Credit Union Trends Report

August 2021 ▪ June 2021 Data

CUNA MUTUAL GROUP

01

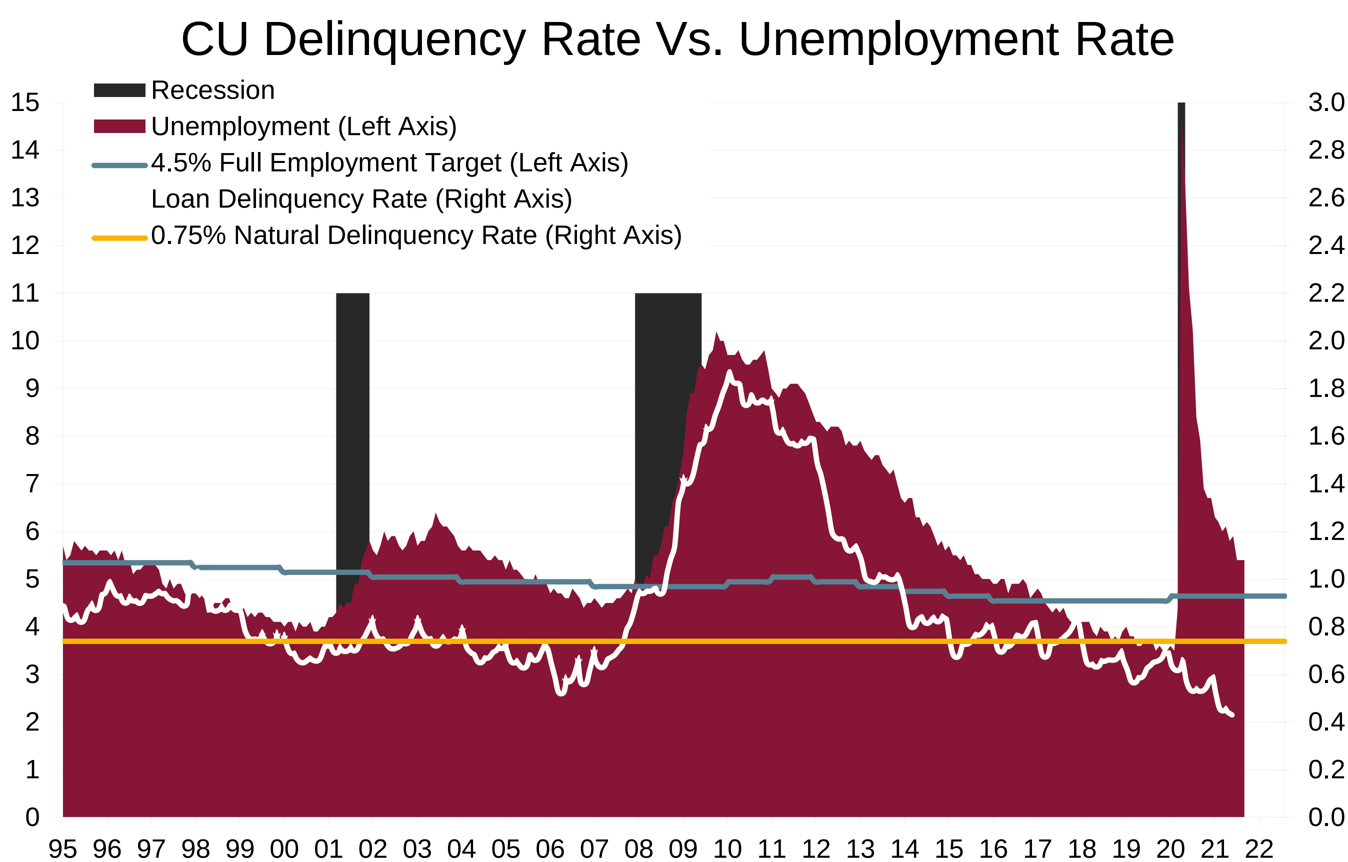
Economic Trends

An improving labor market pushes credit union loan delinquency rates to the lowest level in more than 25 years

Economic Trends

The nation's unemployment dropped to 5.4% in July **(see figure below),** from 5.9% in June and the economy added 943,000 jobs. The unemployment rate is still above the 4.5% natural unemployment rate, below which the labor market becomes tight and wage pressures begin to surface. The labor force participation rate (labor force as a percentage of population) rose only slightly and remains quite low at 61.7%.

The improving labor market is a major factor pushing the credit union loan delinquency rate to the lowest level in more than 25 years. The delinquency rate was 0.44% in June, significantly lower than the 0.75% considered the natural delinquency rate. Credit union loan net charge-off rates show similar below trend numbers. Also contributing to the very low loan delinquency rates were credit union low forbearance programs, lower interest rates that helped consumers lower their debt servicing costs, enhanced unemployment benefits and stimulus checks. And finally, most job losses occurred in the service sector among low-income jobs. Since low-income workers typically can't obtain a large amount of debt, and if they did run into financial difficulty, they didn't have a large amount of debt to become delinquent.



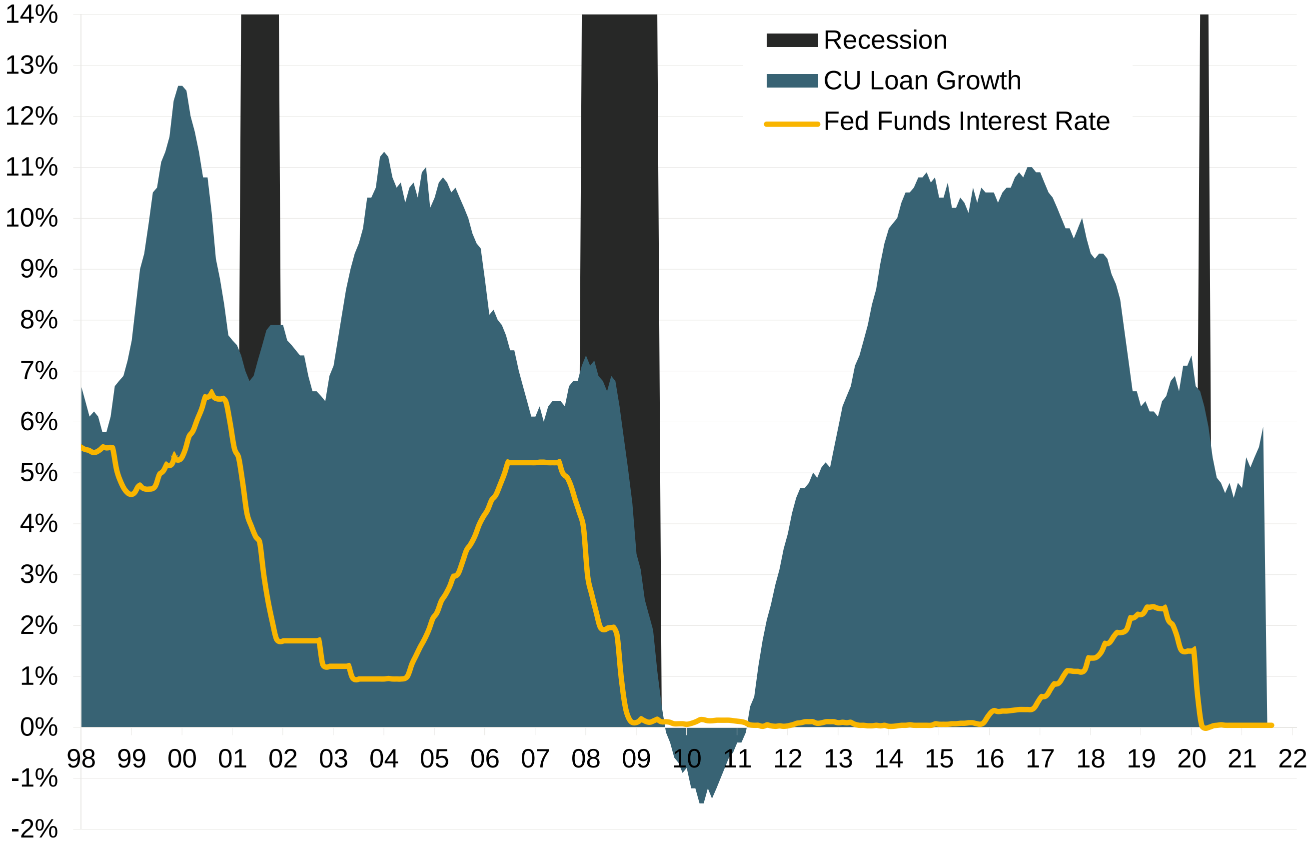
02

Total Credit Union Lending

Credit union loan growth is finally on the upswing as the economy reopens and vaccination rates improve

Total Credit Union Lending

CU Loan Growth Vs. Fed Funds Interest Rate



Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

Credit union loan balances rose 1% in June, faster than the 0.7% pace reported in June 2020, due to every loan category reporting positive growth except new auto loans (-1.1%) and business loans (-2.4%). June typically records the fastest loan growth of the year, with seasonal factors adding 0.39 percentage points to the underlying trend growth.

Credit union loan balances grew at a 5.9% seasonally-adjusted, annualized growth rate in June **(see figure above)**, significantly better than the 4.9% pace set in June 2020 during the worst of the economic crisis. Over the long run, credit union loan balances rise on average 7% per annum. We are forecasting above-trend credit union loan growth for the next two years (around 8%) as the economy resumes its normal growth, pent-up demand is satiated and infrastructure spending kicks in.

03

Consumer Installment Credit

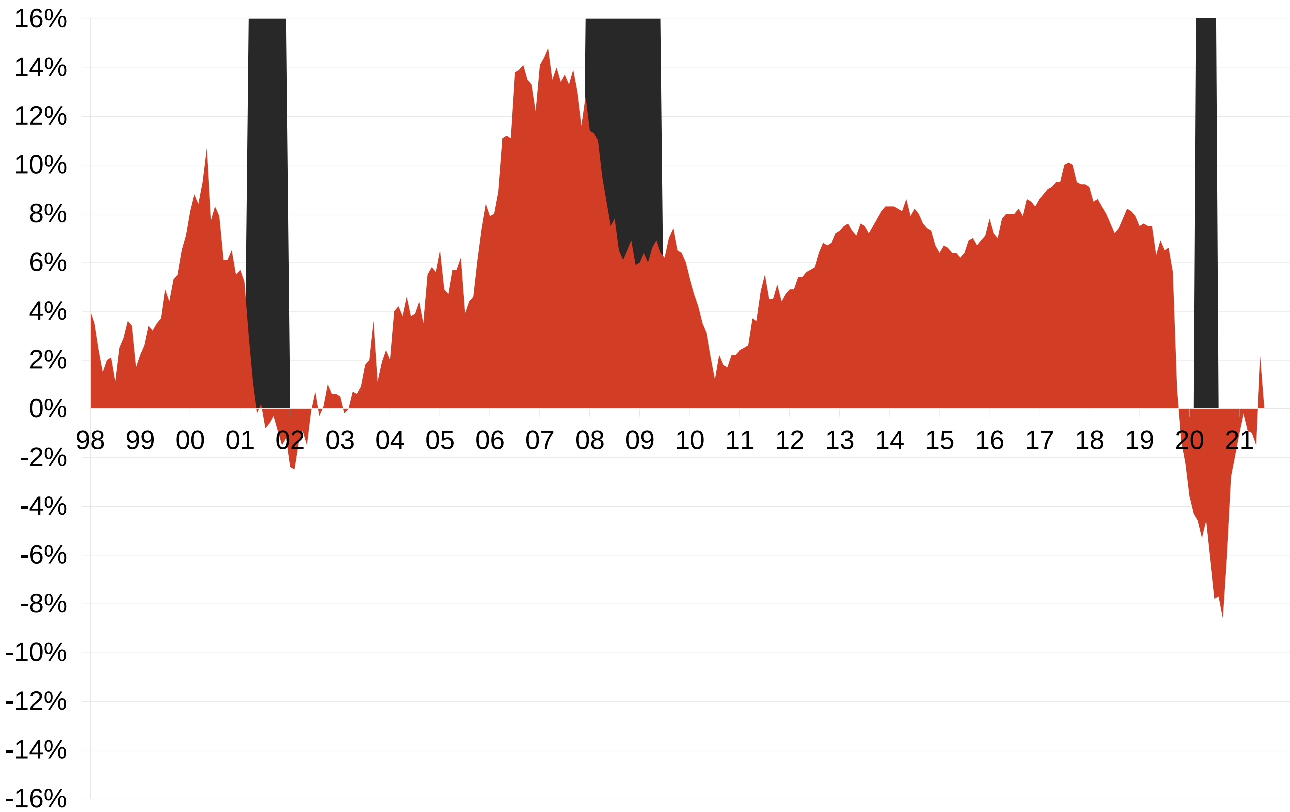
Credit card balances rose in July as consumers begin to travel and spend again

Consumer Installment Credit

Credit union consumer installment credit loan balances (auto, credit card and other unsecured loans) rose 0.4% in June, below the 2.2% reported in June 2020 when used auto and other unsecured loans reported a big jump. Credit union consumer installment credit rose 6.8% during the 12 months ending in June, above the 4.1% pace reported by all other lenders.

Credit card growth finally turned positive in June, rising at a 2.2% seasonally-adjusted annualized growth rate **(see figure below)**, the first positive reading since October 2019. June's credit card seasonal factors usually add 0.55 percentage points to the underlying trend growth rate. Rising gas prices, consumers venturing out again and spending on services will keep credit card loan growth in the positive territory for the remainder of the year.

CU Credit Card Growth
Seasonally Adjusted
Annualized Growth Rate



Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

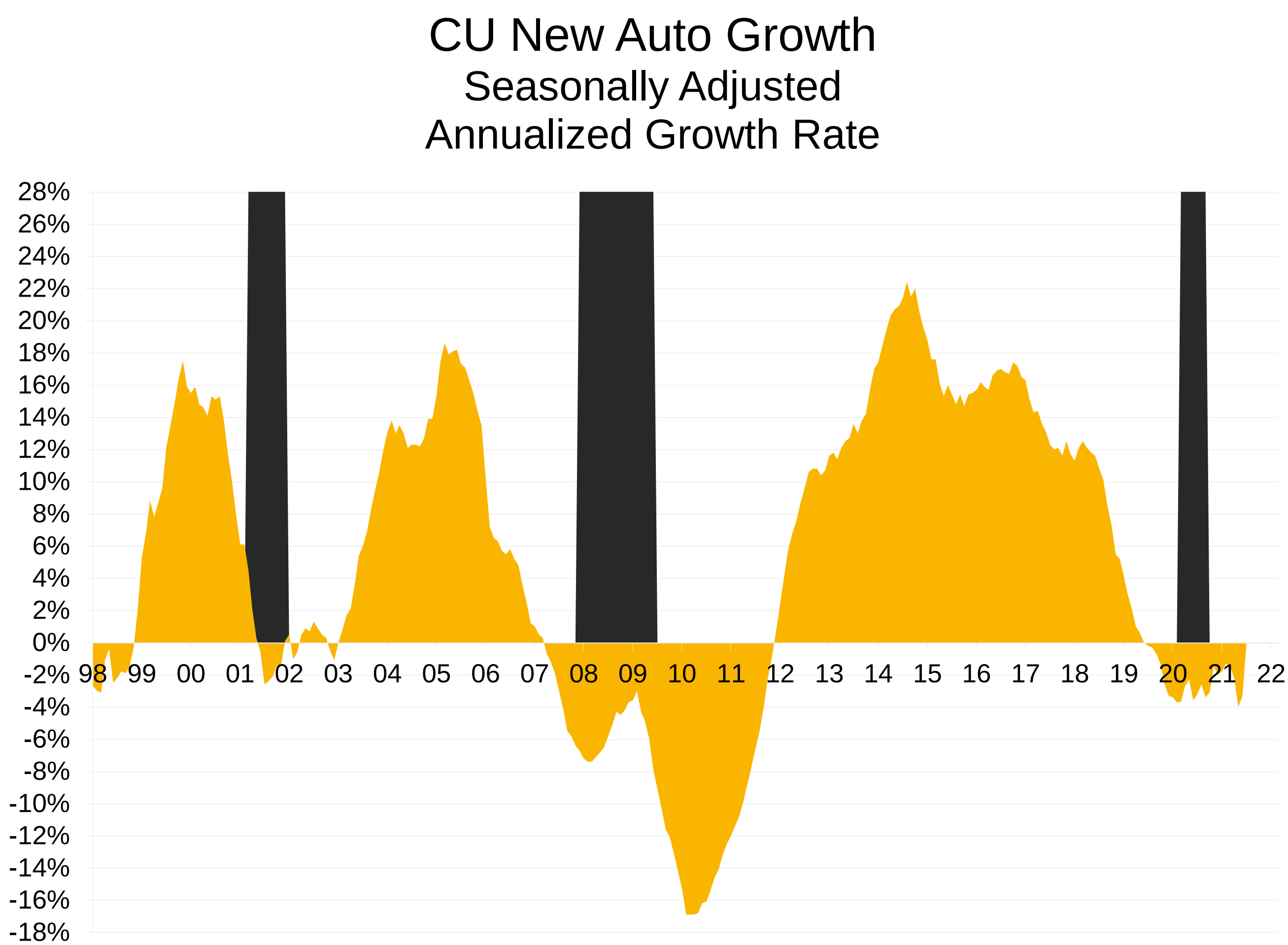
04

Vehicle Loans

New auto loan balances have declined each month for the last 2 years

Vehicle Loans

Credit union new-auto loan balances fell at a 3.3% seasonally-adjusted, annualized growth rate in June, the 24th consecutive monthly decline **(see figure below)**. Negative readings are associated with recessions, which are highlighted as black bars in the figure below. On a month-over-month basis, new auto loan balances decreased 1.1% in June, a bigger decline than the 0.6% drop reported in June 2020. June's seasonal factors usually add 0.5 percentage points to the underlying trend growth rate, and June typically has the second-largest seasonal factor of the year. May through October is considered the new auto buying and lending season. Credit union new-auto loans currently make up 36% of total auto loans, with used-auto loans making up the other 64%. Used-auto loan balances rose 1.2% in June, below the 1.5% pace reported in June 2020. A typical used-auto loan is originated at roughly half the dollar amount of a new auto loan.



Source: Autodata Corp.

05

Real Estate Information

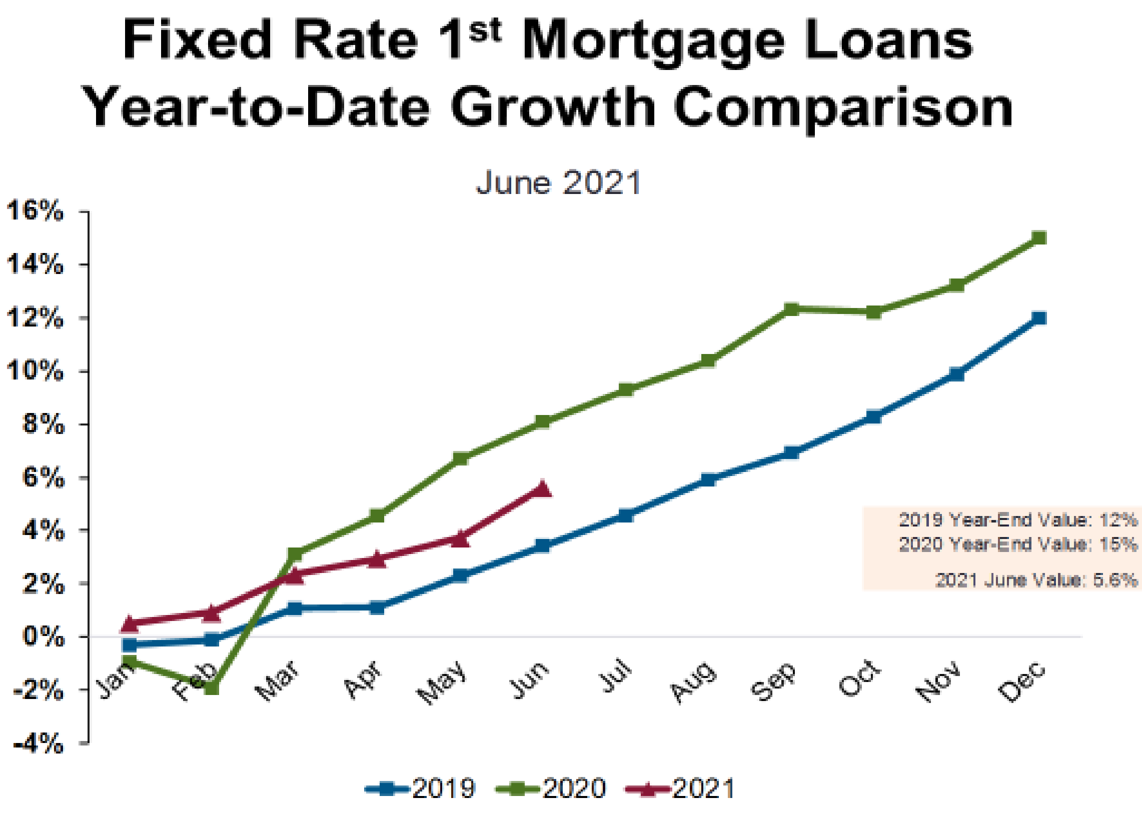
Credit unions hold 4.8% of all first mortgage home loans

Real Estate Information

Credit union fixed-rate first mortgage loan balances grew 1.8% in June, faster than the 1.3% reported in June 2020. A year-to-date growth comparison shows a 5.6% growth rate during the first half of 2021, down when compared to the 8.1% in 2020 **(see figure below).** Credit unions now hold $548 billion of first mortgages on their books, which are 4.8% of the entire mortgage market, up from 4.5% in June 2020.

The contract interest rate on a 30-year fixed-rate conventional home mortgage was 2.98% in June, up from 2.96% in May but down from 3.16% reported in June 2020. Expect mortgage interest rates to fall for the next few months due to a drop in the 10-year Treasury interest rate.

Home prices rose 2.3% in June from May, according to the Core Logic Home Price Index, and 17.2% year-over-year, the fastest pace since the late 1970s. In the long run, however, home price growth should approximately equal income growth, so clearly, this pace of appreciation is unsustainable.



Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

06

Surplus Funds (Cash + Investments)

Credit unions' liquidity is beginning to tighten as deposit growth slows

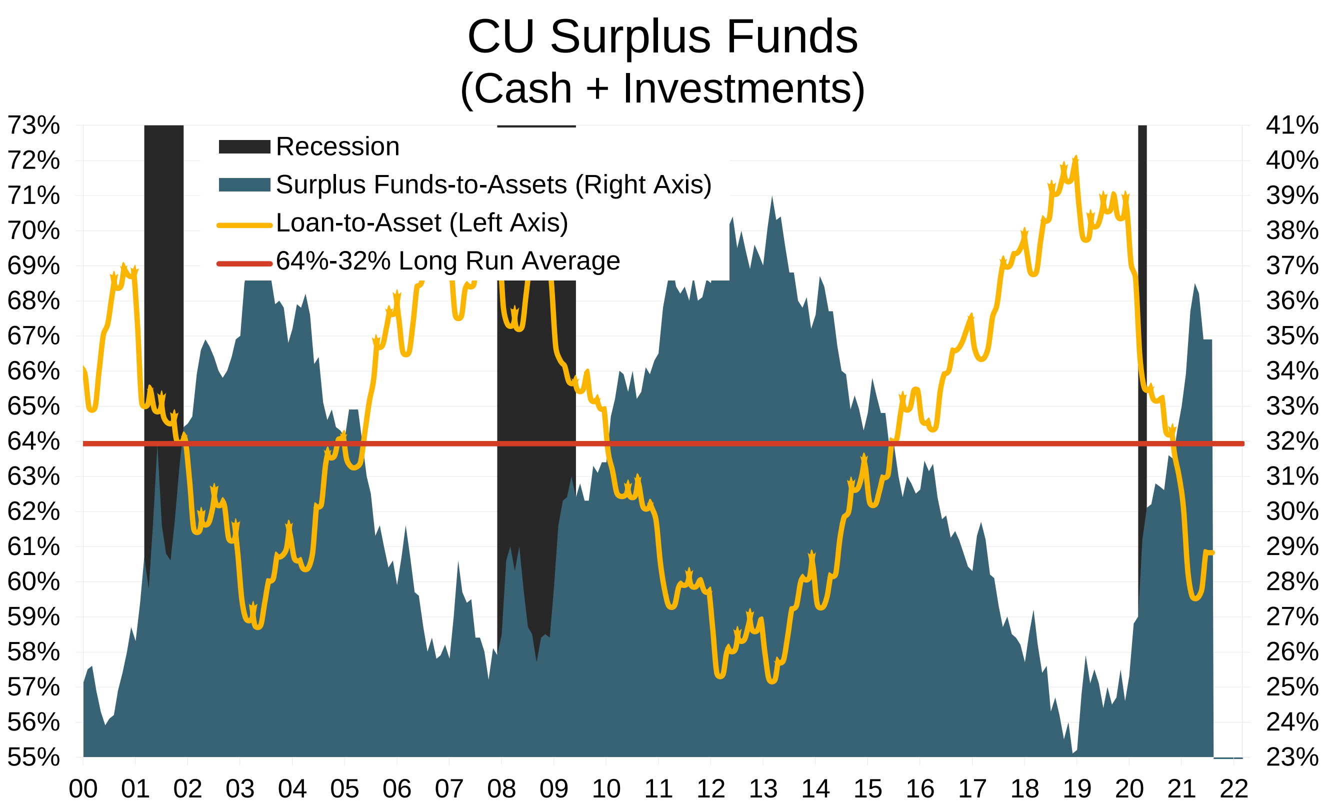
Surplus Funds

Credit union surplus funds as a percent of assets fell to 34.9% in June **(see figure below)**, down from the high-water mark of 36.5% set back in April. We expect credit union liquidity to keep falling as a percent of assets going forward for the next few years. During the last 12 months, surplus funds rose 31% while assets grew 13%.

The obverse of the surplus funds ratio is the loan-to-asset ratio, which rose to 60.9% in June, above the low-water mark of 59.6% set in April. Expect the loan-to-asset ratio to keep rising for the next 2 years. This shift of assets toward loans (the mix effect) will help offset the drop in the yield-on-asset ratios due to the effect of record-low market interest rates.

The Federal Reserve is expected to keep short-term interest rates low for another two years, and then only raise the Fed Funds interest rate 0.5 percentage points each year until the year 2028, when the Fed Funds interest rate reaches the Federal Reserve target of 2.5%.

The stronger growth in credit union savings over the last year resulted in credit unions relying less on wholesale borrowings, which fell by $9 billion, or a drop of 17%. Credit unions' capital balances increased by $14 billion, 7.5%, during the last 12 months. The credit union movement's capital-to-asset ratio fell to 10%, below the 10.5% reported in June 2020, due to capital growing slower than assets.



07

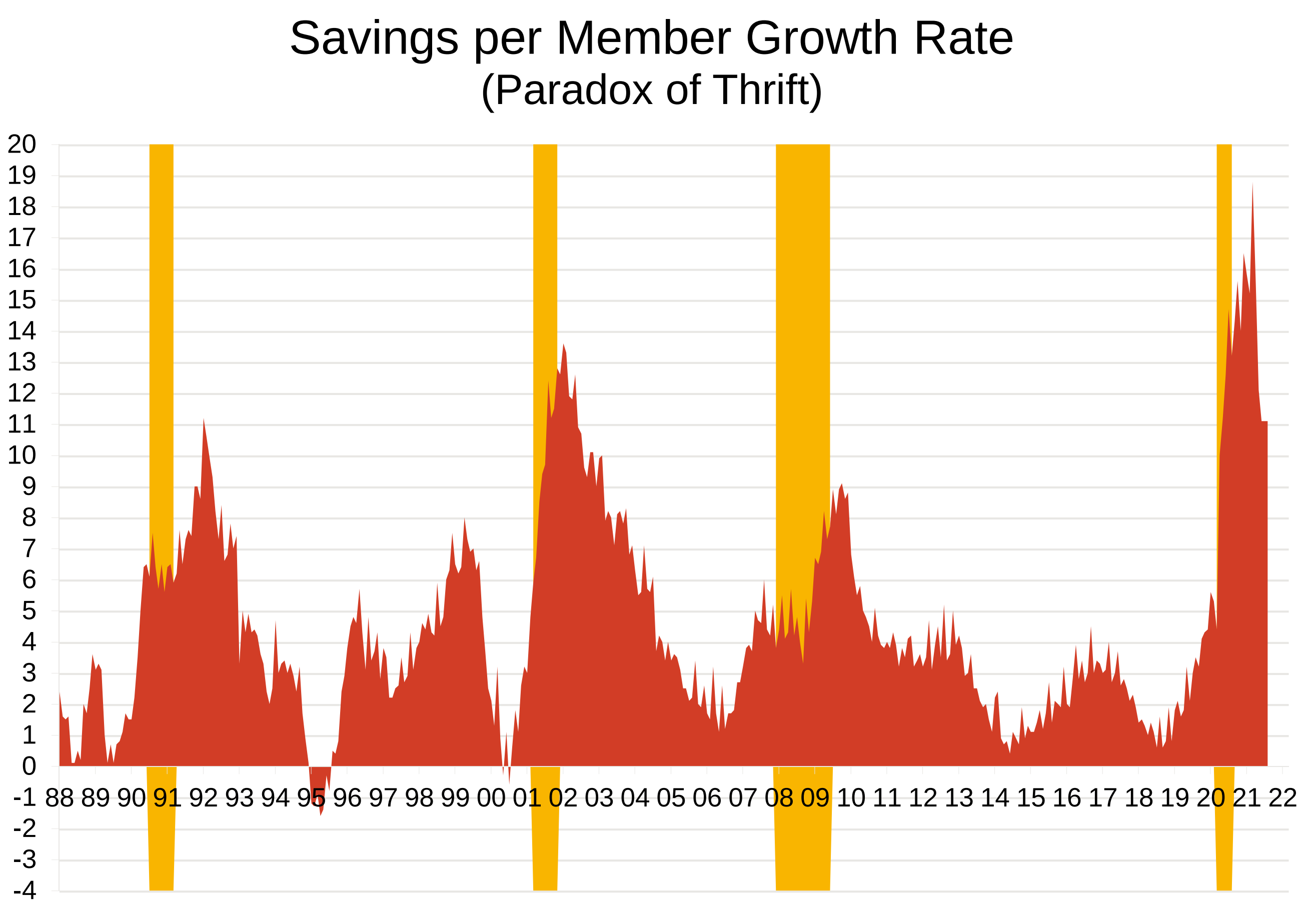
Savings and Assets

Savings balances rose 15.1% during the last year

Savings and Assets

Credit union savings balances grew 15.1% during the 12 months ending in June, more than double the 5.7% average annual growth rate recorded during the last 10 years. The 15.1% credit union savings growth rate was caused by the combination of the 3.5% membership growth during the last 12 months and the 11.1% savings-per-member growth rate **(see figure below)**. The increase in deposit growth rates over the last year coincides with a rise in the personal savings rate (savings as a percent of disposable personal income), which reached 9.4% in June. This is above the 7.2% personal savings rate set during the 10-year period ending December 2019.

During the last 12 months, regular share deposit growth accounted for 56% of all deposit growth at credit unions. Regular share deposits are currently growing at a 17% seasonally-adjusted annualized rate, 10 percentage points above the 20-year average of 7%. We expect deposit growth to come in around 15% in 2021, before slowing to 5% in 2022 and 2023.



Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

08

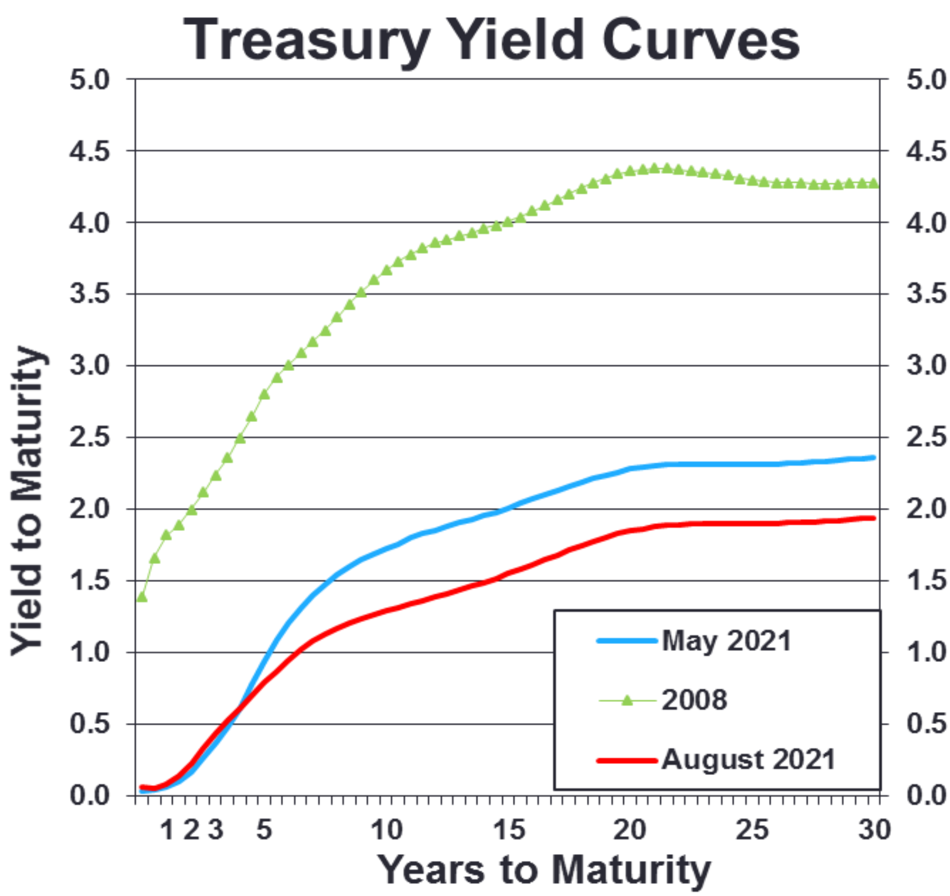
Capital and Other Key Measures

Yield curves flattened over the last 3 months, which will put downward pressure on net interest margins

Capital and Other Key Measures

The Treasury yield curve shifted down over the last 3 months, especially the medium to long-term portion of the yield curve **(see figure below)**. Interest rates on the 10-year Treasury note fell 44 basis points to 1.29, while interest rates less than 1-year rose 2-3 basis points. With short-term interest rates rising and long-term interest rates falling the last few months, the yield curve flattened slightly. Normally this would put downward pressure on credit unions' net interest margins as the business of buying money short-term and selling money long-term becomes less lucrative. Moreover, the surge in deposits and short-term investments will also put downward pressure on credit union net interest margins for the next 18 months due to investment yields falling to record lows.

Credit union loan-to-share ratios rose to 70.1% in June, up from 69.5% one month earlier, but down from 77% in June 2020. The recent cyclical high of 86% occurred during January 2019, the highest since May 1980. Expect loan-to-share ratios to continue to rise for the rest of the year as loan growth picks up speed as the economy reopens from the pandemic.

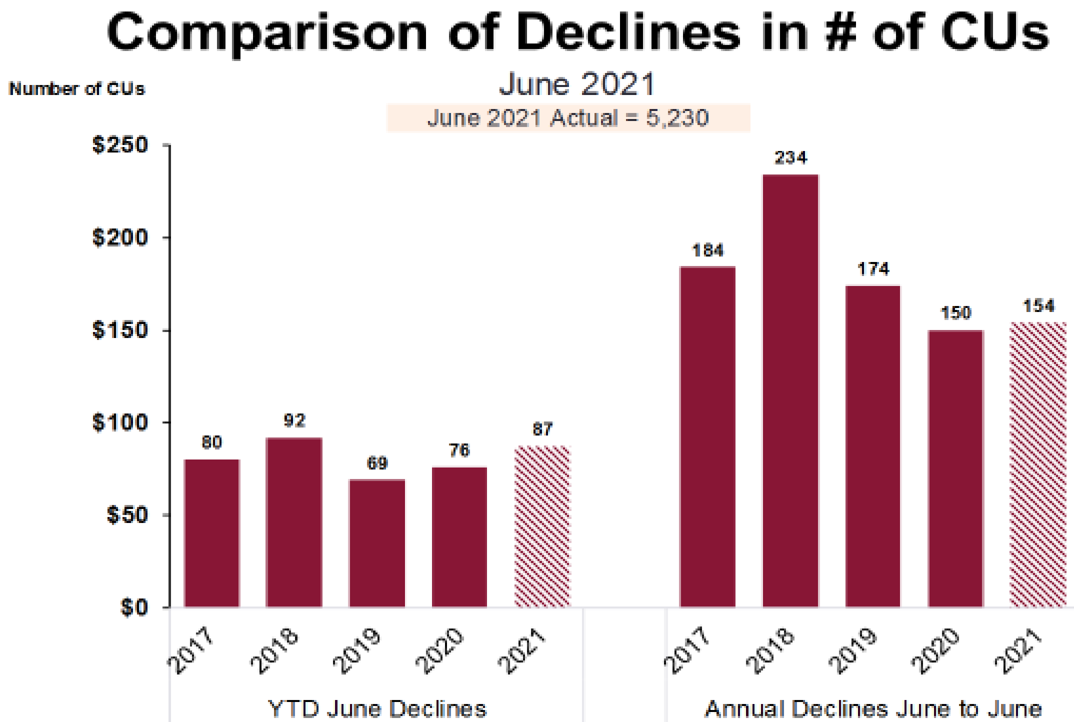


09

Credit Unions and Members

The average asset size of a credit union now stands at $381.2 million, up a remarkable 22% from a year ago

Credit Unions and Members



Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

As of June 2021, CUNA estimates 5,530 credit unions were in operation, three fewer than May and 154 fewer than June 2020 **(see figure above)**. During the first half of 2021, approximately 87 credit unions ceased to exist because of mergers, purchases and assumptions or liquidation. During a typical year, 46% of the total decline in the number of credit unions takes place in the first half of the year, which means that we can estimate the 2021 full-year decline in the number of credit unions to be 189, above the 143 reported in 2020. The average asset size of a credit union now stands at $381.2 million, up a remarkable 22% from a year ago, while the median asset size is $46.5 million, up 24% over the last year, indicating the loss of smaller credit unions.

The trend towards industry consolidation and bigger credit unions is only likely to accelerate due to the benefits of greater economies of scale, higher productivity and larger earnings that are all achieved with a larger asset base. Larger, more efficient credit unions will also raise the barrier to entry for new small credit unions.

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 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	605.2	87.9
20 10	1,189.4	145.0	241.5	386.5	53.5	61.4	495.7	516.6	88.0	604.6	89.1
20 11	1,191.3	145.8	241.6	387.5	53.5	62.0	496.5	519.2	87.1	606.3	88.5
20 12	1,193.9	144.4	241.7	386.0	53.2	62.6	495.1	524.6	85.9	610.5	88.3
21 01	1,192.9	144.7	242.4	387.1	51.5	61.0	501.0	527.8	86.0	613.8	78.1
21 02	1,194.8	144.6	242.4	387.1	53.6	60.6	501.6	528.8	85.4	614.2	79.0
21 03	1,195.5	142.2	244.5	386.6	53.5	59.5	502.9	530.2	83.5	613.7	78.9
21 04	1,202.1	141.9	246.1	388.0	52.7	58.8	505.7	535.0	84.0	619.0	77.4
21 05	1,212.2	142.6	249.5	392.1	52.9	60.0	517.1	537.5	84.2	621.7	73.3
21 06	1,223.8	141.0	252.4	393.4	55.2	60.4	519.4	547.9	85.0	632.8	71.6

* 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 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	17.5	-4.9	2.1	12.9	-5.3	9.8	12.0
20 10	6.3	-2.7	4.6	1.8	14.7	-5.4	2.5	11.9	-6.4	8.8	11.1
20 11	5.9	-2.2	4.7	2.0	14.5	-4.9	3.0	11.7	-7.4	8.5	5.8
20 12	5.3	-3.6	4.5	1.3	12.7	-6.4	2.6	11.2	-7.6	8.1	2.2
21 01	4.9	-3.1	4.5	1.5	9.3	-7.9	3.8	11.9	-7.4	8.7	-13.3
21 02	4.8	-2.6	4.2	1.6	15.7	-7.8	3.4	13.5	-8.3	9.9	-17.8
21 03	4.5	-3.4	4.9	1.7	14.4	-8.9	2.8	9.0	-9.6	6.1	3.7
21 04	4.8	-3.1	6.4	2.7	11.1	-6.1	6.2	9.4	-8.4	6.6	-14.3
21 05	4.5	-1.4	7.2	3.9	9.0	-3.1	8.6	8.8	-7.5	6.2	-25.7
21 06	4.8	-2.0	6.7	3.4	3.9	-2.1	6.8	8.9	-5.3	6.7	-19.4

* 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 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	1,189.4	1,846.2	1,582.1	191.3	126.3	5,355	75.2	10.4
20 11	1,191.3	1,846.2	1,584.1	193.0	126.5	5,321	75.2	10.5
20 12	1,193.9	1,875.8	1,614.8	194.1	126.8	5,317	73.9	10.3
21 01	1,192.9	1,891.5	1,626.4	195.1	127.3	5,318	73.3	10.3
21 02	1,194.8	1,920.6	1,653.2	194.7	127.6	5,305	72.3	10.1
21 03	1,195.5	1,982.2	1,722.5	195.0	128.2	5,285	69.4	9.8
21 04	1,202.1	2,015.4	1,752.3	197.2	128.5	5,256	68.6	9.8
21 05	1,212.2	2,027.5	1,744.1	199.3	129.0	5,233	69.5	9.8
21 06	1,223.8	2,010.4	1,744.7	201.4	129.2	5,230	70.1	10.0

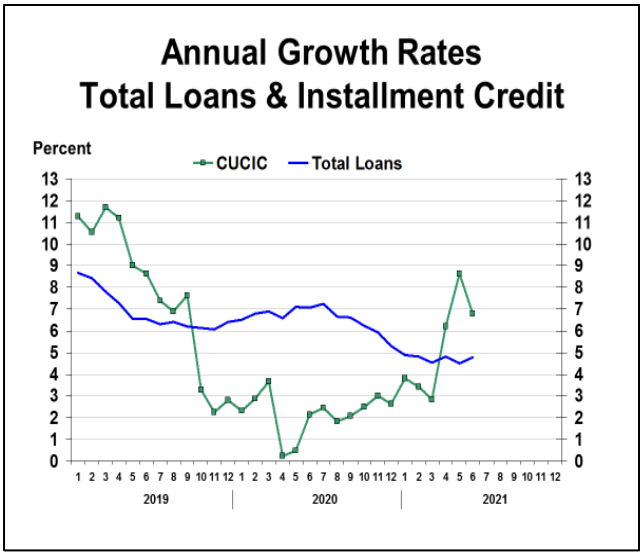
Credit Union Growth Rates

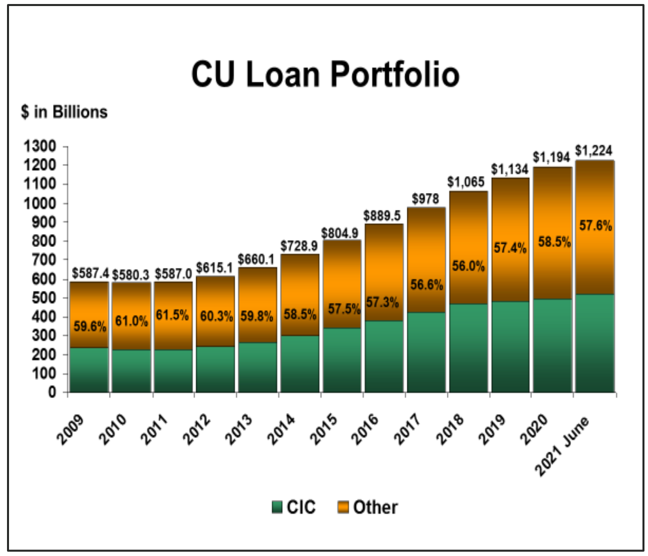
Percent Change From Prior Year

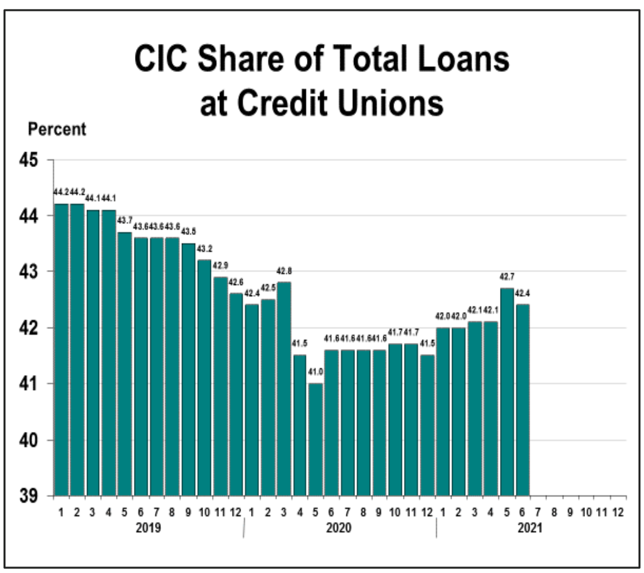
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
19 06	6.6	6.3	5.9	11.8	3.7	(3.0)	(174)	0.631%
19 07	6.3	6.7	6.8	10.5	3.8	(3.1)	(176)	0.645%
19 08	6.4	7.2	7.4	11.4	3.7	(3.1)	(177)	0.660%
19 09	6.2	6.8	6.9	11.9	3.6	(2.8)	(156)	0.665%
19 10	6.2	7.6	7.9	12.0	3.5	(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	6.3	17.2	19.5	7.9	3.3	(2.7)	(148)	0.549%
20 11	5.9	15.6	17.8	8.6	3.3	(3.1)	(169)	0.580%
20 12	5.3	17.7	20.3	8.3	3.2	(2.6)	(143)	0.595%
21 01	4.9	17.4	19.7	8.1	3.3	(2.4)	(132)	0.587%
21 02	4.8	16.3	19.1	7.1	3.4	(2.6)	(141)	0.524%
21 03	4.5	19.0	23.1	6.3	3.6	(2.5)	(134)	0.455%
21 04	4.8	16.7	19.7	7.9	3.6	(3.0)	(165)	0.469%
21 05	4.5	14.6	16.2	7.3	3.7	(2.8)	(151)	0.456%
21 06	4.8	13.0	15.1	7.5	3.5	(2.9)	(154)	0.439%

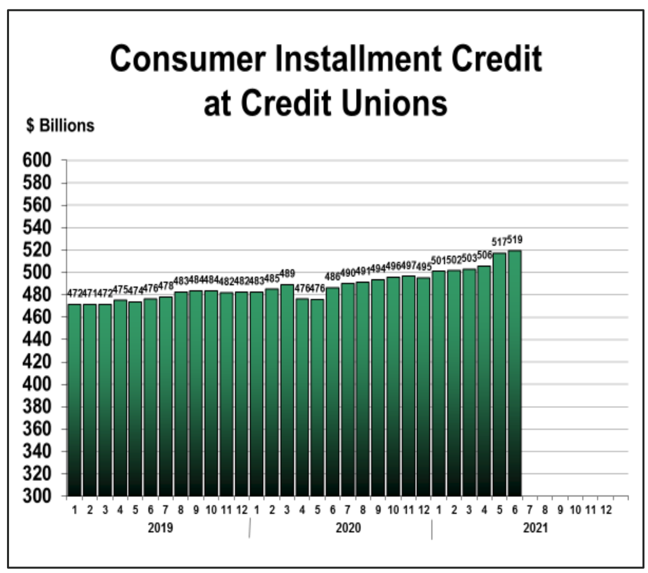
* Loans two or more months delinquent as a percent of total loans

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.

Steven Rick
800.356.2644, Ext. 665.5454
steve.rick@cunamutual.com
CUNA Mutual Group – Economics