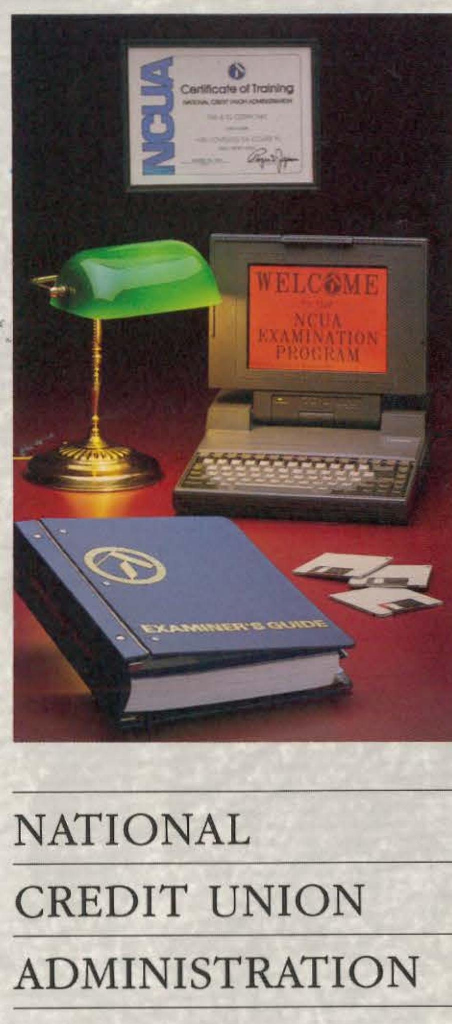
ANNUAL REPORT 1986



NATIONAL CREDIT UNION ADMINISTRATION

ANNUAL REPORT 1986

NATIONAL CREDIT UNION ADMINISTRATION

The mission of the National Credit Union Administration is to ensure the safety and soundness of credit unions and to provide a flexible regulatory environment that will facilitate sound credit union development, while efficiently and effectively managing the Agency's resources and the share insurance fund.

Transmittal Letter

NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

OFFICE OF THE CHAIRMAN

April 1, 1987

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I am pleased to submit this Annual Report of the National Credit Union Administration for 1986.

The report covers the operations of the National Credit Union Administration and includes reports on the National Credit Union Share Insurance Fund and the National Credit Union Central Liquidity Facility.

With kindest personal regards, I am

Sincerely,

Roger W. Jepsen

ROGER W. JEPSEN
Chairman

Credit Unions: A History of Change

Those who founded the Federal credit union movement 52 years ago would be staggered by the dynamic and vibrant financial system in place today. With nearly 50 million members in almost 15,000 federally-insured credit unions, the popularity of these non-profit cooperatives has never been greater.

Consumer surveys have continually ranked credit unions high in personal service and convenience. The passage to popularity has been one of constant change, both for credit unions and the agency which supervises them.

Credit unions trace their roots to cooperative societies founded in Germany in the mid-nineteenth century to combat usury and to help working people. Credit unions spread to the United States in 1909, and in 1934 Congress created the Federal credit union system. Credit unions grew steadily in the 1940s and 1950s and by 1960 credit union membership amounted to more than 6 million people at over 10,000 Federal credit unions. People looked to credit unions as a source of reasonable loans and convenient savings programs such as payroll deduction.

Supervision of credit unions shifted from one Federal department to another. First housed in the Farm Credit Administration, responsibility finally, in 1948, settled in the Bureau of Federal Credit Unions in the Department of Health, Education and Welfare.

The 1960s and 1970s were active years. In 1970, credit unions won Federal legislation creating an insurance fund to protect member shares. An independent regulatory agency, the National Credit Union Administration headed by a single administrator, was established. Reflective of the independent credit union spirit, the National Credit Union Share Insurance Fund was created without tax dollars and capitalized solely by credit unions.

The 1970s brought major changes in the products offered by financial institutions and credit unions found that they, too, needed to expand their services. In 1977, another major legislative package brought expanded services. This marked the beginning of time accounts (share certificates) and mortgage lending. In 1978 legislation also changed NCUA's single administrator to a three member Board.

Burdened with fewer regulations than other financial institutions, the '70s were years of tremendous growth. Credit union assets quadrupled. High interest rates and unemployment in certain economic sectors in the early 1980s brought supervisory challenges to the new Board.

Deregulation and increased flexibility in merger and field of membership criteria characterized the period. Standing by their reputation as innovators, credit unions were the first financial institution free to set their own savings rates.

NCUA focused its efforts in 1986 on improving supervision and examination of credit unions. For credit unions, it was a time for assessing and developing the services demanded by sophisticated consumers. By most measurements, they have been successful. Shares grew by a record 24 percent in 1986 and public opinion surveys show credit union members are the most satisfied of all financial consumers.

Chairman

Roger W. Jepsen

It is with a great deal of satisfaction that I report on the events and accomplishments of 1986 in this annual report. If asked to state a theme for the year, I would call it "Building for the Future." In so many ways, 1986 can be viewed as a year of laying the foundation for many solidly productive years ahead at NCUA.

We began the year with the idea in mind of staying ahead of problems rather than waiting for them to reach us. Among the staff, however, and among many credit union professionals, the majority agreed that we were under-staffed, under-trained and under-equipped.

As the year progressed, our original intent of staying ahead of problems became a firm commitment involving serious long-range planning. For various reasons, most obviously the ever-increasing complexity of credit unions themselves, NCUA must become an Agency for the future.

In 1986 we took three important steps towards that future. After careful analysis and many hours with our liaison at the Office of Management and Budget, NCUA was given permission to hire 205 additional examiners during the next two years. In our best judgment, this is the number needed to perform thorough and meaningful exams of credit unions nationwide.

Examiners new and old need training to do the job right. We, therefore, embarked on an ambitious training program, involving in-house as well as academic resources, including the prestigious Louisiana School of Banking. Our training efforts will continue to expand until our examiners become crackerjack professionals.

Recognizing another element of the future, the NCUA Board approved the purchase of lap-top computers for our examiners. The days of laborious and time-consuming report writing will soon be over. After quickly entering data into our central files, examiners will have much more time to spend doing what they like best: taking a personal interest in the credit union. Our intention is to free the examiner for "quality time."

If our theme for the year has been Building for the Future, you will also have noticed that the emphasis is on examiners, not central office. We in Washington certainly have a job to do, but our first line of defense against trouble begins in the field. As long as that fact remains foremost in our minds, everyone will benefit.

Roger W. Jepsen
Chairman

My first full year as Chairman has been educational and enlightening. I have thoroughly enjoyed meeting and working with the NCUA staff nationwide, as well as the hundreds of credit union professionals who are so hospitable everywhere I go. To each of you I extend thanks for your patience as I learn the trade. I look forward to the coming productive years.

Roger W. Jepsen

Roger W. Jepsen
Chairman

Vice Chairman

P. A. Mack, Jr.

P. A. Mack, Jr.
Vice Chairman

The year was marked by a strong spirit of cooperation in the credit union system: NCUA staff, state regulators, trade associations and credit unions. The improvements made in credit union examination and supervision of credit unions could not have been accomplished without that teamwork.

I am particularly proud of our great strides toward improving the examination program of corporate credit unions. For the first time, we have a specialized team of examiners for the $31 billion held in corporates and U.S. Central Credit Union. These examiners have received technical training to help them better understand the often complex transactions corporates undertake in serving their credit unions' members.

Expect to see more specialization among our examiners so that they can respond to the increasing diversity and sophistication of credit union operations. We'll also continue to search out the opinions and perspectives of credit union people to help ensure well-thought-out programs and policies that will provide safe and sound supervision of credit unions.

Cooperation has also been a key in my work during 1986 with the World Council of Credit Unions. Throughout the year, the agency has been privileged to host many international visitors. Sharing technical expertise and experiences in an effort to strengthen the credit union system worldwide is cooperation of which our founders would be proud.

With member confidence high and cooperation within the credit union system strong, I enthusiastically look forward to a year of success for all credit unions.

P. A. Mack, Jr.
Vice Chairman

Board Member
Elizabeth F. Burkhart

The National Credit Union Administration has just completed a year of unprecedented progress in preparing to take its place in the high technology environment of today as well as that of the future. The Board has authorized an integrated system of major computer enhancements and widespread use of micro computers throughout the Agency.

With these state of the art tools we will be able to analyze national trends for early detection of emerging problems and thus continue our commitment to resolve problems promptly. We will also be able to alert the credit union community to trends we consider harmful to the health of credit unions.

The Board has directed the implementation of automated credit union examination procedures. Collectively, these tools will lead to an increase in productivity and an increase in depth and scope of analysis.

Elizabeth F. Burkhart
Board Member

I am very proud of these developments, although I am well aware that computer technology calls for a change in mind-set from paper-based management decisions to data-based decisionmaking. With these new tools we will be able to track the progress of the institutions we examine and the productivity of the staff we supervise. Our challenge as an Agency will be to fully understand and use these data effectively at all levels of decision-making.

In giving direction to the actions of the Agency, however, I firmly believe that we must keep in mind our reason for being—to give guidance to and nurture the development of credit unions of all sizes and types; to encourage thrift among members who have a meaningful common bond and to ensure that members of small means have access to credit and basic financial services.

Elizabeth F. Burkhart

Elizabeth F. Burkhart
Member of the Board

Report from the Executive Director

I want to express my appreciation for the enthusiasm, creativity and determination shown by NCUA staff during 1986. It was truly a year of challenge, change and great progress.

Foremost was our successful effort to increase the size of the examiner force. Staff members compiled and analyzed data showing the need and made convincing presentations. In a period of rapid change and growth, safety and soundness demands a great human commitment from NCUA.

Without training and technical support, NCUA's examination program cannot be effective. I am pleased that 1986 saw the development of an active training program. Following an extensive needs assessment, courses were developed in verbal and written communications, negotiating techniques and in technical subjects such as commercial and agricultural lending. The Board has approved an ambitious training program for 1987 which expands the course of study for new examiners.

NCUA has taken a giant step into the computer age and with increased data accessibility, our examiners will be better able to do a good job. Dispersed as they are throughout the 50 states, good communication links are essential.

A new publication, The Examiner, serves to keep examiners and other staff informed of happenings within the Agency. A new telephone message recording system makes examiners accessible to credit unions, supervisors and other staff.

In March, the NCUA Board realigned regional boundaries to more equitably distribute workload and manpower. Minnesota and Iowa moved from Region IV to Region V and Montana, Idaho and Nevada are now in Region VI.

A new position of corporate examiner was created and a team of corporate examiners appointed and trained. These specialists examine corporates and other large and complex credit unions.

I am also pleased with an increase in the numbers of women, minority and handicapped persons joining our staff. We view our authority to expand our examining force as an opportunity to add bright, motivated workers.

NCUA cannot become a static, traditional bureaucracy as it deals with the dynamic credit union system. I believe that in 1986 we laid the foundation for a year of achievement and of service to our credit union constituents in 1987.

Donald E. Johnson
Executive Director

Donald E. Johnson
Executive Director

Joan E. Perry
Internal Auditor

Benny R. Henson
Director
Office of Administration

General Counsel

Enforcement and supervision, necessary in a deregulated environment, became an increasing responsibility for the Office of General Counsel during 1986.

Crises in the banking and savings and loan industries made NCUA even more determined to maintain public confidence in the credit union system. This meant addressing abuses which had occurred in other financial institutions resulting in substantial losses for their Federal insurers. Of principal concern were insider dealings and conflicts of interest.

The NCUA Board directed staff to develop a background report on problem credit unions and to recommend action that would get ahead of problems before they occur. The Board endorsed vigorous corrective action including criminal enforcement.

To improve enforcement, NCUA and other financial regulatory agencies developed a uniform Criminal Referral Form so that financial institutions report crimes to law enforcement authorities in a more comprehensive manner. It also established a computerized tracking system to record and monitor significant criminal referrals.

The Criminal Division, Fraud Section, of the Department of Justice also maintains a tracking system for major fraud cases in financial institutions. Agencies can now share information so that repeat offenders are identified and prosecuted.

Robert M. Fenner
General Counsel

NCUA's rulemaking activity during 1986 was guided by concern for maintaining the financial integrity of credit unions and the Share Insurance Fund without overburdening credit unions.

☐ In March, the NCUA Board adopted a final rule (12 C.F.R. 701.27) amending NCUA's regulation of credit union service organizations. Federal credit unions are authorized within limits to invest in and make loans to CUSOs. This rule expands and clarifies permissible services and provides a mechanism for adding new services.

☐ Three regulations related to Federal share insurance were adopted in October covering advertising, requirements for insurance, and clarification and definition of account insurance coverage (12 C.F.R. Parts 740, 741, and 745). The Board added an appendix to Part 745 providing examples of Federal share insurance coverage to help federally-insured credit unions and their members structure accounts to obtain maximum protection of member savings.

☐ In June, the Board issued proposed rules on commercial lending by federally-insured credit unions. The June proposal would have established a totally new regulation setting forth the conditions under which credit unions could grant member business loans. Based upon comments received, a revised rule was proposed in December and was integrated into existing rules.

NCUA continues to review regulations to identify unnecessary regulatory burden, to protect the financial integrity of the National Credit Union Share Insurance Fund and to improve NCUA operations.

NCUA is committed to full public participation in its regulatory review process. The Board conducts open monthly meetings, some in cities other than Washington, D.C. It requests public comment on all substantive rule changes and publishes a semiannual agenda of regulations.

Legislative Report

Robert E. Loftus
Director
Office of Public and Congressional Affairs

Of primary concern to credit unions during the 99th Congress was the proposal to end their 50-year-old tax exemption. It was a major legislative victory when the Tax Reform Act of 1986 was enacted without changing their Federal tax exempt status as non-profit cooperatives.

Other action during the 99th Congress was of importance to NCUA and credit unions:

☐ NCUA's conservatorship and merger authority were extended by Congress three times during the 99th Congress. However, at the end of its final session, Congress was unable to pass a measure to further extend this authority.

☐ The budget of the Central Liquidity Facility was approved by Congress as submitted by NCUA.

☐ Legislation enhancing NCUA's independence and upgrading its examiner force passed overwhelmingly in the House of Representatives in late 1986.

☐ Legislation requiring all depository institutions, including credit unions, and credit card issuers to disclose interest rate terms, conditions and related fees in a uniform and clear manner passed the House near the end of the year. This bill gave NCUA separate authority to carry out its purposes and contained provisions to fit the unique character of credit unions.

☐ Legislation transferring the Community Development Credit Union Revolving Loan Fund from the Department of Health and Human Services to NCUA became law.

☐ Modifications in the very broad Bank Bribery Act were enacted.

☐ Legislation to prevent money laundering, part of the Omnibus Drug Enforcement, Education and Control Act of 1986, became law. Banking regulators, including NCUA, were directed to prescribe regulations requiring insured financial institutions to establish and maintain Bank Secrecy Act compliance procedures.

☐ During 1986, legislation creating a new Chapter 12 in the Bankruptcy Code became law. It gives farmers certain protections from creditors that bankruptcy provides while preventing abuse of the system and ensuring that farm lenders receive fair repayment.

☐ An act regulating the activities of government securities dealers, approved by the House of Representatives in 1985, passed the Senate and became law in 1986.

☐ Stalemate continued between the House and Senate on comprehensive banking legislation, including issues such as nonbank banks, recapitalization of the Federal Savings and Loan Insurance Corporation and emergency acquisitions authority.

☐ The Gramm-Rudman-Hollings Act continues to raise serious issues for NCUA and the other non-tax-funded financial regulators. Legislation to exempt NCUA from the statute passed the full House and the Senate Banking Committees.

Information Services

Joseph W. Visconti
Director
Office of Information Systems

NCUA's Office of Information Services responded in 1986 to a challenge from Board Chairman Roger Jepsen to seek "the perfect solution" to the Agency's computer needs in carrying out its oversight responsibilities.

In meeting this challenge, OIS grew and evolved and today bears little resemblance to the OIS of January 1986. Computer system hardware and software were changed and enhanced, the department was restructured and staff reassigned.

OIS functions were divided into three support centers. The Data and Telecommunications Center is responsible for mainframe hardware, systems operations, telecommunications and production. The Systems Support Center handles all mainframe-oriented automation requirements and the Information Center is responsible for microcomputer and office automation requirements.

Most important was the purchase of a non-stop "super" minicomputer to be used as a "front end" processor to augment the NCUA mainframe computer. This super minicomputer will serve as a transaction processor with every access to NCUA mainframe data going through it. Instantaneous access to NCUA automated data will be available when and where it is needed.

A pilot project was initiated to find the "perfect solution." OIS assisted with the selection, procurement and distribution of pilot machines, the evaluation of the participant responses and in writing the request for proposals for the machines selected.

OIS staff was involved in the development of specifications for the Core Examination System and in training field staff in its use and in use of the portable microcomputers.

During the year the share insurance system was redesigned, a communications link was established with the Mellon Bank for the receipt of share insurance deposits, examination reports were improved and new reports added. An on-line property system was completed.

A device was installed on the mainframe computer which permits the Agency's microcomputers to be used as terminals to the mainframe. A high quality laser printer became operational in December. Software and procedures were implemented to provide an Agency-wide electronic mail system.

A system for the entry, editing and transmission of NCUA Form 5300 data was developed in time for the June cycle and improved for the December cycle. A full-time equivalency system was developed for the Controller's Office and NCUA Board minutes were automated. Assistance was provided to the Office of the Chief Economist and to other offices.

Personnel Management

Dorothy W. Foster
Director
Office of Personnel

A major expansion in staff training programs, a management development program for selected trainees and a new system of incentive awards had a positive impact on employee morale during 1986.

The result has been a decline in what was becoming an unacceptably high examiner attrition rate.

The NCUA Board approved a comprehensive training program with a 1986 budget of over $600,000 with the bulk of the resources targeted at the improvement of examiner skills. A variety of technical and non-technical programs was offered providing virtually every examiner with opportunities for training in the complexities of the job.

A formal Incentive Awards Program recognizes outstanding performance and service to the Agency. Awards totaling $140,000 were presented to 250 people. Several were honored at an awards ceremony in Washington, D.C.

Eight candidates were selected for an intensive long term management development program intended to provide a trained cadre from which the agency's future mid and senior managerial positions will be filled.

Two legislative directives were implemented during the year. New Performance Appraisal plans more closely relating pay to performance were developed. In addition, NCUA made plans for the start of the new Federal Employees Retirement System.

There were major changes in the examiner pay and recruitment areas. Research was begun in 1986 to provide information on which to base special salary rates for high cost-of-living areas.

In response to an NCUA request, the U.S. Office of Personnel Management authorized the Agency to offer an accelerated promotion program to new examiners. The agreement permits a new examiner to be promoted after six months of intensive formal classroom and on-the-job training. Reducing the period before the first promotion allows NCUA to compete with higher initial salaries offered by other employers.

To facilitate examiner recruitment, OPM also granted appointment authority that dramatically accelerates hiring entry level financial institution examiners. It provides an exception from competitive service entry requirements, important in replacing departing staff and hiring new examiners.

Examination & Insurance

D. Michael Riley
Director
Office of Examination and Insurance

Annual on-site examination of all Federal credit unions continues to be NCUA's goal. In fiscal year 1986, the Agency examined 9,642 credit unions, 97.5 percent of all Federal credit unions. The remaining credit unions were examined early in fiscal year 1987. NCUA examiners also made on-site contacts in numerous state-chartered credit unions converting to Federal share insurance.

NCUA placed more emphasis in 1986 on working with "problem case" credit unions to improve performance. The number of follow-up contacts increased dramatically to 607, an increase of 22 percent.

Cooperation between NCUA and state credit union supervisors reached an all time high. NCUA works closely with state regulators to monitor the continued insurability of state credit unions and reviews state examination reports. When there are significant problems, the state regulator and NCUA work together to develop action plans to resolve problems. Every effort is made to jointly make contact and resolve problems.

In 1986, NCUA and the National Association of State Credit Union Supervisors established a task force which included representatives of four states. The task force developed a uniform core examination, an examiner's guide and suggested examination workpapers. A majority of states are expected to adopt these tools.

NCUA monitors semiannual financial call reports from all federally-insured credit unions to detect adverse trends. Examiners review the information for accuracy and a computer analysis calculates key operating ratios, computes certain rates of change and develops peer group rankings. This Financial Performance Report is used to identify negative trends and to establish reasonable goals for improvement.

During 1986, NCUA initiated the first major review of the report since it was introduced in 1981. The result more closely reflects the current needs of credit unions.

While the FPR continues to include 10 key ratios, greater emphasis is placed on profitability and funds management and less on growth. A new feature is a bar chart depicting the credit union's ranking for each of the key ratios.

NCUA's goal is to provide examiners with the tools they need. Up to date manuals and training are key elements. During 1986, a committee of field examiners and regional staff updated and expanded the examiner's guide to include state of the art information.

In 1986, NCUA returned to traditional classroom training as the principal method of examiner education. A one week classroom program for new examiners was instituted and, for the first time, a series of technical seminars was offered to senior examiners. Specific topics such as investments, commercial lending, asset/liability management and agricultural lending were covered in two and three day programs.

The 1987 budget places further emphasis on technical examiner training. The New Examiner Program has been increased to a series of four programs covering five weeks. Technical seminars will also continue.

Region I

Stephen W. Raver
Director
Region I

Connecticut
Maine
Massachusetts
New Hampshire
New Jersey
New York
Puerto Rico
Rhode Island
Vermont
Virgin Islands

The abrupt closing on April 9 of the federally-insured $80 million Hyfin Credit Union in Brooklyn exposed the largest embezzlement in NCUA history. Hyfin's doors were locked by the U.S. Attorney to prevent insiders from removing criminal evidence from the premises.

With the cooperation of the New York Banking Department, Region I staff arranged a merger with Municipal Credit Union which took place just after midnight of that day. The unraveling of the many facets of the case continues to be a great challenge and much work remains, particularly in asset recovery.

Region I took its first conservatorship action in July at the $5 million Adamant Credit Union, Adamant, Vt., in cooperation with the Vermont Department of Banking and Insurance. Membership support has remained strong and a new management team has restored profitability.

Region I has reduced its "208" assisted credit unions from five at the beginning of 1986 to only one. Noncash assistance of $1.5 million and cash assistance of $1.9 million at the beginning of the year were reduced to less than $60,000 of noncash assistance.

Region I completed its annual examination of all of its 2103 Federal credit unions in spite of the extra work involved with Hyfin and other special cases. Profitability has been returned to numerous credit unions by solving managerial and operational problems.

Efforts to attract quality examiners and to train present staff accelerated and our examiner staff was increased from 59 to 81. New examiners completed their basic training programs and veteran staff members attended numerous training programs.

Nine state credit unions in Region I with assets totaling almost $600 million converted to Federal charter and 12 state credit unions with assets of more than $500 million converted to Federal share insurance in 1986.

Plant closings and other economic pressures continue to influence merger activity. Although down slightly from 1985, 81 federally-insured credit unions merged without any financial assistance. Eleven received financial assistance in merging and five were liquidated. The number needing financial assistance to merge or to liquidate was the lowest in many years.

Chartering of new credit unions slowed during 1986 because of increased emphasis on expanding fields of membership for existing credit unions. Seven credit unions with a potential membership of 175,000 were chartered. Approximately 700 requests for membership expansion were approved making another 360,000 persons eligible for service.

Region II

Harvey J. Baine III
Director
Region II

Delaware
District of Columbia
Maryland
Pennsylvania
Virginia
West Virginia

Credit unions in Region II have continued to expand their fields of membership and new credit unions have been chartered bringing credit union service to many more people.

During 1986, 694 credit unions in Region II expanded their fields of membership making credit union service available to 600,000 potential new members. Another 16 Federal credit union charters were approved and one state credit union converted to a Federal charter.

Economic conditions have had a major impact on credit unions in Region II as industries declined or plants were closed. More than ever before, credit unions in Region II are expanding their fields of membership so that they are not tied exclusively to one sponsor, thus reducing the impact of downturns in a single industry.

One example is Friendly Federal Credit Union, Aliquippa, Pa., located in an area hard hit by the decline in the steel industry. When problems at the credit union's sponsor became apparent, management of the credit union aggressively solicited selected employee groups for addition to their field of membership.

Today, Friendly Federal Credit Union is thriving when other financial institutions are retrenching or withdrawing from that community. Other credit unions in the region have followed its lead.

Another example is Kel Co Federal Credit Union, Cumberland, Md., whose members were employees of Kelley-Springfield Tire Company. After a recent hostile take-over attempt by Goodyear Tire Company, management cut back its operations to decrease its debt burden. Although the plant in Cumberland will be closed, credit union officials feel their field of membership is diverse enough to withstand the impact.

The ability of credit unions to adapt to the financial environment and to maintain flexibility over sources and uses of funds is of primary concern for Region II staff. Some rapidly growing credit unions are being cautioned about investment practices.

Credit union management is being warned not to ignore prudent asset/liability management principles or to take greater risk through significant mismatching. Examination reports stress the analysis of risk/return relationships.

Region II's efforts to address the issues in 1986 included a thorough analysis of the semiannual financial reports submitted by credit unions, intensified supervision by examiners and regional office staff, and an emphasis on quality examinations.

Region III

John S. Ruffin
Director
Region III

Alabama
Arkansas
Florida
Georgia
Kentucky
Louisiana
Mississippi
North Carolina
South Carolina
Tennessee

For Region III, 1986 was a successful year. Its staff completed the examination of all Federal credit unions, increased the surveillance of federally-insured state credit unions and eliminated all outstanding cases of "208" assisted credit unions. In addition, examiner training and staff development programs increased.

Completion of the examination program was accomplished by establishing ambitious goals for the field staff and by identifying emerging problems so that swift and effective action could be taken. These actions enabled staff to achieve its goal of providing quality examinations and supervision and to protect safety and soundness, profitability and asset quality.

