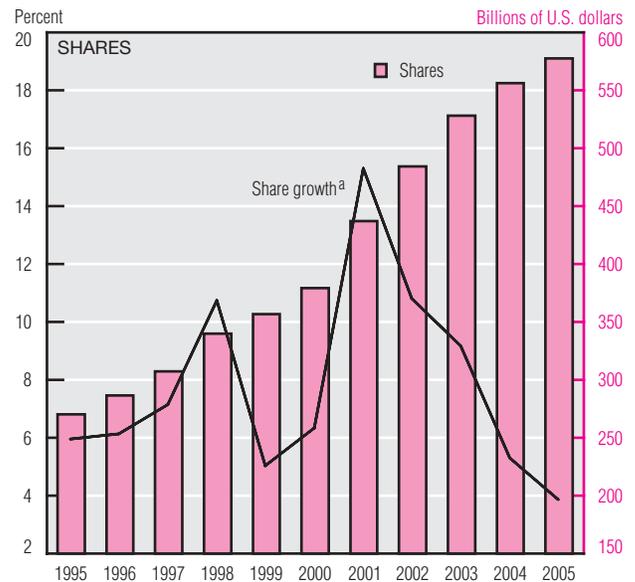
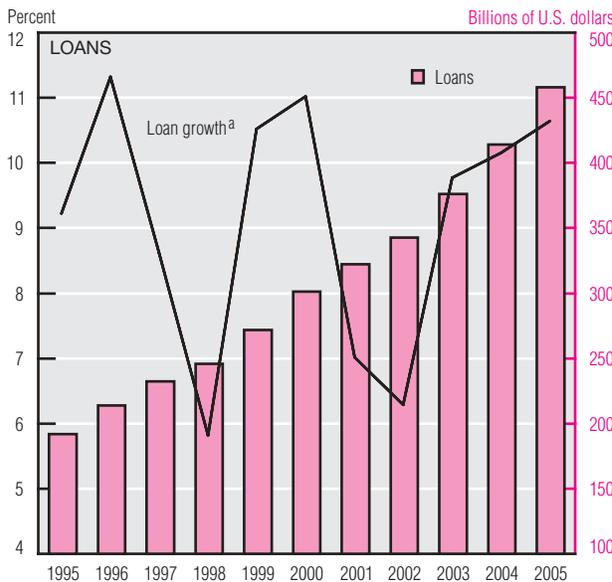
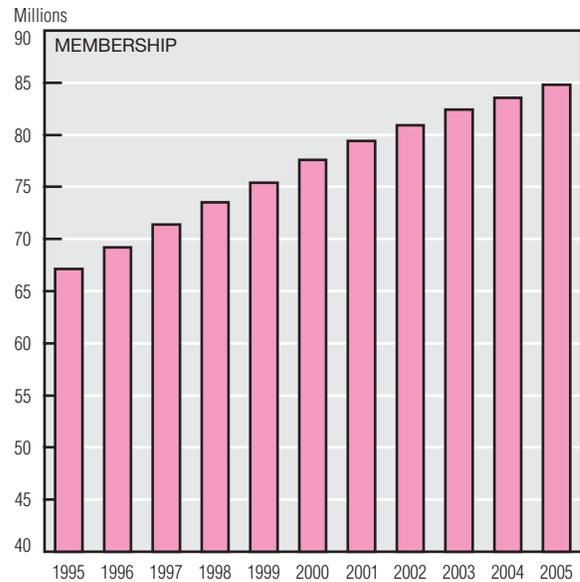
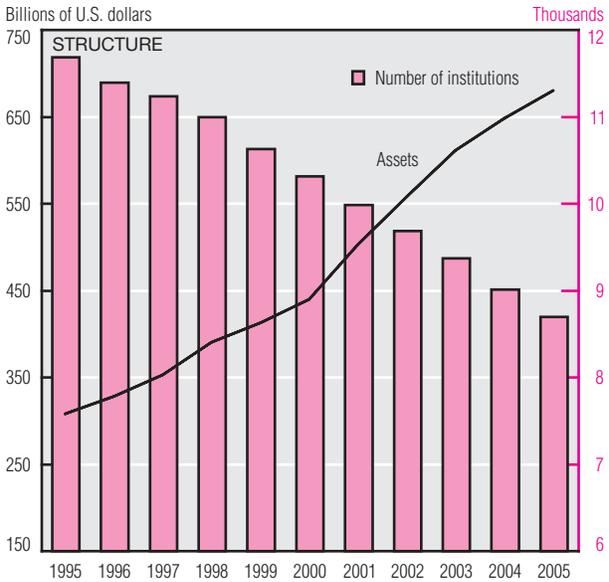


# Credit Unions



NOTE: Data are for federally insured credit unions.  
 a. Twelve-month growth rate.  
 SOURCE: National Credit Union Administration.

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 in 1995 to 8,695 at the end of 2005. However, their total assets more than doubled over the same period from \$306.6 billion to \$678.7 billion. The number of credit union members also increased steadily from 67.1 million in 1995 to 84.8 million at the end of 2005.

Growth in credit unions' assets has been fueled by positive loan growth. From the end of 1995 to the end of 2005, loans increased from \$192.1 billion to \$458.3 billion; loans as a share of assets grew modestly over that period, rising from 62.7% to 67.5%. 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 7.9%.

