CREDIT UNION TRENDS REPORT

CUNA Mutual Group – Economics ● September 2016 (July 2016 Data)

Highlights

- During July, credit unions picked up 400,000 in new memberships, loan balances grew at a 9.6% seasonally adjusted annualized rate, while savings balances grew 8.2%.
- Firms hired 275,000 workers, nominal consumer spending increased a moderate 0.3%, and long-term interest rates fell 14 basis points. Second quarter economic growth was revised down to 1.1% from 1.2% - still better than the 0.8% in Q1.
- At the end of July, CUNA's monthly estimates reported 6,105 CUs in operation, down 14 CUs from one month earlier. Year-over-year, the number of credit unions declined by 254, less than the 299 lost in the 12 months ending in July 2015.
- Total credit union assets rose 1.0% in July as credit unions received a 0.5% surge in savings deposits and an 8% increase in borrowings. Assets rose 7.4% during the past year due to a 7.1% increase in deposits, an 8% increase in borrowings, and a 7.7% increase in capital.
- The nation's credit unions increased their loan portfolios by 1.0% in July, the same pace reported in July 2015, and 10.1% during the last 12 months. July is historically the third fastest loan growth month due to seasonal factors: car purchases and vacation spending.
- Credit union memberships rose a robust 0.37% in July, up from a 0.23% gain reported in July 2015. Memberships are up 4.1% over the past year, the fastest in over a generation, due to rapid job creation and strong demand for new/used auto loans and real estate loans.
- Credit union loan delinquency rates fell to 0.73% in July, down from 0.76% one year earlier, due to a stronger economy and double digit loan growth. As the labor market approaches full employment and the unemployment rate falls to 4.7% in 2017, we expect the loan delinquency rate to remain in the 0.7% to 0.8% range for next 12 months.

ECONOMIC, COMPETITIVE AND INTEREST RATE ENVIRONMENT

During July, the economy added 275,000 jobs, the unemployment rate remained at 4.9%, personal income rose 0.4%, personal spending rose 0.3%, consumer prices were unchanged, consumer confidence fell, new home sales rose 12.4%, existing home sales fell 3.2%, auto sales rose 7.1%, home prices rose 1.1%, and the 10-year Treasury interest rate decreased 14 basis points to average 1.50%.

The Federal Reserve decided not to raise short-term interest rates (Fed Funds rate) in September due to uncertainties related to global growth, the zero interest rate policy (ZIRP) in Europe and low inflation expectations. However, with the economy approaching full employment and core inflation rates heading up, we expect the Federal Reserve to raise interest rates in December by 0.25%. The Fed will continue with their monetary policy normalization in 2017 with three more 0.25% increases in the Fed Funds interest rate, which means we predict the Fed Funds rate will rise to 1.4% by December 2017, and the 10-year Treasury rate will reach 2.5%.

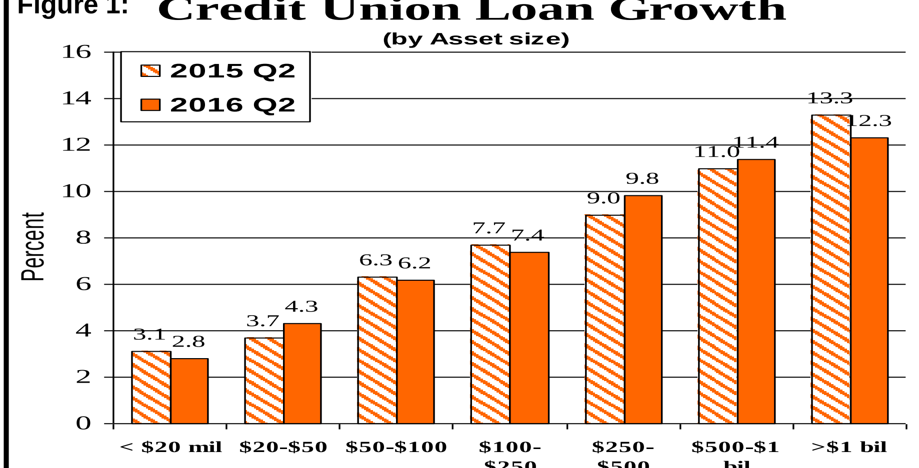
Total Lending

Credit union loan balances rose 1% in July, equal to the 1% pace reported in July 2015, and 5.5% year-to-date. July's seasonal factors usually add 0.32 percentage points to the underlying trend growth rate.

In the year ending in the second quarter of 2016, total credit union loan balances rose 10.5%, according to NCUA call report data. This is the third year of double digit loan growth. The credit union movement's loan-to-asset ratio now stands at 65.7%, above the 64.1% reported in June 2015, and the highest since July 2009. A greater proportion of loans on the balance sheet during the last year increased the yield-on-asset ratio 4 basis points to 3.37% in the second quarter of 2016.

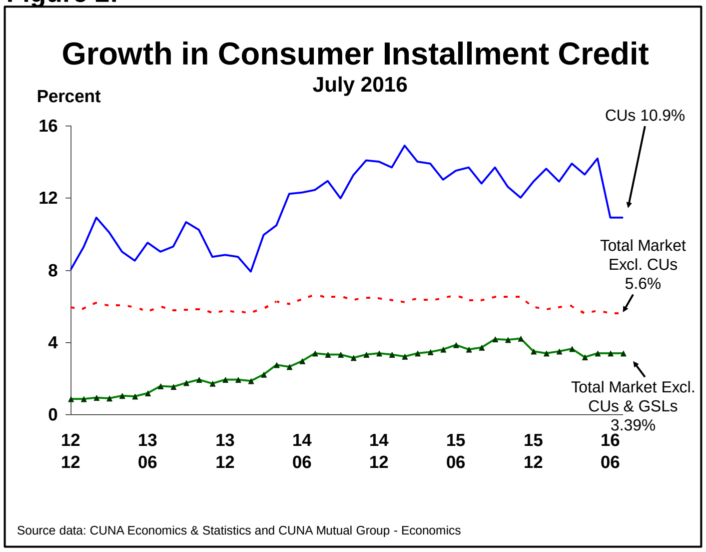
Industry average loan growth rates mask big disparities between large and small credit unions. In the year ending in the second quarter of 2016, credit unions with assets greater than $1 billion reported a 12.3% increase in loan balances, **(Figure 1)**. Meanwhile, credit unions with assets less than $20 million reported loan growth of only 2.8%.

