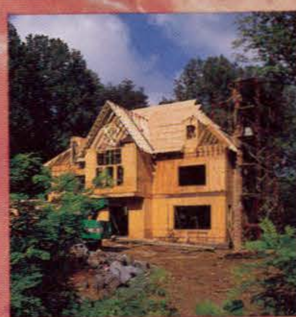
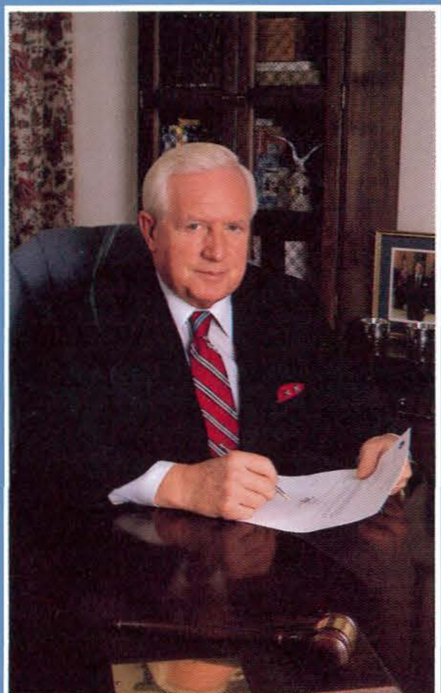
ANNUAL REPORT

1988



NATIONAL CREDIT UNION ADMINISTRATION



Roger W. Jepsen
Chairman

Elizabeth F. Burkhart
Vice Chairman

David L. Chatfield
Board Member

ANNUAL REPORT 1988

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, 1989

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 1988.

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

Contents

Historic Perspective

. . . credit union system has been able to avoid the problems which have overwhelmed other financial institutions.

Credit unions continued to grow in 1988 and they remained safe and sound even as the crisis facing the financial services industry deepened.

Many banks and savings and loans failed and some insolvent S&Ls were allowed to remain in operation because their deposit insurance fund was in deficit. Merger of Federal insurance funds is being seriously considered and most observers now believe it will be necessary to use tax money to rescue the industry.

Against this background, credit unions are a picture of success and safety. Liquidations and assisted mergers are at an all time low and the National Credit Union Share Insurance Fund, recapitalized in 1984, is the best reserved of the three Federal insurance funds. There are historic reasons for this success.

Founded as nonprofit, member-owned financial cooperatives, most credit unions have been consumer lenders with automobile financing a major source of income. They have only recently moved into less risk-free lending.

Equally important, credit unions are formed to provide financial services for members, not to make a profit, and the active participation of members as volunteers has helped ensure both their success and safety. These historic strengths are being tested today as credit unions grow and merge into larger financial institutions.

Deregulation in the 1980s gave credit unions the authority to provide a more complex range of services. One consequence is a phenomenal growth in real estate lending, requiring greater managerial experience and sophistication.

The 1980s have been characterized at the Federal credit union level by movement in two directions: deregulation in the first half of the decade and an emphasis on improved supervision in the second half. Because one was followed by the other, the credit union system has been able to avoid the problems which have overwhelmed other financial institutions.

The role of the National Credit Union Administration is to encourage continued growth while ensuring safety and soundness. This 1988 Annual Report summarizes the actions and policies which have enabled NCUA to fulfill this responsibility.

Chairman's Statement

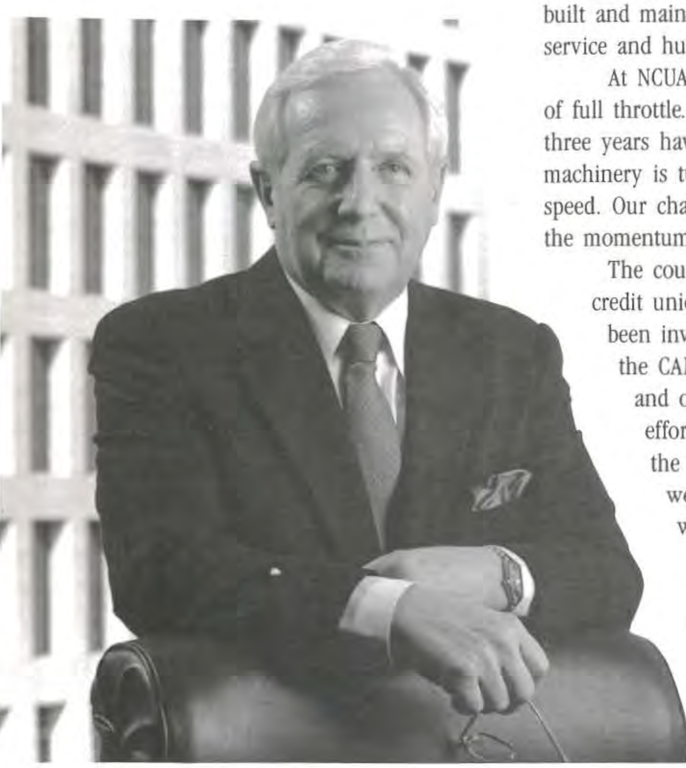
Before a new car can be driven at high speed, the engine needs a break-in period, a time of gradual tuning and building towards that moment of full throttle. After the break-in period, if the engine is well-built and maintained, it will provide good service and hum along for many miles.

At NCUA, we have reached the stage of full throttle. Our initiatives of the past three years have settled into place, the machinery is tuned and oiled; we are up to speed. Our challenge now is to maintain the momentum.

The counsel we received from the credit union community this year has been invaluable. Comments about the CAMEL system, the core exam, and our examiner training efforts have helped us fine-tune the engine. We now believe we're all on the same highway, and road conditions are good.

My thanks to everyone who has devoted another year to promoting the credit union way of life. The NCUA staff is a dedicated crew. Credit unions, trade associations, and state regulators continue to work in concert for ever-improving service to members. We have a great story to tell, and I look forward to next year's chapter.

Roger W. Jepsen
Chairman



Roger W. Jepsen
Chairman

Chairman Jepsen and U.S. Senator Alphonse M. D'Amato of New York

Vice Chairman's Statement

For NCUA, 1988 was a year of extensive staff education and training as we proceeded to fine-tune our plans for achieving Agency goals.

Principal among these goals has been our commitment to provide our examiners with a strong grounding in technical skills, and in credit union philosophy so that the examiner better understands what credit unions are trying to achieve.

By providing our examiners with a broad knowledge base and a strong commitment to keep abreast of what is happening in the credit union community, we hope the result will be an examiner staff that not only is adept at recognizing emerging areas of concern, but one which acts quickly and gently to correct the "concern" before it becomes a "problem."

Staff education and training must be a continuing process for any successful organization. Just as we at NCUA strive to improve the training of our staff, so credit unions should embark upon continuing education programs to train and educate staff, volunteers, and members on financial planning, consumer credit issues, credit union operations, and cooperative philosophy.

Volunteers and members should participate in their credit unions not just to use the financial services, but also to achieve financial literacy and to improve their economic well-being.

Examiners and credit union volunteers alike need to be educated to understand how and why credit unions are unique, and trained in what it means to be a safely and soundly operated financial services cooperative. NCUA is dedicated to achieving this goal in its on-going training programs.

Elizabeth F. Burkhart

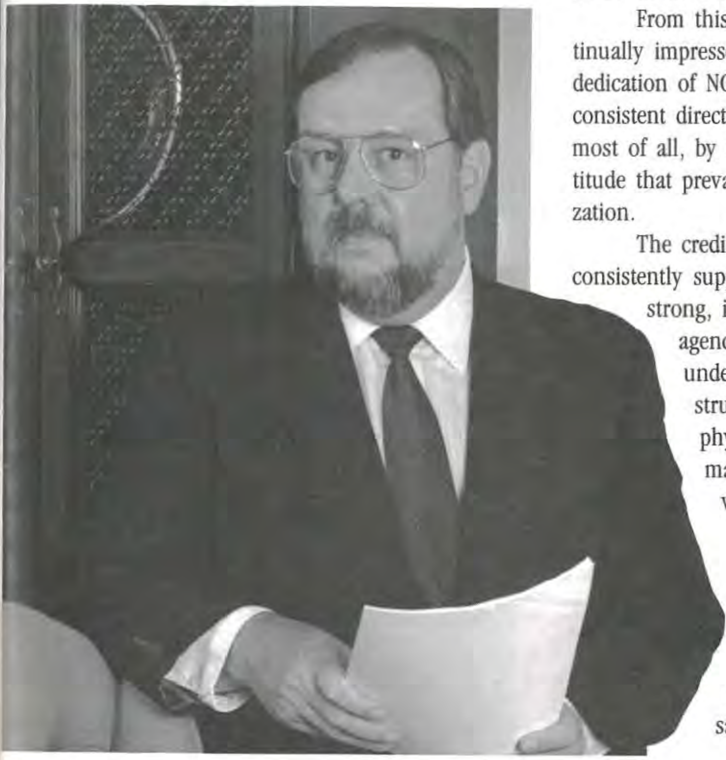
Elizabeth F. Burkhart
Vice Chairman

Elizabeth F. Burkhart
Vice Chairman

Board Member's Statement

It was my privilege to join the NCUA Board during 1988 and to be involved in the inner workings of the Agency after many years of observing NCUA from various vantage points within the credit union movement.

From this perspective, I am continually impressed with the quality and dedication of NCUA's staff, the stability and consistent direction of the Agency, and most of all, by the positive, cooperative attitude that prevails throughout the organization.



David L. Chatfield
Member of the Board

The credit union community has consistently supported the concept of a strong, independent regulatory agency—one which reflects and understands the cooperative structure and service philosophy and which continues to make credit unions unique within the financial industry.

I believe NCUA exhibits those characteristics. NCUA's role is, I believe, to continue to strike a balance between our duty to preserve credit union safety and soundness, and our responsibility to provide credit union officials with sufficient authority and flexibility to exercise their collective judgment in meeting the needs of members.

All of us in the credit union community can take pride in the fact that credit unions generally have performed successfully in a significantly deregulated operating environment. Enjoying historic high levels of member confidence and satisfaction, credit unions continue to develop innovative member service programs and service delivery systems while operating in a safe and sound manner.

NCUA's emphasis in recent years on upgrading the supervision process and expanding the examination staff has contributed significantly to the financial stability credit unions now enjoy. And although we will continue to address human resource development needs and pursue innovative means of operating more efficiently and effectively, the Agency is now, in a very real sense, "up to speed."

The strength, momentum and accomplishments of 1988, combined with the quality and cooperative spirit of credit union people everywhere, provide the basis for continued success for credit unions and for NCUA in the years ahead.

David L. Chatfield
Board Member

Office of Executive Director

Early in 1988, the NCUA Board and senior staff met to measure the Agency's progress in attaining the goals and objectives outlined three years before in the Long Range Plan. The group refined the plan to meet the changing dynamics of the credit union movement.

Implementation of the plan brought the Agency to the cutting edge of electronic technology and communication. All examiners received laptop computers, technical office personnel received desktop computers, and a new mainframe computer was acquired. A new accounting system was installed and an electronic mail system links examiners, regional offices and the central office.

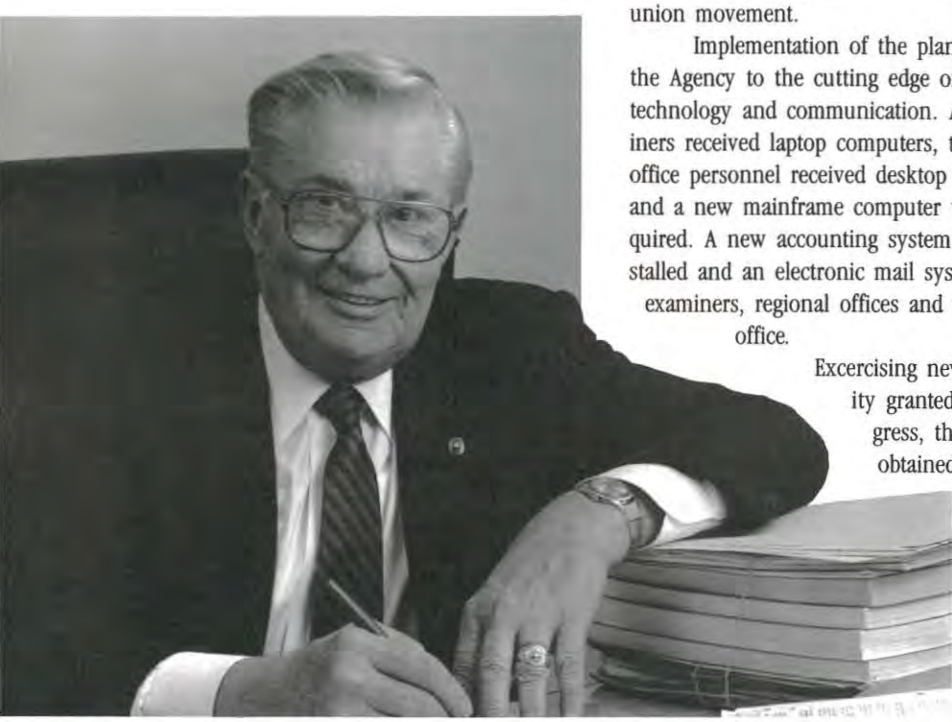
Excercising new authority granted by Congress, the Agency obtained quality, private office space in each region. The cost of the new space is equal to or less than the old space. To improve the evaluation of insurance risk, numerous new tools were implemented during 1988. These include a refinement of the CAMEL system, increased on-site reviews of federally insured state credit unions and modification of the core examination. Technical training has been maintained at a high level. Examiners completed an annual examination of each Federal credit union for the fifth consecutive year.

Staff members who participated in the Agency's management development program were assigned to senior management positions. Layne Bumgardner was appointed deputy executive director to coordinate policy development and implementation. All examiners and regional management met in training conferences to improve critical job skills. To improve communication within NCUA and with credit unions, field and regional offices were reorganized. A committee was established to set automated data processing priorities.

The agreement of cooperation with the National Association of State Credit Union Supervisors, providing for programs to train and equip state examiners, was updated.

NCUA Board members and senior staff continued to travel widely to participate in credit union meetings and events. Four official meetings were held in cities outside Washington and open forums were conducted at all Board meetings.

During 1988, NCUA improved its ability to carry out its management mission: to efficiently and effectively manage the Agency's resources and the Share Insurance Fund.



Donald E. Johnson
Executive Director

Economic Report

Charles H. Bradford
Chief Economist

The October 1987 stock market crash spooked many analysts. There were cries of crisis and an impending depression. Instead, in 1988 the economy showed great resilience and continued to move forward, and so did credit unions.

The U.S. economy has been expanding for six straight years now. No end is yet in sight for this expansion.

There have been pauses in growth along the way. For example, there was an actual downturn in GNP in the second quarter of 1986. These slowdowns are not negatives, nor are they signs that the economy is heading into a recession. Economic growth trends are rarely smooth or uninterrupted.

While the tie between national economic growth and credit union growth is often a loose one, the most important macro-economic measures that affect credit unions are interest rates, employment, after-tax income, personal expenditures and the savings rate.

More important than the national income savings rate, however, are consumer deposits (savings and CDs less than $100,000) at banks, savings and loan associations and credit unions. The credit union share of consumer deposits was 7.7 percent in 1988, two-thirds more than the 4.8 percent share in 1983. As long as the credit union share of consumer deposits holds up, growth should continue.

In the generally prosperous economic environment of the 1980s, credit unions have thrived. Federally insured credit unions grew at double digit rates from 1983 to mid 1987. The peak year was 1985, when assets grew 29 percent and shares grew 30 percent, helped in part by a wave of conversions to Federal insurance that year. The slowest growth was in the last half of 1987.

Growth at credit unions was quite balanced the first half of 1988, with assets and loans rising 6.2 percent and shares up 6.5 percent. In the second half of the year, however, share and asset growth slowed while loan growth continued to rise at a brisk pace.

Slowdowns in credit union growth are not all bad. They can bring some positive financial developments. For example, the slowing of credit union growth in 1987 and 1988 brought a rise in capital ratios from 6.2 percent in December 1986 to about 7 percent in 1988; and loan-to-savings ratios rose from 64.1 percent in December 1986 to more than 70 percent in 1988. This should bring improved earning margins since loans provide higher yields than investments.

As was the story in 1987, the most dynamic loan growth in 1988 was in mortgages. Real estate lending, both first mortgages and equity and second mortgages, now comprise 30 percent of credit union lending. This is double the ratio of just three years ago.

Contributing to the recent boom in credit union real estate lending are the tax law changes in 1986, the strong residential housing market, relaxation of regulations and more competitive credit unions.

Rapid growth in real estate lending poses both opportunities and challenges for credit unions. Lending procedures are complex and concerns over liquidity, yield and stability of collateral values require expertise and careful monitoring.

All in all, credit unions had a good year in 1988. Of course, if the national economy turns sour, it could affect credit unions, although their results are somewhat shielded from national economic performance. In any case, few economists are predicting an imminent recession. While there are some clouds on the horizon, they do not threaten the system.

An Automation Leader

Today, the National Credit Union Administration leads the nation's financial regulators in the use of automation and the development of software to meet its special needs and operations.

The Agency has built a comprehensive technology base which can be expanded and made more productive as its needs grow in the future. Not only is there a computer at every desk and in the hands of every examiner, but all staff members have been trained in the use of equipment and automated programs.

Beyond that, equipment and software have been provided to 35 state agencies, and examiners in 15 states have been trained at their own locations in its use.

During 1988, the automated examination was revised to make it more efficient and easier to use. The collection period for the six month call report cycle was reduced from 30 days to nine days. Call reports now are transmitted electronically by examiners to the mainframe computer in the Washington, D.C., office. The reports from

individual credit unions are analyzed and the resulting Financial Performance Reports (FPRs) are delivered back to them within 30 days.

Every examiner in the field now is part of a network which connects all personal computers in a region with each other. This reduces paper flow, allows an examiner to enter and receive data, and greatly improves communication between examiners, supervisory examiners and regional staff.

Automated systems were installed this year in the Agency's liquidation centers in Austin, Texas, and Washington, D.C. State of the art software has simplified the process, shortened the response time, and improved efficiency and accountability in liquidation operations.

Looking ahead, the Agency conducted a study to evaluate and field test a number of computers in order to be ready to replace equipment nearing the end of its life cycle. It is also preparing to expand the system to allow state credit union agencies to participate. NCUA examiners and examiners from selected state agencies tested several machines for durability, ease of use, portability and compatibility.

Today, NCUA is fully utilizing available technology and is prepared to take advantage of further change.

Training Given High Priority

. . . training programs have been open to state supervisory personnel without charge.

NCUA completed its two-year expansion of examiner staff in 1988 and continued to give high priority to training programs for both new and experienced examiners.

During the year, 116 new examiners completed five levels of classroom training in addition to on-the-job training under the supervision of experienced examiners. Between 75 and 90 new examiners are expected to join NCUA in 1989 and to receive training.

A total of 340 senior examiners attended a broad range of technical seminars and 80 experienced examiners attended courses offered by the Federal Financial Institutions Examination Council. The 1988 budget funded one technical seminar for each experienced examiner; the 1989 budget allows two seminars.

Three technical seminars were offered in 1987, six in 1988, and three more will be added in 1989 on consumer lending, investments, and dealing with problem case credit unions. All new examiner courses were re-evaluated and one level has been completely revised and strengthened. A major training center equipped for audio-visual presentations and for computer training is located in NCUA's central office.

NCUA's training programs have been open to state supervisory personnel without charge and there was strong participation by state examiners in 1988. A coordinator of state examiner training is now on the staff of the National Association of State Credit Union Supervisors and is expected to result in greater participation by state agencies. Funds for the NASCUS program are being provided by NCUA to coordinate this and other cooperative programs.

Development of a comprehensive manual or guide for credit union examiners was a major undertaking in 1988. Publication of this key reference tool is expected in 1989.

The increasing complexity of credit union operations requires that examiners and other staff receive more training and develop sophisticated skills. NCUA stresses the importance of training and it will continue to expand and improve its training opportunities.

CAMEL— After One Year

After one full year of experience, the CAMEL rating system implemented by NCUA in 1987 has been judged a success by the Agency and by credit unions officials. The initial concerns of some credit union managers, apprehensive about possible inflexibility, have been substantially reduced.

The CAMEL rating assigned following an examination is a good measure of a credit union's safety and soundness and a reliable indicator of future success or failure. CAMEL is proving to be the tool it was designed to be, most agree. (CAMEL is an acronym representing the five key areas of a credit union's operations—capital adequacy, asset quality, management, earnings and liquidity.)

Although the 1988 CAMEL ratings did not differ greatly from the percentages under the former Early Warning System (EWS), the ratings are based on much more information, less subjectivity and better analysis. Percentages of credit unions receiving each rating in 1988 were: Code 1, 12 percent; Code 2, 48 percent; Code 3, 33 percent; Code 4, 6 percent, and Code 5, 1 percent.

All of the key ratios used to produce a CAMEL rating are tried and true risk management ratios which indicate when and why an examination should be expanded. The ratio parameters provide an additional source of help so that examiners and credit union management can quickly identify areas where more analysis is needed.

Relying on the many constructive comments which were received from credit unions and examiners during the year, NCUA is reviewing the CAMEL components and all of the ratios. Fine tuning of the system will continue for the foreseeable future.

As examiners gain knowledge and experience, it will be easier for them to employ the qualitative factors that are as much a part of each component as the ratios. They will be better able in 1989 to explain the positive and negative aspects of assigned CAMEL ratings to credit union management. And they will be better prepared to help credit unions use their examination reports to improve their operations.

Congress Recognizes Uniqueness

General Counsel Robert M. Fenner advises Vice Chairman Elizabeth Burkhart

No new regulatory burdens were placed on federally insured credit unions by NCUA during 1988, while Congressional action indicates a high level of confidence in the credit union system.

