1982 ANNUAL REPORT

OF THE NATIONAL CREDIT UNION ADMINISTRATION

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APRIL 1983

NCUA 8000

THE WHITE HOUSE

WASHINGTON

November 17, 1982

Dear Ed:

I want to congratulate you on the progress you have made as Chairman of the National Credit Union Administration Board.

It was refreshing for me to learn of the accomplishments of the Board and the 17,000 Federally insured credit unions across the country. Under your leadership, there has been remarkable progress toward self-help solutions to the problems facing the credit union industry. I applaud your efforts to meet the growing competition among financial institutions through the reduction of unnecessary regulations, decentralization, and improved communications.

I especially want to note the way you were able to guide the credit union movement toward restoration, on its own initiative, of the financial health of the National Credit Union Administration Insurance Fund. This effort illustrates a basic tenet of our Administration, that, given the leadership and the opportunity, individual citizens acting together can often find solutions to their problems and need not turn to government to bail them out.

Ed, keep up the good work.

Sincerely,

Ronald Reagan

Mr. E. F. Callahan
Chairman
National Credit Union Administration
Washington, D.C. 20456

April 1, 1983

Dear Mr. President:

I am pleased on behalf of the Board to present you and the Congress this *Annual Report* on the 1982 operations of the National Credit Union Administration (NCUA).

The Agency's primary effort this year has been to reduce government involvement in the business decisions of the 16,570 federally chartered and insured credit unions which serve more than 40 million members. Credit union directors elected by their membership are now responsible for decisions in areas such as the dividend rates paid on members' shares and the choices of groups to be served. Credit union management, not the government, now determines the titles for credit union officers, the par value of shares, and specific loan requirements.

To supervise more closely the safety and soundness of credit union activities, we have redirected our resources to achieve a 25 percent increase in the number of field examiners, while at the same time reducing our Washington staff by 33 percent. Our goal is to examine on-site, each credit union twice as often as in the past and in so doing to complete annually an examination of every Federal credit union.

The 1982 year-end financial results for credit unions demonstrate that the movement has continued to successfully attract new savings, which rose by 17.2 percent; increase liquidity by $5.1 billion; and improve overall reserves by $1.8 billion. Creative new charters to serve the needs of groups such as students in high schools and colleges show that the credit union spirit can meet changing economic circumstances.

Our most pleasant task, however, was the announcement in November that the fees by which credit unions provide the total funding for the Agency would be *reduced* in 1983 by a minimum of 10 percent for every Federal credit union.

Mr. President, the good news in this *Report* is that this Agency of government can be more efficient and effective in carrying out its purpose of supervision. This result is achieved by careful administration and a continuing dialogue with those we are chartered to serve. At the same time credit unions have continued to prosper and develop their grassroots, cooperative efforts to improve the economic well-being of their members with a unique enthusiasm and commitment no other financial institutions can duplicate.

We look forward to continuing the efforts described herein, guided by the principle best phrased by Lincoln of ensuring that government only does those things which the people cannot do for themselves.

Sincerely,

E. F. Callahan

E. F. CALLAHAN
Chairman

FOREWORD

One year ago at this time we were in the midst of a dialogue with credit unions about deregulation. When discussions began on this credit union issue, it was not because we had an agenda or a sense that credit unions should be deregulated on the liability side or that the common bond should be opened up or that credit unions should decide the par value of a share.

Rather, our sense was that government was doing too much. In the name of safety and soundness, we, the regulators, had become overzealous. We were actually running credit unions, making business decisions that properly should be made by the management of individual credit unions.

In acting to change this direction, we were not advocating that credit unions "do something" such as offer this type of account or adopt that kind of loan policy. Instead, we tried to give credit unions self-determination for what should properly be their role with their members. We tried to get out of the way.

Government can't react quickly enough to allow credit unions — or any other financial institutions — to remain competitive. Look at how credit unions' concerns have changed in one year's time. Twelve months ago, the big issue was money market mutual funds and how to compete with them. Then, with deregulation, came money market share accounts and a variety of other savings plans. Today, the picture is completely different. Interest rates have dropped sharply and suddenly the real competition is loan rates.

It is impossible to say what tomorrow will bring. Although we can sometimes spot trends, we cannot predict the future. A nineteenth century Danish philosopher said it best: "Life can only be understood backwards; but it must be lived forwards."

Credit unions' ability to continue to remain different through self-determination could be challenged in the coming year. Consolidation of the Federal deposit insurance funds is being studied as is reorganization of the financial regulatory agencies. The job for all of us is to let people know that credit unions are different — they are not-for-profit cooperatives first and financial institutions second.

I believe that the events described in this *Report* have been achieved in large measure because of credit unions' good will. With this spirit and the special relationship that exists between NCUA and credit unions, I am confident that the successes of this past year are but a prelude to a brighter future for all credit union members.

E. F. Callahan

April 1, 1983

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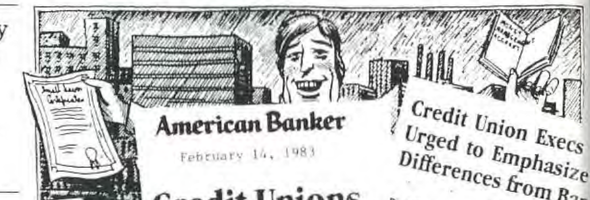
PERSONAL FINANCE / Deborah Rankin *THE NEW YORK TIMES, SUNDAY, MARCH 21, 1982*

The New Look of the Credit Union

Deregulation has vastly expanded the services it can offer — from mortgages to credit cards — and raised the rates it can pay.



I T may be time to take a fresh look at ...

American Banker

February 14, 1983

Credit Unions For Students Get Boost

By JAY ROSENSTEIN

WASHINGTON

Los Angeles Times Wednesday, February 3, 1982

Deregulation Expected to Give Credit Unions Jump on Banks, S&Ls

By MARTIN BARON, *Times Staff Writer*

Credit Union Execs Urged to Emphasize Differences from Ban[ks]

By LISA J. Mc CUE

WASHINGTON — Credit unions ar[e] not commercial banks, and the dif[-] ferences that distinguish credit unions must be stressed when dealing with Congress, Edgar F Callahan, chairman of the National Credit Union Ad[-] ministration board, said here Monday. "I ... ncerned about the mood here ...gton," Mr. Callahan told a ...l caucus meeting of the ...ciation of Federal Credit ...e group. "I think credit ... to have to go through ...nding all your ...

Reagan finds strong supporter in Mexican-American appointee

Houston Chronicle

BY BARBARA KARKABI, Chronicle Staff

American Banker August 4, 1982

Credit Unions Have Learned Valuable, If Painful, Lesson from Penn Square

Have Since Made Changes in Investment Policies

Credit Union News November 25, 1982

NCUA Board Cuts Fees 10% In '83

PHILADELPHIA. — The National Credit Union Administration Board, meeting for the first time last week in the City of Brotherly Love, took a series of actions which will enhance the Board's standing in the credit union community.

The Board decided to:

- approve a 10% reduction in operating fees payable by all federal credit unions for calendar year 1983.
- further deregulate by okaying three by-law amendments.
- moved to study both insurance and director compensation, as required by Congress.

The appearance of the Board here also represents some fence mending with the Pennsylvania Credit Union League with which the Board had been feuding.

In addition to the across the board reduction in operating fees the Board ...

...s well as for corporate central federal credit unions of more than $100 million in assets. These two latter groups ...

CUs Surpass Others With 17% '82 Gai[n]

MADISON. — Savings at t[he] nation's approximately 20,000 [credit] unions grew 17% last year, a far [greater] increase than the 10.3% at the [nation's] financial institutions as a whol[e, accord]ing to the Credit Union [National] Association.

Credit union savings are ... $80.6 billion at the end of 19[82] ... reported.

The number of credit [unions] declined during 1982, to 20,061, CUNA figures [show. The] decrease can be attributed to mergers, which nearly ... 1981 to 1982. During 19[82] ... 751 mergers, while ...

Chicago Tribune July 8, 1982

Credit unions vote to bolster insurance fund

By Carol Jouzaitis

IN THE WAKE of Monday's Penn Square Bank failure, the National Credit Union Administration board voted Wednesday to more than double ...

... amount of the increase for this ... E.F. Callahan, NCUA board chairman, said the bank's failure had a minimal effect on his decision to support the $41 million boost, but added: "We've been wanting to make this step, and [Penn] Square's closing reminded us of the need for more funds."

YEAR IN REVIEW:

Getting "out of the way" and "closer to the action"

1982 was the year Federal credit unions began looking to themselves for answers rather than to the government. NCUA deliberately stepped out of the way, stripped away the red tape, and allowed credit unions to decide what savings plans they should offer, what dividends they should pay, and whether or not they should form credit union service organizations. In addition, the Federal Credit Union Act now permits credit unions to decide what titles to give to members of their boards of directors and what the par value of a share should be.

While responsibility for making decisions like these was returned to credit unions, the authority to make day-to-day supervisory decisions was delegated to the NCUA Regional Directors. This permitted the NCUA Board to concentrate on policy and implement the Agency's basic mission of ensuring the safety and soundness of credit unions through effective supervision.

Explaining the shift from Washington to the grassroots, NCUA Board Chairman Edgar Callahan said: "We are trying to get closer to the action."

To get "closer to the action," NCUA took the following steps:

• Allowed Federal credit unions to determine terms and conditions of *all* savings accounts, including dividend rates, maturities, penalties and premiums. Federal credit unions were the first of the federally regulated financial institutions to be given this decision-making freedom. They had had eight months of experience tailoring accounts to meet members' needs by the time banks and S&Ls achieved partial deregulation in December 1982.

• Removed barriers to chartering and growth. Federal credit unions may now add employee and associational groups to their field of membership, as long as the groups are located near the credit union. For example, a credit union at a steel plant may now broaden its membership base by adding workers at a nearby shoe factory or a group of restaurant workers. Or, a new credit union could be formed by those same groups. Slightly different standards apply to community credit union charters.

• Held NCUA Board meetings in cities other than Washington, D.C. so that credit unions could see the Board in action and could talk about their concerns with Board members and staff during a public forum that followed each Board meeting.

• Sponsored the first conference of all NCUA examiners in the history of the agency. Examiners met with their peers, with leaders of NCUA and of the credit union movement and participated in a series of intensive workshops about the revised financial examination.

Deregulation

"A Landmark Decision"

The removal of regulated dividend ceilings on savings was the most dramatic of all the deregulation that took place during the year. But NCUA acted only after credit unions gave their full support. In January, the agency began a major "outreach" program to find out what credit unions thought about share deregulation and other issues.

Credit Unions Support Deregulation

As the industry newspaper *Credit Union News,* reported January 21, 1982: "In an unprecedented move, the NCUA has launched a full-scale effort to find out what credit unions think about deregulation. Led by Board Chairman Edgar F. Callahan, some dozen NCUA officials are criss-crossing the country, speaking at credit union meetings and listening to what credit unions have to say . . . Explained Callahan: 'We want to hear from as broad a cross section of credit union people as possible, including those whose views are not ordinarily reflected in credit union trade group comments. We want to know what credit unions really think about deregulation.' " Over a three-month period, NCUA officials met with more than 10,000 credit union people.

"Outreach" was a cooperative effort involving NCUA, the state credit union leagues, national trade associations and credit unions. The National Association of Federal Credit Unions (NAFCU) hosted a deregulation call-in. People from all over the country called the Chairman on NAFCU's toll-free lines and talked to him about deregulation.

The Illinois Credit Union League, in cooperation with NCUA and the Credit Union National Association (CUNA), produced a "talk-show" videotape about deregulation. Chairman Callahan, NCUA Executive Director Wendell Sebastian and CUNA Executive Vice President Jim Barr fielded questions from three credit union officials.

Joyce King, manager of the $1.2 million Michael Reese Hospital Employees Federal Credit Union, Chicago, spoke for many when she asked "Isn't NCUA there to protect credit unions from making mistakes?"

Chairman Callahan replied, "Government can't protect people from themselves. It's the responsibility of individual credit union boards to make wise decisions and then to live with those decisions. To think that government can step in and protect people from making unsound business decisions for their memberships I think has always been a fallacy."

Bohdan Watral, treasurer of the $40 million Selfreliance Federal Credit Union, Chicago, asked another question on people's minds: "Doesn't our annual supervision and examination fee pay for NCUA assistance and guidance?"

"NCUA is there to serve, to assist and to guide credit unions," the Chairman answered. "But to feel that in order to 'earn the fees' they should make your business decisions is inappropriate. We are there to help with safety and soundness, to offer service where credit unions voice a need for service; not in making business decisions in place of your board members."

The "outreach" effort prompted some 1400 comments — more than the agency had received on a single issue. One of the strongest endorsements came from the Justice Department, which frequently comments on proposals by Federal agencies if they have anti-trust implications. Justice commended NCUA for its "willingness to take bold and innovative steps to allow credit unions to attract and retain deposits in competition with other depository institutions as well as non-regulated competitors such as money market funds."

When all the voices were heard, credit unions enthusiastically supported share deregulation. On April 21, 1982 the NCUA Board unanimously approved a two-paragraph regulation that returned to Federal credit union boards the responsibility for deciding the terms and conditions of all savings accounts.

NCUA Board Vice Chairman P.A. Mack, Jr. called the action "historic," and said it "puts credit unions at the forefront by allowing them to provide an unlimited array of share and deposit services to their membership. It is not a step taken lightly by the NCUA Board nor should it be taken lightly by credit union officials. The eyes of the financial marketplace will review our actions with the closest scrutiny. Let our actions and deeds be an example for others to follow."

Regulators "Have Done the Unthinkable"

Others agreed with the Vice Chairman's assessment. "Federal regulators have done the unthinkable for Federal credit unions — they've removed artificial regulatory constraints," wrote Larry Blanchard, editor of the industry newsletter, *Report on Credit Unions.* "While the engine of deregulation has accelerated, so have the pistons of board responsibility. Now, in the primary liability accounts, it's up to us to determine what's best. That is as the founding fathers had intended, and as it should be."

"A Model of Brevity, Clarity and Simplicity"

NAFCU's President John Hutchinson called share deregulation "a landmark decision" and said the new regulation is a "model of brevity, clarity and simplicity." CUNA's Chairman Joseph Cugini said deregulation "gives credit unions a competitive edge over banks and S&Ls and shifts a lot of responsibility onto the directors of Federal credit unions. But the record shows that they have the expertise to handle it."

Deregulation was not a band-aid approach to problems facing the movement. It represented a philosophical change in attitude; a realization that government could not and should not be expected to have all the answers. Chairman Callahan expressed this philosophy in a speech before the National Association of Federal Credit Unions in April 1982: "It is not the place of government to run credit unions. I don't believe that I should be running one. While I have had some experience as a regulator in Illinois, I have never worked in a credit union. I have never made a loan. I've never tried to collect on a bad debt. I am very uncomfortable sitting on a panel deciding what are competitive instruments to help you compete in the market place."

Not Freedom but Responsibility

To those who thought deregulation meant freedom to do whatever they wanted, Chairman Callahan reminded them they were wrong. "It's not freedom, it's responsibility," he told the National Federation of Community Development Credit Unions. "It's taking the decision making powers away from government officials. And why do I want to see it taken away? Because I feel inadequate to make your business decisions. I've met a lot of government officials who are wonderful people and have marvelous backgrounds. But I'll tell you this: when we pass a new money market certificate more liberal than the last, we are sending out vibes to the individual boards that 'this is the way to go,' and I don't believe that.

"Diversity is going to be our vitality"

"I think the vitality comes from the initiative and ingenuity of the individual boards and hopefully they'll all do it differently so that this country's eggs aren't all put in one basket. That's what concerns me. Although some people think deregulation means 'raise the river, lower the bridge,' I have confidence that diversity is going to be our vitality in the long run."

In summary, credit union deregulation entailed looking at the regulatory and statutory language in new ways. In a speech before the Defense Credit Union Council in September 1982, Chairman Callahan explained:

"The most significant thing that we have done on deregulation is to look at the *Federal Credit Union Act* and take a more liberal view. Let me cite one example: In the definition section of the *Federal Credit*

Union Act, the common bond is defined as 'groups' within an occupation, or association or groups within a well-defined neighborhood, community or rural district.

"Traditionally, the agency viewed that definition to mean an occupational credit union would be one sponsor, one employer, period. Groups within a well-defined neighborhood, rural district or community obviously meant community charter. Community charter meant 5,000 people; then it meant 25,000 people; then we weren't sure how many people it meant. But numbers were all it meant. It had nothing to do with groups. Yet the Act said 'groups within.'

"If the law does not say 'no,' it may mean 'yes.' "

"We believe that this very narrow interpretation was probably far more insidious than the rules and regulations that have been promulgated over time. All we are saying is that we have looked at this and have taken a more liberal point of view. We like to think that if the law does not say no it certainly leaves room for yes. It certainly leaves room for questioning. We see this as the pendulum swinging from a very restrictive point of view, and coming to a more liberal one. And so we think interpretation is probably a far more deregulatory action than just doing away with rules and regulations."

On the Road

The concepts of deregulation and decentralization became a reality throughout the credit union movement, in part because NCUA made an unprecedented effort to stay in touch with the grassroots.

For the first time in the Agency's history, the Board took to the road, and scheduled Board meetings every other month in a city outside of Washington, D.C.

May 20, 1982: Boston

The first out-of-town Board meeting was held May 20, 1982 in Boston's historic Faneuil Hall, a center for the free discussion of ideas since 1742. "It is fitting that we chose Faneuil Hall, the cradle of liberty, for our first out-of-town meeting," Chairman Callahan told the 350 credit union representatives who had gathered for the meeting. "Our forefathers discussed matters affecting the future of their lives here. We hope to do just that with issues affecting credit union people."

Vice Chairman P.A. Mack, Jr. called it a "humbling experience. It is enriching and exciting to get out of Washington and bring this meeting for the first time to the region. We hope this will be the first of many such experiences."

July 7, 1982: Chicago

The second out-of-town meeting was held July 7, 1982 in Chicago; the third September 23, 1982 in Miami; and the fourth November 18, 1982 in Philadelphia. The out-of-town meetings continued into 1983; the first one took place January 11 in Dallas.

September 23, 1982: Miami

The meetings were extremely popular, attracting between 200 and 500 people, many of whom had never seen an NCUA Board meeting before. Some state leagues arranged for buses to bring credit union people from outlying areas to the meetings.

Attendees were urged to speak out on issues that concerned them during the forum which followed each Board meeting. And speak out they did.

November 18, 1982: Philadelphia

In Philadelphia, the hot topic was compensation for the volunteer members of credit union boards of directors. Earlier in the year, Congress had asked NCUA to study the pros and cons of allowing Federal credit unions to pay their board members; under current law, only one board member may be paid.

Feelings on the issue run deep. "We think it would be a terrible mistake to pay members of the board of directors," said Rear Admiral Joe Schoggen, treasurer and general manager of Navy Federal Credit

Union, Washington, D.C., the nation's largest credit union. "If credit unions are going to succeed in the future, we think it's important to preserve the differences between them and other financial institutions. I don't think the motive for our board of directors would ever be dollars. Their motive is to serve the people of the Navy and Marine Corps, who are not the most affluent members around."

Another speaker in Philadelphia put it this way: "The idea of paying board members is another effort to drive a nail in the coffin of the uniqueness of credit unions."

In Chicago, consideration of a special share insurance premium wasn't the only issue on people's minds. Hundreds of credit union people were in town for the National Association of Federal Credit Unions' annual conference and for the July NCUA Board meeting when the news broke that Federal regulators had closed Oklahoma's Penn Square Bank because of insolvency. NCUA's top leadership was there, ready to respond and reassure with quickly organized workshops on the "who's, what's, why's, and where's" of Penn Square.

Later, Chairman Callahan and top aides held a press conference, describing the situation as fully as possible to national and local media, allaying fears and attempting to keep the incident in perspective.

It was at the July 7, 1982 Board meeting that most credit union people learned for the first time about Penn Square. They also learned that despite uninsured credit union deposits in the bank, no credit union insolvencies were expected as a result of the bank's closing.

When the subject of a special share insurance premium came up, the Board took the extraordinary step of recessing an open Board meeting to allow discussion from the floor. With the support of the credit union community, a special assessment was approved at the meeting.

Speaking Out on Directors' Compensation

January 11, 1983: Dallas

In Dallas, with Penn Square well behind them and still no Federal credit union insolvencies attributed to the bank's failure, it was time to talk of other issues. Texans lived up to their reputation for southern hospitality and publicly thanked the Board for reducing the 1983 operating fee.

Buford Lankford, a former NCUA Regional Director who is now president of Texas Share Guaranty Credit Union, Austin, struck a chord when he talked about small credit unions and complimented the Board on considering the impact of its policies on these institutions.

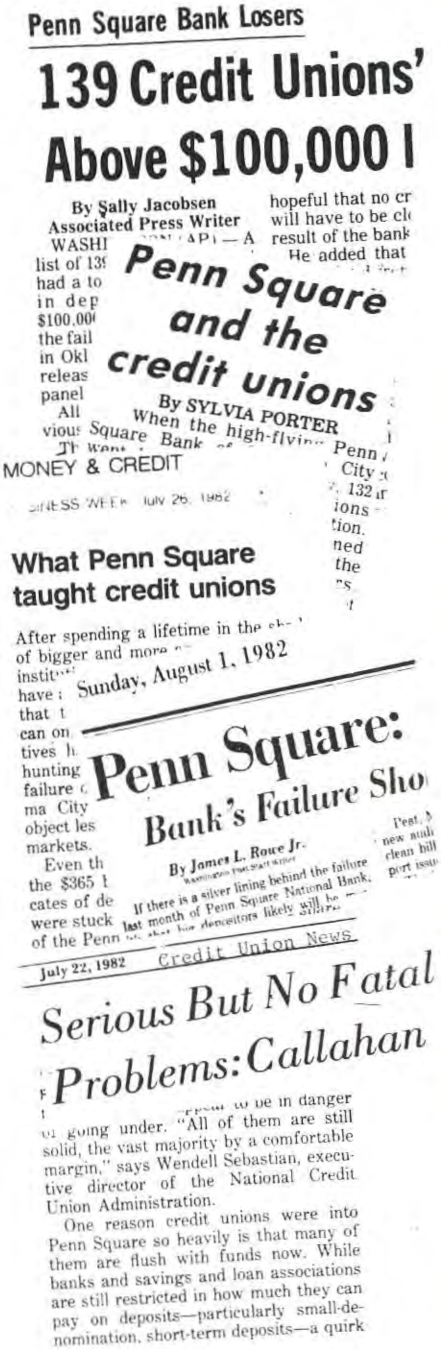
"You get the impression that you cannot succeed as a credit union unless you are very large or unless you become a full-service institution," he said. "But seven of eight credit unions are under $5 million in size. It seems to me we are trying to get away from that uniqueness — trying to be like banks.

"I think the real field for credit unions is there today just as it was 50 years ago when the first Federal credit unions were chartered," he said. "No one else is as qualified to promote thrift, no one else is able to get close enough to the clientele of the institution to encourage them to save in the way credit unions can.

"Emphasize our Differences"

"I hope we can begin to see emphasis placed not on our being like everybody else, but on our being different, on member loyalty, on the promotion of savings, and on the benefits of a close knit organization that can do so many things for the people around it. That's where our future lies."

Penn Square
"It proves the system works"



No review of the year would be complete without a discussion of the Penn Square bank failure and its impact on credit unions.

The Comptroller of the Currency closed the Oklahoma bank July 5, 1982 because of insolvency caused by "energy-related loan losses." The Federal Deposit Insurance Corporation (FDIC) was appointed as receiver.

As the *Washington Post* reported in a July 20, 1982 article datelined Oklahoma City: "The bank that failed over the Fourth of July weekend left an all-American list of losers, ranging from Chase Manhattan Bank and the House of Representatives credit union to the local library board, this city's most prominent Episcopal parish, Gov. George D. Nigh's re-election campaign fund, and a covey of large and small businesses."

There were 139 credit unions (of 20,000 credit unions in the U.S.) that had a total of $111.5 million in uninsured deposits in the bank. That meant an immediate 20 percent loss - $22.3 million - based on FDIC estimates that depositers eventually would get back about 80 percent of their uninsured deposits.

The good news was that Penn Square did not daunt the credit union movement — in fact, it may have strengthened it. Six months after the bank failed, James Sexton, Director of the FDIC's Division of Bank Supervision, told NAFCU's Mary Dunn that "As a result of Penn Square, most credit unions now know what they are doing. A few were careless and reached out for yield, but I don't think they will do that again. In my opinion, credit unions make the best disclosures of any financial institutions, including commercial banks."

As Mr. Sexton observed, credit unions did not hide their Penn Square involvement. They sent letters to their members or they put details in their monthly financial statements and posted them for all to see. Members did not react by withdrawing shares — in fact, savings at Federal credit unions grew at the extraordinary rate of 17.2 percent in 1982.

Unquestionably, there were certain operating losses for the federally insured credit unions in Penn Square with deposits over the $100,000 insured limit. But as NCUA Executive Director Wendell Sebastian testified before the Senate Banking Committee on December 10, 1982:

"All the insured credit unions *continue to operate and serve their members.* In the vast majority of cases, the credit unions were *able to absorb these operating losses* through their operating income and, of course, *no credit union member has lost any money.*"

Putting the operating losses into perspective, Sebastian described them as a cost of doing business. "In the credit union business, the vast majority of these losses occur as a result of loans and a much smaller percentage result from investment losses," he said. "Loans will continue to be the main risk area for credit unions."

Mr. Sebastian told the Banking Committee that "valuable lessons have been learned not only by this Agency, but more importantly by credit union decision-makers. Credit union managers are re-thinking their investment strategies. In our examinations we will be looking more closely at credit union investment policies to make sure they have been developed as carefully as possible."

Chairman Callahan never minimized the involvement of credit unions in Penn Square. But, in a speech, he reminded NAFCU delegates that Penn Square was a "glitch — not a disaster. There's not a government regulation that's going to save you from the next glitch," he told the group. "There's a need for us to take a look at all of our resources.

Let's do what we can to help the credit unions that were involved in this and learn from them."

Executive Director Sebastian summed it up this way: "In our opinion, the fact that a failure like Penn Square can be absorbed without the failure of a single Federally insured credit union, without a claim against the insurance fund, or the loss of one penny to a credit union depositor proves that the system works."

Examination Committee

To ensure that the system worked better, an examination committee, comprised of NCUA representatives and credit union officials, was appointed in May 1982 to draw up revised financial examination procedures. Although the bulk of the committee's work was with the financial examination, a subcommittee on examiner education, headed by Buffalo, New York-based Supervisory Examiner Bob Kessel, was established in the Fall after examiners asked NCUA to give them additional training in areas such as investments.

The examination committee, headed by Region VI Director Barry Jolette, considers itself an "extension of the Regional Directors," according to NCUA Board Vice Chairman P.A. Mack, Jr., who is the Board's liaison to the group. Credit Union representatives were included at the suggestion of Polaroid Federal Credit Union Manager Bob Fiege who put forth the idea at the May 20, 1982 Board meeting in Boston.

"From the grassroots up rather than from the Washington office down"

Explained Regional Director Jolette: "We like to think of our approach to changes (in the examination program) as the grassroots approach — from the bottom up rather than from the Washington office down."

Field testing of the revised examination began October 1, 1982. A key difference in the new procedure is that when the examination has been completed, the examiner sits down with credit union officials and reviews it, instead of first routing it through the Regional Director's office.

"We now recognize credit unions as the primary users not only of the written report but also of the examination," said California-based Supervisory Examiner Ed McIntyre. "We expect credit union officials will use the report to address and resolve major problems. We also expect examiners to use the report as a tool to help in communicating with credit union officials."

Reaction Positive

Initial reaction to the revised examination has been positive, said Vice Chairman Mack. "The committee has been carefully reviewing feedback from the examiners and from credit union officials and continues to move toward the goal of an annual examination," he said.

Fiscal Employees Federal Credit Union, Los Angeles, was one of the first to be examined under the new procedures. Gerald Miller, manager of the $32 million credit union, said he feels "very positive" about the examination, although he concedes "this may be true because we got a good rating.

"The idea that the examiner must sit down with the manager and board president and present a subjective report rather than sending a confidential memo to the Regional Director is helpful," Miller said.

"It is important for the manager and board to involve themselves. This procedure places much greater responsibility on the examiner to be perceptive enough to look at trends and spot what could be ineffectual management on the part of the manager or board and what is attributable to the economic situation. Examiners must be careful not to condemn management because of economic factors over which they have no control."

From an examiner's point of view, the revised examination is "more efficient" and allows examiners the latitude to decide when to "devote more time to problem areas," said Principal Examiner Dick VanderWall, Region IV.

"The revised examination is not set in stone," said Vice Chairman Mack. "It continues to evolve and will be reviewed and adjusted periodically to meet the needs of credit unions and or the Agency."

National Examiners' Conference

One of the primary reasons for holding a conference of all NCUA examiners was to unveil revised financial examination procedures and to discuss them in detail.

The conference was also an attempt to bridge "a communications gap" that had developed since the last NCUA regional conferences. For the first time in the Agency's history, nearly 400 examiners gathered in one place for a series of intensive workshops, focusing on the theme of safety and soundness in a deregulated movement. Examiners were also able to attend the September NCUA Board meeting, which was held in conjunction with the conference.

NCUA

NATIONAL CREDIT UNION ADMINISTRATION

NATIONAL EXAMINERS' CONFERENCE

MIAMI, FLORIDA
SEPTEMBER 19-24, 1982

Leaders from the credit union movement accepted NCUA's invitation to come to Miami and share their expertise and views of the problems facing the movement with examiners. Give and take was plentiful, or as one examiner said, "It was a good opportunity to meet the bigwigs that you read about from CUNA, NAFCU and other places."

Summarizing what had been happening at NCUA in recent months, Chairman Callahan outlined the agency's major goals and philosophies. The goals, he said are (1) to maintain and contribute to a growing, dynamic U.S. credit union system and (2) not only maintain, but enhance and contribute to public confidence in the U.S. credit union system.

"We are attempting these things from the philosophy that 'we don't run credit unions and 'Washington can't be the know-all, see-all,' " he continued. "The Agency's plans for reaching its goals include channeling Agency resources to our primary objectives — safety and soundness; decentralization and deregulation of authority to the regional offices; removal of all obstacles to chartering and expansion of the credit union system and insuring that credit unions are in charge of their own future. The trades, NCUA and all of us play a vital role in this system," the Chairman said, "but make no mistake, the credit unions make the key decisions.

Examiners Have a Crucial Role

"Examiners are crucial in achieving the Agency's goals," continued the Chairman. "They bear the chief responsibility for effectively carrying out the safety and soundness mission. From the credit union's perspective, examiners are the NCUA. They are the advisors, sources of information and the individuals who assist credit unions in carrying out their responsibilities to their members."

There was controversy at the conference — over money market funds, examiner ethics and credit union report cards — but there was also agreement on the basic question, "Why are we here?"

CUNA President Jim Williams called this a "watershed period in credit union history — and this conference an historic occasion. The way NCUA and regulatory agencies and credit unions respond to a deregulated environment will determine whether we succeed or fail over the next ten years. It's important that we work together as a team."

NAFCU's John Hutchinson agreed, tracing the development of the examiner from the "old days" when things were done by number to today, a new era which he likened to a "joint venture. Let's not be adversaries," he said. "We have one purpose and that's to serve credit unions."

One Purpose: to Serve Credit Unions

Louise McCarren Herring, president of Communicating Arts Credit Union in Cincinnati, stole the show at a panel discussion on chartering. Mrs. Herring, who has been called the "mother of credit unions" because she has organized more than 500 credit unions, said that "organizing a credit union is taking a chance. I don't buy the argument that you've got to have a guaranteed success. We have a right to fail. You can't wait to be sure you're right to start."

There were no sacred cows, as the independent credit union and trade press found. *CUIS Newsletter's* David Rohde called the conference a "remarkable event, as examiners publicly aired their frustration with mismanaged credit unions and NCUA invited a leading private share insurance official to publicly lambaste the Federal system."

In his newsletter, *A Point of Order,* Editor Abe Lincoln reported that "from our observance of an amazingly unrestrained four days of dialogue, we're pleasantly surprised to state that credit unions are fortunate to have people who care about them in the positions of government observers. But we really can't pass them off as 'observers' anymore, either, because from what we saw and heard they are more — they are involved. (Such empathy wouldn't be permitted elsewhere in government)."

Examiners gave the conference high marks. Pete Parsons, Texas Credit Union Commissioner, was rated the best speaker and asset liability management was the most popular topic.

Here is a sampling of what examiners had to say about their first national conference:

"The expertise really impressed me." Fred Reiser, Field Examiner, Region VI.

"When I first saw the agenda with all those outsiders, I was not impressed. But I've changed 180 degrees — it's been very good to have outsiders." Brian Gately, Principal Examiner, Region I.

"An electric experience"

"It's been an electric experience." Tony Johnson, Member Services Analyst, Region VI.

"The exchange between examiners and management has been excellent." Bob Rink, Principal Examiner, Region II.

"It was good to see how the Board functions — especially the research that goes into the proposals. I am new to the Agency and for the first time, I feel a part of it. I have enjoyed sharing ideas with other chartering analysts and have learned things that will help me in my work." Joan Walsh, Chartering and Education Analyst, Region I.

"The examiners greatly appreciated the appearance of credit union officials and managers who made the effort to come to the conference. We need their cooperation so greatly." DeLoris Jagoe, Field Examiner, Region V.

Credit Union Expansion

A credit union expansion plan was launched in 1982 that was motivated as much by a desire to rekindle credit union spirit as it was to increase membership in the nation's credit unions.

"Time to renew this effort"

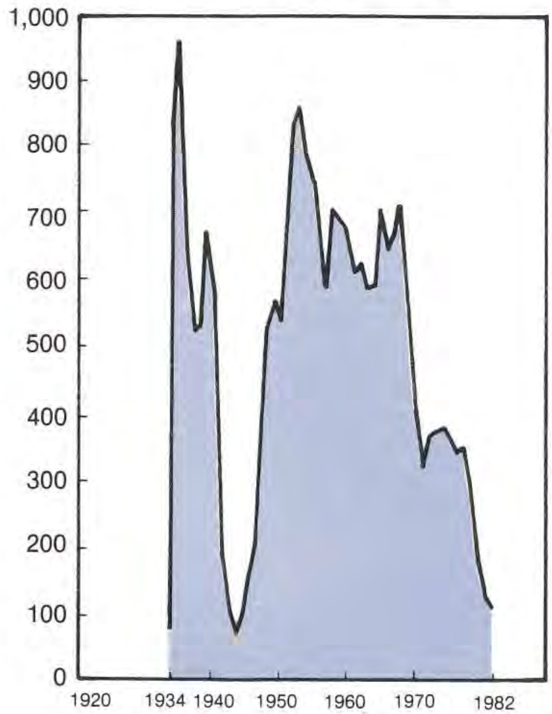
During the year, a number of Cassandras and Doubting Thomases had begun to appear regularly on the credit union lecture circuit. Their gloom and doom ideas began to catch on.

For example, a Houston-based financial advisor named Venita Van Caspel said credit unions had outlived their usefulness as financial alternatives. "The viability of credit unions has passed," she said. Because of payroll deduction and similar plans, credit unions can be helpful for people who have trouble saving, "but as soon as you get $1000, take it out and put it in a money fund."

Chicago consultant Jack Whittle used even stronger terms: "The credit union movement, at least in its traditional form, is dead."

There was some truth in what they said. Although membership continued to grow at a respectable pace, the growth rate had dropped in recent years to three and four percent, compared to the historical average of 6.25 percent a year.

FEDERAL CREDIT UNION CHARTERS ISSUED 1934-1982



In addition, chartering activity had fallen off sharply: 119 new Federal Credit Union charters were issued in 1981 and 114 in 1982, the lowest since the World War II years. In contrast, 956 Federal credit union charters were issued in 1936, the peak year, and throughout the 1950s and 1960s, new charters were approved at the rate of 600, 700 and even 800 per year. The steep decline began in the 1970s.

Gurus and economists looked into their crystal balls and predicted a continued shrinking of the movement. Some credit unions were buying the idea.

But credit union leaders didn't agree. NCUA Chairman Ed Callahan, a believer in self-fulfilling prophecies, recalled that when he came to Washington in 1981, people told him there would soon be only 5,000 credit unions remaining. "I assure you," he said, "if we continue to talk that way, there will be 5,000 credit unions."

Be positive, Chairman Callahan urged. "Credit unions are on a roll — savings and assets reached record levels in 1982, rising at rates of 17.2 percent and 16 percent, respectively. Your future is brighter now than it has ever been."

"It's time to tell the good news about credit unions and the way to do that is to try and talk other people into forming credit unions," he continued." I don't think there would be a better time to start a credit union than today. You have the flexibility to do things that you were never able to do. You are going to be left alone to handle the consumer loan business and you have always done that the best. Plus, you have the most important ingredient of all — the element missing in banks and S&Ls — your relationship with your members. You are cooperatives first and financial institutions second."

NAFCU's President John Hutchinson and CUNA's President Jim Williams didn't agree with the nay-sayers either.

"One of the things that sets credit unions apart from other financial institutions is that one of our primary goals has always been to extend credit union services and benefits to new members," Mr. Williams said. "For most of our history we have sought to achieve this through active campaigns to serve groups that didn't have access to credit unions. The time has come to renew this effort."

CUE-84 Group Formed

By the Fall, the renewal effort Jim Williams spoke of had begun. A group of leaders from throughout the credit union movement met November 18, 1982 in Philadephia and laid the groundwork for an expansion program called CUE-84, which stands for Credit Union Expansion — 1984. The group, whose honorary chairperson is NCUA Board Member Elizabeth Flores Burkhart, includes: Gene Artemenko, president of United Airlines Employees Credit Union, Chicago; Ted Bacino, director, NCUA Office of Services; Jack Carlson, president, National Association of State Credit Union Supervisors; Joe Cugini, chairman, Credit Union National Association; Robert Curry, president, CUNA

Mutual Insurance Group; Jack Eaker, president, Texas Credit Union League; Richard Ensweiler, president, Association of Credit Union League Executives; Louise Herring, president, Communicating Arts Credit Union, Cincinnati; John Hutchinson, president, National Association of Federal Credit Unions; Michael Judge, president, Pennsylvania Credit Union League; and J. G. Schoggen, treasurer and general manager, Navy Federal Credit Union, Washington, D.C.

"Head Off Self-Fulfilling Prophecies"

"The CUE-84 program is an effort to head off self-fulfilling prophecies and renew the credit union 'can do' spirit," said Board Member Burkhart. "It is a national cooperative effort involving NCUA, state regulators, national trade associations, state leagues and others interested in strengthening the credit union movement."

While goals vary within individual organizations, the overall plan is to incease credit union membership substantially by 1984, to coincide with the 50th anniversary of the *Federal Credit Union Act*. This will be accomplished by chartering new credit unions where feasible, by field of membership expansions and by urging existing credit unions to reach out to persons currently eligible for membership.

Renew the "Can Do" Spirit

Board Member Burkhart, who came to the credit union movement from a bank, brought a new perspective. "Credit unions are unique institutions — we must tell the world about them," she said. "It's important for us to spark enthusiasm among ourselves so that we can sell others on the idea."

Momentum grew. Informational and educational programs and volunteer training sessions were planned. The trade associations took the lead in these areas and in the organizing of new credit unions. NCUA's role was to support the effort from a regulator's perspective. This included updating chartering manuals and making information available about current membership policies.

Recognizing Newly Chartered Credit Unions

NCUA also began to recognize newcomers to the credit union community by presenting new charters at Board meetings. Recipients of new charters issued in 1982 included:

• S&W Federal Credit Union, sponsored by Stone & Webster Engineering Corporation, a major Boston employer, to serve its employees. Potential members: 14,000.

• Cotter Federal Credit Union, organized by the Illinois Credit Union League and sponsored by Cotter & Co., Chicago, to serve its 3,000 employees. Cotter is the parent company for True Value Hardware stores; officials hope to extend credit union service to the owners and employees of the 7,000 True Value stores at a later date. Potential membership: 38,000.

• Chicago Baptist Association Federal Credit Union, organized by the Illinois Credit Union League, and sponsored by the Chicago Baptist Association to serve the association's 69 churches in the greater Chicago area. Potential membership: 22,000.

• New York University Employees Federal Credit Union, sponsored by the university for faculty and other university employees, members of the board of trustees, alumni, and paid students. Potential membership: 20,000.

• Pulaski Federal Credit Union, sponsored by Pulaski Bank & Trust Co., Little Rock, Arkansas, to serve employees, stockholders and depositors of the bank who live or work in Pulaski County, Arkansas and are not eligible for primary membership in another local credit union. Potential membership: 5,000.

Student Credit Unions Get Boost

• Georgetown University Student Federal Credit Union, Washington, D.C., organized by students who wanted the experience of running their own cooperative. Sponsored by the student government, membership is open to students and alumni. The potential membership is 10,000. This is one of a handful of Federal credit unions on college campuses that primarily serve students. When it was chartered early in 1983, the NCUA Board adopted a policy of encouraging more student credit unions. To provide financial incentive, the Board proposed a plan that would allow student credit unions to accept nonmember deposits.

"This opens the door to the possibility that alumni, through the corporations they work for, can make contributions in the form of federally insured deposits which could be earmarked for student loans," said NCUA Board Chairman Ed Callahan. "Here is a vehicle that could provide a private enterprise approach to something that is a real national problem — the need for student loan funds."

Credit Unions: "A Fast-Growing Employee Fringe Benefit"

There were other examples of charters that pointed out the unique benefits of credit unions. While Boston-based FMR Corporation, a $20 billion investment management and financial services firm was busy planning new services for the general public, management decided to sponsor a credit union for its 1,500 employees. "We expect this will truly be a great employee benefit," said John Rehm, FMR Comptroller and president of the new credit union's board of directors.

Others in the investment business agree. Lee Roselle, Vice President and Manager of Employee Relations for Merrill Lynch, Pierce Fenner & Smith, Inc. said: "We think Merrill Lynch Employees Federal Credit Union is a great employee benefit. But more importantly, the employees agree. In a recent attitude survey, the employees rated the credit union as the best of all the benefits we offer."

These men were among a growing number of corporate executives who realized that sponsoring a credit union for employees is good business. The *Wall Street Journal* recently cited credit unions as a "fast-growing employee fringe benefit." The article mentioned a study by the Bureau of National Affairs which indicated that 57 percent of some 313 employers have "member-owned financial institutions, often started with company assistance."

In addition to new charters, field of membership expansion represented another area for potential growth. A policy adopted by the NCUA Board in April 1982 gave the NCUA Regional Directors authority to approve most charters, expansions and mergers involving occupational and associational groups, as long as the groups are located near one another. For example, a factory-based credit union can add a nearby church to its field of membership or the two can be merged. A new credit union can be formed that includes many different groups of employees or associations — workers at a paper company, a restaurant and an Elks club can get together to form a credit union. Slightly different standards exist for community credit unions.

In 1982, 1,645 field of membership expansions were approved nationally; the potential membership was four million persons.

