

# FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – March 31, 2005

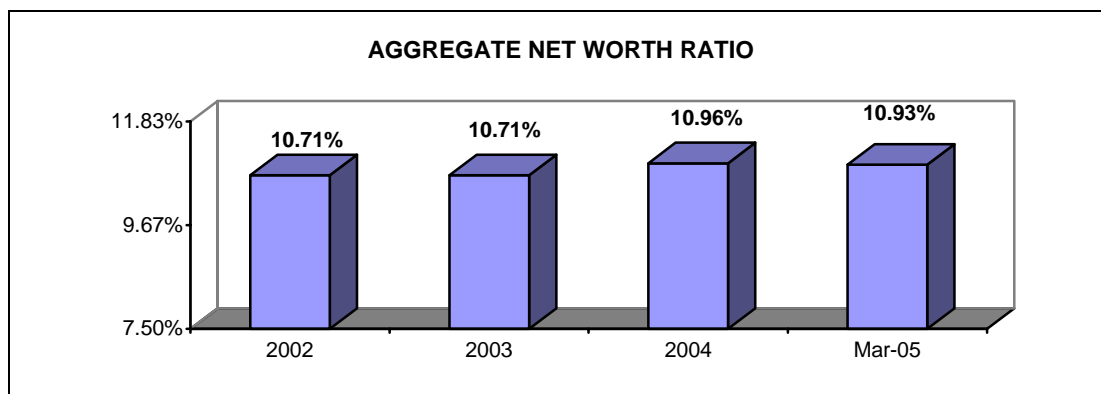
## HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of March 31, 2005.<sup>1</sup>

- ◆ **Assets** increased \$15.4 billion, or 2.38%. This equates to an annualized asset growth rate of 9.53%.
- ◆ **Net Worth** increased \$1.50 billion, or 2.11%. The Net Worth to assets ratio decreased from 10.96% to 10.93%.
- ◆ **Loans** increased \$4.74 billion, or 1.14%. The loan to share ratio decreased from 74.49% to 73.47%.
- ◆ **Shares** increased \$14.1 billion, or 2.54%.
- ◆ **Cash on hand, cash on deposit, cash equivalents, plus short-term investments (less than 1 year)** increased \$6.9 billion, or 6.22%.
- ◆ **Long-term investments (over 1 year) increased** \$1.6 billion, or 1.54%.
- ◆ **Profitability**, as measured by return on average assets, increased from 0.91% to 0.92%. It remains strong.<sup>2</sup>
- ◆ **Delinquent** loans as a percentage of total loans decreased from 0.72% to 0.64%.

## CAPITAL

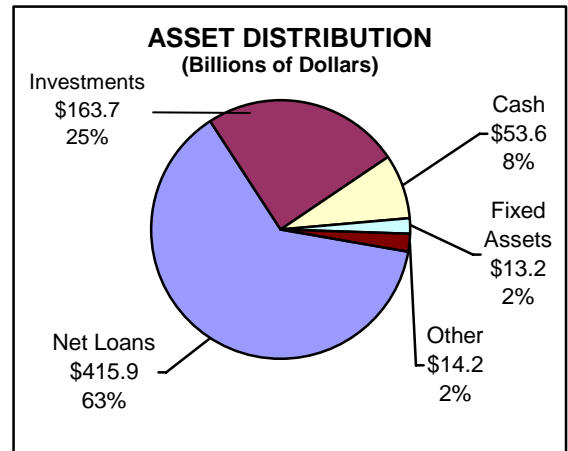
Total Net Worth increased \$1.50 billion (2.11%) during the first three months of 2005. The aggregate net worth to total assets ratio decreased from 10.96% at the end of 2004 to 10.93% as of March 31, 2005. Annualized asset growth of 9.53% outpaced annualized net worth growth of 8.45%. The average net worth ratio (non-dollar weighted) among individual credit unions decreased from 13.60% at the end of 2004 to 13.56% as of March 31, 2005.



1. The financial results for prior periods may reflect changes when compared to the prior period trend letters due to subsequent financial modifications.
2. The Return on Average Assets ratio is annualized net income divided by average assets for the period.

