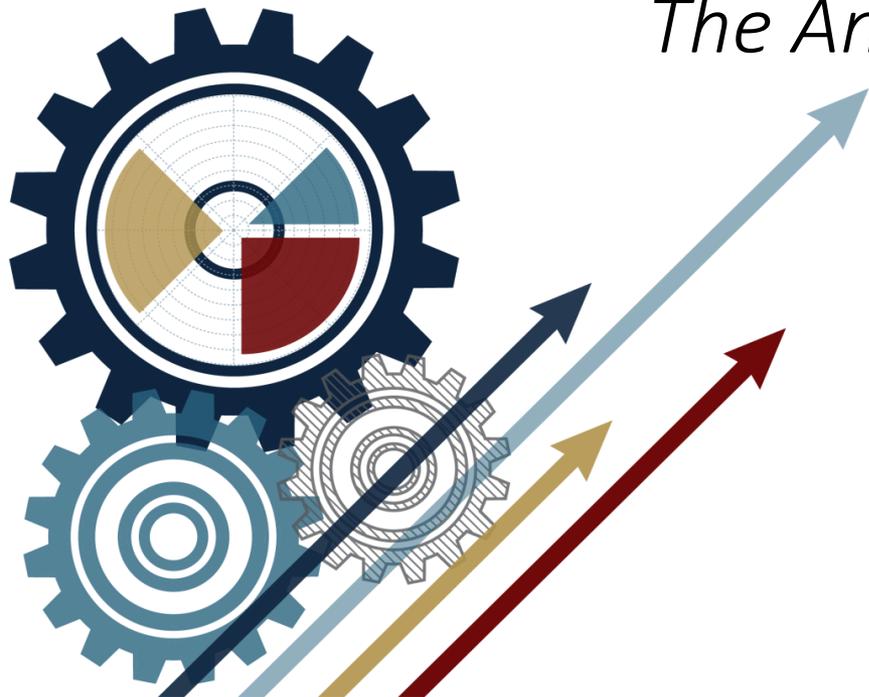


# Trendwatch 1Q 2018

*The Annual Report for the Industry*

Data for March 31, 2018

Call Dates: May 16 & 17, 2018



# Welcome!



When you join the event, you should automatically be connected to the audio broadcast with your computer. To listen by phone, please dial **+1-415-655-0003**, then input the access code **664 291 470**.



To help you follow along with TrendWatch, earlier today we sent the presentation slides for the event to the email address you used to register for TrendWatch. We will also send you a copy of slides after the event.

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# Slide Link

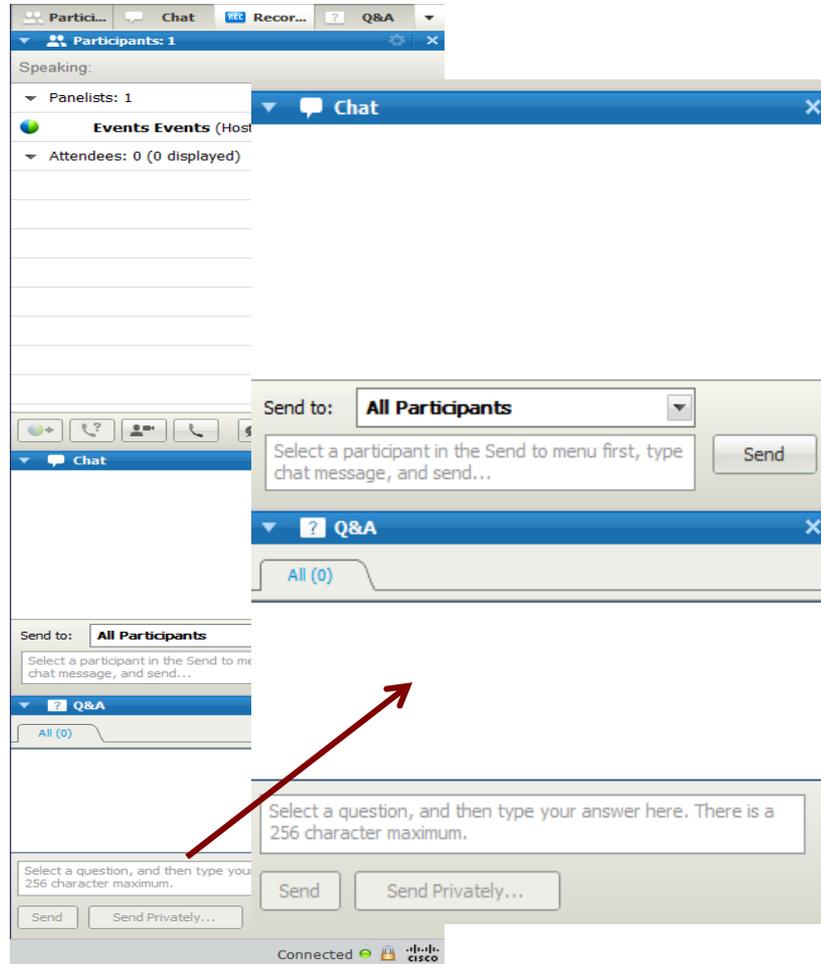
Today's slides can be found online at:

<http://bit.ly/1Q18-Day-1>

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# We Encourage Questions!!!



Use the **Q&A box** located on the right side of the screen to type your comments or questions.

The background features a collage of overlapping, stylized mobile devices in various colors (blue, green, red, grey, orange, purple). Each device has a white play button icon in the center, suggesting a video or webinar theme. The devices are arranged in a way that they appear to be floating or layered on top of each other.

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May 30, 2018 at 2:00 PM

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# Tell us what you thought!



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# Today's Lineup

## Market Update

*Hafizan Hamzah, Director, Investment Management Group, ALM First*

## 1Q 2018 Credit Union Trends & Key Issues

*Alix Patterson, Partner, Callahan & Associates*

*Sam Taft, AVP, Analytics & Business Development, Callahan & Associates*

## College Cost & Compare Calculator

*Anita Newton, Chief Innovation Officer, CommunityAmerica Credit Union*

# ALM FIRST MARKET UPDATE

Callahan Quarterly Trendwatch | May 16, 2018



**Hafizan Hamzah**  
*Director, Investment Management Group*

## Speaker – Hafizan Hamzah



- Director, Investment Management Group
- Assists in developing client-specific portfolio strategies, as well as portfolio rebalancing
- Responsible for monitoring and rebalancing hedges associated with the firm's mortgage pipeline and mortgage servicing rights hedge strategies

# Economic Update

- Three near-term concerns for risk markets:
  - Legal concerns for President Trump (political instability)
  - Geopolitical (Syria, North Korea, etc.)
  - Trade war
- US/China trade talks have resumed this week, Vice Premier Liu He will meet with Secretary Mnuchin for 5 days
  - China has been proactive in negotiations, using North Korean negotiations as a bargaining tool
  - Reversal on the decision on banning access to American suppliers for Chinese phone maker ZTE

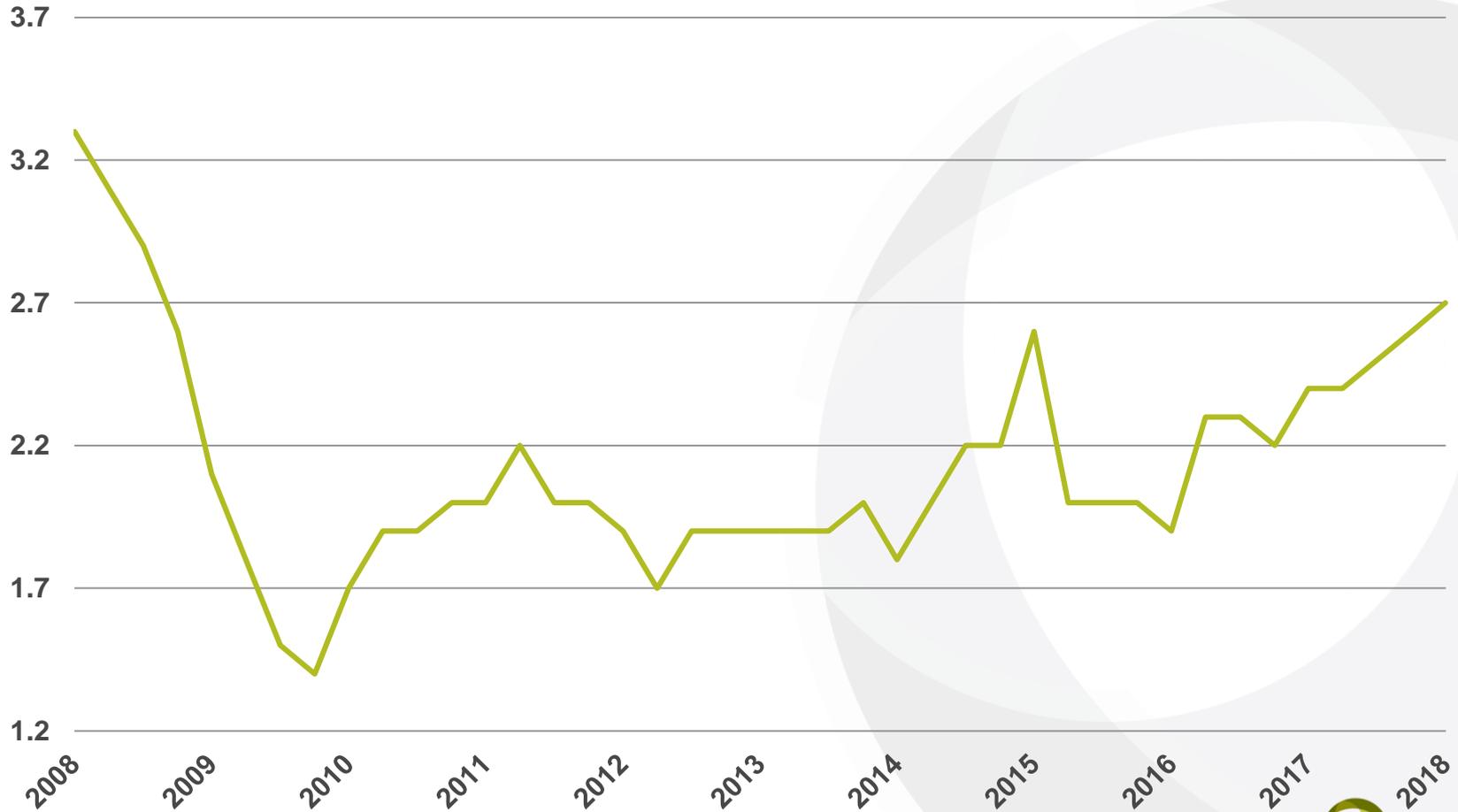


## Economic Update (cont.)

- Q1 GDP was better than expected (2.3% vs 2.0%), despite weakest personal consumption growth since Q2 2013
- Unemployment/underemployment rates fell to 17-18 year low in April, but wage growth was less robust
- Core PCE is now at 1.9% y/y, right at 2% target
- Employment Cost Index, ECI, rose 2.7% y/y in Q1 (highest rate of current expansion)

# Compensation Growth

## Employment Cost Index (YoY %)

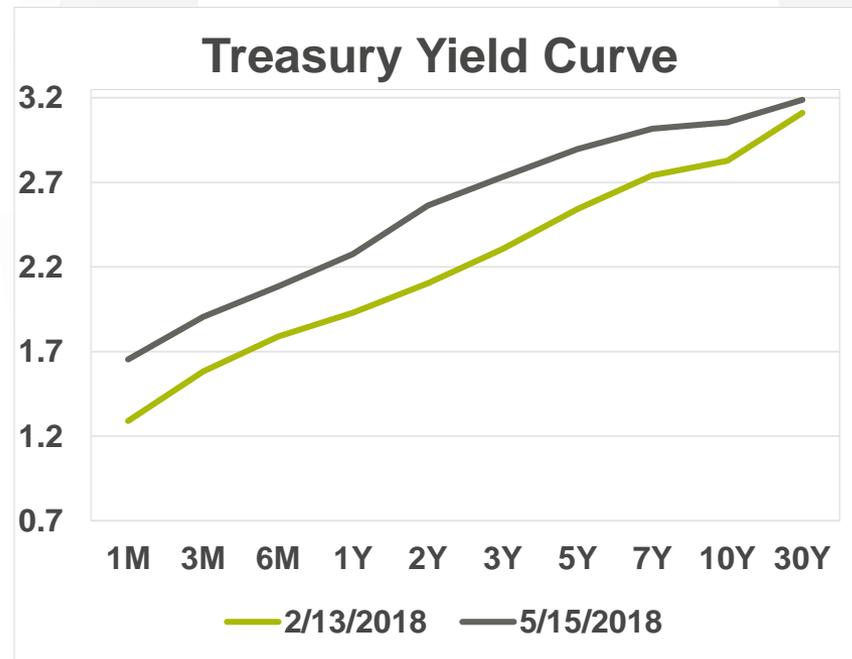


Source: BLS, Bloomberg

# Current Market Themes

- Treasury yields have shifted higher and flatter since February
- Spread between 2 and 10 year part of the curve is hovering around the 10-year low
- Spreads on high-credit quality assets are generally wider since 2/13, with the exception of MBS which was flat for the period

Tenor	5/15/2018 (%)	2/13/2018 (%)	Change (bps)
3-Months	1.91	1.58	0.32
6-Months	2.09	1.79	0.30
1-Year	2.28	1.93	0.35
2-Year	2.56	2.10	0.46
5-Year	2.90	2.54	0.36
10-Year	3.06	2.83	0.23
30-Year	3.19	3.11	0.08
<b>Curves</b>			
2yr-5yr	0.33	0.44	-0.10
2yr-10yr	0.49	0.73	-0.23
2yr-30yr	0.63	1.01	-0.38
5yr-10yr	0.16	0.29	-0.13





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---

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- How your credit union's liquidity position stacks up to your peers?
- How the institution's investment portfolio composition and term structure compare?
- What the portfolio's duration position implies for future interest rate movements?

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Or visit [www.trustcu.com](http://www.trustcu.com) to learn more about our portfolios.

# Industry Overview

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# Fed's Barkin: Economy No Longer Needs Stimulative Interest-Rate Stance

Richmond Fed president says the economy is 'remarkably strong'

## Janet Yellen's Last Act at the Federal Reserve: Punishing Wells Fargo

## Apple's First-Ever CFPB Lobbying Focuses on Mobile Payments

Apple's latest U.S. lobbying disclosure showed the company's \$2.14 million in the first quarter was the second-highest ever spent.

## Do credit unions still warrant a tax exemption?

## Iowa Credit Unions Win Fight With Bankers Over Tax Issue

The Iowa Bankers Association warns that the fight is not over.

## Calif. credit union granted field-of- membership expansion

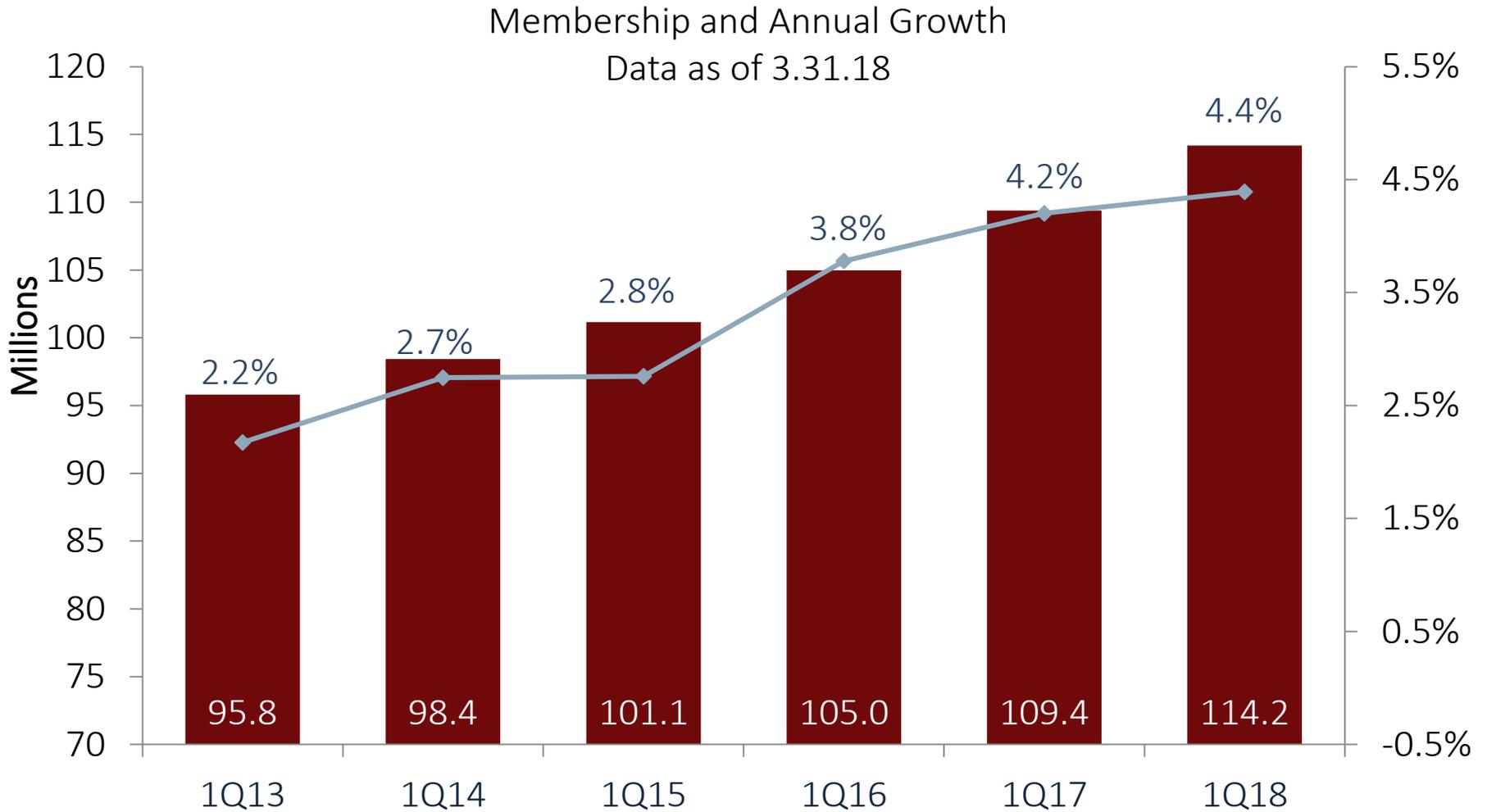
## Loans lead annual growth rate and dollar volume

	As of 3/31/2018	12-mo. Growth 1Q18	12-mo. Growth 1Q17
Assets	\$1,434.6B	5.8%	7.9%
Loans	\$983.3B	9.8%	10.7%
Shares	\$1,219.4B	5.7%	8.4%
Investments	\$378.2B	-3.6%	3.0%
Capital	\$159.9B	7.0%	5.7%
Members	114.2M	4.4%	4.2%

Shares, investments lead quarterly growth rates.

