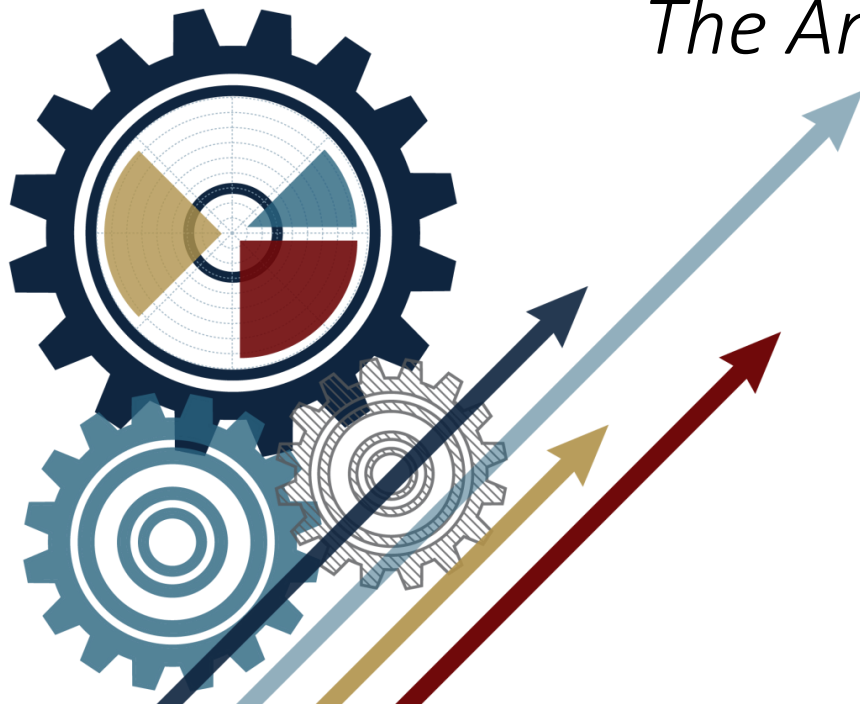


Trendwatch 2Q 2018

The Annual Report for the Industry

Data for June 30, 2018

Call Dates: August 22 & 23, 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 **660 426 851**.



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.

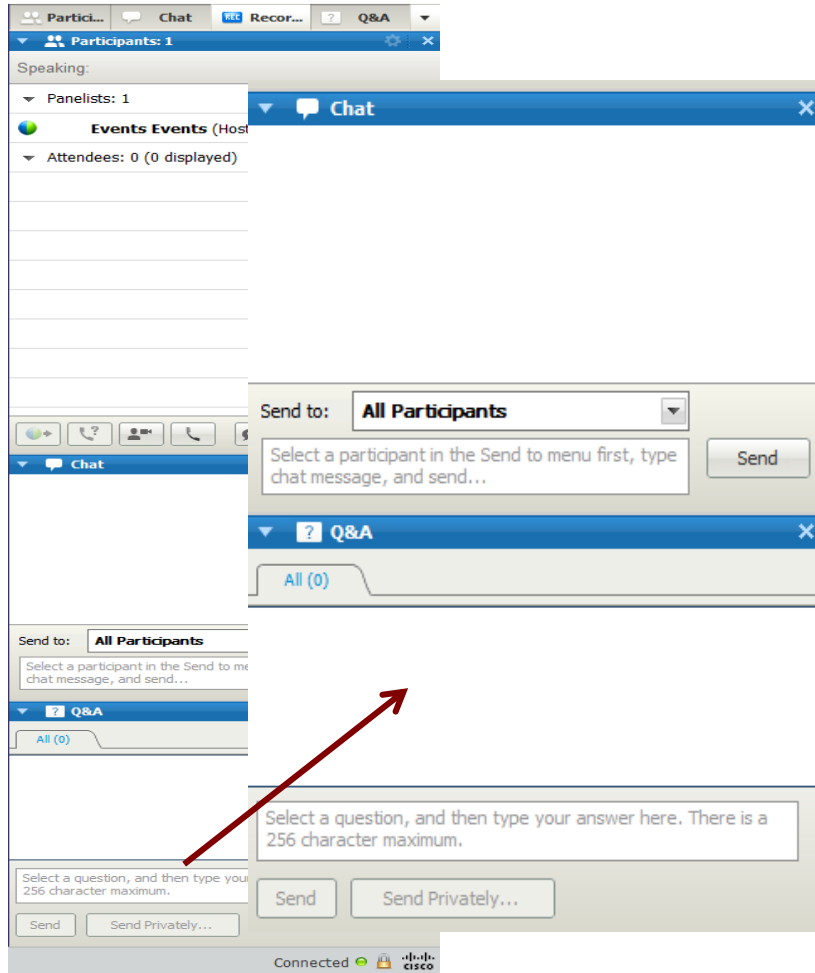
Slide Link

Today's slides can be found online at:

<http://bit.ly/2Q-18-Day-2>

We Encourage Questions!!!

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





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Today's Lineup

Market Update

*Jason Haley, Managing Director, Investment Management Group,
ALM First*

2Q 2018 Credit Union Trends & Key Issues

Alix Patterson, Partner, Callahan & Associates

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

A Business Intelligence Team that Drives Results

*Sara Dolan, Chief Financial Officer, Michigan State University Credit
Union*

ALM FIRST MARKET UPDATE

Callahan Quarterly Trendwatch | August 22, 2018



Jason Haley

Managing Director, Investment Management Group

Speaker



Jason Haley

Managing Director, Investment Management Group

Economic Update

- U.S. dollar strength has sparked volatility in commodities and emerging markets (EM) in recent weeks
 - Turkish financial/economic crisis roiled emerging markets in early August
 - Metals and oil prices sharply lower on EM concerns and China, which is unusual when global growth is above trend
- U.S. economic data trend has slowed relative to expectations but remains consistent with solid overall growth
 - Citi Surprise Index in negative territory for first time since October 2017
 - Q2 GDP growth above 4% for first time since 2014 and underlying details were supportive for current quarter growth
 - Biggest near-term headwind for growth continues to be potential for outright trade war

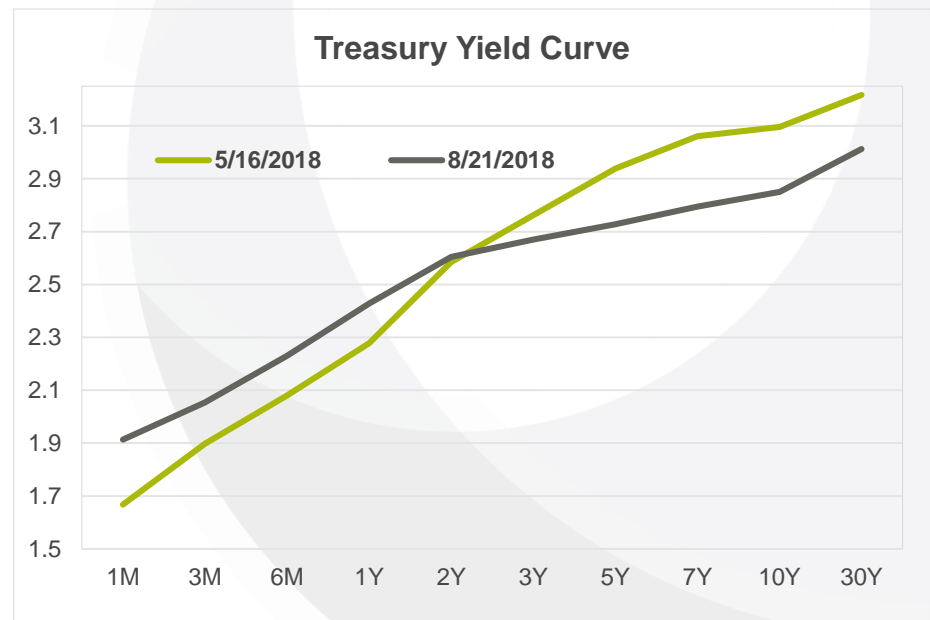
Economic Update, cont.

- Fed Chair Jerome Powell will be speaking Friday morning at the annual Jackson Hole symposium (Monetary Policy in a Changing Economy)
- Current median FOMC forecast calls for 2 more rate hikes in 2018 and 3 hikes in 2019
 - Markets priced for 2018 hikes, but priced for just over 1 hike in 2019
 - Historic tendency for markets to underprice Fed hikes on the back end of a tightening cycle
- Regarding future Fed communication/decisions, market participants are more focused on Fed balance sheet reduction, future demand for bank reserves in the context of HQLA requirements, and the relationship between IOER and the Fed's target fed funds range

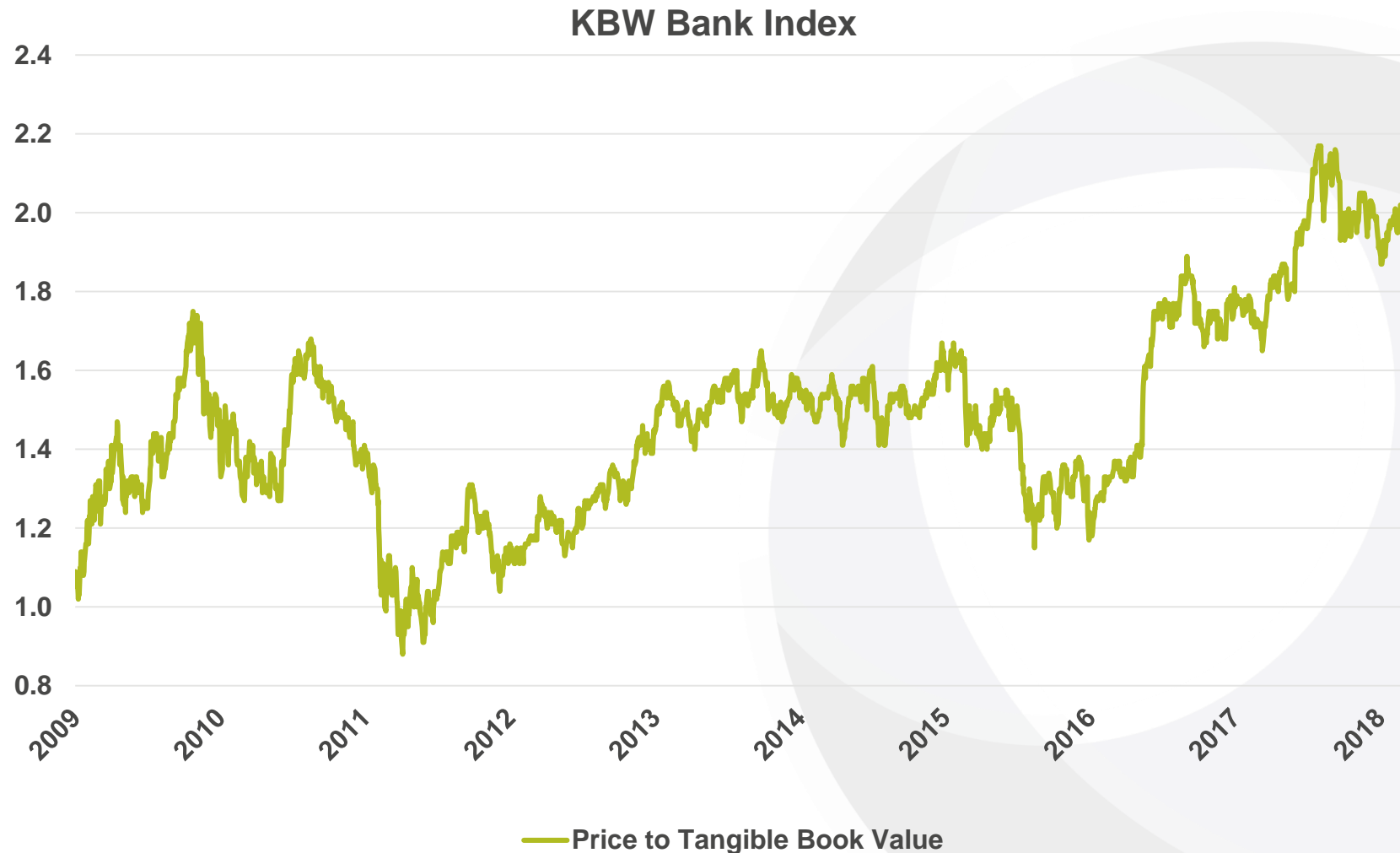
Current Market Themes

- Curve flattening continues to be a major theme for 2018, which is typical of a Fed tightening cycle
 - Term premiums remain depressed amid central bank buying
- Interest rate volatility remains low, and spread widening has slowed in recent months, both of which have been positive for fixed-income performance (spread sectors relative to rates)

