Credit Union Trends Report

October 2023, August 2023 Data

Section one

Economic Trends

Credit union liquidity is close to the lowest level ever.

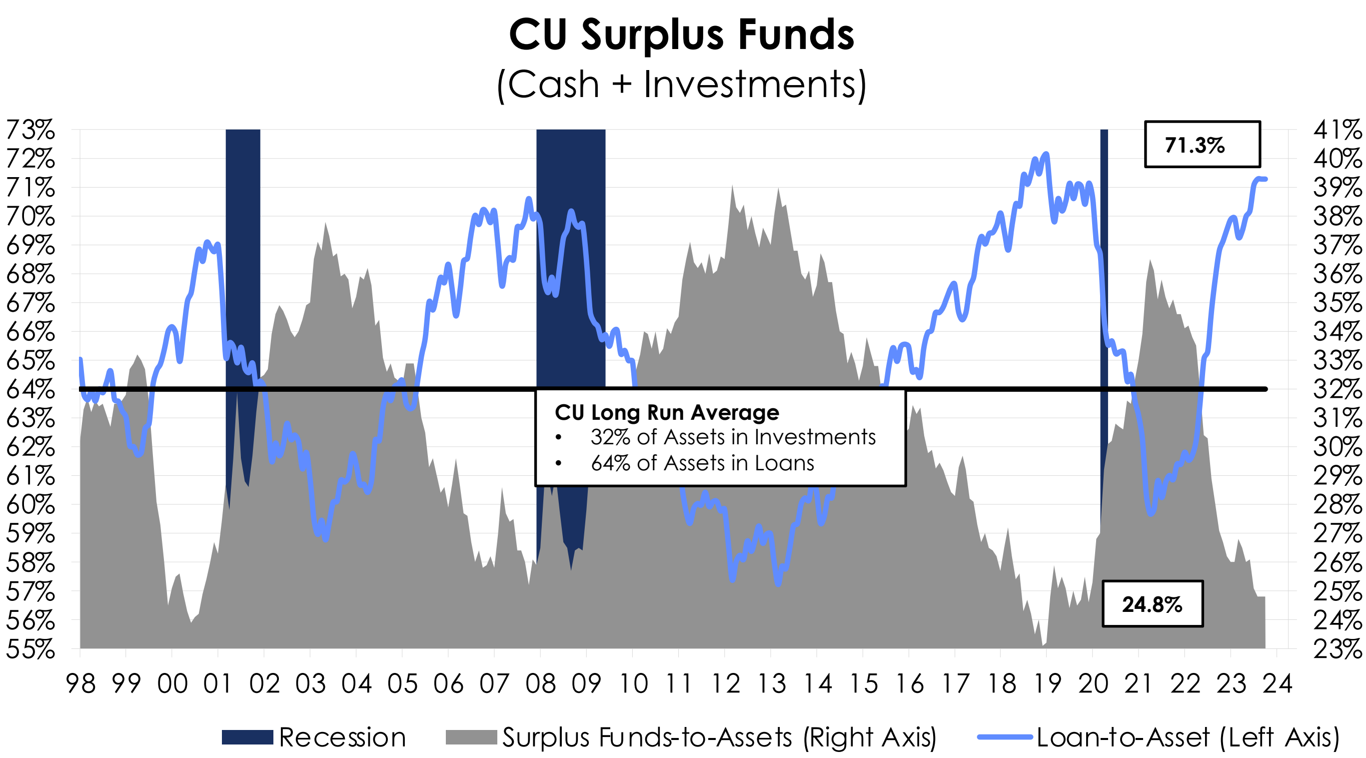
Economic Trends

Credit union liquidity has dropped to the lowest level since October 2019, and close to the lowest level in credit union history. Cash plus investments as a percent of assets fell from 28.9% in August 2022 to 24.8% in August 2023 **(see figure below)** which is only slightly above the record low of 23.1% reported in December 2018. This 4.1 percentage point drop in liquidity is due to credit unions liquidating their investment portfolio as a means of funding continued loan growth (10.7% year over year) in the face of weak deposit growth (0.6% year over year).

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 $430 over the last year, from $13,879 in August 2022 to $13,449 in August 2023. Despite this deposit headwind, total deposits have grown 0.6% due to new members bringing in new deposits.

Year-to-date savings balances grew only 0.7% in 2023, 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 5.3% year-to-date loan growth rate, pushing up the loan-to-asset ratio to 71.3%, which is above the long 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 out of lower yielding investments. But with the Federal Reserve expected to raise short-term interest rates by another 25 basis points later this year, credit union net interest margins could tighten as funding costs rise faster than asset yields.



