CREDIT UNION TRENDS REPORT

CUNA Mutual Group – Economics ● November 2015 (September 2015 Data)

Highlights

- During September, credit unions picked up 477,000 in new memberships, loan balances grew at a 10.5% annualized pace, savings balances rose 0.2%, firms hired 137,000 workers, nominal consumer spending increased 0.1%, and long-term interest rates increased 2 basis points. Third quarter economic growth came in at 1.5% and grew 2% from the third quarter of 2014.

- At the end of August, CUNA's monthly estimates reported 6,300 CUs in operation, down 29 credit unions from one month earlier. Year-over-year, the number of credit unions declined by 292, more than the 272 lost in the 12 months ending in September 2014.

- Total credit union assets rose 0.1% in September, faster than the -0.8% decline reported in September of 2014. Assets rose 6.4% during the past year due to a 5.7% increase in deposits, a 17.1% increase in borrowings, and a 7.5% increase in capital.

- The nation's credit unions increased their loan portfolios by 1.2% in September, more than the 0.8% pace reported in September 2014. Loan balances are up 11.0% during the last 12 months. September is historically the month where seasonal factors have little to no effect on trend growth.

- Credit union memberships rose a robust 0.46% in September, up from a 0.3% gain reported in September 2014. Memberships are up 3.9% during the past year due to robust demand for credit, solid job growth and comparatively lower fees and loan interest rates.

- Credit union capital-to-asset ratios rose to 10.9% in September, up from 10.8% reported one year ago. Credit union loan delinquency rates fell to 0.73% in September, down from 0.85% one year earlier due to a stronger economy and double digit loan growth. Expect both credit unions and bank to loosen credit standards in 2016.

ECONOMIC, COMPETITIVE AND INTEREST RATE ENVIRONMENT

During September, the economy added 137,000 jobs, the unemployment rate remained at 5.1%, personal income rose 0.1%, consumer prices declined 0.2%, consumer confidence rose, new home sales plunged 11.5%, existing home sales rose 4.7%, auto sales rose 2.2%, home prices rose 0.6%, and the 10-year Treasury interest rate increased 2 basis points to average 2.19%.

Recent economic data give support for the Federal Reserve to raise the Fed Funds interest rate in December. October payrolls rose by 271,000, the fastest pace this year, the unemployment rate fell to 5.1% which economists believe is full employment, wage growth accelerated to 2.5% and the 10-year Treasury interest rate rose to 2.36% as bond market participants increased their expectations of future short-term interest rates. Expect the Fed to raise short-term interest rates by 1.25 percentage points in 2016 and reach 3.5% by 2018, which is the Federal Reserve's new neutral interest rate. History shows that for every 1 percentage point increase in short-term interest rates, credit unions raise their 1-year CD interest rate 0.75 percentage points, and their money market account interest rates 0.5 percentage points.

Total Lending

Credit union loan balances rose 1.2% in September, faster than the 0.8% pace reported in September 2014. Driving overall loan growth was strong growth in fixed-rate first mortgages (2.6%), new-auto loans (2.1%), and used-auto loans (1.3%). Historically, seasonal factors have little to no effect on September loan growth numbers, so the pace of loan growth is being driven only by underlying economic trends. So despite falling stock prices, weak income growth and anemic job creation in September, credit union members shrugged off the bad news and kept borrowing and spending.

The 2015 loan growth profile is very similar to the growth profile in 2014 **(Figure 1)**. Loan balances rose 8.3% during the first nine months of this year, slightly faster than the 7.8% reported for the similar period last year. Based on current trends, credit union lending growth could hit 11% this year, the fastest annual pace since 2005. We expect loan growth to slow to around 10% in 2016.