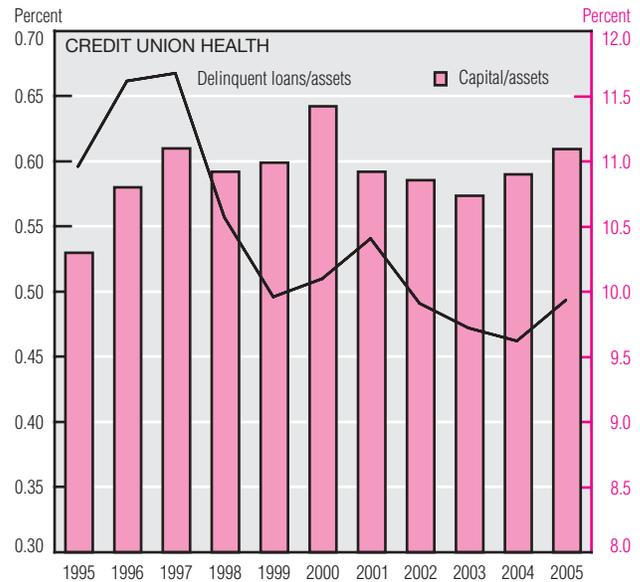
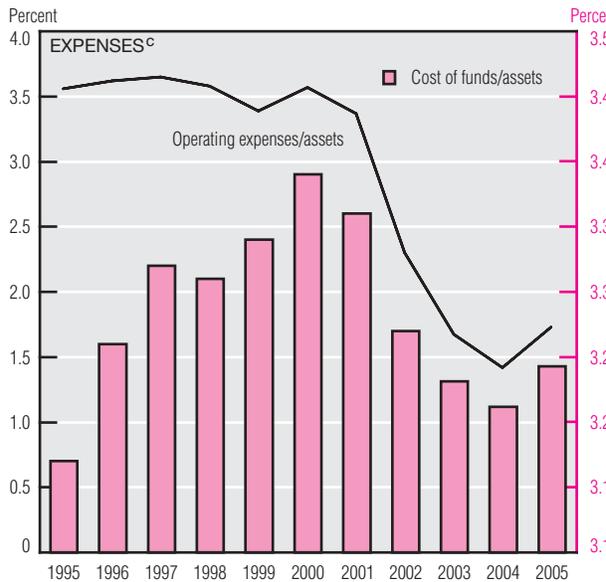
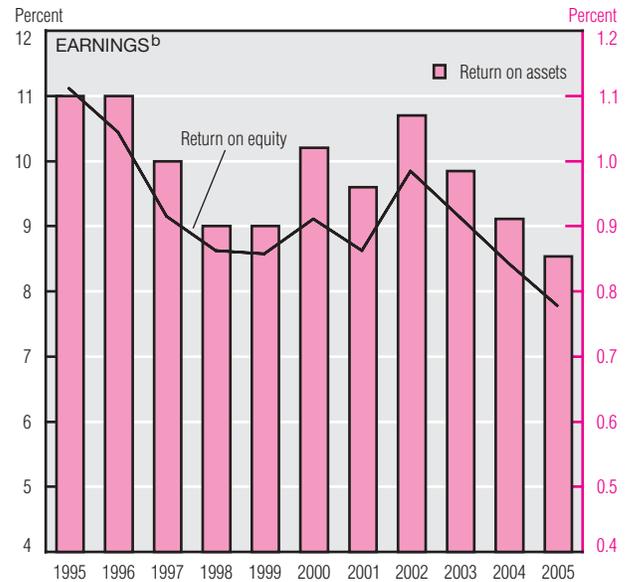
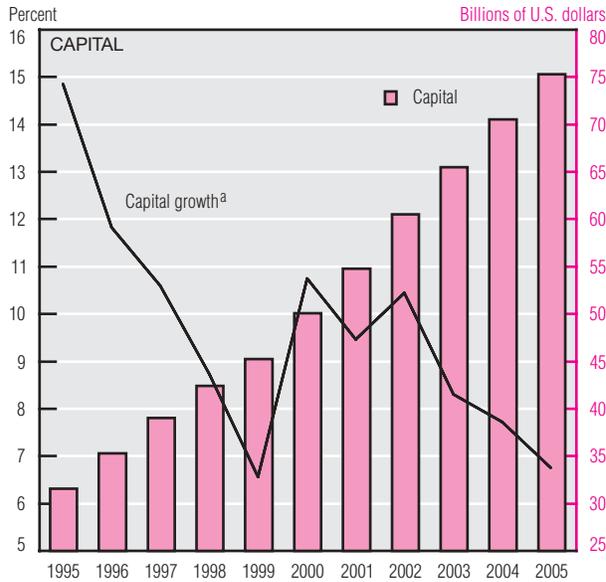
Shares in federally insured credit unions have also risen steadily since 1995. Shares, which are analogous to

deposits in banks and savings associations, are the primary source of funds for credit unions, accounting for roughly 85% of total funds. Like loan growth, annual share growth has fluctuated between 3.8% and 15.3% for the past 10 years. Overall, shares grew at a robust 7.3% annual rate during this period.

Credit unions continued to accumulate capital, which increased from \$31.6 billion at the end of 1995 to \$75.3 billion at the end of 2005, a gain of more than 138%.

(continued on next page)

# Credit Unions (cont.)



NOTE: Data are for federally insured credit unions.  
 a. Twelve-month growth rate.  
 b. Return on average assets; return on average equity.  
 c. All ratios are on average total assets.  
 SOURCE: National Credit Union Administration.

The increase in capital and the declining interest margins are responsible for 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, rebounded to 1.1% in 2002, then, at the end of 2005, fell back close to its 1999 level. Return on equity followed a similar pattern during 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 have largely resulted from a low-interest-rate environment. That trend reversed in 2005.

Overall, the health of the credit union industry appears to be sound.

Capital as a share of assets stood at 11.1% at the end of 2005. Delinquent loans as a share of assets fell from 0.67% in 1997 to 0.49% at the end of 2005. Moreover, at the end of 2005, credit unions held about \$22.5 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.