

## **Credit Union Development Initiatives**

The National Credit Union Administration's (NCUA) mission is to foster the safety and soundness of federally insured credit unions and to better enable the credit union community to extend credit for productive and provident purposes. During 2003, NCUA focused on

1. creating economic empowerment through credit union access into neighborhoods and communities lacking access to low-cost financial services;
2. building partnerships between credit unions and organizations providing assistance to the credit union and its membership; and
3. providing assistance to low-income designated and small credit unions.

This year's highlights are listed on this page and details are outlined throughout the report:

*Field of Membership Expansions into Underserved Areas.* Any federal credit union may include communities satisfying the definition of an underserved area to their field of membership. Over 25 million potential members from underserved areas were added to the credit unions' fields of membership in 2003. Credit unions wishing to expand into investment areas can obtain more information from the NCUA website.

*Public and Private Partnerships.* NCUA management and field staff have been continuing their efforts in facilitating partnerships between organizations and credit unions through Access Across America and the Partnering and Leadership Successes (PALS) Initiative. Examples of successful partnerships efforts include:

### Small Business Administration:

NCUA continues to work with SBA in order to increase credit union member business lending opportunities. The

number of SBA lender participants doubled in 2003 to 128 participants.

### NeighborWorks® Organizations:

Credit unions in New Hampshire have made a \$35 million commitment to partner with NW organizations in order to assist first time homebuyers. NCUA's Community Development Revolving Loan Fund (Fund) will be facilitating these types of partnerships by providing grant funds in 2004.

Community Development Financial Institutions Fund (CDFI): The CDFI awarded \$1.1 million in assistance to five credit unions in 2003. CDFI also provided staff to make presentations at credit union workshops.

Internal Revenue Service: One hundred twenty credit unions have developed a partnership with IRS since 2002. In 2003, the Office of Credit Union Development (OCUD) allocated \$50,000 to 22 credit unions to offset the costs of the administration of the IRS' Volunteer Income Tax Assistance (VITA) program. Based on the success of the 2003 VITA grant program, the OCUD earmarked \$75,000 in funds this year.

*Assistance for Small and Low-Income Designated Unions (LICU):* The OCUD provides assistance to LICUs through the grant and loan programs. During 2003, OCUD received 226 technical assistance requests totaling \$1.3 million and approved 189 requests amounting to \$460,242. The OCUD also approved 7 loans totaling \$1 million during 2003. The LICU financial highlights are located at the end of this report.

The regions completed 45 workshops that were attended by more than 1,612 credit union representatives. The NCUA staff also performed 699 on-site contacts at small credit unions during 2003.

**Field of Membership (FOM) – Underserved Areas Expansions**

NCUA continues to provide information relating to FOM expansion into underserved areas during the examination process and during workshops. The FOM underserved areas expansion activity for the last three years is shown in Figure 1.

NCUA will continue to highlight the need to bring credit union service to underserved communities through *Access Across America*.

**Figure 1**

Period	1/1/01 to 12/31/01	1/1/02 to 12/31/02	1/1/03 to 12/31/03
Region	# of Potential Members	# of Potential Members	# of Potential Members
I	754,458	1,749,268	2,381,916
II	1,440,625	5,705,478	5,114,650
III	4,283,816	3,489,840	2,264,555
IV	1,766,971	4,234,721	8,568,549
V	5,650,892	5,578,120	5,196,449
VI	2,229,875	2,793,646	1,627,295
<b>Total</b>	<b>16,126,637</b>	<b>23,551,073</b>	<b>25,153,414</b>

**Small Credit Union Program**

The NCUA Board approved a national Small Credit Union Program (SCUP) in 1999. The purpose of the SCUP is to facilitate the Board's goals of promoting the development of financially healthy small and low-income designated credit unions, and encourage the formation of newly chartered credit unions.

This program was designed to provide assistance to credit unions that fall within the following criteria:

- credit unions with assets under \$5 million;
- newly chartered credit unions in operation less than 10 years and with assets under \$10 million; and

- low - income designated credit unions.

