



**{2007}**

# National Credit Union Administration



**{ANNUAL REPORT}**

# NCUA's Role

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The National Credit Union Administration (NCUA) is the independent federal agency that charters and supervises federal credit unions throughout the United States and its territories.

NCUA administers the 1934 "Federal Credit Union Act" created by Congress to serve, protect and promote a safe, stable national system of cooperative financial institutions that encourage thrift and offer a source of credit for their members.

With the backing of the full faith and credit of the U.S. government, NCUA administers the National Credit Union Share Insurance Fund (NCUSIF), which insures the savings of nearly 87 million account holders in all federal credit unions and the substantial majority of state-chartered credit unions.

NCUA is supported by the credit unions it supervises and insures through fees submitted to the NCUA Operating Fund and NCUSIF. NCUA also administers the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund (CDRLF). The CLF serves as a back-up lender for member credit unions, while the CDRLF provides loans and technical assistance grants to stimulate economic activities in communities served by low-income credit unions.

The 2007 NCUA Annual Report is NCUA's official report to the President and the Congress of the United States. The report contains the financial statements of the NCUA Operating Fund, NCUSIF, CDRLF and CLF.



**{ NCUA'S MISSION IS TO ENSURE  
A SAFE AND SOUND CREDIT UNION SYSTEM }**



## NCUA Board



NCUA has a three-member board appointed by the President of the United States and confirmed by the Senate. No more than two board members are from the same political party, and members serve staggered six-year terms. The NCUA board normally meets monthly, except August, in open session in Alexandria, Virginia.

**Chairman JoAnn Johnson** was nominated by President George W. Bush and confirmed by the U.S. Senate March 22, 2002, to a Republican seat on the NCUA Board. Iowa State Senator Johnson is a former educator, athletic coach and community activist. She was elected to office in 1994 and chaired both the Iowa Senate Commerce Committee and Ways and Means Committee before resigning to join NCUA. Mrs. Johnson was designated NCUA chairman May 3, 2004. Her term expired August 2, 2007.

**Vice Chairman Rodney E. Hood** was appointed by President George W. Bush to a seat on the NCUA Board November 15, 2005. His term expires April 10, 2009. Mr. Hood joined the NCUA Board after serving the Department of Agriculture as USDA Associate Administrator for Rural Development's Housing Program addressing the housing needs of rural America. Vice Chairman Hood has nearly two decades of experience in affordable housing and community development.

**Board Member Christiane Gigi Hyland** was appointed by President George W. Bush to a seat on the NCUA Board effective November 18, 2005. Her term expires August 2, 2011. When nominated to the NCUA Board, she served as Senior Vice President, General Counsel for Empire Corporate Federal Credit Union in Albany, New York. She previously served concurrently as Vice President, Corporate Credit Union Relations of the Credit Union National Association, Inc. and Executive Director for the Association of Corporate Credit Unions.

## 2007 Financial Highlights

### NCUA Operating Fund

Operating fee revenue	\$64.0 million
Other income	2.5 million
Total revenue	66.5 million
Expense budget	152.0 million
Actual expenses	145.9 million
Expenses transferred to Share Insurance Fund	77.8 million
Operating Fund expense	68.1 million
Net income	(1.7) million
Operating Fund balance	22.4 million

### National Credit Union Share Insurance Fund

Total revenue	\$321.3 million
Operating expense	79.2 million
Insurance loss expense	186.4 million
Net income	55.7 million
Reserve for losses	215.8 million
Fund balance	7.3 billion
Equity ratio (fund balance as percentage of insured deposits)	1.29 percent

### Central Liquidity Facility

Net income before dividends and interest on deposits	\$89.0 million
Dividends and interest on deposits	89.0 million
Net income after dividends and interest on deposits	0 million
Total assets	1.7 billion
Retained earnings	11.4 million
Capital stock	1.6 billion

### Federally Insured Credit Unions

Number of credit unions	8,101
Total assets	\$753.5 billion
Total insured shares	560.8 billion
Total loans	526.9 billion
Net worth to assets	11.4 percent
Share growth	5.2 percent
Ratio of loans to shares	83.3 percent
Delinquency ratio	0.93 percent
Net income (before reserve transfers)	0.65 percent

# Contents

## **MESSAGE FROM THE CHAIRMAN | 5**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

- NCUA Structure and Programs | **9**
- NCUA and Credit Unions Meet '07 Challenges | **11**
- Supervision and Risk Management Progress in 2007 | **13**
- PACA Conveys NCUA's Message | **14**
- Positioning Credit Unions for the Future | **16**
- Steering Enforcement, Litigation and Regulation | **18**
- Guiding Capital Markets, Investing and Strategic Planning | **19**
- Corporate Credit Union Assets Expand | **20**
- AMAC Kept Active in 2007 | **22**

### **FUND PROGRAMS**

- Message from NCUA's Chief Financial Officer | **24**
- Central Liquidity Facility | **25**
- Community Development Revolving Loan Fund | **26**
- National Credit Union Share Insurance Fund | **28**
- Insured Credit Union Activity | **31**
- NCUA Operating Fund | **33**

### **PERFORMANCE SUMMARY**

- Annual Performance Analysis 2007 | **35**

## **AUDITORS' REPORT AND FINANCIAL STATEMENTS | 41**

### **FINANCIAL TABLES**

- Insurance Fund Ten-Year Trends | **72**
- Federal Credit Union Ten-Year Summary | **74**
- Federally Insured State-Chartered Credit Union Ten-Year Summary | **75**
- Historical Federal Credit Union Data | **76**
  
- Who's Who at NCUA | **78**
- Regional Offices and Directors | **79**
- Map of the Regions | **80**

## Message from the Chairman



I am pleased to present the 2007 National Credit Union Administration (NCUA) annual report. 2007 saw NCUA continue to achieve its mission of providing a safe, sound system of federal credit unions by adopting policies and procedures to reduce regulatory burden, address statutory requirements, respond to evolution within the credit union and financial industry, and meet economic needs.

Credit unions continue to demonstrate strength and stability in turbulent financial markets. Industry-wide net worth stands at a strong 11.4 percent and membership grew by 1.3 percent. Today, federally insured credit unions serve nearly 87 million members. Savings expanded a healthy 5.6 percent and first mortgage loans grew 12.3 percent, suggesting that credit unions are fulfilling their mission to provide fairly-priced financial services by stepping in to meet real estate loan needs during a tumultuous time in the mortgage lending market.

The NCUA Board assessed no National Credit Union Share Insurance Fund premium and approved a dividend returning \$52 million to federally insured credit unions.

NCUA testified a record seven times in 2007, as unfolding events caused Congress to focus on the mortgage lending market and consumer credit and access. A particular emphasis on Capitol Hill was placed on the repercussions of the mortgage market dislocation, with Congress requesting NCUA to testify four times on mortgage lending and Subprime practices. Additionally, in concert with other federal agencies, NCUA issued joint regulations, guidelines and aids encouraging credit unions to work with borrowers facing larger mortgage payments as rates increased and an up-tick in foreclosures occurred.

On behalf of NCUA, I signed a Document of Cooperation with the National Association of State Credit Union Supervisors leadership reaffirming federal and state regulators cooperative commitment to ensure the safety and soundness of all federally insured credit unions.

The NCUA Board actively worked throughout the year to engage and inform credit unions of salient issues and offer effective resource tools to help meet and overcome regulatory and operational challenges.

In early 2007, I hosted an NCUA-Financial Crimes Enforcement Network (FinCEN) Bank Secrecy Act (BSA) Compliance Webinar offering more than 2,000 credit union industry participants information and guidance about BSA requirements. Vice Chairman Rodney Hood hosted a Risk Mitigation Summit where government and industry leaders provided the most effective techniques to manage risk and stimulate growth. Board Member Gigi Hyland hosted an Access Across America Empowerment Summit offering tools to enhance operations and help credit unions reach out to all segments of their field of membership.

A major undertaking in 2007 was executed by Board Member Hyland, whom I appointed to lead an Outreach Task Force organized to gain a better understanding and evaluate the findings of the NCUA Member Service Assessment Pilot—*MSAP: A Study of Federal Credit Union Service*. NCUA initiated MSAP in response to questions raised by the Congress and Government Accountability Office regarding federal credit unions' service and mission.

The Outreach Task Force mission was threefold:

- Evaluate and determine the appropriateness of three MSAP recommendations;
- Assess NCUA's role and efforts with respect to credit union service to their members; and
- Assess recommendations made by the Government Accountability Office 2006 report (GAO-07-29).

The internal, 13-member Outreach Task Force performed an extensive review of NCUA policies and procedures in four areas: collection of membership profile and financial services data; senior executive compensation; low-income definition; and outreach.

The Task Force gained a variety of viewpoints through six public Town Hall meetings held in cities across the country from April through October 2007. Board Member Hyland also held dozens of other meetings discussing Task Force efforts during visits throughout the United States. Board Member Hyland will report results of the Outreach Task Force to the Board in early 2008.

Vice Chairman Hood initiated *Blueprint for 2020: A Plan to Strengthen the Future of Credit Unions* encouraging colleges and universities to work together with credit unions to increase student awareness and membership, employment, and participation in the credit union industry. The Vice Chairman's goal is to create a framework of knowledge and experience that will in turn attract a new generation of credit union employees, board members and leaders well into the 21st century.

On the regulatory front, NCUA sought to ensure transparency for credit union member-owners through rule changes to clarify member inspection rights regarding federal credit union books, records, and minutes and reincorporation of credit union bylaws into regulation.

NCUA extended the general loan maturity limit to 15 years and permitted federal credit unions to sell and cash negotiable checks, such as traveler's checks and money orders, and offer and receive domestic and international electronic fund transfers for nonmembers within the field of membership.

NCUA proposed rigorous, more effective risk-based Prompt Corrective Action reform, which awaits legislative action before implementation. NCUA joined other federal regulators issuing a policy statement to provide consistency and clarity and assist credit unions understand anti-money laundering Bank Secrecy Act enforcement requirements. A revised Catastrophic Act Reporting and Records Preservation regulation clarifies requirements for vital records preservation and provides effective program preparation guidelines.

The year ended with a flurry of activity. The completely loaned-out Community Development Revolving Loan Fund posted record loan volume. Vice Chairman Hood announced plans for a 2008 Risk Mitigation Summit, Board Member Hyland led an NCUA-IRS VITA Program Webcast, and NCUA testified on both Subprime mortgage loan modification, foreclosure prevention and enforcement and consumer access to regulators.

NCUA and credit unions ended 2007 with a host of accomplishments to reflect on and an ever-broadening array of plans and goals to meet the challenges of the coming year. Notwithstanding challenges brought by continuing uncertainty in the financial and credit markets, credit unions remain stable and growing, denoting overall strength, durability and effective leadership.

A handwritten signature in black ink that reads "JoAnn Johnson". The signature is written in a cursive, flowing style.

NCUA Chairman JoAnn Johnson

*{ In 2007, NCUA again demonstrated its  
ability to effectively respond to significant  
safety and soundness issues. }*

# Management's Discussion and Analysis

## NCUA Structure and Programs

NCUA accomplishes its mission of serving and maintaining a safe, secure credit union community using a dynamic structure. Headquartered in Alexandria, Virginia, NCUA has five regional offices. Assigned to the regions, the bulk of NCUA staff are its 450 examiners who scrutinize the credit unions regularly to ensure safe and sound operations. NCUA's Board and executive director are located in Alexandria headquarters along with the following major offices that administer the agency's various programs.

The **Office of the Executive Director** is responsible for the agency's daily operation. The executive director reports directly to the NCUA Chairman. All regional and central office directors report to the executive director and NCUA's Equal Opportunity Program is included in this office.

The **Office of Examination and Insurance** (E&I) provides national guidance for NCUA's supervision program ensuring the safety and soundness of federally insured credit unions. Within E&I, the Division of Supervision oversees NCUA's examination and supervision program. The Division of Risk Management oversees the agency's credit union problem resolution program and compiles the financial data submitted quarterly by all federally insured credit unions.

The **Office of Public & Congressional Affairs** (PACA) covers federal legislation and serves as NCUA liaison to Capitol Hill and fellow government agencies. PACA is also the primary source of information about NCUA and its functions for the public, credit unions, league and trade organizations, the media and NCUA employees.

The **Office of Small Credit Union Initiatives'** (OSCUI) primary roles are to assist the agency's risk mitigation program and foster credit union development, particularly the expansion of services provided by small credit unions to all eligible consumers. OSCUI also administers the Community Development Revolving Loan Fund, which supports low-income designated credit unions serving communities with loans and grants.

The **Office of General Counsel** (OGC) is responsible for legal matters affecting NCUA. This includes representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act and NCUA Rules and Regulations, processing Freedom of Information Act requests, advising the Board and the agency on general legal matters, and drafting regulations designed to ensure the safety and soundness of credit unions.

The **Office of Capital Markets and Planning** (OCMP) develops agency policies and procedures related to credit union investments and asset liability management, and the office assists examiners with evaluating investment issues in credit unions. OCMP also provides expert advice to the NCUA Board on investment issues. NCUA's strategic planning program directs the agency's long-range and annual planning process, which includes providing Congress with the annual NCUA plan, plus tracking and reporting on goal achievement.

The **Office of the Chief Financial Officer** (OCFO) is responsible for agency budget preparation and management, ongoing finance and accounting functions, and administration of credit union operating fees and National Credit Union Share Insurance Fund capitalization deposits.

The **Office of Corporate Credit Unions** (OCCU) supervises the corporate credit union system. Corporate credit unions provide a variety of investment services and payment systems for other credit unions. There are 28 corporate credit unions nationwide that range from \$6.5 million to \$45 billion in assets.

The **Asset Management and Assistance Center** (AMAC) conducts credit union liquidations and performs management and asset recovery. The office assists NCUA regional offices with the review of large, complex loan portfolios and actual or potential bond claims. Staff also participates extensively in the operational phases of conservatorships and records reconstruction.

## NCUA and Credit Unions Meet '07 Challenges

Federally insured credit unions stood strong in the face of challenges associated with adverse economic conditions and continued to emphasize member service and the importance of serving all segments of authorized fields of membership. In particular, credit unions responded effectively to weakened real estate markets and consumer credit problems stemming from imprudent Subprime and adjustable rate mortgage lending practices of other lenders. Additionally, they offered solutions to members who were adversely affected by the economic downturn.

Consumer satisfaction remained high as federally insured credit unions maintained market share with strong share and loan growth.

### **MEMBERS' RIGHTS**

In 2007, NCUA continued to emphasize transparency of federally insured credit union operations and the rights of members. Throughout 2007, the Outreach Task Force, chaired by Board Member Christiane Gigi Hyland, reviewed the recommendations by MSAP, which included a proposal to make senior executive compensation more transparent to the members.

In April, NCUA proposed a rule requiring all federal credit unions disclose the existence of a material increase in compensation to its members before a merger vote.

In September, NCUA finalized §701.3 of NCUA's Rules and Regulations to standardize and clarify member inspection rights regarding federal credit union books, records, and minutes.

In October, the NCUA Board reincorporated the bylaws into regulation. The bylaws govern the relationship of member owners and their elected board of directors. The regulation also gives NCUA clear authority to act if a bylaw violation threatens fundamental, material credit union member rights.

NCUA's rulemaking during 2007 reflected a clear commitment to afford credit union members the opportunity to understand and participate in the decisions made by their board of directors. These actions underscore the importance of informed decisions by members and reflect the recognition that members, as credit union owners, are entitled to full disclosure when management decisions affect membership rights.

### **STRENGTH OF THE NATIONAL CREDIT UNION SHARE INSURANCE FUND**

Systemically, federally insured credit unions remained well positioned with record capital levels and strong growth. Additionally, they continued to provide needed financial services to all segments of their fields of membership. However, a few credit

unions with questionable business practices required NCUA to commit significant resources to address lending and investment problems in an effort to preserve credit union services to the affected memberships and to minimize losses to the National Credit Union Share Insurance Fund (NCUSIF). In 2007, the NCUSIF recorded a loss expense of \$186.4 million compared to a loss expense of \$2.5 million during 2006. Though the highest loss expense since 1991, when the NCUSIF absorbed \$163 million in losses and 130 failures, 2007 failures remained low at 12.

The sudden rise in insurance loss expense resulted from overly aggressive lending practices in a small number of state-chartered credit unions. As witnessed in 2005 and 2006 indirect Subprime automobile lending, failure to perform proper due diligence was a recurring theme in the credit unions suffering large losses.

In 2007, federally insured credit unions also experienced a slight increase in home mortgage delinquencies, which reflects the housing market in general. Importantly, the increase in delinquencies was well below the national average indicating credit unions avoided exotic mortgages and followed more prudent, consumer oriented lending practices.

In response to emerging issues, NCUA increased its supervision program, reallocated resources, and more closely coordinated the use of resources between regions. The strength and diversity of the NCUSIF, backed by the full faith and credit of the U.S. government, provided NCUA the ability to safely absorb increased losses, avoid an insurance premium, and maintain member confidence in the federally insured credit union system.

#### **BUDGET**

During 2007, the NCUA Board adopted a 2008 operating budget of \$158,631,447, which was an increase of 4.35 percent or \$6,614,607 of the budget approved for 2007. In addition to normal inflationary budget pressures, the increase primarily resulted from adding seven staff members to address emerging lending issues and new employee benefits provided in the collective bargaining agreement. As a result, the 2008 operating fee increased by 9.85 percent, but the 2008 overhead transfer rate decreased from 53.3 percent to 52 percent.

NCUA's annual operating budget is financed by the federal credit union operating fee and an overhead transfer from the NCUSIF.

