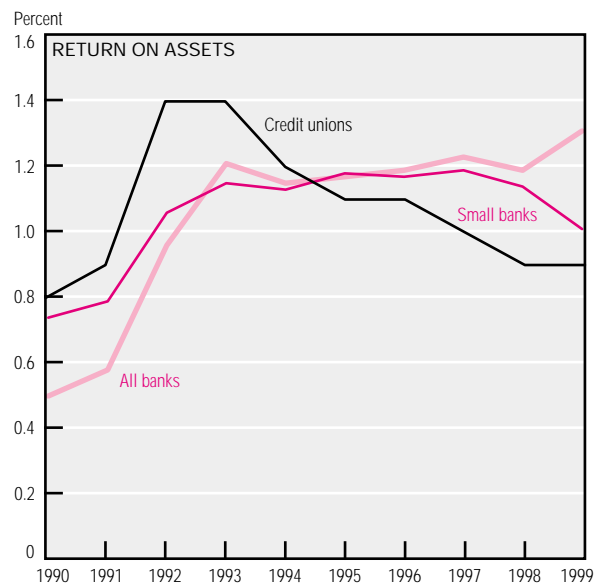
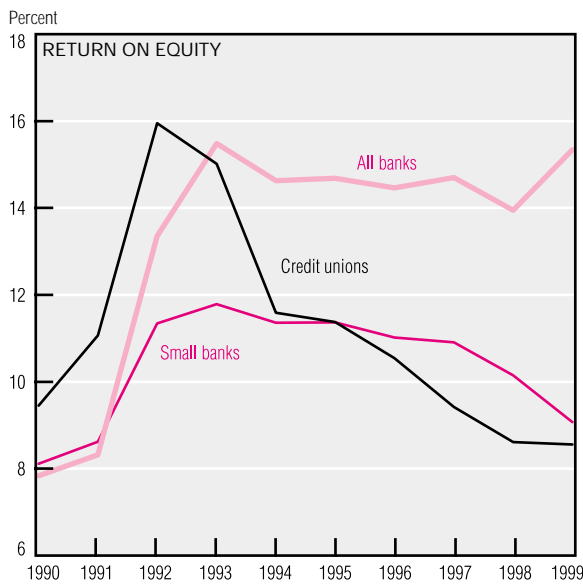
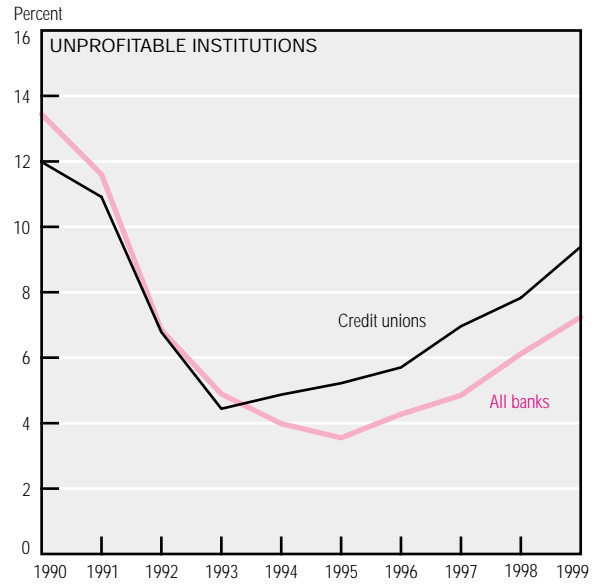
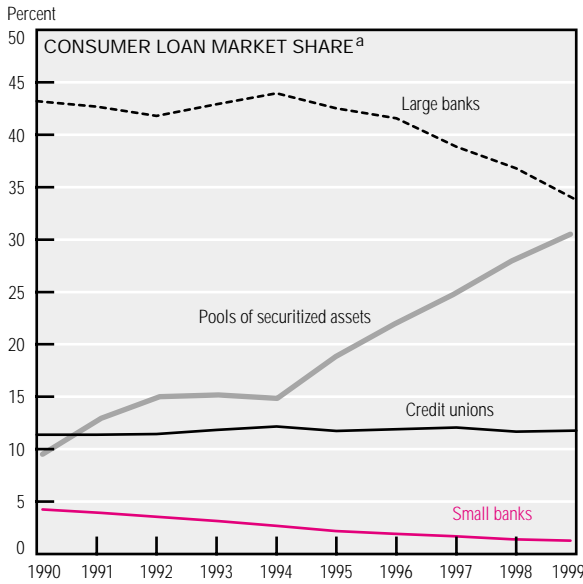


Banking Conditions



a. Shares do not total 100%. The difference includes finance companies, savings institutions, and nonfinancial businesses.
 NOTE: Bank data are for FDIC-insured commercial banks; credit union data are for federally insured credit unions. Small banks are defined as commercial banks with total assets less than \$100 million.
 SOURCES: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*; Federal Deposit Insurance Corporation, *Quarterly Banking Profile* and *Statistics on Banking*; and National Credit Union Administration, *Year-end Statistics for Federally Insured Credit Unions*.

