NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA

DATE: **September 2001** **LETTER NO.: 01-CU-13**

TO: **Federally Insured Credit Unions**

SUBJ: **Financial Trends for the First Half of 2001**

ENCL: **Financial Trends in Federally Insured Credit Unions January 1, 2001 to June 30, 2001**

DEAR BOARD OF DIRECTORS:

Enclosed is a report highlighting credit union financial trends for the first half of 2001. We based our analysis on data compiled from the midyear 2001 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.

Thank you for your cooperation in providing this data.

Sincerely,

/s/

Dennis Dollar
Chairman

Enclosure

FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1, 2001 to June 30, 2001

HIGHLIGHTS

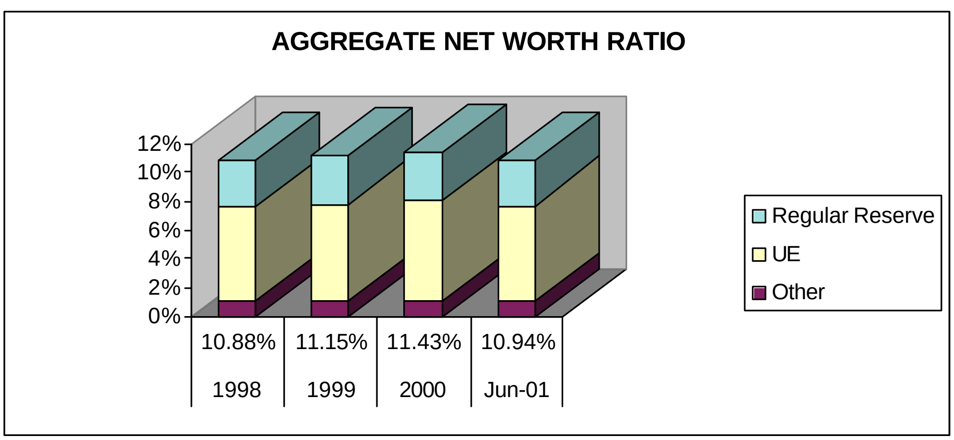
This report summarizes the trends of all federally insured credit unions that reported as of June 30, 2001.

Key financial indicators are noted below:[1]

- **Assets** increased $39.0 billion or 8.90%.
- **Capital:** Net worth increased 4.26% or $2.1 billion, while the net worth to assets ratio decreased to 10.94%.
- **Loans** increased $8.4 billion, or 2.79%.
- **Shares** increased $36.8 billion or 9.71%. The loan to share ratio decreased to 74.45%.
- ***Cash on hand*, *cash on deposit*, *cash equivalents*, plus short-term investments (less than 1 year)** increased $25.1 billion or 36.79%.
- **Long-term investments (over 1 year)** increased $5.1 billion or 10.42%.
- **Profitability** decreased with a 0.96% return on average assets ratio.
- **Delinquent** loans as a percentage of total loans declined from the yearend 2000 level of 0.74% to 0.71%, while **net charge-offs** increased from 0.42% to 0.44% of average loans.

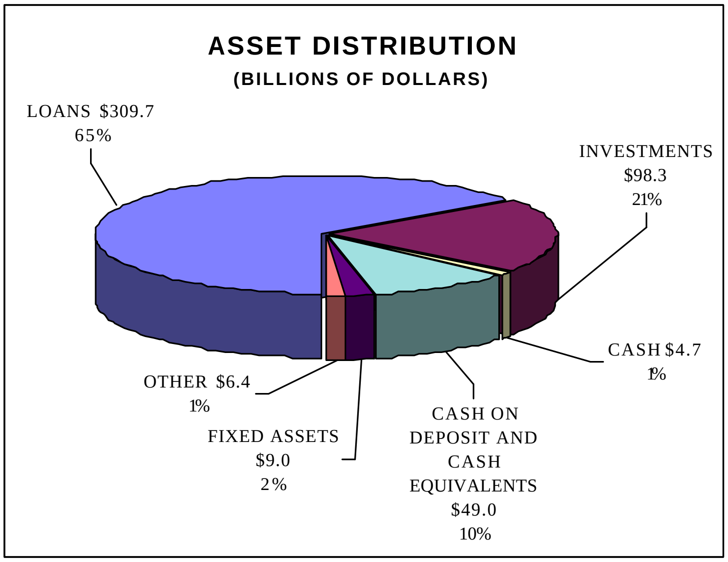
CAPITAL

Total net worth increased $2.1 billion or 4.26% during the first half of 2001, compared to a $2.1 billion or 4.55% increase during the same period last year. The aggregate net worth to total assets ratio decreased from 11.43% at the end of 2000 to 10.94% as of June 30, 2001, as asset growth outpaced net worth growth. The average net worth ratio among individual credit unions decreased from 14.5% at the end of 2000 to 13.97% as of June 30, 2001.



