NCUA

1985 ANNUAL REPORT

National Credit Union Administration

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OF THE

NATIONAL CREDIT UNION ADMINISTRATION

APRIL 1986

Board Member Elizabeth F. Burkhart, Vice President of the United States George Bush, Chairman Roger W. Jepsen, and Vice Chairman P.A. Mack, Jr. at the swearing-in ceremonies in Washington for Board Member Burkhart and Chairman Jepsen.

March 31, 1986

DEAR MR. PRESIDENT:

I would like to begin my first contribution to a National Credit Union Administration Annual Report by thanking you for the opportunity of serving as Chairman of the NCUA Board. As this report reflects, the credit union movement is healthy, prospering and growing. There are several reasons why credit unions are doing so well in the midst of today's turbulent financial environment. Not the least of these is that some 52 million Americans have come to understand that credit unions are the ultimate self-help organizations. It is no accident that consumer surveys consistently find the greatest level of satisfaction with financial institutions among credit union members.

Credit unions have emerged from the era of deregulation with their commitment to cooperative financial services intact. Serving the needs of the member, and not bottom line profits, is what propels their popularity. Understanding and meeting their ever more sophisticated fiduciary responsibilities is what enables the credit union movement to maintain healthy and solid institutions.

In 1985, my vantage point as a newcomer to NCUA allowed me to view the Agency with fresh eyes. This "quiet little Agency" impressed me immediately in two ways. First, I was pleased to observe that NCUA's commitment to safety and soundness is unwavering. Second, the Agency has its eye on the future, constantly reviewing and refining the regulatory formula for credit union prosperity.

I have pledged to the credit unions we supervise, as I pledge to you, Mr. President, that safety and soundness of the Nation's federally-insured credit unions will remain at the core of NCUA's mission. I also intend to add another element to the Agency's work, that of service. Having already spent 20 years in public service, I expect my beliefs on the subject to carry over at this Agency.

Credit unions had a banner year in 1985, making our jobs at NCUA that much easier. I fully expect continued growth and success of the movement, and pledge total cooperation with all credit unions in achieving that success.

Again, my thanks for your confidence.

With kindest personal regards, I am

Sincerely,

Roger W. Jepsen

ROGER W. JEPSEN
Chairman

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FEDERAL CREDIT UNION SUPERVISION: A PROFILE

While spanning a relatively brief 51 years, Federal regulation of credit unions has followed a diverse path unique among Federal financial regulators. For many years, regulatory responsibility for Federal credit unions was passed so often from one government department to another that credit unions became known as bureaucratic waifs. Disjointed as the journey may have been, however, from it emerged a single, independent Federal regulator capable of meeting the needs of today's strong, healthy and fast-growing credit union movement.

Credit unions in the United States trace their roots to cooperative credit union societies founded in Germany in the mid-nineteenth century. Evolving out of a desire to combat usury and help the working class, credit unions quickly spread to other European countries and to North America.

The first credit unions in the United States, beginning in 1908 with the St. Mary's Cooperative Credit Association in New Hampshire, were formed under various state laws. When the Federal Credit Union Act was passed by Congress and signed into law on June 26, 1934, there were 2,028 state-chartered credit unions operating in 38 states and the District of Columbia.

The Treasury Department and the Federal Reserve Board objected to placing regulatory authority for credit unions with the Comptroller of the Currency. Therefore, in a somewhat arbitrary decision, the Farm Credit Administration was selected to administer the credit union program.

Federal credit unions remained with the Farm Credit Administration until May 16, 1942, when the First War Powers Act of 1941 was used to transfer responsibility to the Federal Deposit Insurance Corporation (FDIC). At this time, there were approximately 4,100 Federal credit unions with more than 1.3 million members.

For the six years credit unions were under the FDIC's jurisdiction, their growth slowed. Credit unions were considered secondary to the FDIC's other responsibilities. In 1948, faced with the need to request appropriations for its credit union operations, the FDIC decided against entering the appropriations process. As a result, on July 28, 1948, the Bureau of Federal Credit Unions (BFCU) was created. Regulatory authority was transferred to the Federal Security Agency, the predecessor of the Department of Health, Education and Welfare (HEW). At the end of 1948, there were 4,058 Federal credit unions with 1.6 million members. Just four years later, Federal credit unions numbered nearly 6,000, with 2.8 million members.

Reorganization Plan Number One of 1953 abolished the Federal Security Agency and created the Department of HEW. As the Bureau of Federal Credit Unions became part of HEW, it also achieved a measure of independence. It became self-sufficient, operating from the fees of credit unions it regulated rather than from tax dollars. This financial independence continues today. During the BFCU's 17 years in HEW, the number of Federal credit unions jumped from 6,500 to 12,700, while members increased from 3.2 million to 10.6 million.

After 36 years of being moved from one location to another within the Federal government, an independent credit union supervisory Agency was formed in 1970. The National Credit Union Administration was created by a bill introduced by Congressman Wright Patman (D-TX), Chairman of the House Banking and Currency Committee, and signed into law on March 10, 1970. This important accomplishment was the result of several years' effort on the part of Rep. Patman and numerous members of the credit union movement.

At last, the regulation of Federal credit unions was on a par with that of other depository institutions. Still, significant differences remained. For one thing, NCUA and its various predecessors had a long history of serving as both a regulator of and an advocate for credit unions. Indeed, in the early decades, the regulatory body was actively engaged in forming new credit unions, and in educating the public about the benefits and opportunities of credit union membership. Before the Bureau of Federal Credit Unions became self-supporting, appropriated funds were used not just to organize Federal credit unions, but to form state-chartered credit unions as well. In fact, the growth and maturity of credit unions was a major argument in support of the new, independent Agency. Between 1950 and 1970, the number of Federal credit unions grew from 4,984 to 12,977; assets rose from $405 million to nearly $9 billion; and members increased from 2 to 12 million.

At first, NCUA was headed by a single Administrator appointed by and serving at the pleasure of the President. A seven-member advisory board consisting of "persons of tested credit union experience" was appointed by the President to advise the Administrator on matters of policy. The National Credit Union Share Insurance Fund was also created in 1970. The Fund was not originated because of problems within the credit union movement. Rather, credit unions were developing so successfully that Congress felt they deserved equal status with other financial institutions that had long been insured. Notably, the Fund was initiated without any Federal tax contribution, as had occurred when the other depository insurance funds began operating.

In 1978, the present structure of NCUA was put into place. The single Administrator was replaced with a three-person Board. Board Members, including one designated Chairman, serve staggered six-year terms. The Board is appointed by the President and confirmed by the Senate. No more than two Board Members may be from the same political party. The same legislation that restructured the NCUA Board created the Central Liquidity Facility (CLF). The CLF functions as the central bank for the nation's credit unions, and provides funds to meet their liquidity needs when traditional sources of credit are not available. It operates as a government corporation within NCUA, and is capitalized through stock purchases by its members.

While the strong advocacy role is no longer as prevalent a part of NCUA's function, the Agency does still assist in the formation of new credit unions. In addition, NCUA is charged with the responsibilities of granting and revoking charters; prescribing regulations for credit union operations; examining, liquidating, merging, or temporarily operating Federal credit unions; insuring Federal credit unions and those state-chartered credit unions that desire Federal insurance or are required by state law to obtain it; and establishing educational, experimental and developmental programs. NCUA officials are also called upon to advise Congress on matters of importance to credit unions and their members.

At year-end 1985, NCUA supervised 10,125 Federal credit unions with combined assets of $78 billion, shares totalling $72 billion, and loans of $48 billion. Approximately 52 million people in every Congressional District of every state belong to a credit union; 29.6 million belong to a Federal credit union; and 45.3 million belong to a federally-insured credit union. In addition, Americans abroad are served by 91 overseas branches of 12 domestic credit unions.

1985 ECONOMIC OVERVIEW

The U.S. economy paused to catch its breath in 1985, not an unexpected or unusual happening in view of the breathtaking advances of 1984 and 1983. Real gross national product rose 2.2 percent in 1985, following a rise of 6.5 percent in 1984 and 3.5 percent in 1983.

It is typical to have a few quarters of below-trend growth in any long-term expansion, which this appears to be. The 1985 slowdown was healthy and the economy now appears poised for new advances—not dramatic, but solid advances—in 1986 and into 1987.

Although the economy slowed considerably in 1985, none of the typical causes of recession were present. There was no excessive inventory buildup; production did not bump up against factory capacity; there were few pockets of labor shortages; and inflation was quiescent. Interest rates declined, and while consumers did have large debts, they were manageable. Thus, the 1985 slowdown was just that—a slowdown, not a prelude to recession.

Employment rose about two million in 1985 and the civilian unemployment rate fell from 7.4 percent in January to 6.9 percent in December. Inflation was low. The consumer price index rose 3.8 percent following advances of 4.0 percent in 1984 and 3.8 percent in 1983. The 1985 price increase was tied for the smallest yearly increase since 1972.

Interest rates declined in 1985. Three-month Treasury bills fell over 100 basis points and 10-year Treasury bonds fell nearly 225 basis points. The prime rate ended the year at 9.5, the lowest level since 1978. The conventional mortgage loan closing rate ended the year at 11.08 percent, down from 12.75 a year earlier. And for the first time since the dawn of plastic, the traditional 18 percent credit card rate appeared to be cracking, with some aggressive card issuers offering rates of three or four percentage points above the prime rate.

The most significant negatives in 1985 were a farm economy on the ropes, a bleak outlook for some smokestack manufacturing industries, a $148.5 billion merchandise trade deficit, a $212 billion Federal deficit (Fiscal 1985) and an all-time high ratio of consumer installment debt to disposable personal income of 19 percent. Yet, according to the Michigan University survey of consumer attitudes, consumer confidence remains high. In the fourth quarter of 1985, the index stood at 91.1 percent. This is the 11th quarter in a row it has been above 90 percent.

Thus, while 1985 was not an outstanding year for the U.S. economy, neither was it a bad year. Credit unions fared quite well in the 1985 economic environment, despite the fact that other depository institutions, most notably, savings and loan associations, found their growth eroded during the year.

PERSPECTIVES ON 1985

I expected 1985 to be an uneventful year for both credit unions and the National Credit Union Administration. After four years of seemingly constant change, deregulation was effectively completed for Federal credit unions. Decentralization had established six strong Regional Offices and the share insurance fund capitalization plan was ready to be implemented. Credit unions were well-positioned in the financial industry and meeting the needs of their members.

By Spring, however, it became clear that this would be a year of surprises, and for me, one of the most challenging and rewarding of the six years I have served as a Member of the NCUA Board.

The departure of Chairman Ed Callahan and the savings and loan deposit insurance crises in Ohio and Maryland brought new and unexpected demands upon the Agency and the industry. On Capitol Hill, the threat of credit union taxation loomed closer, requiring a flurry of activity on the part of credit union officials. The reaction to these challenges from credit union officials and Agency staff was one of cooperation, working together to get the job done. Our success in assuring the safety and soundness of credit union members' savings and beating back taxation is a credit to the cooperative spirit of credit union people across the country.

It was an honor for me to be able to serve as Acting Chairman during the transition to the chairmanship of Roger Jepsen. Reflecting their dedication and professionalism, the NCUA staff handled the change in leadership without hesitation. I am especially proud of our examiners who not only completed the yearly examination of Federal credit unions, but also took in stride the additional workload created by credit unions converting to Federal insurance.

Looking toward 1986, it is clear that there will be a shift from deregulation to an emphasis on supervision and examination. That shift is, in large part, a response to the desires of credit union officials. We at NCUA have a mandate to handle the resources of the Share Insurance Fund in the most efficient manner possible. That means investing wisely, acting quickly when trouble spots are detected and curbing abuses which can end up costing the NCUSIF millions of dollars. Insider dealing and overzealous commercial lending are two key areas for policy development in 1986.

I look forward to working with my fellow Board Members, the NCUA staff and credit union officials to continue building upon the credit union success of the past.

P.A. Mack, Jr.

P. A. MACK, JR.,
Vice Chairman

As the song says, "It was a very good year." It was a year of renewed commitment, important transitions, and one in which the groundwork was laid for even better things to come.

It was a year in which we, as an Agency, proved that we had the capability and flexibility to recognize and deal successfully with major challenges in the economic environment, as well as those inherent in transition. This has generated an increase in staff confidence and morale.

Recognizing the importance of a confident, motivated staff in accomplishing the tasks before us, I am particularly pleased at having helped give direction to a major revitalization of our staff training and development programs. These, and related staffing efforts now underway, are sure to help lay a sound foundation for an effective and progressive examiner force for years to come.

It gives me great pleasure to see the progress that has been made in the chartering of college student credit unions and the enthusiasm with which these young people are embracing the credit union philosophy. The continued development of student credit unions bodes well for the credit union community and NCUA—out of student credit unions may come future examiners and leaders for both credit unions and for industry and government.

My reappointment to the NCUA Board in 1985 has given me the opportunity to pursue with greater vigor my steadfast faith in the cooperative philosophical heritage of credit unions and the attendant charge to credit unions to address the financial needs unique to their common bond.

I believe 1985 was a very good year for our Agency and for the credit union community. I am pleased to be a part of a team that is dedicated to helping credit unions achieve their goals through an effective, even-handed program that emphasizes safety and soundness as well as education and guidance. I am eager to see us continue in this direction in 1986 and will direct my energy and enthusiasm toward working with the credit union community to accomplish this.

Elizabeth F. Burkhart

Elizabeth Flores Burkhart,
Board Member

1985 HIGHLIGHTS

January 21	Capitalization becomes a reality as the Nation's federally-insured credit unions voluntarily deposit $780 million to capitalize their National Credit Union Share Insurance Fund.
February 26	E. F. Callahan, who was appointed NCUA's second Board Chairman by President Reagan in 1981, announced his intention to resign within the next 60 days.
March 5	NCUA's 1984 Year-End Statistical Report shows phenomenal growth in Federal credit unions for the third straight year. During 1984, savings rose 16.1% to $57.9 billion; loans soared 26.9% to $42.1 billion; and assets grew 16.8% to $63.7 billion.
March 14	Chairman Callahan attributes credit union success to deregulation, effective credit union management, and increased cooperation between credit unions and examiners. This was in answer to Senator Proxmire's (D-WI) question at a Subcommittee Hearing: "How do you account for credit union soundness in what are very trying times for others?"
March 18	Investment Hotline tips keep credit unions out of E.S.M. Credit unions tipped off the NCUA Investment Hotline and NCUA staff raised safety and soundness concerns that helped alert credit unions and kept them from involvement in the E.S.M. Government securities scandal.
April 17	President Reagan announces his intention to nominate Senator Roger W. Jepsen Chairman of the NCUA Board.
May 3	Problem code credit unions (EWS Codes 4&5) reached the lowest level in three years. A reported 441 of 10,527 Federal credit unions are listed as Early Warning System codes 4 and 5. (EWS codes range from 1 for excellent to 5 for unsatisfactory.)
July 14	In response to an article in Sunday's *Parade Magazine*, NCUA's Investment Hotline receives more than 1,000 calls from credit union members. The article was entitled *Are Your Savings Safe*? The nationwide newspaper supplement listed the Federal deposit insurance phone numbers as a public service to frightened depositors following the closing of several privately-insured financial institutions.
July 19	NCUA Board approves the 1986 Operating Budget at $35,595,000, which is a slight increase over last year. The Agency announced plans to increase field staff and "beef up" training to ensure continued safety and soundness.
August 2	President Reagan nominates Elizabeth Flores Burkhart to serve a second full term on the NCUA Board.
August 19	During the first six months of 1985, Federal credit union savings grew 14.3% to $66.2 billion; lending increased 6.1% to $44.7 billion; and assets rose 13.1% to $72 billion.
October 3	Iowa Senator Roger W. Jepsen, President Reagan's nominee for Chairman of the NCUA Board, attends his confirmation hearing before the Senate Banking Committee.
October 17	CREDIT UNION DAY - Roger W. Jepsen and Elizabeth Flores Burkhart are sworn into office as Board Chairman and Board Member at an informal ceremony with NCUA staff.
October 22	The NCUA Board approves a 5% dividend and waives the 1986 premium for member credit unions, marking the climax of an excellent first year for the fully capitalized National Credit Union Share Insurance Fund.
October 23	The *American Banker* newspaper reports that credit unions are "the most effective" of all financial institutions in pleasing their members for the second year in a row.
November 7	NCUA Secretary Delores Thornton receives the Agency's first "Special Act Award." NCUA has implemented the award program to recognize superior performance by Agency staff.
November 12	Vice President George Bush administers the oath of office in a formal ceremony to recently-appointed Board Chairman Roger W. Jepsen and reappointed Board Member Elizabeth Flores Burkhart.
November 14	The NCUA Board adopts a policy permitting Federal credit unions to offer self-directed IRA and Keogh accounts.
November 14	The NCUA Board extends the 21% interest rate ceiling to May 14, 1987, so Federal credit unions will have sufficient flexibility over market changes.
December 6	The *American Banker* reports that credit unions have outpaced other thrifts, with credit union savings and assets growing more than twice as fast as S&Ls and savings banks in a 12-month period ending June 30, 1985.

ANNUAL REPORT, 1985
OVERVIEW OF THE YEAR

Confidence is a financial institution's greatest asset. During 1985, that confidence was tested as consumers scrutinized the services, rates, and insurance at all financial institutions. Federal credit unions not only withstood that test of confidence, but prospered in the increasingly competitive market of 1985.

Growth

Last year, Federal credit union members expressed confidence in their institutions by increasing share deposits 23.6% to a total of $72 billion. The *American Banker* newspaper reported that assets and savings at credit unions grew more than twice as fast as those at other thrift institutions. Also, a consumer survey by the newspaper ranked credit unions as the financial institution consumers were most satisfied with. The growth in savings, at a time when the national savings rate hit an historic low, was attributed partially to higher rates offered by credit unions. But, it also reflects members' confidence in their credit unions.

As the Nation recovered from the shock of S&L closings in Ohio and Maryland, deposit insurance remained front-page news. Many state-chartered credit unions began to express interest in Federal insurance. This was in response to consumer preference and not due to any weaknesses in the private insurance funds. Nonetheless, in some states, such as Wisconsin, the state legislature passed a law requiring all institutions to be federally insured. Others took steps to phase out gradually their private system, while some insurers looked to the Central Liquidity Facility (CLF) for a line of credit to use should an emergency situation arise. By year-end, a record 479 credit unions converted to Federal share insurance, which substantially increased the workload of NCUA staff.

The examiner force worked diligently to complete its 100% examination program of Federal credit unions by October. The NCUA Board renewed its commitment to all efforts to protect the Insurance Fund. That meant continuing examination of all 10,125 Federal credit unions and, where necessary, conducting full examination of state-chartered credit unions requesting NCUSIF insurance.

Smooth Transition

While the Regional staff was busy with examination and supervision activities, things in Washington were changing. In April, Chairman Edgar F. Callahan left the Agency to join the private sector. Shortly thereafter, the President announced the nomination of Roger W. Jepsen to become Chairman and the renomination of Elizabeth F. Burkhart to the Board. Joining Vice Chairman P. A. Mack, Jr., the Board smoothly handled the transition to the leadership of Chairman Jepsen.

A new administration also brought with it changes in the organization of the staff and the establishment of new priorities for the coming year. New faces joined familiar faces in new positions. Chairman Jepsen's longtime aide, Donald E. Johnson, joined the staff as Executive Director and set about the task of establishing a strong working team in the Washington and Regional Offices.

At midyear, the Board's attention focused on establishing the budget and priorities for Fiscal Year 1986. It proved a difficult task since the Agency found itself with depleted reserves. As the Board Members looked to the needs of credit unions in the coming year and the increasing emphasis on supervision and examination, it became clear that a budget increase was necessary. That resulted in a 10% increase in operating fees for credit unions.

Senator Roger W. Jepsen and Senate Banking Committee Chairman Jake Garn (R-Utah) confer at the confirmation hearing of Senator Jepsen to the NCUA Board.

A great portion of that increase was necessary to meet the priorities established by the Board for 1986. High on the list is education and training for NCUA's examiners. Acknowledging that the stability of the credit union system is directly related to a strong, well-trained examiner force, the Board increased the amount of funds committed to education. It also adopted a budget which allows for full staffing of the examiner force throughout the year.

Deregulation Slows

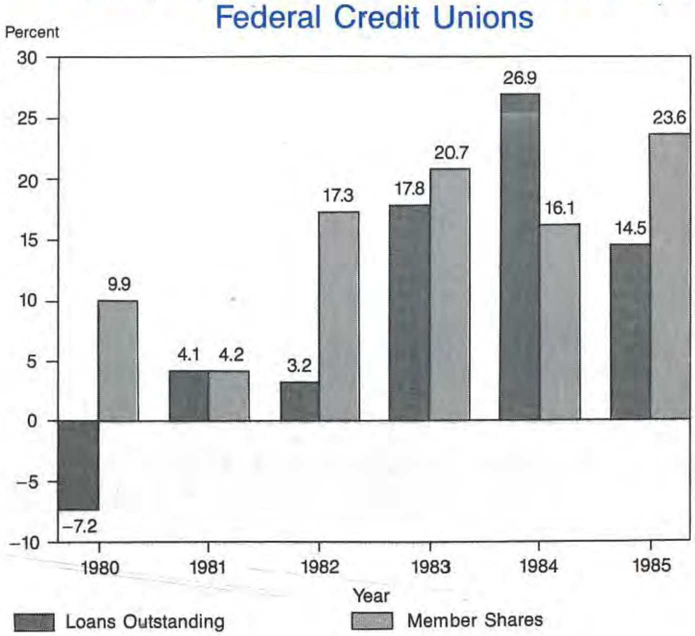
As the year drew to a close, the safety and soundness of the credit union system continued to be the focal point. The pace of deregulation had slowed as credit union officials and Agency staff took time to take stock of what had been done during the first four years of the decade. The Board turned to reviewing existing regulations and analyzing whether new or revised policies needed to be established. A thorough review of the regulations governing Federal credit union involvement in credit union service organizations (CUSOs) and a broad review of problems caused by insider dealings were included. On the legislative front, the Agency testified before Congress, on several occasions, that the credit union system was healthy and prospering and that the Agency's ability to detect problems early and act quickly resulted in a decline of problem credit unions.

Strong and Successful

Without a doubt, Federal credit unions ended 1985 in a strong position. Shares were up 23.6%. Credit unions met the competition for consumer loans at a time when loan demand was soft at all credit unions, with a 14.4% increase in loans outstanding. The NCUSIF closed the year with an equity-to-insured shares ratio of 1.3% and $1.2 billion in equity to insure 15,045 credit unions. The NCUA Board's commitment to full staffing is being realized and a new education and training program for examiners is underway to meet the increasing sophistication of credit unions.

Vice Chairman P.A. Mack, Jr. testifies before a House Banking Subcommittee hearing on check-hold policy legislation.

Annual Percentage Change: Shares/Loans
Federal Credit Unions



Board member Elizabeth Burkhart welcomes Treasurer of the United States Katherine D. Ortega to the NCUA reception in honor of Mrs. Burkhart's reappointment to the NCUA Board.

SUPERVISION OF FEDERALLY-INSURED CREDIT UNIONS

NCUA'S primary responsibility is to assure the safety and soundness of the federally-insured credit union system. To accomplish this goal, NCUA uses several supervision tools.

On-Site Examinations

For the third consecutive year, NCUA examiners met the goal of examining all Federal credit unions. Over 10,200 regular examinations were performed by the Agency's 360 examiners. This accomplishment is particularly noteworthy because of the added workload of reviewing and assisting state-chartered credit unions applying for Federal insurance. A record 429 applications were approved in 1985, with a significant number of applications pending in Regional Offices.