	As of 3/31/2018	As of 12/31/2017	Quarterly Growth
Assets	\$1.4T	\$1.4T	1.9%
Loans	\$983.3B	\$967.9B	0.7%
Shares	\$1,219.4B	\$1,173.7B	3.0%
Investments	\$378.2B	\$355.1B	5.6%
Capital	\$159.9B	\$158.0B	0.3%
Members	114.2M	112.6M	0.6%

# Nationally, membership growth continues to accelerate



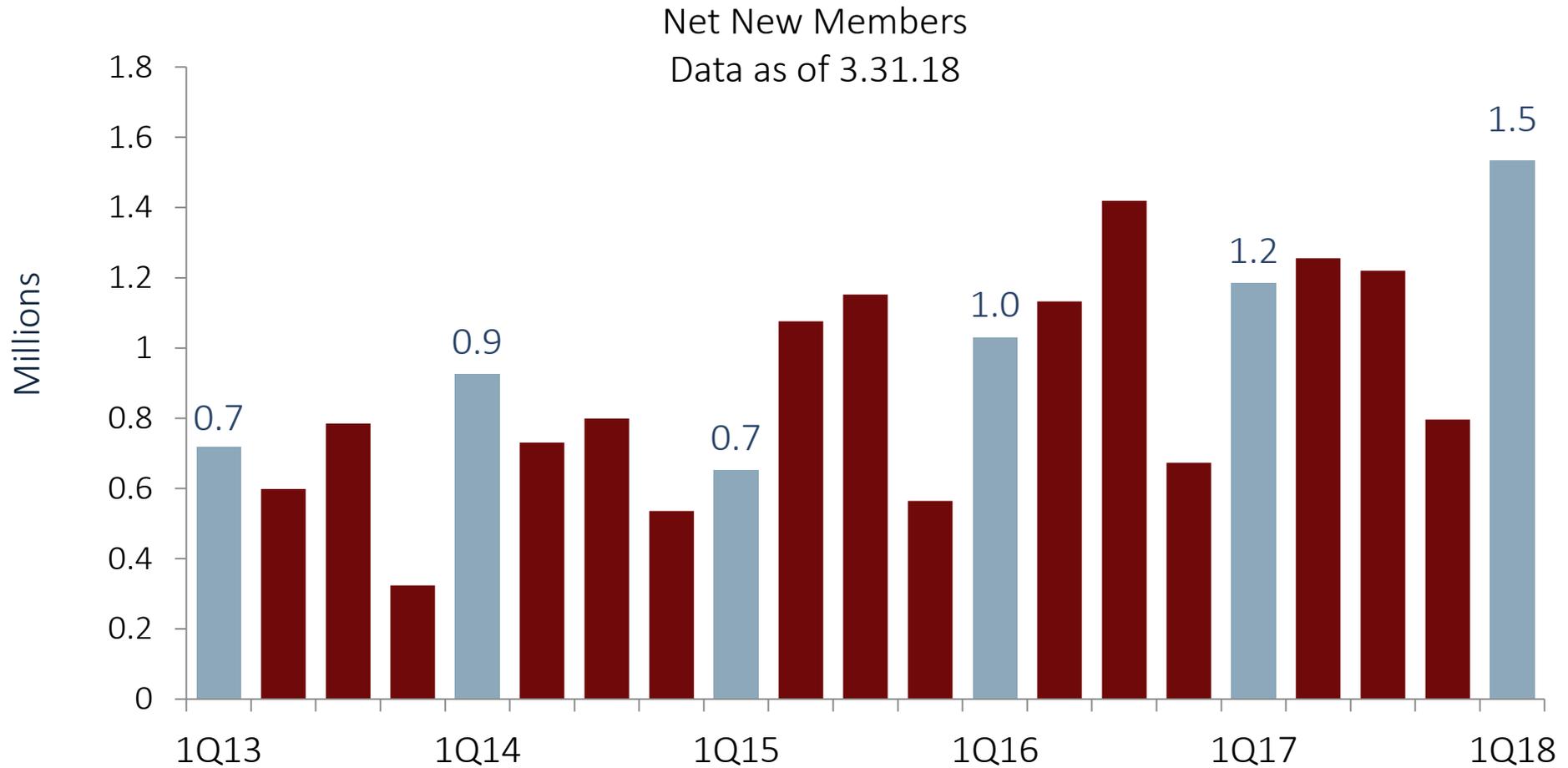
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Source: Callahan's Peer-to-Peer Analytics

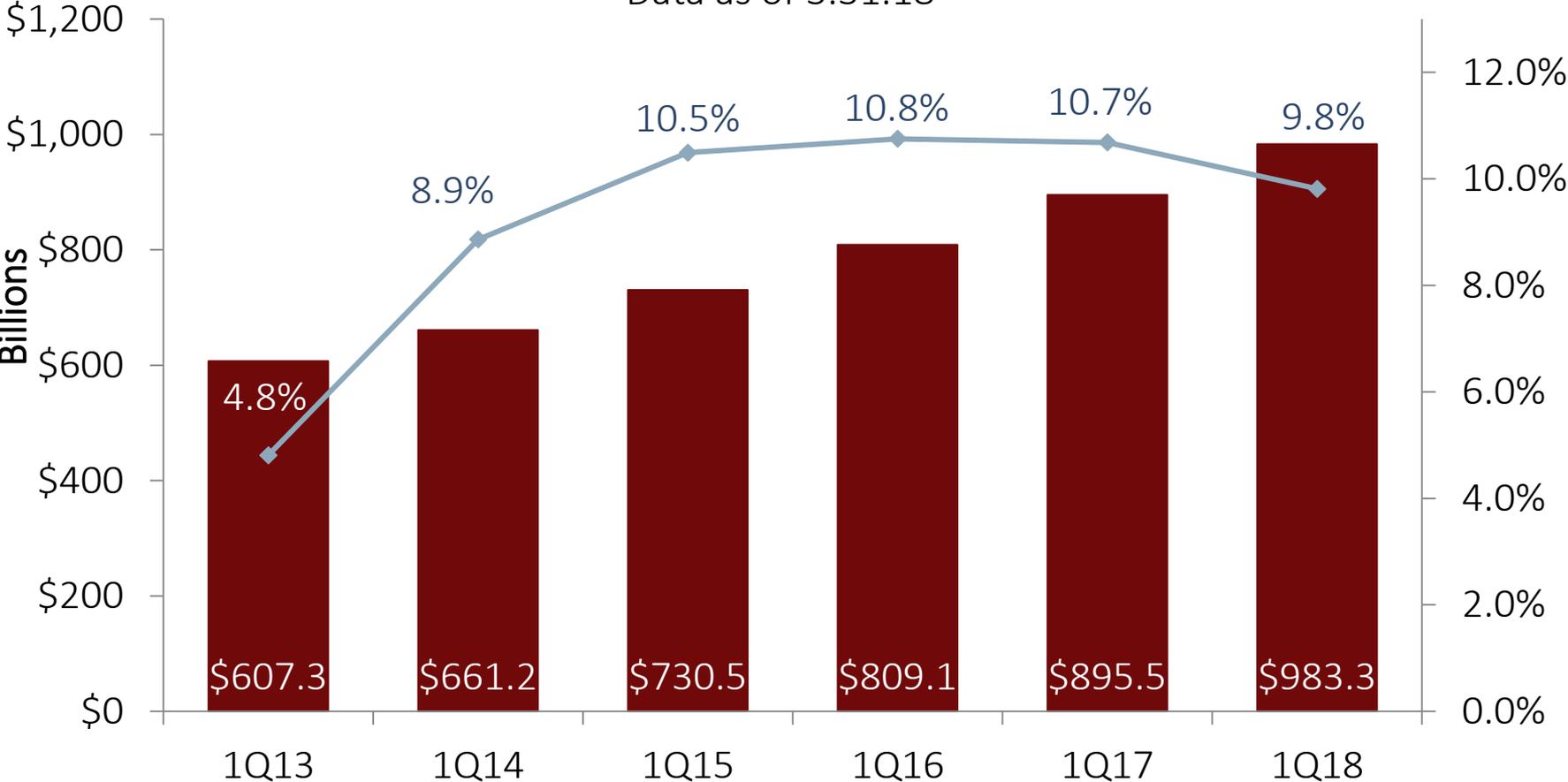


# Q1 new member growth highest ever



# Loans on pace to top \$1T, even while growth rate slows

Total Loans and Annual Growth  
Data as of 3.31.18



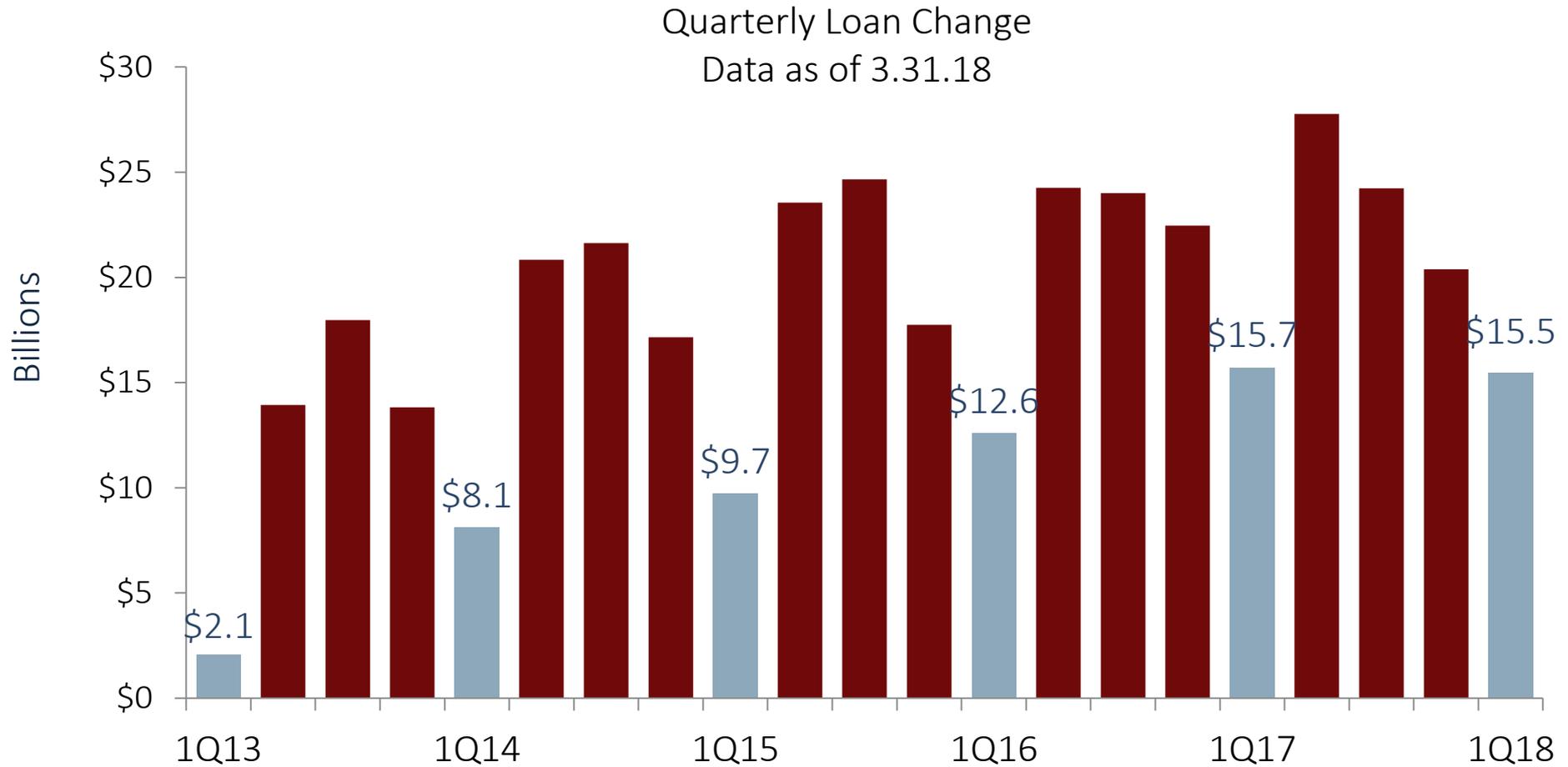
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Source: Callahan's Peer-to-Peer Analytics



# Over \$15B in loans added to balance sheet



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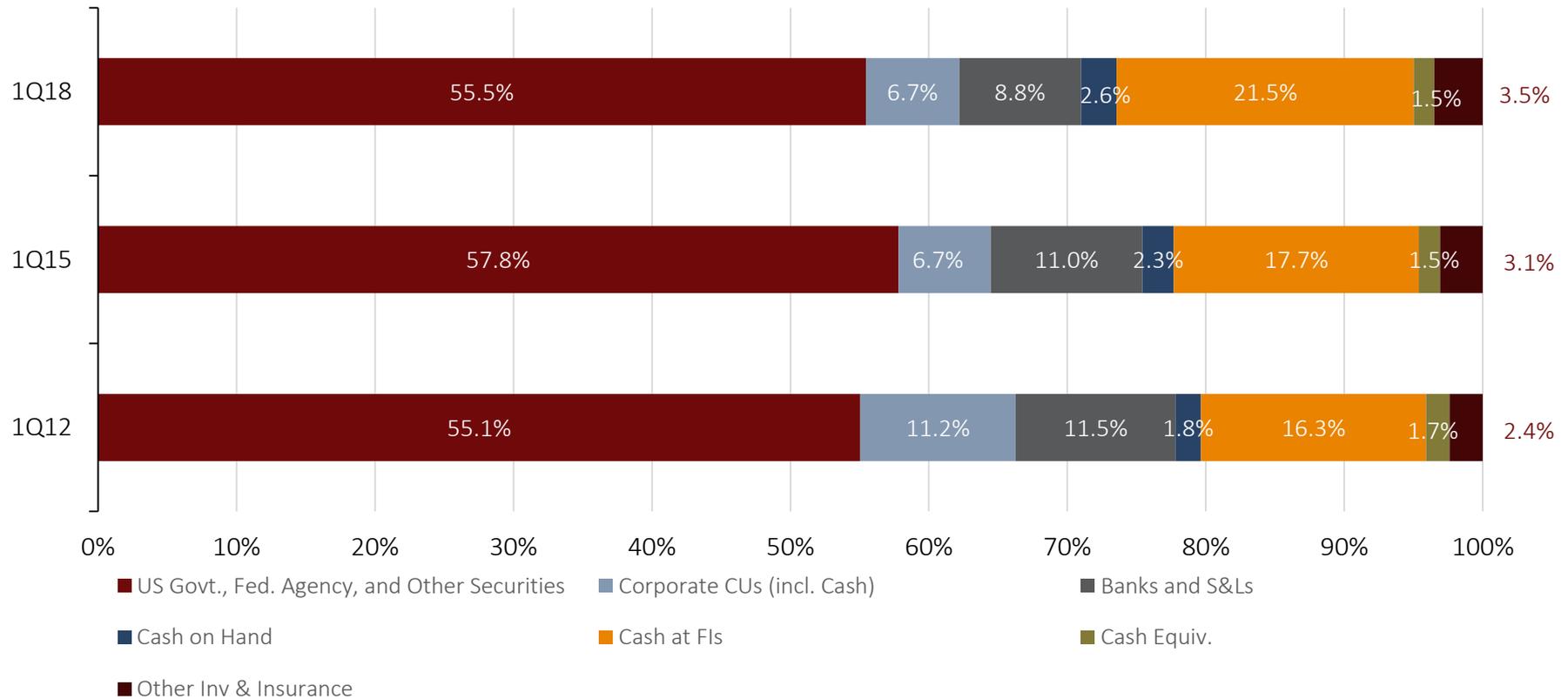


Source: Callahan's Peer-to-Peer Analytics

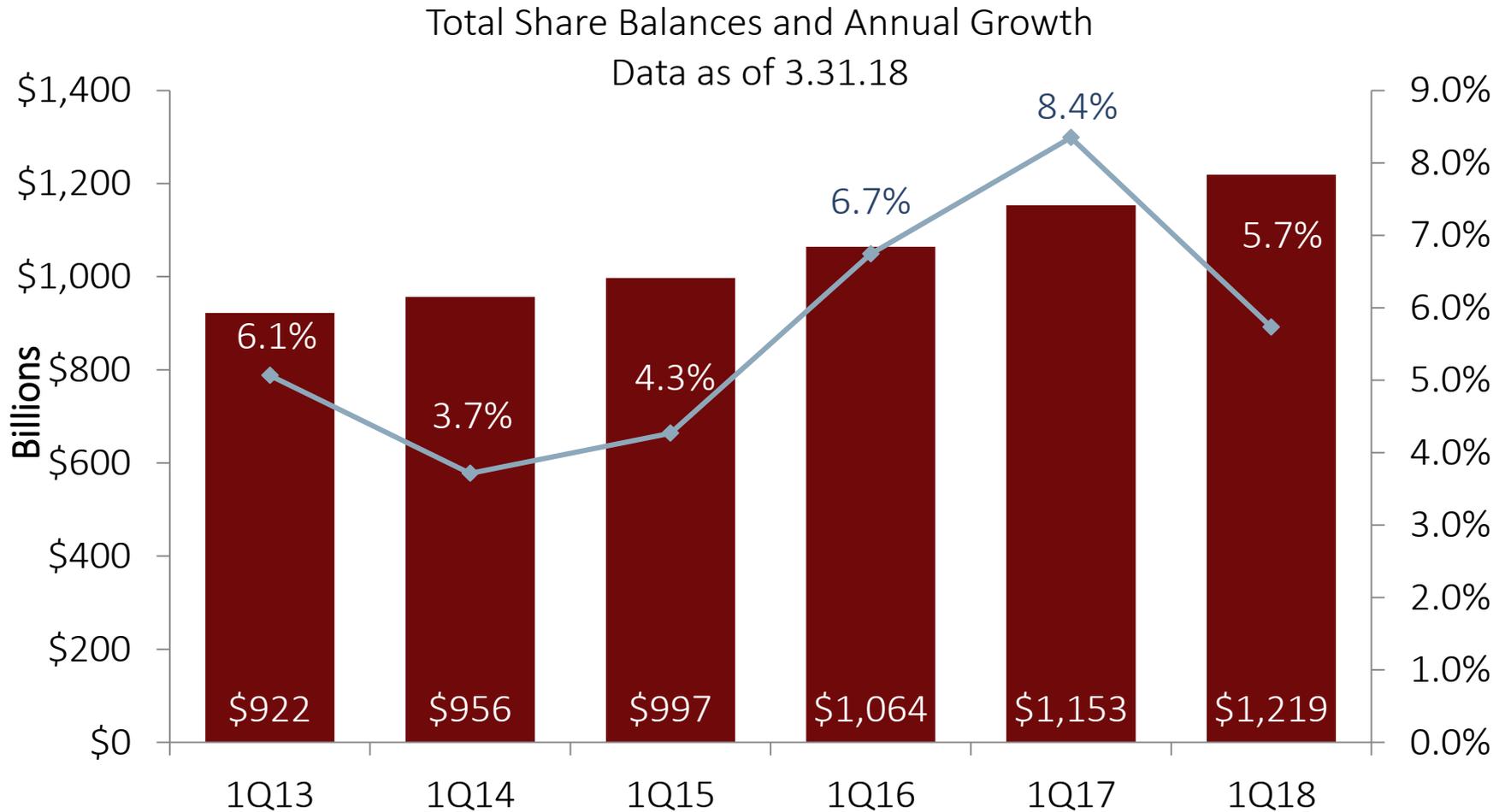


# Cash at Fed hits record high; portfolios stay short

Credit Union Investment Portfolio  
Data as of 3.31.18



# Share growth rate drops; tops \$1.2T for first time



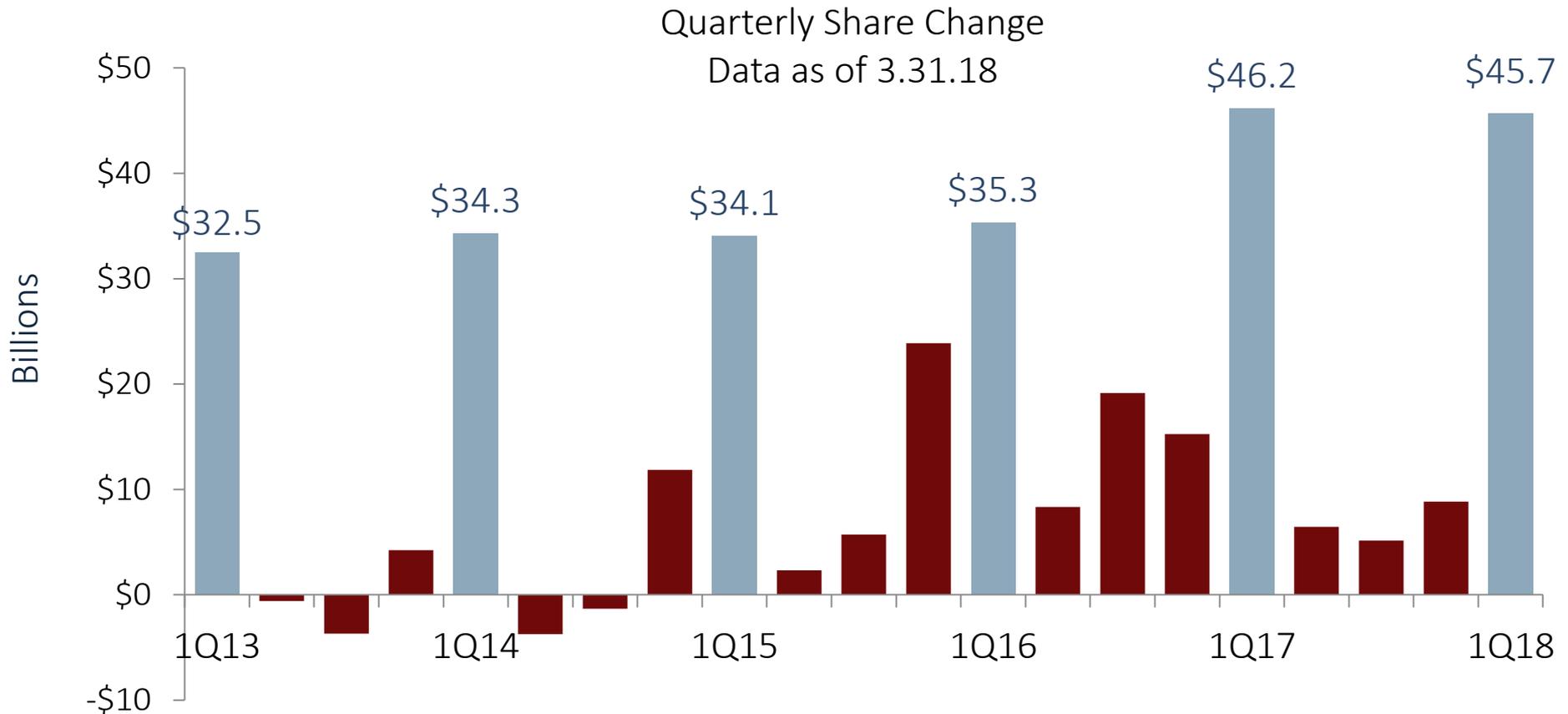
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Source: Callahan's Peer-to-Peer Analytics