	8/21/2018	5/16/2018	Change
Tenor	(%)	(%)	(bps)
3-Months	2.05	1.90	0.16
6-Months	2.23	2.08	0.15
1-Year	2.43	2.28	0.15
2-Year	2.60	2.59	0.02
5-Year	2.73	2.94	-0.21
10-Year	2.85	3.10	-0.25
30-Year	3.01	3.22	-0.21
Curves			
2yr-5yr	0.12	0.35	-0.23
2yr-10yr	0.25	0.51	-0.27
2yr-30yr	0.41	0.63	-0.22
5yr-10yr	0.12	0.16	-0.04



Depository Performance Amid Rising Rates



Source: Bloomberg



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New Quarterly Investment Trends For Credit Unions

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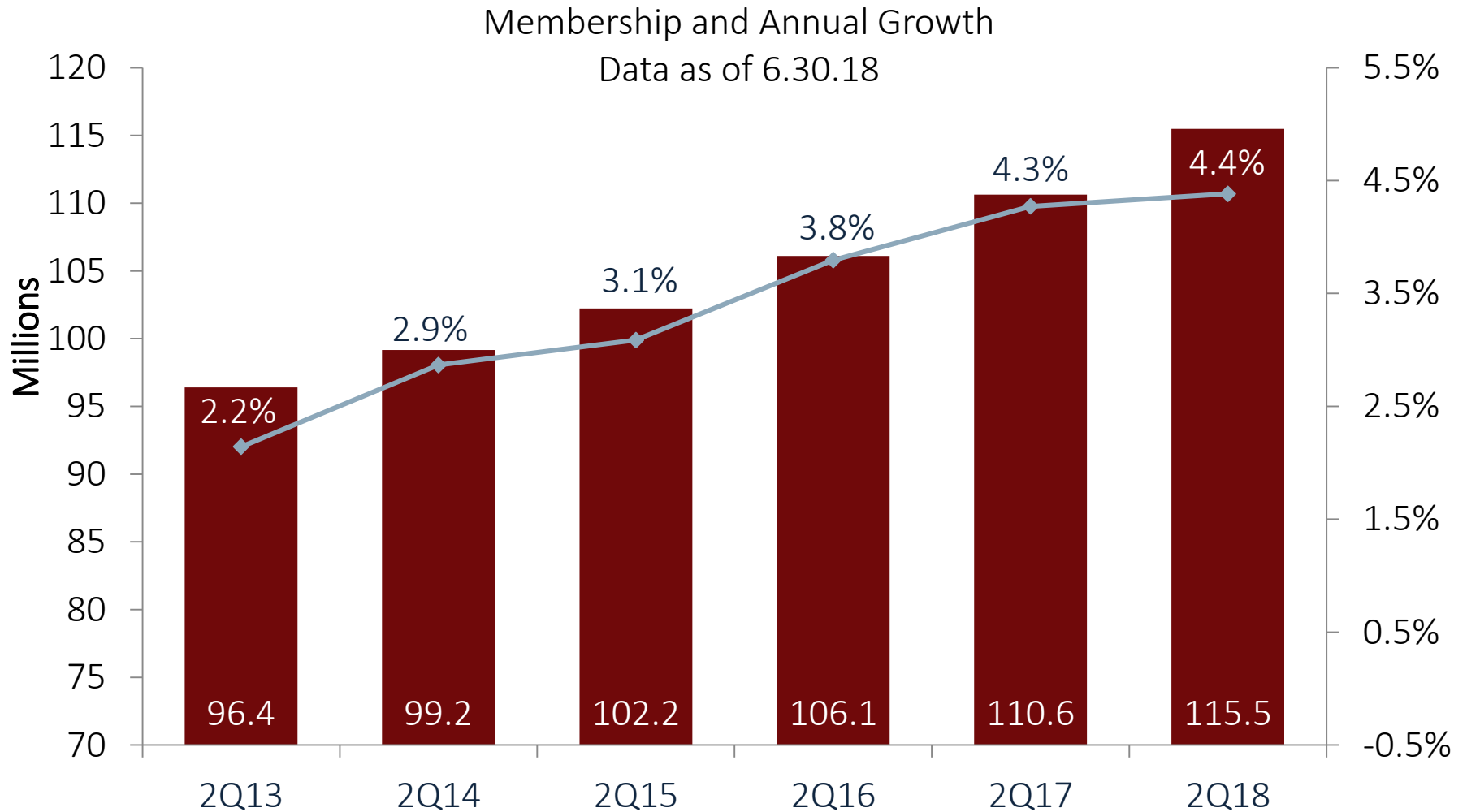


Industry Overview

Loans lead annual growth rates to surpass \$1 trillion

	As of 6/30/2018	12-mo. Growth 2Q18	12-mo. Growth 2Q17
Assets	\$1,441.2B	5.9%	7.6%
Loans	\$1,013.5B	9.8%	10.8%
Shares	\$1,223.0B	5.5%	8.1%
Investments	\$360.0B	-3.9%	1.7%
Capital	\$162.7B	6.5%	5.7%
Members	115.5M	4.4%	4.3%

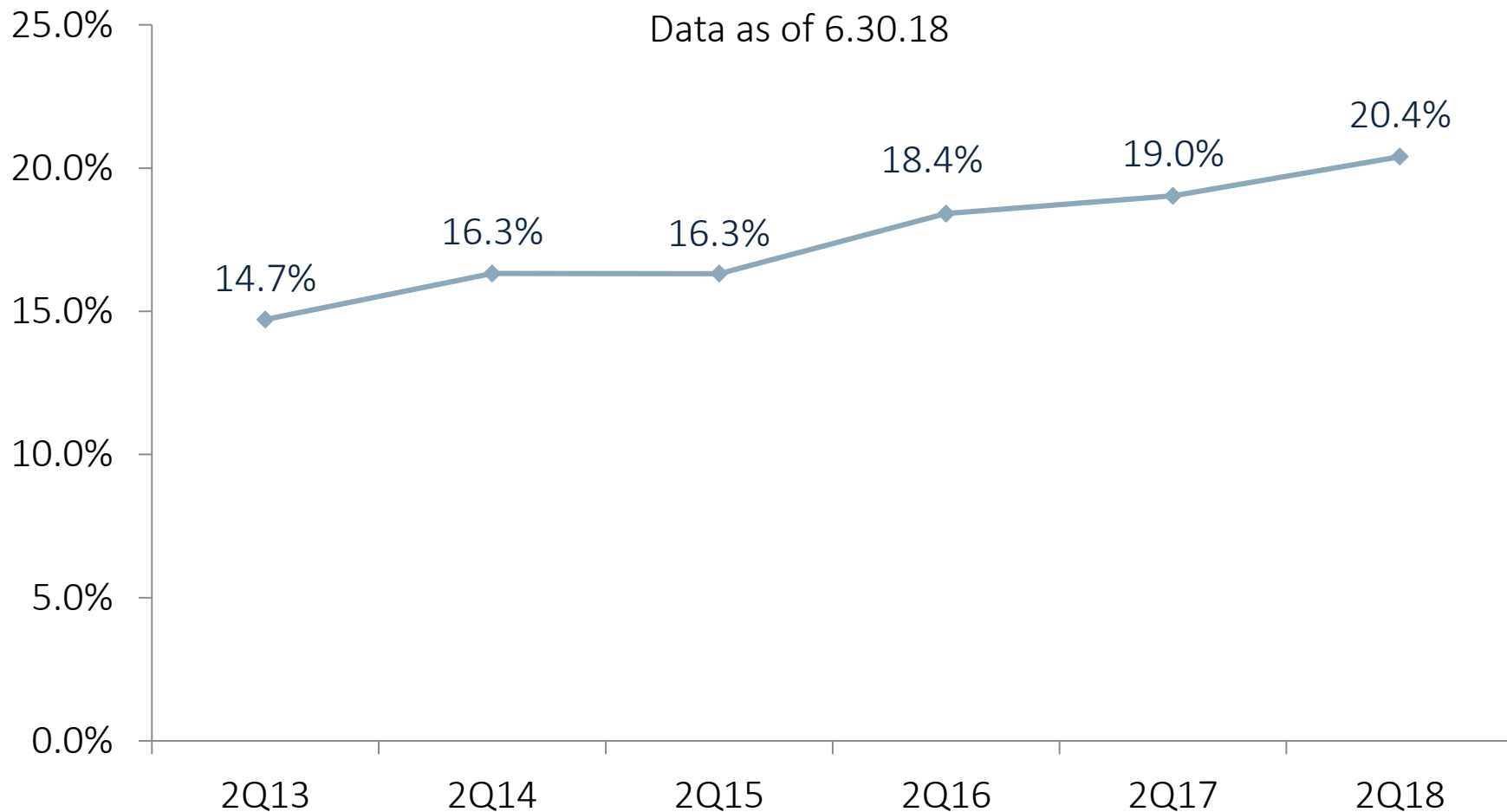
Member growth accelerates for the 5th consecutive year



Over one fifth of consumers looking to finance a car turn to credit unions

Credit Union Auto Finance Market Share

Data as of 6.30.18



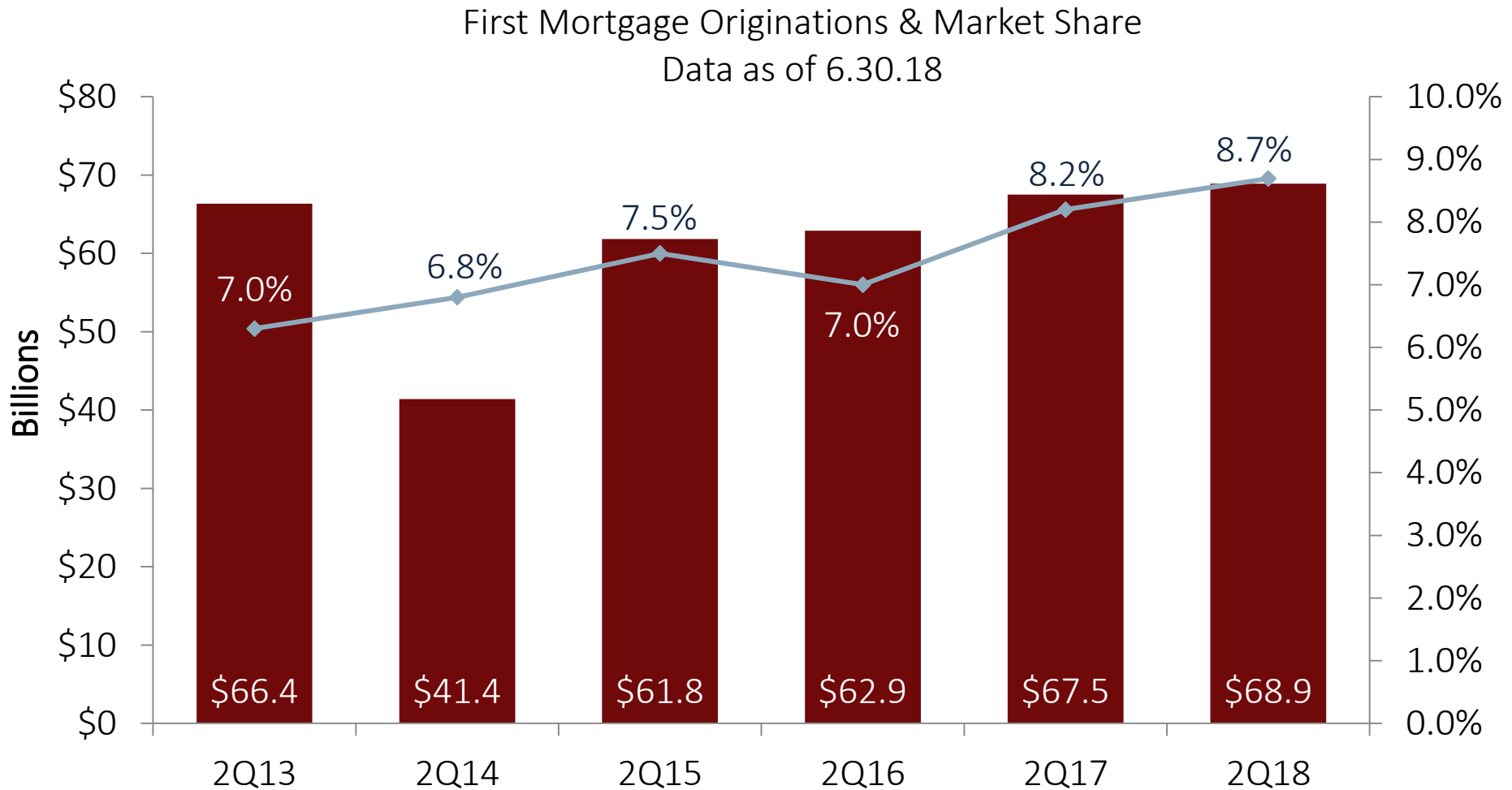
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Source: Callahan's Peer-to-Peer Analytics
AutoCount Data from Experian Automotive

