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Director's Comments

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This bulletin highlights the 2000 mid-year financial trends for Wisconsin's 343 state-chartered credit unions. The analysis is based on data compiled from the mid-year 2000 call reports. This information is provided to keep you informed of current conditions and trends in the Wisconsin credit union industry.

Wisconsin credit unions grew \$457 million, a rate of 5.2% during the first half of the year, resulting in total assets of \$9.2 billion as of June 30, 2000. Based on the first half of the year, the annualized growth rate is projected to be in excess of 10%.

Capital continues to be strong at 11.3%. Capital grew at a rate of 4.1%.

Loans increased \$513 million, an increase of 7.4%. Savings increased \$416 million, or 5.5%. Because loans grew at a faster rate than savings, the loan to savings ratio increased to 92.7% from the 1999 year-end ratio of 91%.

The return on average assets ratio remained the same as the 1999 year-end ratio of 0.9%.

Delinquent loans as a percentage of total loans declined from the year-end 1999 level of 0.92% to 0.88%, and the net charge-off ratio declined from year-end 1999 to 0.21%.

Wisconsin credit unions continue to reflect solid financial performance.

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Credit Union Borrowing

As reflected in the mid-year financial trends, loans continue to increase at a faster rate than savings, resulting in a borrowing position for many credit unions. Section 186.112, Wis. Stats., grants authority and establishes limitations for the board of directors to borrow money. The use of borrowed funds is often needed and is acceptable as long as this type of funding is used properly and according to board policies.

It is expected that credit unions have a policy in place that addresses the use of borrowed funds. At a minimum, the policy should include criteria on the appropriate use of borrowed funds, sources of repayment for the borrowed funds, limits allowed, sources of borrowing, and monitoring by the board.

Privacy of Consumer Financial Information

The NCUA Board issued a final privacy rule, Part 716 – Privacy of Consumer Financial Information, applicable to all federally-insured credit unions. The rule is effective November 13, 2000, with a compliance date of July 1, 2001. The NCUA's final rule mirrors the other federal agencies' final rules except for modifications appropriate to address the different circumstances of credit unions such as references to credit unions, CUSOs, members and nonmembers.

The rule requires credit unions to have a privacy policy and provide certain disclosures and notices to individuals about whom credit unions collect nonpublic personal information. It also restricts a credit union's ability to disclose nonpublic personal information, including giving individuals in some cases an opportunity to opt out of the disclosure.

Important points to consider in complying with the privacy rule:

- Initial and annual notices of your policies and practices must be provided to each member.
- Initial and annual notices must be clear and conspicuous.
- If you provide notices on a web page, notices should be designed to call attention to the nature and significance of the information.
- Notices should be reasonably understandable.
- Your processes and procedures for providing initial notices to all new members.
- Your initial and annual notices must include an accurate description of the following four items:
 1. Categories of nonpublic personal information the credit union collects.
 2. The fact that the credit union does not disclose nonpublic personal information about its current members to affiliates or nonaffiliated third parties, except as authorized by sections 716.14 and 716.15(716.6(a)(2)-(3)), NCUA Rules and Regulations. When describing the categories with respect to those parties, the credit union is required to state only that it makes disclosures to other nonaffiliated third parties as permitted by law.

3. Categories of nonpublic personal information about former members that is disclosed and the categories of affiliates and nonaffiliated third parties to whom the disclosures are made.
4. Your policies and practices with respect to protecting the confidentiality and security of nonpublic personal information.

It is expected that credit unions have begun compliance efforts and are using this time period prior to June 30, 2001, to develop policies and procedures and implement and test your systems so you will be in full compliance by July 1, 2001.

Prompt Corrective Action (PCA)

The effective date of the Prompt Corrective Action Rule is August 7, 2000, and it covers 4th quarter reporting.

