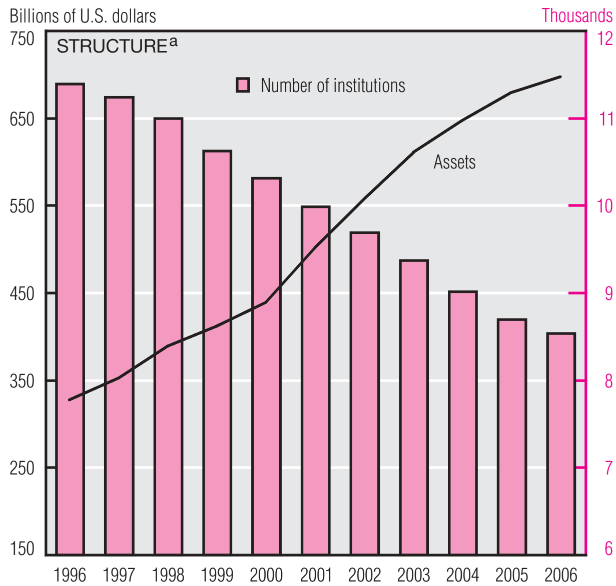
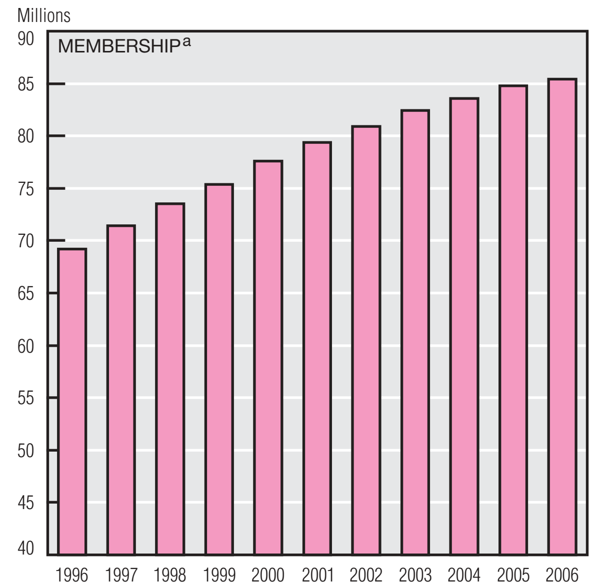
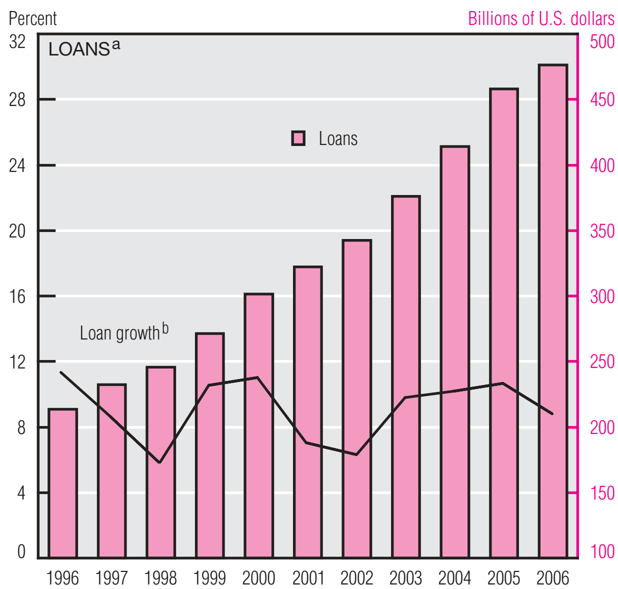
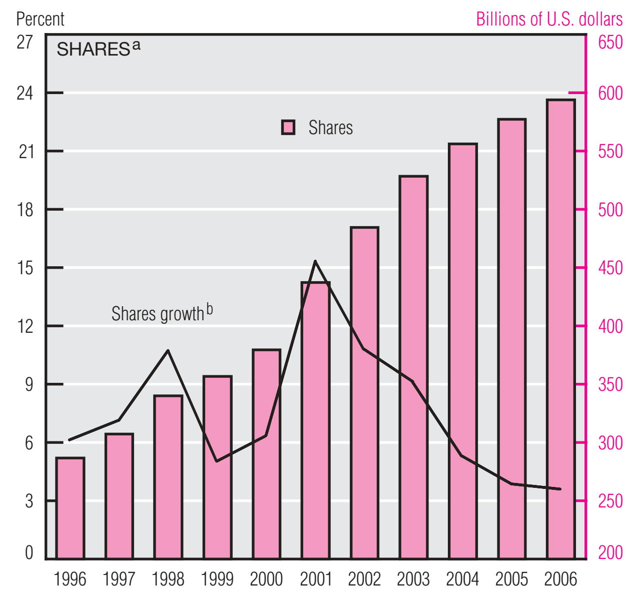
Credit Unions









