

# **NCUA LETTER TO CREDIT UNIONS**

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

**DATE:** December 2004                      **LETTER NO.:** 04-CU-15  
**TO:** Federally Insured Credit Unions  
**SUBJ:** Credit Union Financial Trends for the Third Quarter of 2004  
**ENCL:** Financial Trends in Federally Insured Credit Unions  
January 1 – September 30, 2004

**DEAR BOARD OF DIRECTORS:**

Enclosed is a report highlighting credit union financial trends for the first three quarters of 2004. We based our analysis on data compiled from the third quarter 2004 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/

JoAnn Johnson  
Chairman

Enclosure

# FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – September 30, 2004

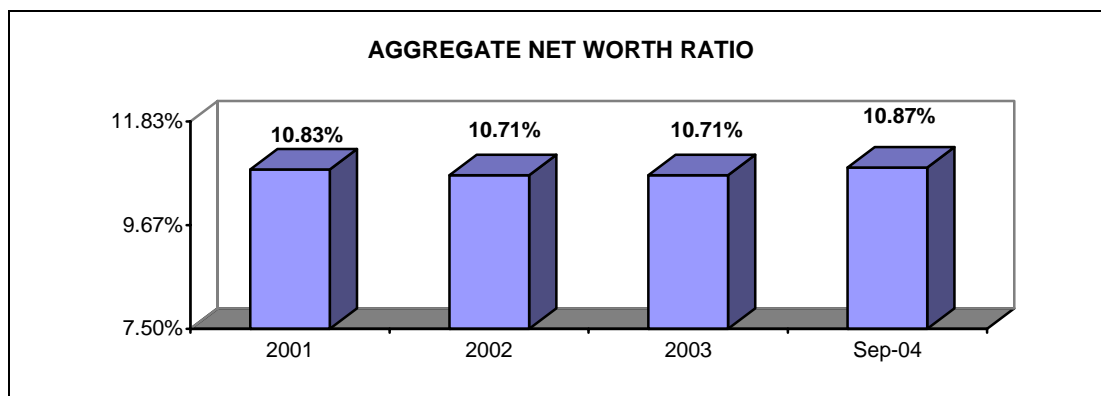
## HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of September 30, 2004.

- ◆ **Assets** increased \$30.6 billion, or 5.02%.
- ◆ **Net Worth** increased \$4.3 billion or 6.52%. The Net Worth to assets ratio increased from 10.71% to 10.87%.
- ◆ **Loans** increased \$30.2 billion, or 8.02%. The loan to share ratio increased from 71.19% to 73.72%.
- ◆ **Shares** increased \$22.8 billion, or 4.31%.
- ◆ **Cash on hand, cash on deposit, cash equivalents, plus short-term investments (less than 1 year)** decreased \$1.9 billion, or 1.88%.
- ◆ **Long-term investments (over 1 year) decreased** \$202.3 million, or 0.19%.
- ◆ **Profitability**, as measured by return on average assets, decreased from 0.99% to 0.94%, but remains strong.<sup>1</sup>
- ◆ **Delinquent loans** as a percentage of total loans decreased from 0.76% to 0.71%.

## CAPITAL

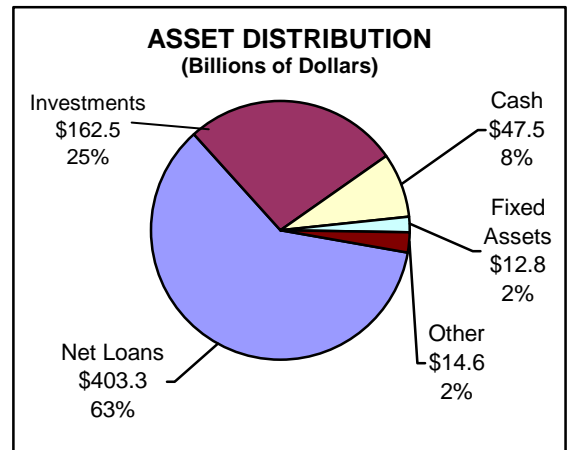
Total Net Worth increased \$4.3 billion (6.52%) during the first nine months of 2004. The aggregate net worth to total assets ratio increased from 10.71% at the end of 2003 to 10.87% as of September 30, 2004. Annualized net worth growth of 8.69% outpaced annualized asset growth of 6.69%. The average net worth ratio (non-dollar weighted) among individual credit unions increased from 13.32% at the end of 2003 to 13.43% as of September 30, 2004.



