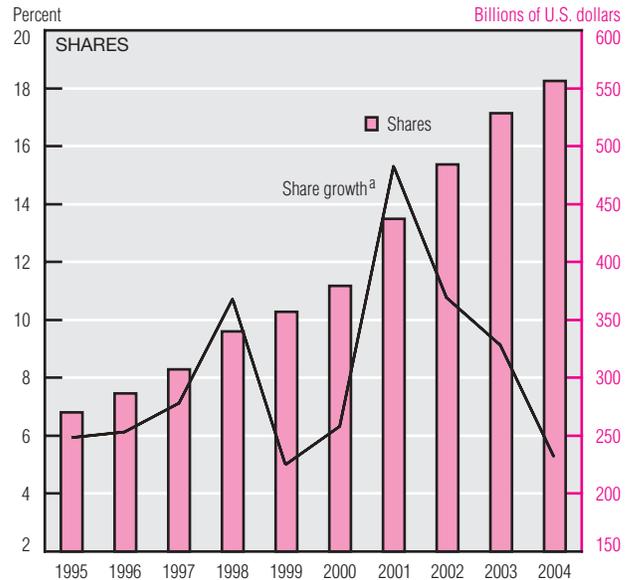
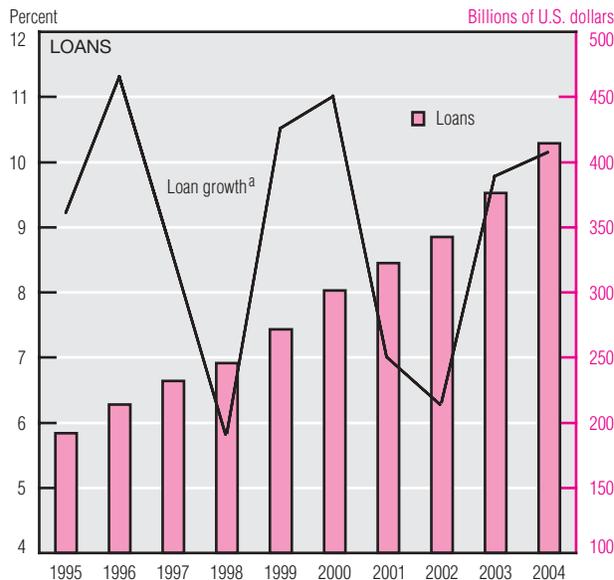
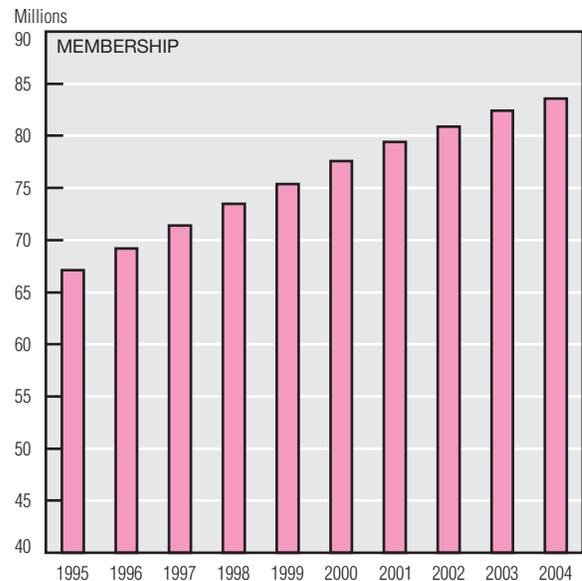
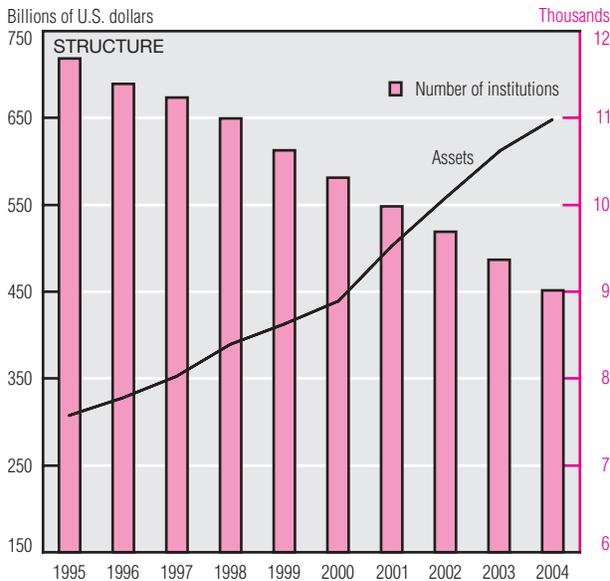


# Credit Unions



NOTE: Data are for federally insured credit unions.

a. Growth rates are 12 month/annual.

