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Director's Comments

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This bulletin highlights the 2001 mid-year financial trends for Wisconsin's 332 state-chartered credit unions. The analysis is based on data compiled from the mid-year 2001 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 \$836 million, a rate of 8.9% during the first half of the year, resulting in total assets of \$10.3 billion as of June 30, 2001. If the growth experienced during the first half of the year continues during the second half, the growth rate is projected to be in excess of 17%.

Net worth declined slightly from year-end 2000, but continues to be strong at 10.5%. Net worth grew at a rate of 3.4%. The return on average assets also declined from the year-end 2000 ratio of 0.91% to 0.84%.

Savings increased \$854 million, an increase of 10.4%, while loans increased \$148 million, an increase of 1.9%. As a result, the loan to savings ratio declined from the year-end 2000 ratio of 94.9% to 87.5%. Delinquent loans as a percentage of total loans remains at a manageable level of 0.94%, as well as the net charge-off ratio of 0.23%.

The financial indicators for Wisconsin's state-chartered credit unions continue to reflect sound financial performance.

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Reporting Computer Intrusions

Credit union management is aware that a Suspicious Activity Report (SAR) must be filed with the NCUA to report potential incidences of money laundering, check fraud, check kiting, counterfeiting, or credit card fraud. However, many are unaware that a SAR must be completed to report computer intrusion. Computer intrusion is defined as gaining access to a computer system of a financial institution to: (a) remove, steal, procure, or otherwise affect funds of the institution or the institution's customers; (b) remove, steal, procure or otherwise affect critical information of the institution including customer account information; or (c) damage, disable or otherwise affect critical systems of the institution. The SAR can be found on the NCUA's web site at <http://www.ncua.gov/ref/sar/SARfill-in.html>.

Should your credit union experience any of the above, a SAR should be completed and mailed to the NCUA. A copy should also be sent to the Office of Credit Unions.

Children's Online Privacy Protection Act (COPPA)

The Children's Online Privacy Protection Act (COPPA) was signed into law on October 21, 1998. The Federal Trade Commission (FTC) issued the final rule, 16 CFR Part 312, effective April 21, 2000. COPPA and the FTC's implementing rule generally apply to financial institutions that operate commercial web sites or provide online services (or portions thereof) directed to, or knowingly collect personal information from, children under the age of 13. The new rules spell out what a web site operator must include in a privacy policy, when and how to seek verifiable consent from a parent, and what responsibilities an operator has to protect a child's privacy and safety online.

Information on how to comply with the Children's Online Privacy Protection Rule can be found at <http://www.ftc.gov/bcp/online/pubs/buspubs/coppa.htm>. Information regarding frequently asked questions about the Children's Online Privacy Protection Rule and How to Protect Kids' Privacy Online can also be found on the FTC's web site.

The FTC has authority to enforce compliance with COPPA for all Wisconsin state-chartered credit unions.

Office of Foreign Asset Control (OFAC)

In October 1999, the NCUA issued Regulatory Alert No. 99-RA-6, Office of Foreign Assets Control. This article is a reminder of that Regulatory Alert and the issues it addresses.

The OFAC of the Department of the Treasury administers and enforces economic sanctions against targeted foreign countries, terrorism sponsoring organizations, and international narcotic traffickers based on U.S. foreign policy and national security goals.

Financial institutions, including credit unions, are required by law, to support these sanctions. Failure to comply could expose a credit union to adverse publicity, fines, and even criminal penalties. The primary tool used by the OFAC is a listing of “Specially Designated Nationals and Blocked Persons.” This list changes regularly in response to changes in foreign policy. Credit union staff should be aware of the persons and entities on the list and assure that such accounts and transactions are blocked and reported to the OFAC in compliance with its regulations. Complete and current regulations and listings are available at the OFAC web site at <http://www.ustreas.gov/ofac/> or via fax back by calling 1-800-540-6322.

Third-Party Vendor Agreements

Third-party vendors are being used more and more by credit unions in an effort to offer more products and services to their members. These types of arrangements are often necessary in order to gain economies of scale, remain competitive, and meet the needs of your members. With decreasing loan demand, credit unions are also entering into agreements with third-party vendors to participate in special loan programs.

Before any new vendor agreements are initiated, it is imperative that management conduct adequate due diligence of the programs and the vendors. Materials and presentations from vendors describe the many opportunities and benefits of the respective products and services, but present a limited view of the challenges and risks.

Management should develop a written plan for incorporating new products and services and document its analysis of the vendor, the services, and financial impact. In addition, management should establish a process for regularly monitoring financial and operational stability of third-party vendors and develop a written contingency plan in case these vendors become incapable or unwilling to comply with terms of agreements.

