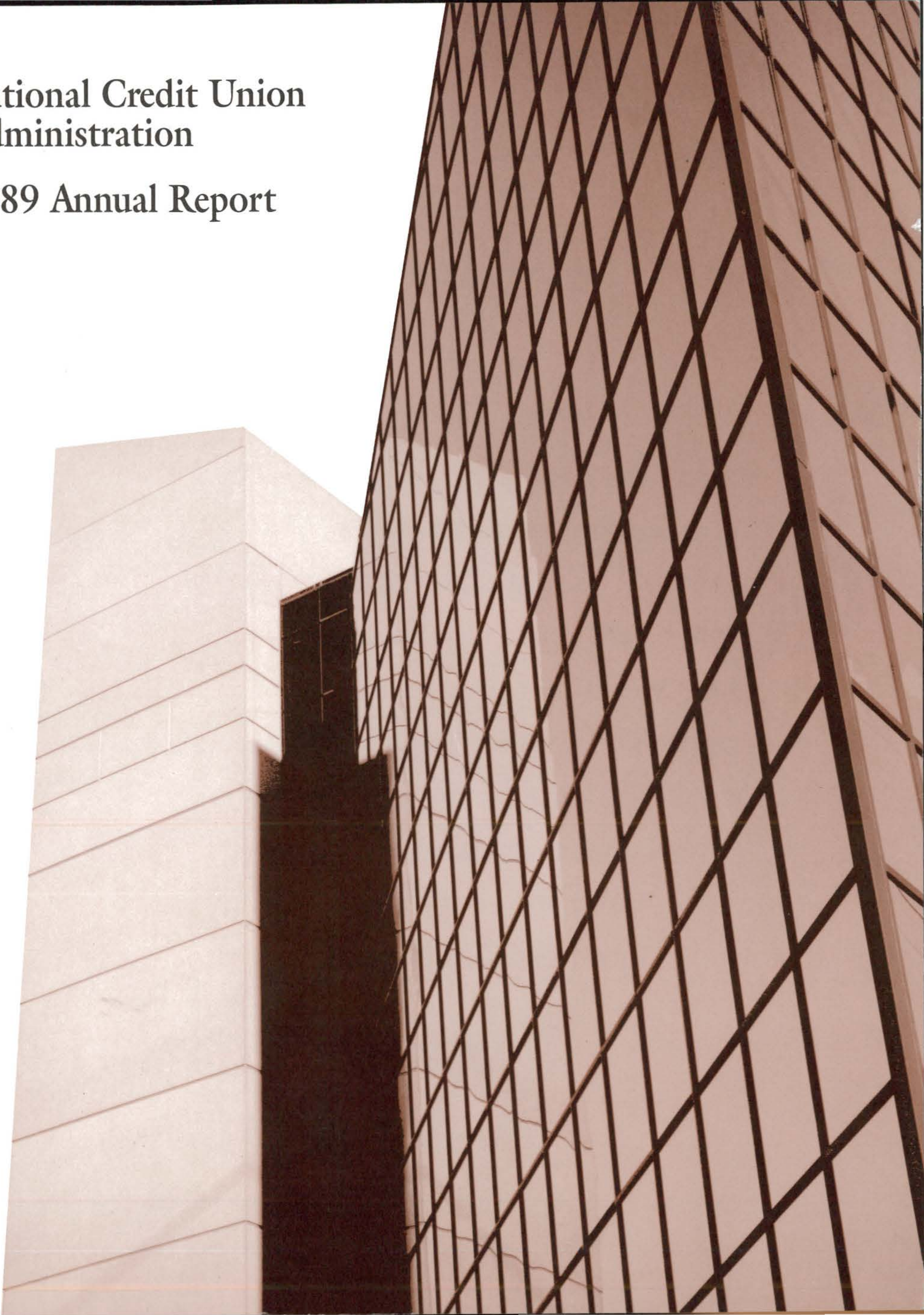
National Credit Union Administration

1989 Annual Report



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.

1989 Annual Report

Contents

COVER PHOTO BY BOB PARKS

Historic Perspective

When the National Credit Union Administration Board met in New Hampshire in September 1989, it marked the Board's tenth anniversary and 55 years of the federal credit union system.

As the Board met, leaders of the credit union community expressed satisfaction with the the present system of supervision. Today, credit unions remain healthy and strong, and the Share Insurance Fund is well-funded and safe.

Credit unions had existed in this country for about 30 years when the federal system was inaugurated in 1934. At the time, 38 states and the District of Columbia had credit union statutes, and there were more than 1,000 state-chartered credit unions.

When President Franklin Roosevelt signed the legislation on June 26, 1934, supervisory responsibility was placed in the Farm Credit Administration, an independent agency, and Claude R. Orchard became first director. Subsequently, FCA and the credit union section were moved to the U.S. Department of Agriculture.

By 1942, 4,000 federal credit unions with over one million members had been organized. But credit union leaders had become more and more dissatisfied with what they saw as FCA's indifference. By executive order, the supervision of federal credit unions was moved that year to the Federal Deposit Insurance Corporation.

The first National Credit Union Administration board members in 1979. Left to right: Harold A. Black, member; Lawrence Connell, chairman; P.A. Mack, Jr., vice chairman.

The move to FDIC coincided with the war years when federal credit unions declined in numbers and in membership. As World War II ended, credit unions became increasingly aware that they were as unwelcome at FDIC as they had been at FCA. They began to work for the transfer of the credit union section to what they believed would be a friendlier host—the Federal Security Administration. In June 1948, a law creating the Bureau of Federal Credit Unions within FSA was signed.

Five years later, Congress moved FSA and the bureau into the new Department

Board members attending the 50th Anniversary Celebration of the Federal Credit Union Act in June 1984. Left to right: P.A. Mack, Jr., vice chairman; Elizabeth F. Burkhart, board member; Edgar F. Callahan, chairman.

of Health, Education, and Welfare (predecessor to the Department of Health and Human Services). It was at this time that the Bureau of Federal Credit Unions became self-sufficient, and began paying its operating costs from credit union fees. Between 1953 and 1970, federal credit unions doubled and membership almost quadrupled.

But by the late 1960s, credit unions were once again expressing dissatisfaction, this time agitating for their own independent federal supervisory agency. In 1970, Congress approved legislation creating NCUA headed by a single administrator and established federal share insurance.

The long evolution culminated in 1978 when Congress replaced the single NCUA administrator with a three-member board. This final step, credit union leaders believed, would provide continuity and ensure that differing points of view would be considered and expressed in open, public session. Today, after 10 years of experience, credit unions seem satisfied with the present structure, if not every decision, of their federal regulator.

Today, after 10 years of experience, credit unions seem satisfied with the present structure...

Chairman's Statement

Annual reports are meant to cast a reviewing eye over the just-ended year, and this report is no exception. With the space allotted to me, however, I would like to cast an eye forward as we enter the home stretch of the twentieth century.

I am thinking about deregulation and how far we have come with it, as well as how far we still have to go. We tend to take deregulation for granted these days, which is a sign that it is working.

If deregulation is to succeed for the long term, however, regulators must view their jobs as a two-part invention. The first part involves enforcing the many basic regulations that remain in place. Where safety and soundness are concerned, these regulations will remain intact.

I came to NCUA with a motto that has proven, thankfully, to be useful: very simply, we regulate without fear or favor. We enforce the regulations already in effect, and if, after careful study and observation, we believe a new regulation is needed, we write one.

Our mission is safety and soundness. We keep the regulatory burden to a minimum, but we have an insurance fund to protect and we have an obligation to 60 million credit union members. That's the black and white of it, and that's the easy part.

The more difficult, and I believe the more interesting, part of the job involves balancing the human, political side of the credit union world with the deregulated environment we live in these days. As the savings and loan industry painfully discovered, the void that occurs when regulation is lifted is often filled with failure.

Supervision will be the guiding principle of the 1990s.

Thus, the second part of the two-part invention is supervision. By that I mean an agency's ability to guide, advise, and support the institutions in its charge. It sounds easy but it's not, primarily because it's more abstract than regulating. It requires innovation, flexibility, training, and follow-up. It's the opposite of relying on the black and white comfort of regulations.

Our examiner staff must think, analyze, judge, predict, instruct–and succeed. If supervision is inadequate or ineffective, an institution that is already in marginal condition, or one that does not abide by proven principles of safety and soundness, will fail. It's as simple as that, and there are financial institution corpses all over Texas to prove it.

Supervision will be the guiding principle of the 1990s and beyond in all deregulated industries. The promise of deregulation–lower prices, more competition, more opportunity–will prevail only if supervision is an active and permeating feature of regulatory agencies.

Roger W. Jepsen

Roger W. Jepsen, Chairman

Vice Chairman's Statement

Someone once said, "Of all our human resources, the most precious is the desire to improve."

Because of our "desire to improve," in the last few years we have laid the groundwork for the education and training of our examiner staff with the goal of strengthening their technical and interpersonal skills. What we hoped to accomplish was to have an examiner staff better equipped to examine credit unions and identify emerging problem areas, as well as to relay to credit union management the need to correct operational deficiencies that are identified.

I believe we have succeeded and, in fact, have been so successful that there are those who can't believe that a small agency such as ours could succeed where others have had meager success. Now, because of the problems in the banking and the savings and loan industries, our agency and the credit union community are under intense study.

The General Accounting Office and the Treasury Department are looking at all aspects of our operation with a magnifying glass. This may cause some unease in the credit union community, but the result should be a clear and concise report of the appropriateness of the supervisory activities of NCUA, the strength of the Share Insurance Fund and the condition of credit unions.

...we have taken prudent actions to improve our ability to respond to the changing environment...

From our perspective, we have done what needed to be done. By capitalizing the insurance fund, modernizing our examination procedures and identifying potential risks to the insurance fund, we have taken prudent actions to improve our ability to respond to the changing environment in the financial community.

If the actions we have taken result in criticism, I suggest we heed the counsel of the sage anonymous philosopher who said, "Don't mind criticism. If it is untrue, disregard it. If it is unfair, keep from irritation. If it is ignorant, smile. If it is justified, learn from it."

If we accept the premise that "adversity is the springboard to great achievement," then the 1990s should be a period of great achievement for this agency and the credit unions we supervise.

Elizabeth F Burkhart

Elizabeth F. Burkhart, Vice Chairman

Management Report

In 1989, NCUA saw full staffing for the first time in several years, and the agency completed the staff recruiting increase begun in 1987. We continue to recruit highly motivated individuals to fill vacancies created by resignations and retirements. The agency's goal of being fully staffed at all times is being met.

The agency has expended considerable effort to refine and upgrade all technological components. Increased productivity is apparent as examiners and others master the potential of the personal computer and become familiar with the new accounting system and electronic mail.

A number of top management positions changed faces in 1989. Many of these new assignments were implemented to provide cross training to enhance the individual's experience and ability to assume greater responsibilities in the future.

A full-time equal employment manager was hired and placed in the Office of the Executive Director to give the program emphasis.

All senior staff members are encouraged to receive university level management training and enrollees have attended Harvard, State University of Iowa, and George Washington University. A new group was selected for the agency's management development program and training is well under way. During October, all supervisory personnel met in a week-long conference to hone their management skills.

All regions met their goals and objectives, and examiners completed the annual examination of each Federal credit union for the sixth consecutive year.

Donald E. Johnson, Executive Director

The agency's goal of being fully staffed at all times is being met.

The NCUA Board continued to take the agency outside Washington and five official meetings were held in widely dispersed locations.

Public Law 101-73, enacted by Congress in 1989 and signed by the President, provides the agency and credit unions with new challenges and opportunities. The statute gives the agency greater enforcement powers and more responsibility in personnel matters.

Studies by the General Accounting Office and the executive branch included in the legislation will profoundly affect credit unions as these studies are developed, submitted and reviewed by Congress. NCUA will be alert to the ever-changing dynamics of the financial market place and the legislative process in the months ahead.

Economic Report

The U.S. economy grew slowly in 1989. And credit unions did too. The two are not necessarily related, but under certain conditions they can be.

In the economy as a whole, gross national product rose a modest 3.0 percent in 1989. Growth was very strong the first quarter and then deteriorated to 0.9 percent by the fourth quarter. But employment rose nicely, keeping up with the growth in the labor force. The civilian unemployment rate has been at or near 5.3 percent for nearly a year, a rate considered to be full employment, given the structure and makeup of our labor force. Households spent quite freely, with consumption rising 2.7 percent for the year as a whole, although the fourth quarter was 0.4 percent.

Inflation, though up a little, is still in the moderate range, with the consumer price index rising 4.8 percent last year, compared with 4.1 percent in 1988. There is no sign run-away inflation could do serious damage to the economy.

There was a drop in interest rates from March peaks. Three-month Treasury bills declined 119 basis points to 7.63 percent in December; the prime rate fell a percentage point to 10.5 percent, and 30-year Treasury bonds dropped 127 basis points to 7.90 percent by year-end.

With a soft national economy, there was no external stimulus for credit union growth. Assets at federally insured credit unions grew 4.8 percent and savings grew 4.7 percent, the slowest rates since 1981. Loans did better, rising 7.8 percent. While this is well below the 14 percent loan growth of 1988, it is still faster than share and asset growth. Moreover, loan quality is good, with delinquencies at only 1.8 percent.

This slow growth is a turnabout from 1985 and 1986 when shares and assets grew over 20 percent, and loans grew about 15 percent. During that period, credit unions developed a surfeit of liquidity. The slow share and asset growth in 1989, in the face of moderately good loan growth, brought only a slight tightening of liquidity. The average CAMEL liquidity ratio slipped from -1.5 in 1988 to -3.8 in 1989, but this is still a splendid ratio. Under the CAMEL formula, anything less than + or -10 percent is considered healthy.

The loan-to-share ratio is in a good range. In 1989 it stood at 73.3 percent, up from 71.3 percent in 1988. This should help bolster credit union earning margins in the near term, since loans, even after handling costs and losses, exceed investment yields.

Capital ratios at federally insured credit unions were at the highest level in 10 years on Dec. 31, 1989. The year-end ratio of 7.4 percent was more than a full percentage point above the 6.2 percent ratio as recently as 1986. Measured against the new bank risk-based capital standard, the credit union ratio is over 10 percent. This is well above the prescribed standard of 8 percent for banks, for the simple reason that credit unions are not engaged in some of the risky lending and investing activities of banks.

Dr. Charles Bradford, Chief Economist

Yes, credit unions are currently growing very slowly. But the slow growth has not hurt; rather it has probably helped the excellent financial status of credit unions the past year.

Despite slow growth in 1989, NCUA is quite satisfied with the health and stability of credit unions. The relatively few problems are being handled with dispatch. The insurance fund is healthy. Barring a depression or a very unlikely national economic catastrophe, this general health should continue for the foreseeable future.

Changing Times

Change in credit unions will continue in the 1990s and even accelerate as U.S. credit unions prepare to enter the 21st century.

The 1980s saw the deregulation of credit unions and the recapitalization of their insurance fund, coupled with the strengthening of their supervisory agencies. The 1980s were also characterized by rapid growth of assets, membership, and services. Today, credit unions are more complex, more sophisticated, and more professional than ever before.

Not all credit unions have grown at the same rate and many retain the basic structure of their formative years, but an equal or greater number have experienced a metamorphosis. Technology has played a large role, but the demands and needs of members has forced the transformation.

As new services were added, credit union management emphasized education, skills assessment and career development, team performance, and strategic planning. More complex services and products require a higher level of managerial sophistication.

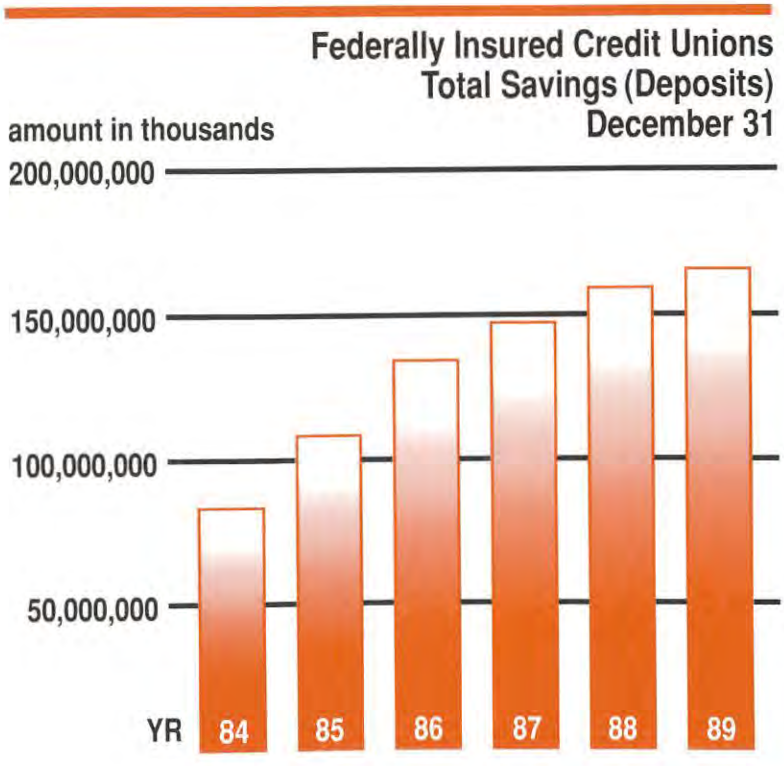
This expansion of services changed the way in which credit union service is extended to unserved groups of people. Chartering of new credit unions declined to only a trickle, and the expansion of services by existing credit unions to new groups took its place. Merging also proved to be an acceptable way to increase services to members.

Deregulation and the demand for new and ever more sophisticated services might have created a turbulent and destructive climate for credit unions, as it did for other financial institutions. That it did not is a tribute to the people who are members and officers of credit unions.

Chartering of new credit unions declined...and the expansion of services...to new groups took its place.

A sense of community is the pervasive common bond which unites the nation's credit unions. That sense of common purpose and devotion to service has been true at all organizational levels. Through negotiation and compromise, decisions have been reached in the 1980s which benefit the whole community.

How will credit unions evolve in the 1990s? They are challenged today as much as they have ever been in the past. The decisions they make in the new decade will determine their role in the 21st century.



Chartering

A document which will guide federal credit union chartering and expansion policy well into the next century was approved by the NCUA Board in 1989 after two years of study.

The new chartering manual seeks to ensure that credit unions will remain as close to members as possible and that new credit unions will have the maximum opportunity for success.

A rule proposed in 1987 was the catalyst for a major reevaluation of the agency's policies. A review of chartering practices showed that chartering varied from region to region. Following a comment period, the NCUA Board delayed action and asked for a comprehensive, in-depth study.

To evaluate current practices, offer revisions, and produce a single document, the Board created a staff working group on chartering issues. The working group met many times over the ensuing months to study the issues, consult examiners and chartering personnel in the regions, and to discuss proposed changes with the credit union community. In June 1988, the working group presented its proposed revisions to the Board and a second public comment period was opened.

In December 1988 after further fine-tuning, the Board approved the policies which became the basis for the chartering manual. The working group prepared its final report and the Board again asked for public comment. In July 1989, it approved the final document.

The new manual states that credit unions chartered at the local level are preferred. If a local credit union is not viable, it should be organized at the next higher level, making every effort to keep the credit union as local as possible. If a group or association asks for a charter which crosses regional lines, it must be approved by a majority of the directors of the affected NCUA regions and the director of the Office of Examination and Insurance.

Charter applicants are required to demonstrate economic feasibility by providing a detailed business plan. The manual states that background and credit checks are required for charter subscribers, prospective officers, and key employees. A minimum of 500 potential members was retained as a guideline if economic feasibility can be demonstrated.

The newly published manual also addresses mergers, conversions to federal charter, and field of membership expansions.

...chartering manual seeks to ensure that credit unions will remain as close to members as possible...

Safety and Soundness

The capital ratio for federally insured credit unions rose in 1989 and failures remained low, evidence that credit unions remain safe and sound. At mid-year, the capital ratio was 7.1 percent, compared to 6.4 for commercial banks and 2.6 for S&Ls.

During the year, NCUA initiated a number of practices designed to ensure that credit unions will continue to lead the nation as safe and sound financial institutions.

The supervision of troubled credit unions was increased by as much as 150 percent and showed impressive results after one year. Building on the staff development program begun in 1986, NCUA increased its supervision of credit unions with CAMEL code ratings of 4 and 5 by approximately 100,000 hours. Troubled credit unions went from 1,022 with $10.6 billion in assets on Oct. 1, 1988, to 794 with assets of $8.5 billion on Sept. 30, 1989.

The NCUA Board adopted two rules in 1989 aimed at preserving safety and soundness. A redefinition of risk assets for reserving purposes was approved after two years of study by the credit union community. Because of the risk inherent in long-term investments, the rule defines investments with maturities of more than three years as risk assets.

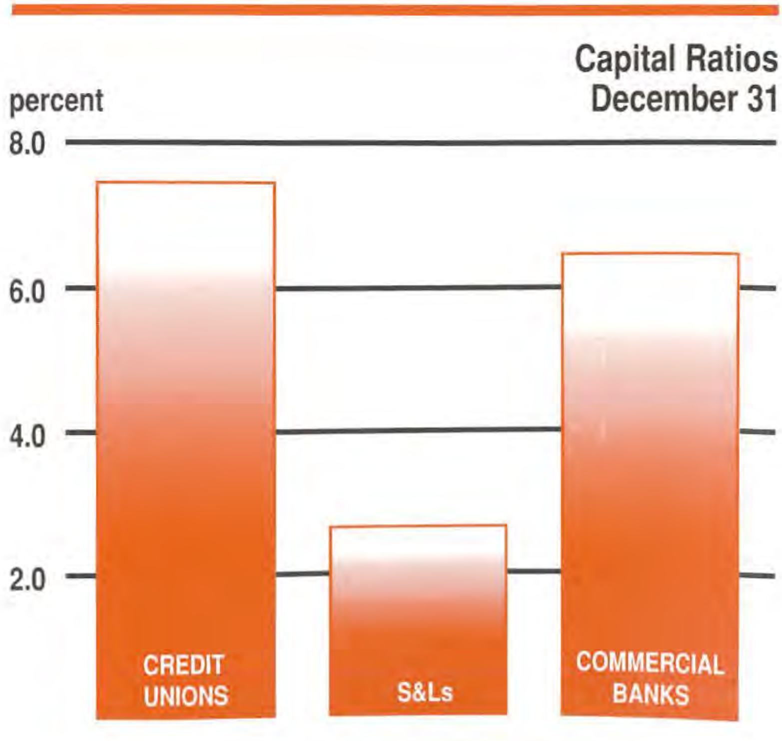
The Board also approved a rule limiting nonmember deposits in low-income credit unions to 20 percent of total shares. Healthy credit unions can accept higher levels of these deposits when they submit an acceptable plan for using the funds.