Credit unions that fall within the SCUP criteria can participate in the program and can contact their regional office to request assistance. There is no obligation for credit unions to participate in this program, but the program does provide the unique opportunity for those smaller credit unions to obtain advice and/or assistance in areas where they may need to strengthen their expertise.

Figure 2 shows the total number of all federally insured credit unions that are eligible and those credit unions that are participating in the regional SCUP as of December 31, 2003.

**Figure 2**

	Eligible to Participate in SCUP	Participating in SCUP
<b>Total at 2001<sup>1</sup></b>	4,381	721
<b>Total at 2002<sup>2</sup></b>	3,796	841
<b>Total at 2003<sup>3</sup></b>	3,533	868

The number of credit unions participating in the SCUP has increased by 27 during 2003.

Assistance is also provided to groups interested in chartering a credit union. There were 12 credit unions chartered during 2003—eight federal and four state charters.

<sup>1</sup> Eligible federally insured credit unions' numbers were produced using December 31, 2001, call report data.

<sup>2</sup> Eligible federally insured credit unions' numbers were produced using December 31, 2002, call report data.

<sup>3</sup> Eligible federally insured credit unions' numbers were produced using December 31, 2003, call report data.

**SCUP Workshops**

The regions completed 45 workshops that were attended *by more than 1,612 credit union representatives*. These workshops were targeted toward assisting credit unions to reverse adverse trends caused by the current economy; to expand into underserved areas; and to correct safety and soundness issues that if left unresolved might impact the viability of a credit union.

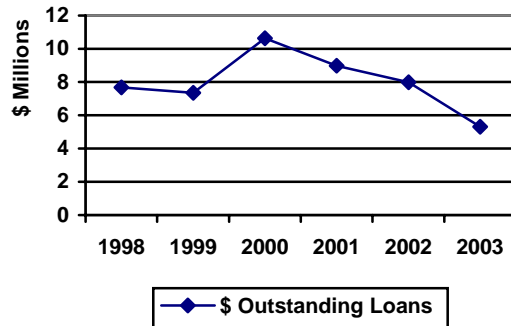
**Community Development Revolving Loan Fund**

The OCUD administers the Community Development Revolving Loan Fund (Fund). The Fund is a source of low-interest loans and technical assistance grants to LICUs. The Fund's objective is to foster community development through the improvement of credit union operations and service to members and community.

**Loan Program**

The Fund approved 7 loans totaling \$1 million during 2003. The Fund's loan portfolio at December 31, 2003, had 58 loans with outstanding balances totaling \$5,312,559. Economic factors have impacted credit unions' liquidity levels and ability to arbitrage the loan funds; therefore current loan demand is low. Figure 3 shows the amount of loans outstanding since 1998.

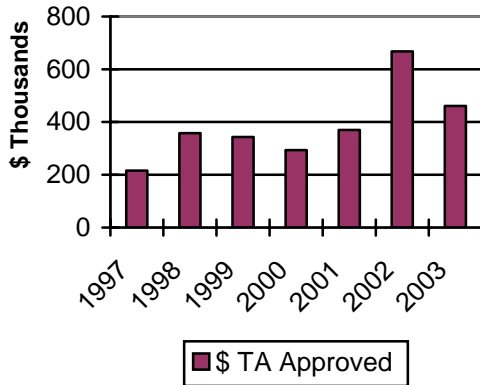
**Figure 3**



**Technical Assistance Grant Program**

The Fund's Technical Assistance (TA) Grant Program provides operational funding for technology, member service enhancements, student internship programs, training, marketing, audits, strategic planning and other needed items during 2003. During 2003, the Fund received 226 technical assistance requests totaling \$1.3 million and approved 189 requests amounting to \$460,242. Figure 4 shows the amount of grants awarded credit unions since 1997.