Review of State Reports

In 1985, NCUA's cooperative relationship with state regulatory authorities continued to grow. Since the inception of Federal share insurance in 1971, NCUA has used state examination reports to determine the continued insurability of state-chartered credit unions. When a report indicates a potential problem, NCUA's Regional Director works closely with the State Supervisor to devise a plan for corrective action. The plan may include a joint examination by Federal and state examiners, or it could require direct NCUA supervision.

Semiannual Call Reports

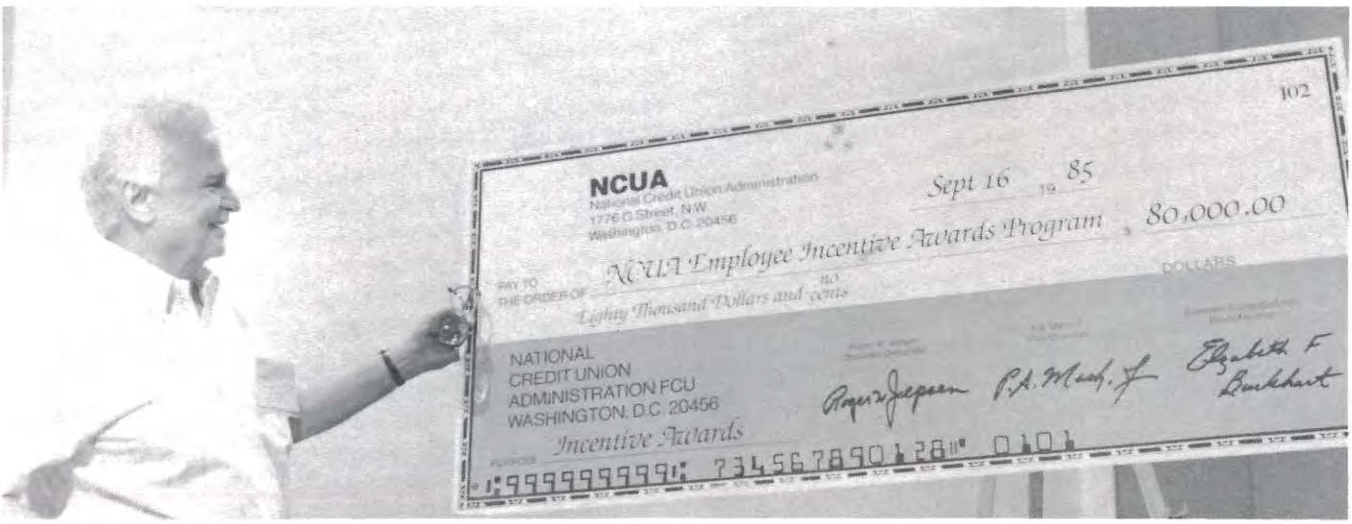
To assist examiners in detecting adverse trends, each credit union completes semiannual call reports that include an array of financial data. This information is initially reviewed by examiners and then put through a computer analysis that generates a series of operating ratios, calculated rates of change and a peer group ranking. The end result is called the Financial Performance Report. It is used by credit union officials and examiners to identify negative trends and establish reasonable goals for improvement.

Number of Natural Person FCUs by Asset Size as of December 31, 1985

Asset Size	Number of FCUs	Percentage of Total	Cumulative Percentage
Less Than $50 Thousand	259	2.6%	2.6%
$50 to $100 Thousand	375	3.7%	6.3%
$100 to $250 Thousand	1,097	10.8%	17.1%
$250 to $500 Thousand	1,283	12.7%	29.8%
$500 Thousand to $1 Million	1,482	14.6%	44.4%
$1 Million to $2 Million	1,478	14.6%	59.0%
$2 Million to $5 Million	1,775	17.5%	76.5%
$5 Million to $10 Million	924	9.1%	85.7%
$10 Million to $20 Million	672	6.6%	92.3%
$20 Million to $50 Million	463	4.6%	96.9%
$50 Million to $100 Million	191	1.9%	98.8%
$100 Million and Over	126	1.2%	100.0%
Total	10,125		

Region III Examiner Henry Garcia makes a point during discussion at the Orlando Examiners' Conference.

NCUA Regional Directors Len Skiles (left, Region VI) ;and Allen Carver (Region IV) address annual Examiners' Conference.



Region II Supervisory Examiner Joe Koppin with "Evidence" of the NUCA Board's commitment to providing rewards for oustanding employee performance and improving moral.

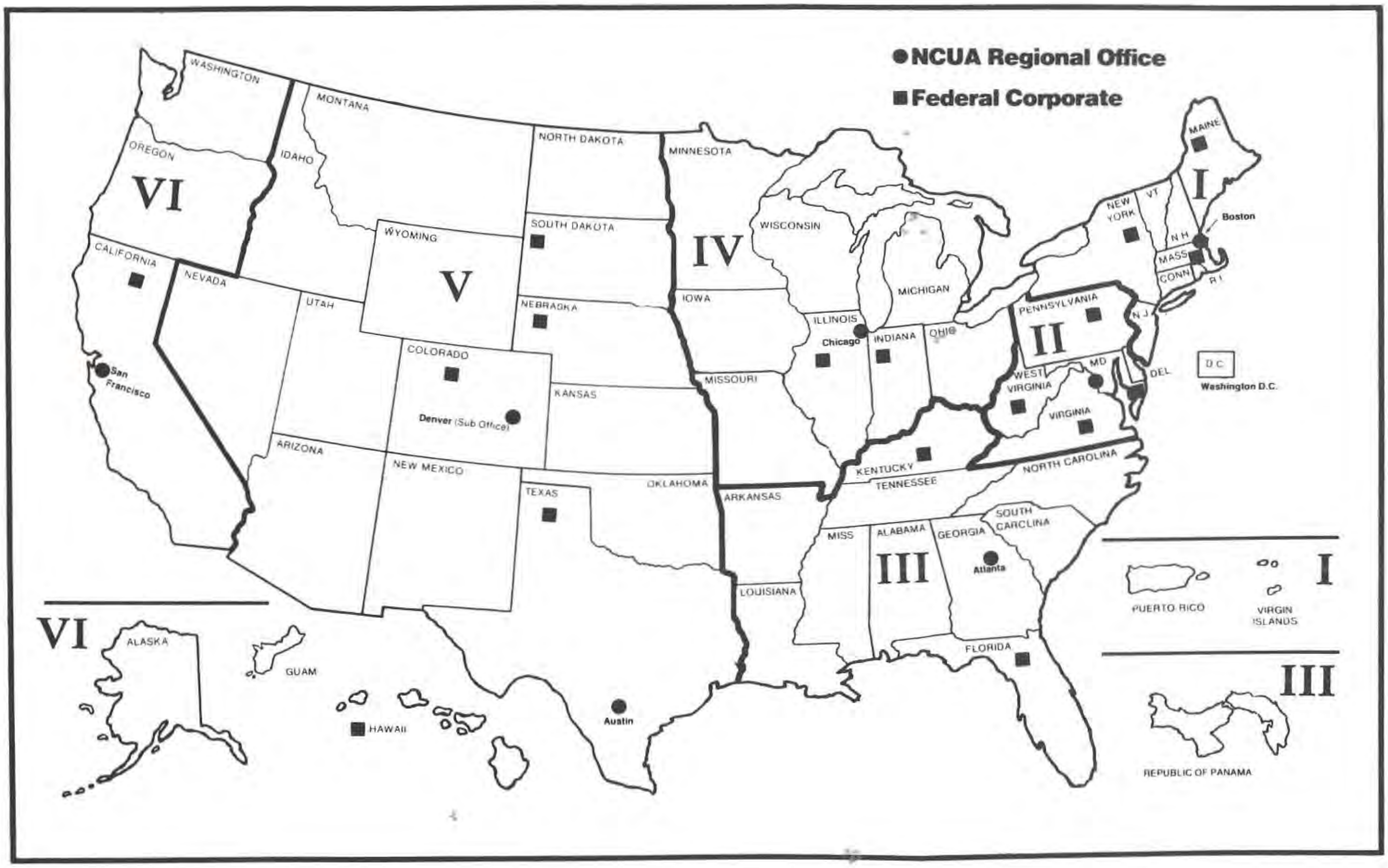
NCUA Board Chairman Jepsen presents an incentive award to Deputy Regional Director Dan Murphy for his outstanding performance while serving as Acting Region VI Director during 1985.

THE REGIONS

Supervision of the Nation's 10,125 Federal and 4,933 federally-insured state-chartered credit unions lies with the National Credit Union Administration's (NCUA) six regional offices.

During Fiscal Year 1985, each Region once again completed an examination of every Federal credit union. In addition, through their outstanding efforts, the Regions succeeded once again in reducing the number of problem credit unions nationwide. This significant achievement resulted in a substantial reduction in costs to the National Credit Union Share Insurance Fund, and ultimately to all federally-insured credit unions.

Regional differences in the economy and the varied effects of the savings and loan crisis resulted in diverse effects on each Region during 1985. The following are their stories.



REGION I

Region I's major emphasis in 1985 was directed at those credit unions which had experienced operating losses in the preceding years. These credit unions were identified through the examination program and closely supervised in follow-up contacts by the district examiner. Each was required to submit monthly reports and district examiners developed specific plans of action with these credit unions to enable them to become profitable in 1985. Results for 1985 reflect a significant improvement over 1984.

Substantial conversion activity from private deposit (share) insurance to NCUA share insurance was another highlight of the year. The activity was triggered, in part, by the much-publicized problems in Ohio and Maryland. Although none of the states in Region I experienced private deposit insurance problems, applications were received from 60 state credit unions with shares and deposits in excess of $2 billion. As of December 31, 1985, 47 of these credit unions had been insured or approved for insurance by the National Credit Union Share Insurance Fund (NCUSIF). A review of the share insurance applications indicated that some credit unions had directors, officials, committee members, employees, or immediate family members of such persons who were directly or indirectly receiving a fee, commission or other compensation, in conjunction with the extension of credit. The Region viewed this type of activity as a clear conflict of interest raising safety and soundness concerns. NCUA share insurance for these credit unions was withheld until the credit unions accepted a special insurance agreement, which became known as the "Raver Rule" after Regional Director Stephen W. Raver. This agreement essentially provides that these remunerations can not be received by credit unions' insiders. The Region will continue to address vigorously any insider activity.

Once again, the Region completed an examination of each of its Federal credit unions during the fiscal year, which ended on September 30, 1985. In addition, insurance reviews were completed for many large state credit unions applying for Federal insurance. Seven additional examiner positions have been authorized and will be in place early in 1986. This will give the Region sufficient examiner resources to permit completion of the 1986 examination program and to provide the necessary supervisory support to credit unions.

The "Special Actions" staff, district examiners, and credit union management of Region I were effective during 1985 in resolving some longstanding problem case credit unions. The combined effort resulted in a reduction of these problem cases from 15 credit unions with insurance fund assistance of $3,800,000 to six credit unions with assistance of $1,600,000. This substantial reduction was made possible by the hard work and sacrifices of all concerned and the strong regional economy which permitted many credit unions to improve their financial condition.

An example of one of these successful cases is the J-M Employees Federal Credit Union in New Jersey with assets of $7,100,000. The Credit Union originally encountered a serious problem in 1980 when it became necessary to cover a large embezzlement by the Credit Union's broker. J-M Employees began this year with a prior-period deficit of $279,000 and was able to reduce this to only $75,000 by year-end through hard work by its officials and effective supervision by NCUA. Operating expenses have been kept very low, loan volume has increased, and loan losses have decreased.

Another interesting case is West Point Federal Credit Union, at West Point, New York. Effective management and close supervision reduced this Federal Credit Union's prior-period deficit (loss) from $756,000 to $426,000 during the year. Additionally, the Capital Note the Credit Union holds with the NCUSIF has been reduced from $677,000 to $325,000 during the same period. The progress of West Point, now with assets of over $20 million, is very gratifying especially considering that in the not-too-distant past it appeared that the only likely solution was a merger with a much larger military credit union. At one time, merger bids were actually solicited, and had the lowest bid been accepted, the cost to the NCUSIF would have far exceeded the costs under this self-improvement program. It has proven to be very cost effective to invest Regional Office and field staff supervision time and effort in keeping the Credit Union as a separate, viable entity.

Region I chartered thirteen new Federal credit unions during 1985. Seven of these charters were conversions from state to Federal. Chartering of new Federal credit unions has slowed considerably, in part due to the ease with which small employee or associational groups can be added to currently operating Federal credit unions under the field of membership policy. Additionally, the traditional source of new charters, the leagues and trade associations, have not been as active in this area as in the past.

During 1985, 127 federally-insured credit unions merged while only 10 federally-insured credit unions liquidated. The common thread covering mergers has been the difficulty encountered by many credit unions, the vast majority being small, in their ability to offer competitive services and benefits to their members. Mergers with larger credit unions offering a broad range of services have proven to be an effective way of assuring credit union services to their membership.

We are confident that 1986 will be another banner year for the growth and development of the Region's credit unions due to the strong economy and the continued commitment of the credit union community to provide its membership with the best service available.

REGION II

Sagging industries in *Region II*, particularly in Pennsylvania and West Virginia, continued to take their toll on one corporation after another and the credit unions they sponsored. Rather than liquidate, most credit unions rose to meet the challenge and explored ways to ensure that credit union services would continue to be made available to their members.

In this respect, NCUA's common bond policy has been a boon to credit unions which otherwise would have failed due to sponsor closings or cutbacks. Through field-of-membership expansion, several credit unions which may have been forced into liquidation before the policy change have survived and grown. One such success story is the Tri Boro Federal Credit Union in Homestead, Pennsylvania. Formerly The Homestead Steel Works Employees Federal Credit Union, this Credit Union's sponsor, United States Steel Corporation, Homestead Districts Works, experienced severe sponsor layoffs in the early 1980's. By adding local businesses and area churches to its field-of-membership, this Credit Union has increased its assets from $23 million to over $28 million.

Another example of credit union survival in spite of adverse economic conditions is the Frankford Arsenal Community Federal Credit Union in Philadelphia, Pennsylvania. This occupational-type Credit Union lost its field of membership entirely with the sponsor's closing. By converting to a community charter, this Credit Union has been able to increase its assets from $10 million to over $13 million, experiencing continued share and loan growth.

During calendar year 1985, Region II approved 15 new Federal credit union charters and granted amendments to over 600 existing credit unions, thereby providing approximately 770,000 persons with potential credit union service. The Region also responded to over 300 inquiries from credit union members. Only one state-chartered credit union converted to a Federal charter in 1985.

Mergers of 94 Federal and eight state credit unions with assets of $31 million were approved by Region II during 1985. These mergers made it possible to continue credit union services to over 37,000 members and made services available to an additional 194,000 potential members who were not being served by the merging credit unions.

While the primary reason for 56 of the mergers (most of which were small credit unions) was to improve services to their members, reasons for 46 of the mergers were: avoid liquidation; full plant closings; layoffs; sponsor merged; and management/financial problems.

Prior to the NCUA Board's 1982 interpretation of the field-of-membership policy, which permits more than one occupational or associational group to be included in a Federal credit union's field of membership, most of the 46 credit unions would have been liquidated. As a result of liquidation, members would have lost credit union service and the NCUSIF and 15,045 federally-insured credit unions would have borne the liquidation expense. Instead, limited financial assistance ($385,000) had to be provided in only six cases.

During 1985, the State of Maryland faced a savings & loan crisis which impacted on the operations of nonfederally-insured, state-chartered credit unions. Prior to May 1985, there were no Maryland state-chartered credit unions which were federally insured. In May 1985, larger state-chartered credit unions requested Federal insurance. Region II staff worked closely with the Maryland Department of Licensing and Regulation to establish procedures to review the financial condition of those credit unions requesting Federal share insurance. This cooperation resulted in quick approval for some larger credit unions, most notably the $281 million State Employees Credit Union of Maryland, Inc., and stemmed the outflow of shares in the state-chartered credit unions.

Also, 1985 saw the first full year of Region II's operation of the Capital Region Liquidation Center. Begun in October 1984, the Liquidation Center handles all involuntary liquidations for Regions I, II, and III.

Various goals such as time limits on disbursement of checks, disposing of loan portfolios and other assets, reducing costs to NCUSIF, and increasing returns on asset disposition were incorporated into the liquidation function. These goals always have been met and often exceeded.

REGION III

Region III established two primary goals for the 1985 fiscal year: examine all federally-chartered credit unions in the Region and minimize cost to the National Credit Union Share Insurance Fund (NCUSIF). The 100 percent examination program was completed ahead of schedule. This enabled staff to devote additional time to working with credit unions with either emerging or already-serious problems.

The examination program, which placed substantial emphasis on safety and soundness issues, was a contributing factor in meeting the other goal of reducing costs to the NCUSIF. Other important factors were general improvements in the economy in the southeastern states and an intensified supervision effort on the part of the Region's examiner and Regional Office staff. This effort included thorough analysis of the semiannual financial reports submitted by credit unions to NCUA, receipt and detailed review of monthly financial and condition reports from many credit unions, frequent on-site contacts with problem credit unions, and close coordination between the district examiners, field supervisors and Regional Office personnel relative to the monitoring of these credit unions.

The success of the Region's concentrated supervision efforts is perhaps best demonstrated in the credit unions which have received special assistance from the Share Insurance Fund. At the start of the fiscal year, eleven credit unions had received special assistance, totaling approximately $9.2 million, to avoid liquidation. During the fiscal year, two more credit unions received such assistance, but eight were removed from this category. Six of these eight were restored to solvency. The total amount of assistance outstanding for the remaining five credit unions is $3.4 million. The reduction in the number of special assistance cases has allowed additional attention to be directed to other areas. As a result, problems in other credit unions have been promptly identified and addressed, thereby preventing these credit unions from deteriorating to the special assistance stage.

One major development in the Atlanta Region in the past year was the increased surveillance of federally-insured state-chartered credit unions by NCUA. Because almost 37 percent of the special assistance cases involved state-chartered credit unions, NCUA staff worked closely with state supervisory authorities in determining which credit unions under their purview were or might be experiencing financial and/or operational problems. Once identified, the efforts of both the state and NCUA were coordinated so that concentrated supervision of these problem credit unions could be implemented. This program has reduced costs to the Share Insurance Fund and it should continue to do so in the future.

Twenty-three nonfederally-insured state credit unions converted to NCUA insurance during the year, primarily in North Carolina and Florida. On-site reviews of the credit unions' operations were made in many of these cases, again with the full cooperation of the state supervisory authority.

Special note should be made of the $18 million Mutual Savings Credit Union in Alabama. Because of severe financial problems, this Credit Union was placed into conservatorship by NCUA in December 1983. Under conservatorship, steady improvement has been made. All indications are that solvency will be restored by mid-1986. It is anticipated that the conservatorship will be terminated and the Credit Union returned to the control of the membership during 1986.

REGION IV

During 1985, Federal credit unions in *Region IV* were challenged to continue the improvements in profitability and retained equity growth accomplished in 1984. On the whole, Region IV Federal credit unions responded extremely well to this challenge. The numbers of unprofitable and problem case Federal credit unions were reduced significantly. In addition, the Region experienced record lows for Fiscal Year 1985 in the number of involuntary liquidations (7) and the number of assisted mergers (9).

In July 1985, the Wisconsin legislature enacted a bill which had great impact on Region IV's workload. The bill requires all natural person credit unions in Wisconsin to obtain Federal share insurance. The 550 Wisconsin state-chartered credit unions previously insured by a private insurance corporation were required to apply for Federal insurance within six months of the date the bill was signed into law and to obtain insurance within 42 months of that date. Working closely with the Wisconsin Commissioner of Credit Unions Richard Ottow and his staff, the Region quickly and efficiently put together a plan for insuring Wisconsin's state-chartered credit unions in an expeditious yet safe and sound manner. Examiners were mustered from all across the Region to perform on-site insurance investigations and to handle Regional Office review and processing of insurance applications. By year-end, the applications of the vast majority of Wisconsin credit unions had been fully reviewed and decisions on insurability of 444 applications were made. The 354 credit unions which were approved for insurance held aggregate assets of over $1.2 billion. Commissioner Ottow, in a letter to NCUA Board Chairman Roger W. Jepsen stated, "Mr. Carver and his staff have proceeded in a timely and organized manner to handle the large workload of insurance applications from the 550 Wisconsin state-chartered credit unions. They have worked closely with our staff to make the insurance conversion proceed as smoothly as possible . . . We sincerely appreciate the many hours of additional work this project has placed on the NCUA."

Region IV ended 1985 with over 2,600 federally-insured state credit unions within its eight-state area. Accordingly, the Region has needed to devote considerable resources to the State Credit Union Continued Insurability Program. In writing to state supervisors in the Region in November, Regional Director Allen Carver commented on the increase in the number of insurance reviews performed, often by teams comprised of NCUA and State examiners. "I have been very pleased with the results of these contacts and greatly appreciate your cooperation and the efforts of your staff. The Insurance Reviews have been beneficial in that severe problems within a specific credit union have been more clearly defined and understood. Often other problem areas have been resolved or improved without loss to the Insurance Fund or loss of service to the membership. Occasionally significant new problems have been disclosed. In nearly all instances, plans for corrective action have been implemented. These have resulted in improvement in operations and reduced risk to the Insurance Fund. Again, I would like to thank you and recognize your staff's contributions to the success of these contacts."

REGION V

A number of major events highlighted *Region V* operations during 1985. Significantly, all program goals were met, but crucial among these goals were the 100 percent completion of the Federal examination program and the settlement of 66 guarantee contracts totalling $7.5 million. The liquidation section also had its first full year as a consolidated liquidation center for Regions IV, V and VI. The consolidation of this activity reduced the total number of NCUA personnel assigned to the liquidation sections in the three Regions without any impairment in service to the Regions or to credit union members. Generally, while the workload remained high in every area of operation, it was the increased incidences of recordkeeping discrepancies, the emergence of problem commercial credits, and the conversions to Federal insurance that best describe the memorable activities of 1985.

Recordkeeping problems in credit unions are not necessarily new, but major recordkeeping problems in larger credit unions increased during 1985. As a result, supervisory efforts were modified and strengthened to address this problem across the board. The most severe action taken to effect immediate correction of recordkeeping deficiencies was the imposition of a conservatorship on the Air Defense Center Federal Credit Union with assets of $144 million in El Paso, Texas. Although solvent, ADC's records at the time of the action were in such poor condition that the true financial position of the Credit Union could not be accurately assessed. While most of the recordkeeping discrepancies identified at the time of the conservatorship action have been corrected, it will take several years to complete the overall workout plan. However, it is now anticipated that the control of the Credit Union will be returned to the membership in the very near future without any loss to the NCUSIF.

Because Region V represents a geographical area that is in large measure an agriculture economy, the problems associated with agriculture commercial credits were particularly severe and losses in this area, both to the farmers and the NCUSIF, have been unusually high. The most dramatic case involved Tip Top Credit Union of Hillsboro, Kansas. Tip Top, with assets of $43 million, had been involved, with some success, in agriculture lending for over ten years. While many of the problem credits at Tip Top can be directly traced to management, it was the recent trends of declining land values, crop prices, and fluctuating interest rates that made it impossible for many of the farmer/borrowers to continue operations and meet their financial obligations. Losses in Tip Top may exceed $13 million; however, the services provided by Tip Top were salvaged by merging the Credit Union with Gulf Chemical Employees Federal Credit Union. Gulf Chemical acquired, through a purchase and assumption, some of Tip Top's agriculture and all of the non-agriculture accounts. The resulting Credit Union, Great Plains Federal Credit Union, is financially sound and is providing continued credit union services to the former Tip Top members. This action also benefited Gulf Chemical which had recently lost its sponsor.