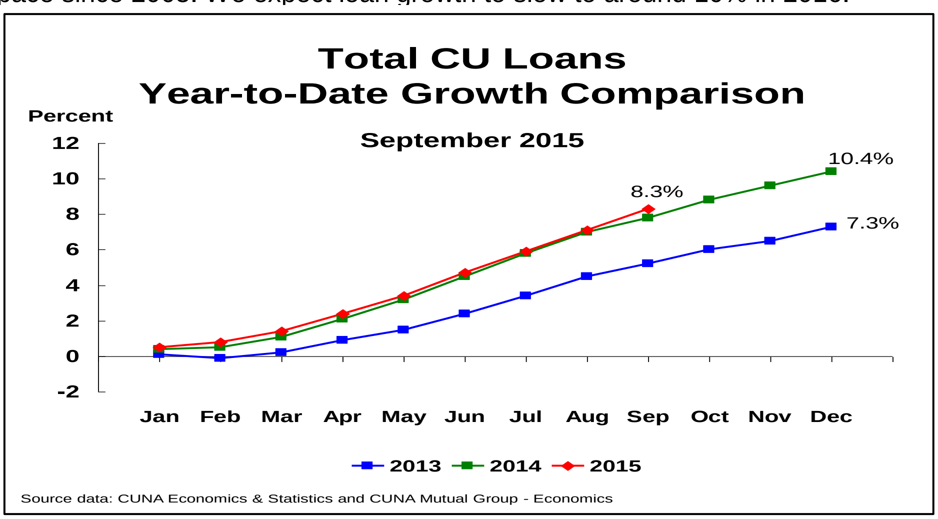


Figure 1

Credit Union Consumer Installment Credit (CUCIC)
Credit union consumer installment credit loan balances (auto, credit card and other unsecured loans) rose 1.0% in September, faster than the 0.2% pace set in September 2014. During the last 12 months, credit union consumer installment credit grew 13.7% **(Figure 2)**. According to the Federal Reserve, outstanding consumer credit rose a surprisingly large $28.9 billion for all lenders in September **(Figure 3)**, with balances up 7.1% over the last year. Consumer confidence is rising due to strong job growth, rising wages and improved household wealth from rising stock and home prices.

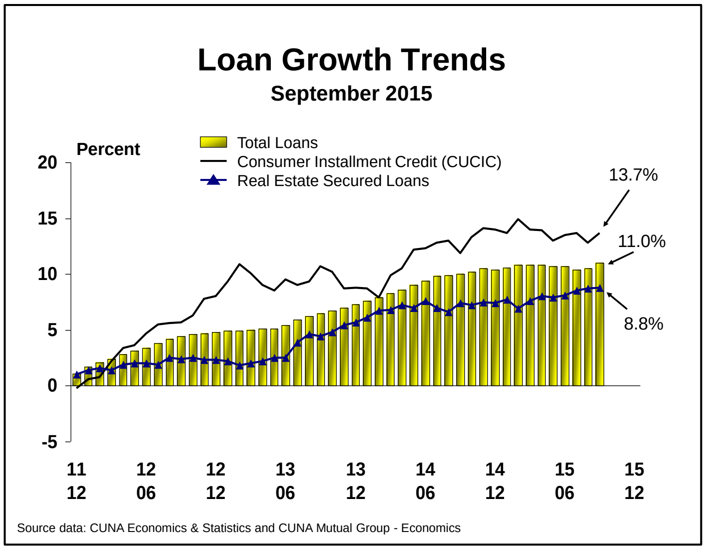


Figure 2

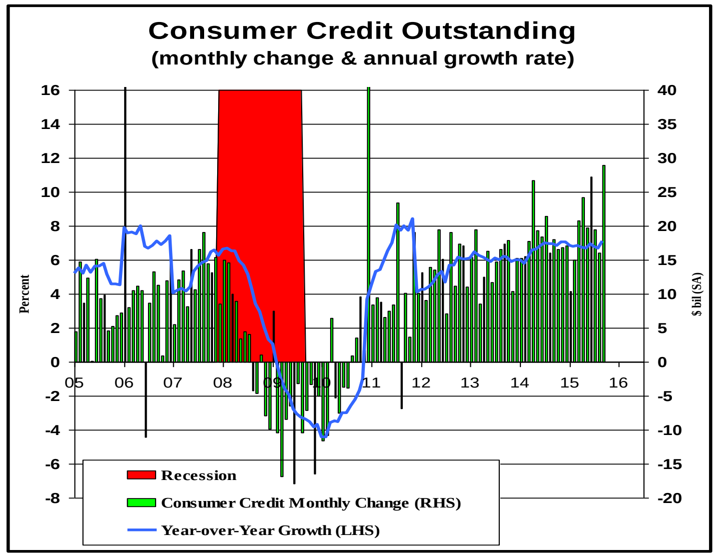


Figure 3

Vehicle Loans
Credit union new-auto loan balances rose 2.1% in September, better than the 1.8% pace set in September 2014, which is the fastest monthly pace since October of 2014. New-auto loan balances rose 18.5% during the last 12 months, **(Figure 4)**, faster than the 14.2% increase in used-auto loans. Total auto loan balances rose 15.8% since September 2014, a re-acceleration of the annual growth rate compared to the last few months. The strong auto sector is being driven by solid household financial fundamentals, including: robust job creation, better job quality, low interest rates, accessible auto credit, rising wage growth and improving household balance sheets.

