NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION

NATIONAL CREDIT UNION SHARE INSURANCE FUND

LETTER TO CREDIT UNIONS

LETTER NO. 145
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DEAR BOARD OF DIRECTORS:

Enclosed is a report highlighting credit unions' financial trends for 1992. The analysis is based on data compiled from the yearend 1992 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,

Roger W. Jepsen
Chairman

Enclosure FICU

Financial Trends in Federally Insured Credit Unions January 1, 1992 to December 31, 1992

HIGHLIGHTS

All key measures of credit union financial performance were exemplary for 1992 as reflected in the December 1992 Call Report data. Changes in the federally insured credit union consolidated balance sheet are as follows:

- Assets grew 14.1%

- Shares increased 13.6%

- Capital grew 19.9%

- Investments were up 28.6%

- Loans expanded 5.0%

The financial rations, which are used to evaluate capital, asset quality, earnings and liquidity, show that credit unions are responding to changes in the economy and the marketplace so as to maximize their financial well-being. Federally insured credit unions have prospered in terms of profitability and capital development, while reducing overall loan delinquency.

CAPITAL

All three commonly used measures of capital strengthened during 1992, marking the 6th consecutive year of strong capital development.

- Gross Capital (regular reserves, other reserves, undivided earnings, allowance for loan losses, and allowance for investment losses) increased 19.9% from December 1991 to December 1992. The gross capital ration now stands at 8.9% compared to 8.4% at the end of last year.

- The Net Capital Ratio (gross capital less estimated loan and investment losses), moved up to 8.6%, compared to 8.4% in December 1991.

- Equity Capital (regular reserves, other reserves, and undivided earnings) increased 20.6% during 1992. The ratio itself currently registers 8.1%, up from the 7.6% level of 1 year ago.

Gross capital currently comprises 16.4% of total loans, a substantial increase from 14.3% level in December 1991. Furthermore, because delinquent loans continue to decline (- 16.0%) while capital continues to grow (19.9%), the ratio of delinquent loans to capital declined dramatically from the 1991 yearend level of 11.1% to 7.8%.

ASSET QUALITY

LOAN TRENDS: On the decline consistently since 1990, the loan to share ratio now stands at the lowest level in several decades, 60.0%. Since 1990, share growth has exceeded loan growth, a reversal of the trend predominant during the late 1980s. During 1992, total loans grew 5.0%. In terms of volume, loan growth occurred primarily in first mortgage real estate loans, increasing $3.346 billion, followed by used car loans which increased 3.284 billion.

Unsecured loans currently comprise the largest loan category, 21.8% of total loans. First mortgage real estate loans follow unsecured loans as the most predominant, 20.9% of total loans. The predominance of unsecured loans and first mortgage real estate loans during 1992 is a departure from recent trends in the loan portfolio which favored new auto loans.

In recent years, real estate loans have gained momentum as a proportion of the total loan portfolio. While they continue to contribute significantly as a percentage of total loans, their momentum appears to be slowing. Total real estate loans currently comprise 35.2% of total loans, compared to 35.0% of total loans at the end of last year. By the end of 1992, first mortgage real estate loans grew 12.7%, while other real estate loans declined 3.8%.

Other important real estate loan activity includes:

- Of real estate loans outstanding at yearend 1992, first mortgage fixed rate loans grew the fastest, 15.8%

- Activity in the secondary market has increased significantly. Over $4.1 billion of first mortgage loans were sold in the secondary market during 1992, an increase of 150.5% from December 1991, and 354.5% from December 1990.

The increase in secondary market activity indicates that credit unions are implementing sound asset/liability management strategies. They are making an effort to avoid being strapped with the kinds of loans which may, in the very near future, be considered low-yielding and long term.

DELINQUENCY TRENDS: The overall loan delinquency rate declined from 1.6% in December 1991 to

1.4% in June 1992 and finally to 1.3% at the end of 1992. The total amount of delinquent loans decreased significantly (-16.0%) from the 1991 yearend level. Loans delinquent 2 to 6 months declined 14.0%, loans delinquent 6 to 12 months declined 19.0%, and the amount of loans delinquent 12 or more months declined 18.7%.

