NCUA National Credit Union Administration

Annual Report

1983

March 30, 1984

Dear President Reagan:

I want this 1983 *Annual Report* to convey to you and the Congress the outstanding record compiled by our nation's credit unions both in terms of financial growth and service to their members. It was indeed a remarkable year. I further wish to communicate my optimism that during 1984, a year in which we will mark the 50th anniversary of the *Federal Credit Union Act*, credit unions will continue this excellent record or even surpass it.

This is a time when the providers of financial services are changing their identities almost daily. It is most refreshing to me to see that credit unions continue to pursue their primary purpose: consumer credit at reasonable rates and systematic savings for their members. It is also most rewarding to note that 7,000 additional groups representing 2.6 million persons were made eligible for Federal credit union services during 1983.

Mr. President, I am pleased to report that credit unions surpassed all other financial institutions in 1983 with a growth rate of nearly 21%. Many factors were involved, but I believe this Agency played a part. We have been informed that our Financial Performance Reports helped individual credit unions to chart a better course. In addition, the Agency has received a lot of positive feedback about getting its examiners back into credit unions at least once a year. Nipping serious problems in the bud means being on the front lines. Finally, the costs which credit unions pay to operate this Agency were reduced by 30% this year, bringing to 40% the total fee reductions over the past two years. We simply felt that we at NCUA should be as fiscally responsible as we insisted credit unions be.

Realistically, however, all we can claim credit for is helping to set the stage. The fact is, credit unions are thriving in a competitive, deregulated atmosphere. These financial cooperatives continually amaze the naysayers with their ability to provide what is needed most. The year 1983 gave us a good opportunity to see that a credit union is truly a financial cooperative which, through its board of directors, continues to adapt to the needs of its membership. The collective wisdom and actions of 160,000 credit union directors simply exceeded the collective wisdom of Washington. In short, credit unions were freer to be credit unions.

The year 1984, with its 50th anniversary celebrations, promises to be a bright one. A number of very positive signs are on the horizon.

Loans outstanding at Federal credit unions soared by nearly 18% in 1983, a fivefold rate increase over the 1982 and 1981 levels. I expect to see this strong return to traditional credit union consumer lending continue in 1984, as the national recovery shifts into high gear. I will also expect credit union officials to take full responsibility for the management of their credit unions in a deregulated environment.

Looking ahead in 1984, I am hopeful that the capitalization of our Share Insurance Fund will be completed, thus assuring that present and future credit union members will have the strongest possible Fund behind them. I also believe the knowledge that virtually every credit union in the United States now has access to emergency loans from the NCUA Central Liquidity Facility, the central bank for credit unions, will be a source of great confidence to credit union boards and members.

Finally, I anticipate a further reaching out to the thousands of new businesses, associations and groups that are revitalizing our economy and desire credit union service.

I appreciate your confidence in our efforts to contribute to the well-being of the credit unions in this country and look forward to again working closely with you in the coming year.

Sincerely,

E. F. Callahan

E. F. CALLAHAN
Chairman

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NCUA

NCUA National Credit Union Administration

First Time Ever!!!

All Federal and State Examiners in open discussion with credit union managers and board members.

The NCUA 1984 National Examiners' Conference

MGM Grand Hotel, Las Vegas

- *Dec. 9-11, 1984: State and Federal examiners only*
- *Dec. 12-14, 1984: Examiners and credit union officials*

This is your chance to talk back, exchange ideas, and share success stories and problem-solving techniques. Don't miss this opportunity to be part of an educational conference involving the leadership of the entire credit union community! Mark your calendar and watch your mail for registration and program details.

commemorating the 50th anniversary of the passage of the Federal Credit Union Act.

President Reagan signs the resolution designating Aug. [illegible] 1984 as **Federal Credit Union Week.**

The Vice President's Task Group on Regulation of Financial Services, looking at ways to reorganize the Federal financial regulatory structure, **suggests no changes to the Federal credit union system or to NCUA.**

1983 Highlights

NCUA VIDEO NETWORK

50 YEARS OF SERVICE

Credit unions have a **banner year. FCU savings soar 20.7%, loans outstanding rise by 17.8%, and assets increase by 19.8%.**

More than 7000 groups with a **potential membership of 2.6 million** join credit unions under NCUA's multiple group policy in fiscal 1983.

The NCUA Board **slashes FCU operating fees 30%** for calendar year 1984, bringing to **40% the total reductions** over the past two years.

For the **second year in a row**, the NCUA Board approves a total Agency **budget that is below the previous year's budget**.

The President's Private Sector Survey on Cost Control **(Grace Commission) calls NCUA Board Chairman Edgar Callahan a "role model" for government agency executives**. In one year, the report notes, NCUA **cut Agency staff 15% and its budget 2.5%, "while maintaining their commitment to preserving the safety and soundness of the credit union industry."**

NCUA for the **first time since the mid-1970s** completes an **annual examination of each Federal credit union**.

A **"history making" agreement** between the NCUA Central Liquidity Facility and the U.S. Central Credit Union **nearly quadruples the CLF's membership**, providing 18,000 credit unions (90%) with a **permanent source of backup liquidity**.

NCUA sends Congress **a proposal for capitalizing the NCUA Share Insurance Fund**, subsequently introduced as S. 2121.

NCUA issues the **first set of Financial Performance Reports**, an evaluation tool and resource for credit union boards and examiners.

The **NCUA Videotape Network is created** as part of the Agency's continuing effort **to educate and communicate more effectively with its field staff**.

Student credit unions are designated "low income," allowing them to accept insured deposits from nonmembers to help make more student loan funds available.

NCUA permits FCU boards of directors **to determine which family members are eligible** to join the credit union.

FCU boards of directors express **an "overwhelming commitment to voluntarism"** in comments on NCUA's Congressionally mandated study on directors' compensation.

NCUA distributes **$3 million in unclaimed savings** to states for return to 105,000 credit union members.

The U.S. Postal Service announces it will issue a **20-cent stamp commemorating the 50th anniversary** of the passage of the Federal Credit Union Act.

President Reagan signs the resolution designating June 24-30, 1984 as **Federal Credit Union Week.**

The Vice President's Task Group on Regulation of Financial Services, looking at ways to reorganize the Federal financial regulatory structure, **suggests no changes to the Federal credit union system or to NCUA**.

The Ever Changing Credit Union

"Survival" was the key word for credit unions in 1981 as credit unions and NCUA began bridging the gap between smokestack America and service America.

In the early 1980s, credit unions and NCUA, responding to the tremendous upheaval cutting across the U. S. industrial scene, began bridging the gap between smokestack America and service America. In 1983, the seeds planted to help credit unions make that difficult transition bore fruit.

"Survival was the key word for credit unions in 1981," NCUA Board Chairman Edgar F. Callahan told Boston's *Banker & Tradesman* newspaper. Noting that 82% of credit unions are occupationally-based, many tied to such sagging industries as steel, lumber, and heavy equipment, the Chairman said the credit union movement was severely impacted as the recession "took its toll on one corporation after another and the credit unions they sponsored."

Study after study documented the gravity of the situation in credit union sponsor strongholds. For example:

- More than 600 plants and factories shut down permanently in 1982, according to figures presented to the House Banking Subcommittee on Economic Stabilization. Charles Craypo, a Cornell University professor who testified before the Subcommittee, said the plant closings "mark the passing of the post-World War II industrial era."
- The Fortune 500, the country's biggest manufacturing companies, permanently lost about three million jobs between 1978 and 1983, according to a report in the *Wall Street Journal*.

Small Business Boom

Although America was losing jobs in the smokestack industries, as were all developed industrial countries, there was a surprising paradox, evident only in this country, according to Peter Drucker, professor of social sciences at the Claremont Graduate School, writing in the *Wall Street Journal*: "The U. S. economy is creating new jobs at a much faster rate than the smokestack industries are losing old ones, indeed at a rate that is almost unprecedented in our peacetime history." The country, Mr. Drucker said, "now has about 10 million more jobs than even optimists predicted 15 years earlier."

Nearly all new job creation has been in small and medium sized businesses, creating an "entrepreneurial boom of unprecedented dimensions."

The new jobs are not coming from the traditional sectors of government and big business. Rather, "nearly all job creation has been in small and medium sized businesses and practically all of it in entrepreneurial and innovative business," Mr. Drucker said. Not high-tech, but "low-tech" or "no-tech," such as women's wear makers, fast food chains and exercise equipment makers.

Dun's Business Month documented the trend in its February 1984 issue, describing the changing workplace as an "entrepreneurial boom of unprecedented dimensions." Each week, more than 10,000 new companies are formed in the U. S. and new firms account for more than half of all new jobs, the magazine said. Most of these new companies are small—one, two and three person ventures, not big enough to consider forming a credit union of their own.

Multiple Group Policy

In response to this economic restructuring, NCUA began deregulating in the late 1970s by allowing credit union boards to adapt to local conditions. Beginning in 1982, credit unions were free to make their own business decisions about most issues, including what dividend to pay on savings. With the approval of their NCUA Regional Director, they were also permitted to diversify their membership base if they chose by serving nearby employee and associational groups which requested credit union service.

"We find smokestack America changing into service America, we find the workplace being dramatically changed, and yet we find the need to offer traditional credit union service."

E.F. Callahan at the Defense Credit Union Council's Annual meeting, Las Vegas, Sept. 12, 1983.

Larry Lambert/Washington Times

Weirton Steel Corp., Weirton, W. Va. Steel Works Community FCU used to serve only employees of the steel works division and the general offices of this plant, but now serves area residents and nearby employee groups.

This multiple group policy, which Chairman Callahan called the "most significant deregulation that has occurred," enabled credit unions to "take their eggs out of one basket so the credit union won't rise or fall with its sponsoring organization." By increasing the chances of survival of credit unions with failed sponsors, the safety and soundness of the entire credit union system is enhanced.

"We took the law that had been on the books for nearly 50 years and gave it a more liberal interpretation," Chairman Callahan told the Credit Union League of Massachusetts in April 1983. "This has permitted credit unions to extend service through what we call the group theory. For credit unions in auto, steel and rubber manufacturing plants, this is an opportunity to bridge a very, very difficult time."

Before this policy change, a Federal credit union's options were limited if its sponsor firm decided to shut down, relocate, file for bankruptcy, or lay people off. The credit union could convert to a community charter and serve everyone in a specific geographic area (a number did); it could switch to a state charter; it could merge with a credit union with the same sponsor; or it could liquidate. Liquidation, the costliest and least effective solution because it cancelled credit union service when members needed it the most, was the most frequently used alternative: in the recession year of 1981, credit union liquidations reached a highwater mark of 251.

Credit Unions Adapt

Harvester Lane FCU in Memphis, Tennessee was almost a casualty of the recession. But thanks to NCUA's multiple group policy, it not only survived, it thrived.

The credit union's sponsor, International Harvester, said it might have to close its Memphis plant, which makes cotton picker machines. It didn't, although employment fell from a peak of 3,300 to 500. "We had a new building and wanted to see our credit union continue," said Manager Robert Shears. "If we had not been able to expand our base, we would have had to lock the door."

In six months' time the credit union had taken in 38 nearby groups which did not have credit union service, including employees of a Baptist church and the Memphis-Shelby Bar Association. Membership grew by 2,200 to 5,600 persons, assets rose to $17.5 million, and best of all new loans increased 138% in 1983. "We've seen a complete turnaround," Mr. Shears said. "This credit union is 35 years old and most of the members are retired—we'd become a 'savings' credit union. We needed young people—we had to put some of that money out in the new groups," he said. "That's what credit unions are supposed to be all about." Harvester Lane practices what it preaches. The interest rate on share pledged loans is 10% while the Mastercard rate is 13.4%. Moreover, there's no annual card fee. "We're not in it for profit," Mr. Shears said.

Telephone Credit Union Beats the Odds

Membership growth had slowed substantially for the old Rochester Telephone FCU in New York state when the credit union decided to expand its base.

"NCUA's multiple group policy was welcomed by our board of directors. It has given us the opportunity to offer credit union services to companies too small to form their own . . . "

"NCUA's multiple group policy was welcomed by our board of directors," said John Bryson, the president of the credit union. "The employment picture in the telephone industry has been deteriorating and we had not seen any growth at all in our membership."

In the past year, the credit union, which changed its name to Summit FCU, has added 38 companies, including a three-person communications firm, employees of Rochester Gas and Electric, and the local visiting nurses' association. Membership doubled to 14,000 while assets rose from $18.4 million to $30.1 million.

"We've been pretty lucky with our experience," said Mr. Bryson. "It has given us the opportunity to offer credit union services to companies too small to form their own or those companies that didn't want to go through the chore of forming their own."

"Clobbered" Credit Union Flies Again

FAA Eastern Region FCU, Jamaica, New York, expanded for the same reasons the others did: to lessen its dependence on a single sponsor. "We got clobbered by the 1981 air traffic controllers' strike," said Jack Leyden, president and chief executive officer of the $50 million credit union. "We had $7 million in delinquencies, assets had dropped from $40 million to $31 million, and our board said 'never again.'"

Since it began diversifying, the credit union has added five groups, including employees of a mutal savings bank, a high fashion retailer, and a corrugated industries firm.

"No one can be guaranteed of his or her job as in the past," Mr. Leyden said. "Using our method, if one leg gets clobbered the other can hold up the credit union."

The new groups are served under a "satellite" concept, which allows employers to sponsor them as though they were individual credit unions. For example, VAH Northport FCU serving the VA hospital in Northport, New York, recently merged with FAA, but retained its name followed by "Satellite of FAA Eastern Region Federal Credit Union." FAA's board sets the policies for each of the satellites. Each satellite is hooked up to FAA's central office computer, but satellites approve most of their own loans and handle their own general ledgers.

"How timely it is. The Fortune 500 companies have lost three million workers over the past five years. Yet credit unions have expanded their potential by at least 2½ million people by taking in interested groups."

7000 Groups Request Credit Union Service

People want credit union service and employers like to offer it as a fringe benefit, as evidenced by the fact that 7000 groups requested service and affiliated with nearby credit unions in fiscal year 1983.

"How timely it is," Chairman Callahan said at the Credit Union National Association's 1984 Governmental Affairs Conference. "The Fortune 500 companies have lost three million workers over the last five years. Yet credit unions have expanded their potential by at least 2 1/2 million people by taking in interested groups. This is your determination to broaden your base for whatever reason." Credit unions, he added, are on the "cutting edge" of what's happening. "You've proved that you can handle deregulation, and you're responding to the changing workplace."

As for the remarkable number of small businesses springing up, the Chairman said they should have the same access to credit union service as other groups: "I don't remember Filene or Bergengren saying 'we've got to have credit unions, but only for big business.' I think they said credit unions were a great idea and we need to go out and do something about this cooperative aspect of people controlling their financial future."

Rekindling the Credit Union Spirit

"You have re-fired the enthusiasm for credit unions that the founders expressed more than 50 years ago," the Chairman further told the CUNA delegates. "I don't think it's an accident that this is the anniversary (of the *Federal Credit Union Act*) and things seem to be starting all over again."

Credit union managers agreed with this assessment. "I love it," said Mary Henning, manager of Three Rivers FCU in Fort Wayne, Indiana. Like many credit unions in the "rust bowl," Three Rivers is alive today because the multiple group policy allowed it to expand its membership when its sponsor, a heavy equipment manufacturer, decided to close its Fort Wayne plant. "I get a chance to sell the credit union to groups that never had credit union service before," she said. "I guess I bubble over because I believe in it so much. I try to tell people we're different from a bank because we're more personable."

To date, the credit union has added 114 nearby companies, most of them small. They include an electrician's union, a dairy, an insurance company, and several small factories. In 1983 membership stood at about 15,000, and yearend assets were $61 million, up $7 million in a year's time. It was the credit union's best year ever!

Steel credit union reaches out beyond the plant to stabilize itself "against the pitfalls of being associated with one industry."

Steel Credit Union has Banner Year

Steel Works Community FCU, Weirton, West Virginia, also had a banner year in 1983. Although members who work at Weirton Steel took a 32% cut in wages and benefits as part of a much publicized employee buy-out of the mill, the credit union was able to "offset that loss of income by getting participation from outside units," according to General Manager William Freeze. The credit union's assets rose by $6 million in 1983 to $50 million.

Steel Works FCU began planning ahead sooner than most "smokestack" credit unions. Only its name serves as a reminder that the credit union once served exclusively employees of the steel works division and general offices of Weirton Steel.

In 1979 the credit union converted to a community charter in order to "stabilize our institution against the pitfalls of being associated with one industry," according to credit union officials. Later on, under NCUA's refined membership policy, several nearby credit unions were merged into Steel Works and several employee groups, including two close by medical centers, were added.

"We're giving people who never belonged to a credit union the chance to participate in their own financial cooperative," Mr. Freeze said.

Student Credit Unions Welcomed

More than 100 members of the new Georgetown University Student FCU in Washington, D.C. turned out for their credit union's first annual meeting held March 1, 1984.

Group expansion may be the wave of the future, but newly chartered credit unions are by no means an anachronism. Of the 105 Federal credit union charters approved in 1983, significant new groups were welcomed to the credit union world. Among them, three student credit unions - Georgetown University Student FCU, Washington, D. C.; Skidmore Students FCU, Saratoga Springs, New York; and University Student FCU at the University of Chicago. These student credit unions, the first since 1979, are already benefiting from a new NCUA policy designating student credit unions "low income," meaning they can accept insured nonmember deposits as a means of strengthening their deposit base and allowing them to make more low cost loans for books and tuition. Also chartered in 1983 were credit unions for employees of Dow Jones & Company, Inc., publishers of the *Wall Street Journal*, and Chanel, Inc., the cosmetics firm, which has a U. S. office in Piscataway, N.J.

University of Chicago campus, home of University Student FCU

A charter conversion is a "ticket into the modern age" for one credit union eager to serve its expanded employee base.

Dual Chartering System Strong

The dual chartering system proved viable as a number of Federal credit unions converted to state charters and vice versa. Among those switching was American Express CU, whose conversion to Federal charter was a ticket "into the modern age," according to Gail Tobin, Director of Financial Administration for American Express Co. The change means the 63-year-old credit union can offer new and more convenient services to its expanding field of membership, which now includes 15,000 employees of Shearson, Loeb, Rhodes, the brokerage concern recently acquired by American Express.

Springmaid CU, Lancaster, South Carolina, went Federal so that it could serve nearby groups such as school teachers and hospital employees, "whose track records we know," said Frank Neal, a branch manager.

Policy Continues To Evolve

Although the multiple group membership policy is a consequence of "dramatic changes in the workplace" coupled with the "need to offer traditional credit union service," it represents another stage in the continuing evolution of credit union chartering policy. As Chairman Callahan explained in an October 1983 letter to Congressman Fernand St Germain, Chairman of the House Banking Committee:

"The chartering policies of NCUA and its predecessors have tried to accommodate the very rapid growth in credit unions as well as changes in both the economy and the lifestyle of our country. For example. . . . when the *Federal Credit Union Act* was enacted, the concept of a shopping center or an industrial park was unknown. Yet recent NCUA chartering policy addressed the reality of these entities by permitting a single credit union to serve a small group of businesses in the center of the park. That same policy also permitted occupational credit unions to convert to community charters. Our most recent policy changes are in concert with the concept of combining groups of employers as was done in the centers and parks, but does not pursue the pure geographical charter.

"Rather than have an occupational credit union convert to a community charter and serve everyone in a geographic area, we felt it was more appropriate to limit the expansion of the credit union to serving other select or small employee groups that already exist in the vicinity of the credit union."

"Recent Federal field of membership policy changes have done little more than catch up to the field of membership policies as determined by the Oklahoma Credit Union Board."

Or, as Frank Wielga, respected credit union critic and columnist who is currently the general manager of Pennsylvania State Employees CU, put it: "Credit unions know how to handle employee groups - that's where their best bet is."

In many cases, states began to adjust credit union membership policies to the changing workplace long before the Federal government did. States continued to provide even more flexibility in 1983 in chartering and field of membership policies, according to a recent survey by the National Association of State Credit Union Supervisors.

Oklahoma's Bank Commissioner, for example, responding to a comprehensive review of NCUA's chartering policies to be completed in the spring of 1984, pointed out that "recent Federal field of membership policy changes have done little more than catch up to the field of membership policies as determined by the Oklahoma Credit Union Board."

The key to credit unions' continued strength is their emphasis on service: "It's not how many we serve, but how well we serve them. Our responsibility is to care—our members respond when we do."

As a result of evolving policies, the number of state and Federal credit unions serving more than one employee group has increased in recent years. Figures provided by the Credit Union National Association show that 21.6% of all credit unions served more than one employee group in 1979 and that the percentage had risen to an estimated 36% by yearend 1983.

For Federal credit unions, still largely tied to a single sponsor, field of membership diversification is an option that has had limited use. Only 12.7% of all Federal credit unions added select employee or associational groups in fiscal year 1983, but the number of groups they added is significant: 7000, ranging in size from a two-man barbershop to a large hospital association. Actual Federal credit union membership increased approximately 3% in 1983 to 26.8 million but the number of potential members rose 17.3% to nearly 57 million.

Size in Perspective

For all the expansion and potential for expansion, the credit union movement is still relatively small. The combined assets of 19,000 state and Federal credit unions reached a record $100 billion in 1983 but were less than the assets of a single large bank, Bank of America, whose 1983 assets were $109.7 billion.

Most credit unions are small - 68% have assets of $2 million or under. And although 1400 Federal credit unions chose to expand their fields of membership under the multiple group policy, 9600 did not.

The assets of the Rohr Employees FCU in Chula Vista, California, for example, grew by 30% to nearly $60 million in 1983 yet membership increased by only 14 persons. Asked how the credit union achieved such an enviable growth rate, Manager Gary Grissett replied: "It's simple - we serve our members very well."

The credit union, whose field of membership includes employees of Rohr Industries, a major aerospace manufacturing firm, paid 9% on share and share drafts during the year and 9.6% on money market share accounts. The interest rate for car loans was as low as 11.6%. Moreover, the credit union was able to pay its borrowers a 15% rebate during the first quarter, Mr. Grissett said.

M.R. "Mandy" Hellie, a past chairman of CUNA and currently president of U of C FCU in Boulder, Colorado, also believes that the key to credit unions' continued strength is their emphasis on service: "It's not how many we serve, but how well we serve them. Our responsibility is to care - our members respond when we do."

Credit unions serve their members by serving their families.

One measure of success: credit union savings growth of 20.7% is more than double the deposit growth rate for banks.

"I doubt that 160,000 credit union directors will all reach the same decision, but I believe there is vitality in the system, which is good for credit unions and is good for the country."

Family Membership

Another way some credit unions served their members in 1983 was by allowing them to invite their parents, grandparents, stepchildren and other relatives to join the credit union. Prior to 1983, NCUA policy kept credit unions from offering service to a member's relatives unless they lived in the same house as the primary member. The policy had been amended over the years to permit such things as students away at college to join their parents' credit union. Each year brought more requests from credit unions for changes that would allow other family members to join. Rather than continue to redefine family membership, the Board at its January 1983 meeting in Dallas said each credit union should decide for itself which relatives of a member should have the opportunity to enjoy the benefits of credit union membership.

Maxwell Gunter FCU, serving employees of two air force bases in Montgomery, Alabama, was one of the first to open membership to relatives of members not living under the same roof. "We're averaging 30 to 40 new members per week," said Marketing Director D.G. Markwell. The credit union has taken advantage of expansion possibilities, because "we want to be around 10 years from now," he said. Despite its growth, Maxwell Gunter works hard to maintain its service image. "With us, the average Joe is a success and that's what we try to instill," Mr. Markwell said. "As we grow, we try to make everybody feel the credit union is his or her best friend."

Remembering Their Roots

Clearly, credit unions are filling a need for personalized financial services that is perhaps as great today as it was in the 1930s, when credit unions were being organized at the rate of 800 and 900 a year.

One measure of their success is the fact that credit unions were again the fastest growing financial institutions in 1983, with a savings growth rate of 20.7%, more than double the deposit growth rate for banks.

And while credit unions, like all institutions, must adapt to changing economic and social conditions, they must never lose sight of their roots: "A credit union is a pooling of resources by people who want to chart their own financial course, to be sure they make a good return and to be sure that funds are available for loans," Chairman Callahan told the Alabama Credit Union League in April 1983. For example, he pointed out that in a large bank, a handful of senior managers decides whether the bank's assets are used to "help young people buy their first home or are poured into an oil well in Mexico."

Credit unions, he said, "use their money for the benefit of their members, not an oil well in Mexico. And 160,000 directors (of 19,000 credit unions), most of them volunteers, will make the decisions about how the money is used. I doubt they'll all reach the same decision, but I believe there is vitality in the system, which is good for credit unions and is good for the country." ■

1983: An Examiner in Every Credit Union

"It was a great thing and long overdue . . . We uncovered a number of problems we didn't know existed."

By 1983, some hadn't been examined for as long as 36 months. . . . It was proving impossible for the centralized system to keep pace with the marketplace changes.

On September 30, 1983, NCUA examiners achieved a goal many of them thought impossible only six months earlier. In just one year this cadre of 358 men and women had examined every one of the nation's 11,084 Federal credit unions.

"It was a great thing and long overdue," observed NCUA Region I Director Bernard Ganzfried. "I was glad to see it happen. We uncovered a number of problems we didn't know existed," he explained. "As a result, the examiner has more control and is able to track these problems. As Regional Director, I feel more confident since it has relieved a lot of the uncertainty as to what's going on out there."

Mr. Ganzfried's assessment reveals that there was more behind this 100% completion than simply a goal set by the NCUA Board. Prior to 1983 NCUA ran a centralized examination program from Washington, D. C. It was in the nation's capital that the determination of "which-credit-union-was-examined-when," was made. It was to the "central office" in Washington that copies of all the reports were sent. Because of the increased concern with safety and soundness, the exam procedures became more intricate in response to the growth and complexity of credit union operations. As a result, the exam cycle grew longer and longer, until it averaged 24 months. In 1982, only 55% of all Federal credit unions had been examined. By 1983, some hadn't been examined for as long as 36 months. This raised new concerns about safety and soundness. It was proving impossible for the centralized system to keep pace with the marketplace changes.

NCUA Board Chairman Edgar F. Callahan explained why NCUA had to reverse the lengthening cycle in an address before the National Association of State Credit Union Supervisors: "Deregulation is as great a responsibility for the regulator as it is for credit union management and credit union boards. We just have to react in another way.

"We've been getting out of the business of making business decisions for credit unions, but now we're getting back to what is really our responsibility: safety and soundness. I think most credit union people expect that of us as regulators. They want the system to work. They want credit union members to have a good feeling about the entire system. So they expect us to help credit unions that may be on the verge of experiencing problems, to get there and try to bring whatever resources are available to bear on that situation so we can head it off at the pass."

Exam Program Recast

To address this situation, the exam program was decentralized. The size of the Washington office was cut by one third and people were rechanneled back to field examiner posts. The regional offices received the responsibility and authority to determine exam priorities. Exam procedures were scrutinized to cut out the fat without losing the effectiveness. NCUA examiners and credit union management combined their talents to meet this challenge of improving exam procedures. When this team had completed its task, the major changes included:

- New procedures enabling the examiner to get a quick overall picture of the credit union. The examiner can immediately focus on problem areas. If there are none, he or she quickly moves on to another credit union. Previously, rigid formats forced the examiner to spend equal time in similar-sized credit unions, regardless of condition.

- Immediate feedback. As soon as the exam is complete, the examiner sits down with either key management and officials or the entire board and management, depending on the credit union's condition. This "overview" focuses on positive as well as negative aspects. The examiner then leaves a copy of the examination with credit union officials. Previously, credit unions in good shape received limited formal feedback and credit unions with problems sometimes received their report weeks later, after the examiners sent it to the Regional Office, where it was reviewed, typed and released.
- Sharpening old examiner tools and adding new ones. The semi-annual call report, or 5300, and the new Financial Performance Report (FPR) were integrated with the exam into a "total financial reporting system," that enables the examiner to keep a finger on the pulse of the credit union.

A "total financial reporting system," . . .enables the examiner to keep a finger on the pulse of the credit union.

"The call report provides the examiner with a picture of what's going on in the credit union," explains Region V Examiner Ross Pearson. "He can easily spot and immediately check unusual changes by looking at the 5300's balance sheet, income statement and other information regarding loans, investments and membership, and comparing it with the previous report."

The FPR converts the call report numbers into five-year trends and provides ratio analysis in 10 key areas, including growth, capital, and liquidity. "It gives the background and trends as to where the credit union was and where it is now," explains Region II Examiner Cynthia Vaughn. The examiner can then schedule examinations based on need. "Since key ratios are already computed, it saves the examiner time during the exam," she said. As a result, the examiner is free to spend more time as a financial and management analyst rather than as a "numbers cruncher." For the credit union, the FPR provides information to assist the manager and board in making business decisions and paints a clear picture of how the credit union is doing in relation to its peers.

Staff Rises to the Challenge

But even with the program changes in hand and decentralization a fact, an annual examination still seemed a long way off. Testing the procedures and writing the guides was becoming a laborious process, as Region VI Director Barry Jolette remembers: "The Chairman was becoming frustrated and wanted to know why the guide had to be written before the examiners went in."

By March 1983, NCUA had examined only 2750 of the more than 11,000 Federal credit unions. The Chairman called the Regional Directors together and told them to complete the annual exam by September 30. They rose to the challenge.

"We found we could do a lot of streamlining without losing effectiveness."

Region IV Director H. Allen Carver remembers it well: "By March we had completed only 500 exams in Region IV. That meant that we had to do 1100 in the second six months. As soon as I found out, I went back with the Supervisory Examiners and they met with the examiners and got from them suggestions as to what examination steps could be reduced or modified. We found we could do a lot of streamlining without losing effectiveness."

The most crucial hurdle to the success of the program had yet to be surmounted. NCUA's 358 examiners were accustomed to doing thorough and deliberate reviews. If they had any doubts that the streamlined procedures might sacrifice safety and soundness or if they weren't enthusiastically committed to completing the program within six months, then it was doomed.

"There was initially a great deal of anxiety on the part of the examiners when they learned in March that they had to complete 100% by September 30," recalls Region III Director Stephen Raver." It meant they'd be away from home a whole lot more. Some examiners didn't believe the exam would be a quality one."

From examiners, reaction was mixed. "I wasn't for the changes initially," remembers Region VI Principal Examiner Gary Hertzberg. "It seemed somehow they were diluting the examination program by skipping steps." Region V Examiner Ross Pearson said his first reaction was "forget it; it can't be done." Region IV Examiner Harvey Mulberg, a 32-year Agency veteran, felt it could be done, "but not under the old procedures."

As it turned out, everyone finished on or ahead of time. "By June we were finished and were sent all over the place to help others," recounts Cynthia Vaughn. "I was on travel from June through September to help other districts. We worked weekends. I spent two weeks in West Virginia and three in Richmond." Region III Supervisory Examiner Steven Dennison's group was doing so well that eight of its 11 examiners, including Dennison himself, spent three months on the road helping to complete exams in other states.

"It was obvious from the beginning it was a team effort," remembers Regional Director Carver, "and it had to be in order to succeed. Regional Directors helped each other. Examiners from the other regions lent a hand in regions that were shorthanded, including our own."

"There's nothing like going in, one-on-one with the manager and staff. It keeps the examiner on top of the credit union and keeps the manager on his toes."

Examiners Like Increased Contact and Flexibility

"Staff has a lot more pride now because they did it, they worked as a team and accomplished the goal; they did a quality job," Mr. Carver said. Examiner Gary Hertzberg, for one, is sold on the new exam. "I like 100% completion," says Hertzberg. "It's good all around as far as safety and soundness, and we're putting forth a quality product. A lot of examiners were lost until they got immersed in the program." Mr. Hertzberg said the biggest plus in the new program is that it "forces you into more contact with the credit union. You have to go in at least once a year, and more in the case of a credit union with some problem areas." The result: "It keeps us on top of the credit union by being on-site. There's nothing like going in, one-on-one with the manager and staff. It keeps the examiner on top of the credit union and keeps the manager on his toes."

"That two year deal was murder," opined Mr. Mulberg. "The annual examination is necessary. If you don't come for two years, you could find a mess. We have more time to do better jobs now with the new procedures. The examiner has the option of expanding if he or she finds anything. Now we can concentrate more on problem credit unions."Region II Director Harvey Baine III agrees. "In today's environment, financial institutions can change so quickly that the annual exam plus the two 5300's each year give us a better possibility of avoiding trouble," he explained.Region I Examiner Dennis Cunningham feels credit unions like the changes, too, especially the overview. "Now they get compliments as well as digs, and that makes a difference," he said.

Credit Unions Praise Positive Approach

Region V Director J. Leonard Skiles believes "the 100% program has been the most significant development in reestablishing the credibility of the entire exam program." Comments from the credit unions bear him out.

"The examiner reviewed our loan policies, investments and other areas in which this credit union has experienced some difficulties," writes a credit union official in Massachusetts. "She made many valid and useful points which this board appreciated. We found the audit comprehensive and informative. There was no 'nit-picking;' just constructive criticism."

