NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA

DATE: **April 2003** **LETTER NO.: 03-CU-06**

TO: **Federally Insured Credit Unions**

SUBJ: **Financial Trends in Federally Insured Credit Unions January 1 - December 31, 2002**

ENCL: **Financial Trends in Federally Insured Credit Unions January 1 - December 31, 2002**

DEAR BOARD OF DIRECTORS:

Enclosed is a report highlighting credit union financial trends for 2002. The analysis is based on data compiled from the year-end 2002 call reports submitted by all federally insured credit unions.

The credit union industry as a whole remains healthy. High growth in assets, shares and investments continues while loan growth remains moderate. Net income is strong primarily due to a lower cost of funds.

Thank you for your cooperation in providing this data.

Sincerely,

/S/

Dennis Dollar
Chairman

Enclosure

FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 - December 31, 2002

HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of December 31, 2002. Change is measured from the prior year-end (December 31, 2001).

- **Assets** increased $55.5 billion, or 11.07%.

- **Net Worth** increased 9.86%, or $5.4 billion. The Net Worth to assets ratio decreased from 10.84% to 10.72%.

- **Loans** increased $20.2 billion, or 6.27%.

- **Shares** increased $47.1 billion, or 10.77%. The loan to share ratio decreased from 73.76% to 70.77%.

- ***Cash on hand*, *cash on deposit*, *cash equivalents*, plus short-term investments (less than 1 year)** increased $13.0 billion, or 14.31%.

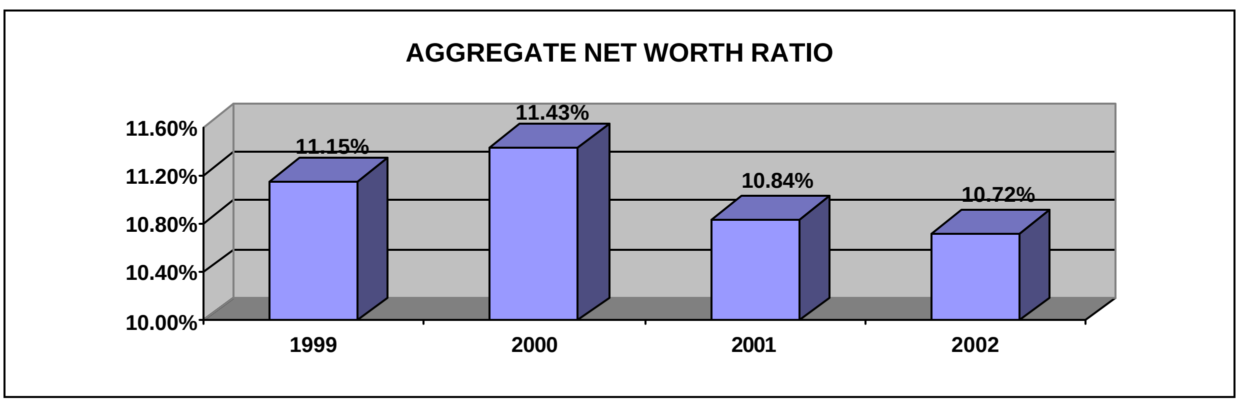
- **Long-term investments (over 1 year)** increased $17.6 billion, or 26.43%.

- **Profitability,** as measured by return on average assets, increased from 0.94% to 1.07%.

- **Delinquent** loans as a percentage of total loans decreased from 0.82% to 0.80%.

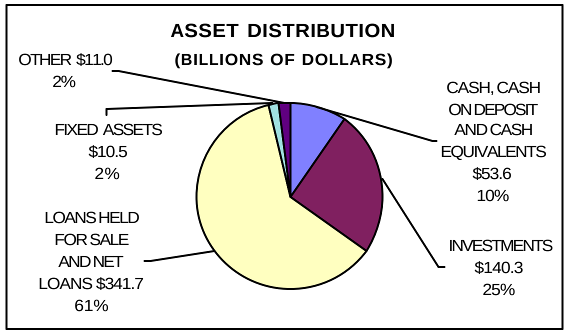
CAPITAL

Total Net Worth increased $5.3 billion (9.86%) during 2002 due to strong profitability and low loan losses. The aggregate Net Worth to total assets ratio decreased slightly to 10.72% since share growth outpaced net worth growth. The average (non dollar-weighted) net worth ratio for credit unions is 13.50%.