SOURCE: National Credit Union Administration, Yearend/Midyear Statistics for Federally Insured Credit Unions (<http://www.ncua.gov/ReportsAndPlans/statistics/statistics.html>).

Credit unions are mutually organized depository institutions that provide financial services to their members. Like banks and savings associations, credit unions appear to be consolidating. Their numbers fell steadily from 11,687 institutions in 1995 to 9,014 at the end of 2004. However, their total assets more than doubled over the same period from \$306.6 billion to \$647.0 billion. The number of credit union members also increased steadily from 67.1 million in 1995 to 83.6 million at the end of 2004.

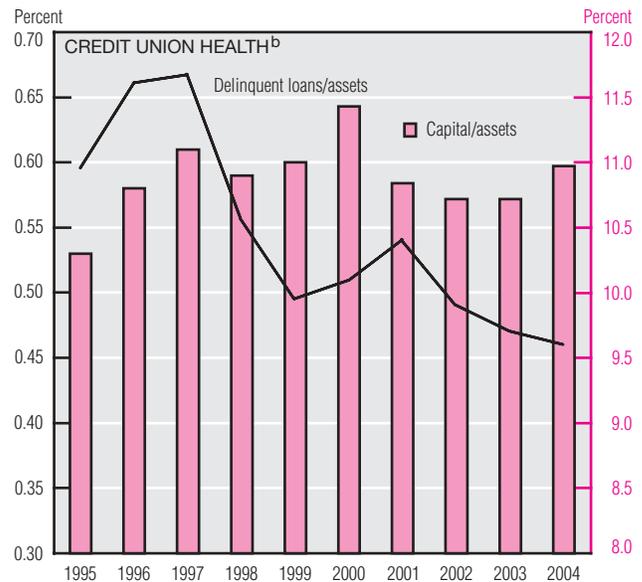
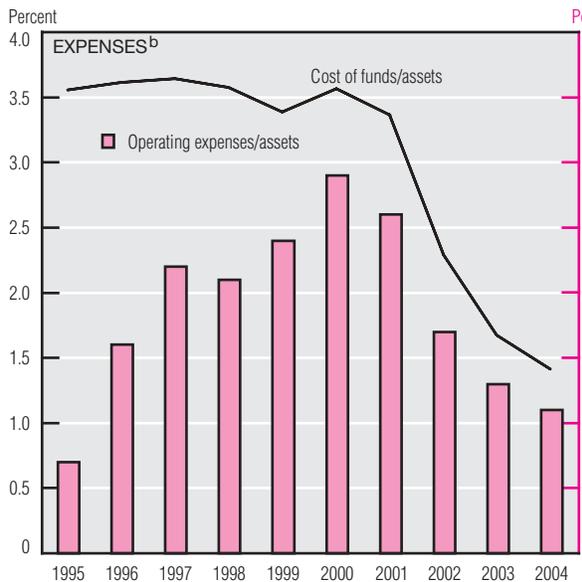
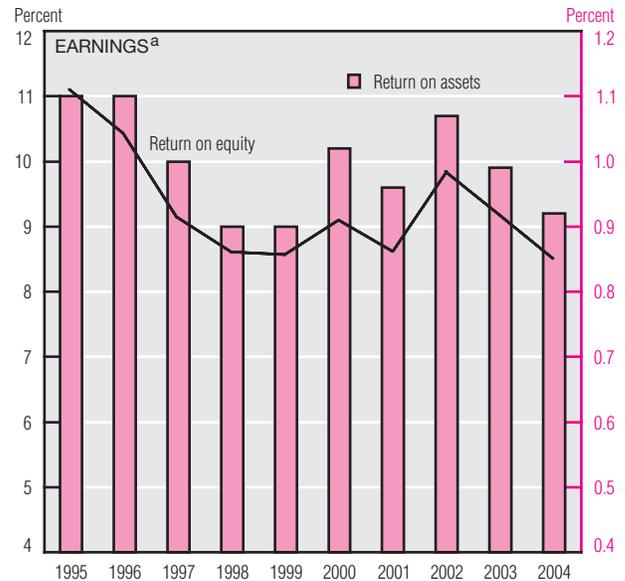
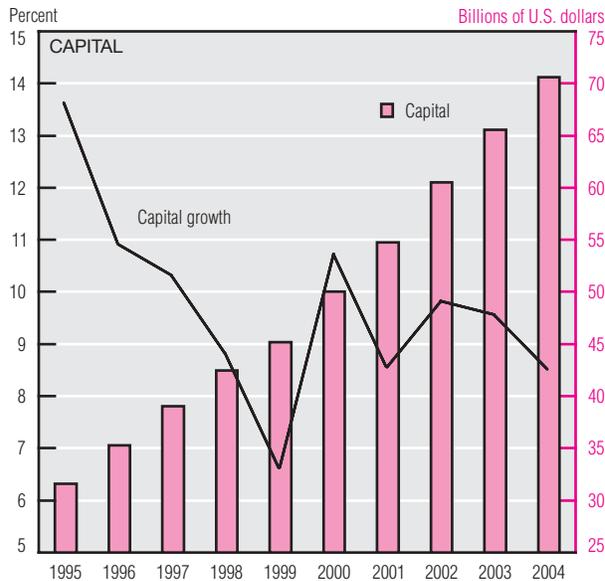
Growth in credit union assets has been fueled by positive loan growth. From the end of 1995 to the end of 2004, loans increased from \$192.1 billion to \$414.3 billion; loans as a share of assets grew modestly over that period, rising from 62.7% to 64.0%. Year-over-year loan growth has varied from 5.8% to 11.3% over the past 10 years, with an average annual growth rate of 7.8%.

