# FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1, 2001, to September 30, 2001

## HIGHLIGHTS

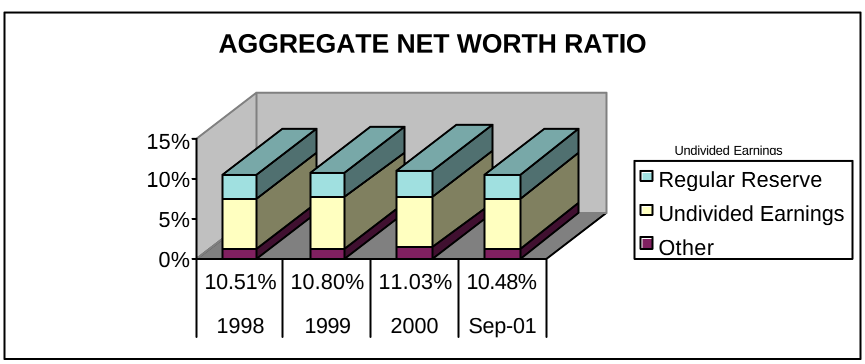
This report summarizes the trends of 1,547 federally insured credit unions with assets greater than $50 million that reported as of September 30, 2001. These credit unions represent 15% of all federally insured credit unions and 83% of all federally insured credit union assets. Although the trends of credit unions with assets greater than $50 million significantly influence the trends of the credit union industry as a whole, they do not necessarily reflect the trends in credit unions with assets under $50 million.

Key financial indicators are noted below:[1]

- **Assets** increased $45.1 billion or 12.81%.
- **Capital:** Net worth increased at a slower rate than assets, $2.8 billion, or 7.22%, and the aggregate net worth to assets ratio decreased from 11.03% at year-end to 10.48%.
- **Loans** increased $15.7 billion or 6.46%.
- **Shares** increased $41.2 billion or 13.51%. Because share growth outpaced loan growth, the loan to share ratio decreased from 79.57% at the end of 2000 to 74.63%.
- ***Cash on hand, cash on deposit, cash equivalents*, plus short-term investments (less than 1 year)** increased $18.7 billion or 36.47%.
- **Profitability** decreased in the third quarter with a 1.01% return on average assets ratio.
- **Delinquent loans** as a percentage of total loans increased from 0.60% at the end of 2000 to 0.62% at the end of the third quarter. Delinquent loan dollars increased 9.61% during this period. The net charge off to average loan ratio increased from 0.40% to 0.43%, compared to the same period last year.

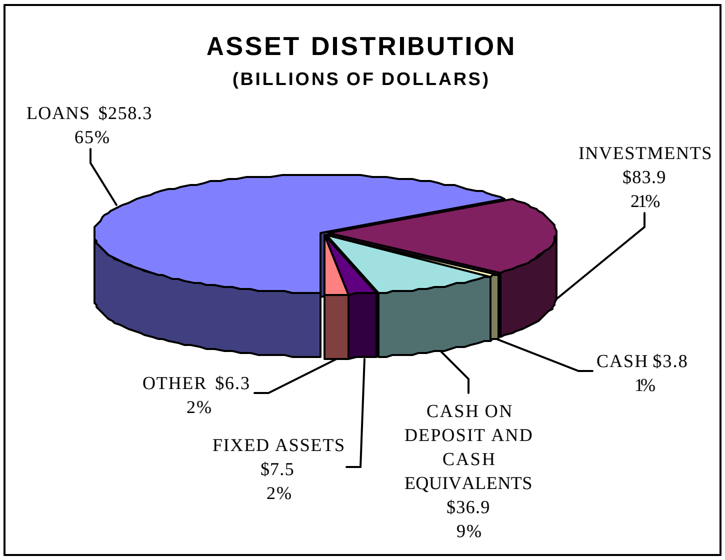
## CAPITAL

Total net worth increased $2.8 billion or 7.22%, while the aggregate net worth to assets ratio decreased from the year-end 2000 level of 11.03% to 10.48%. The average net worth ratio among individual credit unions over $50 million in assets now stands at 10.91%.




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

## ASSET QUALITY

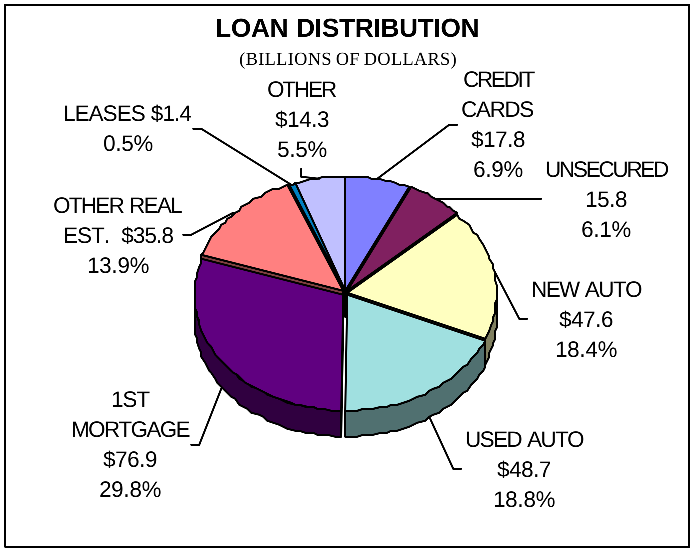



*LOAN TRENDS:* Total loans increased $15.7 billion or 6.46% through the third quarter. All loan categories except *Unsecured Credit Card Loans* and *All Other Unsecured Loans* increased. Growth in the various categories was as follows:

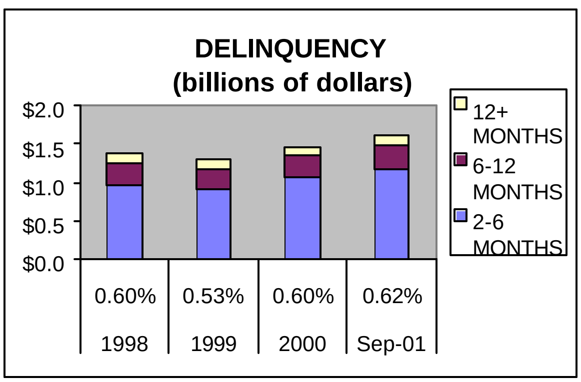
- Unsecured credit card loans decreased $0.7 billion (3.97% decrease);
- All other unsecured loans decreased $0.3 billion (1.78% decrease);
- New auto loans increased $1.5 billion (3.34% increase);
- Used auto loans increased $4.0 billion (9.02% increase);
- First mortgage real estate loans increased $8.3 billion (12.11% increase);
- Other real estate loans increased $2.1 billion (6.29% increase);
- Leases receivable increased $0.1 billion (10.43% increase);
- All other loans and lines of credit to members increased $0.5 billion (3.97% increase); and
- All other loans purchased or to non-members increased $0.1 billion (6.69% increase).

First mortgage real estate loans ($76.9 billion) account for 29.77% of all loans, with $54.1 billion or 70.41% of first mortgage real estate reported as fixed rate. Federally insured credit unions granted $22.7 billion in fixed rate and $5.9 billion in adjustable rate first mortgage real estate loans through September 30, 2001. The $22.7 billion of fixed rate first mortgages granted during the first nine months of 2001 exceeds the $12.1 billion granted during the entire year of 2000. Credit unions also report $10.7 billion of first mortgages sold (includes both fixed and adjustable rates).

Annualized loan growth of 8.59% is the highest level year-to-date, but remains over 400 basis points below the year-end 2000 level. Shares grew at an annualized rate of 17.97%, causing the loan to share ratio to decrease to 74.63%.




*DELINQUENCY TRENDS:* Total delinquent loan dollars increased $141.0 million or 9.61% through the third quarter of 2001, and the delinquent loans to total loans ratio increased from 0.60% to 0.62%.

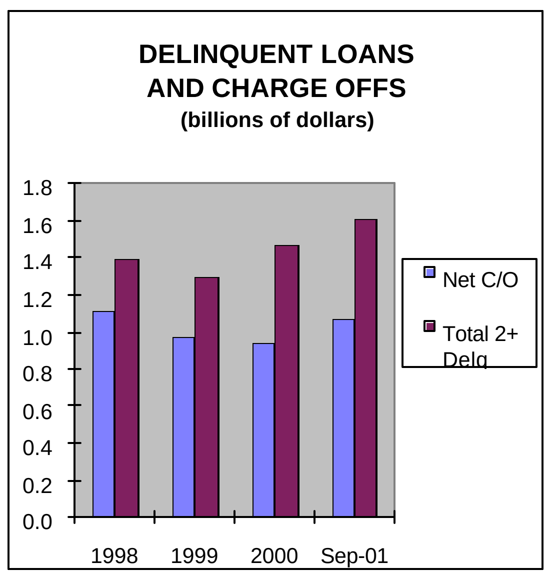



*Unsecured Credit Card Loans* and *Member Business Loans* exhibited significant increases in delinquency compared to the same period last year.

| Loan Category | 2+ Months Delinquent Sept. 2000 | 2+ Months Delinquent Sept. 2001 |
|---|---|---|
| Credit Cards | 1.12% | 1.27% |
| Agriculture MBL | 1.08% | 2.29% |
| Other MBL | 0.53% | 1.23% |

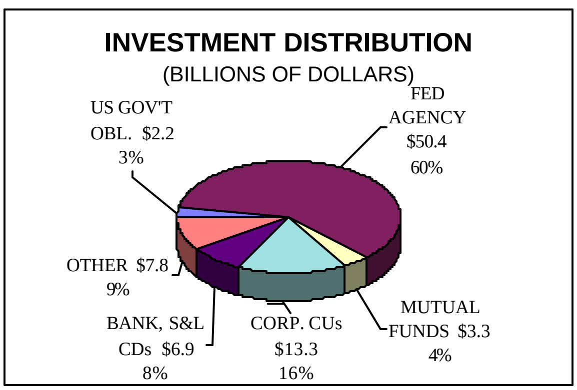
While these loan categories represent only 7.08% of the total loan portfolio, their sensitivity to adverse economic conditions provides an early indication of potential asset quality deterioration.

The net charged-off loans to average loans ratio increased from 0.40% to 0.43%, compared to the same period last year. Charged-off loan dollars increased 15.41% over the same period last year, and recoveries increased 3.89%.



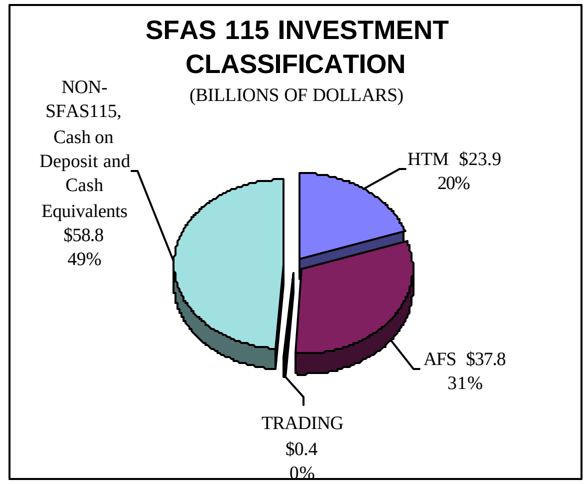
As of September 30, 2001, large credit unions reported $720.8 million of outstanding loans subject to bankruptcy. Another $407.2 million of bankruptcy loans were reported as already charged off through the third quarter of 2001. This accounts for 43.00% of all loans charged off this year. The number of members filing bankruptcy increased 18.06% compared to the number reported for the same period last year, with just 0.23% of all members reporting bankruptcy through the first quarter.

*INVESTMENT TRENDS:* Total investments increased $12.7 billion or 17.85% through the third quarter of 2001. All investment categories except *U.S. Government Obligations* increased.




*Cash on hand*, *cash on deposit*, and *cash equivalents* increased $15.0 billion (58.42%). The combined categories of *cash on hand*, *cash on deposit*, *cash equivalents*, plus investments with maturities of less than one year increased $18.7 billion or 36.47%.

Investments with maturities greater than a year increased $9.3 billion (22.43%).




Non-SFAS 115 investments (including cash on deposit and cash equivalents) increased from $37.6 billion to $58.8 billion ($21.2 billion or 56.27%).

*Held to maturity* investments decreased $2.4 billion (9.25%) in total, with a $0.8 billion increase in maturities of three-to-ten years and decreases in all other maturity categories. *Available for sale* investments increased $9.2 billion (31.95%) in total. Trading securities increased $127.7 million, or 52.11% for the year.

As of September 30, 2001, *held to maturity* and *available for sale* investments made up 51% of the investment portfolio (20% and 31%, respectively), while *non-SFAS 115 investments, cash on deposit,* and *cash equivalents* accounted for 49% of the portfolio (a small amount was classified as trading).

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

| Investment Maturity or Repricing Interval | % of Total Investments Sept. 2000 | % of Total Investments Sept. 2001 |
|---|---|---|
| Less than 1 year | 41.84% | 57.86% |
| 1 to 3 years | 35.01% | 26.85% |
| 3 to 10 years | 20.92% | 13.84% |
| Greater than 10 yrs | 2.23% | 1.45% |

The increase in the less than one-year maturity category is consistent with the increase in *cash on hand*, *cash on deposit*, and *cash equivalents*.

## EARNINGS

The earnings ratios show a decline in gross income compared to the same period in 2000. The gross income to average assets ratio declined 13 basis points while the cost of funds and provision for loan losses expense ratios remained unchanged. A reduction in the operating expense ratio and an increase in the non-operating income ratio (principally gain or loss on investments and other non-operating income) limited the decline of the return on average assets ratio to 9 basis points for 1.01%, as noted in the following table.

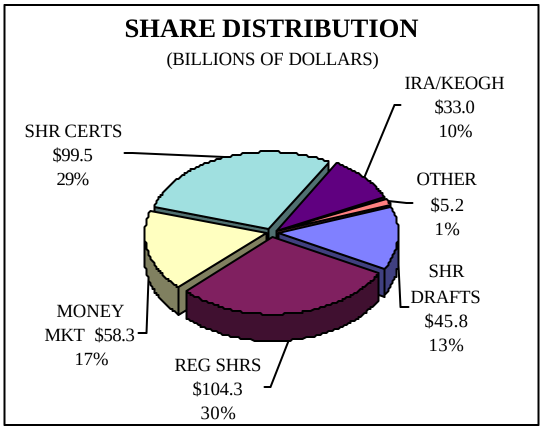
| Ratio | As of 9/2000 | As of 9/2001 | Effect on ROA |
|---|---|---|---|
| Gross Income | 8.18% | 8.05% | - 13 bp |
| - Cost of Funds | 3.56% | 3.56% | 0 bp |
| - Operating Expenses | 3.24% | 3.21% | + 3 bp |
| - PLL | 0.30% | 0.30% | 0 bp |
| + Non-Opr Inc | 0.02% | 0.03% | + 1 bp |
| = ROA | 1.10% | 1.01% | |

## ASSET/LIABILITY MANAGEMENT

*LONG-TERM ASSET TRENDS:* Long-term assets as a percentage of total assets continue to decline, a trend also noted at the end of 2000. Long-term assets, which have maturities or repricing intervals greater than 3 years (5 years for real estate in September 2001), equaled 24.27% of total assets as of September 30, 2001, compared to 27.31% for the same period last year. The percentage decrease in the long-term assets ratio is primarily due to a high level of growth in cash equivalents and short-term investments.

*SHARE TRENDS:* Total shares increased $41.2 billion or 13.51% through the third quarter. Growth rates for the various share categories are as follows:

- Share drafts -- ↑ $3.3 billion, 7.78%;
- Regular shares -- ↑ $10.9 billion, 11.69%;
- Money market shares -- ↑ $12.5 billion, 27.22%;
- Share certificates -- ↑ $11.2 billion, 12.69%;
- IRA/Keogh accounts -- ↑ $2.5 billion, 8.07%;
- Other shares -- ↑ $816.2 million, 24.53%; and
- Non-member deposits -- ↑ $6.6 million, 0.66%.



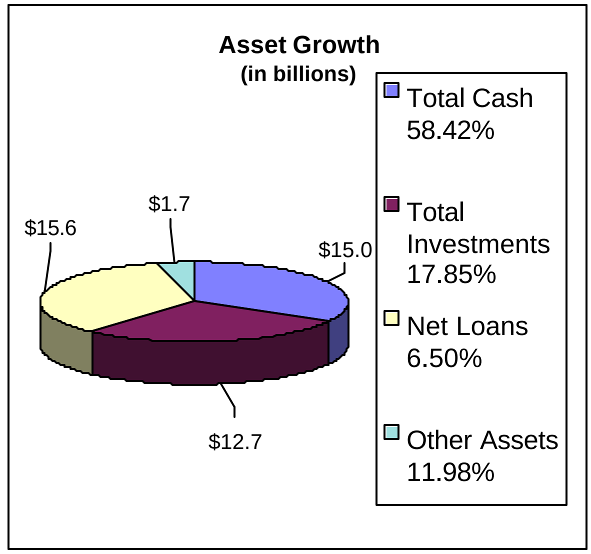

Compared to the same period last year, the largest increase in share dollars is in the less than one-year maturity category, which is consistent with the large dollar growth in share draft, regular share, and money market accounts.

| Share Maturity or Repricing Interval | Shares Sept. 2000 (Billions) | Shares Sept. 2001 (Billions) |
|---|---|---|
| Less than 1 year | 264.2 | 310.0 |
| 1 to 3 years | 25.9 | 28.4 |
| 3 or more years | 6.4 | 7.8 |

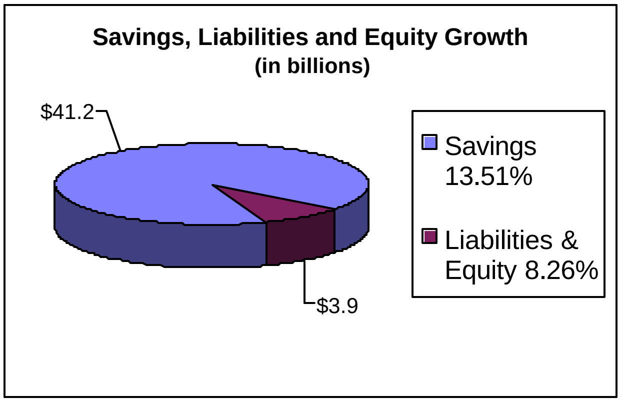
Shares maturing or repricing in less than one year also experienced a higher rate of growth increasing the ratio of shares less than one year to total shares as noted in the following table.

| Share Maturity or Repricing Interval | % of Total Shares Sept. 2000 | % of Total Shares Sept. 2001 |
|---|---|---|
| Less than 1 year | 89.11% | 89.56% |
| 1 to 3 years | 8.73% | 8.19% |
| 3 or more years | 2.16% | 2.25% |

*OVERALL LIQUIDITY TRENDS:* At the end of the third quarter, large credit unions held approximately 18.58% of total assets in cash and short-term investments. This represents a 27.78% increase from the same period last year. Notes payable maintained their year-end 2000 level of $3.5 billion.



Share growth (13.51%) was more than twice that of loan growth (6.46%) through the third quarter of 2001. This represents a significant reversal from the same period last year when loan growth (9.84%) exceeded share growth (5.61%). Typically, credit unions experience strong share growth and minimal loan growth during the first quarter of the calendar year. Then, these trends usually reverse later in the year with loan growth exceeding share growth.




Total unused commitments were reported at $73.2 billion, of which $43.0 billion or 58.86% related to unused credit card lines. Since the third quarter of 2000, unused commitments increased $5.6 billion in total, with $2.1 billion of the increase in unused credit card lines. During the same period, outstanding credit card balances increased $648 million. Growth in unused commitments at 8.28% is consistent with the loan growth ratio.

The third quarter continues the significant share growth trend noted throughout 2001. Loan growth remains modest in comparison, resulting in high levels of cash and moderate levels of investment growth. Liquidity has increased dramatically as evidenced by the large decline in the loan-to-share ratio from 79.5% at year-end to 74.63%.

After several years of steadily improved asset performance, there are emerging signs of possible deterioration in asset quality. While low by historical standards, the delinquency and charge-off ratios are trending higher. Credit unions enjoy a strong capital base and are well positioned to manage higher levels of credit risk. The recent slowdown in the economy may further impact loan performance and result in still higher delinquency and charge-off levels in the next several quarters. Managers should remain cognizant of the effects the recent economic and interest rate environment changes have on the entire balance sheet in order to make sound strategic decisions.