

Market Update – January 23, 2009

As you are no doubt aware, there is continued turmoil in the financial markets throughout the world. Action plans initiated by our government and business leaders are finally being moved forward in the hopes of stimulating our Canadian economy.

Much of the media focus has been on the Bank of Canada reductions in their Prime or 'overnight rate' with the hope that this ultimate cost savings can be passed along to borrowers. Regardless of the political hype, our central bank and many economists understand that it's really not that simple. In fact, many financial institutions still have much higher costs of funds than simply the Bank of Canada's overnight rate.

Like most financial institutions (FIs), FirstOntario's major source of funding for lending comes from Member deposits. Those deposits are the savings, GICs, RRSPs, etc. of credit union Members. FirstOntario offers competitive interest rates for deposits, and the difference between the interest paid on deposits and the interest we collect from loans is used to pay our operating costs.

In this rapidly changing financial environment, the cost of funds plays a key role in the setting of interest rates. The cost of funds is the interest paid by the financial institution for the use of money. In this environment, the actual cost of funds is certainly higher for all FIs, than the Bank of Canada's reported overnight rate.

FirstOntario strives to make our pricing decisions based on both transparency and our true cost of funds. We position our lending rates, including our Prime and Minimum lending rates on our reality and ensure our Members receive the best rates we can offer.

Many FIs have dropped their prime rate considerably over the last few months but have also taken steps to both protect, and in most cases, increase their actual return. A common example has FIs increasing their variable rate lending by 1% or higher and then dropping their prime to a rate of 3%. While this would appear to be a good move for their clients who focus on the prime rate movement, in reality the cost of borrowing to the consumer is either unchanged or in some instances higher. Combine this practice with an ever-tightening credit qualification process by most FIs, and you have the real possibility of even higher rates and less availability for credit.

So when you're comparing rates and offers, you really have to get to the end rate that you'll be paying, in order to compare effectively. FirstOntario has kept our agreements and refused to play the prime game of dropping one portion only to increase another.

There is no doubt that the current global financial crisis has caused all financial institutions, governments and other stakeholders to take steps that are unprecedented. I can assure you that at FirstOntario Credit Union, we value your loyalty and the business of our 70,000 Members. We are doing everything possible to maintain the slim margins that exist in these times and to keep the credit union in a strong financial position. We are succeeding in this regard as we remain in a solid financial position for our Members.

We are also proud of the fact that our lending standards have not changed. It has been well documented in the media and from consumers that the major banks have been tightening credit in many instances. This tightening means that many consumers and small businesses are finding it much more difficult to get credit. This factor contributes to the continuation and worsening of the financial crisis. At FirstOntario Credit Union we have not changed any processes or lending decision criteria in this regard. We are here to serve our Members' needs.

A recent initiative that we have undertaken is the formation of a task group consisting of staff, Members, and others in the community, with a mandate to generate ideas to assist our Members and people in our communities and trade areas, who have been affected adversely by the financial crisis i.e., temporary or permanent job loss due to plant shutdowns or closures or the general downturn in the economy. Some ideas that have been generated thus

far include: a service to assist with resume creation and job interviewing skills; debt consolidation loans, credit counselling and offering interest only payments for a period of time.

We are taking this situation seriously and are committed to our mission of helping our Members meet their financial needs. It is our passion for a better community based financial institution that has helped FirstOntario and other credit union's become a key partner in our communities.

Furthermore, we want to be proactive in this market. In recognition of the tightening credit practices of other FIs, FirstOntario has created a \$75 million dollar pool of funds to be made available for mortgages in 2009. These mortgages are being offered at very competitive "end" rates.

FirstOntario Credit Union is dedicated to being responsible stewards of our Members' savings and investments by providing competitive and effective rates for all of our Members.

Kelly McGiffin
President & C.E.O.