The Competitive Equality Banking Act of 1987 put into law a major part of NCUA's legislative program including permanent conservatorship authority and added independence for NCUA. It defined credit union shares as equity, and stated that the full faith and credit of the U.S. Government stands behind the Share Insurance Fund.

In several consumer related proposals in 1988, Congress recognized the unique role of credit unions, either by exempting credit unions or specifically designating NCUA to write the rules for credit unions.

This legislation is likely to be reintroduced in 1989, as are the so-called regulators' enforcement amendments. These amendments clarify NCUA's existing authority and would strengthen somewhat its ability to deal with those few cases of insider abuse or criminal misconduct it encounters.

Legislation to prevent sudden plant closings became law and will apply to about 130 credit unions employing 100 or more employees. It will have no effect when closure is caused by liquidation. During the year, the NCUA Board implemented the provisions of the Secondary Mortgage Market Enhancement Act giving credit unions new authority to invest in privately issued, mortgage related securities.

One new rule implements the Act which transferred authority for regulating unfair or deceptive trade practices to NCUA. But the Board refused to require credit unions to comply with a standard issued by the Financial Accounting Standards Board affecting non-refundable fees and costs incurred in making loans.

The Board removed the requirement for faithful performance coverage and, bowing to public opinion, it rejected a rule to allow reimbursement of credit union board and committee members for pay or leave lost due to their official duties. Indemnification guidelines were approved.

As a signal of its support of the dual chartering system, the Agency now includes a statement on how a proposed rule affects federally insured state chartered credit unions.

Improving Service to Credit Unions

NCUA continues to look for ways to improve its services and to provide support and help to the 9,275 Federal credit unions and 4,838 state chartered credit unions* it insures.

During 1988, a major effort was undertaken to improve the Financial Performance Report (FPR) which is provided twice each year to every federally insured credit union. A survey of credit unions and meetings with a number of credit union managers found that most use the FPR to compare current with prior performance and with peer averages. Many wanted more detail and more extensive analysis. The December 1988 FPR has more graphics showing five-year trends, additional information, and new ratios.

As the CAMEL rating system was implemented, the Agency issued NCUA Letter 98 outlining the parameters which examiners are using to assign ratings. No other financial regulator distributes its parameters.

* Figures for June 30, 1988.

More than a year of study preceded the adoption of new, comprehensive chartering and field of membership policies. An authoritative chartering manual will be published in 1989. The Agency reduced the approval time for most field of membership expansions to nine days or less.

A revised *Federal Credit Union Handbook* was published covering all aspects of Federal credit union structure and operations, and NCUA's policies and regulations. NCUA's Office of the Chief Economist produced and published several studies in 1988 to provide the data, analysis and information for credit union planning.

Recognizing the need for clarification and better coordination, a study of the Agency's corporate credit union policies was initiated during 1988. The NCUA Board also took a careful look at college student credit unions and began a three-year program designed to improve their success rate.

Three healthy credit unions were returned to their members in 1988 following conservatorship and considerable NCUA assistance. And when drought struck the nation's agricultural areas, the Agency responded with a program to minimize the effect on credit unions. Examiners were trained to assess debt restructuring arrangements, and non-cash assistance was provided to affected credit unions.

Insurance Fund Well Positioned

. . . for the fourth year, the Board waived an insurance premium, saving credit unions $130 million.

Revenue earned during fiscal year 1988 by the National Credit Union Share Insurance Fund was 13 percent greater than 1987 while insurance losses rose only 7.9 percent. With record equity and reserves, the Fund is well positioned to absorb losses which may occur in 1989.

Due to an upswing in short term interest rates, earnings were $127.6 million in 1988 compared to $112.7 million in 1987. NCUA operating expenses charged to the Fund, 50 percent of the Agency's total actual expenses, were up by $5 million to $26.5 million. Insurance losses went from $55.7 million in 1987 to $60.1 million in 1988, considerably less than the 47 percent increase from 1986 to 1987.

Insurance losses per $1,000 of insured credit union shares remained steady at 38 cents, but were 30 percent of what they were in 1982—$1.28 per $1,000 of insured shares. For every dollar in revenue, the Fund spent 46 cents on insurance losses and 21 cents on operating costs, leaving net income of 33 cents per revenue dollar.

Federally insured credit unions had combined shares of $158 billion at the end of the insurance year on June 30. The Fund's equity ratio was 1.26 percent, within the NCUA Board designated level of 1.25 to 1.30 percent of insured shares. For the fourth year, the Board waived an insurance premium, saving credit unions $130 million.

There were 9,217 Federal credit unions and 4,820 federally insured state credit unions on September 30, 483 fewer than in 1987. Of those, 85 were actual failures, the lowest level in history, and the balance were unassisted mergers and voluntary liquidations.

Established in 1970 as a revolving fund in the U.S Treasury and dependent on insurance premiums, the Fund grew steadily until losses in the early 1980s required special assessments in addition to regular assessments. Legislation to capitalize the Fund with credit union deposits of 1 percent of insured shares was enacted in 1984.

Since capitalization, NCUSIF has been able to pay all operating and financial costs from earnings on investments. And it has been able to maintain an equity level of from 1.25 to 1.30 percent of insured shares without assessing insurance premiums.

From left to right: Dennis Winans, Director of Insurance, D. Michael Riley, Director, Office of Examination and Insurance, and Ed McIntyre, Director of Special Actions, Region VI

New Leadership at CLF

The Central Liquidity Facility acquired new leadership during 1988 when Floyd A. Lancaster was appointed to serve as president and Ronald N. Lewandowski succeeded him as treasurer. Both are 20-year NCUA veterans. Lewandowski served most recently as deputy director of Region II.

A mixed ownership government corporation governed by the NCUA Board, CLF is a central source of short-term funds for the credit union system. At fiscal year end, Sept. 30, 1988, it had a loan portfolio of $120.4 million, up from $111.5 million in 1987. It also provided lines of credit totalling $13.5 million for four private share insurance funds.

Although all of its funds come from its credit union members, CLF's operating budget must be approved by Congress and is included in the Federal budget. During 1988, it had expenses of $709,826, less than the approved budget of $813,000.

A reserve target of $600,000 set by the NCUA Board was exceeded with the total reaching $836,500 at year end. Member equity was $408.4 million compared to $354.5 million the previous year.

To become a CLF member, a credit union or its designated agent must purchase shares of stock equal to one-half of one percent of the credit union's unimpaired capital and surplus. A total of 15,500 credit unions represented by 42 agents and another 266 credit unions are currently members.

Dividends of $24.5 million, 97 percent of net earnings, were paid to member credit unions in 1988 for a 6.4 percent return on member's capital and deposits. The investment liquidity portfolio, made up of low yielding long-term securities from credit unions, earned current market rates.

CLF investments—U.S. Government and agency obligations, deposits in federally insured institutions and shares or deposits in credit unions—had an average maturity of 80 days. The average yield on investments was 6.6 percent in 1988 compared to 6.3 percent for 90-day U. S. Treasury bills.

Floyd Lancaster
President
Central Liquidity
Facility

Chairman Jepsen testifies before Congressional committee

Financial Results

NCUA's operating expenses for fiscal year 1988 were 2.8 percent under budget, largely because some new examiner positions took longer to fill than anticipated. Total expenses were $53 million, $1.6 million less than budget.

The number of staff went from 813 to 888 during 1988, out of 891 positions authorized. Because the increase in staff took place over several months, wages and benefits were $2.4 million less than the budgeted amount. Offsetting this saving were increases in administrative costs and contracted services primarily related to the relocation of four regional offices, and the cost of installing a mainframe computer.

NCUA's operating expenses are divided between the National Credit Union Share Insurance Fund and the NCUA Operating Fund. This allocation occurs monthly through an accounting procedure known as the overhead transfer. The NCUA Board sets the allocation annually based on a study of how staff time divides between insurance and non-insurance activities. The rate has been 50 percent for four years.

The auditor's opinion and financial statements which follow pertain to the Operating Fund. An unqualified audit opinion was received again this year.

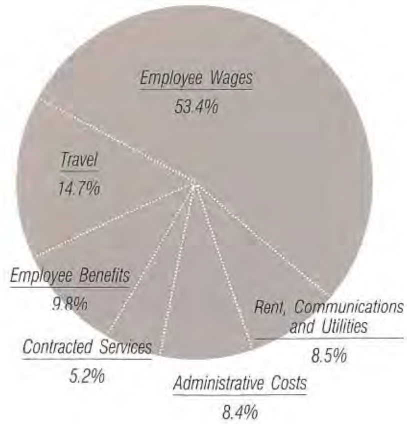
The major change in the balance sheet reflects the acquisition of a building for the regional office in Austin. Because of the area economy, purchase had significant financial advantages over leasing. As a result, there was a $2.2 million increase in both assets and liabilities. The note payable is amortized over 30 years.

The Operating Fund's total revenue was $26.4 million. The primary source is the annual operating fee received from all Federal credit unions which in 1988 was $25.3 million. Income on invested funds was $846,000 and miscellaneous income was $180,000.

The Operating Fund's share of NCUA operating expenses was $26.5 million, up $5 million from 1987, due primarily to wages and benefits which are 63 percent of the total. Travel and training costs are also up as a result of the increase in examiners.

Expenses and revenues were closely matched in 1988 with expenses exceeding revenue by 0.5 percent or $137,000. This net loss reduced the Operating Fund equity balance from $3.99 million to $3.86 million.

Where the Fiscal Year 1988 Budget Was Spent



Herbert S. Yolles
Controller

Operating Fund Report and Financial Statements
for the Years Ended
September 30, 1988 and 1987

Report of Independent Accountants

Price Waterhouse

To the Board of Directors
National Credit Union Administration

In our opinion, the statements appearing on pages 20 through 23 of this report present fairly in all materials respects, the financial position of the National Credit Union Administration—Operating Fund at September 30, 1988 and 1987, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the National Credit Union Administration management; our responsibility is to express an opinion of these financial statements based on our audits. We conducted our audits of these statements 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 (1981 Revision), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Washington, DC
November 15, 1988

Operating Fund Balance Sheets

	September 30, 1988	September 30, 1987
ASSETS		
Cash, including cash equivalents of $4,460,000 and $3,224,282 (Notes B and C)	$ 4,474,586	$ 3,239,212
Due from National Credit Union Administration - Share Insurance Fund (Note D)	711,822	2,478,899
Employee advances	620,659	575,659
Other accounts receivable	168,338	89,677
Prepaid expenses	218,871	129,797
Land and office building, net of accumulated depreciation of $21,093	2,232,431	
Furniture and equipment, net of accumulated depreciation of $3,622,181 and $3,400,755	4,982,666	5,014,693
Leasehold improvements, net of accumulated amortization of $67,458 and $13,116	407,967	218,459
Total assets	$13,817,340	$11,746,396
LIABILITIES AND FUND BALANCE		
Accounts payable	$ 2,604,417	$ 3,083,596
Accrued wages and benefits	1,968,637	1,463,814
Accrued annual leave	2,584,869	2,238,160
Accrued employee travel	675,015	964,040
Note payable to National Credit Union Administration - Share Insurance Fund (Note D)	2,124,766	
Total liabilities	9,957,704	7,749,610
Fund balance:		
Available for operations	(1,343,172)	(610,715)
Invested in fixed assets, net	5,202,808	4,607,501
Total fund balance	3,859,636	3,996,786
Commitments (Note E)		
Total liabilities and fund balance	$13,817,340	$11,746,396

The accompanying notes are an integral part of these financial statements.

Operating Fund Statements of Revenue, Expenses and Changes in Fund Balance

	Year ended September 30,	
	1988	1987
REVENUE		
Operating fee revenue	$25,342,427	$21,162,842
Investment income	845,761	755,853
Miscellaneous income	180,358	269,768
Total revenue	26,368,546	22,188,463
EXPENSES (Note D)		
Employee wages and benefits	16,743,207	14,070,751
Travel expense	3,906,335	2,894,044
Rent, communications, and utilities	2,254,111	1,833,043
Contracted services	1,366,272	867,486
Other administrative	2,235,771	1,714,285
Total administrative expenses	26,505,696	21,379,609
Excess of (expenses) revenue	(137,150)	808,854
Fund balance at beginning of year	3,996,786	3,187,932
Fund balance at end of year	$ 3,859,636	$ 3,996,786

The accompanying notes are an integral part of these financial statements.

Operating Fund Statements of Cash Flows

	Year ended September 30,	
	1988	1987
Cash flows from operating activities:		
Excess of (expenses) revenue	$ (137,150)	$ 808,854
Adjustments to reconcile excess of (expenses) revenue to net cash provided by operating activities:		
Depreciation and amortization	1,429,689	784,493
(Gain) loss on disposition of fixed assets	(16,974)	3,727
Changes in operating assets and liabilities:		
Decrease (increase) in amounts due from NCUA Insurance Fund	1,767,077	(1,549,549)
(Increase) in employee advances	(45,000)	(412,003)
(Increase) decrease in other accounts receivable	(78,661)	11,199
(Increase) in prepaid expenses	(89,074)	(9,553)
(Decrease) increase in accounts payable	(479,179)	1,729,329
Increase in accrued wages and benefits	504,823	366,149
Increase in accrued annual leave	346,709	322,314
(Decrease) increase in accrued employee travel	(289,025)	647,030
Net cash provided by operating activities	2,913,235	2,701,990
Cash flows from investing activities:		
Purchases of fixed assets	(3,820,632)	(5,433,228)
Proceeds from sale of fixed assets	18,005	
Net cash used by investing activities	(3,802,627)	(5,433,228)
Cash flows from financing activities:		
Proceeds from issuance of note payable, net of $36,000 in repayments	2,124,766	
Net increase (decrease) in cash and cash equivalents	1,235,374	(2,731,238)
Cash and cash equivalents at beginning of year	3,239,212	5,970,450
Cash and cash equivalents at end of year	$4,474,586	$ 3,239,212
Composed of:		
Cash	$ 14,586	$ 14,930
Cash equivalents - U.S. Government securities with maturities less than 3 months	4,460,000	3,224,282
Total	$4,474,586	$ 3,239,212

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements
September 30, 1988

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

Cash Equivalents

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.

In fiscal year 1988, the Fund adopted Statement of Financial Accounting Standard No. 95 (SFAS 95), Statement of Cash Flows. A Statement of Cash Flows explains the change during the period in cash and cash equivalents. Cash equivalents are highly liquid investments with original maturities of three months or less. Activity for the year ended September 30, 1987, has been restated to reflect the required presentation of SFAS 95.

Depreciation and Amortization

Building, 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 the building, furniture and equipment and the shorter of the estimated useful life or lease term for leasehold improvements. Estimated useful lives are forty years for the building and three to ten years for the furniture and equipment and leasehold improvements.

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. The Fund recognizes operating fee revenue on a fiscal year basis.

Income Taxes

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

Note C—Cash Equivalents

All cash received by the Fund which is not used to defray operating expenses is invested in U.S. Treasury Securities.

As of September 30, 1988 and 1987, the Fund's investment portfolio consisted of the following:

	1988	
	Book Value	Market Value
U.S. Treasury Securities:		
Overnight funds	$4,460,000	$4,460,000
Maturities less than three months		
Total	$4,460,000	$4,460,000

	1987	
	Book Value	Market Value
U.S. Treasury Securities:		
Overnight funds	$1,223,000	$1,223,000
Maturities less than three months	2,001,282	1,999,098
Total	$3,224,282	$3,222,098

Note D—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 approximately $26,506,000 and $21,380,000 for the years ended September 30, 1988 and 1987, respectively, are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In fiscal year 1988, the Fund entered into a $2,160,766 thirty year term note with NCUSIF, for the purchase of a building. The note is being repaid in monthly principal installments of $6,000 with interest at a variable rate. The average interest rate during fiscal year 1988 was approximately 7.5%. The outstanding principal balance at September 30, 1988, was $2,124,766.

Note E—Commitments

The Fund leases certain office space under lease agreements which expire through 1998. Office rental charges for the years ended September 30, 1988 and 1987, amounted to approximately $2,274,000 and $1,894,000 of which approximately $1,137,000 and $947,000 was reimbursed by NCUSIF. In addition, the Fund leases certain office equipment under operating leases with lease terms less than one year.

The future minimum lease payments as of September 30, 1988, are as follows:

1989	$ 1,863,000
1990	2,023,000
1991	1,949,000
1992	1,839,000
1993	1,687,000
Thereafter	2,971,000
	$12,332,000

Based on the allocation factor approved by the NCUA Board of Directors for fiscal year 1989, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

Note F—Retirement Plan

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund (CSRDF) which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plans employees can also elect additional contributions between 1% and 10% of their gross pay and the Fund will match up to 5% of the employees' gross pay. The Fund's contributions to the plans for the years ended September 30, 1988 and 1987, were approximately $2,602,000 and $1,870,000, of which $1,301,000 and $935,000 was reimbursed by NCUSIF, respectively.

The Fund does not account for the assets of the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers.

Federal Credit Unions, Current and Historical Data

Consolidated Balance Sheet
(Amounts in thousands)

	1987[1]	1988[2]	Percentage change[3]
ASSETS			
Cash	$ 2,327,069	$2,329,918	0.1
Loans outstanding	64,104,411	68,657,552	7.1
Allowance for loan losses	(466,539)	(510,697)	9.5
INVESTMENTS			
U.S. Gov/Fed Agency Securities	10,417,910	10,801,068	3.7
Commercial banks	4,133,712	4,115,722	−0.4
S&Ls and mutual savings banks	10,840,035	11,238,615	3.7
Corporate credit unions	6,285,795	7,041,266	12.0
Common trusts	1,193,707	1,075,241	−9.9
Share insurance/other capital deposits	815,372	946,168	16.0
Other investments	2,623,714	3,334,645	27.1
Total investments	$36,310,244	$38,552,725	6.2
Allowance for investment losses	(57,560)	(53,982)	−6.2
Land and building (net of depreciation)	1,236,264	1,335,713	8.0
Other fixed assets	597,776	621,246	3.9
Other assets	1,138,058	1,640,306	44.1
Total assets	$105,189,725	$112,572,783	7.0
LIABILITIES			
Notes payable	857,264	684,865	−20.1
Dividends payable	636,452	624,007	−2.0
Accounts payable and other liabilities	601,584	637,387	−6.0
Total liabilities	$2,095,300	$1,946,259	−7.1
EQUITY/SAVINGS			
Regular shares[4]	59,005,826	53,996,213	−8.5
Share certificates	14,086,939	15,966,012	13.3
IRA/Keogh accounts	13,641,130	14,510,798	6.4
Share drafts	9,611,048	9,768,523	1.6
Total savings	$96,346,488	$103,346,668	7.3
Regular reserves	2,763,580	2,965,252	7.3
Other reserves	961,837	1,011,746	5.2
Undivided earnings[5]	3,022,518	3,302,856	9.3
Total equity/savings	$103,094,424	$110,626,522	7.3
Total liabilities/equity	$105,189,725	$112,572,783	7.0

[1] Revised data for December 31, 1987.
[2] Data for June 30, 1988.
[3] Percent changes for 6 month period.
[4] 1987 figure includes amount for Other Shares.
[5] 1988 figure includes Net Income of Credit Unions that did not close books as of June 30, 1988.
Note: Because of rounding, detail may not add to totals.

Loan to Asset Ratio

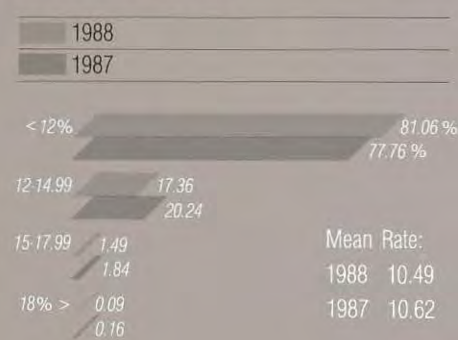
Loans/Assets
Investments/Assets

Consolidated Income and Expense Statement
(Amounts in thousands)

	1987[1]	1988[2]	Percentage change[3]
INCOME			
Interest on loans	$6,929,841	$3,738,892	7.9
Less: Interest refund	(14,406)	(4,129)	-42.7
Income from investments	2,760,284	1,392,907	0.9
Other operating income	482,768	261,959	8.5
Total gross income	$10,158,488	$5,389,629	6.1
EXPENSES			
Employee compensation and benefits	1,486,073	804,954	8.3
Travel & conference expenses	55,164	29,390	6.6
Office occupancy	177,485	98,111	10.6
Office operations expense	668,302	364,414	9.1
Educational and promotional	81,442	42,690	4.8
Loan servicing expense	89,108	48,908	9.8
Professional and outside services	248,013	134,135	8.2
Provision for loan losses	417,819	219,944	5.3
Member insurance	148,490	74,398	0.2
Operating fees	22,468	14,396	28.1
Interest on borrowed money	44,552	30,477	36.8
Miscellaneous operating expenses	145,835	65,668	-9.9
Total operating expenses	$3,584,662	$1,927,485	7.5
NON-OPERATING GAINS OR LOSSES			
Gain (loss) on investments	(35,993)	7,233	140.2
Gain (loss) on disposition of assets	3,424	2,501	46.1
Other non-operating income (expenses)	7,528	5,052	34.2
Total income (loss) before dividends	$6,548,785	$3,476,931	6.2
Transfer to regular and statutory reserves	236,731	125,007	5.6
Dividends and interest on deposits	5,623,932	2,970,783	5.6
Net income (loss) after dividends and reserve transfers	$688,122	381,141	10.8

[1] Revised data for December 31, 1987.
[2] Data for June 30, 1988.
[3] Percent changes are annualized.
Note: Because of rounding, detail may not add to totals.

