NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: **December 2003** **LETTER NO.: 03-CU-18**

TO: **Federally Insured Credit Unions**

SUBJ: **Credit Union Financial Trends for the Third Quarter of 2003**

ENCL: **Financial Trends in Federally Insured Credit Unions**
January 1, 2003 to September 30, 2003

DEAR BOARD OF DIRECTORS:

Enclosed is a report highlighting credit union financial trends for the third quarter of 2003. We based our analysis on data compiled from the third quarter 2003 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, 2003 to September 30, 2003

HIGHLIGHTS

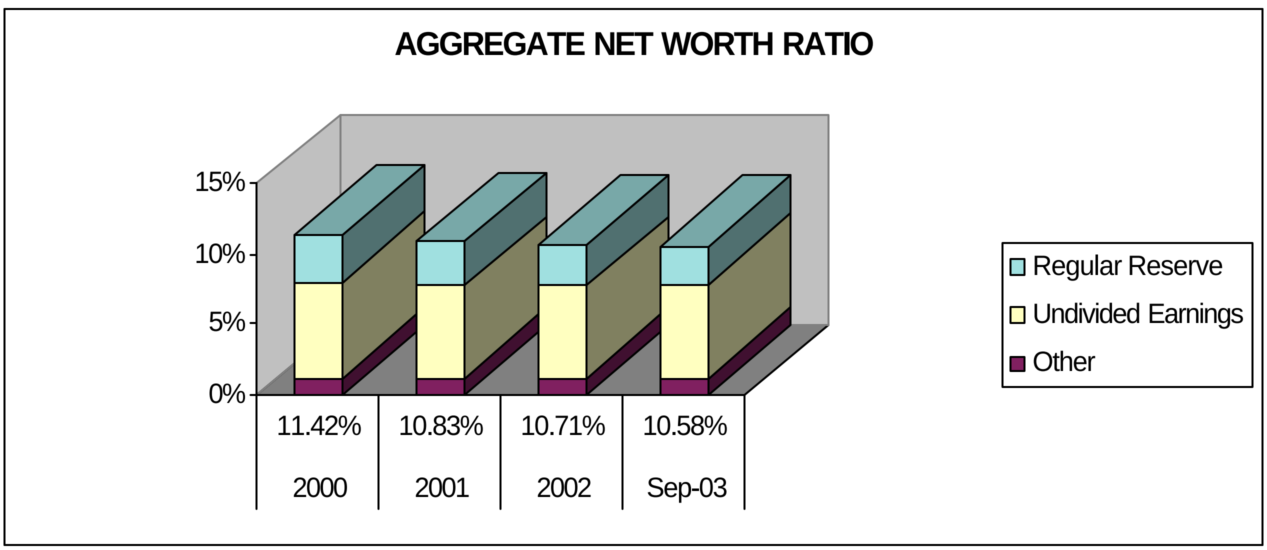
This report summarizes the trends of all federally insured credit unions that reported as of September 30, 2003.

Key financial indicators are noted below:[1]

- **Assets** increased $49.0 billion or 8.80%.
- **Capital:** Net worth increased $4.5 billion or 7.48%, while the net worth to assets ratio decreased to 10.58%.
- **Loans** increased $24.3 billion or 7.09%.
- **Shares** increased $41.9 billion or 8.65%. The loan-to-share ratio decreased to 69.76%.
- ***Cash management accounts*** *(cash on deposit and cash equivalents)* plus short-term investments (less than 1 year) increased $3.4 billion or 7.08%.
- **Long-term investments (over 1 year)** increased $20.2 billion or 23.92%.
- **Profitability** decreased with a 1.04% return on average assets ratio.
- **Delinquent** loans as a percentage of total loans declined from the year-end 2002 level of 0.79% to 0.75%, while net charge-offs increased from 0.51% to an annualized 0.54% of average loans.

