

## ECONOMIC REPORT

August 31, 2011



# M A S S A C H U S E T T S CREDIT UNION INDUSTRY

Facing the Challenges of an Uncertain Environment

An Economic Report

*prepared by*

**Michael D. Goodman, Ph.D.**

*for the*

Massachusetts Credit Union

Share Insurance Corporation (MSIC)



## About MSIC

The Massachusetts Credit Union Share Insurance Corporation (MSIC) was established by a special Act of the Massachusetts Legislature in 1961. A member owned, not for profit organization, MSIC's mission is to promote and strengthen the credit union movement by providing excess share and deposit insurance and associated services for credit unions and their members while preserving the integrity of the insurance fund.

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## Introduction<sup>1</sup>

The discussion of economic and industry conditions that follows is designed to inform the strategic planning efforts of the senior management and the Boards of Directors of Massachusetts credit unions and to provide state and federal regulators and public policy makers with greater insight into the challenges these conditions present to community based financial institutions across the Commonwealth.

## An Innovation Fueled Recovery

In the first quarter of 2011, the MassBenchmarks Current Economic Index estimated that gross state product expanded at an annual rate of 4.2 percent, over twice that of the nation during the same period. In recent quarters the Commonwealth has settled into a pattern of growth consistent with, and at times faster than, national economic growth.

During what has become known as the "Great Recession", the Commonwealth shed over 140,000 jobs between March 2008 and August, 2009 when it reached its economic nadir. Since then, the Bay State has recovered over 50,000 jobs and its unemployment rate has fallen from a high of 8.8% to 7.4% in May of 2011, both encouraging signs for the economic security of Massachusetts businesses and households.

The state has now exceeded and the nation has nearly recovered its pre-recession level of real gross product (the dollar value of all goods and services produced, adjusted for inflation). However, the US and Massachusetts are producing this economic output with over 7 million and 100,000 fewer workers, respectively.

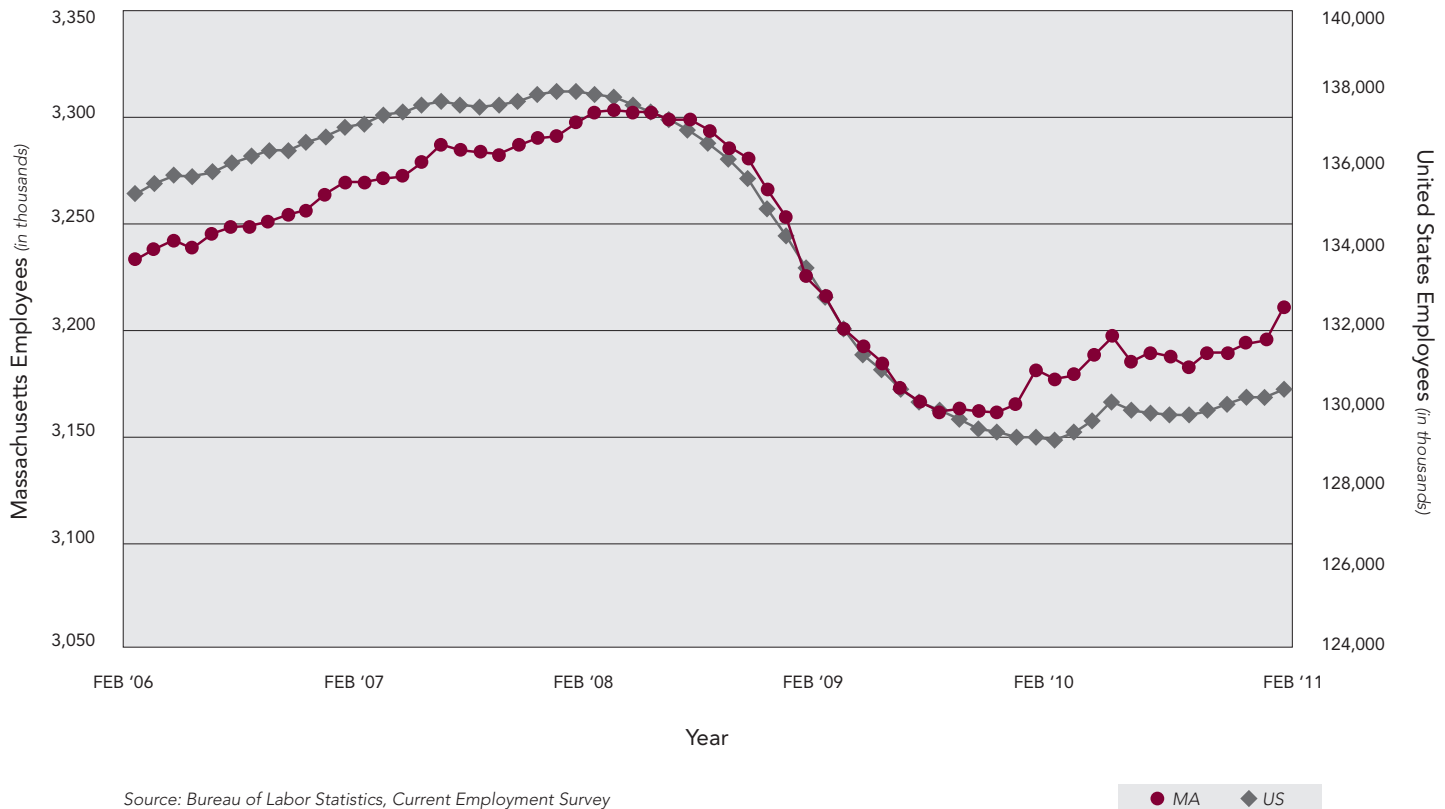
The so-called innovation economy has been a major growth driver for the Commonwealth in recent decades and during the current recovery. Massachusetts is home to world-class research universities and research and development institutions that are a magnet for public and private investment and they have helped the Bay State to incubate and grow a wide variety of technology and knowledge-intensive enterprises in a wide variety of areas. These include information technology, life sciences, and a wide variety of advanced manufacturing sectors that contribute to and benefit from a robust industrial and economic ecosystem that has made Massachusetts a world leader in a wide variety of advanced technology fields.

This ecosystem and the lion's share of the benefits of Massachusetts' innovation economy remain concentrated in the Greater Boston and Northeast regions of the state. Consequently, the benefits of the business-led and largely white-collar recovery described above have been regionally as well as industrially and occupationally imbalanced.

The recovery to date has been characterized by consumers who are reluctant to spend and businesses that are reluctant to hire, factors that have conspired to reduce household consumption and economic activity in a number of key sectors. In consumer-sensitive sectors it has been a relatively jobless recovery. Even as business prospects improve,

<sup>1</sup> Special thanks are due to MSIC's Geoff Plume and Margaret Bota for their assistance in the analysis of Massachusetts credit union industry data. Please note that selected passages in this report draw heavily from two recent articles I wrote on the Massachusetts economy for *MassBenchmarks*. I would like to acknowledge the work of Professor Robert Nakosteen who co-authored these articles and who provided insightful feedback on early drafts of this report.

### Massachusetts has experienced a more rapid recovery in total employment



albeit at a measured pace, many employers have been able to squeeze additional output from a static employee base. Their continued ability to do so has allowed for steady economic expansion without comparable growth in employment.

While much of the growth in productivity can be attributed to the growing importance of the state's high productivity industries as growth drivers, many workers have not yet seen the benefits of this growth, a phenomenon referred to by some analysts as the compensation-productivity gap.<sup>2</sup> Nationally, the labor share of income – the share of output received by workers as compensation – which had averaged 64.3 percent between 1947 and 2000, fell to a historical low of 57.8 percent in the third quarter of 2010.<sup>3</sup>

In an environment of relatively slow job and very little wage growth, it is not surprising that a statewide public opinion poll<sup>4</sup> conducted earlier this year found that nearly one in three Massachusetts households (31.6 percent) were worried that they or a member of their household could lose their job in the next three months. Nearly two-thirds of Bay State households reported being very concerned about jobs (65.0 percent). This level of anxiety in the face of what in aggregate terms has been a relatively robust recovery is particularly striking.

This anxiety is not entirely misplaced. While monthly initial claims for unemployment have declined to a level that makes it appear as if the worst of the private sector layoffs are behind us, the lack of demand for workers in a number of key industries appears to be weighing heavily on the willingness of workers to demand wage increases or seek alternative employment opportunities as would be normally expected given the pace of the current economic expansion and slow wage growth.

<sup>2</sup> S. Fleck, J. Glaser and S. Sprague, "The compensation-productivity gap: a visual essay," *Monthly Labor Review*, (January 2011).

<sup>3</sup> *Op. cit.*

<sup>4</sup> For the complete results of the UMass Dartmouth Public Policy Poll, see <http://www.umassd.edu/seppce/departments/publicpolicy/publicpolicypoll/>.

