NCUA LETTER TO CREDIT UNIONS

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

DATE: October 7, 1997 **LETTER NO.: 97-CU-8**

DEAR BOARD OF DIRECTORS:

Enclosed is a report highlighting the very positive credit union financial trends during the first half of 1997. The analysis is based on data compiled from the midyear 1997 Call Reports submitted by all federally insured credit unions. We are providing this information to keep you and your managers informed of the continuing strength and overall safety of the credit union system.

The industry's favorable performance is also reflected in the continued stability of the National Credit Union Share Insurance Fund. As of August 31, only nine credit unions had failed this year; five entered into involuntary liquidation, and four merged with assistance. The cost to the NCUSIF of these failures was $1.2 million. Meanwhile, no new reserves have been added to the Fund in more than two years.

As of August 31, the equity level of the NCUSIF increased to 1.32 percent, positioning the agency to issue a third consecutive cash dividend to the federally insured credit unions. The NCUA Board will discuss the amount of the dividend at its October board meeting, and checks will likely be mailed October 31.

NCUA remains committed to working with credit unions across the nation to help them meet the financial needs of their members and communities. We hope to hear from you on how this process can continue.

/S/
NORMAN E. D'AMOURS
Chairman

Enclosure

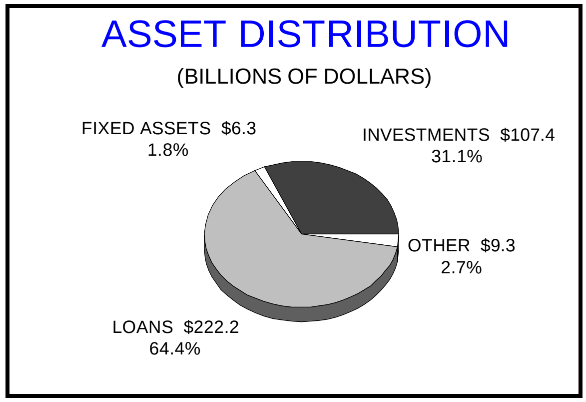
FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1, 1997 to June 30, 1997

HIGHLIGHTS*

The financial trends for the first half of 1997 are very favorable. All of the key financial indicators of credit union well-being remained positive and stable.

- **Assets** of federally insured credit unions increased 5.6% during the first half of 1997.
- **Capital** accumulation continued, but at a slower pace, 5.0%. The capital to asset ratio at midyear 1997 equals 11.4%.
- **Loans** increased 3.9%, beginning the fifth consecutive year of loan growth.
- **Shares** expanded 5.6%. The loan to share ratio now stands at 73.4%.
- **Investments** increased 9.2%.
- **Profitability** declined, but only very slightly, as measured by the return on average assets ratio, which moved from 1.1% to 1.0%.
- **Delinquent** loans as a percentage of total loans remained unchanged from the yearend 1996 level of 1.0%.

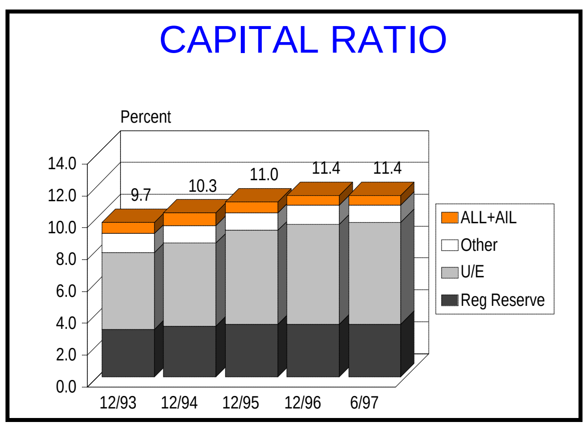


CAPITAL

Capital accumulated at the rate of 5.0% during the first half of this year, compared to 4.6% in the first half of 1996.

The capital ratio remained unchanged from the yearend level of 11.4%, and is well above the level of 10.9% at midyear 1996.

The net capital ratio declined slightly from 10.8% at the end of 1996 to 10.7%. The net capital to asset ratio at midyear 1996 was 10.3%.



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* Note: Unless otherwise indicated, all percent changes are year-to-date, and have not been annualized.

ASSET QUALITY

LOAN TRENDS: Total loans outstanding expanded 3.9% in the first six months of this year. The $8.4 billion dollar increase in total loans outstanding was concentrated in used auto loans and first mortgage real estate loans. The increase in used auto loans was the most significant in terms of dollar volume, expanding nearly $3.7 billion, or 10.0%. The increase in first mortgages followed closely behind, expanding $3.0 billion, or 6.5%.

New auto loans continue to make up the largest single loan category, but it appears that their high rate of growth in the last few years has begun to slow. In the first half of this year, new auto loans increased only 0.4%, following an increase of 4.1% in the last half of 1996 and 0.9% during the first six months of last year.