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

ASSET QUALITY

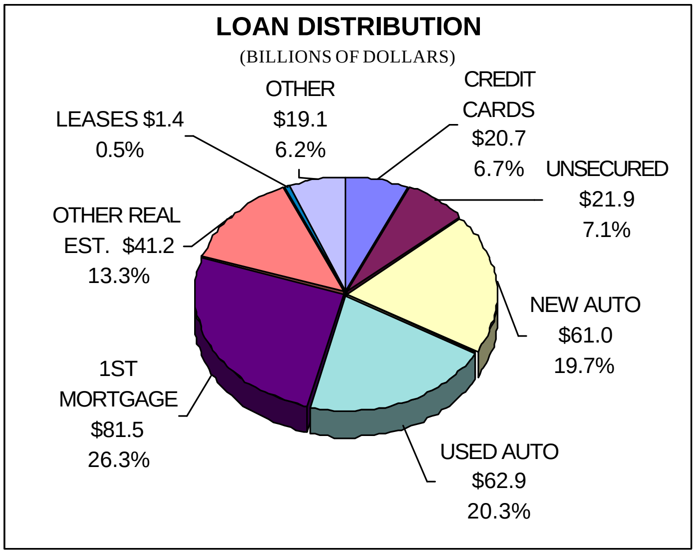


LOAN TRENDS: Total loans increased $8.4 billion or 2.79% through the first half of 2001. All loan categories except *Unsecured Credit Card Loans* and *All Other Unsecured Loans* increased. Growth in the various categories was as follows:

- Unsecured credit card loans decreased $0.9 billion (4.32% decrease);
- All other unsecured loans decreased $0.6 billion (2.65% decrease);
- New auto loans increased $0.4 billion (0.68% increase);
- Used auto loans increased $2.9 billion (4.77% increase);
- First mortgage real estate loans increased $5.1 billion (6.66% increase);
- Other real estate loans increased $1.0 billion (2.44% increase);
- Leases receivable increased $0.1 billion (3.77% increase);
- All other loans and lines of credit to members increased $0.5 billion (2.69% increase); and
- All other loans purchased or to non-members increased $0.1 billion (5.39% increase).

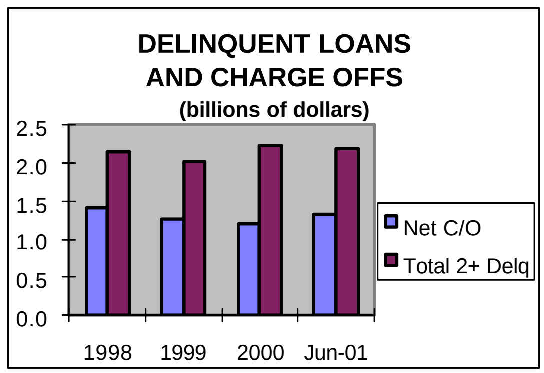
First mortgage real estate loans ($81.5 billion) account for 26.30% of all loans, with $58.1 billion or 71.38% of first mortgage real estate reported as fixed rate. Federally insured credit unions granted $15.4 billion in fixed rate and $3.7 billion in adjustable rate first mortgage real estate loans through June 30, 2001. The $15.4 billion of fixed rate first mortgages granted during the first six months of 2001 exceeds the $13.8 billion granted during the entire year of 2000. Credit unions also report $7.0 billion of first mortgages sold (includes both fixed and adjustable rates).