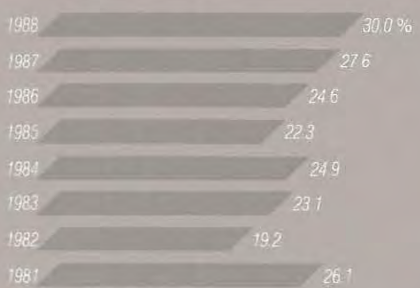
Distribution of Interest Rates New Car Loans



Federal Credit Unions by States
June 30, 1988

State	Number FCUs 1988	Assets (in millions) 1988	Assets (in millions) 1987[1]	Percent change 1987[1] to 1988
Alabama	144	$ 1,760	$ 1,627	8.2
Alaska	16	1,209	1,210	-0.1
Arizona	51	1,589	1,498	6.1
Arkansas	87	409	380	7.6
California	732	18,200	17,112	6.4
Colorado	129	1,751	1,704	2.8
Connecticut	220	2,356	2,167	8.7
Delaware	59	434	408	6.4
District of Columbia	113	1,829	1,759	4.0
Florida	228	6,265	5,877	6.6
Georgia	217	1,820	1,715	6.1
Guam	3	49	42	16.7
Hawaii	132	2,121	2,045	3.7
Idaho	48	477	448	6.5
Illinois	273	1,815	1,713	6.0
Indiana	304	3,855	3,582	7.6
Iowa	7	35	33	6.1
Kansas	42	319	308	3.6
Kentucky	118	955	903	5.8
Louisiana	303	1,622	1,523	6.5
Maine	103	1,158	1,068	8.4
Maryland	172	2,812	2,673	5.2
Massachusetts	251	3,534	3,273	8.0
Michigan	232	3,897	3,708	5.1
Minnesota	66	1,434	621	130.9
Mississippi	123	605	563	7.5
Missouri	26	183	154	18.8

Long Term Investments as Percent of Total Investments



Number of Federal Credit Unions by Asset Size
June 30, 1988

Asset size	Number of FCUs	Percentage of total	Cumulative percentage
Less than $50 thousand	180	1.9	1.9
$50 to $100 thousand	230	2.5	4.4
$100 to $250 thousand	668	7.4	11.8
$250 to $500 thousand	885	9.5	21.4
$500 thousand to $1 million	1,155	12.5	33.8
$1 million to $2 million	1,355	14.6	48.4
$2 million to $5 million	1,771	19.1	67.5
$5 million to $10 million	1,090	11.8	79.3
$10 million to $20 million	799	8.6	87.9
$20 million to $50 million	662	7.1	95.0
$50 million to $100 million	255	2.7	97.8
$100 million and over	205	2.2	100.0

State	Number FCUs 1988	Assets (in millions) 1988	Assets (in millions) 1987[1]	Percent change 1987[1] to 1988
Montana	88	$540	$525	2.9
Nebraska	73	568	536	6.0
Nevada	30	852	809	5.3
New Hampshire	21	520	471	10.4
New Jersey	438	3,256	3,070	6.1
New Mexico	40	808	749	7.9
New York	876	9,005	8,335	8.0
North Carolina	103	1,411	1,304	8.2
North Dakota	25	80	78	2.6
Ohio	494	2,944	2,783	5.8
Oklahoma	86	943	901	4.7
Oregon	131	1,239	1,163	6.5
Pennsylvania	1,055	5,501	5,140	7.0
Puerto Rico	32	167	162	3.1
Rhode Island	14	23	23	0.0
South Carolina	108	1,497	1,364	9.8
South Dakota	77	328	315	4.1
Tennessee	135	1,770	1,668	6.1
Texas	641	7,868	7,443	5.7
Utah	54	357	342	4.4
Vermont	7	109	92	18.5
Virgin Islands	5	9	7	28.6
Virginia	233	7,411	7,060	5.0
Washington	116	1,757	1,693	3.8
West Virginia	151	712	663	7.4
Wisconsin	3	144	117	23.1
Wyoming	40	264	263	0.4
Total	9,275	$112,576	$105,190	7.0

[1] Data for December 31.
Differences in assets from other tables is due to rounding.

Assets of Federal Credit Unions by Asset Size
June 30, 1988

Asset size	Assets (in thousands)	Percentage of total	Cumulative percentage
Less than $50 thousand	$5,196	0.0	0.0
$50 to $100 thousand	17,534	0.0	0.0
$100 to $250 thousand	121,503	0.1	0.1
$250 to $500 thousand	325,529	0.3	0.4
$500 thousand to $1 million	846,481	0.8	1.2
$1 million to $2 million	1,976,066	1.8	2.9
$2 million to $5 million	5,829,854	5.2	8.1
$5 million to $10 million	7,706,582	6.8	14.9
$10 million to $20 million	11,323,513	10.1	25.0
$20 million to $50 million	20,453,612	18.2	43.2
$50 million to $100 million	18,049,478	16.0	59.2
$100 million and over	45,917,434	40.8	100.0

Annual Percentage Change: Shares and Loans

Loans Outstanding
Member Shares

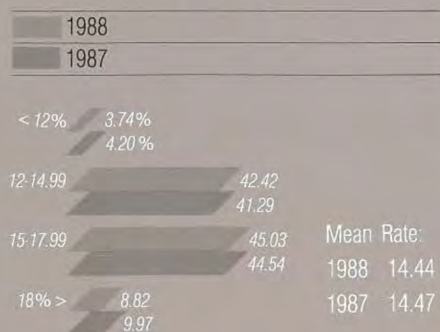
Percent changes for June 1988 annualized.

Analysis of Loans Outstanding
(In millions)

	1984	1985	1986	1987[1]	1988[2]
Loans outstanding	$42,133	$48,241	$55,305	$64,104	$68,658
Allowance for loan losses	299	354	415	466	511
Regular reserves	1,800	2,132	2,417	2,764	2,965
Amount of delinquent loans	828	1,006	1,172	1,219	1,213
Loans charged-off	195	253	381	448	243
Recoveries on loans	45	46	53	64	48
Provision for loan losses	165	249	355	418	220
SIGNIFICANT RATIOS (as a percentage of loans outstanding)					
Allowance for loan losses	0.71	0.73	0.75	0.73	0.74
Regular reserves	4.27	4.42	4.37	4.31	4.32
Delinquent loans	1.97	2.09	2.12	1.90	1.77
Loans charged-off[3]	0.46	0.52	0.69	0.70	0.71
Net loans charged-off[3]	0.36	0.43	0.59	0.60	0.57
Provision for loan losses[3]	0.39	0.52	0.64	0.65	0.64

[1] Revised
[2] Data for June 30, 1988.
[3] Ratios for June 1988 annualized.
Note: Data for 1984-1987 for December 31.

Distribution of Interest Rates Unsecured Loans



Percentage Distribution of Savings by Type of Account

Type of account	1984	1985	1986	1987	1988[1]
Regular shares	68.7%	69.3%	71.6%	71.2%	70.6%
Share drafts	9.1	9.5	9.7	10.0	9.5
Other regular shares	59.6	59.8	61.9	61.2	61.1
Share certificates	31.3	30.7	28.4	28.8	29.4
IRA and Keogh	9.0	11.7	13.4	14.2	14.0
Other certificates	22.3	19.0	15.0	14.6	15.4
Total savings in millions	$57,929	$71,616	$87,954	96,346	$103,347

[1] Data for June 30, 1988.
Note: Data for years 1984-1987 for December 31.

Total Investments 1984-1988
(In millions)

	1984	1985	1986	1987[1]	1988[2]
U.S. Government Obligations	$1,795	$2,409	$3,518	$4,439	$4,402
Federal agency securities	3,930	4,548	5,270	5,979	6,399
Mutual funds	421	640	1,801	1,193	1,075
Deposits in commercial banks	2,541	4,146	5,757	4,134	4,116
Deposits in S&Ls and savings banks	5,867	8,113	10,700	10,840	11,239
Shares/deposits in corporate CUs	3,429	5,079	7,136	6,286	7,041
Share INS/other capital deposits	N/A	602	709	815	946
Investments in other CUs	104	126	165	189	198
Other investments [3]	479	594	653	2,435	3,137
Allowance for investment losses	(19)	(17)	(21)	(58)	(54)
Total investments	18,566	26,257	35,709	36,253	38,499
PERCENTAGE BREAKDOWN PER YEAR					
U.S. Government obligations	9.7	9.2	9.9	12.2	11.4
Federal agency securities	21.2	17.3	14.8	16.5	16.6
Mutual funds	2.3	2.4	5.0	3.3	2.8
Deposits in commercial banks	13.7	15.8	16.1	11.4	10.7
Deposits in S&Ls and savings banks	31.6	30.9	30.0	29.9	29.2
Shares/deposits in corporate CUs	18.5	19.3	20.0	17.3	18.3
Share INS/other capital deposits	N/A	2.3	2.0	2.2	2.5
Investments in other CUs	0.6	0.5	0.5	0.5	0.5
Other investments [3]	2.6	2.3	1.8	6.7	8.1
Total investments	100	100	100	100	100

[1] Revised
[2] Data for June 30, 1988.
[3] Includes loans to other credit unions, shares in the Central Liquidity Facility and other investments.
Note: Data for 1984-1987 for December 31.

Index of Loan and Share Growth (Index: Dec. 1980 = 100%)

Annual Growth Rates in Reserves and Undivided Earnings

	1981	1982	1983	1984	1985	1986	1987	1988[1]
Total reserves	15.5	14.7	13.7	23.0	22.4	18.0	12.6	7.9
Regular reserve	7.6	9.6	12.4	20.9	19.3	13.4	14.4	7.3
Other reserves	15.8	10.2	15.6	25.7	13.3	21.6	7.5	5.2
Undivided earnings [2]	27.8	23.4	14.6	24.4	29.6	21.4	20.7	9.3

[1] Growth rate for first half of 1988.
[2] 1988 figure includes net income of credit unions that did not close books as of June 30, 1988.
Note: Data for 1981-1987 for entire calendar year.

CAMEL Rating System
Number by Categories
Calendar Year-end

EWS/CAMEL[1] category	1979	1980	1981	1982	1983	1984	1985	1986	1987[3]	1988[4]	change
Codes 1 and 2	8,488	7,862	7,237	7,093	7,365	7,425	7,250	6,536	5,800	5,605	−195
Code 3	3,433	3,770	3,737	3,751	2,855	2,623	2,460	2,734	3,063	3,087	24
Code 4	817	585	720	661	646	451	375	440	486	522	36
Code 5[2]		223	175	126	97	48	40	48	52	61	9
Total	12,738	12,440	11,869	11,631	10,963	10,547	10,125	9,758	9,401	9,275	−126

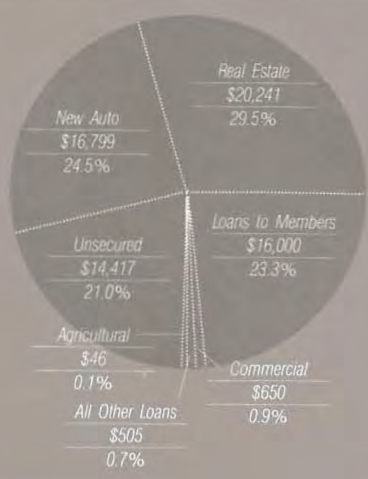
[1] EWS (Early Warning System) in use until 1987.
[2] EWS (Early Warning System) Code 5 implemented during 1980.
[3] CAMEL implemented in 1987.
[4] Data as of June 30, 1988.

Distribution by Asset Size of FCUs in CAMEL Codes 4 and 5
June 30, 1988

Asset size	Number of credit unions	Total assets (in thousands)
< 1 million	263	$80,935
1-10 million	212	825,407
10-20 million	45	642,471
20-50 million	35	1,108,261
50-100 million	19	1,340,462
> 100 million	9	2,033,100
Total	583	$6,030,636

Sources of Income
(In Millions)

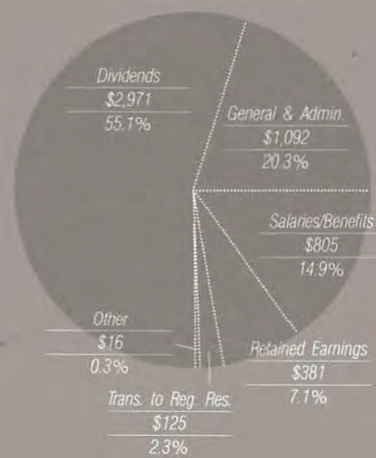
Loan Distribution
(In Millions)



Federal Credit Unions Experiencing Losses
June 30, 1988

Asset size	No. of FCUs	Assets	Amount of 1987 losses	Amount of reserves and undivided earnings
Less than $1 million	550	$235,590,018	$2,063,374	$20,281,239
$1 million to less than $2 million	214	312,914,648	1,642,860	21,304,765
$2 million to less than $5 million	220	705,218,476	3,439,665	39,660,057
$5 million to less than $10 million	124	859,980,396	3,525,099	43,558,326
$10 million to less than $20 million	85	1,165,645,635	5,140,631	51,166,518
$20 million to less than $50 million	94	2,889,086,458	6,961,938	129,067,716
$50 million and over	37	4,458,806,129	11,974,503	179,559,217
Total	1,324	$10,627,241,760	$34,748,070	$484,597,838

Uses of Funds
(In Millions)



Federal Credit Unions Experiencing Losses

Year ending December 31	No. of Federal Credit Unions	No. of FCUs experiencing losses	Percentage of total no. of FCUs	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
1987	9,401	1,481	15.8	71,410
1988[1]	9,275	1,324	14.3	34,748

[1]Data as of June 30, 1988.

Selected Data for Federal Credit Unions
December 31, 1934-88

								(Amounts in thousands of dollars)		
Year	Charters issued	Charters canceled	Net change	Total out-standing	Inactive credit unions	Active credit unions	Members	Assets[1]	Shares[1]	Loans outstanding
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

[1] Data for 1934-44 are partly estimated.
[2] First charter approved October 1, 1934.
[3] Revised.
[4] Data as of June 30, 1988.

Selected Data for Federal Credit Unions
December 31, 1934-88—Continued

Year	Charters issued	Charters canceled	Net change	Total out-standing	Inactive credit unions	Active credit unions	Members	(Amounts in thousands of dollars) Assets	Shares	Loans outstanding
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
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	161	13,494	777	12,717	12,702,135	10,533,740	9,191,182	8,071,201
1972	311	672	1361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	1159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	12	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	133	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	150	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	1198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	1435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	1442	11,925	294	11,631	26,114,649	49,755,270	45,503,266	27,998,657
1983	107	736	1629	11,296	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984	135	664	1529	10,767	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985	55	575	1520	10,247	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	1382	9,865	107	9,758	31,041,142	95,483,421	87,953,642	55,304,267
1987[3]	41	460	1419	9,446	45	9,401	32,066,542	105,189,725	96,346,488	64,104,411
1988[4]	40	170	1130	9,305	30	9,275	33,626,009	112,572,783	103,346,668	68,657,552

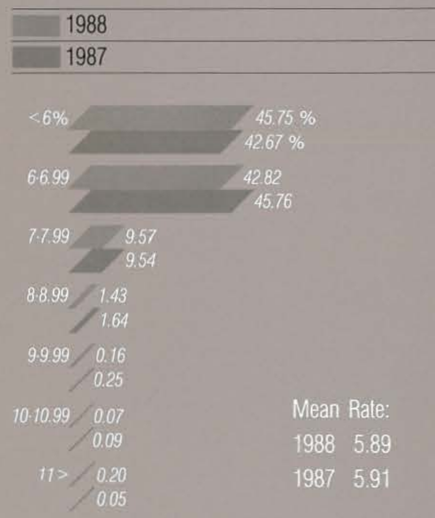
Percentage Distribution of Consumer Installment Credit By Type of Lender

Type of Lender	1983[1]	1984[1]	1985[1]	1986[1]	1987[1]	1988[2]
Credit unions	14.4	14.8	13.9	13.3	13.2	13.2
Commercial banks	46.0	47.3	46.7	45.8	45.9	46.6
Savings institutions	6.6	8.3	9.6	9.9	10.4	10.4
Retailers	9.3	8.4	7.6	6.9	7.0	6.7
Finance companies	22.6	20.2	21.4	23.5	22.9	22.5
Gasoline companies	1.1	1.0	0.8	0.6	0.6	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
Consumer installment Credit outstanding (in millions)	$367,869	$442,538	$517,754	$571,833	$613,021	$644,372

[1] Revised
[2] Data for June 1988.
Source: Federal Reserve Board

Effective Cost of Shares

Distribution by Dividend Rates Paid on Regular Shares



Federal Credit Union Data 10 Year Summary, 1979 – 1988

(Dollar amounts in millions, December 31)

	1979	1980	1981	1982	1983	1984	1985	1986	1987[1]	1988[2]
Number of Credit Unions	12,738	12,440	11,969	11,631	10,976	10,548	10,125	9,758	9,401	9,275
Number of members	24,789,647	24,519,087	25,459,059	26,114,649	26,798,799	28,191,922	29,578,808	31,041,142	32,066,542	33,626,009
Assets	$35,334	$37,515	$39,181	$45,494	$54,482	$63,656	$78,188	$95,484	$105,190	$112,573
Loans outstanding	28,182	26,165	27,238	28,192	33,201	42,133	48,241	55,305	64,104	68,658
Shares	30,768	33,812	35,248	41,352	49,891	57,929	71,616	87,954	96,346	103,347
Reserves[3]	1,426	1,473	1,614	1,773	2,007	2,451	2,884	3,312	3,725	3,977
Undivided earnings[4]	629	709	906	1,118	1,281	1,592	2,063	2,506	3,023	3,303
Gross income	3,530	3,824	4,681	5,406	6,064	7,454	8,526	9,416	10,158	5,390
Operating expenses	1,428	1,498	1,660	1,822	2,045	2,314	2,674	3,115	3,585	1,927
Dividends	1,862	2,185	2,656	3,185	3,573	4,413	5,090	5,506	5,624	2,971
Reserve transfers	88	98	147	147	166	260	282	250	237	125
Net income	153	43	219	244	287	473	521	626	688	381
PERCENT CHANGE										
Total assets	1.7%	6.2%	4.4%	16.1%	19.8%	16.8%	22.8%	22.1%	10.2%	7.0%
Loans outstanding	1.8	17.2	4.1	3.5	17.8	26.9	14.5	14.6	15.9	7.1
Savings	3.2	9.9	4.2	17.3	20.6	16.1	23.6	22.8	9.5	7.3
Reserves	4.5	3.3	9.6	9.9	13.2	22.1	17.7	14.8	12.5	6.8
Undivided earnings	29.7	12.7	27.8	23.4	14.6	24.3	29.6	21.5	20.6	9.3
Gross income[5]	10.3	8.3	22.4	15.5	12.2	22.9	14.4	10.4	7.9	6.1
Operating expenses[5]	17.6	4.9	10.8	9.8	12.2	13.2	15.6	16.5	15.1	7.5
Dividends[5]	9.1	17.3	21.6	19.9	12.2	23.5	15.3	8.2	2.1	5.7
Reserve transfers[5]	141.3	11.4	50.0	0.0	12.9	56.6	8.5	111.3	15.2	5.5
Net income[5]	16.8	171.9	409.3	11.4	17.6	64.8	10.1	20.2	9.9	10.8
SIGNIFICANT RATIOS										
Reserves to assets	4.0%	3.9%	4.1%	3.9%	3.7%	3.9%	3.7%	3.5%	3.5%	3.5%
Reserves and undivided earnings to assets	5.8	5.8	6.4	6.4	6.0	6.4	6.3	6.1	6.4	6.5
Reserves to loans	5.1	5.6	5.9	6.3	6.0	5.8	6.0	6.0	5.8	5.8
Loans to shares	91.6	77.4	77.3	68.2	66.5	72.7	67.4	62.9	66.5	66.4
Operating expenses to gross income	40.5	39.2	35.5	33.7	33.7	31.0	31.4	33.1	35.3	35.8
Salaries and benefits to gross income	14.3	14.7	14.1	14.1	14.4	13.6	13.6	14.1	14.6	14.9
Dividends to gross income	52.7	57.1	56.7	58.9	58.9	59.2	59.7	58.5	55.4	55.1
Yield on average assets[5]	10.1	10.5	12.2	12.8	12.1	11.7	12.0	10.8	10.1	9.9
Cost of funds to average assets[5]	5.9	6.4	7.2	7.5	7.1	7.0	7.2	6.4	5.6	5.5
Gross spread[5]	4.2	4.2	5.1	5.3	5.0	4.7	4.8	4.5	4.5	4.4
Net income divided by gross income	4.3	1.1	4.7	4.5	4.7	6.3	6.1	6.6	6.8	7.1
Yield on average loans[5]	10.9	11.0	12.5	13.6	13.7	12.4	13.5	12.7	11.6	11.3
Yield on average investments[5]	8.6	10.3	12.8	12.3	10.2	11.0	9.5	7.9	7.7	7.4

[1] Revised.
[2] Data for June 30, 1988.
[3] Does not include the allowance for loan losses
[4] 1988 figure includes net income of credit unions that did not close books as of June 30, 1988.
[5] 1988 percent changes and ratios annualized.