Region III is proud of the elimination of all outstanding special assistance cases. On October 1, 1985, there were four credit unions with assets totaling more than $122 million who were operating with "208" or special assistance. By September 30, 1986, all four cases had been closed.

The number of federally-insured state credit unions in the region decreased from 694 to 675 due to 14 mergers and five liquidations. There were a small number of charter conversions and conversions to Federal share insurance.

Region III continued its efforts to provide increased surveillance for the federally-insured state credit unions. The staff worked closely with state supervisors to identify credit unions with actual or potential financial or operational problems.

The joint efforts of NCUA staff, state authorities and credit union management was most notable in the case of the $50 million Members Credit Union in North Carolina. When the credit union's sponsor entered bankruptcy, action was critical because the majority of its borrowers and savers were employees of the sponsor.

Credit union officers and management acted to keep the potential crisis from escalating. Steps were taken to reassure members and to change operating policies and procedures. Arrangements were made to meet liquidity needs. Lending policies were revised, the collection department was strengthened, some branch offices were closed and marketing efforts were implemented to serve additional employee groups.

Although assets declined by approximately $10 million, Members Credit Union never lost the confidence of its members. The state supervisor and his staff worked closely with management and Region III staff to enroll new employee groups and to monitor the credit union's operations. Because of prompt action and joint efforts, the future of Member Credit Union looks bright.

Region IV

H. Allen Carver
Director
Region IV

Illinois
Indiana
Michigan
Missouri
Ohio
Wisconsin

With 2,100 federally-insured state credit unions within its borders, Region IV places high priority on fostering good working relationships with state supervisors.

Region IV lost two states, Minnesota and Iowa, when its boundary was changed on October 1 which reduced its responsibility for more than 500 additional state credit unions. This change also reduced the number of state offices, state laws and state exam programs to which it had to relate.

Establishing a staff position in the regional office to coordinate continued insurability programs for state credit unions turned out to be a productive move. The continued insurability officer devotes full time to the state program. The importance of the officer's role as a liaison with state regulators cannot be overemphasized.

Through the efforts of the continued insurability officer and others, arrangements are made so that NCUA staff examines or participates in the examination of selected federally-insured state credit unions. More than 125 of these examinations were completed during 1986.

NCUA's cooperation with the National Association of State Credit Union Supervisors was welcomed and encouraged by Region IV since over 40 percent of the nation's federally-insured state credit unions are located within its borders. Staff members contributed to the work of the joint examination council. The standardized examination format will enhance NCUA's ability to effectively monitor the continued insurability of state credit unions.

The Midwest economy in 1986 was at best mixed. Steel, auto and farm equipment manufacturers experienced more closings and layoffs. Farmers were also struggling. Fortunately, most Federal credit unions which were once sponsored exclusively by companies in these industries have diversified and continue to diversify their fields of membership.

During the year, special studies of credit unions tied to the steel, auto and agricultural industries were undertaken. These studies are laying the groundwork for assuring the future safety and soundness of these credit unions.

Finally, a confident atmosphere is apparent in Region IV due to the emphasis on quality training. In the past year, a majority of Region IV examiners attended technical seminars and received training on personal computers. New examiners received rigorous classroom training.

This emphasis on training helps to assure that examiners have the knowledge and tools to carry out the increasingly complex missions of the Agency. Region IV staff is looking forward with enthusiasm to the challenges of 1987.

Region V

J. Leonard Skiles
Director
Region V

Arizona
Colorado
Iowa
Kansas
Minnesota
Nebraska
New Mexico
North Dakota
Oklahoma
South Dakota
Texas
Utah
Wyoming

In spite of a heavier workload caused by the depressed agricultural, oil and mining industries, Region V completed its Federal examination program. Examination of credit unions serving these depressed industries was more difficult and more time consuming.

Staff also participated in the examination of almost 14 percent of the federally-insured state credit unions within its 13 states. The state examination program was coordinated with all state supervisors and drew upon the talents of both Federal and state examiners.

Unfortunately, the year was characterized by a substantial increase in problem loan portfolios in credit unions serving agriculture and as a result of other business lending. To handle these problems, experts were retained to evaluate the overall impact on the affected credit unions and assist in developing workout plans. Region V staff also received training in these specialized areas. As the year drew to an end, there was noticeable improvement in loan policies in affected credit unions.

Region V is the consolidated liquidation center for Regions IV, V and VI. In 1986, the Austin Liquidation Center commenced the involuntary liquidation of seven Federal credit unions with combined assets of over $3 million and 12 state credit unions with combined assets of over $54 million. The largest single liquidation involved over $43 million in assets and the smallest just $2 thousand.

In 10 of the liquidations, loan portfolios were sold to financial institutions which planned to offer continued service to the members of the liquidated credit unions. The liquidation center sold loan portfolios in excess of $30.2 million.

Sales to other credit unions totaled over $25.4 million; sales to banks were $1.2 million; and sales to investors over $3.5 million. In addition, the liquidation center, on an experimental basis, assigned four loan portfolios to a third party for servicing and collection.

The liquidation center also monitored the voluntary liquidation of five credit unions. These liquidations generally resulted from a lack of interest on the part of officials and their inability to provide adequate service to members. The largest credit union entering voluntary liquidation had assets of $13.4 million.

Unassisted mergers continued at a significant pace with 91 mergers approved. In 62 cases, a Federal credit union is the continuing institution while 29 are state chartered. Only seven Federal credit unions were organized in 1986 with most employee and associational groups opting to join existing credit unions.

Finally, 1986 saw Region V bid farewell to the states of Nevada, Idaho and Montana and in their place, welcomed the states of Minnesota and Iowa.

Region VI

Robert J. LaPorte
Director
Region VI

Alaska
American Samoa
California
Guam
Hawaii
Idaho
Montana
Nevada
Oregon
Washington

Idaho, Montana and Nevada joined the States of Washington, Oregon, California, Alaska and Hawaii at the close of fiscal year 1986, making Region VI the largest geographic region of the NCUA.

Following the addition of these states on October 1, Regional Director Robert J. LaPorte met with state supervisors and Credit Union League presidents in each of the new states.

Credit unions in the region in general enjoyed a good year. Only a handful were not profitable and in those cases examiner staff and credit union management devoted considerable time getting to the root of the problem. Region VI again met its goal of examining all Federal credit unions on an annual basis.

Regional staff also provided support and assistance to selected federally-insured state credit unions in cooperation with state supervisors. Providing assistance to and working with the state supervisor guarantees that joint plans can be developed where needed to resolve mutually discovered problem areas.

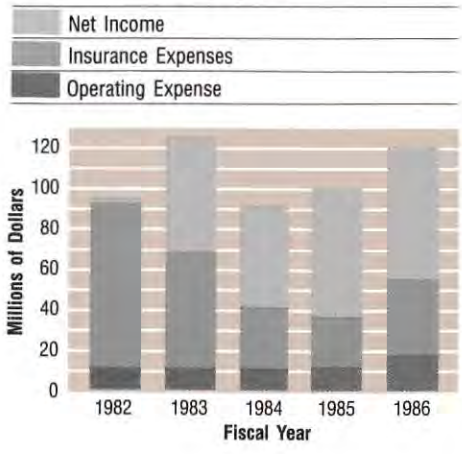
Region VI plans to expand its examination program in 1987 in those areas where there are indications of potential trouble. Credit unions expanding their share capital base through excessive dividend rates will be examined closely to determine if these funds are being used for loans to members. If costly new funds are being placed in low yield investments, examiners will initiate a dialogue with management on whether it is growth for growth's sake.

During 1986, Portland was the site of one of the out-of-Washington meetings of the NCUA Board which was also attended by senior Agency staff members. The Board met in conjunction with the 50th anniversary meeting of the Oregon Credit Union League.

Regional Director LaPorte met with many credit union people in the region in 1986 and will continue to seek opportunities to do so in 1987.

Share Insurance Fund

NCUSIF Income and Expenses



Record income of $66.7 million was earned during 1986 by the National Credit Union Share Insurance Fund and, for the second time, the NCUA Board waived the premium for 1987.

Sufficient income was generated from the Fund's investments to cover all administrative and insurance costs and all of net income was allocated to maintaining the 1.30 percent equity goal. By June 30, 1987, the end of the insurance year, it is expected that the goal will be reached.

The stability and strength of the Share Insurance Fund is testimony to the foresight and independence of credit union leaders. Today, it is the strongest of the three Federal insurers of deposits and savings in the nation's financial institutions.

When it was established in 1970 as a revolving fund in the U.S. Treasury, NCUSIF was launched without tax dollars. The maximum amount of insurance, initially $20,000 per member account, was raised to $40,000 in 1974 and to $100,000 in 1980. At the end of fiscal year 1986, NCUSIF insured 9,863 Federal credit unions and 4,890 state credit unions with total membership of 48.2 million. On December 31, federally-insured credit unions totaled 14,764.

During its first nine years, insurance premiums were the Fund's primary source of income. Because of low insurance losses and operating expenses, the Fund's equity grew much faster than insured shares.

Beginning in 1978, credit union losses increased due to plant closings and other economic problems, poor investments and tougher competition. Insurance losses soared, the equity ratio declined and the Fund turned to "non cash" methods of stabilizing problems.

In 1982, the Board tried to reach the 1 percent equity level stated in the Federal Credit Union Act by levying a special assessment in addition to the premium. In 1983, the special assessment doubled the cost of share insurance but the Fund was no closer to the 1 percent goal.

A decision was made by credit union leaders in 1983 to seek legislation to change the way in which the Fund was capitalized. Approved by Congress in 1984, this legislation requires credit unions to deposit 1 percent of insured shares in the Fund. Earnings are used to reach the Fund goal of 1.3 percent of total shares insured.

The rapid growth of credit unions affects the ratio. Each year, a substantially higher dollar figure must be reached to maintain the 1.3 equity level. The system is so successful, however, that the NCUA Board has been able to waive a further premium each year.

Central Liquidity Facility

Vincent A. Toolen
President
Central Liquidity Facility

The Central Liquidity Facility, a mixed ownership government corporation which serves as a central bank for the credit union system, continued to strengthen its financial position during 1986.

To become a CLF member, a credit union or its designated agent must purchase shares of CLF stock equal to one-half of one percent of its assets. A total of 42 agents represented 17,000 member credit unions in 1986 and there were 370 direct member credit unions.

Members received dividends in 1986 of $17 million representing 95 percent of net earnings. In fiscal year 1986, CLF income provided a 6.6 percent return on members' capital and deposits.

Operating expenses of $724,000 were less than the Congressionally approved budget of $841,000. The reserve target of $900,000 set by the NCUA Board was exceeded with the total reaching $968,000. Member equity at the end of fiscal year 1986 was $287.7 million compared with $256.7 million at the end of 1985.

Members are able to borrow from CLF during periods of low liquidity or tight credit. These include seasonal loans, stabilization loans for specialized cash needs and emergency cash delivery loans at times of critical need.

CLF lending declined throughout the year, especially in the investment liquidity program. The loan portfolio on September 30, 1986, was $105.5 million compared to $222.2 million a year earlier, down over 50 percent.

In addition to direct lending, lines of credit totaling $30.7 million were approved for six private share insurance funds. All advances require a commitment fee of ⅜ of one percent, are nonrevolving, fully secured and may be used solely for liquidity needs.

The investment liquidity program, a joint effort of CLF, U.S. Central Credit Union and the corporate credit union network, was established in 1984 to increase the earning power of low yielding, long-term credit union investment portfolios. Due to interest rate declines, many of these investment are now earning above current market rates.

CLF can invest in U.S. Government and agency obligations, deposits of federally-insured institutions and shares or deposits of credit unions. Investment maturities do not exceed six months with an average maturity of 94 days. The average yield on investments was 7.5 percent for the first part of 1986 compared to 6.7 percent for 90-day U.S. Treasury bills and 7.3 percent for a Eurodollar certificate of deposit.

The Central Liquidity Facility continues to bolster public confidence in the financial stability of the credit union system.

Operating Fund

Herbert S. Yolles
Controller

NCUA's Operating Fund had revenue during fiscal year 1986 which exceeded expenses by approximately $1 million. In addition, a change in the method used to account for operating fee revenue resulted in a one time recognition of $3.5 million of additional revenue, bringing the total to $4.5 million. As a result, a fiscal year 1985 deficit of $1.3 million was eradicated giving the Fund a year end equity balance of $3.2 million.

The Fund is used to pay the costs of NCUA operations not directly related to the National Share Insurance Fund or the Central Liquidity Facility. Its primary revenue comes from operating fees collected from all Federal credit unions and is based on each credit union's total assets.

Assets of the Operating Fund rose this fiscal year from $5.3 million to $7.9 million. A revolving fund account is maintained within the U.S. Treasury and the major portion of the Fund's assets are very liquid investments in U.S. Government securities.

The Fund's investments increased approximately $2.1 million to $6.0 million as of September 30. A significant portion of these investments was liquidated to finance the Agency's operating needs between September 30 and the annual collection of the operating fees in January 1987.

To satisfy the contracting requirements of the Federal government, the contract for auditing the Fund was competitively rebid this year and the audit was performed by Price Waterhouse. The accompanying report represents the fifth consecutive "clean" opinion the Fund has received.

Operating fees are collected in January of each year to finance NCUA's fiscal year budget which begins on the previous October 1. As pointed out in Price Waterhouse's report, the method used by NCUA to account for operating fee revenues was changed for fiscal year 1986.

Previously, the operating fees were recognized as revenue on a calendar year basis, beginning in January of the year in which they were collected.

The three month difference between the calendar year and the fiscal year made it difficult to match revenue with the budgeted expenses for which the fee was collected and to determine exact revenue needed.

To overcome this problem, the method of accounting was changed to recognize each year's collections on the fiscal year basis. Because of this change, the revenue figures presented in the financial statements for fiscal years 1985 and 1986 are not strictly comparable.

National Credit Union Administration
Operating Fund
Report and Financial Statements
for the Year Ended
September 30, 1986

Price Waterhouse

November 14, 1986

Board of Directors
National Credit Union
Administration

In our opinion, the financial statements appearing on pages 24–27 of this report present fairly the financial position of the National Credit Union Administration Operating Fund at September 30, 1986, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of accounting for operating fee revenues as described in Note B to the financial statements, have been applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the *Standards for Audit of Governmental Organizations, Programs, Activities and Functions,* issued by the U.S. Comptroller General in 1981, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the National Credit Union Administration Operating Fund for the year ended September 30, 1985, were examined by other independent accountants whose report dated December 6, 1985, expressed an unqualified opinion on those statements.

Price Waterhouse

National Credit Union Administration
Operating Fund Balance Sheets

	Year ended September 30,	
	1986	1985
ASSETS		
Cash	$ 5,450	$ 14,844
Investments in U.S. Government Securities (Note B)	5,965,000	3,833,400
Due from National Credit Union Administration—Share Insurance Fund (Note C)	929,350	349,926
Employee advances	163,656	22,956
Other accounts receivable	100,876	119,599
Prepaid expenses	120,244	124,346
Furniture and equipment, net of accumulated depreciation of $2,702,088 and $2,576,389	588,144	810,404
Leasehold improvements, net of accumulated amortization of $735,210 and $722,126		13,084
Total assets	$7,872,720	$5,288,559
LIABILITIES AND FUND BALANCE		
Accounts payable	$1,354,267	$ 509,573
Accrued salaries and benefits	1,097,665	825,088
Accrued annual leave	1,915,846	1,577,166
Accrued employee travel	317,010	185,820
Deferred operating fee revenue (Note B)		3,510,501
Total liabilities	4,684,788	6,608,148
FUND BALANCE (DEFICIT):		
Available for operations	2,599,788	(2,143,077)
Invested in fixed assets	588,144	823,488
	3,187,932	(1,319,589)
Total liabilities and fund balance (deficit)	$7,872,720	$5,288,559

See accompanying notes to financial statements.

National Credit Union Administration
Operating Fund Statements of Revenue, Expenses and Changes in Fund Balance (Deficit)

	Year ended September 30, 1986	1985
REVENUE		
Operating fee revenue	$16,934,295	$14,818,132
Investment income	725,005	783,007
Miscellaneous income	345,625	426,767
Total revenue	18,004,925	16,027,906
EXPENSES		
Employee salaries and benefits	11,653,342	15,023,618
Employee travel	1,852,982	2,260,644
Rent, communications, and utilities	1,775,370	2,469,107
Other administrative	976,823	897,878
Contracted services	749,388	841,291
Total expenses	17,007,905	21,492,538
Excess of revenue (expenses) before cumulative effect of change in accounting principle	997,020	(5,464,632)
Cumulative effect on prior years of changing to a different revenue recognition policy (Note B)	3,510,501	
Excess of revenue (expenses)	4,507,521	(5,464,632)
Fund (deficit) balance at beginning of year	(1,319,589)	4,145,043
Fund balance (deficit) at end of year	$3,187,932	($1,319,589)

National Credit Union Administration
Operating Fund Statement of Changes in Financial Position

	Year ended September 30, 1986	1985
Cash and investments were provided by:		
Operations:		
Excess of revenue (expenses)	$4,507,521	$(5,464,632)
Items not affecting cash:		
Depreciation and amortization	337,729	468,415
Decrease (increase) in:		
Other accounts receivable	18,723	(95,274)
Due from NCUA-Insurance Fund	(579,424)	(150,775)
Prepaid expenses	4,102	212,192
Increase (decrease) in:		
Accounts payable	844,694	(133,551)
Accrued salaries and benefits	272,577	60,376
Accrued annual leave	338,680	(67,931)
Accrued employee travel	131,190	(56,300)
Advance conference registration fees		(285,700)
Deferred operating revenue	(3,510,501)	(833,356)
Cash and investments provided by (used for) operations	2,365,291	(6,346,536)
Cash and investments were used for:		
Furniture and equipment additions, net	102,385	96,629
Employee advances	140,700	(18,219)
Total cash and investments	243,085	78,410
Increase (decrease) in cash and investments	2,122,206	(6,424,946)
Cash and investments—beginning of year	3,848,244	10,273,190
Cash and investments—end of year	$5,970,450	$3,848,244
Composed of:		
Cash	$5,450	$14,844
Investments	5,965,000	3,833,400
Total	$5,970,450	$3,848,244

Note A—Organization and Purpose

The National Credit Union Administration—Operating Fund (the Fund) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration Board for the purpose of providing administration and service to the Federal Credit Union System.

Note B—Significant Accounting Policies

Investments

The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount. The market value of investments was approximately $5,965,000 at September 30, 1986, and $3,834,000 at September 30, 1985.

Depreciation and Amortization

Furniture and equipment and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight line method over the estimated useful lives of furniture and equipment and the shorter of the estimated useful life or lease term for leasehold improvements.

Deferred Operating Fee Revenue

The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding June 30. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. Prior to fiscal year 1986, fees were recognized as revenue ratably during the calendar year in which they were assessed. Fees assessed but not yet recognized as revenue were classified as deferred revenue.

In fiscal year 1986, the Fund changed the manner in which it accounts for operating fee revenue. Operating fees are now recognized on a fiscal year (as opposed to calendar year) basis. This change was made in order to better match the recognition of such fees with the annual budgeted fiscal year expenditure upon which such fees are based.

The effect in fiscal year 1986 was to increase operating fee revenue, by approximately $723,000. The adjustment of $3,510,501 to record the cumulative effect on prior years of the new policy is included in income in fiscal year 1986.

Income Taxes

The Fund is exempt from Federal income taxes under § 501(c)(1) of the Internal Revenue Code.

Note C—Transactions with the National Credit Union Administration—Share Insurance Fund (NCUSIF)

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by NCUA's Board of Directors derived from an estimate of actual usage. The cost of these services, which totaled $16,821,936 and $8,069,244 for the years ended September 30, 1986 and 1985, respectively, are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Note D—Commitments and Contingencies

Operating Leases

The Fund leases certain office space under an agreement which expires in November 1994. The agreement provides for annual rent adjustments based on increases in the consumer price index. In addition, the Fund leases certain office equipment under operating leases. Rental charges for the years ended September 30, 1986 and 1985, amounted to $1,889,600 and $1,808,100, of which $944,800 and $560,500 was reimbursed by NCUSIF.

The future minimum lease payments as of September 30, 1986, are as follows:

1987	$980,000
1988	980,000
1989	980,000
1990	980,000
1991	980,000
Thereafter	4,188,000
	$9,088,000

Based on the allocation factor approved by the NCUA Board of Directors for fiscal year 1987, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

Sequestered Funds

In January 1986 the Office of Management and Budget (OMB) issued a report which directed the National Credit Union Administration to remit to the general fund of the Treasury $1,481,000 under the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (the Act). One-half of this amount pertains to the Fund and would mean permanent cancellation of spending authority. The effect of this transfer would be to reduce the Fund's fund balance by $740,500 at September 30, 1986.

To date, NCUA has chosen not to comply with the U.S. Treasury's request to transfer the funds. NCUA General Counsel has concluded that NCUA's funds are not subject to the sequestration provisions of the Act, and that the transfer should not be made. The ultimate resolution of this issue will not have a material effect on the financial statements.

Note E—Retirement Plan

Employees of the Fund participate in the Civil Service Retirement System which is a contributory defined contribution retirement plan. Contributions to the plan are based on a percentage of employees' gross pay. Pension contributions for the years ended September 30, 1986 and 1985, were $1,358,175 and $1,325,600, of which $679,087 and $436,000 was reimbursed by NCUSIF.

Economic Report

In a year in which the economy was in the doldrums, credit unions grew by leaps and bounds.

For the economy as a whole, 1986 was a year of modest growth, with real GNP growing 2.5 percent, slightly below the 2.7 percent in 1985. Last year was also marked by low inflation. Consumer prices rose only 1.1 percent, down from 3.8 percent in 1985, a remarkable performance for the fourth year of an economic expansion. The civilian unemployment rate averaged 7.0 percent during 1986, but ended the year on a down tick to 6.7 percent in December.

Households spent freely and were one of the bright spots in the 1986 economy. Consumption rose 4 percent. However, consumer spending may taper off in 1987 due to high consumer debt levels, the loss of sales tax deductions and the first phase out of consumer interest deductions under the 1986 Tax Reform Act. Consumer installment debt outstanding was 19.8 percent of personal disposable income in December 1986.

There was a significant drop in interest rates in 1986. From December 1985 to December 1986 three month Treasury bills declined 1.6 percentage points to 5.5 percent. The prime rate fell 2.0 percentage points to 7.5 and 10-year Treasury bonds dropped 2.2 percentage points to 7.1 percent.

In the face of a somewhat flabby national economy credit unions grew briskly. In 1986 credit union savings rose 24.2 percent, but loans rose only 15.8 percent.

Thus, in 1986 as in 1985, credit unions had a large gap between loan growth and savings growth. This surfeit of liquidity presents an enticement to reach out for high yielding, but often risky, investments and loans, a temptation which has concerned the NCUA Board the last two years.

Charles H. Bradford
Chief Economist

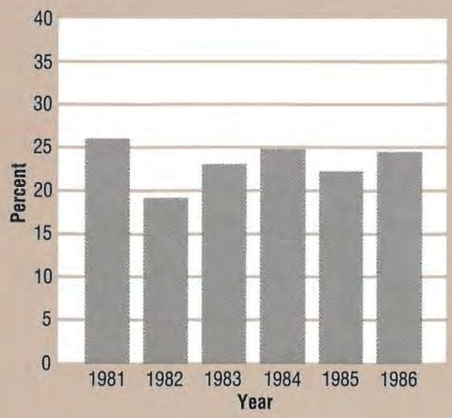
The fast growth of credit union savings is both a blessing and a curse. It shows how dynamic credit unions are. But it presents problems in investing and lending excess liquidity safely and at returns that will sustain earnings margins. The problem is, of course, that credit union savings rates are above the market, and this in turn requires lending rates to be above the market in order to avoid losses; in the process, savings rise sharply and loans grow only grudgingly. At year end 1986, credit union automobile loan rates averaged nearly one half percentage point above commercial bank rates and unsecured personal loans were nearly a percentage point above the rate at banks.

Credit unions have done a good job of dropping savings and lending rates the past year, but they haven't done enough to keep up with a market that keeps slipping out from under them. The rate paid on regular savings accounts at credit unions was 7.3 percent in December 1985. It had dropped to 6.2 percent in December 1986. In the meantime the weighted average rate on competitive money market deposit accounts at banks and savings and loan associations fell even more, from 6.7 percent in December 1985 to 5.3 percent in December 1986.

NCUA will continue its moral suasion campaign begun last year to encourage credit unions to lower savings and loan interest rates even further.