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First mortgage originations rise 2.1% year-over-year



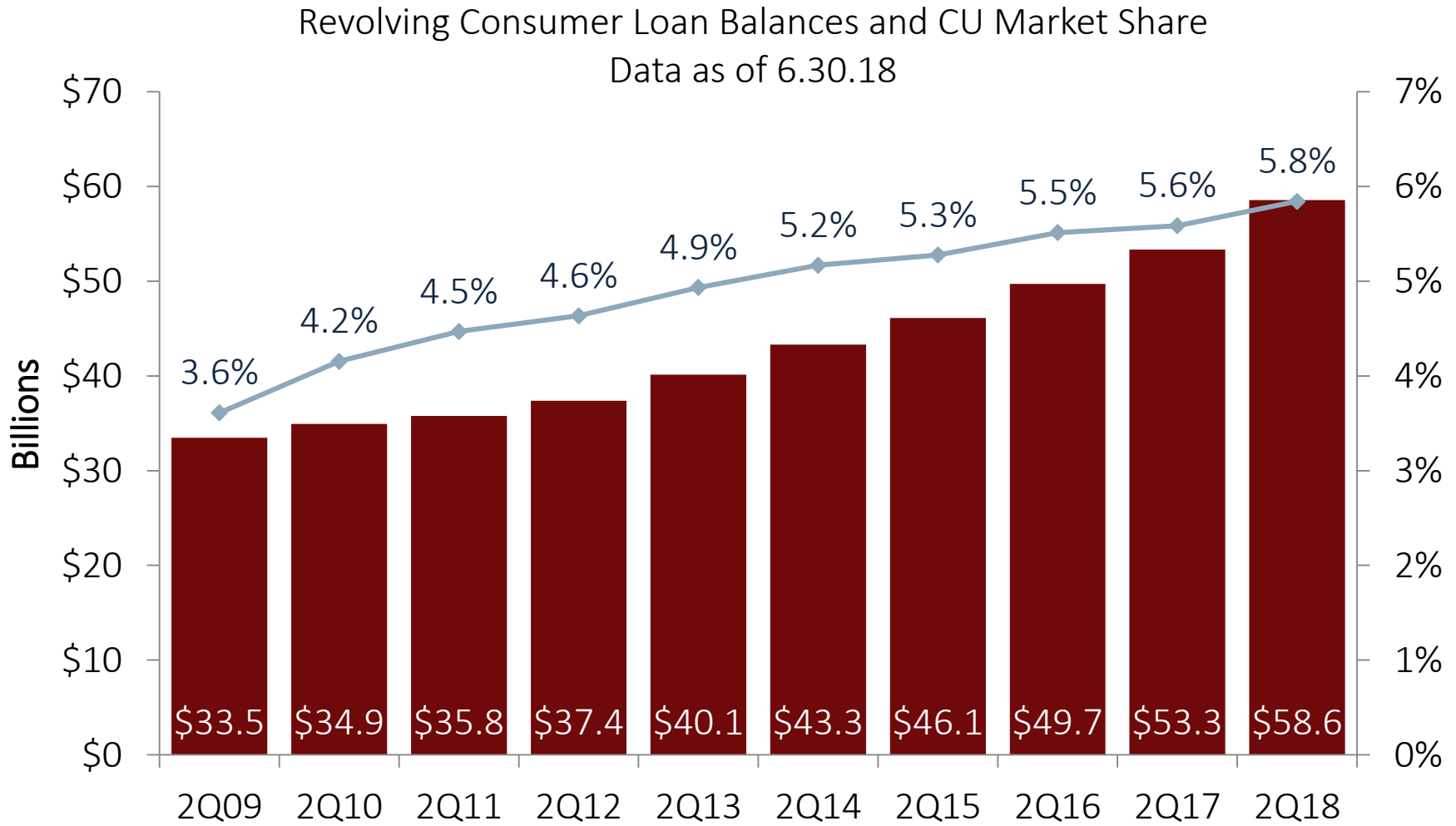
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Source: Callahan's Peer-to-Peer Analytics
Mortgage Bankers Association

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Revolving consumer loan balances up 9.8% annually.



Member relationships continue to widen



Credit Card



Real Estate



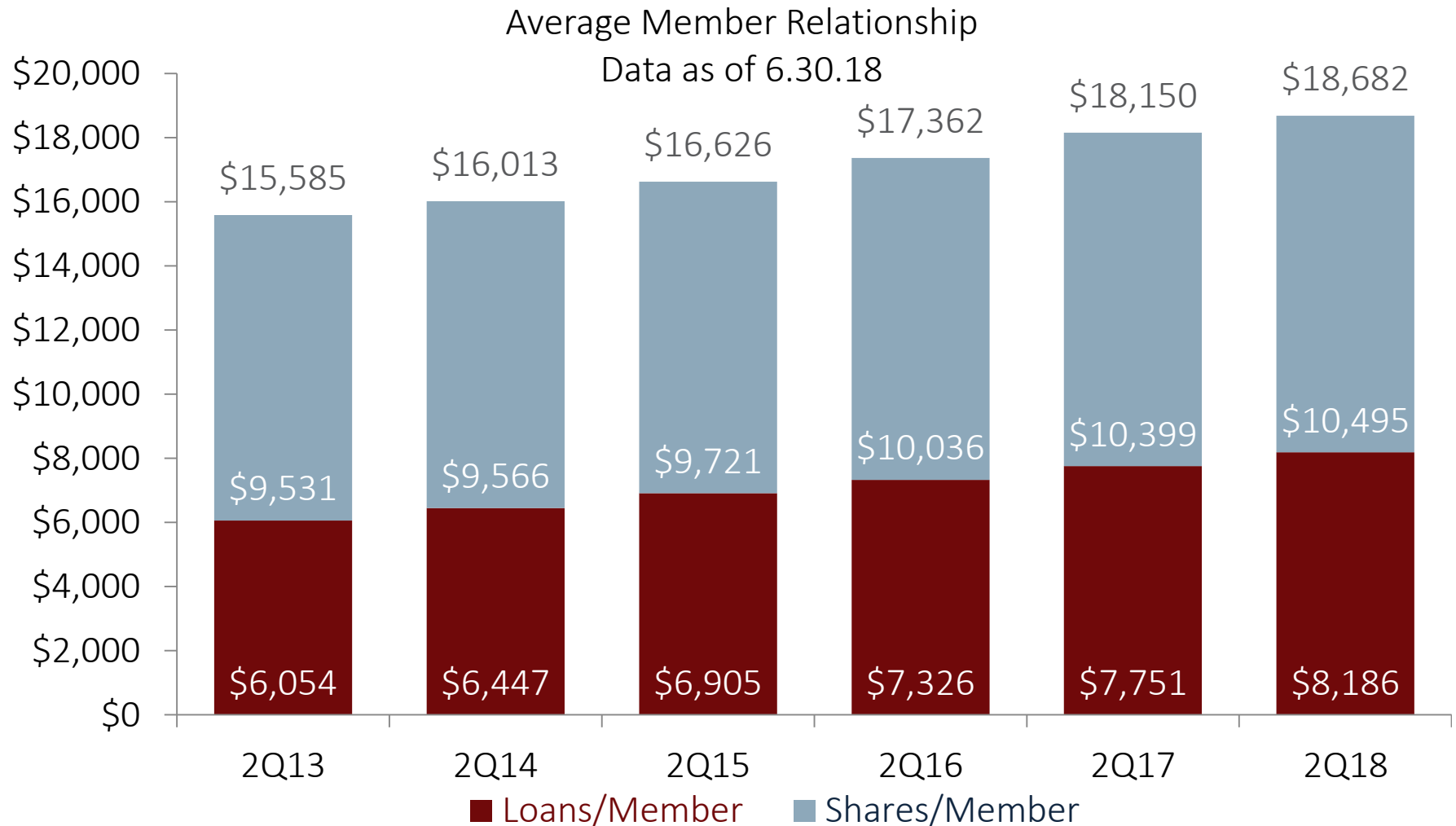
Share Draft



Auto

2Q18	17.3%	4.4%	57.5%	20.8%
2Q13	15.4%	4.4%	52.1%	16.2%
Change	+1.9%	0.0%	+5.4%	+4.6%

Deeper lending relationships push AMR higher



A Business Intelligence Team that Drives Results

Sara Dolan, Chief Financial Officer



About Michigan State University FCU

- Headquartered in East Lansing, Michigan
- Approximately \$4.1B in assets
- Over 259,000 members
- 806 employees
- 19 branch locations

The Challenge

- Acting on member data is a growing imperative for credit unions
- We have a particularly fluid membership, as the world's largest university-sponsored credit union
- Last year, student accounts represented just over 12% of new accounts we opened
- Students & former students represent just over 26% of total members


The Solution

- We created the business intelligence department in 2014 to centralize data research, analysis, and reporting.
- We now have four specialists, plus an intern, with their own focus areas:

Marketing	Visa	Loans	Members
------------------	-------------	--------------	----------------

- The team is providing targeted lists for outreach efforts. They also analyze results to identify opportunities & mitigate risks.
- Predictive analytics and advanced techniques for identifying potential market opportunities are in development.

How it Works



Request Status

Request Received

Promotion Start Date

Promotion End Date

ATTACHMENTS

Click here to attach a file

Promotion Name - List file names will be based on this name


Promotion Summary

Include a brief summary of the promotion, and how the list will be used. Which product or service is being promoted?

Please attach a copy of your finalized marketing piece (InDesign, Photoshop, Illustrator, PDF)

Ex: "Qualifying Platinum Plus Visa Cardholders who make at least 5 purchases will automatically receive \$5 bonus to their cash back accounts."

Promotions Requested



☒ Mailing List

☐ Email List

☐ Computerline Marketing

☐ SSN List for Synapsys

☐ Branch TV Slide

☐ Mobile App - My Offers

☐ Social Media Posts

☐ Public Website



Occurrence

☒ One Time

☐ Weekly

☐ Monthly

☐ Quarterly

☐ Annually

Criteria

What information is being used to target your list? Please consider segments like age, location, income, credit score, SEGs, products the members already have and more. If you're uncertain, explain what your ideal candidate is and we'll work it out with you.

 Target List Quantity

Please include your expectation for how many people will be on the list. This can be a range, a maximum or minimum.