# Industry adds \$46B, slightly behind 1Q17 record jump



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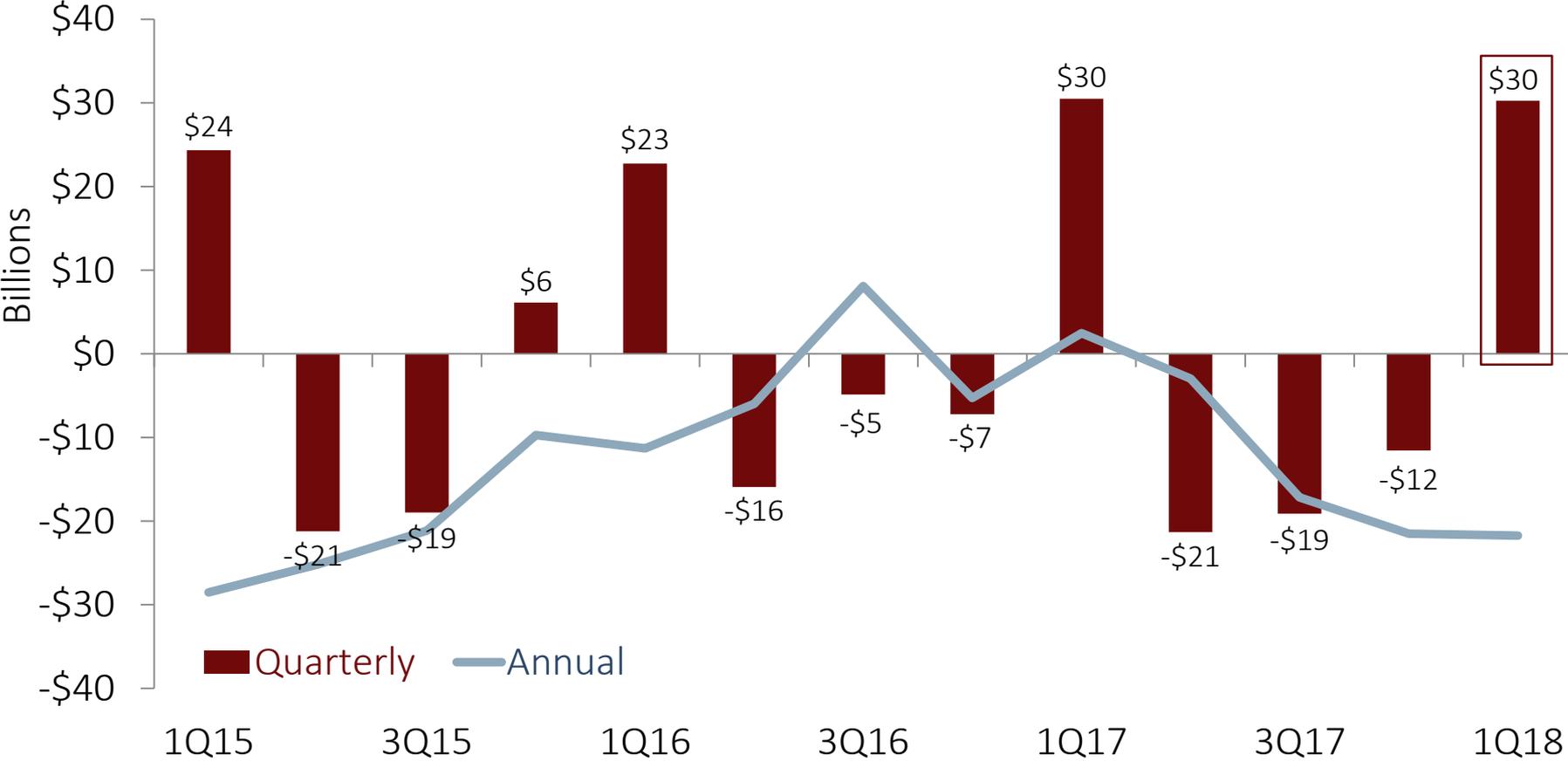
Source: Callahan's Peer-to-Peer Analytics



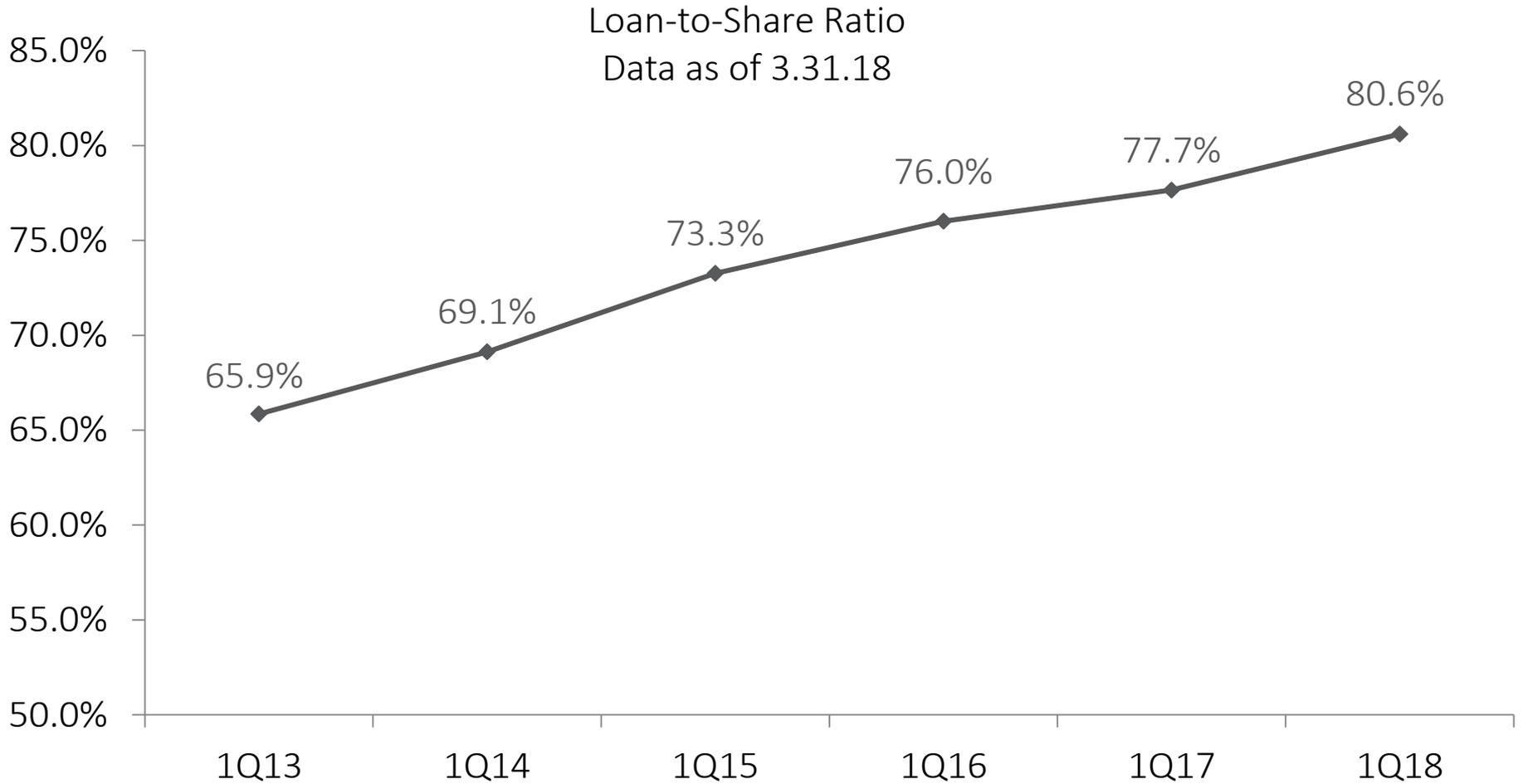
# Record 1Q share inflow doesn't offset anemic annual rate

Net Liquidity Change  
Data as of 3.31.18

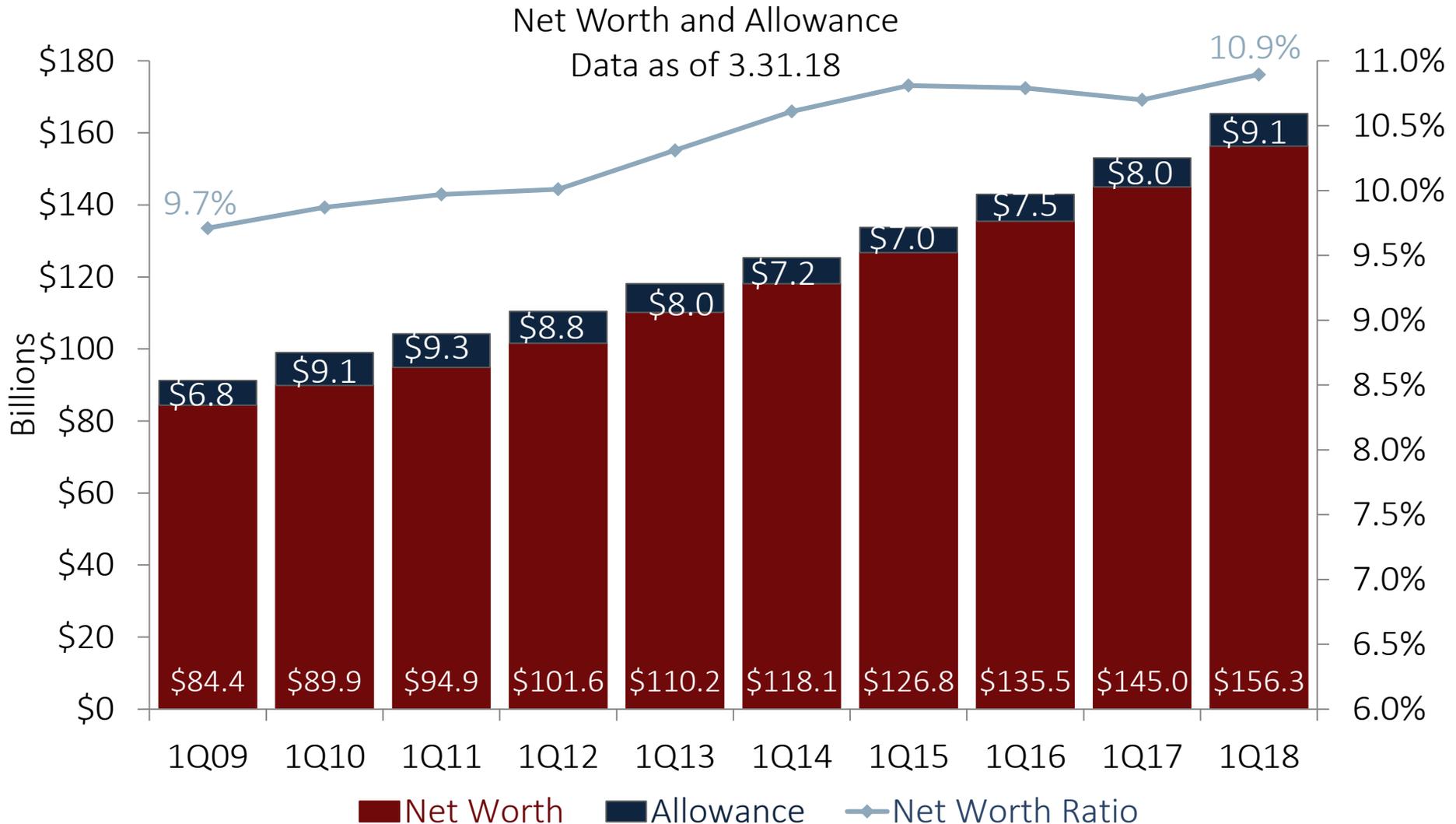
\* Net liquidity from shares  
= \$ share growth - \$ loan growth



# Highest Q1 loan-to-share ratio on record



# Industry net worth ratio approaching 11%



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Source: Callahan's Peer-to-Peer Analytics



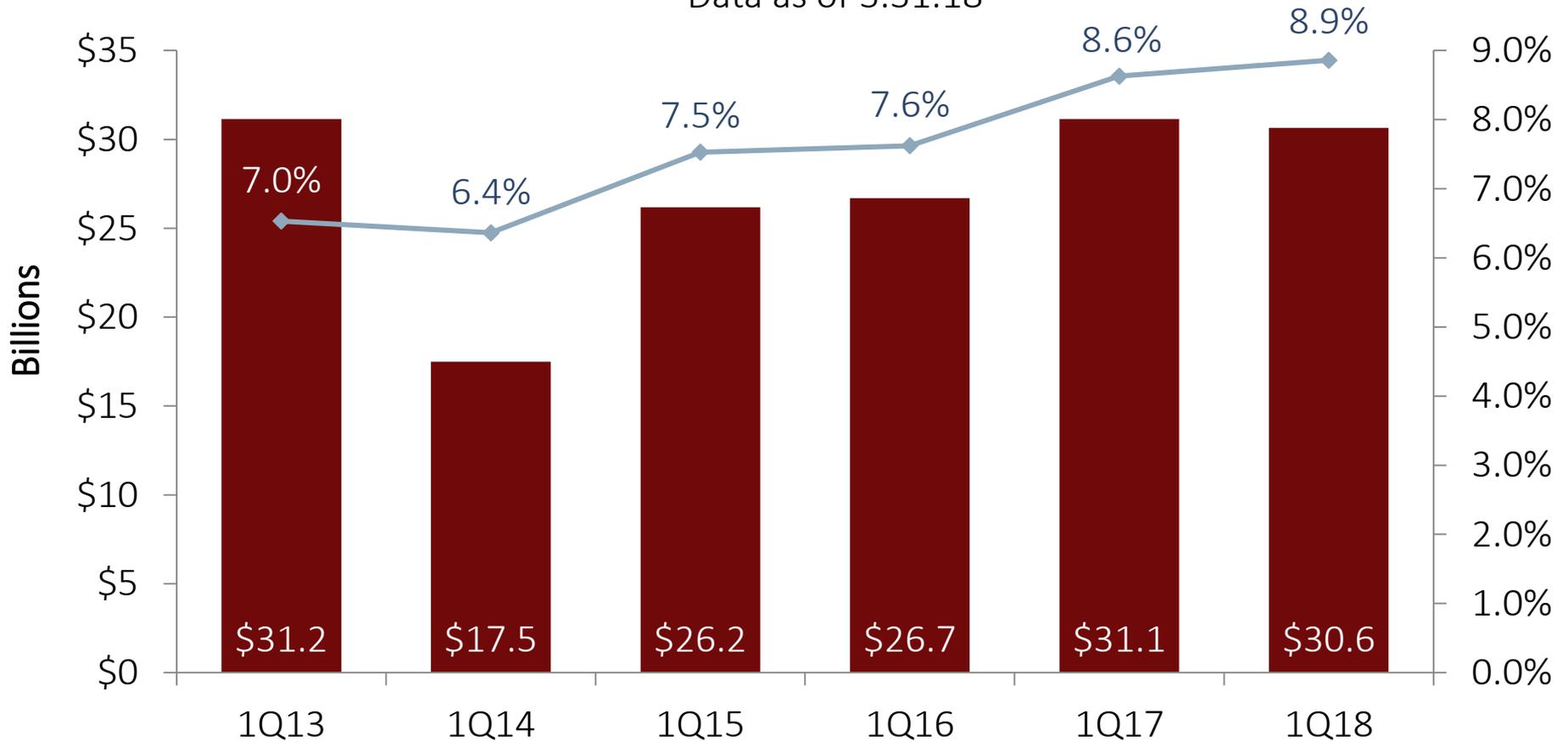
# Market Share and Member Impact

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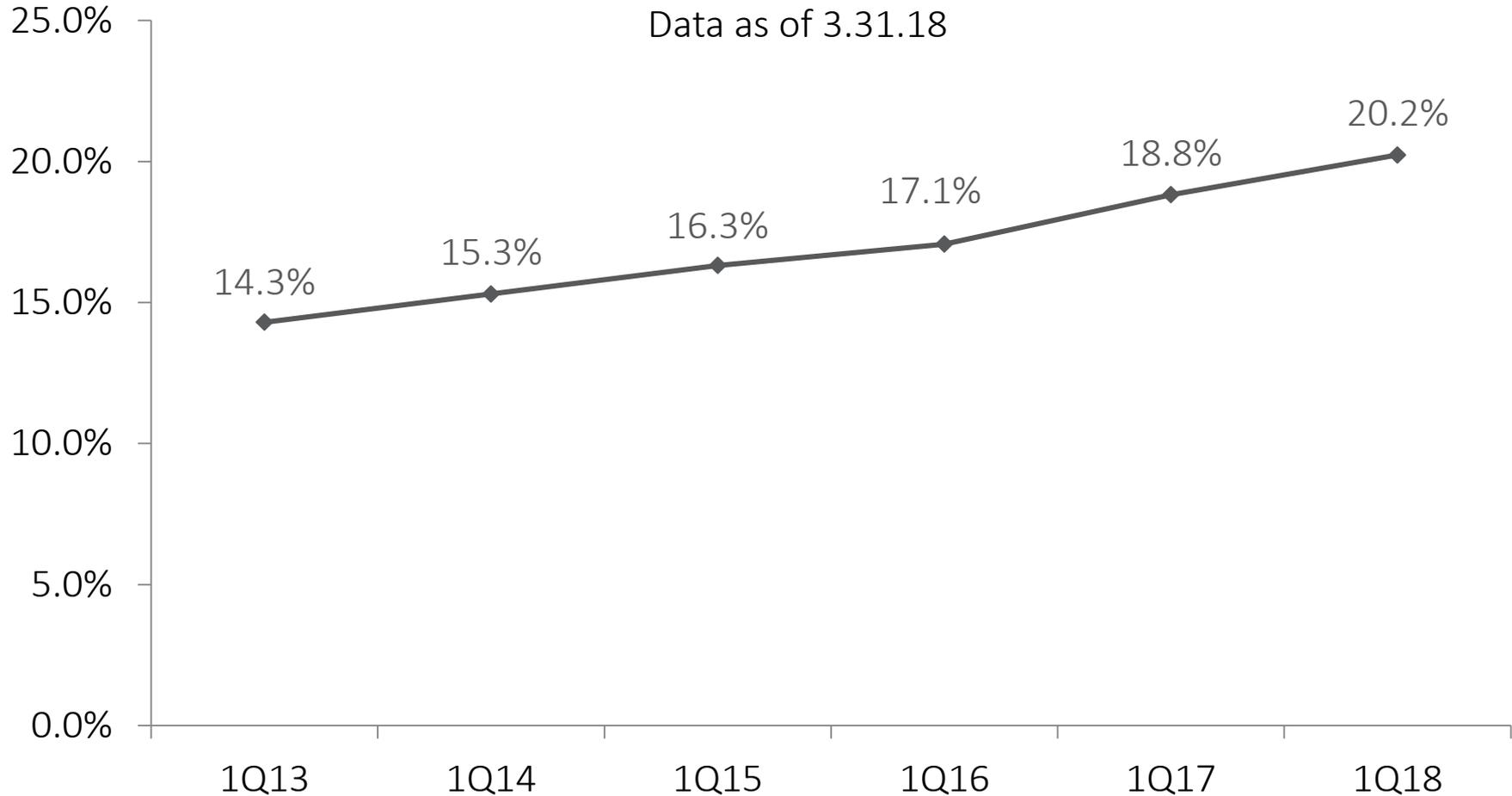
# A bigger piece of a slightly smaller pie

First Mortgage Originations & Market Share  
Data as of 3.31.18



# Record 20% of consumers use a credit union to buy a car

Credit Union Auto Finance Market Share  
Data as of 3.31.18



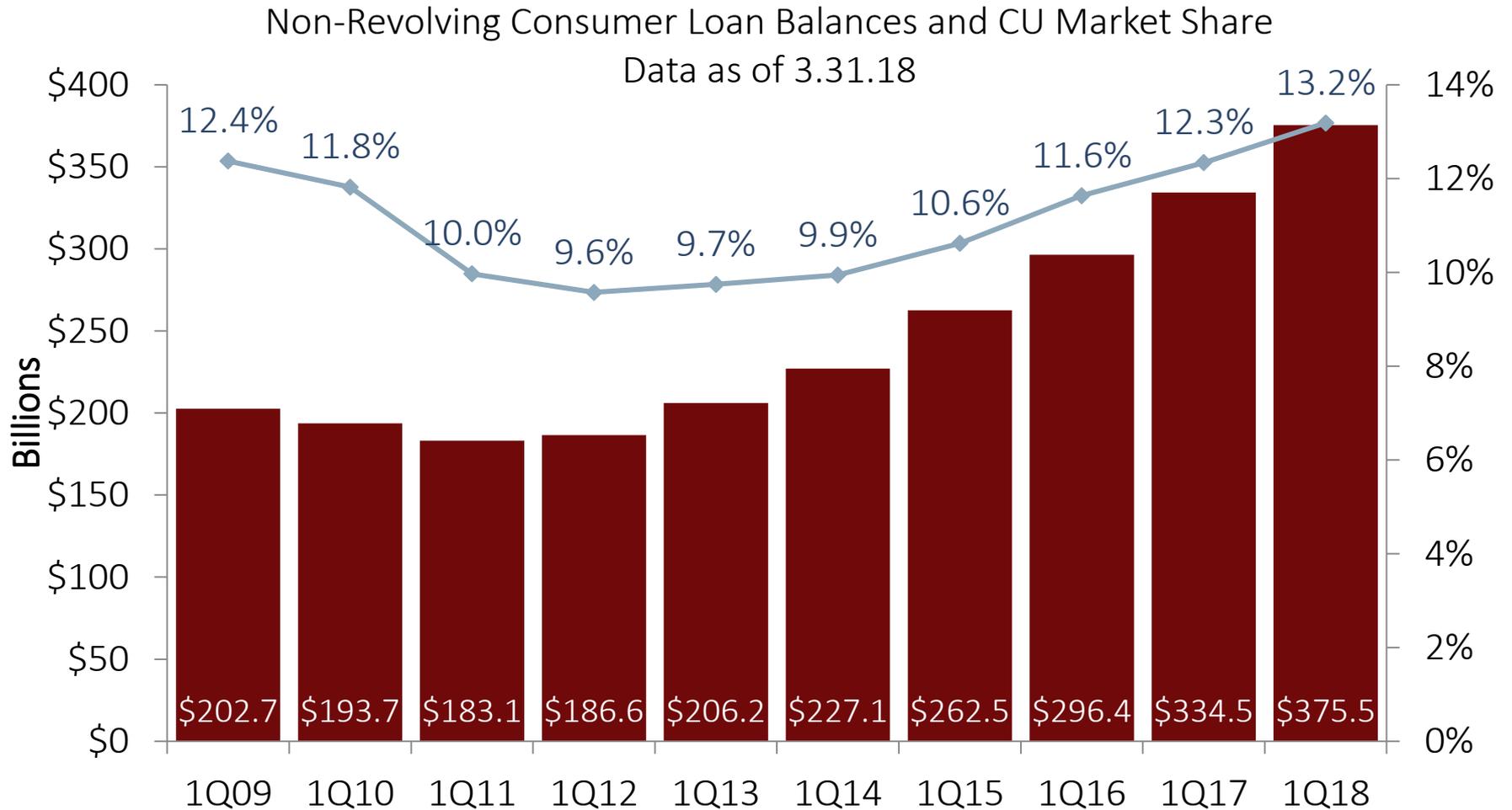
Sponsored by:



Source: Callahan's Peer-to-Peer Analytics  
AutoCount Data from Experian Automotive

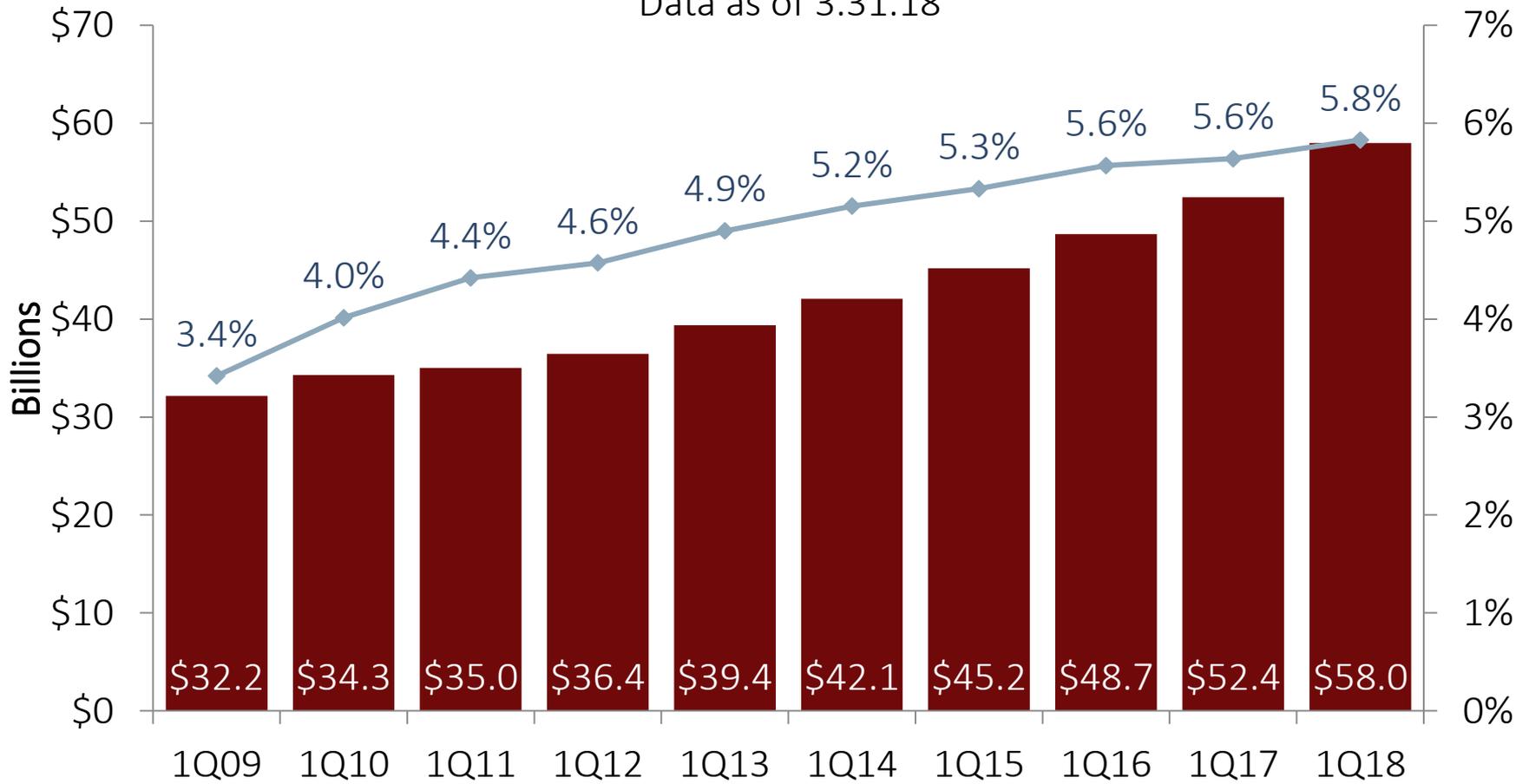


# Highest consumer loan market share since pre-recession



# Slight rise in market share with \$58B in balances

Revolving Consumer Loan Balances and CU Market Share  
Data as of 3.31.18



# Member product usage up significantly since recession...



Credit Card



Real Estate



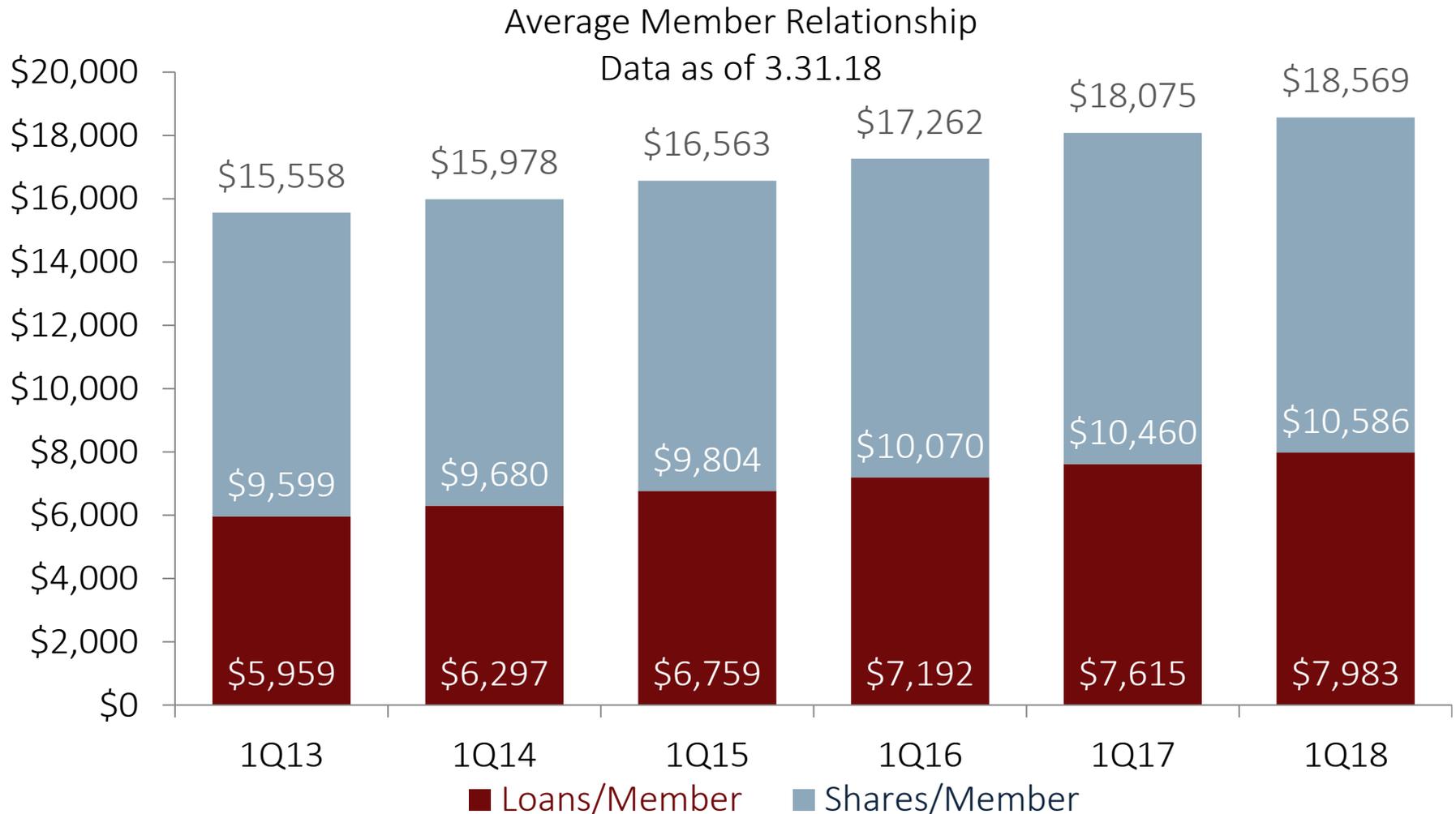
Share Draft



Auto

	Credit Card	Real Estate	Share Draft	Auto
1Q18	17.3%	4.4%	57.3%	20.6%
1Q13	15.3%	4.4%	52.5%	16.0%
Change	+2.0%	0.0%	+4.8%	+4.6%

# ...leading to larger average member relationships



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Source: Callahan's Peer-to-Peer Analytics

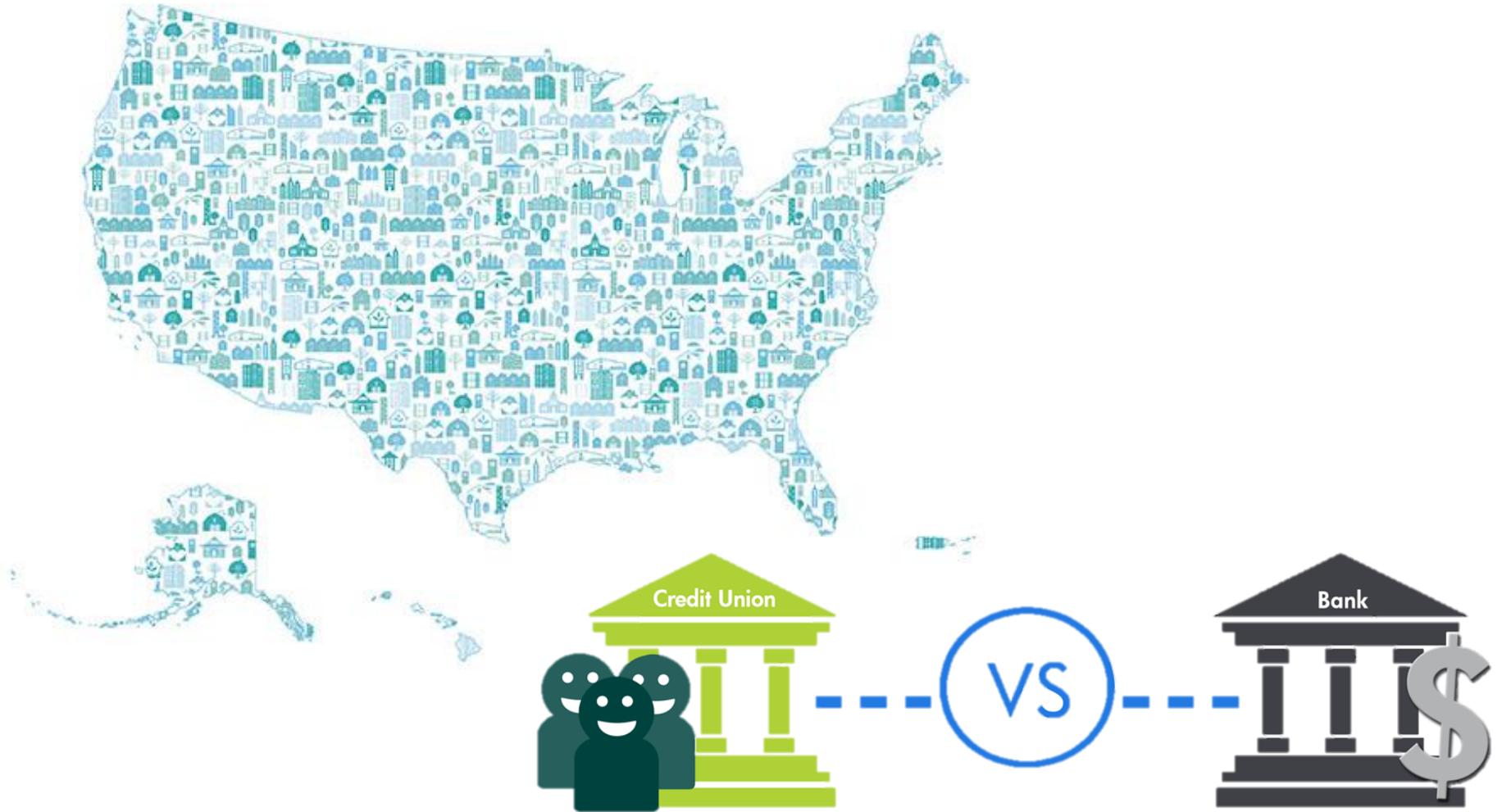






**“No calls for an hour, Edna. I’m going to rest on my laurels.”**

Fact: A majority of Americans would be better off if they used a credit union



# Many Americans are not financially healthy

**76%** *Of Americans are living paycheck-to-paycheck.*

**50%** *Of Americans cannot raise \$2,000 in 30 days.*

**47%** *Of consumers cannot cover a \$400 emergency without selling something or borrowing money.*

**37%** *Of Americans have credit card debt greater than their savings.*

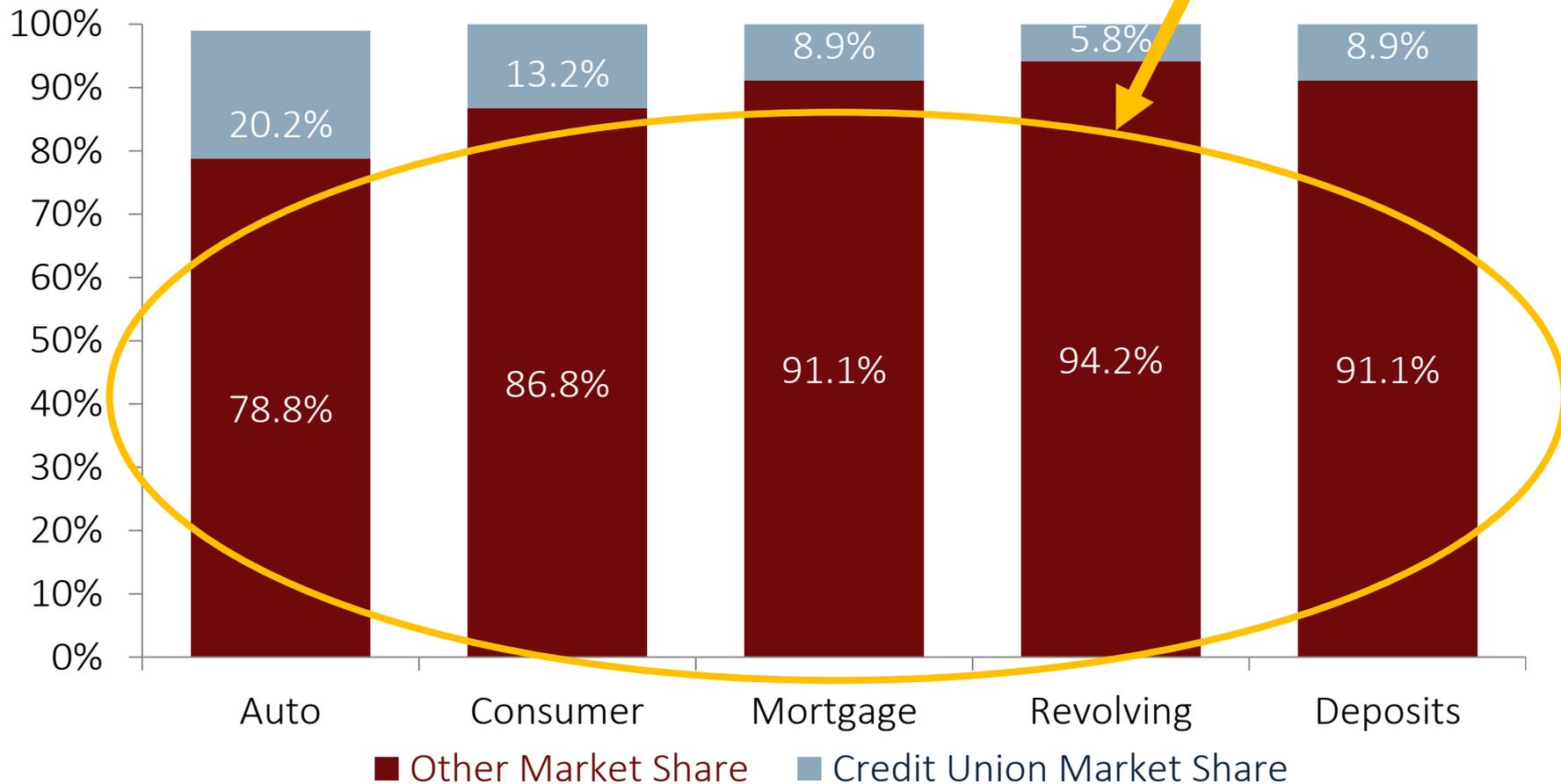
**56%** *Of Americans have a low credit score (FICO® 500-649); potential lifetime cost of \$200,000 or more.*

Sources: Wells Fargo Middle-class Retirement Study (2014); Asset Funders Network: The Power of Credit Building (2014); Federal Reserve: Report on the Economic Well-Being of U.S. Households 2013; Urban Institute: Delinquent Debt in America (2014); Bankrate.com (Feb. 2015).