The final rule implements the net worth categories, enforcement actions, and administrative procedures of PCA. The rule creates five net worth categories by which credit unions are classified. It implements increasingly stringent enforcement actions for credit unions that fall below well capitalized. The rule requires the NCUA to consult with state supervisors before taking action on state-chartered credit unions.

The rule defines the four mandatory supervisory actions that were prescribed by the Credit Union Membership Access Act and fourteen discretionary supervisory actions consistent with the statutory mandate.

Prompt Corrective Action; Risk-Based Net Worth Requirement (RBNW)

The final rule defining credit unions that are complex because of their portfolio of assets and liabilities, and outlining the risk-based net worth requirement for these credit unions becomes effective January 1, 2001. A credit union is defined as complex only if the credit union meets both of the following criteria:

- Minimum asset size – Quarter-end total assets exceed ten million dollars (\$10,000,000); and
- Minimum RBNW calculation – The risk-based net worth requirement as calculated per the standard calculation of risk-based net worth requirement (section 702.106) exceeds six percent (6%).

The rule defines risk portfolios, contains a standard calculation for the risk-based net worth requirement, alternate components for the standard calculation, and a provision for allowing a risk mitigation credit to reduce the risk-based net worth requirement.

The above rules apply to all federally-insured credit unions. It is expected that all credit unions will undertake the necessary steps to comply with the provisions contained in the rules. Any questions regarding the rules should be directed to the Office of Credit Unions.

Financial Institution Data Match (FIDM)

You will be receiving a letter in the near future from the Department of Workforce Development (DWD) updating you on the status of their implementation of 1997 Wisconsin Act 191. That act required financial institutions operating within Wisconsin to participate with DWD in a data-matching program to locate the financial accounts of people who are delinquent in paying child support. Wisconsin and 14 other states have formed a consortium and will contract with a private vendor to conduct the FIDM program.

The FIDM program will be introduced incrementally over the coming year in order to spread out the impact on financial institutions and DWD. Most institutions will not be contacted until sometime in 2001. The vendor will begin contacting up to 25 institutions in order to set up a data match pilot scheduled for October 1 through December 31, 2000. Up to 75 institutions will be involved in the data match between January 1 and March 31, 2001. All financial institutions should plan to be participating in FIDM by July 2001.

The vendor will provide more information on the process as it begins outreach. An internet website is planned and further explanatory materials will be developed. If you are interested in participating in the FIDM pilot, please contact John Deits at 608-267-4855.

