



Scott McCallum
Governor

John F. Kundert
Secretary

Director's Comments

By Ginger Larson
Director, Office of Credit Unions

This bulletin highlights the 2002 mid-year financial trends for Wisconsin's 316 state-chartered credit unions. The analysis is based on data compiled from the mid-year 2002 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 \$900 million, a rate of 8.6% during the first half of the year, resulting in total assets of \$11.3 billion as of June 30, 2002. Based on the growth experienced during the first half of the year, the annualized growth rate is projected to be in excess of 14%.

The net worth ratio declined slightly from year-end 2001, but continues to be strong at 10.5%. Net worth grew at a rate of 6.8%. The return on average assets increased from the year-end 2001 ratio of 0.90% to 1.09%.

Savings increased \$783 million, an increase of 8.6%, while loans increased \$312 million, an increase of 3.8%. As a result, the loan to savings ratio declined from the year-end 2001 ratio of 89% to 85%. Delinquent loans as a percentage of total loans remain at a manageable level of 1.06%.

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

In This Issue :

<i>Director's Comments</i>	1
<i>Call Reports</i>	2
<i>Risk Focused Examinations</i>	2
<i>Security Program</i>	2
<i>E-mail Contact Information</i>	3
<i>Member Business Loan Rule</i>	3
<i>Comparison Statements of Condition</i>	4
<i>Statement of Income</i>	5
<i>Significant Operational Ratios</i>	6
<i>Loan Delinquency & Analysis of Loans by Type</i> ..	7
<i>Analysis of Savings & Investments by Type</i>	8

Call Reports

Beginning with the September 2002 call report cycle, all credit unions, regardless of asset size, will be required to file a quarterly call report. Wisconsin credit unions will all be using the standard Form 5300 for each quarter (the same form as you are currently using). NCUA Letter No. 02-CU-10 was sent to all federally insured credit unions in June 2002. This letter discussed various changes that would be coming for processing electronic call reports. Please review this letter for the system changes that are going to be required to the call report program.

As a reminder, you can use e-mail to submit your call report and financial statements. The e-mail address is WI00@ncua.gov. The WI in the e-mail address stands for Wisconsin. There has been some confusion regarding the e-mail address, mistaking the I for the number 1. Also, if you submit your call report and/or financials via e-mail, it is not necessary to mail them to our office.

Risk Focused Examinations

The Office of Credit Unions (OCU) and the National Credit Union Administration (NCUA) will be rolling out a new examination format in September 2002. Most credit union exams will be performed using a *risk-focused approach*. The risk-focused examination program has been in the works for over three years and has been field tested by NCUA since October 2001. The program has also been tested in the State of Iowa since March 2002. All state and federal credit union examiners will receive training in the new program and be given an updated version of AIRES during the month of August.

The new program is designed to be forward looking, with more focus on management's ability to identify and monitor current and potential areas of risk. It is an approach that allocates resources to the credit unions and areas exhibiting weaknesses or adverse trends. While CAMEL is still an intricate part of the examination process, there will be more emphasis on identifying seven major risks and how each one is being managed. These seven risk categories are:

- * Credit Risk
- * Interest Rate Risk
- * Liquidity Risk
- * Transaction Risk
- * Compliance Risk
- * Strategic Risk
- * Reputation Risk

A full explanation of each of these risk categories can be found in NCUA Letter 02-FCU-09 dated May 2002. Since this letter was only sent to federally chartered credit unions, state chartered organizations can find it on the NCUA website (www.ncua.gov) under Reference Information / Letters to Credit Unions.

The risk focused exam program allows for more off-site collection and review of information. Another unique feature of the program is that most examinations will be performed as of quarter-end. All credit unions, regardless of size, will now be completing quarterly 5300 call reports. The call report information will be processed into the examination (or review) of the credit union. With more reliance being put on this information, examiners will spend examination time checking the call reports for accuracy, and ensuring the process and procedure for filling out and reviewing call reports prior to submission is adequate.

While the program will be implemented in September, OCU will constantly strive to improve the program as it evolves into a more effective exam and supervision approach for OCU and the credit unions. OCU welcomes your feedback on the new exam format. Once you have experienced an exam using the risk-focused approach, please don't hesitate to contact OCU if you have any comments.

Security Program

Part 748 of the NCUA Rules and Regulations requires each federally insured credit union to have a written security program. The regulation requires the security program to be designed to protect credit union offices, ensure the security and confidentiality of member records, assist in identifying persons who commit or attempt crimes, and prevent destruction of vital records. The chairperson of the credit union's board of directors is required to certify compliance with Part 748 each year.