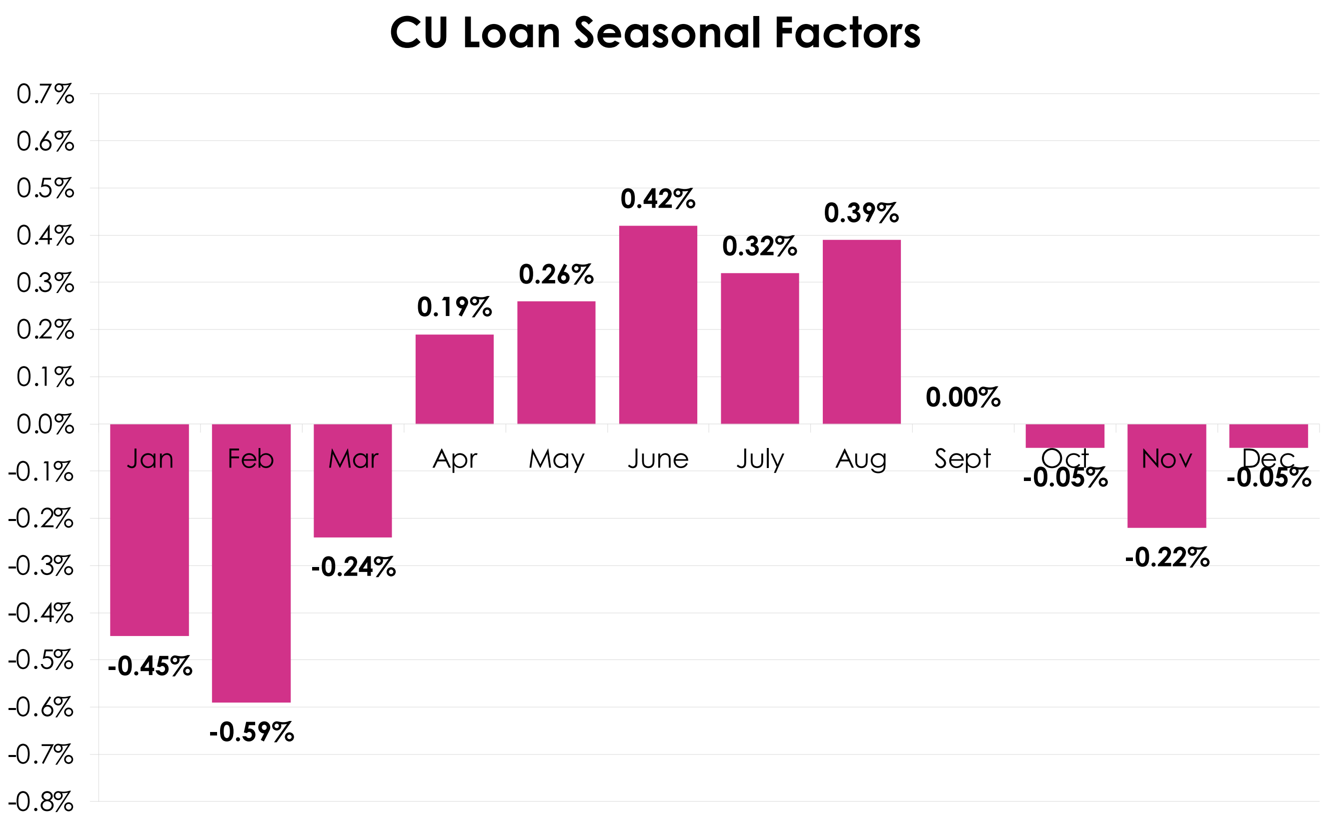
Source data: NCUA & Federal Reserve

Section two

Total Credit Union Lending

Credit union loan growth expected to slow in 2024 – 2025.

Total Credit Union Lending



Source: CUNA Economics & Statistics and TruStage – Economics

Credit union loan balances rose 0.8% in August, half the 1.6% pace set in August 2022 as higher loan interest rates curtail credit demand. Much of this monthly growth was due to adjustable-rate mortgage lending increasing 3.1%, second mortgage lending increasing 4.0%, home equity lending increasing 2.4%, used-auto lending increasing 0.6%. 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 strong 10.7%, which is above the 7% long-run annual loan growth rate. But loan growth has slowed recently. Credit union loan balances grew at a 6.2% seasonally-adjusted, annualized growth rate in August, significantly below the 18.3% pace set in August 2022.

We are forecasting below-trend credit union loan growth for the next two years (4% in 2024 and 6% in 2025) due to higher loan interest rates on new loans, a shift in consumer spending from goods to services, higher debt servicing costs on existing adjustable-rate loans, satiated demand for goods, the resumption of student loan payments, falling consume confidence and the exhaustion of stimulus/pandemic related "excess savings" that could have been used for loan downpayments.

Section three

Consumer Installment Credit

Credit union consumer installment credit is growing slightly faster than other lenders.

