Credit Union Trends Report

November 2021 ▪ September 2021 Data

CUNA MUTUAL GROUP

01

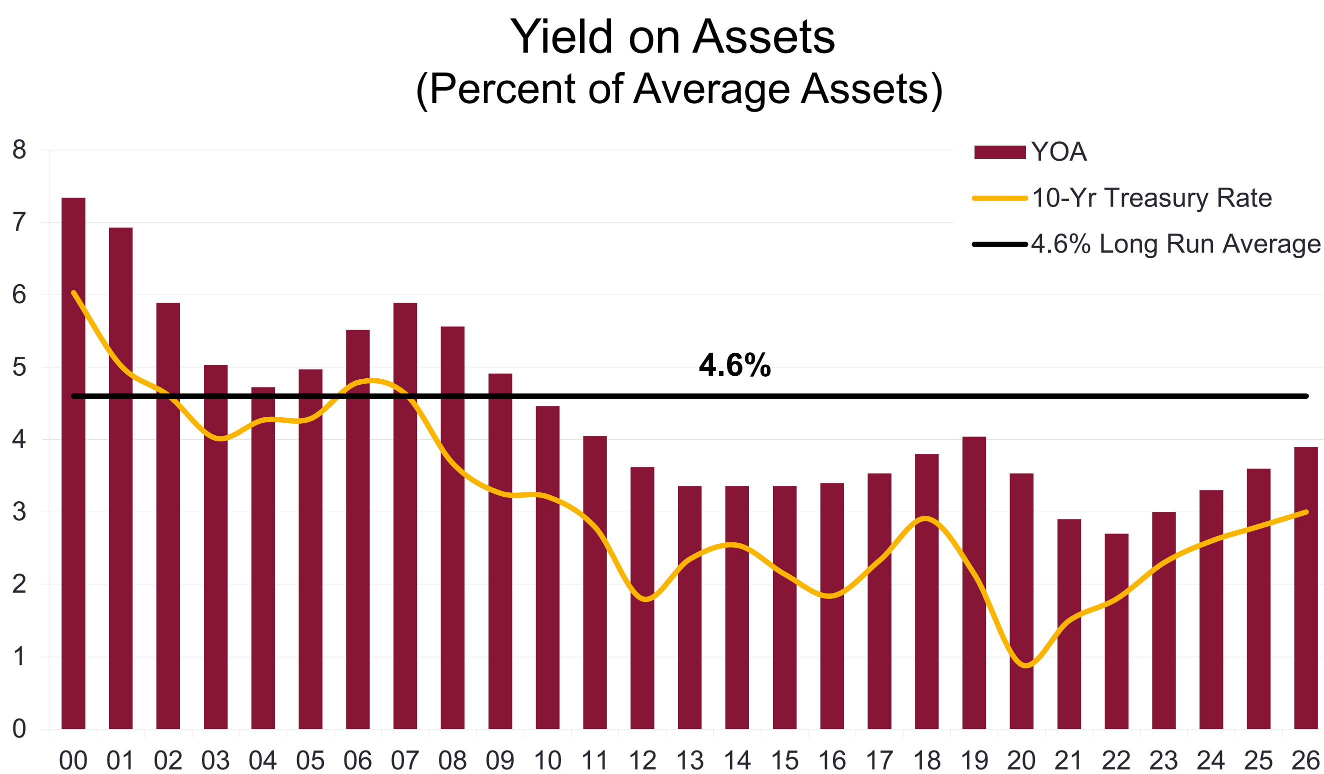
Economic Trends

Credit union yield-on-asset ratios rise during the next five years as market interest rates rise but remain below the long-run average

Economic Trends

What can we expect for long-term interest rates during the next five years? As the economy recovers over the next few years and inflation runs above the Federal Reserve's 2% average target, we can expect the 10-year Treasury to increase from 1.5% today to 3% by 2026 (**see figure below**). Moreover, the recent announcement by the Federal Reserve that they have begun to taper their quantitative easing program (printing up money to buy Treasury bonds and mortgage-backed securities) by $15 billion each month will increase long-term interest rates over the next year.

So, what impact will this have on credit unions? As you can see by the chart below, there is a strong correlation between the 10-year Treasury interest rate and credit unions' yield-on-asset ratios. As the market interest rate falls, so do credit union loan and investment yields, pulling down the yield-on-asset ratio. Historically there is a 1.3 percentage point difference between the 10-year interest rate and the credit union yield-on-asset ratio. This difference is the credit spread which accounts for the risk differential between lending to the credit-risk-free U.S. government and consumers. Even though we expect market interest rates to rise in 2022, we are forecasting credit union yield-on-asset ratios to fall to a record low 2.7 percentage points due to a one-year lag effect. By 2026, credit union yield-on-asset ratios are expected to climb to 3.9%, still below the 4.6% average reported by credit unions over the past two decades.