Typical of the praise for the professionalism exhibited by the examiner force is the following assessment from a California credit union: "The exit interview was significant in that it reinforced the attitudes of credit union officials toward more positive and concrete planning for the future stability and growth of the credit union. The officials of this credit union wish to compliment the examiner in charge for his professionalism. His 'positive' approach and encouragement stimulated credit union directors and management to act immediately, establishing goals and objectives for the future security of the credit union."

"An exit interview is always a useful tool as each director has an opportunity to discuss all phases of the exam. It gave all a solid understanding of the problems."

Praise was forthcoming even from those who did not receive a top rating: "I realize our credit union has a few problems, but the examiner was very diplomatic and a pleasure to work with," wrote a credit union manager in Indiana. "We are determined to try for a number one rating next audit."A credit union manager in New York wrote: "The exam was well handled and all agreed to the changes, while we don't always agree to all the findings. An exit interview is always a useful tool as each director has an opportunity to discuss all phases of the exam. It gave all a solid understanding of the problems." The writer added: "We have always welcomed NCUA examiners because they give us a different view of ourselves. If we are wrong, we want to be first to know, before an irreversible problem arises."

Callahan: This is Just the Beginning

This same point was emphasized by Chairman Callahan when he said the Agency didn't want to find itself "reacting to problems." Rather, he said, "we want to be in there and help before the problems get too severe." Receiving the call report twice a year and picking up adverse trends, combined with the examination and the trend tracking of the Financial Performance Report, provides a "hands-on" experience with the credit union "at least three times a year," Chairman Callahan explained.

"The once a year exam is not a fire drill the examiners have just completed but it's a fact of life. The cycle is going to be less than annual."

The 1983 program was "just the beginning," the Chairman promised. "The once a year exam is not a fire drill the examiners have just completed, but it's a fact of life. The cycle is going to be less than annual. We expect the examiners to take the call report and the exam and prioritize. Whenever the call report indicates a shift, we want them back in there, and not just with problem credit unions."

He emphasized that this did not mean Federal examiners would start running credit unions: "The whole point is preventive maintenance." What this means, according to Chairman Callahan, is knowing "what's happening before the fact." Credit unions don't "want to subsidize somebody else's mismanagement. Our responsibility then is to try and be out there before the fact, not spending all our time trying to solve problems, but trying to get in there and prevent problems." ■

Share Insurance - Finishing the Job

"This could be a positive solution for solving the deficit in the Share Insurance Fund and eliminating double premiums."

The Mary Imogene Bassett Hospital FCU Cooperstown, New York

"I can't imagine why this plan was not thought of before. It makes the expense statement look better, it makes the Fund stronger, and allows us to include the Fund in our asset listing, where it should be."

CSE Credit Union, Clawson, Michigan

In November, near the close of the first session of the 98th Congress, legislation was introduced by Senators Jake Garn and William Proxmire which would capitalize the NCUA Share Insurance Fund (NCUSIF). Because this legislative "window" of opportunity was earlier than expected, NCUA Board Chairman Edgar F. Callahan sent a "briefing" letter to all Federally insured credit unions in December. This letter explained the plan and asked credit unions to "do the arithmetic" to see for themselves if this proposal was in fact a better way than the double premium approach .

The response to this mailing has been overwhelming. More than 2,000 worksheets and letters have been returned (see sample of comments in margin). In addition, hundreds of other meetings and conversations about the plan have taken place in the months since the proposal was introduced.

While the Senate bill was based primarily on ideas from the insurance study mandated by the Garn-St Germain Act, NCUA's decision to put these recommendations into a final form had potential drawbacks. As NCUA Chairman Edgar F. Callahan noted in a speech to CUNA's Governmental Affairs Conference:

"The biggest problem, I've got to tell you right up front is the fact that Ed Callahan is pushing this bill. I've taken the mantle of being an insurance salesman. And you know how we feel about insurance salesmen... But I'll tell you it's a better idea and I think we should finish the job."

He then asked credit unions to look at this proposal in the context of changes over the past two years.

"I challenged you two years ago, I said accept deregulation, it's a better way - you can do it, you will do it, and you have done it. I challenged you to be open, to let your boards decide on what your membership should be and you've done it and your membership has turned around and grown. I challenge you now to finish the job."

Creating a Capital Base

"Finishing the job" in the first instance means creating a capital base that establishes beyond doubt the ability of the Fund to respond to whatever difficulties credit unions may confront. Unlike every other private and Federal insurance fund, the NCUSIF was started with no capital (see short history). Equity has been built solely from retained earnings. This method of equity growth has been uneven, unplanned, and since 1978 has actually been going in reverse when measured by the ratio of equity to insured shares.

Finishing the job by stabilizing the Fund's capital also means completing an integrated credit union financial system. Deregulation removed government from the daily business decisions of credit unions. Field of membership expansions have given credit unions the ability to respond to the changing employment patterns in the marketplace. NCUA's ability to supervise the safety and soundness of credit unions was considerably enhanced when the NCUA Board in October 1983 approved the full funding of the NCUA Central Liquidity Facility, the NCUA-managed lender of last resort for credit unions. An adequately capitalized Insurance Fund completes the supervisory "safety net." The credit union financial system can then be self-supporting when confronted with temporary setbacks, whether from internal or external events in the financial marketplace.

"This looks like a very good way to fund the Insurance Fund. Even if there was never a dividend paid on the deposit, our credit union would still come out ahead."

Henryetta FCU, Oklahoma

To finish the job means that credit unions must be informed about the legislative option now available. Each credit union must understand that this plan should be much less costly than double premiums. In fact, this approach should prove even less expensive than single premiums in years of normal operating losses. Questions that arise need to be answered; suggested alternatives must be explored; and a consensus must be created that swift action is needed because the plan benefits each credit union immediately.

Finishing the job also means demonstrating to credit unions that the Agency's examination and supervision responsibilities are being carried out in a timely and effective manner. The supervision activities of the annual exam, the production of the semiannual Financial Performance Reports, timely education via the NCUA Videotape Network and examiners' conferences must be seen as a positive correction to new problems as well as to traditional credit union risks.

Finally, finishing the job means using the momentum of the first 50 years of Federal credit union successes to prepare for new generations of credit union members served by very different applications of technology. The trends under deregulation suggest that credit unions as institutions where members' needs are first and foremost should expect to play an ever expanding role in the economy.

What better way to celebrate these hopes than by asking Congress with a united voice to allow credit unions to fund their own insurance program. As the original NCUA insurance bill (P. L. 91-468) was readied for passage in October 1970, Chairman Wright Patman of the House Banking Committee described the Fund as a "reward for the outstanding job performed by credit unions." Capitalization of the Fund by credit unions would not be a "reward" but a reaffirmation of those credit union ideals and goals of "self help" first codified in the 1934 *Federal Credit Union Act*. By finishing the job, credit unions are really continuing in their unique tradition of providing a financial safe haven for America's consumers.

The Numbers Behind the Plan

Many of the questions about the proposal asked for more information about the numbers used by NCUA. Why a 1.3% level and not 1.0% or 1.5%? Why is the plan less expensive? How does NCUA know it will be able to rebate the premium in full and pay a dividend?

In projecting the income from a capital base consisting of a 1% deposit and .3% equity, NCUA assumed that administrative expenses would continue to be relatively stable at a level of $10.0 million per year. The investment income from this capital was projected using a return of 9%. This rate was not a forecast or prediction of future earnings, but was chosen as a reasonable approximation of the return that could be expected on average, year in and year out, to see if the capital base was too large or too small.

"The nonearning asset on our books is preferable to the double premium. The present method is becoming a burden on our retained earnings."

Tinker Credit Union
Tinker Air Force Base

Major variables, such as the growth rate in insured shares and the average costs for mergers, liquidations and financial assistance, are difficult, if not impossible, to predict. These costs fluctuate widely and can be significantly affected in a year's time by a serious problem in just one medium-sized credit union.

Assuming stable administrative costs and a 9% return, plus the fact that the premium would be collected at the beginning of each year and rebated at the close, the problem then posed is this: what amount of income would be available at different rates of credit union growth to meet all of the Fund's merger and liquidation costs and possibly pay a dividend? The answers can be found in a "matrix" of numbers.

Range of Credit Union Growth Rates

Year	5%	10%	15%	20%	25%
1	$77.6	$65.6	$53.6	$41.6	$29.6
2	$81.9	$73.2	$63.1	$51.9	$39.5
3	$86.6	$81.5	$74.1	$64.3	$51.6
4	$91.4	$90.6	$86.7	$79.2	$67.6
5	$96.5	$100.7	$101.2	$97.0	$87.2

Number represents millions of dollars left over after all administrative costs and a full premium rebate, but before merger and liquidation costs and a dividend.

"We liked the plan very much. Last year the extra assessment worked a real hardship on us. This plan will put us in a much better position expense-wise."

Once this range of outcomes is calculated, the issue is whether the Fund can operate within these potential dollar limits. For the past five years the merger and liquidation costs have averaged $30 to $45 million, the higher figure representing the additional provision for changing to a full accrual method of accounting for those losses. In every outcome on the "matrix," the lower end ($30 million) of this expense range is met. At the higher end ($45 million), the outcome is met in 85% (22 out of 25) of the cases. Moreover, some income remains for a dividend.

These projections do not "prove" 1.3% is the correct level, but they do suggest that the 1.3% level strikes the proper balance between the need for capital sufficient to rebate the premium in full and to satisfy credit unions' concerns about sending funds to Washington.

Although the Fund's arithmetic and that of credit unions suggest that this capital program is a better way, the real decision rests with the Congress. This opportunity to finish the job with a uniquely credit union form of capitalization represents another important milestone in the evolution of the U. S. credit union financial system - hopefully one that can be accomplished during this 50th anniversary year. ■

A Short History of Federal and Credit Union Insurance

1933-March	Banking Act of 1933 creates FDIC to insure all deposits to $2500. $139 million capital received from the Federal Reserve and $150 million from the U. S. Treasury for total of $289 million. Initial annual premium set at 1/2 of 1% of insured deposits.
1934	National Housing Act of 1934 created FSLIC which insured deposits to $5,000. Capital received from U. S. Treasury equal to $100 million. Initial premium set at 1/4 of 1%.
1955-July	First private Credit Union Share Guaranty Corporation established in Illinois under state law. Corporation involuntarily liquidated in September 1964 due to undercapitalization.
1961	Massachusetts Credit Union Share Insurance Corporation established. Initial capital of 1% of total shares plus a semiannual premium. Today insures 232 credit unions with total savings in excess of $2.3 billion.
1967	North Carolina Savings Guaranty Corporation established. Capital equals 1.25% of insured shares. Today insures 25 credit unions with savings over $900 million dollars.
1970-October	Title II of the Federal Credit Union Act passed (Public Law 91-468) establishing NCUA insurance (NCUSIF) for credit unions. No capital provided and annual premium set at 1/12 of 1% of insured shares. Coverage equal to $20,000 per member account.
1974-October	NCUA insurance coverage increased to $40,000 per member account.
1978-September	NCUSIF equity passes $100 million to end fiscal year at $118 million.
1979-December	NCUSIF equity-insured-shares ratio peaks at .32%.
1980-March	NCUA insurance coverage increased to $100,000 per account.
1981-September	Liquidations reach new high of 251 credit unions with $78.6 million in shares for the fiscal year.
1982-April	NCUA Board sets 1% as management objective for NCUSIF capital base. Asks for credit union comment on goal and for best way of reaching this level.
1982-July	NCUA Board assesses second premium of 1/18 of 1% for first time in Fund's history.
1983-April	NCUA Board assesses full second premium of 1/12 of 1%.
1983-November	Senate Bill 2121 introduced to capitalize NCUSIF with 1% deposit from each insured credit union.

Communications: The Essential Element of Policy-Making

The goal is to promote an open and vigorous dialogue so that policy does not operate in a vacuum.

Videotape is a more compelling communications medium than print. "It reaches out to more than one of the senses. You see it, hear it, you are almost living it."

Much goes into the formation of policy at NCUA, but communications remains the essential ingredient. NCUA's communications effort takes place at various levels. The goal, however, is the same: to promote an open and vigorous dialogue so that policy does not operate in a vacuum.

NCUA Board Chairman Edgar F. Callahan underscored the importance of dialogue at the National Association of Federal Credit Unions' 1983 Congressional Caucus. "Many of the things that have happened in the past year did not happen because I came to Washington with them written on my agenda," he said. "They happened because of the dialogue you and I have been having."

In 1983, NCUA enhanced its communications repertoire. In addition to comment letters and direct Board contact with credit union officials, the Agency introduced the NCUA Videotape Network and put renewed emphasis on the examiner exit conference.

The Agency unveiled the NCUA Videotape Network in September, and in doing so entered a bold new dimension in communications. Each month, the network produces videotaped programs on key credit union topics designed to boost the levels of education and information throughout the Agency.

Keeping NCUA field staff abreast of the rapid changes in today's deregulated environment is imperative for the Agency to succeed in its mission of protecting the safety and soundness of the credit union system. Videotape was the medium chosen to meet this imperative because it is "cheaper, timely and an ideal method of communication," said Ted Bacino, director of NCUA's Office of Services, who produces and directs each Videotape Network edition.

Using the Videotape Network as an educational tool has allowed NCUA to reach greater numbers of examiners in a shorter time period. Shipping videotapes to Supervisory Examiners, who then arrange viewing time for examiners, also is less costly than transporting examiners to a central location for classroom training sessions, Mr. Bacino explained.

At the same time, videotape is a more compelling communications medium than print. "It reaches out to more than one of the senses," Mr. Bacino said. "You see it, hear it, you are almost living it."

Involving NCUA examiners and regional staff in the actual on-camera presentations is a continuing objective of the Videotape Network. As Vice Chairman P. A. Mack, Jr. explained, "The NCUA Videotape Network should not only be for the examiner, but by the examiner." This commitment led to the addition of a segment called "examiners' forum," where groups of examiners discuss and debate Agency and credit union issues.

NCUA Region IV Examiner Dick Vander Wall pointed out that the Videotape Network, unlike Agency or credit union trade publications, allows NCUA field staff to "attach some faces to the names you often read about." In addition, taping field staff exposes Agency personnel to the faces - and ideas - of a wider cast of characters, many of whom they do not read about.

NCUA VIDEO NETWORK

"The NCUA Videotape Network should not only be for the examiner, but by the examiner."

In each one-hour edition, the first 15 - 20 minutes tackle a "main" topic, such as lending, with an emphasis on education. The remaining time in each edition is devoted to shorter informational presentations including "updates" on Washington events, the Congress and credit union statistical trends.

Using state of the art equipment and working from a central office training room-turned-studio, the video crew has put together nine editions in seven months. What follows is a summary of the first five editions and the Agency's objectives:

Edition I: Financial Performance Reports. Using actual credit union examples, this program shows examiners how to take the Financial Performance Reports (FPRs), four-page statistical reports on each Federal credit union, and "find the human story behind the numbers." In one case, a $100 million credit union had an FPR that looked "super" on the surface, but closer inspection revealed inconsistent growth and a decline in membership. "Despite all this activity, members have in fact reduced their real involvement in the credit union," the analysis concluded. "This credit union doesn't appear to be appealing to the very members who are its life blood." Other segments feature NCUA examiners relating their experiences with the FPRs. Region I Examiner Paul Lenahan, for example, said the FPRs help his pre-exam planning. "Now when I go into a credit union, I have a better idea of what problems I have to attack," he said.

Edition II: Share Insurance. This edition explains to examiners the reasoning behind the NCUA Board's goal of improving the equity level of the Share Insurance Fund and why legislative changes are needed to turn that goal to reality. "We recognized that insurance was going to become a hot topic of discussion and wanted to give our people a 'sneak preview' so they would have a clear understanding of the issue," Mr. Bacino said.

Edition III: Lending. This edition was shot "on location" at an anonymous credit union. Through unrehearsed interviews with a loan officer, branch manager, and other personnel, NCUA consultant and credit union manager Rex Johnson shows why active loan-making is a credit union's bread and butter. Reviewing actual loan applications in "live" interviews with loan officers, Mr. Johnson brings out ideas for finding ways to extend the maximum amount for which a member is qualified, a more results-oriented approach than seeking reasons to turn down applications.

Edition IV: Semiannual Call Reports. Nicholas Veghts, chief of supervision and examination in NCUA's Region II office, offers tips on interpreting the call report to help examiners put a proper priority on the credit unions they examine. This tape also features a behind the scenes look at how the Agency responded to a letter from House Banking Committee Chairman Fernand St Germain asking NCUA to address some concerns of Committee members. NCUA Congressional Liaison Officer Richard Beach traces NCUA's reaction from the initial high level strategy meetings through the drafting of a response for the Committee.

Edition V: Using the Call Reports. This time, an actual problem credit union is discussed, stressing how the call report allowed the examiner to detect trouble and initiate an immediate supervisory action. "It's not just a mechanical process of editing and balancing the forms," said Region IV Examiner Jerry Hutson, "but also looking to see what's happening in the credit union." As in the fourth edition, this program highlights two "main topics," the second being credit union service organizations (CUSOs), an increasingly popular area of credit union operations. Region III Director Stephen Raver and his credit union operations chief, Ed Collins, weigh the pros and cons of CUSOs and the approach the NCUA examiner should take toward them.

Two Special Editions

In addition to these monthly programs, the NCUA Videotape Network produced two "special editions" to discuss unforeseen events:

The edition was created exclusively for NCUA examiners so they could hear, and see, the key parties in a conservatorship-in-the-making.

Conservatorship: An Actual Court Case. This special edition details circumstances surrounding a conservatorship in Kansas City, Missouri, a case that led to the first legal challenge of the NCUA Board's newly acquired conservatorship authority. The Videotape Network dispatched Examiner Education Officer Marty Kushner to Kansas City on literally a moment's notice so that examiners could hear, and see, the key parties in a conservatorship-in-the-making. Armed with only his home video camera and a tape recorder, Mr. Kushner conducted late night interviews with weary NCUA officials to achieve timeliness and authenticity. In a dramatic epilogue taped several days later, the U. S. Attorney breaks the news that a Federal judge in Kansas City had denied a temporary restraining order, thereby upholding the Board's conservatorship action. This edition was created exclusively for NCUA examiners.

Share Insurance Legislation. NCUA in November received a fortunate but earlier than expected request from the Senate Banking Committee to put forward a legislative proposal for capitalizing the Share Insurance Fund, a development that quickly rendered the October edition on share insurance out of date. The Banking Committee's sudden request also took credit unions by surprise, even though the possibility of legislative change to the Fund has been under discussion for some time. Thus, a special edition answering common questions on the proposal and comparing it to the present system was developed and aimed at NCUA staff and credit unions, marking the first time the Videotape Network was directed beyond the Agency.

The "Exit Conference"

In 1983 the Board reiterated the importance of the "exit conference" in the examination process, a move designed to foster close, personal contact at the most vital link in the chain of communications, that between the examiner and the credit union officials. For in the eyes of the credit union, the examiners are the NCUA. It is they who show up at the credit union's door, look first hand at the operations and converse face to face with the management and board.

The "exit conference" is designed to foster close, personal contact at the most vital link in the chain of communications, that between the examiner and the credit union officials.

"I don't mind taking the risk of having the meeting fall on its face if you all don't want to participate. But I think everybody ought to have a chance to get their oar in the water."

"The key to the exam, at least as I see it," said Chairman Callahan, "is that our exit conference is a joint meeting between management, the board and our credit union examiner. And they have a dialogue about the condition as we find it. And I think we've saved a lot of time, rather than dealing with memos, Federal forms and what have you. That's where I see the big change has come."

Many credit unions share NCUA's enthusiasm and the communicative ideals that gave rise to the exit interview. Officials of Eastern Airlines Employees FCU in Miami, Florida told NCUA that the exit interview "advised our board of directors and supervisory committee, as well as our management and staff of the current state of affairs. The opportunity to discuss findings with the examiner was beneficial to our organization."

Officials of Sister's Hospital Employees FCU, Buffalo, New York, said theirs was "the most helpful and professional exit interview we've had in our 13 years of existence. It was a positive interview emphasizing what was good and with suggestions on how to make our position stronger."

On the Road, Again

In addition to these new elements, the NCUA Board in 1983 kept up its effort to maintain direct contact with credit union officials at league meetings, trade association conferences and, of course, at the open NCUA Board meetings held periodically around the country. In 1983 these "on the road" meetings were in Dallas, Los Angeles, New York City and Birmingham, and each was followed by an "open forum" where the audience asks questions of the Board and NCUA's six Regional Directors.

This continuous exchange with credit union audiences gives the Board an opportunity for feedback, a chance to put its finger on the pulse of credit union thinking that is too often lost in the isolated confines of the nation's capital. Chairman Callahan stressed this point before state regulators in October. "I don't mind taking the risk of having the meeting fall on its face if you all don't want to participate," he said. "But I think everybody ought to have a chance to get their oar in the water."

Similarly, the Board has emphasized universal participation by credit unions of all sizes, a point Board Member Elizabeth F. Burkhart brought out in remarks on data processing before the New York State Credit Union League's development workshop in May. "For many small credit unions...any involvement with automated data processing creates confusion and difficulty. Some credit unions still post accounts by hand. We at NCUA know that our policies have to take such organizations into consideration. And if you feel we do not, please let us know."

The most direct and democratic form of credit union-to-Board communication, however, is still the traditional letter of comment. "From the Board's perspective, comment letters are the best method of gauging a broad range of sentiment on an issue," said Vice Chairman Mack, who has guaranteed the Board will read and respond to each comment letter.

In perhaps the most telling batch of letters, 70% of the 755 comments written on behalf of entire boards of directors came out against compensation.

Comments on Compensation

Last year the Board conducted a Congressionally-mandated study on whether credit unions should be permitted to compensate their boards of directors who now serve voluntarily. Before making any recommendations, the Board first queried credit unions.

After sifting through nearly 2,500 credit union comments, NCUA found a majority (63%) were "flatly against" compensation. In perhaps the most telling batch of letters, 70% of the 755 comments written on behalf of entire boards of directors came out against compensation.

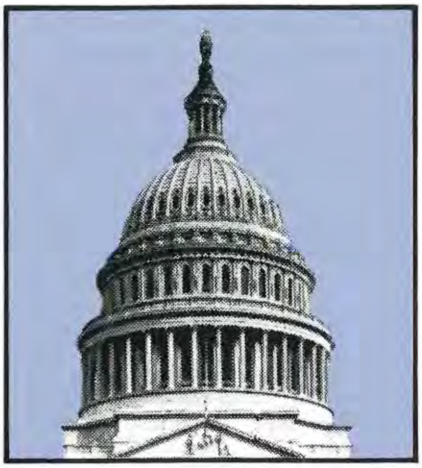
The NCUA Board concluded that the rule against compensation "has a nearly 50-year tradition in Federal credit unions and has served the system well." The Board strongly recommended that Congress take no action to relax the present law concerning directors' compensation.

Often with the comment process, however, it's easy for credit unions to become complacent, to let others speak for them, which the Board repeatedly discourages. In March the Board proposed allowing credit unions to offer service to retired persons living nearby. After receiving only 87 responses, Chairman Callahan in July told Federal credit union officials that "there's not a whole lot we can do" without more credit union comments.

"It's sure not my position to impose my will on your credit unions and all the credit unions in this country, but I have to listen to somebody, and if the people write me and say that is too fast, too soon, and so on, we'd be ill advised to go ahead with it," the Chairman said. "But is that really what you're saying? Or are things so good you're not paying attention to what you want to do."

Comment letters, "on the road" Board meetings, exit interviews, the Videotape Network -- all contribute to the dialogue that is of paramount importance to policymaking, and all are products of NCUA's continuing search for new and better ways to foster the dialogue. Currently, NCUA is planning a videotaped version of this annual report, a development that will keep credit unions informed with state of the art clarity on the Agency's activities. ■

The Washington Scene in 1983: A Deceptive Year



At first glance, 1983 may appear to have been a rather inconsequential legislative year for credit unions. The record shows almost a total absence of legislative initiatives nearing completion. And yet it may have been one of the most important periods in recent history. The importance lies not in what happened, but rather in what almost happened and did not! It was a year of convincing the "powers that be" in Washington that NCUA and credit unions need not be on the invitation list to what is rapidly becoming a showdown in the financial marketplace. In short, it was a year of warding off a variety of forces attempting to invade or change the credit union financial system.

Early in the year, NCUA Board Chairman Edgar F. Callahan signaled a warning to credit unions. During a speech given in February, he said, "I am concerned with the mood in Washington, . . . we are going through a defensive period. A period where you have got to have the right answers in order to maintain your status quo as credit unions." The accuracy of the Chairman's warning was borne out by the events of the year.

It may have been one of the most important periods in recent history. The importance lies not in what happened, but rather in what almost happened and did not!

Challenges to NCUA

From the General Accounting Office: During the year, NCUA had to deal with a number of reactions to its efforts at deregulation; particularly the total deregulation of share accounts. The first actually began in 1982 and came from the U.S. General Accounting Office. GAO issued two widely circulated reports, "Stronger Supervision of Credit Unions Needed" and "The NCUA Should Revise Liquidation Procedures." Clearly GAO, the investigating arm of the Congress, recognized that deregulating cannot be done alone, but must be accompanied by heightened supervision and solidified supervisory resources (such as the National Credit Union Share Insurance Fund or the NCUA Central Liquidity Facility).

In response to these reports, NCUA provided information to GAO on a number of steps which were already underway: first, regulatory actions were taken to revise liquidation payout priority to the Insurance Fund and similar statutory changes were included in S. 2121, a bill introduced by Senate Banking Committee Chairman Jake Garn in late 1983; second, a number of actions were taken under NCUA's newly acquired conservatorship authority permitting early arresting of individual credit union problem situations; third, the examination of all Federal credit unions was completed in a 12-month period. This sent the strongest possible signal that the fabric of regulation was being replaced by supervision. In a fourth instance, recommendations were made by NCUA in early 1983 to considerably strengthen the Insurance Fund (further developed later in the year); and, finally, the Agency reported very positive results on the use of its newly developed Financial Performance Reports for credit unions.

"I am concerned with the mood in Washington, . . . we are going through a defensive period. A period where you have got to have the right answers in order to maintain your status quo as credit unions."

From the Exam Council: Another challenge to NCUA and credit unions occurred when an interagency group attempted to impose on credit unions the same disclosure requirements as banks. This group, the Federal Financial Institutions Examination Council (FFIEC), consists of the heads of the Federal financial regulatory bodies and is charged with finding and implementing methods to simplify and standardize examination procedures for Federally chartered financial institutions. In many instances, very positive results can develop. At times, however, the tendency for bank regulators to try and fit credit unions into banking molds leads to potential difficulties for all. Quite often the unique cooperative nature of credit unions simply does not lend itself to such popular concepts as "standardization."

The Agency was pleased to report to Congress that the vast majority of credit union directors surveyed said "no thank you" to an offer to receive pay for their work.

The tone of the letter was reflected in the admonition, "I have serious reservations concerning NCUA Board policy relating to . . ." and went on to outline specific areas.

After considerable effort to develop increased bank disclosure, a vote was almost taken to include credit unions under the new provisions. Only after concerted attempts to demonstrate that credit unions had always made monthly disclosures of even more detailed nature to their members was this effort thwarted. This troublesome, unnecessary change, which actually would have produced less disclosure for credit union members, was thereby avoided. However, the potential for improper standardization of credit union practices will probably always be present in Exam Council deliberations due to the makeup of the council.

From the Congress: On April 15, 1983, NCUA delivered to Congress two studies mandated by the Garn-St Germain Act of 1982. In this law, Congress expressed its concern over two credit union issues: first, the condition of the Insurance Fund and the future direction it should take; and second, a review of the traditional voluntary nature of credit unions to determine if they should be able to compensate their directors. Obviously, there were questions and/or concerns that: (1) the Insurance Fund might need major changes such as merging with a larger fund (FDIC); and (2) that credit unions might be moving away from their traditional cooperative principles and volunteer leadership.

The Agency's studies were responsive and historically documented. The insurance study was prepared by including the responses of credit unions nationwide. It demonstrated the viability of the Fund and outlined a plan of action to preserve a specialized, credit union oriented Fund. This was followed with a specific legislative proposal later in the year.

The results of the directors' study constituted a marvelous reaffirmation of credit union principles. The Agency was pleased to report to Congress that the vast majority of credit union directors surveyed said "no thank you" to an offer to receive pay for their work. This study contributed greatly to quieting the clamor that credit unions were becoming like other institutions.

From Chairman St Germain's Letter: In October of 1983, Chairman Callahan received a lengthy personal letter from Congressman St Germain, Chairman of the House Banking Committee. Chairman St Germain requested a detailed briefing on NCUA's "regulatory policy directions." The tone of the letter was reflected in the admonition, "I have serious reservations concerning NCUA Board policy relating to . . ." and went on to outline specific areas.

NCUA welcomed the chance to set forth in great detail its decision-making process. In his response, Chairman Callahan said, "With the Congressional decision to totally deregulate savings rates by 1986, with technological change, and with ever increasing competition . . ., it became a matter of survival to untie the restrictions of a highly regulated industry."

Noting that "You can't simply deregulate in a vacuum and assume the system will stay together," the Chairman detailed NCUA's plans for compensating for deregulation. First, supervision was increased. For the first time in seven years, an annual examination of each Federal credit union was completed. The annual exam will continue to be the central feature of the supervisory program; in addition, NCUA will continue to closely monitor credit unions experiencing difficulties. Second, the completion of a plan that provides 90% of all credit unions

It was clear from the outset that all of the Federal regulatory pieces were to be examined under a microscope and then repositioned in whatever sequence might best meet a new financial future.

in the U. S. with immediate access to emergency loans from the NCUA Central Liquidity Facility "adds a significant measure of backup liquidity to augment the stability of the credit union system." And third, NCUA has delivered to Congress a legislative proposal designed to dramatically increase the size of the NCUA Share Insurance Fund.

There was wide press coverage of both of these letters which permitted the credit union message to reach many important decision-making bodies in Washington. It also allowed the dynamics of this Washington event to be shared across the country. It definitely contributed to turning around the persistent portrayal of credit unions as having changed their identity.

From the White House: During 1983, there were two White House initiatives which closely examined the mission of NCUA as well as the overall Federal supervision of financial institutions. The wide breadth and scope of these studies revealed once again the ubiquitous nature of marketplace changes. It was clear from the outset that all of the Federal regulatory pieces were to be examined under a microscope and then repositioned in whatever sequence might best meet a new financial future.

The first of these, the Vice President's Task Group on Regulation of Financial Services, was formed specifically to examine precisely how the entire Federal regulatory structure should be changed to accommodate marketplace changes. NCUA participated vigorously in all of the Task Group's deliberations. The Agency spent most of its resources educating and informing the Task Group on the truly unique nature of credit unions. It also recounted its supervisory actions for meeting all credit union regulatory needs. The NCUA efforts were well received by the Task Group as evidenced by its recommendations, which are discussed later.

Finally, 1983 saw the report of the President's Private Sector Survey on Cost Control, known as the Grace Commission after Mr. J. Peter Grace, its Chairman. This Commission spent the entire year examining nearly every department and agency of the U. S. Government to ascertain ways to reduce costs.

The Commission praised NCUA and its Chairman, noting that "Edgar F. Callahan may well be the role model for the Agency executive most in keeping with President Reagan's philosophy of shrinking the impact of the Federal government in the private sector. In one year, the NCUA management team reduced Agency staffing by approximately 15% and decreased the Agency's budget by 2.5%, while maintaining their commitment to preserving the safety and soundness of the credit union industry."

However, the report also made certain recommendations that could affect the stability of the credit union system. These are: (1) the elimination of the Central Liquidity Facility which would result in credit unions going to the Federal Reserve discount window; (2) the risk-basing of Share Insurance Fund premiums; and (3) the taxation of credit unions. These latter recommendations are based primarily on perceived cost savings and have yet to be fully addressed. The Agency will continue its attempts to prevent any such recommendations from disrupting the credit union system.

"In a sense the credit union movement had its regulatory reform in 1970 when Congress tried to reconcile credit union needs from a regulatory perspective and created the NCUA."

Results of 1983

In one sense, 1983 was a year of endless questions and suggestions. It was a series of identifying options for change, each designed to best posture financial intermediaries for the future. As part of this process, legislators, regulators, and study groups attempted to define the new rules and boundaries. But as the year unfolded, these events somehow ended up actually solidifying the credit union system. The compensation study was overwhelmingly positive; an additional 7,000 groups received credit union services; credit unions grew by almost 21%; membership in the CLF was vastly increased; and unified support for the Insurance Fund capitalization was developing.

Perhaps this momentum is best captured in the remarks made by Richard C. Breeden, staff director of the Vice President's Task Group on Regulation of Financial Services. Speaking at the National Association of Federal Credit Unions' Congressional Caucus in January 1984, Mr. Breeden said that NCUA is a "fifth generation agency," meaning that it had moved four times before becoming an independent agency in 1970. "In a sense the credit union movement had its regulatory reform in 1970 when Congress tried to reconcile credit union needs from a regulatory perspective and created the NCUA. It's a structure that seems to be working just fine. But," he added, "we haven't had that kind of recent action in many of the other financial regulatory agencies."