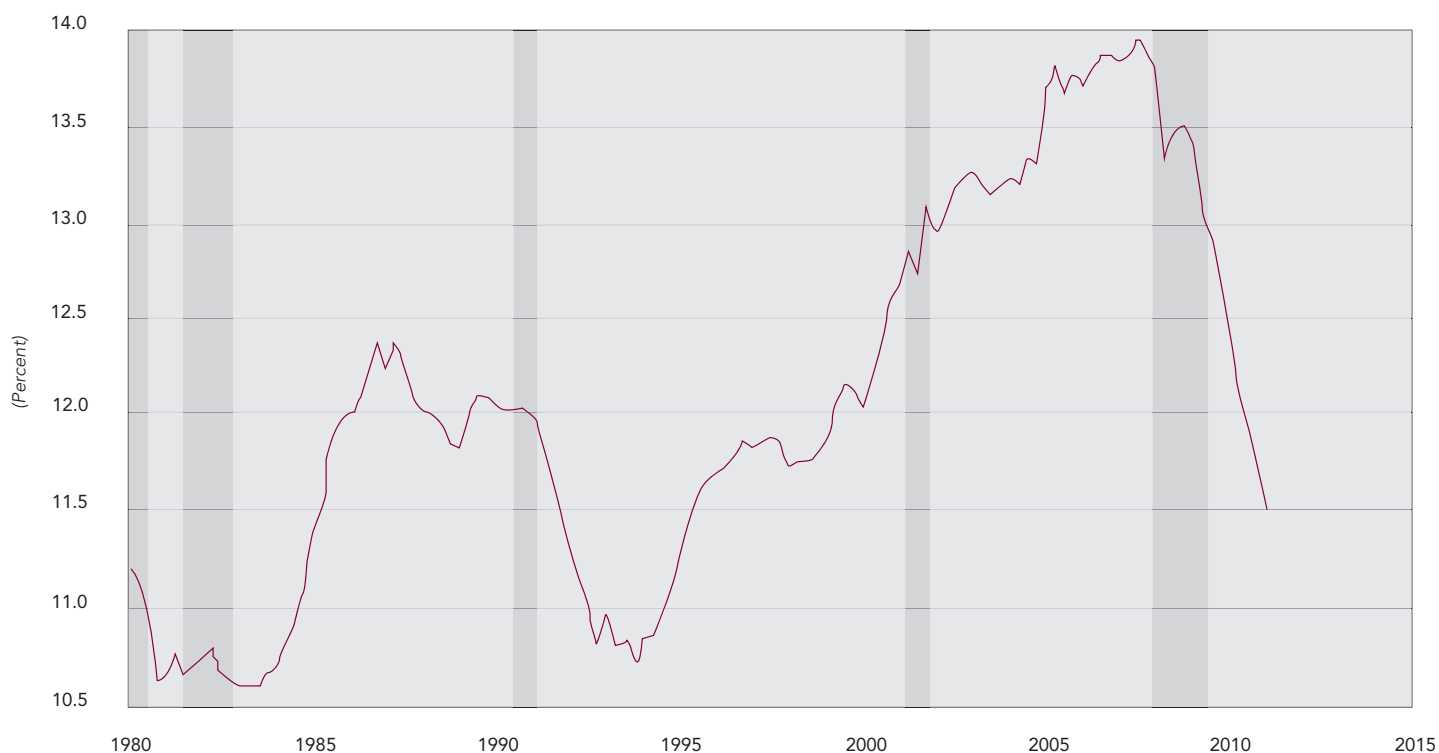
## The Deleveraging of Household Balance Sheets Continues

The anxiety of households, both those that have experienced job loss as well as those that continue to worry they will, has constrained the growth of discretionary spending in recent years. As Jonathan McCarthy from the Federal Reserve Bank of New York recently noted,

*... the fact that discretionary services expenditures remain significantly below their previous peaks is of concern for the overall economic outlook. Although these expenditures can be deferred in instances of temporary income drops, the sluggish recovery in these expenditures suggests, consistent with the permanent income/ life cycle hypothesis, that households may perceive more persistent shocks to their overall wealth. For example, homeowners may expect house prices to recover only slowly at best, and thus the decline in housing wealth to be more persistent. Also, households may remain wary about their employment and income prospects, suggesting that they may have lowered their future income expectations.<sup>5</sup>*

Continued consumer deleveraging bodes poorly for consumer demand for credit products and services, lowering the chances of a near-term recovery of the residential real estate market, and suggests continuing difficulties for businesses that serve domestic consumer markets can be expected. Absent some unexpected improvement in consumer sentiment or macroeconomic conditions, continued consumer retrenchment can be expected to weigh heavily on the growth prospects of community based financial institutions. It also suggests that recent declines in loan to asset ratios for the Massachusetts credit union industry – which have fallen from 73.9 percent to 66.3 percent since 2007 – can be expected to continue.

**Household Debt Service Payments as a percent of Disposable Personal Income (TDSP)**



Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions.

<sup>5</sup> See, "Discretionary Services Expenditures in This Business Cycle", <http://libertystreeteconomics.newyorkfed.org/2011/07/discretionary-services-expenditures-in-this-business-cycle.html>, accessed July 18, 2011.

## Regional Economic Conditions: A Feast and Famine Economy

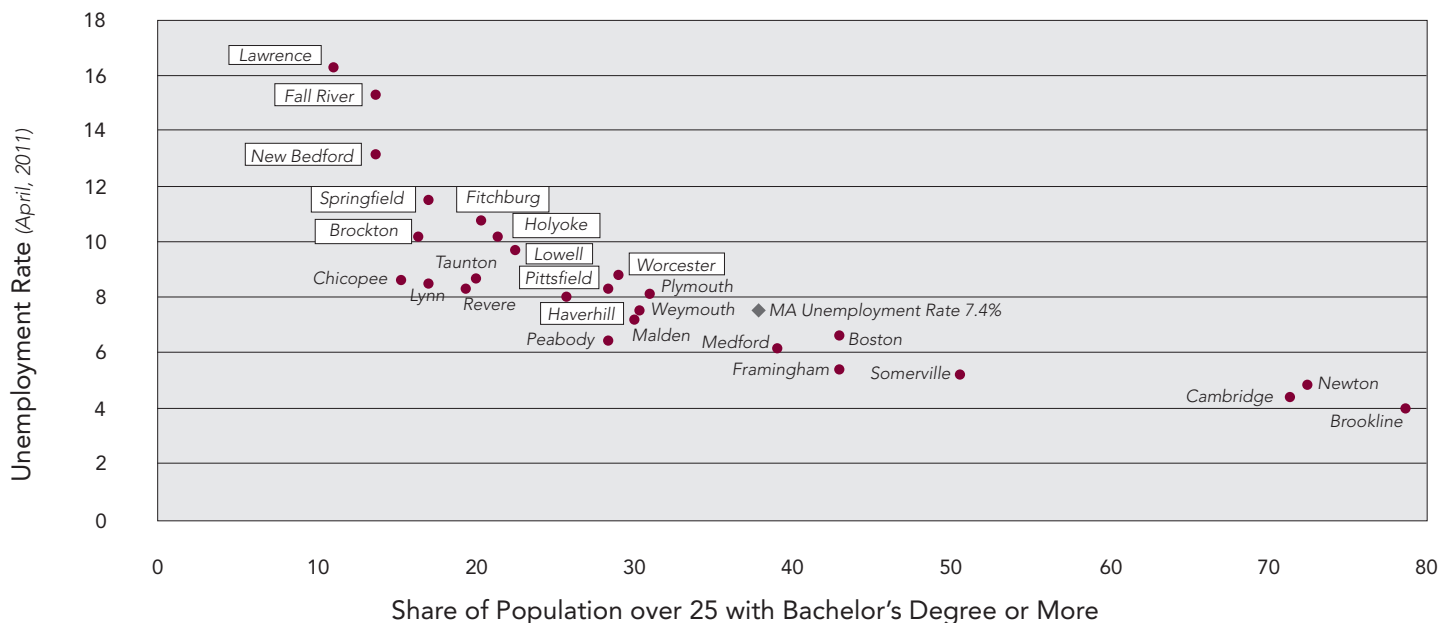
The Bay State's knowledge-intensive industries have been the recipients of substantial investment and the beneficiaries of growing demand for their productivity enhancing products and services. This has been largely responsible for the Commonwealth's growth premium of late. The firms and workers most directly benefitting from this growth are largely in eastern Massachusetts, primarily in the Greater Boston region. Job opportunities in these industries typically require a post-secondary education, particularly for those occupations that pay wages required for a middle class standard of living in the state's higher cost of living areas where many of these firms and job opportunities are located.

Although not new, this pattern of development has become more pronounced in the current economic recovery in part as a result of the growing importance of the innovation economy as a growth driver. A parallel development has been the continuing struggle of many of the industries that have traditionally provided quality job opportunities to the less well-educated members of the labor force.

For many years, the rapidly growing sectors of the state economy have rewarded their employees with high incomes, including in some cases generous bonuses. These sectors include financial services, information technology and software development, health care, professional and business services, and private education.

In contrast, industries that have traditionally offered more "blue-collar" paths to middle-class prosperity, such as traditional manufacturing and construction, continue to struggle and, despite some signs of life in recent months, remain well below their pre-recession employment levels. Ongoing fiscal pressures are expected to lead to further layoffs in state and local government. Expected layoffs of teachers, police officers, firefighters and other municipal workers will put further pressure on working families that rely on these jobs for their livelihoods and that have neither the skills nor the physical proximity to the sectors that have been growing and where economic opportunity exists. Since public sector employees make up a significant portion of credit union members, these developments have the potential to serve as a drag on the industry's near-term growth prospects.

### The Education Gap



Source: American Community Survey, 2005-2009; Executive Office of Labor and Workforce Development

Gateway Cities

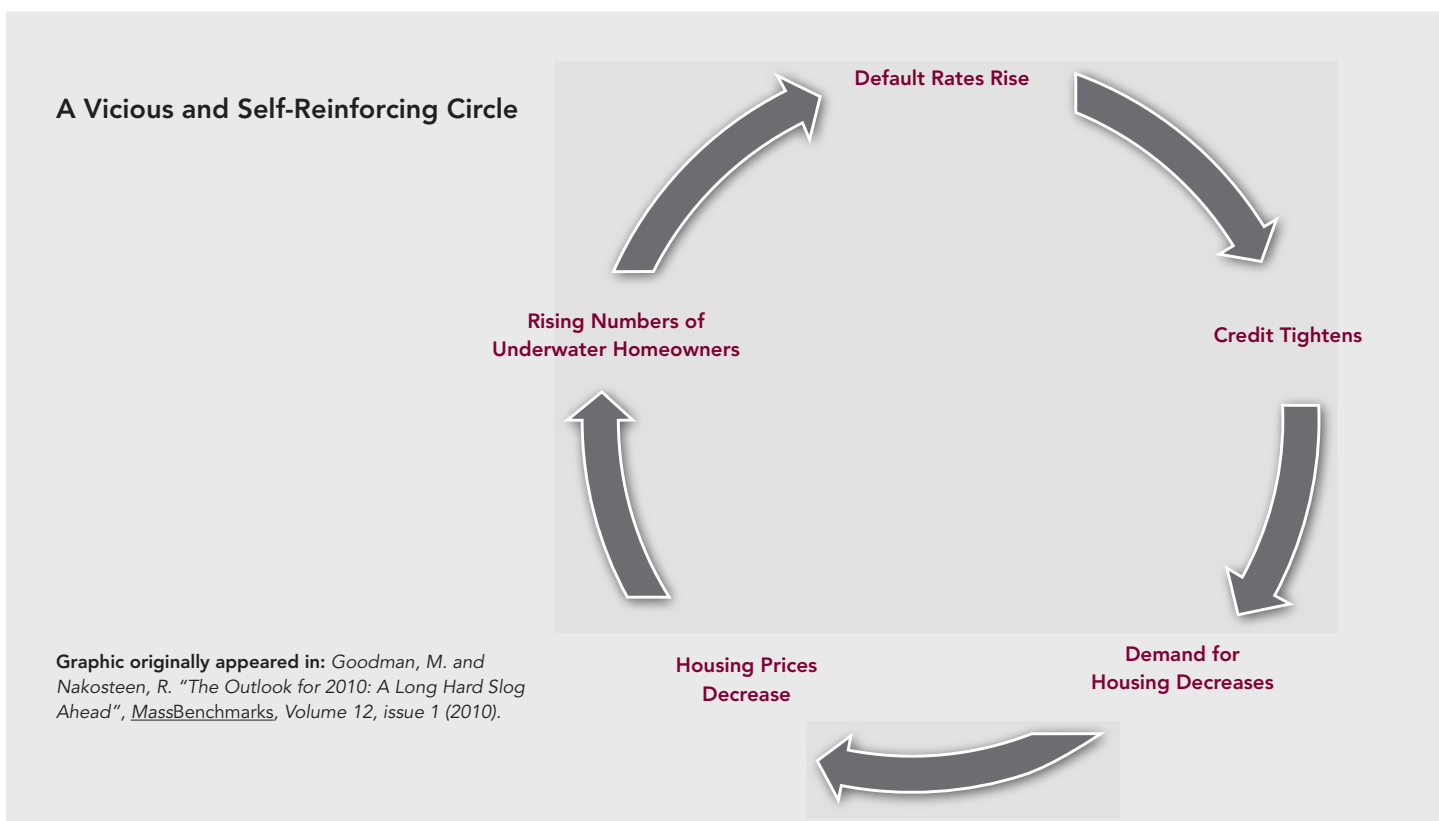
Not surprisingly, workers with higher levels of educational attainment are faring much better than their less well-educated counterparts and communities with a high share of well-educated residents have been sharing in this success. Much of urban Massachusetts continues to struggle economically as reflected in their higher, in some cases much higher, unemployment rates, especially in communities with low educational attainment. Without the presence of growing employment sectors and with their traditional sources of employment continuing to struggle, these cities face profound economic development and educational challenges.