Federally Insured State Credit Unions 10 Year Summary, 1979 — 1988

(Dollars amounts in millions, December 31)

	1979	1980	1981	1982	1983	1984	1985	1986	1987[1]	1988[2]
Number of Credit Unions	4,769	4,910	4,994	5,023	4,915	4,645	4,920	4,935	4,934	4,838
Number of members	12,218,682	12,337,726	12,954,206	13,113,393	14,277,816	15,205,029	15,689,048	17,362,780	17,998,921	18,209,093
Assets	$18,460	$20,870	$22,584	$24,089	$27,479	$29,188	$41,525	$52,244	$56,972	$59,773
Loans outstanding	15,204	14,582	15,341	15,282	17,215	19,951	26,168	30,834	35,436	37,143
Shares	15,871	18,469	20,007	21,636	24,297	26,327	37,917	48,097	52,083	54,849
Reserves [3]	1,014	1,086	1,191	1,250	1,341	1,409	1,781	2,147	2,423	2,431
Undivided earnings [4]	350	397	508	601	655	728	1,065	1,253	1,458	1,563
Gross income	1,849	2,142	2,745	2,879	3,062	3,428	4,508	5,117	5,483	2,881
Operating expenses	660	760	905	981	1,024	1,060	1,364	1,655	1,884	995
Dividends	899	1,218	1,554	1,584	1,747	1,975	2,684	3,004	3,049	1,58
Reserve transfer	N/A	N/A	128	131	130	179	227	201	184	70
Net income	N/A	N/A	164	190	165	219	256	288	355	222
PERCENT CHANGE										
Total assets	10.8%	13.1%	8.2%	6.7%	14.1%	6.2%	42.3%	25.8%	9.0%	4.%
Loans outstanding	8.3	-4.1	5.2	-0.4	12.6	15.9	31.2	17.8	14.9	4.
Savings	10.9	16.4	8.3	8.1	12.3	8.4	44.0	26.8	8.3	5.
Reserves	14.1	7.1	9.7	5.0	7.3	5.1	26.4	20.6	12.9	0.
Undivided earnings	24.1	13.4	28.0	18.3	9.0	11.1	46.3	17.7	16.4	7.
Gross income [5]	19.3	15.8	28.2	4.9	6.4	12.0	31.5	13.5	7.2	5.
Operating expenses [5]	26.0	15.2	19.1	8.4	4.4	3.5	28.7	21.3	13.8	5.
Dividends [5]	8.8	35.5	27.6	1.9	10.3	13.1	35.9	11.9	1.5	3.
Reserve transfers[5]	N/A	N/A	N/A	2.3	-0.8	37.7	26.8	-11.5	-8.5	-14.
Net income[5]	N/A	N/A	N/A	15.9	-13.2	32.7	16.9	12.5	23.3	29.
SIGNIFICANT RATIOS										
Reserves to assets	5.5%	5.2%	5.3%	5.2%	4.9%	4.8%	4.3%	4.1%	4.3%	4.%
Reserves and undivided earnings to assets	7.4	7.1	7.5	7.7	7.3	7.3	6.9	6.5	6.8	6.
Reserves to loans	6.7	7.4	7.8	8.2	7.8	7.1	6.8	7.0	6.8	6.
Loans to shares	95.8	79.0	76.7	70.6	70.9	75.8	69.0	64.1	68.0	67.
Operating expenses to gross income	35.7	35.5	33.0	34.1	33.4	30.9	30.3	32.3	34.4	34.
Salaries and benefits to gross income	13.6	13.7	13.0	14.0	14.4	13.6	13.4	13.9	14.5	14.
Dividends to gross income	48.6	56.9	56.6	55.0	57.1	57.6	59.5	58.7	55.6	54.
Yield on average assets [5]	10.5	10.9	12.6	12.3	11.9	12.1	12.7	11.2	10.4	9.
Cost of funds to average assets[5]	6.1	6.6	7.5	7.0	6.9	7.1	7.6	6.4	5.5	5.
Gross spread [5]	4.4	4.3	5.1	5.3	5.0	5.0	5.1	4.5	4.3	4.
Net income divided by gross income	N/A	N/A	6.0	6.6	5.4	6.4	5.7	5.6	6.5	7.
Yield on average loans [5]	11.1	11.2	12.6	13.3	13.3	13.2	14.3	12.7	11.1	11.
Yield on average investment [5]	8.9	10.7	13.5	11.4	9.9	10.5	10.0	8.0	7.5	7.

N/A indicates not available.
[1] Revised.
[2] Data for June 30, 1988.

[3] Does not include the allowance for loan losses
[4] 1988 figure includes net income of credit unions that did not close books as of June 30, 1988.

[5] 1988 percent changes and ratios annualized.

Federal Corporate Credit Unions
June 30, 1988

Corporate name	City, State	Assets (in millions)
Capital Corporate	Landover, Maryland	$ 338
Colorado Corporate	Arvada, Colorado	356
Eastern Corporate	Stoneham, Massachusetts	335
Empire Corporate	Albany, New York	1,000
Indiana Corporate	Indianapolis, Indiana	345
Kentucky Corporate	Louisville, Kentucky	153
LICU Corporate	Endicott, New York	3
Mid-Atlantic Corporate	Harrisburg, Pennsylvania	485
Mid-States Corporate	Oak Brook, Illinois	1,695
Nebraska Corporate Central	Omaha, Nebraska	98
Pacific Corporate	Honolulu, Hawaii	153
South Dakota Corporate Central	Sioux Falls, South Dakota	43
Southeast Corporate	Tallahassee, Florida	605
Southwest Corporate	Dallas, Texas	1,581
Tricorp Federal Credit Union	Portland, Maine	164
Virginia League Corporate	Lynchburg, Virginia	336
Western Corporate	Pomona, California	2,706

Federally-Insured State Corporate Credit Unions
June 30, 1988

Corporate name	City, State	Assets (in millions)
Alabama Corporate	Birmingham, Alabama	$154.3
Constitution State Corporate	South Wallingford, Connecticut	477.9
Corporate Central Credit Union	Salt Lake City, Utah	100.1
Corporate CU of Arizona	Phoenix, Arizona	243.4
Federacion de Cooperativas	San Juan, Puerto Rico	39.5
First Carolina Corporate	Greensboro, North Carolina	363.9
Georgia Central	Atlanta, Georgia	335.4
Iowa League Corporate	Des Moines, Iowa	164.7
Minnesota Central	St. Paul, Minnesota	164.0
Ohio League Corporate	Columbus, Ohio	450.5
Oklahoma Corporate, Tulsa	Tulsa, Oklahoma	369.9
Oregon Corporate Central	Portland, Oregon	154.9
The Carolina Corporate	Columbia, South Carolina	129.7

Key Statistics on Federally-Insured Corporate Credit Unions

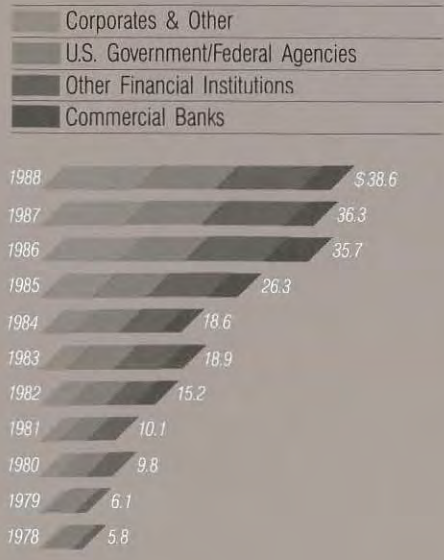
December 31
(Dollar amounts in millions)

	1984	1985	1986	1987[1]	1988[2]
Number	29	29	29	30	30
Assets	$6,046.1	$9,060.6	$12,182.1	$12,473.4	$13,554.2
Loans	465.7	459.8	621.0	1,302.8	1,068.4
Shares	5,273.6	8,024.2	10,851.0	10,699.4	11,808.7
Reserves	71.0	84.1	104.1	126.8	134.9
Undivided earnings[3]	31.2	38.4	45.3	56.2	63.3
Gross income	661.9	663.9	785.5	927.5	479.2
Operating expenses	17.6	21.2	25.4	29.5	16.0
Interest on borrowed money	37.4	45.5	47.9	75.7	55.1
Dividends and interest on deposits	584.9	575.9	685.9	790.6	393.1
Reserve transfers	12.0	10.5	17.2	17.5	8.3
Net income	10.0	11.4	9.0	14.7	6.8
SIGNIFICANT RATIOS					
Reserves to assets	1.2%	0.9%	0.9%	1.0%	1.0%
Reserves and undivid. earnings to assets	1.7	1.4	1.2	1.5	1.5
Reserves to loans	15.2	18.3	16.8	9.7	12.6
Loans to shares	8.8	5.7	5.7	12.2	9.0
Operating expenses to gross income	2.7	3.2	3.2	3.2	3.3
Salaries and benefits to gross income	1.1	1.1	1.2	1.3	1.4
Dividends to gross income	88.4	86.7	87.3	85.2	82.0
Yield on average assets[4]	11.0	8.7	7.4	7.3	7.4
Cost of funds to average assets[4]	10.4	8.1	6.9	6.8	6.9
Gross spread[4]	1.4	0.6	0.6	0.5	0.5
Net income divided by gross income	1.5	1.7	1.1	1.6	1.4
Yield on average loans[4]	12.0	7.8	7.1	7.5	9.1
Yield on average investments[4]	10.8	8.8	7.5	7.6	7.3

[1] Revised
[2] Data for June 30, 1988.
[3] 1988 figure includes net income of credit unions that did not close books as of June 30, 1988.
[4] Ratios for June 1988 annualized.

Investments

(In Billions)



Board Members

Roger W. Jepsen, chairman of the NCUA Board since October 1985, was nominated to a full six-year term in 1987. Chairman Jepsen was a member of the U.S. Senate from the state of Iowa from 1979 to 1984, where he was a member of the Armed Services Committee, the Agriculture, Nutrition and Forestry Committee, and the Joint Economic Committee which he chaired for two years. He served two terms as lieutenant governor of Iowa and four years as supervisor of Scott County. A native of Cedar Falls, he served in the 82nd Airborne Division of the U.S. Army in 1946-47. He attended Iowa State Teachers College and received bachelor and master degrees from Arizona State University, Tempe.

David L. Chatfield, senior vice president of Alaska USA Federal Credit Union, was appointed to the National Credit Union Administration in 1988 to fill an unexpired term. Chatfield's 22-year credit union career started in 1965 as a volunteer elected official and in 1968 he joined CUNA Mutual Insurance Group. He served the New York State Credit Union League (1975), in CUNA's Washington, D.C., office as director of political action (1976-1978), as president of the Alaska Credit Union League (1978-1980), and then joined Alaska USA. A native of Ohio, he has served in many capacities for the state of Alaska and in the credit union movement.

Elizabeth F. Burkhart, vice chairman, was appointed in 1982 and nominated for a full six-year term in 1985. She was named vice chairman in 1987. Mrs. Burkhart came 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 includes teaching, two years in the Marine Corps and 10 years at the Texas Commerce Bank, Houston. She holds a bachelor's degree 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

Elizabeth F. Burkhart
Vice Chairman

David L. Chatfield
Member of the Board

Donald E. Johnson
Executive Director

Rebecca J. Baker
Secretary of the Board

Charles H. Bradford
Chief Economist

Susan L. Nelowet
Executive Assistant to the Chairman

Harry J. Blaisdell
Executive Assistant to the Vice Chairman

Robert M. Fenner
General Counsel

D. Michael Riley
Director
Office of Examination and Insurance

Robert E. Loftus
Director
Office of Public and Congressional Affairs

Herbert S. Yolles
Controller

Joan E. Perry
Internal Auditor

Benny R. Henson
Director of Administration

Joseph W. Visconti
Director
Office of Information Systems

Dorothy W. Foster
Director
Office of Personnel

Offices

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Director

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202-682-1900

Harvey J. Baine III
Director

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312-250-6000

H. Allen Carver
Director

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712-233-3233

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Supervisory Examiners in Region I

National Credit Union Administration
Washington, DC 20456

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ANNUAL REPORT

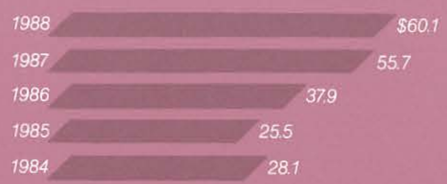
1988

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NCUSIF Highlights Fiscal Year 1988

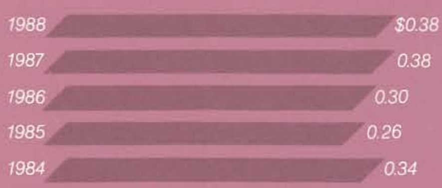
NCUSIF Gross Income
(In Millions)

NCUSIF Insurance Losses
(In Millions)



NCUSIF Net Income
(In Millions)

NCUSIF Losses Per $1,000 of Insured Shares



NCUSIF Equity Ratio

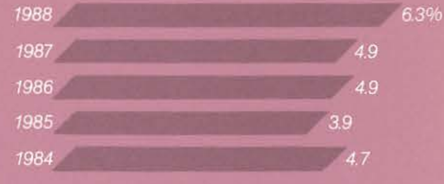
NCUSIF Reserves
(In Millions)

Credit Union Highlights Fiscal Year 1988

Total Insured Shares
(In Billions) (June 30)

Number of Problem Credit Unions
CAMEL Codes 4 & 5

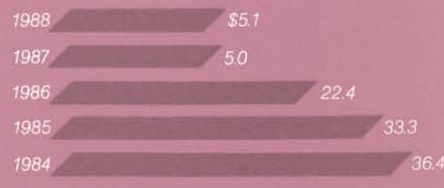
Percentage of CAMEL Code 4 & 5 Shares to Total Insured Shares



Number of 208 Cases Outstanding

Amount of 208 Non-Cash Assistance Outstanding
(In Millions)

Amount of Capital Notes Outstanding
(In Millions)



A N N U A L R E P O R T

1988

NATIONAL

CREDIT UNION

SHARE INSURANCE FUND

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Message from the Chairman

I am pleased to report that the National Credit Union Share Insurance Fund ended fiscal year 1988 with equity and reserves at their highest level in three years. Net income was up fifteen percent over last year, and insurance losses remained stable at thirty-eight cents for every one thousand dollars in deposits. For the fourth consecutive year, the NCUSIF received an unqualified audit opinion from its independent auditors on its financial statements. In addition, the General Accounting Office (GAO) audited the Fund's September 30, 1986 and 1987 statements and issued similar opinions during 1988.

Aside from the success of the Fund's operations in 1988, the NCUSIF faces some challenges ahead. As most of you know, a bill has been introduced in Congress to merge the three federal deposit insurance funds into a single giant insurer as a solution to the savings and loan crisis. During 1988 the NCUSIF was thoroughly dissected and examined by the GAO on this very issue. Their report issued in November states that a merger of the FSLIC with the healthier FDIC is not the answer. No mention was made of the NCUSIF. I find this very encouraging, and my conversations with members of Congress lead me to believe that a full or partial consolidation of the deposit funds will not occur. However, it is certain that Congress will address the savings and loan crisis early in the 101st Congress, and their ultimate action will have a wide-ranging effect on the entire depository industry.

In 1989, we will continue to streamline the Fund's operations and control costs for the benefit of all credit unions. On behalf of the NCUA Board, thank you for your continued support and encouragement. Together we will continue the tradition of confidence in the NCUSIF.

Roger W. Jepsen

Roger W. Jepsen
Chairman

Credit Union Highlights—1988

Nineteen eighty-eight was another year of significant accomplishments for federally insured credit unions. The number of NCUSIF assisted mergers and involuntary liquidations were at their lowest level in many years. Credit union membership grew to nearly 52 million, and public opinion surveys consistently found credit union members are being the most satisfied of all financial customers.

Total shares an deposits grew at an annual rate of 13 percent as of June 30, 1988. While growth in shares and deposits is expected to slow to about 9 percent for all of 1988, credit unions have continued to attract member savings in a period of rising interest rates and increased competition for funds. Moreover, this is the seventh straight year in which shares and deposits have grown by 9 percent or more.

Total loans experienced an annual growth rate of 12 percent at midyear. Significant gains were recorded in home mortgages, new automobile and other types of consumer loans as credit unions continue to establish themselves as full service lenders. Credit union delinquency on outstanding loans dropped to 1.7 percent and is now at its lowest level in over a decade.

Another indicator of the success of credit unions in 1988 is profibatility. Net income grew at an annual rate of 17 percent while net income as a percentage of average assets (return on average assets) also improved.

Finally, credit unions had a ratio of reserves to assets of 6.5 percent as of June 30, 1988. The ratio of reserves to assets was 6.2 percent as of June 30, 1987. Current projections indicate that the ratio of reserves to assets continued to improve during the second half of 1988.

Supervision of Federally Insured Credit Unions

During 1988, the National Credit Union Administration (NCUA) continued its programs to improve the quality of supervision of federally insured credit unions. NCUA technical training programs have been established to bring new examiner staff up to the full performance level within a relatively short time frame. At the same time, more experienced examiners have been provided advanced training in a number of specialized areas. The goal of the NCUA training program is to provide examiners with the special knowledge and understanding of credit union financial, managerial and operating principles in order to properly supervise credit unions and evaluate the risk to the insurance fund.

A full year has passed since NCUA implemented the change from the Early Warning System (EWS) to the CAMEL system. The CAMEL system is simply a means of determining the degree of supervision which a credit union will receive based upon the examination results. The purpose of the conversion to CAMEL was to improve the accuracy and consistency of ratings between examiners and examinations. Much of the initial apprehension within the credit union community has been overcome as credit union officials became more familiar with the system.

Overall, the conversion to the CAMEL system has provided the agency with an accurate, consistent method of evaluating credit union operations.

One of the major benefits for NCUA has been the improved consistency between examiners and examinations. Variances between regions and examiners are slight and represent a significant improvement from the results achieved under the EWS system. In addition, the agency has been better able to identify and address problem areas sooner and allocate resources to deal with those problem areas.

NCUA provided the credit union community with detailed information regarding how the CAMEL system operates and how examiners apply that system during examinations. This has opened new lines of communication between NCUA and the credit unions it regulates and/or insures. Numerous opportunities were presented for agency staff to speak and discuss CAMEL and other issues during workshops, conferences, league and chapter meetings and similar gatherings. This resulted in a tremendous amount of input from credit union officials about ways the system could be fine tuned and improved. All suggestions are being considered and evaluated for future updating of the CAMEL system.

All in all, NCUA is pleased with the first year results of the CAMEL system. As examiners and credit union officials become more comfortable and familiar with the system, we expect even better results. CAMEL is proving to be another tool that will enable NCUA and the insurance fund to maintain strength, and safety within the credit union system.

National Credit Union Board, Left to Right: Board Member David L. Chatfield, Chairman, Roger W. Jepsen, and Vice Chairman Elizabeth F. Burkhart

In other areas, NCUA retains a keen interest in monitoring and supervising the activities of corporate credit unions. Corporate credit unions act as "banker's banks" by providing a primary source of financial and payment services. A total of 41 corporate credit unions, along with U.S. Central Credit Union, make up the Corporate Credit Union Network (Network). Thirty corporates are federally insured (17 federal charters) while 11 corporates are either privately insured or uninsured. During 1988, one corporate credit union was merged into another corporate credit union.

U.S. Central Credit Union serves the Network, and through them, member credit unions, as a financial intermediary. Services provided by the Network include investment, liquidity, securities, wire transfers and automated settlement. As of September 30, 1988, the Network had total shares of over $27 billion.

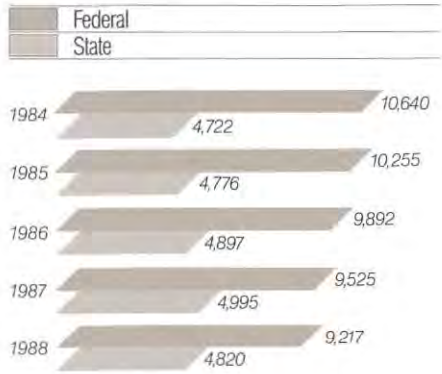
A team of 17 examiners have been specially trained to perform examinations of corporate credit unions. All corporate credit unions (federally insured, privately insured and uninsured) were examined in 1988.

Scope of Insurance Coverage

The National Credit Union Share Insurance Fund is the largest insurer of credit union shares. On September 30, 1988, NCUSIF insured credit unions held approximately 96 percent of all credit union shares. The remaining 4 percent are insured by 11 state credit union or guaranty corporations which operate in 33 different states. Only 6 credit unions operated without some form of insurance coverage during 1988. The table to the right summarizes the share insurance requirements of the 50 states and Puerto Rico.

During fiscal year 1988 the number of federally insured credit unions declined by 483 to 14,037. Federal credit unions continue to make up 66 percent of this number, and the remaining 4,820 are federally insured state chartered credit unions. The actual changes in the numbers of federally insured credit unions are shown on the following page.

Number of Federally Insured Credit Unions
(In Thousands)



Law Requires Participation in Insurance Program of National Credit Union Administration:

Alabama	Maine	Mississippi	South Carolina
Arkansas	Michigan	Nebraska	Vermont
Connecticut	Minnesota	North Dakota	Wisconsin

Law Requires Participation in the Local Share Insurance Program

Puerto Rico

Law Requires Participation in Either the NCUA Program or Some Other Officially Approved Insurance Program:

Alaska	Indiana	Nevada	Tennessee
Arizona	Iowa	New Jersey	Texas
California	Kansas	New Mexico	Utah
Colorado	Kentucky	New York	Virginia
Florida	Louisiana	North Carolina	Washington
Georgia	Maryland	Ohio	West Virginia
Hawaii	Massachusetts	Oregon	
Idaho**	Missouri	Pennsylvania	
Illinois	Montana	Rhode Island	

No Requirement in Law on Share Insurance

New Hampshire
Oklahoma*

* CU must disclose lack of insurance
** CU members may vote to remain uninsured

Although the number of credit unions dropped in 1988, the amount of insured shares in natural person credit unions is projected to increase by about 8.5% for the calendar year raising total insured shares to $158.5 billion. Although share growth has stabilized within the past two years, credit unions have continued to have a higher rate of deposit growth than banks and savings and loan institutions over the same period.