1. The Return on Average Assets ratio is annualized net income divided by average assets for the period.

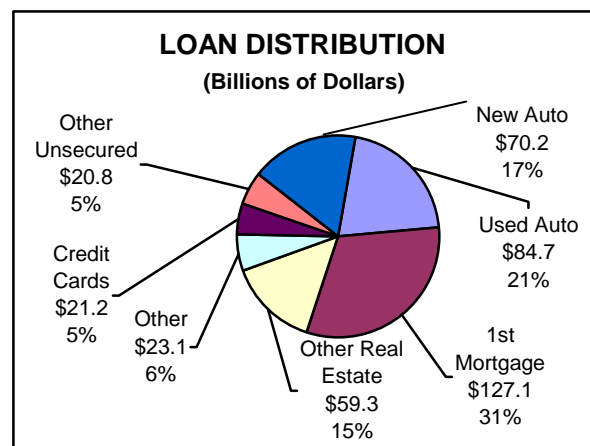
## ASSET QUALITY

**LOAN TRENDS:** All loan categories experienced growth except for Unsecured Credit Card Loans and All Other Unsecured Loans. Loan growth of 10.69% (annualized) resulted in an increase in total loans of \$30.2 billion. Loan growth was higher than share growth, causing the loan to share ratio to increase from 71.19% in 2003 to 73.72% as of September 30, 2004. Growth in the various loan categories is as follows:

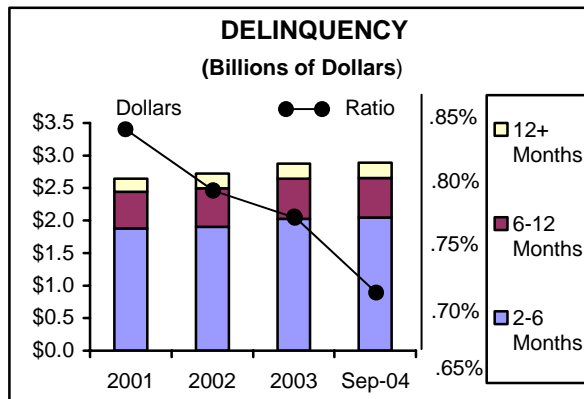


Loan Category	2003 Balance In Billions	September 2004 Balance In Billions	Growth In Billions	Growth Rate
Unsecured Credit Card	\$21.7	\$21.2	-\$0.5	-2.33%
All Other Unsecured	\$20.8	\$20.8	-\$0.05	-0.25%
New Vehicle	\$63.8	\$70.2	\$6.4	10.09%
Used Vehicle	\$81.2	\$84.7	\$3.5	4.26%
First Mortgage Real Estate	\$117.5	\$127.1	\$9.5	8.09%
Other Real Estate	\$50.1	\$59.3	\$9.2	18.40%
Leases Receivable	\$1.5	\$1.6	\$0.1	4.27%
All Other	\$19.5	\$21.5	\$2.0	10.47%

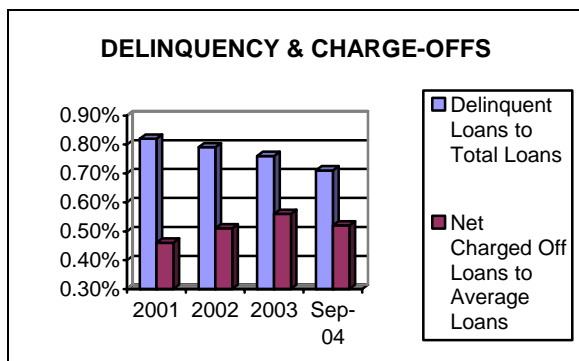
First Mortgage real estate loans account for 31.27% (\$127.1 billion) of all loans. Loans held for sale increased 5.77%, from \$0.99 billion to \$1.1 billion.