Branding

☐ MSU Only

☐ OU Only

☐ Dual - Same List

☒ Dual - Separate

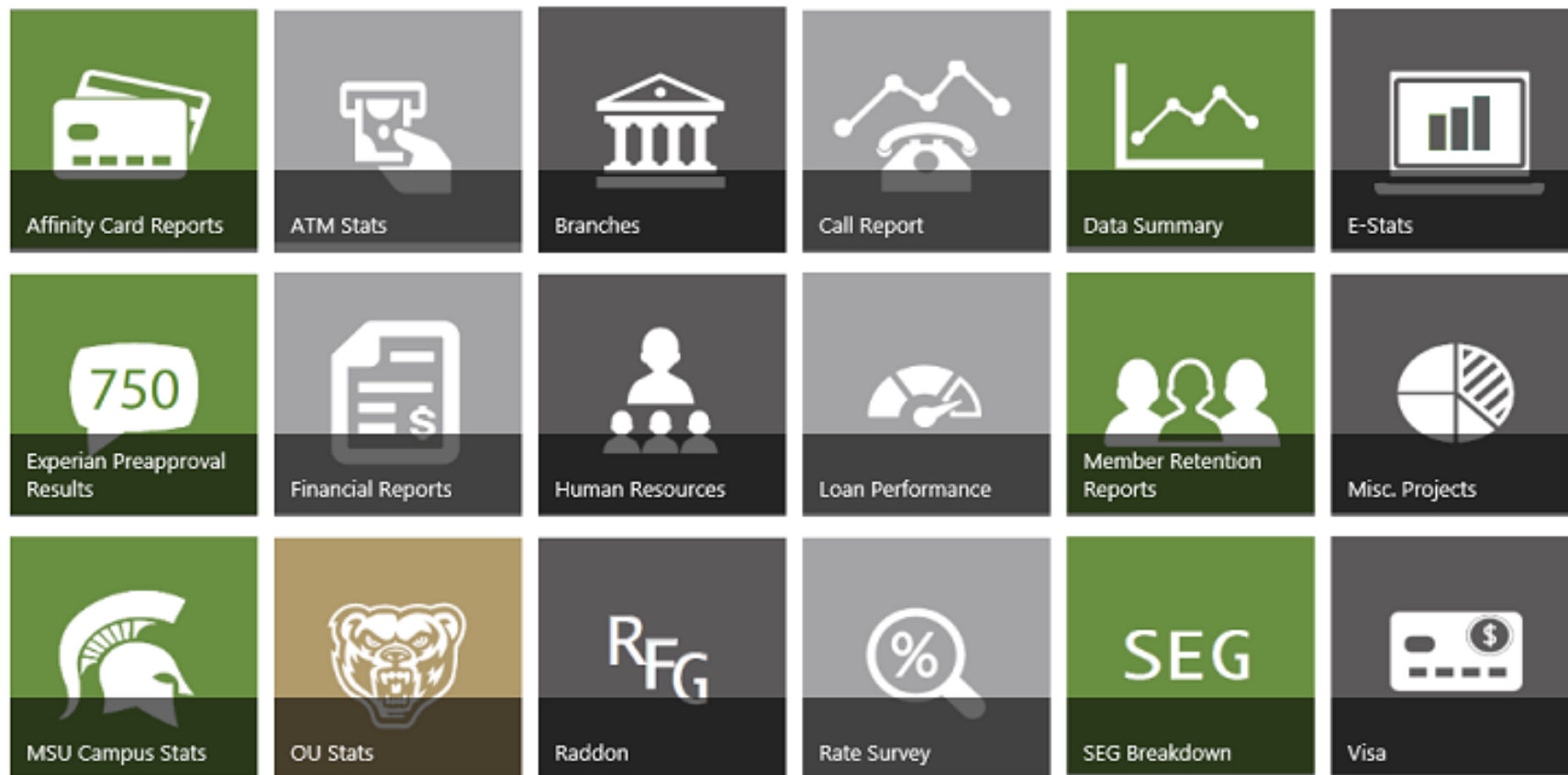








Collaboration is Key



The CU Stats page on MSUFCU's intranet provides read-only access to reports about multiple topics.

Four Tips for BI Bliss

1. Ask “so what?” A chart or infographic can be beautiful, but the data must be presented in a way that the end user can make a decision.
2. Foster collaboration. BI should not operate in a silo, distribute reports, and make recommendations without discussion and input from the appropriate departments.
3. Foster transparency. Our intranet page shares information with all employees, but we also discuss various data reports in meetings throughout the organization.
4. Be curious and ask questions. Reflect on the data that is relevant to a decision and try to reduce the noise.

Join today – first virtual meeting September 19th!

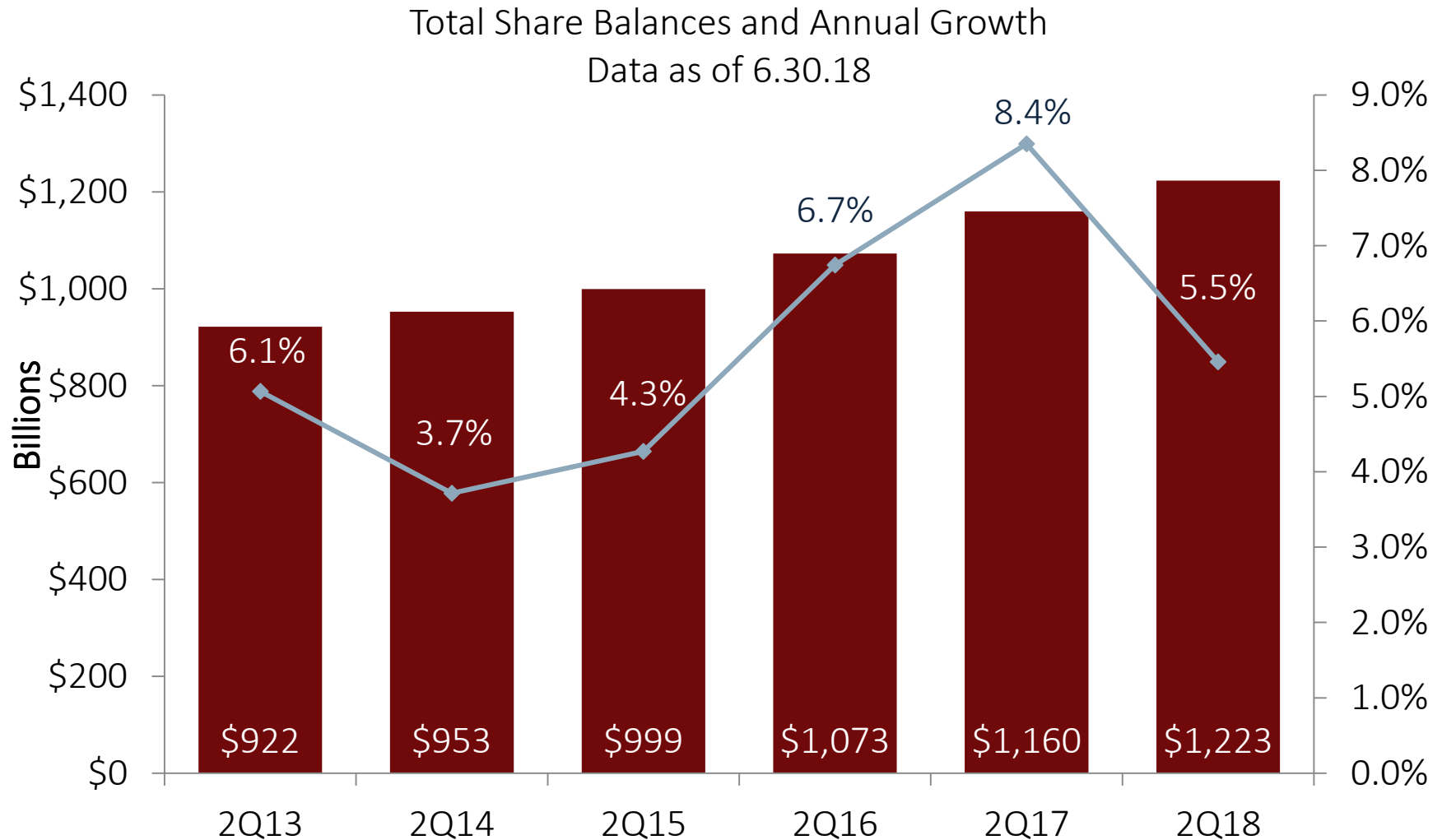


For more information contact:
Charlotte Taft – Tableau@Callahan.com

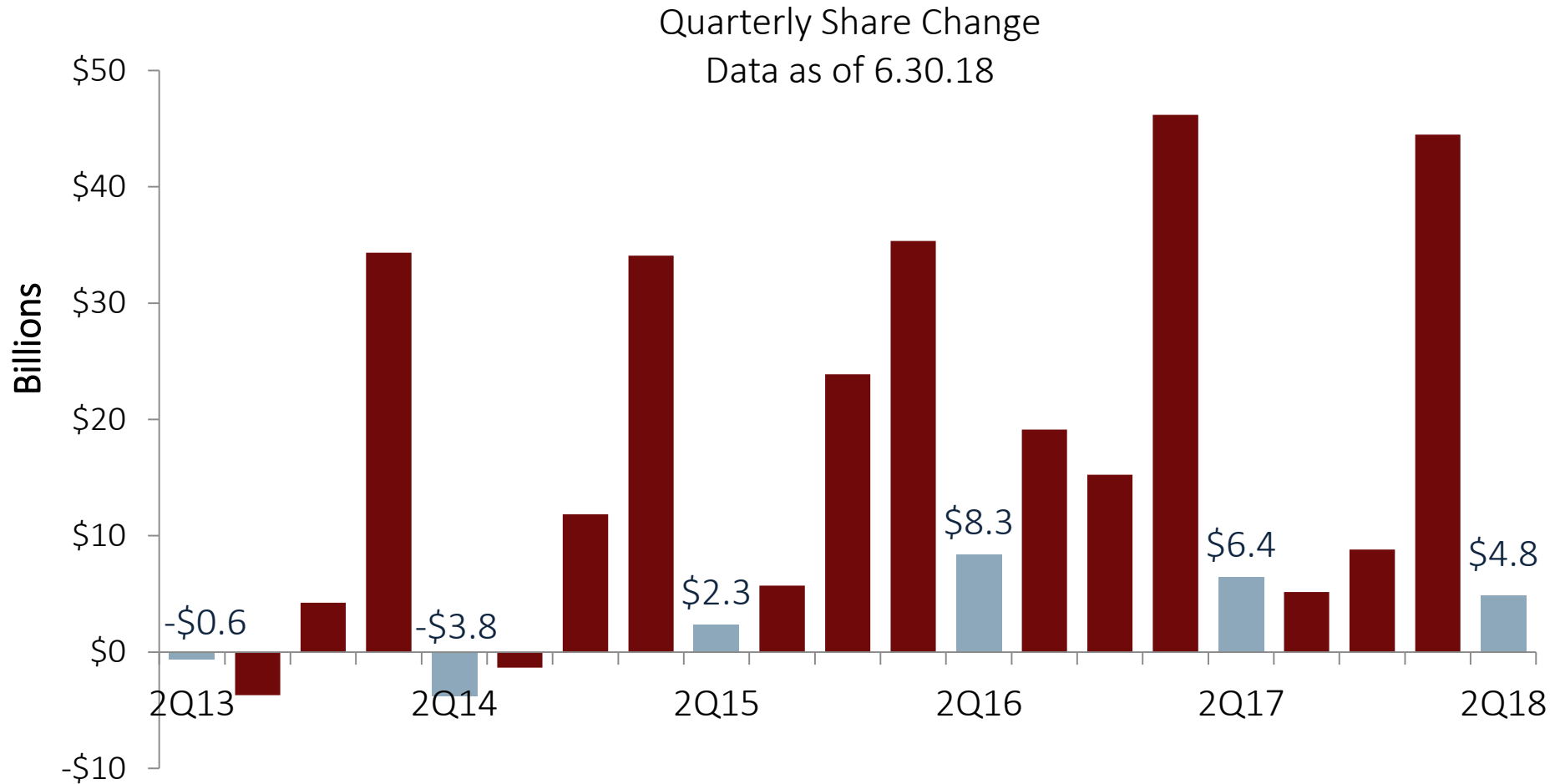
<https://community.tableau.com/groups/credit-unions>

Savings & Borrowing

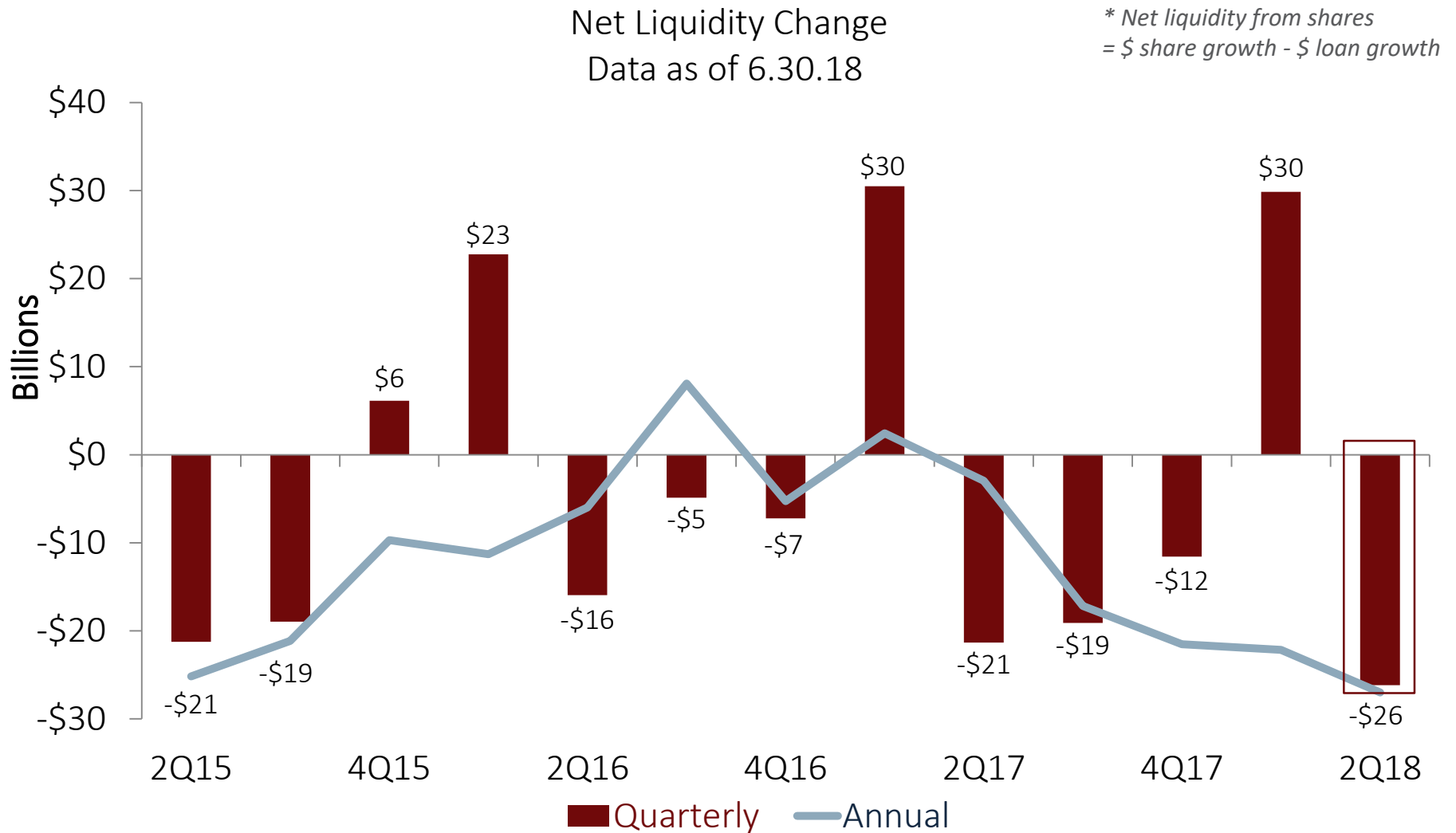
Share growth slows following 3 years of acceleration



