Credit Union Trends Report

March 2021 · January 2021 Data

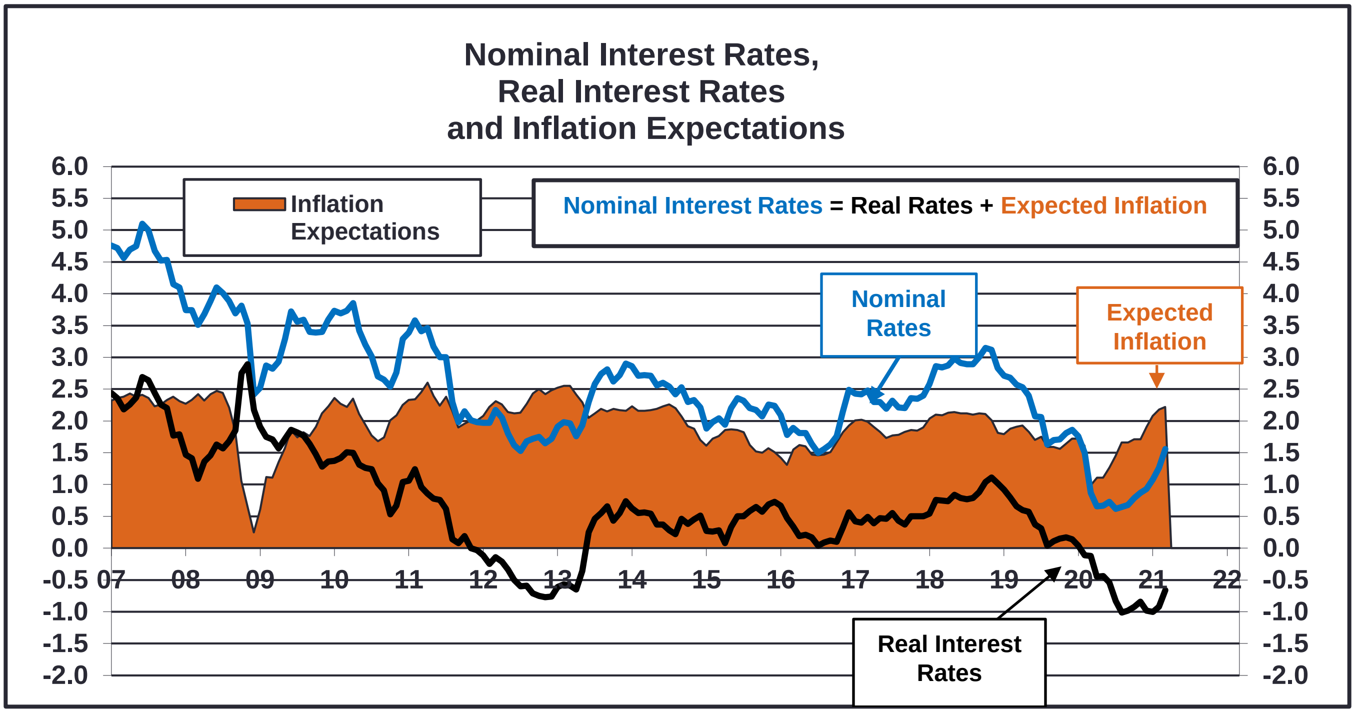
01

Economic Trends

Rising Inflation Expectations are Pushing up Long-Term Interest Rates

Economic Trends

Long-term interest rates are rising as expectations of higher inflation grip the bond market.



Long-term interest rates have been on the rise since the low point set back in July 2020. The 10-year Treasury note interest rate recently climbed over 1.5%, more than double the rate set 9 months earlier.

Rising long term interest rates have pushed up 30-year fixed-rate mortgage interest rates from 2.65% set during the first week of 2021 to 3.02% today. Rising interest rates will slow down and eventually end the mortgage refinance boom many credit unions have benefited from over the last year.

So why are interest rates rising? Nominal interest rates can be decomposed into two components: real interest rates and expected inflation. So, the 10-year Treasury nominal interest rate is just the sum of the real interest rate and expected inflation, **(see figure above).**

The real interest rate ought to rise as the economy recovers and the demand for loanable funds begins to rise. This is happening as seen by the rise in the real interest rate over the last month **(see Figure above**).

But rising inflation expectations have been the biggest factor driving up interest rates over the last 9 months. The bond market is facing anxieties that the economy may overheat in the second half of the year when the U.S. is expected to reach herd immunity in its fight against the CVID-19 pandemic. Excess demand in the economy could push up price pressures and therefore inflation. Higher inflation will in turn erode the value of bond's fixed payments. Inflation expectations have risen from a lower of 1.11% last summer to 2.22% today (See Figure above).

Don't be surprised if the 10-year Treasury interest rates moves above 2% by year end, and the 30-year mortgage rate over 3.5%.

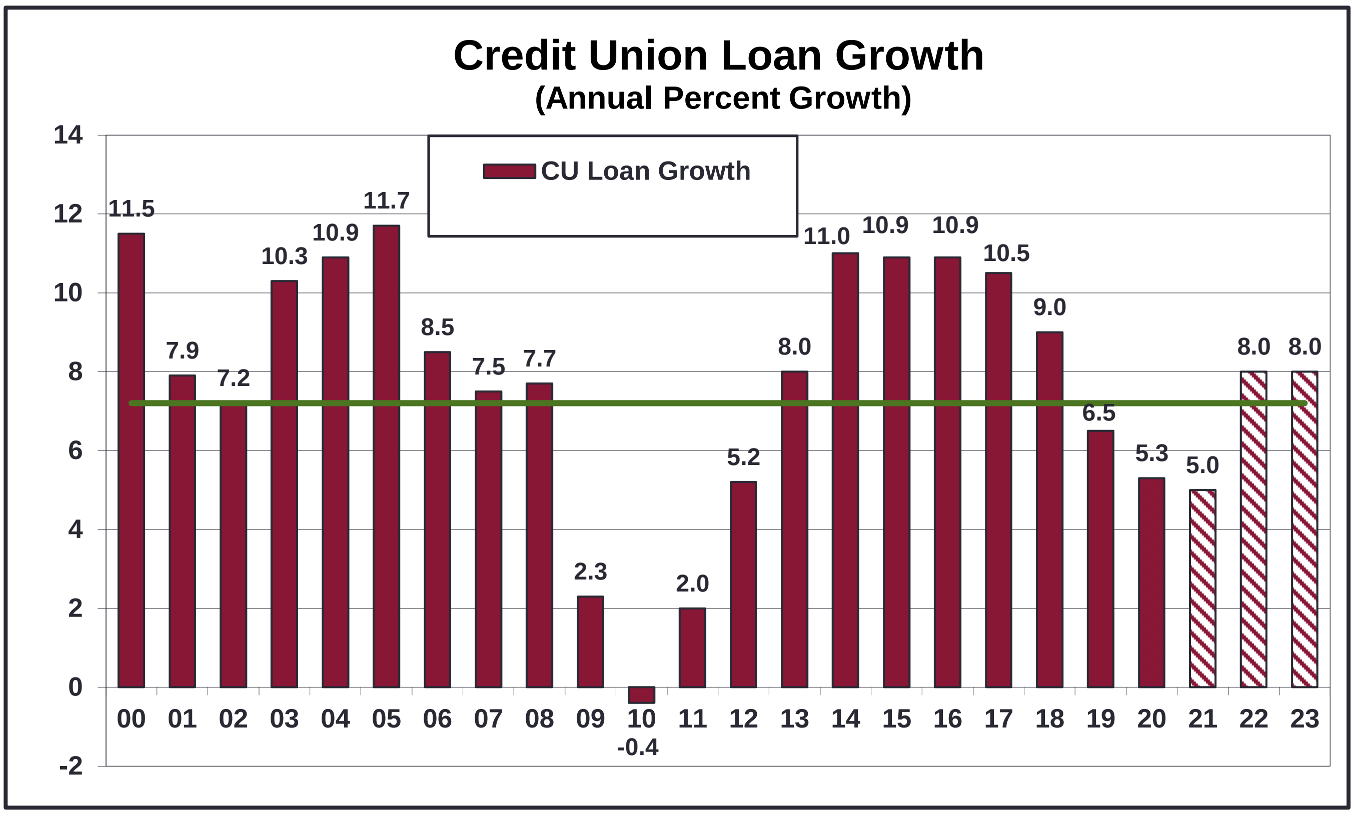
02

Total Credit Union Lending

Credit union lending expected to slow further in 2021

Total Credit Union Lending

Credit union loan balances rose 5.3% in 2020, the slowest pace in 8 years.



Credit union loan growth slowed to a 5.3% in 2020, **(see Figure above)** down from 6.5% in 2019 which was the slowest pace since 2012. Driving the relatively weak performance were four factors:. borrowers paying off loans with funds obtained from cash-out mortgage refinances, rising job insecurity causing potential borrowers to be hesitant when taking on additional debt, members using stimulus checks to pay off credit card and home equity loans and strong past credit growth during the last 6 years.

The slow loan growth lowered credit unions' loan-to-asset ratio to 62.6% in January 2021, from 70.6% one year ago and the lowest since March 2015. Fewer loans as a percent of assets during the fourth quarter of 2020, led to the lowest yield-on-asset ratio in credit union history. Credit unions reported 3.27% yield on assets, down from 4.04% in the fourth quarter of 2019.

Credit unions reported zero growth in loan balances in January, down from the 0.3% gain in January 2019. Looking forward, February is historically the weakest loan growth month of the year, with seasonal factors typically shaving off 0.6 percentage points from the underlying trend growth rate.

03

Consumer Installment Credit

Credit union consumer lending growing faster than other lenders

Consumer Installment Credit

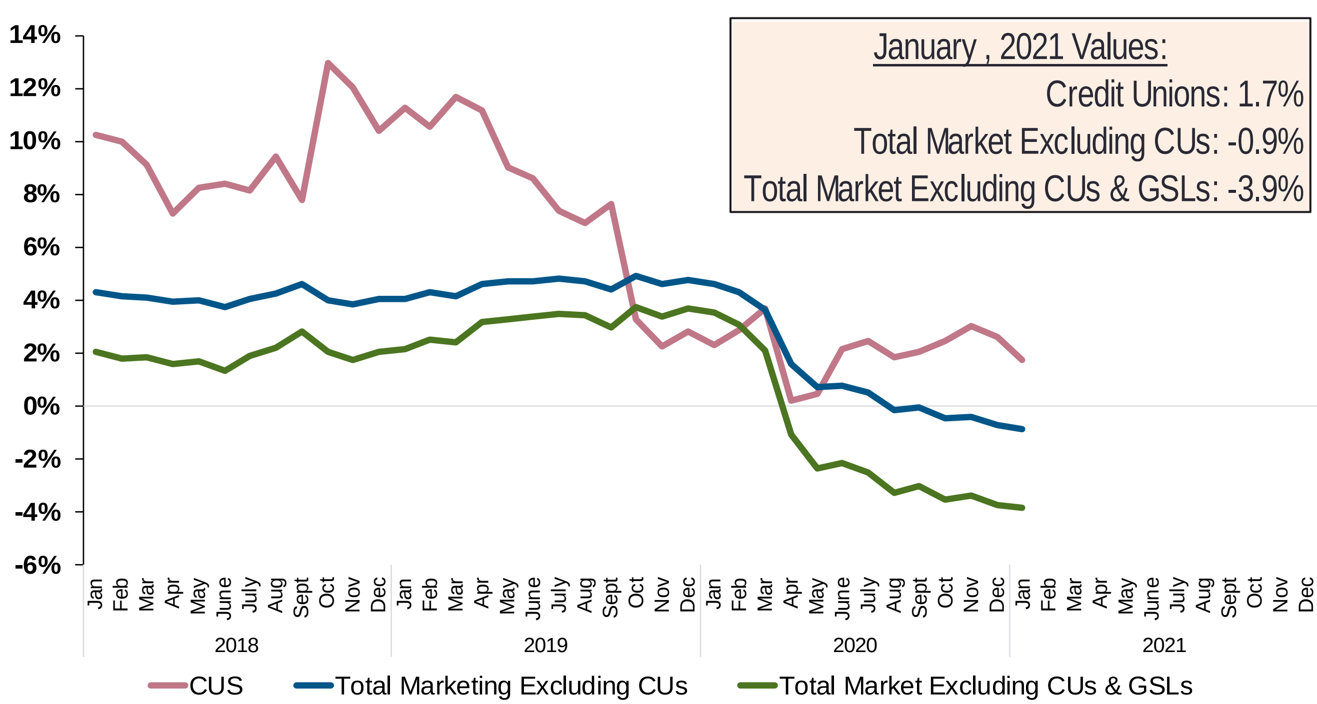
Consumer debt-to-income ratios expected to fall to 30-year lows

Credit union consumer installment credit balances (auto, credit card and other unsecured loans) declined 0.9% in January, worse than the 0.1% rise set in January 2020, due to the deleveraging mindset of many credit union members.

Credit card loan balances fell 3% in January, significantly below the 1% drop in credit card balances reported on average over the last 10 years. Members are still using cash out refinance money to pay down high-rate credit card debt **(see Figure below)**.

During the last 12 months, credit union consumer installment credit grew 1.7% **(see Figure below)**, greater than the total market excluding credit unions,-0.9%, and the total market excluding credit unions and government student loans -3.9%.

Growth in Consumer Installment Credit



04

Vehicle Loans

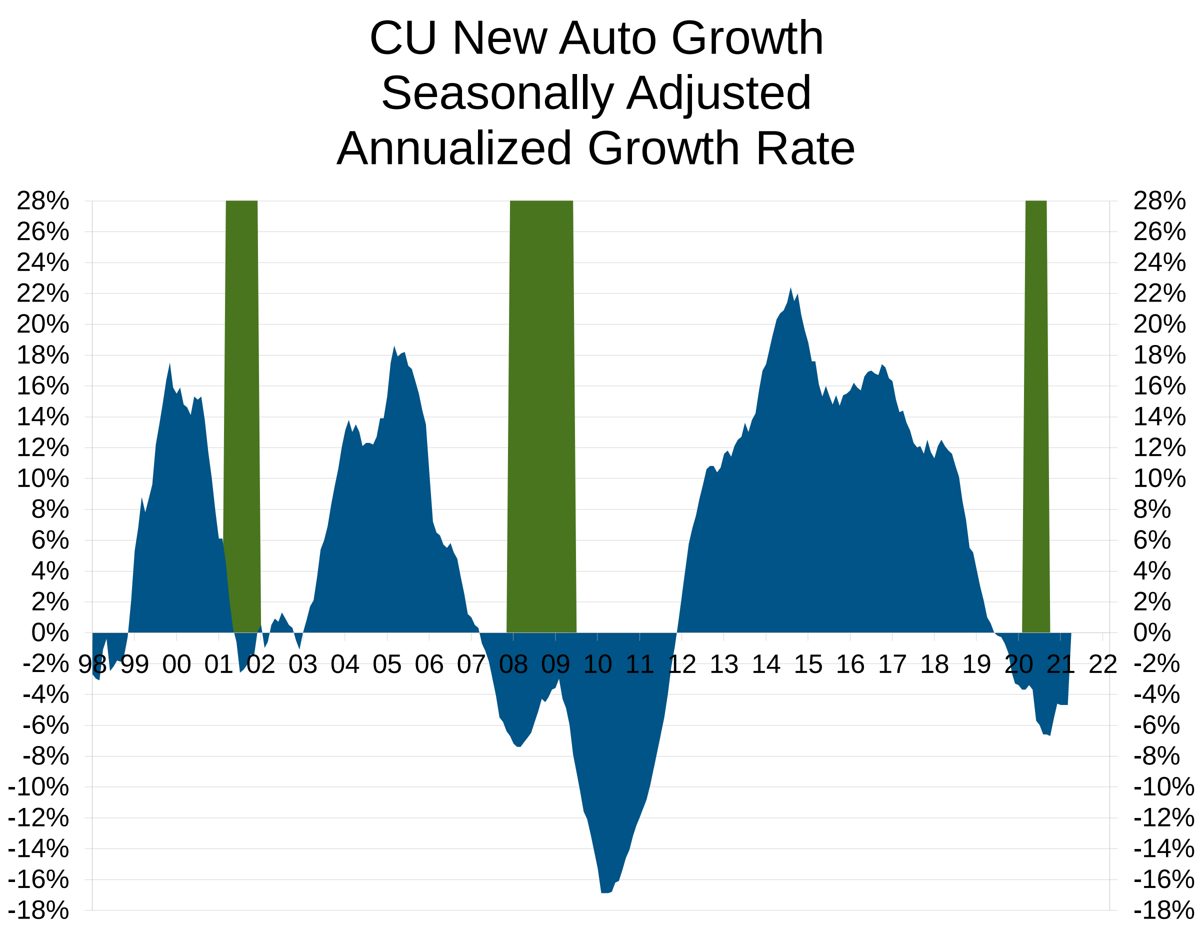
Credit union new auto loan balances continue to decline

Vehicle Loans

Credit union new-auto loan balances fell 0.6% in January, weaker the 0.3% decline set in January 2020, and fell 6% during the last 12 months. On a seasonally-adjusted annualized basis, new-auto loan balances fell at a 4.7% pace in January **(Figure 4)**, a significant deceleration from the last few years. The first quarter of the year is typically the weakest quarter for credit union new-auto loan growth due to various seasonal factors.

Vehicle sales were 16.6 million in January, which at a seasonally-adjusted annualized sales rate is 2% below the 16.8 million pace set one year earlier.

Expect auto sales to rise 17% to 17.1 million units in 2021, which is well above the 16.5 million sales rate that economists believe is the inherent long run demand. Factors supporting auto sales in 2021 include: herd immunity reached in the third quarter, falling job/income uncertainty raising consumer confidence, record low auto loan interest rates, low debt burdens, rising job growth, record high stock prices and record-breaking rise in home prices.



Source: CUNA & NCUA

05

Real Estate Information

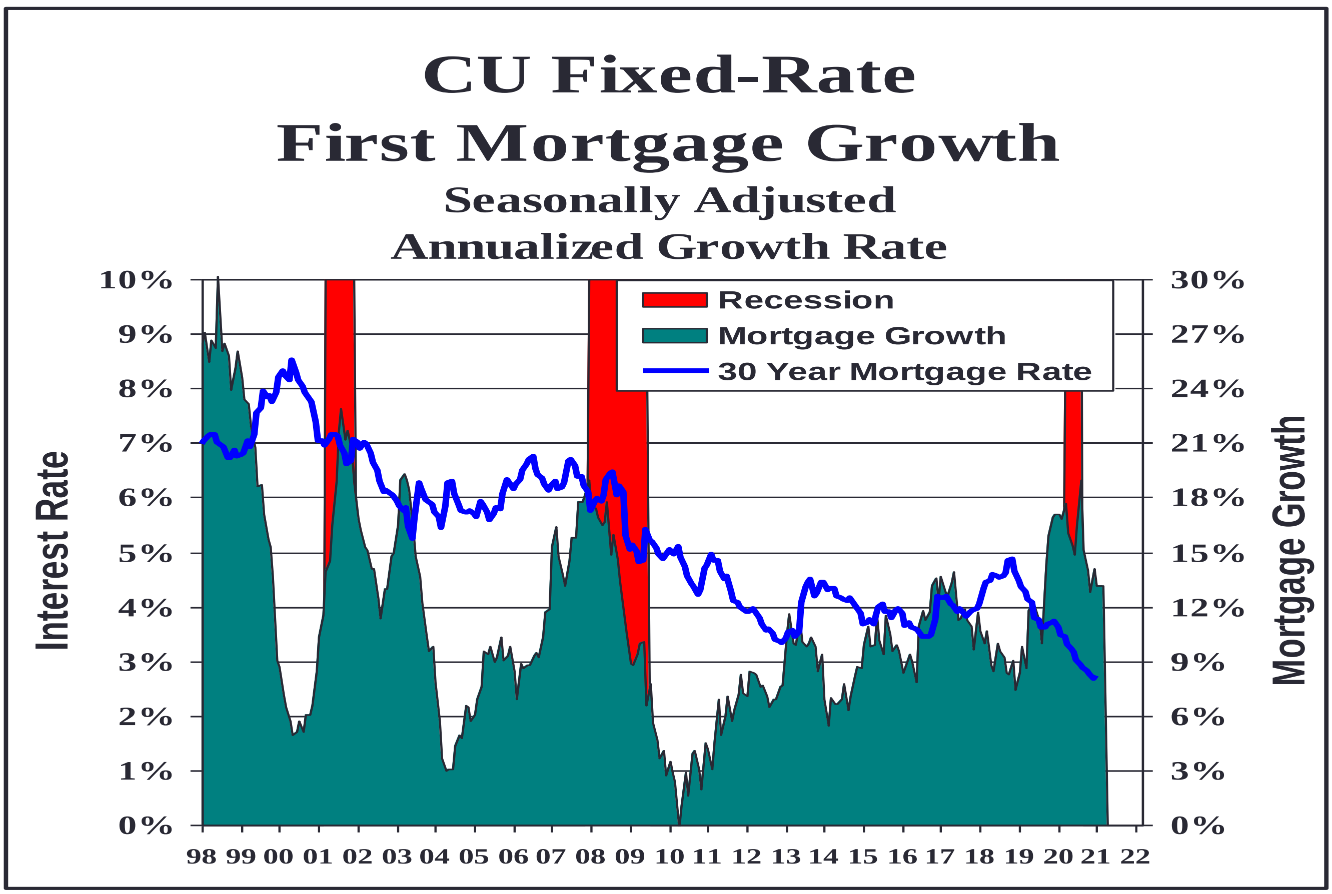
Mortgage interest rates hit their lowest point in history (2.65%) during the first week of January 2021

Real Estate Lending

Credit union fixed-rate first mortgage loan balances rose 0.5% in January, above the 1% decrease reported in January 2020, due to historically low mortgage interest rates. Credit union fixed-rate first mortgage loan balances rose 13.2% at a seasonally adjusted annual rate in January, **(see figure below)**, a slight decline compared to the last year or so.

The contract interest rate on a 30-year, fixed-rate conventional home mortgage rose to 2.74% in January, up from 2.68% in December and lower than the 3.62% reported in January 2020. The mortgage credit-risk premium (the difference between the 30-year mortgage interest rate and the 10-year Treasury interest rate) averaged 2.22% during 2020, above the 1.79% in 2019 and 1.63% in 2018. Expect mortgage interest rates to rise 50 to 100 basis points for the remainder of the year, effectively stalling the mortgage refinance boom.

Home prices rose a large 0.9% in January from December, according to the Core Logic Home Price Index, and 10% year-over-year, because housing supply is limited, and demand was surging due to historically low mortgage interest rates. The Office of Federal Housing Enterprise Oversight (OFHEO) Home Price Index shows home prices rising 10.8% year-over-year, while the National Association of Realtors Existing Home Price Index reports home prices rising a strong 14.1%.



06

Surplus Funds

(Cash + Investments)

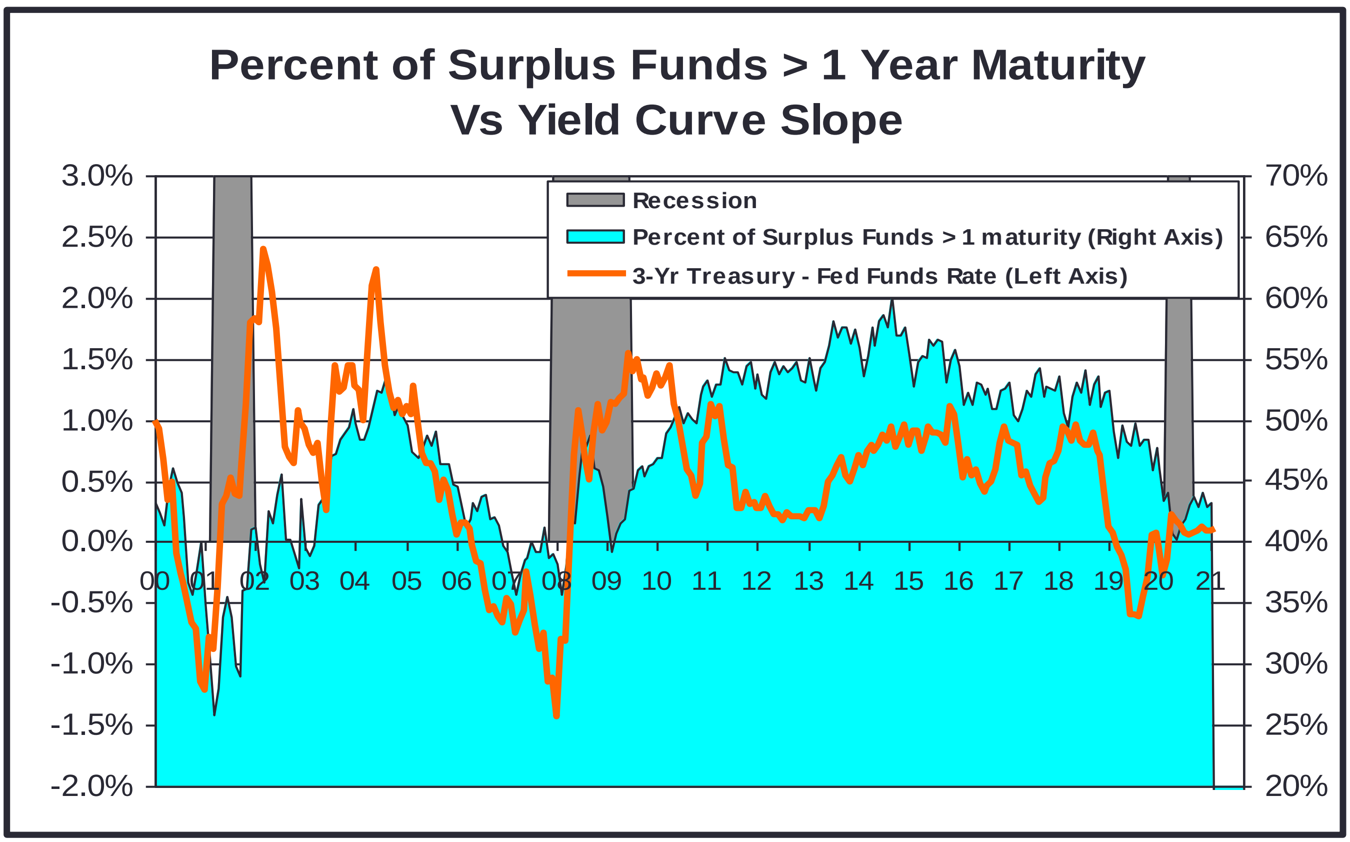
Credit unions are keeping more of their investments short term

Surplus Funds

Credit union surplus funds rose $20 billion, or 3.2%, in January due to deposit accumulation exceeding loan originations. The surge in deposits helped reduce total credit union borrowings by $200 million. Capital grew by $1.2 billion in January and $15 billion over the last year. Credit union capital grew 8.3% over the last year, the fastest pace since the summer of 2014. The growth rate of capital is also known as return-on-equity, a key credit union performance ratio. Over the last 30 years, credit union return-on-equity ratios averaged 8.5%.

Credit union surplus funds as a percentage of assets rose to 33.5% in January, up from 25.3% in January 2020 and the highest since the summer of 2014. Credit union liquidity positions will swell again in 2021 as deposit growth surges and loan growth remains subdued. Credit unions are keeping the maturity of their surplus funds short term. Currently only 43.2% of investments are invested with a maturity greater than one year **(see Figure below),** down from 46% in January 2020, due to longer term interest rates being not much higher than short term rates.

The obverse of the rising surplus funds ratio is the falling loan-to-asset ratio, which reached 62.6% in January, down from 70.6% last January as asset growth outpaced loan growth. This will have downward pressure on credit union yield-on-asset ratios for the remainder of the year.



07

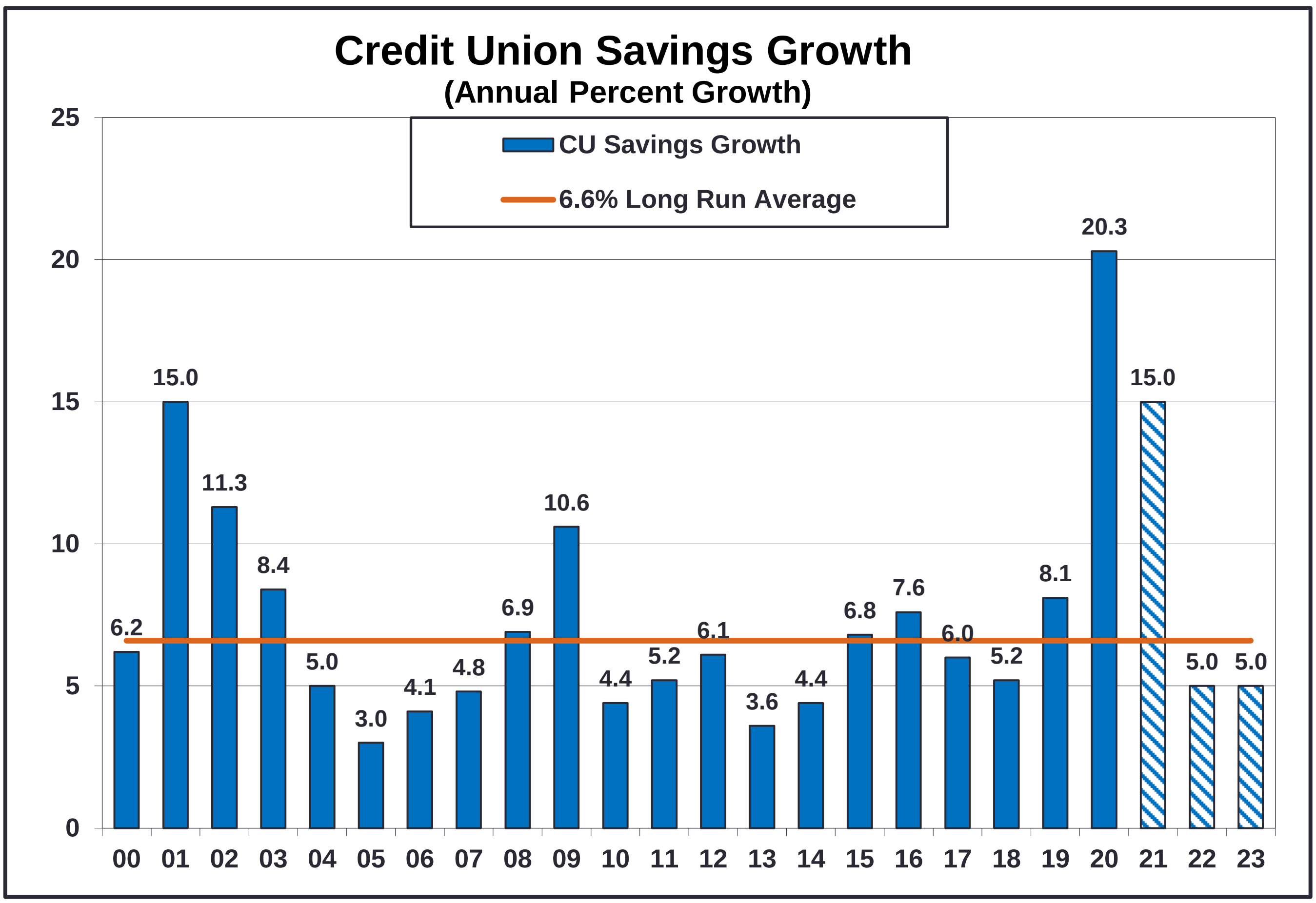
Savings and Assets

Credit union savings growth fastest in 35 years

Savings and Assets

Credit union savings balances rose 0.9% in January due to $600 stimulus checks being deposited in millions of credit union members checking accounts. This growth was still less than the 1.2% increase reported in January 2020, due to that month ending on a payroll Friday. January savings balances have historically declined 0.2% due to recurring seasonal factors.

We expect exceptionally strong savings growth at credit unions in 2021 due to additional $1,400 stimulus checks being sent out this spring. So, with savings balances rising 20.3% in 2020, we expect credit union deposits to increase another 15% this year **(see Figure below),** which will have increased credit union savings by 38% during the last two years. This is the fastest growth in modern history. Expect weak loan growth in 2022 and 2023 as consumers release some pent up demand for spending.



08

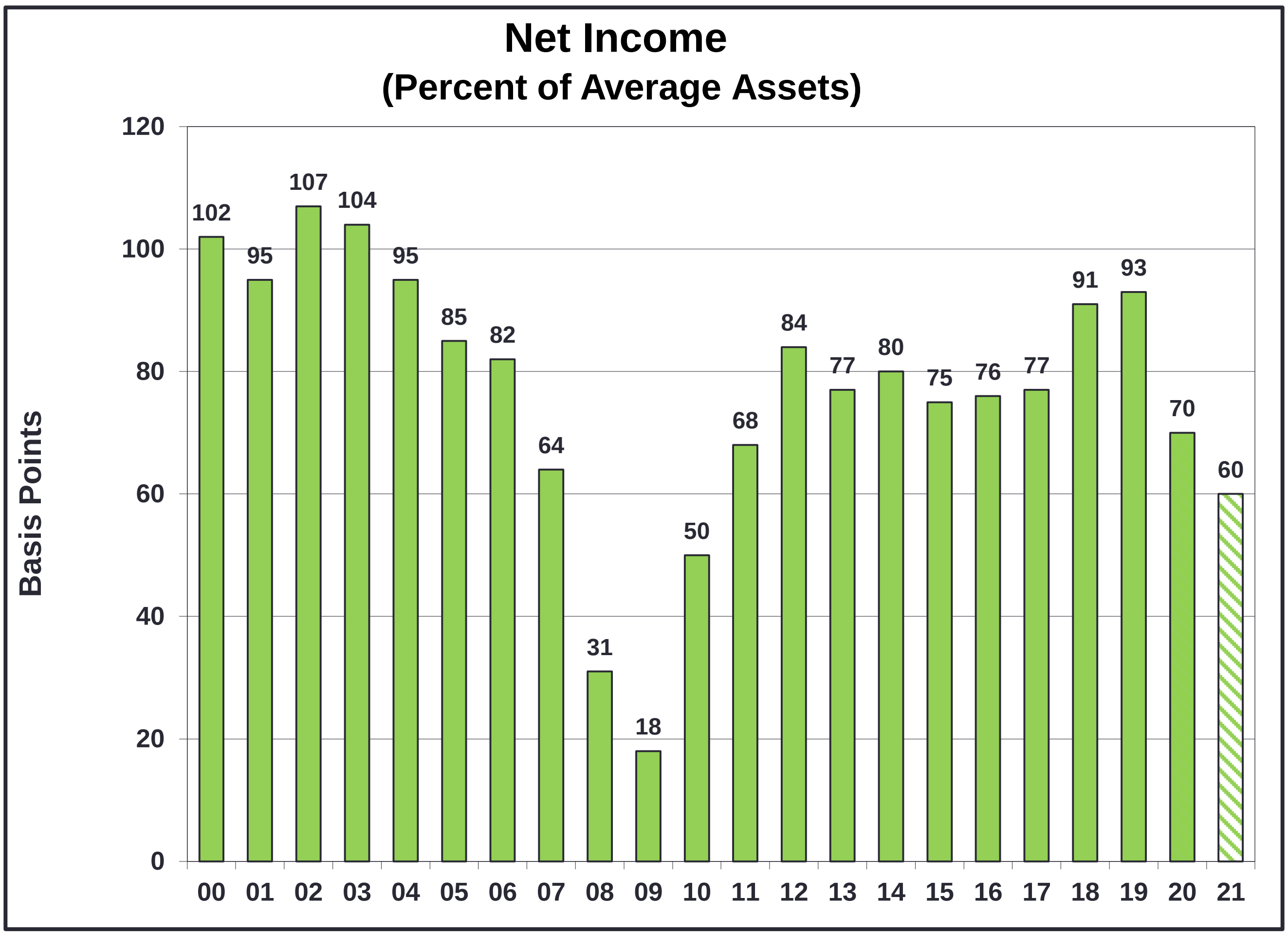
Capital and Other Key Measures

Credit union return-on-asset ratios expected to fall slightly in 2021 as margins tighten further

Capital and Other Key Measures

The credit union industry's net income to average asset ratio, return on assets, fell to 0.7% in 2020, down from 0.93% in 2019 **(see Figure below)**. A 32-basis point decrease in net interest margins, combined with a 7-basis point increase in provision for loan losses more than offset a 17-basis point decrease in operating expense ratios. Expect return on asset ratios to fall to 0.6% in 2021 as loan growth remains slow and falling interest rates reduce the yield on assets. We could see yield on assets ratios fall to 3.1% in 2021, the lowest in credit union history.

Return on equity (ROE) ratios fell to 8.5% in 2020 from 10.7% in 2019 due to the drop in return on assets exceeding the increase in the leverage ratio (asset-to-equity ratio). The ROE ratio is one of the more important credit union metrics because it determines the long-run sustainable asset growth rate. For example, credit unions reported ROE ratios of 8.5%. This indicates their assets can grow 8.5% while maintaining a constant capital-to-asset ratio. But since credit union assets grew 18.1% in 2020, credit union capital-to-asset ratios fell from 11.3% to 10.3%.

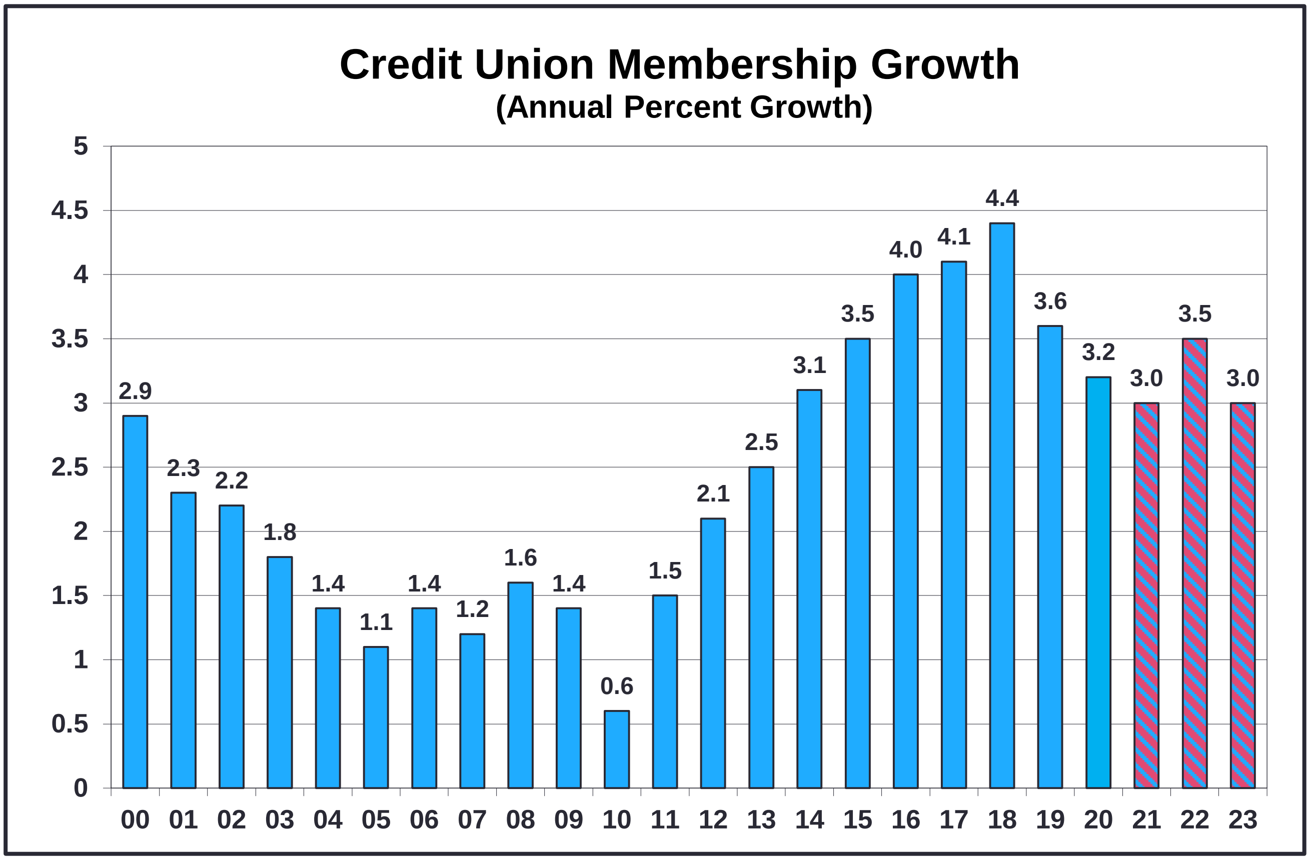


09

Credit Unions and Members

Credit union memberships reached 127 million in 2020

Credit Unions and Members



Credit unions added 378,000 memberships in January, slightly above the 371,000-gain recorded in January 2020. One factor driving membership growth is job creation. In January, the economy added 166,000 jobs, according to the Bureau of Labor Statistics, less than the 315,000 jobs added in January 2020. Expect monthly job growth to accelerate rapidly over the next few months as the economy reopens.

Total credit union memberships reached 127 million in January 2021, which, in percentage terms, rose 0.38% in January and 3.2% during the last 12 months. With the economy expected to gain over 4 million jobs in 2021 due to the COVID-19 crisis coming to an end, credit unions should expect membership growth to come in around 3% **(see figure above)**.

Distribution of Credit Union Loans

Estimated $ (Billions) Outstanding

YR/MO	TOTAL LOANS	NEW AUTO	USED AUTO	TOTAL AUTO	UNSEC Ex. CC's	CREDIT CARDS	CUCIC	1st MORT. TOTAL	TOTAL OTHER MORT 2ND + HE	TOTAL REAL ESTATE	MBLs*
19 01	1,067.7	149.6	223.1	372.7	44.2	62.4	471.5	433.7	91.2	524.9	71.3
19 02	1,067.4	148.8	223.5	372.3	43.7	61.8	471.3	435.0	90.9	525.9	70.2
19 03	1,069.7	148.2	224.2	372.4	43.8	61.9	471.6	438.2	90.3	528.5	69.6
19 04	1,075.2	148.1	225.2	373.3	44.4	62.5	475.0	438.3	92.4	530.6	69.6
19 05	1,082.8	148.6	226.3	374.9	44.1	62.9	473.7	442.0	91.8	533.9	75.3
19 06	1,090.9	148.8	227.8	376.6	45.0	63.3	476.1	446.1	92.0	538.1	76.6
19 07	1,097.3	148.8	228.7	377.5	45.5	64.0	478.1	448.4	92.8	541.2	78.0
19 08	1,106.6	149.2	229.7	378.8	46.2	64.4	482.5	453.3	92.8	546.2	78.0
19 09	1,112.9	149.6	230.7	380.3	46.2	64.7	483.6	457.8	93.0	550.9	78.5
19 10	1,120.1	148.5	231.4	379.9	46.7	64.9	483.7	464.1	94.0	558.0	78.4
19 11	1,126.2	148.2	232.1	380.3	47.0	65.1	482.0	470.1	94.2	564.2	80.0
19 12	1,133.6	149.7	231.3	381.0	47.3	66.9	482.4	471.8	93.0	564.8	86.4
20 01	1,137.3	149.4	231.9	381.3	47.1	66.3	482.5	471.8	92.9	564.7	90.1
20 02	1,139.9	148.4	232.6	381.0	46.3	65.8	484.9	465.8	93.1	558.9	96.0
20 03	1,143.6	147.2	233.0	380.2	46.7	65.3	489.0	486.2	92.4	578.6	76.0
20 04	1,146.9	146.4	231.2	377.6	47.4	62.7	476.1	488.8	91.7	580.5	90.3
20 05	1,159.9	144.7	232.9	377.5	48.6	61.9	476.0	494.2	91.0	585.2	98.7
20 06	1,168.1	143.9	236.5	380.4	53.2	61.7	486.4	503.2	89.8	592.9	88.8
20 07	1,176.6	143.8	239.2	383.0	52.3	61.5	489.9	508.0	90.2	598.2	88.7
20 08	1,180.2	143.7	239.9	383.6	52.8	61.5	491.4	511.6	89.6	601.1	87.6
20 09	1,186.6	144.0	240.8	384.9	54.4	61.5	493.6	517.0	88.1	605.1	87.9
20 10	1,187.9	144.0	241.2	385.1	52.9	61.4	495.7	516.7	88.0	604.7	87.6
20 11	1,188.4	143.7	241.0	384.7	52.5	61.9	496.5	519.6	87.0	606.6	85.3
20 12	1,189.5	141.2	240.8	381.9	51.6	62.6	495.1	524.9	85.9	610.8	83.6
21 01	1,189.2	140.4	241.6	382.1	50.0	60.7	490.8	528.0	85.0	613.0	85.4

* Member Business Loans

CUCIC = Total Loans – Total Real Estate - MBLs CUCIC = Total Vehicle Loans + Unsecured Loans + Credit Card – 14% of MBLs

Distribution of Credit Union Loans

Percent Change From Prior Year

YR/MO	TOTAL LOANS	NEW AUTO	USED AUTO	TOTAL AUTO	UNSEC Ex. CC's	CREDIT CARDS	CUCIC	1st MORT. TOTAL	TOTAL OTHER MORT 2ND + HE	TOTAL REAL ESTATE	MBLs*
19 01	8.7	10.8	8.5	9.4	7.3	7.0	11.3	8.9	7.7	8.7	-6.1
19 02	8.4	10.2	8.2	9.0	8.1	7.2	10.5	8.5	8.0	8.4	-4.2
19 03	7.8	8.5	7.2	7.7	8.4	7.6	11.7	7.6	8.0	7.7	-12.2
19 04	7.2	7.2	6.0	6.0	9.4	8.3	11.2	6.6	8.8	7.1	-12.6
19 05	6.5	5.5	4.9	4.9	7.3	7.9	9.0	6.5	7.4	6.7	-7.5
19 06	6.6	5.2	5.3	5.3	8.2	7.6	8.6	6.7	7.7	6.9	-6.5
19 07	6.3	4.2	4.8	4.6	8.4	7.3	7.4	7.2	6.2	7.0	-3.8
19 08	6.4	3.0	4.4	3.8	8.7	7.4	6.9	7.8	5.4	7.4	-2.5
19 09	6.2	2.2	4.4	3.5	8.1	7.4	7.6	7.2	6.3	7.0	-6.3
19 10	6.2	0.7	4.5	3.0	8.1	7.2	3.3	8.9	4.7	8.2	11.5
19 11	6.2	0.0	4.5	2.7	7.5	5.9	2.2	9.6	4.1	8.7	15.0
19 12	6.4	0.0	4.1	2.4	7.0	6.7	2.8	8.7	3.5	7.8	20.1
20 01	6.5	-0.1	3.9	2.3	6.7	6.3	2.3	8.8	1.8	7.6	26.4
20 02	6.8	-0.2	4.0	2.3	6.0	6.4	2.9	7.1	2.4	6.3	36.9
20 03	6.9	-0.7	3.9	2.1	6.8	5.4	3.7	11.0	2.3	9.5	9.2
20 04	6.6	-1.3	2.7	1.1	7.1	0.5	0.2	11.5	-0.3	9.4	28.0
20 05	7.1	-2.6	2.9	0.7	10.2	-1.5	0.5	11.8	-0.9	9.6	31.1
20 06	7.1	-3.3	3.8	1.0	18.2	-2.5	2.2	12.8	-2.5	10.2	15.9
20 07	7.2	-3.3	4.6	1.5	15.0	-3.9	2.5	13.3	-2.8	10.5	13.8
20 08	6.6	-3.7	4.4	1.2	14.2	-4.5	1.8	12.8	-3.5	10.1	12.4
20 09	6.6	-3.7	4.4	1.2	17.6	-4.9	2.1	12.9	-5.3	9.8	12.0
20 10	6.1	-3.4	4.5	1.4	13.5	-5.5	2.5	12.0	-6.4	8.9	9.3
20 11	5.7	-3.7	4.4	1.2	12.4	-4.9	3.0	11.7	-7.5	8.5	2.0
20 12	4.9	-5.7	4.1	0.2	9.3	-6.5	2.6	11.3	-7.6	8.2	-3.3
21 01	4.6	-6.0	4.2	0.2	6.2	-8.5	1.7	11.9	-8.4	8.6	-5.3

* Member Business Loans

CUCIC = Total Loans – Total Real Estate - MBLs CUCIC = Total Vehicle Loans + Unsecured Loans + Credit Card – 14% of MBLs

National Monthly Credit Union Aggregates

YR/MO	LOANS ($ Billions)	ASSETS ($ Billions)	SAVINGS ($ Billions)	CAPITAL ($ Billions)	MEMBERS (Millions)	CREDIT UNIONS	LOAN/ SAVINGS RATIO	CAPITAL/ ASSET RATIO
19 01	1,067.7	1,480.2	1,240.9	163.2	118.8	5,576	86.0	11.0
19 02	1,067.4	1,508.7	1,272.2	164.3	119.2	5,572	83.9	10.9
19 03	1,069.7	1,532.6	1,295.7	166.6	119.7	5,561	82.6	10.9
19 04	1,075.2	1,522.7	1,288.2	167.9	119.9	5,556	83.5	11.0
19 05	1,082.8	1,543.1	1,304.7	170.1	120.3	5,548	82.0	11.0
19 06	1,090.9	1,547.0	1,302.7	172.2	120.7	5,534	83.7	11.1
19 07	1,097.3	1,542.5	1,298.9	172.4	121.2	5,530	84.5	11.2
19 08	1,106.6	1,567.4	1,319.6	174.9	121.7	5,518	83.9	11.2
19 09	1,112.9	1,565.3	1,315.1	176.5	122.0	5,506	84.6	11.3
19 10	1,120.1	1,575.6	1,324.8	177.2	122.1	5,482	84.5	11.2
19 11	1,126.2	1,597.1	1,345.6	177.3	122.3	5,469	83.7	11.1
19 12	1,133.6	1,593.5	1,342.7	179.1	122.8	5,460	84.4	11.2
20 01	1,137.3	1,610.7	1,358.5	180.5	123.2	5,450	83.7	11.2
20 02	1,139.9	1,651.0	1,387.6	181.8	123.4	5,446	82.1	11.0
20 03	1,143.6	1,666.0	1,399.7	183.5	123.8	5,419	81.7	11.0
20 04	1,146.9	1,729.9	1,463.7	182.8	124.0	5,421	78.4	10.6
20 05	1,159.9	1,769.8	1,500.7	185.8	124.4	5,384	77.3	10.5
20 06	1,168.1	1,778.8	1,516.3	187.4	124.8	5,384	77.0	10.5
20 07	1,176.8	1,804.0	1,539.7	189.2	125.3	5,380	76.4	10.5
20 08	1,180.2	1,807.7	1,544.0	189.7	125.8	5,378	76.4	10.5
20 09	1,186.6	1,817.4	1,555.0	190.8	126.2	5,353	76.3	10.5
20 10	1,187.9	1,848.2	1,583.5	191.3	126.3	5,336	75.0	10.4
20 11	1,188.4	1,850.4	1,586.9	193.1	126.4	5,302	74.9	10.4
20 12	1,189.5	1,882.1	1,619.1	194.3	126.6	5,298	73.5	10.3
21 01	1,189.2	1,900.6	1,633.7	195.6	127.0	5,292	72.8	10.3

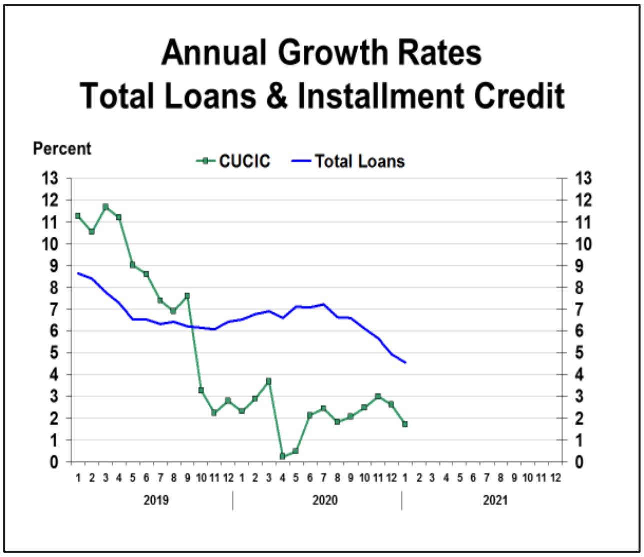
Credit Union Growth Rates

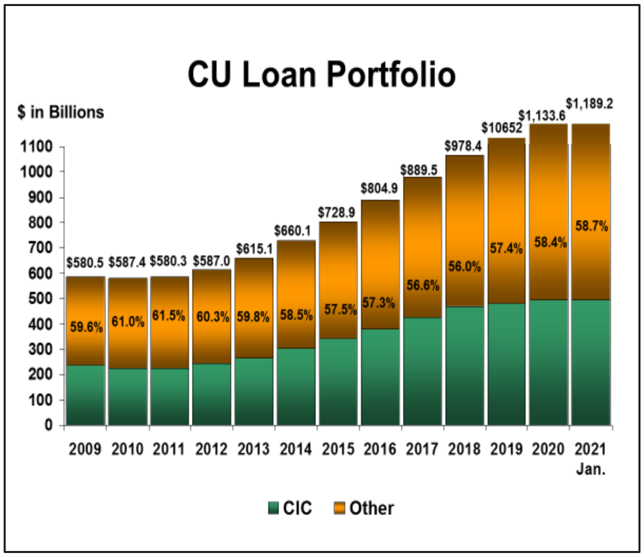
Percent Change From Prior Year

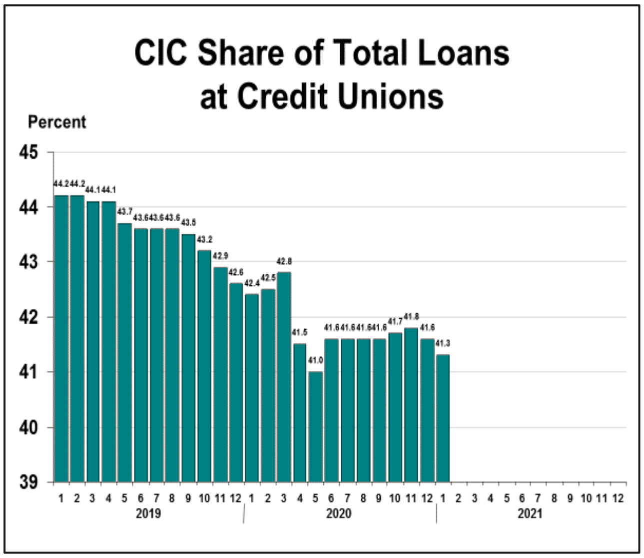
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
19 01	8.7	5.6	6.0	9.0	4.2	(3.7)	(214)	0.660%
19 02	8.4	6.4	6.2	9.7	4.1	(3.8)	(217)	0.622%
19 03	7.8	6.3	5.7	10.1	4.0	(3.4)	(198)	0.576%
19 04	7.2	5.8	5.8	10.7	3.9	(2.9)	(168)	0.557%
19 05	6.5	6.9	7.1	11.4	3.8	(3.0)	(174)	0.599%
19 06	6.6	6.3	5.9	11.8	3.7	(3.0)	(174)	0.631%
19 07	6.3	6.7	6.8	10.5	3.8	(3.1)	(176)	0.645%
19 08	6.4	7.2	7.4	11.4	3.7	(3.1)	(177)	0.660%
19 09	6.2	6.8	6.9	11.9	3.6	(2.8)	(156)	0.665%
19 10	6.2	7.6	7.9	12.0	3.5	(2.5)	(143)	0.677%
19 11	6.2	7.6	8.1	11.4	3.5	(2.6)	(146)	0.702%
19 12	6.4	7.7	8.1	10.9	3.6	(2.6)	(143)	0.703%
20 01	6.5	8.8	9.5	10.7	3.6	(2.3)	(126)	0.698%
20 02	6.8	9.4	9.1	10.6	3.5	(2.3)	(126)	0.640%
20 03	6.9	8.7	8.0	10.1	3.4	(2.6)	(142)	0.629%
20 04	6.6	13.3	13.6	8.7	3.3	(2.4)	(133)	0.673%
20 05	7.1	14.7	15.0	9.2	3.4	(3.0)	(164)	0.657%
20 06	7.1	15.0	16.4	8.8	3.3	(2.7)	(150)	0.574%
20 07	7.2	16.9	18.5	9.7	3.4	(2.7)	(150)	0.541%
20 08	6.6	15.3	17.0	8.5	3.4	(2.5)	(140)	0.553%
20 09	6.6	16.1	18.2	8.1	3.4	(2.8)	(153)	0.540%
20 10	6.1	17.3	19.6	7.9	3.3	(3.4)	(167)	0.556%
20 11	5.7	15.8	18.0	8.7	3.2	(3.4)	(188)	0.595%
20 12	4.9	18.1	20.6	8.5	3.1	(3.0)	(162)	0.618%
21 01	4.6	18.0	20.3	8.3	3.1	(2.9)	(158)	0.623%

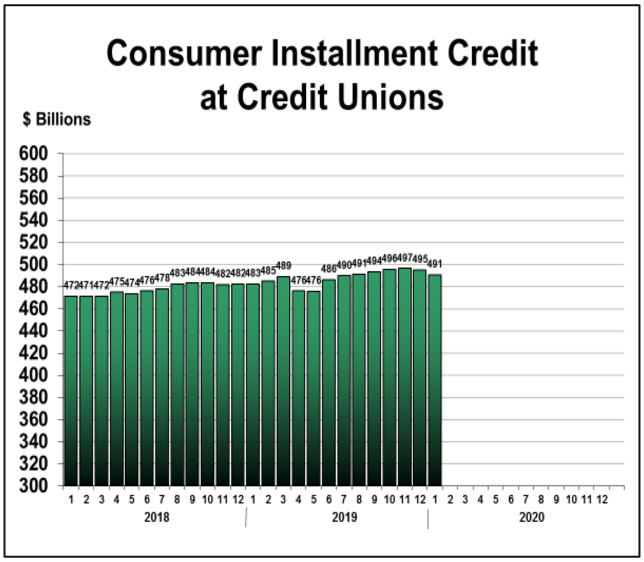
* Loans two or more months delinquent as a percent of total loans

Consumer Installment Credit









Meet
Steve Rick

Steve Rick is the Chief Economist for CUNA Mutual Group. Rick is an economic researcher, analyst and forecaster with expertise in consumer markets and the credit union industry. His forecasts serve as a starting point for client- and firm-level strategic planning by creating a clear understanding of the underlying trends and links between the general economy, the financial services industry and the firm's clients. Rick is a member of the CUNA Mutual Financial Advisors Investment Committee that approves strategy and oversees the firm's investment operations. He is also a member of the firm's Capital Markets Committee that performs ongoing research on the global economy and financial markets and on behalf of institutional and individual investors across the country.

This report on key credit union indicators is based on data from CUNA E&S's *Monthly Credit Union Estimates*, the Federal Reserve Board and CUNA Mutual Group – Economics.
To access this report on the Internet, go to www.cunamutual.com/CUTrends.
If you have any questions, comments, or need additional information, please call or complete this form. Thank you.

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