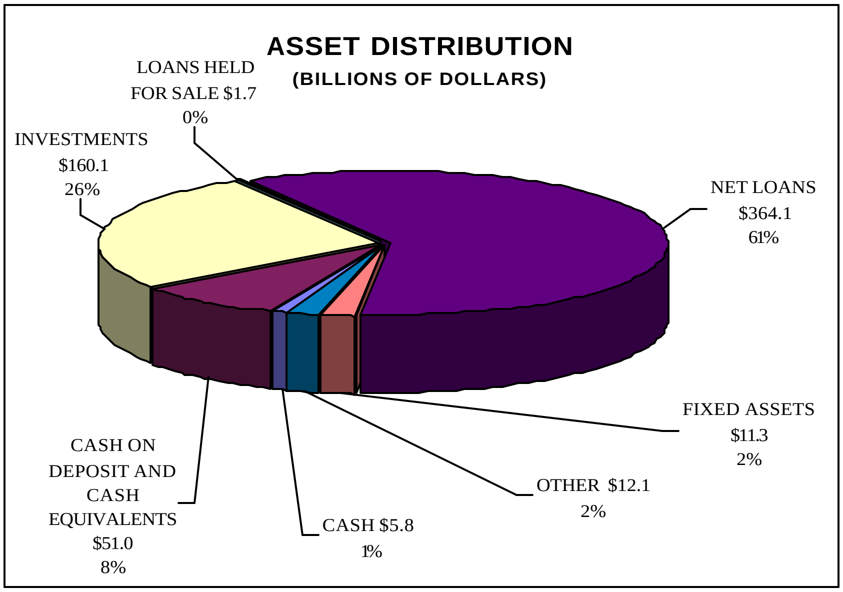
CAPITAL

Total net worth increased $4.5 billion or 7.48% during the nine months of 2003. The aggregate net worth to total assets ratio decreased from 10.71% at the end of 2002 to 10.58% as of September 30, 2003, as asset growth outpaced net worth growth. The average net worth ratio among individual credit unions decreased from 13.36% at the end of 2002 to 13.18% as of September 30, 2003.



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

ASSET QUALITY

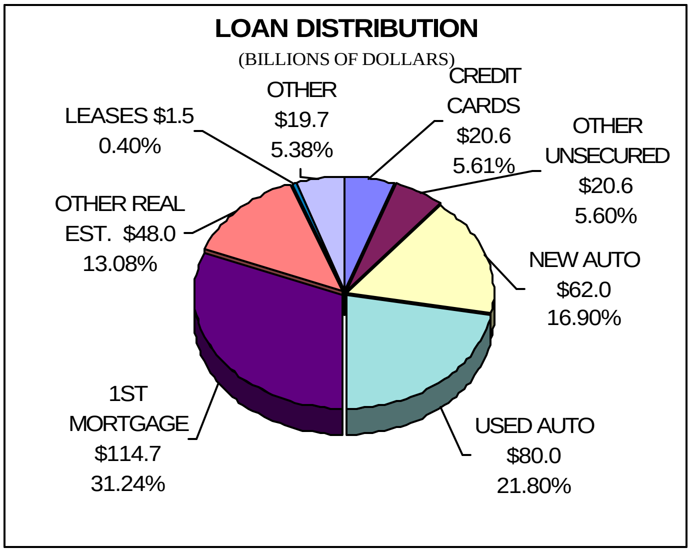


LOAN TRENDS: Total loans increased $24.3 billion or 7.09% through the third quarter of 2003. All loan categories except *Unsecured Credit Card Loans, All Other Unsecured Loans, and Leases Receivable* increased. Growth in the various categories was as follows:

- Unsecured credit card loans decreased $1.0 billion or 4.59%;
- All other unsecured loans decreased $0.6 billion or 2.71%;
- New auto loans increased $1.6 billion or 2.58%;
- Used auto loans increased $7.8 billion or 10.84%;
- First mortgage real estate loans increased $13.9 billion or 13.78%;
- Other real estate loans increased $1.6 billion or 3.37%;
- Leases receivable decreased $38.9 million or 2.57%; and
- All other loans increased $1.1 billion or 5.69%.

