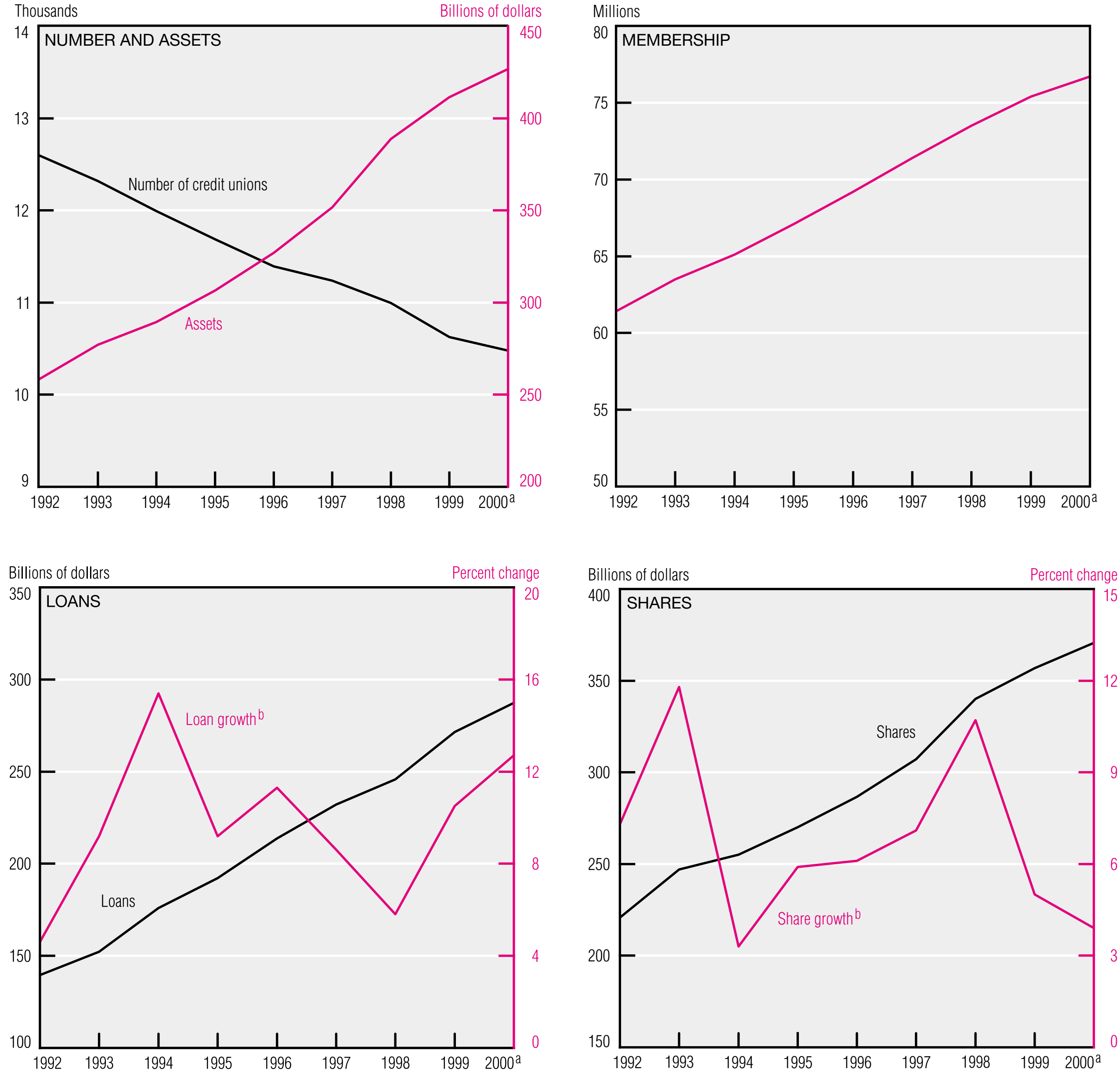
Credit Unions



a. Through June 2000.
b. Annualized.
NOTE: Data are for federally insured credit unions.
SOURCES: National Credit Union Administration, Year-End Statistics for Federally Insured Credit Unions and Mid-Year Statistics for Federally Insured Credit Unions.