Commenting on the purpose of the Task Group, Mr. Breeden said one of its jobs was to look at whether there ought to be an NCUA. "The good news," he said, "is that no one from the Task Group has come forward with serious suggestions for changing or altering the credit union system in any way." He called NCUA a "fine agency" under "extremely capable leadership."

As the year ended, it was hard to single out its main themes. One of them, however, has to be the clear signal sent by credit unions that they would prefer to handle their own problems. In 1983, credit unions became freer to be credit unions. NCUA has and will continue to devote its efforts to ensuring that credit unions retain control of their destiny. ■

A "Fantastic" Year—Credit Union Share Growth Tops 20%

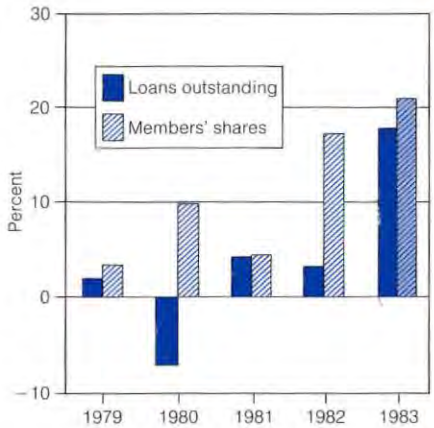
Fantastic is the word NCUA Board Chairman Edgar F. Callahan chose to describe credit union performance in 1983. Speaking at the Credit Union National Association's 1984 Governmental Affairs Conference, the Chairman said 1983 was an "unbelievably, incredibly, outstandingly...fantastic" year for credit unions.

In the first year of full deregulated competition for savers' dollars, Federal credit union shares grew by 20.7%. This rate far outpaced the increase in commercial bank deposits of 8.9% and savings and loan association deposit growth of 11.7%.

This 20.7% share growth rate also exceeds credit unions' average change for the previous five years of just over 10%. The only time in recent Federal credit union history even approaching this expansion was from 1975 to 1977 (Table 7) when credit unions had a major competitive advantage due to Federal Reserve Regulation Q which limited their major competitors to paying 5 1/4% on savings and passbook accounts. Credit unions during that time could pay up to 7% on shares.

Almost as spectacular and perhaps even more critical for credit unions' bottom line was the 17.8% increase in Federal credit union loans outstanding. This $5.0 billion gain in loans was the first significant increase in credit union loan portfolios since 1978. With the level of interest rates on investments declining in 1983 compared with 1982, this increase in loans was an important factor in raising credit unions' overall net income by 17.6% to $287 million. The 4.7% ratio of net income to total income has been this high only one other year in the past eleven.

Annual Percent Change in Loans Outstanding and Members' Shares at Natural Person Federal Credit Unions, 1979 to 1983



Note: A natural person credit union serves individuals.

Momentum of Loan and Share Growth of Natural Person Federal Credit Unions, Monthly, 1981 to 1983 [Index—Dec. 1980 = 100%]

The financial momentum that credit unions first displayed in 1982 with 17.3% share growth continued to pick up steam throughout 1983. Lending has once again become a dynamic part of credit union operations. The fact that these results occurred in the context of intense savings competition, a rapidly expanding economy, and evolving fields of membership indicates that credit unions have developed a very

The increase in credit unions' loan portfolios also reversed a multi-year trend which saw their position in the consumer lending market decline.

strong position in the consumer marketplace. And although the number of active Federal credit unions (excluding corporate credit unions) showed a net decline of 463 (10,962 versus 11,425 in 1982) the consolidated financial statistics suggest that these dissolutions were a "pruning" which left the remaining credit unions in even stronger condition. Because most problem situations were resolved by merger, credit union membership did not decline. Total Federal credit union membership increased by 2.7% to 26.8 million and potential membership by 17.3% to 56.9 million.

Significant Balance Sheet Changes

The increase in credit union loan portfolios also reversed a multi-year trend which saw their position in the consumer lending market decline. From 1979 through 1982 their share of the lending market fell from 14.9% to 13.7%. The increase in 1983 to 13.8% reversed this downturn that began in the late 1970s. Although this turnaround is a positive sign, as the chart below illustrates, savings and loan associations are asserting themselves as major competitors for the retail lending market. Overall, S&Ls have had the largest two-year rate of growth in consumer loans of all the major lending institutions. Ironically, as noted below, credit unions have placed funds in investments with S&Ls at a faster rate than in any other investment option. The result is that credit unions have helped to fund a competitor which has in turn increased its share of this market by more than 50% over the past five years.

Percent Distribution of Consumer Installment Credit Outstanding by Type of Lender 1979-1983

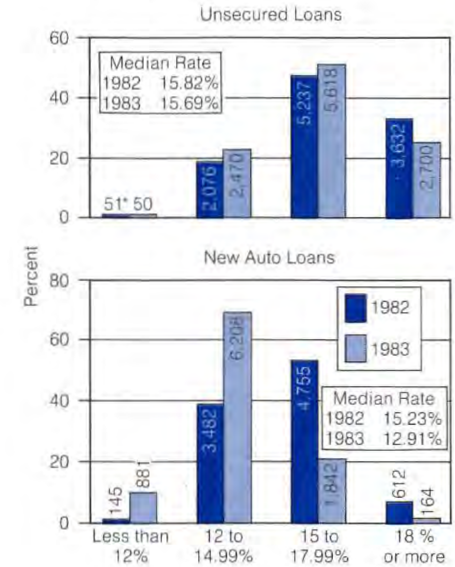
Type of Lender	1979	1980	1981[1]	1982[1]	1983
Credit Unions	14.9%	14.1%	13.9%	13.7%	**13.8%**
Commercial Banks	49.4%	46.9%	44.5%	44.1%	**45.7%**
Savings & Loans	3.2%	3.5%	3.5%	4.0%	**4.8%**
Mutual Savings Banks	.9%	.9%	.8%	.9%	**.9%**
Retailers	9.0%	9.1%	8.9%	8.8%	**8.5%**
Finance Companies	21.9%	24.5%	27.1%	27.3%	**25.2%**
Gasoline Companies	1.2%	1.3%	1.3%	1.2%	**1.1%**
Total	100.0%	100.0%	100.0%	100.0%	**100.0%**
Consumer Installment Credit Outstanding in Millions of Dollars	$312,024	$313,472	$331,697	$344,798	**$387,927**

[1]Revised
Source: Federal Reserve Bulletin.

Percent Change in Consumer Installment Credit Outstanding by Type of Holder, 1981 to 1982 and 1982 to 1983

Institution	Percent change 1981 to 1982	Percent change 1982 to 1983
Credit Unions	2.8	13.2
Commercial Banks	3.0	17.0
Savings & Loans	19.8	33.7
Mutual Savings Banks	9.0	21.2
Retailers	2.2	9.9
Finance Companies	5.0	3.6
Gasoline Companies	−7.3	1.7
Total	3.9	12.7

Distribution of Natural Person Federal Credit Unions by Rate Charged on Selected Loans as of Yearend 1982 and 1983



*Number of Federal credit unions.

Loans and Investments to Asset Ratios at Natural Person Federal Credit Unions 1974-1983

Just as important as the financial contribution from expanding loan portfolios are the indications that overall loan portfolio quality has also improved. The total amount of loans granted in 1983 compared with 1982 increased by almost 32% to $26.3 billion. Initial signs are that this is being done in a careful and sound manner. The amount of delinquent loans is lower as measured by both percentage and dollar levels and net loan chargeoffs also decreased. At the same time, each of the major reserve accounts has shown growth which helps in the event problems ever do appear.

Analysis of Loans Outstanding at Natural Person Federal Credit Unions 1979-1983

(Amounts in millions of dollars)

Item	1979	1980	1981	1982	1983
Loans outstanding	$28,182	$26,165	$27,238	$28,097	**$33,201**
Allowance for loan losses	$ 183	$ 179	$ 212	$ 244	**$ 270**
Regular reserve	$ 1,111	$ 1,122	$ 1,208	$ 1,325	**$ 1,489**
Amount of delinquent loans	$ 785	$ 875	$ 803	$ 884	**$ 748**
Loans charged off	N/A	$ 179	$ 191	$ 192	**$ 198**
Recoveries on loans	N/A	$ 23	$ 29	$ 33	**$ 40**
Provision for loan losses	$ 138	$ 167	$ 183	$ 175	**$ 162**
Significant Ratios (as a Percent of Loans Outstanding)					
Allowance for Loan Losses	.65%	.68%	.79%	.87%	**.81%**
Regular Reserves	3.94%	4.29%	4.43%	4.72%	**4.48%**
Delinquent Loans	2.79%	3.34%	2.95%	3.15%	**2.25%**
Loans Charged Off	N/A	.68%	.70%	.68%	**.60%**
Net Loans Charged Off	N/A	.60%	.59%	.58%	**.48%**
Provision for Loan Losses	.49%	.64%	.67%	.62%	**.49%**

As might be expected by competitive pressures, the loan rates reported by credit unions at December 31, 1983 showed a decline from a year earlier; however, the actual yield on the loan portfolios showed a very slight increase to 13.7%, or up .1% from the 1982 average. (Table 7) This yield is the highest in Federal credit union history.

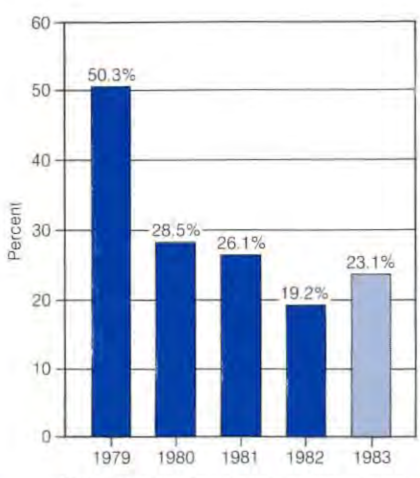
In spite of the dramatic gains in lending, the loan-to-asset ratio closed the year at 60.9%, the lowest level since World War II. This decline was due to the fact that savings grew $3.5 billion more than loans. This difference went into investments, which at 34.6% of assets, leaves Federal credit unions with one of the highest levels of liquidity in their 50-year history.

The composition of the investment portfolio changed significantly from the trends in 1982. While total investments increased by 24.1% to over $18.8 billion, the portion of investments in S&Ls and Treasury securities rose dramatically. Credit union investments in S&Ls went up 63% and the S&L share of total investments went from 25.4% to 33.4%. The percentage of credit union investments in U. S. Government securities shot up 159% and the total share went from 4.4% to 9.3%. Part of the reason for these changes may be due to concern about investment safety. Credit unions are dividing investments into $100,000 insured amounts or buying U. S. Treasury securities which have the best credit risk of all investment options. Part of the change is also due to efforts to increase income by finding higher returns. This is generally more characteristic of S&L certificates of deposit and the use of Treasury securities for trading to gain short term income when interest rates provide an opportunity to sell a security at a higher price than book value.

Investments of Natural Person Federal Credit Unions 1974-1983

[1]Includes shares, 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 in commercial and mutual savings banks.

Long Term Investments as a Percent of Total Investments of Natural Person Federal Credit Unions, December 31, 1979 to 1983



Note: Long term investments represent investments with maturities longer than one year.

The major investment options which showed decreases were the common trust funds (6.4% to 3.5%) and corporate credit unions, whose share of total investments fell from 23.3% to 17.3%.

Total Investments at Natural Person Federal Credit Unions 1979-1983

Amounts in millions of dollars

Item	1979	1980	1981	1982	1983
U.S. Government Obligations	$ 354	$ 491	$ 490	$ 675	**$ 1,751**
Federal agency Sec.	$2,425	$2,500	$ 2,346	$ 2,934	**$ 3,648**
Common trust investments	$ 738	$ 933	$ 735	$ 966	**$ 653**
Deposits in commercial banks				$ 2,799	**$ 2,774**
	$1,275	$3,575	$ 3,897		
Deposits in S&L's & savings banks				$ 3,863	**$ 6,298**
Shares/deposits in corporate credit unions	$ 798	$1,908	$ 2,134	$ 3,537	**$ 3,256**
Investments in other credit unions	$ 107	$ 211	$ 172	$ 185	**$ 125**
Other investment*	$ 152	$ 187	$ 312	$ 235	**$ 360**
Allowance for Investment Losses	$ 3	$ 4	$ 9	$ 15	**$ 17**
Total Investments	$5,849	$9,805	$10,086	$15,194	$18,863

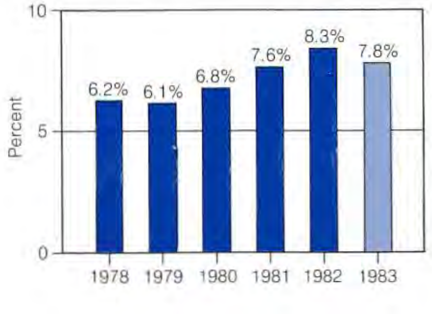
Percent Distribution

Item	1979	1980	1981	1982	1983
U.S. Government Obligations	6.1	5.0	4.9	4.4	**9.3**
Federal agency Sec.	41.5	25.5	23.3	19.3	**19.3**
Common Trust Investments	12.6	9.5	7.3	6.4	**3.5**
Deposits in Commercial Banks				18.4	**14.7**
	21.8	36.5	38.6		
Deposits in S&L's & Savings Banks				25.4	**33.4**
Shares/Deposits in Corporate Credit Unions	13.7	19.5	21.2	23.3	**17.3**
Investments in Other Credit Unions	1.8	2.2	1.7	1.2	**.7**
Other Investments	2.5	1.9	3.1	1.5	**1.9**
Total Investments	100.0	100.0	100.0	100.0	100.0

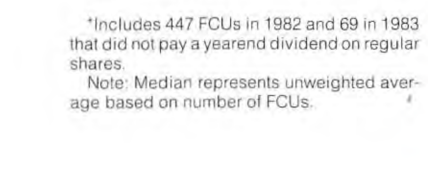
*Includes loans to other credit unions, shares in CLF of NCUA and other investments

One other factor characterizing Federal credit union investment decisions was that a higher percentage of investments were made with longer maturities. At yearend 1983, 23.1% of Federal credit union investments had maturities in excess of one year compared with 19.2% for the prior year. Market conditions possibly caused some of this change. Investment markets throughout the year had the traditionally upward sloping yield curve in which the longer the term of the investment, the higher the yield. In 1983 the average return on credit union investments fell to 10.2% from 12.3% in 1982. (Table 7) Since both total expenses and dividends paid comprised the same proportion of gross income in 1982 and 1983, earnings pressures on credit unions may have caused some managers to seek these higher yields by purchasing investments with longer maturities.

Annual Effective Cost of Shares for Natural Person Federal Credit Unions 1978-1983



Distribution of Natural Person Federal Credit Unions by Dividend Rates Paid on Regular Shares as of Yearend 1982 and 1983



*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.

On the other side of the balance sheet, the buoyant growth in shares was accomplished while credit unions lowered their cost of funds. In 1983 the average cost of shares was 7.8%, compared to 8.3% in 1982.

This moderation in the cost of funds again reflects market conditions which saw the high-cost certificates issued 18 to 24 months earlier replaced upon maturity with lower-cost funds. The composition of credit union savings also saw significant gains in share draft and IRA/Keogh accounts. Overall, the amount of savings in certificate (time) accounts decreased and the percentage in transaction and other withdrawable on demand accounts increased.

Percent Distribution of Savings by Type for Natural Person Federal Credit Unions 1979-1983

Type of Account	1979	1980	1981	1982	1983
Regular Shares	**86.8%**	**75.6%**	**69.2%**	**72.6%**	**73.9%**
Share Drafts	2.6%	4.1%	5.6%	7.1%	8.5%
Other Regular Shares	84.2%	71.5%	63.6%	65.5%	65.4%
Share Certificates	**13.2%**	**24.4%**	**30.8%**	**27.4%**	**26.1%**
IRA & Keogh	N/A	N/A	.4%	2.3%	5.9%
All Savers	—	.4%	3.3%	3.0%	—
Other Certificates	13.2%	24.0%	27.1%	22.1%	20.2%
Total Savings	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Savings in Millions of Dollars	$30,768	$33,812	$35,248	$41,352	$49,889

Consistent with deregulation of shares, a very wide range of dividend rates was reported in effect at December 31, 1983. While the majority of credit unions are in the 6-8% area, a large percentage also show rates on both sides of the median.

The retained earnings and reserves of credit unions continued to grow in double digit figures in 1983. The 13.8% total increase to $3.3 billion was composed of a 12.4% growth in regular reserves and almost 15% in retained earnings. Because asset growth increased at nearly a 20% rate, the ratio of reserves and undivided earnings to assets dropped slightly from 6.4% to 6.0% (Table 7).

Income Statement Highlights

The major distribution of income and expense items remained very stable between 1982 and 1983. Income from loans increased 11.6% and income from investments rose 11.3%. (Table 6) The amount of income used for operating expenses was the same for both years at 33.7%. Dividends also accounted for exactly the same percentage of income in 1982 and 1983 at 58.9% (Table 7). As described earlier, net income rose 17.6% to an all time high of nearly $287 million.

While these consolidated statements show very positive results, there still is a continuing supervisory concern with individual credit unions that reported losses for the same year. In 1983 this total was 2,443, or 22.3% of the active Federal credit unions. While this percentage is almost the same as in 1982, the level of reported losses is down from $63.1 million in 1982 to $45.4 million.

Natural Person Federal Credit Unions Experiencing Losses

Year Ended December 31	No. of Federal Credit Unions Experiencing Losses	Percent of Total Number of Federal Credit Unions	Amount of Negative Earnings (thousands of dollars)
December 1980	3950	31.8%	$120,099
December 1981	2561	21.4%	$ 83,735
June 1982	2732	23.3%	N/A
December 1982	2572	22.5%	$ 63,098
June 1983	3112	26.1%	*$ 76,730
December 1983	2443	22.3%	$ 45,434

*Annualized

When these losses are reviewed based on credit union asset size, the severity of losses as a percentage of assets and reserves tends to decline among the larger credit unions. However, the concentration of losses or insurance risk is much greater in the larger credit unions. As in prior years, a major focus of supervision will be to work with these credit unions and return them to a positive earnings level.

While the financial aggregates for Federal credit unions were uniformly positive in 1983, there is still work to be done resolving individual credit union earnings problems and other high risk insurance situations.

Natural Person Federal Credit Unions Experiencing Losses in 1983 By Asset Size

Asset Size	No. of FCUs	Assets (in thousands)	Amount of 1983 Losses (in thousands)	Amount of Reserves & Und. Ern. (in thousands)
Less than $1 Million	1409	$ 487,228	$ (5,134)	$ 32,884
$1 Million to less than $2 Million	351	511,520	(4,146)	30,180
$2 Million to less than $5 Million	326	1,036,746	(8,837)	56,574
$5 Million to less than $10 Million	163	1,176,645	(7,646)	54,494
$10 Million to less than $20 Million	108	1,467,548	(6,275)	56,302
$20 Million to less than $50 Million	60	1,970,893	(6,470)	74,889
$50 Million and up	26	2,304,885	(6,129)	77,155
Total	2443	9,279,035	(45,434)	384,513

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

	Calendar Year End								
EWS CATEGORY	1976	1977	1978	1979	1980	1981	1982	1983	1 Year Change
Codes 1 & 2	8,610	9,079	8,712	8,488	7,862	7,237	7,093	**7,365**	+272
Code 3	3,499	3,145	3,373	3,433	3,770	3,837	3,751	**2,855**	−896
Code 4	648	526	674	817	585	720	661	**646**	−15
Code 5	(1)	(1)	(1)	(1)	223	175	126	**97**	−29
Total	**12,752**	**12,750**	**12,759**	**12,738**	**12,440**	**11,969**	**11,631**	**10,963**	**−668**

In 1983, the number of credit unions in problem code status (EWS 4 or 5) showed declines on a year to year basis. In addition, the majority of credit unions with significant financial assistance (208 guarantee accounts) showed positive net income. The goal in 1984 is to increase these earnings to a level that restores solvency in the next 18-36 months rather than having extended workout plans.

Distribution by Asset Size of Federal Credit Unions in EWS Codes 4 & 5 as of December 31, 1983

Asset Size	Number of Credit Unions[1]	Total Assets (in thousands)
Less than $1 million	508	$130,443
$1 million to $2 million	67	94,955
$2 million to $5 million	60	193,351
$5 million to $10 million	35	260,556
$10 million to $20 million	21	294,813
$20 million to $50 million	16	523,180
Over $50 million	12	1,033,648
Total	**719**	**2,530,946**

[1]Represents EWS codes as of January 31, 1984

Note: System implemented code 5 category during 1980.

While the financial aggregates for Federal credit unions were uniformly positive in 1983, there is still work to be done resolving individual credit union earnings problems and other high risk insurance situations. NCUA examination and insurance resources in 1984 will be concentrated on these credit unions and NCUA will seek resources from well run credit unions to turn around these problem cases.

Corporate Credit Unions

A highlight of 1983 was the membership agreement between the NCUA Central Liquidity Facility and the U.S. Central Credit Union. This provided CLF membership to more than 18,000 natural personal credit unions through the U.S. Central corporate credit union system, which includes 42 of the nation's 43 corporates.

These 43 corporate credit unions comprise a private network developed to meet the wholesale financial needs of natural person credit unions, which serve individuals only. At the hub of this system is U.S. Central Credit Union (chartered by the state of Kansas), which at yearend had total shares of $6.3 billion and total assets of $7.2 billion. Seventeen corporates are federally chartered and of the 26 remaining state chartered corporates, 12 are federally insured.

Key Statistics on Federally Insured Corporate Credit Unions

Amounts in Millions of Dollars

Item	1979	1980	1981	1982	1983
Number of Corporates	32	32	32	30	**29**
Assets	$1,362	$3,386	$3,879	$5,994	**$5,938**
Loans	$ 529	$ 313	$ 181	$ 95	**$ 177**
Shares	$1,262	$3,226	$3,646	$5,799	**$5,679**
Reserves	$ 14.4	$ 18.5	$ 32.7	$ 44.5	**$ 58.4**
Undivided Earnings	$ 4.2	$ 4.5	$ 15.5	$ 20.5	**$ 24.2**
Gross Income	$113.7	$283.2	$559.6	$650.8	**$615.5**
Operating Expenses	$ 17.1	$ 15.0	$ 29.1	$ 27.4	**$ 30.3**
Dividends	$ 89.6	$260.1	$504.2	$599.5	**$565.1**
Reserve Transfers	$ 1.3	$ 4.7	$ 8.0	$ 11.5	**$ 11.2**
Net Income	$ 5.7	$ 3.4	$ 18.7	$ 6.2	**$ 7.6**
Significant Ratios					
Reserves to Assets	1.1%	0.5%	0.8%	0.7%	**1.0%**
Reserves and Und. Earn. to Assets	1.3%	0.6%	1.2%	1.1%	**1.4%**
Reserves to Loans	2.7%	5.9%	18.1%	46.8%	**33.0%**
Loans to Shares	41.9%	9.8%	5.0%	1.6%	**3.1%**
Operating Expense to Gross Income	15.0%	5.3%	7.7%	4.2%	**4.9%**
Salaries & Benefits to Gross Income	2.1%	1.1%	0.8%	0.8%	**1.0%**
Dividends to Gross Income	78.9%	91.9%	90.0%	92.1%	**91.8%**
Yield on Average Assets	8.3%	11.9%	15.4%	13.2%	**10.3%**
Cost of Funds to Average Assets	7.4%	11.2%	14.2%	12.4%	**9.5%**
Gross Spread	.9%	0.7%	1.2%	0.8%	**0.8%**
Net Income Divided by Gross Income	5.0%	1.2%	3.3%	0.9%	**1.2%**
Yield on Avg. Loans	9.8%	8.6%	14.3%	9.0%	**7.2%**
Yield on Avg. Invest	7.9%	13.4%	15.9%	13.6%	**10.6%**

The network's initial purpose was to mobilize excess credit union funds so that in periods of tight money and high loan demand, credit unions would not be caught in a liquidity squeeze. However, over the past three years, the primary service of corporates has been offering a range of short-term investment options that have helped credit unions take advantage of the high yields available on short-term investments.

This activity has been highly successful. From 1979 through 1982, shares at federally insured corporates grew by more than 359 percent to a total of $5.8 billion at yearend 1982. Since shares at natural person credit unions grew substantially more than loans over this period, the credit unions increased their investments in the corporates. However, in 1983, loan demand at natural person credit unions picked up sharply. Consequently member credit unions withdrew shares from the corporates to meet the increased loan demand and also increased their borrowings from the corporates. As a result of these trends, total shares at the corporates declined moderately while loans outstanding nearly doubled.

The decline in market rates that occurred in 1983 along with the drop in shares at the corporates resulted in a lower cost of funds ratio for the year. At the same time, yields on the loan and investment portfolios also dropped but at a somewhat slower rate. This resulted in an improved net spread and bottom line net income. ■

Report of Ernst & Whinney Independent Auditors

To the Board of the National Credit Union Administration
Washington, D.C.

We have examined the balance sheet of the National Credit Union Administration—Operating Fund as of September 30, 1983, and the related statements of revenues, expenses and change in fund balance and changes in financial position for the year then ended. Our examination was 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. The financial statements of the National Credit Union Administration—Operating Fund for the year ended September 30, 1982 were examined by other auditors whose report dated May 27, 1983 expressed an unqualified opinion on those statements.

In our opinion, the 1983 financial statements referred to above present fairly the financial position of the National Credit Union Administration—Operating Fund at September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting standards applied on a basis consistent with that of the preceding year.

Ernst & Whinney

Washington, D.C.
January 26, 1984

Table 1

Balance Sheets
National Credit Union Administration
Operating Fund

Item	September 30 1983	1982
Assets		
Cash	**$ 101,620**	$ 263,553
Investments, net of unamortized discount of $247,913—Note C	**11,563,087**	-0-
Employee advances receivable	**273,655**	444,057
Other accounts receivable	**96,705**	269,020
Due from NCUA-Insurance Fund—Note D	**344,321**	8,948,773
Furniture and equipment, net of accumulated depreciation of (1983-$1,956,505 1982-$1,542,442)	**1,394,763**	1,866,586
Leasehold improvements, net of accumulated amortization of (1983-$428,029 1982-$285,078)	**307,180**	398,820
Prepaid expenses	**119,171**	55,389
Total Assets	**$14,200,502**	$12,246,198
Liabilities and Fund Balance		
Accounts payable	**$ 471,902**	$ 1,117,680
Accrued salaries and benefits	**726,217**	683,236
Accrued annual leave	**1,596,238**	1,568,669
Accrued employee travel	**404,278**	527,642
Deferred revenue	**5,590,546**	5,879,377
Total Liabilities	**8,789,181**	9,776,604
Fund balance	**5,411,321**	2,469,594
Total Liabilities and Fund Balance	**$14,200,502**	$12,246,198

Table 2

Statements of Revenues, Expenses and Change in Fund Balance
National Credit Union Administration
Operating Fund

Item	Year Ended September 30 1983	1982
Revenues		
Operating fee revenue	**$22,335,498**	$22,858,823
Investment income	**1,087,252**	-0-
Total Revenue	**23,422,750**	22,858,823
Expenses		
Employee salaries and benefits	**14,085,874**	14,193,268
Employee travel	**1,916,351**	1,905,560
Rent, communications, and utilities	**2,483,636**	2,552,122
Other administrative	**1,105,577**	1,417,493
Contracted services	**889,585**	910,101
Total Expenses	**20,481,023**	20,978,544
Excess of Revenues Over Expenses	**2,941,727**	1,880,279
Fund balance at beginning of year	**2,469,594**	589,315
Fund Balance at End of Year	**$ 5,411,321**	$ 2,469,594

See notes to financial statements

Table 3

Statements of Changes in Financial Position National Credit Union Administration Operating Fund

Item	Year Ended September 30 1983	1982
Sources of Cash		
Excess of revenue over expense	**$ 2,941,727**	$ 1,880,279
Charges (credits) to net income not affecting cash:		
Depreciation of furniture and equipment	**504,595**	579,772
Amortization of leasehold improvements	**142,950**	130,795
Net loss on disposal of furniture and equipment	**62,237**	24,996
Net change in revenue and expense accruals	**(1,051,205)**	1,154,672
Total From Operations	**2,600,304**	3,770,514
Decrease in:		
Due from NCUA-Insurance Fund	**8,604,452**	-0-
Employee advances receivable	**170,402**	-0-
Other accounts receivable	**172,315**	-0-
Total Sources	**11,547,473**	3,770,514
Uses of Cash		
Increase in:		
Investments	**11,563,087**	-0-
Due from NCUA-Insurance Fund	**-0-**	2,991,778
Employee advances receivable	**-0-**	142,981
Other accounts receivable	**-0-**	233,502
Purchase of:		
Furniture and equipment	**95,009**	158,226
Leasehold improvements	**51,310**	-0-
Total Uses	**11,709,406**	3,526,487
Increase (Decrease) in Cash	**$ (161,933)**	$ 244,027
Beginning cash balance	**$ 263,553**	$ 19,526
Increase (decrease) in cash	**(161,933)**	244,027
Ending cash balance	**$ 101,620**	$ 263,553

See notes to financial statements

NCUA

Notes to Financial Statements
National Credit Union Administration
Operating Fund
September 30, 1983

Note A—Organization and Purpose

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

Note B—Significant Accounting Policies

Investments: The Garn-St Germain Act, signed into law on October 15, 1982, authorized NCUA to make investments in United States Government securities or securities guaranteed both as to principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount.

Depreciation and Amortization: Furniture and equipment and leasehold improvements are carried at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of furniture and equipment and leasehold improvements. Depreciation and amortization expenses for the year ended September 30, 1983 were $504,595 and $142,950, respectively and for the year ended September 30, 1982 were $579,772 and $130,795, respectively.

Deferred Operating Fee Revenue: The Fund assesses each Federally chartered credit union an annual fee based on the asset base as of the preceding December 31. Fees are recognized as revenue ratably during the calendar year in which they are assessed. Fees assessed but not yet recognized as revenue are classified as deferred revenue.

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

Note C—Investments

Investments of September 30, 1983 consisted of U.S. Treasury Bills with a cost of $11,563,087 and a market value of $11,575,560.

Note D—Transactions with the NCUA—Insurance Fund

Certain administrative services are provided by the Fund to the National Credit Union Share Insurance Fund (NCUSIF). The Fund charges NCUSIF for these services on a monthly basis based upon actual usage. The cost of these services, which totaled $7,920,297 for 1983 and $7,950,531 for 1982 are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Note E—Commitments

The Fund leases certain office space under a rental agreement which expires in November 1994. The agreement which does not include renewal options, provides for annual rent adjustments based on increases in the consumer price index. The remaining office space is rented on a month-to-month basis under leases held by the General Services Administration. In addition, the Fund leases certain office equipment under operating leases. Rental charges for the year ended September 30, 1983 amounted to $1,857,796, of which $575,917 was reimbursed by NCUSIF and for the year ended September 30, 1982 amounted to $1,817,526, of which $563,433 was reimbursed by NCUSIF.

The future minimum lease payments, as of September 30, 1983, are as follows:

1984	$ 1,161,335
1985	1,231,476
1986	1,254,856
1987	1,254,856
1988	1,254,856
Thereafter	6,550,629
Total	$12,708,008

Based on the present allocation factor, NCUSIF will reimburse the Fund for approximately 31% of the future lease payments.

Note F—Retirement Plan

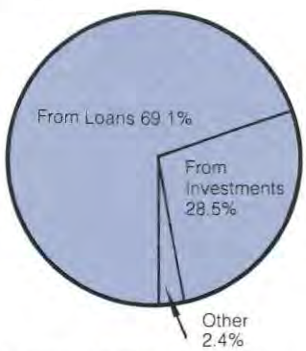
Employees of the Fund participate in the Civil Retirement System which is a contributory defined contribution retirement plan. Contributions to the plan are based on a percentage of employees' gross pay. Pension contributions for the year ended September 30, 1983 were $1,302,800, of which $450,000 was reimbursed by NCUSIF, and for the year ended September 30, 1982 were $1,358,500, of which $462,000 was reimbursed by NCUSIF.