The number of conversions of privately insured credit unions to the NCUSIF dropped from 294 in 1987 to 43 in 1988. Last year several share guaranty corporations voluntarily ceased operations which resulted in the large number of conversions. Since the Fund was capitalized in 1985, 878 credit unions have converted to the NCUSIF.

Number of Conversions

Share Growth in Federally Insured Natural Person Credit Unions
(Dollars in Millions)

December 31	Shares Outstanding: Federal Credit Unions	Shares Outstanding: State Credit Unions	Total	Percentage Change from Prior Year-Total Shares
1984	$57,927	$26,327	$ 84,254	12.7%
1985	71,615	37,917	109,532	30.0%
1986	86,709	47,476	134,185	22.5%
1987	94,927	51,417	146,344	9.1%
1988	102,699*	54,500*	157,199*	7.4%*

*Estimated for 12/31/88

Changes in Federally Insured Credit Unions Fiscal Year 1988

	Federal Credit Unions	Federally Insured State Credit Unions	Total
Beginning Number—10/1/87	9,525	4,995	14,520
Additions:			
New Federal Charters	21	—	21
New State Charters with Federal Insurance Certificates	—	12	12
Conversions	27	43	70
Resumed Operations	12	17	29
Subtractions:			
Mergers:			
Assisted	32	18	50
Voluntary	292	172	464
Liquidations:			
Involuntary	27	8	35
Voluntary	11	14	25
Conversions	3	31	34
Other	3	4	7
Ending Number—9/30/88	9,217	4,820	14,037
Net increase (decrease)	(308)	(175)	(483)

Financial Status of Federally Insured Credit Unions

The NCUA Board approved a change in the program used to assess the condition of federally insured credit unions from the Early Warning System (EWS) to the CAMEL Rating System effective October 1, 1987. All credit unions examined in fiscal year 1988 received a CAMEL rating. Under CAMEL a credit union's rating may range from a code 1 to a code 5 credit union based upon an evaluation of financial data derived from the annual examination, the financial performance report, and several other measurements of safety and soundness. The CAMEL classifications are as follows:

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

The tables to the right provide an analysis, by CAMEL code, of the number and percentage of shares of federally insured credit unions as of September 30, 1988.

Looking at CAMEL codes 4 and 5 in detail, there was an increase of 93 credit unions and $2.5 billion in shares in those categories since 1987.

Distribution of Federally Insured Credit Unions by CAMEL Categories

CAMEL Category	As of* 9/30/84	As of* 9/30/85	As of* 9/30/86	As of* 9/30/87	As of 9/30/88
Codes 1 & 2	10,718	10,736	10,010	9,133	8,341
3	3,772	3,553	3,985	4,458	4,644
4	782	681	716	838	926
5	90	61	78	91	96
Totals	15,362	15,031	14,789	14,520	14,007

Percentage of Shares by CAMEL Category

CAMEL Category	As of* 9/30/84	As of* 9/30/85	As of* 9/30/86	As of* 9/30/87	As of* 9/30/88
Codes 1 & 2	81.9%	82.9%	79.0%	76.5%	73.8%
3	13.4	13.2	16.1	18.6	19.9
4	4.2	3.6	4.7	4.7	6.0
5	.5	.3	.2	.2	.3
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Summary of CAMEL Code 4 and 5 Credit Unions

	9/30/87	9/30/88
Number of Code 4 and 5 credit unions	929	1,022
Percentage of insured credit unions	6.5%	7.3%
Shares in Code 4 and 5 credit unions	$8.1 Billion	$10.6 Billion
Percentage of Shares in all insured credit unions	4.9%	6.3%

*EWS Code system replaced by CAMEL 10/1/87.

Assistance to Operating Credit Unions

Management of the National Credit Union Share Insurance Fund requires an effective program to minimize loss exposure and risk to the Fund. Loss exposure and risk exist under even the most favorable conditions and no amount of regulatory or supervisory effort will completely eliminate this uncertainty. Changing economic conditions, weak management and other causes result in financially troubled credit unions which represent potential losses to the Fund. The ultimate goal of the Fund is to minimize these potential losses. In order to accomplish this goal, the Agency can extend various types of assistance. Assistance is considered in cases where normal supervision efforts and the resources of the credit union itself are insufficient to restore the credit union's financial health within a reasonable period of time. The use of assistance is considered only in cases where the causes of the credit union's problem(s) have been corrected and the resulting institution is viable without the continuing need for assistance.

Credit unions receiving assistance generally represent credit unions which would have failed without such assistance. Although the number of credit unions receiving assistance is relatively small, the risk which they represent to the Fund is significant. The return of these credit unions to profitable, self-sustaining operations is central to the successful use of assistance by the Fund. As of October 1, 1987, 16 credit unions were receiving assistance from the Fund. Of these, five were able to repay their assistance within the year and are now operating profitably on their own. There were 21 new assistance cases added during the fiscal year. Of these, two have already repaid their assistance.

Guaranty Account assistance usually involves circumstances where the credit union has incurred or recognized substantial losses that cannot be absorbed by the earnings from the current accounting period. Losses from investment trading or commercial loan ventures have been the most frequent causes of this type of situation in recent times. The issuance of the Guaranty Account allows the credit union to continue operating and paying dividends while it works to eliminate the negative net worth created by those losses.

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 the negative net worth acknowledged by the Fund through the granting of the Guaranty Account. 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. The tables on the following page set out the Fund's Guaranty Account activity during the 1988 fiscal year.

Any type of assistance from the Fund is granted on a conditional basis. The problems that resulted in the losses or need for the assistance must be immediately addressed and corrected. Action must also be taken to improve the credit union's operations and financial performance. 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.

Financial Assistance

The Fund 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 of assistance are authorized by Section 208 of the Federal Credit Union Act as ". . .special assistance to avoid liquidation." As of September 30, 1988, there were 25 credit unions with shares totalling $863 million receiving assistance from the Fund.

Non-Cash or Guaranty Account Assistance

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

Change in NCUSIF Guaranty Accounts Outstanding

(Amounts in Thousands)

Guaranty Accounts Outstanding— September 30, 1987 (15 cases)	$39,564
Increases	
20 credit unions needed initial assistance	12,490
3 credit unions needed additional assistance	2,189
Decreases	
5 credit unions merged/liquidated	(5,391)
6 credit unions completed amortization of guaranty	(1,023)
Guaranty reduction in outstanding cases	(6,702)
Guaranty Accounts Outstanding— September 30, 1988 (24 cases)	$41,127

Guaranty Accounts Outstanding by Type of Credit Union as of September 30, 1988

	Number	Amount Outstanding (000's)
Federal Credit Unions	12 (50%)	$ 5,410 (13%)
Federally Insured State Credit Unions	12 (50%)	35,717 (87%)
Totals	24	$41,127

Cash Assistance

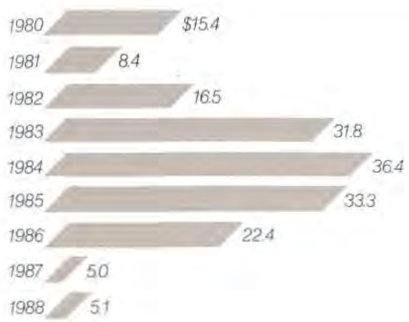
The Fund can also provide various types of cash assistance to troubled credit unions to aid in their return to financial health. Capital Notes have constituted the bulk of this assistance in past years. Under this program, cash is advanced to a credit union in exchange for a subordinated note that is usually interest free. The primary intent of this cash infusion is to improve the credit union's income position by allowing it to acquire income-producing assets to offset the impact of non-earning assets or accumulated losses. Capital Notes contain specific repayment schedules that reflect the earnings improvement projected for the credit union.

As of September 30, 1988, the Fund held $5.1 million of Capital Notes from four credit unions.

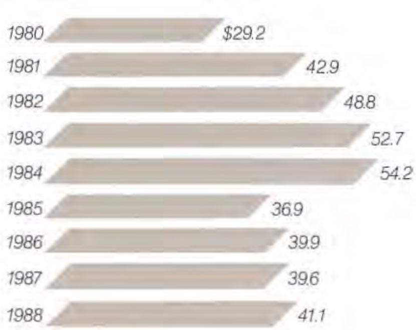
The Fund has also extended a combination of Guaranty assistance and cash funding to several credit unions that were severely impaired by their heavy involvement in commercial loan ventures that went bad. The Guaranty assistance allowed the credit unions to continue operating while the cash funding aided in the disposition of the non-performing loans or repossessed property. In each of these cases, there was also a major restructuring of the credit union's management and operational structures.

Case Studies

Cash Assistance Outstanding
(In Millions)



Non-Cash Assistance Outstanding
(In Millions)



Here are three credit unions that are examples of institutions with operating problems that typically lead to NCUSIF assistance. The facts presented outline the circumstances that created the problem, describe the actions taken by NCUA, the state regulator, or the credit union, and explain program changes resulting from the case. The purpose of this section is not to be critical of the players, but rather to show how jointly we have responded to the case and strengthened our supervision and examination program.

Prestige and Size Doesn't Do It for the Bottom Line

Despite this federally insured state credit union's (FISCU) envious growth record and prestigious market position, it had begun experiencing profitability problems in the late 1970's. It was in 1979/1980 that the credit union's management team decided to enter the commercial lending field to solve its bottom line problems. For several years, profitability improved. However, the credit union's entrance into the commercial lending market is, in fact, when its really serious problems began.

In early 1984, NCUA participated in a joint insurance review with the examination team from the state. At that time, some key concerns were disclosed about the commercial and joint venture lending, but due to the complexity of lending, an overall assessment was not made. Subsequent reports of examinations conducted by the state in 1984 and 1985 were upbeat, indicating that profitability had been restored, and commented favorably toward commerical lending. By 1985, however, there were indications that the credit unon was beginning to experience problems with its large commercial portfolio.

During this period, NCUA and the state regulator could not reach an agreement to again review the commercial lending area. Finally, in mid-1985, NCUA and the state made arrangements for a comprehensive review of commercial lending using experienced resources from outside the Agency. It was at that time that severe problems were revealed in the granting and servicing of commercial credits. Over a period of several years, the credit union had accumulated a substantial multi-million dollar commercial loan portfolio using poor lending practices and inexperienced, inadequately supervised lenders. And then to compound this already serious problem scenario, the economy of the surrounding geographic area went into a tailspin.

The losses that have materialized from the credit union's loan portfolio have resulted in a substantial retained earnings deficit and insolvency of the credit union. The most cost effective solution for the NCUSIF to this problem is to guarantee the deficit and to provide cash assistance to aid in the disposition of the non-performing loans while streamlining the rest of the operation. The credit union should then return to a profitable operation and be able to amortize the deficit within a reasonable period of time. Of course, as with any credit union needing NCUSIF assistance, it is critical that management has the ability to lead the credit union away from its problems. As in many of the assistance cases, the individuals in key management positions within the credit union had been replaced with more qualified persons.

This case was a major contributor to a new or revised approach to providing cash assistance in certain types of problem cases with significant non-performing assets and similar asset structure problems. In cases like this, cash infusion using Capital Notes will not result in a rapid resolution of the problem. Therefore, the NCUSIF has now positioned itself to aid in the disposition of problem assets of credit unions when that is a viable alternative.

Partially as a result of this and similar cases, NCUA has begun using a program called "resource sharing" to obtain professional expertise not readily available within the Agency to deal with certain types of problem situations in credit unions or when the Agency's resources are limited in a given area. This program has also been used to provide training, both on-site and in a classroom setting, in areas such as commercial lending where weaknesses have been identified in staff expertise. State regulatory agencies share in this training.

As a result of this case and several other cases similar to it, NCUA and the National Association of State Credit Union Supervisors (NASCUS) have enhanced their working relationship to identify and resolve common problems. A Document of Cooperation has been entered into that emphasizes the responsibilities and need for the joint effort of NCUA and the state regulators. NCUA/NASCUS has developed a "Core Examination Program" that standardizes examination procedures. These actions should help facilitate timely identification and resolution of problems.

Oh No! Not Investment Trading Again!

The following is an excerpt from an internal Agency memo.

"We have recently learned that . . .Credit Union suffered losses totaling $3.5 million in dealings with the subject (investment broker) firm. The details are still being ascertained by examiners on-site.

The credit union was actively trading in Treasury Notes and other instruments in large amounts over the past 12 months. The transactions were carried out by one person in the credit union and frequently outside the scope of the credit union's own investment policy. Even though there was an Investment Committee, they were somehow bypassed in the process. Internal controls were extremely weak, basically giving the individual a free hand in the trading activity. In many instances he would buy and sell numerous items on the same day. The transactions and the resulting gains and losses were not reflected on the monthly financial reports, thus hiding the activity from management. There is suspicion that the individual may have been getting kickbacks from the broker. This is unconfirmed.

The losses suffered by the credit union are seemingly the result of their own actions, however, the credit union believes the broker is also culpable. The credit union officials believe the broker, in some instances, acted without authority from the credit union. They recognize that the credit union employee violated policy, but also feel the broker violated instructions from the credit union. A lawsuit by the credit union against the firm is likely."

This credit union does not yet have financial assistance from the NCUSIF, but the financial harm done to it by this activity has quickly depleted many years' worth of accumulated earnings and reserves. This is not an isolated case. The size of the loss is large, however, the circumstances are similar to other problem cases. The common threads consist of all or a combination of these factors:

- One-man operation;
- Lack of internal controls;
- No guidelines for broker selection;
- Total dependence on one broker;
- Inadequate investment committee involvement; and
- Lack of understanding of financial markets.

These cases are reminiscent of the investment problem institutions of the late 1970's and early 1980's. However, we have learned from those early investment losses and have become more active rather than reactive to problem situations, thereby preventing NCUSIF losses. NCUA has issued a series of investment related letters to credit unions and continues to encourage credit unions to contact NCUA's Investment Hotline with investment questions. Specialized investment training seminars have been developed for examiners. A publication called "NCUA Investment Report" will be issued in 1989 to examiner staff relating new investment products, and their risks and rewards. Education leading to a higher degree of understanding of the marketplace, along with "good old common sense", will result in a higher level of prudent investing in the industry.

The Woes of Growth Without Control

This credit union had been in existence since 1954 and had been a very basic and conservative credit union. However, a new manager was hired in 1975 who very quickly began an aggressive expansion and growth strategy. With little concern for control of expenses combined with substantial investments in non-income producing fixed assets, management assumed that continued growth would outpace the emerging weaknesses in the operation. The manager's domineering and convincing personality resulted in the board of directors' acceptance of his explanations and alibis for problems reported by examiners. As a result, the credit union's management team failed to take action to correct any of the evolving adversities.

By 1988, this $36 million credit union had retained earnings of approximately $1 million but had identified losses of nearly $3 million. The credit union had never effectively managed its distant branch offices and loan delinquency and collection problems associated with those branches were rampant. Additionally, the credit union simply could not support the non-income producing investments in fixed assets associated with the numerous branches it had attempted to operate.

The credit union now has new management and some new officials who have stabilized the problems and are working aggressively to restore the credit union to financial health. The credit union also required financial assistance from the NCUSIF to turn the corner on its problems. In addition to an NCUSIF Guaranteed Deficit, cash assistance was provided to assist in the disposal of a majority of the branch office loan portfolios. The credit union's operation will be scaled down to a level that can be realistically handled. It is anticipated that within a 2-year period, the credit union will have repaid its assistance and will again be operating on its own as a financially sound institution.

This case revealed that both NCUA and the credit union officials could have taken action earlier to prevent the problem from becoming so serious that it required assistance from the NCUSIF to survive. The board of directors was so taken with the confident image presented by their manager, they refused to listen to the examiners and failed to recognize the severity of the developing problems, or the fact that the problems even existed, until it was too late. The examinations performed by NCUA are just one of several avenues available to the board of directors to learn about the condition of their credit union. The board of directors is responsible for properly evaluating the operation and performance of their credit union.

A review of the Agency's supervision of this case indicates that the emerging problems were being identified in examination reports as early as 1979. Each successive examination reported varying new or repetitive problems and the action or lack of actions taken by the credit union's management team to correct them. The examiner-in-charge was changed frequently due to the geographic location of the credit union. The EWS code assignments varied depending upon the examiner's perception of the seriousness of the problem. The internal examination review process also failed to disclose the deteriorating financial situation. In retrospect, it could be argued that NCUA failed to take aggressive action quickly enough to ensure that the problems were in fact resolved before the credit union became insolvent.

Changes have been made in our supervision program in response to cases such as this. We have expanded our examiner staff and emphasized examiner consistency in dealing with problem institutions. the CAMEL rating system provides for more conformity in applying problem codes. A more uniform or structured rating system will enhance both the examination and the review process. These actions, coupled with open and productive communications between credit union officials and examiners, should deter a recurrence of the problems noted in this case.

These are just three examples of problem situations. Although no one at the NCUSIF likes to take a loss, it is one of the functions of deposit insurance. It is also the function of the NCUSIF to analyze and learn from every loss to prevent others and improve our examination and supervision program. However, we must be cautious not to create too much inflexibility and lost opportunity by solely changing our programs in response to problem cases. Since the majority of the credit unions operate well, we should learn from their success while implementing ways to improve our programs. We will continue to work toward that goal.

NCUSIF Financial Review

During 1988, the NCUSIF undertook several new projects designed to improve the Fund's return on assets. The first project is referred to as the Automated Liquidation Management System or ALMS for short, and the second project was the formation of a specialized department within NCUA known as the Asset Liquidation Management Center or ALMC.

The ALMS project consists of a software program designed to speed up the payout and asset disposition functions of a liquidation. With this program, an examiner can quickly capture financial data with his laptop personal computer, transmit this data back to a server computer at one of the two Liquidation Centers, and subsequently perform more efficiently a host of tasks peculiar to liquidations. Such tasks include generating computer printed checks for member payouts, maintaining detailed records of liquidated assets and liabilities to facilitate their sale or payment, and enhanced communications between the Centers and loan servicing organizations.

The second project, the ALMC, is designed to manage and dispose of assets, primarily real estate, acquired from liquidated or troubled credit unions. Many of these assets are commercial properties, or properties under development that require complex negotiations to consummate a sale. The ALMC, which is located in Austin, Texas, consists of two Agency employees and several contracted staff who have expertise in commercial property transactions. The properties held by the ALMC are not carried as NCUSIF investments, but as assets acquired from credit unions. At the end of the fiscal year, the ALMC had acquired $6.7 million in commercial properties and is projected to acquire an additional $70 million by the end of the calendar year. One piece of commercial property now under the management of the ALMC is a 120 room hotel located in the Southwest. This hotel operates near capacity during tourist season and may be used to accommodate some examiner training sessions during the off season.

In addition to these projects, several other highlights occurred in 1988. The first is that the NCUSIF received its fourth consecutive unqualified audit opinion for the fiscal year ending September 30, 1988. The audited financial statements and accompanying footnotes of the independent auditors begin on page eighteen of this report. The NCUSIF is the only federal deposit insurance fund that has its financial statements audited by not only the GAO, but also by an independent auditing firm. During 1988 GAO issued unqualified opinions on the 1986 and 1987 NCUSIF financial statements.

Another noteworthy item concerns the annual insurance premium. For the fourth straight year, the NCUA Board has waived the annual insurance premium of 1/12th of 1 percent of credit union deposits. For 1988 this saved credit unions $123 million. The cumulative effect of premium waivers for 4 years has resulted in a total savings to credit unions of $390 million. Insurance premiums have not been assessed because the investment income generated from the 1% capitalization deposits credit unions maintain in the NCUSIF has been sufficient to over all operating and financial costs, and keep the Fund's operating level within the 1.25% - 1.30% Board designated goal.

Total Revenue

Total revenue for fiscal year 1988 of $127.6 million was 13% greater than 1987 revenue of $112.7 million. Most of this increase can be traced to the earnings of $200 million in new investments made from the accumulated capital contributions received from credit unions last January.

By law, the investments of the NCUSIF are limited to direct obligations of the US Treasury or securities guaranteed by the United States as to both principal and interest. The primary investment objectives of the NCUSIF are to provide adequate liquidity to meet the cash needs of the Fund, and to obtain the maximum yield possible within maturity limits. The composition of the NCUSIF investment portfolio is entirely one-day Treasury certificates and Treasury Notes. At September 30th, about 75% of NCUSIF investments had maturities of 2 years or less. The average investment yield for 1988 was 7.41%.

Investment Portfolio
Maturity Schedule
(Par Value in Millions)

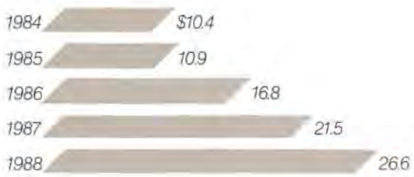
Investment Yield

Administrative Expenses

Administrative costs increased $5.1 million in 1988 to $26.2 million. As with 1987, most of this increase is due to the Agency's continued commitment to update its programs through the use of computers, and to provide adequate training to all employees. Over the past several years, the cost of new computers, related training, and the training of new examiners have been the foremost factors causing administrative costs to increase 58% since 1986.