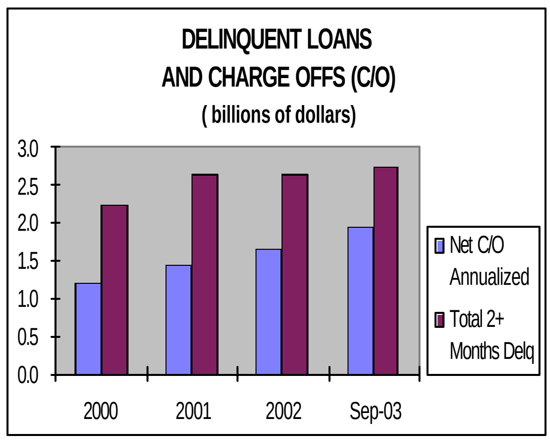
First mortgage real estate loans in the amount of $114.7 billion account for 31.24% of total loans. Used automobile loans comprise the second largest loan category with $80.0 billion or 21.80% of total loans. New automobile loans make up the third largest loan category with $62.0 billion or 16.90% of total loans. Other real estate loans are the fourth largest loan category with $48.0 billion or 13.08% of total loans. These four loan categories account for 83.01% of the total loan portfolio.

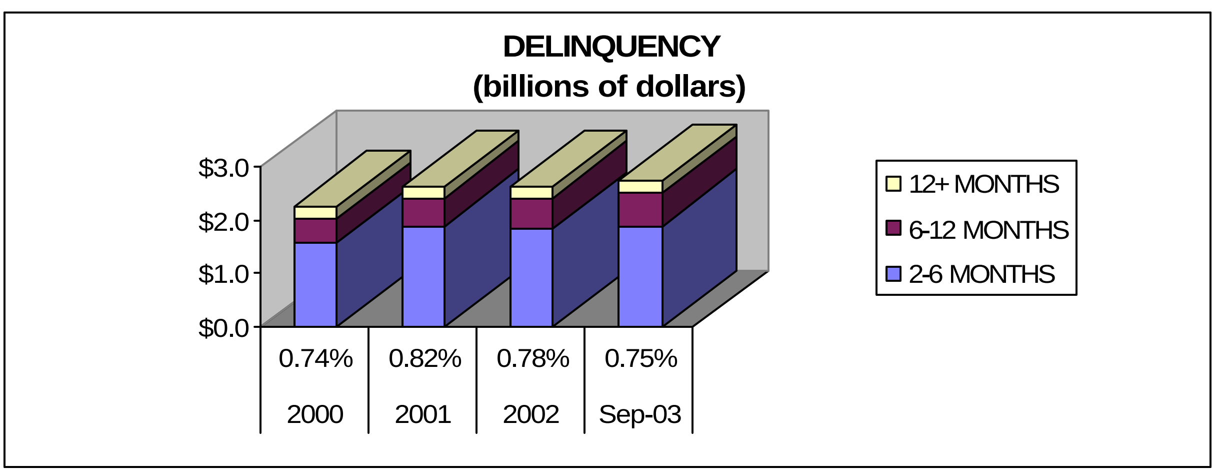
Annualized loan growth was 9.45% while shares grew at an annualized rate of 11.53%, resulting in a loan-to-share ratio of 69.76%.



DELINQUENCY TRENDS: Delinquent loans increased $26.7 million or 0.98% through September 30, 2003, while the delinquent loans to total loans ratio declined from 0.79% at the end of 2002 to 0.75%.

The net charge-off loans to average loans ratio increased from the year-end rate of 0.51% to an annualized rate of 0.54%. Charge-off loan dollars increased 13.09% since year-end 2002, and recoveries increased 13.40%.