**DELINQUENCY TRENDS:** Delinquent loans increased 0.53% (\$15.4 million). However, the delinquent loans to total loans ratio declined from 0.76% at the end of 2003 to 0.71% as of September 30, 2004.



Loan dollars charged off (annualized) increased \$79.6 million (3.42%), whereas recoveries on charged off loans increased \$57.7 million (17.93%). This resulted in net charged off loans increasing by \$21.9 million; however, due to stronger loan growth, the annualized average net charge-off ratio declined from 0.56% to .052% of average loans in the first nine months of 2004.



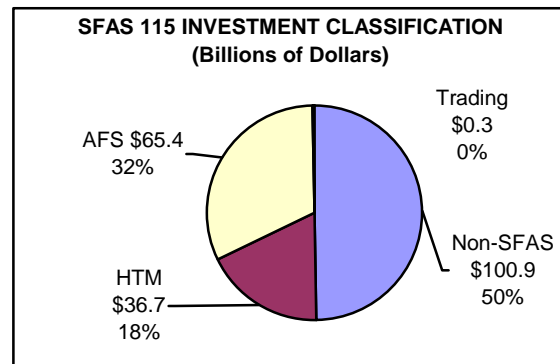
**INVESTMENT TRENDS:** Cash on hand, cash on deposit, and cash equivalents decreased 7.61% (\$3.9 billion). These combined categories, along with investments with maturities of less than one year, decreased 1.88% (\$1.9 billion).

Investments with maturities greater than a year decreased 0.19% (\$202.3 million).

Non-SFAS 115 investments (including cash on deposit and cash equivalents) decreased 2.23% (\$2.3 billion) to \$100.9 billion.

*Held-to-maturity* investments increased 0.43% (\$157.8 million). *Available-for-sale* investments decreased 0.12% (\$81.4 million). Trading securities increased 9.09% (\$23.6 million).

As of September 30, 2004, SFAS 115 investments made up 50.39% of the investment portfolio. Non-SFAS 115 investments, cash on deposit, and cash equivalents accounted for 49.61% of the portfolio.



The following table compares the changes in the maturity structure of the investment portfolio over the past year:

Investment Maturity or Repricing Interval	% of Total Investments 2003	% of Total Investments September 2004
Less than 1 year	47.29%	46.83%
1 to 3 years	34.21%	35.27%
3 to 10 years	16.99%	16.71%
Greater than 10 yrs	1.51%	1.21%

### EARNINGS

Sustained asset growth and low market interest rates continue to impact income as shown in the table below. Total net income increased 2.48% (\$142.7 million). The return on average assets decreased five basis points to 0.94%. The net interest margin declined nine basis points to 3.32%.

Ratio (% Ave. Assets)	As of 2003	As of September 2004	Effect on ROA
Net Interest Margin	3.41%	3.32%	-9bp
+ Fee & Other Inc.	1.12%	1.12%	+ 0bp
- Operating Expenses	3.23%	3.19%	+ 4bp
- PLL	0.35%	0.34%	+ 1bp
+ Non-Opr. Income	0.04%	0.03%	- 1bp
= ROA	0.99%	0.94%	- 5bp

### ASSET/LIABILITY MANAGEMENT

*SHARE TRENDS:* On an annualized basis, total shares increased 5.75% in the first nine months of 2004, compared to 9.11% in 2003.

*LIQUIDITY TRENDS:* In the first nine months of 2004, credit unions had approximately 15.90% of total assets in cash and short-term investments, compared to 17.02% at the end of 2003. Net long-term assets (defined as assets with maturities or repricing intervals greater than 3 years - 5 years for real estate loans), equaled 25.48% of total assets at the end of the third quarter of 2004, compared to 25.34% at the end of 2003. Improvements in the economy and/or stock market that fuel spending or investing could result in the withdrawal of credit union shares.

**CONCLUSION:** Financial performance of the industry remains strong despite the challenges presented by the low interest rate environment. Due to the uncertainty in the current global marketplace, credit unions need to place continued emphasis on sound liquidity planning and balance sheet management to minimize the effects of an ever-changing environment.