# Are we being ambitious enough?

Opportunity!

Credit Union Market Share by Loan Segment  
Data as of 3.31.18



■ Other Market Share ■ Credit Union Market Share

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Source: Callahan's Peer-to-Peer Analytics





# College Cost & Compare Calculator

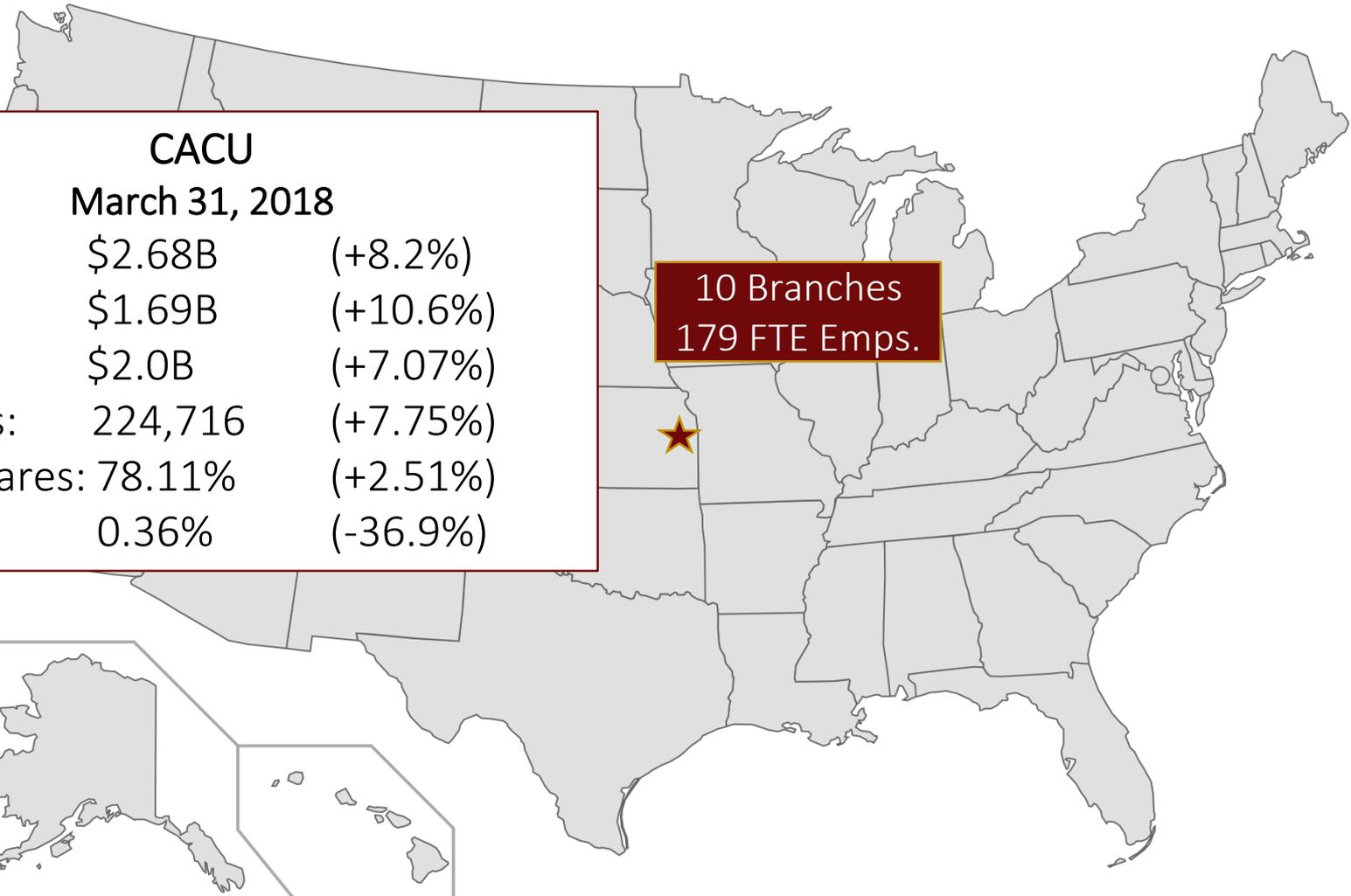
\$2.6B, Lenexa, KS

Anita Newton, Chief Innovation Officer  
CommunityAmerica Credit Union

[anewton@cacu.com](mailto:anewton@cacu.com)



# CommunityAmerica CU at a glance



## CACU March 31, 2018

Assets:	\$2.68B	(+8.2%)
Loans:	\$1.69B	(+10.6%)
Shares:	\$2.0B	(+7.07%)
Members:	224,716	(+7.75%)
Loans/Shares:	78.11%	(+2.51%)
ROA:	0.36%	(-36.9%)

10 Branches  
179 FTE Emps.

# Why Focus on College Costs?

---

- Our mission is **to deliver peace of mind to members**
- For any member that has children, one of the main areas of worry is **finding the right college for their child**
- First, the credit union **hired two college and career planners** to meet with families and provide free one-hour planning sessions.
- Then, the **Innovation Lab** worked with the planners to identify ways to **amplify and digitize their work**

# The Calculator - [communityamerica.com/collegeroadmap](https://communityamerica.com/collegeroadmap)

Income Level: \$48,001 - \$75,000  
Resident State: Kansas  
**CLEAR RESULTS**  
Compare Another School: Search Schools

Your costs have been updated with the updated resident state.

University Of Kansas	Kansas State University	Kansas Wesleyan University
<b>Sticker Price (In-State)</b> ⓘ <b>\$25,306</b> <i>The school's published price for tuition and other expenses.</i>	<b>Sticker Price (In-State)</b> ⓘ <b>\$24,339</b> <i>The school's published price for tuition and other expenses.</i>	<b>Sticker Price (Private)</b> ⓘ <b>\$42,904</b> <i>The school's published price for tuition and other expenses.</i>
<b>Your Estimated Adjustment</b> ⓘ <b>-\$7,923</b> <i>Average discount this school gives based on your household income.</i>	<b>Your Estimated Adjustment</b> ⓘ <b>-\$8,150</b> <i>Average discount this school gives based on your household income.</i>	<b>Your Estimated Adjustment</b> ⓘ <b>-\$19,412</b> <i>Average discount this school gives based on your household income.</i>
<b>True Cost to You</b> ⓘ <b>\$17,383</b> <i>The estimated amount you will actually pay (typically with loans, savings, and income).</i>	<b>True Cost to You</b> ⓘ <b>\$16,189</b> <i>The estimated amount you will actually pay (typically with loans, savings, and income).</i>	<b>True Cost to You</b> ⓘ <b>\$23,492</b> <i>The estimated amount you will actually pay (typically with loans, savings, and income).</i>

# A User-Driven Process

- Worked closely with a **Teen Advisory Board** to develop the calculator
- It's a **messy process** with a lot of edits and deletions along the way
- **Member feedback** is a big part of the process – from the initial idea stage all the way to the final product



CACU – Teen Advisory Board and Innovation Approach

# A Few Key Learnings

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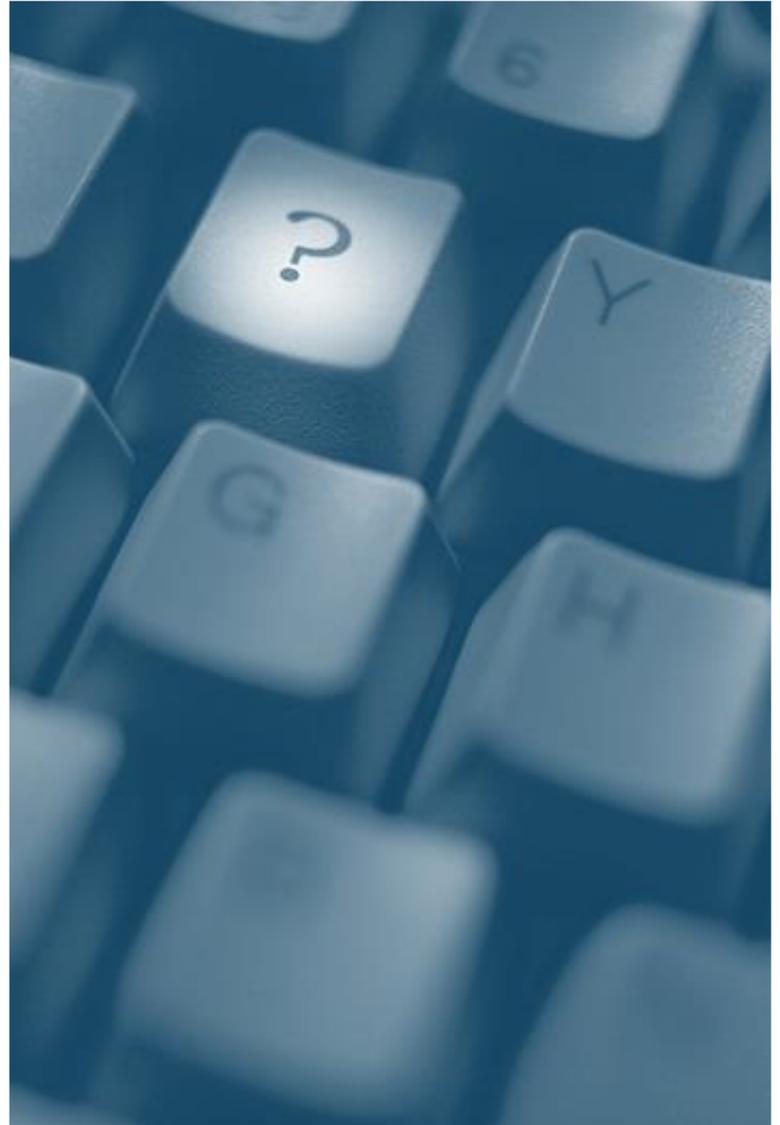
- We've learned a lot about how teens think and what they do — and don't — need
- Growing up in a Google/Instagram world, they look for tools that are **simple and beautiful**
- **Anything extraneous they delete** — even data points we may think are important like average salary ranges

# Three Quick Tips on Innovation

---

1. **Start Small** – Money doesn't necessarily drive activity. Start small, listen to members, and have a clear process.
2. **Understand the Why** – Innovation must be tied to strategy. What is the credit union trying to do for its members?
3. **Give it Time** - It takes time to innovate. Ensure you have a firm grasp of what the members want first.

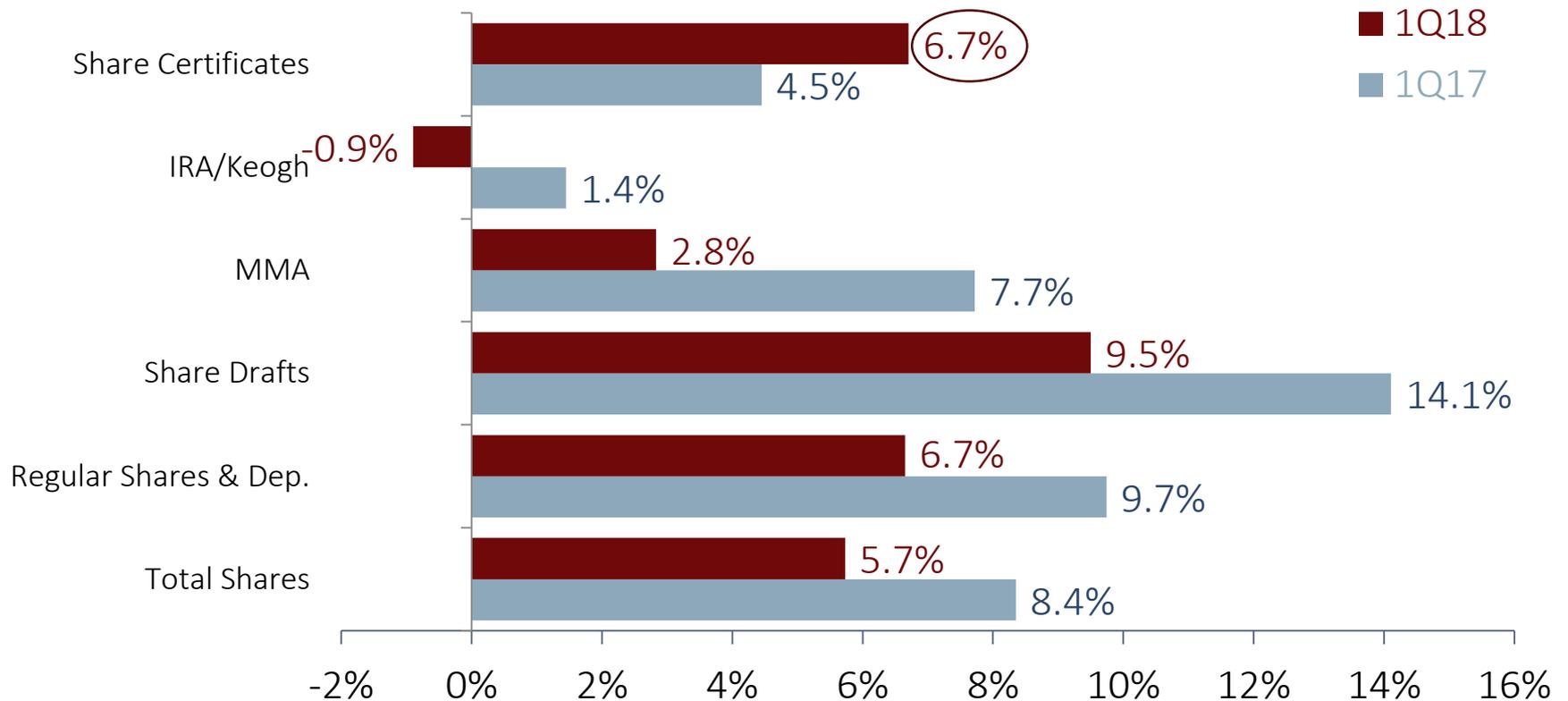
# Questions?



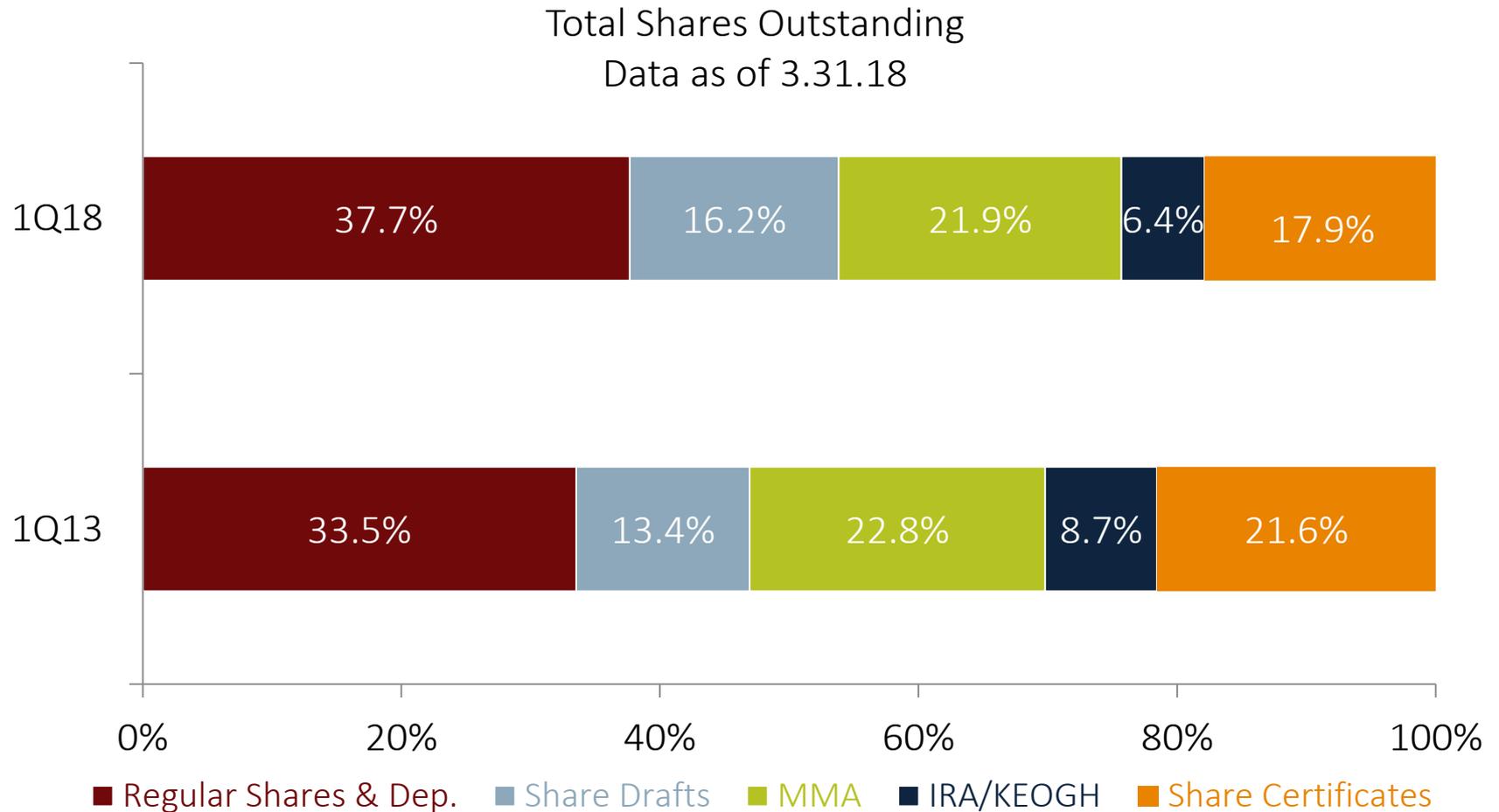
# Savings

# Share certificates only area accelerating

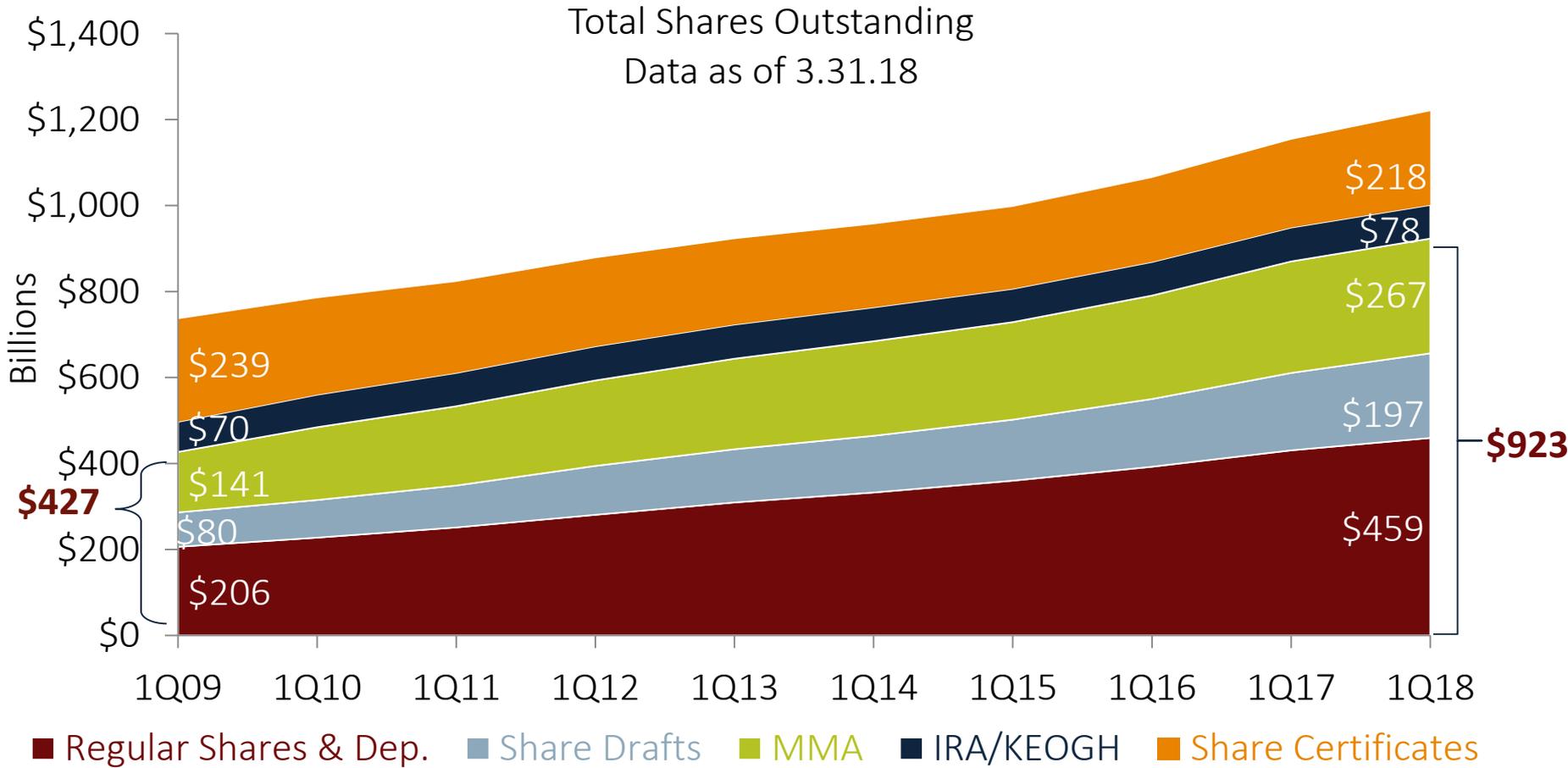
12-Mo. Growth in Shares Outstanding  
Data as of 3.31.18