People

Elizabeth Flores Burkhart: "A Feminine Version of a Horatio Alger Tale"

NCUA and credit unions welcomed Elizabeth Flores Burkhart, a former Texas banker, who was sworn in July 22, 1982 as the newest NCUA Board member. She is the first woman to serve on the Board. Mrs. Burkhart is a Republican; her appointment means there are now two Republicans and one Democrat on the Board.

Describing Board Member Burkhart's rise to success, *Credit Union Magazine* reported that "hers is a modern-day success story, a feminine version of a Horatio Alger tale." The eldest of 13 children of a migrant Texas farm laborer, Mrs. Burkhart is an ex-Marine corporal, was a singer on a local TV variety show, taught school and then became a secretary, got her master's degree and became an assistant vice president at Texas Commerce Bank, and then turned to campaign work. In 1982, President Reagan nominated her for the NCUA Board post. Of her new job, Board Member Burkhart told CUNA's Brooke Shearer: "I will have to adjust my thinking from the profit motive that rules banking to the cooperative principles that govern credit unions, but I intend to immerse myself in the job."

And that's exactly what she did, visiting, listening, and speaking at dozens of credit unions, large and small, in her first few months on the job.

In Texas, the Houston Chronicle caught up with her and interviewed her about her roots, her feelings about credit unions and the Administration she is a part of. President Reagan saw the story and was so impressed he telephoned Mrs. Burkhart.

"Elizabeth, I've been reading about you," he said. "I'm glad to have people like you in my Administration." Mrs. Burkhart seized the opportunity to talk about credit unions. She told the President she thought credit union philosophy of thrift and mutual self-help had much in common with his economic philosophy. Expressing concern that credit unions might someday be lumped together from a regulatory standpoint with banks or S&Ls, Board Member Burkhart said she thought it was important for credit unions to retain their distinctive identities as nonprofit cooperatives. She volunteered to send the President a report describing why credit unions are different and how these differences can be preserved. The President said he would be "on the lookout" for the information.

Former NCUA Chairman Connell Goes to Seattle

Mrs. Burkhart succeeded Board Member Lawrence Connell, who left NCUA early in the year to become President and Chief Operating Officer of Washington Mutual Savings Bank in Seattle. Mr. Connell, a leader in the deregulation of financial institutions, served NCUA for four years. In 1977, President Carter appointed him Administrator of the Agency. Two years later, when a three-person Board was created to administer the Agency, Mr. Connell became its first Chairman, serving in that capacity until October 1981 when he was succeeded by Edgar F. Callahan, President Reagan's appointee.

Retirements, Honors

General Counsel John L. Ostby retired early in 1983, after more than 30 years of service to the Federal government. He had been the Agency's General Counsel for nine years, nearly as long as the Agency had been in existence. He served under four different Agency heads, including Republicans and Democrats. Wendell Sebastian, formerly NCUA Executive Director, succeeded Mr. Ostby as General Counsel.

Robert E. Boon, Regional Director, IV, Toledo, retired February 24, 1982 after 25 years of distinguished service with the Agency and 31 years with the Federal government.

Earl Bradley, Director of the Office of Examination and Insurance, and a former Regional Director in Harrisburg, Pennsylvania and San Francisco, California announced his retirement in 1982 but at the request of the Chairman, agreed to stay on temporarily as the Chairman's Special Assistant for Regional Affairs. His assignment was to take charge of Region IV following Bob Boon's retirement. Mr. Bradley for-mally retired January 15, 1983 after more than 22 years of outstanding service to NCUA and credit unions.

The agency honored a number of its former leaders, presenting them with gold or silver medals in recognition of their contributions to the Agency and to credit unions. Among the recipients were former Board Chairman Lawrence Connell; former Administrator C. Austin Montgomery; former Bureau of Federal Credit Unions Director J. Deane Gannon; former General Counsel John L. Ostby; and former Regional Director Earl Bradley.

Promotions

H. Allen Carver was appointed Regional Director for Region IV, succeeding Earl Bradley who retired. Mr. Carver assumed the post in the Fall of 1982 when the relocation of the regional office from Toledo to Chicago was completed. Mr. Carver, who joined NCUA in 1965, as a field examiner in Richmond, Virginia, had been Mr. Bradley's assistant in Toledo; before that, he was Deputy Director of the Office of Examination and Insurance in Washington.

Ronald N. Lewandowski was named Deputy Regional Director for Region IV. He was previously Chief of Chartering, Insurance and Liquidations for the region.

Region V, Austin, became the first region to have two Deputy Regional Directors. When the new Denver sub-office within the region was established in the Fall, Leon Handrick moved to Colorado to head it, retaining the title of Deputy Regional Director. Mr. Handrick had been the Deputy in Austin; John Ruffin succeeded him in that position. Mr. Ruffin had been Chief of Supervision and Examination in the Atlanta regional office.

NCUA's supervisory responsibility for the 11,430 federally chartered credit unions and insurance responsibilty for the 5,139 federally insured state chartered credit unions is divided among six regions.

In 1982, the authority of the six NCUA Regional Directors was significantly expanded because the NCUA Board believes the regional offices can provide the most responsive service in the most efficient manner. The Regional Directors can now make most supervisory decisions affecting credit unions in their jurisdictions without coming to Washington for approval.

Two regional offices were relocated in 1982 to provide better access to the federally insured credit unions they serve. The Harrisburg, Pennsylvania regional office was moved to Washington, D.C. and the Toledo, Ohio office to Chicago, Illinois. In addition, the largest of the regions — Region V — has long needed another base of operations and in 1982 a suboffice was opened in Denver, Colorado. It serves credit unions in the northern part of the 12-state area supervised by the regional office in Austin, Texas.

REGIONAL HIGHLIGHTS

REGION I — BOSTON

"Chartering Champions"

CONNECTICUT
MAINE
MASSACHUSETTS
NEW HAMPSHIRE
NEW JERSEY
NEW YORK
PUERTO RICO
RHODE ISLAND
VERMONT
VIRGIN ISLANDS

Region I grabbed the chartering and expansion ball and ran with it. Thirty-nine new Federal credit union charters were approved by the region during the year, 34 percent of all Federal credit union charters granted in 1982. Among the new charters approved:

• S&W Federal Credit Union, serving employees of Stone & Webster Enginering Corporation, a major Boston employer. Potential membership: 14,000.

• Episcopal Federal Credit Union, serving members, organizations and employees affiliated with the Episcopal Diocese of Newark, N.J. Potential membership: 13,300.

• New York University Employees Federal Credit Union, New York City, serving faculty, members of the university's board of trustees, alumni and paid students. Potential membership: 20,000.

• Fidelity Employees Federal Credit Union, serving employees of Boston-based FMR Corporation, an investment management and financial services firm. Potential membership: 1,500.

The region was fortunate to have Supervisory Examiner Tony LaRose on its staff. Mr. LaRose, who has organized 26 credit unions over the past five years, received the Agency's first annual award for supervisory excellence in 1982, in part for his chartering expertise.

A novel merger procedure, pioneered in Region I with the cooperation of Rhode Island regulatory authorities, asks credit unions to give NCUA's Share Insurance Fund something in return for merger assistance. The specific case involved Quonset Point Credit Union, East Greenwich, R.I., a $17.5 million state chartered federally insured institution which was merged into nearby Davisville Credit Union, a $9.5 million state chartered privately insured cooperative. Davisville, the continuing credit union, agreed to pay back the merger assistance it received from NCUA. The rationale for this is that as the continuing credit union eventually makes money from the merging credit union's members, NCUA believes it deserves some of its money back.

REGION II - Harrisburg, Pa./ Washington, D.C.

"Fire drill" in progress

DELAWARE
DISTRICT OF COLUMBIA
MARYLAND
PENNSYLVANIA
VIRGINIA
WEST VIRGINIA

A major event for Region II, as for all the regional offices, was the "fire drill" ordered by Chairman Callahan early in the year. Dubbed "M.A.C.E." or Massive Attack by Callahan's Examiners, the drill called for examiners to visit personally all 11,430 Federal credit unions between February 16 and March 19, 1982. The idea was to get a quick "hands-on" look at all Federal credit unions, some of which had not been examined in two years. Those that needed help would get it quickly — before they became weak.

Region II Review Analyst Anthony LaCreta's experience was probably similar to that of many examiners assigned to rural areas. The assignment was challenging — Mr. LaCreta was asked to visit three credit unions per day in two weeks. The credit unions were located within a 60-mile radius of Bluefield, West Virginia. All were small credit unions — none over $10 million — and officials kept the books in their homes in many cases.

But Mr. LaCreta turned it into a memorable experience, literally camping out in a log cabin in Pipestem National Park and fanning out to credit unions during the day. The hardest part was scheduling a time when officials would be home to let him look at the records.

The first 29 Federal credit unions Mr. LaCreta visited were "a piece of cake," all functioning satisfactorily. The last one, however, made the 'fire drill' worthwhile. When Mr. LaCreta got to the treasurer's home, he found that she was new to the job and didn't know how to keep the books. As a result, the records had not been updated since the last examination, five months earlier. Mr. LaCreta showed the treasurer how to do the recordkeeping and updated the books through the end of the year.

"If we hadn't had the fire drill, the records wouldn't have been kept and the problem wouldn't have shown up until the next examination," he said. Like officials of most credit unions, the treasurer was a volunteer, appreciative of guidance from examiners, trade association representatives and other professionals.

In general, Mr. LaCreta found credit union officials receptive once they realized all 11,430 Federal credit unions were being visited, not just theirs. "It was a good effort from the Agency's point of view," he said. "The small credit unions said they thought it had been too long between examinations and wondered what their supervision fees paid for. They had a lot of questions about future policies. When I explained that NCUA was concerned about what was going on in the field and wanted to know what they were doing, they were appreciative of the visit."

In other developments, Region II was the first to implement the new multiple group merger policy, approving the merger of Norfolk, Virginia-based Colonial Stores Employees Credit Union with Naval Air Norfolk Federal Credit Union — a grocery store field of membership with a military field of membership. Credit Union service was preserved for 2700 Colonial Stores Credit Union members, whose credit union faced liquidation because of sponsor layoffs.

In the chartering area, the regional staff helped organize a relatively new type of credit union: one that serves predominantly college students. The Georgetown University Student Federal Credit Union, Washington, D.C., organized by students eager for the experience of operating a financial cooperative, was chartered early in 1983. It is the first student-operated credit union at a private university and one of a handful of such credit unions in the country. Impressed by the Georgetown students' efforts, the Board adopted a policy of encouraging college credit unions and proposed a plan that would allow them to accept federally insured deposits from non-members such as corporations and alumni groups. This could provide a source of funds for low-cost loans to students for books, trips and tuition.

REGION III · ATLANTA
An entrepreneurial style

ALABAMA
ARKANSAS
FLORIDA
GEORGIA
KENTUCKY
LOUISIANA
MISSISSIPPI
NORTH CAROLINA
SOUTH CAROLINA
TENNESSEE

An entrepreneurial approach to improving service and responding to credit unions' needs characterized the region's activities during the year.

For example, in May 1982, efforts to market loan portfolios were stepped up. The regional office invited representatives from 45 large credit unions to attend a loan marketing seminar and convinced many that loan portfolios can be very profitable investments. As a result of the seminar, interest in the loan purchase program increased significantly.

The profitability of credit unions was a matter of much concern during the year. Regional staff identified credit unions with serious problems in this area and worked with them to overcome this.

The most dramatic case involved Eglin Federal Credit Union, Ft. Walton Beach, Florida. Eglin, the 12th largest Federal credit union, had experienced operating losses for several years and was projecting additional future losses. In 1982, a plan was developed for NCUA to provide Eglin with cash assistance based on its performance. This gave the credit union immediate working capital. Credit union management and members "responded beyond all expectations," said NCUA Regional Director Stephen Raver. "Although operating losses had been projected at more than $500,000 the credit union realized a profit of more than $200,000 in 1982," he said.

Eglin officials were delighted, according to Manager Jim Appleton. "Profits have continued into 1983 and unless the economy falls off a cliff, it looks like we have our problems licked," he said.

Eglin's success is even more impressive in light of the fact that the credit union's problems were broadcast to the nation in a February 1982 NBC-TV news segment titled "The Bilking of Credit Unions." The report alleged that "boiler room" brokers high pressured some inexperienced credit union investment managers to speculate by purchasing bonds whose value later fell. Concerns about the possible impact of the report proved groundless, largely because the problems at Eglin had begun in 1977 and the credit union had taken aggressive action at that time, including notifying members and cutting expenses. "Contrary to the expectations of some, the NBC story did not hurt us because it was old news to our members," said Mr. Appleton. Or as *CUIS Newsletter* put it: "WHEW! NBC Story Fails to Topple CU Movement."

Several regions launched newsletters in 1982 in an effort to keep examiners better informed of regional developments. Region III's red-and-white *"Update"* is edited by Jim Sharpe and DeWitt Yingling and includes information about new charters in the region, field of membership expansions, mergers, and liquidations.

Examiners' good works are also covered in *"Update."* For example, when Quaker Oats decided to close one of its facilities in Mississippi, it looked as though the company-sponsored credit union would have to be liquidated. However, *"Update"* reported that examiners Ritch

From an examiner's point of view, the revised examination is "more efficient" and allows examiners the latitude to decide when to "devote more time to problem areas," said Principal Examiner Dick VanderWall, Region IV.

"The revised examination is not set in stone," said Vice Chairman Mack. "It continues to evolve and will be reviewed and adjusted periodically to meet the needs of credit unions and or the Agency."

National Examiners' Conference

One of the primary reasons for holding a conference of all NCUA examiners was to unveil revised financial examination procedures and to discuss them in detail.

The conference was also an attempt to bridge "a communications gap" that had developed since the last NCUA regional conferences. For the first time in the Agency's history, nearly 400 examiners gathered in one place for a series of intensive workshops, focusing on the theme of safety and soundness in a deregulated movement. Examiners were also able to attend the September NCUA Board meeting, which was held in conjunction with the conference.

NCUA

NATIONAL CREDIT UNION ADMINISTRATION

NATIONAL EXAMINERS' CONFERENCE

MIAMI, FLORIDA
SEPTEMBER 19-24, 1982

Leaders from the credit union movement accepted NCUA's invitation to come to Miami and share their expertise and views of the problems facing the movement with examiners. Give and take was plentiful, or as one examiner said, "It was a good opportunity to meet the bigwigs that you read about from CUNA, NAFCU and other places."

Summarizing what had been happening at NCUA in recent months, Chairman Callahan outlined the agency's major goals and philosophies. The goals, he said are (1) to maintain and contribute to a growing, dynamic U.S. credit union system and (2) not only maintain, but enhance and contribute to public confidence in the U.S. credit union system.

"We are attempting these things from the philosophy that 'we don't run credit unions and 'Washington can't be the know-all, see-all,' " he continued. "The Agency's plans for reaching its goals include channeling Agency resources to our primary objectives — safety and soundness; decentralization and deregulation of authority to the regional offices; removal of all obstacles to chartering and expansion of the credit union system and insuring that credit unions are in charge of their own future. The trades, NCUA and all of us play a vital role in this system," the Chairman said, "but make no mistake, the credit unions make the key decisions.

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"The exchange between examiners and management has been excellent." Bob Rink, Principal Examiner, Region II.

"It was good to see how the Board functions — especially the research that goes into the proposals. I am new to the Agency and for the first time, I feel a part of it. I have enjoyed sharing ideas with other chartering analysts and have learned things that will help me in my work." Joan Walsh, Chartering and Education Analyst, Region I.

"The examiners greatly appreciated the appearance of credit union officials and managers who made the effort to come to the conference. We need their cooperation so greatly." DeLoris Jagoe, Field Examiner, Region V.

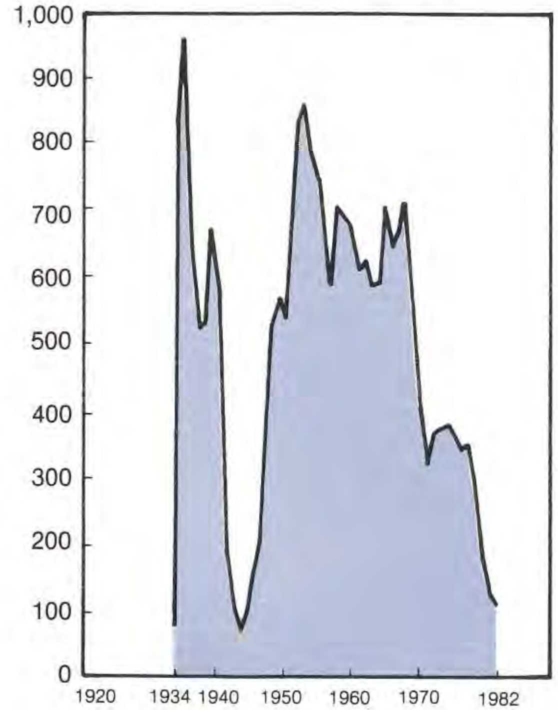
Credit Union Expansion

A credit union expansion plan was launched in 1982 that was motivated as much by a desire to rekindle credit union spirit as it was to increase membership in the nation's credit unions.

"Time to renew this effort"

During the year, a number of Cassandras and Doubting Thomases had begun to appear regularly on the credit union lecture circuit. Their gloom and doom ideas began to catch on.

FEDERAL CREDIT UNION CHARTERS ISSUED 1934-1982



For example, a Houston-based financial advisor named Venita Van Caspel said credit unions had outlived their usefulness as financial alternatives. "The viability of credit unions has passed," she said. Because of payroll deduction and similar plans, credit unions can be helpful for people who have trouble saving, "but as soon as you get $1000, take it out and put it in a money fund."

Chicago consultant Jack Whittle used even stronger terms: "The credit union movement, at least in its traditional form, is dead."

There was some truth in what they said. Although membership continued to grow at a respectable pace, the growth rate had dropped in recent years to three and four percent, compared to the historical average of 6.25 percent a year.

In addition, chartering activity had fallen off sharply: 119 new Federal Credit Union charters were issued in 1981 and 114 in 1982, the lowest since the World War II years. In contrast, 956 Federal credit union charters were issued in 1936, the peak year, and throughout the 1950s and 1960s, new charters were approved at the rate of 600, 700 and even 800 per year. The steep decline began in the 1970s.

Gurus and economists looked into their crystal balls and predicted a continued shrinking of the movement. Some credit unions were buying the idea.

But credit union leaders didn't agree. NCUA Chairman Ed Callahan, a believer in self-fulfilling prophecies, recalled that when he came to Washington in 1981, people told him there would soon be only 5,000 credit unions remaining. "I assure you," he said, "if we continue to talk that way, there will be 5,000 credit unions."

Be positive, Chairman Callahan urged. "Credit unions are on a roll — savings and assets reached record levels in 1982, rising at rates of 17.2 percent and 16 percent, respectively. Your future is brighter now than it has ever been."

"It's time to tell the good news about credit unions and the way to do that is to try and talk other people into forming credit unions," he continued." I don't think there would be a better time to start a credit union than today. You have the flexibility to do things that you were never able to do. You are going to be left alone to handle the consumer loan business and you have always done that the best. Plus, you have the most important ingredient of all — the element missing in banks and S&Ls — your relationship with your members. You are cooperatives first and financial institutions second."

NAFCU's President John Hutchinson and CUNA's President Jim Williams didn't agree with the nay-sayers either.

"One of the things that sets credit unions apart from other financial institutions is that one of our primary goals has always been to extend credit union services and benefits to new members," Mr. Williams said. "For most of our history we have sought to achieve this through active campaigns to serve groups that didn't have access to credit unions. The time has come to renew this effort."

CUE-84 Group Formed

By the Fall, the renewal effort Jim Williams spoke of had begun. A group of leaders from throughout the credit union movement met November 18, 1982 in Philadephia and laid the groundwork for an expansion program called CUE-84, which stands for Credit Union Expansion — 1984. The group, whose honorary chairperson is NCUA Board Member Elizabeth Flores Burkhart, includes: Gene Artemenko, president of United Airlines Employees Credit Union, Chicago; Ted Bacino, director, NCUA Office of Services; Jack Carlson, president, National Association of State Credit Union Supervisors; Joe Cugini, chairman, Credit Union National Association; Robert Curry, president, CUNA

Mutual Insurance Group; Jack Eaker, president, Texas Credit Union League; Richard Ensweiler, president, Association of Credit Union League Executives; Louise Herring, president, Communicating Arts Credit Union, Cincinnati; John Hutchinson, president, National Association of Federal Credit Unions; Michael Judge, president, Pennsylvania Credit Union League; and J. G. Schoggen, treasurer and general manager, Navy Federal Credit Union, Washington, D.C.

"Head Off Self-Fulfilling Prophecies"

"The CUE-84 program is an effort to head off self-fulfilling prophecies and renew the credit union 'can do' spirit," said Board Member Burkhart. "It is a national cooperative effort involving NCUA, state regulators, national trade associations, state leagues and others interested in strengthening the credit union movement."

While goals vary within individual organizations, the overall plan is to incease credit union membership substantially by 1984, to coincide with the 50th anniversary of the *Federal Credit Union Act*. This will be accomplished by chartering new credit unions where feasible, by field of membership expansions and by urging existing credit unions to reach out to persons currently eligible for membership.

Renew the "Can Do" Spirit

Board Member Burkhart, who came to the credit union movement from a bank, brought a new perspective. "Credit unions are unique institutions — we must tell the world about them," she said. "It's important for us to spark enthusiasm among ourselves so that we can sell others on the idea."

Momentum grew. Informational and educational programs and volunteer training sessions were planned. The trade associations took the lead in these areas and in the organizing of new credit unions. NCUA's role was to support the effort from a regulator's perspective. This included updating chartering manuals and making information available about current membership policies.

Recognizing Newly Chartered Credit Unions

NCUA also began to recognize newcomers to the credit union community by presenting new charters at Board meetings. Recipients of new charters issued in 1982 included:

- S&W Federal Credit Union, sponsored by Stone & Webster Engineering Corporation, a major Boston employer, to serve its employees. Potential members: 14,000.

- Cotter Federal Credit Union, organized by the Illinois Credit Union League and sponsored by Cotter & Co., Chicago, to serve its 3,000 employees. Cotter is the parent company for True Value Hardware stores; officials hope to extend credit union service to the owners and employees of the 7,000 True Value stores at a later date. Potential membership: 38,000.

- Chicago Baptist Association Federal Credit Union, organized by the Illinois Credit Union League, and sponsored by the Chicago Baptist Association to serve the association's 69 churches in the greater Chicago area. Potential membership: 22,000.

- New York University Employees Federal Credit Union, sponsored by the university for faculty and other university employees, members of the board of trustees, alumni, and paid students. Potential membership: 20,000.

- Pulaski Federal Credit Union, sponsored by Pulaski Bank & Trust Co., Little Rock, Arkansas, to serve employees, stockholders and depositors of the bank who live or work in Pulaski County, Arkansas and are not eligible for primary membership in another local credit union. Potential membership: 5,000.

Student Credit Unions Get Boost

• Georgetown University Student Federal Credit Union, Washington, D.C., organized by students who wanted the experience of running their own cooperative. Sponsored by the student government, membership is open to students and alumni. The potential membership is 10,000. This is one of a handful of Federal credit unions on college campuses that primarily serve students. When it was chartered early in 1983, the NCUA Board adopted a policy of encouraging more student credit unions. To provide financial incentive, the Board proposed a plan that would allow student credit unions to accept nonmember deposits.

"This opens the door to the possibility that alumni, through the corporations they work for, can make contributions in the form of federally insured deposits which could be earmarked for student loans," said NCUA Board Chairman Ed Callahan. "Here is a vehicle that could provide a private enterprise approach to something that is a real national problem — the need for student loan funds."

There were other examples of charters that pointed out the unique benefits of credit unions. While Boston-based FMR Corporation, a $20 billion investment management and financial services firm was busy planning new services for the general public, management decided to sponsor a credit union for its 1,500 employees. "We expect this will truly be a great employee benefit," said John Rehm, FMR Comptroller and president of the new credit union's board of directors.

Credit Unions: "A Fast-Growing Employee Fringe Benefit"

Others in the investment business agree. Lee Roselle, Vice President and Manager of Employee Relations for Merrill Lynch, Pierce Fenner & Smith, Inc. said: "We think Merrill Lynch Employees Federal Credit Union is a great employee benefit. But more importantly, the employees agree. In a recent attitude survey, the employees rated the credit union as the best of all the benefits we offer."

These men were among a growing number of corporate executives who realized that sponsoring a credit union for employees is good business. The *Wall Street Journal* recently cited credit unions as a "fast-growing employee fringe benefit." The article mentioned a study by the Bureau of National Affairs which indicated that 57 percent of some 313 employers have "member-owned financial institutions, often started with company assistance."

In addition to new charters, field of membership expansion represented another area for potential growth. A policy adopted by the NCUA Board in April 1982 gave the NCUA Regional Directors authority to approve most charters, expansions and mergers involving occupational and associational groups, as long as the groups are located near one another. For example, a factory-based credit union can add a nearby church to its field of membership or the two can be merged. A new credit union can be formed that includes many different groups of employees or associations — workers at a paper company, a restaurant and an Elks club can get together to form a credit union. Slightly different standards exist for community credit unions.

In 1982, 1,645 field of membership expansions were approved nationally; the potential membership was four million persons.

People

Elizabeth Flores Burkhart: "A Feminine Version of a Horatio Alger Tale"

NCUA and credit unions welcomed Elizabeth Flores Burkhart, a former Texas banker, who was sworn in July 22, 1982 as the newest NCUA Board member. She is the first woman to serve on the Board. Mrs. Burkhart is a Republican; her appointment means there are now two Republicans and one Democrat on the Board.

Describing Board Member Burkhart's rise to success, *Credit Union Magazine* reported that "hers is a modern-day success story, a feminine version of a Horatio Alger tale." The eldest of 13 children of a migrant Texas farm laborer, Mrs. Burkhart is an ex-Marine corporal, was a singer on a local TV variety show, taught school and then became a secretary, got her master's degree and became an assistant vice president at Texas Commerce Bank, and then turned to campaign work. In 1982, President Reagan nominated her for the NCUA Board post. Of her new job, Board Member Burkhart told CUNA's Brooke Shearer: "I will have to adjust my thinking from the profit motive that rules banking to the cooperative principles that govern credit unions, but I intend to immerse myself in the job."

And that's exactly what she did, visiting, listening, and speaking at dozens of credit unions, large and small, in her first few months on the job.

In Texas, the Houston Chronicle caught up with her and interviewed her about her roots, her feelings about credit unions and the Administration she is a part of. President Reagan saw the story and was so impressed he telephoned Mrs. Burkhart.

"Elizabeth, I've been reading about you," he said. "I'm glad to have people like you in my Administration." Mrs. Burkhart seized the opportunity to talk about credit unions. She told the President she thought credit union philosophy of thrift and mutual self-help had much in common with his economic philosophy. Expressing concern that credit unions might someday be lumped together from a regulatory standpoint with banks or S&Ls, Board Member Burkhart said she thought it was important for credit unions to retain their distinctive identities as nonprofit cooperatives. She volunteered to send the President a report describing why credit unions are different and how these differences can be preserved. The President said he would be "on the lookout" for the information.

Former NCUA Chairman Connell Goes to Seattle

Mrs. Burkhart succeeded Board Member Lawrence Connell, who left NCUA early in the year to become President and Chief Operating Officer of Washington Mutual Savings Bank in Seattle. Mr. Connell, a leader in the deregulation of financial institutions, served NCUA for four years. In 1977, President Carter appointed him Administrator of the Agency. Two years later, when a three-person Board was created to administer the Agency, Mr. Connell became its first Chairman, serving in that capacity until October 1981 when he was succeeded by Edgar F. Callahan, President Reagan's appointee.

Retirements, Honors

General Counsel John L. Ostby retired early in 1983, after more than 30 years of service to the Federal government. He had been the Agency's General Counsel for nine years, nearly as long as the Agency had been in existence. He served under four different Agency heads, including Republicans and Democrats. Wendell Sebastian, formerly NCUA Executive Director, succeeded Mr. Ostby as General Counsel.

Robert E. Boon, Regional Director, IV, Toledo, retired February 24, 1982 after 25 years of distinguished service with the Agency and 31 years with the Federal government.

Earl Bradley, Director of the Office of Examination and Insurance, and a former Regional Director in Harrisburg, Pennsylvania and San Francisco, California announced his retirement in 1982 but at the request of the Chairman, agreed to stay on temporarily as the Chairman's Special Assistant for Regional Affairs. His assignment was to take charge of Region IV following Bob Boon's retirement. Mr. Bradley for-mally retired January 15, 1983 after more than 22 years of outstanding service to NCUA and credit unions.

The agency honored a number of its former leaders, presenting them with gold or silver medals in recognition of their contributions to the Agency and to credit unions. Among the recipients were former Board Chairman Lawrence Connell; former Administrator C. Austin Montgomery; former Bureau of Federal Credit Unions Director J. Deane Gannon; former General Counsel John L. Ostby; and former Regional Director Earl Bradley.

Promotions

H. Allen Carver was appointed Regional Director for Region IV, succeeding Earl Bradley who retired. Mr. Carver assumed the post in the Fall of 1982 when the relocation of the regional office from Toledo to Chicago was completed. Mr. Carver, who joined NCUA in 1965, as a field examiner in Richmond, Virginia, had been Mr. Bradley's assistant in Toledo; before that, he was Deputy Director of the Office of Examination and Insurance in Washington.

Ronald N. Lewandowski was named Deputy Regional Director for Region IV. He was previously Chief of Chartering, Insurance and Liquidations for the region.

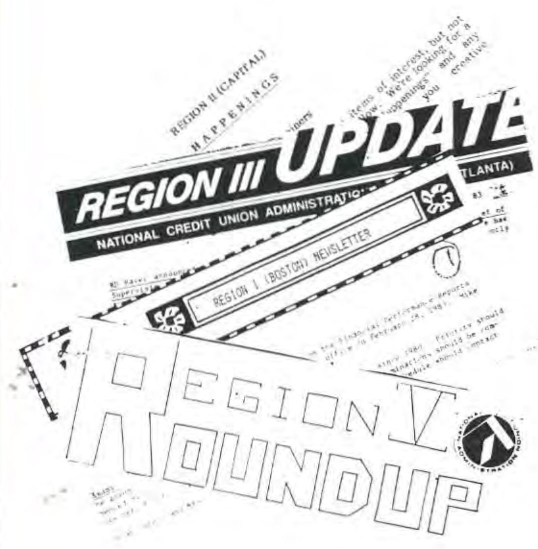
Region V, Austin, became the first region to have two Deputy Regional Directors. When the new Denver sub-office within the region was established in the Fall, Leon Handrick moved to Colorado to head it, retaining the title of Deputy Regional Director. Mr. Handrick had been the Deputy in Austin; John Ruffin succeeded him in that position. Mr. Ruffin had been Chief of Supervision and Examination in the Atlanta regional office.

REGIONAL HIGHLIGHTS

NCUA's supervisory responsibility for the 11,430 federally chartered credit unions and insurance responsibilty for the 5,139 federally insured state chartered credit unions is divided among six regions.

In 1982, the authority of the six NCUA Regional Directors was significantly expanded because the NCUA Board believes the regional offices can provide the most responsive service in the most efficient manner. The Regional Directors can now make most supervisory decisions affecting credit unions in their jurisdictions without coming to Washington for approval.

Two regional offices were relocated in 1982 to provide better access to the federally insured credit unions they serve. The Harrisburg, Pennsylvania regional office was moved to Washington, D.C. and the Toledo, Ohio office to Chicago, Illinois. In addition, the largest of the regions — Region V — has long needed another base of operations and in 1982 a suboffice was opened in Denver, Colorado. It serves credit unions in the northern part of the 12-state area supervised by the regional office in Austin, Texas.



REGION I — BOSTON

"Chartering Champions"

CONNECTICUT
MAINE
MASSACHUSETTS
NEW HAMPSHIRE
NEW JERSEY
NEW YORK
PUERTO RICO
RHODE ISLAND
VERMONT
VIRGIN ISLANDS

Region I grabbed the chartering and expansion ball and ran with it. Thirty-nine new Federal credit union charters were approved by the region during the year, 34 percent of all Federal credit union charters granted in 1982. Among the new charters approved:

- S&W Federal Credit Union, serving employees of Stone & Webster Enginering Corporation, a major Boston employer. Potential membership: 14,000.
- Episcopal Federal Credit Union, serving members, organizations and employees affiliated with the Episcopal Diocese of Newark, N.J. Potential membership: 13,300.
- New York University Employees Federal Credit Union, New York City, serving faculty, members of the university's board of trustees, alumni and paid students. Potential membership: 20,000.
- Fidelity Employees Federal Credit Union, serving employees of Boston-based FMR Corporation, an investment management and financial services firm. Potential membership: 1,500.

The region was fortunate to have Supervisory Examiner Tony LaRose on its staff. Mr. LaRose, who has organized 26 credit unions over the past five years, received the Agency's first annual award for supervisory excellence in 1982, in part for his chartering expertise.

A novel merger procedure, pioneered in Region I with the cooperation of Rhode Island regulatory authorities, asks credit unions to give NCUA's Share Insurance Fund something in return for merger assistance. The specific case involved Quonset Point Credit Union, East Greenwich, R.I., a $17.5 million state chartered federally insured institution which was merged into nearby Davisville Credit Union, a $9.5 million state chartered privately insured cooperative. Davisville, the continuing credit union, agreed to pay back the merger assistance it received from NCUA. The rationale for this is that as the continuing credit union eventually makes money from the merging credit union's members, NCUA believes it deserves some of its money back.

REGION II - Harrisburg, Pa./ Washington, D.C.

"Fire drill" in progress

DELAWARE
DISTRICT OF COLUMBIA
MARYLAND
PENNSYLVANIA
VIRGINIA
WEST VIRGINIA

A major event for Region II, as for all the regional offices, was the "fire drill" ordered by Chairman Callahan early in the year. Dubbed "M.A.C.E." or Massive Attack by Callahan's Examiners, the drill called for examiners to visit personally all 11,430 Federal credit unions between February 16 and March 19, 1982. The idea was to get a quick "hands-on" look at all Federal credit unions, some of which had not been examined in two years. Those that needed help would get it quickly — before they became weak.

Region II Review Analyst Anthony LaCreta's experience was probably similar to that of many examiners assigned to rural areas. The assignment was challenging — Mr. LaCreta was asked to visit three credit unions per day in two weeks. The credit unions were located within a 60-mile radius of Bluefield, West Virginia. All were small credit unions — none over $10 million — and officials kept the books in their homes in many cases.

But Mr. LaCreta turned it into a memorable experience, literally camping out in a log cabin in Pipestem National Park and fanning out to credit unions during the day. The hardest part was scheduling a time when officials would be home to let him look at the records.

The first 29 Federal credit unions Mr. LaCreta visited were "a piece of cake," all functioning satisfactorily. The last one, however, made the 'fire drill' worthwhile. When Mr. LaCreta got to the treasurer's home, he found that she was new to the job and didn't know how to keep the books. As a result, the records had not been updated since the last examination, five months earlier. Mr. LaCreta showed the treasurer how to do the recordkeeping and updated the books through the end of the year.

"If we hadn't had the fire drill, the records wouldn't have been kept and the problem wouldn't have shown up until the next examination," he said. Like officials of most credit unions, the treasurer was a volunteer, appreciative of guidance from examiners, trade association representatives and other professionals.

In general, Mr. LaCreta found credit union officials receptive once they realized all 11,430 Federal credit unions were being visited, not just theirs. "It was a good effort from the Agency's point of view," he said. "The small credit unions said they thought it had been too long between examinations and wondered what their supervision fees paid for. They had a lot of questions about future policies. When I explained that NCUA was concerned about what was going on in the field and wanted to know what they were doing, they were appreciative of the visit."

In other developments, Region II was the first to implement the new multiple group merger policy, approving the merger of Norfolk, Virginia-based Colonial Stores Employees Credit Union with Naval Air Norfolk Federal Credit Union — a grocery store field of membership with a military field of membership. Credit Union service was preserved for 2700 Colonial Stores Credit Union members, whose credit union faced liquidation because of sponsor layoffs.

In the chartering area, the regional staff helped organize a relatively new type of credit union: one that serves predominantly college students. The Georgetown University Student Federal Credit Union, Washington, D.C., organized by students eager for the experience of operating a financial cooperative, was chartered early in 1983. It is the first student-operated credit union at a private university and one of a handful of such credit unions in the country. Impressed by the Georgetown students' efforts, the Board adopted a policy of encouraging college credit unions and proposed a plan that would allow them to accept federally insured deposits from non-members such as corporations and alumni groups. This could provide a source of funds for low-cost loans to students for books, trips and tuition.

REGION III · ATLANTA

An entrepreneurial style

ALABAMA
ARKANSAS
FLORIDA
GEORGIA
KENTUCKY
LOUISIANA
MISSISSIPPI
NORTH CAROLINA
SOUTH CAROLINA
TENNESSEE

An entrepreneurial approach to improving service and responding to credit unions' needs characterized the region's activities during the year.

For example, in May 1982, efforts to market loan portfolios were stepped up. The regional office invited representatives from 45 large credit unions to attend a loan marketing seminar and convinced many that loan portfolios can be very profitable investments. As a result of the seminar, interest in the loan purchase program increased significantly.

The profitability of credit unions was a matter of much concern during the year. Regional staff identified credit unions with serious problems in this area and worked with them to overcome this.

The most dramatic case involved Eglin Federal Credit Union, Ft. Walton Beach, Florida. Eglin, the 12th largest Federal credit union, had experienced operating losses for several years and was projecting additional future losses. In 1982, a plan was developed for NCUA to provide Eglin with cash assistance based on its performance. This gave the credit union immediate working capital. Credit union management and members "responded beyond all expectations," said NCUA Regional Director Stephen Raver. "Although operating losses had been projected at more than $500,000 the credit union realized a profit of more than $200,000 in 1982," he said.

Eglin officials were delighted, according to Manager Jim Appleton. "Profits have continued into 1983 and unless the economy falls off a cliff, it looks like we have our problems licked," he said.

Eglin's success is even more impressive in light of the fact that the credit union's problems were broadcast to the nation in a February 1982 NBC-TV news segment titled "The Bilking of Credit Unions." The report alleged that "boiler room" brokers high pressured some inexperienced credit union investment managers to speculate by purchasing bonds whose value later fell. Concerns about the possible impact of the report proved groundless, largely because the problems at Eglin had begun in 1977 and the credit union had taken aggressive action at that time, including notifying members and cutting expenses. "Contrary to the expectations of some, the NBC story did not hurt us because it was old news to our members," said Mr. Appleton. Or as *CUIS Newsletter* put it: "WHEW! NBC Story Fails to Topple CU Movement."

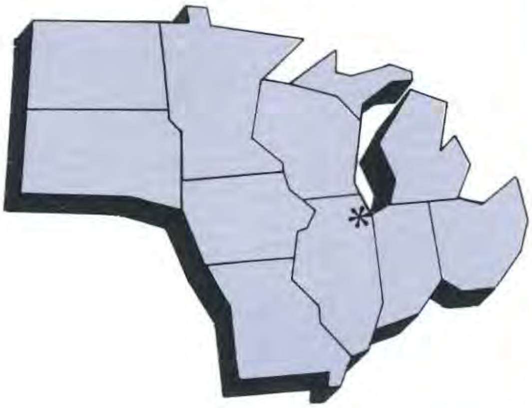
Several regions launched newsletters in 1982 in an effort to keep examiners better informed of regional developments. Region III's red-and-white *"Update"* is edited by Jim Sharpe and DeWitt Yingling and includes information about new charters in the region, field of membership expansions, mergers, and liquidations.

Examiners' good works are also covered in *"Update."* For example, when Quaker Oats decided to close one of its facilities in Mississippi, it looked as though the company-sponsored credit union would have to be liquidated. However, *"Update"* reported that examiners Ritch

Kolody and Steve Dennison were instrumental in finding a merger partner and developing a merger plan that called for no up front money from the National Credit Union Share Insurance Fund. "That's an unusual result in this type of circumstance, and we felt it deserved commendation," Mr. Yingling said.

"The way you learn is by hearing or reading about how other examiners did things or dealt with problems," he said. Examiner Dwight Engelrup, for example, found that the manager of a credit union periodically wrote share drafts in excess of his account. He then covered the overdraft by writing another draft payable to himself and depositing it in his account. As reported in *"Update,"* these drafts were no good either; the total discrepancy was more than $100,000 and the manager was fired.

REGION IV — Toledo/Chicago SWAT Teams Formed



ILLINOIS
INDIANA
IOWA
MICHIGAN
MINNESOTA
MISSOURI
NORTH DAKOTA
OHIO
SOUTH DAKOTA
WISCONSIN

This region experienced major changes including the retirement of long-time Regional Director Bob Boon, the assignment of former Office of Examination and Insurance Director Earl Bradley as Mr. Boon's temporary replacement, and the accession of Allen Carver as the new Regional Director in the late Fall. At the same time, the office was moved from Toledo to Chicago but by year's end, Regional Director Carver, his new Deputy Regional Director Ron Lewandowski, and staff had settled down to the tough job of supervising Federal credit unions in one of the most economically depressed areas of the country.

The new authority to merge nearby Federal credit unions with different common bonds became an important tool. For example, the regional office was able to approve the merger of a farm equipment manufacturing credit union, troubled by sponsor layoffs, with a nearby Catholic church credit union in the Detroit area.

Near Cleveland, a weak Ford credit union became part of a nearby GM credit union through a purchase and assumption agreement. This was the first merger-like arrangement involving Federal credit unions that served competitive automakers. What's more, Ford agreed to continue payroll deduction to the GM credit union, another first for auto industry credit unions.

Because of a need to know more about the operations of problem case federally insured state chartered credit unions in the region, the regional office, working with state supervisory authorities, formed SWAT teams, also called Regional Attack Teams. The purpose of these five-to-seven member teams of NCUA examiners was to look for continued insurability problems and to reduce losses to the National Credit Union Share Insurance Fund. Experience and willingness to work long hours and spend weekends on the road were among the qualifications for the job.

"Historically, it had been the Agency's position not to go into state chartered, federally insured credit unions," said Deputy Regional Director Lewandowski. "But in many cases, when we would inquire about specific problems, the state authorities would ask us to go in with them."

John Lamp, a Supervisory Examiner who led one of the teams, said that state supervisors "welcomed us initially and they still do. We are able to assist them."

A SWAT team spent about a week reviewing a credit union's insurance records on the first visit; the team usually returned for a followup visit every month or every three months.

"Once inside, we found that some had forgotten standards of good lending, had neglected the small saver and had gone strictly to money market accounts," Mr. Lamp said. "Others were very aggressive and had gone after every new program that came down the pike, without consideration of the cost."

Recommendations for improvement were offered to credit unions either by NCUA or by state authorities, depending on the situation. "Fortunately, we didn't have to recommend that any be closed down," Mr. Lamp said. "We did suggest many changes, such as reducing staff, selling buildings or closing parts of buildings — cost saving measures designed to put the credit union back into an operation it could afford."

Mr. Lamp said the most dramatic success story occurred in a credit union that had four branches. "It was a disastrous operation when we went in, but is now breaking even, thanks to having hired a hard-nosed manager and closing two of the branches," he said.