The dominant trend in the consumer loan market is toward securitized loans (loans that are packaged and sold off as securities). Their market share jumped from 9.52% to 30.51% in the last decade. However, the decline in the market share of large commercial banks may give an inaccurate impression because the data are based on balance sheets after securitized assets are taken off the originating bank's books. We would obtain a more precise picture by assigning to each

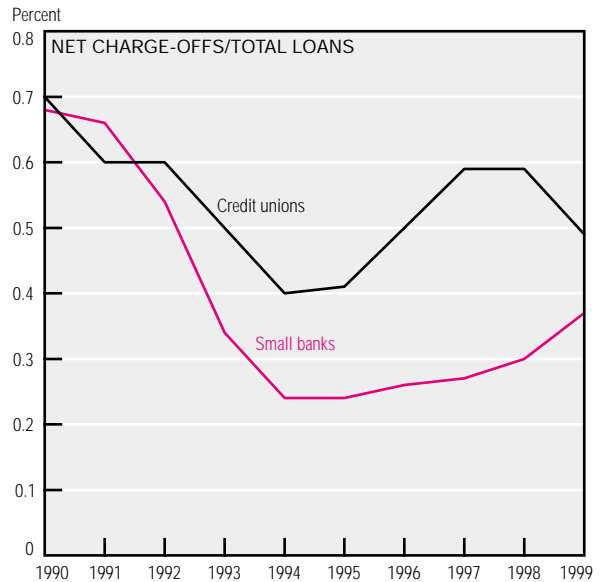
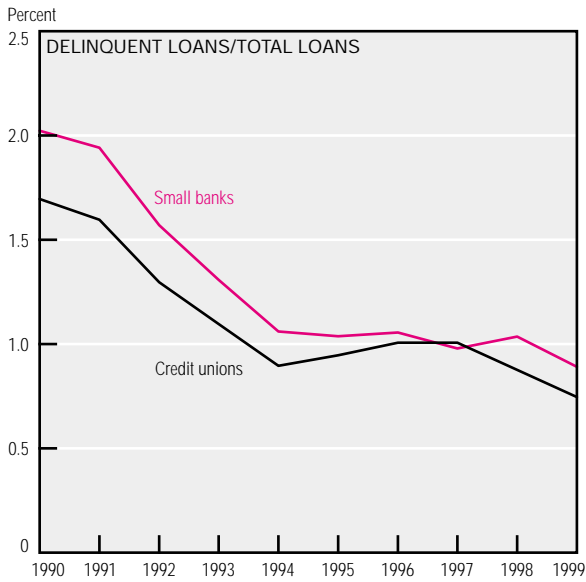
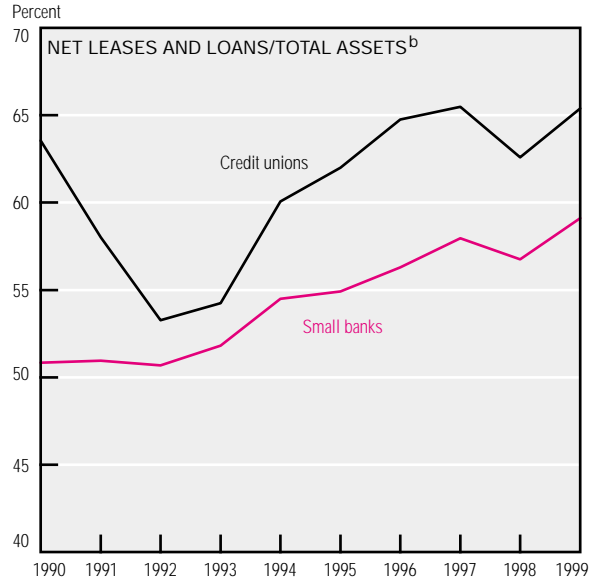
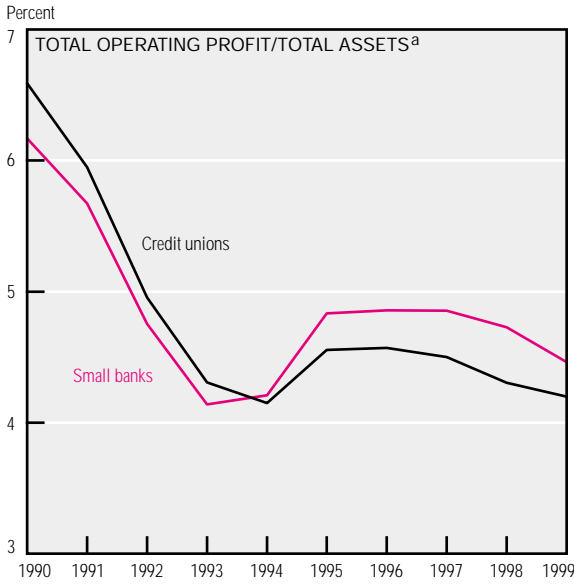
institution its share in the pool of securitized assets, but unfortunately, we lack this information. Still, we note that although banks control a larger share of the consumer loan market than do credit unions, this is not true across all bank sizes. In fact, the market share of small banks (those with total assets under \$100 million) is smaller than that of credit unions. Moreover, the Supreme Court ruling of February 1998, which capped credit unions' expansion by limiting their mem-