Federal Credit Unions

Long Term Investments as Percent of Total Investments



Consolidated Income and Expense Statement
(Amounts in thousands)
On December 31

	1985[1]	1986	Percentage change
INCOME			
Interest on loans	$6,135,505	$6,585,843	7.3
Less: interest refund	(26,921)	(22,011)	−18.2
Income from investments	2,119,849	2,459,229	16.0
Other operating income	297,433	392,567	32.0
Total gross income	8,525,866	9,415,628	10.4
EXPENSES			
Employee compensation	962,573	1,101,699	14.5
Employee benefits	200,761	228,145	13.6
Travel and conference expenses	44,272	49,288	11.3
Association dues	25,730	27,201	5.7
Office occupancy	130,419	152,712	17.1
Office operations expense	488,216	578,562	18.5
Educational and promotional	62,010	71,250	14.9
Loan servicing expense	48,514	63,824	31.6
Professional and outside services	196,332	222,687	13.4
Provision for loan losses	249,145	354,709	42.4
Member insurance	147,336	146,528	−0.5
Operating fees	14,380	17,136	19.2
Cash short and over	1,848	2,531	37.0
Interest on borrowed money	37,674	25,354	−32.7
Annual meeting expenses	14,793	15,587	5.4
Miscellaneous operating expenses	49,814	57,304	15.0
Total operating expenses	2,673,817	3,114,517	16.5
NON-OPERATING GAINS OR LOSSES			
Gain (loss) on investments	27,731	66,991	141.6
Gain (loss) on disposition of assets	1,677	3,767	124.6
Other non-operating income (expenses)	12,099	10,901	−9.8
Total income (loss)	5,893,556	6,382,779	8.3
Transfer to regular and statutory reserves	281,882	249,920	−11.3
Dividends and interest on deposits	5,090,434	5,505,978	8.2
Net income (loss) after dividends and reserve transfers	$ 521,240	$ 626,881	20.3

[1] Revised

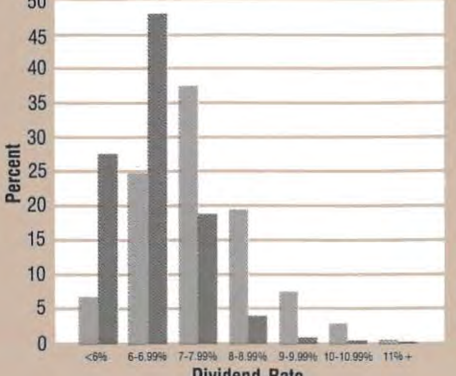
Consolidated Balance Sheet

(Amounts in thousands)
December 31

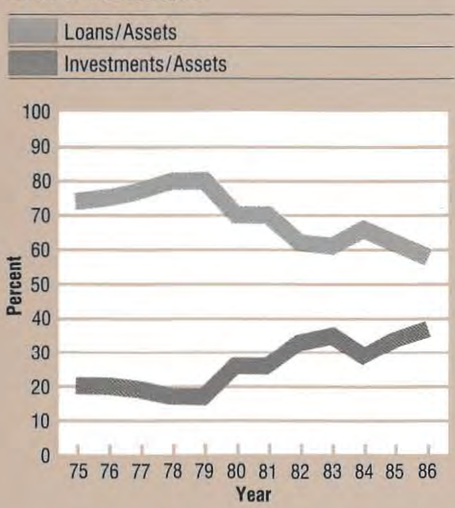
	1985[1]	1986	Percentage change
ASSETS			
Cash	$ 1,886,846	$ 2,300,699	21.9
Loans outstanding	48,240,770	55,304,267	14.6
Allowance for loan losses	(354,112)	(414,353)	17.0
INVESTMENTS			
U.S. Gov/Fed agency securities	6,956,735	8,788,267	26.3
Commercial banks	4,145,620	5,756,533	38.9
S&Ls and mutual savings banks	8,113,100	10,700,257	31.9
Corporate credit unions	5,079,481	7,136,111	40.5
Common trusts	640,486	1,800,734	181.2
Share insurance/other capital deposits	602,619	708,806	17.6
Other investments	720,239	818,643	13.7
Total investments	26,258,279	35,709,373	36.0
Allowance for investment losses	(17,548)	(21,398)	21.9
Land and building (net of depreciation)	870,725	1,045,870	20.1
Other fixed assets	455,760	531,870	16.7
Other assets	846,923	1,027,115	21.3
Total assets	$78,187,651	$95,483,455	22.1
LIABILITIES			
Accounts payable	$310,494	$402,749	29.7
Notes payable	536,421	460,655	−14.1
Dividends payable	641,169	636,426	−0.7
Other liabilities	152,948	211,214	38.1
Total liabilities	1,641,031	1,711,044	4.3
EQUITY/SAVINGS			
Regular shares	42,817,059	54,362,284	27.0
Share certificates	13,592,000	13,212,314	−2.8
IRA/Keogh accounts	8,388,293	11,773,319	40.4
Share drafts	6,818,848	8,502,631	24.7
Permanent capital shares	N/A	103,094	0.0
Total savings	71,616,202	87,953,644	22.8
Regular reserves	2,131,635	2,417,389	13.4
Other reserves	735,498	894,763	21.7
Undivided earnings	2,063,279	2,506,064	21.5
Total equity/savings	76,546,614	93,771,861	22.5
Total liabilities/equity	$78,187,651	$95,483,455	22.1

[1] Revised
Note: Because of rounding, detail may not add to totals.

Distribution of Dividends Paid on Regular Shares



Loan to Asset Ratio



Natural Person Federal Credit Unions by State, December 31, 1986

State	Number FCUs 1986	Assets (in millions) 1986	Assets (in millions) 1985	Percent change 1985 to 1986
Alabama	148	$ 1,464	$ 1,174	24.7
Alaska	17	1,102	1,008	9.3
Arizona	51	1,407	1,198	17.4
Arkansas	91	339	277	22.4
California	766	15,211	12,287	23.8
Colorado	141	1,663	1,390	19.6
Connecticut	238	2,012	1,602	25.6
Delaware	63	353	280	26.1
District of Columbia	122	1,623	1,331	21.9
Florida	245	5,286	4,346	21.6
Georgia	227	1,591	1,308	21.6
Guam	3	36	31	16.1
Hawaii	131	1,819	1,465	24.2
Idaho	49	391	316	23.7
Illinois	293	1,591	1,377	15.5
Indiana	321	3,288	2,736	20.2
Iowa	8	32	27	18.5
Kansas	45	294	259	13.5
Kentucky	121	813	630	29.0
Louisiana	320	1,413	1,208	17.0
Maine	111	952	758	25.6
Maryland	177	2,414	2,013	19.9
Massachusetts	270	2,758	1,777	55.2
Michigan	242	3,420	2,868	19.2
Minnesota	51	486	399	21.8
Mississippi	128	506	440	15.0
Missouri	27	143	117	22.2
Montana	88	494	423	16.8
Nebraska	72	479	390	22.8
Nevada	31	729	603	20.9
New Hampshire	21	411	331	24.2
New Jersey	456	2,877	2,291	25.6
New Mexico	42	678	568	19.4
New York	930	7,543	6,065	24.4
North Carolina	112	1,154	949	21.6
North Dakota	25	72	61	18.0
Ohio	520	2,505	2,039	22.9
Oklahoma	87	867	763	13.6
Oregon	136	1,065	888	19.9
Pennsylvania	1,141	4,700	3,759	25.0
Puerto Rico	32	141	117	20.5
Rhode Island	14	25	19	31.6
South Carolina	111	1,232	1,024	20.3
South Dakota	80	292	248	17.7
Tennessee	142	1,528	1,297	17.8
Texas	664	6,889	5,976	15.3
Utah	55	320	273	17.2
Vermont	6	69	58	19.0
Virgin Islands	5	6	6	0.0
Virginia	247	6,484	5,352	21.2
Washington	125	1,548	1,314	17.8
West Virginia	163	613	467	31.3
Wisconsin	4	108	87	24.1
Wyoming	43	248	215	15.3
Total	9,758	$ 95,484	$ 78,205	22.1

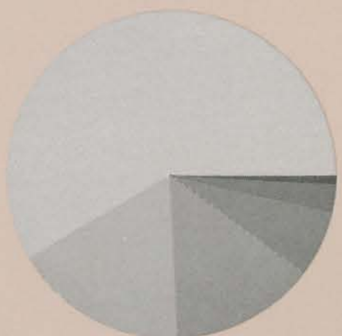
Differences in assets from other tables is due to rounding.

Number by Asset Size
December 31, 1986

Asset size	Number of FCUs	Percentage of total	Cumulative percentage
Less than $50 thousand	228	2.3	2.3
$50 to $100 thousand	289	3.0	5.3
$100 to $250 thousand	913	9.4	14.7
$250 to $500 thousand	1,071	11.0	25.6
$500 thousand to $1 million	1,316	13.5	39.1
$1 million to $2 million	1,439	14.7	53.9
$2 million to $5 million	1,764	18.1	71.9
$5 million to $10 million	1,021	10.5	82.4
$10 million to $20 million	771	7.9	90.3
$20 million to $50 million	554	5.7	96.0
$50 million to $100 million	232	2.4	98.4
$100 million and over	160	1.6	100.0

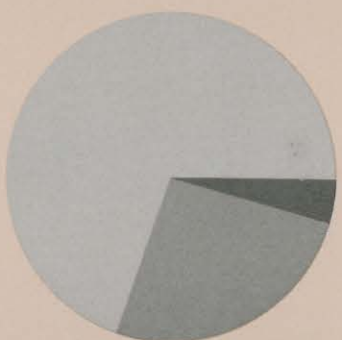
Uses of Funds

- Dividends 58.5%
- General/Adm. 17.3%
- Salaries/Benefits 14.1%
- Retained Earnings 6.6%
- Regular Reserves 2.7%
- Other 0.8%



Sources of Income

- Loans 69.7%
- Investments 26.1%
- Other 4.2%



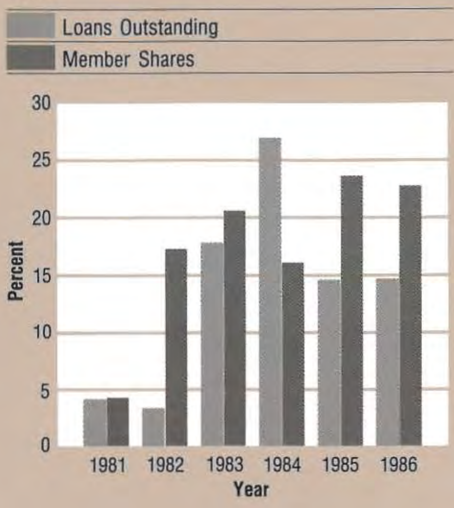
Assets by Asset Size
December 31, 1986

Asset size	Assets (in thousands)	Percentage of total	Cumulative percentage
Less than $50 thousand	$ 6,595	0.0	0.0
$50 to $100 thousand	21,534	0.0	0.0
$100 to $250 thousand	157,867	0.2	0.2
$250 to $500 thousand	392,996	0.4	0.6
$500 thousand to $1 million	945,351	1.0	1.6
$1 million to $2 million	2,093,853	2.2	3.8
$2 million to $5 million	5,710,853	6.0	9.8
$5 million to $10 million	7,155,015	7.5	17.3
$10 million to $20 million	10,941,287	11.5	28.7
$20 million to $50 million	17,139,875	18.0	46.7
$50 million to $100 million	16,032,286	16.8	63.5
$100 million and over	34,886,018	36.5	100.0

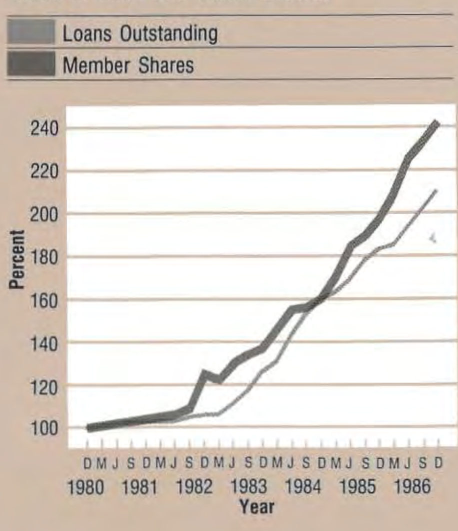
Distribution of Interest Rates
New Car Loans

Distribution of Interest Rates
Unsecured Loans

Annual Percentage Change: Shares and Loans



Index of Loan and Share Growth



Percentage Distribution of Savings by Type of Account

Type of account	1982	1983	1984	1985	1986
Regular shares	72.6	73.9	68.7	69.3	71.6
Share drafts	7.1	8.5	9.1	9.5	9.7
Other regular shares	65.5	65.5	59.6	59.8	61.9
Share certificates	27.4	26.1	31.3	30.7	28.4
IRA and Keogh	2.3	5.9	9.0	11.7	13.4
All savers	3.0	N/A	N/A	N/A	N/A
Other certificates	22.1	20.2	22.3	19.0	15.0
Total savings	100.0	100.0	100.0	100.0	100.0
Total savings in millions	$41,352	$49,891	$57,929	$71,616	$87,954

Loans Outstanding
(In millions)

	1982	1983	1984	[1]1985	1986
Loans outstanding	$28,192	$33,201	$42,133	$48,241	$55,304
Allowance for loan losses	244	270	299	354	414
Regular reserves	1,325	1,489	1,800	2,132	2,417
Amount of delinquent loans	884	748	828	1,006	1,172
Loans charged-off	192	195	195	253	383
Recoveries on loans	33	40	45	46	53
Provision for loan losses	175	162	165	249	355
SIGNIFICANT RATIOS (AS A PERCENTAGE OF LOANS OUTSTANDING)					
Allowance for loan losses	0.87	0.81	0.71	0.73	0.75
Regular reserves	4.70	4.48	4.27	4.42	4.37
Delinquent loans	3.14	2.25	1.97	2.09	2.12
Loans charged off	0.68	0.59	0.46	0.52	0.69
Net loans charged off	0.56	0.47	0.36	0.43	0.60
Provision for loan losses	0.62	0.49	0.39	0.52	0.64

[1] Revised

Total Investments
1982-1986
(Amount in millions)

	1982	1983	1984	1985[1]	1986
U.S. Government obligations	$ 675	$ 1,751	$ 1,795	$ 2,409	$ 3,518
Federal agency securities	2,934	3,648	3,930	4,548	5,270
Common trust investments	966	653	421	640	1,801
Deposits in commercial banks	2,799	2,774	2,541	4,146	5,757
Deposits in S&Ls and savings banks	3,863	6,297	5,867	8,113	10,700
Shares/deposits in corporate CUs	3,537	3,255	3,429	5,079	7,136
Share insurance/other capital deposits				602	709
Investments in other CUs	185	125	104	126	165
Other investments[2]	235	360	479	594	653
Allowance for investment losses	(18)	(17)	(19)	(17)	(21)
Total investments	15,176	18,846	18,547	26,240	35,688
PERCENTAGE BREAKDOWN PER YEAR					
U.S. Government obligations	4.4	9.3	9.7	9.2	9.9
Federal agency securities	19.3	19.3	21.2	17.3	14.8
Common trust investments	6.4	3.5	2.3	2.4	5.0
Deposits in commercial banks	18.4	14.7	13.7	15.8	16.1
Deposits in S&Ls and savings banks	25.4	33.4	31.6	30.9	30.0
Shares/deposits in corporate CUs	23.3	17.3	18.5	19.3	20.0
Share insurance/other capital deposits				2.3	2.0
Investments in other CUs	1.2	0.7	0.6	0.5	0.5
Other investments[2]	1.5	1.9	2.6	2.3	1.8
Total investments	100	100	100	100	100

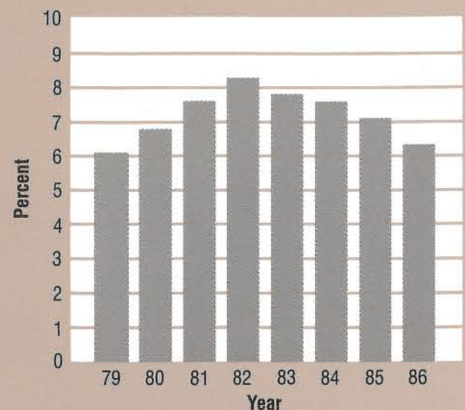
[1] Revised
[2] Includes loans to other CUs, shares in the CLF of NCUA and other investments

Investments

Annual Growth Rates in Reserves and Undivided Earnings

	1979	1980	1981	1982	1983	1984	1985	1986
Total reserves	11.1%	6.2%	15.5%	14.7%	13.7%	23.0%	22.4%	18.0%
Regular reserve	−0.9	1.0	7.6	9.6	12.4	20.9	19.3	13.4
Other reserves	29.0	11.4	15.8	10.2	15.6	25.7	13.3	21.6
Undivided earnings	29.7	12.7	27.8	23.4	14.6	24.4	29.6	21.4

Effective Cost of Shares



Natural Person Federal Credit Unions Experiencing Losses

Year ending December 31	Number of Federal Credit Unions	Number experiencing losses	Percentage of total	Amount of negative earnings (in thousands)
1981	11,969	2,561	21.4	$82,735
1982	11,631	2,572	22.1	63,098
1983	10,963	2,443	22.3	45,434
1984	10,547	1,041	9.9	18,555
1985	10,125	1,178	11.6	31,604
1986	9,758	1,360	13.9	43,805

Losses in 1986

Asset size	Number of FCUs	Assets	Amount of 1986 losses	Amount of reserves and undivided earnings
Less than $1 million	664	$ 246,930,791	$ 2,692,334	$ 19,858,964
$1 million to less than $2 million	196	287,806,177	2,396,830	16,754,428
$2 million to less than $5 million	219	688,167,708	4,659,995	37,929,117
$5 million to less than $10 million	129	891,482,566	5,102,067	43,416,338
$10 million to less than $20 million	80	1,163,576,683	5,661,837	53,457,408
$20 million to less than $50 million	51	1,595,272,691	8,753,145	70,731,368
$50 million and over	21	2,156,678,231	14,539,108	80,113,732
Total	1,360	$7,029,914,847	$ 43,805,316	$322,261,355

Early Warning System
Number by Categories
Calendar Year-End

EWS Category	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1 year change
Codes 1 and 2	9,079	8,712	8,488	7,862	7,237	7,093	7,365	7,425	7,250	6,536	−714
Code 3	3,145	3,373	3,433	3,770	3,737	3,751	2,855	2,623	2,460	2,734	274
Code 4	526	674	817	585	720	661	646	451	375	440	65
Code 5[1]				223	175	126	97	48	40	48	8
Total	12,750	12,759	12,738	12,440	11,869	11,631	10,963	10,547	10,125	9,758	−367

[1] Code 5 implemented during 1980.

Distribution by Asset Size in EWS Codes 4 and 5
December 31, 1986

Asset size	Number of credit unions	Total assets (in thousands)
<1 million	253	$ 70,986
1-10 million	161	592,791
10-20 million	34	481,124
20-50 million	20	585,832
50-100 million	13	953,259
>100 million	7	1,139,325
Total	488	$3,823,317

Corporate Credit Unions

Federal Corporate Credit Unions

Corporate name	Assets (in millions)
Western Corporate, Pomona, California	$2,416
Southwest Corporate, Dallas, Texas	1,153
Capital Corporate, Landover, Maryland	301
League Central of Maine, Portland, Maine	181
Virginia League Corporate, Lynchburg, Virginia	378
Mid-States Corporate, Oak Brook, Illinois	1,303
Southeast Corporate, Tallahassee, Florida	552
Mid-Atlantic Corporate, Harrisburg, Pennsylvania	570
Nebraska Corporate Central, Omaha, Nebraska	84
Indiana Corporate, Indianapolis, Indiana	414
Empire Corporate, Albany, New York	917
Colorado Corporate, Arvada, Colorado	404
South Dakota Corporate Central, Sioux Falls, South Dakota	54
Pacific Corporate, Honolulu, Hawaii	162
Eastern Corporate, Stoneham, Massachusetts	331
LICU Corporate, Endicott, New York	3
Kentucky Corporate, Louisville, Kentucky	142

Federally-Insured State Corporate Credit Unions

Corporate name	Assets (in millions)
Georgia Central, Atlanta, Georgia	$255.2
Ohio League Corporate, Columbus, Ohio	425.6
Minnesota Central, St. Paul, Minnesota	188.1
Oregon Corporate Central, Portland, Oregon	147.5
Corporate CU of Arizona, Phoenix, Arizona	226.2
Oklahoma Corporate, Tulsa, Oklahoma	249.3
Iowa League Corporate, Des Moines, Iowa	204.4
Constitution State Corporate, South Wallingford, Connecticut	492.0
First Carolina Corporate, Greensboro, North Carolina	303.4
Federacion de Cooperativas, San Juan, Puerto Rico	38.7
Alabama Corporate, Birmingham, Alabama	177.6
The Carolina Corporate, Columbia, South Carolina	107.4

Region VI Corporate Examiner Earlene McKee

Key Statistics on Federally-Insured Corporate Credit Unions
(In millions of dollars)

	1982	1983	1984	[1]1985	1986
Number	30	29	29	29	29
Assets	$5,994.0	$5,937.8	$6,046.1	$9,060.6	$12,182.1
Loans	95.0	177.1	465.7	459.8	621.0
Shares	5,799.0	5,679.0	5,273.6	8,024.2	10,851.0
Reserves	44.5	58.4	71.0	84.1	104.1
Undivided earnings	20.5	24.2	31.2	38.4	45.3
Gross income	650.8	615.5	661.9	663.9	785.5
Operating expenses	15.1	16.7	17.6	21.2	25.4
Interest of borrowing	12.3	13.6	37.4	45.5	47.9
Dividends and interest on deposits	599.5	565.1	584.9	575.9	685.9
Reserve transfers	11.5	11.2	12.0	10.5	17.2
Net income	6.2	7.6	10.0	11.4	9.0
SIGNIFICANT RATIOS					
Reserves to assets	0.7	1.0	1.2	0.9	0.9
Reserves and undivided earnings to assets	1.1	1.4	1.7	1.4	1.2
Reserves to loans	46.8	33.0	15.2	18.3	16.8
Loans to shares	1.6	3.1	8.8	5.7	5.7
Operating expenses to gross income	2.3	2.7	2.7	3.2	3.2
Salaries and benefits to gross income	0.8	1.0	1.1	1.1	1.1
Dividends to gross income	92.1	91.8	88.4	86.7	87.3
Yield on average assets	13.2	10.3	11.0	8.7	8.7
Cost of funds to average assets	12.4	9.5	10.4	8.1	8.1
Gross spread	0.8	0.8	1.4	0.6	0.6
Net income divided by gross income	1.0	1.2	1.5	1.7	1.1
Yield on average loans	9.0	7.2	12.0	7.8	7.8
Yield on average investments	13.6	10.6	10.8	8.8	8.8

[1] Revised

Historical Data

Selected Data for Federal Credit Unions
December 31, 1934-86

Year	Charters issued	Charters canceled	Net change	Total outstand-ing	Inactive credit unions	Active credit unions	Members	[1] Assets	[1] Shares	Loans outstanding
								(Amounts in thousands of dollars)		
1934[2]	78		78	78	39	39	3,240	$23	$23	$15
1935	828		828	906	134	772	119,420	2,372	2,228	1,834
1936	956	4	952	1,858	107	1,751	309,700	9,158	8,511	7,344
1937	638	69	569	2,427	114	2,313	483,920	19,265	17,650	15,695
1938	515	83	432	2,859	99	2,760	632,050	29,629	26,876	23,830
1939	529	93	436	3,295	113	3,182	850,770	47,811	43,327	37,673
1940	666	76	590	3,855	129	3,756	1,127,940	72,530	65,806	55,818
1941	583	89	494	4,379	151	4,228	1,408,880	106,052	97,209	69,485
1942	187	89	98	4,477	332	4,145	1,356,940	119,591	109,822	43,053
1943	108	321	213	4,264	326	3,938	1,311,620	127,329	117,339	35,376
1944	69	285	216	4,048	233	3,815	1,306,000	144,365	133,677	34,438
1945	96	185	89	3,959	202	3,757	1,216,625	153,103	140,614	35,155
1946	157	151	6	3,965	204	3,761	1,302,132	173,166	159,718	56,801
1947	207	159	48	4,013	168	3,845	1,445,915	210,376	192,410	91,372
1948	341	130	211	4,224	166	4,058	1,628,339	258,412	235,008	137,642
1949	523	101	422	4,646	151	4,495	1,819,606	316,363	285,001	186,218
1950	565	83	482	5,128	144	4,984	2,126,823	405,835	361,925	263,736
1951	533	75	458	5,586	188	5,398	2,463,898	504,715	457,402	299,756
1952	692	115	577	6,163	238	5,925	2,853,241	662,409	597,374	415,062
1953	825	132	693	6,856	278	6,578	3,255,422	854,232	767,571	573,974
1954	852	122	730	7,586	359	7,227	3,598,790	1,033,179	931,407	681,970
1955	777	188	589	8,175	369	7,806	4,032,220	1,267,427	1,135,165	863,042
1956	741	182	559	8,734	384	8,350	4,502,210	1,529,202	1,366,258	1,049,189
1957	662	194	468	9,202	467	8,735	4,897,689	1,788,768	1,589,191	1,257,319
1958	586	255	331	9,533	503	9,030	5,209,912	2,034,866	1,812,017	1,379,724
1959	700	270	430	9,963	516	9,447	5,643,248	2,352,813	2,075,055	1,666,526
1960	685	274	411	10,374	469	9,905	6,087,378	2,669,734	2,344,337	2,021,463
1961	671	265	406	10,780	509	10,271	6,542,603	3,028,294	2,673,488	2,245,223
1962	601	284	317	11,097	465	10,632	7,007,630	3,429,805	3,020,274	2,560,722
1963	622	312	310	11,407	452	10,955	7,499,747	3,916,541	3,452,615	2,911,159
1964	580	323	257	11,664	386	11,278	8,092,030	4,559,438	4,017,393	3,349,068
1965	584	270	324	11,978	435	11,543	8,640,560	5,165,807	4,538,461	3,864,809
1966	701	318	383	12,361	420	11,941	9,271,967	5,668,941	4,944,033	4,323,943

[1] Data for 1934-44 are partly estimated.
[2] First charter approved October 1, 1934.
[3] Revised.

