# NCUA LETTER TO CREDIT UNIONS

**NATIONAL CREDIT UNION ADMINISTRATION**
**1775 Duke Street, Alexandria, VA**

**DATE:** **October 2000** **LETTER NO.: 00-CU-06**

**TO:** **Federally Insured Credit Unions**

**SUBJ:** **Financial Trends**
**January 1, 2000 – June 30, 2000**

**DEAR BOARD OF DIRECTORS:**

Enclosed is a report highlighting credit union financial trends for the first half of 2000. The analysis is based on data compiled from the midyear 2000 Call Reports submitted by all federally insured credit unions. We are providing this information to keep you informed of current conditions and trends in the credit union industry.

I thank you for your cooperation in providing this data and look forward to any comments you may have.

Sincerely,

_____________/s/_____________________
Norman E. D'Amours
Chairman
National Credit Union Administration Board

Enclosure

# FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1, 2000 to June 30, 2000

## HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions which reported as of June 30, 2000. As noted below, key financial indicators are strong in most areas.

Key financial indicators are noted below:[1]

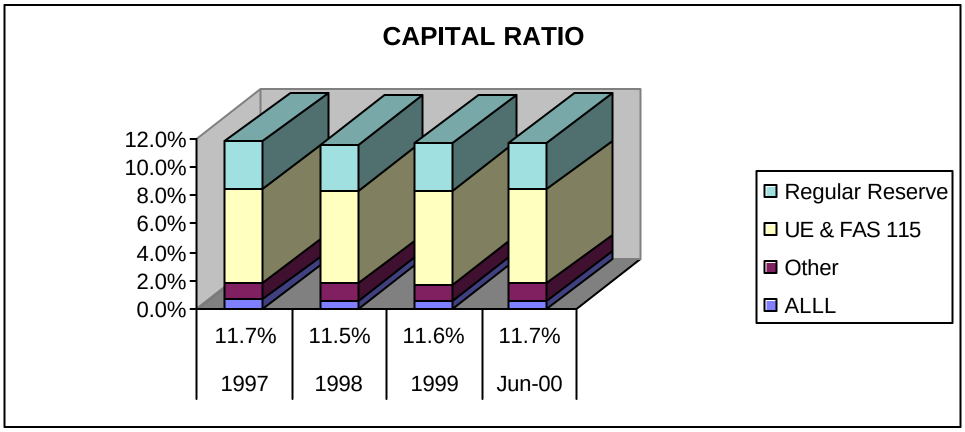
- **Assets** increased $15.4 billion or 3.7%.
- **Capital increased** 4.5%, or $2.1 billion, and the capital to assets ratio increased from 11.6% at yearend to 11.7% as of June 30, 2000.
- **Loans** increased $15.9 billion or 5.9%.
- **Shares** increased $13.7 billion or 3.8%. Because shares grew at a slower rate than loans, the loan to share ratio increased to 77.6%, compared to 76.1% at the end of 1999.
- **Investments** increased $1.6 billion or 1.6%. Cash and cash equivalents, which include credit unions' most liquid investments, decreased $2.6 billion or 9.8%.
- **Profitability** is up slightly at 1.0% of average assets.
- **Delinquent** loans as a percentage of total loans declined slightly from the yearend 1999 level of .075% to 0.66% as of June 30, 2000. Delinquent loan dollars decreased 7.0% during this period. The **net charge off** to average loan ratio also declined from 0.5% to 0.4% of average loans.

## CAPITAL

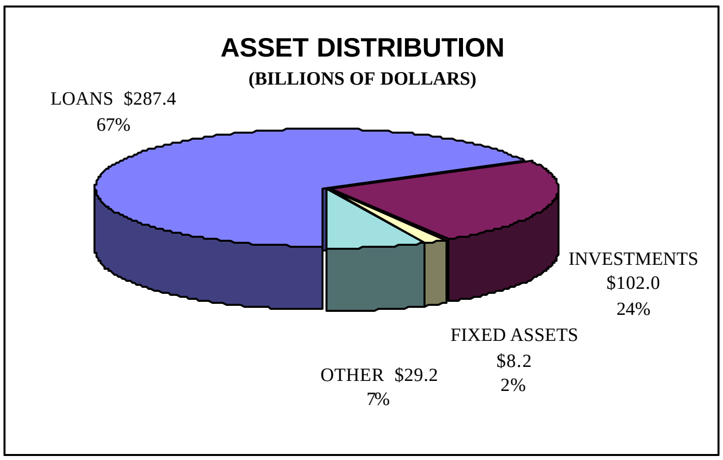
Total capital increased $2.1 billion or 4.5% in the first half of 1999, compared to a 2.9% increase during the same period last year. The capital to total assets ratio increased from 11.6% at the end of 1999 to 11.7% as of June 30, 2000.

