CREDIT UNION TRENDS REPORT

CUNA Mutual Group – Economics ● December 2017 (October 2017 Data)

Highlights

- During October, credit unions picked-up 215,000 in new memberships, loan balances grew at a 10.2% seasonally-adjusted annualized pace while savings balances rose at a 5.2% annualized pace. Firms hired 244,000 workers, nominal consumer spending increased 0.3%, and long-term interest rates increased 16 basis points. Third quarter economic growth was revised up to 3.3% and grew 2.3% from the third quarter of 2016.

- At the end of October, CUNA's monthly estimates reported 5,815 credit unions in operation, down 34 credit unions from one month earlier. Year-over-year, the number of credit unions declined by 257, significantly more than the 192 lost in the 12 months ending in October 2016.

- Total credit union assets rose 0.1% in October, slower than the 0.5% rise reported in October of 2016. Assets rose 6.2% during the past year due to a 6.4% increase in deposits, a 1.4% increase in borrowings and a 6.9% increase in capital.

- The nation's credit unions increased their loan portfolios by 0.9% in October, faster than the 0.7% pace reported in October 2016. Loan balances are up 11.1% during the last 12 months. Credit unions now make up 11% of the overall consumer credit market, up from 10.5% one year ago.

- Credit union memberships rose a modest 0.19% in October, up from a 0.12% gain reported in October 2016. October is historically the slowest month for membership growth. Memberships are up 4.4% during the past year due to robust demand for credit, solid job growth, and comparatively lower fees and loan interest rates versus banks.

- Credit union capital-to-asset ratios remained at 10.8% in October, with very little variation reported over the last year. Credit union loan delinquency rates fell to 0.76% in October, down from 0.80% one year earlier due to a stronger economy and double digit loan growth.

ECONOMIC, COMPETITIVE AND INTEREST RATE ENVIRONMENT

During October, the economy gained 244,000 jobs, the unemployment rate fell to 4.1%, nominal personal income rose 0.4%, nominal personal spending rose 0.3%, the national savings rate fell to 3.2%, consumer prices rose 0.1%, consumer confidence rose, new home sales rose 6.2%, existing home sales rose 2.0%, auto sales fell 2.7%, home prices rose 0.9% and the 10-year treasury interest rate rose 16 basis points to average 2.36%.

On Dec. 13, the Federal Open Market Committee raised the Federal Funds interest rate target range by 25 basis points to 1.25% to 1.50%, the fifth increase since December 2015. With wage growth and inflation expected to pick up over the next year, we believe the Federal Reserve will raise the Fed Funds interest rate target range another 1.0% in 2018.

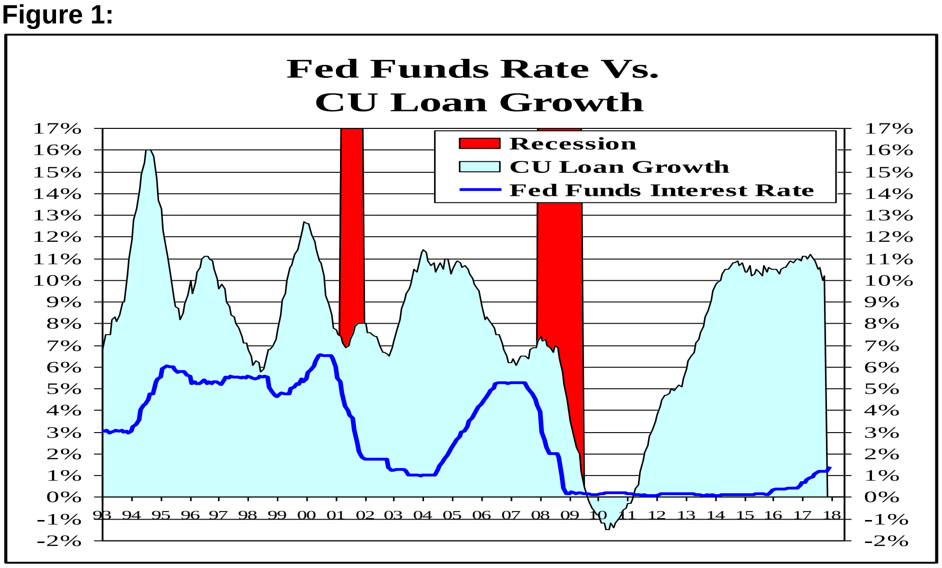
The pace of interest rate increases this time around will be significantly slower than the 3% per year pace set in 1994, the 1.75% per year pace set in 1999 and the 2% per year pace set in 2004, due to low actual and expected inflation. Most credit unions will therefore face less interest rate risk during this tightening cycle compared to the aforementioned previous tightening cycles.

Total Credit Union Lending

Credit union loan balances rose 0.9% in October, faster than the 0.7% pace reported in October 2016. Driving overall loan growth was strong growth in home equity loans (2.2%), adjustable rate first mortgages (1.6%) and new auto loans (1.4%).

How will rising short-term interest rates in 2018 affect credit union loan growth? **Figure 1** shows the relationship between credit union annualized loan growth numbers and the Fed Funds interest rate for the past 25 years. Higher Fed Funds interest rates will have a slight downward pull on overall loan growth next year as credit card, auto and mortgage interest rates increase. We expect loan growth to slow to 9.5% in 2018 from 10.5% in 2017; however, this is still above the long run average of 7.8%.

