

NCUA LETTER TO CREDIT UNIONS

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

DATE: April 2001

LETTER NO.: 01-CU-05

TO: Federally Insured Credit Unions

**SUBJ: Financial Trend Report
January 1 – December 31, 2000**

DEAR BOARD OF DIRECTORS:

Enclosed is a report highlighting credit union financial trends for 2000. We based our analysis on data compiled from the year-end 2000 call reports submitted by all federally insured credit unions. We are providing this information to keep you informed of current conditions and trends in the credit union industry.

I thank you for your cooperation in providing this data and look forward to any comments you may have.

For the National Credit Union Administration Board,

/s/
DENNIS DOLLAR
Acting Chairman
National Credit Union Administration

Enclosure

FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1, 2000 to December 31, 2000

HIGHLIGHTS

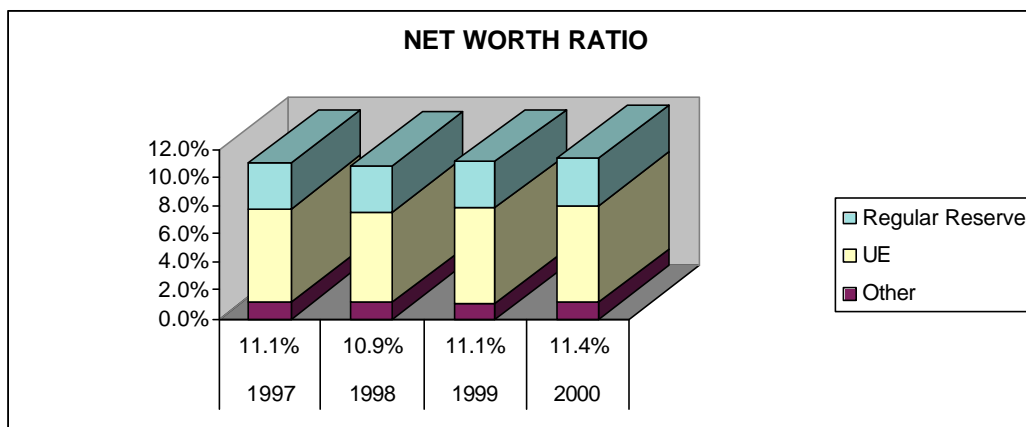
This report summarizes the trends of all federally insured credit unions that reported as of December 31, 2000. The trends discussed for all federally insured credit unions do not necessarily reflect the trends in smaller credit unions.

- ◆ **Assets** increased \$26.8 billion or 6.5%.
- ◆ **Capital:** Net worth increased 9.2% or \$4.2 billion, and the net worth to assets ratio increased to 11.4%.
- ◆ **Loans** increased \$29.8 billion, or 11.0%.
- ◆ **Shares** increased \$22.3 billion or 6.3%. The loan to share ratio increased to 79.5%.
- ◆ **Cash on hand, cash on deposit, cash equivalents, plus short-term investments (less than 1 year)** decreased \$272.8 million or 0.4%.

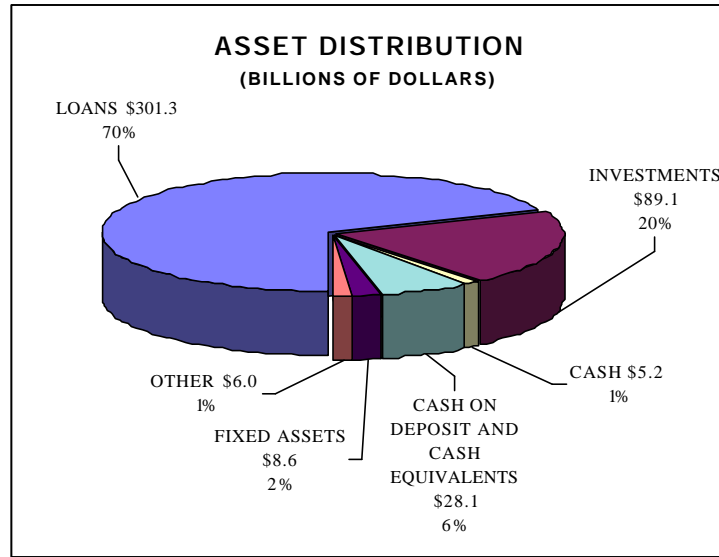
- ◆ **Long-term investments (over 1 year)** decreased \$4.5 billion or 8.4%.
- ◆ **Profitability** increased with a 1.02% return on average assets ratio.
- ◆ **Delinquent** loans as a percentage of total loans declined from the yearend 1999 level of 0.75% to 0.74%.