Figure 1:



Credit Union Consumer Installment Credit (CUCIC)
Credit union consumer installment credit loan balances (auto, credit card and other unsecured loans) rose 1.4% in July, the same pace set in July 2015. During the last 12 months, credit union consumer installment credit grew 10.9% **(Figure 2)**, about twice as fast as the total market excluding credit unions of 5.6%. We are forecasting consumers expenditures on durable goods – autos, appliances, furniture – to increase 5.3% in 2016 **(Figure 3)** and then accelerate to 6.4% next year as household income grows and consumer confidence levels rise to prerecession highs.

Figure 2:



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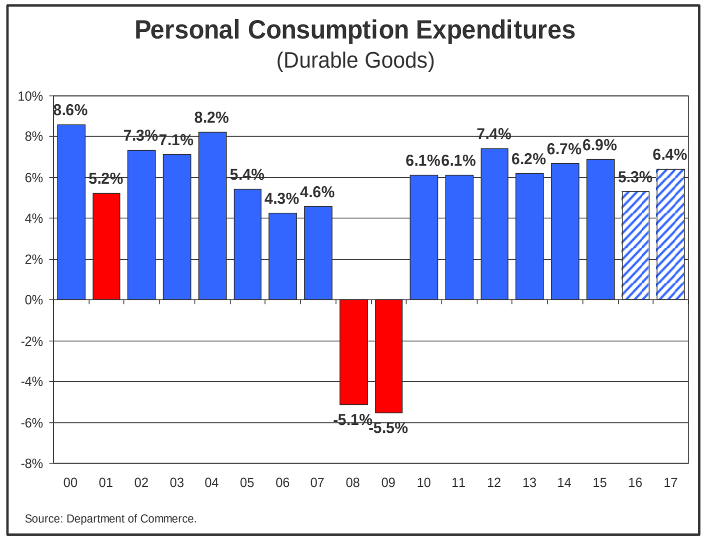


Vehicle Loans
Credit union new-auto loan balances rose 1.4% in July, above the 1.3% pace set in July 2015. Currently, new-auto loan balances are rising at a 15.2% seasonally-adjusted annualized growth rate **(Figure 4)**, which is down from the record, and frankly unsustainable, 22.4% pace set in the summer of 2014. This recent strong performance is due in large part to the 2.4 million jobs created during the last twelve months and the 275,000 jobs created in July alone. As the job market approaches full employment in the fall of 2016, wage growth will begin to accelerate along with productivity growth, enticing more Americans to purchase new cars and trucks.

Figure 4:

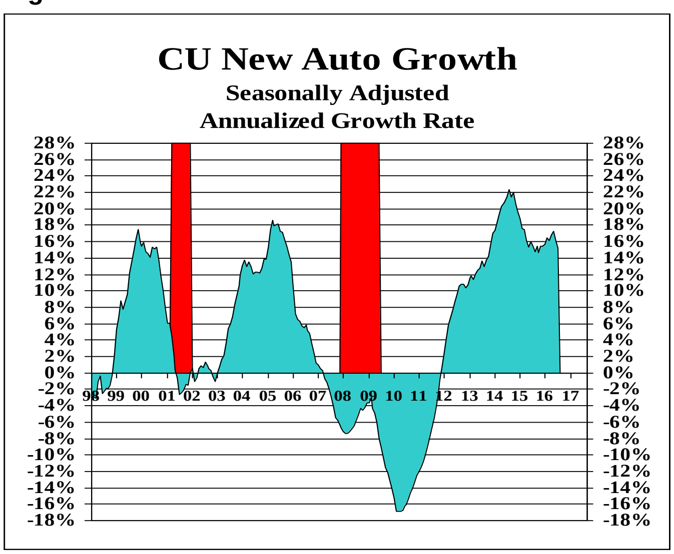
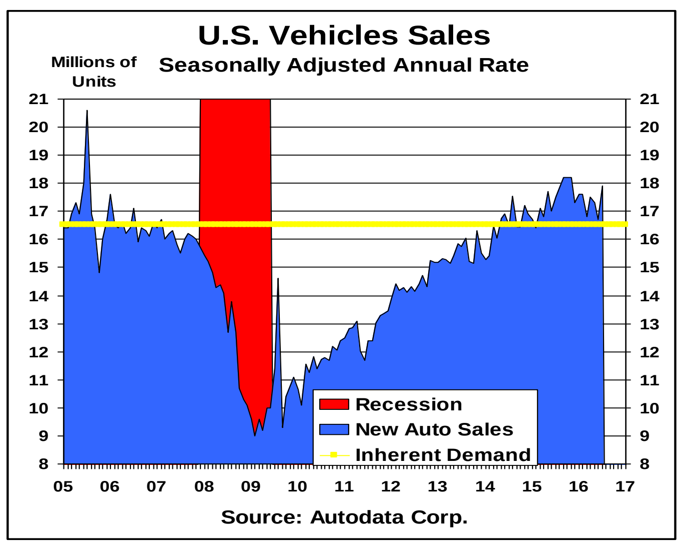


Figure 5:



Vehicle sales rose to a 17.9 million unit seasonally-adjusted annualized sales rate in July **(Figure 5)**, up from 16.7 million in June and above the 17.5 million sales pace set in July 2015. These strong sales numbers are above the 16.5 million annual sales pace considered by economists to be the "inherent demand" for the U.S. auto sector **(See Yellow Line in Figure 5)**. Auto sales will remain above this level for the next two years as Americans make up for the lack of purchases during the 2008-2012 time period. Light truck sales currently make up 55% of all sales due to low gasoline prices.