Selected Data for Federal Credit Unions
December 31, 1934-86—Continued

								(Amounts in thousands of dollars)		
Year	Charters issued	Charters canceled	Net change	Total outstand-ing	Inactive credit unions	Active credit unions	Members	[1]Assets	[1]Shares	Loans outstanding
1967	636	292	344	12,705	495	12,210	9,873,777	$ 6,208,158	$ 5,420,633	$ 4,677,480
1968	662	345	317	13,022	438	12,584	10,508,504	6,902,175	5,986,181	5,398,052
1969	705	323	382	13,404	483	12,921	11,301,805	7,793,573	6,713,385	6,328,720
1970	563	412	151	13,555	578	12,977	11,966,181	8,860,612	7,628,805	6,969,006
1971	400	461	−61	13,494	777	12,717	12,702,135	10,553,740	9,191,182	8,071,201
1972	311	672	−361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	−159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	−2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	−33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	−50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	−198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	−435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	−442	11,925	294	11,631	26,114,649	49,755,270	45,503,266	27,998,657
1983[3]	107	736	−629	11,296	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984[3]	135	664	−529	10,767	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985[3]	55	575	−520	10,247	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	−382	9,865	107	9,758	31,041,142	95,483,421	87,953,642	55,304,267

[1] Data for 1934-44 are partly estimated.
[2] First charter approved October 1, 1934.
[3] Revised.

Federal Credit Unions
10 Year Summary, 1977-1986
(Amount in millions as of December 31)

	1977	1978	1979	1980	1981	1982	1983	1984	[1]1985	1986
Assets	$29,564	$34,760	$35,334	$37,515	$39,181	$45,494	$54,482	$63,656	$78,188	$95,483
Loans outstanding	22,687	27,687	28,182	26,165	27,238	28,192	33,201	42,133	48,241	55,304
Shares	25,576	29,803	30,768	33,812	35,248	41,352	49,891	57,929	71,616	87,954
Reserves	1,325	1,365	1,426	1,473	1,614	1,773	2,007	2,451	2,884	3,333
Undivided earnings	370	485	629	709	906	1,118	1,281	1,592	2,063	2,506
Gross income	2,580	3,201	3,530	3,824	4,681	5,406	6,064	7,454	8,526	9,416
Operating expenses	968	1,214	1,428	1,498	1,660	1,822	2,045	2,314	2,674	3,115
Dividends	1,387	1,706	1,862	2,185	2,656	3,185	3,573	4,413	5,090	5,506
Reserve transfers	140	150	88	98	147	147	166	260	282	250
Net income	85	131	153	43	219	244	287	473	521	627
PERCENT CHANGE										
Total assets	21.2	17.6	1.7	6.2	4.4	16.1	19.8	16.8	22.8	22.1
Loans outstanding	23.9	22.0	1.8	−7.2	4.1	3.5	17.8	26.9	14.5	14.6
Savings	21.0	16.5	3.2	9.9	4.2	17.3	20.6	16.1	23.6	22.8
Reserves	12.3	3.0	4.5	3.3	9.6	9.9	13.2	22.1	17.7	15.6
Undivided earnings	29.8	31.1	29.7	12.7	27.8	23.4	14.6	24.3	29.6	21.5
Gross income	21.5	24.1	10.3	8.3	22.4	15.5	12.2	22.9	14.4	10.4
Operating expenses	22.4	25.4	17.6	4.9	10.8	9.8	12.2	13.2	15.6	16.5
Dividends	22.7	23.0	9.1	17.3	21.6	19.9	12.2	23.5	15.3	8.2
Reserve transfers	−16.2	7.1	−41.3	11.4	50.0	0.0	12.9	56.6	8.5	−11.3
Net income	129.7	54.1	16.8	−71.9	409.3	11.4	17.6	64.8	10.1	20.3
SIGNIFICANT RATIOS										
Reserves to assets	4.5	3.9	4.0	3.9	4.1	3.9	3.7	3.9	3.7	3.5
Reserves and undivided earnings to assets	5.7	5.3	5.8	5.8	6.4	6.4	6.0	6.4	6.3	6.1
Reserves to loans	5.8	4.9	5.1	5.6	5.9	6.3	6.0	5.8	6.0	6.0
Loans to shares	88.7	92.9	91.6	77.4	77.3	68.2	66.5	72.7	67.4	62.9
Operating expenses to gross income	37.5	37.9	40.5	39.2	35.5	33.7	33.7	31.0	31.4	33.1
Salaries and benefits to gross income	12.0	11.6	14.3	14.7	14.1	14.1	14.4	13.6	13.6	14.1
Dividends to gross income	53.8	53.3	52.7	57.1	56.7	58.9	58.9	59.2	59.7	58.5
Yield on averge assets	9.6	11.0	10.1	10.5	12.2	12.8	12.1	11.7	12.0	12.0
Cost of funds to average assets	5.5	5.8	5.9	6.4	7.2	7.5	7.1	7.0	7.2	7.2
Gross spread	4.1	4.2	4.2	4.2	5.1	5.3	5.0	4.7	4.8	4.8
Net income divided by gross income	3.3	4.1	4.3	1.1	4.7	4.5	4.7	6.3	6.1	6.7
Yield on average loans	10.5	10.9	10.9	11.0	12.5	13.6	13.7	12.4	13.5	13.5
Yield on average investment	7.9	8.4	8.6	10.3	12.8	12.3	10.2	11.0	9.5	9.5

[1] Revised

Selected Data, Federally-Insured State Credit Unions, 1971 to 1986

Year	Number of credit unions	Number of members	Total assets (in thousands)	Members savings (in thousands)	Loans outstanding (in thousands)
1971	793	1,924,312,	$ 1,954,821	$ 1,699,418	$1 ,528,218
1972	1,315	3,043,436	3,297,257	2,886,568	2,553,885
1973	1,656	3,830,508	4,333,106	3,734,537	3,440,659
1974	2,398	5,198,218	6,039,648	5,191,566	4,773,156
1975	3,040	6,681,027	8,605,297	7,442,904	6,618,036
1976	3,519	7,673,348	10,669,586	9,223,415	8,560,330
1977	3,882	8,995,124	13,763,816	11,756,617	11,208,628
1978	4,362	11,479,963	16,657,356	14,316,370	14,038,194
1979	4,769	12,218,682	18,459,942	15,871,204	15,204,365
1980	4,910	12,337,726	20,869,783	18,468,791	14,582,065
1981	4,994	12,954,206	22,584,168	20,006,801	15,340,731
1982	5,151	13,184,183	26,117,670	23,566,708	15,326,521
1983	4,915	14,277,816	27,479,116	24,849,831	17,214,861
1984	4,645	15,011,591	29,439,800	25,533,176	20,176,857
1985[1]	4,920	15,659,012	41,314,125	36,361,591	26,059,598
1986	4,944	17,361,865	52,242,771	46,372,075	30,832,618

[1] Revised

Percentage Distribution of Consumer Installment Credit by Type of Lender

Type of lender	1982	1983	1984	1985[1]	1986
Credit unions	13.7	13.7	14.8	13.9	14.0
Commercial banks	44.1	43.4	46.1	45.0	43.3
Savings institutions	4.9	7.1	8.3	10.2	10.5
Retailers	8.8	8.4	8.9	7.9	7.4
Finance companies	27.3	26.3	21.0	22.2	24.2
Gasoline companies	1.2	1.1	0.9	0.8	0.6
Total	100.0	100.0	100.0	100.0	100.0
Consumer installment Credit outstanding (in millions)	$344,798	$388,718	$460,500	$543,223	$603,320

[1] Revised

Source: Federal Reserve Board

Region IV Accounting Technician Scott Olinski

Region V Examiners (from left) Donald Wilham, Neil Johnson and Wilma Conley

Board Members

Roger W. Jepsen, chairman, was nominated by President Ronald Reagan and sworn into office October 17, 1985. He served in the U.S. Senate from the state of Iowa from 1979 to 1984, serving on the Joint Economic Committee which he chaired for two years, on the Armed Services Committee and the Agriculture, Nutrition and Forestry Committee. He served two terms as lieutenant governor of Iowa and four years as supervisor of Scott County. His career has included education, insurance, agribusiness and marketing. A native of Cedar Falls, he served in the 82nd Airborne Division of the U.S. Army in 1946–1947. He attended Iowa State Teachers College and received his bachelor's degree and master's degree with honors from Arizona State University, Tempe.

P. A. Mack, Jr., vice chairman, was appointed by President Jimmy Carter in 1979 and reappointed by President Reagan in 1984. He served as acting chairman from April to October 1985. He was administrative assistant to Senator Birch Bayh of Indiana from 1971 until 1979 and had been an officer in the Harris Trust and Savings Bank and Continental Illinois National Bank, Chicago, and a member of the board of the Tazewell County National Bank, Delavan, Ill. His career also included a period of teaching at Indiana University and DePaul University. He graduated from Purdue University and received his master's degree in business administration from Indiana University. Since 1955, he has owned and managed Mack Farms, Delavan.

Elizabeth F. Burkhart, member of the Board, was appointed by President Reagan in 1982 and nominated by him for a second term in 1985. She came to Washington, D.C., from Texas to be deputy treasurer of the Reagan-Bush Campaign Committee and was named associate deputy administrator of the Veterans Administration in 1981. Her career included teaching, two years in the Marine Corps and 10 years at the Texas Commerce Bank, Houston, where she rose from secretary to assistant vice president. She graduated from Midwestern University, received a master's degree in business administration from Houston Baptist University and attended Southwestern Graduate School of Banking at Southern Methodist University, Dallas.

Officers

Roger W. Jepsen
Chairman of the Board

P. A. Mack, Jr.
Vice Chairman of the Board

Elizabeth F. Burkhart
Member of the Board

Donald E. Johnson
Executive Director

Rosemary Brady
Secretary of the Board

Rebecca J. Baker
Executive Assistant to the Chairman

Susan L. Nelowet
Special Assistant to the Chairman

Laura W. Rossman
Special Assistant to the Vice Chairman

Harry J. Blaisdell
Special Assistant to the Member

Charles H. Bradford
Chief Economist

Robert M. Fenner
General Counsel

D. Michael Riley
Director
Office of Examination and Insurance

Vincent A. Toolen
President
Central Liquidity Facility

Robert E. Loftus
Director
Office of Public and Congressional Affairs

Herbert S. Yolles
Controller

Joan E. Perry
Internal Auditor

Benny R. Henson
Director
Office of Administration

Joseph W. Visconti
Director
Office of Information Systems

Dorothy W. Foster
Director
Office of Personnel

Stephen W. Raver
Director
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Harvey J. Baine III
Director
Region II

John S. Ruffin
Director
Region III

H. Allen Carver
Director
Region IV

J. Leonard Skiles
Director
Region V

Robert J. LaPorte
Director
Region VI

Regional Offices

Central Office
1776 G St. N.W.
Washington, D.C. 20456
202/357-1100

Region I
441 Stuart St. #600
Boston, Mass. 02116
617/223-6807

Region II
1776 G St. N.W. #700
Washington, D.C. 20006
202/682-1900

Region III
1365 Peachtree St. N.W. #540
Atlanta, Ga. 30367
404/347-3127

Region IV
230 South Dearborn #3346
Chicago, Ill. 60604
312/886-9697

Region V
611 East Sixth St. #407
Austin, Texas 78701
512/482-5131

Region VI
2890 North Main St. #101
Walnut Creek, Calif. 94596
415/486-3490

Rebecca J. Baker
Executive Assistant
to the Chairman

Rosemary Brady
Secretary to the Board

Laura W. Rossman,
Susan L. Nelowet,
Harry J. Blaisdell,
Special Assistants
to the Board Members

National Credit Union Administration
Washington, D.C. 20456

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1986 ANNUAL REPORT

NATIONAL CREDIT UNION
SHARE INSURANCE FUND

Your savings federally insured to $100,000

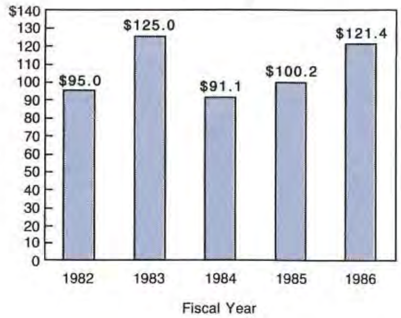
NCUA

National Credit Union Administration, a U.S. Government Agency

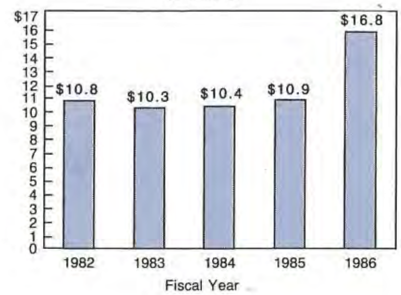
October 1, 1985 - September 30, 1986

NCUSIF Highlights

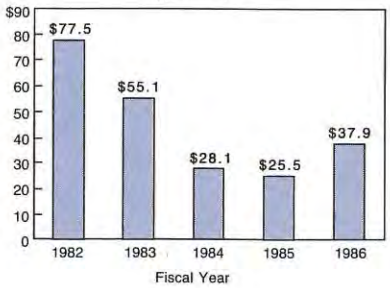
NCUSIF Gross Income
(In Millions)



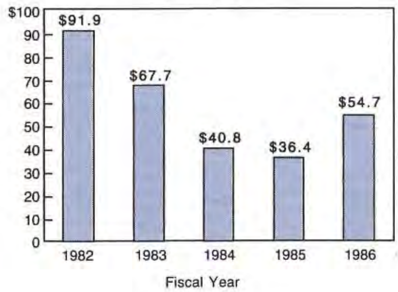
NCUSIF Administrative Expenses
(In Millions)



NCUSIF Insurance Losses
(In Millions)



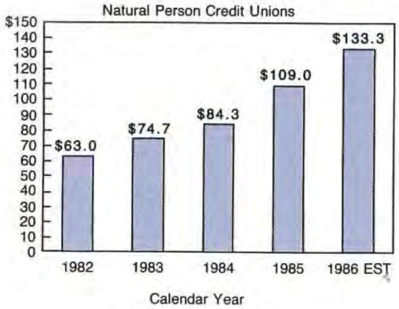
NCUSIF Total Expenses
(In Millions)



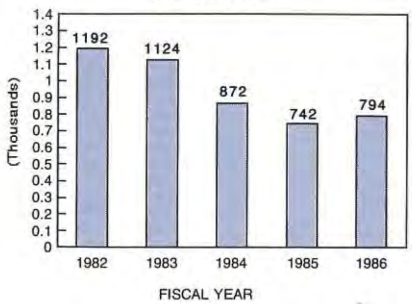
NCUSIF Net Income
(In Millions)

Credit Union Highlights

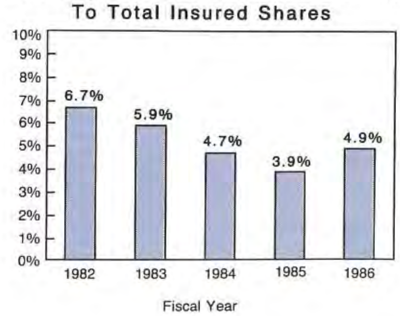
Total Shares
(In Billions)
Natural Person Credit Unions



Number of Problem Credit Unions
EWS Codes 4 & 5

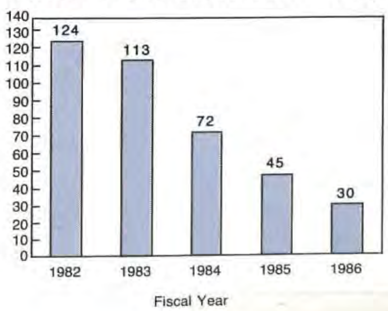


Percentage of Total Code 4 & 5 Shares To Total Insured Shares



Amount of 208 Non-Cash Assistance Outstanding

Number of 208 Cases Outstanding



ANNUAL FINANCIAL REPORT

OF THE
NATIONAL CREDIT UNION SHARE INSURANCE FUND

FISCAL YEAR 1986

Table of Contents

NATIONAL CREDIT UNION ADMINISTRATION
1776 G. Street, N.W.
Washington, D.C. 20456
(202) 357-1100
(Board)
(202) 357-1065
(Office of Examination and Insurance)

Message From The Chairman

I am pleased to report that Fiscal Year 1986 was a year of success and transition for the National Credit Union Share Insurance Fund (NCUSIF). Record earnings for the Fund paralleled a 22% growth rate for credit union insured deposits. The Fund has remained financially strong without the benefit of collecting an insurance premium from credit unions. This was with less than projected investment earnings and an increase in insurance losses. With a 1.30% equity ratio at December 31, 1985, the NCUSIF ranked the highest of all other federal insurers in the ratio of reserves to insured deposits.

With the capitalization plan of 1985 fully in place, the NCUSIF turned to some much needed house cleaning tasks. The regulations governing insurability were rewritten to strengthen the requirements credit unions must meet prior to becoming insured. To improve the quality of examinations and to stay current with the rapidly changing market place, an aggressive training program was implemented. Training for new examiners has been quadrupled, and special issues such as insider dealings and agricultural lending were presented using outside consultants. In addition, the Agency begin an intense effort to educate its examiners and credit unions in the area of member business loans. Numerous sessions, discussions and input from all sources have led to the development of a regulation that serves both the needs of safety and soundness, and the needs and opportunities of credit unions.

For the third straight year, the NCUSIF received an unqualified audit opinion from an independent international accounting firm. Like credit unions, the Fund is committed to full and fair disclosure of its financial performance and operating results to its insured credit unions and members.

It's been a busy and challenging year for me as Chairman of the National Credit Union Administration. I am committed to maintain the high standards and goals established for the Fund.

Sincerely,

Roger W. Jepsen

ROGER W. JEPSEN
Chairman

Vice Chairman's Comments

Reflecting upon fiscal year 1986, I am pleased with the performance of both the National Credit Union Share Insurance Fund (NCUSIF) and the credit unions it insures.

The Fund continued to keep administrative and financial costs to a minimum. Sound investment management reaped record income for the Fund, even though interest rates dropped significantly throughout the year.

The interest rate decline, however, spelled good news for credit unions as consumer lending took an upward swing and credit unions began to adjust dividend rates downward to reflect the marketplace.

Sound supervision is the key to continuing minimal financial costs to the Fund. Toward that end, we continue to work steadily with members and representatives of federally insured state-chartered credit unions to develop a coordinated examination program for all insured credit unions. The goal of the core examination is to provide a consistent evaluation tool that focuses examiner resources where they are needed. We have also turned our attention to the corporate system. New workpapers, a new guide and a special team of examiners are in place for the 1987 examination cycle of corporate credit unions.

I look forward to Fiscal Year 1987 with enthusiasm and hopes for a healthy and prosperous year for credit unions.

P.A. Mack, Jr.

P.A. MACK
Vice Chairman

Board Member's Comments

During this past year the National Credit Union Administration took a giant step toward fulfilling the long range goals of the NCUSIF. In addition to significant computer enhancements, the Board authorized a major expansion in the use of micro computers in the Regions and the Washington Office. The micro computer program will provide the examiner with the tools to do a more meaningful analysis of a credit union's financial condition and provide staff early warning of possible future losses. Additionally, these tools will result in improvement in our ability to analyze national trends for the early detection of emerging credit union problems.

Credit unions experienced rapid growth and record earnings in 1986; however, the effects of sub-standard commercial lending practices and insider dealings produced serious problems for a few credit unions and resulted in some large losses for the Insurance Fund which impacted all federally insured credit unions. The automation enhancements and the increases in staff should help us to curb these types of losses significantly in the future.

During 1987 I will continue to direct my attention to these and other measures to ensure the soundness and continued development of the credit union community.

Elizabeth F. Burkhart

ELIZABETH F. BURKHART
Board Member

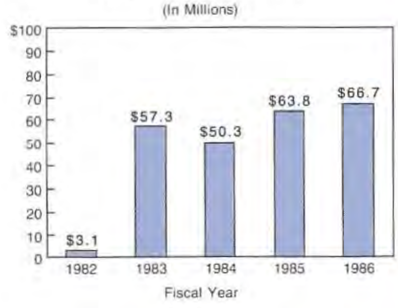
National Credit Union Share Insurance Fund Year in Review

During fiscal year 1986, the NCUSIF experienced the full effects of its successful capitalization program implemented in January 1985. Record investment earnings allowed the Fund to pay all its administrative and financial costs, and end the fiscal year with a new high in net income. However, due to the tremendous growth in insured credit union shares (30%) which occurred during calendar year 1985, all net income earned had to be allocated towards maintaining the Fund's 1.3% equity goal. For every $1 dollar in revenue earned by the Fund, 14 cents was spent on administrative expenses, 31 cents on insurance losses, and 55 cents went to maintain the 1.3% equity ratio. Although no remaining funds were available to pay a dividend on credit union capitalization accounts this year, the waiver of the premium itself was a $90.8 million savings to credit unions. This savings represented a 8.33% return on each credit union's capitalization deposit.

The collapse of the private insurers in Maryland and Ohio during 1985, and the uncertainty of the non-federal insurers in general had a continuing effect state-chartered conversions during FY'86. During the year there were 309 state-chartered conversions compared to 232 for FY'85. It is significant to note that while there were more conversions this year, those credit unions which converted tended to be smaller in deposits than those which converted the previous year. For FY'86, share growth from conversions was $3.6 billion compared to $3.9 billion for FY'85.

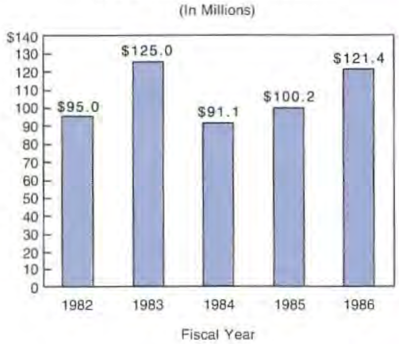
NCUSIF Net Income

(In Millions)



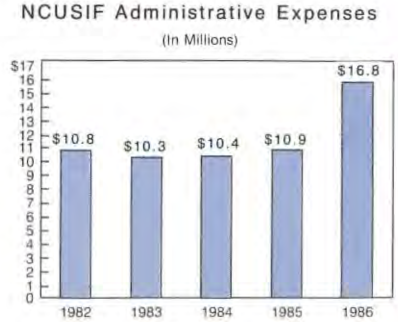
NCUSIF Gross Income

(In Millions)



NCUSIF Administrative Expenses

(In Millions)



Net Income

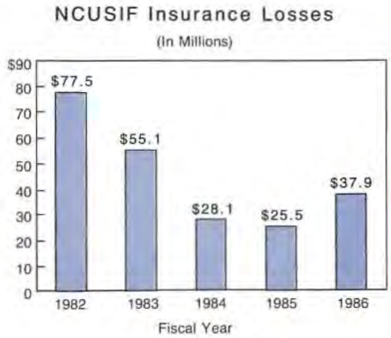
After all administrative and insurance costs, the Fund recorded net income of $66.7 million, the highest in its history. This was a 4.6% increase over FY'85.

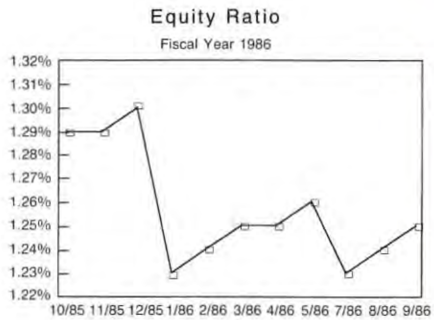
Gross Income

The NCUSIF generated $121.4 million in gross income during FY'86. Almost 100% of this income was from investments, with less than .3% from other sources. The NCUA Board waived insurance premiums of $90.8 million which would normally be reflected as premuim income for the year.

Administrative Expense

These expenses for FY'86 totaled $16.8 million, a 54% increase over last fiscal year. This increase was due to the change in the overhead transfer rate from 33% in 1985 to 50% in 1986. As a percentage of gross income, administrative expense increased from 10.9% to 13.9% for FY'86.





Insurance Losses

Financial costs or losses associated with liquidations, mergers, and problem credit unions totaled $37.9 million for the year. This was a $12.4 million increase from last fiscal year and the highest since FY'83. Included in this amount are the costs of establishing reserves for potential losses that the NCUSIF has determined are necessary for full and fair disclosure.

Equity Ratio

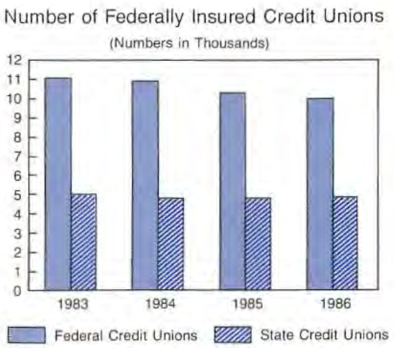
The equity ratio is the total of Insured Credit Union Accumulated Contributions and the Fund's retained earnings divided by total insured shares. Credit unions deposit 1% of their insured shares into the Fund, and the Fund itself contributes all of its net income to maintain the 1.30% equity ratio. In December 1985, the equity ratio was 1.30%. Due to the NCUA Board's change in the insurance year to a period ending June 30, the equity ratio is 1.24% as of September 30, 1986, however it is projected that the ratio will increase to 1.30% by the end of the current insurance year (June 30, 1987).

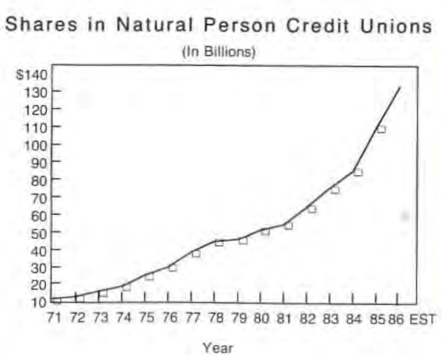
Federally Insured Credit Unions

The NCUSIF is the nation's largest insurer of credit union shares. Currently, it insures an estimated 90% of all share deposits in United States credit unions. In addition to NCUSIF, there are 13 state credit union insurance or guaranty corporations, of which three operate in more than one state. These corporations insure or guarantee approximately 2,000 credit unions with shares of approximately $10 billion. This amount represents less than 10% of all credit union shares. Approximately 50 credit unions in the United States currently operate without some form of share insurance or guarantee.

