NCUA

1984

ANNUAL REPORT

NCUA 1984 ANNUAL REPORT

National Credit Union Administration
1776 G Street, N.W.
Washington, D.C. 20456

Office of the Board

Edgar F. Callahan, Chairman
P. A. Mack, Jr., Vice Chairman
Elizabeth Flores Burkhart, Board Member

Wendell Sebastian, General Counsel
Rosemary Brady, Secretary of the Board

Board
(202) 357-1100
Public Information Office
(202) 357-1050

Investment Hotline
800-424-3205
(Continental U.S.)
202-357-1142
(Washington, D.C. area)

News Hotline
800-424-5531
(Continental U.S.)
800-424-5541
(Hawaii, Alaska)
202-357-0104
(Washington, D.C. area)

The National Credit Union Administration is an independent federal financial regulatory agency responsible for chartering, supervising, examining and insuring all federal credit unions. Additionally, it insures the member accounts of those state-chartered credit unions which choose, or are required by state law, to have federal insurance. Currently, NCUA insures 10,547 federal credit unions and 4,657 state chartered credit unions.

Congress established the NCUA in 1970 as an independent agency in the executive branch of the federal government, successor to the Bureau of Federal Credit Unions, which was part of the Department of Health, Education and Welfare. The NCUA central office is in Washington, D.C. There are six regional offices.

NCUA receives no appropriations and operates on the fees it receives from federal credit unions. A three-member Board sets policy and manages the Agency. The purpose of the Agency is to administer the functions of the Federal Credit Union Act of 1934, which provided for the establishment of a nationwide system of credit unions whose role is to promote thrift among members and provide them with a source of credit for provident purposes at reasonable rates of interest.

Credit unions are not-for-profit financial cooperatives. They may be incorporated in the United States under federal law or one of the 47 state laws. Credit unions are managed by a volunteer board of directors elected by the members. By law, only one director of the credit union, usually the treasurer, may be compensated.

March 29, 1985

Dear Mr. President:

I write this letter transmitting our 1984 Annual Report with mixed emotions. I know it will be my last opportunity to report to you as Chairman of the National Credit Union Administration. There is the sadness of leaving a dynamic and winning team dedicated to the principles of this administration. But on the other hand, there is the realization that our job here has been done and it is time to move on.

With the **capitalization of the National Credit Union Share Insurance Fund** completed just two months ago, our remaining regulatory initiative was put in place. The voluntary contribution to their Insurance Fund by our nation's credit unions not only benefited the country as a whole through a significant reduction in the deficit, but it gave credit unions the strongest of the federal deposit insurance funds. This action completes a dramatic reshaping and reduction in government's role in the credit union movement to focus our efforts only on the critical supervisory areas necessary to ensure safety and soundness. The creative business decisions so vital in the highly competitive financial arena are now in the hands of the 150,000 volunteer decision makers who comprise the boards of directors of the 15,000 federally insured credit unions. It is their collective wisdom which has achieved the remarkable record I will relate shortly and which gives credit unions the best opportunity to meet future challenges.

Consistent with your philosophy, the initiatives of the past three and a half years which are now in place are as follows:

- **Deregulation** of credit union shares and loan activity has been completed to the maximum extent possible consistent with safety and soundness.
- **Supervision** has been greatly increased to maximize the responsibility of the Agency and to respond to the challenges of deregulation. Every credit union is now examined each year. Financial Performance Reports give credit unions valuable and timely indicators of their management skills. NCUA toll-free hotlines enable credit unions to stay current on the latest events affecting them and to avoid questionable investment activities.
- **Decentralization** of the Agency's resources and responsibilities to our six regional offices has enabled us to be more flexible and responsive to individual credit unions. For example, closer supervision has resulted in a dramatic reduction in the number of problem-code credit unions, down 22% in 1984 to the lowest level in three years.
- **Communication** lines have been further opened by taking the NCUA Board meetings to cities around the country; by holding open forums where credit union officials and press can talk to Agency personnel; and by conducting the first ever National Examiners' Conference which included all federal and state examiners as well as 1,500 credit union officials.
- **Membership** policies were reviewed and adjusted to meet changes in the economy and to return the responsibility for decisions of whom to serve to each credit union board. Groups previously not served by credit unions were made eligible for membership. During 1984, credit union membership surpassed 50 million.
- **Cost Reduction** within the Agency has been a continuing priority and the federal credit union operating fee scale has been slashed 64% over the past three years.
- **Central Liquidity Facility (CLF)**, the central bank for credit unions, was voluntarily capitalized. Now every credit union has access to a government managed lender particularly sensitive to its needs and prepared to meet any unexpected liquidity crisis.

With the components of the credit union system in place and with credit unions free to create their own solutions to service and competitive pressures, 1984 became a showcase within which to observe the credit union phenomenon. In total contrast to other financial institutions, credit unions experienced spectacular gains in financial soundness and growth. I have been asked by members of Congress to explain this incongruity. I reply that credit unions were born in adversity; they sprang up during the depression; they flourished during World War II; and they have adapted remarkably to every set of economic circumstances since. When left alone, they return to what they do best: providing basic financial services to their members on the most convenient and cost-effective terms possible. The only threat to credit unions is the bureaucratic tendency to treat them, for convenience sake, the same as banks and savings and loans. This is a mistake, for they are made of a different fabric. It is a fabric woven tightly by thousands of volunteers, sponsoring companies, credit union organizations and NCUA—all working together.

In 1984, the future of credit unions was returned to the hands of its proper owners. Credit union boards of directors have made, and will continue to make, individual and collective decisions from their vantage point on the front lines of the marketplace. The industry has crossed the $100 billion level; loans are up dramatically, with a 44% rise in the past two years; and problem credit unions are down to a most manageable number. The stage is set for tremendous initiatives in the credit union private sector. I look forward to the excitement of becoming a part of these growing successes.

Thank you for the opportunity to serve.

Sincerely,

E. F. Callahan

E. F. Callahan
Chairman

Contents

The 1984 NCUA Annual Report is a cooperative effort involving many segments of the credit union community. Major contributors included Mary Mitchell Dunn of the National Association of Federal Credit Unions, Brooke Shearer of the Credit Union National Association, and Frank Wielga, manager of Pennsylvania State Employees Credit Union. NCUA's Cliff Gray designed the cover and the layout and NCUA's Cheryl Umbel provided most of the photographs. Joan Pinkerton and JoAnn Ewalt of NCUA's Public Information Office supervised the editorial content, with special thanks to NCUA's Rosemary Brady, for her editorial assistance.

1984 NCUA Highlights

Federal Credit Unions' 1984 Performance

(in millions)	1983	1984	Percent Change
Loans	$33,201	**$42,132**	26.9%
Shares	$49,891	**$57,927**	16.1%
Assets	$54,482	**$63,658**	16.8%
Net Income	$283	**$476**	67.8%
Members	26,800	**28,100**	5.1%

February 1, 1984:

NCUA Central Liquidity Facility is fully capitalized under a history making agreement between the CLF and U. S. Central Credit Union. More than 18,000 natural person credit unions now belong to the CLF either directly or through the corporate credit union system and have access to a permanent source of backup liquidity.

February 10, 1984:

The *credit union stamp*, which commemorates the 50th anniversary of the passage of the Federal Credit Union Act, is dedicated in Salem, Massachusetts. Postmaster General William Bolger said the stamp "honors all who have labored to make the credit union movement such a splendid and enduring success."

March 14, 1984:

Convinced that better trained examiners and better communication are essential in a deregulated financial environment, NCUA announces plans for the first combined conference of federal and *state examiners and credit union officials*.

March 22, 1984:

NCUA Board approves a *revised investment regulation* that expands the investment activities permissible for FCUs.

May 29, 1984:

NCUA unveils toll-free "investment hotline" to answer questions regarding FCU investments and to help NCUA prevent rather than react to potential problem investments.

June 18, 1984:

President Reagan issues Federal Credit Union Week 1984 Proclamation in which he says credit unions "exemplify the traditional American values of thrift, self-help and voluntarism."

June 26, 1984:

NCUA and credit unions celebrate the *50th anniversary of the Federal Credit Union Act* with a series of events, including a Board meeting, "old timers' gathering" and reception.

June 26, 1984:

A major study of NCUA's field of membership policy concludes that further deregulation would better serve the needs and interests of credit unions and their members and that NCUA should continue its paced deregulation.

July 18, 1984:

President Reagan signs bill enabling credit unions to capitalize the National Credit Union Share Insurance Fund with a deposit of 1% of insured shares. The capitalization measure is part of the Deficit Reduction Act of 1984.

July 25, 1984:

NCUA Board extends FCU 21% loan rate ceiling through January 25, 1986 so that FCUs will have flexibility to respond to changes in market interest rates.

July 25, 1984:

NCUA Board approves a *fiscal year 1985 budget that is 4.9% below the Agency's 1984 budget*. This is the third consecutive year the budget was cut and is the largest reduction to date.

July 31, 1984:

Credit union membership, which had leveled in recent years, *topped 50 million in July*, an increase of more than 5% over the comparable 1983 level.

August 21, 1984:

NCUA reports *FCU growth surged at mid-year*. FCU lending skyrocketed 28.5% in the 12-month period ended June 30, and FCU savings soared 19.3% over the same period.

September 28, 1984:

NCUA announces the *National Examiners' Conference has sold out* after receiving registrations at the rate of over 100 a week.

September 30, 1984:

NCUA Share Insurance Fund receives an unqualified, or "clean" opinion on its 1984 financial statements from an outside auditor, a first for a federal deposit insurance fund. The two other funds managed by NCUA, the NCUA Central Liquidity Facility and the NCUA operating fund, also received unqualified opinions on their 1984 financial statements from the external auditor.

October 9, 1984:

Rules to implement the NCUSIF capitalization legislation, making the NCUSIF the strongest of the three federal insurance funds, are adopted by NCUA. The Board waived the 1985 annual premium and authorized the NCUSIF to distribute back to insured credit unions $86.5 million or that portion of the current NCUSIF equity that exceeds .3% of yearend 1983 insured shares.

October 15, 1984:

NCUA Vice Chairman P. A. Mack, Jr. is sworn in for an unprecedented second term on the NCUA Board at a ceremony at Construction Equipment FCU, Peoria, Illinois. Mr. Mack, a charter member of the NCUA Board, is the only Board member appointed by two presidents—President Reagan in 1984 and President Carter in 1979.

November 15, 1984:

NCUA Board slashes FCU operating fee scale 24%. It is the third straight year for fee scale cuts, bringing the cumulative total to 64%. The cut saves FCUs more than $4.3 million in 1985 and has saved them $14 million since 1983, the first year in NCUA's history that the fee scale was cut.

November 15, 1984:

NCUA Board adopts retirees' policy, which makes it easier for associations of senior citizens and retirees to enjoy the benefits of credit union membership.

December 10, 1984:

NCUA opens first *National Examiners Conference* in Las Vegas, Nevada, a week-long series of educational panels and workshops. More than 2500 federal and state examiners and credit union officials gathered together for the first time to share experience and expertise.

Sharing Expertise and Experience at the National Examiners' Conference

What the Olympics is to sports, the December 1984 NCUA National Examiners' Conference was to the credit union movement: an unprecedented gathering of regulators and credit union volunteers and officials eager to root for and play on the team which has been recognized with a gold medal.

The credit union team has taken deregulation and run with it, has slugged its way from the minors to the majors, and in 1984 earned an impressive title: America's favorite financial institution, according to a consumer survey published by the American Banker newspaper.

The conference players included the best and brightest from throughout the credit union movement—every federal regulator and examiner in the country, most state regulators and examiners, managers and directors from more than 800 credit unions, and trade association officials. All together, more than 2500 credit union people packed the MGM Grand Hotel in Las Vegas from December 10-14, 1984.

They came to "Share Expertise and Experience" because they knew that regulators and regulated alike are operating in a totally new environment. Or, as John Naisbett, author of the best-selling book, "Megatrends," put it: "Almost every economist in the United States has been wrong and wrong-headed about what is going on. We are not in a recovery and we were not in a recession. What is occurring is much more important: We are changing economies."

Concurrent with the shift from an industrial to an informational society was the change from a highly regulated to a market driven economy. Deregulation has changed the way all credit unions and all financial institutions are run and the way they are regulated. It has made communication and sharing critical, and togetherness essential.

Former Marquette University basketball coach and NBC sports commentator Al McGuire caught mood: "You're a family, you're a team, and there's no "I" in team," he said in a rousing address that earned him a standing ovation from credit union officials and examiners. "Credit unions are on a jet shot and have unlimited potential. You must make the maximum effort and you must be together."

More than 2500 state and federal examiners and credit union officials participated in the conference.

The conference provided the opportunity for togetherness and communication on a scale never before achieved. On one level, it was an education meeting of gigantic proportions, with over 60 sessions led by more than 300 speakers. In another sense, the conference was a gathering where people could translate a belief in themselves and their credit unions into practical terms. It was a time for questioning, learning and sharing. When it was over, participants felt they had been part of something special.

"I'd give it four stars," said Jack Leyden, President and CEO, FAA Eastern Region FCU, Jamaica, N.Y. "It was far above other conferences I've attended because of the enthusiasm of the people and the direct involvement of NCUA Chairman Callahan himself. Usually, people at that level don't become involved, but he lit one hell of a fire in Las Vegas."

The "fire" really began in 1982, when NCUA held a meeting of federal examiners in Miami. Examiners and the handful of credit union officials who participated found the exchange so beneficial that Chairman Callahan decided that the next NCUA conference would be open to everyone in the credit union community.

"Better trained examiners and better communication between federal and state regulators and credit union officials are essential in a deregulated financial environment," he said. "The national conference was a chance to discuss current concerns and share problem-solving techniques. And it worked."

But it didn't look as if it would work in March 1984 when NCUA began to plan the national conference. "You'll need professional planners or you'll never pull it off," the experts said. But, NCUA central and regional and field staff put the conference together piece by piece, without hiring a single consultant. To get the lowest possible room rate, NCUA booked the MGM Grand Hotel in early December. Again, the experts were not optimistic: "Credit union people will never come to Las Vegas two weeks before Christmas." And, "You think they'll pay to meet with their regulator?"

But they couldn't sign up fast enough. By October the conference was a sellout. The hotel was filled to capacity and the overflow went to a nearby hotel.

Seeing 2500 credit union people in the grand ballroom was spectacular.

"I knew it would be a sellout so I reserved 12 slots up front so I could take all my volunteers," said one manager. "They've never been to a credit union conference and there are a lot of things coming down the line. I thought it was extremely important for them to see what was going on."

State and Federal Perspective

The state and federal field staffs were the first to arrive. More than 900 examiners trooped into the MGM Grand Hotel, ready for that portion of the conference devoted entirely to the regulators. They came from all over the country—supervisory examiner John Krasnick from Oregon; state examiner Chuck Landis from New Mexico; federal examiner Roger Clark from Ohio.

Some, like Landis, had been on the job for years, and others, like Clark, for months. For all of them, the mix of state and federal examiners was extraordinary. "We've always been first cousins," commented Jerry Russin from Pennsylvania, "but never knew each other. I was surprised to learn how much we have in common."

One thing the examiners found they have in common is an increase in responsibility. On the federal level, NCUA has been shifting resources to the field since 1982, delegating to the regions and their examiners greater responsibility for monitoring the safety and soundness of credit unions.

NCUA Chairman Ed Callahan

Pressure has increased on the examiner corps—pressure, in NCUA Board Chairman Edgar F. Callahan's words, to "get close and stay close" to credit unions. The conference encouraged examiners to look at problems from the credit union point of view and to improve their communications and problem-solving skills.

The case study method was used at the conference so examiners could roll up their sleeves and practice credit union problem-solving. Patterned after those used in the nation's top business schools, the case studies were eye-openers in another respect. Said Joan Walsh, Region I chartering analyst, "They gave us regional staffers a feeling for what the field staff goes through."

The Early Warning System (EWS) was among the tools of the trade covered in the conference sessions. The EWS code, a 1-5 rating scheme that alerts a credit union if it needs to improve its financial condition, was pioneered by NCUA in the early 1970s. The agency became the first federal regulator to share its codes with the institutions it supervises, but not all examiners agreed that this is a good idea. The subject was hotly debated, with Region III Supervisory Examiner Harvey Grimball charging that some credit union managers use the rating as a measure of personal performance when negotiating higher salaries. "The rating was not designed to be used by the industry to measure management performance; it was designed for the agency," Grimball said.

At least as important as the exchange of information in organized sessions during the "examiners only" portion of the conference were the after-hours meetings. As they met for coffee or a drink in the hotel, or searched for a place to get a good, inexpensive dinner, discussions among state and federal regulators continued. Reported Candace Roberts, a Georgia-based examiner who started with NCUA seven years ago as a clerk-typist: "The level of honesty and frankness among examiners and the top brass was incredible. People really let out their feelings."

For Bob Blatner of NCUA's Region VI, "the dialogue between federal and state examiners has been excellent. No one is afraid to speak out." Speaking out, in fact, was one of the purposes for which they had all come. "It was good to get together with the feds and discuss common concerns and see if we can resolve them. The conference really gives people an opportunity to communicate," said Robert Cleveland, Commissioner of Banking for the state of South Carolina.

Vice Chairman P. A. Mack (left) and luncheon speaker Gil Hamblet.

Gerard M. McClernon, an examiner in NCUA's Chicago regional office compared the last few years of change to a canoe trip. "It's as though credit union examiners and managers were paddling along and then all of a sudden found themselves in white water with only one paddle. This meeting helps give people an idea of the rough water ahead. And it helps them clarify whether they are up to the demands of navigating."

The Grand Convocation

On the third day of the conference, the regulators were joined by more than 1,500 volunteers and officials from over 800 credit unions throughout the country. In the lobbies and hallways of the MGM Grand, the buzz of excitement

State and federal examiners were surprised to learn how much they have in common.

Board Member Elizabeth Burkhart (left) with Fed Governor Martha Seger.

became persistent and louder. The next two and a half days of talks, panel discussions, workshops and informal "bull" sessions were infused with animation and enthusiasm as the meeting drew heavily on the collective wisdom of the movement.

The joint gathering began promptly at 8:30 a.m. As the lights dimmed for the opening slide show produced by CUNA Mutual Insurance, the view of 2,500 credit union people in the Grand Ballroom was spectacular. One felt in a tangible way a part of something very big.

Rivaling the size of the audience in impressiveness was the wealth of programs and the caliber of both speakers and participants. In all, there were over 300 speakers and 60 different breakout sessions. While many sessions were repeated, there were still hard choices to be made. "There's so much to do, I've been constantly in conflict with myself," noted Hank Bortolussi, a consultant with the Utah Credit Union League.

Major sessions tackled such issues as the future of the common bond; what investment information to believe; whether deregulation is beneficial for financial institutions and consumers; and whether regulators are obsolete. A variety of breakout sessions covered topics including scams that threaten credit union safety; issues to consider when discussing mergers; the soundness of credit union service organizations; and the changing role of the examiner.

Meetings between well known credit union activists, less known but hard working and successful managers and volunteers, federal regulators and their state counterparts occurred continually. No where else had this diverse a group been able to gather and swap stories and philosophies and argue the fine points outside the official examination setting. At the least, it was an opportunity to test some impressions.

Marie Conway, manager of Raysan FCU in Goleta, California, had "always felt that we make examiners feel unwelcome when they come to our credit unions. So I asked them if this was true. Some confirmed it, which tells me we'd all be better off if we treated one another better."

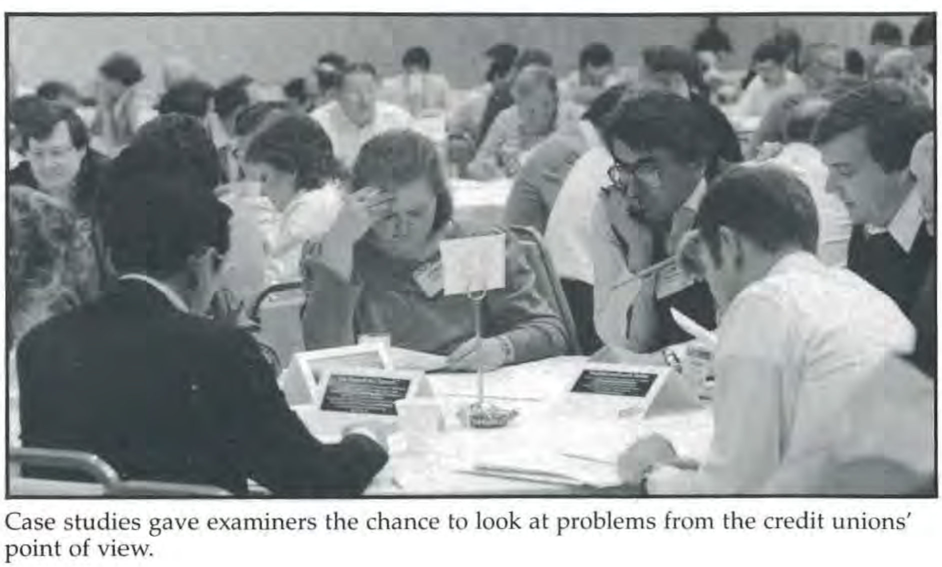
It was also an opportunity to demystify the role of examiners and regulators. Trudy Johnson, manager of Cochise Schools FCU in Douglas, Arizona, was bent on discovering "why examiners live in another world." Her impression had been that "they're not practical people." Given the chance to meet on common ground, her view now is that although she might disagree with examiners at times, their outlook is at least founded on reality.

Participants learned that regulators are no less challenged than credit union officials are by the changes underway in the financial marketplace. Vice Presidential Deputy Counsel Richard Breeden, moderating a panel titled, "Is the Regulator Obsolete?" noted that rapid technological developments have made it difficult for even expert regulators to cope. "Technology now makes it possible for an institution to attract $1 million in the morning, loan it out imprudently in the afternoon, and be insolvent by nightfall," Breeden said.

Other speakers, including Federal Reserve Board Governor Martha Seger, added that deregulation has drastically changed the way regulators do their jobs. "We must think of ourselves as business advisors, not as policemen," she said. Credit union officials echoed this sentiment. "To me, examiners and credit union managers are partners in fostering depositor trust, and we have just got to work together in this," said United Air Lines Employees CU President Gene Artemenko.

Fast and Furious Debate

Whatever initial tentativeness existed among attendees was quickly diffused as audience participation was encouraged in each session. "These people are running their credit unions very seriously," noted one credit union manager, "and they are strong willed people willing to



Case studies gave examiners the chance to look at problems from the credit unions' point of view.

Participants learned that regulators are no less challenged than credit union officials

argue, to openly disagree because they really believe the way they do things is the best way."

In the panel, "Should a Credit Union Grow Beyond Its Loan Demand," the debate among the four credit union managers on the panel was fast and furious as they defended their lending policies and approaches to expanding services to their members. Some argued that a high loan to share ratio was preferable, while others felt that full service and a 40 to 50% ratio would better serve members. "Finally, one guy stood up and said, 'It's like I always thought: there is no right or wrong way. It's like reading a golf magazine. One pro tells you this is how to hold the club and hit the ball, and then another pro tells you something else,'" relates Rex Johnson, a panelist and manager of Travenol Employees Credit Union, Deerfield, Illinois.

"So I told him, wait a minute, you're forgetting something very important. When some pro tells you how to hit the golf ball, you should check to see how good his game is. I'm telling you we're 95% loaned out, we're paying 12% dividends, and when I tell you how to hit the ball, I can prove I know how to play," Johnson said.

"Oh, I'll tell you, we had fun in there, but more important," Johnson continued, "we learned an awful lot from each other."

For a few days, regulators and examiners stepped out of their roles and looked at problems from all sides, including the credit unions' point of view. Owen Carney, Director of Investment Securities Division of the Office of the Comptroller of the Currency offered a packed-room some tips on what to look for in analyzing banks and savings and loans. Examine the character of the institution, see where the institution's assets are concentrated, ask from what source the earnings come (consumer, business or foreign loans) and look at the off-balance sheet risk, he suggested.

Audience participation is vital to success of conference sessions.

Last, but not least, Carney urged credit unions to adopt a basic journalistic tool: the telephone. "Pick it up and ask the banks you are considering placing funds with, as well as their competitors, what is going on." He urged conference attendees to tap into every source. "The numbers can tell you something, but not enough" were Carney's final words of advice.

TV Gets Top Marks

With a meeting of such gigantic proportions, it would have been easy to miss major events, but the conference's 24-hour "video magazine," broadcast over the MGM Grand's in-house television station, knit the conference together. Excerpts from general sessions as well as interviews with conference participants ran continuously, giving attendees a chance to watch electronically sessions they couldn't make in person. Also, seeing themselves and colleagues on television helped put this "larger than life" meeting on a smaller, more personal level.

"The video magazine was great," said H. C. Klein, president of Tyndall FCU, Panama City, Florida. "There is no way you could attend everything, but at the end of the day, you could go back to your room and watch what you missed." Richard Wellner, President of GTE Employees FCU, Elmhurst, Illinois, said "Interviews with panelists and participants got everyone more involved and interested in what was happening."

While there was no "grand manifesto" arising from the conference, there was a vow to keep in touch, continue the communication, expand the network. "We hope that NCUA will do it again soon, because there are 'eight million questions' out there and they remain questions until someone answers them," wrote Abe Lincoln, manager, Educational CU, Gainesville, Florida, and the movement's unofficial commentator. "Even if the answers are not the ones we want, an understanding has begun and that is worth it all."

The general feeling was that a seed had been planted, and from that seed a renewed spirit of community among the diverse elements of the credit union movement will grow. "There is an excitement in this place, coming from all of us here together, talking, questioning, learning from each other," said Pentagon FCU's Vern Dwyer.

"We've heard about technology, philosophy, policies, regulations, financial statements, bottom lines, and computers. Everyone's searching for what we are and where we're going. For 75 years, credit unions have been one thing, and to have an identity crisis now makes no sense at all," Chairman Callahan told participants in the final conference session.

"If you want to know where your future is, look to your right and your left. People made this meeting work, and people make this movement work."

Togetherness and communication on a scale never before achieved























Membership Surges as the Cooperative Approach Flourishes

In the year 1984 credit union leaders explored their roots. As they celebrated the 50th anniversary of the Federal Credit Union Act, credit union officials inevitably were drawn to a review of the evolution of the entire movement. In light of deregulation, fiercely competitive financial markets, space-age technology and a break down of conventional single sponsor relationships, some wondered whether the basic tenets of credit union philosophy are valid today. Nowhere was the debate as strong, and the answers more positive, than in the review of credit union membership policies.

Field of membership changes over the years have been both practical and philosophical. Historically, as both state and federal regulators became more involved in supervising the growing credit union movement, what was once a credit union/member decision about whom to serve became increasingly a regulatory issue. More and more often, field of membership/common bond parameters were defined and limited by supervisory interpretations and actions.

Instead of an inclusive concept allowing credit unions to bring in new people, field of membership became exclusive and rigidly defined. "Family" meant one social pattern of people living under one roof. "Occupation" meant working for a single company. "Communities" were first defined as areas with 5,000 people, then 10,000, and so on. Instead of individuals getting together to form a cooperative to make available to people of small means credit for provident purposes, regulators were dictating who could get together.

Turning Us Upside Down

The NCUA Board broke through these conceptual roadblocks. "I think what we did was to turn the structure of credit unions upside down," NCUA General Counsel Wendell Sebastian says. "Instead of the top few at the agency dictating to the bottom thousands of credit unions, we said 'No, it's the credit unions who should be telling us who they need and want to serve.'"

When the Board deregulated field of membership chartering and expansion policies, beginning in 1982, it was reacting in part to severe economic conditions and an unprecedented number of sponsor closings. However, quite separate from economic considerations, the Board was returning to credit union boards the right and responsibility to determine whom the credit union would serve.

Of course, new authority to take in membership groups outside traditional boundaries, to redefine family membership, and most recently, to encourage retiree groups to join, were uncomfortable and even threatening for some. While change caused some to worry, many saw the need for and the opportunities in once again allowing credit unions to determine their own identity.

The issues of expansion and a more liberal common bond policy demonstrate that although patterns and ways of doing business must constantly be reexamined, old habits die hard. While some yearn for the highly regulated days, the forces of competition and economic restructuring make that nostalgia impractical.

Still, the issue demands attention. Field of membership expansion was the topic of two major panel discussions during NCUA's National Examiners' Conference in December. One panel presented the views of state and federal credit union regulators on common bond expansions. Sentiment ranged from a desire to reinstate restrictions to the belief that common bond should be renamed "common concern" to open credit union membership to all people concerned about the availability of reasonable credit and a systematic method of saving.

"The most significant thing I see happening today—and I believe it will have even more of an influence in the future—is that more and more people are learning about and joining credit unions," says NCUA Board Chairman Edgar Callahan. "As we watched steel mills closing and employment decline at lumber, auto plants and railroads, we regulators had to act. Deregulation was a result of ecnomic necessity." However, asserts Chairman Callahan, allowing credit unions to expand their charters to cope with harsh economic realities did more than just permit credit unions to survive. "It opened the door to people who'd never heard of a credit union in their lives. To me, that's unlimited potential for success if used properly," Mr. Callahan believes.

Indeed, the Chairman predicts that the movement will double in size in five years. Credit union membership grew by 5.1% last year, double the 1983 rate. More than 100 new charters, adding a potential of 1.5 million members, were approved by the agency. The most telling statistic, however, is the 3,805 field of membership amendments through which 2.7 million persons became eligible for credit union membership. Total credit union membership surged to 51.2 million in 1984.

Several factors, including federal and state membership policies attuned to the changing economic and social structure, were responsible for the upswing. Credit for the turnaround also belongs to the CUE-84 (Credit Union Expansion 1984) coordinating group, chaired by NCUA Board Member Elizabeth Flores Burkhart, and the Credit Union National Association's 50/50 Membership expansion program. These were national cooperative efforts launched in 1982 to spread the word about credit unions.

Because of the ability to cope with adverse economic conditions and sponsor closings through field of membership expansions and mergers, involuntary liquidations fell dramatically last year, down to 38 from 1983's 50 cases and a 1981 peak of 251. This has the dual effect of maintaining service to thousands of people who otherwise would have lost their credit unions just when they needed them most, while at the same time reducing the costs to the NCUA Share Insurance Fund by $27 million on a year to year basis.

Credit Unions With A Heart

Of course, NCUA officials are quick to point out that size is not the determin-

Returning rights and responsibilities to credit union boards

ing factor in whether credit unions will serve their members well. "People serving people should never be a slogan, it should be a standard by which you conduct yourselves," Chairman Callahan warns, "because if your credit union does not have what I like to call a 'heart,' a real concern for members, then all your growth will not help."

Clapsop Tillamook Teachers FCU, Tillamook, Oregon is a credit union with a heart. In November, the NCUA Board adopted a policy making it easier for associations of senior citizens and retirees to be served by area credit unions. Clapsop Tillamook Teachers FCU Treasurer/Manager Bill Yetter said he and his board felt a social obligation to see that credit union membership was extended to seniors in the two counties of Clapsop and Tillamook which his credit union serves.

After discussions with the person coordinating senior citizen activities in the two counties, the credit union formed the North Coast Association of Retired People and offered membership to its affiliates. The credit union also designed the Coaster Club Account, through which seniors can get free checking, travelers checks and free photocopies of drafts. In addition, the credit union will provide a free computerized financial analysis for senior citizens, helping them to set budgets and monitor their expenses.

NCUA Retirees' Policy

The retirees' policy which prompted the Clapsop Tillamook Teachers FCU's move encourages credit unions to sponsor or assist in the formation of senior citizens and/or retiree groups in their communities. Although groups of seniors, such as the American Association of Retired Persons, were eligible to join credit unions under the old policy, NCUA's action eliminated most of the paperwork and delay.

"As the nation focuses on the financial condition of its growing elderly population, we believe it is good public policy for senior citizens to be able to choose the financial institution that offers them the best deal," said Chairman Callahan. "If it's a credit union, NCUA and credit unions think seniors should have the opportunity to join with a minimum of red tape. While this policy facilitates that, it accomplishes something equally important: it encourages credit unions to reach out to senior citizens in their communities."

Under the policy, an association of seniors may be formed with a primary purpose in mind of extending credit union services to members of the association. Additionally, the group need not file a constitution or bylaws with NCUA as part of the application process. Details about the formation of the association are left to the sponsor credit union and the association.

Taking another route to accomplish the same thing, Vaca Valley FCU, Vacaville, California extended membership to an already existing senior citizens group. "A year ago, we moved into a very active shopping plaza, and ever since we've had elderly people walking in and asking how they could join the credit union," said Manager Sue West.

Since the credit union's charter limited it to serving school district employees, the retirees were turned down. "I felt bad about that, because they really wanted credit union services, so when NCUA issued the retirees' policy, I called the Vacaville Senior Citizens Association (also known as the John McBride Retiree Association) right away," relates Ms. West. The association overwhelmingly approved the credit union's proposal at its next meeting, and the credit union is busy signing up new members from the group.

Study Supports Deregulation

The retirees' policy was developed in conjunction with an NCUA field of membership study completed in June. Requested by Board Vice Chairman P.A. Mack, Jr., it concluded that further deregulation would better serve the needs and interests of credit unions and their members and that the agency should continue with its paced deregulation.

Mr. Mack requested the study in September, 1983, saying it was "essential to assess the effects on credit unions of recent changes to the agency's field of membership policy." A committee headed by Mr. Mack and NCUA Region V Director J. Leonard Skiles sent questionnaires to 1,416 federal credit unions that expanded their fields of membership in 1983. Of those contacted, 850 credit unions, or 62%, responded. The committee also polled 1,416 similar-sized credit unions that opted not to expand membership bases in 1983, and 643, or 49% of those credit unions responded.

The primary purpose of the Board's broader view of the Federal Credit Union Act's field of membership provisions was to "provide credit union service to new groups—to people who don't presently have credit union services available to them." The study concluded that thousands of new groups representing a potential of approximately 2.6 million people were added to credit union fields of membership in 1983. As noted, 2.7 million potential members were added through field of membership amendments in 1984.

Two-thirds of the credit unions that expanded their fields of membership did so to provide service to new groups, to offset a drop in their existing membership, and to improve their stability by broadening their membership base. The vast majority said they benefited from the effects of expansion. Only two credit unions said expansion proved detrimental. More than 70% indicated that they planned more expansion to bolster their growth. Of the 340 credit unions that didn't plan to expand in the future, only 8% said they disagreed with NCUA's membership policy.

New Lease On Life

"When you wake up one morning and find 3,000 of your members out of work, as we did, you'll really appreciate the benefits of NCUA's field of membership policy," said Hap Poindexter, manager of Southern Security FCU in Memphis. Formerly known as Rubber Workers EFCU, the credit union's sponsoring company, Firestone Tire and Rubber Company, closed down. "Had NCUA not revised its policy when it did, this credit union would not be in existence," Poindexter believes.

"We've gone full circle, and taken credit unions back to their roots."

Instead of liquidating, which would have cost the NCUSIF money and cut off credit union service to people who really needed it, the Board's policy made it possible for the credit union to extend membership to small businesses in the area.

"Sure, we've had growing pains," Poindexter said, "but growing pains are a lot better than death." The credit union had to add staff because it now receives payroll deductions from many different companies and it is serving a more diverse group. But considering that the credit union was at $12 million before the plant shut down, and was at $20 million just a year later, it is obviously flourishing under deregulation.

Southern Security FCU is serving 8,437 of its 11,000 potential members, and is considering further expansion. This brings up the issue of overlaps, and Poindexter believes some overlapping memberships are unavoidable. While NCUA Regional Directors make every effort to avoid overlaps, they are permitted in some instances. "I think we can work out the overlaps among ourselves," Poindexter said.

Respondents to the field of membership study brought up the issue of overlaps, as well as philosophical discussions about the common bond concept. As the following comment from one survey shows, there were differences of opinion about the effects of liberalized membership policies:

"I view the present NCUA posture on field of membership with mixed emotions. It is nice to have the freedom to seek new groups to serve, but I am one who believes the more 'public' we become, the closer we are to being taxed, and the further we stray from our basic comon bond concept."

Other respondents gave unqualified support. As one credit union manager wrote, "I think credit union membership is a privilege which should be extended to as many people as possible."

Common Bond Debates

The issue of liberalized membership policies as they relate to common bond tends to be an emotional one. It is also an issue Chairman Callahan likes to address head on. "I have been accused by some of destroying the common bond, and I will gladly accept blame for that. I don't believe in *the* common bond. I believe in *a* common bond," the Chairman says.

The difference, he continues, is that for many credit unions, never again will one single sponsor be economically feasible. Does that mean the concept of common bond is dead? "Absolutely not," Mr. Callahan says. "The common bond of people joining together under a democratically controlled organization for the purpose of providing reasonable credit and a method of savings has not and never will change."

Common bond as an organizing principle has never been stagnant, but rather, has been evolving continuously for the past 75 years, Mr. Callahan says. As the history books confirm, when credit unions were first formed in Europe, open membership prevailed. Before 1920, all credit unions had open charters, and field of membership restrictions evolved as an element of convenience to those working to form new credit unions.

Speaking at the National Examiners' Conference, Alaska USA FCU's David Chatfield said, "The single sponsor common bond is not deeply rooted in credit union tradition, but is an accident of history. Perhaps one day it will be viewed as an aberration in the evolution of common bond."

Coming Full Circle

On the other hand, Merced School Employees FCU, Merced, California, is one credit union whose board and manager feel that sticking close to the credit union's original charter is important. "Our Board believes membership should be tied to the school. We don't think we should go out and serve people without a connection to the school, as some other educational credit unions have done," says manager Bob Wayne. Why is the credit union going against the trend? "We have been so successful serving education-related members, and I don't think we could serve our existing members as well if we deviated from serving the people we know well."

That point of view is totally in tune with Chairman Callahan's beliefs. "Service to members is what it's all about," he says.

Looking ahead, most observers predict continued field of membership expansions. While conditions are presently better than in 1982 when sponsor closings were at an all-time high, the need and desire to offer credit union services to new groups will be met by charter amendments and mergers.

As he speaks to credit union groups across the country, Chairman Callahan offers a final comment about deregulation in general and field of membership expansions in particular. "Regulators are reacting to changing economic and social conditions, and deregulation might better be called 'action/reaction; action/reaction.' As you implement our deregulatory actions, you must keep in mind that the the future is always going to be cloudy. We can make educated guesses, but really, we don't know what's going to happen any more than you do.

"That's why we've given back to you the ability to determine what you want to be and who you want to serve. I guess you can say we've gone full circle; we've taken you back to your roots. Only by making your own decisions can you continue to prosper and serve your members well." ●

Changing Role of the Regulator: Relationship Based on Mutual Respect

by Frank Wielga

Editor's Note: Frank Wielga has been a respected and integral part of the credit union movement for nearly 30 years as a manager, trade association official, and writer. He's managed three federal credit unions and since 1977, has been general manager of Pennsylvania State Employees Credit Union, a state chartered federally insured institution. He's worked for the Pennsylvania Credit Union League, has been president of the National Association of Federal Credit Unions, and has served on the advisory board of the National Association of State Credit Union Supervisors. For the past 10 years, Mr. Wielga has been an Associate Editor of Report on Credit Unions, an independent newsletter. NCUA asked Mr. Wielga to contribute to this Annual Report by writing about the role of the regulator from a credit union manager's point of view.

Back in 1958, I experienced my first visit from the federal examiners. By design, their arrival was a surprise. They came into the office and immediately "seized" all the records and cash, and they pasted large blue seals on all the filing drawers. My credit union was effectively put out of business for a short time while they counted the cash and determined if my records were in balance. I used that time to reflect on the regulatory agency's opinion of the people who actually operate credit unions as it was shown in the examination procedure.

While the agency's opinion of managers and volunteers improved over the years, it seemed as though we would never escape the attitude that the regulator knows best. I can remember managers grumbling, as late as 1979, that NCUA was so meticulously regulating their credit unions that it was taking away their "right to fail." That's the flip side of the right to succeed, and you can't have one without the other.

A dramatic change has taken place in the last few years. We now have a federal regulatory agency which openly concedes that credit union people know more about running credit unions than the agency does. And it's not just talk. NCUA's actions demonstrate the confidence they have in the ability of credit union people to handle their own affairs.

While some credit union people got a little nervous about the rapidity with which the regulatory security blanket was stripped away, the result is that the credit unions are doing very well without all those regs. The volunteer boards have demonstrated their competence to manage in a deregulated environment.

Sharing the Data

One thing a regulator can do if it doesn't waste time writing regulations is to provide information. For years, boards and managers have sought reliable benchmarks with which to measure the performance of their operations. Through those same years, NCUA has had the best accumulation of credit union data, but it has always been treated as somewhat secret, if not sacred, knowledge. Now the agency has made the information available to each credit union. The peer group comparisons and the Early Warning System (EWS) codes which the agency provides are invaluable tools to those who are charged with the responsibility of running credit unions. Other financial institution regulators are now beginning to look into the possibility of emulating NCUA with similar programs.

Capitalization: A Team Effort

Perhaps the greatest shared endeavor ever undertaken by a regulatory agency and those it regulates was the effort to capitalize the National Credit Union Share Insurance Fund (NCUSIF). It was a team effort with NCUA as the coordinator. It was also a sophisticated move that served several purposes at once: it made the fund sound; it lowered the cost and ended annual special assessments; it made a credit union contribution to the reduction of the federal deficit while at the same time providing a supportive argument toward continuing our tax exemption; and it established a solid defensive case against any attempt to merge NCUSIF with the other depository institution insurance funds. Once again, other federal insurers are talking about doing similar things, following the credit union example.

It is important to note that most of the ideas originated outside of NCUA among the credit unions themselves. They were refined in a give-and-take between the agency and the credit unions, and then they were implemented. Notice that the regulator is paying attention to what the credit unions have to say, and is translating it into practice.

Keep the Dialogue Going

The relationship between credit unions and the regulatory agency is one founded on mutual self respect, and on the realization that both sides share equally in the responsibility for the survival and future development of credit unions. It is a relationship that involves a lot of intelligent disagreement. Issues are worked out in dialogue and debate. Neither side is considered by itself or the other to have a monopoly on being right. We have even reached the point at which we can go amicably to the courts to settle an issue that we are not able to resolve ourselves. That's evidence of a new maturity in the credit union world.

Credit union philosophy calls for this sort of thing to happen. It expects the collective wisdom of the credit union world to govern, and to be superior to that of any one part of the movement. This is the first time that a regulator has completely understood and accepted that idea. It's a little scary to those of us who thought the philosophy was the private preserve of the private sector of the movement.

Credit unions would do well to take some pains to see that the present perspective of NCUA is preserved into the future. At any given point, the character of the agency tends to reflect that of its leaders. Those leaders may serve only for a limited amount of time. The nature of the federal bureaucreacy being what it is, in the long run, there will be a great amount of inertia pulling at the agency to cause it to revert to a less creative and less cooperative approach to regulating credit unions. I, for one would not like to see that happen.

Those blue seals were hell to scrape off the file cabinets! ●

Examiners Change Focus: From Counting Cash to Building Confidence

As thousands of credit union officials continued to see their decisions translate into record gains in shares, loans and membership, federal examiners were doing their job too: monitoring the system, checking the safety net for holes, and helping to preserve the high level of confidence throughout the credit union financial system.

Long gone are the days described by Frank Wielga when the examiner's job was to "seize records," "count cash," and act like the regulator knows best.

Rather, the examiner's role in today's market-driven economy is to keep a finger on the pulse of credit unions. "Examiners give managers and directors confidence that problems are being nipped in the bud before they become major threats to the NCUA Share Insurance Fund (NCUSIF) and/or an embarrassment to the credit union movement," said NCUA Board Chairman Edgar F. Callahan.

There was ample opportunity to lose confidence in the financial system in 1984: more bank failures were recorded than in any year since the depression and a record number of banks appeared on the Federal Deposit Insurance Corporation's problem list. Unprecedented merger and liquidation costs eroded the Federal Savings and Loan Insurance Corporation's reserves, contributing to the first loss in its 51-year history, and prompting calls for a special assessment, risk rated premiums and a capitalization plan similar to the NCUSIF's.

But thanks to the improving economy, the popularity of credit unions, better management, and more effective supervision, credit unions didn't have to contend with those negatives.

The Strongest Fund

Instead, the news was all good: the number of credit union liquidations dipped to 38 in 1984, down from a peak of 251 in 1981. The number of problem code credit unions, those most in need of supervision, dropped 22% in 1984. Mergers declined by 9%. NCUSIF losses dropped by 49%. And thanks to capitalization, the NCUSIF became the "Arnold Schwarzenegger," or strong man, of the federal deposit insurance funds.

The news was good and everyone aimed to keep it that way. The annual examination, reinstituted in 1983, was the first step. But that's only one part of the monitoring process. As NCUA Chicago Regional Director H. Allen Carver pointed out: "We now have a minimum of five supervisory contacts or reviews each year, beginning with the annual exam, the twice yearly 5300s (call reports) and the two Financial Performance Reports. (The FPR, an evaluation tool and resource for credit union boards and examiners, converts call report numbers into five year trends and provides ratio analysis in 10 key areas, including growth, capital and liquidity).

Because they are there more often, examiners are more confident about the status of the institutions they supervise: "There's not a problem that we're not aware of," said California Supervisory Examiner Bob Selman, noting that of the 200 Los Angeles area credit unions in his district, only five had negative earnings at December 31, 1984, down from 17 in June and 24 the previous December. "Our goal is to reduce the number of credit unions operating at a loss to zero and thereby reduce the risk to the NCUSIF," he said.

"Before, it was a struggle," Selman said, referring to the pre-1983 period when NCUA ran a centralized examination program from Washington and the time between examinations averaged 24 months.

Explaining the need for "being there" more often, NCUA Chairman Callahan said: "It only stands to reason that when we're not exactly certain which way the marketplace is going to go, what the new marketing techniques will be, and what instruments your board is going to decide on, our folks have to be there. So, we decided to reinstitute the annual examination and throw out the 'cookbook' approach to regulation because all the old systems we used for examining credit unions might not be relevant for long.

"You may have noticed," he continued, "that we don't walk in the door, lock it and say, 'where's the cash, we want to count it.' What's that got to do with solving the problems of a credit union? We're looking for a new breed of examiner. We think it's time to retrain and to make sure our folks have a whole new attitude, because what we need in a deregulated environment are problem solvers. We need people who can go into an institution and analyze what's happening, what's the trend and where is the credit union going.

"I liken them to honey bees, going from flower to flower," the Chairman said. "That doesn't mean they analyze only the bad things. I want to hear from them about the good and the bad things that are happening. And then we have to share it."

Sharing the News

That "sharing" takes numerous forms, including the immediate give and take between examiner and credit union officials about the examination results. Additionally, the twice yearly Financial Performance Report allows examiners and credit unions to see how credit unions compare to their peers. The more frequent contact allows examiners to communicate good ideas that have worked at other credit unions in their district. It also allows them to "keep the pressure on to achieve profitability," Supervisory Examiner Selman said.

Out with the cookbook and off with the green eyeshades

The NCUA Investment Hotline, begun in 1984, permits examiners and credit unions to share information about the legality of investments and provides the first centralized reference point for credit union investment information.

One of the best ways for sharing experience is during the face to face contact made possible by a conference. No where was that more apparent than at the sellout NCUA National Examiners Conference in Las Vegas in December. All together, more than 2500 state and federal examiners and credit union officials packed into a ballroom the size of a football field and stood three deep at workshop sessions to hear their peers debate everything from Early Warning System codes to the future of credit unions.

The conference demonstrated the importance of shared information. At a workshop, Michigan's Tim Standfest was peppered with questions about his state's new off-site examination program. It's designed to give state examiners more time with problem credit unions by allowing healthy institutions to submit a questionnaire in place of a formal on-site examination. But Michigan relies heavily on NCUA's Financial Performance Report to make its off-site program work. "If the FPR shows bad trends, we do not do an off-site exam, even if the credit union is a code 1 or 2," Standfest said.

Similarly, a conference case study session required examiners to look over loans and determine whether or not they would grant a loan to a particular applicant. Ohio state examiner Eloise "Micki" Jones remarked that her participation helped her understand that "I need to spend more time analyzing what is going on in a credit union rather than concentrating on whether the credit union is calculating the annual percentage rate correctly."

If examiners came to the conference looking for a regulatory formula for coping in a deregulated financial environment, they didn't find it. Instead they found that it's more important than ever to look at and listen to everything because the incident or supervisory tool that makes an examiner wonder if something is amiss varies.

Tardiness is Tipoff

For NCUA Region IV Examiner Bill Ziebell, the tipoff was the fact that the manager of one of his credit unions was late with his 5300. "Most of the credit unions in my district know I want it promptly," he said. "When I don't get it on time, it indicates to me there might be a problem. That's when I contact officials."

Sure enough there was a problem at the credit union, located in surburan Chicago. When Ziebell arrived to pick up the 5300, he found the manager gone and a $20,000 shortage. The manager was later indicted and a bond claim filed against him.

"I think we caught the situation just in time and saved the credit union from much bigger losses," Ziebell said. "The 5300 is critical. It shows me clearly those credit unions that may be developing problems."

Rapid Growth Signals Trouble

NCUA Region III Examiner David Vickers spotted a potential problem at an apparently healthy credit union by comparing its Financial Performance Report to its 5300. "The FPR tipped us off that the credit union was growing at an extremely rapid rate," he said. "The next question was 'what are they doing with all these bucks pouring in because the credit union offered a high dividend?' We could see from the 5300 that a substantial amount was going into investments. That may or may not have been a problem, but we decided to go in early and have a look."

Vickers found that the credit union had made $2 million in illegal investments, a substantial portion through deposit brokers. A relatively inexperienced official apparently was responsible for placing the investments. Vickers notified his regional office.

Within 24 hours of discovering the sale of those illegal investments, NCUA barred the broker involved from any further dealings with federally insured credit unions. The prohibition was resolved following agreement by the company to stop marketing illegal investments to federally insured credit unions.

By comparing the FPR and the 5300, Vickers was able to arrest a problem three months before he would have spotted it during the regularly scheduled examination. "The loss could have been $2.5 or $3 million by the time we got in," he said. "Hopefully, the NCUSIF won't lose a nickel. Two of the brokers involved have refunded the money to the credit union and a bonding company is expected to make good on the third investment."

Scam Squashed

A tip from a credit union official in Hawaii about a "suspicious sounding" investment in another credit union thousands of miles away was an example of credit union officials, federal and state regulators, and law enforcement officials working together to quash what could have been a major threat to the NCUSIF.

When Gerald Auyong, comptroller of Hickham FCU in Honolulu got a call from a broker, suggesting that Hickham invest in a high yielding certificate of deposit at a limited income credit union in Missouri, he not only recommended against it, he suggested advising the regulator immediately. Auyong, a former NCUA examiner, called Region VI examiner Steve Mach. Mach relayed the information to his Regional Director. The other regional offices, the Washington office, and the Missouri state supervisor were quickly notified.

It didn't take long for authorities to piece together the story: an individual, purporting to represent the $8000 asset state chartered, federally insured credit union, had solicited nearly $8 million in brokered deposits, the bulk from the

Intergovernmental cooperation protects funds from misappropriation

Bureau of Indian Affairs and a much smaller amount from credit unions.

A complicated chain of events followed, which involved the issuance of a receivership order by the state supervisor, an emergency meeting of the NCUA Board to consider conservatorship, and a court order freezing and preventing the misappropriation by the credit union official, who was later indicted, of millions of dollars of brokered funds. All this occurred within a 10-day period. Ultimately, the credit union's board of directors voted to liquidate the institution. The costs to the NCUSIF were minimal.

"It was a good example of intergovernmental cooperation," said Mach. Or, as NCUA's Chicago regional office newsletter put it: "It took the efforts of several agencies to protect these funds from misappropriation. But the key was the tip we received from Region VI."

Utility Tax Challenged

Although examiners were quick to get the word out about bad news that could affect credit unions, they also heeded Chairman Callahan's request to spread the good news.

For example, most California credit unions are aware that they do not have to pay state sales taxes, thanks to a 1981 federal court ruling. But as California Examiner Rick Ducker found, many do not realize they are exempt from local utility usage taxes under the same court ruling.

During one of his monthly visits to a credit union receiving 208 assistance from the NCUSIF, Ducker found that the credit union had appealed the utility usage tax and had won a $37,000 refund. The refund trimmed the credit union's deficit by 3.3%. "I thought to myself—here's a credit union that challenged the tax, won and achieved savings. Maybe there are other credit unions that could benefit," he said.

NCUA's San Francisco regional office sent a letter to California federal credit unions, reminding them that they are not obligated to pay local utility usage taxes. "For smaller credit unions, where the usage tax is modest, it might not be cost effective to appeal," Ducker said. "But for the larger ones that own their own buildings and pay their own utilities, it's worth appealing."

IRS Penalties Averted

In North Carolina, Examiner Joe Holmes helped several small credit unions in his district avoid hefty Internal Revenue Service penalties by getting information to them on how to comply with or apply for a waiver of a new IRS requirement.

The part-time manager of tiny Salisbury Onized FCU (assets $200,000), serving a corrugated box plant, called Holmes to find out whether a new IRS rule requiring financial institutions to file form 1099 dividend payment information on magnetic tape, instead of hard copy, applied to the credit union.

Holmes found that the requirement applied to all but the smallest of institutions. "I wondered how many others in my district, especially the ones without a full time manager, might have been unaware of the requirement and that there would be penalties if they didn't comply," he said. To find out, he called 15 credit unions in his district with assets of $2 million or under. One didn't know about the new rule and several didn't know how to comply because they do their bookkeeping by hand. To comply would mean hand calculating the dividend information and sending it to a computer center to be converted to magnetic tape. Still others didn't know how to obtain a waiver.

Holmes got specific information for them, including names and phone numbers of individuals to call for help in obtaining a waiver or assistance in converting the information to magnetic tape.

Small CUs Are Different

Sensitized to the needs of small credit unions at the National Examiners' Conference, Holmes said he believes the examiner's role is different when working with small credit unions. "Many don't belong to a trade association and they don't always keep up with changing requirements. Sometimes they can innocently get into situations where they can be paying fines for something without realizing they did anything wrong. It didn't take much time to find out about the IRS rule, but it saved the credit unions a lot of grief."

Clearly, examiners are heeding the advice to "throw off their green eyeshades" and do less accounting and documenting, more business and financial analysis, and "stay close" to their credit unions.

And credit union officials like the change. Audrey duBay, president and CEO of Central Connecticut Teachers FCU and a credit unionist for 28 years, said "I view NCUA examiners much differently than I did years ago. In the past, they looked more at technical kinds of things that in the long run didn't mean that much. Now, I feel they come in to see where they can help you."

Summing up the changing approach to supervision, Chairman Callahan said that deregulation allows credit union officials the fullest opportunity to test their business skills in meeting their members' needs. "They've done an incredible job, as three years of outstanding performance indicates," he said. "Our job, through more frequent contact, is to prevent abuses from developing that could shake the confidence of officials and members. In that sense, the examiner is essential to maintaining confidence in the credit union financial system."●

How to Keep Your Insurance Fund Strong and Cost Effective

Editor's Note: On July 18, 1984 President Reagan signed the Deficit Reduction Act which included a bill to change totally the capital base of the NCUA Share Insurance Fund. The law requires federally insured credit unions to deposit and maintain 1% of their insured shares as capital and limits the Fund's total equity base to 1.3% of insured shares. Special assessments are no longer permitted under the new law. Moreover, the NCUA Board waived the 1985 premium and anticipates that the additional investment income from the 1% deposit will in almost all circumstances, eliminate the need to assess the annual premium in future years. By anyone's standards, the capitalization program was a success. Of the 15,303 federally insured credit unions, 99.8% met the deposit deadline and $845 million was deposited with the Fund. A second major achievement affecting the Fund was the first ever unqualified or "clean" opinion issued by the Fund's external auditors, Ernst and Whinney, on the financial statements for the fiscal year ended September 30, 1984. Following is an edited version of remarks by NCUA Chairman Edgar F. Callahan and General Counsel Wendell Sebastian from two talks to credit union managers and to the credit union press. They discuss the capitalization plan and what credit unions have to do to make this new insurance system work.

Chairman Callahan: By early 1985 we will have transformed our Fund into the kind of deposit insurance needed in a deregulated environment. We became concerned about what our Fund should be three years ago, because let's face it: insurance is a confidence builder, and we felt our fund might not be perceived to be the best. When we started in 1982 to move towards a goal of 1% of insured shares, (the Fund's "normal" operating ratio of equity to insured shares, as cited in the Federal Credit Union Act) the only technique at our disposal was the extra assessment. That wasn't satisfactory, so we went looking for a better way. Congress required all the regulators to study insurance, but we did more than that. We did something about it.

We've said all along that it's a better way, but it's also unique, and it's the uniqueness I want to talk about. It is unique because really it is your Fund, and although a lot of you don't believe that, I want you to think about it. First of all, we can run our operation and take care of insurance needs solely through earned interest. That means no more premiums. Second, we should be able to return to you a dividend on your deposit, and with a little luck it could be a market rate. You have literally gone from two premiums to almost free insurance.

What does this mean for you? It means you now have an investment in your Fund, instead of in your local bank or S&L. Can you forget about it? Well, I'd have to ask you, do you ignore your other investments, or do you monitor them? We tried very, very hard to build in safeguards so you would treat your investment in the Fund just like your other investments. One of them is withdrawability. If you feel things aren't being run the way they should be, you can withdraw and go to private insurance. If you're in a state where you have no option but federal insurance you'll say, "That doesn't really mean anything to me." Well, it really does. It does because in Illinois, California, Texas, Florida, Georgia, Indiana, Minnesota, you name 'em, credit unions can withdraw and go to private insurance. Those are all significant enough pressure areas that if the administrators of this insurance Fund start botching things up, those credit unions will take their money and go. And we'll respond to that pressure.

Another safeguard is the 1.3% cap. Technically, it's the Fund equity to insured shares ratio, and we're going to draw it down to 1.3% right away, giving you a distribution of about .11 in January. So you'll get money back, you will not send in a premium, and you won't even have to deposit the full 1% of your insured shares. Your deposit will be between .85 and .9%, depending on your individual situation. But your books will carry a 1% deposit and you can record the .11 as income.

Another important safeguard is that we are required by law to report to Congress annually and to have an external audit annually. On top of that, we'll have a monthly report during the open session of the Board meeting, so you can track what's going on. And if this really is your Fund, then you have to do three things to keep it yours.

First, you have to track whether we are operating from the interest on the equity. We just lowered our budget for the third year in a row, and that's a good trend. While we can't promise to cut the budget every year, if you see a dramatic increase in operating expenses you ought to start asking what they're doing with your money.

Next, what about the cost to the Fund for solving problems? Chip (Filson) tells me we spent $78 million two years ago, and this year the Fund paid out only a third of that. That's a wonderful trend, but you have got to watch that too.

And the third thing you need to track: are you getting a market rate for your deposit? If those trends start to turn sour, you've got to start asking questions. And you know, we can have problems, even with good management, because if credit unions run into a bad streak, some of those trends will turn around. So ask some questions, and if the answers satisfy you, fine. If they don't, make some changes. That's what Congressmen are for. Call them up and make some changes.

So that's the pitch I want to make on the Fund. Don't set it up and forget about it. It's unique. It's a better way. But just as important, it's yours to monitor—it's your responsibility to keep it working—because if you don't it'll go just like anything else the government touches. When government gets more money, it wants to spend more. Our goal is to spend less. You'll have to hold us to that promise.

Sebastian: I want to touch on a slightly different aspect of the fund. Credit unions are part of the only financial service system in this country that really has a significant, meaningful dual chartering system. But it won't be as meaningful if you don't have a dual insuring system, or multiple insuring systems in place.

I don't know how many state charters are in the room, but if you believe that what we're doing is not relevant to you, you might want to take another look at it. The viability of the dual chartering system has lasted this long because the feds have learned from the states, and the states have learned from the feds. One of them is out on the leading edge at any given time. And if you don't use that—what we call "creative tension"—to your advantage, that's a mistake. Even if you're a state chartered credit union, the Fund probably has a lot to do with how you're insured, and you ought to look at it and make comparisons.

Callahan: Are you trying to recruit for the Agency and get everybody to convert to a federal charter?

Sebastian: No, not at all. We have the strongest Federal Fund in the country, and I think we ought to tell people about it. But you can get federal insurance without a federal charter. There are about 5,000 state credit unions out there with federal insurance.

Callahan: But you're trying to put the private insurers out of business.

Sebastian: Absolutely. If they can't run their funds as well as we run ours, they should be out of business.

Callahan: Why?

Sebastian: Why should a credit union sign up with another insurer if they're running a lousy fund? You know, we were too expensive and we were losing credit unions for a good reason, so we figured out a better way to do it. And if we provide better coverage at a cheaper rate, people ought to switch their insurance to us. That will force the private insurance funds to match or beat us if they can. And if they can beat us—fine! It will prevent us from getting fat, sassy and cocky, because we'll have pressure on us to improve. This pressure is the only way to maintain a viable dual chartering system.

Callahan: I'd also like to make the point that as long as there is talk about changes to the FDIC and FSLIC, you really ought to be marketing *your* insurance Fund. Credit unions ought to step up and say, "Hey, we did it! We've got the strongest Fund." Tell your members. Put a sign on your front door. You have the advantage right now. Use it!

Questioner: What if the Fund doesn't operate on interest earned? What if you get down into my deposit, and you don't pay a dividend? What do we do then?

Sebastian: Well, then you start yelling. You use your trade associations to pressure Congress to call the NCUA executives up to the Hill and hold a hearing on how they're running the Fund.

Questioner: Yes, but that doesn't accomplish a whole lot. We yell a lot, but we don't get anywhere.

Sebastian: Wait a second, I think your basic question is, What happens if the agency is run poorly, right?

Questioner: Basically that's what I'm asking you, right.

Sebastian: What has been your solution to that since day one? That doesn't change.

Questioner: First of all, we should replace some people running it?

Sebastian: Absolutely. But what I'm saying is it sounds like you're suggesting that because we might have a weak administration in the NCUA, we ought to have a weak fund. That makes no sense. We've got the strongest Fund and it protects you in a lot of ways. I think it saves you from being merged into one of the other federal agencies. I think it saves you from being merged into one of the other insurance funds. I think it saves us from taxation. But I'm saying it doesn't change the fact that the administration of the agency can be poor.

Callahan: Don't let him get off not checking the arithmetic. He's acting like he's spending more for a stronger Fund and the fact is you're spending a heck of a lot less.

Sebastian: No, but he's saying we're holding a lot more of his money.

Questioner: No, I agree with the concept. Just handle my money properly.

Questioner: But if our deposit is at risk—and I think you'll agree it is— how valid is it as an asset?

Sebastian: Clearly, the deposit is at risk. When you make loans, isn't that a risk? But you feel pretty comfortable making loans because you know how to manage the risk. We've managed the Fund for three years, and we know what the risks are. And while technically, your deposit is at risk, as is every dollar you've got out in loans, practically speaking, it's not at risk. Doomsday isn't going to come. It's the credit union managers who will decide how severe the risk is, not us.

Questioner: Will there be an opportunity for a review process, so we can be sure the money is being invested on a timely basis, at the best rate, and so forth? The whole thing seems to revolve around the assumption that whoever manages that money will do a better job than we can do in our own shop.

Sebastian: Yes, there will be an ongoing review. We will have a report on the status of the Fund every month during the Board meeting. The press comes in force, and they will report to you. Also, the agency will have to prepare a report to Congress every year. And, there is an external audit by a Big Eight accounting firm every year, so you'll have the opportunity to make sure things are being run the way they should be.

But one thing you said I don't agree with. This plan is not based on the assumption that we can manage your money better than you can. We're sure if you put it out in loans to your members you'd make more than we will investing in Treasuries and agencies. What we're saying is it's cheaper because you will not have to expense a premium. If you don't have to pay a premium and we can invest that money in Governments, the net effect to you will be to your economic benefit.

Callahan: In closing, let me say I think the credit union movement is out in front with deregulation. It is profitable and improving, and its insurance mechanism is postured for the future. And for the first time, credit union people will be interested in the operations of the Fund. It's their money.

We set up a system where we are going to be scrutinized by the person writing the check to us annually because he or she will want to know where his or her dividends are. With that kind of scrutiny we have to be right on top of things.

And if you take it a step further, that same person will soon start asking us what we're doing about problem credit unions. He or she's going to start saying, "Hey, you're letting these people go too long. I'm paying that, and I don't want 208 funds all over the place!" Because failures will affect each credit union's bottom line, the standards we will have to live with will be far stricter than they were in the past. I think the stricter the standards people hold you to, the more incentive you've got to do a better job. ●

Federal Credit Unions Celebrate 50 Years of Service

The National Examiners' Conference theme—sharing experience and expertise—captured the spirit of the 50th anniversary year. Beginning in 1983, NCUA, the Credit Union National Association, and the National Association of Federal Credit Unions began working to ensure proper recognition of credit unions' achievements. Together they successfully secured a joint resolution from the U. S. Congress designating the week of June 24, 1984 as "Federal Credit Union Week." This commemoration of the 50th Anniversary of the Federal Credit Union Act was due in large part to the assistance of Rep. Mary Rose Oakar (D-OH), Senators Jake Garn (R-UT) and William Proxmire (D-WI).

Working with the U. S. Postal Service and members of Congress, NCUA Board Member Elizabeth Flores Burkhart joined forces with CUNA and NAFCU to procure a 20-cent postage stamp commemorating credit unions. In February, the stamp was dedicated at a ceremony in Salem, Massachusetts, the birthplace of Edward A. Filene, the "father" of the credit union movement. Postmaster General William Bolger, who presided over the ceremony, praised the contribution of credit unions, and called the movement "a splendid and enduring success."

In addition, CUNA, along with 23 state credit union leagues and 244 credit unions celebrated 50th anniversaries in 1984. The year also marked the 75th anniversary of the first credit union in the U. S., St. Mary's in New Hampshire. The first general statute permitting incorporation of credit unions was passed in Massachusetts that same year.

July saw credit union membership hit 50 million. Revised membership policies together with an industry wide effort contributed to the goal. NCUA's effort was headed by Board Member Elizabeth Burkhart, in conjunction with CUNA and NAFCU representatives. The next few pages highlight these and other 50th anniversary events.

The credit union stamp. The silhouetted profiles of a man, woman and child represent the credit union family, savers of all ages. The backdrop is that portion of a nickel bearing the Latin phrase, "E Pluribus Unum"—One out of many, symbolizing the organization of each credit union in our Nation. The dollar sign behind the coin signifies the growth of small change into dollars, through thrift and systematic savings.

NAFCU's John Stanton (center) and CUNA's Joe Cugini (right) receive copies of the joint resolution from Chairman Ed Callahan.

Catherine Filene Shouse (seated), niece of Edward Filene, signs stamp ceremony program for NCUA Board. Standing from left: Chairman E. F. Callahan, Board Member Elizabeth F. Burkhart and Vice Chariman P. A. Mack, Jr.

Chairman Callahan (left) presents Agriculture Sec. John Block a commemorative plaque recognizing NCUA's roots in the Department of Agriculture.

"With the passage of the Federal Credit Union Act, the *Christian Science Monitor* observed 'a Henry Ford has come to the financial industry.' Credit unions provided the opportunity for people during the depression to take their financial futures into their own hands. It's noteworthy that 50 years later, coming out of recession, credit unions have once again seized the lead and are growing faster than any other financial institution in the land. It's not an accident. It's happening because the bottom line for credit unions is not dollars and cents, it's people."

Chairman E. F. Callahan

The credit union commemorative stamp is checked for flaws at the Bureau of Printing and Engraving by postage stamp examiner Willie Mae McCants (right). Looking on are NCUA Board Vice Chairman P. A. Mack, Jr. and Board Member Elizabeth Burkhart.

Postmaster General William Bolger (center) presents credit union stamps to Vice Chairman P. A. Mack, Jr. and Board Member Elizabeth F. Burkhart.

The occasion of the dedication of the Board Room to the memory of Edward Filene was used to recognize National Consumers' Week (April 23-29). Virginia Knauer, Special Advisor to the President for Consumer Affairs joins Board Member Elizabeth Burkhart for the ceremonies.

Former Board Member Harold A. Black turned out for the Board Room dedication, along with NCUA alumni Joe Bellenghi and John Ostby.

"The credit union cooperative spirit is reflected in a strong sense of voluntarism and a commitment to sharing information and expertise. At no time has that sense of cooperation been more alive than during the 50th anniversary year. Working as partners, credit union officials, representatives of the trade associations and agency staff members accomplished legislative and regulatory goals many thought unreachable. They shared their spirit and fostered their belief in the future of the credit union movement. In 1984, Federal credit unions once again set a standard by which others will be measured."

Vice Chairman P. A. Mack, Jr.

Tom Welsh, Credit Union National Association Chairman, shows his first day of issue covers to Salem Postmaster Ken Cahill.

The 50th Anniversary celebration brought together those who have written the agency's history with those who are now making it. Standing from left to right: Joe Bellenghi, former Administrator C. Austin Montgomery, Fred Haden, Vice Chairman P. A. Mack, Jr., Chairman Ed Callahan, Board Member Elizabeth F. Burkhart, first Administrator Herman Nickerson, Jr., John Ostby. Seated left to right: former BFCU Director J. Deane Gannon, Joe Blomgrem, Dick Walch, and Bernie Snelnick.

John Hutchinson (left), National Association of Federal Credit Unions president, greets old friend Lawrence Connell, former National Credit Union Administration Board Chairman, at stamp ceremony.

"Two years ago, the doubting Thomases said membership would not reach 50 million by this year. They said the credit union idea was dead. They have been proven wrong. The fact that so many people are choosing credit unions today is proof that the credit union approach, based on cooperation, voluntarism and a person-to-person relationship, is as strong today as it was 75 years ago when the first credit union in the United States was formed and 50 years ago when the Federal credit union system began."

Board Member Elizabeth Flores Burkhart

Kathleen Pelletier (left) receives from Board Member Elizabeth F. Burkhart plaque commemorating achievements of her grandfather, Roy Bergengren, credit union pioneer.

Credit union singalong led by, from left: Joe Schoggen and Toby Baker, Navy FCU; Elizabeth Burkhart, NCUA Board; Ellen Kauffman, Bill Reed and John Henderson, Navy FCU.

50 YEARS OF SERVICE

NCUA's Management Philosophy: More Service for Fewer Dollars

Getting things done in a non-bureaucratic manner is not what government agencies are usually known for, but a no-nonsense approach to management has become NCUA's hallmark. "How we manage this Agency can be as important an example for credit unions as the way we manage our direct supervision and examination contacts with them," said NCUA Board Chairman Edgar F. Callahan, in a remark that sums up his administrative philosophy.

Budget and Fees Slashed

The clearest example to credit unions of efficient management lies in the fact that for the third consecutive year, NCUA reduced its budget and slashed the federal credit union operating fee scale. This decline from \$34.7 million to \$33 million for the fiscal 1985 budget was one of several factors leading to a 24% reduction in the 1985 federal credit union operating fee scale. This cut, when added to the previous years' reductions, (10% in 1983, 30% in 1984 and 24% in 1985) resulted in a cumulative fee scale cut of 64% over the three year period. The 1985 cut saved credit unions more than \$4.3 million. Three years of fee scale reductions have saved them \$14 million.

For individual credit unions the savings are substantial. For example, Ft. Shafter FCU, Honolulu, paid a 1985 fee of \$4178. Had there been no reductions and the 1982 fee scale were still in effect, the credit union would have owed \$8765, a difference of \$4587. The combined cuts saved the nation's largest credit union, Navy FCU, nearly \$300,000. Looked at another way, a \$4 million credit union paid the same operating fee in 1985 as a \$1 million credit union paid in 1982. "Credit unions expect us to be as frugal in running the Agency as we expect them to be in managing their operations," notes Chairman Callahan, "and this is a clear signal that we mean what we say."

Deregulation and decentralization have led to better and faster service to credit unions. While some people question deregulation in the wake of major banking and S&L problems, Chairman Callahan put this approach in a broader context in remarks to the Airline Credit Union Conference: "There's been some very fast paced change in the last 10 years, and you people have been a part of it. All we did was to come along, as usual, a little too late, to react to that change. We call it deregulation. Deregulation is a reaction to change, that's actually all that's been happening."

"The market place is setting the pace for what we call deregulation," he continued. "Everytime there is a failure, undoubtedly you will hear someone say the regulators knew and didn't act soon enough. The inference is, had there been more government, it wouldn't have occurred," the Chairman said. "Business people are human and they're going to make mistakes. It is easy for old time regulators to think that the way you keep things safe and sound is with a list of 'thou shall nots' on the wall," he added. "I obviously don't agree. My reponse to those who would reregulate is that we have to do our supervisory job better."

Doing Our Job Better

One of the Agency's first goals was to get back to an annual examination cycle. For the second year in a row, NCUA completed an examination of every federal credit union last year, an event not seen since the mid 1970s. Timely examinations are part of the Agency's overall emphasis on "getting close and staying close" to the credit unions it regulates. Over the past three years total agency employment has been reduced by 15% to 602. Meantime, the number of examiners has been increased to an all time high of 366. The central office in Washington, D. C. numbers 103, meaning there are six staffers in the regions to every one in Washington, and examiners comprise almost 61% of the total agency staff.

Heightened communications is evident in the distribution of the Financial Performance Reports (FPRs) to all 15,303 federally insured credit unions and to their examiner or state supervisor.

The FPR, ready for distribution one month after the last call report is received and processed by NCUA, gives a 4 page, 5-year summary of critical financial data, including operating ratios and peer group comparisons. This tool gives credit union managers and boards an objective evaluation of midyear and yearend results, a planning aid, and a broadly based set of numbers for financial analysis. Examiners in turn use the reports to monitor their credit unions.

Board Vice Chairman P. A. Mack, Jr. is reappointed for second term.

Sometimes even days may be too long in responding to serious problems. When two or three examples of illegal investments occurred within several weeks, the NCUA Regional Directors decided to try a preventive rather than reactive response to investment problems. Using a toll-free line **(800-424-3205)** already in place, the NCUA investment "hotline" was set up. This hotline gives credit unions, state and federal examiners, brokers and any other groups serving credit unions an opportunity to ask about the legality of investments *before* making decisions. Ed Dupcak, who manages NCUA's investments, and NCUA's Legal Services Department set up files to facilitate cross checks to determine if specific investments or institutions had been the subject of supervisory actions or decisions.

The hotline averaged more than 10 calls per day in the initial months, and potential as well as actual investment problems were identified in dozens of credit unions. Following up on its commitment to take preventive action when possible, the Agency cracked down on three investment brokers during 1984, charging that the investments they were selling to credit unions were illegal.

Just 24 hours after uncovering $300,000 of illegal investments sold by Delta Financial Services to a credit union, the Agency barred the company from any further dealings with federally insured credit unions. Three weeks later, the Agency prohibited Duncan Williams Government Securities Corp. from any further dealings with federally insured credit unions. Both prohibitions were resolved following agreement by the companies to cease the sales or marketing of illegal investments to federally insured credit unions. In late July, the agency took action against First Empire Funding Corporation of Huntington, New York charging that the company marketed to federal credit unions savings and loan certificates of deposit that were not insured by the federal government. While First Empire fought the prohibition and ultimately was granted the right to continue marketing to federally insured credit unions, NCUA's commitment to act against those who offer illegal investments to credit unions continues.

Disclosure Brings Accountability

Agency responsiveness also means timely disclosure of the financial status of NCUA's three funds, the Central Liquidity Facility (CLF), the Agency's operating fund, and the National Credit Union Share Insurance Fund. "Our commitment is to straightforward disclosure of our funds' finances, warts and all," according to Chairman Callahan. "We believe our full and fair disclosure should be no less than what we expect insured credit unions to give to their members."

During the year all three funds managed by NCUA received their third annual audit by an independent CPA firm. While the CLF and the operating fund had received unqualified or "clean" opinions in previous years, and did so again in 1984, the unqualified opinion the insurance fund received on its 1984 financial statements was a first. No other federal insurance fund has such an opinion based on the strict standards of Generally Accepted Accounting Principles.

In order to enhance the accessibility of the Agency, the practice of holding open Board meetings around the country continued in 1984. In Tucson, Seattle, and Honolulu almost one thousand persons had the opportunity to watch the Board at work and to ask questions during an open forum following the regular meeting. Most had never attended a Board meeting before.

Dialogue and debate about the challenges facing credit unions resulted in major Board actions to help credit unions cope with change. These included broadened investment authority and the cancellation of a scheduled second insurance assessment in 1984. The latter saved credit unions over $60 million in insurance expenses, as the capitalization plan was implemented.

Computer System Upgraded

Also critical to timely action and decentralized administration is the reorganization of NCUA's computer systems. In May the Board approved a plan that gives NCUA's six regional offices direct access to, as well as the responsibility for, the management of information about credit unions in their areas. Financial reports and statistics are now done on a "real time" operational framework, instead of a batch processing cycle that takes weeks or months to be fully current. No longer will information on credit unions be in 10 or more separate computer files. The upgraded procedure reduces the cost of the system, while providing more timely and accurate information.

Ultimately, it is people who initiate change and respond to the challenges it brings. This reality prompted a complete reassessment of the Agency's education program. "Credit union examiners have to work with credit union people, and vice-versa. They've got to talk to each other," explained Chairman Callahan.

Thus, an experiment was tried, consolidating examiner education into a week long program that introduced case studies, video tape instruction and outside experts in a three tiered program for new examiners, supervisory examiners and special action teams. Working 12 to 14 hour days, the examiners learned from each other and from credit union managers.

Board Continuity

Critical to the continuity of NCUA's deregulation efforts was the reappointment of P. A. Mack, Jr. to the NCUA Board. "As a charter member of the Board since 1979, Mr. Mack helped pioneer credit union deregulation, and he has seen the very positive impact of these steps," Chairman Callahan said. "The perspective he brings to the issues is invaluable as we shape the policies that will enable credit unions and the Agency to work together successfully in today's rapidly changing environment."

This continuity of leadership has been important, for deregulation and decentralization bring ripple effects and second guessing. "Deregulation has given us the ability to cope with change, but it also opens the door to both good and bad," Chairman Callahan said in a 50th Anniversary speech to credit union managers. "The opportunity for good and bad is almost limitless today for credit unions. But more and more, the entire staff is committed to the fact that we can react faster in a decentralized Agency. Our confidence builds every year," he added.

Ultimately, that sense of confidence extends to the credit union movement, as credit unions see that NCUA is now operating effectively in the same market-driven environment with which credit unions must contend. A credit union system, complete with a strong Share Insurance Fund, a liquidity facility serving virtually every credit union, regulatory policies adjusted to the realities of the economy, and supervisory functions carefully balanced to maximize both safety and soundness and flexibility of operations is now in place.

As an integral part of the system, NCUA will have to take its signals from the marketplace. It must subject itself to the same discipline imposed on credit unions, as well as to the pressures from the credit unions themselves. Changes in the Agency's examination program, for example, will reflect changes in the marketplace. The dividend from the CLF or the Share Insurance Fund will actually be market driven. Because the personnel, budget, investment and merger/liquidation decisions of NCUA now have a direct financial implication for credit unions, the Agency will be subjected to a scrutiny never before experienced.

The character of the agency will be tested in many new areas. The Board is confident that through deregulation and decentralization NCUA has the capability, flexibility and understanding needed to respond to the market forces which will now dictate its future.●

Fantastic Year for FCUs: Financial Performance Outpaces Competition

Editor's Note: The following answers are provided by NCUA Office of Programs Director and CLF President Charles Filson in response to questions from members of the credit union press. The numbers referred to are from the tables and charts accompanying the article.

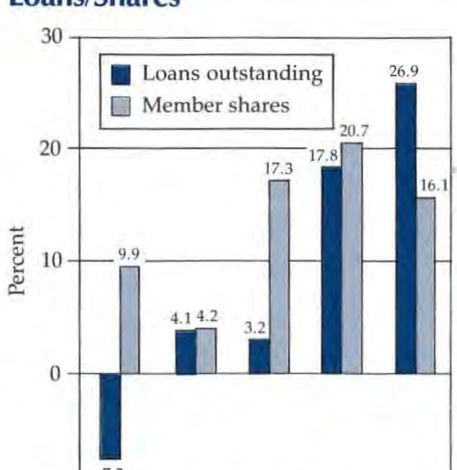
Q. Last year you said the financial results were "fantastic"—is there an adjective that you would use to describe credit unions' 1984 performance?

A. Not unless fantastic has a superlative case. This year's accomplishments are even more remarkable than 1983's. All of the important "macro" indicators are up. Shares rose by 16.1%, loans by 26.9%, and all reserves by 22.2%. But two factors make these numbers even more remarkable.

First, this is the third consecutive year of outstanding growth. It is not uncommon to see a business or industry have one or two excellent years, but the last three years have seen year to year changes in shares of 17.3%, 20.7% and now 16.1% for a total of 54.1%. That is incredible. And it has been accomplished in an extremely competitive environment.

Second, the numbers in 1984 show remarkable balance. It is not unusual for *one* part of an operation to have a good year, such as shares, or loans or capital, but to have all three show positive results is a major accomplishment by the managers of credit unions.

Annual Percentage Change: Loans/Shares



Q. Are there any major differences in the pattern of share growth this year compared to 1983?

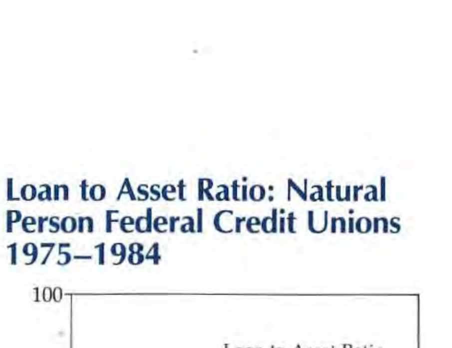
A. Yes. There is a greater increase in certificate accounts, especially in the Individual Retirement Account totals. Total IRA savings dollars rose 78.2% to \$5.2 billion and the percentage of total savings in these accounts grew from 5.9% to 9.0%. That is a very positive result.

On the other hand, IRA money is generally the most expensive. While there is a "long term" prospect to these relationships, the holder can "roll over" these accounts to other institutions. Therefore, managers have to balance the cost of these funds with the knowledge that once they lower rates to be more in line with their certificate accounts, these funds, like all other funds, can leave. My sense is that IRAs still have a "loss leader" element in the pricing and now that they account for 9% of credit union savings, they can become too expensive.

Q. How do these results compare with the competition?

A. Bank and S&L deposits were up 8.4% and 16.8% respectively. We don't know earnings totals or other details. But it's safe to say credit unions are far out in front. During the last three years, we've seen a cumulative increase in savings at credit unions of 54.1%. In that same period, consumer savings at banks grew cumulatively by 26.6% and deposits at S&Ls grew 36.4%.

Loan to Asset Ratio: Natural Person Federal Credit Unions 1975–1984



Q. Were there any major changes in credit union operations recorded in the numbers?

A. If by operations you mean asset strategies, yes. Credit unions have become more aggressive in adding to their earnings power, not through investments, but by loans. Even though loans grew 17.8% in 1983 compared to 26.9% in 1984, savings increased more rapidly two years ago so that the loan-to-savings ratio continued to fall to an all-time low of 66.5% in 1983. This year that ratio is up to 72.7%. This, in my judgment, is the single most critical performance area for success in a deregulated environment. While everyone thinks deregulation means growth in shares it's what you do with the money that matters, not how much you can get in.

Percent Distribution of Savings by Type of Account for Natural Person Federal Credit Unions 1980–1984 (as of December 31)

Type of Account	1980	1981	1982	1983	1984
Regular Shares	**75.6%**	**69.2%**	**72.6%**	**73.9%**	**68.7%**
Share Drafts	4.1%	5.6%	7.1%	8.5%	9.1%
Other Regular Shares	71.5%	63.6%	65.5%	65.4%	59.6%
Share Certificates	**24.4%**	**30.8%**	**27.4%**	**26.1%**	**31.3%**
IRA & Keogh	N/A	.4%	2.3%	5.9%	9.0%
All Savers	.4%	3.3%	3.0%	N/A	N/A
Other Certificates	24.0%	27.1%	22.1%	20.2%	22.3%
Total Savings	100.0%	100.0%	100.0%	100.0%	100.0%
Total Savings in Millions of Dollars	**\$33,812**	**\$35,248**	**\$41,352**	**\$49,891**	**\$57,927**

Q. Isn't there a danger if loans grow too quickly? Can quality really be controlled?

A. Yes, there is a potential concern. But a lot of the growth now is coming from a dramatic increase in overall consumer demand. Internally, credit unions have a lot of unused lending capacity. So initially this two year growth in loans of over 44% shouldn't present any unusual problems.

In fact, if we look at the loan quality indicators - delinquency, reserve ratios, net chargeoffs - all of these numbers in fact show an improvement in overall loan quality.

In the longer term the danger arises if credit standards are not maintained or if credit unions become overly aggressive by getting into new areas where their experience and expertise is limited, such as small business lending or commercial and real estate development loans.

Q. Do the numbers indicate if loans are still a "good deal" at the credit union?

A. Not directly. Every credit union sets its own loan rates subject only to the 21% federal usury ceiling. But I think there are some good indirect numbers that indicate members think the credit union is a good place to borrow. First, the credit union share of overall consumer installment loans increased slightly in 1984. Second, the rate distribution on unsecured and new auto loans shows credit unions continuing to offer very competitive rates on average. Finally, the ratio of loan income to average loans is 13.8% which is a rough rule of thumb for what a person pays for the whole package of consumer credit services at credit unions. This seems very competitive compared to what I see other institutions offering.

Analysis of Loans Outstanding at Natural Person Federal Credit Unions 1980-1984 (as of December 31)

(Amounts in millions of dollars)

Item	1980	1981	1982	1983[1]	1984
Loans outstanding	$26,165	$27,238	$28,192	$33,201	**$42,132**
Allowance for loan losses	$179	$212	$244	$270	**$298**
Regular reserves	$1,122	$1,208	$1,325	$1,489	**$1,800**
Amount of delinquent loans	$875	$803	$884	$748	**$826**
Loans charged-off	$179	$191	$192	$195	**$201**
Recoveries on loans	$23	$29	$33	$40	**$45**
Provision for loan losses	$167	$183	$175	$162	**$164**
Significant Ratios (as a Percent of Loans Outstanding)					
Allowance for loan losses	.68%	.78%	.87%	.81%	**.71%**
Regular reserves	4.29%	4.43%	4.70%	4.48%	**4.27%**
Delinquent loans	3.34%	2.95%	3.15%	2.25%	**1.96%**
Loans charged-off	.68%	.70%	.68%	.60%	**.48%**
Net loans charged-off	.60%	.59%	.56%	.48%	**.37%**
Provision for loan losses	.64%	.67%	.62%	.49%	**.39%**

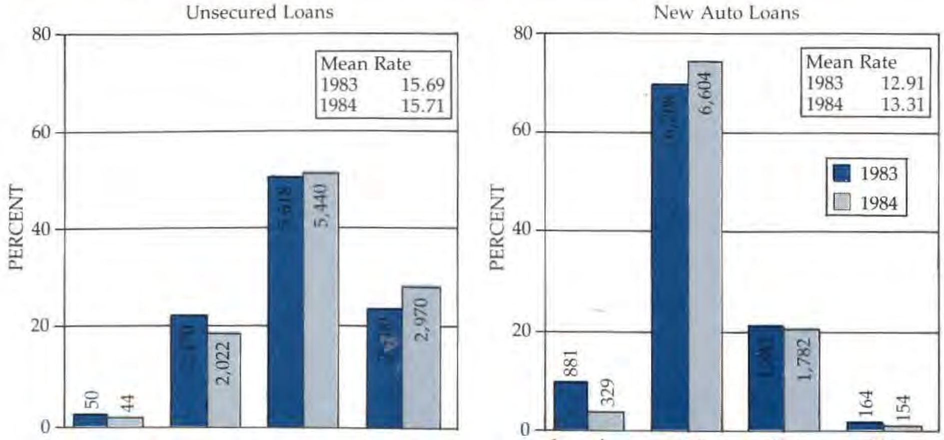
[1]Revised

Percentage Distribution of Consumer Installment Credit by Type of Lender 1980-1984

Type of Lender	1980	1981	1982	1983[1]	1984
Credit Unions	14.1%	13.9%	13.7%	13.7%	**14.4%**
Commercial Banks	46.9%	44.5%	44.1%	43.4%	**44.5%**
Savings & Loans	3.5%	3.5%	4.0%	5.5%	**6.8%**
Mutual Savings Banks	.9%	.8%	.9%	1.6%	**1.8%**
Retailers	9.1%	8.9%	8.8%	8.4%	**7.7%**
Finance Companies	24.5%	27.1%	27.3%	26.3%	**23.9%**
Gasoline Companies	1.3%	1.3%	1.2%	1.1%	**.9%**
Total	100%	100%	100%	100%	**100%**
Consumer Installment Credit Outstanding (in millions)	$313,472	$331,697	$344,798	$388,718	**$468,691**

[1]Revised
Source: Federal Reserve Board

Distribution of Natural Person Federal Credit Unions by Rate Charged on Selected Loans as of Yearend 1983 and 1984



Total Investments at Natural Person Federal Credit Unions 1980–1984 (as of December 31)

(Amounts in millions of dollars)

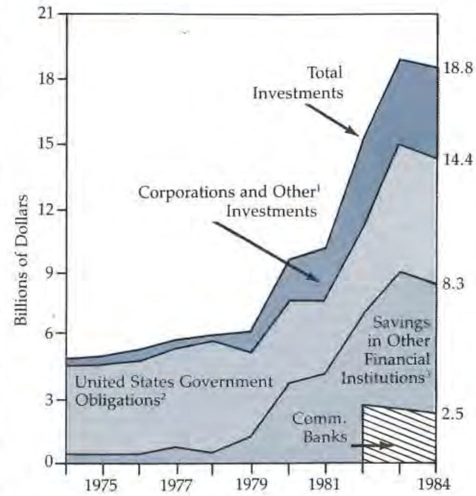
Item	1980	1981	1982	1983[1]	1984
U.S. Government Obligations	$491	$490	$675	$1,751	**$1,795**
Federal Agency Securities	$2,500	$2,346	$2,934	$3,648	**$3,930**
Common Trust Investments	$933	$735	$966	$653	**$421**
Deposits in Commercial Banks	$3,575	$3,897	$2,799	$2,774	**$2,541**
Deposits in S&Ls & Savings Banks			$3,863	$6,297	**$5,867**
Shares/Deposits in Corporate Credit Unions	$1,908	$2,134	$3,537	$3,255	**$3,431**
Investments in other Credit Unions	$211	$172	$185	$125	**$103**
Other Investments[2]	$187	$312	$235	$360	**$479**
Allowance for Investment Losses	$4	$9	$15	$17	**$19**
Total Investments	$9,805	$10,086	$15,194	$18,863	**$18,567**

Percentage Distribution

Item	1980	1981	1982	1983	1984
U.S. Government Obligations	5.0%	4.9%	4.4%	9.3%	**9.7%**
Federal Agency Securities	25.5%	23.3%	19.3%	19.3%	**21.2%**
Common Trust Investments	9.5%	7.3%	6.4%	3.5%	**2.3%**
Deposits in Commercial Banks	36.5%	38.6%	18.4%	14.7%	**13.7%**
Deposits in S&Ls & Savings Banks			25.4%	33.4%	**31.6%**
Shares/Deposits in Corporate Credit Unions	19.5%	21.2%	23.3%	17.3%	**18.5%**
Investments in other Credit Unions	2.2%	1.7%	1.2%	.7%	**.6%**
Other Investments[2]	1.9%	3.1%	1.5%	1.9%	**2.6%**
Total Investments	100.0%	100.0%	100.0%	100.0%	100.0%

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

Investments in Natural Person Federal Credit Unions 1975–1984



[1]Includes deposits and certificates in other credit unions, including corporates, and other investments.

[2]Includes Federal Agency Securities and Common Trust Investments

[3]Represents savings and loan association shares and beginning in 1978, savings on commercial and mutual savings banks.

Q. Credit union investments continued to make headlines from time to time in 1984. Were there any significant changes here?

A. Yes, but not of a quantitative nature. Total investments actually fell by 1.5% to just over $18.5 billion. That's what we would expect to happen as loan demand picks up. Based on the kinds of inquiries to the NCUA Investment Hotline and the absence of questions at credit union meetings (such as "when are you going to give us more investment authority?"), I think that credit unions are over their "investment fixation." Credit unions have never really had an economic advantage in managing investment portfolios compared to other financial intermediaries such as mutual funds. Investments by credit unions on average earned 300 basis points (3%) less than loans in 1984. Managers are learning that lending is what gives the credit union its greatest economic return.

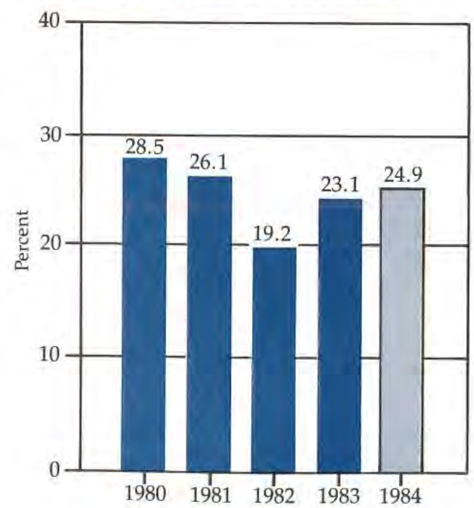
Additionally, credit union investments in banks and S&Ls declined by 8.4% and 6.8% respectively but actually increased in corporate credit unions by 5.4%. I think that increase in the face of an overall decline shows a greater competitiveness by corporates plus a broader based set of investment decision criteria by credit union managers. In other words, a "good" investment is something more than just a high yield. I hope the total benefits of the corporate relationships are becoming more obvious to all credit unions.

Q. But don't we run the high risk of credit unions "going long" by buying long term GNMA's and other securities as rates fall and pressures continue to achieve maximum yield?

A. That pressure is always there. However, very few credit unions extended their portfolios at all in 1984. The percent of total investments over one year was 24.9% at December 1984, compared to 23.1% a year earlier. While I have recently read some investment literature written by brokers for credit unions suggesting that now is the time to lengthen portfolios, I think most managers know that the risks of doing so have rarely, if ever, equalled the gains.

Moreover, I think the expansion of investment powers into Eurodollars and Bankers' acceptances has given federal credit unions a little extra earnings opportunity and that has encouraged them to keep the bulk of their investment funds at less than one year.

Long Term Investment As Percent of Total Investments



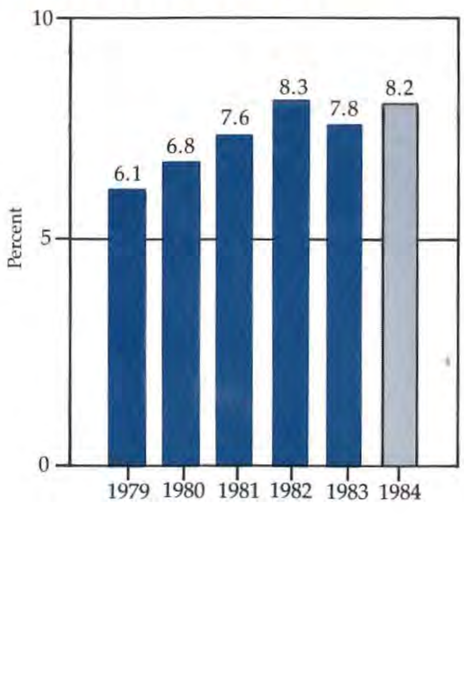
Q. Are there any dramatic surprises on the income and expense side?

A. No surprises, but more great results. The bottom line is up 67.8%. The 6.4% net income to gross is the highest on record. Total income rose 22.9% while assets were up only 16.8%—credit unions are getting a higher return on all their assets. Expenses increased only 12.9% and there was actually a 23.3% *decline* in operating fees and a 9.7% fall in member insurance expenses due to NCUA's reductions in supervision fees and the cancellation of a second insurance premium. While employee salaries rose 14.6% total employees went up almost 10%. Good management starts with expense control.

Q. If the total net income went up does that mean the members were short changed on dividends?

A. No. In fact credit unions paid out a higher percentage of gross income to members in dividends than the year before—59.2% compared to 58.9% in 1983. Overall dividends went up 23.3% to over $4.4 billion. Since shares increased only 16.1%, that means the average return on shares increased as well. We calculate the average return on shares was 8.2% in 1984 compared to 7.8% in 1983. In a well run organization everyone wins.

Effective Cost Of Shares For Federal Credit Unions



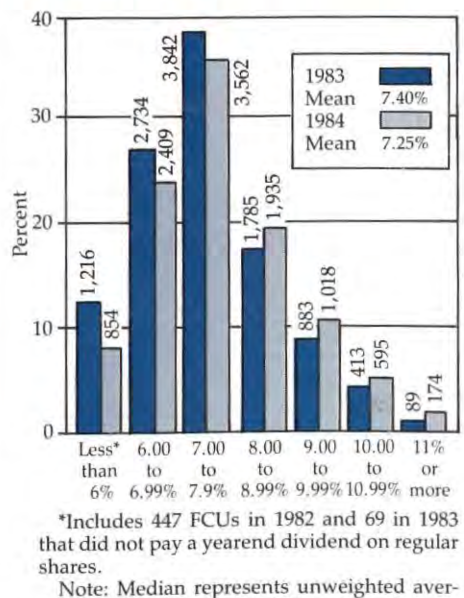
Natural Person Federal Credit Unions Experiencing Losses

Year Ended December 31	No. of Federal Credit Unions	No. of Federal Credit Unions Experiencing Losses	Percent of Total Number of Federal Credit Unions	Amount of Negative Earnings (thousands of dollars)
1980	12,440	3,950	31.8%	$120,099
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**

Natural Person Federal Credit Unions Experiencing Losses in 1984 by Asset Size

Asset Size	No. of FCUs	Assets	Amount of 1984 Losses	Amount of Reserves & Undivided Earnings
Less than $1 Million	634	$205,760,577	$(2,176,170)	$15,536,957
$1 Million to less than $2 Million	138	$198,687,840	$(1,646,739)	$10,799,526
$2 Million to less than $5 Million	126	$394,137,431	$(2,533,978)	$20,818,024
$5 Million to less than $10 Million	65	$461,669,678	$(3,056,383)	$20,149,359
$10 Million to less than $20 Million	0	$0	$0	$0
$20 Million to less than $50 Million	28	$871,974,820	$(3,164,025)	$33,731,856
$50 Million and up	50	$1,913,703,848	$(5,978,179)	$58,881,965
Total	1,041	$4,045,934,194	$(18,555,474)	$159,917,687

Distribution of Natural Person Federal Credit Unions by Dividend Rates Paid on Regular Shares as of Yearend 1983 and 1984



*Includes 447 FCUs in 1982 and 69 in 1983 that did not pay a yearend dividend on regular shares.

Note: Median represents unweighted average based on number of FCUs.

Q. How does NCUA "win?"

A. Our goal is safety and soundness. Credit unions have shown that they can build capital without the regulator having to mandate new or higher levels. The large positive net income increased total reserves and undivided earnings to 6.3% of assets, up .3% from yearend 1983. That is responsible and mature credit union management.

Second, the better the results, the fewer problems the Agency has to deal with. In 1984 the number of credit unions reporting operating losses was only 1,041, or 9.9%. Their total losses were only $18.5 million. Those numbers are down dramatically from 1983. Compared to 1980 figures of 3,950 credit unions experiencing losses totalling over $120 million, the turnaround is incredible.

Finally, the severity of problems is lessening. Our printouts of two year and three year "losers" are much shorter. The level of losses in these credit unions on a year to year basis is falling dramatically. Every region has made bottom line net income the single most important performance indicator. The results of this effort are a real tribute to the NCUA Regional Directors and their examiner staffs. And as reported in the 1984

Number of Natural Person Federal Credit Unions by Early Warning System (EWS) Categories

	Calendar Year End									
EWS Category	1976	1977	1978	1979	1980	1981	1982	1983	1984	1 Year Change
Codes 1 & 2	8,610	9,079	8,712	8,488	7,862	7,237	7,093	7,365	**7,425**	60
Code 3	3,499	3,145	3,373	3,433	3,770	3,837	3,751	2,855	**2,623**	−232
Code 4	648	526	674	817	585	720	661	646	**451**	−195
Code 5	[1]	[1]	[1]	[1]	223	175	126	97	**48**	−49
Total	**12,757**	**12,750**	**12,759**	**12,738**	**12,440**	**11,969**	**11,631**	**10,963**	**10,547**	**−416**

[1]5 Code system implemented during 1980

NCUA Share Insurance Annual Report, the number of problem federal and federally insured state-chartered credit unions (Early Warning System Codes 4 and 5) continues to decline, and dropped 22% to 872 in 1984, compared to 1983's 1,124.

Q. What impact did field of membership expansions have on overall credit union membership?

A. There is not a direct measure, but all the indirect indicators show field of membership expansion was responsible, at least in part, for some very strong advances. For example, new members are up 5.1%, or 1.4 million and potential members increased 13.9% or almost 8 million.

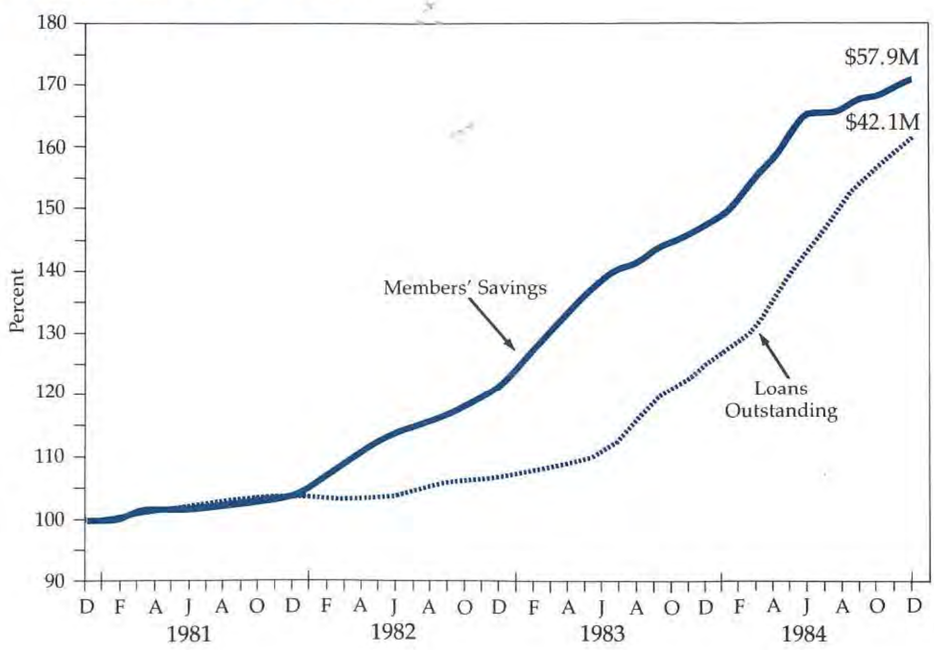
Q. In general, what do all of these numbers mean for the average credit union member?

A. The results show that he or she can feel confident in building and maintaining a financial relationship exclusively within the credit union movement—to the extent each credit union offers services he or she needs. We know that over 99.4% of all shares in federal credit unions are 100% insured and that the liquidity and insurance safety nets are in place and are functioning well. When many institutions are questioning whether they want the retail consumer, credit unions are showing that they want the business and that they can manage the responsibility in a professional manner. ●

Distribution by Asset Size of Federal Credit Unions in EWS Codes 4 and 5 as of December 31, 1984

Asset Size	Number of Credit Unions	Total Assets (in thousands)
Less than $1 million	320	$87,152
$1 million to $10 million	136	$418,060
$10 million to $20 million	16	$232,000
$20 million to $50 million	17	$525,127
$50 million to $100 million	9	$639,589
Over $100 million	1	$168,980
Total	**499**	**$2,070,908**

Momentum of Loan and Share Growth 1981-1984 Index-Dec. 1980 = 100%



Corporate Results Outstanding

Q. Do the numbers from the corporate credit unions show the same dramatic successes as the natural person results?

A. The corporate results are outstanding but in a very different way. First, the numbers are not directly comparable. The totals from the 29 corporates that are federally insured include both state and federally chartered corporates and excludes 13 privately insured or uninsured ones. So, for example, while we know that all federal credit unions increased the dollar amount of shares invested in corporates, this sample of 29 shows a slight decrease (2.7%) in shares from their member credit unions. Second, I think a separate set of financial "yardsticks" has to be used when analyzing corporate versus natural person credit union results. Corporate credit unions receive their business solely from these natural person credit unions and very much reflect the pressures these direct market players have to deal with. For example during the last two years of very high share growth in natural person credit unions, corporate shares have fallen because of the dramatic increase of member loan demand.

After the earnings results I would look at how well the corporates controlled expenses. As wholesale financial intermediaries competing for credit union investments with banks, S&Ls, mutual funds and many other options, the ability to manage expenses is crucial to being able to "pass through" the highest possible yield on funds invested. Operating expenses went up only 8.3% and the operating expense ratio is holding fairly consistent at 2.8% of gross income. Again I think it is only fair to point out that a part of this expense control is due to NCUA's reduction of the cost of share insurance and of supervision fees. These expenses were down 42.4% and 24.1% respectively from 1983 totals.

Key Statistics on Federally Insured Corporate Credit Unions (amount in millions)

Item	1980	1981	1982	1983	1984
Number	32	32	30	29	**29**
Assets	$3,366.0	$3,879.0	$5,994.0	$5,937.8	**$6,084.6**
Loans	$313.0	$181.0	$95.0	$177.1	**$477.1**
Shares	$3,226.0	$3,646.0	$5,799.0	$5,679.0	**$5,246.3**
Reserves	$18.5	$32.7	$44.5	$58.4	**$70.7**
Undivided Earnings	$4.5	$15.5	$20.5	$24.2	**$30.8**
Gross Income	$283.2	$559.6	$650.8	$615.5	**$642.7**
Operating Expenses	$8.6	$16.1	$15.1	$16.7	**$18.1**
Interest on Borrowing	$6.4	$13.0	$12.3	$13.6	**$36.5**
Dividends & Interest on Deposits	$260.1	$504.2	$599.5	$565.1	**$566.5**
Reserve Transfers	$4.7	$8.0	$11.5	$11.2	**$11.8**
Net Income	$3.4	$18.7	$6.2	$7.6	**$9.8**
Significant Ratios					
Reserves to Assets	.5%	.8%	.7%	1.0%	**1.2%**
Reserves and Undivided Earnings to Assets	.6%	1.2%	1.1%	1.4%	**1.7%**
Reserves to Loans	5.9%	18.1%	46.8%	33.0%	**14.8%**
Loans to Shares	9.8%	5.0%	1.6%	3.1%	**9.1%**
Operating Expenses to Gross Income	3.0%	2.9%	2.3%	2.7%	**2.8%**
Salaries & Benefits to Gross Income	1.1%	.8%	.8%	1.0%	**1.1%**
Dividends to Gross Income	91.9%	90.0%	92.1%	91.8%	**88.2%**
Yield on Average Assets	11.9%	15.4%	13.2%	10.3%	**10.7%**
Cost of Funds to Average Assets	11.2%	14.2%	12.4%	9.5%	**9.4%**
Gross Spread	.7%	1.2%	.8%	.8%	**1.3%**
Net Income Divided by Gross Income	1.2%	3.3%	.9%	1.2%	**1.5%**
Yield on Average Loans	8.6%	14.3%	9.0%	7.2%	**12.3%**
Yield on Average Investments	13.4%	15.9%	13.6%	10.6%	**10.8%**

Q. What "yardsticks" do you use to measure the financial well-being of corporates if growth is not as important an indicator as it is in natural person credit unions?

A. There are several. Earnings, the bottom line, are crucial. Statutory reserves and undividend earnings rose 5.4% and 28.4% respectively. Since total shares went down, this increase in earnings means that these credit unions had to be better managers of the spread between their average yield in assets and their average cost of funds. And this gross spread of 1.3% or 130 basis points is the best result achieved by the corporates in at least the past five years.

Higher earnings and limited growth results in stronger capital ratios. And the charts show that all reserves and undivided earnings as a percent of assets is 1.7%, a 23% increase from the previous year. That's very good.

Q. Are there any noteworthy changes in the combined balance sheet of the corporates?

A. Yes. Loans to credit unions are up from $177 million to $477 million, a 170% increase. However, we believe almost all of this increase is due to various repurchase programs that the corporates offer their members. Loan demand due to liquidity needs in natural person credit unions is still quite limited although occasionally we find a credit union which is funding some of its loan demand through borrowings from the corporate. One other aspect where there really hasn't been a change is the use of U.S. Central as the primary recipient for corporate funds. Some 77.1% of corporates' investments (totaling $4.2 billion) were in U.S. Central compared to 76.2% the year before.

Q. Do you think that credit unions can really feel "safe" if they should choose to put all of their "eggs" in the corporate basket," so to speak?

A. While I recognize the importance of diversity as one way to reduce risk in the management of any portfolio, I think that both the hard numbers as well as the qualitative or "network" factors make the corporates sound places to put credit unions' funds. Although NCUA insurance covered only 14.4%, on average, of corporate shares ($100,000 per account) I think all the financial fundamentals are very strong and improving. Reserves are up in both absolute dollar and relative terms. Earnings are good. Return on investments is very competitive.

The system factors are critical too. The corporates work together and support each other. There are real economies of scale in their shared computer network and in product development. They are all part of the CLF which provides both liquidity and stabilization assistance. And although there have been serious financial problems in several corporates over the past five or six years, the members of each corporate and the corporate system have stepped up to their responsibilities and put together solutions for these problems. Not one penny of principal or interest has ever been lost in an insured corporate—that can't be said for any other group of insured institutions. And remember, mutual funds have no reserves at all.

Finally, I think the package of corporate services has a real value. If individual credit unions try to shop around for all of the operational, investment and other services that the average corporate offers, then that credit union will have to manage four to five other relationships—for settlements, for coin and currency, for investments, for market monitoring, etc. In fact, one problem credit union we are working with right now has six different bank accounts and works with three or four brokers for investments. The managers of natural person credit unions have a limited amount of time to make their organizations competitive. Are they better off trying to increase their organization's results by spending time improving and maintaining member relationships or negotiating for external services? If I were a manager I would try to get my corporate to give me first class service in order to maximize my time with my members.

Q. You sound like an advocate for the corporates?

A. I am. They made the CLF successful. Working with these managers has made me a better CLF president. I think they can do the same for any credit union manager.

Q. But do you have any concerns?

A. I am concerned that the "good news" of the corporate system may not be getting out. From time to time there will be problems, operational or supervisory, and sometimes the press and regulators only see and remember these accidents, not the total benefit being accomplished. One of the reasons credit unions can be so competitive at the member level is because there is a nationwide system of wholesale financial intermediaries (the corporates) to back up each credit union. No one else can offered delivery system that even begins to match this. In the battle for the member's savings dollar I think credit unions are going to find that as the interstate barriers fall for banks and S&Ls, their real advantage is the presence, in almost every state, of a corporate dedicated solely to making their credit union more competitive. ●

Statistical Tables

Table 1
Natural Person Federal Credit Unions Consolidated Balance Sheet
(Amounts in Thousands of Dollars)

Item	1983[1]	1984	Percent Increase (Decrease)
Assets:			
Cash	$ 1,172,072	**$ 1,440,332**	22.8%
Loans Outstanding	$33,200,715	**$42,131,728**	26.9%
Allowance for Loan Losses	($270,602)	**($297,936)**	10.1%
Investments:			
U.S. Gov/Fed Agency	$5,399,359	**$5,725,101**	6.0%
Commercial Banks	$2,773,221	**$2,540,986**	(8.4%)
S&Ls and Mutual Savings	$6,299,191	**$5,867,043**	(6.8%)
Corporate Credit Unions	$3,256,119	**$3,430,945**	5.4%
Common Trusts	$651,200	**$420,924**	(35.4%)
Other Investments	$485,213	**$582,486**	20.0%
Total Investments	$18,862,569	**$18,567,485**	(1.5%)
Allowance for Investment Losses	($16,767)	**($18,645)**	11.1%
Land and Building (Net of Depreciation)	$668,822	**$762,824**	14.1%
Other Fixed Assets	$309,413	**$372,978**	20.6%
Other Assets	$555,592	**$699,265**	25.9%
Total Assets	$54,481,994	**$63,658,031**	16.8%
Liabilities:			
Accounts Payable	$274,937	**$290,775**	5.8%
Notes Payable	$388,425	**$671,378**	72.8%
Dividends Payable	$525,687	**$598,557**	13.9%
Other Liabilities	$113,372	**$125,766**	10.9%
Total Liabilities	$1,302,547	**$1,686,476**	29.4%
Equity/Savings:			
Regular Shares[2]	$32,733,680	**$34,547,563**	5.5%
Share Certificates	$9,985,220	**$12,908,289**	29.2%
IRA/Keogh Accounts	$2,921,228	**$5,206,294**	78.2%
Share Drafts	$4,250,954	**$5,265,288**	23.8%
Total Savings	$49,891,085	**$57,927,434**	16.1%
Regular Reserves	$1,488,863	**$1,800,469**	20.9%
Other Reserves	$517,808	**$650,683**	25.6%
Undivided Earnings	$1,281,489	**$1,592,969**	24.3%
Total Equity/Savings	$53,179,245	**$61,971,555**	16.5%
Total Liabilities/Equity	$54,481,828	**$63,658,031**	16.8%

[1]Revised
[2]Passbook, Regular Money Market, Etc.
Based on 10,547 Natural Person Federal Credit Unions for 1984 and 10,962 for 1983

Table 2
Natural Person Federal Credit Unions
Consolidated Income and Expense Statement

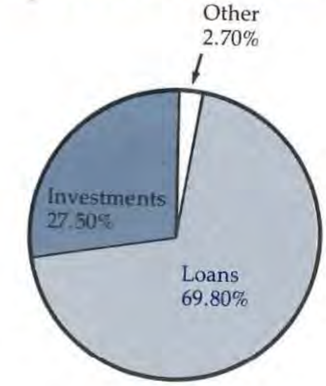
(Amounts in Thousands of Dollars)

Account	1983[1]	1984	Percentage Change
Income			
Interest on Loans	$4,207,442	**$5,222,868**	24.1%
Less Interest Refund	($23,846)	**($25,960)**	8.9%
Income from Investments	$1,734,867	**$2,046,215**	17.9%
Other Operating Income	$145,147	**$206,883**	42.5%
Total Gross Income	$6,063,610	**$7,450,006**	22.9%
Expenses			
Employee Compensation	$731,482	**$838,679**	14.6%
Employee Benefits	$142,490	**$172,118**	20.7%
Travel & Conference Expenses	$35,022	**$40,057**	14.3%
Association Dues	$22,951	**$23,949**	4.3%
Office Occupancy	$87,678	**$108,600**	23.8%
Office Operations Expense	$330,005	**$402,347**	21.9%
Educational and Promotion	$43,373	**$50,737**	16.9%
Loan Servicing Expense	$31,552	**$37,611**	19.2%
Professional & Outside Services	$149,274	**$169,448**	13.5%
Provision For Loan Losses	$161,694	**$163,539**	1.1%
Member Insurance	$202,725	**$182,995**	(9.7%)
Operating Fees	$23,234	**$17,803**	(23.3%)
Cash Short & Over	$1,305	**$1,674**	28.2%
Interest on Borrowed Money	$33,546	**$46,902**	39.8%
Annual Meeting Expense	$12,186	**$13,171**	8.0%
Miscellaneous Operating Expenses	$36,889	**$40,738**	10.4%
Total Operating Expenses	$2,045,437	**$2,310,383**	12.9%
Non-Operating Gains or Losses:			
Gain (Loss) on Investments	($4,460)	**($4,259)**	(8.2%)
Gain (Loss) on Disposition of Assets	$4,566	**$2,620**	(42.6%)
Other Non-Operating Expenses	$7,790	**$7,713**	(.9%)
Total Income (Loss) Before Dividends	$4,026,295	**$5,145,695**	27.8%
Transfer to Regular & Stat. Reserves	$166,819	**$260,409**	56.1%
Dividends & Interest on Deposits	$3,575,920	**$4,409,286**	23.3%
Net Income (Loss) After Dividends and Reserve Transfers	$283,548	**$475,928**	67.8%

[1]Revised

Based on 10,547 Natural Person Federal Credit Unions for 1984 and 10,962 for 1983

Table 3
Income & Expense Distribution for Federal Credit Unions
Sources of Income–1984



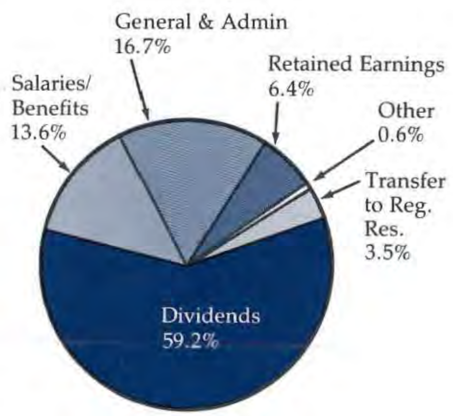


Table 4 Selected Data for Federal Credit Unions December 31, 1934–84

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[3]	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	**135**	**664**	**−529**	**10,766**	**219**	**10,547**	**28,170,148**	**63,658,031**	**57,927,434**	**42,131,728**

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

Table 5 Natural Person Federal Credit Unions 10-Year Summary, 1975–1979

(Amounts in Millions as of December 31)

	1975	1976	1977	1978	1979
Assets	$20,209	$24,396	$29,564	$34,760	$35,334
Loans Outstanding	$14,869	$18,311	$22,687	$27,687	$28,182
Shares	$17,530	$21,130	$25,576	$29,803	$30,768
Reserves*	$1,030	$1,180	$1,325	$1,365	$1,426
Undivided Earnings	$252	$285	$370	$485	$629
Gross Income	$1,749	$2,124	$2,580	$3,201	$3,530
Operating Expenses	$655	$791	$968	$1,214	$1,428
Dividends	$925	$1,130	$1,387	$1,706	$1,862
Reserve Transfers	$134	$167	$140	$150	$88
Net Income	$34	$37	$85	$131	$153
Percent Change	**1975**	**1976**	**1977**	**1978**	**1979**
Total Assets	20.9%	20.7%	21.2%	17.6%	1.7%
Loans Outstanding	16.8%	23.1%	23.9%	22.0%	1.8%
Savings	22.0%	20.5%	21.0%	16.5%	3.2%
Reserves*	12.8%	14.6%	12.3%	3.0%	4.5%
Undivided Earnings	11.5%	13.1%	29.8%	31.1%	29.7%
Gross Income	16.3%	21.4%	21.5%	24.1%	10.3%
Operating Expenses	19.7%	20.8%	22.4%	25.4%	17.6%
Dividends	21.4%	22.2%	22.7%	23.0%	9.1%
Reserve Transfers	−1.5%	24.6%	−16.2%	7.1%	−41.3%
Net Income	−43.3%	8.8%	129.7%	54.1%	16.8%
Significant Ratios (%)	**1975**	**1976**	**1977**	**1978**	**1979**
Reserves to Assets	5.1%	4.8%	4.5%	3.9%	4.0%
Reserves & Undivided Earnings to Assets	6.3%	6.0%	5.7%	5.3%	5.8%
Reserves to Loans	6.9%	6.4%	5.8%	4.9%	5.1%
Loans to Shares	84.8%	86.7%	88.8%	92.9%	91.6%
Operating Expenses to Gross Income	37.5%	37.2%	37.5%	37.9%	40.4%
Salaries & Benefits to Gross Income	12.8%	12.3%	12.0%	11.6%	14.3%
Dividends to Gross Income	52.9%	53.2%	53.8%	53.3%	52.7%
Yield on Average Assets	10.0%	9.5%	9.6%	10.0%	10.1%
Cost of Funds to Average Assets	5.3%	5.3%	5.5%	5.8%	5.9%
Gross Spread	4.7%	4.2%	4.1%	4.2%	4.2%
Net Income Divided by Gross Income	2.0%	1.7%	3.3%	4.1%	4.3%
Yield on Average Loans	10.3%	10.5%	10.5%	10.9%	10.9%
Yield on Average Investments	8.7%	7.9%	7.9%	8.4%	8.6%

*Does not include the Allowance for Loan Losses

Table 6 Number of Natural Person Federal Credit Unions by Asset Size, December 31, 1984

Asset Size	Number of Federal Credit Unions	Percentage of Total	Cumulative Percentage
Less than $50 thousand	364	3.5%	3.5%
$50 to $100 thousand	484	4.6%	8.0%
$100 to $250 thousand	1,274	12.1%	20.1%
$250 to $500 thousand	1,516	14.4%	34.5%
$500 thousand to $1 million	1,628	15.4%	49.9%
$1 million to $2 million	1,529	14.5%	64.4%
$2 million to $5 million	1,695	16.1%	80.5%
$5 million to $10 million	861	8.2%	88.7%
$10 million to $20 million	570	5.4%	94.1%
$20 million to $50 million	394	3.7%	97.8%
$50 million to $100 million	147	1.4%	99.2%
$100 million and over	85	.8%	100.0%
Total	**10,547**	100.0%	

Note: Excludes Federal Corporate Central Credit Unions

Table 5 Natural Person Federal Credit Unions 10-Year Summary Continued 1980–1984

(Amounts in Millions as of December 31)

	1980	1981	1982	1983	1984
Assets	$37,515	$39,181	$45,494	$54,482	**$63,658**
Loans Outstanding	$26,165	$27,238	$28,192	$33,201	**$42,132**
Shares	$33,812	$35,248	$41,352	$49,891	**$57,927**
Reserves*	$1,473	$1,614	$1,773	$2,007	**$2,451**
Undivided Earnings	$709	$906	$1,118	$1,281	**$1,593**
Gross Income	$3,824	$4,681	$5,406	$6,064	**$7,450**
Operating Expenses	$1,498	$1,660	$1,822	$2,045	**$2,310**
Dividends	$2,185	$2,656	$3,185	$3,573	**$4,409**
Reserve Transfers	$98	$147	$147	$166	**$260**
Net Income	$43	$219	$244	$287	**$476**
Percent Change	**1980**	**1981**	**1982**	**1983**	**1984**
Total Assets	6.1%	4.4%	16.1%	19.8%	**16.8%**
Loans Outstanding	−7.2%	4.1%	3.5%	17.8%	**26.9%**
Savings	9.9%	4.2%	17.3%	20.7%	**16.1%**
Reserves*	3.3%	9.6%	9.9%	13.1%	**22.2%**
Undivided Earnings	12.7%	27.8%	23.4%	14.9%	**24.1%**
Gross Income	83.0%	22.4%	15.5%	12.2%	**22.9%**
Operating Expenses	4.9%	10.8%	9.8%	12.3%	**13.0%**
Dividends	17.3%	21.6%	11.9%	12.2%	**23.4%**
Reserve Transfers	11.4%	50.0%	—	12.7%	**56.6%**
Net Income	−71.9%	40.9%	11.4%	17.6%	**65.9%**
Significant Ratios (%)	**1980**	**1981**	**1982**	**1983**	**1984**
Reserves to Assets	3.9%	4.1%	3.9%	3.7%	**3.9%**
Reserves & Undivided Earnings to Assets	5.8%	6.4%	6.4%	6.0%	**6.3%**
Reserves to Loans	5.6%	59.0%	6.3%	6.0%	**5.8%**
Loans to Shares	77.4%	77.3%	68.2%	66.5%	**72.7%**
Operating Expenses to Gross Income	39.2%	35.5%	33.7%	33.7%	**31.0%**
Salaries & Benefits to Gross Income	14.7%	14.1%	14.1%	14.4%	**13.6%**
Dividends to Gross Income	57.1%	56.7%	58.9%	58.9%	**59.2%**
Yield on Average Assets	10.5%	12.2%	12.8%	12.1%	**11.7%**
Cost of Funds to Average Assets	6.4%	7.2%	7.5%	7.1%	**7.0%**
Gross Spread	4.2%	5.1%	5.3%	5.0%	**4.7%**
Net Income Divided by Gross Income	1.1%	4.7%	4.5%	4.7%	**6.4%**
Yield on Average Loans	11.0%	12.5%	13.6%	13.7%	**12.4%**
Yield on Average Investments	10.3%	12.8%	12.3%	10.2%	**11.0%**

*Does not include the Allowance for Loan Losses

Table 7 Assets of Natural Person Federal Credit Unions by Asset Size, December 31, 1984

Asset Size	Assets (in thousands)	Percentage of Total	Cumulative Percentage
Less than $50 thousand	$10,064	.02%	.02%
$50 to $100 thousand	$36,574	.06%	.08%
$100 to $250 thousand	$217,645	.34%	.42%
$250 to $500 thousand	$553,000	.87%	1.29%
$500 thousand to $1 million	$1,179,232	1.85%	3.14%
$1 million to $2 million	$2,208,683	3.47%	6.61%
$2 million to $5 million	$5,391,128	8.47%	15.08%
$5 million to $10 million	$6,165,663	9.69%	24.77%
$10 million to $20 million	$8,038,026	12.63%	37.40%
$20 million to $50 million	$12,565,634	19.74%	57.14%
$50 million to $100 million	$10,120,584	15.90%	73.04%
$100 million and over	$17,171,766	26.96%	100.00%
Total	**$63,658,032**	100.00%	

Note: Excludes Federal Corporate Central Credit Unions

Table 8 Natural Person Federal Credit Unions By State December 31, 1984

State	Number FCUs 1984	Assets in Millions 1984	Assets in Millions 1983	Percent Change 1983 to 1984
Alabama	164	$947	$798	18.7%
Alaska	21	$882	$792	11.4%
Arizona	60	$982	$826	18.9%
Arkansas	97	$224	$196	14.3%
California	813	$9,774	$8,684	12.6%
Canal Zone	0	0	$9	−100.0%
Colorado	152	$1,137	$970	17.2%
Connecticut	252	$1,293	$1,078	19.9%
Delaware	66	$237	$214	10.7%
District of Columbia	123	$1,068	$970	10.1%
Florida	280	$3,485	$2,969	17.4%
Georgia	249	$1,110	$973	14.1%
Guam	3	$25	$22	13.6%
Hawaii	138	$1,181	$1,035	14.1%
Idaho	53	$273	$197	38.6%
Illinois	321	$1,166	$688	69.5%
Indiana	359	$2,318	$1,869	24.0%
Iowa	8	$23	$21	9.5%
Kansas	46	$189	$181	4.4%
Kentucky	131	$521	$438	18.9%
Louisiana	340	$1,029	$909	13.2%
Maine	121	$607	$473	28.3%
Maryland	190	$1,641	$1,437	14.2%
Massachusetts	279	$1,134	$950	19.4%
Michigan	260	$2,385	$1,979	20.5%
Minnesota	53	$343	$301	14.0%
Mississippi	134	$364	$320	13.8%
Missouri	28	$97	$105	−7.6%
Montana	90	$295	$262	12.6%
Nebraska	74	$324	$285	13.7%
Nevada	35	$486	$409	18.8%
New Hampshire	22	$276	$220	25.5%
New Jersey	535	$1,812	$1,636	10.8%
New Mexico	50	$486	$426	14.1%
New York	986	$4,803	$4,107	16.9%
North Carolina	121	$777	$635	22.4%
North Dakota	26	$55	$50	10.0%
Ohio	559	$1,656	$1,474	12.3%
Oklahoma	96	$657	$586	12.1%
Oregon	142	$746	$658	13.4%
Pennsylvania	1,249	$3,117	$2,789	11.8%
Puerto Rico	33	$101	$92	9.8%
Rhode Island	16	$16	$14	14.3%
South Carolina	119	$843	$701	20.3%
South Dakota	83	$210	$181	16.0%
Tennessee	160	$1,056	$899	17.5%
Texas	724	$5,054	$4,389	15.2%
Utah	57	$228	$199	14.6%
Vermont	6	$53	$40	32.5%
Virgin Islands	5	$5	$4	25.0%
Virginia	258	$4,371	$3,561	22.7%
Washington	140	$1,142	$917	24.5%
West Virginia	167	$393	$357	10.1%
Wisconsin	4	$79	$28	182.1%
Wyoming	49	$178	$156	14.1%
Total	$10,547	$63,654*	$54,479*	

*Differences in assets from other tables is due to rounding

Table 9
Selected Data Pertaining to Federally-Insured State Credit Unions 1971–1984

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[1]	4,915	14,277,816	$27,479,116	$24,849,831	$17,214,861
1984	4,657	15,186,092	$30,788,593	$26,560,569	$20,013,041

[1]Revised

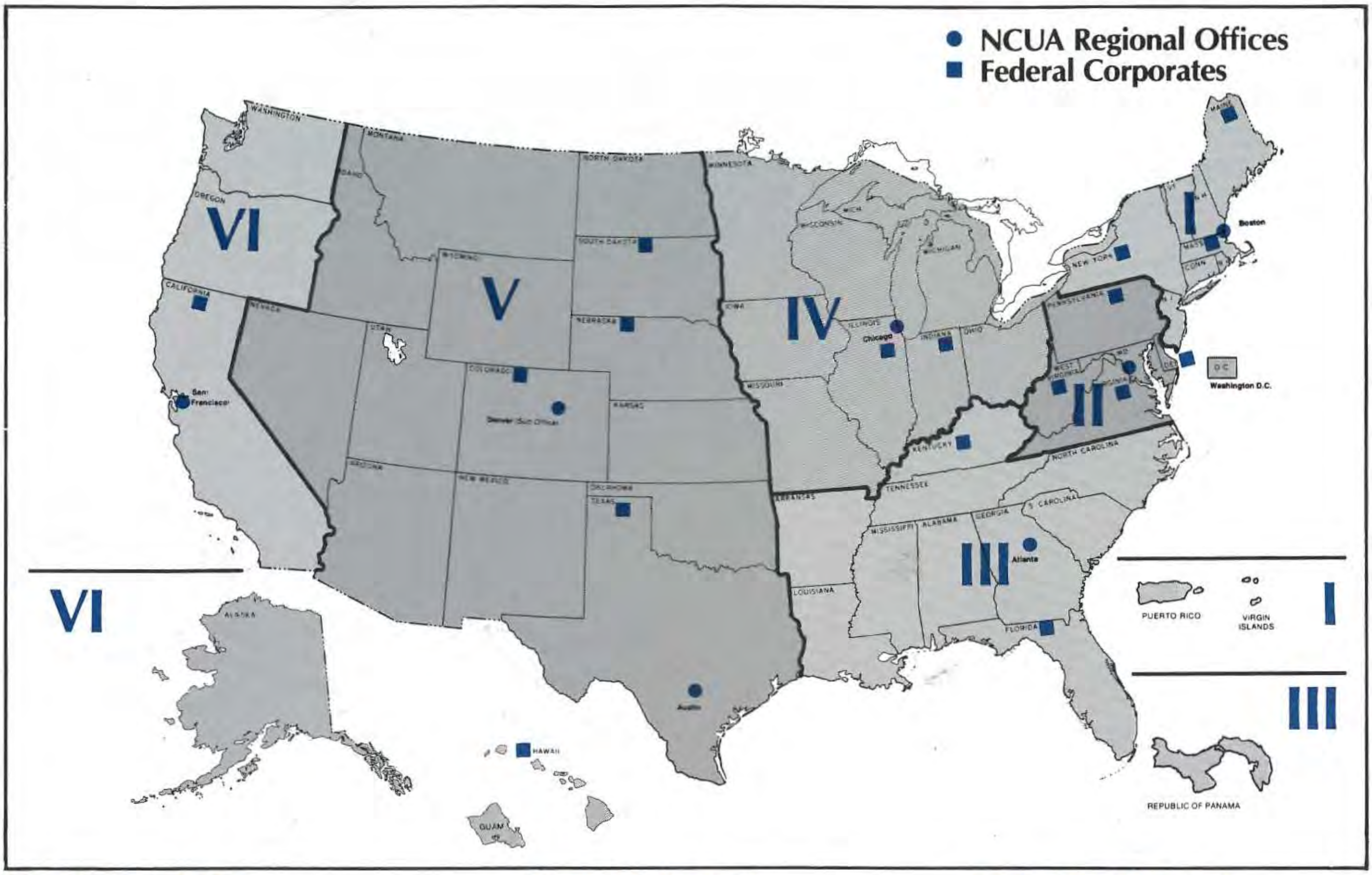
Table 10
List of Federal Corporate Credit Unions

Corporate Name	State	Assets in Millions
Western Corporate	CA	$1,074
Southwest Corporate	TX	$710
Capital Corporate	MD	$151
League Central of Maine	ME	$91
Virginia League Corporate	VA	$205
Mid-States Corporate	IL	$442
Southeast Corporate	FL	$268
Mid-Atlantic Central	PA	$263
Nebraska Corporate Central	NB	$52
Indiana Corporate	IN	$401
Empire Corporate Central	NY	$408
Colorado Corporate	CO	$251
South Dakota Corporate Central	SD	$41
Pacific Corporate	HI	$98
Mass. CUNA Corporate Central	MA	$129
LICU Corporate	NY	$5
Kentucky Corporate	KY	$59

Table 11
List of Federally Insured State Corporate Credit Unions

Corporate Name	State	Assets in Millions
Georgia Central	GA	$173
Ohio League Corporate	OH	$173
Minnesota Central	MN	$108
Oregon Corporate Central	OR	$88
Corporate CU of Arizona	AR	$167
Oklahoma Corporate	OK	$182
Iowa League Corporate	IA	$104
Constitution State Corporate	CT	$217
First Carolina Corporate	NC	$205
Federacion De Cooperativas	PR	$34
Alabama Corporate	AL	$82
The Carolina Corporate	SC	$56

NCUA Regional Office Boundaries



Washington Office Staff

Vince Toolen, Director,
Office of Services
Robert M. Fenner, Director,
Department of Legal Services
James Mitchell, Director,
Office of Information Systems
Herbert Yolles, Director,
Department of Financial Operations
Joan Perry, Internal Auditor
Richard Beach,
Congressional Liaison Officer
Joan Pinkerton,
Public Information Officer
William Poling, Budget Officer
Charles Filson, Director,
Office of Programs
President, CLF
Thomas Buckman, Director,
Department of Insurance
Louis Acuna, Director,
Department of Supervision and Examination

Region I (Boston)

Stephen W. Raver
Regional Director
441 Stuart Street, 6th Floor
Boston, Massachusetts 02116
(617) 223-6807

Region II (Capital)

Harvey J. Baine, III
Regional Director
1776 G Street, N.W., Suite 700
Washington, D.C. 20006
(202) 682-1900

Region III (Atlanta)

John S. Ruffin
Regional Director
1365 Peachtree Street, N.E.
Suite 540
Atlanta, Georgia 30367
(404) 881-3127

Region IV (Chicago)

H. Allen Carver
Regional Director
230 South Dearborn St., Suite 3346
Chicago, Illinois 60604
(312) 886-9697

Region V (Austin)

J. Leonard Skiles
Regional Director
611 East 6th Street, Suite 407
Austin, Texas 78701
(512) 482-5131
Denver Sub Office
Lea Complex
10455 East 25th Avenue
Aurora, Colorado 80010
(303) 844-3795

Region VI (San Francisco)

D. Michael Riley
Regional Director
2890 North Main Street, Suite 101
Walnut Creek, California 94596
(415) 486-3490

National
Credit Union
Administration
Washington, D.C. 20456

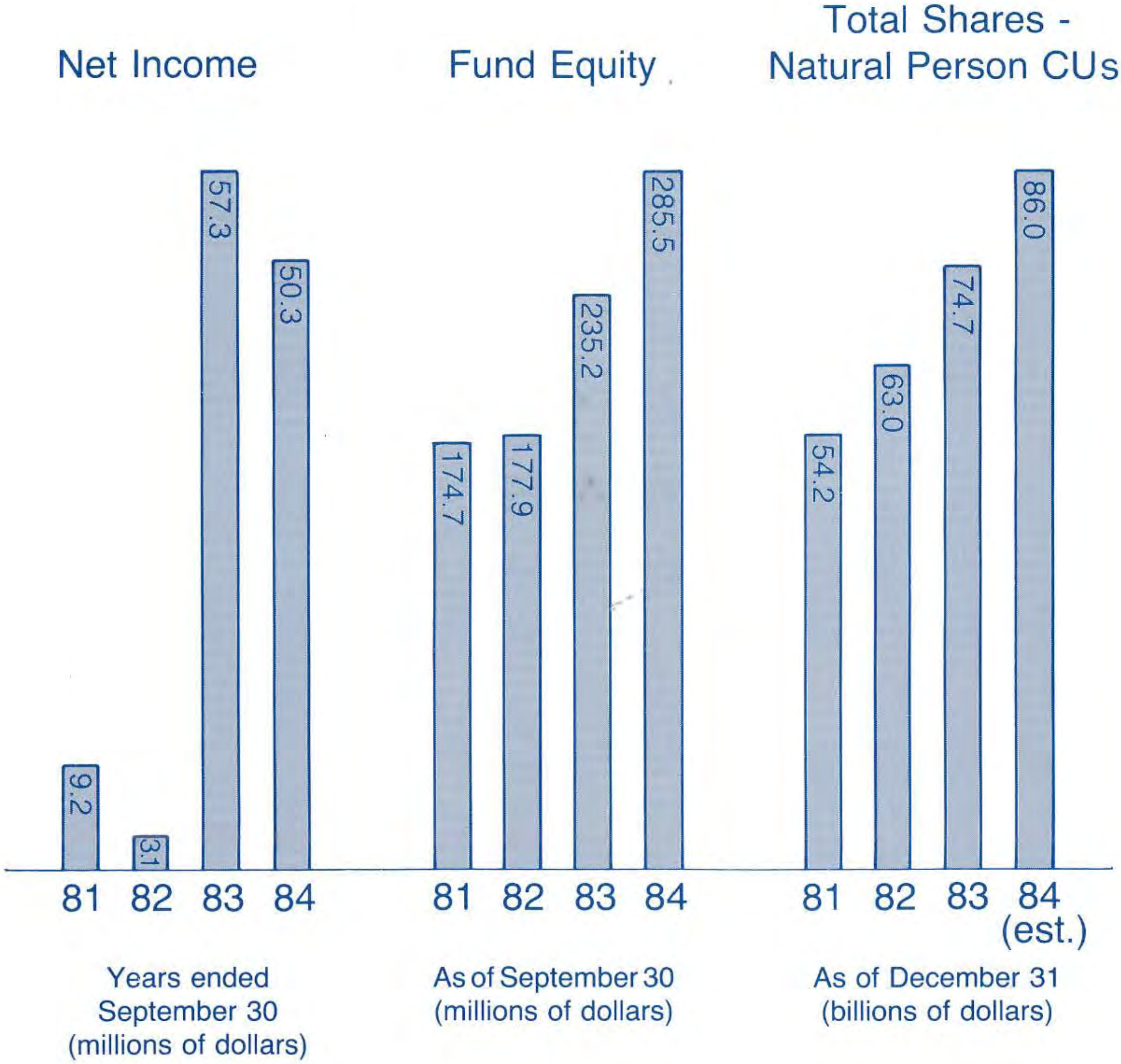
N C U S I F

NATIONAL CREDIT UNION SHARE INSURANCE FUND

1984 ANNUAL REPORT

FISCAL YEAR OCTOBER 1, 1983 - SEPTEMBER 30, 1984

NCUSIF Financial Highlights



National Credit Union Share Insurance Fund Annual Report 1984

Table of Contents

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 Insurance Fund was established as a revolving fund in the Treasury of the United States under the management of an administrator of the National Credit Union Administration (NCUA). The powers of the administrator were transferred to the NCUA Board in 1979. The Act directs the board to insure member accounts in all federal credit unions and for qualifying state credit unions that request insurance. The maximum amount of insurance was set initially at $20,000 per member account. This maximum was raised by statute to $40,000 in 1979 and to the current level of $100,000 on March 31, 1980.

The Fund's income has been derived from two sources: annual premiums paid by the insured credit unions and to a lesser degree investments. The annual premium was set at 1/12 of 1% of the total amount of each credit union's member share accounts as of the previous December 31. In addition, the board is empowered through the end of 1984 to levy an additional premium in any year in which the Fund's expenditures exceed its income. The board also has a $100 million line of credit with the U. S. Treasury. In January 1985 each insured credit union will deposit in the Fund an amount equal to 1% of its insured member share accounts as of December 31, 1984. This deposit will be partially offset, though, by a one-time distribution from the Fund's equity capital equal to 10-15% of the initial deposit. The board anticipates that the additional investment income from this deposit will, in almost all circumstances, eliminate the need to assess the annual premium. The board has already waived the 1985 premium.

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

Organization

The NCUA is headquartered in Washington, D.C., but it operates on a highly decentralized basis through six regional offices located in Boston, the District of Columbia, Atlanta, Chicago, Austin, and San Francisco. Of the agency's 610 employees, 496 are assigned to the regional offices. Each regional office is managed by a regional director who reports directly to the chairman of the NCUA Board. The regional offices are responsible for examining and supervising all federal credit unions headquartered within their regions. They also administer the insurance program for all federal and federally insured, state-chartered credit unions located in their regions. The regional offices perform the initial reviews of insurance applications and requests for financial assistance under Section 208 of the Federal Credit Union Act. The NCUA regions are shown on the map on page 52 of this report.

The NCUA Board is composed of a chairman and two members. The board and its headquarters staff provide policy direction and administrative support to the regional offices. The Insurance Fund is also managed by the headquarters staff. Names, addresses and telephone numbers of key NCUA and Insurance Fund personnel are listed on the inside back cover of this report.

"I am determined that the 1% deposit plan *not* be used to bail out weak credit unions!"

"We believe our 'full and fair' disclosure should be no less than what we expect insured credit unions to give to their members."

Foreword

As I predicted in last year's NCUSIF Annual Report, 1984 was indeed a crossroads year for credit unions.

On July 18, 1984 the NCUSIF capitalization plan became law, ushering in what should be a golden era for federally insured credit unions. By now credit unions know how the plan will work.

More important, credit unions should realize the ways in which they benefit under this plan.

- The NCUA board has waived the 1985 premium. The board should be able to continue this practice unless credit union losses reach disastrous proportions, something no one expects.
- In most years the waived premium plus a dividend on the deposit will give credit unions a better return than Treasury Bill investments.
- The deposit plan gives the NCUA greater flexibility in managing the insurance program. Credit unions also have more options, including withdrawing from the Fund, as their regulatory playing field changes.
- The Fund's reserves have increased enormously. Reserves now equal 14 times the all-time high insurance expense in 1982 and 43 times the loss provision for 1984. Credit unions never need worry about the Fund's ability to meet its commitments.

Moreover, I am determined that the 1% deposit *not* be used to bail out weak credit unions!

We intend to redouble our efforts to continue the Fund's operational improvements. In 1984 administrative expenses rose just 1%, while insurance losses declined 49% from the 1983 level and 64% from the 1982 figure. No special premiums were assessed during 1984. Despite the resulting $43.4 million drop in total premium income, the Fund earned $50 million, only $7 million less than 1983.

Looking ahead, I see an even brighter future for America's credit unions as they enhance their self-help heritage through techniques such as the Resource Sharing program described on pages 8 to 11.

Another continuing management commitment is straightforward disclosure of the Fund's finances, warts and all. Ernst & Whinney's clean opinion on the fund's fiscal year 1984 financial statements reflects the NCUA staff's hard work to make the Fund's financial reporting second to none. We believe our "full and fair" disclosure should be no less than what we expect insured credit unions to give to their members.

Federal credit unions marked their 50th anniversary in 1984. We reached that milestone with a substantially changed Fund. The next 50 years hold great promise for credit unions. My confidence comes not only from next year's fourfold improvement in the Fund's capital base, but more so from your commitment to make the Fund's future success a cooperative effort. Thanks for your support.

E.F. Callahan

E.F. CALLAHAN
December 20, 1984

1984 Highlights

"And The Last Shall Be First ..."

The 1% capitalization plan was an unusual legislative success.

The old Biblical saying, "And the last shall be first...," characterizes the NCUSIF 1% capitalization plan enacted by Congress in July 1984. In short order, the capitalization plan will raise the Insurance Fund from the least well reserved of the federal deposit insurance funds to the best reserved. This plan, which represents a most unusual legislative success, was incorporated in the Deficit Reduction Act of 1984. A brief history of the Fund and of two earlier, unsuccessful approaches towards building its capital base, sets the background for this 1984 legislation.

The Fund's Financial History

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 from the U.S. Treasury and the Federal Reserve that have since been repaid.

Insurance premiums were the Fund's primary source of income during its first nine years. Low insurance losses — what the Fund paid out in credit union failures — and minimal operating expenses during those years permitted the Fund to put 74% of its revenues directly into its reserves. (The Fund's reserves are its equity capital.) As a result, the Fund's equity grew much faster than insured shares, or deposits. 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, healthy years: economic conditions were generally positive; the Fund could choose which state-chartered credit unions it would insure; and credit union managers, as part of a long tradition of mutual assistance, helped to minimize losses by jumping in and lending assistance to troubled sister credit unions.

These favorable conditions started changing in 1978. Credit union losses increased as a result of an upswing in plant closings and a number of poor investment decisions by credit union managements. Further, the advent of banking deregulation slowly narrowed the credit unions' interest rate advantage over banks and savings and loans in attracting deposits. Finally, inflation and recession impaired credit union finances. The number of credit unions in financial trouble 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.

The Fund's insurance losses soared in the 1980-83 period.

During the Fund's early years, interest income alone covered almost all losses and expenses. However, in the 1980-83 period, the Fund also had to use premium income to cover losses. Fund equity virtually stopped growing. The ratio of equity to total shares declined from the 1979 peak of .32% to .26% in 1982. During this time, the Fund turned to "non-cash" methods to stabilize problems. Contingent liabilities, in the form of asset guarantee contracts and assistance authorized under Section 208

Without the special assessments in 1982 and 1983, Fund equity would have fallen by 1984 to almost half its 1979 peak.

Senior NCUA staff, working with credit union leaders, drafted the capitalization plan.

of the Federal Credit Union Act, were used to minimize cash outlays and keep insolvent credit unions operating. These actions, while conserving the Fund's cash reserves, did not solve its problems. Contingent liabilities, however, climbed to a peak of $172 million in 1981, almost equal to the Fund's equity.

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

Without these special assessments, Fund equity would have fallen by 1984 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. Then suddenly the way opened for a rapid capitalization of the Fund.

The Legislative Process: Unusual and Never Certain

In April 1983 NCUA published the insurance study mandated by the Garn-St Germain Act of 1982. About this time credit unions also began expressing concern about the cost of the doubled premiums. As a result of these events, the NCUA began working with credit unions to develop legislation that would meet the NCUA board's widely supported goal of increasing the Fund's equity capital.

In October 1983 NCUA prepared a special videotape for credit unions outlining critical insurance issues. The agency also asked for credit unions' and examiners' support and suggestions for change. However, before the videotape was released, Senator Jake Garn, chairman of the Senate Banking Committee, asked all depository regulatory agencies to submit to him by November 1983 any legislation they planned to propose in 1984. His staff specifically asked NCUA for a legislative concept for a capitalization plan. He requested all interested parties to study the various proposals over the year-end and to prepare for hearings early in 1984. NCUA had not intended to introduce legislation until three or four months after this date to allow time to gather a full industry consensus. In response to Senator Garn, though, senior NCUA staff, working with key credit union leaders, drafted a legislative proposal for the capitalization plan and delivered it to the senator.

Senator Garn introduced the NCUA legislation as S. 2121 on November 17, 1983. The proposed legislation would have required all federally insured credit unions to maintain a deposit at all times in the Insurance Fund equal to 1% of their *insured* shares. In return, the NCUA board was authorized to waive the Fund's regular annual premium and barred from assessing any special, or additional, premiums. The Fund estimated that credit unions initially would deposit $850 million in the Fund. This initial deposit would have one beneficial consequence: it would reduce the federal budget deficit by a like amount.

With the introduction of S. 2121, NCUA recalled its first videotape and produced a new one explaining this legislation. In December 1983 NCUA asked all insured credit unions to analyze this bill and answer one

All insured credit unions were asked one question: Was the capitalization plan "A Better Way?"

question: Was it "a better way" to strengthen the Fund? More than 4,000 credit unions responded, offering positive comments and suggestions. Examiners, supervisory examiners, regional directors and board members also discussed the NCUA insurance proposal at all major credit union meetings. The agency's 1983 Annual Report described the initiative and asked for support.

