Introduction

The Office of Credit Union Development (OCUD) and NCUA regions work together to further the Agency's low-income credit union initiatives. It further provides support to the regions in their efforts in supervising small and low-income credit unions. OCUD administers the Community Development Revolving Loan Fund and acts as a liaison between NCUA, low-income designated credit unions, other government agencies, trade associations, and other interested parties.

OCUD's mission is to:

- Foster business development of credit unions by providing the guidance and education needed for the delivery of financial services.

- Facilitate the expansion of credit union services through the chartering of new credit unions and field of membership expansions.

- Coordinate efforts — with third-party organizations — to improve the viability and successful operation of credit unions.

Small Credit Union Program

The NCUA board approved a national Small Credit Union Program (SCUP) in 1999. The purpose of the SCUP is to facilitate the Board's goals of promoting the development of financially healthy small and low-income designated credit unions, and encourage the formation of newly chartered credit unions. This program was designed to provide assistance to credit unions that fall within the following criteria:

1. credit unions with assets under $5 million;
2. newly chartered credit unions in operation less than 10 years and with assets under $10 million; and
3. low income designated credit unions.

Credit unions that fall within the SCUP criteria (refer to prior paragraph) can participate in the program and can contact their regional office to request assistance. There is no obligation for credit unions to participate in this program, but the program does provide the unique opportunity for those smaller credit unions to obtain advice and/or assistance in areas where they may need to strengthen their expertise.

Figure 1 shows the total number of all federally insured credit unions that are eligible and those credit unions that are participating in the regional SCUP as of December 31, 2001.

Figure 1

	Eligible to Participate in SCUP	Participating in SCUP
Total 2001[1]	4,381	721
Total[2] **2000**	4,495	493

The number of credit unions participating in the SCUP has increased by 228 during 2001.

Specialized Assistance

The NCUA has 82 specialized field staff, located throughout the nation, to assist credit unions participating in SCUP and to facilitate regional SCUP workshops.

SCUP Workshops

The regions completed 43 workshops that were attended ***by more than 2,100 credit union representatives***. These workshops were targeted toward assisting small asset-sized credit

[1] Eligible federally insured credit unions numbers were produced using December 31, 2001, call report data.

[2] Eligible federally insured credit unions numbers were produced using December 31, 2000, call report data.

unions. Several representatives from larger asset-sized credit unions also attended.

Field of Membership (FOM) – Underserved Areas Expansions

NCUA's staff provided information relating to FOM expansion into underserved areas during the 2001 examination process and during regional workshops. The FOM underserved areas expansion activity for the last two years is listed below, by region, in Figure 2. Approximately 69 percent of the total potential membership <u>increases</u> in 2001 <u>were added</u> in the last six months.

NCUA will continue to highlight the need to bring credit union service to underserved communities through the *Access Across America* initiative.

Figure 2

Period	**1/1/00 to 12/31/00**	**1/1/01 to 12/31/01**	**7/1/01 to 12/31/01**
Region	# of Potential Members	# of Potential Members	# of Potential Members
I	154,615	754,458	95,432
II	222,586	1,440,625	1,084,791
III	665,245	4,283,816	3,420,355
IV	217,358	1,766,971	1,209,029
V	948,534	5,650,892	4,411,023
VI	161,437	2,229,875	933,900
Total	**2,369,775**	**16,126,637**	**11,154,530**

Low Income

"Low-income" (LI) is an official NCUA designation granted to a credit union that serves a membership of which more than half its members earn less than 80 percent of the average for all wage earners or those members whose annual household income falls at or below 80 percent of the median household income for the nation. These income measurement standards can be obtained from OCUD. Credit unions with this designation are measured against the same standards of financial soundness and operational professionalism as other credit unions, and are granted these benefits:

1. *Nonmember Deposits.* Greater authority to accept deposits from nonmembers.
2. *Participation in the Community Development Revolving Loan Fund (Fund).* Access to low-interest loans, deposits, and technical assistance from the Fund.
3. *Special Field of Membership Rules.* Flexibility in defining FOM.
4. *Secondary Capital*. Ability to include this account (as outlined in the NCUA Rules and Regulations Part 701.34 and 702) in the credit union's net worth.
5. *Member Business Loans*. Exception to the aggregate loan limit for business loans.