#### **NCUA EMPLOYEE CONTRACT**

NCUA completed negotiations with the National Treasury Employees Union Chapter 303 on the first collective bargaining agreement for NCUA. The agreement is a positive development for both agency management and employees. The contract addresses travel, work locations, work schedules, compensation, benefits, and other areas of concern raised by both management and bargaining unit representatives. The agreement is significant and should further strengthen NCUA's established record of recruiting and retaining qualified staff.

## Supervision and Risk Management Progress in 2007

### **MORTGAGE LENDING GUIDANCE**

In coordination with other federal regulatory agencies, NCUA issued supervisory guidance to credit unions concerning nontraditional and Subprime mortgage products. The guidance emphasized sound underwriting and portfolio management, the importance of educating members receiving these types of loan products, and working with borrowers experiencing repayment difficulties.

### **CAMEL MATRIX**

NCUA discontinued use of the CAMEL matrix as a guide to setting CAMEL ratings for examination and supervision contacts with effective dates of December 31, 2007, and thereafter. Eliminating the matrix promotes and complements the principles of the risk focused examination program.

### **DISASTER RECOVERY REGULATIONS**

NCUA revised Parts 748 and 749, and added Appendix B of Part 749, of the NCUA Rules and Regulations to ensure credit unions are able to restore vital records and member services in the event of a catastrophic act. The revisions clarified the meaning of catastrophic act and the requirements for preserving vital records, and the revisions provide guidelines for developing a program to prepare for a catastrophic act.

### **THIRD-PARTY RELATIONSHIPS EVALUATION GUIDANCE**

NCUA issued supervisory guidance to examiners on the evaluation of relationships credit unions have with third parties. Third party relationships pose various risks but are a business necessity important to the success of credit unions. The supervisory guidance addresses the evaluation of planning, due diligence, and controls credit unions need to safely engage in third party relationships.

### **PROMPT CORRECTIVE ACTION (PCA) REFORM PROPOSAL**

NCUA issued a revised proposal to reform the PCA statute for credit unions in favor of a more vigorous risk based capital standard. The proposal results in a risk based capital calculation being the predominant capital standard for credit unions. The proposal was submitted to the Department of Treasury and Congress.

### **NORMAL OPERATING LEVEL POLICY**

NCUA adopted a policy for setting the normal operating level for the National Credit Union Share Insurance Fund (NCUSIF). The policy results in a more transparent process for setting the normal operating level and requires a robust annual evaluation of the condition of the NCUSIF.

## PACA Conveys NCUA's Message

PACA was an active NCUA conduit for Congress, the media and the credit union industry in 2007. Several credit unions with problem loan portfolios tied to Subprime mortgages and a declining mortgage market gained media attention. Phishing scams using NCUA and credit unions identities, a credit union encouraging a merger partnership and several credit union conversions drew media attention. NCUA testified seven times as events unfolded and Congress focused on consumers and the mortgage lending market. NCUA testimony included:

- **March 1, 2007**, Chairman JoAnn Johnson testified before the House Appropriations Subcommittee on Financial Services and the General Government on financial services for disadvantaged communities.
- **March 27, 2007**, Chairman JoAnn Johnson testified before the House Subcommittee on Financial Institutions and Consumer Credit concerning Subprime mortgages and foreclosures in relation to credit unions.
- **June 7, 2007**, Chairman JoAnn Johnson testified on Regulation Z and credit card disclosures before the House Subcommittee on Financial Institutions and Consumer Credit.
- **July 25, 2007**, Director of Examination and Insurance David Marquis testified on oversight of consumer laws pertaining to mortgage lending before the U.S. House of Representatives Financial Services Subcommittee on Oversight and Investigations.
- **October 24, 2007**, Chairman JoAnn Johnson testified on “Legislative Proposals On Reforming Mortgage Practices” before the House Financial Services Committee.
- **December 6, 2007**, Board Member Gigi Hyland testified on “Accelerating Loan Modifications, Improving Foreclosure Prevention and Enhancing Enforcement” before the House Financial Services Committee.
- **December 12, 2007**, Executive Director J. Leonard Skiles testified on consumer access to regulators before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit.

NCUA provides Congress with a significant amount of required and discretionary agency and credit union information each year. In 2007, NCUA complied with the Federal Deposit Insurance Reform Conforming Amendment Act of 2005 providing Congress with the report—*Possible Changes to the Deposit Insurance System*. Both NCUA and Federal Deposit Insurance Corporation (FDIC) conducted independent studies, and NCUA concluded that Congress should not authorize NCUA or FDIC to provide voluntary excess deposit insurance; NCUA neither favors nor opposes increasing deposit insurance coverage for municipalities or local government entities; and NCUA opposes privatizing deposit insurance.

PACA provided Congressional leaders and staff with detailed information on provisions within the Credit Union Regulatory Improvements Act (CURIA) legislative package affording enhanced protection by providing a risk-based prompt corrective action system for credit unions, enabling community credit unions to serve low-income areas, ensuring members are fully informed when charter changes are considered, and expanding member business lending eligibility.

PACA issued over 170 media advisories and releases in 2007 and nine Board Action Bulletins and NCUA NEWS newsletters conveying the NCUA message to its audience—credit unions and their members, Capitol Hill, league organizations, trade associations, credit union local and national media, and the general public.

Working with fellow regulators, PACA issued numerous interagency releases on initiatives addressing various topics, including: the NCUA—FinCEN Bank Secrecy Act Compliance Webinar; model consumer privacy form guidance; a Subprime mortgage lending statement addressing risk and emerging lending practice issues; and illustrations helping financial institutions implement the consumer protection portion of the *Guidance on Nontraditional Mortgage Product Risks* adopted in 2006.

In an outreach effort, PACA made its Consumer Assistance Hotline more prominent and added a toll-free consumer complaint line feature. The Hotline is available 24/7 and provides members quick access to problem resolution and basic information about NCUA and credit union features.

Along with people from the credit union community, banking groups from China and South Africa visited NCUA last year to learn about the United States system of federal credit union chartering, supervision and member account insurance protection.

## Positioning Credit Unions for the Future

The Office of Small Credit Union Initiatives' (OSCUI) primary roles are to assist the agency's risk mitigation program and foster credit union development, particularly the expansion of services provided by small credit unions to all eligible consumers. OSCUI fulfills these roles via training, assistance, and partnership opportunities (TAP).

By utilizing TAP during 2007, OSCUI realized significant achievements to increase the availability of credit union services to all eligible consumers, especially those of modest means.

### **TRAINING**—SHARING KNOWLEDGE AND DEVELOPING CREDIT UNION LEADERS

2007 saw OSCUI spearhead workshops, roundtables, clinics and other training events throughout the country. This training surpassed the previous year's noteworthy success. Over 2,200 representatives from all asset-size credit unions attended training events in 2007.

Twenty nationwide workshops drew 1,539 credit union representatives. Workshop agendas' included Regulatory Hot Topics, Succession Planning, NCUA Risk Indicators and Understanding Financial Statements, Strategic Planning, and Finding Your Niche and Marketing to It.

Other training events included 10 roundtables and 24 clinics attended by 727 credit union representatives. Topics included management responsibilities, NCUA Risk Indicators and Key Ratios, Planning, Building and Managing the Loan Portfolio, Regulatory Hot Topics, and Marketing.

### **ASSISTANCE**—DELIVERING NEEDED ASSISTANCE TO CREDIT UNIONS

OSCUI offers individualized and financial assistance. NCUA staff provided over 12,000 hours of on-site contact assistance to small credit unions. More than half of these assistance contacts related to strategic issues. In addition, staff assisted 22 proposed charter groups, which resulted in chartering three credit unions. Small credit unions wishing to receive hands-on assistance should contact their NCUA regional office.

Currently, 3,995 credit unions are eligible to participate in NCUA's National Small Credit Union Program. Credit unions eligible to participate are either:

- Designated low-income (regardless of asset size);
- Less than \$10 million in assets; or
- Newly chartered and less than 10 years old.

OSCUI also administers the Community Development Revolving Loan Fund (CDRLF). The CDRLF was established in 1979 to support the Federal Credit Union Act's mission of making credit more accessible to people of small means by providing financial assistance to low-income designated credit unions. CDRLF activity is described in the NCUA Fund Programs section of this report.

#### **PARTNERSHIP OPPORTUNITIES—SERVING CONSUMERS, PROVIDING RESOURCES FOR CREDIT UNIONS**

Credit unions working in partnership with community-based organizations, foundations, government agencies, and other organizations can form synergies that result in increased financial services for consumers and resources for credit unions. OSCUI leads the agency's partnering initiative and has created a web portal for resources. The Resource Connection consists of the following three sections.

- **Credit Union Connection.** Summaries of credit union business practices in the areas of financial education, liquidity, loans, and member services.
- **Partnership Connection.** Contains 40 informational sheets pertaining to government and foundation programs.
- **Training Connection.** Lists training opportunities offered by NCUA and its partners.

Access The Resource Connection online at <http://www.ncua.gov/Resourceconnection>.

#### **POSITIONED FOR THE FUTURE**

OSCUI looks forward to continuing to serve credit unions that TAP into our resources in 2008. Future plans include:

- **Training.** OSCUI will host 20 national workshops, 10 roundtables, and numerous clinics. Topics will include: Evaluating Third Party Relationships-Due Diligence, Future of NCUA 5300 Call Reports, Common BSA Violations, and Modifications to the CAMEL Rating System. Visit the agency website <http://www.ncua.gov/CreditUnionDevelopment/Events/Index.htm> for locations and dates. All credit unions are invited to attend.
- **Assistance.** Staff will provide on-site assistance (with an emphasis on due diligence and partnership issues) to credit unions participating in the Small Credit Union Program 2008.
- **Partnerships.** To keep pace with credit union needs, OSCUI will provide web-based training pertaining to partnership opportunities. OSCUI will also expand its work in identifying new resources for credit unions and will actively promote The Resource Connection.

For more information about OSCUI and its initiatives, visit <http://www.ncua.gov/CreditUnionDevelopment/Index.htm>, or contact the Office of Small Credit Union Initiatives at 703-518-6610.

## Steering Enforcement, Litigation and Regulation

### **ENFORCEMENT ORDERS**

NCUA continues to use its enforcement authority to address problems in federally insured credit unions as well as abuses by credit union officials and institution affiliated parties. During 2007, the agency issued 38 prohibitions and 2 cease and desist orders. Four credit unions were placed into conservatorship.

### **LITIGATION**

NCUA was successful in defeating a challenge, in Federal District Court, to amendments to the agency's charter conversion regulation during 2007. The plaintiff, the Coalition for Credit Union Charter Options, has filed an appeal with the U.S. Court of Appeals. An additional lawsuit filed in Pennsylvania challenging a community chartering decision by the NCUA Board remains unresolved.

### **REGULATORY INITIATIVES**

The Office of General Counsel continued regulatory initiatives in 2007 addressing a broad range of member interests and credit union operations. These included regulations on member inspection of credit union books and records, reincorporation of the Federal Credit Union Bylaws into NCUA's regulations, and clarification and enhancement of the records preservation requirements and reporting of catastrophic events, including preparedness guidance for credit unions so they can avoid interruptions in member services.

The Office of General Counsel (OGC) worked on various interagency regulatory matters. This included the near completion of rules implementing the Fair and Accurate Credit Transactions Act addressing important consumer matters such as identity theft and information sharing. OGC also participated in interagency working groups on unfair trade practices, guidance on garnishment, flood insurance questions and risk-based lending.

## Guiding Capital Markets, Investing and Strategic Planning

### **CAPITAL MARKETS**

The Division of Capital Markets advised the NCUA Board on capital markets policy issues and provided guidance to examiners on investments, interest rate risk and liquidity risk.

In cooperation with the Office of Human Resources Division of Training and Development, the Capital Markets Division developed, maintained and presented a series of capital markets training programs for general examiners, capital markets subject matter examiners and capital markets specialists. In addition, division staff provided examination assistance to a number of corporate and natural person credit unions.

### **PLANNING AND ECONOMIC ANALYSIS**

The Division of Planning and Economic Analysis facilitated the continued enhancement and integration of Government Performance Results Act (GPRA) performance planning and budgeting, economic analysis and continuity of operations planning and training into day-to-day NCUA operations.

In 2007, planning staff guided development of the NCUA Annual Performance Budget 2008, NCUA Annual Performance Report 2006, Continuity of Operations Planning for Pandemic Avian Influenza, the NCUA Continuity of Operations Plan and the Draft NCUA Strategic Plan 2009–2014, which was released by the NCUA Board for public comment. The division hired an econometrician to conduct economic analysis and develop performance measurements.

The division facilitated the NCUA Strategic Management Council (SMC) and the Information Technology Oversight Committee (ITOC). Additionally, staff participated on the inter-agency Financial and Banking Information Infrastructure Committee (FBIIC). Division staff also represented NCUA on several inter-agency contingency committees and exercises on continuity planning preparation and readiness, including the national pandemic avian influenza exercise.

## Corporate Credit Union Assets Expand

During 2007, the assets of the corporate system grew to record levels. In March 2007, assets reached its highest, \$155 billion. While assets fluctuated from month to month throughout the year, each month's asset level was higher than the previous record of \$129 billion set in December 2006. As uncertainty resonates through the financial markets, credit unions are relying on the corporates as a safe haven for their funds.

### CORPORATE CREDIT UNIONS ADDRESS SUBPRIME MORTGAGE SECURITIES

The troubled Subprime mortgage market had an impact on some corporate credit unions in 2007. While corporates, by regulation, only invest in the highly rated securities, even high-quality performing securities are experiencing market effects. As 2007 came to a close, the dislocation of the mortgage market made it difficult to value mortgage-related securities. OCCU took a proactive approach in those corporate credit unions with the highest concentrations of these securities by working closely with their staff to ensure a reasonable and consistent approach is utilized in valuing the portfolios.

**KEY STATISTICS  
ON FEDERALLY  
INSURED  
CORPORATE  
CREDIT UNIONS**  
DECEMBER 31, 2007  
(IN MILLIONS)

December 31	2005	2006	2007
Number	31	30	28
Assets	\$73,700.8	\$85,204.6	\$95,936.9
Loans	5,750.4	4,555.5	4,251.7
Shares	57,661.4	66,016.9	73,426.2
Reserves	4,486.7	4,539.7	4,880.5
Undivided earnings	910.8	975.3	1,074.1
Gross income	2,519.9	3,744.3	4,853.4
Operating expenses	333.9	342.3	358.1
Interest on borrowed funds	159.9	271.8	412.3
Dividends and interest	1,891.9	3,000.3	3,867.3
Net income	134.1	129.9	215.6

*Dollar amounts do not include U.S. Central*

### SIGNIFICANT RATIOS

Reserves to assets	6.1	5.3	5.1
Reserves and undivided earnings to assets	7.3	6.5	6.2
Operating expenses to gross income	13.3	9.1	7.4
Yield on assets	3.4	4.6	5.0
Cost of funds to assets	2.8	3.8	4.5
Gross spread	.6	.8	.5

*Ratios do not include U.S. Central*

Two corporate credit union mergers were finalized at the end of 2007. A number of other mergers are in the discussion stage and may be submitted for consideration in 2008. As with other sectors of the financial industry, consolidation is an issue for corporate credit unions that will likely continue for the foreseeable future. OCCU is committed to working with corporates to ensure proposed mergers take place as seamlessly as possible to mitigate the affect on service to member credit unions. The number of corporate credit unions that remain as a result of consolidation will be determined by the market and by the needs of the credit union system.

**FEDERAL  
CORPORATE  
CREDIT UNIONS**

DECEMBER 31, 2007

Corporate Name	City, State	Assets (in millions)
Constitution State	Wallingford, Connecticut	\$1,678,017,864
Corporate One	Columbus, Ohio	4,166,172,797
Eastern Corporate	Burlington, Massachusetts	2,005,075,982
Kentucky Corporate	Louisville, Kentucky	530,518,932
LICU Corporate	Endicott, New York	6,546,873
Members United Corporate <sup>1</sup>	Warrenville, Illinois	14,467,733,175
Mid-Atlantic Corporate	Middletown, Pennsylvania	3,275,207,705
Midwest Corporate	Bismarck, North Dakota	308,240,747
Southeast Corporate	Tallahassee, Florida	4,201,597,153
Southwest Corporate <sup>2</sup>	Plano, Texas	12,713,583,102
Tricorp Corporate	Westbrook, Maine	816,532,200
VACORP	Lynchburg, Virginia	1,655,200,126
Western Corporate	San Dimas, California	32,517,008,547
<b>Total</b>		<b>\$ 78,341,435,203</b>

<sup>1</sup>Central Credit Union Fund, Inc. merged into Members United Corporate in 2007.

<sup>2</sup>Northwest Corporate merged into Southwest Corporate in 2007.

**FEDERALLY  
INSURED STATE  
CORPORATE  
CREDIT UNIONS**

DECEMBER 31, 2007

Corporate Name	City, State	Assets (in millions)
Central Corporate	Southfield, Michigan	\$3,297,613,986
Corporate America	Irondale, Alabama	1,302,481,641
Corporate Central	Hales Corners, Wisconsin	1,933,300,118
First Corporate	Phoenix, Arizona	880,236,591
First Carolina Corporate	Greensboro, North Carolina	2,058,567,210
Georgia Central	Duluth, Georgia	1,705,130,783
Iowa Corporate	Des Moines, Iowa	128,533,116
Kansas Corporate	Wichita, Kansas	428,138,614
Louisiana Corporate	Metairie, Louisiana	189,762,934
Missouri Corporate	St. Louis, Missouri	907,924,066
SunCorp	Westminister, Colorado	2,931,955,765
Treasure State Corporate	Helena, Montana	282,055,161
Volunteer Corporate	Nashville, Tennessee	1,278,536,307
West Virginia Corporate	Parkersburg, West Virginia	271,283,120
<b>Total</b>		<b>\$17,595,519,412</b>
<b>Total for All Corporates (Excluding U.S. Central)</b>		<b>\$95,936,954,615</b>
U.S. Central Federal CU	Lenexa, Kansas	\$45,149,093,509

## AMAC Kept Active in 2007

The major focus of the Asset Management & Assistance Center (AMAC) in 2007 was dealing with several large credit unions affected by the deteriorating mortgage and housing markets. The credit unions held over \$700 million in nontraditional mortgage loans.

