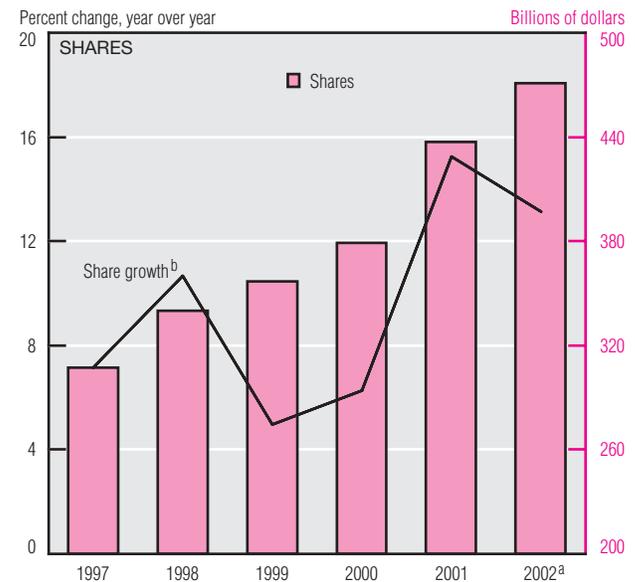
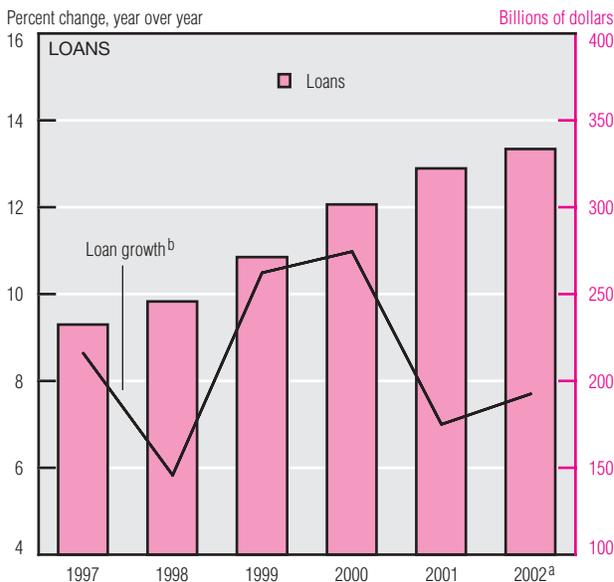
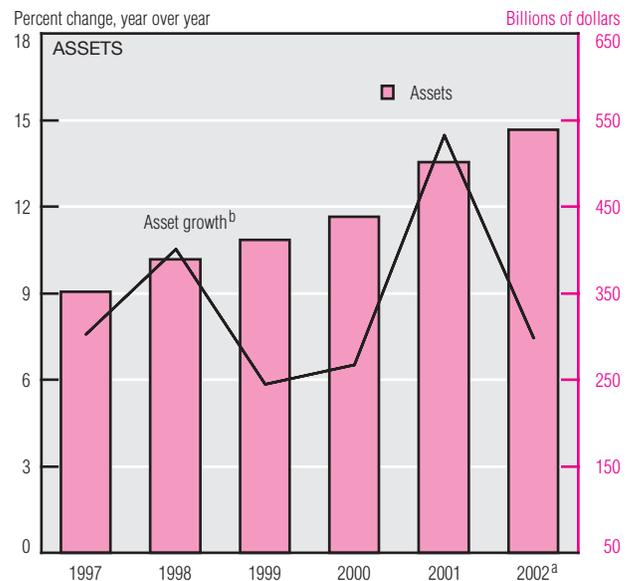
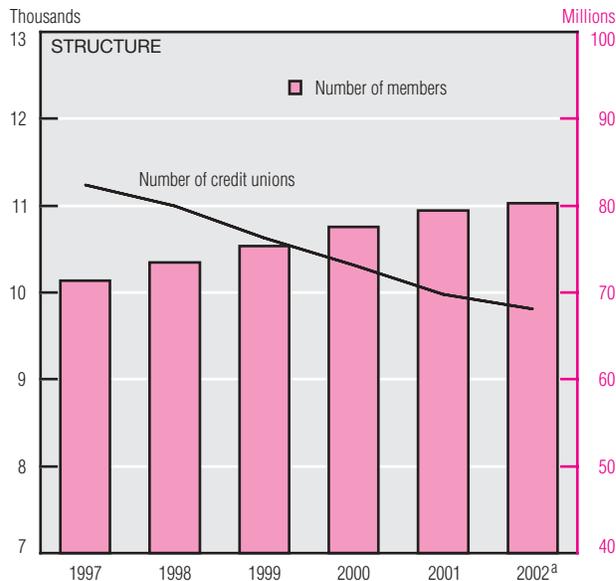


