

2004 Annual Report

# National Credit Union Administration

70 Years of Service 1934-2004



NATIONAL CREDIT UNION ADMINISTRATION

# Mission Statement

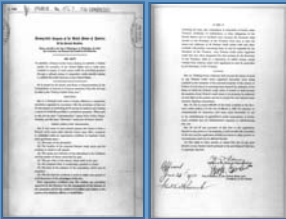
NCUA's mission is to foster the safety and soundness of federally insured credit unions and to better enable the credit union community to extend credit for productive and provident purposes to all Americans, particularly those of modest means.

NCUA strives to ensure that credit unions are empowered to make the necessary business decisions to serve the diverse needs of their members and potential members.

We do this by establishing a regulatory environment that encourages innovation, flexibility and a continued focus on attracting new members and improving service to existing members.

# 70 Years of Service

1934



June - Federal Credit Union Act signed and Federal Credit Union Division is placed within the Farm Credit Administration

1934

U. S. credit union founders Edward A. Filene and Roy F. Bergengren with Claude R. Orchard



1934



August  
Claude R. Orchard assumes leadership of federal credit union supervision, a post he holds for 19 years.

1942

Federal credit union supervision is transferred to the Federal Deposit Insurance Corporation.



1948

The renamed Bureau of Federal Credit Unions finds a new home at the Federal Security Administration.

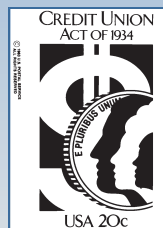
1982

Elizabeth F. Burkhart  
Board member 1982 - 1990



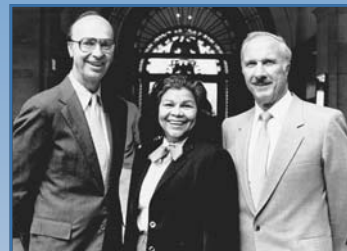
1984

The U.S. Postal Service issues a commemorative stamp honoring the 50th anniversary of the Federal Credit Union Act.



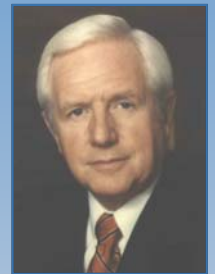
1984

NCUA's Board celebrates the 50th anniversary of the Federal Credit Union Act.



1985

Roger W. Jepsen  
Chairman  
1985 - 1993



1984

Vice Chair P. A. Mack Jr.  
Board Member Elizabeth Flores Burkhart  
Chairman Edgar F. Callahan

1953  
J. Dean Gannon is named director of the Bureau of Federal Credit Unions as it moves to the Department of Health, Education and Welfare.



1970  
Administrator is General Herman Nickerson, Jr.

1970  
The independent National Credit Union Administration and National Credit Union Share Insurance Fund are created.



1976  
C. Austin Montgomery is appointed NCUA administrator.



Gannon with President Lyndon Johnson in 1964

Lorena C. Matthews becomes deputy administrator in 1972



1986  
Administration of the Community Development Credit Union Revolving Loan Fund is transferred to NCUA.



1988  
David Chatfield Board member 1988 - 1989

1990  
Robert Swan Board member 1990 - 1996



1991  
Shirlee Bowne Board member 1991 - 1997



1996  
Yolanda T. Wheat Board member 1996 - 2001



1993  
Norman E. D'Amours Chairman 1993 - 2000



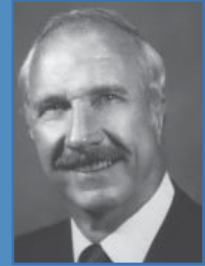
1978  
Lawrence Connell  
is appointed  
NCUA Administrator



1979  
The Central Liquidity  
Facility is created.



1981  
Edgar F. Callahan  
Chairman 1981 - 1985



1979  
NCUA's administrator Connell is replaced with a three-member Board  
Board Member Dr. Harold Black  
1979 – 1981  
Chairman Lawrence Connell  
1979 – 1981  
Vice Chairman P. A. Mack Jr.  
1979 – 1987

The Depository Institutions  
Monetary Control Act of  
1980 permits permanent  
share draft authority for  
federally insured credit  
unions and increases share  
insurance coverage from  
\$40,000 to \$100,000



2001  
Geoff Bacino  
Board member  
2001



2002  
Deborah Matz  
Board member

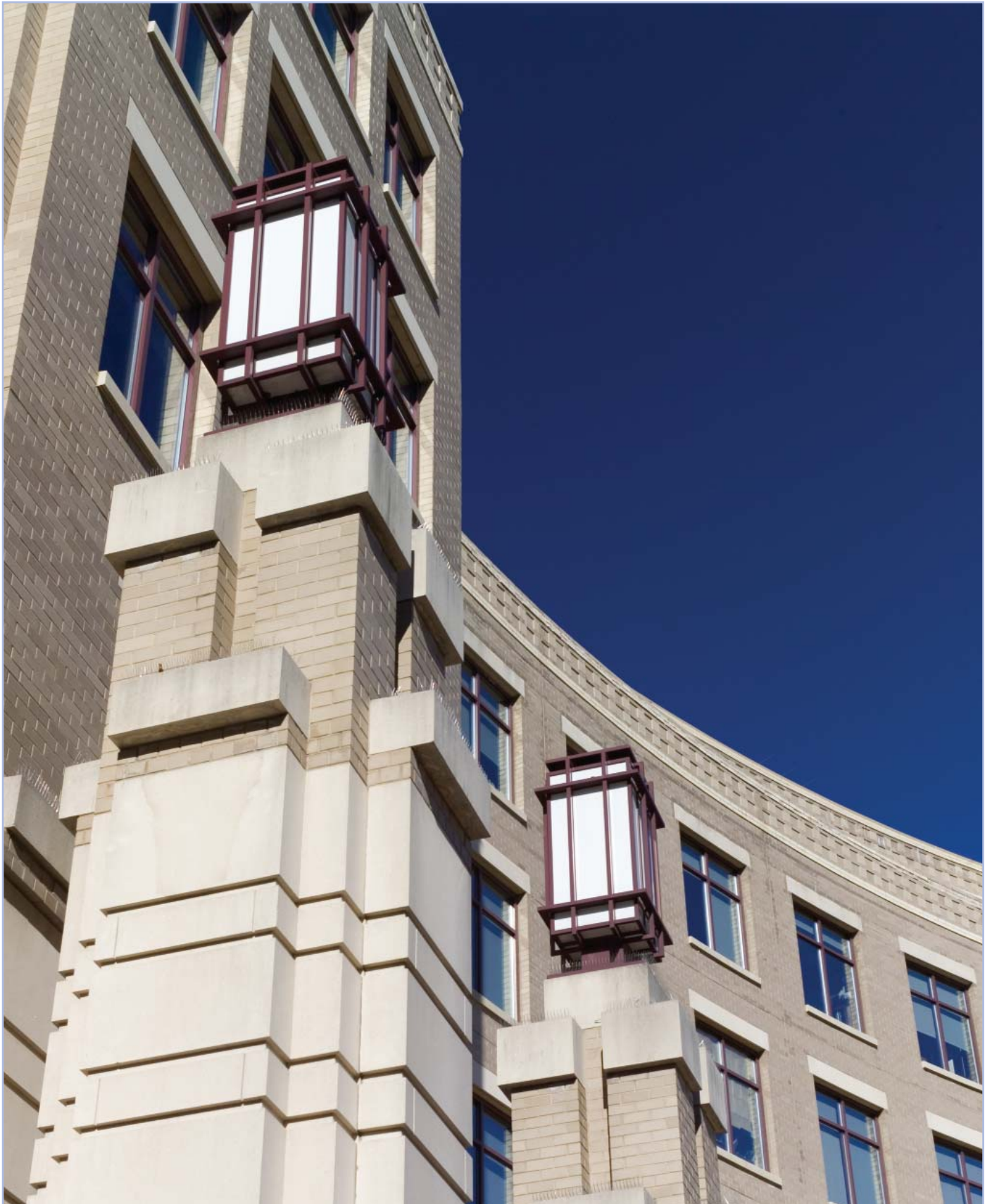


2002  
JoAnn M. Johnson  
Board member  
2002 - 2004  
Chairman 2004

1997  
Dennis Dollar  
Board member  
1997 – 2001  
Chairman  
2001 - 2004

1998  
HR 1151, the Credit Union  
Membership Access Act  
becomes law permitting  
federal credit unions to  
expand their fields of  
membership.





*Building Photos by Architectural Images - Phoenix, Maryland*

# Financial Highlights 2004

## NCUA Operating Fund

|                                              |                 |
|----------------------------------------------|-----------------|
| Operating fee revenue                        | \$ 50.7 million |
| Other income                                 | 0.7 million     |
| Total revenue                                | 51.4 million    |
| Expense budget                               | 149.9 million   |
| Actual expenses                              | 133.5 million   |
| Expenses transferred to Share Insurance Fund | 79.9 million    |
| Operating Fund expenses                      | 53.7 million    |
| Net income                                   | (2.3) million   |
| Fund balance                                 | 14.9 million    |

## National Credit Union Share Insurance Fund

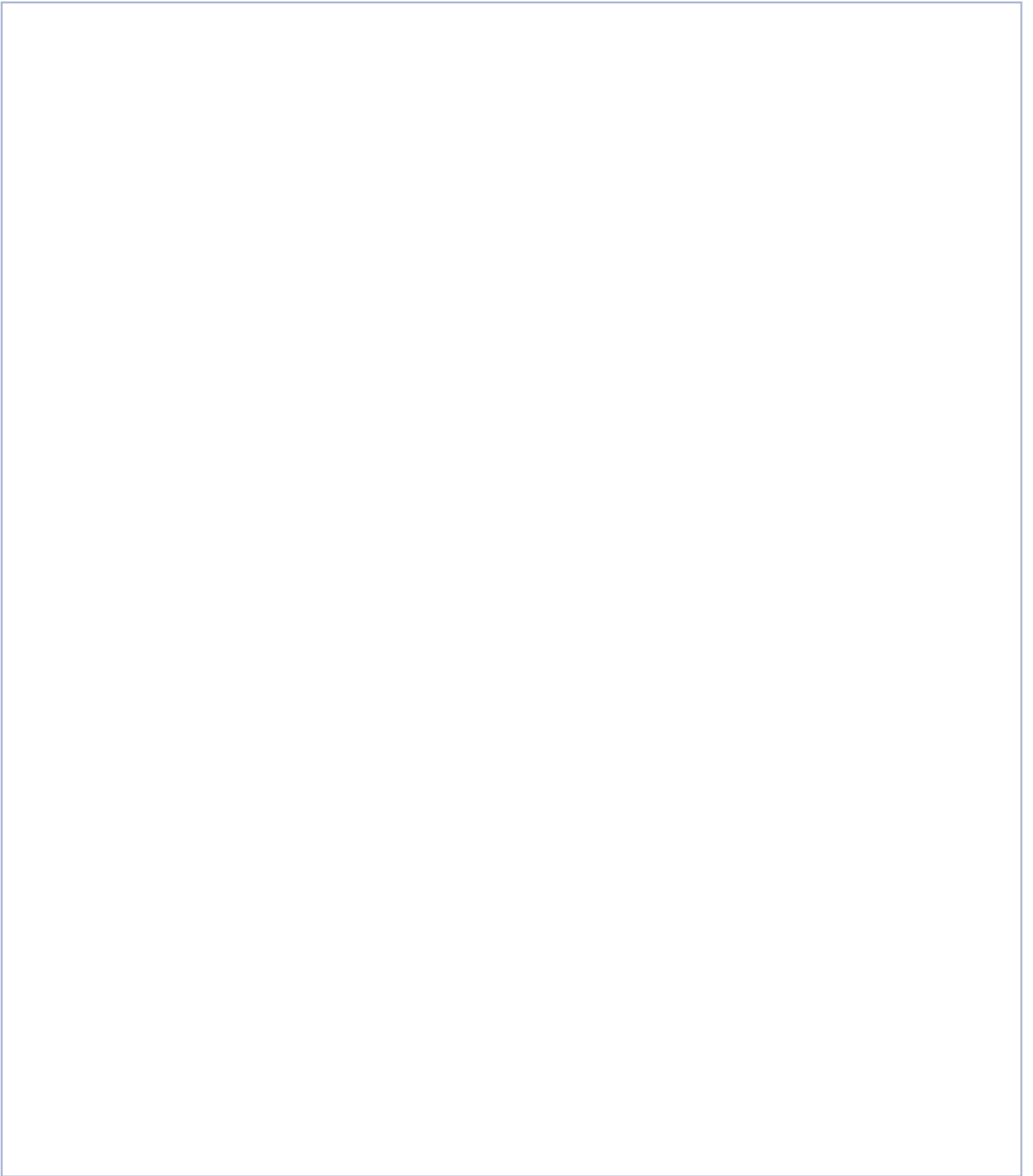
|                                                               |                  |
|---------------------------------------------------------------|------------------|
| Total revenue                                                 | \$ 125.4 million |
| Operating expenses                                            | 81.4 million     |
| Insurance expense                                             | (3.4) million    |
| Net income                                                    | 47.4 million     |
| Reserve for losses                                            | 67.1 million     |
| Fund balance                                                  | 6.4 billion      |
| Equity ratio (fund balance as percentage of insured deposits) | 1.27 percent     |

## Central Liquidity Facility

|                             |                 |
|-----------------------------|-----------------|
| Net income before dividends | \$ 19.1 million |
| Dividends                   | 19.1 million    |
| Net income after dividends  | 0.0 million     |
| Total assets                | 1.36 billion    |
| Retained earnings           | 11.4 million    |
| Capital stock               | 1.35 billion    |

## Federally Insured Credit Unions

|                                       |                  |
|---------------------------------------|------------------|
| Number of credit unions               | 9,014            |
| Total assets                          | \$ 647.0 billion |
| Total insured shares                  | 499.0 billion    |
| Total loans                           | 414.3 billion    |
| Net worth to assets                   | 11.0 percent     |
| Share growth                          | 5.3 percent      |
| Ratio of loans shares                 | 74.5 percent     |
| Delinquency ratio                     | 0.7 percent      |
| Net income (before reserve transfers) | 0.92 percent     |





# NCUA Headquarters



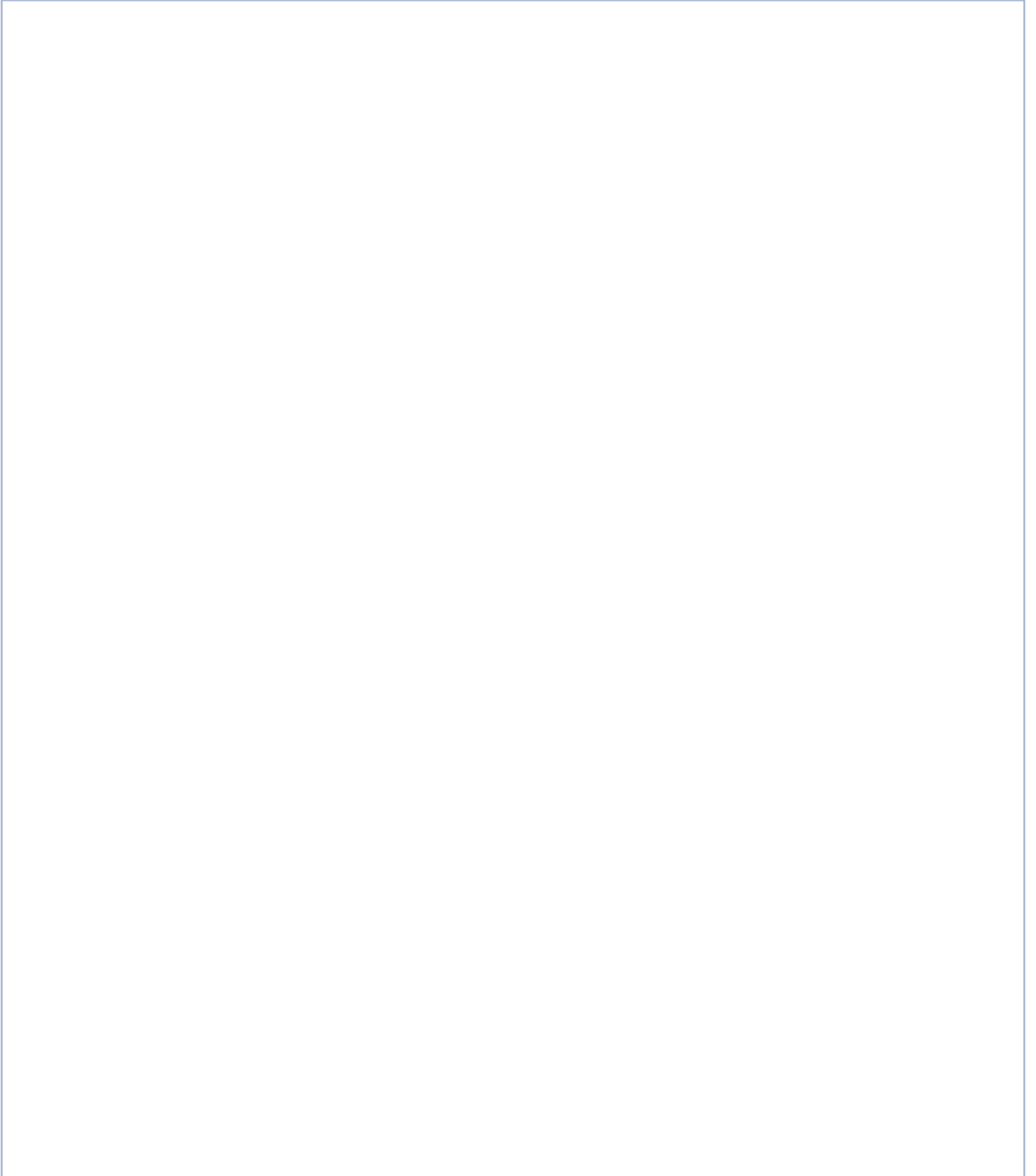
The National Credit Union Administration (NCUA) is the independent federal agency that charters and supervises federal credit unions throughout the United States and its territories.

NCUA administers the 1934 Federal Credit Union Act created by Congress to serve, protect and promote a safe, stable national system of cooperative financial institutions that encourage thrift and offer a source of credit for their members.

With the backing of the full faith and credit of the U.S. government, NCUA administers the National Credit Union Share Insurance Fund (NCUSIF), which insures the savings of over 84 million account holders in all federal credit unions and many state-chartered credit unions.

The 2004 NCUA Annual Report is NCUA's official report to the President and the Congress of the United States. The report contains the financial statements of the NCUA Operating Fund, the National Credit Union Share Insurance Fund, the Community Development Revolving Loan Fund and the Central Liquidity Facility.

NCUA, 1775 Duke Street, Alexandria, Va. 22314-3428 703-518-6300 <http://www.ncua.gov>



# Contents

|                                                                 |            |
|-----------------------------------------------------------------|------------|
| <b>70 Years of Service</b>                                      |            |
| <b>Financial Highlights</b>                                     |            |
| <b>NCUA Headquarters</b>                                        |            |
| <b>Board Statement</b>                                          | <b>9</b>   |
| <b>Management's Discussion and Analysis</b>                     | <b>11</b>  |
| NCUA and Credit Unions Were Strong Performers in 2004           | 13         |
| NCUA Structure and Programs                                     | 15         |
| Supervision                                                     | 17         |
| External and Legislative Affairs                                | 19         |
| Litigation, Regulation and Enforcement                          | 21         |
| Credit Union Development                                        | 23         |
| Strategic Planning and Investments                              | 27         |
| Corporate Credit Unions                                         | 31         |
| Asset Management and Assistance Center                          | 35         |
| Insured Credit Union Activity                                   | 36         |
| <b>NCUA Fund Programs</b>                                       | <b>39</b>  |
| Message from NCUA's Chief Financial Officer                     | 42         |
| Central Liquidity Facility                                      | 43         |
| Community Development Revolving Loan Fund                       | 44         |
| National Credit Union Share Insurance Fund                      | 45         |
| NCUA Operating Fund                                             | 49         |
| <b>NCUA Annual Performance Summary</b>                          | <b>51</b>  |
| <b>Auditor's Report</b>                                         | <b>69</b>  |
| <b>Financial Tables</b>                                         | <b>97</b>  |
| Insurance Fund Ten-Year Trends                                  | 98         |
| Federal Credit Union Ten-Year Summary                           | 100        |
| Federally Insured State-Chartered Credit Union Ten-Year Summary | 101        |
| Historical Federal Credit Union Data                            | 102        |
| <b>Board and Officers</b>                                       | <b>104</b> |
| Headquarters Directors                                          | 105        |
| Regions and Officers                                            | 106        |
| Honoring 70 Years of Federal Credit Union Service               | 108        |



JoAnn Johnson  
Chairman

Deborah Matz  
Board Member

# Board Statement

This 2004 National Credit Union Administration (NCUA) Annual Report recognizes the 70th anniversary of the Federal Credit Union Act. It honors past federal regulatory leaders, celebrates significant historical events, and highlights agency and industry accomplishments in serving America's credit union members.

The solid financial status of today's federally chartered and federally insured credit unions reflected on the pages and charts that follow is a compliment to the credit union philosophy, the volunteers who serve on credit union boards, the professional management and all those who contribute to serving credit union members.

At the same time, this annual report documents how NCUA has fulfilled its statutory mission as an independent federal regulatory agency in its operations and policy decisions during 2004. The NCUA Board will continue to address the issues that challenge the credit union community now and in the future.

In 2004, our contributions to the NCUA legacy include approval of final rules to:

- improve information and disclosures provided to members when they are asked to vote on proposals to convert their credit union to a mutual savings bank;

- simplify NCUA share insurance rules, clarify treatment of living trust accounts and maintain parity with bank deposit insurance rules;
- enable federal credit unions to serve as trustees for Health Savings Accounts;
- improve the member business lending rule to allow for broader participation in Small Business Administration-guaranteed loan programs;
- permit student credit unions to participate in NCUA's Community Development Revolving Loan Program; and
- provide for proper disclosure of consumer information.

We also focused on priorities that will enhance safety and soundness and consumer protections in the future, including the implementation of the Fair and Accurate Credit Transaction Act to protect the personal financial information of members and combat identity theft.

NCUA took the initiative and convened a Summit on Credit Union Capital to formally receive input and guidance in several areas of concern to the industry. This Summit resulted in a risk-based prompt corrective action reform plan which the agency developed for congressional consideration.

We are pleased that NCUA has again received an unqualified opinion from Deloitte and Touche for the funds managed by this agency on behalf of the credit unions we serve. Prudent financial management of agency resources remains a priority. The 2004 NCUA budget was revised downward at the mid-year review in recognition of lower spending needs, and that trend continued with adoption of a 2005 budget slightly below the approved 2004 budget.

The Board also changed the name of the Office of Credit Union Development to the Office of Small Credit Union Initiatives, reflecting the priority the agency places on helping that segment of the industry succeed in a challenging environment.

NCUA's Access Across America (AAA) initiative, designed to focus agency resources on building economic empowerment for all Americans, has proven to be successful in extending and enhancing credit union service to those who need it most. In 2004, 139 credit unions voluntarily took advantage of streamlined expansion procedures by adopting 240 underserved areas

into their fields of membership with over 27.4 million potential new members. These credit unions established both a presence and a plan to serve those communities and neighborhoods. Over 92 million Americans have gained access to affordable financial services through the adoption of underserved areas in the last four years.

The Partnering and Leadership Successes (PALS) initiative provides credit unions with the resources and best practices to turn potential members into members. Through free workshops and the PALS Best Practices website, which was launched in 2004, thousands of credit union officials are sharing initiatives that are bringing innovative credit union services to new members from all walks of life.

In addition to our primary role of ensuring a safe, sound federal credit union system, empowering credit unions to serve underserved consumers remains a high priority for NCUA. We will continue our efforts to help credit unions fulfill their statutory mission and build upon the proud history documented in this report.



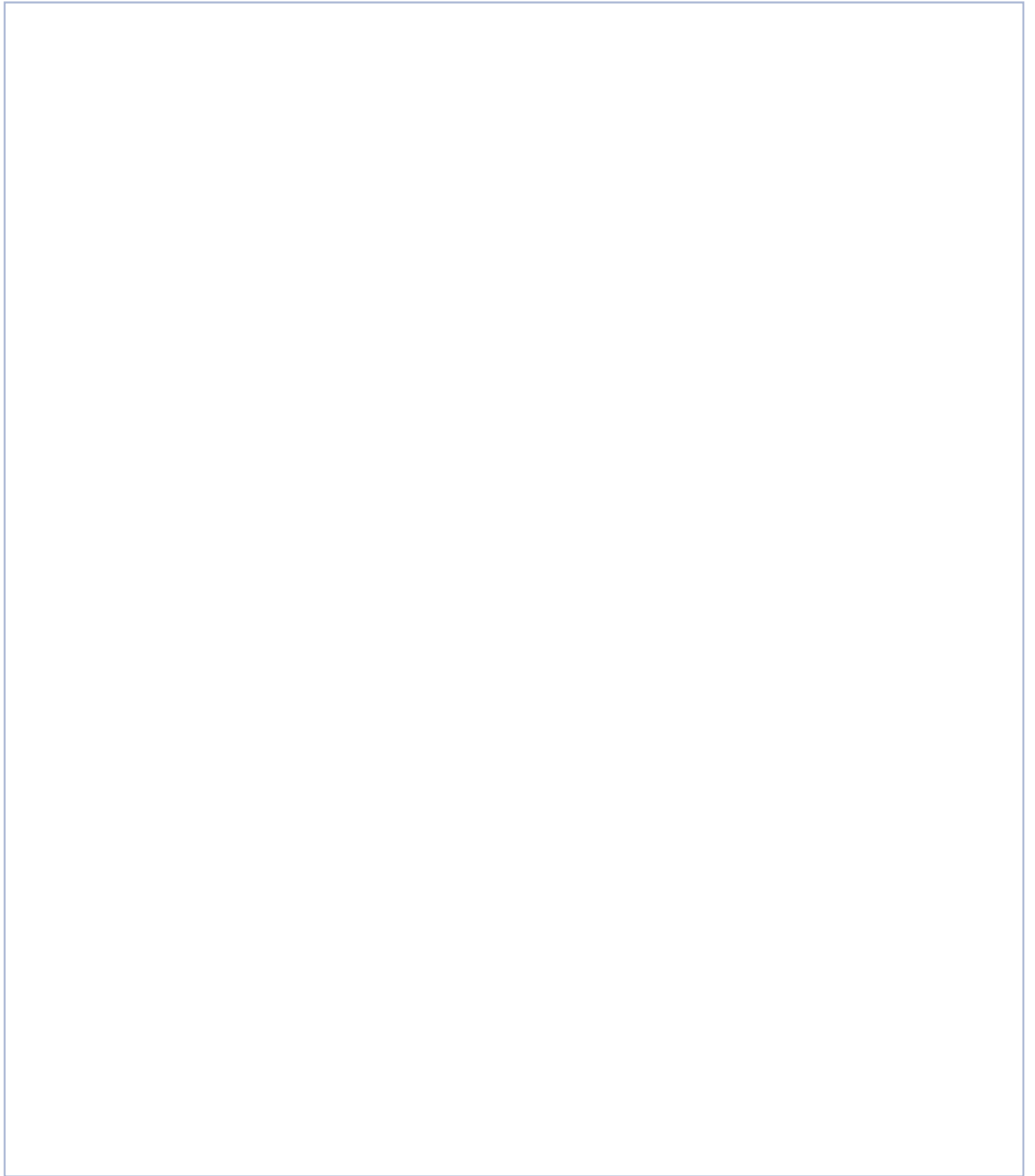
JoAnn Johnson  
Chairman



Deborah Matz  
Board Member



# Management's Discussion and Analysis





# NCUA and Credit Unions Were Strong Performers in 2004

2004 marked another year of strong performance for both NCUA and federally insured credit unions. Credit unions continued to enjoy strong net worth despite earnings challenges posed by the persistent low-interest rate environment of recent years. NCUA smoothly acclimated to the lingering effects of its 2003 realignment from six regions to five. This major undertaking, which generated major cost savings, occurred without disruption to strong oversight or flexible regulatory initiatives and, for the most, was a seamless transfer of responsibilities for affected credit unions.

## **Operational direction and efficiency**

NCUA continued to improve its strong safety and soundness program through risk focused examination and other programs. This operational emphasis is balanced with the need to maintain efficiency by controlling costs. Cautious stewardship of agency expenses remains a priority and is critical to the continuing evaluation of existing programs and new initiatives. The strong health and stability of federally insured credit unions gives NCUA added flexibility to enhance its internal operations, reduce costs and promote different approaches to addressing the unique issues of small credit unions.

Strategically, NCUA worked to promote a flexible regulatory environment. Among other things, during the year the agency sponsored several initiatives designed to seek the views of its stakeholders. Chairman JoAnn Johnson called for a summit on capital and invited

representatives from throughout the credit union movement and the public to provide their views on possible enhancements to the capital structure of credit unions. Separately, the Chairman named a working group on examination and supervision of low-income credit unions to seek ideas for enhancing oversight processes.

## **Outreach efforts**

### **Access Across America**

NCUA's Access Across America program promotes and facilitates the extension of affordable financial services to individuals and communities by partnering with key federal agencies. Chairman Johnson identified NCUA resources and those of other federal agencies as well as the expertise of the private sector and made this expertise available to the credit union community through Economic Empowerment Summits. These were held in Milwaukee, Tampa and Albuquerque in 2004.

Some federal agencies and organizations participating at these summits include the Community Development Financial Institutions Fund, the Small Business Administration, Jump\$tart Coalition and the National Endowment of Financial Education. Information regarding continuing Access Across America activities is available at <http://www.accessacrossamerica.gov/>.

The Access Across America initiative has succeeded in introducing those who manage federal and private programs to an extensive credit union network. The

combined awareness of each other's capabilities have developed new outlets and opportunities to serve the public good.

### **Partnering and Leadership Successes**

As Board Member Matz expanded her Partnering and Leadership Successes (PALS) initiative in 2004, NCUA hosted five PALS workshops reaching 1,300 credit union staff and volunteers. These workshops featured credit union leaders sharing best practices that have proven successful in reaching new members from all walks of life.

To encourage more credit union officials to network with each other and share innovations, a PALS Best Practices section was launched on the NCUA website (<http://www.ncua.gov/PALS/Index.htm>). This section includes more than 500 innovative programs to improve services and attract new members.

As a result of PALS, many credit unions implemented new programs to reach people who are most in need of affordable financial services. For instance, at the PALS workshop in Rochester, N.Y., credit unions pledged \$100 million to make more affordable mortgages to low-income borrowers who would not qualify for conventional mortgages.

Board Member Matz, as NCUA's representative on the board of NeighborWorks America (formerly

Neighborhood Reinvestment Corp.), also inspired more credit unions to partner with their local NeighborWorks organizations, which provide affordable housing and homebuyer education through 230 affiliates across the nation.

### **Management/labor relations**

NCUA staff voted in favor of joining the National Treasury Employee's Union (NTEU) in July 2004. The process of establishing new labor relations procedures continues to be an ongoing priority. While the impact of this management/labor relations environment is unknown, it will be the catalyst for changing some procedures, all of which must be negotiated. NCUA is committed to a well-trained and highly motivated workforce and recognizes establishing a successful labor relations process is imperative to maintaining a competitive, career enhancing work environment.

### **Market risk challenges ahead**

The economy improved in 2004 and market interest rates are now on an uptrend. Credit unions will face a combination of challenges when managing the transition to higher interest rates. Both NCUA and credit unions are well positioned to absorb and manage risk and must remain poised to respond to problems arising when asset/liability mismatches adversely impact earnings and net worth. NCUA maintains a strong cadre of trained specialists who assist with oversight of the credit unions dealing with market risk pressures.

# NCUA Structure and Programs

NCUA accomplishes its mission of serving and maintaining a safe, secure credit union community using a dynamic structure.

Headquartered in Alexandria, Virginia, NCUA has five regional offices throughout the U.S. Assigned to the regions, the bulk of NCUA staff are its 555 examiners who scrutinize the credit unions regularly to ensure safe and sound operations. As the cornerstone, NCUA's Board and executive director are located in Alexandria headquarters with the following major offices that administer the agency's various programs.

The **Office of the Executive Director** is responsible for the agency's daily operation and the executive director reports directly to the NCUA Board. All regional and central office directors' report to the executive director and NCUA's Equal Opportunity Program is included in this office.

The **Office of Examination and Insurance (E&I)** provides national guidance for NCUA's supervision program ensuring the safety and soundness of federally insured credit unions. Within E&I, the Division of Supervision oversees NCUA's examination and supervision program. The Division of Risk Management oversees the agency's

credit union problem resolution program and compiles the financial data submitted quarterly by all federally insured credit unions.

The **Office of Public & Congressional Affairs (PACA)** includes Congressional and Government Affairs and External Affairs. Congressional and Government Affairs covers federal legislation and serves as NCUA's liaison with Capitol Hill and fellow government agencies. External Affairs is the source of information about NCUA for the public, credit unions, league and trade organizations, the media and NCUA employees.