02

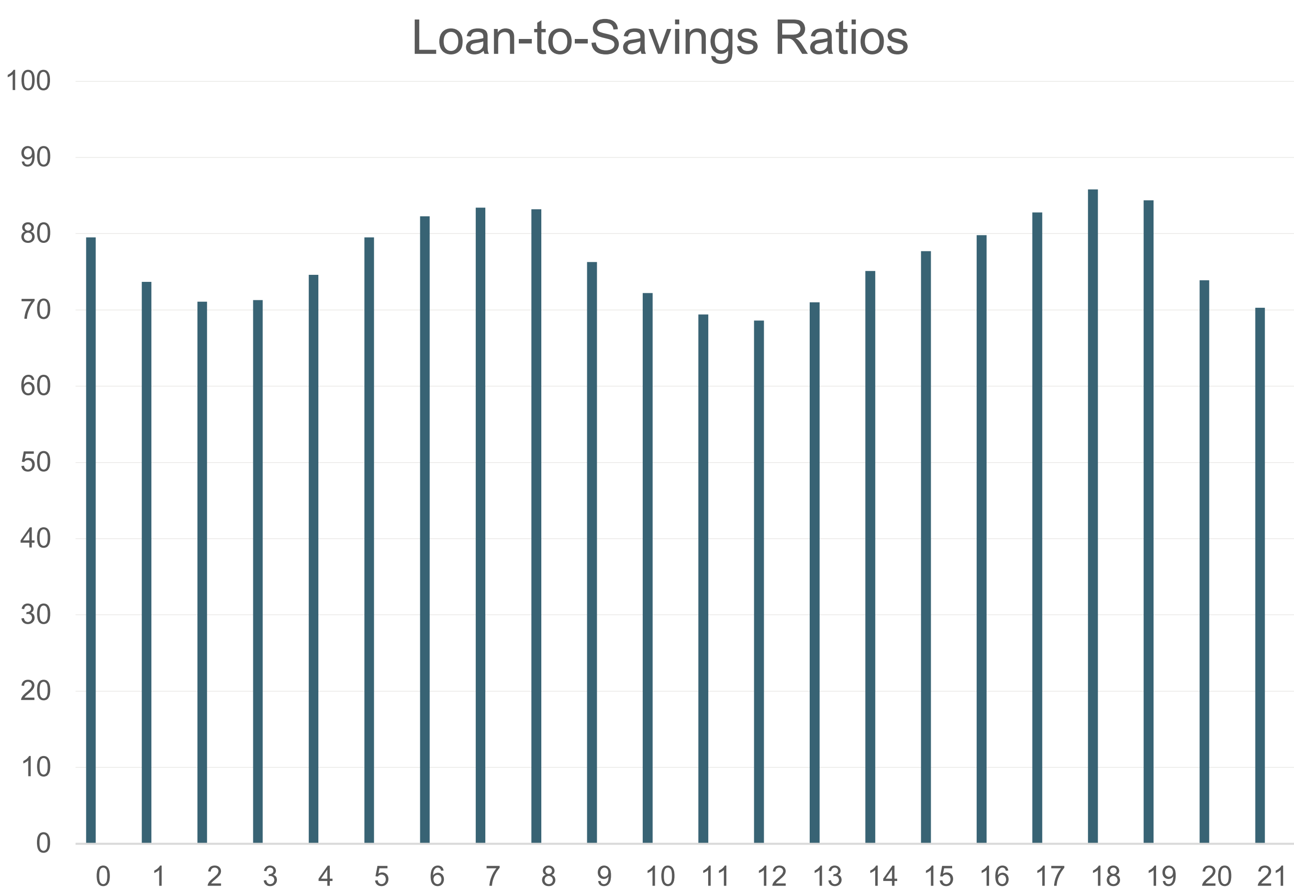
Total Credit Union Lending

Credit union lending is beginning to accelerate as the economy reopens

Total Credit Union Lending

Credit union loan balances rose 0.5% in September, slower than the 0.6% pace reported in September 2020. Driving overall loan growth was strong growth in unsecured personal loans (2%), used auto loans (1.1%) and fixed-rate first mortgages (0.8%).

The credit union average loan-to-savings ratio fell to 70.3% in September **(see figure below)**, down from 76.3% in September 2020, due to deposit growth exceeding loan growth. Loan-to-savings ratios peak right before recessions and may contribute to the economic slowdown that follows due to tight liquidity from credit unions reducing their pace of lending and high levels of members' debt reducing their demand for loans. Based on current trends, credit union lending growth is expected to rise 9% in 2022 while savings balances increase only 5%. This will raise the average loan-to-savings ratio to 72% at year's end of 2022, almost equal to the 40-year average of 72.8%.