The delinquency rate for all real estate loans 2 or more months delinquent is 1.0%. With one exception, the delinquency rates for each individual type of real estate loan were either at or below the overall loan delinquency level. A breakdown of delinquency rates by type of real estate loan follows:

- First mortgage, fixed rate: 1.1%

- First mortgage, adjustable rate: 1.0%

- Other real estate, fixed rate: 1.5%

- Other real estate, adjustable rate: 0.6%

INVESTMENT TRENDS: Because share growth (13.6%) far exceeded loan growth (5.0%) during 1992, investments expanded significantly, rising 28.6% of to a total of $108.4 billion.

Investments in federal agency securities registered the largest dollar volume increase; nearly $8.5 billion were added to investments in federal agency securities. Dollar volume increases were also significant in U.S. government obligations and corporate credit union deposits, which added $6.4 billion and $6.2 billion to the total investment portfolio. Deposits in corporate credit unions continue to represent the largest single type of credit union investment--32.1% of total investments.

The majority of new investments were concentrated in instruments maturing or repricing in 1 to 3 years. Of the $24.1 billion added to investments during 1992, nearly $10.6 billion were in investments in the 1- to 3-year category. Of the total investment portfolio, however, investments maturing in less than 1 year continue to comprise the majority of total investments, 60.8%.

EARNINGS

The last two years have been increasingly profitable for federally insured credit unions. The ratio of net income to average assets, which measures the return on assets after operating expenses, cost of funds and net reserve transfers, registered 1.3% at yearend 1992, compared to 0.8% at yearend 1991 and 0.7% at the end of 1989 and 1990.

Although gross income declined slightly (-0.7%) and operating expenses increased (6.5%), FICUs were able to lower their cost of funds in order to improve profitability while still attracting member deposits. Because credit unions were able to lower dividend rates at a faster pace than gross income declined, profitability accelerated. The cost of funds to average assets ratio moved down from 5.4% at yearend 1991 to 3.9%.

	1991	**1992**	**Change**
Gross Income to Average Assets	10.1%	8.8%	-1.3%
Operating Expenses to Average Assets	3.3%	3.1%	0.2%
Cost of Funds to Average Assets	5.4%	3.9%	-1.5%
Provision for Loan Losses to Average Assets	0.5%	0.4%	-0.1%

Net Income (before transfers) to Average Assets	1.0%	1.4%	0.4%
Net Income (after transfers) to Average Assets	0.8%	1.3%	0.5%

LIQUIDITY

SHARE TRENDS: Shares in federally insured credit unions continued their pattern of robust growth, increasing by $28.1 billion or 13.6%. Share growth was concentrated primarily in accounts which tend to reprice in the short term:

- Share drafts grew 23.1%

- Regular shares grew 25.5%

- Money market shares grew 16.3%

- Share certificates declined 18.4%

- IRA, Keogh, and other retirement accounts increased 4.8%

- All other shares and deposits grew 40.3%

Share accounts with remaining maturities or repricing intervals of less than 1 year accounted for the majority of the growth in total shares. The amount of shares maturing in the 1- to 3-year category declined 2.2% and the over 3-year category increased 16.5%. Shares with maturities or repricing intervals of less than 1 year now comprise 94.8% of total shares, compared to 94.2% in December 1991.

REGIONAL COMPARISONS

The following able and the graphic presentation attached to this report show regional comparisons of key ratios and trends. As illustrated by these charts and graphs, the northeast section of the country, specifically Region I (Albany), is showing considerable indications of economic recovery. Delinquency and profitability in Region I have improved dramatically since the end of last year. Capital positions are stronger across all regions and delinquency is lower overall. Operating expenses are stable, and profitability has increased.

Capital to Assets	9.2%	8.3%	9.2%	9.2%	8.6%	8.8%	8.9%
Equity to Assets	7.9%	7.6%	8.4%	8.5%	7.8%	8.2%	8.1%
Net Charge- Offs	0.9%	0.6%	0.6%	0.5%	0.5%	0.6%	0.6%
Op. Exp. to Average Assets	2.9%	2.9%	3.1%	3.4%	3.2%	3.1%	3.1%
Net Income After Transfers	1.3%	1.1%	1.4%	1.1%	1.4%	1.3%	1.3%
Net Long-Term Assets	25.8%	20.3%	15.9%	14.8%	14.7%	17.9%	17.8%