**Figure 4**



**Low Income Designation**

“Low-income” (LI) is an official NCUA designation granted to a credit union that serves a membership of which more than half its members earn less than 80 percent of the average for all wage earners or those members whose annual household income falls at or below 80 percent of the median household income for the nation. These income measurement standards can be obtained from OCUD. Credit unions with this designation are measured against the same standards of financial soundness and operational professionalism as other credit unions, and in addition are granted these benefits:

1. *Nonmember Deposits.* Greater authority to accept deposits from nonmembers.
2. *Participation in the Community Development Revolving Loan Fund (Fund).* Access to low-interest loans, deposits, and technical assistance from the Fund.
3. *Secondary Capital.* Ability to include this account (as outlined in the NCUA Rules and Regulations Part 701.34 and 702) in the credit union’s net worth ratio computation.
4. *Member Business Loans.* Exception to the aggregate loan limit for business loans.

The number of LI designated credit unions (LICUs) increased from 913 at the end 2002 to 964 at December 31, 2003, for a net increase of 51 credit unions during 2003. LICU activity during 2003 consisted of the following: 78 new designations, eight new charters, 28 mergers, two purchase & assumptions, one lost designation, and four liquidations. Figure 5 illustrates the growth of the number of LICUs. A list of LI designated credit unions can be found on the NCUA Web site.

**Figure 5**

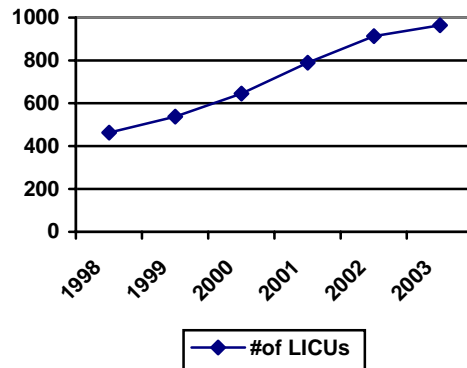


Figure 6 illustrates the growth of LICUs by region.

**Figure 6**

Region	2000	2001	2002	2003
I	64	62	69	93
II	69	122	137	137
III	145	171	216	230
IV	65	98	138	144
V	205	223	236	241
VI	97	113	117	119
<b>Total LICUs</b>	<b>645</b>	<b>789</b>	<b>913</b>	<b>964</b>

**Financial Growth<sup>4</sup>**

Figure 7 displays how LICUs compared to all federally insured credit unions in various growth rate areas at December 31, 2003.

Of special note is the increase of potential members added to credit unions' charters. As stated in a previous section, credit unions have added underserved areas to their membership (refer to Figure 1).

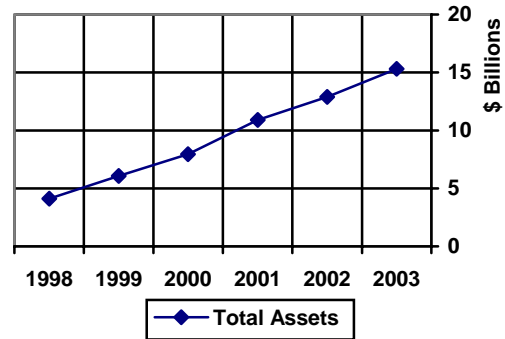
**Figure 7**

Growth % Rates (Annualized)		
	LICUs	All Credit Unions <sup>5</sup>
Share Growth	10.4	9.1
Net Worth Growth	8.7	9.5
Loan Growth	9.2	9.7
Asset Growth	10.5	9.5
Investment Growth	17.1	9.1
Current Member Growth	3.6	1.9
Potential Mbr. Growth	8	20.8

