Credit Union Trends Report

April 2023 ▪ February 2023 Data

CUNA MUTUAL GROUP

01

Economic Trends

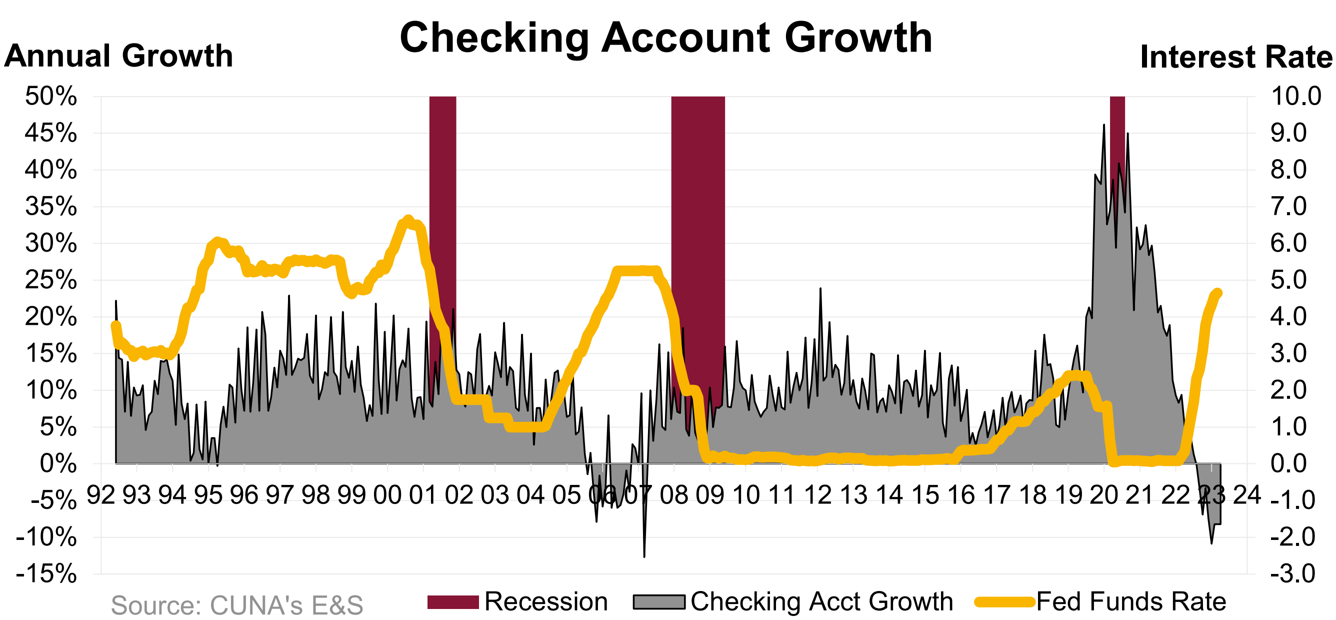
Credit union checking account, savings account and money market deposit account balances are falling as interest rates are rising.

Economic Trends

The recent failure of Silicone Valley Bank was due to a liquidity crisis as depositors set off an old fashion bank run and withdrew their deposits. Since that failure, many small and medium sized regional banks have reported a loss of deposits, as some depositors have moved deposits to larger "to big to fail" banks.

Credit unions are not immune to this trend. During the first 2 months of 2023, credit union checking balances declined 2.4%, regular share balances fell 1.1% and money market deposit account balances fell 3.8%. But offsetting this decline has been a surge in certificate of deposits which rose 12.5%. This shift in the mix of credit union deposits from low cost to high-cost deposit accounts has tripled credit union cost of funds, from 0.35% in the 1st quarter of 2022, to 1.1% in the 1st quarter of 2023.

So, what is driving the drop in money accounts (i.e., checking, savings, MMDAs) and the rise in investment accounts (i.e., certificates of deposit). The famous 20th century economist John Maynard Keynes theorized that the demand for money was a function of interest rates, income and the price level. He stated that a rise market interest rates should reduce the demand for checking balances. The interest rate on CDs and Treasury bills represents the opportunity cost of holding checking balances that typically pay little to no interest. The chart below shows the negative relationship between credit union checking account growth and the Fed Funds interest rate. Whenever the Federal Reserve raises the Fed Funds interest rate by more than 3 percentage points, credit union checking account growth slows significantly as funds shift to CDs or move to money market mutual funds. This happened in 1994-1995, 2005-2006 and again today in 2022-2023. This trend will only intensify as the Federal Reserve continues to raise interest rates.



