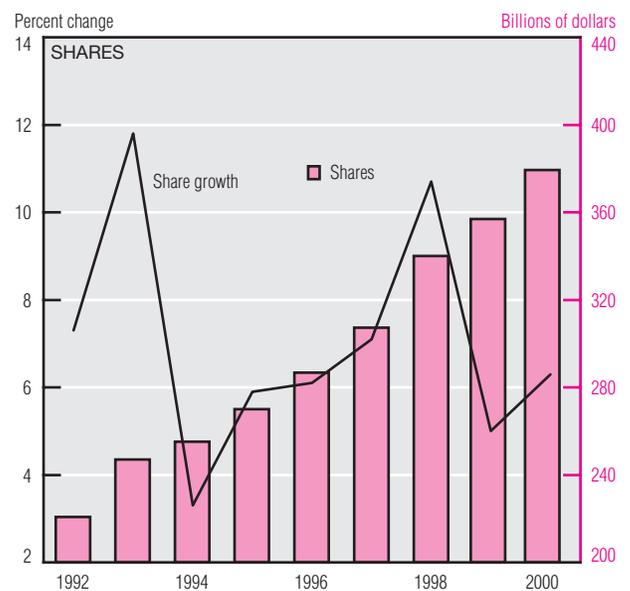
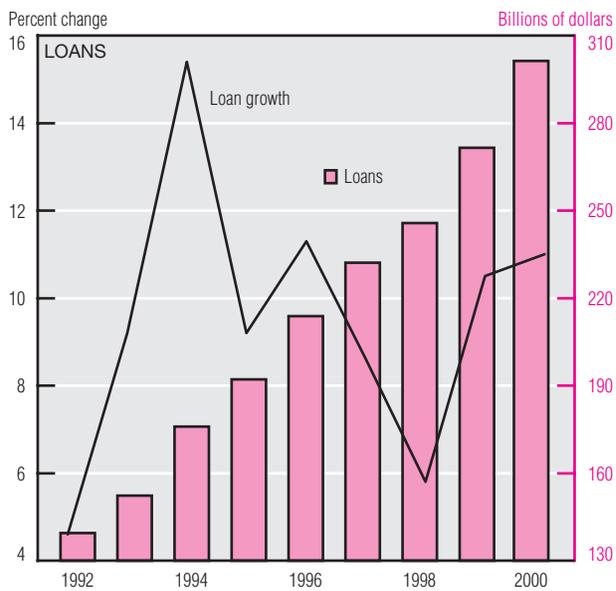
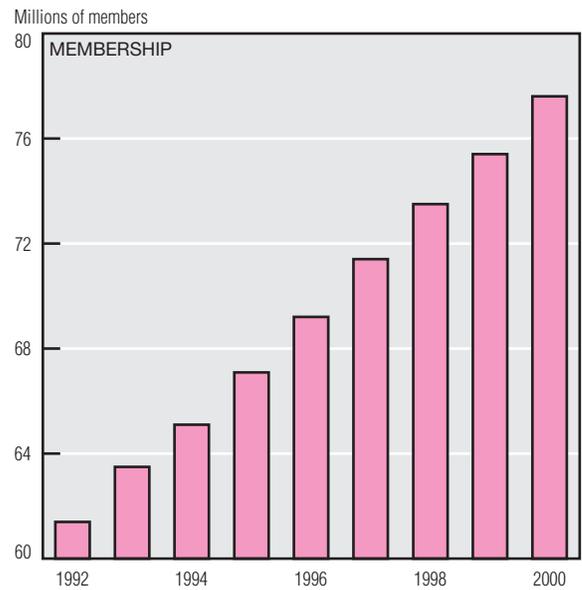
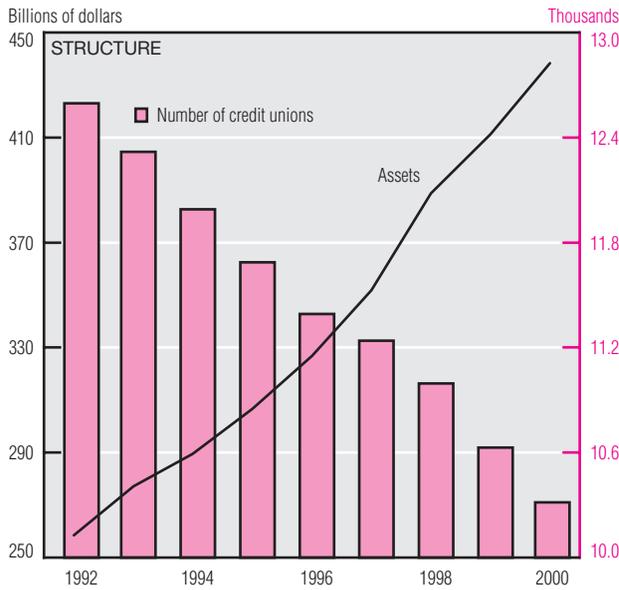