Despite SWAT teams and a more flexible merger policy, Region IV had its share of liquidations. When Sheldon Federal Credit Union, Sheldon, Wisconsin, was ordered liquidated because of insolvency brought on by depressed farming and logging industries in the area, NCUA ran into problems.

The $2.5 million, 3,700 member credit union was one of the primary financial institutions in the rural community around Sheldon. Although NCUA examiners had been stationed at each of the credit union's three locations to answer questions, there was confusion and misunderstanding. Merchants refused to honor drafts drawn on the credit union; a local bank balked at cashing them.

Region IV Liquidation Specialist Harry Bellew realized he had to find a way of reassuring members and the community. He approached a local radio station and asked for air time. The next day, he appeared on a call-in show, explained the situation at the credit union and then fielded questions. Members who called were concerned about getting their money, they asked how safe it was, and what would happen if they wrote a draft after the credit union had been liquidated. They also wondered about continued credit union service.

"I explained that their money was insured and that it would be just a few days until they received their checks," Mr. Bellew said. "They seemed satisfied. I also reassured merchants that members' drafts would not bounce."

As a result of Mr. Bellew's radio appearance, merchants began honoring drafts again. A local banker even offered his help in cashing checks.

"The response to the situation was very positive and kept people's concerns to a minimum," said Deputy Regional Director Lewandowski.

Region V — Austin/Denver
Braniff FCU Becomes DFW FCU; Bounces Back

Region V faced problems similar to those brought on by the liquidation of Sheldon Federal Credit Union in Wisconsin when debt-ridden Braniff International, the nation's eighth largest airline, filed for bankruptcy in May 1982.

All the ingredients for a major credit union liquidation were present: Braniff Airways Federal Credit Union, with assets of $42 million, had 15,900 members, most of whom no longer had jobs.

But the sponsor's demise did not spell the end for the credit union. Months later, the credit union was alive and continuing to operate. Thanks to NCUA's revised membership policies, the old Braniff Federal Credit Union — now called the DFW Federal Credit Union

REGION V

ARIZONA
OKLAHOMA
NEW MEXICO
TEXAS

COLORADO
KANSAS
NEBRASKA
UTAH
IDAHO
MONTANA
NEVADA
WYOMING

— has been able to expand its membership base. It has added some 30 groups, ranging in size from 20 to 600 people. The combined potential membership is 3,400. The employee groups are all located within six-to-eight miles of Dallas-Fort Worth regional airport, home of the old Braniff Federal Credit Union. The groups include a paper company, an insurance company, a ceramics store and a health services firm. In most cases, these groups had never had credit union service before because they were too small to support a credit union.

The policy change that allowed Federal credit unions to expand their fields of membership by adding different types of groups was approved in April 1982. Region V Director Len Skiles was one of many who saw the need for the change and was prepared to implement it immediately. DFW Federal Credit Union and the groups that helped to stabilize it were all beneficiaries of the new policy.

In a speech before the Defense Credit Union Council in September 1982, NCUA Board Chairman Ed Callahan explained the previous options available to the credit union:

"One year ago today, the NCUA would have had to deal with the Braniff bankruptcy and the spillout effect it had on the credit union in one of the following ways: We would have had to liquidate the credit union or go to Pete Parsons, [Texas Credit Union Commissioner] and say, 'Do you have a state charter that can take [Braniff] as a merger partner.' That was it — liquidate or merge with a state credit union, or say, yes, you can have the community of Dallas-Fort Worth. Now the solution under our new attitude is what they've done. They have taken in groups in the Dallas-Fort Worth airport area — groups that voluntarily want to be in the credit union. The credit union stabilized. That's a far better solution to a credit union problem than liquidation or conversion to community charter. All we ever had in our bag was make it a community or liquidate it unless some state could accommodate it."

Braniff's collapse offered lessons for all credit unions, particularly those with occupational common bonds. In response to a question from Texas Credit Union League officials, Regional Director Skiles warned: "Any occupational type credit union that depends on a sponsor's field of membership for support should monitor the sponsor's financial status at all times. The credit union should maintain strong liquidity reserves, a line of credit with its corporate and back up support from the NCUA Central Liquidity Facility. Take time to look at potential expansion options because it takes time to build a solid base, as much as three or four years," Director Skiles said.

In other developments, the Austin office arranged for the NCUA Board to recognize the first Federally chartered credit union in the United States during its January 1983 Board meeting in Dallas. NCUA Board Member Elizabeth Flores Burkhart, a Texan, presented officials of the Morris Sheppard Texarkana Federal Credit Union, Texarkana, Texas, with the original charter, dated October 1, 1934. The credit union was named in honor of U.S. Senator Morris Sheppard who represented Texas in the Senate from 1913 to 1941 and was one of the credit union movement's greatest supporters in Congress. Senator Sheppard helped steer the *Federal Credit Union Act* toward passage in June 1934. The ceremony honoring the Morris Sheppard Federal Credit Union was the first of many such observances NCUA and Federal credit unions expect to make as the 50th anniversary of the *Federal Credit Union Act* approaches.

If chartering was concentrated on the East coast, field of membership expansions and conversions to Federal charters characterized West coast Federal credit union activities in 1982.

Between April and December 1982, after the revised membership policy took effect, the San Francisco regional office approved 906 field of membership requests (potential membership: 361,193), or nearly 70 percent of all field of membership expansions approved in the U.S. during that time period.

One credit union, Anchorage-based Alaska USA Federal Credit Union, applied for and received approval to add 1,238 separate small groups to its field of membership. The combined membership potential was 30,156. This allowed the credit union to diversify its base, which had been predominantly military.

Because of problems with the California franchise tax on investment income, a number of California state chartered credit unions converted to Federal charter during the year. Among them was 53 year old First California Federal Credit Union, Fresno, the first state chartered credit union in California.

NCUA became more "results oriented" with regard to assistance and San Diego Navy Federal Credit Union stands out as a successful example, showing its first profit in four years in 1982.

Faced with lagging profitability and a declining asset base, San Diego Navy Federal Credit Union, the largest credit union in San Diego and one of the 20 largest nationally, embarked on a workout plan early in 1982. Developed by the credit union in consultation with NCUA, the workout plan involved major changes in the management of the credit union and in its share structure.

The goal was profitability by year's end. In a July 15, 1982 article, the industry newsletter, *Report on Credit Unions,* summarized NCUA's attitude this way:

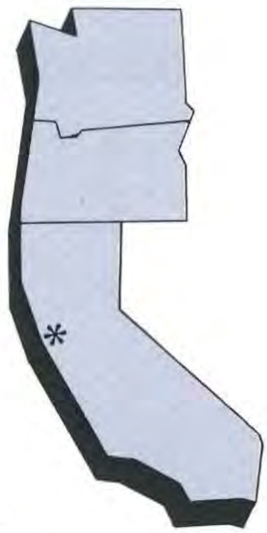
"From the Federal insurance fund the message is direct: no help for those who won't or can't help themselves. And clearly, the price a financially troubled, federally insured credit union must pay for rescue isn't merely accepting a slap on the wrist or promising to toe the line in the future . . . painless recovery plans which require years of financial assistance aren't likely to be met with approval. NCUA's insurance fund expects workout plans to chart a course of the return to good health in a time span measured by months rather than by years. Finally, recognize that the government has the upper hand in any government-backed financial assistance package. If the credit union can come forward with an acceptable workout plan, fine and dandy. But if the board and management can't or won't bite the bullet to solve their problems, don't expect the insurance fund to risk its assets."

San Diego Navy Federal Credit Union "bit the bullet" and by year's end had emerged as a stronger financial institution better able to provide superior service to its members in the years ahead.

"Because of the efforts of the new management team and limited financial assistance from the National Credit Union Share Insurance Fund, the credit union made a profit during the last two months of 1982, the first profit it had seen in four years," said Regional Director Barry Jolette. "The credit union is well on the way to solving the financial difficulties that plagued it during that period."

REGION VI — San Francisco

"No help for those who can't or won't help themselves"



ALASKA
AMERICAN SAMOA
CALIFORNIA
GUAM
HAWAII
OREGON
WASHINGTON

SUPERVISION

NCUA's primary responsibility is to supervise the safety and soundness of federally chartered and federally insured credit unions. One way in which this is accomplished is the collection of semi-annual financial and statistical information to monitor industry-wide trends as well as to analyze individual credit unions. For Federal credit unions, 1982 was a year of very high growth in total shares, increased earnings, and historically high levels of liquidity. The 17.2 percent increase in total shares during the year was the fastest growth of any of the financial intermediaries. In contrast, consumer savings in banks grew 9.3 percent and in S&Ls only 7.9 percent. This growth rate caused credit unions' share of the consumer savings market to increase from 4.2 percent in 1981 to 4.5 percent share in 1982. Part of this gain may be due to the "head start" credit unions received by the deregulation of shares in early April.

CONSUMER SAVINGS HELD AT FINANCIAL INSTITUTIONS IN 1981 AND 1982

(Amounts in Millions of Dollars)

	1981		1982		
Financial Institution	Amount (Millions)	Percent Distribution	Amount (Millions)	Percent Distribution	Percent Change
Commercial Banks	$ 895.6	54.6%	$ 978.9	55.0%	9.3%
Savings & Loan Associations	$ 521.3	31.7%	$ 562.7	31.6%	7.9%
Mutual Savings Banks	$ 156.5	9.5%	$ 157.6	8.9%	.7%
Credit Unions	$ 68.9	4.2%	$ 80.5	4.5%	16.8%
TOTAL	**$ 1,642.3**	**100.0%**	**$1,779.7**	**100.0%**	**8.4%**

SOURCE: Board of Governors of Federal Reserve System

EARNINGS INCREASED

Net earnings in 1982 of natural person Federal credit unions after all expenses, dividends and reserves are subtracted, were over $244 million, a 10.7 percent increase from 1981's net income. (Table 3). The earnings rate of 4.5 percent of total income was very close to the 4.7 percent experienced by credit unions in 1981. However, if the first six months of 1982 are compared with the full year's total, net income in both absolute and relative terms showed a decline in the second half of the year. For the January-June period, Federal credit unions reported net income of $133.7 million, or earnings at a 5.2 percent rate of total income. Subtracting this result from year end totals suggests that net earnings from the final six months were $110.4 million which equals a 3.9 percent rate of total income for the period.

SOME CREDIT UNIONS EXPERIENCED LOSSES

While the consolidated earnings continued to rise, some individual credit unions did experience operating losses. Over the past four years the number of credit unions with operating losses has closely parallelled economic conditions and overall credit union trends.

At year end 1982, 2,572 Federal credit unions reported negative earnings of $63.1 million for the year. This represents 22.5 percent of the operating credit unions at year end. Of these 2,572 credit unions with net losses in 1982, 924 also experienced net losses in calendar year 1981.

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 1979	2825	22.2%	$ 64,417
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

The table below shows that 791 (or 86 percent) of these 924 credit unions are in the less than $5 million asset group. While this group represents a supervisory workload though frequent follow-up examinations, these credit unions do not represent a significant insurance risk. The total assets of this group are $729 million or about 19 percent of the total assets of this group of 924. The other 133 Federal credit unions have total assets of $3.1 billion. The regional offices monitor these larger credit unions continuously to ensure their return to sound operations or to seek out merger partners when the credit union is unable to return to profitable operations.

NATURAL PERSON FEDERAL CREDIT UNIONS EXPERIENCING NET LOSSES IN BOTH 1981 AND 1982 BY ASSET SIZE

	Number of Credit Unions	Assets (in Thousands)	Amount of 1982 Losses (in Thousands)
Less than $1 million	567	$ 228,045	$ 2,860
$1 million to less than $2 million	119	167,532	1,706
$2 million to less than $5 million	105	333,794	3,764
$5 million to less than $10 million	51	365,607	2,178
$10 million to less than $20 million	41	594,894	4,682
$20 million to less than $50 million	26	868,960	6,191
$50 million and up	15	1,223,817	12,580
TOTALS	**924**	**$3,782,649**	**$33,961**

One of the factors causing the change in earnings trends between the June and December reporting periods was the rapid decline in short term interest rates which began in August and continued through December. This fall in return on typical investment opportunities is shown in the following table:

DECLINE IN AVERAGE MONTHLY SHORT TERM INVESTMENT RATES

1982	Average Fed Funds	90-day T-Bill (CD equivalent)	6-Month Prime Bank CD
July	12.78	11.52	13.77
August	10.08	8.82	11.70
September	10.26	8.11	11.43
October	9.83	7.85	9.50
November	9.35	8.23	9.07
December	8.73	8.11	8.85
% Change in Period	**-4.05**	**-3.41**	**-4.92**

One of the reasons credit unions' earnings were vulnerable to this decline was that almost all of the $6.1 billion increase in shares received during the year was invested, rather than used for making loans to members. As a result of this trend, year end investments were over 33 percent of total Federal credit union assets, the highest level in the past 10 years. Total loans increased only 3.1 percent or just $858 million. The result of these actions has been a radical change in just five years in the structure of Federal credit unions' balance sheets. In 1978, credit union assets were primarily in loans to members. Five years later this percentage had dropped dramatically.

Federal Credit Union Loan/Asset Ratio (1978 vs. 1982)

RATIO	1978	1982	PERCENT CHANGE
Loan/Assets	79.7%	61.8%	-17.9%
Investments/Assets	16.7%	33.4%	+16.7%

Some of this change was caused by the poor lending environment that has existed due to the changes in the bankruptcy law (1979), the Credit Restraint Program (1980), and the deteriorating economy and rising unemployment (1981-82). Another factor was the response that credit union managers made to the very high short term yields available on investments in the 1980 to mid-1982 period. When double digit yields were readily available on short term funds, managers had economic and operational incentives to seek investment rather than loan opportunities. One impact was the fascination of some credit unions with money market type strategies that, in the view of several spokesmen, gave credit unions the opportunity to duplicate the dramatic growth rate of the money market funds. Notwithstanding the fact that Federal credit unions had major disadvantages when compared with money market funds such as higher operating ratios, narrower investment authority, and reserving requirements, this approach was superficially attractive and probably resulted in less of a commitment to lending opportunities than might have otherwise occurred.

One of the consequences of the growth in investments was that credit unions increasingly became a source of funds for banks and S&Ls. At year end Federal credit unions had $3.9 billion directly invested in S&Ls, and $2.8 billion in banks. (Table 6).

This total of almost $6.7 billion in other financial institutions was a 71 percent increase from the year earlier total and was 188 percent greater than the $3.5 billion credit unions invested in the corporate credit union network. This activity attracted brokers who solicited credit union deposits often for institutions out of state that were unable to sustain growth with local funding sources.

The failure of Penn Square Bank in Oklahoma City was an example of the risks associated with this type of broker activity. As of July 5, 1982, the date Penn Square Bank was closed, 139 federally insured credit unions had approximately $111.5 million invested in deposits not covered by FDIC insurance. Credit union deposits accounted for more than 25 percent of the total deposits of Penn Square Bank. Credit unions from all geographic regions of the United States were involved primarily as a result of the bank's being included on a list circulated by an investment advisor. An initial 20 percent of the uninsured deposits was written-off immediately in July as a result of the FDIC's preliminary assessment of the value of Penn Square's assets. No federally insured credit union has closed as a result of this bank failure. An initial payout of 20 percent of the uninsured loss was made by the FDIC on March 18, 1983.

INVESTMENTS OF NATURAL PERSON FEDERAL CREDIT UNIONS 1972 - 1982

1 Includes shares, deposits, and certificates in corporate 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 in 1978, savings in commercial and mutual savings banks.

Another less publicized example of broker activity was the failure of Manning Savings and Loan Association which was put into receivership by the FSLIC on February 3, 1983.

At the time of its closing, Manning Savings and Loan Association of Buffalo Grove, Illinois (total deposits of $116.7 million) had received $42 million in deposits from 412 credit unions. Of this total, $33.6 million had been deposited by 331 Federal credit unions and $8.4 million by 81 state credit unions. Of the total amount of credit union deposits, only $840,000 or two percent was not insured by FSLIC.

Several factors characterized credit union involvement in this situation. First, the depositing credit unions were located in 47 of the 50 states with a majority significantly distant from the local market area of Manning. Second, the small amount of uninsured deposits reflects an effort by credit union managers to reduce or transfer credit risk by relying on insurance coverage and limiting the credit union's investments in a single institution to this $100,000 amount. Third, 43 credit unions which invested in Manning (six state chartered and 37 federally chartered) also had deposits in Penn Square.

While the uninsured losses from the Manning failure were minimal compared to the Penn Square totals, the number of credit unions included is a concern. The fact that credit unions continued to rely on brokers to "find" investment options and apparently use insurance coverage rather than first hand investment analysis to minimize risks means that supervisory review of this activity will continue as a top examination priority in 1983.

The following chart shows the year-end investment totals by kind of investment for Federal credit unions (excluding corporate credit unions). Deposits in banks and S&Ls grew at a compounded growth rate of 52 percent from year-end 1978 through December 1982. Only investments in corporate credit unions had a faster rate of growth at 54 percent in this same period. However banks and S&Ls had almost double the amount of deposits at year-end 1982 as did corporate credit unions. Thus the relative relationship between these two investment options as existed at year-end 1978 was maintained thorughout this period. An irony is that as credit unions have successfully attracted more and more funds and in most years grown faster than other financial institutions, the primary and still growing use of these funds is the purchase of certificates of deposit from their principal competitors. This trend raises the question of how long banks and S&Ls will continue to see credit unions as sources of their funds instead of attracting retail deposits directly, bypassing the credit union intermediary.

TOTAL INVESTMENTS AT NATURAL PERSON FEDERAL CREDIT UNIONS 1978-1982

(Amounts in millions of dollars)

Item	1978	1979	1980	1981	1982
U.S. Government Obligations	$ 337	$ 354	$ 491	$ 490	$ 673
Federal agency Sec.	$2,761	$2,425	$2,500	$2,346	$2,934
Common trust investments	$ 552	$ 738	$ 933	$ 735	$ 966
Deposits in commercial banks	$1,251	$1,275	$3,575	$3,897	$2,799
Deposits in S&L's & savings banks					$3,859
Shares/deposts in corporate credit unions	632	$ 798	$1,908	$2,134	$3,533
Investments in other credit unions		$ 107	$ 211	$ 172	$ 185
Other investments*	$ 225	$ 152	$ 187	$ 312	$ 235
Allowance for Investment Losses	N/A	3.3	4.4	9.2	15.2
Total Investments	**$5,798**	**$5,849**	**$9,805**	**$10,086**	**$15,184**

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

Credit Union Earnings Vulnerable to Short-term Interest Rate Fluctuations

In addition to the transaction and credit risks exemplified by the Penn Square and Manning failures, short term investments also caused, as described earlier, credit union earnings to be vulnerable to fluctuations in short-term interest rates. Of the $15.2 billion in investments at year end, $12.1 or 80 percent was classified as maturing within one year. Of the remaining $3.1 billion, $2.7 billion was in government and Federal agency securities. Most of these longer term securities were GNMA's and FNMA's which were purchased when long-term rates were much lower. The decline in rates not only raises the market value of these securities but also gives credit unions the chance to fund these investments at a much lower cost.

A positive aspect of this increasing pool of short-term funds is that credit unions are extremely liquid and financially well positioned to take advantage of opportunities that occur for lending. However just as credit unions' competitive advantage in money market type accounts was shortlived when the Depository Institutions Deregulation Committee authorized similar accounts for banks and S&Ls in December 1982, other consumer lenders, especially "captive" auto finance companies and local banks, have aggressively pursued the consumer loan market. This market has been credit unions' traditional strength. Improved earnings as well as the ability of credit unions to successfully compete for funds in 1983 will be very strongly influenced by credit unions' ability to recapture their share of the consumer lending market.

Shares and Deregulation

In April 1982 the NCUA Board completely removed all regulations controlling the terms, rates, and other aspects of the issuance of shares by Federal credit unions. The impact of this decision is hard to document directly in the financial patterns of the subsequent eight months of the year. However several trends appear to have been influenced if not accelerated by this action.

First, credit union share growth at 17.2 percent was significantly greater than the other financial institutions. This rate was the highest share increase in the last five years. The flexibility given credit unions to respond to the needs of their members in the most effective manner by deregulation undoubtedly contributed to this result. However as other financial institutions are now almost entirely deregulated, this relative advantage and the concurrent financial gain may somewhat decrease in the coming year.

A second impact of deregulation may have been to encourage managers to compete for funds using price as the major marketing appeal. The average cost of shares (using beginning and year-end balances) over the past five years suggests that in 1982 effective dividend rates may have increased somewhat higher than otherwise would have been the case since overall average market rates in 1982 were somewhat lower than in 1981.

ANNUAL EFFECTIVE DIVIDEND RATE FOR NATURAL PERSON FEDERAL CREDIT UNIONS

YEAR	1978	1979	1980	1981	1982
Dividend Rate All Share Accounts	6.2%	6.1%	6.8%	7.6%	8.3%

However the 8.3 percent effective cost in 1982 is still about 2.5 percent lower than S&Ls for 1982 which suggests that credit unions still enjoy a significant cost advantage versus their primary competition if share pricing continues to be prudently administered by credit union boards and managers.

In terms of overall share structure, deregulation seems to have stabilized, if not reversed an increasing dependence on share certificates and away from share accounts in which balances were withdrawable on demand.

PERCENT DISTRIBUTION OF SAVINGS BY TYPE FOR NATURAL PERSON FEDERAL CREDIT UNIONS

	1978	1979	1980	1981	1982
Regular Shares	**97.3%**	**86.8%**	**75.6%**	**69.2%**	**72.6%**
Share Drafts	N/A	2.6%	4.1%	5.6%	7.1%
Other Regular Shares	97.3%	84.2%	71.5%	63.6%	65.5%
Share Certificates	**2.7%**	**13.2%**	**24.4%**	**30.8%**	**27.4%**
IRA & Keogh	N/A	N/A	N/A	.4%	2.3%
All Savers	—	—	.4%	3.3%	3.0%
Other Certificates	2.7%	13.2%	24.0%	27.1%	22.1%
Total Savings	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Savings in Millions of Dollars	$29,803	$30,768	$33,812	$35,248	$41,314

The shift from certificates and back to demand type accounts will give credit unions the flexibility to reduce rates in a declining interest rate environment. It will also make rates more susceptible to upward pressure if market rates increase. Another factor affecting the increase of demand on regular shares was the use of "money market" type accounts. At year-end 1982, 697 Federal credit unions reported that they offered this type of account. Total balances were $1.2 billion or 2.9 percent of total shares. As the effective cost of funds for 1982 was 8.3 percent or approximately the short term rate at year-end, the use of "money market" share marketing, except as a product name, should decline since all institutions will be offering accounts with rates appropriate to their market place.

Finally, the distribution of savings by size of account continued to show a trend toward higher percentages in large account categories.

PERCENT DISTRIBUTION OF SAVINGS BY SIZE OF ACCOUNT FOR NATURAL PERSON FEDERAL CREDIT UNIONS

Account Balance	1981	1982	Percent Increase in 1982 Balance
$2,000 or less	23.6%	20.7%	2.6%
$2,000 to $5,000	22.3%	20.9%	9.2%
$5,000.01 to $10,000	20.7%	19.7%	11.0%
$10,000.01 to $20,000	19.3%	20.1%	21.0%
$20,000.01 to $40,000	9.0%	11.5%	48.9%
$40,000.01 to $100,000	4.0%	6.1%	75.4%
$100,000.01 and more	1.1%	1.0%	5.3%
Total Savings	**100.0%**	**100.0%**	**17.2%***
Total Savings in Millions of Dollars	$35,248	$41,314	* Weighted Average
Percent Increase During Year	+ 4.2%	+ 17.2%	

While all share categories increased in absolute dollar terms the $20,000 - $100,000 account balance categories had very rapid increases. As credit unions had the option of pricing to attract shares, there was undoubtedly a more rate conscious and rate sensitive saver with higher average balances attracted to credit union share programs. Whether these higher balance savers will stay once yields fall to single digits and other "investments" appear to offer higher returns is one of the unanswered questions confronting managers as they choose their share strategies in 1983.

On balance the impact of deregulation would appear to have given credit unions the ability to respond faster to underlying market trends. While there are some individual instances of unusual, even spectacular share growth, the overall industry results appear to be much an extension of previous trends. There is no evidence either on an industry wide level or at an individual credit union level that share deregulation caused economic or financial harm to credit unions.

Loans — The Forgotten Battleground?

As noted earlier loans as a percent of total assets are at one of the lowest levels ever in recent Federal credit union experience. In addition to this relative decline, the actual level of loans at year-end of $28.1 billion was approximately the same amount of loans outstanding five years earlier at the end of 1978.

The result of these trends are that credit unions are losing a significant part of their share of the overall consumer loan market at a time when this market is becoming increasingly attractive to other financial institutions.

PERCENT DISTRIBUTION OF CONSUMER CREDIT BY TYPE OF LENDER (1978-1982)

	1978	1979	1980	1981	1982
Credit Unions	16.3%	14.9%	14.1%	13.8%	13.8%
Commercial Banks	49.7%	49.4%	46.9%	44.8%	43.9%
Savings & Loans	2.6% 2.7%	3.2%	3.5%	4.0%	
Mutual Savings Banks	1.0%	.9%	.9%	.8%	.8%
Retailers	9.5%	9.0%	9.1%	8.9%	8.8%
Finance Companies	19.7%	21.9%	24.5%	26.9%	27.5%
Gasoline Companies	1.2%	1.2%	1.3%	1.3%	1.2%
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Consumer Credit Outstanding in Millions of Dollars	$273,645	$312,024	$313,472	$333,375	$343,372

Source: Federal Reserve Bulletin, February 1982 and February 1983

The Federal Reserve Board's estimate of total installment credit outstanding at 1982 year-end was $343.4 billion. If credit unions had not lost almost 2.5 percent of their market share over this five-year period, the aggregate of loans for all credit unions would potentially have been almost $9 billion higher in outstanding than was the situation at year-end. Not only would this have given credit unions a higher earnings potential, but this activity would have signaled credit unions' willingness to defend their traditional role in the consumer market both to their members and their competitors.

In addition to some of the economic and regulatory factors listed earlier which discouraged or caused disincentives for lending there has existed a perception that loans are more vulnerable assets in a period of recession and economic uncertainty. While this may be true in specific situations where plant closings, layoffs, strikes and other events affect a field of membership, the overall level of loan quality as measured in the ratios listed below does not appear to have deteriorated on any measurable aggregate statistic.

ANALYSIS OF LOANS OUTSTANDING AT NATURAL PERSON FEDERAL CREDIT UNIONS 1978 - 1982 (Amounts in millions of dollars)

Item	1978	1979	1980	1981	1982
Loans outstanding	$27,687	$28,182	$26,165	$27,238	$28,072
Allowance for loan losses	N/A	$ 183	$ 179	$ 212	$ 243
Regular reserve	$ 1,121	$ 1,111	$ 1,122	$ 1,208	$ 1,324
Amount of delinquent loans	$ 637	$ 785	$ 875	$ 803	$ 882
Loans charged off	N/A	N/A	$ 179	$ 191	$ 191
Provision for loan losses	N/A	$ 138	$ 167	$ 183	$ 175
SIGNIFICANT RATIOS (AS A PERCENT OF LOANS OUTSTANDING)					
Allowance for Loan Losses	N/A	.65%	.68%	.79%	.87%
Regular Reserves	4.05%	3.94%	4.29%	4.43%	4.72%
Delinquent Loans	2.30%	2.79%	3.34%	2.95%	3.14%
Loans Charged Off	N/A	N/A	.68%	.70%	.68%
Provision for Loan Losses	N/A	.49%	.64%	.67%	.62%

By every criterion of overall loan quality credit unions at year end 1982 appear to have improved their portfolios in spite of a year that saw unemployment reach a post-war high and the well publicized series of company and regional economic problems.

Putting the "Credit" Back in Credit Unions

One other factor appears to have influenced credit unions' retreat from the lending market place — the "investment fixation." For the past two-and-a-half years credit union managers have become increasingly investment oriented trying to imitate the growth of money market funds. As managers and boards became less loan oriented in a difficult lending environment, fewer and fewer loans were made. A major issue facing credit unions in 1983 will be whether they can recommit their organizations to lending and convince their members that the credit union is still the best place to borrow.

Reserves and Capital

Since the regular reserve waiver in 1979 by NCUA followed by partial waivers in 1980, credit unions in aggregate have continued to rebuild their reserves as a percent of assets.

ANNUAL GROWTH RATES IN RESERVES AND UNDIVIDED EARNINGS FOR NATURAL PERSON FEDERAL CREDIT UNIONS

	1979	1980	1981	1982
Total Reserves & Undivided Earnings	11.1%	6.2%	15.5%	14.7%
Regular Reserves	-.9%	1.0%	7.6%	9.6%
Other Reserves	29.0%	11.4%	15.8%	10.2%
Undivided Earnings	29.7%	12.7%	27.8%	23.4%

Part of the credit for this trend must go to the Credit Union Capitalization Commission sponsored by CUNA. This Commission issued a final report on credit union capital after an 18 month period of dialogue and meetings with credit unions around the country. One of the Commission's recommendations was that each credit union should strive to crease equity to an 8-10 percent level of assets. This initiative by the credit union movement has been an important factor in focusing the attention of managers and boards on the necessity to plan equity growth as well as share and loan increases.

The major supervisory challenge is to work with the 2,572 Federal credit unions which reported losses in 1982 in order that their reduction in reserves can be reversed and a self supporting financial position regained.

Examination and Supervision — The Early Warning System Rating

Although the monitoring of financial trends based on the self reporting of credit unions in the Financial & Statistical (F&S) reports is one aspect of supervision, NCUA's most important supervisory tool is the examination contact. The changes in this program and the goal of an annual exam are outlined in the Examination Section. The summary of the examiner's assessment of each contact is a "rating" assigned by the examiner as an overall indication of a credit union's financial and operating condition. Credit unions with serious problems are assigned Early Warning System (EWS) Codes of 4 or 5.

In 1982 there was a 12 percent reduction in credit unions in these two categories. Despite this reduction there still remain 788 Federal credit unions with serious problems based on a December 31, 1982 inventory of examiner ratings. This total is 7.8 percent of the number of Federal credit unions and 6.5 percent of the assets of Federal credit unions. At this same date more than half of all Federal credit unions had an EWS rating of either 1 or 2. These credit unions have 77.3 percent of the total assets of all Federal credit unions.

NUMBER OF FEDERAL CREDIT UNIONS BY EARLY WARNING SYSTEM (EWS) CATEGORIES

	Calendar Year End				
EWS CATEGORY	1976	1977	1978	1979	1980
Codes 1 & 2	8,610	9,079	8,712	8,488	7,862
Code 3	3,499	3,145	3,373	3,433	3,770
Code 4	648	526	674	817	585
Code 5	(1)	(1)	(1)	(1)	223
Total	**12,752**	**12,750**	**12,759**	**12,738**	**12,440**

EWS CATEGORY	1981	1982	1 Year Change
Codes 1 & 2	7,237	7,092	-145
Code 3	3,837	3,751	- 86
Code 4	720	661	- 59
Code 5	175	127	- 48
Total	**11,969**	**11,631(2)**	**-338**

(1) System implemented code 5 category during 1980.

(2) As of December 31, 1982 there were 11,631 Federal credit unions in the EWS system. Of these 201 were involved in mergers and/or liquidations as of year end and were not included in the data and tables reported elsewhere in this section.

In addition to the overall condition rating, one critical factor is the potential of concentration of risk in a single or several large institutions. The analysis of problem code 4 and 5 credit unions by asset size shows that the vast majority of problem credit unions are in smaller asset categories.

DISTRIBUTION BY ASSET SIZE OF FEDERAL CREDIT UNIONS IN EWS CODES 4 & 5 AS OF DECEMBER 31, 1982

	Number of Credit Unions	Total Assets (in thousands)
Less than $1 million	501	$ 125,931
$1 million to $2 million	66	91,969
$2 million to $5 million	51	167,411
$5 million to $10 million	30	204,085
$10 million to $20 million	22	326,201
$20 million to $50 million	20	671,525
Over $50 million	12	1,078,845
Total	**702(1)**	**$2,665,967**

(1) Of the 788 credit unions in EWS Codes 4 and 5 as of December 31, 1982, 86 were involved in mergers and/or liquidations as of year end and are not included in the above totals.

Follow-up examinations are required for all problem code 4 and 5 credit unions. These examinations are designed to remove the credit union from a problem code status within a one or two year period either through a return to safe and sound operation or through merger or liquidation. The larger credit unions in the problem group are monitored by regional and field staff on a continual basis.

Supervisory Actions — Mergers and Liquidations

During 1982, the five-year decline in the total of active Federal credit unions continued. However there was a significant change in the manner in which charter cancellations were accomplished. Merger rather than liquidation was the preferred supervisory method of managing problem institutions. As described elsewhere in this *Report,* the changes in Board policy on field of membership gave problem credit unions and the NCUA more options to continue credit union membership via merger when an individual credit union was no longer being managed in a safe and sound manner.

Even though the number of credit unions declined, credit union membership continued to increase.

NUMBER OF OPERATING NATURAL PERSON FEDERAL CREDIT UNIONS AND NUMBER OF MEMBERS AT YEAR END

Year	Federal Credit Unions	Members
1934	39	3,240
1940	3,182	850,770
1950	4,984	2,126,823
1960	9,905	6,087,378
1970	12,977	11,966,181
1971	12,717	12,702,135
1972	12,708	13,572,312
1973	12,688	14,665,890
1974	12,748	15,870,434
1975	12,733	17,066,428
1976	12,747	18,623,862
1977	12,738	20,426,661
1978	12,742	23,259,284
1979	12,720	24,789,647
1980	12,422	24,519,087
1981	11,951	25,459,059
1982	11,412*	26,081,005

* (Excludes 18 federally credited corporate credit unions)

The CUE-84 (Credit Union Expansion) program is an effort to rekindle credit unions' missionary zeal in both chartering new credit unions as well as a reaching out to serve new groups by existing credit unions.

The need for strong direction by credit union management is greater today than ever before. To meet the challenges of a changing economy, competition from many arenas, and an increasingly financially sophisticated membership, credit union managers and directors need tools that will help them review past performance and make decisions for the future.

Financial Performance Report: A Self-Help Tool for the 1980s

With this in mind, NCUA developed the *Financial Performance Report,* a four-page document prepared from data submitted by credit unions to NCUA over the past five years. The data was put through a computer analysis to generate a series of operating ratios, calculate rates of change, and develop peer group averages.

An individualized copy of the report was distributed to each Federal credit union on March 24, 1983. It showed a picture of the credit union's financial trends and operating results over a five-year period. Further, the report showed how each credit union compared with a group of credit unions of like size and charter type by indicating the credit union's percentile ranking on 10 key ratios.

The report is not judgmental. Rather, it is designed to help management and boards of directors track trends, zero in on areas that need improvement and establish goals for their credit unions.

In addition to credit union management, NCUA examiners will also use the report. It will help them focus examination efforts and will provide them with information about how credit unions of comparable size are doing.

The analytical use of the report should improve dialogue between credit unions and NCUA and between management staffs and boards of directors to meet the common goal of improving a credit union's performance.

The *Financial Performance Report,* based on statistical data, is just a starting point. The use of the report requires analysis, judgment, and interpretation — without this human element the report is just another collection of ratios and dollar figures.

Throughout 1983 the supervisory staff will be seeking a dialogue with credit unions to explore ways in which the *Financial Performance Report* tool can be most effectively used to improve the safety and soundness of individual credit unions.

Federally-insured State Credit Unions

Since the inception of Federal share insurance in 1970, NCUA has utilized the examination information provided on federally insured state-chartered credit unions by the individual state supervisory authorities. This approach is based on NCUA's support for the dual chartering system and the responsibility which state regulators have for proper supervision of their institutions.

In 1982, the Agency took additional steps to improve the working relationship with each state credit union supervisor. During February 1982 a conference was held with all state regulators. The regulators were encouraged to participate in the conference rather than merely responding to NCUA presentations. The NCUA Board approved in April 1982 a Memorandum of Understanding between the National Association of State Credit Union Supervisors (NASCUS) and the Agency. The memorandum outlined the following: an agreement to assist in coordinating efforts in examination procedures, accounting procedures, surveillance system development, procedures to monitor federally insured state-chartered credit unions' continued insurability, and an effective reporting of financial data for federally insured state-chartered credit unions. Finally, with decentralized administration, regional directors are meeting on a quarterly basis with state regulators in their regions to discuss specific problems as well as general items of mutual concern.

Under these arrangements, NCUA staff were involved in only 98 on-site contacts with federally insured state-chartered credit unions during the fiscal year ended September 30, 1982. During this same period, NCUA regional office staff received and reviewed 3,056 continued insurability examination reports from state regulators, which permitted the Agency to monitor this segment of its insurance risk.

NCUA has continued its Intergovernmental Personnel Act (IPA) program by offering its training courses to state examiners. During 1982, 11 state examiners attended NCUA's Level I Training Program and nine attended the Level II Training Program. Additionally, six state examiners attended courses offered by the Federal Financial Institutions Examination Council (FFIEC).

Corporate Credit Unions

Over the past five years, a network of 44 corporate credit unions has been developed to meet the wholesale financial needs of natural person credit unions. At the hub of this system is U.S. Central Credit Union (chartered by the state of Kansas), which at year end had total shares of $6.8 billion and total assets of $7.8 billion.

Eighteen corporates are federally chartered and of the 26 remaining state chartered corporates, 12 are federally insured.

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 incredibly successful. From 1979 through 1982, shares at federally insured corporates grew by more than 440 percent to a total of $5.6 billion at year end 1982. During this same period, corporates paid out an increasing percentage of their total income in dividends from a low of 79 percent in 1979 to more than 93 percent in 1982.

This ability to return such a high percentage of income is due to the continuous decline in operating expense ratios (4.1 percent aggregate for 1982) and the narrowing of spreads between the dividends paid and returns on investments.

As the corporates have developed their skills and efficiency in funds mobilization and investments, the system has begun to focus its attention on the building of correspondent services such as check cashing, wire transfers, settlement procedures, and coin and currency. In addition to providing these specific services, the corporate system has given professional leadership in helping to resolve credit union problems and providing professional investment direction to thousands of individual credit unions.

Congress recognized the increased importance of corporate credit unions in the Garn-St Germain Act of 1982. In this law, Congress gave the NCUA Board broad discretion in differentiating the functions and operations of corporates from natural person credit unions. On March 21, 1983 the NCUA Board approved a separate set of bylaws for corporate credit unions.

The corporate system is an essential part of credit unions' plans for an independent financial system serving credit union members. The system's dramatic growth and professional leadership in the development of operational and other "wholesale" services have enabled all credit unions to realize the advantages of local decision-making and control with the collective strength of cooperative action. One of NCUA's supervisory goals is to work constructively with this sytem to resolve the problems that may occur and to improve the Agency's oversight of natural person credit unions.

KEY STATISTICS ON FEDERALLY INSURED CORPORATE CREDIT UNIONS

AMOUNTS IN MILLIONS OF DOLLARS

	1979	1980	1981	1982
Number of Corporates	32	32	32	30
Assets	$1,362	$3,386	$3,879	$5,743
Loans	$ 529	$ 313	$ 181	$ 118
Shares	$1,262	$3,226	$3,646	$5,573
Reserves	$ 14.4	$ 18.5	$ 32.7	$ 44.1
Undivided Earnings	$ 4.2	$ 4.5	$ 15.5	$ 68.3
Gross Income	$113.7	$283.2	$559.6	$614.4
Operating Expenses	$ 17.1	$ 15.0	$ 29.1	$ 25.4
Dividends	$ 89.6	$260.1	$504.2	$572.7
Reserve Transfers	$ 1.3	$ 4.7	$ 8.0	$ 11.9
Net Income Divided by Gross Income	$ 5.7	$ 3.4	$ 18.7	$ 4.7

SIGNIFICANT RATIOS

	1979	1980	1981	1982
Reserves to Assets	1.1%	0.5%	0.8%	0.8%
Reserves and Und. Earn. to Assets	1.3%	0.6%	1.2%	2.0%
Reserves to Loans	2.7%	5.9%	18.1%	37.4%
Loans to Shares	41.9%	9.8%	5.0%	2.1%
Operating Expense to Gross Income	15.0%	5.3%	7.7%	4.1%
Salaries & Benefits to Gross Income	2.1%	1.1%	0.8%	0.9%
Dividends to Gross Income	78.9%	91.9%	90.0%	93.2%
Yield on Average Assets	8.3%	11.9%	15.4%	12.7%
Cost of Funds to Average Assets	7.4%	11.2%	14.2%	12.1%
Gross Spread	.9%	0.7%	1.2%	.6%
Net Income Divided by Gross Income	5.0%	1.2%	3.3%	0.1%
Yield on Avg. Loans	9.8%	8.6%	14.3%	8.6%
Yield on Avg. Invest	7.9%	13.4%	15.9%	13.9%

EXAMINATIONS

NCUA's Top Priority

The primary means that NCUA uses to monitor safety and soundness is through examinations conducted by its field staff. For the past five years the number of completed examinations has declined steadily. This has also led to a lengthening of the average time between examination contacts.

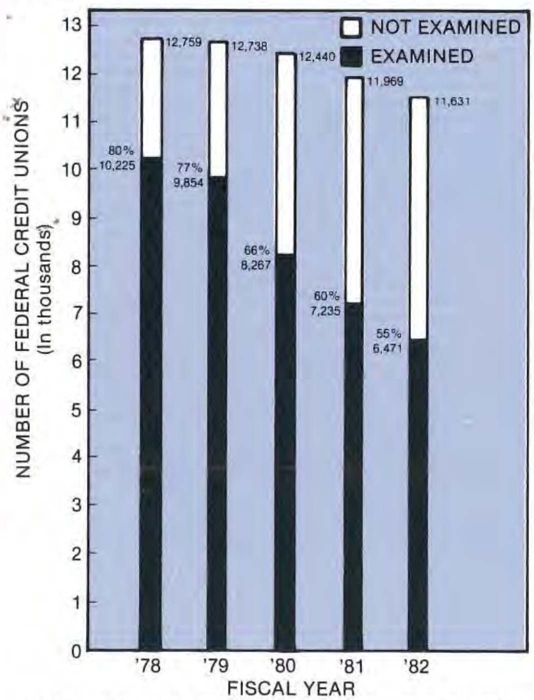
At the CUNA Governmental Affairs Conference on February 8, 1982 Chairman Callahan described the situation:

"In the past few years NCUA has found that its examination cycle has deteriorated. At one time credit unions were examined annually — now it's 21 months and in some cases even 24 months.

"As we get further away, we continue to rely on some of the older computer files to select priorities. We are very concerned that our data is too old to make us really responsive and able to get to a credit union while we may still be of some help . . .

"The top priority we have at NCUA today is to reestablish a responsive examination cycle. We hope to get back to a cycle that will be at least once a year. To do that, we're going to have to put more responsibility and more resources in the field, and we've got to find a way to do that. We want to work as rapidly as possible. We see these changes bringing us closer to the grassroots."