The number of LI designated credit unions (LICUs) increased by 144 during 2001. As of December 31, 2001, the number of LI designated credit union was 789. Figure 3 illustrates the growth of the number of LI designated credit unions. Approximately 68 percent of the total LI designation approvals in 2001 were designated in the last six months. A list of LI designated credit unions can be found at http://www.ncua.gov/org/orgchart/ocud/lowincome.

Figure 3

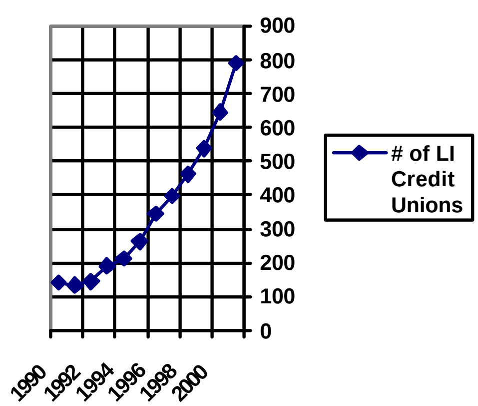


Figure 4 illustrates the growth of LICUs by region.

Figure 4

Region	1998	1999	2000	2001
I	54	58	64	62
II	49	54	69	122
III	95	103	145	171
IV	48	58	65	98
V	162	178	205	223
VI	54	87	97	113
Total LICUs	**462**	**538**	**645**	**789**

Financial Growth

Figure 5 displays how LICUs compared to all Federally Insured Credit Unions in various growth rate areas at December 31, 2001[3].

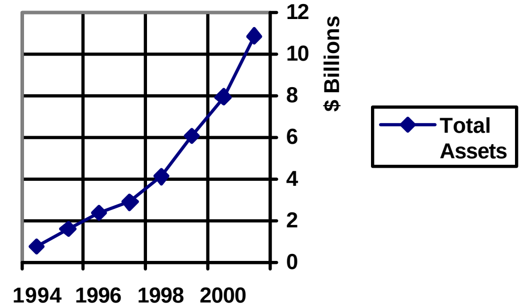
Figure 5

Growth % Rates		
	LICUs	**All Credit Unions[4]**
Share Growth	14	15
Net Worth Growth	5	9
Loan Growth	6	7
Asset Growth	13	14
Investment Growth	18	34
Current Member Growth	4	2
Potential Mbr. Growth	19	14

Asset Growth

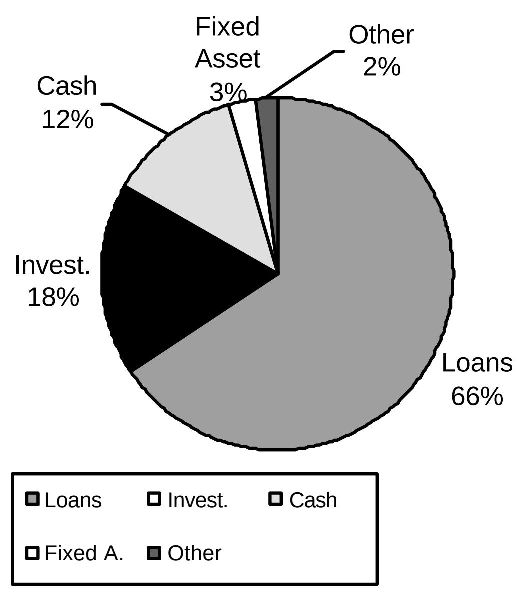
Credit unions with the LI designation had combined assets of $10.9 billion as of December 31, 2001. Figure 6 illustrates a $3 billion growth in total assets of LICUs during 2001 with $1.3 billion of the growth attributed to the LI designation of 144 credit unions.