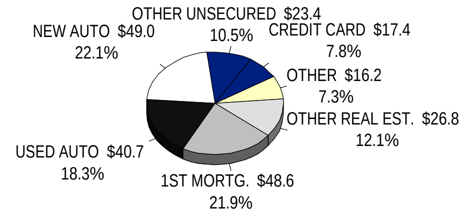
There was no appreciable increase in total unsecured debt from the end of last year; however, this trend coincides with the usual seasonal pattern of flat growth in the first half of the year. Total unsecured loans outstanding amount to $40.8 billion, of which $17.5 billion (42.7%) are outstanding credit card balances.

Because share growth (5.6%) outpaced loan growth (3.9%), the loan to share ratio dropped from 74.6% at the end of last year to 73.4%. The loan to share ratio was 70.42% at the middle of last year.

Loans as a percentage of total assets declined slightly, compared to the end of 1996. Loans constituted 65.4% of total assets at yearend 1996. While loans currently equate to 64.4% of assets, this is still above the midyear 1996 level of 62.1%.

LOAN DISTRIBUTION

(BILLIONS OF DOLLARS)



DELINQUENCY TRENDS: The total dollar amount of delinquent loans remained fairly stable during the first half of this year, declining about 1.0%, while total loans outstanding increased 3.9%. Delinquent loans as a percentage of total loans for midyear 1997 was 1.0%, compared to 1.0% at the end of last year, and 0.9% at midyear 1996. The ratio of net charge-offs to average loans increased slightly, from 0.5% to 0.6%.

DELINQUENCY DISTRIBUTION

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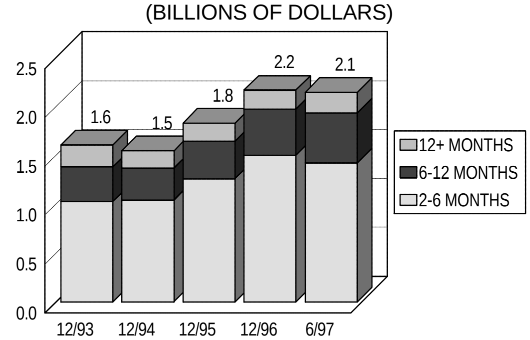
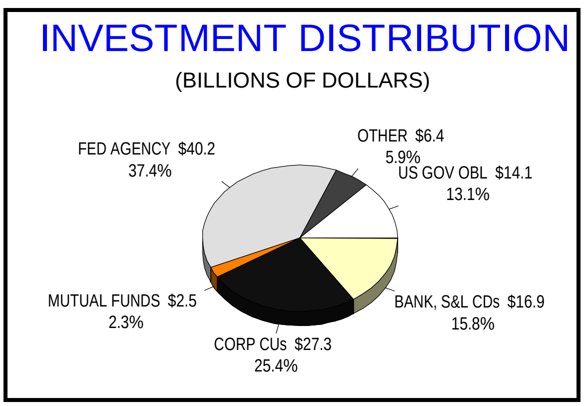


The number of credit union members filing for bankruptcy as of June 30, increased 24.5% in the last 12 months, compared to 19.0% for the receding 12-month period. However, the number of members filing for bankruptcy represents only about 0.2% of all credit union members. The amount of loans subject to bankruptcy, about $690 million, represents slightly more than 0.3% of total loans outstanding.

INVESTMENT TRENDS: Investments increased 9.2% during the first six months of this year, compared to 6.9% for the same period last year. Compared to midyear 1996, investments as a percentage of assets declined, however, from 33.2% to 31.1%.

deposits contributed the most in terms of The increase in corporate credit union dollar volume investment growth during the first half of 1997. Nearly half or $4.5 billion of the total dollar volume increase of $9.1 billion is attributable to deposits in corporate credit unions.

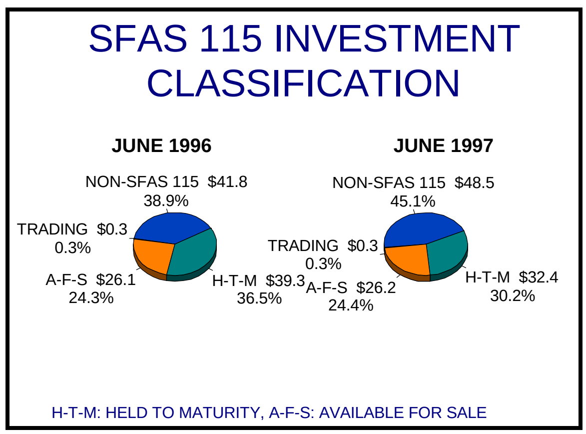
Investments in Federal agency securities were the second most significant contributor to the increase in total investments. Federal agency securities increased $3.0 billion, or 8.0% in the first six months of this year. For the same period last year, increases in Federal agency securities contributed the most to overall growth of the investment portfolio, up $3.3 billion, or 9.1%. However, in the last half of 1996, investments in Federal agency securities declined $2.4 billion, or 6.2%.