While Tip Top represents a substantial loss for the NCUSIF, the loss was minimized through enormous staff efforts and the retaining of agriculture loan experts. Most significantly, though, this case represents the efforts of state regulators and the NCUA to identify emerging problems and address those problems cooperatively.

In addition to agriculture commercial credits, there has been an alarming increase in loan losses due to real estate commercial credits. Private expertise in this area, as well as assistance from the Office of the Comptroller of the Currency, has also been retained to help address these problems.

Finally, 1985 marked the first time since implementation of Federal share insurance that there has been a meaningful shift from private to Federal insurance. The story in Region V, however, is that while some very large privately-insured credit unions with assets totalling $282 million converted to Federal insurance, the total number of conversions was small and the overall impact on Regional operations was minor.

REGION VI

During 1985, *Region IV* experienced considerable management transition. Regional Director D. Michael Riley moved to the Washington Office as the Director, Office of Examination and Insurance and President, Central Liquidity Facility. From April 1 until mid-November, Deputy Regional Director Daniel L. Murphy became the Acting Regional Director. Upon the appointment and confirmation of Senator Jepsen to the Chairmanship of the NCUA Board, the long-term Regional Director vacancy was filled by the appointment of Region II's Robert J. LaPorte as the Regional Director, Region VI, San Francisco. Three different people in charge of the Region meant that NCUA staff had to remain flexible during this period of transition.

During the year, credit unions with special assistance were reduced from 11 to 7 and the amount from $24,710,000 to $17,954,000. The Region hosted its own "208" players conference whereby the managers/presidents of credit unions receiving assistance under Section 208 of the Federal Credit Union Act met with their respective NCUA examiners and Regional staff in Oakland, California, for two days to discuss what had caused their problem(s) and what was being done to resolve them. Discussion on what worked and what didn't work was often lively and thought provoking. The Region pays special note to Stanford Federal Credit Union and Zelpaco

Federal Credit Union, both of which applied their talents and resources vigorously during the year to pay off completely what had been substantial "208" assistance.

The Region was also involved in another first when, in September, the NCUA Board placed the ILWU Federal Credit Union and the FSC State Credit Union into conservatorship on the same day. These two Credit Unions were being operated by the same management team in the same building. Within 90 days, NCUA special actions staff, headed by Chief of Special Actions Edwin McIntyre, had reorganized the two Credit Unions and then received the NCUA Board's approval of the merger of the two Credit Unions. The plan now is to return the daily operation of the ILWU/FSC Federal Credit Union to a newly-appointed board of directors in early 1986.

The number of mergers of credit unions continued at a fairly high rate. The monthly average was seven mergers and the average assets of the merged credit unions were nearly $1,000,000. There seemed to be no pattern to the size or location of the merging credit unions within the Region. At times, the merger appeared to be motivated by tiredness on the part of the merging credit union. This occurred where a financially-sound small credit union was being merged by mutual agreement into a much larger full-service credit union rather than seeking to expand and grow in its own right.

Overall, the economy in the Region did well. Credit unions in general shared in this strong economic climate. Pockets of a poorly performing economy did continue in the Northwest where timber and aluminum related industries were not recovering due to a decreased demand for wood products and an increase in the cost of electricity.

The Region continued to be concerned that over 12 percent of the credit unions in the Region experienced negative earnings as of June 30, 1985. The Region's field staff had devoted many hours to reducing the number of negative earning credit unions by year-end 1985 to a goal of 5 percent. While the staff was successful in reducing the number by over two percent, to ten percent, they were not successful in reaching their five percent goal.

Annually, awards are presented to many people for their various accomplishments. In this regard, none was more deserving than the honor awarded by the NCUA Board to Mr. Karl Bent for his distinguished service in helping the troubled credit unions in the Region. Mr. Bent is the retired treasurer of the Lockheed Federal Credit Union (Burbank, CA) and has for over three years answered the call many times to assist others in need. Another example of credit union people helping each other was found in John Salle, President of City and County Employees of Alameda City Credit Union (CA), who developed a plan to reverse the plight of a nearby credit union, without large amounts of NCUA/NCUSIF assistance. John believed that rather than merge the troubled credit union into his, he could put together a resource team for less cost and eventually end up with a viable credit union.

THE NATIONAL CREDIT UNION SHARE INSURANCE FUND

The National Credit Union Share Insurance Fund (NCUSIF) was established in 1970 as a revolving fund in the U. S. Treasury under the management of NCUA. Unlike the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation, the NCUSIF was launched with no start-up capital from the U. S. Treasury and the Federal Reserve.

The legislation creating the NCUSIF directed NCUA to insure member accounts in all Federal credit unions and qualifying state credit unions requesting insurance. The maximum amount of insurance was initially $20,000 per member account, raised to $40,000 in 1974, and to the current level of $100,000 in 1980. On July 18, 1984, legislation was enacted, providing for the capitalization of the NCUSIF by having each credit union deposit 1% of its insured shares into the Fund. As of December 31, 1985, the Fund insured 10,125 Federal credit unions and 4,933 federally-insured state-chartered credit unions.

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

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

During the Fund's early years, interest income from the Fund's investments covered almost all losses and expenses. However, in the 1980-83 period, the Fund also had to use premium income to cover losses. Fund equity virtually stopped growing. The ratio of equity-to-insured shares declined from the 1979 peak of .32% to .26% in 1982. Moreover, the Fund turned to "non cash" methods of stabilizing problems. Contingent liabilities, in the form of asset guarantee contracts and assistance authorized under Section 208 of the Federal Credit Union Act, were used to minimize cash outlays and keep

NCUA Staff Member Wayne Robb accepts a hand-delivered capitalization deposit in the unheated Washington lobby culminating the final phase of the capitalization of the National Credit Union Share Insurance Fund.

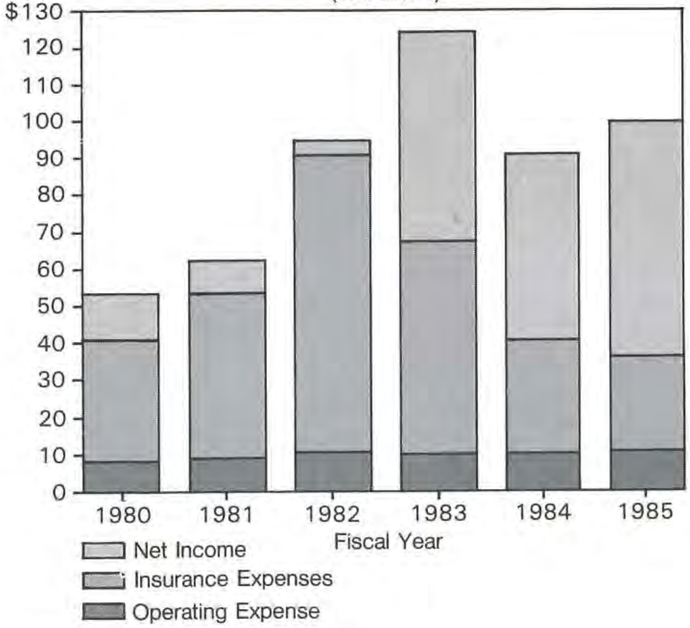
insolvent credit unions operating. These actions conserved the Fund's cash reserves. However, contingent liabilities climbed to a peak of $172 million in 1981, almost equal to the Fund's equity.

In 1982, the NCUA Board moved aggressively to pare operating expenses and to trim insurance losses. It also set a goal of raising the Fund's equity/insured shares ratio to the one percent level stated in the Federal Credit Union Act. The Board tried to do this by exercising its own available option: assessing a special premium. In 1982, this special assessment equaled two-thirds of the regular 1/12 of 1% premium. In 1983, the special assessment equaled the regular premium, effectively doubling the cost of share insurance. Without these assessments, Fund equity would have fallen to almost half of the 1979 peak. However, they provided no help in reaching the 1% goal. NCUA and the credit union movement sought and obtained legislation providing for the capitalization of the Fund. In January 1985, the Fund collected $761 million in capitalization deposits, returned $84 million in equity to credit unions, and waived the 1985 annual insurance premium of $70 million.

During 1985, credit unions converting into the NCUSIF contributed another $61 million in deposits. The Fund's first dividend of 5% added an additional $29 million to contributed capital. Combined with the $253.1 million in retained earnings at December 31st, the total equity of the Fund is now $1.2 billion. The equity/insured shares ratio at year-end 1985 was 1.3%.

NCUSIF Income and Expenses

(In Millions)



REGULATORY OVERVIEW

During 1985, the NCUA Board and staff continued their strong commitment to simplification and improvement of regulations. A number of changes were adopted providing new operational flexibility to Federal credit unions. Following is a brief summary of major regulatory actions taken in 1985.

- In April, NCUA's **insurance and group purchasing rule** (12 C.F.R. 721) was amended to allow Federal credit unions to receive income in connection with the sale of credit-related and share-related insurance to members. With this change, commission income that may have previously been received by an outside party can benefit the credit union and its members. The Board will monitor the change's effects on the costs of insurance products to credit union members.
- The NCUA Board adopted a final rule in November (12 C.F.R. 701.21(c)(7)) continuing the 21% **interest rate** ceiling for Federal credit unions for 18 months (through May 14, 1987). This action places the responsibility for setting loan rates where it belongs, with the member-elected board of directors of each Federal credit union. It also provides the board of directors with the flexibility to establish loan and dividend rates that are in the best interests of both borrowers and savers.
- Also in November, the Board adopted an interpretive ruling (IRPS 85-1) authorizing Federal credit unions to offer **self-directed IRA and Keogh accounts** to members. This ruling provides FCUs the ability to offer their members a wider variety of investment opportunities for their IRA and Keogh retirement accounts, while maintaining the core account relationship at the credit union.
- In December, the Board issued Interpretive Ruling 85-3, authorizing **mortgage loan assumptions.** Federal credit unions may allow a nonmember to assume the outstanding balance and maturity of a member's mortgage loan on a principal residence. The ruling allows loan rate adjustments to reflect market conditions. It also benefits the credit union member who is no longer required to remain primarily liable on the loan when it is assumed by a nonmember.
- Interpretive Ruling 85-2 was adopted in November, providing guidance to Federal credit unions on **repurchase and reverse repurchase investment transactions.** The ruling supplements NCUA's regulations on the subject and provides guidance on, among other issues, properly collateralizing the transaction and determining the reliability of the counterparty.

- In conjunction with the Department of Justice and the other Federal financial regulators, the Board adopted amended rules (12 C.F.R. 748) and a new reporting form in December concerning **suspected criminal activity** in federally-insured credit unions. The new procedures and form are designed to improve investigation and prosecution of crimes against credit unions and other insured financial institutions.
- In September, the Board proposed new rules concerning **credit union service organizations** (CUSOs) (12 C.F.R. 701.27). The proposal was designed to clarify Federal credit union authority and establish improved safety and soundness guidelines. The proposal was favorably received by credit unions and other commenters. The Board expects to consider a final rule in early 1986.

Many of NCUA's regulations affect the internal operations and procedures of the Agency, rather than credit unions. For example, in October the Board adopted an important amendment to its rules governing NCUA employee ethics (12 C.F.R. 792). The amendment clarifies that, while NCUA employees may belong to and utilize the services of Federal and federally-insured credit unions, NCUA employees may not examine or make other decisions directly and specifically affecting the credit union(s) they belong to. A comprehensive review and update of the employee ethics rule is underway and will be issued for public comment in the first half of 1986.

Other major issues on which staff work was begun in 1985, which may result in proposed regulatory changes during 1986, include (1) NCUA's regulations governing qualifications for Federal share insurance, advertising of insurance, and account insurance coverage, (2) corporate credit unions, (3) conflicts of interest and self-dealing in insured credit unions, (4) NCUA conservatorship and liquidation procedures, and (5) commercial loans and concentrations of assets in credit unions.

NCUA is committed to an ongoing review of all its regulations to eliminate unnecessary regulation and unwarranted regulatory burden. The review process also seeks to simplify and clarify NCUA's rules, and insure maintenance of standards that enhance the safe and sound operations of NCUA, the National Credit Union Share Insurance Fund, and federally-insured credit unions.

NCUA is also committed to full public participation in its regulatory review process through practices such as monthly open Board meetings, requests for public comment on all substantive rule changes and the publication of a semiannual agenda of regulations.

CONGRESS AND CREDIT UNIONS IN 1985—LEGISLATIVE HIGHLIGHTS

- Tax Reform passed the House of Representatives late in 1985. In a major victory for credit unions, their tax exemption was preserved by the House bill.
- NCUA's conservatorship and emergency merger authority were extended by Congress in October.
- Efforts to exempt Federal credit unions from the jurisdiction of the Federal Trade Commission moved forward in 1985. Legislation containing the exemption passed the Senate.
- The Central Liquidity Facility saw its requests approved by the Congress substantially as submitted.
- Legislation to enhance NCUA's independence and to upgrade the examiner force was introduced.
- In hearings on both sides of Capitol Hill, the success of the capitalization program and the stability and strength of the Share Insurance Fund were recognized and praised.
- A new law was enacted enabling credit unions with grocers in their field of membership to redeem food stamps for the merchants.
- Legislation to limit the time a depository institution (including a credit union) can hold a check or delay crediting interest passed the House Banking Committee and the full House early in the second session.
- Modifications in the very broad Bank Bribery Act cleared the House and were readied for Senate floor consideration.
- Stalemate continued between House and Senate on comprehensive financial institutions legislation, including interstate banking and nonbank issues.
- Toward year-end, the Gramm - Rudman - Hollings amendment raised serious issues for NCUA and the other financial institutions regulators.

THE CENTRAL LIQUIDITY FACILITY

Federal Law

The CLF is a government corporation. Lending programs are funded through the Federal Financing Bank of the U. S. Treasury and borrowings have the "full faith and credit" backing of the United States Government.

The Central Liquidity Facility improves the general financial stability of credit unions by meeting their liquidity needs. In doing this, the CLF encourages savings, supports consumer and mortgage lending, and provides basic financial resources to all segments of the economy.

Financial Briefs

The Central Liquidity Facility continued to strengthen its financial position during the fiscal year ending September 30, 1985. New income provided an 8.3 percent rate of return on members' capital and deposits, operating expenses came in under the congressionally approved budget of $850,000, and the reserve target of $1.1 million for the year was exceeded by $100,000. Dividends amounting to 94 percent of net income were distributed to members during the year. The cooperative network of members allowed the CLF to keep costs down, increase net income, and remain responsive to members' needs. The Facility is financially self-supporting and does not use Government funds to support expenses.

Lending Activities

Lending remained brisk throughout the year in the investment liquidity program. The program is a joint effort between the CLF, U. S. Central Credit Union, and the corporate credit union network. Established in 1984, it increases the earning power of low-yielding, long-term credit union investment portfolios.

Other lending activities included seasonal loans for periodic cash demands, stabilization loans for a variety of specialized cash needs, and emergency cash delivery loans for critical on-the-spot cash and currency requirements.

In addition to direct lending, lines of credit totaling $26.7 million were approved for six private share insurance funds. All advances require a commitment fee of 3/8 of one percent, are nonrevolving and must be fully secured. In addition, the lines of credit must be used solely for credit union liquidity needs. None was accessed during the year.

Investment Profile

The CLF can invest in U.S. Government and agency obligations, deposits of federally-insured institutions, and shares or deposits of credit unions.

Investment maturities do not exceed six months, with an average maturity of just 62 days. The Facility's investment objective is to maximize yield while meeting loan demand, deposit withdrawals, and membership refunds. The average yield on investments was 8.62 percent for fiscal year 1985. This compares to 8.11 percent for Treasury's 90-day T-Bill and 8.63 percent for a Eurodollar Certificate of Deposit.

Membership Status

All but 500 of the credit unions in the United States belong to the CLF either directly or through affiliation with the corporate credit union network. This network is a system of 42 state- and federally-chartered corporates with the U. S. Central Credit Union at its hub.

Financial Highlights
Central Liquidity Facility

	1985	1984	% Change
Operating Results			
Operating Net income (before tax)	$21,523,000	$20,242,000	+6%
Dividends	20,310,000	19,127,000	+6%
Net Earnings and Additions to Reserves*	1,213,000	2,400,000	−50%

*After tax provision — see footnote 10

	1985	1984	% Change
At Fiscal Year End			
Total Assets	$494,618,000	$537,065,000	−8%
Total Member Shares & Retained Earnings	256,726,000	249,852,000	+3%
Total Loans	222,169,000	269,812,000	−18%
Total Employees	6	6	
Total Members: via Agents (credit unions)	42(18,000)	41(18,000)	
Direct	400	469	

WISCONSIN INSURANCE CONVERSION PROJECT

An Intergovernmental Cooperation Model

Outstanding efforts by NCUA Region IV provided prompt and positive action to insure 560 Wisconsin credit unions required to seek Federal insurance under legislation passed by the State of Wisconsin on July 19, 1985.

In the wake of the Ohio savings and loan crisis in Spring, 1985, the Region was asked to meet, in an advisory capacity, with the Wisconsin credit unions' regulator and the Governor's staff to discuss the implications of mandating Federal insurance for Wisconsin credit unions. This allowed some preplanning and permitted the Region to initiate early discussions and fact-finding efforts on the State's examination and supervision program and on the health of Wisconsin's credit unions. Before the law was passed, Region IV met with examiners on-site to review procedures; converted individual Wisconsin credit union call report data to NCUA's computer system and report format to aid in analysis; and conducted a preliminary off-site review of all credit unions.

On July 19, 1985, legislation was passed requiring credit unions to make application within six months and to qualify for Federal insurance within three years. The State supervisor then made a major effort to get the applications filed promptly. The Region's review of applications initially involved establishing a temporary office in Madison to coordinate the flow of applications to Chicago for final processing.

During September, a majority of Region IV examiners were involved in conducting 52 on-site conversion reviews of all credit unions with over $20 million in assets. In November, a second round of examinations was conducted bringing the total number of on-site contacts to 75. These examinations helped identify problem lending practices in several larger credit unions. Of special concern were weak commercial and agricultural policies and practices. The State Supervisor and his staff used the information from these contacts to initiate immediate corrective action.

One of the primary concerns expressed earlier on in discussions between the Regional Director, the State Supervisor, the President of the League, and the management of the Wisconsin Credit Union Share Insurance Corporation was that the process not be a cause for panic among Wisconsin credit union members. During the course of the last five months of 1985, the Regional Director, the Deputy Regional Director, and other Regional staff met with League representatives, state examiners, credit union chapters, and individual credit union boards on numerous occasions, to keep communication lines open. While there have been disagreements, to date, there has been no panic and all press reports have been positive. In addition, the conversions, at year-end 1985, were proceeding smoothly.

COLLEGE STUDENT CREDIT UNIONS

The University of Massachusetts Student Federal Credit Union celebrated its 10th Anniversary in 1985 with year-end membership and assets of 15,600 and $8,500,000 respectively. It and 11 other college student credit unions throughout the country are an increasingly visible and successful part of the credit union movement. The concept of "students helping students" works in these responsibly-run institutions. Likewise, the challenge of collegiate turnover is being met successfully.

The enthusiasm and determination of these young volunteers is a positive sign for the entire credit union movement. In fact, a creative "can do" spirit has quickly become the hallmark of the college student credit union movement.

As a sign of the times, there has recently been a major groundswell of interest from campuses throughout the country in chartering credit unions for their students. Sometimes hailed as a "marshalling of private sector resources," these credit unions are stepping in to fill a void in college funding as well as meeting other unique financial service needs of college students.

In addition to providing an unparalleled "hands on" learning experience to college students, these credit unions are providing the credit union community with a cadre of young leaders experienced in financial concepts and sensitive to the cooperative credit union philosophy.

The leaders of this new movement have taken the initiative to set up national and regional conferences to address common challenges and concerns. They have established a National College Student Credit Union Council to deal with the unique needs of their members. The Council, in turn, has been working with the credit union movement to establish a national advisory board to help guide the development of student credit unions. Several of these credit unions have already established their own advisory boards that include local credit union leaders.

The bottom line is that the concept works. Federally-insured deposits from students, parents, alumni, and non-member college supporters are forming an increasingly important pool of funds for tuition and other student loans. In the process, students have an excellent opportunity for meaningful work experience, while helping fellow students and practicing credit union philosophy. Because many of these students will remain part of the credit union community, the student movement has a unique opportunity to contribute significantly to the future of credit unions.

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202/862-6000

National Credit Union Administration Board
Washington, D.C.

We have examined the balance sheet of the National Credit Union Administration—Operating Fund as of September 30, 1985 and 1984, and the related statements of revenue, expenses and change in fund balance (deficit) and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the National Credit Union Administration-Operating Fund at September 30, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Ernst & Whinney

Washington, D.C.
December 6, 1985

Balance Sheet

National Credit Union Administration—Operating Fund

	September 30 1985	September 30 1984
ASSETS		
Cash	$14,844	$101,176
Investments, net of unamortized discount of $7,600 and $59,986—Note B	3,833,400	10,172,014
Employee advances	22,956	41,175
Other receivables	119,599	24,325
Due from NCUA—Insurance Fund—Note C	349,926	199,151
Furniture and equipment, net of accumulated depreciation of $2,576,389 and $2,325,418	810,404	1,035,141
Leasehold improvements, net of accumulated amortization of $722,126 and $575,007	13,084	160,133
Prepaid expenses	124,346	336,538
	$5,288,559	$12,069,653
LIABILITIES AND FUND BALANCE		
Accounts payable	$509,573	$643,124
Accrued salaries and benefits	825,088	764,712
Accrued annual leave	1,577,166	1,645,097
Accured employee travel	185,820	242,120
Advance conference registration fees	0	285,700
Deferred operating fee revenue	3,510,501	4,343,857
TOTAL LIABILITIES	6,608,148	7,924,610
Fund balance (deficit)	(1,319,589)	4,145,043
	$5,288,559	$12,069,653

See notes to financial statements.

Statement of Revenue, Expenses and Change in Fund Balance (Deficit)

National Credit Union Administration—Operating Fund

	Year Ended September 30 1985	Year Ended September 30 1984
REVENUE		
Operating fee revenue	$14,818,132	$18,421,677
Investment income	783,007	1,353,954
Miscellaneous income	426,767	53,740
	16,027,906	19,829,371
EXPENSES		
Employee salaries and benefits	15,023,618	14,895,360
Employee travel	2,260,644	1,775,237
Rent, communications, and utilities	2,469,107	2,450,835
Other administrative	897,878	1,032,666
Contracted services	841,291	941,551
	21,492,538	21,095,649
EXCESS OF EXPENSES OVER REVENUE	(5,464,632)	(1,266,278)
Fund balance at beginning of year	4,145,043	5,411,321
FUND BALANCE (DEFICIT) AT END OF YEAR	$(1,319,589)	$4,145,043

See notes to financial statements.

Statement of Changes in Financial Position

National Credit Union Administration—Operating Fund

	Year Ended September 30 1985	Year Ended September 30 1984
USES OF CASH		
Excess of expenses over revenue	$(5,464,632)	$(1,266,278)
Changes to net income not affecting cash:		
Depreciation and amortization	468,415	536,413
Increase in:		
Other accounts receivable	(95,274)	
Due from NCUA-Insurance Fund	(150,775)	
Prepaid expenses		(217,367)
Accounts payable		171,222
Accrued annual leave		48,859
Advance fees		285,700
Accrued salaries and benefits	60,376	38,495
Decrease in:		
Prepaid expenses	212,192	
Accounts payable	(133,551)	
Accrued employee travel	(56,300)	(162,158)
Accrued annual leave	(67,931)	
Advance fees	(285,700)	
Deferred revenue	(833,356)	(1,246,689)
TOTAL USED BY OPERATIONS	(6,346,536)	(1,811,803)
Furniture and equipment additions, net	96,629	29,744
TOTAL USES	(6,443,165)	(1,841,547)
SOURCES OF CASH		
Decrease in:		
Investments	6,338,614	1,391,073
Due from NCUA-Insurance Fund		145,170
Employee advances	18,219	232,480
Other receivable		72,380
	6,356,833	1,841,103
DECREASE IN CASH	$(86,322)	$(444)
Beginning cash balance	$101,176	$101,620
Decrease in cash	(86,332)	(444)
Ending cash balance	$14,844	$101,176

See notes to financial statement.