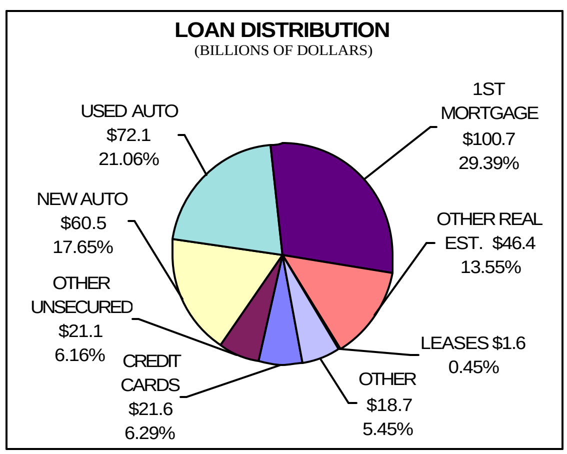
ASSET QUALITY

LOAN TRENDS: All loan categories, except for Unsecured Credit Card Loans and All Other Unsecured Loans, experienced growth. Loan growth of 6.27% resulted in an increase in total loans of $20.2 billion. However, shares grew at a faster rate than loans, causing the loan to share ratio to decrease slightly from 73.77% in 2001 to 70.77% in 2002. Growth in the various loan categories is as follows:



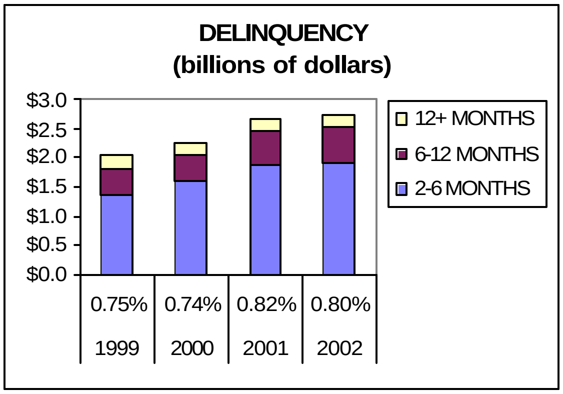
Loan Category	2001 Balance	2002 Balance	Growth ($)	Growth (%)
Unsecured Credit Card	$21.7B	$21.6B	-$0.1B	-0.59%
All Other Unsecured	$21.8B	$21.1B	-$0.7B	-3.12%
New Vehicle	$60.3B	$60.5B	$0.2B	0.36%
Used Vehicle	$66.3B	$72.1B	$5.8B	8.73%
First Mortgage Real Estate	$89.1B	$100.7B	$11.6B	12.98%
Other Real Estate	$42.6B	$46.4B	$3.8B	8.95%
Leases Receivable	$1.5B	$1.6B	$0.1B	2.80%
All Other	$19.1B	$18.7B	-$0.4B	-2.30%

First mortgage real estate loans account for 29.39% ($100.7 billion) of all loans, with 72.61% ($73.1 billion) being fixed rate. Federally insured credit unions granted $49.5 billion in fixed rate and $11.6 billion in adjustable rate first mortgage real estate loans in 2002. Credit unions sold $25.0 billion first mortgages in 2002 (includes both fixed and adjustable rate loans).

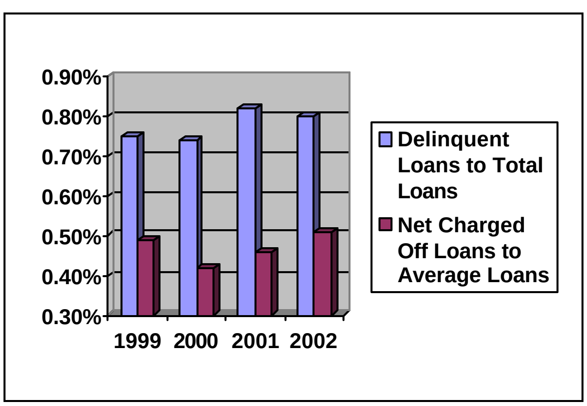


Credit unions granted $19.3 billion in indirect loans in 2002. NCUA started gathering indirect lending information in 2002.