Real Estate-Secured Lending – 1st Mortgages and Other Real Estate
Credit unions originated a record $63.3 billion in the first half of 2016, a 3.3% increase over the $61.4 billion in originations in the first half of 2015 **(Figure 6)**. Credit unions then proceeded to sell off 38% of those originations into the secondary market, a lower percentage than the 39% in 2015. The stage is set for another strong year of credit union first mortgage growth as rising purchase activity offsets slower refinance business.

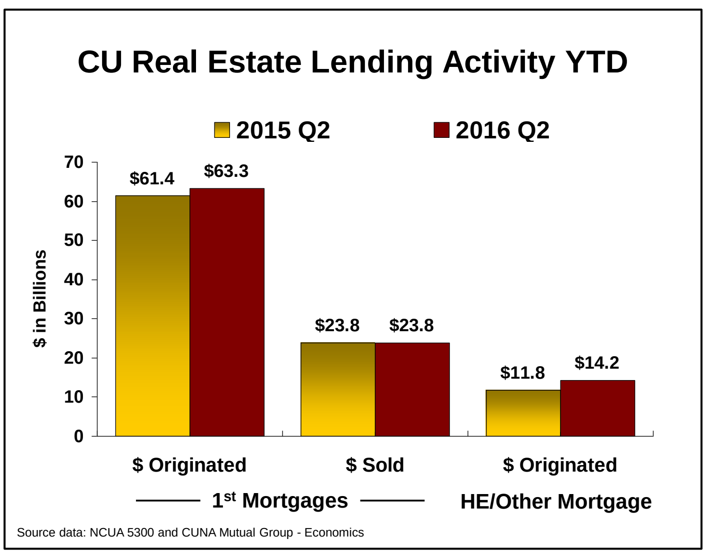
Credit unions originated $14.2 billion of home equity and second mortgages in the first half of 2016, a 20% increase from the same time period last year. Credit unions now hold $422 billion of total real estate loans (first and second mortgages) on their books, which are 4.4% of the entire mortgage market, up from 4.1% in June 2015.

The contract interest rate on a 30-year, fixed-rate conventional home mortgage fell to 3.44% in July, down from 3.57% in June and below the 4.05% reported in July 2015. We expect the Federal Reserve to raise short-term interest rates in December 2016, which will lift the 30-year mortgage interest rate to the 3.75-4.0% range by the first half of 2017 and reduce the refinance business at financial institutions.

Home prices rose 1.1% in June from July, according to the Core Logic Home Price Index, and 6% year-over-year. Home prices are expected to rise another 6% in 2016 and 5% in 2017. Therefore, home prices should reach new highs by the end of 2017.

All of the fundamental drivers of housing demand are accelerating and will keep home sales moving higher over the next two years. Labor market slack is decreasing rapidly and wage growth is beginning to accelerate, both of which are positive factors for homebuyer demand and house price appreciation. Credit union mortgage lending should increase as improving financial positions among borrowers and rising incomes justify loosening credit standards.

Figure 6:



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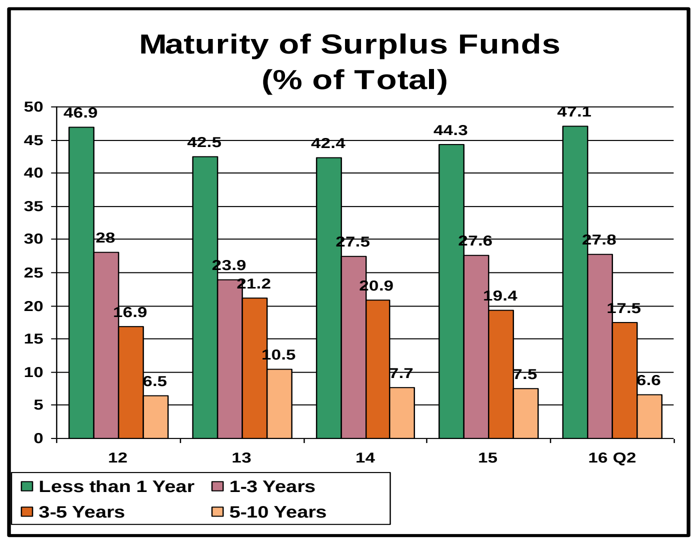


Surplus Funds (Cash + Investments)
Credit union surplus funds rose $4.5 billion, or 1.2%, in July to reach $387.3 billion, as the strong dollar increase in savings ($5.7 billion), capital ($1 billion) and borrowings ($3.7 billion) exceeded the $8 billion increase in loans. Credit union surplus funds as a percent of assets fell to 30% in July, down from 32% in July 2015, and the tightest liquidity since February 2009. During the last year, credit unions funded $78 billion in additional loan balances with $72 billion of additional savings balances and 9.9 billion in additional capital. The yield on surplus funds rose slightly to 1.28% in the first half of 2016 compared to 1.17% during the first half of 2015. Investment yields remain significantly below the 4.58% yield on loans in the first half of 2016, which is down from the 4.66% reported in the first half of last year.