## The Housing Slump Continues

While to date the Massachusetts economy is showing no signs of slowing, a number of risk factors weigh heavily on the sustainability of the Commonwealth's economic recovery. A major concern continues to be the condition of the housing market.

The housing slump in Massachusetts is now in its sixth year. According to the latest S&P Case-Shiller Home Price Indices (March 2011) home prices are continuing to decline both nationally and in the Metro Boston area, where home prices have fallen 16.1 percent from their peak and are now at levels last seen in February of 2003. While these price declines have been much less dramatic than those experienced in other regions of the country – through May, 2011 the Case-Shiller indices for Las Vegas and Phoenix have fallen by over 50 percent from their respective peaks – the Commonwealth has not been spared. About 15 percent of Massachusetts homeowners with mortgages are underwater, owing more on their homes than their homes are worth in today's market as compared to 22.7 percent of similar homeowners nationally and well over 50 percent in the most heavily hit markets like Las Vegas.<sup>6</sup>

While being in a negative equity position does not mean that homeowners will default,<sup>7</sup> it definitely makes these households more vulnerable to default in the event of a disruption of their income (job loss, divorce, death, etc.) and, in light of continuing difficulties in the labor market, is not an encouraging sign.



<sup>6</sup> Core Logic Negative Equity Report, First Quarter 2011.

<sup>7</sup> C. Foote, K. Gerardi, and P. Willen, "Negative Equity and Foreclosure: Theory and Evidence," *Journal of Urban Economics*, 64, 2, (September 2008), 234-245.

## Foreclosures are Putting Downward Pressure on Housing Prices

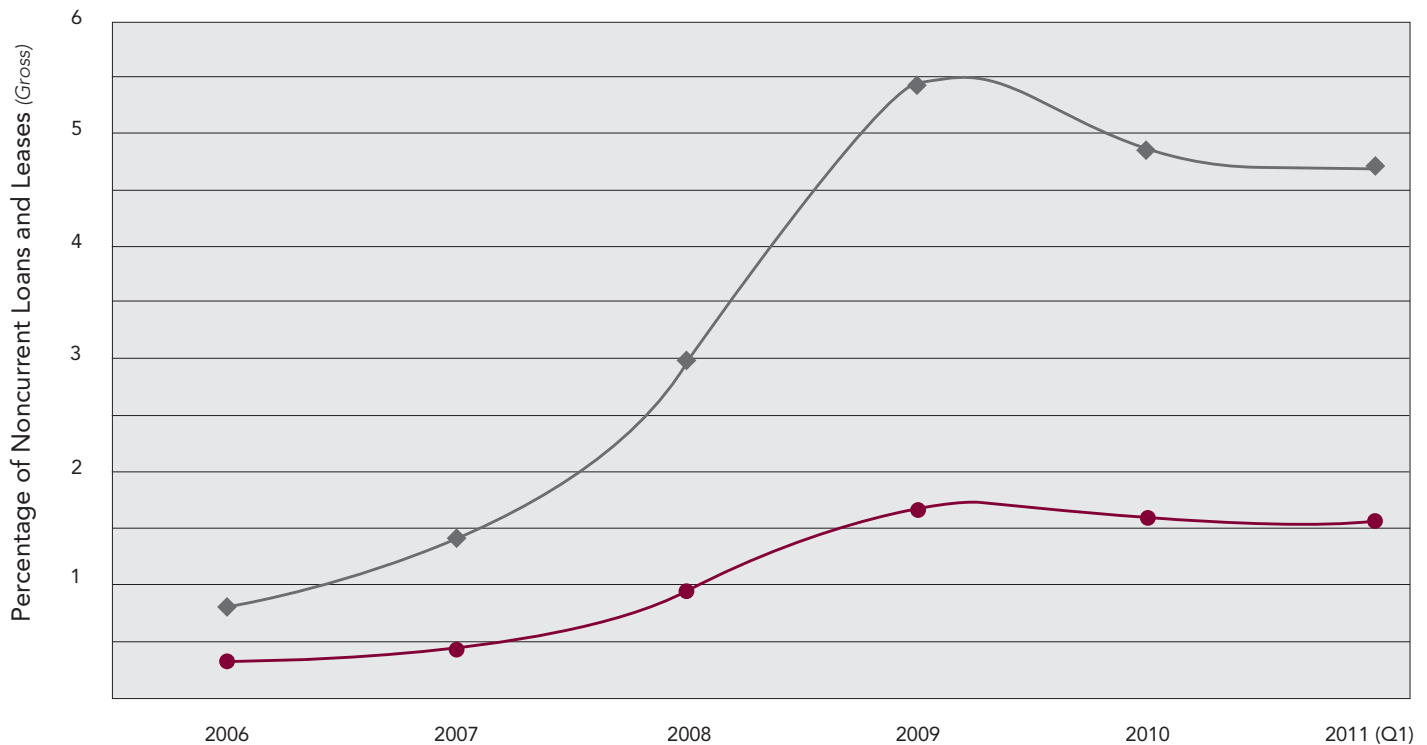
Foreclosures in Massachusetts are no longer simply an urban problem. As the Massachusetts Housing Partnership's Foreclosure Monitor noted late last year, "The gradual movement of distressed properties away from urban areas has reached a tipping point as there are now more distressed units in the suburbs and rural communities."<sup>8</sup>

The spread of foreclosed properties has the insidious effect of muting a recovery in housing prices in many areas of the state. The heavy price discounting typically associated with these kinds of properties makes it more difficult for both traditional home sellers and for homeowners who have seen their home equity dwindle and in a significant number of cases disappear altogether.

This helps to fuel a vicious circle in which declining prices threaten to push more households into a negative equity position and, combined with an uncertain job market, provides prospective buyers with a strong incentive to either use their market power and/or wait for further price declines. Additionally, the most common ways in which comparable sales data are used in mortgage lending make it difficult for buyers who may be willing to pay more to obtain financing and further limit the potential for price appreciation. While Massachusetts is clearly in much better shape than many other states in this regard, it is by no means immune from the impact of these forces.

Problem loans remain at elevated levels for both Massachusetts banks and credit unions albeit at lower levels than their counterparts nationally. This likely reflects the relatively better performance of the Commonwealth during the recession and its less severe housing market correction.

### Credit Quality has been a much bigger problem nationally than in Massachusetts



Source: FDIC, calculations by MSIC

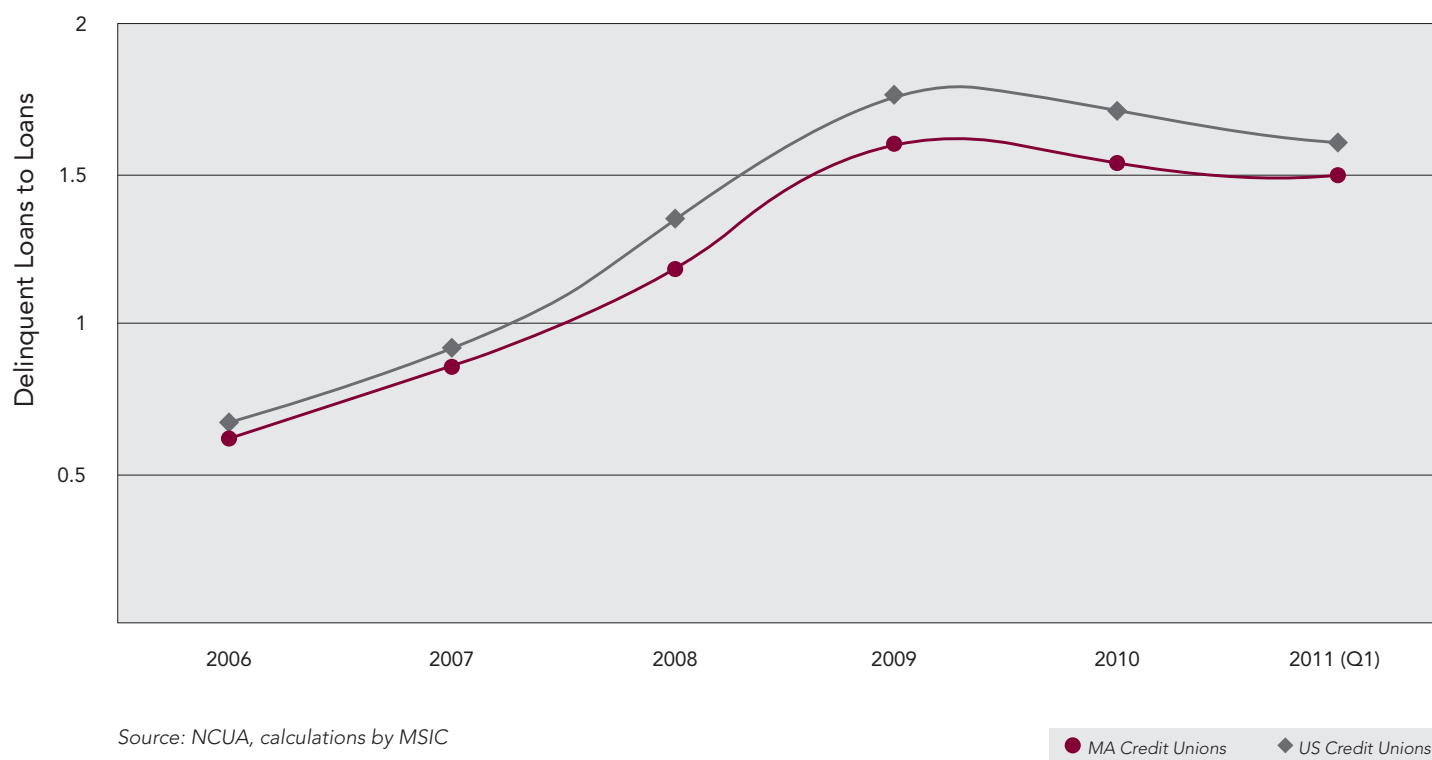
Note: Noncurrent Loans and Leases are defined as the sum of loans and leases 90 days or more past due and loans and leases in nonaccrual status (FDIC definition)