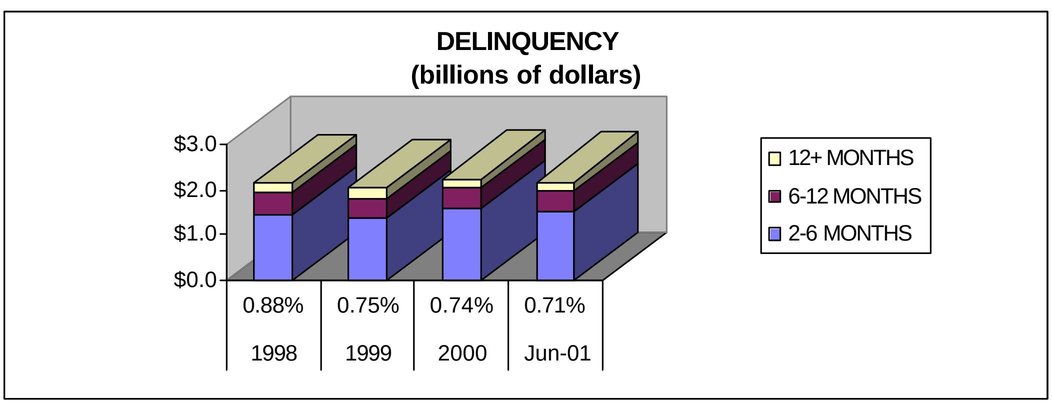
Annualized loan growth of 5.58% was the lowest level since 1992. Shares grew at an annualized rate of 19.41%, causing the loan to share ratio to decrease to 74.45%.



DELINQUENCY TRENDS: Delinquent loans decreased $49.0 million or 2.19% through June 30, 2001, and the delinquent loans to total loans ratio declined from 0.74% at the end of 2000 to 0.71%.

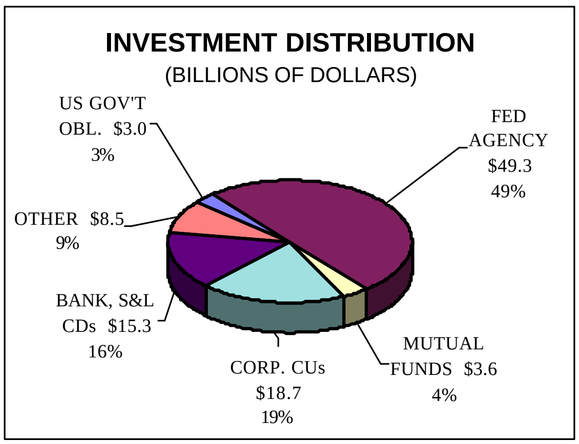
The net charge-off loans to average loans ratio increased from an annualized rate of 0.42% to 0.44%, compared to the same period last year. Charge-off loan dollars increased 11.39% over the same period last year, and recoveries increased 2.94%.





Federally insured credit unions reported $1.2 billion of outstanding loans subject to bankruptcy. Another $325.2 million of bankruptcy loans were reported as already charged off during the first half of 2001. This accounts for 40.61% of all loans charged off this year. The number of members filing bankruptcy increased 17.83% compared to the number reported the same period last year, with 0.16% of all members reporting bankruptcy through the first half of 2001.

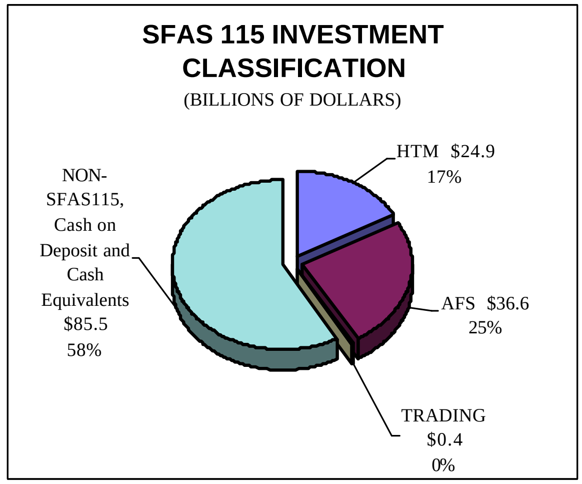
INVESTMENT TRENDS: Total investments increased $9.5 billion (10.65%) through the first half of 2001. All investment categories, except *U.S. Government Obligations*, displayed growth.



Cash on hand, *cash on deposit*, and *cash equivalents* increased $20.3 billion (60.69%). The combined categories of *cash on hand*, *cash on deposit*, *cash equivalents*, plus investments with maturities of less than one year increased $25.1 billion (36.79%) through the first half of 2001.

Investments with maturities greater than a year increased $5.1 billion (10.42%).