The net capital to total assets ratio, which measures capital after estimated losses, also increased from 11.0% to 11.1%.

[1] Unless otherwise indicated, all percent changes are year-to-date, and have not been annualized.



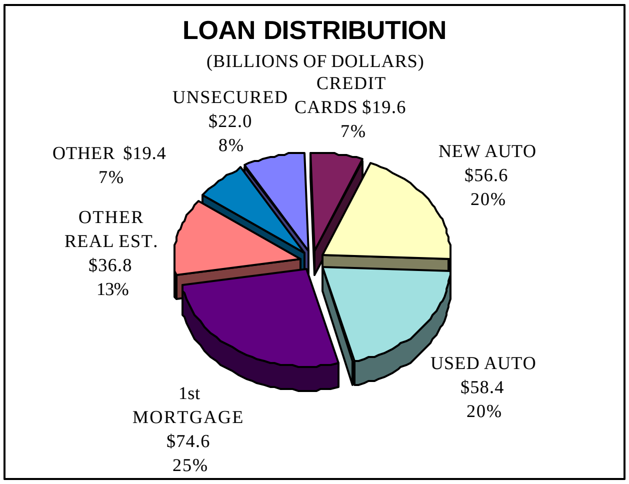

## ASSET QUALITY



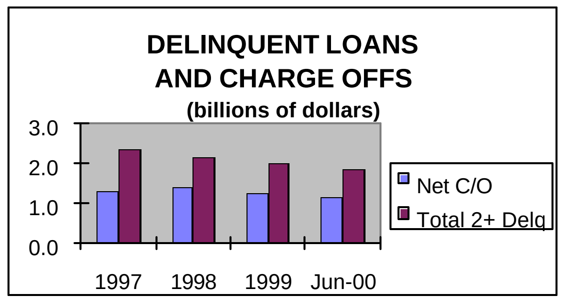

*LOAN TRENDS:* Total loans increased $15.9 billion or 5.9% through the first half of 2000. Four loan categories accounted for the increase:

- New auto loans increased $4.1 billion (7.8%);
- Used auto loans increased $3.9 billion (7.1% increase);
- Other real estate loans increased $3.8 billion (11.4%); and
- First mortgage real estate loans increased $3.7 billion (5.2% increase).

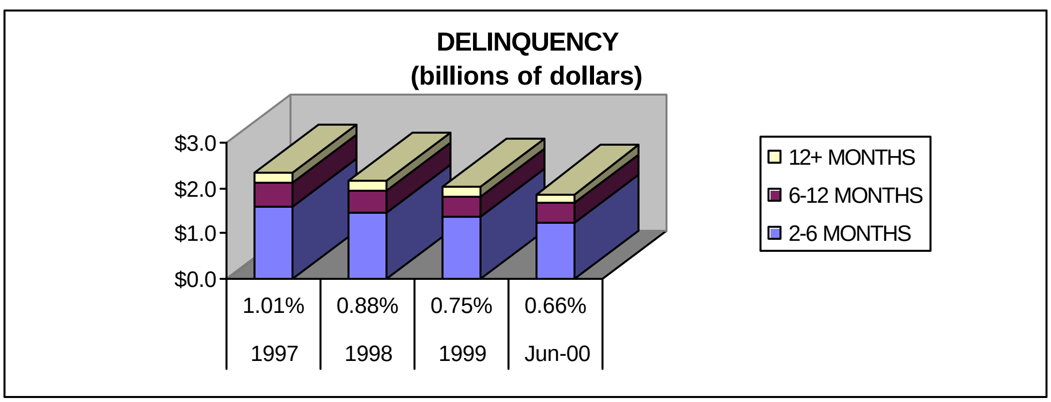
Unsecured loans decreased in both categories: credit card loans decreased $0.5 billion (2.3%), and other unsecured loans decreased $0.3 billion (1.4%).