FEDERAL CREDIT UNION EXAMINATIONS COMPLETED BY NCUA IN FISCAL YEARS 1978-1982



* Total number of Federal Credit Unions as of calendar year.

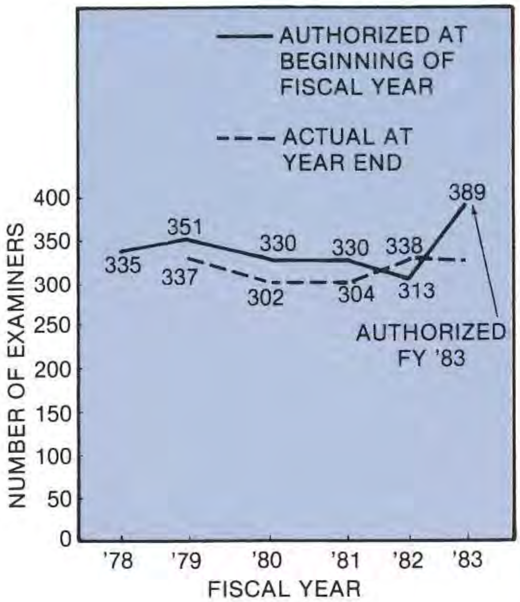
"Fire Drill"

Because of this administrative concern about the lack of recent contact and stale data in files, a "fire drill" was conducted by examiners. From February 16 to March 19, 1982 an on-site contact was made with every Federal credit union. By comparing the most recent financial and operational information with what had been reported by NCUA months or years earlier, the examiner was able to find out what was happening currently, how credit union management felt about things, and what NCUA should be doing as a first priority.

In addition to identifying some credit unions in need of immediate supervision, the "fire drill" also initiated the transfer of responsibility to the Regional offices and their examiners for setting the priority for examination contacts. Previously the Washington office had maintained a computer inventory of all examination ratings and sent to the field a monthly listing of contact priorities based upon data sent to the computer by the credit union or from a follow-up examiner contact.

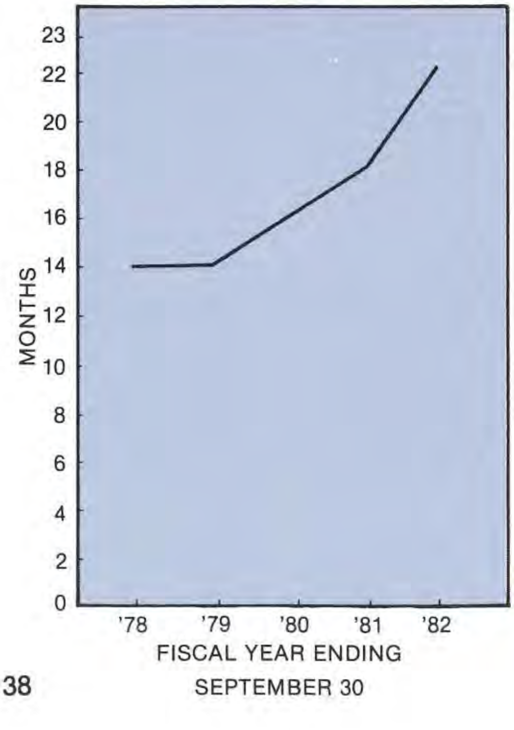
One of the reasons for the deterioration in the exam cycle was the decline in the number of NCUA personnel assigned to safety and soundness exam work. Not only had the head count authorized by the Office of Management and Budget reflected a decline in examiner positions, the actual on-board totals for each year-end were below the authorized level until this fiscal year.

EXAMINER POSITIONS AUTHORIZED AT BEGINNING OF FISCAL YEAR VS. EXAMINERS ON-STAFF AT YEAR END (1979-1983)



An Evolving Exam

NCUA AVERAGE MONTHS BETWEEN COMPLETED EXAMINATION CONTACTS



Part of the reason for the increase in safety and soundness field staff in fiscal year 1982 was the re-integration of the separate consumer exam program into the regular examination. This action was also taken because the preponderance of evidence indicated that credit unions have always been concerned about their members and complying with consumer laws. The violations discovered in the limited number of consumer examinations conducted were relatively few and more often than not of a technical nature. Additionally, the Agency believed that its responsibility for consumer compliance could be more effective if done with an educational approach. This seminar effort was also combined with a change in the regular examination program so that every exam contact will include a review of all major consumer compliance areas.

The result of this reallocation increased on-board safety and soundness examiner positions for the first time in five years. This change just begins a process that will increase field examiners in absolute and relative terms in fiscal year 1983 even though overall Agency head count is expected to remain level or decline slightly. The total of 389 examiner positions in fiscal year 1983 is an increase of 78 over fiscal year 1982 and includes reassignment of 36 consumer examiners, 34 central office, and eight regional office positions.

In April 1982 the NCUA Board endorsed an annual examination cycle. However, the average examination time then in effect, even with the consumer examiners and office personnel, would have reduced the overall cycle to only 14-16 months. Therefore, the Board asked the Regional Directors to begin a review of the examination program to see what changes could be made to improve examiner efficiency and effectiveness.

Each Region as well as representatives from credit unions participated in the review of examination procedures that began in April and resulted in a three month test of proposed changes by all examiners beginning October 1, 1982.

The major changes in the examination developed by the Committee included:

- More flexibility for the examiner to determine the scope of field work in order to devote more time to problem credit unions and to minimize exam time in well-run institutions.
- The delivery of the completed exam on-site to directors and officials. Previously, well-run credit unions received no formal written report and all exams were generally reviewed by the regional office before release to the credit union. This new procedure was also intended to improve communication and responsiveness between the credit union and the examiner.
- The requirement that all directors sign a statement that they have received and reviewed the examination.

When asked about these changes at the Defense Credit Union Council meeting in September 1982, Chairman Callahan described the new emphasis as follows:

" . . . We feel we have to get around more often. With our resources, we felt this meant a new exam format. Simply stated we're going to cut out a lot of busy work that our examiners have been doing most of which you have done by CPA firms or is in another sense, just rote. We're going to look for the key areas; if it looks good, move on, get to the areas that may be a problem; and if you get down to the end and you've hit all the indicators and there's no problem, don't feel you've got to stay two weeks just because it's the size credit union that always takes two weeks. If you're done in three days, get out of there and get on to the next one.

"The exit conference will be pretty much the same as it has in the past except there's one thing . . . to the people in the room who are members of the board, and I assume that's the majority of you, whenever anyone talks about deregulation, they're talking about you. They're saying you're responsible for your credit union, we're here to help you, we'll do everything we can to help, but . . . in the last analysis you're responsible. So when it comes to the exit conference, one of the things we're going to ask for, and I hope this doesn't sound aggressive but I think it's right, that the examiner will get every board member to sign off and eventually get the documentation to us that they have seen the report. We feel that every board member should review the examiner's findings . . . We do think examiners will work more closely with management than ever before, not just because they're getting there more often, but we're trying to make the Financial and Statistical [F&S] report a common working tool between them . . . that's why we're having this (National) conference. We want to give examiners a feel for where we see we fit into the U.S. Credit Union System. We are not Big Brother. We're part of it. We can help."

New Procedures Save Time

A preliminary analysis of 501 exams completed in the months of November and December 1982 shows that the new procedures have saved an average of 17 percent in time versus the time to complete the previous exams of the same credit unions.

Another effort to assist the examiner in the supervision of credit unions was a change in June 1982 that all of the semiannual F&S reports will be mailed by and, when completed, returned to the examiner. This gives the examiner financial information from each of the credit unions in his/her district on at least two occasions other than the exam contact. The examiner also has the responsibility to review the data to insure its accuracy before the forms are forwarded to Washington for computer entry.

Once the data has been received, the Agency has written computer programs that will return the data in a 5-year format to credit unions and to examiners. The data also includes a 5-year ratio analysis, comparative statistics from the credit union's peer group, and a summary of critical financial trends. The first Financial Performance Reports were mailed in March 1983. This return of data should permit both credit unions and examiners to be better managers of their time and resources and give both groups a common data and analytical framework for discussing priorities.

The National Examiners' Conference

1982 was a year of significant change — decentralization, deregulation and new examination procedures. Because of this, the Agency decided to hold a National Examiners' Conference to give all field personnel a common opportunity to discuss these events.

From September 20-24, 1982, all NCUA examiners were gathered in one location for a series of workshops, seminars, regional break-out sessions and rap groups. The examiners listened to and participated in debates and sessions titled:

"What's the Role of the Examiner?"

"Should there be a Report Card (Rating System) for Credit Unions?"

TUESDAY, September 21, 1982

TIME/ LOCATION	AGENDA	SPEAKERS
8:00-8:15 Whitehall	Tuesday Communications Session	Ted Bacino, Director, Office of Services, NCUA
8:30-9:00	Session 7: Breakout Programs	
LaBrisa	Program 1: Deregulation-Legalities	Robert M. Fenner, Deputy General Counsel, NCUA
Mira Flora	Program 2: Credit Union Lending	J.G. "Joe" Schoggen, Treasurer and General Manager, Navy Federal Credit Union, Washington, D.C.
		Pat Burleson, Central Liquidity Facility, NCUA
Serena	Program 3: Fraud	Kevin Shea, Assistant Vice President, CUNA Mutual Insurance Society
		James J. Engel, Assistant General Counsel, NCUA
Bahama	Program 4: The F&S Report	Charles Filson, Director, Office of Programs, NCUA
		Layne Bumgardner, Director, Department of Supervision and Examination, NCUA
		Vincent Olive, Director, Division of Statistics, NCUA
9:00-9:30	Coffee Break	
9:30-11:00 Whitehall	Session 8: "Should There Be a Report Card for Credit Unions?" - An Early Warning System (General Session)	Moderator: Charles W. Filson, President, Central Liquidity Facility, and Director, Office of Programs, NCUA
		E.F. Callahan, Chairman, NCUA
		Gene Artemenko, General Manager, United Airlines Employees Credit Union, Chicago, Illinois
		Harold T. (Tom) Welsh, First Vice Chairman, Credit Union National Association
		Harvey J. Baine III, Regional Director, Region II, NCUA
		Eugene H. Farley, Jr., President, Virginia Credit Union League
		Mal Nestlerode, Executive Vice President, National Association of Federal Credit Unions
11:15-12:00	Session 9: Breakout Programs	
Serena	Program 1: The Trades and The Examiner	Joseph Cugini, Chairman, Credit Union National Association
		Laura Weber Rossman, Deputy Executive Vice President, National Association of Federal Credit Unions
		Thomas Burchnell, President, Florida Credit Union League
Bahama	Program 2: Capitalization	R.C. Robertson, Chairman, CUNA Capitalization Commission
Mira Flores	Program 3: Investments	R.M. "Dick" Johnson, Manager, Western Corporate Federal Credit Union, Pomona, California
		James "Jim" Kudlinski, Chief Operating Officer, U.S. Central Credit Union
LaBrisa	Program 4: Special Actions: Part I	Michael Riley, Director, Division of Supervisory Actions and Risk Management, NCUA
12:00-1:30	Lunch (on your own)	
1:30-2:15	Session 10: Breakout Programs	
Mira Flores	Program 1: Asset Liability Management	Jack O'Brien, Olson Research, Maryland
Bahama	Program 2: Sponsor Failures	J. Leonard Skiles, Regional Director, Region V, NCUA
Serena	Program 3: Federal/State Relationship	Michael Fitzgerald, Director of Credit Union Division, Financial Institutions Bureau, Michigan
		Jack Carlson, Chief, Financial Service Regulation, California Department of Corporations
		Barry L. Jolette, Regional Director, Region VI, NCUA
LaBrisa	Program 4: Special Actions: Part I	Michael Riley, Director, Division of Supervisory Actions and Risk Management, NCUA

"Chartering — Is it our Job?"

"In Defense of the Common Bond"

"The Trades and the Examiner"

"Everything You Always Wanted to Know About Insurance But . . ."

"Money Market Accounts — Pro and Con"

Technical sessions covering topics such as fraud, investments, asset/liability management, bond claims, the annual exam, the F&S report, CLF, and special actions were held in smaller workshops or break-out sessions. The participants included not just NCUA personnel but the leaders of the credit union community including the top management and elected officials of CUNA, NAFCU, and the American Federation of Credit Unions; managers of more than ten credit unions; state supervisors, CPAs and professionals from financial consulting firms. During this week the NCUA held its monthly Board meeting and all examiners were able to see first hand the activity of an open Board session.

The National Conference gave examiners a chance to learn about major changes and programs in the credit union community, including deregulation, and to share their experiences, concerns, and judgments with their peers. The Conference gave all NCUA personnel a common opportunity to learn where the NCUA is today, to discuss the impact of deregulation and decentralization on their responsibilities, and to help examiners understand their part in the dynamic and growing U.S. credit union system.

DEREGULATION AND LEGISLATION

One of the most visible means by which NCUA regulates credit unions is the issuance of rules and regulations implementing aspects of the Federal Credit Union Act. In 1982 there were significant changes in both the Act and the accompanying rules.

In considering a change to the way the Agency viewed formal rules, Chairman Callahan first asked credit unions for their thoughts:

"I think my mind has always been made up about deregulation. Deregulation is like the weather, we all talk about it and I've always believed that that's what people really wanted. But as we perceive some misconceptions, the questions begin to arise. Do credit unions really want this type of deregulation? Do they understand what we are talking about? Even though I want deregulation, I am more committed to the fact that we have to respond to credit union members' needs, and should they not want it, we'll see that it won't happen."

One of these 'misconceptions' was what deregulation really meant. "Oftentimes when people talk about deregulation they keep saying 'we're going to come up with a new rule and a new regulation that's more liberal than the last one.' Now I don't call that deregulation. I call that re-regulation. I call it deregulation when the responsibility for operating the credit union is on the elected board of that credit union."

When asked by Will Sphere, the treasurer of Eclipse Employees Federal Credit Union in Rockford, Illinois ($250,000 in assets and 400 members) how credit union people could be expected to have the expertise to comment on this deregulation issue, Chairman Callahan responded, "It's not a matter of expertise. This really is a philosophical question for you and your board to decide. Do you want government off your backs? Do you want to be responsible to make the decisions for the future of your own credit union?"

When credit unions enthusiastically communicated their support for deregulation through the "outreach program," NCUA accordingly began the review of all laws and regulations in its purview. As a result, the following steps were taken during 1982.

- NCUA's regulation on share, share draft and share certificate accounts was reduced from six pages to two sentences. It says the credit union's board of directors shall determine rates, terms and conditions of accounts, and all advertising and agreements shall be clear and accurate.
- The regulation imposing a fixed liquidity requirement on all federally insured credit unions was repealed, thus returning responsibility for liquidity management to individual Federal credit union boards of directors.
- The insurance and group purchasing rule was simplified, permitting Federal credit unions to offer a wide variety of products and services to their members from third party sellers.
- The rule on credit union service organizations was deregulated, allowing Federal credit unions great flexibility in cooperating with other credit unions and other investment partners to provide a wide range of services to credit unions and their members.

§701.35 Share, Share Draft, and Share Certificate Accounts.

(a) Federal credit unions may offer share, share draft, and share certificate accounts in accordance with Section 107(6) of the Act (12 U.S.C. Sections 1757(6)) and the board of directors may declare dividends on such accounts as provided in Section 117 of the Act (12 U.S.C. Section 1763).

(b) A Federal credit union shall accurately represent the terms and conditions of its share, share draft, and share certificate accounts in all advertising, disclosures, or agreements, whether written or oral.

• In the same vein, a new NCUA rule widens considerably the range of services available to Federal credit unions through service contracts, i.e., agreements with one or more credit unions or other organizations to share facilities or jointly engage in activities related to credit union operations.

• The *Accounting Manual for Federal Credit Unions* was removed from the regulations, eliminating some 300 pages of regulation. A revised *Accounting Manual* serves as a guide, and NCUA's only rule is that Federal credit unions follow the accounting principles and standards set forth in Section 2000 of the *Manual,* relying on generally accepted accounting principles when specific activities are not addressed in the *Manual.*

For 1983, Chairman Callahan has directed NCUA staff to continue its vigorous program of regulatory review. Major subjects scheduled for review include investments and lending rules.

Legislation

In October 1982, after months of hard work by many in the credit union system, Congress passed and the President signed the Garn-St Germain Depository Institutions Act, containing some 35 important provisions removing constraints on credit union operations. All of the provisions were supported by the NCUA Board and many were developed by the Board and its staff. Included among the more important provisions were:

• Authority for each Federal credit union's board of directors to set the par value of shares.

• Clarification of the authority of Federal credit unions to make their own decisions about utilizing and enforcing due on sale clauses in mortgages.

• Elimination of the cumbersome "median sales price" rule on mortgages.

• Authority to refinance first mortgages.

• Amendment increasing the maximum maturity on second mortgages.

• Authority to conform to secondary mortgage market practices on partial prepayments.

• Simplification of Federal credit union investment authority. Federal credit unions are now authorized to invest in obligations issued or backed by any Agency of the United States and in obligations of state and local governments.

• Authority of Federal credit union boards to determine officers' titles.

• Authority of boards to determine whether to have an elected or appointed credit committee.

• An amendment to the Monetary Control Act that exempts the first $2 million of reservable accounts in an institution from monetary reserve requirements. This has the effect of exempting approximately 95 percent of all credit unions from the expense and administrative burden of holding monetary reserves with the Federal Reserve System.

Interpretations

A final important aspect of deregulation has to do with the way a government agency interprets the statutes and regulations within its scope. NCUA issued several important Interpretations and Policy Statements during 1982 which returned credit union operating decisions to credit unions. Included were:

- Ruling 82-1, expanding the potential for credit union service within their traditional geographic area.
- Ruling 82-2, reordering the payout priorities in involuntary liquidations of federally insured credit unions in order to help preserve the assets of the National Credit Union Share Insurance Fund.
- Ruling 82-3, refining and simplifying the policy allowing a Federal credit union to serve additional groups.
- Ruling 82-4, clarifying and simplifying procedures for compliance with state unclaimed property laws.
- Ruling 82-5, providing boards of directors greater discretion in establishing policies with respect to set-off of shares of defaulting borrowers.
- Ruling 82-6, establishing straightforward corporate Federal credit union chartering guidelines.

ADMINISTRATION

Putting responsibility where the action is — in the field

In a September 13, 1982 speech to the Defense Credit Union Council Chairman Callahan described the most significant change in NCUA administration as follows:

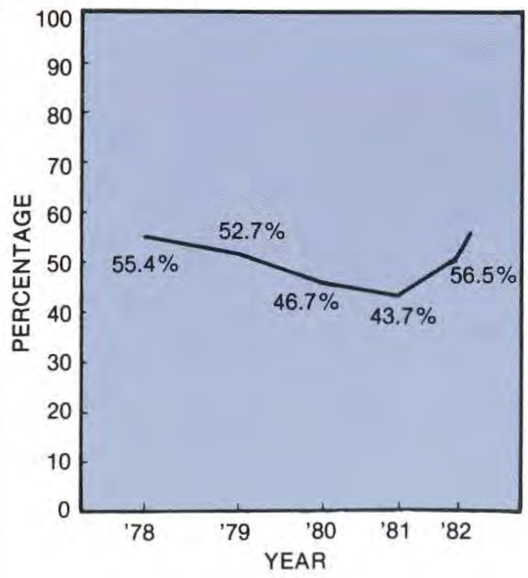
"The third area I want to report to you on is decentralization because I think that ties in with regulation. We had a very strong Central office, a very talented Central office and one that was developed over time for very good reasons, I'm sure; but as I viewed it, it had become so talented and so strong that the very mundane, operational things that our field people tried to do got caught up in this pipeline — this pipeline of talent and centralization in Washington. Seldom did things come out the other end in a very efficient manner. Everyone was overdoing their job so we found that decentralization was the answer . . . We found it necessary to cut the size of the Washington office by a third, to rechannel these resources to the field and to delegate to the Regional Directors the responsibility of using these resources in a timely way to get the exam cycle down to an annual one . . . to give back-up and information to the field examiners . . . and to make those decisions right on-site that involve safety and soundness, chartering and supervision."

The most important decision in the Agency's management of its personnel was to reverse a five-year trend of increasing numbers of personnel in the Washington office and to reallocate positions and personnel to the field. To accomplish this the Washington office was reorganized from eight Departments to two Offices — the Office of Programs and the Office of Services. The primary responsibility of these offices is to support and develop the tools required by the Regional Directors in responding to credit union needs. This change reduced actual on board head count in Washington from 207 in fiscal year 1981 to 135 in fiscal year 1982 or a reduction of 72 positions. The separate consumer exam program with 38 field positions was discontinued and the personnel integrated into the safety and soundness efforts. The regional offices were also asked to reduce their staffs to shift more resources to the field.

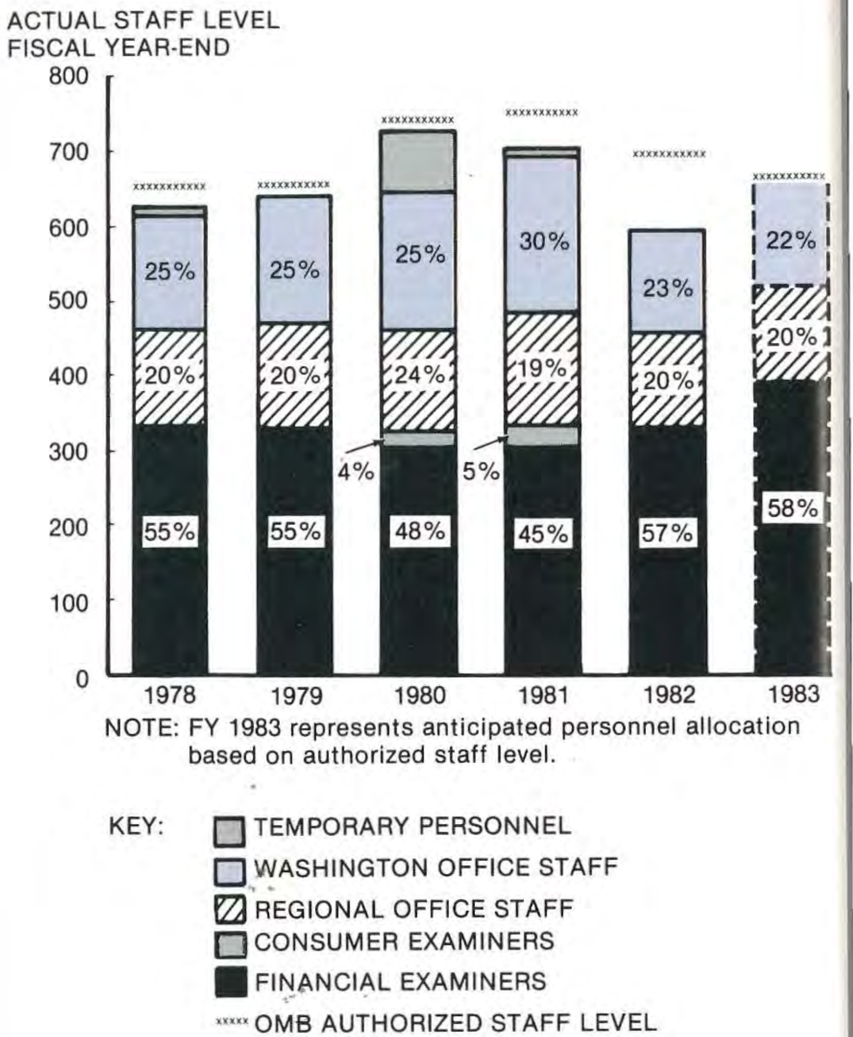
At fiscal year end 1982 the total Agency staff had been reduced by 97, but field examiners were at the highest level of staffing in the last five years, comprising 57 percent of the work force. The Washington office was at the lowest level in the same time period with 23.1 percent of total head count or 135 persons. In fiscal year 1983 a total of 72 new examiner positions have been authorized which will bring the examiner force to nearly 400.

The total reduction in Agency staff was the first year-to-year decrease in personnel in the past five years and was accomplished by a freeze on all new hires as well as a reduction-in-force in the Washington office in order to allocate positions to the field. One result of this activity was a slight increase in current position levels to an average 10.6 GS grade level. One of the tasks in fiscal year 1983 will be to evaluate positions and to reclassify where grade levels need to be revised.

EXAMINER STAFF AS A PERCENTAGE OF TOTAL NCUA STAFF AT FISCAL YEAR END (1978 - 1982)



NCUA STAFFING AT FISCAL YEAR END 1978 - 83

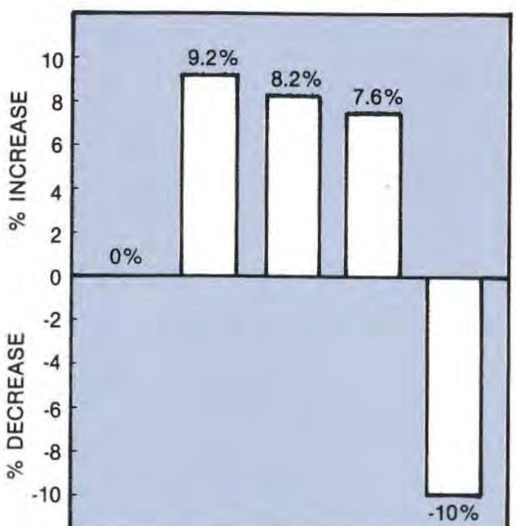


Lower expenses — Positive net income

The Agency's operating expenditures in fiscal year 1982 declined for the first time in its history. Personnel costs account for almost 70 percent of the Agency's budget. While the reduction in personnel led to lower personnel expenditures, the Agency also froze all furniture purchases and reviewed all consulting contracts, which also reduced total expenses below budgeted figures. The resulting net income for fiscal year 1982 of $1.7 million is the largest in the Agency's history and will be used to reduce credit union fees in fiscal year 1983. Complete Operating Fund statements are in the statistical section.

Decline in Operating Fees

All of the Agency's income is from the supervision fee charged credit unions. For the first time in the Agency's history this fee was reduced by a minimum of at least 10 percent for all credit unions in fiscal year 1983 and by a greater amount for corporate and large natural person credit unions. This reduction shown in the chart below is due to better control of costs, the use of the surplus of $2 million carried forward from fiscal year 1982, and the authority granted by the Garn-St Germain Act to invest the operating fund in U.S. Treasury securities which will result in at least $800,000 income in fiscal year 1983. In addition to the reduction in fees the Agency continued to give credit unions the option, first begun in fiscal year 1982, of paying the entire fee by January 31 or paying one half on January 31 and the remainder on August 31 with interest at six percent.



Audits

In addition to the Agency's own unit of internal auditors, the following reports covering NCUA's operations were issued in 1982 by the Government Accounting Office (GAO).

Report GGD-82-26 February 19, 1982

The NCUA Should Revise Liquidation Procedures to Reduce the Net Cost of Credit Union Liquidation.

Report GGD-83-12 October 6, 1982

Stronger Supervision of Credit Unions Needed.

Report GGD-83-3 October 25, 1982

Credit Insurance Provisions of the TIL Act Consistently Enforced Except when Decisions Appealed.

NCUA responded to all reports as required. In addition NCUA contracted for outside audits by private accounting firms for the fiscal year statements of the NCUA Central Liquidity Facility by Price Waterhouse and Co. and of the National Credit Union Share Insurance Fund by Ernst & Whinney. Price Waterhouse & Co.'s audit gave the CLF its third consecutive year of unqualified opinion. The audit of the insurance Fund, while qualified, was the first private external audit ever conducted. Full copies of all audits are available from the Agency's Public Information Office.

The Central Liquidity Facility, opened in October 1979 and managed by the NCUA Board, is a unique combination of regulatory and private sector cooperation. The corporation is profitmaking and the capital and funds for all administrative expenses come from credit unions. All employees are NCUA staff, but much of the operational and market assessments are from corporate credit unions. Congress in turn authorizes the CLF's borrowing through the U.S. Treasury to carry out the Facility's purpose of providing funds when unexpected or uncontrollable events cause temporary liquidity shortfalls in credit unions.

During 1981, the Facility, at the request of the Office of Management and Budget, began efforts to fund its borrowings in the private market and to discontinue use of the Federal Financing Bank (FFB), a corporation within the U.S. Treasury.

Before going to market, the underwriters requested that CLF obtain an Attorney General's opinion on the relationship of the CLF and the operating and insurance funds in NCUA. In researching this decision, the Attorney General of the United States ruled in May 1982, that the obligations of the CLF "are supported by the full faith and credit of the United States."

This decision permits the CLF to continue funding all of its borrowings for loans through the FFB. More importantly, it provides the essential element of government support which gives CLF the ability to provide funds to credit unions should private markets be unresponsive.

In October, loans outstanding of $147.9 million were at the highest level in the CLF's 3-1/4 years of operations. The total of net funds contributed to credit unions (borrowings less capital) also reached a new high of $71.2 million although there were wide month-to-month variations in this figure.

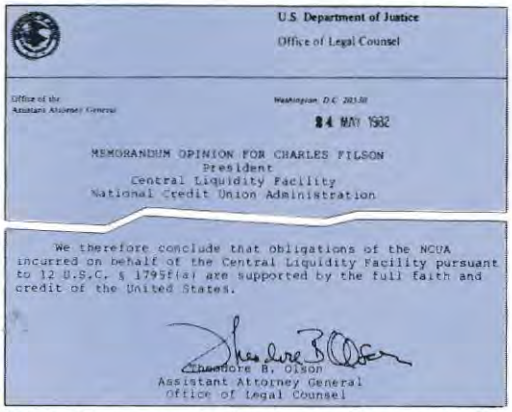
Three examples in 1982 of unusual market or individual credit union circumstance causing the CLF to be utilized are as follows:

• Several credit unions which had invested in long-term securities in the late 1970's chose to try to replace expensive certificate funds with lower priced transaction balances as rates began to decline. This strategy resulted in fund outflows as management experimented with the proper combination of price and service to retain shares and yet lower overall funding costs. In a few situations, CLF provided these credit unions, as part of a comprehensive supervisory plan, short-term lines of credit at fixed rates to give management the flexibility to implement their strategy without fear of a funds outflow. In one instance in which a loan for 90 days was advanced, management succeeded in improving net earnings from a loss of $300,000 per month to a positive income of almost $150,000 per month.

• The sudden bankruptcies of several large companies such as Braniff Airways, abrupt layoffs at factories and the closing of financial institutions such as Penn Square Bank and Drysdale Securities caused short-term concerns among members of credit unions serving these companies or acting as participants in the marketplace in which these events occurred. Responding to these situations, CLF loans of

CENTRAL LIQUIDITY FACILITY

"Full Faith and Credit"


U.S. Department of Justice

Office of Legal Counsel

Office of the Assistant Attorney General

Washington, D.C. 20530

24 MAY 1982

MEMORANDUM OPINION FOR CHARLES FILSON
President
Central Liquidity Facility
National Credit Union Administration

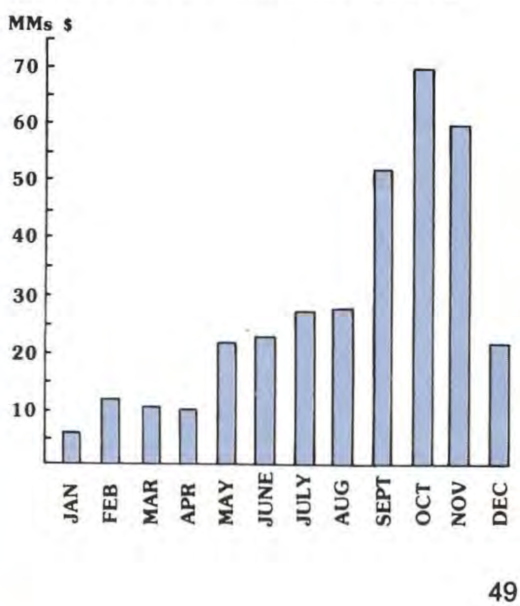
We therefore conclude that obligations of the NCUA incurred on behalf of the Central Liquidity Facility pursuant to 12 U.S.C. § 1795f(a) are supported by the full faith and credit of the United States.

Theodore B. Olson
Assistant Attorney General
Office of Legal Counsel

(NOTE: This is an exerpt taken from the 10 page opinion)

A New Peak in Loans

NET CONTRIBUTION OF FUNDS TO THE CREDIT UNION COMMUNITY FOR 1982



$29 million were advanced to 29 different credit unions. All loans have been repaid within the term of the initial advance (generally 90 days) and the financial and liquidity situations of the credit unions were stabilized and, in some instances, even improved during the borrowing period.

• When the DIDC authorized banks and savings and loans to offer new money market instruments in December, some temporary interest rate wars developed, most notably in Atlanta. Credit unions which were totally deregulated in April were sometimes caught by the marketing blitzes resulting in sudden fund outflows. In one instance, a credit union lost $1.7 million in shares which the CLF advanced until the credit union's short-term investments matured over the next 2 weeks.

While the CLF is not an active participant in the daily, routine borrowing and settlement needs of credit unions, the Facility was used in 1982 when unusual, unexpected, or extreme events caused temporary funds shortages. By responding rapidly to these situations the CLF assists individual credit unions and the entire U.S. credit union system maintain the confidence of its members.

Successful Year Financially

During the past year, CLF significantly improved its overall financial results. Total reserves and retained earnings rose from $500,000 to almost $2.0 million, the spread on the loan portfolio was reversed from a negative 33 to a positive 92 basis points (.92 percent), and administrative expenses reduced from 5.3 percent to 3.1 percent of total income. For all of fiscal year 1983 administrative expenses are expected to be approximately 50 percent of the level of the prior fiscal year. Total full-time staff has been reduced from 12 to 9 and yet total membership and loans have increased.

For each of the three full fiscal years of the Facility's operations, Price Waterhouse and Co. has audited the figures and given an unqualified opinion to the financial statements. Complete results of this audit are reported in the Facility's *Annual Report* available by calling the Agency's toll free number (800) 424-3205. (D.C. Metro Area phone number: (202) 357-1142)

Completing the Financial System

In 1982, the *Credit Union Capitalization Commission* issued a report that in one section listed recommendations to bring CLF membership to virtually all credit unions.

The Report noted that much of the CLF's financial and operational success is due to its working relationship with the corporate credit union system. About 90 percent of CLF's current natural person membership is via the CLF's Corporate Agents. The CLF offices are solely in Washington, D.C. and the direct lending and on-the-ground knowledge of what's happening and which credit unions need help comes to a large degree from CLF Corporate Agents. When funds are needed the CLF in turn provides a coordinated and rapid supervisory response because of its specialized knowledge of credit unions, and its ability to draw upon NCUA's examination and supervision resources and data, as well as those of state supervisory and insurance authorities.

The *Capitalization Commission's* goal of opening CLF to all credit unions via this corporate system is management's top priority for 1983. In accomplishing this task, the U.S. credit union financial system will have the ability to continue its unique development in a system of government regulation, insurance and lending dedicated solely to credit unions, their needs and their future success.

National Credit Union Administration Central Liquidity Facility

BALANCE SHEET
AS OF DECEMBER 31

	1981	1982
ASSETS		
Cash	$ 14,894	$ 5,262
Accounts Receivable	450	4,326
Investments	83,148,889	84,141,650
Loans		
Short Term	0	28,897,447
Protracted "208 Assistance"	90,203,000	75,063,000
Total Loans	$ 90,203,000	$103,960,447
Allowance for Loan Losses	(303,134)	(1,427,830)
Net Loans	89,899,866	102,532,617
Interest Receivable	4,899,193	3,365,851
Fixed Assets, Net	19,261	0
Prepaid and Deferred Charges	1,048,718	278,458
TOTAL ASSETS	$179,031,271	$190,328,164

	1981	1982
CURRENT LIABILITIES		
Accounts Payable	$ 39,692	$ 38,810
Notes Payable (FFB)*	0	102,970,447
Regular Member Deposits	16,234,663	10,298,073
Agent Member Deposits	2,123,901	1,881,510
Accrued Interest Payable	2,589,114	819,221
Other Accrued Expenses	122,855	96,184
Total Current Liabilities	$ 21,110,225	$116,104,245
Long Term Notes Payable (FFB)*	90,203,000	0
Total Liabilities	$111,313,225	$116,104,245
EQUITY		
Capital Stock Regular Members	$ 23,004,282	$ 24,721,083
Capital Stock Agent Members	44,424,712	48,965,992
Total Capital Stock	$ 67,428,994	$ 73,687,075
Retained Earnings Prior Year	286,732	304,997
Retained Earnings Current Year	2,320	231,847
TOTAL EQUITY	$ 67,718,046	$ 74,223,919
TOTAL LIABILITIES & EQUITY	$179,031,271	$190,328,164

* FFB - Federal Financing Bank

Significant Financial & Operational Trends

ALL DATA AS OF DECEMBER 31
(Amounts in Millions)

	1979	1980	1981	1982
Loans to members	$41.2	$93.1	$90.2	$104.0
Capital Shares	$14.8	$66.4	$67.4	$ 73.7
Reserves & Retained Earnings	$ .1	$ .2	$ .6	$ 2.0
Assets	$54.5	$170.4	$179.0	$190.3
Dividend at year end	10%	10%	13%	9%
Employees	9	12	12	9
Members: Corporate Agents	1	13	13	14
Direct	220	658	580	557

Selected Financial Ratios

AS OF DECEMBER 31

	1979	1980	1981	1982
Operating (first quarter of fiscal years):				
Expenses/Total Income	7.9%	6.5%	5.3%	3.1%
Inc. - before dividends/Total Income	26.6%	38.0%	44.2%	38.1%
Inc. - before dividends/Avg. Shares & Deposits	13.4%	10.7%	13.0%	10.1%
Balance Sheet				
Loans/Total Assets	75.6%	54.6%	50.4%	54.6%
Shares & Retained Earnings Total Assets	27.3%	39.1%	37.8%	39.0%
Total Liab./Shares & Retained Earnings	258.6%	155.7%	164.4%	154.2%

SHARE INSURANCE FUND

The Penn Square Bank failure, the collapse of the securities firms, Lombard and Drysdale, and the continuing structural problems of the S&L industry focused public attention in 1982 on the role and adequacy of federal deposit insurance. One expression of this concern was a Congressional resolution which was passed to reaffirm that deposits and shares up to the $100,000 insured limit are backed by the full faith and credit of the United States Government. Congress again indicated interest in insurance by mandating studies of the three federal insurance funds as part of the Garn-St Germain Depository Institutions Act which became law on October 15, 1982. The studies, to be prepared by the FDIC, FSLIC and NCUA are to evaluate the impact of deposit insurance and suggest ways the funds should be changed in the future.

Against this background, the National Credit Union Share Insurance Fund had already begun a series of changes to improve the financial strength and the operating effectiveness of the Fund's role with insured credit unions.

Not a Federal Monopoly

While the NCUA is the largest insurer of credit union shares, NCUA was not the first organization to do this; rather efforts at the state level had resulted in several corporations being chartered prior to the commencement of federal share insurance in 1971. At December 31, 1982, sixteen state chartered insurance or guaranty corporations insured 3,150 credit unions which had total shares in excess of $12.1 billion. The oldest private fund was begun in Massachusetts in 1961 and the newest one is the California Credit Union Share Guaranty Corporation which began in 1981.

NCUA's coverage at December 31, 1982 included all 11,430 Federal credit unions and 5,139 state chartered credit unions, or approximately 80 percent of all credit unions. Total insured shares were $69.1 billion up $11.3 billion (19.6 percent) from the prior year.

This unique system of a federal and 16 private share insurers for credit unions has resulted in a broad range of financial and operating solutions to the management of share insurance. No two programs are exactly alike and state credit unions in 34 states have benefited from the option of choosing the system of insurance most appropriate to their needs. Nine states are similar to the current *Federal Credit Union Act* and require NCUA insurance for their credit unions;' four states do not require any share insurance.

Liquidations Down, Mergers Up in 1982

The 160 liquidation payouts were the fewest since 1977 and the total shares paid of $39 million was 50 percent below the previous year's total. In the 12 years of the Fund 1,564 liquidations have been completed. This year mergers of insured credit unions totalled 439, the highest level in the Fund's history. The average cost per merger, $39,000, was the largest since separate merger expenses were first recorded in fiscal year 1980. Total mergers during the Fund's history are 2,275. The increase in mergers was primarily due to the change in NCUA field of membership policy described elsewhere in this *Report*. Many of the mergers completed would have been liquidations under previous administrative practice.

Financial Results and the 1 Percent Goal

In assessing the history of the Fund and the unique role that share insurance offers as a source of re-capitalization for problem credit union cooperatives, the NCUA Board in June established a management goal of raising the Fund's equity to one percent of insured shares by the early 1990s. As a first step toward that goal, the Board voted on July 7, 1982, to assess a second premium for insurance year 1981 at 1/18th of one percent of insured shares. This additional premium of $30 million raised the Fund's total income to $95 million. However, total expenses also increased proportionately so that net income of $3.1 million was the lowest in the Fund's 12 years of operation.

Several new events caused expenses to increase substantially. The first outside CPA audit of the Fund resulted in changes in the way the Fund accounts for certain losses. As a result, reserves of $15.6 million were established for probable losses on guarantees of loan sales and for other assets in merger transactions that in previous years had been recognized as expenses only when cash was disbursed. Secondly, the Fund initiated a form of assistance to a few credit unions in lieu of merger or liquidation called capital notes. While the agreements in these transactions require the funds disbursed to be repaid upon the credit union's return to a self supporting financial condition, the extended terms of the repayments and the fact that most of the credit unions were not self supporting at the time of the audit caused these advances to be expensed rather than recorded as accounts receivable. The amount expensed in these cases was $14.1 million.

The Agenda in 1983 — Self Determination

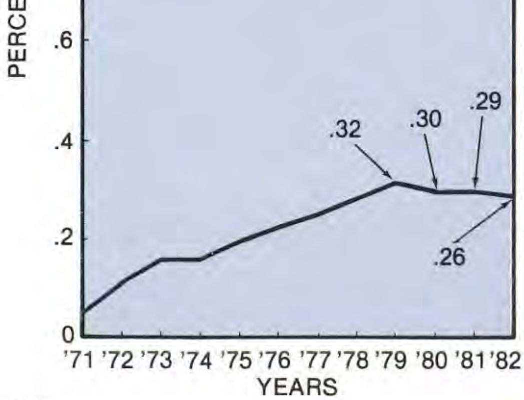
At December 31, 1982 the Fund's equity of $177 million was only .26 percent of insured shares. This decline from the previous year's level of .29 percent again raised the prospect of a second premium in calendar year 1983. Outlays in 1982 exceeded income by over $24 million; thus the legal requirement had been met for the decision to be considered.

Although the financial results of the Fund were not as satisfactory as hoped in terms of moving towards the one percent goal, the studies mandated by the Garn-St Germain Act raise a more troubling prospect — the loss of independence of the Fund. Deregulation has given credit union boards responsibility for choices about their futures; this opportunity has given credit unions the ability to determine for themselves their unique role as financial cooperatives. NCUA Share Insurance funded solely by credit unions has been a source of member confidence that has helped sustain the momentum of growth and change throughout the 1970s and into the 1980s. But at the same time there is a perception that some of the confidence may have led to complacency. In assessing the advantages and disadvantages of the 12 years of deposit insurance, one credit union League respondent gave the following reply which expressed sentiments found in many of the comments for the Garn-St Germain study:

"The advantage of a payment of less than 100 cents is obvious and the rapid payback to shareholders is highly desirable; on the other hand, there is a complacent feeling of 'why worry' when trends are poor. Liquidation is more convenient now and requires less management from a volunteer's viewpoint. Operational 'health' problems are never perceived as being quite as serious as they formerly were."

