FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1, 2001 to December 31, 2001

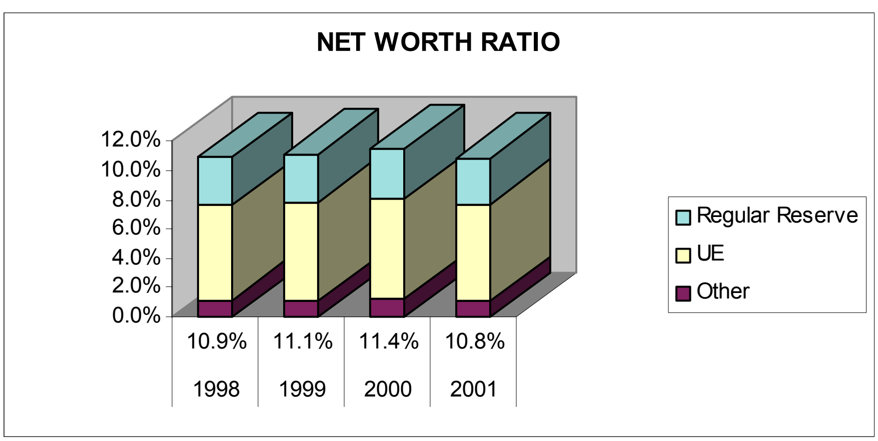
HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of December 31, 2001. The trends discussed for all federally insured credit unions do not necessarily reflect the trends in smaller credit unions. Change is measured from prior year-end (December 31, 2000).

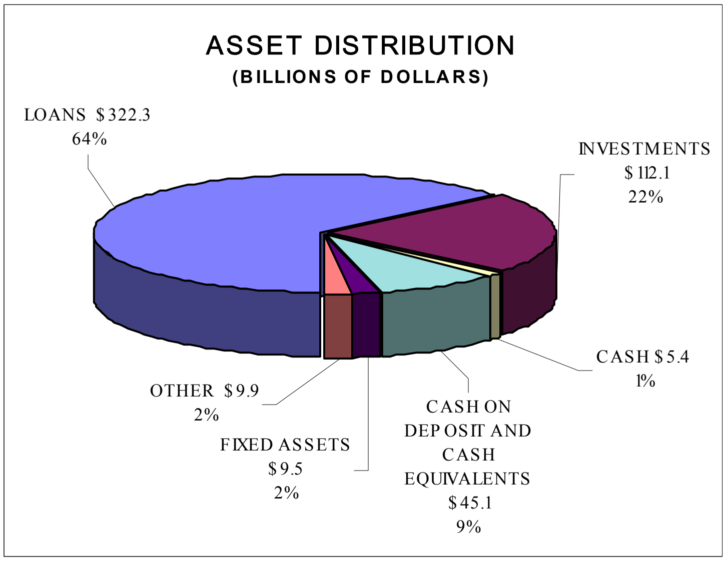
- **Assets** increased $63.2 billion or 14.4%.
- **Capital:** Net worth increased 8.5% or $4.3 billion, while the net worth to assets ratio decreased to 10.8%.
- **Loans** increased $21 billion, or 7%.
- **Shares** increased $57.8 billion or 15.2%. The loan to share ratio decreased to 73.8%.
- ***Cash on hand*, *cash on deposit*, *cash equivalents*, plus short-term investments (less than 1 year)** increased $39.3 billion or 38.6%.
- **Long-term investments (over 1 year)** decreased $17.7 billion or 36.3%.
- **Profitability,** as measured by return on average assets, decreased from 1.02% to 0.96%.
- **Delinquent** loans as a percentage of total loans increased from the year-end 2000 level of 0.74% to 0.85%.

CAPITAL

Total net worth increased $4.3 billion or 8.5% during 2001, compared to a $4.2 billion or 9.2% increase in 2000. The aggregate net worth to total assets ratio decreased from 11.4% at the end of 2000 to 10.8% at the end of 2001, as share growth outpaced net worth growth. On a non dollar-weighted basis (unconsolidated), the average net worth ratio for credit unions was 13.8%.