**COMPARISON STATEMENTS OF CONDITION
OF WISCONSIN CREDIT UNIONS
JUNE 30, 2000 and DECEMBER 31, 1999**

| | <u>June 30, 2000</u> | | <u>December 31, 1999</u> | | <u>Increase or Decrease</u> | <u>% Change</u> |
|--------------------------------|-----------------------------|------------------------|-----------------------------|------------------------|---------------------------------|-----------------|
| <u>Number of Credit Unions</u> | 343 | | 350 | | -7 | -2.0% |
| | <u>AMOUNT</u> | <u>% OF ASSETS</u> | <u>AMOUNT</u> | <u>% OF ASSETS</u> | | |
| <u>ASSETS</u> | | | | | | |
| Personal Loans | 3,864,304,953 | 42.0% | 3,700,395,993 | 42.4% | 163,908,960 | 4.4% |
| Real Estate Loans | 3,560,046,304 | 38.7% | 3,211,195,946 | 36.8% | 348,850,358 | 10.9% |
| Total Loans | <u>7,424,351,257</u> | 80.8% | <u>6,911,591,939</u> | 79.1% | <u>512,759,318</u> | 7.4% |
| Allowance for Loan Losses | 43,307,142 | 0.5% | 40,989,554 | 0.5% | 2,317,588 | 5.7% |
| Net Loans | <u>7,381,044,115</u> | 80.3% | <u>6,870,602,385</u> | 78.6% | <u>510,441,730</u> | 7.4% |
| Cash | 461,344,261 | 5.0% | 701,025,938 | 8.0% | -239,681,677 | -34.2% |
| Investments | 943,439,308 | 10.3% | 768,134,600 | 8.8% | 175,304,708 | 22.8% |
| Fixed Assets | 238,518,377 | 2.6% | 232,272,772 | 2.7% | 6,245,605 | 2.7% |
| Other Assets | <u>169,558,751</u> | 1.8% | <u>165,231,691</u> | 1.9% | <u>4,327,060</u> | 2.6% |
| TOTAL ASSETS | <u><u>9,193,904,812</u></u> | 100.0% | <u><u>8,737,267,386</u></u> | 100.0% | <u><u>456,637,426</u></u> | 5.2% |
| <u>LIABILITIES</u> | | | | | | |
| Regular Shares | 2,692,234,629 | 29.3% | 2,486,645,803 | 28.5% | 205,588,826 | 8.3% |
| Share Drafts | 1,128,218,995 | 12.3% | 1,061,579,671 | 12.2% | 66,639,324 | 6.3% |
| Other Shares & Deposits | 4,188,595,817 | 45.6% | 4,044,357,200 | 46.3% | 144,238,617 | 3.6% |
| Total Savings | <u>8,009,049,441</u> | 87.1% | <u>7,592,582,674</u> | 86.9% | <u>416,466,767</u> | 5.5% |
| Notes and Accounts Pay. | 186,373,278 | 2.0% | 185,523,415 | 2.1% | 849,863 | 0.5% |
| Regular Reserve | 479,632,863 | 5.2% | 470,260,563 | 5.4% | 9,372,300 | 2.0% |
| Other Reserves | <u>518,849,230</u> | 5.6% | <u>488,900,734</u> | 5.6% | <u>29,948,496</u> | 6.1% |
| TOTAL LIABILITIES | <u><u>9,193,904,812</u></u> | 100.0% | <u><u>8,737,267,386</u></u> | 100.0% | <u><u>456,637,426</u></u> | 5.2% |

Small statistical errors may exist due to rounding.

**STATEMENT OF INCOME
FOR WISCONSIN CREDIT UNIONS
FOR THE PERIOD ENDING JUNE 30, 2000**

| | <u>AMOUNT</u> | <u>% OF GROSS INCOME</u> | <u>% OF AVERAGE ASSETS</u> |
|-------------------------------------|--------------------|----------------------------------|------------------------------------|
| INCOME | | | |
| Interest on Loans | 291,726,296 | 78.83% | 6.51% |
| Less: Interest Refunds | 44,259 | 0.01% | 0.00% |
| Net Interest Income | 291,682,037 | 78.82% | 6.51% |
| Income on Investments | 35,815,823 | 9.68% | 0.80% |
| Other Income | 42,586,015 | 11.51% | 0.95% |
| TOTAL OPERATING INCOME | 370,083,875 | 100.00% | 8.26% |
| ADMINISTRATIVE EXPENSES | | | |
| Employee Costs | 86,140,930 | 23.28% | 1.92% |
| Travel and Conference | 2,620,550 | 0.71% | 0.06% |
| Office Occupancy | 11,013,502 | 2.98% | 0.25% |
| General Operations | 35,282,932 | 9.53% | 0.79% |
| Education and Promotion | 6,207,200 | 1.68% | 0.14% |
| Loan Servicing | 8,788,361 | 2.37% | 0.20% |
| Professional Services | 10,302,642 | 2.78% | 0.23% |
| Member Insurance | 2,120,407 | 0.57% | 0.05% |
| Operating Fees | 890,001 | 0.24% | 0.02% |
| Other Operational Expenses | 4,146,134 | 1.12% | 0.09% |
| TOTAL ADMINISTRATIVE | 167,512,659 | 45.26% | 3.74% |
| Provision for Loan Loss | 9,796,924 | 2.65% | 0.22% |
| TOTAL OPERATING EXPENSES | 177,309,583 | 47.91% | 3.96% |
| COST OF ACQUISITION OF FUNDS | | | |
| Dividends Paid on Savings | 150,395,448 | 40.64% | 3.35% |
| Interest on Borrowed Funds | 2,970,491 | 0.80% | 0.07% |
| TOTAL COST OF FUNDS | 153,365,939 | 41.44% | 3.42% |
| TOTAL EXPENSES | 330,675,522 | 89.35% | 7.38% |
| NET OPERATING INCOME | 39,408,353 | 10.65% | 0.88% |
| NON-OPERATING INCOME | 1,283,972 | 0.35% | 0.03% |
| NET INCOME | 40,692,325 | 11.00% | 0.91% |