NOTE: Data are for federally insured credit unions.
a. All values for 2006 are through the second quarter.
b. Growth rate is for 12 months.
SOURCE: National Credit Union Administration, *Quarterly Data*, June 2006.

Credit unions are mutually organized depository institutions that provide financial services to their members. Like banks and savings associations, the credit union industry continues to consolidate. The number of credit unions fell steadily from 11,392 in 1996 to 8,540 by 2006:IIQ. Over the same period, however, their total assets more than doubled from \$326.9 billion to \$697 billion. The number of credit union members also increased steadily from 69.2 million to 85.4 million.

Growth in credit unions' assets has been fueled by positive loan growth, although growth in both assets and loans has tapered off in recent years. From the end of 1996 to the middle of 2006, loans increased from \$213.8 billion to \$476.4 billion; loans as a share of assets grew modestly from 65.4% to 68.4%. Year-over-year loan growth has varied between 5.8% and 11.3% over the past 10 years, with an average annual growth rate of 7.5%.

Federally insured credit union shares have also risen steadily since 1996, totaling \$594 billion in 2006. Shares, which are analogous to deposits in banks and savings associations, are the primary source of credit unions' funds, accounting for roughly 85% of the total. The annual shares growth in 2006 (3.6%) was the lowest in 10 years, slowing dramatically from a 15.3% pace in 2001. Shares grew at a 6.8% annual rate during this period but, like loans, are following a tapering trend.