Source: CUNA & NCUA

03

Consumer Installment Credit

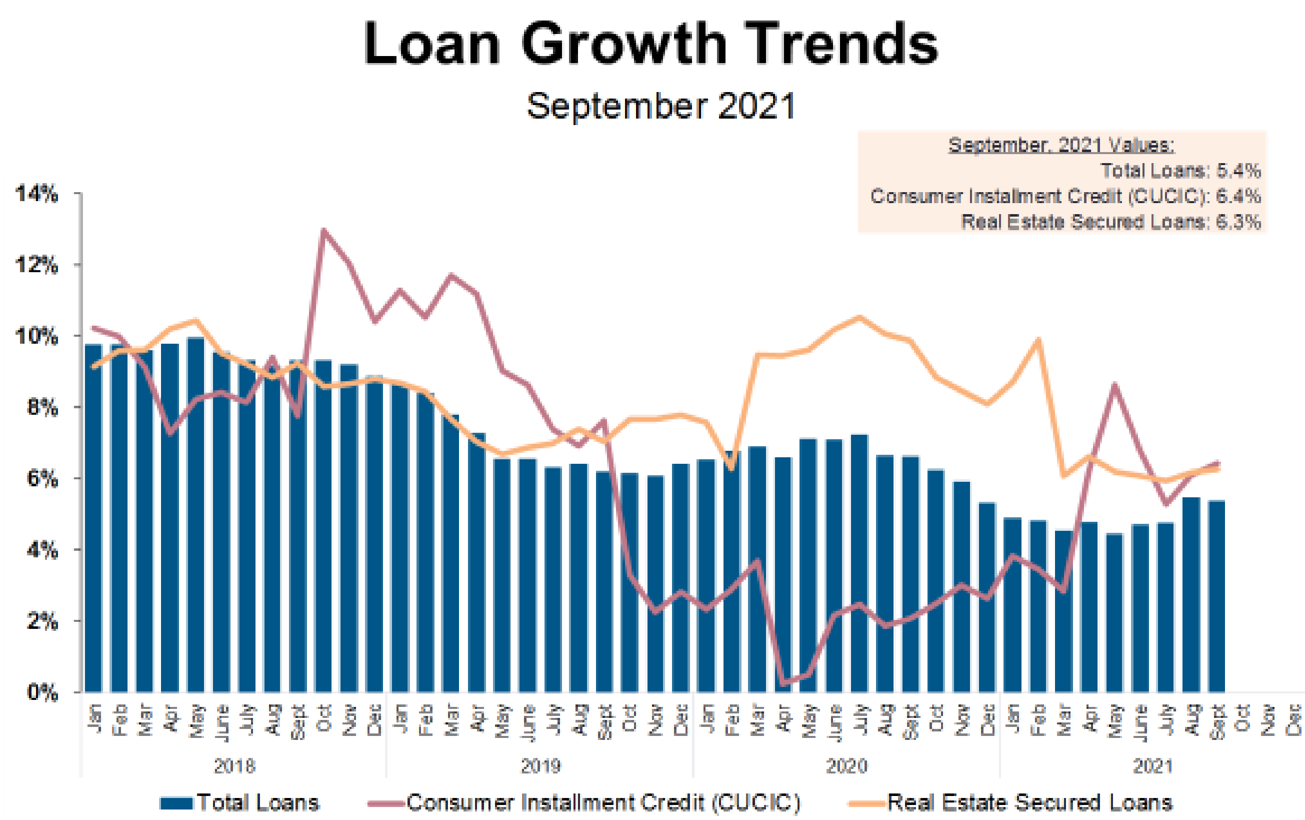
Consumer installment credit growth has returned to its pre-pandemic growth rate

Consumer Installment Credit

Credit union consumer installment credit loan balances (auto, credit card and other unsecured loans) rose 0.8% in September, faster than the 0.5% rise set in September 2020. During the last 12 months, credit union consumer installment credit grew 6.4% **(see figure below)** slightly above the 6.3% for real estate secured loans.

According to the Federal Reserve, outstanding consumer credit for all lenders rose a strong $30.4 billion in September, with balances up 5.1% over the last year. Credit unions hold 11.5% of all consumer credit, down slightly from the record 11.9% high setback in September 2020.

Going forward, expect credit growth to accelerate into 2022 as consumers begin spending on leisure and hospitality again and the unemployment rate drops below full employment and economic uncertainty declines.



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

04

Vehicle Loans

It may take anther 12 months for the auto market to normalize after the supply chain disruption