AMAC assisted regional staff to mitigate the losses associated with these loans. In one case, assuming direct control of loan collections and later all servicing following closure of the institution.

AMAC directed six liquidations in 2007. These cases are in addition to 42 active cases still being processed that were placed into liquidation prior to 2007. Three liquidations were due to fraud and required an enormous amount of resources to resolve.

Assistance was provided to all five regions completing nine consulting assignments totaling over 5,000 hours. The assignments included accounting services, loan portfolio analysis and valuations, member business loan reviews, lease analysis, and managing foreclosures.

AMAC continued its role of providing training with AMAC staff presenting seven seminars on business and consumer loan underwriting, collections and real estate.

*{ The following pages present  
NCUA Fund Program Operations  
and related activities that took  
place during 2007. }*

## Fund Programs

The **Central Liquidity Facility** provides liquidity for all member credit unions and can invest in U.S. government and agency obligations, deposits of federally insured institutions and shares or deposits in credit unions.

The **Community Development Revolving Loan Fund** provides loans and grants to low-income designated credit unions.

The **National Credit Union Share Insurance Fund** (NCUSIF) is the federal fund created by Congress in 1970 to insure member deposits in credit unions up to at least \$100,000. Administered by the National Credit Union Administration, the NCUSIF is backed by the “full faith and credit” of the U.S. Government.

The **Operating Fund**, in conjunction with the NCUSIF, finances NCUA operations.

## NCUA's Chief Financial Officer



I am pleased to present the National Credit Union Administration (NCUA) 2007 financial statements, our principal financial measure of accountability to the President, Congress, credit unions and the American public. NCUA received unqualified or “clean” opinions from our independent financial auditors, a standard of excellence that we set in the early 1980s. The report and statements for the Share Insurance Fund, the Operating Fund, the Central Liquidity Facility and the Community Development Revolving Loan Fund can be found in the section titled Auditors’ Report and Financial Statements.

NCUA has a proud history of strong stewardship and financial transparency. This tradition was continued in 2007 by:

- Providing external stakeholders monthly financial statements;
- Soliciting stakeholder input at the annual budget briefing and public forum;
- Providing quarterly briefings to the Board, which are open to the public, on the financial status of the National Credit Union Share Insurance Fund;
- Returning nearly \$4 million in excess cash through reduced operating fee rates;
- Incurring no interest penalties for late payments under the Prompt Payment Act; and
- Filling all field examiner vacancies.

NCUA is in full compliance with all applicable laws such as the Federal Managers’ Financial Integrity Act, the Prompt Payment Act, and the Debt Collection and Improvement Act. As required by the Improper Payments Information Act, we have determined that NCUA programs are not susceptible to a high risk of significant improper payments.

NCUA also met the criteria for Financial Performance outlined in the President’s Management Agenda—consistently receiving unqualified audit opinions; meeting established deadlines for filing audited financial statements; and continuing to have no auditor-reported material internal control weaknesses or non-compliance with laws and regulations. Effective financial management allows NCUA to rely on its financial data for tactical and strategic decision-making.

The culture of effective stewardship of NCUA resources is built upon the dedicated work of many people across the organization and is rooted in NCUA’s safety and soundness mission. We are confident that this culture will allow us to meet tomorrow’s challenges with the same positive results.

Sincerely,

A handwritten signature in black ink that reads "Mary Ann Woodson". The signature is written in a cursive, slightly informal style.

Mary Ann Woodson  
Chief Financial Officer

## Poised to Meet Liquidity Needs

The Central Liquidity Facility (CLF) serves as a back-up lender to meet the unexpected liquidity needs of its member credit unions when funds are unavailable from standard credit sources. The two primary sources of funds for the CLF are stock subscriptions from credit unions and borrowings from the Federal Financing Bank.

### **CLF BORROWING CAP MAINTAINED**

By statute, the CLF is authorized to borrow from any source up to 12 times its subscribed capital stock and surplus. Since fiscal year 2001, Congress has approved a \$1.5 billion borrowing limit, and the same amount was recommended for fiscal year 2008.

### **CLF OPERATIONS**

After funding operating expenses in 2007, the CLF paid members dividends of approximately 100 percent of net investment income for the 13th consecutive year. The average member dividend was 5.54 percent.

While corporate credit unions continue to meet most liquidity needs, the CLF remains ready and able to meet the liquidity needs of the credit union system when unusual, unexpected or extreme events occur.

### **CLF RECEIVES 27TH CLEAN AUDIT OPINION**

The CLF received an unqualified audit opinion on its 2007 financial statement from independent auditors Deloitte & Touche LLP.

## CDRLF Loans and Grants Expand Member Access

### COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

The Office of Small Credit Union Initiatives administers the Community Development Revolving Loan Fund (CDRLF). The CDRLF was established in 1979 to support the Federal Credit Union Act's mission to make credit more available to people of small means. The CDRLF provides reduced rate loans and technical assistance grants to eligible federal and state-chartered credit unions serving low-income communities.

Credit unions can visit the NCUA websites: <http://www.ncua.gov/CreditUnionDevelopment/UnderServed/medIncome.html> for more information about applying for a low-income designation; and <http://www.ncua.gov/CreditUnionDevelopment/Programs/FinanceGrants.htm> for more information about CDRLF loans and grants.

CDRLF loans and grants allow credit unions to:

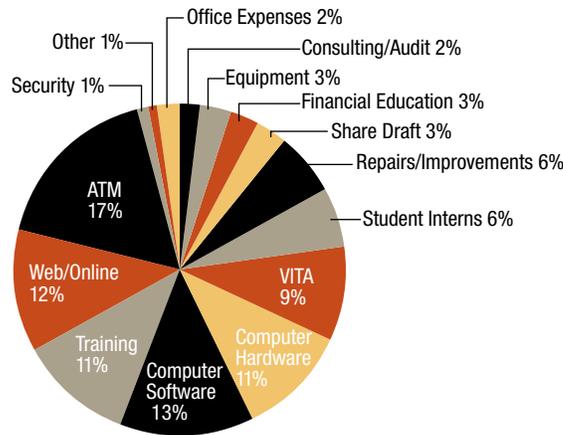
- Make needed financial services available for members;
- Help stimulate the economy in the communities served; and
- Foster the growth and stability of low-income credit unions.

### ENABLING CREDIT UNIONS THROUGH FINANCIAL ASSISTANCE

In 2007, the CDRLF increased the size of its loan portfolio by funding 42 loans totaling more than \$7.5 million (\$6 million from available cash plus \$1.5 million from loan repayments). On December 31, 2007, the loan portfolio totaled \$13.3 million, and one loan commitment in the amount of \$150,000 had been approved. No additional loan funds were available.

**TECHNICAL  
ASSISTANCE  
GRANTS**

DECEMBER 31, 2007



The CDRLF processed 575 grant applications and approved 315 grants totaling \$1.5 million in 2007. Grants were awarded from funds supplied by a Congressional appropriation of \$940,500 and CDRLF loan and investment income of approximately \$350,000. The number of grants processed increased 16 percent from 2006. The preceding graph illustrates how grants were used in 2007.

The CDRLF received an unqualified audit opinion on its 2007 financial statements which can be found in the auditor's section of this report. This is the 15th consecutive unqualified opinion rendered to the CDRLF.

**FUNDING OPPORTUNITIES IN 2008**

In 2008, CDRLF plans to continue offering grant opportunities to credit unions. The focus is on building internal capacity; enhancing member services (including the Volunteer Income Tax Assistance program); providing training opportunities; and offering other funding programs (e.g. Student Internship Program and Urgent Needs).

Funded by loan repayments, NCUA also plans to offer a CDRLF loan program during the latter part of the year. By offering these financial assistance programs, CDRLF continues to be a critical resource for credit unions serving low-income communities.

## NCUSIF is Robust Despite Loss and Reserve Increases



In 2007, the National Credit Union Share Insurance Fund (NCUSIF) had steady growth and positive earnings while recognizing its largest loss in history—\$186.4 million. In accordance with Generally Accepted Accounting Principles (GAAP), insurance losses are incurred when loss reserves are established for institutions considered a probable loss.

Despite losses, primarily tied to a faltering real estate market, the NCUSIF remains healthy. Insured shares grew 5 percent and the year ended with a Fund equity ratio of 1.29 percent. This meant the Fund did not issue a dividend at year-end 2007 because the normal operating level equity ratio must rise above 1.3 percent to issue a dividend.

NCUSIF earnings were \$321.3 million before expenses in 2007. Most earnings were derived from the Fund's \$7.4 billion investment portfolio comprised of U.S. Treasury securities with maturities of five years or less. Operating costs of \$79.2 million were \$2.8 million less than 2006.

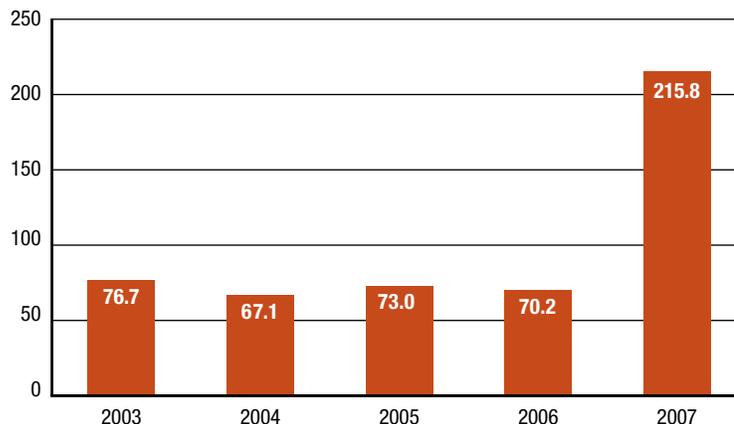
### RESERVES

The NCUSIF ended 2007 with \$215.8 million in reserves set aside to protect against future or potential losses, a net increase of \$145.6 million over the previous year. Unallocated Fund reserves at December 31, 2007, were \$54.2 million.

### FAILURES

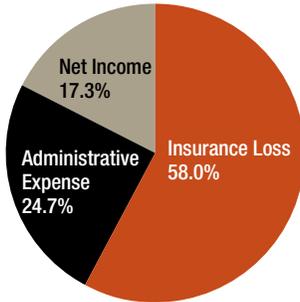
Twelve credit unions failed during 2007, resulting in \$43.2 million charged to reserves. These credit unions were classified CAMEL code 4 or 5 institutions. Money spent on failed institutions is charged to the reserve account and not reflected as an insurance loss expense.

**NCUSIF RESERVES  
IN MILLIONS OF  
DOLLARS**  
DECEMBER 31, 2007



**NCUSIF INCOME  
AND EXPENSES**

BY PERCENT



The number of problem code 4 and 5 credit unions decreased from 240 to 211 during 2007. Insured shares in these credit unions increased from \$5.2 billion in 2006 to \$5.3 billion in 2007 and represented approximately 0.94 percent of total insured shares at year-end 2007.

**NCUSIF OPERATING LEVEL POLICY ESTABLISHED**

In December 2007, the NCUA Board approved a policy providing transparency in setting the Fund’s normal operating level and determining dividends and assessment of premiums, in addition to formalizing the process for ensuring rigorous, ongoing analysis of the Fund.

The Board also established a normal Fund operating level of 1.30 percent and will continue to review the operating level at least annually, taking action when change is necessary. The NCUA Board traditionally sets the Fund’s normal operating level at the end of each calendar year.

**NCUSIF INVESTMENT POLICY REVISIONS APPROVED**

In December 2007, the NCUA Board approved NCUSIF investment policy revisions. The policy establishes maturity limits, defines permissible investments and provides a general investment strategy.

Adhering to the revised investment policy, Fund monies will be invested as follows:

- Maintain an overnight liquidity target determined by projected liquidity needs;
- Invest 5 percent of the non-liquidity balance minus \$50 million in a 5-year Treasury ladder each quarter; and
- Invest \$50 million in a 10-year Treasury ladder each quarter.

By adding this Treasury ladder to the investment portfolio, the NCUSIF will experience additional earnings stability while providing expected higher future returns.

**PERCENTAGE  
OF SHARES**

BY CAMEL CATEGORY

Category	2003	2004	2005	2006	2007
Code 1 & 2	94.1%	91.9%	93.6%	93.6%	93.2%
Code 3	5.2	7.3	5.3	5.5	5.8
Code 4	0.7	0.8	1.1	0.9	0.9
Code 5	0.0	0.0	0.0	0.0	0.1
Totals	100%	100%	100%	100%	100%

## NCUSIF RECEIVES 24TH UNQUALIFIED OPINION

The NCUSIF received its 24th consecutive unqualified audit opinion on December 31, 2007, financial statements from independent auditors Deloitte & Touche LLP. The audited financial statements, accompanying footnotes and independent auditors' report appear later in this report.

The National Credit Union Share Insurance Fund continues to be audited by an independent accounting firm, and it is subject to audit by the Government Accountability Office.

RESERVES FOR ESTIMATED LOSSES (IN THOUSANDS)	Fiscal year	2003	2004	2005	2006	2007
	Reserves—beginning of fiscal year	\$47,543	\$76,667	\$67,126	\$72,976	\$70,229
Net charges for fiscal year	(8,919)	(6,117)	(15,090)	(5,295)	(40,846)	
Provision for insurance losses	38,043	(3,424)	20,940	2,548	186,397	
Reserves—end of fiscal year	\$76,667	\$67,126	\$72,976	\$70,229	\$215,780	

ADMINISTRATIVE COSTS (IN THOUSANDS)	Fiscal year	2003	2004	2005	2006	2007
	Direct expenses	\$1,868	\$1,542	\$1,641	\$1,414	\$1,452
Allocated expenses	83,158	79,863	78,832	80,642	77,766	
Total administrative expenses	\$85,026	\$81,405	\$80,473	\$82,056	\$79,218	
Percent of NCUA total administrative expenses	62.5%	60.3%	57.5%	57.4%	53.8%	

SUMMARY OF CAMEL CODE 4 & 5 CREDIT UNIONS	Fiscal year	2002	2003	2004	2005	2006	2007
	Number of Code 4 & 5 credit unions	211	217	255	280	240	211
Percentage of insured credit unions	2.2%	2.3%	2.8%	3.1%	2.9%	2.6%	
Shares in Code 4 & 5 credit unions	\$2.9B	\$3.6B	\$4.3B	\$5.8B	\$5.2B	\$5.3B	
Percentage of NCUSIF natural person insured shares	0.66%	0.74%	0.87%	1.12%	0.96%	0.94%	

INSURED SHARE GROWTH IN FEDERALLY INSURED CREDIT UNIONS* (IN MILLIONS)	Shares outstanding			Percentage change from prior year total shares
	December 31	Federal credit unions	State credit unions	
1998	191,328	130,129	321,457	9.6%
1999	194,766	140,857	335,623	4.4%
2000	195,871	157,996	353,867	5.4%
2001	217,112	185,574	402,686	13.8%
2002	238,912	202,552	441,464	9.6%
2003	262,420	215,056	477,476	8.2%
2004	276,395	222,573	498,968	4.5%
2005	285,713	229,909	515,622	3.3%
2006	296,469	237,724	534,193	3.6%
2007	308,917	251,915	560,832	5.0%

\*Natural Person Credit Unions

# Insured Credit Union Activity

**CHANGES IN  
FEDERALLY  
INSURED CREDIT  
UNIONS**

FISCAL YEAR 2007

	Federal credit unions		Federally insured state credit unions		Total
<b>Number January 1, 2007</b>	<b>5,189</b>		<b>3,173</b>		<b>8,362</b>
<b>Additions:</b>					
New charters	3		0		3
Conversions	FISCU to FCU	11	FCU to FISCU	12	23
	NFICU to FCU	0	NFICU to FISCU	0	0
<b>Total charter additions</b>	<b>14</b>		<b>12</b>		<b>26</b>
<b>Mergers:</b>					
	(147)		(103)		(250)
Assisted	(3)		(2)		(5)
Voluntary	(142)		(95)		(237)
Mergers in process	(2)		(6)		(8)
<b>Liquidations:</b>					
	(6)		(6)		(12)
Voluntary	(2)		(2)		(4)
Involuntary	(4)		(3)		(7)
Liquidations in process	(0)		(1)		(1)
<b>Conversions:</b>					
	(14)		(11)		(25)
	FCU to FISCU	(12)	FISCU to FCU	(11)	(23)
	FCU to NFICU	(0)	FISCU to NFICU	(0)	(0)
	FCU to Non-CU	(2)	FISCU to Non-CU	(0)	(2)
<b>Total charters cancelled</b>	<b>(167)</b>		<b>(120)</b>		<b>(287)</b>
<b>Total credit unions, December 31, 2007</b>	<b>5,036</b>		<b>3,065</b>		<b>8,101</b>
Net change	(153)		(108)		(261)

*FCU = Federal credit union*

*FISCU = Federally insured state-chartered credit union*

*NFICU = Non-federally insured state-chartered credit union*

*Non-CU = Non-credit union charter*

**MULTIPLE COMMON  
BOND FEDERAL  
CREDIT UNION  
EXPANSIONS**

JANUARY 1—  
DECEMBER 31, 2007

<b>Region</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	<b>Total</b>
Number of credit unions	103	193	161	112	126	695
Number of groups added	1,076	2,337	2,578	873	2,370	9,234
200 and less	928	2,088	2,271	728	2,153	8,168
201-500	85	140	184	76	100	585
501-1,000	30	60	67	31	51	239
1,001-1,500	11	18	20	14	21	84
1,501-2,000	7	7	8	5	11	38
2,001-2,999	11	10	18	9	14	62
3,000 and over	4	14	10	10	20	58
Potential new members	166,406	612,144	475,688	360,345	673,838	2,288,421
Average size of groups added	155	262	185	413	284	248
Applications denied	20	15	3	4	3	45
Deferrals*	62	125	70	9	44	310
Groups denied of 3,000 and over	0	0	2	0	0	2
Groups deferred of 3,000 and over	9	11	12	2	10	44
Largest approved	13,500	300,743	59,000	99,400	175,929	

*\*This number represents the total number of deferrals processed upon initial receipt of an expansion request. Some of these initial deferrals were subsequently approved or denied.*

## NCUA Reduces Operating Fee and Overhead Transfer Rate

### **OPERATING FEE ASSESSMENT**

The operating fee assessment rate charged to individual federal credit unions decreased 1.54 percent primarily due to federal credit union asset growth and a small increase in the agency's budget. For federal credit unions affected by Hurricanes Katrina and Rita, hurricane related funds in member accounts were excluded from the operating fee formula and resulted in relief of approximately \$81,000. A total of \$64.0 million was collected in operating fees in 2007.