When Part 748 was amended in January 2001, it focused on safeguarding member information and required every credit union to implement an information security program by July 1, 2001. Information security programs are required. In addition to information security programs, your written security program needs to address physical security. NCUA Letter No. 02-CU-12 addresses physical security considerations and provides a list of questions to be considered when performing your security assessment. Among the risks a financial institution faces, robbery is one of the few that also carries the potential for personal injury. This possibility underscores the importance of a well-structured, effectively-operating security program.

E-mail Contact Information

It is expected that all credit unions have complied with NCUA Letter No. 01-CU-18. This letter requested every credit union provide NCUA with either an e-mail address or a fax number for a credit union contact person in order to receive the "Control List" compiled by law enforcement agencies investigating the September 11, 2001 terrorist attacks. If your credit union's contact person(s) has changed, the information should be updated through NCUA's website or by providing an amended Credit Union Notification Form.

In addition, it is crucial that the Office of Credit Unions and NCUA have the ability to relay information to credit unions in a rapid manner. The only viable method for doing that is via e-mail. For this reason, you are required to provide an e-mail address contact on each call report you submit. Providing an e-mail address on the call report does not alleviate responsibility for complying with NCUA Letter No. 01-CU-18.

Member Business Loan Rule

Chapter DFI-CU 72 – Member Business Loans will become effective September 1, 2002. Wisconsin credit unions offering member business loans should follow the provisions of this rule instead of Part 723 of the NCUA Rules and Regulations. Letter 2-02 outlining the differences between the Wisconsin rule and the NCUA rule, along with a copy of the Wisconsin Administrative Code for Credit Unions that includes the member business loan rule, was sent to all credit unions.

**COMPARISON STATEMENTS OF CONDITION
OF WISCONSIN CREDIT UNIONS
JUNE 30, 2002 and DECEMBER 31, 2001**

	<u>June 30, 2002</u>		<u>December 31, 2001</u>		<u>Increase or Decrease</u>	<u>% Change</u>
<u>Number of Credit Unions</u>	316		326		-10	-3.1%
	<u>Amount</u>	<u>% of Assets</u>	<u>Amount</u>	<u>% of Assets</u>		
<u>Assets</u>						
Personal Loans	3,973,066,931	35.0%	3,861,240,132	37.0%	111,826,799	2.9%
Real Estate Loans	4,459,090,085	39.3%	4,259,162,648	40.8%	199,927,437	4.7%
Total Loans	<u>8,432,157,016</u>	74.4%	<u>8,120,402,780</u>	77.8%	<u>311,754,236</u>	3.8%
Allowance for Loan Losses	53,941,580	0.5%	49,369,732	0.5%	4,571,848	9.3%
Net Loans	<u>8,378,215,436</u>	73.9%	<u>8,071,033,048</u>	77.3%	<u>307,182,388</u>	3.8%
Cash	1,203,701,027	10.6%	937,245,448	9.0%	266,455,579	28.4%
Investments	1,269,521,275	11.2%	968,174,299	9.3%	301,346,976	31.1%
Fixed Assets	273,577,006	2.4%	260,302,677	2.5%	13,274,329	5.1%
Other Assets	<u>214,796,725</u>	1.9%	<u>202,596,466</u>	1.9%	<u>12,200,259</u>	6.0%
Total Assets	<u><u>11,339,811,469</u></u>	100.0%	<u><u>10,439,351,938</u></u>	100.0%	<u><u>900,459,531</u></u>	8.6%
<u>Liabilities</u>						
Regular Shares	3,147,037,062	27.8%	2,656,394,814	25.4%	490,642,248	18.5%
Share Drafts	1,339,153,430	11.8%	1,251,799,384	12.0%	87,354,046	7.0%
Other Shares & Deposits	5,444,660,760	48.0%	5,239,280,251	50.2%	205,380,509	3.9%
Total Savings	<u>9,930,851,252</u>	87.6%	<u>9,147,474,449</u>	87.6%	<u>783,376,803</u>	8.6%
Notes and Accounts Pay.	215,543,329	1.9%	174,215,604	1.7%	41,327,725	23.7%
Regular Reserve	529,089,448	4.7%	511,492,177	4.9%	17,597,271	3.4%
Other Reserves	<u>664,327,440</u>	5.9%	<u>606,169,708</u>	5.8%	<u>58,157,732</u>	9.6%
Total Liabilities	<u><u>11,339,811,469</u></u>	100.0%	<u><u>10,439,351,938</u></u>	100.0%	<u><u>900,459,531</u></u>	8.6%

Please note: small statistical errors may exist due to rounding.