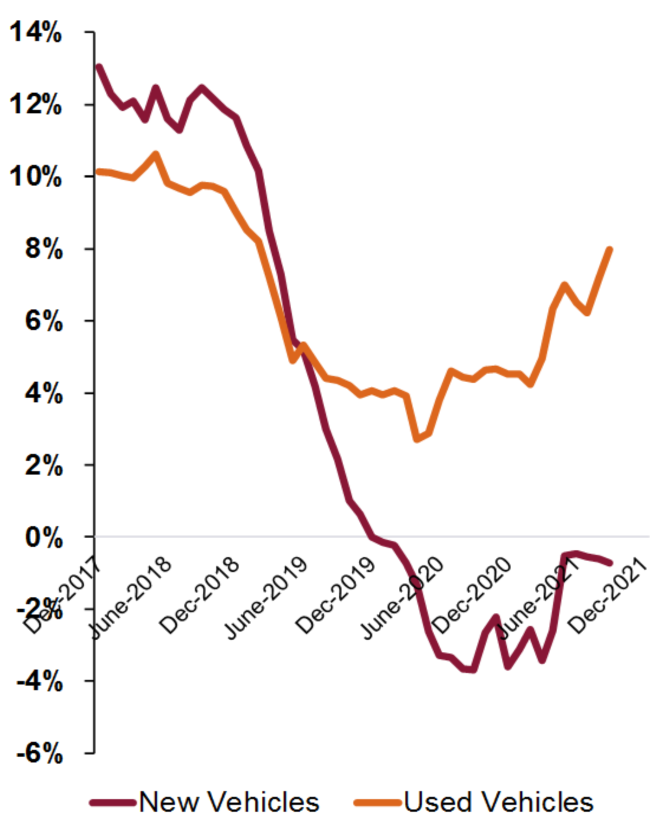
Vehicle Loans

Credit union new-auto loan balances rose 0.1% in September, below the 0.2% growth pace set in September 2020. New-auto loan balances fell 0.7% during the last 12 months **(see figure below)** while used auto loan balances rose a robust 8%**.**

Total auto loan balances rose 4.7% since September 2020, which is slower than the overall loan growth of 5.4%, and in turn has led to auto loans making up only 32.2% of the credit union loan portfolio, down from 32.4% last year and below the all-time high of 41% set back in October 1996.

Vehicle sales fell to a 12.22 million unit seasonally-adjusted annualized sales rate in September, down from 13.09 million in August. Total light-vehicle sales were 25.2% below those of September 2020. Vehicle supply is hamstrung by the shortage of semiconductor microchips, among other supply chain disruptions. Given the current state of auto production and inventories, it may take another year for the auto market to normalize, and inventories and production rates to return to their long-run average.

CU New vs. Used Vehicle



September 2021 Values:
Total Vehicle Loans: 4.7%
New Vehicle Loans: -0.7%
Used Vehicle Loans: 8%

Source: Autodata Corp.

05

Real Estate Information

Home price-to-income ratios are at record highs pointing to a housing bubble

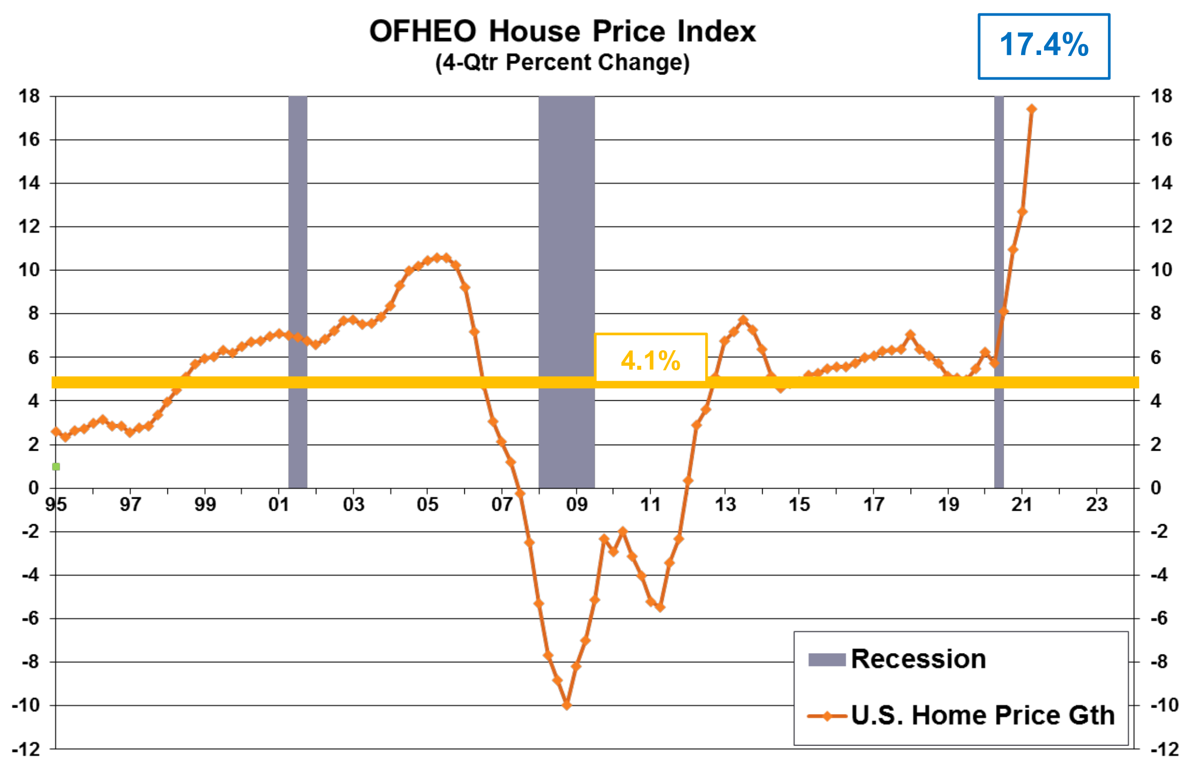
Real Estate Information

Credit union fixed-rate first mortgage loan balances grew 0.8% in September, below the 1.7% pace set in September 2020 due to the slow down in the mortgage refinance boom. Adjustable-rate mortgage loan balances rose 0.7% in September, above the 1.1% decline recorded in September 2020.