### **OVERHEAD TRANSFER RATE**

The National Credit Union Share Insurance Fund (NCUSIF) reimburses the Operating Fund for insurance related expenses through an overhead transfer. The overhead transfer rate, based primarily on the amount of insurance work performed by NCUA staff, is calculated annually and applied to actual expenses. For 2007, the overhead transfer rate was 53.3 percent and resulted in a reimbursement of \$77.8 million.

### **OPERATING EXPENSES**

Operating expenses were \$2.8 million under the 2007 budget of \$71.0 million. This variance is primarily attributed to staff vacancies during the year averaging 2.8 percent below the 957.92 authorized staffing level.

{ *NCUA met all annual  
performance goals in 2007.* }

# NCUA Annual Performance Summary

# Annual Performance Analysis 2007

NCUA performance indicators illustrate the agency met or exceeded most of its annual objectives and exhibited continued progress toward strategic goals and mission accomplishment.

NCUA measures success based on the performance of the credit union system it supervises and regulates. The percentage of adequately- and well-capitalized federally insured credit unions (FICU) increased from 99.17 to 99.35 percent during 2007. The 93.51 percent share of FICUs with a CAMEL code rating of 1 or 2 was well above the 90 percent target, while the 1.27 percent of FICUs with a CAMEL code of 4 or 5 for more than 12 months remained well below the 2 percent ceiling.

The growth pace of FICU shares and assets was above the previous two years' average, contributing to an increase in the credit union share of federally insured deposits. Membership growth at FICUs improved and members expanded their use of credit union products and services. FICUs had increases in money market shares, share certificates, IRA/KEOGH accounts, first mortgage real estate loans and unsecured credit cards. Credit unions also continued to increase their competitiveness, as reflected by an increase in the percentage of FICUs offering various products and services such as real estate loans, member business loans and transactional websites. Notably, growth in membership, assets, shares and loans at low-income designated credit unions significantly exceeded NCUA's targets, reflecting the success of the agency's outreach and financial education efforts.

Credit union performance in 2007 was influenced by numerous economic challenges. A significant housing market correction, uncertainty in the financial markets, a flat yield curve and slower economic growth resulted in slower total loan growth. Consequently, the credit union system saw a slight decline in its market share of consumer credit, primarily associated with non-revolving loans. The growth rate of federal credit union (FCU) member business loan accounts slowed significantly, led by construction and development loans, likely the result of a correction in the housing market and the deteriorating economy. However, the total dollar amount of member business loans at FCUs increased, emphasizing expanded use by members with businesses. Economic developments as well as an increase in retirement insurance coverage may also have impacted the growth rate of FCU share accounts.

Credit union performance was also influenced by operational changes. The additional examination focus and scrutiny in the Bank Secrecy Act area led to an increase in compliance risk for the second year in a row.

 Goal achieved.
 Goal not achieved with no impact on overall program and activity performance.
 Goal not achieved with an impact on overall program and activity performance.

A decline in the corporate credit union capital ratio can be explained by the increase in moving daily average net assets. Adjusting for this increase, the capital ratio would have improved from the prior year and met its strategic goal.

Looking forward, the operating environment will continue to present challenges as well as opportunities for credit unions and NCUA. NCUA will continue to review strategic and annual indicators annually to ensure the reliability of its performance measurement process.

**STRATEGIC GOAL 1<sup>1</sup>**

A SAFE, SOUND AND HEALTHY CREDIT UNION SYSTEM.

<b>Strategic Indicator 1.1</b>	Percentage of adequately and well-capitalized FICUs				
<b>Desired Level</b>	Maintain above 98 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	98.97%	99.14%	99.17%	99.35%	

<b>Strategic Indicator 1.2</b>	Percentage of assets held by FICUs with an overall CAMEL rating of 1 or 2				
<b>Desired Level</b>	Maintain above 90 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	92.22%	93.80%	93.69%	93.51%	

<b>Strategic Indicator 1.3</b>	Corporate credit union system's capital ratio				
<b>Desired Level</b>	Improve from prior year				
<b>Results</b>	Goal not achieved with no impact on overall program and activity performance				
<b>Performance</b>	2004	2005	2006	2007	
	7.01%	7.25%	6.86%	6.18%	

<b>Strategic Indicator 1.4</b>	Percentage of corporate credit unions with a CRIS Risk Management Rating of 1 and 2				
<b>Desired Level</b>	Maintain above 75 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	77%	78%	87%	83.33%	

**STRATEGIC GOAL 1**

ANNUAL INDICATOR 1.1

<b>Annual Indicator 1.1.1</b>	Percentage of assets held by FICUs with a CAMEL “Management” rating of 1 or 2				
<b>Desired Level 1.1.1</b>	Maintain above 88 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	91.02%	91.19%	91.53%	91.89%	

<b>Annual Indicator 1.1.2</b>	Percentage of assets held by FICUs with low or moderate risk ratings in the four institutional risk areas				
<b>Desired Level 1.1.2</b>	Maintain an average for the four risk areas of at least 90 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	96.74%	94.05%	92.50%	92.53	

<b>Annual Indicator 1.1.3</b>	Percentage of FICUs that remained a CAMEL 4 or 5 for more than 12 months				
<b>Desired Level 1.1.3</b>	Maintain below 2 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	1.02%	1.20%	1.08%	1.27%	

<b>Annual Indicator 1.1.4</b>	Percentage of assets held by FICUs with a CAMEL “Asset Quality” rating of 1 or 2				
<b>Desired Level</b>	Maintain above 90 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	91.66%	90.95%	91.74%	92.61%	

**STRATEGIC GOAL 1**

ANNUAL INDICATOR 1.2

<b>Annual Indicator 1.2.1</b>	Percentage of assets held by FICUs with low or moderate interest rate risk ratings				
<b>Desired Level 1.2.1</b>	Maintain above 90 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	92.90%	95.31%	96.10%	96.27%	

<b>Annual Indicator 1.2.2</b>	Percentage of assets held by FICUs with low or moderate liquidity risk ratings				
<b>Desired Level 1.2.2</b>	Maintain above 95 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	97.59%	96.46%	94.60%	95.49%	

<b>Annual Indicator 1.2.3</b>	Percentage of assets held by FICUs with CAMEL "Liquidity/Asset Liability Management" rating of 1 or 2				
<b>Desired Level 1.2.3</b>	Maintain above 90 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	91.07%	93.85%	93.31%	93.05%	

<b>Annual Indicator 1.2.4</b>	Percentage of assets held by FICUs with a CAMEL "Earnings" rating of 1 or 2				
<b>Desired Level 1.2.4</b>	Maintain above 75 percent				
<b>Results</b>	Goal achieved				
<b>Performance</b>	2004	2005	2006	2007	
	79.96%	79.87%	80.10%	81.73%	

**STRATEGIC GOAL 2**

ACCESS TO FINANCIAL SERVICES OFFERED BY FEDERALLY INSURED CREDIT UNIONS FOR ALL ELIGIBLE CONSUMERS THROUGHOUT THE UNITED STATES.

<b>Strategic Indicator 2.1</b>	Percentage increase in total FICU membership, assets, shares and loans			
<b>Desired Level 2.1</b>	Increase by at least the average rate of growth for the prior two years			
<b>Results</b>	Membership, Assets, Shares: Goal Achieved; Loans: Goal not achieved with no impact on overall program and activity performance			
<b>Performance</b>	2004	2005	2006	2007
<b>Membership</b>	1.38%	1.49%	1.11%	1.26%
<b>Assets</b>	6.04%	4.90%	4.60%	6.13%
<b>Loans</b>	10.01%	10.62%	7.87%	6.59%
<b>Shares</b>	5.26%	3.83%	4.12%	5.19%

**STRATEGIC GOAL 2**

ANNUAL INDICATOR 2.1

<b>Annual Indicator 2.1.1</b>	Growth of low-income designated credit unions' membership, assets, shares and loans compared to all FICUs			
<b>Desired Level 2.1.1</b>	Membership growth of at least 4 times the rate of all FICUs and asset, share and loan growth of at least 1.25 times the rate of all FICUs (see Strategic Indicator 2.1)			
<b>Results</b>	Goal achieved			
<b>Performance</b>	2004	2005	2006	2007
<b>Membership</b>	17.80%	7.57%	7.66%	11.19%
<b>Assets</b>	22.20%	11.66%	10.89%	19.16%
<b>Loans</b>	26.60%	15.05%	13.51%	16.61%
<b>Shares</b>	21.70%	10.75%	9.99%	18.98%

<b>Annual Indicator 2.1.2</b>	Percentage increase in the number of FCU share, first mortgage and member business loan accounts			
<b>Desired Level 2.1.2</b>	Improve from prior year			
<b>Results</b>	First mortgage accounts: Goal Achieved; Share accounts and Member business loan accounts: Goal not achieved with no impact on overall program and activity performance			
<b>Performance</b>	2004	2005	2006	2007
<b>Share accounts</b>	2.28%	4.71%	3.92%	0.77%
<b>1st Mortgage accounts</b>	3.16%	5.85%	3.49%	4.19%
<b>Business Loan accounts</b>	22.42%	30.46%	31.81%	1.83%

**STRATEGIC GOAL 3**

A PRUDENT, FLEXIBLE  
AND EFFICIENT  
REGULATORY  
ENVIRONMENT FOR ALL  
FEDERALLY INSURED  
CREDIT UNIONS.

<b>Strategic Indicator 3.1</b>	Percentage of the credit union industry's market share of federally insured deposits and consumer credit			
<b>Desired Level 3.1</b>	Improve or maintain from prior year			
<b>Results</b>	Share of insured deposits: Goal Achieved; Share of consumer credit: Goal not achieved with no impact on overall program and activity performance			
<b>All FICUs</b>	2004	2005	2006	2007
<b>Insured Deposits<sup>2</sup></b>	12.11%	11.67%	11.41%	11.57%
<b>Consumer Credit<sup>3</sup></b>	9.71%	9.88%	9.70%	9.38%

**STRATEGIC GOAL 3**

ANNUAL INDICATOR 3.1

<b>Annual Indicator 3.1.1</b>	Percentage of FICUs involved in various products and services			
<b>Desired Level 3.1.1</b>	Improve from prior year			
<b>Results</b>	Goal achieved			
<b>All FICUs</b>	2004	2005	2006	2007
<b>Real Estate Loans</b>	67.58%	68.72%	69.68%	70.20%
<b>Member Business Lending</b>	18.66%	21.20%	23.04%	25.05%
<b>Transactional Websites</b>	40.75%	47.21%	53.01%	56.68%

<sup>1</sup>NCUA's online ratios were used to provide the data included in this report.

<sup>2</sup>This measure was modified from total assets to deposits, to better reflect industry performance. Market share is based on the percentage of federally insured deposits held by credit unions in relation to total federally insured deposits—insured by both NCUA and FDIC.

<sup>3</sup>Market share of consumer credit is based on the percentage of consumer credit held by credit unions in relation to all consumer credit outstanding, as measured by the Federal Reserve.

*{ We conducted our audits in  
accordance with auditing standards  
generally accepted in the United  
States of America. }*

# Auditors' Report and Financial Statements



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## INDEPENDENT AUDITORS' REPORT

To the Inspector General of  
National Credit Union Administration:

We have audited the financial statements appearing on pages 43-70 of this Annual Report, respectively, of the National Credit Union Share Insurance Fund, the National Credit Union Administration Operating Fund, the National Credit Union Administration Central Liquidity Facility, and the National Credit Union Administration Community Development Revolving Loan Fund (collectively, the "NCUA Funds") as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the National Credit Union Administration's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NCUA Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund, of the National Credit Union Administration Operating Fund, of the National Credit Union Administration Central Liquidity Facility, and of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

February 13, 2008

## NATIONAL CREDIT UNION SHARE INSURANCE FUND

### BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006 (Dollars in thousands)

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<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
ASSETS:		
Investments (Note 6)	\$5,974,315	\$5,257,216
Cash and cash equivalents	1,391,816	1,683,462
Accrued interest receivable	60,051	63,244
Due from National Credit Union Administration		
Operating Fund (Note 8)	-	98
Assets acquired in assistance to insured credit unions	65,884	14,461
Loans to credit unions	-	15,000
Note receivable — National Credit Union Administration		
Operating Fund (Note 8)	21,120	22,461
Contributions receivable from insured credit unions	154	47
Fixed assets — net of accumulated depreciation and amortization (Note 3)	<u>403</u>	<u>762</u>
<b>TOTAL</b>	<b><u>\$7,513,743</u></b>	<b><u>\$7,056,751</u></b>
<b>LIABILITIES AND FUND BALANCE</b>		
LIABILITIES:		
Estimated losses from supervised credit unions (Note 4)	\$215,780	\$70,229
Amounts due to insured shareholders of liquidated credit unions	4,893	7,291
Due to National Credit Union Administration Operating Fund (Note 8)	272	-
Due to credit unions	30,853	-
Accounts payable	35	109
Obligations under capital leases (Note 9)	<u>440</u>	<u>806</u>
Total liabilities	<u>252,273</u>	<u>78,435</u>
FUND BALANCE:		
Insured credit unions' accumulated contributions	5,585,256	5,306,286
Insurance fund balance	<u>1,676,214</u>	<u>1,672,030</u>
Total fund balance	<u>7,261,470</u>	<u>6,978,316</u>
<b>TOTAL</b>	<b><u>\$7,513,743</u></b>	<b><u>\$7,056,751</u></b>

See notes to financial statements.

## NATIONAL CREDIT UNION SHARE INSURANCE FUND

### STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (Dollars in thousands)

	2007	2006
REVENUES:		
Interest	\$ 320,163	\$ 264,895
Other	<u>1,166</u>	<u>1,326</u>
Total revenues	<u>321,329</u>	<u>266,221</u>
EXPENSES (Note 8) —		
Administrative expenses:		
Employee wages and benefits	59,237	61,958
Travel	7,764	7,401
Rent, communications, and utilities	2,174	2,113
Contracted services	3,379	3,844
Provision for insurance losses (Note 4)	186,397	2,548
Other	<u>6,664</u>	<u>6,740</u>
Total expenses	<u>265,615</u>	<u>84,604</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 55,714</u>	<u>\$ 181,617</u>

See notes to financial statements.

## NATIONAL CREDIT UNION SHARE INSURANCE FUND

### STATEMENTS OF FUND BALANCE FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (Dollars in thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE — January 1, 2006	\$5,128,031	\$1,490,413
Contributions from insured credit unions	178,255	-
Excess of revenues over expenses	<u>-</u>	<u>181,617</u>
BALANCE — December 31, 2006	5,306,286	1,672,030
Contributions from insured credit unions	278,970	-
Excess of revenues over expenses	-	55,714
Dividends to insured credit unions	<u>-</u>	<u>(51,530)</u>
BALANCE — December 31, 2007	<u>\$5,585,256</u>	<u>\$1,676,214</u>

See notes to financial statements.

## NATIONAL CREDIT UNION SHARE INSURANCE FUND

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (Dollars in thousands)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of revenues over expenses	\$ 55,714	\$ 181,617
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	314	415
Amortization of premiums and discounts on investments — net	(24,536)	1,806
Reserves (recoveries) relating to losses from supervised credit unions — net	145,551	(2,747)
Decrease (increase) in assets:		
Accrued interest receivable	3,193	(11,142)
Assets acquired in assistance to insured credit unions — net	(51,423)	3,127
Increase (decrease) in liabilities:		
Amounts due to insured shareholders of liquidated credit unions	(2,398)	(966)
Amounts due to National Credit Union Administration Operating Fund	370	(231)
Cash assistance liability	-	(2,357)
Accounts payable	(74)	74
Due to credit unions	<u>30,853</u>	<u>-</u>
Net cash provided by operating activities	<u>157,564</u>	<u>169,596</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loans to credit unions	-	(15,000)
Repayment of loans to credit unions	15,000	-
Purchases of investments	(2,392,563)	(2,550,812)
Proceeds from maturities of investments	1,700,000	2,100,000
Collections on note receivable — National Credit Union Administration Operating Fund	<u>1,341</u>	<u>1,341</u>
Net cash used in investing activities	<u>(676,222)</u>	<u>(464,471)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions from insured credit unions	278,863	179,948
Dividends paid	(51,530)	-
Principal payments under capital lease obligation	<u>(321)</u>	<u>(374)</u>
Net cash provided by financing activities	<u>227,012</u>	<u>179,574</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(291,646)	(115,301)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>1,683,462</u>	<u>1,798,763</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$1,391,816</u>	<u>\$1,683,462</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES —</b>		
Acquisition of equipment under capital lease	<u>\$ -</u>	<u>\$ 1,073</u>
CASH PAYMENTS FOR INTEREST	<u>\$ 15</u>	<u>\$ 5</u>

See notes to financial statements.