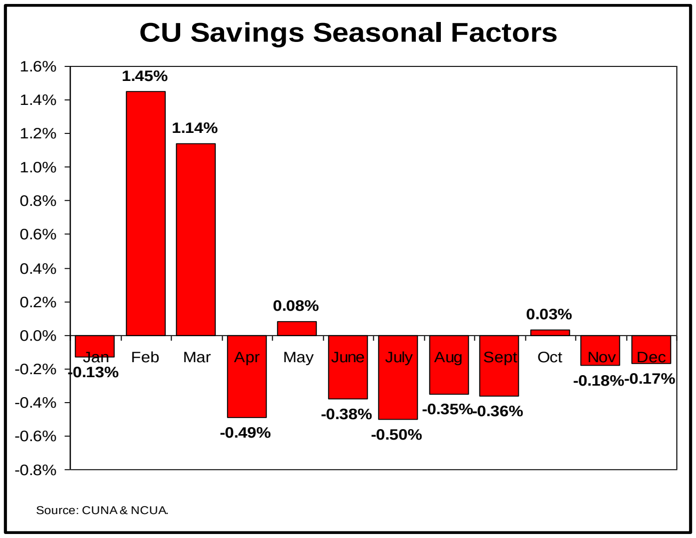
Credit unions are repositioning their investment portfolios due to expectations that the Federal Reserve may begin raising interest rates in the 4th quarter of this year. Surplus funds with a maturity of less than 1 year rose to 47.1% of all surplus funds in the second quarter, which is up from 44.3% at the end of last year **(Figure 7).** Longer term investments as a percent of surplus funds fell significantly over the last year; 5-10 year investments fell to 6.6% of surplus funds from 7.5% 6 months earlier while 3-5 year investments fell from 19.4% to 17.5%. By reducing the concentration of longer term investments, credit unions reduce their interest rate risk exposure that accompanies rising interest rates.

Savings and Assets

Credit union savings balances grew 0.5% in July, slower than the 1% jump in balances in July 2015 that was caused by July 31 landing on a Friday payday last year. July is normally the weakest month of the year for savings growth **(Figure 8)** due to seasonal factors such as vacation spending and auto loan down payments. Credit union savings seasonal factors will remain a negative factor for rest of the year.

However, during the last 12 months, savings balances rose 7.1% due to low gas prices, rising household incomes, strong job growth, and fast membership growth **(Figure 9)**. We expect savings balances to grow 7.8% in 2016, and then slow to 5.5% in 2017 as the Federal Reserve raises interest rates 0.75 percentage points. This will result in some interest-rate-sensitive members moving savings deposits to money market mutual funds.

Figure 8:



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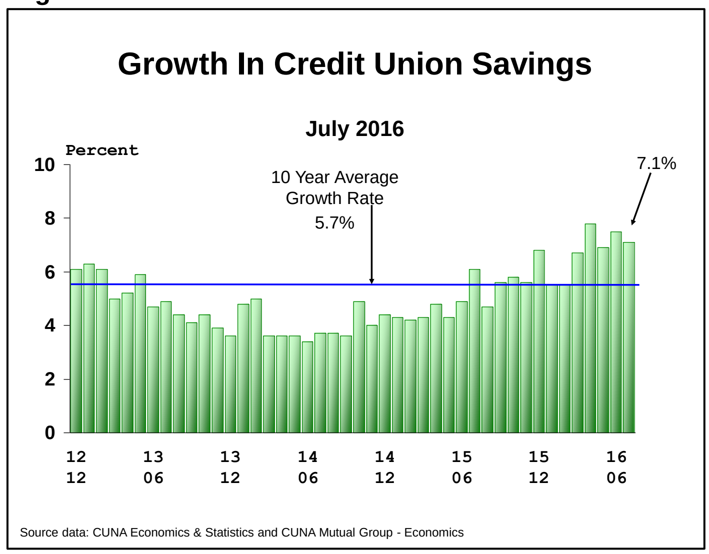


Capital and Other Key Measures

The industry's weighted average capital-to-asset ratio remained at 10.9% in July compared to the same time period last year, according to NCUA call report data, due to capital growing at the same pace as assets (7.4%). However, during the last 12 months, smaller credit unions reported higher capital-to-asset ratios due to assets growing slower than capital **(Figure 10)**. The 7.4% capital growth rate, which is also known as the return-on-equity ratio, has been trending up lately.

The credit union loan net charge-off rate rose to 0.50% in July, from 0.46% in July 2015 **(Figure 11)**, which is the ratios long run average during an economic expansion. The charge-off rate will fall to 0.48% in the third quarter, which is historically the quarter with the lowest charge-off rate of the year, due to rapid loan growth over the summer months. We expect the charge-off rate to increase 5 basis points to 0.53% in the fourth quarter as loan growth slows and delinquent loans increase.

Figure 10:

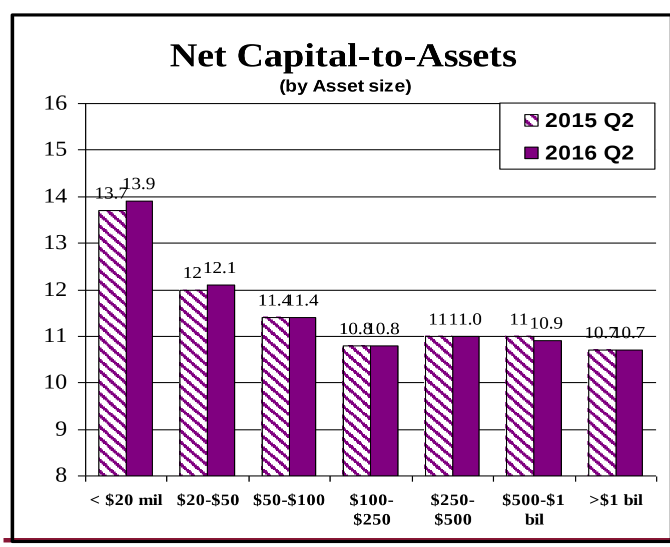
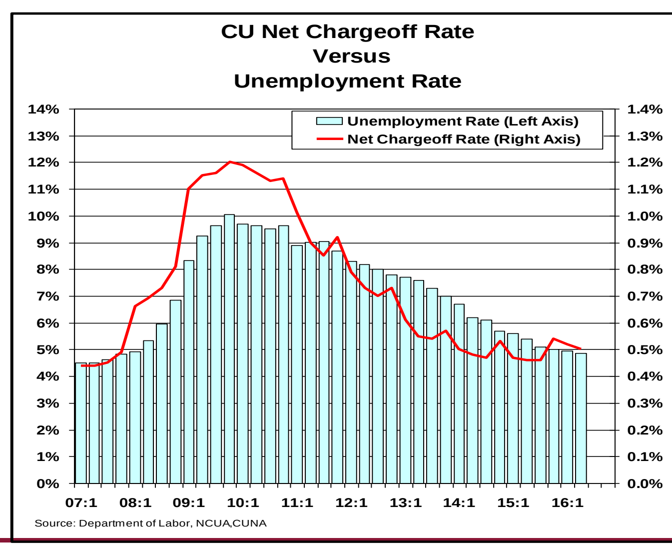