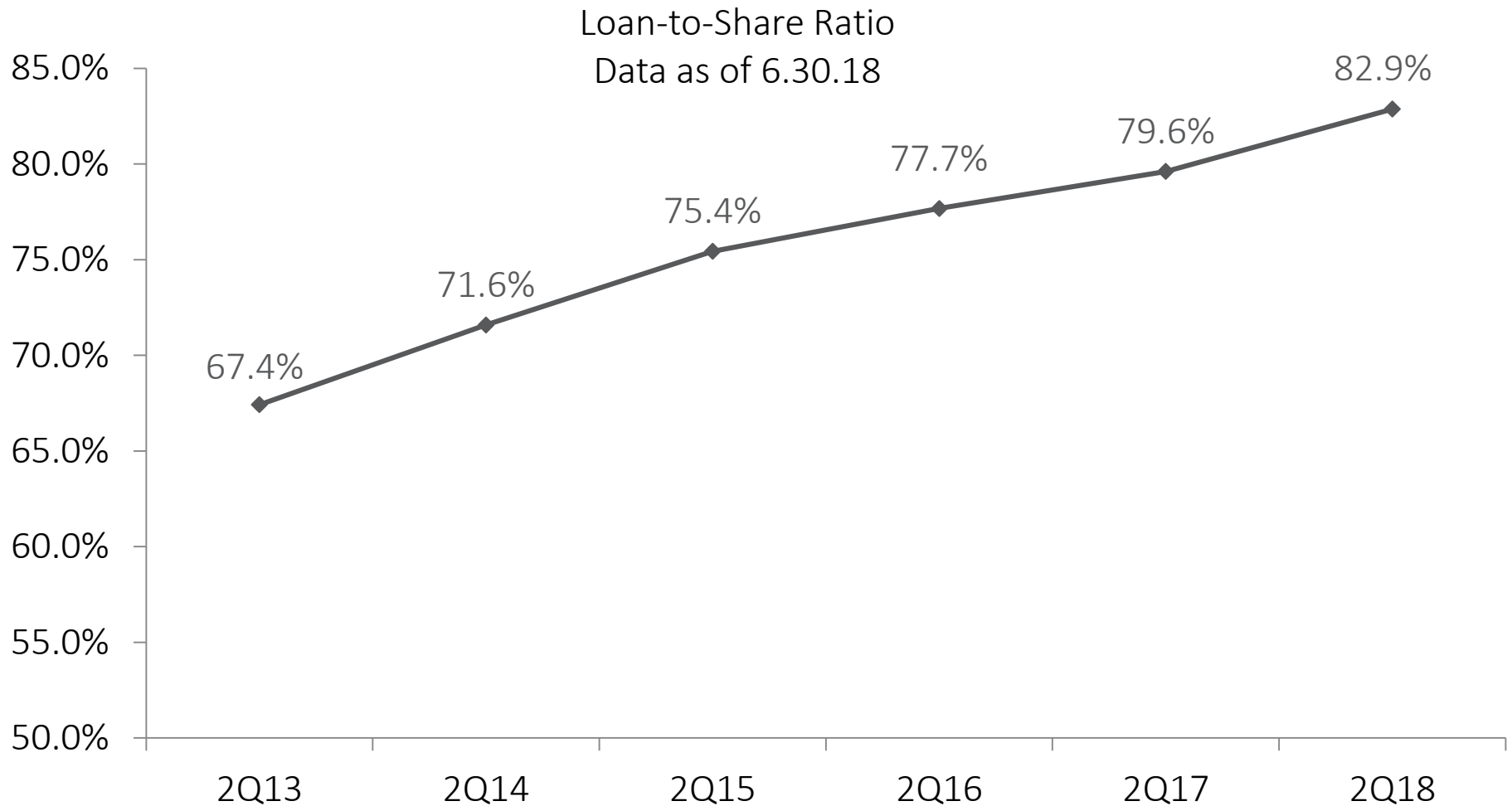
2Q net share growth falls for third consecutive year...



...pushing net liquidity change further negative



Highest loan-to-share ratio since year-end 2008



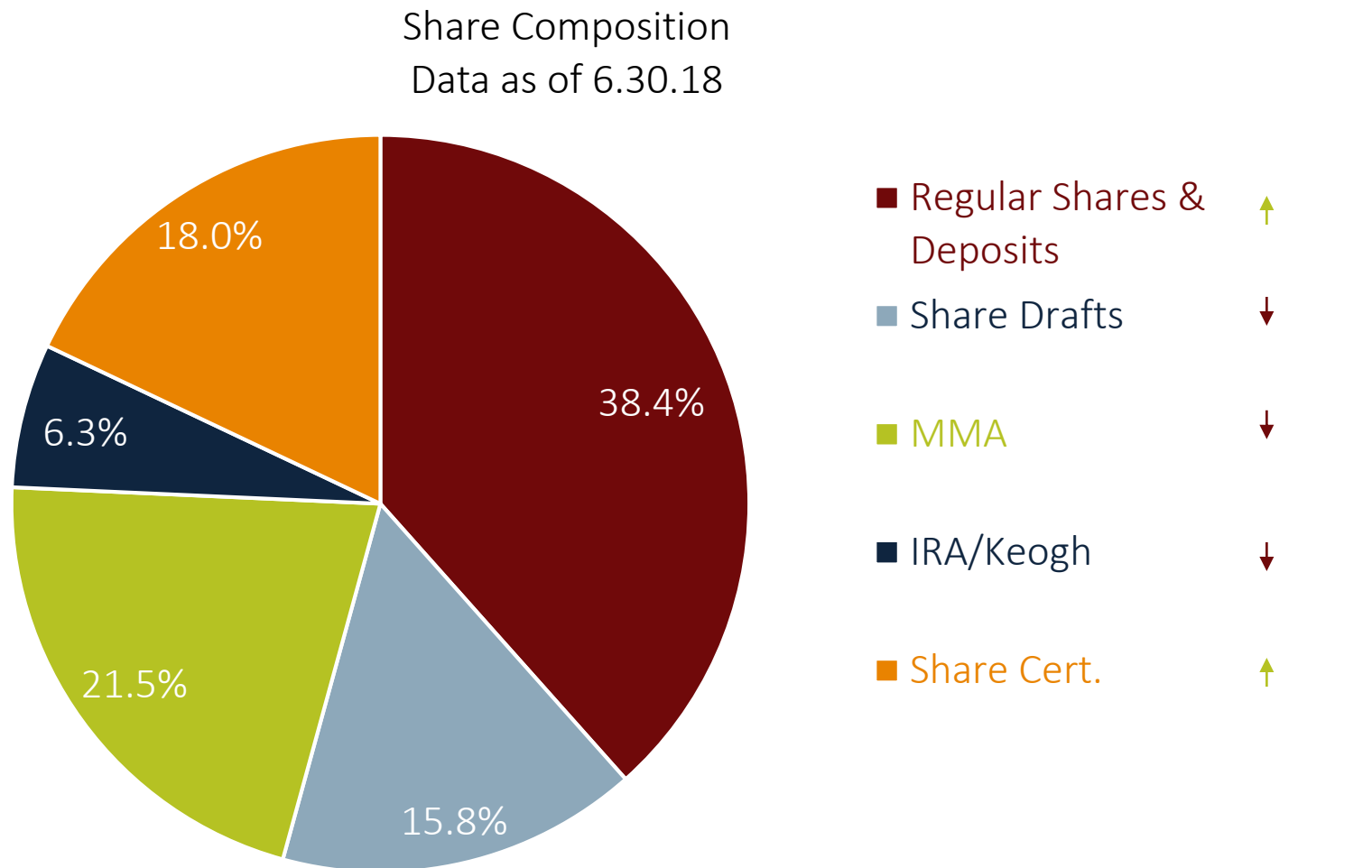
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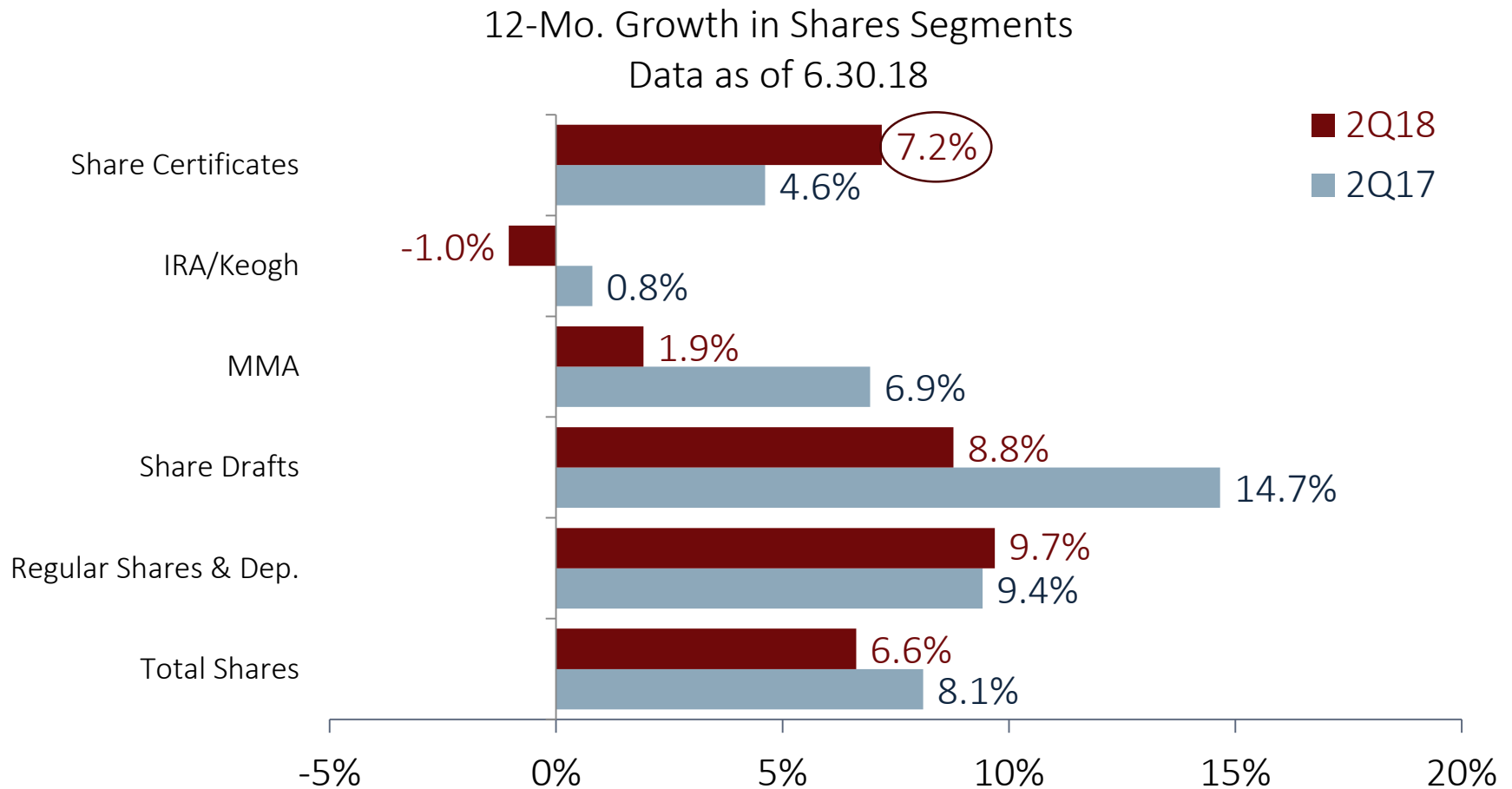
Source: Callahan's Peer-to-Peer Analytics