Notes to Financial Statements

National Credit Union Administration—Operating Fund

September 30, 1985

Note A—Organization and Purpose

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

Note B—Significant Accounting Policies

Investments: The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed both as to principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount. Market value of investments was approximately $3,834,000 at September 30, 1985 and $10,165,000 at September 30, 1984.

Depreciation and Amortization: Furniture and equipment and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of furniture and equipment and the shorter of the estimated useful life or lease term for leasehold improvements. Depreciation and amortization expense for the years ended September 30, 1985 and 1984 was $468,415 and $536,413, respectively.

Deferred Operating Fee Revenue: The Fund assesses each federally chartered credit union an annual fee based on its asset base as of the preceding June 30. Fees are recognized as revenue ratably during the calendar year in which they are assessed. Fees assessed but not yet recognized as revenue are classified as deferred revenue.

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

Note C—Transactions With the NCUA—Share Insurance Fund

Certain administrative services are provided by the Fund to the National Credit Union Administration—Share Insurance Fund (NCUSIF). The Fund charges NCUSIF for these services on a monthly basis based upon an estimate of actual usage. The cost of these services, which totaled $8,069,244 and $8,173,657 for the years ended September 30, 1985 and 1984, respectively are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Note D—Commitments

The Fund leases certain office space under a rental agreement which expires in November 1994. The agreement, which does not include renewal options, provides for annual rent adjustments based on increases in the consumer price index. In addition, the Fund leases certain office equipment under operating leases. Rental charges, net of sublease rental income in fiscal year 1985, for the years ended September 30, 1985 and 1984 amounted to $1,808,100 and $1,833,000, of which $560,500 and $568,200 was reimbursed by NCUSIF.

The future minimum lease payments, net of $200,000 sublease rental income, as of September 30, 1985, are as follows:

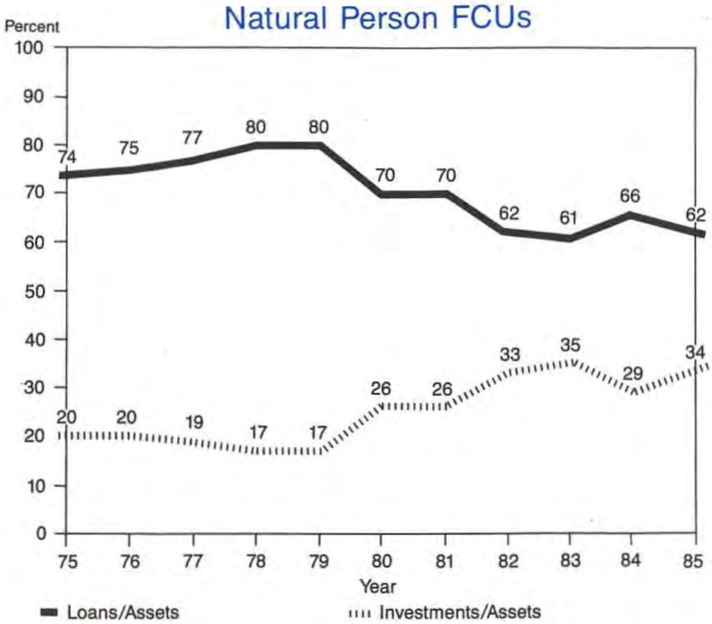
1986	$997,277
1987	1,002,701
1988	1,005,413
1989	1,005,413
1990	998,457
Thereafter	4,170,808
	$9,180,069

Based on the present allocation factor, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

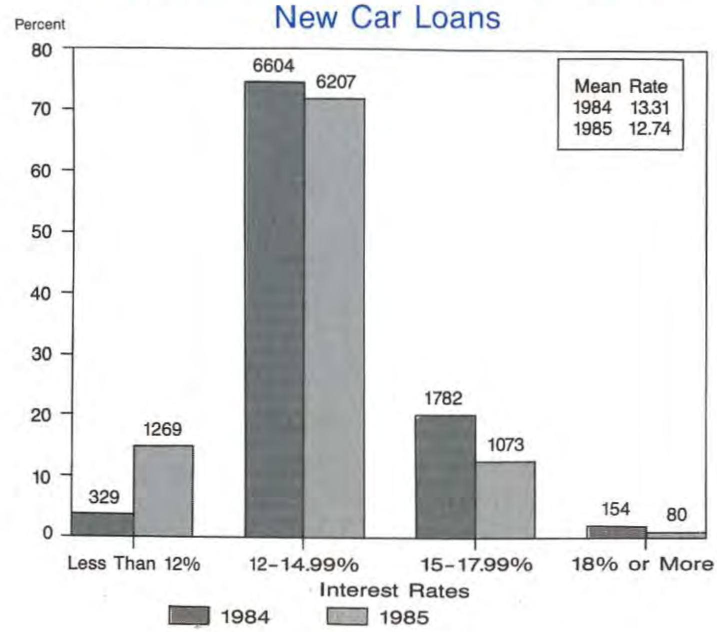
Note E—Retirement Plan

Employees of the fund participate in the Civil Retirement System which is a contributory defined contribution retirement plan. Contributions to the plan are based on a percentage of employees' gross pay. Pension contributions for the years ended September 30, 1985 and 1984 were $1,325,600 and $1,314,600, of which $436,000 and $432,000 was reimburse by NCUSIF.

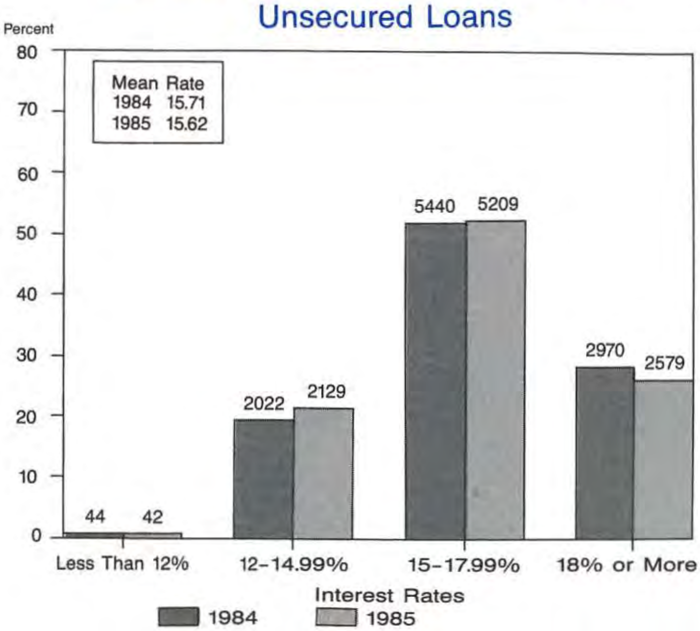
Loan to Asset Ratio
Natural Person FCUs



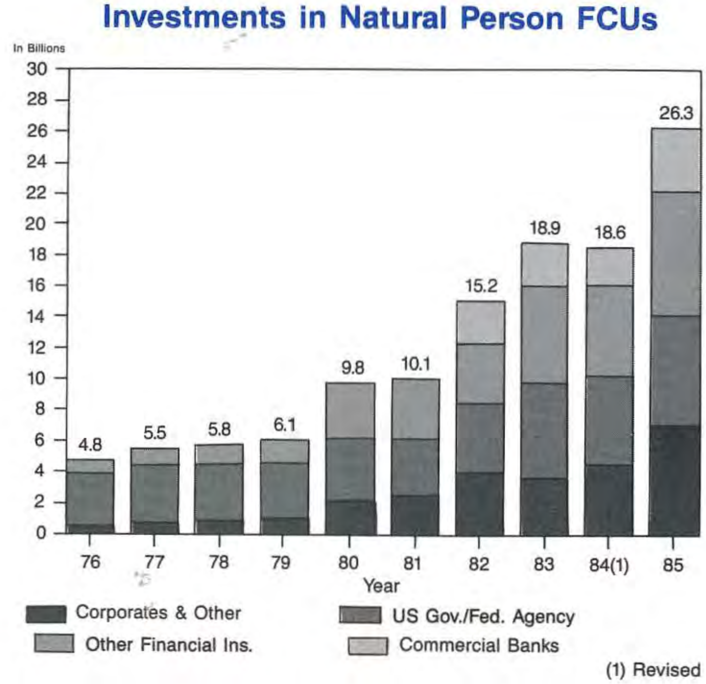
Natural Person FCU Interest Rates
New Car Loans



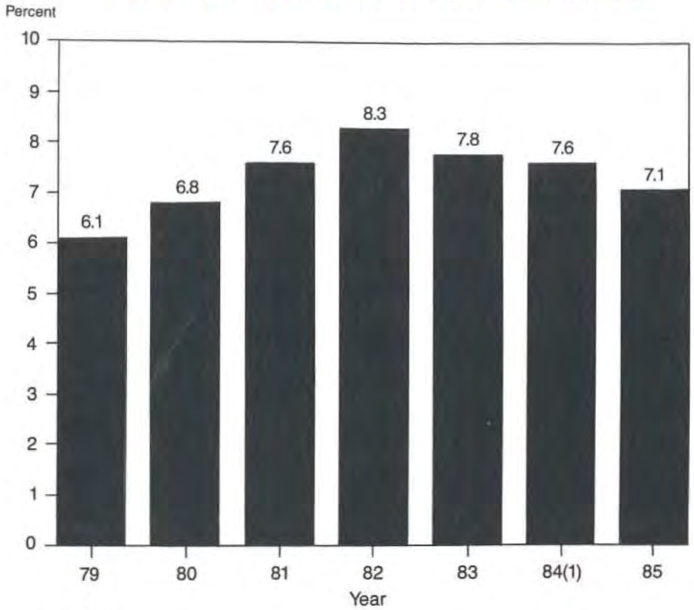
Natural Person FCU Interest Rates
Unsecured Loans



Investments in Natural Person FCUs

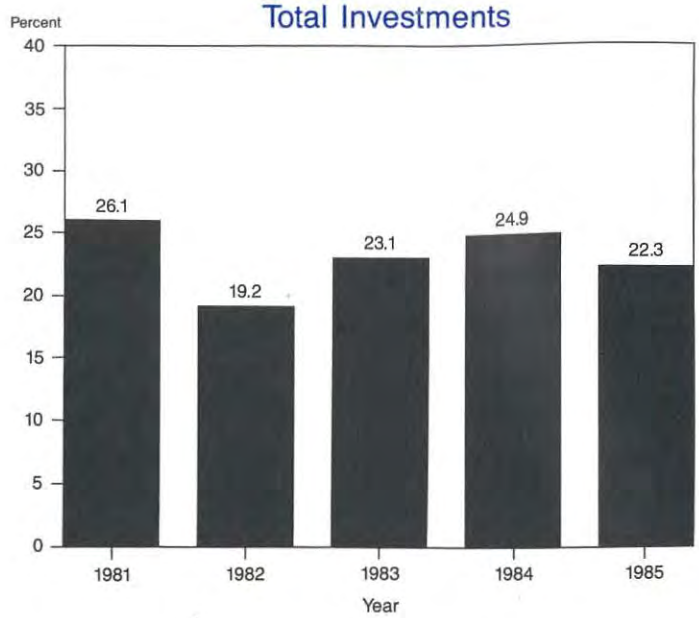


Effective Cost of Shares for FCUs

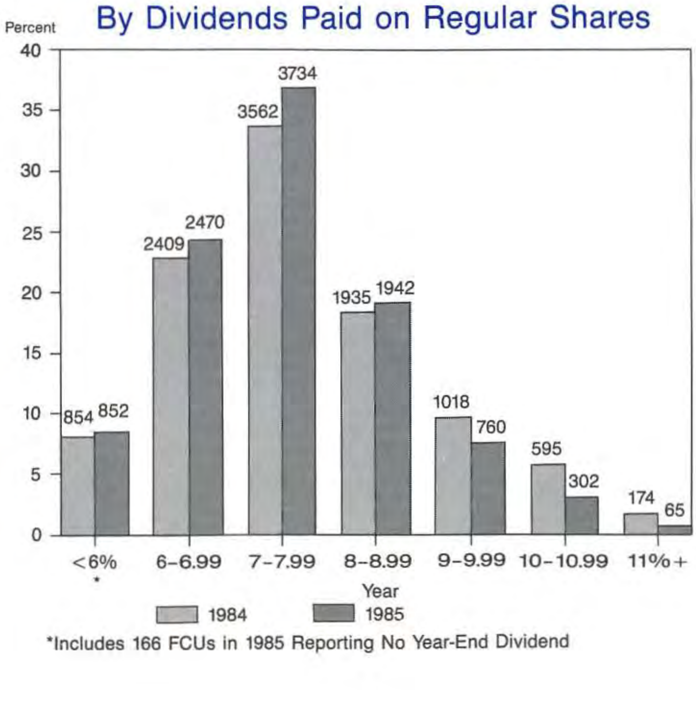


(1) Revised

Long Term Investments as Percent of Total Investments

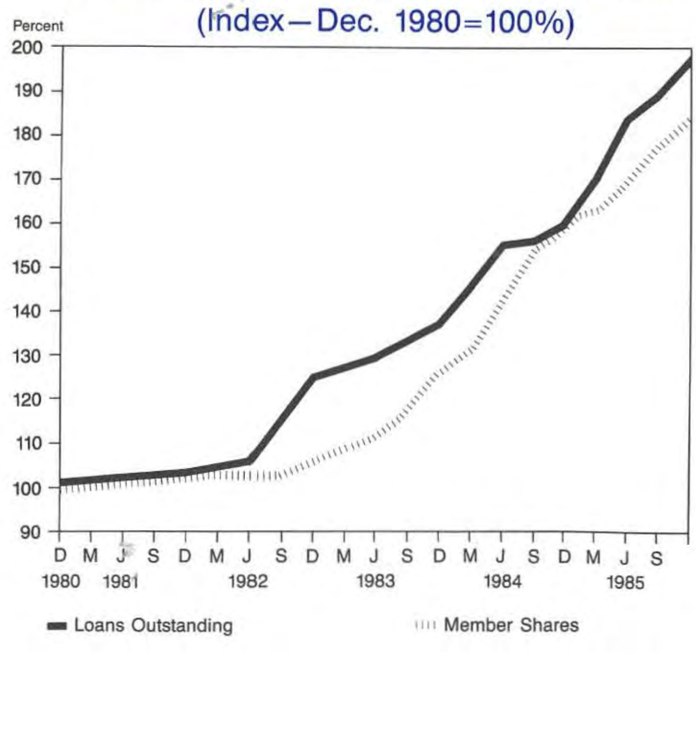


Distribution of Natural Person FCUs By Dividends Paid on Regular Shares

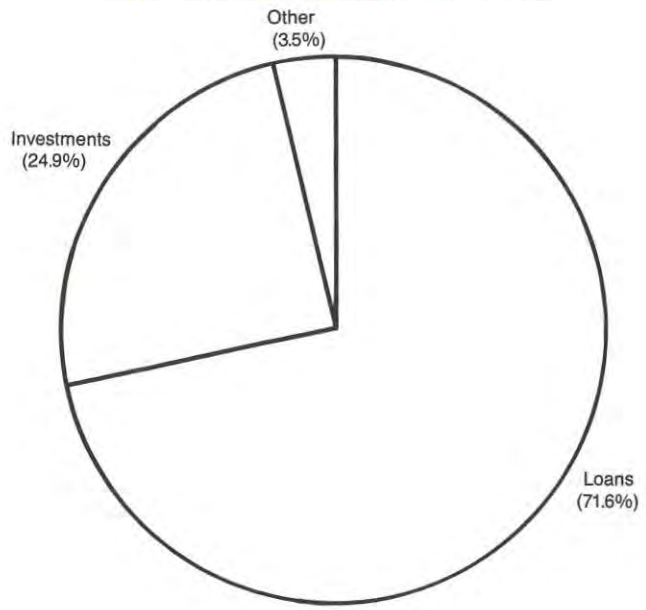


*Includes 166 FCUs in 1985 Reporting No Year-End Dividend

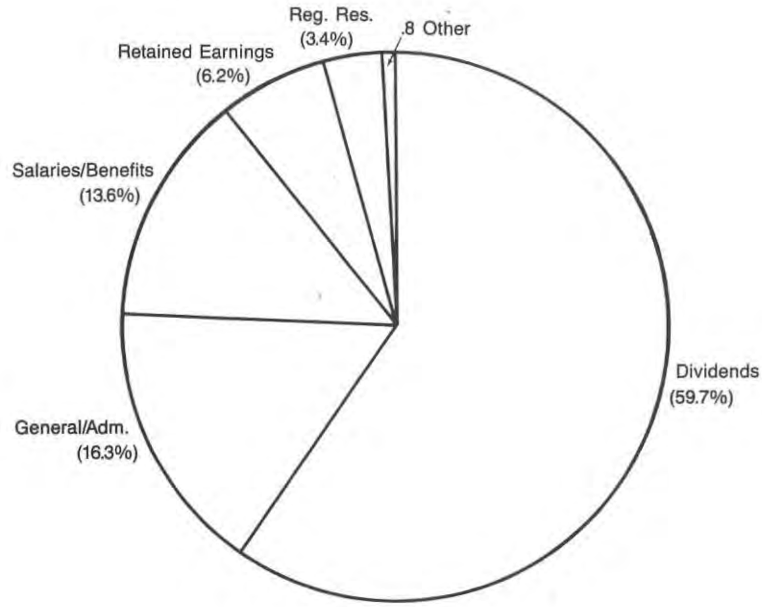
Momentum of Loan and Share Growth (Index—Dec. 1980=100%)



Sources of Income for FCUs



Uses of Funds for FCUs



Percentage Distribution of Savings by Type of Account

Natural Person Federal Credit Unions

Type of Account	1981	1982	1983	1984	1985
Regular Shares	**69.2%**	**72.6%**	**73.9%**	**68.7%**	**69.3%**
Share Drafts	5.6%	7.1%	8.5%	9.1%	**9.5%**
Other Regular Shares	63.6%	65.5%	65.5%	59.6%	**59.8%**
Share Certificates	**30.8%**	**27.4%**	**26.1%**	**31.3%**	**30.7%**
IRA & Keogh	0.4%	2.3%	5.9%	9.0%	**11.7%**
All Savers	3.3%	3.0%	N/A	N/A	**N/A**
Other Certificates	27.1%	22.1%	20.2%	22.3%	**19.0%**
Total Savings	100.0%	100.0%	100.0%	100.0%	**100.0%**
Total Savings in Millions	**$35,248**	**$41,352**	**$49,891**	**$57,929**	**$71,616**

Analysis of Loans Outstanding

Natural Person FCUs

Item	1981	1982	1983	1984[1]	1985
Loans Outstanding	$27,238	$28,192	$33,201	$42,133	**$48,240**
Allowance for Loan Losses	$212	$244	$270	$299	**$337**
Regular Reserves	$1,208	$1,325	$1,489	$1,800	**$2,148**
Amount of Delinquent Loans	$803	$884	$748	$828	**$1,005**
Loans Charged-off	$191	$192	$195	$195	**$254**
Recoveries on Loans	$29	$33	$40	$45	**$47**
Provision for Loan Losses	$183	$175	$162	$165	**$232**
Significant Ratios (as a Percentage of Loans Outstanding)					
Allowance for Loan Losses	0.78%	0.87%	0.81%	0.71%	**0.70%**
Regular Reserves	4.43%	4.70%	4.48%	4.27%	**4.45%**
Delinquent Loans	2.95%	3.14%	2.25%	1.97%	**2.08%**
Loans Charged-off	0.70%	0.68%	0.59%	0.46%	**0.53%**
Net Loans Charged-off	0.59%	0.56%	0.47%	0.36%	**0.43%**
Provision for Loan Losses	0.67%	0.62%	0.49%	0.39%	**0.48%**

[1] Revised.

Percentage Distribution of Consumer Installment

Credit by Type of Lender

Type of Lender	1981	1982	1983	1984[1]	1985
Credit Unions	13.9%	13.7%	13.7%	14.8%	**14.4%**
Commercial Banks	44.5%	44.1%	43.4%	46.1%	**45.6%**
Savings and Loans	3.5%	4.0%	5.5%	6.5%	**7.6%**
Mutual Savings Banks	0.8%	0.9%	1.6%	1.8%	**1.8%**
Retailers	8.9%	8.8%	8.4%	8.9%	**7.8%**
Finance Companies	27.1%	27.3%	26.3%	21.0%	**22.0%**
Gasoline Companies	1.3%	1.2%	1.1%	0.9%	**0.8%**
Total	100.0%	100.0%	100.0%	100.0%	**100.0%**
Consumer Installment Credit Outstanding (in millions)	**$331,697**	**$344,798**	**$388,718**	**$460,500**	**$549,903**

[1] Revised.
Source: Federal Reserve Board.