Figure 11:



Credit Unions and Members

As of July 2016, CUNA estimates 6,105 credit unions are in operation, down 14 from June. Year-to-date, the number of credit unions fell by 131**(Figure 12)**, which is significantly below the 154 reported in the first seven months of 2015. NCUA's Insurance Report of Activity showed 11 mergers in July with an average asset size of $13.5 million, down from the 22 mergers reported in July 2015 with an average asset size of $23 million. These smaller credit unions are finding it difficult to increase their member value proposition as fast as larger credit unions and are therefore losing members **(Figure 13)**.

Just released mid-year NCUA call report data shows 268 credit unions with assets in excess of $1 billion and 236 credit unions with assets greater than $500 million, but less than $1 billion. The greater than $1 billion asset category represents 4.4% of all credit unions, but more than 60% of the credit union system's assets and 62% of the loans. The median asset size of a U.S. credit union rose to $28.2 million in mid-year, up from $25.7 million at mid-year 2015.

Figure 12:

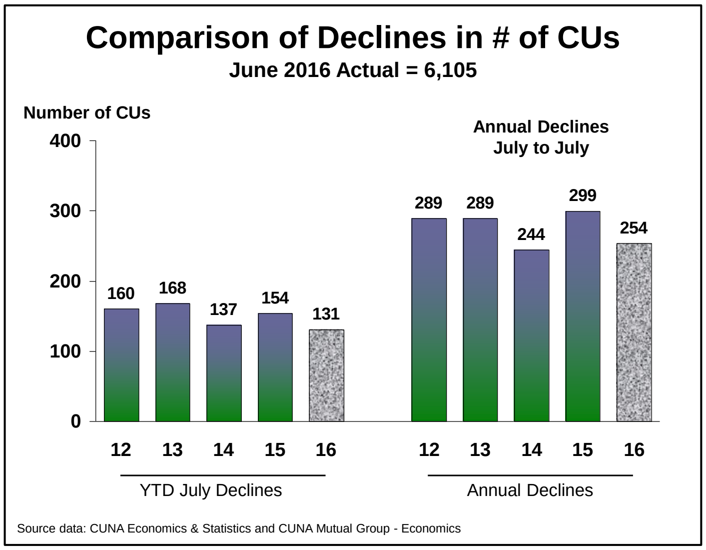
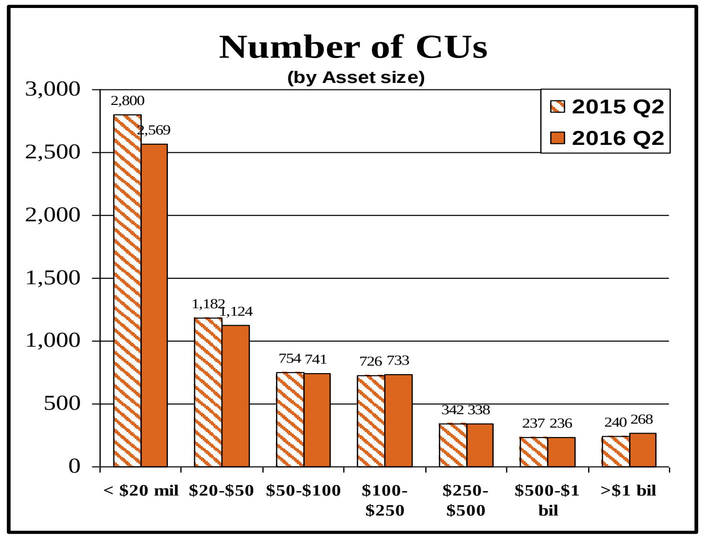


Figure 13:



Credit union memberships grew a strong 400,000 in July, or 0.37%, much better than the 232,000 new members, or 0.23%, added in July 2015. Year-to-date credit unions added 2.6 million new members, **(Figure 14)**, faster than the 2.1 million members added in 2015. Total credit union memberships reached 107.6 million in July, 4.1% above the level recorded last year. This is the fastest membership growth in more than a generation and is being driven by the 275,000 new jobs added to the U.S. economy in July, according to the Bureau of Labor Statistics, and the record level of loan originations. We forecast credit union memberships to grow 3.8% in 2016 and 3.3% in 2017 due to job gains exceeding 2.1 million each year and more Americans reaching-out to credit unions in search of loans to satisfy their pent-up demand for durable goods.