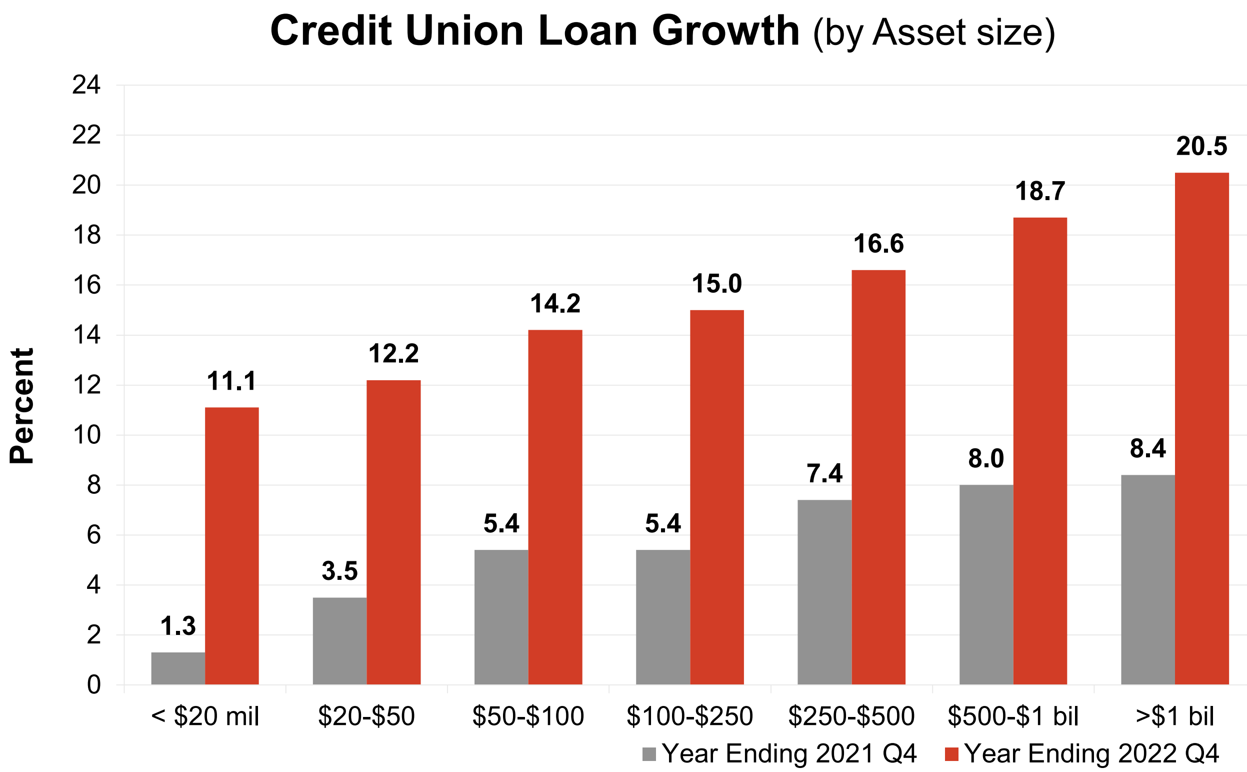
Source data: CUNA & NCUA

02

Total Credit Union Lending

Credit union loan balances rose 18.4% during the last 12 months.

Total Credit Union Lending



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

Credit union loan balances rose 0.5% in February, slower than the 1.0% reported in February 2022, and 18.4% during the last 12 months. Driving this growth was home equity loan balances (1.5%) adjustable-rate mortgages (1.1%) and unsecured personal loans (0.8%). February is historically the weakest loan growth month of the year, with seasonal factors typically shaving off 0.6 percentage points from the underlying trend growth rate.

Credit union members have been on a borrowing and spending binge for the last year in order to get ahead of rising future interest rates. Therefore, we are forecasting credit union loan growth to slow to around 8% this year, down from the record setting pace of 19% set last year.

Large credit unions reported significantly faster loan growth in 2022 as compared to smaller credit unions **(see figure above)**. Credit unions with assets greater than $1 billion reported loan growth of 20.5% compared to credit unions with assets less than $20 million, reporting loan growth of 11.1%. All asset size categories reported faster loan growth in 2022 compared to 2021, with all asset size categories jumping about 10 percentage points.

03

Consumer Installment Credit

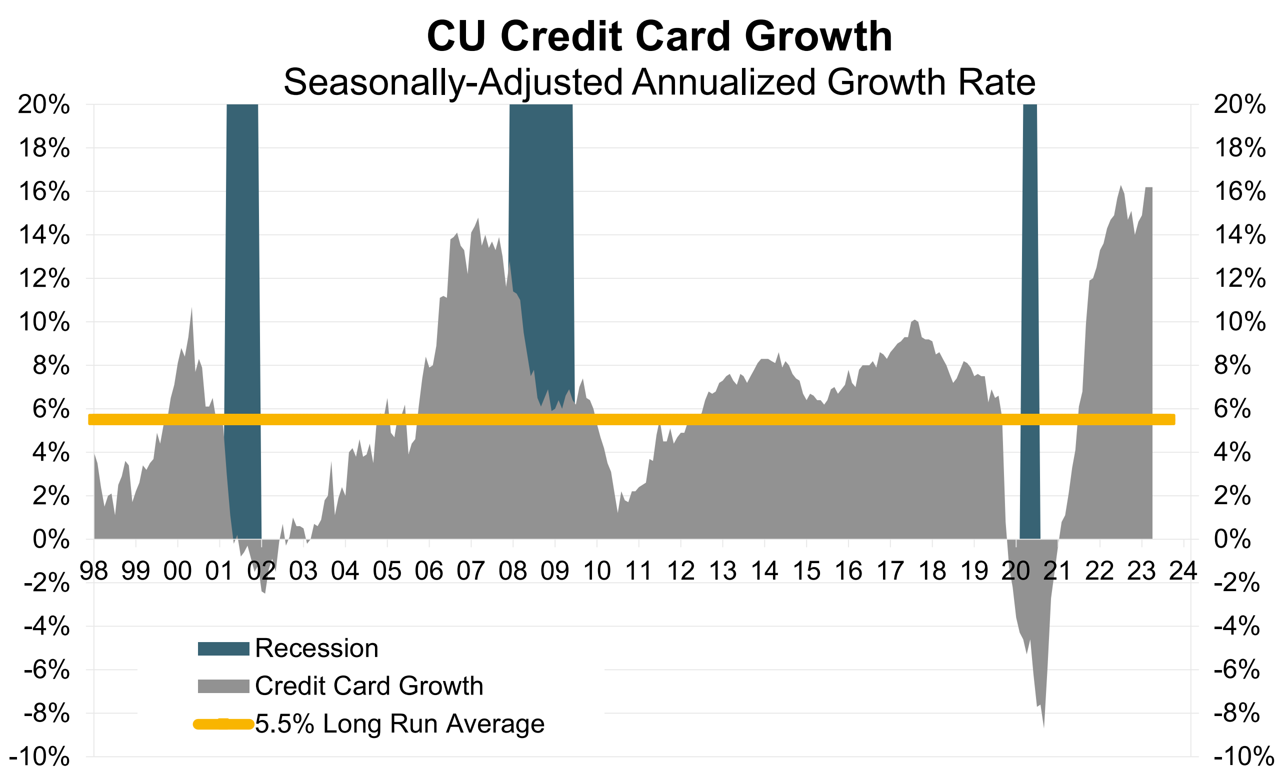
Credit union credit card lending is growing at the fastest pace in modern history.