Table 4

Table 5

Income and Expense Distribution for Federal Credit Unions Serving Natural Persons 1983

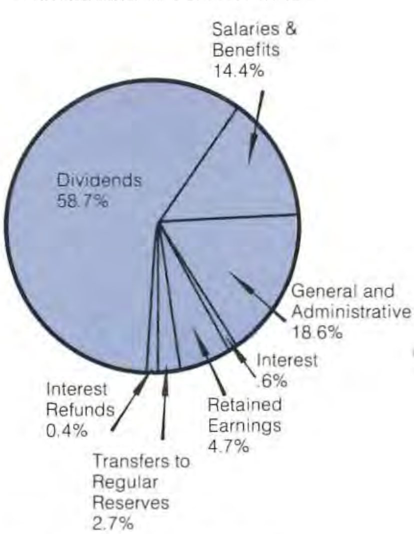
Sources of Income



Total: $6,087,459,886

*Interest Refunds not subtracted

Distribution of Income



Total: $6,087,459,886*

*Non-operating gains and losses are not included

Natural Person Federal Credit Unions Consolidated Balance Sheet

(Amounts in Thousands of Dollars)

Item	1982[1]	1983	Percent Increase (Decrease)
Assets:			
Cash	$1,025,150	**$1,171,456**	14.3
Loans outstanding	28,191,928	**33,200,615**	17.8
Allowance for Loan Losses	(243,501)	**(270,448)**	11.1
Investments:			
U.S. Gov/Fed. Agency	3,609,386	**5,399,359**	49.6
Commercial Banks	2,799,481	**2,773,843**	(.9)
S&Ls and Mutual Savings	3,863,467	**6,297,605**	63.0
Corporate Credit Unions	3,537,157	**3,255,612**	(8.0)
Common Trusts	966,091	**651,829**	(32.5)
Other Investments	419,897	**485,213**	15.6
Total Investments	15,195,479	**18,863,460**	24.1
Allowance for Investment Losses	(15,204)	**(16,762)**	10.3
Land and Building (Net of Depreciation)	576,300	**668,819**	16.1
Other Fixed Assets	254,150	**309,285**	21.7
Other Assets	509,588	**555,554**	9.0
Total Assets	45,493,901	**54,481,994**	19.8
Liabilities:			
Accounts Payable	205,108	**274,937**	34.1
Notes Payable	418,814	**388,425**	(7.3)
Dividends Payable	496,801	**525,687**	5.8
Other Liabilities	130,286	**113,358**	(13.0)
Total Liabilities	1,251,008	**1,302,406**	4.1
Equity/Savings:			
Regular Shares[2]	27,075,259	**32,628,932**	20.5
Share Certificates	10,398,308	**10,090,760**	(3.0)
IRA/Keogh Accounts	942,556	**2,918,942**	209.7
Share Drafts	2,935,840	**4,250,676**	44.8
Total Savings	41,351,966	**49,889,314**	20.7
Regular Reserve	1,324,801	**1,488,711**	12.4
Other Reserves	448,331	**517,432**	15.4
Undivided Earnings	1,117,778	**1,284,116**	14.9
Total Equity/Savings	44,242,877	**53,179,573**	20.2
Total Liabilities/Equity	45,493,901	**54,481,994**	19.8

[1]Revised. [2]Passbook, regular money market, etc.

Table 6

Natural Person Federal Credit Unions Consolidated Income Statement

(Amounts in Thousands of Dollars)

Account	1982[1]	1983	% Change
Income			
Interest on Loans	$3,771,293	**$4,207,442**	11.6
Less interest refund	24,103	**23,847**	(1.1)
Income from investments	1,559,159	**1,734,866**	11.3
Other Operating Income	99,186	**145,146**	46.3
Total Gross Income	5,405,541	**6,063,613**	12.2
Expenses:			
Employee compensation	641,676	**731,455**	14.0
Employee benefits	118,517	**142,504**	20.2
Travel and conference expense	31,555	**35,004**	10.9
Association dues	22,000	**22,948**	4.3
Office occupancy	72,960	**87,669**	20.2
Office operation expense	268,728	**329,900**	22.8
Educational and promotion	37,863	**48,370**	14.5
Loan servicing expense	26,999	**31,541**	16.8
Professional and outside services	126,817	**149,249**	17.7
Provision for loan losses	175,062	**161,596**	(7.7)
Member insurance	171,965	**202,608**	17.8
Operating fees	22,603	**23,221**	2.7
Cash over and short	1,199	**1,310**	9.3
Interest on borrowed money	57,586	**33,685**	(41.5)
Annual meeting expense	11,710	**12,180**	4.0
Miscellaneous operating expense	34,689	**36,943**	6.5
Total Operating Expense	1,821,962	**2,045,213**	12.3
Non-Operating Gains or Losses:			
Gain (Loss) on investments	(13,793)	**(4,589)**	(66.7)
Gain (Loss) on disposition of assets	5,645	**4,589**	(18.7)
Other non-operating income	1,021	**7,737**	657.8
Total income (Loss) before dividends	3,576,449	**4,026,133**	12.6
Transfer to regular and stat reserves	146,940	**165,659**	12.7
Dividends and interest on deposits	3,185,455	**3,573,480**	12.2
Net income (Loss) after Dividends and Reserve Transfers	244,050	**286,988**	17.6

[1]Revised

NCUA

Table 7

Natural Person Federal Credit Unions 10-Year Summary, 1974-1983

Amounts in Millions

Item	1974	1975	1976	1977	1978
Assets	$16,715	$20,209	$24,396	$29,564	$34,760
Loans Outstanding	12,730	14,869	18,311	22,687	27,687
Shares	14,371	17,530	21,130	25,576	29,803
Reserves*	913	1,030	1,180	1,325	1,365
Undivided Earnings	226	252	285	370	485
Gross Income	1,504	1,749	2,124	2,580	3,201
Operating Expenses	547	655	791	968	1,214
Dividends	762	925	1,130	1,387	1,706
Reserve Transfers	136	134	167	140	150
Net Income	60	34	37	85	131

Percent change

Item	1974	1975	1976	1977	1978
Total Assets	—	20.9	20.7	21.2	17.6
Loans outstanding	—	16.8	23.1	23.9	22.0
Savings	—	22.0	20.5	21.0	16.5
Reserves*	—	12.8	14.6	12.3	3.0
Undivided Earnings	—	11.5	13.1	29.8	31.1
Gross Income	—	16.3	21.4	21.5	24.1
Operating Expenses	—	19.7	20.8	22.4	25.4
Dividends	—	21.4	22.2	22.7	23.0
Reserve Transfers	—	−1.5	24.6	−16.2	7.1
Net Income	—	−43.3	8.8	129.7	54.1

Significant Ratios (%)

Item	1974	1975	1976	1977	1978
Reserves to Assets	5.5	5.1	4.8	4.5	3.9
Reserves & Und. Earn. to Assets	6.8	6.3	6.0	5.7	5.3
Reserves to Loans	7.2	6.9	6.4	5.8	4.9
Loans to Shares	88.6	84.8	86.7	88.8	92.9
Operating Expenses to Gross Income	36.4	37.5	37.2	37.5	37.9
Salaries & Benefits to Gross Income	13.1	12.8	12.3	12.0	11.6
Dividends to Gross Income	50.7	52.9	53.2	53.8	53.3
Yield on Average Assets	9.6	10.0	9.5	9.6	10.0
Cost of Funds to Average Assets	5.1	5.3	5.3	5.5	5.8
Gross Spread	4.5	4.7	4.2	4.1	4.2
Net Income Dividend by Gross Income	4.0	2.0	1.7	3.3	4.1
Yield on Average Loans	10.3	10.3	10.5	10.5	10.9
Yield on Average Investments	8.5	8.7	7.9	7.9	8.4

*Does not include the allowance for loan losses.

Amounts in Millions

Item	1979	1980	1981	1982	1983
Assets	$35,334	$37,515	$39,181	$45,494	**$54,482**
Loans Outstanding	28,182	26,165	27,238	28,192	**33,201**
Shares	30,768	33,812	35,248	41,352	**49,889**
Reserves*	1,426	1,473	1,614	1,773	**2,006**
Undivided Earnings	629	709	906	1,118	**1,284**
Gross Income	3,530	3,824	4,681	5,406	**6,064**
Operating Expenses	1,428	1,498	1,660	1,822	**2,045**
Dividends	1,862	2,185	2,656	3,185	**3,573**
Reserve Transfers	88	98	147	147	**166**
Net Income	153	43	219	244	**287**

Percent change

Item	1979	1980	1981	1982	1983
Total Assets	1.7	6.1	4.4	16.1	**19.8**
Loans outstanding	1.8	−7.2	4.1	3.5	**17.8**
Savings	3.2	9.9	4.2	17.3	**20.7**
Reserves*	4.5	3.3	9.6	9.9	**13.1**
Undivided Earnings	29.7	12.7	27.8	23.4	**14.9**
Gross Income	10.3	8.3	22.4	15.5	**12.2**
Operating Expenses	17.6	4.9	10.8	9.8	**12.3**
Dividends	9.1	17.3	21.6	19.9	**12.2**
Reserve Transfers	−41.3	11.4	50.0	—	**12.7**
Net Income	16.8	−71.9	409.3	11.4	**17.6**

Significant Ratios (%)

Item	1979	1980	1981	1982	1983
Reserves to Assets	4.0	3.9	4.1	3.9	**3.7**
Reserves & Und. Earn. to Assets	5.8	5.8	6.4	6.4	**6.0**
Reserves to Loans	5.1	5.6	5.9	6.3	**6.0**
Loans to Shares	91.6	77.4	77.3	68.2	**66.5**
Operating Expenses to Gross Income	40.4	39.2	35.5	33.7	**33.7**
Salaries & Benefits to Gross Income	14.3	14.7	14.1	14.1	**14.4**
Dividends to Gross Income	52.7	57.1	56.7	58.9	**58.9**
Yield on Average Assets	10.1	10.5	12.2	12.8	**12.1**
Cost of Funds to Average Assets	5.9	6.4	7.2	7.5	**7.1**
Gross Spread	4.2	4.2	5.1	5.3	**5.0**
Net Income Divided by Gross Income	4.3	1.1	4.7	4.5	**4.7**
Yield on Average Loans	10.9	11.0	12.5	13.6	**13.7**
Yield on Average Investments	8.6	10.3	12.8	12.3	**10.2**

*Does not include the allowance for loan losses

NCUA NATIONAL CREDIT UNION ADMINISTRATION

Table 8
Selected Data for Federal Credit Unions December 31, 1934-83

	Number of charters			Outstanding		Operating credit unions				
Year	Issued	Canceled	Net change	Total	Inactive credit unions	Number	Members	Assets[1] (000's)	Shares[1] (000's)	Net Loans outstanding (000's)
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	2,463,896	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	3,596,790	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	4,559,436	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	−196	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	−435	12,367	396	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982[3]	114	556	−442	11,925	482	11,443	26,114,649	49,755,270	45,503,266	27,998,657
1983	107	632	−525	11,400	422	10,979	26,807,128	58,824,793	54,056,124	33,066,143

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

Table 9

Number of Natural Person Federal Credit Unions by Asset Size December 31, 1983

Asset Size	Number of Federal Credit Unions	Percent Distribution	
		Actual	Cumulative
Less than 50 thousand	444	4.0	4.0
50 to 100 thousand	601	5.5	9.5
100 to 250 thousand	1,467	13.4	22.9
250 to 500 thousand	1,646	15.0	37.9
500 to 1 million	1,704	15.5	53.4
1 to 2 million	1,574	14.4	67.8
2 to 5 million	1,656	15.1	82.9
5 to 10 million	813	7.4	90.3
10 to 20 million	512	4.7	95.0
20 to 50 million	359	3.3	98.3
50 to 100 million	127	1.2	99.5
100 million +	59	.5	100.0
TOTAL	10,962	100.0	

NOTE: Excludes 17 Federal Corporate Central credit unions.

Table 10

Assets of Natural Person Federal Credit Unions by Asset Size December 31, 1983

Asset Size	Assets (000's)	% of Total	Cumulative %
Less than 50 thousand	$ 11,498	.02	.02
50 to 100 thousand	44,796	.08	.10
100 to 250 thousand	252,255	.46	.56
250 to 500 thousand	595,844	1.09	1.65
500 to 1 million	1,226,854	2.25	3.90
1 to 2 million	2,266,155	4.16	8.06
2 to 5 million	5,222,634	9.59	17.65
5 to 10 million	5,775,440	10.60	28.25
10 to 20 million	7,147,911	13.12	41.37
20 to 50 million	11,247,165	20.64	62.01
50 to 100 million	8,777,562	16.11	78.12
100 million +	11,913,882	21.87	100.00
TOTAL	54,481,994	100.00	

NOTE: Excludes 17 Federal Corporate credit unions.

NCUA

Table 11

Natural Person Federal Credit Unions By State December 31, 1983

State	Number	Assets in Millions	Percent Change 1982 to 1983
Alabama	172	$ 798	18.0
Alaska	22	$ 792	20.0
Arizona	62	$ 826	15.2
Arkansas	101	$ 196	25.6
California	850	$8,684	20.2
Canal Zone	1	$ 9	−18.2
Colorado	156	$ 970	23.4
Connecticut	256	$1,078	22.1
Delaware	69	$ 214	19.6
District of Columbia	131	$ 970	18.0
Florida	295	$2,969	24.9
Georgia	255	$ 973	18.7
Guam	4	$ 22	22.2
Hawaii	140	$1,035	17.9
Idaho	54	$ 197	15.2
Illinois	340	$ 688	18.6
Indiana	373	$1,869	21.4
Iowa	8	$ 21	5.0
Kansas	50	$ 181	9.7
Kentucky	131	$ 438	26.2
Louisiana	355	$ 909	17.4
Maine	120	$ 473	23.5
Maryland	192	$1,437	14.9
Massachusetts	286	$ 950	22.6
Michigan	276	$1,979	15.3
Minnesota	53	$ 301	20.9
Mississippi	137	$ 320	12.7
Missouri	30	$ 105	29.6
Montana	93	$ 262	17.0
Nebraska	76	$ 285	15.9
Nevada	37	$ 409	24.3
New Hampshire	23	$ 220	29.4
New Jersey	559	$1,636	30.7
New Mexico	53	$ 426	16.7
New York	1,016	$4,107	14.5
North Carolina	121	$ 635	18.7
North Dakota	26	$ 50	13.6
Ohio	590	$1,474	15.7
Oklahoma	104	$ 586	11.6
Oregon	148	$ 658	16.3
Pennsylvania	1,292	$2,789	16.5
Puerto Rico	36	$ 92	8.2
Rhode Island	18	$ 14	7.7
South Carolina	120	$ 701	37.2
South Dakota	87	$ 181	14.6
Tennessee	165	$ 899	20.0
Texas	768	$4,389	29.5
Utah	60	$ 199	15.0
Vermont	6	$ 40	25.0
Virgin Islands	5	$ 4	33.3
Virginia	267	$3,561	26.7
Washington	146	$ 917	14.3
West Virginia	171	$ 357	13.7
Wisconsin	3	$ 28	27.3
Wyoming	53	$ 156	13.9

Table 12
Selected Data Pertaining to Federally-Insured State Credit Unions 1971-83

Year	Number of credit unions	Number of members	Total assets (000's)	Members' savings (000's)	Loans outstanding (000's)
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[1]	5,151	13,184,183	26,117,670	23,566,708	15,326,521
1983[2]	4,928	13,435,000	28,482,000	25,596,000	17,619,000

[1]Revised [2]Preliminary

Table 13
List of Federal Corporates

Corporate Name	State	Assets in Millions
Western Corporate	CA	$1,063
Southwest Corporate	TX	$ 497
Capital Corporate	MD	$ 133
League Central of Maine	ME	$ 88
Virginia League Corporate	VA	$ 151
Mid-States Corporate	IL	$ 491
Southeast Corporate	FL	$ 219
Mid-Atlanta Central	PA	$ 321
Nebraska Corporate Central	NB	$ 48
Indiana Corporate	IN	$ 334
Empire Corporate Central	NY	$ 400
Colorado Corporate	CO	$ 270
South Dakota Corporate Central	SD	$ 37
Pacific Corporate	HI	$ 98
Mass. CUNA Corporate Central	MA	$ 128
LICU Corporate	NY	$ 3
Kentucky Corporate	KY	$ 76

Table 14
List of Federally Insured State Corporates

Corporate Name	State	Assets (in Millions)
Georgia Central	GA	$195
Ohio Central	OH	$218
Minnesota Central	MN	$ 6
Oregon Corporate Central	OR	$113
Corporate CU of Arizona	AR	$116
Oklahoma Corporate	OK	$ 97
Iowa League Corporate	IA	$152
Constitution State Corp.	CT	$249
First Carolina Corp.	NC	$172
Federacion De Cooperativas	PR	$ 34
Alabama Corporate	AL	$109
The Carolina Corp.	SC	$ 48

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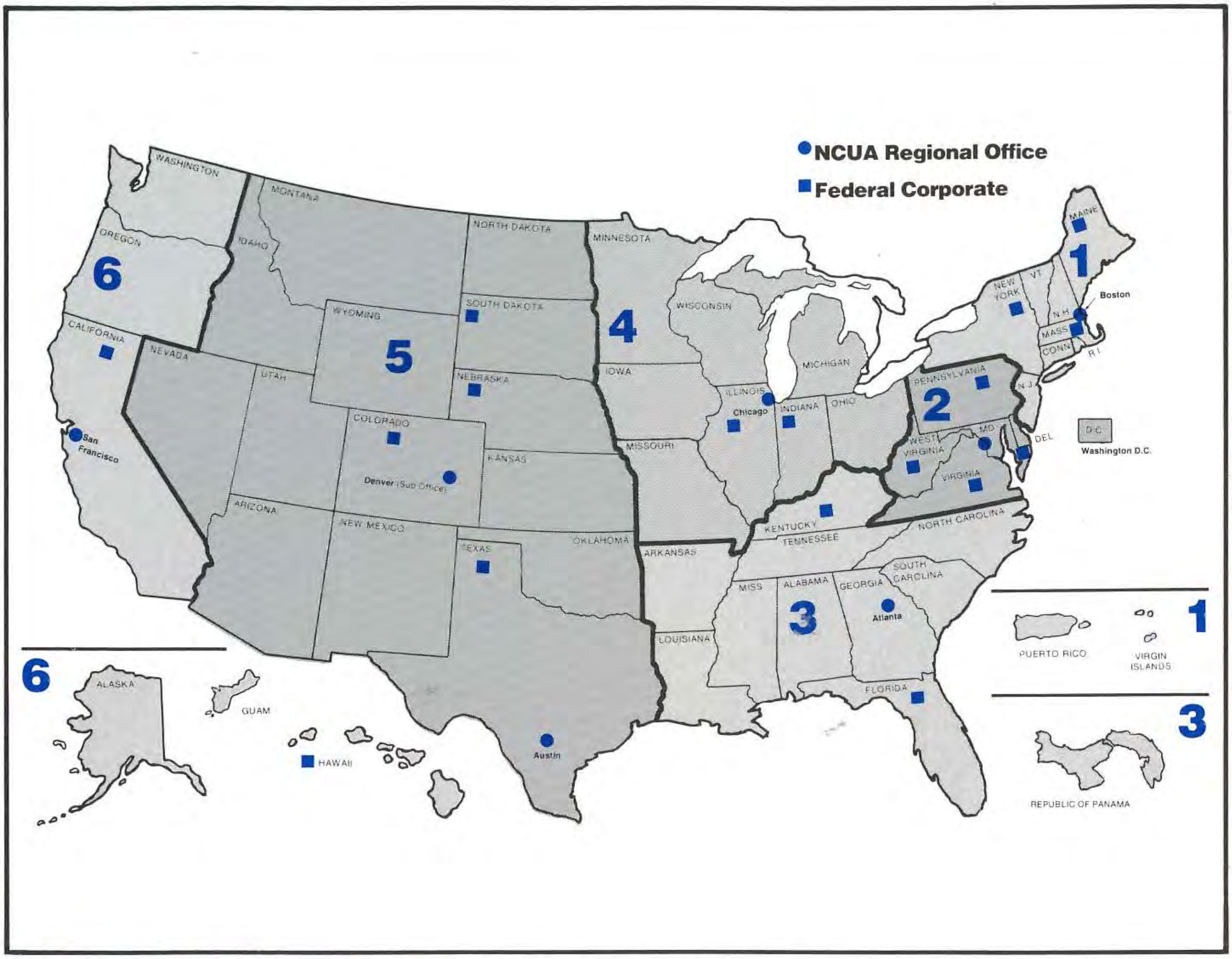

NCUA Regional Office Boundaries

NCUA National Credit Union Administration

Dear Reader

Each year NCUA receives a variety of comments on its Annual Report. To make it easier for those who wish to offer suggestions for improvement, we've included this stamped, self-addressed card. Thanks for your time—we appreciate hearing from you!

NCUA Regional Office Staff

	Address	States in Region	
Region 1 (Boston) Bernard M. Ganzfried Regional Director Carl E. Rancourt Deputy Regional Director	441 Stuart Street 6th Floor Boston, Mass 02116 (617) 223-6807	Connecticut Maine Massachusetts New Hampshire New Jersey	New York Puerto Rico Rhode Island Vermont Virgin Islands
Region 2 (Capital) Harvey J. Baine, III Regional Director Robert J. LaPorte Deputy Regional Director	1776 G Street, N.W. Suite 700 Washington, D.C. 20006 (202) 682-1900	Delaware District of Columbia Maryland	Pennsylvania Virginia West Virginia
Region 3 (Atlanta) Stephen W. Raver Regional Director Foster C. Bryan Deputy Regional Director	1365 Peachtree Street Suite 500 Atlanta, Georgia 30367 (404) 881-3127	Alabama Arkansas Florida Georgia Kentucky	Louisiana Mississippi North Carolina Republic of Panama South Carolina Tennessee
Region 4 (Chicago) H. Allen Carver Regional Director Ronald N. Lewandowski Deputy Regional Director	230 S. Dearborn Street Suite 3346 Chicago, Illinois 60604 (312) 886-9697	Illinois Indiana Iowa Michigan Minnesota	Missouri Ohio Wisconsin
Region 5 (Austin) J. Leonard Skiles Regional Director John Ruffin Deputy Regional Director	611 East 6th Street Suite 407 Austin, Texas 78701 (512) 482-5131	Arizona Oklahoma Kansas	New Mexico Texas
Suboffice (Denver) Leon F. Handrick Deputy Regional Director	LEA Complex 10455 East 25th Ave. Aurora, Colorado 80010 (303) 837-3795	Colorado Nebraska Utah	Idaho Montana Nevada North Dakota South Dakota Wyoming
Region 6 (San Francisco) Barry L. Jolette Regional Director D. Michael Riley Deputy Regional Director	77 Geary Street Second Floor San Francisco, CA 94108 (415) 556-6277	Alaska American Samoa California Guam	Hawaii Oregon Washington

NCUA

National Credit Union Administration Washington Office Personnel

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

Ted Bacino	Director, Office of Services
Harry Blaisdell	Director, Department of Administration (Acting)
Robert M. Fenner	Director, Department of Legal Services
Ben Henson	Director, Department of Information Systems (Acting)
Herbert Yolles	Director, Department of Financial Operations
Louis Acuna	Internal Auditor
Richard Beach	Congressional Liaison Officer
Dorothy Foster	Personnel Officer
Joan Pinkerton	Public Information Officer
Charles Filson	Director, Office of Programs
Layne Bumgardner	Director, Department of Insurance
Jerry Courson	Director, Department of Supervision and Examination

National Credit Union
Administration
Washington, D.C. 20456

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THIRD-CLASS MAIL
POSTAGE AND FEES PAID
NCUA
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NCUSIF

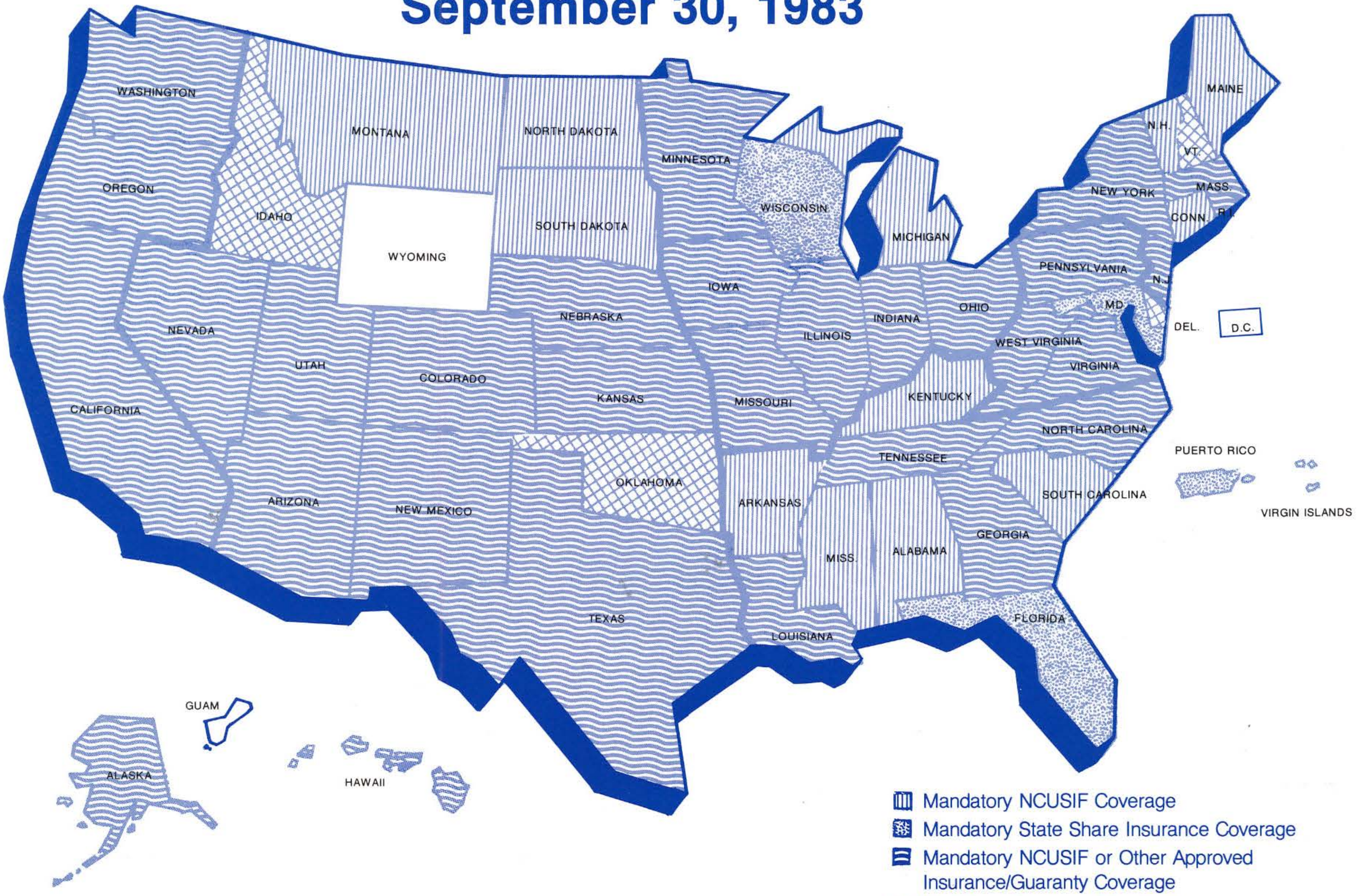
Annual Financial Report

NATIONAL CREDIT UNION SHARE INSURANCE FUND

Fiscal Year 1983

OCTOBER 1, 1982 - SEPTEMBER 30, 1983

SHARE INSURANCE REQUIREMENTS FOR STATE CREDIT UNIONS BY STATE
September 30, 1983



- 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.

ANNUAL FINANCIAL REPORT

OF THE

NATIONAL CREDIT UNION SHARE INSURANCE FUND

FISCAL YEAR 1983

Table of Contents

National Credit Union Administration
Department of Insurance
1776 G. Street, N.W.
Washington, D.C. 20456
(202) 357-1010

Foreword

1984 will be a crossroads year for credit unions.

Following a year of record growth, achieved in part because of deregulation, credit unions now have the opportunity to strengthen the financial system that a less regulated environment requires.

A bill has been introduced in Congress to strengthen that financial system by capitalizing the credit union insurance fund. This proposal represents what I believe is the best plan for reaching our joint goal of reversing the decline in the size of the Fund and placing it at the operating level set by Congress — 1% equity to insured shares instead of the current .29%, the lowest of the deposit insurance funds.

This is not a new goal. Eighteen months ago, the NCUA Board committed itself to reaching this 1% level as soon as possible. As you know, we've tried to get there by exercising the only method permitted under the current statute — levying special assessments.

But even with the extra premiums and internal improvements, such as reduced liquidation and administrative expenses, progress towards the 1% goal has been disappointingly slow. Moreover, the double premiums have been costly and hard to plan for. They are not popular with credit unions, we know because we're the ones who take the heat!

I believe the capitalization proposal now before Congress is a better way. It's faster and cheaper. Under the plan, you can expect a refund of your entire premium *and* a dividend on your deposit.

I also believe that the time to act on this proposal is now — while credit unions are prospering and before other forces for consolidation of the insurance funds take the initiative.

Nothing could do as much to signal your determination for a strong, independent credit union insurance fund as your support for this proposal. This is a challenge that reaches to the very heart of the credit union movement. For it's not an action that requires overcoming competitors in the marketplace; rather success depends on our ability to demonstrate our united determination to bolster the credit union insurance fund using credit union capital.

I think capitalization is the better way but I also realize that it will be difficult to get Congressional consideration without your full support. I urge you to study the proposal as outlined in this Annual Report. Check the arithmetic, see how this plan can benefit you, and let us hear from you.

Make 1984, the 50th anniversary year for Federal credit unions, the year we came to the crossroads together and prepared for the next 50 years.

E. F. Callahan

E.F. Callahan
December 31, 1983

Items of Special Interest

A Better Way — New Legislation

Due to a fortunate request from the Senate Banking Committee, NCUA was able to have a legislative proposal to capitalize the National Credit Union Share Insurance Fund introduced as a separate bill during the closing days of the first session of the 98th Congress. The bill's cosponsors were Senators Jake Garn and William Proxmire, Chairman and Ranking Minority Member, respectively, of the Banking Committee.

A better way to strengthen the Fund

This proposal is of vital importance to both the Agency and the credit union community because it presents a better way to strengthen the Fund than the current system of piecemeal assessments. Because the last-minute timing of the Banking Committee's request did not permit widespread discussion of specific proposals, some credit unions may have been taken by surprise, even though the possibility of legislative changes to the Fund has been under discussion for some time.

The Agency is now making a concerted effort to inform credit unions about the proposal. To do this, NCUA has created a special videotape on the share insurance legislation to prepare credit unions for the impending legislative debate. "We used the medium of videotape to spread the word because success requires credit union support," said NCUA Board Chairman Edgar F. Callahan. "We can't be too far out front on this."

Designed as an educational and communicative tool, the tape is actually a 32-minute "special edition" of the NCUA Videotape Network, which since September has produced programs on credit union-related topics geared primarily toward NCUA examiners and regional office staff.

This special edition, however, is aimed at a broader audience: credit unions, trade associations, leagues, chapters, state regulators, and any other interested parties.

NCUSIF is undercapitalized

Only once before in its history has NCUA used this technique of examining a subject on videotape to benefit credit unions. That was in 1982, when the Agency produced a special tape on deregulation, the hallmark of Agency policy.

"As was the case with our presentation on deregulation, the insurance legislation videotape is meant to circulate among credit unions so they can be informed about a critically important subject," said NCUA Board Chairman Edgar F. Callahan. "We want credit unions to make good use of this resource."

On the tape, Chairman Callahan opens with an assessment of the current method for strengthening the Fund. Deregulation is upon us, he notes, and credit unions have benefited from it. But in today's newly deregulated environment it has become apparent that the NCUSIF is too undercapitalized to provide an adequate safeguard for credit unions.

"Double premiums are a stiff penalty"

A uniquely credit union approach

Under the current system, the Board's sole option to improve the Fund's capital position is through premium assessments. For the past 2 years the Board has assessed extra premiums to strengthen the Fund. However, after the Board proposed its second extra assessment in 1983 some concerns were expressed. One credit union manager wrote that "I cringe at the thought of doubling the share insurance cost of this credit union, since at this point in time the increase would have to be paid out of undivided earnings."

In another typical letter, a credit union treasurer wrote that "assessment of additional or double premiums each year is a stiff penalty to pay, especially for the small credit unions such as ours."

The common thread in these comments was that credit unions wanted to explore a better way to build the Fund's capital. In the videotape, NCUA officials use detailed bar graphs to illustrate that a better option is indeed feasible. Moreover unless legislative changes are made present conditions, chiefly the extraordinary credit union share growth, make it highly unlikely that the NCUA Board's goal of strengthening the Fund can be achieved in a reasonable time frame.

Chairman Callahan concludes his opening by saying that, "The better way the officials seek is now here, embodied in the insurance capitalization legislation now before Congress." The Chairman then summarizes the legislation's main points.

The bill would require federally insured credit unions to deposit and maintain with NCUA 1% of insured shares. The Fund's new "operating level" would be set at a 1.3% ratio of equity-to-insured shares that is the .3% equity now in the Fund plus the 1% that federally insured credit unions would deposit.

Credit unions could withdraw their 1% deposit if they decided to voluntarily liquidate or switch to another form of share insurance. Most importantly, the legislation mandates that NCUA refund to credit unions any and all excess if the Fund's level rises above 1.3%. The mandatory refund, which would take the form of rebates on annual premiums and dividend payments, would be written into the law, not discretionary on the part of the Agency.