bership pool, does not seem to have affected their performance or their presence in the consumer lending market.

The rise in the percent of unprofitable institutions over the last five years may be explained by greater competition in the consumer loan market. This figure rose from a low of around 4% in the first half of the 1990s to 7.24% for banks and 9.39% for credit unions. This explanation is reinforced by evidence of flatter return on assets and equity for banks

(continued on next page)

Banking Conditions (cont.)



a. Operating profit is calculated before cost of funds.

b. Leases and loans for credit unions equal loans only, since credit unions do not provide leases.

NOTE: Bank data are for FDIC-insured commercial banks; credit union data are for federally insured credit unions. Small banks are defined as commercial banks with total assets less than \$100 million.

SOURCES: Federal Deposit Insurance Corporation, *Quarterly Banking Profile and Statistics on Banking*; and National Credit Union Administration, *Year-end Statistics for Federally Insured Credit Unions*.

and declining returns for credit unions. Credit unions were star performers in the first half of the 1990s but seem to have lost their competitive edge: Their return on assets declined from 1.4% in 1993 to 0.9% in 1999. In the banking industry, we notice again that bank size affects performance measures. Despite the industry's high return figures overall, small banks' returns trend downward, closely following credit union data. This suggests that increasing competition mostly affects the performance of small institutions.