SIGNIFICANT OPERATIONAL RATIOS FOR THE PERIOD ENDING JUNE 30, 2000

| Peer Groups by Assets | <\$500,000 | \$ 500,000- \$2,000,000 | \$ 2,000,001- \$10,000,000 | \$10,000,001- \$50,000,000 | >\$50,000,000 | TOTAL |
|-------------------------------------|------------|----------------------------|-------------------------------|-------------------------------|---------------|---------|
| Number of Credit Unions | 34 | 66 | 103 | 98 | 42 | 343 |
| <u>CAPITAL ADEQUACY</u> | | | | | | |
| Net Capital/Total Assets | 18.96% | 18.18% | 13.71% | 12.03% | 10.07% | 10.85% |
| Capital/Total Assets | 20.92% | 19.28% | 14.26% | 12.47% | 10.55% | 11.33% |
| Total Delinquency/Capital | 10.53% | 8.29% | 7.15% | 4.94% | 6.70% | 6.28% |
| Solvency Evaluation | 123.67% | 122.45% | 116.18% | 113.85% | 111.54% | 112.48% |
| Classified Assets/Capital | 9.40% | 5.70% | 3.82% | 3.48% | 4.56% | 4.24% |
| <u>ASSET QUALITY</u> | | | | | | |
| Delinquent Loans/Loans | 3.50% | 2.34% | 1.41% | 0.81% | 0.85% | 0.88% |
| Net Charge Offs/Avg. Loans | 0.95% | 0.11% | 0.18% | 0.19% | 0.23% | 0.21% |
| <u>EARNINGS (to Average Assets)</u> | | | | | | |
| Return on Average Assets | 0.29% | 0.70% | 0.75% | 0.87% | 0.94% | 0.91% |
| Net Operating Expense | 4.37% | 3.74% | 3.63% | 3.38% | 3.03% | 3.16% |
| Fixed Assets+OREO/Assets | 0.20% | 0.47% | 1.86% | 2.54% | 2.71% | 2.59% |
| Gross Income | 7.77% | 7.56% | 7.94% | 8.10% | 8.35% | 8.26% |
| Cost of Funds | 2.62% | 2.82% | 2.97% | 3.15% | 3.57% | 3.42% |
| Operating Exp. (less PLL) | 4.40% | 3.80% | 3.98% | 3.89% | 3.66% | 3.74% |
| Net Interest Margin | 5.08% | 4.57% | 4.44% | 4.17% | 3.72% | 3.89% |
| PLL | 0.50% | 0.25% | 0.25% | 0.18% | 0.23% | 0.22% |
| <u>LIQUIDITY</u> | | | | | | |
| Net Long Term Assets/Assets | 1.84% | 5.27% | 13.91% | 21.49% | 26.69% | 24.44% |
| Shares/Savings+Borrowings | 100.00% | 86.07% | 61.03% | 42.75% | 27.20% | 33.47% |
| Loans/Savings | 78.55% | 84.56% | 85.24% | 87.80% | 95.24% | 92.73% |
| Loans/Assets | 62.91% | 68.36% | 72.22% | 76.06% | 83.38% | 80.75% |
| Cash + ST Invest./Assets | 37.07% | 28.10% | 20.88% | 14.29% | 8.21% | 10.66% |
| <u>OTHER RATIOS</u> | | | | | | |
| Savings Growth | 3.47% | 5.87% | 6.75% | 7.55% | 12.67% | 10.97% |
| Capital Growth | -2.90% | 4.16% | 6.21% | 7.07% | 9.26% | 8.33% |
| Loan Growth | 4.51% | 12.15% | 13.30% | 9.83% | 16.72% | 14.84% |
| Asset Growth | 3.53% | 5.23% | 7.28% | 7.41% | 11.95% | 10.45% |
| Investments/Assets | 27.32% | 21.76% | 17.20% | 13.86% | 8.19% | 10.26% |
| Employee Cost/Gross Inc. | 22.42% | 23.66% | 25.35% | 24.04% | 22.83% | 23.28% |
| Employee Cost/ Avg. Assets | 1.74% | 1.79% | 2.01% | 1.95% | 1.91% | 1.92% |
| Average Loan Balance | \$4,016 | \$5,625 | \$6,518 | \$7,345 | \$7,782 | \$7,573 |
| Average Savings Balance | \$1,094 | \$1,699 | \$1,955 | \$2,218 | \$2,604 | \$2,439 |