During the first half of this year, investments with maturities or repricing intervals under one year increased 13.8%, while investments with maturities between 1 and 3 years increased 1.3%. Investments with maturities between 3 and 10 years increased 9.7%, and investments with maturities greater than 10 years increased 2.8%. The following table compares the changes in the maturity structure of the investment portfolio from yearend 1996 to midyear 1997.

Investment Maturity or Repricing Interval	% of Total Investments Dec. 1996	% of Total Investments June 1997
Less than 1 year	56.3%	58.6%
1 to 3 years	28.9%	26.8%
3 to 10 years	10.2%	10.2%
Greater than 10 yrs	4.6%	4.4%

A comparison of the distribution of the total aggregate investment portfolio according to the classification of SFAS 115[1] for midyear 1996 and midyear 1997 is shown below. Only minor shifts appear between categories. These shifts probably are due to an increased familiarity with SFAS 115 (reclassification), as well as some actual changes in the composition of the portfolio.



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[1] Statement of Financial Accounting Standard (SFAS 115).

EARNINGS

At 8.2%, gross income as a percentage of average assets remained nearly unchanged from the value of the yearend ratio, 8.3%, and the midyear 1996 level of 8.1%. Net operating expenses as a percentage of average assets likewise has remained fairly stable over the past 12 months, increasing slightly from 2.6% to 2.7%.

Credit unions' cost of funds have held steady over the last year, reflecting the stability of prevailing market interest rates during this time. The cost of funds to average asset ratio, 3.6%, changed slightly from one year ago, 3.5%, and is unchanged from yearend 1996.

The relative stability of gross income, operating expenses and the cost of funds has affected the bottom line in a similar manner. Profitability, as measured by the return on average asset ratio changed only one tenth of one percent, from 1.1% to 1.0% over the last year.

ASSET/LIABILITY MANAGEMENT

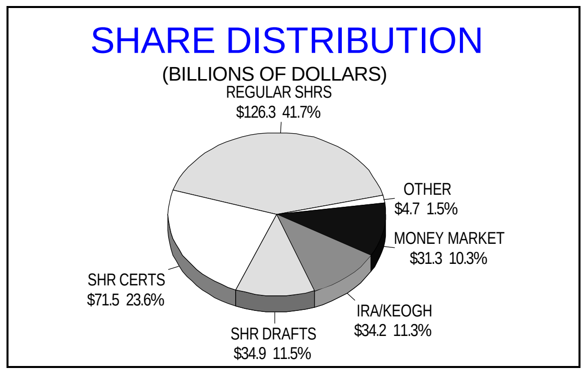
LONG TERM ASSET TRENDS: Long term assets as a percentage of total assets has been on the increase over the last year. Long term assets (assets with maturities or repricing intervals greater than 3 years) currently represent 19.5% of total assets, compared to 19.0% at the end 1996 and 18.6% at midyear 1996.

SHARE TRENDS: All categories of shares expanded in the first half of 1997, and total shares increased 5.6%. This compares with share growth rates of 5.6% in the first half of last year, and 0.5% in the second half of 1996.

The largest increase so far this year has been in share certificates, increasing $5.0 billion, or 7.6%. The second largest increase was in regular shares accounts, which increased $4.4 billion, or 3.6%.

Growth rates for the first half of 1997 for the various share categories are as follows:

- Share drafts, + $2.9 billion, 9.1%
- Regular shares, + $4.4 billion, 3.6%
- Money market shares, + $2.5 billion, 8.8%
- Share certificates, + $5.0 billion, 7.6%
- IRA/Keogh accounts, + $0.5 billion, 1.4%
- All other shares and deposits, + $0.8 billion, 19.9%



During the first half of this year, growth was concentrated in shares with maturities or repricing intervals under one year. These short-term shares increased $13.7 billion, or 5.3%. Shares with maturities or repricing intervals between 1 and 3 years increased 14.5%. In contrast, shares with maturities or repricing intervals greater than 3 years declined 11.3%.

Share Maturity or Repricing Interval	% of Total Shares Dec. 1996	% of Total Shares June 1997
Less than 1 year	90.8%	90.5%
1 to 3 years	7.3%	7.9%
3 or more years	1.9%	1.6%

OVERALL LIQUIDITY TRENDS: During the first half of 1997, share growth ($16.1 billion) outpaced loan growth ($8.4 billion), providing credit unions with about $7.7 billion in additional liquidity. Credit unions appear to have been fairly conservative in the investment of these funds, with about $4.5 billion being placed in corporate credit unions and an additional $1.0 billion being deposited in other financial institutions. Loan growth is typically stronger in the second half of the year, and credit unions appear to be well poised to meet their members borrowing needs in the coming months.