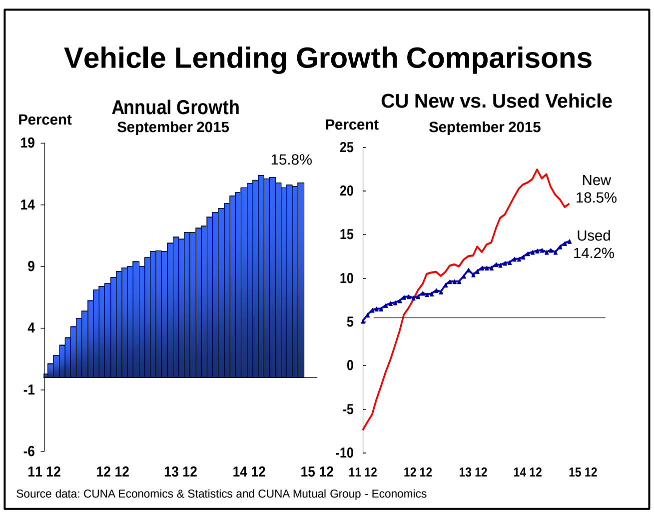


Figure 4

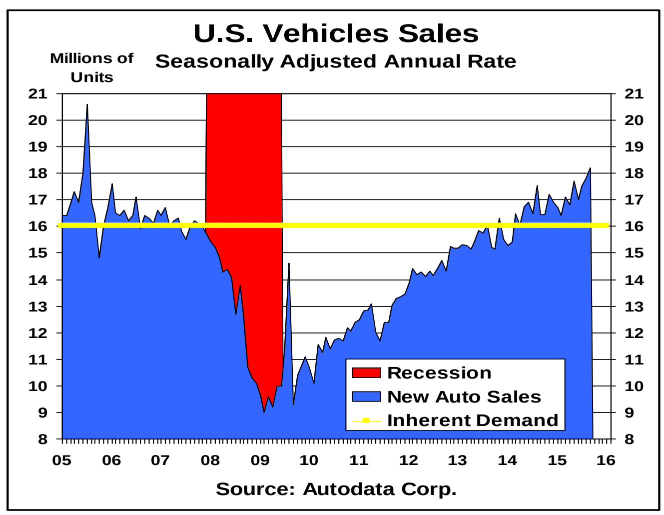


Figure 5

Vehicle sales rose to a new recovery high of 18.2 million unit **seasonally-adjusted annualized sales rate** in September **(Figure 5)**, up from 17.8 million in August and above the 16.4 million sales pace set in September 2014. This was the highest sales pace since July 2005 when large incentives fueled sales. Low gas prices are fueling strong sales of light trucks and luxury automobiles. These strong sales numbers are above the 16 million annual sales pace considered by economists to be the "inherent demand" for the U.S. auto sector, **(see yellow line in Figure 5)**. Rising stock prices in October and November should support auto sales since stock sales are often used for vehicle purchases. Moreover, the strengthening construction sector and low gas prices should support the light trucks sales for the next year.

Real Estate-Secured Lending – 1st Mortgages and Other Real Estate
Credit union fixed-rate first mortgage loan balances grew a strong 2.6% in September, greater than the 2% pace set in September 2014, due to existing-home sales surging 4.7%. However, during the last year, fixed-rate loan balances grew slower than adjustable-rate loan balances **(Figure 6)**. The acceleration of adjustable-rate mortgage loan balance growth is symptomatic of credit unions believing the Federal Reserve will raise interest rates soon and are therefore altering their asset mix to have more variable rates.

Home equity lending dropped 1% in September, significantly below the 0.6% gain in September 2014. Seasonal factors typically shave 0.25 percentage points from the underlying monthly trend growth rate in September, so the 1% drop in balances may be due to the economic uncertainty created by the fall in stock prices in August and September.

The contract interest rate on a 30-year, fixed-rate conventional home mortgage fell to 3.89% in September, from 3.91% in August, and below the 4.16% reported in September 2014. We expect the 30-year mortgage interest rate to increase 15 basis points each quarter during the next year, reaching 4.5% by year-end 2016. We don't expect the interest rate rise to have a significant negative impact on housing demand due to the still historically low level of interest rates in 2016. Rising interest rates will lead to a pullback in refinancing applications, but improving consumer balance sheets and tightening labor market conditions should boost purchase activity.

Home prices rose 0.6% in September from August, according to the Core Logic Home Price Index, and 6.4% year-over-year. The index is now 39% above the low point in March 2011, and only 6% below the peak set in April 2006. Home prices are expected to continue rising over the next couple of years, but at a slightly slower pace than what we are currently experiencing due to housing demand growing faster than housing supply. Housing demand is growing because of a decade low inventory-to-sales ratio for housing, a rising number of household formations and the tightening labor market boosting wage growth and in-turn consumer confidence. Furthermore, access to mortgage credit will increase as financial institutions seek to boost revenue.