Since 1986, the NCUA Office of Chief Economist has presented a monthly economic analysis to the Board, and many of its studies are published and made available to credit unions. Using data extracted from semi-annual call reports, these studies provide information and analysis on which to base management decisions.

...credit unions will continue to lead the nation as safe and sound financial institutions.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 significantly expanded the enforcement powers of U.S. regulatory agencies, including NCUA. The act also required changes in NCUA Rules and Regulations designed to protect safety and soundness. NCUA welcomed this aspect of the legislation. NCUA has a history of responsible and restrained use of its enforcement authorities and is firmly committed to negotiated, mutually-agreed solutions whenever possible.

While 1989 was the year in which the safety and soundness of the nation's financial institutions became the focus of intense public, media, and Congressional attention, NCUA had long pursued that goal. That emphasis will continue.



Accountability

Accountability and quality control are the principles underlying NCUA supervision of credit unions. Every staff member and every division is responsible for high quality performance. Quality people, programs and tools are required to ensure that the examination of federally insured credit unions is professional, thorough, and fair.

Education is basic to professional supervision.

A uniform state/federal approach to the evaluation of credit union performance, risk, and data was the goal of the core examination jointly developed by NCUA and state supervisors. The automation of the core examination was an integral part of this achievement. All corporate credit unions and U.S. Central Credit Union also are examined annually by a specially trained team of state and federal examiners.

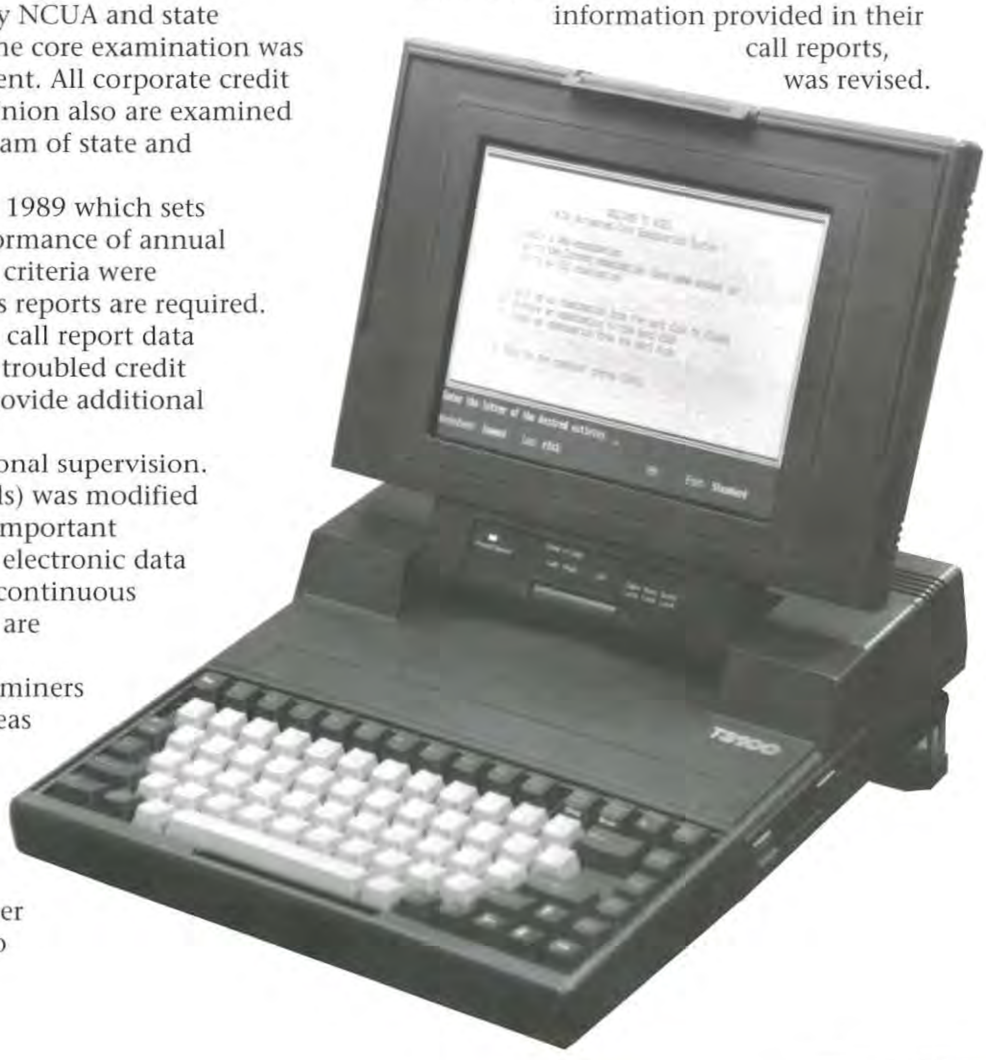
NCUA initiated a program in 1989 which sets minimum standards for the performance of annual examinations. Minimum review criteria were established and monthly progress reports are required. A risk evaluation report based on call report data identifies troubled or potentially troubled credit unions, allowing examiners to provide additional supervision when it is needed.

Education is basic to professional supervision. New examiner training (five levels) was modified and updated in 1989, and some important revisions were made. Training in electronic data processing begins at once and is continuous as new equipment and programs are acquired or developed.

Seminars for experienced examiners were increased to nine subject areas in 1989. A total of 850 state and federal examiners attended one of these seminars or one conducted by the Federal Financial Institutions Examination Council. The number of advanced seminars available to examiners will double in 1990.

The development of a comprehensive, information processing system is a significant factor in NCUA supervision. The system links 1,000 computers via a nationwide communication network that allows file sharing and electronic transmittal of financial data.

NCUA periodically reviews the documents it uses or provides to credit unions. An updated examiner's guide and a new accounting manual were completed in 1989. And the semi-annual financial performance report to individual credit unions, based on the information provided in their call reports, was revised.



The Future

Credit unions and the National Credit Union Administration came under increasing scrutiny in 1989 as major legislation revising the nation's financial institutions was enacted.

Congress turned down a proposal to restructure the Share Insurance Fund when it approved a bailout of savings and loan institutions—the main focus of consideration. In its place, it instructed the General Accounting Office to conduct a comprehensive, 18-month study of the credit union system.

NCUA is cooperating fully in the preparation of the studies.

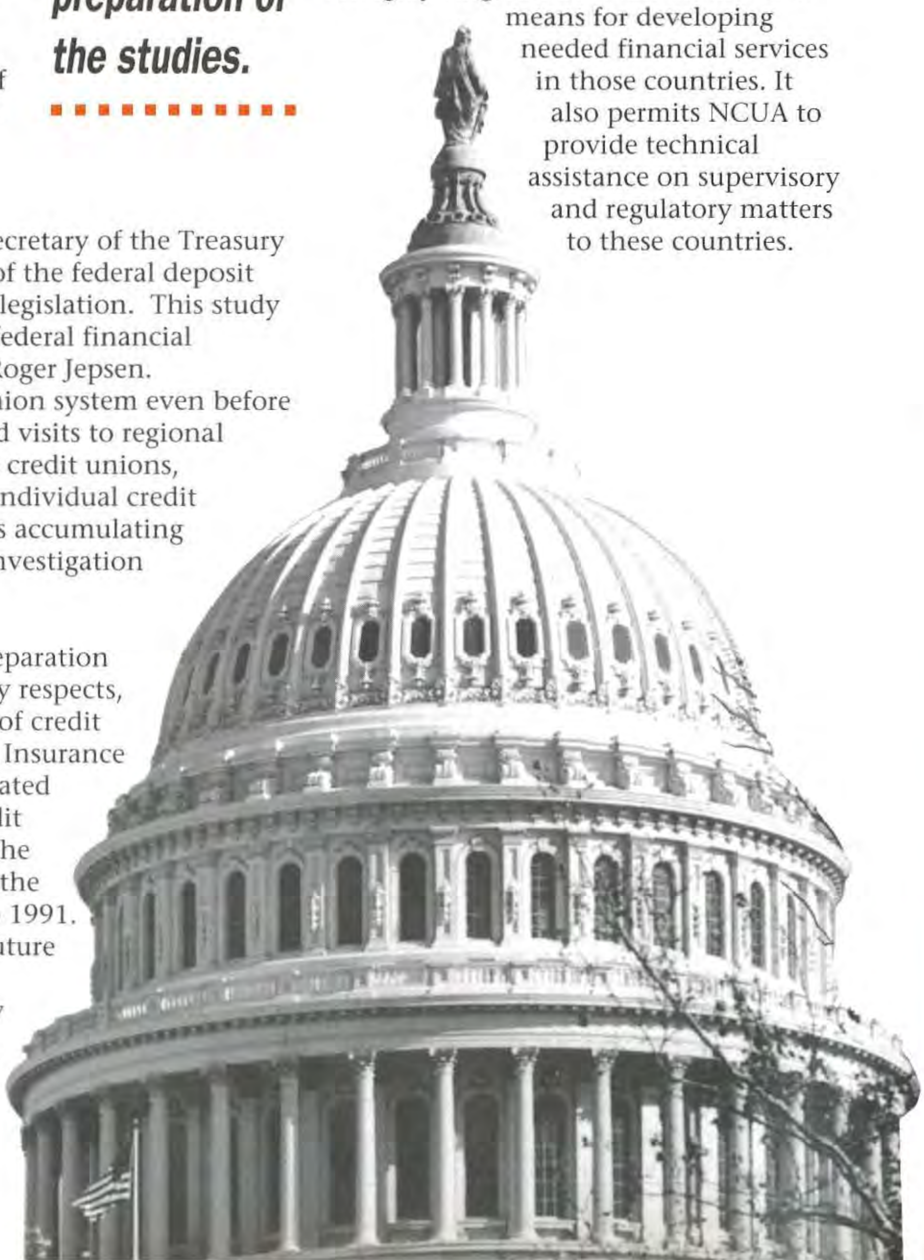
In addition to the GAO study, the Secretary of the Treasury is conducting another 18-month study of the federal deposit insurance system, also mandated in the legislation. This study will be conducted in consultation with federal financial regulators, including NCUA Chairman Roger Jepsen.

GAO began its study of the credit union system even before the legislation was signed. This included visits to regional offices, U.S. Central and other corporate credit unions, credit union service organizations, and individual credit unions. The amount of information it is accumulating and the broad range of interviews and investigation indicate this will be a thorough and professional study.

NCUA is cooperating fully in the preparation of the two studies. Overlapping in many respects, they have in common the examination of credit union capital, the structure of the Share Insurance Fund, whether the fund should be separated from NCUA, and state regulation of credit unions. These critical examinations of the status of credit unions and the safety of the Share Insurance Fund will continue into 1991. The outcome will affect the long-term future of credit unions.

The timing of the GAO and Treasury studies implies that 1990 will be a quiet legislative year for credit unions. It seems unlikely that Congress will turn major attention to credit unions until these studies are completed.

There were other indications in 1989 that Congress continues to recognize the public service credit unions provide. Legislation authorizing assistance to the new governments of Poland and Hungary singled out credit unions as a means for developing needed financial services in those countries. It also permits NCUA to provide technical assistance on supervisory and regulatory matters to these countries.



Share Insurance Fund

The National Credit Union Share Insurance Fund ended fiscal year 1989 healthier than ever before. Total assets passed the $2 billion mark, and the NCUA Board waived the 1990 insurance premium for the sixth consecutive year.

Although it suffered its largest single insurance loss in history, the fund's equity ratio on September 30 was 1.25 percent, up from 1.24 on the same day in 1988. After adjustments to reserves, the fund had $1.25 in reserves for every $100 of insured shares, and the equity ratio is expected to be near its cap of 1.3 percent by the end of the 1990 insurance year on June 30.

Total revenue increased 17 percent in 1989 to a record $148.8 million, while operating costs grew by 16 percent to $30.8 million. Expenses included the cost of operating the Asset Liquidation Management Center and of providing training for state examiners. The fund received an unqualified audit opinion from its independent auditors for the fifth consecutive year.

Insurance losses in 1989 were $93.6 million compared to $60.1 in 1988, with the loss at Franklin Community Federal Credit Union, Omaha, totaling almost $40 million. As a result, insurance losses per $1,000 of insured shares reached 58 cents for the year, compared to 38 cents for 1988.

At September 30, NCUSIF insured 8,914 Federal credit unions and 4,634 state credit unions, with insured shares totaling $163 billion. During the year, 520 mergers and liquidations took place, 64 less than in the previous fiscal year.

Because the insurance year which ended June 30 was a relatively slow growth year for credit unions, many received deposit refunds for the first time. About 6,300 credit unions received a total refund of $31 million, and the remaining 7,600 increased their capitalization deposits by $81 million.

Since the recapitalization of the Share Insurance Fund in 1984, the fund has maintained its equity level between 1.25 and 1.30 percent, and has paid all operating costs and insurance losses from earnings on its investments. Consequently, the NCUA Board waived an insurance assessment of $135 million for 1990, the sixth year it has done so.

...National Credit Union Share Insurance Fund ended fiscal year 1989 healthier than ever...

Central Liquidity Facility

Formation of the National Credit Union Administration Central Liquidity Facility culminated four decades of legislative effort to establish a federal funds system to serve the liquidity needs of credit unions.

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 the end of the fiscal year, September 30, it had a loan portfolio of $112.2 million, $8.2 million less than the amount of $120.4 million on the same day in 1988. It also had $13.5 million in lines of credit to four private share insurance funds.

Although all of its funds come from its member credit unions, CLF's operating budget must be approved by Congress. During 1989, it had expenses of $812,372, less than the approved budget of $880,000.

...CLF is a central source of short-term funds for credit unions...

A reserve target of $600,000 set by the NCUA Board was exceeded, reaching $679,220 by year end. Member equity was $438.9 million, compared with $408.4 million the previous year.

To become a member of CLF, a credit union or its designated agent purchases shares of stock equal to one-half of one percent of the credit union's unimpaired capital and surplus. There are 15,000 member credit unions represented by 42 agents and another 218 individual member credit unions.

Dividends of $35.2 million, 98 percent of net earnings, were paid to member credit unions in 1989 for an 8.3 percent return on members' 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 74 days. The average yield on investments was 8.5 percent in 1989 compared to 8.4 percent for 90-day U.S. Treasury bills.

Financial Highlights
September 30

	1989
OPERATING RESULTS	
Operating Net Income	35,330,000
Dividends	34,651,000
Net Earnings and Additions to Reserves	679,000
AT FISCAL YEAR END	
Total Assets	565,637,000
Total Member Shares and Retained Earnings	438,908,000
Total Loans	112,172,000
Total Employees	4
Total Members: via Agents (credit unions)	42(15,000)
Direct Members	218

Financial Results

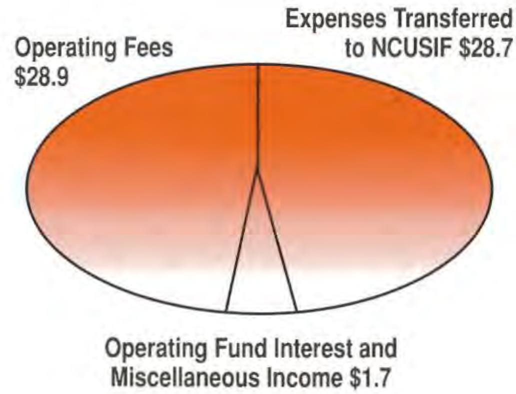
The financial condition of NCUA remained strong during fiscal year 1989. The cost of operations was well within budget, revenue exceeded projections by a small margin, and the reserves of the Operating Fund continued to grow.

The accompanying financial statements summarize the financial position of the Operating Fund, disclose the full cost of the operations charged to the Operating Fund during fiscal years 1988 and 1989, and present all significant sources and uses of resources during the two fiscal years. An outside auditor once again rendered an unqualified opinion.

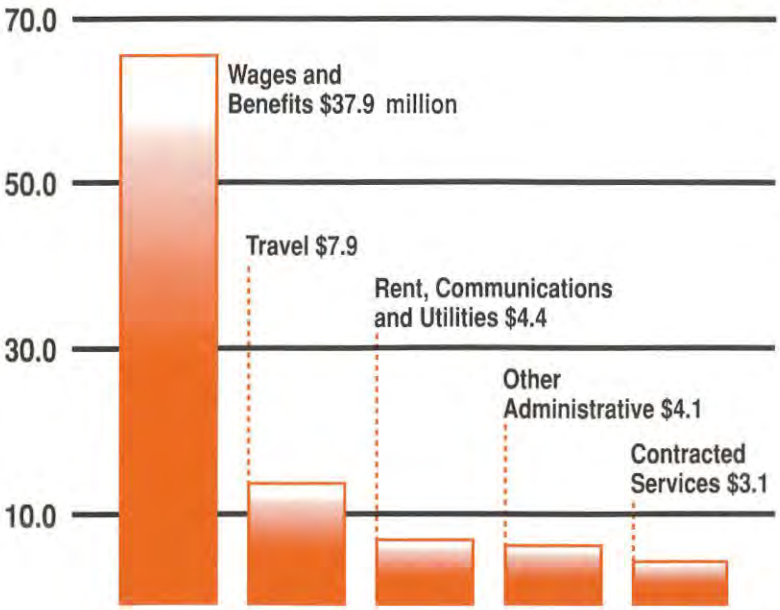
Actual expenses for fiscal year 1989 were $57.5 million, 3.9 percent under the budget of $59.9 million. The largest savings occurred in employee wages–888 actual full-time equivalent staff members versus 906 budgeted–primarily due to turnover and normal time lapses in filling vacancies. In addition, travel expenses were significantly below budget, mainly due to rearranged training travel.

The cost of NCUA operations is shared by the National Credit Union Share Insurance Fund and NCUA's Operating Fund. Expenses are divided each month through an accounting procedure known as the overhead transfer. The rate used is based on an annual study of staff time and currently is 50 percent.

FY '89 Funding Sources (in millions)



Operating Expenses December 31



Revenue to fund the cost of operations comes primarily from earnings on Share Insurance Fund investments and annual operating fees collected from federal credit unions. In addition, the Operating Fund receives lesser amounts of income from overnight investments of idle cash and miscellaneous income from sources such as the sale of publications.

The Operating Fund's total revenue of $30.6 million during fiscal year 1989 was above original budget projections by about $440,000 or 1.5 percent. This additional revenue combined with below budget expenses resulted in an excess of revenue over expenses of $1.8 million (net income) and an increase in the fund equity balance to almost $5.7 million.

Auditor's Report

Operating Fund Report and Financial Statements
for the Years Ended September 30, 1989 and 1988

Report of Independent Accountants

Price Waterhouse

To the Board of the National Credit Union Administration

In our opinion, the statements appearing on pages 18 through 22 of this report present fairly, in all material respects, the financial position of the National Credit Union Administration-Operating Fund at September 30, 1989 and 1988 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's 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 *Government Auditing Standards* issued by the Comptroller General of the United States 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.

November 15, 1989

Operating Fund Balance Sheets

	Year Ended September 30, 1989	1988
ASSETS		
Cash, including cash equivalents of $7,053,043 and $4,460,000 (Note B)	$ 7,053,043	$ 4,474,586
Due from National Credit Union Share Insurance Fund (Note C)	191,721	711,822
Employee advances	392,387	620,659
Other accounts receivable	254,024	168,338
Prepaid expenses	247,045	218,871
Land and office building, net of accumulated depreciation of $63,281 and $21,093	2,194,671	2,232,431
Furniture and equipment, net of accumulated depreciation of $3,190,760 amd $3,622,181	4,504,087	4,982,666
Leasehold improvements, net of accumulated amortization of $97,730 and $67,458	374,564	407,967
Total assets	**$15,211,542**	**$13,817,340**
LIABILITIES AND FUND BALANCE		
Accounts payable	$ 1,495,530	$ 2,604,417
Accrued wages and benefits	2,218,144	1,968,637
Accrued annual leave	2,909,260	2,584,869
Accrued employee travel	860,924	675,015
Note payable to National Credit Union Share Insurance Fund (Note C)	2,052,766	2,124,766
Total liabilities	**9,536,624**	**9,957,704**
Fund Balance:		
Available for operations	654,362	(1,343,172)
Invested in fixed assets, net	5,020,556	5,202,808
Total fund balance	**$ 5,674,918**	**$ 3,859,636**
Commitments (Note D)		
Total liabilities and fund balance	**$15,211,542**	**$13,817,340**

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, 1989	1988
REVENUE		
Operating fee revenue	$ 28,925,893	$ 25,342,427
Investment income	1,291,900	845,761
Miscellaneous income	366,076	180,358
Total revenue	**$30,583,869**	**$26,368,546**
EXPENSES (NOTE C)		
Employee wages and benefits	18,973,325	16,743,207
Travel expense	3,977,074	3,906,335
Rent, communications, and utilities	2,197,839	2,254,111
Contracted services	1,552,305	1,366,272
Other administrative	2,068,044	2,235,771
Total administrative expenses	**$28,768,587**	**$26,505,696**
Excess of revenue (expenses)	1,815,282	(137,150)
Fund balance at beginning of year	3,859,636	3,996,786
Fund balance at end of year	$ 5,674,918	$ 3,859,636

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

Operating Fund Statements of Cash Flows

	Year Ended September 30, 1989	1988
Cash flows from operating activities:		
Excess of revenue (expenses)	$ 1,815,282	$ (137,150)
Adjustments to reconcile excess of (expenses) revenue to net cash provided by operating activities:		
Depreciation and amortization	1,498,041	1,429,689
Gain on disposition of fixed assets	(4,361)	(16,974)
Changes in operating assets and liabilities:		
Decrease in amounts due from National Credit Union Share Insurance Fund	520,101	1,767,077
Decrease (increase) in employee advances	228,272	(45,000)
Increase in other accounts receivable	(85,686)	(78,661)
Increase in prepaid expenses	(28,174)	(89,074)
Decrease in accounts payable	(1,108,887)	(479,179)
Increase in accrued wages and benefits	249,507	504,823
Increase in accrued annual leave	324,391	346,709
Increase (decrease) in accrued employee travel	185,909	(289,025)
Net cash provided by operating activities	3,594,395	2,913,235
Cash flows from investing activities:		
Purchases of fixed assets	(949,778)	(3,820,632)
Proceeds from sale of fixed assets	5,840	18,005
Net cash used by investing activities	(943,938)	(3,802,627)
Cash flows from financing activities:		
Proceeds from issuance of note payable		2,160,766
Repayments of note payable	(72,000)	(36,000)
Net cash (used) provided by financing activities	(72,000)	2,124,766
Net increase in cash and cash equivalents	2,578,457	1,235,374
Cash and cash equivalents at beginning of year	4,474,586	3,239,212
Cash and cash equivalents at end of year	**$7,053,043**	**$4,474,586**
Composed of:		
Cash		$ 14,586
Cash equivalents - U.S. Government securities with maturities less than 3 months	7,053,043	4,460,000
Total	**$7,053,043**	**$4,474,586**

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

Notes to Financial Statements
September 30, 1989

Note A • Organization and Purpose

The National Credit Union Administration–Operation 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. All investments in fiscal years 1989 and 1988 were cash equivalents and are stated at cost which approximates market. Cash equivalents are highly liquid investments with original maturities of three months or less.