Scam Alert

For nearly 20 years, scam artists in Nigeria and neighboring countries have been perpetrating frauds on unsuspecting, gullible, or greedy victims. The potential victims are picked at random, and may receive a letter, phone call, fax, or email. Typically there will be an offer of millions of dollars for your assistance in getting money out of some African country. These scams, often called Advance Fee Fraud, 4-1-9 Fraud, or simply Nigerian Fraud, are estimated to have bilked billions of dollars from victims.

Treat all unsolicited communications with a suspicious eye, no matter what the origin. If an offer sounds too good to be true...well, you know the rest of the story. If you receive one of these offers, the United States Secret Service would like to receive a fax copy at (202) 406-5031. More information can be found on the website of the Secret Service at <http://www.treas.gov/uss>.

**COMPARISON STATEMENTS OF CONDITION
OF WISCONSIN CREDIT UNIONS
JUNE 30, 2001 and DECEMBER 31, 2000**

	<u>June 30, 2001</u>		<u>December 31, 2000</u>		<u>Increase or Decrease</u>	<u>% Change</u>
<u>Number of Credit Unions</u>	332		340		-8	-2.4%
	<u>AMOUNT</u>	<u>% OF ASSETS</u>	<u>AMOUNT</u>	<u>% OF ASSETS</u>		
<u>ASSETS</u>						
Personal Loans	3,921,992,335	38.2%	3,932,418,387	41.7%	-10,426,052	-0.3%
Real Estate Loans	3,972,414,416	38.7%	3,813,754,939	40.5%	158,659,477	4.2%
Total Loans	<u>7,894,406,751</u>	76.9%	<u>7,746,173,326</u>	82.2%	<u>148,233,425</u>	1.9%
Allowance for Loan Losses	48,360,838	0.5%	44,635,713	0.5%	3,725,125	8.3%
Net Loans	<u>7,846,045,913</u>	76.5%	<u>7,701,537,613</u>	81.7%	<u>144,508,300</u>	1.9%
Cash	1,140,870,613	11.1%	589,102,229	6.2%	551,768,384	93.7%
Investments	826,318,257	8.1%	712,046,629	7.6%	114,271,628	16.0%
Fixed Assets	257,339,829	2.5%	247,598,689	2.6%	9,741,140	3.9%
Other Assets	<u>191,411,430</u>	1.9%	<u>175,620,766</u>	1.9%	<u>15,790,664</u>	9.0%
TOTAL ASSETS	<u><u>10,261,986,042</u></u>	100.0%	<u><u>9,425,905,926</u></u>	100.0%	<u><u>836,080,116</u></u>	8.9%
<u>LIABILITIES</u>						
Regular Shares	2,705,028,787	26.4%	2,433,419,798	25.8%	271,608,989	11.2%
Share Drafts	1,231,530,547	12.0%	1,203,004,970	12.8%	28,525,577	2.4%
Other Shares & Deposits	5,090,730,214	49.6%	4,536,894,494	48.1%	553,835,720	12.2%
Total Savings	<u>9,027,289,548</u>	88.0%	<u>8,173,319,262</u>	86.7%	<u>853,970,286</u>	10.4%
Notes and Accounts Pay.	151,680,395	1.5%	207,212,944	2.2%	-55,532,549	-26.8%
Regular Reserve	509,330,957	5.0%	499,511,467	5.3%	9,819,490	2.0%
Other Reserves	<u>573,685,142</u>	5.6%	<u>545,862,253</u>	5.8%	<u>27,822,889</u>	5.1%
TOTAL LIABILITIES	<u><u>10,261,986,042</u></u>	100.0%	<u><u>9,425,905,926</u></u>	100.0%	<u><u>836,080,116</u></u>	8.9%

*Small statistical errors may exist due to rounding.