Figure 6



The asset structure for all LICUs is shown in Figure 7. LICUs have an average loans to assets ratio of 66 percent, which compares to the 64 percent ratio of all federally insured credit unions.

Figure 7



All credit unions primarily fund loan programs with member deposits. Figure 8 illustrates the loan to share ratio trend for LICUs and all federally insured credit unions. The LICUs historically have higher loan to share ratios than all federally insured credit unions.

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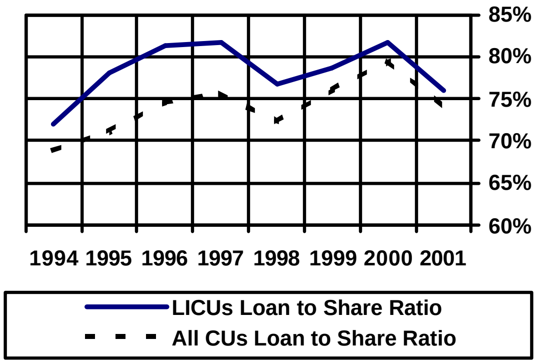
[3] The information displayed in this table and subsequent charts and graphs reflect data from the December 31, 2001, Financial Performance Reports.

[4] All Federally Insured Credit Unions

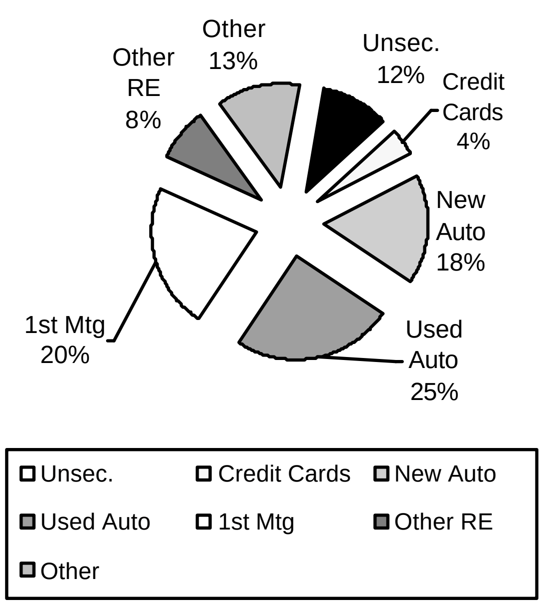
Figure 8



Loans

LICUs reported holding $7.2 billion in loans as of December 31, 2001. Their loan portfolio mix for December 2001 is illustrated in Figure 9. There were no changes to the portfolio mix during the last 6 months.

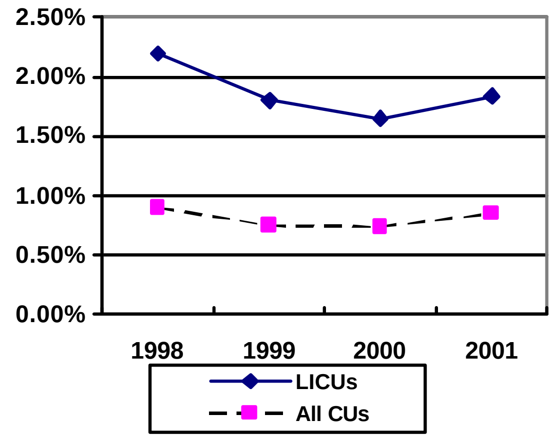
Figure 9



Loan Quality

The December 31, 2001, delinquent loan to total loans ratio for LICUs is 1.84 percent. The delinquency ratio for LICUs has historically been one percent higher than the ratio for all federally insured credit unions as shown in Figure 10.