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 • Transactions With The National Credit Union 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 the NCUA Board derived from an estimate of actual usage. The allocation factor was 50% to NCUSIF and the Fund in the years ended September 30, 1989 and 1988. The cost of the services allocated to NCUSIF, which totaled approximately $28,769,000 and $26,506,000 for the years ended September 30, 1989 and 1988, 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 1989 was approximately 8.1%. The outstanding principal balance at September 30, 1989 was $2,052,766. The total interest paid in fiscal years 1989 and 1988 was $184,275 and $80,507.

Note D • Commitments

The Fund leases certain office space under lease agreements which expire through 1998. Office rental charges for the years ended September 30, 1989 and 1988 amounted to approximately $2,279,000 and $2,274,000 of which approximately $1,140,000 and $1,137,000 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, 1989, are as follows:

1990	$ 2,041,000
1991	1,998,000
1992	1,847,000
1993	1,685,000
1994	1,625,000
Thereafter	1,449,000
	$10,645,000

Based on the allocation factor approved by the NCUA Board for fiscal year 1990, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

Note E • 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, 1989 and 1988 were approximately $3,145,000 and $2,602,000 of which $1,572,500 and $1,301,000 was reimbursed by NCUSIF, respectively.

The Fund does not account for the assets for 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.

Financial Data

Consolidated Balance Sheet

December 31 (In thousands)

	1988	1989	Percentage change
ASSETS			
Cash	$ 2,447,164	$ 2,750,344	12.4
Loans outstanding	73,766,200	80,272,306	8.8
Allowance for loan losses	(542,050)	(642,603)	18.6
U.S. Gov/Fed Agency Securities	10,963,479	9,874,616	-9.9
Commercial banks	3,394,202	5,786,794	70.5
S&Ls and mutual savings banks	9,743,907	7,110,989	-27.0
Corporate credit unions	6,798,380	9,341,718	37.4
Mutual funds	948,877	799,917	-15.7
NCUSIF capitalization deposit	948,154	1,000,428	5.5
Other investments[1]	2,815,506	760,189	-73.0
Total investments	**$ 35,612,505**	**$ 34,674,651**	**-2.6**
Allowance for investment losses	(58,481)	(38,166)	-34.7
Land and building (net of depreciation)	1,435,557	1,600,562	11.5
Other fixed assets	638,646	662,123	3.7
Other assets	1,265,037	1,387,196	9.7
Total assets	**$114,564,579**	**$120,666,414**	**5.3**
LIABILITIES			
Notes payable	1,039,916	891,369	-14.3
Dividends payable	669,363	714,356	6.7
Accounts payable and other liabilities	641,120	646,115	0.8
Total liabilities	**$ 2,350,400**	**$ 2,251,839**	**-4.2**
EQUITY/SAVINGS			
Regular shares	52,187,852	48,745,671	-6.6
Share certificates	18,503,281	24,300,406	31.3
IRA/Keogh accounts	14,875,008	15,981,573	7.4
Share drafts	10,134,253	10,940,973	8.0
All other shares	8,731,091	9,683,977	10.9
Total savings	**$104,431,487**	**$109,652,600**	**5.0**
Regular reserves	3,162,911	3,537,735	11.9
Other reserves	1,053,106	1,152,691	9.5
Undivided earnings	3,566,674	4,071,548	14.2
Total equity/savings	**$112,214,178**	**$118,414,574**	**5.5**
Total liabilities/equity	**$114,564,579**	**$120,666,414**	**5.3**

[1]1988 figure includes all federal funds.

Note: Because of rounding, detail may not add to totals.

Consolidated Income and Expense Statement
December 31 (In thousands)

	1988	1989	Percentage change
INCOME			
Interest on loans	$ 7,782,350	$ 8,834,735	13.5
Less: Interest refund	(13,341)	(12,874)	-3.5
Income from investments	2,846,387	2,936,083	3.2
Other operating income	557,981	662,260	18.7
Total gross income	**$11,173,377**	**$12,420,204**	**11.2**
EXPENSES			
Employee compensation and benefits	1,650,378	1,821,906	10.4
Travel and conference expenses	59,219	63,360	7.0
Office occupancy	202,116	231,283	14.4
Office operations expense	755,483	831,786	10.1
Educational and promotional	90,736	97,161	7.1
Loan servicing expense	102,948	118,494	15.1
Professional and outside services	274,585	303,743	10.6
Provision for loan losses	488,601	588,914	20.5
Provision for investment losses	12,631	605	-95.2
Member insurance	147,890	147,435	-0.3
Operating fees	26,464	29,917	13.0
Miscellaneous operating expenses	120,289	129,003	7.2
Total operating expenses	**$ 3,931,342**	**$ 4,363,607**	**11.0**
NON-OPERATING GAINS OR LOSSES			
Gain (loss) on investments	2,474	(2,557)	-203.4
Gain (loss) on disposition of assets	4,485	8,336	85.9
Other non-operating income (expense)	7,416	6,221	-16.1
Total income (loss) before cost of funds	**$ 7,256,409**	**$ 8,068,597**	**11.2**
COST OF FUNDS			
Interest on borrowed money	77,065	113,182	46.9
Dividends	6,148,090	6,909,708	12.4
Net transfer to statutory reserves	**$ 232,238**	**$ 264,929**	**14.1**
Net income (loss) after costs of funds and net reserve transfers	**$ 799,016**	**$ 780,778**	**-2.3**

Note: Because of rounding, detail may not add to totals.

Federal Credit Unions by State
December 31

	Number FCUs 1989	Assets (in millions) 1989	Assets (in millions) 1988	Percent change 1988 to 1989
Alabama	136	$1,723	$1,781	-3.3
Alaska	16	1,248	1,196	4.3
Arizona	49	1,708	1,617	5.6
Arkansas	83	464	419	10.7
California	684	19,616	18,630	5.3
Colorado	124	1,828	1,774	3.0
Connecticut	205	2,310	2,309	0.0
Delaware	56	462	443	4.3
District of Columbia	107	2,086	1,870	11.6
Florida	216	6,596	6,471	1.9
Georgia	209	1,927	1,836	5.0
Guam	3	64	55	16.4
Hawaii	130	2,367	2,199	7.6
Idaho	48	514	497	3.4
Illinois	253	1,903	1,841	3.4
Indiana	289	4,103	3,912	4.9
Iowa	7	40	36	11.1
Kansas	42	351	320	9.7
Kentucky	114	994	952	4.4
Louisiana	287	1,710	1,643	4.1
Maine	102	1,224	1,172	4.4
Maryland	164	3,033	2,832	7.1
Massachusetts	244	3,811	3,572	6.7
Michigan	220	4,007	3,881	3.2
Minnesota	62	1,641	1,499	9.5
Mississippi	121	641	614	4.4
Missouri	23	160	157	1.9

Note: Differences in assets from other tables is due to rounding.

Number of Federal Credit Unions by Asset Size
December 31

Asset size	Number of FCUs	Percentage of total	Cumulative percentage
Less than $50 thousand	147	1.7	1.7
$50 to $100 thousand	185	2.1	3.8
$100 to $250 thousand	622	7.1	10.8
$250 to $500 thousand	766	8.7	19.5
$500 thousand to $1 million	1,103	12.5	32.0
$1 million to $2 million	1,257	14.3	46.3
$2 million to $5 million	1,685	19.1	65.4
$5 million to $10 million	1,105	12.5	77.9
$10 million to $20 million	783	8.9	86.8
$20 million to $50 million	682	7.7	94.5
$50 million to $100 million	253	2.9	97.4
$100 million and over	233	2.6	100.0
Total	**8,821**		

Federal Credit Unions by State
December 31 (continued)

	Number FCUs 1989	Assets (in millions) 1989	Assets (in millions) 1988	Percent change 1988 to 1989
Montana	84	$ 534	$ 539	-0.9
Nebraska	70	593	575	3.1
Nevada	30	912	860	6.0
New Hampshire	18	527	527	0.0
New Jersey	412	3,282	3,226	1.7
New Mexico	39	903	836	8.0
New York	833	9,609	9,114	5.4
North Carolina	96	1,604	1,454	10.3
North Dakota	25	84	85	-1.2
Ohio	478	3,024	2,947	2.6
Oklahoma	83	976	957	2.0
Oregon	128	1,332	1,281	4.0
Pennsylvania	996	5,766	5,525	4.4
Puerto Rico	32	174	172	1.2
Rhode Island	13	17	17	0.0
South Carolina	100	1,734	1,535	13.0
South Dakota	73	364	339	7.4
Tennessee	130	1,867	1,786	4.5
Texas	604	9,149	8,125	12.6
Utah	52	390	365	6.8
Vermont	8	127	116	9.5
Virgin Islands	5	12	9	33.3
Virginia	219	8,136	7,742	5.1
Washington	112	1,854	1,792	3.5
West Virginia	145	741	706	5.0
Wisconsin	3	157	144	9.0
Wyoming	39	270	265	1.9
Total	**8,821**	**$120,669**	**$114,567**	**5.3**

Note: Differences in assets from other tables is due to rounding.

Federal Credit Unions by Asset Size
December 31

Asset size	Assets (in thousands)	Percentage of total	Cumulative percentage
Less than $50 thousand	$ 4,343	0.0	0.0
$50 to $100 thousand	14,024	0.0	0.0
$100 to $250 thousand	109,593	0.1	0.1
$250 to $500 thousand	280,462	0.2	0.3
$500 thousand to $1 million	807,918	0.7	1.0
$1 million to $2 million	1,834,455	1.5	2.5
$2 million to $5 million	5,506,552	4.6	7.1
$5 million to $10 million	7,772,910	6.4	13.5
$10 million to $20 million	11,116,676	9.2	22.7
$20 million to $50 million	21,231,497	17.6	40.3
$50 million to $100 million	17,891,098	14.8	55.2
$100 million and over	54,096,887	44.8	100.0
Total	**$120,666,415**		

Loans Outstanding
December 31 (In millions)

	1985	1986	1987	1988	1989
Loans outstanding	$48,241	$55,305	$64,104	$73,766	$80,272
Allowance for loan losses	354	415	466	542	643
Regular reserves	2,132	2,417	2,764	3,163	3,538
Amount of delinquent loans	1,006	1,172	1,219	1,326	1,418
Loans charged off	253	381	448	522	612
Recoveries on loans	46	53	64	81	86
Provision for loan losses	249	355	418	489	589
SIGNIFICANT RATIOS (as a percentage of loans outstanding)					
Alllowance for loan losses	0.73	0.75	0.73	0.73	0.80
Regular reserves	4.42	4.37	4.31	4.29	4.41
Delinquent loans	2.09	2.12	1.90	1.80	1.77
Loans charged off	0.52	0.69	0.70	0.71	0.76
Net loans charged off	0.43	0.59	0.60	0.60	0.66
Provision for loan losses	0.52	0.64	0.65	0.66	0.73

Percentage Distribution of Savings by Type of Account
December 31 (In millions)

Type of account	1985	1986	1987	1988	1989
Regular shares	69.3	71.6	71.2	68.1	63.2
Share drafts	9.5	9.7	10.0	9.7	10.0
Other regular shares	59.8	61.9	61.2	58.4	53.2
Share certificates	30.7	28.4	28.8	31.9	36.8
IRA and Keogh	11.7	13.4	14.2	14.2	14.6
Other certificates	19.0	15.0	14.6	17.7	22.2
Total savings	**$71,616**	**$87,954**	**$96,346**	**$104,431**	**$109,653**

Annual Growth Rates in Reserves and Undivided Earnings

	1982	1983	1984	1985	1986	1987	1988	1989
Total reserves	14.7	13.7	23.0	22.4	18.0	16.0	15.3	12.6
Regular reserve	9.6	12.4	20.9	19.3	13.4	14.4	14.4	11.9
Other reserves	10.2	15.6	25.7	13.3	21.6	7.5	9.5	9.5
Undivided earnings	23.4	14.6	24.4	29.6	21.4	20.6	18.0	14.2

Total Investments 1985 to 1989
December 31 (In millions)

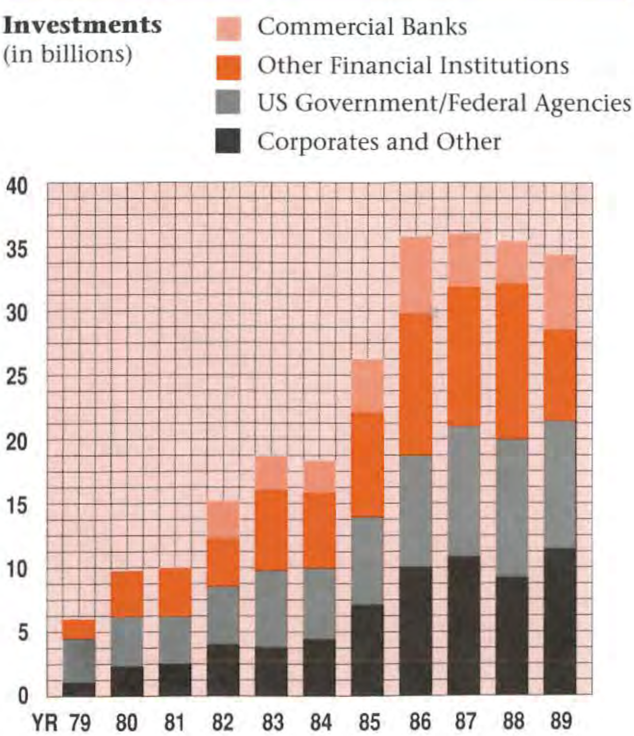
	1985	1986	1987	1988	1989
U.S. government obligations	$ 2,409	$ 3,518	$ 4,439	$ 4,123	$ 3,138
Federal agency securities	4,548	5,270	5,979	6,840	6,737
Mutual funds	640	1,801	1,193	949	800
Deposits in commercial banks	4,146	5,757	4,134	3,394	5,787
Deposits in S&Ls and savings banks	8,113	10,700	10,840	9,744	7,111
Shares/deposits in corporate CUs	5,079	7,136	6,286	6,798	9,342
NCUSIF capitalization deposits	602	709	815	948	1,000
Investments in other CUs	126	165	189	267	225
Other investments[1]	594	653	2,435	2,549	535
Allowance for investment losses	(17)	(21)	(58)	(54)	(38)
Total investments	**$26,240**	**$35,688**	**$36,253**	**$35,554**	**$34,636**

PERCENTAGE BREAKDOWN PER YEAR

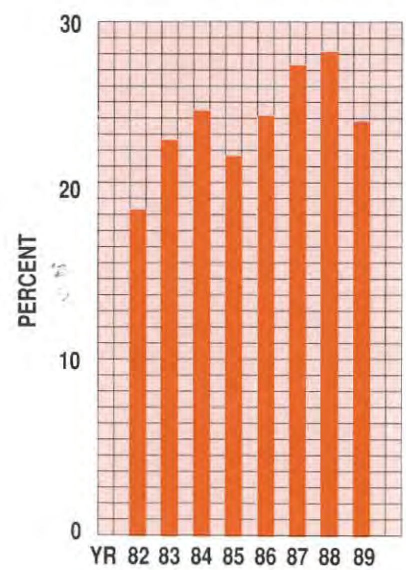
	1985	1986	1987	1988	1989
U.S. government obligations	9.2	9.9	12.2	11.6	9.1
Federal agency securities	17.3	14.8	16.5	19.2	19.5
Mutual funds	2.4	5.0	3.3	2.7	2.3
Deposits in commercial banks	15.8	16.1	11.4	9.5	16.7
Deposits in S&Ls and savings banks	30.9	30.0	29.9	27.4	20.5
Shares/deposits in corporate CUs	19.4	20.0	17.3	19.1	27.0
Share insurance/other capital deposits	2.3	2.0	2.2	2.7	2.9
Investments in other CUs	0.5	0.5	0.5	0.8	0.6
Other investments[1]	2.3	1.8	6.7	7.2	1.5

[1]Includes loans to other credit unions, shares in the Central Liquidity Facility and other investments. 1987 and 1988 figures include all federal funds.

Investments
(in billions)



Long Term Investments as a Percentage of Total Investments



Federal Credit Unions Experiencing Losses
December 31

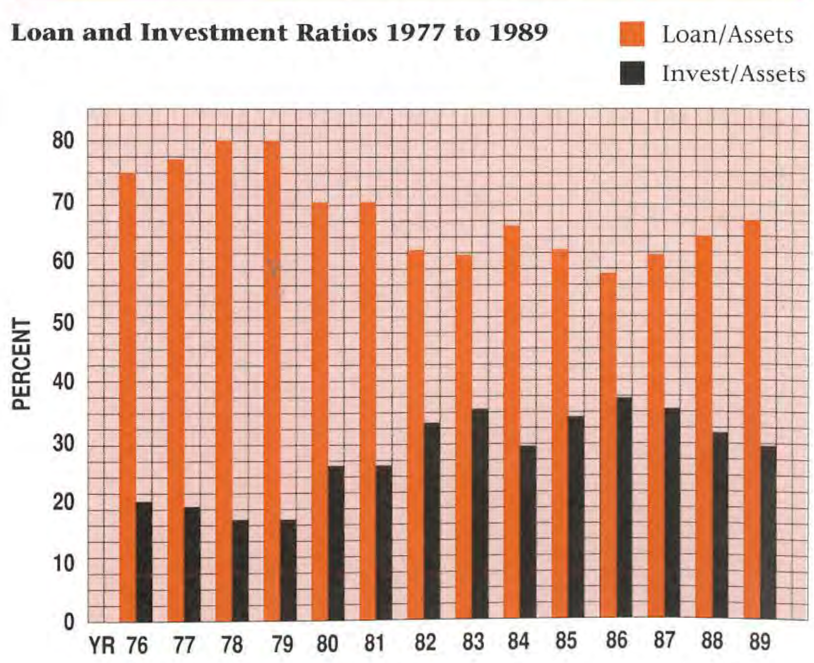
Year	Number of Federal Credit Unions	Number experiencing losses	Percentage of total	Negative earnings (in thousands)
1981	11,969	2,561	21.4	$ 82,735
1982	11,631	2,572	22.1	63,098
1983	10,963	2,443	22.3	45,434
1984	10,547	1,041	9.9	18,555
1985	10,125	1,178	11.6	31,604
1986	9,758	1,360	13.9	43,805
1987	9,401	1,481	15.8	71,410
1988	9,118	1,074	11.8	78,212
1989	8,821	1,008	11.4	$126,383

CAMEL Rating System
December 31, Number by Categories

EWS/CAMEL category	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Change
Codes 1 and 2	7,862	7,237	7,093	7,365	7,425	7,250	6,536	5,800	5,649	5,551	-98
Code 3	3,770	3,737	3,751	2,855	2,623	2,460	2,734	3,063	2,919	2,857	-62
Code 4	585	720	661	646	451	375	440	486	480	386	-94
Code 5	223	175	126	97	48	40	48	52	70	27	-43
Total	**12,440**	**11,869**	**11,631**	**10,963**	**10,547**	**10,125**	**9,758**	**9,401**	**9,118**	**8,821**	**-297**

CAMEL implemented in 1987.
EWS (Early Warning System) Code 5 implemented during 1980.