The **Office of Small Credit Union Initiatives (OSCUI)** fosters credit union development and the effective delivery of financial services, facilitates expansion of credit union services through new charters and field of membership expansions, and coordinates efforts, with third-party organizations, to improve the viability and successful operation of small credit unions. OSCUI administers the Community Development Revolving Loan Program, which supports low-income designated credit unions with low-interest loans and grants.

The **Office of General Counsel** is responsible for legal matters affecting NCUA. This includes representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act and NCUA Rules and Regulations, processing Freedom of Information Act requests, advising the Board and the agency on general legal matters, and drafting regulations designed to ensure the safety and soundness of credit unions.

The **Office of Capital Markets and Planning (OCMP)** develops agency policies and procedures related to credit union investments and asset liability management, and the office assists examiners in evaluating investment issues in credit unions. OCMP provides expert advice to the Board on investment issues. NCUA's strategic planning program directs the agency's long-range and annual planning process, which includes providing Congress with the annual NCUA plan, plus tracking and reporting on goal achievement.

The **Office of the Chief Financial Officer** is responsible for agency budget preparation and management, ongoing finance and accounting functions, and administration of credit union operating fees and National Credit Union

Share Insurance Fund capitalization deposits and operating fees.

The **Office of Corporate Credit Unions (OCCU)** supervises the corporate credit union system. Corporate credit unions provide a variety of investment services and payment systems for other credit unions. There are 31 corporate credit unions that range from \$7.5 million to \$36 billion in assets.

The **Asset Management and Assistance Center (AMAC)** conducts credit union liquidations and performs management and asset recovery. The office assists NCUA regional offices with the review of large, complex loan portfolios and actual or potential bond claims. Staff also participates extensively in the operational phases of conservatorships and records reconstruction.

### **Program Messages**

Adapting to internal, industry and market evolution, fewer credit unions, large and small credit union stakeholders, increasingly complex financial operations, and security and privacy concerns, NCUA's offices provide the following messages describing 2004 operations and plans for 2005.

# Supervision

## *Effective supervision*

### **Off-site monitoring and data collection systems enhanced**

Robust off-site monitoring is integral to the success of the risk-focused examination and risk-based scheduling programs initiated by the NCUA in 2001. NCUA's risk-focused examination program evaluates management's ability to identify, measure, monitor and manage exposure in seven key areas necessary to maintain a viable financial institution. These risk areas are: (1) compliance; (2) credit; (3) interest rate; (4) liquidity; (5) transaction; (6) reputation and (7) strategic.

Complementing the on-site examination and supervision programs, NCUA data collected through the 5300 call report program to identify and manage risk. In 2004, NCUA adjusted the call report to reflect changes in the member business loan rule, and expanded the investment, real estate loan and indirect lending schedules to provide better analysis of these areas.

In addition, in 2004 NCUA began a significant initiative to improve the 5300 data collection and analysis processes. These improvements will result in cost savings, expedite information dissemination, increase data integrity and significantly increase our risk analysis capabilities.

In conjunction with improvements in off-site surveillance systems, NCUA continues to enhance the examination platform (AIRES) used on-site by examiner staff to ease data collection and analysis. By leveraging technology, NCUA will provide the credit union community with a more efficient means to report data and new tools to access and work with this data. NCUA plans to implement the new systems and process changes in late 2005.

### **Training is key for the risk-focused examination program**

Along with improving off-site supervision and implementing a successful risk-focused examination program, NCUA continues to enhance senior examiners' skills through the Subject Matter Examiners (SMEs) initiative. NCUA's SME program focuses on examiner resources in select risk areas. SMEs have concentrated knowledge in these risk areas.

Current SME risk focus areas are: capital markets, consumer compliance, information systems and technology, payment systems, recordkeeping and internal controls, small credit unions, and specialized lending.

In 2004, NCUA implemented specific SME competencies and related curriculums. SME

competencies expand NCUA's knowledgeable resources to identify current and emerging issues in a risk focused environment. SME program enhancements will be an ongoing priority in 2005.

### **Consumer compliance expands**

Consumer compliance regulations continued to expand and change in 2004. The Fair and Accurate Credit Transactions Act (FACT) became effective, the Office of Foreign Assets Control (OFAC) took punitive action against six credit unions, and the Financial Crimes Enforcement Network changed oversight processes for the Bank Secrecy Act (BSA).

NCUA revised Part 717 of the regulations to comply with the medical information and affiliate marketing provisions of the FACT. NCUA is participating in an interagency project to create examination procedures and to provide FACT training to examination staff.

During 2004, fines were levied against six federally insured credit unions by OFAC due

to inappropriate wire transactions. To increase credit union awareness of OFAC requirements, NCUA issued four *Regulatory Alerts* reminding credit unions watch for changes to the specially designated nationals list.

NCUA (and all federal banking regulators) signed an agreement with the Financial Crimes Enforcement Network (FinCEN) to strengthen interagency communication and enhance the reporting system for significant BSA violations. To collect the standard data requested by FinCEN, NCUA updated internal instructions and incorporated new data collection fields into the updated AIRE program planned for 2005.


Looking to the future, credit unions face significant exposure to reputation risk and strategic risk due to consumer compliance regulations. During 2005, consumer compliance will continue to be an examination focus, with NCUA making efforts to enhance both examiner and credit union staff and officials understanding of consumer compliance regulations.

# External and Legislative Affairs

## *Public outreach characterizes 2004*

The Office of Public and Congressional Affairs (PACA) completed initiatives in 2004 to improve the ability of NCUA to provide service and information to our stakeholders and the general public. NCUA made several appearances before the U.S. Congress and positive federal legislation advanced. PACA efforts helped NCUA demonstrate the benefits of credit union service with many publicized outreach programs in neighborhoods around the country and with international visitors at NCUA.

## **External operations**

The Department of the Treasury was the site of the first meeting of the newly formed Financial Literacy and Education Commission in January 2004. NCUA Chairman Johnson, a Commission member, met with Secretary Snow before the event and welcomed the national platform from which to pursue her financial education priorities for NCUA, credit unions and their members. NCUA offices were the location for the public rollout of the new U.S. Government financial education website [www.mymoney.gov](http://www.mymoney.gov), an early product of the Commission. 

During the year, a dozen Access Across America and PALS initiatives were conducted throughout the country. A Chairman's Forum with U.S. House Financial Services Committee Chairman Michael Oxley (R-OH) was held in two towns in his Ohio congressional district. Local credit unions had the benefit of hearing from the Member of Congress largely responsible for establishing new federal protections for consumers to prevent and combat identity theft. Many public outreach programs are also planned for 2005.

NCUA's redesigned website was implemented in the spring of 2004 to improve navigation and content available to accommodate the 35,000 daily page visits accessing NCUA's extensive online resources. A "Best Practices" section was added to the PALS webpage that features successful, innovative programs submitted by credit unions from across the country and designed to improve service, attract new members and enrich the lives of credit union members across America.

## **Legislative affairs**

Legislation funding the Community Development Revolving Loan Fund, NCUA's

program to distribute loans and grants to “low-income” designated credit unions, was addressed twice in 2004 by the U.S. Congress. In January, \$1.2 million was provided for 2004 grant and loan applicants, and in December Congress designated \$1 million for these initiatives in 2005.

NCUA’s chairmen presented congressional testimony six times in 2004. Joining the Federal Reserve Board Chairman and other federal financial regulators in the Senate, NCUA Chairman JoAnn Johnson testified on the “Condition of the Financial Services Industry” at an oversight hearing taking a close look at financial and regulatory trends and events. NCUA House and Senate testimony supporting regulatory reform and the Credit Union Regulatory Improvement Act contributed to progress made on these proposals.

The House of Representatives passed the Financial Services Regulatory Relief

Act of 2004 in March. Five of six NCUA recommendations were included; with 13 credit union provisions overall, plus technical corrections to the Federal Credit Union Act. The Senate studied, but did not produce, similar legislation. Since 2004 concluded the two-year 108th Congress, this and other House-passed bills are being re-introduced in the 109th Congress and will begin on a strong footing.

### **International visitors**

NCUA’s international visitors program welcomed the opportunity to host and exchange information with credit union officials from Taiwan, Kenya, Mexico, Australia, South Africa, Romania, Albania, Macedonia, Paraguay, Colombia, Ecuador, China, Ireland, and Canada. Many of these meetings are arranged by the World Council of Credit Unions.



# Litigation, Regulation and Enforcement

## *ABA and Utah bankers launch latest challenge*

The American Bankers Association (ABA), Utah Bankers Association and four Utah banks filed a lawsuit in July 2003 challenging NCUA's decision authorizing Tooele FCU to expand its community boundaries beyond Tooele County to include five additional counties. The proposed area included the Utah counties of Tooele, Davis, Morgan, Weber, Summit, and Salt Lake with a population of approximately 1.41 million people.

NCUA regulations permit expansion of community boundaries provided the area being sought constitutes a "well defined local community." After reviewing Tooele FCU's request, the NCUA Board concluded there was ample evidence the proposed community met the regulatory requirement of being a "well defined area where residents have common interests or interact." Three other credit unions, America First FCU, University of Utah FCU and Goldenwest FCU applied for and received the same six county field of membership after the Tooele application was approved. The plaintiffs' challenge argued that NCUA's action of

approving the expansion was arbitrary and capricious and should be set aside.

This lawsuit, filed in U.S. District Court in Salt Lake City, was the latest attack on NCUA's field of membership policies. When NCUA issued its field of membership regulation implementing the Credit Union Membership Access Act of 1998, the ABA immediately filed a lawsuit challenging NCUA's policy. The U.S. Court of Appeals for the D.C. Circuit affirmed the District Court's ruling and dismissed that challenge in November 2001.

The U.S. District Court issued its opinion in the Utah case December 8, 2004. The Court granted the Plaintiff's request invalidating NCUA's action and sending the matter back to the NCUA for further review. While the matter is remanded to NCUA, the four credit unions involved lost the disputed six county field of membership and either reverted to a prior field of membership or received approval to operate with an interim field of membership.

### **Enforcement orders issued**

NCUA continued to use its supervisory enforcement tools, in appropriate cases, to deal with abuses in federally insured credit unions. During 2004, the agency issued 31 prohibition orders and one cease and desist order.

The judicious use of NCUA's enforcement powers remedies specific cases and serves as a powerful deterrent discouraging wrongdoing.

### **Regulatory initiatives enhance credit union services**

Regulatory initiatives in 2004 addressed a broad range of member services and credit union business topics. The Office of General Counsel initiated regulations involving health savings accounts, living trust accounts, enhanced business lending programs and credit union investment and borrowing authority. Proposed rules issued in 2004 and finalized in early 2005 improved disclosures to

members when credit unions are considering converting to a mutual savings bank or terminating federal insurance. Also, staff attorneys began working along with other federal agencies on regulations implementing the recently enacted Fair and Accurate Credit Transactions (FACT) Act focusing on identity theft and consumer privacy issues.

In addition, the Office of General Counsel issued approximately 35 formal legal opinions on a variety of questions including lending, incidental powers activities, share insurance coverage, governance issues and benefits for credit union employees.

Attorney staff continued to represent the agency before credit union leagues and trade groups and on various interagency regulatory groups addressing, among other matters, regulatory review, consumer privacy issues and fair lending.

# Credit Union Development

## *Strengthening those we serve*

The Office of Small Credit Union Initiatives (OSCUI), formerly Office of Credit Union Development, supports small credit unions' efforts to provide basic financial and related services to community residents and stimulate economic activities within the communities they serve. OSCUI programs are implemented by partnering with government agencies and other organizations. Major accomplishments can be attributed to the Community Development Revolving Loan Fund Program administered by OSCUI, various outreach programs and the Small Credit Union Program.

## **Community Development Revolving Loan Fund**

The Community Development Revolving Loan Fund Program (Fund) supports the efforts of designated low-income credit unions (LICUs) through loans and grants.

"Low-income" is an official NCUA designation granted credit unions that serve a majority of members whose annual household income falls below 80 percent of the U.S. median household income. LICUs can accept non-member deposits as well as secondary capital and receive assistance from the Fund. There were 1,025 LICUs at

December 31, 2004, and over \$1.7 million in Fund loans were approved last year.

## **Technical Assistance Grants**

Income derived from Fund assets and Congressional appropriations also fund a Technical Assistance Grant (TAG) program. Based on successful TAG programs, Congress appropriated an additional \$1.65 million over the last three years to continue the work of serving low-income communities and enhance the safety and soundness of LICUs serving those communities. All 2004 appropriated Congressional funds were awarded. The program received 383 TAG requests totaling \$3.6 million and 309 grants were awarded totaling \$1.2 million.

Additional details on the CDRLF can be found in the Fund Messages section of this report. A few examples of 2004 program initiatives follow.

## **Officials & staff training assistance**

This initiative provides credit union officials and staff training opportunities. Originally, \$100,000 was designated for this initiative, but with requests totaling \$763,000, nearly \$160,000 was eventually allocated for the program.

### **Enhanced technology**

Credit union members increasingly use technology and connect to the Internet to conduct financial transactions. Recognizing the funding costs specifically associated with offering greater technology access, the Fund initially allocated \$150,000 for this initiative. Approximately 150 LICUs submitted technology requests totaling \$1.7 million. Due to the overwhelming response, an additional \$300,000 was allocated to fund requests.

### **Expanding service to underserved areas**

The Fund allocated \$100,000 to offset a portion of the costs to make financial services available to underserved communities. The Fund approved \$82,000 in grants under this initiative in 2004.

### **Volunteer Income Tax Assistance (VITA)**

The Internal Revenue Service (IRS) VITA program was initiated in August 2003, with 13 credit unions receiving an average grant of \$3,834. Participating credit unions processed 4,368 tax returns in early 2004, resulting in over \$2.5 million in Earned Income Tax Credits refunds/share account deposits. The credit unions also reported opening over 740 deposit

accounts. The IRS estimates that participating credit union members saved over \$350,000.

The Fund approved \$56,322 in VITA TAG assistance in 2004 and results will be reported after the 2005 tax season ends.

### **Outreach programs**

OCUD participated in the Partnering and Leadership Successes (PALS) workshops held in Rochester, Honolulu, Boston, San Francisco and Dallas. PALS workshops encourage credit unions to share innovations that improve member services and reach everyone within their fields of membership. Additional information can be found at <http://www.ncua.gov/PALS/Index.htm>.

OCUD staff hosted exhibits at White House Conferences on faith-based and community initiatives held in Miami, Boston, Pittsburgh, Los Angeles and Phoenix. Conference attendance provided opportunities to discuss credit union involvement in these initiatives. Follow the link for future conferences: <http://www.whitehouse.gov/government/fbci/conferences.html>.

In 2004, OCUD also hosted exhibits and/or participated in the Federal Deposit Insurance Corporation's Community Affairs

Conference, Corporate for Enterprise Development's Individual Development Accounts Conference, National Association of Federal Credit Union's Annual Meeting and the National Federation of Community Development Credit Union's Annual Conference.

One of the most rewarding partnerships developed between credit unions and the Internal Revenue Service. To enhance the partnership, IRS hosted a workshop in California to highlight opportunities for credit unions to provide taxpayers an additional service by acting as acceptance agents processing individual taxpayer identification number (ITIN) applications. Other IRS partnerships were facilitated through the TAG-VITA initiative.

A continuing partnership between credit unions and Community Development Financial Institutions (CDFI) resulted in \$4 million in CDFI assistance provided to credit unions in 2004. Additional information regarding CDFI can be found at: <http://www.cdfifund.gov/>.

### **Small Credit Union Program**

The Small Credit Union Program (SCUP), implemented by NCUA regional offices

and now monitored by OSCUI, promotes credit union development. The main objective of SCUP is to promote successful, financially healthy small credit unions through appropriate use of assistance and partnerships. NCUA has 13 economic development specialists (EDSes) and 30 small credit union subject matter examiners committed to this program.

Based on specific criteria, 865 credit unions were voluntarily participating in SCUP December 31, 2004. These credit unions benefited from workshops, mentoring relationships and on-site contacts. Last year, NCUA regional offices sponsored 59 workshops for more than 1,500 credit union officials, and we encourage small credit unions to participate in the 2005 Small Credit Union Program.

### **Structural Changes**

In November 2004, the NCUA Board changed the name of the Office of Credit Union Development to the Office of Small Credit Union Initiatives (OSCUI) to more accurately portray its focus. In addition to the name change, NCUA EDSes were reassigned from the regional offices to OSCUI. The NCUA Board also added two trainers and one supervisory position to the office. The EDSes

and other resources will consistently focus on small credit unions and other credit union initiatives.

In 2005, NCUA will receive a \$1 million appropriation — \$800,000 allocated to the Technical Assistance Grant Program and \$200,000 allocated to the Community Development Revolving Loan Fund Program.

Applications for grant programs were posted on the NCUA website in the spring of 2005, and applications for the loan program can be submitted throughout the year.

NCUA regional offices can provide information on low-income credit union programs and information can also be obtained on NCUA's website [www.ncua.gov](http://www.ncua.gov).

# Strategic Planning and Investments

## *Planning and analysis essential as interest rates edge higher*

The Federal Reserve increased the target rate for Federal Funds from 1 percent to 2 ¼ percent in 2004 as long-term interest rates rose after hitting 30-year lows in 2003. At the same time, credit union participation in mortgage lending increased to historic highs. A concentration of low-rate mortgage loans, along with the prospect of higher interest rates, can create a high-risk profile potentially resulting in low or negative net income and net economic value. With these concerns, NCUA emphasized the need for prudent balance sheet risk management practices through its examination and insurance review programs.

### **Responding to a rapidly changing economic environment**

NCUA's Office of Strategic Program Support and Planning (OSPSP) serves three primary functions. OSPSP is the focal point for planning and economic analysis. OSPSP maintains expert knowledge in investments and asset liability management to guide examination on capital market issues and conducts research and development to assess emerging issues.

OSPSP participates in the review, implementation and enforcement of NCUA

regulation Part 703, Investment and Deposit Activities, including review of pilot program applications, and Part 704, Corporate Credit Unions, including certain requests for expanded authority.

In 2004, OSPSP provided policy guidance for revisions to Parts 703 and 704 to authorize investments in certain exchangeable collateralized mortgage obligations. While expanding permissible investments, NCUA issued *Letter to Credit Unions 04-CU-04* reiterating the need to implement adequate due diligence methods and procedures for safekeeping investments, particularly certificates of deposit (CDs).

Additionally, OSPSP participated in reviewing credit union investment activities and interest rate risk management, and OSPSP provided examiners with specialized training and guidance in investment and asset liability management.

### **Continuity plan updated**

The spectrum of threats capable of disrupting NCUA functions widened over the last decade. These threats, coupled with the September 11 attacks and the war on terrorism, demand

effective NCUA emergency response and continuity plans for protecting employees and agency operations. In 2004, NCUA developed and approved a formal continuity of operations plan (COOP) to ensure essential functions are performed during any disaster or contingency situation. NCUA also developed “shelter-in-place” procedures and conducted several successful COOP tests. COOP planning and testing will remain a priority in 2005 and beyond.

### **Strategic and annual plan updates**

The Office of Management and Budget issued new guidance on performance planning in July 2004. The guidance requires all government agencies to develop a close alignment between their strategic goals, annual performance goals, and resource allocation in the form of an annual performance budget to aid Congressional budgetary decision making. As a result, NCUA began transitioning to a performance budget approach in 2004 that will continue in future planning periods.

To meet Congressional requirements and support the President’s Management Agenda, in 2004 OSPSP prepared the *NCUA Combined Annual Performance Report 2003, Initial Annual*

*Performance Plan 2005*, and the *NCUA Annual Performance Budget 2005* (formally *NCUA Annual Performance Plan*). During 2004, NCUA worked extensively to develop and update the *NCUA Strategic Plan 2006-2011*.

### **OSPSP facilitates several NCUA committees**

OSPSP assisted the NCUA Strategic Management Council (SMC), comprised of senior managers and chaired by the NCUA executive director. SMC serves as an advisory body to the NCUA Board on strategic level issues and meets regularly to consider existing and emerging issues facing credit unions and NCUA’s role in addressing these issues. OSPSP also assisted the NCUA Information Technology Oversight Committee with several major technology initiatives.

### **Strategic leadership summits**

Hosted by the SMC, each January OCMF plans and executes NCUA’s Annual Strategic Leadership Summit to consider the performance of the past year and develop strategic guidance for the planning year. An analysis of the current and forecasted economic environment and views of the stakeholders are considered during the summit.

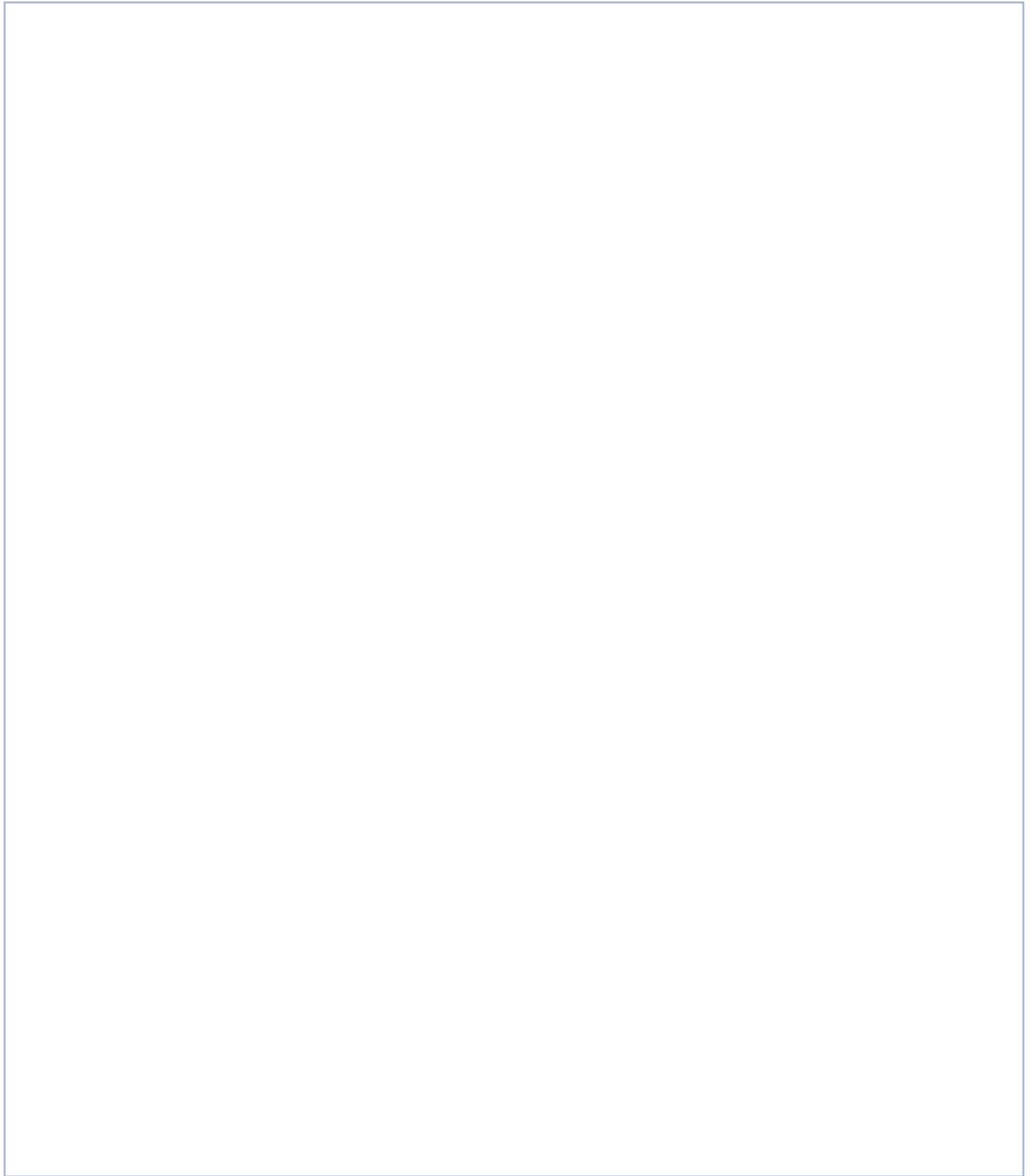


NCUA Strategic Leadership Summit 2004 served as the kickoff event for developing NCUA's Annual Performance Budget 2005 and for shaping development of NCUA Strategic Plan 2006-2011. OSPSP conducted several stakeholder panel discussions to gain insight from various perspectives on issues and concerns facing the credit union industry. Panels included various size credit unions, certified public accountants, third-party service providers and NCUA regional and central office directors.

In mid 2004, OSPSP conducted senior level interviews with NCUA management and

the Board regarding their perspective on the opportunities and threats facing credit unions and NCUA. These interviews provided ongoing strategic direction throughout 2004 and resulted in further enhancements to NCUA's planning process.

Beginning in January 2005, OSPSP became the Office of Capital Markets and Planning (OCMP) consisting of three divisions – Capital Markets, Planning, and Economic Analysis – to better align the name with its primary functions.



# Corporate Credit Unions

## *Asset levels track high*

Total assets of corporate credit unions reached record levels in 2003, at one point exceeding \$126 billion. Assets declined slightly in 2004, but not by a significant amount. On average, month-end total assets in 2003 were \$116.8 billion and the average declined to \$113.3 billion in 2004. However, the 2004 average remains much higher than averages reported in 2002 and 2001, \$100.6 billion and \$86.9 billion respectively. While there are indications of increased consumer confidence in the economy and increased loan demand from credit union members, these trends have not yet translated into a significant outflow of funds from corporates. Overall, corporates continue to hold highly rated, short maturity investments to meet any potential increased demand for liquidity.

## **Less consolidation, more cooperation**

Since 1993 there has been, on average, one corporate credit union merger each year, and it was anticipated that corporate credit union consolidation through mergers would continue. Several critical challenges facing corporate credit unions were behind the assumption that consolidation would continue: 1) within the next few years several long-time CEOs and senior managers of

numerous corporate credit unions will be retiring; 2) the corporate system is going through a major technology conversion away from the Corporate Credit Union Network system; 3) all but two corporates have national fields of membership; and 4) the costs associated with obtaining expanded authorities under Part 704 of *NCUA's Rules and Regulations* might prove prohibitive to some corporates and make those institutions less competitive. The anticipated increase in mergers has not materialized. Rather than merge, corporates are partnering or establishing credit union service organizations (CUSOs) as a way of offering additional services at optimal cost while preserving their individual identity.

## **GAO review**

In 2004, the General Accounting Office issued a report on the condition and supervision of corporate credit unions. The report concluded that both the condition of corporates and the supervision provided by NCUA have significantly improved since the last review was performed in 1991. The latest report provided a number of recommendations to further strengthen supervision efforts, and OCCU continues to review and implement GAO recommendations.

### **Looking toward the future**

Indications are the financial industry will increase in complexity. The business of corporate credit unions evolves as the needs of credit unions and their members change. To remain viable, corporates are constantly required to rethink the way they do business. To achieve its mission of ensuring the safety

and soundness of the corporate system, OCCU frequently needs to reassess its examination and supervision efforts. OCCU is committed to hiring or contracting individuals with the necessary knowledge and experience to keep pace with the changing world in which corporates operate.

**Federal corporate credit unions  
December 31, 2004**

| <b>Name</b>            | <b>Location</b>          | <b>Assets</b>            |
|------------------------|--------------------------|--------------------------|
| Corporate One          | Columbus, Ohio           | \$ 2,829,520,527         |
| Eastern Corporate      | Woburn, Massachusetts    | 1,382,564,476            |
| Empire Corporate       | Albany, New York         | 4,560,294,593            |
| Kentucky Corporate     | Louisville, Kentucky     | 404,465,167              |
| LICU Corporate         | Endicott, New York       | 7,492,259                |
| Mid-Atlantic Corporate | Middletown, Pennsylvania | 2,540,782,126            |
| Mid-States Corporate   | Warrenville, Illinois    | 4,785,092,877            |
| Midwest Corporate      | Bismarck, North Dakota   | 167,822,514              |
| Southeast Corporate    | Tallahassee, Florida     | 3,983,859,490            |
| Southwest Corporate    | Dallas, Texas            | 8,551,286,961            |
| Tricorp Corporate      | Westbrook, Maine         | 492,533,405              |
| VACORP (1)             | Lynchburg, Virginia      | 828,455,803              |
| Western Corporate      | San Dimas, California    | 25,629,365,583           |
| <b>Total</b>           |                          | <b>\$ 56,163,535,781</b> |

**Federally insured state-chartered corporate credit unions  
December 31, 2004**

| <b>Name</b>                  | <b>Location</b>            | <b>Assets</b>            |
|------------------------------|----------------------------|--------------------------|
| Central Credit Union Fund    | Auburn, Massachusetts      | \$ 240,539,032           |
| Central Corporate            | Southfield, Michigan       | 2,477,830,986            |
| Constitution State           | Wallingford, Connecticut   | 1,639,393,128            |
| Corporate America            | Irondale, Alabama          | 840,551,292              |
| Corporate Central            | Hales Corners, Wisconsin   | 1,375,758,818            |
| First Corporate              | Phoenix, Arizona           | 922,822,762              |
| First Carolina Corporate     | Greensboro, North Carolina | 1,737,934,637            |
| Georgia Central              | Duluth, Georgia            | 1,315,457,044            |
| Iowa League Corporate        | Des Moines, Iowa           | 338,952,013              |
| Kansas Corporate             | Wichita, Kansas            | 447,902,109              |
| Louisiana Corporate          | Metairie, Louisiana        | 125,137,166              |
| Missouri Corporate           | St. Louis, Missouri        | 651,744,280              |
| Northwest Corporate          | Portland, Oregon           | 914,016,445              |
| SunCorp                      | Arvada, Colorado           | 2,694,303,180            |
| Treasure State Corporate (1) | Helena, Montana            | 193,310,240              |
| Volunteer Corporate          | Nashville, Tennessee       | 1,151,959,669            |
| West Virginia Corporate      | Parkersburg, West Virginia | 255,611,622              |
| <b>Total</b>                 |                            | <b>\$ 17,323,224,423</b> |

(1) Treasure State Corporate CU obtained federal insurance in 2004.  
Treasure State was the last non-federally insured corporate credit union.

**Total Corporate System  
December 31, 2004**

| Name                                                 | Location       | Assets            |
|------------------------------------------------------|----------------|-------------------|
| Total for All Corporates<br>(Excluding U.S. Central) |                | \$ 73,486,760,204 |
| U.S. Central Credit Union                            | Lenexa, Kansas | \$ 36,416,359,836 |

**Key statistics on federally insured corporate credit unions  
December 31, 2004 (in millions)**

| December 31                 | 2002       | 2003       | 2004       |
|-----------------------------|------------|------------|------------|
| Number:                     | 31         | 30         | 31         |
| Assets:                     | \$67,155.8 | \$73,606.4 | \$73,486.8 |
| Loans:                      | 514.2      | 2,072.6    | 3,947.2    |
| Shares:                     | 59,054.2   | 58,787.7   | 60,436.9   |
| Reserves:                   | 3,613.0    | 4,194.8    | 4,351.9    |
| Undivided earnings:         | 651.0      | 770.2      | 849.6      |
| Gross income:               | 1,718.8    | 1,602.0    | 1,672.1    |
| Operating expenses:         | 276.4      | 300.4      | 321.7      |
| Interest on borrowed funds: | 34.3       | 32.8       | 68.5       |
| Dividends and interest:     | 1,278.1    | 1,127.2    | 1,142.2    |
| Net income:                 | 88.1       | 141.6      | 139.6      |

*Dollar amounts do not include U.S. Central*

| Significant ratios                         | 2002 | 2003 | 2004 |
|--------------------------------------------|------|------|------|
| Reserves to assets:                        | 5.4  | 5.7  | 5.9  |
| Reserves and undivided earnings to assets: | 6.4  | 6.7  | 7.1  |
| Operating expenses to gross income:        | 16.1 | 18.7 | 19.2 |
| Yield on assets:                           | 2.8  | 2.3  | 2.3  |
| Cost of funds to assets:                   | 2.1  | 1.6  | 1.6  |
| Gross spread:                              | .7   | .7   | .7   |

*Ratios do not include U.S. Central*

# Asset Management and Assistance Center

## *Responsibilities and services*

The Asset Management and Assistance Center (AMAC) in Austin, Texas, performs the following services:

- Administers involuntary liquidations;
- Pays insured shares to account holders;
- Manages and disposes of assets acquired by the Share Insurance Fund;
- Prepares and negotiates bond claims on assigned cases;
- Provides consulting services to credit unions for the regions; and
- Provides training to federal and state regulators and credit unions.

## **2004 highlights**

Two major fraud cases required an enormous amount of resources to resolve. In one case, a credit union had 10 times as many shares as recorded in its books. In the other case, a credit union with shares of \$36 million had an \$8 million outage. AMAC spent 18,367 hours (including temporary employees time) loading 480,606 documents with a total of 7,672,211 fields into computer systems to reconstruct records and trace fraudulent transactions.

