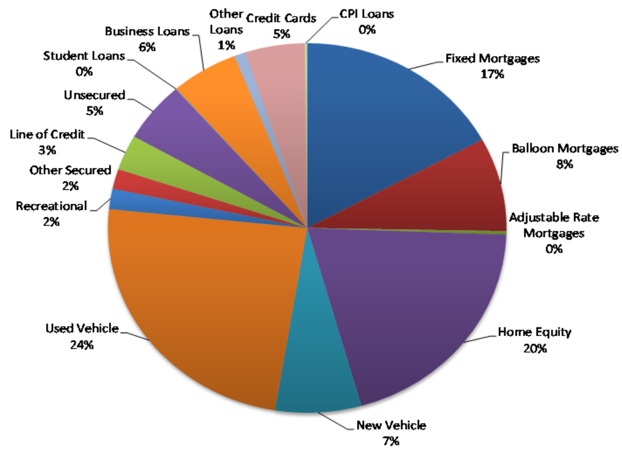
Concentration
Relationships
Type
Geographic Area
Credit Grade
Seasoning of Portfolio



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CECL Model: Data

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- Current conditions
  - Factors specific to the borrower
  - Underwriting standards
  - General economic environmental factors
  - Credit enhancement on existing contracts (i.e., additional collateral)
  - Bankruptcy filings
  - Current number of loans on non-accrual status, listed both by type and financial condition of creditor

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CECL Model: Data

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CECL Model - Data Example (Current Conditions)

Credit Grade			Loan Characteristics					
Credit Grade	Credit Score Range Low	High	Number of Loans	Current Balance	% of Balance	Wtd Rmg Term Yrs	Wtd Score	Wtd Rate
A+	720	850	9,041	$ 86,737,039	28%	9	772	6.17%
A	690	719	3,311	26,519,234	9%	7	704	7.66%
B	660	689	4,057	32,636,289	11%	7	670	7.77%
C	620	659	5,909	34,548,057	11%	7	641	10.54%
D	600	619	3,476	17,203,445	6%	5	610	12.13%
E	1	599	18,225	80,972,997	26%	5	540	13.36%
TDR	0	0	414	29,542,362	10%	17	589	3.17%
			44,433	$308,159,423	100%	8	653	8.89%

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CECL Model: Data

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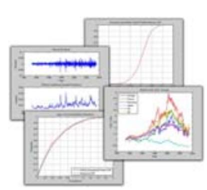
- Reasonable & Supportable:
  - Changes in prepayment speeds
  - Changes in collateral values
  - Geographic location, etc.
  - Disaggregated at the portfolio segment level
  - Expected credit losses using a discounted cash-flow model
  - Internally and externally developed forecasted economic data



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Loss-Rate Method

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- Loss-rate method on an open portfolio of loans that continues to evolve as a result of new loan originations and paydowns.
- Estimate expected credit losses by applying historical loss rate, updated for current conditions and reasonable and supportable forecasts that affect the collectability of remaining contractual cash flows.
- Inappropriate to estimate expected credit losses for a long-term asset by multiplying an annual loss rate (net amount written off in a 12-month period divided by the average amortized cost) by the remaining years of contractual term because loss experience is often not linear. For certain types of lending, credit losses are low shortly after origination, rise rapidly in the early years of a loan, and then taper to a lower rate until maturity.

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Loss-Rate Method

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December 31, 20X1
($ in 000s)

	Risk-Rating Category			
	Pass Category 2	Pass Category 4	Special Mention	
Expected loss rates	0.50%	3.00%	8.00%	1.60%*
Ending balance	$27,500	$10,000	$2,500	$40,000
Expected credit loss estimate	$138	$300	$200	$638

* The 1.60% weighted-average loss rate is calculated as the total expected credit loss estimate divided by the ending balance.

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Loss-Rate Method – year 2

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- Origination at a volume that approximates that of paydowns on existing loans within the portfolio.
- In addition, some loans deteriorate at the rate that was expected at the beginning of the quarter.
- Expects the loss rates used in estimating expected credit losses will be the same as prior year because the conditions on which the prior loss rate statistics were calculated remain consistent with the economic conditions expected over the remaining life of the loans
- The entity calculates its estimate of expected credit losses for this portfolio as follows.

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Loss-Rate Method – Year 2

Financial Institutions Group

March 31, 20X2
($ in 000s)

	Risk-Rating Category			
	Pass Category 2	Pass Category 4	Special Mention	
Expected loss rates	0.50%	3.00%	8.00%	1.58%*
Beginning balance	$27,500	$10,000	$2,500	$40,000
New originations	2,300	-	-	2,300
Paydowns on outstanding loans	(1,510)	(560)	(130)	(2,200)
Loans charged off	-	-	(9)	(9)
Credit migration	(320)	115	205	-
Ending balance	$27,970	$9,555	$2,566	$40,091
Expected credit loss estimate	$140	$287	$205	$632

* The 1.58% weighted-average loss rate is calculated as the total expected credit loss estimated divided by the ending balance.

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Example CECL Model: Consumer

Methods and Considerations

Current Loan Characteristics					Current Delinquency				Calculated Results				Probable
Credit Grade	Currnet Balance	Wtd Rmg Term Yrs	Wtd Score	Wtd Rate	<30	≥30 and <60	≥60 and <90	≥90	Balance	90+DPD	Prepaid	Total	Default Exposure
A+	$ 86.7	9	772	6.17%	$ 86.73	$ 0.01	$ 0.00	$ -	$ 68.65	$ 1.37	$ 16.72	$ 86.74	$ 0.24
A	26.5	7	704	7.66%	26.47	0.01	0.01	0.02	19.88	0.45	6.20	26.52	0.13
B	32.6	7	670	7.77%	32.38	0.10	0.04	0.11	24.78	0.60	7.26	32.64	0.18
C	34.5	7	641	10.54%	34.14	0.30	0.02	0.09	33.59	0.96	-	34.55	0.26
D	17.2	5	610	12.13%	16.88	0.11	0.06	0.16	16.50	0.70	-	17.20	0.21
E	81.0	5	540	13.36%	74.16	3.43	1.11	2.28	71.62	9.35	-	80.97	2.41
TDR	29.5	17	589	3.17%	23.14	4.61	0.61	1.18	23.54	6.00	-	29.54	1.84
	308.2	**8**	**653**	**8.89%**	**$ 293.90**	**$ 8.57**	**$ 1.84**	**$ 3.84**	**$ 258.56**	**$ 19.43**	**$ 30.17**	**$ 308.16**	**$ 5.28**
					95.4%	*2.8%*	*0.6%*	*1.2%*	*83.9%*	*6.3%*	*9.8%*	*100.0%*	*1.7%*

90+DPD considerations may include:
- Variance of "steady state historical" unemployment vs. current and future expectations/shock
- Current and expected credit/risk ratings changes
- Current performance (delinquency)

Prepaid considerations may include:
- Prepayment speeds based on loan type, rate, age and risk rating (lower credit/risk has less ability to prepay)

Default exposure considerations may include:
- Underlying collateral trends based on historical (when loan originated) vs. present and future expectations

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CECL Model Considerations

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- Analysis of loan commitments
  - Estimate credit losses over the full contractual period exposed
  - Estimate likelihood of funding and losses on the funding
- Financial institutions must acquire local relevant data and adjust it to align with their specific underwriting terms, geographic location, etc.
- Finding, supporting, and adjusting market data for adjustments may prove quite challenging.
  - Credit reporting vendor – frequency/usability
  - Prepayment speeds
  - Collateral value trends: commercial real estate, residential real estate, and equipment

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CECL Model Considerations

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- Frequent changes to any assumed loss rates, because they apply to many forward looking (periods) years, could add significant volatility to the ALLL.
  - Consistency of application and comparability of peers
- Vintage data may become a primary factor in the ALLL analysis for consumer and real estate loans.
- Vintage data is typically able to capture when a vast majority of losses occur.
  - For example, 93% of your losses occur in the first three years after origination of a specific product.
  - Calculating the age (seasoning) of the portfolio can help provide input in the estimation process.

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Vintage Analysis

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- The four-year amortizing loans are secured by equipment purchased using a relatively consistent range of loan-to-collateral-value ratios at origination.
- The underlying equipment collateral is repossessed and sold at auction when the borrower becomes 90 days past due.
- Loans tracked on the basis of the calendar-year of origination.
- Pattern of credit loss experience developed based on the ratio of the amortized cost basis in each vintage that was written off.

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Vintage Analysis

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Year of Origination	Loss Experience in Years Following Origination				
	Year 1	Year 2	Year 3	Year 4	Total
20X1	0.50%	1.20%	1.40%	0.30%	3.40%
20X2	0.60%	1.20%	1.60%	0.50%	3.90%
20X3	0.40%	1.10%	1.50%	0.30%	3.30%
20X4	0.60%	1.10%	1.50%	0.40%	3.60%
20X5	0.50%	1.30%	1.70%	0.50%	4.00%
20X6	0.70%	1.50%	1.80%		
20X7	0.80%	1.40%			
20X8	0.70%				
20X9					

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Impact Expected for ALLL

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- Losses would be recognized sooner than under the incurred loss model. A financial institution would not wait for a loss event to occur.
- ALLL balances will generally be higher under the CECL than they are now.
- Impact will be influenced by how regulators, investors and auditors interpret the CECL model.

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Impact Expected for ALLL

Financial Institutions Group

- Growing loan portfolios will record higher loan loss provision expenses quicker than today.
- Consistency of application and comparability
  - Supporting documentation is key

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Other Considerations

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- ALLL should provide for **expected** losses. Consider current coverage ratios and the increase that may result from LOL.
- Capital requirements are considered to protect against **unexpected** losses.
- Consider the range of estimates to determine the specific impact of an expected loss model on current regulatory capital and GAAP capital.

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Other Considerations

Financial Institutions Group

- Two important factors in whether the final CECL will require a LOL loss allowance or not are interpretations of financial institution regulators and preferences of the investment community.
- CECL is proposed mainly to capture such risks, without insisting on a true LOL loss, the new model is purported to be operationally simpler.
- FASB has information that the vast majority of losses occur in the first two to three years (vintage analysis is valuable for this perspective) after loan origination.
- It's believed the regulators support a LOL loss concept, though they have not addressed it in any detail.

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Example

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Example Process Methodology

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- Example taken from fair value calculation related to merger
- Market component will be disregarded
- Loan data was gathered and segmented into the following sources:

Loans		
• 15 Year Mortgage	• Home Equity LOC	• Recreational Vehicle
• 20 Year Mortgage	• Line of Credit	• Share Secured
• 30 Year Mortgage	• New Auto	• Unsecured
• Home Equity	• Other Secured	• Used Auto

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Loan Characteristics

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- Each source data categorized by loan type with similar characteristics in order to calculate such items as current weighted loan terms, interest rates, and seasoning in preparation of valuing.
- Discount rate used is the rate that would be charged for an equivalent loan in the market at the time of the valuation, not the contractual interest rate stated on the loan. Analysis on specific characteristics of these portfolios include the following:

Loan Characteristics		
Loan Type	Loan Purpose	Loan Collateral
Original Balance	Current Balance	Prepayment Speeds
Original Contractual Loan Term	Remaining Contractual Loan Term	Original Credit Score
FICO Scores	Reset Dates	Reset, Floor, & Ceiling Rates
Current Yields	Market Rates	Market Credit Risk Premiums

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Example Methodology

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- Loans segmented between delinquent < 60 days and > 60 days.
- Loans delinquent < 60 days valued based on liquidity, credit, collateral, and market characteristics.
- Loans delinquent > 60 days analyzed and additional measurement applied for added risk of repayment.
- Loan portfolio rescored by an independent agency.
- Credit scores used to determine the appropriate credit risk premium to be applied to each loan.
- Each loan category segmented and weighted by the categories' current balance to calculate weighted rate, term, and credit score.
- Larger loan categories stratified further by credit class.