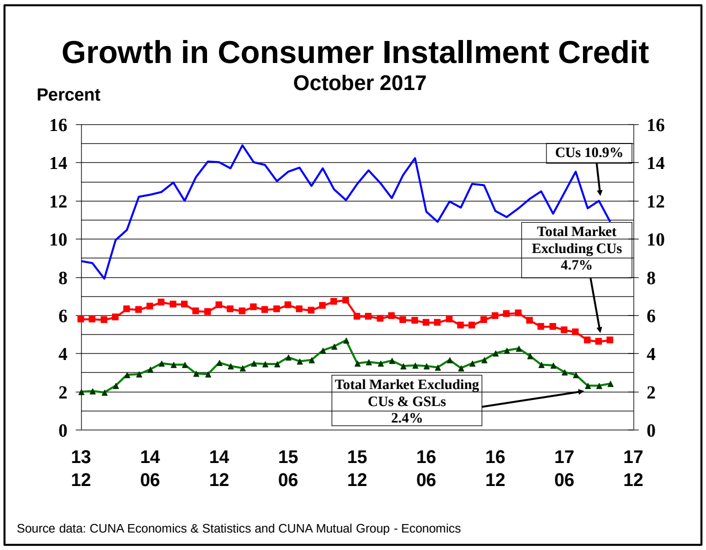
Figure 1:



Credit Union Consumer Installment Credit (CUCIC)

Credit union consumer installment credit balances (auto, credit card and other unsecured loans) rose a modest 0.8% in October, slower than the 1.7% pace set in October 2016, due to deceleration in unsecured personal and credit card lending. During the last 12 months, credit union consumer installment credit grew 10.9% **(Figure 2)**, which is more than twice as fast as the rest of the market. Outstanding consumer credit rose $20.5 billion for all lenders in October, according to the Federal Reserve **(Figure 3)**, and above the $16.1 billion average monthly growth reported during the last 12 months. The rise in the Fed Funds interest rate will increase credit card interest rates in the near term and, to a lesser extent, auto loan rates. This will boost credit union yield on assets and net income in 2018**.**

Figure 2:



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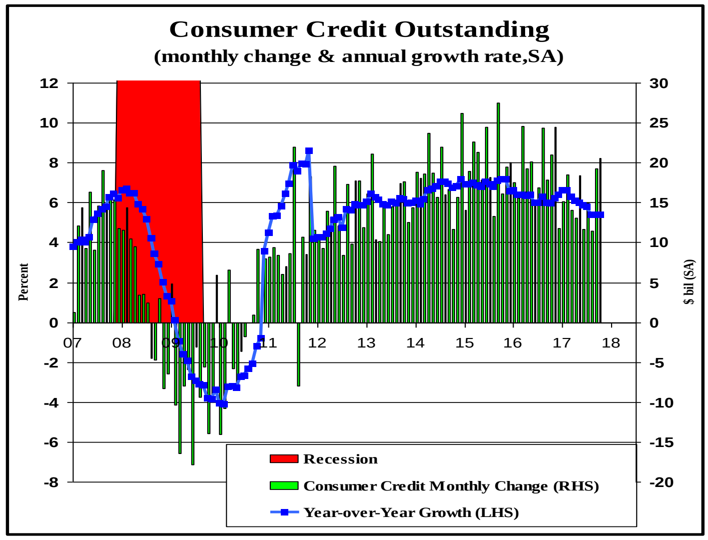
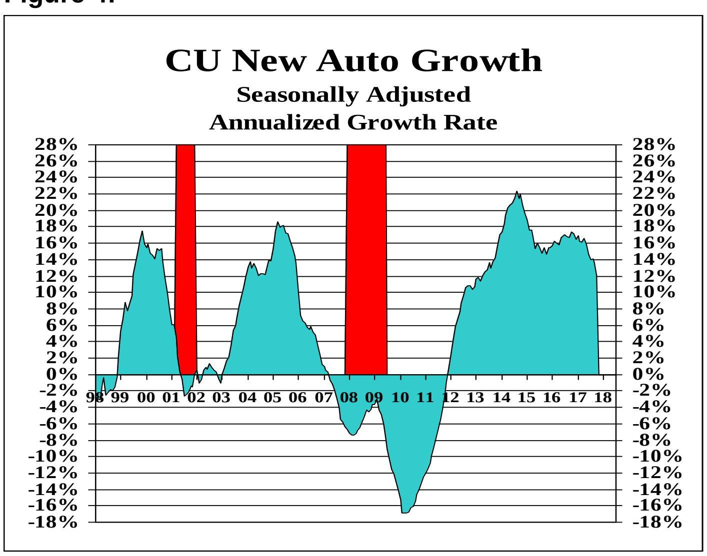


Vehicle Loans

Credit union new auto loan balances rose 1.4% in October, faster than the 1.0% pace set in October 2016, and increased 16.5% during the last year. On a seasonally-adjusted annualized basis, new auto loan balances rose 12.1% in October **(Figure 4)**, down from the 17.4% pace reported in October 2016. Strong consumer fundamentals are driving auto loan growth: an improving labor market, low interest rates, rising wage growth, expanding driving-age population, improving construction activity, low oil prices and better household balance sheets. The number of new auto loans as a percent of members in offering credit unions – the penetration rate – rose to 5.6%, up from 4.2% in 2012.

Figure 4:



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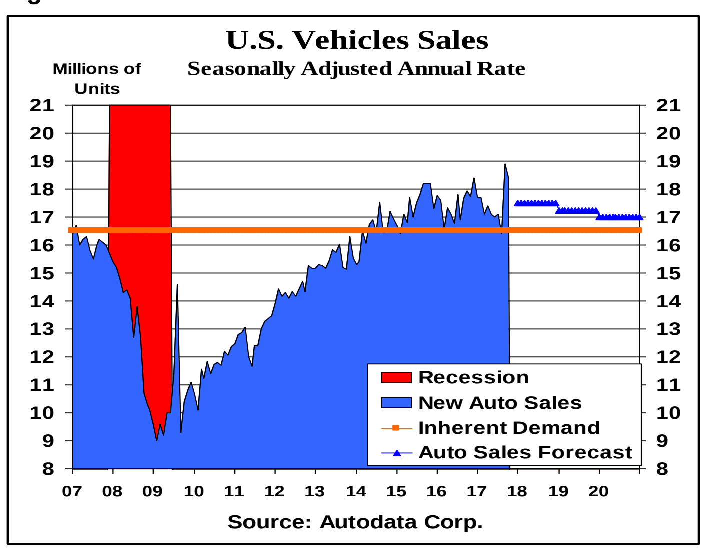


Vehicle sales fell to 18.1 million units in October, on a seasonally-adjusted annualized sales rate, from the 18.6 million reported in September. This sales rate was 2.8% above the 17.9 million pace set in October 2016 **(Figure 5)** due to hurricane replacement car sales. Expect auto sales to remain at the 17.5 million pace in 2018 and then decline to 17 million in 2019. This should keep credit union new-auto lending growing at a double-digit pace for the next year.