The contract interest rate on a 30-year, fixed-rate conventional home mortgage rose to 2.9% in September from 2.84% in August and just barely above the 2.89% reported in September 2020.

Home prices rose 1.1% in September from August, according to the Core Logic Home Price Index, and 18% year-over-year. Among the largest metro areas, Phoenix rose 31%, Las Vegas was up 23.1% and San Diego rose 22.6%. This is reminiscent of 2005.

The OFHEO House Price Index rose 17.4% over the last year ending in the second quarter **(see figure below)**. Some people are concerned that home prices are becoming overvalued again and creating another home price bubble. One way to measure overvaluation is to compare today's home price-to-income ratio and home price-to-rent ratio to their historical averages. Historically, a house in the U.S. cost around 3 to 3.5 times the median annual income. During the housing bubble of 2004-2005, the median price for a single-family home cost more than 5.1 times the median annual household income in November 2005. Today, that ratio stands at 5.3.



06

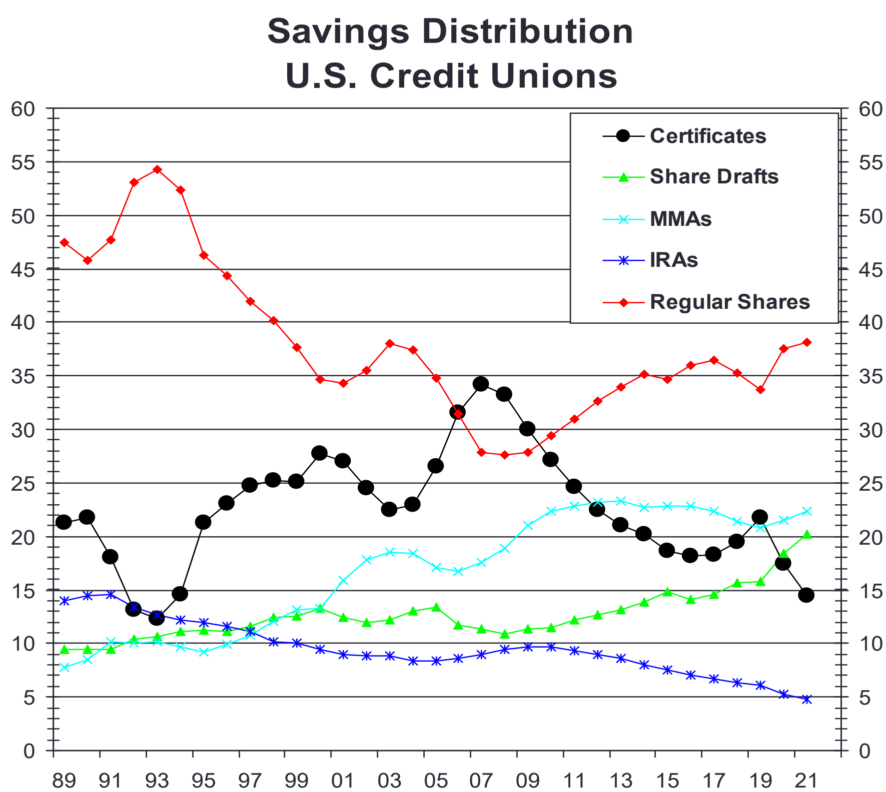
Savings and Assets

Share drafts are now a larger share of credit union deposits than share certificates

Savings and Assets

For the first time in credit union history, share drafts make up a larger percentage of credit union total deposits (20.2%) than share certificates (14.5%). Three factors drove this savings distribution shift. First, record-low interest rates by the Federal Reserve allowed credit unions to follow suit and lower deposit interest rates on share certificates and money market accounts, like what they did in 1998, 2001 and 2008. This reduced credit union members' appetitive for term share certificates. Second, three rounds of COVID-19 stimulus checks swelled members' checking account balances. Third, the pandemic led to a record surge in the national savings rate and therefore a record level of credit union members' liquid savings.

Credit union cost of funds is expected to fall 30 basis points in 2021 to 0.4% from 0.7% in 2020, the lowest in credit union history due to the Federal Reserve lowering the Fed Funds interest rate 0.1% and members' moving deposits from higher-cost share certificates to low-cost share draft and regular shares. This is known as the "mix effect." Expect cost-of-funds ratios to keep falling into the new year as members keep moving maturing certificate balances into liquid savings accounts.



