



A newsletter from Excess Share Insurance Corporation - The nation's largest provider of excess share insurance for credit unions.

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## Excess Insurance Program Update

*We have all read about the current weakness in the US economy and have likely felt the results of the recession in both our professional and personal lives. Although ESI only provides excess share insurance and is not a primary share insurer, the financial strength of its insured credit unions is critical to the overall financial strength of ESI's excess insurance program. We are pleased to provide our policyholder credit unions with the enclosed update on the impact of the economy on credit unions and the ESI excess insurance program.*

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

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

### ESI's Insured Credit Unions Are Prepared To Weather The Storm

*The good news is that credit unions in general, and ESI's excess-insured credit unions specifically, have little or no direct exposure to many of the problems plaguing the financial markets, avoiding the direct impact of the sub-prime mortgage mess. Even so, credit unions must be vigilant against the expected fallout from the current economic conditions and its impact on their members and their operations caused by higher unemployment and escalating loan delinquency rates. This can best be accomplished by maintaining stronger than normal*

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operations and safe and sound lending and collections programs. Credit unions generally have strong net capital cushions of 11%-12% of assets that will help them weather the storm over the next year or two. However, credit unions involved in second mortgage lending or in construction lending – in those markets where severe housing price depreciation is occurring (e.g., California and Florida) – may feel more immediate pressure and could be forced to merge with healthier credit unions or even close. Several federally insured credit unions (e.g., Norlarco, Cal State 9, Huron River Area and New Horizons) are in this category. California has been hit the hardest by the weaknesses in residential lending and declining real estate collateral values; fortunately ESI does not provide excess insurance to any credit unions in that state. ESI's business is distributed across its 33

licensed states so that no single state represents a risk concentration; only two states comprise 10% or more of its insurance-in-force (Texas – 13% and Ohio – 10%) and Florida only represents 6% of ESI's business. Further, in ESI's states of operations, its insured credit unions

have little or no direct exposure to the types of lending risks that have plagued financial institutions in California and generally show no signs of being unable to weather the current economic crisis. A comparison of four key credit union ratios for ESI and all NCUSIF insured credit unions, that best measure a credit union's staying power during these turbulent times, is presented below.

#### KEY CREDIT UNION RATIOS

	March 31, 2008		December 31, 2007	
	ESI	NCUSIF	ESI	NCUSIF
Net Capital Ratio	<b>11.09%</b>	11.07%	<b>11.37%</b>	11.45%
Return on Assets	<b>0.69%</b>	0.60%	<b>0.70%</b>	0.65%
Delinquent Loans Ratio	<b>0.76%</b>	0.91%	<b>0.83%</b>	0.93%
Net Charge-off Ratio	<b>0.56%</b>	0.67%	<b>0.50%</b>	0.50%

# Excess Share Insurance Corporation

August 2008

In addition to reporting a good year in 2007, ESI's insured credit unions have gotten off to a great start in 2008, reporting an average net capital ratio of approximately 11.1% at March 31, 2008, which is comparable to NCUSIF credit unions overall.

ESI-insured credit unions also reported an average return on assets in the first quarter of 2008 that compares with the levels they attained in 2007 and 15% higher than the ROA reported by all NCUSIF credit unions. ESI's insured credit unions exhibit a sharply declining delinquency ratio through the first quarter of 2008; whereas, on average all NCUSIF credit unions' delinquency ratios have only declined slightly. Although ESI credit unions exhibited an increase in the net charge-off ratio in the first quarter ended March 31, 2008, the increase was only one-third of the rate of increase in net charge-offs for all federally insured credit unions during the quarter. When combined with ESI's financial strength, noted to the right, the solid performance of our insured credit unions should offer great comfort to our policyholder credit unions and their members as to the safety and soundness of ESI-insured credit unions and the ESI share insurance program during these unusual economic times.