#### Bank Data

● FDIC Insured Institutions, MA    ◆ FDIC Insured Institutions, US

<sup>8</sup> See [http://www.mhp.net/vision/resources.php?page\\_function=detail&resource\\_id=415](http://www.mhp.net/vision/resources.php?page_function=detail&resource_id=415).

## Delinquent Loans remain at elevated levels for the Credit Union Industry



## Low Housing Production is Weighing on the Embattled Construction Industry

Even during good times Massachusetts does not produce a lot of housing, in part due to our archaic land-use regulations and zoning codes and widespread local resistance to development of any kind, especially the types of units that can house workers and their families.

While the housing market in Massachusetts remains moribund, the Commonwealth still has thousands fewer housing units than are required for a healthy market given expected job and population growth.<sup>9</sup> This structural shortfall serves to keep housing less affordable and makes it more difficult to attract and retain the next generation of workers and their families. If the Bay State is able to add jobs more rapidly than is expected, this shortfall will only grow larger in the absence of key policy reforms.

Undoubtedly our inadequate housing supply combined with a dramatic decline in housing starts has helped to limit housing price declines in Massachusetts. However, the large reductions in real estate development activity have taken a serious toll on the blue-collar end of the national and Massachusetts labor markets, leading to what Andy Sum and his colleagues at Northeastern University recently referred to as a depression in blue-collar labor markets.<sup>10</sup>

<sup>9</sup> Clayton-Matthews et al., "Foundation for Growth: Housing and Employment in 2020," Massachusetts Housing Partnership, 2010. See [http://www.massgrowth.net/blog/24-how\\_much\\_more\\_housing\\_do\\_we\\_need\\_to\\_build/view](http://www.massgrowth.net/blog/24-how_much_more_housing_do_we_need_to_build/view).

<sup>10</sup> Sum et al., "The Depression in Blue Collar Labor Markets in Massachusetts and the U.S.: The Implications of Growing Labor Surpluses for Future Economic Stimulus and Workforce Development Policies," MassBenchmarks, 13,1( 2011).

## The Slowly Recovering Commercial Real Estate (CRE) Market

According to the MIT Center for Real Estate's Commercial Property Price Index<sup>11</sup>, national commercial property prices peaked in the second quarter of 2007 and reached their nadir two years later. While prices grew robustly in 2010 (an estimated 19.3 percent), according to the MIT index they remained 27.9% below their pre-recession peak at the close of the first quarter of 2011.

The commercial real estate market in Massachusetts is dominated by the Greater Boston area, the center of the state's economy and the location of the bulk of real estate investments in the Commonwealth. According to Grubb and Ellis, Greater Boston's office space occupancy has grown for each of the past four quarters including by over 500,000 square feet in the second quarter of 2011.<sup>12</sup> Renewed demand for office space appears to be driven by growing demand for Class A office space and expansions in the research and technology intensive enterprises in Boston and Cambridge, and while concentrated in the central business districts, vacancy rates have been declining and asking rents have been rising in some suburban markets in the Greater Boston region.<sup>13</sup>

While the conditions of both the nation and the Greater Boston CRE market are clearly improving, prices remain well below pre-recession levels and improvement has been largely concentrated in local markets that are home to those industry sectors that have thrived during this recovery and in several cases continued to grow throughout the recession. Markets that serve professional and business services businesses, health care and higher educational institutions, life sciences firms, and information technology and other innovation intensive enterprises have experienced growing demand for high quality office space. However, other markets, including most of the Bay State's regional markets are not in such a fortunate position and can be expected to continue to face difficult market conditions in the near-term.

While most Massachusetts credit unions are not as dependent on commercial real estate lending as their counterparts in traditional banking, credit unions that serve less robust regional markets can expect to face continuing challenges with their CRE loan portfolios as the expected continued difficulties in construction and real estate sectors increase the financial pressure on their commercial customers.

## The Near-Term Economic Outlook for Massachusetts

According to the latest New England Economic Partnership (NEEP) Forecast for Massachusetts, the near-term outlook for the state economy is for:

*... slow to moderate growth this year and next. A growing world economy and a concentration in favorable technology, health-science, and knowledge-based service markets will support this growth. The remaining weaknesses however, especially high unemployment and a weak housing sector, will keep this growth constrained. (NEEP Outlook for Massachusetts, May, 2011)*

NEEP forecasts that over the next five years employment growth will be driven by professional and business services, information, education and health services, and leisure and hospitality; while employment growth in government, financial activities, trade, transportation and utilities, and manufacturing sectors is expected to lag. Significantly, NEEP forecasts no net growth in construction jobs in Massachusetts through 2015.

Bottom line, the NEEP forecast indicates that the outlook for the state economy in the remainder of 2011 and through 2012 is for a continued recovery, albeit one that is expected to remain highly imbalanced in occupational, industrial and regional terms. In other words, more of the same.

<sup>11</sup> MIT <http://web.mit.edu/cre/research/credl/tbi.html>

<sup>12</sup> Grubb and Ellis, *Boston Area Office Trends Report - 2nd Quarter 2011*

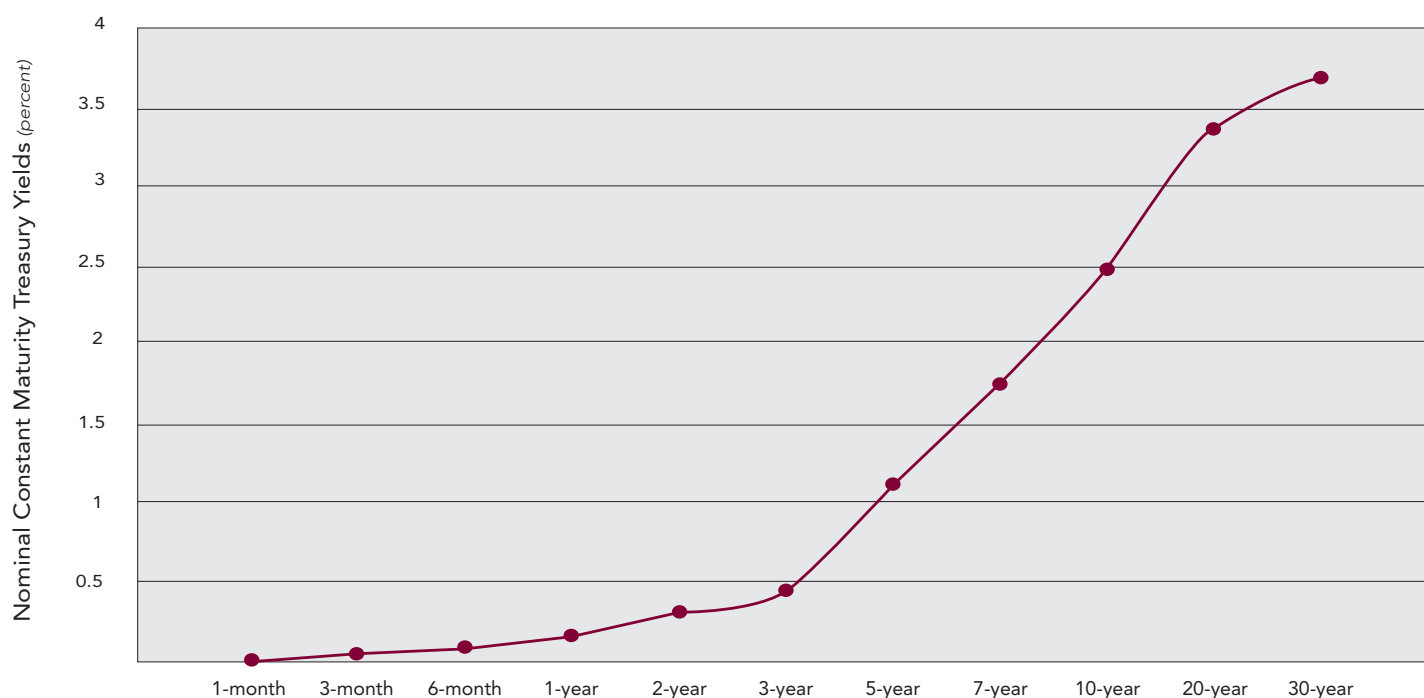
<sup>13</sup> *Op. cit.*

While the outlook for Massachusetts differs from that of the US in several ways, most notably due to the Commonwealth's favorable industrial mix and world-class innovation economy, the NEEP forecast is largely consistent with recent national economic forecasts prepared by the non-partisan Congressional Budget Office (CBO), which is used during federal budget and policy deliberations. The most recent baseline CBO forecast (June, 2011) for the United States indicates that the most probable scenario is for the continuation of the relatively low interest and inflation rate environment of recent years.

Under normal circumstances, stable interest rates, contained inflation, and a positively sloped yield curve would suggest that financial institutions should be well positioned for growth and profitability. After all, with the cost of borrowing in the short term so low (near zero at the shortest terms), and considering the relatively high returns on lending over the longer term, one could reasonably expect the current term structure of interest rates to be spurring both credit growth and lender profits.