**Assets**

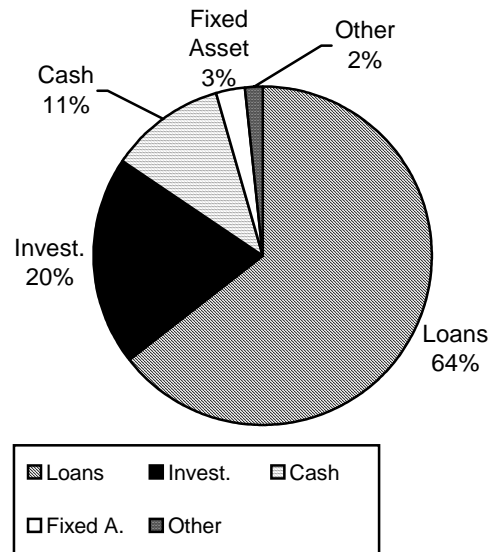
The assets of LI designated credit unions increased \$2.4 billion during 2003, from \$12.9 billion at yearend 2002 to \$15.3 billion as of December 31, 2003. Nearly 58 percent of the growth (\$1.4 billion) was attributed to 78 new designations during 2003. Figure 8 illustrates the growth in total assets of LICUs since 1998.

**Figure 8**



The asset structure for all LICUs is shown in Figure 9. LICUs have a loan to assets ratio of 64.9 percent, which compares to the 61.6 percent ratio of all federally insured credit unions.

**Figure 9**



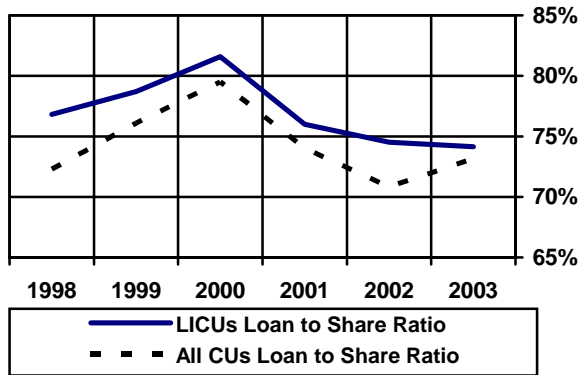
All credit unions primarily fund loan programs with member deposits. Figure 10 illustrates the loan to share ratio trend for LICUs and all federally

<sup>4</sup> The statistics displayed in this table and subsequent charts and graphs reflect data reported on Financial Performance Reports by the same credit unions for the periods December 31, 2002, and December 31, 2003.

<sup>5</sup> All federally insured credit unions.

insured credit unions. The LICUs historically have higher loan to share ratios than all federally insured credit unions.

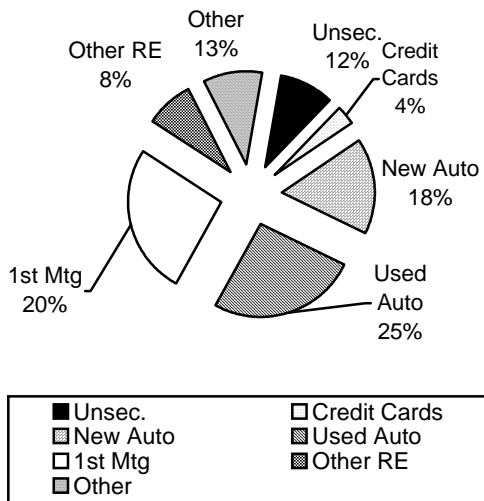
**Figure 10**



**Loans**

LICUs reported holding \$9.9 billion in loans as of December 31, 2003. Their loan portfolio mix for December 2003 is illustrated in Figure 11. There were no material changes to the portfolio mix during the last year.

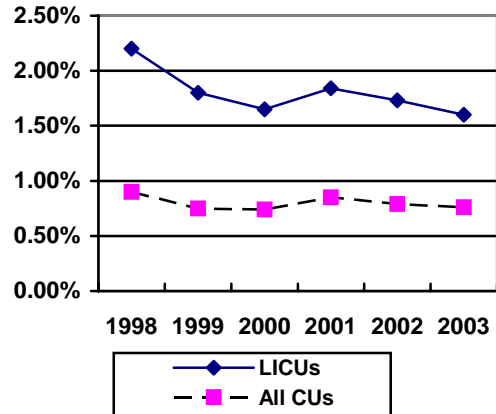
**Figure 11**



**Loan Quality**

The December 31, 2003, delinquent loan to total loans ratio for LICUs is 1.6 percent. The delinquency ratio for LICUs has historically been one percent higher than the ratio for all federally insured credit unions as shown in Figure 12.

