CREDIT UNION TRENDS REPORT

CUNA Mutual Group – Economics • May 2015 (March 2015 data)

Highlights

- During March, credit unions picked up 496,000 new memberships, credit union loan balances grew at an annualized 11% pace, bonuses and tax refunds boosted deposit balances 0.4%, firms hired 85,000 workers, the existing home market picked up steam, long-term interest rates rose, and the Federal Reserve did not waver from their belief that economic growth will accelerate.
- At the end of February, CUNA's monthly estimates reported 6,424 CUs in operation, down 13 CUs from one month earlier. Year-to-date the number of credit unions declined by 89, greater than the 60 lost in the first three months of 2014.
- Credit union savings balances rose over the one trillion dollar mark in March, the first time in credit union history. March is historically the second strongest month for savings growth due to tax refunds and bonuses. Expect savings balances to fall below one trillion dollars in April as members pay their tax bills.
- The nation's CUs increased their loan portfolios 0.6% in March, slightly less than the 0.65% pace reported in March 2014. During the last 12 months, credit union loan portfolios increased 10.6%, the fastest pace since December 2005, which illustrates the roughly decade long credit cycle.
- Credit union memberships rose a robust 496,000 in March, or 0.5% month-over-month, up from 380,000 reported in March 2014, or 0.4%, to reach 102.8 million. The underlying annualized membership growth rate is now 4.0%, the highest since March 1997.
- Credit union loan delinquency rates fell to 0.74% in March, down from 0.81% one year earlier. This is the lowest delinquency rate since August 2007, the date economists use to mark the beginning of the mortgage crisis.

ECONOMIC, COMPETITIVE AND INTEREST RATE ENVIRONMENT

The economy grew at a 0.2% annualized rate in the 1st quarter, below the long-run natural rate of 2.5%, due to falling energy investment, the west coast port strike, adverse winter weather and the rising value of the dollar. The economies underlying growth rate, however, is currently running at 3.0%, and should accelerate to 3.3% in 2016, above the 2.4% pace set in 2014. Nevertheless, the economy is still operating 2% below its potential, referred to as the "output gap," but the economy is rapidly approaching its potential level of output. The Federal Reserve will therefore begin increasing interest rates later in 2015.

During March, the economy added 85,000 jobs, the unemployment rate remained at 5.5%, personal income stagnated with zero growth, consumer prices climbed 0.2%, consumer confidence rose, new home sales fell 11.4%, existing home sales rose 6.1%, home prices rose 2%, and the 10-year Treasury interest rate increased 6 basis points to average 2.04%.

Total Lending

Credit union loan balances rose 0.60% in March 2015, slightly below the 0.65% pace reported in March 2014, due to strong growth in new and used auto loans, and fixed-rate mortgages; the only lending products reporting positive growth.

Credit unions are in the second year of a three-year credit boom, see **Figure 1,** the likes of which we haven't seen since 2003-2005**.** So, why the credit boom? Credit unions are willing to lend because of excess liquidity and low net interest margins, and members are willing to borrow because of pent up demand for cars and appliances and an improving financial condition.

This 10-year credit cycle will play itself out in 2017 due to credit union and member balance-sheet constraints limiting double digit growth. Credit union loan-to-savings ratios will approach 86% by year-end 2016, the highest since 1980. At that point loan growth will slow to the pace of deposit growth.

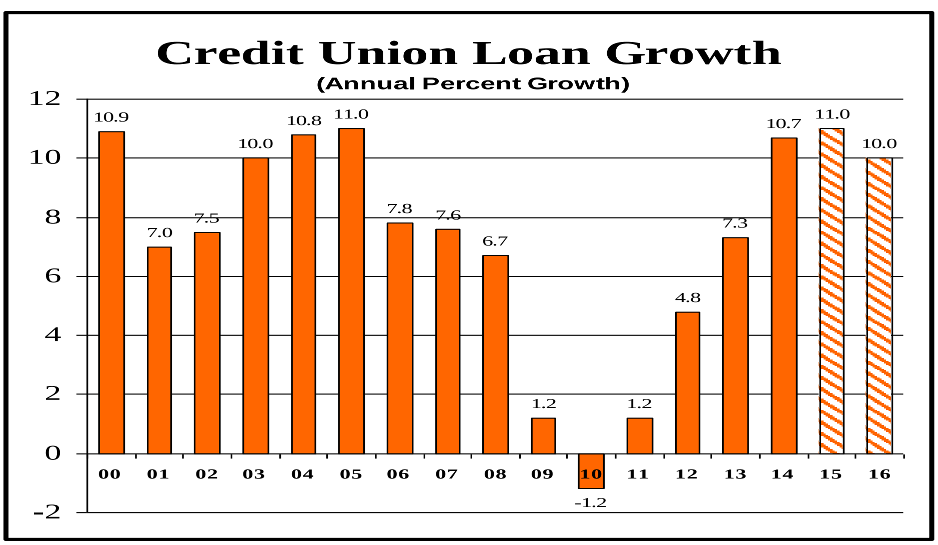


Figure 1

CUNA MUTUAL GROUP

Credit Union Consumer Installment Credit (CUCIC)

Credit union credit card loan balances grew at a modest 4.8% **seasonally-adjusted annualized growth rate** in March see **Figure 2**, due to low gas prices reducing the amount of credit used at gas stations. March's **seasonal factors** usually shave off 1.41 percentage points from the underlying trend growth rate, see **Figure 3,** as members used bonuses and tax refunds to pay down credit card balances accumulated during the holiday shopping season. The outlook for credit unions' credit card lending is positive because of strong consumer fundamentals like the improving labor market, rising home and stock values, faster wage growth, greater levels of consumer confidence and greater access to credit.