# NATIONAL CREDIT UNION SHARE INSURANCE FUND

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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### 1. ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (the “Fund” or “NCUSIF”) was created by the Public Law 91-468 (Title II of the Federal Credit Union Act), which was amended in 1984 by Public Law 98-369. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is \$100,000 per shareholder account and \$250,000 on certain retirement accounts.

NCUA exercises direct supervisory authority over federal credit unions and coordinates required supervisory involvement with the state chartering authority for state-chartered credit unions insured by the Fund. Insured credit unions are required to report certain financial and statistical information to NCUA on a semiannual or quarterly basis depending on the size of the credit union and are subject to periodic examination by NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

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

The first form of special assistance is waivers of statutory reserve requirements, whereby the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the Fund may provide a reserve guarantee account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and NCUSIF subordinated notes, or may purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the Fund will liquidate the credit union, dispose of its assets, and pay members’ shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are sometimes guaranteed to third-party purchasers by the Fund.

### 2. 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. All investments are classified as held-to-maturity under Statement of Financial Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Accordingly, the Fund records investments at amortized cost. Amortized cost is the face value of the securities, plus the unamortized premium or less the unamortized discount.

**Cash and Cash Equivalents** — The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less.

**Assets Acquired in Assistance to Insured Credit Unions** — The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the Fund may purchase certain credit union assets. In addition, the Fund may provide cash assistance by acquiring nonperforming assets of a credit union experiencing financial difficulty. These acquired assets are maintained by the Asset Management and Assistance Center in Austin, TX, and are recorded by the Fund at their estimated net realizable value.

**Advances to Insured Credit Unions** — The Fund provides cash assistance in the form of interest and noninterest-bearing NCUSIF subordinated notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing their operations.

**Depreciation and Amortization** — Furniture and equipment are recorded at cost. Equipment acquired under capital lease agreements is recorded at the present value of the future minimum lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the furniture and equipment and the shorter of the estimated useful life or lease term for capital leases. Estimated useful lives are three years for the furniture, equipment, and capital leases.

**Guarantees** — Guarantees are recorded in accordance with FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which requires the Fund to recognize, at the inception of a guarantee, a liability for the fair value of obligation undertaken in issuing the guarantee.

**Premium Revenue** — The Fund may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of December 31 of the preceding insurance year if the Fund's equity ratio is less than 1.3% (Note 5).

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

**Fair Value of Financial Instruments** — The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

*Investments* — The fair value for investments is the quoted market value.

*Cash and Cash Equivalents* — The carrying amounts for cash and cash equivalents approximate fair values.

*Loans to Credit Unions* — It is not practicable to estimate the fair value of these assets, as there is no secondary market. All outstanding loans are secured by a perfected lien against the assets of the credit union and are fully secured.

*Other* — Accrued interest receivable, due from/to NCUA Operating Fund, note receivable from NCUA Operating Fund, contributions receivable from insured credit unions, due to insured shareholders of liquidated credit unions, accounts payable, and obligations under capital leases are recorded at book values, which approximate the respective fair values.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates. The more significant estimates include the estimated losses from supervised credit unions and the allowance for loss on assets acquired in assistance to insured credit unions.

### 3. FIXED ASSETS

At December 31, 2007 and 2006, fixed assets are comprised of the following (in thousands):

	<b>2007</b>	<b>2006</b>
Furniture and equipment	\$ 501	\$ 501
Equipment under capital leases	<u>1,027</u>	<u>1,073</u>
Total	1,528	1,574
Less — accumulated depreciation and amortization	<u>(1,125)</u>	<u>(812)</u>
Fixed assets — net	<u>\$ 403</u>	<u>\$ 762</u>

Accumulated amortization balances for equipment under capital leases as of December 31, 2007 and 2006, totaled (in thousands) \$624 and \$311, respectively.

#### 4. PROVISION FOR INSURANCE LOSSES

Management identifies credit unions experiencing financial difficulty through NCUA's supervisory and examination process. The estimated losses from these supervised credit unions are determined by management on a specified case basis. Management also evaluates overall economic trends and monitors potential system-wide risk factors such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies a rating system to assess a credit union's financial condition and operations in the areas of Capital Adequacy, Asset Quality, Management, Earnings, and Asset/Liability Management ("CAMEL"). The CAMEL Rating System is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL Rating System to respond to continuing economic and regulatory changes in the credit union industry. For nonspecified case reserve requirements, risk profile categories are established based on the CAMEL ratings of problem credit unions, and probable failure and loss rates are applied based on historical data. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions.

Total estimated insurance in force as of December 31, 2007 and 2006 is \$561.9 billion and \$535.3 billion, respectively, which includes natural person and corporate credit unions. The total net reserves for identified and anticipated losses from supervised credit unions' failures are \$216 million and \$70 million at December 31, 2007 and 2006, respectively.

In exercising its supervisory function, the Fund will, at times, extend guarantees of assets (primarily loans) to third-party purchasers or to credit unions to facilitate mergers. The Fund would be obligated upon nonperformance. No such guarantees were outstanding at December 31, 2007 and 2006. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund may grant a guaranteed line-of-credit to a third-party credit provider, such as a corporate credit union or bank, if a credit union has a current or immediate liquidity concern and the credit provider has refused to extend credit without a guarantee. The Fund would be obligated if the credit union failed to perform. Total line-of-credit guarantees of credit unions at December 31, 2007 and 2006 are approximately \$206.5 million and \$20 million, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2007 and 2006 are approximately \$109.5 million and \$0, respectively. The carrying amount of the liability as of December 31, 2007 and 2006 for the outstanding NCUSIF guarantees is \$5.1 million and \$422,876, respectively. All guarantees outstanding at December 31, 2007 expire on March 31, 2008 and May 31, 2008.

From time to time, the Fund provides indemnifications in merger assistance agreements to acquiring credit unions. Such indemnifications make the Fund contingently liable based on the outcome of legal actions. No such indemnification contingencies existed at December 31, 2007 and 2006.

The activity in the reserves for estimated losses from supervised credit unions for the periods ended December 31, 2007 and 2006 was as follows (in thousands):

	2007	2006
Beginning balance	\$ 70,229	\$72,976
Insurance losses	(48,484)	(10,833)
Recoveries	7,638	5,538
Provision for insurance losses	<u>186,397</u>	<u>2,548</u>
Ending balance	<u>\$215,780</u>	<u>\$70,229</u>

The increase in the provision for insurance losses is due to the following:

Specific reserves — increased from \$19,062,296 at December 31, 2006, to \$161,630,199 at December 31, 2007.

General reserves — increased from \$51,167,075 at December 31, 2006, to \$54,150,000 at December 31, 2007.

The increased level of specific reserves is attributable to the presence of high-risk business activities of a small number of credit unions that were vulnerable to adverse economic and market conditions. The higher provision for insurance losses is also attributed to the deterioration in economic conditions.

In addition to these recorded contingent liabilities, additional risk in the financial services industry could result in additional loss to the NCUSIF. The accuracy of the estimated losses from supervised credit unions will largely depend upon future economic and market conditions.

## 5. FUND CAPITALIZATION

The Credit Union Membership Access Act of 1998 (CUMAA) mandated changes to the Fund's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the Fund a deposit in an amount equaling 1% of the credit union's insured shares. The amount of each insured credit union's deposit shall be adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50 million; and (ii) semiannually, in the case of an insured credit union with total assets of \$50 million or more. The annual and semiannual adjustments are based on member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1% contribution will be returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the Fund are transferred from the NCUA Board.

The CUMAA mandates certain premium charges from insured credit unions and distributions from the Fund under certain circumstances. A premium charge to insured credit unions is required if the Fund's equity ratio (as defined in the CUMAA) falls below 1.2% of insured shares. Also, pro-rata distributions to insured credit unions after each calendar year are required if, as of year-end:

- (i) Any loans to the Fund from the Federal Government, and any interest on those loans, have been repaid;
- (ii) The Fund's equity ratio exceeds the normal operating level (as defined in the CUMAA, an equity ratio specified by the NCUA Board, which shall be not less than 1.2% and not more than 1.5%); and
- (iii) The Fund's available assets ratio, as defined in the CUMAA, exceeds 1%.

The NCUA Board set the normal operating level for 2008 and 2007 at 1.30%. The calculated equity ratios at December 31, 2007 and 2006 were 1.292% and 1.304%, respectively.

Beginning in 2000, the CUMAA mandates that dividends are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, dividends associated with insured shares at year-end are declared and paid in the subsequent year.

The NCUA Board will not declare dividends payable on insured shares as of December 31, 2007, because the equity ratio of 1.292% is below the normal operating level of 1.30%. Dividends of \$51,530 were declared and paid during 2007 because the equity ratio at December 31, 2006, of 1.304% was above the normal operating ratio of 1.30%. Total insured shares as of December 31, 2007 and 2006, were estimated to be \$561.9 billion and \$535.3 billion, respectively.

## 6. INVESTMENTS

All cash received by the Fund that is not used for outlays related to assistance to insured credit unions and liquidation activities is invested in U.S. Treasury securities.

At December 31, 2007 and 2006, investments consist of the following (in thousands):

	<b>2007</b>				
	<b>Yield to Maturity at Market (At Purchase Date)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Market Value</b>
U.S. Treasury Securities:					
Maturities up to one year	4.26 %	\$1,594,463	\$ 8,709	\$ -	\$1,603,172
Maturities after one year through five years	4.53 %	<u>4,379,852</u>	<u>143,570</u>	<u>-</u>	<u>4,523,422</u>
Total		<u>\$5,974,315</u>	<u>\$152,279</u>	<u>\$ -</u>	<u>\$6,126,594</u>
	<b>2006</b>				
	<b>Yield to Maturity at Market (At Purchase Date)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Market Value</b>
U.S. Treasury Securities:					
Maturities up to one year	2.96 %	\$1,703,200	\$ -	\$(13,138)	\$1,690,062
Maturities after one year through five years	4.48 %	<u>3,554,016</u>	<u>-</u>	<u>(11,891)</u>	<u>3,542,125</u>
Total		<u>\$5,257,216</u>	<u>\$ -</u>	<u>\$(25,029)</u>	<u>\$5,232,187</u>

Total investment purchases during 2007 and 2006 were approximately \$2.4 billion and \$2.6 billion, respectively. Investment maturities during 2007 and 2006 were approximately \$1.7 billion and \$2.1 billion, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 2007 and 2006, to maturity. There were no investment sales during 2007 and 2006.

## 7. AVAILABLE BORROWINGS

The Fund is authorized by the Federal Credit Union Act to borrow from the Treasury of the United States, upon authorization by the NCUA Board, up to a maximum of \$100,000,000. The NCUA Central Liquidity Facility is authorized to make advances to the Fund under terms and conditions established by the NCUA Board. No borrowings were obtained from these sources during 2007 and 2006.

## 8. TRANSACTIONS WITH NCUA OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. The NCUA Operating Fund charges the Fund for these services based on an annual allocation factor approved by the NCUA Board and derived from a study of actual usage conducted by the management of these Funds. The allocation factor was 53.3% to the Fund for 2007 and 57% for 2006. The cost of services provided by the NCUA Operating Fund was approximately \$77,766,000 and \$80,642,000 for 2007 and 2006, respectively, and includes pension contributions of approximately \$6,368,000 and \$6,629,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 2007 and 2006, respectively.

In 1992, the Fund entered into a commitment to fund up to \$41,975,000 through a thirty-year secured term note with the NCUA Operating Fund. The monies were advanced to the NCUA Operating Fund as needed to fund the costs of constructing a building. Interest income was approximately \$967,000 and \$873,000 for 2007 and 2006, respectively. The note receivable balances at December 31, 2007 and 2006 were approximately \$21,120,000 and \$22,461,000, respectively.

The above note matures as follows (in thousands):

<b>Years Ending December 31</b>	<b>Secured Term Note</b>
2008	\$ 1,341
2009	1,341
2010	1,341
2011	1,341
2012	1,341
Thereafter	<u>14,415</u>
<b>Total</b>	<b><u>\$21,120</u></b>

The variable rate on the term note is equal to the Fund's prior-month yield on investments. The average interest rates during 2007 and 2006 were approximately 4.45% and 3.79%, respectively. At December 31, 2007 and 2006, the rates were 4.39 % and 4.29%, respectively.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2014. Based on the allocation factor determined by the NCUA's Board, the Fund reimbursed the NCUA Operating Fund approximately 53.3% of the total lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately \$395,200 and \$422,700 for December 31, 2007 and 2006, respectively.

Based on the allocation factor approved by the NCUA Board for 2008, NCUSIF will reimburse the Fund for approximately 52% of the future operating lease payments. The Fund's allocation of the NCUA Operating Fund's total future minimum lease payments on operating leases as of December 31, 2007, is expected to be as follows (in thousands):

<b>Years Ending December 31</b>	
2008	\$ 384
2009	393
2010	249
2011	253
2012	249
Thereafter	<u>206</u>
<b>Total</b>	<b><u>\$1,734</u></b>

## 9. LEASE COMMITMENTS

**Description of Leasing Agreements** — The Fund has entered into lease agreements with vendors for the lease of equipment that includes computers, laptops, and printers. The Fund leases computer equipment under capital lease agreements that expire through 2009.

A schedule of future minimum lease payments as of December 31, 2007, is as follows (in thousands):

2008	\$360
2009	<u>90</u>
<b>Total</b>	<b>450</b>
Less imputed interest	<u>(10)</u>
<b>Present value of minimum lease payments</b>	<b><u>\$440</u></b>

## 10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments, at December 31, 2007 and 2006 are as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$5,974,315	\$6,126,594	\$5,257,216	\$5,232,187
Cash and cash equivalents	1,391,816	1,391,816	1,683,462	1,683,462
Accrued interest receivable	60,051	60,051	63,244	63,244
Loans to credit unions			15,000	15,000
Notes receivable — NCUA				
Operating Fund	21,120	21,120	22,461	22,461
Contributions receivable from insured credit unions	154	154	47	47
Amounts due to insured shareholders of liquidated credit unions	4,893	4,893	7,291	7,291
Due (to) from NCUA				
Operating Fund	(272)	(272)	98	98
Accounts payable	30,888	30,888	109	109
Obligations under capital leases	440	440	806	806

## 11. CONCENTRATIONS

There are no significant concentrations of member share deposits within any region of the United States. Concentrations of member shares do exist within the manufacturing, governmental, and educational industries.

## 12. CONTINGENCIES

The Fund is currently a party to a number of disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to any other disputes, if any, will not be material to the Fund's financial position.

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**NATIONAL CREDIT UNION ADMINISTRATION  
OPERATING FUND**

**BALANCE SHEETS  
AS OF DECEMBER 31, 2007 AND 2006  
(Dollars in thousands)**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$24,175	\$25,394
Due from National Credit Union Share Insurance Fund (Note 4)	272	-
Employee advances	143	902
Other accounts receivable (Note 5)	169	172
Prepaid expenses and other assets	1,799	1,683
Fixed assets — net of accumulated depreciation and amortization (Note 3)	<u>34,213</u>	<u>35,309</u>
<b>TOTAL</b>	<b><u>\$60,771</u></b>	<b><u>\$63,460</u></b>

**LIABILITIES AND FUND BALANCE**

<b>LIABILITIES:</b>		
Accounts payable	\$ 4,216	\$ 3,817
Obligations under capital leases (Note 6)	1,246	2,138
Accrued wages and benefits	3,225	2,571
Accrued annual leave	8,575	8,319
Accrued employee travel	5	11
Due to National Credit Union Share Insurance Fund	-	98
Note payable to National Credit Union Share Insurance Fund (Note 4)	<u>21,120</u>	<u>22,461</u>
Total liabilities	38,387	39,415
<b>FUND BALANCE (Note 11)</b>	<b><u>22,384</u></b>	<b><u>24,045</u></b>
<b>TOTAL</b>	<b><u>\$60,771</u></b>	<b><u>\$63,460</u></b>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
OPERATING FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(Dollars in thousands)**

	<b>2007</b>	<b>2006</b>
REVENUES:		
Operating fees	\$63,961	\$63,577
Interest	2,213	2,203
Other	<u>303</u>	<u>179</u>
Total revenues	<u>66,477</u>	<u>65,959</u>
EXPENSES (Note 4):		
Employee wages and benefits	51,902	46,740
Travel	6,802	5,583
Rent, communications, and utilities	1,905	1,594
Contracted services	2,961	2,900
Other	<u>4,568</u>	<u>4,018</u>
Total expenses	<u>68,138</u>	<u>60,835</u>
EXCESS OF (EXPENSES OVER REVENUES) REVENUES OVER EXPENSES	(1,661)	5,124
FUND BALANCE — Beginning of year	<u>24,045</u>	<u>18,921</u>
FUND BALANCE — End of year	<u>\$22,384</u>	<u>\$24,045</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
OPERATING FUND**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(Dollars in thousands)**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of (expenses over revenues) revenues over expenses	\$ (1,661)	\$ 5,124
Adjustments to reconcile excess of (expenses over revenues) revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	3,312	3,719
Provision for loss on disposal of employee residences held for resale	280	261
Loss on disposal of fixed assets	-	1
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(370)	231
Employee advances	759	(67)
Other accounts receivable	3	308
Prepaid expenses	(156)	(237)
(Decrease) increase in liabilities:		
Accounts payable	399	(2,582)
Accrued wages and benefits	654	(3,820)
Accrued annual leave	256	122
Accrued employee travel	<u>(6)</u>	<u>(9)</u>
Net cash provided by operating activities	<u>3,470</u>	<u>3,051</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(2,250)	(1,049)
Purchases of employee residences held for sale	(1,530)	(1,839)
Proceeds from sale of employee residences held for resale	<u>1,290</u>	<u>813</u>
Net cash used in investing activities	<u>(2,490)</u>	<u>(2,075)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of note payable	(1,341)	(1,341)
Principal payments under capital lease obligations	<u>(858)</u>	<u>(971)</u>
Net cash used in financing activities	<u>(2,199)</u>	<u>(2,312)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,219)	(1,336)
<b>CASH AND CASH EQUIVALENTS — Beginning of year</b>	<u>25,394</u>	<u>26,730</u>
<b>CASH AND CASH EQUIVALENTS — End of year</b>	<u>\$24,175</u>	<u>\$25,394</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES —</b>		
Acquisition of equipment under capital lease	<u>\$ 83</u>	<u>\$ 2,781</u>
<b>CASH PAYMENTS FOR INTEREST</b>	<u>\$ 1,095</u>	<u>\$ 889</u>

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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### 1. ORGANIZATION AND PURPOSE

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Cash Equivalents** — The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 2007 and 2006 were cash equivalents and are stated at cost, which approximates fair value.