Consumer Installment Credit

Credit union consumer installment credit balances (auto, credit card and other unsecured loans) rose 0.2% in February, significantly below the 1.0% reported in February 2022. Nevertheless, consumer installment credit year-over-year growth rates have been rising over the last year due mainly to a surge in auto loans and credit card lending. February's loan seasonal factors typically shave off 0.59 percentage points from the underlying trend growth as members use tax refunds and bonuses to pay down outstanding credit card and home equity loan balances.

During the last year, nominal wage growth has been slower than the rate of inflation, reducing the real incomes of many credit union members. In order to maintain their level of real spending, credit union members have either spent some of their excess savings accumulated during the pandemic or have increased their debt levels. Credit union credit card loan balances rose at a 16.1% seasonally-adjusted annualized rate in February, the fastest pace in over 25 years **(see chart below)**.

Credit union consumer installment credit grew 19% during the last year, faster than the total market, excluding credit unions which rose only 6.1% indicating credit unions have increased their market share**.** The total consumer installment credit market, excluding credit union and government student loans, rose 7.4% during the last year.



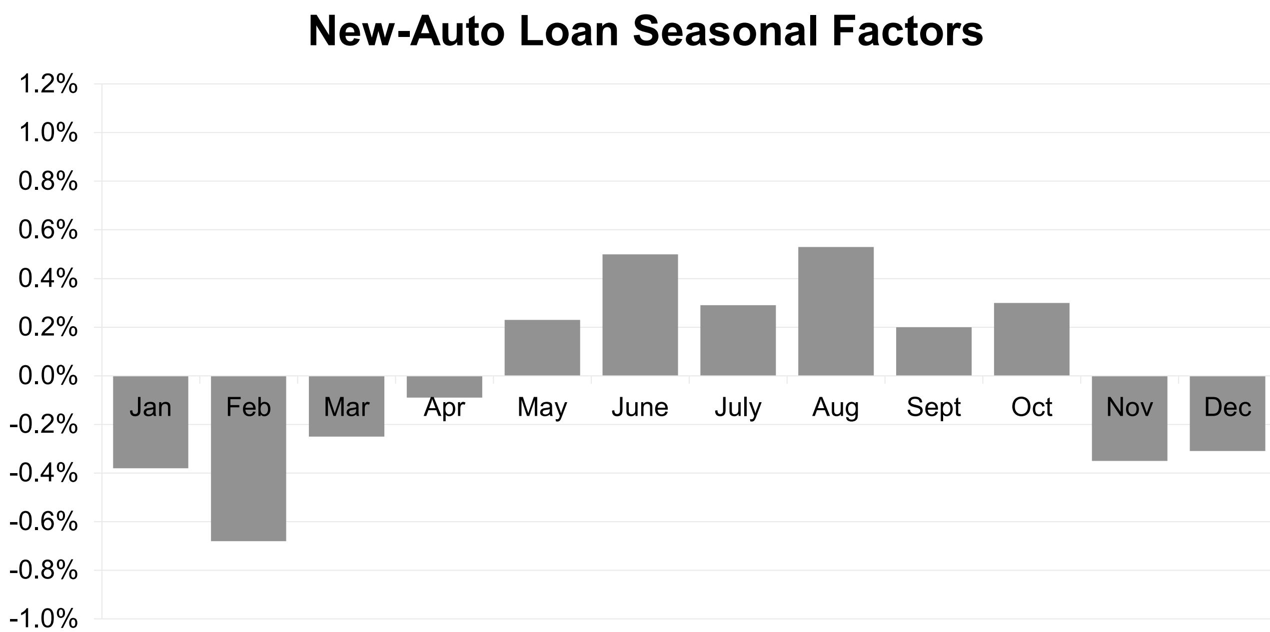
Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

04

Vehicle Loans

Expect credit union new-auto lending to slow in the second half of 2023.

Vehicle Loans



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

Credit union new-auto loan balances rose 0.2% in February, weaker than the 0.7% rise set in February 2022, but rose 21.9% during the last 12 months. On a seasonally-adjusted annualized basis, new-auto loan balances rose at a 11% pace in February, more than twice the 5% long-run average growth rate.