However, current circumstances are far from normal. The Federal Reserve has been actively working to keep the yield curve steep by pursuing a near zero interest rate policy for the Federal Funds rate and purchasing hundreds of billions of dollars of treasuries through their quantitative easing programs. While these interventions make it very difficult to interpret the significance of the yield curve in a traditional way, they do reflect a continuing commitment on the part of monetary policy makers to maintain a low interest rate and stimulative financial environment. In fact, at the first regularly scheduled Federal Open Markets Committee meeting held after the recent downgrade of U.S. debt by Standard & Poor's, the Committee announced that economic conditions are "likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013."<sup>14</sup>

### The Federal Reserve's monetary policies have resulted in a steep yield curve



Source: Board of Governors of the Federal Reserve System, *Selected Interest Rates (Daily)*, Rates Reported for August 4, 2011

<sup>14</sup> <http://www.federalreserve.gov/newsevents/press/monetary/20110809a.htm>

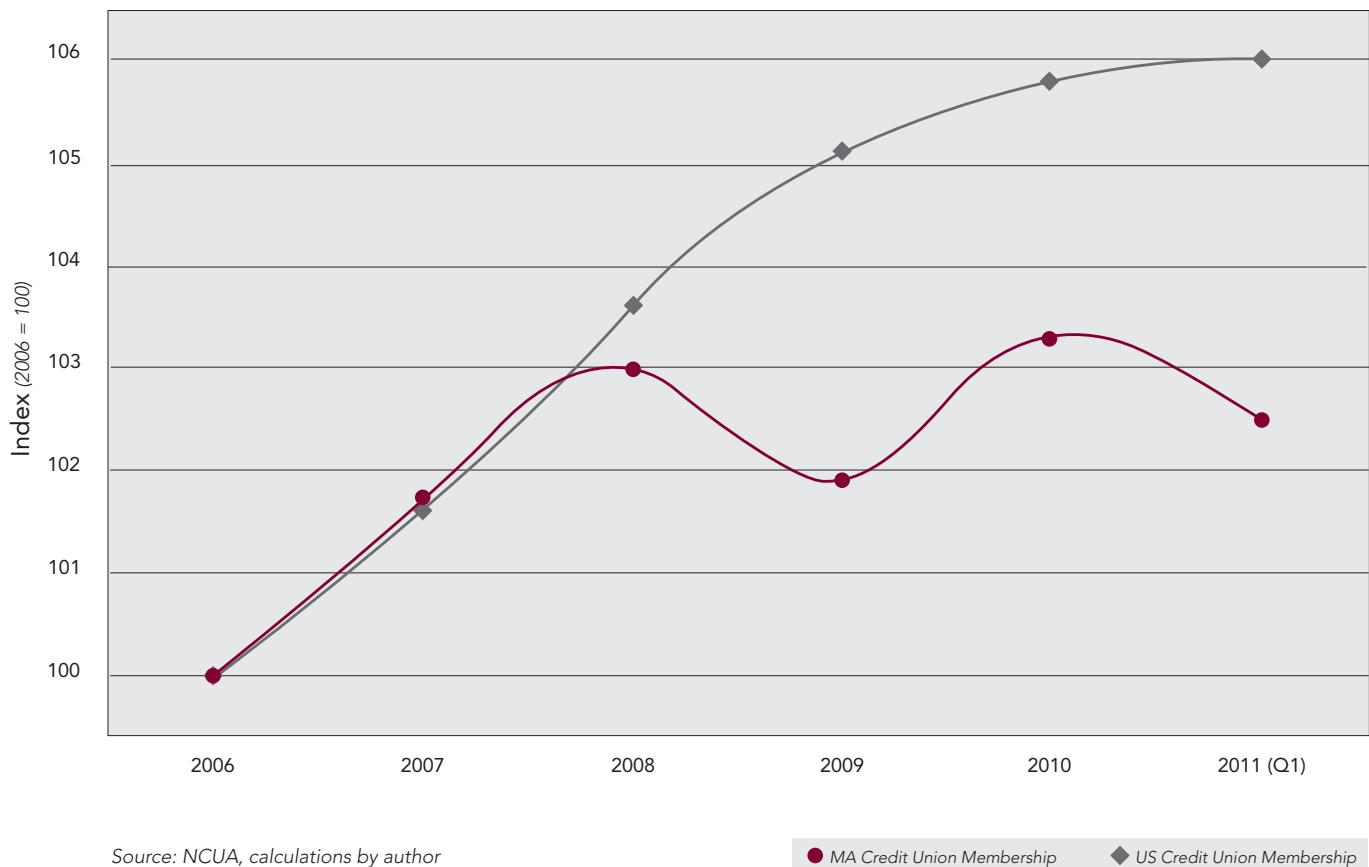
In light of continued weakness in national and regional labor, housing, and selected regional CRE markets, and understandable ongoing concerns about the ability of existing borrowers to meet their obligations, these seemingly positive credit conditions have yet to yield the positive results for smaller and medium-sized financial institutions that would be expected under more “normal” circumstances.

As has been well documented elsewhere<sup>15</sup>, economic recoveries following financial crises typically take an extended period of time and involve extended periods of deleveraging, not only for households but for businesses and financial institutions as well. Consequently, should the economic forecasts for Massachusetts and the US prove to be correct, banking conditions in 2012 should remain much the same as in 2011. While delinquency rates for the Massachusetts credit union industry have improved slightly since 2009 – from 1.61% to 1.49% – it can be expected that delinquency rates will remain elevated for some time given expected economic conditions.

## Where Will the Growth Come From?

A major strategic challenge facing the Massachusetts credit union industry in the aftermath of the “Great Recession” is how to manage the impact of historically low interest rates and continued financial pressure on its membership and traditional customer base. These issues raise important questions about how community based financial institutions will fare in these highly uncertain times.

### Membership growth in Massachusetts has lagged since the start of the “Great Recession”

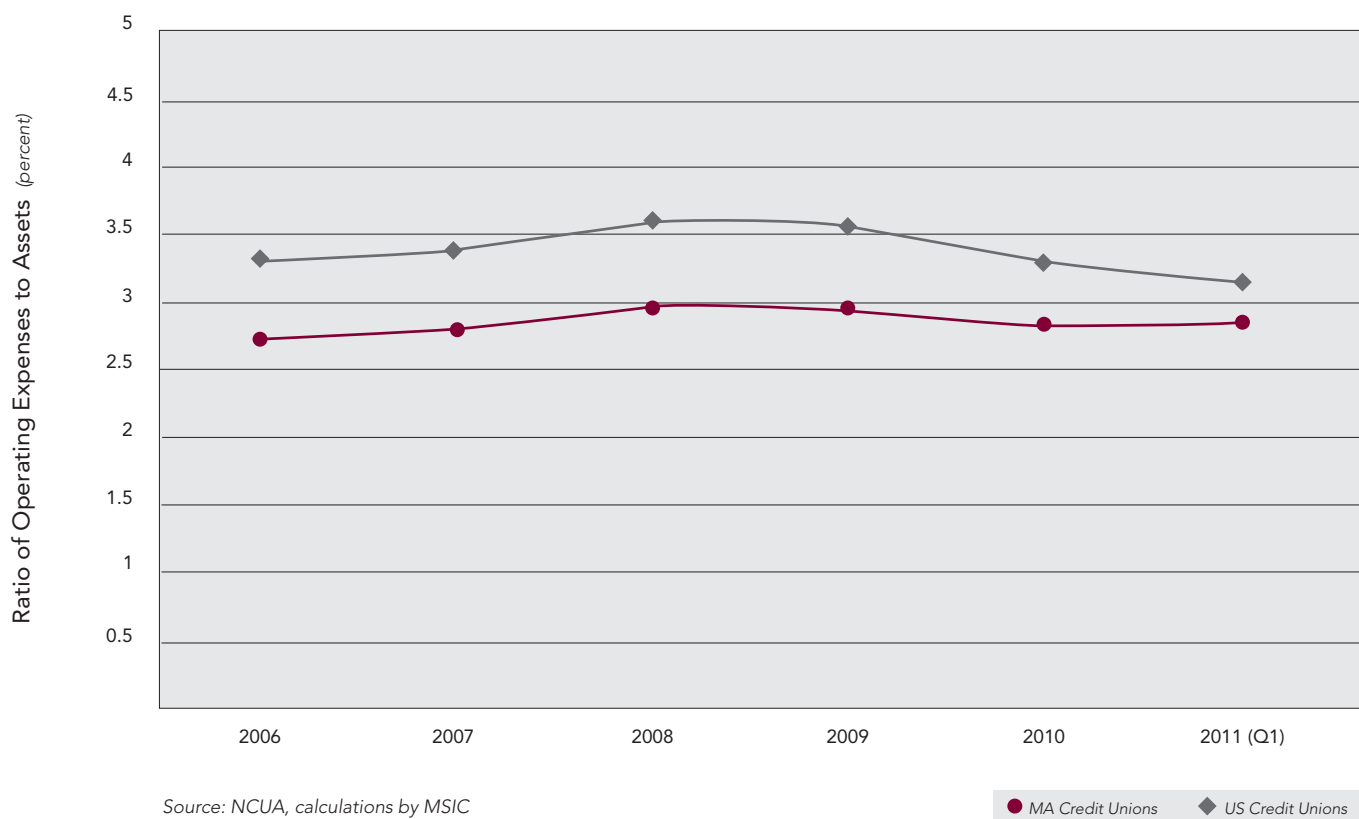


<sup>15</sup> Rogoff, Kenneth and Reinhart, Carmen. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton, NJ: Princeton University Press, 2009.

As can be clearly seen in the preceding chart, industry-wide, credit union membership in Massachusetts has fluctuated in recent years and as of the first quarter of 2011 remained at pre-2008 levels. In contrast, national credit union membership has grown steadily in recent years.

National and state data provided by the NCUA reveal a credit union industry facing significant pressure to keep its costs low even as it searches for new sources of revenue to sustain operations. As can clearly be seen in the following chart, over the past five years the national credit union industry has kept its operating expenses as a share of its assets relatively level. The Massachusetts credit union industry has performed similarly, consistently keeping its total operating expenses below 3 percent of its total assets.