Loan and Investment Ratios 1977 to 1989



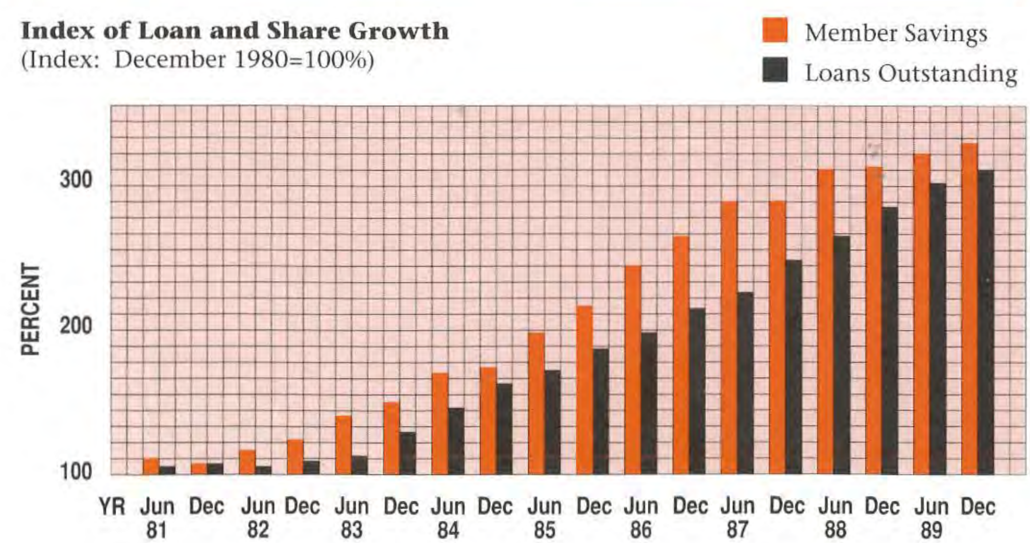
Federal Credit Unions Experiencing Losses by Asset Size
December 31

Asset size	Number of FCUs	Assets	1989 losses	Reserves and undivided earnings
Less than $1 million	377	$ 161,624,132	$ 2,956,775	$ 14,647,392
$1 million to $2 million	143	204,225,233	2,719,360	13,627,021
$2 million to $5 million	170	556,636,299	6,743,867	31,368,833
$5 million to $10 million	138	953,143,685	10,194,878	49,841,141
$10 million to $20 million	66	969,822,576	8,874,880	42,938,649
$20 million to $50 million	76	2,248,944,525	19,060,935	96,527,017
$50 million and over	38	5,469,371,272	75,831,932	194,898,534
Total	**1,008**	**$10,563,767,722**	**$126,382,627**	**$443,848,587**

CAMEL Codes 4 and 5 Distribution by Asset Size
December 31

Asset size	Number of CUs	Total assets (in thousands)
Less than $1 million	171	$ 56,736
$1 million to $10 million	156	602,205
$10 million to $20 million	32	441,933
$20 million to $50 million	32	943,417
$50 million to $100 million	11	766,642
Greater than $100 million	11	3,013,955
Total	**413**	**$5,824,888**

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



Selected Data for Federal Credit Unions
December 31, 1934 to 1989

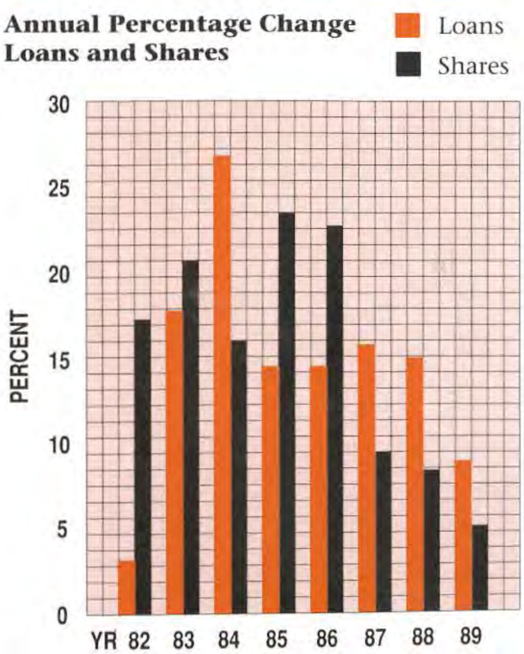
Year	Charters Issued	Charters Canceled	Net Change	Total Outstanding	Inactive Credit Unions	Active Credit Unions	Members	(amounts in thousands of dollars) Assets[1]	Shares[1]	Loans Outstanding
1934[2]	78		78	78	39	39	3,240	$ 23	$ 23	$ 15
1935	828		828	906	134	772	119,420	2,372	2,228	1,834
1936	956	4	952	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
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

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

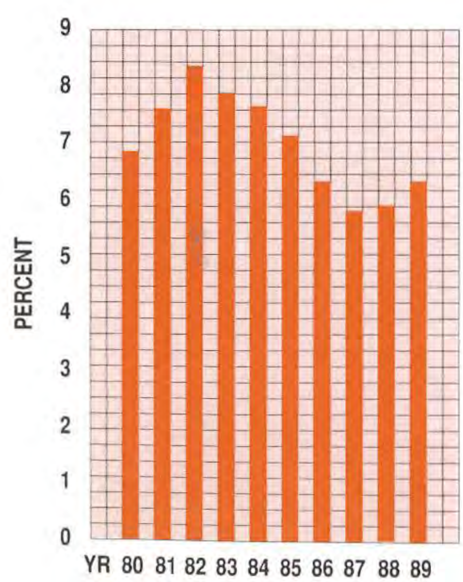
Selected Data for Federal Credit Unions
December 31, 1934 to 1989 (continued)

Year	Charters Issued	Charters Canceled	Net Change	Total Outstanding	Inactive Credit Unions	Active Credit Unions	Members	Assets (amounts in thousands of dollars)	Shares	Loans Outstanding
1969	705	323	382	13,404	483	12,921	11,301,805	$ 7,793,573	$ 6,713,385	$ 6,328,720
1970	563	412	151	13,555	578	12,977	11,966,181	8,860,612	7,628,805	6,969,006
1971	400	461	-61	13,494	777	12,717	12,702,135	10,533,740	9,191,182	8,071,201
1972	311	672	-361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	-159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	-2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	-33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	-50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	-198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	-435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	-442	11,925	294	11,631	26,114,649	49,755,270	45,503,266	27,998,657
1983	107	736	-629	11,296	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984	135	664	-529	10,767	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985	55	575	-520	10,247	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	-382	9,865	107	9,758	31,041,142	95,483,421	87,953,642	55,304,267
1987	41	460	-419	9,446	45	9,401	32,066,542	105,189,725	96,346,488	64,104,411
1988	45	201	-156	9,290	172	9,118	34,438,304	114,564,579	104,431,487	73,766,200
1989	23	307	-284	9,006	185	8,821	35,612,317	120,666,414	109,652,600	80,272,306

Annual Percentage Change Loans and Shares

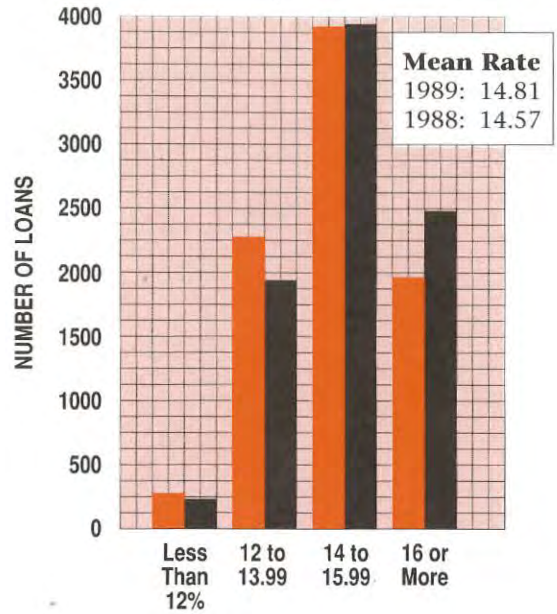


Effective Cost of Shares



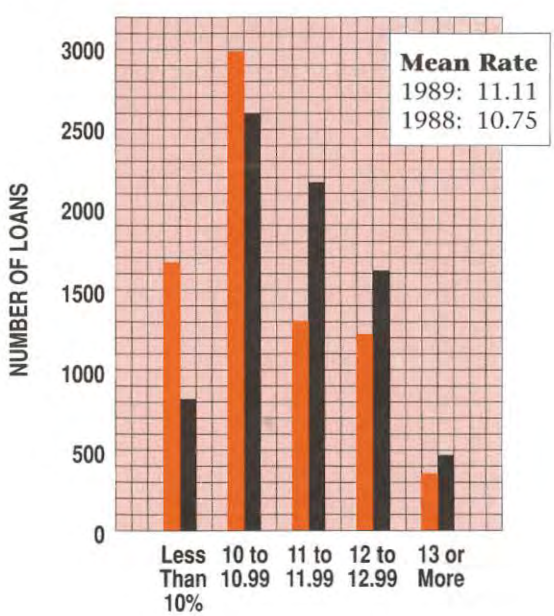
Distribution of Interest Rates
Unsecured Loans

1988
1989



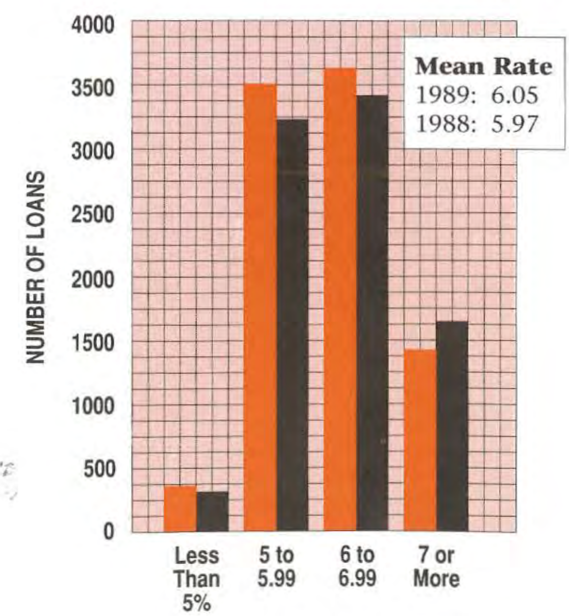
Distribution of Interest Rates
New Car Loans

1988
1989

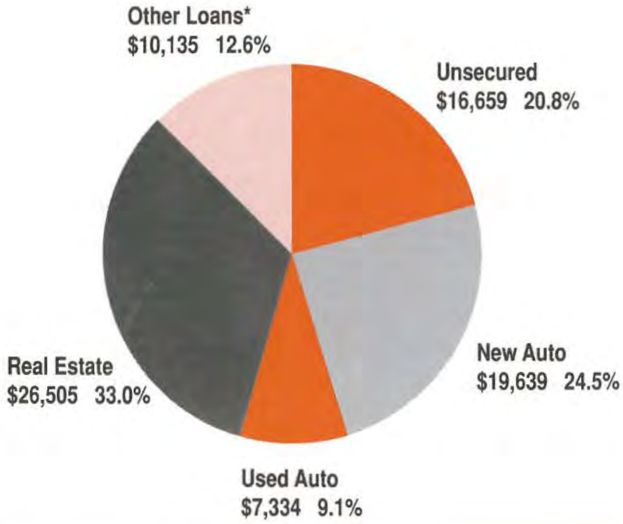


Distribution of Dividend Rates
Paid on Regular Shares

1988
1989

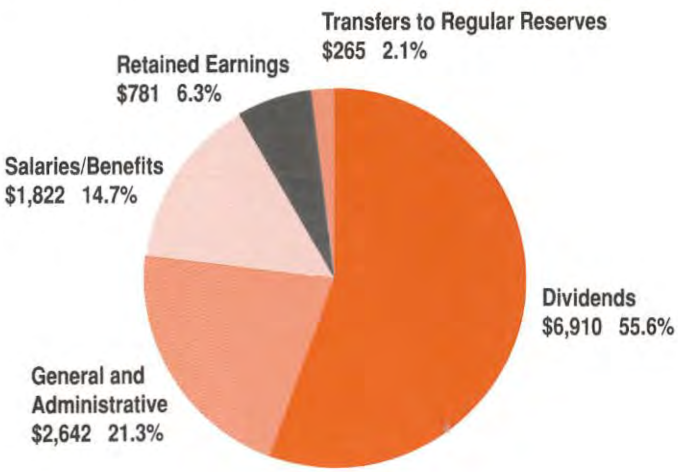


Loan Distribution
(in millions)

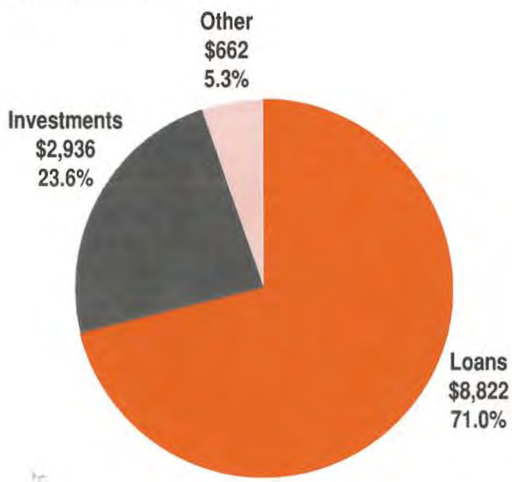


* Agricultural	$ 45	0.1%
Commercial	$ 914	1.1%
Miscellaneous	$9,176	11.4%

Uses of Funds
(in millions)



Sources of Income
(in millions)



Federal Credit Union Data 10 Year Summary, 1980 to 1989

December 31 (Dollar amounts in millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Number of credit unions	12,440	11,969	11,631	10,976	10,548	10,125	9,758	9,401	9,118	8,821
Number of members	24,519,087	25,459,059	26,114,649	26,798,799	28,191,922	29,578,808	31,041,142	32,066,542	34,438,304	35,612,317
Assets	$37,515	$39,181	$45,494	$54,482	$63,656	$78,188	$95,484	$105,190	$114,565	120,666
Loans outstanding	26,165	27,238	28,192	33,201	42,133	48,241	55,305	64,104	73,766	80,272
Shares	33,812	35,248	41,352	49,891	57,929	71,616	87,954	96,346	104,431	109,653
Reserves[1]	1,473	1,614	1,773	2,007	2,451	2,884	3,312	3,725	4,216	4,690
Undivided earnings	709	906	1,118	1,281	1,592	2,063	2,506	3,023	3,567	4,072
Gross income	3,824	4,681	5,406	6,064	7,454	8,526	9,416	10,158	11,173	12,420
Operating expenses	1,498	1,660	1,822	2,045	2,314	2,674	3,115	3,585	3,931	4,364
Dividends	2,185	2,656	3,185	3,573	4,413	5,090	5,506	5,624	6,148	6,910
Reserve transfers	98	147	147	166	260	282	250	237	232	265
Net income	43	219	244	287	473	521	626	688	799	781

PERCENT CHANGE

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Total assets	6.2%	4.4%	16.1%	19.8%	16.8%	22.8%	22.1%	10.2%	8.9%	5.3%
Loans outstanding	17.2	4.1	3.5	17.8	26.9	14.5	14.6	15.9	15.1	8.8
Savings	9.9	4.2	17.3	20.6	16.1	23.6	22.8	9.5	8.4	5.0
Reserves	3.3	9.6	9.9	13.2	22.1	17.7	14.8	12.5	13.2	11.2
Undivided earnings	12.7	27.8	23.4	14.6	24.3	29.6	21.5	20.6	18.0	14.2
Gross income	8.3	22.4	15.5	12.2	22.9	14.4	10.4	7.9	10.0	11.2
Operating expenses	4.9	10.8	9.8	12.2	13.2	15.6	16.5	15.1	9.7	11.0
Dividends	17.3	21.6	19.9	12.2	23.5	15.3	8.2	2.1	9.3	12.4
Net reserve transfers	11.4	50.0	0.0	12.9	56.6	8.5	-11.3	-5.2	-2.1	14.2
Net income	171.9	409.3	11.4	17.6	64.8	10.1	20.2	9.9	16.1	-2.3

SIGNIFICANT RATIOS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Reserves to assets	3.9%	4.1%	3.9%	3.7%	3.9%	3.7%	3.5%	3.5%	3.7%	3.9%
Reserves and undivided earnings to assets	5.8	6.4	6.4	6.0	6.4	6.3	6.1	6.4	6.8	7.3
Reserves to loans	5.6	5.9	6.3	6.0	5.8	6.0	6.0	5.8	5.7	5.8
Loans to shares	77.4	77.3	68.2	66.5	72.7	67.4	62.9	66.5	70.6	73.2
Operating expenses to gross income	39.2	35.5	33.7	33.7	31.0	31.4	33.1	35.3	35.2	35.1
Salaries and benefits to gross income	14.7	14.1	14.1	14.4	13.6	13.6	14.1	14.6	14.8	14.7
Dividends to gross income	57.1	56.7	58.9	58.9	59.2	59.7	58.5	55.4	55.0	55.6
Yield on average assets	10.5	12.2	12.8	12.1	11.7	12.0	10.8	10.1	10.2	10.6
Cost of funds to average assets	6.4	7.2	7.5	7.1	7.0	7.2	6.4	5.6	5.7	6.0
Gross spread	4.2	5.1	5.3	5.0	4.7	4.8	4.5	4.5	4.5	4.6
Net income divided by gross income	1.1	4.7	4.5	4.7	6.3	6.1	6.6	6.8	7.2	6.3
Yield on average loans	11.0	12.5	13.6	13.7	12.4	13.5	12.7	11.6	11.3	11.5
Yield on average investments	10.3	12.8	12.3	10.2	11.0	9.5	7.9	7.7	7.9	8.4

[1]Does not include the allowance for loan losses.

Federally Insured State Credit Union Data 10 Year Summary, 1980 to 1989
December 31 (Dollar amounts in millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Number of credit unions	4,910	4,994	5,023	4,915	4,645	4,920	4,935	4,934	4,760	4,550
Number of members	12,337,726	12,954,206	13,113,393	14,277,816	15,205,029	15,689,048	17,362,780	17,998,921	18,518,969	18,858,497
Assets	$20,870	$22,584	$24,089	$27,479	$29,188	$41,525	$52,244	$56,972	$60,740	$63,022
Loans outstanding	14,582	15,341	15,282	17,215	19,951	26,168	30,834	35,436	39,977	42,336
Shares	18,469	20,007	21,636	24,297	26,327	37,917	48,097	52,083	55,217	57,517
Reserves[1]	1,086	1,191	1,250	1,341	1,409	1,781	2,147	2,423	2,612	2,833
Undivided earnings	397	508	601	655	728	1,065	1,253	1,458	1,651	1,942
Gross income	2,142	2,745	2,879	3,062	3,428	4,508	5,117	5,483	5,973	6,518
Operating expenses	760	905	981	1,024	1,060	1,364	1,655	1,884	2,078	2,206
Dividends	1,218	1,554	1,584	1,747	1,975	2,684	3,004	3,049	3,201	3,664
Reserve transfers	N/A	128	131	130	179	227	201	184	158	155
Net income	N/A	164	190	165	219	256	288	355	470	452
PERCENT CHANGE										
Total assets	13.1%	8.2%	6.7%	14.1%	6.2%	42.3%	25.8%	9.0%	6.6%	3.8%
Loans outstanding	-4.1	5.2	-0.4	12.6	15.9	31.2	17.8	14.9	12.8	5.9
Savings	16.4	8.3	8.1	12.3	8.4	44.0	26.8	8.3	6.0	4.2
Reserves	7.1	9.7	5.0	7.3	5.1	26.4	20.6	12.9	7.8	8.5
Undivided earnings	13.4	28.0	18.3	9.0	11.1	46.3	17.7	16.4	13.2	17.6
Gross income	15.8	28.2	4.9	6.4	12.0	31.5	13.5	7.2	8.9	9.1
Operating expenses	15.2	19.1	8.4	4.4	3.5	28.7	21.3	13.8	10.3	6.2
Dividends	35.5	27.6	1.9	10.3	13.1	35.9	11.9	1.5	5.0	14.5
Net reserve transfers	N/A	N/A	2.3	-0.8	37.7	26.8	-11.5	-8.5	-14.1	-1.9
Net income	N/A	N/A	15.9	-13.2	32.7	16.9	12.5	23.3	32.4	-3.8
SIGNIFICANT RATIOS										
Reserves to assets	5.2%	5.3%	5.2%	4.9%	4.8%	4.3%	4.1%	4.3%	4.3%	4.5%
Reserves and undivided earnings to assets	7.1	7.5	7.7	7.3	7.3	6.9	6.5	6.8	7.0	7.6
Reserves to loans	7.4	7.8	8.2	7.8	7.1	6.8	7.0	6.8	6.5	6.7
Loans to shares	79.0	76.7	70.6	70.9	75.8	69.0	64.1	68.0	72.4	73.6
Operating expenses to gross income	35.5	33.0	34.1	33.4	30.9	30.3	32.3	34.4	34.8	33.8
Salaries and benefits to gross income	13.7	13.0	14.0	14.4	13.6	13.4	13.9	14.5	14.5	14.4
Dividends to gross income	56.9	56.6	55.0	57.1	57.6	59.5	58.7	55.6	53.6	56.2
Yield on average assets	10.9	12.6	12.3	11.9	12.1	12.7	11.2	10.4	10.1	10.5
Cost of funds to average assets	6.6	7.5	7.0	6.9	7.1	7.6	6.4	5.5	5.5	5.9
Gross spread	4.3	5.1	5.3	5.0	5.0	5.1	4.5	4.3	4.6	4.5
Net income divided by gross income	N/A	6.0	6.6	5.4	6.4	5.7	5.6	6.5	7.9	6.9
Yield on average loans	11.2	12.6	13.3	13.3	13.2	14.3	12.7	11.1	11.2	11.4
Yield on average investments	10.7	13.5	11.4	9.9	10.5	10.0	8.0	7.5	7.9	8.4

N/A indicates not available.

[1]Does not include the allowance for loan losses.

CORPORATE CREDIT UNION DATA

Federal Corporate Credit Unions
December 31

Corporate name	City, State	Assets (in millions)
Capital Corporate	Landover, Maryland	$ 392.6
Colorado Corporate	Arvada, Colorado	584.5
Eastern Corporate	Stoneham, Massachusetts	318.2
Empire Corporate	Albany, New York	1,089.0
Indiana Corporate	Indianapolis, Indiana	651.8
Kentucky Corporate	Louisville, Kentucky	159.1
LICU Corporate	Endicott, New York	3.0
Mid-Atlantic Corporate	Harrisburg, Pennsylvania	560.6
Mid-States Corporate	Oak Brook, Illinois	1,732.6
Nebraska Corporate Central	Omaha, Nebraska	96.0
Pacific Corporate	Honolulu, Hawaii	234.2
South Dakota Corporate Central	Sioux Falls, South Dakota	58.1
Southeast Corporate	Tallahassee, Florida	801.4
Southwest Corporate	Dallas, Texas	2,565.7
Tricorp Federal Credit Union	Portland, Maine	227.2
Virginia League Corporate	Lynchburg, Virginia	443.9
Western Corporate	Pomona, California	3,447.7

Federally Insured State Corporate Credit Unions
December 31

Corporate name	City, State	Assets (in millions)
Alabama Corporate	Birmingham, Alabama	$239.3
Constitution State Corporate	South Wallingford, Connecticut	369.2
Corporate Central Credit Union	Salt Lake City, Utah	137.2
Corporate Credit Union of Arizona	Phoenix, Arizona	321.7
Federacion de Cooperativas	San Juan, Puerto Rico	63.9
First Carolina Corporate	Greensboro, North Carolina	732.3
Georgia Central	Atlanta, Georgia	465.6
Iowa League Corporate	Des Moines, Iowa	190.4
Minnesota Central	St. Paul, Minnesota	211.2
Ohio League Corporate	Columbus, Ohio	452.5
Oklahoma Corporate	Tulsa, Oklahoma	276.3
Oregon Corporate Central	Portland, Oregon	210.2
The Carolina Corporate	Columbia, South Carolina	171.2

Key Statistics on Federally Insured Corporate Credit Unions
December 31 (Dollar amounts in millions)

	1985	1986	1987	1988	1989
Number	29	29	30	30	30
Assets	$9,060.6	$12,182.1	$12,473.4	$13,996.9	$17,206.4
Loans	459.8	621.0	1,302.8	1,584.7	1,026.2
Shares	8,024.2	10,851.0	10,699.4	11,234.6	14,501.6
Reserves	84.1	104.1	126.8	146.6	172.5
Undivided earnings	38.4	45.3	56.2	69.6	82.6
Gross income	663.9	785.5	927.5	1,084.1	1,485.4
Operating expenses	21.2	25.4	29.5	33.8	41.6
Interest on borrowing	45.5	47.9	75.7	139.7	260.0
Dividends and interest on deposits	575.9	685.9	790.6	877.4	1,145.4
Reserve transfers	10.5	17.2	17.5	16.8	18.8
Net income	11.4	9.0	14.7	17.2	19.9
SIGNIFICANT RATIOS					
Reserves to assets	0.9%	0.9%	1.0%	1.0%	1.0%
Reserves and undivided earnings to assets	1.4	1.2	1.5	1.5	1.5
Reserves to loans	18.3	16.8	9.7	9.3	16.8
Loans to shares	5.7	5.7	12.2	14.1	7.1
Operating expenses to gross income	3.2	3.2	3.2	3.1	2.8
Salaries and benefits to gross income	1.1	1.2	1.3	1.3	1.1
Dividends to gross income	86.7	87.3	85.2	80.9	77.1
Yield on average assets	8.7	7.4	7.3	8.2	9.5
Cost of funds to average assets	8.1	6.9	6.8	7.7	9.0
Gross spread	0.6	0.6	0.5	0.5	0.5
Net income divided by gross income	1.7	1.1	1.6	1.6	1.3
Yield on average loans	7.8	7.1	7.5	9.1	13.3
Yield on average investments	8.8	7.5	7.6	8.2	9.5

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. 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 Scott County supervisor. A native of Cedar Falls, he served in the U.S. Army, and received bachelor and masters degrees from Arizona State University, Tempe.