The first quarter is typically the weakest quarter for credit union new-auto loan growth due to various seasonal factors. February is historically the weakest new-auto loan growth month of the year, with seasonal factors typically adjusting -0.68 percentage points from the underlying trend growth rate **(see figure above)**.

Vehicle sales were 15 million in February, which at a seasonally-adjusted annualized sales rate is 9.4% above the 13.7 million pace set one year earlier but 6% below January sales. The production of vehicles rose by 11% in the first quarter compared to a year earlier as supply chain problems eased while inventory levels were up 69%. This should help reduce auto prices soon.

Consumer demand for new vehicles may fall during the second half of 2023 due to high transaction prices, high inflation reducing real incomes, higher auto loan interest rates, slowing job creation, and worries about a possible recession later in the year. We expect new vehicle sales to only reach 15.9 million in 2023, well below the 17.1 million pre pandemic average. So, expect credit union auto lending to slow for the remainder of 2023.

05

Real Estate Information

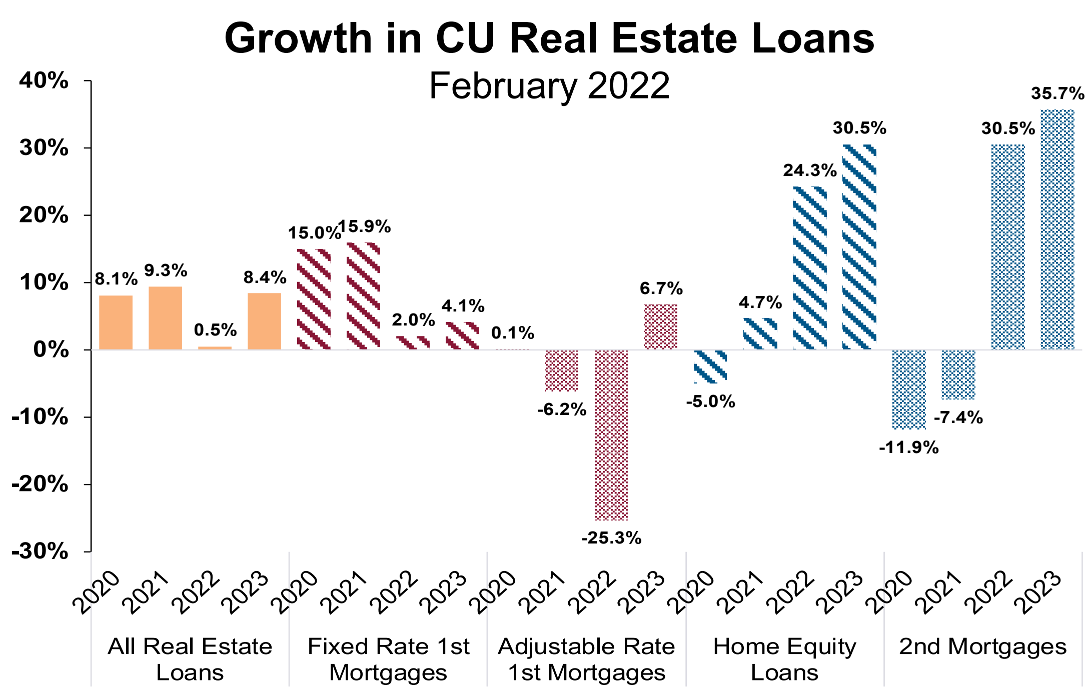
The housing market may have hit bottom with expectations of a turnaround soon.

Real Estate Information

Credit union fixed-rate first mortgage loan balances rose 0.3% in February, above the -2.4% decrease reported in February 2022, due to credit unions holding more mortgages rather than selling them off into the secondary market. Nevertheless, credit union fixed-rate first mortgage loan balances rose only 4.1% during the last 12 months, half the 8.9% pace set in the year ending in February 2022.

The contract interest rate on a 30-year fixed-rate conventional home mortgage fell to 6.26% in February, down from the 6.27% in January but higher than the 3.76% reported in February 2022. The February decrease in mortgage rates was due to a lower credit spread which fell from 2.74 percentage points in January to 2.51 percentage points in February. The 10-year Treasury interest rate rose from 3.53% in January to 3.75% in February. Interest rates rose due to higher inflation expectations (10 basis points) and higher real interest rates (12 basis points).

Home prices fell 0.5% in February from January, according to the Core Logic Case-Shiller Home Price Index but are still up 3.8% year-over-year. This is the eighth consecutive month of decline since reaching the peak in June 2022 due to the housing market being mired in recession. Nevertheless , the worst of the home sales may be over as existing home sales have started to rise after 12 months of declines, mortgage applications have bottomed out and are starting to rise again, and home builder sentiment is trending upward.



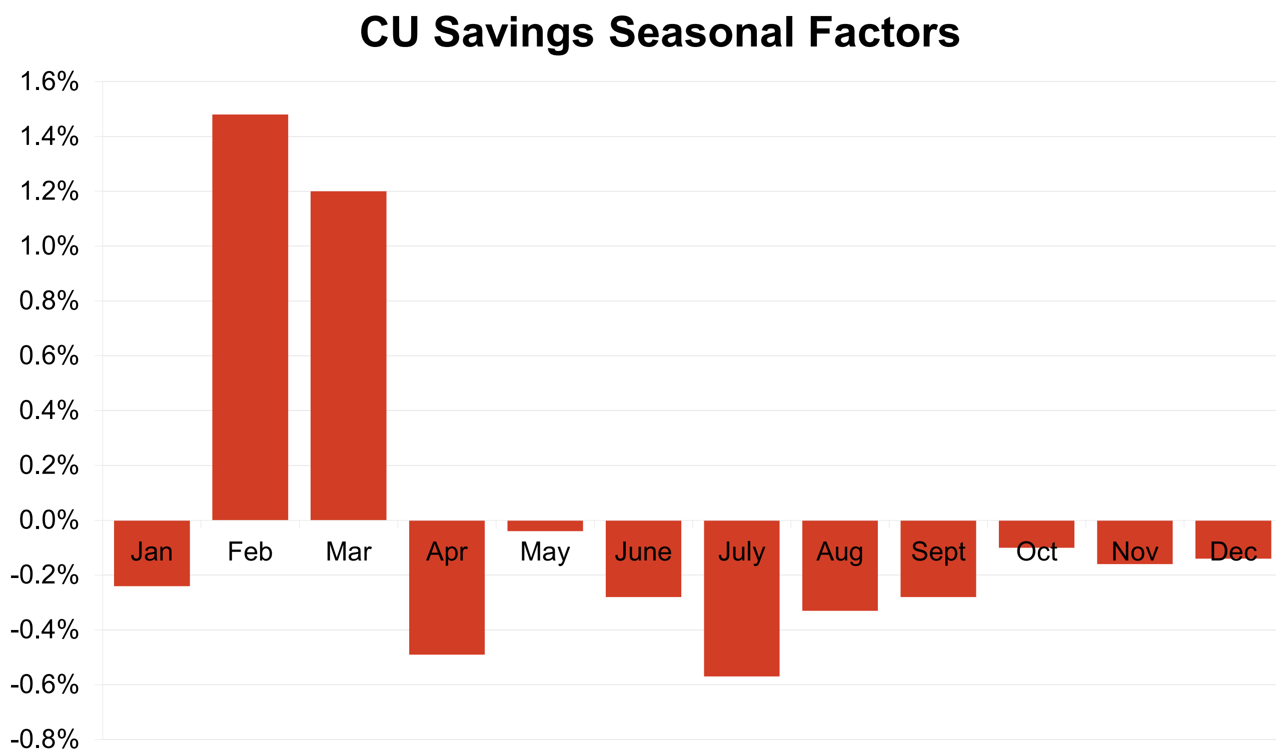
Source data: National Association of Realtors

06

Savings and Assets

Credit union savings balance growth will be below its long-run average in 2023.

Savings and Assets



Source: CUNA & NCUA

Credit union savings balances rose 1.1% in February, below the 1.6% gain reported in February 2021, due to the seasonal factors of tax refunds and bonuses being deposited in credit union members' share draft accounts, which increased 2.4%.

February's seasonal factors typically add 1.48 percentage points to the underlying savings trend growth, the biggest of the year **(see figure above)**.

Credit union savings balances fell at a -0.7% seasonally-adjusted annualized growth rate in February, below the 6.5% rate set in February 2022.

We forecast credit union savings balances to grow only 4% in 2023, below the 7% long-run 30-year average, as members spend some of the excess savings accumulated during the COVID-19 pandemic. Moreover, some credit union members holding high-balance non-maturity shares and deposits (particularly money market accounts) might find yields on money market mutual funds attractive as the year progresses and the Federal Reserve continues to raise short-term interest rates.

07

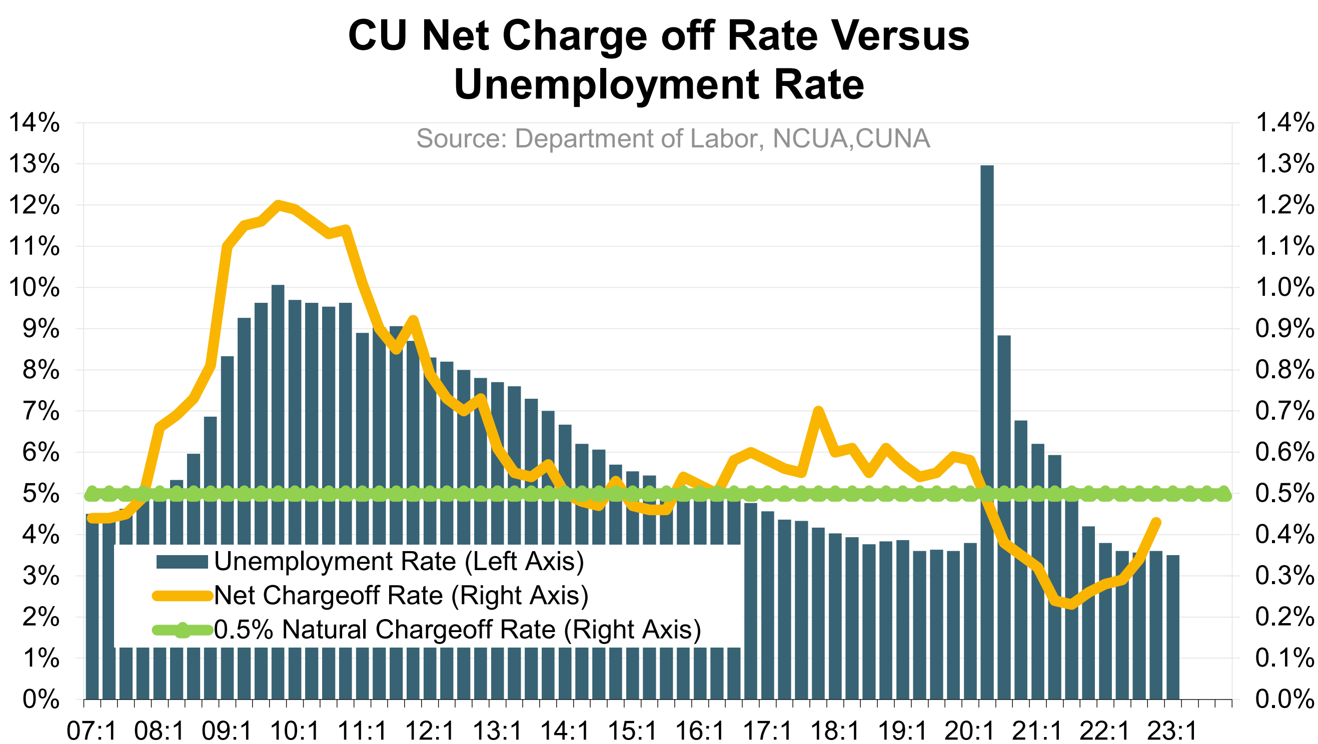
Capital and Other Key Measures

Credit union loan charge off rate is rising towards its long run natural rate of 0.5%.

Capital and Other Key Measures

The credit union industry's average loan net charge-off rate rose to 0.43% in the fourth quarter, from 0.26% one year earlier. The loan charge off rate has been rising for the last 5 quarters after reaching the lowest in over a generation of 0.23% in the third quarter of 2021. The charge off rate remains below its "natural" long-run rate of 0.5%. In other words, 50 cents of every $100 of credit union loans are normally charged off each year **(see figure below)**. The charge-off rate is below its natural rate due to credit union members' excess savings from stimulus checks and the incredibly strong job market. The charge-off rate typically exhibits a quarterly seasonal pattern whereby the loan charge-off rate rises by 0.05% in the fourth quarter and then declines over the next three quarters.

The credit union loan delinquency rate (loans two or more months delinquent as a percent of total loans outstanding) rose to 0.67% in February from the 0.46% reported one year earlier. A delinquency rate around 0.75% is considered the "natural delinquency rate," or the rate due to idiosyncratic life events (divorce, large medical expense, job loss), not due to the business cycle. The loan delinquency rate exhibits an annual seasonal pattern whereby the rate drops on average 0.04-0.06 percentage points in February and again in March as members use tax refunds and bonuses to catch up on late loan payments. Delinquency rates therefore typically reach their nadir in the first quarter and then slowly rise as the year progresses, reaching their apex late in the fourth quarter.



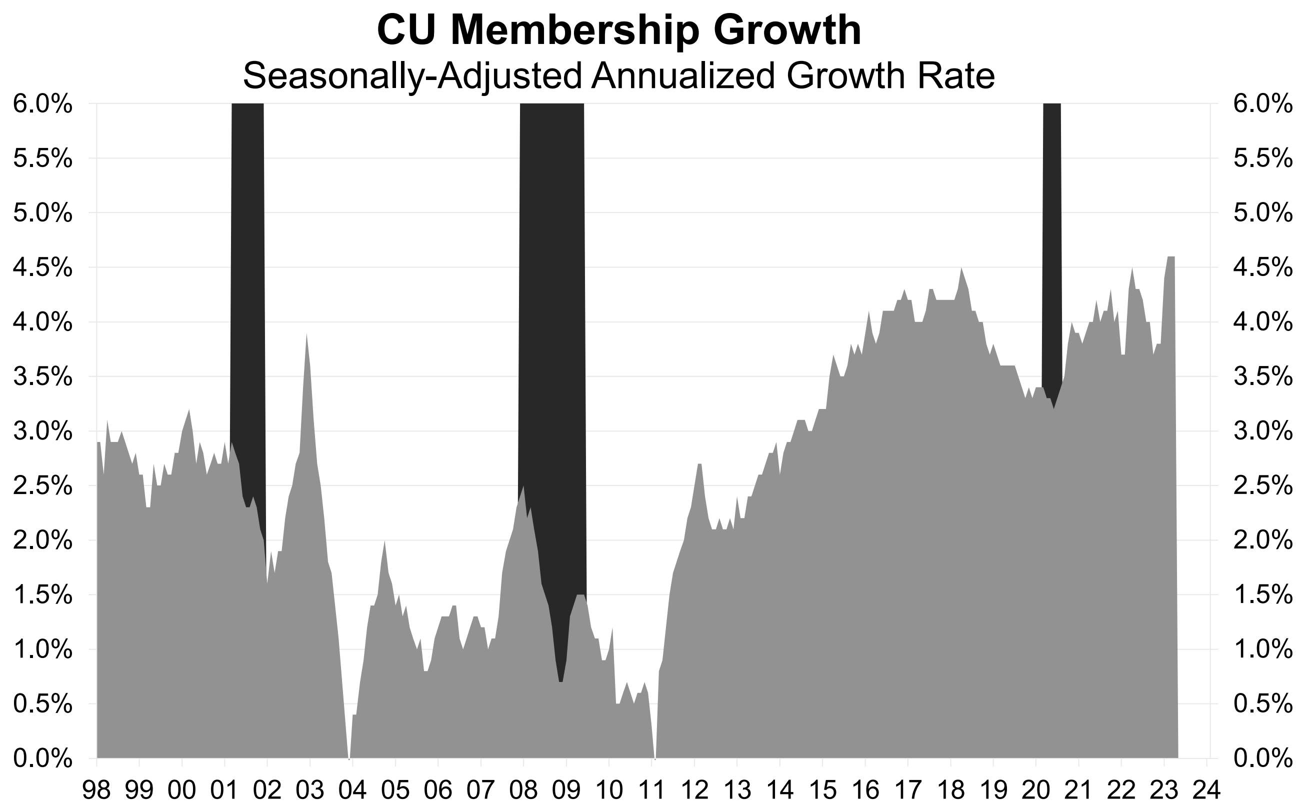
Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

08

Credit Unions and Members

Credit union membership growth is expected to remain around 3.5% for the next two years.

Credit Unions and Members



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

Credit union membership growth slowed significantly during the first two months of 2023, adding 352,000 new memberships versus the 759,000 reported in the first two months of 2022. In percentage terms, credit union memberships rose 0.14% in February, 0.26% year-to-date, and 5.3% during the last 12 months. Memberships grew at a 4.6% seasonally-adjusted annual rate in February, up from 3.7% in February 2022 **(see figure above)**.

Americans typically join credit unions to obtain credit. With loan growth expected to be 8% this year and 7% in 2024, membership growth is expected to remain around its long-run average of 3.5% in 2023 and 2024.

Americans also join credit unions when they obtain a job at a business with an associated credit union. With job growth expected to slow this year, this avenue of membership growth will be weaker than last year. And finally, the decline in membership growth in 2020 was due to a decline in indirect auto lending. New indirect auto lending is expected to rise again in 2023 due to credit unions aggressive auto loan pricing compared to other lenders.

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*
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	1,433.8	166.4	299.1	465.5	59.4	69.2	**594.9**	543.2	94.0	637.2	201.7
22 08	1,457.6	170.2	304.0	474.2	61.1	70.1	**602.6**	547.7	97.7	645.3	209.6
22 09	1,482.5	169.3	309.8	479.2	62.0	70.7	**616.2**	549.0	101.0	650.0	216.3
22 10	1,500.5	171.0	312.6	483.6	63.2	71.6	**619.1**	553.1	104.6	657.7	223.8
22 11	1,515.9	173.2	313.9	487.0	63.8	73.2	**624.5**	556.1	106.2	662.3	229.1
22 12	1,531.2	176.2	316.8	493.0	64.5	75.1	**636.8**	561.9	108.9	670.9	223.6
23 01	1,540.1	176.8	319.2	496.0	65.0	75.0	**639.6**	547.9	110.2	658.1	242.4
23 02	1,547.0	177.2	320.7	497.9	65.5	74.7	**641.0**	550.0	111.7	661.7	244.3

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*
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	16.3	16.2	17.6	17.1	15.2	13.1	**15.4**	(1.2)	10.7	0.4	144.9
22 08	17.1	18.9	18.1	18.4	18.6	13.4	**15.6**	(1.4)	15.5	0.8	152.3
22 09	18.4	17.9	18.8	18.5	19.1	14.1	**18.0**	(2.3)	19.3	0.5	160.0
22 10	18.7	19.4	19.0	19.2	19.9	14.4	**18.2**	(2.2)	20.5	0.8	154.3
22 11	19.0	20.7	18.5	19.3	23.8	14.7	**17.9**	(3.1)	25.1	0.6	168.7
22 12	19.1	22.2	18.8	20.0	22.9	15.5	**19.3**	(3.3)	26.3	0.5	163.6
23 01	19.0	22.5	18.8	20.1	23.8	16.1	**19.9**	(0.5)	29.2	3.5	94.7
23 02	18.4	21.9	18.3	19.5	21.1	15.7	**19.0**	4.5	32.2	8.4	55.4

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
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	1,433.8	2,195.1	1,885.3	197.1	135.0	5,051	76.0	9.0
22 08	1,457.6	2,183.5	1,879.8	194.7	135.4	5,044	77.5	8.9
22 09	1,482.5	2,184.1	1,889.2	186.7	136.8	5,018	78.5	8.5
22 10	1,500.5	2,181.3	1,876.8	184.8	137.2	5,023	80.0	8.5
22 11	1,515.9	2,192.6	1,871.3	190.8	137.3	4,970	81.0	8.7
22 12	1,531.2	2,202.1	1,879.5	193.2	137.7	4,963	81.5	8.8
23 01	1,540.1	2,202.6	1,862.7	199.4	137.9	4,928	82.7	9.1
23 02	1,547.0	2,210.5	1,883.4	195.4	138.1	4,896	82.1	8.8

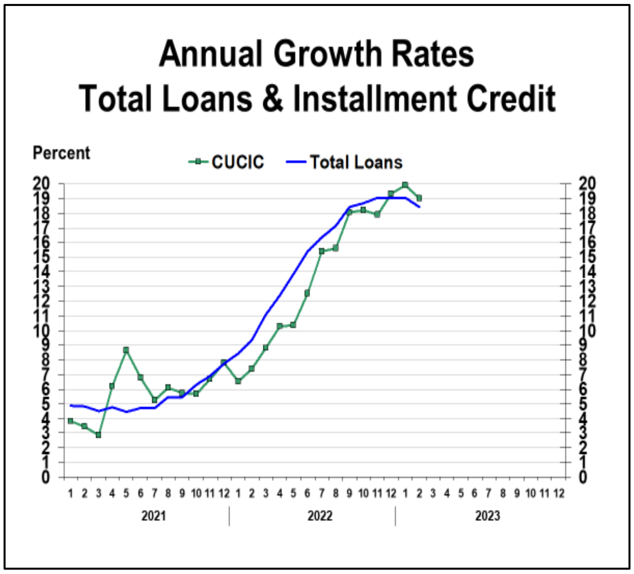
Credit Union Growth Rates

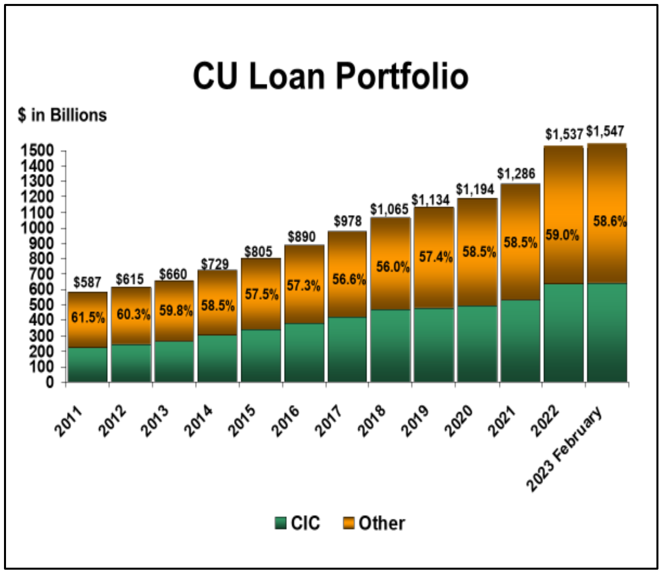
Percent Change From Prior Year

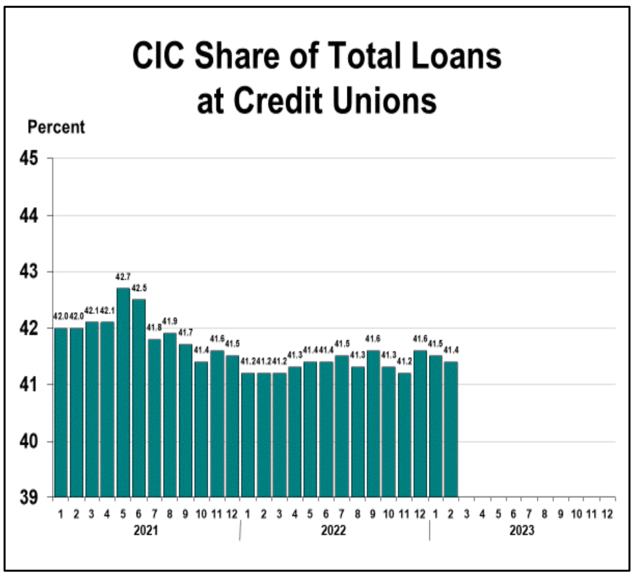
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
21 02	4.8	16.3	19.1	7.1	3.4	(2.6)	(141)	0.524%
21 03	4.5	19.0	23.1	6.3	3.6	(2.5)	(134)	0.455%
21 04	4.8	16.7	19.7	7.9	3.6	(3.0)	(165)	0.469%
21 05	4.5	14.6	16.2	7.3	3.7	(2.8)	(151)	0.456%
21 06	4.7	13.0	15.0	7.8	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	16.3	7.3	6.9	– 3.7	3.7	(3.8)	(200)	0.510%
22 08	17.1	6.6	6.5	– 5.8	3.7	(3.8)	(200)	0.515%
22 09	18.4	6.4	6.2	– 9.7	4.3	(3.6)	(186)	0.528%
22 10	18.7	5.0	4.6	– 10.6	4.5	(3.0)	(156)	0.561%
22 11	19.0	5.7	4.2	– 8.1	4.3	(3.6)	(186)	0.616%
22 12	19.1	5.1	3.3	– 7.6	4.3	(3.7)	(189)	0.612%
23 01	19.0	5.2	2.5	– 3.6	4.2	(4.3)	(221)	0.714%
23 02	18.4	4.1	1.9	– 4.7	4.0	(4.4)	(224)	0.668%

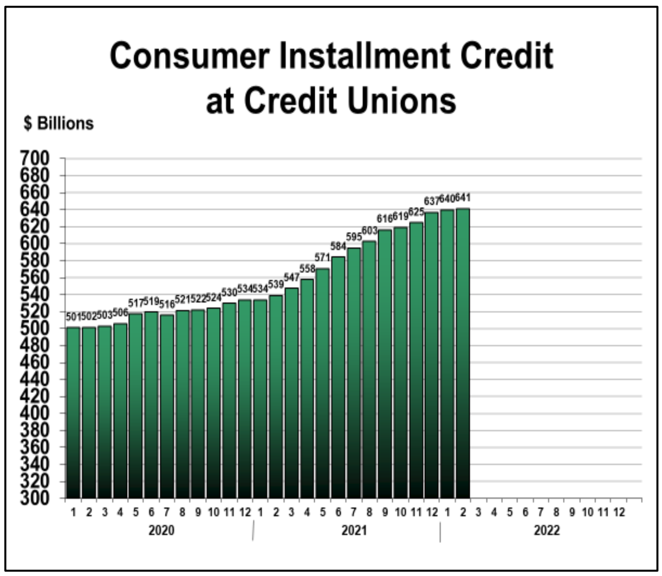
* Loans two or more months delinquent as a percent of total loans

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.

Steven Rick
800.356.2644, Ext. 665.5454
steve.rick@cunamutual.com
CUNA Mutual Group – Economics