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

07

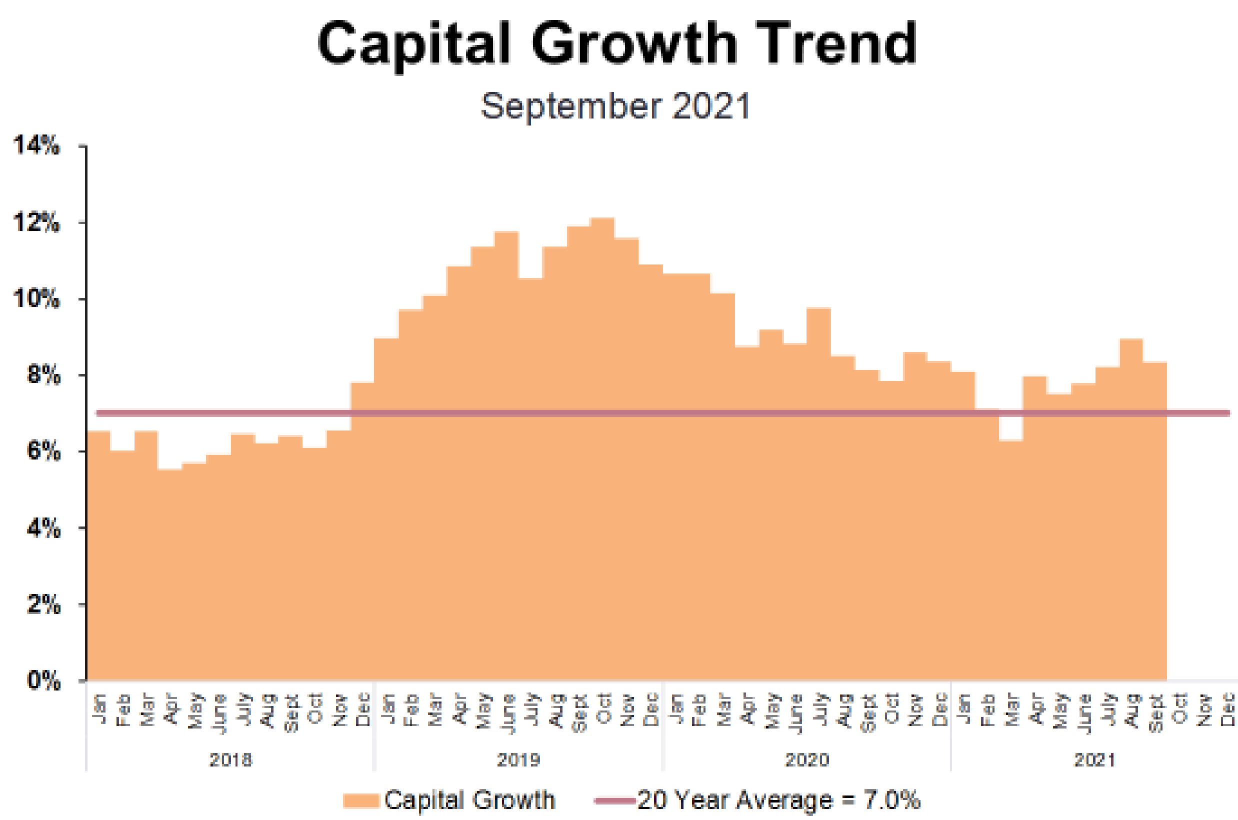
Capital and Other Key Measures

Credit unions are reporting above-average return-on-equity ratios

Capital and Other Key Measures

The credit union system's capital-to-asset ratio fell to 10.1% in September, down from 10.5% in September 2020 due to a surge in deposits and assets compared to the increase in capital. The capital ratio is down 0.4% from what was reported in September 2020 due to asset growth of 12.9% outpacing capital growth of 8.3% **(see figure below)**.

The capital growth rate is also known as the return-on-equity ratio and is one of the most important credit union financial ratios. For most of the last three years, the return-on-equity ratio has been running above the 7% average recorded over the last 20-years. This ratio is important because it determines the credit union movement's asset growth "speed limit" over the long run. So faster capital growth allows for faster asset growth while still maintaining a constant capital-to-asset ratio.