CAPITAL

Total net worth increased \$4.2 billion or 9.2% during 2000, compared to a \$3.6 billion or 8.4% increase in 1999. The aggregate net worth to total assets ratio increased from 11.1% at the end of 1999 to 11.4% at the end of 2000, as net worth growth outpaced asset growth. The average net worth ratio among individual credit unions now stands at 14.5%.



ASSET QUALITY



LOAN TRENDS: Total loans increased \$29.8 billion or 11.0% during 2000. All loan categories increased. Growth in the various categories was as follows:

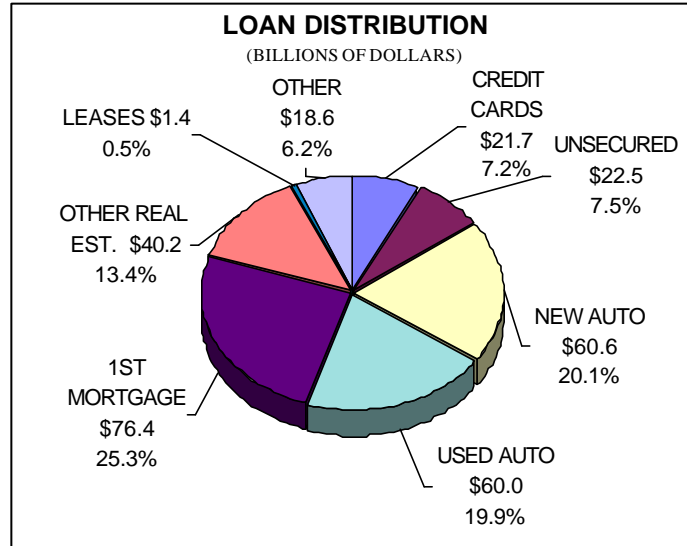
- All other loans increased \$0.4 billion (37.2% increase);
- Other real estate loans increased \$7.1 billion (21.5% increase);
- Leases receivable increased \$0.2 billion (16.8% increase);
- New auto loans increased \$8.2 billion (15.5% increase);
- Used auto loans increased \$5.5 billion (10.1% increase);
- First mortgage real estate loans increased \$5.5 billion (7.7% increase); and

- Unsecured credit card loans increased \$1.5 billion (7.7% increase).

All other unsecured loans and other member loans increased \$0.2 billion (0.8%).

First mortgage real estate loans (\$76.4 billion) account for 25.3% of all loans, with \$54.3 billion or 71.2% reported as fixed rate. Federally insured credit unions granted \$13.8 billion in fixed rate and \$6.4 billion in adjustable rate first mortgage real estate loans in 2000. Credit unions also report \$5.9 billion of first mortgages sold in 2000 (includes both fixed and adjustable rates).

Loan growth of 11.0% was the strongest since 1996. Shares grew at a slower rate than loans, causing the loan to share ratio to increase to 79.5%.

