NCUA LETTER TO CREDIT UNIONS

DEAR BOARD OF DIRECTORS:

Enclosed is a report highlighting credit unions' financial trends during 1993. The analysis is based on data compiled from the year-end 1993 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.

For the National Credit Union Administration Board,

NORMAN E. D'AMOURS Chairman

Enclosures

Financial Trends in Federally insured Credit Unions January 1, 1993 to December 31, 1993

HIGHLIGHTS

Overall, 1993 was a very good year for credit unions. During 1993, total assets of federally insured credit unions increased 7.3%. Capital accumulated at the rate of 17.6%, the 8th consecutive year of strong capital growth. Loan growth, 9.2%, was the highest percentage increase since 1988, and for the first time since 1989, loan growth exceeded share growth (6.0%). Delinquency declined again, as it has since 1987, and currently measures 1.1% of total loans. Investments increased 5.0% during 1993, a significantly reduced level in comparison to 1992 and 1991 when investments grew 28.3% and 34.8%, respectively. Federally insured credit unions were able to maintain stable levels of profitability by lowering their cost of funds, while continuing to attract member deposits.

CAPITAL

During 1993, capital2 grew 17.6%, the 8th consecutive year of strong capital accumulation in federally insured credit unions. The ratio of capital to total assets currently measures 9.7%, compared to 8.9% at the end of 1992. The net capital3 to total assets ratio registers 9.0%, compared to 8.0% at the end of last year.

Growth in capital during 1993 was made possible by the positive bottom-line demonstrated by federally insured credit unions. Contributing most significantly to the growth in total capital was its single largest component, undivided earnings, which increased $2.6 billion, or 24.3%.

The ratio of capital to total loans has increased from 16.4% at the end of 1992 to 17.7% at yearend 1993. This ratio has continued to expand since 1989 when the ratio measured 11.9%. From 1989, through 1993, capital growth significantly and consistently outpaced loan growth.

ASSET QUALITY

LOAN TRENDS: During 1993, loans increased 9.2%, the largest percentage increase since 1988. For the first time since 1989, loan growth exceeded share growth, and the resulting loan to share ratio moved up to 61.7%.

In terms of dollar volume, loan growth was concentrated in vehicle loans, which contributed $7.3 billion of the $12.8 billion increase in the total 1993 loan portfolio. Used vehicle loans, in particular, exhibited the largest increase, both in dollar volume growth (+$4.3 billion) and percentage increase from last year (25.0%). The second highest single contribution to growth in total loans was by first mortgage real estate loans, increasing $3.5 billion (12.1%) during 1993. Real estate loans other than first mortgages declined $1.0 billion, or -5.2%. While unsecured loans did not exhibit increases as high as used vehicle loans or first mortgage loans, they expanded 2.6% and comprise the largest percentage of the total loan portfolio (21.7%).

In recent years, real estate loans have gained momentum as a percentage of the total loan portfolio. While they continue to contribute significantly as a portion of total loans, their momentum appears to be slowing. Total real estate loans currently comprise 34.0% of total loans, compared to 35.3% at the end of 1992.

Other important real estate loan activity includes:

* Of the $51.7 billion in real estate loans outstanding at yearend 1993, $23.1 billion, or 42.8% of all real estate loans, will either refinance, reprice or mature within 3 years.

* $9.8 billion in first mortgage real estate loans were sold on the secondary market, an increase of 43.9% over last year.

* $25.4 billion in real estate loans were granted during 1993.

* Of real estate loan originations, fixed rate real estate loans (both first mortgage and other real estate loans) increased 21.6%, while adjustable rate real estate loans declined 8.5%.

DELINQUENCY TRENDS: The ratio of delinquent loans to total loans declined again during 1993. Delinquency measured 1.1% at yearend 1993, and has been gradually and consistently edging downward since 1987. The total dollar volume of delinquent loans has actually been declining since 1990, and the most recent decline during 1993 (-10.1%), brings the total amount of delinquent loans down to $1.6 billion. During 1993, loans delinquent 2 to 6 months declined 5.6%; loans delinquent 6 to 12 months declined 11.5%; and loans delinquent 12 months or more declined 24.6%.

The delinquency rate for all real estate loans 2 or more months delinquent is 0.7%. The delinquency rates for each individual type of real estate loan were below the delinquency level for the entire loan portfolio:

* First mortgage, fixed rate: 0.8%

* First mortgage, adjustable rate: 0.8%

* Other real estate, fixed rate: 1.0%

* Other real estate, adjustable rate: 0.5%

While delinquency has been on the decline, the net charge-off to average loan ratio has edged slightly lower also. Net charge-offs to average loans measured 0.5% at yearend 1993, compared to 0.6% at the end of 1992 and 0.7% at the end of 1991.

INVESTMENT TRENDS: Total investments increased 5.0% during 1993, a dramatic slowdown when compared with investment growth during 1992 and 1991 which registered 28.3% and 34.8%, respectively. The significantly lower rate of investment growth is, of course, primarily due to the relative acceleration in loan growth during 1993.