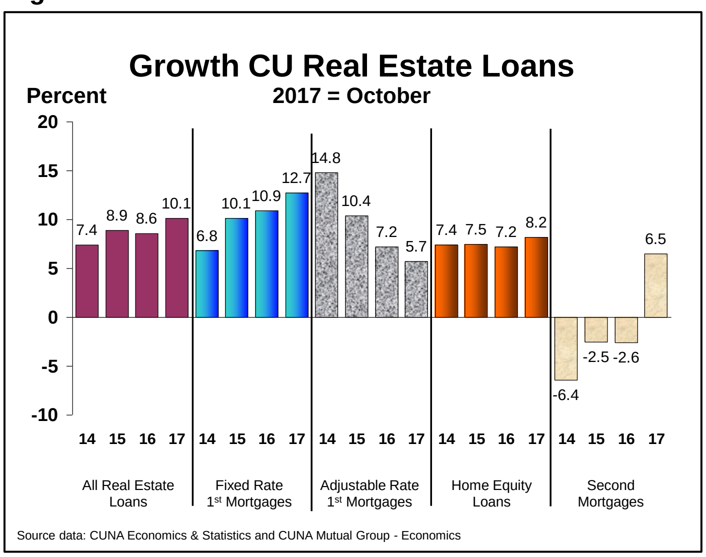
Real Estate Secured Lending – 1st Mortgages and Other Real Estate
Credit union real estate lending was firing on all 4 cylinders during the first 10 months of 2017 due to the improving economy and credit unions increasing their market share of the mortgage origination market **(Figure 6)**. Adjustable-rate first mortgage loan balances grew a strong 1.6% in October, similar to the 1.9% pace set in October 2016. Fixed-rate mortgage loan balances rose 0.2% in October, above the 0.5% decline recorded in October 2016. Expect purchase mortgage lending to increase around 6-7% in 2018 due to rising incomes, higher consumer confidence and strong job growth. However, expect refinance mortgage lending to drop 25-30% as long term interest rates rise from around 4% today for a 30-year mortgage to 4.75% in 2018. Thus, total mortgage lending is expected to decline by 5-6% in 2018.

Home equity lending balances surged in October, rising 2.2%, similar to the 2.6% reported in October 2016. Seasonal factors typically add 0.6 percentage points to the underlying monthly trend growth rate in October, making it the second fastest growing month for home equity loans. Home equity loan balances will remain strong due to rising home prices, the improving job market, high consumer confidence, consumers releasing pent up demand for durable goods and low interest rates

The contract interest rate on a 30-year fixed-rate conventional home mortgage rose to 3.90% in October, from 3.81% in September, and above the 3.47% reported in October 2016. Mortgage interest rates rose due to a 16 basis point jump in the 10-year Treasury interest rate. Of the 16 basis point increase in long-term interest rates, 13 basis points were due to a tightening in the capital markets and 3 basis points were due to an increase in inflation expectations.

Home prices rose 0.9% in October from September, according to the Core Logic Home Price Index, and 7.0% year-over-year. The index has risen month over month for 60 consecutive months, the longest period of uninterrupted growth since before the Great Recession of 2008-2009.The housing market is tight, with the inventory-to-sales ratio still at a cyclical low, which spurs rapid house price gains. Demand for homes is rising steadily, but it is the limited supply of inventories that is boosting prices.

Figure 6:



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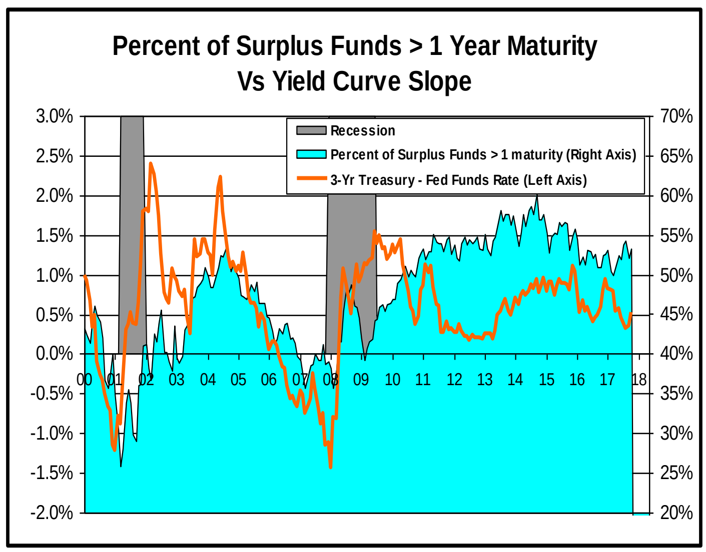


Surplus Funds (Cash + Investments)
Credit union surplus funds fell in October by $9.7 billion due to a $8.2 billion surge in loan growth and $5 billion drop in deposits. Borrowing rose $7.2 billion to help fund loans and deposit runoff. Credit union surplus funds as a percent of assets fell to 26.0% in October, from 26.7% in September to reach $361.5 billion. This is the lowest liquidity position since October 2007, two months before the onset of the Great Recession.

As the Federal Reserve raised the Fed Funds interest rate 1.0% over the last 12 months the yield curve has flattened, as measured by the difference between the 3-year Treasury interest rate and the Fed Funds interest rate **(Figure 8)**. Flatter yield curves historically induce credit unions to reduce the percent of surplus funds invested with maturities greater than one year. With the Federal Reserve now paying 1.5% on required reserve balances and on excess reserve balances held at the Fed, many credit unions will park excess funds in their Fed reserve account to maintain liquidity. These liquid funds are necessary as credit unions continue to report strong loan demand.

Savings and Assets

Credit union savings balances fell in October (-0.4%) as the deposit surge in September, due to September ending on a payroll Friday and having 5 Fridays, reversed itself. Savings balances grew at a 5.2% seasonally-adjusted annualized growth rate in October, below the 7% reported one year earlier **(Figure 8)**. Credit unions are experiencing a slowdown in deposit growth as the national savings rates (personal savings as a percent of disposable personal income) fell to a cyclical low of 3.2%, the lowest since December 2007, the month which kicked off the Great Recession **(Figure 9)**. With consumer confidence at the highest level in 17 years, Americans are in the mood to spend and not necessarily save due to expectations of faster income growth in 2018.