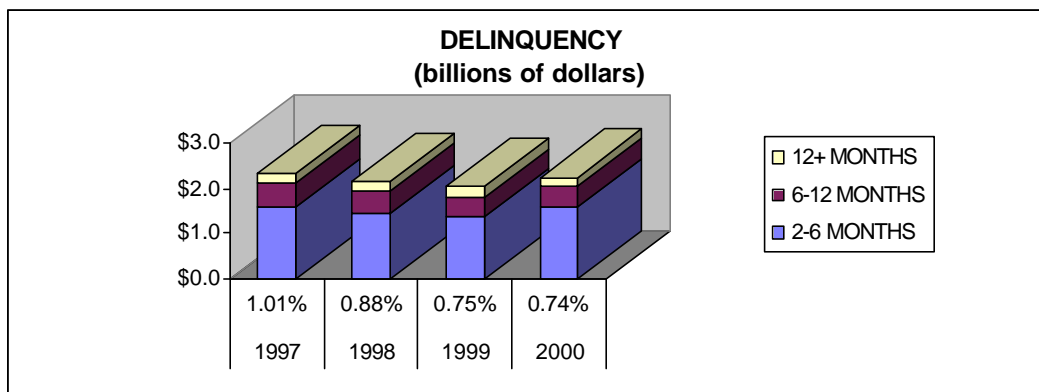


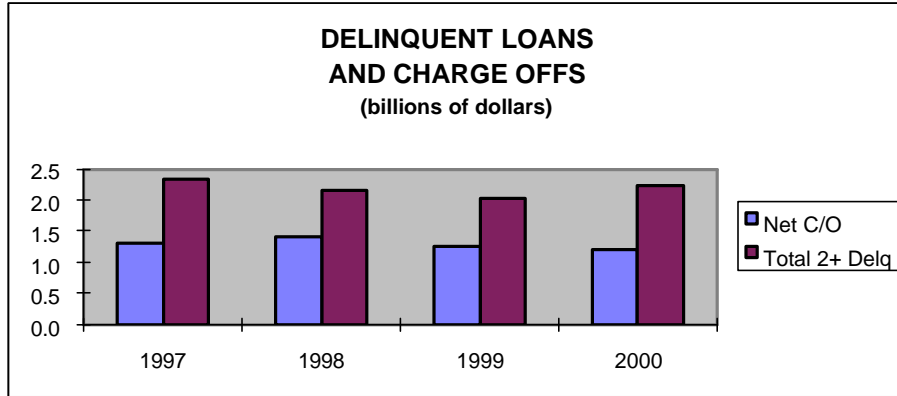
DELINQUENCY TRENDS: Delinquent loans increased \$205 million or 10.1%, while high loan growth reduced the delinquent loans to total loans ratio from 0.75% at the end of 1999 to 0.74% at the end of 2000. This is the lowest delinquency ratio ever noted in federally insured credit unions.

The net charged off loans to average loans ratio also declined from 0.49% to 0.42% during 2000. Loan dollars charged off decreased \$47 million or 3.1% and

recoveries on charged off loans increased 7.1 million or 2.9% compared to 1999.

Federally insured credit unions reported fewer members filing for bankruptcy in 2000. The number of members filing for bankruptcy decreased 11% to 191,814 (0.3% of all members), with \$875 million in outstanding loans subject to bankruptcy, and another \$609 million charged off in 2000 because of bankruptcies.





INVESTMENT TRENDS: Total investments decreased \$11.2 billion (11.2%). Two factors that appear to have contributed to the decrease in investments are:

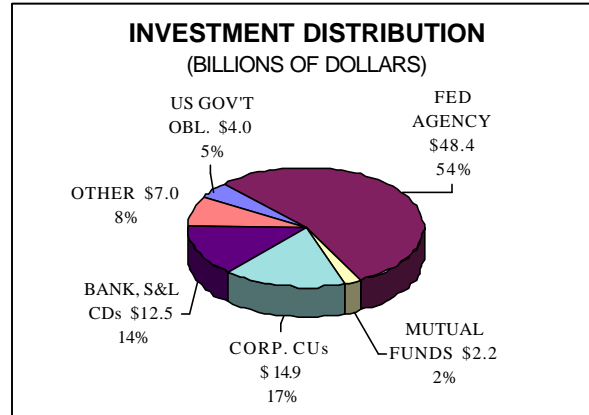
1. the substantial loan growth in 2000 well outpaced share growth, necessitating either a redeployment of maturing investments or liquidation of portfolios to fund new loans; and
2. the sum of *cash on hand*, *cash on deposit*, and *cash equivalents* has grown in 2000 indicating a shift in the classification of liquid funds from investment to cash management.

