NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA

DATE: September 2002 **LETTER NO.:** 02-CU-15

TO: Federally Insured Credit Unions

SUBJ: Credit Union Financial Trends for the First Half of 2002

ENCL: Financial Trends in Federally Insured Credit Unions
January 1, 2002 to June 30, 2002

DEAR BOARD OF DIRECTORS:

Enclosed is a report highlighting credit union financial trends for the first half of 2002. We based our analysis on data compiled from the midyear 2002 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.

Thank you for your cooperation in providing this data.

Sincerely,

/S/

Dennis Dollar
Chairman

Enclosure

FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1, 2002 to June 30, 2002

HIGHLIGHTS

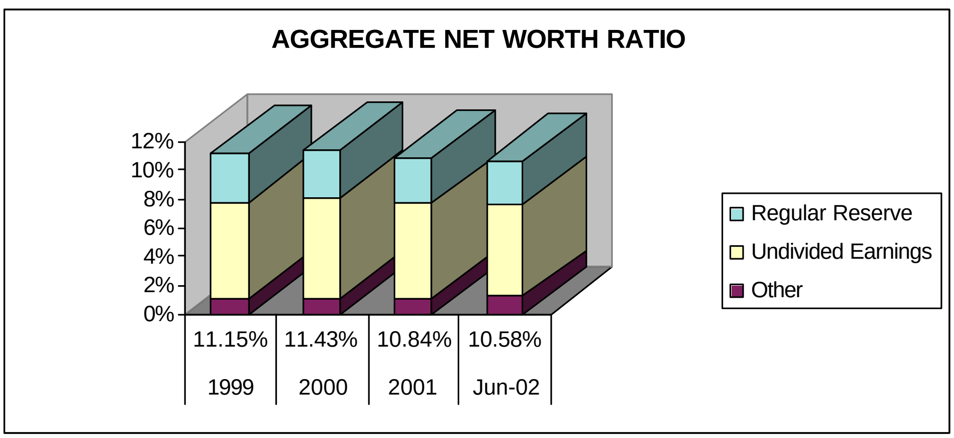
This report summarizes the trends of all federally insured credit unions that reported as of June 30, 2002.

Key financial indicators are noted below:[1]

- **Assets** increased $37.3 billion or 7.45%.
- **Capital:** Net worth increased $2.6 billion or 4.84%, while the net worth to assets ratio decreased to 10.58%.
- **Loans** increased $11.2 billion or 3.47%.
- **Shares** increased $33.6 billion or 7.68%. The loan-to-share ratio decreased to 70.88%.
- ***Cash management accounts**, (cash on hand, cash on deposit, cash equivalents,)* plus short-term investments (less than 1 year) increased $9.0 billion or 9.35%.
- **Long-term investments (over 1 year)** increased $15.1 billion or 22.65%.
- **Profitability** increased with a 1.04% return on average assets ratio.
- **Delinquent** loans as a percentage of total loans declined from the yearend 2001 level of 0.82% to 0.72%, while **net charge-offs** increased from 0.46% to an annualized 0.49% of average loans.

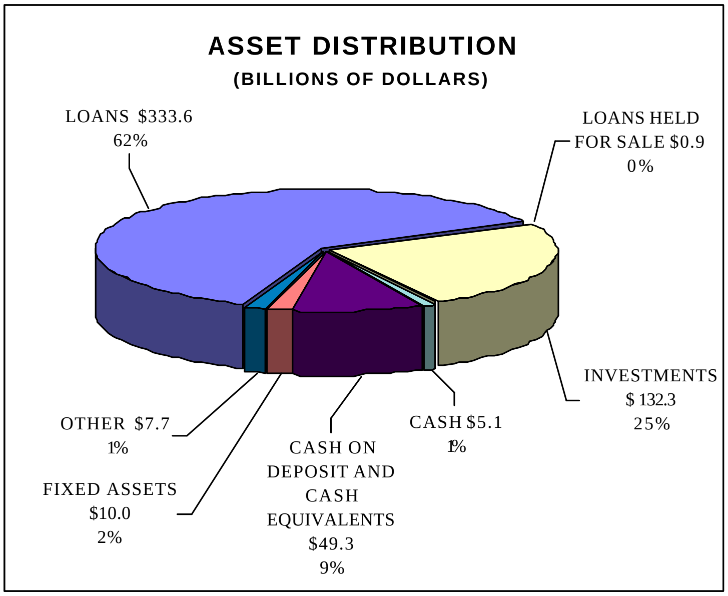
CAPITAL

Total net worth increased $2.6 billion or 4.84% during the first half of 2002, compared to $2.1 billion or 4.29% during the same period last year. The aggregate net worth to total assets ratio decreased from 10.84% at the end of 2001 to 10.58% as of June 30, 2002, as asset growth outpaced net worth growth. The average net worth ratio among individual credit unions decreased from 13.74% at the end of 2001 to 13.21% as of June 30, 2002.