DELINQUENCY TRENDS: Delinquent loans increased 3.58% ($94.6 million). However, the delinquent loans to total loans ratio decreased slightly from 0.82% in 2001 to 0.80% in 2002. The decline in the delinquency ratio was the result of the increase in total loans exceeding the increase in delinquent loans.

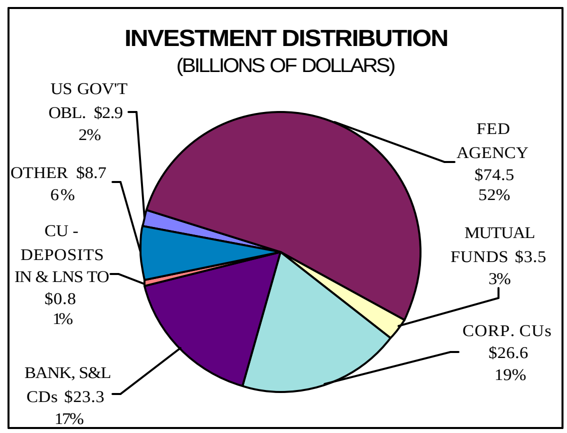


Loan dollars charged off increased 17.66% ($299.4 million), whereas recoveries on charged off loans increased only 7.28% ($19.4 million). This resulted in net charged off loans increasing by 19.6% ($280 million). The increase in net charged off loans outpaced loan growth, resulting in an increase in the net charged off to average loans ratio from 0.46% in 2001 to 0.51% during 2002.



Federally insured credit unions reported an increase in members filing for bankruptcy. The number of members filing for bankruptcy increased 6.35% to 240,494 (0.29% of all members). Outstanding loans subject to bankruptcy total $1.5 billion. Bankruptcies accounted for 39.14% ($781 million) of the loans charged off in 2002.

INVESTMENT TRENDS: Except for *U.S. Government Obligations, Deposits In and Loans to Other Credit Unions,* and *All Mutual Funds,* all investment categories increased in 2002. This resulted in a 25.27% ($28.3 billion) growth in total investments.

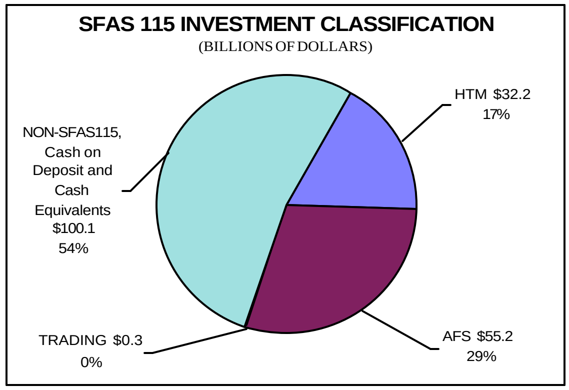


Cash on hand, *cash on deposit*, and *cash equivalents* increased 5.84% ($3.0 billion). These combined categories, along with investments with maturities of less than one year, increased 14.31% ($13.0 billion).

Investments with maturities greater than a year increased 26.43% ($17.6 billion).

Non-SFAS 115 investments (including cash on deposit and cash equivalents) increased 17.09% ($14.6 billion) to $100.1 billion.

Held-to-maturity investments increased 18.08% ($4.9 billion). *Available-for-sale* investments increased 25.11% ($11.1 billion). Trading securities decreased 13.60% ($39.9 million).



At the end of 2002, SFAS 115 investments made up 46.55% of the investment portfolio. Non-SFAS 115 investments, cash on deposit, and cash equivalents accounted for 53.32% of the portfolio.

The following table compares the changes in the maturity structure of the investment portfolio over the past year:

Investment Maturity or Repricing Interval	% of Total Investments 2001	% of Total Investments 2002
Less than 1 year	57.57%	55.09%
1 to 3 years	28.09%	32.02%
3 to 10 years	13.12%	11.73%
Greater than 10 yrs	1.22%	1.16%