The investment category noting the largest dollar growth is deposits in corporate credit unions (other than membership capital and paid in capital) which increased $3.9 billion (30.49%). Mutual funds noted the largest percentage growth at 62.33% ($1.4 billion). U.S. Government Obligations noted the only decline in the first half of 2001 with a decrease of $1.1 billion (26.35%).



Non-SFAS 115 investments increased from $57.5 billion to $85.5 billion ($27.9 billion or 48.56%). *Held to maturity* investments decreased from $28.7 billion to $24.9 billion ($3.8 billion or 13.23%). Av*ailable for sale* investments increased from $30.6 billion to $36.6 billion ($5.9 billion or 19.39%). Trading securities increased from $248.1 million to $361.2 million ($113.0 million or 45.56%).

As of June 30, 2001, *held to maturity* and *available for sale* investments made up 42% of the investment portfolio (17% and 25%, respectively), while *non-SFAS 115 investments, cash on deposit,* and *cash equivalents* accounted for 58% 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 June 2000	% of Total Investments June 2001
Less than 1 year	58.23%	63.34%
1 to 3 years	27.45%	22.93%
3 to 10 years	12.71%	12.31%
Greater than 10 yrs	1.61%	1.42%

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 large growth in deposits experienced this year reduced earnings compared to the same period last year. A slight increase in the gross income to average assets ratio and non-operating income (principally gain or loss on investments and disposition of fixed assets) was not sufficient to cover increases in the cost of funds. The increase in the cost of funds contributed to a lower return on average assets, as noted in the following table.

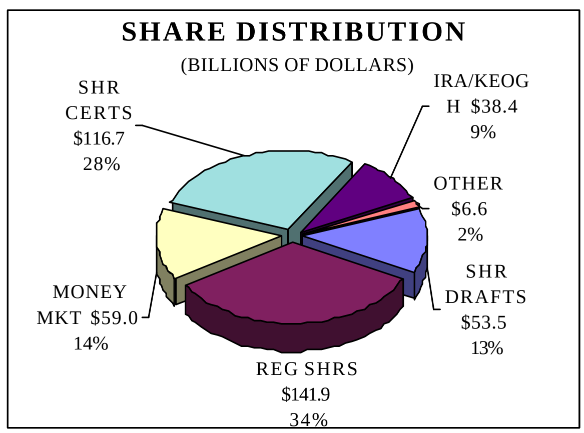
Ratio	As of 06/2000	As of 06/2001	Effect on ROA
Gross Income	8.12%	8.17	+ 5 bp
- Cost of Funds	3.41%	3.59%	- 18 bp
- Operating Expenses	3.37%	3.36%	+ 1 bp
- PLL	0.30%	0.30%	- 0 bp
+ Non-Opr Inc	0.00%	0.04%	+ 4 bp
= ROA	1.04%	0.96%	

ASSET/LIABILITY MANAGEMENT

LONG-TERM ASSET TRENDS: Long-term assets as a percentage of total assets continue the decline noted at the end of 2000. Long-term assets, which are primarily investments and real estate loans having maturities or repricing intervals greater than 3 years (5 years for real estate beginning December 2000), equaled 22.23% of total assets as of June 30, 2001, compared to 25.38% for the same period last year. The decrease in long-term assets is primarily due to a decrease in long-term investments and a high level of growth in short-term assets.

SHARE TRENDS: Total shares increased $36.8 billion or 9.71% through the first half of 2001. Growth rates for the various share categories are as follows:

- Share drafts -- ↑ $2.9 billion, 5.75%;
- Regular shares -- ↑ $10.8 billion, 8.21%;
- Money market shares -- ↑ $8.5 billion, 16.76%;
- Share certificates -- ↑ $11.7 billion, 11.17%;
- IRA/Keogh accounts -- ↑ $2.1 billion, 5.66%;
- Other shares -- ↑ $0.8 billion, 19.56%; and
- Non-member deposits -- ↑ $49.1 million, 3.51%.



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.