Savings accounts increase \$42.1B in past year

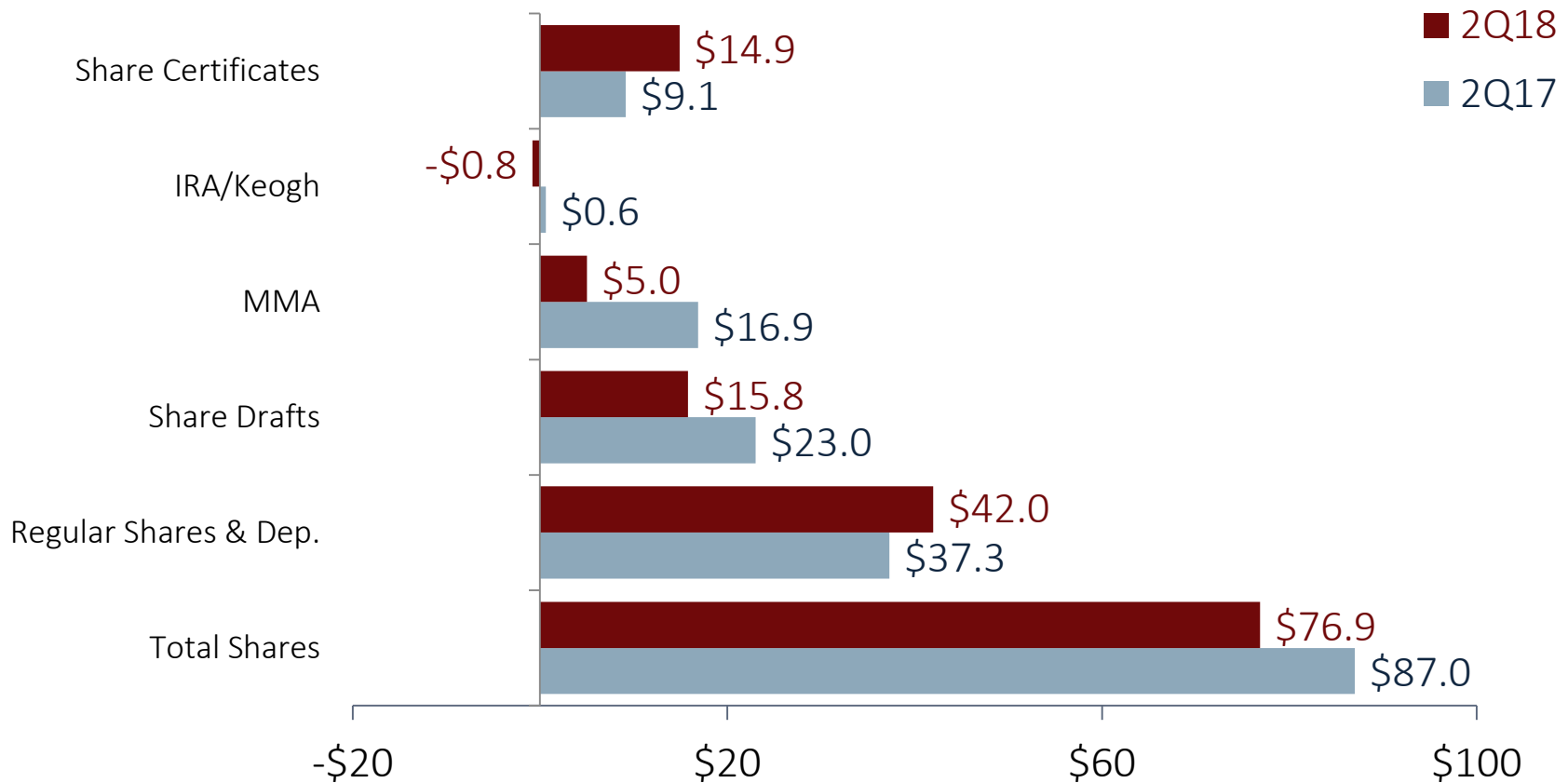


Share certificates and regular shares accelerate



Certificates post largest gain since 1Q08

12-Mo. Change in Share Segments
Data as of 6.30.18





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Could You Be Saving More with a Share Certificate Ladder?

Published: August 03, 2018

NEW HOTTER RATES SHARE CERTIFICATE
RATES AS HOT AS **3.53%** APY [CLICK HERE TO LEARN MORE](#)

What is a SC Ladder?

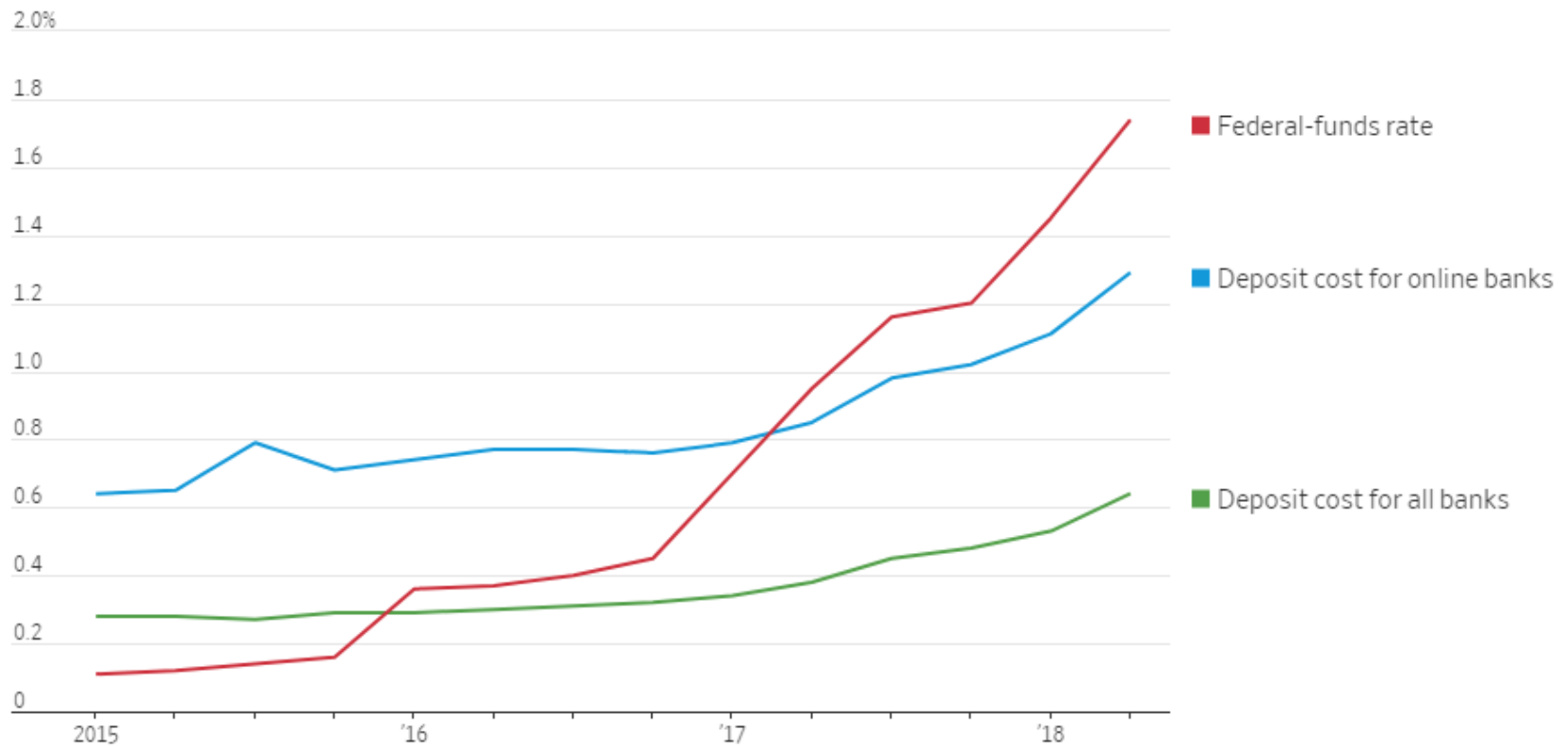
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Banks start to pay their deposits

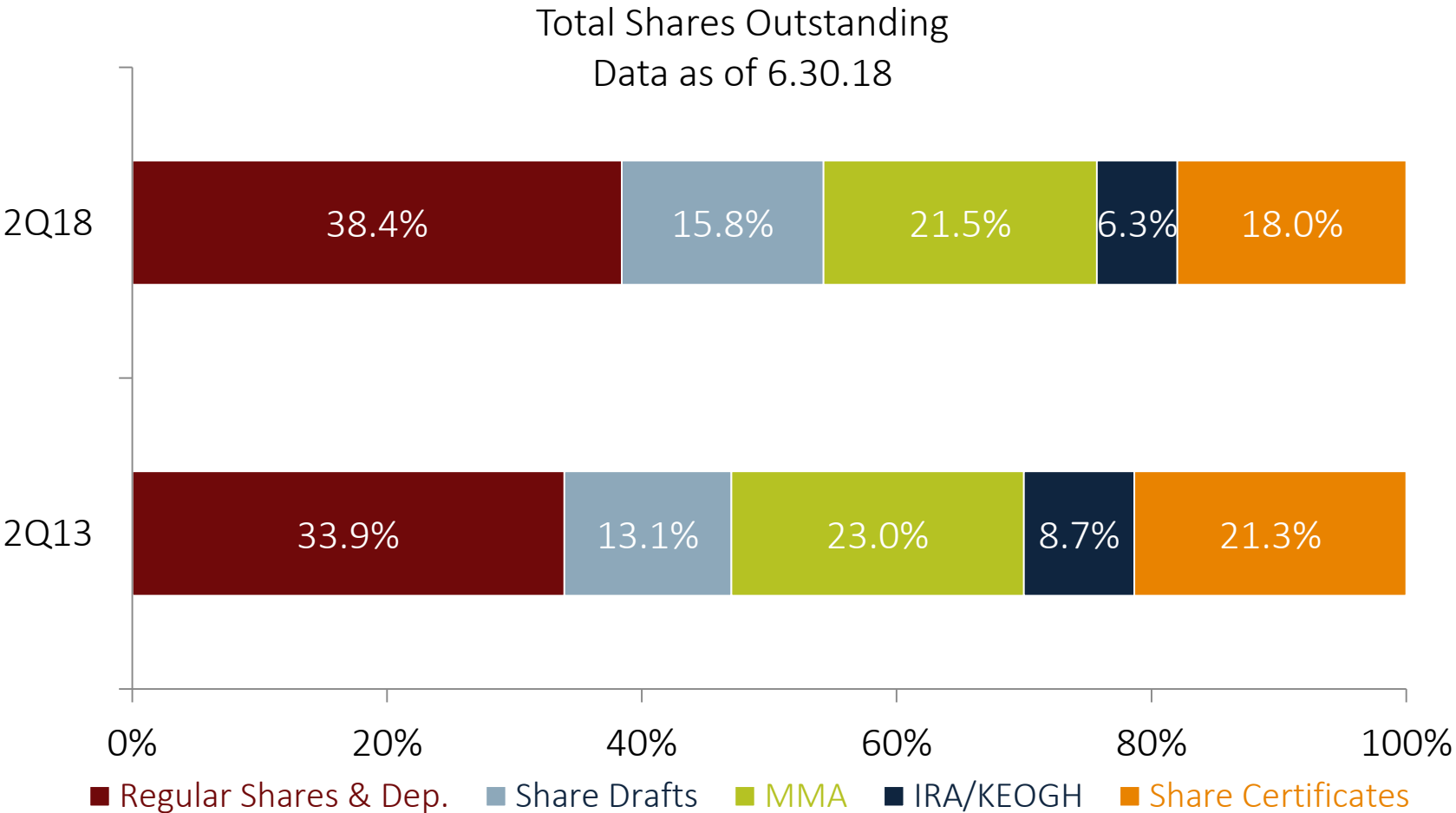
Delayed Reaction



Note: Fed funds is average quarterly rate.