Figure 14:

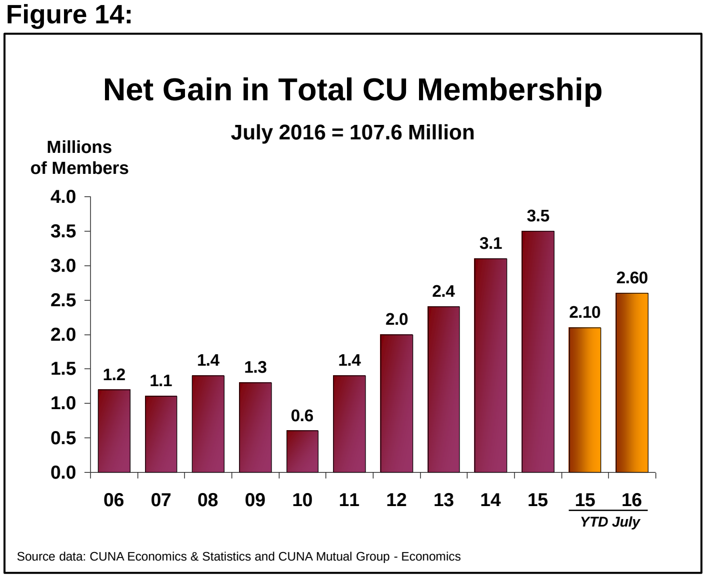
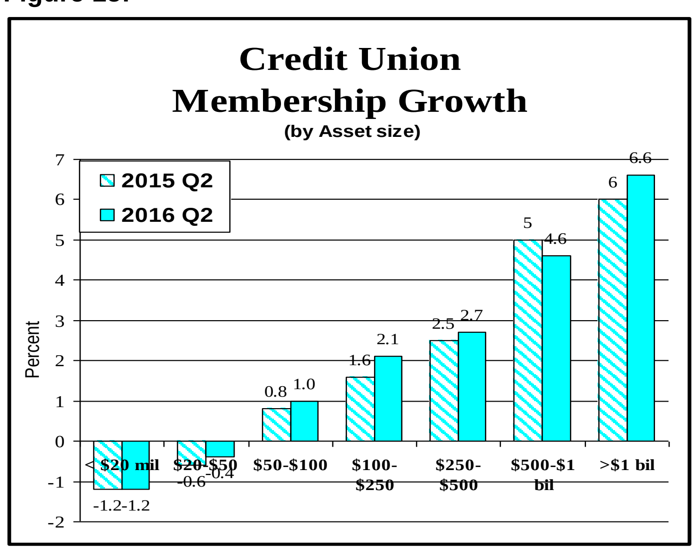


Figure 15:



National Monthly Credit Union Aggregates

	|----------------- ($ Billions)		--------------------|	(Millions)	CREDIT	LOAN /	CAPITAL/ ASSET
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	UNIONS	SAVINGS	RATIO
14 07	698.6	1,129.1	958.7	120.0	100.3	6,658	72.9	10.6
14 08	706.3	1,138.8	965.8	121.3	100.6	6,655	73.1	10.7
14 09	711.6	1,130.0	958.5	121.5	100.9	6,592	74.2	10.8
14 10	718.5	1,146.3	971.1	122.8	101.0	6,580	74.0	10.7
14 11	723.4	1,147.5	969.5	123.7	101.1	6,531	74.6	10.8
14 12	728.9	1,144.7	970.4	123.5	101.5	6,513	75.1	10.8
15 01	732.7	1,157.8	978.4	124.8	101.6	6,497	74.8	10.8
15 02	734.6	1,179.7	999.5	124.9	101.9	6,460	73.5	10.6
15 03	739.4	1,181.6	1,004.5	126.3	102.2	6,447	73.6	10.7
15 04	746.7	1,184.3	1,003.3	126.9	102.5	6,432	74.4	10.7
15 05	753.7	1,195.2	1,007.8	127.5	102.9	6,417	74.8	10.7
15 06	763.5	1,191.2	1,006.8	127.8	103.3	6,397	75.8	10.7
15 07	771.0	1,203.3	1,016.7	128.7	103.5	6,359	75.8	10.7
15 08	779.5	1,201.2	1,010.7	129.3	103.9	6,358	77.1	10.8
15 09	787.5	1,203.4	1,012.3	130.5	104.4	6,329	77.8	10.8
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	823.1	1,279.2	1,081.9	135.4	106.4	6,128	76.1	10.6
16 05	831.8	1,274.0	1,076.5	135.9	106.8	6,126	77.3	10.7
16 06	841.2	1,279.9	1,082.8	137.6	107.2	6,119	77.7	10.8
16 07	849.1	1,292.1	1,088.5	138.6	107.6	6,105	78.0	10.7

Credit Union Growth Rates

Percent Change Previous Year

YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	# OF CUs	# OF CUs DECLINE	Delinquency Ratio*
14 07	9.8	5.2	3.7	8.9	2.6	(3.5)	(244)	0.825%
14 08	9.9	5.1	3.7	10.5	2.8	(3.3)	(226)	0.841%
14 09	10.0	4.8	3.6	9.1	2.9	(4.0)	(272)	0.852%
14 10	10.2	5.9	4.9	9.4	2.9	(3.7)	(254)	0.832%
14 11	10.5	5.4	4.0	9.7	3.0	(4.3)	(297)	0.856%
14 12	10.4	5.6	4.4	9.0	3.1	(4.2)	(282)	0.848%
15 01	10.6	5.7	4.3	8.7	3.1	(3.9)	(262)	0.834%
15 02	10.8	5.6	4.2	7.9	3.1	(4.2)	(286)	0.738%
15 03	10.8	5.5	4.3	8.7	3.0	(4.3)	(288)	0.683%
15 04	10.8	5.9	4.8	8.2	3.0	(4.0)	(267)	0.728%
15 05	10.7	5.7	4.3	7.2	3.1	(3.9)	(260)	0.737%
15 06	10.7	5.8	4.9	6.9	3.2	(4.1)	(274)	0.740%
15 07	10.4	6.6	6.1	7.3	3.2	(4.5)	(299)	0.757%
15 08	10.4	5.5	4.7	6.5	3.2	(4.5)	(296)	0.779%
15 09	10.7	6.5	5.6	7.4	3.5	(4.0)	(263)	0.776%
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	10.2	8.0	7.8	6.7	3.7	(4.7)	(304)	0.714%
16 05	10.4	6.6	6.9	6.6	3.8	(4.5)	(291)	0.701%
16 06	10.2	7.4	7.5	7.7	3.8	(4.3)	(278)	0.704%
16 07	10.1	7.4	7.1	7.7	3.9	(4.0)	(254)	0.726%