1. *Unless otherwise indicated, all percent changes are year-to-date, and are not annualized.*

ASSET QUALITY

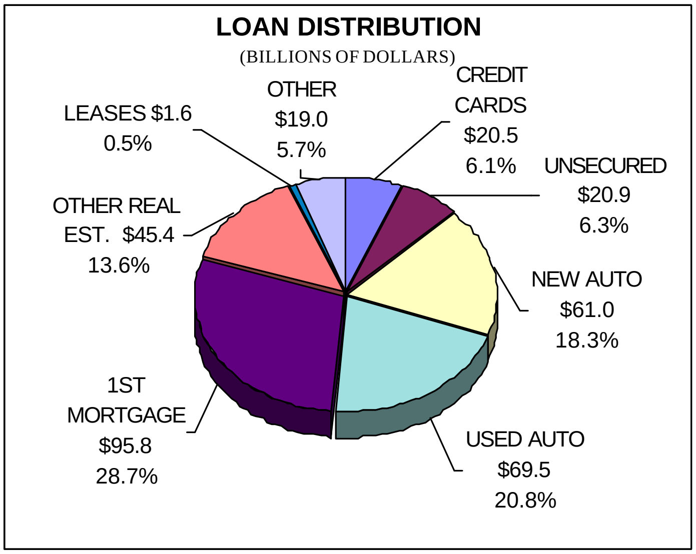


LOAN TRENDS: Total loans increased $11.2 billion or 3.47% through the first half of 2002. All loan categories except *Unsecured Credit Card Loans* and *All Other Unsecured Loans* increased. Growth in the various categories was as follows:

- Unsecured credit card loans decreased $1.2 billion or 5.69%;
- All other unsecured loans decreased $0.9 billion or 4.08%;
- New auto loans increased $0.8 billion or 1.27%;
- Used auto loans increased $3.2 billion or 4.78%;
- First mortgage real estate loans increased $6.6 billion or 7.46%;
- Other real estate loans increased $2.8 billion or 6.58%;
- Leases receivable increased $0.1 billion or 6.07%; and
- All other loans increased $1.7 billion or 10.04%.

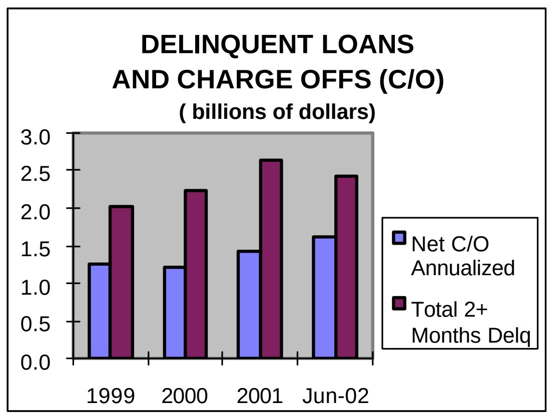
First mortgage real estate loans in the amount of $95.8 billion account for 28.71% of all loans, with $69.1 billion or 72.14% of these loans reported as fixed rate. Federally insured credit unions granted $20.5 billion in fixed rate and $5.8 billion in adjustable rate first mortgage real estate loans through June 30, 2002. On an annualized basis, the amount of first mortgage loans granted exceeds the amount granted in 2001 by $6.7 billion or 14.56%. Credit unions also report $9.5 billion of first mortgages sold (includes both fixed and adjustable rates) or 35.93% of the loans granted during this period.