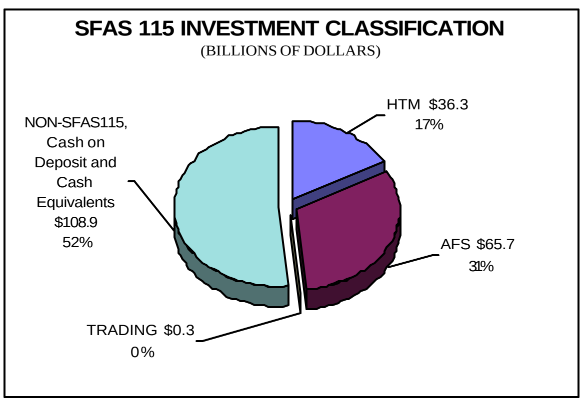
INVESTMENT TRENDS: Investments increased $19.9 billion or 14.18% through the third quarter of 2003.

Cash management accounts increased $3.4 billion or 7.08%. The combined categories of *cash management accounts*, plus investments with maturities of less than one year increased $3.1 billion or 2.96% through the third quarter of 2003.

Investments with maturities greater than a year increased $20.2 billion or 23.92% with the majority of growth in the three-to-ten year maturity range.

Investments and Cash Management Accounts

Maturity or Repricing Interval	% of Total Investments 12/2002	% of Total Investments 09/2003
Less than 1 year	55.08%	50.47%
1 to 3 years	32.01%	31.69%
3 to 10 years	11.76%	16.37%
Greater than 10 yrs	1.15%	1.47%



Non-SFAS 115 Investments and cash management accounts increased from $100.2 billion to $108.9 billion ($8.7 billion or 8.65%). *Held to Maturity* investments increased from $32.2 billion to $36.3 billion ($4.1 billion or 12.59%). *Available for Sale* investments increased from $55.2 billion to $65.7 billion ($10.5 billion or 19.06%). *Trading Securities* increased from $253.5 million to $260.4 million ($6.9 million or 2.72%).

As of September 30, 2003, *Held to Maturity* and *Available for Sale* investments made up 48% of the investment portfolio (17% and 31%, respectively), while *non-SFAS 115 Investments, Cash on Deposit,* and *Cash Equivalents* accounted for 52% of the portfolio (a small amount was classified as *Trading*).

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. In spite of adjustments to the cost of funds and a slight reduction in operating expenses in relation to average assets, the return on average assets declined three basis points, as noted in the following table.

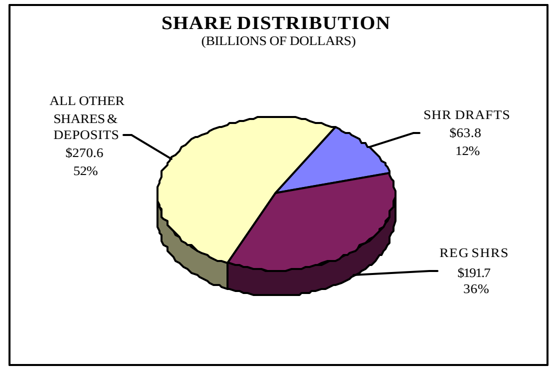
Ratio	As of 12/2002	As of 09/2003	Effect on ROA
Gross Income	6.94%	6.23%	- 71 bp
- Cost of Funds	2.29%	1.71%	+ 58 bp
- Operating Expenses	3.27%	3.20%	+ 7 bp
- Provision for Loan & Lease Losses	0.35%	0.33%	+ 2 bp
+ Non-Operating Income	0.04%	0. 05 %	+ 1 bp
= Return On Assets	1.07%	1.04%	- 3 bp

ASSET/LIABILITY MANAGEMENT

LONG-TERM ASSET TRENDS: Net long-term assets 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. Net long-term assets as a percentage of total assets increased from 22.93% to 25.13% since the end of 2002. Over half of credit unions' $49 billion total asset growth during the first nine months was concentrated in net long-term assets, which grew $24.6 billion or 19.23% since year-end. The majority of the growth occurred in first mortgage real estate loans and investments greater than 3 years in maturity.