Early in 1984 NCUA searched for a way to use the deficit-reduction features of the capitalization legislation to help it pass. Immediately after Senator Robert Dole announced that his Finance Committee would consider taxation of credit unions, the agency moved into action. On February 24, NCUA Chairman Edgar F. Callahan wrote to Senator Dole to point out how the Finance Committee's proposal to raise $100 million through taxation could "stall, if not prevent, the credit union industry's voluntary effort to deposit $850 million in the Insurance Fund." He also stated that taxation of credit unions would seriously affect their financial soundness. A copy of this letter was simultaneously delivered to Senator Garn. Three days later Senator Garn wrote Senator Dole urging the trade-off of capitalization for no taxation.

Moving the plan through the taxation committees of Congress was a wise legislative strategy.

The Garn-Dole correspondence enabled NCUA to start moving the capitalization plan through the Congress's taxation committees as part of 1984's deficit reduction legislation. This was a wise legislative strategy as the controversy surrounding the plan could have stopped its progress through the normal banking legislation channels. In fact, during Senate Banking Committee hearings on the bill in March 1984 only one credit union trade association gave the bill unqualified support. Further, Chairman Fernand St Germain of the House Banking Committee had not scheduled any hearings on the bill. He also objected to the bill bypassing his committee. In a May 7, 1984 letter to Chairman Jim Jones of the House Budget Committee, Mr. St Germain expressed his committee's "deep reservations about acting affirmatively to financially restructure the NCUA Insurance Fund at this time or as part of a conference on unrelated budget and taxation matters." Nevertheless, the capitalization plan was unanimously approved by a House/Senate Conference in June 1984 as part of the Deficit Reduction Act of 1984. The President signed this legislation on July 18, 1984.

NCUA Board Deliberations: Positioning the Fund for the Future

Before adopting its final rules the NCUA board considered at great length how to implement the plan.

Between July and October 1984, the NCUA board considered at great lengths how to implement the deposit plan. Every effort was made to listen to credit unions and their representatives. Whether by phone, letter, or in person, communications were continuous, spirited and open. Because of this input, a very workable plan for all was reached when the board adopted final rules at its October 9, 1984 meeting to implement the capitalization legislation.

First, the board waived the entire 1985 insurance premium. Second, it ordered the distribution of $81 million in Fund equity. This amount constitutes the Fund's equity in excess of the 1.3% Fund equity/insured shares ratio the board established for the Fund, once the 1% deposit is received. Because of these actions, credit unions will only have to transfer 85% to 90% of their initial deposit obligation to the Fund and yet can carry the full 1% as an asset on their balance sheets. Finally, the board asked the NCUA regional directors to help any credit union experiencing financial difficulties to find the least expensive method of financing the deposit.

Because of this legislative achievement by the credit union movement and the regulatory approach taken to implement it, the Fund contains some very advantageous structural improvements:

- The Insurance Fund will be fully capitalized at all times.
- Fund growth will automatically parallel credit union growth.
- Congressional concern about the Fund's adequacy and the need to build public confidence in it will likely lessen. Future legislation will probably focus on the FDIC and FSLIC.
- The numerous operating options within the new deposit plan framework provide future flexibility for credit unions and for the Fund.
- Credit unions will have a direct financial stake in the operation of their Fund.

"And The Last Shall Be First ..."

In 14 years, members of federally insured credit unions have gone from the least well protected depositors in financial institutions to the best protected.

In the last 14 years, members of federally insured credit unions have gone from the least well protected depositors in financial institutions to the best protected. In 1970, after 36 years of operating without federal deposit insurance, federally chartered credit unions became the last type of financial institution to obtain a federal deposit insurance fund. On July 18, 1984, after only 14 years of experience with a federal insurance fund, credit unions became the first to revise, modernize and strengthen their fund. In a display of traditional "credit unions solving their own problems," the enactment of the capitalization plan wrought a major legislative victory for the credit union movement. Credit unions now have a flexibly structured fund. Costly premiums almost certainly will be a funding method of the past. Credit unions can also boast that their shares are backed by the best reserved of the three federal deposit insurance funds.

Resource Sharing: A non-cash program that involves NCUA, credit unions, and "doers."

Resource Sharing: A far better way to solve credit union problems than the alternatives — continued handouts, merger, or liquidation.

Resource Sharing: Better Than Bailouts

In its first year NCUA's Resource Sharing Program helped a military credit union, once the agency's biggest problem case, shed its plush $6,000 a month off-base offices and move back on base where the members are. The move was one of several factors that gave this credit union a solid year of profitability in 1984 after seven years of red ink.

An ailing agricultural credit union, with 24% of its assets classified as non-earning, learned how to boost its consumer loan portfolio and regain profitability.

These are examples of Resource Sharing, a non-cash program that involves NCUA, credit unions, and "doers" from inside and outside the credit union movement. Working together, these resource sharers, as they are called, reduce risk and cost to the Insurance Fund by breaking administrative and psychological roadblocks that prevent recovery at troubled credit unions.

Resource Sharing goes a long way towards offsetting NCUA's limitations. Says NCUA Chairman Callahan: "Our people are very good at examining credit unions and identifying problems but they lack the experience necessary to help credit unions maximize income — such as by making loans. Increasing the bottom line requires a sense of where opportunities lie as well as daily oversight of operations."

The idea for Resource Sharing came from Art DeRusso, president of Eastern Airlines FCU. He suggested that people with "hands on" credit union experience might work with NCUA to bridge this performance gap. NCUA agreed.

Resource sharers typically work in a troubled credit union for two to six weeks. They prod the credit union's management and board towards actions that will improve the bottom line immediately by concentrating on particular problems and starting specific actions.

In human and economic terms, Resource Sharing is a far better way to solve credit union problems than the alternatives - continued handouts, a merger, or liquidation.

Resource Sharing costs are minimal, especially when compared with the NCUA Capital Notes Program. Credit unions have been advanced $38 million in capital notes, and the results have not always been successful. In contrast, Resource Sharing cost the agency a mere $147,000 in fiscal year 1984. This money paid the salaries and expenses of about 30 people on loan to 20 credit unions — peanuts compared to the cost of the capital notes program and to the estimated $2 million to $10 million it costs to merge just one of these troubled credit unions.

Resource Sharing: Imaginative, hardworking people solving problems.

"The credit union movement cannot afford large insurance losses," says Chairman Callahan. "With nearly $800 million coming into the Fund as a result of the capitalization plan, the temptation will be to spend more money to solve problems. Money by itself just doesn't seem to work.

"Without the doers and leaders, money just creates an artificial form of support that will be eaten up in the next economic downturn or competitive challenge," he says. "That's why we're so excited about Resource Sharing. We believe it's imaginative, hardworking people who solve problems. Resource Sharing will pay off much better for the Fund and for all insured credit unions - not just the problem ones."

For Stephen Straub, a computer specialist and executive vice president of Columbia Community CU of Vancouver, Washington, Resource Sharing offers the chance "to do something" that makes a difference. "I've heard about some of the problems NCUA has to deal with," he says. "The Fund is our Fund. Anything I can do to turn some of those problems around has to be beneficial all the way around."

To date, Resource Sharing has been used in credit unions that pose the greatest threat to the Insurance Fund. If the program works — and all indications are that it is working better than expected - it will be expanded to credit unions with less serious problems.

Two examples will show different uses of Resource Sharing. Neither of these credit unions is out of the woods yet, but the signs are encouraging.

Mather FCU: Back To Basics

As recently as one year ago, Mather FCU, serving Mather Air Force Base in Sacramento, was NCUA's biggest problem credit union.

Once an innovator of new services, Mather fell on hard times because of bad investment decisions and deteriorating management. In 1983 the credit union faced a $6.5 million deficit after losing 20,000 accounts and almost 10% of its assets.

"I don't know if this credit union will ever make it," Col. James Stanley recalls thinking when he became chairman of the FCU's board of directors last year. "In fact, I was not totally opposed to a merger."

Since then, the credit union has experienced a dramatic turnaround. "We've been profitable every month for the past year, and we anticipate being out of 208 assistance within two years," Col. Stanley said. "We have a good manager, staff morale has improved, and our CPA audit revealed no major problems."

Col. Stanley credits much of the improvement to the efforts of two Resource Sharing people — Steve Straub from Columbia Community CU and Karl Bent, retired manager of Lockheed FCU of Burbank, California.

Mather CU: "Its biggest problem was that the board and management were going in different directions."

Bent spent about two and one-half months early in 1984 managing Mather and pointing out areas where operations could be improved. "There was a lot that could be done to trim the deficit," he said. "The biggest problem was that the board and management were going in different directions."

One of Bent's recommendations was to close the FCU's $6,000-a-month administrative office, located ten miles from the base, and move it back on base.

The job was more difficult than it sounded because it meant moving Mather's computer. The initial reaction was that it would be too expensive. Steve Straub, whose credit union has the same kind of computer, proved that assessment wrong. He moved the computer over a weekend at a cost of about $35,000, a quarter of what had been estimated.

"Every time we wanted to move the computer, the former management or the computer people would give us a thousand reasons why it wouldn't work," says NCUA Examiner Mike Cline, who worked with Bent and Straub. "We used Steve's expertise to cut through that nonsense. He gave us some credibility."

NCUA paid the two men $16,000 in salary and expenses for their efforts. "The credit union has already made that back, and more, by closing the administrative office," says NCUA Regional Director Mike Riley. "It's really paid off," says Col. Stanley.

Alan Fricke, who succeeded interim manager Karl Bent, has nothing but praise for Resource Sharing. "Karl started the ball rolling," he says. "He helped the credit union reestablish itself with Mather AFB. We'd been off base and very few people saw the previous management. I think it's extremely important to be where the action is — I have trouble thinking about a credit union off in some crystal palace, out of touch with its members."

Why were Bent and Straub able to succeed where NCUA and the credit union had reached an impasse? Credibility in areas beyond the regulator's scope seems to be the answer. "When I hear an auditor tell me how to manage my credit union, I just feel that's one person's opinion," says Col. Stanley. "When a man like Karl Bent, with 20 years of experience managing a credit union, tells me, I'll certainly listen."

Community Coop CU: Rebuilding The Consumer Loan Business

Community Coop CU, an agriculturally oriented credit union in central North Dakota, was deep in red ink, largely because of speculative commercial loans that soured and the high cost of owning its $2.3 million office building, described as "the biggest thing in Jamestown."

By 1984, 24% of the credit union's assets were non-earning, total assets had fallen from $42 million to $29 million, and losses had reached $30,000 a month. Merger and liquidation were considered, but a multimillion dollar price tag prompted use of a less costly alternative — Resource Sharing. To date it has cost the Fund $12,000.

Community Coop CU: "Merger and liquidation were considered, but a multimillion dollar price tag prompted use of a less costly alternative — Resource Sharing.

Although the jury is still out, Community Coop is making progress and is now breaking even.

"We had to find a way to get the credit union back in the black and we had to do it fast," said Loren Svor, NCUA's regional chief of special actions.

Two resource people were called in. Chuck Lemar, a former Oregon banker who became a purchaser of loans from liquidated credit unions, was asked to help increase the credit union's consumer loan business. Pamela Ward, a Lemar associate, worked with Community's staff to improve collection efforts.

Lemar says he encouraged credit union officials "to use their imagination" as they restructured the loan portfolio. "There's a lot of business out there," he told them. Among his suggestions were more aggressive consumer lending, preapproved loans to previous borrowers, and tapping the dealer-subsidized home improvement loan market.

Although the jury is still out, the credit union is making progress and is now breaking even. The goal of $500,000 in new loans per month is being exceeded. Much of the new business is in bread-and-butter loans — car loans and consolidated credit card accounts. "They've changed from a defensive to an aggressive posture," Svor says. "Instead of waiting for rates to change or for something to happen, they're taking action."

Larry Hanna, president of Community Coop CU, called Resource Sharing a good experience. "Sometimes you can't see the forest for the trees," he said. "They took a fresh look at our loan underwriting and collection procedures and gave us some ideas for loan promotions."

Chairman Callahan: "We owe it to all credit unions to be as resourceful as possible in experimenting with non-bailout solutions to problems."

Bailouts Not the Answer

If Mather and Community Coop keep the momentum going and pull out of the red ink, Resource Sharing will deserve much of the credit. "The credit union movement is built on people helping people. It has never been comfortable accepting financial fixes from government," Chairman Callahan says. "We owe it to all credit unions to be as resourceful as possible in experimenting with non-bailout solutions to problems. We think the 90% of all credit unions that are well run provide the best sources of experienced people who can help the minority of troubled credit unions regain financial health. With the new capitalization plan in place, the bottom line is that every dollar we save on problems is shared by all credit unions."

Accurately estimating future losses will protect the Fund from being "eaten up" tomorrow by losses that should have been anticipated today.

From now on the Fund's management must strive to obtain a clean audit opinion every year.

Strengthened Financial Reporting: What It Means

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

Future losses from supervised credit unions is the harder loss reserve to estimate. However, an accurate estimate of future losses, based on historical data and case-by-case reviews, will protect the Fund from being "eaten up" tomorrow by losses that should have been anticipated today. The confidence credit union members can place in the Fund is directly related to the ability of its management to identify and control those losses.

The Fund's adherence to GAAP is unique among the federal deposit insurers. Compliance with GAAP also goes beyond the Fund's congressional reporting requirements and General Accounting Office auditing standards. Moreover, the increased financial disclosure required by GAAP strengthens the reliance that can be placed on the Fund's financial statements.

To reinforce this reporting standard, the Fund has retained the accounting firm of Ernst & Whinney to audit the Fund's financial statements, including its loss reserves. Ernst & Whinney's clean opinion on the Fund's financial statements is shown in full on page 40 of this report. This opinion further confirms the significant advances the Fund has made in accounting for its finances. From now on the Fund's management should strive to obtain a clean audit opinion every year.

Why this emphasis on full and independently verified financial disclosure? In addition to building member confidence in the Fund's reported results, it allows insured credit unions to more closely monitor the Fund's progress. Just as credit union members are expected to monitor their own credit union, credit unions insured by the Fund must monitor the Fund's performance in order to protect their 1% deposits. This will ensure that management prudently invests and employs Fund assets.

NCUSIF insures an estimated 82% of all share deposits in U.S. credit unions.

Insured Credit Unions

Scope of Insurance Coverage

NCUSIF is the nation's largest insurer of credit union shares. Currently, it insures an estimated 82% of all share deposits in U. S. credit unions. In addition to NCUSIF, there are 15 state credit union insurance or guaranty corporations, of which three operate in more than one state. These corporations insure or guarantee approximately 3,100 credit unions with shares in excess of $18 billion. This amount represents 18% of all credit union shares. These insurers are listed on pages 6 to 19 of this report. Approximately 75 credit unions in the U. S. currently operate without some form of share insurance or guarantee.

Changes In NCUSIF-Insured Credit Unions

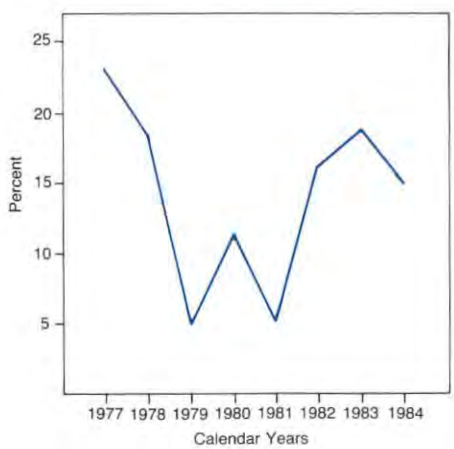
	Federal Credit Unions	Federally Insured State Credit Unions	Total
Beginning Number - 10/1/83	11,084	4,979	16,063
Additions:			
New Federal Charters	82	--	82
New Insurance Certificates	--	33	33
Conversions	5	--	5
Subtractions:			
Mergers:			
Assisted	72	20	92
Voluntary	390	160	550
Liquidations:			
Involuntary	30	8	38
Voluntary	29	23	52
Purchases and Assumptions	3	5	8
Conversions	--	74	74
Other	7	--	7
Ending Number - 9/30/84	10,640	4,722	15,362
Net decrease	444	257	701

Credit union consolidation continues. The total number of NCUSIF-insured credit unions dropped 4.4% during 1984.

Credit union consolidation continued during 1984 for the fifth year in a row. The total number of NCUSIF-insured credit unions dropped 701, or 4.4%, from 16,003 on September 30, 1983 to 15,362 one year later, even though 120 credit unions were insured by the Insurance Fund for the first time in 1984. Mergers again accounted for most of the decline, 78% in 1984; however, the total number of mergers in 1984 — 642 — was down from 706 in 1983. The number of liquidations decreased slightly, to 90 in 1984 from 100 in 1983. Conversions to state share insurance corporations or private deposit insurers accelerated during the year. The shift of 74 credit unions to state or other programs was offset by just five conversions to federal insurance.

Share growth in NCUSIF-insured natural person credit unions continued during 1984 even as the number of credit unions shrank. This reflects 1982's significant reduction of credit unions' field of membership limitations. The field of membership is the affinity, such as an employer or church, that members of a credit union share with one another. As a result of this share growth, the average size of NCUSIF-insured credit unions grew 117% over the last five years. At the end of 1984 the average-size natural person credit union had almost $5.7 million in shares outstanding. The following chart summarizes share growth trends since 1970.

Annual Increase in Share Growth - Natural Person Credit Unions



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	**59,050***	**26,900***	**85,950***	**15.0***
Annual compound growth rate - 1971-1984				**17.2%**

* Estimated for 12/31/84

Forty-five states and Puerto Rico now require some form of credit union share insurance.

State Insurance Requirements

Forty-five states and the Commonwealth of Puerto Rico now require some form of share insurance. The current state share insurance requirements are summarized as follows:

Mandatory Coverage by the National Credit Union Share Insurance Fund.

Arkansas	Mississippi	North Dakota
Connecticut	Montana	South Carolina
Maine	Nebraska	Vermont
Michigan		

Mandatory Coverage by a State Share Insurance Fund.

* Florida	Puerto Rico	Wisconsin
Maryland		

* Exception is provided for credit unions insured by NCUSIF prior to January 1, 1975.

Mandatory Coverage by the National Credit Union Share Insurance Fund or Other Approved Insurance/Guaranty Funds.

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

No Share Insurance Required.

New Hampshire	Oklahoma

No State Credit Unions.

Delaware	Guam	Virgin Islands
District of Columbia	South Dakota	Wyoming

State Share Insurance/Guarantors

The tables on the next four pages present summary information on the 15 state credit union share insurance or guaranty corporations.

The International Share and Deposit Guaranty Association is a trade association of credit union insurance or guaranty organizations. NCUA is a member of this association.

The tables on the next four pages summarize the 15 state credit union share insurance or guaranty corporations.

Summary of State Credit Union Share Insurance/ Guaranty Corporations

Name and Address	Year Incorporated	Membership Deposit (Capitalization)
California Credit Union Share Guaranty Corporation Post Office Box 2322 Pomona, California 91769	1981	1% of share capital, adjusted annually
Florida Credit Union Guaranty Corporation Suite 108 8000 South Orange Avenue Orlando, Florida 32809	1975	1/2 of 1% of net guaranteed shares
Georgia Credit Union Deposit Insurance Corporation Suite 220 2990 Brandywine Road Atlanta, Georgia 30341	1974	1% of first million of share deposits and dividends payable plus 1/2 of 1% of next $4 million plus 1/4 of 1% of amounts over $5 million
Maryland Credit Union Insurance Corporation 8501 LaSalle Road Baltimore, Maryland 21204	1975	1% of shares and deposits
Massachusetts Credit Union Share Insurance Corporation 950 Mechanics Bank Tower Worcester, Massachusetts 01608	1961	3/4 of 1%, declining to zero
National Deposit Guaranty Corporation Suite 185 555 Metro Place, North Dublin, Ohio 43017	1974	1% of shares
Financial Institution Assurance Corporation Post Office Drawer 2688 Raleigh, North Carolina 27602	1967	1.25% of insured savings

Summary of State Credit Union Share Insurance/ Guaranty Corporations

Annual Premium	Maximum Insurance Coverage Per Member	Number of Credit Unions Insured	Amount of Savings Insured or Guaranteed	State(s) of Operation
None	$150,000	20	$737,700,000 (10/31/84)	California
1/20 of 1% of funds guaranteed	$100,000 Can be increased upon application	177	$723,000,000 (10/31/84)	Florida
1/12 of 1% of shares, deposits, and dividends payable	$100,000	128	$790,649,000 (6/30/84)	Georgia
None	$250,000	27	$503,600,000 (12/31/83)	Maryland
1/12 of 1% of shares and deposits	Full account limit	228	$2,557,000,000 (6/30/84)	Massachusetts
Up to 1/12 of 1% of shares	No limit	440	$3,726,922,000 (10/31/84)	Ohio, West Virginia, Illinois, Nevada, California, Minnesota, Arizona, Indiana, Idaho, Missouri, New Jersey
1/12 of 1% of insured savings	$100,000, $250,000 for IRA and KEOGH	25	$940,590,000 (6/30/84)	North Carolina, Minnesota, West Virginia, Indiana

Summary of State Credit Union Share Insurance/ Guaranty Corporations

Name and Address	Year Incorporated	Membership Deposit (Capitalization)
Rhode Island Share and Deposit Indemnity Corporation Suite 101 1220 Pontiac Avenue Cranston, Rhode Island 02920	1969	1% of total insurable deposits
State Credit Union Share Insurance Corporation Post Office Box 21130 Chattanooga, Tennessee 37421	1974	1% of savings
Texas Share Guaranty Credit Union Post Office Box 14584 Austin, Texas 78761-4584	1975	1% of insured savings
Utah Share and Deposit Guaranty Corporation Post Office Box 26008 Salt Lake City, Utah 84126	1973	1/2 of 1% of total assets
Virginia Credit Union Share Insurance Corporation Post Office Box 11469 Lynchburg, Virginia 24506	1974	1% of shares
Washington Credit Union Share Guaranty Association Post Office Box WCUL Bellevue, Washington 98009	1975	$25 plus contingency reserve fund equal to 1/2 of 1% of shares and deposits
Wisconsin Credit Union Savings Insurance Corporation 5011 Monona Drive Madison, Wisconsin 53716	1970	1/2 of 1% of savings capital
Program for Shares and Deposits Insurance Fund Office of Inspector of Cooperatives of Puerto Rico Apartado 4108 GPO San Juan, Puerto Rico 00936	1981	1% of total savings and deposits
TOTALS		

Summary of State Credit Union Share Insurance/ Guaranty Corporations

Annual Premium	Maximum Insurance Coverage Per Member	Number of Credit Unions Insured	Amount of Savings Insured or Guaranteed	State(s) of Operation
1/12 of 1% of deposits	$100,000	53	$633,404,000 (6/30/84)	Rhode Island
1/12 of 1% of savings capital	$100,000	420	$1,200,000,000 (9/30/84)	Kansas, Missouri, Tennessee, Iowa, Indiana
1/20 of 1% of insured savings	$100,000	368	$1,726,000,000 (10/31/84)	Texas
1/20 of 1% of shares and deposits	Full account except $100,000 for corporate accounts	164	$405,350,000 (9/30/84)	Utah
1/12 of 1% of shares	$100,000	112	$242,455,000 (12/31/84)	Virginia
Adjusted to equal 1/2 of 1% of shares on annual basis. Authority for additional 1/2 of 1% if needed.	$100,000 $250,000	150	$997,498,000 (12/31/83)	Washington
1/12 of 1% of capital	$100,000,	562	$2,550,000,000 (9/30/84)	Wisconsin
Set by Board of Directors	$40,000	233	$440,157,000 (6/30/84)	Puerto Rico
		3,107	**$18,174,325,000**	

Share insurance laws were changed significantly in nine states during 1984.

The Georgia Credit Union Deposit Insurance Corp. can now insure *any* federal or state-chartered financial institution.

State-chartered credit unions in Pennsylvania can now obtain share insurance from an insurer other than NCUSIF.

State Law Changes

State law changes important from NCUSIF's perspective are those affecting merger and liquidation procedures and share insurance requirements. The following summarizes significant changes that have occurred since the preparation of NCUSIF's 1983 Annual Report. This summary is based on information provided by the State Governmental Affairs office of the Credit Union National Association.

California

Credit unions insured by the California Credit Union Share Guaranty Corporation now make "capital contributions" rather than pay assessments. The normal operating level of its guaranty fund was also raised from 1/2% to a 1% to 2% range of credit union share capital.

Florida

Assessments paid by credit unions to the Florida Credit Union Guaranty Corporation are now considered to be a payment to the corporation's loss reserve for potential payouts.

Georgia

The Georgia Credit Union Deposit Insurance Corporation can now insure *any* federal or state-chartered financial institution.

Idaho

All Idaho credit unions must have share and deposit insurance by January 1, 1986. It can be obtained from NCUSIF or another approved insurer. Time extensions may be granted.

Kentucky

Credit unions are now permitted to obtain share insurance comparable to NCUSIF coverage from private companies. Changes were also made in state credit union merger and dissolution procedures.

Nebraska

All state credit unions must now obtain NCUSIF insurance. Previously, share insurance was also offered by a private insurer.

Pennsylvania

State credit unions may now obtain share insurance from an insurer other than NCUSIF.

Tennessee

Capital contributions and assessments now constitute a credit union's only equity interest in the State Credit Union Share Insurance Corporation.

Wisconsin

An insured state credit union may be liquidated or consolidated if it fails to promptly correct conditions posing a threat to its insurer.

Financial Status Of NCUSIF-Insured Credit Unions

Because the Insurance Fund is part of NCUA, the monitoring of each insured credit union's financial trends is integral to the agency's supervisory effort. Specific supervisory activities include annual on-site examinations of each federal credit union, coordinated supervisory involvement with state credit union supervisors, reviews of the semi-annual financial report, termed a call report, filed with NCUA by all insured credit unions, analyses of financial performance reports prepared from the call reports, and supervisory visits as needed. Experienced examiners and supervisors, analyzing this data, assign each credit union an Early Warning System (EWS) rating. This rating can be changed at any time. 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

The Early Warning System: EWS ratings are used to flag credit unions slipping into trouble.

The EWS coding system is used to flag credit unions slipping into trouble. Examiners and supervisors increase their scrutiny of a credit union as its EWS ranking declines. Credit unions ranked code 4 or 5 receive especially close attention because this is where most insurance losses occur. In particular, a credit union ranked code 4 or 5 is visited more frequently by its regular examiner. These visits often have the effect of spurring the credit union's board of directors to pay closer attention to its operations. If the problems persist, the credit union is referred to a Special Actions Team. These units are attached to each NCUA regional office. Experienced Special Actions troubleshooters work with the credit union's management and directors to correct problems and turn around the credit union. In severe cases, Special Actions personnel may even work in a troubled credit union for a few months to get the turnaround started.

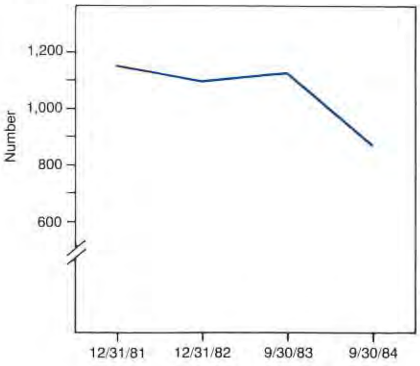
In addition to providing direction, the agency can extend various types of assistance to troubled credit unions. Resource sharing has already been mentioned. The agency can also provide several types of financial assistance. This financial aid is described on the following pages. All of these tools have but one objective — to get the credit union back into the black within the shortest time possible, without massive losses to the Insurance Fund.

The number of Code 4 and Code 5 credit unions, the high-risk ones, decreased 22% from 1983.

The tables below track shifts in the number of credit unions in each EWS classification and the percentage of all NCUSIF-insured credit union shares in these classifications. The trend during fiscal year 1984 was largely favorable. The number of Code 4 and 5 credit unions, the high-risk ones, decreased 22% during the year, from 1,124 to 872. Code 3 credit unions dropped slightly in number but continued to account for almost 25% of all insured credit unions. Insured shares in Code 4 and 5 cases also decreased 12% during the year, to $4.07 billion on September 30, 1984, from $4.65 billion a year earlier. The favorable Code 4/Code 5 trend occurred for two reasons: more effective supervision of problem credit unions over the last two years and favorable interest rate and economic trends during 1984.

As of September 30, 1984, Agency personnel were giving particularly close attention to the 31 credit unions that represent the highest potential loss to the Insurance Fund. These credit unions, with total assets of $1.35 billion and a total net worth deficit of $45.9 million, ranged in size from $3.6 million to $209 million in assets. As of the fiscal year-end, the Insurance Fund had provided these 31 credit unions with the following financial assistance: guaranty accounts - $48.8 million, capital notes - $33.2 million, other cash assistance - $1.5 million. In September, 1984, these credit unions as a group earned $771,000; 26 were profitable and only five were still losing money. Most of these credit unions can be saved through continuing teamwork between the Agency and their managers. The others will be merged or liquidated at the lowest possible expense to the Insurance Fund.

Number of EWS Code 4/Code 5 Credit Unions as of Certain Dates



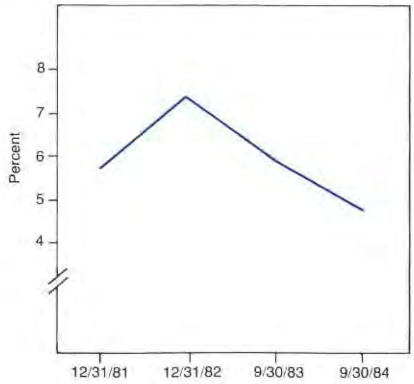
Distribution Of Federally Insured Credit Unions By Early Warning Systems (EWS) Categories

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

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
Codes 1 & 2	79.3%	77.4%	81.1%	**81.9%**
3	15.0	15.2	13.0	**13.4**
4	5.0	6.7	5.4	**4.2**
5	.7	.7	.5	**.5**
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Percentage of Total NCUSIF-Insured Shares in EWS Code 4/Code 5 Credit Unions as of Certain Dates



The Fund also uses these EWS ratings to help determine how much to reserve or set aside for future insurance losses in currently operating credit unions. Loss reserves are established on a case-by-case basis for Code 4 credit unions with assets in excess of $5 million and Code 5 situations with assets in excess of $1 million. Statistical methods are used to establish a reserve pool for probable losses in the smaller Code 4 and 5 credit unions.

Insurance Fund Activity

Assistance to Operating Credit Unions

The NCUA provides two categories of financial assistance to troubled credit unions: cash and non-cash.

Non-cash assistance, called a Guaranty Account, represents a recognition by the Insurance Fund that a credit union has a negative book net worth.

The NCUA provides two categories of financial assistance to troubled credit unions: cash and non-cash. The non-cash assistance is referred to as guaranty accounts.

Cash Assistance

The Insurance Fund can provide three types of cash assistance to credit unions: capital notes, loans or deposits, and asset purchases. Capital notes constitute the bulk of this assistance. Under this program, cash is advanced to a credit union in exchange for an interest-free, subordinated note. 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 or accumulated losses. Capital notes contain specific repayment schedules that reflect the earnings improvement projected for that credit union. As of September 30, 1984 the Insurance Fund held $33.2 million of capital notes from 13 credit unions. This represents a $5 million increase from the previous September 30. Since the inception of the capital notes program, the NCUA board has approved notes totaling $46.4 million, of which $38.2 million had been disbursed and $5 million repaid as of September 30, 1984.

The Insurance Fund occasionally provides liquidity to a less-troubled credit union either by extending an interest-bearing loan or by placing a share deposit in it. On September 30, 1984 outstanding loans and share deposits totaled $3.2 million, down $410,000 from the previous year-end. The Insurance Fund can also purchase 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 issued to NAFCU Corporate Federal Credit Union in order to facilitate NAFCU's assisted merger into Capital Corporate Federal Credit Union. A $2.35 million balance remained on that certificate on September 30, 1984.

Non-cash or Guaranty Account Assistance

Non-cash assistance, known as a guaranty account, represents a recognition by the Insurance Fund that a credit union has a negative book net worth. In effect, the agency grants a credit union permission to continue operating while technically insolvent. This permission gives the credit union a protected environment, i.e. time to return to a positive net worth without being declared insolvent. Such a declaration would force a merger or liquidation. A guaranty account is not issued to a credit union unless it has a good 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 footnoted to indicate the amount of negative book net worth acknowledged by the Insurance Fund through the issuance of a

Guaranty Accounts provide a full and fair disclosure of a credit union's financial condition. They are preferable to Net Worth Certificates and other bookkeeping devices.

guaranty account. 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.

Guaranty accounts are preferable to net worth certificates or comparable bookkeeping devices in acknowledging an insolvency situation. Guaranty accounts, unlike net worth certificates, do not cause a credit union's assets to be overstated or its negative book net worth to be understated. Consequently, guaranty accounts lead to a full and fair disclosure of a credit union's financial condition.

The following table sets out the Insurance Fund's guaranty account activity during the 1984 fiscal year. The fiscal year-end total represents the approximate total negative book net worth on September 30, 1984 of the 71 credit unions in that condition. These 71 credit unions accounted for just .46% of the 15,362 NCUSIF-insured credit unions operating on that date. Together they had assets of $1.82 billion, or 2.1% of the total assets of all NCUSIF-insured credit unions. The number of credit unions with guaranty accounts decreased 25% during 1984. The total amount of guaranties outstanding increased slightly during the year as a result of a $7.1 million accounting adjustment discussed in the next paragraph. Without that adjustment, total guaranty accounts outstanding would have decreased $5.1 million, or 9.6%. This improvement reflects increasing earnings in several larger problem cases and better economic conditions.

The $7.1 million adjustment resulting from changes in accounting procedures reflects an accounting change discussed on page 24 of last year's annual report for the Insurance Fund. This change reflects the fact that credit unions can no longer reduce their guaranty account balances by the amount of capital notes they had issued to the Insurance Fund. This change has had the effect of increasing the negative book net worth, and thus the guaranty account balances, of the credit unions with outstanding capital notes.

CHANGE IN NCUSIF GUARANTY ACCOUNTS OUTSTANDING

(amounts in thousands)

Guaranty Accounts Outstanding - September 30, 1983 (97 cases)	$53,053
Increases	
18 credit unions received initial assistance	10,352
24 credit unions received additional assistance	2,052
Adjustments due to changes in accounting procedures	7,132
Decreases	
15 credit unions merged/liquidated	(3,567)
29 credit unions completely amortized guaranties	(2,603)
Credit unions reduced guaranties	(12,206)
Guaranty Accounts Outstanding - September 30, 1984 (71 cases)	**$54,213**

Credit union mergers are preferable to liquidations for several reasons.

The ratio of credit union mergers to liquidations has increased dramatically in recent years.

Because of more flexible field of membership policies, credit union mergers can now be arranged quite easily.

Guaranties Outstanding by Number and Type of Credit Union on September 30, 1984:

	Number	Amount Outstanding
Federal Credit Unions	48 (68%)	$36,296 (67%)
Federally insured State Credit Unions	23 (32%)	17,917 (33%)
Totals	**71**	**$54,213**

Mergers

The total number of mergers in the 1984 fiscal year declined 9%, to 642 from 706 in 1983. This reduced merger activity reflects improved economic conditions and fewer layoffs and plant closings.

Most credit union mergers — 86% in 1984 and 74% over the last four years — are voluntary: They are consummated without cost to the Insurance Fund. A voluntary merger makes sense when a credit union has recently lost all or part of its field of membership or otherwise is no longer economically viable.

Mergers are preferable to liquidations for several reasons. One, they ensure that the members of an acquired credit union will continue to be served by a credit union. Two, mergers are less disruptive to the credit union community than liquidations. Three, assisted mergers cost the Insurance Fund less, as a percentage of insured share dollars, than involuntary liquidations, as the tables below show.

The ratio of credit union mergers to liquidations has increased dramatically in recent years. In the late 1970s, liquidations sometimes exceeded mergers. By 1983, though, there were five mergers for every liquidation. In 1984 that ratio increased to 7 to 1. This favorable trend reflects two factors: more aggressive efforts by agency personnel to arrange mergers and broadened field of membership policies. In 1982, the NCUA Board changed its rules to permit credit unions to define their membership affinity rules more broadly or even to serve several affinities within one community. Because of these more flexible membership policies, a credit union seeking a merger partner can now usually find another nearby credit union into which it can merge.

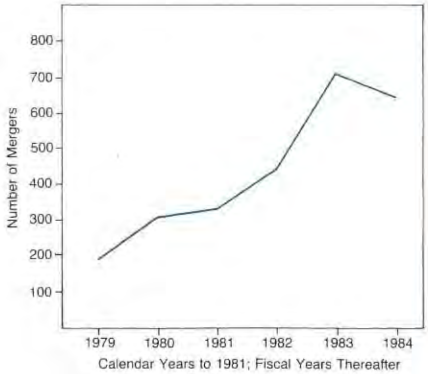
When merging an insolvent credit union, the Fund may provide some form of financial assistance to the acquiring credit union. Usually this assistance is a guarantee covering portions of the acquired credit union's loan portfolio or other assets of doubtful value. Cash assistance may also be provided 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 1984, 92 mergers required Insurance Fund assistance. While this number is down dramatically from the 203 assisted mergers in 1983, there still were more than twice as many assisted mergers as involuntary liquidations in 1984. The average cost per assisted merger also decreased in 1984, to $109,000 from $131,000 in 1983. The following table summarizes assisted merger activity during 1984.

ASSISTED MERGERS
FISCAL YEAR 1984

Acquired Credit Union Acquiring Credit Union	Date Approved	Shares in Acquired Credit Union	Estimated NCUSIF Loss	Loss as Percentage of Shares
Mergers with Losses over $100,000:				
United Employees FCU McLean CU	9/30/84	$3,981,354	$870,000	21.9%
Wyman Gordon CU Sherwin Williams Employees FCU	10/20/83	2,328,318	500,000	21.5
Bay City Area CU Copoco CU	4/10/84	1,967,495	399,623	20.3
Superior CU Dayton Area Coop CU	8/31/84	1,022,461	150,000	14.7
Kaiser Permanente Pacific FCU Kaiser Permanente FCU	8/31/84	7,405,738	850,000	11.5
Princeton Co-Op CU Twin City Co-Op CU	12/9/83	4,522,826	493,000	10.9
Iron Workers FCU Inland Employees FCU	5/3/84	3,347,656	346,618	10.4
K. U. FCU Air Defense FCU	3/14/84	4,372,349	444,696	10.2
Wickes Employees FCU Aldens Employees/Wickes FCU	12/15/83	2,359,477	209,573	8.9
APC CU Kalsee CU	1/17/84	4,542,153	287,148	6.3
Whiteman Community CU R-G FCU	8/30/84	7,156,873	445,977	6.2
Intercontinental FCU Naval Air FCU	3/7/84	18,316,046	980,000	5.4
Missoula N P FCU Missoula FCU	7/16/84	3,849,917	158,208	4.1
Arco/Polymers FCU Goodrich Employees FCU	9/17/84	2,744,977	112,114	4.1
VAH Northport FCU FAA Eastern Region FCU	6/22/84	8,440,460	250,000	3.0
All Other Assisted Mergers - 77 Cases		96,525,665	3,571,146	3.7
Totals - 92 Cases		**$172,883,765**	**$10,068,103**	**5.8%**

NCUSIF-Insured Credit Unions Acquired Through Assisted and Unassisted Mergers



The Insurance Fund's most costly merger in 1984 was Intercontinental FCU of Houston, which served the employees of Continental Airlines. The Intercontinental merger, which cost the Fund $980,000, accounted for less than 10% of the Fund's total 1984 merger expense. Initially a strike halted payroll deductions for members' share savings and loan repayments. This caused liquidity problems for the credit union. The agency knew that fast action was required because of the airline's rumored Chapter 11 bankruptcy, but an unassisted merger could not be negotiated due to uncertainties about the airline's future. The agency had no choice but to financially assist a merger as a liquidation would have been many times more expensive.

United Employees FCU of Winston-Salem was the second most costly merger in 1984. United failed while trying to survive bad management compounded by the bankruptcy of its initial sponsor. While attempting to survive, United quickly expanded its field of membership to serve the employees of about 15 companies in the Winston-Salem area. That expansion, however, could not overcome United's bad management. This merger cost the Fund $870,000.

Kaiser Permanente Pacific FCU of Santa Clara, California, was the Fund's third biggest merger expense in 1984. It cost the Fund $850,000. Kaiser failed because of mismanagement and irregularities in the credit union's records. The Fund is pursuing substantial bond claims in light of alleged fraud and embezzlement in the credit union. The Fund was able to avoid massive liquidation losses through an assisted merger with a sister credit union serving other Kaiser Permanente employees.

Insider dealing, fraud and heavy reliance on brokered funds are frequently found in the larger, involuntary liquidation cases.

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.

Voluntary liquidations do not cost the Insurance Fund any money: the credit union's own reserves more than cover its liquidating costs.

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 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.

The number of involuntary liquidations declined for the third consecutive year in 1984. The year's 38 cases were down from 1983's 50 cases and a 1981 peak of 251. However, several large failures in 1984 sharply boosted the average liquidation payout. The following table summarizes involuntary liquidation trends over the last five years.

The total estimated cost of involuntary liquidations rose in 1984 because several credit unions with large accumulated losses could not be merged. The second table following highlights 1984's involuntary liquidation activity.

Involuntary Liquidations: Five Year History

Fiscal Year	1980	1981	1982	1983	1984
Number of Involuntary Credit Union Liquidations Commenced	239	251	160	50	38
Number of Shareholders Paid	113,333	142,918	72,331	21,614	21,623
Shares Paid (thousands)	$59,957	$78,639	$39,892	$9,954	34,840
Percentage of Shares Paid to Total Shares in NCUSIF-Insured Credit Unions	.110%	.136%	.058%	.013%	.038%
Average Payout Per Credit Union Liquidated (thousands)	$250.9	$313.3	$249.3	$199.1	$916.8

Involuntary Liquidations: Fiscal Year 1984

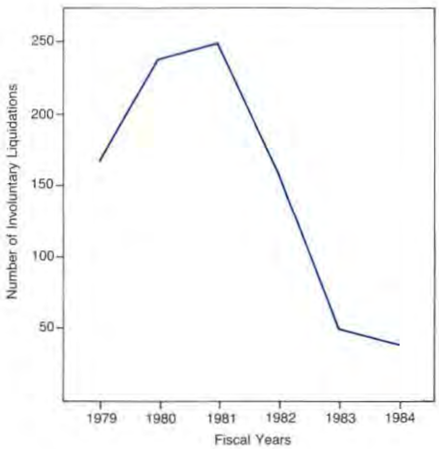
Liquidated Credit Union	**Date of Liquidation**	**Shares Outstanding When Credit Union Closed**	**Estimated NCUSIF Loss**[1]	**Loss as Percentage of Shares**
Liquidations with Losses over $100,000:				
Christ the King FCU	10/27/83	$ 233,557	$ 147,208	63.0%
Hollidaysburg Area Community FCU	3/28/84	276,819	124,186	44.9
American Free Enterprise FCU	12/12/83	2,048,702	897,870	43.8
Plyco FCU	12/5/83	603,584	263,755	43.7
I.U.M.S.W.A. No. 31 FCU	9/17/84	324,731	138,945	42.8
Martin County FCU	6/30/84	1,287,277	495,350	38.5
Independent Grocers and Employees FCU	12/5/83	1,970,912	682,946	34.7
Zionic FCU	6/20/84	13,435,057	4,545,204	33.8
V. A. Medical Center FCU	3/16/84	3,056,169	898,373	29.4
Kennecott MD Employees FCU	9/30/84	784,303	229,107	29.2
All Other Involuntary Liquidations – 28 Cases		10,818,692	674,620	6.2
Totals – 38 Cases		$34,839,803	$9,097,564	26.1%

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

Almost half of the Insurance Fund's 1984 liquidation expense was accounted for by the failure of Zionic FCU. Zionic funded itself almost entirely with high cost brokered deposits.

Almost half of the Insurance Fund's 1984 liquidation expense was accounted for by the failure of Zionic FCU of Bridgeton, Missouri. This failure cost the Insurance Fund $4.5 million. Zionic failed because it grew too fast, over 14 months, while funding itself almost exclusively with high cost brokered deposits. These deposits totaled $18 million versus just $250,000 in individual members' share balances. Insider dealing on the lending side of Zionic, coupled with inadequate loss reserves, created Zionic's basic insolvency problem. The high rates Zionic paid to attract its brokered deposits added to its operating losses and hastened its failure. Because Zionic had established no meaningful membership base and owned substantial assets of dubious value, the Insurance Fund had no choice but to liquidate it.

Involuntary Liquidations of NCUSIF-Insured Credit Unions



The Fund's second largest liquidation loss was V. A. Medical Center FCU of Houston. It failed after a ten-year history of deteriorating operations, high loan delinquencies, poor recordkeeping, excessive board and staff turnover, a shrinking asset base and continuing bad management. Although V. A. Medical had to be liquidated at a cost of $898,000, the Insurance Fund did sell its membership shares to another credit union for $150,000 premium.

American Free Enterprise CU of Albuquerque, New Mexico, failed just 15 months after it was chartered by officers of an association of local businesses. These officers also controlled American's board of directors. Many of American's members owned small, risky businesses that borrowed from the credit union, usually on an unsecured basis. In order to get a loan, the members frequently had to pay a "finder's fee" to the association. Insider dealing also took place between the association and the credit union. Largely financed by brokered deposits, American operated in a manner very similar to Zionic. Due to its low asset quality and small membership base, American also was not a viable merger candidate. As with Zionic, liquidation was the only alternative. It cost the Fund $898,000.

Purchase and Assumption Transactions

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

Purchase and assumption transactions are seldom used: they are complex and take longer to complete than liquidations or assisted mergers.

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 1984 there were eight new P&A cases, compared with nine in 1983 and 15 in 1982.

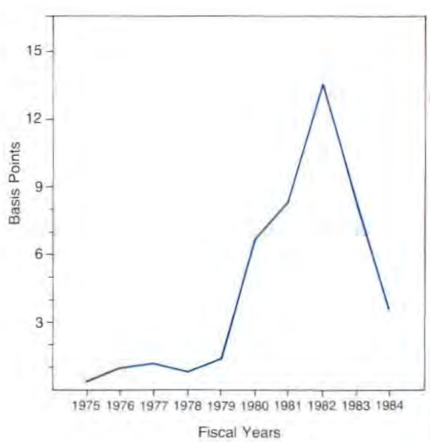
The table below summarizes the eight new P&A cases in 1984 plus an ongoing 1983 case in which there was a subsequent P&A agreement assisted by the Fund. The total shares involved in 1984's P&A cases were four times as many as were involved in the nine 1983 cases. The Insurance Fund's loss percentage in the 1984 P&A cases was actually less than what it experienced in 1984's assisted merger cases.

Purchase and Assumption Cases Fiscal Year 1984

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:				
Sears Employees CU / Diesel CU	1/20/84	$ 852,721	$200,429	23.5%
Forty-Five FCU[1] / Parmauto FCU	8/25/83	1,368,220	220,000	16.1
Challenger KC CU / Mid-American CU	3/30/84	6,675,537	179,223	2.7
All Other P&A Cases-6		8,443,549	93,799	1.1
Totals-9 Cases		$17,340,027	$693,451	4.0%

[1] Asset guarantee only. P&A completed during 1983.

NCUSIF Insurance Losses Basis Points per Insured Share Dollar (1 Base Point = .01%)



Minimizing Insurance Losses

Insurance losses represent the expense the Insurance Fund incurs in protecting member share balances in failed credit unions, up to the $100,000 insurance limit per member. These losses are far and away the Insurance Fund's largest expense. In fiscal year 1982 insurance losses (including collection expenses) totaled $79.3 million, 7.3 times the Fund's administrative, or operating, expense. By 1984, insurance losses had been trimmed to $28.1 million, or just 2.7 times the Fund's administrative expense.

More important than the absolute amount of the Fund's insurance losses is the ratio of losses to the average amount of insured share deposits during the loss year. This ratio can best be measured in terms of basis points of loss per share dollar. One basis point equals one one-hundredth of one percent. As the adjacent chart shows, the Fund's losses rose to a sharp peak in 1982 after climbing rapidly since 1979. From its 1982 high of 13.6 basis points, insurance losses have dropped rapidly, to 3.6 basis points in fiscal year 1984. Had the Fund followed full accrual accounting practices since 1979, this decline would have been more dramatic.

Substantial improvements have been made in converting into cash assets acquired in credit union liquidations and purchase and assumption transactions.

Two factors account for this recent decline: better economic conditions and the agency's aggressive loss minimization efforts in recent years.

The stronger supervisory effort mentioned previously has played a key role in reducing the Insurance Fund's loss ratio. Better management of the assets acquired from failed credit unions has also improved this ratio. These management practices are discussed below:

Liquidation Recoveries

Substantial improvements have been made in converting to cash assets acquired in credit union liquidations and in purchase and assumption transactions. 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, utilizing 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, NCUA's managers can focus more time on emerging 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.

The number of assets acquired from failed credit unions declined during 1984; however, the net value of these assets increased $10.8 million for several reasons. In the Zionic liquidation case discussed on page 29, the Insurance Fund acquired large commercial loans with a total book value of $9.7 million as of September 30, 1984. Due to their very speculative nature, these loans cannot be sold at this time, except at a substantial loss. The Fund also owns an office building in Boise, Idaho, with an appraised value of $1,955,000. It has been unable to sell the building at a satisfactory price. Management has elected to hold these assets with the belief that their value will increase substantially within the next one to two years, at which time they will be sold.

During 1984 the Insurance Fund closed 87 liquidation cases, some of which were failures in earlier fiscal years. The following table summarizes these cases.

The overall recovery percentage in closed liquidation cases rose for the second year in a row in 1984.

Liquidation Recoveries
(Cases Closed During Fiscal Year 1984)

	Number of Credit Unions	Shares When Credit Union Closed (millions)	Total Recoveries (millions)	Recovery Percentage
Federal Credit Unions	74	$30.8	$20.6	66.9%
NCUSIF-Insured State Credit Unions	13	2.5	1.8	72.0
Totals	**87**	**$33.3**	**$22.4**	**67.3%**

The 67.3% recovery percentage for the 1984 closures is quite good given the small size of most of the cases. The average case had total shares of $383,000 at the time it was closed, which equals about 1/13th the average credit union's total shares.

The next table sets out a four year history of closed liquidation cases. The overall recovery percentage rose for the second year in a row in the cases closed in 1984. This reflects a dramatic improvement in recoveries in state-chartered credit union liquidations. Unfortunately, the recovery percentage in federal credit union liquidation cases closed in 1984 decreased from a strong recovery performance in 1983.

NCUSIF Liquidation Recovery History

Fiscal Year In Which Case Closed	Recovery Percentages			Net Loss In Closed Cases (millions)
	Federal Credit Unions	State Credit Unions	All Cases	
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

Merger and Asset Guarantees

The Insurance Fund now tries whenever possible to sell assets without any guarantee.

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 aggressively collect 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 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)

	1971–1984
Number of Guarantee Contracts Written	1,675
Book Value of Loans and Other Assets Guaranteed	$535,817
Amount of Guarantees Issued	$298,445
Disbursements under Guarantee Contracts	$51,518
Guarantee Contracts Outstanding (Contingent Liability) on 9/30/84	$23,930
Guarantees Issued as Percentage of Book Value of Assets Guaranteed	55.7%
Loss Ratio on Matured Contracts (Disbursements as a Percent of Guarantees)	17.3%

During 1984 the Insurance Fund wrote just 68 loan and asset guarantee contracts, down from 222 in 1983. The amount of these new guarantees - $9,470,000 - was just 16% of the book value of the assets guaranteed. Through 1981, when the partial guarantee program was initiated, guarantees were equal to 79% of the book value of the assets guaranteed. The cumulative disbursements on matured contracts increased to 17.3% on September 30, 1984 from 11.5% as of the previous year-end. Two factors accounted for this increase. One, numerous contracts matured or were bought out in 1984. This clean up process required $17.1 million in cash outlays. However, the Insurance Fund's contingent liabilities under these guarantees decreased $45.9 million during 1984, to $23.9 million. Further, the Fund was able to reduce its reserve for future losses under these guarantees by $11.4 million during 1984. Two, in limiting its new guarantees to only the riskiest assets, the Fund automatically increased the probable loss percentage it could expect to absorb under each guarantee.

Other Actions to Reduce Losses

The Insurance Fund has taken a number of other actions to reduce its insurance losses.

Other actions the Insurance Fund has taken to reduce its insurance losses include the following:

Agency personnel now move faster to close or merge a failing credit union. In smaller cases, each regional director has final authority to order a liquidation or to approve a merger. In larger cases, the Fund's top management relies heavily on the recommendations of the regional directors.

Full-time Special Action Teams, acting as a strike force, deal quickly with major problem credit unions as soon as the problems are discovered.

Fidelity bond claims are now acquired primarily through assisted mergers, liquidations or purchase and assumption transactions.

Credit unions now have greater opportunities to adapt quickly to their changing environments. This self-determination will do more to minimize Insurance Fund losses than anything the agency or the Fund can do.

Faster communication has been established within the agency and throughout the credit union world. Examples include an investment hotline that credit unions can use to check out questionable investments and money brokers, the NCUA Video Network and centralized in-service training for examiners. Common to these communication efforts is the capability to spread information quickly about the causes of credit union problems.

Credit unions now have greater opportunities - and a responsibility - to adapt quickly to their changing environments. In the final analysis, this self-determination will do more to minimize Insurance Fund losses than anything the agency or the Fund can do.

Financial Results

Financial Review

Quality and strength highlight the Insurance Fund's 1984 financial results. As discussed on page 12 of this report, Ernst & Whinney's clean opinion on the Fund's fiscal year 1984 financial statements reflects the high quality the Fund's financial reporting has reached.

That quality was matched by the Fund's strong financial performance during 1984. Net income (excess of revenue over expenses) was $50.3 million, a $7 million decrease from 1983. This decrease was modest in light of 1984's $43.4 million decrease in premium income from the year before. Premium income declined because the Fund did not have to levy a special assessment for the first time in three years. Offsetting the lost premium income was a $9.7 million increase in interest income and a $27 million, or almost 50%, reduction in the all-important provision for insurance losses. The 1984 net income boosted the Insurance Fund's fund balance, or equity capital, by 21.4%, to an all-time high of $285 million.

Loss Reserves

The financial strength of any deposit insurer depends on two factors: the adequacy of its loss reserves and the equity cushion that underlies those reserves.

The financial strength of any insurer depends on two factors: the adequacy of its loss reserves and the equity cushion that underlies those reserves.

The Insurance Fund has two loss reserves. The first reserve protects the Fund from losses arising out of asset and merger guarantees. Specifically, it absorbs future losses from failed credit unions whose assets have already been liquidated and sold to third parties or merged into another credit union with financial assistance from the Fund. The manner in which failing credit unions are liquidated or merged has been discussed previously in this report. This reserve declined by $11.4 million during 1984 because the amount of guarantees out of which these prospective losses arise also declined. On October 1, 1983 these guarantees, which are a contingent liability of the Fund, totaled $69.8 million. By the end of the fiscal year, September 30, 1984, outstanding guarantees had decreased to $23.9 million. Consequently, this reserve, as a percentage of outstanding guarantees, rose during the year from 33% to 45%.

The Insurance Fund has two loss reserves. The first reserve protects the Fund from losses arising out of its asset and merger guarantees; the second protects against losses from operating credit unions experiencing financial difficulty.

The second reserve protects the Insurance Fund against losses from supervised credit unions — that is, operating credit unions experiencing financial difficulty. These are credit unions assigned EWS codes 4 or 5. The NCUA's monitoring system that detects these problem credit unions is discussed on page 21. The balance of this reserve increased $1.9 million during 1984, to $45.7 million. This reserve, as a percentage of shares in supervised credit unions, also increased, from .94% to 1.12%, because of a 12% drop in the total shares in supervised credit unions. The table below summarizes this information and relates it to all NCUSIF-insured credit unions.

COMPARATIVE ANALYSIS: LOSS RESERVES FOR SUPERVISED CREDIT UNIONS
(dollars in thousands)

	September 30 1984	1983
Number of Code 4/Code 5 credit unions	872	1,124
Total share deposits in Code 4/ Code 5 credit unions	$4,071,000	$4,652,000
Reserve for estimated losses from supervised (Code 4/Code 5) credit unions	$45,700	$43,833
Number of NCUSIF-insured credit unions	15,362	16,063
Total share deposits in NCUSIF-insured credit unions	$87,569,000	$78,402,000
Reserve for estimated losses from supervised credit unions as a percentage of total share deposits in these credit unions	**1.12%**	**.94%**
Shares in supervised credit unions as a percentage of total shares in all NCUSIF-insured credit unions	**4.65%**	**5.93%**

Shares in supervised credit unions, as a percentage of total shares in all NCUSIF-insured credit unions, decreased to 4.65% at the end of fiscal year 1984 from 5.93% one year earlier.

The next table shows the flow of dollars through the two reserve accounts. Because amounts are frequently shifted from one reserve to another when a credit union fails, it is not feasible to show each reserve separately. Total charge-offs during 1984 more than doubled from 1983 for several reasons. As discussed previously, a substantial number of asset guarantee contracts matured or were bought out during 1984. These transactions resulted in a $17.1 million charge against the reserves for losses that previously had been expensed by the Insurance Fund. Certain previously recorded losses in asset values were also recognized in 1984. In these instances, both the value of the asset and the reserve balance were reduced by a like amount. The cost of Resource Sharing described on pages 8 to 11 of this report is also charged against the loss reserves. Cash recoveries arise principally out of fidelity bond claims in liquidated credit unions and legal actions against officers, directors and accountants of failed credit unions.

SUMMARY OF RESERVES FOR ESTIMATED LOSSES ON ASSET AND MERGER GUARANTEES AND FROM SUPERVISED CREDIT UNIONS
(in thousands)

	Fiscal Year 1984	1983
Reserves - Beginning of Fiscal Year (October 1):		
Estimated Losses on Asset and Merger Guarantees	**$22,159**	$15,600
Estimated Losses from Supervised Credit Unions	**43,833**	10,485
Total Reserves - Beginning of Fiscal Year	**65,992**	26,085
Charge-offs during the Year	**(39,025)**	(15,991)
Cash recoveries during the Year	**1,465**	838
Net Charge-offs	**(37,560)**	(15,153)
Provision for Insurance Losses	**28,068**	55,060[1]
Reserves - End of Fiscal Year (September 30)	**$56,500**	$65,992
Composition of Reserves - End of Fiscal Year:		
Estimated Losses on Asset and Merger Guarantees	**$10,800**	$22,159
Estimated Losses from Supervised Credit Unions	**45,700**	43,833
Total Reserves - End of Fiscal Year	**$56,500**	$65,992

[1] Includes the cumulative effect (not separately determined) of loss provisions for prior fiscal years necessary to raise the September 30, 1983 Reserve for Estimated Losses from Supervised Credit Unions to an adequate level.

The Fund's 1984 insurance loss provision of $28.1 million was almost half the 1983 loss provision.

Certain balance sheet ratios declined during 1984. Because of an increase in advances to credit unions (principally capital notes) and a doubling of assets acquired from credit unions, the Fund's investments, or liquidity, dropped to 83.9% of total Fund assets as of September 30, 1984, from 86.7% one year before. Non-liquid assets increased by $17 million, to $59 million. Total Fund liabilities held almost constant during 1984 while the ratio of Fund investments to Fund balance decreased from 1.176 to 1.082.

The ratio of Fund equity to the Fund's loss reserves increased during 1984 for two reasons: continuing strong earnings in the Fund and financially stronger credit unions.

The 1% deposit will increase Fund equity as a percentage of total share deposits to almost 1.3%. This is the new "normal operating level" for the Insurance Fund.

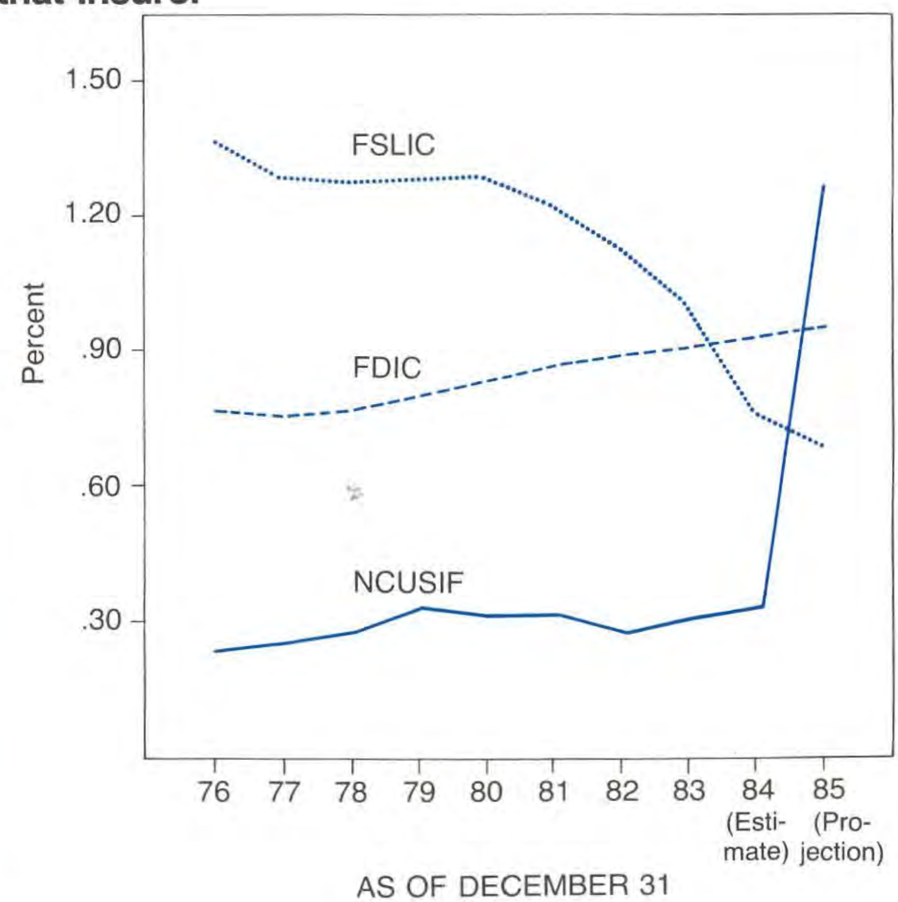
Fund Equity

As of September 30, 1984 the Insurance Fund's equity of $285 million was five times the sum of its two loss reserves. One year earlier it was three and one-half times as large. The improvement in this ratio reflects two things: continuing strong earnings in the Fund and financially stronger credit unions. The two-thirds reduction in the Fund's contingent liabilities further strengthens this equity cushion.

Equally important is 1984's increase in Fund equity as a percent of total share deposits in all NCUSIF-insured credit unions. By the end of fiscal year 1984 this figure had reached .313%, the highest ratio since 1979. This increase continues a recovery in this ratio that started in 1982.

The 1% deposit the Fund will receive from all NCUSIF-insured credit unions in January 1985 will increase the Fund's equity by $780 million. This will increase fund equity as a percentage of total share deposits to almost 1.3%. This is the new "normal operating level" for the Fund established by the NCUA board. This deposit will almost quadruple the Fund's equity. As shown in the chart below the deposit will also boost the Fund's equity/shares ratio well above that of the other two federal deposit insurers, the FDIC and the FSLIC.

The Three Federal Deposit Insurers' Insurance Fund Reserves (Equity) as a Percentage of Total Deposits/Shares in the Depositories Insured by that Insurer



During 1984 the Fund's average investment yield was 31 basis points above the average 91-day Treasury Bill yield. This is a 19 basis point improvement over 1983's spread.

Investment Management

Investments have been the Insurance Fund's second major source of income. Starting in January 1985 they will be its only significant source of income. By law, Fund investments are limited to direct obligations of the U.S. Treasury or securities guaranteed by the United States as to both principal and interest.

During a two-year period, starting in April 1982, the Fund significantly shortened the average maturity of its investments. It did so by disposing of its low-yielding intermediate and long-term securities. This change in investment policy reflected a need to increase the Fund's liquidity in light of the record number of credit union failures occurring at that time. During the current fiscal year the Fund lost $2.3 million from the sale of investments, an increase from $1.8 million in 1983. However, these losses will be recouped over four years through reinvestments at higher interest rates.

At present the Fund limits investments to a two-year maturity. Working within that limit, the Fund more recently has increased its average investment maturity. There were two reasons for this. First, it has locked in higher yields to offset the interest rate decline that started during the summer of 1984. Second, it has started investing in anticipation of the maturity-shortening impact of the $780 million it will receive in January 1985 under the 1% deposit plan. On September 30, 1984 the Fund's investments had an average maturity of 226 days; 25.4% of its investments had a one- to two-year maturity.

During fiscal year 1984 the Fund's average investment yield was 10.17%, or 31 basis points above the 9.86% average 91-day Treasury Bill yield (365-day basis) during the fiscal year. This is a 19 basis point improvement over 1983's spread between investment performance and the 91-day Treasury Bill rate.

The Fund's 1984 operating expense rose just $110,000, or 1%, from 1983.

Operating Expenses

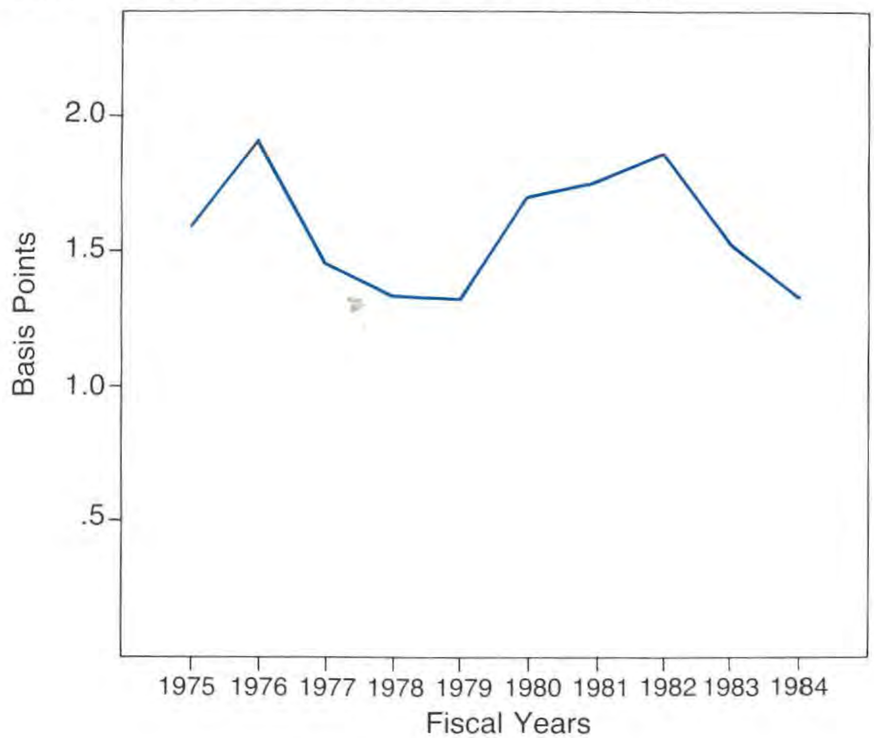
The Insurance Fund continued to exercise tight spending controls during 1984. Consequently, the year's operating expense rose just $110,000, or 1%, from 1983. This rate of increase was much less than the rate of inflation. As the accompanying chart below shows, operating expenses when expressed in basis points per share dollar protected, have continued to decline from their 1982 peak.

Insurance Fund expenses fall into two categories: direct and allocated from the NCUA operating fund. 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 six years the amount and percent of these transfers have been as follows:

NCUA Expense Charged To The Insurance Fund

Fiscal Year	1979	1980	1981	1982	1983	**1984**
Amount (thousands)	$4,165	$6,187	$7,069	$7,940	$7,920	**$8,173**
Transfer as a Percent of Total NCUA Operating Expense	21%	26%	25%	28%	26%	**26%**
Transfer as a Percent of NCUSIF Operating Expense	71%	74%	76%	73%	77%	**78%**

NCUSIF Operating Expenses Basis Points Per Insured Share Dollar



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, 1984 and 1983, and the related statements of operations 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.

As explained in Note C, prior to 1983, the Fund did not follow generally accepted accounting principles in providing for estimated losses relating to credit unions experiencing financial difficulties but not receiving cash assistance from the Fund, or any loss in excess of the amount of outstanding cash assistance with respect to those credit unions receiving cash assistance. At that time, the Fund considered it impracticable to accumulate the information necessary to make such provision. During the year ended September 30, 1983, the Fund changed to the generally accepted accounting method of providing for the aforementioned losses based on a case-by-case evaluation. In so doing, however, the Fund considered it impracticable to restate (as required under generally accepted accounting principles) the 1982 financial statements for this change. Consequently, the cumulative effect of the change as of October 1, 1982 (not separately determined) has been charged in the statement of operations and fund balance for the year ended September 30, 1983.

In our report dated November 30, 1983, our opinion on the 1983 financial statements was qualified as to the effects of such adjustments as might have been necessary had the Fund accumulated the historical loss experience data and other data necessary to support the estimated amounts of losses from supervised credit unions and from asset and merger guarantees. As a result of our review during the 1984 year of additional loss experience utilized as a basis for satisfying ourselves as to the reasonableness of these estimated losses and the related provision for insurance losses, our present opinion on the 1983 financial statements as presented herein, is different from that expressed in our previous report.

In our opinion, except for the effects of such adjustments as might have been necessary had the Fund accumulated the historical loss experience and other data necessary to restate the 1982 balance sheet to remove the cumulative effect of the aforementioned accounting change from the 1983 statement of operations and fund balance, the financial statements referred to above present fairly the financial position of the Fund at September 30, 1984 and 1983 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.

Ernst & Whinney

Washington, D.C.
November 21, 1984

Balance Sheets
National Credit Union Share Insurance Fund

	September 30 1984	1983
ASSETS		
Investments–Note E		
U.S. Government Securities	**$308,965,764**	$275,419,965
Other securities	**-0-**	1,182,911
	308,965,764	276,602,876
Advances to credit unions:		
Capital notes	**33,211,507**	28,225,744
Share deposits	**1,617,261**	3,581,222
Loans	**1,584,352**	31,080
	36,413,120	31,838,046
Assets acquired from credit unions, at estimated net realizable value:		
Liquidating credit union assets	**16,327,630**	4,539,195
Receivers certificate	**2,354,781**	2,724,675
Amount due from bond claims	**148,000**	993,048
Loans	**1,188,505**	941,462
	20,018,916	9,198,380
Cash	**4,149**	25,299
Accrued interest receivable	**2,405,306**	609,594
Other assets	**311,209**	618,158
	$368,118,464	$318,892,353
LIABILITIES		
Due to NCUA-Operated Fund–Note G	**$ 199,151**	$ 344,321
Amounts due to insured credit union shareholders	**9,186,133**	3,903,709
Deferred insurance premium income	**15,640,432**	13,247,606
Estimated losses from supervised credit unions–Note C	**45,700,000**	43,832,556
Estimated losses from asset and merger guarantees	**10,800,000**	22,158,799
Other liabilities	**1,052,487**	196,341
TOTAL LIABILITIES	**82,578,203**	83,683,332
FUND BALANCE	**285,540,261**	235,209,021
	$368,118,464	$318,892,353

See notes to financial statements.

Statements of Operations and Fund Balance National Credit Union Share Insurance Fund

	Year ended September 30 1984	1983
REVENUE		
Insurance premiums:		
Regular	**$ 60,184,640**	$ 51,251,571
Special assessment	**-0-**	52,286,030
	60,184,640	103,537,601
Interest income	**30,850,925**	21,187,528
Other income	**115,629**	311,017
TOTAL REVENUE	**91,151,194**	125,036,146
EXPENSES		
Provision for insurance losses	**28,068,219**	55,060,356
Administrative expenses–Note H:		
Employee benefits and wages	**7,096,076**	6,859,207
Travel expense	**1,305,236**	1,086,231
Facilities expense	**1,097,138**	1,159,169
Contracted services	**458,917**	636,203
Miscellaneous	**468,119**	574,109
Total Administrative Expenses	**10,425,486**	10,314,919
Collection expenses	**-0-**	577,224
Loss on sale of investments	**2,326,249**	1,795,423
TOTAL EXPENSES	**40,819,954**	67,747,922
Excess of revenue over expenses	**50,331,240**	57,288,224
Fund balance at beginning of year	**235,209,021**	177,920,797
FUND BALANCE AT END OF YEAR	**$285,540,261**	$235,209,021

See notes to financial statements.

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

	Year ended September 30 1984	1983
SOURCES AND USES OF CASH AND INVESTMENTS		
Excess of revenue over expenses	**$ 50,331,240**	$ 57,288,224
Charges (credits) to net income not affecting cash and investments:		
Provision for insurance losses	**28,068,219**	55,060,356
Payments relating to losses from supervised credit unions and asset and merger guarantees	**(37,559,574)**	(15,153,823)
Deferred insurance premium income	**2,392,826**	1,896,860
Accrued interest receivable	**(1,795,712)**	283,098
INCREASE IN CASH AND INVESTMENTS FROM OPERATIONS	**41,436,999**	99,374,715
Increase in:		
Advances to credit unions	**(4,575,074)**	(15,008,541)
Assets acquired from credit unions	**(10,820,536)**	-0-
Amounts due to insured credit union shareholders	**5,282,424**	-0-
Other liabilities	**856,146**	-0-
Decrease in:		
Assets acquired from credit unions	**-0-**	8,655,220
Other assets	**306,949**	3,070,079
Due to NCUA-Operating Fund	**(145,170)**	(8,604,452)
Mortgage payable	**-0-**	(2,275,294)
Amounts due to insured credit union shareholders	**-0-**	(5,704,607)
Other liabilities		(951,904)
	(9,095,261)	(20,819,499)
INCREASE IN CASH AND INVESTMENTS	**32,341,738**	78,555,216
Cash and investments at beginning of year	**276,628,175**	198,072,959
CASH AND INVESTMENTS AT END OF YEAR	**$308,969,913**	$276,628,175
Detail of cash and investments at end of year:		
Cash	**$ 4,149**	$ 25,299
Investments	**308,965,764**	276,602,876
	$308,969,913	$276,628,175

See notes to financial statements.

Notes to Financial Statements
National Credit Union Share Insurance Fund
Sepember 30, 1984

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 D. The Fund was established as a revolving fund in the Treasury of the United States under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is $100,000 per shareholder.

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

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

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 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. Prior to October 1, 1982, the allowance for estimated losses from supervised credit unions was limited to the amount of cash assistance outstanding. As discussed below, effective October 1, 1982, the Fund began providing for total estimated losses from supervised credit unions.

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 assesses each insured credit union a regular annual premium of 1/12 of 1 percent 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 are recognized as income ratably during the calendar year in which they are assessed. Regular annual premiums assessed but not yet recognized as income are classified as deferred income.

Under certain conditions, the Fund has been permitted to assess an additional premium, which annually could not exceed the regular annual premium. These special assessments were recognized as income in the fiscal year in which they were assessed. A special assessment of 1/12 of 1 percent was charged in 1983. None was charged in 1984. As described in Note D the Fund will no longer be permitted to assess an additional premium.

Estimated Losses from Supervised Credit Unions: Effective October 1, 1982, the Fund began providing for estimated losses from credit unions identified through the supervisory and examination process as experiencing financial difficulty but not yet liquidated or merged. Credit unions experiencing financial difficulty are classified by the Fund as "weak" or "unsatisfactory." Loss estimates are determined by management based on a case-by-case evaluation.

Prior to 1982, the Fund considered it impracticable to accumulate the necessary information and did not attempt to estimate potential losses from supervised credit unions experiencing financial difficulties but not receiving cash assistance or to the extent that any estimated loss would exceed the amount of outstanding cash assistance. Generally accepted accounting principles require that the Fund estimate and provide for the losses relating to these items.

Estimated Losses from Asset and Merger Guarantees: Estimated losses from asset (primarily loan) 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, 1984 and 1983 were $24 million and $70 million, respectively for which estimated losses of $10,800,000 and $22,158,799, respectively, had been provided.

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

Reclassification: Certain 1983 amounts have been reclassified for comparative purposes.

NOTE C - ESTIMATED LOSSES FROM SUPERVISED CREDIT UNIONS

As discussed in Note B, effective October 1, 1982, the Fund changed its method of accounting for estimated losses from supervised credit unions. This change to a method of providing for such losses in accordance with generally accepted accounting principles requires consistent application through restatement of the prior years' financial statements. However, since the Fund considered it impracticable to determine the effect on the 1982 and the prior years' financial statements, the cumulative effect of the change has been included in insured credit union losses for the year ended September 30, 1983.

NOTE D - FUND CAPITALIZATION

Subsequent to September 30, 1984, the NCUA Board adopted final rules implementing Title VIII of Public Law 98-369, which provides for the capitalization of the Fund through the deposit by each insured credit union of an amount equal to 1 percent of its insured shares. This deposit 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 deposit will be carried on the balance sheet as a separate component of fund balance. In addition, the law changed the basis for assessing the regular annual premium to 1/12 of 1 percent of insured member share deposits outstanding as of December 31 of the preceding year. The Fund will no longer be permitted to assess an additional premium.

The law requires that upon receipt of the 1 percent deposit, 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 percent of insured shares. It is anticipated that insured credit unions will remit their 1 percent deposit during January, 1985. Based on the present fund balance, the NCUA Board has resolved to waive the 1985 share insurance premium.

NOTE E - INVESTMENTS

Investments consisted of the following at September 30:

	1984	1983
U.S. Government Securities		
U.S. Treasury bills	**$229,158,339**	$245,343,493
U.S. Treasury notes	**79,807,425**	15,880,842
U.S. Treasury bonds	**-0-**	9,565,017
Other Government Securities	**-0-**	4,630,613
	308,965,764	275,419,965
Israel notes, 9.75% due 1994	**-0-**	1,182,911
Total Cost	**$308,965,764**	$276,602,876
Total Market Value	**$308,975,000**	$273,190,000

NOTE F - 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 1984 or 1983.

NOTE G - TRANSACTIONS WITH NCUA-OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. NCUA charges the Fund for these services on a monthly basis based on an estimate of actual usage. The cost of services provided by the NCUA Operating Fund was $8,173,657 and $7,920,297 for 1984 and 1983, respectively.

NOTE H - RETIREMENT PLAN

Employees of the Fund participate in the Civil Service Retirement System which is a contributory defined contribition retirement plan. Contributions to the Plan are based on a percentage of employees' gross pay and were $432,000 and $425,000 for 1984 and 1983, respectively.

FISCAL YEAR	1971	1972	1973	1974	1975	1976 [5]	1977
Income							
Regular Premium - Federal	$6,336	$9,738	$7,895	$9,314	$11,237	$16,190	$17,053
Regular Premium - State	(2)	(2)	3,829	3,557	4,223	7,722	7,572
Special Premium - Federal	--	--	--	--	--	--	--
Special Premium - State	--	--	--	--	--	--	--
Treasury Investments	100	497	1,089	2,259	3,207	5,091	5,447
Other	--	--	--	18	408	396	322
Total Income	$6,436	$10,235	$12,813	$15,148	$19,075	$29,399	$30,394
Expenses							
Operating	$515	$596	$1,357	$1,740	$3,221	$6,139	$4,725
Insurance Losses	--	1	864	1,589	290	1,596	3,025
Losses on Investment Sales	--	--	--	--	--	--	--
Other	--	--	1	131	554	911	730
Total Expenses	$515	$597	$2,222	$3,460	$4,065	$8,646	$8,480
Net Income	**$5,921**	**$9,638**	**$10,591**	**$11,688**	**$15,010**	**$20,753**	**$21,924**
Fiscal Year-end Data:							
Total Equity	**$5,921**	**$15,559**	**$26,150**	**$31,968** [3]	**$47,196** [4]	**$67,596** [6]	**$89,870**
Equity as a Percentage of Shares in NCUSIF-insured Credit Unions	0.054%	0.112%	0.160%	0.163%	0.189%	0.223%	0.241%
Contingent Liabilities	**$748**	**$1,691**	**$4,367**	**$1,044**	**$5,242**	**$7,157**	**$6,488**
Contingent Liabilities as a Percentage of Equity	12.6%	10.9%	16.7%	3.3%	11.1%	10.6%	7.2%
Operating Ratios:							
Premium Income	98.4%	95.1%	91.5%	85.0%	81.0%	81.3%	81.0%
Investment Income	1.6%	4.9%	8.5%	14.9%	16.8%	17.3%	17.9%
Other Income	--	--	--	0.1%	2.2%	1.4%	1.1%
Operating Expenses	8.1%	5.8%	10.6%	11.5%	16.9%	20.9%	15.5%
Insurance Losses	--	0.01%	6.7%	10.5%	1.5%	5.4%	9.9%
Other Expenses	--	--	--	0.8%	2.9%	3.1%	2.5%
Total Expenses	8.1%	5.8%	17.3%	22.8%	21.3%	29.4%	27.9%
Net Income	91.9%	94.2%	82.7%	77.2%	78.7%	70.6%	72.1%
Involuntary Liquidations Commenced:							
Number	--	4	50	100	153	128	142
Share Payouts	--	$ 2	$1,366	$2,838	$5,542	$7,527	$12,715
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%
Mergers:							
Assisted [1]	--	--	--	--	--	--	--
Unassisted	32	54	54	76	196	198	191

Footnotes:

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

[2] Premiums were not separately recorded for fiscal or calendar years 1971 and 1972.

[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	1978	1979	1980	1981	1982	1983	1984
Income							
Regular Premium - Federal	$20,013	$23,563	$25,682	$27,657	$29,658	$33,878	$40,404
Regular Premium - State	9,617	11,616	12,813	14,077	15,197	17,374	19,781
Special Premium - Federal	--	--	--	--	19,419	34,561	--
Special Premium - State	--	--	--		10,526	17,725	--
Treasury Investments	7,051	9,178	13,319	19,033	18,358	20,141	30,088
Other	715	1,579	1,718	1,655	1,883	1,357	878
Total Income	$37,396	$45,936	$53,532	$62,422	$95,041	$125,036	$91,151
Expenses							
Operating	$5,175	$5,873	$8,332	$9,314	$10,813	10,315	$10,426
Insurance Losses	2,557	4,709	29,801	43,746	77,458	55,060	28,068
Losses on Investment Sales	--	--	--	--	1,805	1,796	2,326
Other	613	1,665	2,730	119	1,822	577	--
Total Expenses	$8,345	$12,247	$40,863	$53,179	$91,898	$67,748	$40,820
Net Income	**$29,051**	**$33,689**	**$12,669**	**$9,243**	**$3,143**	**$57,288**	**$50,331**
Fiscal Year-end Data:							
Total Equity	**$118,921**	**$152,610**	**$165,620**[8]	**$174,716**	**$177,921**	**$235,209**	**$285,540**
Equity as a Percentage of Shares in NCUSIF-insured Credit Unions	0.270%	0.320%	0.303%	0.302%	0.259%	0.292%	0.313%
Contingent Liabilities[7]	**$10,213**	**$18,913**	**$100,463**	**$171,716**	**$149,090**	**$69,787**	**$23,930**
Contingent Liabilities as a Percentage of Equity	8.6%	12.4%	60.7%	98.2%	83.8%	29.7%	8.4%
Operating Ratios:							
Premium Income	79.2%	76.6%	71.9%	66.9%	78.7%	82.8%	66.0%
Investment Income	18.9%	20.0%	24.9%	30.5%	19.3%	16.1%	33.0%
Other Income	1.9%	3.4%	3.2%	2.6%	2.0%	1.1%	1.0%
Operating Expenses	13.8%	12.8%	15.6%	14.9%	11.4%	8.3%	11.4%
Insurance Losses	6.8%	10.3%	55.7%	63.5%	81.5%	44.0%	30.8%
Other Expenses	1.7%	3.6%	5.0%	6.8%	3.8%	1.9%	2.6%
Total Expenses	22.3%	26.7%	76.3%	85.2%	96.7%	54.2%	44.8%
Net Income	77.7%	73.3%	23.7%	14.8%	3.3%	45.8%	55.2%
Involuntary Liquidations Commenced:							
Number	168	169	239	251	160	50	38
Share Payouts	$14,244	$19,001	$59,957	$78,639	$39,892	$9,954	$34,840
Share Payouts as a Percentage of Total Insured Shares in all NCUSIF-Insured Credit Unions	0.032%	0.040%	0.110%	0.136%	0.058%	0.012%	0.038%
Mergers:							
Assisted[1]	--	--	--	98	167	203	92
Unassisted	196	193	313	235	272[9]	503	550

[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	1971	1972	1973	1974	1975	1976	1977
Shares in NCUSIF-Insured Credit Unions (millions)[1]							
Federal Credit Unions	$9,191	$10,956	$12,597	$14,370	$17,529	$21,130	$25,576
State Credit Unions	1,699	2,886	3,734	5,191	7,442	9,223	11,756
Total Shares	$10,890	$13,842	$16,331	$19,561	$24,971	$30,353	$37,332
Number of Member Accounts In NCUSIF-Insured Credit Unions (thousands)							
Federal	12,702	13,572	14,665	15,870	17,066	18,623	20,426
State	1,924	3,043	3,830	5,198	6,681	7,673	8,995
Total	14,626	16,615	18,495	21,068	23,747	26,296	29,421
Number of NCUSIF-Insured Credit Unions							
Federal	13,494	13,133	12,974	12,972	13,011	12,978	13,000
State	793	1,315	1,656	2,398	3,040	3,519	3,882
Total	14,287	14,448	14,630	15,370	16,051	16,497	16,882
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	59.3%	64.2%	66.6%	71.1%	75.6%	77.6%	80.3%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	15.6%	20.9%	22.9%	26.5%	29.8%	30.4%	31.5%

END OF FISCAL YEAR	1971	1972	1973	1974	1975	1976	1977
Assistance to Avoid Liquidation:							
Capital Notes and Other Cash Advances Outstanding	--	--	$308	$445	$115	$115	$182
Noncash Guaranty Accounts	--	--	--	--	$541	$585	$1,080
Number of active cases	--	--	20	4	5	10	9
Problem Case Insured Credit Unions (Codes 4 and 5):							
Number	N/A	N/A	N/A	N/A	N/A	830	660
Shares (millions)	N/A	N/A	N/A	N/A	N/A	$570	$531
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	--	--	--	--	--	1.9%	1.4%

Footnotes:

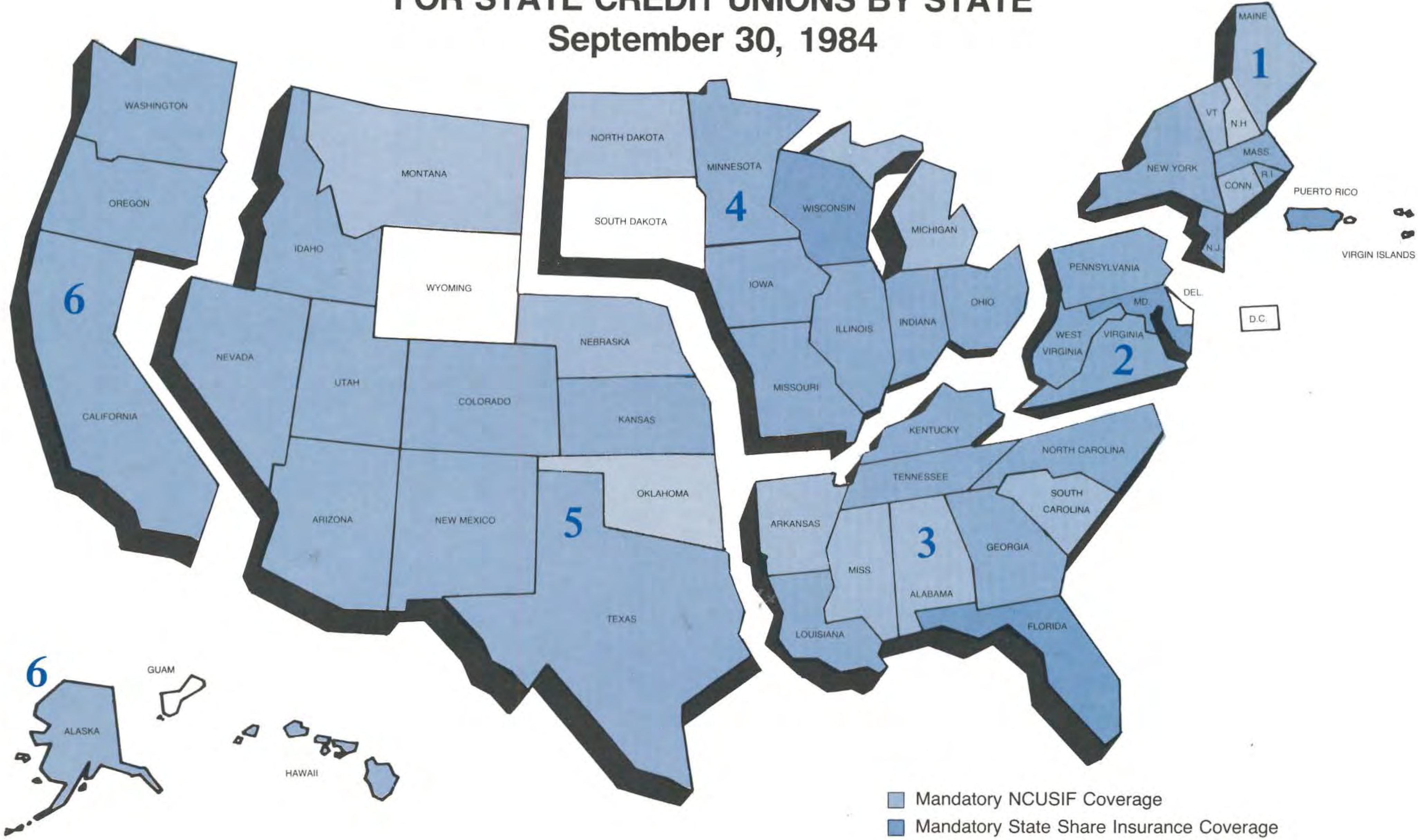
[1] Includes uninsured shares in NCUSIF-Insured Natural Person Credit Unions and all shares in Corporate Credit Unions. Corporate Credit Unions serve solely as depositories and service providers to Natural Person Credit Unions.

[2] Estimated amounts as of December 31, 1984.

END OF CALENDAR YEAR	1978	1979	1980	1981	1982	1983	1984 [2]
Shares in NCUSIF-Insured Credit Unions (millions) [1]							
Federal Credit Unions	$29,802	$31,831	$36,263	$37,788	$45,491	$54,099	$62,967
State Credit Unions	14,316	15,871	18,468	20,006	23,152	26,375	28,222
Total Shares	$44,118	$47,702	$54,731	$57,794	$68,643	$80,474	$91,189
Number of Member Accounts In NCUSIF-Insured Credit Unions (thousands)							
Federal	23,259	24,789	26,829	28,595	26,095	26,700	28,460
State	11,479	12,218	13,679	14,657	13,160	13,460	14,375
Total	34,738	37,007	40,508	43,252	39,255	40,160	42,835
Number of NCUSIF-Insured Credit Unions							
Federal	13,050	13,000	12,802	12,367	11,430	10,963	10,516
State	4,362	4,769	4,910	4,994	5,036	4,918	4,647
Total	17,412	17,769	17,712	17,361	16,466	15,881	15,163
Shares in NCUSIF-Insured Credit Unions as a Percentage of all Credit Union Shares	82.4%	83.0%	83.3%	81.5%	82.9%	83.8%	82.0%
State Credit Union Portion of Shares in all NCUSIF-Insured Credit Unions	32.4%	33.3%	33.7%	34.6%	33.7%	32.8%	30.9%

END OF FISCAL YEAR	1978	1979	1980	1981	1982	1983	1984
Assistance to Avoid Liquidation:							
Capital Notes and Other Cash Advances Outstanding	$13,522	$15,794	$15,447	$8,388	$16,839	$31,838	$36,413
Noncash Guaranty Accounts	$1,733	$5,791	$29,247	$42,922	$48,786	$52,736	$54,213
Number of active cases	12	30	59	114	124	113	72
Problem Case Insured Credit Unions (Codes 4 and 5):							
Number	825	1,020	1,018	1,174	1,192	1,124	872
Shares (millions)	$1,450	$2,300	$2,400	$2,980	$4,590	$4,652	$4,071
Problem case shares as a Percentage of Shares in NCUSIF-Insured Credit Unions	3.3%	4.8%	4.4%	5.2%	6.7%	5.8%	4.7%

SHARE INSURANCE REQUIREMENTS FOR STATE CREDIT UNIONS BY STATE
September 30, 1984



- Mandatory NCUSIF Coverage
- Mandatory State Share Insurance Coverage
- Mandatory NCUSIF or Other Approved Insurance/Guaranty Coverage
- No Share Insurance Required
- No State Credit Unions

See Scope of Insurance Coverage Chapter for full details of state programs.

NATIONAL CREDIT UNION ADMINISTRATION
1776 G Street, Northwest
Washington, D.C. 20456
(202) 357-1000

NCUA Board

Edgar F. Callahan, Chairman
P. A. Mack, Jr., Vice Chairman
Elizabeth Flores Burkhart, Board Member

Wendell Sebastian, General Counsel
Rosemary Brady, Secretary of the Board

Central Office

Ted Bacino, Director, Office of Services

Charles W. Filson, Director, Office of Programs

Share Insurance Fund

Thomas Buckman, Director, Department of Insurance

Dennis Winans, Comptroller

Pat Burleson, Director, Division of Risk and Asset Management

REGIONAL OFFICES

Region I (Boston)
Stephen W. Raver
Regional Director
441 Stuart Street, 6th Floor
Boston, Massachusetts 02116
(617) 223-6807

Region II (Capital)
Harvey J. Baine, III
Regional Director
1776 G Street, N.W., Suite 700
Washington, D.C. 20006
(202) 682-1900

Region III (Atlanta)
John S. Ruffin
Regional Director
1365 Peachtree Street, N.E.
Suite 540
Atlanta, Georgia 30367
(404) 881-3127

Region IV (Chicago)
H. Allen Carver
Regional Director
230 South Dearborn, Suite 3346
Chicago, Illinois 60604
(312) 886-9697

Region V (Austin)
J. Leonard Skiles
Regional Director
611 East 6th Street, Suite 407
Austin, Texas 78701
(512) 482-5131
Denver Sub Office
LEA COMPLEX
10455 East 25th Avenue
Aurora, Colorado 80010
(303) 844-3795

Region VI (San Francisco)
D. Michael Riley
Regional Director
2890 North Main Street, Suite 101
Walnut Creek, California 94596
(415) 486-3490

National
Credit Union
Administration
Washington, D.C. 20456

NCUA National Credit Union Administration

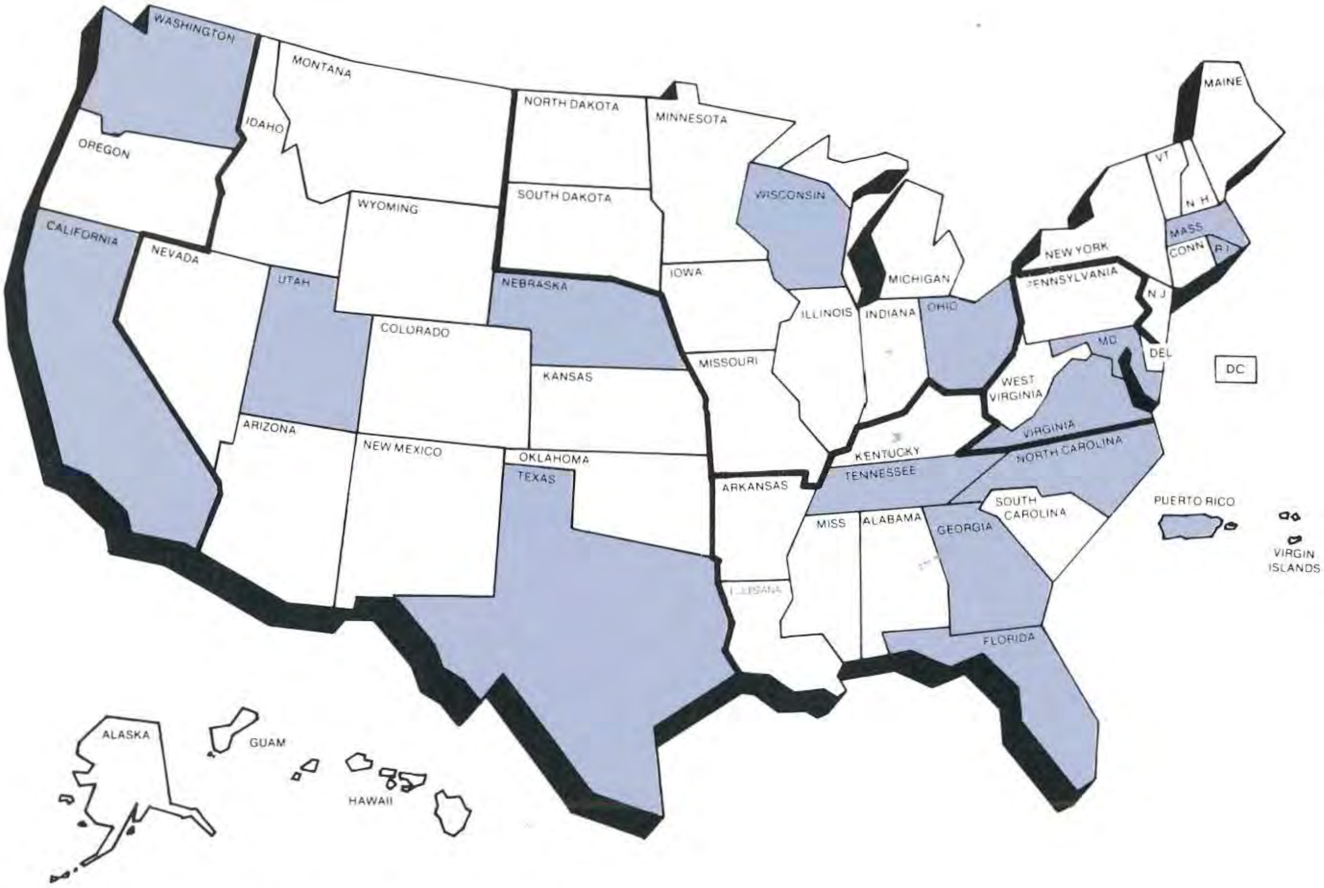
Central Liquidity Facility

ANNUAL FINANCIAL REPORT

Fiscal Year
October 1, 1983
September 30, 1984

1984

STATE SHARE INSURANCE CORPORATIONS* WHICH HAVE ACCESS TO THE CLF



California Credit Union Share Guaranty Corporation
Financial Institution Assurance Corporation (NC)
Florida Credit Union Guaranty Corporation
Georgia Credit Union Deposit Insurance Corporation
Maryland Credit Union Insurance Corporation
Massachusetts Credit Union Share Insurance Corporation
National Deposit Guaranty Corporation (OH)
Program for Share and Deposit Insurance Fund (Puerto Rico)
Rhode Island Share and Deposit Indemnity Corporation
State Credit Union Share Insurance Corporation (TN)
Texas Share Guaranty Credit Union
Utah Share and Deposit Guaranty Corporation
Virginia Credit Union Share Insurance Corporation
Washington Credit Union Share Guaranty Association
Wisconsin Credit Union Savings Insurance Corporation

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

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

Chairman's Letter To Shareholders

"Our financial success depends on our continued sensitivity to your needs"

This Annual Report is the fifth for the CLF. At last, we have seen the completion of the CLF's structural development. This lengthy process could hardly have been predicted when the enabling legislation was passed in November 1978. This year, however, saw the conclusion of a number of very critical and essential organizational efforts.

- The opening of membership to virtually all credit unions due to the full funding by U.S. Central and the Corporate network on February 1, 1984;
- The completion of a nationwide Agent distribution and representation system using the Corporate network;
- The gaining of tax exempt status through Congressional passage of P.L. 98-369;
- The assurance of CLF's financial self support through the increase of reserves (retained earnings) to over $4.0 million.

The story behind these efforts is described on the following pages. The key point is that these benchmarks were not the result of a blueprint or a detailed multi-year plan. Rather, these changes came about because of the continual dialogue (sometimes debates), with you, our shareholders. There is a tendency in government, especially among regulators, to come to believe that our function is to serve a political community or perhaps our own staff of examiners or supervisors; when in fact, our real "customers" are, in this instance, the shareholders of the CLF. As necessary as these other groups might be, the key to the CLF's development has been our ability to assist in problem solving for our shareholders.

By means of this dialogue, you have played a vital role in the risk management of this corporation. While all management is the management of risk, the successful managers are observed to be those who keep their risk within their risk taking abilities; unsuccessful managers are those who do not. Your involvement has been central in helping to identify those areas where the CLF should become engaged. During the National Credit Union System Capitalization Commission's study, the debate over the role of the CLF was a turning point in our risk selection. More recently, our mutual concern about the earnings problems of those credit unions with long-term low-rate investments led to the Investment Liquidity Lending Program implemented this year.

I believe our future responsiveness and continued financial success depend on our continued sensitivity to your needs. Our effectiveness requires that our people be working in those areas where the potential for results are, and not where our skill and knowledge cannot produce results no matter how well we may work in these familiar roles.

I ask all of us now that the building years are completed to continue to use the same tools of dialogue to ensure that this newly completed financial institution continue to serve credit unions and their members.

E.F. Callahan

E.F. CALLAHAN
November 9, 1984

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

Lending Quotations:	1-800-424-3208
All Other Inquiries:	1-800-424-3205
For Members in D.C. Metro Area:	202-357-1142

Contents

Financial Highlights Central Liquidity Facility

	1984	1983	% Change
Operating Results			
Operating Net income (before tax)	$20,242,000	$9,560,000	+112%
Dividends	19,127,000	6,957,000	+175%
Net Earnings and Additions to Reserves*	2,400,000	265,000	+806%
* *(After tax provision. See footnote 10)*			
At Fiscal Year End			
Total Assets	$537,065,000	$144,687,000	+271%
Total Member Shares & Retained Earnings	249,852,000	87,996,000	+184%
Total Loans	269,812,000	44,800,000	+502%
Total Employees	6	9	
Total Members: via Agents (credit unions)	41 (18,000)	12 (5,109)	
Direct	469	551	

Five Years of Growth Completes CLF Development

"We've finished the foundation . . . we're excited about the future"

"What was originally conceived for the CLF is now a reality."

With those words, Mid-States Corporate FCU Manager Don Finn sums up not just this year's accomplishments, but the development of the Central Liquidity Facility over the past five years. The CLF has undergone a metamorphosis since its inception in 1979, and has emerged to function as the quasi-governmental institution credit unions need and Congress intended, say old and new CLF members and Facility officials.

"We've finished the foundation," says NCUA Board Chairman Edgar Callahan, "and now we can get on to fully meeting the needs of credit unions. After five years, the building blocks are soundly in place and we're excited about what this means for the future."

One of the earliest members of the CLF was Southwest Corporate Central Federal Credit Union. Manager John Arnold shares Callahan's excitement about the CLF's growth. "Working through the CLF - Corporate System, there isn't a viable credit union (in the United States) that we can't serve," Arnold says. While the CLF has no blueprint for its actions – that is, its activities are based on credit unions' current and projected liquidity needs – several major developments have resulted in the completion of a sound financial structure for credit unions.

The most important development was the approval on October 4, 1983, of the U.S. Central's Agent membership request for 29 corporate credit unions which did not belong to the CLF. With this action, the CLF's membership base catapulted from 5,300 to more than 18,000 credit unions, giving virtually all credit unions in the United States access to the CLF.

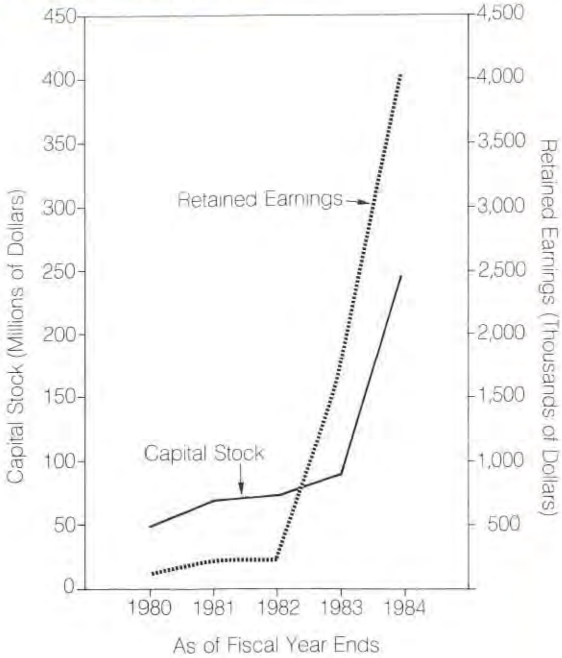
Although various membership proposals had been discussed over the years, the vehicle by which the membership agreement was finally reached was the National Credit Union System Capitalization Commission, spearheaded by the Credit Union National Association and the U.S. Central. Compromises were reached to minimize the costs of CLF membership and meet the statutory capital requirements.

"When we took this step we guaranteed that credit unions would have an independent financial system with the sole function of meeting the needs of credit unions," says U.S. Central manager Jim Kudlinski. "It was something that had to happen in order to ensure an 'industry-specific' backup liquidity system," agrees CLF President Charles Filson. "The CLF is the only entity both capable of and mandated to serve credit unions, as a lender of unfailing reliability" Filson says. In fact, the CLF lending authority is not limited to credit unions, but extends to Credit Union State Share Insurance Funds as well.

The U.S. Central CLF membership agreement paved the way for another important accomplishment. An outgrowth of the dramatic boost in membership is a cost-efficient, nationwide distribution system. When the CLF was first conceived, a network of regional banks similar to the Federal Reserve System and Home Loan Bank Board System was anticipated.

However, because the CLF can take full advantage of its close working relationship with corporate credit unions, no additional distribution structure was necessary. Therefore, the impact of nearly quadrupling the CLF's membership has minimal effect on the Facility's staffing and operating costs. In fact, the CLF's administrative expenses as a percentage of total income have actually decreased from a high of 10.1% in Fiscal Year 1980 to an all-time low of 1.5% for Fiscal Year 1984.

Equity Capital Trends



"Credit union people talking to credit union people makes a lot of sense"

"If the CLF's services weren't made available through the corporate structure, other arrangements would have been necessary and someone would have had to pay the cost," Kudlinski said. Presumably, an alternative distribution system would have been paid for by the very credit unions needing assistance from the CLF. What we have in place now "is a very businesslike, professional arrangement, and that's the way it should be. It makes good economic sense for credit unions and their consumer members," Kudlinski added.

The CLF has reached another milestone, this time in terms of its financial standing. Beginning five years ago with no reserves and only the ability to borrow from NCUA for cash flow, the CLF has emerged this year as a virtually self-supporting entity. Due largely to the U.S. Central and Corporate membership, the CLF now has over $4 million in reserves.

The Facility's self sufficiency was also boosted by a $1.6 million refund from the IRS. This was the result of a four-year effort by credit unions and the CLF to correct a technical oversight which denied the CLF tax-exempt status. Provisions included in the omnibus Deficit Reduction Act signed into law last July cleared the way for the retroactive refund, which includes almost $200,000 in interest income.

Another vital step in the CLF's development occurred in fiscal year 1982 when the U.S. Attorney General declared that borrowings of the CLF are backed by the full faith and credit of the U.S. Government. Thus, the CLF's credit facilities are provided through the U.S. Treasury's Federal Financing Bank and backed by the credit standing of the government. Credit unions benefit both by a potentially lower cost of funds and the certainty that funds will always be available in a crisis.

One of the more recent loan programs devised by the CLF to help credit unions holding long-term, low-yielding securities is called the Investment Liquidity Lending Program. It is an example of why U.S. Central Manager Kudlinski says the CLF "adds greatly to the strength and viability of the credit union system." This stabilization program allows credit unions receiving assistance under Section 208 of the Federal Credit Union Act which are feeling the earnings pressure of low-yielding, fixed-rate investments to increase the earnings from those investments.

Most CLF loans have 60 to 90 day terms, but the Facility has shown that it has the flexibility needed to respond to special needs. The Protracted Credit Program demonstrated this, and Eglin FCU was one of the several credit unions that the CLF helped under the program. Three years ago, Eglin was suffering from an investment portfolio which included a large number of low-yielding long-term securities. Through the Protracted Credit Program, Eglin received a four year, fixed-rate loan which enabled it to ease the earnings vulnerability from its low-yielding investment portfolio and at the same time continue to meet its members' needs.

"The CLF was willing to take a chance," said President Jim Appleton, "because (CLF officials) understood our operation. Several creditors from outside the credit union community had pulled our lines of credit, but the CLF worked with us." According to Appleton, who says Eglin has repaid the CLF and the NCUSIF and is now doing well, "credit union people talking to credit union people makes a lot of sense."

The CLF is now firmly in place, having completed in the last five years a solid foundation on which to build in the years ahead. "The membership structure is in place; the legal structure with regard to tax-exempt status and full faith and credit backing of the U.S. Government is in place, and the CLF is financially stable and virtually self supporting," said Chairman Callahan. "The developmental stage is over, and we head into the future as the independent, solid financial institution envisioned five years ago."

CLF Tax Status Resolved

After a 4 1/2 year effort by credit unions and NCUA, the Congress granted CLF tax-exempt status in PL 98-369. The omnibus Deficit Reduction Act was signed into law by President Reagan on July 18, 1984. The tax exemption is retroactive to October 1, 1979, the date the CLF first opened its door for business.

While Congress never intended to tax the CLF, the last minute changes and hurried atmosphere surrounding the enactment of CLF legislation in November 1978, resulted in the omission of the standard tax-exempt language for mixed ownership corporations.

Upon signing of the corrective legislation, CLF applied for a refund of the $1.4 million in taxes paid the previous 4 fiscal years. In addition, approximately $200,000 of interest income will also be received for the time the funds were held by the U.S. Treasury. The entire amount of tax payments has been added to CLF equity and the interest income recorded during Fiscal Year 1984.

The successful outcome of this effort at a time when Congress is searching for budget reductions demonstrates the unique and important nature of the credit union system. The CLF was able to obtain its tax-exempt status by action of both the House and Senate and thus secure its place as an integral part of the credit union financial network.

U.S. Central Funding – How it Works

On February 1, 1984, an exchange of wire transfers between U.S. Central and the CLF completed the funding arrangements which capitalized CLF for all credit unions who are members of a corporate credit union. The 41 Corporate Agents of the CLF now provide a nationwide distribution system for emergency lending and for monitoring critical credit union liquidity trends.

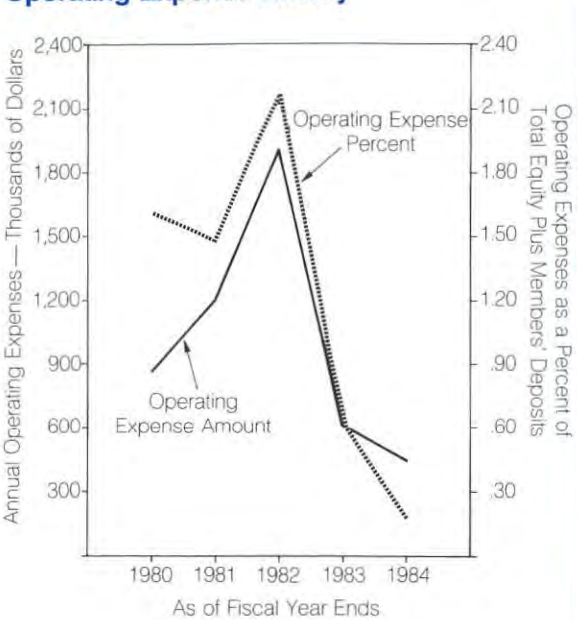
CLF redeposits $190 million in corporate system

The unique financing of this membership agreement grew out of concerns raised by credit unions and outlined in the Report of the National Credit Union Capitalization Commission. This Report raised questions about the perceived opportunity cost of CLF membership and CLF's taking funds out of the credit union system. The Commission's Report had recommended legislative changes. The compromise agreement met these concerns by using options given under the existing statutory framework.

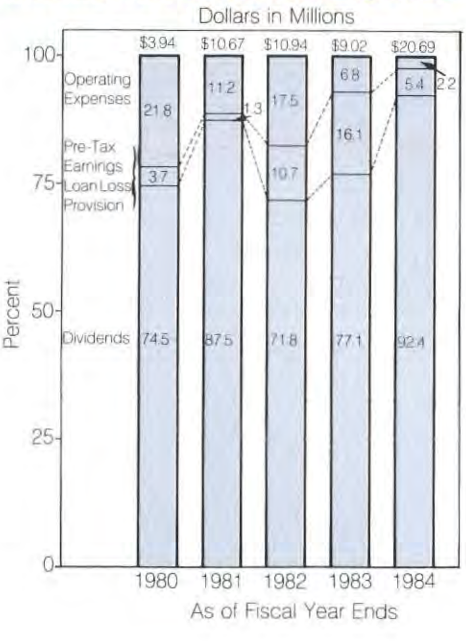
One proposal agreed to by the NCUA Board was to reinvest, as long as liquidity demands remain low, all but $50 million of its capital shares in share accounts with U.S. Central and the corporate credit unions. This reinvestment is at an "administered" rate with a spread above the CLF's projected dividend. The income from this managed spread when combined with all of CLF's other earnings is sufficient to pay CLF's entire operating and reserving costs, as well as the projected dividend. The amount of this redeposit, based on the total stock subscription of the corporate network, is currently $190 million.

The rate on this "redeposit" is set monthly by CLF in discussions with U.S. Central. For example, in setting the September 1984 rate the CLF projected a dividend rate for the month of 11% using market conditions in late August.

Operating Expense History



Percentage Distribution of CLF Income, Net of Interest Expense



The operating expenses for September were estimated at $38,000. The reserve targets established for the CLF were $85,000 per month or $1.0 million for the entire year. The total of operating expenses and reserve transfer was $123,000. Investment income from capital (net of projected dividends), from accumulated reserves, plus net income from the loan portfolio was estimated to be $101,318. Therefore, the additional income needed from the redeposit was $21,682 ($123,000 - $101,318). This amount distributed over the $190 million investment equals 14 basis points. Since the CLF anticipated an 11% dividend rate, the investment rate at U.S. Central was set at 11.14% for September. This rate setting procedure is recalculated each month.

In addition to maintaining the $190 million of liquidity in the corporate credit union network, this agreement has provided a significant cost savings for credit unions and Corporate Agents. Rather than receiving CLF's dividend rate on $190 million, the corporates were able to invest their funds in higher yielding money market investments. For example, if these reinvested funds were placed at the average three month Eurodollar CD rate from February through September 30, the corporates would have earned a spread of 87 basis points above the CLF dividend rate. This represents increased earnings of $1.1 million on the $190 million for these 8 months. The spread needed to cover CLF's operating and reserving costs averaged only 25 basis points, or $322,584. Therefore, by setting an administered rate on the redeposit, this funding agreement allowed the corporates to have additional earnings of $777,000.

The financial summary which follows reflects the positive effect to both the CLF and credit unions of the U.S. Central membership agreement.

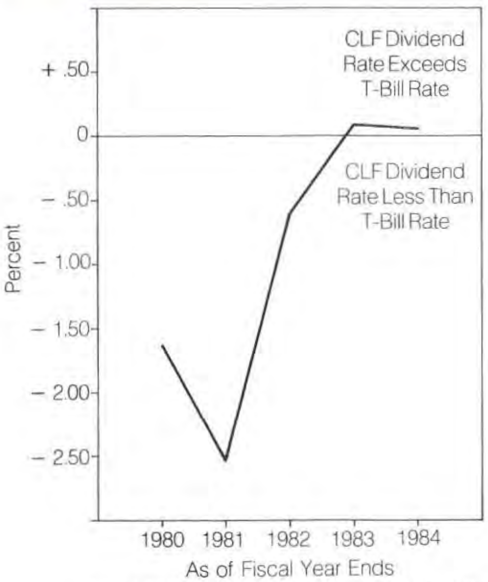
Financial Summary

In Fiscal Year 1984 the CLF achieved significant increases in the major balance sheet accounts and continued improvement on the income statement. The CLF net income of $21.5 million before dividends equals a 10.9% return on members' capital and deposits. This total income represents a 157% increase in income available for dividends from the previous fiscal year.

Operating expenses of $445,811 were reduced by 27% from the Fiscal Year 1983 level of $609,502 and 65% from Fiscal 1982's total of $1.3 million before expensing organizational costs. A lowering of personnel expenses contributed the major portion of the reduction. These staff efficiencies were accomplished despite a nearly fourfold increase in membership and a significant increase in lending activity. The cooperative working relationship between the corporate network and the CLF provides an efficient delivery system for CLF services that keeps CLF's fixed administrative operating costs to a minimum. The operating expense ratio for Fiscal Year 1984 was 1.5%, as compared to 3.4% during Fiscal 1983 and a peak of 10.1% in 1980.

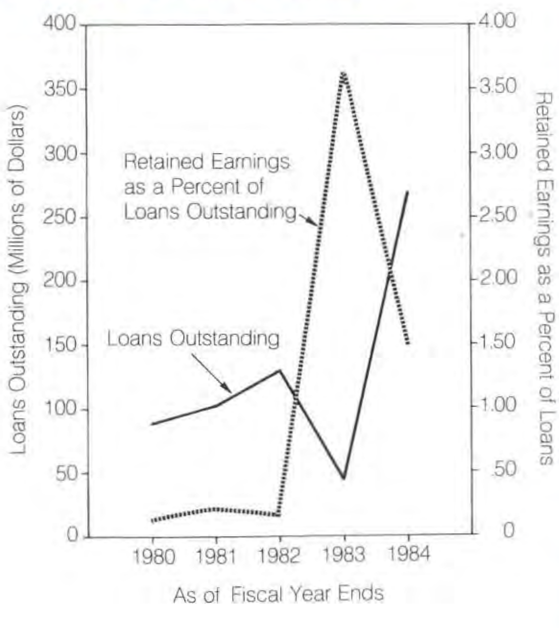
CLF also met its reserving target of increasing retained earnings by $1.0 million. This goal was set by the NCUA Board on November 10, 1983. Total retained earnings as of September 30 stood at $4.0 million, which is an increase of 38% during the year. Although CLF has not incurred a direct loss from its lending or investment activity during its first five years of operation, the reserve accounts are a recognition that CLF activities are not completely risk free. Investment of these retained earnings also provides income which at current interest rates allows CLF to meet almost all of its operating expenses.

Rate Differential: CLF Dividend Versus 90 Day T-Bills



Note: T-Bill Rate Shown on Coupon Equivalent Yield Basis

Loans Outstanding; Retained Earnings to Loan Percentage



CLF assets increased from $145 million to $537 million during the year. This growth results from two key events in 1984. The first was the funding of the U.S. Central/CLF membership agreement on February 1 which increased capital stock by $154 million. Total capital stock as of year end was $245.8 million as compared to $86.4 million the previous year-end. The second event, a direct result of the developing relationship between the CLF and the Corporate network, was the introduction of the Investment Liquidity Lending Program. This was the primary factor in the increase in loans to $269.8 million at September 30, 1984 as compared to $44.8 million one year earlier.

Dividends

The CLF distributed over 66% of gross income to its members during Fiscal Year 1984, as compared to 45% in 1983. Dividends on members' stock and deposits of nearly $20 million resulted in an average return on shares of 9.78% for the fiscal year. The per annum dividend rate paid per quarter on shares for the past two years and the average 90-day T-Bill rate for the current year are as follows:

Quarter Ending	CLF Dividend 1983	CLF Dividend 1984	90-Day T-Bill Rate* 1984
1st Quarter - 12/31	9.0 %	9.0 %	8.99%
2nd Quarter - 3/31	8.25%	9.0 %	9.31%
3rd Quarter - 6/30	8.50%	10.25%	10.03%
4th Quarter - 9/30	8.80%	10.85%	10.56%
Fiscal Year Average	8.64%	9.78%	9.72%

* Coupon Equivalent Yield

The practice of the CLF is to pay dividends as close to the 90-day Treasury bill rate as earnings permit. For the past two years, as shown on the graph, this objective has been met or exceeded.

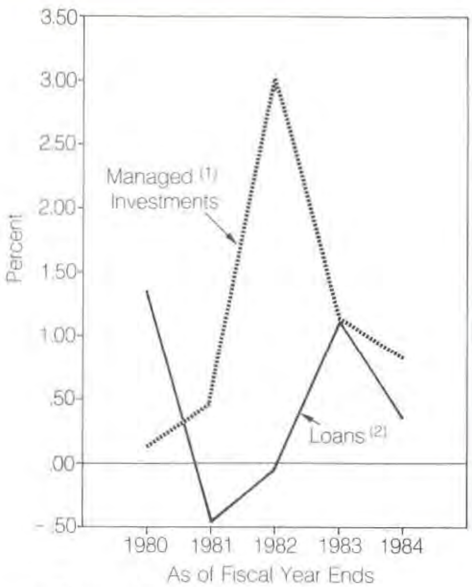
Loans and Lending Activity

While the 1984 year-end outstanding loan total shows a dramatic increase of $225 million above the prior fiscal year-end, average daily outstandings are in fact down. During Fiscal 1984 the average outstanding loan balances were $83.2 million, a decrease of $5.7 million from the prior year.

The growth in loans at year end is due to the nearly fourfold increase in CLF membership which occurred at mid-year and development of joint programs with the Corporate Agents such as the Investment Liquidity Lending effort.

The loans in the Investment Liquidity Lending Program are targeted at credit unions which receive assistance under Section 208 of the Federal Credit Union Act. These credit unions have earnings pressures due in part to portfolios of low-yielding, fixed-rate, long-term investments and high cost short-term funds. Credit unions are unable to restructure their asset-liability mix in a short period of time without incurring substantial market losses. This lending program allows the credit unions to stabilize the cost of these investments without altering share deposit rates while keeping their liquidity intact.

Loan and Investment Spreads



(1) Compared to 90 Day T-Bill Rate
(2) Yield on Loans Minus Cost of Funds

By working through the Agent distribution system of the corporate network, these credit unions can utilize their underwater securities through repurchase transactions with U.S. Central. U.S. Central uses these securities on a case-by-case basis with CLF to collateralize short-term loans for these problem credit unions. The program is similar to the short-term lending effort in which Penn Square Certificates were used as collateral in 1982.

U.S. Central's role in designing and managing the program is critical to minimize the risks that can occur in repurchase activity. The result is that 54 credit unions working through 21 corporates are able to stabilize earnings and minimize liquidity pressures while restructuring the credit unions' balance sheets for eventual sale of the securities.

Loan Portfolio Spread

The CLF loan portfolio spread in fiscal year 1984 was .364%. With average daily balances of $83.2 million, the loan portfolio contributed $284,000 to earnings after subtracting the cost of borrowing from loan income during the year.

The reduction in the loan spread from the 1.12% for fiscal year 1983 is the result of CLF tailoring its lending rate to meet the situational lending needs of credit unions. CLF's procedure for pricing short-term loans is to set its rates slightly above the average of the corporate Agent rates. However, the loans extended on a case-by-case basis under the Investment Liquidity Lending Program were set at a rate that would provide the maximum benefit to these "208 type" credit unions. The spread on these loans was thus less than the operating objective of 1%. However, the program was still consistent with CLF's overall statutory purpose "to improve the general financial stability" of the credit union system. And like the previous Penn Square program, the loans are limited to maturities of 90 days with all rollovers subject to continued credit union progress and overall market conditions.

Investments

Title III of the Federal Credit Union Act permits the CLF to invest in U.S. Government and Agency obligations, place deposits in federally insured financial institutions, and make investments in shares or deposits with credit unions. CLF's investment objectives are to first meet liquidity needs by holding in daily accounts sufficient funds to meet sudden loan demand, withdrawals from liquidity and clearing accounts, and any membership refunds and then make authorized investments at various maturities to maximize yield. During 1984, the maturity limit was set at six months.

Investments at September 30, 1984 stood at $254.6 million, an increase of $158 million from the previous year. This growth is a result of the increase in capital from the funding for the U.S. Central/CLF membership agreement. The investments consist of two separate portfolios: the $190 million redeposit in U.S. Central; and the nearly $65 million invested primarily in Eurodollar deposits. The redeposit with U.S. Central is discussed earlier in this Report. The average maturity of the portfolio, excluding the redeposit, was 65 days at fiscal year-end, compared to 87 days at the beginning of the fiscal year. The average yield on the managed portfolio was 10.6% during the year. The comparative rates for the three month Eurodollar Certificate of Deposit and 90-day T-Bill were 10.4% and 9.7% respectively. Including the yield on the redeposit in the corporate system, the overall return on CLF's investments was 10.4% for Fiscal 1984.

CLF Investment Portfolio at September 30, 1984

Investment	$ Amount	% of Total Portfolio	Yield
Eurodollar Time Deposit	$ 55,000,000	21.6%	11.9%
U.S. Central Daily Account	9,646,519	3.8%	11.5%
U.S. Central Redeposit	190,000,000	74.6%	11.1%
Total	**$254,646,519**	**100.0%**	**10.4%(a)**

(a) Weighted Average Yield for September

Maturity Schedule of CLF Investment Portfolio at September 30, 1984

Month	Eurodollar Time Deposits	U.S. Central Daily Account	U.S. Central Redeposit	Total
October	$10,000,000	$9,646,519	$190,000,000	$209,646,519
November	10,000,000			10,000,000
December	15,000,000			15,000,000
January	10,000,000			10,000,000
February	5,000,000			5,000,000
March	5,000,000			5,000,000
Total	**$55,000,000**	**$9,646,519**	**$190,000,000**	**$254,646,519**

Auditor's Report

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

In our opinion, the accompanying balance sheets and the related statements of operations and retained earnings and of changes in financial position present fairly the financial position of the National Credit Union Administration Central Liquidity Facility at September 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and, for the 1984 examination, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse
October 23, 1984

Balance Sheets

(Expressed in thousands of dollars)
(Notes 1 and 2)

	September 30, 1984	September 30, 1983
ASSETS		
Cash	$ 1	$ 23
Income tax refund receivable (Note 10)	1,600	
Investments (Note 5)	254,646	96,742
Loans to members (Notes 2 and 4)	269,812	44,800
Accrued interest receivable	11,003	3,061
Other assets	3	61
Total Assets	$537,065	$144,687
LIABILITIES AND EQUITY		
Liabilities		
Notes payable (Note 6)	$268,895	$ 44,200
Member deposits (Note 7)	14,462	10,681
Accrued interest payable	3,797	593
Accounts payable and other liabilities	59	105
Federal income tax payable (Note 10)		1,112
Total Liabilities	287,213	56,691
Equity		
Capital stock – required (Notes 7 and 8)	245,829	86,373
Retained earnings	4,023	1,623
Total Equity	249,852	87,996
Commitments (Notes 4, 8 and 12)		
Total Liabilties and Equity	$537,065	$144,687

Statements of Operations and Retained Earnings

(Expressed in thousands of dollars)
(Notes 1 and 2)

	Year ended September 30, 1984	1983
Income		
Interest on loans	$ 8,849	$ 8,833
Income from investments	21,060	9,071
Other	197	
Total income	30,106	17,904
Expenses		
Personnel services	222	294
Personnel benefits	20	45
Employee travel	8	17
Rent, communications and utilities	54	50
Printing and reproduction	7	14
Other services	132	185
Supplies and materials	2	4
Total operating expenses	445	609
Interest		
Federal Financing Bank	8,565	7,836
Member deposits (Note 7)	854	1,048
Provision for loan losses (Note 2)		(1,149)
Total expenses	9,864	8,344
Income before income tax	20,242	9,560
Income tax (benefit) provision (Note 10)	(1,285)	1,189
Net income	21,527	8,371
Dividends to members (Note 7)	19,127	6,957
Addition to retained earnings	2,400	1,414
Retained earnings at beginning of period	1,623	209
Retained earnings at end of period	$ 4,023	$ 1,623

Statements of Changes in Financial Position

(Expressed in thousands of dollars)

	Year ended September 30, 1984	1983
Cash and investments were provided by:		
Operations		
Net income	$ 21,527	$ 8,371
(Deduct) provision for loan losses not affecting cash and investments during the year		(1,149)
	21,527	7,222
Issuance of required capital stock	177,999	18,682
Additon to member deposits	20,362	22,743
Borrowings	561,145	461,541
Loan repayments	223,708	280,125
Total cash and investments provided	1,004,741	790,313
Cash and investments were used for:		
Redemption of required capital stock	18,543	4,448
Withdrawal of member deposits	16,581	28,906
Dividends	19,127	6,957
Borrowing repayments	336,450	547,407
Loan disbursements	448,720	194,446
Other, net	7,438	674
Total cash and investments used	846,859	782,838
Increase in cash and investments	$ 157,882	$ 7,475

Notes to Financial Statements September 30, 1984 and 1983

Note 1 — Organization and Purpose

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

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions.

Note 2 — Significant Accounting Policies

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

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

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

At September 30, 1983 no reserve was considered necessary for loan losses which resulted in an $1,149,000 credit to income due to the reversal of the cumulative allowance for loan losses established in prior years. No allowance for loan losses was considered necessary at September 30, 1984.

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

Note 3 — Government Regulations

The CLF was created by the Act and is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in federally insured financial institutions and shares and deposits in credit unions. Borrowing is limited to the lesser of $600 million or twelve times equity and capital subscriptions on-call. At September 30, 1984 and 1983, the CLF was in compliance with these limitations.

Note 4 — Loans to Members

During 1984, loans were made only to member credit unions. These loans carry interest rates which ranged from 10.615% to 12.50% at September 30, 1984 (9.95% to 11.03% at September 30, 1983). The loans outstanding at September 30, 1984 are scheduled to mature during fiscal year 1985 (the loans outstanding at September 30, 1983 matured during fiscal year 1984). Included in loans to members at September 30, 1984 are loans to U.S. Central Corporate Credit Union in its capacity as agent of the CLF (see Note 8) in the amount of $257,795,000.

The CLF has also provided members with extended loan commitments through 1987. At September 30, 1984 there were approxiamtely $12,000,000 in outstanding commitments.

Note 5 — Investments

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

	September 30, 1984	1983
U.S. Central (see Note 8)		
Redeposits	$190,000	
Share accounts	9,646	8,242
Time deposits	55,000	88,000
Overnight securities		500
	$254,646	**$96,742**

Note 6 — Notes Payable

Substantially all of the CLF's borrowings have been from the Federal Financing Bank. The interest rates on these obligations are fixed and range from 10.365% to 11.325% at September 30, 1984 (9.6% to 10.0% at September 30, 1983). Interest is generally payable upon maturity. The notes outstanding at September 30, 1984 are scheduled to mature during fiscal year 1985 (the notes outstanding at September 30, 1983 matured during fiscal year 1984).

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

Note 7 — Capital Stock and Member Deposits

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

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

Note 8 — Membership Increase

During the year ended September 30, 1984, the CLF accepted a membership request from U.S. Central Corporate Credit Union (USC) on behalf of 29 of its corporate credit union members. As a result the membership of the CLF and required capital stock increased by $154,000,000 due to the membership increase. At September 30, 1984, $214,427,000 of total required capital stock was subscribed by USC on behalf of its member credit unions.

In addition, by accepting this membership request, the CLF is initially committed to reinvest all but $50,000,000 of its total share capital in USC share accounts at near market rates of interest. At September 30, 1984, $199,646,000 was invested in USC share accounts at approximately an 11% yield.

Note 9 — Services Provided by the National Credit Union Administation

The National Credit Union Administration provides the CLF with miscellaneous services and supplies. In addition, the employees of the CLF are paid by the National Credit Union Administration. The CLF reimburses the National Credit Union Administration on a monthly basis for most of these items. Certain services, principally data processing services, are provided to the CLF at no cost.

Total reimbursements amounted to approximately $296,000 as of September 30, 1984 ($389,000 as of September 30, 1983).

Note 10 — Income Taxes

The CLF was obligated to pay income taxes during 1983 and prior years. Accordingly, a provision for income taxes was recorded by a charge to income in the financial statements.

On July 18, 1984 the Deficit Reduction Act of 1984 was signed into law making all operations of the CLF tax exempt retroactive to October 1, 1979. The CLF has filed for a refund of all taxes, penalties and interest paid to the Internal Revenue Service ("the IRS") since inception, amounting to approximately $1,403,000. The refund amount, along with approximately $197,000 of anticipated interest due from the IRS, has been recorded as a receivable at September 30, 1984.

The CLF has recorded an income tax benefit for the year ended September 30, 1984 in the amount of approximately $1,285,000. This benefit represents the reversal of all previously recorded income tax provisions.

Note 11 — Pension Plan

The employees of the CLF are participants in the Civil Service Retirement Plan. The Plan is a contributory defined benefit pension plan covering substantially all of the employees of the CLF. Pension expense for the years ended September 30, 1984 and 1983 was approximately $12,400 and $20,300, respectively.

Note 12 — Lease

The CLF leases office space jointly with the National Credit Union Administration under a non-cancellable operating lease expiring in 1994. Under the terms of this lease, the CLF and the National Credit Union Administration are jointly and severally liable for future minimum lease payments as of September 30, 1984, as follows (dollars in thousands):

Year ended September 30,	
1985	$ 964
1986	980
1987	980
1988	980
1989	980
Thereafter	6,148
Total	$11,032

The CLF's portion of these lease payments (rent expense) for each of the years ended September 30, 1984 and 1983 was $26,900.

NCUA Board of Directors

E.F. Callahan, *Chairman*
P.A. Mack, Jr., *Vice Chairman*
Elizabeth Flores Burkhart, *Board Member*

Central Liquidity Facility Staff as of September 30, 1984

C.W. Filson, *President*
Floyd Lancaster, *Treasurer*
Joseph Strahs, *Senior Loan Officer and Membership Officer*
Edward Dupcak, *Finance Officer*
Bertye Allen, *Secretary*
Debra Law, *Secretary*

Selected Financial Ratios

	1984	1983	1982	1981
Operating Ratios:				
Operating Expenses/Total Income	**1.5%**	3.4%	5.6%	5.6%
Interest Expenses/Total Income (FFB)	**28.4%**	43.8%	44.9%	50.0%
Allowance for Loan Losses	**0.0%**	0.0%	5.0%	0.0%
Dividends/Total Income	**66.4%**	44.7%	41.5%	43.7%
Dividends/Net Operating Income	**94.7%**	85.0%	99.8%	99.0%
Net Income plus Tax*/Total Income	**3.7%**	14.5%[a]	.1%	.7%

* See Footnote 10
[a] Increase Due to Eliminating Allowance For Loan Losses.

	1984	1983	1982	1981
Balance Sheet Using Fiscal Year End Data:				
Shares and Retained Earnings/ Total Assets	**46.5%**	60.8%	32.7%	36.3%
Total Liabilities/Total Assets	**53.5%**	39.2%	67.3%	63.7%
Loans/Total Assets	**50.2%**	31.0%	58.4%	54.3%
Investments/Total Assets	**47.4%**	66.9%	40.3%	42.6%
Investments/Shares and Deposit Liabilities	**97.8%**	99.7%	100.3%	97.1%
Total Borrowings/Shares and Retained Earnings	**107.6%**	50.2%	179.8%	150.0%
Loans/Shares and Retained Earnings	**108.0%**	50.9%	178.8%	149.6%
Performance Ratios Using Average Balances:				
Yield on Average Investments	**10.4%**	9.7%	14.9%	15.5%
Yield on Average Loans	**10.6%**	9.9%	11.2%	11.1%
Yield on Total Average Earning Assets	**10.5%**	9.9%	11.4%	13.3%
Average Borrowing Rate	**10.3%**	8.8%	11.0%	11.3%
Average Dividend Rate	**9.8%**	8.6%	11.3%	12.5%
Operating Income before tax and Dividends/Average Shares and Retained Earnings	**12.5%**	13.2%	13.5%	16.4%
Net Income before tax/Average Shares and Retained Earnings	**0.7%**	3.2%	.0%	.2%

Agent Members of the Central Liquidity Facility

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

Direct Members of the CLF by State

ALABAMA
Redstone Red CU

ALASKA
Alaska USA FCU
Eielson EFCU
Fedalaska FCU
Ft. Wainwright FCU
MAT Valley FCU

ARIZONA
Arizona Telco FCU

ARKANSAS
College Sta Comm

CALIFORNIA
Alliance FCU
Am Elec Assn CU
Brock's Federal CU
Ca Sch Emp Assn FCU
Chaffey Dist Emp
Con-Can La Emp
Continental FCU
Ebtel FCU
Electric Worker CU
Farmers Ins Gr FCU
Fiscal EFCU
Fort Ord
Fresno Grangers
Glendale Area Sch
Hughes Aircraft FCU
Jewish Comm CU
Kearny Mesa FCU
L A Teachers CU
Long Beach Comm
March FCU
Marguardt FCU
Mather FCU
Miramonte FCU
Natl Sch Dist EFCU
Nav Weapon Ctr FCU
Northern Ind CU
Northrop CU
NSC Emp FCU
Oscar Mayer EFCU
Pacific IBM EFCU
PSA Emp FCU
Rockwell FCU
Russian Amer CU
Safeway S F EFCU
Santa Barb Teach
Santa Fe Spgs
Sea Air FCU
Southern Baptist
Torrey Pines FCU
TRW Systems CU
Union Oil Oleum
Uset FCU
Vallejo City EFCU
Western FCU

COLORADO
Frontier Airlines
U of C FCU

CONNECTICUT
Electric Boat FCU
Hamilton Std FCU
Manpoe Std FCU
Pfizer Emp FCU
Sikorsky FCU
Southern Conn FCU
St Boniface Parish
West Haven Teacher
Yale University

DELAWARE
Phoenix Claymont

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

FLORIDA
ACCO FCU
Agrico FCU
Bay Gulf FCU
Bell-Tel FCU
Broward Cnty Post
Cy of Miami FCU
Embroco FCU
Fam Lines FCU
Fl Commerce FCU
Florida Customs EM
G-P Federal CU
Gainsvl Camp FCU
Gold Coast Ed FCU
GTE FCU
Homestead AFB FCU
Mass Bros FCU
MacDill AFB FCU
Orlando FCU
Panhandle EDUC
Pen Air FCU
Publix EFCU
Ryder System FCU
Seminole Teach FCU
7th Coast Guard
Sloss FCU
So St John FCU
Suncoast Schools
Tampa Bay FCU
Telco EFCU
Trop Telco FCU
UCF FCU

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

GUAM
NavMar FCU

IDAHO
Boise Telco FCU
Idaho City EFCU
Pioneer FCU
Pocatello Kraft FCU
Pocatello Teac FCU
Potlatch # 1 FCU

ILLINOIS
ABE CU
Acme Continental CU
Appleton Emp FCU
Armstrong Cork
Ash Emp CU
Chicago Area CCA
Chicago Firemen
Chicago Teach CU
College of Dupage
Construct Equip CU
Dukane Emp CU
McHenry City School
New Trier FCU
Pacesetter FCU
School District 120
St James Hospital
W. Suburban FCU

INDIANA
Jet Credit Union
Tokheim Emp CU

KANSAS
Bonner Springs FCU
Garden Cy Teach
Panhandle FCU
Puritan CU
Sm Postal FCU

KENTUCKY
Autotruck FCU
Cue Credit Union Inc
Ky Telco FCU
Louchem FCU
LWE FCU
Owensboro EFCU
Park FCU
Rural Coop CU Inc

LOUISIANA
Ami Emp FCU
Aneca FCU
Lafeda FCU
Landa FCU
New Orleans Bag

MAINE
Cen Maine Power Co

MARYLAND
Baltimore Un Assoc
NIH FCU
Suburban Hospital

MASSACHUSETTTS
Blue Hill CU
Cape Cod FCU
Worcester Central

MICHIGAN
ABD Fed CU
ACM Employees CU
ARC CU
Bay Catholic
Bay County EFCU
Blue Water FCU
C & S Emp CU
Clark FCU
Community FCU
Copoco CU
Dearborn FCU
Det Marathon EFCU
Det Postal Emp CU
Det Teachers CU
DOD Fed CU
Dor Ind Emp FCU
DT&I Emp CU
E Cent Upper Penin
East Det Sch Emp
Fed Mogul EFCU
Ferndale Co-op CU
Flint Area ECU
Genesee Cnty Emp
Gr Niles Comm FCU
Gratiot City FCU
Hamtramck Comm FCU
Isabella Comm CU
Joint Mil Svcs CU
Kalamazoo Post FCU
Kellogg FCU
Karmer Homes FCU
Livonia Par FCU
LSI CU
Marquette 1st FCU
Mich State Un FCU
Motor Parts FCU
Portland FCU
Roseville-Fraser
Saginaw Cp Emp CU
Saginaw Tele Emp
Shaw Box Emp FCU
State Emp CU
Sterling Van Dyke
T & C Federal CU
Trans Aff Co Cu
Trenton FCU
Twin Cities Ar FCu
Un Stellwkrs of Am
Vandyle Ind Pk CU
W Side Auto Emp FCU
Warren Schools CU
Wayne Out Cnty Tea
Westran Emp FCU
Willow Run EFCU
Ypsilanti FCU

MINNESOTA
Heartland FCU
No Pacific Duluth
State Farm FCU
Workmens Circle CU

MISSISSIPPI
Carthage Comm FCU
Central Sunbelt
Mitchell Eng

MISSOURI
Automotive CU
BMA CU
Central Place Sav CU
Sears K C Emp
Steel Workers FCU

MONTANA
Valley CU

NEBARSKA
Nebraska State Emp

NEW HAMPSHIRE
N H State EFCU
Nashau Minicipal
Sanders EFCU
Service FCU
St Marys Bank CU

NEW JERSEY
Atl Cty Elec Co
B T L (Holmdel)
C E Lummus FCU
Celanese Summit
Cumberland Teac FCU
E Bergen Teach FCU
Educational
Erielackawanna EFCU
Ft Monmouth Fed CU
H L R FCU
Harrison Pol Firm
Hoboken Sch EFCU
J-M Emp FCU
Jersey City
Jersey City Police
Local 3355 USA CIO
McGuire Publ EFCU
Metuchen Assembler
Mobil Research
Mon-Oc Public EFCU
N J Suburban FCU
Nassau Fed CU
Nestles Freehold
North Jersey FCU
Portuguese Cont
S Jersey FCU
Trenton NJ Firemen
Union Cnty Teacher
Wenewark FCU
609 Area FCU

NEW MEXICO
Espanola School
Los Alamos CU

NEW YORK
ABCO Public Emp
Amalgamated Taxi
Amherst Teachers
BCT FCU
Bi-County Postal
Binghamton DMH Emp
Brighton Sch EFCU
Buffalo Police FCU
Carrier Emp FCU
Chemung Cty School
Cornell FCU
Dewitt 1st FCU
Gen Foods FCU
Genesee Hospital
Graphic Arts FCU
Green Island FCU
Griffiss-Oneid FCU
Hoosick FCU
Hudson Riv Ctr FCU
Hyfin CU
IBM Interstate FCU
Intl Airlines Emp FCU
Italo-American FCU
Jenapo FCU
Lge of Mutual Taxi
Middleton Psy Ctr
MSBA EFCU
Municipal CU
Nassau County EFCU
Nassau Educ FCU
NMP No Area FCU
No Rock Educat FCU
Norwich Eaton EFCU
Oneida Ltd EFCU
Orchard Pk FCU
Pittsford FCU
Plattsburg AFB
Port NY Authority
Progressive CU
Rochester UK FCU
School Emp of Cny
Sperry Emp FCU
Suffolk FCU
Suma (Yonkers) FCU
TCT Fed CU
Telco Wat EFCU
Ticonderoga FCU
UFCW Dist Local One
US Emp Fed CU
Watervliet ARS FCU
WCS FCU
WCTA FCU
Whitestown Comm FCU

NORTH CAROLINA
Hamlet Scl Emp FCU
IBM Coastal EFCU
Martin Country
Old Fort
Rowan Cty Teachers
TWIU Local 192 FCU

NORTH DAKOTA
Bismarck AF of L
LHHS FCU

OHIO
Auto Access CU
Bellevue
Best Employees FCU
Burt Emp FCU
Celina Reynoco Emp
CHRYCO CU
Cincinn Cent CU
Cincinnati Postal
Cinco FCU
Clyde-Findla
Daymon Emp Ded CU
Dayton Telco FCU
Desco FCU
Dinner Bell EFCU
Emery Emp FCU
EOG Cleveland Oper
Firestone Off FCU
First Service FCU
Fremont FCU
Gardner Emp FCU
General Tire Emps
Gentel CU Inc
Golden Circle CU
Harshaw Emp Fed CU
Ironton DMI Emp
Ironton Lawton EFCU
KOD Toys FCU
Lan-Fair FCU
Local 212 Ibew Cin
Lof Emp FCU
McDonald EFCU
Merrell Emp FCU
Norwood FCU
Oneils Strouss
Paramauto FCU
Southern Oh Sav CU Inc
St Marys CU Inc
St. Marys Elyria
St Saviour Ros FCU
St Trans Emp CU
Steel Prod Emp Inc
T & C CU Inc
Tol-Sun FCU
Tresler Emp FCU
United Services
Weatherhead Emps
Whiting FCU
Wittenberg Univ
Yel Spr Comm FCU
Youngstown Gr Ws FCU

OKLAHOMA
Philipps Oc Dist
Riverwest FCU
Space Age Tulsa

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

PENNSYLVANIA
Boyer Candy EFCU
Cal Ed CU
Elliot Emp # 1
Erie School Emp
Harrisburg Teach
LC-DC-F Emp of GE
Mack Local 677 FCU
NE Pa School Emp
Nor-Car School
Pa State Empl CU
SAIA Employ FCU
UNWA FCU
Univ of Pitts FCU
W E Allen FCU
Westmoreland Fed

SOUTH CAROLINA
Meas Beaufort FCU

SOUTH DAKOTA
Services Center

TENNESSEE
Combustion FCU
Eastex Bruce CU
King Cotton FCU
Lincoln Cnty FCU
Memphis Buckey FCU
Nashville Kemba FCU
Oak Ridge Govt Emp
So Security FCU
UT FCU
Wiltruco Emp FCU
Y-12 FCU

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

UTAH
Hi-Land CU
Orem Geneva FCU
Utah State Emp CU

VERMONT
New Eng IBM EFCU
Tooele FCU

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

WASHINGTON
Alva FCU
Clarko Fed CU
Col Comm Fed CU
Fairchild FCU
Fife Community FCU
Katac FCU
Sears Seattle EFCU
Seattle Telco FCU
Simpson Emp FCU
Walla Walla Engin
Wayerhaeuser Pulp

WEST VIRGINIA
Huntington WV Fire
Inco Emp Fed CU
Steel Wkrs Comm

WISCONSIN
Heritage
Waupaca Area CU

NATIONAL CREDIT UNION ADMINSITRATION
REGIONAL OFFICES

Region I (Boston)

Regional Director, Region I (Boston)
National Credit Union Administration
441 Stuart Street, 6th Floor
Boston, Massachusetts 02116
FTS (8) 223-6807
Commercial (617) 223-6807

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

Region II (Capital)

Regional Director, Region II (Capital)
National Credit Union Administration
1776 G Street, N.W., Suite 700
Washington, D.C. 20006
Commercial (202) 682-1900

Delaware	Pennsylvania
District of Columbia	Virginia
Maryland	West Virginia

Region III (Atlanta)

Regional Director, Region III (Atlanta)
National Credit Union Administration
1365 Peachtree Street, Suite 540
Atlanta, Georgia 30367
FTS (8) 257-3127
Commercial (404) 881-3127

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

Region IV (Chicago)

Regional Director, Region IV (Chicago)
National Credit Union Administration
230 South Dearborn, Suite 3346
Chicago, Illinois 60604
FTS (8) 886-9697
Commercial (312) 886-9697

Illinois	Minnesota
Indiana	Missouri
Iowa	Ohio
Michigan	Wisconsin

Region V (Austin)

Regional Director, Region V (Austin)
National Credit Union Administration
611 East 6th Street, Suite 407
Austin, Texas 78701
FTS (8) 770-5131
Commercial (512) 482-5131
Denver Sub Office
Lea Complex
10455 East 25th Avenue
Aurora, Colorado 80010
FTS (8) 564-3795
Commercial (303) 844-3795

Arizona	New Mexico
Colorado	North Dakota
Idaho	Oklahoma
Kansas	South Dakota
Montana	Texas
Nebraska	Utah
Nevada	Wyoming

Region VI (San Francisco)

Regional Director, Region VI (San Francisco)
National Credit Union Administration
2890 North Main Street, Suite 101
Walnut Creek, CA 94596
FTS (8) 449-3490
Commercial (415) 486-3490

Alaska	Hawaii
American Samoa	Oregon
California	Washington
Guam	

National
Credit Union
Administration
Washington, D.C.
20456

Official Business
Penalty for Private Use, $300

THIRD-CLASS MAIL
POSTAGE AND FEES PAID
NCUA
PERMIT No. G-88