Total Investments at Natural Person FCUs, 1981–1985

(as of December 31)

(Amount in millions)

Item	1981	1982	1983	1984 [1]	1985
U.S. Government Obligations	$490	$675	$1,751	$1,795	**$2,409**
Federal Agency Securities	$2,346	$2,934	$3,648	$3,930	**$4,548**
Common Trust Investments	$735	$966	$653	$421	**$640**
Deposits in Commercial Banks	$3,897	$2,799	$2,774	$2,541	**$4,143**
Deposits in S&Ls & Savings Banks		$3,863	$6,297	$5,867	**$8,110**
Shares/Deposits in Corporate CUs	$2,134	$3,537	$3,255	$3,429	**$5,079**
Share Ins/Other Capital Deposits	N/A	N/A	N/A	N/A	**$602**
Investments in Other CUs	$172	$185	$125	$104	**$126**
Other Investments [2]	$312	$235	$360	$479	**$596**
Allowance for Investment Losses	$9	$18	$17	$19	**$18**
Total Investments	$10,086	$15,194	$18,863	$18,566	**$26,253**

Percentage Distribution

Item	1981	1982	1983	1984	1985
U.S. Government Obligations	4.9%	4.4%	9.3%	9.7%	**9.2%**
Federal Agency Securities	23.3%	19.3%	19.3%	21.2%	**17.3%**
Common Trust Investments	7.3%	6.4%	3.5%	2.3%	**2.4%**
Deposits in Commercial Banks	38.6%	18.4%	14.7%	13.7%	**15.8%**
Deposits in S&Ls & Savings Banks	0.0%	25.4%	33.4%	31.6%	**30.9%**
Shares/Deposits in Corporate CUs	21.2%	23.3%	17.3%	18.5%	**19.3%**
Share Ins/Other Capital Deposits	N/A	N/A	N/A	N/A	**2.3%**
Investments in Other CUs	1.7%	1.2%	0.7%	0.6%	**0.5%**
Other Investments [2]	3.1%	1.5%	1.9%	2.6%	**2.3%**
Total Investments	100%	100%	100%	100%	**100%**

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

Natural Person Federal Credit Unions Experiencing Losses

Year Ending December 31	No. of Federal Credit Unions	No. of FCUs Experiencing Losses	Percentage of Total No. of FCUs	Amount of Negative Earnings (in thousands)
1981	11,969	2,561	21.4%	$82,735
1982	11,631	2,572	22.1%	$63,098
1983	10,963	2,443	22.3%	$45,434
1984	10,547	1,041	9.9%	$18,555
1985	10,125	1,178	11.6%	$31,604

Natural Person FCUs Experiencing Losses in 1985

Asset Size	No. of FCUs	Assets	Amount of 1985 Losses	Amount of Reserves and Undivided Earnings
Less Than $1 Million	657	$231,446,548	$2,688,702	$17,568,984
$1 Million to Less Than $2 Million	159	$229,336,395	$1,866,948	$12,921,207
$2 Million to Less Than $5 Million	187	$581,244,711	$3,669,321	$32,427,328
$5 Million to Less Than $10 Million	76	$539,562,197	$4,094,677	$23,071,506
$10 Million to Less Than $20 Million	62	$853,121,084	$5,235,187	$35,734,610
$20 Million to Less Than $50 Million	23	$698,257,207	$4,281,559	$25,720,242
$50 Million and Over	14	$1,312,179,787	$9,767,576	$48,094,933
Total	1,178	$4,445,147,929	$31,603,970	$195,538,810

Number of Natural Person FCUs by Early Warning System Categories

	Calendar Year-End										
EWS Category	**1976**	**1977**	**1978**	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1 Year Change**
Codes 1 & 2	8,610	9,079	8,712	8,488	7,862	7,237	7,093	7,365	7,425	**7,250**	**−175**
Code 3	3,499	3,145	3,373	3,433	3,770	3,737	3,751	2,855	2,623	**2,460**	**−163**
Code 4	648	526	674	817	585	720	661	646	451	**375**	**−76**
Code 5	(1)	(1)	(1)	(1)	223	175	126	97	48	**40**	**−8**
Total	**12,757**	**12,750**	**12,759**	**12,738**	**12,440**	**11,869**	**11,631**	**10,963**	**10,547**	**10,125**	**−422**

Distribution by Asset Size of FCUs in EWS Codes 4 and 5 as of 12/31/85

Asset Size	Number of Credit Unions	Total Assets (in thousands)
<$1 Million	295	**$88,166**
$1–10 Million	233	**$815,323**
$10–20 Million	41	**$559,646**
$20–50 Million	25	**$665,239**
$50–100 Million	14	**$966,390**
>$100 Million	10	**$1,641,742**
Total	**618**	**$4,736,506**

Natural Person Federal Credit Union Consolidated Balance Sheet

(Amounts in thousands)

Item	1984[1]	1985	Percentage Change
Assets:			
Cash	$1,441,509	**$1,888,395**	**31.0%**
Loans Outstanding	$42,133,019	**$48,240,215**	**14.5%**
Allowance for Loan Losses	($298,981)	**($337,223)**	**12.8%**
Investments:			
U.S. Gov/Fed Agency Securities	$5,724,457	**$6,956,554**	**21.5%**
Commercial Banks	$2,541,079	**$4,143,271**	**63.1%**
S&L and Mutual Savings Banks	$5,867,094	**$8,110,272**	**38.2%**
Corporate Credit Unions	$3,429,416	**$5,079,267**	**48.1%**
Common Trusts	$420,530	**$640,187**	**52.2%**
Share Ins/Other Capital Deposits	N/A	**602,253**	
Other Investments	$582,843	**$720,810**	**23.7%**
Total Investments	$18,565,419	**$26,252,614**	**41.4%**
Allowance for Investment Losses	($19,162)	**($18,335)**	**−4.3%**
Land and Building (Net of Depreciation)	$762,839	**$870,740**	**14.1%**
Other Fixed Assets	$372,509	**$455,767**	**22.4%**
Other Assets	$699,169	**$852,894**	**22.0%**
Total Assets	$63,656,321	**$78,205,067**	**22.9%**
Liabilities:			
Accounts Payable	$291,262	**$311,001**	**6.8%**
Notes Payable	$669,301	**$536,780**	**−19.8%**
Dividends Payable	$598,850	**$640,493**	**7.0%**
Other Liabilities	$127,197	**$153,114**	**20.4%**
Total Liabilites	$1,686,610	**$1,641,388**	**−2.7%**
Equity/Savings:			
Regular Shares	$34,547,902	**$42,823,862**	**24.0%**
Share Certificates	$12,910,640	**$13,587,402**	**5.2%**
IRA/Keogh Accounts	$5,206,201	**$8,385,943**	**61.1%**
Share Drafts	$5,264,384	**$6,818,775**	**29.5%**
Total Savings	$57,929,127	**$71,615,982**	**23.6%**
Regular Reserves	$1,799,461	**$2,148,379**	**19.4%**
Other Reserves	$649,318	**$735,941**	**13.3%**
Undivided Earnings	$1,591,805	**$2,063,377**	**29.6%**
Total Equity/Savings	$61,969,711	**$76,563,679**	**23.6%**
Total Liabilities/Equity	$63,656,321	**$78,205,067**	**22.9%**

[1] Revised.

Selected Data for Federal Credit Unions December 31, 1934–85

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]	Net 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
1969	705	323	382	13,404	483	12,921	11,301,805	7,793,573	6,713,385	6,328,720
1970	563	412	151	13,555	578	12,977	11,966,181	8,860,612	7,628,805	6,969,006
1971	400	461	−61	13,494	777	12,717	12,702,135	10,553,740	9,191,182	8,071,201
1972	311	672	−361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	−159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	−2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	−33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	−50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	−198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	−435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	−442	11,925	294	11,631	26,114,649	49,755,270	45,503,266	27,998,657
1983	107	736	−625	11,300	320	10,980	26,798,799	54,481,827	49,889,313	33,200,715
1984 [3]	**135**	**664**	**−529**	**10,766**	**219**	**10,547**	**28,191,922**	**63,656,321**	**57,929,124**	**42,133,018**
1985	**55**	**541**	**−596**	**10,170**	**45**	**10,125**	**29,576,041**	**78,205,067**	**71,615,980**	**48,240,215**

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

Natural Person Federal Credit Union Consolidated Income and Expense Statement

(Amounts in thousands)

Item	1984 [1]	1985	Percentage Change
Income			
Interest on Loans	$5,225,963	$6,135,542	17.4
Less: Interest Refund	($25,960)	($26,859)	3.5
Income From Investments	$2,046,986	$2,119,787	3.6
Other Operating Income	$207,069	$297,627	43.7
Total Gross Income	$7,454,058	$8,526,097	14.4
Expenses			
Employee Compensation	$839,308	$962,735	14.7
Employee Benefits	$172,284	$200,665	16.5
Travel & Conference Expenses	$40,132	$44,391	10.6
Association Dues	$23,979	$25,721	7.3
Office Occupancy	$108,625	$130,432	20.1
Office Operations Expense	$402,939	$487,900	21.1
Educational and Promotional	$50,798	$62,013	22.1
Loan Servicing Expense	$37,663	$48,550	28.9
Professional & Outside Services	$169,569	$197,001	16.2
Provision for Loan Losses	$165,065	$231,857	40.5
Member Insurance	$183,140	$147,348	−19.5
Operating Fees	$17,812	$14,378	−19.3
Cash Short & Over	$1,678	$1,848	10.1
Interest on Borrowed Money	$46,924	$37,693	−19.7
Annual Meeting Expenses	$13,177	$14,770	12.1
Misc. Operating Expenses	$40,872	$50,189	22.8
Total Operating Expenses	$2,313,965	$2,657,491	14.8
Non-Operating Gains or Losses			
Gain (Loss) on Investments	($4,887)	$27,832	−669.5
Gain (Loss) on Disposition of Assets	$2,621	$2,046	−21.9
Other Non-Operating Expenses	$7,637	$12,800	67.6
Total Income (Loss) Before Dividends	$5,145,464	$5,911,284	14.9
Transfer to Regular & Stat. Reserves	$259,590	$290,197	11.8
Dividends & Interest on Deposits	$4,412,839	$5,090,194	15.3
Net Income (Loss) After Dividends & Reserve Transfers	$473,035	$530,893	12.2

[1] Revised.

Natural Person Federal Credit Union 10 Year Summary, 1976–1985

(Amount in millions as of December 31)

	1976	1977	1978
Assets	$24,396	$29,564	$34,760
Loans Outstanding	$18,311	$22,687	$27,687
Shares	$21,130	$25,576	$29,803
Reserves [2]	$1,180	$1,325	$1,365
Undivided Earnings	$285	$370	$485
Gross Income	$2,124	$2,580	$3,201
Operating Expenses	$791	$968	$1,214
Dividends	$1,130	$1,387	$1,706
Reserve Transfers	$167	$140	$150
Net Income	$37	$85	$131
Percent Change	**1976**	**1977**	**1978**
Total Assets	20.7%	21.2%	17.6%
Loans Outstanding	23.1%	23.9%	22.0%
Savings	20.5%	21.0%	16.5%
Reserves*	14.6%	12.3%	3.0%
Undivided Earnings	13.1%	29.8%	31.1%
Gross Income	21.4%	21.5%	24.1%
Operating Expenses	20.8%	22.4%	25.4%
Dividends	22.2%	22.7%	23.0%
Reserve Transfers	24.6%	−16.2%	7.1%
Net Income	8.8%	129.7%	54.1%
Significant Ratios (%)	**1976**	**1977**	**1978**
Reserves to Assets	4.8%	4.5%	3.9%
Res. & Undiv. Earnings to Assets	6.0%	5.7%	5.3%
Reserves to Loans	6.4%	5.8%	4.9%
Loans to Shares	86.7%	88.7%	92.9%
Operating Expenses to Gross Income	37.2%	37.5%	37.9%
Salaries & Benefits to Gross Income	12.3%	12.0%	11.6%
Dividends to Gross Income	53.2%	53.8%	53.3%
Yield on Average Assets	9.5%	9.6%	11.0%
Cost of Funds to Average Assets	5.3%	5.5%	5.8%
Gross Spread	4.2%	4.1%	4.2%
Net Income Divided by Gross Income	1.7%	3.3%	4.1%
Yield on Average Loans	10.5%	10.5%	10.9%
Yield on Average Investments	7.9%	7.9%	8.4%

[1] Revised.
[2] Does not Include the allowance for loan losses.

1979	1980	1981	1982	1983	1984	1985
$35,334	$37,515	$39,181	$45,494	$54,482	$63,656	**$78,205**
$28,182	$26,165	$27,238	$28,192	$33,201	$42,133	**$48,240**
$30,768	$33,812	$35,248	$41,352	$49,891	$57,929	**$71,616**
$1,426	$1,473	$1,614	$1,773	$2,007	$2,451	**$2,884**
$629	$709	$906	$1,118	$1,281	$1,592	**2,063**
$3,530	$3,824	$4,681	$5,406	$6,064	$7,454	**$8,526**
$1,428	$1,498	$1,660	$1,822	$2,045	$2,314	**$2,657**
$1,862	$2,185	$2,656	$3,185	$3,573	$4,413	**$5,090**
$88	$98	$147	$147	$166	$260	**$290**
$153	$43	$219	$244	$287	$473	**$531**

1979	1980	1981	1982	1983	1984	1985
1.7%	6.2	4.4%	16.1%	19.8%	16.8%	**22.9%**
1.8%	−7.2%	4.1%	3.5%	17.8%	26.9%	**14.5%**
3.2%	9.9%	4.2%	17.3%	20.6%	16.1%	**23.6%**
4.5%	3.3%	9.6%	9.9%	13.2%	22.1%	**17.7%**
29.7%	12.7%	27.8%	23.4%	14.6%	24.3%	**29.6%**
10.3%	8.3%	22.4%	15.5%	12.2%	22.9%	**14.4%**
17.6%	4.9%	10.8%	9.8%	12.2%	13.2%	**14.8%**
9.1%	17.3%	21.6%	19.9%	12.2%	23.5%	**15.3%**
−41.3%	11.4%	50.0%	0.0%	12.9%	56.6%	**11.5%**
16.8%	−71.9%	409.3%	11.4%	17.6%	64.8%	**12.3%**

1979	1980	1981	1982	1983	1984	1985
4.0%	3.9%	4.1%	3.9%	3.7%	3.9%	**3.7%**
5.8%	5.8%	6.4%	6.4%	6.0%	6.4%	**6.3%**
5.1%	5.6%	5.9%	6.3%	6.0%	5.8%	**6.0%**
91.6%	77.4%	77.3%	68.2%	66.5%	72.7%	**67.4%**
40.5%	39.2%	35.5%	33.7%	33.7%	31.0%	**31.2%**
14.3%	14.7%	14.1%	14.1%	14.4%	13.6%	**13.6%**
52.7%	57.1%	56.7%	58.9%	58.9%	59.2%	**59.7%**
10.1%	10.5%	12.2%	12.8%	12.1%	11.7%	**12.0%**
5.9%	6.4%	7.2%	7.5%	7.1%	7.0%	**7.2%**
4.2%	4.2%	5.1%	5.3%	5.0%	4.7%	**4.8%**
4.3%	1.1%	4.7%	4.5%	4.7%	6.3%	**6.2%**
10.9%	11.0%	12.5%	13.6%	13.7%	12.4%	**13.5%**
8.6%	10.3%	12.8%	12.3%	10.2%	11.0%	**9.5%**

Assets of Natural Person FCUs by Asset Size as of December 31, 1985

Asset Size	Assets (in thousands)	Percentage of total	Cumulative Percentage
Less Than $50 Thousand	$7,039	0.0%	0.0%
$50 to $100 Thousand	$27,372	0.0%	0.0%
$100 to $250 Thousand	$186,910	0.2%	0.3%
$250 to $500 Thousand	$468,449	0.6%	0.9%
$500 Thousand to $1 Million	$1,061,242	1.4%	2.2%
$1 Million to $2 Million	$2,115,447	2.7%	4.9%
$2 Million to $5 Million	$5,674,560	7.3%	12.2%
$5 Million to $10 Million	$6,554,366	8.4%	20.6%
$10 Million to $20 Million	$9,362,711	12.0%	32.6%
$20 Million to $50 Million	$14,293,540	18.3%	50.8%
$50 Million to $100 Million	$12,938,246	16.5%	67.4%
$100 Million and Over	$25,515,185	32.6%	100.0%
Total	$78,205,067		

Natural Person Federal Credit Unions by State as of December 31, 1985

State	Number FCUs 1985	Assets 1985 (in millions)	Assets 1984 (in millions)	Percent Change 1984 to 1985
Alabama	155	$1,174	$947	**24.0%**
Alaska	18	$1,008	$882	**14.3%**
Arizona	54	$1,198	$982	**22.0%**
Arkansas	95	$277	$224	**23.7%**
California	790	$12,287	$9,774	**25.7%**
Colorado	146	$1,390	$1,137	**22.3%**
Connecticut	245	$1,602	$1,293	**23.9%**
Delaware	64	$280	$237	**18.1%**
District of Columbia	119	$1,331	$1,068	**24.6%**
Florida	264	$4,346	$3,485	**24.7%**
Georgia	236	$1,308	$1,110	**17.8%**
Guam	3	$31	$25	**24.0%**
Hawaii	133	$1,465	$1,181	**24.0%**
Idaho	51	$316	$273	**15.8%**
Illinois	312	$1,377	$1,166	**18.1%**
Indiana	341	$2,736	$2,318	**18.0%**
Iowa	8	$27	$23	**17.4%**
Kansas	46	$259	$189	**37.0%**
Kentucky	127	$630	$521	**20.9%**
Louisiana	331	$1,208	$1,029	**17.4%**
Maine	118	$758	$607	**24.9%**

Natural Person Federal Credit Unions by State as of December 31, 1985—Continued

State	Number FCUs 1985	Assets 1985 (in millions)	Assets 1984 (in millions)	Percent Change 1984 to 1985
Maryland	186	$2,013	$1,641	**22.7%**
Massachusetts	270	$1,777	$1,134	**56.7%**
Michigan	250	$2,868	$2,385	**20.3%**
Minnesota	52	$399	$343	**16.3%**
Mississippi	131	$440	$364	**20.9%**
Missouri	27	$117	$97	**20.6%**
Montana	90	$423	$295	**43.4%**
Nebraska	72	$390	$324	**20.4%**
Nevada	33	$603	$486	**24.1%**
New Hampshire	21	$331	$276	**19.9%**
New Jersey	482	$2,291	$1,812	**26.4%**
New Mexico	48	$568	$486	**16.9%**
New York	947	$6,065	$4,803	**26.3%**
North Carolina	116	$949	$777	**22.1%**
North Dakota	26	$61	$55	**10.9%**
Ohio	542	$2,039	$1,656	**23.1%**
Oklahoma	89	$763	$657	**16.1%**
Oregon	137	$888	$746	**19.0%**
Pennsylvania	1196	$3,759	$3,117	**20.6%**
Puerto Rico	33	$117	$101	**15.8%**
Rhode Island	14	$19	$16	**18.8%**
South Carolina	113	$1,024	$843	**21.5%**
South Dakota	82	$248	$210	**18.1%**
Tennessee	149	$1,297	$1,056	**22.8%**
Texas	693	$5,976	$5,054	**18.2%**
Utah	56	$273	$228	**19.7%**
Vermont	6	$58	$53	**9.4%**
Virgin Islands	5	$6	$5	**20.0%**
Virginia	256	$5,352	$4,371	**22.4%**
Washington	133	$1,314	$1,142	**15.1%**
West Virginia	162	$467	$393	**18.8%**
Wisconsin	4	$87	$79	**10.1%**
Wyoming	48	$215	$178	**20.8%**
Total	$10,125	$78,205	$63,654	**22.9%**

List of Federal Corporate Credit Unions

Corporate Name	State	Assets (in millions)
Western Corporate	CA	$1,675
Southwest Corporate	TX	$899
Capital Corporate	MD	$227
League Central of Maine	ME	$131
Virginia League Corporate	VA	$295
Mid-States Corporate	IL	$913
Southeast Corporate	FL	$363
Mid-Atlantic Corporate	PA	$396
Nebraska Corporate Central	NB	$75
Indiana Corporate	IN	$354
Empire Corporate	NY	$646
Colorado Corporate	CO	$351
South Dakota Corporate Central	SD	$49
Pacific Corporate	HI	$110
Mass. Cuna Corporate Central	MA	$202
LICU Corporate	NY	$2
Kentucky Corporate	KY	$90

Annual Growth Rates in Reserves and Undivided Earnings

Natural Person Federal Credit Unions

	1979	1980	1981	1982	1983	1984	1985
Total Reserves	11.1%	6.2%	15.5%	14.7%	13.7%	23.0%	**22.4%**
Regular Reserve	−0.9%	1.0%	7.6%	9.6%	12.4%	20.9%	**19.3%**
Other Reserves	29.0%	11.4%	15.8%	10.2%	15.6%	25.7%	**13.3%**
Undivided Earnings	29.7%	12.7%	27.8%	23.4%	14.6%	24.4%	**29.6%**

Key Statistics on Federally Insured Corporate Credit Unions

(in millions)

Item	1981	1982	1983	1984 [1]	1985
Number	32	30	29	29	29
Assets	$3,897.0	$5,994.0	$5,937.8	$6,046.1	$9,060.6
Loans	$181.0	$95.0	$177.1	$465.7	$8.0
Shares	$3,646.0	$5,799.0	$5,679.0	$5,273.6	$8,025.3
Reserves	$32.7	$44.5	$58.4	$71.0	$84.9
Undivided Earnings	$15.5	$20.5	$24.2	$31.2	$38.4
Gross Income	$559.6	$650.8	$615.5	$661.9	$664.3
Operating Expenses	$16.1	$15.1	$16.7	$17.6	$21.1
Interest of Borrowing	$13.0	$12.3	$13.6	$37.4	$42.5
Dividends & Interest on Deposits	$504.2	$599.5	$565.1	$584.9	$578.9
Reserve Transfers	$8.0	$11.5	$11.2	$12.0	$10.5
Net Income	$18.7	$6.2	$7.6	$10.0	$11.3
Significant Ratios					
Reserves to Assets	0.8%	0.7%	1.0%	1.2%	0.9%
Reserves and Undivided Earnings to Assets	1.2%	1.1%	1.4%	1.7%	1.4%
Reserves to Loans	18.1%	46.8%	33.0%	15.2%	1061.3%
Loans to Shares	5.0%	1.6%	3.1%	8.8%	0.1%
Operating Expenses to Gross Income	2.9%	2.3%	2.7%	2.7%	3.2%
Salaries and Benefits to Gross Income	0.8%	0.8%	1.0%	1.1%	1.1%
Dividends to Gross Income	90.1%	92.1%	91.8%	88.4%	87.1%
Yield on Average Assets	15.4%	13.2%	10.3%	11.0%	8.7%
Cost of Funds to Average Assets	14.3%	12.4%	9.5%	10.4%	8.1%
Gross Spread	1.2%	0.8%	0.8%	1.4%	0.6%
Net Income Divided by Gross Income	3.3%	1.0%	1.2%	1.5%	1.7%
Yield on Average Loans	14.3%	9.0%	7.2%	12.0%	7.8%
Yield on Average Investments	15.9%	13.6%	10.6%	10.8%	8.8%

[1] Revised

Selected Data Pertaining to Federally-Insured State Credit Unions

1971 to 1985

Year	Number of credit unions	Number of members	Total assets (in thousands)	Members savings (in thousands)	Loans outstanding (in thousands)
1971	793	1,924,312	$1,954,821	$1,699,418	$1,528,218
1972	1,315	3,043,436	$3,297,257	$2,886,568	$2,553,885
1973	1,656	3,830,508	$4,333,106	$3,734,537	$3,440,659
1974	2,398	5,198,218	$6,039,648	$5,191,566	$4,773,156
1975	3,040	6,681,027	$8,605,297	$7,442,904	$6,618,036
1976	3,519	7,673,348	$10,669,586	$9,223,415	$8,560,330
1977	3,882	8,995,124	$13,763,816	$11,756,617	$11,208,628
1978	4,362	11,479,963	$16,657,356	$14,316,370	$14,038,194
1979	4,769	12,218,682	$18,459,942	$15,871,204	$15,204,365
1980	4,910	12,337,726	$20,869,783	$18,468,791	$14,582,065
1981	4,994	12,954,206	$22,584,168	$20,006,801	$15,340,731
1982	5,151	13,184,183	$26,117,670	$23,566,708	$15,326,521
1983	4,915	14,277,816	$27,479,116	$24,849,831	$17,214,861
1984[1]	4,645	15,011,591	$29,439,800	$25,533,176	$20,176,857
1985	**4,920**	**15,689,048**	**$41,524,995**	**$36,539,922**	**$26,167,716**

[1] Revised

List of Federal Insured State Corporate Credit Unions

Corporate Name	State	Assets (in millions)
Georgia Central	GA	187.9
Ohio League Corporate	OH	257.8
Minnesota Central	MN	164.8
Oregon Corporate Central	OR	103.9
Corporate CU of Arizona	AR	206.5
Oklahoma Corporate	OK	267.3
Iowa League Corporate	IA	167.3
Constitution State Corporate	CT	352.9
First Carolina Corporate	NC	316.8
Federacion De Cooperativas	PR	32.1
Alabama Corporate	AL	139.4
The Carolina Corporate	SC	85.9

NATIONAL CREDIT UNION ADMINISTRATION

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National Credit Union Share Insurance Fund

1985 Annual Report

October 1, 1984-September 30, 1985

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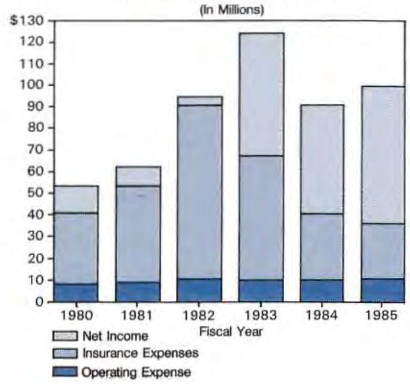
NCUA