Figure 8:

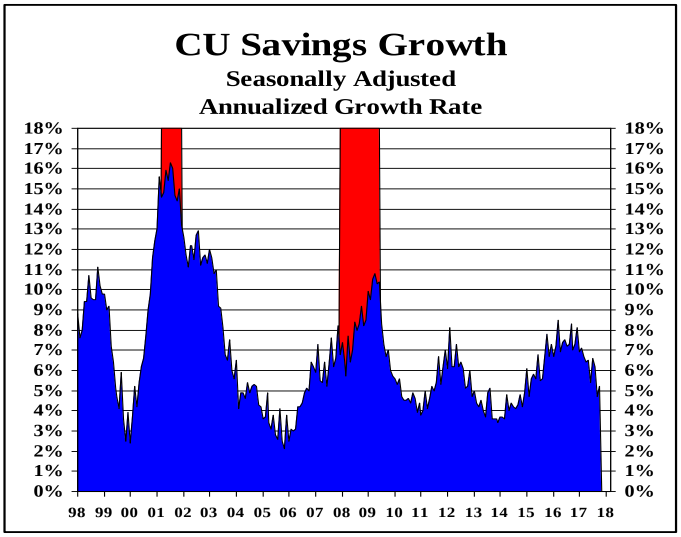
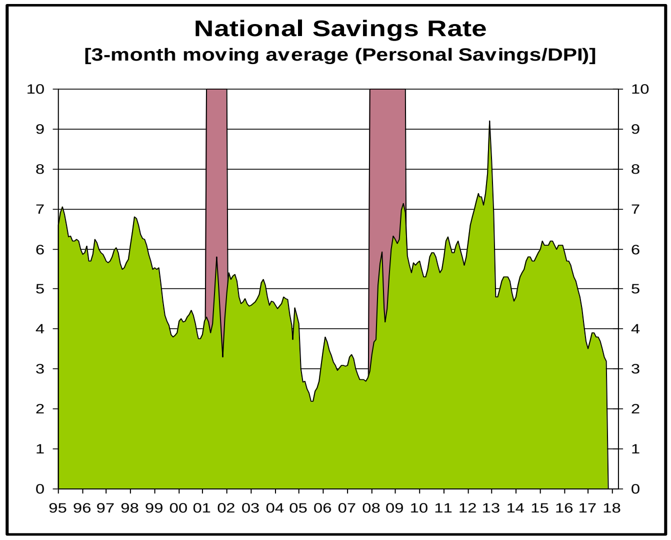


Figure 9:



Capital and Other Key Measures

The credit union system has become significantly more productive over the last 17 years. Back in the year 2000, it took on average 0.38 full time credit union employees to manage every $1 million in assets. Today that ratio stands at 0.21, a 45% improvement in productivity, or 2.8% increase in productivity per year. Today there are 294,000 full time employees working at credit unions managing $1,390,000 million in assets. The number of employees working at credit unions today would have been 528,000, (0.38 x 1,390,000) if credit union employees had the same level of productivity they did back in 2000. The net result is 234,988, (528,000 – 294,000); jobs were not filled due to improvements in human and physical capital. Smaller asset-size credit unions reported bigger improvements in productivity ratios over the last 16 years; however, larger credit unions are still more productive due to their economies of scale **(Figure 10)**.

Figure 10:

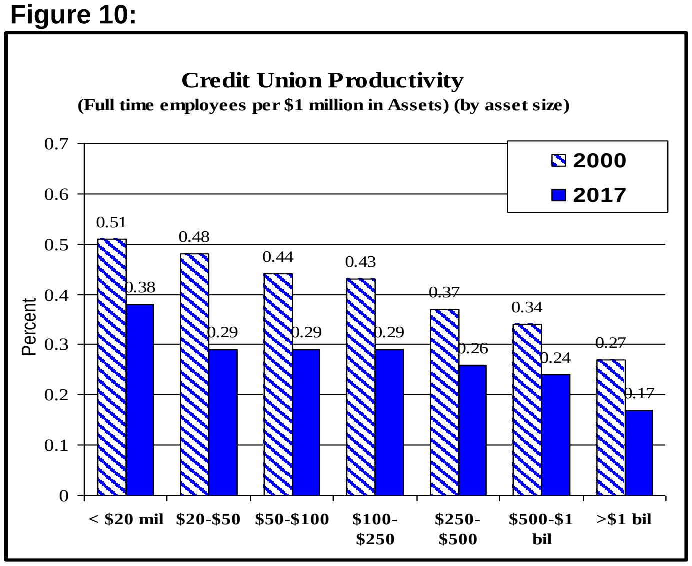
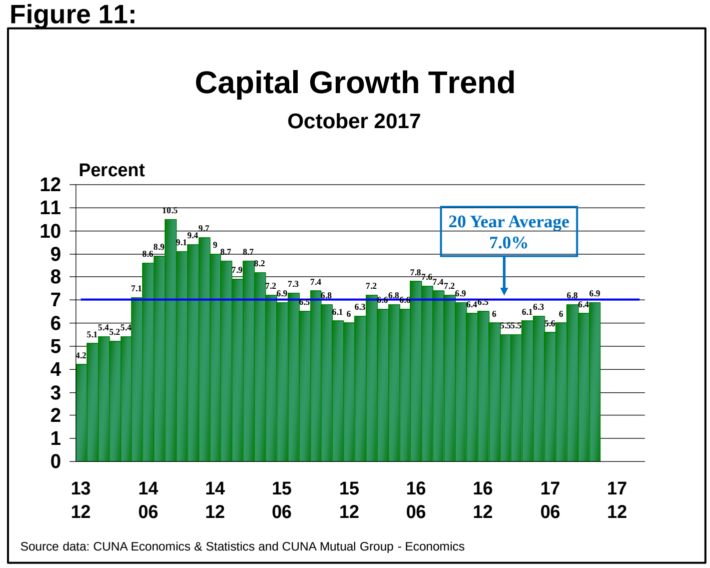


Figure 11:



The credit union capital balances grew 6.9% in October, slightly below the 7% average set over the last twenty years **(Figure 11)**. The growth rate of capital is also known as the return on equity ratio, an important measure of credit union financial performance.