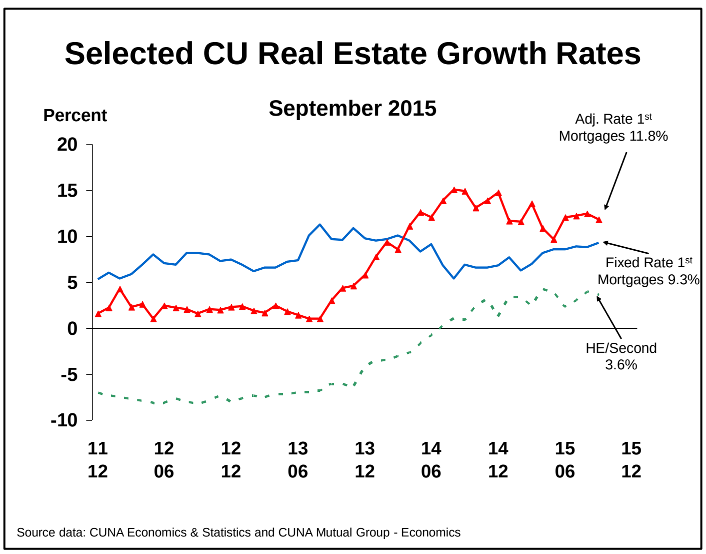


Figure 6

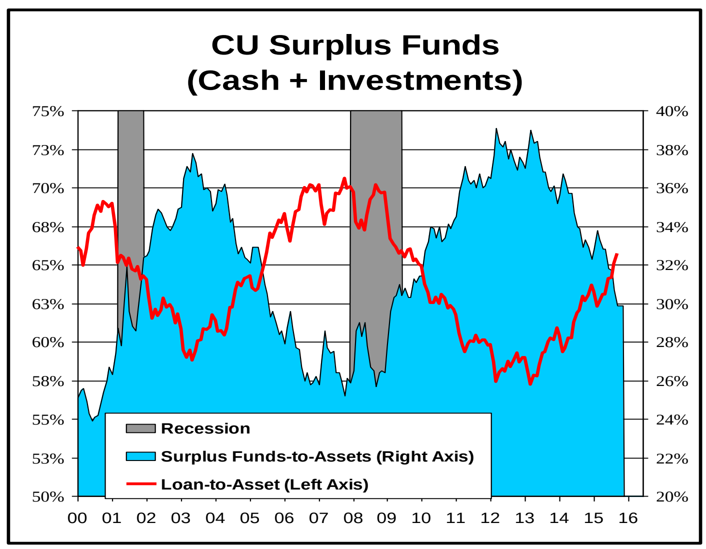


Figure 7

Surplus Funds (Cash + Investments)
Credit union liquidity fell to the lowest level since February 2009 in September. Credit union surplus funds as a percent of assets declined to 29.9% in September, **(Figure 7)**, down from 32.9% one year earlier, due to loan growth outpacing savings growth. With savings balances only rising a modest $1.8 billion, credit unions liquidated $8.8 billion in surplus funds to fund a $9 billion increase in loans and to pay down $0.5 billion in wholesale borrowings. Loans rose to 66% of assets in September, the highest level since September 2009 **(Figure 7)**.

Currently 43.3% of credit union surplus funds have a maturity of less than 1 year, up from 41.9% in June 2014. Meanwhile, investments with maturities in the 5-10 year range now make up only 7.4% of all surplus funds, down from 9.5% one year earlier. This shift towards shorter maturity investments could be due to credit unions expecting the Federal Reserve to finally start raising interest rates in December. 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 110 basis points above overnight money. This opportunity cost is in effect an interest rate risk insurance premium.

Savings and Assets

Credit union savings balances rose 0.2% in September, greater than the -0.8% loss in balances reported in September 2014. September is typically a weak month for savings growth due to seasonal factors such as back-to-school shopping and college tuition payments. Savings balances rose 5.7% during the last 12 months due to the windfall gain from falling gas prices, rising credit union memberships and stronger job growth.

Credit union cost of funds is expected to rise in 2016 as the Federal Reserve raises the Fed Funds interest rate. Credit unions will follow suit and raise interest rates on share certificates and money market accounts similar to what they did in 1994 and 2004 **(Figure 8)**. Members' behavior will also contribute to rising funding costs as they move deposits from low-cost regular shares to higher-cost share certificates **(Figure 9)**.