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Prepayment Rates

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- The following conditional prepayment rates ("CPR") were used in valuing the various loan types:

Prepayment Rates

Loan Type	CPR*	Loan Type	CPR*	Loan Type	CPR*
Conv 30-yr 3.5	17.8%	Conv 30-yr 7.5	23.7%	1-yr CMT 3/1 Hybrid, Convertible	29.5%
Conv 30-yr 4	24.6%	Conv 15-yr 3.5	22.0%	1-yr CMT 5/1 Hybrid, Convertible	25.1%
Conv 30-yr 4.5	27.8%	Conv 15-yr 4	22.7%	1-yr CMT 7/1 Hybrid, Convertible	23.5%
Conv 30-yr 5	28.2%	Conv 15-yr 4.5	22.2%	1-yr CMT 10/1 Hybrid, Convertible	25.0%
Conv 30-yr 5.5	26.4%	Conv 15-yr 5	21.7%	Unsecured Any	16.0%
Conv 30-yr 6	24.5%	Conv 15-yr 5.5	22.8%	Auto	18.6%
Conv 30-yr 6.5	22.4%	Conv 15-yr 6	20.4%		
Conv 30-yr 7	23.4%	1-yr CMT ARM, Convertible	15.8%		

Source: SIFMA; Bloomberg

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Credit Risk Premiums

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- Credit risk premiums based on data provided by Informa Research Services.
- Risk-based lending premiums are assessment of FICO national averages.
- Credit risk premiums were not available for certain lower credit score ranges therefore higher premiums were utilized.
-

Score	Low	High	36 Month	48 Month	60 Month
A+	720	850	0.10%	0.10%	0.10%
A	690	719	1.40%	1.39%	1.38%
B	660	689	3.53%	3.52%	3.53%
C	620	659	7.26%	7.26%	7.31%
D	590	619	12.43%	12.44%	12.53%
E	500	589	13.61%	13.60%	13.73%
Below E	350	499	15.00%	15.00%	15.00%

Score	Low	High	Unsecured
A+	720	850	0.50%
A	690	719	2.00%
B	660	689	4.00%
C	640	659	8.00%
D	600	639	14.00%
E	350	599	18.00%

Score	Low	High	Mortgages	7/1 ARM
A+	760	850	0.10%	0.10%
A	700	759	0.22%	0.22%
B	680	699	0.40%	0.40%
C	660	679	0.61%	0.61%
D	640	659	1.04%	1.04%
E	620	639	1.59%	1.59%
Below E	350	619	3.00%	3.00%

Score	Low	High	15 Yr HE
A+	740	850	0.10%
A	720	739	0.30%
B	700	719	0.80%
C	670	699	1.58%
D	640	669	3.08%
E	620	639	4.33%
Below E	350	619	5.50%

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Valuation Summary

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All Loans					
Valuation Category	Current Balance	Market Adjustment	Credit/Collateral Adjustment	Total Adjustment	4/30/2012 Fair Value
Aires Loans					
15 Year Mortgage	$ 18,843	$ 463	$ (39)	$ 424	$ 19,267
20 Year Mortgage	128,072	8,380	(718)	7,662	135,734
30 Year Mortgage	91,906	8,691	(771)	7,920	99,826
Home Equity Loan	942,425	32,438	(52,975)	(20,537)	921,889
Home Equity LOC	119,340	712	(842)	(130)	119,210
Line of Credit	157,157	10,802	(14,262)	(3,460)	153,697
New Auto	951,185	31,324	(61,572)	(30,247)	920,938
Other Secured	98,395	4,958	(5,298)	(340)	98,055
Recreational Vehicle	1,536,732	23,476	(90,638)	(67,162)	1,469,570
Share Secured	83,181	-	-	-	83,181
Unsecured	407,353	2,826	(21,615)	(18,788)	388,564
Used Auto	13,321,369	223,776	(888,364)	(664,588)	12,656,781
Total Aires Loans	**$ 17,855,957**	**$ 347,847**	**$ (1,137,094)**	**$ (789,247)**	**$ 17,066,710**
Credit Cards	4,328,246	1,682,537	(1,124,559)	557,978	4,886,224
Visa Cash Advances in Progress	27,400	-	-	-	27,400
Deferred Costs	19,498	(19,498)	-	(19,498)	-
Mortgage Loans Servicing	4,052,034	184,517	(64,269)	120,248	4,172,282
TOTALS	**$ 26,283,135**	**$ 2,195,404**	**$ (2,325,922)**	**$ (130,518)**	**$ 26,152,617**
As a % of Current Balance	*100.0%*	*8.4%*	*-8.8%*	*-0.5%*	*99.5%*

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In-House Loans

Financial Institutions Group

All Loans				Weighted Averages				Delinquency				
				Contractual			FICO					
Valuation Category	Current Balance	Average Balance	Count	Rate	Term	Remaining	Score	<30	≥ 30 and <60	≥ 60 and <90	≥ 90 and <120	≥120
15 Year Mortgage	$ 18,843	4,711	4	6.46%	180	19	736	$ 18,843	$ -	$ -	$ -	$ -
20 Year Mortgage	128,072	18,296	7	6.82%	240	80	738	128,072	-	-	-	-
30 Year Mortgage	91,906	45,953	2	7.12%	360	199	735	91,906	-	-	-	-
Home Equity Loan	942,425	16,534	57	7.49%	142	76	664	896,170	33,198	-	-	13,057
Home Equity LOC	119,340	10,849	11	4.99%	151	64	763	119,340	-	-	-	-
Line of Credit	157,157	1,288	122	14.74%	48	36	676	154,075	339	-	-	2,743
New Auto	951,185	14,862	64	5.45%	74	53	695	951,185	-	-	-	-
Other Secured	98,395	1,613	61	9.61%	27	21	637	97,272	1,124	-	-	-
Recreational Vehicle	1,536,732	5,911	260	6.95%	78	54	697	1,522,833	4,090	9,808	-	-
Share Secured	83,181	3,781	22	6.72%	57	40	711	83,181	-	-	-	-
Unsecured	407,353	1,623	251	10.11%	34	26	693	392,877	323	3,567	3,942	6,643
Used Auto	13,321,369	6,888	1,934	5.58%	55	42	678	13,155,751	77,221	21,212	1,755	65,431
TOTALS	$ 17,855,957	$ 6,389	2,795	6.02%	66	46	682	$ 17,611,504	$ 116,295	$ 34,588	$ 5,697	$ 87,873
								98.6%	0.7%	0.2%	0.0%	0.5%
								17,727,799		128,158		

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Loans < 60 Days Delinquent

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Loans < 60 Days Delinquent			Weighted Averages											
			Contractual			FICO								
Valuation Category (Credit Score Range)	Current Balance	Count	Rate	Term	Remaining	Score	Prepay Remaining Term	Market Rate	Credit Risk Adjusted Market Rate	Market Adjustment	Credit/ Collateral Adjustment	Total Adjustment	Fair Price	Fair Value
15 Year Mortgage	18,843	4	6.46%	180	19	736	9	3.06%		463	(39)	424	102.3%	19,267
760 - 850	11,659	2	6.18%	180	22	774	10	3.06%	3.16%	302	(10)	292	102.5%	11,951
680 - 699	5,869	1	7.00%	180	13	682	7	3.06%	3.46%	126	(13)	113	101.9%	5,982
620 - 639	1,314	1	6.50%	180	20	636	9	3.06%	4.65%	35	(16)	19	101.4%	1,333
20 Year Mortgage	128,072	7	6.82%	240	80	738	28	3.78%		8,380	(718)	7,662	106.0%	135,734
760 - 850	40,760	3	6.75%	240	80	786	28	3.78%	3.88%	2,610	(92)	2,518	106.2%	43,278
700 - 759	65,113	3	6.84%	240	82	729	28	3.78%	4.00%	4,337	(330)	4,007	106.2%	69,120
660 - 679	22,199	1	6.88%	240	76	679	27	3.78%	4.39%	1,433	(295)	1,137	105.1%	23,337
30 Year Mortgage	91,906	2	7.12%	360	199	735	38	3.81%		8,691	(771)	7,920	108.6%	99,826
700 - 759	79,757	1	6.88%	360	207	744	39	3.81%	4.03%	7,102	(554)	6,548	108.2%	86,305
660 - 679	12,149	1	8.75%	360	146	679	35	3.81%	4.42%	1,589	(217)	1,372	111.3%	13,520
Home Equity Loan	929,368	56	7.49%	143	77	660	27	5.77%		32,438	(46,057)	(13,618)	98.5%	915,750
740 - 850	292,216	16	7.26%	136	72	768	26	5.77%	5.87%	8,521	(585)	7,936	102.7%	300,152
720 - 739	64,642	7	7.00%	120	43	731	18	5.77%	6.07%	1,109	(273)	836	101.3%	65,479
700 - 719	7,051	1	6.79%	120	27	704	12	5.77%	6.57%	71	(21)	50	100.7%	7,101
670 - 699	102,967	5	6.95%	175	118	697	35	5.77%	7.35%	3,075	(2,097)	979	101.0%	103,946
640 - 669	92,202	8	7.58%	140	71	656	26	5.77%	8.85%	3,235	(5,395)	(2,160)	97.7%	90,042
620 - 639	43,045	1	8.99%	180	119	626	35	5.77%	10.10%	3,571	(4,682)	(1,111)	97.4%	41,934
350 - 619	320,608	17	7.80%	141	72	555	26	5.77%	11.27%	12,845	(32,931)	(20,086)	93.7%	300,523
NA	6,637	1	5.99%	60	18	NA	9	5.77%	7.35%	10	(73)	(62)	99.1%	6,575
Home Equity LOC	119,340	11	4.99%	151	64	701		4.59%		712	(842)	(130)	99.9%	119,210
740 - 850	86,602	5	4.99%	117	44	780	16	4.59%	4.69%	442	(111)	332	100.4%	86,934
720 - 739	98	1	4.99%	240	96	727	25	4.59%	4.89%	1	(1)	0	100.2%	98
700 - 719	12,759	1	4.99%	240	93	718	25	4.59%	5.39%	97	(73)	24	100.2%	12,784
670 - 699	10,198	2	4.99%	240	124	672	28	4.59%	6.17%	86	(331)	(245)	97.6%	9,953
NA	9,683	2	4.99%	240	141	NA	29	4.59%	6.17%	85	(326)	(241)	97.5%	9,442
Line of Credit	154,414	120	15.00%	48	36	678	17	9.52%		10,802	(12,014)	(1,212)	99.2%	153,202
720 - 850	47,176	40	15.00%	48	36	759	17	9.52%	10.02%	3,300	(315)	2,985	106.3%	50,161
690 - 719	21,552	15	15.00%	48	36	704	17	9.52%	11.52%	1,508	(567)	941	104.4%	22,493
660 - 689	23,551	19	15.00%	48	36	673	17	9.52%	13.52%	1,648	(1,217)	431	101.8%	23,981
640 - 659	16,636	13	15.00%	48	36	648	17	9.52%	17.52%	1,164	(1,658)	(494)	97.0%	16,142
600 - 639	27,170	18	15.00%	48	36	625	17	9.52%	23.52%	1,901	(4,493)	(2,592)	90.5%	24,578
350 - 599	18,329	15	15.00%	48	36	552	17	9.52%	27.52%	1,282	(3,765)	(2,483)	86.5%	15,846