Of the individual types of investments making up the entire portfolio, investments in federal agency securities registered the largest increase, both in terms of dollar volume (+$6.3 billion) and percentage growth (25.1%). Dollar volume increases were also significant in U.S. government obligations which added $1.7 billion to the 1993 investment portfolio, an increase of 10.2%. Deposits in corporate credit unions declined 8.2%, representing an outflow of $2.8 billion.

The maturity distribution of investments changed slightly. Investments maturing or repricing in less than 1 year declined 2.2%, and currently represent 56.6% of the total investment portfolio, compared to 60.8% at the end of 1992. Investments maturing or repricing in 1 to 3 years increased $3.8 billion, or 13.3% over last year, while investments maturing or repricing in more than 3 years increased $2.9 billion (21.5%).

EARNINGS

During 1993, federally insured credit unions were able to maintain stable levels of profitability, as measured by the ratio of net income to average assets[4]. Operating expenses as a percent of average assets declined slightly, while gross income as a percent of average assets declined more significantly. Credit unions were only able to prevent a downward swing in the bottom-line by significantly reducing their cost of funds. Lowering the cost of funds was an appropriate strategy for 1993, and in line with the trends of prevailing market interest rates throughout the economy. However, when interest rates turn around and eventually begin a steady rate of increase, credit unions will have to find alternative means for maintaining the net income figure.

1992 1993 Change

Gross Income to Average Assets

8.8%

7.8%

-1.0%

Operating Expenses (Gross) to Average Assets

3.1%

3.0%

-0.1%

Cost of Funds to Average Assets

3.9%

3.1%

-0.8%

Provision for Loan Losses to Average Assets

0.4%

0.3%

-0.1%

Net Income (before transfers) to Average Assets

1.4%

1.4%

0.0%

Net Income (after transfers) to Average Assets

1.3%

1.3%

0.0%

LIQUIDITY

The percentage of assets with maturities exceeding 3 years increased during 1993. Currently, 18.4% of total assets are long-term, compared to 17.3% at the end of last year. As mentioned before, real estate loans, which are generally longer term than other types of loans, contributed significantly to asset growth during 1993, and are partially responsible for the change evidenced in the long-term asset ratio. Also contributing to the upward shift in long-term assets is the increasing maturity of the investment portfolio. Investments with maturities or repricing intervals exceeding 3 years increased $2.9 billion, or 21.5% during 1993.

SHARE TRENDS: Total shares increased 6.0% during 1993, the slowest rate of growth since 1989, and significantly lower than the 13.2% growth rate experienced during 1992. In terms of dollar volume, regular shares contributed the most significantly to total share growth, increasing $10.1 billion during 1993. Growth rates for the various share categories are as follows:

* Share drafts increased 7.7%

* Regular shares increased 8.5%

* Money market shares increased 7.3%

* Share certificates declined 0.1%

* IRA/Keogh accounts remained stable

* All other shares and deposits increased 7.6%

Short-term shares, or shares maturing or repricing in less than 1 year, accounted for the majority of the growth in total shares. Shares maturing or repricing in less than 1 year increased $11.9 billion during 1993 (5.4%). Shares categorized as maturing or repricing in 1 to 3 years increased 10.0% (an increase of slightly less than $1 billion) and shares in the exceeding 3 year category grew 41.2% (+$1.0 billion).

REGIONAL COMPARISONS

The following table and the graphic presentation attached to this report show regional comparisons of key ratios and trends.

DECEMBER 1993 RATIOS

Region I

Region II

Region III

Region IV

Region V

Region VI National Average

Capital to Assets

10.3%

9.0%

10.2%

9.9%

9.5%

9.6%

9.7%

Net Capital to Assets

9.2%

8.4%

9.4%

9.2%

8.8%

9.0%

9.0%

Delinquency

1.9%

1.1%

1.0%

1.0%

0.8%

0.9%

1.1%

Net Charge-Offs

0.8%

0.5%

0.4%

0.4%

0.4%

0.6%

0.5%

Fixed Assets & OREOs

1.6%

1.4%

1.8%

1.8%

1.9%

1.9%

1.7%

Net Op. Exp. to Average Assets

2.5%

2.4%

2.4%

2.8%

2.6%

2.5%

2.5%

Net Income Before Transfers

1.4%

1.4%

1.6%

1.3%

1.4%

1.3%

1.4%

Net Income After Transfers

1.4%

1.3%

1.5%

1.1%

1.3%

1.2%

1.3%

Long-Term Assets

37.1%

28.3%

24.5%

25.4%

20.0%

28.4%

26.7%

Net Long-Term Assets

25.3%

20.7%

15.9%

17.7%

15.4%

18.0%

18.4%

1 This assessment is based on the December 31, 1993 Call Report data submitted by all federally insured credit unions.

2 Capital is defined as the sum of the following accounts: regular reserves, other reserves, undivided earnings, allowance for loan losses and allowance for investment losses.

3 Net capital is defined as capital less classified assets. Classified assets are estimated by summing the following accounts: allowance for loan losses, allowance for investment losses, and the investment valuation reserve for state-chartered credit unions.

4 The ratio of net income to average assets measures the return on assets after operating expenses, non-operating expenses (or income) and cost of funds.