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

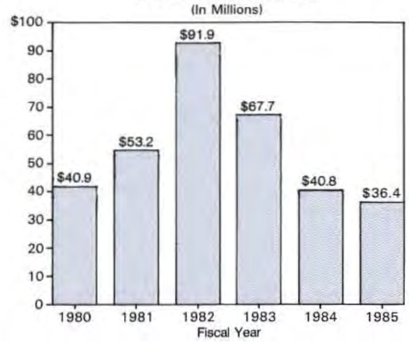
NCUSIF Fund Highlights

NCUSIF Income and Expenses
(In Millions)

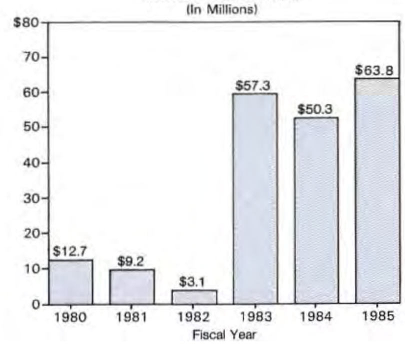


NCUSIF Gross Income
(In Millions)

NCUSIF Total Expenses
(In Millions)

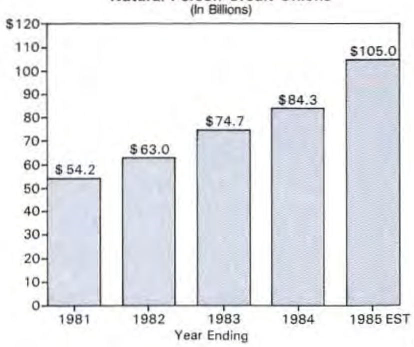


NCUSIF Net Income
(In Millions)

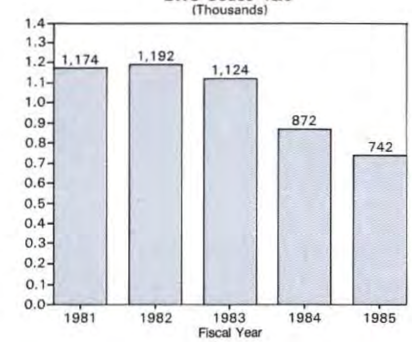


Credit Union Highlights

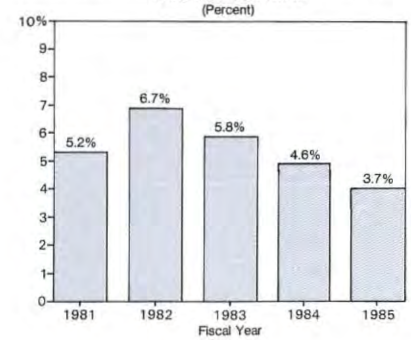
Total Shares
Natural Person Credit Unions
(In Billions)



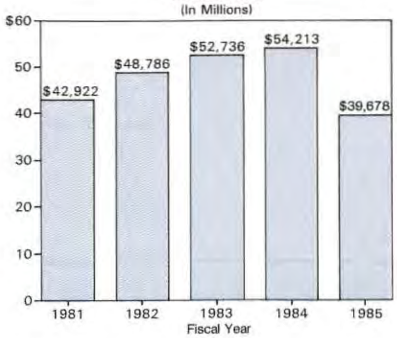
Number of Problem Credit Unions
EWS Codes 4&5
(Thousands)



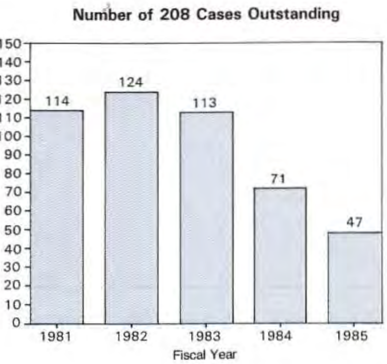
Percentage of Total Code 4&5 Shares to Total Insured Shares
(Percent)



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



Number of 208 Cases Outstanding



National Credit Union Share Insurance Fund
1985 Annual Report

NATIONAL CREDIT UNION ADMINISTRATION
1776 G Street, N.W.
Washington, D.C. 20456

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Message From The National Credit Union Administration Board

We are pleased to provide this report on the record and performance of the National Credit Union Share Insurance Fund (NCUSIF). The Fund has completed an enormously successful year, during which it experienced the most significant development since its establishment in 1971. The NCUSIF capitalization plan, a joint effort by all sectors of the credit union community, quadrupled the size of the Fund. Moreover, the Fund has been managed in a prudent and efficient manner which should generate great confidence among all insured credit unions.

For the second straight year, Ernst & Whinney, our CPA firm, has accorded the NCUSIF an unqualified, or clean opinion. Our insistence on an independent review of "the books" is an example of the commitment of this Agency to full and fair disclosure.

In the coming year, we intend to continue making operational improvements, trying new methods to resolve current and long-term problems, and molding the NCUSIF into the model for all deposit insurance funds. We can reach new peaks of achievement as long as we have a singleness of purpose and a commitment to excellence. Continued safety, soundness, and service are our goals for the NCUSIF and we will do our utmost to see that they are achieved.

Sincerely,

ROGER W. JEPSEN
Chairman

P. A. MACK, JR.
Vice Chairman

ELIZABETH F. BURKHART
Board Member

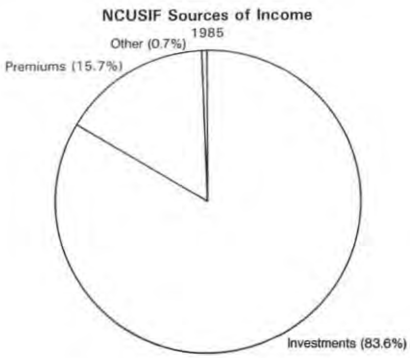
NCUSIF Year In Review

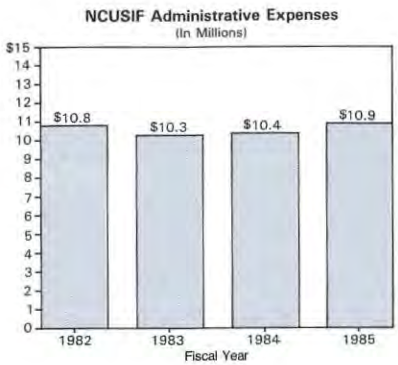
Capitalization of the Fund

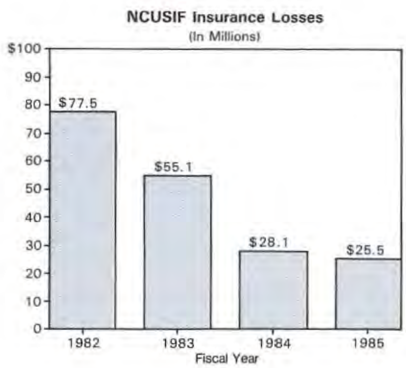
The capitalization plan signed into law by President Reagan on July 18, 1984, became reality when $760 million in deposits were collected from credit unions in January 1985. Also in January, the NCUA Board distributed $84 million in fund equity so that credit unions only had to transfer about 87% of their initial deposit obligation to the Fund, but were able to carry the full 1% as an asset on their balance sheets. Thus, while credit unions contributed $760 million, they were credited with $844 million in deposits. Overall, the capitalization process went very smoothly and this credit union-designed Insurance Fund continues to receive praise as a benchmark for deposit insurance. This is a dramatic change from the early 1980's when it seemed the Fund was on the brink of bankruptcy and double insurance premiums at double the cost to the credit union was the rule. NCUA, working with CUNA, NAFCU and individual credit union leaders, developed a capitalization plan that permitted credit unions to solve their own problems in the credit union tradition without a government bail-out. Congressional leaders, including Senate Banking Committee Chairman Jake Garn, who sponsored the capitalization legislation, and House Banking Committee Chairman Fernand St Germain, have hailed the plan and suggested that it could serve as a model for other deposit insurance funds.

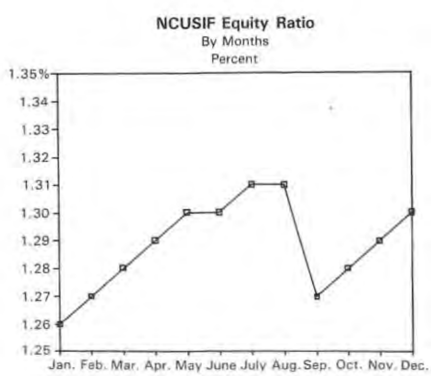
Conversions to NCUSIF Insurance from Private Insurance

In 1985, there were a number of developments which resulted in a mass conversion from private insurance to the NCUSIF insurance. Private deposit insurers in Maryland and Ohio failed and the savings of thousands of depositors were frozen. The collapse of these two private insurers caused hundreds of credit unions to switch from private to federal insurance in order to prevent the withdrawal of their members' shares and to restore their members' confidence in the credit union. Applications from 600 state-chartered credit unions for federal share insurance have been received by the NCUSIF since the first of the year. The 600 credit unions hold $8.5 billion in shares of which $4 billion have already been approved for NCUSIF insurance. NCUSIF coverage of the remaining $4.5 billion awaits pending examinations or on-site contacts by NCUA examiners. Another $2 billion in applications from the state credit unions are expected within the next 2 or 3 months. Of the estimated $18 billion in shares insured by private deposit insurers as of December 31, 1984, almost 60% have applied for federal insurance.









Income

The NCUSIF generated $100 million in gross income for fiscal year 1985. Most of this was income from investments, with lesser amounts from insurance premiums and from charges for private-to-federal conversion examinations. The NCUA Board waived insurance premiums of $70 million in January 1985, which would have been additional income.

Administrative Expense

Expenses for fiscal year 1985 totalled $10.9 million, little changed from the last 3 years. This reflects NCUSIF's continued emphasis on keeping costs under control. As a percentage of total revenue, administration expense declined from 11.4% in 1984 to 10.9% this year.

Insurance Losses

Losses or costs associated with mergers, liquidations and other problems totalled $25 million in fiscal year 1985, the lowest since 1979. Included in these loss figures are reserves for potential losses that the NCUSIF has determined are necessary for full and fair disclosure.

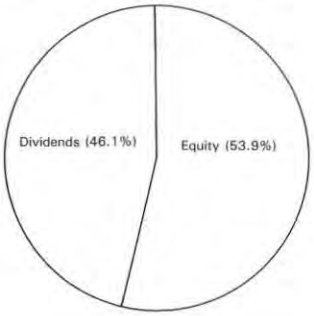
Net Income

After all expenses, including reserves, were charged, the Insurance Fund had a net income of $64 million, the highest in NCUSIF history.

Equity Ratio

This equity ratio is the total of Insured Credit Union Accumulated Contributions and the NCUSIF's retained earnings divided by total insured shares. Credit unions contribute 1% of their insured shares and the NCUSIF contributes from its income to keep the Fund balance a .3%. The equity ratio changed in fiscal year 1985 from a low of 1.26%, in January 1985 to 1.32% in September 1985 prior to the distribution of a dividend. After paying a dividend, the equity ratio dropped to 1.28%, but by December 31, 1985, net income is projected to bring the level back to 1.30%.

NCUSIF Distribution of Earnings
FY 1985



Dividend of 5% and Waiver of Insurance Premium

Because of the Fund's performance, the NCUA Board was able to take positive actions on the dividend and insurance premium. For the first time ever, the NCUSIF paid a dividend. This dividend was paid to each member of the Fund and represents about $30 million in equity distribution. For the second straight year, the NCUA Board waived the insurance premium, which would have cost credit unions $90 million in January 1986.

Credit Unions are Returned $275 Million in Tangible Benefits

The NCUSIF has been involved in actions that, in essence, returned in some form almost $275 million to credit unions: the $84 million equity distribution, the $70 million insurance premium waiver for last year, the $30 million dividend, and leading into next year, a $90 million insurance premium waiver.

Federally Insured Credit Unions

NCUSIF is the nation's largest insurer of credit union shares. Currently, it insured an estimated 90% of all share deposits in U.S. credit unions. In addition to NCUSIF, there are 14 state credit union insurance or guaranty corporations, of which three operate in more than one state. These corporations insure or guarantee approximately 2,800 credit unions with shares in excess of $11.5 billion. (Approximately $4.5 billion of applications for conversions are currently pending.) This amount represents 10% of all credit union shares. Approximately 50 credit unions in the U.S. currently operate without some form of share insurance or guarantee.

Changes in NCUSIF-Insured Credit Unions

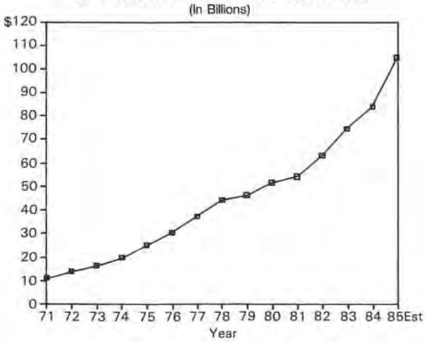
	Federal Credit Unions	Federally Insured State Credit Unions	Total
Beginning Number – 10/1/84	10,640	4,722	15,362
Additions:			
New Federal Charters	45	—	45
New State Charters with Federal Insurance Certificates	—	33	33
Conversions	20	232	252
Resumed Operations	78	17	95
Subtractions:			
Mergers:			
Assisted	51	12	63
Voluntary	370	144	514
Liquidations:			
Involuntary	25	6	31
Voluntary	56	21	77
Purchases and Assumptions	2	2	4
Conversions	8	29	37
Other	16	14	30
Ending Number – 9/30/85	10,255	4,776	15,031
Net increase (decrease)	(385)	54	(331)

The total number of federally insured credit unions declined by 331, or 2.2% during the 12-month period ending September 30, 1985. This is the 6th year in a row that a substantial number of mergers and/or liquidations caused a reduction in the number of federally insured credit unions. In 1985, mergers again accounted for most of this decline. There were a total of 577 mergers in the year which continued the downward trend which began in 1983 (706) and then in 1984 (642). The number of liquidations (most were voluntary) increased for the first time since 1982 with 108 credit unions liquidating in 1985 as compared to 100 in 1984.

The major event of the year was the reversal of the trend of converting from federal to private or state share insurance corporations. During the 12-month period ending September 30, 1985, 232 state-chartered credit unions applied and were granted federal share insurance. In addition, a significant number of insurance applications are currently under review by NCUA.

NCUSIF-insured natural person credit unions continued to reflect significant share growth in 1985. It is estimated that shares will increase to close to $105 billion by December 31, 1985. This is an increase of 24.6% from the previous year-end. The average natural person credit union will have an estimated $7.0 million in shares, an increase of 136% since December 31, 1980.

Shares in Natural Person Credit Unions
(In Billions)



Share Growth in NCUSIF-Insured Natural Person Credit Unions
(dollars in millions)

December 31	Shares Outstanding: Federal Credit Unions	Shares Outstanding: State Credit Unions	Shares Outstanding: Total	Percentage Change from Prior Year – Total Shares
1971	$ 9,191	$ 1,699	$ 10,890	—
1972	10,956	2,887	13,843	27.1%
1973	12,598	3,735	16,333	18.0
1974	14,371	5,192	19,563	19.8
1975	17,530	7,443	24,973	27.7
1976	21,130	9,223	30,353	21.5
1977	25,576	11,757	37,333	23.0
1978	29,803	14,316	44,119	18.2
1979	30,768	15,554	46,322	5.0
1980	33,812	17,730	51,542	11.3
1981	35,250	18,902	54,152	5.1
1982	41,352	21,638	62,990	16.3
1983	49,889	24,850	74,739	18.7
1984	57,927	26,327	84,254	12.7
1985	**69,731***	**35,269***	**105,000***	**24.6***

* Estimated for 12/31/85

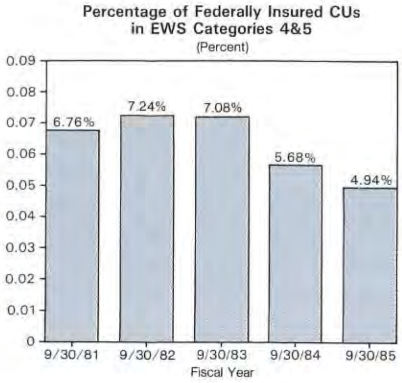
Financial Status of Federally Insured Credit Unions

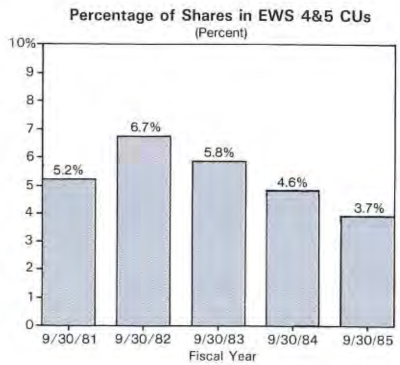
Over the past several years, more and more of NCUA staff time has been dedicated to the safety and soundness of insured credit unions. NCUA's system for monitoring each credit union's financial trends is interrelated with supervisory activities into an integral part of the management of the Insurance Fund. Specific supervisory activities include annual on-site examinations of all federal credit unions, coordinated supervisory involvement with state regulators in insured state-chartered credit unions, reviews of the semiannual financial report filed with NCUA by all insured credit unions, analyses of financial performance reports prepared by NCUA from the Call Reports, and supervisory visits as needed. Experienced examiners and analysts periodically assign each credit union an Early Warning System (EWS) rating based upon the analysis of this data. The EWS classifications are as follows:

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

A credit union receives increased supervisory attention as its EWS Code increases. A Code 1 or 2 usually has an annual examination and an occasional examiner contact. Code 3's have an annual examination, the examination usually taking longer than on a Code 1 or 2, and in general the examiner will make a follow-up examination or contact. Because Insurance Fund losses almost always arise in credit unions classified Code 4 or Code 5, close attention is devoted to them. As soon as a credit union drops to a Code 4 or 5 status, it receives frequent on-site visits by its regular examiner. If the credit union's problems persist, it is referred to the Special Actions unit in the regional NCUA office supervising that credit union. Experienced Special Actions troubleshooters then start working with the management and directors of that credit union to turn it around.

Although the total number of insured credit unions dropped during the year, the EWS classification trends continued to be favorable during fiscal year 1985. The number of Code 4 and 5 credit unions decreased 15% during the year, from 872 to 742. As a percentage of total credit unions, the number of credit unions in these two categories decreased from 5.7% to 4.9%. Although insured shares in Code 4 and 5 credit unions decreased slightly during the year from \$4.07 billion to \$4.06 billion, these figures represented a decline from 4.6% to 3.7% of total NCUSIF-insured shares.





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

EWS Category	As of 12/31/81	As of 12/31/82	As of 9/30/83	As of 9/30/84	As of 9/30/85
Codes 1 & 2	10,920	10,823	11,030	10,718	10,736
3	4,931	4,850	3,909	3,772	3,553
4	947	939	995	782	681
5	202	158	129	90	61
Totals	**17,000**	**16,770**	**16,063**	**15,362**	**15,031**

Percentage of Shares by EWS Category

EWS Category	As of 12/31/81	As of 12/31/82	As of 9/30/83	As of 9/30/84	As of 9/30/85
Codes 1 & 2	79.3%	77.4%	81.1%	80.0%	77.3%
3	15.0	15.2	13.0	15.4	19.0
4	5.0	6.7	5.4	4.1	3.4
5	.7	.7	.5	.5	.3
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The Fund also uses these EWS ratings to help determine how much to reserve or set aside for anticipated cash outlays in currently operating credit unions. Loss reserves are established on a case-by-case basis for Code 4 and 5 credit unions with shares in excess of $10 million. Statistical methods are used to establish a reserve pool for probable losses in smaller Code 4 and 5 credit unions.

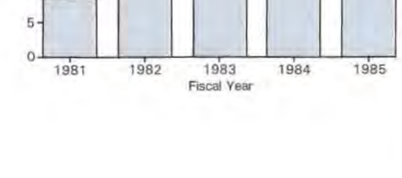
Assistance to Operating Credit Unions

Apart from its regulatory powers, the Agency can extend various types of financial assistance to troubled credit unions. All of these tools have one objective – to get the credit union back into the black in the shortest time possible, without major losses to the Insurance Fund.

A substantial amount of time is given by Agency staff to those credit unions that represent the most extreme exposure to the Insurance Fund. Generally, these are the credit unions that have received financial assistance from the Insurance Fund, and as of September 30, 1985, there were 47 such credit unions with total shares of $1.36 billion. As of the fiscal year-end, the Insurance Fund has provided these 47 credit unions with the following assistance: Guaranty Accounts – $39.7 million, Capital Notes – $33.1 million, other cash assistance $.2 million. By September 1985 most of these credit unions had achieved profitability, and only three were still losing money consistently. These figures reflect well on the dedicated Agency staff and credit union management who have worked together diligently to resolve the financial problems of these credit unions. As a result of this teamwork, most of these credit unions will be saved. Although a few of them may have to be merged or liquidated, the losses to the Insurance Fund will be much less than if the actions mentioned above had not been taken.

Financial Assistance

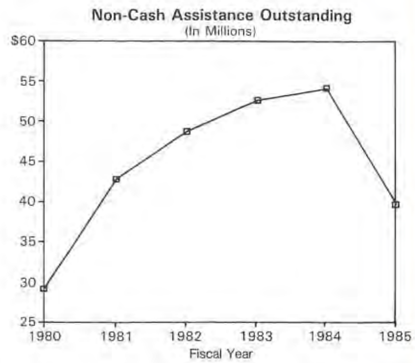
The Agency provides two major categories of financial assistance — cash and non-cash — to financially-troubled credit unions. Both types of assistance are authorized under Section 208 of the Federal Credit Union Act. For the first time in 11 years for non-cash and in 5 years for cash, year-to-year assistance has decreased.



Cash Assistance

The Insurance Fund can provide three types of cash assistance. Capital Notes consititute the bulk of this assistance. Under this program, cash is advanced to a credit union in exchange for a subordinated note that is usually interest free. This cash infusion improves the credit union's liquidity. It also can be used to acquire income-producing assets to offset the impact of non-earning assets for accumulated losses. Capital notes contain specific repayment schedules that reflect the earnings improvement projected for that credit union. At September 30, 1985, the Insurance Fund held $33.1 million of Capital Notes from 12 credit unions. Since the inception of the Capital Notes program in 1982, the NCUA Board has approved notes totaling $46.4 million, of which $43.6 million had been disbursed and $10.5 million repaid as of September 30, 1985. The amount of cash assistance decreased by 9% since September 1984.

The Insurance Fund occasionally provides liquidity by extending an interest-bearing loan to a less-troubled credit union or by placing a share deposit in it. At September 30, 1985, outstanding loans and share deposits totaled $.2 million, down $3.0 million from the previous year-end. The Insurance Fund can also provide liquidity by purchasing certain types of assets. Fidelity bond claims have been purchased whenever the event leading to the claim seriously drained the credit union's cash. In April 1983, the Insurance Fund purchased a Penn Square National Bank Receiver's Certificate to facilitate an assisted merger. A $2.35 million net balance remained on the certificate at September 30, 1985.



Non-cash or Guaranty Account Assistance

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

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

The table below sets out the Insurance Fund's Guaranty Account activity during the 1985 fiscal year. The fiscal year-end total represents the approximate total negative net worth on September 30, 1985 of the 47 credit unions in that condition. These credit unions accounted for just .31% of the 15,031 NCUSIF-insured credit unions operating on that date. Together they had shares of $1.3 billion, or 1.2% of the total shares of all NCUSIF-insured credit unions. The number of credit unions with Guaranty Accounts decreased 34% during 1985 and the amount of guaranty assistance outstanding was reduced by 27%. This is the first decrease in 11 years.

