FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1, 1996 to December 31, 1996

HIGHLIGHTS

This report summarizes the financial trends of federally insured credit unions during 1996. The analysis is derived from the consolidation of Call Reports filed by all federally insured credit unions for the period ending December 31, 1996. The overall trends remained very positive, with continued strong growth and favorable financial ratios. The only area of potential concern may the continued lengthening of asset maturities.

Assets of federally insured credit unions increased 6.6% during 1996.

Capital accumulation continued, increasing 10.8%. The capital to asset ratio at yearend 1996 equals 11.4%.

Loans increased 11.3%, the fourth consecutive year of strong loan growth.

Shares expanded 6.1%.

The **loan to share ratio** now stands at 74.6%, the highest level since 1980.

Investments declined 2.3%.

Profitability remained unchanged, as measured by the return on average assets ratio, 1.1%.

Delinquency remained stable. The current delinquency rate of 1.0% is unchanged from yearend 1995.

CAPITAL

Capital accumulated at the rate of 10.8% during 1996, compared to 12.5% for 1995. The increase in overall capital is primarily

attributable to the increase in undivided earnings, which expanded 13.6% or about $2.5 billion.

The capital ratio increased for the tenth consecutive year, to 11.4%, compared to 11.0% at the end of 1995.

The net capital ratio increased also, from the yearend 1995 measure of 10.3% to 10.8%.

ASSET QUALITY

LOAN TRENDS: Loans as a percentage of total assets increased significantly during 1996. Currently, loans constitute 65.4% of assets, compared to 62.7% at the end of last year.

Total loans outstanding expanded 11.3%, or $21.6 billion, during the last 12 months. Increases in first mortgage real estate loans and in used auto loans were the most significant in terms of dollar volume. First mortgage loans increased 16.1%, contributing an additional $6.3 billion to the total credit union loan portfolio. Used auto loans increased 21.1%, an additional $6.4 billion over last year.

The total of new and used auto loans make up 40.2% of all outstanding loans. New auto loans continue to make up the single largest loan category, but their rate of growth since 1994 has gradually slowed. Last year, new auto loans made up 24.2% of the total loan portfolio, compared to 22.9% today. Growth in used auto loans outpaced new auto lending during 1996, and has increased their relative contribution to the total loan portfolio, from 15.9% to 17.3%.

Of all the different types of loans that credit unions make, first mortgage real estate loans comprise the second largest

percentage of the total loan portfolio, 21.3%. The total of *all* real estate loans, however, makes up 33.1% of all outstanding loans. Their relative contribution to lending in the last few years has been steady, and their portion of the overall loan mix has remained fairly constant.

Unsecured loans comprise 19.5% of all loans at credit unions. While this percentage has only changed marginally over the last couple of years (declining about one percent since 1994), there has been a slight shift between the two categories of unsecured loans. Signature loans are gradually declining as a percentage of total loans, while credit card lending is on the rise. Signature loans declined from 13.0% of the total loan portfolio in 1994 to 11.4% today. Outstanding balances on credit union members' credit cards currently make up 8.1% of total outstanding loan balances, compared to 7.4% at the end of 1994.

Although the increase in outstanding credit card balances is a significant trend, the changes have *not* been dramatic. Credit card debt at credit unions has increased, on average, between 14.5% and 16% per year for the last three years. And, as mentioned above, they have slightly increased as a percentage of total loans outstanding. In the financial news over the last several months, concerns have been raised regarding soaring consumer debt ratios, particularly as they relate to credit card debt. At the same time, banks have reported increasing credit card loan charge offs. So far, these trends have been confined to banks, not credit unions.

DELINQUENCY TRENDS: The total dollar amount of delinquent loans increased $350 million. Delinquent loans as a percentage of total loans for yearend 1996 was 1.0%, and remains unchanged from last year's level. The ratio of net charge-offs to average loans increased slightly, from 0.4% to 0.5%.

The number of credit union members with loans that filed for bankruptcy increased 24.2% in the last 12 months. However, this number, a little over 200,000, represents less than 0.3% of all credit union members. The amount of loans subject to bankruptcy, about $982 million, represents a little less than 0.5% of total loans outstanding.

INVESTMENT TRENDS: Investments decreased 2.3% during 1996, compared to a decline of 0.9% for 1995. Investments declined in order to fund growing loan demand. Investments as a percentage of assets declined, from 32.8% to 30.1%.

While most categories of investments declined, one significant exception was in Federal agency securities, which increased 2.4%, or nearly $900 million. The increase was primarily in mortgage-backed securities, which have been providing a marginally higher yield than other types of investments.

Deposits in corporate credit unions registered the most significant drop, declining $2.0 billion, or -8.1%.

The aggregate maturity structure of the investment portfolio is lengthening. During 1996, investments with maturities or repricing intervals under one year declined 10.5%, while investments with maturities between 1 and 3 years increased 8.6% and investments with maturities greater than 3 years increased 15.2%. The following table compares the changes in the maturity structure of the investment portfolio from yearend 1995 to yearend 1996.

Investment Maturity or Repricing Interval	% of Total Investments Dec. 1995	% of Total Investments Dec. 1996
Less than 1 year	61.4%	56.3%
1 to 3 years	26.0%	28.9%
3 or more years	12.6%	14.8%

A comparison of the distribution of the total aggregate investment portfolio according to the classification of SFAS 115[2] for yearend 1995 and yearend 1996 is shown below. Only minor shifts appear between categories. These shifts are probably due to an increased familiarity with SFAS 115 (reclassification), as well as some actual changes in the composition of the portfolio.

2 Statement of Financial Accounting Standard (SFAS 115). Data for non-SFAS 115 investments and Held to Maturity were reported as one category during 1995. Data for non-SFAS investments were estimated by summing the amounts for Deposits in Corporate Credit Unions, Deposits in Banks and S&Ls, Deposits in and Loans to Other Credit Unions, and the NCUA Share Insurance Capitalization Deposit.

EARNINGS

At 8.3%, gross income as a percentage of average assets increased slightly from the value of the yearend 1995 ratio, 8.1%. Net operating expenses as a percentage of average assets likewise has remained fairly stable over the past year, 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 the yearend 1995 value of 3.5%.

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, has held steady at 1.1% over the last year.

ASSET/LIABILITY MANAGEMENT

LONG TERM ASSET TRENDS: The increases in longer term investments and lending so far this year have resulted in a higher proportion of long term assets. Long term assets (assets with maturities or repricing intervals greater than 3 years) currently represent 19.0% of total assets, compared to 17.5% at the end of 1995.

LOAN TO SHARE RATIO: Because loan growth (11.3%) notably surpassed share growth (6.1%), the loan to share ratio increased from 71.1% at the end of last year to 74.6%. The loan to share ratio has been steadily increasing since 1992, and is at the highest level since 1980.

SHARE TRENDS: All major categories of shares expanded during 1996, and total shares increased 6.1%. This compares with share growth rates of 5.9% for last year, and 3.3% during 1994.

By far the largest increase was in share certificates, which increased 15.1%. The $8.7 billion increase in share certificates is responsible for half of the increase in total savings during 1996. The second most significant contribution to the increase in total savings was money market share accounts which increased 14.6%, an additional $3.7 billion over last year.

Although the increase was small, for the first time in three years, regular shares expanded. Regular shares increased 1.2%, an additional $1.5 billion over last year.

Growth rates for 1996 for the various share categories are as follows:

- Share drafts, + $1.7 billion, 5.6%
- Regular shares, + $1.5 billion, 1.2%
- Money market shares, + $3.7 billion, 14.6%

- Share certificates, + $8.7 billion, 15.1%
- IRA/Keogh accounts, + $0.9 billion, 2.7%
- All other shares and deposits, + $0.1 billion, 3.9%

The aggregate maturity structure of shares in credit unions did not change much from last year. The relative percentages of short and long term shares did not shift significantly.

Share Maturity or Repricing Interval	% of Total Shares Dec. 1995	% of Total Shares Dec. 1996
Less than 1 year	90.4%	90.8%
1 to 3 years	7.3%	7.3%
3 or more years	2.3%	1.9%

OVERALL LIQUIDITY TRENDS: The strong loan demand during 1996 could not be totally funded by the increase in shares. Loans outstanding increased 11.3%, or $21.6 billion while shares grew 6.1% or $16.5 billion. In order to meet their members' needs, credit unions disposed of investments and moderately increased their borrowing in order to make more loans. While the shift toward increased lending is clearly positive, it is important to consider funding sources for any future expansions in lending. The ideal source is from share growth, of course. But lacking that, credit unions will have to dispose of additional investments or borrow money. The current trend toward longer term investing may limit the funding options available to meet future loan demand.