Following the Chairman's presentation, NCUA General Counsel Bucky Sebastian and Office of Programs Director Chip Filson address common questions and issues surrounding the legislation. This section includes a detailed step-by-step comparison of how credit unions would fare under the legislative proposal as opposed to the present system.

Using questions which credit unions have raised in previous discussions about the Fund, Filson and Sebastian explore how the legislation would work. Topics would include why the legislation would be less costly to credit unions than the current system, the importance of the legislation, how the 1.3% new operating level was determined, why risk rating is impractical for a government insuror, and the "uniquely credit union" approach to the problem of Fund capital.

"NCUA believes this proposal is indeed a better plan, one that improves the Fund's condition in a way that should not be a burden to any credit union," explains NCUA General Counsel Sebastian. "Once credit unions take a good look at this plan, the numbers speak for themselves, they'll find it's cheaper, faster, and easier than any other option."

For example, he points out that by placing the money with NCUA, credit unions will see a return on it in the form of a premium rebate and more, if possible, as dividends. Meanwhile, NCUA has the use of the deposit to cover the Fund's day-to-day operations and any unforeseen expenses, thus eliminating the need for a surprise emergency assessment in the event of a severe problem.

He and Director Filson also note that credit unions are now highly liquid, making this an opportune time to capitalize the Fund. Moreover investing in NCUA also gives credit unions an intangible benefit — added confidence. At a time when many in Washington talk of merging the Federal deposit insurance funds; such a cooperative demonstration of support can tell lawmakers that the Fund is sound and credit unions are willing to stand behind it.

Opportune time to capitalize the Fund

Some credit unions have asked if there could be a "tradeoff" in exchange for capitalizing the Fund. "I think we have already traded off," Sebastian explains. "Credit unions have been deregulated in advance of other financial institutions. The tradeoff for that deregulation is the improved safety and soundness of the Fund." Moreover, Filson notes, a stronger Fund is not meant to encourage credit unions to increase their own risk taking.

As Chairman Callahan explains at the tape's conclusion, "The issue of capitalization is not just an issue of safety and soundness; it's a credit union issue. The NCUSIF is an insurance fund solely for credit unions built with credit union money.

"In this era of deregulation, the Fund must reflect the new needs and concerns of credit unions to continue to be successful. The insurance legislation is a better way for credit unions to fund their insurance, and is a recognition of the fact that these are changing times."

Copies of the tape, which are on 1/2" VHS tape, can be borrowed free of charge from NCUA's Washington office or any of NCUA's six Regional offices. Copies also can be purchased from NCUA for $25, which represents the cost of reproduction, shipping and handling. Contact Robert Pompa, Department of Administration at (202) 357-1156.

Why Not Risk Rating?

On April 15, 1983 the NCUA sent to Congress a Report on the Insurance Fund. This study mandated by the Garn-St German Act, required each of the Federal insurance agencies to address seven issues of which one was: "The feasibility of basing deposit insurance premiums on either the risk imposed by the insured institution or the category or the size of the depository institution rather than the present flat rate system."

Now that new insurance legislation has been introduced the question has been asked by some credit unions, why not risk rate? The Report to Congress sought comments from throughout the credit union community in answering this issue.

At first glance risk rating might seem inviting

At first glance, the traditional insurance practice of assessing premiums on the basis of risk might seem inviting and appropriate. It would appear that, not only could additional revenue be generated for the Fund, but the entire premium structure be adjusted towards a more equitable system of assessment. Like the youthful driver or the elderly life insurance applicant, those who statistically represent the highest potential insurance cost would pay the highest insurance premiums. In other words, those credit unions whose practices caused the greatest risk to the Fund would receive the highest assessment.

Some state credit union regulators sent support for this approach arguing that principles of fairness plus market place pressure should be used to manage insurance exposure:

"I believe the risk rating is the best method. The credit unions that are generally clean and well managed would benefit from this approach and would not have to pay the freight for the less well managed shops. It would tend to indicate to those shops that changes are in order and improvement must be made." —Maine Department of Business Regulation.

"I personally favor risk rating by Federal insurers assuming that an equitable method of risk can be determined, easily monitored and uniformly applied. Risk rating will, in large part, add incentive to eliminate operational or management deficiencies, thereby reducing the risk and premiums. The primary problem of such a program will be the consensus needed for implementation." — Illinois Department of Financial Institutions.

"There would be an incentive for credit unions to improve their condition. It would be helpful for credit unions to recognize and deal with their problems in the early stages rather than letting problems go, hoping they would solve themselves." —North Dakota Department of Banking and Financial Institutions.

The trade association NAFCU surveyed its membership in February of 1983 and found that 55.6% of the 238 federal credit unions who responded felt *"that it would be advisable to alter the federal insurance system to permit NCUA to base premiums on risk."* 26.4% opposed this concept and 18% had no opinion. And the Massachusetts Credit Union Share Insurance Corporation stated *"I think it is an idea whose time is finally come and should be worked out and put in place."*

On further inspection, however, this seemingly simple idea begins to fade. Not only may it be inappropriate, and impractical, but also counterproductive in terms of limiting losses to the Fund.

Private insurance analogy is misleading

First, the analogy with private insurance is very misleading because there is a great deal of difference between a Federal government agency and a private insurance company. A private company markets a product which is chosen voluntarily and which is subject to competitive pressures. The Federal share insurance program, on the other hand, is intertwined with broad public policy issues, is mandated for the vast majority of credit unions, is simultaneously self-sufficient and the beneficiary of a line of credit from the U.S. Treasury, and is subject to sudden, externally imposed (Congressional) changes; for example, the amount of insurance coverage has been changed three times in a 10 year period. NCUA share insurance is not simply for "insurance" or loss coverage but, rather, an integral part of NCUA's total supervisory and regulatory program as well as an expression of Congress' concern with broad economic and financial competition issues.

Regulation through the back door

If NCUA were to risk rate the Agency would first have to determine which operating practices and financial conditions put credit unions at risk. As an example, the Agency might have to assign some sort of risk assessment to areas such as lending, investment portfolios, collection procedures, interest rate matches or mismatches, and whether a credit union is losing money, albeit temporary or not. Once these conditions are determined, it would assess a higher premium to those credit unions engaging in such practices without regard to their present financial condition. For risk rating is designed to prevent financial deterioration, not to punish those who are already experiencing problems. This approach would dramatically increase NCUA involvement in the business decisions of credit unions' boards and managers. The result would be regulation through the back door of insurance rather than the front door of supervision.

Again several contributors to the study expressed this concern:

"I assume the risk level would be a variable of predetermined points resulting in several premium levels. This, in itself, would be disconcerting, but even more so would be having a bureaucratic entity setting one standard for all credit unions regardless of individual problems best left to be resolved on an individual basis. Such a system would result in additional reporting requirements, etc., for federally insured state-chartered credit unions. In conclusion, being Big Brother is not always best." — Vermont Department of Business Insurance.

Just as important as the issue of re-introducing government regulation is the potential question of whether risk rating would work. Instead of changing management behavior the action could, in fact, cause further deterioration in a problem institution.

"It could create a run."

"It is not a function of price."

"The public may find out how their credit union is rated and it could create a run." — North Dakota Department of Banking and Financial Institutions.

Moreover there is no evidence that the 6% to 7% of credit unions rated code 4 and 5 could provide any meaningful increase of income that could reduce premiums for the vast majority of well managed ones. From the standpoint of the troubled credit union, the idea is simply impractical.

"It would be nice to risk rate credit unions, but impractical. The very credit unions that cannot afford the higher rates would have to pay them." — Wisconsin Office of the Commissioner of Credit Unions.

"The credit union having the highest degree of risk would likely be one that could least afford the higher cost of coverage. A higher rate for higher risk might well accentuate problems for troubled credit unions. One consequence is more liquidations with higher losses." — Florida Credit Union Share Guaranty Corporation.

The difficult issue of fairly assessing risk and applying an appropriate premium scale was summarized by two respondents as follows:

"We are of the opinion that basing deposit insurance premiums on risk would necessitate development of a rating system that, to even approach fairness, would be highly complex and a source of perpetual controversy." — New Mexico Financial Institution Division.

"Risk rating by federal insurers has the benefit of requiring those that represent the greatest risk to supply the most capital to the Fund. However, because of the leveraging multiples of the insurance fund to the insured risk, I question whether or not the pricing differentials will actually be proportional to the risk differentials. I doubt that any of the insurance funds can raise the price of share insurance realistically in proportion to increases in risk or threats to the fund.

"While some form of price or dividend adjustments may be possible, protection of the fund will be better served by accurate analysis and corrective procedures. It is not a function of price." — State Credit Union Share Insurance Corporation. - Tennessee.

Finally, because of credit unions' relationship to their field of membership external events can swiftly alter a credit union's economic condition completely independent of any change in the institution's own financial trends.

"It is felt it might be difficult to determine the risk of a particular institution. Particularly during the last eighteen months with such a volatile economy, when sponsoring companies are experiencing unexpected layoffs and shutdowns. Certainly, one could not determine such risks by 12 to 18 month examinations." — Kentucky Department of Banking and Securities.

The bottom line is that risk rating no matter how well thought out in theory becomes impractical as a means of government supervision for the actions of managers in a competitive market place. This dilemma was stated clearly by the Virginia Credit Union Share Insurance Corporation:

"Risk rating is probably the most idealistic means of administering the funding of a deposit insurance program but has several basic flaws: (1) the evaluation and risk rating process cannot be equitably administered, (2) the border line insured financial institution can least afford to pay an additional premium for its deposit insurance, and (3) the concept is regressive in that some financial institutions would opt to pay an increased premium rather than address and rectify its problems. In effect, risk rating is condoning sub-standard operations for a prescribed fee."

Impractical as a means of supervision

In the final analysis, NCUSIF's primary mission is to remain the insurer of "last resort" maintaining a level of public confidence in the credit union financial system. Specific problems should be solved through credit union self help whenever possible and dependence on the Fund should be kept to a minimum for operating problems. Risk rating is not only at odds with this entire relationship, but also with the credit union philosophy of independence and self sufficiency.

NCUA Expedites Return of Savings to Members

Nearly $3 million distributed

NCUA this year distributed nearly $3 million in unclaimed shares belonging to 105,000 members of credit unions that went out of business — the largest combined return in the Agency's history.

This effort to reunite members with their money promptly is the result of a new NCUA policy that sends unclaimed funds back to states as soon as possible after a credit union's liquidation, but no later than 18 months.

In the past, unclaimed savings were returned to the state of origin, but not until state law said they had to be — anywhere from 5 to 21 years, depending on the state.

Many states advertise unclaimed property listings and credit union members that NCUA has been unable to reach through normal channels see their names in print and claim their shares. When a credit union enters liquidation, NCUA makes every effort to return savings to members and most members receive checks within 2 weeks of the credit union's closing. In almost every liquidation, however, some accounts are not claimed because current addresses are not available, or because a member has died or forgotten about an account.

The beneficiaries of the new NCUA policy include an elderly Washington, D.C. woman who will recover $854 from a credit union account she apparently did not remember she had.

Listed With:
Coldwell Banker
317South Tryon Street
Suite 300
Charlotte, North Carolina 28202
Phone Number:
(704) 376-7979

Agent:
James R. Griffith

Property Location:
3942 Chesapeake Drive
Charlotte, North Carolina

Neighborhood:
Industrial

Total Area:
1.022 Acres

Utilities:
All city

Improvement:
One story aluminum siding commercial building 3,570 sq. ft.

Asking Price:
$175,000.

The widow of a gas station owner in the nation's capital will get $70 from her late husband's account that she did not know existed. And a Seattle, Washington woman will be able to present her daughter with an unexpected surprise — $98 from a credit union account.

Most of the unclaimed accounts are for under $100 and the experience of Carol Biasotti of Seattle is typical. Several years ago she opened a savings account in her daughter's name at a Seattle credit union which was later liquidated. Meantime, Mrs. Biasotti had moved. After NCUA's efforts to locate her failed, the Agency trusteed the money to the State of Washington's unclaimed property division. The State included the account in a list of unclaimed property it advertised in a local newspaper and Mrs. Biasotti's husband spotted it. "It was a big surprise," said Mrs. Biasotti. "I knew the credit union had been liquidated and figured if I had any money left, it would be sent to me. I never heard so I assumed it was gone."

As NCUA Board Chairman Edgar F. Callahan noted recently, "The NCUA Share Insurance Fund exists to protect the savings of all members and this policy is an example of how the Fund is doing a better job of that. If members are satisfied that their Fund is looking out for their interests, all credit unions will benefit from the goodwill."

Fund Accumulates Credit Union Buildings

A new credit union building is usually cause for celebration. It often symbolizes the soundness and stature of the credit union in the community. The ribbon-cutting ceremonies make for good copy and pictures in local papers, trade publications, and even for credit union calendars.

But a credit union building also represents a substantial commitment of members' funds to a non-earning asset. And when this commitment has not been properly planned for current and future use, the building can turn into a white elephant, with NCUA as its keeper.

When a credit union fails or is merged, the Fund sometimes inherits its building. Since the Fund's primary objective is to remain liquid, NCUA sells buildings as soon as possible. Another reason to sell is to eliminate holding costs such as insurance and maintenance.

The Fund currently holds title to five credit union buildings, three of them "big ticket" properties.

They are hard to sell, partly because of the recent recession, but also because they are off the beaten path or were built in such a way that their future use is limited.

Consider these examples:

The Idaho Public Employees Credit Union, a rapidly growing $12 million federally insured state-chartered institution, built a substantial new building in 1977. Credit union management contracted for "turnkey" construction of a three-story, 26,129 square foot bank-style building with full basement, parking lot, landscaping and drive-up window. The contractor planned the building for the credit union, advised officials of what they would need, and obtained a contract for the entire project, including furniture and fixtures. The cost — $2.4 million, including overruns. With the credit union's other fixed assets, the total commitment of members' savings was $2.8 million, or 23% of its assets.

NCUA's fixed-asset regulation, adopted in 1979 to curb a trend toward excessive investments in buildings, limits credit unions to placing 5% of their assets into buildings and other fixed assets.

With more than four times this standard tied up in a building, Idaho Public Employees Credit Union was unable to continue operating in the black. The credit union was merged in 1982, but the continuing credit union did not need a building that size. NCUA has owned the building since the merger.

Although the book value is $2.4 million, the asking price is $2.2 million based on an appraisal made 6 months ago. A more recent appraisal came in at $1.9 million and chances of getting even that are uncertain, according to Linda Bolen Dossen, the Boise realtor who is trying to sell the building.

"This is a very expensive building with limited market appeal," she said. "It's gorgeous inside with a vaulted ceiling and an atrium. But it was designed for a financial institution and will take extensive remodeling if it's to be used for any other purpose."

Moreover, Dossen said the building is located in a transitional area, meaning it's neither downtown nor in the suburbs."

While efforts to sell the building go on, the continuing credit union rents part of the facility. The bottom line — NCUA stands to lose a minimum of several hundred thousand dollars on this building.

When its sponsor, a trucking company, entered bankruptcy 4 years ago, NCUA acquired the JML Federal Credit Union building in Charlotte, N.C. for $320,000. This represented about 10% of the credit union's assets. Although the building was not a major factor in the credit union's demise, its location in a depressed industrial park has hurt the Fund's efforts to sell the property.

The triangular, aluminum sided building, appraised at $220,000, is listed for sale at $175,000, primarily because "its been sitting around empty for 4 years," according to NCUA liquidation officials.

Moreover, Coldwell Banker, with whom the building is listed, expects it will go for less than the asking price and that NCUA will be asked to provide some short-term financing to clinch the deal.

Listed With:
Bolen Dossey Company
4800 Fairview Avenue
Boise, Idaho 83706

Agent:
Linda Bolen Dossey

Phone:
(208) 322-7007

Property Location:
200 North Fourth Street
Boise, Idaho

Neighborhood:
Located in a transition area between the downtown central business district and the residential areas.

Total Area:
Six lots totalling 36,600 Sq. Ft.

Utilities:
All city utilities are available to the property.

Improvements:
Three story with full basement office/bank building of Class "C" masonary construction. Building contains approximately 26,128 gross square feet and 23,596 net rentable square feet. Additional improvements include perimeter landscaping and a drive-up banking window. Building was constructed in 1977.

Asking Price:
$2,200,000.

Listed With:
Coldwell Banker
Peachtree Center Cain Tower
Suite 1400
229 Peachtree St., N.E.
Atlanta, Georgia 30043
Phone Number:
(404) 656-1341

Agent:
Richard Wright

Property Location:
402 McDonough Boulevard, S.E.
Atlanta, Georgia 30315

Neighborhood:
Industrial and low income residences

Total Area:
20,000 Sq. Ft.

Utilities:
All city

Improvement:
One story brick veneer office building, 2,700 Sq. Ft.

Asking Price:
$125,000.

"This is an unusually difficult case," said Coldwell Banker agent Jim Griffiths. "The building is located in the middle of a depressed industrial park. Nothing but tractor trailer rigs drive by. If it were in a shopping center or residential area, someone could make a branch bank out of it."

The building has proved hard to sell in part because of the recession, Griffiths said, but "mainly because of its isolated location in an industrial park."

The bottom line — Unoccupied for over 4 years, NCUA stands to lose a minimum of $155,000 on this building.

Prospective buyers are not particularly turned on by the location of a third building NCUA is trying to sell — the Circle 34 Federal Credit Union in Atlanta.

The single-story brick veneer building, located across the street from the credit union's sponsor, a closed General Motors assembly plant, is situated in an area described by realtors as "industrial and low-income residences." The Atlanta Federal Penitentiary is a half mile down the road.

The asking price is $125,000 but real estate agent Richard Wright of Coldwell Banker's Atlanta office, says $100,000 is more likely what it will sell for. One prospect offered $60,000, but NCUA is holding out for a better bid.

"The asking price is not high for a building of that nature, but if it were on a different street, it would make all the difference in the world," Wright said. "If it had been located on a major thoroughfare, it would have sold 3 months ago."

The bottom line — NCUA acquired this building for $98,000. If it sells for an even $100,000, the Fund will come out ahead. If it goes for $60,000, the Fund will lose again.

As the preceding examples illustrate, NCUA can and often does take a beating when it sells a credit union building.

For example, NCUA's biggest property acquisition to date was the Landmark Building in Beaufort, South Carolina. The building, another "turnkey" project, was completed in 1979 by the Parris Island Federal Credit Union at a cost of $2.3 million. When the credit union failed in 1980, NCUA acquired the building for the full price. The building, which has never been occupied, finally sold in 1982 for $900,000.

The bottom line — The Fund lost $1.4 million.

The buildings shown in the 3 listings are still for sale. For further information contact the realtors or the Department of Insurance at (202) 357-1010.

Upgrading the Fund's Financial Reporting

The most important way that credit unions have of monitoring the financial condition of their Fund is through review of the financial reports. Prior to the first audit of the Fund's financial statements in 1982 by an independent accounting firm, records were maintained on a modified cash basis of accounting. For some economic events, expenses were recognized as incurred (the accrual method), while for others, the expenses were recorded only when cash was paid (cash method). Similar situations existed for some income items.

A change to accrual accounting

The result of using this method was an inconsistency between the financial statements and some of the underlying events for which the Fund has financial accountability. This method also could lead to some uncertainty as to the best course for NCUA's management to take in responding to a problem credit union. For example, some solutions might minimize cash outlays and temporarily postpone reported expenses only to have the financial statements reflect higher expense at some future date.

To provide more accurate reports of the Fund's financial condition, full accrual accounting methods have been adopted over the past 2 years.

The primary result of this change in accounting methods has been to establish loss provisions for events that previously had been recognized primarily on a cash basis. These expense provisions include estimates for losses on all loan guarantee contracts, and all credit unions identified through the examination process as experiencing financial difficulty.

These provisions are reflected in new accounts on the balance sheet entitled "Estimated Losses." At September 30, 1983 the total of these accounts was $66 million. Part of this total is a result of "catching up" for events that occurred in prior fiscal years but for which no provision had been provided, and part is due to events in the current year. In the future this "catching up" will no longer be necessary.

While substantial progress has been made in developing better reports, the auditors' opinion is still qualified because of the lack of historical loss experience data to support these provisions. With more experience, the reasonableness of the estimates can be better verified. The Fund's financial reporting goal is to obtain an unqualified opinion. Additionally, however, the auditors' examination provides an independent report on the Fund. This independent examination is an important aspect of management's commitment to keep credit unions informed about the Fund so that all credit union members can have confidence in the Fund's ability to meet its insurance obligations.

Management Highlights

Fund equity rose $57.3 million in fiscal 1983 to more than $235 million, an increase of 32% over the previous year and the largest one year growth in the history of the Fund.

Because this rate exceeds the estimated 20-22% growth of insured shares, the Fund's equity to insured shares ratio increased from approximately .26% at the beginning of the fiscal year and stood at .29% at September 30, 1983.

Special premium yielded $52 million

The major reason for the increase in net income was the special premium levied by the Board on April 13, 1983 which yielded more than $52 million. Another major factor was the reduction of liquidation expense from $22.9 milion in 1982 to a credit of over $11 million this year. This reduction was due to a reestimation and recovery of prior year liquidation expenses plus a continued sharp drop in the number of involuntary liquidations - from a peak of 251 in 1981 to just 50 in 1983. This is the lowest number of liquidations since 1973. Total share payouts in fiscal year 1983 were $9.9 million, the lowest since 1976.

More effective management of the Fund also helped to improve the financial picture. For the first time in the Fund's history, operating expenses did not increase - in fact, operating expenses were reduced by over $500,000. Returns on loan sales have been improved and the Fund is out of the loan collection business. Collection expenses were $577,224 in 1983 compared to $1.8 million in 1982. The number of mergers continued to increase during 1983, but the cost per merger is down. Contingent liabilities from guarantees in merger and liquidation activity and from assistance to avoid liquidation have been reduced from $172 million at September 30, 1981 to $120 million. The level of contractual contingent liabilities to equity is now 51.1%, down from a peak of 98% in September 1981.

Operating expenses reduced by over $500,000

Management of investments has been improved to increase yield, improve liquidity, and increase the book to market value. In March of 1982, 29% of total investments had maturities of more than one year. At that time, the investment strategy was changed, and currently only 6% of investments have maturities in excess of one year. The book to market value is now at 99%, and the fiscal year yield of 8.8% exceeds the 90 day Treasury Bill yield of 8.56%. In Fiscal Year 1982, the yield was 162 basis points below the 90-day Treasury Bill yield.

As noted earlier, unclaimed funds totaling almost $3 million were trusteed to the States during Fiscal Year 1983. NCUA staff had been unable to locate the owners of these funds during and following the liquidation process. The unclaimed property departments in the States will advertise and provide public registers to try to return these funds to their owners. In addition, shareholders also benefit because the Fund will remit the full insured share balance by sending unclaimed balances to the States within the 18-month insurance coverage period.

Special Actions units in each regional office continue to seek new solutions to aid troubled credit unions. In addition to conventional special assistance tools, the Agency has recently begun to draw upon credit union resources to improve earnings results. For example, a recent case from the Chicago region was evaluated initially as a merger that would cost the Fund up to $1.5 million. Regional Director Allen Carver and his special actions staff were unwilling to accept this merger offer. Instead, three area credit unions which also served the same sponsoring company were contacted and assistance from the management and staff of these credit unions was provided to improve the ailing credit union's lending collection and other management practices. As a result of these combined efforts, the problem credit union will be able to continue operations and the Fund has saved $1.5 million merger expense. According to Allen Carver, this case represents "an innovative approach by credit union people solving credit union problems."

The following sections of this report describe in detail the activities that led to the results summarized above.

Scope of Insurance Coverage

NCUA is largest insurer

NCUA is the largest insurer of credit union shares providing coverage on an estimated 83.8% of all savings in U.S. credit unions. In addition to NCUA, there are 15 state credit union insurance or guaranty corporations which insure or guaranty 3,145 credit unions with shares in excess of $15 billion which represents 15.4% of all credit union savings. NCUA's share of this market has remained relatively constant in the 80% range since 1977. Fewer than 200 credit unions in the United States are operating without some form of insurance or guaranty on shares.

The number of NCUA insured credit unions declined by 649 during the year as shown in the following table.

Changes in Insurance Coverage

	Federal Credit Unions	State Credit Unions	Total
Beginning Number	11,612	5,097	16,709
Additions:			
New Federal Charters	101	N/A	101
New Insurance Certificates	N/A	121	121
Conversions	14	3	17
Subtractions:			
Voluntary and Involuntary Liquidations/Purchases and Assumptions	103	47	150
Mergers	536	170	706
Conversions	4	25	29
Total - 9/30/83	11,084	4,979	16,063

Most of the decline is due to increased merger activity. Conversions to state share insurance corporations increased slightly over prior years. However, this reduction of 29 credit unions was offset by 17 credit unions converting to federal insurance, 121 newly insured state credit unions, and 101 new federally chartered credit unions.

Despite the overall reduction in the number of insured credit unions, the amount of members' savings continues the strong growth pattern evident throughout the history of the Fund. The following chart summarizes this growth trend.

Member's savings continue strong growth

Share Growth

Year	Member Savings Federal Credit Unions (000's)	Member Savings State Credit Unions (000's)	Total Insured Share (000's)	Percentage Change from Prior Year
1971	$ 9,191,182	$ 1,699,418	$10,890,600	—
1972	10,956,007	2,886,568	13,842,575	27.1%
1973	12,597,607	3,734,537	16,332,144	18.0%
1974	14,370,744	5,191,566	19,562,310	19.8%
1975	17,529,823	7,442,904	24,972,727	27.7%
1976	21,130,293	9,223,415	30,353,708	21.6%
1977	25,576,017	11,756,617	37,332,634	23.0%
1978	29,802,504	14,316,370	44,118,874	18.2%
1979	31,831,400	15,871,204	47,702,604	8.1%
1980	36,263,343	18,468,791	54,732,134	14.7%
1981	37,788,699	20,006,801	57,795,500	5.6%
1982	45,491,123	23,377,384	68,868,507	19.2%
1983	54,045,000*	27,100,000*	81,145,000*	17.8%
Average annual compounded growth rate - 1971-1983				18.4%

* Estimated for 12/31/83

Legislation

Emergency merger and conservatorship authority obtained

Several legislative issues at the Federal and State level will impact the Fund and its programs. The most significant Federal legislation is the Garn-St Germain Depository Institutions Act of 1982 (Public Law 97-320). This Act amended Sections 205 and 206 of the Federal Credit Union Act (Act) to provide emergency merger and conservator authority. NCUA is now authorized to approve the emergency merger of failing federally insured credit unions without regard to geographic area and field of membership when other reasonable alternatives do not exist. The amendment to Section 206 of the Act authorizes NCUA to appoint itself as conservator of a federally insured credit union when necessary to protect the assets of the credit union, the interests of its members, or the interests of the Fund. In the event of conservatorship of a federally insured state-chartered credit union, a process is set forth for consulting with the state regulator. The conservatorship authority was used twice during the year while emergency mergers were authorized on nine occasions.

State Laws

The most important change in State laws from the Fund's standpoint are those affecting merger and liquidation procedures and share insurance requirements. The following summarizes the significant changes that occurred during this period from information provided by Credit Union National Association's State Governmental Affairs Director:

Alabama

A credit union whose field of membership includes employees of a plant or industry that has experienced substantial layoffs may accept members based on the surrounding area.

Connecticut

The banking commissioner can allow state-chartered credit unions with non-federal share insurance to continue in existence if he believes they will obtain federal insurance by July 1, 1985. As of September 30, 1983, only two Connecticut credit unions have still to qualify for NCUSIF Insurance.

Indiana

State credit unions are required to obtain and maintain insurance on shares and other deposits with the NCUSIF or a comparable insurance company approved to offer similar insurance in the state. Credit unions now in operation have until December 31, 1985 to apply for insurance and until December 31, 1986 to obtain insurance. As of November 1983, 32 are not insured. Indiana becomes the 45th state to now require some form of share insurance.

Tennessee

Federal credit unions are eligible for membership in the State Credit Union Share Insurance Corporation, a Tennessee share insurance corporation, provided certain conditions are satisfied.

Washington

The Share Guaranty Association increased the annual transfer to the credit union's share guaranty contingency reserve to 1/12 of 1% of outstanding shares and deposits. This requirement was previously set at 1/18 of 1%.

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	1/2 of 1% of share capital
Florida Credit Union Guaranty Corporation 8000 South Orange Avenue Suite 108 Orlando, Florida 32809 Dick Felp	1975	1/2 of 1% of net guaranteed
Georgia Credit Union Deposit Insurance Corporation 2990 Brandywine Road Suite 220 Atlanta, Georgia 30341 John Martin	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 Unon 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 555 Metro Place, North Sutie 185 Dublin, Ohio 43017	1974	1% of shares
North Carolina Savings Guaranty Corporation Post Office Drawer 2688 Raleigh, North Carolina 27602	1967	1.25% of insured savings

Summary of State Credit Union Share Insurance/ Guaranty Corporations

Premium (Annual)	Maximum Coverage	Number of Credit Unions Insured	Amount of Savings Insured	State(s) of Operation
1/12 of 1% of shares	$150,000	11	$530,402,198 (10/31/83)	California
1/20 of 1% of funds guaranteed	$100,000 Can be increased upon application	190	$698,560,000 (11/30/83)	Florida
1/12 of 1% of shares, deposits, and dividends payable	$100,000	128	$640,772,787 (6/30/83)	Georgia
None	$250,000	27	$438,892,697 (11/30/83)	Maryland
1/12 of 1% of shares deposits	Full account limit	231	$2,100,000,000 (11/30/83)	Massachusetts
Up to: 1/12 of 1% of shares	No limit	420	$2,300,000,000 (9/30/83)	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 I.R.A. and KEOGH	25	$878,020,672 (6/30/83)	North Carolina, Minnesota, West Virginia

Summary of State Credit Union Share Insurance/ Guaranty Corporations

Name and Address	Year Incorporated	Membership Deposit (Capitalization)
Rhode Island Share and Deposit Indemnity Corporation 1220 Pontiac Avenue, Suite 101 Cranston, Rhode Island 02910	1969	1% of total insurable deposits
State Credit Union Share Insurance Corporation Post Office Box 21130 Chattanooga, Tennessee 37421	1974	1% of savings capital
Texas Share Guaranty Credit Union Post Office Box 14584 Austin, Texas 78761	1975	1% of insured savings
Utah Share and Deposit Guaranty Corporation Post Office Box 26008 Salt Lake City, Utah 84115	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 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

Premium (Annual)	Maximum Coverage	Number of Credit Unions Insured	Amount of Savings Insured	State(s) of Operation
1/12 of 1% of insurable deposits	$100,000	56	$571,467,000 (6/30/83)	Rhode Island
1/12 of 1% of savings capital	$100,000	447	$1,030,000,000 (11/30/83)	Kansas, Missouri, Tennessee
1/20 of 1% of insured savings	$100,000	378	$1,682,760,000 (11/30/83)	Texas
1/20 of 1% of shares and deposits	Full account except $100,000 for corporate	160	$357,500,000 (10/31/83)	Utah
1/12 of 1% of shares	$100,000	118	$225,000,000 (11/30/83)	Virginia
Adjusted to equal 1/2 of 1% on annual basis. Authority for additional 1/2 of 1% if needed.	$100,000, $250,000 for IRA and KEOGH	151	$764,000,000 (11/30/83)	Washington
1/12 of 1% of savings capital	$100,000	570	$2,400,000,000 (11/30/83)	Wisconsin
Set by Board of Directors	$ 40,000	233	$440,157,200 (9/30/83)	Puerto Rico
		3,145	**$15,057,532,554**	

The current share insurance requirements in each state are summarized as follows:

Mandatory Coverage by the National Credit Union Share Insurance Fund.

Alabama	Mississippi	Maine
Arkansas	Montana	Michigan
Connecticut	North Dakota	South Dakota
Kentucky	South Carolina	Vermont

Mandatory Coverage by the State Share Insurance Fund.

* Florida	Puerto Rico
Maryland	Wisconsin

* Exception is provided 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.

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

No Share Insurance Required.

Idaho	Oklahoma
New Hampshire	

International Share and Deposit Guaranty Association

The International Share and Deposit Guaranty Association is the trade association of credit union insurance or guaranty organizations. The purposes of the association are to aid and assist member corporations in better serving credit unions and to insure the availability of a dual chartering/insurance system. NCUA is now a member of this association.

Financial Status of Insured Credit Unions

Because the Fund is a part of NCUA, the monitoring of each insured credit union's financial trends is an integral part of the Agency's supervision activity. The Fund uses the results of all these supervisory efforts including examination reports, EWS classifications, Financial Performance Report Statistics as well as maintaining a separate monitoring of the 30 to 40 credit unions which are evaluated as representing the most serious risk of loss.