Credit Unions



a. Through June 2002.

b. Growth for 2002 is the percent change from June 2001 to June 2002.

SOURCES: National Credit Union Administration, *Year-End Statistics for Federally Insured Credit Unions and Mid-Year Statistics for Federally Insured Credit Unions*, various issues.

Federal credit unions are mutually organized depository institutions that provide financial services to their members. Like banks and savings associations, which were discussed in recent issues of this publication, credit unions seem to be consolidating. Their number fell from 11,238 in 1997 to 9,814 in 2002:IIQ. Over the same period, however, credit unions' total assets rose 53%, going from \$352 billion to \$539 billion. Their membership also increased steadily from 71.4 million in 1997 to 80.3 million in 2002:IIQ.

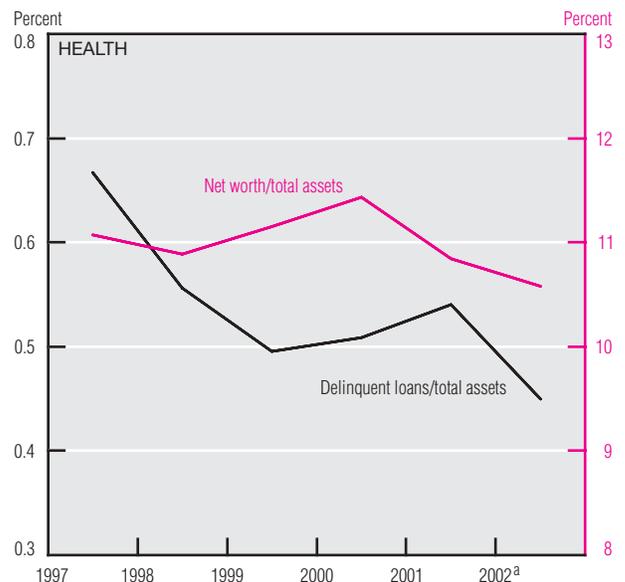
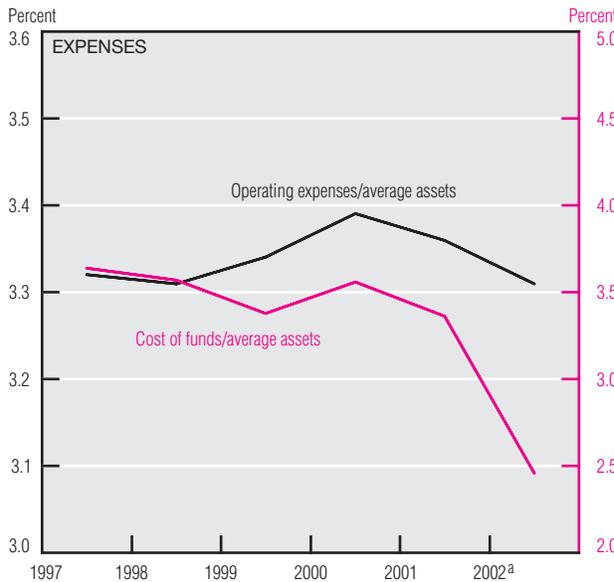
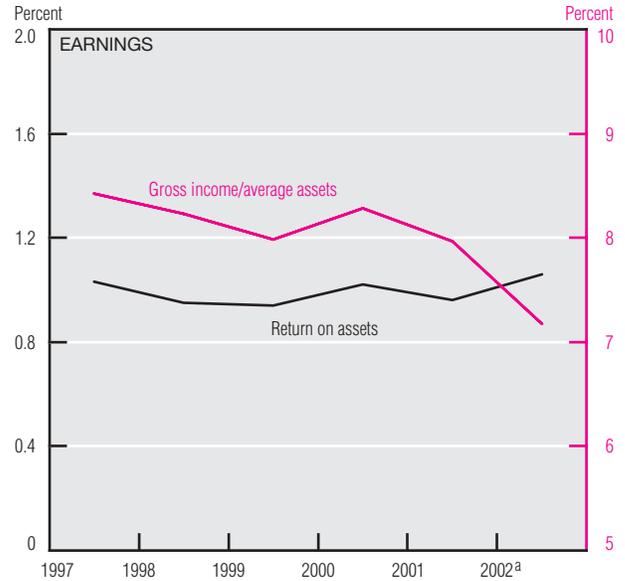
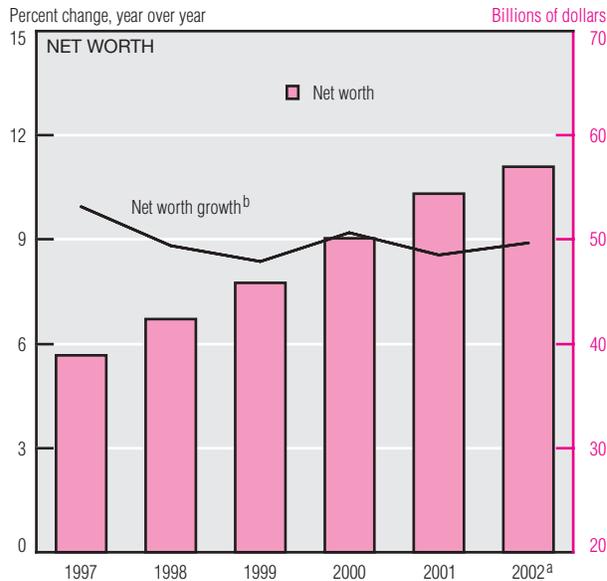
The growth in credit unions' total assets was fueled by a 43.7% improvement in loans issued, which rose from \$232.3 billion in 1997 to \$333.6 billion in 2002. This growth was remarkably strong in the early 1990s but tapered off toward the end of the decade. Year-over-year loan growth increased slightly to 7.7% at the end of 2002:IIQ.