**Figure 12**



Reasons for the higher delinquency ratio found in LICUs appear to be:

- The LICU’s loan portfolio mix consists of four percent more in the unsecured credit category (e.g., unsecured and credit cards) and four percent more in the used auto loan category than all credit unions. In addition, the LICU’s loan portfolio mix consists of 16 percent less in the real estate loans categories.
- The LICUs members’ income levels are lower which limits the liquid funds of members that are used for loan repayments.

The delinquency ratio of the low-income credit unions decreased by 0.13 percent during 2003 while the delinquent ratio for all federally insured credit unions declined (0.04 percent) slightly for the same period.

Figure 13 lists the December 31, 2003, delinquency ratios for each range.

**Figure 13**

Delinquency Range	LI Credit Unions	All Credit Unions
2 to 6 months	1.02	0.53
6 to 12 months	0.38	0.17
12 months and more	0.20	0.06
Total Delinquency	1.60	0.76

The charge-off ratios for both LICUs and federally insured credit unions are shown in Figure 14. The LICUs net charge-offs ratios of all federally insured credit unions and LICUs increased by approximately 0.5 percent. The amount of loans charged-off during 2003 due to bankruptcy for LICUs was 29.7 percent whereas the ratio was 37.1 percent for all federally insured credit unions. Therefore, LICUs had a greater opportunity to collect from the delinquent members due to the decreased level of bankruptcies.

**Figure 14**

	Percentage of Average Loans			
	Dec 02 LICU	Dec-03 LICU	Dec 02 All CUs	Dec 03 All CUs
Charge-off ratio	0.86	0.90	0.60	0.65
Recoveries ratio	0.15	0.13	0.09	0.09
Net Charge-off ratio	0.71	0.77	0.51	0.56

**Investments**

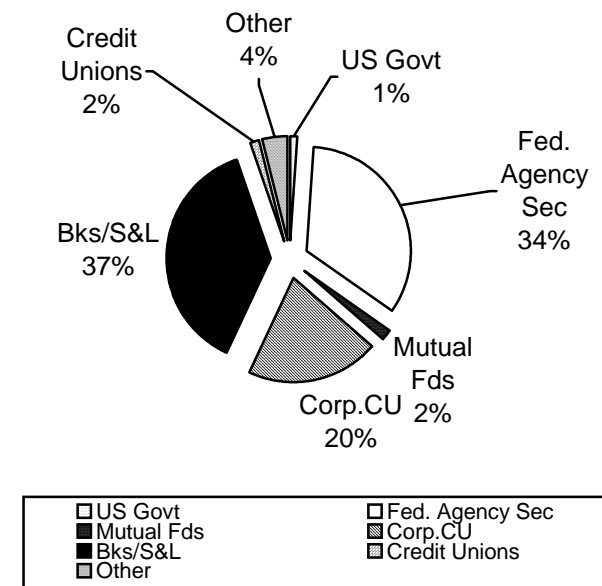
The December 31, 2003, combined financials for LICUs indicate that the investment portfolio tends to be slightly less liquid (refer to Figure 15 for investment mix) than the portfolio held by all federally insured credit unions.

**Figure 15**

Maturity or Repricing Period	Percentage of Total Investments 2002	
	LICUs	All CUs
<1 year	39.5	47.4
1 to 3 years	39.1	34.2
3 to 10 years	19.2	16.9
> 10 years	2.2	1.5

LICUs reported \$3.1 billion in investments at December 31, 2003. Changes in the investment portfolio mix during 2003 included a six percent movement to the Federal Agency Securities category from the Corporate Credit Union category. The portfolio mix for LICUs is illustrated in Figure 16.