Both the financial and the organizational independence of the Fund will be under review by Congress and independent study groups in 1983. NCUA is committed to improving the Fund's management so that all possible resources can be contributed to the one percent goal. Credit union support for the organizational integrity of NCUA share insurance will be critical to the continuing evaluation of the U.S. credit union financial system.

NCUSIF SHARE INSURANCE FUND TOTAL EQUITY TO TOTAL SHARES IN FEDERALLY INSURED CREDIT UNIONS 1982



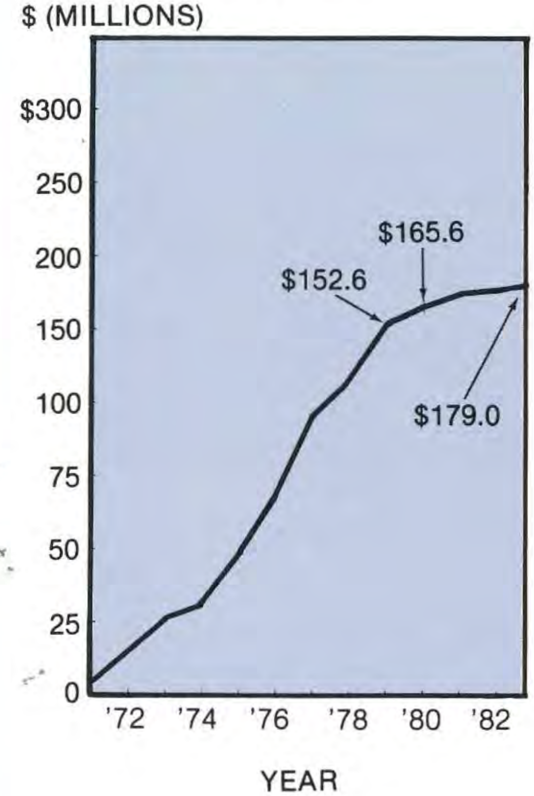
National Credit Union Share Insurance Fund

BALANCE SHEET - DECEMBER 31

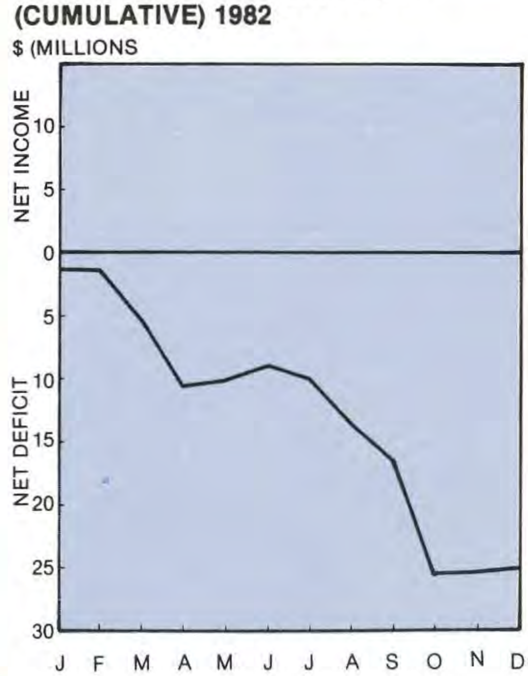
	1981	1982
ASSETS		
Investments		
U.S. Government Securities	$136,780,911.78	**$184,626,846.81**
Other Securities	1,414,054.64	**1,296,741.98**
Total	$138,194,966.42	**$185,923,588.79**
Accrued Interest Receivable	$ 1,560,395.26	**$ 908,349.30**
Est. Recoveries From CUs In Liq.	13,794,824.40	**4,649,912.23**
Advances To Credit Unions		
Share Deposits	7,456,903.35	**10,670,257.31**
Capital Notes	0.00	**13,637,870.39**
Amounts Due From Bond Claims	11,676,842.00	**8,520,691.58**
Real Estate Loans	932,750.00	**853,692.68**
Other Loans	850,000.00	**803,326.90**
Total	$ 20,916,495.35	**$ 34,485,838.86**
Less: Allow. For Possible Losses	0.00	**(20,325,269.29)**
Total Net Advances	$ 20,916,495.35	**$ 14,160,569.57**
Loans Reacquired Under Guarantee Agreements (Net)	2,758,855.03	**1,498,927.23**
Assets Acquired From Credit Unions	0.00	**1,446,250.00**
Cash	1,517,659.47	**(1,627,464.11)**
Other Assets	69,585.87	**930,056.99**
TOTAL ASSETS	$178,812,781.80	**$207,890,190.00**
LIABILITIES		
Accounts Payable		
Trade Accounts Payable	$ 51,135.38	**$ 39,970.44**
Interest Payable	0.00	**77,422.34**
Shareholders Payable	227,788.12	**8,485,561.40**
Unclaimed Monies	176,441.69	**1,286,806.58**
Operating Fund	846,646.71	**855,876.46**
Total Payable	$ 1,302,011.90	**$ 10,745,637.22**
Accrued Liabilities	$ 16,448.47	**$ 93,139.94**
Deferred Income	(1,321.98)	**(237.02)**
Notes Payable	0.00	**2,275,294.38**
Clearing Accounts	189,943.56	**136,503.09**
Total Other Liabilities	$ 205,070.05	**$ 2,504,700.39**
Estimated Losses On Guarantees	0.00	**15,600,000.00**
TOTAL LIABILITIES (1)	$ 1,507,081.95	**$ 28,850,337.61**
EQUITY		
Balance, Beginning	$174,777,328.31	**$177,275,009.98**
Net Income	2,528,371.54	**1,764,842.41**
Balance, Ending	177,305,699.85	**179,039,852.39**
TOTAL LIABILITIES & EQUITY	$178,812,781.80	**$207,890,190.00**

(1) Does not include contingent liabilities of $148,653,218 for 1982 and $182,777,694 for 1981. As of December 31, 1982 a loss provision of $15.6 million has been provided on $104,736,766 of the contingent liabilities.

NCUSIF SHARE INSURANCE FUND $ EQUITY 1971 - 1982 (AS OF DECEMBER 31)



NCUA SHARE INSURANCE FUND INCOME LESS EXPENDITURES (CUMULATIVE) 1982



STATISTICAL TABLES

STATISTICAL TABLES

TABLE 1

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND STATEMENT OF OPERATIONS AND FUND BALANCES

	Year Ended September 30				
	1978	1979	1980	1981	1982
INCOME					
Examination Fees (9)	$ 9,262,761				
Supervision Fees (9)	5,751,923				
Chartering Fees (9)	10,296				
Operating Fees (9)	—	$16,192,002	$18,023,454	$20,609,581	$22,593,683
Total Income	**$15,024,980**	**$16,192,002**	**$18,023,454**	**$20,609,581**	**$22,593,683**
EXPENSES					
Personal Services	$ 9,092,833	$10,102,119	$11,059,226	$13,520,581	$12,804,276
Employee Benefits	1,003,992	1,081,557	1,224,826	1,391,425	1,515,460
Employee Travel	1,487,542	1,691,419	1,367,540	1,944,106	1,905,560
Rent, Communications	1,265,529	1,391,659	1,815,536	2,065,799	2,556,482
Administrative Costs	760,261	800,937	1,017,312	1,340,873	1,195,197
Contracted Services	668,919	896,822	860,861	893,902	956,278
Total Expenses	**$14,279,076**	**$15,964,513**	**$17,345,301**	**$21,156,686**	**$20,933,253**
NET INCOME	**$ 745,904**	**$ 227,489**	**$ 678,153**	**$ (547,105)**	**$ 1,660,430**
Fund Balances Beginning October 1	$ 3,611,917	$ 4,657,821	$ 231,310	$ 2,119,426	$ 428,268
Prior Period Adjustments (10)	—	(4,654,000)	1,209,963	(1,144,053)	
Net Income	745,904	227,489	678,153	(547,105)	1,660,430
Fund Balance Ending September 30	**$ 4,357,821**	**$ 231,310**	**$ 2,119,426**	**$ 428,268**	**$ 2,088,698**
SIGNIFICANT RATIOS;					
Personal Services and Benefits/ Income	67.2%	69.1%	68.2%	72.4%	63.4%
Travel Expenses/Income	9.9%	10.4%	7.6%	9.4%	8.4%
Total Expenses/Income	95.0%	98.6%	96.2%	102.7%	92.6%
Net Income/Income	5.0%	1.4%	3.8%	(2.7)%	7.3%

Notes to Financial Statements as of September 30, 1978, 1979, 1980, 1981 and 1982

National Credit Union Administration Operating Fund

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles and the requirements of the Comptroller General of the United States.

External Audit:

The Operating Fund financial statements have been audited by the General Accounting Office. In the Comptroller General's opinion dated October 2, 1981, the statements were found to present fairly the financial position and results of operations of the Operating Fund as of December 31, 1980, the most recent audit. Copies of the audit are available upon written request to the Division of Financial Operations.

Internal Audit:

In addition to the review by the General Accounting Office, the NCUA Internal Auditor periodically audits and reviews Operating Fund programs monitoring internal control and effectiveness. The most recent Internal Audit Report is dated March 20, 1981, and discusses desirable improvements in the systems of internal control over travel

TABLE 2
NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND BALANCE SHEETS (1)

	Year Ended September 30				
	1978	**1979**	**1980**	**1981**	**1982**
ASSETS					
Current Assets					
Cash (2)	$ 278,360	$ 4,845,636	$ (955,291)	$ 19,526	$ 299,656
Receivables:					
Employee Advances (3)	114,721	105,122	180,046	301,075	441,287
Returned Checks	1,170	2,506	472	1,901	431
Share Insurance (4)	2,458,952	975,235	6,489,733	5,956,995	8,948,773
Other (5)	3,593,268	2,481	25,401	33,617	60,414
Total Receivables	**$ 6,168,111**	**$ 1,085,344**	**$ 6,695,652**	**$6,293,588**	**$ 9,450,905**
Prepaid and Deferred Charges	7,194	23,771	1,222,241	108,910	55,389
Total Current Assets	**$ 6,453,665**	**$ 5,954,751**	**$ 6,962,602**	**$ 6,422,024**	**$ 9,805,950**
Fixed Assets					
Furniture and Equipment	$ 560,584	$ 660,248	$ 609,862	$ 2,178,933	$ 1,844,101
Leasehold Improvements (6)	—	—	430,564	441,514	370,585
Total Fixed Assets	**$ 560,584**	**$ 660,248**	**$ 1,040,426**	**$ 2,620,447**	**$ 2,214,686**
Total Assets	**$ 7,014,249**	**$ 6,614,999**	**$ 8,003,028**	**$ 9,042,471**	**$12,020,636**
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable:					
Due to Federal Agencies	$ 295,928	$ 319,392	$ 281,356	$ 642,667	$ 463,621
Trade	149,682	105,280	224,763	410,802	646,857
Accrued Payroll and Annual Leave	1,825,518	2,022,367	468,469	2,089,763	2,378,373
Accrued Travel	85,300	92,800	291,688	309,313	527,642
Total Accounts Payable	**$ 2,356,428**	**$ 2,539,839**	**$ 1,266,276**	**$ 3,452,545**	**$ 4,016,493**
Deferred Operating Fee Income (7)	—	3,843,850	4,617,325	5,161,658	5,915,445
Total Liabilities	**$ 2,356,428**	**$ 6,383,689**	**$ 5,883,601**	**$ 8,614,203**	**$ 9,931,938**
Reserve for Claims (8)	300,000				
Fund Balances	**$ 4,357,821**	**$ 231,310**	**$ 2,119,427**	**$ 428,268**	**$ 2,088,698**
Total Liabilities and Fund Balances	**$ 7,014,249**	**$ 6,614,999**	**$ 8,003,028**	**$9,042,471**	**$12,020,636**

expense reimbusement, payroll, commercial bills, furniture, fixtures and equipment, and automatic data processing.

General:

Accounting transactions of the Operating Fund are recorded under the full-accrual method of accounting.

2. CASH

The surplus cash balance reflects operating fees which were collected for the first time in 1979 and are used to finance NCUA's operating expenses during the calendar year.

The Garn-St Germain Act (P.L. 97 - 320), signed into law on October 15, 1982, authorized NCUA to invest portions of the annual operating fees which are not needed for current operations. The operating fees are currently invested in U.S. Treasury notes and bills with maturities ranging from one-day to six-months and are expected to yield interest income of $800,000 this year.

3. RECEIVABLES — EMPLOYEE ADVANCES

Advances are provided to NCUA employees to facilitate travel for official business purposes.

4. RECEIVABLES — SHARE INSURANCE FUND

This account is used for inter-fund transactions between the NCUSIF and the Operating Fund. During each fiscal year, a portion of the operational and administrative expenses related to the NCUSIF are paid by the Operating Fund. Monthly transfers of cash are now made to the Operating Fund from the NCUSIF. At December 31, 1982 the balance had been reduced to $855,876.

5. RECEIVABLES — OTHER

Prior to 1979, NCUA collected separate examination and supervision fees. The examination fees were collected at the conclusion of each credit union examination, while supervision fees were collected at year-end. Included in this balance are examination fees of $102,771 and supervision fees of $3,490,497.

6. LEASEHOLD IMPROVEMENTS

This account reflects the cost of permanent improvements to the Washington, D.C. headquarters building. These improvements are being amortized over a five year period.

7. DEFERRED OPERATING FEE INCOME

Operating fees are due from federally-chartered credit unions on or before January 31 of each year, and are used to finance the current year's operations. The fees are based on each credit union's total assets at the close of the preceding calendar year, and are computed from an assessment scale approved by the NCUA Board annually. Once collected, the fees are amortized to income on a monthly basis.

8. RESERVE FOR CLAIMS

The reserve was originally established to recognize the risk of potential litigation against NCUA. Based on the advice of the General Accounting Office, the reserve was written-off in 1979.

9. FEES

Separate examination, supervision and chartering fees were replaced with a single operating fee in 1979.

10. PRIOR PERIOD ADJUSTMENTS

1979: Because of the implementation of the operating fee in July 1979, the 1979 supervision fees were not collected. The adjustment represents the total amount of supervision fees which had been accrued as income during the year.

1980: As required by Office of Management and Budget Circular A-34, accrued employee annual leave of $1,144,054 was charged-off. In addition, an adjustment of $65,905 was required to correct a prior period accounting error in which a nonrefundable grant was misclassified as a liability.

1981: Adjustment required to reinstate accrued employee annual leave, as recommended to NCUA by the General Accounting Office.

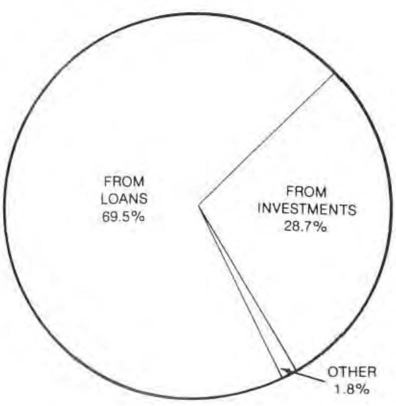
TABLE 3
NATURAL PERSON FEDERAL CREDIT UNIONS CONSOLIDATED INCOME STATEMENT

(Amounts in Thousands of Dollars)

ACCOUNT	1981	1982	% Change
INCOME:			
Interest on Loans	$3,347,087	**$3,767,615**	12.6
Less interest refund	(21,813)	**(24,103)**	10.5
Income from investments	1,273,471	**1,557,912**	22.3
Other operating income	81,192	**99,157**	22.1
Total Gross Income	$4,679,937	**$5,400,581**	15.4
EXPENSES:			
Employee compensation	$ 561,703	**$ 640,996**	14.1
Employee benefits	98,043	**118,328**	20.7
Travel and conference expense	28,427	**31,517**	10.9
Association dues	21,181	**21,971**	3.7
Office occupancy	62,198	**72,851**	17.1
Office operation expense	220,895	**268,491**	21.5
Educational and promotion	33,350	**37,829**	13.4
Loan servicing expense	24,186	**26,962**	11.5
Professional and outside services	111,552	**126,617**	13.5
Provision for loan losses	183,040	**174,833**	(4.5)
Member insurance	162,994	**171,777**	5.4
Operating fees	19,841	**22,569**	13.7
Cash over and short	1,237	**1,195**	(3.4)
Interest on borrowed money	88,329	**57,585**	(34.8)
Annual meeting expense	11,014	**11,700**	6.2
Miscellaneous operating expense	31,674	**34,658**	9.4
Total Operating Expense	$1,659,664	**$1,819,879**	**9.7**
NON-OPERATING GAINS OR LOSSES:			
Gain (Loss) on investments	(7,578)	**(13,792)**	82.0
Gain (Loss) on disp. of assets	4,460	**5,644**	26.5
Other non-operating income	3,992	**1,017**	(74.5)
Total income (Loss) before dividends	$3,021,147	**$3,573,571**	18.3
Transfer to regular and stat reserves	144,860	**146,777**	1.3
Dividends and interest on deposits	2,655,705	**3,182,629**	19.8
Net income (Loss) after Dividends and Reserve Transfers	$ 220,572	**$ 244,165**	10.7

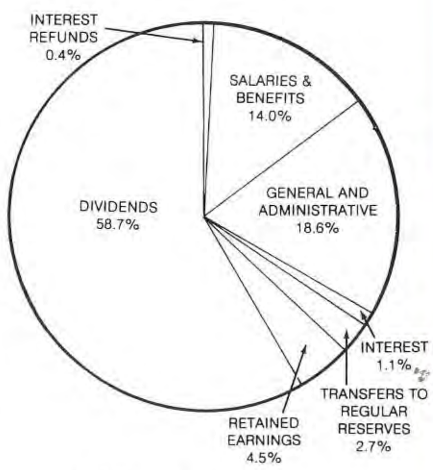
TABLE 4
INCOME AND EXPENSE DISTRIBUTION FOR FEDERAL CREDIT UNIONS SERVING NATURAL PERSONS 1982

SOURCES OF INCOME



TOTAL: $5,424,684,873

DISTRIBUTION OF INCOME



TOTAL: $5,424,684,873*

* Non-operating gains and losses are not included

TABLE 5
NATURAL PERSON FEDERAL CREDIT UNIONS 10-YEAR SUMMARY

AMOUNTS IN MILLIONS

	1972	1973	1974	1975	1976	1977
Assets	$12,514	$14,569	$16,715	$20,209	$24,396	$29,564
Loans	9,424	11,109	12,730	14,869	18,311	22,687
Shares	10,956	12,598	14,371	17,530	21,130	25,576
Reserves *	725	816	913	1,030	1,180	1,325
Undivided Earnings	169	191	226	252	285	370
Gross Income	1,046	1,251	1,504	1,749	2,124	2,580
Operating Expenses	385	454	547	655	791	968
Dividends	516	635	762	925	1,130	1,387
Reserve Transfers	90	113	136	134	167	140
Net Income	571	49	60	34	37	85

SIGNIFICANT RATIOS (%)

	1972	1973	1974	1975	1976	1977
Reserves to Assets	—	5.6	5.5	5.1	4.8	4.5
Reserves & Und. Earn. to Assets	—	6.9	6.8	6.3	6.0	5.7
Reserves to Loans	7.7	7.3	7.2	6.9	6.4	5.8
Loans to Shares	86.0	88.2	88.6	84.8	86.7	88.8
Operating Expenses to Gross Income	36.8	36.3	36.4	37.5	37.2	37.5
Salaries & Benefits to Gross Income	13.9	13.4	13.1	12.8	12.3	12.0
Dividends to Gross Income	—	50.8	50.7	52.9	53.2	53.8
Yield on Average Assets	—	9.2	9.6	10.0	9.5	9.6
Cost of Funds to Average Assets	—	4.9	5.1	5.3	5.3	5.5
Gross Spread	—	4.3	4.5	4.7	4.2	4.1
Net Income dividend by Gross Income	—	3.9	4.0	2.0	1.7	3.3
Yield on Average Loans	—	10.2	10.3	10.3	10.5	10.5
Yield on Average Investments	—	7.0	8.5	8.7	7.9	7.9

* Does not include the allowance for loan losses

TABLE 5
NATURAL PERSON FEDERAL CREDIT UNIONS 10-YEAR SUMMARY

AMOUNTS IN MILLIONS

	1978	1979	1980	1981	**1982**
Assets	34,760	35,334	37,515	39,181	**45,454**
Loans	27,687	28,182	26,165	27,238	**28,072**
Shares	29,803	30,768	33,812	35,248	**41,314**
Reserves*	1,365	1,426	1,473	1,614	**1,772**
Undivided Earnings	485	629	709	906	**1,118**
Gross Income	3,201	3,530	3,824	4,681	**5,393**
Operating Expenses	1,214	1,428	1,498	1,660	**1,820**
Dividends	1,706	1,862	2,185	2,656	**3,183**
Reserve Transfers	150	88	98	147	**147**
Net Income	131	153	43	219	**244**

SIGNIFICANT RATIOS (%)

	1978	1979	1980	1981	**1982**
Reserves to Assets	3.9	4.0	3.9	4.1	**3.9**
Reserves & Und. Earn. to Assets	5.3	5.8	5.8	6.4	**6.4**
Reserves to Loans	4.9	5.1	5.6	5.9	**6.3**
Loans to Shares	92.9	91.6	77.4	77.3	**68.0**
Operating Expenses to Gross Income	37.9	40.4	39.2	35.5	**33.7**
Salaries & Benefits to Gross Income	11.6	14.3	14.7	14.1	**14.1**
Dividends to Gross Income	53.3	52.7	57.1	56.7	**59.0**
Yield on Average Assets	10.0	10.1	10.5	12.2	**12.8**
Cost of Funds to Average Assets	5.8	5.9	6.4	7.2	**7.5**
Gross Spread	4.2	4.2	4.2	5.1	**5.3**
Net Income divided by Gross Income	4.1	4.3	1.1	4.7	**4.5**
Yield on Average Loans	10.9	10.9	11.0	12.5	**13.6**
Yield on Average Investments	8.4	8.6	10.3	12.8	**12.3**

* Does not include the allowance for loan losses

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NATURAL PERSON FEDERAL CREDIT UNIONS 10-YEAR SUMMARY

AMOUNTS IN MILLIONS

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SIGNIFICANT RATIOS (%)

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Reserves to Loans	4.9	5.1	5.6	5.9	**6.3**
Loans to Shares	92.9	91.6	77.4	77.3	**68.0**
Operating Expenses to Gross Income	37.9	40.4	39.2	35.5	**33.7**
Salaries & Benefits to Gross Income	11.6	14.3	14.7	14.1	**14.1**
Dividends to Gross Income	53.3	52.7	57.1	56.7	**59.0**
Yield on Average Assets	10.0	10.1	10.5	12.2	**12.8**
Cost of Funds to Average Assets	5.8	5.9	6.4	7.2	**7.5**
Gross Spread	4.2	4.2	4.2	5.1	**5.3**
Net Income divided by Gross Income	4.1	4.3	1.1	4.7	**4.5**
Yield on Average Loans	10.9	10.9	11.0	12.5	**13.6**
Yield on Average Investments	8.4	8.6	10.3	12.8	**12.3**

* Does not include the allowance for loan losses

TABLE 6

NATURAL PERSON FEDERAL CREDIT UNIONS CONSOLIDATED BALANCE SHEETS

(Amounts inThousands of Dollars)

	1981	1982	Percent Increase (Decrease)
ASSETS			
Cash	$ 874,542	**$ 1,024,087**	17.1
Loans to Members	27,307,716	**28,166,308**	3.1
Allowance for Loan Losses	(211,511)	**(242,887)**	14.8
INVESTMENTS			
U.S. Govt/Fed. Agency	2,835,221	**3,607,029**	27.2
Banks & S&L's	3,897,234	**2,799,072**	70.9
S&Ls and Mutual Savings (1)	—	**3,859,415**	
Corporate Credit Unions	2,134,268	**3,533,114**	65.5
Common Trusts	735,044	**965,562**	31.4
Other Investments	484,569	**419,861**	(13.4)
Total Investments	10,086,336	**15,184,053**	50.5
Allowance for Investment Losses	(9,205)	**(15,204)**	65.2
Land and Building (Net of Depreciation)	524,557	**574,785**	9.6
Other Fixed Assets	208,955	**253,944**	21.5
Other Assets	399,298	**509,312**	27.6
Total Assets	$39,180,688	**$45,454,398**	16.0
LIABILITIES			
Accounts Payable	234,172	**205,179**	(12.4)
Notes Payable	609,030	**418,773**	(31.2)
Dividends Payable	442,783	**496,688**	12.2
Other Liabilities	126,881	**130,217**	2.6
Total Liabilities	$ 1,412,866	**$ 1,250,857**	(11.5)
EQUITY/SAVINGS			
Regular Shares	23,094,593	**27,046,241**	17.1
Share Certificates	10,161,237	**10,390,975**	2.3
IRA/Keogh Accounts	—	**942,410**	—
Share Draft	1,991,987	**2,934,198**	47.3
Total Savings	35,247,817	**41,313,824**	17.2
Regular Reserve	1,207,506	**1,323,851**	9.6
Other Reserves	406,722	**448,344**	10.2
Undivided Earnings	905,777	**1,117,522**	23.4
Total Equity/Savings	$37,767,822	**$44,203,541**	17.0
Total Liabilities/Equity	$39,180,688	**$45,454,398**	16.0

(1) S&L's totals included in Commercial Bank totals in 1981.

TABLE 7
SELECTED DATA FOR FEDERAL CREDIT UNIONS, DECEMBER 31, 1934-82

Year	Number of charters						Operating credit unions			
				Outstanding						
	Issued	Canceled	Net change	Total	Inactive credit unions	Number	Members	Assets[1] (000's)	Shares[1] (000's)	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	2,463,898	504,715	457,402	299,756
1952	692	115	577	6,163	238	5,925	2,853,241	662,409	597,374	415,062
1953	825	132	693	6,856	278	6,578	3,255,422	854,232	767,571	573,974
1954	852	122	730	7,586	359	7,227	3,598,790	1,033,179	931,407	681,970
1955	777	188	589	8,175	369	7,806	4,032,220	1,267,427	1,135,165	863,042
1956	741	182	559	8,734	384	8,350	4,502,210	1,529,202	1,366,258	1,049,189
1957	662	194	468	9,202	467	8,735	4,897,689	1,788,768	1,589,191	1,257,319
1958	586	255	331	9,533	503	9,030	5,209,912	2,034,866	1,812,017	1,379,724
1959	700	270	430	9,963	516	9,447	5,643,248	2,352,813	2,075,055	1,666,526
1960	685	274	411	10,374	469	9,905	6,087,378	2,669,734	2,344,337	2,021,463
1961	671	265	406	10,780	509	10,271	6,542,603	3,028,294	2,673,488	2,245,223
1962	601	284	317	11,097	465	10,632	7,007,630	3,429,805	3,020,274	2,560,722
1963	622	312	310	11,407	452	10,955	7,499,747	3,916,541	3,452,615	2,911,159
1964	580	323	257	11,664	386	11,278	8,092,030	4,559,438	4,017,393	3,349,068
1965	584	270	324	11,978	435	11,543	8,640,560	5,165,807	4,538,461	3,864,809
1966	701	318	383	12,361	420	11,941	9,271,967	5,668,941	4,944,033	4,323,943
1967	636	292	344	12,705	495	12,210	9,873,777	6,208,158	5,420,633	4,677,480
1968	662	345	317	13,022	438	12,584	10,508,504	6,902,175	5,986,181	5,398,052
1969	705	323	382	13,404	483	12,921	11,301,805	7,793,573	6,713,385	6,328,720
1970	563	412	151	13,555	578	12,977	11,966,181	8,860,612	7,628,805	6,969,006
1971	400	461	- 61	13,494	777	12,717	12,702,135	10,553,740	9,191,182	8,071,201
1972	311	672	-361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	-159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	- 2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	- 33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	- 50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	-198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	-435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	-442	11,925	495	11,430	26,081,005	49,715,717	45,465,123	28,122,573

[1] Data for 1934—44 are partly estimated.

[2] First charter approved October 1, 1934.

TABLE 8
SELECTED DATA PERTAINING TO FEDERALLY-INSURED STATE CREDIT UNIONS, 1971-82

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 (Prelim)	5,139	13,359,000	26,271,875	23,622,628	15,393,739

TABLE 9

NUMBER OF NATURAL PERSON FEDERAL CREDIT UNIONS BY ASSET SIZE, DECEMBER 31, 1982

Asset Size	Number of Federal Credit Unions	Percent Distribution	
		Actual	Cumulative
Less than 50 thousand	519	4.5	4.5
50 to 100 thousand	746	6.5	11.0
100 to 250 thousand	1,725	15.1	26.1
250 to 500 thousand	1,798	15.8	41.9
500 to 1 million	1,788	15.7	57.6
1 to 2 million	1,644	14.4	72.0
2 to 5 million	1,557	13.7	85.7
5 to 10 million	744	6.5	92.2
10 to 20 million	447	3.9	96.1
20 to 50 million	302	2.7	98.7
50 to 100 million	103	.9	99.7
100 million +	39	.3	100.0
TOTAL	**11,412**	**100.0**	

NOTE: Excludes 18 Federal Corporate Cental credit unions.

TABLE 10

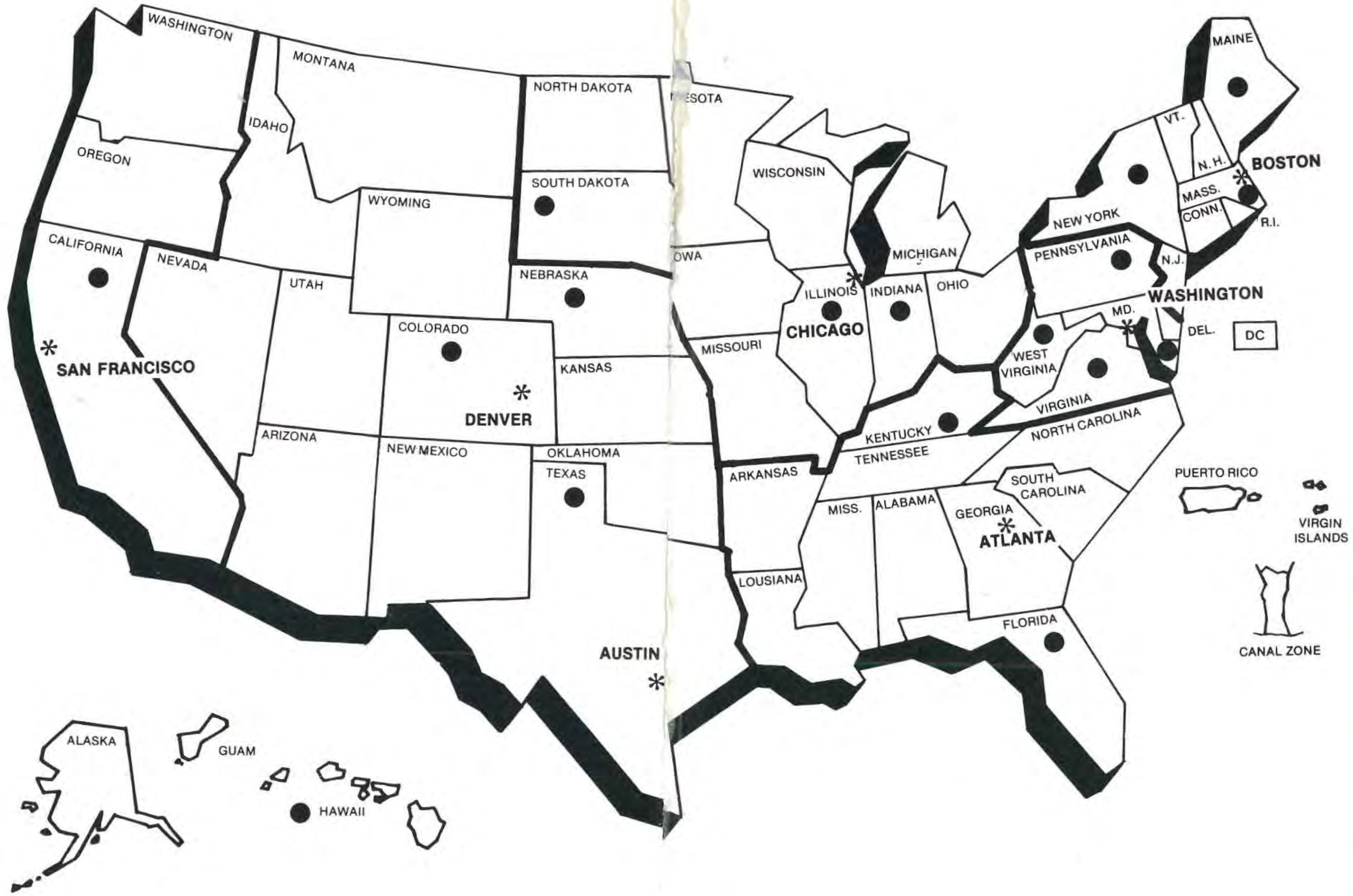
NATURAL PERSON FEDERAL CREDIT UNION ASSETS DISTRIBUTION BY SIZE OF CREDIT UNION

Asset Size	Assets (000's)	% to Total	Cumulative %
Less than 50 thousand	14,777	.03	.03
50 to 100 thousand	55,206	.12	.15
100 to 250 thousand	295,013	.64	.79
250 to 500 thousand	647,681	1.42	2.21
500 to 1 million	1,275,223	2.81	5.02
1 to 2 million	2,349,826	5.17	10.19
2 to 5 million	4,914,305	10.81	21.00
5 to 10 million	5,263,715	11.58	32.58
10 to 20 million	6,254,063	13.76	46.34
20 to 50 million	9,427,864	20.74	67.08
50 to 100 million	7,080,576	15.58	82.66
100 million +	7,876,865	17.34	100.00
TOTAL	**45,454,398**	**100.00**	

NCUA REGIONAL OFFICE BOUNDARIES

NATURAL PERSON FEDERAL CREDIT UNIONS BY STATE

STATE	Number	Assets in Millions
Alabama	177	$ 676
Alaska	24	$ 660
Arizona	69	$ 717
Arkansas	100	$ 156
California	886	$7,227
Canal Zone	2	$ 11
Colorado	157	$ 786
Connecticut	268	$ 883
Delaware	70	$ 179
District of Columbia	135	$ 822
Florida	305	$2,378
Georgia	267	$ 820
Guam	4	$ 18
Hawaii	140	$ 878
Idaho	57	$ 171
Illinois	358	$ 580
Indiana	388	$1,539
Iowa	9	$ 20
Kansas	51	$ 165
Kentucky	131	$ 347
Louisiana	373	$ 774
Maine	124	$ 383
Maryland	196	$1,251
Massachusetts	298	$ 775
Michigan	284	$1,716
Minnesota	52	$ 249
Mississippi	148	$ 284
Missouri	30	$ 81
Montana	95	$ 224
Nebraska	79	$ 246
Nevada	42	$ 329
New Hampshire	27	$ 170
New Jersey	589	$1,252
New Mexico	55	$ 365
New York	1,062	$3,588
North Carolina	123	$ 535
North Dakota	26	$ 44
Ohio	605	$1,274
Oklahoma	108	$ 525
Oregon	157	$ 566
Pennsylvania	1,321	$2,393
Puerto Rico	36	$ 85
Rhode Island	17	$ 13
South Carolina	128	$ 511
South Dakota	93	$ 158
Tennessee	171	$ 749
Texas	792	$3,390
Utah	63	$ 173
Vermont	6	$ 32
Virgin Islands	5	$ 3
Virginia	269	$2,811
Washington	155	$ 802
West Virginia	182	$ 314
Wisconsin	2	$ 22
Wyoming	54	$ 137



● FEDERAL CORPORATE

✻ NCUA REGIONAL OFFICE

LIST OF FEDERAL CORPORATES

Corporate Name	State	Assets in Millions
Western Corporate	CA	$804
Southwest Corporate	TX	$532
Capital Corporate	MD	$142
League Central of Maine	ME	$ 98
Virginia League Corporate	VA	$162
Mid-States Corporate	IL	$470
Southeast Corporate	FL	$247
Mid-Atlanta Central	PA	$294
Nebraska Corporate Central	NB	$ 49
Indiana Corporate	IN	$386
Empire Corporate Central	NY	$440
NAFCU Corporate	VA	$ 85
Colorado Corporate	CO	$240
South Dakota Corporate Central	SD	$ 35
Pacific Corporate	HI	$ 88
Mass. CUNA Corporate Central	MA	$117
LICU Corporate	NY	$ 21
Kentucky Corporate	KY	$ 53

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 Supervision and Examination
Jerry Courson	Director, Department of Insurance
David Serio	Executive Vice President, Central Liquidity Facility

NCUA Regional Office Staff

Region	Staff	ADDRESS	STATES IN REGION	
REGION I (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 II (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 III (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 South Carolina Tennessee
REGION IV (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 North Dakota Ohio South Dakota Wisconsin
REGION V (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	New Mexico Texas
Suboffice (Denver)	Leon F. Handrick Deputy Regional Director	LEA Complex 10455 East 25th Ave. Aurora, Colorado 80010 (303) 837-3795	Colorado Kansas Nebraska Utah	Idaho Montana Nevada Wyoming
REGION VI (San Francisco)	Barry L. Jolette Regional Director Sidney L. Eisenberg, Deputy Regional Director	77 Geary Street Second Floor San Francisco, CA 94108 (415) 556-6277	Alaska American Samoa California Guam	Hawaii Oregon Washington

National Credit Union
Administration
Washington, D.C. 20456

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NCUSIF

ANNUAL FINANCIAL REPORT

NATIONAL CREDIT UNION SHARE INSURANCE FUND

FISCAL YEAR 1982

OCTOBER 1, 1981 - SEPTEMBER 30, 1982

1982 ANNUAL FINANCIAL REPORT

OF THE
NATIONAL CREDIT UNION ADMINISTRATION

FISCAL YEAR 1982

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NATIONAL CREDIT UNION ADMINISTRATION
1776 G. Street, N.W.
Washington, D.C. 20456
(202) 357-1100
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(Department of Insurance)

FOREWORD

Confidence is the critical but often intangible factor that is essential to the operation of any financial institution. The National Credit Union Administration's Share Insurance Fund is one source of the confidence which members, volunteers, and employees have in their credit unions. The Fund contributes to this sense through its role as a speciality insurer for over 16,500 credit unions which range in size from under $10,000 to over $1.1 billion in total assets.

The specialist role of NCUA insurance arises from the unique financial structure of credit unions as cooperatives. When problems cause temporary financial setbacks to the point of insolvency, the Fund is the primary source of recapitalization for credit union members who want to rebuild their institution.

During the 12 year history of the Fund 2,275 mergers and 1,564 liquidations have been completed while at the same time reserves of the fund have been increased every year. This record of responsiveness is one source of credit unions' confidence in the Fund's ability to manage future problems.

I believe, however, that this confidence in the Fund shouldn't rest solely on past events. It must also come from a shared understanding of how the Fund is managed today and our goals for the future. The first ever CPA audit, described herein, is one example of our commitment to improving the Fund's results and financial performance.

As important as accurate and consistent presentation of our financial condition is for good decisions, confidence must also rest on realistic expectations about each of our responsibilities for credit union safety and soundness. Credit unions have demonstrated their commitment to the Fund's financial integrity by supporting the Board's goal of raising equity to 1% of insured shares — if necessary by additional annual assessments.

Ultimately, however, confidence in an individual credit union as well as the U.S. Credit Union System comes from the knowledge and the experience that each of the participants in this system is doing his/her utmost to manage their responsibilities in a sound and faithful manner. This Report is about our responsibility for credit unions' insurance fund. As managers we have much more progress we want to make. Through continuing hard work, our results will be improved. Credit unions are based on the ideal of self help. This spirit in both our individual and collective actions is, I believe, the true resource of member confidence in the U.S. Credit Union System and our assurance of future success.

E.F. Callahan
April 15, 1983

MANAGEMENT'S REVIEW OF THE YEAR

While the issues of deregulation, the publicity surrounding the Penn Square Bank failure, and the Congressional study mandated in the Garn St-Germain Law dominated the reporting of credit union events, 1982 was a year of reorganization within NCUSIF. Management and administrative changes occurred in both Washington and the Regional offices, new problem solving approaches were initiated, and a "first ever" CPA audit of the Fund's financial results was completed.

Board Sets 1% Goal - Authorizes Special Assessment

Following publication of the 1981 NCUSIF *Annual Report,* a dialogue was begun with credit unions about the Fund's financial trends. Of most concern was the reversal of the Fund's ratio of equity to insured shares from a peak in 1979 of .32 percent to .29 percent in 1981.

The Federal Credit Union Act describes 1% as the "normal operating ratio" for the Fund. Private credit union share insurance funds generally require initial capitalization by members through a 1% deposit. The other Federal insurance funds have used 1% as a minimum benchmark for changes in rates and adding reserves.

After reviewing these factors, the NCUA Board at its June 16 meeting voted to establish a management goal of 1% of Fund equity to insured shares. In setting this objective the Board then sought credit union advice as to the actions necessary to accomplish this objective.

All insured credit unions were contacted by letter and were asked to comment on the following issues:

- What is a reasonable time frame to establish for reaching the one percent goal?
- Are additional premiums a reasonable method to achieve the goal?
- How would an additional premium assessed this year (1982) affect the operations of credit unions?
- What should be the timing of any additional premium?

"600 Comments"

More than 600 comments were received in the four weeks between the mailing and the July 7 Board meeting at which action was to be taken to implement the 1% objective. Jerry Courson, Director of the Department of Insurance, called the response exceptional. "Of all the issues I've been involved in at NCUA, this has generated the most response from credit unions," he said. "The letters have been very thorough, complete and in general support the Board's 1% goal. However, the majority of credit unions are concerned about the expense situation."

Here are excerpts from some of the letters:

"We believe in an additional assessment for 1982 and would agree to additional yearly premiums until the Fund attained the 1% level."

— Layton M. Stump, Manager,
John Deere Employees Credit Union
Waterloo, Iowa

"We need to pay for the services we get and the share insurance fund is a service to all credit unions. When a credit union like Eglin, Georgia Central or San Diego Navy faces severe problems — all credit unions would face the possibility of severe losses if those were allowed to fail and depositors were to lose money."

— Ralph L. Jones, Manager
HEW Atlanta Federal Credit Union,
Atlanta, Georgia

"Our Share Insurance Fund must be increased to the Board's suggested one percent goal immediately! . . . I do not want to read any article which outlines the inadequacies of the credit union insurance fund should liquidations occur within the credit union movement."

— Kipper R. Kullberg, President
J.L.C. Employees Credit Union,
Rockford, Illinois

There was also strong sentiment for maintaining an independent credit union share insurance fund:

"Our very strong feeling is that our Credit Union Share Insurance Fund should be kept separate from all other financial institutions' insurance funds. We are willing to help assure that separation by meeting an additional assessment this year as well as in future years."