Figure 10



The LICU delinquency ratio in the 2 to 6 months range has grown by 0.05 percent with an additional 0.02 percent growth in the 6 to 12 month category during the last six months. The 12-month and over category's ratio did not increase during the same period. Figure 11 lists the December 31, 2001, delinquency ratios for each range.

Figure 11

Delinquency Range	LI Credit Unions	All Credit Unions
2 to 6 months	1.19	0.61
6 to 12 months	0.42	0.18
12 months and more	0.23	0.06
Total Delinquency	1.84	0.85

Reasons for the higher delinquency ratio found in LICUs appear to be:

- The LICU's loan portfolio mix consists of two percent more in the unsecured credit category (e.g., unsecured and credit cards) and four percent more in the used auto loan category than all credit unions.

- The LICUs members' income levels are lower which restricts the liquid funds of members that are used for loan repayments.

The charge-off ratios for both LICUs and federally insured credit unions are shown in Figure 12. The LICUs net charge-offs ratio is comparable with the ratio of all federally insured credit unions even though the delinquency ratio for LICUs is one percent higher. The amount of loans charged-off during 2001 due to bankruptcy for LICUs was 30 percent whereas the ratio was 41 percent for all federally insured credit unions. Therefore, LICUs had a greater opportunity to collect from the delinquent members due to the decreased level of bankruptcies.

Figure 12

	Percentage of Average Loans			
	2001 LICU	**2000 LICU**	**2001 All CUs**	**2000 All CUs**
Charge-off ratio	0.81	*[5]	0.54	0.50
Recoveries ratio	0.15	*	0.08	0.08
Net Charge-off ratio	0.66	0.69	0.46	0.42

Investments

The June 30, 2001, combined financials for LICUs indicate that the investment portfolio tends to be more liquid (refer to Figure 14 for investment mix) than the portfolio held by all federally insured credit unions.

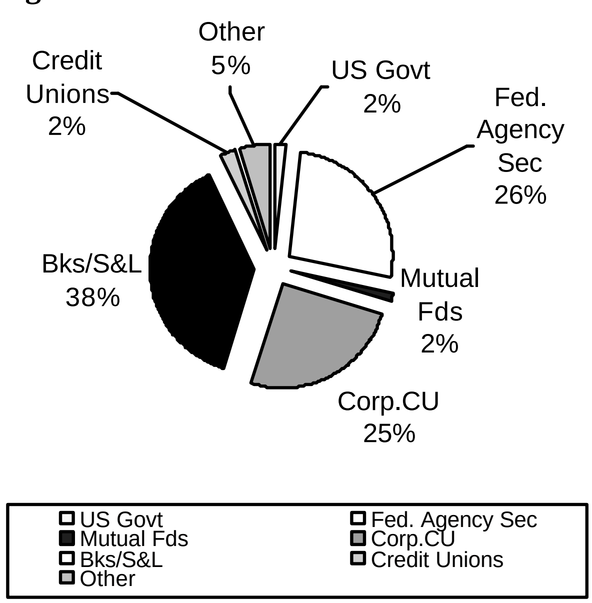
[5] Data is unreliable due to growth in the number of low-income designated credit unions that caused the average loans amount to be skewed. Also the information in the December 31, 2000, report is unavailable. However, the net charge-offs ratio is based on the December 31, 2000, report.

Figure 13

Maturity or Repricing Period	Percentage of Total Investments 2001	
	LICUs	**All CUs**
<1 year	49.2%	57.6%
1 to 3 years	35.5%	28.0%
3 to 10 years	13.2%	13.2%
> 10 years	2.1%	1.3%

LICUs reported $1.9 billion in investments at December 31, 2001. Changes in the investment portfolio mix during the last six months of 2001 included a two percent movement from the federal agency securities portfolio and deposits at other credit unions to banks/S&Ls and the other category. The portfolio mix for LICUs is illustrated in Figure 14.