**Figure 16**



The LICU's investment portfolio mix differs from all federally insured credit unions as follows:

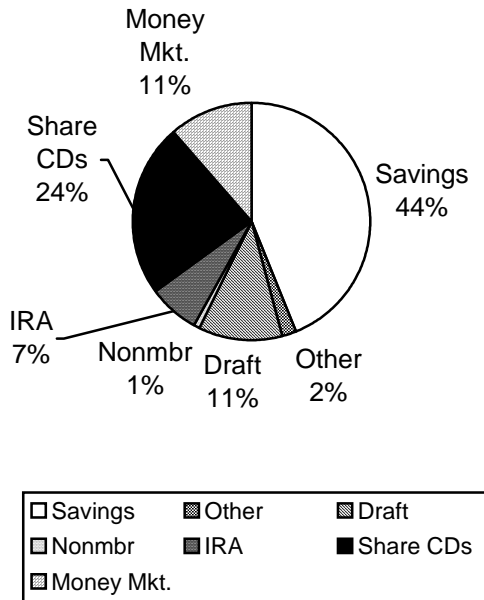
- Investments in banks/S&Ls are 21 percent higher in LICUs than all credit unions.

- Investments in Federal Agency Securities are 21 percent lower in LICUs than all credit unions.

**Shares**

As of December 31, 2003, LICUs report over \$13.4 billion in savings and deposits. Another source of deposits can be obtained from nonmembers. Changes in the share portfolio mix during 2003 included a one percent movement from the regular share category to the money market category. Figure 17 shows the share portfolio mix for LICUs.

**Figure 17**



Notable differences in the share portfolio mix between the LICUs and all credit unions include:

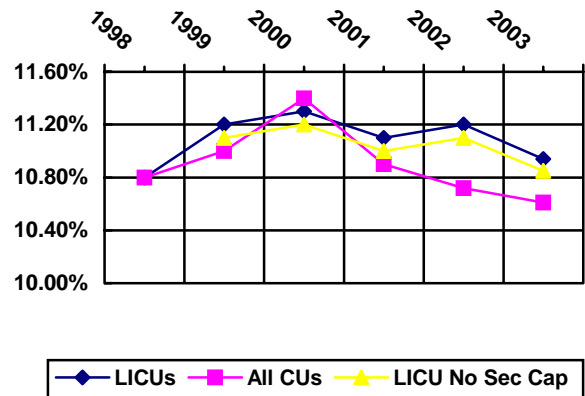
- The LICUs portfolio has eight percent less in the money market category than all credit unions.
- The LICUs portfolio has eight percent more in the regular share category than all credit unions.

- The LICUs portfolio has two percent more in the share certificates category than all credit unions.

**Net Worth**

Low-income credit unions as a group are well capitalized with a net worth ratio of 10.94 percent including secondary capital and 10.85 percent without secondary capital. Figure 18 displays net worth<sup>6</sup> to assets ratios. LICUs net worth ratios continue to be slightly higher than all credit unions (10.7 percent). The total amount of secondary capital accounts increased by 14.5 percent during 2003. The year-end secondary capital account balances over the past four periods are shown in Figure 19.

**Figure 18**



**Figure 19**

Secondary Capital in Millions at Year End

Year End	2000	2001	2002	2003
Secondary Capital \$	7.9	8.9	12.4	14.2

<sup>6</sup> Net worth includes the retained earnings balance of the credit union at quarter end as determined by generally accepted accounting principles. For LICUs, net worth also includes secondary capital accounts that are uninsured and subordinate to all other claims, including claims of creditors, shareholders, and the NCUSIF.



**Earnings**

The 2003 return on average assets (ROA) ratio for all LICUs was 0.9 percent. This compares to the 1.0 percent ROA recorded by the combined federally insured credit unions. Figure 20 illustrates the composition of the ROA. Refer to subsequent topic headings for more detail.

- The LICUs income from investments is 5 percent lower than all credit unions. Whereas, LICU loan income is 6 percent higher than all credit unions.
- The LICUs other operating income is two percent lower.