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

Distribution of Credit Union Loans

Estimated $ (Billions) Outstanding

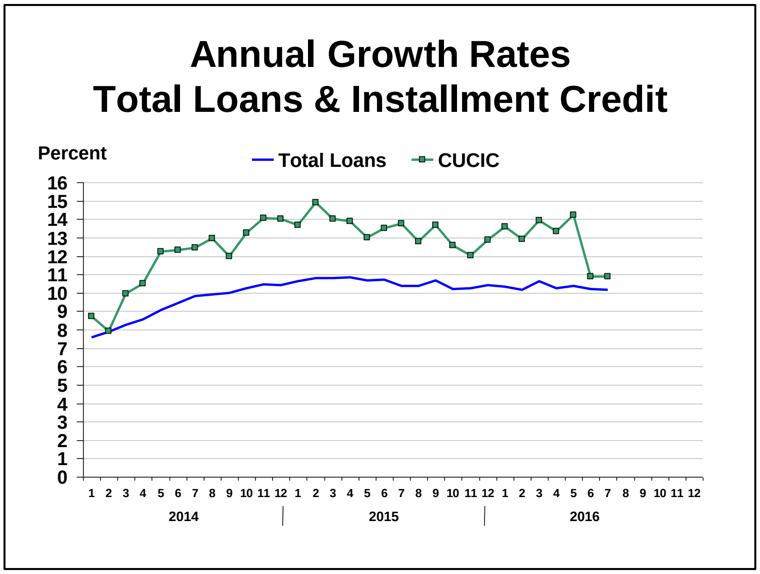
YR/MO	TOTAL LOANS	NEW VEHICLE LOANS	USED VEHICLE LOANS	TOTAL VEHICLE LOANS	UNSEC Ex. CC'S	CREDIT CARDS	CUCIC	1ST MORT TOTAL	TOT. OTHR MORT 2ND +HE	TOTAL REAL ESTATE	MBLs*
14 07	698.6	80.4	139.5	219.9	31.2	44.2	288.5	286.6	72.5	359.1	51.0
14 08	706.3	82.2	141.1	223.3	31.4	44.7	293.0	288.2	72.8	361.0	52.2
14 09	711.6	83.7	142.7	226.4	31.6	44.9	293.1	292.8	72.9	365.8	52.8
14 10	718.5	85.7	144.6	230.3	31.9	45.0	298.3	293.8	73.8	367.6	52.6
14 11	723.4	86.8	145.6	232.4	32.2	45.6	301.0	295.2	74.0	369.2	53.2
14 12	728.9	87.7	146.2	233.9	32.6	46.8	302.8	298.7	73.4	372.1	53.9
15 01	732.7	89.2	147.4	236.6	32.9	46.3	304.5	298.9	74.5	373.3	54.9
15 02	734.6	90.2	148.2	238.3	32.5	45.5	307.8	297.6	74.1	371.7	55.1
15 03	739.4	90.7	149.8	240.5	32.1	45.5	307.7	303.5	73.0	376.5	55.2
15 04	746.7	92.1	151.4	243.5	32.7	45.8	312.3	305.4	74.5	379.8	54.6
15 05	753.7	92.7	153.3	246.0	32.9	46.3	315.7	307.2	74.4	381.7	56.3
15 06	763.5	94.3	155.6	249.9	33.4	46.6	322.7	312.8	73.7	386.5	54.3
15 07	771.0	95.5	158.0	253.5	34.1	47.0	327.2	315.0	74.4	389.4	54.4
15 08	779.5	96.6	159.8	256.5	34.6	47.7	330.2	317.2	75.1	392.3	56.9
15 09	787.5	98.3	161.4	259.8	34.6	47.8	333.4	322.4	74.9	397.3	56.8
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	56.6
16 04	823.1	105.6	172.3	278.0	35.5	48.7	353.9	334.8	76.9	411.7	57.5
16 05	831.8	106.9	174.7	281.6	35.8	49.3	360.6	338.3	77.5	415.8	55.4
16 06	841.2	108.9	177.4	286.3	36.3	49.8	357.8	342.4	77.4	419.7	63.6
16 07	849.1	110.4	179.3	289.7	36.8	50.3	362.8	343.1	78.7	421.8	64.6