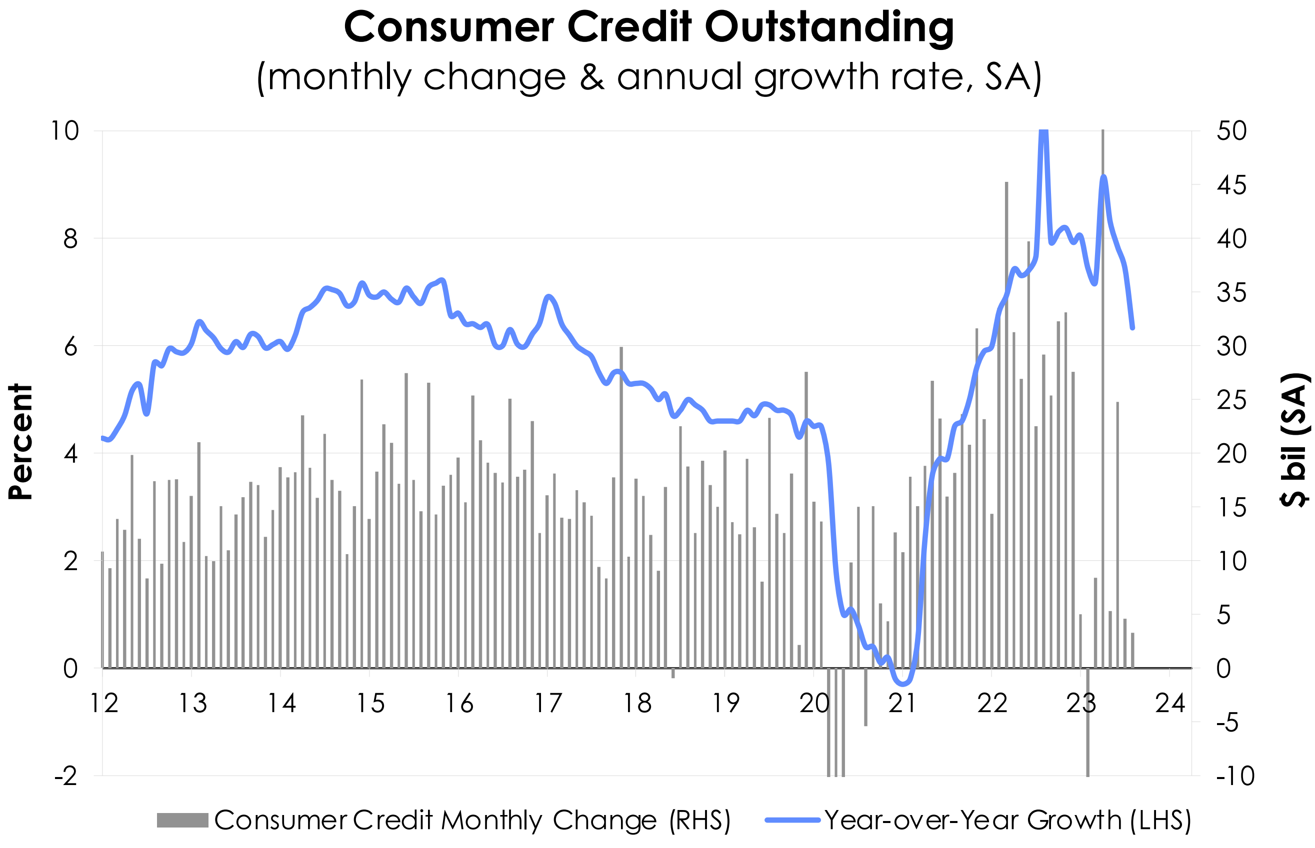
Consumer Installment Credit

Credit union consumer installment credit loan balances (auto, credit card and other unsecured loans) rose 0.5% in August, a deceleration from the 1.3% pace set in August 2022. During the last 12 months, credit union consumer installment credit grew 9.8%, greater than the total market excluding credit unions and government student loans at 9.5%.

According to the Federal Reserve, consumer credit outstanding for all lenders rose a small $3.3 billion in August **(see figure below)** a significant slowdown compared to the last few years; non-revolving credit (large loans such as automobile and student loans) fell $16.1 billion while revolving credit (credit cards and home equity lines of credit) rose $19.6 billion. The decline in non-revolving credit was due to federal student loan forgiveness, rather than nervous consumers. With the federal portion of nonrevolving debt stripped out, non-revolving credit would have posted a gain of $10.7 billion.

Consumer credit balances grew only 6.3% during the last 12 months due to the federal student debt relief, the slowest pace since the spring of 2022, but above its long run average of 5.6%.

Going forward, expect consumer credit growth to decelerate into 2024 as consumer demand becomes satiated, higher interest rates make debt less attractive and economic uncertainty increases.



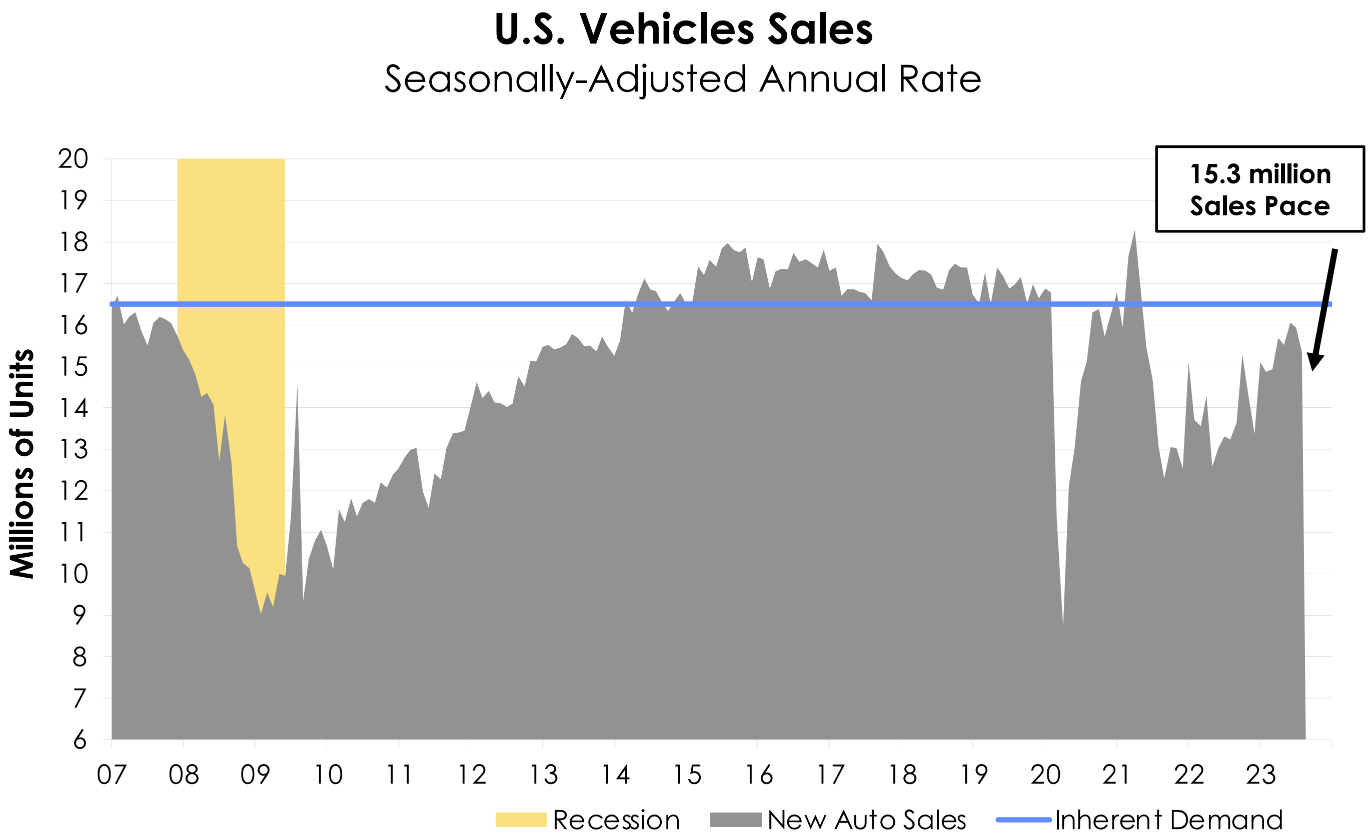
Source: Federal Reserve, TruStage – Economics

Section four

Vehicle Loans

Credit union auto loan lending slowed significantly over the summer.