# Portfolio composition shifts toward more liquid accounts

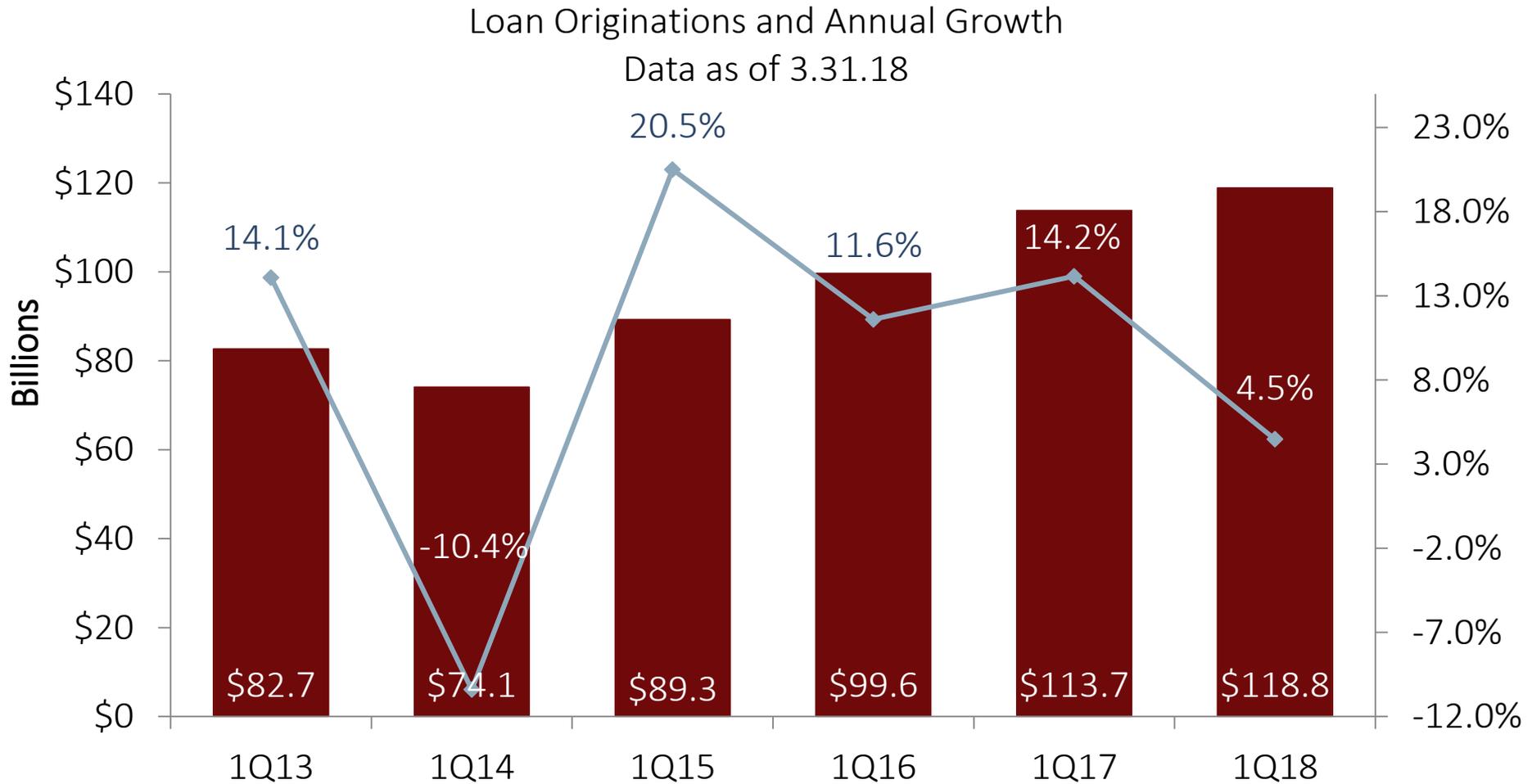


# 10 year look back: Steady, consistent growth



# Lending

# Another record Q1 in loan originations



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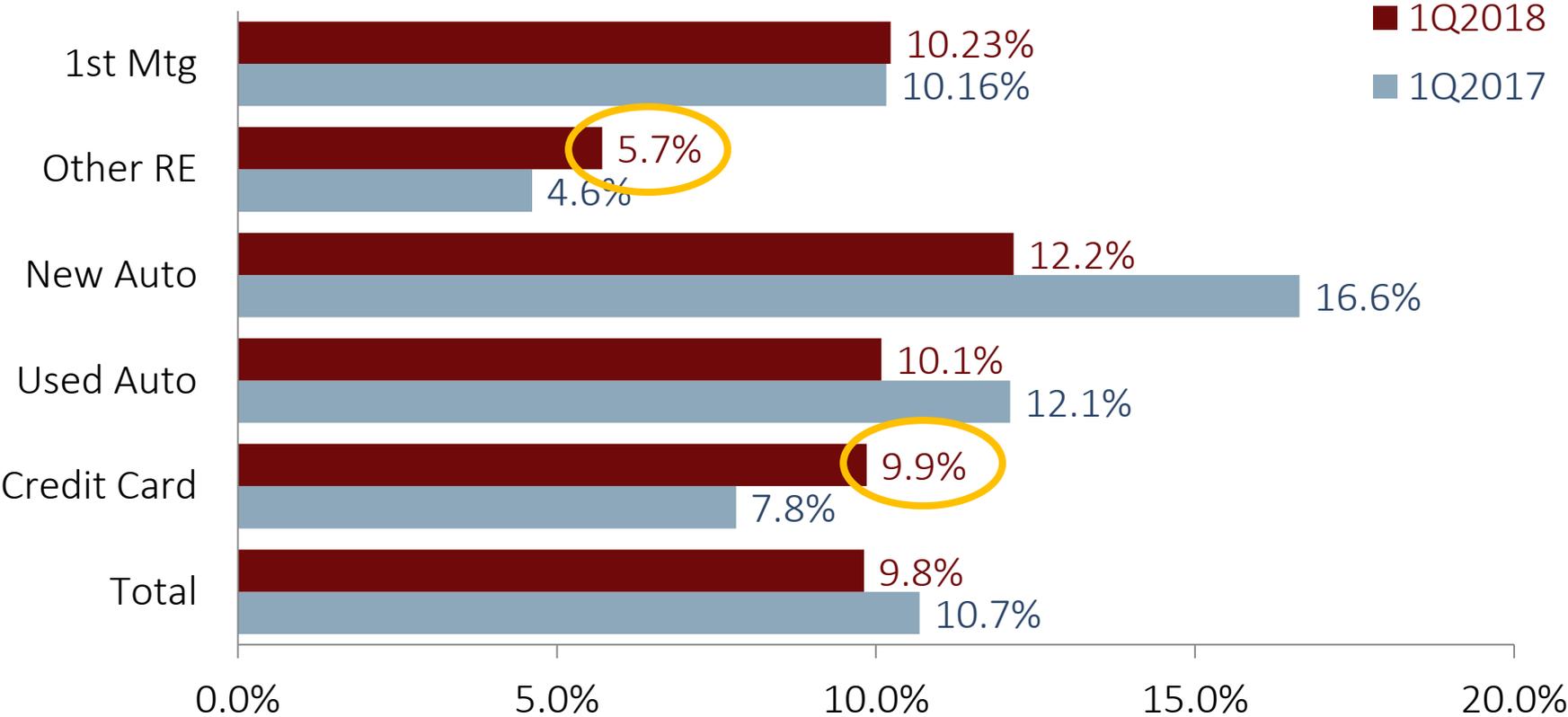


Source: Callahan's Peer-to-Peer Analytics

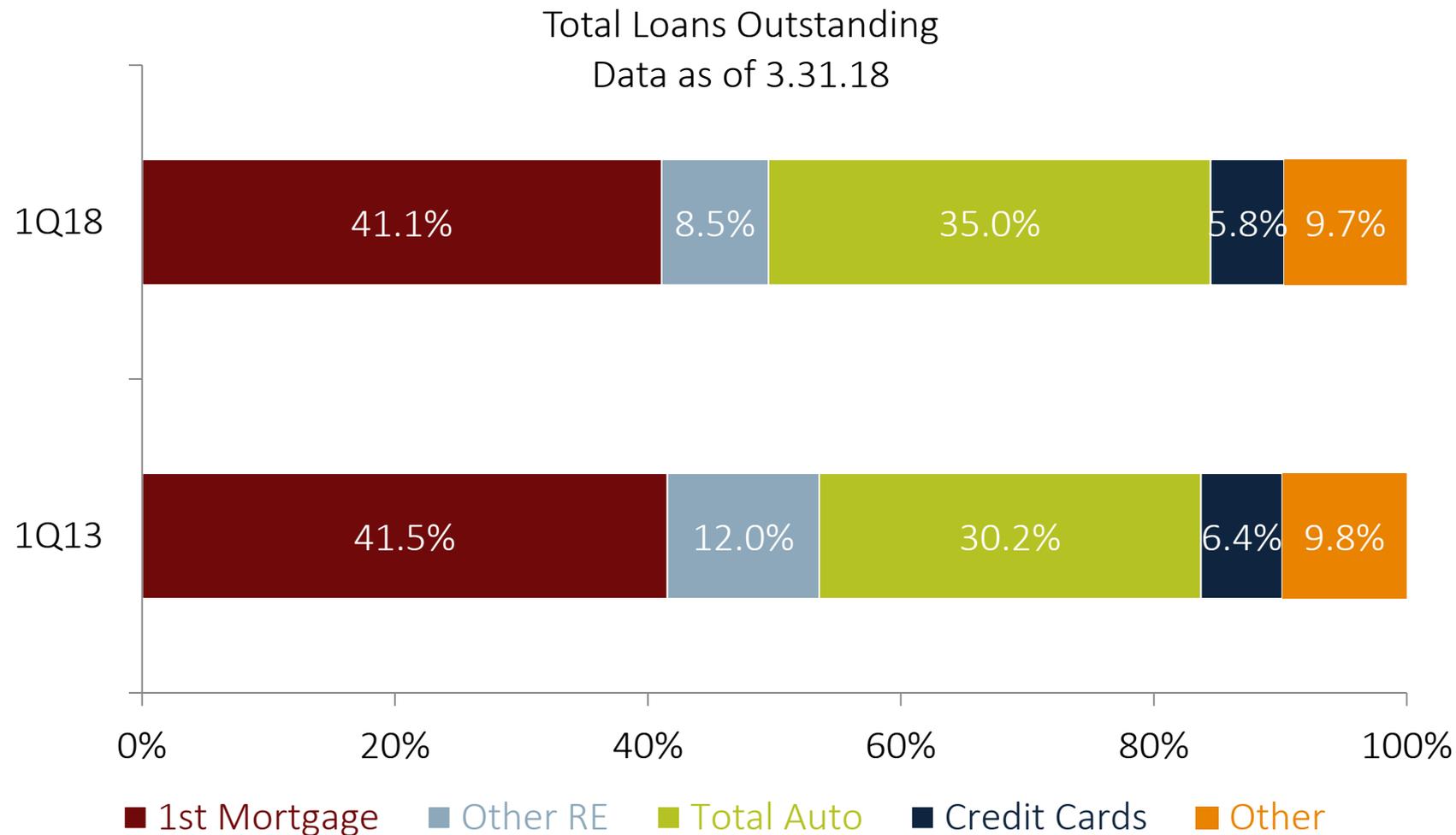


# Unsecured loan growth accelerates; 1<sup>st</sup> mortgages hold pace

Annual Growth in Loans Outstanding  
Data as of 3.31.18



# Auto concentration back to pre-recession levels



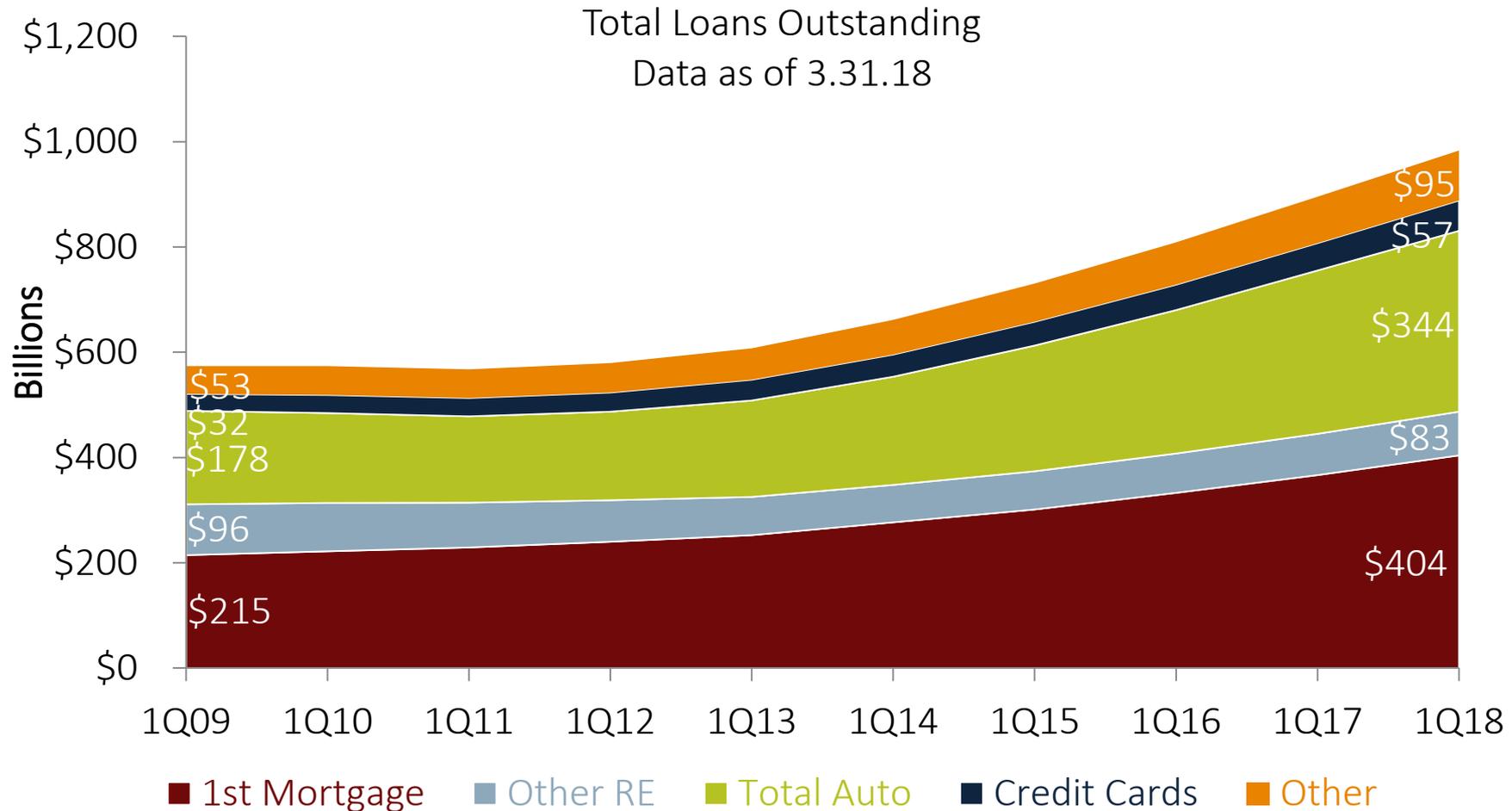
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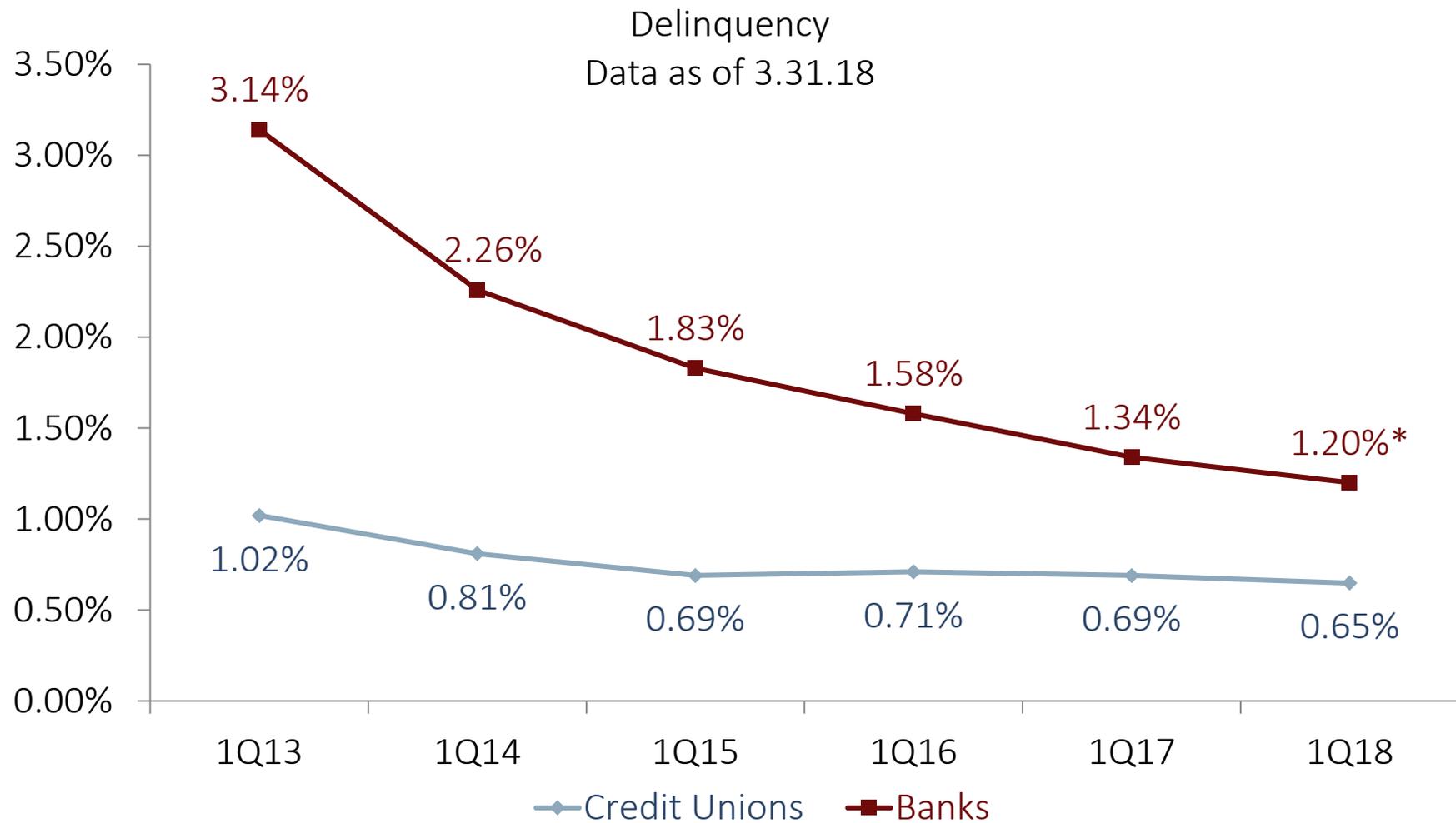