## ESI's Proactive Agenda Regarding Mortgage Lending

With regard to mortgage lending issues, ESI-insured credit unions, have on average about 51% of their loans and 34% of their total assets invested in mortgage-secured loans, which is slightly less than the average distribution reported by all NCUSIF credit unions. Further, our numerous on-site examinations reveal that our insured credit unions generally have very limited exposure to sub-prime mortgage lending risk.

ESI will continue to emphasize extra due diligence when monitoring and examining the mortgage lending area in 2008 as we did in 2007. ESI's examiners visited ESI-insured credit unions representing nearly 20% of the \$3.9 billion in ESI's total insured shares in 2007 and we anticipate performing a similar or greater level of on-site examinations in 2008.

ESI's examination coverage supplements the periodic statutory exams completed by state regulators and NCUSIF, and the audits conducted by independent CPA firms. Well over 90% of ESI's insured credit unions, representing over 95% of ESI's insurance-in-force, have an independent third-party audit performed annually. These various sources of attestation provide a sound basis for our conclusions as to the safety and soundness of ESI's insured credit unions.

## ESI Is Well-prepared To Weather The Storm

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

based on specific quantitative factors and the credit unions we insure. The financial condition of ESI has never been more secure than it is now. We are proud to report the Key Insurance Fund Statistics shown in the table below, which demonstrates ESI's financial strength.

### KEY INSURANCE FUND STATISTICS

	March 31, 2008		December 31, 2007	
	ESI	NCUSIF	ESI	NCUSIF
No. of Problem CUs as				
Percent of Total CUs (1)	<b>1.03%</b>	2.80%	<b>1.03%</b>	2.60%
Insured Shares of Problem CUs as Percent of Total				
Insured Shares (1)	<b>0.93%</b>	1.59%	<b>0.97%</b>	1.04%
Loss Reserves and "First-in-Line" Third-Party Payment Sources to Insurance-in-Force (basis points) (2)	<b>38.2 bps</b>	3.6 bps	<b>39.9 bps</b>	3.8 bps

(1) Problem credit unions are defined as those credit unions with a CAMEL/CAE rating of 4 or 5 or LACE ratings in the lowest two rating categories.

(2) In addition to its on-book loss reserves, ESI has a \$7.5 million reinsurance contract with a third party A++ rated reinsurance company and a \$7 million guaranty from its parent, American Share Insurance (ASI), that are available to pay claims before at-risk premium deposits are used. "First-in-line" third party payment sources do not include items that are available only after all other resources of the share insurer have been exhausted, such as reassessments against insured credit unions and NCUSIF's government guarantee.

Based on current conditions, problem credit unions for ESI are not significant or threatening, and ESI carries loss reserves and has available "first-in-line" third party claims payment sources that are sizeable in relation to the program's insured risks and loss history.

As further evidence of the quality of the ESI excess insurance program, ESI's balance sheet at March 31, 2008 continues to exhibit solid characteristics with 97% of the fund's assets safely invested in cash, cash equivalents, US Treasury and US government agency securities; *with none of its assets being invested in mortgage-backed, CMOs or CDOs*. Within this strong portfolio, ESI also reports a record level of liquidity (cash and cash equivalents) of 33% of total assets at March 31, 2008. To further back the program, ESI also has a \$10 million committed line of credit from a major financial institution and a \$10 million line of credit from its parent, ASI.

*Clearly, ESI boasts of a strong, high-quality program that is established so as to always be around for its policyholder credit unions regardless of changes in economic conditions – a program that its insured credit unions can be proud to promote to their higher balance members!*

# Personnel Matters



Kurt Loose

## **Kurt Loose Placed in Charge of Audit and Examination**

Kurt Loose, CPA, has been promoted to the position of Vice President of Audit and Examination for ESI's parent company, American Share Insurance (ASI). Kurt will be responsible for the oversight of field examinations of a vast majority of credit unions insured by ESI, and the recruiting, training and supervision of the audit and examination staff engaged in ESI-insured credit union field examinations.

"Kurt has been a devoted employee and manager for us for almost 10 years and has worked hard to promote safety and soundness within all of our insured credit unions by way of the exam and risk management functions," stated ASI and ESI President and CEO, Dennis Adams.