**LOAN DELINQUENCY
PERIOD ENDING JUNE 30, 2000**

| Peer Groups by Assets | <\$500,000 | \$ 500,001- \$2,000,000 | \$ 2,000,001- \$10,000,000 | \$10,000,001- \$50,000,000 | >\$50,000,000 | TOTAL |
|--------------------------------|----------------------|------------------------------------|---------------------------------------|---------------------------------------|-------------------------|--------------|
| Number of Credit Unions | 34 | 66 | 103 | 98 | 42 | 343 |
| <u>Loan Delinquency Ratios</u> | | | | | | |
| 2 - 6 Months Delinquent | 2.37% | 1.19% | 0.87% | 0.52% | 0.57% | 0.58% |
| 6 - 12 Months Delinquent | 0.86% | 0.67% | 0.31% | 0.19% | 0.20% | 0.21% |
| Over 12 Months Delinquent | <u>0.28%</u> | <u>0.48%</u> | <u>0.23%</u> | <u>0.10%</u> | <u>0.08%</u> | <u>0.09%</u> |
| Total Delinquent Loans | 3.50% | 2.34% | 1.41% | 0.81% | 0.85% | 0.88% |
| <u>Loan Loss Ratio</u> | 0.95% | 0.11% | 0.18% | 0.19% | 0.23% | 0.21% |

**ANALYSIS OF LOANS BY TYPE
PERIOD ENDING JUNE 30, 2000**

| | | | | | | |
|---|--------------|---------------|---------------|---------------|---------------|---------------|
| Number of Credit Unions | 34 | 66 | 103 | 98 | 42 | 343 |
| <u>Loan Types</u> | | | | | | |
| Credit Card Loans | 1.66% | 0.33% | 1.34% | 2.88% | 4.20% | 3.71% |
| Unsecured Loans | 15.39% | 10.70% | 6.92% | 3.14% | 3.31% | 3.52% |
| New Auto Loans | 21.67% | 28.11% | 16.56% | 11.27% | 9.38% | 10.34% |
| Used Auto Loans | 49.97% | 41.86% | 35.04% | 25.25% | 21.29% | 23.10% |
| First Mortgages | 1.08% | 1.17% | 15.81% | 32.65% | 37.14% | 34.70% |
| Other Real Estate | 0.66% | 6.95% | 12.79% | 12.37% | 13.66% | 13.25% |
| Leases | 0.00% | 0.07% | 0.47% | 1.46% | 0.50% | 0.72% |
| All Other Loans | <u>9.56%</u> | <u>10.81%</u> | <u>11.07%</u> | <u>10.98%</u> | <u>10.52%</u> | <u>10.66%</u> |
| Total Loans | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| <u>Real Estate Loan Detail</u> (As a percent of loans) | | | | | | |
| First Mortgage - Fixed | 1.08% | 1.00% | 12.22% | 22.13% | 18.23% | 18.70% |
| First Mortgage - Variable | 0.00% | 0.17% | 3.59% | 10.53% | 18.92% | 16.00% |
| Other - Closed End Fixed | 0.66% | 4.69% | 9.88% | 8.13% | 7.63% | 7.84% |
| Other - Closed End Adj. | 0.00% | 2.09% | 1.96% | 1.03% | 2.05% | 1.80% |
| Other - Open End Adj. | 0.00% | 0.10% | 0.92% | 2.99% | 3.97% | 3.55% |
| Other - Miscellaneous | <u>0.00%</u> | <u>0.07%</u> | <u>0.04%</u> | <u>0.22%</u> | <u>0.01%</u> | <u>0.06%</u> |
| Total Real Estate (As a percent of loans) | 1.74% | 8.12% | 28.59% | 45.02% | 50.80% | 47.95% |
| Total Real Estate (As a percent of assets) | 1.09% | 5.55% | 20.65% | 34.24% | 42.36% | 38.72% |