**Depreciation and Amortization** — Building, furniture, equipment and leasehold improvements are recorded at cost. Capital leases are recorded at the present value of the future minimum lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the building, furniture, and equipment, and the shorter of the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are forty years for the building and three to ten years for the furniture, equipment, and leasehold improvements.

**Operating Fees** — The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding December 31. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. The Fund recognizes this operating fee revenue ratably over the year.

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

**Fair Value of Financial Instruments** — The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, receivables from National Credit Union Share Insurance Fund (NCUSIF) and National Credit Union Administration Central Liquidity Facility (NCUA CLF), employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate the respective fair values.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

### 3. FIXED ASSETS

Fixed assets are comprised of the following at December 31, 2007 and 2006 (in thousands):

	2007	2006
Office building and land	\$43,358	\$42,651
Furniture and equipment	12,812	11,900
Equipment under capital leases	2,846	2,983
Assets under construction	<u>320</u>	<u>139</u>
Total	59,336	57,673
Less — accumulated depreciation and amortization	<u>(25,123)</u>	<u>(22,364)</u>
Fixed assets — net	<u>\$34,213</u>	<u>\$35,309</u>

Accumulated amortization balances for equipment under capital leases as of December 31, 2007 and 2006, were (in thousands) \$1,718 and \$964, respectively.

### 4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor to NCUSIF was 53.3% in 2007 and 57% in 2006. The cost of the services allocated to NCUSIF, which totaled approximately \$77,766,000 and \$80,642,000 for 2007 and 2006, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In 1992, the Fund entered into a commitment to borrow up to \$41,975,000 in a thirty-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were approximately \$967,000 and \$873,000 for 2007 and 2006, respectively. The note payable balances at December 31, 2007, and 2006, were approximately \$21,120,000 and \$22,461,000, respectively.

The above note requires principal repayments at December 31, 2007 as follows (in thousands):

Years Ending December 31	Secured Term Note
2008	\$ 1,341
2009	1,341
2010	1,341
2011	1,341
2012	1,341
Thereafter	<u>14,415</u>
Total	<u>\$21,120</u>

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2007 and 2006 were 4.45% and 3.79%, respectively. The interest rates at December 31, 2007, and 2006, were 4.39% and 4.29%, respectively.

### 5. TRANSACTIONS WITH NCUA CLF

Certain administrative services are provided by the Fund to NCUA CLF. The Fund charges NCUA CLF for these services based upon rates approved by the NCUA Board. The costs of the services provided to NCUA CLF were \$240,000 and \$253,000 for 2007 and 2006, respectively, and are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include approximately \$103,000 and \$95,000 of amounts due from NCUA CLF as of December 31, 2007, and 2006, respectively.

### 6. LEASE COMMITMENTS

**Description of Leasing Agreements** — The Fund has entered into a number of lease agreements with vendors for the rental of office space, as well as the lease of office equipment that includes laptops, printers, monitors, and copiers.

**Operating Leases** — The Fund leases office space under lease agreements that expire through 2014. Office rental charges amounted to approximately \$741,500 and \$741,600 of which approximately \$395,200 and \$422,700 was reimbursed by NCUSIF for 2007 and 2006, respectively. In addition, the Fund leases office equipment under operating leases with lease terms of less than one year.

**Capital Leases** — The Fund leases equipment under lease agreements that expire through 2012.

The future minimum lease payments as of December 31, 2007, are as follows (in thousands):

<b>Years Ending December 31</b>	<b>Operating Leases</b>	<b>Capital Leases</b>
2008	\$ 739	\$ 970
2009	756	258
2010	479	18
2011	487	18
2012	479	6
Thereafter	<u>395</u>	<u>-</u>
Total	<u>\$3,335</u>	1,270
Less imputed interest		<u>(24)</u>
Present value of minimum lease payments		<u>\$1,246</u>

Based on the allocation factor approved by the NCUA Board for 2008, NCUSIF will reimburse the Fund for approximately 52% of the future operating lease payments.

## 7. RETIREMENT PLANS

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions, subject to Internal Revenue Service (IRS) limitations, and the Fund will match up to 5% of the employees' gross pay. In 2007 and 2006, the Fund's contributions to the plans were approximately \$11,947,000 and \$11,630,000, respectively, of which approximately \$6,368,000 and \$6,629,000, respectively, were reimbursed by NCUSIF.

The Fund does not account for the assets of the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers.

## 8. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows (in thousands):

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Cash and cash equivalents	\$24,175	\$24,175	\$25,394	\$25,394
Due from NCUSIF	272	272	-	-
Due to NCUSIF	-	-	98	98
Employee advances	143	143	902	902
Other accounts receivable	169	176	172	172
Accounts payable	4,216	4,216	3,817	3,817
Obligation under capital lease	1,246	1,246	2,138	2,138
Note payable to NCUSIF	21,120	21,120	22,461	22,461

**9. CONTINGENCIES**

The Fund is currently a party to a number of disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to any other disputes, if any, will not be material to the Fund's financial position.

**10. HURRICANE RELATED MATTERS**

As part of its regulatory relief and forbearance efforts for credit unions and their members impacted by hurricanes, the NCUA Board allowed credit unions that are located in hurricane-affected areas to pay an operating fee that was based on assets that excluded hurricane-related Federal Emergency Management Agency and insurance payouts. This resulted in a reduction in operating fee collections in the amount of \$45,000 and \$167,000 during 2007 and 2006, respectively.

The NCUA Board does not plan to allow hurricane-affected credit unions to pay a reduced operating fee in 2008.

**11. RETAINED EARNINGS APPROPRIATION**

In 2006, the NCUA Board established an appropriation of the Fund's fund balance in an effort to more transparently disclose and communicate to stakeholders earnings that are needed for major projects that cannot be accrued or that do not warrant inclusion in the annual operating expense budget. The initial appropriation of \$1,000,000 is for repairs and maintenance on NCUA's Alexandria headquarters building. In 2007, this amount did not change.

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**NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY**

**BALANCE SHEETS  
AS OF DECEMBER 31, 2007 AND 2006  
(In thousands)**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS:</b>		
Cash	\$ 12	\$ 12
Investments with U.S. Central Federal Credit Union (Notes 5, 8, 9, and 11)	1,638,285	1,549,678
Accrued interest receivable	<u>23,922</u>	<u>21,386</u>
<b>TOTAL</b>	<b><u>\$1,662,219</u></b>	<b><u>\$1,571,076</u></b>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable and other liabilities	\$ 132	\$ 130
Dividends payable (Note 7)	23,777	21,267
Member deposits (Note 7)	<u>642</u>	<u>622</u>
Total liabilities	<u>24,551</u>	<u>22,019</u>
 <b>MEMBERS' EQUITY:</b>		
Capital stock — required (Note 7)	1,626,260	1,537,649
Retained earnings	<u>11,408</u>	<u>11,408</u>
Total members' equity	<u>1,637,668</u>	<u>1,549,057</u>
<b>TOTAL</b>	<b><u>\$1,662,219</u></b>	<b><u>\$1,571,076</u></b>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands)**

	<b>2007</b>	<b>2006</b>
REVENUE:		
Investment income	\$89,259	\$78,213
Interest — loans to members (Note 6)	<u>-</u>	<u>75</u>
Total revenue	<u>89,259</u>	<u>78,288</u>
EXPENSES (Note 10):		
Personnel services	144	141
Other services	48	63
Rent, communications, and utilities	10	8
Personnel benefits	33	33
Supplies and materials	1	3
Printing and reproduction	<u>4</u>	<u>5</u>
Total operating expenses	240	253
Interest — Federal Financing Bank loans (Note 6)	-	75
Interest — liquidity reserve	<u>53</u>	<u>37</u>
Total expenses	<u>293</u>	<u>365</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$88,966</u>	<u>\$77,923</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands)**

	<b>Capital Stock</b>	<b>Retained Earnings</b>
BALANCE — January 1, 2006	\$1,458,445	\$11,408
Issuance of required capital stock	81,143	-
Redemption of required capital stock	(1,939)	-
Dividends	-	(77,923)
Excess of revenue over expenses	<u>-</u>	<u>77,923</u>
BALANCE — December 31, 2006	1,537,649	11,408
Issuance of required capital stock	89,709	-
Redemption of required capital stock	(1,098)	-
Dividends	-	(88,966)
Excess of revenue over expenses	<u>-</u>	<u>88,966</u>
BALANCE — December 31, 2007	<u>\$1,626,260</u>	<u>\$11,408</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands)**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of revenue over expenses	\$88,966	\$77,923
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Increase in accrued interest receivable	(2,536)	(6,829)
Increase in accounts payable and other liabilities	<u>2</u>	<u>10</u>
Net cash provided by operating activities	<u>86,432</u>	<u>71,104</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES —</b>		
Purchase of investments — net	<u>(88,607)</u>	<u>(79,288)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Additions to member deposits	1,872	1,578
Issuance of required capital stock	89,709	81,143
Dividends	(86,456)	(71,131)
Withdrawal of member deposits	(1,852)	(1,465)
Redemption of required capital stock	<u>(1,098)</u>	<u>(1,939)</u>
Net cash provided by financing activities	<u>2,175</u>	<u>8,186</u>
<b>NET INCREASE IN CASH</b>	-	2
<b>CASH — Beginning of year</b>	<u>12</u>	<u>10</u>
<b>CASH — End of year</b>	<u>\$ 12</u>	<u>\$ 12</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid during the year for interest</b>		
	<u>\$ 52</u>	<u>\$ 108</u>

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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### 1. ORGANIZATION AND PURPOSE

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

The purpose of CLF is to improve general financial stability by meeting the liquidity needs of credit unions. CLF is a tax-exempt organization under Section 501(c)(1) of the Internal Revenue Code.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — CLF maintains its accounting records on the accrual basis of accounting.

**Loans and Allowance for Loan Losses** — Loans, when made to members, are on a short-term or long-term basis. For all loans, CLF may obtain a security interest in the assets of the borrower. In determining the allowance for loan losses, when applicable, 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.

**Funds on Deposit with U.S. Central Federal Credit Union** — CLF invests in redeposits and share accounts at U.S. Central Federal Credit Union (USC) (Notes 5 and 9). These are nontransferable, nonnegotiable instruments that are acquired at face value and carried at cost.

**Fair Value of Financial Instruments** — The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

*Cash* — The carrying amounts for cash approximate fair value.

*Investments* — Fair values of financial instruments with maturities over one year are computed using the market rate of interest at year-end. For financial instruments with maturities of one year or less, the carrying amounts approximate fair value.

*Loans* — For loans advanced to member credit unions, the carrying amounts approximate fair value.

*Member Deposits* — Funds maintained with the CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand, and the carrying amounts approximate the fair value.

*FFB Notes Payable* — For notes issued to the Federal Financing Bank (FFB), when applicable, the carrying amounts approximate fair value.

*Other* — Accrued interest receivable, accounts payable, and other liabilities are recorded at book values, which approximate the respective fair values.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

### 3. GOVERNMENT REGULATIONS

CLF is subject to various Federal laws and regulations. CLF's operating budget requires Congressional approval, and CLF may not make loans to members for the purpose of expanding credit union loan portfolios. CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus.

However, there is a Congressional limitation of \$1.5 billion on funds that are borrowed and then loaned out to credit unions at any one point in time.

At December 31, 2007 and 2006, CLF was in compliance with its borrowing authority. Borrowings would be from the FFB with interest generally payable upon maturity (Note 6).

#### 4. LOANS TO MEMBERS

There were no loans or loan commitments outstanding at December 31, 2007 and 2006. CLF can provide members with extended loan commitments.

#### 5. FUNDS ON DEPOSIT WITH U.S. CENTRAL FEDERAL CREDIT UNION

Funds not currently required for operations at December 31, 2007 and 2006, are invested as follows (in thousands):

	2007	2006
U.S. Central Federal Credit Union Share Account	\$1,632,285	\$1,545,678
U.S. Central Federal Credit Union Share Certificates	<u>6,000</u>	<u>4,000</u>
	<u>\$1,638,285</u>	<u>\$1,549,678</u>

A Memorandum of Understanding (MOU), effective July 1, 2005, sets forth the understanding of CLF and the USC concerning the investments by CLF in USC Share Account and Certificates.

As provided in the MOU, all investments by CLF in shares of USC will be in either the Share Account or Share Certificates. The Share Account is a three-month, fixed rate account that provides for automatic re-investment at maturity and daily availability of funds with no penalty for early withdrawal. The Share Account is only available to CLF. In the event of liquidation of the USC, shares in the account will be redeemable in full, prior to the redemption of any other shares of USC.

The Share Certificates are fixed rate, with a maturity fixed upon issuance (three or five years under the current MOU). Redemption prior to maturity is permitted, in whole or in part, if the CLF requests early redemption and if the USC and the CLF agree on an early redemption value. The Share Certificates are neither negotiable nor assignable.

#### 6. BORROWING AUTHORITY

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus.

On July 15, 1999, the National Credit Union Administration signed a note purchase agreement with the Federal Financing Bank on behalf of CLF. The first promissory note under that note purchase agreement originally provided for a commitment of \$20.7 billion. Subsequently, the note purchase agreement expired on September 30, 2000, and was extended through amendments annually. The amount of each promissory note was reduced to \$5 billion and expires yearly on the 31<sup>st</sup> of March. The current promissory note expires March 31, 2008. Congress, however, has restricted CLF's borrowing authority to \$1.5 billion for the fiscal years 2006, 2007 and 2008, for the principal amount of new direct loans to member credit unions. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity. During 2006, CLF borrowed amounts totaling \$6,210,600 from the Federal Financing Bank under two separate loan agreements, which it, in turn, loaned to a member credit union. All amounts borrowed during 2006 were repaid by December 31, 2006. No borrowing or lending occurred during 2007.

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

#### 7. CAPITAL STOCK AND MEMBER DEPOSITS

The required capital stock account represents subscriptions remitted to CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to CLF. Agent

members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which is required to be remitted to 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 NCUA Board. These unremitted subscriptions are not reflected in 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.

Dividends payable represents dividends declared in 2007 and 2006 to be paid in 2008 and 2007, respectively.

#### 8. U.S. CENTRAL FEDERAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, CLF accepted a membership request from USC on behalf of its corporate credit union members. At December 31, 2007 and 2006, \$1,565,647,000 and \$1,479,256,000, respectively, of the required portion of subscribed capital stock were purchased from CLF by USC on behalf of member credit unions of its corporate credit union members. The USC has 26 and 28 corporate credit union members as of December 31, 2007 and 2006, respectively.

CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 2007 and 2006, approximately \$1,638,285,000 and \$1,549,678,000, respectively, were invested in USC accounts at 5.77% and 5.46% respective yields, respectively.

#### 9. CONCENTRATION OF CREDIT RISK

At December 31, 2007 and 2006, CLF has a concentration of credit risk for its investments on deposit with USC of approximately \$1,638,285,000 and \$1,549,678,000, respectively (see Notes 5 and 8).

#### 10. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

The NCUA provides CLF with data processing and other miscellaneous services and supplies. In addition, the NCUA pays CLF's employees' salaries and benefits as well as CLF's portion of monthly building operating costs. CLF reimburses the NCUA on a monthly basis for these items. The total amounts charged by the NCUA were approximately \$240,000 and \$253,000 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, accounts payable and other liabilities include approximately \$103,000 and \$95,000, respectively, due to the NCUA Operating Fund for services provided.