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, a Texan, was deputy treasurer of the Reagan-Bush Campaign Committee in 1980 and was associate deputy administrator of the Veterans Administration in 1981. Her career has included teaching and 10 years in banking. She graduated from Midwestern University, received a master's degree in business administration from Houston Baptist University, and attended Southwestern Graduate School of Banking at Southern Methodist University, Dallas.

David L. Chatfield resigned from the NCUA Board in August 1989 to become executive director of the Filene Research Institute at the University of Wisconsin School of Business, Madison. The Institute was established by Credit Union National Association and CUNA Mutual Insurance Group. He was senior vice president of Alaska USA Federal Credit Union, Anchorage, when he was appointed to the NCUA Board in April 1988, and has served in many volunteer and professional positions with credit unions.

Officers

Roger W. Jepsen
Chairman

Elizabeth F. Burkhart
Vice Chairman

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

Teresa A. Castro
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

Robert J. LaPorte
President
Central Liquidity Facility

Herbert S. Yolles
Controller

Joan E. Perry
Inspector General

Benny R. Henson
Director of Administration

Joseph W. Visconti
Director
Office of Information Systems

Dorothy W. Foster
Director
Office of Personnel

Layne L. Bumgardner
Director, Region I

Daniel L. Murphy
Director, Region II

H. Allen Carver
Director, Region III

Nicholas Veghts
Director, Region IV

John S. Ruffin
Director, Region V

Foster C. Bryan
Director, Region VI

J. Leonard Skiles
Director
Asset Liquidation
Management Center

Board Member Robert H. Swan was confirmed by the U.S. Senate April 4, 1990.

Offices

Central Office
1776 G St. N.W.
Washington, DC 20456
202-682-9600

Region I
9 Washington Square
Albany, NY 12205
518-472-4554

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

Region II
1776 G St. N.W. #800
Washington, DC 20006
202-682-1900

Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia

Region III
7000 Central Pkwy. #1600
Atlanta, GA 30328
404-396-4042

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

Region IV
300 Park Blvd. #155
Itasca, IL 60143
708-250-6000

Illinois, Indiana, Michigan, Missouri, Ohio, Wisconsin

Region V
4807 Spicewood Springs Rd. #5200
Austin, TX 78759
512-482-4500

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

Region VI
2300 Clayton Rd. #1350
Concord, CA 94520
415-825-6125

Alaska, American Samoa, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Washington

St. Mary's Bank (La Caisse Populaire Ste-Marie), Manchester, New Hampshire, first credit union in the United States, November 24, 1908.

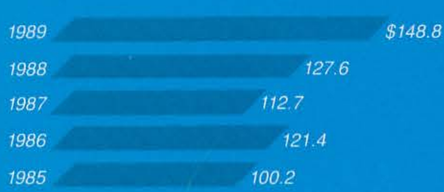
National Credit Union Administration

National Credit Union Share Insurance Fund

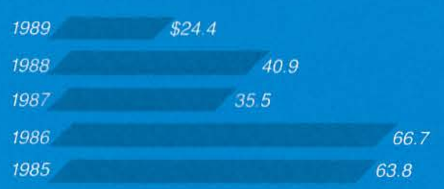
1989 Annual Report

NCUSIF Highlights
Fiscal Year 1989

NCUSIF Gross Income
(In Millions)

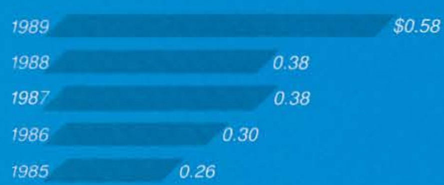


NCUSIF Net Income
(In Millions)



NCUSIF Reserves
(In Millions)

NCUSIF Losses Per $1,000 of Insured Shares



NCUSIF Equity Ratio

Credit Union Highlights
Fiscal Year 1989

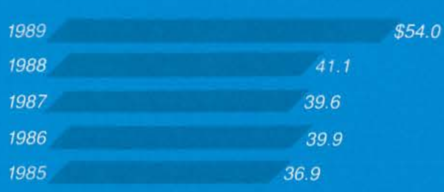
Total Insured Shares
(In Billions–June 30)

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)



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

1989

NATIONAL CREDIT UNION SHARE INSURANCE FUND

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Message from the Chairman

Fiscal year 1989 was both a good and bad year for the National Credit Union Share Insurance Fund. The Fund ended the year in a very strong financial position with equity at its highest level since 1985. As in all previous years, the NCUSIF reflected a net gain from its operations, and for the fifth consecutive year, the annual insurance premium was waived.

As you know, Congress approved a major restructuring of the savings and loan industry in 1989. The legislation, as initially proposed, would have required credit unions to write off their capitalization deposit, which would have lowered credit union capital levels. However, after much effort on the part of you and the trades, the final version of the S&L Bailout bill allowed credit unions to continue their ownership interest in the NCUSIF with their one percent deposit recorded as an asset.

Unfortunately, in 1989 the NCUSIF recorded the largest insurance loss in its history, $94 million, almost half of it coming from a single credit union. However, while losses were high this year, on a loss per thousand basis the Fund continues to perform well.

Credit unions are in excellent financial health, having the highest capital among all financial institutions. Growth in deposits continues to outpace that of other thrifts, and consumer satisfaction remains highest with credit unions.

For the fifth straight year, the NCUSIF has received an unqualified audit opinion on fiscal year-end financial statements from its independent accountants, Price Waterhouse. As in previous years, the General Accounting Office is reviewing he Fund's fiscal year-end statements, and we expect to receive an opinion from them soon.

In 1990, we will continue to focus on the fundamentals of safety and soundness which have been the foundation of the Fund's success. On behalf of the NCUA Board, thank you for your continuing support and encouragement.

Roger W. Jepsen

Roger W. Jepsen
Chairman

Credit Union Highlights—1989

Nineteen eighty-nine was another year of significant accomplishments for federally insured credit unions.

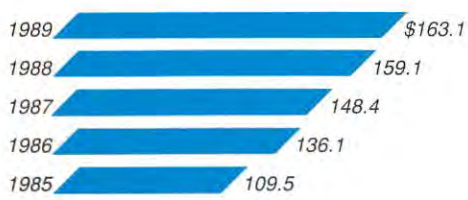
Total shares and deposits grew at an annual rate of 4 percent as of June 30, 1989. Calendar year 1989 growth is projected to be about 6 percent. While growth in shares and deposits is expected to remain lower than in previous years, credit unions continue to attract member savings in a period of increased competition for funds. Moreover, this is the seventh straight year in which shares and deposits have grown by 6 percent or more.

Total loans experienced an annual growth rate of 9 percent at midyear. Significant gains were recorded in home mortgage and equity loans and other types of consumer loans as credit unions continue to establish themselves as full service lenders. Credit union delinquency on outstanding loans remained at 1.7 percent for the year, and is at its lowest level in over a decade.

Another indicator of credit union success in 1989 is profitability. Net income grew at an annual rate of 7 percent, while net income as a percentage of average assets (return on average assets) also improved.

Finally, credit unions had a capital to assets ratio 7.6 percent as of June 30, 1989. (The capital to assets ratio was 7.0 percent as of June 30, 1988.) Projections indicate that this ratio will continue to improve during the second half of 1989.

Shares Outstanding
(Billions)



Loan to Share Ratio

Capital Ratio

Supervision of Federally Insured Credit Unions

During 1989, the National Credit Union Administration (NCUA) continued its programs to improve the quality of supervision of federally insured credit unions. Refinements were made to the automated examination, the CAMEL Rating System, and the technical examiner training program. These refinements have provided NCUA staff with the tools they need for a state of the art supervision program.

The Automated Examination Program

In 1987, NCUA became the first Federal regulator to provide all of its field staff with laptop computers. During the past year NCUA also made laptop personal computers available to state credit union examiners. This provides state examiners with training, equipment, and software comparable to that provided federal examiners. Along with the computers, NCUA developed and provided to staff the Automated Core Examination System (ACES) program, which automates much of the paperwork involved in an examination. The ACES is an evolving program. NCUA is continually looking at the objectives of the examination program to deal with the changing financial institution environment. During 1989, all staff received a major revision of the ACES program.

The CAMEL Rating System

The CAMEL Rating System was adopted by NCUA in October 1987. All examinations completed since then have evaluated credit unions in the areas of capital adequacy, asset quality, management, earnings, and liquidity. The CAMEL system is a means of determining the degree of supervision which a credit union will receive based upon the examination results. Operationally, the CAMEL system focuses on certain key ratios to identify a credit union's performance level. These key ratios produce an initial performance indicator to assist the examiner's analytical process. The final results of the NCUA examination are actually based on much broader criteria than key ratios. Examiners also review and analyze a number of supporting ratios not included within the key parameters, together with qualitative data, before determining the credit union's final CAMEL ratings.

During the past year, NCUA has thoroughly reviewed the CAMEL system to evaluate its overall effectiveness. A number of changes were made to update the system. Although a number of important changes were made, the operation and methodology of CAMEL remain fundamentally unchanged. As a regulatory and managerial tool, CAMEL has been an effective system that has proven to be objective and consistent in the assignment of credit union ratings nationwide.

Technical Training

NCUA's technical examiner training program was significantly enhanced in 1989. The classroom portion of the program is divided into two phases, the first being five levels of formalized classroom training for new examiners. The purpose of the program is to bring the new examiner up to full performance level in a relatively short time. The second phase is for the senior examiner. This phase offers experienced examiners an opportunity to attend seminars that deal exclusively with advanced topics such as commercial lending, investments, and asset-liability management. During the year, two new seminars, Real Estate Lending and Auditing Principles and Fraud Detection, were developed and offered to examiners.

In addition to classroom training, NCUA, in cooperation with a leading consulting firm, offered examiners an interactive computer-based training program on consumer regulations. This program includes modules on Regulation B, Regulation CC, Regulation E, Regulation Z, the Bank Secrecy Act, and Residential Mortgage Lending. NCUA is the first Federal regulator to make such a program widely available to its staff.

Corporate Credit Unions

In other areas, NCUA retains a keen interest in monitoring and supervising the activities of corporate credit unions. Corporate credit unions serve as "bankers' banks" for credit unions by providing a primary source of financial and payment services. A total of 43 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 13 corporates are either privately insured or uninsured.

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, 1989, the Network had total shares of over $31 billion.

A team of 17 examiners has been specially trained to perform examinations of corporate credit unions. All corporate credit unions (federally insured, privately insured, and uninsured) were examined by the corporate examiners in 1989.

Corporate credit unions are credit unions for credit unions, and are part of the liquidity system for the credit union network. Their reserving procedure is similar to regular credit unions with a few exceptions. Some corporates issue what is essentially a hybrid between stock and a debenture. Legally these are similar to common stock offered by banks, yet have some of the same attributes of a debenture. However, they are clearly capital accounts and are called membership shares. They are usually long term, pay slightly lower dividend rates, and are subordinate to all other claims.

There is one crucial point about reserves and risk that has to be known to understand the corporate reserve system. The majority of the corporates have agreed to follow the Corporate Standards and Guidelines. In essence, they agree to minimize the risk in their investment portfolio (investments make up about 97% of all corporate assets). In simple terms, no investment can be made that doesn't meet stringent credit standards, *and* be matched in maturity and amount against the source of funds. There are no junk bonds, LDC debt, LBO's commercial real estate, or investments in banks with less than a B/C rating and less than $1 billion in assets. To our knowledge, NCUA is the only regulator to require such conservative practices. For comparison, if the risk-based capital standards of banks were applied to the largest corporate, it would have a ratio of capital to assets of 17%.

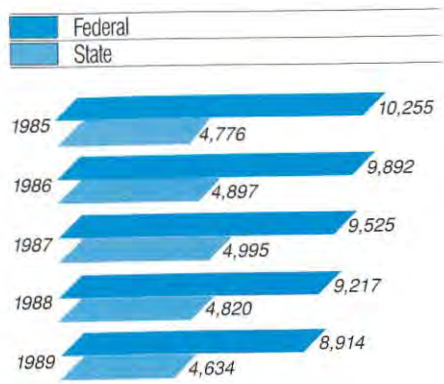
National Credit Union Board Chairman, Roger W. Jepsen, and Vice Chairman Elizabeth F. Burkhart

Scope of Insurance Coverage

The National Credit Union Share Insurance Fund is the largest insurer of credit union shares. On September 30, 1989, NCUSIF credit unions held approximately 97 percent of all credit union shares. The remaining 3 percent are insured by 11 state credit union or guaranty corporations which operate in 33 different states. The table to the right summarizes the share insurance requirements of the 50 states and Puerto Rico.

During fiscal year 1989 the number of federally insured credit unions declined by 489 to 13,548. Federal credit unions continue to make up 66 percent of this number, and the remaining 4,634 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



Law Requires Participation in Insurance Program of National Credit Union Administration

Alabama
Arkansas
Connecticut
Maine
Michigan
Minnesota
Mississippi
Nebraska
North Dakota
South Carolina
Vermont
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
Arizona
California
Colorado
Florida
Georgia
Hawaii
Idaho**
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maryland
Massachusetts
Missouri
Montana
Nevada
New Jersey
New Mexico
New York
North Carolina
Ohio
Oregon
Pennsylvania
Rhode Island
Tennessee
Texas
Utah
Virginia
Washington
West Virginia

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 1989, the amount of insured shares in natural person credit unions is projected to increase by about 3 percent during the calendar year, raising total insured shares to $165 billion. Even though growth has stabilized within the past years, credit unions have maintained a higher rate of deposit growth than banks and savings and loans during the same period.

The number of conversions of privately insured credit unions to the NCUSIF dropped from 43 in 1988 to 12 in 1989. Since the Fund was capitalized in 1985, 890 credit unions have converted to 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
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	104,431	55,217	159,648	9.1%
1989	108,000*	57,000*	165,000*	3.4%*

*Estimated for 12/31/89

Changes in Federally Insured Credit Unions Fiscal Year 1989

	Federal Credit Unions	Federally Insured State Credit Unions	Total
Beginning Number 10/1/88	9,217	4,820	14,037
Additions:			
New Federal Charters	14	—	14
New State Charters with Federal Insurance Certificates	—	5	5
Conversions:	9	12	21
Resumed Operations:	14	6	20
Subtractions:			
Mergers			
Assisted	42	18	60
Voluntary	242	153	395
Liquidations:			
Involuntary	39	15	54
Voluntary	8	3	11
Conversions	2	10	12
Other	7	10	17
Ending Number 9/30/89	8,914	4,634	13,548
Net increase (decrease)	(303)	(186)	(489)

Financial Status of Federally Insured Credit Unions

As mentioned earlier in this report, 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. 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, 1989.

In FY89 the number of Code 4 and 5 credit unions decreased by 228 ($2.2 billion in shares), attributable to NCUA's improved supervision of troubled credit unions.

Distribution of Federally Insured Credit Unions by CAMEL Categories

CAMEL Category	As of* 9/30/85	As of* 9/30/86	As of* 9/30/87	As of 9/30/88	As of 9/30/89
Codes 1 & 2	10,736	10,010	9,133	8,371	8,310
3	3,553	3,985	4,458	4,644	4,444
4	681	716	838	926	723
5	61	78	91	96	71
Totals	15,031	14,789	14,520	14,037	13,548

Percentage of Shares by CAMEL Category

CAMEL Category	As of* 9/30/85	As of* 9/30/86	As of* 9/30/87	As of 9/30/88	As of 9/30/89
Codes 1 & 2	82.9%	79.0%	76.5%	73.8%	75.4%
3	13.2	16.1	18.6	19.9	19.8
4	3.6	4.7	4.7	6.0	4.6
5	.3	.2	.2	.3	.2
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Summary of CAMEL Code 4 and 5 Credit Unions

	9/30/88	9/30/89
Number of Code 4 and 5 credit unions	1,022	794
Percentage of insured credit unions	7.3%	5.9%
Shares in Code 4 and 5 credit unions	$10.6 Billion	$8.4 Billion
Percentage of Shares in all insured credit unions	6.3%	4.8%

*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 time. The use of assistance is considered only in cases where the causes of the credit union's problems 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 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 from the Fund. As of September 30, 1988, 24 credit unions were receiving assistance from the Fund. Of these, seven were able to repay or amortize their assistance during 1989 and are now operating profitably on their own. There were 43 new assistance cases added during the fiscal year, and six credit unions needed additional assistance.

Guaranty Account assistance is used when 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 Guaranty Account assistance 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 1989 fiscal year. Any type of assistance from the Fund is granted conditionally. The problems that resulted in the losses or need for the assistance must be immediately addressed and corrected. Action must also be taken by the credit union to improve its 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.

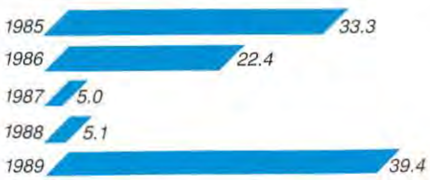
Change in NCUSIF Guaranty Accounts Outstanding
(Amounts in Thousands)

Guaranty Accounts Outstanding	
September 30, 1988 (24 cases)	$41,121
Increases	
43 credit unions needed initial assistance	23,639
6 credit unions needed additional assistance	1,757
Decreases	
17 credit unions merged/liquidated	(4,948)
7 credit unions completed amortization of guaranty	(1,892)
Guaranty reduction in outstanding cases	(5,718)
Guaranty Accounts Outstanding	
September 30, 1989 (43 cases)	$53,959

Guaranty Accounts Outstanding by Type of Credit Union as of September 30, 1989

	Number	Amount Outstanding (000's)
Federal Credit Unions	28 (65%)	$46,204 (86%)
Federally Insured State Credit Unions	15 (35%)	7,755 (14%)
Totals	43	$53,959

Cash Assistance Outstanding
(In Millions)



Non-Cash Assistance Outstanding
(In Millions)

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 effect of non-earning assets or accumulated losses. Capital Notes usually contain specific repayment schedules that reflect the earnings improvement projected for the credit union.

As of September 30, 1989, the Fund held $39.4 million of Capital Notes from eight credit unions. Of this amount, $27.5 million was issued to a single credit union in accordance with a merger agreement.

The Fund has also extended a combination of Guaranty assistance and cash funding to several credit unions that were severely impaired by 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 case, a major restructuring of the credit union's management and operational structures also occurred.

Franklin Community Federal Credit Union

On November 10, 1988, Franklin Community Federal Credit Union, a $2 million credit union in Lincoln, Nebraska, was placed in involuntary liquidation. This credit union ultimately caused a loss to the NCUSIF of $39.2 million, the largest ever from a single credit union.

Franklin FCU was chartered in 1968 and became federally insured in 1973. It was designated as a "low income" credit union, making it eligible to receive nonmember deposits. The credit union grew slowly through the years, relying heavily on nonmember deposits to fund the loan demand within the community. It had many operational problems, particularly in recordkeeping, loan, and investment policies, and it required subsidies to remain solvent. At all times, until closure, NCUA believed that Franklin was a small credit union that had a central purpose of helping the poor. The credit union was able to maintain a relatively high solvency ratio by virtue of grants from the Consumer Service Organization, a co-located tax-exempt organization. Although Franklin had apparent regulatory problems, they were not uncommon for this type of credit union, and didn't arouse undue suspicion.

Franklin was closed when massive fraud was unveiled involving unrecorded share certificate obligations that weren't offset by corresponding assets. These certificates were concealed from examiners and outside auditors by means of a separate, elaborate computer program. The monies derived from these certificates were diverted for various illegal purposes, including payment of personal living and business expenses of the credit union's manager, and to a lesser extent, the credit union's treasurer. Some monies were used to pay dividends at above market rates on maturing certificates, and to pay operating expenses which were not tied to the credit union.

The fraud was ultimately uncovered during the fall of 1988 as a result of an audit required by NCUA, and also, a combination of ongoing investigations by several criminal authorities. Once it became apparent that funds were being diverted from the credit union, NCUA and the other investigating authorities took control of the credit union and its records.

Within 48 hours after seizing control of the credit union, member accountholders had access to their deposits, with the exception of the accounts owned by the manager and other individuals involved in the fraud. Once the member account balances were verified as valid and accurate, their monies were returned up to the $100,000 insurance limit. Approximately $3 million of uninsured or unclaimed deposits have not been paid out as of this date.