Credit Unions and Members

As of October 2016, CUNA estimates 5,815 credit unions were in operation, down 257 from October 2016 **(Figure 12)**. Year-to-date the number of credit unions fell by 207, significantly more than the 164 reported in the first ten months of 2016. NCUA's Insurance Report of Activity showed 16 mergers were approved in October with an average asset size of $18.5 million. This is down from the 11 mergers reported in October 2016 with an average asset size of $7.9 million.

Credit union consolidation and concentration is expected to continue at its long run pace in 2018. Since 1980, the number of credit unions has declined by roughly 3.5% each year **(Figure 12)**. If we apply this exponential "decay" rate to the current number of credit unions, 5,815, we should expect another 203 credit unions to exit the financial system in 2018. If we forecast out a little further, according to the laws of exponential decay, there will only be 2,955 credit unions in 20 years, half as many as there are today. Fortunately, credit union assets follow an average annual exponential growth of 7%. This means the time it takes for credit union assets to double (currently $1.389 trillion) is only 10 years.

Figure 12:

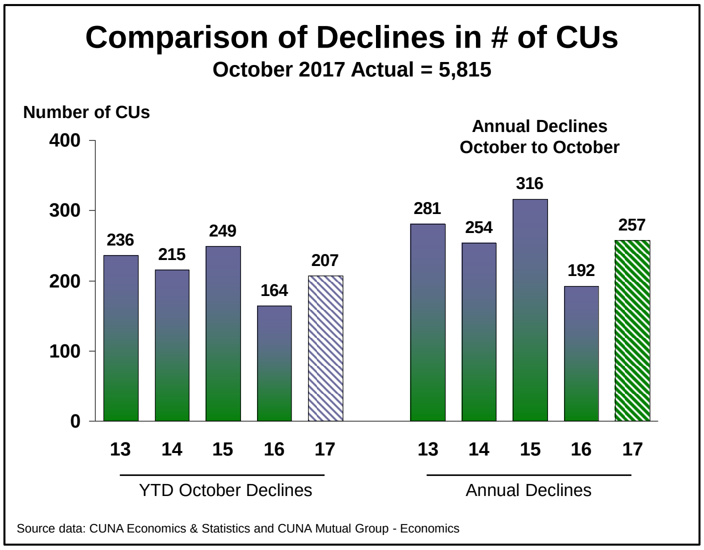
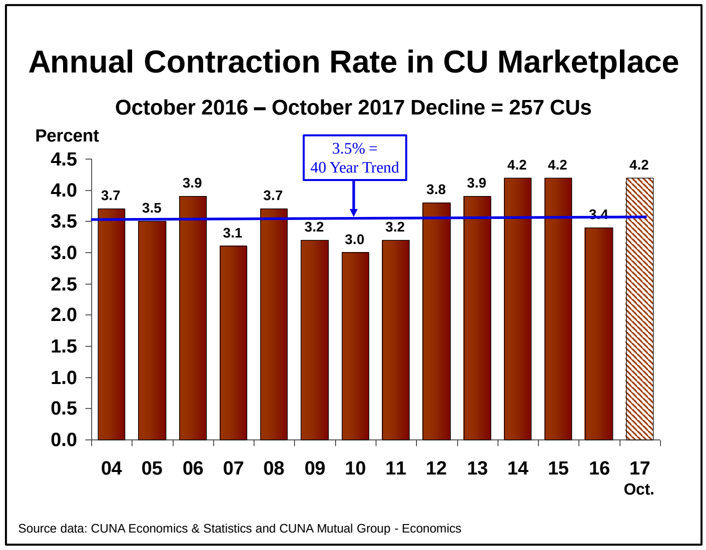


Figure 13:



Credit union memberships grew a modest 215,000 in October, or 0.19%, but faster than the 132,000 new members, or 0.12%, added in October 2016. Year-to-date credit unions added 4.16 million new members, **(Figure 14)**, faster than the 3.67 million members added during the similar period in 2016. October's seasonal factors typically shave off 0.23 percentage points from the underlying trend membership growth rate **(Figure 15)**.

Total credit union memberships reached 113.4 million in October, 4.7% more than October 2016 and the fastest pace in more than 25 years. Expect membership growth to slow slightly in 2018 as loan growth slows slightly.

Figure 14:

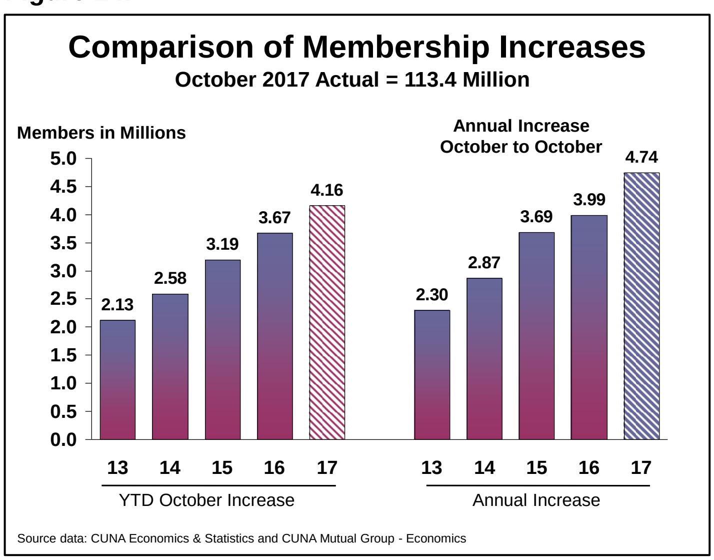
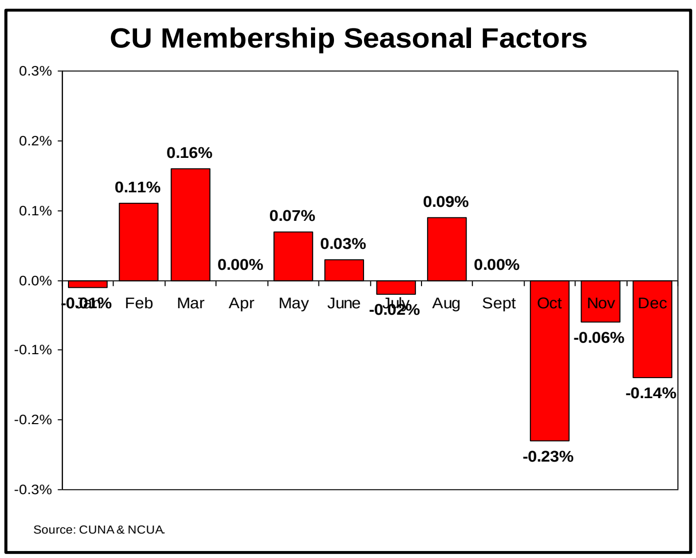