Changes in NCUSIF-Insured Credit Unions

	Federal Credit Unions	Federally Insured State Credit Unions	Total
Beginning Number— 10/1/85	10,255	4,776	15,031
Additions:			
New Federal Charters	43	—	43
New State Charters with Federal Insurance Certificates	—	16	16
Conversions	20	309	329
Resumed Operations	26	13	39
Subtractions:			
Mergers:			
Assisted	28	7	35
Voluntary	384	154	538
Liquidations:			
Involuntary	22	7	29
Voluntary	9	27	36
Purchases and Assumptions	4	3	7
Conversions	3	18	21
Other	2	1	3
Ending Number— 9/30/86	9,892	4,897	14,789
Net increase (decrease)	(363)	121	(242)





During the 12-month period ending September 30, 1986, the number of federally insured credit unions declined by 242, or 1.6%, to 14,789. While this is the 7th year in a row that the number of federally insured credit unions has declined, it is the smallest reduction in that period of time. In Fiscal Year '86 (which ended September 30, 1986) there were 573 mergers, a slight decrease over the previous year's 577 mergers. During the same 12 months, 65 credit unions liquidated, a decline from Fiscal Year 1985 of 108.

There were 309 state chartered credit unions which applied and were granted federal insurance in Fiscal Year '86. This represents a 1/3 increase over last Fiscal Year when 232 state chartered credit unions were insured. For the same period only 18 federally insured state chartered credit unions converted to private or state share insurance. Overall there was a 2.5% increase in the number of Federally Insured State Chartered Credit Unions (FISCUs).

Share growth continued at a significant rate in NCUSIF-insured, natural person credit unions. 1985 actual figures reflected a record breaking 30.0% increase of $25.3 billion, bringing shares to $109 billion. While share growth in 1986 is not expected to reach the 1985 pace, a 21.7% growth rate is projected bringing shares to $133 billion.

Share Growth in NCUSIF-Insured Natural Person Credit Unions

(dollars in millions)

December 31	Shares Outstanding: Federal Credit Unions	State Credit Unions	Total	Percentage Change from Prior Year-Total Shares
1971	$ 9,191	$ 1,699	$ 10,890	—
1972	10,956	2,887	13,843	27.1%
1973	12,598	3,735	16,333	18.0
1974	14,371	5,192	19,563	19.8
1975	17,530	7,443	24,973	27.7
1976	21,130	9,223	30,353	21.5
1977	25,576	11,757	37,333	23.0
1978	29,803	14,316	44,119	18.2
1979	30,768	15,554	46,322	5.0
1980	33,812	17,730	51,542	11.3
1981	35,250	18,902	54,152	5.1
1982	41,352	21,638	62,990	16.3
1983	49,889	24,850	74,739	18.7
1984	57,927	26,327	84,254	12.7
1985	71,615	37,917	109,532	30.0
1986	**87,818***	**45,463***	**133,281***	**21.7***

*Estimated for 12/31/86

Financial Status of Federally Insured Credit Unions

NCUA's system for monitoring financial trends in each insured credit union is the Early Warning System (EWS). Since the overall financial health of each credit union plays a key role in the management of the Insurance Fund, the major emphasis of NCUA's supervision program revolves around safety and soundness. Several supervisory tools are available to measure safety and soundness:

- An annual on-site examination of all federal credit unions;
- A coordinated supervisory involvement with state regulators of insured state-chartered credit unions. This involvement ranges from NCUA's review of the state regulator's Examination Report to a joint examination conducted by federal and state examiners;
- The review of the semiannual financial reports filed with NCUA by all insured credit unions;
- The analysis of Financial Performance Reports (FPR) prepared by NCUA from semiannual financial reports; and
- Periodic on-site supervisory visits to follow-up on problem resolution.

The result of reviewing the above data is the assignment of an EWS rating to each credit union. The rating is assigned by experienced examiners and financial analysts after a detailed review of all available data. The EWS classifications are as follows:

EWS Code 1 = Excellent Condition
EWS Code 2 = Good Condition
EWS Code 3 = Fair Condition
EWS Code 4 = Weak Condition
EWS Code 5 = Unsatisfactory Condition

As the EWS Code increases, a credit union will receive increased supervisory attention. Credit unions classified as Code 1 or 2 will receive an annual examination as well as a detailed review of their semiannual financial reports and Financial Performance Reports. The annual examination of a credit union classified as an EWS Code 3 will normally take longer than a Code 1 or 2. Code 3 credit unions will usually receive a follow-up contact at some point in the year. Since most Insurance Fund losses come from credit unions classified as Code 4 or 5, supervisory attention is focused on this group of credit unions. A credit union classified as a Code 4 or 5 receives frequent on-site visits by its examiner. The purpose of these visits is to resolve the problems that placed the credit union in the lower EWS Code. If the problems persist, the credit union is referred to the Special Actions unit of the NCUA Regional Office responsible for its supervision. Experienced Special Actions staff immediately begin working with the credit union's management in an attempt to find solutions to their problems.

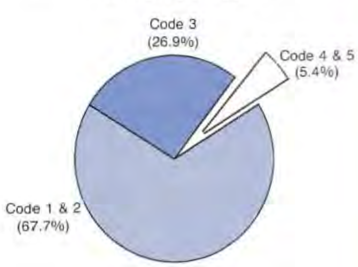
For the period ending September 30, 1986, the number of Code 4 and 5 credit unions increased slightly over the previous year. The number and amount of shares in these credit unions are are follows:

Summary of EWS Code 4 and 5 Credit Unions

	9/30/85	9/30/86
Number of Code 4 and 5 credit unions	742	794
Percentage of Insured credit unions	4.9%	5.4%
Shares in Code 4 and 5 credit unions	$4.1 Billion	$6.6 Billion
Percentage of Shares in All insured credit unions	3.9%	4.9%

The Share Insurance Fund uses EWS ratings to help determine how much to reserve or set aside for anticipated cash outlays in currently operating credit unions. Loss reserves are established on a case-by-case basis for Code 4 and 5 credit unions with shares in excess of $10 million. Statistical methods are used to establish a reserve pool for probable losses in smaller Code 4 and 5 credit unions. The following charts provide an analysis, by EWS Code, of the number of shares in federally insured credit unions.

EWS Distribution of Credit Unions
Fiscal Year 1986



Distribution of Federally Insured Credit Unions by Early Warning Systems (EWS) Categories

EWS Category	As of 12/31/82	As of 9/30/83	As of 9/30/84	As of 9/30/85	As of 9/30/86
Codes 1 & 2	10,823	11,030	10,718	10,736	10,010
3	4,850	3,909	3,772	3,553	3,985
4	939	995	782	681	716
5	158	129	90	61	78
Totals	16,770	16,063	15,362	15,031	14,789

Percentage of Shares by EWS Category

EWS Category	As of 12/31/82	As of 9/30/83	As of 9/30/84	As of 9/30/85	As of 9/30/86
Code 1 & 2	77.4%	81.1%	81.9%	82.9%	79.0%
3	15.2	13.0	13.4	13.2	16.1
4	6.7	5.4	4.2	3.6	4.7
5	.7	.5	.5	.3	.2
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

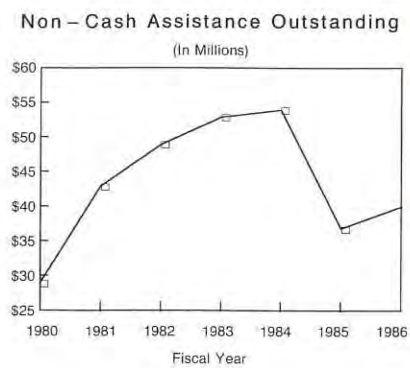
Assistance to Operating Credit Unions

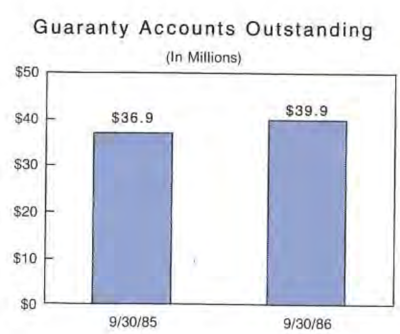
The major emphasis in the management of the National Credit Union Share Insurance Fund is to minimize the risk exposure and losses of the Fund. In spite of all of the regulatory and supervisory efforts of the Agency there will probably always be some financially troubled credit unions. Regardless of the reasons for this, whether it is because of weak management in the credit union, changing economic conditions, or other circumstances, the ultimate goal of the Insurance Fund remains the same—minimize the potential losses. Apart from its regulatory and supervisory powers, the Agency can extend various types of financial assistance to troubled credit unions. This is done when the severity of the problems is such that normal supervision efforts will not be sufficient. These financial assistance tools have one objective—to get the credit union back into the black in the shortest time possible, without major losses to the Insurance Fund.

The numbers of credit unions that benefitted from the NCUSIF assistance programs during the fiscal year and returned to profitable, self-sustaining operations are evidence of the successful use of the assistance tools available from the Insurance Fund. As of October 1, 1985, there were 46 credit unions with NCUSIF assistance. Of these, 19 were able to fully repay their assistance and are now operating profitably on their own. 20 others made substantial progress towards eliminating the assistance. Of the 11 credit unions that were granted new assistance during the year, two were able to fully repay it by the end of the fiscal year and three others repaid a substantial portion of the assistance.

Financial Assistance

The NCUSIF provides two major categories of financial assistance to financially troubled credit unions—cash and non-cash. Non-cash assistance is also referred to as guaranty account assistance. Both types are authorized by Section 208 of the Federal Credit Union Act as "...special assistance to avoid liquidation." As of September 30, 1986, there were 30 credit unions with shares totalling $1.76 billion having outstanding assistance from the Insurance Fund.





Non-Cash or Guaranty Account Assistance

The most frequently used assistance has been Prior Period Undivided Earnings Deficit—NCUSIF Guaranteed (Guaranty Accounts). This type of assistance represents a recognition by the Insurance Fund that a credit union is operating with a negative book net worth. While a credit union in this situation is technically insolvent, it usually is expected to return shortly to profitability. The Insurance Fund does not issue Guaranty Accounts to credit unions that have no chance of eventually regaining solvency. The issuance and subsequent amortization, or reduction, of Guaranty Accounts are strictly non-cash transactions.

Guaranty Accounts do not change the numbers on a credit union's financial statements. The net worth section of its balance sheet is clearly identified and footnoted to indicate the amount of negative book net worth acknowledged by the Insurance Fund through the issuance of a Guaranty Account, but this does not cause the credit union's assets to be overstated or its negative net worth to be understated. Consequently, Guaranty Accounts lead to a full and fair disclosure of a credit union's financial condition. Almost all Guaranty Accounts are amortized on a predetermined schedule negotiated between Agency staff and the credit union. The amortization schedule reflects profit improvement goals the credit union's directors and management are committed to achieving.

The table below sets out the Insurance Fund's Guaranty Account activity during the 1986 fiscal year.

Change in NCUSIF Guaranty Accounts Outstanding

(amounts in thousands)

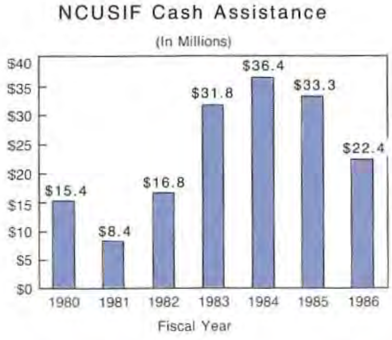
Guaranty Accounts Outstanding— September 30, 1985 (45 cases)	$36,946
Increases	
10 credit unions needed initial assistance	26,712
2 credit unions needed additional assistance	602
Decreases	
6 credit unions merged/liquidated	(2,624)
21 credit unions completed amortization of guaranty	(4,130)
Credit unions reduced guaranty	(17,603)
Guaranty Accounts Outstanding— September 30, 1986 (28 cases)	$39,903

Guaranties Outstanding by Number and Type of Credit Union at September 30, 1986:

	Number	Amount Outstanding (000's)
Federal Credit Unions	18 (64%)	$12,219 (31%)
Federally Insured State Credit Unions	10 (36%)	27,648 (69%)
Totals	28	$39,903

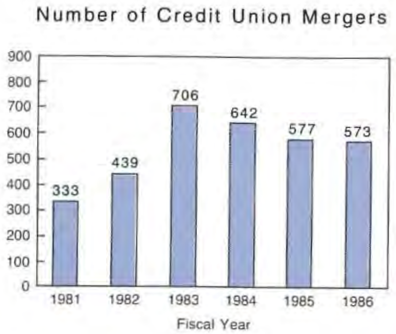
Cash Assistance

NCUSIF Cash Assistance



The Insurance Fund can provide various types of cash assistance to troubled credit unions to aid in their return to financial health. Capital Notes constitute the bulk of this assistance. Under this program, cash is advanced to a credit union in exchange for a subordinated note that is usually interest free. While this cash infusion improves the credit union's liquidity, its primary intent is to improve the credit union's income position by acquiring income-producing assets to offset the impact of non-earning assets or accumulated losses. Captial notes contain specific repayment schedules that reflect the earnings improvement projected for the credit union. As of September 30, 1986, the Insurance Fund held $20.3 million of Capital Notes from nine credit unions. This is down from $33.1 million at the beginning of the fiscal year.

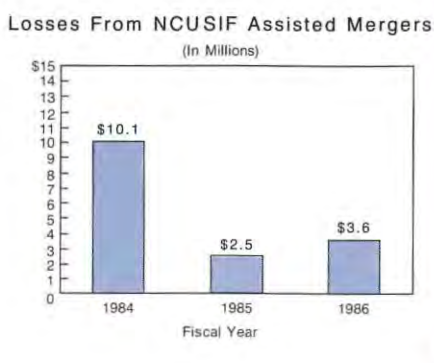
The Insurance Fund occasionally provides assistance by extending an interest-bearing loan to a less troubled credit union or by placing a share deposit in it. At September 30, 1986, outstanding loans and share deposits totalled $2.1 million, up $1.9 million from the previous fiscal year-end. Total cash assistance outstanding was reduced by almost 33% since September 1985.



Mergers

The total number of mergers for fiscal year 1986 was 573, compared to 577 in 1985. The number of mergers had declined by 20% since 1983 and is indicative of the continuing improved economic conditions for credit unions. Credit union mergers over the last several years have been mostly voluntary (unassisted), 90% in 1986 and 89% in 1985, compared to 86% in 1984 and 74% in prior years. A voluntary merger is feasible when a credit union has recently lost all or part of its field of membership or otherwise is no longer economically viable, and is consummated without cost to the Insurance.

Credit union mergers are preferable to liquidations. They ensure that the members of an acquired credit union will continue to be served by a credit union. Mergers are less disruptive to the credit union community than liquidations. Also, assisted mergers cost the Insurance Fund less than involuntary liquidations. The ratio of credit union mergers to liquidations has increased substantially in recent years. During the late 1970's, liquidations sometimes exceeded mergers. However, during the past few years, the ratio of mergers to liquidations has increased favorably due to more flexible membership policies. For 1986, there were approximately 16 mergers for every one liquidation.



When a merger involves an insolvent credit union, the Fund may provide some form of financial assistance to the acquiring credit union. Usually this assistance is a guarantee covering portions of the acquired credit union's loan portfolio or other assets of doubtful value. Merger cash assistance may also be provided if the acquired credit union has a negative net worth at the time of the transaction. In every assisted merger, the Fund tries to negotiate a subsequent, partial recovery of its assistance. The recovery is contingent upon the acquiring credit union meeting certain predetermined goals.

In 1986, 55 credit union mergers required assistance from the Insurance Fund. Of this total, 76% of these credit unions were federal credit unions with total assets of $22,599,000. More than 61% of the assisted mergers required cash assistance without a guarantee agreement. The average cost per assisted merger in 1986 was $66,000 compared to $43,000 in 1985 and $109,000 in 1984. The following table summarizes assisted merger activity for fiscal year 1986.

Assisted Mergers Fiscal Year 1986

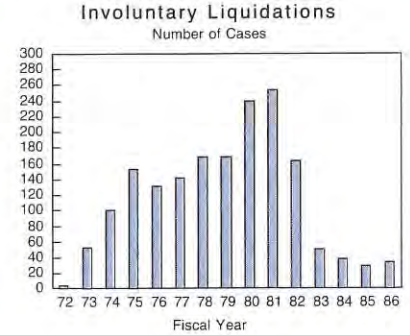
Acquired Credit Union Acquiring Credit Union	Date Approved	Shares in Acquired Credit Union	Estimated NCUSIF Loss	Loss as Percentage of Shares
Mergers with Losses over $100,000:				
Hi Plains Teachers CU Farmers CU	9/17/86	$5,232,234	$500,000	9.6%
Phillips County CU Golden Plains CU	4/28/86	3,307,757	396,000	12.0%
All Faiths CU General Food Empls CU	3/5/86	17,371,128	390,000	2.2%
KMA Physicians Fin. Serv. Kentucky Telco FCU	4/1/86	5,642,958	250,000	4.4%
Oxford Miami Empls FCU Countywide FCU	9/19/86	1,207,419	235,000	19.5%
Tri County Bldg. CU Saginaw Eaton CU	4/9/86	1,410,353	165,367	11.7%
GA Employees FCU Orange County FCU	12/13/85	606,971	150,000	24.7%
Volco Empls FCU Advanced Financial Serv. CU	11/15/86	196,096	150,000	76.5%
Ozark Health Empls FCU Uark FCU	9/29/86	488,514	120,000	24.6%
Technicare FCU BFG Federal CU	8/28/86	476,151	110,000	23.1%
All Other Assisted Mergers—45 Cases		19,210,663	1,170,415	6.1%
Totals—55 Cases		**$55,150,244**	**$3,636,782**	**6.6%**

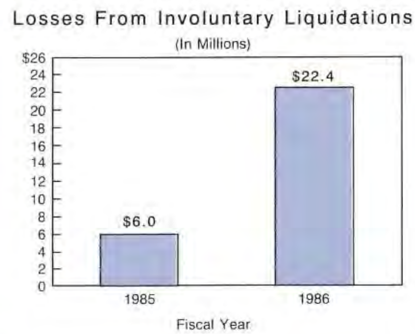
Liquidations

Credit unions are liquidated only when they cannot be merged with another credit union. Mergers usually cannot be arranged when the failing credit union is too small, has severe asset quality problems, and/or does not have a readily transferable membership base. A board of directors' lack of interest in continuing to operate the credit union or in negotiating a merger also can lead to liquidation. Insider dealing, fraud and heavy reliance on brokered funds are frequently found in the larger involuntary liquidation cases.

There are two types of liquidations: voluntary and involuntary. Voluntary liquidations do not cost the Insurance Fund any money; the credit union's own reserves more than cover its liquidating costs. Involuntary liquidations, although fewer in number, are of far greater concern to the Insurance Fund. In these cases, the Fund has to contribute sufficient funds to provide members with a full payoff of their share balances, up to the $100,000 insurance limit.

As can be seen from the next table, the number of involuntary liquidations for this fiscal year was 36 compared to 31 for Fiscal Year 1985. Of this amount, 7 were Purchase and Assumptions. This is a substantial reduction in cases compared to 251 involuntary liquidations in 1981. The total loss in Fiscal Year 1986 liquidations was $22.4 million, a $16.4 million increase over 1985.





Involuntary Liquidations: Six-Year History

Fiscal Year	1981	1982	1983	1984	1985	1986
Number of Involuntary Credit Union Liquidations Commenced	251	160	50	38	31	36
Number of Shareholders Paid	142,918	72,331	21,614	21,623	12,641	9,152
Shares Paid (thousands)[1]	$78,639	$39,892	$9,954	$34,840	$15,499	$22,168
Percentage of Shares Paid to Total Shares in NCUSIF-Insured Credit Unions	.136%	.058%	.013%	.041%	.015%	.020%
Average Payout Per Credit Union Liquidated (thousands)	$313.3	$249.3	$199.1	$916.8	$500.0	$852.6

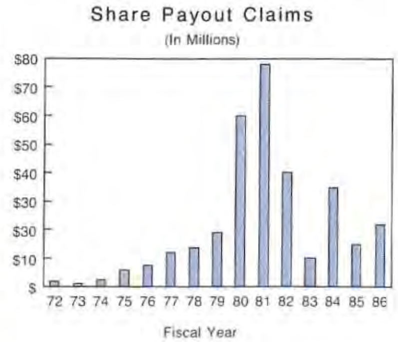
[1]Does not include Purchase and Assumptions.

Involuntary Liquidations: Fiscal Year 1986

Liquidated Credit Union	Date of Liquidation	Shares Outstanding When Credit Union Closed	NCUSIF Loss[1]	Loss as Percentage of Shares
Liquidations with Losses over $100,000:				
Tip Top CU[2]	10/17/85	$42,271,172	$15,392,319	36.4%
Spenco CU	5/16/86	4,448,879	1,815,390	40.8%
Pioneer CU	10/4/85	4,150,768	938,972	22.6%
South Florida FCU	5/8/86	1,371,557	617,295	45.0%
Polonia Confraternity FCU	9/19/86	2,374,431	222,478	9.4%
Cotesfield CU	8/22/86	1,918,450	203,014	10.6%
Limon Co-op CU	10/14/86	381,459	165,119	43.3%
Pahrump Valley CU	5/19/86	212,522	160,482	75.5%
East Austin Community CU	9/19/86	82,000	108,000	131.7%
All Other Involuntary Liquidations (27)		3,077,058	2,781,823	90.4%
Totals—36 Cases		**$60,288,296**	**$22,404,892**	**37.2%**

[1] Final loss figures may differ slightly from amount shown.
[2] Purchase and Assumption.

The Tip Top Credit Union was the Insurance Fund's largest liquidation loss for 1986. Problems in this credit union stemmed from a depressed agricultural sector, and unsafe and unsound lending practices. With farm economy dropping and the land and other collateral values deteriorating, the loans went bad very quickly. This credit union was experiencing problems as far back as the late 1970's and early 1980's. By the time NCUA staff became involved with on-site supervision, the losses were so severe that the credit union was unsalvageable. The net loss after disposition of assets retained by the Fund has resulted in a $15.4 million loss as of September 30, 1986.



Liquidation Recoveries

Substantial improvements have been made in converting assets acquired in credit union liquidations to cash. Until 1981, Insurance Fund personnel attempted to collect or otherwise liquidate these assets, most of which were consumer installment loans made by the failed credit unions. The Fund's management has found that these quick sales, using competitive bidding, have improved the recovery percentage in these liquidations. Equally important, the asset sales minimize the administrative time devoted to each failed credit union by lessening the time spent on past problems.

During 1986, the Insurance Fund closed 26 liquidation cases, some of which were failures in earlier years. The following table summarizes these cases:

Liquidation Recoveries

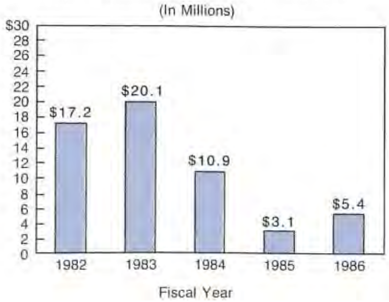
(Cases Closed During Fiscal Year 1986)

	Number of Credit Unions	Shares When Credit Union Closed (millions)	Total Recoveries (millions)	Recovery Percentage
Federal Credit Unions	20	$16.8	$8.3	49.4%
NCUSIF-Insured State Credit Unions	6	4.8	4.2	87.5%
Totals	**26**	**$21.6**	**$12.5**	**57.9%**

The 57.9% recovery percentage for the 1986 closed cases is comparable to 1985's 66.3%. The average case had total shares of $831,000 at the time the credit union closed, which equals to about 10% of average credit union's total shares.

The next table sets out a 5-year history of closed liquidation cases. The overall recovery percentage declined slightly this fiscal year as it did in 1985. The recovery percentage in credit union liquidations was the smallest in NCUSIF liquidation recovery history.

Net Losses in Closed Cases
(In Millions)



NCUSIF Liquidation Recovery History

Fiscal Year In Which Case Closed	Recovery Percentages: Federal Credit Unions	State Credit Unions	All Cases	Net Loss In Closed Cases (millions)
1982	64.8%	51.6%	61.0%	$17.2
1983	74.1%	32.4%	66.4%	$20.1
1984	66.9%	72.0%	67.3%	$10.9
1985	72.0%	20.0%	66.3%	$ 3.1
1986	49.6%	89.5%	57.9%	$ 5.4

Purchase and Assumptions

A Purchase and Assumption (P&A) transaction contains elements of both a liquidation and a merger. P&As usually begin as involuntary liquidation cases. In a P&A case, however, the Insurance Fund does not immediately pay off all the shareholders and liquidate all of the credit union's assets. Instead, the Fund operates the credit union while trying to merge some portion of it into another credit union in an effort to avoid a complete liquidation. The Fund then retains and liquidates those assets not acquired by the other credit union and assumes those liabilities not otherwise assumed or paid off. A number of months may elapse between the date the Fund takes control of the failed credit union and the date a portion of it is sold off. A field of membership may or may not be transferred in the merger portion of the transaction. When necessary, the Insurance Fund will provide some form of assistance to facilitate the merger in the form of a Purchase and Assumption Agreement.

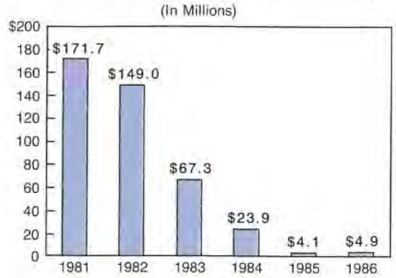
There were seven Purchase and Assumptions agreements guaranteed by the Insurance Fund for Fiscal Year 1986. The Fund's percentage of loss in 1986 P&A cases was 9.8% compared to 9.1% in 1985 and 4.0% in 1984. The table below summarizes those six cases.

Purchase and Assumption Cases Fiscal Year 1986

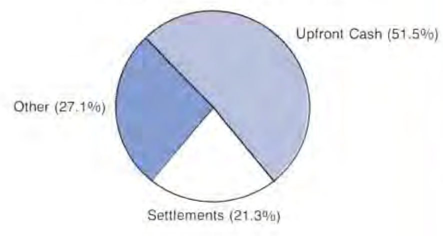
Assuming Credit Union Liquidating Credit Union	Date Approved	Shares in Liquidating Credit Union	NCUSIF Loss	Loss as Percentage of Shares
Lowry FCU Metro Catholic CU	5/9/86	$ 7,470,458	$1,363,000	18.2%
Parm Auto FCU ACU Community CU	1/9/86	10,920,203	514,151	4.7%
Publix Emp. FCU SSDF FCU	6/30/86	3,084,353	400,000	13.0%
Texas FCU Gee Tex FCU	12/20/85	4,098,397	184,451	4.5%
Cooperative Center FCU Shaklee Employees FCU	7/3/86	616,848	85,000	13.8%
Telco Federal CU Singer Clarkville FCU	6/2/86	100,816	35,811	35.5%
Downey FCU U.T.L.A. CU	4/9/86	250,000	30,000	12.0%
Totals—7 Cases		**$26,541,075**	**$2,612,413**	**9.8%**

Guarantee Contracts Outstanding

(In Millions)



Breakdown of Disbursements for Fiscal Year 86 Contracts



Asset Guarantee Contracts

Prior to 1981, the NCUSIF routinely guaranteed the full value of loans and other assets of liquidated credit unions sold to third parties. These guarantees would also be granted when assets were acquired by another credit union in an assisted merger or purchase and assumption transaction. Consequently, the acquirers of these assets would have little incentive to collect aggressively or otherwise liquidate the guaranteed assets.

The Insurance Fund presently tries to sell assets without any guarantee. With certain assets, however, the Fund will guarantee a specified recovery value where there is a high degree of uncertainty as to what can be recovered. These are situations where external events (such as layoffs) temporarily depress values. As a result, guarantees have increased the liquidation value of the problem assets. Under no circumstances is an entire loan portfolio guaranteed. The table below sets out the cumulative history of the loan guarantee program.

Asset Guarantee Contracts—Cumulative History

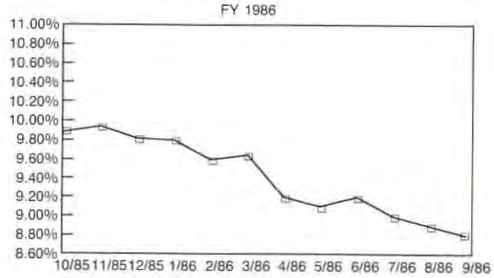
(dollars in thousands)

	1971 - 1986
Number of Guarantee Contracts Written	1,722
Book Value of Loans and Other Assets Guaranteed	$574,031
Amount of Guarantees Issued	$307,913
Disbursements under Guarantee Contracts	$68,391
Guarantee Contracts Outstanding (Contingent Liability) on 9/30/86	$2,822
Guarantees Issued as Percentage of Book Value of Assets Guaranteed	53.6%
Loss Ratio on all Contracts (Disbursements as a Percent of Guarantees)	22.2%

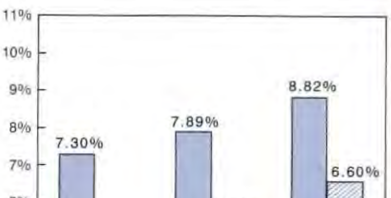
At yearend 1986, the number of loan and asset guarantee contracts written by the Insurance Fund totaled 1,722. There were 26 new guarantees written in 1986, slightly up from 21 in 1985. These guarantees amounted to $6,294,913, representing 31% of the book value of the assets guaranteed. As of September 30, 1986, there were 22 remaining guarantee contracts compared to 14 in 1985. The NCUSIF's contingent liabilities under these guarantees by the end of the year was $4.9 million for which a reserve for estimated losses of $3,273,000 has been established. The total amount of disbursements for guarantee contracts written during fiscal year 1986 amounted to $561,036. Of this amount 21% accounted for negotiated settlements. The cumulative disbursements on all guarantees during 1986 totaled $5.5 million. The loss ratio on all guarantees was 22.2% compared to 20.9% in 1985.

Investment Yield

FY 1986



Investment Yield Comparison



Investment Portfolio

Maturity Schedule

Financial Summary

Overview

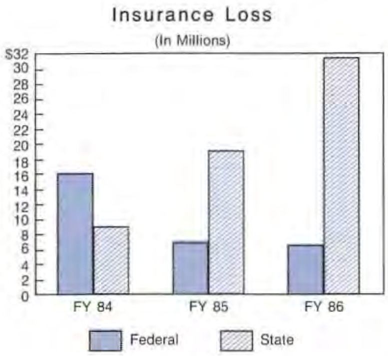
Fiscal year 1986 was a year of record growth and earnings for the Fund. It was also a period of increased insurance losses resulting from agricultural failures and insider dealings. Conversions to the NCUSIF continued at a high rate increasing credit union contributed capital by $35.9 million. During FY '86, there were 309 conversions compared to 232 for the previous fiscal year. The investment income earned by the Fund enabled the NCUA Board to waive collection of the annual insurance premium which resulted in a $90 million savings to insured credit unions. However, due to the tremendous growth in insured shares, there was no excess income over the 1.3% operating level requirement to rebate back to credit unions in the form of a dividend. The waiver of the premium was, in effect, a 8.33% return to insured credit unions.

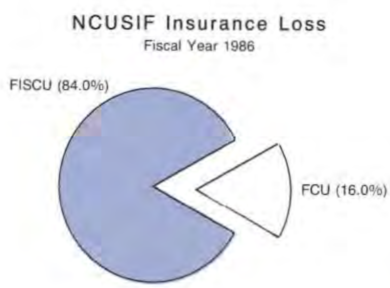
Gross Income

The NCUSIF ended FY'86 with a record $121.4 million in total income; a 21% increase over the previous year. The increase is attributed to the additional investment income earned from the $160 million received from credit unions for their 1% contributed capital adjustment, and the $35.9 million received from credit union conversions. Almost 100% of total income earned was from investments compared to 84% for FY'85. Due to decline in interest rates during the year, investment income was approximately $7 million less than originally projected. By law, NCUSIF investments are limited to direct obligations of the US Treasury or securities guaranteed by the United States as to both principal and interest. During FY'86, the Fund's average investment yield was 9.35% compared to 10.99% for FY'85. The decrease in average yield is due to the decline in interest rates mentioned above. The average maturity of the Fund's investments is 345 days compared to 428 for FY'85. The market value of the portfolio at fiscal year-end was $19.9 million above the book value.

Expenses

Total expenses increased by 50% or $18.3 million over the previous fiscal year to $54.7 million. Of this increase, $12.4 million came from insurance losses, and the remaining $5.9 million was due to increased administrative expenses. Most of the Fund's insurance loss is incurred when reserves are established for supervised credit unions falling in the EWS Codes 4&5 categories. For FY'86, total insurance losses equalled $0.35 per every $1,000 of insured shares compared to $0.27 for FY'85. The table below shows the changes which have occurred within the reserve accounts since fiscal year 1984.





Summary of Reserves Established for Potential Losses from Supervised Credit Unions

(amounts in thousands)

	Fiscal Year 1984	1985	1986
Reserves—Beginning of Fiscal Year (October 1):	$43,833	$45,700	$47,400
Net Charges for Fiscal Year	(26,201)	(23,772)	(36,664)
Provision for Insurance Losses	28,068	25,472	37,864
Reserves—End of Fiscal Year (September 30):	$45,700	$47,400	$48,600

As can be seen from the accompanying graph, there is a significant increase in the amount of insurance loss associated with federally-insured state chartered credit unions over the past three years, while losses associated with federal credit unions have declined over the same period. For every $1.00 lost for federal credit unions, state chartered credit unions lost $5.11 during FY 86.

The remaining category of costs making up total expenses are those administrative costs incurred by operating the Fund. These costs fall into two components: direct and allocated. Direct costs are those incurred by the Fund's full-time employees. However much of the Fund's examination and supervision work is performed by employees of NCUA whose cost is allocated to the Fund through an overhead transfer process. The Fund transfers cash to the operating fund to cover a percentage of total administrative costs which are attributable to fulfilling the insurance function of the Agency. Since 1980, the percentage of overhead transfer has been about 33% of total Agency administrative costs. In October 1985, the NCUA Board approved an increase in the overhead transfer to 50% for fiscal year 1986, and the elimination of all direct charges to the Fund. This increase was substantiated by a time study completed in August 1986 which indicated that approximately 57% of work performed by examiners is related to the insurance program. Consequently administrative costs increased from $10.9 million in 1985 to $16.8 million for fiscal year 1986. Over the past six years, the amount of direct and allocated expenses of the Fund have been as follows:

Insurance Fund Direct and Allocated Operating Expense

(amounts in thousands)

Fiscal Year	1981	1982	1983	1984	1985	1986
Direct Expenses	$2,245	$2,873	$2,395	$2,353	$2,858	$0
Allocated Expenses	7,069	7,940	7,920	8,173	8,069	16,822
Total Operating Expenses	$9,314	$10,813	$10,315	$10,426	$10,927	$16,822
% of NCUA Total Operating Expenses	30.5%	34.0%	33.2%	32.5%	33.8%	50.0%

Net Income

The Fund earned record income for FY'86. However due to the less than projected investment earnings, and the $18.3 increase in expenses, net income increased only 4.6% over FY'85. Since insured shares grew by over 30% during calendar year 1985, 100% of this year's net income was required to maintain the 1.3% equity ratio leaving no additional funds available to pay a dividend on credit union capitalization accounts.

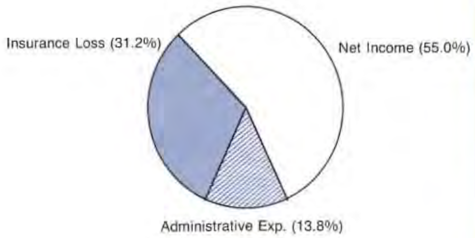
Equity

During FY'86, total Fund equity grew $292 million from $1.1 billion in FY'85 to $1.4 billion. The increase in equity was the result of the following:

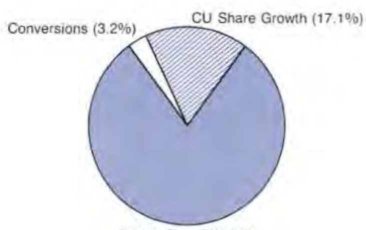
- $160 million increase in contributed capital due to share growth.
- $66.7 million in net income for the fiscal year.
- $35.9 million in capitalization deposits from converted credit unions.
- $29.5 million in NCUSIF dividends for 1985 credited to contributed capital accounts.

As of September 30, 1985, the Fund's equity ratio was 1.27% and rose to 1.30% by the end of 1985. In January 1986, the total insured share base used in the calculation of the equity ratio changed from $84.4 billion to $109.0 billion. Consequently, the equity ratio dropped from 1.30% in December 1985 to 1.24% in January 1986. From January 1986 through June 1986 the ratio gradually increased through the addition of net income to retained earnings to 1.27%. In July 1986, the NCUA Board voted to change the insurance year to a period ending June 30. The effect of this change caused the equity ratio to fall back to 1.24% since insured shares had increased from $109.0 billion in December 1985 to $125.5 billion as of June 30, 1986. The equity ratio has remained stable at that level through the end of the fiscal year, however, by the end of June 1987, it is anticipated that the ratio will be at the 1.29% – 1.30% range.

Income and Expense
Fiscal Year 1986



Growth in Contributed Capital
Fiscal Year 1986



NCUSIF Equity Ratio
(Percent)

Financial Reporting Practices

The NCUSIF has now completed four years of full accrual accounting under Generally Accepted Accounting Principles (GAAP). GAAP accounting for any insurance program requires adequate estimates, or balance sheet reserves, for known and anticipated losses. Deposit insurance accounting under GAAP requires two such estimates: One anticipates future cash outlays under guarantees issued when credit unions are merged with assistance or their assets are sold to third parties. The other reserve anticipates future losses from problem credit unions, i.e., those currently classified as "weak" or "unsatisfactory."

Future losses from problem credit unions is the harder loss to estimate. However, an accurate estimate of future losses, based on historical data and case-by-case reviews, will fairly disclose losses that should be recognized today. The confidence credit union members can place in the Fund is directly related to the ability of its management to identify and control those losses.

The Fund's adherence to GAAP is unique among the federal deposit insurers. Compliance with GAAP also goes beyond the Fund's Congressional reporting requirements and General Accounting Office auditing standards. Moreover, the increased financial disclosure required by GAAP strengthens the reliance which can be placed upon the Fund's financial statements. To reinforce this reporting standard, the Fund has retained Price Waterhouse, an international accounting firm, to audit the Fund's financial statements, including its loss estimates. Price Waterhouse's unqualified opinion on the Fund's financial statements is shown in full in this report.

Board of Directors
National Credit Union Administration

In our opinion, the financial statements appearing on pages 26 to 33 of this report present fairly the financial position of the National Credit Union Share Insurance Fund at September 30, 1986, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the *Standards for Audit of Government Organizations, Programs, Activities and Functions,* issued by the U.S. Comptroller General in 1981, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the National Credit Union Share Insurance Fund for the year ended September 30, 1985 were examined by other independent accountants whose report dated November 15, 1985 expressed an unqualified opinion on those statements.

Price Waterhouse

PRICE WATERHOUSE
Washington, D.C.
November 14, 1986

National Credit Union Share Insurance Fund Balance Sheets

	September 30, 1986	1985
ASSETS		
Investments in U.S. Government Securities (Notes B and E)	**$1,398,007,545**	$1,138,358,972
Advances to credit unions:		
Non-interest bearing capital notes	**20,338,657**	33,070,299
Share deposits and loans	**2,057,081**	195,956
	22,395,738	33,266,255
Assets acquired from credit unions, at estimated net realizable value:		
Liquidating credit union assets	**29,622,969**	13,092,601
Receivers certificate	**470,956**	2,354,781
	30,093,925	15,447,382
Cash	**67,255**	1,970,197
Accrued interest receivable	**22,011,193**	19,439,352
Other assets		176,332
TOTAL ASSETS	**$1,472,575,656**	$1,208,658,490
LIABILITIES, ACCUMULATED CONTRIBUTIONS AND FUND BALANCE		
Due to NCUA-Operating Fund (Note G)	**$ 929,350**	$ 349,926
Dividends payable (Note D)		29,509,140
Amounts due to insured credit union shareholders	**7,967,949**	9,475,332
Estimated losses from supervised credit unions (Note C)	**48,600,000**	47,400,000
Estimated losses from asset and merger guarantees (Note C)	**3,273,000**	2,200,000
Other liabilities	**414,615**	368,485
TOTAL LIABILITIES	**61,184,914**	89,302,883
Insured credit union accumulated contributions (Note D)	**1,108,679,220**	883,384,003
Fund balance	**302,711,522**	235,971,604
	1,411,390,742	1,119,355,607
TOTAL LIABILITIES, ACCUMULATED CONTRIBUTIONS AND FUND BALANCE	**$1,472,575,656**	$1,208,658,490

See Notes to Financial Statements

National Credit Union Share Insurance Fund Statements of Operations

	Year ended September 30, 1986	1985
REVENUE		
Interest income	**$121,079,440**	$ 83,788,781
Insurance premiums (Note B)		15,715,779
Other income	**346,414**	708,016
TOTAL REVENUE	**121,425,854**	100,212,576
EXPENSES		
Administrative expenses (Note G)		
Employee benefits and wages	**11,467,382**	7,330,842
Travel expense	**1,852,979**	1,406,207
Facilities expense	**1,775,370**	1,122,451
Contracted services	**749,387**	597,049
Miscellaneous	**976,818**	470,742
TOTAL ADMINISTRATIVE EXPENSES	**16,821,936**	10,927,291
Provision for insurance losses	**37,864,000**	25,471,779
TOTAL EXPENSES	**54,685,936**	36,399,070
Excess of revenue over expenses	**$ 66,739,918**	$ 63,813,506

See Notes to Financial Statements

National Credit Union Share Insurance Fund Statements of Insured Credit Union Accumulated Contributions and Fund Balance

	Insured Credit Union Accumulated Contributions	Fund Balance
Balance at September 30, 1984		$285,540,261
Initial insured credit union contributions	$ 799,510,980	
Fund balance designation (Note D)	83,873,023	(83,873,023)
Excess of revenue over expenses		63,813,506
Dividends declared		(29,509,140)
Balance at September 30, 1985	883,384,003	235,971,604
Insured credit union contributions	225,295,217	
Excess of revenue over expenses		66,739,918
Balance at September 30, 1986	$1,108,679,220	$302,711,522

See Notes to Financial Statements

National Credit Union Share Insurance Fund Statements of Changes in Financial Position

	Year ended September 30, 1986	1985
Cash and investments were provided by:		
Operations:		
Excess of revenue over expenses	**$ 66,739,918**	$ 63,813,506
Charge (credits) to net income not affecting cash and investments:		
Provision for insurance losses	**37,864,000**	25,471,779
Payments relating to losses from supervised credit unions and asset and merger guarantees, net	**(35,591,000)**	(32,371,779)
Deferred insurance premum income		(15,640,432)
Accrued interest receivable	**(2,571,841)**	(17,034,046)
Decrease (increase) in:		
Advances to credit unions	**10,870,517**	3,146,865
Assets acquired from credit unions	**(14,646,543)**	4,571,534
Other assets	**176,332**	134,877
Increase (decrease) in:		
Due to NCUA-Operating Fund	**579,424**	150,775
Amounts due to insured credit union shareholders	**(1,507,383)**	289,199
Other liabilities	**46,130**	(684,002)
Cash and investments provided by operations	**61,959,554**	31,848,276
Other sources of cash and investments		
Increase in insured credit union contributions	**225,295,217**	799,510,980
Total	**287,254,771**	831,359,256

Cash and investments were used for:		
Dividends paid	**(29,509,140)**	
Increase in cash and investments	**257,745,631**	831,359,256
Cash and investments at beginning of year	**1,140,329,169**	308,969,913
Cash and investments at end of year	**$1,398,074,800**	$1,140,329,169
Composed of:		
Cash	**$ 67,255**	$ 1,970,197
Investments	**1,398,007,545**	1,138,358,972
	$1,398,074,800	$1,140,329,169

See Notes to Financial Statements

National Credit Union Share Insurance Fund Notes to Financial Statements

September 30, 1986

NOTE A—ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (the Fund) was created by Public Law 91-468 (Title II of the Federal Credit Union Act) which was amended in 1984 by Public Law 98-369 as discussed in Note D. The Fund was established as a revolving fund in the Treasury of the United States under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is $100,000 per shareholder.

NCUA exercises direct supervisory authority over federal credit unions and coordinates any required supervisory involvement with the state chartering authority for state-chartered credit unions insured by the Fund. Insured credit unions are required to report certain financial and statistical information to NCUA on a semi-annual basis and are subject to periodic examination by NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if the difficulties are considered by the Fund to be temporary or correctible. This special assistance may be in the form of a waiver of statutory reserve requirements, a guaranty account, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is determined to be infeasible, a merger partner may be sought. If the assistance or merger alternatives are not considered practical, the credit union is liquidated.

The first form of special assistance are waivers of statutory reserve requirements, whereby the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the Fund may provide a reserve guaranty account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and capital notes or may purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not considered practical, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are at times guaranteed to third-party purchasers by the Fund.

Note B—Significant Accounting Policies

Investments: Title II of the Federal Credit Union Act limits the Fund's investments to United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount.

Advances to Credit Unions: The Fund provides cash assistance in the form of non-interest bearing capital notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing operations.

Assets Acquired from Credit Unions: The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. In addition, to assist in the merger of credit unions, the Fund may purchase certain credit union assets. Such assets acquired are recorded at their estimated net realizable value.

Insurance Premium Revenue: Through fiscal year 1986, the Fund could assess each insured credit union a regular annual premium of 1/12 of 1% of member share deposits (insured member share deposits in the case of corporate credit unions) outstanding as of December 31 of the preceding year. Effective for fiscal year 1987, insurance premiums may be assessed on member share deposits outstanding as of June 30 (as opposed to December 31) of the preceding fiscal year. The NCUA Board waived the 1985 and 1986 share insurance premium. The insurance premiums recognized as revenue in 1985 of $15,715,779 represent deferred insurance premiums billed in 1984.

Income Taxes: The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

NOTE C—PROVISION FOR INSURANCE LOSSES

Provision for Insurance losses include amounts relating to estimated losses from supervised credit unions and to estimated losses on asset and merger guarantees.

Estimated Losses from Supervised Credit Unions: The Fund provides for estimated losses from credit unions identified through the supervisory and examination process as experiencing financial difficulty. Loss estimates are determined by management based on a case-by-case evaluation. The activity in the estimated losses from supervised credit unions for the years ended September 30, 1986 and 1985 was as follows:

	Years ended September 30, **1986**	1985
Beginning balance	**$ 47,400,000**	$ 45,700,000
Provisions for losses	**37,864,000**	25,472,000
Payments relating to losses from supervised credit unions	**(43,556,000)**	(24,733,000)
Recoveries	**6,892,000**	961,000
Ending balance	**$ 48,600,000**	$ 47,400,000

Estimated Losses from Asset and Merger Guarantees: Estimated losses from asset (primarily loans) guarantees made to third-party purchasers or made to credit unions to facilitate mergers are determined by management based on a case-by-case evaluation. Guarantees outstanding at September 30, 1986 and 1985 were $4,900,000 and $4,100,000 respectively, for which estimated losses of $3,273,000 and $2,200,000, respectively, had been provided.

NOTE D—FUND CAPITALIZATION

Title VIII of Public Law 98-369, effective July 14, 1984, provided for the capitalization of the Fund through the contribution by each insured credit union of an amount equal to 1% of the credit union's insured shares to be paid initially by January 21, 1985, and to be adjusted annually thereafter. That amount will be returned to the insured credit union in the event that its insurance coverage is terminated, insurance coverage is obtained from another source, or the operations of the Fund are transferred from the NCUA Board. The aggregate contribution of $1,108,679,220 at September 30, 1986, consists of $1,024,806,197 of insured credit union accumulated contributions and $83,873,023 of previously accumulated fund balance which was designated by the NCUA Board as a component of credit union accumulated contributions.

The law requires that upon receipt of the 1% contribution, the total fund balance must be maintained at a normal operating level to be determined by the NCUA Board. The NCUA Board has determined this level to be 1.3% of the insured shares. The NCUA Board did not declare any dividends during 1986 and also waived the 1987 share insurance premium.

NOTE E—INVESTMENTS

Investments consisted of the following at September 30:

	1986	1985
U.S. Government Securities		
U.S. Treasury Notes	**$1,030,559,545**	$1,110,910,972
Overnight Market Base Certificate	**367,448,000**	27,448,000
TOTAL COST	**$1,398,007,545**	$1,138,358,972
Total estimated market value	**$1,417,889,000**	$1,154,374,000

NOTE F—AVAILABLE BORROWINGS

The Fund is authorized under the Federal Credit Union Act to borrow from the Treasury of the United States upon authorization by the NCUA Board to a maximum of $100,000,000 outstanding at any one time. The Central Liquidity Facility of NCUA is authorized to make advances to the Fund under such terms and conditions as may be established by the NCUA Board. No amounts were borrowed from these sources during 1986 or 1985.

NOTE G—TRANSACTIONS WITH NCUA-OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. NCUA charges the Fund for these services based on an annual allocation factor approved by the NCUA's Board of Directors derived from an estimate of actual usage. The cost of services provided by the NCUA Operating Fund was $16,821,936 and $8,069,244 for 1986 and 1985, respectively, and includes pension contributions of $679,087 and $436,000 for 1986 and 1985, respectively, to the Civil Service Retirement System which is a contributory defined contribution retirement plan.

NOTE H—CONTINGENCIES

In January 1986 the Office of Management and Budget (OMB) issued a report which directed the National Credit Union Administration to remit to the general fund of the Treasury $1,481,000 under the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (the Act). One-half of this amount pertains to the Fund and would mean permanent cancellation of spending authority. The effect of this transfer would be to reduce the Fund's fund balance by $740,500 at September 30, 1986.

To date, NCUA has chosen not to comply with the U.S. Treasury's request to transfer the funds. NCUA General Counsel has concluded that NCUA's funds are not subject to the sequestration provisions of the Act, and that the transfer should not be made. The ultimate resolution of this issue will not have a material effect on the financial statements.

Financial History of NCUSIF

The NCUA Insurance Fund was established in 1970. Unlike the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC), the NCUA Insurance Fund was launched with no start-up capital. Initially, the FDIC and FSLIC were capitalized by funds (since repaid) from the U.S. Treasury and the Federal Reserve.

Insurance premiums were the Fund's primary source of income during its first 9 years. Low insurance losses and operating expenses during those years permitted the Fund to put 74% of its revenues directly into equity. As a result, the Fund's equity grew much faster than insured shares. The ratio of equity to shares rose from 0% in 1970 to .32% in 1979. Three reasons accounted for the Fund's strong financial results during its initial years: the Fund could qualify all state-chartered credit unions before accepting their insurance risk; the long credit union tradition of self-help minimized losses; and economic conditions were generally positive.

These positive factors, which contributed to the Fund's initial growth, began changing in 1978. Credit union losses increased due to sudden plant closings and a series of poor investment decisions by credit unions. The advent of banking deregulation slowly narrowed the credit unions' interest rate advantage over banks and S&Ls in attracting deposits. Finally, inflation and recession adversely affected credit union finances. Problem credit union cases increased, involuntary liquidations and assisted mergers accelerated, and total share payouts reached new peaks each year. Consequently, the Fund's insurance losses soared in the 1980-83 period.

During the Fund's early years, interest income alone covered almost all losses and expenses. However, in the 1980-83 period, even premium income was used to cover losses. Fund equity virtually stopped growing. The ratio of equity to insured shares declined from the 1979 peak of .32% to .26% in 1982. Moreover, the Fund turned to "non cash" methods of stabilizing problems. Contingent liabilities, in the form of asset guarantee contracts and assistance authorized under Section 208 of the Federal Credit Union Act, were used to minimize cash outlays and keep insolvent credit unions operating. These actions conserved the Fund's cash. However, contingent liabilities climbed to a peak of $172 million in 1981, almost equal to the Fund's equity.

In 1982, the NCUA Board moved aggressively to pare operating expenses and to trim insurance losses. It also set a goal of raising the Fund's equity/insured shares ratio to the one percent level stated in the Federal Credit Union Act. The Board tried to do this by exercising its only available option: assessing a special premium. In 1982, this special assessment equaled two-thirds of the regular 1/12 of 1% premium. In 1983, the special assessment equaled the regular premium, effectively doubling the cost of share insurance.

Without these special assessments, Fund equity would have fallen to almost half of the 1979 peak. While the assessments arrested the falling equity/insured shares ratio, they offered little prospect of reaching the 1% goal. Legislation was signed on July 18, 1984, providing for the capitalization of the Insurance Fund. By the time the capitalization plan was implemented in January 1985, the NCUA Board had waived the 1985 Insurance Premium and returned $84 million in equity to credit unions. Since 1985, the NCUSIF has paid all its administrative and insurance losses entirely from its investment earnings and has allocated sufficient income to maintain the 1.30% equity goal.

14-YEAR TREND

FISCAL YEAR	1973	1974	1975	1976[5]	1977	1978	1979
Income (thousands)							
Regular Premium-Federal	$7,895	$9,314	$11,237	$16,190	$17,053	$20,013	$23,563
Regular Premium-State	3,829	3,557	4,223	7,722	7,572	9,617	11,616
Special Premium-Federal	—	—	—	—	—	—	—
Special Premium-State	—	—	—	—	—	—	—
Treasury Investments	1,089	2,259	3,207	5,091	5,447	7,051	9,178
Other	—	18	408	396	322	715	1,579
Total Income	$12,813	$15,148	$19,075	$29,399	$30,394	$37,396	$45,936
Expenses (thousands)							
Operating	$1,357	$1,740	$3,221	$6,139	$4,725	$5,175	$5,873
Insurance Losses	864	1,589	290	1,596	3,025	2,557	4,709
Losses on Investment Sales	—	—	—	—	—	—	—
Other	1	131	554	911	730	613	1,665
Total Expenses	$2,222	$3,460	$4,065	$8,646	$8,480	$8,345	$12,247
Net Income (thousands)	**$10,591**	**$11,688**	**$15,010**	**$20,753**	**$21,924**	**$29,051**	**$33,689**
Fiscal Year-end Data:							
Total Equity (thousands)	**$26,150**	**$31,968**[3]	**$47,196**[4]	**$67,596**[6]	**$89,870**	**$118,921**	**$152,610**
Equity as a Percentage of Shares in NCUSIF-insured Credit Unions	0.160%	0.163%	0.189%	0.223%	0.241%	0.270%	0.320%
Contingent Liabilities (thousands)	**$4,367**	**1,044**	**$5,242**	**$7,157**	**$6,488**	**$10,213**[7]	**$18,913**
Contingent Liabilities as a Percentage of Equity	16.7%	3.3%	11.1%	10.6%	7.2%	8.6%	12.4%
Operating Ratios:							
Premium Income	91.5%	85.0%	81.0%	81.3%	81.0%	79.2%	76.6%
Investment Income	8.5%	14.9%	16.8%	17.3%	17.9%	18.9%	20.0%
Other Income	—	0.1%	2.2%	1.4%	1.1%	1.9%	3.4%
Operating Expenses	10.6%	11.5%	16.9%	20.9%	15.5%	13.8%	12.8%
Insurance Losses	6.7%	10.5%	1.5%	5.4%	9.9%	6.8%	10.3%
Other Expenses	—	0.8%	2.9%	3.1%	2.5%	1.7%	3.6%
Total Expenses	17.3%	22.8%	21.3%	29.4%	27.9%	22.3%	26.7%
Net Income	82.7%	77.2%	78.7%	70.6%	72.1%	77.7%	73.3%
Involuntary Liquidations Commenced							
Number	50	100	153	128	142	168	169
Share Payouts (thousands)	$1,366	$2,838	$5,542	$7,527	$12,715	$14,244	$19,001
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-insured Credit Unions	0.008%	0.015%	0.022%	0.025%	0.034%	0.032%	0.040%
Mergers:							
Assisted[1]	—	—	—	—	—	—	—
Unassisted	54	76	196	198	191	196	193

Footnotes:

1Assisted merger cases were not separately identified until 1981.

2Premiums were not separately recorded until 1973.

3After an adjustment of $5,870,411 for amortization of prior year's insurance premiums that were being recorded on a cash basis.

4Reflects an adjustment of $218,000 for the period January 1 through June 30, 1975 in estimating expenses for credit unions in liquidation after conversion of all assets to cash and notification of charter cancellations.

5Amounts for a 15-month period due to a change in fiscal years from June 30 to September 30.

FISCAL YEAR	1980	1981	1982	1983	1984	1985	1986
Income (thousands)							
Regular Premium-Federal	$25,682	$27,657	$29,658	$33,878	$40,404	$10,508	$ —
Regular Premium-State	12,813	14,077	15,197	17,374	19,781	5,208	—
Special Premium-Federal	—	—	19,419	34,561	—	—	—
Special Premium-State	—	—	10,526	17,725	—	—	—
Treasury Investments	13,319	19,033	18,358	20,141	30,088	83,789	121,080
Other	1,718	1,655	1,883	1,357	878	708	346
Total Income	$53,532	$62,422	$95,041	$125,036	$91,151	$100,213	$121,426
Expenses (thousands)							
Operating	$8,332	$9,314	$10,813	$10,315	$10,426	$10,927	$16,822
Insurance Losses	29,801	43,746	77,458	55,060	28,068	25,472	37,864
Losses on Investment Sales	—	—	1,805	1,796	2,326	—	—
Other	2,730	119	1,822	577	—	—	—
Total Expenses	$40,863	$53,179	$91,898	$67,748	$40,820	$36,399	$54,686
Net Income (thousands)	**$12,669**	**$9,243**	**$3,143**	**$57,288**	**$50,331**	**$63,814**	**$66,740**
Fiscal Year-end Data:							
Total Equity (thousands)	**$165,620[8]**	**$174,716**	**$177,921**	**$235,209**	**$285,540**	**$1,119,356**	**$1,411,391**
Equity as a Percentage of Shares in NCUSIF-insured Credit Unions	0.303%	0.302%	0.259%	0.292%	0.313%	1.28%	1.24%[10]
Contingent Liabilities (thousands)[7]	**$100,463**	**$171,716**	**$149,090**	**$67,338**	**$23,930**	**$4,131**	**$4,864**
Contingent Liabilities as a Percentage of Equity	60.7%	98.2%	83.8%	29.7%	8.4%	0.4%	0.3%
Operating Ratios:							
Premium Income	71.9%	66.9%	78.7%	82.8%	66.0%	15.7%	—
Investment Income	24.9%	30.5%	19.3%	16.1%	33.0%	83.6%	99.7%
Other Income	3.2%	2.6%	2.0%	1.1%	1.0%	0.7%	0.3%
Operating Expenses	15.6%	14.9%	11.4%	8.3%	11.4%	10.9%	13.9%
Insurance Losses	55.7%	63.5%	81.5%	44.0%	30.8%	25.4%	31.2%
Other Expenses	5.0%	6.8%	3.8%	1.9%	2.6%	—	—
Total Expenses	76.3%	85.2%	96.7%	54.2%	44.8%	36.3%	45.1%
Net Income	23.7%	14.8%	3.3%	45.8%	55.2%	63.7%	54.9%
Involuntary Liquidations Commenced							
Number	239	251	160	50	38	31	36
Share Payouts (thousands)	$59,957	$78,639	$39,892	$9,954	$34,840	$15,499	$22,168
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-insured Credit Unions	0.110%	0.136%	0.058%	0.012%	0.039%	0.014%	0.020%
Mergers:							
Assisted[1]	—	98	167	203	92	63	58
Unassisted	313	235	272[9]	503	550	514	515

6Prior period adjustment for costs incurred to administer unclaimed shares amounting to approximately $17,000 that were previously charged to expense.

7Effective with fiscal year 1983, Contingent Liabilities excludes the amount of Guaranty Account assistance outstanding. Balance sheet reserves for potential losses in supervised credit unions fully provide for all losses that might arise from Guaranty Account assistance.

8Increasing and decreasing adjustments of $341,000 and $86,000 respectively, made to reflect the closing out of the OEO Guaranty Program of 1971.

91982 reflects nine months' activity (January 1, 1982 through September 30, 1982) to coincide with fiscal year. Prior to 1982, information on merger cases was reported on a calendar year basis. Merger costs have always been recorded on a fiscal year basis.

10In July 1986, the NCUA Board approved a change in the insurance year from December 31 to June 30. Effective with fiscal year 1986, the equity percentage is based upon June 30 insured shares.

END OF CALENDAR YEAR	1973	1974	1975	1976	1977	1978	1979
Shares in NCUSIF-Insured Credit Unions (millions)[1]							
Federal Credit Unions	$12,597	$14,370	$17,529	$21,130	$25,576	$29,802	$31,831
State Credit Unions	3,734	5,191	7,442	9,223	11,756	14,316	15,871
Total Shares	$16,331	$19,561	$24,971	$30,353	$37,332	$44,118	$47,702
Number of Member Accounts In NCUSIF-Insured Credit Unions (thousands)							
Federal	14,665	15,870	17,066	18,623	20,426	23,259	24,789
State	3,830	5,198	6,681	7,673	8,995	11,479	12,218
Total	18,495	21,068	23,747	26,296	29,421	34,738	37,007
Number of NCUSIF-Insured Credit Unions							
Federal	12,974	12,972	13,011	12,978	13,000	13,050	13,000
State	1,656	2,396	3,040	3,519	3,882	4,362	4,769
Total	14,630	15,370	16,051	16,497	16,882	17,412	17,769
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	66.6%	71.1%	75.6%	77.6%	80.3%	82.4%	83.0%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	22.9%	26.5%	29.8%	30.4%	31.5%	32.4%	33.3%
END OF FISCAL YEAR	1973	1974	1975	1976	1977	1978	1979
Assistance to Avoid Liquidation:							
Capital Notes and Other Cash Advances Outstanding	$308	$445	$115	$115	$182	$13,522	$15,794
Noncash Guaranty Accounts	—	—	$541	$585	$1,080	$1,733	$5,791
Number of active cases	20	4	5	10	9	12	30
Problem Case Insured Credit Unions (Codes 4 and 5):							
Number	N/A	N/A	N/A	830	660	825	1,020
Shares (millions)	N/A	N/A	N/A	$570	$531	$1,450	$2,300
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	—	—	—	1.9%	1.4%	3.3%	4.8%

Footnotes:

[1]Includes uninsured shares in NCUSIF-Insured Natural Person Credit Unions and all shares in Corporate Credit Unions. Corporate Credit Unions serve solely as depositories and service providers to Natural Person Credit Unions.

[2]Estimated amounts as of December 31, 1986.

END OF CALENDAR YEAR	1980	1981	1982	1983	1984	1985	1986[2]
Shares in NCUSIF-Insured Credit Unions (millions)[1]							
Federal Credit Unions	$36,263	$37,788	$45,491	$54,099	$61,938	$ 77,691	$ 99,100
State Credit Unions	18,468	20,006	23,152	26,375	27,713	39,866	48,614
Total Shares	$54,731	$57,794	$68,643	$80,474	$89,651	$117,557	$147,714
Number of Member Accounts In NCUSIF-Insured Credit Unions (thousands)							
Federal	26,829	28,595	26,095	26,700	28,170	29,576	31,095
State	13,679	14,657	13,160	13,460	15,205	15,689	16,976
Total	40,508	43,252	39,255	40,160	43,288	45,265	48,071
Number of NCUSIF-Insured Credit Unions							
Federal	12,802	12,367	11,430	10,963	10,614	10,142	9,817
State	4,910	4,994	5,036	4,918	4,689	4,932	4,884
Total	17,712	17,361	16,466	15,881	15,303	15,074	14,701
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	83.3%	81.5%	82.9%	83.8%	82.0%	91.6%	93.2%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	33.7%	34.6%	33.7%	32.8%	30.9%	33.9%	32.9%
END OF FISCAL YEAR	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**
Assistance to Avoid Liquidation:							
Capital Notes and Other Cash Advances Outstanding	$15,447	$8,388	$16,839	$31,838	$36,413	$33,266	$22,396
Noncash Guaranty Accounts	$29,247	$42,922	$48,786	$52,736	$54,213	$36,946	$39,903
Number of active cases	59	114	124	113	72	45	30
Problem Case Insured Credit Unions (Codes 4 and 5):							
Number	1,018	1,174	1,192	1,124	872	742	794
Shares (millions)	$2,400	$2,980	$4,590	$4,652	$4,071	$4,055	$6,611
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	4.4%	5.2%	6.7%	5.8%	4.5%	3.4%	4.5%

Legislative History and Organization

The National Credit Union Share Insurance Fund (NCUSIF) was created by Public Law 91-468 (Title II of the Federal Credit Union Act) on October 19, 1970. The Fund was established as a revolving fund in the Treasury of the United States under the management of the Administrator of NCUA (now the NCUA Board). The Act directed the Administrator to insure member accounts in all federal credit unions and for qualifying state credit unions that requested insurance. The maximum amount of insurance was set initially at $20,000 per member account. This maximum was raised to $40,000 by Public Law 93-495 (October 29,1974) and the current level of $100,000 by Public Law 96-221 (March 31, 1980). Public Law 98-369 (July 18, 1984) provided for the capitalization of the NCUSIF by having each credit union deposit 1% of their insured shares into the Fund.

Monies in the Fund can be used by the Board for insurance payments, for assistance authorized in the Federal Credit Union Act in connection with the liquidation or threatened liquidation of insured credit unions, and for expenses incurred in connection with carrying out the Act's purposes.

Organization

NCUA has a central office in Washington, D.C., and six regional offices in Boston, Massachusetts; Washington, D.C.; Atlanta, Georgia; Chicago, Illinois; Austin, Texas (Suboffice in Denver, Colorado); and San Francisco, California. Of the Agency's 651 employees, 531 are assigned to the region. The regional offices are responsible for examining and supervising all federal and federally insured state-chartered credit unions. The regional offices perform the initial reviews of insurance applications and requests for financial assistance under Section 208 of the Federal Credit Union Act. They also are responsible for performing continued insurability reviews and for making timely payment of insured member accounts in liquidation cases.

The NCUA Board and its staff are located in the central office in Washington. The central office's primary role is to provide support to the regional offices. The accounting records and investments for the Fund are also managed from Washington.

NATIONAL CREDIT UNION ADMINISTRATION

NCUA Board
Roger W. Jepsen, Chairman
P. A. Mack, Jr., Vice Chairman
Elizabeth Flores Burkhart, Board Member

Donald E. Johnson, Executive Director
Robert M. Fenner, General Counsel

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(202) 357-110

Office of Examination and Insurance
D. Michael Riley, Director

Department of Insurance
Dennis Winans, Director
Department of Risk Management
Timothy Hornbrook, Director
Department of Supervision and Examination
Nicholas Veghts, Director

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* U.S. GOVERNMENT PRINTING OFFICE: 1987 - 175-320: 24464

EFFECTIVE OCTOBER 1, 1986

NCUA REGIONAL OFFICE BOUNDARIES

National Credit Union
Administration
Washington, D.C. 20456

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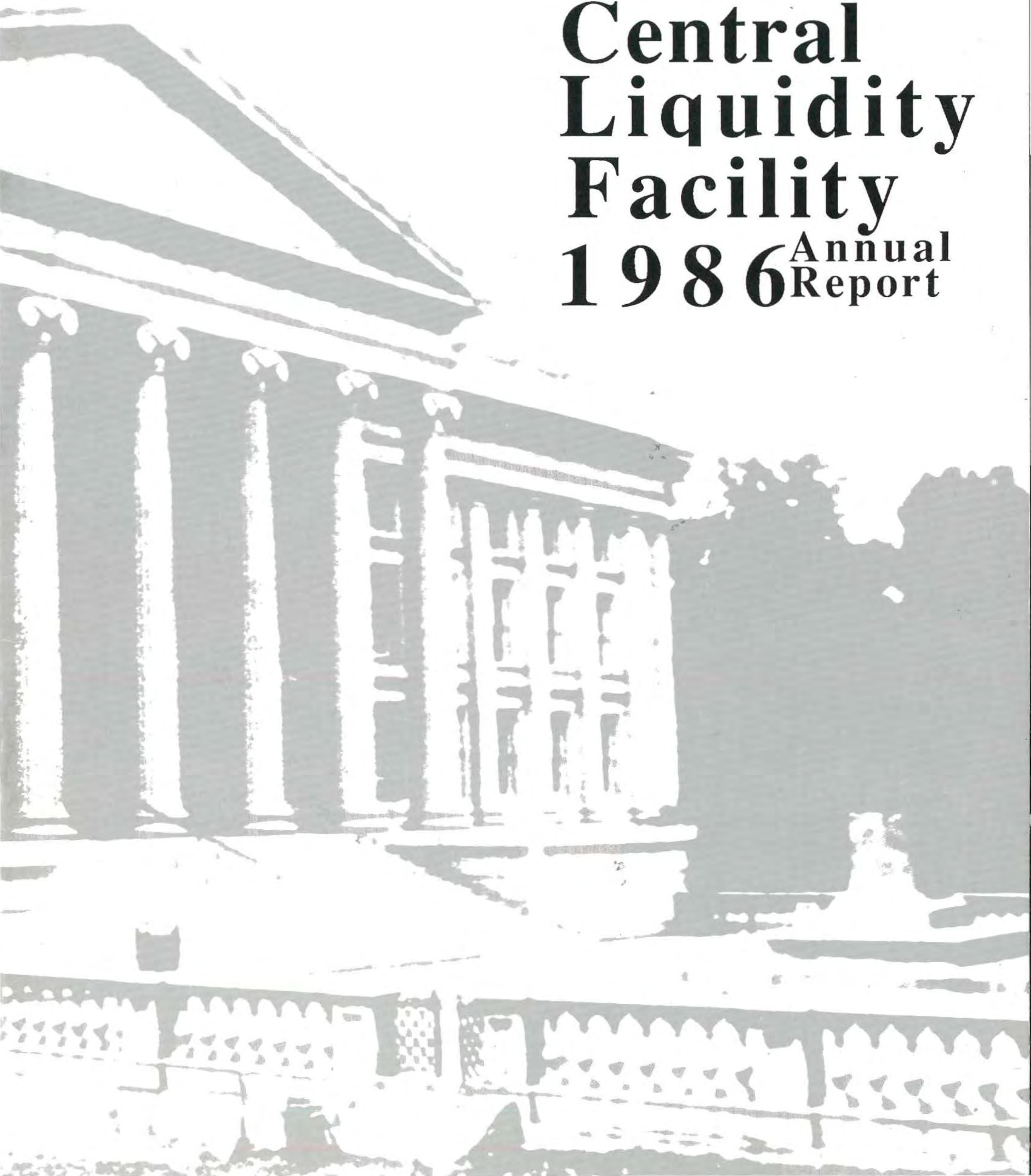
TO

Central Liquidity Facility 1986 Annual Report



NCUA Board of Directors

Roger W. Jepsen, *Chairman*
P.A. Mack, Jr., *Vice Chairman*
Elizabeth Flores Burkhart, *Board Member*

To The Shareholders of the Central Liquidity Facility:

The Central Liquidity Facility's seventh annual report reflects the growth and stability experienced by credit unions in 1986. With liquidity in the credit union system high, our major focus was to analyze its policies and procedures to assure the CLF stands ready to help credit unions if a liquidity problem arises. Highlights of the year include:

Policy Review

The Board reviewed the delegations of authority to the CLF president and the CLF's investment policy to assure that policies and procedures used by the CLF in lending and in investment are in line with the demands of the marketplace.

Membership

The CLF moved closer to 100% coverage of all credit unions in the United States. During 1986, another corporate credit union joined the CLF as an agent member, bringing with it an additional 168 credit unions for service through corporate agents.

Services

The CLF President worked actively with the corporate agent members to more fully develop the emergency cash program instituted in 1985. During the year, 10 deliveries were made to credit unions facing the potential of a large number of withdrawals over a short period of time.

Financial Position

During 1986, the CLF increased its reserves by $968,000 and continued to build equity. With lending minimal, the majority of income came from investments.

Communication and Education

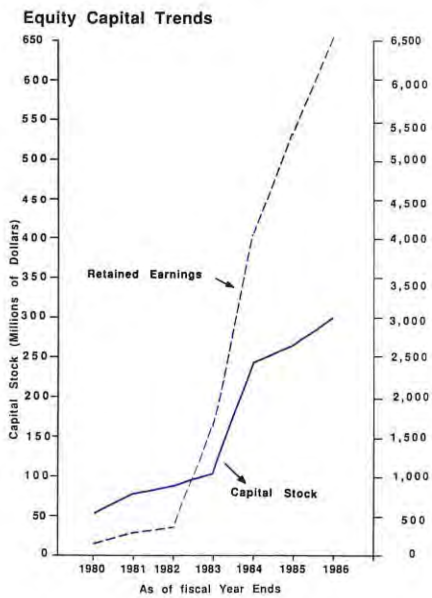
1986 provided the opportunity to improve information and communication with the CLF Corporate agent members, as well as provide information to new NCUA examiners about the role of the CLF and the services it can provide to credit unions. Through contact with the U.S. Central/CLF Interface Committee and the Corporate Forum, the CLF had an opportunity to better understand the capabilities and services of the corporate community. In addition, the National Credit Union Administration's program to provide a special corps of corporate examiners promises to continue to improve the working relationship and understanding between the CLF and its agent members.

The CLF is a vital link in the credit union system and recognizes the important role it can play with credit unions. The CLF used this year to review and implement procedures and policies and build relationships that will position the CLF to serve the needs of its share holders and credit union members when the need arises. The CLF will continue to play a vital role in maintaining member and public confidence in the United States credit union financial system.

Contents

Financial Highlights Central Liquidity Facility

	1986	1985	%Change
Operating Results			
Operating Net income	$18,370,000	$21,523,000	−14.6%
Dividends	17,402,000	20,310,000	−14.3%
Net Earnings and Additions to Reserves	968,000	1,213,000	−20.2%
At Fiscal Year End			
Total Assets	$409,030,000	$494,618,000	−17.3%
Total Member Shares & Retained Earnings	287,712,000	256,726,000	+12.1%
Total Loans	105,550,000	222,169,000	−52.5%
Total Employees	4	6	
Total Members: via Agents (credit unions)	43(18,000)	42,(18,000)	
Direct	369	400	



Financial Summary

During fiscal year 1986, in addition to meeting its statutory mission, the CLF paid a market-based dividend to shareholders and exceeded the reserve target established by the NCUA Board. Net operating income of $18.4 million before dividend equals a 6.60% return on members' capital and deposits for the fiscal 1986 year.

Operating expenses of $724,000 were below the Congressionally approved $850,000 operating budget set for the CLF during fiscal 1986 and $42,000 below last year's operating expenses of $766,000.

The cooperative relationship between the corporate network and the CLF continues to provide efficiencies for CLF services that help to keep CLF's fixed administrative operating costs to a minimum. Despite the significant increase in membership over the past several years, the operating expense ratio for 1986 only increased .5% to 2.2% as compared to 1.7% during fiscal 1985.

CLF exceeded its $900,000 reserving target set by the NCUA Board on October 16, 1985. Retained earnings increased by $968,000 during fiscal 1986. Total retained earnings at September 30, 1986 stood at $6.2 million, an increase of 18% during the year. Although CLF has not had any losses from its lending and investment activities during its first seven years of operation, this reserve account is a recognition that CLF activities are not completely risk free. Investment of these reserves also provides income which at current interest rates allows CLF to meet more than half of its operating expenses. The NCUA Board has established a management goal of increasing reserves to the level where the earnings on these reserves will cover the CLF's operating expenses.

Assets declined by $86 million, or 17% during the year. This reduction is primarily due to a 52% decline in the loan portfolio. This is viewed as a positive sign since credit unions were able to restructure their asset/liability mix and no longer needed assistance from the CLF. Capital stock rose by $30 million as a result of membership stock adjustments in March 1986.

Dividends

Dividends on members' stock and deposits of $18 million resulted in an average return on shares of 6.60% for the fiscal year. The distribution of net earnings in dividends after all operating expenses exceeded 94% of available net income. The per annum dividend rate paid per quarter on shares for the past two years and the average 90-day T-Bill rate for the current year are as follows:

Quarter Ending	**CLF Dividend** 1985	1986	**90 Day T-Bill Rate** 1986
1st Quarter - 12/31	9.25%	7.37%	7.37%
2nd Quarter - 3/31	8.45%	7.07%	7.07%
3rd Quarter - 6/30	7.70%	6.37%	6.30%
4th Quarter - 9/30	7.30%	5.60%	5.63%
Fiscal Year Average	8.18%	6.60%	6.59%

The practice of the CLF is to pay dividends as close to the 90-day Treasury bill rate as earnings permit. For the past four years this objective has been met.