Five individuals have been indicted for Franklin-related activities - the manager and his mother, and three individuals who solicited funds on behalf of the credit union virtually full time. The credit union's treasurer and his wife have entered guilty pleas and are cooperating with the government. NCUA began civil recovery efforts immediately after the credit union's closure. A Federal Receiver has been appointed to oversee the manager's assets; however, it does not appear that the Fund will recover much of its $39.2 million in losses.

In summary, while NCUA believes the Franklin case was unique and an aberration, there were many lessons learned that should help us better respond to problem cases generally. Within six months of Franklin's failure, a number of revisions to NCUA's supervision and examination programs have been initiated that should reduce the chances of another case of prolonged, undetected fraud. These revisions include the 20% limitation on nonmember deposits, fraud detection training, standard policy of problem case resolution, and improved quality control of the examination and supervision process.

NCUSIF Financial Review

In 1989, the NCUSIF recognized its largest loss in its history, and its largest loss from a single credit union. Of the record $93.6 million in insurance loss for 1989, $39.2 (42%) came from Franklin Community Federal Credit Union discussed in detail earlier in this report.

On a high note for the year, the assets of the NCUSIF surpassed the $2 billion level, and $18 million was recovered on prior year losses. The Fund received its fifth consecutive unqualified audit opinion from its independent auditors. The audited financial statements and accompanying footnotes of the independent accountants begin on page eighteen of this report. The NCUSIF remains the only federal deposit insurance fund that has its financial statements audited annually not only by the GAO, but also by an independent auditing firm. GAO is in the process of completing their review of the September 30, 1988 and 1989 NCUSIF financial statements; the report is expected in early 1990.

Also, for the fifth straight year, the NCUA Board waived the annual insurance premium of 1/12th of 1 percent of credit union deposits. For 1989, this saved credit unions $130 million in expense. The cumulative effect of premium waivers for five years has resulted in a total savings to credit unions of $520 million. Insurance premiums have not been assessed because the investment income generated from credit unions' 1% capitalization deposits has been sufficient to cover all operating and financial costs and keep the Fund's operating level within the 1.25% - 1.30% Board-designated goal.

Improving Asset Sales

One of the major assets of the NCUSIF is loan portfolios from liquidated credit unions. Over the last twenty years, NCUA has tried all types of ways to improve our return in this area. One of the problems is that in a large percentage of the liquidations, it was the poor loan quality that caused the liquidation. In some cases no one will bid on the portfolios. Our options are to sell the loans, collect the loans ourselves, or hire someone to collect for us.

The method used in the late seventies and early eighties was in-house collections combined with outside collectors which produced a net return of about $0.20 to $0.30. During 1983 through 1985 virtually all portfolios of loans totaling $46 million were sold for $0.64 on the dollar.

For the last few years the NCUSIF has been experimenting with ways to improve our return. Key to this was automating our entire liquidation system and using a collection agency to help us design a way to load loans into our system more quickly. Just as examiners have recommended to credit unions probably thousands of times, the sooner you contact a borrower and the quicker you keep the payment stream going the more likely that the loan will be repaid.

Currently our system works like this. When we learn of a potential liquidation, we try to make sure the loan portfolio is cleaned up and our first effort is to sell that portfolio to another credit union. If we cannot get a good price or the portfolio needs work, we move it to a collection agency immediately to keep the payments coming and to try to improve it for sale. Rather than the usual 33 - 50 % collection fees, our average collection fees are about 19%. If the sale price remains low, we will continue to use the collection agency rather than take a deep discount.

Since 1986 NCUSIF has handled about $140 million in loan portfolios. $100 million has been sold and about $40 million is in the process of being collected or packaged for sale. Our return so far has been $0.67 with the strong likelihood that future collections will bring the total return up to $0.75. That translates into an improved bottom line of from $4 to $15 million for the NCUSIF.

Asset Liquidation Management Center

The Asset Liquidation Management Center (ALMC), established in July 1988, became fully operational during 1989. The ALMC, located in Austin, Texas, 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.

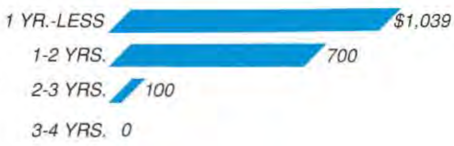
During fiscal year 1989, the ALMC aggressively marketed many of its properties for sale. During the year, the ALMC sold 39 separate properties including some lots sold for $3.5 million. One piece of commercial property which sold in October 1989 was the 120-room Rodeway Inn hotel located in the San Antonio, Texas. Offers for the property were initially in the $2 - $3 million range, but it was finally sold for about $4 million.

Total Revenue

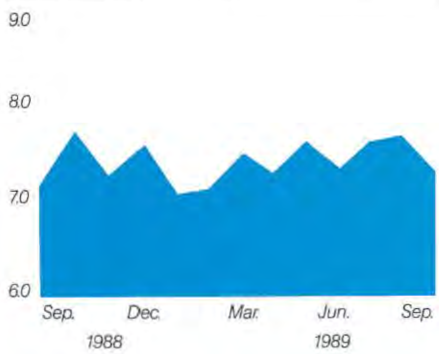
Total revenue for fiscal year 1989 of $148.8 million was 17% greater than 1988 revenue of $127.6 million. Most of this increase is attributed to the rise in short-term interest rates during 1989.

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 30, 1989, 95% of NCUSIF investments had maturities of two years or less. The average investment yield for 1989 was 8.08%.

Investment Portfolio
Maturity Schedule
(Par Value in Millions)



Investment Yield



Administrative Expenses

Administrative costs increased $4.2 million in 1989 to $30.8 million. About half of the increase is associated with the costs of operating the Asset Liquidation Management Center (ALMC) and costs incurred from state examiner training. Over the past several years, the cost of new computers, related training, and the training of new examiners has accounted for most of the administrative cost increase.

Since 1985, all administrative costs (with the exception of ALMC and state training 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. This percentage, which is set by the NCUA Board, remained at 50% for 1989. For the past five years, the amount of administrative costs, both direct and allocated, are shown below:

NCUSIF Administrative Expenses
(In Millions)

Insurance Losses

Insurance losses for 1989 increased from $60.1 million to $93.6 million, a 56 percent increase. As mentioned earlier, over $39 million of this increase resulted from Franklin Community FCU. Consequently, losses per $1,000 of insured shares increased to $.58 from $.38 in 1988. This is still a significant decrease since 1982, when losses per $1,000 were $1.28. For the past five years, losses per $1,000 have averaged $.38. The overall reduction in loss per $1,000 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 losses by credit unions posing 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 Credit unions coded 4 and 5 are divided into two groups for reserve evaluation purposes. Those having insured shares of $20 million or

NCUSIF Losses Per $1,000 of Insured Shares

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

	FY 1987	FY 1988	FY 1989
Reserves - Beginning of Fiscal year (October 1)	$48,600	$53,221	$48,492
Net Charges for Fiscal Year	(51,111)	(64,851)	(101,188)
Provisions for Insurance Losses	55,732	60,122	93,608
Reserves - End of Fiscal Year (September 30)	$53,221	$48,492	$40,912

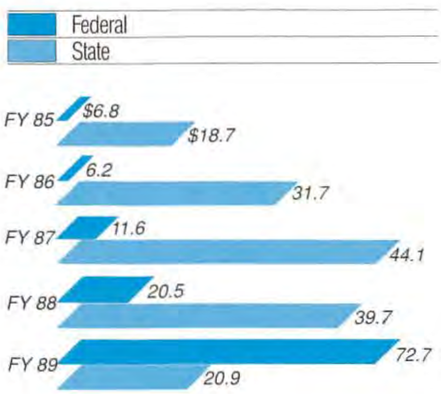
NCUSIF Administrative Costs
(Amounts in Thousands)

Fiscal Year	1985	1986	1987	1988	1989
Direct Expenses	$ 2,858	$ 0	$ 0	$ 0	$ 2,048
Allocated Expenses	8,069	16,822	21,466	26,588	28,769
Total Administrative Expenses	$10,927	$16,822	$21,466	$26,588	$30,817
% of NCUA Total Administrative Expenses	33.8%	50.5%	50.5%	50.5%	53.6%

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

Of the $93.6 million in losses for 1989, approximately 78% were related to federal credit unions, compared to 36% for 1988. For every $1,000 of insured shares, federal credit unions cost the NCUSIF $.68, compared to $.38 for federally insured state chartered credit unions.

Insurance Loss
(In Millions)



Net Income

The NCUSIF earned $24.4 million in net income for 1989 compared to $40.9 million for last year, caused primarily by losses at Franklin Community FCU. Had the NCUA Board assessed an insurance premium for 1989, 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.

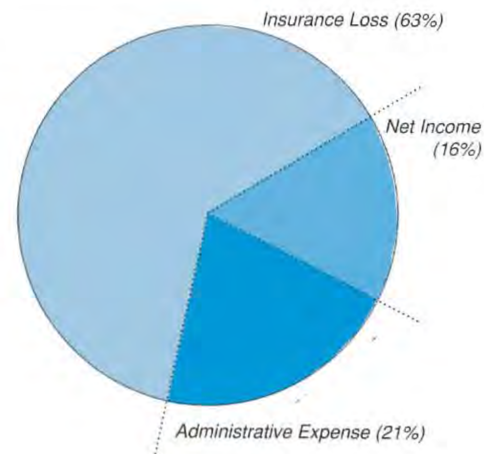
Equity

Equity of the NCUSIF grew from $1.86 billion to $1.97 billion during 1989 due to:

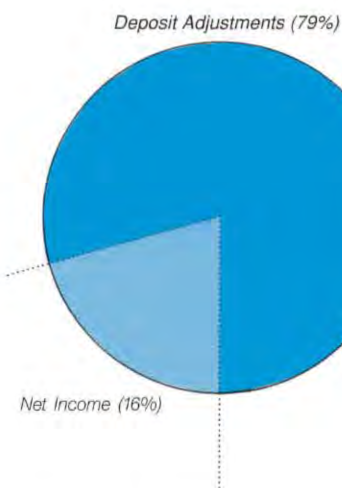
- $92 million increase in accumulated contributions from credit unions due to share growth; and
- $24 million in net income for the year.

The ratio of insured shares to equity was 1.26% at June 30, 1989, the end of the insurance year. A new share base of $161.9 billion was used to calculate the ratio after June 1989, causing the ratio to drop to 1.25% at the end of the fiscal year. Despite the increase in insurance losses for 1989, the Fund's equity ratio was still higher at September 30, 1989 (1.25%), compared to September 30, 1988 (1.24%). The NCUSIF continues to have the highest ratio of reserves to insured shares when compared to the other federal deposit insurance fund.

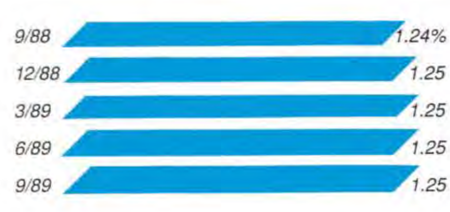
Income and Expense



Growth in Equity



Equity Ratio



Mergers, Liquidations, and Purchase & Assumptions

Mergers

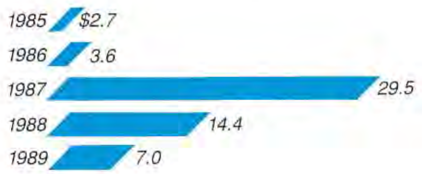
The number of completed mergers for 1989 was 455 compared to 514 for 1988. Of this number 60 required assistance from the NCUSIF, which will cost the Fund approximately $6.9 million. Almost 80% of the assistance provided was in the form of immediate cash payments to facilitate the mergers, and the remaining 20% is extended cash assistance to cover losses on loans acquired and losses on disposal of assets acquired from the merging credit union. The remaining 395 mergers were completed without any cost to the NCUSIF.

The largest merger in 1989 occurred between Mt. Carmel Credit Union and Security Service Federal Credit Union. Mt. Carmel, which had shares of about $47 million, cost the Fund $1.7 million in merger costs for 1989.

Since 1983 the number of mergers, both assisted and unassisted, has decreased by 36%, and the number requiring assistance has decreased 70%. The following table summarizes the assisted mergers for fiscal year 1989.

Number of Credit Union Mergers

Losses from NCUSIF Assisted Mergers
(In Millions)



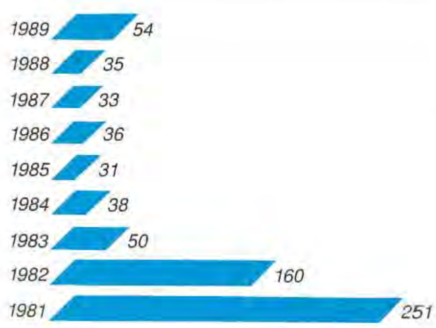
Assisted Mergers Fiscal Year 1989

Merging Credit Union / Continuing Credit Union	Date Approved	Shares in Merging Credit Union	NCUSIF Loss	Loss As Percentage of Shares
Mergers with Losses Over $250,000:				
Mt. Carmel Credit Union / Security Service FCU	12/05/88	$ 46,826,000	$1,700,000	3.6%
Texas Conference FCU / Methodist Hospital FCU	05/31/89	$ 1,178,000	$ 380,000	32.3%
United Association FCU / Electric Boat FCU	07/03/89	$ 790,000	$ 300,000	38.0%
Wellsville FCU / ALCO FCU	04/10/89	$ 2,849,000	$ 290,000	10.2%
Professional Fin. Services CU / Meredith CU	10/06/88	$ 422,000	$ 266,929	63.3%
Greenfield Community CU / GFGE FCU	04/30/89	$ 1,816,000	$ 260,435	14.4%
All Other Assisted Mergers	54 Cases	$ 64,720,000	$3,812,214	5.9%
Total	60 Cases	$118,601,000	$7,009,578	5.9%

Liquidations

During fiscal year 1989, there were 65 liquidations of federally insured credit unions. Of this number, 54 were involuntary liquidations and resulted in a $51.4 million loss to the NCUSIF. The remaining 11 were voluntary liquidations, completed without any loss to the Fund. The involuntary liquidation of Franklin Community FCU discussed earlier was responsible for $39.2 million of the total loss. In many cases, an involuntary liquidation may become a Purchase and Assumption (P&A) transaction where the Fund acquires segments of the liquidating credit union's assets and liabilities, and the remaining are "merged" into an acquiring credit union. During 1989, 22 of the 54 involuntary liquidations became P&As. (P&As are discussed in further detail following this section.) The following tables summarize involuntary liquidations.

Involuntary Liquidations
Number of Cases



Involuntary Liquidations: Fiscal Year 1989

Liquidated Credit Union	Date of Liquidation	Shares Outstanding When Credit Union Closed	NCUSIF Loss	Loss as a Percentage of Shares
Liquidations with losses over $500,000:				
Franklin Community FCU	11/10/88	$2,037,000	$39,164,203	1,922.6%
Southside FCU	06/13/89	4,279,000	1,943,461	45.4%
Heartland FCU	06/30/89	7,825,000	1,789,034	22.9%
Systems #1 FCU	02/03/89	1,921,000	1,514,262	78.8%
Medical Employees FCU	11/21/88	3,169,000	1,116,500	35.2%
Church of God CU	07/19/89	2,308,000	728,045	31.5%
Calvary Baptist FCU	01/05/89	1,584,000	721,470	45.5%
All Other Involuntary Liquidations (47)		142,949,000	4,379,747	3.1%
Totals	54 Cases	$166,072,000	$51,356,722	30.9%

Involuntary Liquidations: Five-Year History

Fiscal Year	1985	1986	1987	1988	1989
Number of Involuntary Credit Union Liquidations Commenced	31	36	33	35	54
Shares Paid (Thousands) (1)	$15,499	$22,168	$3,213	$36,110	$21,687
Percentage of Shares Paid to Total Insured Shares (June 30)	0.014%	0.020%	0.002%	0.023%	0.013%
Average Payout Per Credit Union Liquidated (Thousands)	$916.8	$500.0	$615.8	$97.4	$401.6

(1) Does not include Purchase and Assumptions

NCUSIF Liquidation Recovery History

Fiscal Year in which Case Closed	Recovery Percentages: Federal Credit Unions	State Credit Unions	All Cases	Net Loss in Closed Cases Millions
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
1989	56.4%	66.7%	66.6%	$7.5

Financial Reporting Practices

Purchase and Assumptions

As mentioned 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 is less costly than involuntary liquidation, 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. During 1989, 20 of the 22 P&A transactions required assistance from the NCUSIF. The following table summarizes the largest assisted P&As in 1989:

The NCUSIF has completed seven years of full accrual accounting under Generally Accepted Accounting Principles (GAAP). GAAP accounting for any insurance program requires adequate reserves for known and anticipated losses. Deposit insurance accounting under GAAP requires two such reserves: 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.

Purchase and Assumption Cases Fiscal Year 1989

Assuming Credit Union Liquidating Credit Union	Date Approved	NCUSIF Loss
Progressive CU UTOG FCU	05/10/89	$ 4,002,316
CD #2 FCU Society NY Hospital Emp FCU	04/18/89	1,707,099
Barksdale FCU CFI FCU	08/31/89	1,446,344
Public Service Emp FCU Colorado Medical Emp CU	06/12/89	1,385,000
Navy FCU VA Beach FCU	05/31/89	1,359,000
NY Team FCU Sunnyside FCU	06/30/89	1,124,857
All Other Assisted P&As 14 Cases		4,630,571
Total—20 Cases		$15,655,187

Insurance Fund Report and Financial Statements
for the Years Ended
September 30, 1989 and 1988

Report of Independent Accountants

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, 1989 and 1988 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's 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 *Government Auditing Standards*, issued by the Comptroller General of the United States 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, 1989

Balance Sheets

Assets	September 30, 1989	1988
Cash, including cash equivalents of $514,044,000 and $247,362,000 (Notes B and E)	$ 524,979,628	$ 247,372,306
Investments (Notes B and E)	1,323,909,955	1,564,847,954
Capital notes advanced to insured credit unions	39,359,717	5,116,511
Note Receivable – National Credit Union Administration Operating Fund (Note G)	2,052,766	2,124,766
Other receivables	8,310,797	
Assets acquired in assistance to insured credit unions:		
Liquidating and acquired credit union assets	114,277,056	91,007,836
Allowance for losses on acquired assets	(23,501,000)	(21,133,000)
	90,776,056	69,874,836
Accrued interest receivable	40,101,853	30,712,543
Total assets	$2,029,490,772	$1,920,048,916
Liabilities and Fund Capitalization		
Due to National Credit Union Administration Operating Fund (Note G)	$ 191,721	$ 711,822
Amounts due to insured shareholders of liquidated credit unions	9,331,655	12,290,867
Estimated losses from supervised credit unions (Note C)	40,912,000	48,492,000
Estimated losses from asset and merger guarantees (Note C)	6,553,000	2,643,000
Total liabilities	56,988,376	64,137,689
Fund capitalization		
Accumulated contributions from insured credit unions (Note D)	1,568,974,263	1,476,757,851
Insurance fund balance	403,528,133	379,153,376
Total fund capitalization	1,972,502,396	1,855,911,227
Commitments (Notes C and G)		
Total liabilities and fund capitalization	$2,029,490,772	$1,920,048,916

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

Statements of Operations

Revenue:	Year ended September 30, 1989	1988
Interest income	$146,612,058	$127,074,533
Other income	2,187,748	530,081
Total revenue	148,799,806	127,604,614
Expenses:		
Administrative expenses (Note G)		
Employee wages and benefits	18,973,326	16,743,259
Travel expense	3,977,074	3,906,338
Rent, communications, and utilities	2,197,839	2,254,111
Contracted services	1,552,305	1,366,275
Other administrative	4,116,505	2,318,387
Total administrative expenses	30,817,049	26,588,370
Provision for insurance losses	93,608,000	60,122,000
Total expenses	124,425,049	86,710,370
Excess of revenue	$ 24,374,757	$ 40,894,244

The accompanying notes are in 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, 1987	$1,263,991,374	$338,259,132
Contributions from insured credit unions	212,766,477	
Excess of revenue		40,894,244
Balance of September 30, 1988	1,476,757,851	379,153,376
Contributions from insured credit unions	92,216,412	
Excess of revenue		24,374,757
Balance at September 30, 1989	$1,568,974,263	$403,528,133

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

Statements of Cash Flows

	Year ended September 30,	
	1989	1988
Cash flows from operating activities:		
Excess of revenue	$ 24,374,757	$ 40,894,244
Adjustments to reconcile excess of revenue to net cash (used) provided by operating activities:		
Provision for insurance losses	93,608,000	60,122,000
Payments relating to losses from supervised credit unions and asset and merger guarantees, net	(97,278,000)	(65,249,000)
Changes in operating assets and liabilities:		
(Increase) in advances to credit unions	(34,243,206)	(85,283)
(Increase) in other receivables	(8,310,797)	
(Increase) in assets acquired from credit unions, net	(20,901,220)	(13,895,756)
(Increase) decrease in accrued interest receivable	(9,389,310)	2,283,919
(Decrease) in amounts due to National Credit Union Administration Operating Fund	(520,101)	(1,767,077)
(Decrease) in amounts due to insured shareholders of liquidated credit unions	(2,959,212)	(21,780,262)
(Decrease) in other liabilities		(144,733)
Net cash (used) provided by operating activities	(55,619,089)	378,052
Cash flows from investing activities:		
Decrease (increase) in investments, net	240,937,999	(21,340,286)
Decrease (increase) in note receivable - National Credit Union Administration Operating Fund	72,000	(2,124,766)
Net cash provided (used) by investing activities	241,009,999	(23,465,052)
Cash flows from financing activities:		
Contributions from insured credit unions, net	92,216,412	212,766,477
Net increase in cash and cash equivalents	277,607,322	189,679,477
Cash and cash equivalents at beginning of year	247,372,306	57,692,829
Cash and cash equivalents at end of year	$524,979,628	$247,372,306
Composed of:		
Cash	$ 10,935,628	$ 10,306
Cash equivalents – U.S. Government securities with maturities less than 3 months	514,044,000	247,362,000
Total	$524,979,628	$247,372,306

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

Notes to Financial Statements
September 30, 1989

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 semiannual 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 correctable. 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 values of certain assets (primarily loans).

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

Note B - Significant Accounting Policies

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. Cash equivalents are highly liquid investments with original maturities of three months or less.