Federally insured credit union shares have also risen steadily since 1995. Shares, which are analogous

to deposits in banks and savings associations, are the primary source of funds for credit unions, accounting for roughly 86% of total sources of funds. Like growth in loans, annual share growth has fluctuated between 5.0% and 15.3% over the past 10 years. Overall, shares grew at a robust 10.6% annual rate during this period. Credit unions continued to accumulate capital, which rose from \$31.6 billion at the end of 1995 to \$70.6 billion at the end of 2004, an increase of more than 123%.

(continued on next page)

## Credit Unions (cont.)



NOTE: Data are for federally insured credit unions.

a. Returns and expenses are on average assets; return on equity is on average equity.

b. All ratios are on average total assets.

SOURCE: National Credit Union Administration, Yearend/Midyear Statistics for Federally Insured Credit Unions (<http://www.ncua.gov/ReportsAndPlans/statistics/statistics.html>).

Not surprisingly, considering that retained earnings are the only source of capital for credit unions, the pace of capital accumulation mirrors the general downward trend in return on assets and return on equity since 1995. Return on assets fell from a high of 1.1% in 1995 to 0.9% in 1999. Return on assets rebounded to 1.1% in 2002 but declined in both 2003 and 2004. Return on equity followed a similar pattern over the same period. Credit unions' decline in profitability over the second half of

the 1990s resulted partly from a steady increase in operating expenses per dollar of assets and the relatively high cost of funds. The improvement in operating expenses since 2000 points to credit unions' increased efficiency, which is important for the industry's future viability. Declines in the cost of funds over the past five years are largely the result of a low-interest-rate environment.

Overall, the health of the credit union industry appears to be sound. Capital as a share of assets stood at

11% at the end of 2004. On the other hand, delinquent loans as a share of assets fell from 0.67% in 1997 to 0.46% at the end of 2004. Moreover, at the end 2004, credit unions held nearly \$24 of capital for every \$1 of delinquent loans. In short, credit unions remain a viable alternative to commercial banks and savings associations for basic depository institution services such as checking accounts, consumer loans, and savings accounts.