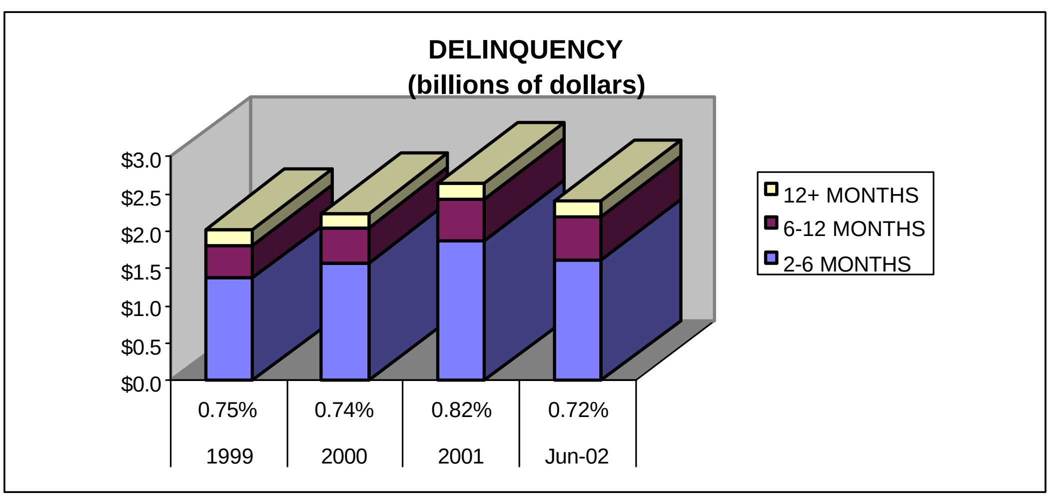
Annualized loan growth was 6.94% while shares grew at an annualized rate of 15.35%, resulting in a loan-to-share ratio of 70.88%



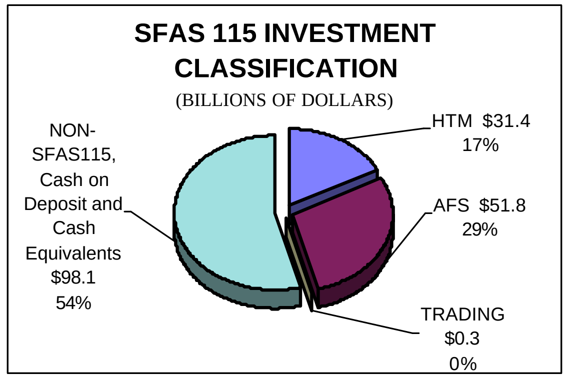
DELINQUENCY TRENDS: Delinquent loans decreased $231.0 million or 8.73% through June 30, 2002, and the delinquent loans to total loans ratio declined from 0.82% at the end of 2001 to 0.72%.

The net charge-off loans to average loans ratio increased from an annualized rate of 0.43% to 0.49%, compared to the same period last year. Charge-off loan dollars increased 20.80% over the same period last year, and recoveries increased 9.76%.

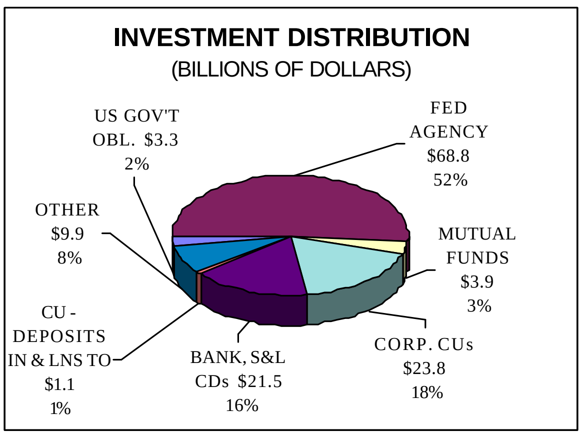




Federally insured credit unions reported $0.9 billion of outstanding loans subject to bankruptcy. In addition, $371.2 million of bankruptcy loans were reported as charged off during the first half of 2002. This accounts for 38.76% of all loans charged off this year. The number of members filing bankruptcy increased 1.70% compared to the number reported the same period last year, with 0.16% of all members reporting bankruptcy though the first half of 2002.



INVESTMENT TRENDS: Total investments increased $20.3 billion or 18.13% through the first half of 2002. All investment categories, except *Credit Unions - Deposits In and Loans To*, displayed growth.



Cash management accounts increased $3.8 billion or 7.46%. The combined categories of *cash management accounts*, plus investments with maturities of less than one year increased $9.0 billion or 9.35% through the first half of 2002.