Advances to Credit Unions

The Fund provides cash assistance in the form of interest and 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 1989 and 1988 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 $12,891,000 and $3,591,000 at September 30, 1989 and 1988, 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, 1989 and 1988 was as follows:

	Year ended September 30,	
	1989	1988
Beginning balance	$ 51,135,000	$ 56,262,000
Provision for insurance losses	93,608,000	60,122,000
Insurance losses and transfers to the allowance for losses on acquired assets	(114,750,000)	(83,634,000)
Recoveries	17,472,000	18,385,000
Ending Balance	$ 47,465,000	$ 51,135,000

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, 1989 and 1988 are approximately $60,977,000 and $65,922,000 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 $1,568,974,263 at September 30, 1989, consists of $1,485,101,240 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 a range of 1.25% to 1.3% of insured shares. The NCUA Board did not declare any dividends during 1989 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, 1989			
	Yield to Maturity at Market	Book Value	Market Value	Face Value
Cash Equivalents				
U.S. Treasury Securities				
overnight funds	9.43	$ 514,044,000	$ 514,044,000	$ 514,044,000
U.S. Treasury Securities				
Maturities up to one year	7.86	524,292,182	523,191,188	525,199,000
Maturities over one year	8.35	799,617,773	797,350,000	800,600,000
		$1,323,909,955	$1,320,541,188	$1,325,799,000

	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

Total investment purchases and sales during fiscal year 1989 are approximately $88,808,314,000 and $88,782,570,000, 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 1989 or 1988.

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 allocation factor was 50% to the Fund and the NCUA Operating Fund in the years ended September 30, 1989 and 1988. The cost of services provided by the NCUA Operating Fund was approximately $28,769,000 and $26,506,000 for 1989 and 1988, respectively, and includes pension contributions of approximately $1,572,500 and $1,301,000 for 1989 and 1988, respectively, to the Civil Service Retirement System and Federal Employees Retirement System, defined benefit retirement plans.

In fiscal year 1988, 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 1989 was approximately 8.1%. The note receivable balance at September 30, 1989 was $2,052,766.

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 $10,645,000 at September 30, 1989. Based on the allocation factor approved by the NCUA Board of Directors for fiscal year 1990, the Fund will reimburse the NCUA Operating Fund for approximately 50% of the future lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately $1,140,000 and $1,137,000 for 1989 and 1988, respectively. The amounts were derived using the current annual allocation factor.

Ten Year Financial Trend

Fiscal Year	1980	1981	1982	1983	1984
Income (thousands)					
Regular Premium-Federal	$25,682	$27,657	$29,658	$33,878	$40,404
Regular Premium-State	12,813	14,077	15,197	17,374	19,781
Special Premium-Federal	—	—	19,419	34,561	—
Special Premium-State	—	—	10,526	17,725	—
Treasury Investments	13,319	19,033	18,358	20,141	30,088
Other	1,718	1,655	1,883	1,357	878
Total Income	$53,532	$62,422	$95,041	$125,036	$91,151
Expenses (thousands)					
Operating	$8,332	$9,314	$10,813	$10,315	$10,426
Insurance Losses	29,801	43,746	77,458	55,060	28,068
Losses on Investment Sales	—	—	1,805	1,796	2,326
Other	2,730	119	1,822	577	—
Total Expenses	$40,863	$53,179	$91,898	$67,748	$40,820
Net Income (thousands)	**$12,669**	**$9,243**	**$3,143**	**$57,288**	**$50,331**
Fiscal Year-end Data:					
Total Equity (thousands)	**$165,620[2]**	**$174,716**	**$177,921**	**$235,209**	**$285,540**
Equity as a Percentage of Shares in NCUSIF–Insured Crediit Unions	0.303%	0.302%	0.259%	0.292%	0.313%
Contingent Liabilities (thousands)[1]	**$100,463**	**$171,716**	**$149,090**	**$67,338**	**$23,930**
Contingent Liabilities as a Percentage of Equity	60.7%	98.3%	83.8%	29.7%	8.4%
NUCSIF Loss per $1,000 of Insured Shares	$0.61	$0.83	$1.28	$0.77	$0.34
Operating Ratios:					
Premium Income	71.9%	66.9%	78.7%	82.8%	66.0%
Investment Income	24.9%	30.5%	19.3%	16.1%	33.0%
Other Income	3.2%	2.6%	2.0%	1.1%	1.0%
Operating Expenses	15.6%	14.9%	11.4%	8.3%	11.4%
Insurance Losses	55.7%	63.5%	81.5%	44.0%	30.8%
Other Expenses	5.0%	6.8%	3.8%	1.9%	2.6%
Total Expenses	76.3%	85.2%	96.7%	54.2%	44.8%
Net Income	23.7%	14.8%	3.3%	45.8%	55.2%
Involuntary Liquidations Commenced					
Number	239	251	160	50	38
Share Payouts (thousands)	$59,957	$78,639	$39,892	$9,954	$34,840
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-insured Credit Unions	0.110%	0.136%	0.058%	0.012%	0.039%

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 form 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	1985	1986	1987	1988	1989
Income (thousands)					
Regular Premium-Federal	$10,508	—	—	—	—
Regular Premium-State	5,208	—	—	—	—
Special Premium-Federal	—	—	—	—	—
Special Premium-State	—	—	—	—	—
Treasury Investments	83,789	121,080	112,407	127,075	146,612
Other	708	346	339	530	2,188
Total Income	$100,213	$121,426	$112,746	$127,605	$148,800
Expenses (thousands)					
Operating	$10,927	$16,822	$21,466	$26,588	$30,817
Insurance Losses	25,472	37,864	55,732	60,122	93,608
Losses on Investment Sales	—	—	—	—	—
Other	—	—	—	—	—
Total Expenses	$36,399	$54,686	$77,198	$86,710	$124,425
Net Income (thousands)	**$63,814**	**$66,740**	**$35,548**	**$40,894**	**$24,375**
Fiscal Year-end Data:					
Total Equity (thousands)	**$1,119,356**	**$1,411,391**	**$1,602,251**	**$1,855,911**	**$1,972,502**
Equity as a Percentage of Shares in NCUSIF–Insured Crediit Unions	1.28%	1.23%[3]	1.23%	1.24%	1.25%
Contingent Liabilities (thousands)[1]	**$4,131**	**$4,864**	**$5,572**	**$3,407**	**$10,663**
Contingent Liabilities as a Percentage of Equity	0.4%	0.3%	0.3%	0.2%	0.5%
NUCSIF Loss per $1,000 of Insured Shares	$0.26	$0.30	$0.38	$0.38	$0.58
Operating Ratios:					
Premium Income	15.7%	—	—	—	—
Investment Income	83.6%	99.7%	99.7%	99.6%	98.5%
Other Income	0.7%	0.3%	0.3%	0.4%	1.5%
Operating Expenses	10.9%	13.9%	19.1%	20.8%	20.7%
Insurance Losses	25.4%	31.2%	49.4%	47.1%	62.9%
Other Expenses	—	—	—	—	—
Total Expenses	36.3%	45.1%	68.5%	67.9%	83.6%
Net Income	63.7%	54.9%	31.5%	32.1%	16.4%
Involuntary Liquidations Commenced					
Number	31	36	33	35	54
Share Payouts (thousands)	$15,499	$22,168	$3,213	$36,110	$21,687
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-insured Credit Unions	0.014%	0.020%	0.002%	0.023%	0.013%

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	1980	1981	1982	1983	1984
Shares in NCUSIF-Insured Credit Unions (millions)[1]					
Federal Credit Unions	$33,812	$35,250	$41,352	$49,889	$57,927
State Credit Unions	17,730	18,902	21,638	24,850	26,327
Total Shares	$51,542	$54,152	$62,990	$74,739	$84,254
Number of Member Accounts in NCUSIF-Insured Credit Unions (thousands)					
Federal	26,829	28,595	26,095	26,700	28,170
State	13,679	14,657	13,160	13,460	15,205
Total	40,508	43,252	39,255	40,160	43,288
Number of NCUSIF-Insured Credit Unions					
Federal	12,802	12,367	11,430	10,963	10,614
State	4,910	4,994	5,036	4,918	4,689
Total	17,712	17,361	16,466	15,881	15,303
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	83.3%	81.5%	82.9%	83.8%	82.0%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	34.4%	34.9%	34.4%	33.3%	31.3%
End of Fiscal Year	1980	1981	1982	1983	1984
Assistance to Avoid Liquidation:					
Capital Notes and Other Cash Advances Outstanding	$15,447	$8,388	$16,839	$31,838	$36,413
Noncash Guaranty Accounts	$29,247	$42,922	$48,786	$52,736	$54,213
Number of active cases	59	114	124	113	72
Problem Case Insured Credit Unions (Codes 4 and 5):					
Number	1,018	1,174	1,192	1,124	872
Shares (millions)	$2,400	$2,980	$4,590	$4,652	$4,071
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	4.4%	5.2%	6.7%	5.9%	4.7%
Mergers: (fiscal year)					
Assisted[2]	—	98	167	203	92
Unassisted	313	235	272[3]	503	550

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	1985	1986	1987	1988	1989[4]
Shares in NCUSIF-Insured Credit Unions (millions)[1]					
Federal Credit Unions	$71,615	$86,709	$94,927	$104,431	$108,000
State Credit Unions	37,917	47,476	51,417	55,217	57,000
Total Shares	$109,532	$134,185	$146,344	$159,648	$165,000
Number of Member Accounts in NCUSIF-Insured Credit Unions (thousands)					
Federal	29,576	31,041	32,067	57,235	59,000
State	15,689	17,362	17,999	27,376	28,000
Total	45,265	48,403	50,066	84,611	87,000
Number of NCUSIF-Insured Credit Unions					
Federal	10,142	9,758	9,475	9,118	8,850
State	4,932	4,944	4,985	4,760	4,600
Total	15,074	14,702	14,460	13,878	13,450
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	91.6%	96.4%	96.0%	96.1%	97.0%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	34.6%	35.4%	35.1%	34.6%	34.6%

End of Fiscal Year	1985	1986	1987	1988	1989
Assistance to Avoid Liquidation:					
Capital Notes and Other Cash Advances Outstanding	$33,266	$22,396	$5,031	$5,117	$39,360
Noncash Guaranty Accounts	$36,946	39,903	$39,564	$41,127	$53,959
Number of active cases	45	30	16	25	43
Problem Case Insured Credit Unions (Codes 4 and 5):					
Number	742	794	929	1,022	794
Shares (millions)	$4,055	$6,611	$8,135	$10,600	$8,400
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	3.9%	4.9%	4.9%	6.3%	4.8%
Mergers:					
Assisted	63	58	55	50	60
Unassisted	514	515	489	464	395

[4]Estimated amounts as of December 31, 1989.

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 without taxpayer monies. 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 897 employees, 737 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

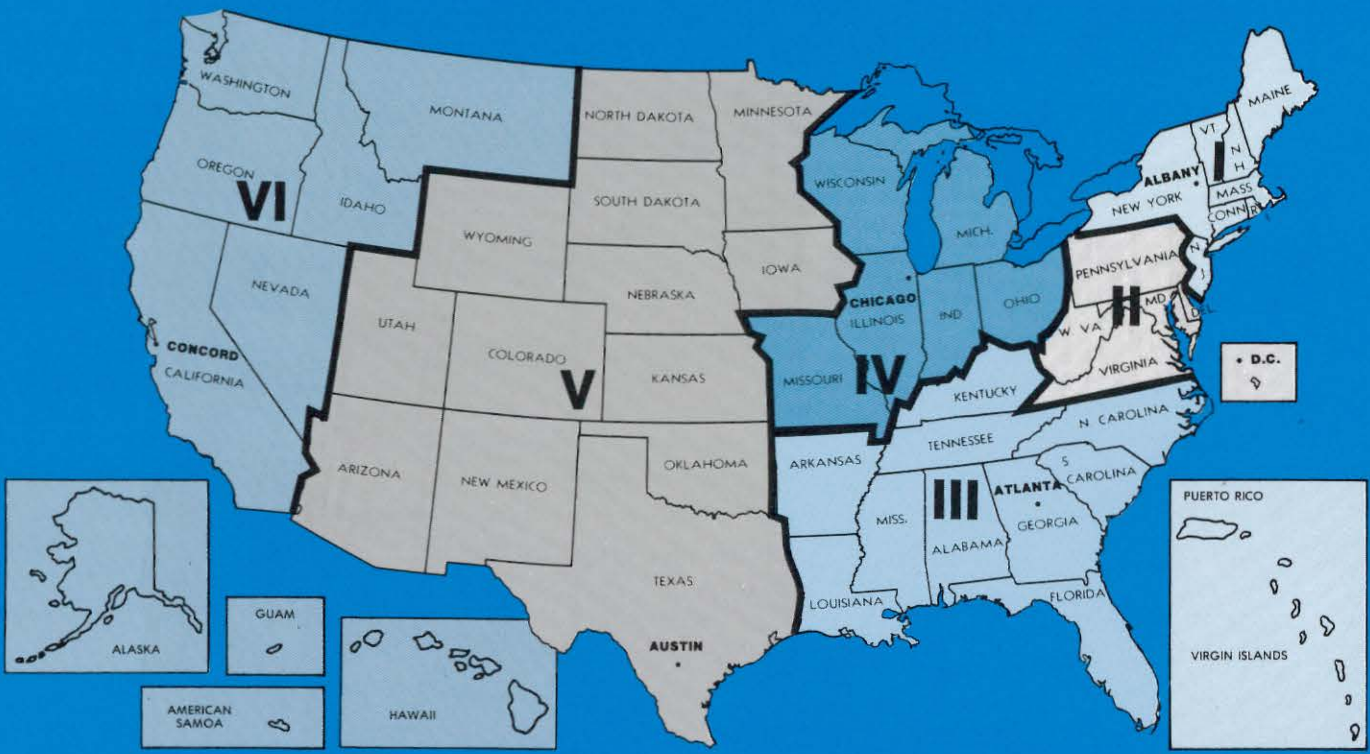
Donald E. Johnson, Executive Director
Robert M. Fenner, General Counsel

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

1776 G Street, Northwest
Washington, DC 20456
(202) 682-9600

Left to Right
Insurance Director
Dennis Winans,
Office of Examination
and Insurance Director
D. Michael Riley,
Supervision Director
Timothy Hornbrook,
and Deputy Director,
Office of Examination
and Insurance
Nicholas Veghts

National Credit Union Administration



Regional Offices

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Vacant
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Suboffice
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(712) 255-9145

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Regional Director
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Concord, CA 94520
(415) 825-6125

National Credit Union Administration
Washington, DC 20456

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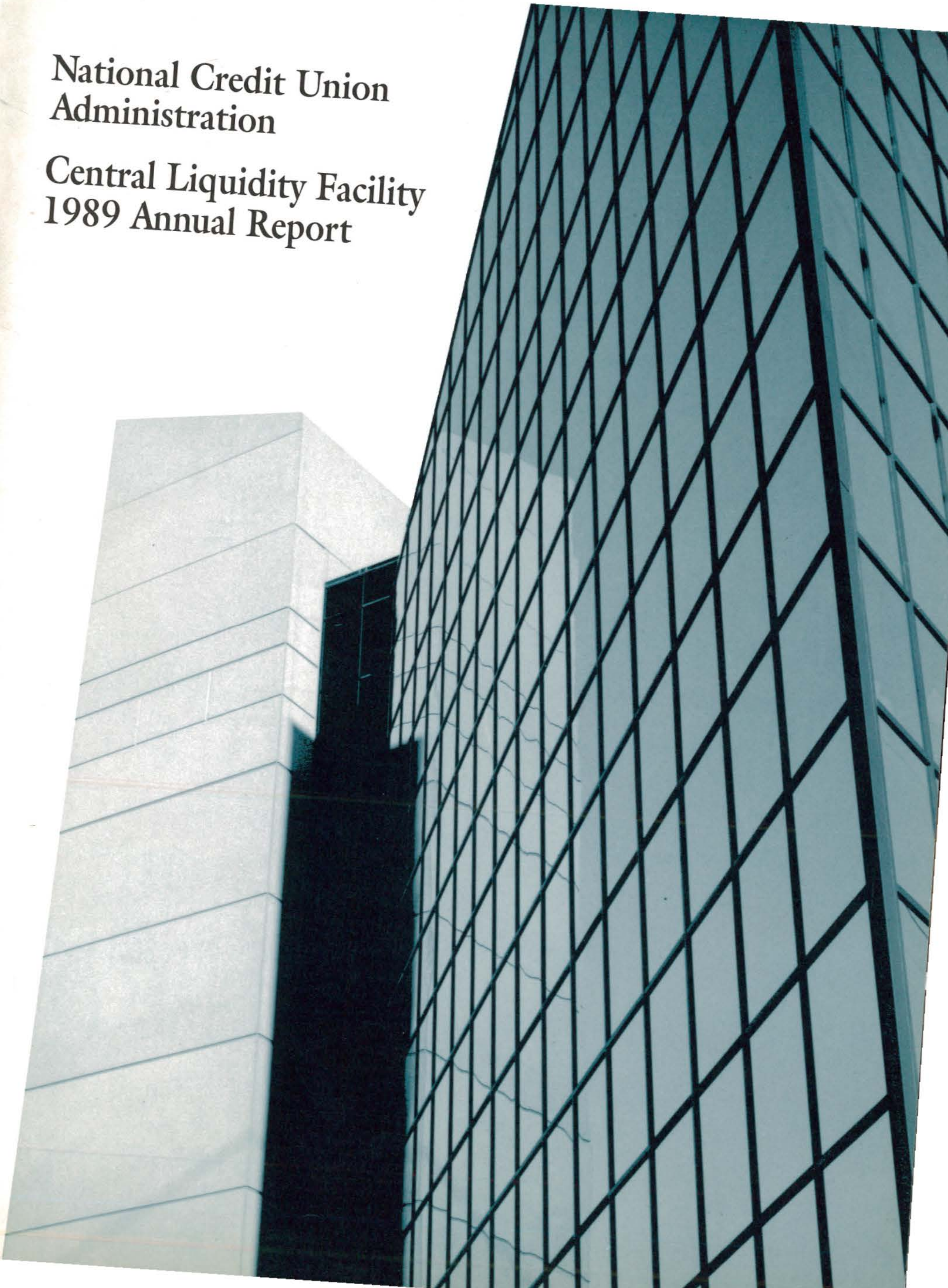
National Credit Union Administration

Central Liquidity Facility 1989 Annual Report



National Credit Union Administration
Central Liquidity Facility

The Congress finds that the establishment of a National Credit Union Central Liquidity Facility is needed to improve general financial stability by meeting the liquidity needs of credit unions and thereby encourage savings, support consumer and mortgage lending, and provide basic financial resources to all segments of the economy.

1989 Annual Report

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COVER PHOTO BY BOB PARKS

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 Board

Roger W. Jepsen, Chairman

Elizabeth F. Burkhart, Vice Chairman

The formation of the Central Liquidity Facility ten years ago represented a culmination of over four decades of legislative efforts to establish a federal funds system dedicated solely to serving the liquidity needs of the nation's credit unions.

Credit unions are self-help, member-owned and member-controlled cooperative organizations that not only provide a place to save and borrow, but they also serve to teach people about democracy: how to work together, conduct meetings, and vote. Progress is always more effective when people are able to help themselves. Credit unions make a difference by offering people a chance to participate and improve themselves financially and economically.

The Central Liquidity Facility helps this independent and democratic process by providing credit unions with access to the U.S. Treasury and an effective means of moving liquidity from where it is available to where it is needed.

Since 1979, the Central Liquidity Facility has made 500 loans totaling nearly $5 billion, ranging in amount from a low of $13,000 to a high of $70 million. Although most of the loans have been for short-term periods of 30 to 90 days, there have been 15 long-term loans totaling a little over $92 million with an average life of 4 years per loan. Loans have been made to provide liquidity assistance during factory closings, seasonal transitions, investment and interest rate restructuring programs, and conservatorship and workout plan proceedings by regulators.

Corporate credit unions also play a vital role in redistributing liquidity among their members. Corporates are a system of state and federally chartered "correspondent" credit unions that provide operational and correspondent services, loans, and investment alternatives and advice to natural person credit unions.

The Central Liquidity Facility is a specialized industry lender concerned solely with meeting the needs of credit unions. It has not had any losses from any of its activities during its first ten years of operation. It stands ready to serve the most important aspect of the entire credit union system–the credit union member.

The Central Liquidity Facility is a specialized industry lender concerned solely with meeting the needs of credit unions.

Financial Summary

During fiscal year 1989, 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 \$35.3 million before dividends equals an 8.33% return on members' capital and deposits for the fiscal year 1989.

Operating expenses of \$812,000 were below the Congressionally approved \$880,000 operating budget set for the CLF during fiscal year 1989.

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. The operating expense ratio for 1989 continued to drop, decreasing 30 basis points to 1.8%.

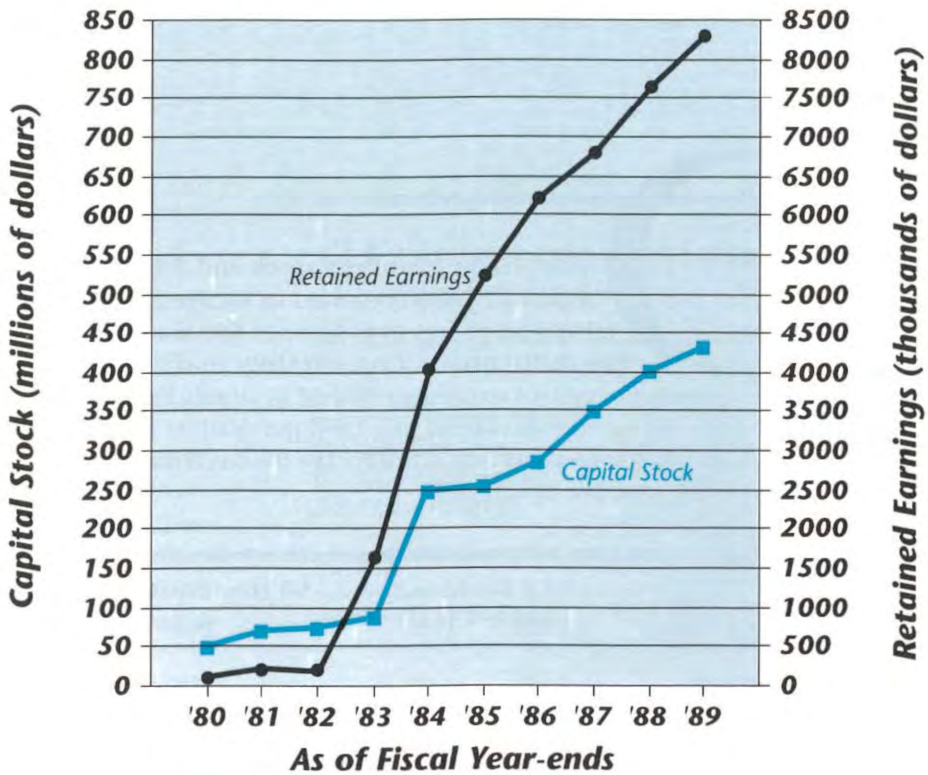
Retained earnings at September 30, 1989, stood at \$8.3 million, an increase of 9% during the year. Although CLF has not had any losses from its lending and investment activities during its first ten years of operation, this reserve account is a recognition that CLF activities are not completely risk 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 \$25 million, or 5%, during the year. This increase is primarily due to a 7.4% increase in capital stock. Capital stock rose by \$29.8 million as a result of membership stock adjustments in March 1989.