AMAC directed 15 liquidations in 2004, nearly double the 8 liquidations directed in 2003.

Seven liquidations were due to fraud. These cases are in addition to 65 still active cases that were placed into liquidation prior to 2004.

Assistance was provided to all five regions completing 11 consulting assignments totaling 7,018 hours. This was the largest amount of consulting hours in AMAC's history. The assignments included accounting services, loan portfolio analysis and valuations, member business loan reviews, loan sales and real estate valuations.

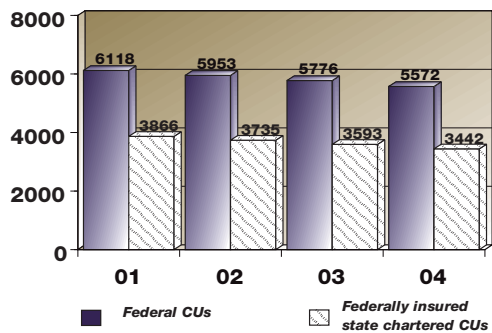
AMAC continued its role of providing training, with AMAC staff presenting six seminars on business lending, and 10 other seminars on consumer loan underwriting, bond claims and collections.

## **Future**

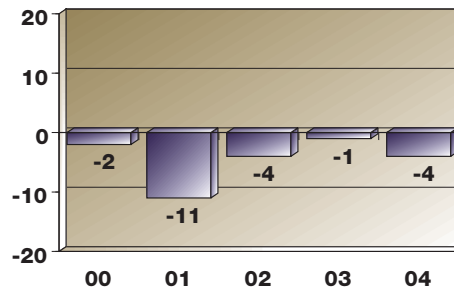
AMAC will continue to respond to the needs of the regional offices and maintain its readiness to rapidly deal with liquidations. Consulting with the regions and credit unions on unique problems and liquidations will continue to be major workload factors.

# Insured Credit Union Activity

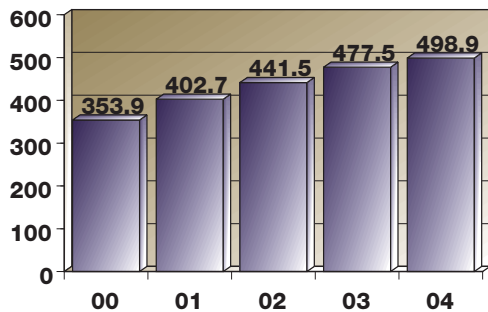
**Number of federally insured CUs**  
December 31



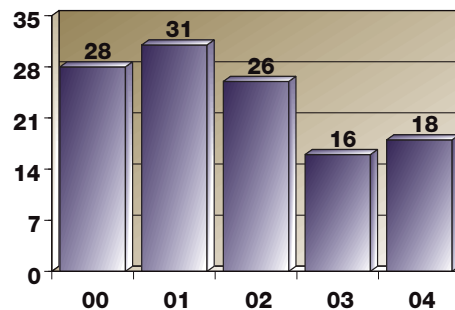
**Net conversions to federal insurance**  
December 31



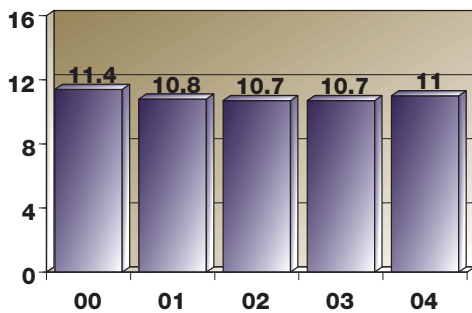
**Total insured shares**  
December 31 (in billions of dollars)



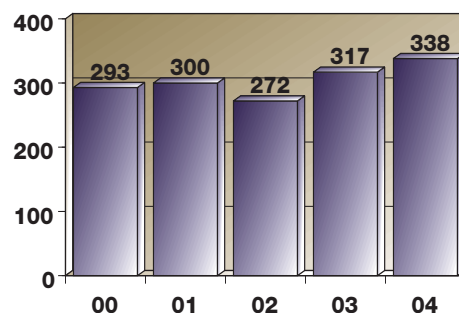
**Total liquidations**  
December 31



**Credit union net worth ratio**  
December 31 (by percent)



**Total mergers**  
December 31





### Changes in federally insured credit unions

Fiscal year 2004

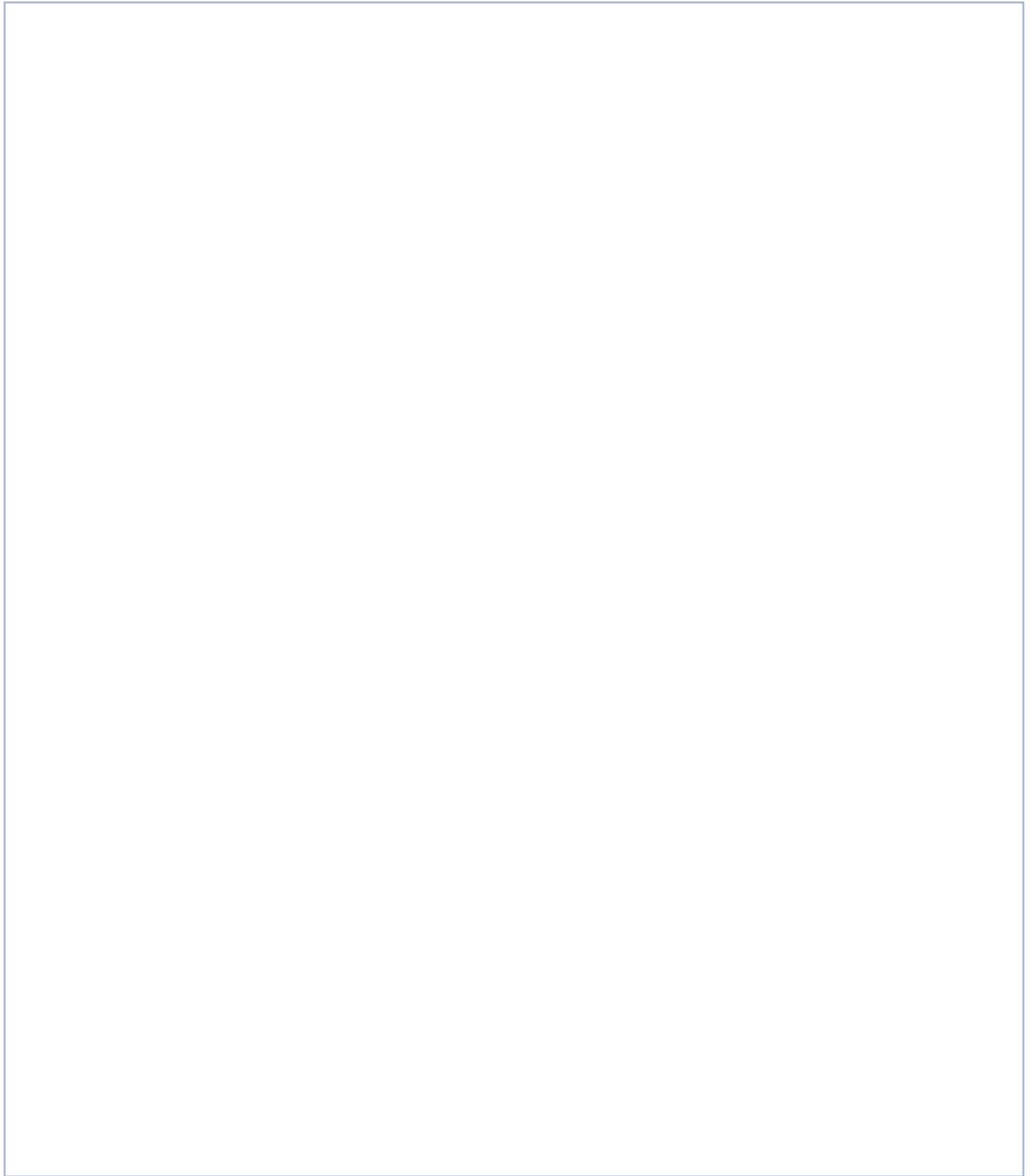
|                                               | Federal credit unions |       | Federally insured state credit unions |       | Total |
|-----------------------------------------------|-----------------------|-------|---------------------------------------|-------|-------|
| <b>Number January 1, 2004</b>                 |                       | 5,776 |                                       | 3,593 | 9,369 |
| <b>Additions:</b>                             |                       |       |                                       |       |       |
| New charters                                  |                       | 2     |                                       | 3     | 5     |
| Conversions                                   | FISCU to FCU          | 20    | FCU to FISCU                          | 4     | 24    |
| <b>Total Charter Additions</b>                |                       | 22    |                                       | 7     | 29    |
| <b>Mergers:</b>                               |                       | (210) |                                       | (128) | (338) |
| Assisted                                      |                       | (6)   |                                       | (1)   | (7)   |
| Voluntary                                     |                       | (150) |                                       | (87)  | (237) |
| Mergers in process                            |                       | (54)  |                                       | (40)  | (94)  |
| <b>Liquidations:</b>                          |                       | (11)  |                                       | (7)   | (18)  |
| Voluntary                                     |                       | (0)   |                                       | (2)   | (2)   |
| Involuntary                                   |                       | (11)  |                                       | (3)   | (14)  |
| Liquidations in process                       |                       | (0)   |                                       | (2)   | (2)   |
| <b>Conversions</b>                            |                       | (5)   |                                       | (23)  | (28)  |
|                                               | FCU to FISCU          | (4)   | FISCU to FCU                          | (20)  | (24)  |
|                                               | FCU to NFICU          | (0)   | FISCU to NFICU                        | (2)   | (2)   |
|                                               | FCU to Non-CU         | (1)   | FISCU to Non-CU                       | (1)   | (2)   |
| <b>Total Charters Cancelled</b>               |                       | (226) |                                       | (158) | (384) |
| <b>Total credit unions, December 31, 2004</b> |                       | 5,572 |                                       | 3,442 | 9,014 |
| <b>Net change</b>                             |                       | (204) |                                       | (151) | (355) |

FCU = Federal credit union  
 FISCU = Federally insured state-chartered credit union  
 NFICU = Privately insured state-chartered credit union  
 Non-CU = Non-credit union charter

### Multiple common bond federal credit union expansions January 1 - December 31, 2004

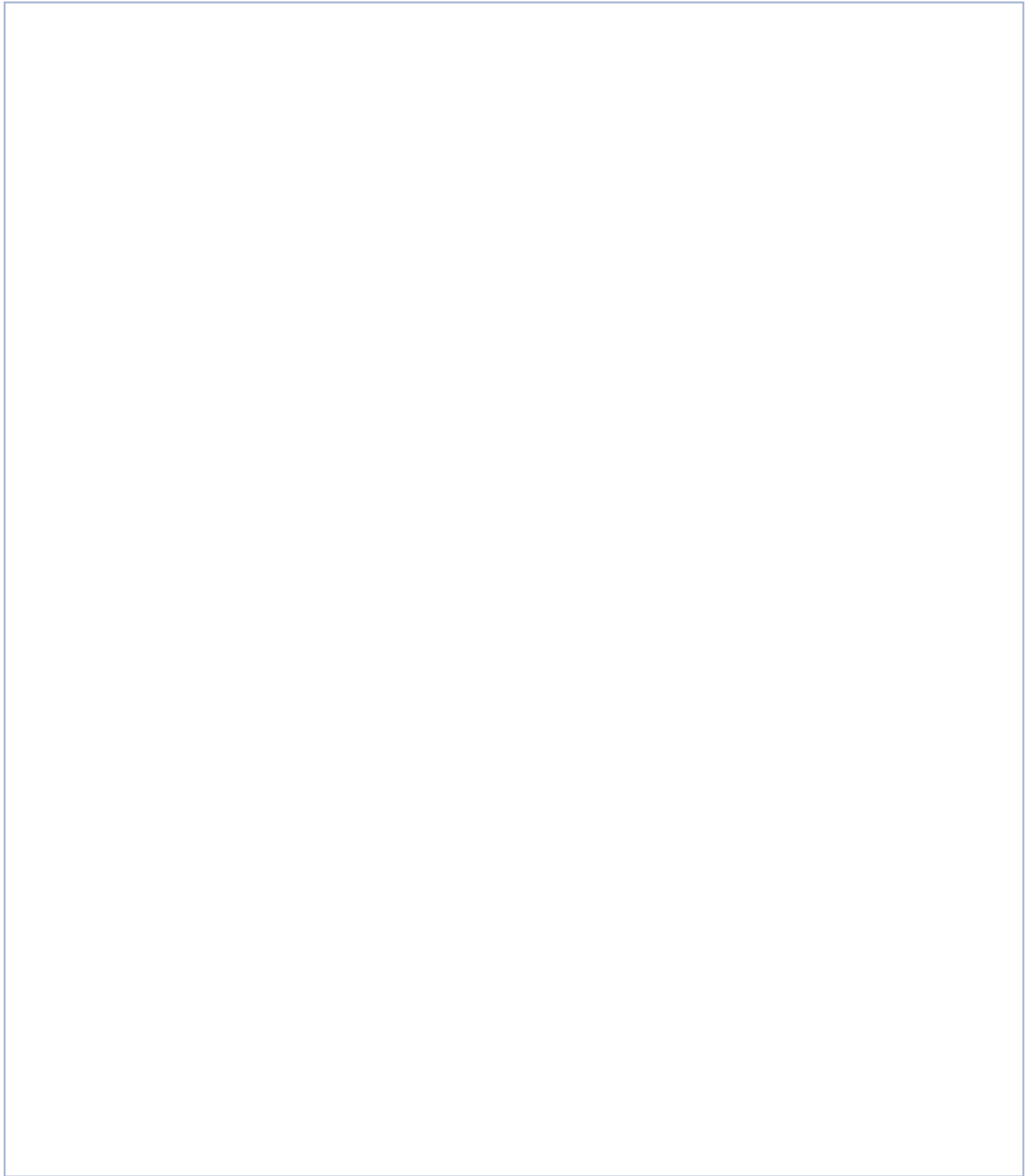
| Region                             | I       | II      | III     | IV      | V       | TOTAL     |
|------------------------------------|---------|---------|---------|---------|---------|-----------|
| Number of credit unions            | 154     | 215     | 221     | 162     | 150     | 902       |
| Number of groups added             | 1,084   | 2,366   | 2,924   | 1,137   | 2,230   | 9,741     |
| 200 and less                       | 929     | 2,104   | 2,574   | 972     | 2,025   | 8,604     |
| 201-500                            | 90      | 148     | 215     | 80      | 112     | 645       |
| 501-1,000                          | 27      | 60      | 85      | 43      | 37      | 252       |
| 1,001-1,500                        | 13      | 18      | 27      | 14      | 26      | 98        |
| 1,501-2,000                        | 9       | 12      | 3       | 1       | 6       | 31        |
| 2,001-3,000                        | 9       | 13      | 12      | 14      | 10      | 58        |
| over 3,000                         | 7       | 11      | 8       | 13      | 14      | 53        |
| Potential new members              | 215,523 | 476,499 | 588,238 | 391,654 | 367,288 | 2,039,202 |
| Average size of groups added       | 199     | 201     | 201     | 344     | 165     | 209       |
| Applications denied                | 1       | 18      | 10      | 17      | 8       | 54        |
| Deferrals*                         | 49      | 125     | 76      | 24      | 30      | 304       |
| Groups denied of more than 3,000   | 0       | 3       | 0       | 1       | 1       | 5         |
| Groups deferred of more than 3,000 | 11      | 6       | 9       | 7       | 5       | 38        |
| Largest approved                   | 46,905  | 130,000 | 180,959 | 81,500  | 60,000  | 499,364   |

\*This number represents the total number of deferrals processed upon initial receipt of an expansion request. Some of these initial deferrals were subsequently approved or denied.





# NCUA Fund Programs



# Fund Programs

The **Central Liquidity Facility** provides liquidity for all member credit unions and can invest in U.S. government and agency obligations, deposits of federally insured institutions and shares or deposits in credit unions.

The **Community Development Revolving Loan Program** supports low-income designated credit unions serving low-income communities with low-interest loans and grants.

The **National Credit Union Share Insurance Fund** (NCUSIF) is the federal fund created by Congress in 1970 to insure member deposits in credit unions up to the \$100,000

federal limit. Administered by the National Credit Union Administration, the NCUSIF is backed by the “full faith and credit” of the U.S. Government.

The **Operating Fund**, which is funded by federal credit unions, in conjunction with the National Credit Union Share Insurance Fund finances NCUA’s operations.

## Fund Messages

The following pages present a message from NCUA’s Chief Financial Officer and descriptions of individual NCUA fund program operations and related activities that took place during 2004.

# Message from NCUA's Chief Financial Officer



I am pleased to report that NCUA continues its strong tradition of excellence in financial reporting. For many years NCUA has received unqualified opinions

from its independent auditors.

For the 2004 calendar year, Deloitte & Touche has completed its audit reports for all National Credit Union Administration Funds, which include the:

- NCUA Central Liquidity Facility
- NCUA Community Development Revolving Loan Fund.
- National Credit Union Share Insurance Fund; and
- NCUA Operating Fund;

The reports present Deloitte & Touche's opinion on the financial statements of the Funds. The reports also present Deloitte & Touche's report on compliance and on internal control over financial reporting based on an audit performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

We are pleased to accept Deloitte & Touche's unqualified opinions on the Funds' financial statements and to note that no material weaknesses were identified during 2004 audits. Deloitte & Touche reported that:

- The Funds' financial statements are presented in conformity with accounting principles generally accepted (GAAP) in the United States of America;
- The results of their tests on compliance with certain laws, regulations, contracts and grants disclosed no instances of noncompliance that are required to be reported under Government Auditing Standard; and
- Audit procedures noted no matters involving internal control over financial reporting and its operations that are considered to be material weaknesses.

Deloitte & Touche reported other matters involving internal control over financial reporting. Although such matters are not significant as material weaknesses or noncompliance with laws, regulations, contracts and grants, we consider them important in performing our duty as public servants and will devote resources accordingly.

NCUA remains focused and committed to strong financial internal control and to carrying out its statutory fiduciary responsibilities to the American public.

Sincerely,

A handwritten signature in black ink that reads "Dennis Winans". The signature is written in a cursive, slightly slanted style.

Dennis Winans  
NCUA Chief Financial Officer

# Central Liquidity Facility

## *Foundation of stability*

Congress created the Central Liquidity Facility (CLF) with the National Credit Union Liquidity Facility Act in 1978. The CLF is a “mixed ownership Government corporation” managed by the National Credit Union Administration Board and owned by member credit unions. The CLF serves as a back-up lender to meet the unexpected liquidity needs of its members when funds are unavailable from standard credit sources. The CLF contributes to the financial stability of the credit union industry during periods of economic volatility.

## **CLF borrowing cap maintained**

By statute, the CLF is authorized to borrow from any source up to 12 times its subscribed capital stock and surplus. Congress historically has restricted the CLF’s borrowing limit through the annual appropriations process. Since fiscal year 2001, Congress has approved a \$1.5 billion borrowing limit and the same amount was recommended for fiscal year 2005. Continuing the \$1.5 billion cap will assure the CLF remains a reliable, effective, low-cost liquidity source when credit union

contingency funding sources are unavailable or inadequate.

## **CLF operations**

After funding operating expenses in 2004, the CLF paid members dividends of approximately 100 percent of net investment income for the tenth consecutive year. The average member dividend was 1.44 percent.

During 2004, the CLF did not receive any requests for loans. Credit union liquidity remained strong. Although credit union member loan demand moderately exceeded share growth in 2004, share growth exceeded loan growth in the three prior years.

However, CLF remains ready and able to meet the liquidity needs of the credit union system when unusual, unexpected or extreme events occur.

## **CLF receives 24th clean audit opinion**

The CLF received an unqualified audit opinion on its 2004 financial statement from independent auditors Deloitte & Touche LLP.

# Community Development Revolving Loan Fund

The Community Development Revolving Loan Fund Program (Fund), administered by NCUA's Office of Small Credit Union Initiatives, was established by Congress in 1979 to provide basic financial services to stimulate economic development in low-income communities. Originally appropriated with \$6 million, earned interest and additional appropriations have grown the Fund to \$15 million.

NCUA has continuously administered the Fund since 1986. After promulgating governing regulations, the Fund began making loans and deposits to designated "low-income" credit unions (LICUs) through a loan and grant program in 1990.

There were 1,025 designated LICUs at December 31, 2004. These credit unions can apply to the Fund for up to a \$300,000 loan.

The Fund received 23 loan requests totaling \$3 million and over \$1.8 million in loans were approved in 2004.

Income derived from Fund assets and congressional appropriations fund a Technical Assistance Grant (TAG) program. Congress appropriated an additional \$1.65 million for the TAG program over the last three years. All appropriated Congressional funds were awarded in 2004. While the program received 383 grant requests totaling \$3.6 million in 2004, only 313 grants were awarded totaling \$1.2 million.

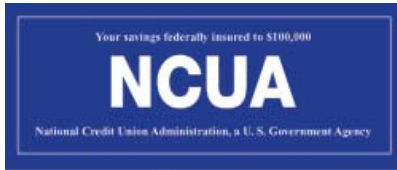
The Community Development Revolving Loan Fund received an unqualified audit opinion on its 2004 financial statements from independent auditors Deloitte & Touche LLP. This is the 13th consecutive year an unqualified opinion was rendered to the Fund.



# National Credit Union Share Insurance Fund

## *Insurance Fund remains healthy*

Credit union growth slowed during 2004. Insured shares grew 4.5 percent and the year



ended with an National Credit Union Share Insurance Fund (Fund) equity ratio of 1.27 percent.

The Fund did not issue a dividend in 2004 primarily because of low earnings on its portfolio due to the low interest rate environment. The Board approved a 1.3 percent operating level for 2004, and the Fund must rise above that level to issue a dividend.

Fund earnings were \$125.4 million before expenses in 2004. Most earnings were derived from the Funds \$6.4 billion investment portfolio comprised of U.S. Treasury securities with maturities of four years or less. Operating costs of \$81.4 million were 3.6 less than 2003. This can be partially attributed to savings realized due to the agency's realignment.

## **Reserve level lowered**

The Fund ended 2004 with \$67.1 million in reserves set aside to protect against future or potential losses. The Fund decreased reserves a net of \$9.5 million over the year. Due to a change in reserving methodology by the Office of Examination and Insurance, the Fund decreased unallocated reserves by \$11.4 million. Unallocated Fund reserves at December 31, 2004, were \$50.7 million.

## **Failures remain low**

Twenty-one credit unions failed during 2004, resulting in \$12.9 million charged to reserves. In accordance with GAAP, insurance losses are incurred when loss reserves are established for institutions considered a possible risk to the Fund. Most of these credit unions are classified CAMEL code 4 or 5 institutions. Money spent on failed institutions is charged to the reserve account and not reflected as insurance loss expense. The number of year-end problem code credit unions increased from 217 to 255 during 2004. Insured shares in these credit unions increased from \$3.6 billion in 2003 to \$4.3 billion in 2004 and represented

approximately .87 percent of total insured shares at year-end 2004.

### 21st unqualified opinion earned

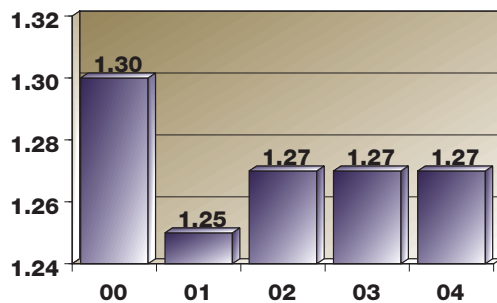
The Fund received its 21st consecutive unqualified audit opinion on December 31, 2004, financial statements from independent auditors Deloitte & Touche LLP. The audited financial statements, accompanying footnotes and

independent auditors report appear later in this report.

The National Credit Union Share Insurance Fund continues to be the only federal deposit insurance fund with its financial statements annually audited by an independent accounting firm, and it is subject to audit by the General Accounting Office.

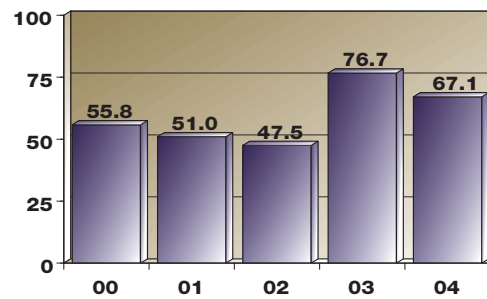
#### Equity ratio

*By percent*



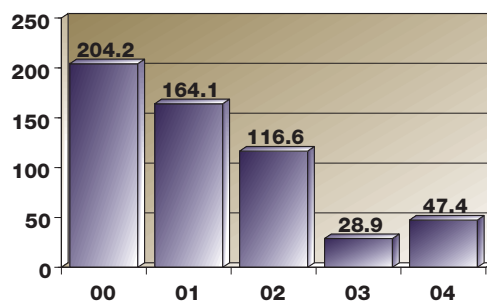
#### Reserves

*In millions of dollars*



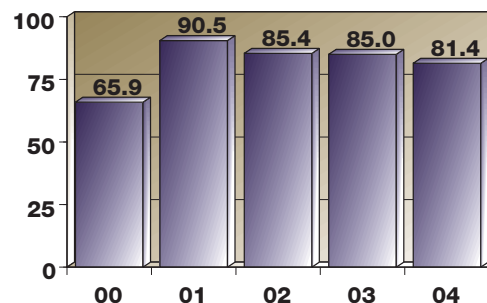
#### Net income

*In millions of dollars*



#### Administrative expenses

*In millions of dollars*



**Reserves for estimated losses**  
(in thousands)

| Fiscal year                       | 2002     | 2003     | 2004     |
|-----------------------------------|----------|----------|----------|
| Reserves—beginning of fiscal year | \$51,023 | \$47,543 | \$76,667 |
| Net charges for fiscal year       | (15,993) | (8,919)  | (6,117)  |
| Provision for insurance losses    | 12,513   | 38,043   | (3,424)  |
| Reserves—end of fiscal year       | \$47,543 | \$76,667 | \$67,126 |

**Percentage of shares by CAMEL category**

| Category      | 2001        | 2002        | 2003        | 2004        |
|---------------|-------------|-------------|-------------|-------------|
| Code 1 & 2    | 94.1%       | 94.1%       | 94.1%       | 91.9%       |
| Code 3        | 5.5         | 5.2         | 5.2         | 7.3         |
| Code 4        | 0.4         | 0.7         | 0.7         | .8          |
| Code 5        | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Totals</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

**Administrative costs**  
(in thousands)

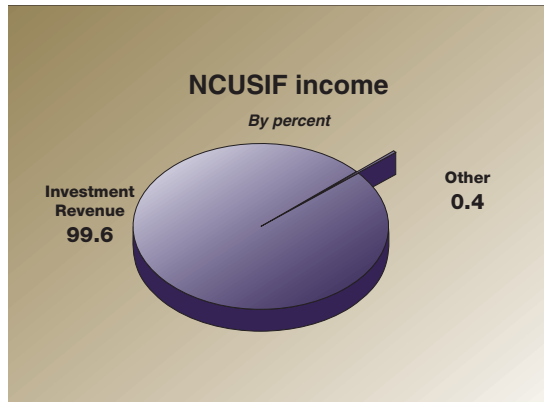
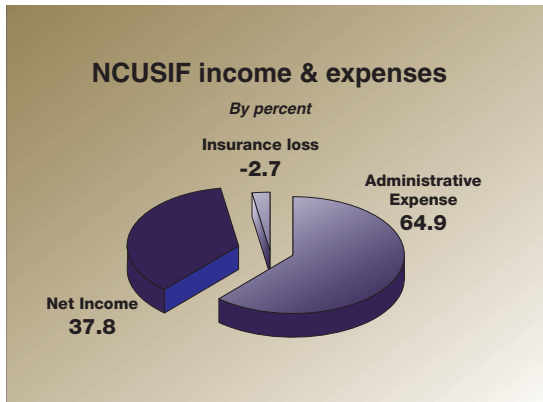
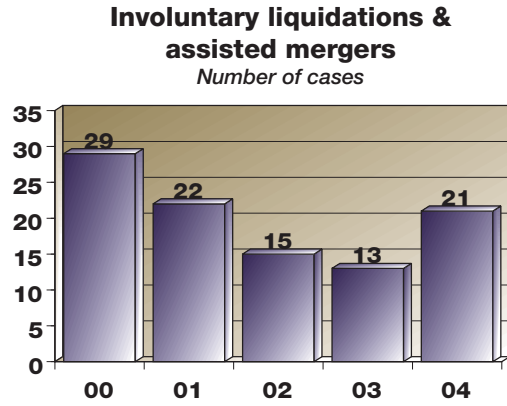
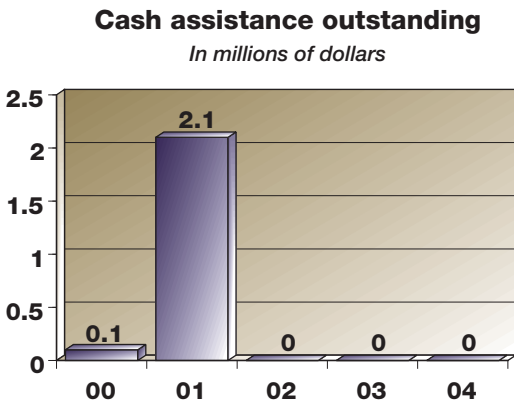
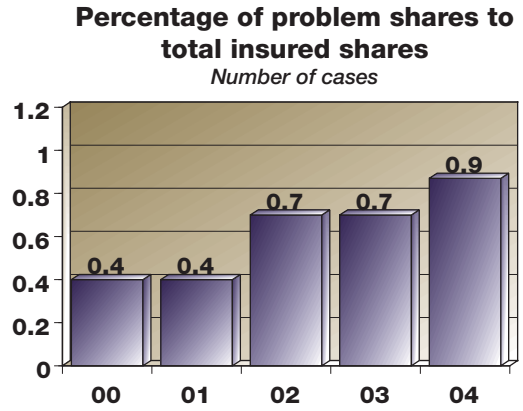
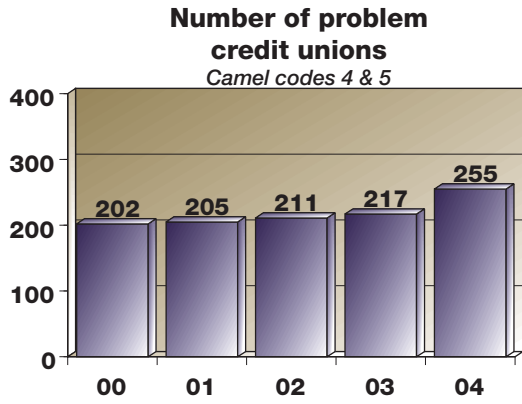
| Fiscal year                                   | 2002     | 2003     | 2004     |
|-----------------------------------------------|----------|----------|----------|
| Direct expenses                               | \$2,184  | \$1,868  | \$1,542  |
| Allocated expenses                            | 83,183   | 83,158   | 79,863   |
| Total administrative expenses                 | \$85,367 | \$85,026 | \$81,405 |
| Percent of NCUA total administrative expenses | 62.6%    | 62.5%    | 60.3%    |

**Summary of CAMEL code 4 & 5 credit unions**

| Fiscal year                                        | 2001   | 2002   | 2003   | 2004  |
|----------------------------------------------------|--------|--------|--------|-------|
| Number of Code 4 & 5 credit unions                 | 205    | 211    | 217    | 255   |
| Percentage of insured credit unions                | 2.0%   | 2.2%   | 2.3%   | 2.8%  |
| Shares in Code 4 & 5 credit unions                 | \$1.7B | \$2.9B | \$3.6B | 4.3B  |
| Percentage of NCUSIF natural person insured shares | 0.43%  | 0.66%  | 0.74%  | 0.87% |

**Insured share growth in federally insured credit unions (in millions)**

| December 31 | Shares outstanding    |                     |         | Percentage change from prior year total shares |
|-------------|-----------------------|---------------------|---------|------------------------------------------------|
|             | Federal credit unions | State credit unions | Total   |                                                |
| 1994        | 155,480               | 92,173              | 247,653 | 3.0                                            |
| 1995        | 164,582               | 96,856              | 261,438 | 5.6                                            |
| 1996        | 173,544               | 101,914             | 275,458 | 5.3                                            |
| 1997        | 178,948               | 114,327             | 293,275 | 6.5                                            |
| 1998        | 191,328               | 130,129             | 321,457 | 9.6                                            |
| 1999        | 194,766               | 140,857             | 335,623 | 4.4                                            |
| 2000        | 195,871               | 157,996             | 353,867 | 5.4                                            |
| 2001        | 217,112               | 185,574             | 402,686 | 13.8                                           |
| 2002        | 238,912               | 202,552             | 441,464 | 9.6                                            |
| 2003        | 262,420               | 215,056             | 477,476 | 8.2                                            |
| 2004        | 276,395               | 222,573             | 498,968 | 4.5                                            |



# NCUA Operating Fund

## *Financing NCUA staff and programs*

NCUA operating costs are shared with the National Credit Union Share Insurance Fund (NCUSIF) through a monthly accounting procedure known as the overhead transfer. A transfer rate of 59.8 percent was used for 2004 based on the refined model approved by the NCUA Board in 2003. This transfer rate is calculated annually and has ranged from 50 to 67 percent in recent years based on the amount of insurance work performed by NCUA staff. The remaining cost of NCUA operations is financed primarily by federal credit unions' annual operating fees. Funds are invested daily in U.S. Treasury securities. The bulk of miscellaneous income is provided through the sale of publications.