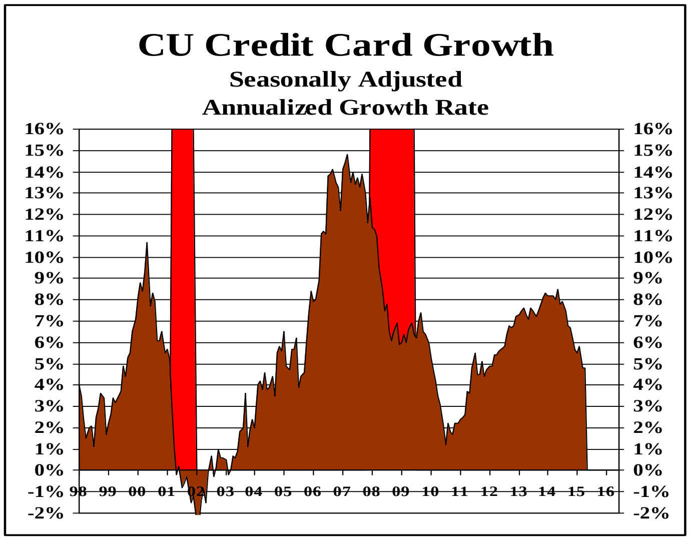


Figure 2

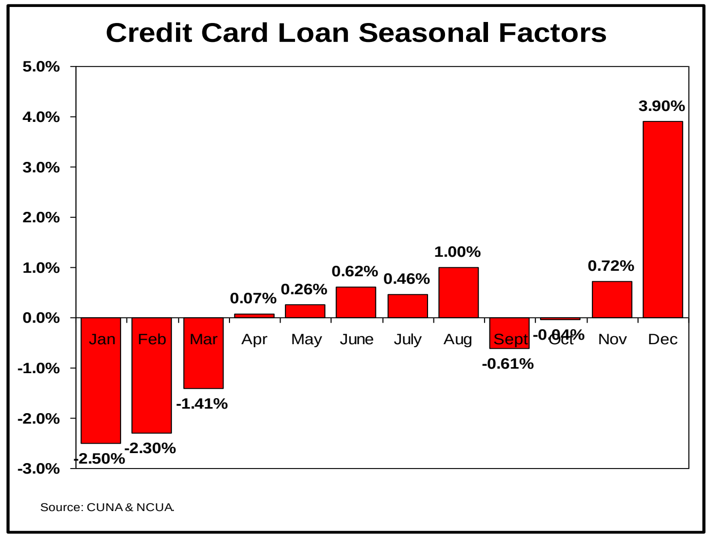


Figure 3

Vehicle Loans

Credit union used-auto loan balances grew at a 14.9% **seasonally-adjusted annualized growth rate** in March, the fastest pace since November 1999, see **Figure 4**. March's **used-auto loan seasonal factors** usually add 0.32 percentage points to the underlying trend growth rate, see **figure 5**. The used auto buying and lending season begins in March and runs through September. Credit union new-auto loan balances grew at a 24.2% seasonally-adjusted annualized growth rate in March, the fastest pace on record. New-auto loan balances made up 38% of total loan balances in March, up from 35% in December 2012, due to the tremendous surge in new auto sales in the past few years.

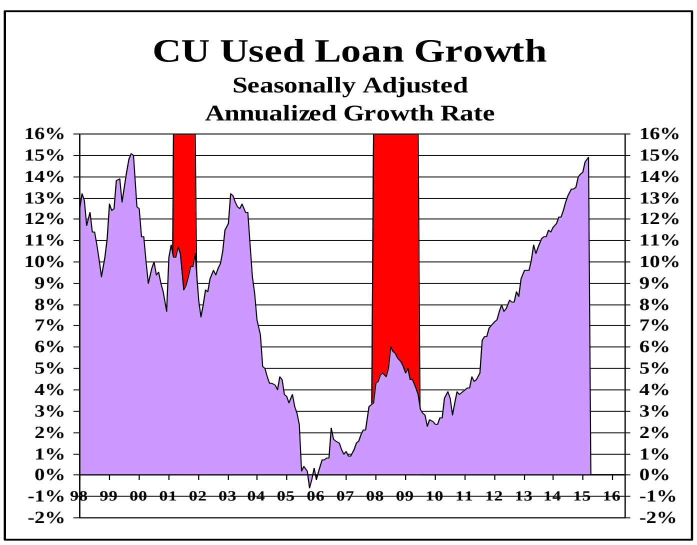


Figure 4

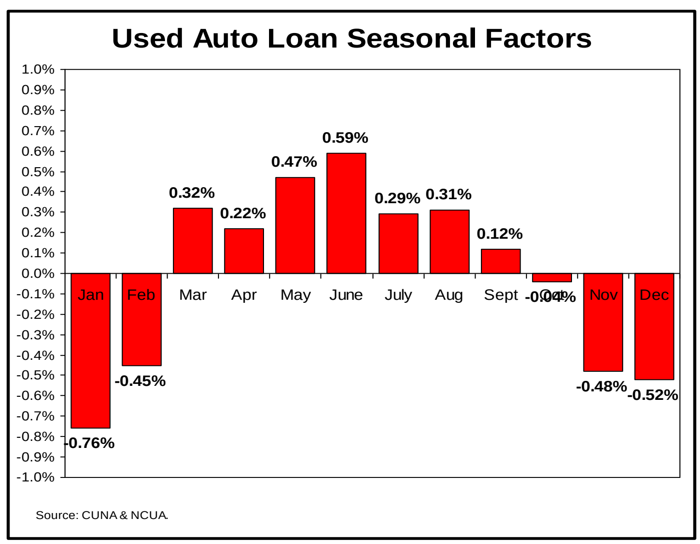


Figure 5

Vehicle sales rebounded to a strong 17.1 million unit seasonally-adjusted annualized basis in March, up from 16.2 million units in February. Sales were up 4% from March 2014. The economic factors that are currently supporting vehicle sales are rising consumer confidence, an improving job market, greater access to credit, low interest rates, improving household balance sheets, and rising incomes. Expect car sales to increase 4% in 2015 to reach 17 million units, the strongest pace since 2001.