**ANALYSIS OF SAVINGS BY TYPE
PERIOD ENDING JUNE 30, 2000**

| Peer Groups by Assets | <\$500,000 | \$ 500,001- \$2,000,000 | \$ 2,000,001- \$10,000,000 | \$10,000,001 \$50,000,000 | >\$50,000,000 | TOTAL |
|-------------------------|--------------|----------------------------|-------------------------------|------------------------------|---------------|--------------|
| Number of Credit Unions | 34 | 66 | 103 | 98 | 42 | 343 |
| Share Drafts | 0.00% | 0.69% | 9.95% | 14.05% | 14.61% | 14.09% |
| Regular Shares | 100.00% | 86.07% | 61.43% | 42.88% | 27.28% | 33.61% |
| Money Market Shares | 0.00% | 1.47% | 2.55% | 10.22% | 18.87% | 15.65% |
| Share Certificates | 0.00% | 9.57% | 20.33% | 23.88% | 31.04% | 28.46% |
| IRA Accounts | 0.00% | 1.62% | 5.34% | 8.73% | 7.84% | 7.86% |
| All Other Shares | <u>0.00%</u> | <u>0.58%</u> | <u>0.40%</u> | <u>0.24%</u> | <u>0.35%</u> | <u>0.33%</u> |
| Total Shares | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**ANALYSIS OF INVESTMENTS BY TYPE
PERIOD ENDING JUNE 30, 2000**

| Peer Groups by Assets | <\$500,000 | \$ 500,001- \$2,000,000 | \$ 2,000,001- \$10,000,000 | \$10,000,001 \$50,000,000 | >\$50,000,000 | TOTAL |
|--|--------------|----------------------------|-------------------------------|------------------------------|---------------|--------------|
| Number of Credit Unions | 34 | 66 | 103 | 98 | 42 | 343 |
| U.S. Government Obligations | 0.00% | 0.48% | 0.01% | 1.27% | 1.43% | 1.22% |
| Federal Agency Securities | 0.00% | 0.14% | 2.08% | 15.36% | 50.63% | 32.97% |
| Mutual Funds & Common Trust | 3.02% | 1.02% | 0.10% | 0.20% | 0.36% | 0.30% |
| Corporate Credit Unions | 53.24% | 57.81% | 50.31% | 26.57% | 32.59% | 32.77% |
| Commercial Banks, S&L's, and Mutual Savings Banks | 43.18% | 33.49% | 42.35% | 51.44% | 12.13% | 28.82% |
| Credit Unions | 0.49% | 5.99% | 2.84% | 2.54% | 0.46% | 1.49% |
| Other Investments | <u>0.07%</u> | <u>1.07%</u> | <u>2.31%</u> | <u>2.62%</u> | <u>2.40%</u> | <u>2.44%</u> |
| Total Investments | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |