Credit Union Trends Report

October 2022 ▪ August 2022 Data

CUNA MUTUAL GROUP

01

Economic Trends

Credit union liquidity tightened at the fastest pace in 22 years.

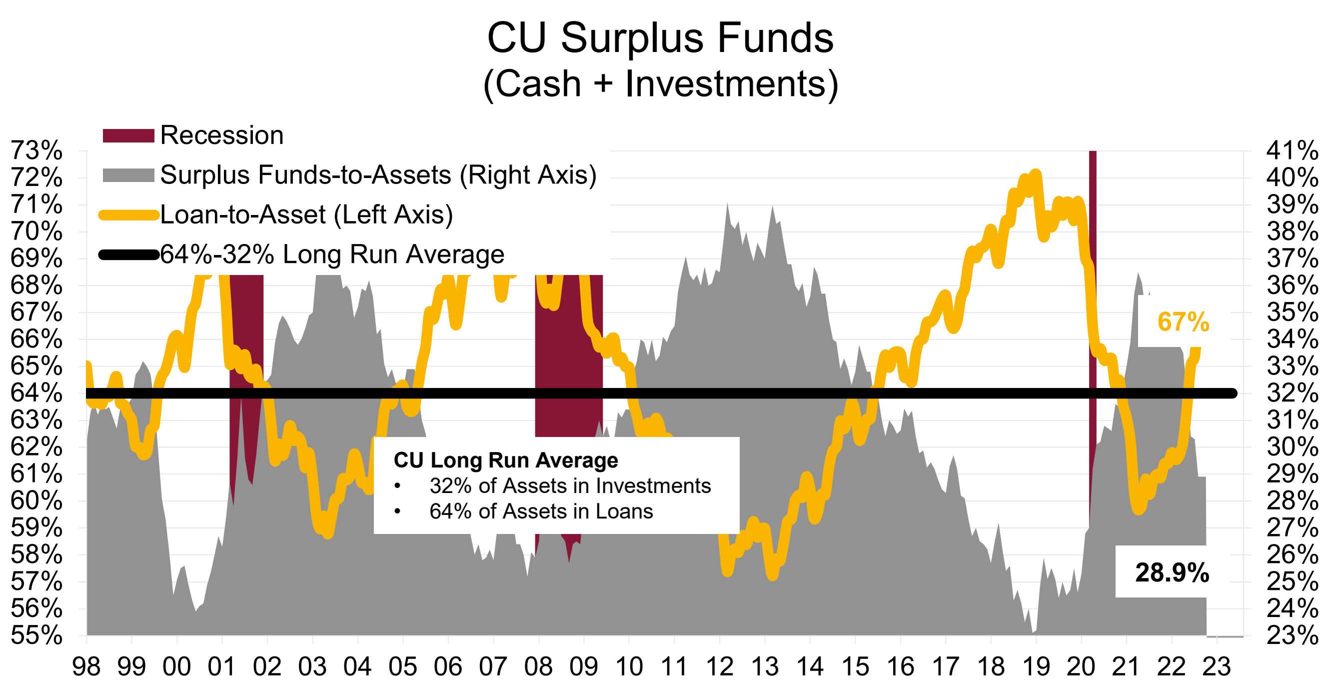
Economic Trends

Credit union liquidity has dropped precipitously over the last year. Cash plus investments as a percent of assets fell from 35.2% in August 2021 to 28.9% in August 2022 **(see figure below).** This 6.3 percentage point drop in liquidity was the biggest year-over-year decline since July 2000 when, coincidentally, the S&P 500 stock index reached its apex during the stock market bubble of 1998-2000 and credit union members were buying stocks with their excess funds instead of placing them in insured deposits at their local credit union.

Today members are drawing down some of their excess savings built up during the COVID-19 pandemic to spend on goods and services. The average credit union member reduced their total credit union deposits by $80 in August, from $14,060 in July to $13,980.

Year-to-date savings balances grew only 3.4% in 2022, significantly below the past 23-year average of 5.7%. And when adjusted for inflation, savings balances are growing at their slowest pace during this 23-year time period.

Weak year-to-date savings growth has crashed head-on with a 13.9% year-to-date loan growth rate, pushing up the loan-to-asset ratio to 67%, which is above the loan run average of 64% **(see figure below).** This pattern is good for credit union net interest margins as more assets are placed in higher-yielding loans. And with the Federal Reserve expected to raise short-term interest rates to around 4.5% by early next year, credit union net interest margins will expand even further.



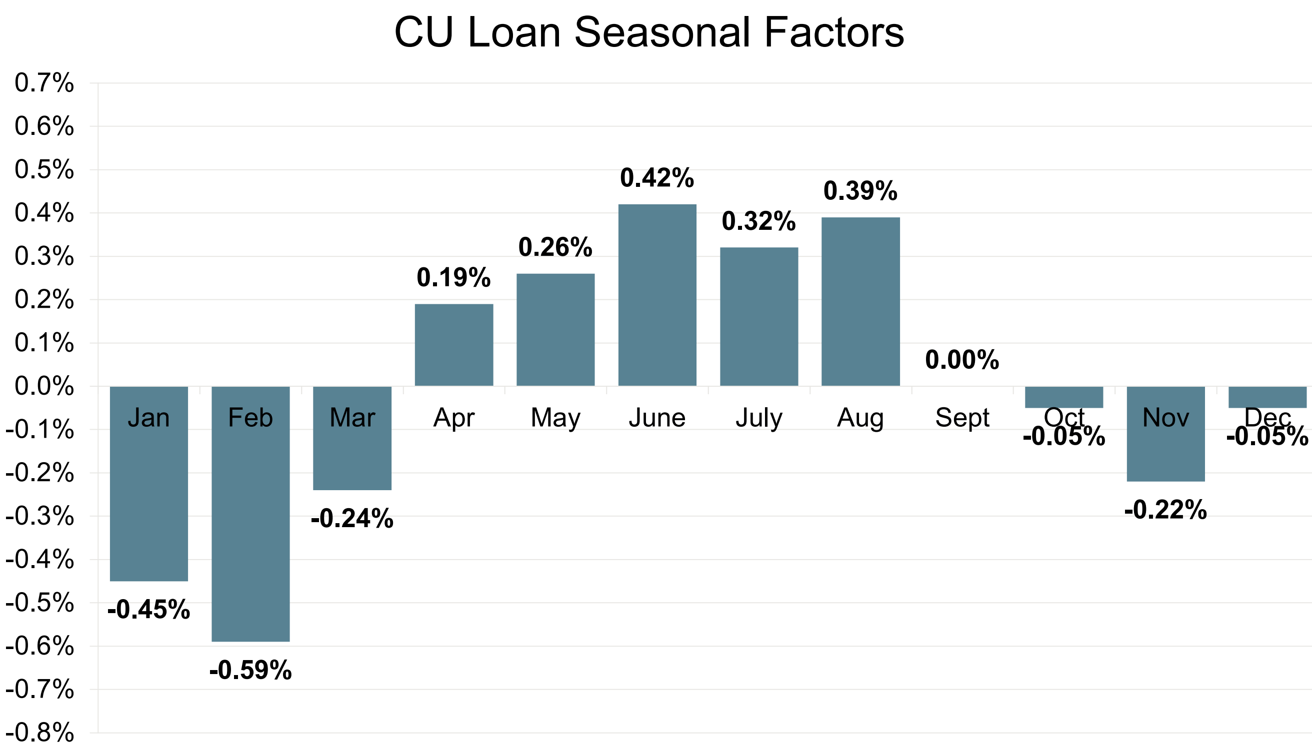
Source: NCUA & Bureau of Labor Statistics

02

Total Credit Union Lending

High inflation pushed credit union loan growth numbers to the highest pace since 1985.

Total Credit Union Lending



Source: CUNA & NCUA

Credit union loan balances rose 1.9% in August, above the 1.0% pace set in August 2021. Much of this growth was due to new-auto lending increasing 2.6%, used-auto lending increasing 1.6% and unsecured personal loans increasing 3.3%. The strong credit union lending season of April through August is now over as loan seasonal factors turn negative for the rest of the year **(see figure above).**

During the last 12 months, credit union loan balances increased a remarkable 17.8%, more than 3 times the 5.4% pace set in the year ending August 2021 and above the 7% long-run credit union average loan growth. The 17.8% figure is the fastest credit union loan growth since July 1985 when loans grew 18.4% and the inflation rate was 3.5%. If we factor out the “price effect” of today’s abnormally high 8.3% year-over-year inflation, credit union loan growth would be around 11%.

Credit union loan balances grew at a 22.6% seasonally-adjusted, annualized growth rate in August, significantly better than the 9.4% pace set in August 2021. We are forecasting above-trend credit union loan growth for the next two years (10% in 2023 and 8% in 2024) due to inflation remaining above its long-run trend and the labor market remaining tight.

03

Consumer Installment Credit

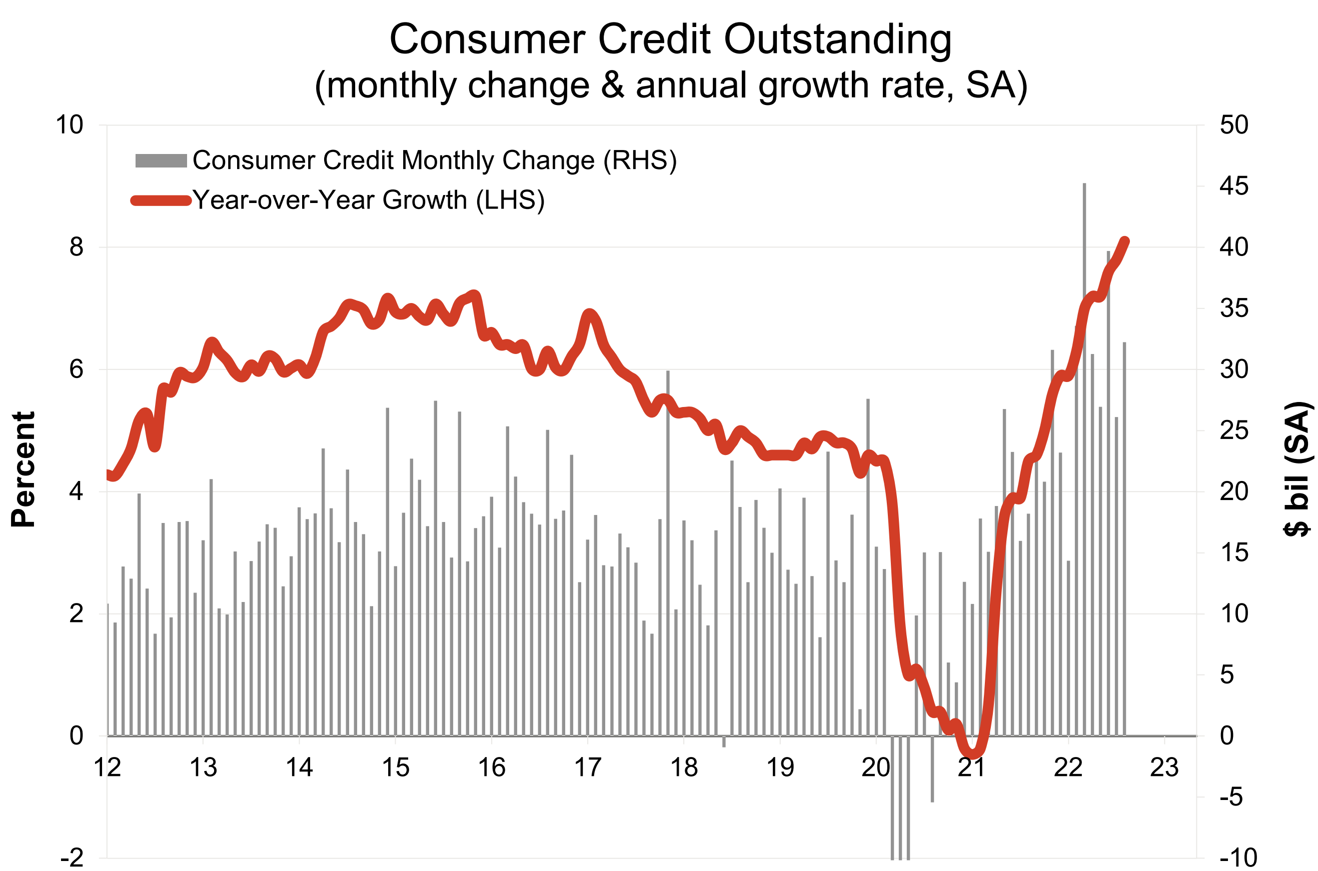
Credit union consumer installment credit grew at the fastest pace since 1995.

Consumer Installment Credit

Credit union consumer installment credit loan balances (auto, credit card and other unsecured loans) rose 1.3% in August, an acceleration from the 1.1% pace set in August 2021. During the last 12 months, credit union consumer installment credit grew 15.6%, greater than the total market excluding credit unions and government student loans at 14.1%. Credit union consumer installment credit is growing at the fastest pace since the summer of 1995 when inflation was only 2.8% while today it's running over 8%.

According to the Federal Reserve, consumer credit outstanding for all lenders rose $32.2 billion in August **(see figure below)** the fourth biggest jump in history**;** non-revolving credit rose $15.1 billion while revolving credit (credit cards and home equity lines of credit) rose $17.1 billion. Consumer credit balances grew 8.1% during the last 12 months, the fastest pace since the fall of 2011.

Going forward, expect credit growth to decelerate into 2023 as consumer demand becomes satiated, higher interest rates make debt less attractive and economic uncertainty increases.



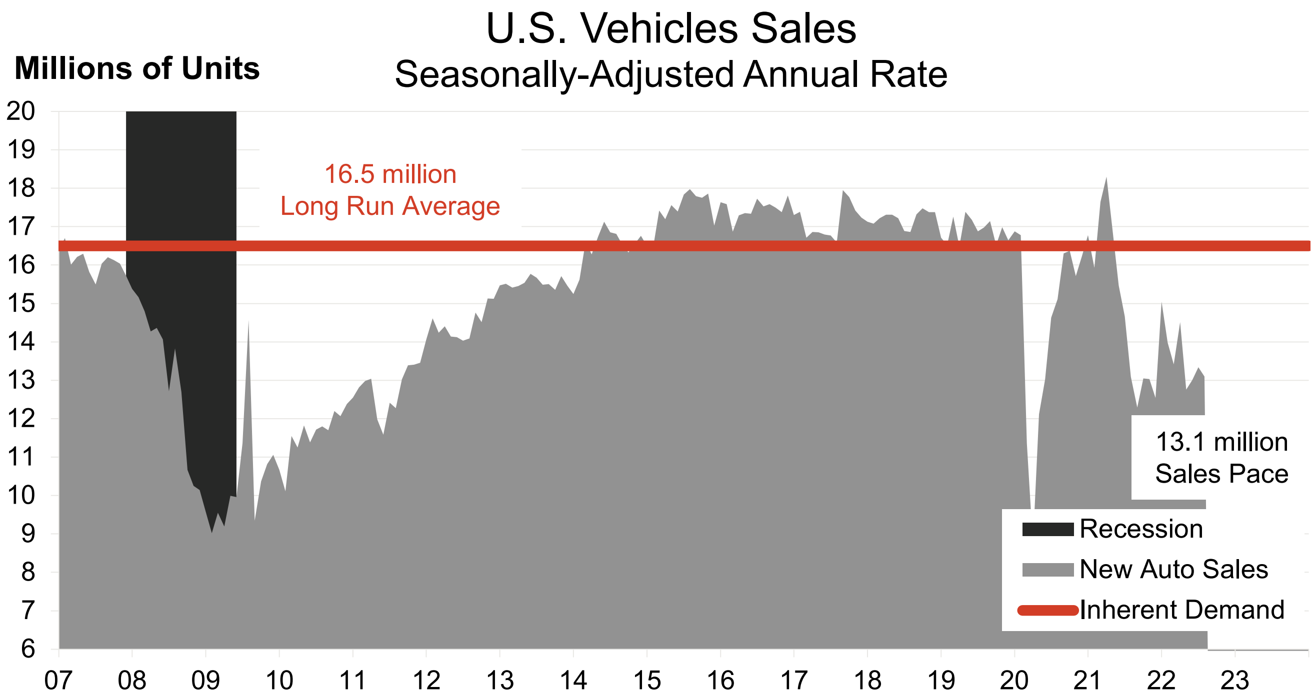
Source data: CUNA Economics & Statistics and CUNA Mutual Group – Economics

04

Vehicle Loans

Credit union new-auto loan balances rose almost 20% during the last year.

Vehicle Loans



Source data: Autodata Corp.

Vehicle sales fell in August to a 13.1 million unit seasonally-adjusted, annualized sales rate, which is down 2% from July, but up 0.1% from August 2021 when slightly more than 13.1 million units were also sold. Auto sales remain depressed due to the shortage of logic semiconductor computer chips which continues to limit production capacity. Rising interest rates and transaction prices are crushing affordability, which will depress demand over the next year, so sales will remain below the 16.5-million-unit level considered a normal auto market well into 2023.

New vehicle inventories stood at 1.09 million in July, down slightly from the 1.12 million in June but up 2% from the year before. This put the day's supply of cars (inventory-to-sales ratio) at 37 days. To put that inventory number in context, inventories stood at 3.7 million vehicles in July 2019 with the inventory-to-sale ratio at 88 days.

Low inventories lead to higher prices. The average listing price was $46,424 in July, 11% higher than last year. Prices will only fall once supply chain bottlenecks get worked out and auto production levels ramp up.

Despite slow auto sales, credit union new-auto lending is booming. Credit union new-auto loan balances are up 19.6% during the last year due to competitive interest rates, aggressive indirect auto lending and the higher prices of vehicles.

05

Real Estate Information

Credit union first mortgage loan originations dropped 33% in the second quarter of 2022 compared to the second quarter of 2021.

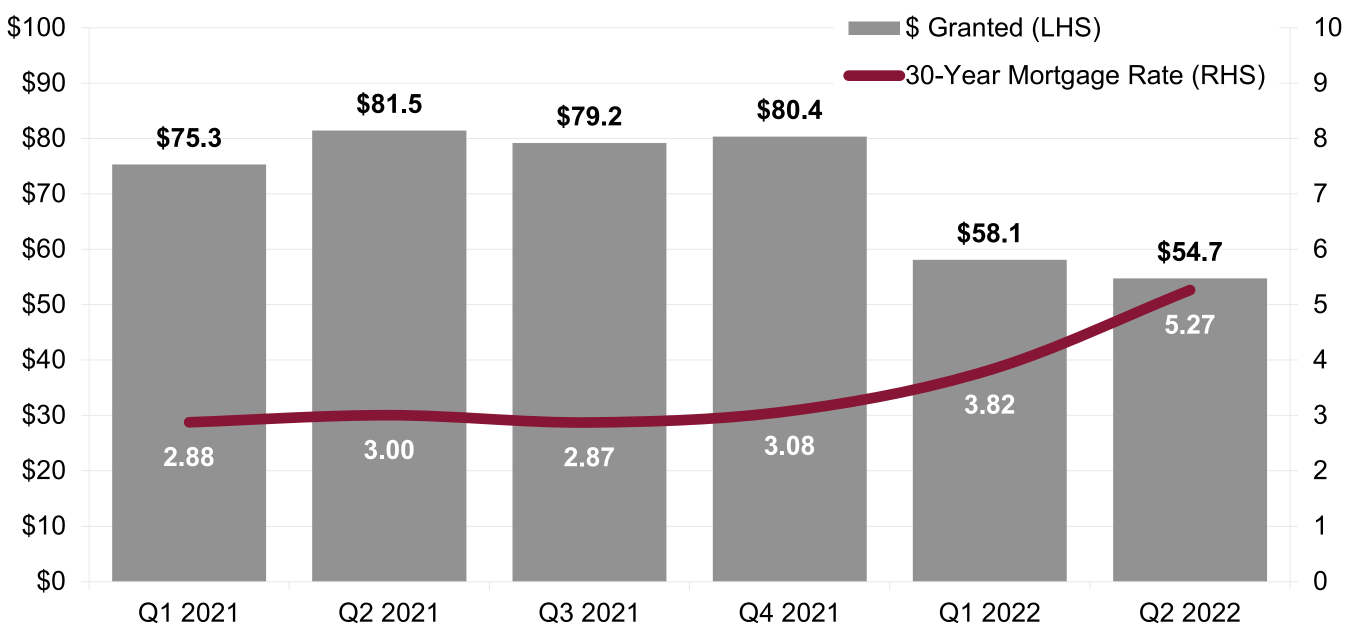
Real Estate Information

Credit union fixed-rate, first mortgage loan balances grew 0.9% in August, slower than the 1.5% pace reported in August 2021. When comparing year-over-year growth, fixed-rate first mortgage balances rose 6.5%, below the 14.1% reported in the year ending in August 2021. The contract interest rate on a 30-year, fixed-rate conventional home mortgage fell to 5.22% in August, from 5.41% in July, but above the 2.84% reported in August 2021.

Home prices fell 0.7% in August, according to the Core Logic Home Price Index, but rose 13.5% year-over-year. House price growth has peaked amid higher mortgage interest rates and declining affordability. Home prices grew much faster than average hourly earnings during the last year, which grew 5.2% over the last year, which is not sustainable. In the long run, home prices should rise as fast as household income.

Credit union first mortgage originations slowed 33% in the second quarter of 2022 compared to the second quarter of 2021. Credit unions then sold 22.3% of the $54.7 billion into the secondary market, down from the 37.6% sold of the $81.5 billion in the second quarter of 2021. The 33% drop in mortgage originations will reduce credit union fee income and gains on sales of mortgage income this year. Expect mortgage originations to drop 40% in 2022 from 2021 levels and another 5% drop in 2023.

Credit Union First Mortgage Originations
($ Granted & Mortgage Interest Rates)



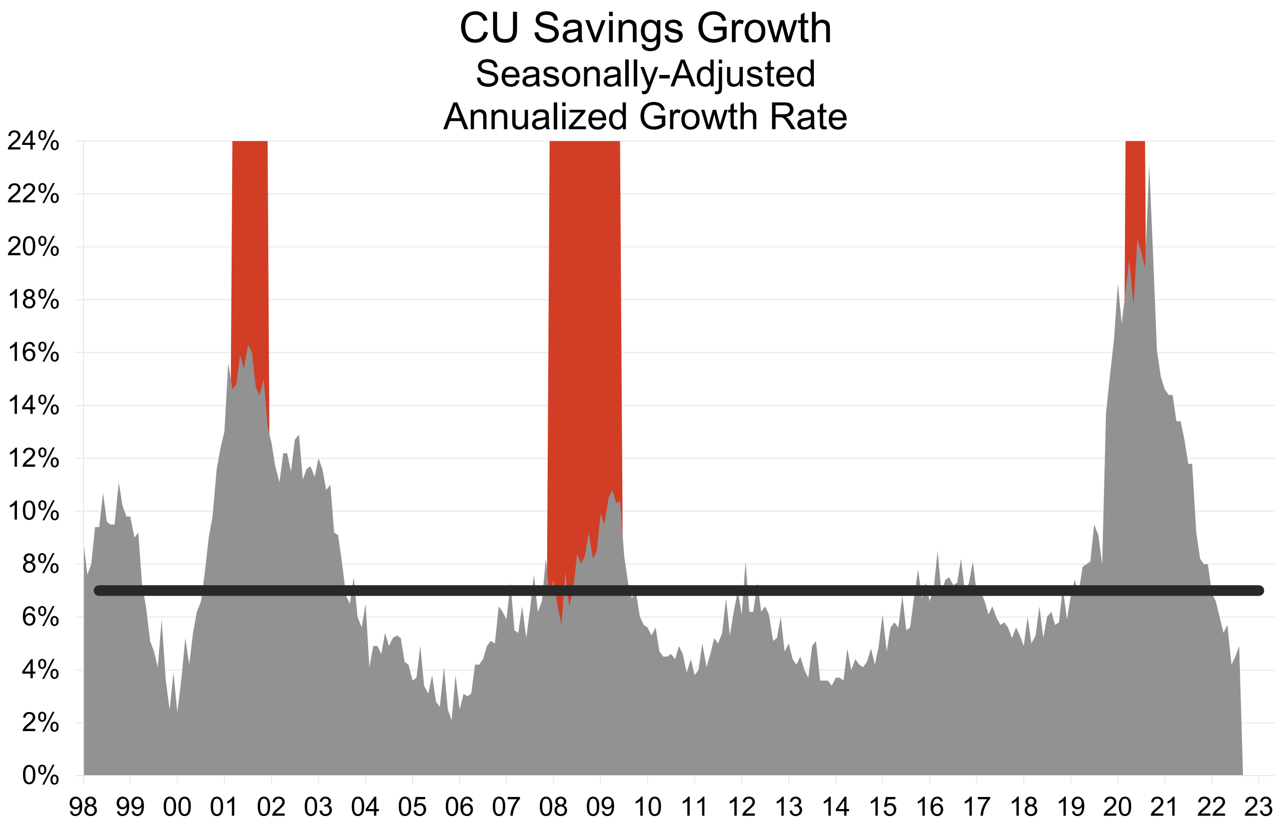
Source data: NCUA

06

Savings and Assets

Credit union savings balances growing slower than its long-run average.

Savings and Assets



Source: CUNA & NCUA

Credit union savings balances fell 0.2% in August, below the 0.1% rise in balances reported in August 2021. August is normally one of the weakest months of the year for savings growth due to seasonal factors, such as vacation spending and auto loan down payments. Credit union deposit growth is becoming more balanced in 2022. During the first eight months of the year, credit union deposits rose $63 billion. Contributing to this growth was a 3.8% increase in regular shares, a 4.0% increase in money market deposits and a 4.9% rise in share drafts. With credit union members expecting short-term market interest rates to continue rising for the next 6 months, their demand for share certificates is still rather weak. During the first 8 months of this year, share certificate balances fell 1.8%, continuing the trend that began in the spring of 2020.

Savings balances grew at a below-trend 4.9% seasonally-adjusted, annualized growth rate in August, due to a jump in consumer spending on services, **(see figure above).** We expect savings balances to grow only 5% in 2022 and 6% in 2023, below the long-run average of 7%, due to excess savings built up over the last 2 ½ years.

07

Capital and Other Key Measures

Credit union provision for loan loss ratios roughly half their long-run average.

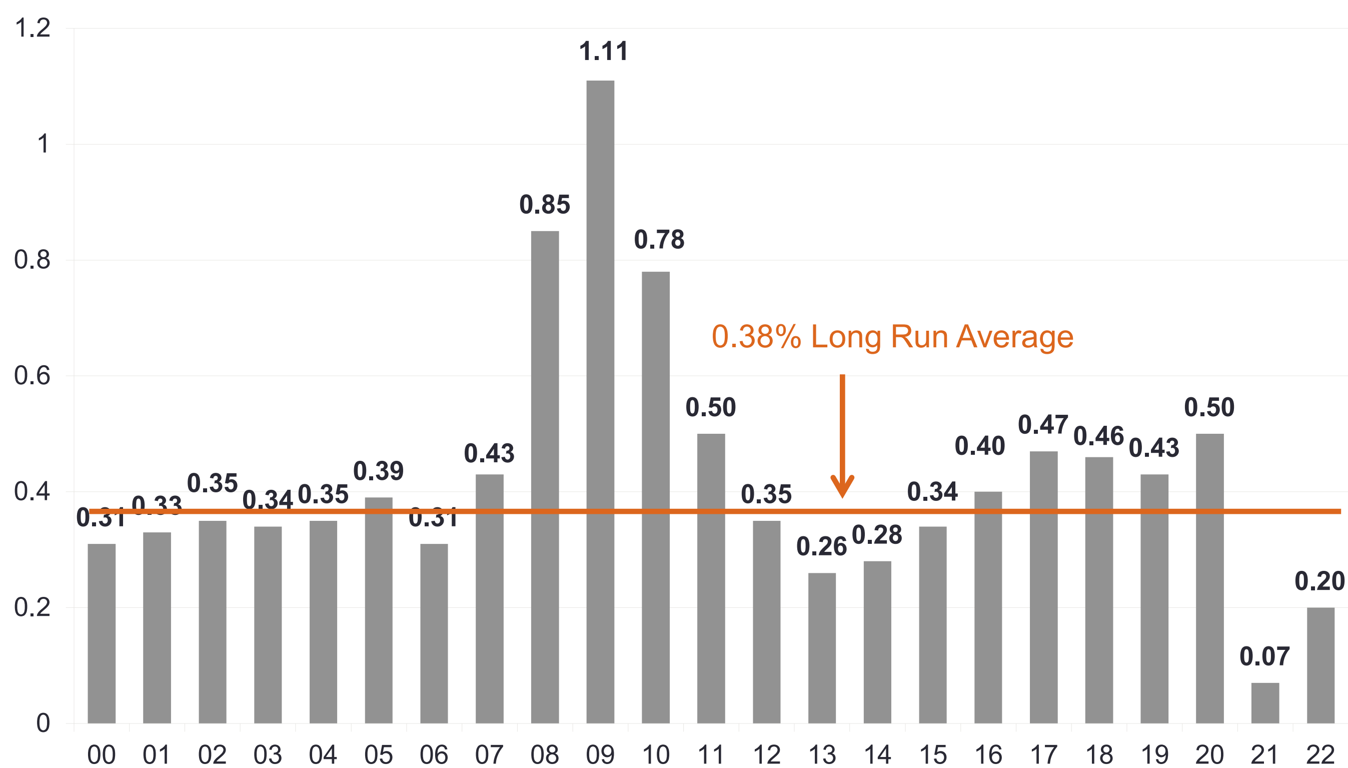
Capital and Other Key Measures

Credit union provisions for loan losses, as a percent of assets, rose to 0.20% in the first half of 2022 **(see figure below)** from the record low 0.7% set in 2021**.** Historically, credit unions set aside 38 cents for every $100 in assets to account for loan losses **(see the orange line in the figure below).**

Last year many credit unions determined their allowance for loan losses had excess qualitative reserves and pulled funds out of the allowance account or made smaller contributions. That boosted the credit union return-on-assets ratio to 1.07% in 2021, the highest level since 2004.

Provisions are low this year due to record-low loan delinquency rates. During 2022 loan delinquency rates have averaged 0.45%, below the natural loan delinquency rate of 0.75%. Credit union loan delinquency rates are at record lows due to the unemployment rate also being at the lowest level in over 40 years. Eventually, the unemployment rate will rise from 3.5% today to its natural long-run rate of 4.5% over the next two years. Then we will see the provision for loan loss ratio return to its long-run average of 0.38%.

Provision for Loan Losses
(Percent of Average Assets)



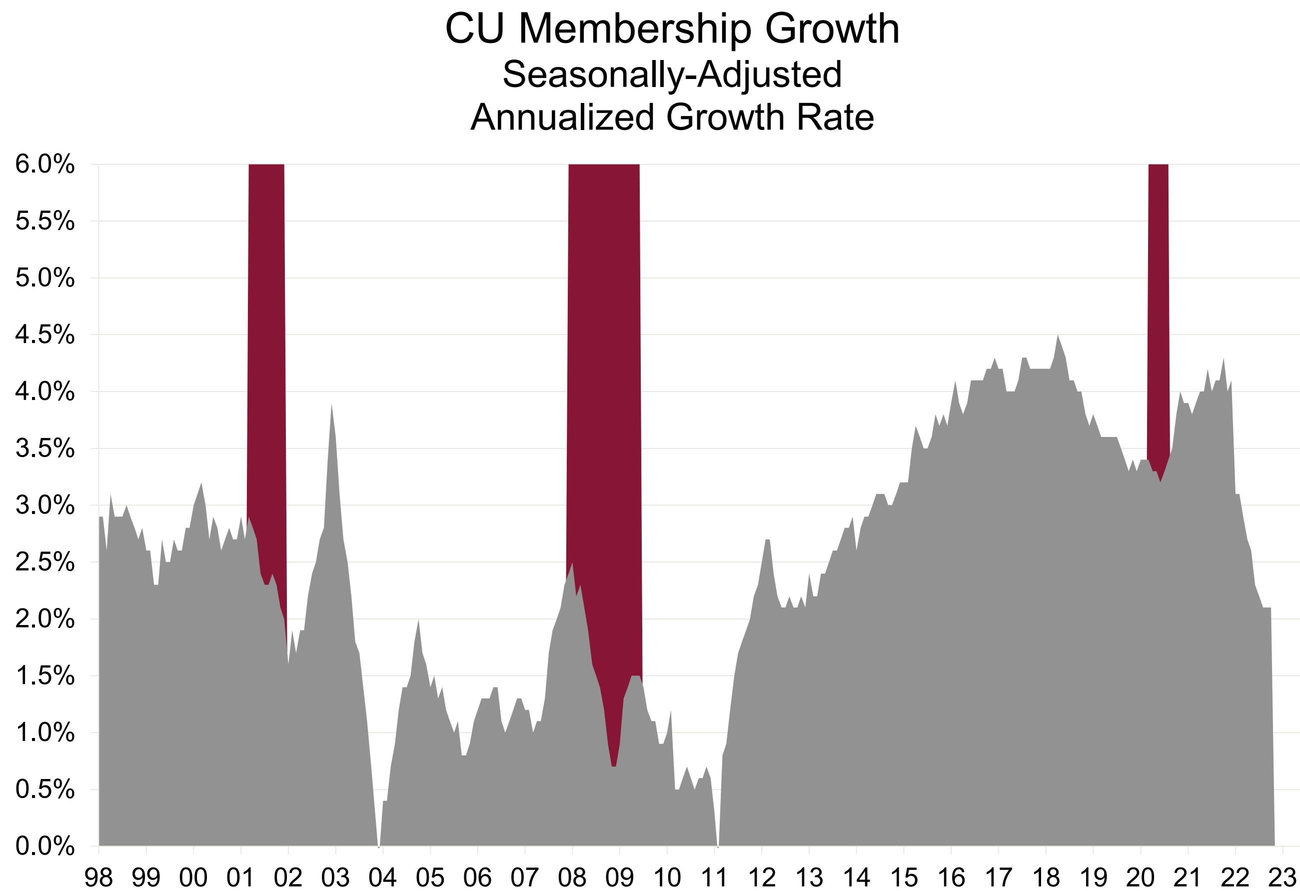
Source: Federal Reserve

08

Credit Unions and Members

Membership growth slows to the lowest rate since 2011.

Credit Unions and Members



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

Credit union memberships rose by 443,000 in August, or 0.3%, below the 466,000 new members, or 0.4%, added in August 2021. This has pushed credit union memberships to over 134.6 million. During the last year, credit unions added 4.0 million new members, below the 4.8 million growth pace set through August 2021, which translates into a 2.1% seasonally-adjusted, annualized growth rate **(see figure above).** Membership growth has decelerated from the 4% pace reported in 2021.

The slowdown in credit union membership growth to 2.1% was to be expected as the average growth rate during the last 20 years was about 2.3%. The recent pace of 2.1% is still 5 times faster than the overall U.S. population growth rate of 0.4%. Therefore, credit unions are still picking up market share from banks and other depository institutions.

Distribution of Credit Union Loans

Estimated $ (Billions) Outstanding

YR/MO	TOTAL LOANS	NEW AUTO	USED AUTO	TOTAL AUTO	UNSEC Ex. CC's	CREDIT CARDS	CUCIC	1st MORT. TOTAL	TOTAL OTHER MORT 2ND + HE	TOTAL REAL ESTATE	MBLs*
20 08	1,180.2	143.7	239.9	383.6	52.8	61.5	491.4	511.6	89.6	601.1	87.6
20 09	1,186.6	144.0	240.8	384.9	54.4	61.5	493.6	517.0	88.1	605.2	87.9
20 10	1,189.4	145.0	241.5	386.5	53.5	61.4	495.7	516.6	88.0	604.6	89.1
20 11	1,191.3	145.8	241.6	387.5	53.5	62.0	496.5	519.2	87.1	606.3	88.5
20 12	1,193.9	144.4	241.7	386.0	53.2	62.6	495.1	524.6	85.9	610.5	88.3
21 01	1,192.9	144.7	242.4	387.1	51.5	61.0	501.0	527.8	86.0	613.8	78.1
21 02	1,194.8	144.6	242.4	387.1	53.6	60.6	501.6	528.8	85.4	614.2	79.0
21 03	1,195.5	142.2	244.5	386.6	53.5	59.5	502.9	530.2	83.5	613.7	78.9
21 04	1,201.7	142.6	245.9	388.4	51.8	58.9	505.7	535.0	83.9	618.9	77.2
21 05	1,211.5	143.9	249.1	393.1	51.2	60.1	517.1	537.5	84.0	621.5	72.9
21 06	1,223.1	143.2	251.9	395.1	53.1	60.7	519.4	545.3	83.6	629.0	74.7
21 07	1,232.5	143.2	254.3	397.5	51.6	61.2	515.7	549.6	84.9	634.5	82.3
21 08	1,244.4	143.2	257.4	400.7	51.5	61.8	521.3	555.4	84.6	640.0	83.1
21 09	1,251.8	143.7	260.7	404.4	52.0	62.0	522.0	562.0	84.7	646.6	83.2
21 10	1,263.4	142.7	262.5	405.2	53.3	62.7	523.9	567.0	86.2	653.2	86.3
21 11	1,271.6	142.6	264.5	407.1	52.6	64.2	529.8	576.2	83.7	659.9	81.8
21 12	1,286.2	144.2	266.7	410.9	52.5	65.0	533.8	581.3	86.2	667.5	84.8
22 01	1,293.9	144.4	268.7	413.1	52.5	64.6	533.6	550.5	85.3	635.8	124.5
22 02	1,306.6	145.4	271.2	416.5	54.1	64.6	538.7	526.2	84.5	610.7	157.2
22 03	1,328.3	147.2	276.9	424.1	53.8	65.2	547.3	503.7	81.5	585.2	195.9
22 04	1,351.0	153.4	282.1	435.5	54.7	65.7	557.8	512.4	84.6	597.0	196.2
22 05	1,379.5	156.0	288.0	444.0	55.9	67.2	570.5	522.9	86.7	609.6	199.4
22 06	1,411.4	158.9	295.3	454.2	57.9	68.1	584.3	530.1	90.4	620.5	206.6
22 07	1,438.0	167.0	299.1	466.1	59.9	69.1	594.9	541.4	93.4	634.8	208.3
22 08	1,465.4	171.3	303.9	475.3	61.9	70.0	602.6	547.7	96.5	644.2	218.6

* Member Business Loans

CUCIC = Total Loans – Total Real Estate - MBLs CUCIC = Total Vehicle Loans + Unsecured Loans + Credit Card – 14% of MBLs

Distribution of Credit Union Loans

Percent Change From Prior Year

YR/MO	TOTAL LOANS	NEW AUTO	USED AUTO	TOTAL AUTO	UNSEC Ex. CC's	CREDIT CARDS	CUCIC	1st MORT. TOTAL	TOTAL OTHER MORT 2ND + HE	TOTAL REAL ESTATE	MBLs*
20 08	6.6	-3.7	4.4	1.2	14.2	-4.5	1.8	12.8	-3.5	10.1	12.4
20 09	6.6	-3.7	4.4	1.2	17.5	-4.9	2.1	12.9	-5.3	9.8	12.0
20 10	6.3	-2.7	4.6	1.8	14.7	-5.4	2.5	11.9	-6.4	8.8	11.1
20 11	5.9	-2.2	4.7	2.0	14.5	-4.9	3.0	11.7	-7.4	8.5	5.8
20 12	5.3	-3.6	4.5	1.3	12.7	-6.4	2.6	11.2	-7.6	8.1	2.2
21 01	4.9	-3.1	4.5	1.5	9.3	-7.9	3.8	11.9	-7.4	8.7	-13.3
21 02	4.8	-2.6	4.2	1.6	15.7	-7.8	3.4	13.5	-8.3	9.9	-17.8
21 03	4.5	-3.4	4.9	1.7	14.4	-8.9	2.8	9.0	-9.6	6.1	3.7
21 04	4.8	-3.1	6.4	2.7	11.1	-6.1	6.2	9.4	-8.4	6.6	-14.3
21 05	4.5	-1.4	7.2	3.9	9.0	-3.1	8.6	8.8	-7.5	6.2	-25.7
21 06	4.7	-0.5	6.5	3.9	-0.1	-1.8	6.8	8.4	-6.8	6.1	-15.9
21 07	4.8	-0.4	6.2	3.7	-1.4	-0.5	5.3	8.2	-5.9	6.1	-7.2
21 08	5.4	-0.3	7.3	4.5	-2.4	0.5	6.1	8.6	-5.6	6.5	-5.2
21 09	5.5	-0.3	8.3	5.1	-4.3	0.9	5.8	8.7	-4.0	6.8	-5.3
21 10	6.2	-1.6	8.7	4.8	-0.3	2.1	5.7	9.8	-2.1	8.0	-3.1
21 11	6.7	-2.2	9.5	5.1	-1.7	3.6	6.7	11.0	-3.9	8.8	-7.6
21 12	7.7	-0.1	10.3	6.4	-1.3	3.8	7.8	10.8	0.4	9.3	-4.0
22 01	8.5	-0.2	10.9	6.7	2.0	5.9	6.5	4.3	(0.8)	3.6	59.4
22 02	9.4	0.5	11.9	7.6	0.9	6.5	7.4	(0.5)	(1.0)	(0.6)	99.0
22 03	11.1	3.5	13.3	9.7	0.7	9.7	8.8	(5.0)	(2.5)	(4.7)	148.4
22 04	12.4	7.6	14.7	12.1	5.6	11.7	10.3	(4.2)	0.8	(3.5)	154.3
22 05	13.9	8.4	15.6	13.0	9.2	11.8	10.3	(2.7)	3.2	(1.9)	173.6
22 06	15.4	10.9	17.2	14.9	9.0	12.3	12.5	(2.8)	8.1	(1.3)	176.6
22 07	16.7	16.6	17.6	17.3	16.1	13.0	15.4	(1.5)	10.0	0.0	153.0
22 08	17.8	19.6	18.1	18.6	20.2	13.2	15.6	(1.4)	14.0	0.7	163.1

* Member Business Loans

CUCIC = Total Loans – Total Real Estate - MBLs CUCIC = Total Vehicle Loans + Unsecured Loans + Credit Card – 14% of MBLs

National Monthly Credit Union Aggregates

YR/MO	LOANS ($ Billions)	ASSETS ($ Billions)	SAVINGS ($ Billions)	CAPITAL ($ Billions)	MEMBERS (Millions)	CREDIT UNIONS	LOAN/ SAVINGS RATIO	CAPITAL/ ASSET RATIO
20 08	1,180.2	1,807.7	1,544.0	189.7	125.8	5,378	76.4	10.5
20 09	1,186.6	1,817.4	1,555.0	190.8	126.2	5,353	76.3	10.5
20 10	1,189.4	1,846.2	1,582.1	191.3	126.3	5,355	75.2	10.4
20 11	1,191.3	1,846.2	1,584.1	193.0	126.5	5,321	75.2	10.5
20 12	1,193.9	1,875.8	1,614.8	194.1	126.8	5,317	73.9	10.3
21 01	1,192.9	1,891.5	1,626.4	195.1	127.3	5,318	73.3	10.3
21 02	1,194.8	1,920.6	1,653.2	194.7	127.6	5,305	72.3	10.1
21 03	1,195.5	1,982.2	1,722.5	195.0	128.2	5,285	69.4	9.8
21 04	1,202.1	2,015.4	1,752.3	197.2	128.5	5,269	68.6	9.8
21 05	1,212.2	2,027.5	1,744.1	199.3	129.0	5,246	69.5	9.8
21 06	1,223.1	2,010.6	1,744.2	201.9	129.7	5,243	70.1	10.0
21 07	1,232.7	2,046.0	1,764.8	204.7	129.9	5,251	69.9	10.0
21 08	1,244.4	2,048.1	1,765.4	206.6	130.6	5,244	70.5	10.1
21 09	1,251.8	2,052.0	1,778.4	206.7	131.1	5,204	70.4	10.1
21 10	1,263.4	2,082.3	1,795.8	206.7	131.3	5,163	70.4	9.9
21 11	1,271.6	2,084.0	1,798.2	207.6	131.5	5,140	70.7	10.0
21 12	1,286.2	2,094.9	1,819.0	209.2	132.1	5,152	70.7	10.0
22 01	1,293.9	2,093.3	1,817.7	206.9	132.4	5,149	71.2	9.9
22 02	1,306.6	2,123.4	1,847.5	205.1	132.8	5,120	70.7	9.7
22 03	1,328.3	2,152.1	1,881.8	198.4	133.4	5,111	70.6	9.2
22 04	1,351.0	2,170.3	1,895.7	191.5	134.1	5,101	71.3	8.8
22 05	1,379.5	2,171.2	1,882.1	194.2	134.6	5,070	73.3	8.9
22 06	1,411.4	2,170.0	1,884.4	192.6	135.0	5,062	74.9	8.9
22 07	1,438.0	2,200.2	1,886.7	197.1	134.2	5,036	76.2	9.0
22 08	1,465.4	2,193.5	1,882.1	194.4	134.6	5,029	77.9	8.9

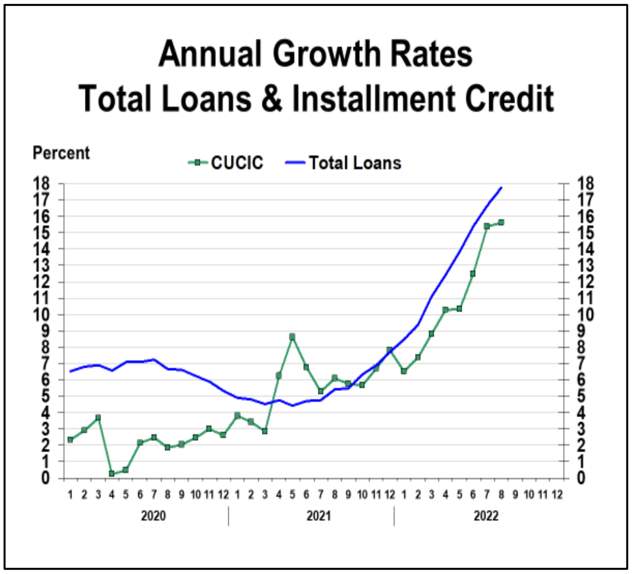
Credit Union Growth Rates

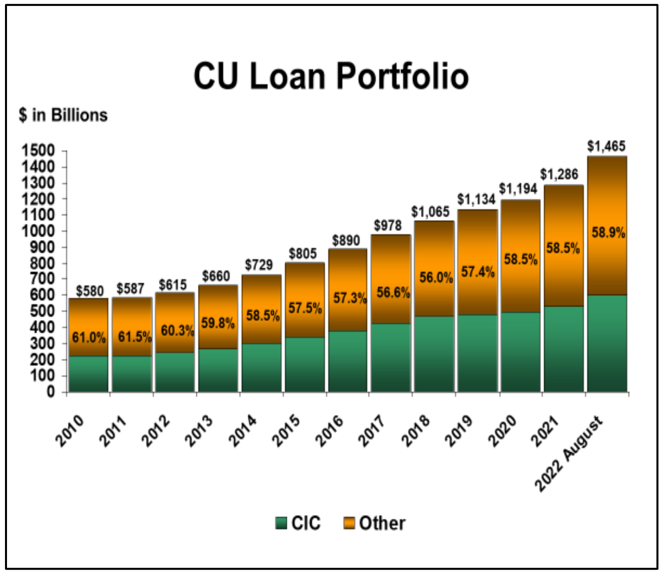
Percent Change From Prior Year

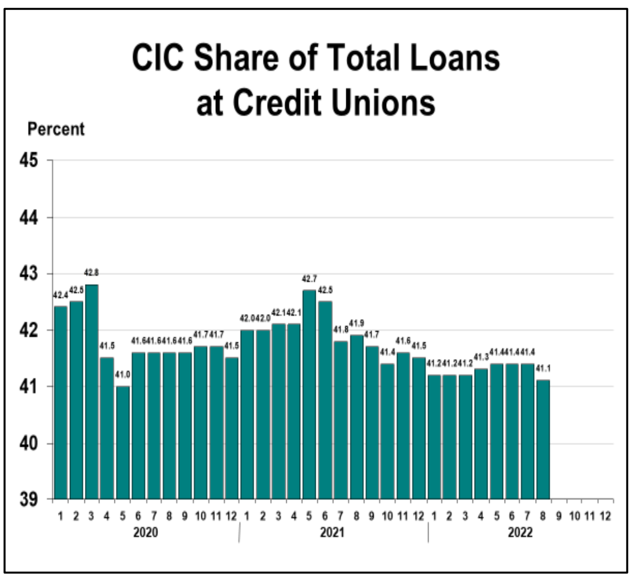
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
20 08	6.6	15.3	17.0	8.5	3.4	(2.5)	(140)	0.553%
20 09	6.6	16.1	18.2	8.1	3.4	(2.8)	(153)	0.540%
20 10	6.3	17.2	19.5	7.9	3.3	(2.7)	(148)	0.549%
20 11	5.9	15.6	17.8	8.6	3.3	(3.1)	(169)	0.580%
20 12	5.3	17.7	20.3	8.3	3.2	(2.6)	(143)	0.595%
21 01	4.9	17.4	19.7	8.1	3.3	(2.4)	(132)	0.587%
21 02	4.8	16.3	19.1	7.1	3.4	(2.6)	(141)	0.524%
21 03	4.5	19.0	23.1	6.3	3.6	(2.5)	(134)	0.455%
21 04	4.8	16.7	19.7	7.9	3.6	(3.0)	(165)	0.469%
21 05	4.5	14.6	16.2	7.3	3.7	(2.8)	(151)	0.456%
21 06	4.7	13.0	15.0	7.8	3.9	(2.6)	(141)	0.452%
21 07	4.8	13.5	14.6	8.2	3.7	(2.4)	(129)	0.455%
21 08	5.5	13.3	14.4	8.9	3.8	(2.5)	(134)	0.452%
21 09	5.5	12.9	14.4	8.3	3.9	(2.8)	(149)	0.456%
21 10	6.2	12.8	13.5	8.1	3.9	(3.6)	(192)	0.480%
21 11	6.7	12.9	13.5	7.6	3.9	(3.4)	(181)	0.491%
21 12	7.7	11.7	12.6	7.8	4.2	(3.1)	(165)	0.485%
22 01	8.5	10.7	11.8	6.1	4.0	(3.2)	(169)	0.494%
22 02	9.4	10.6	11.8	5.3	4.1	(3.5)	(185)	0.461%
22 03	11.1	8.6	9.2	1.8	4.1	(3.3)	(174)	0.418%
22 04	12.4	7.8	8.2	-3.0	4.3	(3.2)	(168)	0.443%
22 05	13.9	7.2	8.0	-2.8	4.0	(3.4)	(176)	0.458%
22 06	15.4	7.9	8.0	-4.6	4.1	(3.5)	(181)	0.479%
22 07	16.7	7.5	7.0	-3.7	3.1	(4.1)	(215)	0.499%
22 08	17.8	7.1	6.6	-5.9	3.1	(4.1)	(215)	0.493%

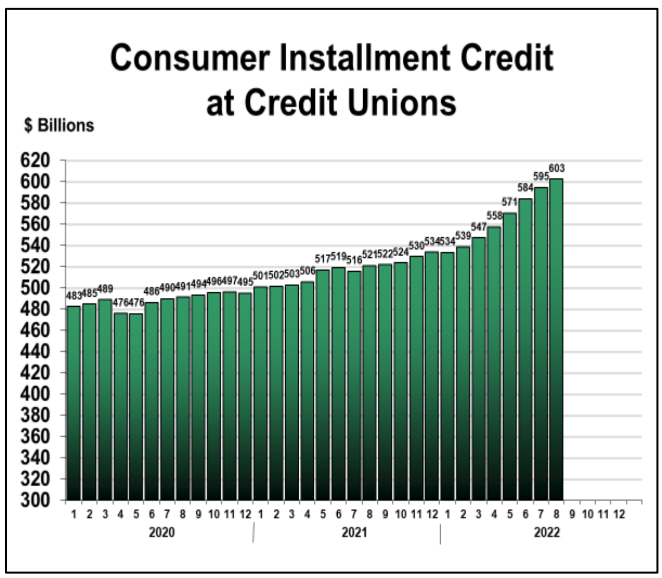
* Loans two or more months delinquent as a percent of total loans

Consumer Installment Credit









Meet
Steve Rick

Steve Rick is the Chief Economist for CUNA Mutual Group. Rick is an economic researcher, analyst and forecaster with expertise in consumer markets and the credit union industry. His forecasts serve as a starting point for client- and firm-level strategic planning by creating a clear understanding of the underlying trends and links between the general economy, the financial services industry and the firm's clients. Rick is a member of the CUNA Mutual Financial Advisors Investment Committee that approves strategy and oversees the firm's investment operations. He is also a member of the firm's Capital Markets Committee that performs ongoing research on the global economy and financial markets and on behalf of institutional and individual investors across the country.

This report on key credit union indicators is based on data from CUNA E&S's *Monthly Credit Union Estimates*, the Federal Reserve Board and CUNA Mutual Group – Economics. To access this report on the Internet, go to www.cunamutual.com/CUTrends. If you have any questions, comments, or need additional information, please call or complete this form. Thank you.

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