Credit Unions



SOURCE: National Credit Union Association, Year-end 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, the credit union industry appears to be consolidating. The number of credit unions fell from 12,596 in 1992 to 10,316 at the end of 2000. However, total credit union assets rose 64.58% over the same period, from \$258.4 billion to \$438.2 billion. The number of credit union members also increased steadily from 61.4 million in

1992 to 77.6 million at year-end 2000. Growth in credit union assets was fueled by positive loan growth throughout the period: Loans grew from \$139.5 billion to \$301.3 billion, and loans as a share of assets grew from 54% to 68.8%. Loan growth was remarkably strong in the early 1990s, but tapered off in the middle of the decade; it accelerated after 1998, reaching a rate of 11% in 2000.

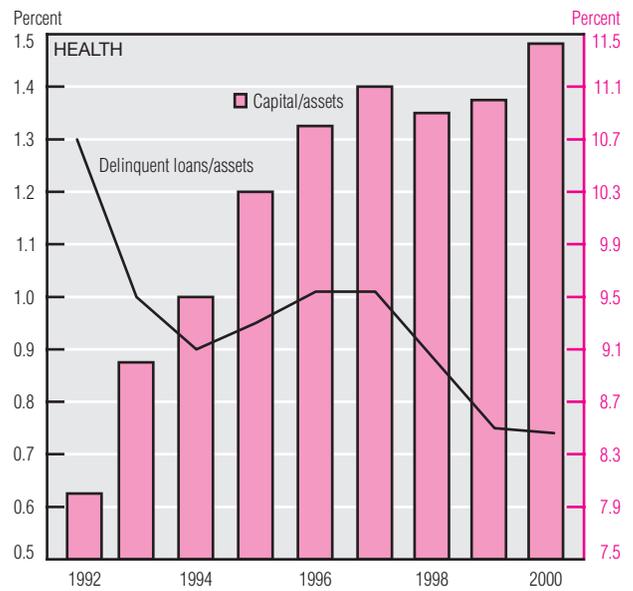
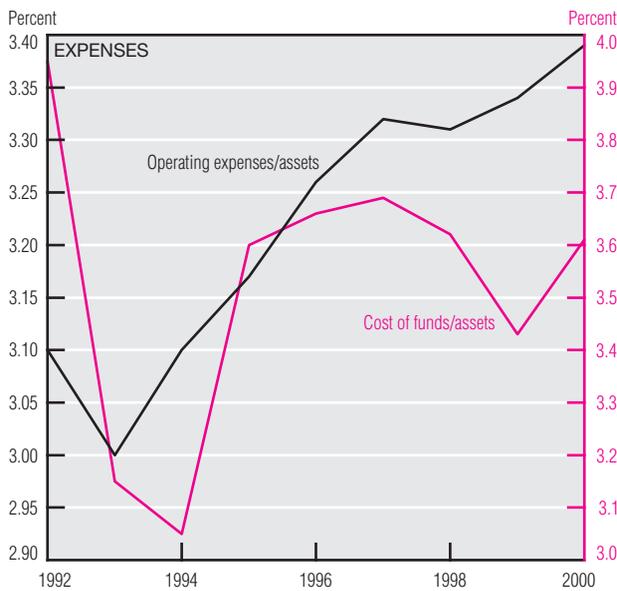
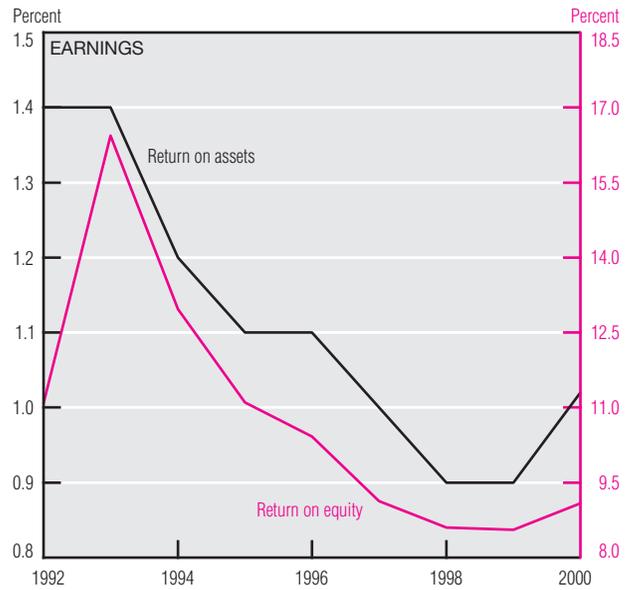
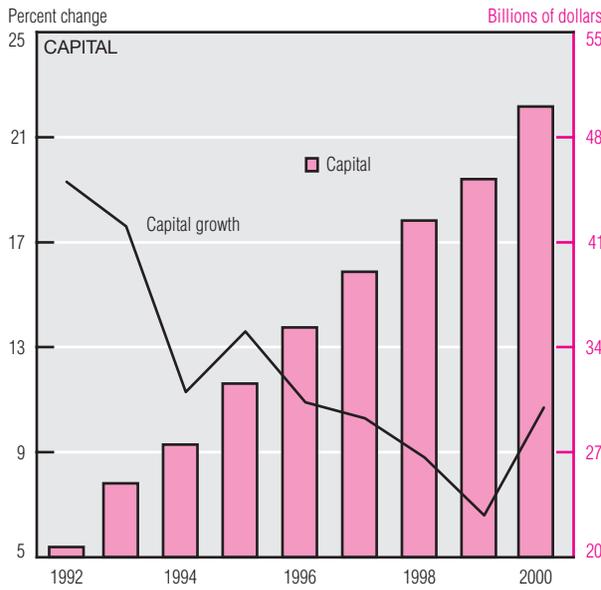
Credit union shares have risen steadily since 1992. The equivalent of deposits in banks and savings