Credit unions are mutually organized depository institutions that provide financial services to their members. Like banks and savings associations, credit unions seem to be consolidating. Their numbers fell from 12,596 in 1992 to 10,479 at mid-2000. However, their total assets rose nearly 65% over the same period, from $258.4 billion to $426.8 billion. The number of credit union members also increased steadily from 61.4 million in 1992 to 76.7 million at the end of 2000:IIQ.

Credit unions' asset growth was fueled by positive loan growth throughout the period. Loans rose from $139.5 billion at the end of 1992 to $287.4 billion through June 2000; loans as a share of assets grew from 54% to 67.3% over the same period. Loan growth was remarkably strong in the early 1990s but tapered off in the middle of the decade; however, it has accelerated since 1998, reaching 12.7% for the 12 months ending June 30, 2000.

Credit union shares have also risen steadily since 1992. Shares (the equivalent of deposits in banks and savings associations) are the primary source of funds for credit unions, accounting for roughly 87% of total funds. Share growth increased every year from 1994 to 1998, when it peaked at 10.7%. It then fell in 1999 and the first half of 2000. This may be the result of high stock-market returns during 1998 and 1999.

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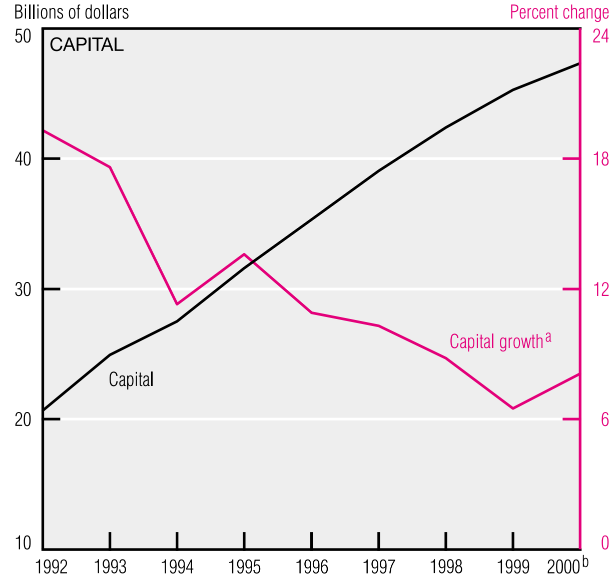

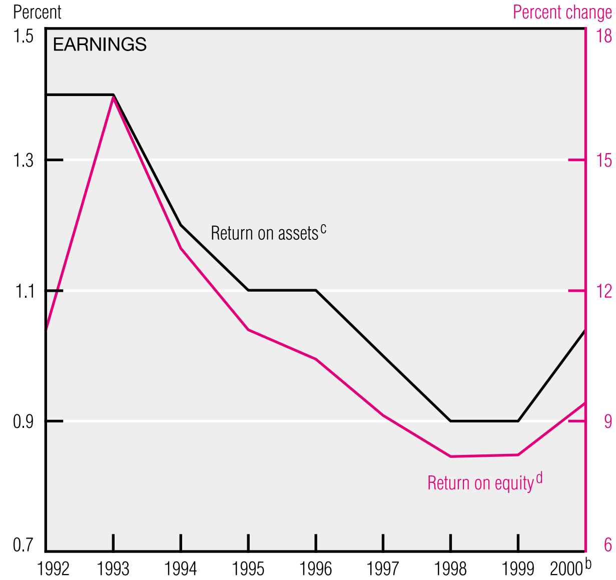

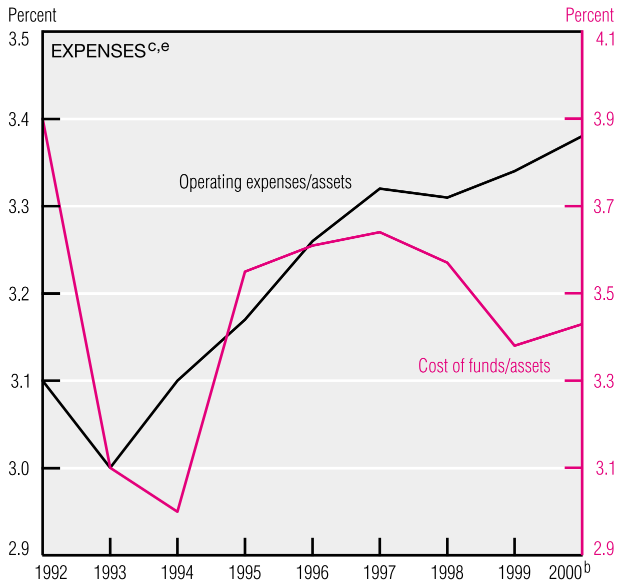

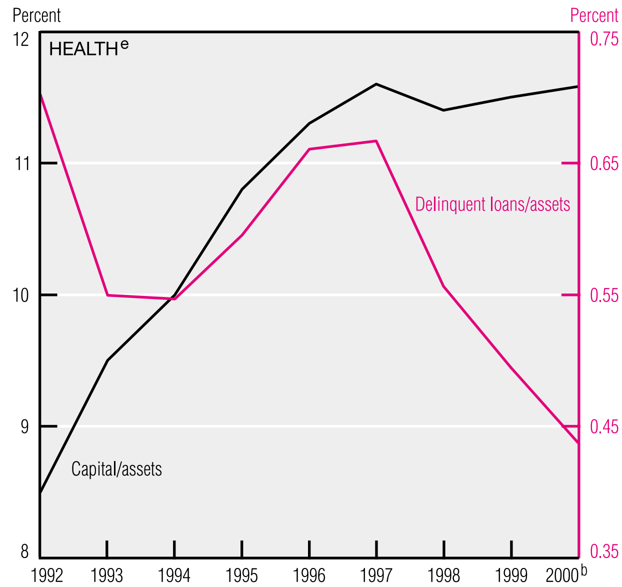

a. Annualized.
b. Through June 2000.
c. All returns and expenses are for the average quarterly level of assets during the year.
d. Return on equity is for average equity.
e. All ratios are for total assets.
NOTE: Data are for federally insured credit unions.
SOURCES: National Credit Union Administration, Year-End Statistics for Federally Insured Credit Unions and Mid-Year Statistics for Federally Insured Credit Unions.

Credit unions continued to accumulate capital from the end of 1992 through mid-2000, more than doubling over the period. However, the rate of capital growth fell from 19.3% in 1992 to 8.1% at the end of 2000:IIQ. However, the 8.1% growth rate in capital represented its first increase since 1995.

Because retained earnings are credit unions' only source of capital, the pace of capital accumulation since 1995 has mirrored the decline in return on assets and return on equity. Return on assets fell from a high of 1.4% in 1992 to 0.9% in 1999 before rising to 1.0% in mid-2000. Return on equity peaked at 16.4% in 1993 and fell steadily to 8.2% in 1998 before increasing to 9.4% at the end of 2000:IIQ. The decline in credit unions' profitability during most of the 1990s resulted partly from a steady increase in operating expenses per dollar of assets after 1993 and a sharp increase in the cost of funds in 1995, a consequence of monetary policy actions in 1994.

Overall, the credit union industry's health appears to be good. Capital as a percent of assets stood at 11.1% at mid-2000, equaling its 1997 peak. On the other hand, delinquent loans as a percent of assets fell from 0.67% in 1997 to 0.44% at mid-2000. In other words, at the end of 2000:IIQ, credit unions held more than $25 of capital for every $1 of delinquent loans.

Credit unions remain a viable alternative to commercial banks and savings associations for basic services such as consumer loans, checking accounts, and savings accounts.