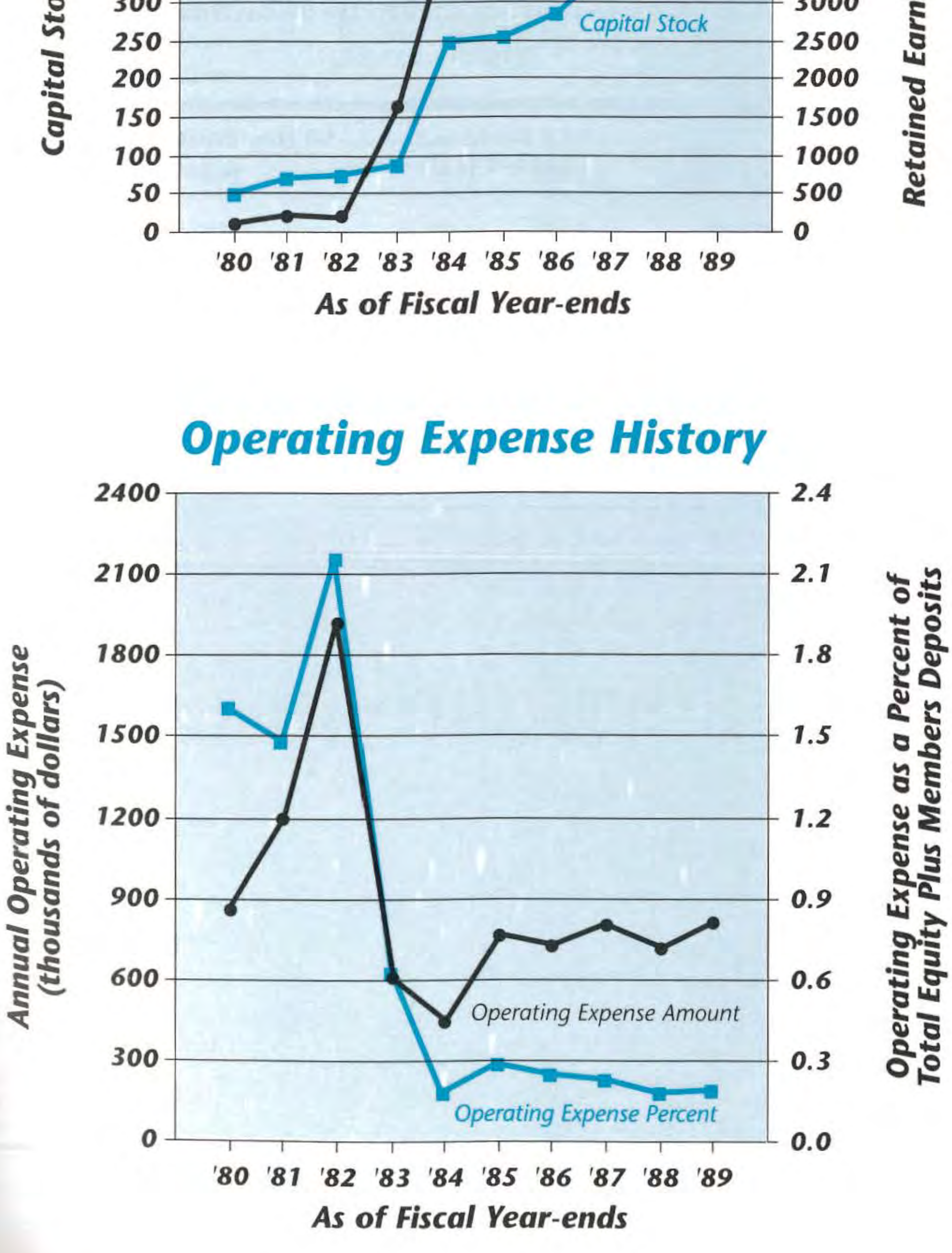
Financial Highlights
Central Liquidity Facility

	1989	1988	Percent Change
OPERATING RESULTS			
Operating Net Income	35,330,000	24,792,000	+ 42.5%
Dividends	34,651,000	23,955,000	+ 44.7%
Net Earnings and Additions to Reserves	679,000	837,000	- 18.9%
AT FISCAL YEAR END			
Total Assets	565,637,000	540,671,000	+ 4.6%
Total Member Shares and Retained Earnings	438,908,000	408,443,000	+ 7.5%
Total Loans	112,172,000	120,440,000	- 6.9%
Total Employees	4	4	
Total Members: via Agents (credit unions)	42(15,000)	41(16,000)	
Direct Members	218	263	

Equity Capital Trends



Operating Expense History



Dividends

Dividends on members' stock and deposits of $35.2 million resulted in an average return on shares of 8.33% for the fiscal year. The distribution of net earnings in dividends after all operating expenses exceeded 98% of available net income. The per annum dividend rate paid per quarter on shares for the past two years and the average 90-day T-Bill rate for the current year are as follows:

	CLF Dividend		90 Day T-Bill Rate
Quarter Ending	**1988**	**1989**	**1989**
1st Quarter - 12/31	6.06%	7.86%	7.98%
2nd Quarter - 3/31	5.88%	8.73%	8.83%
3rd Quarter - 6/30	6.31%	8.62%	8.62%
4th Quarter - 9/30	7.13%	8.12%	8.12%
Fiscal Year Average	**6.35%**	**8.33%**	**8.39%**

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

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 $115.2 million, an increase of $1 million from the previous fiscal year. Overall the loan portfolio contributed $338,000 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.

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 1989, all funds were placed in investments at maturities not exceeding six months.

Investments at September 30, 1989, stood at $443.7 million, an increase of $31.9 million from the previous year. The investments consist of two separate portfolios: the $377.6 million redeposit in U.S. Central, and $66.1 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 1989, the yield on the redeposit was 8.35%.

The average maturity of the portfolio, excluding the redeposit, was 74 days at fiscal year-end, compared to 80 days at the beginning of the fiscal year. The average yield on the managed portfolio was 9.14% during the year. The comparative rates for three month Eurodollar Certificate of Deposit and 90-day T-Bill were 9.34% and 8.39%, respectively. Including the yield on the redeposit in the corporate system, the overall return on CLF's investments was 8.49% for fiscal year 1989.

CLF Investment Portfolio
at September 30, 1989

Investment	Amount	% of Total Portfolio	Yield
Eurodollar Time Deposit	$ 40,000,000	9.0%	9.27%
U.S. Central Daily Account	26,114,886	5.9%	9.18%
U.S. Central Redeposit	377,600,000	85.1%	8.02%
TOTAL	**$443,714,886**	**100.0%**	**8.20%[1]**

[1]Weighted Average Yield for September.

Maturity Schedule of CLF Investment Portfolio
at September 30, 1989

Month	Eurodollar Time Deposits	U.S. Central Daily Account	U.S. Central Redeposit	Total
October	$10,000,000	$26,114,886	$377,600,000	$413,714,886
November	10,000,000			10,000,000
December	5,000,000			5,000,000
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**	**$26,114,886**	**$377,600,000**	**$443,714,886**

Auditor's Report

Central Liquidity Facility Financial Statements
for the Years Ended September 30, 1989 and 1988

Report of Independent Accountants

Price Waterhouse

November 6, 1989

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, 1989 and 1988 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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

Price Waterhouse
Washington, D.C.

Balance Sheets
(Expressed in thousands of dollars)

	September 30, 1989	1988
ASSETS		
Cash	$ 6	$ 6
Investments	443,715	411,751
Loans to members	112,172	120,440
Accrued interested receivable	9,744	8,474
Total assets	**$565,637**	**$540,671**
LIABILITIES AND EQUITY		
Liabilities		
Notes payable	$111,410	$118,148
Member deposits	14,297	12,823
Accrued interest payable	853	1,117
Accounts payable and other liabilities	169	140
Total liabilities	**126,729**	**132,228**
Equity		
Capital Stock–required	430,598	400,812
Retained earnings	8,310	7,631
Total equity	**438,908**	**408,443**
Commitments		
Total liabilities and equity	**$565,637**	**$540,671**

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

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

	Year Ended September 30, 1989	1988
INCOME		
Interest on loans	$ 9,945	$ 7,417
Income from investments	36,331	25,787
Other	34	44
Total income	**46,310**	**33,248**
EXPENSES		
Personnel services	235	169
Personnel benefits	29	20
Employee travel	16	11
Rent, communications and utilities	47	48
Printing and reproduction	8	8
Other services	82	68
Agent commitment fee	377	380
Supplies and materials	18	6
Total operating expenses	**812**	**710**
Interest		
Federal Financing Bank	9,607	7,212
Member deposits	561	534
Total expenses	**10,980**	**8,456**
Net income	**35,330**	**24,792**
Dividends to members	34,651	23,955
Addition to retained earnings	679	837
Retained earnings at beginning of period	7,631	6,794
Retained earnings at end of period	$ 8,310	$ 7,631

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

Statements of Cash Flows

(Expressed in thousands of dollars)

	Year Ended September 30, 1989	1988
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans	$ 10,208	$ 7,655
Income from investments	34,798	23,821
Other income received	34	44
Cash paid for operating expenses	(783)	(709)
Interest paid on borrowings	(9,871)	(7,442)
Net cash provided by operating activities	**34,386**	**23,369**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment maturities	402,964	453,470
Loan principal repayments	194,012	53,890
Purchase of investments	(434,928)	(502,024)
Loan disbursements	(185,744)	(62,786)
Net cash used in investing activities	**(23,696)**	**(57,450)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of required capital stock	33,311	65,098
Addition to member deposits	457	591
Proceeds from borrowings	62,410	78,288
Redemption of required capital stock	(3,525)	(12,022)
Withdrawal of members deposits	(34,195)	(26,340)
Borrowing repayments	(69,148)	(71,534)
Net cash provided by financing activities	**(10,690)**	**34,081**
Net increase in cash		
Cash at beginning of year	6	6
Cash at end of year	$ 6	$ 6

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

Statements of Cash Flows (continued)
(Expressed in thousands of dollars)

	Year Ended September 30, 1989	1988
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 35,330	$ 24,792
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Decrease in accrued loan interest receivable	263	238
Increase in accrued investment income receivable	(1,533)	(1,966)
Decrease in accrued interest payable	(264)	(230)
Increase in accounts payable and other liabilities	29	1
Interest deposited in member deposits	561	534
Total adjustments	**(944)**	**(1,423)**
Net cash provided by operating activities	**$34,386**	**$23,369**

SUPPLEMENTARY DISCLOSURE OF NON-CASH TRANSACTIONS		
Rollovers		
Loans	$438,092	$467,186
Borrowings	$458,537	$462,770
Dividends added to member deposits	$34,651	$23,955

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

Notes to Financial Statements
September 30, 1989 and 1988

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, 1989 and 1988.

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 $600 million or twelve times equity and capital subscriptions on-call. At September 30, 1989 and 1988, the CLF was in compliance with these limitations.

Note 4 • Loans to Members

During 1989 loans were made only to member credit unions. These loans carry interest rates which ranged from 8.25% to 9.87% at September 30, 1989 (7.0% to 8.55% at September 30, 1988). The loans outstanding at September 30, 1989 are scheduled to mature during fiscal year 1990 (the loans outstanding at September 30, 1988 matured during fiscal year 1989). Included in loans to members at September 30, 1989 and 1988 are loans to U.S. Central Corporate Credit Union in its capacity as agent of the CLF (see Note 8) in the amount $65,772,000 and $119,240,000, respectively.

The CLF also provides members with extended loan commitments and lines of credit. There were $38,455,000 in outstanding commitments or lines of credit at September 30, 1989.

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, 1989, no advances had been made against the lines and all existing lines expired on that date. Subsequent to September 30, 1989, 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,	
	1989	**1988**
U.S. Central (see Note 8)		
Redeposits	$377,600	$357,000
Share accounts	26,115	14,751
Time deposits	40,000	40,000
	$443,715	$411,751

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 8.121% to 8.405% at September 30, 1989 (6.875% to 7.704% at September 30, 1988). Interest is generally payable upon maturity. The notes outstanding at September 30, 1989 are scheduled to mature during fiscal year 1990 (the notes outstanding at September 30, 1988 matured during fiscal year 1989).

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, 1989 and 1988, $402,956,000 and $364,840,000, 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, 1989 and 1988, $403,715,000 and $371,751,000, respectively, were invested in USC share accounts at approximately 8.11% and 7.43% 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, 1989 and 1988 amounted to approximately $277,000 and $226,000, 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, 1989 and 1988 were approximately $16,000 and $12,000, 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 adjustments 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, 1989, as follows (dollars in thousands):

Year ended September 30,	
1990	$1,115
1991	1,132
1992	1,091
1993	1,083
1994	1,157
Thereafter	167
	$5,745

The CLF's portion of these lease payments (rent expense) for each of the years ended September 30, 1989 and 1988 was approximately $34,000 and $37,000, respectively.

Selected Financial Ratios

	1989	1988	1987	1986	1985
OPERATING RATIOS					
Operating Expense/Total Income	1.8%	2.1%	3.1%	2.2%	1.7%
Interest Expense/Total Income (FFB)	20.7%	21.7%	22.1%	38.6%	49.0%
Allowance for Loan Losses	0.0%	0.0%	0.0%	0.0%	0.0%
Dividends/Total Income	74.8%	72.0%	69.8%	54.1%	44.9%
Dividends/Net Operating Income	98.1%	96.6%	96.8%	94.7%	94.4%
Net Income After Dividends/Total Income	1.5%	2.5%	2.3%	3.0%	2.7%
BALANCE SHEET USING FISCAL YEAR END DATA:					
Shares and Retained Earnings/Total Assets	77.6%	75.5%	73.6%	70.3%	51.9%
Total Liabilities/Total Assets	22.4%	24.5%	26.4%	29.7%	48.1%
Loans/Total Assets	19.8%	22.3%	23.2%	25.8%	44.9%
Investments/Total Assets	78.4%	76.2%	75.4%	73.1%	53.5%
Investments/Shares and Deposit Liabilities	99.7%	99.5%	100.4%	100.3%	99.8%
Total Borrowings/Shares and Retained Earnings	25.4%	28.9%	31.4%	36.2%	86.5%
Loans/Shares and Retained Earnings	25.6%	29.5%	31.5%	36.7%	86.5%
PERFORMANCE RATIOS USING AVERAGE BALANCES:					
Yield on Average Investments	8.5%	6.7%	6.0%	6.8%	8.6%
Yield on Average Loans	8.6%	6.4%	5.4%	7.8%	9.4%
Yield on Total Average Earning Assets	8.5%	6.6%	5.9%	7.2%	9.0%
Average Borrowing Rate	8.5%	6.4%	5.9%	6.3%	8.5%
Average Dividend Rate	8.3%	6.4%	5.7%	6.6%	8.2%
Operating Income before Dividends/Average Shares and Retained Earnings	8.2%	6.5%	5.8%	6.7%	8.8%
Net Income after Dividends/Average Shares and Retained Earnings	0.2%	0.2%	0.2%	0.4%	0.5%

Agent Members

U.S. Central Agent Group:

U.S. Central Credit Union
(Agent Group Representative)
Alabama Corporate CU
Capital Corporate Central FCU (MD)
Central Corporate CU (MI)
Colorado Corporate FCU
Constitution State Corporate CU, Inc. (CT)
Corporate CU of Arizona
Corporate Central CU of Utah
Eastern Corporate FCU (MASS)
Empire Corporate Central FCU (NY)
First Carolina Corporate CU (NC)
Garden State Corporate Central CU (NJ)
Georgia Central CU
Idaho Corporate CU, Inc.
Indiana Corporate FCU
Iowa League Corporate Central CU
Kansas Corporate CU
Kentucky Corporate FCU
Louisiana Corporate CU
Mid-Atlantic Corporate FCU (PA)
Mid-States Corporate FCU (IL)
Minnesota Corporate CU
Missouri League Corporate CU
Nebraska Corporate Central FCU
North Dakota Central CU
Ohio League Corporate 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 CU (TN)
Virginia League Corporate FCU
Washington Corporate Central CU
Western Corporate FCU (CA)
West Virginia Corporate CU
Wisconsin Corporate Central CU

Direct Members

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

CALIFORNIA (continued)
Continental 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 FCU
NSC Employees FCU
Pacific IBM Employees FCU
Russian American CU
Safeamerica FCU
Santa Barbara Teachers FCU
Sea Air FCU
Southern Baptist CU
TRW Systems FCU
Union Oil Oleum FCU
USEIT FCU
Vallejo City Employees FCU

COLORADO
U of C FCU

CONNECTICUT
Sikorsky FCU
St. Boniface Parish FCU
West Haven Teachers FCU

DISTRICT OF COLUMBIA
Bank-Fund Staff FCU
Federal Deposit Employees FCU
Geicos FCU
OAS Staff FCU
Tacomis FCU
Wright Patman Congressional FCU

FLORIDA
Agrico FCU
Gainesville Florida Campus FCU
MAAS Brothers Employees FCU
Suncoast Schools FCU
Tampa Bay FCU

GEORGIA
Augusta Industrial FCU
Augusta Seaboard Systems FCU
CSRA FCU
Fort Gordon FCU
Georgia State University FCU
The Federal Employees CU

GUAM
NAVMAR FCU

IDAHO
Boise Telco FCU
Pocatello Kraft Employess FCU
Pocatello Teachers FCU
Potlatch No. 1 FCU

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

INDIANA
Deaconess Hospital Employees FCU
JET 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

MARYLAND
National Institutes of Health FCU

MASSACHUSETTS
Cape Cod FCU
PCU FCU
Worcester Central FCU

MICHIGAN
- ABD FCU
- ACM Employees 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
- 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
- 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
- Jersey City Firemen FCU
- Manville Area FCU
- Metuchen Assemblers FCU
- Mobil Research No. 1166 FCU
- Mon-Oc FCU
- Portuguese Continental FCU

NEW JERSEY (continued)
- South Jersey FCU
- Union County Teachers FCU
- Wenewark FCU

NEW MEXICO
- Espanola School Employees FCU
- Los Alamos CU

NEW YORK
- BCT FCU
- Brighton School Employees FCU
- Buffalo Police 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
- TCT FCU
- U.S. Employees FCU
- WCS FCU
- W.C.T.A. 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.
- Daymon Employees FCU
- Dayton Telco FCU
- Dinner Bell Employees FCU
- East Ohio Gas Cleveland Operating Employees FCU
- Emery Employees FCU
- Fremont FCU
- Golden Circle CU
- Ironton DMI Employees FCU
- LAN-FAIR FCU

OHIO (continued)
Merrell Dow Employees FCU
O'Neil's-Strouss FCU
Parmauto FCU
Southern Ohio Savings CU, Inc.
St Saviour Rossmoyne FCU
State Transportation Employees CU
Sun FCU
T&C CU, Inc.
United Services FCU
Whiting FCU
Wittenberg University FCU
Yellow Springs Community FCU

OKLAHOMA
Phillipps O C District FCU
Riverwest FCU
Space Age Tulsa FCU

OREGON
Clackamas FCU
Coos Curry Teachers FCU
Federal Metals CU
Northwest Farmers Insurance Group FCU
Oregon Central CU
Rockwood Industrial FCU

PENNSYLVANIA
Cal Ed FCU
Dauco FCU
Elliot Employees No. 1 FCU
Erie General Electric Employees FCU
Erie School Employees FCU
Mack Local 677 FCU
NE PA School Employees FCU
Nor-Car School Employees FCU
The United FCU
University of Pittsburgh FCU
Westmoreland Federal Employees FCU

RHODE ISLAND
Credit Union Central Falls
Twin City CU
Wood Lawn CU

SOUTH DAKOTA
Services Center FCU

TENNESSEE
Memphis Buckeye FCU
Nashville Kemba FCU
Oak Ridge Government FCU

TEXAS
CASE FCU
Community CU
Lubbock Teachers FCU
San Antonio FCU
South Texas Healthcare FCU

UTAH
Family First FCU
HI-LAND CU
Tooele FCU

VIRGINIA
Apple FCU
Norfolk Municipal Employees FCU
Reymet FCU
Sperry Marine Employees FCU
Waynesboro Dupont Employees CU

WASHINGTON
Alva FCU
Simpson Employees FCU
Walla Walla Engineers FCU
Weyerhaeuser Pulp Employees FCU

WEST VIRGINIA
Huntington West Virginia Firemen's FCU
Steel Works Community FCU

WISCONSIN
Heritage FCU

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Kentucky	Tennessee

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

Region VI (Pacific)

Foster C. Bryan, Regional Director
National Credit Union Administration
2300 Clayton Road, Suite 1350
Concord, CA 94520
Commercial (415) 825-6125
FAX (415) 486-3729

Alaska	Idaho
American Samoa	Montana
California	Nevada
Guam	Oregon
Hawaii	Washington

Central Liquidity Facility Staff
September 30, 1989

Seated: Floyd Lancaster, *President*
Standing (left to right): Ruthie Taylor, *Secretary;* Dan Chapin, *Accountant*; Ron Lewandowski, *Treasurer.*

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.

St. Mary's Bank (La Caisse Populaire Ste-Marie), Manchester, New Hampshire, first credit union in the United States, November 24, 1908.