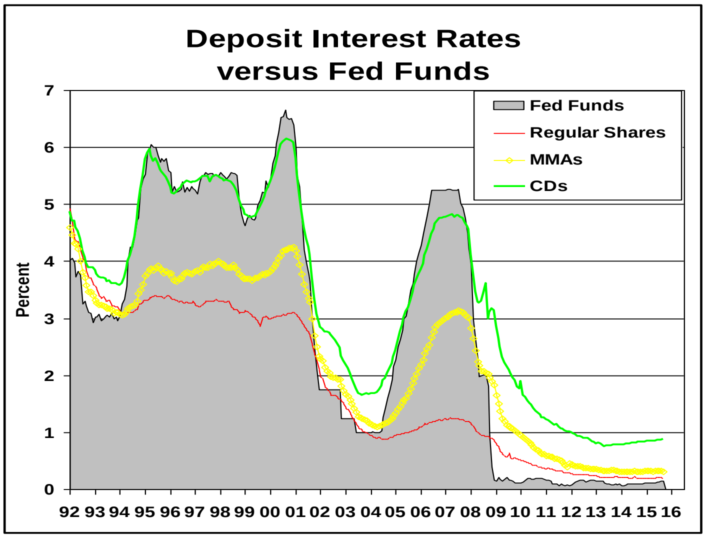


Figure 8

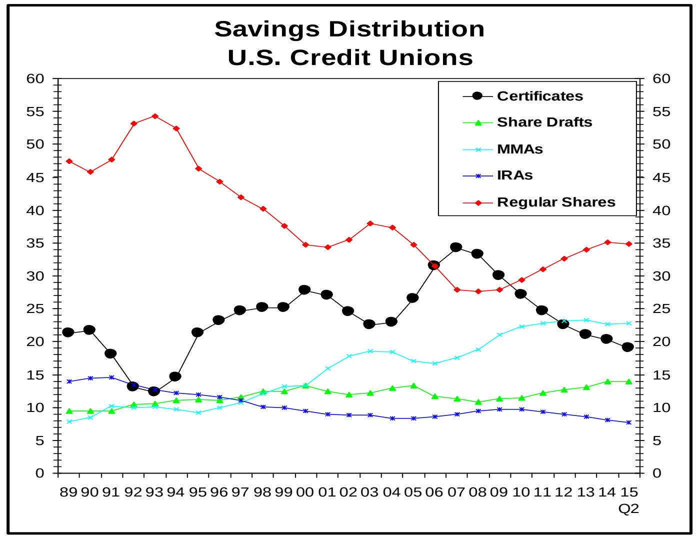


Figure 9

Capital and Other Key Measures

The credit union system's capital-to-asset ratio rose to 10.9% in September, up from 10.8% in September 2014, as the growth in capital (7.5%) exceeded the growth in assets (6.4%) **(Figure 10)**. One factor driving strong capital growth is the rising loan-to-share ratio. Credit unions now loan out 77.9% of all savings deposits, up from 74.2% in September 2014.

On time payment performance of loans is improving in tandem with the labor market. The loan delinquency rate (loans two or more months delinquent as a percent of total loans outstanding) fell to 0.73% in September, down from 0.85% in September 2014, as the unemployment rate approaches full employment (5%) **(Figure 11)**. This is leading to credit unions relaxing lending standards by going further down the credit spectrum. The outlook for credit performance is good given the high quality of existing portfolios and expected improvement in the overall economy.

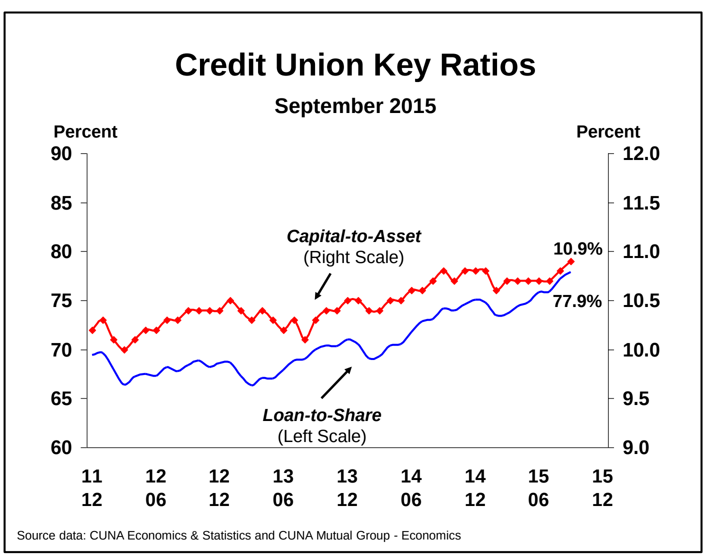


Figure 10

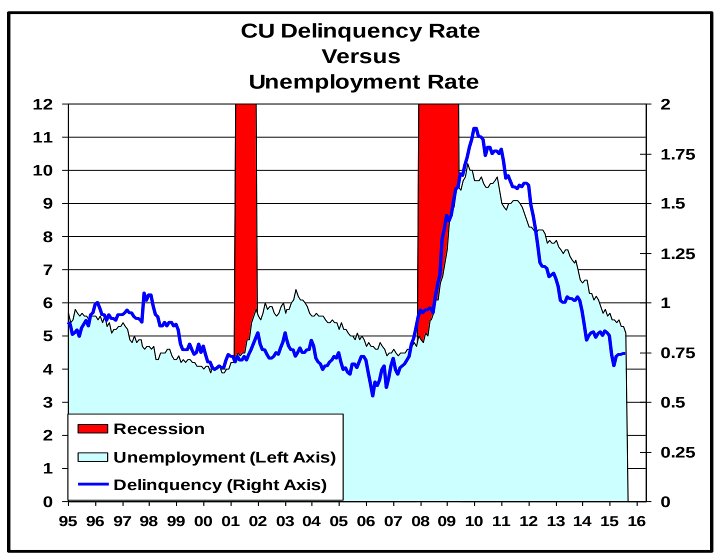


Figure 11

Credit Unions and Members

As of September 2015, CUNA estimates 6,300 credit unions were in operation, down 292 from September 2014 **(Figure 12)**. Year-to-date the number of credit unions fell by 213, slightly faster than the 203 reported in the first nine months of 2014. NCUA's Insurance Report of Activity showed 28 mergers were approved in September with an average asset size of $14 million. This is up from the 20 mergers reported in September 2014 with an average asset size of $20 million.