## **Operating fee assessment declines**

The operating fee assessment is calculated by applying the assessment rate scale to the previous December 31 assets of individual federal credit unions. The 2004 assessment rate decreased 6.81 percent. In November, the NCUA Board declared a \$9 million refund from 2004 operating fees due to lower than budgeted expenses and completion of the regional realignment, which resulted in greater savings than estimated.

## **Revenue and expenses**

The Operating Fund earned \$51.4 million in

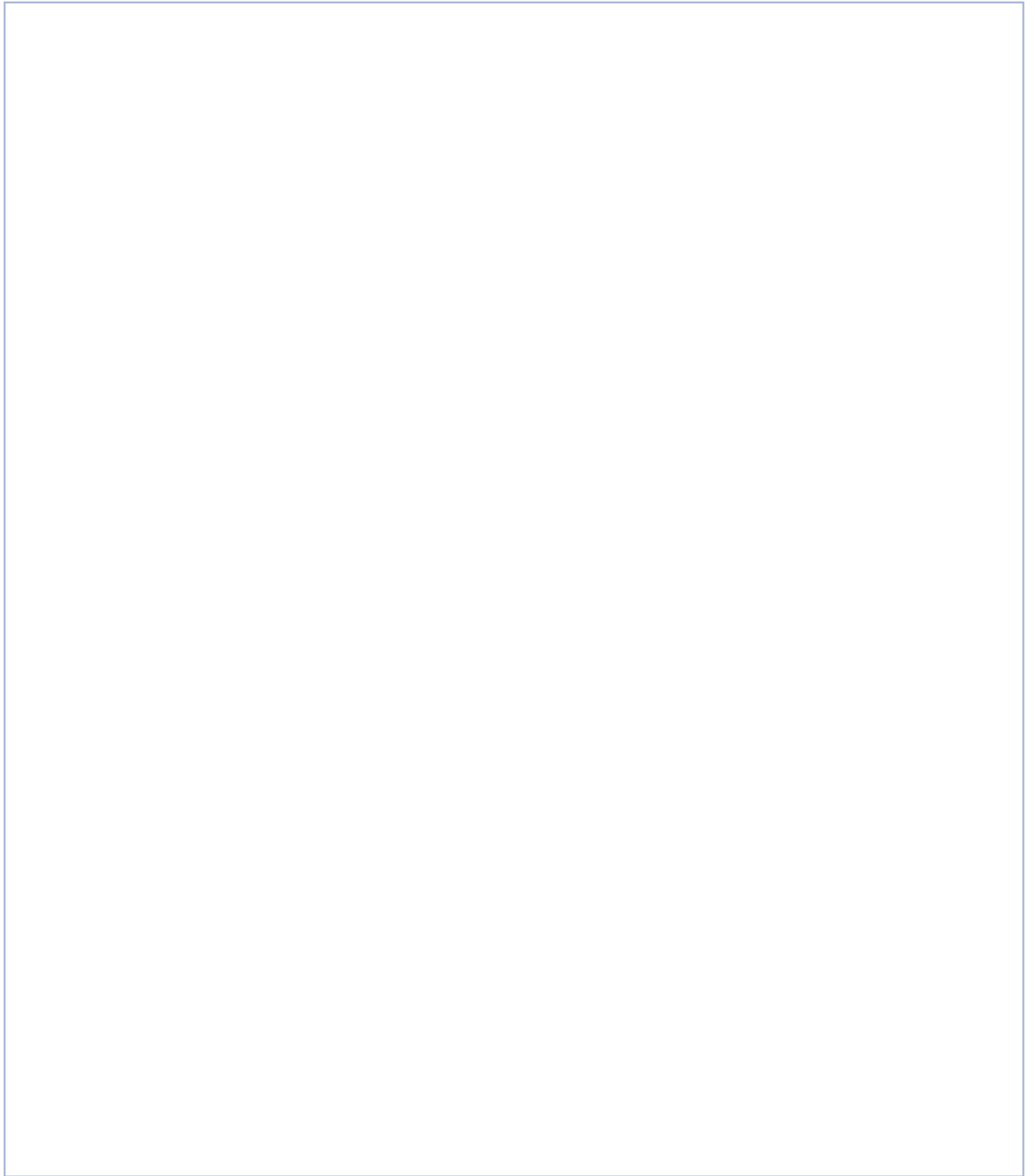
total revenue during calendar year 2004. Of this amount, \$50.7 million came from operating fees and the balance came from interest and other income. Total operating expenses for 2004 were \$53.7 million. This was \$6.6 million under the budgeted amount of \$60.3 million. The budget variance is largely attributed to staff vacancies remaining 6.8 percent under the authorized level.

## **NCUA reorganization**

The regional realignment, initially approved by the NCUA Board in 2003, was completed in 2004. NCUA's office in Lisle, Ill., was closed while the office in Concord, Calif., was relocated to Tempe, Ariz. Realignment costs of \$3.4 million were less than anticipated, and projected savings of \$36 million over the next 10 years are greater than anticipated.

## **Unqualified opinions for 2004**

For the 21st consecutive year, independent accountants rendered unqualified opinions for NCUA's financial units. Deloitte & Touche LLP audit reports and the comparative financial statements of the National Credit Union Share Insurance fund, Operating Fund, Central Liquidity Facility, and Community Development Revolving Loan Fund for fiscal years 2004 and 2003 follow on page 69.



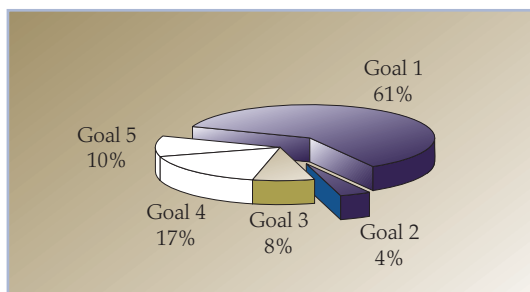


# NCUA Annual Performance Summary

# Performance Summary

Federally insured credit unions prospered with increased assets, loans, shares and net worth in 2004. Credit unions' prosperity carried over to a healthy National Credit Union Share Insurance Fund (NCUSIF). NCUA's oversight of federal credit unions and management of NCUSIF were accomplished in 2004 using fewer resources in both dollars and staff, or full time equivalents (FTE), highlighting the agency's efficiency and effectiveness. NCUA's success in meeting 2004 annual performance goals drove these accomplishments.

The following graph depicts the percentage of FTE (staff) and dollars allocated to each of NCUA's five strategic goals.



Detailed figures for FTE and allocated dollars as well as an individual analysis of 2004 performance goals are included in the framework and resource allocation section for each strategic goal.

## Program Evaluations

The Office of Management and Budget completed a Program Assessment Rating Tool Evaluation (PART) of the Community Development Revolving Loan Fund, which is reflected in Strategic Goal 4. A formal report included the following recommendations currently being addressed:

- Monitor the status of low-income designated credit unions to ensure their membership still qualifies as "low-income".
- Develop long-term performance measures that demonstrate credit unions serving low-income members are contributing to increasing income, ownership and employment opportunities.
- Revise current annual performance measures so the performance of credit unions serving low-income members is tied to the performance of all credit unions.

In addition to OMB review, NCUA had the following reviews performed during 2004:

- Financial statement audits performed by Deloitte and Touche;
- Federal Information Security Management Act review;



- Various reviews performed by the Government Accountability Office;
- Office of Personnel Management Human Capital Survey;
- Network penetration testing performed by KPMG; and
- Information technology customer service survey.

No material deficiencies were noted during these reviews.

### Reliability of Data

The examination and supervision programs for natural person and corporate credit unions employ multiple checks and balances to evaluate processes and verify and validate collected data. A few of the processes include:

- Surveillance Systems Working Group
- 5300 Call Report Program (natural person)
- 5310 Call Report Program (corporate)
- Information System and Technology Program









In addition, an outside independent accounting firm conducts annual certified public accounting audits on the financial statements of the National Credit Union Share Insurance Fund, National Credit Union Administration Operating Fund, Community Development Revolving Loan Program and the Central Liquidity Facility to ensure accuracy.

### Performance Key

NCUA measures success by achieving a particular outcome. NCUA considers its annual performance goals in aggregate support the associated outcome goal. The fact an annual performance goal was not met does not indicate failure when the overall outcome was achieved.

The following key depicts NCUA's performance level for 2004 and three prior years throughout the Annual Performance Summary.

### Performance Summary

|                                                                                                         |                                                                                       |
|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| Goal achieved.                                                                                          |  |
| Goal not achieved, with no impact on overall program and activity performance.                          |  |
| Goal not achieved and no longer applicable, with no impact on overall program and activity performance. |  |
| Goal not achieved, with impact on overall program and activity performance.                             |  |
| Goal not applicable during stated year.                                                                 |  |
| Data indicates positive trend.                                                                          |  |
| Data indicates marginal trend.                                                                          |  |
| Data indicates negative trend.                                                                          |  |

## Strategic Goal 1 – Strategic Framework and Resource Allocation

| Strategic Goal 1                                                                                                    | Outcome Goals                                                                                                                              | Annual Performance Goals                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A system of financially sound, well-managed, federally insured credit unions able to withstand economic volatility. | 1.1 NCUA promotes effective risk management practices.                                                                                     | <p>1.1(a) NCUA Rules and Regulations promote the use of effective risk management practices.</p> <p>1.1(b) NCUA's risk-focused supervision process provides credit unions with useful, effective, and efficient means for improving their risk management practices.</p> <p>1.1(c) Emerging risks and trends are identified and evaluated for resulting regulatory changes, changes to the supervision process, and/or the development of guidance.</p> |
|                                                                                                                     | 1.2 NCUA timely resolves safety and soundness issues.                                                                                      | <p>1.2(a) The percentage of federally insured credit unions (FICUs) with long-standing unresolved problems that threaten their safety and soundness is limited.</p> <p>1.2(b) FICUs in danger of insolvency are effectively monitored and assessed for continued viability.</p>                                                                                                                                                                         |
|                                                                                                                     | 1.3 NCUA's supervision efforts influence credit unions to effectively plan to meet current and future financial and managerial challenges. | <p>1.3(a) NCUA staff, credit unions, and other interested parties are proficient in assessing strategic risk and understanding strategic planning concepts.</p> <p>1.3(b) NCUA provides credit unions and staff with critical and valuable information to assist with planning and evaluating emerging issues.</p>                                                                                                                                      |
|                                                                                                                     | 1.4 NCUA diligently manages the National Credit Union Share Insurance Fund (NCUSIF).                                                       | 1.4(a) NCUA diligently manages the NCUSIF to support credit union deposit insurance needs.                                                                                                                                                                                                                                                                                                                                                              |

| Strategic Goal 1 Resource Allocation |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Category                             | 2001         | 2002         | 2003         | 2004         |
| Budgeted FTE                         | 706.22       | 628.66       | 634.71       | 602.95       |
| Actual FTE                           | 692.85       | 604.76       | 580.05       | 556.31       |
| Budgeted Dollars                     | \$96,086,414 | \$92,790,450 | \$95,485,302 | \$93,842,706 |
| Actual Dollars                       | \$92,422,097 | \$84,528,781 | \$84,072,892 | \$82,628,101 |

## STRATEGIC GOAL 1 Annual Performance Goals - Measures, Targets and Performance

### Annual Performance Goal 1.1(a)

|                    |                                                                                                                                |      |      |      |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Review and update at least 1/3 of NCUA Rules and Regulations.                                                                  |      |      |      |
| Result             | Following a three-year schedule for reviews, 1/3 of NCUA Rules and Regulations were reviewed with necessary updates completed. |      |      |      |
| Performance        | 2001                                                                                                                           | 2002 | 2003 | 2004 |
| ↑                  | ○                                                                                                                              | ○    | ●    | ●    |

|                    |                                                                                                      |      |      |      |
|--------------------|------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | At least 90 percent of corporate credit unions receive a CRIS Risk Management rating of 3 or better. |      |      |      |
| Result             | Met.                                                                                                 |      |      |      |
| Performance        | 2001                                                                                                 | 2002 | 2003 | 2004 |
|                    | ○                                                                                                    | ○    | ○    | 100% |

### Annual Performance Goal 1.1(b)

|                    |                                                                                                                          |      |      |      |
|--------------------|--------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Implement recommendations from the post program evaluation conducted by the Office of Examination and Insurance in 2003. |      |      |      |
| Result             | Follow-up training provided to staff and enhancements to the program identified (to be implemented in 2005).             |      |      |      |
| Performance        | 2001                                                                                                                     | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                        | ○    | ○    | ●    |

### Annual Performance Goal 1.1 (c)

|                    |                                                                                                                             |      |      |      |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Distribute National Risk Trends Report and other communications to staff semi-annually and as needed.                       |      |      |      |
| Result             | National risk trends were distributed for 12/31/03 and 6/30/2004 with additional communications issued throughout the year. |      |      |      |
| Performance        | 2001                                                                                                                        | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                           | ○    | ○    | ●    |

|                    |                                                                                                 |      |      |      |
|--------------------|-------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Implement necessary changes identified through third-party reviews (i.e., OIG, GAO, OMB, etc.). |      |      |      |
| Result             | All necessary changes were implemented.                                                         |      |      |      |
| Performance        | 2001                                                                                            | 2002 | 2003 | 2004 |
|                    | ○                                                                                               | ○    | ○    | ●    |

### Annual Performance Goal 1.2(a)

|                    |                                                                                                                                                                                                                                                                                             |      |      |       |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|-------|
| Measure/<br>Target | Limit FICUs with a CAMEL code 3 or greater for more than 36 months and a Management component code of 3 or greater to 3 percent or less of all FICUs.                                                                                                                                       |      |      |       |
| Result             | New goal established to emphasize credit union management. New exam procedures provide more focus on management processes resulting in an increase. The decline in the total number of credit unions also has an impact. The results do not affect overall program or activity performance. |      |      |       |
| Performance        | 2001                                                                                                                                                                                                                                                                                        | 2002 | 2003 | 2004  |
|                    | ○                                                                                                                                                                                                                                                                                           | ○    | ○    | 3.67% |

|                    |                                                                                                                                                                                                         |      |      |       |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|-------|
| Measure/<br>Target | Maintain a 4.5 or better rating on question 2 of NCUA's Examination Survey which asks whether the exam provided management with sufficient direction for improving risk management at the credit union. |      |      |       |
| Result             | Met.                                                                                                                                                                                                    |      |      |       |
| Performance        | 2001                                                                                                                                                                                                    | 2002 | 2003 | 2004  |
|                    | ○                                                                                                                                                                                                       | ○    | ○    | 4.51% |

|                    |                                                                                                 |      |      |       |
|--------------------|-------------------------------------------------------------------------------------------------|------|------|-------|
| Measure/<br>Target | Limit FICUs with a CAMEL code 4 or 5 for more than 12 months to 1 percent or less of all FICUs. |      |      |       |
| Result             | Met.                                                                                            |      |      |       |
| Performance        | 2001                                                                                            | 2002 | 2003 | 2004  |
|                    | ○                                                                                               | ○    | ○    | 1.00% |

|                |                                                                                                                            |      |      |       |
|----------------|----------------------------------------------------------------------------------------------------------------------------|------|------|-------|
| Measure/Target | Limit FICUs with a return on assets of less than 0.50 percent and net worth less than 6 percent to 1 percent of all FICUs. |      |      |       |
| Result         | Met.                                                                                                                       |      |      |       |
| Performance    | 2001                                                                                                                       | 2002 | 2003 | 2004  |
|                | ○                                                                                                                          | ○    | ○    | 0.73% |

|                |                                                                                       |      |      |      |
|----------------|---------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Issue Letters to Credit Unions, Regulatory Alerts and other communications as needed. |      |      |      |
| Result         | Necessary communications issued.                                                      |      |      |      |
| Performance    | 2001                                                                                  | 2002 | 2003 | 2004 |
|                | ○                                                                                     | ○    | ○    | ●    |

**Annual Performance Goal 1.2(b)**

|                |                                                                                         |      |       |       |
|----------------|-----------------------------------------------------------------------------------------|------|-------|-------|
| Measure/Target | Limit FICUs with a net worth ratio of less than 2 percent to 0.25 percent of all FICUs. |      |       |       |
| Result         | Met.                                                                                    |      |       |       |
| Performance    | 2001                                                                                    | 2002 | 2003  | 2004  |
| ↑              | ○                                                                                       | ○    | 0.25% | 0.13% |

**Annual Performance Goal 1.4(a)**

|                |                                                                                                                                                                                |      |      |      |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Maintain the NCUSIF's Equity Ratio at 1.3 percent.                                                                                                                             |      |      |      |
| Result         | The increase in credit union deposits over the past two years coupled with reduced interest earned has diluted the ratio slightly. However, it remains in an acceptable range. |      |      |      |
| Performance    | 2001                                                                                                                                                                           | 2002 | 2003 | 2004 |
| →              | ○                                                                                                                                                                              | ○    | 1.27 | 1.26 |

**Annual Performance Goal 1.3(a)**

|                |                                                                                                                                                                                                           |      |      |       |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|-------|
| Measure/Target | Limit FICUs with a high strategic risk rating to 15 percent of all FICUs.                                                                                                                                 |      |      |       |
| Result         | This new goal was established as a stretch goal with the emphasis over time to reduce strategic risk below 15 percent. The slightly higher results do not affect overall program or activity performance. |      |      |       |
| Performance    | 2001                                                                                                                                                                                                      | 2002 | 2003 | 2004  |
|                | ○                                                                                                                                                                                                         | ○    | ○    | 17.7% |

|                |                                                                                                                                                                                                                                  |      |      |      |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | An increase in the percentage of the credit union industry's market share of federally insured assets from the prior year (2003 performance – 6.32 percent increase).                                                            |      |      |      |
| Result         | This new goal was established as a stretch goal with the emphasis over time to increase market share. While this goal was not met, it remains in an acceptable range and did not affect overall program or activity performance. |      |      |      |
| Performance    | 2001                                                                                                                                                                                                                             | 2002 | 2003 | 2004 |
|                | ○                                                                                                                                                                                                                                | ○    | ○    | 6.02 |

**Annual Performance Goal 1.3(b)**

|                |                                                                                                                                                                                               |      |      |      |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Maintain a 4.5 or better rating on question 1 on NCUA's Examination Survey which asks whether the examiner communicated effectively with management and officials throughout the examination. |      |      |      |
| Result         | Met.                                                                                                                                                                                          |      |      |      |
| Performance    | 2001                                                                                                                                                                                          | 2002 | 2003 | 2004 |
| ↑              | ○                                                                                                                                                                                             | ○    | 4.5  | 4.6  |

## Strategic Goal 2 – Strategic Framework and Resource Allocation

| Strategic Goal 2                                                                 | Outcome Goals                                                                                                                                                                                      | Annual Performance Goals                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The safe integration of credit union financial services and emerging technology. | 2.1 NCUA's supervision process is designed to identify, measure, monitor, report, and control the risks existing and emerging financial service technologies pose to credit unions and the NCUSIF. | 2.1(a) Annual Performance Goals<br>NCUA Information System & Technology (IS&T) subject matter examiner workforce possesses an above average knowledge of procedures and controls in internal and external IS&T environments. |
|                                                                                  | 2.2 NCUA provides information and resources to help ensure credit unions safely integrate, operate, and effectively manage existing and emerging financial service technologies.                   | 2.2(a) The credit union community's use and understanding of technology planning including disaster recovery and contingency plans, due diligence expectations and best practices is enhanced.                               |

| Strategic Goal 2 Resource Allocation |             |             |             |             |
|--------------------------------------|-------------|-------------|-------------|-------------|
| Category                             | 2001        | 2002        | 2003        | 2004        |
| Budgeted FTE                         | 31.81       | 36.48       | 31.86       | 34.15       |
| Actual FTE                           | 30.98       | 34.81       | 32.23       | 34.34       |
| Budgeted Dollars                     | \$4,928,441 | \$5,460,094 | \$4,792,946 | \$5,315,415 |
| Actual Dollars                       | \$4,707,265 | \$4,874,055 | \$4,671,581 | \$5,100,743 |

## STRATEGIC GOAL 2

### Annual Performance Goals - Measures, Targets and Performance

#### Annual Performance Goal 2.1(a)

|                    |                                                                                                                             |      |      |      |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Review and, if necessary, update IS&T Subject Matter Examiner (SME) competencies.                                           |      |      |      |
| Result             | Conducted focus groups for all SME areas and developed competencies which replace the former SME Concepts of Understanding. |      |      |      |
| Performance        | 2001                                                                                                                        | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                           | ○    | ○    | ●    |

#### Annual Performance Goal 2.2(a)

|                    |                                                                                                                                                                                                                                                                         |      |      |      |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Determine the appropriate number of IS&T SMEs with the desired competency level based on the number, size and services of each Region's credit unions.                                                                                                                  |      |      |      |
| Result             | IS&T SMEs are currently being trained and developed to meet the new competencies. Estimated to take 3 years for an SME to advance from the beginner level to fully trained level. Ongoing process to ensure regions have appropriately trained and developed IS&T SMEs. |      |      |      |
| Performance        | 2001                                                                                                                                                                                                                                                                    | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                                                                                                                                                                       | ○    | ○    | ●    |

|                    |                                                                             |      |      |      |
|--------------------|-----------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Issue, as necessary, guidance on effective technology management practices. |      |      |      |
| Result             | Necessary guidance issued as appropriate.                                   |      |      |      |
| Performance        | 2001                                                                        | 2002 | 2003 | 2004 |
|                    | ○                                                                           | ○    | ○    | ●    |

### Strategic Goal 3 – Strategic Framework and Resource Allocation

| Strategic Goal 3                                                                                                                                        | Outcome Goals                                                                                                                                   | Annual Performance Goals                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A regulatory environment that facilitates credit union innovation to meet member financial service expectations while maintaining safety and soundness. | 3.1 NCUA regulations are current, clearly written, flexible, necessary and relevant for an effective regulatory environment.                    | 3.1(a) NCUA regulations facilitate credit union innovation.                                                                                                                                                                                                                                 |
|                                                                                                                                                         | 3.2 NCUA's supervision process supports credit union financial services that are innovative and competitive in a changing economic environment. | 3.2(a) The NCUA Board's regulatory philosophy is effectively communicated throughout all levels of the organization.<br><br>3.2(b) NCUA's supervision process is efficient, effective, flexible and facilitative in a competitive environment yet maintains safety and soundness standards. |
|                                                                                                                                                         | 3.3 NCUA contributes to a regulatory environment that promotes credit union innovation.                                                         | 3.3(a) Communication of legislative and regulatory information is efficient, timely and effective.                                                                                                                                                                                          |

| Strategic Goal 3 Resource Allocation |             |              |              |              |
|--------------------------------------|-------------|--------------|--------------|--------------|
| Category                             | 2001        | 2002         | 2003         | 2004         |
| Budgeted FTE                         | 33.95       | 72.18        | 70.65        | 68.12        |
| Actual FTE                           | 33.69       | 79.55        | 69.80        | 67.92        |
| Budgeted Dollars                     | \$4,618,820 | \$10,653,276 | \$10,628,670 | \$10,602,367 |
| Actual Dollars                       | \$4,493,986 | \$11,119,362 | \$10,116,821 | \$10,088,482 |

## STRATEGIC GOAL 3

### Annual Performance Goals - Measures, Targets and Performance

#### Annual Performance Goal 3.1(a)

|                    |                                                                                                                            |      |      |      |
|--------------------|----------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Review and update at least 1/3 of NCUA Rules and Regulations.                                                              |      |      |      |
| Result             | Using a three-year schedule for reviews, 1/3 of NCUA Rules and Regulations were reviewed with necessary updates completed. |      |      |      |
| Performance        | 2001                                                                                                                       | 2002 | 2003 | 2004 |
| ↑                  | ○                                                                                                                          | ○    | ●    | ●    |

#### Annual Performance Goal 3.2(a)

|                    |                                                                                                                                                          |      |      |      |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Implement changes in the Human Capital Survey Report to improve employee satisfaction level with management communication of organizational information. |      |      |      |
| Result             | Necessary changes implemented.                                                                                                                           |      |      |      |
| Performance        | 2001                                                                                                                                                     | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                                                        | ○    | ○    | ●    |

#### Annual Performance Goal 3.2(b)

|                    |                                                                                                                                                                                                                                             |      |           |           |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------|-----------|
| Measure/<br>Target | Maintain a 4.5 or better rating on questions 3 and 7 on NCUA's Exam Survey which ask where topics discussed with credit union officials were relevant to identified and potential risks and whether the overall exam process was effective. |      |           |           |
| Result             | Met                                                                                                                                                                                                                                         |      |           |           |
| Performance        | 2001                                                                                                                                                                                                                                        | 2002 | 2003      | 2004      |
| ↑                  | ○                                                                                                                                                                                                                                           | ○    | Q3<br>4.6 | Q3<br>4.6 |
|                    |                                                                                                                                                                                                                                             |      | Q7<br>4.5 | Q7<br>4.6 |

|                    |                                                                                                                                                                                                                                                                                                                         |      |      |      |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Maintain examination and supervision productive time as a percentage of total examiner time at 59 percent or greater.                                                                                                                                                                                                   |      |      |      |
| Result             | A majority of the decline in productive time was due to the reclassification of Regional Capital Market Specialists' administrative time from productive time to non-productive time. Adjustments to the measure and target for this goal will be considered in future planning periods based on this reclassification. |      |      |      |
| Performance        | 2001                                                                                                                                                                                                                                                                                                                    | 2002 | 2003 | 2004 |
| →                  | ○                                                                                                                                                                                                                                                                                                                       | ○    | 59%  | 57%  |

#### Annual Performance Goal 3.3(a)

|                    |                                                                                                                                |      |      |      |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Make legislative and regulatory information available to credit unions, leagues and trades through publication as appropriate. |      |      |      |
| Result             | Published as appropriate.                                                                                                      |      |      |      |
| Performance        | 2001                                                                                                                           | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                              | ○    | ○    | ●    |

|                    |                                                                                                                            |      |      |      |
|--------------------|----------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Implement an electronic subscription service for disseminating regulatory and supervisory communications to credit unions. |      |      |      |
| Result             | Service implemented.                                                                                                       |      |      |      |
| Performance        | 2001                                                                                                                       | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                          | ○    | ○    | ●    |

|                    |                                   |      |      |      |
|--------------------|-----------------------------------|------|------|------|
| Measure/<br>Target | Redesign NCUA's Internet website. |      |      |      |
| Result             | Redesign completed.               |      |      |      |
| Performance        | 2001                              | 2002 | 2003 | 2004 |
|                    | ○                                 | ○    | ○    | ●    |



## Strategic Goal 4 – Strategic Framework and Resource Allocation

| Strategic Goal 4                                                                                                                                                                                                                         | Outcome Goals                                                                                                                                                             | Annual Performance Goals                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Credit unions leverage their unique place in the American financial system to extend availability of service to all who seek such service, while encouraging and recognizing their historical emphasis on serving those of modest means. | 4.1 NCUA promotes increased credit union membership and accessibility with service to the underserved and enhanced financial service offerings.                           | <p>4.1(a) Financial service availability is expanded to people from all walks of life.</p> <p>4.1(b) Emerging trends in demographics and financial service offerings are identified and shared with examiners, State Supervisory Authorities and federal credit unions.</p> <p>4.1(c) Common themes or reasons for the success or failure of newly chartered credit unions are identified.</p> |
|                                                                                                                                                                                                                                          | 4.2 NCUA appropriately shapes the regulatory environment to allow credit unions to meet the changing economical and sociological financial needs of credit union members. | 4.2(a) The regulatory environment allows credit unions to enhance financial services by reducing regulatory barriers and sharing information and legislative efforts with credit unions, leagues, and associations.                                                                                                                                                                            |
|                                                                                                                                                                                                                                          | 4.3 NCUA identifies and shares innovative initiatives to further credit union service while ensuring the safe and sound condition of the credit union system.             | 4.3(a) Innovative best practice member service solutions are available to credit unions.                                                                                                                                                                                                                                                                                                       |

| Strategic Goal 4 Resource Allocation |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Category                             | 2001         | 2002         | 2003         | 2004         |
| Budgeted FTE                         | 123.67       | 151.58       | 126.20       | 155.52       |
| Actual FTE                           | 122.47       | 145.68       | 146.14       | 151.04       |
| Budgeted Dollars                     | \$16,826,083 | \$22,372,974 | \$18,984,865 | \$24,205,613 |
| Actual Dollars                       | \$16,337,272 | \$20,362,714 | \$21,182,096 | \$22,433,702 |

## STRATEGIC GOAL 4

### Annual Performance Goals - Measures, Targets and Performance

#### Annual Performance Goal 4.1(a)

|                    |                                                                                                                                        |       |       |       |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|
| Measure/<br>Target | Potential underserved members added are equal to or above the three-year moving average number of potential underserved members added. |       |       |       |
| Result             | Exceeded 2004 goal of 21.6M.                                                                                                           |       |       |       |
| Performance        | 2001                                                                                                                                   | 2002  | 2003  | 2004  |
| ↑                  | 16.1M                                                                                                                                  | 23.5M | 25.1M | 27.4M |

#### Annual Performance Goal 4.1(b)

|                    |                                                                                                                                                                              |      |      |      |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Publish an annual survey of emerging trends in demographics and financial service offerings.                                                                                 |      |      |      |
| Result             | The survey was not completed. However, this did not impact overall program or activity performance. Due to recent organizational changes, this goal is no longer applicable. |      |      |      |
| Performance        | 2001                                                                                                                                                                         | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                                                                            | ○    | ○    | ◎    |





#### Annual Performance Goal 4.1(c)





|                    |                                                                                                                                                                                                              |      |      |      |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/<br>Target | Revise the Chartering Model through a study which focuses on ways to modernize the standards for organizing and chartering a credit union.                                                                   |      |      |      |
| Result             | A chartering paper was issued, but a model was not developed. However, this did not impact overall program or activity performance. Due to recent organizational changes, this goal is no longer applicable. |      |      |      |
| Performance        | 2001                                                                                                                                                                                                         | 2002 | 2003 | 2004 |
|                    | ○                                                                                                                                                                                                            | ○    | ○    | ◎    |

#### Annual Performance Goal 4.2(a)

|                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |      |      |       |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|-------|
| Measure/<br>Target | Increase in the number of credit union members by 2 percent or greater.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |      |      |       |
|                    | Increase in credit union assets by 8 percent or greater.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |      |      |       |
|                    | Increase in credit union shares by 7.5 percent or greater.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |      |      |       |
|                    | Increase in credit union loans by 6 percent or greater.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |      |      |       |
| Result             | Membership growth has been on a declining trend for several years. As the number of members rises, more new members are needed to sustain increasing growth trends. Asset and share growth have also been on a declining trend. During the second half of 2004, the Federal Reserve raised rates by 125 basis points. Credit unions traditionally lag in rate adjustment and may have lost short-term share deposits as a result. In addition, the equity markets were up in 2004, and many consumers who sought safety in credit unions are investing more in the market. Many of these external factors are outside of NCUA's range of influence. However, adjustments in the measures and targets will be considered in future planning periods to better reflect the credit union industry's performance. The slightly lower results in member, asset and share growth do not affect overall program or activity performance. |      |      |       |
| Performance        | 2001                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 2002 | 2003 | 2004  |
| Members            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |      |      | 1.4%  |
| Assets             | ○                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | ○    | ○    | 6.0%  |
| Shares             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |      |      | 5.3%  |
| Loans              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |      |      | 10.1% |

**Annual Performance Goal 4.3(a)**

|                    |                                                                                                                                                                                                                                                                                                                            |                                                                                   |                                                                                   |                                                                                   |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Measure/<br>Target | Post articles semi-annual describing best practice member service solutions.                                                                                                                                                                                                                                               |                                                                                   |                                                                                   |                                                                                   |
| Result             | While specific articles were not developed, the NCUA web-site includes a best practices section under PALs that supports this goal. The fact that this goal was not specifically achieved did not impact overall program or activity performance. Due to recent organizational changes, this goal is no longer applicable. |                                                                                   |                                                                                   |                                                                                   |
| Performance        | 2001                                                                                                                                                                                                                                                                                                                       | 2002                                                                              | 2003                                                                              | 2004                                                                              |
|                    |                                                                                                                                                                                                                                           |  |  |  |

|                    |                                                                                                |                                                                                     |                                                                                     |                                                                                     |
|--------------------|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Measure/<br>Target | Conduct single focus workshops that foster <i>Access Across America</i> initiative objectives. |                                                                                     |                                                                                     |                                                                                     |
| Result             | Workshops conducted throughout the year.                                                       |                                                                                     |                                                                                     |                                                                                     |
| Performance        | 2001                                                                                           | 2002                                                                                | 2003                                                                                | 2004                                                                                |
|                    |             |  |  |  |