**STATEMENT OF INCOME
FOR WISCONSIN CREDIT UNIONS
FOR THE PERIOD ENDING JUNE 30, 2001**

INCOME	AMOUNT	% OF GROSS INCOME	% OF AVERAGE ASSETS
Interest on Loans	324,394,409	77.63%	6.59%
Less: Interest Refunds	48,550	0.01%	0.00%
Net Interest Income	324,345,859	77.62%	6.59%
Income on Investments	37,365,079	8.94%	0.76%
Other Income	56,158,474	13.44%	1.14%
TOTAL OPERATING INCOME	417,869,412	100.00%	8.49%
ADMINISTRATIVE EXPENSES			
Employee Costs	95,244,492	22.79%	1.94%
Travel and Conference	2,689,846	0.64%	0.05%
Office Occupancy	12,007,297	2.87%	0.24%
General Operations	39,326,630	9.41%	0.80%
Education and Promotion	6,322,734	1.51%	0.13%
Loan Servicing	9,969,826	2.39%	0.20%
Professional Services	11,480,050	2.75%	0.23%
Member Insurance	2,081,825	0.50%	0.04%
Operating Fees	944,400	0.23%	0.02%
Other Operational Expenses	4,386,624	1.05%	0.09%
TOTAL ADMINISTRATIVE	184,453,724	44.14%	3.75%
Provision for Loan Loss	11,972,572	2.87%	0.24%
TOTAL OPERATING EXPENSES	196,426,296	47.01%	3.99%
COST OF ACQUISITION OF FUNDS			
Dividends Paid on Savings	178,028,958	42.60%	3.62%
Interest on Borrowed Funds	2,536,561	0.61%	0.05%
TOTAL COST OF FUNDS	180,565,519	43.21%	3.67%
TOTAL EXPENSES	376,991,815	90.22%	7.66%
NET OPERATING INCOME	40,877,597	9.78%	0.83%
NON-OPERATING INCOME	309,969	0.07%	0.01%
NET INCOME	41,187,566	9.86%	0.84%

SIGNIFICANT OPERATIONAL RATIOS FOR THE PERIOD ENDING JUNE 30, 2001

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	30	67	90	101	44	332
<u>CAPITAL ADEQUACY</u>						
Net Worth/Total Assets	19.02%	18.77%	13.80%	11.81%	9.81%	10.54%
Total Delinquency/Net Worth	12.57%	11.26%	7.63%	6.16%	6.94%	6.85%
Solvency Evaluation	123.58%	123.29%	116.14%	113.52%	111.11%	112.00%
Classified Assets/Net Worth	10.09%	5.99%	4.00%	3.60%	4.81%	4.47%
<u>ASSET QUALITY</u>						
Delinquent Loans/Loans	3.99%	3.12%	1.50%	1.01%	0.86%	0.94%
Net Charge Offs/Avg. Loans	1.35%	0.31%	0.20%	0.22%	0.24%	0.23%
<u>EARNINGS (to Average Assets)</u>						
Return on Average Assets	0.17%	0.36%	**0.42%	0.77%	0.89%	0.84%
Net Operating Expense	4.36%	4.07%	3.62%	3.42%	2.83%	3.02%
Fixed Assets+OREO/Assets	0.12%	0.46%	1.72%	2.57%	2.56%	2.51%
Gross Income	7.62%	7.66%	8.05%	8.22%	8.62%	8.49%
Cost of Funds	2.41%	2.87%	3.42%	3.31%	3.81%	3.67%
Operating Exp. (less PLL)	4.43%	4.14%	3.99%	4.00%	3.64%	3.75%
Net Interest Margin	5.07%	4.61%	4.09%	4.06%	3.52%	3.68%
PLL	0.64%	0.30%	0.27%	0.17%	0.26%	0.24%
<u>ASSET-LIABILITY MANAGEMENT</u>						
Net Long Term Assets/Assets	1.61%	4.97%	11.51%	15.20%	21.57%	19.46%
Shares/Savings+Borrowings	99.68%	81.35%	59.28%	40.15%	24.63%	30.25%
Loans/Savings	74.27%	84.10%	82.17%	82.36%	89.59%	87.51%
Loans/Assets	59.90%	67.70%	70.20%	71.96%	79.13%	76.93%
Cash + ST Invest./Assets	40.11%	30.57%	24.93%	20.28%	13.46%	15.75%
<u>OTHER RATIOS</u>						
Savings Growth	5.71%	7.13%	10.46%	10.67%	10.42%	10.45%
Net Worth Growth	-13.98%	2.15%	-10.78%	0.60%	6.27%	3.44%
Loan Growth	-2.83%	-3.53%	-0.19%	0.28%	2.60%	1.91%
Asset Growth	4.38%	4.87%	8.50%	8.73%	8.99%	8.87%
Investments/Assets	40.63%	31.84%	26.07%	22.77%	15.59%	17.91%
Employee Cost/Gross Inc.	22.37%	24.99%	25.00%	24.55%	22.08%	22.79%
Employee Cost/ Avg. Assets	1.71%	1.91%	2.01%	2.02%	1.90%	1.94%
Average Loan Balance	\$4,177	\$5,637	\$6,665	\$7,621	\$8,112	\$7,899
Average Savings Balance	\$1,300	\$1,650	\$2,022	\$2,314	\$2,841	\$2,637