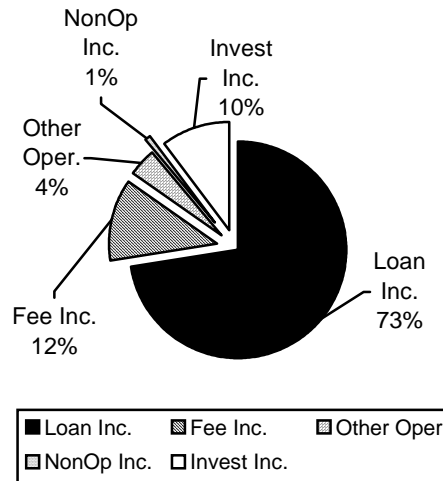
**Figure 20**

	Percentage of Average Assets				
	Dec 01 LICU	Dec 02 LICU	Dec 03 LICU	Dec 02 All CUs	Dec 03 All CUs
Gross Income	8.5%	7.6%	6.9%	6.9%	6.2%
Provision for Loan Loss Expenses	0.5%	0.5%	0.4%	0.4%	0.4%
Cost of Funds Expenses	3.2%	2.2%	1.6%	2.3%	1.7%
Operating Expenses	4.0%	4.0%	3.9%	3.3%	3.2%
ROA	0.8%	0.9%	0.9%	1.0%	1.0%

**Income**

LICUs gross income to average assets ratio declined by 0.7 percent since 2002. Figure 21 illustrates the breakdown of the elements that compose LICUs' gross income. Changes in the income portfolio mix in 2003 included a one percent decline in loan income, one percent increase in other operating income, two percent increase in investment income, and a two percent decrease in fee income categories.

**Figure 21**



**Expenses**

Figure 22 shows the breakdown of expenses for LICUs. Most of their ratios are comparable with all federally insured credit unions except the member insurance and loan servicing categories.

Notable differences in the income mix between the LICUs and all credit unions include:

**Figure 22**

<b>Expenses to Total Expenses Ratio</b>	<b>LI CUs Dec-02</b>	<b>LI CUs Dec-03</b>	<b>All CUs Dec-02</b>	<b>All CUs Dec-03</b>
Employee Comp & Benefits	44.3	45.2	44.8	45.0
Travel & Conference	1.4	1.5	1.3	1.3
Office Occupancy	5.6	5.7	5.8	5.9
Office Operation	19.1	19.1	19.8	19.4
Education & Promotion	2.8	3.0	3.0	3.1
Loan Servicing	3.4	3.8	4.9	5.0
Professional & Outside Services	6.7	7.0	6.7	6.7
Provision for Loan Losses	11.6	9.6	9.4	9.7
Member Insurance	1.7	1.4	0.8	0.7
Operating	0.6	0.6	0.5	0.5
Misc.	2.8	3.1	2.9	2.6

***Cost of Funds***

The LICUs' 2003 cost of funds to average assets ratio is comparable with all federally insured credit unions (refer to Figure 20).

**Financial Highlights**

The low income designated credit unions (LICUs) financial highlights are as follows:

- Asset growth of 10.5 percent - - comparable to the 9.5 percent reported by all federally insured credit unions.
- Current member growth of 3.6 percent - - all credit unions reported a 1.9 percent growth.
- A total loan to assets ratio of 64.9 percent - - all credit unions reported a ratio of 61.6 percent.
- A delinquency ratio of 1.6 percent - - all credit unions reported a ratio of 0.76 percent. The delinquency ratio for LICUs has historically been approximately one percent higher than all credit unions.
- A net charge-off ratio of 0.77 percent - - all credit unions reported a ratio of 0.56 percent.
- A net worth ratio of 10.94 percent - - comparable to 10.7 reported by all credit unions.
- A return on average assets ratio of 0.9 percent - - all credit unions reported a 1.0 percent ratio.

For more information regarding the programs outlined in this report, contact your NCUA regional office or the Office of Credit Union Development.