Real Estate-Secured Lending – 1st Mortgages and Other Real Estate

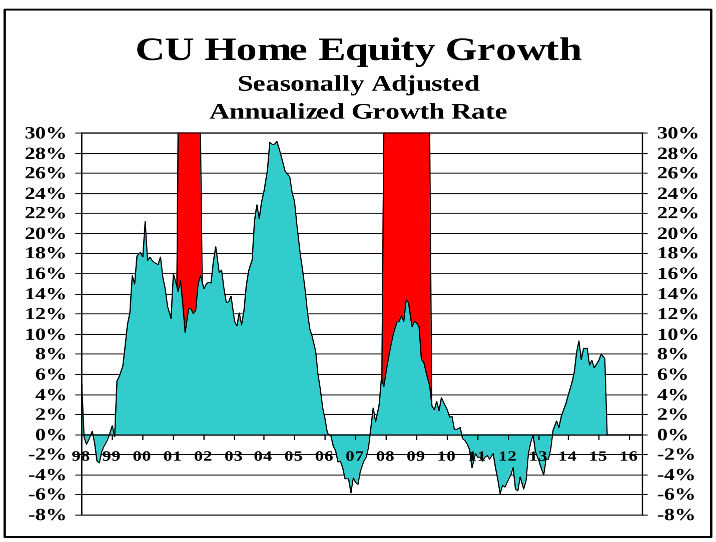
Credit union fixed-rate first mortgage loan balances jumped 3.1% in March, up from a 2.3% increase in March 2014. This rapid March mortgage volume was due to a surge in loan applications during January and February when mortgage interest rates fell. The contract interest rate on a 30-year fixed-rate conventional home mortgage fell to 3.71% in February, down 60 basis points from a year earlier.

So, why did interest rates fall in the first quarter? Two factors were at play. First, real interest rates fell as foreign money flooded into U.S. Treasury bonds because of worries over a Greek exit from the Euro currency. Second, inflation expectations fell as falling oil prices raised concerns that disinflation in the U.S. economy could turn into outright deflation. With oil prices rising in the last few months to $60 per barrel, this deflation fear is starting to abate and with it a rise in long-term interest rates.

With interest rates bottoming out in the first quarter, adjustable-rate mortgages were not as popular as the fixed-rate variety as illustrated by balances falling -1.3%. During March, adjustable-rate mortgages made up 30% of total first mortgage loans at credit unions, down from the 35% reported in March 2006, before the mortgage crisis began.

Home equity loan balances fell -1.4% in March as members used bonuses and tax refunds to pay down some of their lines of credit. Because of these seasonal factors, March is typically the weakest month of the year for home equity loan growth. However, credit union home equity loan balances grew at a 7.6% **seasonally-adjusted annualized growth rate** in March, see **Figure 6**, due to rising home prices, the improving job market, rising consumer confidence, consumers releasing pent up demand for durable goods, and lower interest rates.

Home prices rose 2.0% in March, according to the Core Logic Home Price Index, the fastest pace in two years and 5.9% on a year-over-year basis. The index is now up 32% from its trough in early 2011. The rise in home prices was caused by rising housing demand running headlong into low housing inventories. Home prices are expected to rise another 5% during 2015.



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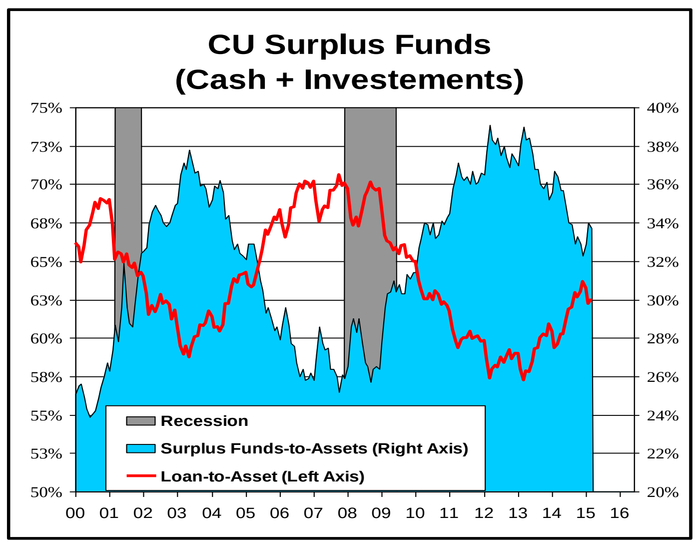


Figure 7

Surplus Funds (Cash + Investments)

Credit union surplus funds as a percent of assets fell slightly to 33.7% in March, see **Figure 7,** as credit unions paid down $3 billion in external borrowings with $3 billion in surplus funds. Surplus funds will fall below 30% of assets by the end of 2015, the tightest liquidity position since the first half of 2009, as loan balances grow 11% and savings balances rise only 4%. Loans as a percent of assets will therefore rise to 66% of assets by December 2015 from 63% today, see **Figure 7**. And with the average return on loans approximately 4.8% and the average return on investments around 1.2%, the 3 percentage point shift in assets from surplus funds to loans will boost asset yields by 11 basis points, [(4.8 - 1.2) * 0.03].

Currently 47.3% of credit union surplus funds have a maturity less than 1 year, up from 44.7% in Mach 2014. This shift towards shorter maturity investments could be due to credit unions expecting the Federal Reserve to finally start raising interest rates in the fall of 2015. The shift to shorter-maturity investments will reduce credit unions' exposure to falling investment values as interest rates increase. But this interest rate risk reduction comes at a cost, specifically an opportunity cost, or what is given up. Currently, 3-year Treasury notes have yields roughly 90 basis points above overnight money. This opportunity cost is in effect an interest rate risk insurance premium.