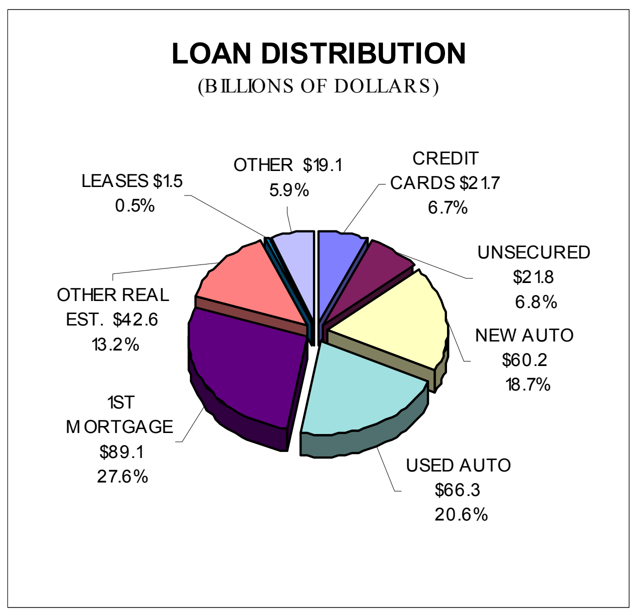


ASSET QUALITY



LOAN TRENDS: Total loans increased $21 billion or 7.0% during 2001. All loan categories increased except *All Other Unsecured Loans* and *New Auto Loans*. Growth in the various categories was as follows:

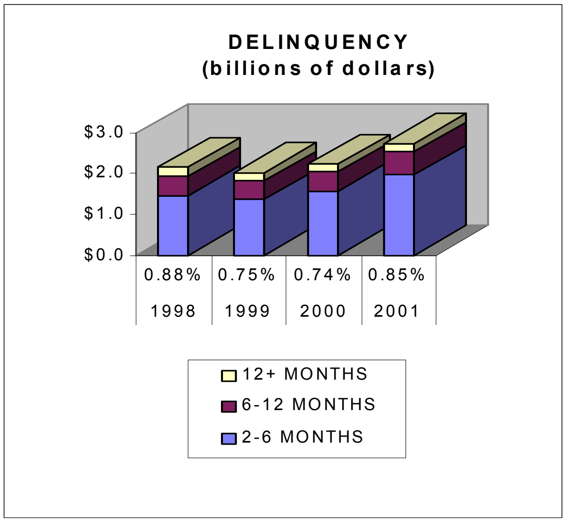
- All other loans increased by $0.3 billion (20.6% increase);
- Other real estate loans increased $2.3 billion (5.8% increase);
- Leases receivable increased $0.1 billion (10.7% increase);
- New auto loans decreased $0.4 billion (0.65% decrease);
- Used auto loans increased $6.3 billion (10.4% increase);
- First mortgage real estate loans increased $12.7 billion (16.7% increase);
- Unsecured credit card loans increased $0.06 billion (0.28% increase); and,
- All other unsecured loans and other member loans decreased $0.5 billion (1.15%).



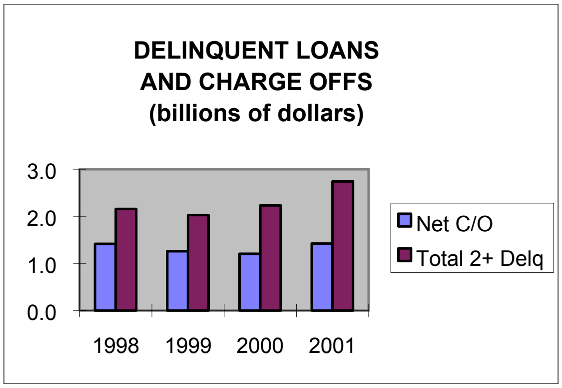
First mortgage real estate loans ($89.1 billion) account for 27.6% of all loans, with $64.5 billion or 72.4% reported as fixed rate. Federally insured credit unions granted $37 billion in fixed rate and $8.9 billion in adjustable rate first mortgage real estate loans in 2001. Credit unions also report $16.5 billion of first mortgages sold in 2001 (includes both fixed and adjustable rates).