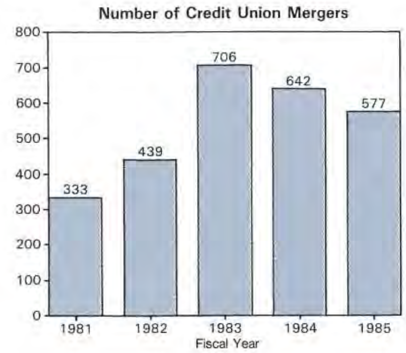
Change in NCUSIF Guaranty Accounts Oustanding

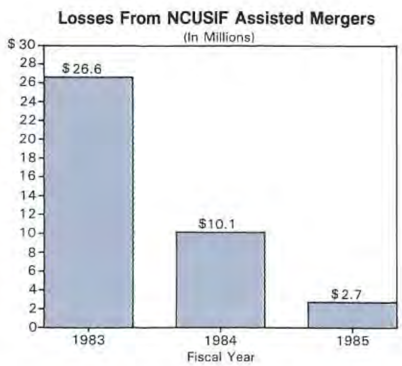
(amounts in thousands)

Guaranty Accounts Outstanding — September 30, 1984 (71 cases)	$54,213
Increases	
8 credit unions needed initial assistance	5,435
12 credit unions needed additional assistance	5,265
Decreases	
4 credit unions merged/liquidated	(1,343)
28 credit unions completed amortization of guarantees	(5,733)
Credit unions reduced guaranty	(18,159)
Guaranty Accounts Outstanding — September 30, 1985 (47 cases)	**$39,678**

Guaranties Outstanding by Number and Type of Credit Union at September 30, 1985:

	Number		**Amount Outstanding (000's)**	
Federal Credit Unions	31	(66%)	$27,984	(71%)
Federally Insured State Credit Unions	16	(34%)	11,694	(29%)
Totals	**47**		**$39,678**	





Mergers

For fiscal year 1985, there were 577 mergers, compared to 642 in 1984. This modest reduction in merger activity reflects the continuance of improved economic conditions, resulting in fewer layoffs and plant closings in the credit union community.

Most credit union mergers over the last several years have been voluntary, 89% in 1985 and 86% in 1984. They are consummated without cost to the Insurance Fund. A voluntary merger is feasible when a credit union has recently lost all or part of its field of membership or otherwise is no longer economically viable.

Credit union mergers are preferable to liquidations. They ensure that the members of an acquired credit union will continue to be served by a credit union. Mergers are less disruptive to the credit union community than liquidations. Also, assisted mergers cost the Insurance Fund less than involuntary liquidations.

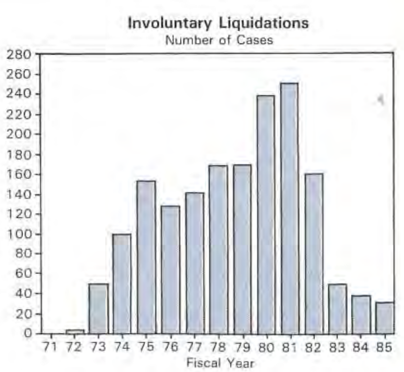
The ratio of credit union mergers to liquidations has increased substantially in recent years. During the late 1970's, liquidations sometimes exceeded mergers. However, during the past few years, the ratio of mergers to liquidations has increased favorably due to more flexible membership policies. For 1985, there were approximately 18 mergers for every one liquidation.

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

In 1985, 63 credit unions required assistance from the Insurance Fund. Of this total, 81% of these credit unions were federal credit unions with total assets of $32,611,000. More than 69% of the assisted mergers required cash assistance without a guarantee agreement. The average cost per assisted merger in 1985 was $43,000 compared to $109,000 in 1984. The following table summarizes assisted merger activity for fiscal year 1985.

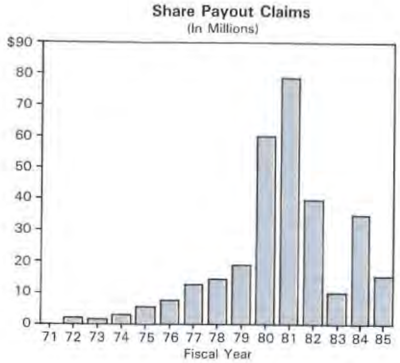
Assisted Mergers Fiscal Year 1985

Acquired Credit Union Acquired Credit Union	Date Approved	Shares in Acquired Credit Union	Estimated NCUSIF Loss	Loss as Percentage of Shares
Mergers with Losses over $100,000:				
Clark Floor Machine Employees CU Kaydon FCU	2/28/85	$ 639,983	$ 150,000	23.4%
Story & Clark Employees CU Bastain Blessing Employees CU	8/28/85	284,580	294,385	103.4
Transportation Employees FCU Detroit Municipal CU	6/12/85	1,303,086	150,000	11.5
McEvoy Employees CU A FCU	12/3/84	660,836	117,000	17.7
Paterson Spanish American FCU North Jersey FCU	12/31/84	459,529	105,058	22.9
New Jersey Blues FCU Advanced Financial FCU	10/1/84	292,593	104,000	35.5
Warner Employees CU Dana Corporation FCU	7/31/85	3,208,172	100,000	3.1
All Other Assisted Mergers – 56 Cases		24,270,289	1,710,353	7.0
Totals – 63 Cases		**$31,119,068**	**$2,730,796**	**8.8%**



Liquidations

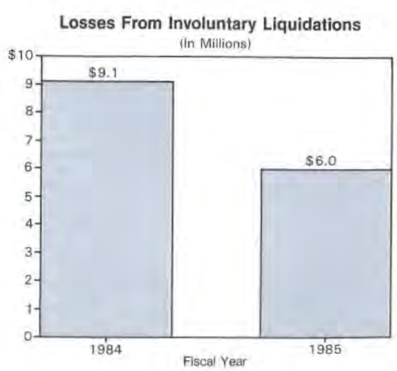
Credit unions are liquidated only when they cannot be merged with another credit union. Mergers usually cannot be arranged when the failing credit union is too small, has severe asset quality problems, and/or does not have a readily transferable membership base. A board of directors' lack of interest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



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

As can be seen from the next table, the number of involuntary liquidations declined for the fourth consecutive year in 1985. This year's 31 cases were down from 1984's 38 cases and the 1981 peak of 251. The trend of share payouts is not as conclusive, but does indicate that the liquidations which occurred during 1984 and 1985 involve larger credit unions.

Fiscal Year	1980	1981	1982	1983	1984	1985
Number of Involuntary Credit Union Liquidations Commenced	239	251	160	50	38	31
Number of Shareholders Paid	113,333	142,918	72,331	21,614	21,623	12,641
Shares Paid (thousands)	$59,957	$78,639	$39,892	$9,954	$34,840	$15,499
Percentage of Shares Paid to Total Shares in NCUSIF-Insured Credit Unions	.110%	.136%	.058%	.012%	.041%	.015%
Average Payout Per Credit Union Liquidated (thousands)	$250.9	$313.3	$249.3	$199.1	$916.8	$500.0



As shown in the next table, the total estimated loss for this year's liquidations is approximately $6 million. This is a 34% reduction when compared to the $9.1 million estimated loss for 1984.

Involuntary Liquidations: Fiscal Year 1985

Liquidated Credit Union	Date of Liquidation	Shares Outstanding When Credit Union Closed	Estimated NCUSIF Loss [1]	Loss as Percentage of Shares
Liquidations with Losses over $100,000:				
Financial Services CU	10/31/84	$1,056,453	$ 778,251	73.7%
Optical FCU	11/1/84	1,136,212	399,874	35.2
First Age Enlightenment CU	1/21/85	2,525,150	598,386	23.7
I.A.S.A. CU	2/15/85	918,653	223,558	24.3
Texas Court Reporters FCU	5/7/85	624,408	115,335	18.5
Twin Lakes FCU	5/20/85	7,145,735	3,387,711	47.4
All Other Involuntary Liquidations		2,091,967	512,386	24.5
Totals – 31 Cases		**$15,498,578**	**$6,015,501**	**38.8%**

[1] Final loss figures may differ slightly from estimated losses.

The Insurance Fund's largest liquidation loss for 1985 was through the failure of Twin Lakes Federal Credit Union of Mountain Home, Arkansas. This liquidation cost the Insurance Fund $3.4 million or 57% of the total estimated loss for the year. Twin Lakes Federal Credit Union was chartered in late 1982 to serve the residents of Baxter and Marion Counties, Arkansas. This credit union grew rapidly to assets of $6.3 million within the first 7 months of its existence. Poor lending practices, loan delinquency and recordkeeping problems occurred during this period of rapid growth and led to profitability, liquidity and related problems. In addition, rumors circulated through the local news media of insider dealing, poor financial condition, liquidity problems; internal strife among the board of directors fueled a general fear and lack of confidence in the credit union by the membership. As a result, shares began to flow out of the credit union, increasing the liquidity pressure. Attempts to merge the credit union failed due to the remote rural location of the credit union and the financial problems now plaguing the credit union. The critical financial and operational problems coupled with the general lack of confidence of the community in the credit union left the Insurance Fund with no alternative but to liquidate the credit union.

Liquidation Recoveries

Substantial improvements have been made in converting assets acquired in credit union liquidations to cash. Until early 1981, Insurance Fund personnel attempted to collect or otherwise liquidate these assets, most of which were consumer installment loans made by the failed credit unions. From 1981 to 1983, the Fund relied primarily on commercial collection agencies. In 1983, the Fund adopted a new policy of selling acquired assets as quickly as possible, frequently to credit unions located near the failed one. The Fund's management has found that these quick sales, using competitive bidding, have improved the recovery percentage in these liquidations. Equally important, the asset sales minimize the administrative time devoted to each failed credit union. By lessening the time spent on past problems. These policy changes led to the termination of the Fund's collection staff, which once totaled 50 people. Collection expense, which hit $1.8 million in 1982, has been eliminated.

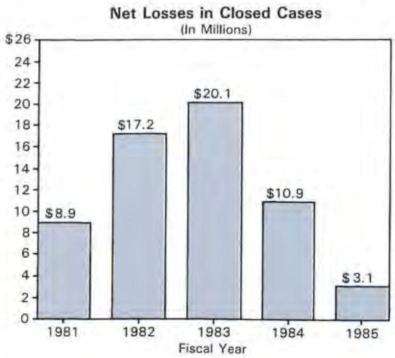
During 1985, the Insurance Fund closed 34 liquidation cases, some of which were failures in earlier fiscal years. The following table summarizes these cases.

Liquidation Recoveries
(Cases Closed During Fiscal Year 1985)

	Number of Credit Unions	Shares When Credit Union Closed (millions)	Total Recoveries (millions)	Recovery Percentage
Federal Credit Unions	25	$8.2	$5.9	72.0%
NCUSIF-Insured State Credit Unions	9	1.0	.2	0.2
Totals	**34**	**$9.2**	**$6.1**	**66.3%**

The 66.3% recovery percentage for the 1985 closures is quite good given the small size of most of the cases. The average case had total shares of $271,000 at the time it was closed, which equals about 4% of average credit union's total shares.

The next table sets out a 5-year history of closed liquidation cases. The overall recovery percentage declined slightly compared to 1984. This can be attributed to a dramatic reduction in recoveries in the state-chartered credit union liquidations. The recovery percentage in federal credit union liquidation cases closed in 1985 was the largest since 1983.



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)
1981	67.2%	65.8%	66.8%	$ 8.9
1982	64.8	51.6	61.0	17.2
1983	74.1	32.4	66.4	20.1
1984	66.9	72.0	67.3	10.9
1985	72.0	0.2	66.3	3.1

Purchase and Assumptions

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

P&As are seldom used because they are complex transactions that take longer to complete than a liquidation or an assisted merger. They usually are entered into when an assisted merger cannot be negotiated and a liquidation would be more expensive. In 1985, there were eight new P&A cases, compared to eight in 1984 and nine in 1983.

The table below summarizes the eight new P&A cases in 1985 assisted by the Fund. The total shares involved in 1985's P&A cases were almost twice as many as those in the eight 1984 cases. The Insurance Fund's percentage of loss in the 1985 P&A cases was 9.1% compared to 4.0% in 1984.

Purchase and Assumption Cases Fiscal Year 1985

Acquired Credit Union / Acquiring Credit Union	Date Approved	Shares in Acquired Credit Union	Estimated NCUSIF Loss	Loss as Percentage of Shares
P&A Cases with Losses over $100,000:				
Daybreak FCU / Alliance FCU	12/20/84	$ 3,575,958	$ 1,377,216	38.5%
Duluth Western CU / Cloquet Co-op CU	11/26/84	3,210,151	702,498	21.9
AFL-CIO CU / Central Florida Educators FCU	2/8/85	2,629,356	300,000	11.4
Center Place Savings CU / Steel Workers FCU[1]	7/9/85	7,501,710	150,000	2.0
Hawkeye CU / Mid-American CU[1]	4/19/85	10,509,467	180,000	1.7
All Other P&A Cases – 3		3,968,454	156,000	3.9
Totals – 8 Cases		**$31,395,096**	**$2,865,714**	**9.1%**

[1] Asset guarantee.

Asset Guarantee Contracts

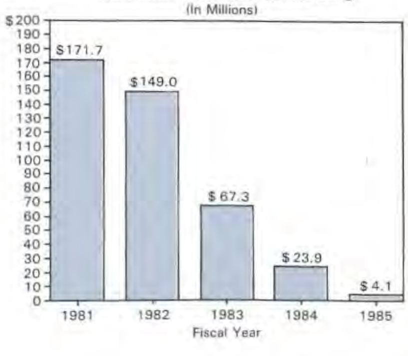
Until 1981, the Insurance Fund routinely guaranteed the full value of loans and other assets of liquidated credit unions sold to third parties. These guarantees would also be granted when assets were acquired by another credit union in an assisted merger or purchase and assumption transaction. Consequently,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

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

Asset Guarantee Contracts – Cumulative History
(dollars in thousands)

	1971 – 1985
Number of Guarantee Contracts Written	1,696
Book Value of Loans and Other Assets Guaranteed	$553,665
Amount of Guarantees Issued	$301,618
Disbursements under Guarantee Contracts	$62,951
Guarantee Contracts Outstanding (Contingent Liability) on 9/30/85	$4,131
Guarantees Issued as Percentage of Book Value of Assets Guaranteed	54.5%
Loss Ratio on all Contracts (Disbursements as a Percent of Guarantees)	20.9%

Guarantee Contracts Outstanding
(In Millions)



During 1985, the number of loan and asset guarantee contracts written by the Insurance Fund declined significantly. There were 21 guarantees written in 1985, down from 68 in 1984. These new guarantees amounted to $3,172,593, representing 18% of the book value of the assets guaranteed. In 1985, strong team efforts were continued by NCUA staff and credit unions to reduce the Fund's insurance losses through means of successful guarantee negotiated settlements. As a result, there were only 14 remaining guarantee contracts outstanding as of September 30, 1985, compared to 260 guarantees in 1984. The Fund's contingent liabilities under these guarantees dropped from $23.9 million in 1984 to $4.1 million at year-end 1985, for which a reserve for estimated losses of $2,200,000 has been established. The cumulative disbursements on guarantees during 1985 totaled $11.4 million. Of this amount, 68.7% accounted for negotiated settlements, up approximately 28% from the previous year. The loss ratio on all guarantees was 20.9% compared to 17.3% in 1984.

Financial Summary

Overview

Fiscal Year 1985 was a year of historical change for the National Credit Union Share Insurance Fund. As previously discussed, the Deficit Reduction Act of 1984 required all federally insured credit unions to capitalize the Insurance Fund in January 1985 by contributing 1% of their insured shares into the Fund. This resulted in a fourfold increase in equity from $285 million to $1.1 billion. As projected, the additional amount of investment income earned as a result of the capitalization enabled the NCUA Board to waive collection of the annual insurance premium for 1985, and declare the Fund's first dividend payable September 30, 1985, to all depositors. The dividend, set at 5%, amounted to a $29.4 million return to all federally insured credit unions, and combined with the 8.3% yield credit unions effectively earned by waiver of the premium, resulted in a total return of over 13% to credit unions.

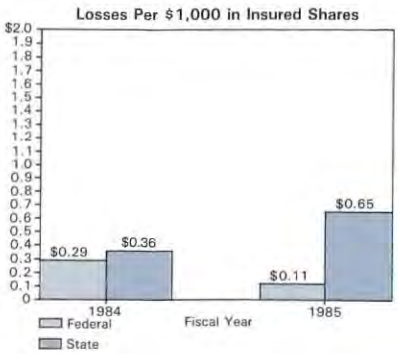
Total income of $100.2 million for this year was $9 million greater than the previous fiscal year. While this is a modest increase, it is significant in that only 16% of this year's total income, compared to 66% for fiscal year 1984, was derived from insurance premiums which have traditionally been the main source of income for the Fund. For fiscal year 1985, approximately 84% or $83.8 million of total income was generated from investments compared to $30.9 million for last year. The increase in investment income can be attributed to $800 million in new investments made from the accumulated capital contributions received from credit unions.

Total expenses declined for the third consecutive year to $36.4 million compared to $40.8 million for fiscal year 1984. This decrease is primarily the result of a reduction in the Fund's provision for insurance losses for the year. These costs are those incurred when reserves are established to protect the Fund from potential losses from supervised credit unions falling in the EWS Code 4 or 5 categories.

Summary of Reserves Established for Potential Losses from Supervised Credit Unions

(amounts in thousands)

	Fiscal Year 1983	Fiscal Year 1984	Fiscal Year 1985
Reserves – Beginning of Fiscal Year (October 1):	$10,485	$43,833	$45,700
Net Charges for Fiscal Year	(21,712)	(26,201)	(23,772)
Provision for Insurance Losses	55,060	28,068	25,472
Reserves – End of Fiscal Year (September 30):	$43,833	$45,700	$47,400



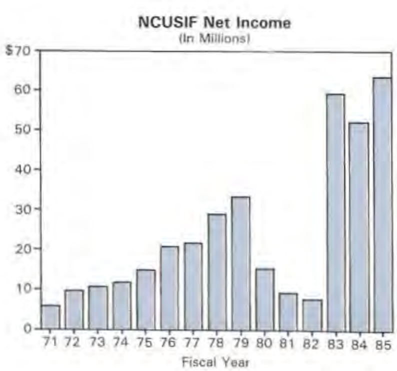
For fiscal year 1984, total insurance losses equalled $0.31 for every $1,000 of insured shares. Broken out between federal credit unions and federally insured state credit unions, the insurance loss per $1,000 equalled $0.29 and $0.36 respectively. In fiscal year 1985, total insurance losses declined to $0.27 per $1,000 of insured shares, but as the accompanying graph illustrates, losses in federally insured state credit unions increased to $0.65 per $1,000, while the losses in federal credit unions declined to $0.11. The trends are being analysed to determine the underlying causes.

The remaining category of costs making up total expenses are those administrative costs incurred by operating the Fund. These costs have remained relatively stable for the year at $10.9 million. These administrative costs fall into two components: direct and allocated. Direct costs are those incurred by the Fund's full-time employees. However, much of the Fund's examination and supervision work is performed by agency employees whose cost is allocated to the Fund. The Fund transfers cash to the operating fund to cover these allocated expenses. Over the past 6 years, the amount of direct and allocated expenses have been as follows:

Insurance Fund Direct and Allocated Operating Expense

(amounts in thousands)

Fiscal Year	1980	1981	1982	1983	1984	1985
Direct Expenses	$2,145	$2,245	$2,873	$2,395	$2,353	$2,858
Allocated Expenses	6,187	7,069	7,940	7,920	8,173	8,069
Total Operating Expenses	$8,332	$9,314	$10,813	$10,315	$10,426	$10,927
% of NCUA Total Expenses	32.4%	30.5%	34.0%	33.2%	32.5%	33.8%



Net income before dividends of $63.8 million was 27% greater than the previous year and reflected the highest earnings in the Fund's history. This increase in net income was accomplished with only a 10% increase in gross income. This reflects our control of financial costs and the fact that non-earning assets of the Fund have been reduced from 16.1% as of September 30, 1984 to 5.8% as of September 30, 1985. Net income during NCUSIF's 15 years of operation has always been positive.

Investments

Title II of the Federal Credit Union Act permits the Fund to invest in interest-bearing securities of the United States or in securities guaranteed as to both principal and interest by the United States. The investment portfolio includes U.S. Treasury 1-day certificates, bills and notes. The primary objective of the Fund is to provide adequate liquidity to meet the Fund's operational needs, then to actively manage the portfolio within the established maturity limits to obtain maximum yield. During January 1985, the Fund received $760 million in capitalization deposits from federally insured credit unions. The bulk of these funds were invested in Treasury notes with maturities not exceeding 2 years. The average maturity of the Fund on September 30, 1985, was 428 days, compared to 226 days a year earlier. Nearly 53% of the portfolio will mature in less than 1 year. Over the next 6 months, the maturity of investments will be arranged to provide an evenly maturing portfolio out to 4 years.

During fiscal year 1985, the Fund's average investment yield was 10.99%, or 198 basis points above the 8.11% average 90-day T-Bill yield during the fiscal year. This is a 167 basis point improvement over 1984's spread between investment performance and the 90-day Treasury Bill rate. The market value of the portfolio at year-end exceeded book value by $19.7 million.

Equity

In 1985, total Fund equity grew from $285 million to $1.1 billion. This was the result of the $760 million in capitalization deposits received in January combined with an additional $39 million received from credit union conversions, and net earnings of $64 million for the year. Dividends of $29 million equated to a payout ratio of 46% of net income for 1985. At December 31, 1984, the equity ratio was .36%. This ratio has increased to 1.28% as of September 30, 1985 and will be 1.30% by December 31, 1985.

Financial Reporting Practices of the NCUSIF

The Insurance Fund has now completed 3 years of full accrual accounting under Generally Accepted Accounting Principles (GAAP). GAAP for any insurance program requires adequate estimates, for known and anticipated losses. With regard to NCUSIF accounting under GAAP, two such estimates are required: One estimates future cash outlays under guarantees issued when credit unions are merged with assistance or their assets are sold to third parties. The other estimates future losses from problem credit unions, i.e., those currently classified as "weak" or "unsatisfactory."

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

The Fund's adherence to GAAP is unique among the federal deposit insurers. Compliance with GAAP also goes beyond the Fund's Congressional and General Accounting Office reporting requirements. 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 Ernst & Whinney, a "Big Eight" accounting firm, to audit the Fund's financial statements, which include loss estimates. Ernst & Whinney's unqualified opinion on the Fund's financial statements is shown in full in this report.

Report of Ernst & Whinney, Independent Auditors

National Credit Union Administration Board
Washington, D.C.