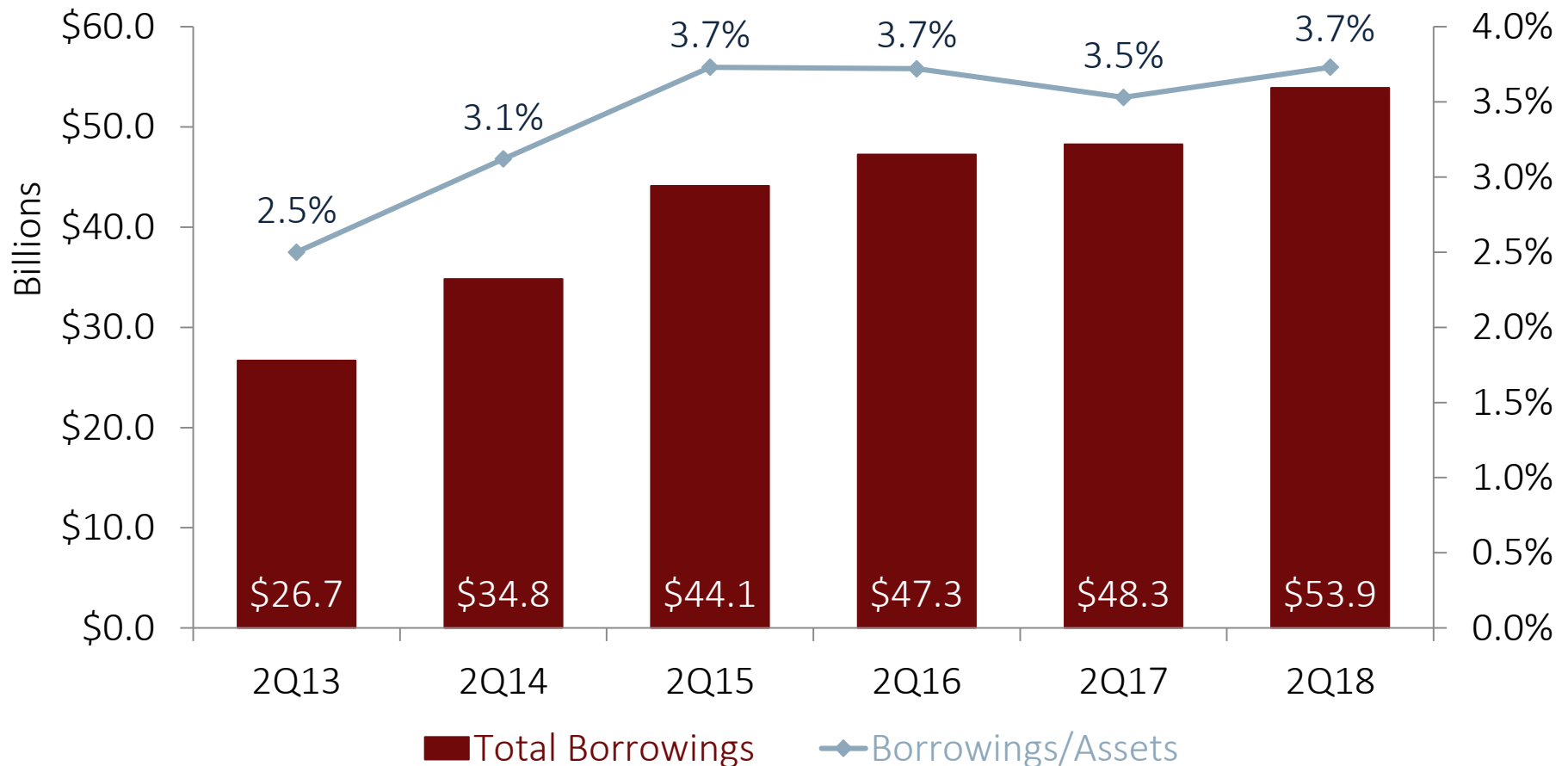
Source: Credit Suisse

Core deposits make up 75.7% of share portfolio

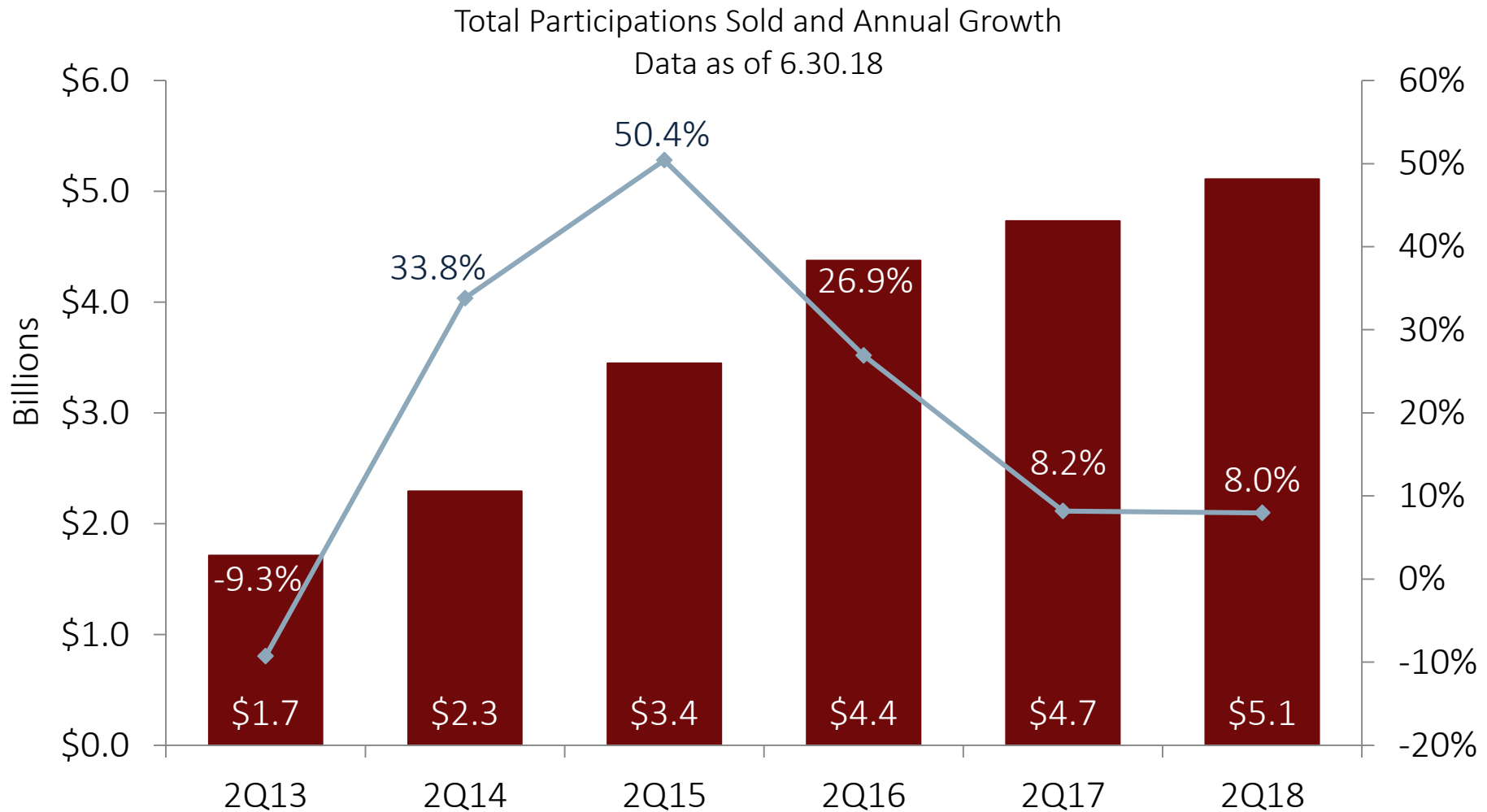


Total borrowings more than doubles over the past 5 years

Total Borrowings and Borrowings/Assets
Data as of 6.30.18



Participation sales are beginning to slow, but still growing

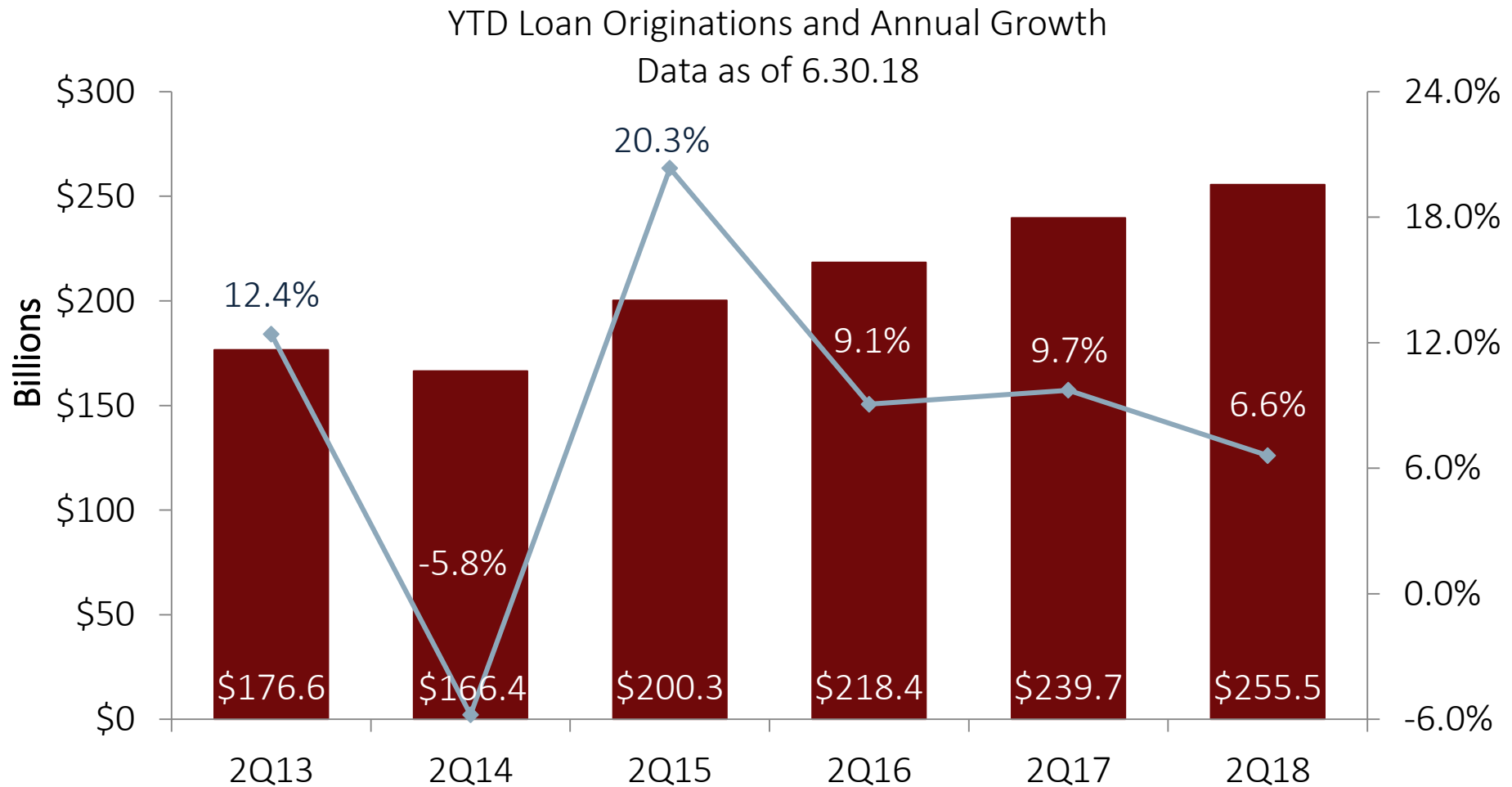


Lending & Investments

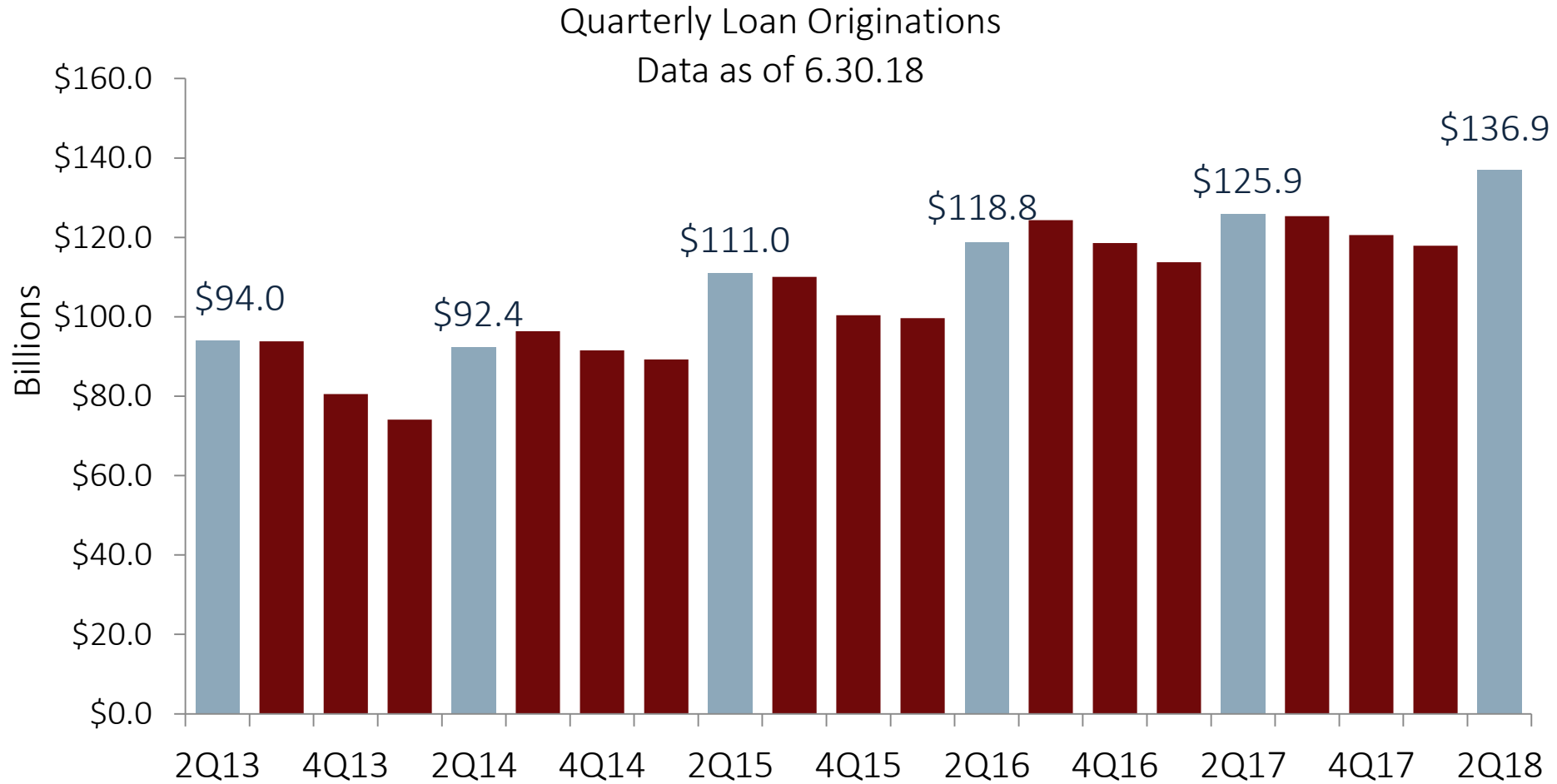
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Originations creep higher; 4th year in a row

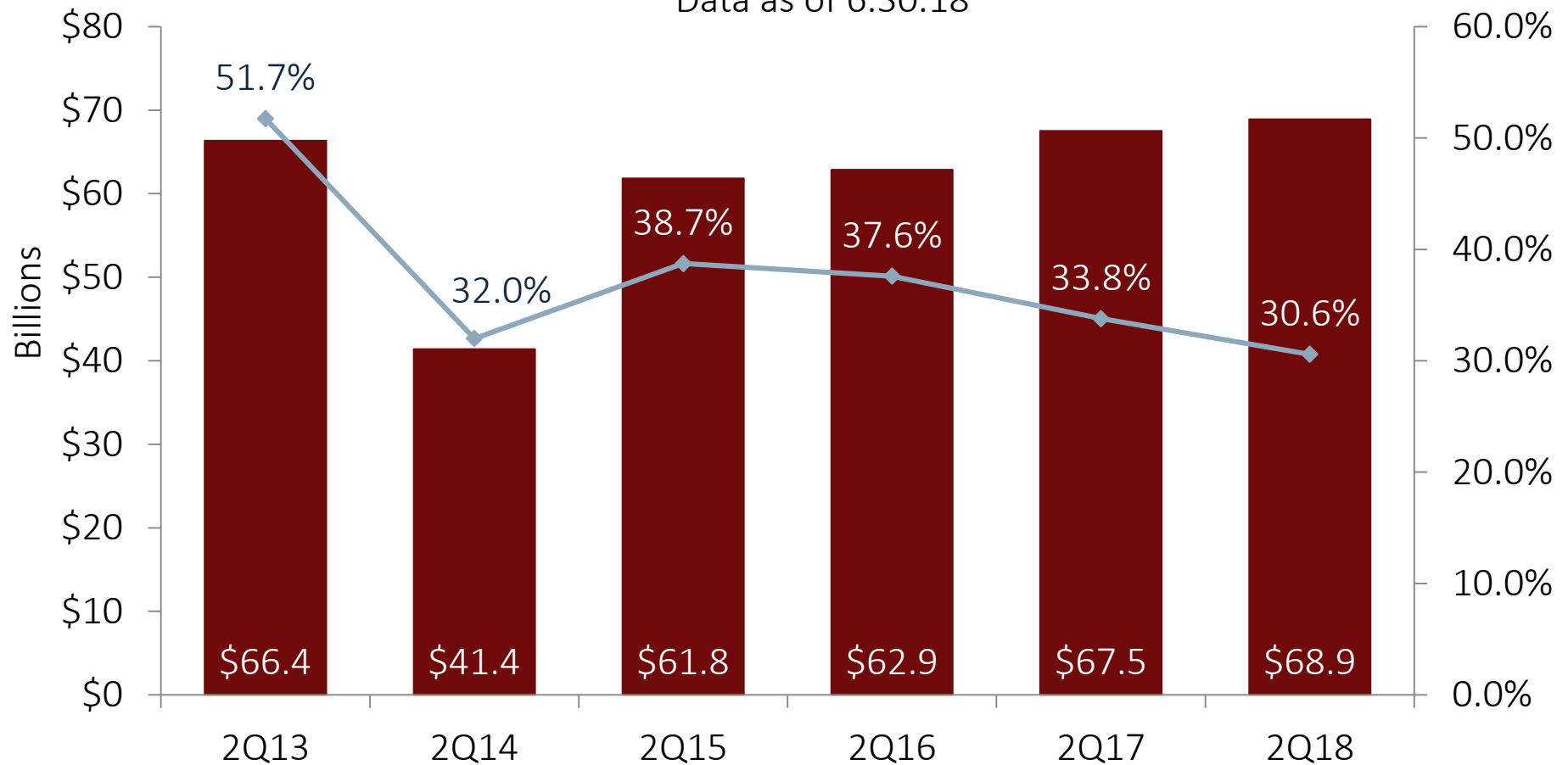


Highest 2Q loan origination on record

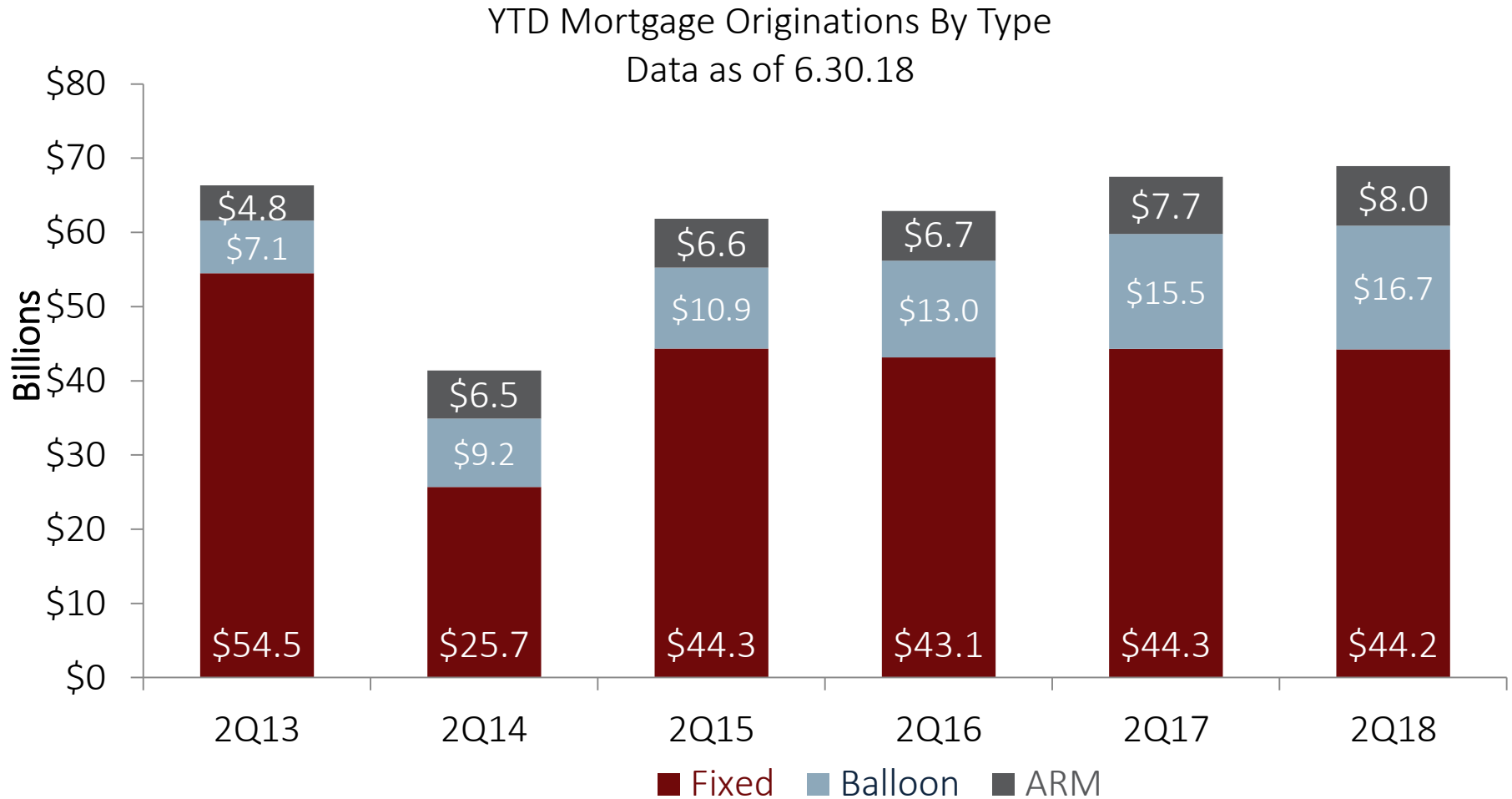


1st mortgage originations rise while secondary market sales fall...