## Strategic Goal 5 – Strategic Framework and Resource Allocation

| Strategic Goal 5                                                                                                                                            | Outcome Goals                                                                                                                                                                | Annual Performance Goals                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>NCUA's organization is appropriately structured to enable credit unions to continue to flourish while addressing the challenges of the 21st century.</p> | <p>5.1 NCUA has the ability to identify emerging management and human capital issues and trends and implement timely and effective solutions in a cost effective manner.</p> | <p>5.1(a) Human resource decisions are optimal, supported by data and aligned with the agency's mission, values, and goals.</p> <p>5.1(b) Subject Matter Examiners (SME) maintain the requisite competencies required by their SME designation.</p> <p>5.1(c) NCUA staff has the requisite information technology skills to effectively support the accomplishment of agency mission and goals.</p> <p>5.1(d) Efficiency and effectiveness is enhanced through partnerships with sister FFIEC agencies.</p> |
|                                                                                                                                                             | <p>5.2 NCUA strategic goals are supported by an integrated, reliable and secure Information Technology architecture.</p>                                                     | <p>5.2(a) NCUA program and operational support-related capabilities are enhanced by leveraging existing and emerging technologies.</p> <p>5.2(b) Security reviews reflect minimal deficiencies.</p> <p>5.2(c) NCUA networks and servers are reliable.</p>                                                                                                                                                                                                                                                   |
|                                                                                                                                                             | <p>5.3 NCUA's organizational structure supports a safe and sound credit union system while facilitating growth and development in a changing environment.</p>                | <p>5.3(a) NCUA employs sound business planning principles at all levels of the agency to assess past performance and improve future operating results.</p> <p>5.3(b) The current environment and NCUA organizational structure and procedures are continually assessed to enhance effectiveness and efficiency.</p>                                                                                                                                                                                         |

| Strategic Goal 5 | Outcome Goals                                                                                                      | Annual Performance Goals                                                                                                                                                                                                                                                                                      |
|------------------|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                  |                                                                                                                    | <p>5.3(c) NCUA examination and supervision procedures are appropriately structured to identify and minimize the potential risks arising from large credit unions.</p> <p>5.3(d) The Economic Development Specialist Program is appropriately structured to provide enhanced economic development support.</p> |
|                  | <p>5.4 The people, tools, and structure are in place to minimize the impact of any potential crisis situation.</p> | <p>5.4(a) The operational impact of a crisis situation is minimized.</p> <p>5.4(b) NCUA physical, human capital and information technology assets are protected during a crisis situation.</p>                                                                                                                |

| Strategic Goal 5 Resource Allocation |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Category                             | 2001         | 2002         | 2003         | 2004         |
| Budgeted FTE                         | 133.10       | 106.30       | 107.60       | 102.55       |
| Actual FTE                           | 110.17       | 93.50        | 98.43        | 89.41        |
| Budgeted Dollars                     | \$18,108,822 | \$15,690,667 | \$16,187,929 | \$15,961,491 |
| Actual Dollars                       | \$14,695,977 | \$13,069,330 | \$14,267,161 | \$13,279,348 |

## STRATEGIC GOAL 5 Annual Performance Goals - Measures, Targets and Performance

### Annual Performance Goal 5.1(a)

|                |                                                                                                                                   |      |      |      |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Act on areas identified for improvement in the 2003 Human Capital Survey.                                                         |      |      |      |
| Result         | Actions to improve leadership include: required training, development programs and changes to the selection process for managers. |      |      |      |
| Performance    | 2001                                                                                                                              | 2002 | 2003 | 2004 |
|                | ○                                                                                                                                 | ○    | ○    | ●    |

### Annual Performance Goal 5.1(b)

|                |                                                                                                           |      |      |      |
|----------------|-----------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Identify SME competencies for placement in CU-12 examiner position description and performance standards. |      |      |      |
| Result         | Competencies identified and developed for developmental and training purposes only.                       |      |      |      |
| Performance    | 2001                                                                                                      | 2002 | 2003 | 2004 |
|                | ○                                                                                                         | ○    | ○    | ●    |

|                |                                                                                                                                                                                                                                                                                               |      |      |      |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Establish a baseline for the percentage of CU-12 examiners with an above average competency rating, through an average response rating of 4 or better on the Workforce Planning Survey question asking whether employees are provided the training to achieve the requisite competency level. |      |      |      |
| Result         | Results pending.                                                                                                                                                                                                                                                                              |      |      |      |
| Performance    | 2001                                                                                                                                                                                                                                                                                          | 2002 | 2003 | 2004 |
|                | ○                                                                                                                                                                                                                                                                                             | ○    | ○    | TBD  |

### Annual Performance Goal 5.1(c)

|                |                                                                                                                                                                                                                                   |      |      |      |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | At least 90 percent of examiners have an average response rating of 4 or better on the Workforce Planning Survey question dealing with the effectiveness of agency provided hardware, purchased software and custom applications. |      |      |      |
| Result         | Results pending.                                                                                                                                                                                                                  |      |      |      |
| Performance    | 2001                                                                                                                                                                                                                              | 2002 | 2003 | 2004 |
|                | ○                                                                                                                                                                                                                                 | ○    | ○    | TBD  |

### Annual Performance Goal 5.1(d)

|                |                                                                                        |      |      |      |
|----------------|----------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Advancement of interagency working group mutual goals through the FFIEC Annual Report. |      |      |      |
| Result         | Contributed to FFIEC task forces and working groups.                                   |      |      |      |
| Performance    | 2001                                                                                   | 2002 | 2003 | 2004 |
|                | ○                                                                                      | ○    | ○    | ●    |

### Annual Performance Goal 5.2(a)

|                |                                                                                                                      |      |      |      |
|----------------|----------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Receive an average rating equal to or above the peer group average rating on an independent customer service survey. |      |      |      |
| Result         | Improving trend, however still fell short of peer average rating of 3.63. Not deemed significant.                    |      |      |      |
| Performance    | 2001                                                                                                                 | 2002 | 2003 | 2004 |
| ↑              | ○                                                                                                                    | 3.83 | 3.38 | 3.40 |

### Annual Performance Goal 5.2(b)

|                |                                                                                                                |      |      |      |
|----------------|----------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Minimal material deficiencies are noted during the Federal Information Security Management Act (FISMA) review. |      |      |      |
| Result         | No material deficiencies noted.                                                                                |      |      |      |
| Performance    | 2001                                                                                                           | 2002 | 2003 | 2004 |
| ↑              | ○                                                                                                              | ●    | ●    | ●    |

**Annual Performance Goal 5.2(c)**

|                |                                                                                                            |      |       |       |
|----------------|------------------------------------------------------------------------------------------------------------|------|-------|-------|
| Measure/Target | Maintain percentage of network and server availability at an acceptably high level of at least 98 percent. |      |       |       |
| Result         | Met.                                                                                                       |      |       |       |
| Performance    | 2001                                                                                                       | 2002 | 2003  | 2004  |
|                |                                                                                                            |      | 98.21 | 99.25 |
|                |                                                                                                            |      | 98.69 | 98.72 |

**Annual Performance Goal 5.3(d)**

|                |                                                                   |      |      |      |
|----------------|-------------------------------------------------------------------|------|------|------|
| Measure/Target | Complete the Economic Development Specialist Program Study.       |      |      |      |
| Result         | A position classification review was completed for all 5 regions. |      |      |      |
| Performance    | 2001                                                              | 2002 | 2003 | 2004 |
|                |                                                                   |      |      |      |

**Annual Performance Goal 5.3(a)**

|                |                                                                                                      |      |      |      |
|----------------|------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Complete all requirements of NCUA Instruction 9501 "NCUA Strategic and Annual Performance Planning". |      |      |      |
| Result         | All requirements met.                                                                                |      |      |      |
| Performance    | 2001                                                                                                 | 2002 | 2003 | 2004 |
|                |                                                                                                      |      |      |      |

**Annual Performance Goal 5.4 (a) & (b)**

|                |                                                            |      |      |      |
|----------------|------------------------------------------------------------|------|------|------|
| Measure/Target | Review, test and update the Continuity of Operations Plan. |      |      |      |
| Result         | Completed.                                                 |      |      |      |
| Performance    | 2001                                                       | 2002 | 2003 | 2004 |
|                |                                                            |      |      |      |

**Annual Performance Goal 5.3(b)**

|                |                                                                                                        |      |      |      |
|----------------|--------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Complete the closure of Region IV office, the relocation of Region VI office and integration of staff. |      |      |      |
| Result         | Completed during the first half of year.                                                               |      |      |      |
| Performance    | 2001                                                                                                   | 2002 | 2003 | 2004 |
|                |                                                                                                        |      |      |      |

|                |                                                                                                     |      |      |      |
|----------------|-----------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Initiate the postmortem review of the Region IV office closure and the Region VI office relocation. |      |      |      |
| Result         | Postmortem review initiated.                                                                        |      |      |      |
| Performance    | 2001                                                                                                | 2002 | 2003 | 2004 |
|                |                                                                                                     |      |      |      |

**Annual Performance Goal 5.3(c)**

|                |                                                                                                                                                                                                              |      |      |      |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| Measure/Target | Implement the findings from the large credit union pilot program.                                                                                                                                            |      |      |      |
| Result         | Goal was partially achieved. The report was distributed and regions implemented the best practices included in the report. However, a recommended nationwide large credit union program was not implemented. |      |      |      |
| Performance    | 2001                                                                                                                                                                                                         | 2002 | 2003 | 2004 |
|                |                                                                                                                                                                                                              |      |      |      |







# Auditor's Report

## INDEPENDENT AUDITORS' REPORT

Inspector General  
National Credit Union Administration

We have audited the financial statements appearing on pages        of this Annual Report of, respectively, the National Credit Union Share Insurance Fund, the National Credit Union Administration Operating Fund, the National Credit Union Administration Central Liquidity Facility, and the National Credit Union Administration Community Development Revolving Loan Fund (collectively, the "funds") as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the National Credit Union Administration's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund, of the National Credit Union Administration Operating Fund, of the National Credit Union Administration Central Liquidity Facility, and of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2004 and 2003, and the results of operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 15, 2005

# NATIONAL CREDIT UNION SHARE INSURANCE FUND

## BALANCE SHEETS DECEMBER 31, 2004 AND 2003 (Dollars in thousands)

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| <b>ASSETS</b>                                                                    | <b>2004</b>        | <b>2003</b>        |
|----------------------------------------------------------------------------------|--------------------|--------------------|
| ASSETS:                                                                          |                    |                    |
| Investments (Note 6)                                                             | \$4,485,591        | \$4,709,610        |
| Cash and cash equivalents                                                        | 1,872,174          | 1,364,954          |
| Accrued interest receivable                                                      | 38,246             | 45,761             |
| Assets acquired in assistance to insured credit unions                           | 16,627             | 12,217             |
| NCUSIF subordinated note                                                         |                    | 1,711              |
| Notes receivable—National Credit Union<br>Administration Operating Fund (Note 8) | 25,143             | 26,484             |
| Other notes receivable and advances                                              | 1,558              | 880                |
| Fixed assets—net of accumulated depreciation<br>and amortization (Note 3)        | <u>518</u>         | <u>934</u>         |
| TOTAL ASSETS                                                                     | <u>\$6,439,857</u> | <u>\$6,162,551</u> |
| <br>                                                                             |                    |                    |
| <b>LIABILITIES AND FUND BALANCE</b>                                              |                    |                    |
| LIABILITIES:                                                                     |                    |                    |
| Estimated losses from supervised credit unions (Note 4)                          | \$ 67,126          | \$ 76,667          |
| Amounts due to insured shareholders of liquidated credit unions                  | 11,601             | 9,541              |
| Due to National Credit Union Administration<br>Operating Fund (Note 8)           | 150                | 1,914              |
| Cash assistance liability                                                        | 1,078              | 100                |
| Accounts payable                                                                 | 72                 | 3                  |
| Obligations under capital leases (Note 9)                                        | <u>522</u>         | <u>936</u>         |
| Total liabilities                                                                | <u>80,549</u>      | <u>89,161</u>      |
| <br>                                                                             |                    |                    |
| FUND BALANCE:                                                                    |                    |                    |
| Insured credit unions' accumulated contributions                                 | 4,943,144          | 4,704,596          |
| Insurance fund balance                                                           | <u>1,416,164</u>   | <u>1,368,794</u>   |
| Total fund balance                                                               | <u>6,359,308</u>   | <u>6,073,390</u>   |
| TOTAL LIABILITIES AND FUND BALANCE                                               | <u>\$6,439,857</u> | <u>\$6,162,551</u> |

See notes to financial statements.

## NATIONAL CREDIT UNION SHARE INSURANCE FUND

### STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2004 AND 2003 (Dollars in thousands)

|                                                                  | 2004             | 2003             |
|------------------------------------------------------------------|------------------|------------------|
| REVENUES:                                                        |                  |                  |
| Interest                                                         | \$ 124,836       | \$ 151,174       |
| Other                                                            | <u>515</u>       | <u>761</u>       |
| Total revenues                                                   | <u>125,351</u>   | <u>151,935</u>   |
| EXPENSES (Note 8):                                               |                  |                  |
| Administrative expenses:                                         |                  |                  |
| Employee wages and benefits                                      | 61,196           | 64,652           |
| Travel                                                           | 6,822            | 6,210            |
| Rent, communications, and utilities                              | 2,539            | 2,443            |
| Contracted services                                              | 3,827            | 3,629            |
| (Reduction of allowance) provision for insurance losses (Note 4) | (3,424)          | 38,043           |
| Other                                                            | <u>7,021</u>     | <u>8,091</u>     |
| Total expenses                                                   | <u>77,981</u>    | <u>123,068</u>   |
| EXCESS OF REVENUES OVER EXPENSES                                 | <u>\$ 47,370</u> | <u>\$ 28,867</u> |

See notes to financial statements.

### STATEMENTS OF FUND BALANCE YEARS ENDED DECEMBER 31, 2004 AND 2003 (Dollars in thousands)

|                                          | Insured<br>Credit Unions'<br>Accumulated<br>Contributions | Insurance<br>Fund<br>Balance |
|------------------------------------------|-----------------------------------------------------------|------------------------------|
| BALANCE AT JANUARY 1, 2003               | \$4,267,169                                               | \$1,339,927                  |
| Contributions from insured credit unions | 437,427                                                   |                              |
| Excess of revenues over expenses         | <u>          </u>                                         | <u>28,867</u>                |
| BALANCE AT DECEMBER 31, 2003             | 4,704,596                                                 | 1,368,794                    |
| Contributions from insured credit unions | 238,548                                                   |                              |
| Excess of revenues over expenses         | <u>          </u>                                         | <u>47,370</u>                |
| BALANCE AT DECEMBER 31, 2004             | <u>\$4,943,144</u>                                        | <u>\$1,416,164</u>           |

See notes to financial statements.

# NATIONAL CREDIT UNION SHARE INSURANCE FUND

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (Dollars in thousands)

|                                                                                                     | 2004                      | 2003                      |
|-----------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                        |                           |                           |
| Excess of revenues over expenses                                                                    | \$ 47,370                 | \$ 28,867                 |
| Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities: |                           |                           |
| Depreciation and amortization                                                                       | 416                       | 575                       |
| (Recoveries) reserves relating to losses from supervised credit unions—net                          | (9,541)                   | 29,124                    |
| Decrease (increase) in assets:                                                                      |                           |                           |
| Accrued interest receivable                                                                         | 7,515                     | 23,413                    |
| Capital assessment receivable                                                                       |                           | 3,697                     |
| Assets acquired in assistance to insured credit unions, net                                         | (4,410)                   | 3,200                     |
| NCUSIF subordinated notes                                                                           | 1,711                     | (1,711)                   |
| Other notes receivable and advances                                                                 | (678)                     | (880)                     |
| Increase (decrease) in liabilities:                                                                 |                           |                           |
| Amounts due to National Credit Union Administration Operating Fund                                  | (1,764)                   | 1,244                     |
| Amounts due to insured shareholders of liquidated credit unions                                     | 2,060                     | 3,313                     |
| Accounts payable                                                                                    | 69                        |                           |
| Cash assistance liability                                                                           | <u>978</u>                | <u>100</u>                |
| Net cash provided by operating activities                                                           | <u>43,726</u>             | <u>90,942</u>             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                        |                           |                           |
| Purchase of investments                                                                             | (2,488,484)               | (2,473,375)               |
| Proceeds from maturities of investments                                                             | 2,712,503                 | 2,299,302                 |
| Purchase of fixed assets                                                                            |                           | (4)                       |
| Collections on note receivable—National Credit Union Administration Operating Fund                  | <u>1,341</u>              | <u>2,438</u>              |
| Net cash provided by (used in) investing activities                                                 | <u>225,360</u>            | <u>(171,639)</u>          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                        |                           |                           |
| Contributions from insured credit unions                                                            | 238,548                   | 437,427                   |
| Principal payments under capital lease obligation                                                   | <u>(414)</u>              | <u>(469)</u>              |
| Net cash provided by financing activities                                                           | <u>238,134</u>            | <u>436,958</u>            |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                                    | <b>507,220</b>            | <b>356,261</b>            |
| <b>CASH AND CASH EQUIVALENTS—Beginning of year</b>                                                  | <b><u>1,364,954</u></b>   | <b><u>1,008,693</u></b>   |
| <b>CASH AND CASH EQUIVALENTS—End of year</b>                                                        | <b><u>\$1,872,174</u></b> | <b><u>\$1,364,954</u></b> |

See notes to financial statements.

# NATIONAL CREDIT UNION SHARE INSURANCE FUND

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003

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### 1. ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (NCUSIF, the “Fund”) was created by the Public Law 91-468 (Title II of the Federal Credit Union Act), which was amended in 1984 by Public Law 98-369. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (“NCUA”) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is \$100,000 per shareholder account.

NCUA exercises direct supervisory authority over federal credit unions and coordinates required supervisory involvement with the state chartering authority for state-chartered credit unions insured by the Fund. Insured credit unions are required to report certain financial and statistical information to NCUA on a semiannual or quarterly basis depending on the size of the credit union and are subject to periodic examination by NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if these difficulties are considered by the Fund to be temporary or correctable. This special assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, and/or cash assistance. If continuation of the credit union’s operations with Fund assistance is not feasible, a merger partner may be sought. If the assistance or merger alternatives are not practical, the credit union is liquidated.

The first form of special assistance is waivers of statutory reserve requirements, whereby the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the Fund may provide a reserve guarantee account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and NCUSIF subordinated notes, or may purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the Fund will liquidate the credit union, dispose of its assets, and pay members’ shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are sometimes guaranteed to third-party purchasers by the Fund.

### 2. SIGNIFICANT ACCOUNTING POLICIES

***Cash Equivalents and Investments***—Title II of the Federal Credit Union Act limits the Fund’s investments to United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments are classified as held-to-maturity under Statement of Financial Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Accordingly, the Fund records investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

***Depreciation and Amortization***—Furniture, equipment and capital leases are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the furniture and equipment and the shorter of the estimated

useful life or lease term for capital leases. Estimated useful lives are three years for the furniture, equipment and capital leases.

**Advances to Insured Credit Unions**—The Fund provides cash assistance in the form of interest and noninterest-bearing NCUSIF (“National Credit Union Share Insurance Fund”) subordinated notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing their operations.

**Assets Acquired from Credit Unions**—The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the Fund may purchase certain credit union assets. In addition, the Fund may provide cash assistance by acquiring non-performing assets of a credit union experiencing financial difficulty. These acquired assets are maintained by the Asset Management and Assistance Center in Austin, Texas, and are recorded by the Fund at their estimated net realizable value.

**Premium Revenue**—The Fund may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of December 31 of the preceding insurance year if the Fund’s equity ratio is less than 1.3%. The NCUA Board waived the 2004 and 2003 share insurance premiums (see Note 5).

**Income Taxes**—The Fund is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

**Fair Value of Financial Instruments**—The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

- a. *Cash and Cash Equivalents*—The carrying amounts for cash and cash equivalents approximate fair values.
- b. *Investments*—The fair value for investments is the quoted market value.
- c. *NCUSIF Subordinated Notes and Other Notes Receivable*—It is not practicable to estimate the fair value of these assets as there is no secondary market. The Fund has the ability and the intention to hold these notes to maturity.
- d. *Other*—Accrued interest receivable, capital assessment receivable, notes receivable from NCUA Operating Fund, payable to NCUA Operating Fund, lease obligations, due to insured shareholders of liquidated credit unions and other accounts payable are recorded at book values, which approximate the respective fair values.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, particularly the estimated losses from supervised credit unions, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management’s estimates.

### 3. FIXED ASSETS

Fixed assets are comprised of the following (in thousands):

|                                                 | <u>December 31,</u> |               |
|-------------------------------------------------|---------------------|---------------|
|                                                 | <u>2004</u>         | <u>2003</u>   |
| Furniture and equipment                         | \$ 500              | \$ 526        |
| Equipment under capital leases                  | <u>1,240</u>        | <u>1,240</u>  |
| Total                                           | 1,740               | 1,766         |
| Less: Accumulated depreciation and amortization | <u>(1,222)</u>      | <u>(832)</u>  |
| Total fixed assets—net                          | <u>\$ 518</u>       | <u>\$ 934</u> |

Accumulated amortization balances for equipment under capital leases as of December 31, 2004 and 2003, totaled \$723 and \$310, respectively.

#### 4. PROVISION FOR INSURANCE LOSSES

Management identifies credit unions experiencing financial difficulty through NCUA's supervisory and examination process. The estimated losses from these supervised credit unions are determined by management on a specified case basis. Management also evaluates overall economic trends and monitors potential system-wide risk factors such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies a rating system to assess a credit union's financial condition and operations in the areas of Capital Adequacy, Asset Quality, Management, Earnings, and Asset/Liability Management (CAMEL). The CAMEL Rating System is a tool to measure risk and allocate resources for supervisory purposes. The NCUA periodically reviews the CAMEL Rating System to respond to continuing economic and regulatory changes in the credit union industry. During 2004 NCUA developed a new model of determining reserve requirements. For non-specified case reserve requirements, risk profile categories are established based on the CAMEL rating of problem credit unions, and probable failure and loss rates are applied based on historical data. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions.

Total insurance in force as of December 31, 2004 and 2003, is \$500 billion and \$479 billion, respectively, which includes natural person and corporate credit unions. The total net reserves for identified and anticipated losses from supervised credit unions' failures is \$67 million and \$77 million at December 31, 2004 and 2003, respectively. Should there be no recoveries provided during the resolution process, possible additional reserves for \$12 million and \$18 million would be required as of December 31, 2004 and 2003, respectively.

In exercising its supervisory function, the Fund will, at times, extend guarantees of assets (primarily loans) to third-party purchasers or to credit unions to facilitate mergers. The Fund would be obligated upon non-performance. Such guarantees totaled approximately \$0 at both December 31, 2004 and 2003. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund may grant a guaranteed line-of-credit to a third party credit provider, such as a corporate credit union or bank, if a credit union has a current or immediate liquidity concern and the credit provider has refused to extend credit without a guarantee. The Fund would be obligated if the credit union failed to perform. Total line-of-credit guarantees of credit unions at December 31, 2004 and 2003, are approximately \$0 and \$800,000, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2004 and 2003, are approximately \$0 and \$126,000, respectively.

The activity in the reserves for estimated losses from supervised credit unions was as follows (in thousands):

|                                             | <b>Year Ended<br/>December 31,</b> |                 |
|---------------------------------------------|------------------------------------|-----------------|
|                                             | <b>2004</b>                        | <b>2003</b>     |
| BEGINNING BALANCE                           | \$76,667                           | \$47,543        |
| Insurance losses                            | (17,660)                           | (15,006)        |
| Recoveries                                  | 11,543                             | 6,087           |
| Reduction of allowance for insurance losses | (3,424)                            |                 |
| Provision for insurance losses              | <u>          </u>                  | <u>38,043</u>   |
| ENDING BALANCE                              | <u>\$67,126</u>                    | <u>\$76,667</u> |



## 5. FUND CAPITALIZATION

The Credit Union Membership Access Act of 1998 (“CUMAA”) mandated changes to the Fund’s capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the Fund a deposit in an amount equaling 1% of the credit union’s insured shares. The amount of each insured credit union’s deposit shall be adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union’s insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50,000,000; and (ii) semiannually, in the case of an insured credit union with total assets of \$50,000,000 or more. The annual and semiannual adjustments are based on member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1% contribution will be returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the Fund are transferred from the NCUA Board.

The CUMAA mandates certain premium charges from insured credit unions and distributions from the Fund under certain circumstances. A premium charge to insured credit unions is required if the Fund’s equity ratio (as defined in the CUMAA) falls below 1.2% of insured shares. Also, pro rata distributions to insured credit unions after each calendar year are required if, as of year-end:

- (i) Any loans to the Fund from the Federal Government, and any interest on those loans, have been repaid;
- (ii) The Fund’s equity ratio exceeds the normal operating level (as defined in the CUMAA, an equity ratio specified by the NCUA Board, which shall be not less than 1.2% and not more than 1.5%); and
- (iii) The Fund’s available assets ratio, as defined in the CUMAA, exceeds 1.0%.

The NCUA Board has determined that the normal operating level is 1.30% at December 31, 2004 and 2003. The calculated equity ratios at both December 31, 2004 and 2003 were 1.27%.

Beginning in 2000, the CUMAA mandates that dividends are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, dividends associated with insured shares at year-end are declared and paid in the subsequent year.

The NCUA Board has declared that no dividends were payable on insured shares as of December 31, 2004 and 2003, because the equity ratios of 1.27% were below the normal operating level of 1.30%. Total insured shares as of December 31, 2004 and 2003, were \$500 billion and \$479 billion, respectively.

## 6. INVESTMENTS

All cash received by the Fund that is not used for outlays related to assistance to insured credit unions and liquidation activities is invested in U.S. Treasury securities.

Investments consist of the following (in thousands):

|                                                 | December 31, 2004                 |                    |                              |                               |                              |
|-------------------------------------------------|-----------------------------------|--------------------|------------------------------|-------------------------------|------------------------------|
|                                                 | Yield to<br>Maturity<br>at Market | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value |
| U.S. TREASURY<br>SECURITIES:                    |                                   |                    |                              |                               |                              |
| Maturities up to one year                       | 1.76%                             | \$ 2,015,675       | \$ 190                       | \$ (8,428)                    |                              |
|                                                 |                                   | \$2,007,437        |                              |                               |                              |
| Maturities after one year<br>through five years | 2.30%                             | <u>2,469,916</u>   | <u>          </u>            | <u>(29,977)</u>               | <u>2,439,939</u>             |
| Total                                           |                                   | <u>\$4,485,591</u> | <u>\$ 190</u>                | <u>\$ (38,405)</u>            |                              |
|                                                 |                                   | <u>\$4,447,376</u> |                              |                               |                              |
| December 31, 2003                               |                                   |                    |                              |                               |                              |
|                                                 | Yield to                          |                    | Gross                        | Gross                         | Estimated                    |

|                                                 | <b>Maturity<br/>at Market</b> | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Market<br/>Value</b> |
|-------------------------------------------------|-------------------------------|---------------------------|-----------------------------|------------------------------|-------------------------|
| U.S. TREASURY<br>SECURITIES:                    |                               |                           |                             |                              |                         |
| Maturities up to one year                       | 2.87%                         | \$2,536,670               | \$19,986                    | \$ -                         |                         |
|                                                 |                               | \$2,556,656               |                             |                              |                         |
| Maturities after one year<br>through five years | 1.74%                         | <u>2,172,940</u>          | <u>5,530</u>                | <u>                    </u>  |                         |
|                                                 |                               | <u>2,178,469</u>          |                             |                              |                         |
| Total                                           |                               | <u>\$4,709,610</u>        | <u>\$25,516</u>             | <u>\$ -</u>                  |                         |
|                                                 |                               | <u>\$4,735,125</u>        |                             |                              |                         |

Total investment purchases during 2004 and 2003 were approximately \$2.3 billion and \$2.4 billion, respectively. Investment maturities during 2004 and 2003 were approximately \$2.5 billion and \$2.2 billion, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 2004 and 2003 to maturity. There were no investment sales during 2004 and 2003.

#### 7. AVAILABLE BORROWINGS

The Fund is authorized by the Federal Credit Union Act to borrow from the Treasury of the United States, upon authorization by the NCUA Board, up to a maximum of \$100,000,000. The NCUA Central Liquidity Facility ("CLF") is authorized to make advances to the Fund under terms and conditions established by the NCUA Board. No borrowings were obtained from these sources during 2004 and 2003.

#### 8. TRANSACTIONS WITH NCUA OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. The NCUA Operating Fund charges the Fund for these services based on an annual allocation factor approved by the NCUA Board and derived from a study of actual usage conducted by the management of these Funds. The allocation factor was 59.8% and 62.00% to the Fund for each in 2004 and 2003, respectively. The cost of services provided by the NCUA Operating Fund was approximately \$79,863,000 and \$83,158,000 for 2004 and 2003, respectively, and includes pension contributions of approximately \$6,315,000 and \$6,462,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 2004 and 2003, respectively.

In 1988, the Fund entered into a \$2,161,000 thirty-year unsecured term note with the NCUA Operating Fund. Interest received was approximately \$0 and \$11,000 for 2004 and 2003, respectively. The note receivable balance was \$0 at both December 31, 2004 and 2003.

In 1992, the Fund entered into a commitment to fund up to \$41,975,000 through a thirty-year secured term note with the NCUA Operating Fund. The monies were advanced to the NCUA Operating Fund as needed to fund the costs of constructing a building. Interest income was approximately \$512,000 and \$732,000 for 2004 and 2003, respectively. The note receivable balances at December 31, 2004 and 2003, were approximately \$25,143,000 and \$26,484,000, respectively.

The above note matures as follows (in thousands):

|            | <b>Secured<br/>Term Note</b> |
|------------|------------------------------|
| 2005       | \$ 1,341                     |
| 2006       | 1,341                        |
| 2007       | 1,341                        |
| 2008       | 1,341                        |
| 2009       | 1,341                        |
| Thereafter | <u>18,438</u>                |
| Total      | <u>\$25,143</u>              |

The variable rate on both term notes is equal to the Fund's prior-month yield on investments. The average interest rates during 2004 and 2003 were approximately 1.99% and 2.70%, respectively. At December 31, 2004 and 2003, the rates were 2.00% and 2.08%, respectively.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2008. Based on the allocation factor determined by the NCUA's Board, the Fund reimburses the NCUA Operating Fund approximately 59.80% of the total lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately \$608,580 and \$702,460 for 2004 and 2003, respectively.

The NCUA Operating Fund's total future minimum lease payments on operating leases as of December 31, 2004, are as follows (in thousands):

|       |                |
|-------|----------------|
| 2005  | \$ 728         |
| 2006  | 742            |
| 2007  | 756            |
| 2008  | 559            |
| 2009  | <u>573</u>     |
| Total | <u>\$3,358</u> |

## 9. LEASE COMMITMENTS

*Description of Leasing Agreements*—The Fund has entered into lease agreements with vendors for the lease of equipment that includes computers, laptops, and printers. The Fund leases computer equipment under capital lease agreements that expire through 2006.

A schedule of future minimum lease payments as of December 31, 2004, is as follows (in thousands):

|                                             |                 |
|---------------------------------------------|-----------------|
| 2005                                        | \$ 423          |
| 2006                                        | 106             |
| 2007                                        | <u>        </u> |
| Total                                       | <u>529</u>      |
| Less imputed interest                       | <u>(7)</u>      |
| Present value of net minimum lease payments | <u>\$ 522</u>   |

## 10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows:

|                                                                       | <u>December 31, 2004</u> |               | <u>December 31, 2003</u> |               |
|-----------------------------------------------------------------------|--------------------------|---------------|--------------------------|---------------|
|                                                                       | Carrying<br>Amount       | Fair<br>Value | Carrying<br>Amount       | Fair<br>Value |
| Investments                                                           | \$4,485,591              | \$4,447,376   | \$4,709,610              | \$4,735,125   |
| Cash and cash equivalents                                             | 1,872,174                | 1,872,174     | 1,364,954                | 1,364,954     |
| Accrued interest receivable                                           | 38,246                   | 38,246        | 45,761                   | 45,761        |
| Capital assessment receivable                                         |                          |               |                          |               |
| Notes receivable—NCUA                                                 |                          |               |                          |               |
| Operating Fund                                                        | 25,143                   | 25,143        | 26,484                   | 26,484        |
| Amounts due to insured<br>shareholders of liquidated<br>credit unions | 11,601                   | 11,601        | 9,541                    | 9,541         |
| Due to NCUA Operating Fund                                            | 150                      | 150           | 150                      | 1,914         |
|                                                                       | <u>1,914</u>             |               |                          |               |
| Accounts payable                                                      | 72                       | 72            | 3                        | 3             |
| Lease obligation                                                      | 522                      | 522           | 936                      | 936           |

## 11. CONCENTRATIONS

There are no significant concentrations of member share deposits within any region of the United States. Concentrations of member shares do exist within the manufacturing, governmental, and educational industries.