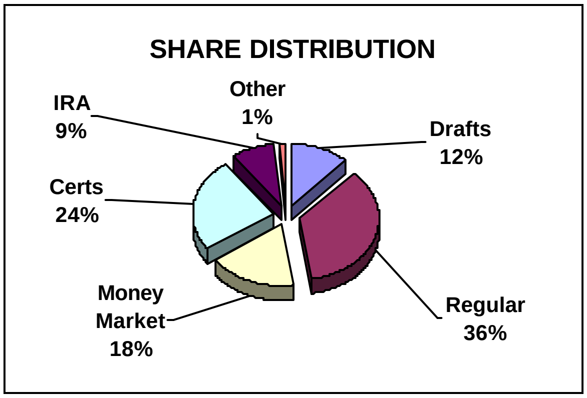
EARNINGS

Decreases in operating expenses and cost of funds outpaced a decline in gross income and a slight increase in the Provision for Loan Loss Expense. This resulted in net income increasing 28.05% ($1.2 billion). Further, the increase in net income outpaced asset growth, causing the return on average assets ratio to increase from 0.94% in 2001 to 1.07% at the end of 2002.

Ratio	As of 2001	As of 2002	Effect on ROA
Gross Income	7.96%	6.94%	-102bp
- Cost of Funds	3.36%	2.29%	+107bp
- Operating Expenses	3.36%	3.27%	+ 9bp
- PLL	0.34%	0.35%	- 1bp
+ Non-Opr. Income	0.04%	0.04%	0bp
= ROA	0.94%	1.07%	+13bp

ASSET/LIABILITY MANAGEMENT

SHARE TRENDS: Total shares increased 10.77% ($47.1 billion) in 2002, compared to 15.27% in 2001. Money market and share certificate accounts represent 42% of total shares.



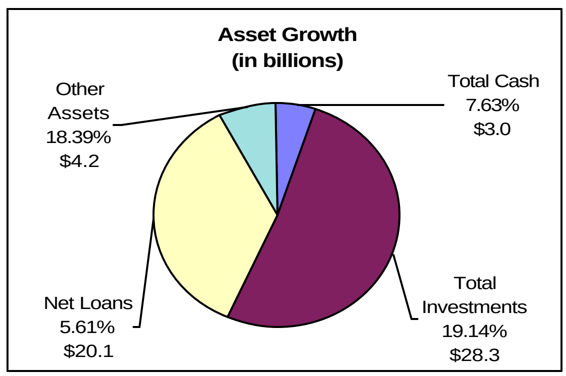
Growth rates for the various share categories are as follows:

Type of Share Account	Change ($M)	Change (%)
Share Drafts	$3,868	7.14%
Regular Shares	$22,632	15.15%
Money Market	$16,876	24.29%
Certificates	$ 129	0.11%
IRA/Keogh	$ 3,240	8.18%
Other Shares	$ 482	9.72%
Non-member Deposits	$ 158	-11.71%
Total	$47,069	10.77%

Shares with maturities of less than one year decreased slightly as a percentage of total shares, while the percentage of shares with one year or greater maturities to total shares increased as the chart below indicates.

Share Maturity or Repricing Interval	% of Total Shares Dec. 2001	% of Total Shares Dec. 2002
Less than 1 year	90.37%	89.74%
1 to 3 years	7.73%	7.67%
3 or more years	1.90%	2.59%

OVERALL LIQUIDITY TRENDS: At the end of 2002, credit unions had approximately 19.65% of total assets in cash and short-term investments, compared to 19.11% at the end of 2001. Long-term assets (defined as assets with maturities or repricing intervals greater than 3 years - 5 years for real estate loans), equaled 22.94% of total assets at the end of 2002, compared to 23.07% at the end of 2001.



Since early in 2001, the share growth rate has exceeded the loan growth rate. This trend, involving the unusually large buildup of credit union shares, occurred as the U.S. economy began to show signs of weakening. Stock prices declined and consumers slowed spending and borrowing habits.

INTEREST RATE AND LIQUIDITY RISK: Interest rates have been at historically low levels for enough time to cause credit union assets to reprice downward. If interest rates rise, credit unions holding significant portions of longer term, fixed-rate assets could see lower net interest margins, squeezed earnings, and reduced net worth.

The trends reported as of December 31, 2002, indicate that credit union management will need to continue to adjust their balance sheets in relation to unused commitments in an effort to address potential liquidity and funds management needs as the current economic situation improves.

Credit unions continue to experience share growth levels in excess of loan growth. The margin between these growth rates has narrowed during 2002. Under normal circumstances, this trend could indicate a reversal of an economic cycle.

Due to the uncertainty in the current global marketplace, credit unions need to place continued emphasis on sound liquidity planning and balance sheet management to minimize the effects of an ever-changing economic and political environment.