Shares, which are analogous to deposits in banks and savings associations, are credit unions' primary source of funds. They too have been rising steadily since 1997. After peaking at 15.3% in 2001, shares' growth

rate fell slightly to 13.1% in 2002:IIQ. This is still much higher than rates' single-digit growth in 1999 and 2000, which resulted from high stock market returns in 1998 and 1999. In later years, investors made a flight to safety, reallocating money from more risky investments to insured credit-union share accounts. Economic improvement and increased optimism could lead investors to take money out of share deposits and reinvest it in the equity market.

Credit unions' net worth continued to improve steadily, rising from
(continued on next page)

Credit Unions (cont.)



a. Through June 2002.

b. Growth for 2002 is the percent change from June 2001 to June 2002.

SOURCES: National Credit Union Administration, *Year-End Statistics for Federally Insured Credit Unions* and *Mid-Year Statistics for Federally Insured Credit Unions*, various issues.

\$38.93 billion in 1997 to \$57.02 billion by 2002:IIQ, an increase of 46%. Since 1998, the annual growth rate of net worth has remained flat at around 8%–9%. This is no surprise, considering that retained earnings are credit unions' only source of net worth.

Mirroring the flat growth of net worth, the return on assets has been unchanged at around 1% since the late 1990s. Although this is nowhere near the 1.4% return that credit unions offered in 1992, it is still a

success given that the ratio between gross income (interest, fee, and other operating income) and average assets dropped from 8.4% in 1997 to 7.2% in 2002. Credit unions maintained their profitability primarily because they reduced operating expenses per dollar of assets and because the cost of funds fell sharply as a consequence of monetary policy actions since 2001.

Because growth in net worth could not keep up with asset growth, the ratio of net worth to total assets

decreased from 11.4% in 2000 to 10.6% as of June 2002. Still, the health of the credit union industry appears to be good. Delinquent loans as a percent of assets fell from 0.67% in 1997 to 0.45% in June 2002. In other words, by June 2002, credit unions had more than \$23 for every \$1 of delinquent loans.

Thus credit unions remain viable providers of basic depository institution services such as consumer loans, checking accounts, and savings accounts.