## 12. CONTINGENCIES

NCUA is currently a party to a number of disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to these disputes, if any, will not be material to NCUA's financial position.

## 13. RESTRUCTURING

NCUA announced on January 29, 2003, a regional restructuring plan, previously approved by the Board on November 21, 2002. The restructuring plan relocated the Region VI office in Concord, California, to Tempe, Arizona, and renumbered it to Region V. The plan also closed the Region IV regional office in Chicago, Illinois. The Region IV relocation and its related costs began in early 2003 and is expected to be completed by June 2005. Region V, located in Austin, Texas, was renumbered to Region IV. Credit union supervision was aligned with the five regions and became effective as of January 1, 2004.

NCUA estimated that the costs to be incurred for the regional restructuring plan are \$3,370,000, which includes relocation costs of \$1,597,000, and miscellaneous administrative and other costs of \$1,773,000. Approximately \$1,880,000 and \$1,482,000 of these estimated costs related to 2004 and 2003 respectively. Included in the cost estimate for 2004 are accrued costs that will be expended in 2005. Based on the allocation factors approved by the NCUA Board, the Fund is responsible for 59.80% of costs expended in 2004. Thus, the Fund's estimated cost for the regional restructuring plan in 2004 was approximately \$1,124,000, and the Operating Fund's estimated cost for the regional restructuring plan in 2004 was \$756,000. Substantially all costs have been incurred except for some final relocation costs for employees. In accordance with SFAS Statement No. 146, Accounting for Costs Associated with Exit and Disposal Activities, an accrual of approximately \$270,000 for relocations has been made in the Operating Fund as of December 31, 2004.

\* \* \* \* \*

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## BALANCE SHEETS DECEMBER 31, 2004 AND 2003 (Dollars in thousands)

| ASSETS                                                                    | 2004                   | 2003                   |
|---------------------------------------------------------------------------|------------------------|------------------------|
| ASSETS:                                                                   |                        |                        |
| Cash and cash equivalents                                                 | \$18,227               | \$24,450               |
| Due from National Credit Union Share Insurance Fund (Note 4)              | 150                    | 1,914                  |
| Employee advances                                                         | 540                    | 339                    |
| Other accounts receivable                                                 | 138                    | 189                    |
| Prepaid expenses and other assets                                         | 706                    | 267                    |
| Fixed assets—net of accumulated depreciation<br>and amortization (Note 3) | <u>35,994</u>          | <u>37,208</u>          |
| <b>TOTAL</b>                                                              | <b><u>\$55,755</u></b> | <b><u>\$64,367</u></b> |
| <b>LIABILITIES AND FUND BALANCE</b>                                       |                        |                        |
| LIABILITIES:                                                              |                        |                        |
| Accounts payable                                                          | \$ 4,173               | \$ 4,505               |
| Obligations under capital leases (Note 5)                                 | 1,336                  | 2,367                  |
| Accrued wages and benefits                                                | 2,381                  | 5,455                  |
| Accrued annual leave                                                      | 7,766                  | 8,232                  |
| Accrued employee travel                                                   | 21                     | 77                     |
| Notes payable to National Credit Union Share Insurance Fund (Note 4)      | <u>25,143</u>          | <u>25,143</u>          |
|                                                                           | <u>26,484</u>          |                        |
| Total liabilities                                                         | 40,820                 | 47,120                 |
| FUND BALANCE                                                              | <u>14,935</u>          | <u>17,247</u>          |
| <b>TOTAL</b>                                                              | <b><u>\$55,755</u></b> | <b><u>\$64,367</u></b> |

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE YEARS ENDED DECEMBER 31, 2004 AND 2003 (Dollars in thousands)

|                                                              | 2004          | 2003          |
|--------------------------------------------------------------|---------------|---------------|
| REVENUES:                                                    |               |               |
| Operating fees                                               | \$50,714      | \$57,984      |
| Interest                                                     | 581           | 427           |
| Other                                                        | <u>80</u>     | <u>121</u>    |
| Total revenues                                               | <u>51,375</u> | <u>58,532</u> |
| EXPENSES (Note 4):                                           |               |               |
| Employee wages and benefits                                  | 41,139        | 39,625        |
| Travel                                                       | 4,586         | 3,806         |
| Rent, communications, and utilities                          | 1,707         | 1,498         |
| Contracted services                                          | 2,572         | 2,224         |
| Other                                                        | <u>3,683</u>  | <u>3,815</u>  |
| Total expenses                                               | <u>53,687</u> | <u>50,968</u> |
| EXCESS OF (EXPENSES OVER REVENUES)<br>REVENUES OVER EXPENSES | (2,312)       | 7,564         |
| FUND BALANCE—Beginning of year                               | <u>17,247</u> | <u>9,683</u>  |

FUND BALANCE—End of year

\$14,935

\$17,247

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (Dollars in thousands)

|                                                                                                               | 2004            | 2003            |
|---------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                                         |                 |                 |
| Excess of revenues over expenses                                                                              | \$(2,312)       | \$ 7,564        |
| Adjustments to reconcile excess of revenues over expenses to cash (used in) provided by operating activities: |                 |                 |
| Depreciation and amortization                                                                                 | 3,179           | 2,967           |
| Loss on disposal of employee residences held for resale                                                       | 115             | 21              |
| Loss on disposal of fixed assets                                                                              | 44              | 15              |
| (Increase) decrease in assets:                                                                                |                 |                 |
| Due from National Credit Union Share Insurance Fund                                                           | 1,764           | (1,244)         |
| Employee advances                                                                                             | (201)           | (85)            |
| Other accounts receivable                                                                                     | 51              | (93)            |
| Prepaid expenses and other assets                                                                             | (321)           | (170)           |
| (Decrease) increase in liabilities:                                                                           |                 |                 |
| Accounts payable                                                                                              | (332)           | 1,194           |
| Accrued wages and benefits                                                                                    | (3,074)         | 468             |
| Accrued annual leave                                                                                          | (466)           | 563             |
| Accrued employee travel                                                                                       | <u>(56)</u>     | <u>(699)</u>    |
| Net cash (used in) provided by operating activities                                                           | <u>(1,609)</u>  | <u>10,501</u>   |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                                                         |                 |                 |
| Purchases of fixed assets and employee residences held for resale                                             | (3,325)         | (1,086)         |
| Proceeds from sale of employee residences held for resale                                                     | <u>1,083</u>    | <u>162</u>      |
| Net cash used in investing activities                                                                         | <u>(2,242)</u>  | <u>(924)</u>    |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                                                         |                 |                 |
| Repayments of notes payable                                                                                   | (1,341)         | (2,438)         |
| Principal payments under capital lease obligations                                                            | <u>(1,031)</u>  | <u>(1,271)</u>  |
| Net cash used in financing activities                                                                         | <u>(2,372)</u>  | <u>(3,709)</u>  |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                                                          | 5,868           | (6,223)         |
| CASH AND CASH EQUIVALENTS—Beginning of year                                                                   | <u>24,450</u>   | <u>18,582</u>   |
| CASH AND CASH EQUIVALENTS—End of year                                                                         | <u>\$18,227</u> | <u>\$24,450</u> |

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid during the years ended December 31, 2004 and 2003 was \$512 and \$743, respectively.

### SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:

Capital lease obligations of \$0 and \$3,119 were incurred when the Fund entered into leases for new equipment during the years ended December 31, 2004 and 2003, respectively.

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003

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### 1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the "Fund") was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration ("NCUA") Board for the purpose of providing administration and service to the Federal Credit Union System.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Cash Equivalents**—The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 2004 and 2003 were cash equivalents and are stated at cost, which approximates fair value.

**Depreciation and Amortization**—Building, furniture and equipment, equipment under capital leases, and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the building, furniture and equipment, and the shorter of the estimated useful life or lease term for leasehold improvements. Estimated useful lives are forty years for the building and three to ten years for the furniture, equipment, and leasehold improvements.

**Operating Fees**—The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding December 31. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. The Fund recognizes this operating fee revenue ratably over the year. Included in the operating fees revenue for 2004 is a refund of \$9 million to Federal Credit Unions of amounts previously collected.

**Income Taxes**—The Fund is exempt from Federal income taxes under Section 501(c) (1) of the Internal Revenue Code.

**Fair Value of Financial Instruments**—The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, receivable from National Credit Union Share Insurance Fund ("NCUSIF"), employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate the respective fair values.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

### 3. FIXED ASSETS

Fixed assets are comprised of the following (in thousands):

|                                | 2004         | 2003         |
|--------------------------------|--------------|--------------|
| Office building and land       | \$42,626     | \$42,453     |
| Furniture and equipment        | 10,827       | 11,509       |
| Equipment under capital leases | <u>3,215</u> | <u>3,237</u> |
| Total                          | 56,668       | 57,199       |



|                                                 |                 |                 |
|-------------------------------------------------|-----------------|-----------------|
| Less: Accumulated depreciation and amortization | <u>(20,674)</u> | <u>(19,991)</u> |
| Fixed assets—net                                | <u>\$35,994</u> | <u>\$37,208</u> |

Accumulated amortization balances for equipment under capital leases as of December 31, 2004 and 2003 were \$2,000 and \$860, respectively.

#### 4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 59.80% and 62.00% to NCUSIF for 2004 and 2003, respectively. The cost of the services allocated to NCUSIF, which totaled approximately \$79,863,000 and \$83,158,000 for 2004 and 2003, is reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In 1988, the Fund entered into a \$2,161,000 thirty-year unsecured term note with NCUSIF for the purchase of a building. Interest costs incurred were approximately \$0 and \$11,000 for 2004 and 2003, respectively. The note was fully repaid in 2003.

In 1992, the Fund entered into a commitment to borrow up to \$41,975,000 in a thirty-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were approximately \$512,000 and \$732,000 for 2004 and 2003, respectively. The note payable balances at December 31, 2004 and 2003, were approximately \$25,143,000 and \$26,484,000, respectively.

The above notes require principal repayments as follows (in thousands):

|            | <b>Secured<br/>Term Note</b> |
|------------|------------------------------|
| 2005       | \$ 1,341                     |
| 2006       | 1,341                        |
| 2007       | 1,341                        |
| 2008       | 1,341                        |
| 2009       | 1,341                        |
| Thereafter | <u>18,438</u>                |
| Total      | <u>\$25,143</u>              |

The variable rate on both notes is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2004 and 2003 were 1.99% and 2.70%, respectively. The interest rates at December 31, 2004 and 2003, were 2.00% and 2.08%, respectively.

#### 5. LEASE COMMITMENTS

**Description of Leasing Agreements**—The Fund has entered into a number of lease agreements with vendors for the rental of office space as well as the lease of office equipment that includes laptops, printers, monitors, and copiers.

**Operating Leases**—The Fund leases office space under lease agreements that expire through 2008. Office rental charges amounted to approximately \$1,018,000 and \$1,133,000 of which approximately \$608,580 and \$702,460 was reimbursed by NCUSIF for 2004 and 2003, respectively. In addition, the Fund leases office equipment under operating leases with lease terms of less than one year.

The operating lease for the former Region IV (Chicago) regional office space was terminated early in May 2004 to coincide with the closing of that office. In accordance with lease agreement the termination cost was paid in the amount of \$331,800.

**Capital Leases**—The Fund leases equipment under lease agreements that expire through 2008.

The future minimum lease payments as of December 31, 2004, are as follows (in thousands):

|                  |                |
|------------------|----------------|
| <b>Operating</b> | <b>Capital</b> |
|------------------|----------------|

|                                             | <b>Leases</b>  | <b>Leases</b>     |
|---------------------------------------------|----------------|-------------------|
| 2005                                        | \$ 728         | \$1,061           |
| 2006                                        | 742            | 278               |
| 2007                                        | 756            | 14                |
| 2008                                        | 559            | 8                 |
| 2009                                        | <u>573</u>     | <u>          </u> |
| Total                                       | <u>\$3,358</u> | 1,361             |
| Less: Imputed interest                      |                | <u>(25)</u>       |
| Present value of net minimum lease payments |                | <u>\$1,336</u>    |

Based on the allocation factor approved by the NCUA Board for 2004, NCUSIF will reimburse the Fund for approximately 57.00% of the future operating lease payments.

## 6. RETIREMENT PLAN

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System ("FERS"). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions between 1% and 15% of their gross pay, and the Fund will match up to 5% of the employees' gross pay. In 2004 and 2003, the Fund's contributions to the plans were approximately \$10,561,000 and \$10,422,000, respectively, of which approximately \$6,315,000 and \$6,462,000 were reimbursed by NCUSIF, respectively.

The Fund does not account for the assets of the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers.

## 7. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows (in thousands):

|                                | <u>December 31, 2004</u>   |                       | <u>December 31, 2003</u>   |                       |
|--------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
|                                | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
| Cash and cash equivalents      | \$ 18,227                  | \$ 18,227             | \$ 24,450                  | \$24,450              |
| Due from NCUSIF                | 150                        | 150                   | 1,914                      | 1,914                 |
| Employee advances              | 540                        | 540                   | 339                        | 339                   |
| Other accounts receivable      | 138                        | 138                   | 189                        | 189                   |
| Accounts payable               | 4,173                      | 4,173                 | 4,505                      | 4,505                 |
| Obligation under capital lease | 1,336                      | 1,336                 | 2,367                      | 2,367                 |
| Notes payable to NCUSIF        | 25,143                     | 25,143                | 26,484                     | 26,484                |

## 8. CONTINGENCIES

NCUA is currently a party to a number of disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to these disputes, if any, will not be material to NCUA's financial position.

## 9. RESTRUCTURING

NCUA announced on January 29, 2003, a regional restructuring plan, previously approved by the Board on November 21, 2002. The restructuring plan relocated the Region VI office in Concord, California, to Tempe, Arizona, and renumbered it to Region V. The plan also closed the Region IV regional office in Chicago, Illinois. The Region IV relocation and its related costs began in early 2003 and is expected to be completed by June 2005. Region V, located in Austin, Texas, was renumbered to Region IV. Credit union supervision was aligned with the five regions and became effective as of January 1, 2004.

NCUA estimated that the costs to be incurred for the regional restructuring plan are \$3,370,000, which includes relocation costs of \$1,597,000, and miscellaneous administrative and other costs of \$1,773,000. Approximately \$1,880,000 and \$1,482,000 of these estimated costs related to 2004 and 2003 respectively. Included in the cost estimate for 2004 are accrued costs that will be expended in 2005. Based on the allocation factors approved by the NCUA Board, the Operating Fund is responsible for 40.20% of costs expended in 2004. Thus, the Fund's estimated cost for the regional restructuring plan in 2004 was approximately \$756,000, and the NCUSIF's estimated cost for the regional restructuring plan in 2004 was \$1,124,000. Substantially all costs have been incurred except for some final relocation costs for employees. In accordance with SFAS Statement No. 146, Accounting for Costs Associated with Exit and Disposal Activities, an accrual of approximately \$270,000 for relocations has been made in the Fund as of December 31, 2004.

\* \* \* \* \*

**NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY**

**BALANCE SHEETS  
DECEMBER 31, 2004 AND 2003  
(In thousands)**

| <b>ASSETS</b>                                                  | <b>2004</b>               | <b>2003</b>               |
|----------------------------------------------------------------|---------------------------|---------------------------|
| <b>ASSETS:</b>                                                 |                           |                           |
| Cash                                                           | \$ 10                     | \$ 10                     |
| Investments with U.S. Central Credit Union (Notes 5, 8, and 9) | 1,357,028                 | 1,238,056                 |
| Accrued interest receivable                                    | <u>6,533</u>              | <u>3,653</u>              |
| <b>TOTAL ASSETS</b>                                            | <b><u>\$1,363,571</u></b> | <b><u>\$1,241,719</u></b> |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>                         |                           |                           |
| <b>LIABILITIES:</b>                                            |                           |                           |
| Accounts payable and other liabilities                         | \$ 108                    | \$ 136                    |
| Dividends payable (Note 7)                                     | 6,478                     | 3,564                     |
| Member deposits (Note 7)                                       | <u>232</u>                | <u>7,958</u>              |
| Total liabilities                                              | <u>6,818</u>              | <u>11,658</u>             |
| <b>MEMBERS' EQUITY:</b>                                        |                           |                           |
| Capital stock—required (Note 7)                                | 1,345,345                 | 1,218,654                 |
| Retained earnings                                              | <u>11,408</u>             | <u>11,407</u>             |
| Total members' equity                                          | <u>1,356,753</u>          | <u>1,230,061</u>          |
| <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>                   | <b><u>\$1,363,571</u></b> | <b><u>\$1,241,719</u></b> |

**STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2004 AND 2003  
(In thousands)**

|                                        | <b>2004</b>             | <b>2003</b>             |
|----------------------------------------|-------------------------|-------------------------|
| REVENUE—Investment income              | <u>\$ 19,371</u>        | <u>\$ 14,991</u>        |
| <b>EXPENSES (Note 10):</b>             |                         |                         |
| Operating expenses:                    |                         |                         |
| Group agent service fee                | 1                       | 1                       |
| Personnel services                     | 129                     | 126                     |
| Other services                         | 41                      | 42                      |
| Rent, communications, and utilities    | 8                       | 7                       |
| Personnel benefits                     | 32                      | 26                      |
| Supplies and materials                 | 2                       | 2                       |
| Printing and reproduction              | <u>3</u>                | <u>5</u>                |
| Total operating expenses               | 216                     | 209                     |
| Interest-liquidity reserve             | <u>49</u>               | <u>105</u>              |
| Total expenses                         | <u>265</u>              | <u>314</u>              |
| <b>EXCESS OF REVENUE OVER EXPENSES</b> | <b><u>\$ 19,106</u></b> | <b><u>\$ 14,677</u></b> |

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF MEMBERS' EQUITY  
YEARS ENDED DECEMBER 31, 2004 AND 2003  
(In thousands)**

|                                      | <b>Capital<br/>Stock</b> | <b>Retained<br/>Earnings</b> |
|--------------------------------------|--------------------------|------------------------------|
| BALANCE—January 1, 2003              | \$1,060,995              | \$ 11,407                    |
| Issuance of required capital stock   | 158,987                  |                              |
| Redemption of required capital stock | (1,328)                  |                              |
| Dividends                            |                          | (14,677)                     |
| Excess of revenue over expenses      | <u>          </u>        | <u>14,677</u>                |
| BALANCE—December 31, 2003            | 1,218,654                | 11,407                       |
| Issuance of required capital stock   | 128,900                  |                              |
| Redemption of required capital stock | (2,209)                  |                              |
| Dividends                            |                          | (19,105)                     |
| Excess of revenue over expenses      | <u>          </u>        | <u>19,106</u>                |
| BALANCE—December 31, 2004            | <u>\$1,345,345</u>       | <u>\$ 11,408</u>             |

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003  
(In thousands)**

|                                                                                                           | <b>2004</b>      | <b>2003</b>      |
|-----------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                              |                  |                  |
| Excess of revenue over expenses                                                                           | \$ 19,106        | \$ 14,677        |
| Adjustments to reconcile excess of revenue over expenses<br>to net cash provided by operating activities: |                  |                  |
| (Increase) decrease in accrued interest receivable                                                        | (2,880)          | 1,389            |
| (Decrease) increase in accounts payable and other liabilities                                             | <u>(28)</u>      | <u>28</u>        |
| Net cash provided by operating activities                                                                 | <u>16,198</u>    | <u>16,094</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                              |                  |                  |
| Purchase of investments—net                                                                               | <u>(118,972)</u> | <u>(156,694)</u> |
| Net cash used in investing activities                                                                     | <u>(118,972)</u> | <u>(156,694)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                              |                  |                  |
| Additions to member deposits                                                                              | 516              | 959              |
| Issuance of required capital stock                                                                        | 128,900          | 158,987          |
| Dividends                                                                                                 | (16,193)         | (14,677)         |
| Withdrawal of member deposits                                                                             | (8,240)          | (3,342)          |
| Redemption of required capital stock                                                                      | <u>(2,209)</u>   | <u>(1,328)</u>   |
| Net cash provided by financing activities                                                                 | <u>102,774</u>   | <u>140,599</u>   |
| <b>NET DECREASE IN CASH</b>                                                                               |                  | <b>(1)</b>       |
| CASH—Beginning of year                                                                                    | <u>10</u>        | <u>11</u>        |
| CASH—End of year                                                                                          | <u>\$ 10</u>     | <u>\$ 10</u>     |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW<br/>INFORMATION—Cash paid during the year for:</b>                |                  |                  |
| Interest                                                                                                  | <u>\$ 49</u>     | <u>\$ 105</u>    |

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003

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### 1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Central Liquidity Facility (“CLF”) was created by the National Credit Union Central Liquidity Facility Act (the “Act”). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. The CLF exists within the National Credit Union Administration (“NCUA”) and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions. The CLF is a tax-exempt organization under Section 501(c)(1) of the Internal Revenue Code.

### 2. SIGNIFICANT ACCOUNTING POLICIES

***Basis of Accounting***—The CLF maintains its accounting records on the accrual basis of accounting.

***Loans and Allowance for Loan Losses***—Loans, when made to members, are on a short-term or long-term basis. For all loans, the CLF may obtain a security interest in the assets of the borrower. In determining the allowance for loan losses, when applicable, the CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

***Investments***—The CLF invests in redeposits and share accounts at U.S. Central Credit Union (see Notes 5 and 8). All other investments are short-term with no maturities in excess of one year. All investments are classified as held-to-maturity. Accordingly, the CLF records investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

***Fair Value of Financial Instruments***—The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

***Cash***—The carrying amounts for cash approximate fair value.

***Investments***—Securities held have maturities of one year or less and, as such, the carrying amounts approximate fair value.

***Loans***—For loans advanced to member credit unions, the carrying amounts approximate fair value.

***Member Deposits***—Funds maintained with the CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand and the carrying amounts approximate the fair value.

***FFB Notes Payable***—For notes issued to the Federal Financing Bank, when applicable, the carrying amounts approximate fair value.

***Other***—Accrued interest receivable, accounts payable and other liabilities are recorded at book values, which approximate the respective fair values.

***Use of Estimates***—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management’s estimates. Certain amounts have been reclassified in the current year.

**Reclassifications**—Certain items in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

### 3. GOVERNMENT REGULATIONS

The CLF is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval, and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in Federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to twelve times the subscribed capital stock and surplus. However, there is a Congressional limitation of \$1.5 billion on funds that are borrowed and then loaned out to credit unions at any one point in time.

At December 31, 2004 and 2003, the CLF was in compliance with its borrowing authority. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity (see Note 12).

### 4. LOANS TO MEMBERS

There were no loans or loan commitments outstanding at December 31, 2004 and 2003. The CLF can provide members with extended loan commitments.

### 5. FUNDS ON DEPOSIT WITH U.S. CENTRAL CREDIT UNION

Funds not currently required for operations are invested as follows (in thousands):

|                                                          | <u>December 31,</u> |                  |
|----------------------------------------------------------|---------------------|------------------|
|                                                          | <u>2004</u>         | <u>2003</u>      |
| U.S. Central Credit Union Redeposit account (see Note 8) | \$                  | <u>1,357,028</u> |
|                                                          | <u>1,238,056</u>    |                  |

### 6. BORROWING AUTHORITY

The Secretary of the Treasury is authorized by the Act to lend up to \$500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriation Acts. On December 23, 1981, the President signed PL 97-101, which provided \$100 million of permanent indefinite borrowing authority that may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity (see Note 12).

### 7. CAPITAL STOCK AND MEMBER DEPOSITS

The required capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to the CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which is required to be remitted to the CLF. In both cases, the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

Dividends payable represents dividends declared in 2004 to be paid in of 2005.



## 8. U.S. CENTRAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, the CLF accepted a membership request from U.S. Central Credit Union ("USC") on behalf of its corporate credit union members. At December 31, 2004 and 2003, \$1,292,059,000 and \$1,168,602,000, respectively, of the required portion of subscribed capital stock were purchased from the CLF by USC on behalf of its member credit unions. The CLF has 29 and 31 corporate credit union members as of December 31, 2004 and 2003, respectively.

In addition, by accepting the USC membership request, the CLF was initially committed to reinvest all but \$50,000,000 of its total share capital in USC at market rates of interest. Beginning April 1, 1996, the CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 2004 and 2003, approximately \$1,357,028,000 and \$1,238,056,000, respectively, were invested in USC accounts at 1.91% and 1.17%, respective yields.

## 9. CONCENTRATION OF CREDIT RISK

At December 31, 2004 and 2003, the CLF has a concentration of credit risk for its investments on deposit with USC of approximately \$1,357,028,000 and \$1,238,056,000, respectively (see Notes 5 and 8).

## 10. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration provides the CLF with data processing and other miscellaneous services and supplies. In addition, the National Credit Union Administration pays CLF's employees' salaries and benefits as well as the CLF's portion of monthly building operating costs. The CLF reimburses the National Credit Union Administration on a monthly basis for these items. Total reimbursements were approximately \$218,000 and \$205,000 for the years ended December 31, 2004 and 2003, respectively.

## 11. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the CLF's financial instruments are as follows (in thousands):

|                                        | <u>December 31, 2004</u> |                   | <u>December 31, 2003</u> |                   |
|----------------------------------------|--------------------------|-------------------|--------------------------|-------------------|
|                                        | <u>Carrying Amount</u>   | <u>Fair Value</u> | <u>Carrying Amount</u>   | <u>Fair Value</u> |
| Cash                                   | \$ 10                    | \$ 10             | \$ 10                    | \$ 10             |
| Investments                            | 1,357,028                | 1,357,028         | 1,238,056                | 1,238,056         |
| Accrued interest receivable            | 6,533                    | 6,533             | 3,653                    | 3,653             |
| Member Deposits                        | 232                      | 232               | 7,958                    | 7,958             |
| Dividends Payable                      | 6,478                    | 6,478             | 3,564                    | 3,564             |
| Accounts payable and other liabilities | 108                      | 108               | 136                      | 136               |

## 12. SHORT-TERM REVOLVING CREDIT FACILITY

On July 15, 1999, the National Credit Union Administration signed a note purchase agreement with the Federal Financing Bank on behalf of CLF. The agreement originally provided for a commitment amount of \$20.7 billion. Subsequently, the agreement expired on September 30, 2004, and was extended through consecutive short-term revolving credit facility promissory notes. These promissory notes reduced the credit facility to \$5 billion and expire yearly on the 31<sup>st</sup> of March. The current promissory note expires March 31, 2006.

\* \* \* \* \*

**NATIONAL CREDIT UNION ADMINISTRATION  
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**BALANCE SHEETS  
DECEMBER 31, 2004 AND 2003**

| <b>ASSETS</b>                             | <b>2004</b>                | <b>2003</b>                |
|-------------------------------------------|----------------------------|----------------------------|
| Cash and cash equivalents (Note 2)        | \$10,036,466               | \$8,962,039                |
| Loans—net of allowance (Note 4)           | 5,017,156                  | 5,298,019                  |
| Interest receivable                       | <u>17,057</u>              | <u>20,004</u>              |
| <b>TOTAL ASSETS</b>                       | <b><u>\$15,070,679</u></b> | <b><u>\$14,280,062</u></b> |
| <b>LIABILITIES AND FUND BALANCE</b>       |                            |                            |
| <b>LIABILITIES:</b>                       |                            |                            |
| Accrued technical assistance              | \$ <u>727,301</u>          | \$ <u>142,692</u>          |
| Total liabilities                         | <u>727,301</u>             | <u>142,692</u>             |
| <b>FUND BALANCE:</b>                      |                            |                            |
| Revolving fund capital (Note 3)           | 13,189,378                 | 13,031,596                 |
| Accumulated earnings                      | <u>1,154,000</u>           | <u>1,105,774</u>           |
| Total fund balance                        | <u>14,343,378</u>          | <u>14,137,370</u>          |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b> | <b><u>\$15,070,679</u></b> | <b><u>\$14,280,062</u></b> |

**STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

|                                                         | <b>2004</b>             | <b>2003</b>              |
|---------------------------------------------------------|-------------------------|--------------------------|
| <b>SUPPORT AND REVENUES:</b>                            |                         |                          |
| Interest on cash equivalents                            | \$ 122,229              | \$ 84,369                |
| Interest on loans                                       | 66,193                  | 98,901                   |
| Appropriation revenue                                   | <u>1,138,472</u>        | <u>266,359</u>           |
| Total                                                   | <u>1,326,894</u>        | <u>449,629</u>           |
| <b>EXPENSES:</b>                                        |                         |                          |
| Technical assistance                                    | (1,310,386)             | (400,486)                |
| Reduction of allowance for loan losses                  | <u>31,718</u>           | <u>175,961</u>           |
| Total                                                   | <u>(1,278,668)</u>      | <u>(224,525)</u>         |
| <b>EXCESS OF SUPPORT AND REVENUES<br/>OVER EXPENSES</b> | <b><u>\$ 48,226</u></b> | <b><u>\$ 225,104</u></b> |

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF CHANGES IN FUND BALANCE  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

|                                              | <b>2004</b>         | <b>2003</b>         |
|----------------------------------------------|---------------------|---------------------|
| FUND BALANCE—Beginning of year               | \$14,137,370        | \$13,184,218        |
| Change in unexpended appropriations:         |                     |                     |
| Operating appropriations received (Note 3)   | 1,192,920           | 994,407             |
| Appropriation revenue recognized (Note 3)    | (1,035,138)         | (266,359)           |
| Excess of support and revenues over expenses | <u>48,226</u>       | <u>225,104</u>      |
| FUND BALANCE—End of year                     | <u>\$14,343,378</u> | <u>\$14,137,370</u> |

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

|                                                                                                                     | <b>2004</b>         | <b>2003</b>        |
|---------------------------------------------------------------------------------------------------------------------|---------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                        |                     |                    |
| Excess of support and revenues over expenses                                                                        | \$ 48,226           | \$ 225,104         |
| Adjustments to reconcile the excess of support and revenues over expenses to net cash used in operating activities: |                     |                    |
| Change in unexpended appropriations                                                                                 | (1,035,138)         | (266,359)          |
| Reduction of allowance for loan losses, net of recoveries                                                           | (106,907)           | (159,851)          |
| Changes in assets and liabilities:                                                                                  |                     |                    |
| Decrease in interest receivable                                                                                     | 2,947               | 20,083             |
| Increase in accrued technical assistance                                                                            | <u>584,609</u>      | <u>35,714</u>      |
| Net cash used in operating activities                                                                               | <u>(506,263)</u>    | <u>(145,309)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                        |                     |                    |
| Loan principal repayments                                                                                           | 1,885,228           | 3,496,233          |
| Loan disbursements                                                                                                  | <u>(1,497,458)</u>  | <u>(879,997)</u>   |
| Net cash provided by investing activities                                                                           | <u>387,770</u>      | <u>2,616,236</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                        |                     |                    |
| Appropriations received—revolving fund capital                                                                      | <u>1,192,920</u>    | <u>994,407</u>     |
| Net cash provided by financing activities                                                                           | <u>1,192,920</u>    | <u>994,407</u>     |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                                                                           | 1,074,427           | 3,465,334          |
| CASH AND CASH EQUIVALENTS—Beginning of year                                                                         | <u>8,962,039</u>    | <u>5,496,705</u>   |
| CASH AND CASH EQUIVALENTS—End of year                                                                               | <u>\$10,036,466</u> | <u>\$8,962,039</u> |

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003

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### 1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Fund for Credit Unions (“CDRLF”) was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (“NCUA”) and the Community Services Association (“CSA”) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of the Fund, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of the CDRLF was transferred to the Department of Health and Human Services (“HHS”). Because HHS never promulgated final regulations governing the administration of the CDRLF, the Fund was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-604, November 6, 1986) transferred CDRLF administration back to NCUA. The NCUA Board adopted amendments to Part 705 of NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of the CDRLF is to stimulate economic activities in the communities served by low-income credit unions which will result in increased income, ownership and employment opportunities for low-wealth residents, and other economic growth. The policy of NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

### 2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

***Basis of Accounting***—The CDRLF reports its financial statements on the accrual basis of accounting.

***Cash Equivalents***—The Federal Credit Union Act permits the CDRLF to make investments in United States Government Treasury securities. All investments in 2004 and 2003 were cash equivalents and are stated at cost which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

***Allowance for Loan Losses***—The CDRLF records a provision for estimated loan losses. Loans considered to be uncollectible are charged to the allowance for loan losses. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectibility risk of the total loan portfolio. Accrual of interest is discontinued on non-performing loans when management believes collectibility is doubtful. At December 31, 2004 and 2003, there were no nonaccrual loans.