#### 11. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of CLF's financial instruments at December 31, 2007 and 2006, are as follows (in thousands):

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	\$ 12	\$ 12	\$ 12	\$ 12
Funds on deposit with U.S. Central Federal Credit Union	1,638,285	1,638,473	1,549,678	1,549,668
Accrued interest receivable	23,922	23,922	21,386	21,386
Accounts payable and other liabilities	132	132	130	130
Dividends payable	23,777	23,777	21,267	21,267
Member deposits	642	642	622	622

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**NATIONAL CREDIT UNION ADMINISTRATION  
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**BALANCE SHEETS  
AS OF DECEMBER 31, 2007 AND 2006**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
CASH AND CASH EQUIVALENTS	\$ 2,931,422	\$ 8,668,980
LOANS — Net of allowance (Note 4)	13,292,065	7,386,864
INTEREST RECEIVABLE	<u>30,154</u>	<u>17,703</u>
TOTAL	<u>\$16,253,641</u>	<u>\$16,073,547</u>
<b>LIABILITIES AND FUND BALANCE</b>		
LIABILITIES — Accrued technical assistance	<u>\$ 1,308,135</u>	<u>\$ 1,091,418</u>
FUND BALANCE:		
Revolving fund capital (Note 3)	13,435,642	13,435,642
Accumulated earnings	<u>1,509,864</u>	<u>1,546,487</u>
Total fund balance	<u>14,945,506</u>	<u>14,982,129</u>
TOTAL	<u>\$16,253,641</u>	<u>\$16,073,547</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
<b>SUPPORT AND REVENUES:</b>		
Interest on cash equivalents	\$ 264,661	\$ 451,184
Interest on loans	98,113	57,271
Appropriation revenue	<u>940,500</u>	<u>892,636</u>
Total support and revenues	<u>1,303,274</u>	<u>1,401,091</u>
<b>EXPENSES:</b>		
Technical assistance	1,436,889	1,224,956
Recoveries of loan losses	<u>(96,992)</u>	<u>(20,180)</u>
Total expenses	<u>1,339,897</u>	<u>1,204,776</u>
EXCESS OF (EXPENSES OVER SUPPORT AND REVENUES) SUPPORT AND REVENUES OVER EXPENSES	<u>\$ (36,623)</u>	<u>\$ 196,315</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF CHANGES IN FUND BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
FUND BALANCE — Beginning of year	\$14,982,129	\$15,687,950
Change in unexpended appropriations:		
Operating appropriations received (Note 3)	940,500	-
Rescission of appropriations received (Note 3)	-	(9,500)
Appropriation revenue recognized (Note 3)	(940,500)	(892,636)
Excess of (expenses over support and revenues) support and revenues over expenses	<u>(36,623)</u>	<u>196,315</u>
FUND BALANCE — End of year	<u>\$14,945,506</u>	<u>\$14,982,129</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION  
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of (expenses over support and revenues) support and revenues over expenses	\$ (36,623)	\$ 196,315
Adjustments to reconcile the excess of (expenses over support and revenues) support and revenues over expenses to net cash used in operating activities:		
Change in unexpended appropriations	(940,500)	(892,636)
Reduction of allowance for loan losses — net of recoveries	-	(20,180)
Changes in assets and liabilities:		
Increase in interest receivable	(12,451)	(6,410)
Increase in accrued technical assistance	<u>216,717</u>	<u>254,153</u>
Net cash used in operating activities	<u>(772,857)</u>	<u>(468,758)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	1,853,386	1,331,863
Loan disbursements	<u>(7,758,587)</u>	<u>(4,144,500)</u>
Net cash used in investing activities	<u>(5,905,201)</u>	<u>(2,812,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations received	940,500	-
Recession of appropriations received	<u>-</u>	<u>(9,500)</u>
Net cash provided by (used in) financing activities	<u>940,500</u>	<u>(9,500)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,737,558)	(3,290,895)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>8,668,980</u>	<u>11,959,875</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$2,931,422</u>	<u>\$ 8,668,980</u>

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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### 1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Fund for Credit Unions (CDRLF) was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of the Fund, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of CDRLF was transferred to the Department of Health and Human Services (HHS). Because HHS never promulgated final regulations governing the administration of CDRLF, the Fund was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-604, November 6, 1986) transferred CDRLF administration back to NCUA. The NCUA Board adopted amendments to Part 705 of NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of CDRLF is to stimulate economic activities in the communities served by low-income credit unions which will result in increased income, ownership, and employment opportunities for low-wealth residents, and other economic growth. The policy of NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

### 2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

**Basis of Accounting** — CDRLF reports its financial statements on the accrual basis of accounting.

**Cash Equivalents** — The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2007 and 2006 were cash equivalents and are stated at cost which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

**Allowance for Loan Losses** — CDRLF records a provision for estimated loan losses. Loans considered to be uncollectible are charged to the allowance for loan losses. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectibility risk of the total loan portfolio. Accrual of interest is discontinued on non-performing loans when management believes collectibility is doubtful. At December 31, 2007 and 2006, there were no nonaccrual loans.

**Salary and Operating Expenses** — NCUA provides certain general and administrative support to the CDRLF, including office space, salaries, and certain supplies. The value of these contributed services is not charged to CDRLF.

**Revenue Recognition** — Appropriation revenue is recognized as the related technical assistance expense is recognized. Total appropriation revenues will differ from total technical assistance expenses because not all technical assistance is funded by appropriations.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

### 3. GOVERNMENT REGULATIONS

CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance, is limited by Congress to a total of the \$19,564,392 appropriated for CDRLF, plus accumulated earnings. Federally chartered and state-chartered credit unions may participate in CDRLF's Community Loan Fund. Loans may only be made to low-income credit unions as defined by NCUA.

NCUA Rules and Regulations Section 705.7 permit the classification of the loan in the participating credit union's accounting records as either a note payable or a nonmember deposit. As a nonmember deposit, an amount not to exceed \$100,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The covered amount of loans recorded as nonmember deposits by participating credit unions insured by the NCUSIF totaled approximately \$5,790,000 and \$4,553,000 at December 31, 2007 and 2006, respectively. Under the CDRLF Loan Program, loans recorded in the credit union's accounting records as notes payable may be collateralized.

Loans are limited to a maximum amount of \$300,000 per credit union. Loans issued after January 1, 2002, carry a fixed rate of 1%. Interest and principal are repaid on a semiannual basis beginning six months and one year, respectively, after the initial distribution of the loan. The maximum term of each loan is five years. Participating credit unions are required to match the value of the loan within one year of the date of approval of the loan.

During the year ended December 31, 2005, appropriations for loans and technical assistance in the amount of \$1,942,000 were received, of which \$950,000 was for the Federal government's fiscal year 2006–2007. Appropriation revenue in the amount of \$793,600 was recognized in 2005, leaving a balance to be carried over into 2006 in the amount of \$1,148,400. Of the amount, \$198,400 was designated to be used as revolving fund capital and the remainder for technical assistance.

In January 2006, \$9,500 of the fiscal 2006–2007 appropriation was rescinded making a net appropriation of \$940,500 for technical assistance for the Federal government's fiscal years 2006–2007.

During the year ended December 31, 2007, appropriations for technical assistance in the amount of \$940,500 were received for the Federal government's fiscal years 2007–2008. The amount was designated to be used as operating appropriations for technical assistance and no amount was designated to be used as revolving fund capital.

For the appropriations received for technical assistance for the Federal government's fiscal year 2007–2008, \$940,500 expires on September 30, 2008. Appropriations of \$975,000 for technical assistance grants are proposed for fiscal 2008–2009.

	<u>Public Laws</u>			<b>Total</b>
	<u>No. 108-199</u>	<u>No. 109-115</u>	<u>No. 110-5</u>	
Activities by each appropriation:				
Operating appropriation received — 2005	\$198,400	\$950,000	\$ -	\$1,148,400
Operating appropriation rescinded — 2006	-	(9,500)	-	(9,500)
Appropriation revenue recognized — 2006	-	892,636	-	892,636
Operating appropriation received — 2007	-	-	940,500	940,500
Appropriation revenue recognized — 2007	-	-	940,500	940,500
Balance — December 31, 2007	<u>\$198,400</u>	<u>\$ 47,864</u>	<u>\$ -</u>	<u>\$ 246,264</u>
		<b>2007</b>	<b>2006</b>	
Unexpended appropriations:				
Balance — beginning of the year		\$ 1,141,442	\$ 2,043,578	
Operational appropriations received (rescinded)		940,500	(9,500)	
Appropriation revenue recognized		<u>(940,500)</u>	<u>(892,636)</u>	
Balance of unexpended appropriations — end of year		<u>\$ 1,141,442</u>	<u>\$ 1,141,442</u>	
Revolving fund capital:				
Balance — beginning of the year		\$13,435,642	\$14,337,778	
Change in unexpended appropriations		<u>-</u>	<u>(902,136)</u>	
Balance of revolving fund capital — end of year		<u>\$13,435,642</u>	<u>\$13,435,642</u>	

#### 4. LOANS

Loans outstanding at December 31, 2007 and 2006, are scheduled to be repaid during the following subsequent years:

	<b>2007</b>	<b>2006</b>
2007	\$ -	\$1,828,997
2008	2,738,295	1,655,690

2009	3,075,324	1,549,027
2010	2,775,356	1,247,700
2011	2,657,106	1,105,450
2012	<u>2,045,984</u>	<u>-</u>
Net loans outstanding	<u>\$13,292,065</u>	<u>\$7,386,864</u>

Changes in the allowance for loan losses are summarized below:

	<b>2007</b>	<b>2006</b>
Balance — beginning of year	\$ -	\$20,180
Reduction of provision for allowance for loan losses	<u>-</u>	<u>(20,180)</u>
Balance — end of year	<u>\$ -</u>	<u>\$ -</u>

## 5. CONCENTRATION OF CREDIT RISK

At December 31, 2007 and 2006, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

## 6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of Financial Accounting Standards Board Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. The methods and assumptions used in estimating the fair value disclosures for financial instruments are as follows:

**Cash and Cash Equivalents** — The carrying amounts for cash and cash equivalents approximate fair values.

**Interest Receivable and Accrued Technical Assistance** — Such items are recorded at book values, which approximate the respective fair values.

**Loans** — The fair value is estimated by discounting projected future cash flows using current market interest rates. For purposes of this calculation, the discount rate used was the prime interest rate plus two percent (5.26% and 6.76% at December 31, 2007 and 2006, respectively).

The carrying amount and the estimated fair value of the CDRLF's financial instruments are as follows:

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	<u>\$ 2,931,422</u>	<u>\$ 2,931,422</u>	<u>\$8,668,980</u>	<u>\$8,668,980</u>
Loans	<u>\$13,292,065</u>	<u>\$11,817,193</u>	<u>\$7,386,864</u>	<u>\$6,358,776</u>
Interest receivable	<u>\$ 30,154</u>	<u>\$ 30,154</u>	<u>\$ 17,703</u>	<u>\$ 17,703</u>
Liabilities — accrued technical assistance	<u>\$ 1,308,135</u>	<u>\$ 1,308,135</u>	<u>\$1,091,418</u>	<u>\$1,091,418</u>

It is the intent of CDRLF to hold its loans to maturity. CDRLF anticipates realizing the carrying amount in full. Fair value is less than the carrying amount because loans are made at less than market interest rates.

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# Financial Tables

## INSURANCE FUND TEN-YEAR TRENDS

Fiscal year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Income (in thousands)</b>										
Regular premium-federal	—	—	—	—	—	—	—	—	—	—
Regular premium-state	—	—	—	—	—	—	—	—	—	—
Interest income	\$217,965	\$227,281	\$268,169	\$252,853	\$213,252	\$151,175	\$124,836	\$175,017	\$264,895	\$320,163
Other income	2,033	1,850	1,952	1,703	1,226	760	515	645	1,326	1,166
Total income	\$219,998	\$229,131	\$270,121	\$254,556	\$214,478	\$151,935	\$125,351	\$175,662	\$266,221	\$321,329
<b>Expenses (in thousands)</b>										
Operating	\$51,071	\$58,392	\$65,898	\$90,505	\$85,367	\$85,026	\$81,405	\$80,473	\$82,056	\$79,218
Insurance losses	—	—	—	—	12,513	38,043	(3,424)	20,940	2,548	186,397
Losses on investment sales	—	—	—	—	—	—	—	—	—	—
Total expenses	\$51,071	\$58,392	\$65,898	\$90,905	\$97,880	\$123,068	\$77,981	\$101,413	\$84,604	\$265,615
Net income (in thousands)	\$168,927	\$170,739	\$204,223	\$164,051	\$116,598	\$28,867	\$47,370	\$74,249	\$181,617	\$55,714
<b>Data highlights</b>										
Total equity (in millions)	\$3,811	\$4,170	\$4,628	\$5,036	\$5,607	\$6,073	\$6,359	\$6,618	\$6,978	\$7,261
Equity as a percentage of shares in insured credit unions	1.30%	1.30%	1.30%	1.25%	1.27%	1.27%	1.27%	1.28%	1.30%	1.29%
Contingent liabilities <sup>1</sup> (in thousands)	\$556	\$1,281	\$2,362	\$2,217	\$0	\$0	\$0	\$3,475	\$443	\$5,100
Contingent liabilities as a percentage of equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%
NCUSIF loss per \$1,000 of insured shares	\$0.00	\$0.00	\$0.00	\$0.00	\$0.03	\$0.08	\$0.00	\$0.04	\$0.00	\$0.33
<b>Operating ratios</b>										
Premium income	—	—	—	—	—	—	—	—	—	—
Interest income	99.1%	99.2%	99.3%	99.3%	99.4%	99.5%	99.6%	99.6%	99.5%	99.6%
Other income	0.9%	0.8%	0.7%	0.7%	0.6%	0.5%	0.4%	0.4%	0.5%	0.4%
Operating expenses	23.2%	25.5%	24.4%	35.5%	39.8%	56.0%	64.9%	45.8%	30.8%	24.7%
Insurance losses	0.0%	0.0%	0.0%	0.0%	5.8%	25.0%	(2.7)%	11.9%	1.0%	58.0%
Total expenses	23.2%	25.5%	24.4%	35.6%	45.6%	81.0%	62.2%	57.7%	31.8%	82.7%
Net income	76.8%	74.5%	75.6%	64.4%	54.4%	19.0%	37.8%	42.3%	68.2%	17.3%
<b>Involuntary liquidations commenced</b>										
Number	13	15	20	17	14	8	14	10	12	7
Share payouts (in thousands)	\$6,298	\$5,403	\$10,393	\$16,290	\$40,003	\$ 7,774	\$88,746	\$27,137	\$19,799	\$195,325
Share payouts as a percentage of total insured shares	0.002%	0.002%	0.003%	0.004%	0.009%	0.002%	0.018%	0.005%	0.004%	0.035%

<sup>1</sup>Amounts for 2006 and 2007 represent the carrying value of guarantees as determined under FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including indirect guarantees of indebtedness of others.

## INSURANCE FUND TEN-YEAR TRENDS

Fiscal year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Mergers—fiscal year</b>										
Assisted	5	8	9	5	1	5	7	5	4	5
Unassisted	217	315	284	295	271	166	331	260	281	237
<b>Section 208 (FCU Act) assistance to avoid liquidation (in thousands)</b>										
Capital notes and other cash advances outstanding	\$1,466	\$325	\$146	\$2,050	\$0	\$0	\$0	\$0	\$15,000	\$0
Non-cash guaranty accounts	\$1,557	\$4,516	\$8,450	\$2,559	\$156	\$7,872	\$70	\$4,649	\$679	\$233,088
Number of active cases	12	16	17	10	3	10	1	8	4	6
<b>Number of problem case insured credit unions (CODE 4 &amp; 5)</b>										
Number	308	338	202	205	211	217	255	280	240	211
Shares (millions)	\$3,181	\$2,693	\$1,483	\$1,731	\$2,901	\$3,568	\$4,350	\$5,771	\$5,160	\$5,300
Problem case shares as a percentage of insured shares	0.99%	0.80%	0.42%	0.43%	0.66%	0.74%	0.87%	1.12%	0.96%	0.94%
<b>December 31</b>										
<b>Shares in insured credit unions (in millions)<sup>1</sup></b>										
Federal credit unions	\$191,328	\$194,766	\$195,871	\$217,112	\$238,912	\$262,420	\$276,395	\$285,713	\$296,469	\$308,917
State credit unions	130,129	140,857	157,996	185,574	202,552	215,056	222,573	229,909	237,724	251,915
Total shares	\$321,457	\$335,623	\$353,867	\$402,686	\$441,464	\$477,476	\$498,968	\$515,622	\$534,193	\$560,832
<b>Number of member accounts in insured credit unions (in thousands)</b>										
Federal credit unions	72,848	73,466	74,125	74,886	76,554	79,819	81,668	84,556	87,869	88,543
State credit unions	49,130	52,787	57,397	61,290	62,597	62,489	63,585	64,632	67,432	69,513
Total	121,978	126,253	131,522	136,176	139,151	142,308	145,253	149,188	155,302	158,056
<b>Number of insured credit unions</b>										
Federal credit unions	6,815	6,566	6,336	6,118	5,953	5,776	5,572	5,393	5,189	5,036
State credit unions	4,180	4,062	3,980	3,866	3,735	3,593	3,442	3,302	3,173	3,065
Total	10,995	10,628	10,316	9,984	9,688	9,369	9,014	8,695	8,362	8,101
Insured shares as a percentage of all credit union shares	99.0%	94.0%	93.3%	92.1%	91.2%	90.4%	89.7%	89.0%	88.9%	88.7%
State credit union portion of insured shares	40.5%	42.0%	44.7%	46.1%	45.9%	45.0%	44.6%	44.4%	44.5%	44.9%

<sup>1</sup>Insured shares in natural person credit unions.