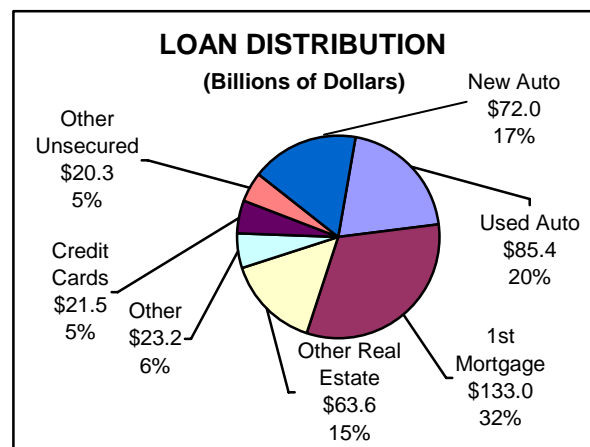
## ASSET QUALITY

**LOAN TRENDS:** All loan categories experienced growth except for Unsecured Credit Card Loans, All Other Unsecured Loans, and Leases Receivable. Loan growth of 4.57% (annualized) resulted in an increase in total loans of \$4.74 billion. Share growth was higher than loan growth, causing the loan to share ratio to decrease from 74.49% in 2004 to 73.47% as of March 31, 2005. Growth in the various loan categories is as follows:

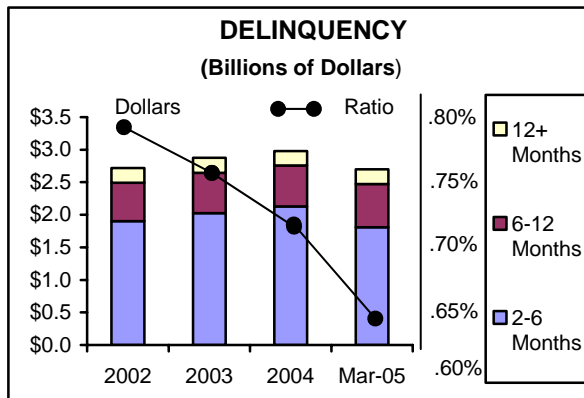


Loan Category	2004 Balance In Billions	March 2005 Balance In Billions	Growth In Billions	Growth Rate
Unsecured Credit Card	\$22.5	\$21.5	-\$1.0	-4.51%
All Other Unsecured	\$20.9	\$20.3	-\$0.6	-2.70%
New Vehicle	\$71.3	\$72.0	\$0.7	1.02%
Used Vehicle	\$84.6	\$85.4	\$0.8	0.92%
First Mortgage Real Estate	\$130.0	\$133.0	\$3.0	2.32%
Other Real Estate	\$61.9	\$63.6	\$1.7	2.65%
Leases Receivable	\$1.57	\$1.56	-\$0.01	-0.20%
All Other	\$21.4	\$21.6	\$0.2	0.72%

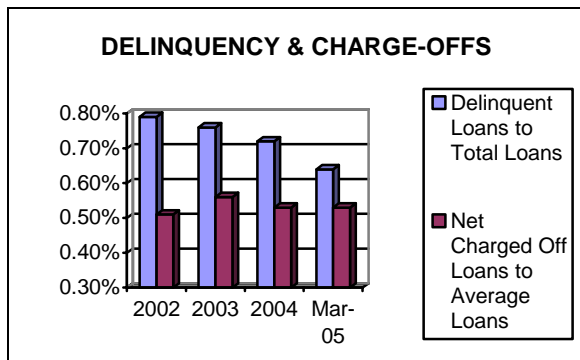
First Mortgage real estate loans account for 31.75% (\$133.0 billion) of all loans. Loans held for sale increased 31.30%, from \$0.96 billion to \$1.26 billion.



**DELINQUENCY TRENDS:** Delinquent loans decreased 9.38% (\$279 million). The delinquent loans to total loans ratio also declined from 0.72% at the end of 2004 to 0.64% as of March 31, 2005. The decline in delinquency exceeded the increase in loans charged off in the first quarter.