Vehicle Loans



Source data: Autodata Corp.

Vehicle sales fell in August to a 15.3 million unit seasonally-adjusted, annualized sales rate, which is down 4% from July, but up 16% from August 2022 when slightly more than 13.2 million units were sold. New vehicle sales are still well below the pre-pandemic level considered to be the market equilibrium. Approximately 16.5 million is considered the inherent demand for new vehicles. High auto loan rates will ensure that new-vehicle sales remain below the 16.5 million pace through 2025.

Despite an increase in inventories, the average transaction vehicle price remains elevated and have declined by only 3% from their peak in December 2022. High vehicle prices is leading some prospective buyers to postpone purchasing a new vehicle. However, pent-up demand for new vehicles will keep vehicle sales around the 15.5 million pace for the remainder of 2023.

Credit union new-auto loan balances rose only 0.2% in August, below the 2.3% pace set in August 2022. New-auto loan balances declined 0.2% in August on a seasonally-adjusted annualized rate. With auto loan interest rates now in the 7-8% range, auto demand is being curtailed. Used-auto loan balances didn't fare much better with balances rising only 0.6% in August, down from 1.6% in August 2022. Used-auto loan balances rose a small 0.7% in August on a seasonally adjusted annualized rate.

Section five

Real Estate Information

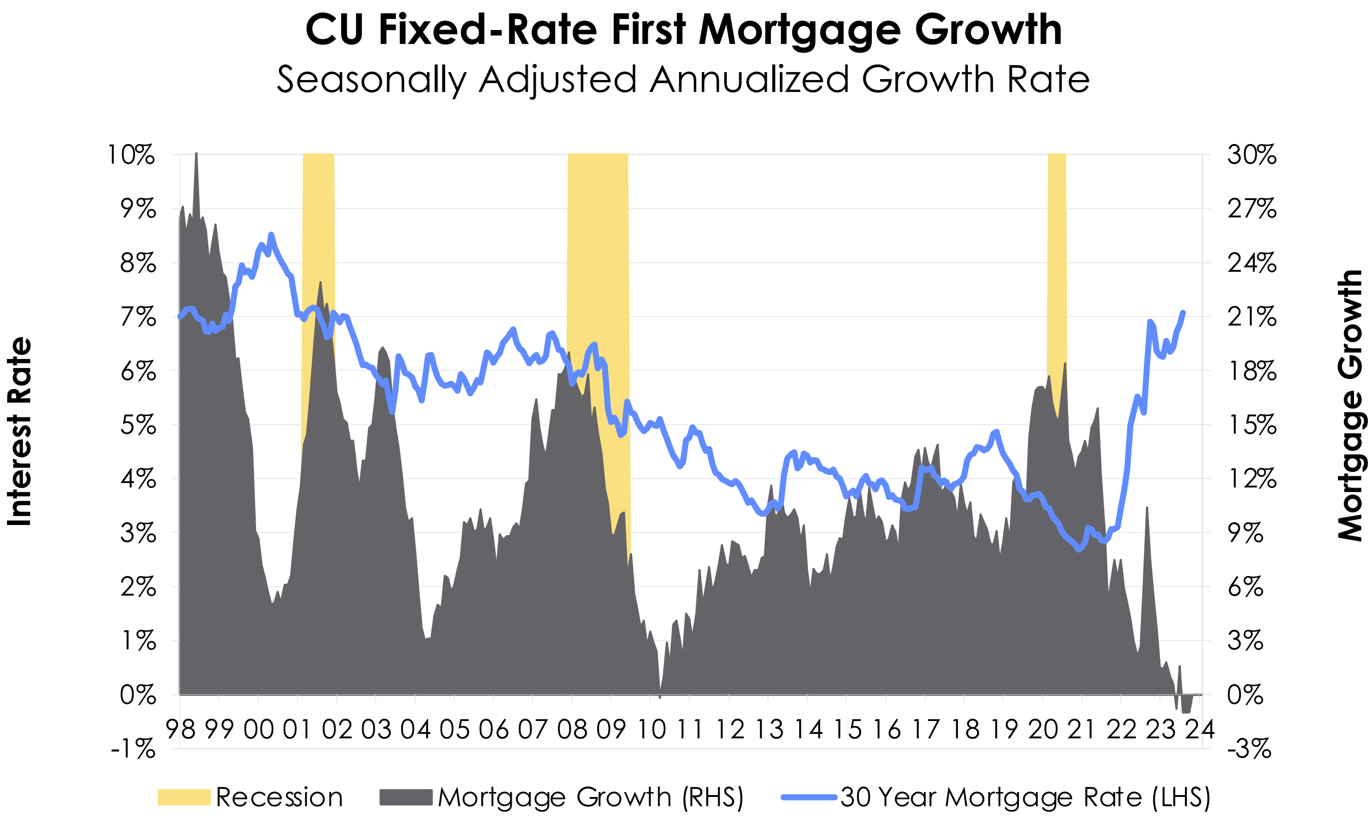
Credit union fixed-rate first mortgage loan balances declined almost 1% so far this year.

Real Estate Information

Credit union fixed-rate, first mortgage loan balances fell 0.05% in August, lower than the -0.01% pace reported in August 2022. When comparing year-to-date growth, fixed-rate first mortgage balances fell 0.63%, below the -0.07% reported during the first 8 months of 2022. The drop in mortgage loan balances is due to the rise in interest rates. The contract interest rate on a 30-year, fixed-rate conventional home mortgage rose to 7.07% in August **(see figure below)**, from 6.84% in July, and above the 5.22% reported in August 2022.

Home prices rose 0.6% in July, according to the S&P Core Logic Home Price Index and rose 1% year-over-year despite the worst housing affordability in almost 40 years. Home prices are now back to their June 2022 peak. In the five years preceding the pandemic the average monthly price appreciation was just over 0.4%.

Higher interest rates have reduced housing demand to recessionary lows, but a simultaneous reduction in housing supply is keeping home prices from declining. Current homeowners have a strong incentive to stay in the homes because of the large spread between the effective mortgage rate and the current mortgage rate. The effective mortgage rate, which is the average rate on all outstanding mortgages, is almost 400 basis points below the current mortgage rate. Following two years of double-digit home price growth, the housing market remains overvalued. So, expect home prices to fall 3-5% in 2024.



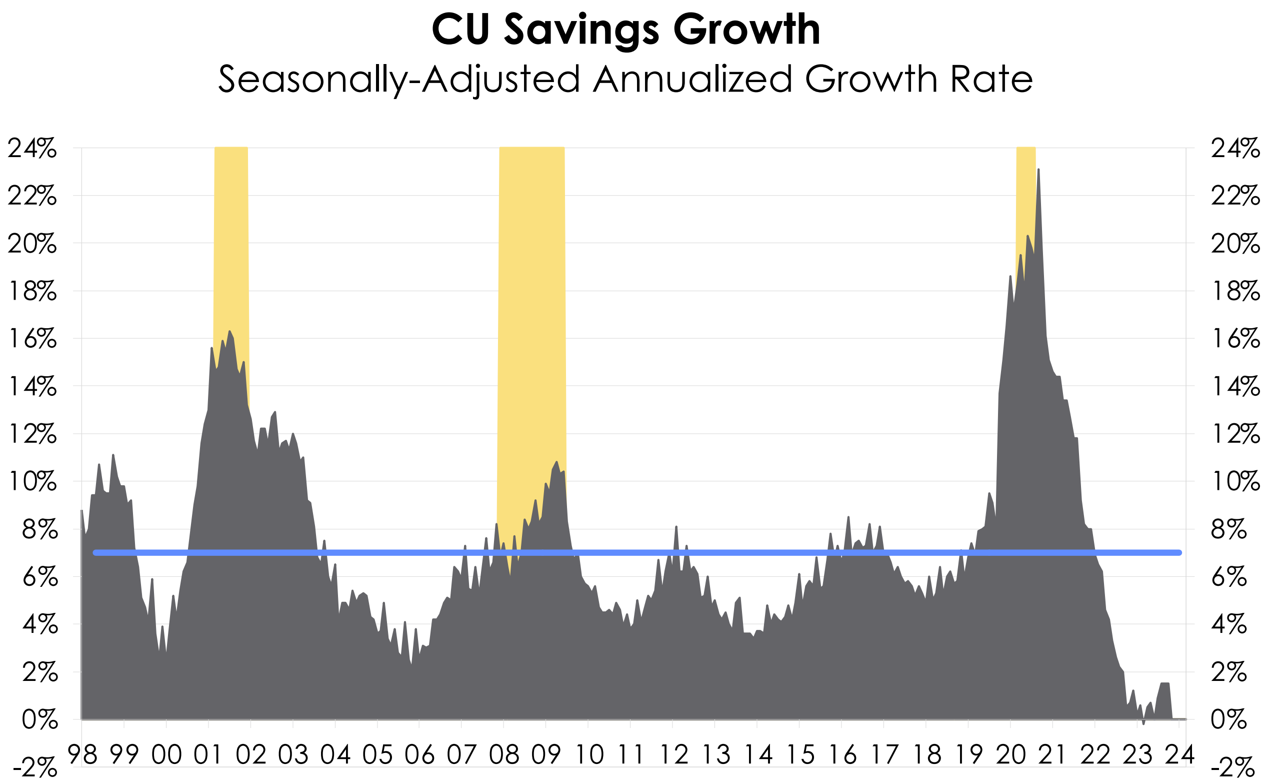
Source data: CUNA & NCUA

Section six

Savings and Assets

Credit union savings balances growth remains at exceptionally low rates.

Savings and Assets



Source: CUNA & NCUA

Credit union savings balances rose 0.1% in August, above the 0.3% decline in balances reported in August 2022. August is normally one of the weakest months of the year for savings growth due to seasonal factors (vacation spending and auto loan down payments) typically shaving off 0.33% from the underlying trend growth rates.

Credit union deposit growth is under downward pressure due to the Federal Reserve reducing the money supply with their "Quantitative Tightening" program. During the first eight months of the year, credit union deposits rose only $12.4 billion, down from the $60 billion increase reported during the first 8 months of 2022.

Credit union members demand for share certificates is exceptionally strong due to the surge in short-term market interest rates. Share certificate balances are up 48% ($143 billion)during the first 8 months of this year, reaching a record $444 billion. During the same time share draft balances fell $13 billion, regular share balances fell $69 billion and money market account balances fell $50 billion.

Savings balances grew at a below-trend 1.5% seasonally-adjusted, annualized growth rate in August, **(see figure above).** We expect savings balances to grow 0% in 2023 and 3% in 2024, below the long-run average of 7%.