We have examined the balance sheets of the National Credit Union Share Insurance Fund (Fund) as of September 30, 1985 and 1984, and the related statements of operations, insured credit union accumulated contributions and fund balance, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, financial statements referred to above present fairly the financial position of the Fund at September 30, 1985 and 1984, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Washington, D.C.
November 15, 1985

Ernst & Whinney

Balance Sheets
National Credit Union Share Insurance Fund

	September 30 1985	1984
ASSETS		
Investments in U.S. Government Securities —Note D	**$1,138,358,972**	$308,965,764
Advances to credit unions:		
Capital notes	**33,070,299**	33,211,507
Share deposits and loans	**195,956**	3,201,613
	33,266,255	36,413,120
Assets acquired from credit unions, at estimated net realizable value:		
Liquidating credit union assets	**13,092,601**	16,327,630
Receivers certificate	**2,354,781**	2,354,781
Amount due from bond claims and loans	**-0-**	1,336,505
	15,447,382	20,018,916
Cash	**1,970,197**	4,149
Accrued interest receivable	**19,439,352**	2,405,306
Other assets	**176,332**	311,209
TOTAL ASSETS	**$1,208,658,490**	$368,118,464
LIABILITIES		
Due to NCUA–Operating Fund–Note F	**$ 349,926**	$ 199,151
Dividends payable–Note C	**29,418,372**	-0-
Amounts due to insured credit union shareholders	**9,475,332**	9,186,133
Deferred insurance premium income	**-0-**	15,640,432
Estimated losses from supervised credit unions–Note A	**47,400,000**	45,700,000
Estimated losses from asset and merger guarantees	**2,200,000**	10,800,000
Other liabilities	**368,485**	1,052,487
TOTAL LIABILITIES	**89,212,115**	82,578,203
Insured credit union accumulated contributions–Note C	**883,384,003**	-0-
Fund balance	**236,062,372**	285,540,261
	$1,119,446,375	$285,540,261
TOTAL LIABILITIES ACCUMULATED CONTRIBUTIONS, AND FUND BALANCE	**$1,208,658,490**	$368,118,464

See Notes to Financial Statements

Statements of Operations
National Credit Union Share Insurance Fund

	Year Ended September 30 1985	1984
REVENUE		
Insurance premiums - Note B	**$ 15,715,779**	$60,184,640
Interest income	**83,788,781**	30,850,925
Other income	**708,016**	115,629
TOTAL REVENUE	**100,212,576**	91,151,194
EXPENSES		
Provision for insurance losses	**25,471,779**	28,068,219
Administrative expenses– Note F		
Employee benefits and wages	**7,330,842**	7,096,076
Travel expense	**1,406,207**	1,305,236
Facilities expense	**1,122,451**	1,097,138
Contracted services	**597,049**	458,917
Miscellaneous	**470,742**	468,119
Total Administrative Expenses	**10,927,291**	10,425,486
Loss on sale of investments	**-0-**	2,326,249
TOTAL EXPENSES	**36,399,070**	40,819,954
Excess of revenue over expenses	**$63,813,506**	$50,331,240

See Notes to Financial Statements

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

	Insured Credit Union Accumulated Contributions	Fund Balance
Balance at September 30, 1983		$235,209,021
Excess revenue over expenses		50,331,240
Balance at September 30, 1984		**285,540,261**
Initial insured credit union contributions	$799,510,980	
Fund balance designation – Note C	83,873,023	(83,873,023)
Excess of revenue over expenses		63,813,506
Dividends declared		(29,418,372)
Balance at September 30, 1985	**$883,384,003**	**$236,062,372**

See Notes to Financial Statements

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

	Year Ended September 30 1985	1984
SOURCES AND USES OF CASH AND INVESTMENTS FROM OPERATIONS		
Excess of revenue over expenses	**$ 63,813,506**	$ 50,331,240
Charges (credits) to net income not affecting cash and investments:		
Provision for insurance losses	**25,471,779**	28,068,219
Payments relating to losses from supervised credit unions and asset and merger guarantees	**(32,371,779)**	(37,559,574)
Deferred insurance premium income	**(15,640,432)**	2,392,826
Accrued interest receivable	**(17,034,046)**	(1,795,712)
INCREASE IN CASH AND INVESTMENTS FROM OPERATIONS	**24,239,028**	41,436,999
OTHER SOURCES AND (USES) OF CASH AND INVESTMENTS		
Initial insured credit union contributions	**799,510,980**	-0-
Dividends declared	**(29,418,372)**	-0-
Initial designation of fund balance	**(83,873,023)**	-0-
Initial designation to insured credit union contributions	**83,873,023**	-0-
	794,331,636	41,436,999
Decrease (increase) in:		
Advances to credit unions	**3,146,865**	(4,575,074)
Assets acquired from credit unions	**4,571,534**	(10,820,536)
Other assets	**134,877**	306,949
Increase (decrease) in:		
Due to NCUA-Operating Fund	**150,775**	(145,170)
Dividends payable	**29,418,372**	-0-
Amounts due to insured credit union shareholders	**289,199**	5,282,424
Other liabilities	**(684,002)**	856,146
	37,027,620	(9,095,261)

INCREASE IN CASH AND INVESTMENTS	**831,359,256**	32,341,738
Cash and investments at beginning of year	**308,969,913**	276,628,175
CASH AND INVESTMENTS AT END OF YEAR	**$1,140,329,169**	$308,969,913
Detail of cash and investments at end of year:		
Cash	**$ 1,970,197**	$ 4,149
Investments	**1,138,358,972**	308,965,764
	$1,140,329,169	$308,969,913

See Notes to Financial Statements

Notes to Financial Statements
National Credit Union Share Insurance Fund

September 30, 1985

NOTE A – ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (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 C. 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. These 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 correctible. This special assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is determined to be infeasible, a merger partner may be sought. If the assistance or merger alternatives are not considered practical, the credit union is liquidated.

In the first form of special assistance, waivers of statutory reserve requirements, 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

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

Advances to Credit Unions: The Fund provides cash assistance in the form of capital notes, share deposits, and loans to certain credit unions to assist them in continuing operations.

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

Deferred Insurance Premium Income: The Fund may assess each insured credit union a regular annual premium of 1/12 of 1% of member share deposits (insured member share deposits in the case of corporate credit unions) outstanding as of December 31 of the preceding year. Regular annual premiums assessed but not yet recognized as income are classified as deferred income. The NCUA Board waived the 1985 and 1986 share insurance premium.

Estimated Losses from Supervised Credit Unions: The Fund provides for estimated losses from credit unions identified through the supervisory and examination process as experiencing financial difficulty but not yet liquidated or merged. Loss estimates are determined by management based on a case-by-case evaluation.

Estimated Losses from Asset and Merger Guarantees: Estimated losses from asset (primarily loans) guarantees made to third-party purchasers or made to credit unions to facilitate mergers are determined by management based on a case-by-case evaluation. Guarantees outstanding at September 30, 1985 and 1984 were $4.1 million and $24 million, respectively, for which estimated losses of $2,200,000 and $10,800,000, respectively, had been provided.

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

NOTE C – 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 its insured shares to be paid initially by January 21, 1985, and to be adjusted annually thereafter. That amount will be returned to the insured credit union in the event that its insurance coverage is terminated, insurance coverage is obtained from another source, or the operations of the Fund are transferred from the NCUA Board. The aggregate contribution of $883,384,003 at September 30, 1985, is made up of $799,510,980 of initial insured credit union contributions and $83,873,023 of previously accumulated fund balance which has been designated by the NCUA Board as a component of insured credit union accumulated contributions.

The law requires that upon receipt of the 1% contribution, the total fund balance must be maintained at a normal operating level to be determined by the NCUA Board. The NCUA Board has determined this level to be 1.3% of insured shares. Based on the present fund balance the NCUA Board declared a dividend of $29,418,372 at September 30, 1985. In addition, the NCUA Board has waived the 1986 share insurance premium.

NOTE D – INVESTMENTS

Investments consisted of the following at September 30:

	1985	1984
U.S. Government Securities		
U.S. Treasury Notes	**$1,110,910,972**	$ 79,807,425
Overnight Market Base Certificate	**27,448,000**	14,757,000
U.S. Treasury Bills	**-0-**	214,401,339
Total Cost	**$1,138,358,972**	$308,965,764
Total Estimated Market Value	**$1,154,373,500**	**$308,975,000**

NOTE E – AVAILABLE CREDIT

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 1985 or 1984.

NOTE F – 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 on a monthly basis based on an estimate of actual usage. The cost of services provided by the NCUA Operating Fund was $8,069,244 and $8,173,657 for 1985 and 1984, respectively.

NOTE G – RETIREMENT PLAN

Employees of the Fund participate in the Civil Service Retirement System which is a contributory defined contribution retirement plan. Contributions to the plan are based on a percentage of employees' gross pay and were $436,000 and $432,000 for 1985 and 1984, respectively.

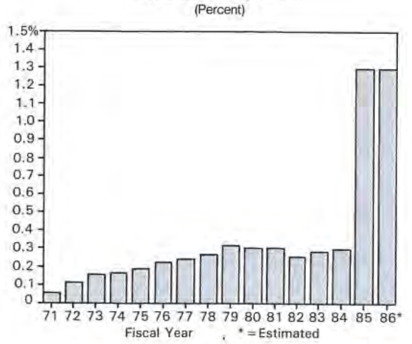
Financial History of NCUSIF

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

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

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

NCUSIF Equity Ratio
(Percent)



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

Without these special assessments, Fund equity would have fallen to almost half of the 1979 peak. While the assessments arrested the falling equity/insured shares ratio, they offered little prospect of reaching the 1% goal. Legislation was signed on July 18, 1984, providing for the capitalization of the Insurance Fund. By the time the capitalization plan was implemented in January 1985, the NCUA Board had waived the 1985 Insurance Premium and returned $84 million in equity to credit unions.

Legislative History

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

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

Organization

NCUA has a central office in Washington, D.C., and six regional offices in Boston, Massachusetts; Washington, D.C.; Atlanta, Georgia; Chicago, Illinois; Austin, Texas (Suboffice in Denver, Colorado); and San Francisco, California. Of the Agency's 610 employees, 496 are assigned to the region. The regional offices are responsible for examining and supervising all federal credit unions. They also administer the insurance program for all federal and federally insured state-chartered credit unions. The regional offices perform the initial reviews of insurance applications and requests for financial assistance under Section 208 of the Federal Credit Union Act. They also are responsible for performing continued insurability reviews and for making timely payment of insured member accounts in liquidation cases.

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

14-Year Trend

FISCAL YEAR	1972	1973	1974	1975	1976[5]	1977	1978
Income							
Regular Premium - Federal	$9,738	$7,895	$9,314	$11,237	$16,190	$17,053	$20,013
Regular Premium - State	[2]	3,829	3,557	4,223	7,722	7,572	9,617
Special Premium - Federal	—	—	—	—	—	—	—
Special Premium - State	—	—	—	—	—	—	—
Treasury Investments	497	1,089	2,259	3,207	5,091	5,447	7,051
Other	—	—	18	408	396	322	715
Total Income	$10,235	$12,813	$15,148	$19,075	$29,399	$30,394	$37,396
Expenses							
Operating	$596	$1,357	$1,740	$3,221	$6,139	$4,725	$5,175
Insurance Losses	1	864	1,589	290	1,596	3,025	2,557
Losses on Investment Sales	—	—	—	—	—	—	—
Other	—	1	131	554	911	730	613
Total Expenses	$597	$2,222	$3,460	$4,065	$8,646	$8,480	$8,345
Net Income	**$9,638**	**$10,591**	**$11,688**	**$15,010**	**$20,753**	**$21,924**	**$29,051**
Fiscal Year-end Data:							
Total Equity	**$15,559**	**$26,150**	**$31,968[3]**	**47,196[4]**	**$67,596[6]**	**$89,870**	**$118,921**
Equity as a Percentage of Shares in NCUSIF-insured Credit Unions	0.112%	0.160%	0.163%	0.189%	0.223%	0.241%	0.270%
Contingent Liabilities	**$1,691**	**$4,367**	**$1,044**	**$5,242**	**$7,157**	**$6,488**	**$10,213**
Contingent Liabilities as a Percentage of Equity	10.9%	16.7%	3.3%	11.1%	10.6%	7.2%	8.6%
Operating Ratios:							
Premium Income	95.1%	91.5%	85.0%	81.0%	81.3%	81.0%	79.2%
Investment Income	4.9%	8.5%	14.9%	16.8%	17.3%	17.9%	18.9%
Other Income	—	—	0.1%	2.2%	1.4%	1.1%	1.9%
Operating Expenses	5.8%	10.6%	11.5%	16.9%	20.9%	15.5%	13.8%
Insurance Losses	0.01%	6.7%	10.5%	1.5%	5.4%	9.9%	6.8%
Other Expenses	—	—	0.8%	2.9%	3.1%	2.5%	1.7%
Total Expenses	5.8%	17.3%	22.8%	21.3%	29.4%	27.9%	22.3%
Net Income	94.2%	82.7%	77.2%	78.7%	70.6%	72.1%	77.7%
Involuntary Liquidations Commenced:							
Number	4	50	100	153	128	142	168
Share Payouts	$ 2	$1,366	$2,838	$5,542	$7,527	$12,715	$14,244
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-insured Credit Unions	0.00002%	0.008%	0.015%	0.022%	0.025%	0.034%	0.032%
Mergers:							
Assisted[1]	—	—	—	—	—	—	—
Unassisted	54	54	76	196	198	191	196

Footnotes:

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

[2]Premiums were not separately recorded until 1973.

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

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

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

FISCAL YEAR	1979	1980	1981	1982	1983	1984	1985
Income							
Regular Premium - Federal	$23,563	$25,682	$27,657	$29,658	$33,878	$40,404	$10,508
Regular Premium - State	11,616	12,813	14,077	15,197	17,374	19,781	5,208
Special Premium - Federal	—	—	—	19,419	34,561	—	—
Special Premium - State	—	—	—	10,526	17,725	—	—
Treasury Investments	9,178	13,319	19,033	18,358	20,141	30,088	83,789
Other	1,579	1,718	1,655	1,883	1,357	878	708
Total Income	$45,936	$53,532	$62,422	$95,041	$125,036	$91,151	$100,213
Expenses							
Operating	$5,873	$8,332	$9,314	$10,813	$10,315	$10,426	$10,927
Insurance Losses	4,709	29,801	43,746	77,458	55,060	28,068	25,472
Losses on Investment Sales	—	—	—	1,805	1,796	2,326	—
Other	1,665	2,730	119	1,822	577	—	—
Total Expenses	$12,247	$40,863	$53,179	$91,898	$67,748	$40,820	$36,399
Net Income	**$33,689**	**$12,669**	**$9,243**	**$3,143**	**$57,288**	**$50,331**	**$63,814**
Fiscal Year-end Data:							
Total Equity	**$152,610**	**$165,620[8]**	**$174,716**	**$177,921**	**$235,209**	**$285,540**	**$1,119,446**
Equity as a Percentage of Insured Shares	0.320%	0.303%	0.302%	0.259%	0.292%	0.313%	1.28%
Contingent Liabilities[7]	**$18,913**	**$100,463**	**$171,716**	**$149,090**	**$67,338**	**$23,930**	**$4,131**
Contingent Liabilities as a Percentage of Equity	12.4%	60.7%	98.2%	83.8%	29.7%	8.4%	0.4%
Operating Ratios:							
Premium Income	76.6%	71.9%	66.9%	78.7%	82.8%	66.0%	15.7%
Investment Income	20.0%	24.9%	30.5%	19.3%	16.1%	33.0%	83.6%
Other Income	3.4%	3.2%	2.6%	2.0%	1.1%	1.0%	0.7%
Operating Expenses	12.8%	15.6%	14.9%	11.4%	8.3%	11.4%	10.9%
Insurance Losses	10.3%	55.7%	63.5%	81.5%	44.0%	30.8%	25.4%
Other Expenses	3.6%	5.0%	6.8%	3.8%	1.9%	2.6%	—
Total Expenses	26.7%	76.3%	85.2%	96.7%	54.2%	44.8%	36.3%
Net Income	73.3%	23.7%	14.8%	3.3%	45.8%	55.2%	63.7%
Involuntary Liquidations Commenced:							
Number	169	239	251	160	50	38	31
Share Payouts	$19,001	$59,957	$78,639	$39,892	$9,954	$34,840	$15,499
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-insured Credit Unions	0.040%	0.110%	0.136%	0.058%	0.012%	0.039%	0.014%
Mergers:							
Assisted[1]	—	—	98	167	203	92	63
Unassisted	193	313	235	272[9]	503	550	514

[6]Prior period adjustment for costs incurred to administer unclaimed shares amounting to approximately $7,000 that were previously charged to expense.

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

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

[9]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. Merger costs have always been recorded on a Fiscal Year basis.

END OF CALENDAR YEAR	1972	1973	1974	1975	1976	1977	1978
Shares in NCUSIF-Insured Credit Unions (millions)[1]							
Federal Credit Unions	$10,956	$12,597	$14,370	$17,529	$21,130	$25,576	$29,802
State Credit Unions	2,886	3,734	5,191	7,442	9,223	11,756	14,316
Total Shares	$13,842	$16,331	$19,561	$24,971	$30,353	$37,332	$44,118
Number of Member Accounts In NCUSIF-Insured Credit Unions (thousands)							
Federal	13,572	14,665	15,870	17,066	18,623	20,426	23,259
State	3,043	3,830	5,198	6,681	7,673	8,995	11,479
Total	16,615	18,495	21,068	23,747	26,296	29,421	34,738
Number of NCUSIF-Insured Credit Unions							
Federal	13,133	12,974	12,972	13,011	12,978	13,000	13,050
State	1,315	1,656	2,398	3,040	3,519	3,882	4,362
Total	14,448	14,630	15,370	16,051	16,497	16,882	17,412
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	64.2%	66.6%	71.1%	75.6%	77.6%	80.3%	82.4%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	20.9%	22.9%	26.5%	29.8%	30.4%	31.5%	32.4%
END OF FISCAL YEAR	**1972**	**1973**	**1974**	**1975**	**1976**	**1977**	**1978**
Assistance to Avoid Liquidation:							
Capital Notes and Other Cash Advances Outstanding	—	$308	$445	$115	$115	$182	$13,522
Noncash Guaranty Accounts	—	—	—	$541	$585	$1,080	$1,733
Number of active cases	—	20	4	5	10	9	12
Problem Case Insured Credit Unions (Codes 4 and 5):							
Number	N/A	N/A	N/A	N/A	830	660	825
Shares (millions)	N/A	N/A	N/A	N/A	$570	$531	$1,450
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	—	—	—	—	1.9%	1.4%	3.3%

Footnotes:

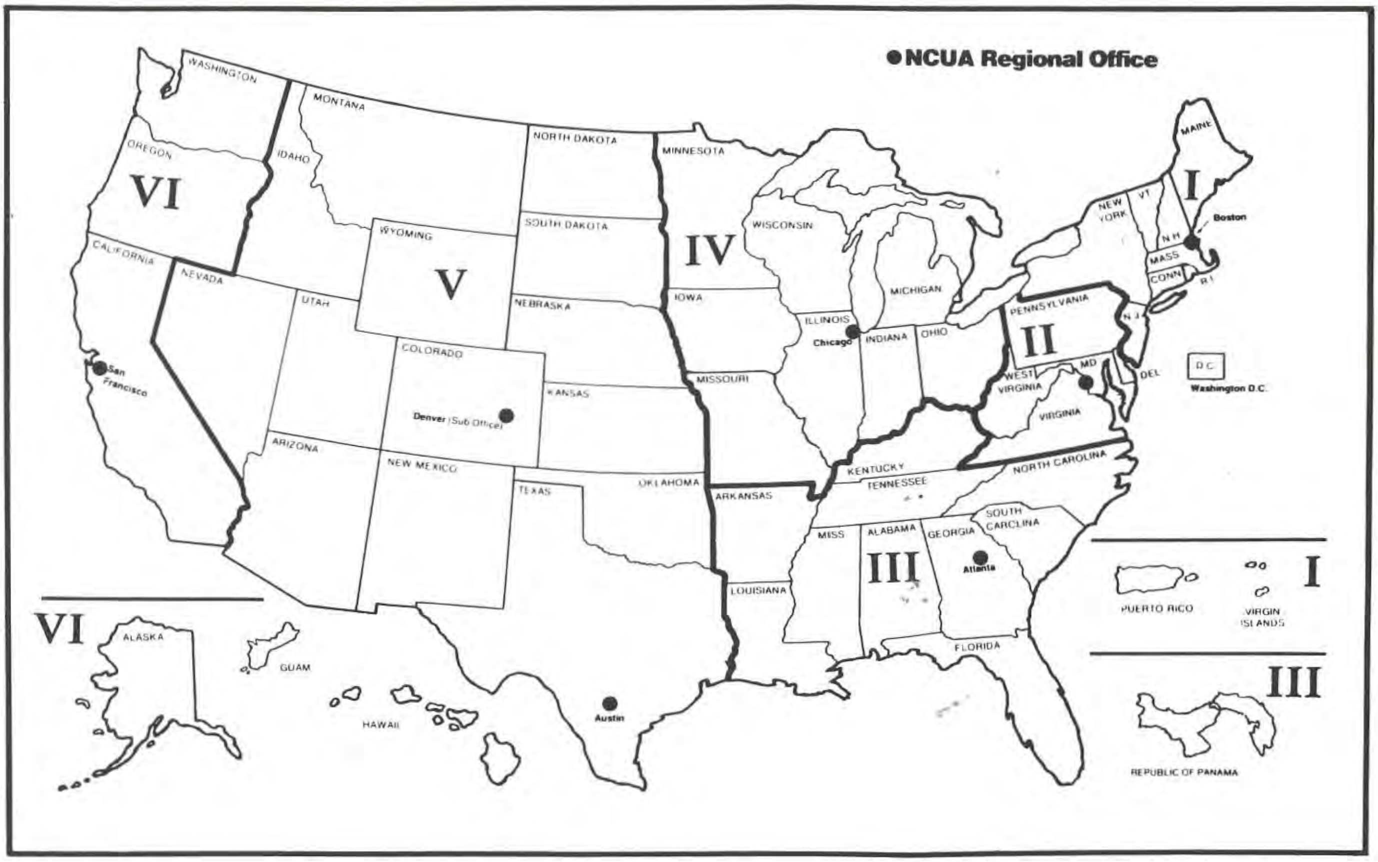
[1]Includes uninsured shares in NCUSIF-Insured Natural Person Credit Unions and all shares in Corporate Credit Unions. Corporate Credit Unions serve solely as depositories and service providers to Natural Person Credit Unions.

[2]Estimated amounts as of December 31, 1985.

END OF CALENDAR YEAR	1979	1980	1981	1982	1983	1984	1985[2]
Shares in NCUSIF-Insured Credit Unions (millions)[1]							
Federal Credit Unions	$31,831	$36,263	$37,788	$45,491	$54,099	$61,938	$74,231
State Credit Unions	15,871	18,468	20,006	23,152	26,375	27,713	36,769
Total Shares	$47,702	$54,731	$57,794	$68,643	$80,474	$89,651	$111,000
Number of Member Accounts In NCUSIF-Insured Credit Unions (thousands)							
Federal	24,789	26,829	28,595	26,095	26,700	28,170	29,809
State	12,218	13,679	14,657	13,160	13,460	15,205	16,120
Total	37,007	40,508	43,252	39,255	40,160	43,288	45,929
Number of NCUSIF-Insured Credit Unions							
Federal	13,000	12,802	12,367	11,430	10,963	10,614	10,181
State	4,769	4,910	4,994	5,036	4,918	4,689	4,933
Total	17,769	17,712	17,361	16,466	15,881	15,303	15,114
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	83.0%	83.3%	81.5%	82.9%	83.8%	82.0%	90.0%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	33.3%	33.7%	34.6%	33.7%	32.8%	30.9%	33.1%

END OF FISCAL YEAR	1979	1980	1981	1982	1983	1984	1985
Assistance to Avoid Liquidation:							
Capital Notes and Other Cash Advances Outstanding	$15,794	$15,447	$8,388	$16,839	$31,838	$36,413	$33,266
Noncash Guaranty Accounts	$5,791	$29,247	$42,922	$48,786	$52,736	$54,213	$39,678
Number of active cases	30	59	114	124	113	72	47
Problem Case Insured Credit Unions (Codes 4 and 5):							
Number	1,020	1,018	1,174	1,192	1,124	872	742
Shares (millions)	$2,300	$2,400	$2,980	$4,590	$4,652	$4,071	$4,055
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	4.8%	4.4%	5.2%	6.7%	5.8%	4.6%	3.7%

NCUA Regional Office Boundaries



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