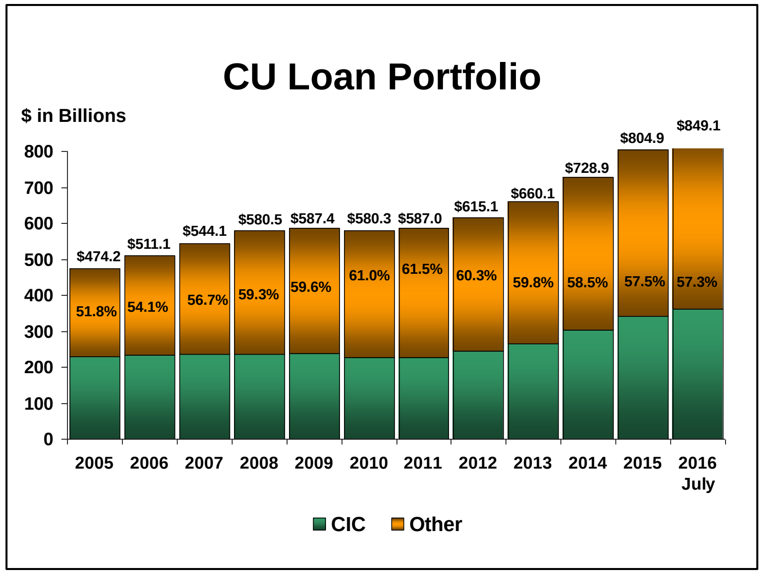
* Member Business Loans

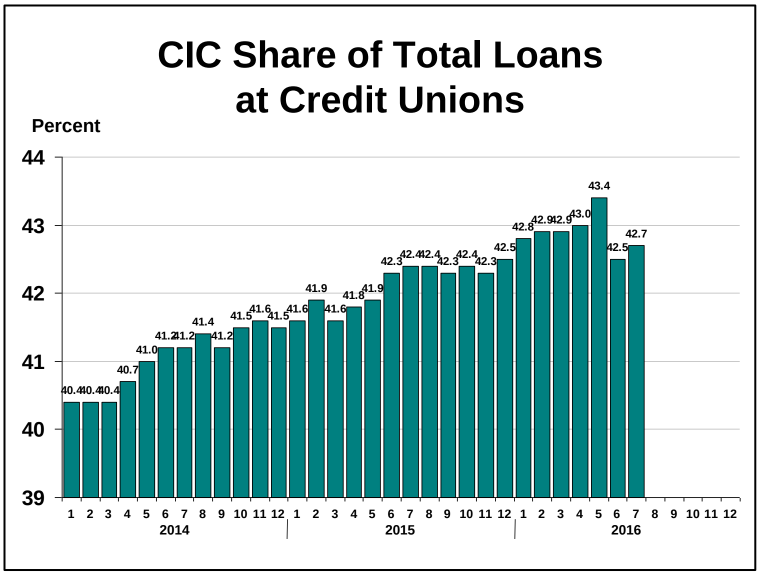
Distribution of Credit Union Loans

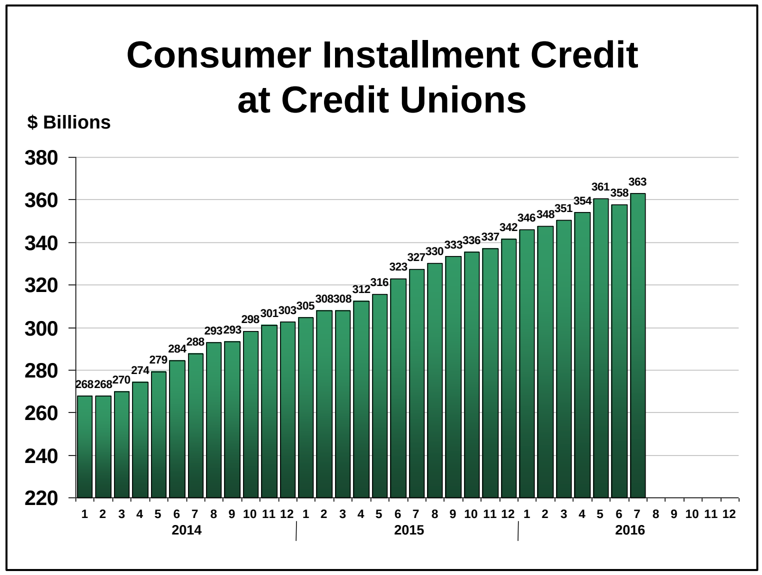
Percent Change From Prior Year

YR/MO	TOTAL LOANS	NEW VEHICLE LOANS	USED VEHICLE LOANS	TOTAL VEHICLE LOANS	UNSEC Ex. CC'S	CREDIT CARDS	CUCIC	1ST MORT TOTAL	TOT. OTHR MORT 2ND +HE	TOTAL REAL ESTATE	MBLs*
14 07	9.8	17.3	11.7	13.7	10.7	8.3	12.8	8.8	0.3	7.0	13.9
14 08	9.9	18.3	11.8	14.1	9.7	8.3	13.0	8.1	1.0	6.6	16.7
14 09	10.0	19.3	12.2	14.7	10.1	8.2	11.9	9.2	0.9	7.4	18.1
14 10	10.2	20.2	12.2	15.0	9.7	8.1	13.3	8.5	2.5	7.2	14.8
14 11	10.5	20.7	12.4	15.4	10.1	8.6	14.1	8.7	3.1	7.5	11.4
14 12	10.4	20.9	12.8	15.7	10.0	7.9	14.0	9.1	1.3	7.4	12.0
15 01	10.6	21.3	13.0	16.0	10.5	8.2	13.7	8.9	3.3	7.7	14.4
15 02	10.8	22.4	13.1	16.4	9.9	8.0	14.9	7.8	3.3	6.9	15.8
15 03	10.8	21.4	13.2	16.1	10.2	7.6	14.0	8.9	2.5	7.6	16.2
15 04	10.8	21.9	13.0	16.2	9.7	7.4	13.9	9.0	4.2	8.0	14.3
15 05	10.7	20.5	13.2	15.8	9.4	7.3	13.0	8.9	3.9	7.9	17.4
15 06	10.7	19.5	13.0	15.4	9.7	6.8	13.5	9.6	2.3	8.1	13.6
15 07	10.4	18.7	13.3	15.3	9.4	6.3	13.7	9.9	2.6	8.4	4.9
15 08	10.4	17.5	13.3	14.9	10.0	6.6	12.8	10.1	3.1	8.7	8.5
15 09	10.7	17.5	13.1	14.7	9.5	6.5	13.7	10.1	2.8	8.6	8.0
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	10.2	14.7	13.8	14.2	8.6	6.5	13.3	9.6	3.3	8.4	5.3
16 05	10.4	15.4	13.9	14.5	8.6	6.6	14.2	10.1	4.1	8.9	-1.7
16 06	10.2	15.5	14.0	14.6	8.9	6.7	10.9	9.4	5.0	8.6	17.3
16 07	10.1	15.6	13.5	14.3	7.8	7.1	10.9	8.9	5.8	8.3	18.8









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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