Section seven

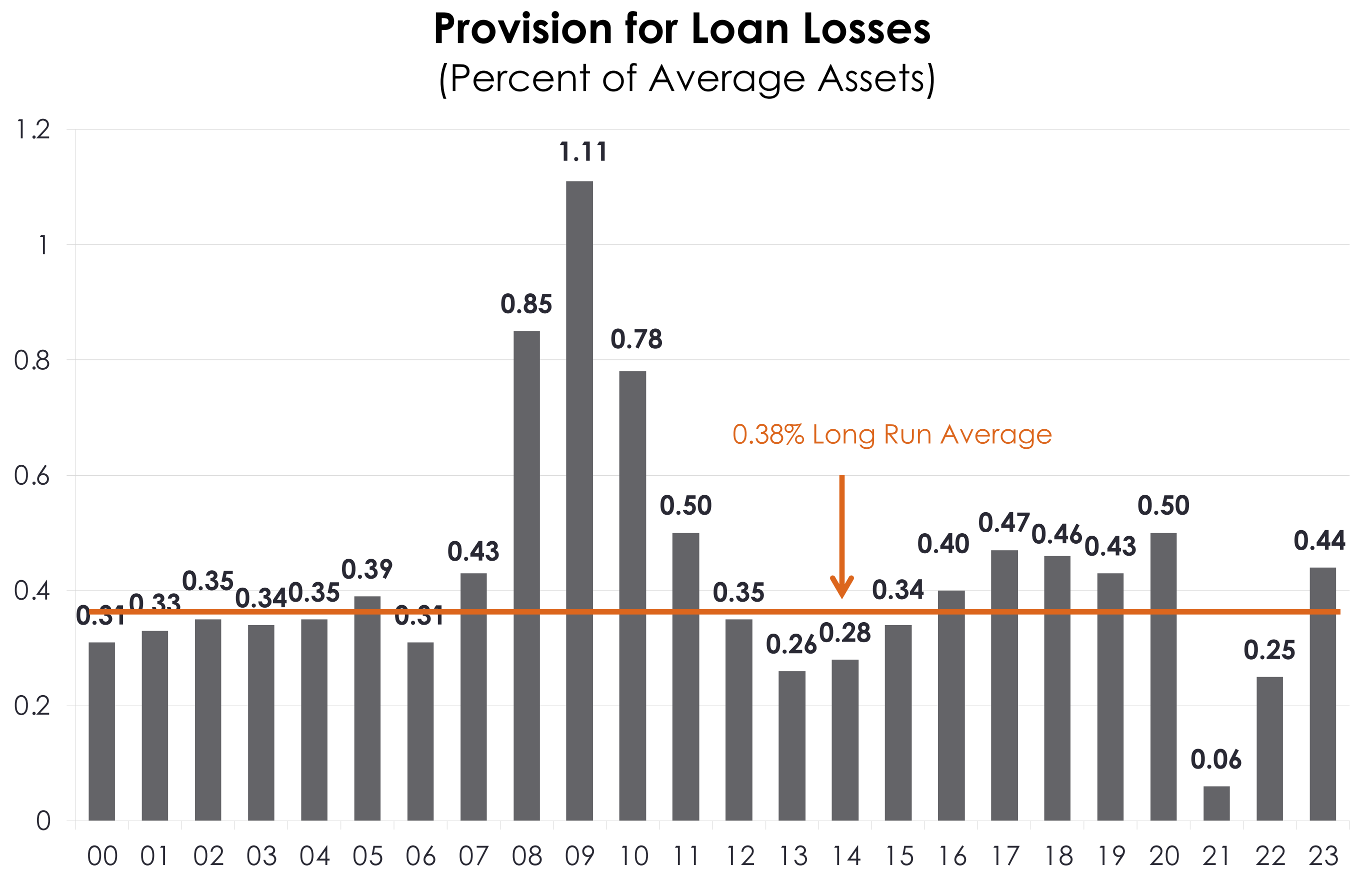
Capital and Other Key Measures

Credit union provision for loan loss ratios rise above their long run average.

Capital and Other Key Measures

Credit union provisions for loan losses, as a percent of assets, rose to 0.44% in the second quarter of 2023 **(see figure below)** from the relatively low 0.18% set in the second quarter of 2022 and the 0.25% set for all of 2022. 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).** This surge in provisions was one factor reducing credit union return-on-assets ratio from 0.84% in the second quarter of 2022 to 0.77% in the second quarter of 2023.

Provisions are rising this year as net loan charge offs rise above their 0.50% long run trend rate. Net loan charge offs to average loans rose to 0.54% in the second quarter, almost twice the 0.29% set in the second quarter of 2022. Many credit union members are experiencing financial difficulties due Four factors. First, high inflation reduced many members real (inflation adjusted) incomes and therefore reduced the purchasing power of their incomes. Second, higher interest rates are squeezing consumers who may have variable rate debt by raising their debt service costs. Third, high gas prices has reduced funds available for debt servicing. And finally, during the summer many credit union members exhausted any "excess savings" they may have accumulated during the COVID-19 pandemic. With the economy expected to slow in 2024, expect the unemployment rate to rise from the 3.8% rate today. This will increase loan charge offs and provision for loan losses next year.



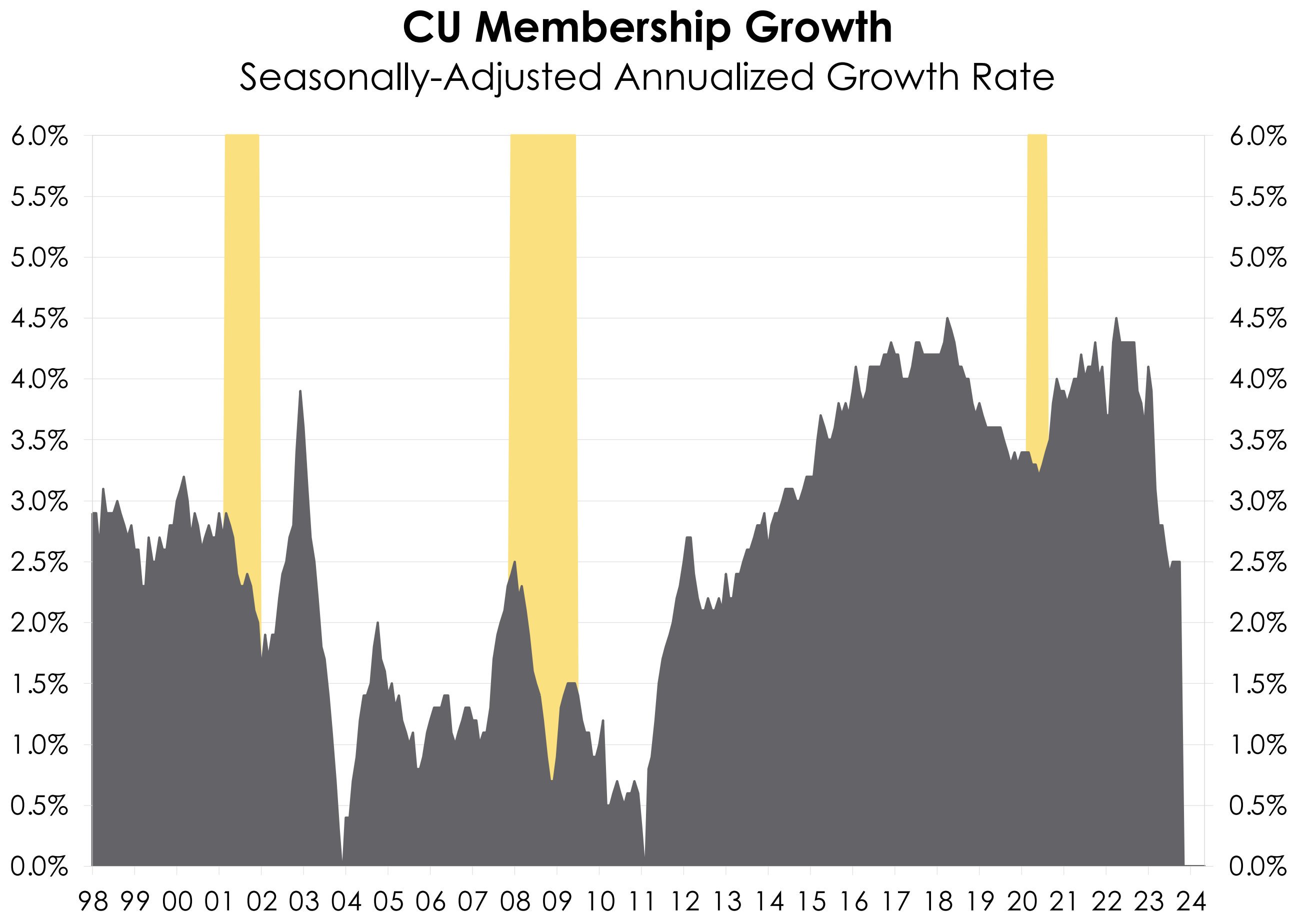
Source: CUNA Economics & Statistics and TruStage – Economics