*DELINQUENCY TRENDS:* Total delinquent loan dollars decreased $142 million or 7.0% through June 30, 2000, and the delinquent loans to total loans ratio declined from 0.75% to 0.66%.




The net charged off loans to average loans ratio declined to 0.42% from 0.49% a year ago. Charged off loan dollars decreased 5.2% over the same period last year, while recoveries increased 3.3%.

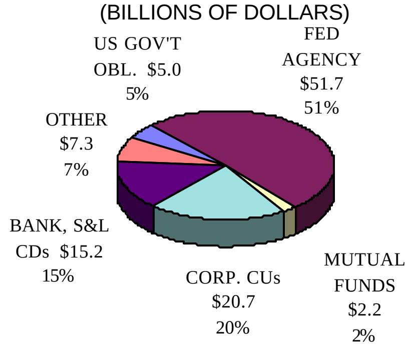


Bankruptcies declined during the first half of 2000. Credit unions reported $519 million in loans subject to bankruptcies; a 14.1% decrease from the amount reported for the first half of 1999. Loans charged off due to bankruptcy also declined 14.3% compared to the same period last year. Nearly 105,000 members (0.1% of all members) were reported to have filed bankruptcy during the first half of 2000, the lowest amount reported since 1996.

*INVESTMENT TRENDS:* Investments increased $1.6 billion or 1.6% through the first half of 2000. The largest increase is noted in federal agency securities ($3.2 billion or 6.5% increase). The two largest declines are in U.S. Government obligations ($793 million or 13.7%) and corporate credit union term investments ($725 million or 3.8%).

**INVESTMENT DISTRIBUTION**

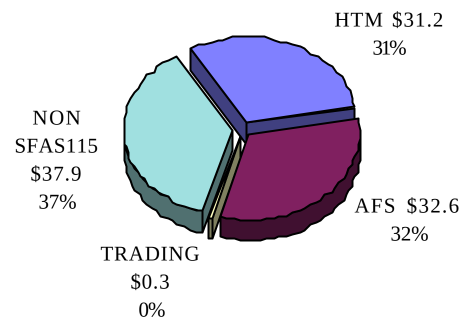
(BILLIONS OF DOLLARS)




Investments classified as *available for sale* increased $1.0 billion (3.2%), while those in the held to maturity category increased $1.7 billion (5.8%). Investments not subject to classification under Statement of Financial Accounting Standard Number 115 (SFAS 115) decreased $1.1 billion or 2.8%.

**SFAS 115 INVESTMENT CLASSIFICATION**

(BILLIONS OF DOLLARS)




As of June 30, 2000, *held to maturity* and *available for sale* investments made up 62.6% of the investment portfolio (30.6% and 32.0%, respectively), while *non-SFAS 115* investments accounted for 37.2% of the portfolio (the remainder was classified as trading).

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

| Investment Maturity or Repricing Interval | % of Total Investments December 1999 | % of Total Investments June 2000 |
|---|---|---|
| Less than 1 year | 46.8% | 44.8% |
| 1 to 3 years | 31.2% | 33.3% |
| 3 to 10 years | 19.6% | 19.7% |
| Greater than 10 yrs | 2.4% | 2.2% |

The increase in the 1 to 3 and 3 to 10 year maturity categories are consistent with the increase in federal agency securities.

### EARNINGS

The earnings ratios show some change compared to those for the same period in 1999. An increase in the gross income to average assets ratio and a decrease in the cost of funds ratio offset the increase in operating expense ratios improving the return on average assets ratio, as noted in the following table.

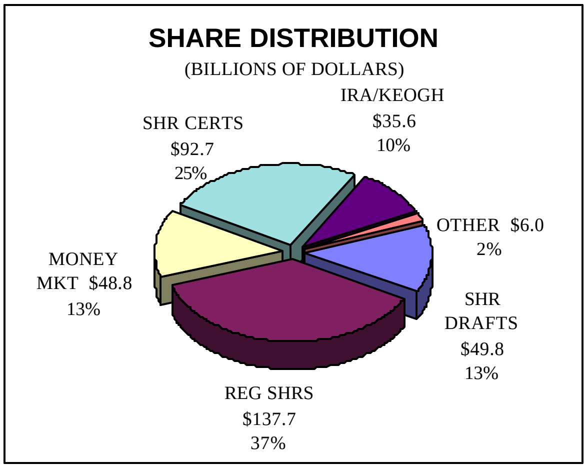
| Ratio | As of 06/1999 | As of 06/2000 | Effect on ROA |
|---|---|---|---|
| Gross Income | 7.83% | 8.12% | + 29 bp |
| Cost of Funds | 3.33% | 3.41% | +8 bp |
| Operating Expenses | 3.25% | 3.37% | +12 bp |
| PLL | 0.35% | 0.30% | -5 bp |
| ROA | 0.90% | 1.04% | + 14 bp |