associations, shares account for roughly 87% of total sources of funds for credit unions. The growth rate of shares increased every year from 1994 to 1998, when it peaked at 10.7%. Share growth fell in 1999, but rebounded somewhat during 2000. The slowdown in 1999 and 2000 may be attributed to high stock market returns in 1998 and 1999—prior to the market correction of 2000.

Credit unions' capital continued to accumulate between the end of 1992 and the end of 2000, increasing

(continued on next page)

Credit Unions (cont.)



SOURCE: National Credit Union Association, Year-end Statistics for Federally Insured Credit Unions.

twice as rapidly as assets. However, the annual rate of capital growth fell from a lofty 19.3% in 1992 to 6.6% at the end of 1999. The 10.7% growth rate in capital for 2000 represented its first increase since 1995.

Because retained earnings are credit unions' only source of capital, the pace of capital accumulation mirrored the decline in return on assets and return on equity after 1995. Return on assets fell from a high of 1.4% in 1992 to 0.9% in 1999 before

rising to 1.0% in 2000. Return on equity peaked at 16.4% in 1993 and fell steadily to 8.6% by 1998 before increasing to 9.1% for 2000. The decline in credit unions' profitability during most of the 1990s is partly the result of steadily increasing operating expenses per dollar of assets since 1993 and a sharp increase in the cost of funds in 1995, a consequence of rising market interest rates.

Overall, the credit union industry appears to be healthy. Capital as a share of assets stood at 11.4% at

year-end 2000. Delinquent loans as a share of assets fell from 0.67% in 1997 to 0.50% at the end of 1999 before rising slightly to 0.51% at the end of 2000. By the end of 2000, credit unions held over \$22 of capital for every \$1 of delinquent loans.

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