Investments with maturities greater than a year increased $15.1 billion or 22.65%.

The investment category noting the largest dollar growth is *Federal Agency Securities,* which increased $10.0 billion or 17.02%. *All Other Investments* noted the largest growth of $2.6 billion or 34.57%.

Non-SFAS 115 Investments increased from $85.5 billion to $98.1 billion ($12.6 billion or 14.73%). *Held to Maturity* investments increased from $27.3 billion to $31.4 billion ($4.0 billion or 14.82%). *Available for Sale* investments increased from $44.1 billion to $51.8 billion ($7.6 billion or 17.33%). *Trading Securities* increased from $294.2 million to $312.2 million ($18.0 million or 6.11%).

As of June 30, 2002, *Held to Maturity* and *Available for Sale* investments made up 46% of the investment portfolio (17% and 29%, respectively), while *non-SFAS 115 Investments, Cash on Deposit,* and *Cash Equivalents* accounted for 54% of the portfolio (a small amount 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 June 2001	% of Total Investments June 2002
Less than 1 year	63.34%	54.91%
1 to 3 years	22.94%	31.27%
3 to 10 years	12.31%	12.81%
Greater than 10 yrs	1.41%	1.01%

The increase in investments with maturities greater than one-year is consistent with the higher increase in total investments compared to the cash management accounts.

EARNINGS

The large growth in deposits and modest loan growth experienced since 2001, coupled with a low interest rate environment, has significantly reduced the gross income to total assets ratio compared to the same period last year. Adjustments to the cost of funds, along with a reduction in operating expenses in relation to average assets, contributed to an eight basis point increase to the return on average assets, as noted in the following table.

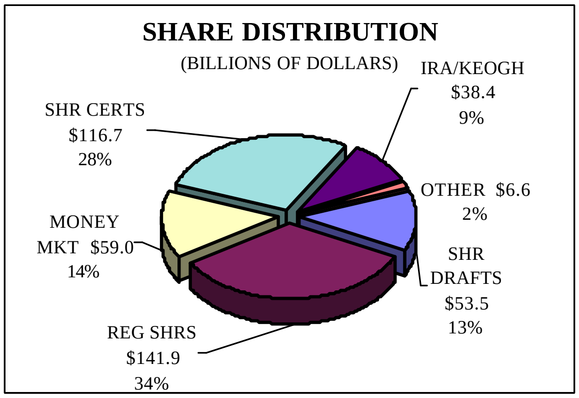
Ratio	As of 06/2001	As of 06/2002	Effect on ROA
Gross Income	8.17%	7.00%	-117 bp
- Cost of Funds	3.59%	2.40%	+119 bp
- Operating Expenses	3.37%	3.23%	+ 14 bp
- Provision for Loan & Lease Losses	0.30%	0.35%	- 5 bp
+ Non-Operating Income	0.05%	0.02%	- 4 bp
= Return On Assets	0.96%	1.04%	

ASSET/LIABILITY MANAGEMENT

LONG-TERM ASSET TRENDS: Long-term assets as a percentage of total assets continue the upward trend noted at the end of 2001. Long-term assets, which are primarily investments having maturities or repricing intervals greater than 3 years and real estate loans having maturities or repricing intervals greater than 5 years, equaled 23.12% of total assets as of June 30, 2002, compared to 22.23% for the same period last year. The increase in long-term assets is primarily due to an increase in real estate loans and longer term investments.

SHARE TRENDS: Total shares increased $33.6 billion or 7.68% through the first half of 2002. Growth rates for the various share categories are as follows:

- Share drafts -- increased $5.3 billion or 9.85%;
- Regular shares -- increased $19.3 billion or 12.90%;
- Money market shares -- increased $10.7 billion or 15.33%;
- Share certificates -- decreased $4.4 billion or 3.73%;
- IRA/Keogh accounts -- increased $1.5 billion or 3.70%;
- Other shares -- increased $1.3 billion or 25.92%; and
- Non-member deposits -- decreased $37.7 million or 2.81%.



Compared to the same period last year, the largest increase in share dollars is in the less than one-year maturity category, which is consistent with the large dollar growth in share draft, regular share and money market accounts.