The rate of loan growth decreased to 7% from the 11.0% growth rate experienced during 2000. Shares grew at a faster rate than loans (15.2%), causing the loan to share ratio to decrease to 73.8% from the 2000 level of 79.5%.

DELINQUENCY TRENDS: Delinquent loans increased $502.4 million or 22.5%. With the decrease in the loan growth rate, the delinquent loans to total loans ratio increased from 0.74% at the end of 2000 to 0.85% at the end of 2001. After years of declines in the delinquency rate, the 2001 rate represents a break in a downward trend.



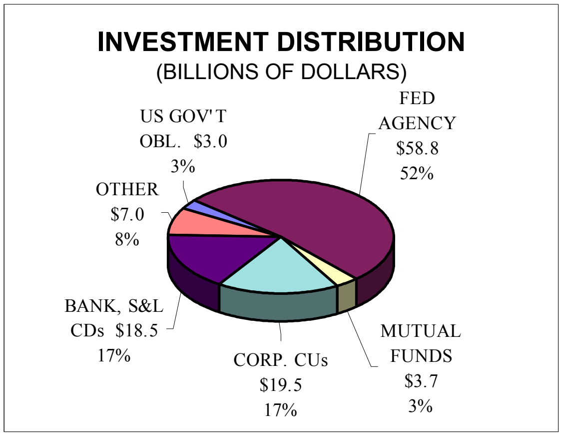
The net charged off loans to average loans ratio also increased from 0.42% to 0.46% during 2001. Loan dollars charged off increased $226.9 million or 15.5% and recoveries on charged off loans increased $12.9 million or 5% compared to 2000.



Federally insured credit unions reported an increase in members filing for bankruptcy in 2001. The number of members filing for bankruptcy increased 17.6% to 225,598 (0.3% of all members), with $1.1 billion in outstanding loans subject to bankruptcy, and another $695 million charged off in 2001 because of bankruptcies. These charge-offs account for 41.1% of all charge-offs during 2001.

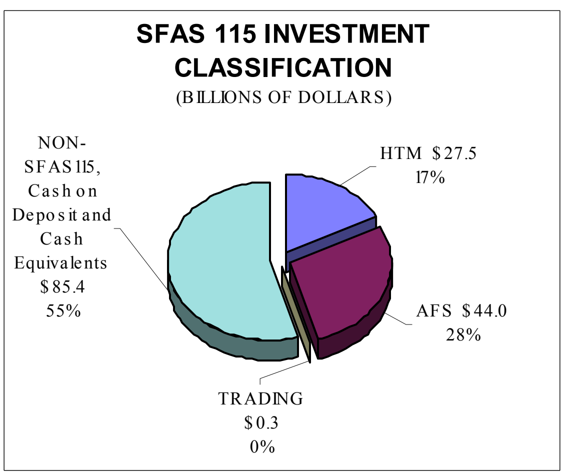
These trends are representative of the economic downturn experienced during 2001.

INVESTMENT TRENDS: Total investments increased $23.2 billion (26.2%) during 2001. All investment categories except *U.S. Government Obligations* increased.



Cash on hand, *cash on deposit*, and *cash equivalents* increased $17.0 billion (50.8%). The combined categories of *cash on hand*, *cash on deposit*, *cash equivalents*, plus investments with maturities of less than one year increased $39.3 billion or 38.62% from December 2000 to December 2001.