### ASSET/LIABILITY MANAGEMENT

*LONG-TERM ASSET TRENDS:* Long-term assets continue to increase as a percentage of total assets. Long-term assets, which have maturities or repricing intervals greater than 3 years, equaled 25.4% of total assets as of June 30, 2000, compared to 24.4% for the same period last year. The increase in long-term assets is primarily due to increases in the real estate loan portfolio.

*SHARE TRENDS:* Total shares increased $13.6 billion or 3.8% through the first half of 2000. Growth rates for the various share categories are as follows:

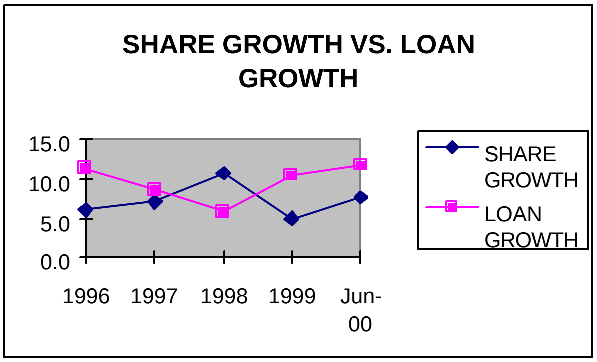
- Share drafts -- ↑ $5.0 billion, 11.2%;
- Regular shares -- ↑ $3.7 billion, 2.7%;
- Money market shares -- ↑ $1.4 billion, 2.9%;
- Share certificates -- ↑ $3.0 billion, 3.3%;
- IRA/Keogh accounts -- ↓ $0.2 billion, 0.6%;
- All other shares (including nonmember deposits) -- ↑ $0.8 billion, 17.4%.




The largest share increase is again noted in the less than one year maturity category, which is consistent with the large dollar growth in share drafts and regular shares.

| Share Maturity or Repricing Interval | % of Total Shares June 1999 | % of Total Shares June 2000 |
|---|---|---|
| Less than 1 year | 91.0% | 90.4% |
| 1 to 3 years | 7.2% | 7.8% |
| 3 or more years | 1.8% | 1.8% |

*OVERALL LIQUIDITY TRENDS:* Share growth (7.7%) was less than that of loan growth (11.7%) during the first half of 2000. The increase in the loan-to-share and loan-to-asset ratios underscores a significant reduction in credit union liquidity as funds are increasingly utilized to meet strong loan demand.




At the end of the first half of 2000 credit unions held approximately 16.2% of total assets in cash and short-term investments. This represents a significant decline compared to the 20.7% for the same period last year. Cash and cash equivalents, which represent the credit union's most liquid assets, declined $2.6 billion or 9.8% in the first half of the year.

Notes payable declined $718 million from $4.4 billion at the end of 1999 to $3.7 billion at June 30, 2000. However, borrowings are almost 93% higher than reported a year ago. The cost of borrowing by credit unions is also 92% more than the same period a year ago. This indicates that, over the past year, credit unions are relying more on borrowed funds as a source of liquidity.

Total unused commitments were reported at $76.8 billion, of which $47.2 billion or 61.5% were unused credit card lines. For the first half of 1999, unused commitments increased more than $3.7 billion in total, with $1.8 billion of the increase in unused credit card lines. During the same period, outstanding credit card balances increased $1.2 billion. The ratio of unused commitments to cash plus short-term investments reached 110% as of June 30, 2000. This means that the total amount of unused commitments exceeds credit unions' total available on-hand funds. In light of the need for prudent management of liquidity and contingency funding arrangements, credit union managers are encouraged to consider unused commitments when evaluating their overall funds management strategies.