— M.G. Poindexter, Manager
Rubber Workers Federal Credit Union
Memphis, Tennessee

"We should have our own insurance fund . . . not part of **any other insurance funding.** We worked so hard to obtain recognition and funding that we should not let it slip by through inaction or inertia."

— George J. Janicki, Treasurer and President
28 years on the job
Elmwood Park School Employees Credit Union,
Elmwood Park, Illinois

Although consideration of a special share insurance premium had been on the Board's agenda for some time, the unexpected collapse of Oklahoma's Penn Square Bank over the Fourth of July weekend added a "shared sense of urgency" to the Board's deliberations of a special assessment.

Recognizing the importance of this issue for credit unions, the Board took the extraordinary step of temporarily adjourning the meeting for public comment before voting on a staff recommendation for an additional assessment. This recommendation was based on the fact that the Fund's cash disbursements in 1982 exceeded income by more than $32 million. When this situation occurs, the NCUA Board has the authority under the Federal Credit Union Act to assess an additional premium up to 1/12 of 1% of insured shares.

The Board reconvened following spirited comment from the floor. Chairman Callahan and Vice Chairman Mack debated the staff's recommendation of a full assessment and eventually compromised on a special premium of 1/18 of 1% for insurance year 1981. Recognizing that the assessment had been decided at a mid-point in the year with very little lead time for credit unions to budget the additional expense, the Board also gave Federal credit unions the option of amortizing the cost over the following 12 months if they chose to do so.

Commenting on the assessment, Vice Chairman P.A. Mack, Jr. said: "Both the Chairman and I believe less government is better, but this is an instance where we must step up to our responsibilities and I believe this is a responsibility we have."

The special assessment resulted in additional premium income of $30 million and was the primary reason for the Fund's 12th consecutive year of positive net income.

The situation of cash disbursements exceeding income occurred again in 1982. In addition to the consideration of a special assessment the Agency will also be exploring other approaches to capitalize the Fund to meet the 1% goal. This rethinking of how to build the Fund's equity is in large measure due to credit unions' success. When the additional premium approach was first discussed in 1982, one of the assumptions that allowed the 1% goal to be reached by the 1990's, was that credit union share growth rates would be in the 6 or 7 percent range.

In 1982, insured shares grew at the extraordinary rate of 17.2 percent. The result was that rather than moving toward the 1% goal, the ratio of equity to insured savings slipped. As the Industry newsletter, *Report on Credit Unions,* explained, the dilemma is a "problem of success:"

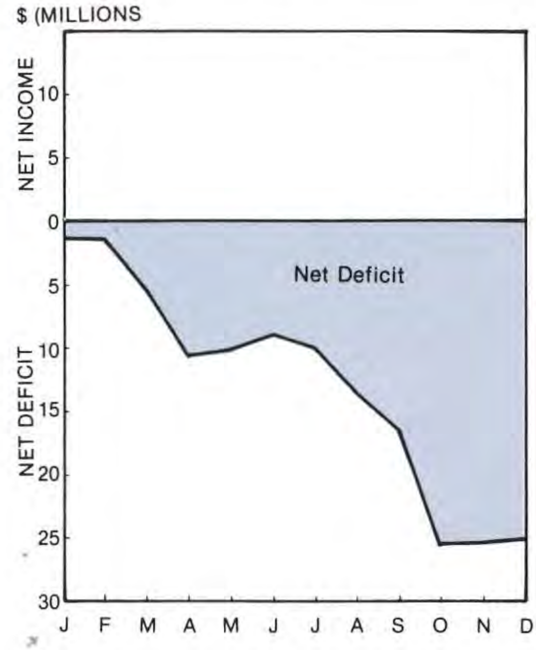
> "The problem of a declining equity ratio is a problem brought on by success, not a problem brought on by losses. And as long as shares continue to grow at any reasonable level, the fund will never be able to reach it's equity goal unless there is a period when there are no claims against the fund, the fund incurs very little in the way of expenses, and the fund realizes an income from investments sufficient to offset the growth in shares. The likelihood of all of these occurring on cue is, if not impossible, remote at best.
>
> The solution to reaching the equity level? Our options are limited to a scant few. Eliminate growth in shares is one, but it's neither realistic nor appealing. Sharply curtail the use of the fund to aid and/or liquidate troubled credit unions is another, but not feasible.
>
> For all practical purposes, the premium formula embodied in federal law isn't flexible enough to achieve the goal. Maybe it should be changed, maybe the fund should be capitalized like the FDIC was, but these changes would take an act of Congress."

Each year the Fund acquires millions of dollars in loans either as the liquidating agent for failed credit unions or as the guarantor of assets for mergers or loan sales. In 1982 loans acquired totaled $27.3 million, up from $19.9 million in 1981.

In the past, NCUA has tried to collect these loans using its own personnel or by contracting with outside professional collection agencies. In order to improve the return to the Fund from these acquired assets, NCUA began the practice of selling all loans as soon as they were received. With this change a major marketing effort was launched to increase interest in loan portfolios among credit unions with the intent of improving the average return per sale to the Fund.

The Board acted in two ways to further this effort. In March the Board voted to permit all parties to bid on portfolios; previously finance companies had been restricted from bidding. Secondly, the Board issued a ruling allowing Federal credit unions to offer membership to borrowers whose loans were purchased from NCUA. This change gave credit union purchasers greater flexibility in trying to collect loans by offering borrowers the prospect of a continuing relationship with the credit union.

Cumulative Cash Disbursements to Income Calendar Year 1982



Loan Sales — A High Yield Investment Opportunity

As Roger Marks, senior vice-president of the Georgia Credit Union League, wrote in *Credit Union Magazine:* "Buy a loan, get a member, and make a profit. That's what NCUA is encouraging credit unions to do as it introduces them to buying the loans of liquidating credit unions."

Loan seminars were held in Washington and in several of the Regional offices to attract credit union bidders. Part of the purpose was to educate credit unions about the potential returns from these portfolios. Returns of 30 to 50 percent on the purchase price are possible for good collection work, according to credit union officials who have bid successfully. The efforts to involve credit unions to a greater extent in the loan purchase program were based on the premises that:

• Credit Unions were extremely liquid and generally had excess "staff capacity" to collect additional loans;

• Credit unions had first hand experience with the kinds of loans being sold;

• Credit unions generally have a much more favorable reputation with borrowers than do professional collection organizations;

• Future membership gave credit unions extra bargaining power with the borrowers;

• Credit Unions' much lower cost of funds (averaging 8.3% in 1982) gave them a significant cost advantage over bidders whose funds were borrowed at several percentage points above the prime bank lending rates.

Naval Air Norfolk Federal Credit Union, Norfolk, Virginia, has been actively bidding on loan portfolios for several years and has been "very satisfied" with the results, according to Al Chambers, assistant general manager. "We've purchased a total of $2.6 million in loans and paid between 50 cents and 81 cents on the dollar," he said. "Our gross return has averaged 30.94 percent. We've been very surprised at how rapidly we've turned over the loans — we expected it would take 22 months, but it's taking half that time.

"This program has been a great success for us," Mr. Chambers said. "We wish we could buy more loans, but there aren't that many available now that liquidations are down. We miss that income."

Another benefit has been an increase in membership. Naval Air Norfolk offers membership to everyone whose loans it purchases. "A surprising number of people have taken us up on the offer." Mr. Chambers said.

Ed Thomas, manager of Atlanta's Peachtree Federal Credit Union, also had a good experience with the loan portfolio program. In 1981, his credit union's retirement fund purchased a $40,000 portfolio for $27,000. "Our return has averaged between 25 and 30 percent — we consider that an excellent return," he said.

Larry Juell of Longview, Washington is a former credit union manager who began buying loan portfolios in the 1970s. *The Wall Street Journal* described him as "probably the largest and most prosperous of the private (loan portfolio) investors." Over the past six years, Mr. Juell has purchased nearly 200 loan portfolios with a book value of about $50 million. While he won't say how much he made on them, he will say he's "delighted" with the program, has quit his job as manager of a credit union in order to devote full time to investing in credit union loan portfolios, and more recently, bidding on defunct banks.

"We started as a one-man operation in 1976 and now have 53 full-time employees and an in-house computer," he said. "We're as comfortable with a loan in Texas as one in Longview, Washington."

It hasn't always been that easy. Mr. Juell told *The Wall Street Journal* about one difficult case several years ago which involved collecting loans from a liquidated credit union on a large Indian reservation. *The Journal* quoted Mr. Juell as saying, "We couldn't go on the reservation to collect the loans because of certain tribal and governmental authorities." But, according to the newspaper, Mr. Juell has had some surprising successes, including collecting " 'over 90 percent of the loans from a migrant-worker credit union in northern California,' " where he didn't think collection prospects would be too promising.

NCUA's marketing efforts included the preparation of a brochure called Loan Portfolio Investments (available from the NCUA Public Information Office) and speeches at NAFCU's annual meeting and at state league and chapter meetings. In addition, the Agency sponsored seminars for large credit unions and made current loan portfolio sale listings available to such publications as CUNA's *Newswatch,* NAFCU's *Update,* and the independent newsletter, *Credit Union Regulator.*

The results — more credit union interest — but as yet no significant increase in return to the Fund. In 1982 the return was approximately 60 cents on each $1.00 of book value which was about the same as 1981.

Based on these returns, the marketing efforts will be refocused in 1983 to identify specific potential purchasers and increase door-to-door sales efforts. This active style is necessary both to educate purchasers about loan opportunities as well as to have immediate feedback about the attractiveness of individual loan portfolios being offered.

The passive approach of preparing a register and mailing data to a list of bidders has not resulted in returns that meet management objectives. Old-fashioned "hustling" will be more the style in 1983.

Special Actions — An Effort to Make Something Happen

One of the most important supervisory responsibilities to protect the Fund's assets is effective interaction when a major problem occurs with an individual credit union. Because those events occur infrequently, the normal procedure of assigning regular examination staff and supervising personnel may not bring the right combination of experience, objectivity, and new ideas to the solution of a problem. To address these major problems each Regional office established a Special Actions unit with responsibility for developing workout plans with credit unions whose operating losses and financial trends created the prospect of major Fund payouts.

"Emphasis on Risk Management"

Complementing this change was the reorganization of the Washington office to include an emphasis on the risk management section to assist with these workouts and to monitor the Agency's overall exposure in large problem credit unions.

"Temporary Recapitalization"

One of the initiatives used in major problems was capital notes. These notes are a form of temporary recapitalization when the financial structure and operating losses of a credit union are so severe that "self-help" methods would not be sufficient. Capital notes are only used where this is the least expensive form of assistance, the credit union has put together a common sense workout plan that showed a return to profitability within months, and the assistance is to be disbursed only as the credit union meets specific goals in its plan. All assistance extended has provision for repayments once the credit union becomes self-supporting.

Some Successful, Others . . .

In 1982 seven credit unions were approved for $22.9 million of capital notes by the Board. In some instances the plans went well such as a $150 million credit union which was able to earn its first annual profit in over 4 years. In other instances the credit unions met the initial goals to earn the notes but then did not sustain the momentum of improvement. In one or two instances the credit unions were unable to meet their goals and at year end still operated at a loss.

However, special action was more than just a reorganization and a new approach. It was an effort to focus supervisory and examiner efforts and resources on those credit unions being operated in a less than satisfactory manner. At the National Examiners' Conference in September the Special Actions programs attracted overflow crowds to discuss how supervision could accelerate improvement. Conferences of Special Actions personnel were held in Washington and in the field to review "cases" for examples of what works and what doesn't. The one common ingredient that characterized the most successful turnarounds appears to be an intangible one, not some novel or creative financial plan. That characteristic is a commitment by the credit union's board and management to do "whatever it takes" to reverse a decline. This commitment, which often entails personal sacrifices and plain old fashioned hard work gave these successful credit unions a sense of control over their future rather than a passive waiting for interest rates to fall, or for members to start borrowing, or for NCUA to give a hand. That commitment to "make something happen" was the ingredient Special Actions tries to bring to each case.

Congress Expresses Interest In Federal Insurance

The uncertain state of the economy, the continuing structural problem of the S&L industry caused by high, short term interest rates, and the prospect of major bankruptcies of financial institutions such as occurred at Penn Square Bank and Drysdale, caused Congress to take a closer look at Federal insurance in 1982.

In response to the public concern about the future of the S&L industry, Congress passed on March 16, 1982 a resolution reaffirming that federally insured deposits are backed by the full faith and credit of the United States. While this resolution expired with the start of the 98th Congress in January 3, 1983, the action did show that should market forces overwhelm a critical sector of the economy Congress was prepared to act just as it had done in 1933 and 1934 when the FDIC and FSLIC were created to restore confidence in the banking and S&L industries.

This congressional interest was again manifested in the Garn St-Germain Depository Institutions Act which became law on October 15, 1982. This law required the FDIC, the FSLIC and the NCUA to each conduct a study of their insurance funds in order to address seven issues including the impact of insurance on their institutions, the risk rating of premiums, the possibility of changes in coverage, the potential for private insurance, the adequacy of public disclosure and the feasibility of consolidating the three funds.

While this study gives an opportunity to demonstrate the unique and supportive role the NCUA insurance has had with credit unions, the prospect is also raised that there could be challenges to the Fund's independence. Credit unions will need to monitor not just the actions of their supporters, but also the proposals of other interests to retain their ability to determine their own Fund's destiny in 1983.

First CPA Audit - A Qualified Opinion

To ensure that the Fund's statements are examined in the most timely manner and to seek an assessment of accounting procedure, the NCUA contracted for the first independent audit ever conducted of the Fund's balance sheet by an outside accounting firm. As a result of the audit, several changes were made to the Fund's accounting policies and procedures.

In the years prior to fiscal 1982, the Fund recorded losses from financially troubled credit unions at the dates that these credit unions were ultimately merged or liquidated. Additionally, losses on asset guarantees made in connection with asset sales and mergers were recorded at the time that payments were made under guarantee agreements.

Beginning in fiscal year 1982, the Fund began the process of conforming its accounting for losses from credit unions to generally accepted accounting principles. Generally accepted accounting principles require that the Fund record losses at an earlier point in time than had previously been the Fund's practice. In this respect, the Fund recorded estimated losses on advances to credit unions under the cash assistance program of $14.1 million and estimated losses of $15.6 million on outstanding asset and merger guarantees. In addition to these accruals, generally accepted accounting principles require that the Fund record estimated potential loss accruals for credit unions identified as experiencing financial difficulties but not receiving cash assistance and for credit unions receiving cash assistance to the extent that the estimated loss would exceed the amount of outstanding cash assistance. The Fund did not attempt to estimate these additional loss accruals for fiscal year 1982 because it was not practicable to accumulate the information needed to make the estimates. Accordingly, the Fund received a qualified opinion.

In addition, since the Fund did not have sufficient loss experience for the types of asset guarantees currently being written, sufficient historical loss experience data was not available for the auditors to support the Fund's related loss estimates. This resulted in a second qualification of the auditor's opinion.

In 1983 and thereafter, the Fund will continue to work toward developing the systems and information necessary to bring its financial statements in conformity with generally accepted accounting principles and to accumulate all information needed to support the financial statements.

Equally as important as the change in accounting methods was the improvements to the Fund's records. Ernst & Whinney worked with the Fund's accounting staff identifying areas that were not properly recorded, eliminated duplicate record keeping, and establishing procedures for supervision on specific accounts. As a result the Fund is now publishing monthly statements which will help all interested parties monitor the financial results.

In 1983 one of the management goals is the development of accounting and control procedures that will give the Agency a management reporting system to monitor insurance trends in each Region. Accurate and timely figures are the first step to informed and effective management decisions.

NATIONAL CREDIT UNION ADMINISTRATION

ASSISTANCE TO PROBLEM CREDIT UNIONS

Whenever internal failure or external events cause credit unions to incur losses which threaten their continued operation, the Fund is one source of assistance to give Boards and managers the chance to reverse a deteriorating situation.

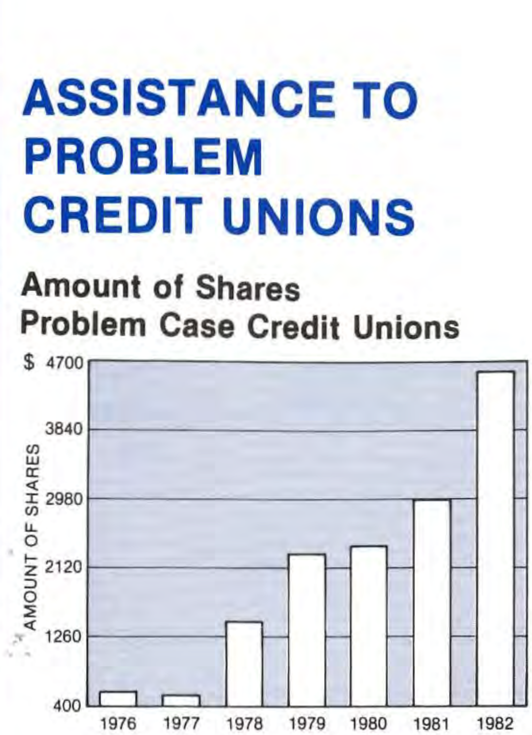
Problem identification and resolution is the primary goal of NCUA's examination and supervision activity. Through the examiners' rating of a credit union during the field contact, credit unions are classified according to their overall condition. In 1982, 1,192 federal and state credit unions with $4.6 billion in insured shares were rated either weak (code 4) or unsatisfactory (code 5). These totals were up from 1981 year end figures of 1,174 federal and state credit unions with $2.9 billion of insured shares.

As described earlier, one of the responses to this trend was the establishment of a Special Actions unit in each Region. These teams are responsible for coordinating all potential resources, both internal and external to a credit union, and then to create with the credit unions workout plans to bring immediate results. The Fund provides a number of options for assistance in these situations as authorized under Section 208 of the Federal Credit Union Act.

The most frequently used method of providing assistance has been the establishment of an NCUSIF Guaranty Account on the books of an otherwise insolvent credit union. Since 1974, $77.2 million of guaranties have been granted to 185 credit unions, of which $18.6 million (24 percent) was granted in fiscal year 1982. The amount of guaranty outstanding (after amortization and losses) has increased each year since its inception, however, the rate of increase slowed in 1982. Fifty-five credit unions were approved for $8.4 million in initial guaranty assistance, while 36 credit unions received $10.2 million in additional assistance. Twenty-four credit unions with guaranty accounts were merged or liquidated causing losses to the Fund of $4.2 million. Seventy-seven credit unions were able to amortize partially or completely $5.4 million in guaranty assistance.

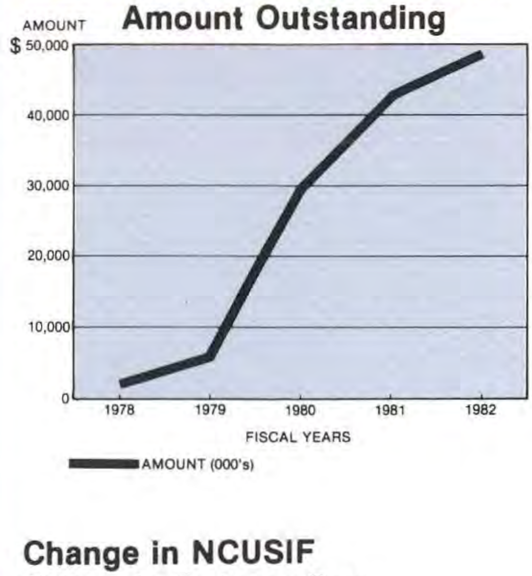
NCUSIF Guaranty - September 30, 1981	$39,844
Increases	
55 credit unions needed initial assistance	8,375
36 credit unions needed additional assistance	10,204
Decreases	
24 credit unions merged/liquidated	(4,241)
17 credit unions completed amortization/ repaid guaranty completely	(2,679)
60 credit unions reduced guaranty	(2,717)
NCUSIF Guaranty - September 30, 1982	**$48,786**

Amount of Shares Problem Case Credit Unions



NCUSIF Guaranty Account

Amount Outstanding



Change in NCUSIF Guaranty Outstanding (Amounts in $000's)

Comparison of Federal and State Guaranty Assistance (Fiscal Year 1982)

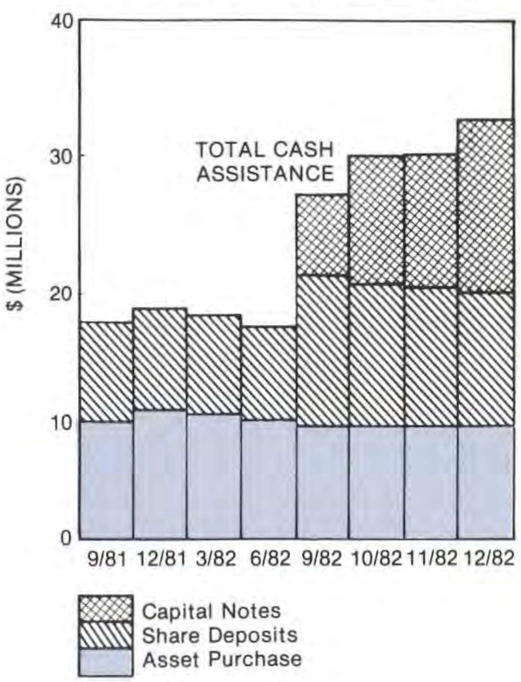
	Number	Total	Losses in 1982
Federal Credit Unions	102	$37,446,972	$2,450,161
State Credit Unions	22	$11,339,043	1,791,377
Federal Credit Unions	82.3%	76.8%	57.7%
State Credit Unions	17.7%	23.2%	42.3%

NCUSIF Cash Assistance

When the guaranty accounts approach is insufficient, cash assistance to credit unions may be provided. The Fund has invested in share deposits and purchased bond claims and other assets from credit unions. This assistance is infrequently used and generally reflects a unique problem of unusual magnitude which, if not resolved promptly could result in failure. As described earlier, in 1982 the Capital Note was also introduced. This assistance was used primarily in cases where the non-cash NCUSIF Guaranty had become so large as to adversely effect the credit unions chances of recovery. The Notes replaced non-earning assets with assets that could be used to produce income.

Overall the Fund granted $13.4 million in total cash assistance to eight credit unions in 1982. Also during the year, four credit unions repaid $2.2 million. However, two accounts totalling $1.8 million were written off as losses. There are currently 16 different credit unions with a total of $26.1 million in cash assistance outstanding. Ten Federal credit unions received $18.1 million (69.3 percent) while six State credit unions received $8.0 million (30.7 percent).

NCUSIF Cash Assistance



Cash Assistance Outstanding

	1978	1979	1980	1981	1982
Type	(#) Amount	(#) Amount	(#) Amount	(#) Amount	(#) Amount
Loan	(4) 4,547	(6) 5,561	(4) 6,314	(1) 850	(1) 803
Share Deposit	(7) 8,975	(7) 10,233	(7) 9,132	(5) 7,538	(6) 11,151
Asset Purchase	—	(1) 288	(3) 3,250	(7) 10,318	(5) 8,521
Capital Note	—	—	—	—	(4) 5,648*
Totals	**(11) 13,522**	**(14) 16,082**	**(14) 18,696**	**(13) 18,706**	**(16) 26,123**

* Additional $17,069 in capital notes approved but not disbursed.

MERGERS, LIQUIDATION SHARE PAYOUTS & ASSET MANAGEMENT

Mergers

Section 208(a)(2) of the Federal Credit Union Act authorizes the Fund to provide assistance to facilitate the merger of insured credit unions. There were 626 mergers during Calendar Year 1982 an 88 percent increase over 1981. Nearly two-thirds of these mergers were consumated without any assistance. In 223 of the mergers, assistance was provided to continue uninterrupted service to members. The amount of assistance 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.

Total Merger Costs

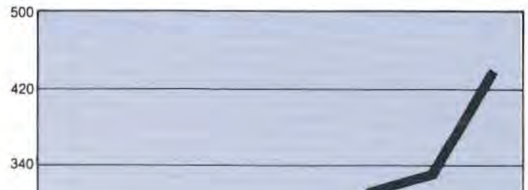
FY 1980 - 1982

1980	1981	1982
$ 9,669,854	$12,001,925	$17,095,433

Although the number of mergers increased 88 percent, the direct merger costs rose only 21 percent. To help control costs in 1982, several cash payments for merger expenses were negotiated with a payback provision. In these cases the Fund receives a stipulated percentage of net income generated by the continuing credit union from the additional assets acquired until the cash advance is repaid.

At the close of fiscal year 1982, there were 309 guarantees to assist mergers outstanding with a contingent liability to the Fund of $86.4 million. The guarantees are primarily on the collection of loans, but other assets such as fixed assets and investments are also involved in some cases. Commitments have also been made to share the cost of liquidity needs and interest rate spreads.

Number of Mergers Fiscal Years Ending September 30



Cash disbursed at the merger date is generally for balance sheet adjustments, the write off of NCUSIF Guaranty Accounts (from earlier special assistance to avoid liquidation), dividends, and specific merger costs. The chart on the next page shows the largest assisted mergers of 1982. The total guarantee assistance of $44.0 million is estimated to eventually cost the Fund $21.1 million, which amount has been charged to merger and loss provision as of year end. It is estimated that the cost to liquidate these merged credit unions with assets totalling $116 million would have exceeded $50 million.

Major Assisted Mergers Fiscal Year 1982

Names of Credit Unions	Assets	Date of Approval	Asset Guarantees (000's)	Cash (000's)
Merging - South Works Credit Union	$19.3 million	8/26/82	$10,397	$ 120
Continuing - Tech Admin & C M Division Federal Credit Union	$38.4 million			
Merging - SDC Federal Credit Union	$14.3 million	7/19/82	$ 3,890	$1,100
Continuing - Westernaire FCU	$72.5 million			
Merging - Western Alaska Trades FCU	$ 4.9 million	4/21/82	$ 1,300	$ 768
Continuing - Alaska Municipal FCU	$23.5 million			
Merging - Tulsa Bell FCU	$24.8 million	4/11/82	$ 2,442	$ 375
Continuing - Pioneer Bell FCU	$29.8 million			
Merging - Clairmont Northern Employees Federal Credit Union	$ 1.3 million	4/01/82	$ 709	$ 190
Continuing - Delta County FCU	$11.8 million			
Merging - Mississippi League Central CU	$ 9.7 million	3/04/82	$ 2,412	—
Continuing - Southeast Corporate FCU	$140.4 million			
Merging - AAASCUS Credit Union	$ 4.1 million	2/11/82	$ 2,893	$ 43
Continuing - Wayne Out County Teachers CU	$32.0 million			
Merging - Local 724 FCU	$ 1.3 million	2/11/82	$ 1,220	$ 93
Continuing - Lancing Municipal CU	$ 6.3 million			
Merging - International Harvester Canton Credit Union	$ 6.7 million	2/11/82	$ 6,356	—
Continuing - International Harvester Farmall Employees Credit Union	$42.8 million			
Merging - IPCO Federal Credit Union	$12.2 million	12/30/81	$ 4,000	—
Continuing - Fibre Federal CU	$50.6 million			
Merging - Idaho Public Employees Credit Union	$12.5 million	12/30/81	$ 4,399	$ 215
Continuing - Idaho Central CU	$20.3 million			
Merging - Rouge-Ecourse FCU	$ 2.7 million	12/30/81	$ 2,216	—
Continuing - Great Lakes Steel-workers Federal Credit Union	$30.8 million			
Merging - Kohala Federal Credit Union	$ 2.1 million	11/05/81	$ 1,800	$ 215
Continuing - Kona Community FCU	$25.9 million			
Totals			**$44,034**	**$3,119**

Liquidation Share Payouts

When workout alternatives are unsuccessful the NCUA Board places a problem credit union into liquidation and the Fund pays out the member's shares. The NCUA Board's change in field of membership policies resulted in a substantial decrease in the number of credit unions that entered liquidation. Compared to the liquidation total of 251 cases in 1981, this policy change and other management initiatives has contributed to a 36 percent decrease in the number of liquidations and a 49 percent decrease in the dollar amount paid in member shares.

Liquidation Expenses

The actual loss that the Fund absorbs as a liquidation expense is the difference between the realized value of all assets and the payment to shareholders. The distribution of these expenses by federal and state charters is shown in the chart below.

	1982		1981	
Federal Credit Unions	$15.4 million	67.2%	$24.0 million	87.0%
State Credit Unions	$ 7.5 million	32.8%	$ 3.6 million	13.0%
Total	**$22.9 million**	**100.0%**	**$27.6 million**	**100.0%**

The decline in overall liquidation activity is shown in each of the key trends below. Additionally the average size of liquidated credit unions decreased for the first time in the last five years.

Significant Liquidation Trends

Fiscal Year	1978	1979	1980	1981	1982
Number of Credit Unions Liquidated	168	169	239	251	160
Number of Shareholders paid	33,099	46,280	113,333	142,918	72,331
Shares paid (000's)	$14,244	$19,011	$59,957	$78,639	$39,892
Percentage of Shares Paid To Total Shares Insured	.032%	.040%	.110%	.136%	.058%
Average Payout Per Credit Union Liquidated (000's)	$84.8	$112.5	$250.9	$313.3	$249.3

Recoveries From Credit Unions In Liquidations

The Fund's recognition of losses from share payout is recorded in two steps. The first is to record an initial loss based on estimates of the realizable value of the credit union assets. The second step is to adjust this initial estimate by the actual loss when all asset recoveries and costs are known. The final adjustment is made when the case is closed and the charter or insurance certificate (in the case of a State credit union) is cancelled.

A credit union charter or certificate cannot be cancelled until creditors have had four months from the date of the notice to submit claims against the liquidating credit union. The charters or certificates are generally cancelled about six to eight months after entering liquidation except in the cases where a bond claim or other litigation is unresolved. Therefore, the charters or certificates cancelled in Fiscal Year 1982 are generally not those which entered liquidation during the same year.

The actual recoveries to shares paid out for liquidated credit unions whose charter or certificate was cancelled during Fiscal Year 1982 amounted to $26.9 million or 61.0 percent of the total shares paid out. The dates of liquidation for the 206 credit unions in this recovery analysis ranged from November 1979 to April 1982. The following is a Federal/State breakdown of these cases:

Recovery Ratio On Closed Liquidations Fiscal Year 1982

	Commencement Shares	Total Recoveries	Recovery Percentage
Federal Credit Unions	$31.5 million	$20.4 million	64.8%
State Credit Unions	$12.6 million	$ 6.5 million	51.6%
Total	**$44.1 million**	**$26.9 million**	**61.0%**

This total recovery percentage ratio of 61 percent is a decrease from 66.8 percent in fiscal year 1981.

Liquidations Over $1 Million in Shares Fiscal Year 1982

Name	State	Commencement Shares	Date of Liquidation	Estimated Loss
Baptist Conference Credit Union	CA	$ 8,190,377	10/81	$2,866,632
PPG Work #25 Federal Credit Union	PA	$ 1,306,925	10/81	$ 130,692
TMX Federal Credit Union	IN	$ 1,487,340	11/81	$ 669,303
Excellsior Credit Union	NY	$ 1,312,335	11/81	$ 634,907
Sheldon Federal Credit Union	WI	$ 2,812,723	3/82	$1,856,397
Southern Hills Federal Credit Union	SD	$ 1,336,949	3/82	$1,002,712
Vul-Ton Federal Credit Union	NY	$ 1,104,436	4/82	$ 496,996
Total		**$17,551,085**		**$7,657,639**

Of the largest liquidations (see chart) in 1982, there were two on which a substantial percentage of shares are estimated to be a loss. The objective of management is to react faster to minimize future losses of this nature.

Southern Hills — Bookkeeping machine errors resulted in $200,000 in share overdrafts which have been uncollectable. A bond claim in this matter was refused and possible legal action is now being researched. The sale of loans resulted in a $800,000 loss and fixed assets sold at a $100,000 loss.

Sheldon — The sale of loans resulted in a $1.5 million loss or a $2.5 million in loans due to the questionable value of ten large loans which constituted a majority of the total loans. The large loans were primarily farm loans. The remote location of the credit union was also a factor in the marketability of the assets. Auditing fees for reconstruction of records cost $20,000, and loss on the sale of fixed assets was $29,000.

Purchase and Assumptions

Quite similar to a liquidation, a purchase and assumption occurs when all or part of the assets, liabilities, or shares are transferred to another credit union or other corporation. The field of membership can transfer in a purchase and assumption but is not automatic as in a merger.

Major Purchase and Assumptions Fiscal Year 1982

Names of Credit Unions	Assets (Millions)	Date of Approval	Asset Guarantees (000's)	Cash (000's)
Assumed - South Douglas FCU	$ 2.1	1/82		
Assuming - Wood Products CU	$46.5		$ 230,154	—
Assuming - Oregon Central CU	$14.9		$ 799,417	—
Assumed - Dona Ana FCU	$ 7.5	6/82		
Assuming - Air Defense Command	$78.6		$ 400,000	$ 651,993
Assumed - Columbia Federal Employees CU	$ 2.8	8/82		
Assuming - Mizzou Credit Union	$ 4.0		$ 525,689	$ 235,073
Assumed - Tri Plant FCU	$ 4.8	9/82		
Assuming - Parmauto Credit Union	$ 9.1		$ 550,000	$ 160,459
Assumed - Industrial FCU	$ 2.9	9/82		
Assuming - Security FCU	$54.4		$ 641,385	$ 203,000
Assumed - Crawford County FCU	$ 2.1	9/82		
Assuming - Wurtsmith Community FCU	$19.0		—	$ 545,578
Assumed - West Oak FCU	$ 1.7	9/82		
Assuming - SP Eagan FCU	$15.5		$ 315,000	—
Total			**$3,461,645**	**$1,796,103**

COMMENTS:

Guarantees issued for Purchase and Assumptions are generally on the collection of loans. Cash is disbursed to cover actual balance sheet deficits between asset and liabilities. The estimated costs of these purchase and assumptions of $5,257,748, has been expensed by the Insurance Fund. It is estimated that the cost to liquidate these credit unions would have exceeded $11 million.

Management of Assets Acquired

The immediate sale of loan portfolios and other assets from liquidating credit unions is a critical part of the Fund's financial management. The Fund has implemented a credit union asset marketing program to inform prospective purchasers of the availability of liquidated credit union loans and other assets in order to maximize the recovery from loan acquired by the Insurance Fund. (See article on loan sales).

Liquidated loan portfolios that are not immediately sold and loans purchased by the Fund through the loan guarantee program are presently managed by outside loan servicing organizations. These loans totalling $17.2 million and currently purchased loans under the guarantee program are in the process of being marketed and sold without recourse.

Reductions In Guarantees

In disposing of acquired assets, primarily loans, the ability to sell at a reasonable price is, in certain instances, dependent on the issuance of a fund guarantee. This situation occurs when certain information is unavailable or there are events outside the control of the purchaser, such as a plant closing that causes bids to be difficult to estimate. Most loans are marketed without a guarantee. The policy of the Fund is to not issue guarantees unless the circumstances require this action to complete a sale or merger. The Fund's loan guarantee program began in 1971. It was developed to facilitate the sale of loan portfolios of liquidating credit unions by providing collateral for private investors to borrow funds to purchase the loans. In the merger situation, guarantees protect the continuing credit union from probable losses identified at the date of merger. The history of the guarantee program is reflected as follows:

Number of Contracts Written	1,385
Book Value of Loans	\$394,601,409
Amount of Guarantees	\$270,759,384
Amount of Purchases	\$ 22,814,501
Contingent Liability (9/30/82)	\$ 86,437,509
Percent of Guarantees to Book Value	68.6%
Loss Ratio on Matured Contracts	13.8%

In fiscal year 1982, 136 loan portfolios of liquidated credit unions with book value of \$31.0 million were sold. Of this amount, \$9.1 million or 29 percent were sold with a guarantee, and \$21.9 million were sold without recourse. To facilitate mergers 156 guarantee agreements were executed for a book value of \$124.4 million and a guaranteed amount of \$68.1 million.

Since the majority of the guarantee agreements have been written during the high liquidation period of 1980 and 1981 and extend for several years, the overall cost of the guarantee program will not be known until a larger percentage of contracts mature. The cost of the guarantee agreements that have matured or were closed during fiscal year 1982 was 14.4 percent of the guarantee amount. This is an increase from 13 percent for the cases closed in fiscal year 1981.

Bond Claims/ Litigation

Responsibility for bond claims fall into two categories. First, the Fund manages all bond claims which have been purchased from credit unions that have ceased operations through either a merger or a 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 is required to handle litigation in these cases. The secondary category of bond claims include those claims which are the responsibility of the NCUA Board in its role as the Liquidating Agent. Bond claims in this category are managed by the Regional Office Agents for the Liquidating Agent and are the claims which were filed prior to entering liquidation or filed by the Agency upon discovery of the loss after the liquidation commenced.

The Fund has taken a strong position that bond claims or other actions are to be filed for credit union losses incurred as a result of improper action or the lack of proper action on the part of the officials or employees. There are six large claims pending. Claims against bonding companies total approximately $10.3 million and suits totalling $6 million have been filed against the officials of credit unions. One example of recovery efforts are suits involving a recently liquidated $5 million credit union. One $2 million suit was filed against the bonding company for lack of faithful performance of duty by management, and a concurrent $1 million suit was filed against the individual directors for breach of fiduciary duty. Trial dates on both suits have been scheduled.

INSURANCE COVERAGE AND FINANCIAL TRENDS OF INSURED CU'S

From 1971, the first year of the Fund, until 1979, there was a steady increase in the number and percentage of credit unions insured. In 1980, 1981, and 1982, two trends became evident. One was a decline in the total number of credit unions and of credit unions insured. The other trend was that the number of credit unions insured by the Fund as a percent of total operating credit unions stabilized at about 80 percent. The first trend is the result of fewer charters and a substantial increase in mergers and liquidations. The second trend is due to a more active role by state share insurance corporations and the decline in uninsured credit unions.

Federal Credit Unions 1971 - 1982

Year	Number of credit unions	Number of members	Total assets (000's)	Members' savings (000's)	Loans outstanding (000's)
1971	13,494	12,702,135	$10,553,740	$ 9,191,182	$ 8,071,201
1972	13,133	13,572,312	12,513,621	10,956,007	9,424,180
1973	12,974	14,665,890	14,568,736	12,597,607	11,109,015
1974	12,972	15,870,434	16,714,673	14,370,744	12,729,653
1975	13,011	17,066,428	20,208,536	17,529,823	14,868,840
1976	12,978	18,623,862	24,395,896	21,130,293	18,311,204
1977	13,000	20,426,661	29,563,681	25,576,017	22,633,860
1978	13,050	23,259,284	34,760,098	29,802,504	27,686,584
1979	13,000	24,789,647	36,467,850	31,831,400	28,547,097
1980	12,802	24,519,087	40,091,855	36,263,343	26,350,277
1981	12,367	25,459,059	41,905,413	37,788,699	27,203,672
1982	11,430	26,081,005	49,715,717	45,491,123	28,122,573

Federally Insured State Credit Unions

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	$ 1,954,421	$ 1,699,418	$ 1,528,218
1972	1,315	3,043,436	3,297,257	2,886,568	2,553,885
1973	1,656	3,830,508	4,333,106	3,734,537	3,440,659
1974	2,398	5,198,218	6,039,648	5,191,566	4,773,156
1975	3,040	6,681,027	8,605,297	7,442,904	6,618,036
1976	3,519	7,673,348	10,669,586	9,223,415	8,560,330
1977	3,882	8,995,124	13,763,816	11,756,617	11,208,628
1978	4,362	11,479,963	16,657,356	14,316,370	14,038,194
1979	4,769	12,218,682	18,459,942	15,871,204	15,204,365
1980	4,910	12,337,726	20,869,783	18,468,791	14,582,065
1981	4,994	12,954,206	22,584,168	20,006,801	15,340,731
1982	5,036	13,359,000	25,922,469	23,377,384	15,434,932

Trends In Share Insurance Coverage

Although the total numbers of insured credit unions declined, the total amount of shares insured increased almost 16 percent to $69 billion. The percentage of shares insured to total credit union shares outstanding is about 83 percent. This percentage has also stabilized since 1979.

The Insurance Fund has 100 percent coverage in 25 states and in only nine states is the percent of coverage less than 75 percent. Eleven states have mandatory NCUA insurance while four states do not require any share insurance.

In order to protect the assets of the Fund, action may be taken to revoke the charter of a Federal credit union or to terminate the insured status of a State credit union. In Fiscal Year 1982, 20 Federal credit unions involving $23 million in shares were served with notices to revoke their charters. In the same period two State chartered credit unions involving $137 million in shares were served with notices to terminate their insured status. Although, these administrative actions were few, the increase in problem credit unions suggest that the number of actions may increase in the future. The chart below reflects the changes in credit union EWS codes.

Federal Credit Unions Assets in (000's)

	EWS Codes 1 & 2			EWS Code 3			EWS Code 4			EWS Code 5		
	No.	Assets	% of Total	No.	Assets	% of Total	No.	Assets	% of Total	No.	Assets	% of Total
December 31, 1982	**7,093**	**35,861**	**77.3**	**3,751**	**7,525**	**16.2**	**661**	**2,686**	**5.8**	**126**	**324**	**.7**
December 31, 1981	7,366	35,094	80.5	3,837	6,248	14.3	720	1,831	4.2	175	416	1.0
% Change Over Last 12 Months	-3.7%	+2.3%	—	-2.2%	+20.4%	—	-8.2%	+46.7%	—	-28.0%	+22.1%	

Federally Insured State Credit Unions Assets in (000's)

	EWS Codes 1 & 2			EWS Code 3			EWS Code 4			EWS Code 5		
	No.	Assets	% of Total	No.	Assets	% of Total	No.	Assets	% of Total	No.	Assets	% of Total
December 31, 1982	**3,730**	**18,927**	**77.8**	**1,099**	**3,224**	**13.2**	**278**	**2,032**	**8.4**	**32**	**150**	**.6**
December 31, 1981	3,683	14,574	76.6	1,094	3,136	16.5	227	1,270	6.6	27	54	.3
% Change Over Last 12 Months	+1.3%	+29.9%	—	+.5%	+2.8%	—	+22.5%	+60.0%	—	+18.5%	+177.8%	—

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

Legislation

There were several legislative issues at the Federal and State level that will have impact on the Fund and its programs. The most significant legislation at the Federal level is the Garn-St Germain Depository Institutions Act of 1982 (Public Law 97-320). At the State level, numerous bills were enacted that affect the Fund and share insurance coverage.

Garn-St Germain Depository Institutions Act

Sections 205 and 206 of the Federal Credit Union Act (Act) were amended to provide *emergency merger and conservator authority.* NCUA is now authorized to merge 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 case of conservatorship of a Federally insured state-chartered credit union, a process is set forth for consulting with the state regulator.

State Laws

The most significant changes in State laws that impact on the Fund relate to requirements for merger. In general, new provisions provide more flexibility to merge credit unions and avoid liquidation. States enacting new merger provisions are: Arizona, Connecticut, Florida, Hawaii, Indiana, Iowa, Missouri, and Virginia.