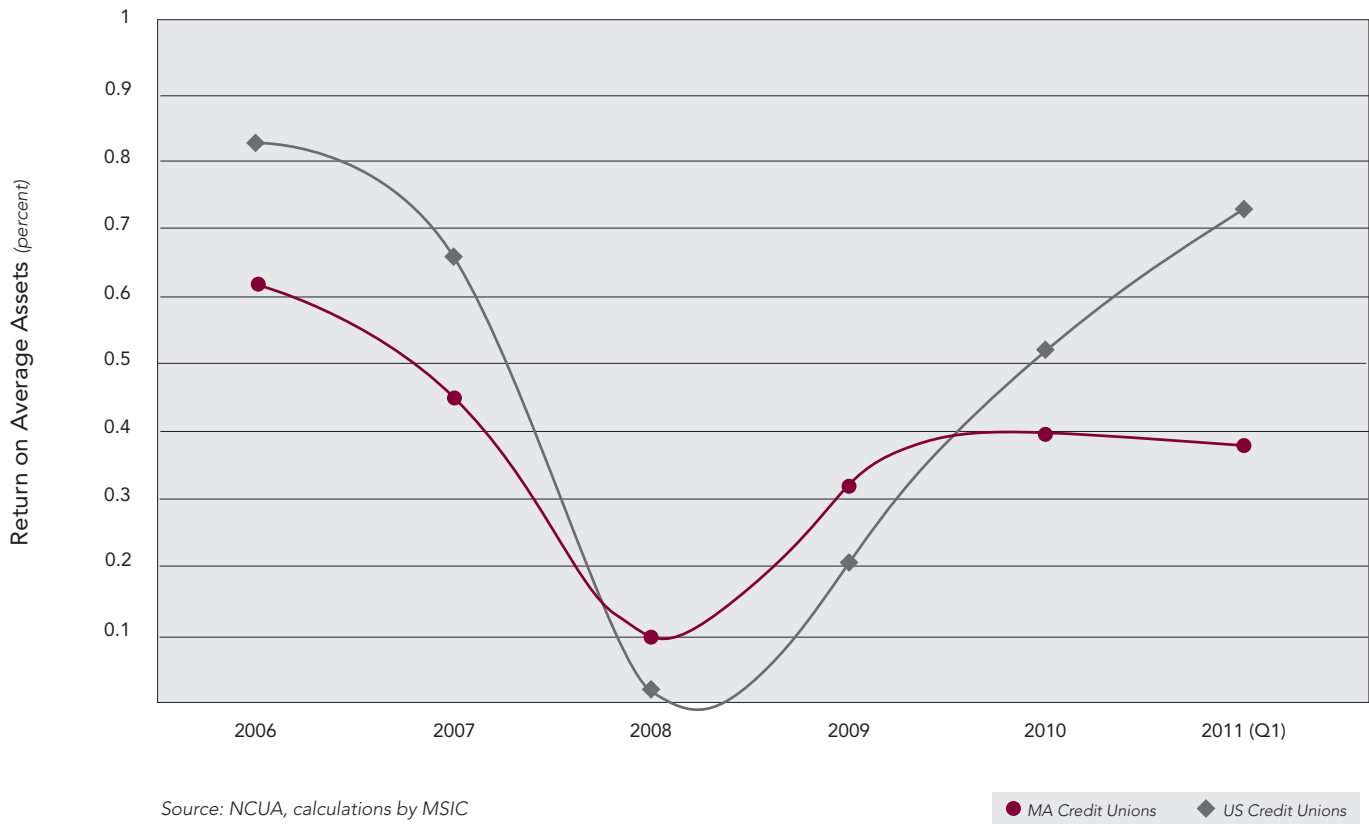
#### Across the Nation and the Commonwealth, operating expenses have been level...



However, an examination of industry-wide return on average assets (ROAA) – a standard measure of profitability – strongly suggests that Massachusetts credit unions collectively face a major challenge in generating sufficient revenue to remain competitive. While maximizing profitability is not the primary mission of a credit union, in order to continue to serve its members and its community, a credit union must generate sufficient revenue to support its current activities and generate sufficient capital to support sustainable growth.

Recent aggregate ROAA trends for Massachusetts credit unions suggest that, to date, the profitability of the industry remains below pre-recession levels. In stark contrast, while its ROAA fell further during the recession, the national industry has experienced steady growth in ROAA since 2008.

### ...but the profit recovery nationally has not yet materialized in the Bay State

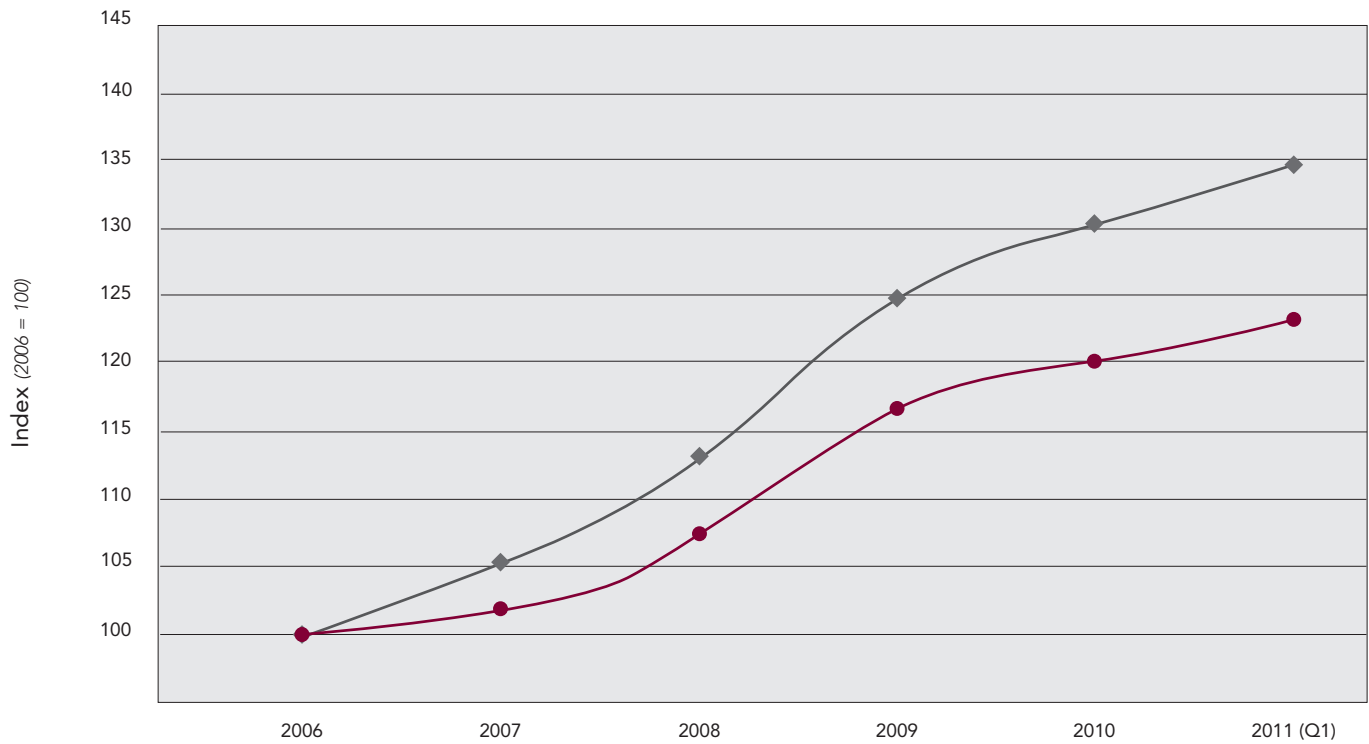


While the performance of individual credit unions varies significantly and ultimately local market conditions will play a significant role in the prospects of any given institution, these trends are troubling. The “flight to safety” in response to the high degree of economic uncertainty facing the national and international economy has resulted in robust share and deposit growth in the credit union industry throughout and since the “Great Recession”.

However, high unemployment, weak consumer demand and historically low interest rates have conspired to keep loan demand low and put significant downward pressure on traditional sources of revenue.

Given pervasive market and economic uncertainty, continued pressure to cut operating expenses and develop new sources of revenue can be expected to continue for many credit unions, a challenge that they will share with small and medium-sized financial institutions across both the Commonwealth and the nation.

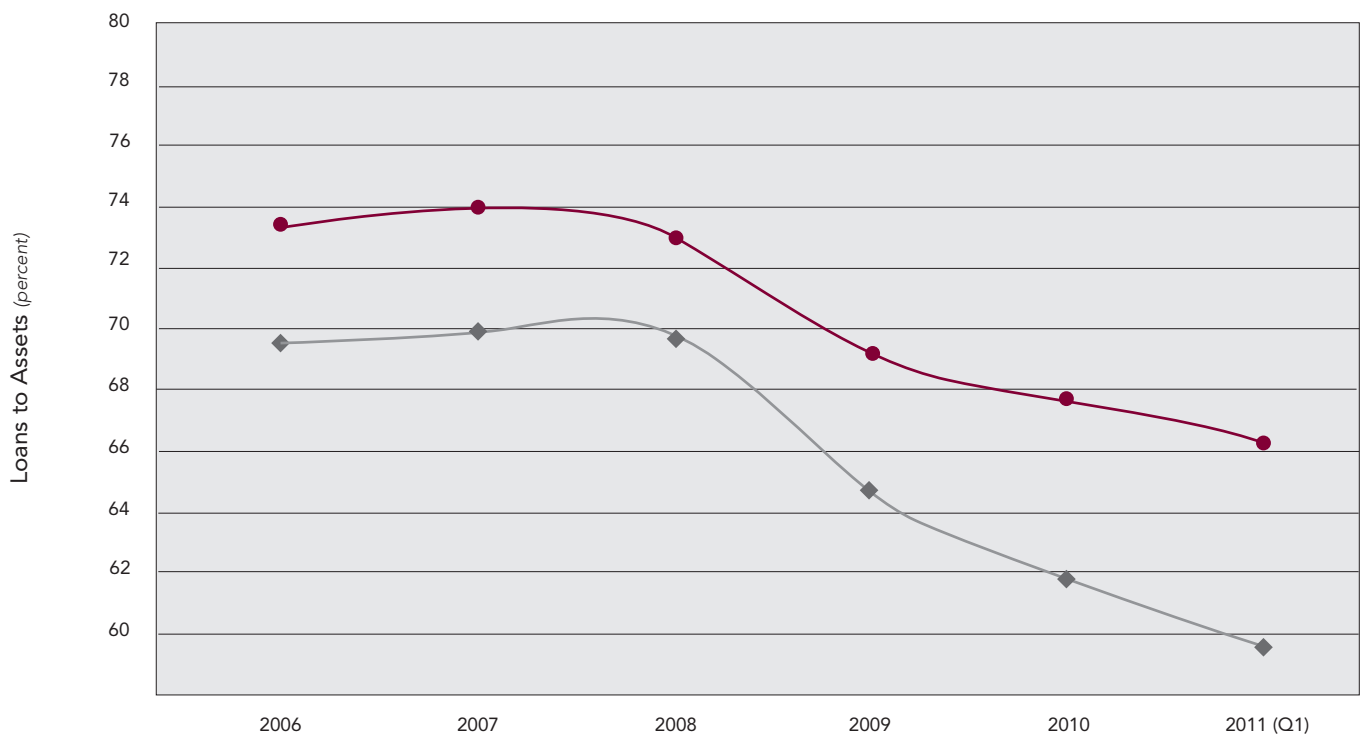
### While total shares and deposits have grown robustly in recent years...