The pace of consolidation is increasing in both the credit union and banking industries. The number of FDIC-insured banks fell by 308 during the last 12 months ending in June 2015. This leaves a grand total of 6,348 banks in operation. This consolidation is eliminating the excess capacity in the financial services space, cutting duplication of operating costs, culling layers of overlapping management and allowing for scale to squeeze better deals from suppliers. This consolidation trend will lead to larger and more efficient depository institutions **(Figure 13)** and a more competitive financial services industry.

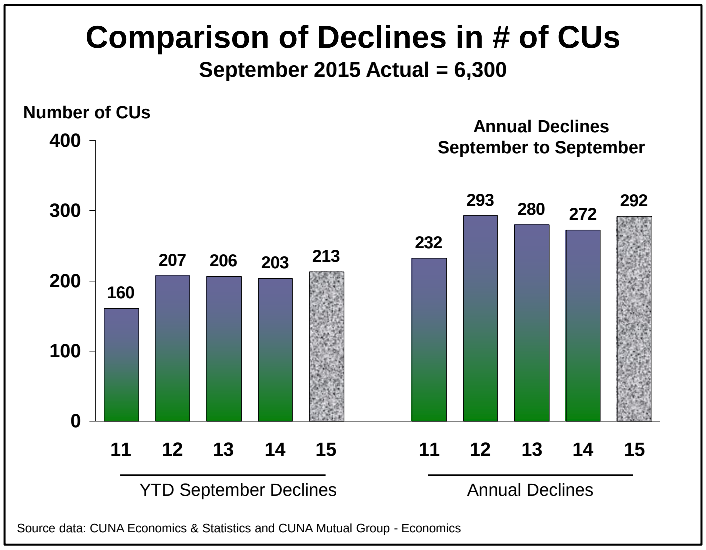


Figure 12

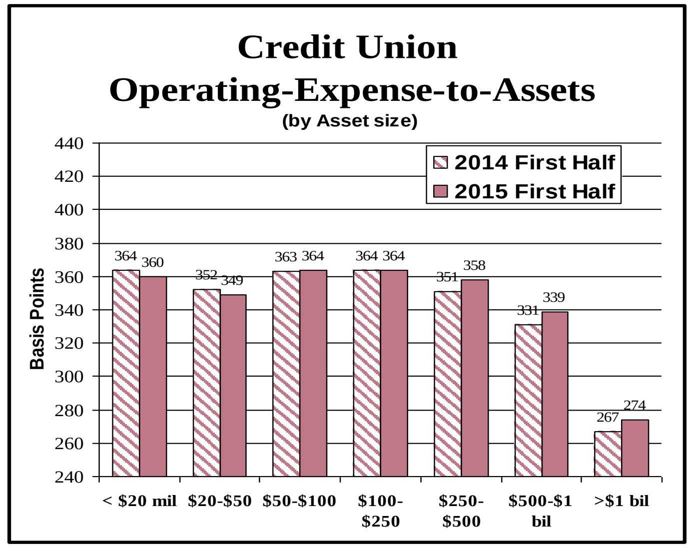


Figure 13

Credit unions added more than 1.5 million memberships in the third quarter of 2015, the fastest growth quarter in credit union history **(Figure 14)**, significantly above the 808,000 added in the third quarter of 2014. Surging demand for credit was the major driver for the upwelling in memberships. Credit union loan balances increased $26.2 billion in the third quarter, above the $22.1 billion in the third quarter of 2014. Also driving membership gains was the 513,000 new jobs added to the U.S. economy in the third quarter. Credit union memberships rose 477,000 in September, or 0.46%, much better than the 297,000 new members, or 0.30%, added in September 2014. Credit union memberships grew at a 5% seasonally-adjusted annualized growth rate in September **–** the fastest pace in 25 years **(Figure 15)**.

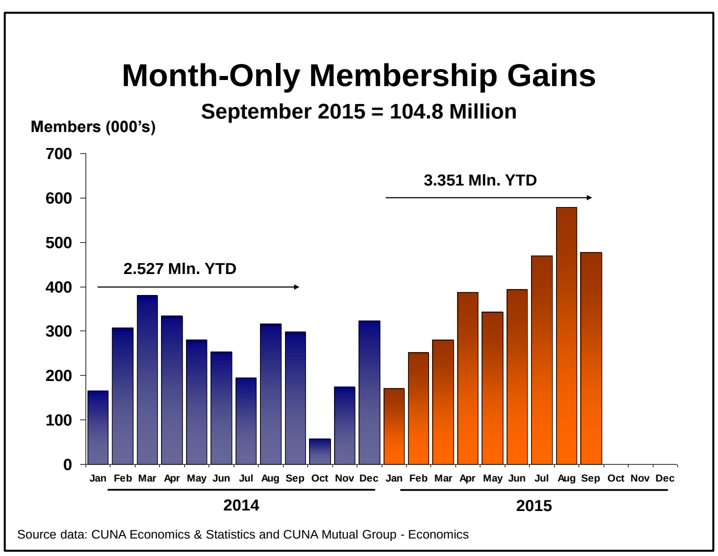


Figure 14

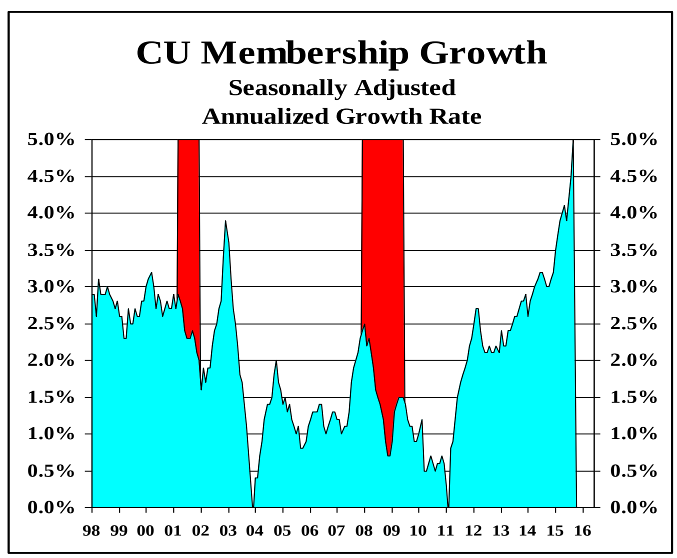


Figure 15

National Monthly Credit Union Aggregates

YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	(Millions) MEMBERS	CREDIT UNIONS	LOAN / SAVINGS	CAPITAL/ ASSET RATIO
	|----------------- ($ Billions)			--------------------|				
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	732.7	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	771.6	1,202.8	1,017.0	128.8	103.8	6,330	75.9	10.7
15 08	780.6	1,200.3	1,011.4	129.4	104.3	6,329	77.2	10.8
15 09	789.6	1,201.9	1,013.2	130.7	104.8	6,300	77.9	10.9

Credit Union Growth Rates

Percent Change Previous Year

YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	# OF CUs	# OF CUs DECLINE	Delinquency Ratio*
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	4.3	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	6.5	6.1	7.3	3.5	(4.9)	(328)	0.741%
15 08	10.5	5.4	4.7	6.6	3.7	(4.9)	(326)	0.746%
15 09	11.0	6.4	5.7	7.5	3.9	(4.4)	(292)	0.733%

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

Distribution of Credit Union Loans

Estimated $ (Billions) Outstanding

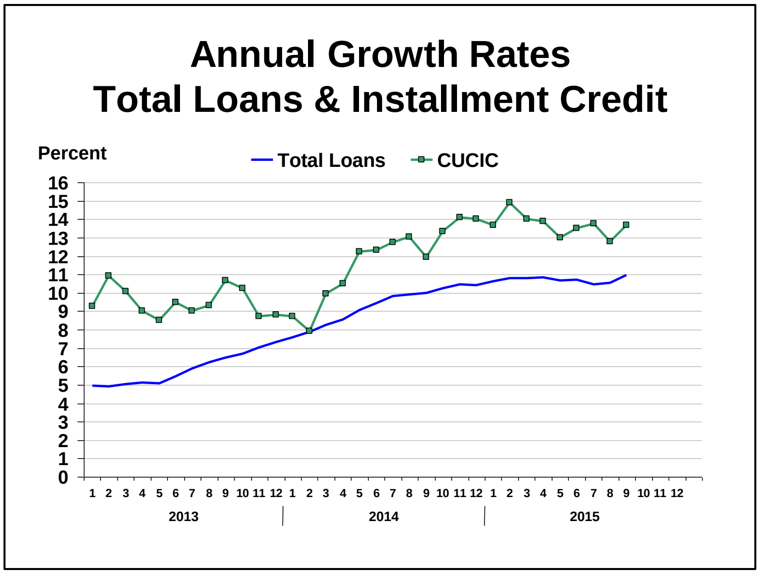
YR/MO	TOTAL LOANS	NEW (VEHICLE LOANS)	USED (VEHICLE LOANS)	TOTAL (VEHICLE LOANS)	UNSEC Ex. CC'S	CREDIT CARDS	CUCIC	1ST MORT TOTAL	TOT. OTHR MORT 2ND +HE	TOTAL REAL ESTATE	MBLs*
13 09	647.1	70.1	127.2	197.3	28.7	41.5	261.9	268.3	72.3	340.6	44.7
13 10	651.8	71.3	128.9	200.2	29.0	41.6	263.2	270.8	72.0	342.8	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	732.7	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	771.6	95.7	158.5	254.2	34.2	46.9	327.2	314.8	74.7	389.5	54.8
15 08	780.5	97.1	160.8	257.9	34.7	47.5	330.2	316.8	75.7	392.6	57.9
15 09	789.6	99.2	163.0	262.1	34.8	47.5	333.4	322.3	75.5	397.8	58.4