Savings and Assets
Credit union savings balances grew at a 5.5% **seasonally-adjusted annualized growth rate** in March, see **Figure 8**, due to low gas prices, rising household income, strong job growth, and fast membership growth. March **seasonal factors (**bonuses and tax refunds) typically add 1.15 percentage points to the underlying savings trend growth, see **Figure 9**. Credit union saving balances grew 0.41% in March, faster than the 0.32% reported one year earlier. Almost all of this growth is taking place in liquid deposits like share drafts, regular shares, and MMAs as members anticipate the Federal Reserve will raise interest rates soon, and therefore do not want to lock up their funds in term deposits.

Credit union cost of funds fell to a record low 0.51% in the first quarter of 2015, from 0.53% in the first quarter of 2014. We expect funding costs to rise later this year as short-term interest rates move up and members begin moving funds from low-rate core deposits to higher-rate share certificates and money market accounts.

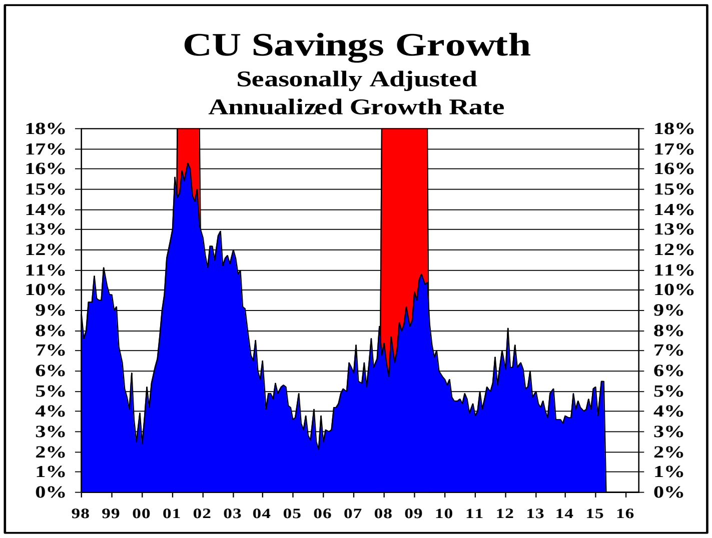


Figure 8

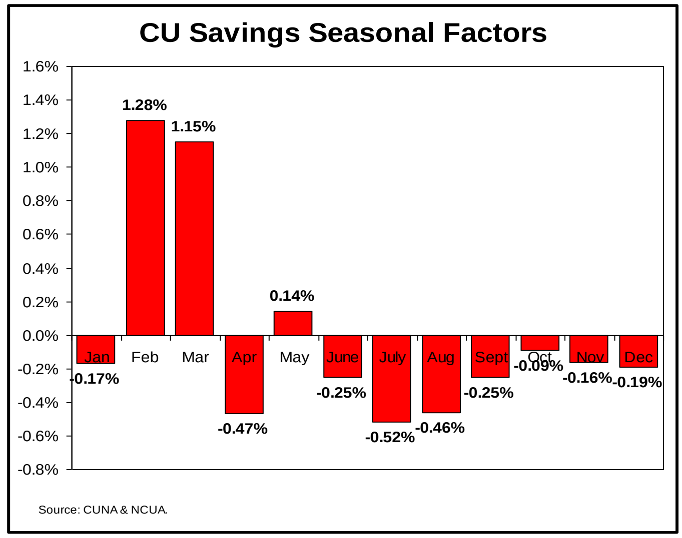


Figure 9

Capital and Other Key Measures
The credit union average capital-to asset ratio rose to 10.7% in March 2015, up from 10.6% in February, and above the 10.4% reported one year earlier. In the year ending in March, credit union capital rose a strong 8.7% while assets grew only 5.5%, which pushed up the capital ratio 0.3 percentage points. Capital ratios should climb to 11.2% by the end of 2016 as earnings and capital accumulation outpaces asset growth, see **Figure 10**.

The credit union **loan delinquency rate** (loans two or more months delinquent as a percent of total loans outstanding) fell to 0.74% in March, down from 0.81% in March 2014 and less than half the 1.88% reported in February 2010, see **Figure 11**. Credit unions report large declines in the delinquency rate in February and March as members use bonuses and tax refunds to catch up on overdue loans.

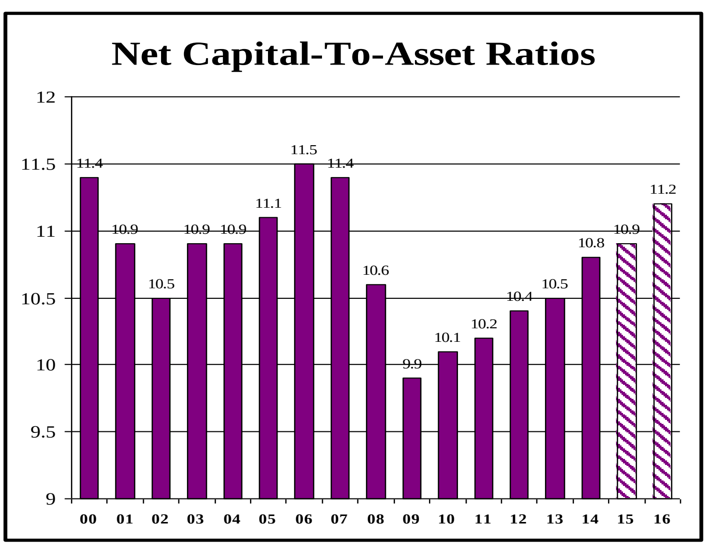


Figure 10

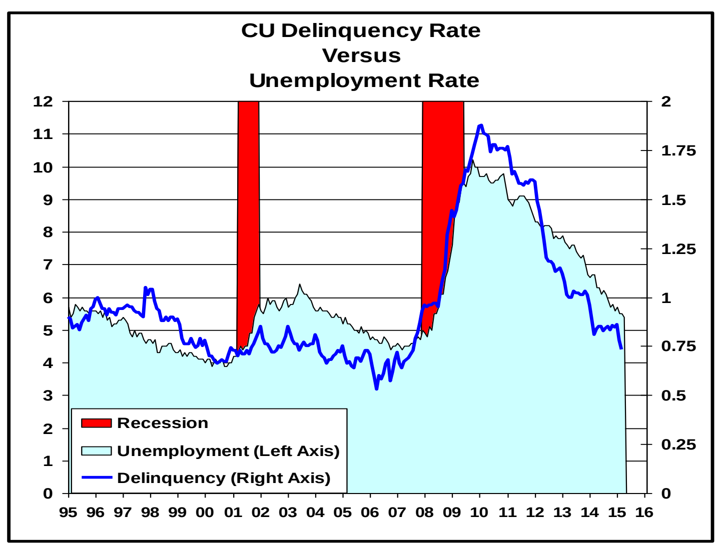


Figure 11

Credit Unions and Members

As of March 2015, CUNA estimates 6,424 credit unions were in operation, 13 fewer than February. During the last 12 months the number of credit unions fell by 311, above the 273 annual decline set one year ago, as shown by the **right-most bars in Figure 12**. During the first quarter of 2015 the number of credit unions fell by 89, the fastest pace since the first quarter of 2002. Greater regulatory compliance burdens from the Consumer Financial Protection Bureau, CFPB, will put additional downward pressure on credit union non-interest fee income and will therefore accelerate the number of mergers over the next few years.

At the end of 2014, 229 credit unions reported assets greater than $1 billion; twenty more than the year before, **see Figure 13**. These large credit unions control over 57% of all credit union loans but make up less than 4% of all credit unions. The number of credit unions with assets less than $20 million fell by 236 to reach 2,931 as these credit unions either grew into the larger asset class or merged with a larger credit union.

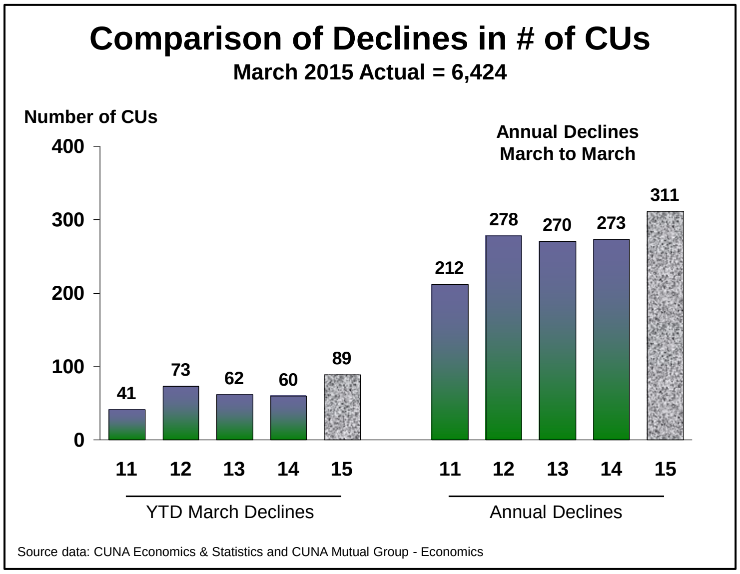


Figure 12

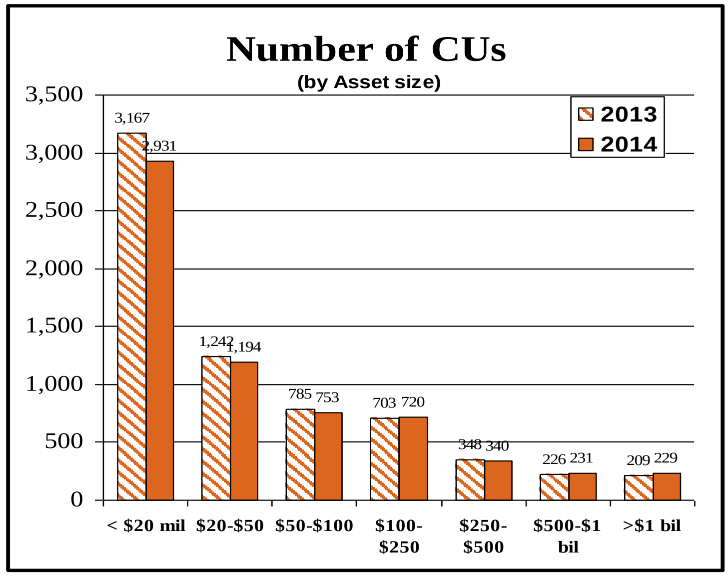


Figure 13

Credit union memberships grew at a record pace in the first quarter of 2015, adding 1.3 million, significantly better than the 0.9 million added in the first quarter of 2014. On a growth rate basis, memberships are up 3.6% in the year ending in March 2015, faster than the 3.1% pace set in 2014, see **Figure 14**. The memberships gain was partly driven by the 574,000 new jobs created in the first quarter, according to the Bureau of Labor Statistics, similar to the 579,000 jobs added in the first quarter of 2014. Members are also joining credit unions in droves to get an auto loan and other forms of credit. Credit unions should expect membership growth to exceed 3% in 2015 and 2016. Most of the membership growth is taking place at credit unions with assets over $500 million, see **Figure 15**, due to organic growth and mergers.

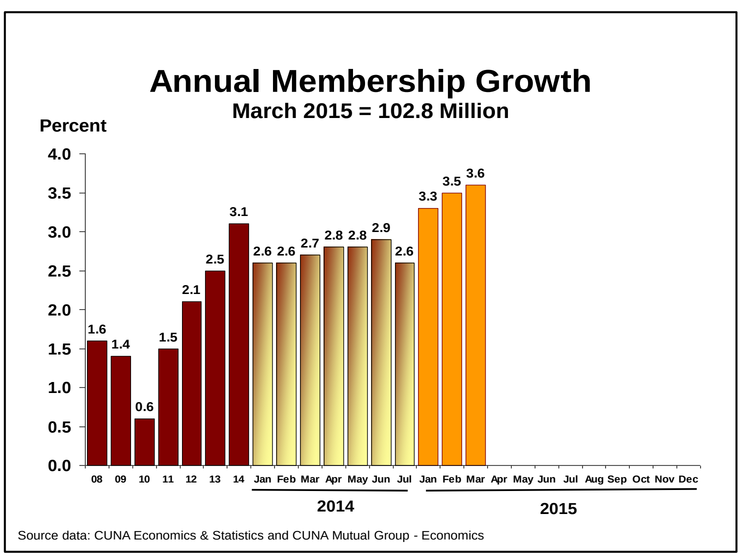


Figure 14

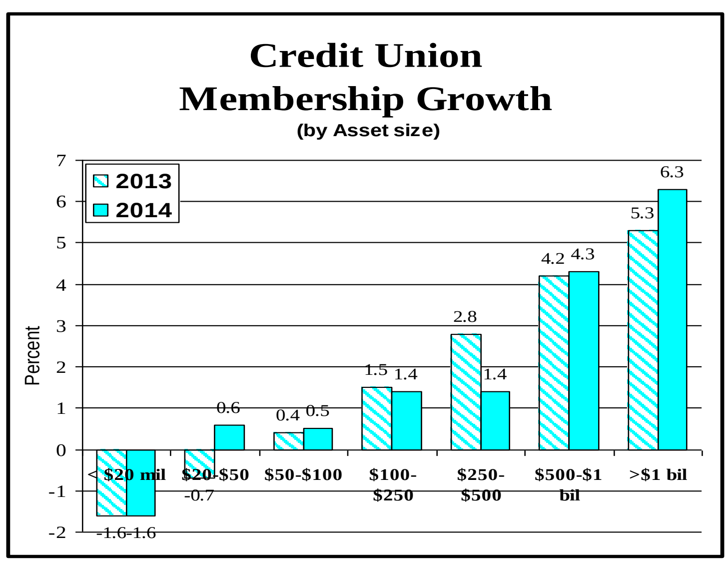


Figure 15

National Monthly Credit Union Aggregates

YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	LOAN / SAVINGS	CAPITAL/ ASSET RATIO
	|----------------- ($ Billions)		--------------------|		(Millions)			
13 03	616.5	1,077.3	929.3	110.5	96.7	7,008	66.3	10.3
13 04	620.6	1,072.5	924.4	111.3	96.8	6,999	67.1	10.4
13 05	624.5	1,080.9	932.4	111.0	97.2	6,987	67.0	10.3
13 06	630.2	1,077.8	928.7	110.1	97.3	6,930	67.9	10.2
13 07	**636.3**	**1,073.7**	**824.0**	**110.2**	**97.7**	**6,902**	**68.9**	**10.3**
13 08	642.7	1,083.1	931.3	109.8	97.9	6,880	69.0	10.1
13 09	647.1	1,078.2	924.9	111.3	98.1	6,864	70.0	10.3
13 10	651.8	1,082.3	926.0	112.3	98.1	6,834	70.4	10.4
13 11	654.9	1,088.9	932.1	112.7	98.1	6,828	70.3	10.4
13 12	660.1	1,083.7	929.2	113.3	98.4	6,795	71.0	10.5
14 01	662.4	1,095.8	939.4	114.8	98.5	6,759	70.5	10.5
14 02	663.1	1,117.1	959.6	115.8	98.9	6,746	69.1	10.4
14 03	667.4	1,120.2	962.7	116.3	99.2	6,735	69.3	10.4
14 04	673.7	1,117.8	957.3	117.3	99.6	6,699	70.4	10.5
14 05	681.0	1,130.5	965.9	118.9	99.8	6,677	70.5	10.5
14 06	689.5	1,125.5	959.8	119.6	100.1	6,671	71.8	10.6
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	732.4	1,157.8	978.6	124.8	101.8	6,474	74.8	10.8
15 02	734.1	1,179.6	997.8	124.9	102.3	6,437	73.6	10.6
15 03	738.3	1,181.3	1,002.0	126.4	102.8	6,424	73.7	10.7

Credit Union Growth Rates

Percent Change Previous Year

YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	# OF CUs	# OF CUs DECLINE	Delinquency Ratio*
13 03	5.0	5.3	5.0	8.3	2.1	(3.7)	(270)	1.013%
13 04	5.1	5.4	5.2	8.0	2.1	(3.6)	(261)	1.001%
13 05	5.1	5.9	5.9	6.8	2.2	(3.5)	(252)	1.002%
13 06	5.4	4.8	4.7	5.4	2.1	(4.0)	(289)	1.033%
13 07	5.9	4.9	4.9	4.4	2.4	(4.0)	(289)	1.020%
13 08	6.2	4.5	4.4	3.3	2.2	(3.9)	(282)	1.018%
13 09	6.5	4.3	4.1	4.0	2.2	(3.9)	(280)	1.013%
13 10	6.7	5.0	4.4	4.3	2.4	(4.0)	(281)	1.009%
13 11	7.0	4.4	3.9	4.1	2.4	(4.0)	(288)	1.028%
13 12	7.3	3.9	3.6	4.2	2.5	(3.9)	(275)	1.005%
14 01	7.6	5.0	4.8	5.1	2.6	(4.2)	(298)	0.958%
14 02	7.9	5.3	5.0	5.4	2.6	(4.3)	(301)	0.886%
14 03	8.3	4.0	3.6	5.2	2.7	(3.9)	(273)	0.809%
14 04	8.6	4.2	3.6	5.4	2.8	(4.3)	(300)	0.836%
14 05	9.0	4.6	3.6	7.1	2.8	(4.4)	(310)	0.849%
14 06	9.4	4.4	3.4	8.6	2.9	(3.7)	(259)	0.852%
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	4.2	8.7	3.3	(4.2)	(285)	0.859%
15 02	10.7	5.6	4.0	7.9	3.5	(4.6)	(309)	0.782%
15 03	10.6	5.4	4.1	8.7	3.6	(4.6)	(311)	0.735%

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

Distribution of Credit Union Loans

Estimated $ (Billions) Outstanding

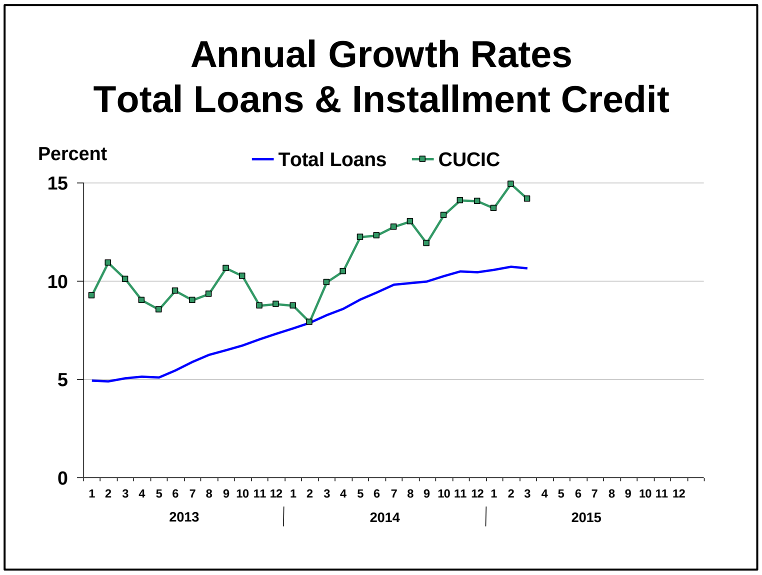
YR/MO	TOTAL LOANS	NEW (VEHICLE LOANS)	USED (VEHICLE LOANS)	TOTAL (VEHICLE LOANS)	UNSEC Ex. CC'S	CREDIT CARDS	CUCIC	1ST MORT TOTAL	TOT. OTHR MORT 2ND +HE	TOTAL REAL ESTATE	MBLs*
13 03	616.5	65.7	119.0	184.6	26.7	39.3	245.5	254.2	73.6	327.8	43.2
13 04	620.6	66.2	120.4	186.6	27.2	39.5	248.2	254.7	73.4	328.2	44.2
13 05	624.5	66.5	121.4	187.9	27.4	39.9	248.9	257.5	72.9	330.4	45.2
13 06	630.2	67.5	123.4	190.9	27.6	40.3	253.8	259.7	72.6	332.3	44.8
13 07	636.3	68.6	124.9	193.5	28.2	40.8	255.9	263.4	72.2	335.6	44.8
13 08	642.7	69.5	126.1	195.6	28.6	41.3	259.2	266.5	72.2	338.7	44.8
13 09	647.1	70.1	127.2	197.3	28.7	41.5	261.9	268.3	72.3	340.6	44.7
13 10	651.8	71.3	128.9	200.2	29.0	41.6	263.2	270.8	72.0	342.8	45.8
13 11	654.9	72.0	129.5	201.5	29.3	42.0	263.8	271.6	71.7	343.3	47.7
13 12	660.1	72.5	129.6	202.1	29.8	43.4	265.6	273.9	72.5	346.3	48.2
14 01	662.4	73.5	130.4	203.9	29.8	42.8	267.9	274.5	72.1	346.6	47.9
14 02	663.1	73.7	131.0	204.7	29.5	42.2	267.9	275.9	71.7	347.7	47.6
14 03	667.4	74.7	132.4	207.1	29.2	42.3	269.9	278.8	71.3	350.0	47.5
14 04	673.7	75.6	134.0	209.5	29.8	42.6	274.2	280.2	71.4	351.6	47.8
14 05	681.0	76.9	135.5	212.4	30.1	43.1	279.3	282.0	71.7	353.7	48.0
14 06	689.5	78.9	137.6	216.5	30.4	43.7	284.3	285.5	72.0	357.5	47.8
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	732.4	89.4	147.6	237.0	33.0	46.2	304.5	298.7	74.4	373.1	54.8
15 02	734.1	90.6	148.6	239.2	32.5	45.3	307.8	297.3	74.0	371.3	55.0
15 03	738.3	91.6	150.1	241.7	32.2	45.2	308.2	302.5	73.1	375.6	54.6

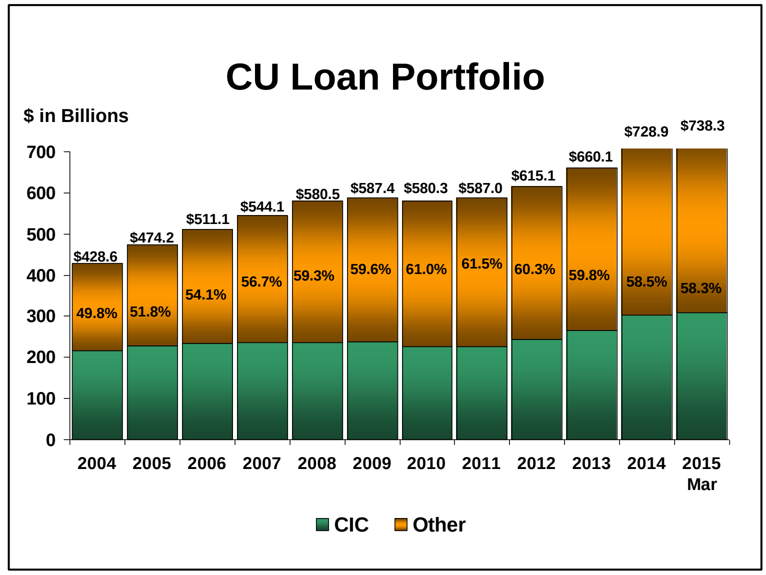
* Member Business Loans

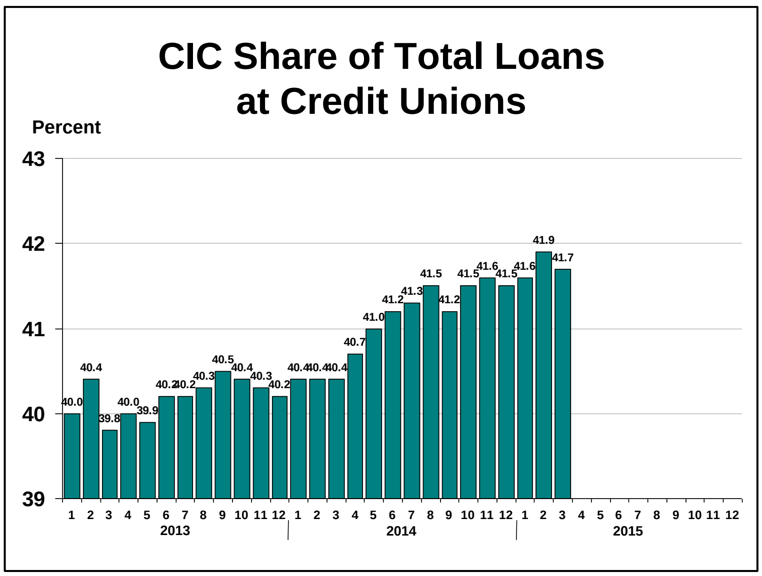
Distribution of Credit Union Loans

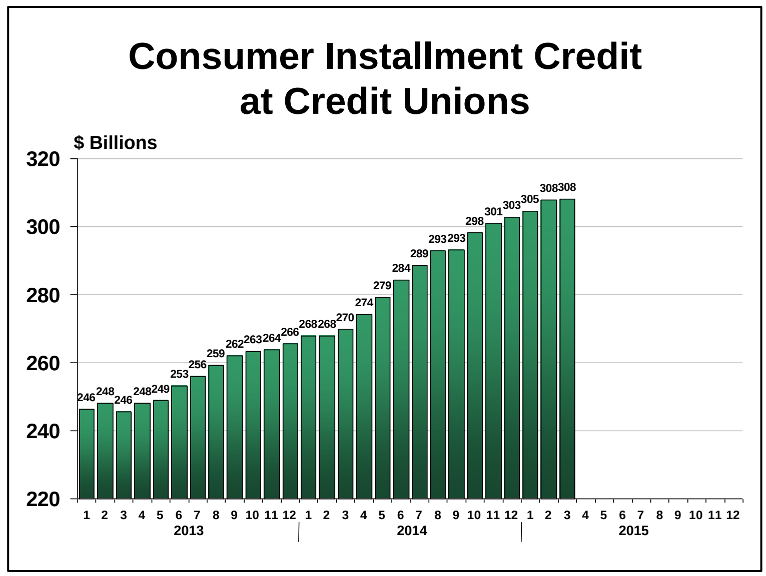
Percent Change From Prior Year

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*
13 03	5.0	10.6	8.2	9.0	6.3	6.8	10.1	5.1	(7.5)	2.0	1.3
13 04	5.1	10.7	8.6	9.4	7.3	6.6	9.0	5.3	(7.2)	2.2	6.2
13 05	5.1	10.2	8.4	9.0	8.1	6.8	8.5	5.6	(7.2)	2.5	6.2
13 06	5.4	10.7	9.2	9.7	7.2	7.2	9.5	5.6	(7.1)	2.5	5.5
13 07	5.9	11.4	9.6	10.2	7.9	7.3	9.0	7.4	(7.0)	3.9	3.6
13 08	6.2	11.6	9.6	10.3	5.6	7.5	9.3	8.2	(6.8)	4.6	1.6
13 09	6.5	11.3	9.6	10.2	8.0	7.6	10.7	7.7	(6.1)	4.4	(0.8)
13 10	6.7	12.1	10.2	10.9	8.2	7.4	10.2	8.1	(6.1)	4.8	1.9
13 11	7.0	12.5	10.9	11.4	7.2	7.2	8.7	9.1	(6.5)	5.4	9.8
13 12	7.3	12.6	10.4	11.2	9.0	7.7	8.8	8.7	(4.1)	5.7	10.8
14 01	7.6	13.6	10.8	11.8	8.8	7.6	8.7	9.0	(3.6)	6.1	12.3
14 02	7.9	13.0	11.2	11.8	9.4	7.3	7.9	9.6	(3.5)	6.7	17.1
14 03	8.3	13.8	11.2	12.1	9.2	7.5	9.9	9.6	(3.1)	6.8	10.0
14 04	8.6	14.1	11.2	12.3	9.6	7.8	10.5	10.0	(2.7)	7.2	8.2
14 05	9.0	15.7	11.6	13.0	9.9	8.1	12.2	9.5	(1.7)	7.0	6.1
14 06	9.4	16.9	11.5	13.4	10.1	8.4	12.3	9.9	(0.8)	7.6	6.7
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	21.6	13.2	16.2	10.7	8.0	13.7	8.8	3.1	7.7	14.3
15 02	10.7	22.9	13.4	16.8	10.2	7.5	14.9	7.8	3.1	6.8	15.5
15 03	10.6	22.6	13.4	16.7	10.4	6.9	14.2	8.5	2.6	7.3	15.0









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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