# 10 year look back: Accelerating growth post 2013



# Asset Quality

# Asset quality improves YoY; about half that of banks



Sponsored by:



Source: Callahan's Peer-to-Peer Analytics  
\*As of 4Q17



# Asset quality broadly improves

## Loan Delinquency Rates and Annual Change Data as of 3.31.18



Total

0.65%  
↓ 0.04%



1<sup>st</sup> Mortgage

0.43%  
↓ 0.01%



Auto

0.56%  
↓ 0.01%



Other RE

0.47%  
↓ 0.08%



Indirect

0.57%  
↓ 0.03%



Credit Card

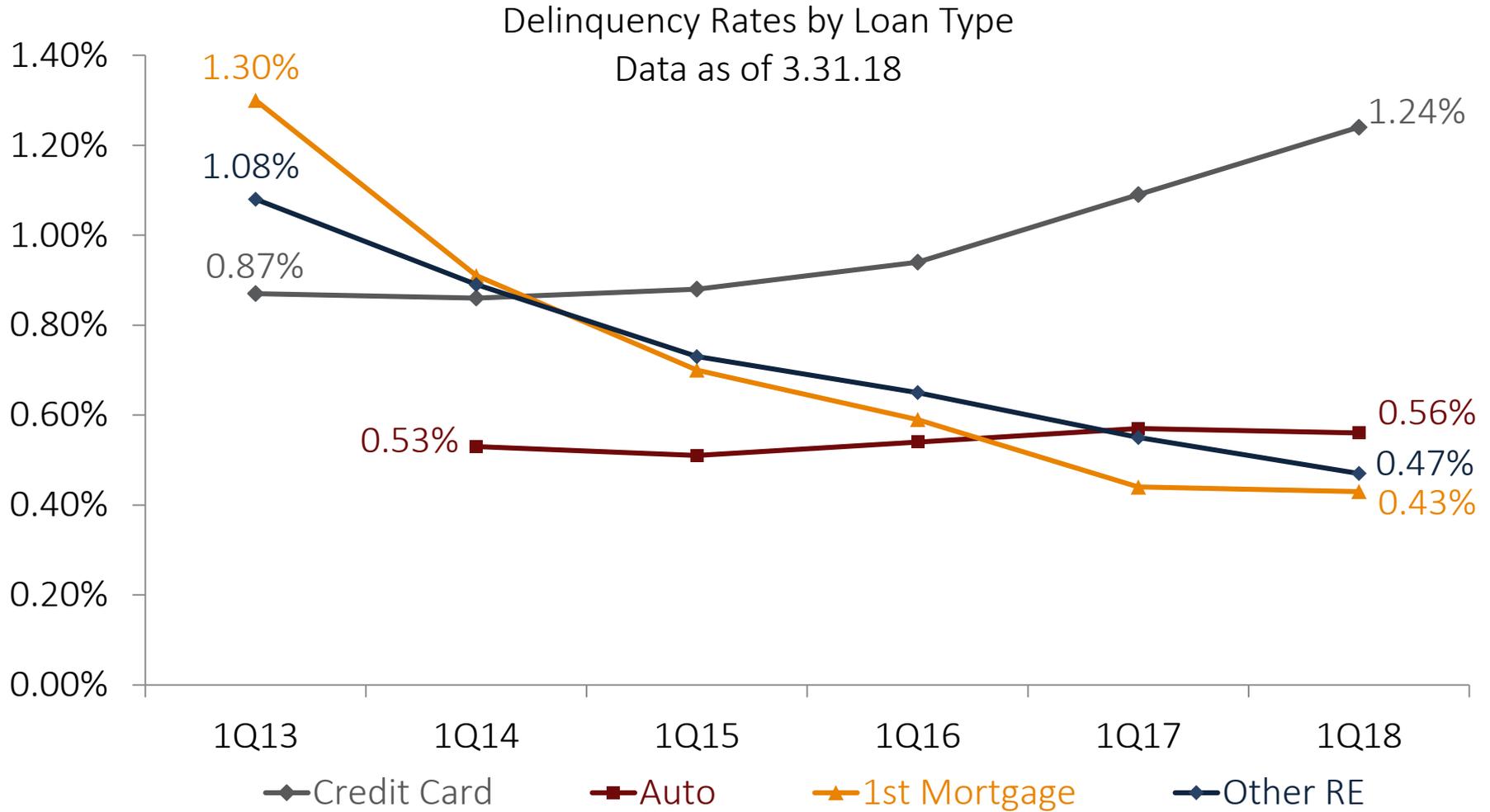
1.24%  
↑ 0.15%



Member Commercial

0.60%  
↓ 0.97%\*

# Real estate delinquency near historic lows; CC creeps higher



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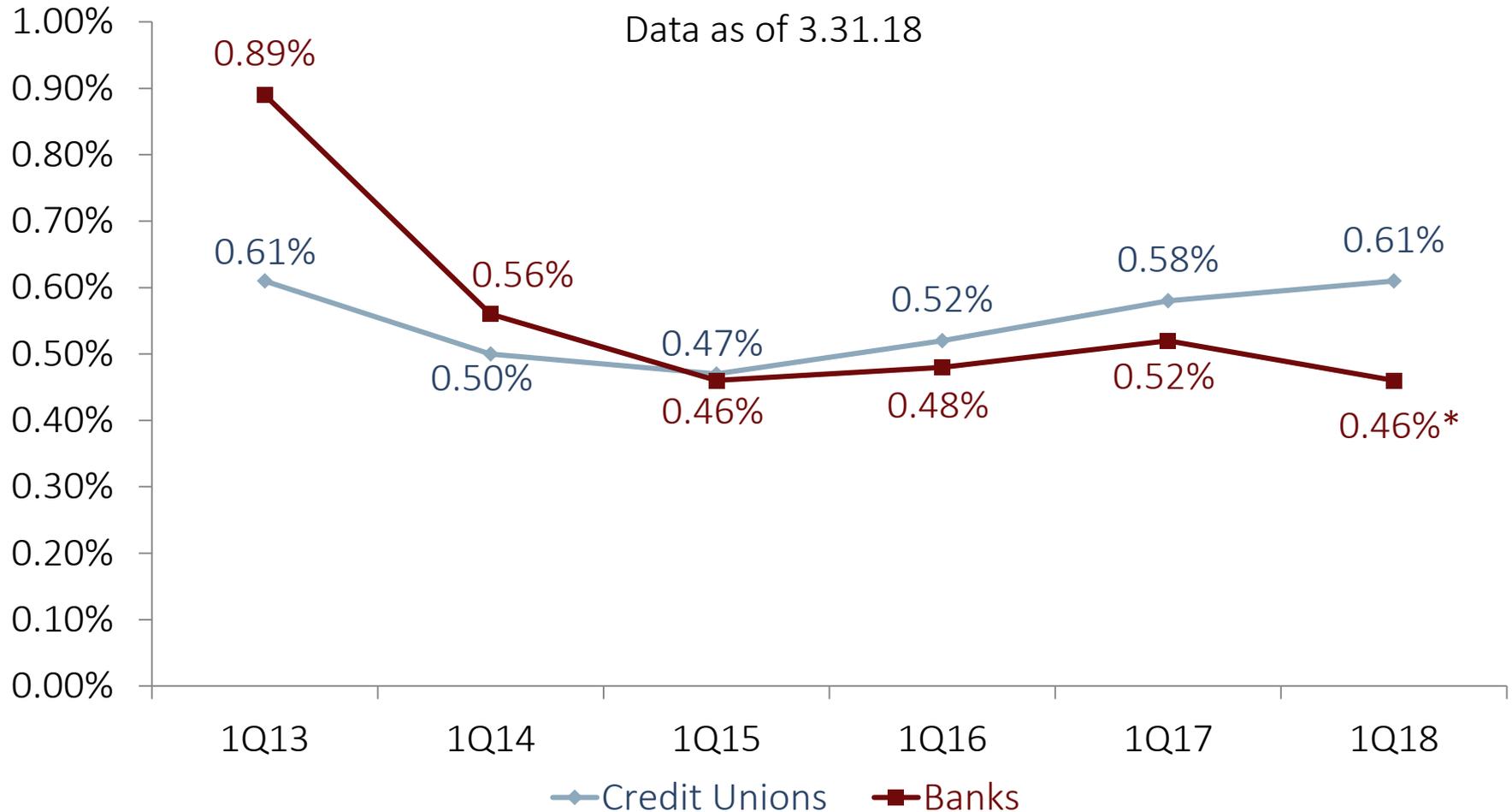


Source: Callahan's Peer-to-Peer Analytics



# Overall charge-offs up 3 basis points; 4<sup>th</sup> year increase

Net Charge-Off Ratio  
Data as of 3.31.18



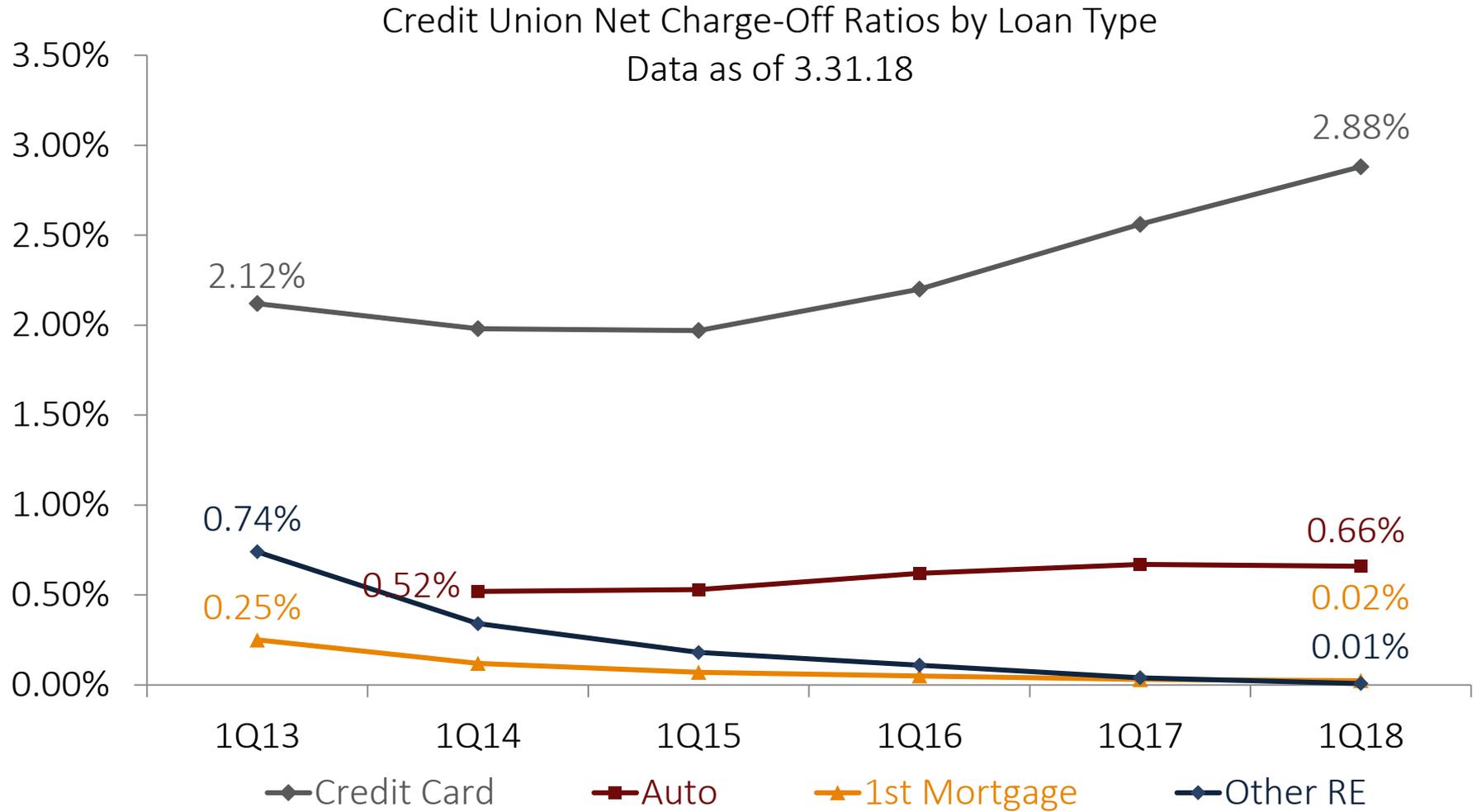
Sponsored by:



Source: Callahan's Peer-to-Peer Analytics  
\*As of 4Q17



# Credit cards are the driver of NCO increase



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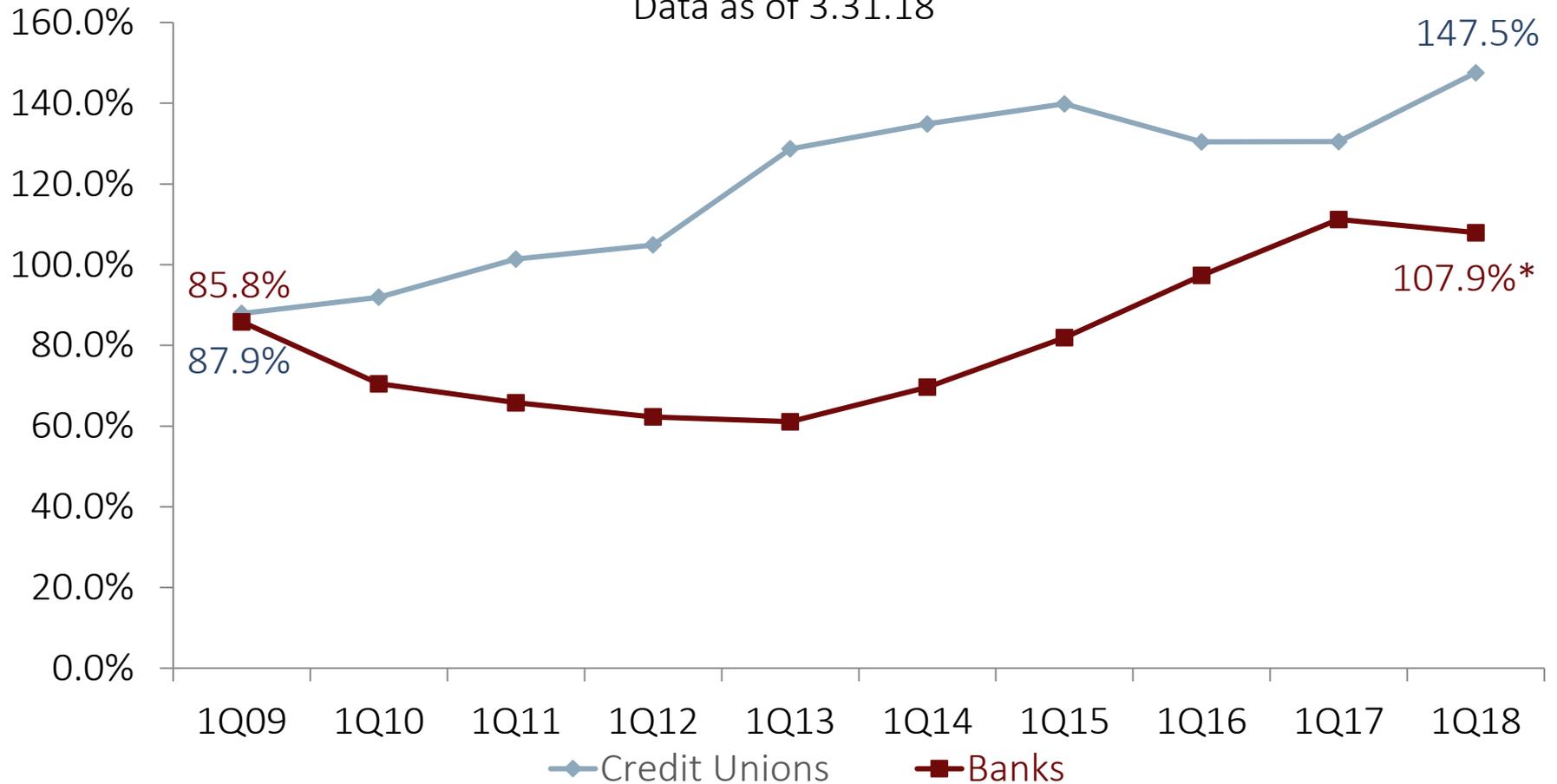
Source: Callahan's Peer-to-Peer Analytics



# Credit unions well reserved in event of a downturn

Coverage Ratio: Allowance for Loan Losses/Delinquent Loans

Data as of 3.31.18



Sponsored by:



Source: Callahan's Peer-to-Peer Analytics

\*As of 4Q17

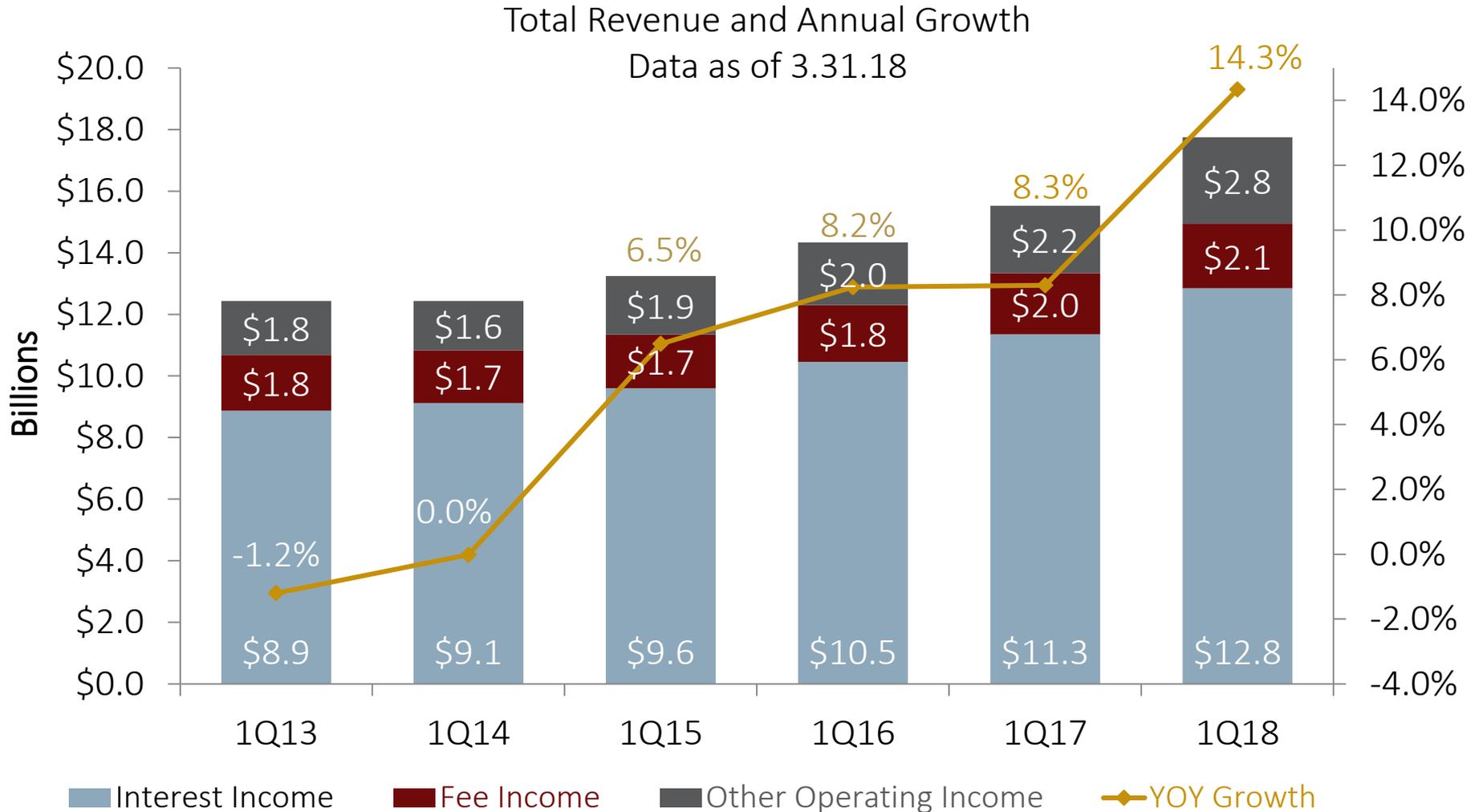


# The Bottom Line

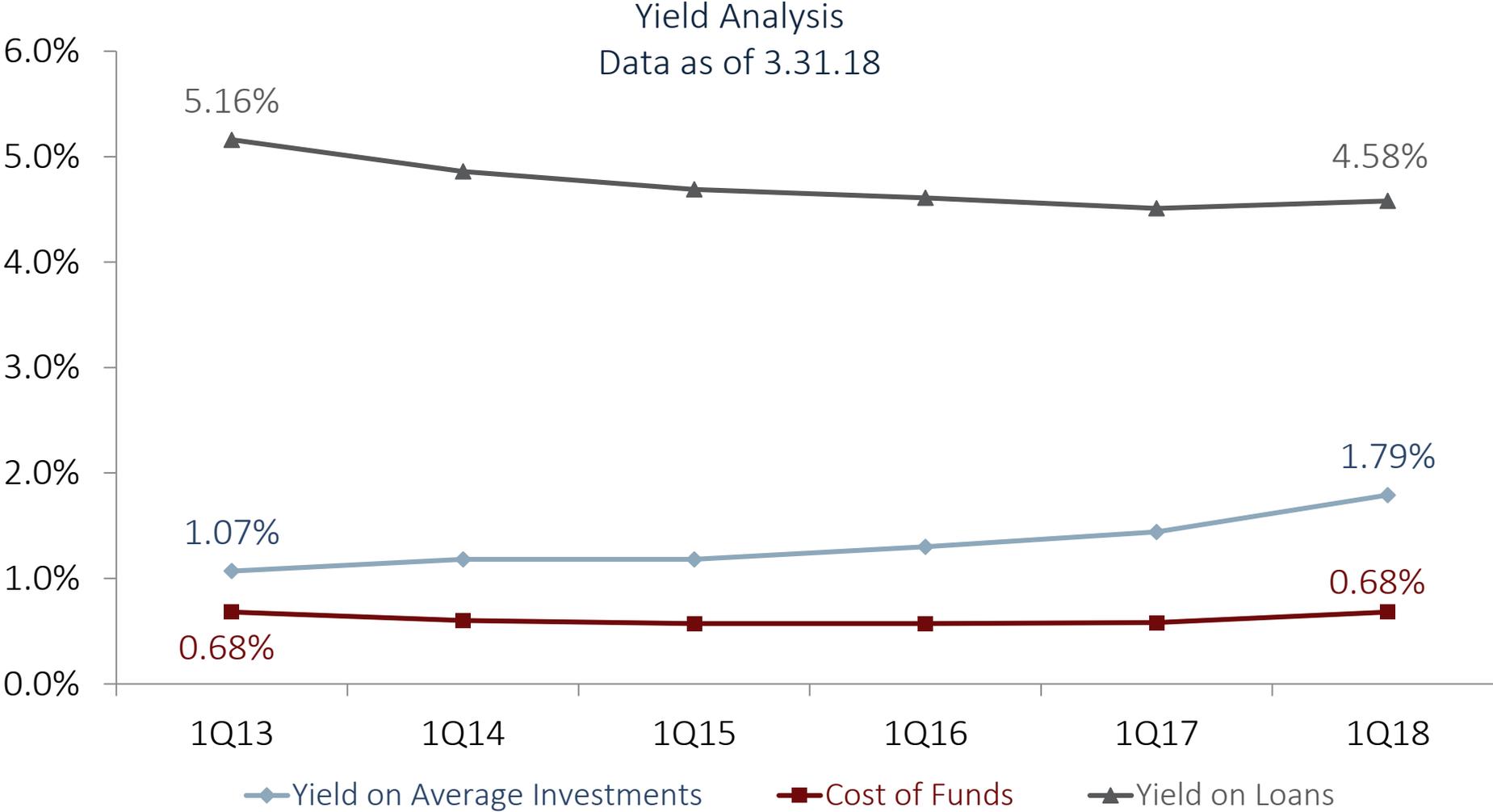
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# Other operating income drives jump in growth rate

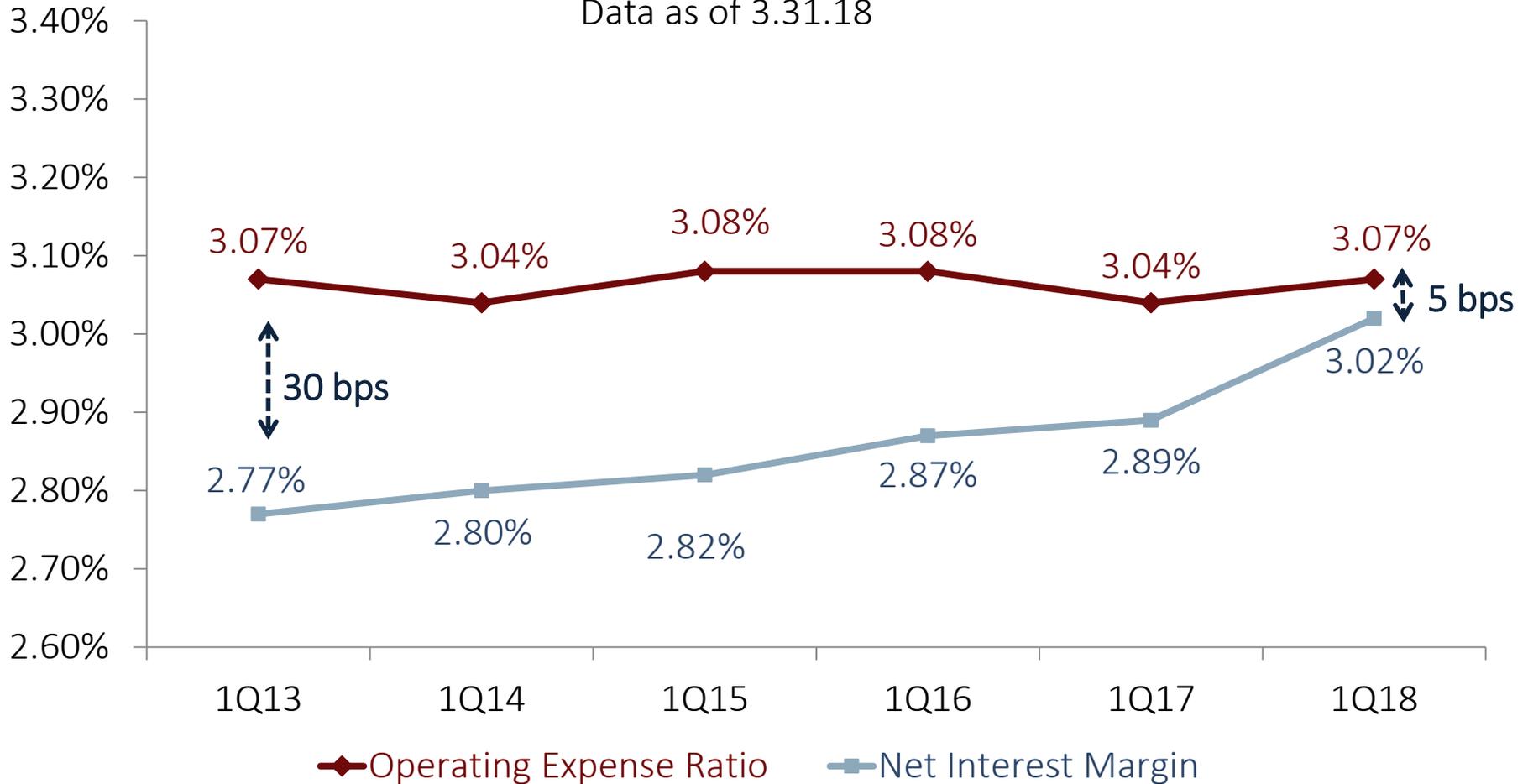


# Loan yield ticks up; reverses 10 year 1Q YOY decline



# Cost control leads to narrowest gap in years

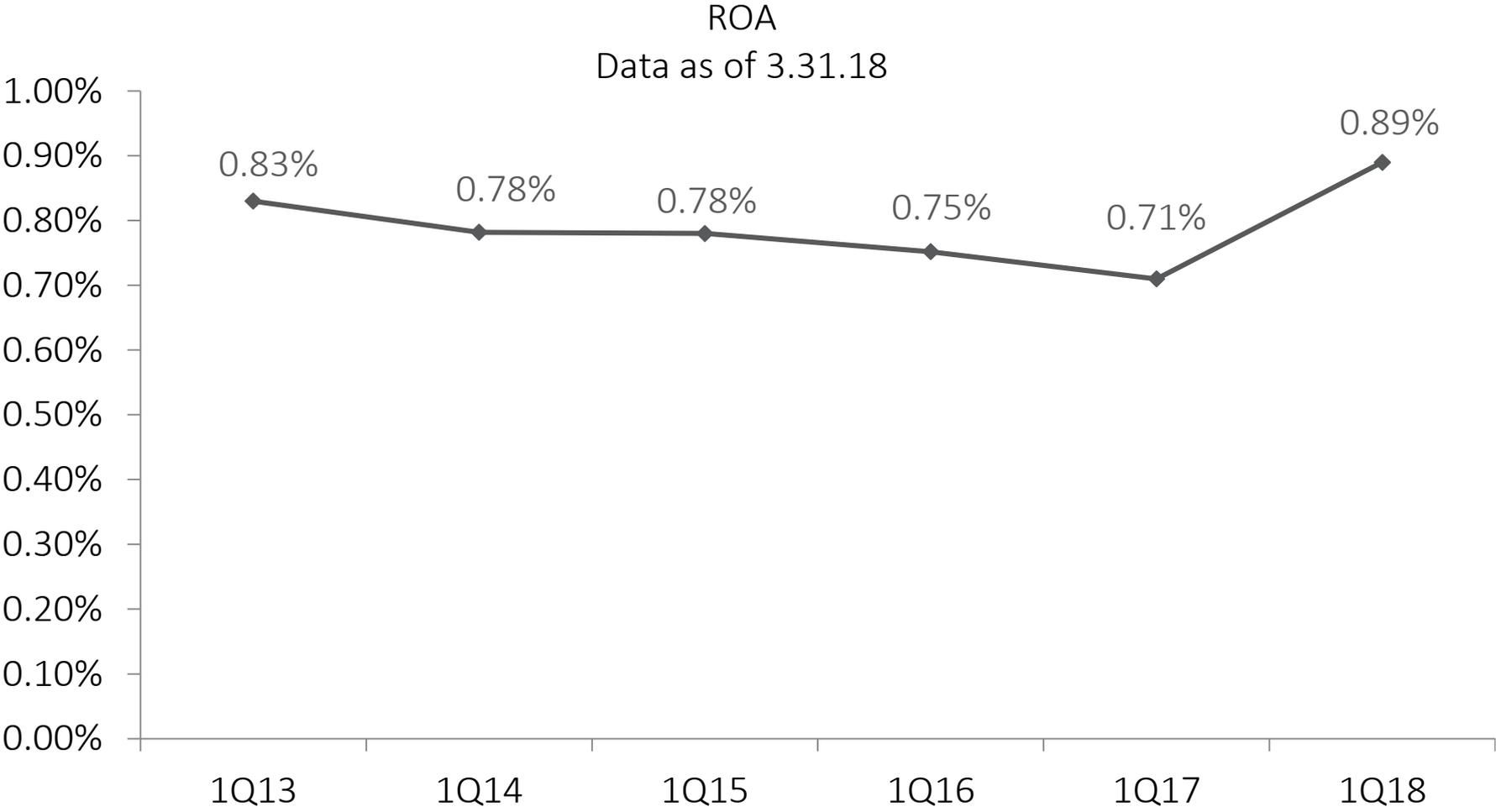
Net Interest Margin vs. Operating Expense Ratio  
Data as of 3.31.18



# Interest and non-interest income combine to drive ROA up

	As of 03.31.2018	As of 03.31.2017	12-mo. Change (bps)
Interest Income/Avg. Assets	3.62%	3.41%	+21
Interest Expense/Avg. Assets	0.60%	0.52%	+8
Net Interest Margin	3.02%	2.89%	+13
Non-Interest Income/Avg. Assets	1.42%	1.28%	+14
Non-Interest Expense/Avg. Assets	3.07%	3.04%	+3
Provision for Loan Losses	0.48%	0.43%	+5
ROA	0.89%	0.71%	+18

# Highest ROA since September 2005



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# 3 ways to measure credit union mortgage market share

9.1%

- By # of Applications

9.9%

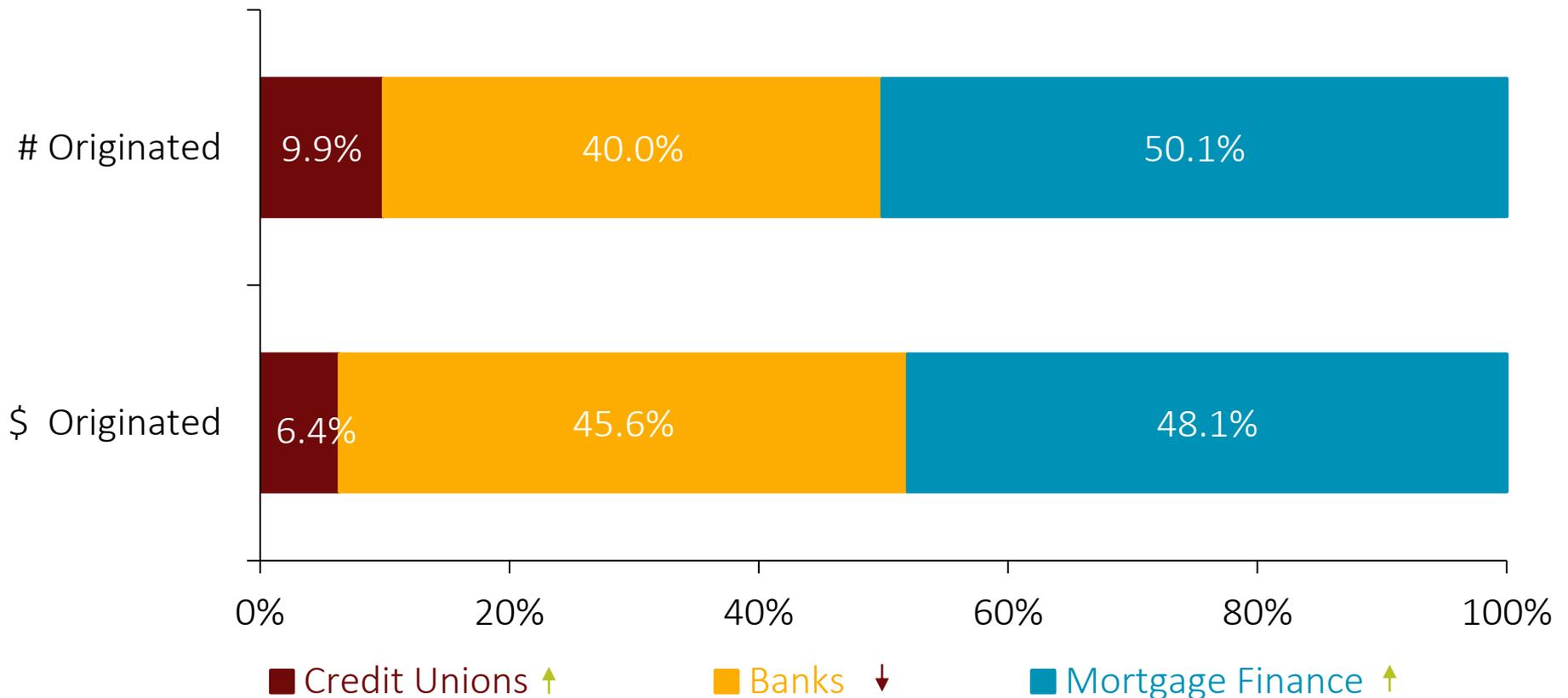
- By # of Loans Funded

6.4%

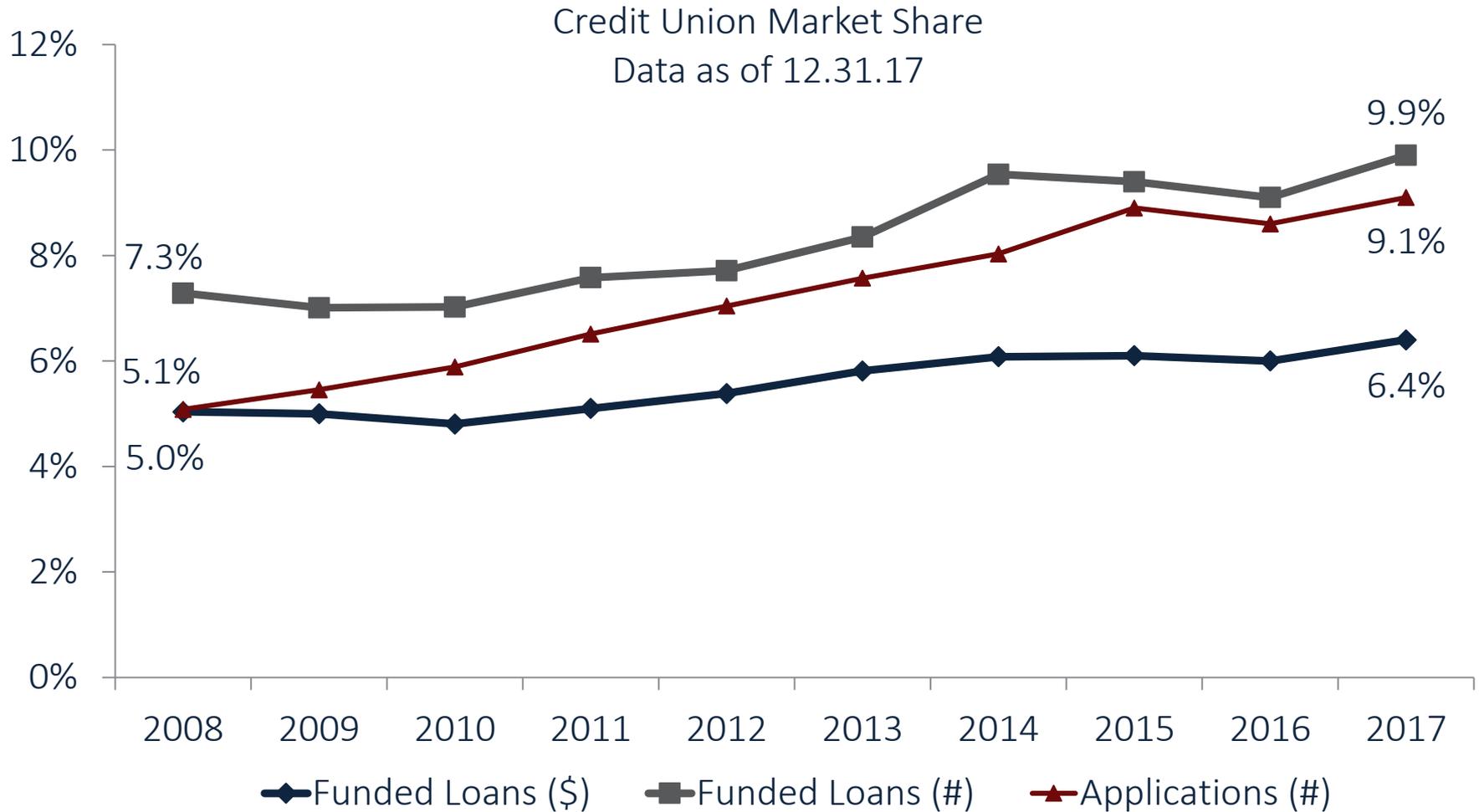
- By \$ of Loans Funded

# 2017 mortgage market share at a glance

Mortgage Origination Composition  
Data as of 12.31.17



# 2017 reverses 2-year dip in market share; reaches record high



# State leaders in credit union mortgage share by \$ originations

Rank	State	CU Market Share	CU Originations (\$000s)
1	Vermont	24.2%	\$2,654,059
2	Iowa	21.2%	\$12,344,177
3	Wisconsin	19.9%	\$27,016,958
4	Idaho	15.9%	\$10,638,118
5	Michigan	14.4%	\$40,547,543
6	Rhode Island	12.7%	\$5,776,699
7	District of Columbia	12.0%	\$8,813,139
8	Maine	11.1%	\$6,091,425
9	New Hampshire	10.6%	\$8,056,496
10	Maryland	10.4%	\$48,429,004



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