Fewer credit unions in critical categories

The Early Warning System ratings based on examiner contacts are used to monitor overall financial trends. The charts below show the shifts that have occurred in the number of credit unions in EWS classifications and the changes in the percentage of assets in these classifications in the designated periods. The substantial asset growth in federally insured credit unions, 36% from year-end 1981 to October 31, 1983, neutralizes to some extent the declines that occurred in the percentage of assets in the EWS categories 3 through 5. There are fewer credit unions in these critical categories compared to 1981, however, the amount of assets in these categories is up by $3.2 billion. There has been a substantial reduction in the number of credit unions in the most critical EWS Code 5 category. This reduction can be attributed, in part, to the increase in mergers. Administrative actions have accounted for some changes in these numbers. In Fiscal Year 1983, 28 Federal credit unions with aggregate assets of $3.6 million had their charters revoked and were placed into involuntary liquidation. In two other cases involving one Federal credit union and one federally insured state credit union, the credit unions were placed into conservatorship in an effort by the NCUA Board to protect the Fund and the interests of the credit union members. In this same period, one federally insured state credit union was served with a notice to terminate its insured status for reasons of unsafe and unsound practices. This termination action was withdrawn by the NCUA Board in November 1983 because substantial corrective action had been taken by the credit union officials.

The Fund also uses the code 4 and 5 ratings as one basis for establishing the provision expense for problem credit unions. Credit unions in these categories with total assets above established limits are evaluated on a case-by-case basis. The remaining credit unions are totaled and a statistical estimate is made of probable losses.

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

EWS Category	12/31/81	12/31/82	10/31/83
Codes 1 & 2	10,920	10,823	11,027
3	4,931	4,850	3,893
4	947	939	966
5	202	158	125
Total	17,000	16,770	16,011

Percentage of Assets by EWS

EWS Category	12/31/81	12/31/82	10/31/83
Codes 1 & 2	79.3	77.4	81.0
3	15.0	15.2	13.2
4	5.0	6.7	5.3
5	.7	.7	.5

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

Financial Performance Report is an evaluation tool

The Financial Performance Report, produced from the semiannual financial and statistical report, is used by each examiner to monitor individual credit unions. The Reports are also part of the data used when estimating expense provisions. This evaluation tool is sent to each credit union as a resource and stimulus for managers and boards to improve their overall financial condition. The December 1983 financial report will also be prepared for each state-chartered federally insured credit union for distribution to each state supervisor.

The monitoring by the Fund of the most critical individual cases shows that two credit unions will return to solvency in 1983 and be removed from the list by year end. Most of the other credit unions have been able to achieve a breakeven or slightly profitable level of operation. However, the overall earnings rate is still insufficient to allow these credit unions to restore their solvency within the next 2 to 3 years. Merger, while an option, would still be more costly than a self-managed workout. These credit unions at fiscal year-end total $1.4 billion in assets, have combined 208 guaranty accounts of $43 million and hold all of the $28 million capital notes which have been disbursed. Expense provisions totalling $22.3 million have also been provided. To increase the earnings potential in these cases, the regions will be seeking experienced, operating credit union personnel to work in the credit unions to augment lending and other operational efforts. Increased earnings to reduce the years-to-solvency ratio is the number one priority for each case.

Assistance to Insured Credit Unions

Annual exam for safety and soundness

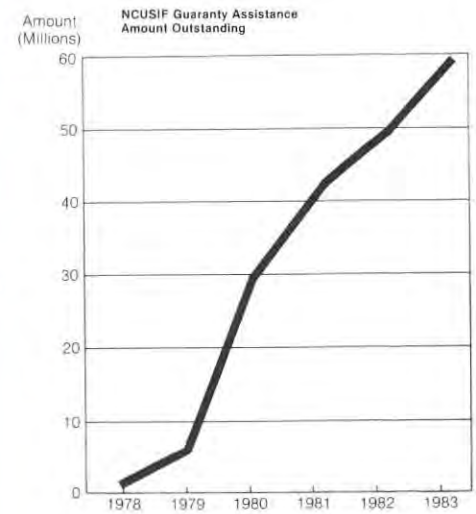
The primary goal of NCUA's examination and supervision activity is problem identification and, then, problem resolution. During 1983, the completion of an annual examination emphasized the Agency's priority to monitoring safety and soundness.

As described earlier, when problems are encountered which require actions or time commitments that cannot be met through normal examination oversight, the Special Actions units will assist. These trouble shooters are responsible for coordinating all potential resources, both internal and external to the credit union, and working with the credit union to develop plans and initiate actions that bring immediate results.

When credit unions incur losses which threaten their continued operation, the Fund is the only source of recapitalization to give boards, managers, and members the chance to once again become a self-sustaining operation. Assistance as authorized under Section 208 of the Federal Credit Union Act is primarily in the form of a guaranty account or cash.

NCUSIF Guaranty Account

The most frequently used assistance has been the NCUSIF Guaranty Account. Since 1974, $94.1 million of guaranties have been granted to 215 credit unions, of which $16.9 million (18 %) were granted in Fiscal Year 1983. Thirty credit unions were granted initial guaranty assistance totalling $9.0 million and 24 credit unions received additional guaranty assistance of $2.9 million. One hundred credit unions were able to partially or completely amortize $7.6 million in guaranty assistance during 1983 compared to the $5.4 million amortized by 77 credit unions in 1982. In 1982, 24 credit unions with $4.1 million in guaranty assistance were either merged or liquidated; however, in 1983 these numbers were down to 20 credit unions with $1.4 million in guaranty accounts. Also, during 1983, NCUSIF guaranty assistance outstanding increased by $2.4 million as a result of changes in the method of credit unions' accounting for capital note (cash) assistance received in prior years.



Change in NCUSIF Guaranty Assistance Outstanding (Amount in $000's)

NCUSIF Guaranty - September 30, 1982 (millions)	$48,786
Increases	
30 credit unions needed initial assistance	9,007
24 credit unions needed additional assistance	7,937
Adjustments due to changes in accounting procedures	2,382
Decreases	
20 credit unions merged/liquidated	(1,406)
38 credit unions completed amotization/ repaid guaranty completely	(1,756)
62 credit unions reduced guaranty	(5,829)
NCUSIF Guaranty - September 30, 1983	**$59,121**

Comparison of Federal and State Guaranty Assistance

	Number	Amount Outstanding
Federal Credit Unions	66	$41,598,025
State Credit Unions	30	17,523,461
% Federal	69%	70%
% State	31%	30%

NCUSIF Cash Assistance

$32.2 million approved

When guaranty assistance is insufficient to resolve problems within a reasonable period of time, cash assistance may be provided. This assistance is infrequently used and generally reflects a unique problem of unusual magnitude which, if not resolved promptly, will considerably prolong the recovery of the credit union or result in failure. The Fund has invested in share deposits, loans, and purchased bond claims and other assets from troubled credit unions. In 1982 another form of cash assistance, the Capital Note program, was introduced. This assistance has been primarily in cases where the non-cash NCUSIF guaranty assistance had become so large that the earnings capabilities was correspondingly reduced to make competitive operations very unlikely. These Notes are a cash infusion which add income-producing assets to the credit union which offset the impact of accumulated losses or non-earning assets. Since these Notes are non interest bearing the infusion aids both liquidity and earnings.

Overall, the Fund granted $32.2 million in total cash assistance to 15 credit unions in 1983. Also during the year, five credit unions repaid $7.3 million. Currently, there are 19 credit unions with cash assistance outstanding totalling $39.3 million. Fourteen Federal credit unions have received $30.3 million (70.0%) while five state credit unions received $9.0 million (23.0%).

Accounting Change

To more accurately present the financial condition of credit unions receiving "208" assistance, the accounting method for special assistance was changed. The NCUSIF Guaranty Account is no longer recorded as an asset on the credit union's record. Instead, the guaranty assistance will be recorded as Prior Undivided Earnings Deficit - NCUSIF Guaranteed. Also, Capital Notes will no longer be used to reduce outstanding guaranty assistance. Instead, the assistance will be reflected as a Subordinated NCUSIF Capital Notes and recorded in the liability section of the balance sheet. As such, this subordinated liability to the Fund will stand last in the priority of payments in the event of a liquidation. This change will permit users of a credit union's financial statements - boards, managers, members, and supervisory personnel - to more clearly follow the results of operations and the amount of earnings necessary to once again become a solvent institution.

Mergers, Liquidation Share Payouts and Asset Management

Mergers

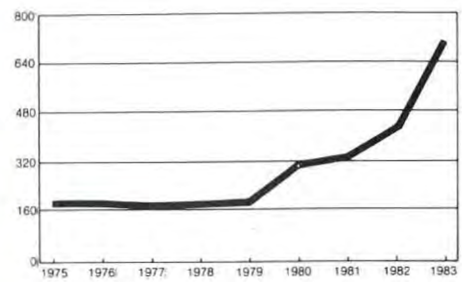
When a credit union is unable to turn around after supervisory actions and assistance have been attempted the Fund uses mergers, liquidations, and purchases and assumptions to finally resolve operating problems.

The state of the economy over the past several years has caused a number of credit unions to lose their fields of membership because of sponsor closings and/or severe layoffs. Prior to April 1982, the majority of these affected credit unions would have been forced into liquidation as the common bond interpretation did not permit these credit unions to find merger partners.

In April 1982, the NCUA Board changed the field of membership policies. One impact of this change was to allow economically troubled credit unions to seek acceptable merger partners which could offer continued credit union service to their members. Section 208 of the Federal Credit Union Act is used to provide financial assistance to expedite mergers. The amount of financial assistance provided in each case is a negotiated agreement balancing the value of the additional opportunity received by the continuing credit union with the recognition of special costs or of problem assets that the surviving credit union must absorb. Most assistance is in the form of guarantees covering portions of the merging credit union's loan portfolio that are doubtful of collection and not covered by reserves. Financial assistance can also be provided to guarantee other assets when there is a wide divergence between market and book value. Assistance provided in cash at the merger date is generally limited to shortfalls from a NCUSIF Guaranty Account, merger costs or other specific balance sheet adjustments.

The economic climate and the change in the common bond policy contributed to an all time high of 706 insured credit unions being merged in Fiscal Year 1983. This is a 13% increase over the 626 insured credit unions that were merged in 1982. Of these 706 insured credit unions, 203 required assistance. The average assistance provided per merger in Fiscal Year 1983 was approximately $131,320. The following chart shows the larger assisted mergers for 1983.

9 Year Merger Trends
Number of Mergers



Largest Assisted Mergers Fiscal Year 1983

	Date of Approval	Assets	Asset Guarantees (000's)	Cash (000's)
Merging - VAMC Federal Credit Union	10/82	$ 2.3	$1.2	$0.1
Continuing - FED Federal Credit Union		29.9		
Merging - Red Ball Federal Credit Union	10/82	4.8	0.4	
Continuing - Dallas News Employees Federal Credit Union		8.0		
Merging - Poudre Valley Federal Credit Union	10/82	2.0	0.4	
Continuing - Norlarco Credit Union		12.9		
Merging - Illinois Latvian Federal Credit Union	12/82	5.2		0.2
Continuing - Heritage Federal Credit Union		26.5		
Merging - Coop Credit Union	1/83	2.6	0.8	
Continuing - Auto Body Credit Union		37.6		
Merging - NAFCU Corporate Federal Credit Union	4/83	62.4		5.7
Continuing - Capital Corporate Federal Credit Union		194.1		
Merging - TP&W Empoyees Federal Credit Credit Union	5/83	0.2		0.05
Continuing - Central Credit Union of Illinois		8.8		
Merging - Hughes Helicopter Summa Federal Credit Union	7/83	6.1	0.4	
Continuing - Hughes Aircraft Emp. Federal Credit Union		388.1		
Merging - General Driver Credit Union	1/83	2.3	0.5	
Continuing - Flint Service Federal Credit Union		12.4		
Merging - Montsego Federal Credit Union	8/83	3.4	0.8	
Continuing - Community Federal Credit Union		32.8		
Merging - Emhart Employees Federal Credit Union	9/83	0.7	0.6	
Continuing - ASC Federal Credit Union		2.7		
Merging - Bud Antle Employees Federal Credit Union	9/83	0.4		0.06
Continuing - Central Coast Schools Federal Credit Union		10.6		
Totals			$5.1	$6.11

The largest merger of the year was NAFCU Corporate Federal Credit Union into Capital Corporate Federal Credit Union. The merger ended a three-day period of conservatorship during which NCUA managed the business operations of NAFCU Corporate, while seeking a suitable merger partner. NCUA Board Chairman Callahan praised the quick resolution of events, "This was a credit union problem and the credit union community moved rapidly to resolve it."

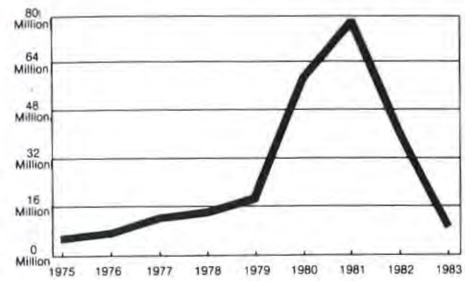
This transaction is the second merger of a central credit union in recent times. Mississippi League Central Credit Union merged with Southeast Corporate Federal Credit Union. This merger was approved on March 4, 1982.

Liquidation Share Payouts

For the second consecutive year, there has been a major reduction in the number of liquidations. Compared to the Fiscal Year 1981 historic peak of 251 cases and $78.6 million in share payouts, the number of liquidations for Fiscal Year 1983 is only 50 cases and $9.9 million in payouts. This is the lowest number of liquidations since Fiscal Year 1973. This decline is partly due to the increase of supervisory mergers as well as more active supervisory initiatives to encourage successful workout plans.

As a result, liquidations of large asset credit unions have become rare. In Fiscal Year 1983, there were only two credit unions with assets in excess of $1 million which were unable to find acceptable merger partners and were placed into liquidation. The following chart shows the pertinent information about the largest liquidations.

9 Year Involuntary Liquidation Trends Amount of Share Payout Claims



Largest Involuntary Liquidations Fiscal Year 1983

	State	Commencement Shares	Date of Liquidation	Estimated Loss
United Realty Credit Union	MI	$4,078,234	11/82	$2,283,811
Southwest Industrial Federal Credit Union	TX	205,584	12/82	71,954
SMC Credit Union	PA	701,835	1/83	512,339
Clairborne County Teachers Federal Credit Union	MS	223,039	5/83	6,168
Farrell Creek Credit Union	OH	190,428	5/83	61,600
ABD Orange Federal Credit Union	TX	207,712	5/83	10,856
Salinas Valley Federal Credit Union	CA	430,076	4/83	238,712
Pawnee Savings Credit Union	NE	1,008,940	6/83	401,833
Dunn & Bradstreet Federal Credit Union	OH	279,814	7/83	23,519
Marion Federal Credit Union	FL	247,843	9/83	164,278
Totals		**$7,573,505**		**$3,775,070**

9 Year Involuntary Liquidation Trends
Number of Liquidations

Liquidation Trends

The key liquidation trends for the last five years as shown below highlight the overall decline in liquidation activity.

Fiscal Year	1979	1980	1981	1982	1983
Number of Credit Unions Liquidated	169	239	251	160	50
Number of Shareholders Paid	46,280	113,333	142,918	72,331	21,614
Shares Paid (000's)	$19,011	$59,957	$78,639	$39,892	$9,954
Percentage of Shares Paid to Total Shares Insured	.040%	.110%	.136%	.058%	.012%
Average Payout Per Credit Union Liquidated (000's)	$112.5	$250.9	$313.3	$249.3	$199.1

Liquidation Expense

Liquidation expenses are recorded in two steps. The first entry is an initial expense for the loss based on an estimate of the realizable value of the credit union's assets. Adjustments to this initial estimate are made as assets are sold. The fund's cost for each liquidation is the difference between the realized value of all assets acquired and sold and the payment to shareholders. The credit balance in liquidation expense for 1983 is the result of a $4 million adjustment in expenses charged in a prior year. The adjustment is due to the settlement of a bond claim filed in 1980. In addition to the bond recovery, the settlement eliminated certain payables which were considered as potential losses.

Recoveries from Credit Unions in Liquidation

Charters and insurance certificates finally cancelled in a fiscal year are generally not from those credit unions which entered liquidation during the same year. This delay is becausew a certificate cannot be cancelled until creditors have had four months from the liquidation notice date to submit claims against the assets of the credit union. Most charters and insurance certificates are cancelled within six to eight months after entering liquidation. Insurance certificates for credit unions involved in a bond claim or other unresolved litigation cannot be cancelled until the action has been complately settled.

The recovery to shares paid out ratio for the 246 liquidated credit unions whose insurance certificates were cancelled during Fiscal Year 1983 amounted to 66.4% for a total of $39.7 million. This recovery rate is an 8.9% increase over the 61.0% for Fiscal Year 1982. The following chart shows the recovery breakdown for the 246 charter and insurance certificates cancelled during Fiscal Year 1983.

Liquidation Recoveries

	Number of Credit Unions	Commencement Shares	Total Recoveries	Recovery Percentage
Federal Credit Unions	210	48.7	$36.1	74.1
State Credit Unions	36	$11.1	$ 3.6	32.4
Total	246	$59.8 Million	$39.7 Million	66.4%

Purchase and Assumption

9 P&A's authorized

A purchase and assumption, which is quite similar to a merger, occurs when all or part of the credit union's assets, liabilities, or shares are transferred to another credit union or other financial institution. The field of membership can be transferred in a purchase and assumption but is not automatic as in a merger. Again, because of the NCUA Board's change in the common bond, expanded merger options have decreased the need for purchase and assumptions. During fiscal year 1983, there have been 9 purchase and assumptions with total shares of $4.0 million as compared to 19 purchase and assumptions with total shares of $26.4 million in fiscal year 1982. Only one purchase and assumption in excess of $1 million in assets was completed.

Management of Assets and Liabilities

Each year the Fund acquires millions of dollars in loans either as the liquidating agent for failed credit unions or as guarantor of assets for mergers or loan sales. In the past, NCUA tried to collect these loans using its own personnel or by contracting with outside professional collection agencies. At the beginning of Fiscal Year 1983, the Fund owned $17.2 million in loans which were placed with outside collection agencies. In addition to these loans, the Fund received $38.1 million loans during the fiscal year as a result of contractual guarantees. Also, an additional $5.9 million in loans was acquired during the fiscal year from liquidated credit unions.

Almost all loans sold

During 1983 the Fund sold almost all the loans in its portfolio at the beginning of the fiscal year in addition to the loans it acquired during the year. At the close of fiscal year 1983, only $1.8 million in loans were in the Fund's portfolio. The immediate sale of these assets has accomplished the following:

Improvement in the Fund's Liquidity

Improvement in the Fund's Liquidity — The proceeds from the sale of loans has been invested in liquid investments;

Increased Yields on Investments

Decrease in Expenses

Increased the Opportunities for Profit in the Private Sector

Increased yields on investments — The yield the Fund is receiving on its investments is greater than the actual return the fund was receiving on acquired loans;

Decrease in expenses — The immediate sale of the assets has decreased the cost of contracted collection expense from $1,820,484 in fiscal year 1982 to $577,224 in fiscal year 1983. Additionally, the immediate sale of assets has enabled the Fund to reduce the number of its employees; and

Increased the opportunities for profit in the private sector — Credit unions and private investors were given the opportunity in fiscal year 1983 to purchase millions of dollars of loans.

Credit Union loans still an excellent opportunity

Loans acquired from credit unions continue to be an excellent opportunity with above average yield since sales are at a discount while the paper has contractual rates of 12 to 21%. During fiscal year 1983, loans acquired from liquidated credit unions sold in the range of 59% to 70% of book value. Loans acquired from contractual guarantee agreements generally sold in the range of 7.5 to 17 percent of the book value.

More information on loan sales can be obtained from the Department of Insurance (202) 357-1010, or from the regional offices.

In addition to member loans, the Fund also disposes of other credit union assets such as buildings, EDP systems and office furniture and equipment which are acquired through either liquidation, assisted merger or purchase and assumption.

These assets are advertised for sale through local newspapers, league news bulletins and telephone calls to prospective purchasers. The buildings are all appraised and placed on the market through a real estate broker. As noted earlier the fund currently has three major credit union buildings listed and available for sale.

Reductions in Guarantees

In prior years the Fund guaranteed bidders that a percentage of loans purchased would be collected. While the Fund guarantees increased the initial purchase price, the guarantees also reduced some of the incentive for purchasers to agressively collect the loans. Also contingent liabilities of the Fund rose dramatically. In 1981, the contingent liabilities totaled \$171 million as compared to \$174.8 million in Fund equity. At the end of fiscal year 1983, the overall contingent liabilties were reduced by approximately \$51 million to \$120 million and the Funds' equity increased to \$235 million.

Contingencies Reduced Over \$50 million

This decrease was accomplished by not issuing any additional guarantees unless absolutely needed to facilitate a merger or loan sale. For example, only one guarantee was used to make a sale of loans newly acquired from liquidations.

In those rare instances where guarantees were written for repurchases, the Fund only guaranteed the collectibility of specific loans, such as those loans which were delinquent, rather than guaranting the entire loan portfolio.

The Fund has also been able to reduce the contingent liabilities through negotiations with the purchasers of loans who hold guarantees. Over \$3 million in guarantees were eliminated through this method in fiscal year 1983. The history of the loan guarantee program from 1971 through 1983 is as follows:

Loan Guarantee Contracts

Number of Contracts written	1607
Book Value of Loans	476,480,524
Amount of Guarantees	288,974,598
Amount of Purchases	34,440,467
Contingent liability (9/30/83)	67,338,088
Percent of Guarantees to Book Value	60.6%
Loss Ratio on Matured Contracts	11.5%

Cost of guarantees reduced

Since the majority of the above guarantee agreements have been written during the years of high liquidations in 1980 and 1981 and extend for several years, the overall cost of the guarantee program will not be fully known until a larger percentage of contracts mature. The cost of the guarantee agreements that have matured or were closed during fiscal year 1983 was 7% of the guarantee amount. This is a decrease from 14.4% for the cases closed in fiscal year 1982.

Audits of Loan Purchasers

$500,000 Recovered

During 1983, the Fund started auditing the purchasers with contracts from the Fund which guaranteed the collectibility of loans. These audits have resulted in the recovery of approximately $500,000 to date. The amounts recovered were from the claims purchasers made on contracts prior to maturity with a result that by the conclusion of the contract an amount in excess of the guarantee had been recovered. Purchasers were required to refund to the Fund the amount of interim claims. Additional audits are planned for the next fiscal year.

Bond Claims/Litigation

Bond claims arise from two sources. First the Fund manages all bond claims which have been purchased from credit unions that have ceased operations through either a merger or purchase and assumption. These claims are purchased to prevent the continuing or assuming credit union from having to assume a substantial non-performing asset. Bond claims owned by the Fund are claims of the United States, and the Department of Justice handles litigation, if necessary, in these cases. A second category of claims are those which are the responsibility of NCUA in its role as the Liquidating Agent. These claims were filed prior to a credit union's entering liquidation or filed by the Agency upon discovery of the loss after the liquidation commenced and are managed by each Region's Liquidating agent. In addition, the fund is responsible for filing claims for losses incurred as a result of improper action or the lack of proper action on the part of the officials or employees in a failed credit union. There are 10 large claims pending. Claims against bonding companies total approximately $6.3 million and suits totalling approximately $2.7 million have been filed against the officials of credit unions.

Financial Results

$57.3 million gain is highest ever

The Fund's $57.3 million addition to equity, the highest ever, raised overall equity to $235.2 million or .290% of insured shares compared to .259% as of September 30, 1982.

Total income of $125.0 million was $30 million greater than the prior year. The full second assessment of 1/12 of 1% resulted in income of $52.3 million up from the prior year's 1/18 of 1% and $29.9 million. Regular share insurance premiums were 14.2% or $7.4 million greater than 1982. Investment income also increased by $1.9 million to equal 16.6% of total income, a decrease from 19.9% in 1982.

Other income declined from $1.3 million to $.7 million. This amount is primarily income from interest on loans and from fees charged to credit unions receiving special assistance. During the year, loans acquired in liquidations or as a result of repurchases from loan guarantees were no longer serviced, but promptly resold, which has substantially eliminated this source of income.

Expenses

Total expenses declined by 26% from Fiscal Year 1982 costs. This is the first year total expenses have declined since 1978.

The expenses from losses from insured credit unions declined from $77.5 million in Fiscal Year 1982 to $55.1 million in 1983. This was achieved primarily from a reduction in liquidation expense. This expense was $23.0 million in 1982 and a credit of $11.2 million in 1983. The credit balance resulted from the settlement of some long outstanding bond claims and the determination that certain liabilities in one large liquidating credit union were not valid claims, thus reducing the expense that had previously been recognized.

Merger expreses grew from $17.4 million to $26.7 million. Although a major increase, the expense incurred was less than would have been realized if the credit unions had been liquidated and the shareholders paid out. Purchase and assumptions, similar to a merger, were recorded as a separate item on the expense statement for the first time this fiscal year. The total for this expense was $3.0 million.

First Expense Decline Since 1978

For the first time in the history of the Insurance Fund, administrative expenses declined. A savings of $512,000 was achieved over the 1982 costs. These administrative costs consist of two components, the direct costs and indirect transfer from the NCUA Operating Fund. The direct costs are the salaries, benefits and travel costs of employees whose responsibilities deal exclusively with the operation of the Share Insurance Fund. The transfers represent an allocation of all other NCUA costs.

Over the past 6 fiscal years the amount and percent of this transfer was as follows:

Fiscal Year	1978	1979	1980	1981	1982	1983
Amount (000's)	$3,568	$4,165	$6,187	$7,069	$7,940	$7,920
Transfer as a Percent of Total NCUA Operating Expenses	20%	21%	26%	25%	28%	26%
Transfer as a Percent of NCUSIF Operating Expenses	69%	71%	74%	76%	73%	77%

The Fund reimburses the operating part of NCUA for a portion of each NCUA employee's time that is devoted to duties related to share insurance. The transfer percentage is reviewed each year during the annual budget process. The transfer rate has remained unchanged for 4 years. The numbers in the chart above changed due to the ratio of individual items.

Balance Sheet

Since September 30, 1982, the investments have increased by $78.9 million, capital notes in credit unions grew by $22.6 million, the estimated liquidation value of credit union assets decreased by $6.8 million, and loans acquired from credit unions decreased by $2.9 million. Amounts due from bond and other legal claims have dropped by $5.8 million.

Investment portfolio performance improves

Investments continue to be the major asset of the Insurance Fund and management of this asset is important in the Fund's performance.

Title II of the Federal Credit Union Act permits the Fund to invest in interest-bearing securities of the United States or in securities guaranteed as to both principal and interest by the United States. The investment portfolio includes U.S. Treasury 1-day certificates, bills, notes, and bonds. In addition, the Fund periodically acquires other government securities while performing its insurance function either during a merger, liquidation, or special action. As of September 30, 1983, the Fund held approximately $5.8 million in other government securities.

The investment portfolio increased during Fiscal Year 1983 from $197.7 million to $276.6 million, or by nearly 40%. This was primarily due to the assessment of a second premium and improved operational results that have limited cash outflows from the Fund.

Fund's yield out performs market

The primary objective of the Fund is to remain liquid, then to actively manage the portfolio within the established maturity limits to obtain maximum yields. The performance of the investment portfolio has been significantly improved to increase yield, liquidity, and book-to-market value. The yield on the portfolio for Fiscal Year 1983 was 8.8% which exceeds the yield on the average 90-day T-Bill for the year by 24 basis points. In Fiscal Year 1982 the investment yield was 167 basis points below the average 90-day T-Bill yield for the year. This improvement is more dramatically shown in September 1983 where the investment yield of 9.36% is nearly 3/4% above the month's 90-day T-Bill yield.

To improve liquidity and market-to-book value the Fund continued to convert intermediate and long-term securities into short-term Treasury Bills. This managed sale over a 2-year period will be completed by April 30, 1984. As a result of this effort, at year-end, 94% of the Fund's investments matured in less than 1 year and the portfolio's market value was at 99% of book. The comparable investment maturities for Fiscal Year-Ends 1981 and 1982 were 57% and 79% respectively.

On the liability side of the balance sheet liquidation claims have decreased by $5.7 million of which $3.0 million was in unclaimed shares trusted to the states where the shareholder was last known to reside. Money owed to the Operating Fund of NCUA was reduced significantly to allow the Operating Fund to invest the cash as authorized by the Garn-St Germain Act.

The loss provision for loan guarantees was increased to $22.2 from $15.6 million of the prior September. The provision for potential credit union losses in operating credit unions was established at $43.8 million as of September 30, 1983. This was the first year such provisions have been made. Because of the lack of experience to test these estimates, Ernst & Whinney have qualified their opinion.

Fund Balance

The Fund's equity is the reserve from which losses beyond the established allowance and current period's income are changed. The Fund's equity ratio stands at .290% as of September 30, 1983 which is an increase of .03% from the prior year.

Contingencies

Contingent liabilities continued to decline and are at the lowest level since 1980. Total contingent liabilities at September 30, 1983 were $120.1 million, or 51.1% of equity compared with 98.2% in 1981 and 83.8% in 1982.

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, 1983 and 1982, and the related statement of operations and fund balance for the year ended September 30, 1983. 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 accumlate 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 and, 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. Also, because the Fund has not yet accumulated sufficient historical loss experience data in support of the provision for these losses, we were unable to satisfy ourselves as to the amount thereof.

As explained in Note B, the Fund provides for estimated losses on asset and merger guarantees. Because the Fund has not yet accumulated sufficient data in support of the provision for these losses, we were unable to satisfy ourselves as to the amount thereof.

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 and to support the amounts of the aforementioned losses, as referred to in the second and third preceeding paragraphs, the financial statements referred to above present fairly the financial position of the National Credit Union Share insurance Fund at September 30, 1983 and 1982 and the results of its operations for the year ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of providing for estimated losses relating to credit unions experiencing financial difficulties but not receiving cash assistance from the Fund or losses in excess of the amount of outstanding cash assistance with respect to those credit unions receiving cash assistance.

The accompanying statement of operations and fund balance for the Fund for the year ended September 30, 1982 was not audited by us and, accordingly, we do not express an opinion on it. The 1982 statement of operations and fund balance does not include provisions relating to losses on credit unions identified as experiencing financial difficulties but not receiving cash assistance and any loss in excess of the amount of outstanding cash assistance with respect to those credit unions receiving cash assistance. Generally accepted accounting principles require that the Fund estimate and provide for the losses relating to these items. It is impracticable to determine the impact of this departure from generally accepted accounting principles.

Ernst & Whinney

Washington, D.C.
November 30, 1983

Balance Sheets
National Credit Union Share Insurance Fund

	September 30	
	1983	1982
Assets		
Investments — Note 3		
U.S. Government Securities	**$275,419,965**	$196,357,134
Other securities	**1,182,911**	1,298,865
	276,602,876	197,655,999
Accrued interest receivable	**609,594**	892,692
Advances to credit unions:		
Capital notes	**28,225,744**	11,150,828
Share deposits	**3,581,222**	5,647,597
	31,806,966	16,798,425
Assets acquired from credit unions, at estimated net realizable value:		
Liquidating credit union assets held	**4,539,195**	11,318,384
Receivers certificate	**2,724,675**	—
Amount due from bond claims	**993,048**	5,671,284
Real estate loans	**941,462**	854,846
Other loans	**31,080**	40,166
	9,229,460	17,884,680
Loans acquired under guarantee agreements	**55,701**	3,006,227
Cash	**25,299**	416,960
Other assets	**562,457**	682,010
	$318,892,353	$237,336,993
Liabilities and Fund Balance		
Due to NCUA — Note G	**$ 344,321**	$ 8,948,773
Amounts due to insured credit union shareholders	**3,903,709**	9,608,316
Mortgage payable — Note E	**—**	2,275,294
Deferred insurance premium income	**13,247,606**	11,350,746
Estimated losses from supervised credit unions — Note C	**43,832,556**	10,484,822
Estimated losses on asset and merger guarantees	**22,158,799**	15,600,000
Other liabilities	**196,341**	1,148,245
TOTAL LIABILITIES	**83,683,332**	59,416,196
Fund balance	**235,209,021**	177,920,797
	$318,892,353	$237,336,993

See notes to financial statements.

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

	Year Ended September 30 1983	1982 (Unaudited)
Revenue		
Insurance premiums:		
Regular	**$ 51,251,563**	$ 44,854,791
Special assessment	**52,286,030**	29,945,000
	103,537,601	74,799,791
Interest income	**21,187,528**	18,897,171
Other income	**311,017**	1,344,104
TOTAL REVENUE	**125,036,146**	95,041,066
Expenses		
Insured credit union losses	**55,060,356**	77,458,126
Administrative Expenses — Note H:		
Employee benefits and wages	**6,859,207**	7,278,758
Travel expense	**1,086,231**	1,075,064
Facilities expense	**1,159,169**	1,134,501
Contracted services	**636,203**	834,639
Miscellaneous	**574,109**	490,434
Total Adminstrative Expenses	**10,314,919**	10,813,396
Collection expenses	**577,224**	1,820,484
Loss on sale of investments	**1,795,423**	1,805,591
TOTAL EXPENSES	**67,747,922**	91,897,597
Excess of revenue over expenses	**57,288,224**	3,143,469
Fund balance at beginning of year	**177,920,797**	174,777,328
FUND BALANCE AT END OF YEAR	**$235,209,021**	$177,920,797

See notes to financial statements.