**STATEMENT OF INCOME
FOR WISCONSIN CREDIT UNIONS
FOR THE PERIOD ENDING JUNE 30, 2002**

	<u>Amount</u>	<u>% of Gross Income</u>	<u>% of Average Assets</u>
Income			
Interest on Loans	307,249,538	77.12%	5.61%
Less: Interest Refunds	44,589	0.01%	0.00%
Net Interest Income	307,204,949	77.11%	5.61%
Income on Investments	30,451,974	7.64%	0.56%
Other Income	60,741,503	15.25%	1.11%
Total Operating Income	398,398,426	100.00%	7.28%
Administrative Expenses			
Employee Costs	104,165,540	26.15%	1.90%
Travel and Conference	2,841,333	0.71%	0.05%
Office Occupancy	12,587,799	3.16%	0.23%
General Operations	40,463,593	10.16%	0.74%
Education and Promotion	6,696,517	1.68%	0.12%
Loan Servicing	10,722,926	2.69%	0.20%
Professional Services	12,677,463	3.18%	0.23%
Member Insurance	1,909,287	0.48%	0.03%
Operating Fees	1,133,302	0.28%	0.02%
Other Operational Expenses	4,609,553	1.16%	0.08%
Total Administrative Expenses	197,807,313	49.65%	3.61%
Provision for Loan Loss	14,129,112	3.55%	0.26%
Total Operating Expenses	211,936,425	53.20%	3.87%
Cost of Acquisition of Funds			
Dividends Paid on Savings	124,608,009	31.28%	2.28%
Interest on Borrowed Funds	2,469,679	0.62%	0.05%
Total Cost of Funds	127,077,688	31.90%	2.32%
Total Expenses	339,014,113	85.09%	6.19%
Net Operating Income	59,384,313	14.91%	1.08%
Non-Operating Income	379,438	0.10%	0.01%
Net Income	59,763,751	15.00%	1.09%

Please note: small statistical errors may exist due to rounding.

**SIGNIFICANT OPERATIONAL RATIOS
FOR THE PERIOD ENDING JUNE 30, 2002**

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	24	53	87	102	50	316
<u>Capital Adequacy</u>						
Net Worth/Total Assets	17.31%	17.24%	13.12%	11.86%	9.94%	10.50%
Total Delinquency/Net Worth	15.65%	13.30%	7.64%	6.44%	7.64%	7.41%
Solvency Evaluation	120.98%	120.98%	115.22%	113.58%	111.36%	112.02%
Classified Assets/Net Worth	13.05%	6.34%	4.43%	3.72%	4.77%	4.53%
<u>Asset Quality</u>						
Delinquent Loans/Loans	4.74%	3.82%	1.54%	1.10%	1.01%	1.06%
Net Charge Offs/Avg. Loans*	1.06%	0.37%	0.46%	0.24%	0.25%	0.26%
<u>Earnings (to average assets)</u>						
Return on Average Assets*	-0.45%	-0.38%	0.48%	0.80%	1.22%	1.09%
Net Operating Expense*	4.24%	3.89%	3.41%	3.26%	2.78%	2.91%
Fixed Assets+OREO/Assets	0.15%	0.34%	1.45%	2.42%	2.48%	2.41%
Gross Income*	6.22%	6.04%	6.75%	6.99%	7.39%	7.28%
Cost of Funds*	1.43%	2.00%	2.12%	2.17%	2.38%	2.32%
Operating Exp. (less PLL)*	4.27%	3.93%	3.75%	3.78%	3.56%	3.61%
Net Interest Margin*	4.70%	3.89%	4.13%	4.03%	3.78%	3.85%
PLL*	0.97%	0.52%	0.40%	0.23%	0.25%	0.26%
<u>Asset-Liability Management</u>						
Net Long Term Assets/Assets	1.75%	5.91%	12.13%	14.86%	22.99%	20.78%
Shares/Savings+Borrowings	99.75%	83.77%	63.41%	43.30%	26.63%	31.74%
Loans/Savings	69.35%	72.99%	75.58%	80.01%	86.93%	84.99%
Loans/Assets	57.21%	59.95%	65.10%	69.90%	76.18%	74.36%
Cash + ST Invest./Assets	43.12%	36.54%	27.23%	19.90%	13.82%	15.73%
<u>Other Ratios</u>						
Savings Growth*	19.37%	14.74%	15.70%	14.88%	14.55%	14.66%
Net Worth Growth*	-3.25%	-1.26%	2.70%	6.78%	12.38%	10.42%
Loan Growth*	-2.50%	2.42%	5.12%	5.30%	5.62%	5.52%
Asset Growth*	14.86%	11.86%	14.12%	13.52%	15.13%	14.74%
Investments/Assets	42.31%	39.26%	31.74%	25.19%	18.71%	20.68%
Employee Cost/Gross Inc.	29.65%	31.37%	28.50%	27.48%	25.65%	26.15%
Employee Cost/ Avg. Assets*	1.84%	1.90%	1.92%	1.92%	1.90%	1.90%
Average Loan Balance	\$4,190	\$5,789	\$6,908	\$8,200	\$8,726	\$8,521
Average Savings Balance	\$1,344	\$1,897	\$2,212	\$2,506	\$3,077	\$2,887

*Annualized Ratio

Please note: small statistical errors may exist due to rounding.