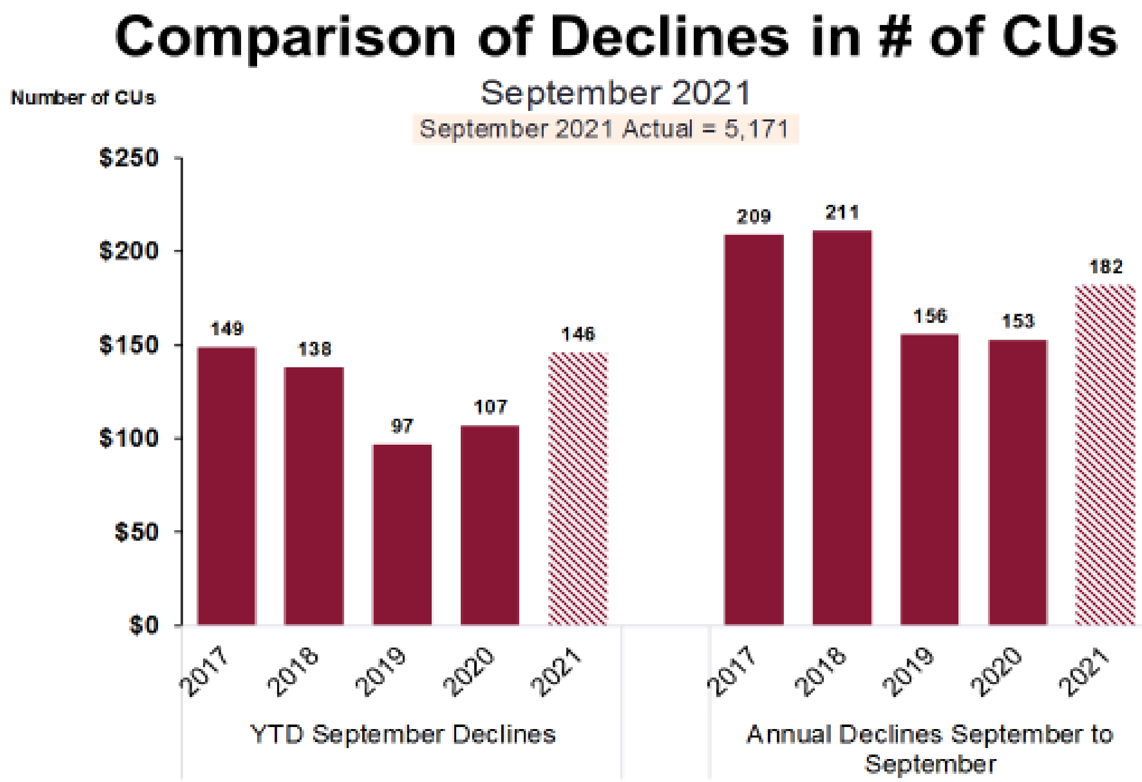
Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

08

Credit Unions and Members

Credit union mergers up 26% in the third quarter compared to one year ago

Credit Unions and Members



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

As of September 2021, CUNA estimates 5,171 credit unions were in operation, down 182 from September 2020 **(see figure above)**. Year-to-date, the number of credit unions fell by 146, slightly faster than the 107 decrease reported in the first nine months of 2020. NCUA's Insurance Report of Activity showed 43 mergers were approved in the third quarter (up from 34 in the third quarter of 2020), with an average asset size of $37 million. The average asset size of the continuing credit union was $1.5 billion. Twenty-eight of the mergers were due to credit unions wanting expanded services, eight were due to poor financial condition, three were for a lack of sponsor support, three were due to an inability to find officials and one was because of a lack of growth. Expect mergers to accelerate into 2022 as smaller credit unions which to expand the services offered to their members by merging with larger institutions.

Credit unions added more than 3.7 million memberships in the first nine months of 2021, significantly above the 3.4 million added in a similar period of 2020. The rising demand for credit was the major driver for the pickup in memberships. Also driving the increase in memberships was the acceleration in job creation in the U.S. during the last 9 months.

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 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	1,211.5	143.9	249.1	393.1	51.2	60.1	517.1	537.5	84.2	621.7	73.3
21 06	1,223.1	142.6	249.5	392.1	52.9	60.0	517.1	537.5	84.2	621.7	73.3
21 07	1,232.7	143.0	254.1	397.1	52.4	61.0	515.7	548.8	84.8	633.6	83.4
21 08	1,244.7	142.8	257.1	399.9	53.0	61.6	521.3	553.7	84.5	638.2	85.2
21 09	1,250.6	143.0	260.0	403.0	54.1	61.6	525.3	557.9	85.2	643.1	82.2

* 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 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	4.7	-0.5	6.5	3.9	-0.1	-1.8	6.8	8.4	-6.8	6.1	-15.9
21 07	4.8	-0.6	6.2	3.7	0.0	-0.7	6.7	8.0	-6.0	5.9	-6.0
21 08	5.5	-0.6	7.2	4.3	0.6	0.1	7.5	8.2	-5.7	6.2	-2.8
21 09	5.5	-0.7	8.0	4.7	-0.5	0.3	6.4	7.9	-3.3	6.3	-6.5

* 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 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	1,223.1	2,010.6	1,744.2	201.9	129.7	5,243	70.1	10.0
21 07	1,232.7	2,047.0	1,764.8	204.7	129.9	5,218	69.8	10.0
21 08	1,244.7	2,050.0	1,766.9	206.7	130.2	5,211	70.4	10.1
21 09	1,250.6	2,052.0	1,779.4	206.7	130.4	5,171	70.3	10.1