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). 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 accounts in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is $100,000 per member account.

The NCUA exercises supervisory authority over credit unions insured by the Fund. These credit unions are required to report certain financial and statistical information to the NCUA on a semiannual basis and are also subject to periodic examination by the NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if the difficulties are considered by the Fund to be temporary or correctible. This may entail special assistance by the Fund in the form of waiver of statutory reserve requirements, reserve guaranties, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is determined not to be feasible, a merger partner may be sought. If the assistance or merger alternatives are not considered practical, then the credit union is placed into liquidation.

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 allow the credit union to establish a noncash reserve guaranty account, whereby the credit union records a receivable from the Fund in the amount of its reserve deficit with a corresponding addition to reserves. When cash assistance to a credit union is considered necessary to keep it operating, the Fund may advance cash in the form of share deposits and capital notes to or purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance is given in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the collectibility of certain assets (primarily loan portfolios).

When a credit union is no longer able to continue operating and the value of its assets is less than its members' shares and liabilities, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the insured maximum 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 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 share deposits and capital notes to certain credit unions to assist them in continuing operations. At September 30, 1982, the allowance for estimated losses from supervised credit unions was limited to the amount of cash assistance outstanding and was included in the balance sheet as a reduction of advances to credit unions. As discussed below, effective October 1, 1982, the Fund began providing for total estimated losses from supervised credit unions. For comparative purposes, the 1982 allowance amount has been included with 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.

Loans Acquired under Guarantee Agreements: Loans acquired from third-party purchasers under guarantee agreements are carried at estimated net realizable value.

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

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 on Assets and Merger Guarantees: Estimated losses on assets (primarily loan) guarantees outstanding at September 30, 1983 made to third-party purchasers or made to credit unions to facilitate mergers were estimated by management based on a case-by-case evaluation. Estimated losses on similar guarantees outstanding at September 30, 1982 were estimated by management based on historical guarantee loss experience ratios. Guarantees outstanding at September 30, 1983 and 1982 were $70 million and $100 million, respectively.

Deferred Insurance Premium Income: The Fund assesses each insured credit union a regular annual premium of 1/12 of one percent of member share accounts outstanding as of December 31 of the preceeding 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 is permitted to assess an additional premium which annually may not exceed the regular annual premium. These special assessments are recognized as income in the fiscal year in which they are assessed. Such special assessments were 1/12 and 1/18 of one percent in 1983 and 1982, respectively.

Reclassifications: Certain 1982 amounts have been reclassified for comparative purposes.

Note C — Estimated Losses From Supervised Credit Unions

At September 30, 1983, the Fund insured approximately $78 billion of credit union member share accounts maintained at approximately 16,000 credit unions. At September 30, 1983, approximately 1,100 insured credit unions with approximately $4.7 billion of share accounts have been identified through the NCUA supervisory and examination process as experiencing financial difficulties. 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 — Investments

Investments consisted of the following at September 30:

	1983 Cost	1982 Cost
U.S. Government Securities		
U.S. Treasury bills	**$245,343,493**	$148,200,961
U.S. Treasury notes	**15,880,842**	34,804,177
U.S. Treasury bonds	**9,565,017**	13,351,996
Other Government Securities	**4,630,613**	—
	275,419,965	196,357,134
Israel notes, 9.75% due 1994	**1,182,911**	1,298,865
	$276,602,876	$197,655,999
	Market Value	Market Value
	$273,188,350	$192,067,790

The Israel notes were acquired from a merged credit union and are guaranteed as to principal and interest by the U.S. Government. They have a sinking fund agreement through which a portion of the notes may be redeemed by the issuer each June 30.

Note E — Mortgage Payable

As a result of the merger of two credit unions, the Fund obtained title to land and a building in exchange for a $2,275,294 mortgage to the surviving credit union. The mortgage was paid in full during 1983. Related interest expense for the year ended September 30, 1983 was $123,801.

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 the 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 1983 or 1982.

Note G — Transactions with NCUA

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 upon actual usage. The cost of services provided by the NCUA operating fund for the year ended September 30, 1983 was $8,439,629.

Note H — Retirement Plan

Employees of the Fund participate in the Civil Service Retirement System which is a contributory defined contribution retirement plan. Contributions to the plan are based on a percentage of employees' gross pay. Pension expense for the year ended September 30, 1983 was $425,000.

NATIONAL CREDIT UNION SHARE INSURANCE FUND THIRTEEN YEAR SUMMARY (MILLIONS)

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

(AMOUNTS IN THOUSANDS)

	Fiscal Year 1971	Fiscal Year 1972	Fiscal Year 1973	Fiscal Year 1974	Fiscal Year 1975	Fiscal Year 1976
Income						
Regular Premium - Federal	$ 6,336	$ 9,738	$ 7,895	$ 9,314	$11,237	$16,190
Regular Premium - State	(1)	(1)	3,829	3,557	4,223	7,722
Special Premium - Federal	—	—	—	—	—	—
Special Premium - State	—	—	—	—	—	—
Investments	100	497	1,089	2,259	3,207	5,091
Other	—	—	—	18	408	396
Total Income	$ 6,436	$10,235	$12,813	$15,148	$19,075	$29,399
Expenses						
Operating	$ 515	$ 596	$ 1,357	$ 1,740	$ 3,221	$ 6,139
Merger	—	—	—	—	—	—
Liquidation	—	1	864	1,589	290	1,596
Provision for loss on assistance	—	—	—	—	—	—
Loss on Investment Sales	—	—	—	—	—	—
Other	—	—	1	131	554	911
Total Expenses	$ 515	$ 597	$ 2,222	$ 3,460	$ 4,065	$ 8,646
Net Income	**$ 5,921**	**$ 9,638**	**$10,591**	**$11,688**	**$15,010**	**$20,753**
Total Equity	**$ 5,921**	**$15,559**	**$26,150**	**$31,968(2)**	**$47,196(3)**	**67,956(4)**
Equity as a percentage of Insured Shares	0.054%	0.112%	0.160%	0.163%	0.189%	0.224%
Contingent Liabilities	**$ 748**	**$ 1,691**	**$ 4,367**	**$ 1,044**	**$ 5,242**	**$ 7,157**
Continget Liabilities as a Percentage of Equity	12.6%	10.9%	16.7%	3.3%	11.1%	10.5%

* Amounts for a 15 month period due to a change in Fiscal Years.

(1) Premiums were not separately recorded for fiscal or calendar years 1971 and 1972.

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

	Calendar Year 1977	Calendar Year 1978	Calendar Year 1979	Calendar Year 1980	Calendar Year 1981	Calendar Year 1982	Calendar Year 1983
Insured Shares							
Federal Credit Unions	$25,576	$29,802	$31,831	$36,263	$37,788	$45,491	$54,045**
State Credit Unions	11,756	14,316	15,871	18,468	20,006	23,152	27,100**
Total Insured Shares	$37,332	$44,118	$47,702	$54,731	$57,794	$68,643	$81,145**
Number of Member Accounts in Insured Credit Unions							
Federal	20,426	23,259	24,789	26,829	28,595	26,095	26,700**
State	8,995	11,479	12,218	13,679	14,657	13,160	13,460**
Total	29,421	34,738	37,007	40,508	43,252	39,255	40,160**
Number of Insured Credit Unions (whole numbers)							
Federal	13,000	13,050	13,000	12,802	12,367	11,430	11,027**
State	3,882	4,362	4,769	4,910	4,994	5,036	4,934**
Total	16,882	17,412	17,769	17,712	17,361	16,466	15,961**
State Credit Union Shares as a Percentage of Total Insured Shares	31.5%	32.4%	33.3%	33.7%	34.6%	33.7%	33.4%
NCUSIF Insured Shares as a Percentage of all Credit Union Shares	80.3%	82.4%	83.0%	83.3%	81.5%	82.9%	83.8%

	Fiscal Year 1977	Fiscal Year 1978	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982	Fiscal Year 1983
Income							
Regular Premium - Federal	$17,053	$20,013	$23,563	$25,682	$27,657	$29,657	$33,878
Regular Premium - State	7,572	9,617	11,616	12,813	14,077	15,197	17,374
Special Premium - Federal	—	—	—	—	—	19,419	34,561
Special Premium - State	—	—	—	—	—	10,526	17,725
Investments	5,447	7,051	9,178	13,319	19,033	18,897	20,796
Other	322	715	1,579	1,718	1,655	1,343	702
Total Income	$30,394	$37,396	$45,936	$53,532	$62,422	$95,039	$125,036
Expenses							
Operating	$ 4,725	$ 5,175	$ 5,873	$ 8,332	$ 9,314	$10,827	$10,315
Merger	—	—	—	$ 9,670	$12,002	$17,372	26,658
Liquidation	3,025	2,557	4,709	20,131	27,648	22,972	(11,164)
Purchase & Assumption	—	—	—	—	—	—	3,043
Provision for loss on assistance	—	—	—	—	—	37,022	36,768
Loss on Investment Sales	—	—	—	—	—	1,805	1,795
Other	730	613	1,665	2,730	4,215	2,175	323
Total Expenses	$ 8,480	$ 8,345	$12,247	$40,863	$53,179	$91,896	$67,748
Net Income	**$21,914**	**$29,051**	**$33,689**	**$12,669**	**$ 9,243**	**$ 3,143**	**$57,288**
Total Equity	**$89,870**	**$118,921**	**$152,610**	**$165,620(5)**	**$174,777**	**$177,921**	**$235,209**
Equity as a percentage of Insured Shares	0.241%	0.270%	0.320%	0.303%	0.302%	0.259%	0.290%
Contingent Liabilities	**$ 6,488**	**$10,213**	**$18,913**	**$100,463**	**$171,716**	**$149,090**	**$120,074**
Contingent Liabilities as a Percentage of Equity	7.2%	8.6%	12.4%	60.7%	98.2%	83.8%	51.1%

(3) 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.

(4) Prior period adjustment for costs incurred to administer unclaimed shares amounting to approximately $7,000 that were previously charged to expenses.

(5) Increasing and decreasing adjustments of $341,000 and $86,000, respectively, made to reflect the closing out of the OEO Guaranty Program of 1971 providing selected limited income Federal credit unions with funds to shore up reserves.

** Estimated amounts for calendar year 1983

	Fiscal Year 1971	Fiscal Year 1972	Fiscal Year 1973	Fiscal Year 1974	Fiscal Year 1975	Fiscal Year 1976
Operating Ratios						
Premium Income as a Percentage of Total Income	98.4 %	95.1 %	91.5 %	85.0 %	81.0 %	81.3 %
Investment Income as a Percentage of Total Income	1.6 %	4.9 %	8.5 %	14.9%	16.8 %	17.3 %
Operating Expenses as a Percentage of Total Income	8.0 %	5.8 %	10.6 %	11.5 %	16.9 %	20.9 %
Liquidation and Merger Expense as a Percentage of Total Income	—	0.01%	6.7 %	10.5 %	1.5 %	5.4 %
Total Expense as a Percentage of Total Income	8.1 %	5.8 %	17.3 %	22.8 %	21.3 %	29.4 %
Net Income as a Percentage of Total Income	91.9 %	94.2 %	82.7 %	77.2 %	78.7 %	70.6 %

(AMOUNTS IN THOUSANDS)

	Fiscal Year 1971	Fiscal Year 1972	Fiscal Year 1973	Fiscal Year 1974	Fiscal Year 1975	Fiscal Year 1976
Liquidations						
Number	—	4	50	100	153	128
Share Payout	—	$ 2	$1,366	$2,838	$5,542	$7,527
Share payouts as a Percentage of Insured Shares	—	0.00001%	0.008%	0.015%	0.022%	0.025%
Mergers						
Number	32	54	54	76	196	198
Merger costs	—	—	—	—	N/A	N/A
Loans Acquired						
Number	—	—	—	4,120	14,580	10,295
Book value	—	—	—	$1,494	$7,076	$7,163
Assistance to Avoid Liquidation (outstanding at year end)						
Cash	—	—	$ 308	$ 445	$ 115	$ 115
NCUSIF Guaranty Accounts (non-cash)	—	—	—	—	$ 541	$ 585
Number of cases	—	—	20	4	5	10
Problem Case Insured Credit Unions						
Number	N/A	N/A	N/A	N/A	N/A	830
Shares	N/A	N/A	N/A	N/A	N/A	$570 million
Problem case shares as a Percentage of Insured Shares	—	—	—	—	—	1.9%

	Fiscal Year 1977	Fiscal Year 1978	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982	Fiscal Year 1983
Operating Ratios							
Premium Income as a Percentage of Total Income	81.0 %	79.2 %	76.6 %	71.9 %	66.9 %	78.7 %	82.8%
Investment Income as a Percentage of Total Income	17.9 %	18.9 %	20.0 %	24.9%	30.5 %	19.8%	16.1%
Operating Expenses as a Percentage of Total Income	15.5 %	13.8 %	12.8 %	15.6 %	14.9 %	11.3 %	8.3%
Liquidation, P&A and Merger Expense as a Percentage of Total Income	9.9 %	6.8 %	10.3 %	55.7 %	63.5 %	42.2 %	14.8%
Total Expense as a Percentage of Total Income	27.9 %	22.3 %	26.7 %	76.3 %	85.2 %	96.7%	54.2%
Net Income as a Percentage of Total Income	72.1 %	77.7 %	73.3 %	23.7 %	14.8 %	3.3 %	45.8%

	Fiscal Year 1977	Fiscal Year 1978	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982	Fiscal Year 1983
Liquidations							
Number	142	168	169	239	251	160	50
Share Payout	$12,715	$14,244	$19,011	$59,957	$78,639	$39,892	$9,954
Share payouts as a Percentage of Insured Shares	0.034%	0.032%	0.040%	0.110%	0.136%	0.058%	0.012%
Mergers							
Number **	191	196	193	313	333	439	706
Merger costs	N/A	N/A	N/A	$ 9,670	$12,002	$17,095	$26,658
Loans Acquired							
Number	10,485	9,549	17,623	23,047	19,850	27,319	2,652
Book value	$ 7,642	$ 7,545	$15,185	$22,507	$13,763	$17,234	$1,840
Assistance to Avoid Liquidation (outstanding at year end)							
Cash	$ 115	$13,522	$16,082	$18,696	$18,706	$26,123	$31,721
NCUSIF Guaranty Accounts (non-cash)	$ 1,080	$ 1,733	$ 5,791	$29,247	$42,922	$48,786	$52,736
Number of cases	9	12	30	59	111	124	112
Problem Case Insured Credit Unions							
Number	660	825	1,020	1,018	1,174	1,192	1,124
Shares	$531 million	$1.45 billion	$2.3 billion	$2.4 billion	$2.98 billion	$4.59 billion	$4.65 billion
Problem case shares as a Percentage of Insured Shares	1.4%	3.3%	4.8%	4.4%	5.2%	6.8%	5.7%

** 1982 reflects activity of nine months (January 1, 1982 athrough September 30, 1982) to coincide with Fiscal Year. Prior to 1982, information is reported on a calendar year basis.

History

The Insurance Fund was created by Public Law 91-468 (Title II of the Federal Credit Union Act) which was approved on October 19, 1970. The Insurance Fund was established as a revolving fund in the Treasury of the United States under the management of the Administrator of NCUA (now the NCUA Board). The Act directed the Administrator to insure member accounts in all Federal credit unions and for qualifying state credit unions that requested insurance. The maximum amount of insurance was set at $20,000 per member account. This maximum was raised to $40,000 by Public Law 93-495 (October 29, 1974) and again to the current level of $100,000 by Public Law 96-221 (March 31, 1980).

Funding is provided by annual premiums paid by each insured credit union as well as any income derived from investments. The annual premium is equal to 1/12 of one percent of the total amount of the credit union's member share accounts as of December 31 of the preceeding year. In addition, in any year in which expenditures of the Insurance Fund exceed its income, the Board can levy an additional premium not to exceed the regular annual premium. The Board also has a $100 million line of credit with the Secretary of the Treasury.

Funds can be used by the Board for insurance payments, assistance authorized in the Act in connection with the liquidation or threatened liquidation of insured credit unions, and expenses incurred in connection with carrying out the Act's purpose.

Organization

The Insurance Fund is not a corporation but a fund maintained in the Treasury of the United States and managed by the NCUA Board. NCUA is organized with a central office in Washington, D.C., and six regional offices in Boston, Massachusetts; Washington, D.C.; Atlanta, Georgia; Chicago, Illinois; Austin, Texas (Suboffice in Denver, Colorado); and San Francisco, California. The regional offices have primary responsibiity for administration of the examination and supervision program for all Federal credit unions as well as the insurance program for all Federal and federally insured State-chartered credit unions. The regional offices perform the initial reviews of insurance applications and requests for financial assistance under Section 208 of the Federal Credit Union Act. They also have responsibility for performing reviews for continued insurability and for making timely payment of insured member accounts in case of liquidations.

The NCUA Board and its staff is located in the central office in Washington. The central office primary role is to provide support to the regional offices. The accounting records and all investment activity for the Insurance Fund are managed in the Washington office.

National Credit Union Administration

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

1776 G Street, Northwest
Washington, D.C. 20456
(202) 357-1100

Central Office

Ted Bacino, Director, Office of Services
Charles Filson, Director, Office of Programs

1776 G Street, Northwest
Washington, D.C. 20456

Share Insurance Fund

Jerry Courson, Director, Department of Insurance

Joan Perry, Comptroller

Donald Sorrels, Director, Division of Risk
and Asset Management

1776 G Street, Northwest
Washington, D.C. 20456
(202) 357-1010

Regional Offices

Region I (Boston)

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Boston, Massachusetts 02116
(617) 223-6807

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Regional Director
1776 G Street, N.W., Suite 700
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Region III (Atlanta)

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Regional Director
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Region IV (Chicago)

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(312) 886-9697

Region V (Austin)

J. Leonard Skiles
Regional Director
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(512) 482-5131

Denver Sub Office
LEA COMPLEX
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Aurora, Colorado 80010
(303) 837-3795

Region VI (San Francisco)

Barry L. Jolette
Regional Director
77 Geary Street, 2nd Floor
San Francisco, California 94108
(415) 556-6277

National Credit Union
Administration
Washington, D.C. 20456

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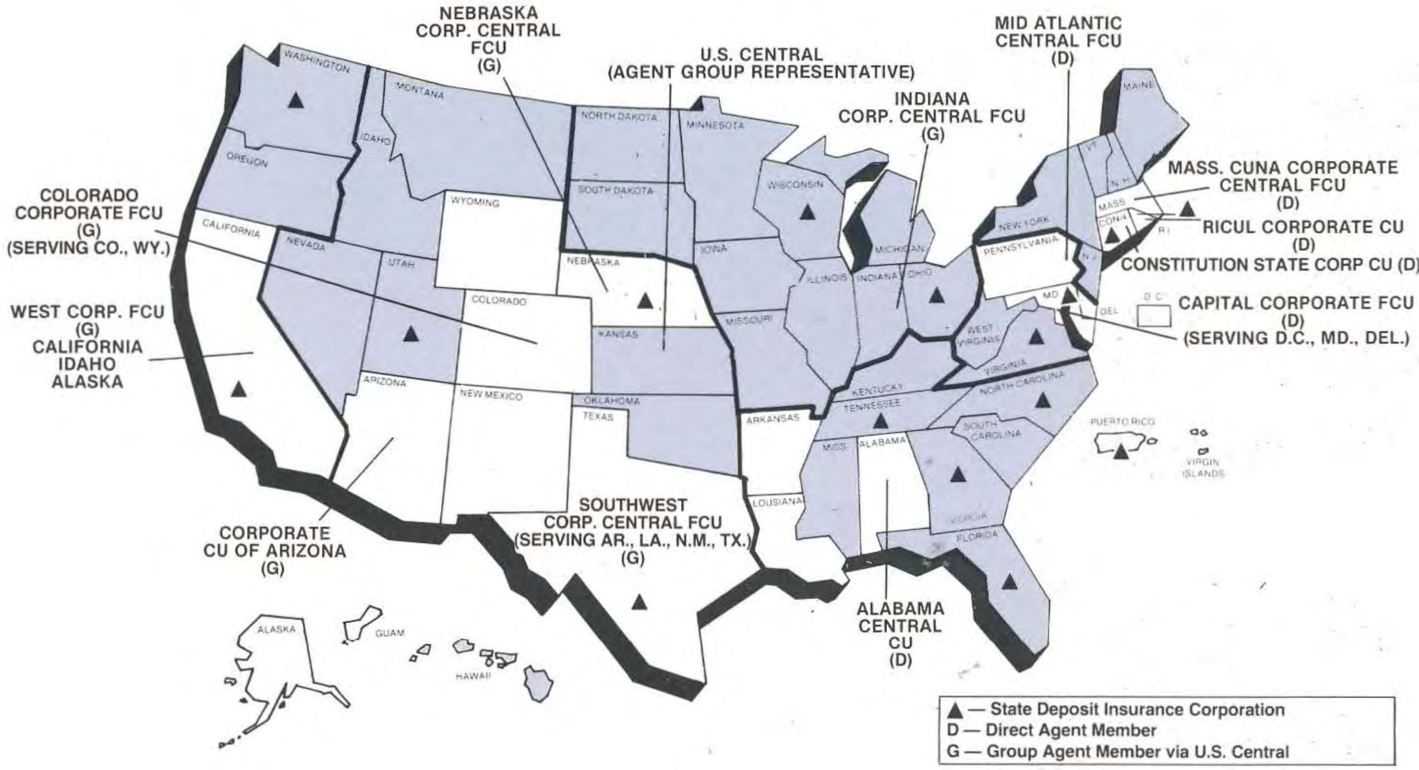
National Credit Union Administration

Central Liquidity Facility

Annual Financial Report
National Credit Union Administration

Fiscal Year 1983
October 1, 1982 – September 30, 1983

CLF Members via Corporate Agents as of September 30, 1983*



*NOTE:
On October 4, 1983 the NCUA Board approved the U.S. Central proposal that enables 29 additional corporate credit unions serving approximately 12,500 credit unions to access the CLF. These new corporate agents are represented by the shaded areas in the above illustration.

Chairman's Letter to Shareholders

"A New Beginning . . . Opens Membership to Virtually All Credit Unions"

This Annual Report is prepared pursuant to Section 6.02 of the Bylaws of the Central Liquidity Facility.

Over the past two years the CLF has made significant progress in strengthening its financial soundness. For example:

- Operating expenses have been reduced from $1.2 million to $609,000;
- The loan portfolio's negative spread has been reversed from a minus 46 basis points to a positive 112 basis points;
- Reserves and undivided earnings have increased from $194,000 to almost $2.9 million (pretax).

Moreover, a major "off balance sheet" success has been that almost two-thirds of the protracted loans have been reduced or paid out many months in advance of due dates. These prepayments indicate the ability of these credit unions to once again attract funds from traditional lending sources or by share inflows.

And yet these achievements would have been for naught if the CLF were unable to assist the vast majority of credit unions for whom and by whom the Facility was created. The significance of the U. S. Central/Corporate Forum proposal approved by the NCUA Board in October is that it opens membership participation to virtually all credit unions. This accomplishment is indeed a new beginning for the CLF.

As credit unions change in response to governmental deregulation, the three tools of regulatory oversight (examinations, insurance and liquidity lending) must also adapt to the new environment. For the marketplace can be unforgiving to those who are unprepared. The credit union competitive advantage is not that we're bigger, or more technically advanced, or more sophisticated; rather the difference is that we're together. This is why the CLF's unfinished nature was so frustrating. As important as financial results are, the most important result that marks this year isn't the "bottom line"—it is the realization of CLF's ability to meet its legislative mandate to "improve general financial stability by meeting the liquidity needs of credit unions" throughout the *entire* United States.

E. F. Callahan

E. F. CALLAHAN
December 1, 1983

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

	1983	1982	% Change
Operating Results			
Operating Net income (before tax)	$9,560,000	$7,871,000	+21%
Dividends	6,957,000	7,853,000	−11%
Net Earnings and Additions to Reserves*	265,000	1,164,000	−77%
(After tax provision. See footnote 10)			
At Fiscal Year End			
Total Assets	$144,687,000	$221,422,000	−35%
Total Member Shares & Retained Earnings	87,996,000	72,348,000	+22%
Total Loans	44,800,000	130,479,000	−66%
Total Employees	9	9	
Total Members: via Agents (credit unions)	12 (5,109)	13 (4,709)	
Direct	551	567	

A History-Making Agreement Expands CLF's Membership

Seldom are important events deemed "historic." That is why the NCUA Board thought carefully before choosing that term to characterize the request from U. S. Central Credit Union and the Corporate Forum to provide CLF membership for more than 18,000 natural person credit unions through the corporate credit union system. After a favorable Board vote, Chairman Callahan said this action "fulfills the hopes and plans" of those who since passage of the Federal Credit Union Act in 1934 have worked to secure a permanent source of backup liquidity solely for credit unions.

The proposal approved October 4, 1983 was the outgrowth of discussions that have been ongoing since the CLF opened in 1979, most recently through the National Credit Union System Capitalization Commission. The Commission included representatives from throughout the credit union community and was sponsored by the Credit Union National Association and U. S. Central Credit Union. It met with trade groups and individual credit unions over an 18-month period and made a series of recommendations about the CLF. Those recommendations were then adopted by the Corporate Forum group, which is comprised of the managers of the Corporate Central Credit Unions.

The Board decided to act because, in the words of Chairman Callahan, "the time is right." Credit unions are experiencing the first real expansion of their loan portfolios in three years. As the national recovery continues, credit union loan demand should increase even more. The historically high levels of liquidity will decline and the rapid growth of savings is likely to slow as loans pick up.

This action nearly quadruples membership in the CLF from 5300 to more than 18,000 credit unions and will mean that more than 90% of all credit unions will have access to CLF financing.

The cost benefits of the plan are remarkable. The almost fourfold increase in membership is achieved at virtually no increase in operating cost of the CLF. The Facility, with a fiscal year 1984 operating budget of $375,000 and a staff of four full-time and four part-time people, can meet the liquidity needs of the enlarged membership because of the complementary working relationship that exists between the CLF and the corporate system.

While the membership plan included several understandings between the U. S. Central and the CLF to minimize the costs of the transaction, the plan requires neither effort nor expense on the part of regular credit unions. Credit union managers need not worry about additional administrative requirements, such as setting up a new investment account, or maintaining other records to reflect their new membership status. As usual, credit unions will turn first to their corporates for help, but now have the added confidence of knowing the CLF can provide assistance if funds from the private system are insufficient or unavailable on terms to meet a specific need.

CLF membership, of course, remains voluntary. Nothing prevents a new member from joining directly or doing nothing at all. Preserving this freedom of choice ranked high on the NCUA Board's priority list because the Board believes that keeping options open to all members is what keeps the system in balance.

"A Permanent Source of Backup Liquidity"

"Provides the Most Effective Delivery System"

Credit unions do, however, have strong incentives to join. These incentives go beyond the credit facilities that CLF provides through the U.S. Treasury's Federal Financing Bank. The CLF also can access the Federal Reserve's discount window on behalf of corporates and their member credit unions. CLF letters of credit or guarantees can be used to collateralize corporate clearing accounts at Fed Banks as well as other obligations of regular members.

NCUA Vice Chairman P. A. Mack, Jr. likened the cooperation now existing between the CLF, the corporate system and individual credit unions to a "correspondent banking system." What's been accomplished for credit unions is "the culmination of a dream," he said. "We've strengthened the existing structure because it provides the most effective delivery system."

In U. S. Central's letter of application, U. S. Central President Jim Williams expressed similar intentions to make the system work for credit unions' benefit.

> "We recognize that this event is the beginning of the full development of the CLF. As circumstances and economic conditions evolve and credit union needs change, we commit U. S. Central to working cooperatively with the CLF and the NCUA Board in order to maximize the benefits to credit unions of membership . . . We hope that this spirit of working partnership in the joint development of the methods and involvements of the CLF can continue in the years ahead for the ultimate benefit of all credit unions and their members."

Financial Summary

In 1983 the CLF saw significant improvement in its financial position. The CLF's income of $8.4 million before dividends equals a competitive 9.2% return on members' capital and deposits. Total operating expenses of $609,502 were reduced by 52% from $1.3 million the previous fiscal year. As a result, net income before dividends was 46.8% of total income, as compared to 34.7% in fiscal year 1982.

The CLF's equity position, including all reserves and retained earnings, rose by more than $1.4 million (pretax), representing nearly a 100% increase from the end of the last fiscal year. Total equity as of September 30 stood at $2.9 million (exclusive of taxes), which equalled 2.0% of assets and 6.5% of loans. The comparable percentages for fiscal year 1982 were .6% and 1.0%, respectively. This equity increase reflects the NCUA Board's recognition that CLF activities are not completely risk-free. Should a loss occur because of a CLF loan or other operational event, the least disruptive method of recognizing it would be from accumulated earnings rather than requiring a current period expense which could dramatically reduce or eliminate dividends for several quarters. Additionally, a short-term management goal is to build sufficient retained earnings so that the income from these funds will offset annual operating expenses.

As discussed on page 6 the CLF's unresolved tax status has resulted in a payment of $1.1 million to the IRS for 1983. Total tax payments for the first four years of operations are $1.3 million. If the efforts to achieve tax exemption are successful these payments will be refunded in full and the amounts once again added to equity. The financial statements show these tax payments as a current period expense and the parallel reduction in reserve accounts.

The spread on the loan portfolio, or the yield on loans minus the cost of funds, also improved significantly, averaging 1.12% for the current fiscal year, compared to a negative .05% for fiscal year 1982 and a negative .46% for fiscal year 1981. This major improvement was the result of a change in CLF's funding strategy for a number of protracted loans. These loans were granted under the CLF/National Credit Union Share Insurance Fund protracted credit assistance program during 1980 but were not originally matched to Federal Financing Bank borrowings. When borrowing costs increased above the lending rates the total yield was less than the overall cost of funds. In addition to the improvement in the loan spread, this strategy gave a number of credit unions with extended maturities an option of repaying the loans before the final payment date.

Balance Sheet

__Early Loan Payments . . . a Positive Step__

The CLF experienced a 35% reduction in assets in fiscal year 1983, primarily due to the decrease in loans. Loans outstanding declined by nearly $86 million, or 65% to $44.8 million as of September 30, 1983. During the fiscal year, prepayments by borrowers and several "takeouts" of CLF loans by corporate credit unions occurred. While the decline in loan balances reduces loan income, the CLF views the early payments and the return of borrowers to the private system as a major positive step for the individual credit unions.

Members' capital stock increased by $14.3 million, or 20%, as compared to last fiscal year. This increase was due to the new membership of Constitution State Corporate, Inc. on October 13, 1982 and the annual capital adjustment in the shares of current members.

Dividends

Dividends on members' stock and deposits of $8.0 million resulted in an average return on shares of 8.6% for the fiscal year. The distribution of net earnings in dividends after all operating expenses exceeded 85% of available net income. The per annum dividend rates paid per quarter on shares for the past two years are as follows:

Quarter Ending	1983	1982
1st Qtr. - 12/31	9.00%	13.00%
2nd Qtr. - 3/31	8.25%	11.25%
3rd Qtr. - 6/30	8.50%	11.25%
4th Qtr. - 9/30	8.80%	9.70%
Fiscal Year Average	8.64%	11.30%

CLF TAX STATUS

Legislation Introduced: Congress To Address Tax Issue

Separate legislation granting a CLF tax exemption was introduced on November 17, 1983 by the Senate Banking Committee and on November 18 by the House Banking Committee. There appears to be a firm consensus by all parties that this technical correction must be addressed in this Congress via legislation.

This renewed legislative effort was begun immediately following an administrative ruling from the Internal Revenue Service in October 1983. Early in the year the CLF pursued a tax exemption directly from the IRS by seeking a favorable administrative ruling. While the prospects of such a ruling seemed good at first, the final ruling was unequivocably negative and pointedly stated that legislation was necessary. The elimination of this alternative to legislation and the significant dollar increase in the tax liability itself should facilitate the final enactment of this technical corrective legislation.

The origins of this situation in which a Federal government entity endures a tax liability are found in the last minute legislative actions surrounding the enactment of the CLF statute in late 1978 as the 95th Congress was about to adjourn. The CLF legislation was due for floor consideration in both the House and the Senate when it ran into Budget Committee problems.

As originally drafted, the CLF was established as another part of NCUA and as such would incur no tax liability. However, the Budget Committees felt that the provisions in the legislation concerning the CLF's borrowing authority raised certain jurisdictional questions. The House and Senate Banking Committees sought a timely remedy to permit passage prior to adjournment. Failure to do so would have delayed the CLF law until the next Congress. Therefore it was proposed to make the CLF a mixed ownership corporation because such corporations enjoy certain exemptions from the requirements of the Federal Budget Act of 1974. This approach worked and the CLF legislation became part of P. L. 95-630 on November 10, 1978. Unfortunately, the standard tax exempt language normally a part of the legislation authorizing such corporations was inadvertently omitted because of the extremely hurried atmosphere surrounding this last-minute change. Congress never intended to tax the CLF.