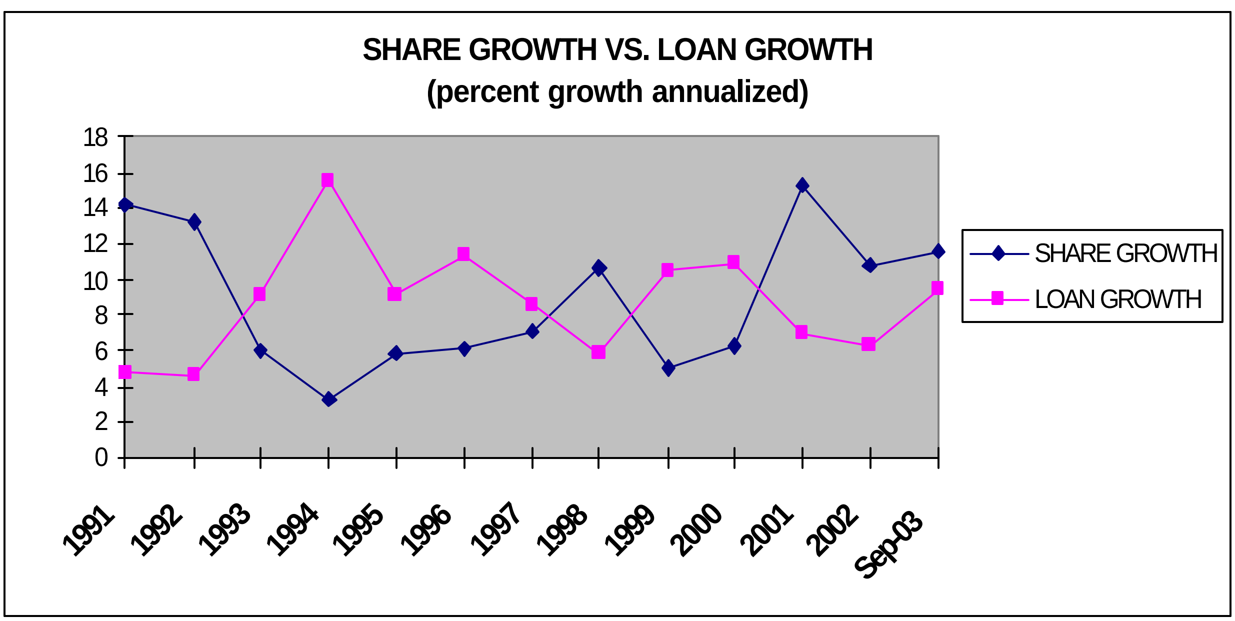
SHARE TRENDS: Total shares increased $41.9 billion or 8.65% through the third quarter of 2003. Growth rates for the various share categories are as follows:

- Share drafts -- increased $5.8 billion or 10.02%;
- Regular shares -- increased $19.5 billion or 11.33%;
- All other shares and deposits -- increased $16.6 billion or 6.52%.



OVERALL LIQUIDITY TRENDS: At the end of the third quarter of 2003, credit unions held 18.53% of total assets in cash and short-term investments. This is slightly lower than credit unions' average historic level of approximately 20% of assets. Borrowings increased from $7.7 billion at the end of 2002 to $10.4 billion at September 2003.

Annualized Share growth of 11.53% remained higher than the annualized loan growth of 9.45%. This continues the trend that began in 2001; however, the difference between the rates of growth has decreased.



While share growth continued to exceed loan growth in the first nine months of 2003, loan growth was robust during the third quarter reflecting improving economic conditions. The loan-to-share ratio declined only slightly from 70.77% at year-end to 69.76%, while available liquidity also declined slightly.

As the rate of growth in loans is increasing, and share growth slows, continued vigilance by credit union management is encouraged as economic conditions change.