## FEDERAL CREDIT UNION TEN-YEAR SUMMARY

Federal credit unions December 31 (dollar amounts in millions)

December	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of credit unions	6,815	6,566	6,336	6,118	5,953	5,776	5,572	5,393	5,189	5,036
Number of members	43,864,851	44,076,428	43,883,106	43,816,877	44,610,949	46,155,018	46,857,723	47,913,908	48,254,366	48,474,331
Assets	\$231,904	\$239,316	\$242,881	\$270,125	\$301,238	\$336,612	\$358,704	\$377,826	394,130	417,579
Loans outstanding	144,849	155,172	163,851	170,326	181,767	202,898	223,878	249,521	270,418	289,170
Shares	202,651	207,614	210,188	235,202	261,819	291,485	308,318	321,831	333,914	349,101
Reserves <sup>1</sup>	9,837	10,314	10,837	11,339	12,227	12,881	13,342	13,368	14,096	14,580
Undivided earnings	15,468	16,546	17,279	18,596	20,855	23,526	26,054	28,855	31,580	33,368
Gross income	18,137	18,530	19,456	20,042	19,676	19,764	20,302	22,796	26,137	29,304
Operating expenses	8,241	8,551	8,721	9,287	10,158	11,239	12,128	13,308	13,900	13,523
Dividends	7,760	7,698	8,120	8,277	6,369	5,199	4,683	5,930	8,398	10,588
Reserve transfers	211	323								
Net income <sup>2</sup>	\$2,081	\$2,184	\$2,470	\$2,436	\$3,082	\$3,273	\$3,351	\$3,295	\$3,419	\$2,910
<b>Percent change</b>										
Total assets	7.8%	3.2%	1.5%	11.2%	11.5%	11.7%	6.6%	5.3%	4.3%	5.9%
Loans outstanding	3.4	7.1	5.6	4.0	6.7	11.6	10.3	11.5	8.4	6.9
Shares	7.9	2.4	1.2	11.9	11.3	11.3	5.8	4.4	3.6	4.5
Reserves <sup>1</sup>	5.0	4.8	5.1	4.6	7.8	5.3	3.6	0.2	5.4	3.4
Undivided earnings	7.7	7.0	4.4	7.6	12.1	12.8	10.7	10.8	9.4	5.7
Gross income	4.2	2.2	5.0	3.0	-1.8	0.4	2.7	12.3	14.7	12.1
Operating expenses	5.7	3.8	2.0	6.5	9.4	10.6	7.9	9.7	4.4	-2.7
Dividends	4.5	-0.8	5.5	1.9	-23.1	-18.4	-9.9	26.6	41.6	26.1
Net income <sup>2</sup>	-1.5	5.0	13.1	-1.4	26.5	6.2	2.4	-1.7	3.8	-14.9
<b>Significant ratios</b>										
Reserves to assets	4.2%	4.3%	4.5%	4.2%	4.1%	3.8%	3.7%	3.5%	3.6%	3.5%
Reserves and undivided earnings to assets	10.9	11.2	11.6	11.1	11.0	10.8	11.0	11.2	11.6	11.5
Reserves to loans	6.8	6.6	6.6	6.7	6.7	6.3	6.0	5.4	5.2	5.0
Loans to shares	71.5	74.7	78.0	72.4	69.4	69.6	72.6	77.5	81.0	82.8
Operating expenses to gross income	45.4	46.1	44.8	46.3	51.6	56.9	59.7	58.41	48.6	46.3
Salaries and benefits to gross income	19.7	20.5	20.2	21.0	23.3	25.9	27.0	25.8	24.2	23.1
Dividends to gross income	42.8	41.5	41.7	41.3	32.4	26.3	23.1	26.0	32.1	36.1
Yield on average assets	8.1	7.9	8.3	7.8	6.9	6.2	5.8	6.2	5.5	7.2
Cost of funds to average assets	3.5	3.3	3.5	3.3	2.3	1.7	1.4	1.7	2.3	2.8
Gross spread	4.6	4.6	4.8	4.5	4.6	4.5	4.4	4.5	4.5	4.5
Net income divided by gross income <sup>2</sup>	11.5	11.8	12.7	12.2	14.8	16.6	16.5	14.5	13.1	9.9
Yield on average loans	8.6	8.3	8.5	8.2	7.7	6.9	6.3	6.2	6.5	6.7
Yield on average investments <sup>3</sup>	5.7	5.3	6.4	4.9	3.5	2.7	2.6	3.2	4.0	4.7

<sup>1</sup> Does not include the allowance for loan losses

<sup>2</sup> Net income prior to reserve transfers

<sup>3</sup> Starting in 2000, investments includes cash on deposit and cash equivalents

## FEDERALLY INSURED STATE-CHARTERED CREDIT UNION TEN-YEAR SUMMARY

### Federally insured state-chartered credit unions December 31 (dollar amounts in millions)

December	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of credit unions	4,180	4,062	3,980	3,866	3,735	3,593	3,442	3,302	3,173	3,065
Number of members	29,673,998	31,307,907	33,704,772	35,532,391	36,336,258	36,273,168	36,710,301	36,896,076	37,499,194	38,363,147
Assets	\$156,787	\$172,086	\$195,363	\$231,280	\$255,838	\$273,572	\$288,296	\$300,871	315,817	335,885
Loans outstanding	100,890	116,366	137,485	152,014	160,881	173,236	190,377	208,734	223,917	237,755
Shares	137,347	149,305	169,053	201,807	222,377	236,856	247,804	255,588	267,274	283,298
Reserves <sup>1</sup>	7,125	7,946	9,120	10,266	11,105	10,895	10,997	11,117	11,474	11,763
Undivided earnings	9,876	11,060	12,830	14,563	16,229	18,231	20,202	21,943	24,337	26,106
Gross income	12,309	13,413	15,714	17,385	17,075	16,378	16,538	18,164	20,936	23,703
Operating expenses	5,548	6,165	7,024	8,053	8,990	9,629	10,250	10,806	11,348	11,278
Dividends	4,229	4,315	5,256	5,547	4,020	3,123	2,800	3,557	5,084	6,277
Reserve transfers	161	190								
Net income <sup>2</sup>	\$1,424	\$1,566	\$1,859	\$2,060	\$2,584	\$2,508	\$2,439	\$2,363	\$2,302	\$1,828
<b>Percent change</b>										
Total assets	15.2%	9.7%	13.5%	18.4%	10.6%	6.9%	5.4%	4.4%	5.0%	6.4%
Loans outstanding	9.5	15.3	18.1	10.6	5.8	7.7	9.9	9.6	7.3	6.2
Shares	15.1	8.7	13.2	19.4	10.2	6.5	4.6	3.1	4.6	6.0
Reserves <sup>1</sup>	10.9	11.5	14.8	12.6	8.2	-1.9	0.9	1.1	3.2	2.5
Undivided earnings	12.5	12.0	16.0	13.5	11.4	12.3	10.8	8.6	10.9	7.3
Gross income	10.6	9.0	17.2	10.6	-1.8	-4.1	1.0	9.8	15.3	13.2
Operating expenses	12.3	11.1	13.9	14.6	11.6	7.1	6.4	5.4	5.0	-0.6
Dividends	11.6	2.0	21.8	5.5	-27.5	-22.3	-10.3	27.0	42.9	23.5
Net income <sup>2</sup>	3.1	10.0	18.7	10.8	25.5	-2.9	-2.8	-3.1	-2.6	-20.6
<b>Significant ratios</b>										
Reserves to assets	4.5%	4.6%	4.7%	4.4%	4.3%	4.0%	3.8%	3.7%	3.6%	3.5%
Reserves and undivided earnings to assets	10.8	11.0	11.2	10.7	10.7	10.6	10.8	11.0	11.3	11.3
Reserves to loans	7.1	6.8	6.6	6.8	6.9	6.3	5.8	5.3	5.1	4.9
Loans to shares	73.5	77.9	81.3	75.3	72.3	73.1	76.8	81.7	83.8	83.9
Operating expenses to gross income	45.1	46.0	44.7	46.3	52.7	58.8	62.0	59.5	54.2	47.6
Salaries and benefits to gross income	19.4	20.2	19.9	20.6	23.2	26.2	27.8	26.7	24.9	23.9
Dividends to gross income	34.3	32.2	33.4	31.9	23.5	19.1	16.9	19.6	24.3	26.5
Yield on average assets	8.4	8.2	8.3	8.2	7.0	6.2	5.9	6.2	5.5	7.3
Cost of funds to average assets	3.7	3.5	3.6	3.5	2.3	1.7	1.4	1.7	2.4	2.8
Gross spread	4.7	4.7	4.7	4.7	4.7	4.5	4.5	4.4	4.4	4.5
Net income divided by gross income <sup>2</sup>	11.6	11.7	11.8	11.8	15.1	15.3	14.7	13.0	11.0	7.7
Yield on average loans	8.8	8.4	8.5	8.4	7.6	6.6	6.1	6.0	6.4	6.7
Yield on average investments <sup>3</sup>	5.8	5.4	6.3	5.1	3.4	2.7	2.6	3.2	3.9	4.8

<sup>1</sup> Does not include the allowance for loan losses

<sup>2</sup> Net income prior to reserve transfers

<sup>3</sup> Starting in 2000 investments includes cash on deposit and cash equivalents

## HISTORICAL FEDERAL CREDIT UNION DATA

Historical data for federal credit unions December 31, 1935 to 1970

Year	Charters issued	Charters cancelled	Net change	Total outstanding	Inactive credit unions	Active credit unions	Members	(Amounts in thousands of dollars)		
								Assets	Shares	Loans outstanding
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

Data for 1935-44 are partly estimated.

## HISTORICAL FEDERAL CREDIT UNION DATA

Historical data for federal credit unions December 31, 1971 to 2007

Year	Charters issued	Charters cancelled	Net change	Total outstanding	Inactive credit unions	Active credit unions	Members	(Amounts in thousands of dollars)		
								Assets	Shares	Loans outstanding
1971	400	461	-61	13,494	777	12,717	12,702,135	10,533,740	9,191,182	8,071,201
1972	311	672	-361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	-159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	-2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	-33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	-50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	-198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	-435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	-442	11,925	294	11,631	26,114,649	45,482,943	41,340,911	28,184,280
1983	107	736	-629	11,296	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984	135	664	-529	10,767	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985	55	575	-520	10,247	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	-382	9,865	107	9,758	31,041,142	95,483,828	87,953,642	55,304,682
1987	41	460	-419	9,446	45	9,401	32,066,542	105,189,725	96,346,488	64,104,411
1988	45	201	-156	9,290	172	9,118	34,438,304	114,564,579	104,431,487	73,766,200
1989	23	307	-284	9,006	185	8,821	35,612,317	120,666,414	109,652,600	80,272,306
1990	33	410	-377	8,629	118	8,511	36,241,607	130,072,955	117,891,940	83,029,348
1991	14	291	-277	8,352	123	8,229	37,080,854	143,939,504	130,163,749	84,150,334
1992	33	341	-308	8,044	128	7,916	38,205,128	162,543,659	146,078,403	87,632,808
1993	42	258	-216	7,828	132	7,696	39,755,596	172,854,187	153,505,799	94,640,348
1994	39	224	-185	7,643	145	7,498	40,837,392	182,528,895	160,225,678	110,089,530
1995	28	194	-166	7,477	148	7,329	42,162,627	193,781,391	170,300,445	120,514,044
1996	14	189	-175	7,302	150	7,152	43,545,541	206,692,540	180,964,338	134,120,610
1997	17	179	-162	6,994	13	6,981	43,500,553	215,097,395	187,816,918	140,099,926
1998	8	174	-166	6,816	1	6,815	43,864,851	231,904,308	202,650,793	144,849,109
1999	17	265	-248	6,566	0	6,566	44,076,428	239,315,693	207,613,549	155,171,735
2000	12	235	-223	6,343	7	6,336	43,883,106	242,881,164	210,187,670	163,850,918
2001	14	228	-214	6,129	11	6,118	43,816,877	270,125,345	235,202,500	170,325,562
2002	21	180	-159	5,959	6	5,953	44,610,949	301,238,242	261,819,003	181,766,655
2003	28	193	-165	5,788	12	5,776	46,153,243	336,611,886	291,484,763	202,898,454
2004	22	172	-150	5,626	54	5,572	46,857,723	358,704,157	308,318,116	223,878,376
2005	19	177	-158	5,414	21	5,393	47,913,908	377,826,822	321,830,899	249,520,685
2006	17	201	-184	5,209	20	5,189	48,254,366	394,130,999	333,914,263	270,418,116
2007	14	165	-151	5,038	2	5,036	48,474,331	417,578,758	349,100,902	289,169,600

## Who's Who at NCUA



*Seated are Len Skiles and Kathy Sachen-Gute. Standing are, from the left, Kent Buckham, Mike Barton, Tawana James, Bob Fenner, Dave Marquis, Owen Cole, Doug Verner, Mary Ann Woodson, and Bill DeSarno.*

**JoAnn M. Johnson**  
Chairman

**Rodney E. Hood**  
Vice Chairman

**Christiane Gigi Hyland**  
Board Member

**J. Leonard Skiles**  
Executive Director

**Mary F. Rupp**  
Secretary of the Board

**Peter Barrett**  
Senior Advisor to the Chairman

**Carlton L. Hoskins**  
Senior Policy Advisor to  
Vice Chairman Hood

**Gary J. Kohn**  
Senior Policy Advisor to  
Board Member Hyland

**Robert M. Fenner**  
General Counsel

**John J. McKechnie III**  
Director, Public & Congressional  
Affairs

**David M. Marquis**  
Director, Office of Examination  
and Insurance

**Mary Ann Woodson**  
Chief Financial Officer

**J. Owen Cole, Jr.**  
Director, Office of Capital Markets  
and Planning  
Central Liquidity Facility President

**Kathy Sachen-Gute**  
Director, Office of Human  
Resources

**Tawana Y. James**  
Director, Office of Small Credit  
Union Initiatives

**Kent Buckham**  
Director, Office of Corporate  
Credit Unions

**Doug Verner**  
Chief Information Officer

**Mike Barton**  
President, Asset Management &  
Assistance Center

**William DeSarno**  
Inspector General

## Regional Offices and Directors



*From the left are  
Alonzo Swann III,  
Melinda Love, Mark  
Treichel, Jane Walters,  
and Keith Morton.*

### **Region I—Albany**

Director Mark A. Treichel  
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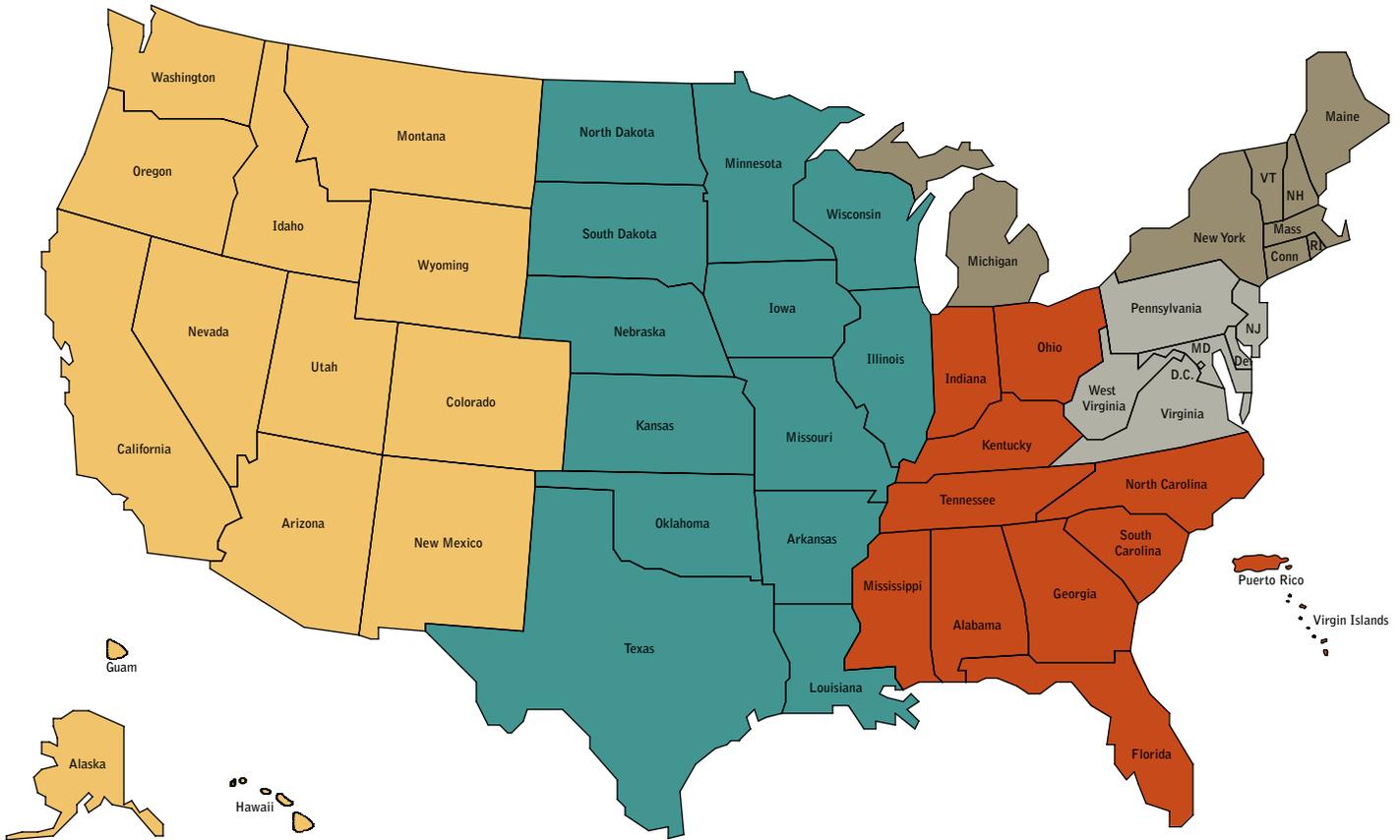
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# Regional Offices



- REGION 1—ALBANY**
- REGION 2—CAPITAL**
- REGION 3—ATLANTA**
- REGION 4—AUSTIN**
- REGION 5—TEMPE**

# Contact Information

General information	703-518-6330
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NCUA Public & Congressional Affairs	703-518-6330
Publications	703-518-6340
GC fraud hotline	1-800-827-9650 703-518-6550
Credit union investments	1-800-755-5999 703-518-6370
Technology assistance	1-800-827-3255 703-518-6487
Report improper or illegal activities	1-800-778-4806 703-518-6357
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Please send your comments and suggestions to [pacamail@ncua.gov](mailto:pacamail@ncua.gov).

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