Figure 14



The more simplified LICU's investment portfolio mix differs from all federally insured credit unions as follows:

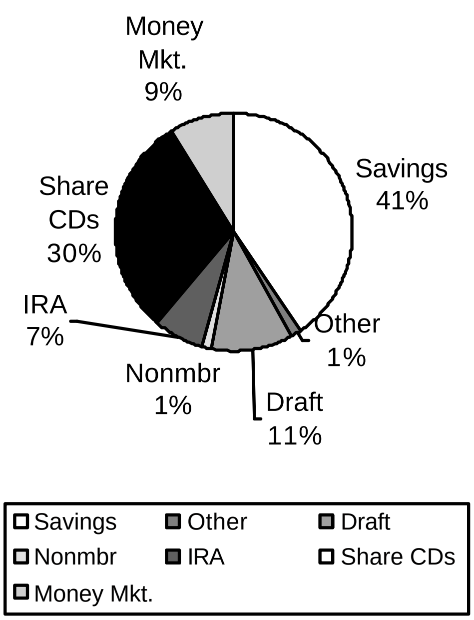
- Investments in banks/S&Ls are 22 percent higher in LICUs than all credit unions.
- Investments in Federal Agency Securities are 26 percent lower in LICUs than all credit unions.

- Investments in Corporate Credit Unions are eight percent higher in LICUs than all credit unions.

Shares

LICUs promote their savings programs among their membership. As of December 31, 2001, LICUs report over $9.5 billion in savings and deposits. Another source of deposits can be obtained from nonmembers. The share portfolio mix changed substantially during the last six months. The regular share category increased by 5 percent during this period. Figure 15 shows the share portfolio mix for LICUs.

Figure 15



Notable differences in the share portfolio mix between the LICUs and all credit unions include:

- The LICUs portfolio has seven percent less in the money market category than all credit unions.
- The LICUs portfolio has seven percent more in the regular share category than all credit unions.
- The LICUs portfolio has three percent more in the share certificates category than all credit unions.

Net Worth

Low-income credit unions as a group are well capitalized with a net worth ratio of 11 percent. Figure 16 lists Net Worth[6] to Assets ratios over the past eight (8) periods. LICUs Net Worth ratios continue to be at the same level as all credit unions; however the Net Worth ratio for LICUs includes the secondary capital account. The total amount of secondary capital accounts increased by 11.2 percent during 2001. The year-end secondary capital account balances over the past three periods are shown in Figure 17.

Figure 16

	LICUs Net Worth Ratio (percent)	**All CUs Net Worth Ratio (percent)**
December 1994	9.7	9.5
December 1995	9.2	10.3
December 1996	10.7	10.8
December 1997	11.1	11.1
December 1998	10.8	10.8
December 1999	11.1	11.0
December 2000	11.3	11.4
December 2001	11.1	10.9

Figure 17

	1999	**2000**	**2001**
Secondary Capital $	4,530,823	7,965,840	8,860,506

[6] Net worth includes the retained earnings balance of the credit union at quarter end as determined by generally accepted accounting principles. For LICUs, net worth also includes secondary capital accounts that are uninsured and subordinate to all other claims, including claims of creditors, shareholders, and the NCUSIF.

Earnings

The combined 2001 Return on Average Assets (ROA) ratio for all LICUs was 0.77 percent. This compares to the 0.95 percent ROA recorded by the combined federally insured credit unions. Figure 18 illustrates the composition of the ROA. Refer to subsequent topic headings for more detail.