Loan dollars charged off (annualized) increased \$153.0 million (6.13%), whereas recoveries on charged off loans increased \$72.2 million (18.79%). This resulted in net charged off loans increasing by \$80.8 million; however, due to sustained loan growth, the annualized average net charge-off ratio remained at 0.53% as of March 31, 2005.



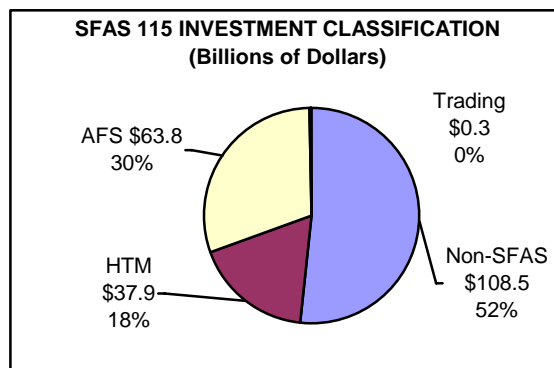
**INVESTMENT TRENDS:** Cash on hand, cash on deposit, and cash equivalents increased 9.20% (\$4.5 billion). These combined categories, along with investments with maturities of less than one year, increased 6.22% (\$6.9 billion).

Investments with maturities greater than a year increased 1.54% (\$1.64 million).

Non-SFAS 115 investments (including cash on deposit and cash equivalents) increased 6.16% (\$6.3 billion) to \$108.5 billion.

*Held-to-maturity* investments increased 4.09% (\$1.5 billion). *Available-for-sale* investments increased 0.72% (\$455.6 million). Trading securities decreased 1.47% (\$5.0 million).

As of March 31, 2005, SFAS 115 investments made up 48.46% of the investment portfolio. Non-SFAS 115 investments, cash on deposit, and cash equivalents accounted for 51.55% 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 2004	% of Total Investments March 2005
Less than 1 year	48.20%	49.45%
1 to 3 years	35.32%	34.58%
3 to 10 years	15.27%	14.94%
Greater than 10 yrs	1.13%	1.04%

### EARNINGS

Sustained asset growth and low market interest rates continue to impact income as shown in the table below. Total net income increased 5.25% (\$301 million). The return on average assets increased 1 basis point to 0.92%. The net interest margin declined 7 basis points to 3.25% due to the cost of funds to average assets ratio increasing by 8 basis points.

Ratio (% Ave. Assets)	As of 2004	As of March 2005	Effect on ROA
Net Interest Margin	3.32%	3.25%	- 7 bp
+ Fee & Other Inc.	1.13%	1.11%	- 2 bp
- Operating Expenses	3.21%	3.17%	+ 4 bp
- PLL	0.36%	0.34%	+ 2 bp
+ Non-Opr. Income	0.03%	0.07%	+ 4 bp
= ROA	0.91%	0.92%	+1 bp

### ASSET/LIABILITY MANAGEMENT

*SHARE TRENDS:* On an annualized basis, total shares increased 10.16% (\$14.1 billion) in the first three months of 2005, compared to 5.26% (\$27.8 billion) in 2004.

*OVERALL LIQUIDITY TRENDS:* In the first three months of 2005, credit unions had approximately 16.74% of total assets in cash and short-term investments, compared to 16.07% at the end of 2004. Net long-term assets (defined as assets with maturities or repricing intervals greater than 3 years - 5 years for real estate loans), equaled 25.18% of total assets at the end of the first quarter of 2005, compared to 25.22% at the end of 2004.

### CONCLUSION

Financial performance of the industry remains strong. However, short-term interest rates have continued to rise. Sound liquidity planning and balance sheet management remain critical to managing the effects of an ever-changing environment.

Success in 2005 will continue to depend upon how well individual credit unions position their balance sheets. Credit unions are encouraged to assess their net worth level as it relates to their risk profile and business needs, and recognize lower levels of profitability may occur for those credit unions taking action to reduce interest rate or other types of risk.