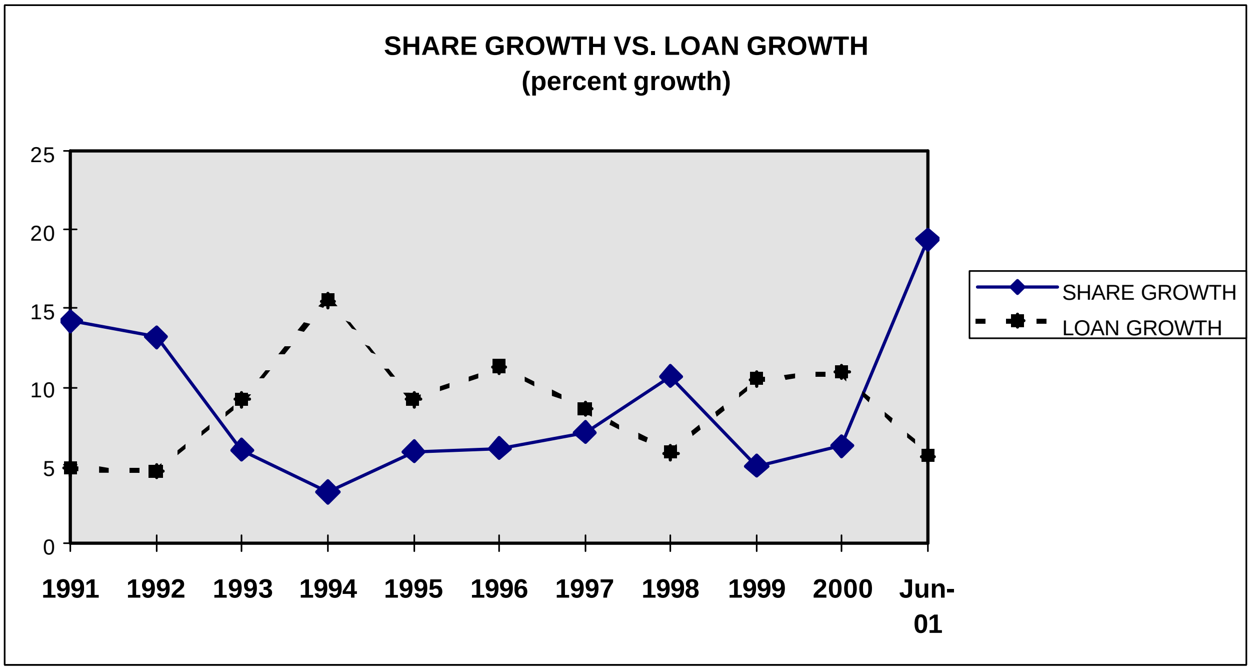
Share Maturity or Repricing Interval	Shares June 2000 (Billions)	Shares June 2001 (Billions)
Less than 1 year	335.1	372.4
1 to 3 years	28.8	35.4
3 or more years	6.7	8.3

Shares with maturities greater than one year experienced a higher rate of growth resulting in a decline in the percentage of shares with maturities less than one year to total shares as noted in the following table.

Share Maturity or Repricing Interval	% of Total Shares June 2000	% of Total Shares June 2001
Less than 1 year	90.41%	89.50%
1 to 3 years	7.78%	8.50%
3 or more years	1.81%	2.00%

OVERALL LIQUIDITY TRENDS: At the end of the first half of 2001, credit unions held approximately 20.55% of total assets in cash and short-term investments. This represents a 26.7% increase from the same period last year and brings the credit unions to their historic level of approximately 20% of assets. Notes payable declined from $3.8 billion at the end of 2000 to $3.1 billion at June 2001.

Annualized share growth (19.41%) was 3.5 times that of annualized loan growth (5.58%) during the first half of 2001. This represents a significant reversal from the same period last year when annualized loan growth (11.66%) was 1.5 times that of annualized share growth (7.67%).


SHARE GROWTH VS. LOAN GROWTH
(percent growth)
25
20
15
10
5
0
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
Jun-01
SHARE GROWTH
LOAN GROWTH

The first quarter saw a significant increase in all categories of savings. Investment growth was also very significant while, conversely, loan growth was rather modest. As a result, on-hand liquidity increased dramatically, as evidenced by the large decline in the loan-to-share ratio from 79.46% at year-end to 74.45%. The combination of an increased inflow of funds, falling market rates and a slight rise in the cost of funds has put pressure on income.

Credit union officials should be cautious when deciding how to deploy the recent inflow of funds. In light of the current economic and interest rate uncertainty, it is risky to make asset decisions without proper analysis of liability conditions. Sound asset liability management policy weighs asset yield considerations against liability pricing decisions.