Since 1998, Kurt has served both ASI and ESI in various exam and risk management capacities, most recently as ASI's Director of Audits. He is a graduate of Bowling Green State University in Ohio and has earned an MBA from Capital University in Columbus, Ohio. Kurt is also a Certified Public Accountant (CPA) in the state of Ohio.



Lori Solberg

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

Lori Solberg has been promoted to Vice President of Sales and Marketing of ESI's parent company, ASI, effective July 14. She will be responsible for all sales, marketing, public relations and communications activities affecting ESI's excess insurance program and its almost 300 insured credit unions nationwide.

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

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



Rick Smith

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

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

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



Rick Choffel

## **Texan Rick Choffel to Serve ESI in Western States**

Rick Choffel joins ESI as Sales Manager – Western Region, filling the void left with Lori Solberg's promotion to VP of Sales and Marketing. Rick is based out of Dallas and is responsible for ESI's sales territory in Texas and the west coast states previously covered by Ms. Solberg.

Rick comes to ESI with a long and successful career in credit union product sales and service having previously worked as a Senior Sales Associate with InfiCorp, and as Vice President of Credit Card Marketing with The Independent BankersBank. "Rick is an individual seasoned in the credit union business who we believe can pick up right where Lori left off in efficiently serving our west coast sales territory and business objectives," said ASI and ESI President and CEO, Dennis Adams.



Paul Simons

## **Paul Simons Named ESI Board Chairman**

During the Reorganization Meeting of American Share Insurance (ASI), parent company of Excess Share Insurance Corporation (ESI), Paul Simons, President of Credit Union 1 (Illinois) was appointed to serve as Chairman of the Board of Directors of ESI. He will fill the remaining term of former ESI Chairman, Bill Herring, CEO of Cincinnati Central Credit Union, who was elected to serve as Chairman of the Board of ASI. Mr. Simons previously served as an ESI board member from 2000-2004.

Prior to assuming his current role at Credit Union 1, Mr. Simons was the chief executive officer of Paysaver Credit Union from 1987-1999 and has been active in the credit union movement for over 30 years. He also currently serves in the appointed position of vice chairman of the Illinois Governor's Board of Credit Union Advisors.

# IndyMac Spurs Interest in Excess Insurance

In the wake of the IndyMac Federal Bank takeover by the FDIC, many credit union members have come to realize that not all of their funds are insured by the Federal government. While the IndyMac situation has had a negative effect on the entire financial industry, it has generated positive interest in Excess Share Insurance Corporation (ESI) and our excess share insurance program.

The company's excess share insurance offers additional security on credit union member deposits beyond that afforded by the credit union's primary insurer. Combined with federal share insurance, for example, excess insurance can provide up to \$350,000 in total coverage per member on the sum of their traditional savings/demand accounts, and up to \$500,000 on their IRAs. This exceptional level of protection gives credit union members the financial security they are seeking during these uncertain times.

ESI's marketing staff has fielded hundreds of calls in recent weeks from consumers and credit union management alike seeking a better understanding of the coverage. On July 16, 2008, ESI President and

CEO Dennis Adams issued a statement to the company's policyholding credit unions reaffirming the strength and stability of ESI and the value excess share insurance affords their members. Requests from insured credit unions for additional consumer information brochures were also quickly filled by our staff so that individual members could be served promptly.

"We're getting a lot of positive feedback from credit unions and consumers," according to Adams, "and the excess insurance is giving members the comfort they need under current conditions. We are pleased to be able to offer such a unique solution to the credit union movement."

The company has also received numerous inquiries from credit unions nationwide that are interested in securing our excess insurance coverage for their members. Currently the company is authorized to provide insurance in 32 states and the District of Columbia, making the program extremely accessible to most federally and state-chartered credit unions.

Excess Share Insurance Corporation is a licensed insurance company.



## **Excess Share Insurance Corporation**

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