**A credit union in Group 3 had extraordinary expenses and paid a special dividend prior to merger.

LOAN DELINQUENCY PERIOD ENDING JUNE 30, 2001

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	30	67	90	101	44	332
<u>Loan Delinquency Ratios</u>						
2 - 6 Months Delinquent	2.41%	2.13%	0.85%	0.66%	0.58%	0.62%
6 - 12 Months Delinquent	1.20%	0.46%	0.43%	0.25%	0.21%	0.23%
Over 12 Months Delinquent	<u>0.39%</u>	<u>0.53%</u>	<u>0.22%</u>	<u>0.10%</u>	<u>0.07%</u>	<u>0.09%</u>
Total Delinquent Loans	3.99%	3.12%	1.50%	1.01%	0.86%	0.94%
<u>Loan Loss Ratio</u>	1.35%	0.31%	0.20%	0.22%	0.24%	0.23%

ANALYSIS OF LOANS BY TYPE PERIOD ENDING JUNE 30, 2001

Number of Credit Unions	30	67	90	101	44	332
<u>Loan Types</u>						
Credit Card Loans	0.00%	0.01%	1.29%	2.73%	4.41%	3.88%
Unsecured Loans	17.82%	11.67%	6.79%	3.29%	2.95%	3.25%
New Auto Loans	24.25%	26.30%	17.61%	11.08%	8.63%	9.67%
Used Auto Loans	48.33%	44.16%	36.05%	24.40%	20.54%	22.22%
First Mortgages	1.21%	1.62%	14.79%	34.81%	38.44%	36.37%
Other Real Estate	0.00%	7.62%	13.31%	12.75%	14.42%	13.95%
Leases	0.00%	0.06%	0.28%	0.85%	0.22%	0.36%
All Other Loans	<u>8.39%</u>	<u>8.57%</u>	<u>9.87%</u>	<u>10.10%</u>	<u>10.39%</u>	<u>10.29%</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	1.21%	1.50%	13.41%	24.01%	19.98%	20.45%
First Mortgage - Variable	0.00%	0.11%	1.38%	10.80%	18.45%	15.91%
Other - Closed End Fixed	0.00%	5.83%	10.44%	8.39%	8.16%	8.28%
Other - Closed End Adj.	0.00%	1.67%	2.29%	1.07%	1.84%	1.69%
Other - Open End Adj.	0.00%	0.12%	0.58%	3.04%	4.37%	3.88%
Other - Miscellaneous	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.24%</u>	<u>0.05%</u>	<u>0.09%</u>
Total Real Estate (As a percent of loans)	1.21%	9.24%	28.10%	47.56%	52.86%	50.32%
Total Real Estate (As a percent of assets)	0.72%	6.25%	19.73%	34.22%	41.83%	38.71%

**ANALYSIS OF SAVINGS BY TYPE
PERIOD ENDING JUNE 30, 2001**

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	30	67	90	101	44	332
Share Drafts	0.00%	0.83%	9.39%	13.60%	14.06%	13.64%
Regular Shares	99.80%	80.90%	59.09%	39.58%	24.41%	29.97%
Money Market Shares	0.00%	1.50%	2.39%	11.91%	20.42%	17.48%
Share Certificates	0.20%	14.08%	23.79%	25.98%	33.01%	30.79%
IRA Accounts	0.00%	1.91%	4.90%	8.21%	7.62%	7.59%
All Other Shares	<u>0.00%</u>	<u>0.78%</u>	<u>0.44%</u>	<u>0.72%</u>	<u>0.47%</u>	<u>0.53%</u>
Total Shares	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

**ANALYSIS OF INVESTMENTS BY TYPE
PERIOD ENDING JUNE 30, 2001**

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	30	67	90	101	44	332
U.S. Government Obligations	0.00%	0.67%	0.00%	0.34%	0.67%	0.51%
Federal Agency Securities	0.00%	0.00%	0.60%	9.44%	37.65%	25.40%
Mutual Funds & Common Trust	10.17%	0.96%	0.18%	1.40%	0.80%	0.99%
Corporate Credit Unions	30.52%	44.65%	33.59%	22.49%	39.04%	33.25%
Commercial Banks, S&L's, and Mutual Savings Banks	58.19%	40.31%	56.42%	59.52%	15.99%	33.38%
Credit Unions	0.00%	11.61%	5.11%	4.21%	1.25%	2.61%
Other Investments	1.11%	1.80%	4.09%	2.60%	4.60%	3.85%
Total Investments	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%