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Loans < 60 Days Delinquent

Financial Institutions Group

Loans < 60 Days Delinquent

Valuation Category (Credit Score Range)	Current Balance	Count	Weighted Averages Contractual Rate	Weighted Averages Contractual Term	Weighted Averages Remaining	Weighted Averages FICO Score	Prepay Remaining Term	Market Rate	Credit Risk Adjusted Market Rate	Market Adjustment	Credit/ Collateral Adjustment	Total Adjustment	Fair Price	Fair Value
New Auto	**951,185**	**64**	**5.45%**	**74**	**53**	**672**	**21**	**3.49%**		**31,324**	**(61,572)**	**(30,247)**	**96.8%**	**920,938**
720 - 850	433,811	33	5.25%	73	48	761	20	3.49%	3.59%	12,034	(697)	11,337	102.6%	445,148
690 - 719	63,715	3	4.52%	79	67	707	25	3.49%	4.87%	1,297	(1,729)	(432)	99.3%	63,284
660 - 689	91,080	4	4.41%	78	63	680	24	3.49%	7.02%	1,589	(5,844)	(4,254)	95.3%	86,826
620 - 659	183,834	10	5.17%	69	55	641	22	3.49%	10.80%	5,366	(21,645)	(16,278)	91.1%	167,556
590 - 619	36,534	4	6.59%	77	37	597	16	3.49%	16.02%	1,477	(5,452)	(3,975)	89.1%	32,559
500 - 589	109,443	5	7.85%	79	60	567	24	3.49%	17.22%	8,939	(24,820)	(15,881)	85.5%	93,563
NA	32,767	5	5.05%	69	34	NA	15	3.49%	7.02%	622	(1,386)	(764)	97.7%	32,003
Other Secured	**98,395**	**61**	**9.61%**	**27**	**21**	**619**	**10**	**3.16%**		**4,958**	**(5,298)**	**(340)**	**99.7%**	**98,055**
720 - 850	9,950	6	8.57%	23	20	758	9	3.16%	3.26%	418	(8)	410	104.1%	10,360
690 - 719	15,113	4	6.61%	47	42	712	18	3.16%	4.56%	746	(309)	437	102.9%	15,550
660 - 689	16,542	9	8.28%	21	17	675	8	3.16%	6.69%	587	(408)	179	101.1%	16,721
620 - 659	16,011	13	10.13%	24	16	645	8	3.16%	10.42%	751	(781)	(30)	99.8%	15,981
590 - 619	8,925	5	11.38%	24	19	604	10	3.16%	15.59%	571	(844)	(273)	96.9%	8,651
500 - 589	27,003	17	11.51%	24	19	548	9	3.16%	16.77%	1,747	(2,765)	(1,019)	96.2%	25,984
350 - 499	2,050	2	9.96%	19	12	474	6	3.16%	18.00%	70	(147)	(77)	96.2%	1,972
NA	2,803	5	9.97%	11	8	NA	4	3.16%	6.69%	67	(35)	32	101.1%	2,834
Recreational Vehicle	**1,526,923**	**259**	**6.94%**	**78**	**54**	**693**	**21**	**6.00%**		**23,476**	**(85,141)**	**(61,665)**	**96.0%**	**1,465,259**
720 - 850	703,615	107	6.01%	82	57	767	22	6.00%	6.10%	170	(1,206)	(1,036)	99.9%	702,578
690 - 719	161,432	27	6.69%	76	47	707	20	6.00%	7.38%	1,707	(3,361)	(1,653)	99.0%	159,779
660 - 689	188,683	28	7.43%	71	58	672	23	6.00%	9.53%	4,724	(11,341)	(6,617)	96.5%	182,066
620 - 659	178,219	37	7.88%	74	52	643	21	6.00%	13.31%	5,486	(19,874)	(14,388)	91.9%	163,831
590 - 619	179,546	29	8.73%	85	56	604	22	6.00%	18.00%	8,430	(32,988)	(24,558)	86.3%	154,988
500 - 589	87,166	17	7.95%	68	49	536	20	6.00%	18.00%	2,674	(14,597)	(11,923)	86.3%	75,242
350 - 499	18,145	4	8.77%	58	21	456	10	6.00%	18.00%	283	(1,538)	(1,254)	93.1%	16,891
NA	10,118	10	6.03%	40	17	NA	8	6.00%	9.53%	2	(236)	(234)	97.7%	9,884
Share Secured	**83,181**	**22**	**6.72%**	**57**	**40**	**575**	**NA**			**-**	**-**	**-**	**100.0%**	**83,181**
720 - 850	33,703	6	7.21%	54	31	762	NA	NA	NA	-	-	-	100.0%	33,703
690 - 719	6,477	2	6.22%	36	26	710	NA	NA	NA	-	-	-	100.0%	6,477
660 - 689	18,061	3	7.30%	71	48	679	NA	NA	NA	-	-	-	100.0%	18,061
620 - 659	4,927	4	6.41%	18	15	638	NA	NA	NA	-	-	-	100.0%	4,927
500 - 589	2,388	3	5.89%	29	13	568	NA	NA	NA	-	-	-	100.0%	2,388
350 - 499	1,625	1	6.25%	83	15	466	NA	NA	NA	-	-	-	100.0%	1,625
NA	16,000	3	5.50%	68	68	NA	NA	NA	NA	-	-	-	100.0%	16,000

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Loans < 60 Days Delinquent

Financial Institutions Group

Loans < 60 Days Delinquent

Valuation Category (Credit Score Range)	Current Balance	Count	Weighted Averages Contractual Rate	Weighted Averages Contractual Term	Weighted Averages Remaining	Weighted Averages FICO Score	Prepay Remaining Term	Market Rate	Credit Risk Adjusted Market Rate	Market Adjustment	Credit/ Collateral Adjustment	Total Adjustment	Fair Price	Fair Value
Unsecured	**393,200**	**242**	**10.28%**	**34**	**26**	**679**	**12**	**9.52%**		**2,826**	**(13,223)**	**(10,396)**	**97.4%**	**382,804**
720 - 850	154,817	74	9.79%	39	30	755	14	9.52%	10.02%	435	(830)	(395)	99.7%	154,422
690 - 719	75,069	32	10.08%	36	29	704	14	9.52%	11.52%	434	(1,556)	(1,122)	98.5%	73,946
660 - 689	62,761	29	11.17%	33	26	676	12	9.52%	13.52%	998	(2,371)	(1,373)	97.8%	61,388
640 - 659	27,531	25	10.77%	26	18	649	9	9.52%	17.52%	249	(1,532)	(1,283)	95.3%	26,248
600 - 639	39,566	24	11.73%	30	22	623	11	9.52%	23.52%	749	(4,421)	(3,672)	90.7%	35,894
350 - 599	21,776	21	9.57%	22	16	571	8	9.52%	27.52%	9	(2,338)	(2,329)	89.3%	19,447
NA	11,682	37	8.45%	15	9	NA	5	9.52%	13.52%	(48)	(174)	(222)	98.1%	11,459
Used Auto	**13,232,972**	**1,916**	**5.58%**	**55**	**42**	**654**	**18**	**4.37%**		**223,776**	**(819,372)**	**(595,596)**	**95.5%**	**12,637,376**
720 - 850	4,584,215	614	4.45%	57	43	763	18	4.37%	4.47%	5,092	(6,519)	(1,427)	100.0%	4,582,788
690 - 719	1,402,334	196	4.94%	56	43	703	18	4.37%	5.76%	11,506	(27,744)	(16,238)	98.8%	1,386,096
660 - 689	1,803,438	237	5.43%	56	44	674	18	4.37%	7.89%	28,116	(90,600)	(62,484)	96.5%	1,740,954
620 - 659	2,069,551	289	6.16%	54	43	641	18	4.37%	11.63%	52,962	(202,814)	(149,852)	92.8%	1,919,699
590 - 619	1,153,213	174	6.90%	55	43	604	18	4.37%	16.81%	42,443	(188,014)	(145,571)	87.4%	1,007,642
500 - 589	1,443,073	239	7.37%	52	39	553	17	4.37%	17.97%	58,209	(237,877)	(179,668)	87.5%	1,263,404
350 - 499	272,989	45	7.94%	53	36	481	16	4.37%	18.00%	12,291	(42,806)	(30,515)	88.8%	242,474
NA	504,159	122	6.35%	52	38	NA	16	4.37%	7.89%	13,157	(22,998)	(9,841)	98.0%	494,318
TOTALS	**$ 17,727,799**	**2,764**	**0.06018**	**66**	**46**	**660**	**19**	**4.66%**		**$ 347,847**	**$ (1,045,046)**	**$ (697,199)**	**96.1%**	**$ 17,030,600**

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Loans > 60 Days Delinquent

Financial Institutions Group

Loans ≥ 60 Days Delinquent

Valuation Category	Current Balance	Average Balance	Count	Weighted Averages: Contractual Rate	Contractual Term	Remaining	FICO Score	Market Rate	Credit Risk Adjusted Market Rate	Credit/ Collateral Adjustment	Fair Price	Fair Value
Home Equity Loan	13,057	13,057	1	7.59%	120	60	603	5.77%	11.27%	(6,918)	47.0%	6,139
Line of Credit	2,743	1,372	2	0.39%	48	36	539	9.52%	27.52%	(2,248)	18.0%	495
Recreational Vehicle	9,808	9,808	1	8.24%	48	42	459	6.00%	18.00%	(5,498)	44.0%	4,311
Unsecured	14,152	1,572	9	5.55%	41	26	502	9.52%	27.52%	(8,392)	40.7%	5,760
Used Auto	88,397	4,911	18	5.98%	50	32	508	4.37%	17.97%	(68,992)	22.0%	19,405
TOTALS	**$ 128,158**	**$ 4,134**	**31**	**6.15%**	**56**	**35**	**514**			**$ (92,048)**	**28.2%**	**$ 36,110**

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Mortgage Loans

Financial Institutions Group

All Loans

Valuation Category (Credit Score Range)	Current Balance	Count	Weighted Averages: Contractual Rate	Contractual Term	Remaining	FICO Score	Prepay Remaining Term	Market Rate	Market Adjustment	Credit/ Collateral Adjustment	Total Adjustment	Fair Price	Fair Value
10 Year Mortgage	**633,064**	**14**	**4.12%**	**120**	**61**	**734**	**21**	**3.04%**	**8,651**	**(3,372)**	**5,279**	**100.8%**	**638,343**
760 - 850	*265,533*	*7*	*3.89%*	*120*	*90*	*802*	*27*	*3.04%*	*4,876*	*(580)*	*4,296*	*101.6%*	*269,829*
700 - 759	*219,473*	*3*	*3.67%*	*120*	*39*	*729*	*16*	*3.04%*	*1,788*	*(627)*	*1,160*	*100.5%*	*220,633*
350 - 619	*85,865*	*3*	*6.11%*	*120*	*34*	*535*	*15*	*3.04%*	*1,152*	*(1,126)*	*26*	*100.0%*	*85,891*
No Score	*62,193*	*1*	*3.88%*	*120*	*54*	*NA*	*20*	*3.04%*	*836*	*(1,040)*	*(204)*	*99.7%*	*61,989*
15 Year Mortgage	**1,246,305**	**27**	**4.92%**	**180**	**103**	**730**	**28**	**3.06%**	**52,401**	**(18,275)**	**34,126**	**102.7%**	**1,280,430**
760 - 850	*406,254*	*7*	*4.32%*	*180*	*131*	*798*	*34*	*3.06%*	*13,276*	*(1,084)*	*12,193*	*103.0%*	*418,446*
700 - 759	*106,157*	*4*	*5.77%*	*180*	*109*	*725*	*33*	*3.06%*	*7,325*	*(633)*	*6,692*	*106.3%*	*112,849*
680 - 699	*58,229*	*1*	*5.13%*	*180*	*147*	*692*	*31*	*3.06%*	*2,947*	*(589)*	*2,359*	*104.1%*	*60,588*
640 - 659	*206,787*	*4*	*5.20%*	*180*	*53*	*652*	*20*	*3.06%*	*7,162*	*(3,543)*	*3,619*	*101.8%*	*210,405*
620 - 639	*85,296*	*3*	*5.21%*	*180*	*105*	*630*	*31*	*3.06%*	*4,431*	*(3,310)*	*1,121*	*101.3%*	*86,418*
No Score	*383,582*	*8*	*5.07%*	*180*	*91*	*NA*	*24*	*3.06%*	*17,259*	*(9,117)*	*8,142*	*102.1%*	*391,724*
20 Year Mortgage	**918,215**	**15**	**5.61%**	**240**	**176**	**719**	**33**	**3.78%**	**43,672**	**(13,698)**	**29,974**	**103.3%**	**948,189**
760 - 850	*144,072*	*3*	*6.07%*	*240*	*170*	*777*	*31*	*3.78%*	*8,730*	*(402)*	*8,328*	*105.8%*	*152,400*
700 - 759	*292,436*	*4*	*5.70%*	*240*	*188*	*733*	*34*	*3.78%*	*14,308*	*(1,723)*	*12,585*	*104.3%*	*305,021*
680 - 699	*107,834*	*1*	*2.00%*	*240*	*177*	*687*	*43*	*3.78%*	*(6,124)*	*(1,287)*	*(7,411)*	*93.1%*	*100,423*
660 - 679	*63,977*	*2*	*6.05%*	*240*	*187*	*671*	*32*	*3.78%*	*3,945*	*(1,108)*	*2,837*	*104.4%*	*66,814*
640 - 659	*71,046*	*1*	*7.00%*	*240*	*170*	*640*	*31*	*3.78%*	*6,329*	*(2,160)*	*4,169*	*105.9%*	*75,215*
No Score	*238,851*	*4*	*6.32%*	*240*	*164*	*NA*	*31*	*3.78%*	*16,485*	*(7,018)*	*9,466*	*104.0%*	*248,317*
30 Year Mortgage	**1,254,450**	**16**	**6.00%**	**360**	**263**	**712**	**39**	**3.81%**	**79,794**	**(28,924)**	**50,870**	**104.1%**	**1,305,320**
760 - 850	*295,100*	*4*	*5.77%*	*360*	*261*	*783*	*39*	*3.81%*	*16,716*	*(899)*	*15,817*	*105.4%*	*310,917*
700 - 759	*115,338*	*2*	*6.08%*	*360*	*256*	*741*	*34*	*3.81%*	*7,582*	*(783)*	*6,799*	*105.9%*	*122,137*
680 - 699	*123,291*	*2*	*5.99%*	*360*	*254*	*693*	*39*	*3.81%*	*7,782*	*(1,491)*	*6,291*	*105.1%*	*129,582*
640 - 659	*181,624*	*2*	*6.17%*	*360*	*259*	*646*	*39*	*3.81%*	*12,465*	*(5,696)*	*6,769*	*103.7%*	*188,393*
350 - 619	*58,369*	*1*	*5.88%*	*360*	*256*	*537*	*39*	*3.81%*	*3,484*	*(4,934)*	*(1,450)*	*97.5%*	*56,919*
No Score	*480,729*	*5*	*6.07%*	*360*	*270*	*NA*	*39*	*3.81%*	*31,765*	*(15,121)*	*16,643*	*103.5%*	*497,372*
TOTALS	**$ 4,052,034**	**72**	**5.28%**	**240**	**163**	**723**	**31**	**3.45%**	**$ 184,517**	**$ (64,269)**	**$ 120,248**	**103.0%**	**$ 4,172,282**

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Transition, Implementation, and Disclosures

Transition and Implementation

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- The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those fiscal years, beginning on or after [date to be inserted after exposure]. No date yet!
- An entity shall apply the pending content that links to this paragraph by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective.
- Earlier application of the pending content that links to this paragraph is not permitted.

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Impact Expected for ALLL: Enhancements to Ongoing Disclosures

Financial Institutions Group

- Cumulative effect of accounting change
- Qualitative information about how expected credit loss estimates are developed
- Amortized cost of financial assets in which the institution has applied the practical expedient
- Roll-forward of the amortized cost basis of debt instruments measured at amortized cost and at **FV-OCI**
- Reconciliation between the fair value and amortized cost for debt instruments measured at **FV-OCI**

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Impact Expected for ALLL: Enhancements to Ongoing Disclosures

Financial Institutions Group

- Average amortized cost of financial assets on nonaccrual status, the amount of interest income recognized on nonaccrual assets, and the amortized cost of non-accrual assets for which no expected credit losses are recognized.
- Reconciliation between the purchase price and the par value of PCI financial assets at the time of purchase.
- Discussion of the type of collateral and extent to which collateral secures an institution’s financial assets.

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Selected Footnotes

Financial Institutions Group

Credit-Quality Indicators
As of December 31, 20X1, and 20X0

Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Commercial		Commercial Real Estate Construction		Commercial Real Estate—Other	
	20X1	20X0	20X1	20X0	20X1	20X0
AAA – AA	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
A	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
BBB – BB	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
B	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
CCC – C	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
D	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

Consumer Credit Exposure
Credit Risk Profile by FICO Score

	Residential—Prime		Residential—Subprime	
	20X1	20X0	20X1	20X0
<600	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
600–700	XX,XXX	XX,XXX	XX,XXX	XX,XXX
700–800	XX,XXX	XX,XXX	XX,XXX	XX,XXX
800+	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Pass	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Special mention	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Substandard	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

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Selected Footnotes

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Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity and Internal Risk Grades 1–5

	Consumer—Credit Card		Consumer—Other		Finance Leases		Consumer—Auto	
	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
1–2 internal grade	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
3–4 internal grade	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
5 internal grade	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Performing	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Nonperforming	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

Consumer Credit Exposure
Credit Risk Profile by Loan-to-Value Ratio

	Residential—Prime		Residential—Subprime	
	20X1	20X0	20X1	20X0
0–60%	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
60.01–80%	XX,XXX	XX,XXX	XX,XXX	XX,XXX
80.01–100%	XX,XXX	XX,XXX	XX,XXX	XX,XXX
100.01–120%	XX,XXX	XX,XXX	XX,XXX	XX,XXX
>120%	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

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Selected Footnotes

Financial Institutions Group

Age Analysis of Past Due Financial Assets
As of December 31, 20X1, and 20X0

	30–59 Days Past Due	60–89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Amortized Cost > 90 Days and Accruing
20X1							
Commercial	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
Commercial real estate:							
Commercial real estate construction	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer:							
Consumer—credit card	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential:							
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Finance leases	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

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Capital Impact

Prompt Corrective Action

Financial Institutions Group

- **§ 702.1 Authority, purpose, scope and other supervisory authority.**
- (a) *Authority.* issued by the National Credit Union Administration pursuant to section 216 of the Federal Credit Union Act (FCUA), 12 U.S.C. 1790d (section 1790d), as added by section 301 of the Credit Union Membership Access Act, Pub. L. No. 105-219, 112 Stat. 913 (1998). Subpart D of this part is issued pursuant to FCUA section 120, 12 U.S.C. 1766.
- (b) *Purpose.* The express purpose of prompt corrective action under section 1790d is to resolve the problems of federally-insured credit unions at the least possible long-term loss to the National Credit Union Share Insurance Fund. This part carries out the purpose of prompt corrective action by establishing a framework of mandatory and discretionary supervisory actions, applicable according to a credit union's net worth ratio, designed primarily to restore and improve the net worth of federally-insured credit unions.

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Net Worth - PCA

Financial Institutions Group

- *Net Worth* means the retained earnings balance of the credit union at quarter-end as determined under generally accepted accounting principles, subject to paragraph of this section.
- Retained earnings consists of undivided earnings, regular reserves, and any other appropriations designated by management or regulatory authorities;
- One-time implementation of CECL will impact net worth and net worth ratio
- Regulatory impact of reduced net worth, ALLL not considered as part of capital under PCA

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Net Worth Ratios

Financial Institutions Group

# of Credit Unions	December 2010	% of Total	December 2011	% of Total	December 2012	% of Total
7% or above	7,057	95.5%	6,630	96.2%	6,653	96.5%
6% to 6.99%	198	2.7%	181	2.6%	170	2.5%
4% to 5.99%	105	1.4%	62	0.9%	56	0.8%
2% to 3.99%	25	0.3%	17	0.2%	12	0.2%
0% to 1.99%	1	0.0%	1	0.0%	3	0.0%
Less than 0%	1	0.0%	0	0.0%	0	0.0%

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FASB Comment Letters

FASB Comment Letters

Financial Institutions Group

- Comment Letters to FASB ED
- 24 questions
  - #1 for all respondents
  - #2 - #8 for users of the financial statements
  - #9 - #15 for preparers of the financial statements and auditors
  - #16 for all respondents
  - #17 for users of the financial statements
  - #18 for preparers of the financial statements and auditors
  - #19 - #22 for all respondents
  - #23 - #24 for preparers of the financials statements and auditors

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Comment Letter Questions

Financial Institutions Group

- *Question 1: Do you agree with the scope of financial assets that are included in this proposed Update?*
- *Question 2: Do you believe that removing the initial recognition threshold that currently exists in U.S. GAAP so that credit losses are recognized earlier provides more decision-useful information?*
- *Question 3: Do you agree that the net amortized cost (which reflects the present value of cash flows expected to be collected) results in more decision-useful information than currently exists under U.S. GAAP?*
- *Question 4: The proposed amendments would require that at each reporting date an entity recognize an allowance for all expected credit losses. Do you believe that recognizing all expected credit losses provides more decision-useful information than recognizing only some of the expected credit losses?*

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Comment Letter Questions

Financial Institutions Group

- *Question 5: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you believe that expected credit losses based on this information provide decision-useful information?*

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Comment Letter Questions

Financial Institutions Group

- *Question 6: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be amortized into and recognized as interest income over the life of the asset. To achieve this result, upon acquisition the initial estimate of expected credit losses would be recognized as an adjustment that increases the cost basis of the asset. Apart from this requirement, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you believe that using the same approach to recognize changes in the credit impairment allowance for purchased credit-impaired assets and non-purchased-credit-impaired assets provides decision-useful information?*

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Comment Letter Questions

Financial Institutions Group

- *Question 7: As a practical expedient, the proposed amendments would allow an entity not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost amount of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. The proposed amendments would require an entity to disclose the amortized cost basis of assets that apply this practical expedient each period. Do you believe that the practical expedient for some financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income is reasonable? Why or why not?*

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Comment Letter Questions

Financial Institutions Group

- *Question 8: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this approach provides decision-useful information?*
- *Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?*

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Comment Letter Questions

Financial Institutions Group

- *Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?*

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Comment Letter Questions

Financial Institutions Group

- *Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?*

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Comment Letter Questions

Financial Institutions Group

- *Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?*

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Comment Letter Questions

Financial Institutions Group

- *Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?*

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Comment Letter Questions

Financial Institutions Group

- *Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?*

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Comment Letter Questions

Financial Institutions Group

- *Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?*

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Comment Letter Questions

Financial Institutions Group

- *Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?*

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Comment Letter Questions

Financial Institutions Group

- *Question 17: Do you believe the disclosure proposals in this proposed Update would provide decision-useful information? If not, what disclosures do you believe should (or should not) be required and why?*
- *Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?*
- *Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?*
- *Question 20: Do you agree with the transition provision in this proposed Update? If not, why?*

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Comment Letter Questions

Financial Institutions Group

- *Question 21: Do you agree that early adoption should not be permitted? If not, why?*
- *Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?*
- *Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?*
- *Question 24: How much time would be needed to implement the proposed guidance? What type of system and process?*

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What Do You Think?

Financial Institutions Group

- Top 10 Reasons the Credit Union industry hates this proposal

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Will the CECL Model Improve Impairment Accounting and Financial Reporting?

Financial Institutions Group

- Life of Loan (LOL) component provides information that may not necessarily be more useful to creditors, regulators, and members.
  - LOL expected losses; how will this method retain effective sensitivity to current economic activity when compared to the incurred loss model estimates?
  - Accounting change can wreak havoc on analysts for creditors and peers that rely on historical data for analysis.
  - CECL model that applies LOL losses to healthy loans would be expected to result in an abrupt change, making annual comparisons very difficult.

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Next Steps for CECL

Financial Institutions Group

- FASB and IASB reviewing comment letters
- They will meet to discuss feedback and impact on original EDs
- Modified ED or final rule 2014?
- Implementation date 2015 or later?
- Deferred date for non-public entities?
- Wait and see!

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Global Credit Risk Management Program:

A Method for Monitoring

GCRMP

Financial Institutions Group

- GCRMP is a management process focused on the risk and return inter-relationship of members, products and services, pricing, and costs linked to dynamic social and economic environmental volatility.

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Objectives

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- Provide a transparent, concise and timely method for monitoring (within quantitative boundaries) the interrelated external and internal risks to protect earnings and maximize capital (member value)
- Provide an effective executive management and board monitoring tool to pinpoint areas of credit and collateral risk – for actionable positive and negative trends
- Establish processes and monitoring methods to manage regulatory risk related to credit and collateral policies imbedded in loan products and underwriting procedures

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Benefits

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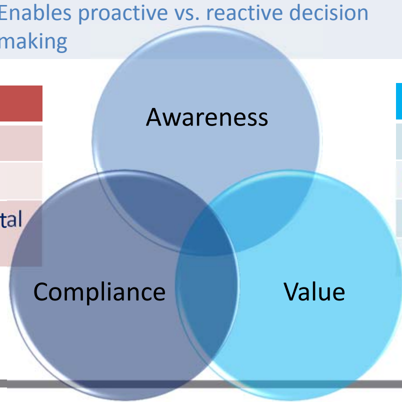
- Broadens Risk Awareness
- Highlights Early Warning Indicators of Risk
- Provides Transparency
- Enables proactive vs. reactive decision making



- Governance Policy
- Regulatory Compliance
- Risk Tolerance with Capital & Strategy

- Protects Member Value
- Credit Union Stability
- Loss Mitigation
- Benchmarking/Best Practices

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External Quantitative Metrics

Macro Economic Drivers
Regional Demographics
Market Supply & Demand Indicators

External Quantitative Metrics

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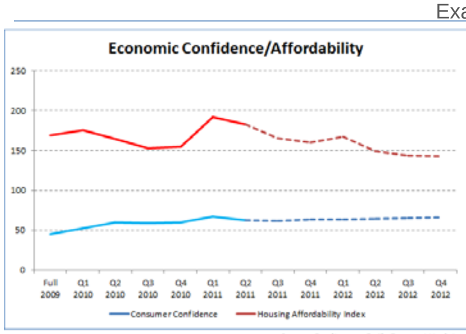
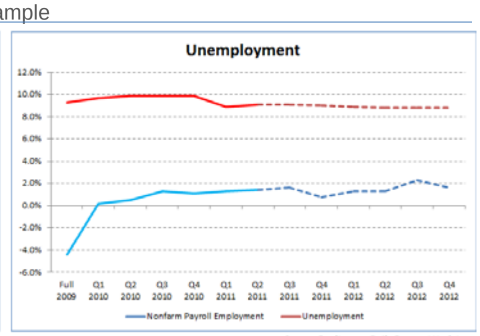
Macro Economic Conditions

- CPI - Consumer Price Index
- GDP – Gross Domestic Product
- Housing Affordability
- Interest Rates

Example



Source:Realtor.org Daily Forecast Update



Source:Realtor.org Daily Forecast Update

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External Quantitative Metrics

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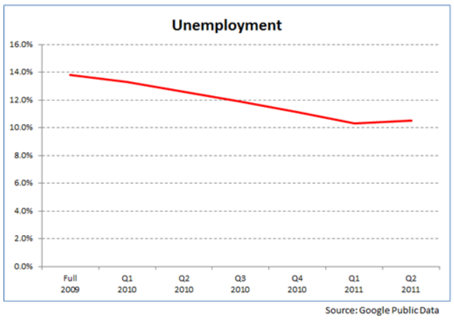
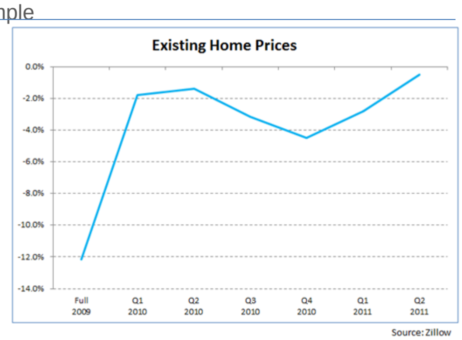
Regional Demographics

- Unemployment
- Employment
- Labor Force
- Population
- Real Disposable Income

Example





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External Quantitative Metrics

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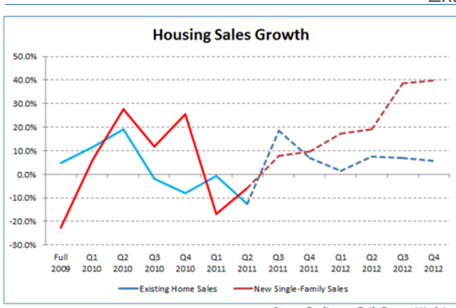
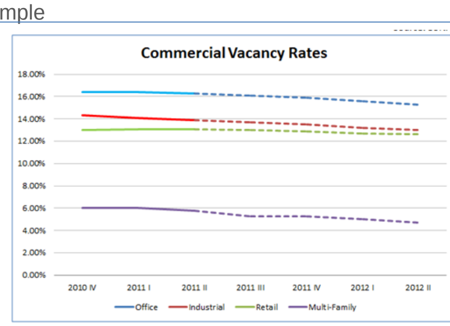
Supply & Demand

- Existing/New Home Sales & Prices
- Inventory levels – Real Estate
- Supply – Real Estate
- Pending Home Sales Index
- Housing Starts
- Auto Sales Trends
- Commercial Trends

Example





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Internal Metrics

Peer Comparability
Financial Metrics
Concentration Ratios
Business/Operational

Internal Metrics

Financial Institutions Group

Peer Comparability
Delinquency
Loan Growth
Loan Mix
Savings Growth
Product Line

Example: Select Data

	Historical Actuals				Peer Data				Target		
	2009	2010	06/30/11	Trend	2009	2010	06/30/11	Trend	Target Range Low	High	Current Results
POLICY DRIVEN											
Earnings											
Return on Assets	0.99%	0.40%	0.72%		0.29%	0.57%	0.79%		0.20%	99.00%	
Yield on Average Loans	7.69%	7.71%	8.14%		6.14%	5.93%	5.70%		7.50%	99.00%	
Yield on Average Investments	3.31%	2.53%	2.56%		2.41%	1.80%	1.58%		1.50%	99.00%	
Fees & Other Operating Income / Total Assets	2.62%	2.83%	2.74%		1.40%	1.37%	1.28%		2.00%	99.00%	
Operating Expense / Total Assets	5.63%	5.16%	4.97%		3.43%	3.23%	3.14%		0.00%	5.00%	
Provision for Loan Loss / Total Assets	2.09%	1.52%	1.96%		1.16%	0.78%	0.52%		0.00%	3.00%	
Net Interest Margin	4.14%	4.40%	4.77%		3.15%	3.21%	3.15%		3.50%	99.00%	

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Internal Metrics

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Financial
Credit
Collateral
LTV
Interest Rate
Risk Based Net Worth

Example: Select Data

All Mortgages

Credit Information			Loan Characteristics						Delinquency				Collateral	
Credit Grade	Credit Score Range Low	High	Number of Loans	Current Balance	% of Balance	Weighted Averages Remaining Yrs	Credit Score	Rate	<30	≥30 and <60	≥60 and <90	≥90	Collateral Value*	LTV
A+	720	850	298	$ 31,431,293	38%	15.7	774	5.49%	$ 31,431,293	$ -	$ -	$ -	$ 40,349,802	78%
A	690	719	59	6,519,582	8%	14.9	706	5.84%	6,519,582	-	-	-	7,161,900	91%
B	660	689	61	6,451,604	8%	16.9	674	5.88%	6,399,394	-	-	52,210	6,779,991	95%
C	620	659	64	6,754,491	8%	19.2	642	6.18%	6,579,188	175,303	-	-	6,677,600	101%
D	600	619	23	1,825,084	2%	14.1	611	5.98%	1,825,084	-	-	-	2,008,700	91%
E	1	599	73	7,693,324	9%	16.7	545	5.71%	6,557,972	907,641	13,571	214,140	7,058,300	109%
TDRs			164	22,695,475	27%	19.4	591	2.57%	17,223,590	3,987,844	445,598	1,038,442	18,082,300	126%
			742	$ 83,370,853	100%	17.1	676	4.84%	$ 76,536,105	$ 5,070,787	$ 459,169	$ 1,304,792	88,118,593	95%
Delinquency Ratio									*91.8%*	*6.1%*	*0.6%*	*1.6%*		

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Internal Metrics

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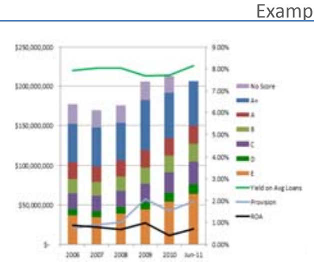
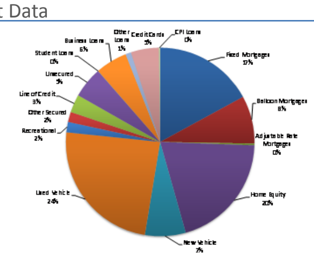
Concentration
Relationships
Type
Geographic Area
Credit Grade
Seasoning of Portfolio

Example: Select Data





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Internal Metrics

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Business/Operational

Regulatory Requirements

Governance Policy

Compliance

Example: Select Data

Tier 1		$ 80,215,798
Tier 2		11,222,076
Total Assets		591,066,679
Risk-Weighted Assets		508,110,551
Total Loans		326,941,043
NCUSIF Deposit		4,276,207
Based on Shocked Balance Sheet:		
Regulatory Net Worth		*13.68%*
Net Worth / Total Assets		*14.24%*
Based on PCA Net Worth Calculation:		
Net Worth Ratio		13.57%
RBNW Minimum Requirement		*6.67%*
Conclusion:		***Pass***
Based on PCA Capitalization Requirements*:		**Level**
Total Risk-Based Capital Ratio	18.00%	1
Tier 1: RWA	13.57%	1
Leverage Ratio	12.94%	1
Conclusion:		***Well Capitalized***
Risk-Based Net Worth Ratio:		*14.95%*

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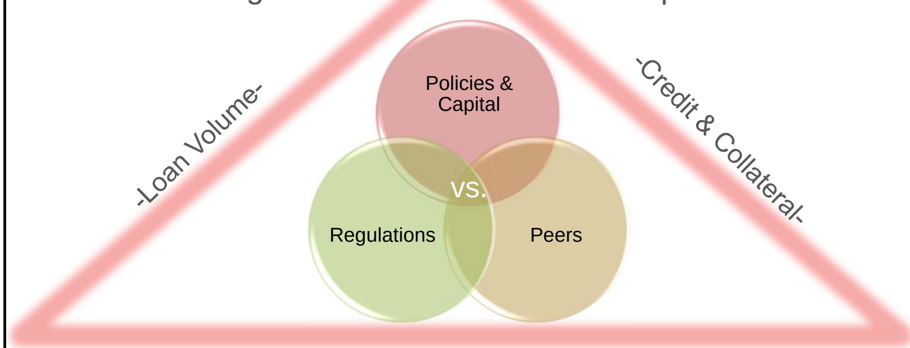
Approach to Design

Create Tool for Monitoring

Financial Institutions Group

Identification of actual, potential, and magnitude of risks by stratifying external and internal metrics to align with policy, regulations and assessment to peers



-Establishment of Boundaries-

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Boundaries: Concepts for Decision Making

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- Determination of Critical Risk Monitoring Elements
  - Establishment of triggers
    - Capital
    - Profitability
    - Concentration
      - Grading vs. pricing
      - Loan type
    - Non-performing loans

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Monitoring Method

Credit Risk Management

Financial Institutions Group

- The approach concentrates on internal and external factors and then shocking the system in order to observe the resulting sensitivity and related consequences to the financials of the credit union.
- Both internal (e.g. financial results) and external (e.g. economic trends, market) factors that influence the Credit Union were reviewed, analyzed, and interpreted. Internal factors include such items as the Credit Union's financial position, credit score distribution, pricing, current (updated) LTVs, delinquencies, and charge-offs, plus recidivism rates.

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Method

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Portfolios have been analyzed in extensive detail by evaluating data to assess key areas of concentration requiring semi-annual monitoring.

Specifically, areas of concentration include:
- Consumer lending rec vehicles, new and used autos with scores C-E
- Residential real estate; first and home equities
- TDRs and modifications
- Member business loans
- Unsecured loans
- Participation MBL's

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Capital & Risk Based Net Worth

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Basel II, along with NCUA Regulatory Net Worth PCA calculations, have been implemented to analyze impact of credit and collateral risk concentration implications linked to directionality of the credit union based on requirements used in both the credit union and the banking sectors.

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Econometrics

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- The econometrics model takes into account characteristics in assessing areas of risk such as:
  - Loan product type and structure
    - Autos, real estate, home equity, MBL, participation
    - Higher-risk loans: C, D, E, modifications, TDRs
  - Loan pricing and profitability
  - Credit directional quality indications; updated credit scores vs. scores at origination
  - Prepayment speeds based on credit score and rate
  - Updated underlying collateral values (LTVs) and trends
  - Delinquency and loss probability are projected and stressed based on credit scores, delinquency, unemployment, and LTVs.

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Econometrics

Financial Institutions Group

- The model provides a baseline for use semi-annual to compare capital and net income results based on a set of eroding credit and economic variables.
- Shocking the portfolio includes the following:
  - Incremental unemployment changes
  - Changes in credit scores (e.g., drop of 100 average score)
  - Collateral changes:
    - Additional residential real estate devaluation of 10%
- Shocking the model based on these economic changes results in the credit union continuing to be within a “well capitalized” category.

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Evaluation & Control

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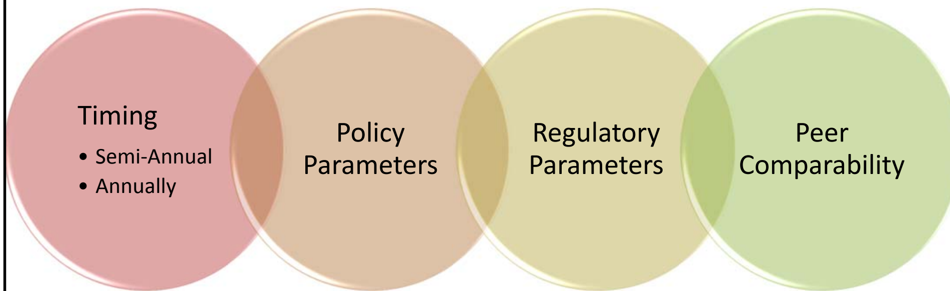

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Output Results

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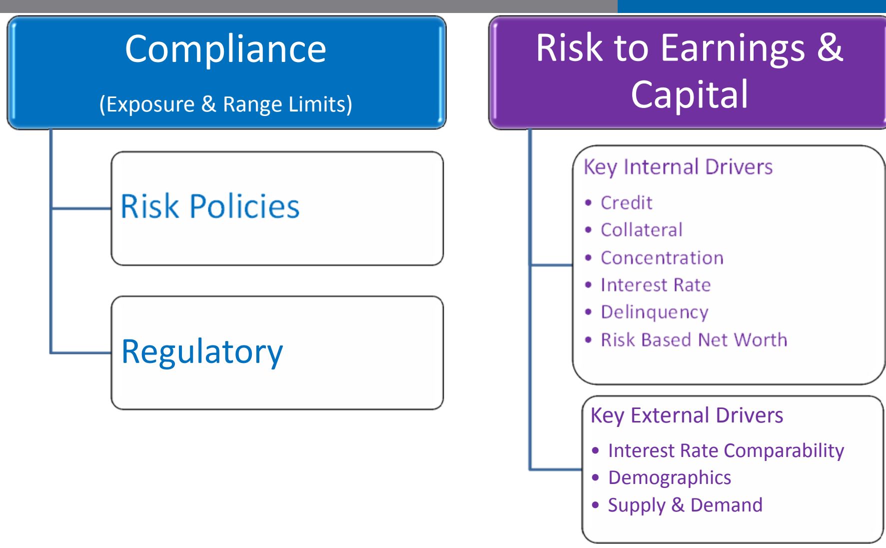

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Executive Summary

Internal / External Summary
Requirements/Policy Measurement

Summary Risk Profile Example

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EXTERNAL

		6/30/2010	6/30/2011	Variance
Macro	CPI	-0.60%	4.10%	4.70%
Macro	Real GDP	2.80%	1.50%	-1.3%
Macro	Housing Affordability	164	182	18
Macro	Consumer Confidence	60	62	2
Macro	Retail sales, total (12/31/2010)	394,780	354,895	-39,885
Macro	Prime Rate	3.10%	2.70%	-0.40%
Macro	Avg 30 yr Fixed Mortgage	5.00%	4.70%	-0.30%
Labor	Unemployment	9.90%	9.10%	-0.8%
Labor	Real Disposable Income	0.2%	0.5%	0.3%
Supply & Demand	Existing Home Sales	5,688	4,860	-828
Supply & Demand	Existing Home Prices	19.0%	7.0%	-12.0%
Supply & Demand	Housing Vacancy (12/31/2010)	18,394,000	18,700,000	306,000
Supply & Demand	Pending Home Sales Index	91.5	90.9	-0.6
Supply & Demand	Housing Starts	715	575	-140
Supply & Demand	Auto Sales Trends (YTD)	5,600,957	6,310,655	709,698
Supply & Demand	Commercial Vac: Office (12/31/2010)	16.40%	16.30%	-0.1%
Supply & Demand	Commercial Vac: Industrial (12/31/2010)	14.30%	13.90%	-0.4%
Supply & Demand	Commercial Vac: Retail (12/31/2010)	13.00%	13.10%	0.1%
Supply & Demand	Commercial Vac: Multi-Family (12/31/2010)	6.00%	5.80%	-0.2%

INTERNAL

		6/30/2010	Current	Variance	Peers	Variance
Bencharking	Delinquency (Call Report)	3.70%	2.78%	-0.92%	1.52%	1.26%
Bencharking	Delinquency (Legal)	1.54%	1.75%	0.21%	N/A	N/A
Bencharking	Charge-offs	2.18%	2.94%	0.76%	0.99%	1.95%
Bencharking	Provision for Loan Loss	1.35%	1.96%	0.61%	0.55%	1.41%
Bencharking	Loan Growth	-2.66%	-2.79%	-0.13%	-1.99%	-1.99%
Bencharking	Savings (Market) Growth	14.87%	12.28%	-2.59%	12.76%	12.76%
		12/31/2010				
Credit (Weighted)	Wtd Rescored Member Loans	658	652	-6		
Credit (Weighted)	A+	32.37%	29.4%	-2.9%		
Credit (Weighted)	A	11.80%	8.7%	-3.1%		
Credit (Weighted)	B	11.77%	10.1%	-1.7%		
Credit (Weighted)	C	13.46%	12.5%	-1.0%		
Credit (Weighted)	D	5.33%	6.3%	0.9%		
Credit (Weighted)	E	25.28%	33.1%	7.8%		
Concentration	Fixed Mortgages	16.4%	17.1%	0.6%		
Concentration	Balloon Mortgages	8.4%	8.2%	-0.2%		
Concentration	Adjustable Rate Mortgages	0.3%	0.3%	0.0%		
Concentration	Home Equity	21.2%	20.0%	-1.2%		
Concentration	New Vehicle	7.8%	7.0%	-0.8%		
Concentration	Used Vehicle	22.8%	24.0%	1.2%		
Concentration	Other Secured	3.5%	3.5%	0.0%		
Concentration	Line of Credit	3.2%	3.1%	-0.1%		
Concentration	Unsecured	5.5%	5.3%	-0.2%		
Concentration	Business Loans	5.8%	5.5%	-0.3%		
Concentration	Other Loans	0.2%	1.2%	1.0%		
Concentration	Credit Cards	4.9%	4.8%	-0.1%		

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Summary Risk Profile: Interpretation

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- Interpretation of the data
  - The arrows will determine whether the trend is positive or negative:
    - *Green = Positive*
    - *Red = Negative*
    - *Grey = Uncertain*
- What are acceptable ranges?
  - Internal policy
  - Compare to peer range

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Policy Measurement Snapshot Example

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	Historical Actuals			Peer Data			Target			
	2009	2010	06/30/11	2009	2010	06/30/11	Target Low	Mid	High	Current Results
POLICY DRIVEN										
RATIO PERFORMANCE										
Asset Quality										
Delinquent Loans / Total Loans	1.41%	1.53%	1.75%	1.70%	1.65%	1.49%	0.00%	1.57%	1.82%	
Net Charge-Offs / Average Loans	2.15%	2.27%	2.58%	1.16%	1.10%	0.94%	0.00%	2.24%	2.49%	
Earnings										
Return on Assets	0.99%	0.40%	0.72%	0.29%	0.57%	0.79%	0.21%	0.28%	99.00%	
Special Lending Ratios										
Losses as a % of TDRs and Modifications			6.50%				0.00%	20.00%	25.00%	
Regulatory Driven										
Capital										
Net Worth / Total Assets	14.32%	13.77%	13.57%	9.69%	9.92%	9.99%	9.00%	10.00%	99.00%	
Regulatory Net Worth			13.57%				9.00%	10.00%	99.00%	
Risk Based Net Worth (RBNW)			14.95%				8.00%	9.00%	99.00%	
RBNW Minimum Requirement Method			14.95%				6.68%		0.00%	
Shocked Net Worth			12.08%				8.00%	9.00%	99.00%	
PCA Capital Requirements Method										
Total Risk-Based Capital Ratio			18.00%				10.00%		99.00%	
Tier 1: RWA			13.57%				6.00%		99.00%	
Leverage Ratio			12.94%				5.00%		99.00%	
PCA Capital Requirements Conclusion (RBNW)			14.95%				Conclusion based on above 3 calc's			
Lending										
MBLs / Total Assets	2.64%	3.27%	3.69%				0.00%		12.25%	
MBLs / Net Worth	.18x	.24x	.27x				.x		1.75x	

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Policy Measurement Snapshot (Interpretation)

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- Summary of performance relative to regulatory requirements, governance policy, and peers.
- A quick reference result to whether the category met the indicated target range.
- Provides the ability to use specific numbers based on either historical or current policy, or as a comparison to peers ("face value" vs. "peers").

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External

Macro-Economics
Labor
Supply & Demand

Economics / Projections Example

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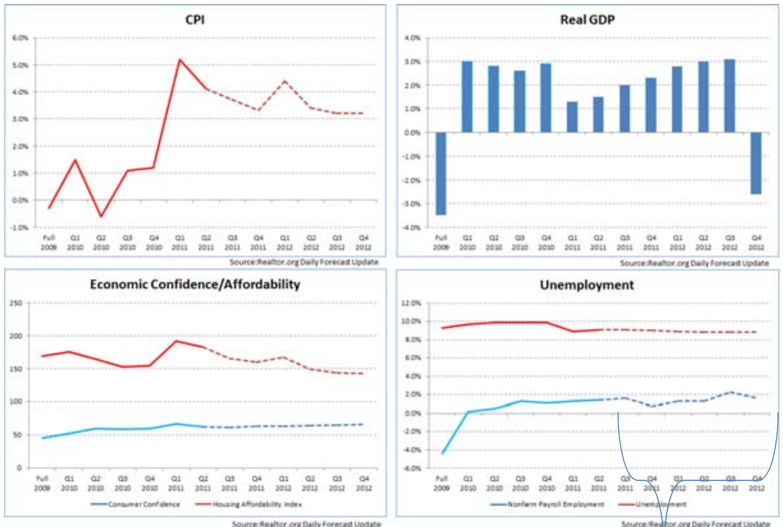

Dotted lines represent projections

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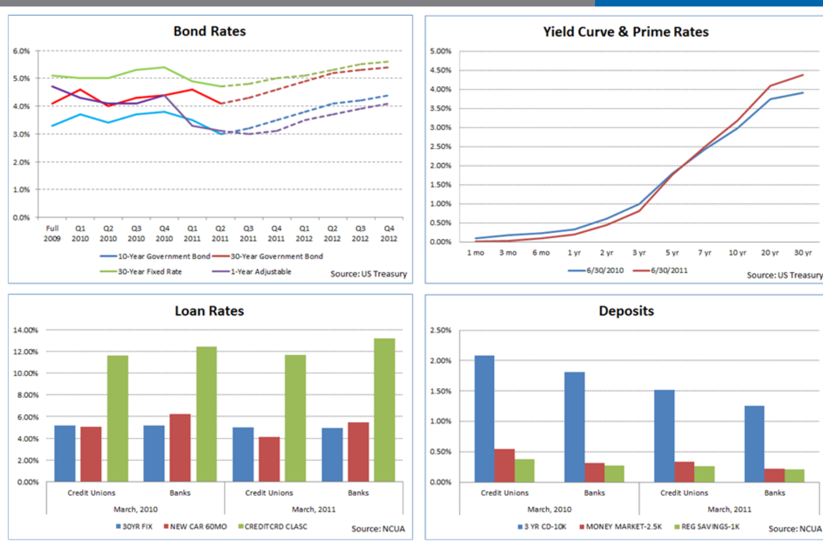
Economics / Projections Example

Financial Institutions Group



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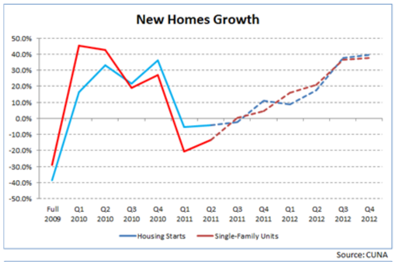
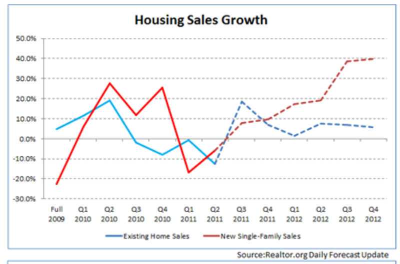
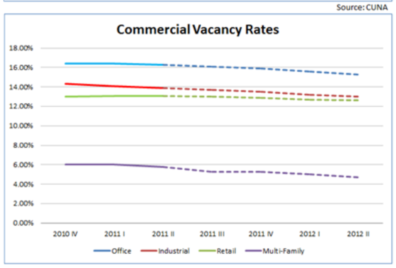
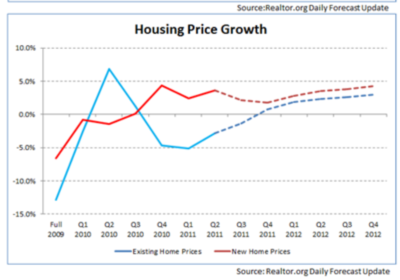
Economics / Projections Example

Financial Institutions Group









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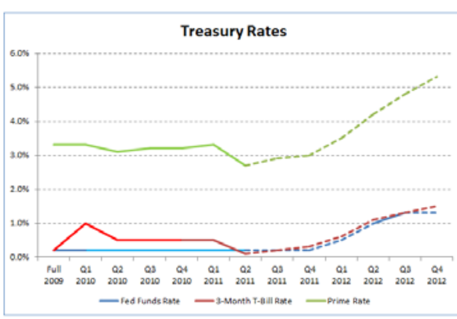
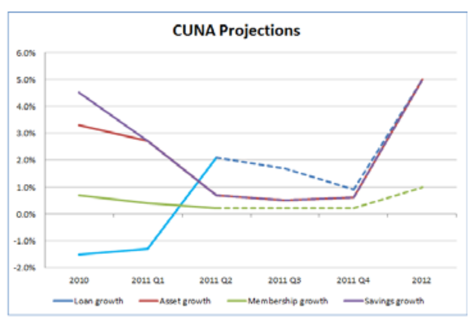
Economics / Projections Example

Financial Institutions Group





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Economics / Projections Example

Financial Institutions Group

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Internal

Current State

Risk Calculation: Tier I, II & RWA

Loans Stratification

Future State

Loan Exposure Probability & Capital Risk Results

Burn Rate

Capital Risk Calculation

Current State

Tier 1	$ 80,215,798
Tier 2	11,222,076
Total Assets	591,066,679
Risk-Weighted Assets	508,110,551
Total Loans	326,941,043
NCUSIF Deposit	4,276,207

Based on PCA Net Worth Calculation:	
Net Worth Ratio	13.57%
RBNW Minimum Requirement	*6.67%*
Conclusion:	***Pass***

Based on PCA Capitalization Requirements*:		**Level**
Total Risk-Based Capital Ratio	18.00%	1
Tier 1: RWA	13.57%	1
Leverage Ratio	12.94%	1
Conclusion:		***Well Capitalized***

Risked-Based Net Worth Ratio:	*14.95%*

Capital Category Definitions:

Level	*Category*	*Total Risk-based Capital ratio*	*Tier 1 Risk-based Capital Ratio*	*Leverage Ratio*
1	*Well Capitalized*	*≥10%*	*≥6%*	*≥5%*
2	*Adequately Capitalized*	*≥8%*	*≥4%*	*≥4%*
3	*Undercapitalized*	*<8%*	*<4%*	*<4%*
4	*Significantly undercapitalized*	*<6%*	*<3%*	*<3%*

Net worth ratio must be greater than RBNW requirement to pass.

Calculations based on call report data. Overall conclusion will be based on the lowest level calculated of the three.

Bank Related Ratio: "a non-risk based measure without taking into account modern complex financial instruments". Calculated as Tier 1 assets/total consolidated assets: (Net worth – NCUSIF deposit)/(Total Assets – NECUSIF deposit)

PCA Capital Requirements Levels for reference

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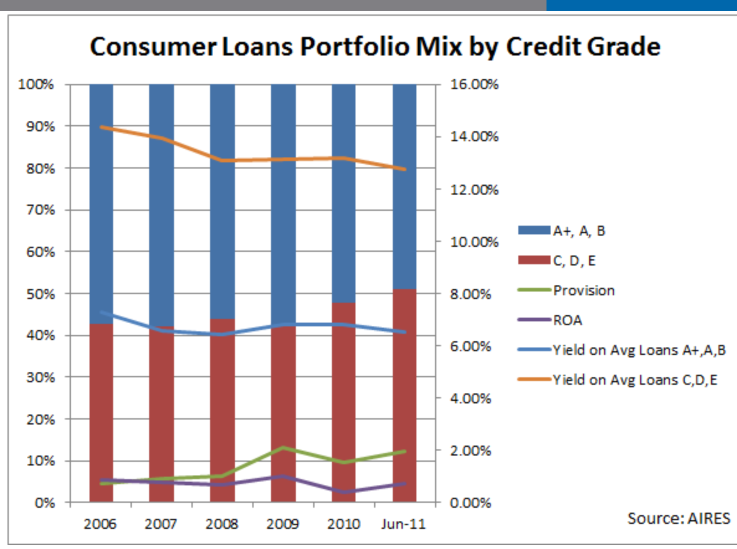
Loan Trends

Current State



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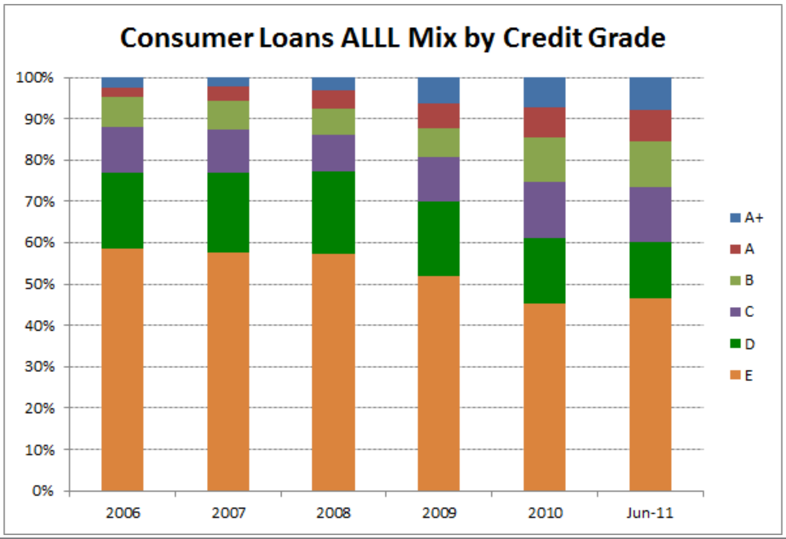
Loan Trends

Current State



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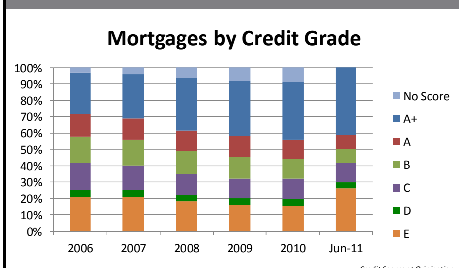
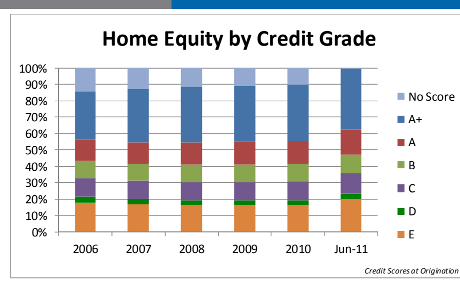
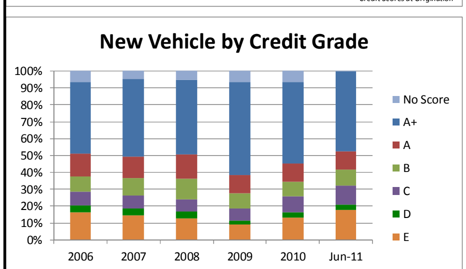
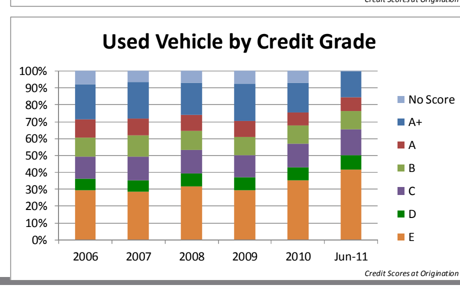
Loan Trends

Current State









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Loan Risk Categorization

Current State

All Mortgages

Credit Information			Loan Characteristics						Delinquency				Collateral	
Credit Grade	Credit Score Range Low	High	Number of Loans	Current Balance	% of Balance	Weighted Averages Remaining Yrs	Credit Score	Rate	<30	≥30 and <60	≥60 and <90	≥90	Collateral Value*	LTV
A+	720	850	298	$ 31,431,293	38%	15.7	774	5.49%	$ 31,431,293	$ -	$ -	$ -	$ 40,349,802	78%
A	690	719	59	6,519,582	8%	14.9	706	5.84%	6,519,582	-	-	-	7,161,900	91%
B	660	689	61	6,451,604	8%	16.9	674	5.88%	6,399,394	-	-	52,210	6,779,991	95%
C	620	659	64	6,754,491	8%	19.2	642	6.18%	6,579,188	175,303	-	-	6,677,600	101%
D	600	619	23	1,825,084	2%	14.1	611	5.98%	1,825,084	-	-	-	2,008,700	91%
E	1	599	73	7,693,324	9%	16.7	545	5.71%	6,557,972	907,641	13,571	21[illegible]	7,058,300	109%
TDRs			164	22,695,475	27%	19.4	591	2.57%	17,223,590	3,987,844	445,598	[illegible]038,442	18,082,300	126%
			742	$ 83,370,853	100%	17.1	676	4.84%	$ 76,536,105	$ 5,070,787	$ 459,169	$ 1,304,792	88,118,593	95%
Delinquency Ratio									*91.8%*	*6.1%*	*0.6%*	*1.6%*		

Note updated LTVs

Mortgages ≤ 100% LTV

Credit Information			Loan Characteristics						Delinquency				Collateral	
Credit Grade	Credit Score Range Low	High	Number of Loans	Current Balance	% of Balance	Weighted Averages Remaining Yrs	Credit Score	Rate	<30	≥30 and <60	≥60 and <90	≥90	Collateral Value*	LTV
A+	720	850	209	$ 18,974,220	56%	16.1	777	5.27%	$ [illegible]	[illegible]	[illegible]	[illegible]	$ 30,703,002	62%
A	690	719	30	2,541,993	8%	13.0	707	5.72%	2,541,993	-	-	-	4,110,800	62%
B	660	689	36	2,956,229	9%	16.1	674	5.95%	2,904,019	-	-	52,210	4,169,300	71%
C	620	659	28	2,475,850	7%	16.5	643	6.07%	2,475,850	-	-	-	3,472,600	71%
D	600	619	15	838,831	2%	14.6	613	5.96%	838,831	-	-	-	1,309,000	64%
E	1	599	32	2,187,308	6%	15.0	552	6.26%	1,976,890	196,847	13,571	-	3,363,600	65%
TDRs			35	3,711,938	11%	17.4	572	2.85%	2,406,938	1,056,949	134,743	113,307	4,813,800	77%
			385	$ 33,686,369	100%	15.9	712	5.24%	$ 32,118,742	$ 1,253,796	$ 148,314	$ 165,517	51,942,102	65%
Delinquency Ratio									*95.3%*	*3.7%*	*0.4%*	*0.5%*		
Percent of Mortgage Portfolio			*51.9%*	*40.4%*					*42.0%*	*24.7%*	*32.3%*	*12.7%*	*58.9%*	

Mortgages >100% LTV

Credit Information			Loan Characteristics						Delinquency				Collateral	
Credit Grade	Credit Score Range Low	High	Number of Loans	Current Balance	% of Balance	Weighted Averages Remaining Yrs	Credit Score	Rate	<30	≥30 and <60	≥60 and <90	≥90	Collateral Value*	LTV
A+	720	850	89	$ 12,457,073	25%	15.2	770	5.84%	$ 12,457,073	$ -	$ -	$ -	$ 9,646,800	129%
A	690	719	29	3,977,590	8%	16.2	706	5.91%	3,977,590	-	-	-	3,051,100	130%
B	660	689	25	3,495,375	7%	17.6	674	5.82%	3,495,375	-	-	-	2,610,691	134%
C	620	659	36	4,278,641	9%	20.8	642	6.25%	4,103,338	175,303	-	-	3,205,000	133%
D	600	619	8	986,253	2%	13.6	609	5.99%	986,253	-	-	-	699,700	141%
E	1	599	41	5,506,017	11%	17.3	543	5.49%	4,581,083	710,794	-	214,140	3,694,700	149%
TDRs			129	18,983,537	38%	19.8	595	2.51%	14,816,652	2,930,895	310,855	925,135	13,268,500	143%
			357	$ 49,684,484	100%	17.9	652	4.57%	$ 44,417,363	$ 3,816,991	$ 310,855	$ 1,139,275	36,176,491	137%
Delinquency Ratio									*89.4%*	*7.7%*	*0.6%*	*2.3%*		
Percent of Mortgage Portfolio			*48.1%*	*59.6%*					*58.0%*	*75.3%*	*67.7%*	*87.3%*	*41.1%*	

Source: CoreLogic

Delinquency Matrix Example

Current State

Mortgage Credit Score & Delinquency Matrix

	Delinquency			
Score	<30	≥ 30 and <60	≥ 60 and <90	≥ 90
720 -850	3.46%	N/A	N/A	N/A
690 -719	5.71%	N/A	N/A	N/A
660 -689	7.03%	N/A	N/A	87.26%
620 -659	9.97%	40.51%	N/A	N/A
600 -619	12.99%	N/A	N/A	N/A
1 -599	12.99%	54.49%	99.00%	99.00%
TDR	19.00%	53.35%	92.35%	99.00%
13.59%	9.05%	53.11%	92.55%	98.53%

		Delinquency		
Score		Performing	90+ Days	Prepaid
720 -850		$ 24,324,357	$ 870,390	$ 6,236,546
690 -719		4,773,127	289,142	1,457,313
660 -689		4,932,809	418,727	1,100,068
620 -659		6,027,288	727,203	-
600 -619		1,588,002	237,082	-
1 -599		6,121,399	1,571,925	-
TDR		15,855,779	6,839,695	-
$ 83,370,853		$ 63,622,761	$10,954,165	$ 8,793,928

Prob of 90+ Days
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%

Consumer Loans Credit Score & Delinquency Matrix

	Delinquency			
Score	<30	≥ 30 and <60	≥ 60 and <90	≥ 90
720 -850	3.39%	N/A	N/A	N/A
690 -719	5.82%	N/A	N/A	68.78%
660 -689	7.18%	25.51%	49.07%	87.26%
620 -659	10.05%	40.51%	79.05%	99.00%
600 -619	12.99%	54.49%	99.00%	99.00%
1 -599	12.99%	54.49%	99.00%	99.00%
TDR	19.00%	54.49%	99.00%	99.00%
11.33%	9.11%	53.40%	97.33%	98.49%

		Delinquency		
Score		Performing	90+ Days	Prepaid
720 -850		$ 39,515,740	$ 1,390,687	$ 9,619,161
690 -719		12,878,920	807,159	4,266,104
660 -689		14,646,688	1,211,073	5,036,187
620 -659		22,993,192	2,649,704	-
600 -619		12,544,188	2,124,868	-
1 -599		56,902,878	12,429,066	-
TDR		5,078,076	1,768,812	-
$ 205,862,504		$ 164,559,682	$22,381,370	$18,921,452

This provides a heat map to the probability of current loans migrating to the default status based on the loan's credit score and delinquency status.