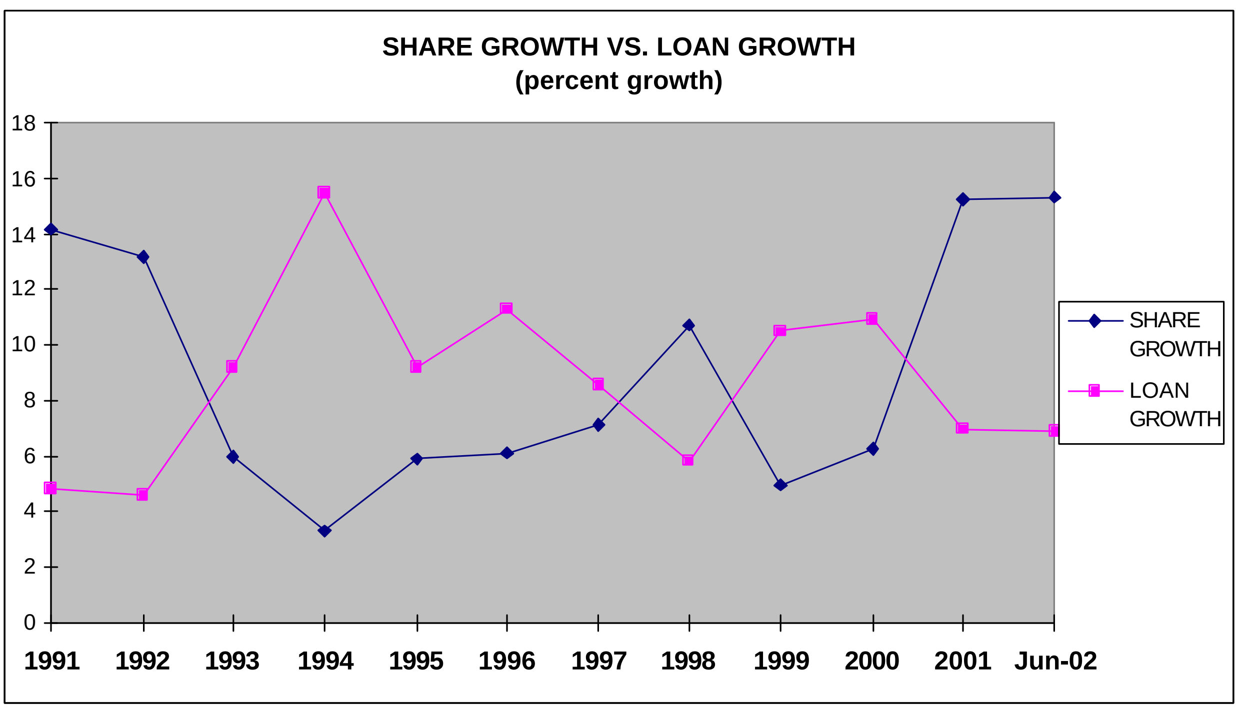
Share Maturity or Repricing Interval	Shares June 2001 (Billions)	Shares June 2002 (Billions)
Less than 1 year	372.4	427.2
1 to 3 years	35.3	34.1
3 or more years	8.3	9.4

Shares with maturities less than one year also experienced the highest rate of growth as noted by their percent of total shares increase in the following table.

Share Maturity or Repricing Interval	% of Total Shares June 2001	% of Total Shares June 2002
Less than 1 year	89.52%	90.76%
1 to 3 years	8.49%	7.24%
3 or more years	1.99%	2.00%

OVERALL LIQUIDITY TRENDS: At the end of the first half of 2002, credit unions held 19.45% of total assets in cash and short-term investments. This remains near the credit unions' average historic level of approximately 20% of assets. Notes payable increased from $4.2 billion at the end of 2001 to $4.8 billion at June 2002.

Annualized Share growth of 15.35% was 2.2 times that of annualized loan growth of 6.94%. This continues the reversal noted during the same period last year.



The trends for the first half of the year exhibit the significant share growth noted throughout 2001. Loan growth remains modest in comparison resulting in increased levels of cash and investments. Liquidity has increased as evidenced by the decline in the loan-to-share ratio from 73.77% at year-end to 70.88%.

Credit unions should recognize that some of the increase in shares resulted from the "flight to quality" as credit union members shift funds away from potentially more risky investments into insured credit union share accounts. An improvement in the economy and increased optimism could result in significant share outflows if members shift their share deposits into equity securities.