In addition, Kentucky adopted legislation requiring credit unions to maintain reserves at least equal to those required by NCUA for insurance purposes. Tennessee law was amended to provide for an additional contingency reserve to satisfy share insurance requirements.

In addition there were numerous legislative changes in state laws that will increase credit unions' options for share insurance coverage. The following summarizes the most significant changes occurring during this period:

Arizona — An alternate share insurance provision was adopted that will allow state chartered credit unions to obtain private insurance coverage equivalent to that provided by the NCUSIF (approved April 14, 1982). As of December 31, 1982, all Arizona state chartered credit unions are insured by the NCUSIF.

Louisiana — State chartered credit unions can obtain share insurance coverage from a state agency or state share insurance corporation of any state (approved July 21, 1982). All Louisiana state chartered credit unions are now insured by the NCUSIF.

Massachusetts — The Massachusetts Credit Union Share Insurance Corporation is allowed to insure shares and deposits of Federal credit unions doing business in the state for amounts in excess of the $100,000 per account coverage provided by the NCUSIF (approved July 8, 1982). At the end of 1982, no Federal credit unions had purchased this type of additional share insurance coverage.

Missouri — Credit unions in Missouri are permitted to participate in other approved share insurance programs. As of December 31, 1982, all Missouri state chartered credit unions are insured by the NCUSIF or another share insurance corporation.

Nebraska — State chartered credit unions are required to obtain and maintain insurance or guaranty of savings and deposits through the NCUSIF or the Nebraska Depository Institutions Guaranty Corporation. The Director of Banking and Finance may extend for appropriate cause the date of mandatory insurance for a period not to exceed one year. These provisions were approved March 24, 1982. All Nebraska state chartered credit unions are insured by the NCUSIF or the Nebraska Depository Institutions Guaranty Corporation.

New Jersey — State chartered credit unions are required to apply for state insurance through the NCUSIF or comparable insurance approved by the banking commission within one year of the effective date of the act (approved July 23, 1982). Credit unions with a deposit base consisting primarily of funds from other credit unions (corporate central credit unions), are exempt. At the end of 1982, 23 New Jersey state chartered credit unions remain uninsured. All of the other 30 state chartered credit unions are insured by the NCUSIF.

In addition to the insurance coverage provisions enacted during fiscal year 1982, previous legislation affecting share insurance with deadlines during this fiscal year is summarized as follows:

Colorado — State chartered credit unions must apply for share insurance through the NCUSIF or other approved insurance programs by July 1, 1982. At the end of 1982, only 3 Colorado state chartered credit unions remain uninsured.

West Virginia — State chartered credit unions must be covered by share insurance through the NCUSIF or other approved programs by December 31, 1981. As of December 31, 1982, all of the West Virginia state chartered credit unions are insured by the NCUSIF or the National Deposit Guaranty Corporation (NDGC).

Illinois — State chartered credit unions must apply for share insurance through the NCUSIF or other approved insurance programs by December 31, 1981. A commitment for coverage must be received by December 31, 1984. At the end of 1982, 31 Illinois state chartered credit unions remain uninsured while 840 are insured by the NCUSIF and 53 by NDGC.

Connecticut — Share insurance coverage for the state chartered credit unions is now limited to the NCUSIF (formerly coverage by the Connecticut Credit Union Share Insurance Corporation was also permitted). The application deadline for non-NCUSIF insured credit unions was July 1, 1982, and the coverage deadline is July 1, 1983. At the end of 1982, seven Connecticut state chartered credit unions have still to qualify for NCUSIF insurance.

Rhode Island — Share insurance coverage for state chartered credit unions is now limited to the NCUSIF and the Rhode Island Deposit and Share Indemnity Corporation (formerly provided for other approved insurers). The coverage deadline was January 2, 1982. As of December 31, 1982, all Rhode Island state chartered credit unions are insured by the NCUSIF or the Rhode Island Deposit and Share Indemnity Corporation.

Based on the enactment of these bills and previous state and Federal legislation, there should be fewer than 500 uninsured credit unions in the United States in 1983. In all, 43 states and the Commonwealth of Puerto Rico now require some form of share insurance. The current state share insurance requirements are summarized as follows:

Mandatory Coverage By The National Credit Union Share Insurance Fund

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

Mandatory Coverage By State Share Insurance Fund

*Florida	Puerto Rico
Maryland	Wisconsin

* Except for credit unions insured by NCUSIF prior to January 1, 1975.

Mandatory Coverage By The National Credit Union Share Insurance Fund Or Other Approved Insurance/Guaranty Funds

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

Idaho	New Hampshire
Indiana	Oklahoma

NCUA is the largest insurer of credit union shares but there are sixteen State chartered insurance or guaranty corporations which insure 3,156 credit unions with shares in excess of $12.1 billion. This compares to 3,084 credit unions and $10.3 billion in 1981. These sixteen insurers are as follows:

No Share Insurance Requirement

Summary of State Chartered 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
Connecticut Credit Union Share Insurance Corporation 1268 Main Street Suite 104 Newington, Connecticut 06111	1973	1% of shares
Florida Credit Union Guaranty Corporation 8000 South Orange Avenue Suite 108 Orlando, Florida 32809	1975	1/2 of 1% of net guaranteed
Georgia Credit Union Deposit Insurance Corporation 2990 Brandywine Road Suite 220 Atlanta, Georgia 30341	1974	1% of first million of shares 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	1% of shares and deposits
National Deposit Guaranty Corporation 555 Metro Place, North Sutie 185 Dublin, Ohio 43017	1974	1% of shares
Nebraska Depository Institution Guaranty Corporation 1644 Woodmen Tower Omaha, Nebraska 68102	1978	1% of shares, savings, and deposits
New Mexico Credit Union Share Insurance Corporation Post Office Box 239 Los Alamos, New Mexico 87544	1973	1% of share and deposit balances
North Carolina Savings Guaranty Corporation Post Office Drawer 2688 Raleigh, North Carolina	1967	1.25% of insured savings

Summary of State Chartered 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	9	$ 441,005,500	California
1/12 of 1% of shares	$100,000	0	—	Connecticut
1/20 of 1% of funds guaranteed	$100,000	207	$ 592,000,000	Florida
1/12 of 1% of shares, deposits, and dividends payable	$100,000	130	$ 450,000,000	Georgia
None	$100,000	28	$ 376,938,000	Maryland
1/12 of 1% of shares deposits	Full account limit	237	$1,913,046,264	Massachusetts
1/12 of 1% of shares	No limit	404	$1,300,000,000	Ohio, West Virginia, Illinois, Nevada, California, Minnesota, Arizona, Indiana, Idaho, Missouri
1/10 of 1% of shares, savings, deposits, and certificates of indebtedness	$ 30,000	2	$ 450,000	Nebraska
1/12 of 1% of total share and deposit balance	$100,000	0	—	New Mexico
1/12 of 1% of insured saviangs	$100,000	24	$ 723,201,000	North Carolina

Summary of State Chartered Credit Union Share Insurance/ Guaranty Corporations

Name and Address	Year Incorporated	Membership Deposit (Capitalization)
Rhode Island Share and Deposit Indemnity Corporation 1060 Park Avenue Cranston, Rhode Island 02910	1969	1% of total insurable deposits
Secured Savings Credit Union of Kansas 8410 West Highway 54 Wichita, Kansas 67209	1975	1% of insured savings
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 WCVL 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		

NOTE:
Information on number of credit unions insured and amount of savings insured is as of December 31, 1982, unless otherwise indicated. The Connecticut and New Mexico corporations discontinued operations during 1982.

SOURCE:
International Share and Deposit Guaranty Association
2990 Brandywine Road, Suite 220, Atlanta, Georgia 30341

Summary of State Chartered 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	57	$ 551,690,147	Rhode Island
1/10 to 1/20 of 1% of savings depending on the solvency of the credit union	$100,000	0	0	Kansas
1/12 of 1% of savings capital	$100,000	454	$ 930,000,000	Kansas, Missouri, Tennessee
1/10 of 1% of insured savings	$100,000	396	$1,402,300,000	Texas
1/20 of 1% of shares and deposits	Full account except $100,000 for corporate	171	$ 325,000,000	Utah
1/12 of 1% of shares	$100,000	120	$ 178,612,000	Virginia
1/18 of 1% of shares	$100,000	159	$ 765,118,731	Washington
1/12 of 1% of savings capital	$100,000	585	$2,200,000,000	Wisconsin
Set by Board of Directors	$ 40,000	173	$ 388,960,419 (as of 6/30/82)	Puerto Rico
		3,156	**$12,141,417,061**	

FINANCIAL RESULTS

Fiscal year 1982 marked the 12th consecutive year of positive net income for the National Credit Union Share Insurance Fund. However, net income of $3.1 million was the lowest in the Fund's history. As a result, total equity rose to $177.9 million, but the ratio of equity to insured shares ratio fell to .26 percent from about .30 percent at the previous year end.

While this overall result was below expectation, there were positive accomplishments in many areas of the Fund's operations.

Income Up Due to Special Assessment

Total income of $95 million in fiscal year 1982 was about $33 million (or 52 percent) greater than the previous year. The special premium of 1/18 of 1 percent assessed in July provided $30 million of this increase and the regular premium provided the remaining amount.

The 7.4 percent increase in regular premium from 1981's, slightly exceeded the average industry share increase in 1981. This suggests that NCUA's share of the total credit union insurance market increased slightly even though the number of insured credit unions has declined each year since 1979 to a total of 16,466 at December 31, 1982.

Until 1982 investment income had been providing an increasing percentage of total income reaching a peak of 30.5 percent in 1981. Income from investments declined $1.4 million or 8 percent which resulted from the fall in short term interest rates in 1982. Investment income of 19.8 percent of total income was the lowest percentage since 1978.

Other income of $1.3 million was primarily realized from interest on loans repurchased from credit unions and from fees charged to credit unions with special assistance.

Expenses Increase Due to Loss Provisions

Total expenses rose 73 percent in fiscal year 1982 to a total of $91.9 million. Operating expenses which cover personal, travel and other administrative costs have two components. Direct expenses are for the employees and travel costs of the Washington and Regional Office staffs whose responsibilities are totally with Fund activities. The second category is a transfer representing an allocation of all other NCUA personnel and travel costs. Over the past five fiscal years, the amount and percent of this transfer is as follows:

Fiscal Year	1978	1979	1980	1981	1982
$ Amount (000's)	$3,568	$4,165	$6,187	$7,069	$7,940
Transfer % of Total NCUA Operating Expenses	19%	19%	24%	23%	25%

The basis for this transfer is that a portion of each NCUA employee's time is directly involved with Fund responsibilities. Moreover the 5,036 state chartered credit unions comprised 34 percent of insured shares at year end. NCUA personnel review examinations from state supervisors and prepare Early Warning Ratings, the credit unions file semi-annual Financial and Statistical reports for monitoring by NCUA, and the NCUA examination and special action staff work directly with state supervisors in the examination and supervision on all weak or failing credit unions. The distribution of costs is based on time allocation by examiners and workload monitoring (liquidations and mergers) and is made so that the cost of insurance is fairly borne by all insured credit unions. This allocation is reviewed each year during the NCUA's annual budget process. For fiscal year 1983, the transfer rate was again established at 25 percent.

The direct operating costs for the Fund increased 32 percent from $2.2 million to $2.9 million. Over half of this increase was for contractual costs including loan collections, cash management services and for consulting services by several accounting firms. All of these services were completed in fiscal year 1982 or in the case of loan collections are being phased out in fiscal year 1983.

The second category of costs is losses from insured credit unions which includes all of the expense related to problem credit unions. The total of $79.2 million was 80 percent greater than in fiscal year 1981. The primary reason for this increase was two loss provisions established during fiscal year 1982. The first provision was for probable losses of $14.1 million on total advances of $27 million in the form of capital notes, share deposits, loans and purchase of bond claims. The second provision was for $15.6 million and reflects estimated losses on guarantees issued by the Fund for merger assistance and to facilitate loan sales. These two provisions totalling $29.7 million, account for 84 percent of the increase in losses from insured credit unions.

The other major increase of costs was for merger expenses. This $5.0 million increase was due to the much greater merger activity (626 vs. 333) as compared to the prior year.

Liquidation expense, the final major cost category, showed a decline in fiscal year 1982 of $4.6 million. This decrease is due primarily to the decline in liquidations from 251 in fiscal year 1981 to 160 in fiscal year 1982. The primary reason for this reduction was a change in NCUA Board policy that allowed Federal credit unions greater merger flexibility; therefore merger rather than liquidation was used to resolve many problems that in prior years would have been liquidated.

Another new cost is the loss on sale of investments. These losses are incurred as part of a two year program to bring the Fund's investment portfolio's book value to 100 percent of market. As described in the investment review this will be accomplished by a managed sale of approximately $41.9 million of long-term investments.

Net Income

The $3.1 million of net income was the smallest gain in both absolute and relative terms in the Fund's history. While this result is less than the 1% goal would require, the quality of this year's earnings and the financial condition of the Fund have been improved substantially. Because of changes recommended by the audit, the Fund's results will more accurately reflect the events in each accounting period and there will not be an overhang of contingencies causing uncertainty about the Fund's current financial strength.

Balance Sheet

The most significant changes in the Fund's balance sheet are the increase in investments totalling $35.7 million, and the establishment of the two loss provisions for advances to credit unions ($14.1 million) and for guarantees ($15.6 million) which have been discussed earlier.

Title II of the Federal Credit Union permits the Fund to invest only 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 one-day certificates, bills and bonds. Also, the Fund holds approximately $1.2 million of other government securities acquired during the merger of an insured credit union. The investment portfolio increased during fiscal year 1982 from $162 million to $197.7 million, or 22 percent. The average weighted yield for the portfolio was 10.25 percent for fiscal year 1982, compared to 11.5 percent for fiscal year 1981 and 8.6 percent for fiscal year 1980.

The primary objective of the Fund is to remain liquid, then to manage the portfolio within the established maturity limits to obtain maximum yield. In March of 1982, the investment strategy was modified to bring the portfolios book value as close to market as possible by reducing investments to a maximum maturity of six months and to improve yield by more actively managing short term Treasury Bill investments. To bring the portfolio to a position where book would equal market value, a two year program was begun to sell intermediate and long-term securities. The program is to be completed by March 31, 1984, but is flexible so that the amount of monthly sales could vary depending on market conditions. The management of these sales is designed to minimize losses while achieving maximum liquidity. The decision to begin a managed sale of securities was based on the judgment that a forced sell off to meet an unexpected liquidation or other liquidity need could cause an unusual or even greater loss than a managed restructuring. As of March 31, 1982, when the program started, the book value of long-term securities was $41.9 million which was approximately $11.5 million below the then market value. Between April and September 30, 1982, $11.2 million of these securities have been sold at a loss of $1.8 million.

Additionally, the management of short-term investments has been intensified. During fiscal year 1981, short-term funds were invested solely in one day Treasury certificates. This approach reflected the high level of short-term interest rates that characterized this period. In February 1982, the Fund began to reduce the overnight investments and purchase Treasury Bills with maturities evenly distributed over six months. This change was initiated in anticipation of the declining interest rate environment and has resulted in an increase in overall portfolio earnings of more than $400,000 than would have been earned if investments had been restricted to the previous one day limit.

Maturity Schedule of Investment Portfolio at September 30, 1982

Maturity	(Book Value)	Percent of Portfolio	Fiscal Year 1981 Percent of Total Portfolio
Overnight	$ 12,238,000	6.2%	54.0%
Less than 1 year	$143,684,000	72.7%	2.7%
1-3 years	$ 16,355,000	8.3%	21.3%
3-5 years	$ 11,222,000	5.7%	14.0%
Over 10 years	$ 14,157,000	7.1%	8.0%
Total	**$197,656,000**	**100.0%**	**100.0%**

Investment Portfolio at September 30, 1982

Investment	Book Value	Percent of Total Portfolio	Yield**
U.S. Treasury Bills	$148,201,000	74.9%	10.80%
U.S. Treasury Notes	$ 34,804,000	17.6%	7.26%
U.S. Treasury Bonds	$ 13,352,000	6.8%	7.54%
Other Government Securities	$ 1,299,000	.7%	8.53%
Total	**$197,656,000***	**100.0%**	**9.90%****

* The book value of the investment portfolio exceeded the market value by approximately $5,431,000, as of September 30, 1982.

** Represents the weighted average yield of the portfolio for September.

Fund Balance or Net Equity

The Fund's equity is the reserve from which losses beyond established allowances and the current period's income are charged. The Fund's ratio of equity to insured shares has ranged from a low of .05 percent in fiscal year 1971 to a high of .32 percent in fiscal year 1979. The goal of the Board is to increase this ratio to 1% in as orderly and timely manner as possible. From this perspective, the gain of $3.1 million was a disappointment but the overall quality of the Fund's financial position has been improved by the changes in the accounting for contingencies and the increase from 93 percent to over 98 percent in the market to book value ratio of the Fund's investments.

Contingencies

For the first time in the Fund's history, contingent liabilities have been reduced from $171.7 million at September 30, 1981 to $149.1 million fiscal year end 1982. The reduction is due to the closing of some contracts and due to a reduction in the number of new contracts. One of the remaining accounting issues is how to accurately estimate possible losses on the remaining $48.8 million which consists of all reserve guaranty accounts. Once this is completed, the cost of contingencies will all have been recorded on a full accrued basis.

Cash Management

During this fiscal year, the Department of Insurance tested an improved cash management system whereby funds from the sale of assets are wired by the purchaser directly to a national account which enables the Fund to invest these proceeds more promptly. This change was implemented in all regions in October. All expenditures associated with liquidation are also now made from the national zero balance checking account which allows the Fund to retain minimal balances in regional checking accounts and to maximize the use of funds because disbursements are not made until checks have cleared. A third phase provides for the automatic transfer of excess funds from the regional checking accounts to the national concentration account.

REPORT OF ERNST & WHINNEY, INDEPENDENT AUDITORS

National Credit Union Administration Board
Washington, D.C.

We have examined the balance sheet of the National Credit Union Share Insurance Fund (Fund) as of September 30, 1982. 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, except as explained in the following two paragraphs. At your request, we did not extend our auditing procedures to enable us to express an opinion on the consistency of application of accounting principles with the preceding year.

As explained in Note C, the Fund considers it impracticable to accumulate the information necessary to provide for (1) losses relating to credit unions identified as experiencing financial difficulties but not receiving cash assistance from the Fund at September 30, 1982, or (2) 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.

As explained in Note B, at September 30, 1982, the Fund has provided for estimated losses on asset and merger guarantees using historical guarantee loss experience ratios based primarily on contracts executed prior to late 1981. Because the Fund changed the provisions of subsequently executed asset and merger guarantee contracts starting in late 1981 and has not developed sufficient historical loss experience under these contracts to date, we were unable to satisfy ourselves as to such estimated losses.

In our opinion, except for the effects of such adjustments as might have been determined to be necessary had the Fund developed the information necessary to provide for certain losses referred to in the second preceding paragraph and to support the provision for losses referred to in the preceding paragarph, the balance sheet referred to above presents fairly the financial position of the National Credit Union Share Insurance Fund at September 30, 1982, in conformity with generally accepted accounting principles.

The accompanying balance sheet of the Fund as of September 30, 1981, and the statements of operations and fund balances for the years ending September 30, 1982 and 1981 were not audited by us and, accordingly, we do not express an opinion on them. The September 30, 1981 balance sheet and the 1981 statement of operations and fund balance do not include provision for (1) losses on advances to credit unions, (2) losses relating to credit unions identified as experiencing financial difficulties but not receiving cash assistance, (3) any loss in excess of the amount of outstanding cash assistance with respect to those credit unions receiving cash assistance, or (4) estimated losses on asset and merger guarantees. The 1982 statement of operations and fund balance does not include provision for losses referred to in items (2) and (3) of the preceding sentence. 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 these departures from generally accepted accounting principles.

Ernst & Whinney

Washington, D.C.
February 15, 1983

Balance Sheets

National Credit Union Share Insurance Fund

	September 30	
	1982	1981 (Unaudited)
ASSETS		
Investments - Note D		
U.S. Government Securities	**$196,357,134**	$160,551,546
Securities Purchased from Credit Unions	**1,298,865**	1,416,354
Total Investments	**197,655,999**	161,967,900
Accrued Interest Receivable	**892,692**	1,337,616
Estimated Liquidation Value of Credit Union Assets Held	**11,318,384**	19,313,250
Advances to Credit Unions		
Share Deposits	**11,150,828**	7,537,859
Capital Notes	**5,647,597**	—
Amounts Due from Bond Claims	**8,521,284**	9,818,048
Real Estate Loans	**854,845**	—
Other Loans	**803,326**	850,000
Merger Assistance	**—**	500,000
Total	**26,977,880**	18,705,907
Less: Allowance for Possible Losses	**14,097,983**	—
	12,879,897	18,705,907
Loans Acquired Under Guarantee Agreements	**3,006,227**	3,533,132
Cash	**416,960**	236,103
Other Assets	**682,010**	216,435
TOTAL ASSETS	**$226,852,169**	**$205,310,343**
LIABILITIES AND FUND BALANCES		
Due to NCUA - Note G	**$ 8,948,773**	$ 5,956,995
Amounts Due to Insured Credit Union Shareholders	**9,608,316**	13,560,727
Mortgage Payable - Note E	**2,275,294**	—
Deferred Insurance Premium Income	**11,350,746**	10,735,242
Estimated Losses on Asset and Merger Guarantees - Note C	**15,600,000**	—
Other Liabilities	**1,148,243**	280,051
TOTAL LIABILITIES	**48,931,372**	**30,533,015**
Fund Balance - Note C	**177,920,797**	174,777,328
TOTAL LIABILITIES AND FUND BALANCE	**$226,852,169**	**$205,310,343**

See Notes to Financial Statements

Statements of Operations and Fund Balances

National Credit Union Share Insurance Fund

	Year Ended September 30	
	1982 (Unaudited)	1981 (Unaudited)
REVENUE		
Insurance Premiums		
Federal	**$ 49,076,474***	$ 27,657,286
State	**25,723,317***	14,077,239
Total Insurance Premium Income	**74,799,791**	**41,734,525**
Income From Investments		
U.S. Government Securities	**18,357,534**	19,032,776
Share Deposits in Credit Unions	**432,834**	771,538
Securities Purchased from Credit Unions	**106,803**	128,584
Total Income from Investments	**18,897,171**	**19,932,898**
Interest on Loans		
Loans Purchased from Credit Unions	**985,606**	488,634
Loans Made to Credit Unions	**23,701**	89,238
Total Income from Interest on Loans	**1,009,307**	**577,872**
Miscellaneous Income	**334,797**	176,969
TOTAL REVENUE	**95,041,066**	**62,422,264**
EXPENSES		
Operating		
Personal Services	**6,603,210**	5,630,110
Employee Benefits	**675,548**	540,106
Employee Travel	**1,075,064**	1,015,650
Rent, Communication, Utilities	**1,134,501**	950,466
Administrative Costs	**504,227**	611,754
Contracted Services	**834,639**	565,750
Other	**(13,793)**	—
Total Operating Expenses	**10,813,396**	**9,313,836**
Loss from Insured Credit Unions		
Merger of Credit Unions	**17,372,021**	12,001,925
Liquidation of Credit Unions	**22,972,304**	27,648,021
Provision for Losses on Advances to Credit Unions	**14,097,983**	—
Provision for Estimated Losses on Asset and Merger Guarantees	**15,600,000**	—
Losses on Assets Acquired	**7,323,523**	4,095,517
Collection	**1,820,484**	119,401
Other	**92,295**	—
Total Loss from Insured Credit Unions	**79,278,610**	43,864,864
Loss on Sale of Investments	**1,805,591**	—
TOTAL EXPENSES	**91,897,597**	**53,178,700**
EXCESS OF REVENUE OVER EXPENSE	**3,143,469**	9,243,564
Fund Balances at Beginning of Year	**174,777,328**	165,620,192
Prior Period Adjustments	**—**	(86,428)
Fund Balances at End of Year	**$177,920,797**	$174,777,328

* 1982 Insurance Premiums include revenue from the regular premium and the special premium assessment.

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

NATIONAL CREDIT UNION SHARE INSURANCE FUND

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 currently $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, namely 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 to or purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may 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 States Government securities or securities guaranteed as to both principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount.

Estimated Liquidation Value of Credit Union Assets Held: When a decision is made to liquidate a credit union, the Fund records the estimated amount recoverable from liquidation of the credit union's assets and a corresponding estimated loss on liquidation. In addition, to assist in the merger of certain credit unions, the Fund may purchase certain credit union assets. These are recorded at net realizable value.

Advances to Credit Unions: The Fund provides cash to certain credit unions to assist them in continuing operations. Such cash assistance is made in the form of share deposits, capital notes, or purchase of certain assets, including bond claims, real estate and other loans. Cash assistance may or may not be interest-bearing. An estimated allowance for losses against such advances was provided for the first time at September 30, 1982, based upon the Fund's evaluation of the recoverability of each advance.

Loans Acquired under Guarantee Agreements: Loans acquired from third-party purchasers under guarantee agreements are carried at estimated net realizable value which is computed based upon experience with similar asset guarantees.

Estimated Losses on Asset and Merger Guarantees: Losses on asset (primarily loan) guarantees made to third-party purchasers or made to credit unions to facilitate mergers are estimated using historical guarantee loss experience ratios based primarily on contracts executed prior to late 1981, applied to year-end outstanding guarantee balances which totaled $100 million at September 30, 1982. The Fund provided an estimate for such losses for the first time at September 30, 1982.

Deferred Insurance Premiums Income: The Fund assesses each insured credit union a regular annual premium of 1/12 of one percent of member share accounts as of December 31 of the preceding year. Premiums collected are taken into income ratably during the calendar year for which they were assessed. Premiums collected but not yet taken into income are classified as deferred income.

Under certain conditions, the Fund is permitted by statute to assess an additional premium to insured credit unions not to exceed the regular annual premium. These premiums are taken into income in the fiscal year in which they are assessed.

NOTE C — RISK OF LOSS FROM SUPERVISED CREDIT UNIONS

The Fund insures approximately $65 billion of credit union member share accounts maintained at approximately 17,000 credit unions. At September 30, 1982, approximately 1,200 insured credit unions with approximately $4.6 billion of share accounts have been identified through the NCUA supervisory and examination process (as discussed in Note A) as experiencing financial difficulties. Certain of these credit unions are being subjected only to increased supervision. Others are receiving special assistance from the Fund in the form of reserve requirement waivers, reserve guaranties, and cash assistance. Under the special assistance program, at September 30, 1982, the Fund has outstanding noncash reserve guaranties of approximately $48 million and Board authorization for additional cash advances through capital notes of approximately $20 million. Credit unions experiencing more severe financial problems, that are not considered to be able to continue operations, are in process of merger or liquidation.

As discussed in Note B, the Fund records assets acquired from credit unions in liquidation at estimated net realizable value, provides an estimated allowance for losses on advances to credit unions under the cash assistance program, and provides an estimate for losses on asset and merger guarantees. However, since the Fund considers it impracticable to accumulate the necessary information, the Fund does not attempt to estimate potential losses from (1) credit unions identified as experiencing financial difficulties but not receiving cash assistance, or (2) credit unions receiving cash assistance 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.

NOTE D — INVESTMENTS

Investments consisted of the following at September 30, 1982:

	Cost	Market Value
U.S. Government securities		
U.S. Treasury bills	$148,200,961	$148,200,961
U.S. Treasury notes	34,804,177	32,440,455
U.S. Treasury bonds	13,351,996	10,365,574
	196,357,134	**191,006,990**
Israel notes, 9.75%, due 1994	1,298,865	1,060,800
	$197,655,999	**$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 is payable in full on January 10, 1985, with extension to January 10, 1987 at the option of the Fund. The mortgage bears interest at the prime rate subject to a minimum rate of 12% and a maximum rate of 17%.

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 borrowings were outstanding from these sources at September 30, 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 of services.

NOTE H — RETIREMENT PLAN

Employees of the Fund participate in the Civil Service Retirement System which is a contributory defined benefit retirement plan. Contributions to the Plan are based on a percentage of employees' gross pay.

NATIONAL CREDIT UNION SHARE INSURANCE FUND TWELVE 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 Liabiities 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
Insured Shares						
Federal Credit Unions	$25,576	$29,802	$31,831	$36,263	$37,788	$45,491
State Credit Unions	11,756	14,316	15,871	18,468	20,006	23,152
Total Insured Shares	$37,332	$44,118	$47,702	$54,731	$57,794	$68,643
Number of Member Accounts In Insured Credit Unions						
Federal	20,426	23,259	24,789	26,829	28,595	26,095
State	8,995	11,479	12,218	13,679	14,657	13,160
Total	29,421	34,738	37,007	40,508	43,252	39,255
Number of Insured Credit Unions (whole numbers)						
Federal	13,000	13,050	13,000	12,802	12,367	11,430
State	3,882	4,362	4,769	4,910	4,994	5,036
Total	16,882	17,412	17,769	17,712	17,361	16,466
State Credit Union Shares as a Percentage of Total Insured Shares	31.5%	32.4%	33.3%	33.7%	34.6%	33.7%
NCUSIF Insured Shares as a Percentage of all Credit Union Shares	80.3%	82.4%	83.0%	83.3%	81.5%	82.9%

	Fiscal Year 1977	Fiscal Year 1978	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982
Income						
Regular Premium - Federal	$17,053	$20,013	$23,563	$25,682	$27,657	$29,657
Regular Premium - State	7,572	9,617	11,616	12,813	14,077	15,197
Special Premium - Federal	—	—	—	—	—	19,419
Special Premium - State	—	—	—	—	—	10,526
Investments	5,447	7,051	9,178	13,319	19,033	18,897
Other	322	715	1,579	1,718	1,655	1,343
Total Income	$30,394	$37,396	$45,936	$53,532	$62,422	$95,039
Expenses						
Operating	$ 4,725	$ 5,175	$ 5,873	$ 8,332	$ 9,314	$10,827
Merger	—	—	—	$ 9,670	$12,002	$17,372
Liquidation	3,025	2,557	4,709	20,131	27,648	22,972
Provision for loss on assistance	—	—	—	—	—	37,022
Loss on Investment Sales	—	—	—	—	—	1,805
Other	730	613	1,665	2,730	4,215	2,175
Total Expenses	$ 8,480	$ 8,345	$12,247	$40,863	$53,179	$91,896
Net Income	**$21,914**	**$29,051**	**$33,689**	**$12,669**	**$ 9,243**	**$ 3,143**
Total Equity	**$89,870**	**$118,921**	**$152,610**	**$165,620(5)**	**$174,777**	**$177,920**
Equity as a percentage of Insured Shares	0.241%	0.270%	0.320%	0.303%	0.302%	0.259%
Contingent Liabilities	**$ 6,488**	**$10,213**	**$18,913**	**$100,463**	**$171,716**	**$149,090**
Contingent Liabilities as a Percentage of Equity	7.2%	8.6%	12.4%	60.7%	98.2%	83.8%

(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.

	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 %

** 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.

(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
Operating Ratios						
Premium Income as a Percentage of Total Income	81.0 %	79.2 %	76.6 %	71.9 %	66.9 %	78.7 %
Investment Income as a Percentage of Total Income	17.9 %	18.9 %	20.0 %	24.9%	30.5 %	19.8%
Operating Expenses as a Percentage of Total Income	15.5 %	13.8 %	12.8 %	15.6 %	14.9 %	11.3 %
Liquidation and Merger Expense as a Percentage of Total Income	9.9 %	6.8 %	10.3 %	55.7 %	63.5 %	42.2 %
Total Expense as a Percentage of Total Income	27.9 %	22.3 %	26.7 %	76.3 %	85.2 %	96.7%
Net Income as a Percentage of Total Income	72.1 %	77.7 %	73.3 %	23.7 %	14.8 %	3.3 %

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

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 NCUSIF 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; Ausin, Texas; and San Francisco, California. The regional offices have primary responsibility for administration of the examination and supervison 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 FCU 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
Richard Frick, Director, Division of Liquidations and Asset Management
Michael Riley, Director, Division of Risk Management and Supervisory Actions

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

REGIONAL OFFICES

Region I (Boston)

Bernard M. Ganzfried
Regional Director
441 Stuart Street, 6th Floor
Boston, Massachusetts 02116
(617) 223-6807

Region II (Capital)

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

Region III (Atlanta)

Stephen W. Raver
Regional Director
1365 Peachtree Street, N.E.,
Suite 500
Atlanta, Georgia 30367
(404) 881-3127

Region IV (Chicago)

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

Region V (Austin)

J. Leonard Skiles
Regional Director
611 East 6th Street, Suite 407
Austin, Texas 78701
(512) 482-5131

Denver Sub Office
LEA COMPLEX
10455 East 25th Avenue
Aurora, Colorado 80010
(303) 837-3795

Region VI (San Francisco)

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

NCUA REGIONAL OFFICE BOUNDARIES

NOTE: Federal Credit Unions in Puerto Rico and the Virgin Islands are included in Region I; Canal Zone in Region III; and Alaska, Hawaii, Guam and American Samoa in Region VI.

National Credit Union
Administration
Washington, D.C. 20456

OFFICIAL BUSINESS
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PERMIT No. G-88

TO

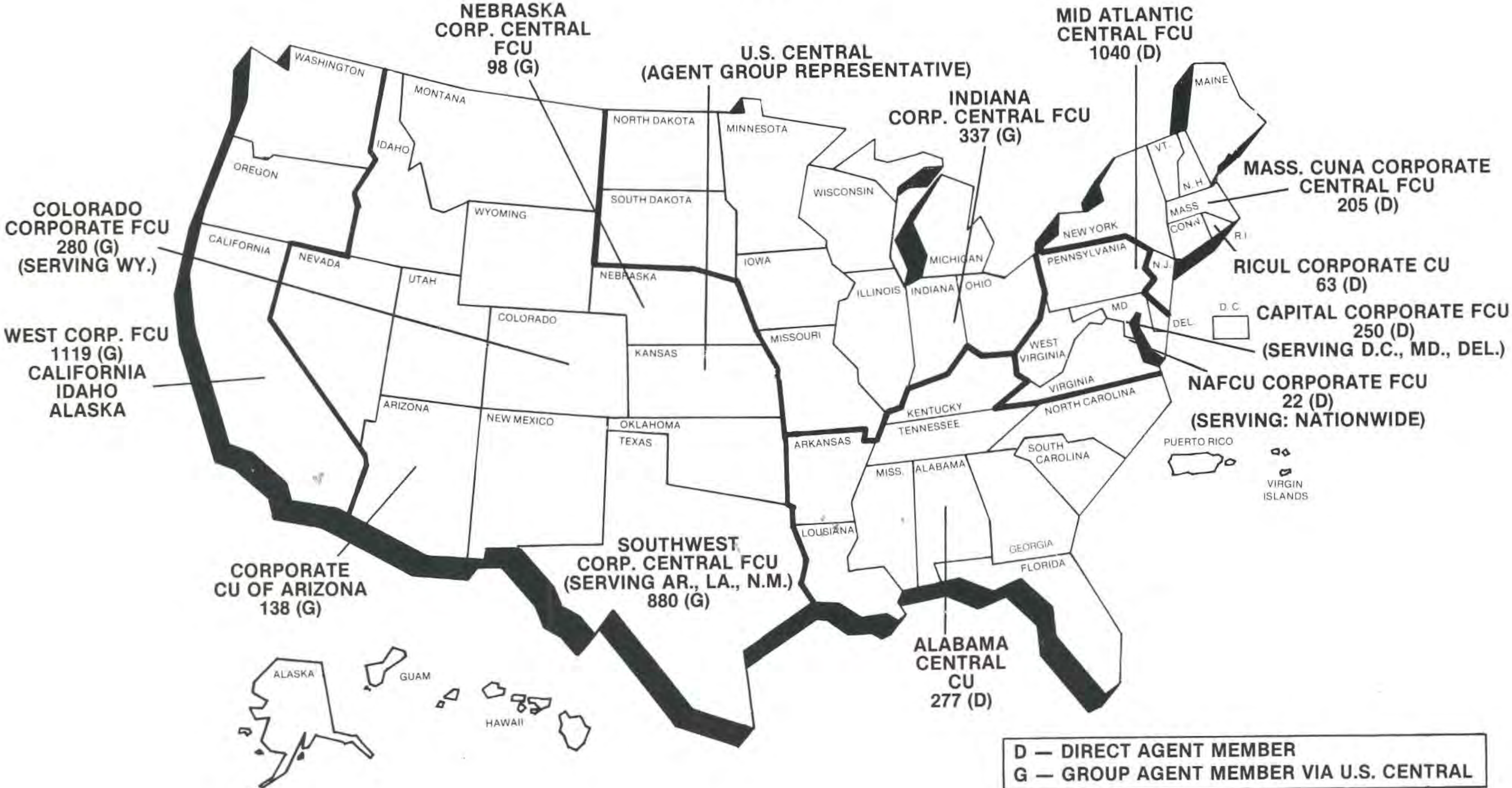
ANNUAL FINANCIAL REPORT

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

FISCAL YEAR 1982
OCTOBER 1, 1981 - SEPTEMBER 30, 1982

CLF MEMBERS VIA CORPORATE AGENTS
AS OF SEPTEMBER 30, 1982

TOTAL: 4709



NOTE:
On October 13, 1982, the NCUA Board approved Constitution State Corporate credit union as an agent member. This new agent will provide an additional 400 credit unions in Connecticut with access to the CLF.

FINANCIAL HIGHLIGHTS

CENTRAL LIQUIDITY FACILITY

	1982	1981	% Change
Operating Results			
Operating Net income (before tax)	**$ 7,871,000**	$ 8,338,000	− 6%
Dividends	**7,853,000**	8,196,000	− 4%
Net Earnings and Additions to Reserves*	**1,164,000**	96,000	+1,212%
** (After tax provision. See footnote 10)*			
At Fiscal Year End			
Total Assets	**$221,422,000**	$185,916,000	+19%
Total Member Shares & Deposits	**88,984,000**	81,473,000	+ 9%
Total Loans	**130,479,000**	101,025,000	+29%
Total Employees	**9**	13	
Total Members: via Agents (credit unions)	**13(4,709)**	13(4,993)	
Direct	**567**	582	

Chairman's Letter to Shareholders:

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

During fiscal year 1982 the CLF continued its growth as a partner with credit unions in the evolution of the U.S. Credit Union financial system. The decision in May by the Attorney General of the United States that the borrowings of the CLF have the full faith and support of the U.S. Government was a vital step in the progress of the system. Credit unions can now have the confidence of knowing that should a crisis occur individually or collectively, funds are available using the credit standing of the U.S. Government.

A specific example of the development in our partnership during the year was the steady increase in net funds contributed to credit unions. At September 30, 1982, credit unions had received, through CLF loans and investments, over $53 million more in funds than they had contributed in capital and deposits. This was by far the largest net contribution in our 3 year history. A major factor in this increase was the lending activity developed at the suggestion of our Corporate Agents to assist credit unions holding non earning receiver's certificates from the failed Penn Square Bank in Oklahoma City. This effort detailed in the Report, helped a number of credit unions to begin the rebuilding of reserves and earnings which had been adversely impacted by their Penn Square investment losses.

As mentioned last year, a major goal of the CLF was to develop a dialogue with credit unions concerning the CLF's most useful role in the credit union financial system. The Annual and Quarterly Reports to members, our first Annual Meeting in February, the sessions with the members of the Capitalization Commission, and meetings with NAFCU, CUNA and the Corporate Forum represent some of our efforts at exchanging ideas.

Our goal in Fiscal Year 1983 is to continue this exchange to ensure that the CLF contributes as a full partner in terms of membership and in terms of using our lending authority within the credit union system to accelerate recovery, improvement, and change wherever temporary assistance might be needed in today's deregulated market place.

E. F. Callahan

E. F. Callahan
December 1, 1982

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 SUMMARY

The CLF's 1982 operating income of $11.2 million before dividends and provision for loan losses was an increase of 18.5% compared to the previous year's results.

In FY 1982 the NCUA Board authorized the establishment of a reserve entitled "Allowance for Loan Losses." The Reserve is maintained by setting aside 5% of gross income each month as an expense. This action was taken recognizing that CLF activities are not completely risk free. Should a loss ever occur on lending activities, the Board believed that the most prudent way to meet this contingency would be from accumulated earnings rather than requiring a current period expense which might dramatically reduce or eliminate dividends. The method of reserving from gross income was consistent with credit union procedures for establishing reserves. The 5% rate of reserving was based on the fact that the CLF had a very low level of net worth after the first two years' operations, that CLF lending could be, by statute, up to 12 times the shares purchased, and that CLF loans have tended to be very large and concentrated in credit unions with sometimes severe, albeit temporary, financial difficulties. At September 30, $1.1 million had been set aside from FY 1982 gross income.

Forty seven percent of total income in FY 1982 came from loans 53% from investments or about the same percentages as in the prior year. In addition to the 5% reserve allowance, operating expenses were impacted by the one time write off of $645,634 in deferred charges which were recorded as an asset as of September 30. This amount represented the unamortized portion of charges that were capitalized in CLF's organizational phase. The items included establishing data processing support at a service bureau, consulting services, software acquisition, installation and testing of systems, and the writing of operating manuals.

The writeoff of the remaining balance from the original five year amortization schedule was caused by the transfer of CLF's data processing to NCUA's in-house computer. This change, in addition to providing more timely reports, will also save the CLF over $180,000 annually in data processing charges.

Excluding these two items the remaining operating expenses of $1,271,000 were 5.6% of total income, the same level as in FY 1981.

Dividends on share and deposits of $9.4 million resulted in an average return on capital of 11.3% for the fiscal year. This distribution of net earnings in dividends after all expenses and taxes exceeded 99% of the available net income. The per annum dividend rates paid per quarter on shares for the past two years is as follows:

Quarter Ending	1982	1981
1st Qtr - 12/31	13%	10%
2nd Qtr - 3/31	11.25%	12%
3rd Qtr - 6/30	11.25%	13%
4th Qtr - 9/30	9.7 %	15%
Fiscal Year Average	**11.3 %**	**12.5%**

Balance Sheet

The 19% or $35 million increase in total assets in FY 1982 was primarily due to the increase in loans. Loans as of September 30 were $28.2 million or 29% higher than at the prior year end. Members shares and deposits increased $7.5 million (9.2%) due to the increase in the shares of members of the CLF which is then reflected in the annual capital adjustment. Reserves and surplus of $1,348,000 at September equalled .6% of assets and 1.0% of loans. The comparable percentages for FY 1981 were .1% and .2% respectively.

MEMBERSHIP

The CLF is open to all Federal and State Credit Unions. At fiscal year end 1982, a total of 5276 credit unions had access to the facility either directly or through a CLF agent member.

CLF Membership Totals

	September 30, 1982	September 30, 1981
Direct Members:	567	582
VIA Agents:	(13) 4709	(13) 4993
Total Credit Unions	5276	5580

The decrease in direct membership was a result of 6 credit unions who transferred from direct members to members through a CLF agent. In addition, 25 credit unions withdrew from membership primarily due to mergers. Of the sixteen new members received during the year, 14 were federal credit unions and two state chartered. New members were located in three states. The average assets of the new members was $9.2 million with the smallest credit union assets equalling $500,000 and the largest $41.1 million.