Section eight

Credit Unions and Members

Membership growth slows due to slower loan growth

Credit Unions and Members



Source: CUNA Economics & Statistics and TruStage – Economics

Credit union memberships rose by 225,000 in August, or 0.2%, below the 472,000 new members, or 0.4%, added in August 2022. This has pushed credit union memberships to over 140.7 million. Year-to-date credit union memberships rose 2.9%, below the 3.4% pace in the similar time in 2022. Slower loan growth is a major factor contributing to the membership growth slowdown.

Memberships grew at a 2.5% seasonally-adjusted, annualized growth rate August **(see figure above**) a deceleration from the 4% pace reported in 2022.

The slowdown in credit union membership growth to 2.5% was to be expected as the average growth rate during the last 20 years was about 2.3%. The recent pace of 2.5% 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*
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	1,538.7	176.7	319.3	496.0	64.7	75.1	**639.6**	551.8	110.4	662.2	237.0
23 02	1,544.6	177.2	320.9	498.1	65.0	74.9	**641.0**	557.8	112.0	669.9	233.7
23 03	1,555.2	178.3	323.1	501.4	65.0	75.0	**645.0**	567.1	113.7	680.9	229.4
23 04	1,565.8	177.9	322.7	500.6	66.2	76.0	**649.3**	564.7	118.9	683.5	232.9
23 05	1,577.3	177.9	322.9	500.9	67.4	77.3	**649.6**	568.2	121.5	689.7	238.0
23 06	1,588.9	178.5	325.2	503.7	68.5	77.7	**654.2**	572.0	123.5	695.5	239.2
23 07	1,599.9	178.9	326.7	505.5	69.7	79.2	**658.2**	573.9	126.2	700.1	241.5
23 08	1,612.8	179.2	328.6	507.8	70.8	80.0	**661.5**	576.7	129.9	706.7	244.7

* 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*
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	18.9	22.4	18.8	20.1	23.3	16.2	**19.9**	0.2	29.4	4.2	90.3
23 02	18.2	21.9	18.3	19.6	20.1	16.0	**19.0**	6.0	32.6	9.7	48.7
23 03	17.1	21.2	16.7	18.2	20.8	15.1	**17.9**	12.6	39.6	16.4	17.1
23 04	15.9	16.0	14.4	15.0	20.9	15.6	**16.4**	10.2	40.5	14.5	18.7
23 05	14.3	14.1	12.1	12.8	20.7	15.1	**13.9**	8.7	40.2	13.1	19.3
23 06	12.6	12.4	10.1	10.9	18.4	14.1	**12.0**	7.9	36.6	12.1	15.8
23 07	11.6	7.5	9.2	8.6	17.4	14.6	**10.6**	5.7	34.2	9.9	19.8
23 08	10.7	5.3	8.1	7.1	16.0	14.1	**9.8**	5.3	33.0	9.5	16.7

* 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
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	1,538.7	2,201.8	1,865.0	197.8	138.1	4,950	82.5	9.0
23 02	1,544.6	2,208.9	1,887.9	192.3	138.5	4,918	81.8	8.7
23 03	1,555.2	2,245.6	1,919.1	196.4	139.1	4,913	81.0	8.7
23 04	1,565.8	2,253.2	1,905.2	198.5	139.3	4,889	82.2	8.8
23 05	1,577.3	2,253.6	1,896.1	201.5	139.7	4,865	83.2	8.9
23 06	1,588.9	2,263.9	1,907.6	201.3	139.9	4,860	83.3	8.9
23 07	1,599.9	2,251.3	1,889.4	202.9	140.5	4,858	84.7	9.0
23 08	1,612.8	2,262.7	1,891.9	205.7	140.7	4,822	85.2	9.1