Source: NCUA, calculations by author

● MA Credit Unions ◆ US Credit Unions

### ...loan demand has not kept pace



Source: NCUA, calculations by author

● MA Credit Unions ◆ US Credit Unions

## Concluding Thoughts

This report was prepared during the late summer of 2011, a period of considerable economic volatility compounded by growing uncertainty about the ability of political institutions in both Europe and the United States to manage their growing fiscal imbalances and effectively balance the need for pro-growth fiscal policies and the long-term need to reduce unsustainable budget deficits and debt levels.

The precarious nature of the economic recovery and the global financial system make the global economy very vulnerable should the sovereign debt crisis that has ensnared Greece and threatens Portugal, Italy and Spain spread, or should recent significant corrections in equity markets and Standard & Poor's downgrade of US credit-worthiness further roil markets and further reduce investor confidence. Additionally, continued unrest in the Middle East is contributing to continuing uncertainty about the future of oil supplies and prices and recent decisive moves towards austerity-based fiscal policies threatens to stall our recovery and increase the prospects for a double-dip recession.

Industry leaders face an increasingly competitive and uncertain environment during a time when the need for community based financial institutions and the services they provide their members and customers has arguably never been greater. As Federal Reserve Chairman Ben Bernanke noted in March,

*Community bankers live and work where they do business, and their institutions have deep roots, sometimes established over several generations. They know their customers and the local economy. Relationship banking is therefore at the core of community banking. The largest banks typically rely heavily on statistical models to assess borrowers' capital, collateral, and capacity to repay, and those approaches can add value, but banks whose headquarters and key decisionmakers are hundreds or thousands of miles away inevitably lack the in-depth local knowledge that community banks use to assess character and conditions when making credit decisions. This advantage for community banks is fundamental to their effectiveness and cannot be matched by models or algorithms, no matter how sophisticated. The IBM computer program Watson may play a mean game of Jeopardy, but I would not trust it to judge the creditworthiness of a fledgling local business or to build longstanding personal relationships with customers and borrowers (Bernanke, 2011).*

For credit unions and other community-based financial institutions and the communities and customers they serve, confronting a highly uncertain economic environment is not a new challenge but it is a major one. Increasing capital requirements and regulatory compliance costs can be expected to increase the pressure on institutional balance sheets and create incentives for consolidation in some markets. For many credit unions across the Commonwealth this will mean growing pressure to improve operational efficiency and finding new sources of non-interest income in the service of achieving sustainable levels of profitability, a tall order even during good times.<sup>16</sup>

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<sup>16</sup> Hays, F., DeLurgio, S., and Gilbert, A., "Efficiency Ratios and Community Bank Performance". *Journal of Finance and Accountancy*, Volume 1 (August 2009).

## Industry Data Appendix

### Shares & Deposits

|                  | <b>MA</b>      |
|------------------|----------------|
| <b>2006</b>      | 19,766,830,540 |
| <b>2007</b>      | 20,135,829,578 |
| <b>2008</b>      | 21,184,063,130 |
| <b>2009</b>      | 23,088,686,032 |
| <b>2010</b>      | 23,745,901,081 |
| <b>2011 (Q1)</b> | 24,342,856,261 |

|                  | <b>US</b>       |
|------------------|-----------------|
| <b>2006</b>      | 612,270,465,986 |
| <b>2007</b>      | 644,171,213,557 |
| <b>2008</b>      | 691,764,660,983 |
| <b>2009</b>      | 763,341,587,323 |
| <b>2010</b>      | 797,303,427,039 |
| <b>2011 (Q1)</b> | 822,737,435,361 |

### Membership

|                  | <b>MA</b> |
|------------------|-----------|
| <b>2006</b>      | 2,400,377 |
| <b>2007</b>      | 2,442,198 |
| <b>2008</b>      | 2,472,467 |
| <b>2009</b>      | 2,445,269 |
| <b>2010</b>      | 2,478,755 |
| <b>2011 (Q1)</b> | 2,461,463 |

|                  | <b>US</b>  |
|------------------|------------|
| <b>2006</b>      | 86,765,767 |
| <b>2007</b>      | 88,181,701 |
| <b>2008</b>      | 89,916,659 |
| <b>2009</b>      | 91,192,455 |
| <b>2010</b>      | 91,758,307 |
| <b>2011 (Q1)</b> | 92,008,778 |

### Index, Baseline 2006

|                  | <b>MA</b> | <b>US</b> |
|------------------|-----------|-----------|
| <b>2006</b>      | 100.00    | 100.00    |
| <b>2007</b>      | 101.87    | 105.21    |
| <b>2008</b>      | 107.17    | 112.98    |
| <b>2009</b>      | 116.81    | 124.67    |
| <b>2010</b>      | 120.13    | 130.22    |
| <b>2011 (Q1)</b> | 123.15    | 134.37    |

### Index, Baseline 2006

|                  | <b>MA</b> | <b>US</b> |
|------------------|-----------|-----------|
| <b>2006</b>      | 100.00    | 100.00    |
| <b>2007</b>      | 101.70    | 101.60    |
| <b>2008</b>      | 103.00    | 103.60    |
| <b>2009</b>      | 101.90    | 105.10    |
| <b>2010</b>      | 103.30    | 105.80    |
| <b>2011 (Q1)</b> | 102.50    | 106.00    |