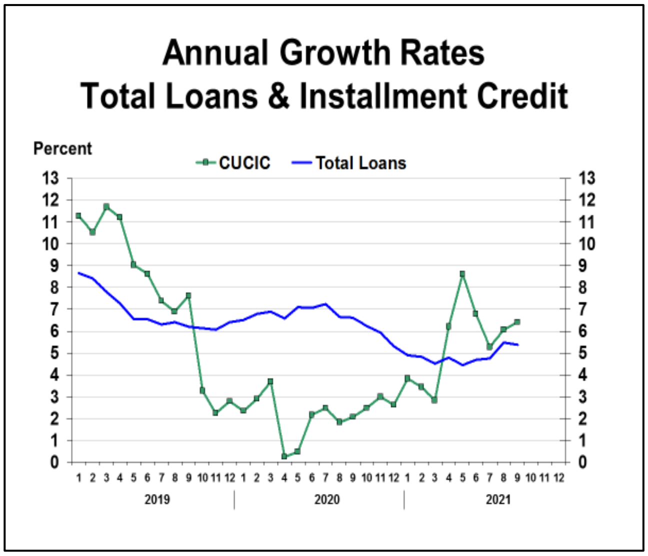
Credit Union Growth Rates

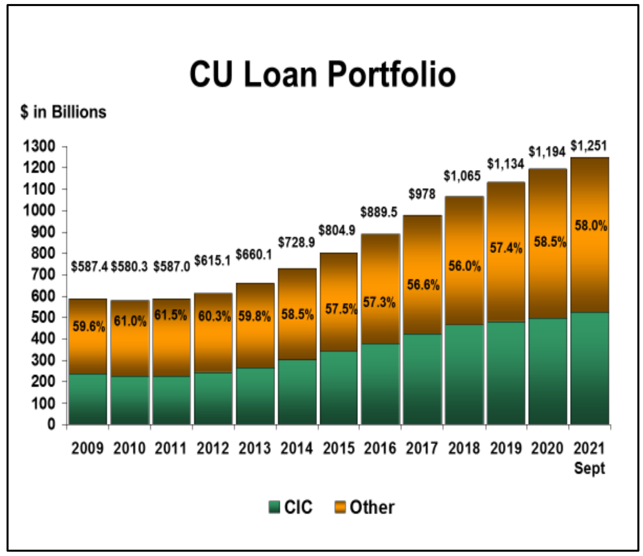
Percent Change From Prior Year

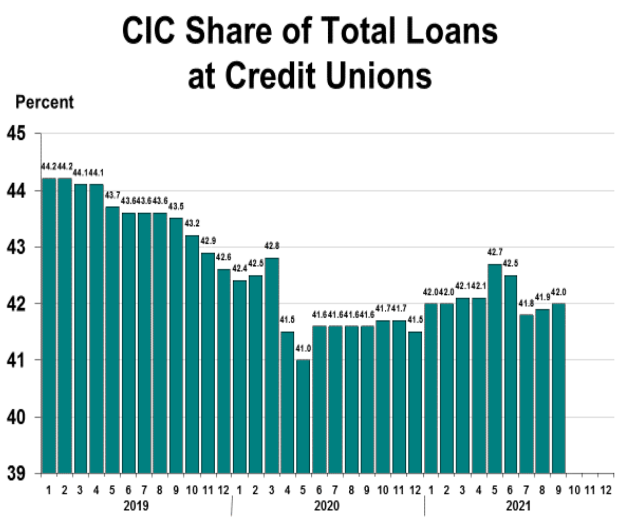
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
19 09	6.2	6.8	6.9	11.9	3.6	(2.8)	(156)	0.665%
19 10	6.2	7.6	7.9	12.0	3.5	(2.5)	(143)	0.677%
19 11	6.2	7.6	8.1	11.4	3.5	(2.6)	(146)	0.702%
19 12	6.4	7.7	8.1	10.9	3.6	(2.6)	(143)	0.703%
20 01	6.5	8.8	9.5	10.7	3.6	(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	4.7	13.0	15.0	7.8	3.9	(2.6)	(141)	0.452%
21 07	4.8	13.5	14.6	8.2	3.7	(3.0)	(162)	0.457%
21 08	5.5	13.4	14.4	8.9	3.5	(3.1)	(167)	0.455%
21 09	5.4	12.9	14.4	8.3	3.4	(3.4)	(182)	0.460%

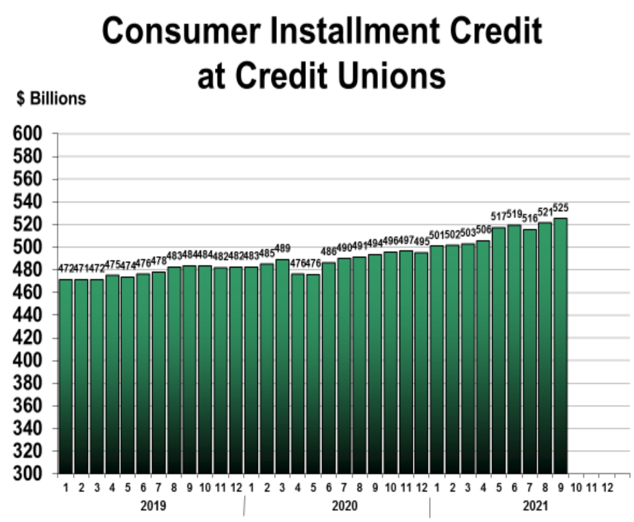
* Loans two or more months delinquent as a percent of total loans

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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