Figure 15:



National Monthly Credit Union Aggregates

YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	(Millions) MEMBERS	CREDIT UNIONS	LOAN / SAVINGS	CAPITAL/ ASSET RATIO
	|------- ($ Billions) -------			|				
15 10	791.7	1,218.7	1,027.1	131.2	104.6	6,264	77.1	10.8
15 11	797.4	1,217.8	1,024.0	131.2	104.8	6,275	77.9	10.8
15 12	804.9	1,227.8	1,036.3	130.9	105.0	6,236	77.7	10.7
16 01	808.5	1,234.8	1,033.3	132.7	105.2	6,230	78.2	10.7
16 02	809.2	1,252.6	1,054.8	133.9	105.5	6,219	76.7	10.7
16 03	817.9	1,264.6	1,071.8	134.6	106.0	6,195	76.3	10.6
16 04	823.9	1,278.8	1,080.9	135.5	106.4	6,135	76.2	10.6
16 05	833.3	1,273.3	1,074.6	136.0	106.8	6,133	77.5	10.7
16 06	843.5	1,278.8	1,079.9	137.7	107.1	6,126	78.1	10.8
16 07	851.4	1,289.3	1,084.9	138.5	107.6	6,124	78.5	10.7
16 08	860.7	1,291.5	1,083.6	138.8	108.1	6,101	79.4	10.8
16 09	867.7	1,301.8	1,099.1	139.9	108.5	6,082	78.9	10.7
16 10	874.1	1,307.9	1,098.4	140.2	108.6	6,072	79.6	10.7
16 11	881.2	1,311.8	1,100.1	139.6	108.9	6,054	80.1	10.6
16 12	889.5	1,317.7	1,114.4	139.4	109.2	6,022	79.8	10.6
17 01	895.3	1,323.6	1,107.9	140.6	109.4	6,006	80.8	10.6
17 02	897.0	1,344.9	1,132.4	141.3	109.9	5,997	79.2	10.5
17 03	905.5	1,363.6	1,160.6	142.1	110.4	5,973	78.0	10.4
17 04	913.7	1,370.2	1,156.9	143.7	110.8	5,926	78.8	10.5
17 05	924.4	1,368.4	1,153.3	144.5	111.2	5,953	80.2	10.6
17 06	934.5	1,376.4	1,167.8	145.4	111.7	5,942	80.0	10.6
17 07	945.5	1,372.0	1,160.0	146.7	112.2	5,893	81.5	10.7
17 08	955.5	1,375.0	1,161.1	148.3	112.8	5,870	82.3	10.8
17 09	962.8	1,388.7	1,173.4	148.8	113.2	5,849	82.1	10.7
17 10	971.0	1,389.5	1,168.6	149.9	113.4	5,815	83.1	10.8

Credit Union Growth Rates

Percent Change Previous Year

YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	# OF CUs	# OF CUs DECLINE	Delinquency Ratio*
15 10	10.2	6.3	5.8	6.8	3.7	(4.8)	(316)	0.790%
15 11	10.2	6.1	5.6	6.1	3.6	(3.9)	(256)	0.820%
15 12	10.4	7.3	6.8	6.0	3.5	(4.2)	(277)	0.809%
16 01	10.3	6.6	5.5	6.3	3.5	(4.1)	(267)	0.816%
16 02	10.1	6.2	5.5	7.2	3.6	(3.7)	(241)	0.764%
16 03	10.6	7.0	6.7	6.6	3.8	(3.9)	(252)	0.706%
16 04	10.3	8.0	7.7	6.8	3.7	(4.6)	(297)	0.728%
16 05	10.6	6.5	6.7	6.6	3.8	(4.4)	(284)	0.728%
16 06	10.5	7.4	7.3	7.8	3.7	(4.2)	(271)	0.745%
16 07	10.4	7.1	6.7	7.6	3.9	(3.7)	(235)	0.774%
16 08	10.4	7.5	7.2	7.4	4.0	(4.0)	(257)	0.774%
16 09	10.2	8.2	8.6	7.2	3.9	(3.9)	(247)	0.769%
16 10	10.4	7.3	6.9	6.9	3.8	(3.1)	(192)	0.797%
16 11	10.5	7.7	7.4	6.4	3.9	(3.5)	(221)	0.822%
16 12	10.5	7.3	7.5	6.5	4.1	(3.4)	(214)	0.827%
17 01	10.7	7.2	7.2	6.0	4.1	(3.6)	(224)	0.825%
17 02	10.9	7.4	7.4	5.5	4.1	(3.6)	(222)	0.750%
17 03	10.7	7.8	8.3	5.5	4.1	(3.6)	(222)	0.684%
17 04	10.9	7.1	7.0	6.1	4.2	(3.4)	(178)	0.739%
17 05	10.9	7.5	7.3	6.3	4.2	(2.9)	(180)	0.740%
17 06	10.8	7.6	8.1	5.6	4.3	(3.0)	(184)	0.745%
17 07	11.1	6.4	6.9	6.0	4.3	(3.8)	(231)	0.748%
17 08	11.0	6.5	7.1	6.8	4.4	(3.8)	(231)	0.754%
17 09	11.0	6.7	6.8	6.4	4.3	(3.8)	(233)	0.760%
17 10	11.1	6.2	6.4	6.9	4.4	(4.2)	(257)	0.759%