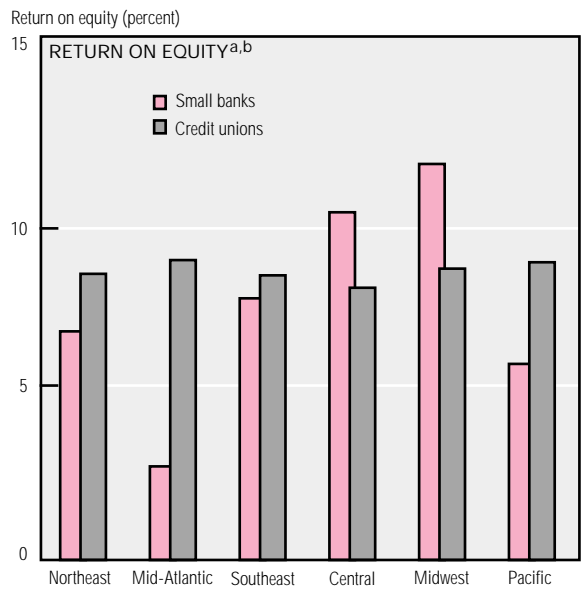
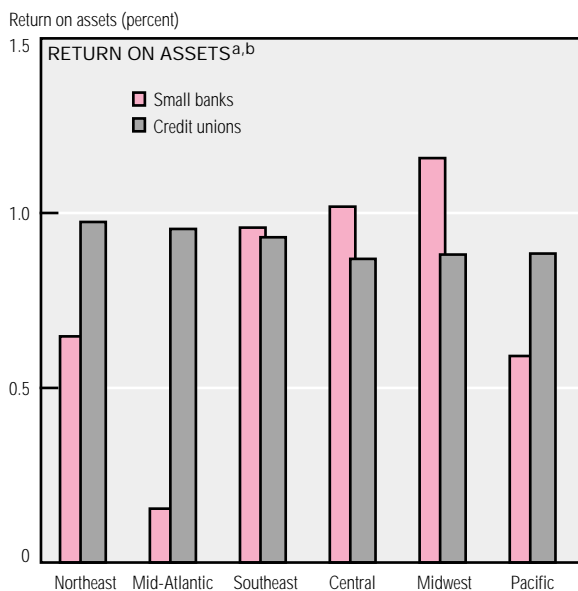
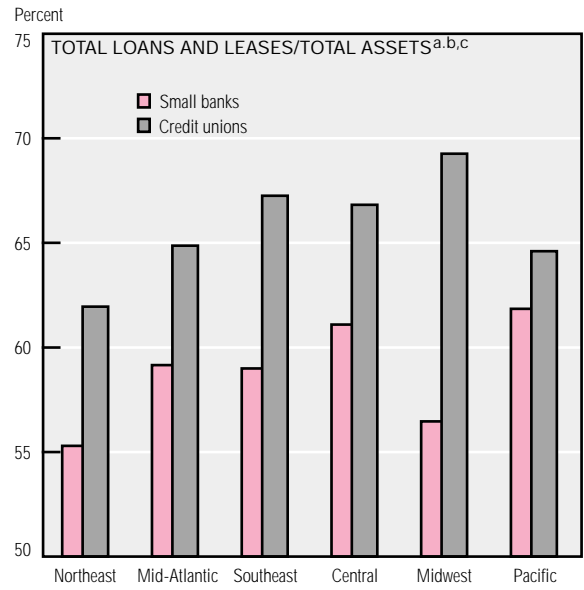
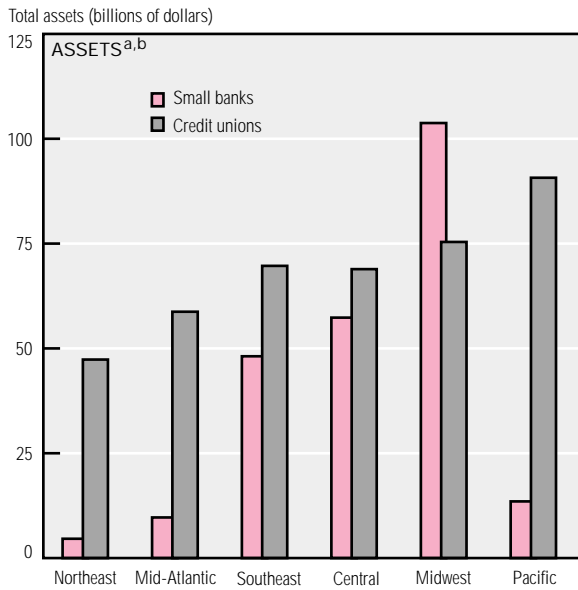
We focus on small banks and credit unions because they are comparable in size and business line. The weak performance of credit unions, observed in their equity and return on assets, is also evident in their assets' deteriorating ability to generate profit. Starting in the mid-1990s, small banks have continuously generated more operating profit per dollar of assets than have credit unions. The difference is less than half a penny on each dollar, but the trend is persistent.

Credit unions lend more aggressively than small banks. Although small banks closed the wide gap in the share of loans in total assets (from 12.71% in the late 1980s to 6.28% in 1999), the difference is still higher than the 2.43% difference in 1993.

The percent of delinquent loans in banks' total loan portfolio improved significantly over the last decade. For small banks, this figure declined from 2.03% in 1990 to 0.9% in 1999. For credit unions, the decline was from 1.7% to 0.75% over

(continued on next page)

Banking Conditions (cont.)



a. The states are divided into the following six regions, following the usage of the National Credit Union Administration. Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont. Mid-Atlantic: Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia. Southeast: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee. Central: Illinois, Indiana, Michigan, Missouri, Ohio, Wisconsin. Midwest: Arizona, Colorado, Iowa, Kansas, Minnesota, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming. Pacific: Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon, Washington.

b. Figures are for the end of 1999.

c. The ratio of total loans and leases to assets for credit unions equals total loans to assets, since credit unions do not provide leases.

NOTE: Bank data are for FDIC-insured commercial banks; credit union data are for federally insured credit unions. Small banks are defined as commercial banks with total assets less than \$100 million.

SOURCES: Federal Deposit Insurance Corporation; and National Credit Union Administration, *Year-end Statistics for Federally Insured Credit Unions*.

the same period. On net charge-offs, both industries achieved a small but significant improvement. The ratio of net charge-offs to total loans is down to 0.49% for credit unions and 0.37% for small banks.

In every region except the Midwest, credit unions surpass small banks in total asset size. The difference is especially striking in the Pacific region, where credit unions' total assets average \$91 million and

those of small banks \$14 million. Credit unions also are distributed more uniformly across the regions. The difference in asset size between the region with the largest amount and the region with the smallest amount is \$99 million for banks and \$44 million for credit unions. In all regions, credit unions hold a larger share of their assets in loans than do small banks.

Measures of equity and return on assets show that credit unions' performance is more homogeneous across the country, while small banks do well in the central (ROA: 1.02%) and midwestern (ROA: 1.16%) states but do poorly in the mid-Atlantic (ROA: 0.15%), northeastern (ROA: 0.65%), and Pacific (ROA: 0.59%) states.