***Salary and Operating Expenses***—NCUA provides certain general and administrative support to the CDRLF, including office space, salaries, and certain supplies. The value of these contributed services is not charged to the CDRLF.

***Revenue Recognition***—Appropriation revenue is recognized as the related technical assistance expense is recognized. Total appropriation revenues will differ from total technical assistance expenses because not all technical assistance is funded by appropriations.

***Use of Estimates***—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management’s estimates.

### 3. GOVERNMENT REGULATIONS

The CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance, is limited by Congress to a total of the \$16,335,528 appropriated for the CDRLF plus accumulated earnings. Federally chartered and state-chartered credit unions may participate in the CDRLF's Community Loan Fund. Loans may only be made to low-income credit unions as defined by the NCUA.

NCUA Rules and Regulations section 705.7 permit the classification of the loan in the participating credit union's accounting records as either a note payable or a nonmember deposit. As a nonmember deposit, an amount not to exceed \$100,000 per credit union is insured by the National Credit Union Share Insurance Fund ("NCUSIF"). The covered amount of loans recorded as nonmember deposits by participating credit unions insured by the NCUSIF totaled approximately \$3,631,673 and \$3,730,636 at December 31, 2004 and 2003, respectively. Under the CDRLF Loan Program, loans recorded in the credit union's accounting records as notes payable may be collateralized.

Loans are limited to a maximum amount of \$300,000 per credit union. Loans issued between January 1, 1995, and December 31, 1998, carry a fixed interest rate of 3%; loans issued between January 1, 1999, and December 31, 2001, carry a fixed rate of 2%; and loans issued after January 1, 2002, carry a fixed rate of 1%. Interest and principal are repaid on a semiannual basis beginning six months and one year, respectively, after the initial distribution of the loan. The maximum term of each loan is five years. Participating credit unions are required to match the value of the loan within one year of the date of approval of the loan.

During the year ended December 31, 2004, appropriations for loans and technical assistance in the amount of \$ 1,192,920 were received. Of this amount, \$994,100 was designated to be used as operating appropriations for technical assistance and \$198,820 was designated to be used as revolving fund capital. For the appropriations received for technical assistance, monies expired on September 30, 2004.

|                                                  | <b>Public Law<br/>No. 108-199</b> | <b>Public Law<br/>No. 108-199</b> | <b>Total</b>        |
|--------------------------------------------------|-----------------------------------|-----------------------------------|---------------------|
| Activities by each appropriation, from inception |                                   |                                   |                     |
| Operating appropriation received                 | \$994,100                         | \$198,820                         | \$1,192,920         |
| Appropriation revenue recognized                 | <u>(994,100)</u>                  | <u>(198,820)</u>                  | <u>(1,192,920)</u>  |
| Balance—December 31, 2004                        | <u>\$ -</u>                       | <u>\$ -</u>                       | <u>\$ -</u>         |
|                                                  |                                   | <b>2004</b>                       | <b>2003</b>         |
| Unexpended appropriations:                       |                                   |                                   |                     |
| Balance—beginning of the year                    |                                   | \$ 737,396                        | \$ 9,348            |
| Operational appropriations received              |                                   | 1,192,920                         | 994,407             |
| Appropriation revenue recognized                 |                                   | <u>(1,035,138)</u>                | <u>(266,359)</u>    |
| Balance—end of year                              |                                   | <u>\$ 895,178</u>                 | <u>\$ 737,396</u>   |
| Revolving fund capital:                          |                                   |                                   |                     |
| Balance—beginning of the year                    |                                   | \$13,031,596                      | \$12,303,548        |
| Change in unexpended appropriations              |                                   | <u>157,782</u>                    | <u>728,048</u>      |
| Balance—end of year                              |                                   | <u>\$13,189,378</u>               | <u>\$13,031,596</u> |

#### 4. LOANS

Loans outstanding at December 31, 2004 and 2003, are scheduled to be repaid during the following subsequent years:

|        | <b>2004</b>    | <b>2003</b>    |
|--------|----------------|----------------|
| Year 1 | \$1,827,943    | \$1,676,793    |
| Year 2 | 1,179,047      | 1,713,228      |
| Year 3 | 1,068,191      | 849,821        |
| Year 4 | 583,491        | 788,718        |
| Year 5 | <u>391,577</u> | <u>409,459</u> |
|        | 5,050,249      | 5,438,019      |

|                                |                    |                    |
|--------------------------------|--------------------|--------------------|
| Less allowance for loan losses | <u>(33,093)</u>    | <u>(140,000)</u>   |
| Net loans outstanding          | <u>\$5,017,156</u> | <u>\$5,298,019</u> |

Changes in the allowance for loan losses are summarized below:

|                                        | 2004             | 2003              |
|----------------------------------------|------------------|-------------------|
| Balance—beginning of year              | \$ 140,000       | \$ 299,851        |
| Loans recovered                        |                  | 16,110            |
| Write-offs                             | (75,189)         |                   |
| Reduction of allowance for loan losses | <u>(31,718)</u>  | <u>(175,961)</u>  |
| Balance—end of year                    | <u>\$ 33,093</u> | <u>\$ 140,000</u> |

## 5. CONCENTRATION OF CREDIT RISK

At December 31, 2004 and 2003, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, the CDRLF provides loans to credit unions that serve predominantly low-income communities.

## 6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*. The methods and assumptions used in estimating the fair value disclosures for financial instruments are as follows:

**Cash and Cash Equivalents**—The carrying amounts for cash and cash equivalents approximate fair values.

**Interest Receivable and Accrued Technical Assistance**—Such items are recorded at book values, which approximate the respective fair values.

**Loans**—The fair value is estimated by discounting projected future cash flows using current market interest rates. For purposes of this calculation, the discount rate used was the prime interest rate plus two percent (7.25% at December 31, 2004 and 6.00% at December 31, 2003).

The carrying amount and the estimated fair value of the CDRLF's financial instruments are as follows:

|                              | <u>December 31, 2004</u> |                         | <u>December 31, 2003</u> |                         |
|------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
|                              | Carrying<br>Amount       | Estimated<br>Fair Value | Carrying<br>Amount       | Estimated<br>Fair Value |
| Assets:                      |                          |                         |                          |                         |
| Cash and cash equivalents    | <u>\$10,036,466</u>      | <u>\$10,036,466</u>     | <u>\$8,962,039</u>       | <u>\$8,962,039</u>      |
| Interest receivable          | <u>\$ 17,057</u>         | <u>\$ 17,057</u>        | <u>\$ 20,004</u>         | <u>\$ 20,004</u>        |
| Loans                        | \$5,050,249              | \$4,764,471             | \$5,438,019              | \$5,070,631             |
| Allowance for loan losses    | <u>(33,093)</u>          | <u>(33,093)</u>         | <u>(140,000)</u>         | <u>(140,000)</u>        |
| Loans—net of allowance       | <u>\$5,017,156</u>       | <u>\$4,731,378</u>      | <u>\$5,298,019</u>       | <u>\$4,930,631</u>      |
| Liabilities:                 |                          |                         |                          |                         |
| Accrued technical assistance | <u>\$ 727,301</u>        | <u>\$ 727,301</u>       | <u>\$ 142,692</u>        | <u>\$ 142,692</u>       |

It is the intent of the CDRLF to hold its loans to maturity. The CDRLF anticipates realizing the carrying amount in full. Fair value is less than the carrying amount because loans are made at less than market interest rates.

\* \* \* \* \*



# Financial Tables



# Insurance Fund Ten-Year Trends

| Fiscal year                                               | 1995 <sup>1</sup> | 1996             | 1997             | 1998             | 1999             | 2000             | 2001             | 2002             | 2003             | 2004             |
|-----------------------------------------------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Income (in thousands)</b>                              |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Regular premium-federal                                   | —                 | —                | —                | —                | —                | —                | —                | —                | —                | —                |
| Regular premium-state                                     | —                 | —                | —                | —                | —                | —                | —                | —                | —                | —                |
| Interest income                                           | \$172,926         | \$184,715        | \$201,938        | \$217,965        | \$227,281        | \$268,169        | \$252,853        | \$213,252        | \$151,175        | \$124,836        |
| Other income                                              | 2,147             | 2,148            | 2,151            | 2,033            | 1,850            | 1,952            | 1,703            | 1,226            | 760              | 515              |
| <b>Total income</b>                                       | <b>\$175,073</b>  | <b>\$186,863</b> | <b>\$204,089</b> | <b>\$219,998</b> | <b>\$229,131</b> | <b>\$270,121</b> | <b>\$254,556</b> | <b>\$214,478</b> | <b>\$151,935</b> | <b>\$125,351</b> |
| <b>Expenses (in thousands)</b>                            |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Operating                                                 | \$48,384          | \$47,220         | \$49,767         | \$51,071         | \$58,392         | \$65,898         | \$90,505         | \$85,367         | \$85,026         | \$81,405         |
| Insurance losses                                          | —                 | —                | —                | —                | —                | —                | —                | \$12,513         | \$38,043         | (3,424)          |
| Losses on investment sales                                | —                 | —                | —                | —                | —                | —                | —                | —                | —                | —                |
| <b>Total expenses</b>                                     | <b>\$48,384</b>   | <b>\$47,220</b>  | <b>\$49,767</b>  | <b>\$51,071</b>  | <b>\$58,392</b>  | <b>\$65,898</b>  | <b>\$90,905</b>  | <b>\$97,880</b>  | <b>\$123,068</b> | <b>\$77,981</b>  |
| Net income (in thousands)                                 | \$126,690         | \$139,643        | \$154,322        | \$168,927        | \$170,739        | \$204,223        | \$164,051        | \$116,598        | \$28,867         | \$47,370         |
| <b>Data highlights</b>                                    |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Total equity (in millions)                                | \$3,250           | \$3,412          | \$3,594          | \$3,811          | \$4,170          | \$4,628          | \$5,036          | \$5,607          | \$6,073          | \$6,359          |
| Equity as a percentage of shares in insured credit unions | 1.30%             | 1.30%            | 1.30%            | 1.30%            | 1.30%            | 1.30%            | 1.25%            | 1.27%            | 1.27%            | 1.27%            |
| Contingent liabilities (in thousands)                     | \$375             | \$1,026          | \$933            | \$556            | \$1,281          | \$2,362          | \$2,217          | \$ 0             | \$ 0             | \$0              |
| Contingent liabilities as a percentage of equity          | 0.0%              | 0.0%             | 0.0%             | 0.0%             | 0.0%             | 0.0%             | 0.0%             | 0.0%             | 0.0%             | 0.0%             |
| NCUSIF loss per \$1,000 of insured shares                 | \$0.00            | \$0.00           | \$0.00           | \$0.00           | \$0.00           | \$0.00           | \$0.00           | \$0.03           | \$0.08           | \$0.00           |
| <b>Operating ratios</b>                                   |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Premium income                                            | —                 | —                | —                | —                | —                | —                | —                | —                | —                | —                |
| Interest income                                           | 98.8%             | 98.8%            | 99.0%            | 99.1%            | 99.2%            | 99.3%            | 99.3%            | 99.4%            | 99.5%            | 99.6%            |
| Other income                                              | 1.2%              | 1.1%             | 1.0%             | 0.9%             | 0.8%             | 0.7%             | 0.7%             | 0.6%             | 0.5%             | 0.4%             |
| Operating expenses                                        | 27.6%             | 25.3%            | 24.4%            | 23.2%            | 25.5%            | 24.4%            | 35.5%            | 39.8%            | 56.0%            | 64.9%            |
| Insurance losses                                          | 0.0%              | 0.0%             | 0.0%             | 0.0%             | 0.0%             | 0.0%             | 0.0%             | 5.8%             | 25.0%            | (2.7)%           |
| Total expenses                                            | 27.6%             | 25.3%            | 24.4%            | 23.2%            | 25.5%            | 24.4%            | 35.6%            | 45.6%            | 81.0%            | 62.2%            |
| Net income                                                | 72.4%             | 74.7%            | 75.6%            | 76.8%            | 74.5%            | 75.6%            | 64.4%            | 54.4%            | 19.0%            | 37.8%            |
| <b>Involuntary liquidations commenced</b>                 |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Number                                                    | 15                | 13               | 8                | 13               | 15               | 20               | 17               | 14               | 8                | 14               |
| Share payouts (in thousands)                              | \$11,737          | \$1,028          | \$17,888         | \$6,298          | \$5,403          | \$10,393         | \$16,290         | \$40,003         | \$ 7,774         | \$88,746         |
| Share payouts as a percentage of total insured shares     | 0.004%            | 0.000%           | 0.006%           | 0.002%           | 0.002%           | 0.003%           | 0.004%           | 0.009%           | 0.002%           | 0.018%           |

\*Includes 2 liquidations occurring during transition quarter

<sup>1</sup>Effective January 1, 1995, the NCUSIF fiscal year and NCUSIF insurance year changed from October 1 thru September 30 to a period of January 1 thru December 31

# Insurance Fund Ten-Year Trends

| <b>Fiscal year</b>                                                                                                                                                                                                                          | <b>1995<sup>2</sup></b> | <b>1996</b>      | <b>1997</b>      | <b>1998</b>      | <b>1999</b>      | <b>2000</b>      | <b>2001</b>      | <b>2002</b>      | <b>2003</b>      | <b>2004</b>      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Mergers—fiscal year</b>                                                                                                                                                                                                                  |                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Assisted                                                                                                                                                                                                                                    | 7                       | 6                | 8                | 5                | 8                | 9                | 5                | 1                | 5                | 7                |
| Unassisted                                                                                                                                                                                                                                  | 297                     | 305              | 164              | 217              | 315              | 284              | 295              | 271              | 166              | 331              |
| <b>Assistance to avoid liquidation (in thousands)</b>                                                                                                                                                                                       |                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Capital notes and other cash advances outstanding                                                                                                                                                                                           | \$0                     | \$265            | \$1,211          | \$1,466          | \$325            | \$146            | \$2,050          | \$0              | \$0              | \$0              |
| Non-cash guaranty accounts                                                                                                                                                                                                                  | \$1,134                 | \$1,197          | \$1,343          | \$1,557          | \$4,516          | \$8,450          | \$2,559          | \$156            | \$7,872          | \$70             |
| Number of active cases                                                                                                                                                                                                                      | 9                       | 12               | 7                | 12               | 16               | 17               | 10               | 3                | 10               | 1                |
| <b>Number of problem case insured credit unions (CODE 4 &amp; 5)</b>                                                                                                                                                                        |                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Number                                                                                                                                                                                                                                      | 267                     | 286              | 326              | 308              | 338              | 202              | 205              | 211              | 217              | 255              |
| Shares (millions)                                                                                                                                                                                                                           | \$2,051                 | \$1,759          | \$2,928          | \$3,181          | \$2,693          | \$1,483          | \$1,731          | \$2,901          | \$3,568          | \$4,350          |
| Problem case shares as a percentage of insured shares                                                                                                                                                                                       | 0.80%                   | 0.65%            | 0.95%            | 0.99%            | 0.80%            | 0.42%            | 0.43%            | 0.66%            | 0.74%            | 0.87%            |
| <b>December 31</b>                                                                                                                                                                                                                          |                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Shares in insured credit unions (in millions)<sup>1</sup></b>                                                                                                                                                                            |                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Federal credit unions                                                                                                                                                                                                                       | \$164,582               | \$173,544        | \$178,948        | \$191,328        | \$194,766        | \$195,871        | \$217,112        | \$238,912        | \$262,420        | \$276,395        |
| State credit unions                                                                                                                                                                                                                         | 96,856                  | 101,914          | 114,327          | 130,129          | 140,857          | 157,996          | 185,574          | 202,552          | 215,056          | 222,573          |
| <b>Total shares</b>                                                                                                                                                                                                                         | <b>\$261,438</b>        | <b>\$275,458</b> | <b>\$293,275</b> | <b>\$321,457</b> | <b>\$335,623</b> | <b>\$353,867</b> | <b>\$402,686</b> | <b>\$441,464</b> | <b>\$477,476</b> | <b>\$498,968</b> |
| <b>Number of member accounts in insured credit unions (in thousands)</b>                                                                                                                                                                    |                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Federal credit unions                                                                                                                                                                                                                       | 78,245                  | 77,243           | 73,566           | 72,848           | 73,466           | 74,125           | 74,886           | 76,554           | 79,819           | 81,668           |
| State credit unions                                                                                                                                                                                                                         | 55,740                  | 41,841           | 45,690           | 49,130           | 52,787           | 57,397           | 61,290           | 62,597           | 62,489           | 63,585           |
| <b>Total</b>                                                                                                                                                                                                                                | <b>133,985</b>          | <b>119,084</b>   | <b>119,256</b>   | <b>121,978</b>   | <b>126,253</b>   | <b>131,522</b>   | <b>136,176</b>   | <b>139,151</b>   | <b>142,308</b>   | <b>145,253</b>   |
| <b>Number of insured credit unions</b>                                                                                                                                                                                                      |                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Federal credit unions                                                                                                                                                                                                                       | 7,329                   | 7,152            | 6,981            | 6,815            | 6,566            | 6,336            | 6,118            | 5,953            | 5,776            | 5,572            |
| State credit unions                                                                                                                                                                                                                         | 4,358                   | 4,240            | 4,257            | 4,180            | 4,062            | 3,980            | 3,866            | 3,735            | 3,593            | 3,442            |
| <b>Total</b>                                                                                                                                                                                                                                | <b>11,687</b>           | <b>11,392</b>    | <b>11,238</b>    | <b>10,995</b>    | <b>10,628</b>    | <b>10,316</b>    | <b>9,984</b>     | <b>9,688</b>     | <b>9,369</b>     | <b>9,014</b>     |
| Insured shares as a percentage of all credit union shares                                                                                                                                                                                   | 99.0%                   | 99.0%            | 99.0%            | 99.0%            | 94.0%            | 93.3%            | 92.1%            | 91.2%            | 90.4%            | 89.7%            |
| State credit union portion of insured shares                                                                                                                                                                                                | 37.1%                   | 37.0%            | 40.0%            | 40.5%            | 42.0%            | 44.7%            | 46.1%            | 45.9%            | 45.0%            | 44.6%            |
| <sup>1</sup> Insured shares in natural person credit unions.<br><sup>2</sup> Effective January 1, 1995, the NCUSIF fiscal year and NCUSIF Insurance year changed from October 1 thru September 30 to a period of January 1 thru December 31 |                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |

# Federal Credit Union Ten-Year Summary

## Federal credit unions

December 31 (dollar amounts in millions)

| December                | 1995       | 1996       | 1997       | 1998       | 1999       | 2000       | 2001       | 2002       | 2003       | 2004       |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Number of credit unions | 7,329      | 7,152      | 6,981      | 6,815      | 6,566      | 6,336      | 6,118      | 5,953      | 5,776      | 5,572      |
| Number of members       | 42,162,627 | 43,545,541 | 43,500,553 | 43,864,851 | 44,076,428 | 43,883,106 | 43,816,877 | 44,610,949 | 46,155,018 | 46,857,723 |
| Assets                  | \$193,781  | \$206,692  | \$215,097  | \$231,904  | \$239,316  | \$242,881  | \$270,125  | \$301,238  | \$336,612  | \$358,704  |
| Loans outstanding       | 120,514    | 134,120    | 140,100    | 144,849    | 155,172    | 163,851    | 170,326    | 181,767    | 202,898    | 223,878    |
| Shares                  | 170,300    | 180,964    | 187,817    | 202,651    | 207,614    | 210,188    | 235,202    | 261,819    | 291,485    | 308,318    |
| Reserves <sup>1</sup>   | 8,351      | 9,092      | 9,371      | 9,837      | 10,314     | 10,837     | 11,339     | 12,227     | 12,881     | 13,342     |
| Undivided earnings      | 11,445     | 13,087     | 14,365     | 15,468     | 16,546     | 17,279     | 18,596     | 20,855     | 23,526     | 26,054     |
| Gross income            | 15,276     | 16,645     | 17,404     | 18,137     | 18,530     | 19,456     | 20,042     | 19,676     | 19,764     | 20,302     |
| Operating expenses      | 6,468      | 7,246      | 7,793      | 8,241      | 8,551      | 8,721      | 9,287      | 10,158     | 11,239     | 12,128     |
| Dividends               | 6,506      | 7,087      | 7,425      | 7,760      | 7,698      | 8,120      | 8,277      | 6,369      | 5,199      | 4,683      |
| Reserve transfers       | 262        | 240        | 201        | 211        | 323        |            |            |            |            |            |
| Net income <sup>2</sup> | 2,136      | 2,232      | 2,113      | 2,081      | 2,184      | 2,470      | 2,436      | 3,082      | 3,273      | 3,351      |

## Percent change

|                         |      |      |      |      |      |      |       |       |       |      |
|-------------------------|------|------|------|------|------|------|-------|-------|-------|------|
| Total assets            | 6.2% | 6.7% | 4.1% | 7.8% | 3.2% | 1.5% | 11.2% | 11.5% | 11.7% | 6.6% |
| Loans outstanding       | 9.5  | 11.3 | 4.5  | 3.4  | 7.1  | 5.6  | 4.0   | 6.7   | 11.6  | 10.4 |
| Shares                  | 6.3  | 6.3  | 3.8  | 7.9  | 2.4  | 1.2  | 11.9  | 11.3  | 11.3  | 5.8  |
| Reserves <sup>1</sup>   | 9.7  | 9.3  | 3.1  | 5.0  | 4.8  | 5.1  | 4.6   | 7.8   | 5.3   | 5.7  |
| Undivided earnings      | 19.4 | 14.2 | 9.8  | 7.7  | 7.0  | 4.4  | 7.6   | 12.1  | 12.8  | 10.9 |
| Gross income            | 13.2 | 9.0  | 4.6  | 4.2  | 2.2  | 5.0  | 3.0   | -1.8  | 0.4   | 2.7  |
| Operating expenses      | 8.5  | 11.9 | 7.5  | 5.7  | 3.8  | 2.0  | 6.5   | 9.4   | 10.6  | 7.9  |
| Dividends               | 24.9 | 8.7  | 4.8  | 4.5  | -0.8 | 5.5  | 1.9   | -23.1 | -18.4 | -9.9 |
| Net income <sup>3</sup> | -0.6 | 4.5  | -5.3 | -1.5 | 5.0  | 13.1 | -1.4  | 26.5  | 6.2   | 2.8  |

## Significant ratios

|                                                 |      |      |      |      |      |      |      |      |      |      |
|-------------------------------------------------|------|------|------|------|------|------|------|------|------|------|
| Reserves to assets                              | 4.3% | 4.4% | 4.4% | 4.2% | 4.3% | 4.5% | 4.2% | 4.1% | 3.8% | 3.7% |
| Reserves and undivided earnings to assets       | 10.2 | 10.7 | 11.0 | 10.9 | 11.2 | 11.6 | 11.1 | 11.0 | 10.8 | 11.0 |
| Reserves to loans                               | 6.9  | 6.8  | 6.7  | 6.8  | 6.6  | 6.6  | 6.7  | 6.7  | 6.3  | 6.0  |
| Loans to shares                                 | 70.8 | 74.1 | 74.6 | 71.5 | 74.7 | 78.0 | 72.4 | 69.4 | 69.6 | 72.6 |
| Operating expenses to gross income              | 42.3 | 39.4 | 39.4 | 45.4 | 46.1 | 44.8 | 46.3 | 51.6 | 56.9 | 59.7 |
| Salaries and benefits to gross income           | 19.2 | 19.2 | 19.3 | 19.7 | 20.5 | 20.2 | 21.0 | 23.3 | 25.9 | 27.0 |
| Dividends to gross income                       | 42.6 | 42.6 | 42.7 | 42.8 | 41.5 | 41.7 | 41.3 | 32.4 | 26.3 | 23.1 |
| Yield on average assets                         | 8.1  | 8.3  | 8.3  | 8.1  | 7.9  | 8.3  | 7.8  | 6.9  | 6.2  | 5.8  |
| Cost of funds to average assets                 | 3.5  | 3.6  | 3.6  | 3.5  | 3.3  | 3.5  | 3.3  | 2.3  | 1.7  | 1.4  |
| Gross spread                                    | 4.6  | 4.7  | 4.7  | 4.6  | 4.6  | 4.8  | 4.5  | 4.6  | 4.5  | 4.4  |
| Net income divided by gross income <sup>2</sup> | 14.0 | 13.4 | 12.1 | 11.5 | 11.8 | 12.7 | 12.2 | 14.8 | 16.6 | 16.5 |
| Yield on average loans                          | 8.9  | 8.5  | 8.7  | 8.6  | 8.3  | 8.5  | 8.2  | 7.7  | 6.9  | 6.2  |
| Yield on average investments <sup>3</sup>       | 5.6  | 6.0  | 5.9  | 5.7  | 5.3  | 6.4  | 4.9  | 3.5  | 2.7  | 2.6  |

<sup>1</sup> Does not include the allowance for loan losses

<sup>2</sup> Net income prior to reserve transfers

<sup>3</sup> Starting in 2000, investments includes cash on deposit and cash equivalents

# Federally Insured State-Chartered Credit Union Ten-Year Summary

## Federally insured state-chartered credit unions December 31 (dollar amounts in millions)

| December                                        | 1995       | 1996       | 1997       | 1998       | 1999       | 2000       | 2001       | 2002       | 2003       | 2004       |
|-------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Number of credit unions                         | 4,358      | 4,240      | 4,257      | 4,180      | 4,062      | 3,980      | 3,866      | 3,735      | 3,593      | 3,442      |
| Number of members                               | 24,926,666 | 25,665,783 | 27,921,882 | 29,673,998 | 31,307,907 | 33,704,772 | 35,532,391 | 36,336,258 | 36,273,168 | 36,710,301 |
| Assets                                          | \$112,861  | \$120,176  | \$136,107  | \$156,787  | \$172,086  | \$195,363  | \$231,280  | \$255,838  | \$273,572  | 288,296    |
| Loans outstanding                               | 71,606     | 79,651     | 92,117     | 100,890    | 116,366    | 137,485    | 152,014    | 160,881    | 173,236    | 190,377    |
| Shares                                          | 99,838     | 105,728    | 119,359    | 137,347    | 149,305    | 169,053    | 201,807    | 222,377    | 236,856    | 247,804    |
| Reserves <sup>1</sup>                           | 5,246      | 5,689      | 6,421      | 7,125      | 7,946      | 9,120      | 10,266     | 11,105     | 10,895     | 10,997     |
| Undivided earnings                              | 6,645      | 7,490      | 8,779      | 9,876      | 11,060     | 12,830     | 14,563     | 16,229     | 18,231     | 20,202     |
| Gross income                                    | 8,932      | 9,736      | 11,124     | 12,309     | 13,413     | 15,714     | 17,385     | 17,075     | 16,378     | 16,538     |
| Operating expenses                              | 3,770      | 4,198      | 4,939      | 5,548      | 6,165      | 7,024      | 8,053      | 8,990      | 9,629      | 10,250     |
| Dividends                                       | 3,889      | 3,367      | 3,790      | 4,229      | 4,315      | 5,256      | 5,547      | 4,020      | 3,123      | 2,800      |
| Reserve transfers                               | 147        | 143        | 138        | 161        | 190        |            |            |            |            |            |
| Net income <sup>2</sup>                         | 1,241      | 1,298      | 1,381      | 1,424      | 1,566      | 1,859      | 2,060      | 2,584      | 2,508      | 2,439      |
| <b>Percent change</b>                           |            |            |            |            |            |            |            |            |            |            |
| Total assets                                    | 5.5%       | 6.5%       | 13.2%      | 15.2%      | 9.7%       | 13.5%      | 18.4%      | 10.6%      | 6.9%       | 5.4%       |
| Loans outstanding                               | 8.9        | 11.2       | 15.6       | 9.5        | 15.3       | 18.1       | 10.6       | 5.8        | 7.7        | 9.9        |
| Shares                                          | 5.3        | 5.9        | 12.9       | 15.1       | 8.7        | 13.2       | 19.4       | 10.2       | 6.5        | 4.6        |
| Reserves <sup>1</sup>                           | 6.9        | 8.5        | 12.9       | 10.9       | 11.5       | 14.8       | 12.6       | 8.2        | -1.9       | 0.9        |
| Undivided earnings                              | 19.4       | 12.4       | 17.2       | 12.5       | 12.0       | 16.0       | 13.5       | 11.4       | 12.3       | 10.8       |
| Gross income                                    | 12.3       | 9.0        | 14.3       | 10.6       | 9.0        | 17.2       | 10.6       | -1.8       | -4.1       | 1.0        |
| Operating expenses                              | 8.6        | 11.4       | 17.7       | 12.3       | 11.1       | 13.9       | 14.6       | 11.6       | 7.1        | 6.4        |
| Dividends                                       | 23.7       | -13.4      | 12.6       | 11.6       | 2.0        | 21.8       | 5.5        | -27.5      | -22.3      | -10.3      |
| Net income <sup>2</sup>                         | -3.7       | 4.6        | 6.4        | 3.1        | 10.0       | 18.7       | 10.8       | 25.5       | -2.9       | -2.8       |
| <b>Significant ratios</b>                       |            |            |            |            |            |            |            |            |            |            |
| Reserves to assets                              | 4.6%       | 4.7%       | 4.7%       | 4.5%       | 4.6%       | 4.7%       | 4.4%       | 4.3%       | 4.0%       | 3.8%       |
| Reserves and undivided earnings to assets       | 10.5       | 11.0       | 11.2       | 10.8       | 11.0       | 11.2       | 10.7       | 10.7       | 10.6       | 10.8       |
| Reserves to loans                               | 7.3        | 7.1        | 7.0        | 7.1        | 6.8        | 6.6        | 6.8        | 6.9        | 6.3        | 5.8        |
| Loans to shares                                 | 1.7        | 75.3       | 77.2       | 73.5       | 77.9       | 81.3       | 75.3       | 72.3       | 73.1       | 76.8       |
| Operating expenses to gross income              | 42.2       | 39.1       | 39.5       | 45.1       | 46.0       | 44.7       | 46.3       | 52.7       | 58.8       | 62.0       |
| Salaries and benefits to gross income           | 19.1       | 18.8       | 19.0       | 19.4       | 20.2       | 19.9       | 20.6       | 23.2       | 26.2       | 27.8       |
| Dividends to gross income                       | 43.5       | 35.0       | 34.1       | 34.3       | 32.2       | 33.4       | 31.9       | 23.5       | 19.1       | 16.9       |
| Yield on average assets                         | 8.1        | 8.4        | 8.7        | 8.4        | 8.2        | 8.3        | 8.2        | 7.0        | 6.2        | 5.9        |
| Cost of funds to average assets                 | 3.5        | 3.6        | 3.8        | 3.7        | 3.5        | 3.6        | 3.5        | 2.3        | 1.7        | 1.4        |
| Gross spread                                    | 4.6        | 4.7        | 4.9        | 4.7        | 4.7        | 4.7        | 4.7        | 4.7        | 4.5        | 4.5        |
| Net income divided by gross income <sup>2</sup> | 13.9       | 13.3       | 12.4       | 11.6       | 11.7       | 11.8       | 11.8       | 15.1       | 15.3       | 14.7       |
| Yield on average loans                          | 8.9        | 8.4        | 9.1        | 8.8        | 8.4        | 8.5        | 8.4        | 7.6        | 6.6        | 6.1        |
| Yield on average investments <sup>3</sup>       | 5.6        | 6.0        | 6.1        | 5.8        | 5.4        | 6.3        | 5.1        | 3.4        | 2.7        | 2.6        |

<sup>1</sup> Does not include the allowance for loan losses

<sup>2</sup> Net income prior to reserve transfers

<sup>3</sup> Starting in 2000 investments includes cash on deposit and cash equivalents

# Historical Federal Credit Union Data

Historical data for federal credit unions  
December 31, 1935 to 1969

| Year | Charters issued | Charters cancelled | Net change | Total outstanding | Inactive credit unions | Active credit unions | (Amounts in thousands of dollars) |           |           |                   |
|------|-----------------|--------------------|------------|-------------------|------------------------|----------------------|-----------------------------------|-----------|-----------|-------------------|
|      |                 |                    |            |                   |                        |                      | Members                           | Assets    | Shares    | Loans outstanding |
| 1935 | 828             |                    | 828        | 906               | 134                    | 772                  | 119,420                           | \$ 2,372  | \$ 2,228  | \$ 1,834          |
| 1936 | 956             | 4                  | 952        | 1,858             | 107                    | 1,751                | 309,700                           | 9,158     | 8,511     | 7,344             |
| 1937 | 638             | 69                 | 569        | 2,427             | 114                    | 2,313                | 483,920                           | 19,265    | 17,650    | 15,695            |
| 1938 | 515             | 83                 | 432        | 2,859             | 99                     | 2,760                | 632,050                           | 29,629    | 26,876    | 23,830            |
| 1939 | 529             | 93                 | 436        | 3,295             | 113                    | 3,182                | 850,770                           | 47,811    | 43,327    | 37,673            |
| 1940 | 666             | 76                 | 590        | 3,855             | 129                    | 3,756                | 1,127,940                         | 72,530    | 65,806    | 55,818            |
| 1941 | 583             | 89                 | 494        | 4,379             | 151                    | 4,228                | 1,408,880                         | 106,052   | 97,209    | 69,485            |
| 1942 | 187             | 89                 | 98         | 4,477             | 332                    | 4,145                | 1,356,940                         | 119,591   | 109,822   | 43,053            |
| 1943 | 108             | 321                | - 213      | 4,264             | 326                    | 3,938                | 1,311,620                         | 127,329   | 117,339   | 35,376            |
| 1944 | 69              | 285                | - 216      | 4,048             | 233                    | 3,815                | 1,306,000                         | 144,365   | 133,677   | 34,438            |
| 1945 | 96              | 185                | - 89       | 3,959             | 202                    | 3,757                | 1,216,625                         | 153,103   | 140,614   | 35,155            |
| 1946 | 157             | 151                | 6          | 3,965             | 204                    | 3,761                | 1,302,132                         | 173,166   | 159,718   | 56,801            |
| 1947 | 207             | 159                | 48         | 4,013             | 168                    | 3,845                | 1,445,915                         | 210,376   | 192,410   | 91,372            |
| 1948 | 341             | 130                | 211        | 4,224             | 166                    | 4,058                | 1,628,339                         | 258,412   | 235,008   | 137,642           |
| 1949 | 523             | 101                | 422        | 4,646             | 151                    | 4,495                | 1,819,606                         | 316,363   | 285,001   | 186,218           |
| 1950 | 565             | 83                 | 482        | 5,128             | 144                    | 4,984                | 2,126,823                         | 405,835   | 361,925   | 263,736           |
| 1951 | 533             | 75                 | 458        | 5,586             | 188                    | 5,398                | 2,463,898                         | 504,715   | 457,402   | 299,756           |
| 1952 | 692             | 115                | 577        | 6,163             | 238                    | 5,925                | 2,853,241                         | 662,409   | 597,374   | 415,062           |
| 1953 | 825             | 132                | 693        | 6,856             | 278                    | 6,578                | 3,255,422                         | 854,232   | 767,571   | 573,974           |
| 1954 | 852             | 122                | 730        | 7,586             | 359                    | 7,227                | 3,598,790                         | 1,033,179 | 931,407   | 681,970           |
| 1955 | 777             | 188                | 589        | 8,175             | 369                    | 7,806                | 4,032,220                         | 1,267,427 | 1,135,165 | 863,042           |
| 1956 | 741             | 182                | 559        | 8,734             | 384                    | 8,350                | 4,502,210                         | 1,529,202 | 1,366,258 | 1,049,189         |
| 1957 | 662             | 194                | 468        | 9,202             | 467                    | 8,735                | 4,897,689                         | 1,788,768 | 1,589,191 | 1,257,319         |
| 1958 | 586             | 255                | 331        | 9,533             | 503                    | 9,030                | 5,209,912                         | 2,034,866 | 1,812,017 | 1,379,724         |
| 1959 | 700             | 270                | 430        | 9,963             | 516                    | 9,447                | 5,643,248                         | 2,352,813 | 2,075,055 | 1,666,526         |
| 1960 | 685             | 274                | 411        | 10,374            | 469                    | 9,905                | 6,087,378                         | 2,669,734 | 2,344,337 | 2,021,463         |
| 1961 | 671             | 265                | 406        | 10,780            | 509                    | 10,271               | 6,542,603                         | 3,028,294 | 2,673,488 | 2,245,223         |
| 1962 | 601             | 284                | 317        | 11,097            | 465                    | 10,632               | 7,007,630                         | 3,429,805 | 3,020,274 | 2,560,722         |
| 1963 | 622             | 312                | 310        | 11,407            | 452                    | 10,955               | 7,499,747                         | 3,916,541 | 3,452,615 | 2,911,159         |
| 1964 | 580             | 323                | 257        | 11,664            | 386                    | 11,278               | 8,092,030                         | 4,559,438 | 4,017,393 | 3,349,068         |
| 1965 | 584             | 270                | 324        | 11,978            | 435                    | 11,543               | 8,640,560                         | 5,165,807 | 4,538,461 | 3,864,809         |
| 1966 | 701             | 318                | 383        | 12,361            | 420                    | 11,941               | 9,271,967                         | 5,668,941 | 4,944,033 | 4,323,943         |
| 1967 | 636             | 292                | 344        | 12,705            | 495                    | 12,210               | 9,873,777                         | 6,208,158 | 5,420,633 | 4,677,480         |
| 1968 | 662             | 345                | 317        | 13,022            | 438                    | 12,584               | 10,508,504                        | 6,902,175 | 5,986,181 | 5,398,052         |
| 1969 | 705             | 323                | 382        | 13,404            | 483                    | 12,921               | 11,301,805                        | 7,793,573 | 6,713,385 | 6,328,720         |

<sup>1</sup> Data for 1935-44 are partly estimated.