Credit unions continued to accumulate capital, which more than

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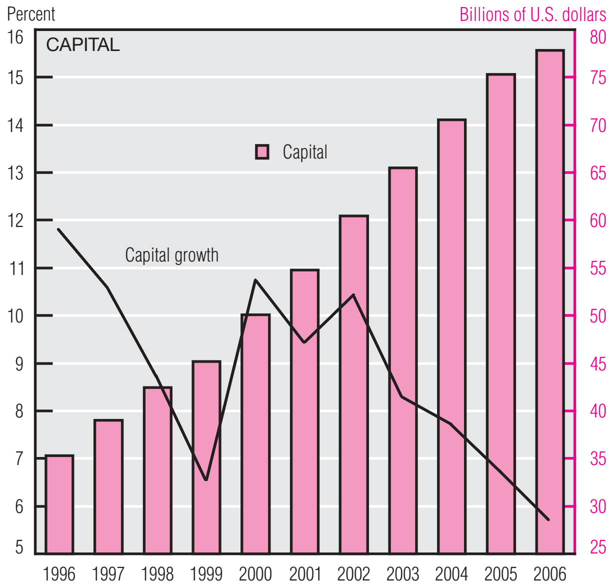
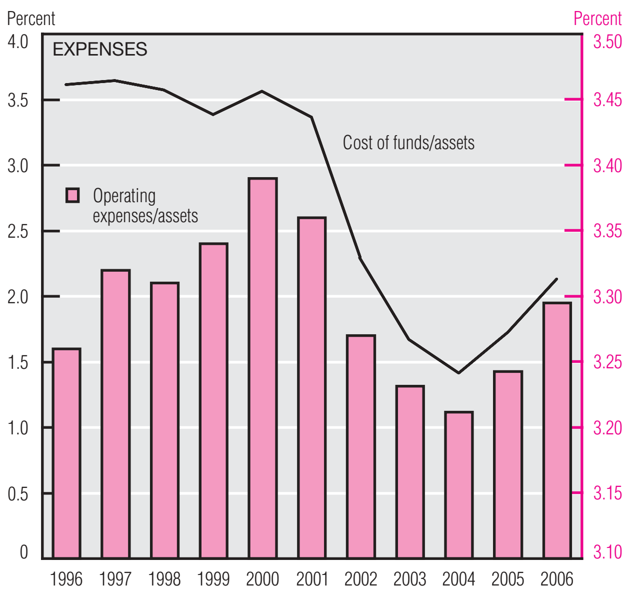
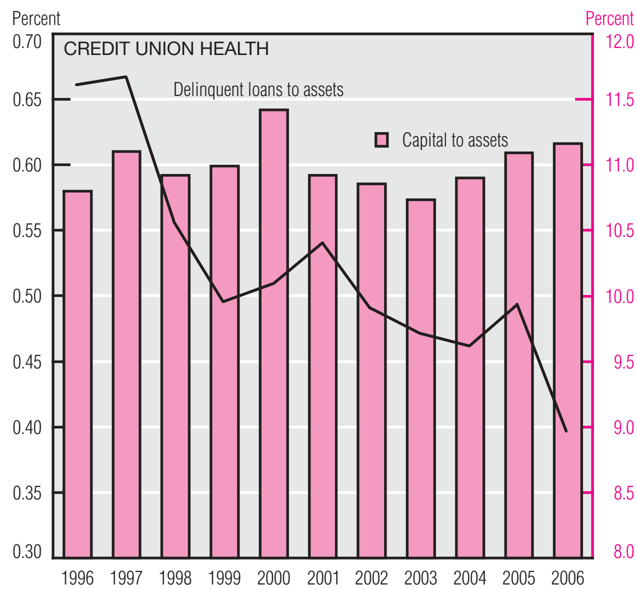
Credit Unions *(cont.)*







NOTE: Data are for federally insured credit unions.
a. All values for 2006 are through the second quarter.
b. Growth rate is for 12 months.
c. Return on assets is on average assets; return on equity is on average equity.
d. All ratios are for average total assets.
SOURCE: National Credit Union Administration, *Quarterly Data*, June 2006.

doubled from $35.3 billion at the end of 1996 to $77.8 billion by 2006:IIQ. Because retained earnings are credit unions' only source of capital, the pace of capital accumulation mirrors the general downward trend in return on assets (ROA) and return on equity (ROE) since 1996. ROA fell from a high of 1.1% in 1996 to a low of 0.85% in 2005, then reached a plateau at 0.86% in 2006. ROE followed a similar pattern over the 10-year period, evening out at 7.7%.

The decline in credit unions' profitability over the second half of the 1990s resulted partly from the steady increase in operating expenses per dollar of assets and the relatively high cost of funds. After constant improvement in operating efficiency between 2000 and 2004, operating expenses as a percent of assets increased to 3.3%. In the low-interest-rate environment of 2000–2004, the cost of funds declined; since then, it has risen in response to higher interest rates.

Overall, the health of the credit union industry appears sound. Capital as a share of assets stood at 11.2% by 2006:IIQ. Delinquent loans as a share of assets fell to a 10-year low, from 0.66% in 1996 to 0.40% in 2006. Moreover, credit unions held nearly $28.21 of capital for every $1 of delinquent loans by the end of that period. In short, credit unions remain a viable alternative to commercial banks and savings associations for such basic depository institution services as checking accounts, consumer loans, and savings accounts.