Investments with maturities greater than a year increased $17.7 billion (36.28%).



Non-SFAS 115 investments (including cash on deposit and cash equivalents) increased from $57.3 billion to $85.4 billion ($27.9 billion or 48.5%) during 2001.

Held to maturity investments decreased $1.2 billion (4.3%). *Available for sale* investments increased $13.3 billion (43.5%) in total. Trading securities increased $46.2 million, or 18.6%.

At the end of 2001, *held to maturity* and *available for sale* investments made up 45.5% of the investment portfolio (17.5% and 28%, respectively), while *non-SFAS 115 investments, cash on deposit,* and *cash equivalents* accounted for 54.4% of the portfolio (a small amount was classified as trading).

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

Investment Maturity or Repricing Interval	% of Total Investments Dec. 2000	% of Total Investments Dec. 2001
Less than 1 year	58.24%	57.58%
1 to 3 years	27.49%	28.0%
3 to 10 years	12.68%	13.14%
Greater than 10 yrs	1.59%	1.27%

EARNINGS

Net Income increased but the Return on Average Assets decreased during 2001. The return on average assets ratio decreased from 1.02% at the end of 2000 to 0.96% at the end of 2001. The decrease in operating expenses and cost of funds was not sufficient to offset the decrease in gross income and the slight increase in the Provision for Loan Loss Expense experienced during the year. The decrease in loans as a percentage of the credit unions' total assets coupled with a decrease in interest rates were major contributing factors in the return on average assets decreasing during 2001.

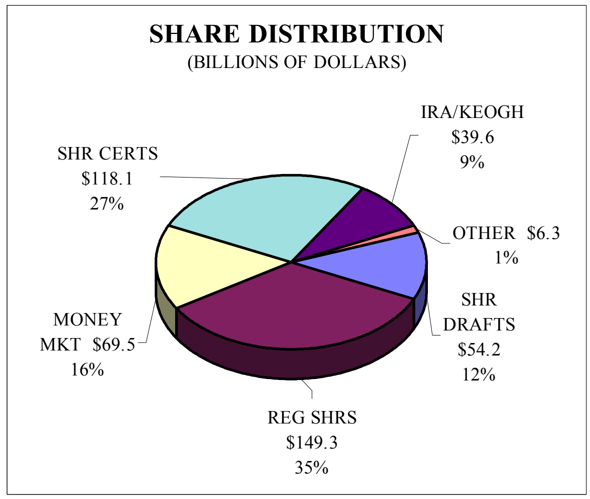
Ratio	As of 12/00	As of 12/01	Effect on ROA
Gross Income	8.28%	7.98%	-0.30bp
Cost of Funds	(3.56%)	(3.36%)	+0.20bp
Operating Expenses	(3.39%)	(3.36%)	+0.03bp
PLL	(0.32%)	(0.33%)	-0.01bp
Non-Opr. Income	.01%	.03%	+0.02bp
ROA	1.02%	0.96%	-0.06bp

ASSET/LIABILITY MANAGEMENT

LONG TERM ASSET TRENDS: Long-term assets increased during 2001. Long-term assets, which have maturities or repricing intervals greater than 3 years (5 years for real estate in 2000), equaled 23.1% of total assets at the end of 2001, compared to 22.7% at the end of 2000.

SHARE TRENDS: Total shares increased $57.8 billion or 15.23% in 2001, compared to 6.3% in 2000. Growth rates for the various share categories are as follows:

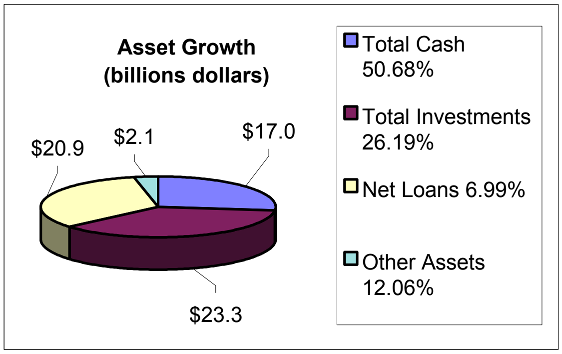
Type of Share Account	Change from 12/31/00 (Millions)	Change from 12/31/00 (%)
Share Drafts	+ $3,700	+7.26%
Regular Shares	+$18,100	+13.81%
Money Market	+$18,900	+37.39%
Certificates	+$13,100	+12.51%
IRA/Keogh	+$3,300	+9.03%
Other Shares	+$738	+17.35%
Non-member Deposits	-$66	-4.72%
Total	+$57,800	



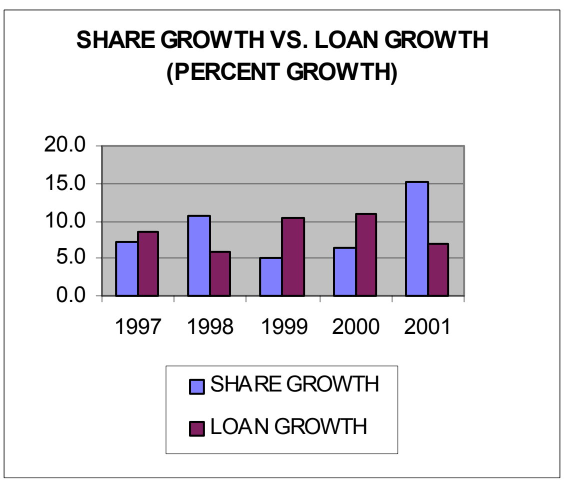
The 15.2% share growth rate was more than double the previous year's rate of 6.3%. Shares with maturities of less than one year increased as a percentage of total shares while shares one year and longer declined as the chart below indicates.

Share Maturity or Repricing Interval	% of Total Shares Dec. 2000	% of Total Shares Dec. 2001
Less than 1 year	89.35%	90.34%
1 to 3 years	8.72%	7.76%
3 or more years	1.93%	1.90%

OVERALL LIQUIDITY TRENDS: At the end of 2001, credit unions had approximately 19.12% of total assets in cash and short-term investments. This represents a 14.17% increase from the end of 2000.



For the first time since 1997, the share growth rate exceeded the loan growth rate. This trend started early in 2001. The uncharacteristically large buildup of credit union shares occurred as the U.S. economy began to show signs of weakening, stock prices experienced downward pressure and consumers slowed spending and borrowing habits. The increase in credit union retained earnings did not keep pace with the buildup in shares. This had the affect of diluting the overall average net worth level. However, the net worth to assets ratio still remains strong at 10.8%.



Total unused commitments were reported at $83.2 billion, up $6.8 billion (8.9%) in 2001. Unused credit card lines were $50.4 billion of the total unused commitments up $3.5 billion (7.5%) since year-end 2000. Unused Revolving Open Lines of Credit secured by 1-4 Family residences increased by $2.7 billion (18.7%). These two open-ended loan products comprise approximately 81.4% of all unused commitments.

The trends reported as of December 31, 2001 indicate that credit union management will need to continue to adjust their balance sheets in relation to unused commitments in an effort to address potential liquidity and funds management needs as the current economic situation improves.

Liquidity risk diminished in 2001 with the large influx of shares and the slowdown in the rate of new loans. Also, credit unions experienced a shortening in the duration of shares and a slight lengthening in the duration of assets. An increased mismatch between assets and liabilities can increase balance sheet exposure to the risk of rapidly rising interest rates. Management should be mindful of this risk as recovery from recent economic weakness takes hold and monetary policy potentially tightens. Additionally, a slight uptrend in delinquency may portend a period of weakening credit. A substantial portion of the portfolio is comprised of relatively unseasoned loans put on the books in the past several years. This too may require more vigilant monitoring.