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

Distribution of Credit Union Loans

Estimated $ (Billions) Outstanding

YR/MO	TOTAL LOANS	NEW	USED	TOTAL	UNSEC Ex. CC'S	CREDIT CARDS	CUCIC	1^{ST} MORT TOTAL	TOT. OTHR MORT 2^{ND} +HE	TOTAL REAL ESTATE	MBLs*
		VEHICLE LOANS									
15 10	791.7	99.5	162.8	262.3	34.8	47.8	335.5	322.7	75.9	398.6	57.5
15 11	797.4	100.1	163.5	263.6	35.2	48.5	337.1	326.3	76.2	402.4	57.8
15 12	804.9	101.6	164.8	266.4	35.5	49.6	341.7	329.2	75.9	405.1	58.0
16 01	808.5	102.9	165.9	268.8	35.7	49.2	345.9	329.3	76.6	405.9	56.7
16 02	809.2	103.4	166.9	270.4	35.1	48.6	347.5	330.6	76.4	407.0	54.6
16 03	817.9	104.6	169.7	274.3	35.1	48.7	350.6	334.8	75.8	410.6	62.2
16 04	823.9	105.6	171.9	277.5	35.4	48.8	353.9	334.9	76.8	411.7	58.2
16 05	833.3	106.9	173.8	280.7	35.7	49.4	360.6	338.6	77.2	415.8	57.0
16 06	843.5	108.9	176.0	284.9	36.2	49.9	357.8	342.8	76.9	419.7	65.9
16 07	851.4	110.4	177.7	288.1	36.5	50.5	362.8	343.7	78.2	421.9	66.7
16 08	860.7	112.2	179.7	291.9	37.0	51.0	369.6	347.4	78.6	426.0	65.1
16 09	867.7	113.9	181.2	295.1	37.2	51.1	373.5	351.8	77.9	429.6	64.6
16 10	874.1	115.0	182.3	297.4	37.5	51.5	378.8	352.5	79.3	431.8	63.6
16 11	881.2	116.7	183.6	300.3	38.0	52.3	380.3	354.9	79.3	434.2	66.7
16 12	889.5	118.7	185.1	303.8	38.1	53.5	381.5	361.4	78.5	439.9	68.1
17 01	895.3	120.2	186.7	306.9	38.2	53.1	384.4	363.8	78.7	442.5	68.4
17 02	897.0	120.7	187.8	308.4	38.0	52.5	387.7	364.1	78.5	442.6	66.7
17 03	905.5	121.9	190.1	312.0	37.6	52.4	386.9	368.8	79.1	447.9	70.7
17 04	913.3	123.9	192.4	316.3	38.0	52.9	398.2	369.2	80.6	449.7	65.7
17 05	924.4	125.3	195.0	320.3	38.4	53.5	401.5	372.1	81.1	453.2	69.8
17 06	934.5	126.7	196.9	323.6	38.8	53.9	404.3	378.3	81.4	459.7	70.5
17 07	945.5	129.0	199.6	328.6	39.2	54.6	411.7	380.2	83.1	463.3	70.5
17 08	955.5	130.4	202.3	332.7	39.7	55.2	412.5	383.4	84.0	467.4	75.6
17 09	962.8	132.1	203.6	335.7	40.4	55.3	417.0	387.5	83.7	471.3	74.5
17 10	971.0	133.9	205.1	339.1	40.4	55.6	420.2	389.9	85.3	475.2	75.6

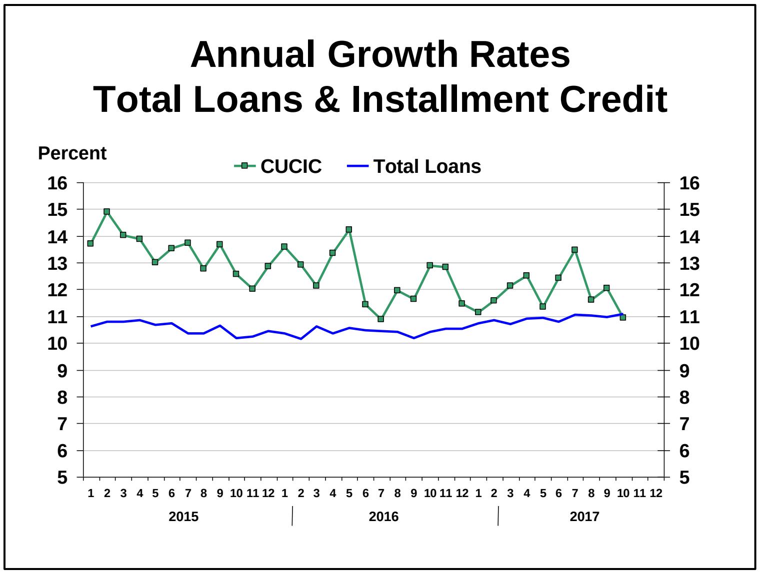
* Member Business Loans

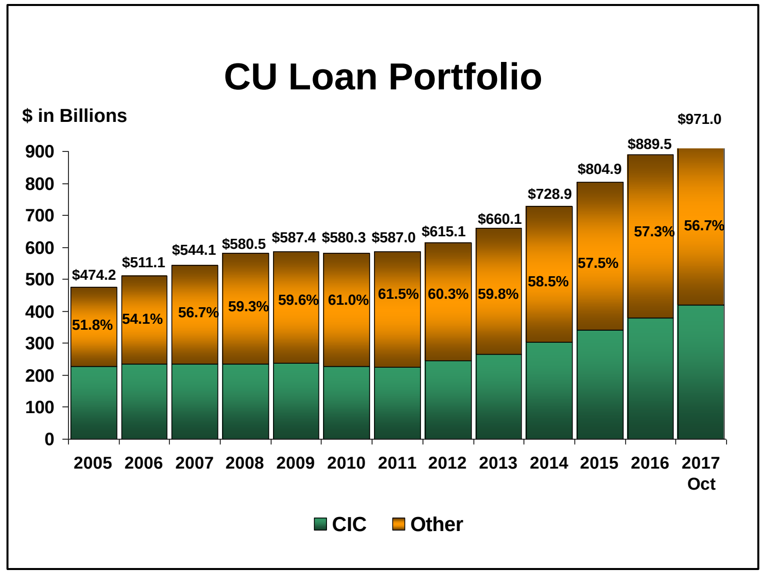
CUCIC = Total Loans – Total Real Estate - MBLs   CUCIC = Total Vehicle Loans + Unsecured Loans + Credit Card – 17% of MBLs