Loan Portfolio Spread

The CLF loan portfolio spread for the fiscal year was .200%. The average outstanding loan balance for the year was $174.4 million, a decrease of $78.5 million from the previous fiscal year. Overall the loan portfolio contributed $408,000 to net income during the year.

CLF tailors its lending rate to meet the situational lending needs of credit unions. The special loan programs, such as the Investment Liquidity Lending Program, are extended on a case-by-case basis and set at a rate that would provide the maximum benefit to these "208 type" credit unions. These loans are consistent with CLF's overall statutory purpose "to improve the general financial stability" of the credit union system.

Investments

Title III of the Federal Credit Union Act permits the CLF to invest in U.S. Government and Agency obligations, place deposits in federally insured financial institutions, and make investments in shares or deposits with credit unions. CLF's investment objectives are first to meet liquidity needs by holding in daily accounts sufficient funds to meet sudden loan demand, withdrawals from liquidity and clearing accounts, and any membership refunds, and then make authorized investments at various maturities to maximize yield. During 1986, all funds were placed in investments at maturities not exceeding six months.

Investments at Steptember 30, 1986, stood at $298.9 million, an increase of $34.1 million from the previous year. The investments consist of two separate portfolios: the $218 million redeposit in U.S. Central, and the nearly $81 million invested in Eurodollar deposits and daily accounts. The reinvestment at U.S. Central is at an "administered" rate set quarterly. The income from this managed spread when combined with all of CLF's other earnings is sufficient to pay CLF's entire operating and reserving costs, as well as the projected dividend. During fiscal year 1986, the yield on the redeposit was 6.64%.

The average maturity of the portfolio, excluding the redeposit, was 99 days at fiscal year-end, compared to 62 days at the beginning of the fiscal year. The average yield on the managed portfolio was 7.62% during the year. The comparative rates for a three month Eurodollar Certificate of Deposit and a 90-day T-Bill were 5.90% and 5.31% respectively. Including the yield on the redeposit in the corporate system, the overall return on CLF's investments was 6.85% for fiscal year 1986.

CLF Investment Portfolio at September 30, 1986

Investment	$Amount	% of Total Portfolio	Yield
Eurodollar Time Deposit	$ 60,000,000	20.1%	6.56%
U.S. Central Daily Account	20,902,390	7.0	5.96
U.S. Central Redeposit	218,000,000	72.9	5.30
Total	$298,902,390	100.0%	5.60%**(a)**

(a)Weighted Average Yield for September

Maturity Schedule of CLF Investment Portfolio at September 30, 1986

Month	Eurodollar Time Deposits	U.S. Central Daily Account	U.S. Central Redeposit	Total
October	$10,000,000	$20,902,390	$218,000,000	$248,902,390
November	10,000,000			10,000,000
December	5,000,000			5,000,000
January	0			0
February	25,000,000			25,000,000
March	10,000,000			10,000,000
Total	$60,000,000	$20,902,390	$218,000,000	$298,902,390

Report of Independent Accountants

October 23, 1986

To the Board of the National Credit Union Administration and
the National Credit Union Administration Central Liquidity Facility

In our opinion, the accompanying balance sheets and the related statements of operations and retained earnings and of changes in financial position present fairly the financial position of the National Credit Union Administration Central LIquidity Facility at September 30, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the *Standards for Audit of Governmental Organizations, Programs, Activities and Functions,* issued by the U.S. Comptroller General in 1981, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

National Credit Union Administration Central Liquidity Facility Balance Sheets

(Expressed in thousands of dollars)

	September 30, 1986	1985
ASSETS		
Cash	$ 4	$ 2
Income tax refund receivable		1,709
Investments (Note 5)	298,902	264,758
Loans to members (Notes 2 and 4)	105,550	222,169
Accrued interest receivable	4,574	5,975
Other assets		5
Total Assets	$409,030	$494,618
LIABILITIES AND EQUITY		
Liabilities		
Notes payable (Note 6)	$104,050	$222,169
Member deposits (Note 7)	16,389	13,922
Accrued interest payable	769	1,671
Accounts payable and other liabilities	110	130
Total Liabilities	121,318	237,892
Equity		
Capital stock—required (Notes 7 and 8)	281,508	251,490
Retained earnings	6,204	5,236
Total equity	287,712	256,726
Commitments (Notes 4, 8 and 11)		
Total Liabilities and Equity	$409,030	$494,618

National Credit Union Administration Central Liquidity Facility Statements of Operations and Retained Earnings

	Year Ended September 30, 1986	1985
Income		
Interest on loans	$12,824	$22,628
Income from investments	19,074	22,358
Other	288	207
Total income	32,186	45,193
Expenses		
Personnel services	167	172
Personnel benefits	19	17
Employee travel	10	6
Rent, communications and utilities	50	60
Printing and reproduction	1	7
Other services	93	120
Agent commitment fee	382	382
Supplies and materials	2	2
Total operating expenses	724	766
Interest		
Federal Financing Bank	12,416	22,166
Member deposits (Note 7)	676	738
Total expenses	13,816	23,670
Net income	18,370	21,523
Dividends to members (Note 7)	17,402	20,310
Addition to retained earnings	968	1,213
Retained earnings at beginning of period	5,236	4,023
Retained earnings at end of period	$ 6,204	$ 5,236

National Credit Union Administration Central Liquidity Facility Statements of Changes in Financial Position

(Expressed in thousands of dollars)

	Year Ended September 30, 1986	1985
Cash and investments were provided by:		
Operations		
Net income	$ 18,370	$ 21,523
Issuance of required capital stock	32,732	8,620
Addition to member deposits	21,689	22,435
Borrowings	677,839	1,130,811
Loan repayments	789,143	1,165,736
Total cash and investment provided	1,539,773	2,349,125
Cash and investments were used for:		
Redemption of required capital stock	2,714	2,959
Withdrawal of member deposits	19,222	22,975
Dividends	17,402	20,310
Borrowing repayments	795,958	1,177,537
Loan disbursements	672,524	1,118,093
Other, net	(2,193)	(2,862)
Total cash and investments used	1,505,627	2,339,012
Increase in cash and investments	$ 34,146	$ 10,113

National Credit Union Administration Central Liquidity Facility Notes to Financial Statements September 30, 1986 and 1985

Note 1 — Organization and Purpose

The National Credit Union Administration Central Liquidity Facility ("the CLF") was created by the National Credit Union Central Liquidity Facility Act ("the Act"). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. It exists within the National Credit Union Administration and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions. The CLF is a tax exempt organization under Section 501(c) of the Internal Revenue Code.

FEDERAL & STATE CORPORATE EXAMINERS TRAINING CONFERENCE

CHAIRMAN JEPSEN
BUDGET OFFICER POLINS
PRESIDENT TOOLEN

BOARD MEMBER BURKHART
PUBLIC AND CONGRESSIONAL AFFAIRS.
DIRECTOR LOFTUS

VICE CHAIRMAN MACK
GENERAL COUNSEL FENNER

Note 2 — Significant Accounting Policies

Basis of Accounting: The CLF maintains its accounting records on the accrual basis of accounting.

Allowance for Loan Losses: Loans to members are made on both a short-term and long-term basis. The CLF obtains a security interest in the assets of the borrower on all loans.

The CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

No allowance for loan losses was considered necessary at September 30, 1986 and 1985.

Investments: The CLF will invest in members' share accounts (see Notes 5 and 8). All of the CLF's other investments are short-term with no maturities in excess of one year. These investments are recorded at cost, which approximates market value.

Note 3 — Government Regulations

The CLF was created by the Act and is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in federally insured financial institutions and shares and deposits in credit unions. Borrowing is limited to the lesser of $594 million or twelve times equity and capital subscriptions on-call. At September 30, 1986 and 1985, the CLF was in compliance with these limitations.

Note 4 — Loans to Members

During 1986 loans were made only to member credit unions. These loans carry interest rates which ranged from 5.510% to 6.453% at September 30, 1986 (7.530% to 8.125% at September 30, 1985). The loans outstanding at September 30, 1986 are scheduled to mature during fiscal year 1987 (the loans outstanding at September 30, 1985 matured during fiscal year 1986). Included in loans to members at September 30, 1986 and 1985 are loans to U.S. Central Corporate Credit Union in its capacity as agent of the CLF (see Note 8) in the amount of $104,050,000 and $209,440,000, respectively.

The CLF has also provided members with extended loan commitments through 1987. Outstanding commitments at September 30, 1986 and 1985 were approximately $32,000,000 and $42,000,000, respectively.

The CLF instituted lines of credit for state insurance corporations during fiscal year 1985. Advances against these lines would be non-revolving and fully secured by a senior perfected security interest in negotiable, marketable securities acceptable to the CLF. As of September 30, 1986, no advances had been made against the lines and all existing lines expired on that date. Subsequent to September 30, 1986, lines of credit totaling $30.7 million have been authorized. Each line of credit calls for a commitment fee of 3/8 of 1 percent per annum and expires quarterly.

Note 5 — Investments

Funds not currently required for operations are invested as follows (dollars in thousands):

	September 30, 1986	September 30, 1985
U.S. Central (see Note 8)		
Redeposits	$218,000	$190,000
Share accounts	20,902	24,758
Time deposits	60,000	50,000
	$298,902	$264,758

Note 6 — Notes Payable

Substantially all of the CLF's borrowings have been from the Federal Financing Bank. The interest rates on these obligations are fixed and range from 5.385% to 6.305% at September 30, 1986 (7.285% to 7.645% at September 30, 1985). Interest is generally payable upon maturity. The notes outstanding at September 30, 1986 are scheduled to mature during fiscal year 1987 (the notes outstanding at September 30, 1985 matured during fiscal year 1986).

The Secretary of the Treasury is authorized by the Act to lend up to $500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriation Acts. On December 23, 1981, President Reagan signed PL 97-101 which provided $100 million of permanent indefinite borrowing authority which may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions.

Note 7 — Capital Stock and Member Deposits

The required capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which amount is required to be remitted to the CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which amount is required to be remitted to the CLF. In both cases the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

Note 8 — Membership Increase

During the year ended September 30, 1984, the CLF accepted a membership request from U.S. Central Corporate Credit Union (USC) on behalf of 29 of its corporate credit union members. At September 30, 1986 and 1985, $234,995,000 and $217,175,000, respectively, of total required capital stock was subscribed by USC on behalf of its member credit unions.

In addition, by accepting this membership request, the CLF is initially committed to reinvest all but $50,000,000 of its total share capital in USC share accounts at near market rates of interest. At September 30, 1986 and 1985, $238,902,000 and $214,758,000, respectively, were invested in USC share accounts at approximately 5.6% and 7.3% respective yields.

Note 9 — Services Provided by the National Credit Union Administration

The National Credit Union Administration provides the CLF with miscellaneous services, data processing services, and supplies. In addition, the employees of the CLF are paid by the National Credit Union Administration. The CLF reimburses the National Credit Union Administration on a monthly basis for these items.

Total reimbursements for the years ended September 30, 1986 and 1985 amount to approximately $235,590 and $249,571, respectively.

Note 10 — Pension Plan

The employees of the CLF are participants in the Civil Service Retirement Plan. The Plan is a contributory defined benefit pension plan covering substantially all of the employees of the CLF. Pension expense for the years ended September 30, 1986 and 1985 was approximately $11,500 and $10,800, respectively.

Note 11 — Lease

The CLF leases office space jointly with the National Credit Union Administration under a non-cancellable operating lease expiring in 1994. Under the terms of this lease, the CLF and the National Credit Union Administration are jointly and severally liable for future minimum lease payments as of September 30, 1986, as follows (dollars in thousands):

Year ended September 30,	
1987	$ 980
1988	980
1989	980
1990	980
1991	980
Thereafter	4,188
Total	$9,088

The CLF's portion of these lease payments (rent expense) for each of the years ended September 30, 1986 and 1985 was $32,600 and $31,600, respectively.

Selected Financial Ratios

	1986	1985	1984	1983	1982
Operating Ratios:					
Operating Expenses/Total Income	**2.2%**	1.7%	1.5%	3.4%	5.6%
Interest Expenses/Total Income (FFB)	**38.6%**	49.0%	28.4%	43.8%	44.9%
Allowance for Loan Losses	**0.0%**	0.0%	0.0%	0.0%	5.0%
Dividends/Total Income	**54.1%**	44.9%	63.5%	44.7%	41.5%
Dividends/Net Operating Income	**94.7%**	94.4%	94.7%	85.0%	99.8%
Net Income After Dividends/Total Income	**3.0%**	2.7%	3.7%	14.5%[a]	.1%

[a]Increase Due to Eliminating Allowance For Loan Losses.

	1986	1985	1984	1983	1982
Balance Sheet Using Fiscal Year End Data:					
Shares and Retained Earnings/ Total Assests	**70.3%**	51.9%	46.5%	60.8%	32.7%
Total Liabilities/Total Assets	**29.7%**	48.1%	53.5%	39.2%	67.3%
Loans/Total Assets	**25.8%**	44.9%	50.2%	31.0%	58.4%
Investments/Total Assets	**73.1%**	53.5%	47.4%	66.9%	40.3%
Investments/Shares and Deposit Liabilities	**100.3%**	99.8%	97.8%	99.7%	100.3%
Total Borrowings/Shares and Retained Earnings	**36.2%**	86.5%	107.6%	50.2%	179.8%
Loans/Shares and Retained Earnings	**36.7%**	86.5%	108.0%	50.9%	178.8%
Performance Ratios Using Average Balances:					
Yield on Average Investments	**6.8%**	8.6%	10.4%	9.7%	14.9%
Yield on Average Loans	**7.8%**	9.4%	10.6%	9.9%	11.2%
Yield on Total Average Earning Assets	**7.2%**	9.0%	10.5%	9.9%	11.4%
Average Borrowing Rate	**6.3%**	8.5%	10.3%	8.8%	11.0%
Average Dividend Rate	**6.6%**	8.2%	9.8%	8.6%	11.3%
Operating Income before Dividends/Average Shares and Retained Earnings	**6.7%**	8.8%	12.5%	13.2%	13.5%
Net Income After Dividends/ Average Shares and Retained Earnings	**0.4%**	0.5%	0.7%	3.2%	.0%

Agent Members of the Central Liquidity Facility

Central Credit Union Fund, Inc. (MA)
Constitution State Corporate Credit Union, Inc. (CT)
U.S. Central Agent Group:

- U.S. Central Credit Union (Agent Group Representative)
- Alabama Central CU
- Capital Corporate Central FCU
- Central CU of Michigan
- Colorado Corporate FCU
- Corporate CU of Arizona
- Corporate Central CU of Utah
- Eastern Corporate Central CU (MASS)
- Empire Corporate Central FCU (NY)
- First Carolina Corporate CU (NC)
- Garden State Corporate Central CU (NJ)
- Georgia Central CU
- Indiana Corporate FCU
- Iowa League Corporate Central CU
- Kansas Corporate CU
- Kentucky Corporate FCU
- League Central CU (NV)
- League Central of Maine FCU
- Louisiana Corporate CU
- Mid-Atlantic Central FCU (PA)
- Mid-States Corporate FCU (IL)
- Minnesota Corporate CU
- Missouri Corporate Central CU
- Nebraska Corporate Central CU
- North Dakota Central CU
- Ohio Central CU Inc.
- Oklahoma Corporate CU
- Oregon Corporate Central CU
- Pacific Corporate FCU (HI)
- RICUL Corporate CU (RI)
- South Dakota Corporate Central FCU
- Southeast Corporate FCU (FL)
- Southwest Corporate FCU (TX)
- The Carolina Corporate CU (SC)
- Treasure State Corporate Central CU (MT)
- Volunteer State Corporate Central CU (TN)
- Virginia League Corporate CU
- Washington Corporate Central CU
- Western Corporate FCU (CA)
- West Virginia Corporate CU
- Wisconsin Corporate Central CU

Direct Members of the CLF by State

ALABAMA
Redstone Fed CU
Sloss FCU

ALASKA
Alaska USA FCU
Eielson EFCU
Fedalaska FCU
Ft Wainwright
Mat Valley FCU
Ward Cove FCU

ARIZONA
Arizona Telco FCU

ARKANSAS
College Sta Comm

CALIFORNIA
Aerospace FCU
Am Elec Assn CU
Brock's Federal CU
Carlsbad City EFCU
Chaffey Dist Emp
Con-Can La Emp
Continental FCU
Ebtel FCU
Electric Work CU
Fiscal EFCU
Fort Ord
Fresno Grangers
Glendale Area Sch
Hughes Aircraft FCU
Jewish Comm CU
Kearny Mesa FCU
Long Beach Comm
March FCU
Marguardt FCU
Natl Sch Dist EFCU
Nav Weapon Ctr FCU
Northern Ind CU
Northrop CU
NSC Emp FCU
Pacific IBM EFCU
PSA Emp FCU
Rockwell FCU
Russian Amer CU
Safeway S F EFCU
Santa Barb Teach
Sea Air FCU
Southern Baptist
TRW Systems CU
Union Oil Oleum
USEIT FCU
Vallejo City EFCU
Western FCU

COLORADO
Frontier Airlines
Fort Gordon FCU
U of C FCU

CONNECTICUT
Electric Boat FCU
Pfizer Emp FCU
Sikorsky FCU
St Boniface Parish
West Haven Teacher
Yale University

DELAWARE
Phoenix Claymont

DISTRICT OF COLUMBIA
Bank-Fund Staff
The Fed Emp CU
Coast Guard Hq FCU
Fed Deposit EFCU
Geicos FCU FCU
Hispanic First FCU
IDB FCU
IRS FCU
Navy FCU
OAS Staff FCU
Tacomis
Wright Patman

FLORIDA
ACCO FCU
Agrico FCU
Bay Gulf FCU
Bell-Tel FCU
Cy of Miami FCU
Embroco FCU
G-P Federal CU
Gainsvl Camp FCU
Gold Coast Ed FCU
GTE FCU
Homestead AFB FCU
MAAS Bros FCU
MacDill AFB FCU
Orlando FCU
Pen Air FCU
Seminole Teach FCU
So St John FCU
Suncoast Schools
Tampa Bay FCU
Telco EFCU
Trop Telco FCU
UCF FCU

GEORGIA
Augusta Seaboard
Augusta Triple "C"
CRSA FCU
Dixisteel CU
Fort Gordon FCU
Ga State Univ FCU
Ga Telco CU
Northwest Comm FCU
The Fed Emp CU

GUAM
NavMar FCU

IDAHO
Boise Telco FCU
Pocatello Kraft FCU
Pocatello Teac FCU
Potlatch #1 FCU

ILLINOIS
ABE CU
Appleton Emp FCU
Chicago Firemen
McHenry City School
Pacesetter FCU
St James Hospital
W Suburban FCU

INDIANA
Deaconess Hospital
JET Credit Union
Tokheim Emp CU

KANSAS
Bonner Springs FCU
Panhandle FCU
SM Postal FCU

KENTUCKY
Cue Credit Union Inc
Ky Telco FCU
Louchem FCU
Members First FCU
Owensboro EFCU
Park FCU
Rural Coop CU Inc

LOUISIANA
AMI Emp FCU
Aneca FCU
New Orleans Bag

MAINE
Cen Maine Power Co

MARYLAND
Baltimore Un Assoc
NIH FCU
Suburban Hospital

MASSACHUSETTS
Cape Cod FCU
PCU Federal CU
Worcester Central

MICHIGAN
ABC Federal CU
ACM Employees CU
ARC CU
Bay County EFCU
Blue Water FCU
Clark FCU
Comm Family CU
Copoco CU
Dearborn FCU
Det Marathon
Det Postal Emp
Det Teachers CU
DT & I Emp CU
E Cent Upper Penin
East Det Sch Emp
Flint Area ECU
Genesee Cnty Emp
Gratiot City FCU
Hamtramck Comm FCU
Isabella Comm CU
Kramer Homes FCU
Livonia Par FCU
Marquette 1st FCU
Portland FCU
Roseville-Fraser
Saginaw Cp Emp CU
Shaw Box Emp FCU
State Emp CU
T & C Federal CU
Trenton FCU
Un Stellwkrs of Am
VanDyke Ind Pk CU
W Side Auto Emp FCU
Wayne Out Cnty Tea

MINNESOTA
No Pacific Duluth
State Farm FCU
Workmens Circle CU

MISSISSIPPI
Central Sunbelt

MISSOURI
Automotive CU
BMA CU
Sears K C Emp
Steel Workers FCU

MONTANA
Valley CU

NEBRASKA
Nebraska State Emp

NEW HAMPSHIRE
Nashau Municipal
Service FCU
St Marys Bank CU

NEW JERSEY
Atl Cty Elec Co
Celanese Summit
E Bergen Teach FCU
Educational
Erielackawanna EFCU
Ft Monmouth Fed CU
H L R FCU
Harrison Pol Firm
Hoboken Sch EFCU
J-M Emp FCU
Jersey City Firemen
Jersey City Police
Local 3355 USA CIO
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Metuchen Assembler
Mobil Research
Mon-Oc Public EFCU
Nassau Fed CU
Nestles Freehold
North Jersey FCU
Portuguese Cont
S Jersey FCU
Trenton NJ Firemen
Union Cnty Teacher
United Teletech FCU
Wenewark FCU

NEW MEXICO
Espanola School
Los Alamos CU

NEW YORK
ABCO Public Emp
Amalgamated Taxi
Amherst Teachers
BCT FCU
Bi-County Postal
Brighton Sch EFCU
Buffalo Police FCU
Carrier Emp FCU
Chemung City School
Cornell FCU
Genesee Hospital
GHS FCU
Graphic Arts FCU
Hilltop FCU
Hoosick FCU
Hudson Riv Ctr FCU
IBM Interstate FCU
Intl Airlines Emp FCU
Italo-American FCU
Lge of Mutual Taxi
MSBA EFCU
Municipal CU
Nassau Educ FCU
NMP No Area FCU
No Rock Educat FCU
Norwich Eaton EFCU
Oneida Ltd EFCU
Orchard Pk FCU
Pittsford FCU
Plattsburg AFB
Port NY Authority
Rochester UK FCU
School Emp of Cny
Sperry Emp FCU
Suffolk FCU
Suma (Yonkers) FCU
TCT Fed Cu
Telco Wat EFCU
UFCW Dist Local One
UP State Federal CU
US Employees FCU
Watervliet ARS FCU
WCS FCU
WCTA FCU
Whitestown Comm FCU

NORTH CAROLINA
Hamlet Scl Emp FCU
Rowan Cty Teachers
TWIU Local 192 FCU

NORTH DAKOTA
AFL-CIO Credit Un
LHHS FCU

OHIO
Auto Access CU
Bellevue
Burt Emp FCU
Celina Reynoco Emp
Cincinn Cent CU
Cincinnati Postal
Cinco FCU
Daymon Emp FCU
Dayton Telco FCU
Desco FCU
Dinner Bell EFCU
Emery Emp FCU
EOG Cleveland Oper
Firestone Off FCU
First Service FCU
Fremont FCU
Gentel CU Inc
Golden Circle CU
Harshaw Emp Fed CU
Ironton DMI Emp
Ironton Lawton EFCU
KOD Toys FCU
Lan-Fair FCU
Lof Emp FCU
McDonald EFCU
Merrell Emp FCU
Norwood FCU
Oneils Strouss
Paramauto FCU
Southern Oh Sav CU Inc
St Marys CU Inc
St Saviour Ros FCU
St Trans Emp CU
T & C CU Inc
Tol-Sun FCU
Tresler Emp FCU
United Services
Whiting FCU
Wittenberg Univ
Yel Spr Comm FCU
Youngstown Gr Ws FCU

OKLAHOMA
Phillipps Oc Dist
Riverwest FCU
Space Age Tulsa

OREGON
Clackamus FCU
Consolidated Frtway
Coos Curry Teac
Electra CU
Fed Metals CU
Ironworkers #29
Marion & Polk CU
NW Frmrs Ins FCU
Oregon Central FCU
Rockwood Ind FCU
Safeway Portland
Wauna FCU
Wood Products CU

PENNSYLVANIA
Boyer Candy EFCU
Cal Ed CU
Dauco FCU
Elliot Emp #1
Erie GE Emp FCU
Erie School Emp
Mack Local 677 FCU
NE Pa School Emp
Nor-Car School
Pa State Empl CU
The United FCU
Univ of Pitts FCU
W E Allen FCU
Westmoreland Fed

SOUTH CAROLINA
Meas Beaufort FCU

SOUTH DAKOTA
Services Center

TENNESSEE
Combustion FCU
King Cotton FCU
Memphis Buckey FCU
Nashville Kemba FCU
Oak Ridge Govt Emp
Wiltruco Emp FCU

TEXAS
Case FCU
Horsemen's CU
Lubbock Teach FCU
Santa Rosa Med Ctr
Texaco Emp FCU

UTAH
Hi-Land CU
Orem Geneva FCU
Toole FCU

VERMONT
New Eng IBM EFCU

VIRGINIA
Fairfax School
Langley FCU
NNS & DD Co Emp
Norfolk Municipal
Pentagon FCU
Reyment EFCU
Sperry Marin EFCU
State Department
Vint Hill FCU
Waynesboro Dupont

WASHINGTON
Alva FCU
Fairchild FCU
Fife Community FCU
Sears Seattle EFCU
Simpson Emp FCU
Walla Walla Engin
Wayerhaeuser Pulp

WEST VIRGINIA
Huntington WV Fire
Steel Wkrs Comm

WISCONSIN
Heritage
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Nebraska	Utah
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Guam	Oregon
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Central Liquidity Facility Staff as of September 30, 1986

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