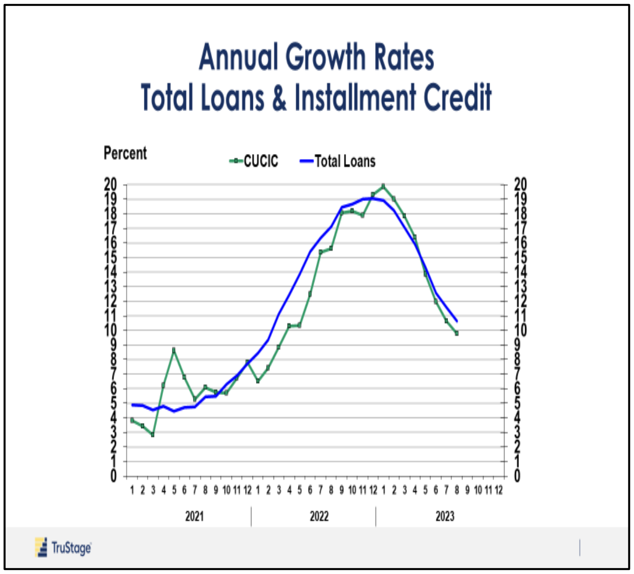
Credit Union Growth Rates

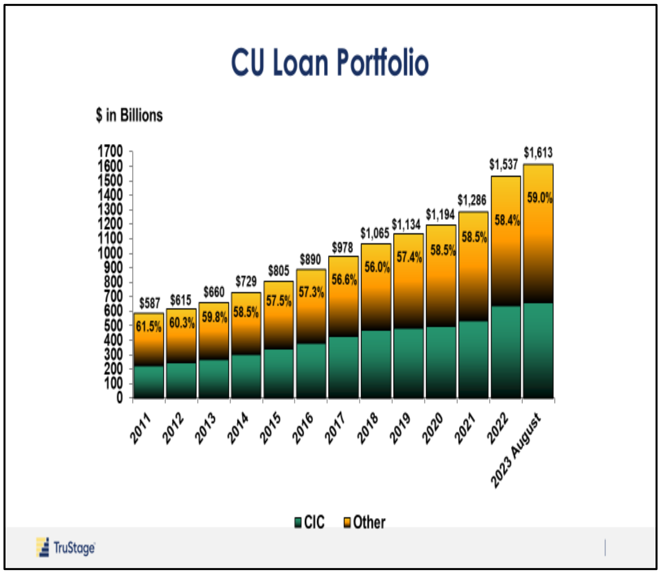
Percent Change From Prior Year

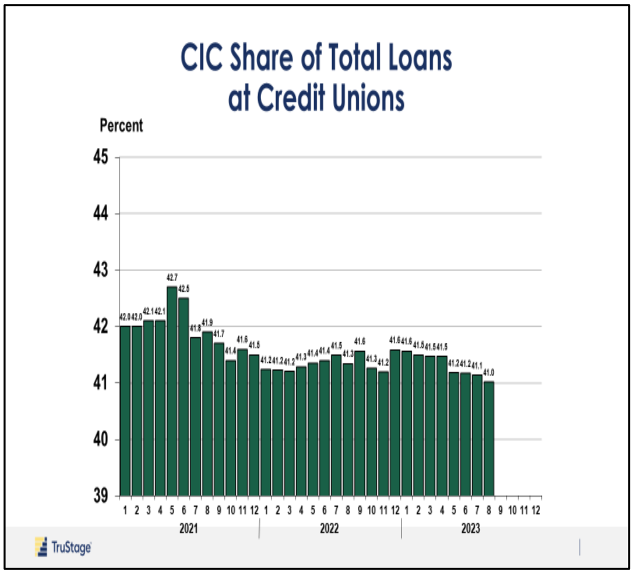
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
21 08	5.5	13.3	14.4	8.9	3.8	(2.5)	(134)	0.452%
21 09	5.5	12.9	14.4	8.3	3.9	(2.8)	(149)	0.456%
21 10	6.2	12.8	13.5	8.1	3.9	(3.6)	(192)	0.480%
21 11	6.7	12.9	13.5	7.6	3.9	(3.4)	(181)	0.491%
21 12	7.7	11.7	12.6	7.8	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	2.6	– 4.4	4.3	(3.9)	(221)	0.667%
23 02	18.92	4.0	2.2	– 6.2	4.3	(3.9)	(224)	0.582%
23 03	17.1	4.3	2.0	-1.0	4.3	(3.9)	(220)	0.523%
23 04	15.9	3.8	0.5	3.7	3.9	(4.2)	(212)	0.588%
23 05	14.3	3.8	0.7	3.8	3.8	(4.0)	(205)	0.594%
23 06	12.6	4.3	1.2	4.5	3.6	(4.0)	(202)	0.604%
23 07	11.6	2.6	0.2	3.0	4.1	(3.8)	(193)	0.650%
23 08	10.7	3.6	0.6	5.6	3.9	(4.4)	(222)	0.675%

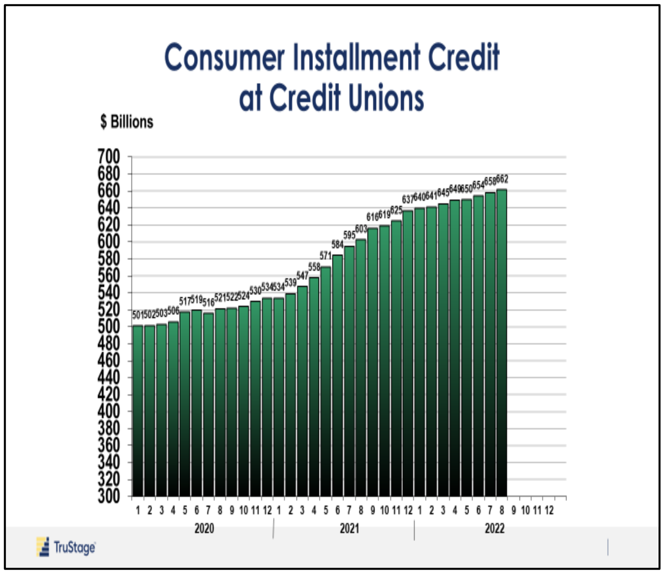
* Loans two or more months delinquent as a percent of total loans

Consumer Installment Credit









Meet Steve Rick

Steve Rick is the Chief Economist for TruStage. 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 TruStage 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 TruStage – Economics. To access this report on the Internet, go to www.trustage.com/cu-trends. 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@trustage.com
TruStage – Economics

TruStage™

Insurance | Investments | Technology