CLF members' total assets of $40.4 billion are equal to approximately 54% of total credit union assets.

CLF Members' Total Assets

Direct Members:	$10.7 Billion
Corporate Agent Member:	$29.7 Billion
Total:	$40.4 Billion

The categorization of CLF direct members among different asset categories compared to distribution by size of all credit unions shows that larger credit unions tended to join the CLF directly. Credit unions with assets under $1.0 million have a much smaller percentage of direct membership than their percentage proportional of all credit unions.

CLF Regular Member Asset Distribution as of September 30, 1982

	Fed	State	Total	% Total	% of All CUs
Less than $1.0 million	92	28	120	21	61.1
$1 - 5 million	127	31	158	28	26.1
$5 - 10 million	79	15	94	17	6.0
$10 - 50 million	106	37	143	25	5.8
$50 - 100 million	26	9	35	6	.7
Over $100 million	13	4	17	3	.3
TOTAL	443	124	567	100%	100%

CLF Membership Activities

In January the CLF held its first annual shareholders meeting at NCUA headquarters in Washington, D.C. Five Corporate Agents and ten direct members were in attendance. The President reviewed the FY 1981 results and the first quarter of FY 1982 trends after which the meeting was opened to questions from the floor. Minutes of the meeting and a transcript of the questions and answers were later mailed to all shareholders.

In May the National Credit Union System Capitalization

Commission released its report. In addition to suggestions about increasing capital in natural person credit unions, the Report in Part II-D made three recommendations concerning the role of the CLF. Some of the recommendations were advisory in nature, several require legislative action by Congress, and a number have been implemented including the confirmation that CLF borrowings are supported by the "full faith and credit" of the U.S. Government which decision provides access to the Federal Financing Bank.

One of the concerns underlying several of the Commission's recommendations was stated as the "opportunity cost of CLF funding in the present economic climate." Since all of the specific recommendations on this issue required Congressional action, the CLF offered to accept government securities from credit unions to pay for the capital subscription of any potential member unable to meet the cash payment. After a transition period the securities would be repurchased with cash payments.

The CLF President was a participant on the Capitalization Committee. The dialogue continues with the Commission, trade associations and individual credit unions to identify what options would make CLF membership most easily available for the credit union community.

During fiscal year ending September 30, 1982, CLF officers made numerous presentations to credit unions and credit union groups throughout the country. The purpose of these visits and presentations was to establish a dialogue at the "grass root" level with members and potential members in order to acquaint the credit unions and league officials with CLF services and its role within the U.S. Credit Union financial system.

LENDING

Loans are available to credit unions directly or through an Agent Corporate member of the Facility. Assistance in special circumstances is also available to state share insurance funds.

Loans have also been granted, for the first time, directly to corporate credit union members (Agent Members). Such loans may be granted when, in the opinion of the NCUA Board, an event that is unusual in nature, such as the Penn Square Bank failure, can be "tied" to anticipated "down stream" liquidity needs of the corporate credit union's members.

Two forms of assistance, short term and protracted loans, were granted credit unions during fiscal year 1982. There were 25 loans totalling $81.7 million to 12 borrowers. In the prior year total advances were $67.6 million resulting in 47 loans to 15 borrowers.

FUNDING

During 1981, the Office of Management and Budget asked the CLF and other government entities to make plans to discontinue their reliance on the Federal Financial Bank (FFB), a corporation within the U.S. Treasury, and begin to fund all loans in the private capital markets. Accordingly, the CLF responded by developing a discount note program. The discount notes would have been short-term unsecured obligations sold to investors at a discount and repaid at full face value upon maturity. A key issue that arose in the preparation to go to market with the program was whether the discount notes were backed by the "full faith and credit" of the United States Government. This was critical since, under Administration policy, government entities which are "full faith and credit" must borrow from the FFB. The initial legal opinion reached by the Comptroller General which said that the discount notes did not carry the "full faith and credit" was reversed in May, 1982 by the U.S. Attorney General. The Attorney General ruled that the CLF is backed by the "full faith and credit" of the U.S. Government and that the Comptroller General reached an incorrect conclusion. Both the CLF and the FFB are bound by the Attorney General's opinion (see exerpt below). Therefore, the proposed CLF discount note program was cancelled.

The Attorney General's decision provides the CLF a unique role as a partner with credit unions in the creation of the U.S. Credit Union financial system. Access to capital markets with the credit standing of the U.S. Government assures credit unions of always having funds available at competitive rates and for any maturity at which the U.S. Government is able to borrow. This decision gives the CLF the capability of being a "lender of unfailing reliability" for whatever crises of confidence might impact credit unions, individually or collectively in raising funds in the market place.

The Federal Credit Union Act limits CLF's borrowings to twelve times its subscribed capital and surplus. Since the CLF is subject to the congressional appropriation Acts, the borrowing authority can be further limited by the appropriation process. For fiscal year 1982, Congress limited CLF's borrowing authority to $600 million. In addition, the Federal Credit Union Act permits the Secretary of the Treasury to lend the CLF up to $500 million to meet emergency liquidity needs of credit unions. Congress appropriated $100 million for this emergency line during fiscal 1982.

All loans drawn by members were financed by CLF borrowings from the FFB. The FFB borrows funds for federal agencies via the Treasury at U.S. Government rates and relends the funds at a spread of 1/8% to the CLF. All new loans drawn during 1982 were matched with borrowings at the FFB. A number of loans first granted under the CLF/National Credit Union Share Insurance protracted credit assistance programs were not originally matched to FFB borrowings resulting in a total yield for fiscal year 1981 below the overall cost of funds. During fiscal year 1982, the CLF opted to repurchase the long-term FFB borrowings and fund these protacted loans by a series of short-term draws from the FFB. This restructuring of CLF's financing strategy was accomplished in anticipation of a declining interest rate environment and has resulted in increasing the overall spread of the loan portfolio from a monthly negative spread of .38% as of February 1982 to a positive spread of .63% for September 1982.

U.S. Department of Justice

Office of Legal Counsel

Office of the
Assistant Attorney General

Washington, D.C. 20530

24 MAY 1982

MEMORANDUM OPINION FOR CHARLES FILSON
President
Central Liquidity Facility
National Credit Union Administration

We therefore conclude that obligations of the NCUA incurred on behalf of the Central Liquidity Facility pursuant to 12 U.S.C. § 1795f(a) are supported by the full faith and credit of the United States.

Theodore B. Olson
Assistant Attorney General
Office of Legal Counsel

(NOTE: This is an exerpt taken from the 10 page opinion)

Short Term Adjustment Credit

One of the most significant events affecting the financial community during the past fiscal year was the failure of the Penn Square Bank in Oklahoma. Penn Square's failure involved approximately 140 Federally insured credit unions with uninsured deposits of $104 million. The NCUA in consultation with the other financial regulators directed that 20% of the uninsured deposits be written off as having no value. The FDIC then issued receivers certificates for the remaining uninsured investment balances. These certificates are carried as non earning assets on the credit union's books.

Because of the impact of the non earning asset and the possibility of further writedowns in the certificates' value, several corporates approached the CLF to request consideration for loans to Penn Square affected credit unions in their fields of membership. The funds would be used to provide mangers an opportunity to restructure their shares so as to improve earnings and build reserves. Such actions might include changing the mix among share balances, aggressively pricing higher cost capital, and initiating asset programs to increase yield. As of September 30, there were $29 million in short term loans to 29 different borrowers. Initial maturities were set at 90 days at which time the loans will be evaluated for effectiveness and possible rollover with the borrowers.

During the year a total of $40.2 million was granted for short-term adjustment loans. Interest rates at draw down ranged from 8.7% to 18% with an average annual rate on all loans of 11.4%. Loan amounts were as small as $50,000 and as large as $10 million. The average loan was $3.1 million. The average maturity of short-term loans was 71 days.

Seasonal Credit

During fiscal year 1982, there were no advances for seasonal credit.

Protracted Adjustment Credit

New protracted adjustment advances totalling $41.5 million were extended in fiscal 1982 to two credit unions located in Montana and Maryland. The individual advances ranged from $1 million to $5 million, averaged 11.9% in rate, and had an average maturity of 33 months.

As of September 30, 1982, 7 protracted adjustment credit advances amounting to $91 million were outstanding.

Maturity Profile of Loan Portfolio as of September 30, 1982

Less than 1 year	1 year to 3 years	3 years to 5 years	Over 5 years
$52,916,295	— 0 —	$77,563,000	— 0 —

As indicated below the majority of loans granted are to Regular Members, similar to the prior year's lending activity.

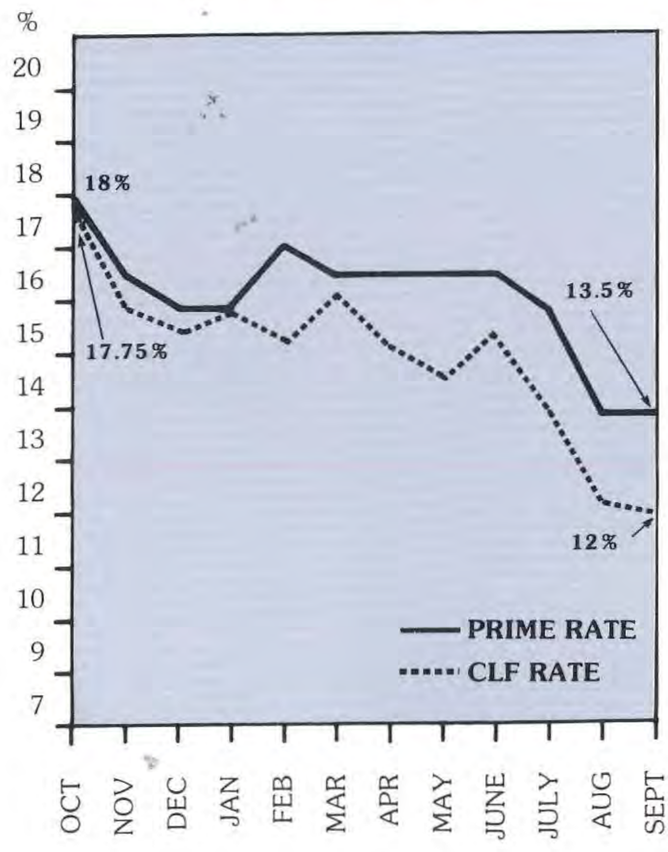
Loan Analysis by Type of Membership at September 30, 1982

Regular Members	21 loans totaling $60,817,975
Agent Members	1 loan totaling $ 4,705,095
U.S. Central Agent Group	3 loans totaling $16,235,200

Loan Rates

Loans granted by the CLF are at a fixed rate. The rate is administered so as to be above the average of all Agent Corporate rate but below bank prime as illustrated below.

CLF LENDING RATE COMPARED TO BANK PRIME RATE FOR FY 1982



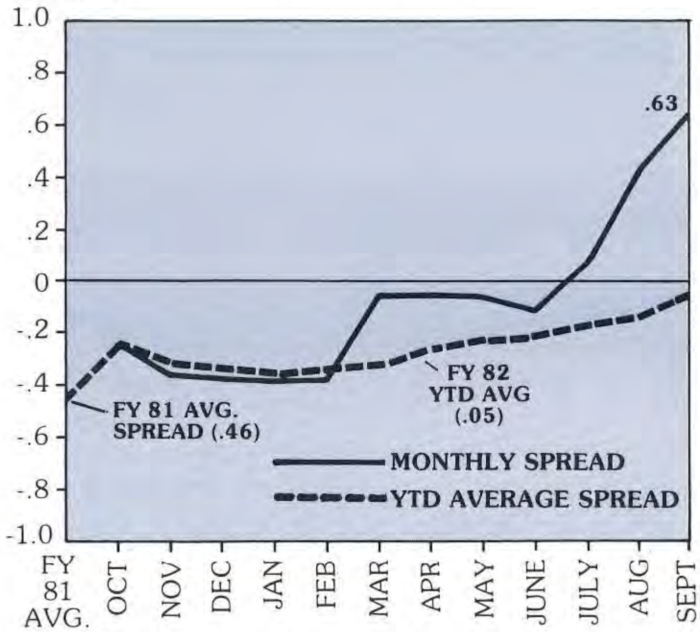
Loan to State Share Insurance Fund

Title III of the Federal Credit Union Act authorizes the CLF to advance funds on a fully secured basis to a state credit union share or deposit insurance corporations, guaranty credit unions, or guaranty associations. Just prior to fiscal year end, the CLF received a $3 million request, which was approved early October, 1982. This represented CLF's first loan to a state insurance corporation.

Loan Portfolio Spread

CLF's restructuring of its funding strategy discussed under "Funding" resulted in a positive spread in the loan portfolio starting in July, 1982. As of year-end the loan portfolio carried a positive spread of .64%. The year to date average in Fiscal 1982 of negative .05% compares to a negative spread of .46% for the previous fiscal year. The changes in net spread on a monthly and year to date average are shown in the graph below.

NET SPREAD ON LOAN PORTFOLIO*



Fiscal Year 1982

* Defined as yield on loans minus cost of funds.

The chart below analyzes the yield and cost of the loan portfolio on an overall basis, as well as by the portfolio's matched and unmatched portion as of September 30, 1982:

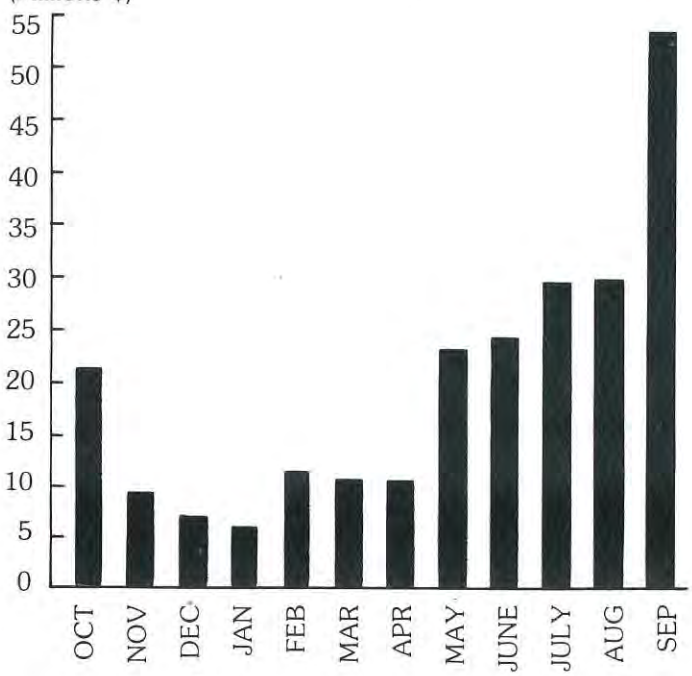
Analysis of Yield vs. Cost* on Loan Portfolio (9/30/82)

	Amount (In Millions)	Yield (%)	Cost (%)	Spread (Basis Point)
Matched Loans	$104.5	9.63	8.99	66
Unmatched Loans	26.0	10.56	9.99	57
Total Loan	$130.5	9.81	9.17	64 (Weighted Average)

New Funds Added

The following graph shows the net contribution of funds to the credit union community made by the CLF. Net funds are defined as loans made to and deposits placed with credit unions less all members paid in capital stock and deposits. As of September 30, 1982, the CLF had loaned and invested over $53 million more in funds than credit unions had contributed in capital and deposits. This was the largest net contribution of funds since the CLF was organized in 1979.

NET CONTRIBUTION OF FUNDS TO THE CREDIT UNION COMMUNITY



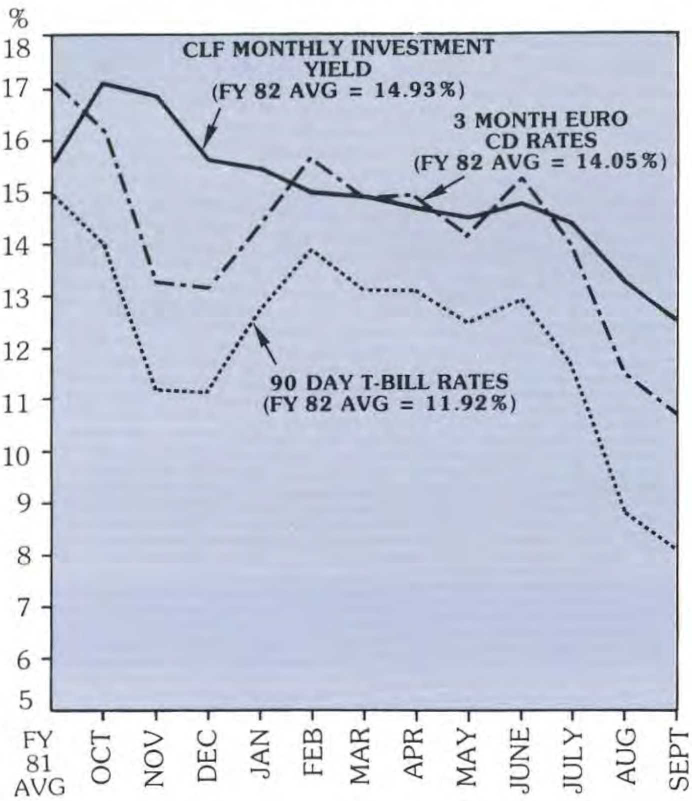
INVESTMENTS

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. With the exception of a four week period during March and April where approximately $21.5 million in loans were funded out of capital in order to change funding strategy, the CLF invested the funds received from capital subscription and member deposits.

Investment objectives are first to meet liquidity needs by holding in overnight Fed Funds and daily call accounts sufficient funds to meet unexpected loan demand, liquidity and clearing account withdrawals, and any member cancellations. The remaining funds were invested in deposits in federally insured financial institutions at various maturities not exceeding six months. At year end, the average maturity to all investments was 51 days. At the beginning of the fiscal year, the portfolio's average maturity was 79 days. The CLF began shortening its maturity through mid-year in response to the funding uncertainty associated with whether loans were to be funded by private market placements or through the Federal Financing Bank. When the Attorney General issued his opinion confirming CLF's "full faith and credit", the investment maturities were lengthened in reaction to the decline of interest rates.

During fiscal year 1982 the average balance in the investment portfolio rose to $81.5 million, from the 1981 average of $71.5 million. The yield on the portfolio was 14.9%. The comparable rates for the three month Eurodollar Certificate of Deposit and 90-day T-Bill rate were 14.1% and 11.9%, respectively during the same period. The fluctuation in month-to-month return on investments and comparisons with the 90-day T-Bill average and three month Eurodollar Certificates of Deposits are shown on the following graph:

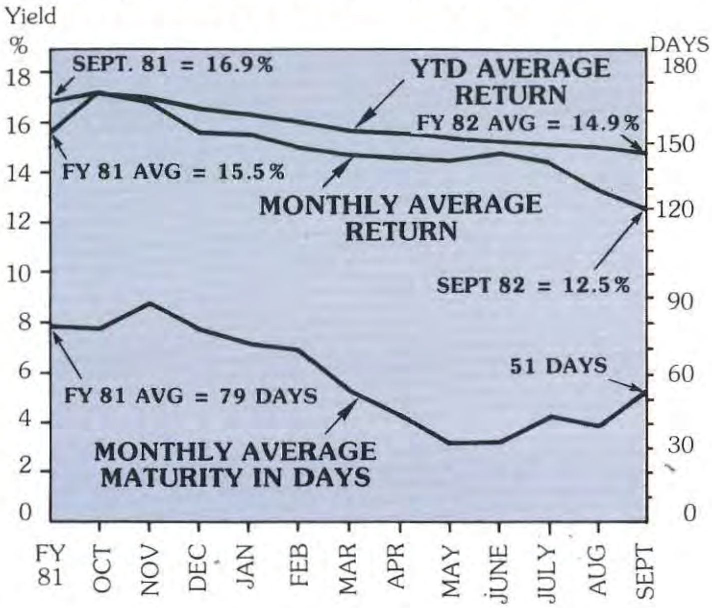
1982 CLF INVESTMENT RESULTS



Source for "T-Bills": Federal Reserve Board
Eurodollars: Solomon Bros.

The following graph shows the monthly yield of the investment portfolio, the year-to-date average yield by month, and the average maturity (in days) by month.

CLF INVESTMENT PORTFOLIO - FY 82



CLF INVESTMENT PORTFOLIO AT 9/30/82

Investment	$ Amount	% of Total Portfolio	Yield
Eurodollar Time Deposits	$77,000,000	86.3%	12.92%
FED Funds	2,600,000	2.9%	10.32%
U.S. Central	9,643,735	10.8%	10.56%
Total	$89,243,735	100.0%	12.46% (a)

(a) Weighted Average Yield for September

MATURITY SCHEDULE OF CLF INVESTMENT PORTFOLIO At 9/30/82

Month	Eurodollar Time Deposits	Fed Funds	U.S. Central	Total
October	$31,000,000	$2,600,000	$9,643,735	$43,243,735
November	15,000,000			15,000,000
December	16,000,000			16,000,000
January 1983	5,000,000			5,000,000
February	5,000,000			5,000,000
March	5,000,000			5,000,000
Totals	$77,000,000	$2,600,000	$9,643,735	$89,243,735*

* Approximates market value as of the same date

National Credit Union Administration
Central Liquidity Facility
BALANCE SHEETS

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

	September 30 1982	1981
Assets		
Cash	**$ 46**	$ 6
Investments (Note 5)	**89,244**	79,112
Loans to members less allowance for loan losses of $1,149 at September 30, 1982 (Notes 2 and 4)	**129,330**	101,025
Accrued interest receivable	**2,690**	4,737
Other assets (Note 6)	**132**	1,036
Total assets	**$221,442**	$185,916
Liabilities and Equity		
Liabilities		
Notes payable (Note 7)	**$130,066**	$101,273
Member deposits (Note 8)	**16,845**	14,131
Accrued interest payable	**1,995**	2,810
Accounts payable and other liabilities	**188**	166
Total Liabilities	**$149,094**	$118,380
Equity		
Capital stock - required (Note 8)	**72,139**	67,342
Retained earnings	**209**	194
Total equity	**$ 72,348**	$ 67,536
Commitments and Contingencies (Notes 4, 10, and 12)		
Total liabilities and equity	**$221,442**	$185,916

Report of Independent Accountants

To the Board of the

National Credit Union Administration and
the National Central 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, 1982 and 1981, 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

November 5, 1982
Washington, D.C.

National Credit Union Administration
Central Liquidity Facility

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Expressed in thousands of dollars)

(Notes 1 and 2)

	Year ended September 30	
	1982	**1981**
Income		
Interest on loans to members	**$10,653**	$10,250
Income from investments	**12,036**	11,105
Total income	**$22,689**	$21,355
Expenses		
Personnel services	**383**	405
Personnel benefits	**38**	35
Employee travel	**28**	35
Shipping and delivery	**6**	3
Rent, communications and utilities	**93**	105
Printing and reproduction	**24**	18
Other services	**425**	327
Supplies and materials	**7**	6
Depreciation and amortization	**267**	263
Provision for loan losses (Note 2)	**1,149**	
Other, principally write-off of organization costs (Note 6)	**646**	
Total operating expenses	**$ 3,066**	$ 1,197
Interest:		
Federal Financing Bank	**$10,180**	$10,682
Member deposits	**1,572**	1,138
Total expenses	**$14,818**	$13,017
Income before income taxes	**7,871**	8,338
Income taxes (Note 10)	**3**	46
Net income	**7,868**	8,292
Dividends to members (Note 8)	**7,853**	8,196
Addition to retained earnings	**15**	96
Retained earnings at beginning of period	**194**	98
Retained earnings at end of period	**$ 209**	$ 194

National Credit Union Administration
Central Liquidity Facility
STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Expressed in thousands of dollars)

	Year ended September 30	
	1982	**1981**
Financial resources were provided by:		
Operations		
Net income	**$ 7,868**	$ 8,292
Add items not affecting cash and investments during the year:		
Depreciation and amortization	**267**	263
Provision for loan losses	**1,149**	
Other, principally write-off of organization costs	**646**	
	$ 9,930	$ 8,555
Issuance of required capital stock	**10,428**	23,073
Addition to member deposits	**40,226**	25,700
Borrowings	**132,766**	133,206
Loan repayments	**52,304**	52,022
Other, net	**1,245**	(697)
Total financial resources provided	**$246,899**	$241,859
Financial resources were used for:		
Redemption of required capital stock	**$ 5,631**	$ 3,877
Withdrawal of member deposits	**37,512**	16,961
Dividends	**7,853**	8,196
Borrowings repayments	**103,973**	121,865
Loan disbursements	**81,758**	67,580
Total financial resources used	**$236,727**	$218,479
Increase in cash and investments	**$10,172**	$23,380

National Credit Union Administration Central Liquidity Facility

NOTES TO FINANCIAL STATEMENTS
September 30, 1982 and 1981

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. After giving consideration to security interests, guarantees, pledged collateral and the state of the credit union industry environment, an allowance for loan losses in the amount of $1,149,000 was established as of September 30, 1982 (no allowance was considered necessary at September 30, 1981).

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.

Furniture and Office Equipment

Significant purchases of furniture and office equipment are recorded at cost.

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. For fiscal year 1982, gross lending activity was limited to $4.4 billion. At September 30, 1982 and 1981, the CLF was in compliance with these limitations.

Note 4 - Loans to Members

Loans were made only to member credit unions. These loans carry interest rates which ranged from 8.69% to 12.81% at September 30, 1982 (9.95% to 19.75% at September 30, 1981). The loans mature as follows (dollars in thousands):

Maturing in fiscal year	September 30 1982	September 30 1981
1982	$ —	$ 13,122
1983	52,916	3,600
1984	77,563	78,613
1985	—	4,700
1986	—	990
	130,479	101,025
Less allowance for loan losses (Note 2)	(1,149)	—
	$129,330	$101,025

The CLF may also provide members with 90-day loan commitments. At September 30, 1982 there were approximately $26,600,000 in outstanding commitments ($500,000 at September 30, 1981).

Note 5 - Investments

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

	September 30 1982	September 30 1981
Time deposits	$77,000	$63,000
Certifictes of deposit	—	9,998
Deposits with members	9,644	6,114
Overnight securities	2,600	—
	$89,244	$79,112

Note 6 - Other Assets

The composition of other assets was as follows (dollars in thousands):

	September 30 1982	September 30 1981
Organization costs (net of $409 in accumulated amortization)	—	$ 888
Fixed assets (net of $6 in accumulated depreciation)	—	22
Other accounts receivable	—	15
Prepaid expenses	$ 12	45
Deferred income taxes	120	66
	$132	$1,036

As of September 30, 1981 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. 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 7.4% to 11.8% at September 30, 1982 (9.5% to 16.6% at September 30, 1981). Interest is generally payable upon maturity. These notes mature as follows (dollars in thousands):

Maturing in fiscal year	September 30, 1982	1981
1982	—	$ 13,370
1983	$ 78,466	3,600
1984	51,600	78,613
1985	—	4,700
1986	—	990
	$130,066	$101,273

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

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

Note 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 these items. Total reimbursements amounted to approximately $513,000 as of September 30, 1982 ($545,000 as of September 30, 1981).

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 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 is appealing ths decision by the I.R.S. However, until the aforementioned legislation is passed or until the CLF receives a favorable resolution of their appeal, provision for income taxes will be made 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, and by the write-off of other assets, principally organization costs, which must be amortized for tax purposes over the ensuing two taxable years (see Note 6).

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, 1982 and 1981 was approximately $24,400 and $26,900, 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, 1982 as follows (dollars in thousands):

Year ended September 30	
1983	$ 886
1984	886
1985	964
1986	980
1987	980
Thereafter	7,128
	$11,824

The CLF's portion of these lease payments (rent expense) for the years ended September 30, 1982 and 1981 was $36,400 and $38,400, respectively.

Selected Financial Ratios: (Fiscal Year Ended 9/30)

	1982	1981
Operating Ratios:		
Operating Expenses/Total Income	**5.6%**	5.6%
Interest Expenses/Total Income	**65.3%**	61.0%
Allowance for Loan Losses	**5.0%**	0.0%
Dividends/Total Income	**34.6%**	38.4%
Dividends/Net Opearing Income	**99.8%**	99.0%
Net Income plus Tax*/Total Income	**.1%**	.7%

**See Footnote 9*

Balance Sheet Using Fiscal Year End Data:		
Shares and Retained Earnings/Toal Assets	**32.7%**	36.3%
Total Liabilities/Total Assets	**67.3%**	63.7%
Loans/Total Assets	**58.4%**	54.3%
Investments/Total Assets	**40.3%**	42.6%
Investments/Shares and Deposit Liabilties	**109.2%**	97.1%
Total Liabilities/Shares and Retained Earnings	**206.1%**	175.3%
Long Term Debt/Shares and Retained Earnings	**71.3%**	130.2%
Loans/Shares and Retained Earnings	**178.8%**	149.6%

Performance Ratios Using Average Balances:		
Yield on Average Investments	**14.9%**	15.5%
Yield on Average Loans	**11.2%**	11.1%
Yield on Total Average Earning Assets	**11.4%**	13.3%
Average Borrowing Rate	**11.0%**	11.3%
Average Dividend Rate	**11.3%**	12.5%
Operating Income before tax and Dividends/ Average Shares and Retained Earnings	**13.5%**	16.4%
Net Income before tax/Average Shares and Retained Earnings	**.0%**	.2%

NCUA Board of Directors

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

Central Liquidity Facility Staff as of September 30, 1982

C. W. Filson, **President**
David Serlo, **Executive Vice-President**
Floyd Lancaster, **Treasurer**
Joseph Strahs, **Senior Loan Officer and Membership Officer**
Pat Burleson, **Loan Officer**
Berkeley Holmes, **Loan Officer**
Edward Dupcak, **Finance Officer**
Patricia Neal, **Accounting Technician**
Bertye Allen, **Secretary**
Debra Law, **Secretary**

STATE INSURANCE CORPORATIONS* WHICH HAVE ACCESS TO THE CENTRAL LIQUDITIY 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 (Ohio)

Nebraska Depository Institution Guaranty Corporation

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 (Tenn.)

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.

AGENT MEMBERS OF THE CENTRAL LIQUIDITY FACILITY

Alabama Central Credit Union

Capital Corporate Federal Credit Union

Constitution State Corporate Credit Union, Inc.*

Mass CUNA Corporate Central Federal Credit Union

Mid-Atlanta Central Federal Credit Union

NAFCU Corporate Federal Credit Union

RICUL Corporate Credit Union

U.S. Central Agent Group:

- U.S. Central Credit Union (Agent Group Representative)
- Corporate Credit Union of Arizona
- Colorado Corporate Federal Credit Union
- Indiana Corporate Central Federal Credit Union
- Nebraska Corporate Central Federal Credit Union
- Southwest Corporate Federal Credit Union
- Western Corporate Federal Credit Union

* Member as of October 13, 1982

REGULAR MEMBERS OF THE CLF
BY STATE

ALABAMA
REDSTONE FED CU

ALASKA
ALASKA USA
EIELSON EFCU
FEDELASKA FCU
FT WAINWRIGHT FCU
KPC EMP FCU
MAT VALLEY FCU
WESTERN AK TRADE

ARIZONA
ARIZONA TELCO FCU

ARKANSAS
COLLEGE STA COMM

CALIFORNIA
AEROSPACE 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
GE EMPLOY WEST REG
GEN TELEPHONE FCU
GLENDALE AREA SCH
HUGHS AIRCRAFT
JEWISH COMM 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
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
SAN DIEGO NAVY FCU
SANTA BARB TEACH
SANTA FE SPGS
SDC FEDERAL CU
SEA AIR FCU
SHEET METAL WORKER
SOUTH BAY AREA CU
SOUTHERN BAPTIST
TILLIE LEWIS EMP C
TORREY PINES FCU
TRW SYSTEMS CU
UNION OIL OLEUM
OSEIT FCU
VALLEJO CITY EFCU
WESTERNAIRE FCU
ZELPACO CU

COLORADO
FRONTIER AIRLINES
KITAYAMA EMP FCU
U OF C FCU

CONNECTICUT
ARROW HART EFCU
BRIDGEPORT BRASS
BRISTOL BRASS EMPS
COMMUNITY SERV CU
DUTCH POINT CU INC
E HARTFORD AC FCU
ELEC BOAT FCU
HAMILTON STD FCU
MANPOE FCU
MIDDLESEX SCHO FCU
NEW LONDON MUN EMP
NORDEN EMP FED CU
NORTHEAST SCHOOL
SIKORSKY FCU
ST BONIFACE PARISH
ST VINCENT'S MED
WATERBURY CT TEACH
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
ENGLIN FCU
EMBROCO FCU
FAM LINES FCU
FL COMMERCE FCU
FLORIDA CUSTOMS EM
FTU FCU
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
SLOSS FCU
SO ST JOHN FCU
SUNCOAST SCHOOLS
TAMPA CY EFCU
TAMPA SCL EFCU
TELCO EFCU
TROP TELCO FCU
USF CREDIT UNIONS
7TH COAST GUARD

GEORGIA
AHAE FCU
AUGUSTA POSTAL FCU
AUGUSTA TRIPLE "C"
AUGUSTA VAH FCU
DIXISTEEL CU
FAM LINES OF AUG
GA STATE UNIV FCU
GA TELCO CU
HALLCO FCU
HEW ATLANTA FCU
MACO FED CU
NORTHWEST COMM FCU
THE FED EMP CU
FORT GORDON FED 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
BURR OAK RIL CU
CB&I (OAK BROOK(
CHICAGO AREA CCA
CHICAGO FIREMEN
CHICAGO TEACH CU
COLLEGE OF DUPAGE
CONSTRUCT EQUIP CU
DECATUR EARTH CU
DELMONTE MW EFCU
DUKANE EMP CU
EASTERN FCU
HAMSEN EMP FCU
HINES FCU
ILLINOIS LATVIAN
INT HARVES E MOLIN
INTERNATIONAL HARV
KRAFT EMP CU
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
BLACKFORD CTY FCU
DEACONESS HOSPITAL
GRISSOM FCU
IND UNIV EFCU
JET CREDIT UNION
TEACHERS CU
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
FCILE FCU
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
TTT EMP CU

MAINE
CEN MAINE POWER CO

MARYLAND
KENNECOTT MD EMP
NIH FCU
PLUMBERS LOCAL #48
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 CMD 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
EMP SERVICE FCU
FED MOGUL EFCU
FERNDALE CO-OP CU
FLINT AREA ECU
GENESEE CNTY EMP
GR NILES COMM FCU
GRATIOT CTY FCU
HAMTRAMCK COMM FCU
ISABELLA EMP CU
JACKSON COOP
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

MICHIGAN (Continued)

TRANS AFF CO CU
TRENTON FCU
TWIN CITIES AR ECU
TWIN CITIES FCU
UN REALTY CU
UN STEELWKRS OF AM
VANDYKE IND PK CU
W SIDE AUTO EM FCU
W WESTLAND FCU
WARREN SCHOOLS CU
WAYNE OUT CNTY TEA
WESTRAN EFCU
WILLOW RUN EFCU
YPSILANTI FCU

MINNESOTA

NO PACIFIC DULUTH
STAPLES FCU
STATE FARM
TAYSTEE EMP FCU
WORKMENS CIRCLE CU

MISSISSIPPI

CARTHAGE COMM FCU
KEESLER FCU
MASONITE EFCU
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

AM BOBST HOLDINGS
ATL CTY ELEC CO
B T L (HOLMDEL)
C E LUMMUS FCU
CAMDEN FED EFCU
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
METROPAK JC FCU
METUCHEN ASSEMBLER
MOBIL RESEARCH
MON-OC PUBLIC EFCU
NASSAU FED CU
NESTLES FREEHOLD
PASSAIC CTY TEAC F
PORTUGUESE CONT
RIDER COLLEGE
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
BI-COUNTY POSTAL
BINGHAMTON DMH EMP
BOCES ONE MONROE
BRIGHTON SCH EFCU
BROOKLYN JENAPO
BROOME CTY TEACHER
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
NMP NO AREA FCU
NO ROCK EDUCAT FCU
NORWICH PHARM 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
CINCINN CENT CU
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
FREMOND CATHOLIC
GENERAL TIRE EMPS
GENERAL TIRE EMPS
GENTEL CU INC
GOLDEN CIRCLE CU
HARSHAW EMP FED CU
KENNER EMP FCU
LAN-FAIR FCU
LOCAL 212 IBEW CIN
LOCAL 213 CINCINN
LOF EMP FCU
MCDONALD EFCU
MERRELL EMP FCU
NORWOOD AUTOWRKRS
OHIO MILITARY
ONEILS STROUSS
PARAMAUTO FCU
SOUTHERN OH SCH EM
ST MARYS CU 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
SPACE AGE TULSA
TULSA TEXACO REFIN

OREGON

CLACKO FCU
CONSOLIDATED FRTWY
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
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
WYCHESTER FCU
YORK TEACHERS CU

SOUTH CAROLINA

MYRTLE BEACH AFB
SROO FCU
1ST COMMUNITY FCU

TENNESSEE

AUTO GLASS EMP FCU
CHAT TVA EMP FCU
COMBUISTION FCU
EASTEX BRUCE CU
ELK & DUCK RIVERS
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
LUBBOCK TEACH FCU
SANTA ROSA MED CTR

UTAH

GENEVA FED CU
HI-LAND CU

VERMONT

NEW ENG IBM EFCU
TOOELE FCU

VIRGINIA

FAIRFAX SCHOOL
LANGLEY FCU
NAV AIR NORFOL FCU
NNS & DD CO EMP
PENTAGON FCU
PVM 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
STANCAL EMP CU
WALLA WALLA ENGIN
WEYERHAEUSER PULP

WEST VIRGINIA

HUNTINGTON WV FIRE
INCO EMP FED CU
STEEL WKRS COMM

WISCONSIN

OSCAR MEYER FCU
WAUPACA AREA CU

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

Region II (Capital)

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

Delaware	Pennsylvania
District of Columbia	Virginia
Maryland	West Virginia

Region III (Atlanta)

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

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

Region IV (Chicago)

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

Illinois	Missouri
Indiana	North Dakota
Iowa	Ohio
Michigan	South Dakota
Minnesota	Wisconsin

Region V (Austin)

Regional Director, Region V (Austin)
National Credit Union Administration
611 East 6th Street, Suite 407
Austin, Texas 78701
Commercial (512) 397-5131

Denver Sub Office
Lea Complex
10455 East 25th Avenue
Aurora, Colorado 80010

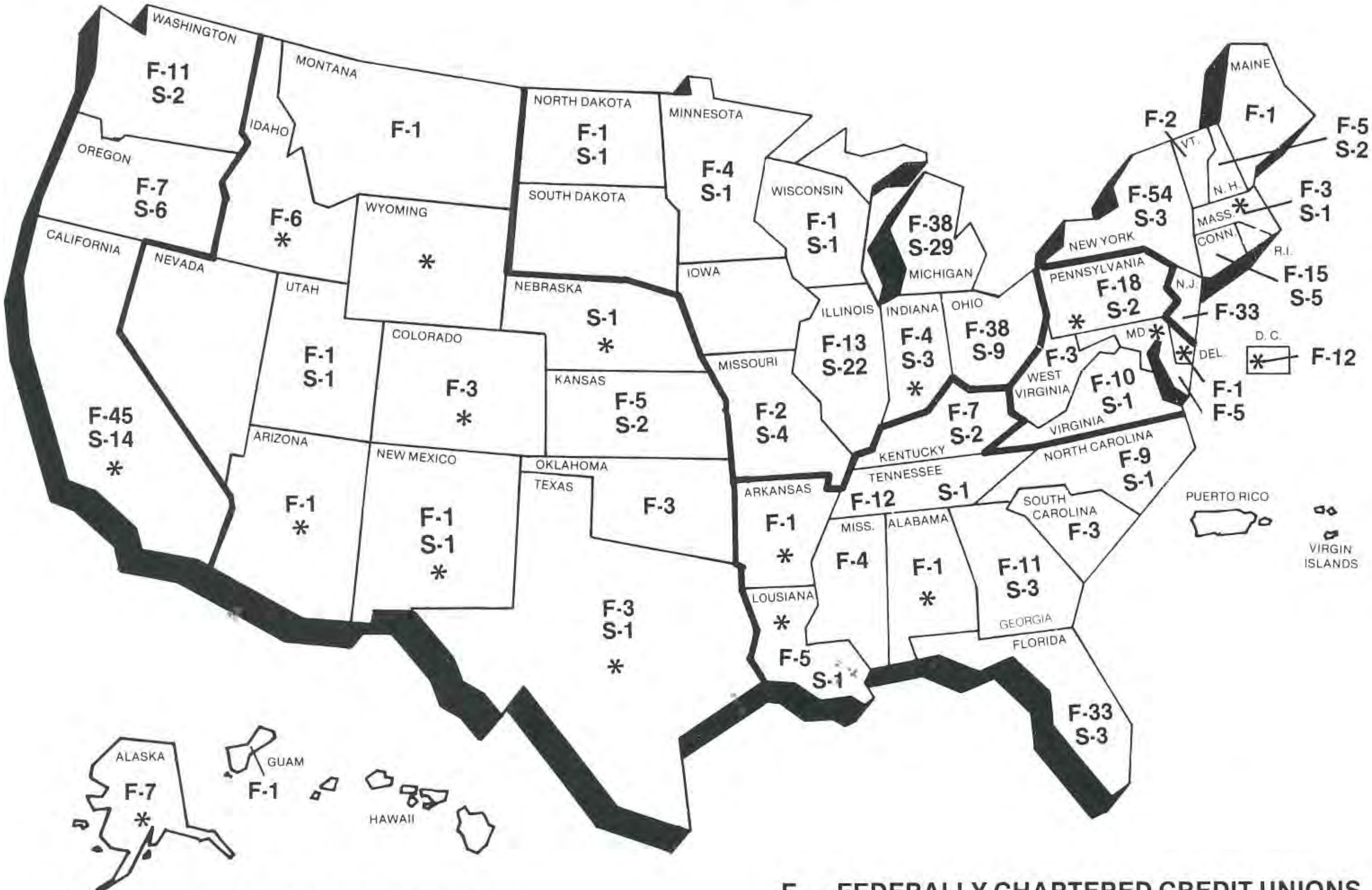
Arizona	Nevada
Colorado	New Mexico
Idaho	Oklahoma
Kansas	Texas
Montana	Utah
Nebraska	Wyoming

Region VI (San Francisco)

Regional Director, Region VI (San Francisco)
National Credit Union Administration
77 Geary Street, 2nd Floor
San Francisco, California 94108
Commercial (415) 556-6277

Alaska	Hawaii
American Samoa	Oregon
California	Washington
Guam	

CLF DIRECT MEMBERS
AS OF SEPTEMBER 30, 1982
TOTAL: 567



* STATES IN WHICH CREDIT UNIONS HAVE ACCESS TO THE CLF THROUGH AN AGENT MEMBER (see agent map)

F — FEDERALLY CHARTERED CREDIT UNIONS
S — STATE CHARTERED CREDIT UNIONS

National Credit Union
Administration
Washington, D.C. 20456

OFFICIAL BUSINESS
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NCUA

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