Source: NCUA, calculations by MSIC

### Summary Massachusetts Credit Union Performance Ratios by Mass Benchmarks Economic Regions\*

| Date     | Mass Benchmarks Economic Region | Total Assets (\$) | Number of Credit Unions | Net Worth to Assets (%) | Del. Loans to Net Worth (%) | Del. Loans to Loans (%) | ALL to Loans (%) | Loans to Assets (%) | Loans to Shares (%) | NIM to Average Assets (%) | PLLL to Assets (%) | Fee & Other Inc to Assets (%) | OpExp to Assets (%) | ROAA (%) | ROAA Before NCUSIF stab/Premium (%) |
|----------|---------------------------------|-------------------|-------------------------|-------------------------|-----------------------------|-------------------------|------------------|---------------------|---------------------|---------------------------|--------------------|-------------------------------|---------------------|----------|-------------------------------------|
| 03-31-11 | Berkshire                       | 1,342,689,998     | 9                       | 7.48                    | 33.97                       | 3.02                    | 1.64             | 78.71               | 88.87               | 2.76                      | 0.80               | 1.03                          | 2.91                | 0.08     | 0.08                                |
| 12-31-10 | Berkshire                       | 1,325,702,458     | 9                       | 7.60                    | 29.76                       | 2.63                    | 1.52             | 80.80               | 91.54               | 2.78                      | 0.82               | 1.09                          | 2.83                | 0.22     | 0.43                                |
| 12-31-09 | Berkshire                       | 1,313,464,867     | 9                       | 7.60                    | 18.67                       | 1.67                    | 1.44             | 79.80               | 93.51               | 2.63                      | 1.09               | 0.99                          | 2.77                | 0.23     | (0.06)                              |
| 12-31-08 | Berkshire                       | 1,205,959,701     | 9                       | 8.04                    | 8.66                        | 0.82                    | 0.88             | 80.63               | 99.47               | 2.79                      | 0.55               | 0.97                          | 3.12                | 0.12     | -                                   |
| 12-31-07 | Berkshire                       | 1,067,910,651     | 10                      | 8.96                    | 7.76                        | 0.85                    | 0.82             | 77.71               | 96.44               | 2.73                      | 0.39               | 1.01                          | 2.77                | 0.60     | -                                   |
| 12-31-06 | Berkshire                       | 988,255,259       | 10                      | 9.07                    | 2.93                        | 0.37                    | 0.81             | 72.79               | 90.16               | 2.48                      | 0.30               | 0.84                          | 2.55                | 0.47     | -                                   |
| 03-31-11 | Boston Metro                    | 12,643,109,510    | 91                      | 10.15                   | 14.08                       | 1.57                    | 1.82             | 67.71               | 78.70               | 3.20                      | 0.75               | 0.66                          | 2.73                | 0.43     | 0.50                                |
| 12-31-10 | Boston Metro                    | 12,266,377,572    | 91                      | 10.35                   | 13.81                       | 1.63                    | 1.77             | 69.92               | 81.39               | 3.27                      | 0.99               | 0.73                          | 2.71                | 0.32     | 0.54                                |
| 12-31-09 | Boston Metro                    | 12,227,326,322    | 92                      | 10.08                   | 17.32                       | 1.85                    | 1.60             | 72.04               | 84.66               | 3.05                      | 1.17               | 0.73                          | 2.90                | (0.03)   | 0.05                                |
| 12-31-08 | Boston Metro                    | 12,076,915,870    | 94                      | 10.25                   | 11.14                       | 1.29                    | 0.91             | 76.43               | 94.50               | 3.05                      | 0.84               | 0.64                          | 2.74                | 0.14     | -                                   |
| 12-31-07 | Boston Metro                    | 11,210,004,408    | 96                      | 11.03                   | 7.45                        | 0.93                    | 0.65             | 77.37               | 92.37               | 3.03                      | 0.48               | 0.64                          | 2.72                | 0.47     | -                                   |
| 12-31-06 | Boston Metro                    | 10,766,314,620    | 96                      | 11.01                   | 5.18                        | 0.70                    | 0.56             | 75.55               | 87.26               | 3.05                      | 0.33               | 0.63                          | 2.61                | 0.74     | -                                   |
| 03-31-11 | Central                         | 4,098,925,073     | 22                      | 11.11                   | 6.90                        | 1.02                    | 0.65             | 65.64               | 82.76               | 3.17                      | 0.25               | 0.79                          | 3.21                | 0.51     | 0.61                                |
| 12-31-10 | Central                         | 4,046,977,320     | 22                      | 11.12                   | 8.23                        | 1.13                    | 0.61             | 66.20               | 83.66               | 3.17                      | 0.26               | 0.88                          | 3.25                | 0.58     | 0.78                                |
| 12-31-09 | Central                         | 3,777,699,372     | 22                      | 11.32                   | 8.68                        | 1.21                    | 0.59             | 68.98               | 85.59               | 3.19                      | 0.31               | 0.89                          | 3.38                | 0.91     | 0.65                                |
| 12-31-08 | Central                         | 3,083,552,788     | 22                      | 12.60                   | 3.99                        | 0.62                    | 0.48             | 74.41               | 91.34               | 3.15                      | 0.20               | 0.89                          | 3.26                | 0.59     | -                                   |
| 12-31-07 | Central                         | 3,384,701,523     | 22                      | 11.74                   | 6.91                        | 1.01                    | 0.55             | 72.42               | 94.21               | 3.18                      | 0.24               | 0.90                          | 3.51                | 0.28     | -                                   |
| 12-31-06 | Central                         | 2,978,529,893     | 24                      | 12.51                   | 2.31                        | 0.44                    | 0.51             | 74.74               | 90.95               | 3.29                      | 0.21               | 0.84                          | 3.22                | 0.70     | -                                   |
| 03-31-11 | Northeast                       | 2,387,171,697     | 38                      | 10.65                   | 8.15                        | 1.52                    | 1.17             | 52.21               | 62.87               | 2.74                      | 0.19               | 0.63                          | 3.09                | 0.10     | 0.23                                |
| 12-31-10 | Northeast                       | 2,353,568,905     | 38                      | 10.77                   | 8.83                        | 1.63                    | 1.16             | 53.06               | 64.24               | 2.85                      | 0.36               | 0.76                          | 3.15                | 0.13     | 0.33                                |
| 12-31-09 | Northeast                       | 2,234,616,079     | 38                      | 11.24                   | 8.80                        | 1.64                    | 0.95             | 56.73               | 68.80               | 2.95                      | 0.52               | 0.76                          | 3.25                | 0.31     | 0.11                                |
| 12-31-08 | Northeast                       | 2,085,597,769     | 39                      | 12.45                   | 6.68                        | 1.25                    | 0.82             | 63.28               | 79.25               | 3.01                      | 0.41               | 0.74                          | 3.67                | (0.32)   | -                                   |
| 12-31-07 | Northeast                       | 2,022,960,643     | 41                      | 13.18                   | 8.57                        | 1.57                    | 0.68             | 63.77               | 81.20               | 3.15                      | 0.39               | 0.55                          | 3.32                | 0.02     | -                                   |
| 12-31-06 | Northeast                       | 2,058,626,370     | 42                      | 13.11                   | 5.62                        | 0.90                    | 0.55             | 64.51               | 80.62               | 3.25                      | 0.39               | 0.61                          | 3.10                | 0.34     | -                                   |
| 03-31-11 | Pioneer Valley                  | 2,352,166,911     | 21                      | 11.23                   | 6.92                        | 1.28                    | 0.69             | 50.17               | 58.01               | 2.55                      | 0.15               | 0.64                          | 2.65                | 0.39     | 0.48                                |
| 12-31-10 | Pioneer Valley                  | 2,317,365,425     | 21                      | 11.31                   | 7.64                        | 1.40                    | 0.65             | 51.62               | 60.12               | 2.62                      | 0.25               | 0.75                          | 2.71                | 0.46     | 0.67                                |
| 12-31-09 | Pioneer Valley                  | 2,229,871,887     | 21                      | 11.31                   | 7.09                        | 1.97                    | 0.74             | 48.78               | 58.47               | 3.05                      | 0.39               | 0.61                          | 3.65                | (0.03)   | (0.01)                              |
| 12-31-08 | Pioneer Valley                  | 2,028,200,364     | 21                      | 12.11                   | 4.92                        | 0.91                    | 0.37             | 58.54               | 70.30               | 2.67                      | 0.16               | 0.66                          | 2.75                | 0.41     | -                                   |
| 12-31-07 | Pioneer Valley                  | 1,838,467,031     | 21                      | 12.94                   | 3.16                        | 0.62                    | 0.27             | 60.89               | 71.84               | 2.66                      | 0.08               | 0.62                          | 2.71                | 0.50     | -                                   |
| 12-31-06 | Pioneer Valley                  | 1,735,202,902     | 22                      | 13.25                   | 3.09                        | 0.63                    | 0.29             | 60.38               | 70.97               | 2.77                      | 0.09               | 0.55                          | 2.66                | 0.54     | -                                   |
| 03-31-11 | Southeast                       | 6,213,601,626     | 36                      | 9.96                    | 10.50                       | 1.36                    | 1.05             | 72.75               | 92.17               | 2.77                      | 0.34               | 0.69                          | 2.78                | 0.38     | 0.45                                |
| 12-31-10 | Southeast                       | 6,131,971,703     | 36                      | 10.00                   | 10.44                       | 1.37                    | 1.02             | 73.09               | 93.41               | 2.84                      | 0.38               | 0.82                          | 2.73                | 0.56     | 0.77                                |
| 12-31-09 | Southeast                       | 5,957,789,636     | 36                      | 9.72                    | 10.92                       | 1.42                    | 0.86             | 71.60               | 92.29               | 2.58                      | 0.46               | 0.78                          | 2.67                | 0.67     | 0.39                                |
| 12-31-08 | Southeast                       | 5,747,982,628     | 37                      | 9.44                    | 10.13                       | 1.24                    | 0.59             | 73.19               | 98.10               | 2.55                      | 0.34               | 0.72                          | 2.90                | (0.05)   | -                                   |
| 12-31-07 | Southeast                       | 5,400,283,709     | 39                      | 10.16                   | 5.15                        | 0.71                    | 0.44             | 74.08               | 97.05               | 2.53                      | 0.19               | 0.71                          | 2.61                | 0.42     | -                                   |
| 12-31-06 | Southeast                       | 5,127,491,939     | 41                      | 10.27                   | 3.59                        | 0.48                    | 0.44             | 76.28               | 97.37               | 2.67                      | 0.17               | 0.66                          | 2.64                | 0.50     | -                                   |

\* Performance ratios are presented on a weighted average basis for the credit unions in the MassBenchmarks Economic Regions, based on the headquarters location.

Notes: The Berkshire region is dominated by one credit union. The Cape and Islands MassBenchmarks Economic Region is not presented as there were no credit unions headquartered in that region after 2006. The small credit union headquartered in that region in 2006 is shown in the Southeast Region.

Source: NCUA, calculations by MSIC.

### Summary Performance Ratios for Massachusetts and United States\*\* Credit Unions

| Date     | State         | Total Assets (\$) | Number of Credit Unions | Net Worth to Assets (%) | Del. Loans to Net Worth (%) | Del. Loans to Loans (%) | ALL to Loans (%) | Loans to Assets (%) | Loans to Shares (%) | NIM to Average Assets (%) | PLLL to Assets (%) | Fee & Other Inc to Assets (%) | OpExp to Assets (%) | ROAA (%) | ROAA Before NCUSIF stab/Premium (%) |
|----------|---------------|-------------------|-------------------------|-------------------------|-----------------------------|-------------------------|------------------|---------------------|---------------------|---------------------------|--------------------|-------------------------------|---------------------|----------|-------------------------------------|
| 03-31-11 | Massachusetts | 29,037,664,815    | 217                     | 10.25                   | 12.15                       | 1.49                    | 1.34             | 66.31               | 79.65               | 2.99                      | 0.50               | 0.70                          | 2.84                | 0.38     | 0.46                                |
| 12-31-10 | Massachusetts | 28,441,963,383    | 217                     | 10.37                   | 12.12                       | 1.53                    | 1.29             | 67.70               | 81.62               | 3.05                      | 0.63               | 0.79                          | 2.83                | 0.40     | 0.61                                |
| 12-31-09 | Massachusetts | 27,740,768,163    | 218                     | 10.25                   | 13.32                       | 1.61                    | 1.16             | 69.18               | 83.85               | 2.89                      | 0.77               | 0.78                          | 2.95                | 0.32     | 0.24                                |
| 12-31-08 | Massachusetts | 26,529,357,855    | 222                     | 10.48                   | 9.44                        | 1.19                    | 0.74             | 73.01               | 92.42               | 2.90                      | 0.56               | 0.72                          | 2.96                | 0.10     | -                                   |
| 12-31-07 | Massachusetts | 24,623,179,230    | 229                     | 11.26                   | 6.30                        | 0.87                    | 0.56             | 73.94               | 90.99               | 2.89                      | 0.34               | 0.69                          | 2.81                | 0.45     | -                                   |
| 12-31-06 | Massachusetts | 23,654,420,983    | 235                     | 11.30                   | 4.27                        | 0.62                    | 0.52             | 73.42               | 88.26               | 2.96                      | 0.27               | 0.66                          | 2.74                | 0.62     | -                                   |
| 03-31-11 | United States | 951,645,200,812   | 7,442                   | 9.97                    | 11.55                       | 1.60                    | 1.62             | 59.63               | 69.43               | 3.16                      | 0.53               | 1.23                          | 3.15                | 0.73     | 0.81                                |
| 12-31-10 | United States | 926,610,091,685   | 7,491                   | 10.07                   | 12.82                       | 1.71                    | 1.64             | 61.78               | 72.35               | 3.26                      | 0.77               | 1.33                          | 3.30                | 0.52     | 0.73                                |
| 12-31-09 | United States | 896,833,133,516   | 7,710                   | 9.91                    | 14.35                       | 1.77                    | 1.49             | 64.72               | 76.84               | 3.22                      | 1.10               | 1.36                          | 3.55                | 0.21     | 0.17                                |
| 12-31-08 | United States | 823,628,865,619   | 7,968                   | 10.65                   | 11.25                       | 1.33                    | 1.06             | 69.78               | 84.15               | 3.18                      | 0.88               | 1.34                          | 3.59                | 0.02     | -                                   |
| 12-31-07 | United States | 766,999,680,910   | 8,255                   | 11.44                   | 6.10                        | 0.92                    | 0.73             | 69.95               | 84.06               | 3.11                      | 0.43               | 1.34                          | 3.39                | 0.66     | -                                   |
| 12-31-06 | United States | 722,703,603,558   | 8,434                   | 11.53                   | 4.51                        | 0.68                    | 0.67             | 69.63               | 82.82               | 3.16                      | 0.31               | 1.28                          | 3.32                | 0.83     | -                                   |

\*\* NCUA Insured

Source: NCUA, calculations by MSIC.



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