Since 1985, all administrative costs of the NCUSIF are paid through an overhead transfer allocation. The NCUSIF transfers cash to the Agency's operating fund to cover a percentage of the Agency's total administrative costs budgeted for a fiscal year period. This percentage which is set by the NCUA Board remained at 50% for 1988. For the past five years, the amount of administrative costs, both direct and allocated are shown below:

NCUSIF Administrative Expenses
(In Millions)



NCUSIF Administrative Costs
(Amounts in Thousands)

Fiscal Year	1984	1985	1986	1987	1988
Direct Expenses	$2,353	$ 2,858	$0	$0	$0
Allocated Expenses	8,173	8,069	16,822	21,466	26,588
Total Administrative Expenses	$10,426	$10,927	$16,822	$21,466	26,588
% of NCUA Total Administrative Expenses	32.5%	33.8%	50.0%	50.0%	50.0%

Insurance Losses

Insurance losses for 1988 increased by 10% to $60.1 million, however losses per every $1,000 of insured shares remained the same as 1987 at $.38. This is a significant decrease since 1982 where losses per $1,000 were $1.28. This reduction in loss is mainly attributable to the improvements made to the examination and supervision programs within the past several years.

NCUSIF losses are recognized when reserves are established for anticipated future losses by credit unions which pose the greatest risk to the Fund. Those are credit unions classified as CAMEL code 4 and 5. A breakdown of credit unions by CAMEL rating is shown on page 6 of this report. Credit unions in code 4 and 5 categories are divided into two groups for reserve evaluation purposes. Those having insured shares of $20 million or greater are reviewed on a case-by-case

NCUSIF Losses Per $1,000 of Insured Shares

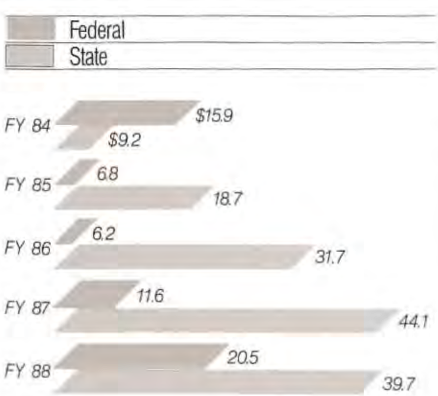
Summary of Reserves Established for Potential Losses from Supervised Credit Unions
(Amounts in Thousands)

	Fiscal Year 1986	1987	1988
Reserves—Beginning of Fiscal year (October 1)	$47,000	$48,600	$53,221
Net Charges for Fiscal Year	(36,664)	(51,111)	(64,851)
Provisions for Insurance Losses	37,864	55,732	60,122
Reserves—End of Fiscal Year (September 30):	$48,600	$53,221	$48,492

basis by both the Regional and Washington Offices, and those falling in the under $20 million category are pooled together and a historical loss factor of the Fund is applied to their total insured shares. In both cases, the reserve levels established are reviewed at year-end by the Fund's independent auditors. In some cases, the auditors may make an on-site visit to a credit union to further assess potential loss. The following table shows the changes in the NCUSIF reserve levels and the amount of insurance losses for the past three fiscal years.

Of the $60.1 million in losses for 1988, approximately 64% were related to federally insured state chartered credit unions compared to 80% for 1987. For every $1,000 of insured shares, federal credit unions cost the NCUSIF $.21 compared to $.74 for federally insured state chartered credit unions.

Insurance Loss
(In Millions)



Net Income

The NCUSIF earned $40.9 million in net income for 1988, a 15% increase over last year. Had the NCUA Board assessed an insurance premium for 1988, an additional $130 million would have been added to net income before dividends. Since the Fund's establishment in 1970, net income has always been positive.

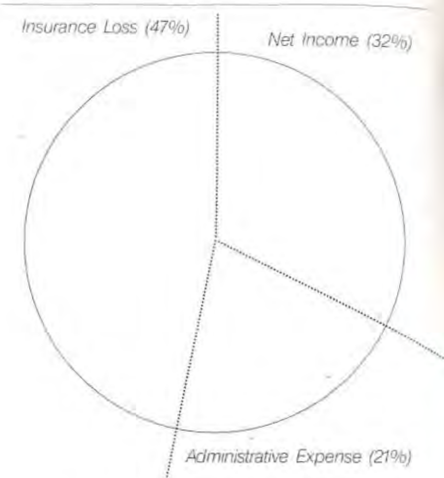
Equity

Equity of the NCUSIF grew from $1.60 billion to $1.86 billion during 1988. The increase of about $260 million was due to:

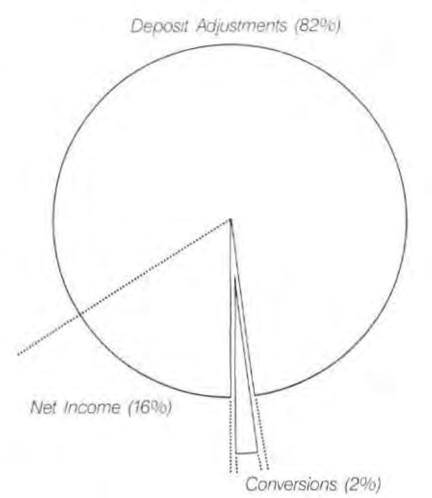
- $212 million increase in accumulated contributions from credit unions due to share growth
- $41 million in net income for the year
- $7 million in new deposits from credit union conversions

The ratio of insured shares to equity was 1.26% at June 30, 1988, the end of the insurance year. Since a new share base was used to calculate the ratio after June 1988, the ratio had dropped to 1.24% at the end of the fiscal year. The NCUSIF continues to have the highest ratio of reserves to insured shares when compared to the other federal deposit insurance funds.

Income and Expense



Growth in Equity



Equity Ratio

Mergers, Liquidations, and Purchase & Assumptions

Mergers

The number of completed mergers for 1988 was 514 compared to 544 for 1987. Of this number 50 required assistance from the NCUSIF which will cost the Fund about $14 million in cash. About 75% of the assistance provided was in the form of immediate cash payments to facilitate the mergers, and the remaining 25% is extended cash assistance to cover losses on loans acquired and losses on disposal of assets acquired from the merging credit union. The remaining 464 mergers were completed without any cost to the NCUSIF.

The largest merger in 1988 was the merger of Western Savings Federal Credit Union located in North Dakota. This credit union which had shares of about $20 million accounted for 37% of all merger costs for 1988.

Since 1983 the number of mergers have dropped 27%, and the number requiring assistance have decreased 75% to their lowest level in eight years. The following table summarizes the assisted mergers for 1988.

Number of Credit Union Mergers

Losses from NCUSIF Assisted Mergers
(In Millions)

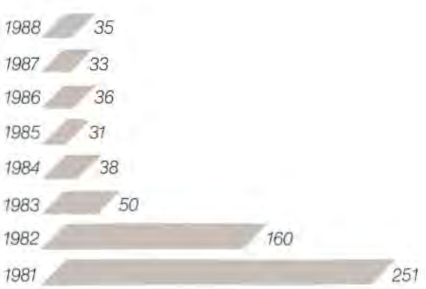
Assisted Mergers Fiscal Year 1988

Merging Credit Union / Continuing Credit Union	Date Approved	Shares in Acquired Credit Union	NCUSIF Loss	Loss As Percentage of Shares
Mergers with Losses Over $650,000:				
Western Savings FCU / Williston Cooperative CU	2/01/88	$19,549,781	$5,471,000	27.9%
Mile High FCU / Safeway Rocky Mount FCU	2/29/88	$11,570,568	$1,094,897	9.4%
Metro 584 FCU / Communication FCU	11/4/87	$9,294,000	$1,035,615	11.1%
Catholic CU / Industry FCU	6/30/88	$2,241,370	$840,704	37.5%
Unitex Credit Union / Communicators FCU	1/12/88	$17,123,000	$679,346	3.9%
All other Assisted Mergers	45 Cases	$76,377,516	$5,327,418	6.9%
Total—50 Cases		$136,156,335	$14,448,980	10.6%

Liquidations

In 1988 there were 60 liquidations of federally insured credit unions. Of this total, 35 were recorded as involuntary liquidations and resulted in a $8 million loss to the NCUSIF. The remaining 25 were voluntary liquidations which were completed without any loss to the Fund. In many cases an involuntary liquidation may evolve into a Purchase and Assumption (P&A) type arrangement where the Fund acquires segments of the failing credit union's assets and liabilities, and the remaining are "merged" into an acquiring credit union. In 1988, 19 of the 35 involuntary liquidations evolved into P&As. P&As are discussed in further detail following this section. The following tables summarize liquidation activity for the last 5 fiscal years.

Involuntary Liquidations
Number of Cases



Involuntary Liquidations: Fiscal Year 1988

Liquidated Credit Union	Date of Liquidation	Shares Outstanding When Credit Union Closed	NCUSIF Loss	Loss as a Percentage of Shares
Liquidations with losses over $100,000:				
United Methodist (W.P.V.A) FCU	10/07/87	$25,328,542	$2,420,734	9.5%
Bazine FCU	11/12/87	707,568	186,567	26.4%
St. Regis Mohawk FCU	11/30/88	1,785,694	867,633	48.6%
Stockton C.S.O. CU	12/18/88	2,084,684	833,983	40.0%
Hartford AME. Bapt. Church FCU	01/04/88	1,416,530	282,022	19.9%
St. Louis City Empls. FCU	01/25/88	1,326,666	338,682	25.5%
P.C.A. International FCU	02/01/88	1,591,219	477,600	30.0%
Metro Merchants FCU	03/09/88	2,809,374	1,440,443	51.3%
Questa Moly FCU	03/31/88	126,705	154,023	121.6%
Web FCU	05/19/88	349,313	166,807	47.8%
Saint Matthews CU	06/03/88	34,872,221	318,226	.9%
Title & Trust FCU	06/20/88	1,741,376	298,457	17.1%
All Other Involuntary Liquidations (23)		86,407,200	251,643	.3%
Totals - 35 Cases		$160,547,092	$8,036,820	5.0%

Involuntary Liquidations: Five-Year History

Fiscal Year	1984	1985	1986	1987	1988
Number of Involuntary Credit Union Liquidations Commenced	38	31	36	33	35
Number of Sharesholders Paid	21,623	12,641	9,152	8,216	15,887
Shares Paid (Thousand) (1)	$34,840	$15,499	$22,168	$3,213	$36,097
Percentage of Shares Paid to Total Shares in NCUSIF-Insured Unions	0.039%	0.014%	0.020%	0.002%	0.023%
Average Payout Per Credit Union Liquidated (Thousands)	$916.8	$500.0	$615.8	$97.4	$1,031.3

(1) Does not include Purchase and Assumptions

NCUSIF Liquidation Recovery History

	Recovery Percentages			
Fiscal Year in which Case Closed	Federal Credit Unions	State Credit Unions	All Cases	Net Loss in Closed Cases Millions
1984	66.9%	72.0%	67.3%	$10.9
1985	72.0%	20.0%	66.3%	$ 3.1
1986	49.4%	87.5%	57.9%	$ 5.1
1987	83.3%	90.9%	87.0%	$ 1.4
1988	79.3%	37.3%	56.8%	$ 3.6

Financial Reporting Practices

Purchase and Assumptions

As discussed earlier, a P&A transaction initially begins as an involuntary liquidation, however the NCUSIF at some point during the liquidation transfers some of the assets and, in most cases, all of the shares to an acquiring credit union. A P&A arrangement contains elements of both involuntary liquidation and merger, and are less costly than involuntary liquidations, but more costly than mergers. To facilitate a P&A, the NCUSIF usually provides some form of assistance to the acquiring credit union similar to the assistance provided in a merger agreement. In 1988 there were 19 P&As. Some of these P&As required assistance from the NCUSIF. The following table summarizes the five largest P&As requiring assistance in 1988:

Purchase and Assumption Cases Fiscal Year 1988

Assuming Credit Union / Liquidating Credit Union	Date Approved	NCUSIF Loss
Philadelphia CU		
Columbia County Emp FCU	12/08/87	$1,359,744
Eastern Emp FCU		
Kentucky Central CU	01/28/88	1,400,000
Motor City Coop CU		
Autoworkers Flint FCU	04/07/88	1,270,000
Construction Equipment FCU		
Logan County Community CU	05/24/88	1,500,000
Credit Union One		
Saint Matthews CU	06/03/88	2,500,000
All Other Assisted P&As		
14 Cases		2,869,892
Total—19 Cases		$10,899,636

The NCUSIF has now completed six 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. The NCUSIF is the only Federal deposit insurance fund that establishes balance sheet reserves for anticipated future losses for all problem institutions. 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 beginning on the next page.

Insurance Fund Report and Financial Statements
for the Years Ended
September 30, 1988 and 1987

Report of Independent Accounts

Price Waterhouse

To the Board of Directors
National Credit Union Administration

In our opinion, the statements appearing on pages 19-23 of this report present fairly, in all material respects, the financial position of the National Credit Union Administration Share Insurance Fund at September 30, 1988 and 1987 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the National Credit Union Administration Share Insurance Fund management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 (1981 Revision), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Washington, DC
November 15, 1988

Balance Sheets

Assets	September 30, 1988	September 30, 1987
Cash, including cash equivalents of $247,362,000 and $52,302,000 (Notes B and E)	$ 247,372,306	$ 57,692,829
Investments (Notes B and E)	1,564,847,954	1,543,507,668
Non-interest bearing capital notes advanced to insured credit unions	5,116,511	5,031,228
Note receivable – National Credit Union Administration – Operating Fund (Note G)	2,124,766	
Assets acquired in assistance to insured credit unions:		
Liquidating and acquired credit union assets	91,007,836	76,357,080
Allowance for losses on acquired assets	(21,133,000)	(20,378,000)
	69,874,836	55,979,080
Accrued interest receivable	30,712,543	32,996,462
Total assets	$1,920,048,916	$1,695,207,267

Liabilities and Fund Capitalization	1988	1987
Due to National Credit Union Administration – Operating Fund (Note G)	$ 711,822	$ 2,478,899
Amounts due to insured shareholders of liquidated credit unions	12,290,867	34,071,129
Estimated losses from supervised credit unions (Note C)	48,492,000	53,221,000
Estimated losses from asset and merger guarantees (Note C)	2,643,000	3,041,000
Other liabilities		144,733
Total liabilities	64,137,689	92,956,761
Fund capitalization		
Accumulated contributions from insured credit unions (Note D)	1,476,757,851	1,263,991,374
Insurance fund balance	379,153,376	338,259,132
Total fund capitalization	1,855,911,227	1,602,250,506
Commitments (Notes C and G)		
Total liabilities and fund capitalization	$1,920,048,916	$1,695,207,267

The accompanying notes are an integral part of these financial statements.

Statements of Operations

Revenue:	Year ended September 30, 1988	1987
Interest income	$127,074,533	$112,406,501
Other income	530,081	339,285
Total revenue	127,604,614	112,745,786
Expenses:		
Administrative expenses (Note G)		
Employee wages and benefits	16,743,259	14,070,748
Travel expense	3,906,338	2,894,044
Rent, communications, and utilities	2,254,111	1,833,044
Contracted services	1,366,275	867,486
Other administrative	2,318,387	1,800,854
Total administrative expenses	26,588,370	21,466,176
Provision for insurance losses	60,122,000	55,732,000
Total expenses	86,710,370	77,198,176
Excess of revenue	$ 40,894,244	$ 35,547,610

The accompanying notes are an integral part of these financial statements.

Statements of Insured Credit Union Accumulated Contributions and Fund Balance

	Insured Credit Union Accumulated Contributions	Fund Balance
Balance at September 30, 1986	$1,108,679,220	$302,711,522
Contributions from insured credit unions	155,312,154	
Excess of revenue		35,547,610
Balance at September 30, 1987	1,263,991,374	338,259,132
Contributions from insured credit unions	212,766,477	
Excess of revenue		40,894,244
Balance at September 30, 1988	$1,476,757,851	$379,153,376

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

	Year ended September 30	
	1988	1987
Cash flows from operating activities:		
Excess of revenue	$40,894,244	$35,547,610
Adjustments to reconcile excess of revenue to net cash (used) provided by operating activities:		
Provision for insurance losses	60,122,000	55,732,000
Payments relating to losses from supervised credit unions and asset and merger guarantees, net	(65,249,000)	(51,343,000)
Changes in operating assets and liabilities:		
(Increase) decrease in advances to credit unions	(85,283)	17,364,510
(Increase) in note receivable	(2,124,766)	
(Increase) in assets acquired from credit unions, net	(13,895,756)	(25,885,155)
Decrease (increase) in accrued interest receivable	2,283,919	(10,985,269)
(Decrease) increase in amounts due to National Credit Union Administration – Operating Fund	(1,767,077)	1,549,549
(Decrease) increase in amounts due to insured shareholders of liquidated credit unions	(21,780,262)	26,103,180
Decrease in other liabilities	(144,733)	(269,882)
Net cash (used) provided by operating activities	(1,746,714)	47,813,543
Cash flows from investing activities:		
Increase in investments, net	(21,340,286)	(512,948,123)
Cash flows from financing activities:		
Contributions from insured credit unions	212,766,477	155,312,154
Net increase (decrease) in cash and cash equivalents	189,679,477	(309,822,426)
Cash and cash equivalents at beginning of year	57,692,829	367,515,255
Cash and cash equivalents at end of year	$247,372,306	$57,692,829
Composed of:		
Cash	$10,306	$5,390,829
Cash equivalents – U.S. Government securities with maturities less than 3 months	247,362,000	52,302,000
Total	$247,372,306	$57,692,829

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements
September 30, 1988

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 guarantee 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 guarantee 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 value 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

Cash Equivalents and 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.

In fiscal year 1988, the Fund adopted Statement of Financial Accounting Standard No. 95 (SFAS 95), Statement of Cash Flows. A Statement of Cash Flows explains the change during the period in cash and cash equivalents. Cash equivalents are highly liquid investments with original maturities of three months or less. Activity for the year ended September 30, 1987 has been resated to reflect the required presentation of SFAS 95.

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. To assist in the merger of credit unions, the Fund may purchase certain credit union assets. In addition, the Fund may provide cash assistance by acquiring non-performing assets of a credit union experiencing financial difficulty. Such assets acquired are recorded at their estimated net realizable value.

Insurance Premium Revenue

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 June 30 of the preceding fiscal year. The NCUA Board waived the 1987, 1988 and 1989 share insurance premium.

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

Management identifies credit unions experiencing financial difficulty through the supervisory and examination process. The estimated losses from these supervised credit unions are determined by management based on a case-by-case evaluation.

In exercising its supervisory function, the Fund at times will extend guarantees of assets (primarily loans) to third party purchasers or to credit unions to facilitate mergers; such guarantees totaled approximately $3,591,000 and $5,572,000 at September 30, 1988 and 1987, respectively. The estimated losses from asset and merger guarantees are determined by management based on a case-by-case evaluation.

The activity in the reserve for estimated losses from supervised credit unions and asset and merger guarantees for the years ended September 30, 1988 and 1987 was as follows:

	Years ended September 30, 1988	1987
Beginning balance	$56,262,000	$51,873,000
Provision for insurance losses	60,122,000	55,732,000
Insurance losses and transfers to the allowance for losses on acquired assets	(83,634,000)	(61,108,000)
Recoveries	18,385,000	9,765,000
Ending balance	$51,135,000	$56,262,000

In addition, the Fund guarantees loans made by the Central Liquidity Facility (CLF) to credit unions. Total outstanding CLF loans guaranteed by the Fund at September 30, 1988 and 1987 are approximately $65,922,000 and $77,220,000, respectively.

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. The annual adjustment of the contribution is based on member share deposits outstanding as of June 30 of the preceding fiscal year. The 1% contribution 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 $1,476,757,851 at September 30, 1988, consists of $1,392,884,828 of insured credit union accumulated contributions and $83,873,023 of the previously accumulated fund balance which was designated by the NCUA Board as a component of credit union accumulated contributions in 1984.

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 insured shares. The NCUA Board did not declare any dividends during 1987 or 1988.

Note E—Cash Equivalents and Investments

All cash received by the Fund which is not used for outlays related to assistance to insured credit unions and liquidation activities is invested in U.S. Treasury securities.

Cash equivalents and investments consist of the following:

	September 30, 1988			
	Yield to Maturity at Market	Book Value	Market Value	Face Value
Cash Equivalents				
U.S. Treasury Securities overnight funds	8.41	$ 247,362,000	$ 247,362,000	$ 247,362,000
U.S. Treasury Securities				
Maturities up to one year	6.90	687,105,963	683,406,250	675,000,000
Maturities over one year	7.77	877,741,991	866,515,625	875,000,000
		$1,564,847,954	$1,549,921,875	$1,550,000,000

	September 30, 1987			
	Yield to Maturity at Market	Book Value	Market Value	Face Value
Cash Equivalents				
U.S. Treasury Securities overnight funds	7.55	$ 52,302,000	$ 52,302,000	$ 52,502,000
U.S. Treasury Securities				
Maturities up to one year	7.84	457,730,188	457,556,250	485,000,000
Maturities over one year	7.22	1,085,777,480	1,064,484,375	1,050,000,000
		$1,543,507,668	$1,522,040,625	$1,535,000,000

Total investment purchases and sales during fiscal year 1988 are approximately $30,968,965,000 and $30,770,565,000, respectively. It is not practical to separate the purchases and sales by maturity date therefore, these amounts include investment transactions with maturities greater than three months and cash equivalents.

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 1988 or 1987.

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 a study conducted by these Funds of actual usage. The cost of services provided by the NCUA Operating Fund was approximately $26,506,000 and $21,380,000 for 1988 and 1987, respectively, and includes pension contributions of approximately $1,301,000 and $935,000 for 1988 and 1987, respectively, to the Civil Service Retirement System, a defined benefit retirement plan.

During the fiscal year, the Fund entered into a $2,160,766 thirty year term note with the NCUA Operating Fund. The note is being repaid in monthly principal installments of $6,000 with interest at a variable rate. The average interest rate during fiscal year 1988 was approximately 7.5%. The note receivable balance at September 30, 1988 was $2,124,766.

The NCUA Operating Fund leases certain office space under lease agreements which expire through 1998. The future minimum aggregate lease payments through expiration of the leases are approximately $12,332,000 at September 30, 1988. Based on the allocation factor approved by the NCUA Board of Directors for fiscal year 1989, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments. The cost of services provided by the NCUA Operating Fund included rental charges of approximately $1,137,000 and $947,000 for 1988 and 1987, respectively. The amounts were derived using the current annual allocation factor.

Note H—Subsequent Event

Subsequent to September 30, 1988 the Fund became aware of a financially troubled insured credit union that represented a potential loss to the Fund. To date, an estimate of the potential loss, if any, is not determinable. The ultimate resolution of this issue will not have a material effect on the financial statements.

Ten Year Financial Trend

Fiscal Year	1979	1980	1981	1982	1983
Income (thousands)					
Regular Premium-Federal	$23,563	$25,682	$27,657	$29,658	$33,878
Regular Premium-State	11,616	12,813	14,077	15,197	17,374
Special Premium-Federal	–	–	–	19,419	34,561
Special Premium-State	–	–	–	10,526	17,725
Treasury Investments	9,178	13,319	19,033	18,358	20,141
Other	1,579	1,718	1,655	1,883	1,357
Total Income	$45,936	$53,532	$62,422	$95,041	$125,036
Expenses (thousands)					
Operating	$5,873	$8,332	$9,314	$10,813	$10,315
Insurance Losses	4,709	29,801	43,746	77,458	55,060
Losses on Investment Sales	–	–	–	1,805	1,796
Other	1,665	2,730	119	1,822	577
Total Expenses	$12,247	$40,863	$53,179	$91,898	$67,748
Net Income (thousands)	**$33,689**	**$12,669**	**$9,243**	**$3,143**	**$57,288**
Fiscal Year-end Data:					
Total Equity (thousands)	**$152,610**	**$165,620[2]**	**$174,716**	**$177,921**	**$235,209**
Equity as a Percentage of Shares in NCUSIF–Insured Credit Unions	0.320%	0.303%	0.302%	0.259%	0.292%
Contingent Liabilities (thousands)[1]	**$18,913**	**$100,463**	**$171,716**	**$149,090**	**$67,338**
Contingent Liabilities as a Percentage of Equity	12.4%	60.7%	98.3%	83.8%	29.7%
NCUSIF Loss per $1,000 of Insured Shares	$0.10	$0.61	$0.83	$1.28	$0.77
Operating Ratios:					
Premium Income	76.6%	71.9%	66.9%	78.7%	82.8%
Investment Income	20.0%	24.9%	30.5%	19.3%	16.1%
Other Income	3.4%	3.2%	2.6%	2.0%	1.1%
Operating Expenses	12.8%	15.6%	14.9%	11.4%	8.3%
Insurance Losses	10.3%	55.7%	63.5%	81.5%	44.0%
Other Expenses	3.6%	5.0%	6.8%	3.8%	1.9%
Total Expenses	26.7%	76.3%	85.2%	96.7%	54.2%
Net Income	73.3%	23.7%	14.8%	3.3%	45.8%
Involuntary Liquidations Commenced					
Number	169	239	251	160	50
Share Payouts (thousands)	$19,001	$59,957	$78,639	$39,892	$9,954
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-insured Credit Unions	0.040%	0.110%	0.136%	0.058%	0.012%

Footnotes:

[1] Effective 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.

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

Fiscal Year	1984	1985	1986	1987	1988
Income (thousands)					
Regular Premium-Federal	$40,404	$10,508	–	–	–
Regular Premium-State	19,781	5,208	–	–	–
Special Premium-Federal	–	–	–	–	–
Special Premium-State	–	–	–	–	–
Treasury Investments	30,088	83,789	121,080	112,407	127,075
Other	878	708	346	339	530
Total Income	$91,151	$100,213	$121,426	$112,746	$127,605
Expenses (thousands)					
Operating	$10,426	$10,927	$16,822	$21,466	$26,588
Insurance Losses	28,068	25,472	37,864	55,732	60,122
Losses on Investment Sales	2,326	–	–	–	–
Other	–	–	–	–	–
Total Expenses	$40,820	$36,399	$54,686	$77,198	$86,710
Net Income (thousands)	**$50,331**	**$63,814**	**$66,740**	**$35,548**	**$40,894**
Fiscal Year-end Data:					
Total Equity (thousands)	**$285,540**	**$1,119,356**	**$1,411,391**	**$1,602,251**	**$1,855,911**
Equity as a Percentage of Shares in NCUSIF–Insured Credit Unions	0.313%	1.28%	1.24%[3]	1.23%	1.24%
Contingent Liabilities (thousands)	**$23,930**	**$4,131**	**$4,864**	**$5,572**	**$3,407**
Contingent Liabilities as a Percentage of Equity	8.4%	0.4%	0.3%	0.3%	0.2%
NCUSIF Loss per $1,000 of Insured Shares	$0.34	$0.26	$0.30	$0.38	$0.38
Operating Ratios:					
Premium Income	66.0%	15.7%	–	–	–
Investment Income	33.0%	83.6%	99.7%	99.7%	99.6%
Other Income	1.0%	0.7%	0.3%	0.3%	0.4%
Operating Expenses	11.4%	10.9%	13.9%	19.1%	20.8%
Insurance Losses	30.8%	25.4%	31.2%	49.4%	47.1%
Other Expenses	2.6%	–	–	–	–
Total Expenses	44.8%	36.3%	45.1%	68.5%	67.9%
Net Income	55.2%	63.7%	54.9%	31.5%	32.1%
Involuntary Liquidations Commenced					
Number	38	31	36	33	35
Share Payouts (thousands)	$34,840	$15,499	$22,168	$3,213	$36,110
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-insured Credit Unions	0.039%	0.014%	0.020%	0.002%	0.020%

Footnotes:

[3] In 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	1979	1980	1981	1982	1983
Shares in NCUSIF-Insured Credit Unions (millions)[1]					
Federal Credit Unions	$30,768	$33,812	$35,250	$41,352	$49,889
State Credit Unions	15,554	17,730	18,902	21,638	24,850
Total Shares	$46,322	$51,542	$54,152	$62,990	$74,739
Number of Member Accounts In NCUSIF-Insured Credit Unions (thousands)					
Federal	24,789	26,829	28,595	26,095	26,700
State	12,218	13,679	14,657	13,160	13,460
Total	37,007	40,508	43,252	39,255	40,160
Number of NCUSIF-Insured Credit Unions					
Federal	13,000	12,802	12,367	11,430	10,963
State	4,769	4,910	4,994	5,036	4,918
Total	17,769	17,712	17,361	16,466	15,881
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	83.0%	83.3%	81.5%	82.9%	83.8%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	33.3%	33.7%	34.6%	33.7%	32.8%
End of Fiscal Year	1979	1980	1981	1982	1983
Assistance to Avoid Liquidation:					
Capital Notes and Other Cash Advances Outstanding	$15,794	$15,447	$8,388	$16,839	$31,838
Noncash Guaranty Accounts	$5,791	$29,247	$42,922	$48,786	$52,736
Number of active cases	30	59	114	124	113
Problem Case Insured Credit Unions (Codes 4 and 5):					
Number	1,020	1,018	1,174	1,192	1,124
Shares (millions)	$2,300	$2,400	$2,980	$4,590	$4,652
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	4.8%	4.4%	5.2%	6.7%	5.9%
Mergers: (fiscal year)					
Assisted[2]	–	–	98	167	203
Unassisted	193	313	235	272[3]	503

Footnotes:

[1] Insured shares in NCUSIF-Insured Natural Person Credit Unions only.

[2] Assisted merger cases were not separately identified until 1981.

[3] 1982 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.

End of Calendar Year	1984	1985	1986	1987	1988[4]
Shares in NCUSIF-Insured Credit Unions (millions)[1]					
Federal Credit Unions	$57,927	$71,615	$86,709	$94,927	$102,699
State Credit Unions	26,327	37,917	47,476	51,417	54,500
Total Shares	$84,254	$109,532	$134,185	$146,344	$157,199
Number of Member Accounts In NCUSIF-Insured Credit Unions (thousands)					
Federal	28,170	29,576	31,041	32,067	57,235
State	15,205	15,689	17,362	17,999	27,376
Total	43,288	45,265	48,403	50,066	84,611
Number of NCUSIF-Insured Credit Unions					
Federal	10,614	10,142	9,758	9,475	9,127
State	4,689	4,932	4,944	4,985	4,761
Total	15,303	15,074	14,702	14,460	13,888
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	82.0%	91.6%	96.4%	96.0%	96.1%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	30.9%	33.9%	34.5%	35.0%	33.5%

End of Fiscal Year	1984	1985	1986	1987	1988
Assistance to Avoid Liquidation:					
Capital Notes and Other Cash Advances Outstanding	$36,413	$33,266	$22,396	$5,031	$5,117
Noncash Guaranty Accounts	$54,213	$36,946	$39,903	$39,564	$41,127
Number of active cases	72	45	30	16	25
Problem Case Insured Credit Unions (Codes 4 and 5):					
Number	872	742	794	929	1,022
Shares (millions)	$4,071	$4,055	$6,611	$8,135	$10,600
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	4.7%	3.9%	4.9%	4.9%	6.3%
Mergers:					
Assisted	92	63	58	55	50
Unassisted	550	514	515	489	464

[4] Estimated amounts as of December 31, 1988.

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 to 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, DC, and six regional offices in Albany, New York; Washington, D.C.; Atlanta, Georgia; Itasca, Illinois; Austin, Texas (Suboffice in Sioux City, Iowa); and Concord, California. Of the Agency's 892 employees, 740 are assigned to the regions. 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, D.C. The central office's primary role is to provide support to regional offices. The accounting records and investments for the Fund are also managed from Washington, D.C.

NCUA Board

Roger W. Jepsen, Chairman
Elizabeth F. Burkhart, Vice Chairman
David L. Chatfield, Board Member

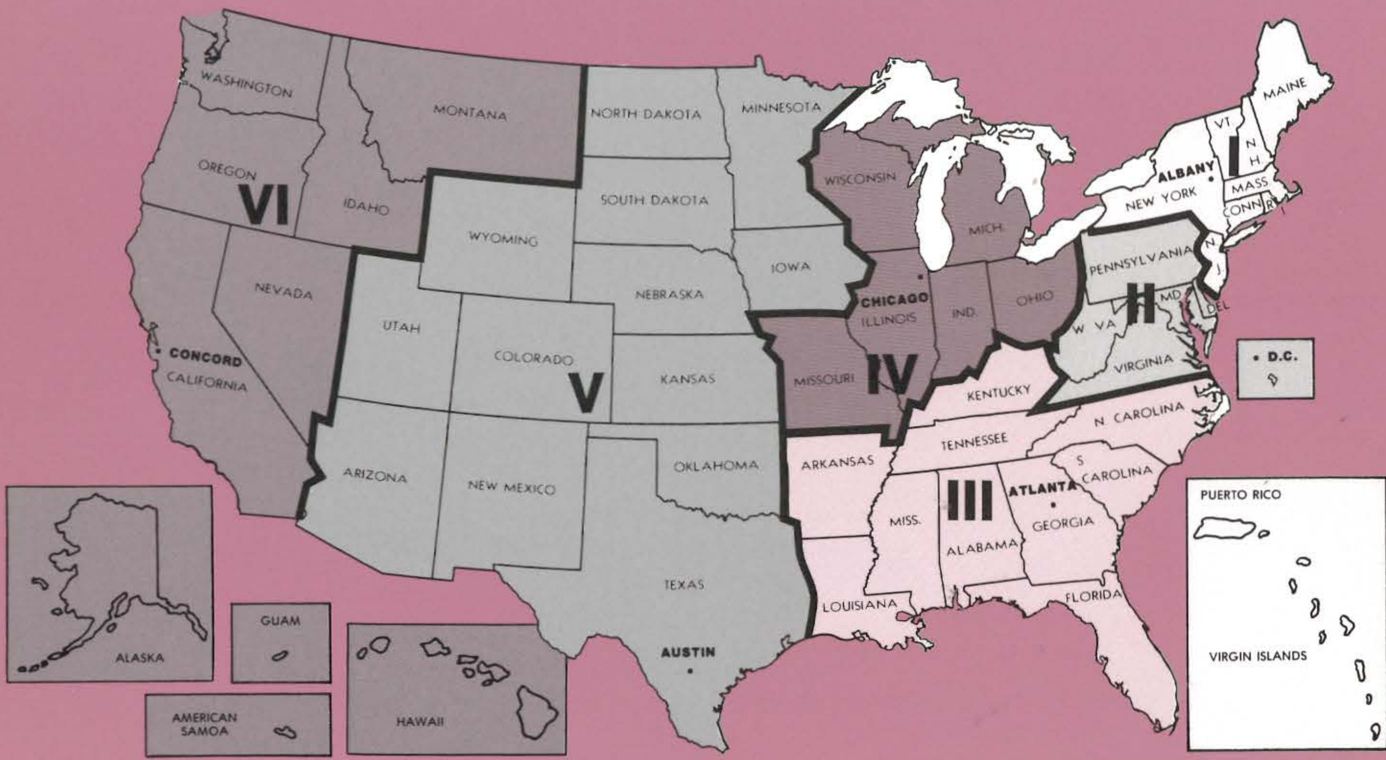
Donald E. Johnson, Executive Director
Robert M. Fenner, General Counsel

Office of Examination and Insurance
D. Michael Riley, Director
Nicholas Veghts, Deputy Director
Department of Insurance
Dennis Winans, Director
Department of Risk Management
Edward Dupcak, Director
Department of Supervision
Timothy Hornbrook, Director

1776 G Street, Northwest
Washington, D.C. 20456
(202) 682-9640

Left To Right:
Supervision Director Tim Hornbrook, Insurance Director Dennis Winans, Office of Examination and Insurance Director D. Michael Riley, Deputy Director, Office of Examination and Insurance Nick Veghts, and Risk Management Director Ed Dupcak

National Credit Union Administration



Regional Offices

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Region II (Capital)
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Regional Director
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Itasca, Illnois 60143
(312) 250-6000

Region V (Austin)
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Suboffice
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(712) 233-3233

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Regional Director
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National Credit Union Administration
Washington, DC 20456

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A N N U A L R E P O R T

1988

NATIONAL

CREDIT UNION

ADMINISTRATION

CENTRAL LIQUIDITY FACILITY

ANNUAL REPORT

1988

NATIONAL
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CENTRAL LIQUIDITY FACILITY

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National Credit Union
Administration
Central Liquidity Facility
1776 G Street, N.W.
Washington, D.C. 20456
For Members in D.C.

Metro Area: 202-682-9780
All Other Inquiries: 1-800-424-3208

Letter from the NCUA Board to Shareholders

This ninth annual report of the Central Liquidity Facility continues to depict a strong financial institution ready to serve the credit union system. First, nearly all credit unions in the United States have membership in the Central Liquidity Facility either directly or through affiliation with corporate credit union agents. Second, substantial increases were made during the year in gross and net income, investments, loans, capital stock, and reserves. Third, during the same fiscal 1988 period, operating expenses were well below the Congressionally approved operating budget of $813,000. Fourth, dividend distribution of net earnings after all operating expenses exceeded 96% of available net income. The remaining net income was transferred to retained earnings to strengthen reserves.

In addition, the Central Liquidity Facility is entirely self-supporting. Credit unions contribute all of the capital. Funds to cover its operating expenses, reserves, and dividends are earned from the Central Liquidity Facility's loan and investment portfolios. Lending programs are funded by U.S. Treasury through the Federal Financing Bank with the "full faith and credit" of the United States government. Investments are currently made in credit unions and other federally insured institutions.

The Central Liquidity Facility complements the total credit union financial system by working through and with the corporate credit union agent network. This system of state and federally chartered corporates provides operational and correspondent services, investment alternatives and advice, and loans to natural person credit unions.

The Central Liquidity Facility also provides all credit unions with the knowledge that during periods of temporary liquidity needs or when questions of confidence arise from external events or internal problems, funds are always available to meet abnormal savings outflows. By being a specialized lender for credit unions housed within the National Credit Union Administration, the Central Liquidity Facility has the ability to draw upon the supervisory and insurance resources of the agency.

The Central Liquidity Facility will continue to do its part in maintaining member and public confidence in the credit union financial system.

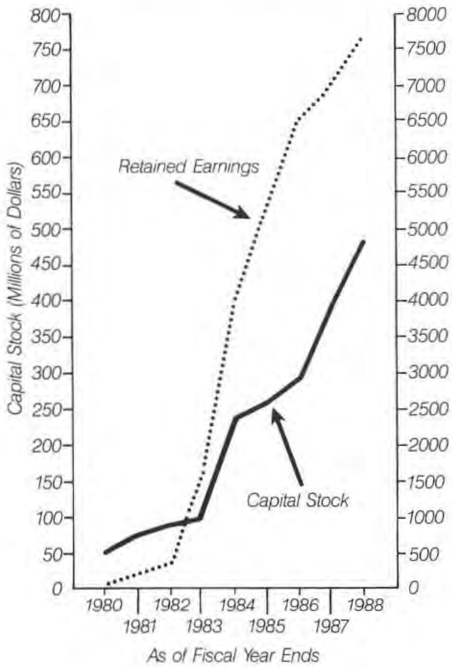
Roger W. Jepsen
Chairman

Elizabeth F. Burkhart
Vice Chairman

David L. Chatfield
Board Member

Financial Summary

Equity Capital Trends



During fiscal year 1988, in addition to meeting its statutory mission, the CLF paid a market-based dividend to shareholders and exceeded the reserve targets established by the NCUA Board. Net operating income of $24.8 million before dividends equals a 6.35% return on members' capital and deposits for the fiscal 1988 year.

Operating expenses of $710,000 were below the Congressionally approved $813,000 operating budget set for the CLF during fiscal 1988.

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 increases in membership over the past several years, the operating expense ratio for 1988 decreased 1% to 2.1% as compared to an increase of .9% during fiscal 1987.

Retained earnings at September 30, 1988, stood at $7.6 million, an increase of 13% during the year. Although CLF has not had any losses from its lending and investment activities during its first nine 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 short-term management goal of increasing reserves to the level where the earnings on these reserves will cover the CLF's operating expenses and a long range goal of 4% of assets.

Assets increased by $59.2 million, or 12%, during the year. This increase is primarily due to a 15.3% increase in capital stock. Capital stock rose by $53.1 million as a result of membership stock adjustments in March 1988.

Financial Highlights Central Liquidity Facility

	1988	1987	% Change
Operating Results			
Operating Net Income	$ 24,792,000	$ 18,637,000	+ 33.0%
Dividends	23,955,000	18,047,000	+ 32.7%
Net Earnings and Additions to Reserves	837,000	590,000	+ 41.9%
At Fiscal Year End			
Total Assets	540,671,000	481,493,000	+ 12.3%
Total Member Shares & Retained Earnings	408,443,000	354,530,000	+ 15.2%
Total Loans	120,440,000	111,544,000	+ 8.0%
Total Employees	4	5	
Total Members: via Agents (credit unions)	41(16,000)	43(18,000)	
Direct	263	338	

Dividends

Dividends on members' stock and deposits of $24.5 million resulted in an average return on shares of 6.35% for the fiscal year. The distribution of net earnings in dividends after all operating expenses exceeded 96% 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 shown below.

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

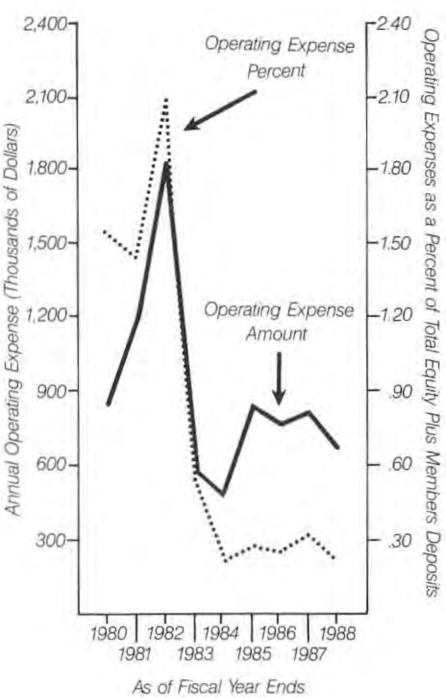
Quarter Ending	CLF Dividend 1987	CLF Dividend 1988	90 Day T-Bill Rate 1988
1st Quarter—12/31	5.45%	6.06%	6.06%
2nd Quarter—3/31	5.63%	5.88%	5.88%
3rd Quarter—6/30	5.77%	6.31%	6.34%
4th Quarter—9/30	6.03%	7.13%	7.20%
Fiscal Year Average	5.72%	6.35%	6.37%

Loan Portfolio Spread

The CLF loan portfolio spread for the fiscal year was 15 basis points. The average outstanding loan balance for the year was $114.2 million, an increase of $16.4 million from the previous fiscal year. Overall the loan portfolio contributed $205,000 to net income during the year.

CLF tailors its lending rate to meet the situational lending needs of credit unions. 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.

Operating Expense History



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 1988, all funds were placed in investments at maturities not exceeding six months.

Investments at September 30, 1988, stood at $411.8 million, an increase of $48.6 million from the previous year. The investments consist of two separate portfolios: the $357 million redeposit in U.S. Central, and the nearly $54.8 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 1988, the yield on the redeposit was 6.43%.

The average maturity of the portfolio, excluding the redeposit, was 80 days at fiscal year-end, compared to 72 days at the beginning of the fiscal year. The average yield on the managed portfolio was 7.60% during the year. The comparative rates for three month Eurodollar Certificate of Deposit and 90-day T-Bill were 7.74% and 6.37%, respectively. Including the yield on the redeposit in the corporate system, the overall return on CLF's investments was 6.59% for fiscal 1988.