**LOAN DELINQUENCY
PERIOD ENDING JUNE 30, 2002**

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	24	53	87	102	50	316
<u>Loan Delinquency Ratios</u>						
2 - 6 Months Delinquent	2.72%	2.30%	0.94%	0.65%	0.64%	0.66%
6 - 12 Months Delinquent	0.80%	0.82%	0.39%	0.31%	0.27%	0.29%
Over 12 Months Delinquent	<u>1.21%</u>	<u>0.70%</u>	<u>0.20%</u>	<u>0.14%</u>	<u>0.10%</u>	<u>0.11%</u>
Total Delinquent Loans	4.74%	3.82%	1.54%	1.10%	1.01%	1.06%
<u>Loan Loss Ratio</u>	1.06%	0.37%	0.46%	0.24%	0.25%	0.26%

**ANALYSIS OF LOANS BY TYPE
PERIOD ENDING JUNE 30, 2002**

Number of Credit Unions	24	53	87	102	50	316
<u>Loan Types</u>						
Credit Card Loans	0.00%	0.10%	1.05%	2.50%	3.90%	3.51%
Unsecured Loans	20.60%	9.62%	6.95%	3.39%	2.57%	2.92%
New Auto Loans	21.62%	24.17%	15.80%	9.99%	7.71%	8.52%
Used Auto Loans	43.55%	44.21%	36.01%	26.00%	21.05%	22.64%
First Mortgages	1.47%	4.07%	16.40%	35.63%	39.18%	37.54%
Other Real Estate	0.00%	7.75%	14.20%	12.33%	15.39%	14.70%
Leases	0.00%	0.07%	0.33%	0.24%	0.20%	0.21%
All Other Loans	<u>12.75%</u>	<u>10.00%</u>	<u>9.26%</u>	<u>10.13%</u>	<u>11.74%</u>	<u>11.33%</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	1.47%	3.93%	14.85%	27.19%	21.64%	22.42%
First Mortgage - Variable	0.00%	0.14%	1.55%	8.44%	17.54%	15.12%
Other - Closed End Fixed	0.00%	5.64%	11.22%	7.73%	7.47%	7.64%
Other - Closed End Adj.	0.00%	2.03%	2.71%	1.06%	1.38%	1.36%
Other - Open End Adj.	0.00%	0.07%	0.27%	3.30%	6.43%	5.57%
Other - Miscellaneous	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.24%</u>	<u>0.11%</u>	<u>0.13%</u>
Total Real Estate	1.47%	11.82%	30.60%	47.96%	54.56%	52.24%
(As a percent of loans)						
Total Real Estate	0.84%	7.09%	19.92%	33.46%	40.86%	38.32%
(As a percent of assets)						

*This page does not include loans Held for Sale

Please note: small statistical errors may exist due to rounding.

**ANALYSIS OF SAVINGS BY TYPE
PERIOD ENDING JUNE 30, 2002**

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	24	53	87	102	50	316
Share Drafts	0.00%	0.82%	8.54%	12.71%	14.04%	13.48%
Regular Shares	99.75%	83.88%	63.29%	43.11%	26.56%	31.69%
Money Market Shares	0.00%	0.22%	3.24%	11.94%	23.90%	20.52%
Share Certificates	0.25%	13.26%	20.25%	23.81%	27.42%	26.32%
IRA Accounts	0.00%	1.75%	4.28%	8.09%	7.48%	7.45%
All Other Shares	<u>0.00%</u>	<u>0.08%</u>	<u>0.40%</u>	<u>0.34%</u>	<u>0.59%</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, 2002**

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	24	53	87	102	50	316
U.S. Government Obligations	0.00%	1.03%	0.00%	0.18%	2.08%	1.46%
Federal Agency Securities	0.00%	0.00%	0.54%	8.40%	38.19%	27.98%
Mutual Funds & Common Trust	15.11%	1.41%	0.11%	0.26%	1.74%	1.26%
Corporate Credit Unions	28.54%	15.40%	20.85%	16.89%	29.57%	25.60%
Commercial Banks, S&L's, and Mutual Savings Banks	52.46%	60.97%	69.84%	69.82%	21.08%	36.99%
Credit Unions	1.66%	13.72%	5.57%	2.55%	0.90%	1.66%
Other Investments	2.22%	7.47%	3.11%	1.91%	6.44%	5.05%
Total Investments	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Please note: small statistical errors may exist due to rounding.