Figure 18

	Percentage of Average Assets				
	1998 LICU	1999 LICU	2000 LICU	2001 LICU	2001 All CUs
Gross Income	10.2%	10.1%	9.9%	8.5%	8.0%
Provision for Loan Loss Expenses	0.7%	0.7%	0.6%	0.5%	0.3%
Cost of Funds Expenses	3.7%	3.7%	3.7%	3.2%	3.3%
Operating Expenses	4.9%	4.9%	4.7%	4.0%	3.4%
ROA	0.9%	0.9%	0.9%	0.8%	1.0%

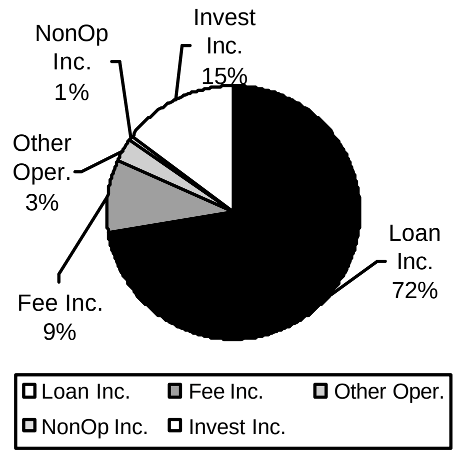
Gross Income

LICUs Gross Income to Average Assets ratio declined from 9.06 percent at June 30, 2001 to 8.5 percent as of December 31, 2001. The percentage is still higher than the percentage for all credit unions. LICUs have a larger percentage of assets in loans that usually earn higher rates than investments. The yield on average loans only declined by 0.13 percent during 2001. Figure 19 illustrates the breakdown of the elements that compose LICUs' gross income. The income mix remained unchanged during the last six months.

Notable differences in the income mix between the LICUs and all credit unions include:

- The LICUs income from investments is three percent lower than all credit unions. Whereas, their loan income is three percent higher than all credit unions.
- The LICUs fee income is 0.8 percent higher than in all credit unions.

Figure 19



Expenses

Figure 20 shows the breakdown of expenses for LICUs. Most of their ratios are comparable with all federally insured credit unions except the Provision for Loan Losses expense. There had been historically a higher percentage in the Provision for Loan Loss (PLL) expense category for LICUs than all federally insured credit unions. The PLL expense is used to record the periodic charge(s) to operating expense necessary to maintain a reasonable Allowance for Loan Losses (ALL) account. The ALL account balance represents a valuation allowance showing management's judgment as to probable losses that may be incurred in the normal payoff of outstanding loans, both current and delinquent. LICUs historically have carried a higher percentage of delinquent loans than all credit unions; therefore the percentage of the PLL expense to their total expenses ratio is higher to cover the additional probable losses from delinquent loans.

Figure 20

Expenses to Total Expenses Ratio	LI CUs 2000	LI CUs 2001	All CUs 2000	All CUs 2001
Employee Comp & Benefits	44.4	44.3	44.9	44.9
Travel & Conference	1.4	1.5	1.5	1.3
Office Occupancy	5.7	5.7	5.9	5.9
Office Operation	19.6	19.2	20.5	20.2
Education & Promotion	2.8	2.8	3.0	3.0
Loan Servicing	3.2	3.2	4.7	4.7
Professional & Outside Services	6.5	6.7	6.7	6.7
Provision for Loan Losses	11.0	11.3	8.6	9.0
Member Insurance	1.6	1.8	1.1	0.9
Operating	0.7	0.6	0.6	0.5
Misc.	2.9	2.8	2.7	2.7

Cost of Funds

The LICUs 2001 Cost of Funds to Average Assets ratio is comparable with all federally insured credit unions (refer to Figure 18).

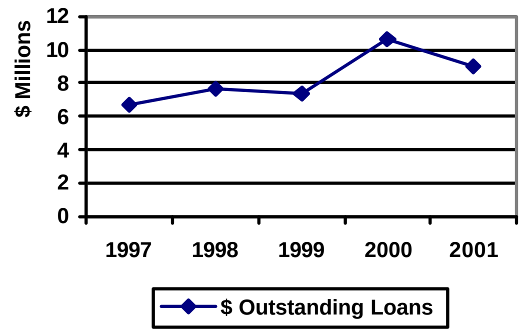
Community Development Revolving Loan Fund

The Office of Credit Union Development administers the Community Development Revolving Loan Fund (Fund). The Fund is a source of low interest loans and technical assistance grants to low-income designated credit unions. The Fund's objective is to foster community development through the improvement of credit union operations and service to members and community.