However, even for a "technical" change, the legislative process can be long and arduous. Extensive discussions, correspondence, and coordination between the CLF and the appropriate Congressional Committees were conducted during the 96th Congress. During the 97th Congress, the CLF tax exemption was included in a larger piece of legislation introduced by the Senate Banking Committee. The Department of The Treasury was asked to comment on the provisions by the Committee. Treasury's letter offered some technical corrections to the language of the amendment and found no objections to the granting of tax-exempt status for the CLF.

The 97th Congress ended before securing the necessary coordination between the authorizing (Banking) committees and the tax-writing committees to achieve passage of the legislation. With the negative political climate surrounding the debate on the "withholding" of interest and dividends by financial institutions, there was little opportunity in the first session of the 98th Congress to consider such a proposal. However, with the recent IRS ruling and a more favorable political climate, the legislative effort must now be brought to conclusion.

The CLF has made payments to the IRS as follows: 1980 - $116,162.08; 1981 - $46,095.10; and 1982 - $65,450.69. However, a dramatic increase in tax liability means that the CLF must expend $1.1 million in 1983.

Since the proposed legislation would be retroactive to October 1, 1979 all taxes would be refunded plus interest on the funds while held by the IRS. The funds could also be refunded through a court determination. The judicial course of action will also be examined during the coming year.

Membership A New Beginning

After four years of operation, membership in the CLF, although significant, had not reached the levels anticipated. Approximately the same number of credit unions belonged to the CLF in September 1983 as belonged in 1980.

Surveys conducted before the CLF opened in 1979 suggested that membership would be far greater, perhaps including 75% of credit union assets. This proved to be optimistic. Credit unions were uncertain as to the role of the CLF. Some were concerned that the Facility would compete with the corporate credit union system. To others, the operational meaning of the CLF phrase "lender of last resort" was unclear. Finally, the tremendous increase in credit union liquidity from 1980-1983 created record levels of short term funds at almost all credit unions.

In response to these concerns, the National Credit Union System Capitalization Commission began a series of meetings, in part to suggest ways of resolving the CLF membership issue. One outcome of these meetings was the proposal of the U. S. Central/Corporate Forum Group to provide almost all credit unions with access to the Facility. This plan, approved by the NCUA Board October 4, 1983, marks a new beginning for the CLF.

Lending

A Success Story

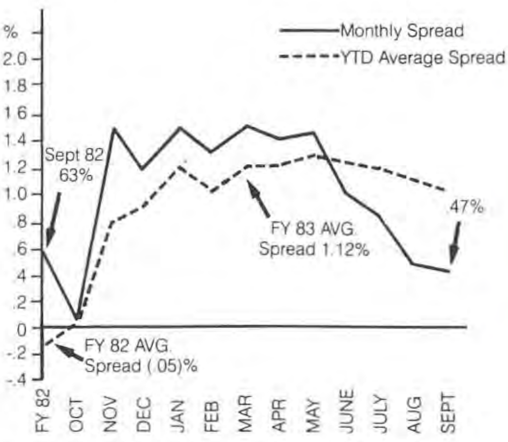
Borrowers Rebuild Liquidity

Although outstanding loans decreased by 65% to $44.8 million at fiscal yearend 1983, the decrease was a positive accomplishment because a number of major borrowers were able to rebuild their liquidity or reestablish credit lines with their corporate credit unions.

The bulk of the $86 million decrease was in protracted adjustment credit loans that were granted between 1980 and 1982. These loans were to assist credit unions experiencing earnings problems caused by high interest rates and withdrawal of shares. In a number of cases the credit unions replaced these shares with high interest short term financing which in turn led to lower or negative earnings. The protracted loans at a fixed rate helped to stabilize the cost of funds and allow the credit unions time to become self supporting.

The results accomplished with several short term and seasonal loans advanced during the year were also successful, although less dramatic, because the amounts involved were smaller. At opposite ends of the fiscal year, October 1982 and September 1983, short term loans were made to two different credit unions for similar purposes.

CLF FY'83 Net Spread on Loans*



*Defined as yield on loans minus cost of funds

One credit union became seriously short on funds because of the sponsor's unexpected decision to file under Chapter 11 of the Federal Bankruptcy Code. The CLF worked closely with the NCUA Regional office to expedite a short term "bridge" loan to keep the credit union in operation until the region could locate a merger partner. By "bridging" the gap that could not be met by private liquidity sources due to the uncertainty of the sponsor's condition, CLF was able to provide assistance that prevented a potential liquidation.

In a second example, CLF in August 1983 received a request for a seasonal loan from a credit union serving a major state university. In his application, the treasurer stated the purpose as follows:

> "Seasonal shortage of funds. Faculty deposits funds from October 15 through June 1 for subsequent withdrawal for living expenses during July, August, and September, a period during which they do not receive a paycheck from the University."

The credit union requested and received $100,000 on September 1, 1983 for a period of 90 days. The credit union's anticipation of its seasonal liquidity requirement allowed funds to be on hand from CLF when needed.

Loan Analysis by Type of Membership During Fiscal Year 1983

Regular Members	60 loans totaling $184,464,000
Agent Members	4 loans totaling $ 3,093,447
U.S. Central Agent Group	3 loans totaling $ 3,888,161
State Insurance Corporations	1 loan totaling $ 3,000,000

Loan Portfolio Spread

The loan portfolio for fiscal year 1983 had a spread of 1.12%, the first positive spread in three years. This occurred because of the deliberate "short funding" strategy described earlier in this Report. The average outstanding loan balance for the year was $88.9 million which was approximately $10 million less than fiscal year 1982. Overall the loan portfolio contributed in excess of $995,000 to net income compared to the prior year's negative spread which drained nearly $50,000 of income.

Loan Commitments

Expanded Resources for Share Insurers

In addition to more than $91 million in loan commitments (lines of credit) to various credit unions throughout the country, the CLF made $55 million available to state share insurance corporations. CLF officials worked closely with the International Share and Deposit Guaranty Association, Inc. (ISDGA), a trade association, to offer these loans in order to give credit union share insurers a reliable source of funds in the event of unexpected liquidations or cash needs. The CLF offers such credit lines to the share insurance corporations at no charge. Nine of the 16 private share insurance corporations have applied for and received specific commitments. These CLF lines of credit are "valuable extensions of each insurance corporation's own resources," according to ISDGA President John Martin.

Stabilization Assistance

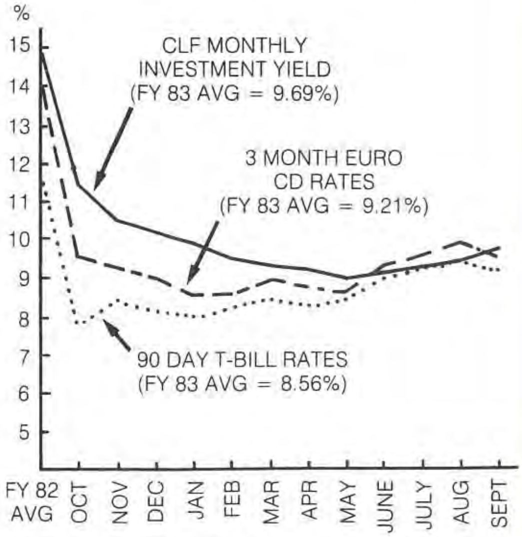
Public/Private Sector Cooperation

Although CLF primarily functions as a liquidity lender, it has provided funds from capital for stabilization assistance in special circumstances. Stabilization is not a new concept to the credit union industry. The various state credit union leagues have often made moderate sums available to assist credit unions over the short haul.

Corporate central credit unions occasionally need special assistance, but usually require more than is normally available from the credit union leagues. During this past year two CLF agents received stabilization assistance in the form of investments at rates below investment opportunities on the rest of CLF's portfolio. In each instance the agent had lost funds on an investment which exhausted all reserves. CLF's participation was part of a comprehensive assistance plan that included support from the Agent's member credit unions, U. S. Central, other corporates and, in one instance, the state share insurance corporation. Each of these groups provided funds in the form of permanent capital shares or below market shares that earned dividends at a rate that allowed the Corporate to meet its earnings and reserving objectives. Dividends received by the CLF on these funds during the fiscal year ranged from 5.5% to 7%.

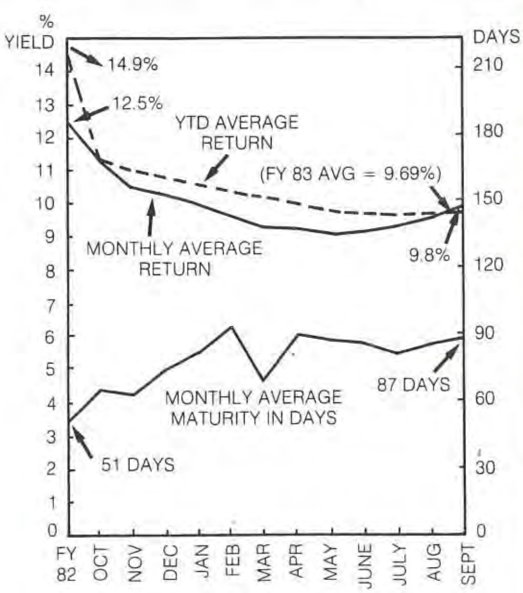
All CLF assistance was "incentivized" by requiring that no CLF funds would be committed until the Corporate's regular members had met their goals. CLF's participation was generally at a multiple of the amount of the members' contributions. Normally all such investments had a maximum maturity of six months. The amounts outstanding fluctuated depending on the participation of the regular credit unions. The peak assistance during the year was $5.8 million which was outstanding for one month. This form of assistance is estimated to have reduced CLF income by $87,000 when compared to the average return on its other investments. The benefit from this cost is that two Agents have been able to remain active and offer competitive services to over 332 regular credit union CLF members. In each instance the Corporate credit union actually increased its share capital and expanded its service relationships while meeting its goals. Each corporate has until January 1984 to repay all remaining assistance.

CLF Investment Results—FY 83



Source: Salomon Brothers Inc.

CLF Investment Portfolio—FY 83



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 of credit unions. 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. With the exception of approximately $600,000 in special assistance with an initial maturity of seven to nine months, all funds were placed in investments at maturities not exceeding six months. At fiscal yearend, the average maturity of all investments was 87 days, compared to 51 days at the beginning of the fiscal year. During the first quarter of the fiscal year the CLF extended the average maturity of the portfolio in anticipation of a declining interest rate environment and a more positive yield curve. This was accomplished by reducing the amount of funds maintained in overnight accounts and increasing the balances in six-month maturities as capital from the annual stock adjustments was received.

During fiscal year 1983 the average balance in the investment portfolio rose to $94.0 million, an increase of $12.5 million from the 1982 average of $81.5 million. The yield on the portfolio was 9.7%. The comparable rates for the three month Eurodollar Certificate of Deposit and 90-day T-Bill were 9.2% and 8.6%, respectively, during the same period.

CLF Investment Portfolio at September 30, 1983

Investment	$ Amount	% of Total Portfolio	Yield
Eurodollar Time Deposits	$88,000,000	91.0%	9.9%
FED Funds	500,000	.5%	9.4%
Deposits in Credit Unions	8,241,733	8.5%	8.4%
TOTALS	**$96,741,733**	**100.0%**	**9.8%(a)**

(a)Weighted Average Yield for September

Maturity Schedule of CLF Investment Portfolio at September 30, 1983

Month	Eurodollar Time Deposits	FED Funds	Deposits in Credit Unions	Total
Oct.	$15,000,000	$500,000	$5,756,233	$21,256,233
Nov.	15,000,000		480,000	15,480,000
Dec.	10,000,000		1,682,900	11,682,900
Jan.	13,000,000		322,600	13,322,600
Feb.	20,000,000			20,000,000
March	15,000,000			15,000,000
	$88,000,000	**$500,000**	**$8,241,733**	**$96,741,733**

Auditor's Report

November 18, 1983

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, 1983 and 1982, 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 accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Balance Sheets

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

	September 30,	
	1983	**1982**
ASSETS		
Cash	$ 23	$ 46
Investments (Note 5)	96,742	89,244
Loans to members less allowance for loan losses of $1,149 at September 30, 1982 (Notes 2 and 4)	44,800	129,330
Accrued interest receivable	3,061	2,690
Other assets	61	132
Total assets	$144,687	$221,442
LIABILITIES AND EQUITY		
Liabilities		
Notes payable (Note 7)	$ 44,200	$130,066
Member deposits (Note 8)	10,681	16,845
Accrued interest payable	593	1,995
Accounts payable and other liabilities	105	188
Federal income taxes payable (Note 10)	1,112	
Total liabilities	56,691	149,094
Equity		
Capital stock—required (Note 8)	86,373	72,139
Retained earnings	1,623	209
Total equity	87,996	72,348
Commitments and contingencies (Notes 4, 10, 12 and 13)		
Total liabilities and equity	$144,687	$221,442

Statements of Operations and Retained Earnings

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

	Year ended September 30, 1983	1982
Income		
Interest on loans	$ 8,833	$10,653
Income from investments	9,071	12,036
Total income	17,904	22,689
Expenses		
Personnel services	294	383
Personnel benefits	45	38
Employee travel	17	28
Shipping and delivery	4	6
Rent, communications and utilities	50	93
Printing and reproduction	14	24
Other services including agent reimbursement	181	425
Supplies and materials	4	7
Depreciation and amortization		267
Other, principally write-off of organization costs (Note 6)		646
Total operating expenses	609	1,917
Interest		
Federal Financing Bank	7,836	10,180
Member deposits	1,048	1,572
Provision for loan losses (Note 2)	(1,149)	1,149
Total expenses	8,344	14,818
Income before income taxes	9,560	7,871
Income taxes (Note 10)	1,189	3
Net income	8,371	7,868
Dividends to members (Note 8)	6,957	7,853
Addition to retained earnings	1,414	15
Retained earnings at beginning of period	209	194
Retained earnings at end of period	$ 1,623	$ 209

Statements of Changes in Financial Position
(Expressed in thousands of dollars)

	Year ended September 30, 1983	1982
Cash and investments were provided by:		
Operations		
Net income	$ 8,371	$ 7,868
Add (deduct) items not affecting cash and investments during the year:		
Depreciation and amortization		267
Provision for loan losses	(1,149)	1,149
Other, principally write-off of organization costs		646
	7,222	9,930
Issuance of required capital stock	18,682	10,428
Addition to member deposits	22,743	40,226
Borrowings	461,541	132,766
Increase in Federal income taxes payable	1,112	
Loan repayments	280,125	52,304
Total cash and investments provided	791,425	245,654
Cash and investments were used for:		
Redemption of required capital stock	4,448	5,631
Withdrawal of member deposits	28,906	37,512
Dividends	6,957	7,853
Borrowing repayments	547,407	103,973
Loan disbursements	194,446	81,758
Other, net	1,786	(1,245)
Total cash and investments used	$783,950	$235,482
Increase in cash and investments	$ 7,475	$ 10,172

Notes to Financial Statements September 30, 1983 and 1982

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.

An allowance for loan losses in the amount of $1,149,000 was established for loans outstanding at September 30, 1982. Due to the improved financial condition of the borrowing credit unions, the pledged security and guarantee on outstanding loans, and the retirement of prior year outstanding loan balances, this allowance was reversed and no allowance was considered necessary for loans outstanding at September 30, 1983.

Investments

All of the CLF's 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, 1983 and 1982, the CLF was in compliance with this limitation.

Note 4—Loans to Members

Loans are made only to member credit unions. These loans carry interest rates which ranged from 9.95% to 11.03% at September 30, 1983 (8.69% to 12.81% at September 30, 1982). The loans mature as follows (dollars in thousands):

	September 30,	
Maturing in fiscal year	**1983**	**1982**
1983		$ 52,916
1984	$44,800	77,563
Less allowance for loan losses (Note 2)		(1,149)
	$44,800	$129,330

The CLF may also provide members with loan commitments. At September 30, 1983 there were approximately $147,000,000 in outstanding commitments ($26,600,000 at September 30, 1982).

Note 5—Investments

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

	September 30,	
	1983	**1982**
Time deposits	$88,000	$77,000
Share certificates of members	8,242	9,644
Overnight securities	500	2,600
	$96,742	$89,244

Note 6—Write-off of Organization Costs and Fixed Assets

Prior to 1982 it was the policy of the CLF to amortize organization costs over 5 years and depreciate fixed assets over lives ranging from 3 to 10 years. During the 1982 fiscal year, the CLF continued to record amortization and depreciation (amounting to $267,000 as of September 30, 1982) of organization costs and fixed assets, respectively. At September 30, 1982, however, these assets were deemed to have no further future value. Accordingly, their remaining unamortized book value of $646,000 was written-off and is presented separately as a charge to income in the statement of operations and retained earnings.

Note 7—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 9.6% to 10.0% at September 30, 1983 (7.4% to 11.8% at September 30, 1982). Interest is generally payable upon maturity. These notes mature as follows (dollars in thousands):

	September 30,	
Maturing in fiscal year	**1983**	**1982**
1983		$ 78,466
1984	$44,200	51,600
	$44,200	$130,066

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 8—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 captial stock.

Note 9—Services Provided by the National Credit Union Administration

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 $389,000 as of September 30, 1983 ($513,000 as of September 30, 1982).

Note 10—Income Taxes

Legislation has been proposed in Congress that would exempt the CLF from Federal, State, municipal and local taxation, except taxes on real property. At the date of these financial statements however, the Congress has not acted on the proposal. Further, the CLF has received an opinion by external legal counsel that a court, having the appropriate jurisdiction and authority, would determine the CLF to be exempt from income taxation both under the Internal Revenue Code and the laws of the District of Columbia.

The Department of the Treasury however, has indicated that specific legislation is required for the CLF to become exempt from Federal income tax. Additionally, in July 1982 the Internal Revenue Service ("the IRS") disallowed the CLF's claim for refund of approximately $162,000 of Federal income taxes paid for the 1981 and 1980 fiscal years, finding that the CLF is not exempt from Federal income tax.

The CLF appealed this decision with the IRS. However, the IRS reaffirmed its position and disallowed the CLF's refund claim. Additionally, the IRS has stated that unless legislation is passed by December 31, 1983 exempting CLF from taxation, IRS statutory notices of claim disallowance will be issued at which point CLF will have two years to file suit for recovery of taxes paid.

However, until specific legislation is passed by Congress or a favorable determination is obtained from a court of law, the CLF is obligated to pay income taxes. A provision for income taxes has been recorded by a charge to income in the financial statements.

Taxable income differs from net income as shown in the statement of operations and retained earnings primarily by the amount of dividends paid to members, which are deducted as an expense for tax purposes.

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, 1983 and 1982 was approximately $20,300 and $24,400, 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, 1983 as follows (dollars in thousands):

Year ended September 30,	
1984	$ 886
1985	964
1986	980
1987	980
1988	980
Thereafter	6,148
	$10,938

The CLF's portion of these lease payments (rent expense) for the years ended September 30, 1983 and 1982 was $26,900 and $36,400, respectively.

Note 13—Subsequent Event

On October 4, 1983 the National Credit Union Administration Board approved in principle a membership request from U.S. Central Corporate Credit Union on behalf of 29 of its corporate credit union members. This will substantially increase membership in the CLF.

In addition, by accepting this request, the CLF is initially committed to reinvest all but $50,000,000 of its total share capital in U.S. Central share accounts at near market rates of interest.

State Insurance Corporations* Which Have Access to the Central Liquidity Facility

California Credit Union Share Guaranty Corporation
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)
North Carolina Savings Guaranty Corporation
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.*

Regular Members of the CLF by State

ALABAMA
Redstone Fed CU

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

ARIZONA
Arizona Telco FCU

ARKANSAS
College Sta Comm

CALIFORNIA
Alliance FCU
Am Elec Assn CU
Auto Parts Assn
Brock's Federal CU
Ca Sch Emp Assn FC
Calif Teac FCU
Carlsbad City EFCU
CCI-Marquardt
Chaffey Dist Emp
Con-Can La Emp
Continental FCU
EAC FCU
Ebtel FCU
Electric Worker CU
Farmers Ins Gr FCU
Fiscal EFCU
Fort Ord
Fresno Grangers
Glendale Area Sch
Hughs Aircraft
Jewish Comm CU
Kaiser Perm Pac CU
Kearny Mesa FCU
L A Teachers CU
Long Beach Comm
March FCU
Mare Island FCU
Mather FCU
Miramonte FCU
Monterey FCU
Natl Sch Dist EFCU
Nav Weapon Ctr FCU
Northern Ind CU
Northrop CU
NSC Emp FCU
Oscar Mayer EFCU
Pacific IBM EFCU
Parsons FCU
PSA Emp FCU
Rand EFCU
Rockwell FCU
Russian Amer CU
Safeway S F EFCU
Santa Barb Teach
Santa Fe Spgs
Sea Air FCU
Sheet Metal Worker
South Bay Area CU
Southern Baptist
Torrey Pines FCU
TRW Systems CU
Union Oil Oleum
Useit FCU
Vallejo City EFCU
Western FCU
Zelpaco CU

COLORADO
Frontier Airlines
Kitayama Emp FCU
U of C FCU

CONNECTICUT
Community Serv CU
Elec Boat FCU
Hamilton Std FCU
Manpoe FCU
Northeast School
Sikorsky FCU
St Boniface Parish
West Haven Teacher
Yale University EM

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
Broward Schools CU
Cy of Miami FCU
Eglin FCU
Embroco FCU
Fam Lines FCU
Fl Commerce FCU
Florida Customs EM
G-P Federal CU
Gainesvl Camp FCU
Gold Coast Ed FCU
GTE FCU
Homestead AFB FCU
Maas Bros EFCU
MacDill AFB FCU
Orlando FCU
Panhandle EDUC
Pen Air FCU
Publix EFCU
Ryder System FCU
Scl Emp FCU
Seminole Teach FCU
7th Coast Guard
Sloss FCU
So St John FCU
Suncoast Schools
Tampa Cy EFCU
Tampa Scl EFCU
Telco EFCU
Trop Telco FCU
UCF FCU
USF Credit Union

GEORGIA
Ahae FCU
Augusta Postal FCU
Augusta Seaboard
Augusta Triple "C"
Augusta VAH FCU
Dixisteel CU
Fort Gordon FCU
Ga State Univ FCU
Ga Telco CU
HEW Atlanta FCU
Maco Fed CU
Nav Mar FCU
Northwest Comm FCU
The Fed Emp CU
Waycross Teac FCU

GUAM
NavMar FCU

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

ILLINOIS
A B Dick Emp FCU
ABE CU
Acme Continen CU
Appleton Emp FCU
Armstrong Cork
Ash Emp CU
Aurora Earthmover
Brunswick Emp CU
CB&I (Oak Brook)
Chicago Area CCA
Chicago Firemen
Chicago Tech CU
College of Dupage
Contsruct Equip CU
Decatur Earth CU
Delmonte MW EFCU
Dukane Emp CU
Eastern FCU
Hines CU
Int Harves E Molin
International Harv
LaSalle Cty Postal
McHenry Cty Scho
New Trier FCU
Paysaver CU
Purina Emp CU
School Dist 120
Snap-On CU
St James Hospital
Union Teachers CU
W Suburban FCU

INDIANA
Deaconess Hospital
Grissom FCU
Jet Credit Union
Tokheim Emp CU

KANSAS
Bonner Spgs FCU
Challenger KC FCU
CU of the S W
Garden Cy Teach
Panhandle FCU
Puritan CU
Sm Postal FCU

KENTUCKY
Autotruck FCU
Cue Credit Un 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 Asso
Kennecott Md Emp
NIH FCU
Rentex Empl FCU
Suburban Hospital

MASSACHUSETTS
Blue Hill CU
Cape Cod FCU
St Therese N B FCU
Worcester Central

MICHIGAN
ABD Fed CU
ACM Employees CU
Alloy Tek Employ
ARC CU
Associated Builder
Bay Catholic
Bay County EFCU
Berrien Fed ECU
Blue Water FCU
C & S Emp CU
Clark FCU
Community FCU
Copoco CU
Crawford Cnty FCU
Dearborn FCU
Det Marathon EFCU
Det Postal Emp CU
Det Teachers CU
DOD Fed CU
Dort 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 Cty FCU
Hamtramck Comm FCU
Isabella Comm CU
Joint Mil Svcs CU
Kalamazoo Dist
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
Spartan Stores CU
State Emp CU
Sterling Van Dyke
T & C Federal CU
Trans Aff Co CU
Trenton FCU
Twin Cities Ar ECU
Twin Cities FCU
Un Steelwkrs of Am
Vandyke Ind Pk CU
W Side Auto Em FCU
W Westland FCU
Warren Schools CU
Wayne Out Cnty Tea
Willow Run EFCU
Ypsilanti FCU

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

MISSISSIPPI
Carthage Comm FCU
Central Sunbelt
Keesler FCU
Mitchell Eng

MISSOURI
Automotive CU
BMA CU
Missouri Cent CU
Panhandle Emp
Sears K C Emp
Steel Workers FCU

MONTANA
Valley CU

NEBRASKA
Nebraska State Emp

NEW HAMPSHIRE
N H State EFCU
Nashua Municipal
Northeast Fed
Sanders EFCU
Service FCU
St Marys Bank CU
Triangle FCU

NEW JERSEY
Atl Cty Elec Co
B T L (Holmdel)
C E Lummus FCU
Celanese Summit
Cumberland Teac FC
E Bergen Teach FCU
Educational
Erielackawanna EFC
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
Passaic Cty Teac F
Portuguese Cont
S Jersey FCU
Trenton NJ Firemn
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
Brooklyn Jenapo
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
Italo-American FCU
Lamson EFCU
Lge of Mutual Taxi
Lilco EFCU
Middletown Psy Ctr
MSBA EFCU
Municipal CU
Nassau County EFCU
Nassau Educ FCU
NMP No Area FCU
No Rock Educat FCU
Norwich Eaton EFCU
Olivetti NY EFCU
Oneida Ltd EFCU
Orchard Pk FCU
Pittsford FCU
Plattsburgh AFB
Port NY Authority
Progressive CU
Rochester UK FCU
SAS Inc Employees
School Emp of Cny
Sperry Emp FCU
Suffolk FCU
Suma (Yonkers) FCU
TCT Fed CU
Teachers FCU
Telco Wat EFCU
Ticonderoga FCU
UFCW Dist Locl One
US Emp Fed CU
Waterbury Comm FCU
Watervliet ARS FCU
WCS FCU
WCTA FCU

NORTH CAROLINA
Cabisco FCU
Greensboro Fed Emp
Hamlet Scl Emp FCU
IBM Coastal EFCU
Martin County
Old Fort
Oteen VA FCU
Rowan Cty Teachers
RTP FCU
TWIU Local 192 FCU

NORTH DAKOTA
Bismarck AF of L
LHHS FCU

OHIO
Auto Access CU
Bellevue
Best Employees
Burt Employees FCU
CHRYCO CU
Celina Reynoco Emp
Cincinn Cent CU
Cincinnati Postal
Cinco FCU
Clyde-Findlay
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
Holy Cross (Euclid)
Ironton DMI Emp
Ironton Lawco EFCU
Kenner Emp FCU
Lan-Fair FCU
Local 212 Ibew Cin
Local 213 Cincinn
Lof Emp FCU
McDonald EFCU
Merrell Emp FCU
Norwood Autowrkrs
Oneils Strouss
Paramauto FCU
Southern Oh Sch Em
St Marys Co Inc
St Marys Elyria
St Saviour Ros FCU
St Trans Emp CU
Steel Prod Emp Inc
T & C CU Inc
Texaco Employees
Tol-Sun FCU
Tresler Emp FCU
United Services
Weatherhead Emps
Whiting FCU
Wittenberg Univ
Yel Spr Comm FCU
Youngstn 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
Oregon Central CU
Portland Frmrs Ins
Rockwood Ind FCU
Safeway Portland
Wauna FCU
Wood Products CU

PENNSYLVANIA
Amax FCU
Boyer Candy EFCU
Cal Ed FCU
Elliott Emp #1
Erie School Emp
Harrisburg Teach
LC-DC-F Emp of Ge
Mack Local 677 FCU
NE Pa School Emp
Nor-Car School
Northampton County
Pa State Empl CU
Phil City EFCU
SAIA Employ FCU
UMWA FCU
Univ of Pitts FCU
USAir FCU
W E Allen FCU
Westmoreland Fed
York Teachers CU

SOUTH CAROLINA
Myrtle Beach AFB
1st Community FCU

SOUTH DAKOTA
Services Center

TENNESSEE
Auto Glass Emp FCU
Chat TVA Emp FCU
Combustion FCU
Eastex Bruce CU
Elk & Duck CU
King Cotton FCU
Memphis Buckey FCU
Nashville Kemba FC
Oak Ridge Govt Emp
Rubber Workers FCU
UT FCU
Wiltruco Emp FCU
Y-12 FCU

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

UTAH
Geneva Fed CU
Hi-Land CU
Utah State Emp CU

VERMONT
New Eng IBM EFCU
Tooele FCU

VIRGINIA
Bellwood FCU
Fairfax School
Langley FCU
Nav Air Norfol FCU
NNS & DD Co Emp
Norfolk Municipal
Park View FCU
Pentagon FCU
Reymet FCU
Sperry Marin EFCU
State Department
Vint Hill FCU
Waynesboro Dupont

WASHINGTON
Alva FCU
Clarko Fed CU
Col Com Fed CU
Fairchild FCU
Fife Community FCU
Katac FCU
Kitsap Fed Empl CU
Sears Seattle EFCU
Seattle Telco FCU
Simpson Emp FCU
Walla Walla Engin
Weyerhaeuser Pulp

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

WISCONSIN
Heritage
Waupaca Area CU

Significant Events in the Development of the CLF

D—DIRECT MEMBER
A—MEMBERSHIP VIA AGENT

DATE	LEGISLATIVE & ORGANIZATIONAL EVENTS	MEMBERSHIP EVENTS	MEMBERSHIP TOTALS
October 1978	PL 95-630 enacting Title III of the FCU Act which created the CLF was passed.		
October 1979	CLF opens for business.	Capital Corporate becomes first agent member.	
November 1979	As a result of economic concerns, U.S. Central decides not to seek membership in the CLF. U.S. Central recommends that the corporates address CLF membership on an individual basis		
December 1979		Navy FCU, Largest Direct member joins.	
February 1980	NCUA Board announces two funding programs using government securities or redeposit of stock in corporates to assist prospective members that may have financial constraints in purchasing CLF stock.	Mass CUNA Corporate RICUL Corporate, Alabama Central, Colorado Corporate join.	
March 1980	CLF appointed as an agent for the Fed for the Credit Restraint Program.		
April 1980		Southwest Corporate joins.	
September 1980		U.S. Central approved as an Agent Group Representative for six corporate credit unions (WesCorp, Corporate Credit Union of Arizona, Southwest Corporate, Indiana Corporate, Nebraska Corporate, and Colorado Corporate.) Mid-Atlantic and NAFCU join as direct agent members.	D—648 A—5658
January 1981	Capitalization Commission holds first meeting. CLF's role and funding issue is put on the agenda. President of CLF invited to participate as an observer. Five regional meetings are held during 1981 and 1982.		

Significant Events in the Development of the CLF

DATE	LEGISLATIVE & ORGANIZATIONAL EVENTS	MEMBERSHIP EVENTS	MEMBERSHIP TOTALS
September 1981			D—582 A—4998
May 1982	The Attorney General issues legal opinion that the CLF borrowings are backed by the "full faith and credit" of the U.S. government. This assures CLF's funding from the Federal Financing Bank. The Capitalization Commission issues final report including recommendations on CLF.		
September 1982			D—567 A—5276
October 1982	The Depository Institutions Act of 1982 (Garn St-Germain Act) signed into law. This Act permits the CLF to act, upon the request of the Federal Reserve Board, as an Agent of the Fed. It also permits NCUA Board to authorize loans from the CLF to the NCUSIF.	Constitution State Corporate Credit Union, Inc. joins the CLF.	
September 1983	U.S. Central's membership request received to complete the Corporate Network, credit union, and CLF relationship. Approved by NCUA Board October 4, 1983.		D—551 A—5109
December 1983 (estimated)			D—551 A—17531

National Credit Union Administration Regional Offices

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

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

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

Delaware
District of Columbia
Maryland
Pennsylvania
Virginia
West Virginia

Region III (Atlanta)
Regional Director, Region III (Atlanta)
National Credit Union Administration
1365 Peachtree Street, Suite 500
Atlanta, Georgia 30367
Commercial (404) 881-3127

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

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

Illinois
Indiana
Iowa
Michigan
Minnesota
Missouri
Ohio
Wisconsin

Region V (Austin)
Regional Director, Region V (Austin)
National Credit Union Administration
611 East 6th Street, Suite 407
Austin, Texas 78701
Commercial (512) 482-5131
Denver Sub Office
Lea Complex
10455 East 25th Avenue
Aurora, Colorado 80010
Commercial (303) 837-3795

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

Region VI (San Francisco)
Regional Director, Region VI (San Francisco)
National Credit Union Administration
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