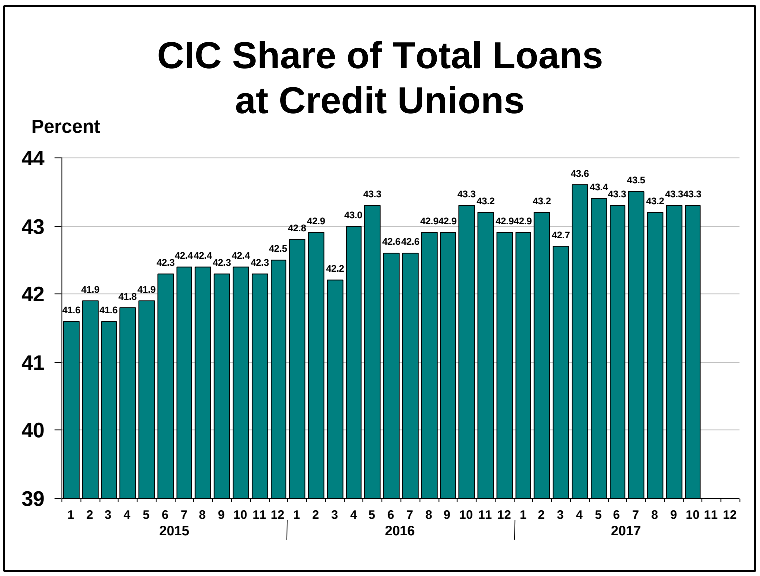
Distribution of Credit Union Loans

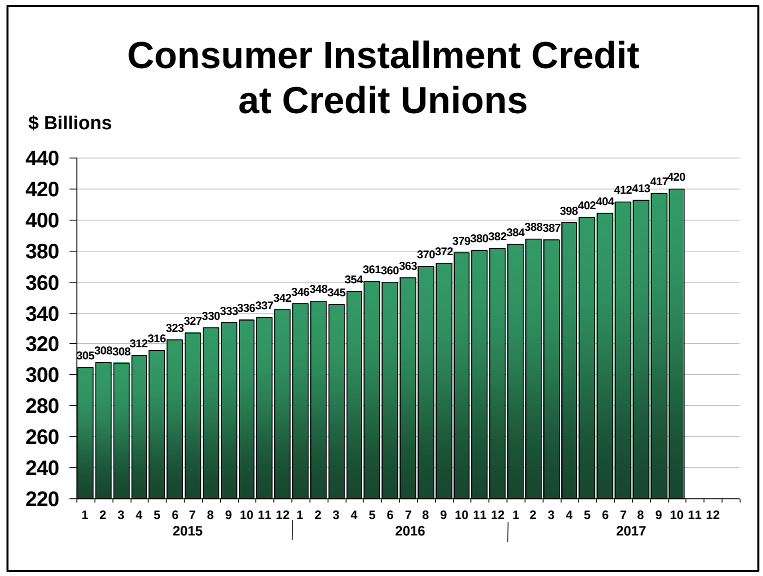
Percent Change From Prior Year

YR/MO	TOTAL LOANS	NEW	USED	TOTAL	UNSEC Ex. CC'S	CREDIT CARDS	CUCIC	1^{ST} MORT TOTAL	TOT. OTHR MORT 2^{ND} +HE	TOTAL REAL ESTATE	MBLs*
		VEHICLE LOANS									
15 10	10.2	16.0	12.6	13.9	9.2	6.3	12.6	9.9	2.8	8.5	8.8
15 11	10.2	15.3	12.3	13.4	9.4	6.3	12.0	10.5	3.0	9.0	8.6
15 12	10.4	15.9	12.7	13.9	8.4	6.1	12.9	10.2	3.4	8.9	7.5
16 01	10.3	15.3	12.5	13.6	8.3	6.3	13.6	10.2	2.9	8.7	3.3
16 02	10.1	14.7	12.7	13.4	8.1	6.8	12.9	11.1	3.1	9.5	-1.0
16 03	10.6	15.3	13.3	14.0	9.1	6.9	13.9	10.3	3.9	9.1	2.6
16 04	10.3	14.7	13.5	14.0	8.5	6.6	13.3	9.7	3.1	8.4	6.7
16 05	10.6	15.4	13.3	14.1	8.4	6.8	14.2	10.2	3.7	8.9	1.2
16 06	10.5	15.5	13.1	14.0	8.5	7.0	10.9	9.6	4.4	8.6	21.5
16 07	10.4	15.6	12.5	13.7	6.9	7.6	10.9	9.1	5.2	8.4	22.6
16 08	10.4	16.1	12.4	13.8	7.2	7.0	12.0	9.5	4.7	8.6	14.2
16 09	10.2	15.8	12.3	13.6	7.5	6.8	12.0	9.1	3.9	8.1	13.6
16 10	10.4	15.6	12.0	13.4	7.9	7.7	12.9	9.2	4.5	8.3	10.5
16 11	10.5	16.5	12.3	13.9	7.8	7.8	12.8	8.8	4.1	7.9	15.4
16 12	10.5	16.8	12.4	14.0	7.3	7.8	11.5	9.8	3.4	8.6	18.6
17 01	10.7	16.9	12.5	14.2	7.0	7.8	11.1	10.5	2.8	9.0	20.7
17 02	10.9	16.7	12.5	14.1	8.3	8.0	11.6	10.1	2.7	8.7	22.0
17 03	10.7	16.6	12.0	13.8	7.1	7.7	12.1	10.1	4.4	9.1	13.7
17 04	10.9	17.3	11.9	14.0	7.4	8.4	12.5	10.2	4.9	9.2	12.8
17 05	10.9	17.1	12.2	14.1	7.7	8.3	11.3	9.9	5.0	9.0	22.5
17 06	10.8	16.4	11.9	13.6	7.0	8.1	12.4	10.4	5.9	9.5	10.0
17 07	11.1	16.8	12.3	14.0	7.6	8.2	13.5	10.6	6.3	9.8	5.8
17 08	11.0	16.2	12.6	14.0	7.1	8.2	11.6	10.4	6.8	9.7	16.3
17 09	11.0	16.0	12.4	13.7	8.6	8.2	12.0	10.2	7.6	9.7	13.0
17 10	11.1	16.5	12.5	14.0	7.7	8.0	10.9	10.6	7.6	10.1	19.0









This report on key CU indicators is based on data from CUNA E&S's *Monthly Credit Union Estimates*, the Federal Reserve Board and CUNA Mutual Group – Economics.

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If you have any questions, comments, or need additional information, please call. Thank you.

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