CLF Investment Portfolio at September 30, 1988

Investment	$Amount	% of Total Portfolio	Yield
Eurdollar Time Deposit	$ 40,000,000	9.7%	7.94%
U.S. Central Daily Account	14,750,990	3.8%	8.33%
U.S. Central Redeposit	357,000,000	86.5%	7.37%
Total	$411,750,990	100.0%	7.46(a)

(a) Weighted Average Yield for September

Maturity Schedule of CLF Investment Portfolio at September 30, 1988

Month	Eurodollar Time Deposits	U.S. Central Daily Account	U.S. Central Redeposit	Total
October	$10,000,000	$14,750,990	$357,000,000	$381,750,990
November	5,000,000			5,000,000
December	10,000,000			10,000,000
January	5,000,000			5,000,000
February	5,000,000			5,000,000
March	5,000,000			5,000,000
Total	$40,000,000	$14,750,990	$357,000,000	$411,750,990

Central Liquidity Facility Financial Statements

For the Years Ended
September 30, 1988 and 1987

Report of Independent Accountants

Price Waterhouse

November 3, 1988

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 cash flows present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility at September 30, 1988 and 1987 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the National Credit Union Administration Central Liquidity Facility management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 (1981 Revision), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Washington, D.C.

Balance Sheets
(Expressed in thousands of dollars)

Assets	Year Ended September 30, 1988	1987
Cash	$ 6	$ 6
Investments	411,751	363,197
Loans to members	120,440	111,544
Accrued interest receivable	8,474	6,746
Total assets	$540,671	$481,493
Liabilities and Equity		
Liabilities		
Notes payable	$118,148	$111,394
Member deposits	12,823	14,083
Accrued interest payable	1,117	1,347
Accounts payable and other liabilities	140	139
Total liabilities	132,228	126,963
Equity		
Capital Stock–required	400,812	347,736
Retained earnings	7,631	6,794
Total equity	408,443	354,530
Commitments		
Total liabilities and equity	$540,671	$481,493

The accompanying notes are an integral part of these financial statements.

Statements of Operations and Retained Earnings
(Expressed in thousands of dollars)

Income	Year Ended September 30, 1988	1987
Interest on loans	$ 7,417	$ 5,894
Income from investments	25,787	19,884
Other	44	73
Total Income	33,248	25,851
Expenses		
Personnel services	169	215
Personnel benefits	20	32
Employee travel	11	22
Rent, communications and utilities	48	63
Printing and reproduction	8	10
Other services	68	68
Agent commitment fee	380	384
Supplies and materials	6	3
Total operating expenses	710	797
Interest		
Federal Financing Bank	7,212	5,722
Member deposits	534	695
Total expenses	8,456	7,214
Net income	24,792	18,637
Dividends to members	23,955	18,047
Addition to retained earnings	837	590
Retained earnings at beginning of period	6,794	6,204
Retained earnings at end of period	$ 7,631	$ 6,794

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows
(Expressed in thousands of dollars)

	Year Ended September 30, 1988	1987
Cash flows from operating activities:		
Interest received on loans	$ 7,655	$ 5,300
Income from investments	23,821	18,306
Other income received	44	73
Cash paid for operating expenses	(709)	(768)
Interest paid on borrowings	(7,442)	(5,144)
Net cash provided by operating activities	23,369	17,767
Cash flows from investing activities:		
Investment maturities	453,470	507,859
Loan principal repayments	53,890	89,454
Purchase of investments	(502,024)	(572,154)
Loan disbursements	(62,786)	(95,448)
Net cash used in investing activities	(57,450)	(70,289)
Cash flows from financing activities:		
Issuance of required capital stock	65,098	66,294
Addition to member deposits	591	921
Proceeds from borrowings	78,288	98,247
Redemption of required capital stock	(12,022)	(66)
Withdrawal of member deposits	(26,340)	(21,969)
Borrowing repayments	(71,534)	(90,903)
Net cash provided by financing activities	34,081	52,524
Net increase in cash		2
Cash at beginning of year	6	4
Cash at end of year	$ 6	$ 6
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 24,792	$ 18,637

Statements of Cash Flows
(Expressed in thousands of dollars)

	Year Ended September 30, 1988	1987
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in accrued loan interest receivable	238	(594)
Increase in accrued investment income receivable	(1,966)	(1,578)
(Decrease) increase in accrued interest payable	(230)	578
Increase in accounts payable and other liabilities	1	29
Interest deposited in member deposits	534	695
Total adjustments	(1,423)	(870)
Net cash provided by operating activities	$ 23,369	$ 17,767
Supplementary disclosure of non-cash transactions:		
Rollovers:		
Loans	$ 467,186	$ 381,329
Borrowings	$ 462,770	$ 385,129
Dividends deposited in member deposits	$ 23,955	$ 18,047

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements
September 30, 1988 and 1987

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 (NCUA) 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.

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. For all loans the CLF either obtains a security interest in the assets of the borrower or in some cases receives the guarantee of the NCUA Share Insurance Fund.

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, 1988 and 1987.

Investments

The CLF invests 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, 1988 and 1987, the CLF was in compliance with these limitations.

Note 4 — Loans to Members

During 1988 loans were made only to member credit unions. These loans carry interest rates which ranged from 7.00% to 8.55% at September 30, 1988 (6.29% to 8.00% at September 30, 1987). The loans outstanding at September 30, 1988 are scheduled to mature during fiscal year 1989 (the loans outstanding at September 30, 1987 matured during fiscal year 1988). Included in loans to members at September 30, 1988 and 1987 are loans to U.S. Central Corporate Credit Union in its capacity as agent of the CLF (see Note 8) in the amount of $119,240,000 and $110,394,000, respectively.

The CLF also provides members with extended loan commitments and lines of credit. There were no outstanding commitments or lines of credit at September 30, 1988.

The CLF provides lines of credit for state insurance corporations. Advances against these lines are non-revolving and fully secured by a senior perfected security interest in negotiable, marketable securities acceptable to the CLF. As of September 30, 1988, no advances had been made against the lines and all existing lines expired on that date. Subsequent to September 30, 1988, lines of credit totaling $13.5 million have been authorized. Each line of credit calls for a commitment fee of 1/4 of 1 percent per annum.

Note 5 — Investments

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

	September 30,	
	1988	1987
U.S. Central (see Note 8)		
Redeposits	$357,000	$286,000
Share accounts	14,751	17,197
Time deposits	40,000	60,000
	$411,751	$363,197

Note 6 — Notes Payable

All of the CLF's borrowings have been from the Federal Financing Bank. The interest rates on these obligations are fixed and range from 6.875% to 7.704% at September 30, 1988 (5.985% to 6.915% at September 30, 1987). Interest is generally payable upon maturity. The notes outstanding at September 30, 1988 are scheduled to mature during fiscal year 1989 (the notes outstanding at September 30, 1987 matured during fiscal year 1988).

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, 1988 and 1987, $364,840,000 and $291,900,000, respectively, of the required portion of subscribed capital stock was on deposit with the CLF 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 at market rates of interest. At September 30, 1988 and 1987, $371,751,000 and $303,197,000, respectively, were invested in USC share accounts at approximately 7.43% and 6.03% 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, 1988 and 1987 amounted to approximately $237,000 and $309,000, respectively.

Note 10 — Pension Plan

The employees of the CLF are participants in the Civil Service Retirement and Disability Fund (CSRDF) which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit plans covering all of the employees of CLF. FERS is comprised of a Social Security Benefits Plan, a Basic Plan and a Savings Plan and is mandatory for all employees hired on or after January 1, 1984. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan employees can also elect additional contributions between one and ten percent of their gross pay and the CLF will match up to five percent of the employee elected contributions. CLF's contributions to the plans for the years ended September 30, 1988 and 1987 were approximately $12,000 and $19,000, respectively.

CLF does not account for the assets of the above plans nor does it have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers such as CLF.

Note 11 — Lease

The CLF leases office space jointly with the National Credit Union Administration under a non-cancellable operating lease expiring in 1994. The agreement provides for annual rent adjustment based on increases in the consumer price index. 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, 1988, as follows (dollars in thousands):

Year ended September 30,

1989	$ 980
1990	997
1991	1,001
1992	1,001
1993	1,001
Thereafter	1,168
	$6,148

The CLF's portion of these lease payments (rent expense) for each of the years ended September 30, 1988 and 1987 was approximately $37,000 and $46,000, respectively.

Selected Financial Ratios

	1988	1987	1986	1985	1984
Operating Ratios:					
Operating Expenses/Total Income	2.1%	3.1%	2.2%	1.7%	1.5%
Interest Expenses/Total Income (FFB)	21.7%	22.1%	38.6%	49.0%	28.4%
Allowance for Loan Losses	0.0%	0.0%	0.0%	0.0%	0.0%
Dividends/Total Income	72.0%	69.8%	54.1%	44.9%	63.5%
Dividends/Net Operating Income	96.6%	96.8%	94.7%	94.4%	94.7%
Net Income After Dividends/Total Income	2.5%	2.3%	3.0%	2.7%	3.7%
Balance Sheet Using Fiscal Year End Data:					
Shares and Retained Earnings/ Total Assets	75.5%	73.6%	70.3%	51.9%	46.5%
Total Liabilities/Total Assets	24.5%	26.4%	29.7%	48.1%	53.5%
Loans/Total Assets	22.3%	23.2%	25.8%	44.9%	50.2%
Investments/Total Assets	76.2%	75.4%	73.1%	53.5%	47.4%
Investments/Shares and Deposit Liabilities	99.5%	100.4%	100.3%	99.8%	97.8%
Total Borrowings/Shares and Retained Earnings	28.9%	31.4%	36.2%	86.5%	107.6%
Loans/Shares and Retained Earnings	29.5%	31.5%	36.7%	86.5%	108.0%
Performance Ratios Using Average Balances:					
Yield on Average Investments	6.7%	6.0%	6.8%	8.6%	10.4%
Yield on Average Loans	6.4%	5.4%	7.8%	9.4%	10.6%
Yield on Total Average Earning Assets	6.6%	5.9%	7.2%	9.0%	10.5%
Average Borrowing Rate	6.4%	5.9%	6.3%	8.5%	10.3%
Average Dividend Rate	6.4%	5.7%	6.6%	8.2%	9.8%
Operating Income before Dividends/Average Shares and Retained Earnings	6.5%	5.8%	6.7%	8.8%	12.5%
Net Income after Dividends/Average Shares and Retained Earnings	0.2%	0.2%	0.4%	0.5%	0.7%

Agent Members of the Central Liquidity Facility

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 (MD)
- Central CU of Michigan
- Colorado Corporate FCU
- Corporate CU of Arizona
- Corporate Central CU of Utah
- Eastern Corporate Central FCU (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
- 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)
- Tricorp FCU (ME)
- 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 FCU
- Sloss FCU

Alaska
- Alaska USA FCU
- Eielson Employees FCU
- Fedalaska FCU
- Fort Wainwright FCU
- Matanuska Valley FCU
- Ward Cove FCU

Arizona
- Sunwest FCU

Arkansas
- College Station Community FCU

California
- Aerospace FCU
- American Electronics Association (S.F. Council) CU
- Carlsbad City Employees FCU
- Chaffey District Employees FCU
- Con-Can Los Angeles Employees FCU
- Continental FCU
- Ebtel FCU
- Electrical Workers CU
- Fiscal Employees FCU
- Fort Ord FCU
- Fresno Grangers FCU
- Glendale Area Schools FCU
- Hughes Aircraft Employees FCU
- Long Beach Community CU
- Marquardt FCU
- National School District Employees FCU
- Naval Weapons Center FCU
- Northrop CU
- NSC Employees FCU
- Pacific IBM Employees FCU
- Russian American FCU
- Safeway FCU
- Santa Barbara Teachers FCU
- Sea Air FCU
- Southern Baptist CU
- TRW Systems CU
- Union Oil Oleum FCU
- USEIT FCU
- Vallejo City Employees FCU

Colorado
- U of C FCU

Connecticut
- Pfizer Employees FCU
- Sikorsky FCU
- St. Boniface Parish FCU
- West Haven Teachers FCU

District of Columbia
- Bank-Fund Staff FCU
- Federal Deposit Employees FCU
- Geicos FCU
- Inter-American Development Bank FCU
- Internal Revenue Service FCU
- OAS Staff FCU
- Tacomis FCU
- Wright Patman Congressional FCU

Florida
- Agrico FCU
- City of Miami FCU
- G-P FCU
- Gainesville Florida Campus FCU
- Gold Coast Educational FCU
- GTE FCU
- MAAS Brothers Employees FCU
- Suncoast Schools FCU
- Tampa Bay FCU

Georgia
- Augusta Industrial FCU
- Augusta Seaboard Systems FCU
- CSRA FCU
- Dixisteel CU
- Fort Gordon FCU
- Georgia State University FCU
- Georgia Telco CU
- Northwest Community FCU
- The Federal Employees CU

Guam
- NAVMAR FCU

Idaho
- Boise Telco FCU
- Pocatello Kraft Employees FCU
- Pocatello Teachers FCU
- Potlatch No. 1 FCU

Illinois
- ABE CU
- Chicago Fireman's Association CU
- Pacesetter FCU
- St James Hospital Medical Center Employees FCU
- West Suburban FCU

Indiana
- Deaconess Hospital Employees FCU
- JET CU
- Tokheim Employees CU

Kansas
- Panhandle FCU
- SM Postal FCU

Kentucky
- Kentucky Telco FCU
- Louchem FCU
- Members First FCU
- Owensboro Employees FCU
- Rural Cooperatives CU Inc

Louisiana
- Aneca FCU
- National Heritage FCU

Maine
- Central Maine Power Company Employees FCU

Maryland
- National Institutes of Health FCU

Massachusetts
- Cape Cod FCU
- PCU FCU
- Worcester Central FCU

Michigan
- ABD FCU
- ACM Employees CU
- ARC CU
- Communications Family CU
- Dearborn FCU
- Detroit Teachers CU
- DT & I Employees CU
- East Central Upper Peninsula Employees CU
- East Detroit School Employees CU
- Hamtramck Community FCU
- Kramer Homes FCU
- Livonia Parishes FCU
- Marquette First FCU
- Portland FCU
- Roseville-Fraser City Employees FCU
- Shaw Box Employees FCU
- State Employees CU
- T & C FCU
- Vandyke Industrial Park CU
- Wayne Out County Teachers CU

Minnesota
- Northern Pacific Duluth FCU
- State Farm North Central FCU
- Workmen's Circle CU

Missouri
- B.M.A. CU
- Sears Kansas City Employees FCU

Montana
- Valley FCU of Montana

Nebraska
- Nebraska State Employees CU

New Hampshire
- Nashau Municipal Employees CU
- St Mary's Bank CU

New Jersey
- 3355 FCU
- Atlantic City Electric Company Employees FCU
- East Bergen Teachers FCU
- Erie Lackawanna Railroad Company Employees FCU
- H.L.R. FCU
- Harrison Police & Firemen's FCU
- Hoboken School Employees FCU
- Jersey City Firemen FCU
- Jersey City Police FCU
- Manville Area FCU
- McGuire FCU
- Metuchen Assemblers FCU
- Mobil Research No. 1166 FCU
- Mon-Oc FCU
- Nassau FCU
- Nestle (Freehold) Employees FCU
- North Jersey FCU
- Portuguese Continental FCU
- South Jersey FCU
- Trenton NJ Firemen FCU
- Union County Teachers FCU
- United Teletech FCU
- Wenewark FCU

New Mexico
- Espanola School Employees FCU
- Los Alamos CU

New York
- BCT FCU
- Brighton School Employees FCU
- Buffalo Police FCU
- Genesee Hospital FCU
- Hoosick FCU
- IBM Interstate Employees FCU
- Italo-American FCU
- MSBA Employees FCU
- Municipal CU
- N M P Northern Area FCU
- North Rockland Educational FCU
- Norwich-Chenango Employees FCU
- Oneida Ltd Employees FCU
- Orchard Park Central School FCU
- Plattsburg Air Force Base FCU
- School Employees of CNY FCU
- Suma (Yonkers) FCU
- TCT FCU
- U.S. Employees FCU
- WCS FCU
- W.C.T.A. FCU
- Whitestown Community FCU

North Carolina
- Rowan County Teachers CU
- TWIU Local 192 FCU

North Dakota
- LHHS FCU

Ohio
- Auto Accessories CU
- Bellevue FCU
- Celina Reynoco Employees FCU
- Cincinnati Central CU
- Cincinnati Postal Employees CU, Inc.
- Cinco FCU
- Daymon Employees FCU
- Dayton Telco FCU
- Dinner Bell Employees FCU
- East Ohio Gas Cleveland Operating Employees CU
- Emery Employees FCU
- Firestone Office FCU
- First Service FCU
- Fremont FCU
- Golden Circle CU
- Ironton DMI Employees FCU
- KOD Toys FCU
- LAN-FAIR FCU
- McDonald Community FCU
- Merrell Dow Employees FCU
- O'Neil's-Strouss FCU
- Parmauto FCU
- Southern Ohio Savings CU, Inc.
- St Saviour Rossmoyne FCU
- State Transportation Employees CU
- T & C CU, Inc.
- Sun FCU
- Tresler Employees FCU
- United Services FCU
- Whiting FCU
- Wittenberg University FCU
- Yellow Springs Community FCU

Central Liquidity Facility Staff

Floyd A. Lancaster
President

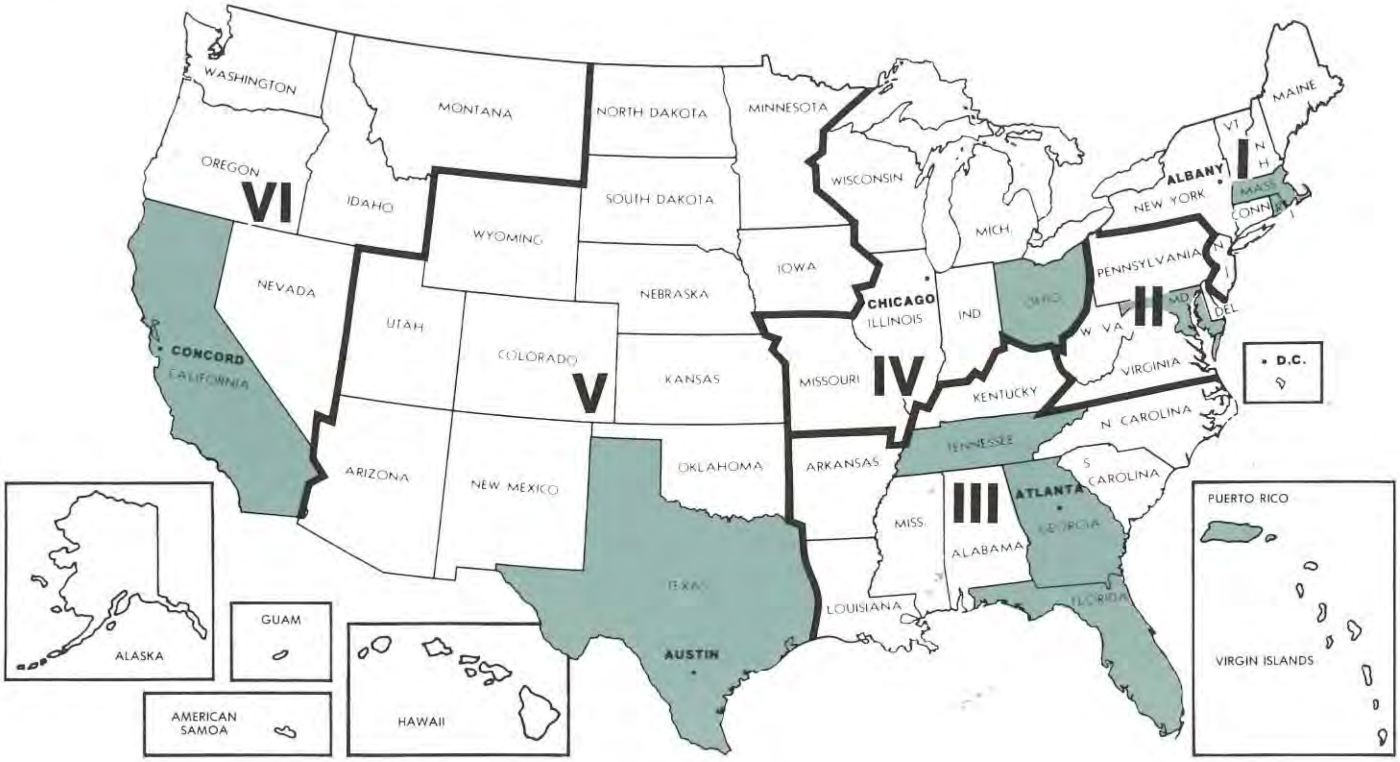
Ronald N. Lewandowski
Treasurer

Pat A. Burleson
Loan Officer and Corporate Specialist

Daniel Chapin
Accounting Technician

Ruthie Taylor
Secretary

State Share Insurance Corporations* Which Have Access to the CLF



California Credit Union Share Guaranty Corporation
Credit Union Insurance Corporation (MD)
Florida Credit Union Guaranty Corporation
Georgia Credit Union Deposit Insurance Corporation
Massachusetts Credit Union Share Insurance Corporation
Mutual Guaranty Corporation (TN)
National Deposit Guaranty Corporation (OH)
Program for Share and Deposit Insurance Fund (Puerto Rico)
Rhode Island Share and Deposit Indemnity Corporation
Texas Share Guaranty Credit Union

Title III of the Federal Credit Union Act permits the CLF to grant loans to insurance corporations for periods up to one year on a fully secured basis.

* The shaded area represents the insurance corporations' primary states of operation. A number of these insurance corporations also have been granted authority to operate in other states.

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