# Historical Federal Credit Union Data

Historical data for federal credit unions  
December 31, 1970 to 2004

| Year | Charters issued | Charters cancelled | Net change | Total outstanding | Inactive credit unions | Active credit unions | Members    | (Amounts in thousands of dollars) |              |                   |
|------|-----------------|--------------------|------------|-------------------|------------------------|----------------------|------------|-----------------------------------|--------------|-------------------|
|      |                 |                    |            |                   |                        |                      |            | Assets                            | Shares       | Loans outstanding |
| 1970 | 563             | 412                | 151        | 13,555            | 578                    | 12,977               | 11,966,181 | \$ 8,860,612                      | \$ 7,628,805 | \$ 6,969,006      |
| 1971 | 400             | 461                | -61        | 13,494            | 777                    | 12,717               | 12,702,135 | 10,533,740                        | 9,191,182    | 8,071,201         |
| 1972 | 311             | 672                | -361       | 13,133            | 425                    | 12,708               | 13,572,312 | 12,513,621                        | 10,956,007   | 9,424,180         |
| 1973 | 364             | 523                | -159       | 12,974            | 286                    | 12,688               | 14,665,890 | 14,568,736                        | 12,597,607   | 11,109,015        |
| 1974 | 367             | 369                | -2         | 12,972            | 224                    | 12,748               | 15,870,434 | 16,714,673                        | 14,370,744   | 12,729,653        |
| 1975 | 373             | 334                | 39         | 13,011            | 274                    | 12,737               | 17,066,428 | 20,208,536                        | 17,529,823   | 14,868,840        |
| 1976 | 354             | 387                | -33        | 12,978            | 221                    | 12,757               | 18,623,862 | 24,395,896                        | 21,130,293   | 18,311,204        |
| 1977 | 337             | 315                | 22         | 13,000            | 250                    | 12,750               | 20,426,661 | 29,563,681                        | 25,576,017   | 22,633,860        |
| 1978 | 348             | 298                | 50         | 13,050            | 291                    | 12,759               | 23,259,284 | 34,760,098                        | 29,802,504   | 27,686,584        |
| 1979 | 286             | 336                | -50        | 13,000            | 262                    | 12,738               | 24,789,647 | 36,467,850                        | 31,831,400   | 28,547,097        |
| 1980 | 170             | 368                | -198       | 12,802            | 362                    | 12,440               | 24,519,087 | 40,091,855                        | 36,263,343   | 26,350,277        |
| 1981 | 119             | 554                | -435       | 12,367            | 398                    | 11,969               | 25,459,059 | 41,905,413                        | 37,788,699   | 27,203,672        |
| 1982 | 114             | 556                | -442       | 11,925            | 294                    | 11,631               | 26,114,649 | 45,482,943                        | 41,340,911   | 28,184,280        |
| 1983 | 107             | 736                | -629       | 11,296            | 320                    | 10,976               | 26,798,799 | 54,481,827                        | 49,889,313   | 33,200,715        |
| 1984 | 135             | 664                | -529       | 10,767            | 219                    | 10,548               | 28,191,922 | 63,656,321                        | 57,929,124   | 42,133,018        |
| 1985 | 55              | 575                | -520       | 10,247            | 122                    | 10,125               | 29,578,808 | 78,187,651                        | 71,616,202   | 48,240,770        |
| 1986 | 59              | 441                | -382       | 9,865             | 107                    | 9,758                | 31,041,142 | 95,483,828                        | 87,953,642   | 55,304,682        |
| 1987 | 41              | 460                | -419       | 9,446             | 45                     | 9,401                | 32,066,542 | 105,189,725                       | 96,346,488   | 64,104,411        |
| 1988 | 45              | 201                | -156       | 9,290             | 172                    | 9,118                | 34,438,304 | 114,564,579                       | 104,431,487  | 73,766,200        |
| 1989 | 23              | 307                | -284       | 9,006             | 185                    | 8,821                | 35,612,317 | 120,666,414                       | 109,652,600  | 80,272,306        |
| 1990 | 33              | 410                | -377       | 8,629             | 118                    | 8,511                | 36,241,607 | 130,072,955                       | 117,891,940  | 83,029,348        |
| 1991 | 14              | 291                | -277       | 8,352             | 123                    | 8,229                | 37,080,854 | 143,939,504                       | 130,163,749  | 84,150,334        |
| 1992 | 33              | 341                | -308       | 8,044             | 128                    | 7,916                | 38,205,128 | 162,543,659                       | 146,078,403  | 87,632,808        |
| 1993 | 42              | 258                | -216       | 7,828             | 132                    | 7,696                | 39,755,596 | 172,854,187                       | 153,505,799  | 94,640,348        |
| 1994 | 39              | 224                | -185       | 7,643             | 145                    | 7,498                | 40,837,392 | 182,528,895                       | 160,225,678  | 110,089,530       |
| 1995 | 28              | 194                | -166       | 7,477             | 148                    | 7,329                | 42,162,627 | 193,781,391                       | 170,300,445  | 120,514,044       |
| 1996 | 14              | 189                | -175       | 7,302             | 150                    | 7,152                | 43,545,541 | 206,692,540                       | 180,964,338  | 134,120,610       |
| 1997 | 17              | 179                | -162       | 6,994             | 13                     | 6,981                | 43,500,553 | 215,097,395                       | 187,816,918  | 140,099,926       |
| 1998 | 8               | 174                | -166       | 6,816             | 1                      | 6,815                | 43,864,851 | 231,904,308                       | 202,650,793  | 144,849,109       |
| 1999 | 17              | 265                | -248       | 6,566             | 0                      | 6,566                | 44,076,428 | 239,315,693                       | 207,613,549  | 155,171,735       |
| 2000 | 12              | 235                | -223       | 6,343             | 7                      | 6,336                | 43,883,106 | 242,881,164                       | 210,187,670  | 163,850,918       |
| 2001 | 14              | 228                | -214       | 6,129             | 11                     | 6,118                | 43,816,877 | 270,125,345                       | 235,202,500  | 170,325,562       |
| 2002 | 21              | 180                | -159       | 5,959             | 6                      | 5,953                | 44,610,949 | 301,238,242                       | 261,819,003  | 181,766,655       |
| 2003 | 28              | 193                | -165       | 5,788             | 12                     | 5,776                | 46,153,243 | 336,611,886                       | 291,484,763  | 202,898,454       |
| 2004 | 22              | 172                | -150       | 5,626             | 54                     | 5,572                | 46,857,723 | 358,704,157                       | 308,318,116  | 223,878,376       |

# Board and Officers

**JoAnn M. Johnson**  
*Chairman*

**Deborah Matz**  
*Board Member*

**J. Leonard Skiles**  
*Executive Director*

**Mary F. Rupp**  
*Secretary of the Board*

**Holly Herman**  
*Senior Advisor and Chief of Staff to the Chairman*

**Steve Bosack**  
*Executive Assistant to Board Member Matz*

**Robert M. Fenner**  
*General Counsel*

**Nicholas N. Owens**  
*Special Assistant to the Chairman and Director of External Affairs*

**Clifford R. Northup**  
*Director, Congressional and Government Affairs*

**David M. Marquis**  
*Director, Office of Examination and Insurance*

**Dennis Winans**  
*Chief Financial Officer*

**Sherry Turpenoff**  
*Director, Office of Human Resources*

**Tawana James**  
*Director, Office of Small Credit Union Initiatives*

**Kent Buckham**  
*Director, Office of Corporate Credit Unions*

**J. Owen Cole**  
*Director, Office of Capital Markets and Planning, and President, Central Liquidity Facility*

**Doug Verner**  
*Chief Information Officer*

**Mike Barton**  
*President, Asset Management & Assistance Center*

**William DeSarno**  
*Inspector General*

NCUA currently has a vacant seat on its three-member board. Board members are appointed by the President of the United States and confirmed by the U. S. Senate. No more than two board members are from the same political party, and members serve staggered six-year terms. The NCUA board normally meets monthly, except August, in open session in Alexandria, Virginia.

**Chairman JoAnn Johnson** was nominated by President George W. Bush and confirmed by the U.S. Senate March 22, 2002, to a Republican seat on the NCUA Board. Iowa State Senator Johnson is a former educator, athletic coach and community activist. She was elected to office in 1994 and chaired both the Iowa Senate Commerce Committee and Ways and Means Committee before resigning to join NCUA. Mrs. Johnson was designated NCUA Chairman May 3, 2004. Her term expires August 2, 2007.

**Board Member Deborah Matz** was nominated by President George W. Bush and confirmed by the U.S. Senate March 22, 2002, to the Democratic seat on the NCUA Board. An expert in finance, she has over 25 years of public service experience and extensive knowledge of both the executive and legislative branches of the federal government. She served as Deputy Assistant Secretary for Administration at the U. S. Department of Agriculture in the Clinton Administration and spent nine years on Capitol Hill as an economist with the Joint Economic Committee. Her term expires August 2, 2005.

# Headquarters Directors



*NCUA headquarters directors are, from the left, Doug Verner; Kent Buckham; J. Leonard Skiles; Mary Rupp; Robert Fenner; William DeSarno; J. Owen Cole; Tawana James; Clifford Northup; David Marquis; Dennis Winans; Sherry Turpenoff; and Mike Barton of the AMAC.*

## Information

|                                          |                                                |
|------------------------------------------|------------------------------------------------|
| General information                      | 703-518-6330                                   |
| TDD                                      | 703-518-6332                                   |
| Office of the Board                      | 703-518-6300                                   |
| Publications                             | 703-518-6340                                   |
| GC fraud hotline                         | 800-827-9650                                   |
|                                          | 703-518-6550                                   |
| Credit union investments                 | 800-755-5999                                   |
|                                          | 703-518-6370                                   |
| Technology assistance                    | 800-827-3255                                   |
|                                          | 703-518-6487                                   |
| Report improper or<br>illegal activities | 800-778-4806                                   |
|                                          | 703-518-6357                                   |
| Website                                  | <a href="http://www.ncua.gov">www.ncua.gov</a> |



# Regions and Officers



NCUA regional directors are, from the left, Edward P. Dupcak, Region II; Melinda Love, Region V; Alonzo A. Swann III, Region III; Mark A. Treichel, Region I; Jane Walters, Region IV; and NCUA Executive Director J. Leonard Skiles.

## Region I — Albany

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Albany, New York 12205  
Telephone: 518-862-7400  
Fax: 518-862-7420  
[region1@ncua.gov](mailto:region1@ncua.gov)

## Region III — Atlanta

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Atlanta, GA 30328  
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## Region V — Tempe

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## Region II — Capital

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Telephone: 703-519-4600  
Fax: 703-519-4620  
[region2@ncua.gov](mailto:region2@ncua.gov)

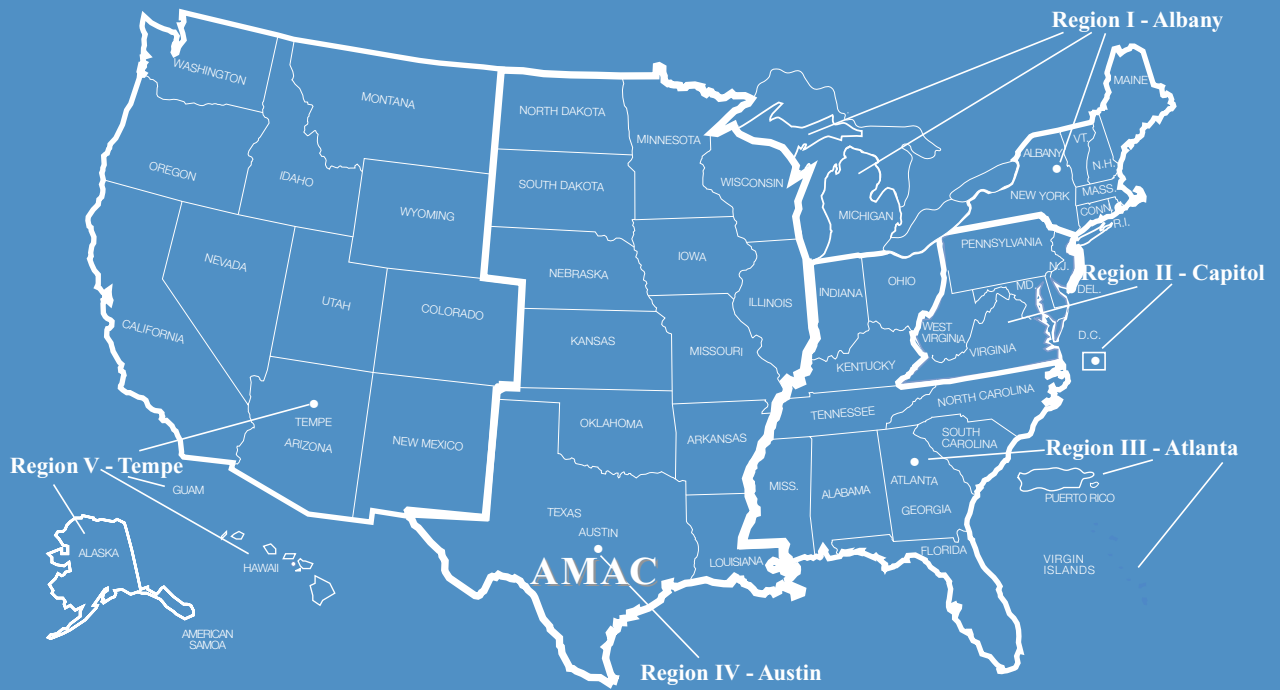
## Region IV — Austin

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Austin, TX 78759-8490  
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Fax: 512-342-5620  
[region4@ncua.gov](mailto:region4@ncua.gov)

## Asset Management and Assistance Center

4807 Spicewood Springs  
Road, Suite 5100  
Austin, TX 78759-8490  
Telephone: 512-231-7900  
Fax: 512-231-7920

# Regional Offices





# Federal Credit Unions

12467, 12470, 12472, 12473, 12478, 12489, 12490, 12505, 12508, 12511, 12525, 12527, 12539, 12543, 12546, 12548, 12550, 12558, 12568, 12570, 12571, 12574, 12577, 12585, 12590, 12598, 12601, 12604, 12608, 12609, 12613, 12616, 12617, 12618, 12619, 12621, 12623, 12624, 12630, 12633, 12643, 12644, 12646, 12648, 12654, 12666, 12671, 12673, 12676, 12678, 12680, 12686, 12697, 12701, 12706, 12716, 12720, 12729, 12732, 12735, 12736, 12738, 12743, 12745, 12748, 12749, 12751, 12752, 12761, 12765, 12771, 12776, 12790, 12794, 12805, 12808, 12813, 12814, 12824, 12826, 12833, 12837, 12840, 12841, 12847, 12849, 12850, 12852, 12853, 12857, 12858, 12859, 12864, 12872, 12873, 12877, 12884, 12890, 12892, 12898, 12900, 12906, 12907, 12908, 12912, 12914, 12920, 12921, 12922, 12933, 12935, 12938, 12944, 12951, 12956, 12957, 12963, 12976, 12977, 12979, 12980, 12983, 12998, 12999, 13001, 13011, 13014, 13018, 13019, 13021, 13028, 13032, 13035, 13037, 13040, 13044, 13046, 13048, 13054, 13057, 13060, 13062, 13067, 13073, 13080, 13090, 13093, 13102, 13103, 13107, 13110, 13111, 13112, 13113, 13115, 13118, 13119, 13120, 13121, 13124, 13128, 13130, 13131, 13132, 13135, 13137, 13141, 13144, 13149, 13153, 13158, 13161, 13166, 13167, 13169, 13172, 13180, 13186, 13187, 13190, 13198, 13199, 13218, 13224, 13228, 13232, 13233, 13234, 13241, 13242, 13248, 13253, 13254, 13257, 13261, 13263, 13265, 13271, 13273, 13274, 13279, 13280, 13286, 13288, 13290, 13295, 13300, 13304, 13305, 13321, 13329, 13334, 13344, 13345, 13352, 13353, 13355, 13367, 13384, 13387, 13390, 13391, 13392, 13394, 13402, 13408, 13413, 13416, 13419, 13426, 13431, 13432, 13439, 13446, 13451, 13456, 13458, 13466, 13469, 13472, 13475, 13476, 13481, 13486, 13491, 13492, 13494, 13495, 13498, 13503, 13504, 13516, 13519, 13526, 13528, 13531, 13533, 13537, 13544, 13545, 13559, 13560, 13565, 13569, 13573, 13578, 13583, 13591, 13592, 13599, 13600, 13602, 13605, 13615, 13616, 13621, 13624, 13629, 13633, 13634, 13638, 13639, 13641, 13644, 13648, 13649, 13652, 13654, 13655, 13657, 13659, 13660, 13670, 13672, 13673, 13682, 13687, 13690, 13692, 13697, 13704, 13710, 13711, 13713, 13717, 13727, 13729, 13733, 13737, 13739, 13740, 13741, 13755, 13756, 13760, 13762, 13763, 13765, 13766, 13768, 13771, 13772, 13777, 13781, 13785, 13790, 13791, 13794, 13797, 13800, 13801, 13802, 13807, 13814, 13821, 13823, 13824, 13828, 13833, 13842, 13846, 13847, 13852, 13857, 13859, 13860, 13862, 13865, 13867, 13869, 13873, 13881, 13885, 13898, 13900, 13902, 13919, 13926, 13931, 13933, 13938, 13939, 13940, 13941, 13944, 13959, 13965, 13966, 13971, 13974, 13986, 13990, 13998, 14001, 14003, 14004, 14011, 14015, 14016, 14018, 14020, 14026, 14029, 14030, 14033, 14034, 14040, 14045, 14047, 14052, 14058, 14063, 14066, 14074, 14081, 14091, 14097, 14098, 14103, 14108, 14111, 14120, 14121, 14127, 14129, 14134, 14135, 14159, 14160, 14163, 14166, 14169, 14170, 14172, 14174, 14176, 14180, 14185, 14186, 14191, 14193, 14196, 14207, 14211, 14213, 14225, 14226, 14228, 14229, 14235, 14236, 14244, 14247, 14249, 14250, 14257, 14260, 14268, 14274, 14280, 14281, 14282, 14283, 14291, 14298, 14301, 14303, 14314, 14325, 14329, 14333, 14345, 14346, 14347, 14348, 14350, 14360, 14369, 14375, 14378, 14379, 14381, 14384, 14385, 14388, 14391, 14393, 14402, 14408, 14409, 14412, 14415, 14418, 14421, 14424, 14425, 14427, 14430, 14436, 14444, 14445, 14449, 14455, 14462, 14469, 14470, 14477, 14499, 14505, 14506, 14511, 14512, 14519, 14522, 14526, 14537, 14542, 14543, 14545, 14553, 14555, 14559, 14562, 14565, 14566, 14568, 14571, 14573, 14578, 14584, 14588, 14600, 14610, 14611, 14617, 14623, 14627, 14630, 14631, 14637, 14644, 14649, 14653, 14661, 14666, 14670, 14673, 14676, 14681, 14693, 14695, 14696, 14699, 14700, 14708, 14712, 14718, 14721, 14723, 14725, 14727, 14733, 14734, 14735, 14739, 14740, 14743, 14745, 14750, 14754, 14757, 14758, 14762, 14768, 14769, 14771, 14775, 14784, 14785, 14786, 14788, 14790, 14792, 14797, 14798, 14802, 14805, 14811, 14813, 14815, 14820, 14824, 14829, 14830, 14832, 14835, 14836, 14842, 14845, 14847, 14850, 14851, 14858, 14865, 14874, 14876, 14879, 14884, 14894, 14898, 14916, 14917, 14924, 14934, 14945, 14959, 14960, 14965, 14967, 14972, 14974, 14984, 15000, 15010, 15017, 15025, 15030, 15043, 15049, 15051, 15062, 15078, 15086, 15096, 15106, 15107, 15120, 15122, 15123, 15124, 15125, 15126, 15127, 15128, 15129, 15130, 15131, 15132, 15133, 15135, 15136, 15137, 15138, 15139, 15140, 15141, 15142, 15143, 15144, 15145, 15146, 15153, 15154, 15155, 15159, 15162, 15167, 15173, 15174, 15175, 15180, 15181, 15182, 15184, 15185, 15202, 15204, 15205, 15209, 15211, 15220, 15222, 15230, 15234, 15240, 15242, 15246, 15248, 15251, 15259, 15264, 15265, 15266, 15284, 15293, 15296, 15297, 15304, 15314, 15315, 15317, 15321, 15327, 15328, 15330, 15332, 15334, 15335, 15336, 15360, 15362, 15363, 15364, 15368, 15369, 15371, 15373, 15377, 15386, 15387, 15390, 15393, 15394, 15396, 15398, 15401, 15417, 15419, 15426, 15433, 15435, 15437, 15438, 15443, 15446, 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18234, 18238, 18242, 18254, 18268, 18271, 18273, 18275, 18288, 18291, 18292, 18296, 18297, 18301, 18304, 18312, 18314, 18327, 18335, 18336, 18343, 18344, 18353, 18355, 18369, 18375, 18391, 18393, 18399, 18401, 18405, 18409, 18417, 18422, 18423, 18424, 18427, 18435, 18436, 18437, 18444, 18445, 18446, 18454, 18457, 18461, 18474, 18481, 18489, 18500, 18506, 18507, 18515, 18528, 18536, 18550, 18565, 18569, 18574, 18582, 18583, 18589, 18590, 18605, 18610, 18616, 18620, 18623, 18628, 18635, 18649, 18651, 18653, 18665, 18669, 18681, 18689, 18704, 18707, 18708, 18709, 18710, 18714, 18716, 18721, 18732, 18746, 18747, 18749, 18759, 18765, 18767, 18775, 18787, 18800, 18813, 18814, 18816, 18816, 18823, 18843, 18847, 18852, 18855, 18857, 18861, 18868, 18882, 18917, 18933, 18935, 18944, 18947, 18948, 18950, 18956, 18964, 18967, 18969, 18973, 18979, 18985, 19006, 19009, 19016, 19017, 19027, 19029, 19046, 19047, 19067, 19069, 19082, 19085, 19087, 19113, 19116, 19118, 19131, 19144, 19154, 19156, 19165, 19170, 19171, 19176, 19185, 19193, 19197, 19203, 19208, 19209, 19216, 19228, 19249, 19253, 19263, 19266, 19269, 19274, 19280, 19285, 19295, 19299, 19304, 19307, 19318, 19319, 19320, 19329, 19337, 19355, 19356, 19361, 19368, 19369, 19375, 19384, 19385, 19390, 19391, 19393, 19401, 19416, 19429, 19438, 19431, 19439, 19453, 19440, 19444, 19446, 19448, 19448, 19451, 19452, 19454, 19463, 19497, 19481, 19483, 19491, 19492, 19501, 19505, 19507, 19508, 19510, 19513, 19514, 19517, 19522, 19528, 19536, 19538, 19541, 19547, 19549, 19550, 19552, 19554, 19555, 19558, 19564, 19567, 19581, 19588, 19591, 19592, 19593, 19605, 19608, 19613, 19619, 19620, 19629, 19640, 19645, 19659, 19659, 19665, 19668, 19676, 19678, 19693, 19700, 19704, 19708, 19723, 19729, 19730, 19732, 19739, 19741, 19744, 19745, 19747, 19748, 19768, 19768, 19770, 19774, 19775, 19776, 19788, 19789, 19798, 19800, 19826, 19842, 19845, 19847, 19853, 19867, 19879, 19881, 19888, 19890, 19896, 19907, 19909, 19920, 19926, 19930, 19932, 19933, 19940, 19944, 19967, 19968, 19969, 19973, 19976, 19983, 19985, 20002, 20004, 20007, 20011, 20013, 20015, 20017, 20028, 20035, 20038, 20041, 20042, 20052, 20053, 20057, 20060, 20061, 20063, 20065, 20068, 20082, 20084, 20098, 20111, 20114, 20118, 20121, 20137, 20138, 20140, 20147, 20151, 20157, 20173, 20174, 20177, 20179, 20180, 20186, 20187, 20194, 20204, 20207, 20209, 20214, 20218, 20222, 20226, 20250, 20258, 20267, 20278, 20279, 20283, 20285, 20290, 20291, 20292, 20302, 20303, 20312, 20324, 20330, 20336, 20341, 20354, 20377, 20378, 20382, 20391, 20392, 20394, 20399, 20408, 20410, 20415, 20417, 20418, 20419, 20429, 20432, 20438, 20443, 20448, 20451, 20463, 20468, 20469, 20472, 20476, 20486, 20495, 20496, 20502, 20503, 20505, 20508, 20509, 20512, 20523, 20516, 20517, 20527, 20529, 20532, 20543, 20547, 20550, 20557, 20558, 20564, 20567, 20570, 20575, 20581, 20584, 20585, 20591, 20595, 20600, 20602, 20610, 20613, 20620, 20622, 20623, 20629, 20634, 20641, 20655, 20656, 20658, 20661, 20662, 20671, 20674, 20684, 20690, 20691, 20692, 20699, 20703, 20707, 20717, 20719, 20720, 20721, 20722, 20724, 20727, 20729, 20730, 20731, 20747, 20749, 20750, 20760, 20770, 20773, 20789, 20789, 20793, 20794, 20798, 20799, 20805, 20807, 20814, 20823, 20824, 20828, 20839, 20842, 20853, 20857, 20858, 20861, 20874, 20882, 20885, 20890, 20891, 20898, 20900, 20904, 20921, 20924, 20935, 20936, 20941, 20943, 20944, 20948, 20948, 20951, 20956, 20957, 20966, 20972, 20973, 20974, 20987, 20988, 20989, 20990, 20991, 20995, 20997, 21009, 21012, 21014, 21020, 21023, 21026, 21029, 21038, 21039, 21044, 21052, 21057, 21061, 21063, 21070, 21071, 21073, 21083, 21093, 21098, 21099, 21100, 21105, 21107, 21109, 21111, 21115, 21151, 21152, 21135, 21140, 21144, 21152, 21153, 21155, 21157, 21161, 21163, 21165, 21167, 21168, 21176, 21190, 21195, 21200, 21202, 21204, 21214, 21216, 21217, 21221, 21222, 21226, 21227, 21230, 21231, 21239, 21240, 21244, 21263, 21268, 21275, 21277, 21278, 21279, 21288, 21294, 21297, 21300, 21304, 21305, 21319, 21320, 21326, 21328, 21331, 21339, 21343, 21344, 21345, 21346, 21350, 21351, 21354, 21355, 21358, 21363, 21367, 21368, 21383, 21387, 21393, 21404, 21411, 21413, 21417, 21419, 21428, 21440, 21448, 21451, 21458, 21464, 21471, 21481, 21482, 21489, 21498, 21499, 21502, 21503, 21507, 21508, 21509, 21511, 21517, 21526, 21527, 21530, 21532, 21535, 21548, 21550, 21556, 21568, 21575, 21586, 21592, 21593, 21606, 21609, 21614, 21615, 21619, 21626, 21628, 21630, 21639, 21644, 21656, 21657, 21658, 21669, 21677, 21683, 21686, 21694, 21700, 21702, 21710, 21713, 21716, 21721, 21732, 21737, 21745, 21747, 21751, 21766, 21773, 21774, 21782, 21787, 21788, 21789, 21794, 21798, 21809, 21812, 21831, 21836, 21838, 21845, 21851, 21853, 21872, 21873, 21875, 21878, 21879, 21885, 21890, 21901, 21903, 21904, 21909, 21917, 21918, 21919, 21927, 21930, 21931, 21954, 21956, 21968, 21971, 21975, 19883, 21990, 21997, 21998, 22007, 22014, 22015, 22023, 22028, 22032, 22040, 22052, 22049, 22054, 22070, 22075, 22078, 22079, 22083, 22090, 22098, 22101, 22113, 22114, 22119, 22129, 22129, 22130, 22131, 22132, 22139, 22140, 22141, 22151, 22157, 22167, 22174, 22178, 22179, 22187, 22195, 22196, 22213, 22215, 22216, 22217, 22218, 22219, 22220, 22221, 22225, 22226, 22230, 22235, 22241, 22243, 22247, 22253, 222

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