Net Yield Analysis Example

Current State

Credit Grade	Average Portfolio Balance	Weighted Average Interest Rate (Current Rates)	Cost of Funds	Net Interest Margin	Total Charge Offs Net of Recoveries	Net Charge Offs as % of Average Portfolio Balance	Total Servicing & Other Costs as a % of Average Portfolio Balance	NET YIELD $	Net Yield %
Share Secured									
A+	$ 334,453	5.217%	0.79%	4.43%	$ -	0.00%	0.79%	12,155	3.63%
A	$ 167,674	6.064%	0.79%	5.27%	$ -	0.00%	0.79%	7,515	4.48%
B	$ 245,704	5.044%	0.79%	4.25%	$ -	0.00%	0.83%	8,404	3.42%
C	$ 191,054	5.091%	0.79%	4.30%	$ -	0.00%	0.96%	6,381	3.34%
D	$ 178,582	5.139%	0.79%	4.35%	$ -	0.00%	1.14%	5,737	3.21%
E	$ 442,776	5.063%	0.79%	4.27%	$ 520	0.12%	1.37%	12,335	2.79%
Unsecured									
A+	$ 2,691,664	10.958%	0.79%	10.17%	$ 37,605	1.40%	0.79%	214,750	7.98%
A	$ 1,546,325	12.102%	0.79%	11.31%	$ 44,899	2.90%	0.79%	117,768	7.62%
B	$ 1,861,939	13.646%	0.79%	12.86%	$ 53,275	2.86%	0.83%	170,580	9.16%
C	$ 2,695,849	14.979%	0.79%	14.19%	$ 64,667	2.40%	0.96%	291,929	10.83%
D	$ 1,598,134	15.900%	0.79%	15.11%	$ 186,277	11.66%	1.14%	37,040	2.32%
E	$ 6,846,394	16.079%	0.79%	15.29%	$ 830,687	12.13%	1.37%	122,263	1.79%
Used Vehicle									
A+	$ 10,345,568	5.735%	0.79%	4.95%	$ 53,292	0.52%	0.79%	376,357	3.64%
A	$ 5,624,785	7.643%	0.79%	6.85%	$ 48,184	0.86%	0.79%	292,721	5.20%
B	$ 7,163,883	9.760%	0.79%	8.97%	$ 71,782	1.00%	0.83%	511,107	7.13%
C	$ 12,238,337	12.701%	0.79%	11.91%	$ 78,884	0.64%	0.96%	1,261,159	10.30%
D	$ 7,622,687	14.040%	0.79%	13.25%	$ 151,152	1.98%	1.14%	772,247	10.13%
E	$ 35,323,361	16.411%	0.79%	15.62%	$ 512,724	1.45%	1.37%	4,521,105	12.80%
Mortgages									
A+	$ 38,985,640	6.007%	0.79%	5.22%	$ 93,942	0.24%	0.79%	1,630,795	4.18%
A	$ 9,034,895	6.716%	0.79%	5.93%	$ 135,492	1.50%	0.79%	328,285	3.63%
B	$ 9,510,004	6.503%	0.79%	5.71%	$ 876,154	9.21%	0.83%	(412,138)	-4.33%
C	$ 11,932,152	6.023%	0.79%	5.23%	$ 204,026	1.71%	0.96%	305,689	2.56%
D	$ 3,696,951	5.865%	0.79%	5.08%	$ 87,228	2.36%	1.14%	58,387	1.58%
E	$ 25,275,516	4.754%	0.79%	3.96%	$ 721,207	2.85%	1.37%	(65,654)	-0.26%

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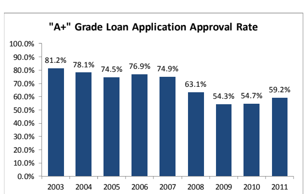
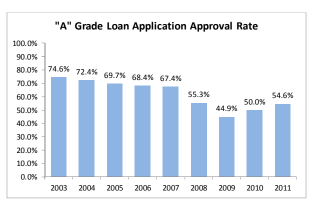
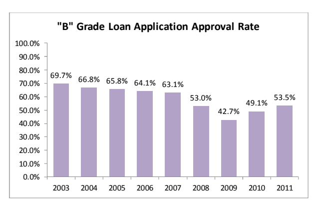
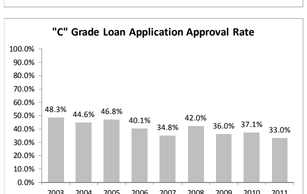
Approval Trends by Grade

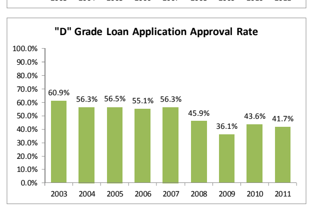
Current State

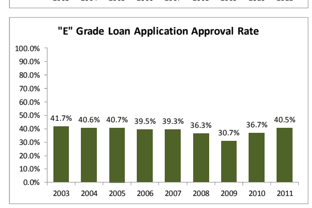












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Econometric/Loan Loss Exposure Shock Probability Example

Future State

Shock Sensitivity Based on Economic Factors

Delinquency Driver	
Baseline Unemployment Rate	5.48
Current Unemployment Rate	10.50
Unemployment Rate Shock	
Adjusted Unemployment Rate after Shock	*10.50*
Credit Score	
Credit Score Shock	-100
Collateral Value	
Collateral Value Shock	-20%

Shocks to unemployment, credit score, and LTV performed on the financials of MFCU.

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Econometric/Loan Loss Exposure Shock Probability Example Results

Future State

	Current State		Adjusted State	
Tier 1	$ 80,215,798		$ 66,665,854	
Tier 2	11,222,076		11,222,076	
Total Assets	591,066,679		551,941,459	
Risk-Weighted Assets	508,110,551		481,602,487	
Total Loans	326,941,043		287,815,823	
NCUSIF Deposit	4,276,207		4,276,207	
Based on Shocked Balance Sheet:				
Regulatory Net Worth	*13.68%*		*11.65%*	
Net Worth / Total Assets	*14.24%*		*12.22%*	
Based on PCA Net Worth Calculation:				
Net Worth Ratio	13.57%		12.08%	
RBNW Minimum Requirement	*6.67%*		*6.68%*	
Conclusion:		***Pass***		***Pass***
Based on PCA Capitalization Requirements*:		**Level**		**Level**
Total Risk-Based Capital Ratio	18.00%	1	16.17%	1
Tier 1: RWA	13.57%	1	12.08%	1
Leverage Ratio	12.94%	1	11.39%	1
Conclusion:		***Well Capitalized***		***Well Capitalized***
Risk-Based Net Worth Ratio:	*14.95%*		*12.95%*	

***Capital Category Definitions:**

Level	*Category*	*Total Risk-based Capital ratio*	*Tier 1 Risk-based Capital Ratio*	*Leverage Ratio*
1	*Well Capitalized*	*≥10%*	*≥6%*	*≥5%*
2	*Adequately Capitalized*	*≥8%*	*≥4%*	*≥4%*
3	*Undercapitalized*	*<8%*	*<4%*	*<4%*
4	*Significantly undercapitalized*	*<6%*	*<3%*	*<3%*

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Capital Burn Rate (Interpretation)

Future State

- The burn rate is related to the number of years to eliminate the potential loss.
- The chart compares the burn rates in a scenario of no growth for the credit union to a scenario of 3% growth.
- The sensitivities are adjusting different input to show how the burn rate will change.

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Capital Burn Rate

Future State

Burn Rate Analysis

		No Growth Scenario
	Time Frame For Growth	-
	Current Assets	590,375,674
a	Asset Growth Assumption/year	0.00%
	Cumulative Growth Over Period	0.00%
	Ending Assets	590,375,674
	Current Net Worth	84,049,541
b	ROA Assumption/year	0.72%
	Cumulative Growth Over Period	0.00%
	Incremental Cumulative Return to Net Worth	-
	Ending Net Worth	**84,049,541**
	Allowance for Loan Loss	8,706,461
	Net Worth + ALLL	**92,756,002**
	Capital %	10.00%
	Capital at: 10%	59,037,567
	Total Loans	325,239,916
c	Potential Loss %	2.94%
	Potential Loss $	9,562,054

How long will it take to burn through NET Worth and ALLL to get to 10%

Burn Rate in Years **3.53**

((Net Worth + ALL) - (Capital @ 10%)) / Potential Loss

Burn Rate Triggers	
Minimum Years Coverage	3.00
Maximum Years Coverage	4.00
Results:	***3.53***

Notes:

a Assumption
b ROA as of June 2011
c Chargeoff percentage as of June 2011

No Growth Time Frame Scenario

	Capital %							
	3.53	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%
	1.44%	10.98	10.35	9.72	9.09	8.46	7.83	7.20
	1.94%	8.15	7.68	7.22	6.75	6.28	5.81	5.34
	2.44%	6.48	6.11	5.74	5.36	4.99	4.62	4.25
Loss %	2.94%	5.38	5.07	4.76	4.45	4.14	3.83	3.53
	3.44%	4.60	4.33	4.07	3.81	3.54	3.28	3.01
	3.94%	4.01	3.78	3.55	3.32	3.09	2.86	2.63
	4.44%	3.56	3.36	3.15	2.95	2.74	2.54	2.33
	Potential Loss							0.50%
	Capital %							0.50%

2.94% Potential Loss and 3 Year Time Frame for Growth

	Asset Growth (Annualized Number)							
	4.36	0.00%	1.00%	2.00%	3.00%	4.00%	5.00%	6.00%
	0.40%	4.27	4.09	3.91	3.73	3.55	3.36	3.16
	0.50%	4.46	4.28	4.11	3.93	3.74	3.56	3.37
	0.60%	4.64	4.47	4.30	4.12	3.94	3.76	3.57
ROA	0.70%	4.83	4.66	4.49	4.32	4.14	3.96	3.78
	0.80%	5.02	4.86	4.69	4.52	4.34	4.16	3.98
	0.90%	5.21	5.05	4.88	4.71	4.54	4.37	4.19
	1.00%	5.40	5.24	5.08	4.91	4.74	4.57	4.40
	ROA							0.10%
	Asset Growth							1.00%

2.94% Potential Loss and 3% Annual Asset Growth Rate

	Years of Growth							
	4.36	0.0	1.0	2.0	3.0	4.0	5.0	6.0
	0.40%	6.96	6.80	6.63	6.47	6.29	6.12	5.94
	0.50%	7.26	7.10	6.94	6.78	6.61	6.44	6.27
	0.60%	7.56	7.41	7.25	7.09	6.93	6.77	6.60
ROA	0.70%	7.86	7.72	7.56	7.41	7.25	7.09	6.93
	0.80%	8.17	8.02	7.88	7.73	7.57	7.42	7.26
	0.90%	8.47	8.33	8.19	8.04	7.90	7.74	7.59
	1.00%	8.77	8.64	8.50	8.36	8.22	8.07	7.92
	ROA							0.10%
	Asset Growth							1.0

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Credit Risk Management

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"Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred." – from the Basel Committee on Banking Supervision's paper entitled, "Principles for the Management of Credit Risk"

Control
- Underwriting Process
- Approval Process
- Review Process
- Pricing Process
- Payment Solutions (Collections) Process

Identify
- Portfolio segmentation and Stratification
  - Credit Score
  - LTV
  - Delinquency
  - Concentration
- Approvals and Loyalty
  - % of Applications Approved
  - % of Members Delinquent

Measure
- Adequate Capital
  - Probability of Default
  - Exposure to Default
  - Impact to Capital
  - Impact of Shocks
- Adequately Compensated
  - Net Yield Analysis

Monitor
- Triggers

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Questions?

Insight. Oversight. Foresight. SM

Thank You!

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Service Offerings

Financial Institutions Group

- External financial audit
- Regulatory compliance audits
- IT Assurance
  - Controls reviews
  - Vulnerability assessments
  - Penetration testing
- Mergers & consolidations
- ALLL validation/TDR accounting
- Internal audit
- Real estate/Commercial loan reviews
- Enterprise Risk Management systems
- Compliance auditing

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