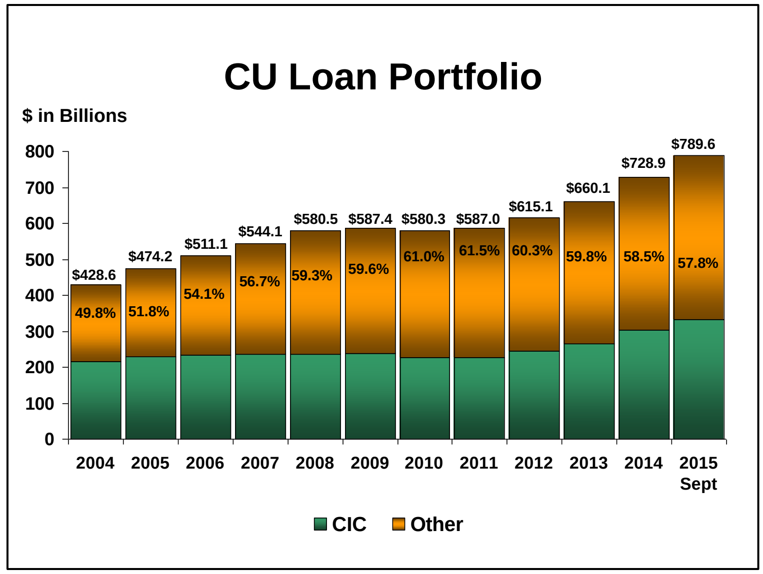
* Member Business Loans

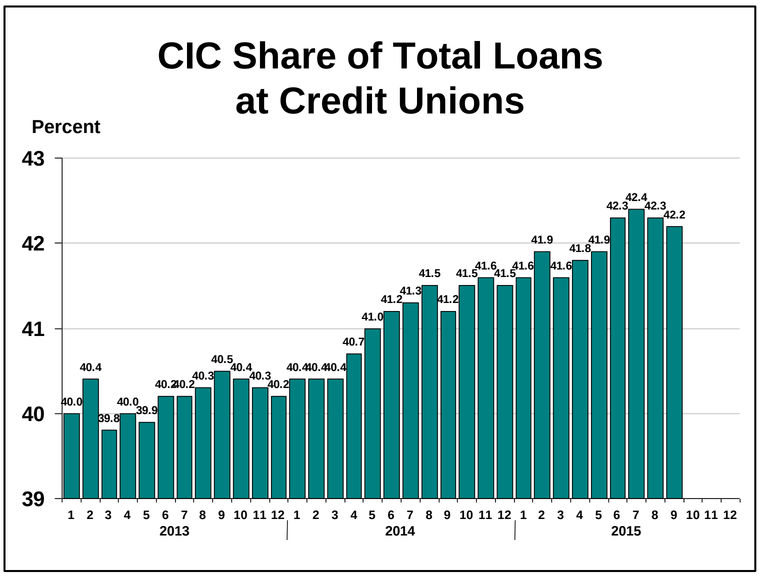
Distribution of Credit Union Loans

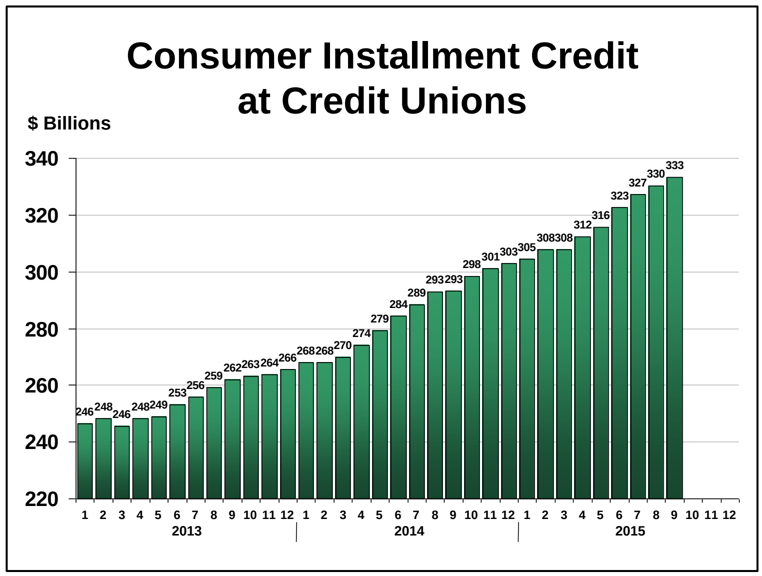
Percent Change From Prior Year

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 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	21.3	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	19.0	13.6	15.6	9.5	6.1	13.7	9.8	3.0	8.5	5.8
15 08	10.5	18.1	14.0	15.5	10.3	6.2	12.8	9.9	4.0	8.7	10.3
15 09	11.0	18.5	14.2	15.8	9.9	5.9	13.7	10.1	3.6	8.8	11.0









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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