Loan Program

The Fund granted 23 loans totaling $2,657,000 during 2001. The Fund's loan portfolio at December 31, 2001, had 74 loans with outstanding balances totaling $8,981,479. Figure 21 shows the amount of loans approved since 1996.

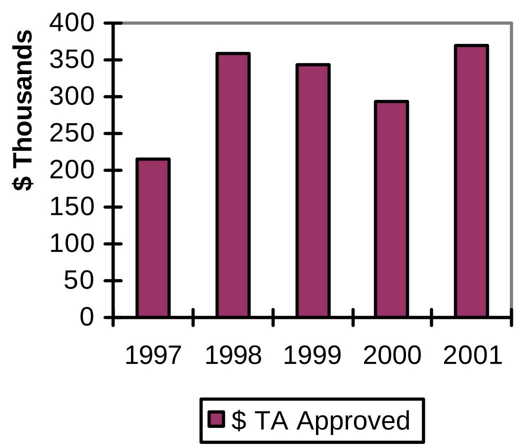
Figure 21



Technical Assistance Grant Program

The Fund's Technical Assistance (TA) Grant Program provides operational funding for training, marketing, audits, strategic planning and other needed items during 2001. In 2001 the TA program received 213 requests, totaling $1,036,488. In all, 161 grants were approved totaling $369,846 during 2001. Figure 22 shows the amount of grants awarded credit unions since 1997.

Figure 22



Summary

There was a high level of Small Credit Union Program activity in 2001. The number of credit unions participating in the SCUP has grown by 46 percent to 721 which is approximately 16 percent of the total number of credit unions eligible (4,381) to participate in the program. Credit unions that participate in the program receive assistance through on-site assistance contacts or regional workshops. In 2001, participation at regional workshops has been high. These workshops cover various topics including FOM expansion, record keeping, budgeting, and business planning. Credit unions can contact the NCUA regional offices for more information regarding the SCUP.

NCUA highlighted the need to bring credit union service to underserved communities in 2001 and will continue this initiative in the future. Credit unions are in tune with their communities needs and have responded by expanding their membership to include an additional 16 million potential members that are located in underserved areas.

The number of low-income designated credit unions increased by 22 percent during 2001. Credit unions receiving this designation can participate in the benefits described on page 2 of this report. Credit unions can contact the NCUA regional offices for more information regarding attaining a low-income designation.

Financial highlights for low-income designated credit unions (LICUs) are as following:

- Asset growth of 13 percent - comparable to the 14 percent reported by all federally insured credit unions.
- Current member growth of four percent – all credit unions reported a two percent growth.
- An average loans to assets ratio of 66 percent – all credit unions reported a ratio of 64 percent.
- A delinquency ratio of 1.84 percent – all credit unions reported a ratio of 0.85 percent. The delinquency ratio for LICUs has historically been one percent higher than all credit unions.
- A charge-off ratio of 0.66 percent – comparable to the 0.46 percent reported by all credit unions.
- A share portfolio mix for LICUs that includes a greater portion in regular shares and certificates than all credit unions.
- A net worth ratio of 11 percent – comparable to the 10.9 percent reported by all credit unions.
- A return on average assets ratio of 0.8 percent – all credit unions reported a one percent ratio. LICUs incur a greater Provision for Loan Loss expense.

The Community Development Revolving Loan Fund Program (Fund) had a banner year in 2001. The Fund approved grants totaling $369,846 and loans totaling $2.6 million during 2001.

For more information regarding the programs outlined in this report, contact your NCUA regional office or the Office of Credit Union Development.