Cash on hand, *cash on deposit*, and *cash equivalents* increased \$7.0 billion (26.7%), which represents 62% of the corresponding decrease in total investments. The combined categories of *cash on hand*, *cash*

on deposit, *cash equivalents*, plus investments with maturities of less than one year increased \$273 million or 0.4% from December 1999 to December 2000.

Conversely, investments with maturities greater than a year decreased \$4.5 billion (8.4%).

The investment mix also changed. The largest decline (\$6.3 billion or 33.1%) appears in deposits in corporate credit unions (other than membership capital and paid in capital). In part, the decline is likely due to improved reporting of short-term accounts used for cash management purposes such as *cash on deposit*. Other declines include U.S. Government Obligations (\$1.7 billion or 29.6%), certificates of deposit in banks (\$3.0 billion or 19.3%), and mutual funds (\$389 million or 15.3%).



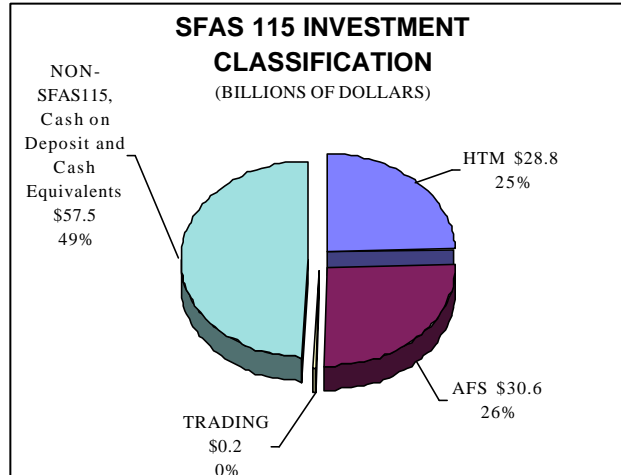
The call report changes required for Prompt Corrective Action include *cash on deposit* and *cash equivalents* with the Non-SFAS 115 investment category in the investment maturity schedule. The inclusion is consistent with the treatment of investments before 1999. For 2000, the analysis will exclude *cash on deposit* and *cash equivalents* when measuring growth for consistency with the 1999, but will include them for the breakdown of the investment portfolio.

Non-SFAS 115 investments declined from \$38.9 billion to \$29.4 billion (\$9.4 billion or 24.2%).

Held to maturity investments decreased \$704.7 million in total, with a \$1.5 billion increase in maturities less than a year and

offsetting decreases in maturities greater than one year. *Available for sale* investments decreased \$1.0 million in total, with a \$844.6 million increase in those investments with maturities less than three years, and offsetting decreases in investments with maturities greater than three years. Trading securities decreased \$46 million, or 15.6% for the year.

At the end of 2000, *held to maturity* and *available for sale* investments made up 51% of the investment portfolio (25% and 26%, 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).



Investments in the less than one year maturity category decreased consistent with the reclassification of shorter-term investments to *cash on deposit* and *cash equivalents* on the call report. Investments with one to three year maturities increased. Investments with maturities greater than three years declined.

Investment Maturity or Repricing Interval	Investments Dec. 1999	Investments Dec. 2000
Less than 1 year	47.3%	45.0%
1 to 3 years	30.9%	36.1%
3 to 10 years	19.4%	16.7%
Greater than 10 yrs	2.4%	2.2%

	% of Total	% of Total

EARNINGS

Earnings improved for 2000, the return on average assets ratio increased from 0.93% at the end of 1999 to 1.02% at the end of 2000. Gross income to average assets (yield) increased due to strong loan growth. The increase is attributable to a shift from lower yielding investments to higher rate loans.

The increase in yield and the decrease in provision for loan losses expense offset the increased operating expenses and cost of

funds. The result is a 0.09% increase in the return on average assets (see table).

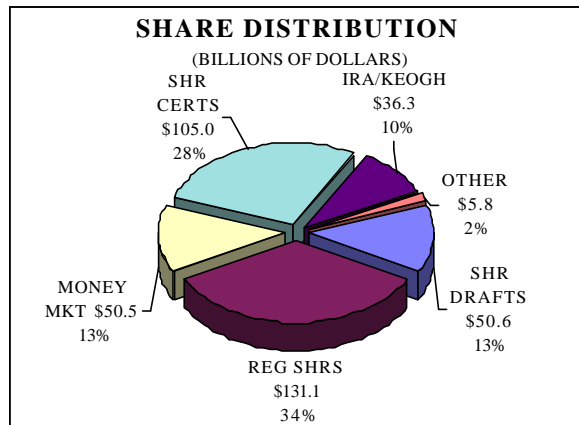
Ratio	As of 12/99	As of 12/00
Gross Income	7.98%	8.28%
Cost of Funds	3.37%	3.56%
Operating Expenses	3.34%	3.39%
PLL	0.34%	0.31%
ROA	0.93%	1.02%

ASSET/LIABILITY MANAGEMENT

LONG TERM ASSET TRENDS: Long-term assets have started to decline as a percentage of total assets. These assets, which have maturities or repricing intervals greater than 3 years (5 years for real estate in 2000), equaled 22.7% of total assets at the end of 2000, compared to 25.0% at the end of 1999.

SHARE TRENDS: Total shares increased \$22.3 billion or 6.3% in 2000, compared to 5.0% in 1999. Share dollars in all categories, except regular shares, increased in 2000, as follows:

- Share drafts -- ↑ \$5.8 billion, 13.0%;
- Regular shares -- ↓ \$3.0 billion, -2.2%;
- Money market shares -- ↑ \$3.1 billion, 6.5%;
- Share certificates -- ↑ \$15.3 billion, 17.1%;
- IRA/Keogh accounts -- ↑ \$0.5 billion, 1.3%;
- Other shares -- ↑ \$32 million, 0.7%; and
- Non-member deposits -- ↑ \$562 million, 68.0%.

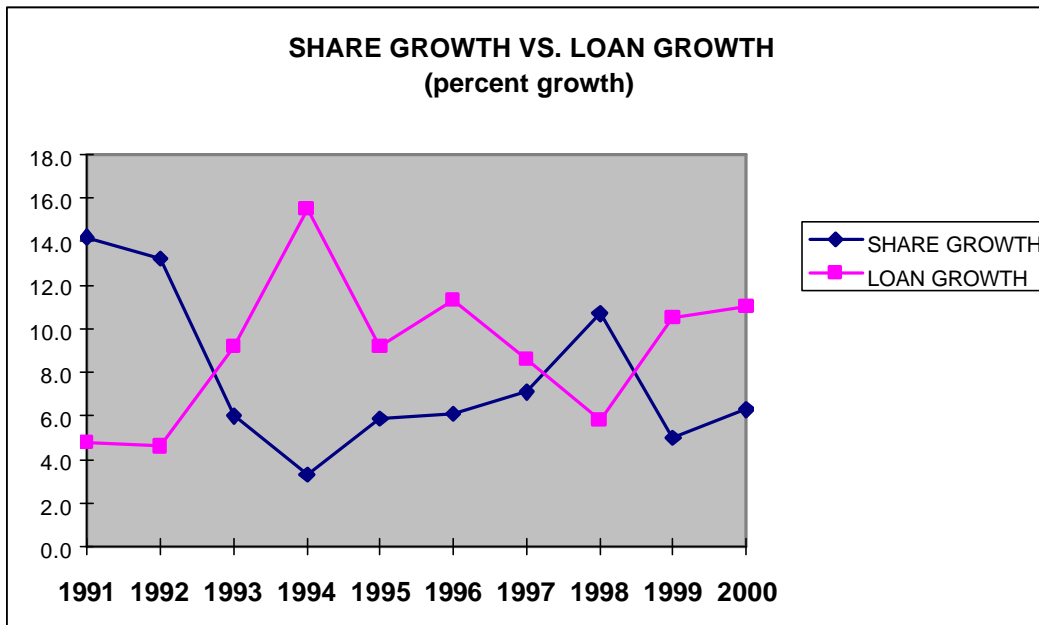


Share growth during 2000 was 1.3% higher than in 1999. Growth was higher for the longer-term maturity ranges, resulting in a slightly longer maturity structure over 1999, as noted in the table to the right:

Share Maturity or Repricing Interval	% of Total Shares Dec. 1999	% of Total Shares Dec. 2000
Less than 1 year	90.7%	89.3%
1 to 3 years	7.6%	8.7%
3 or more years	1.7%	1.9%

OVERALL LIQUIDITY TRENDS: Loan growth has exceeded share growth for seven of the last eight years. The following graph

illustrates loan growth versus share growth trends over the past ten years.



Since 1991, loan growth has exceeded share growth by \$12.7 billion in total. In the past, liquid assets (*cash on hand, cash on deposit, cash equivalents*, and investments with maturities less than 1 year) remained relatively constant at about 23% of assets. However, with continued loan growth in excess of share growth, liquid investments declined to 16.7% of assets despite a \$272.8 million or 0.4% increase in liquid assets.

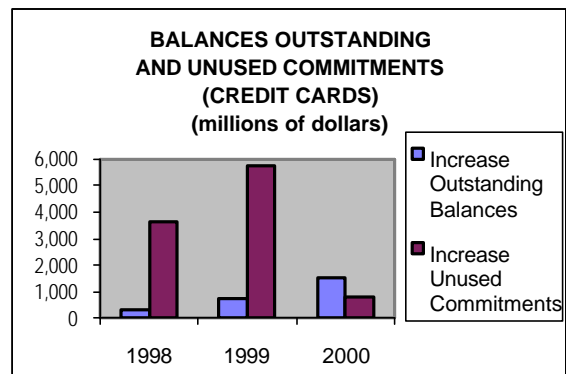
Credit unions have successfully managed high loan-to-share ratios in the past. After many years of excess or adequate liquidity levels, credit unions are once again faced with the challenge of managing in a tighter liquidity situation, while continuing to meet members' needs. Credit unions should take care now to address the potential liquidity demands that have resulted from the robust demand for credit.

Total unused commitments equaled \$6.4 billion, up \$1.0 billion (1.3%) in 2000. This is a significant reduction from the 1999 growth rate of 10.8%. The increase in unused commitments was primarily in home equity lines of credit (HELOCs) and unused credit card lines. Unused HELOCs increased 7.4% (\$1.0 billion) in 2000, compared to 1999's growth of 6.0% (\$768 million) in HELOCs. Decreases in other unused commitments and unused commercial real estate, construction,

and land development commitments moderated the rate of growth.

Unused credit card lines equaled \$46.9 billion, increasing \$787 million or 1.7%. Unused credit card lines account for 61.4% of all unused commitments, unchanged from 1999.

The unused credit card commitments growth rate has substantially declined for 2000. Note the following comparison of growth from 1998 through 2000:



The trends reported as of December 31, 2000 indicate that credit union managers are adjusting their balance sheets and unused commitments in an effort to address liquidity and funds management needs.