YTD 1st Mortgage Originations & Secondary Market Sales as % of 1st Orig.
Data as of 6.30.18



...Due to a higher percentage of ARM/Balloons





Ready to Purchase or Refinance?

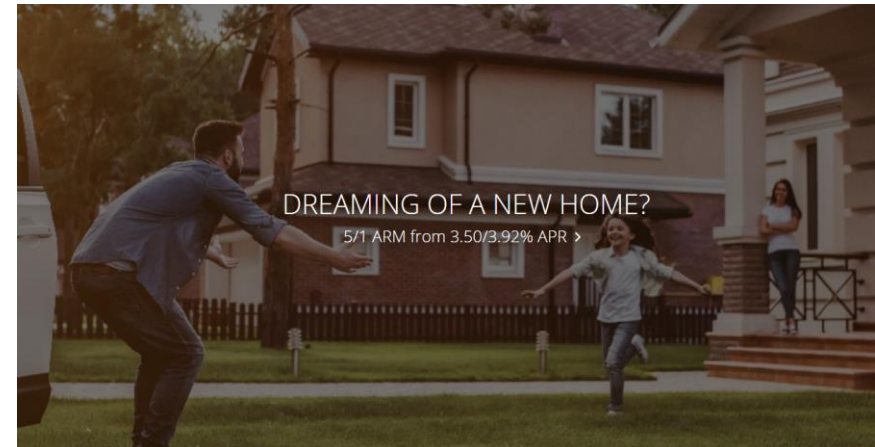
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- We guarantee to give you a same-day loan decision or pay you \$250²
- We guarantee to meet your closing date, or we'll pay the seller \$1,000³

Get the home you want with the lender you deserve. [Apply Now >](#)



Meet Our Team

Come learn about the current housing market, get helpful tips on home buying and various types of loans available in a comfortable and casual environment.

[Select a Mortgage Specialist >](#)



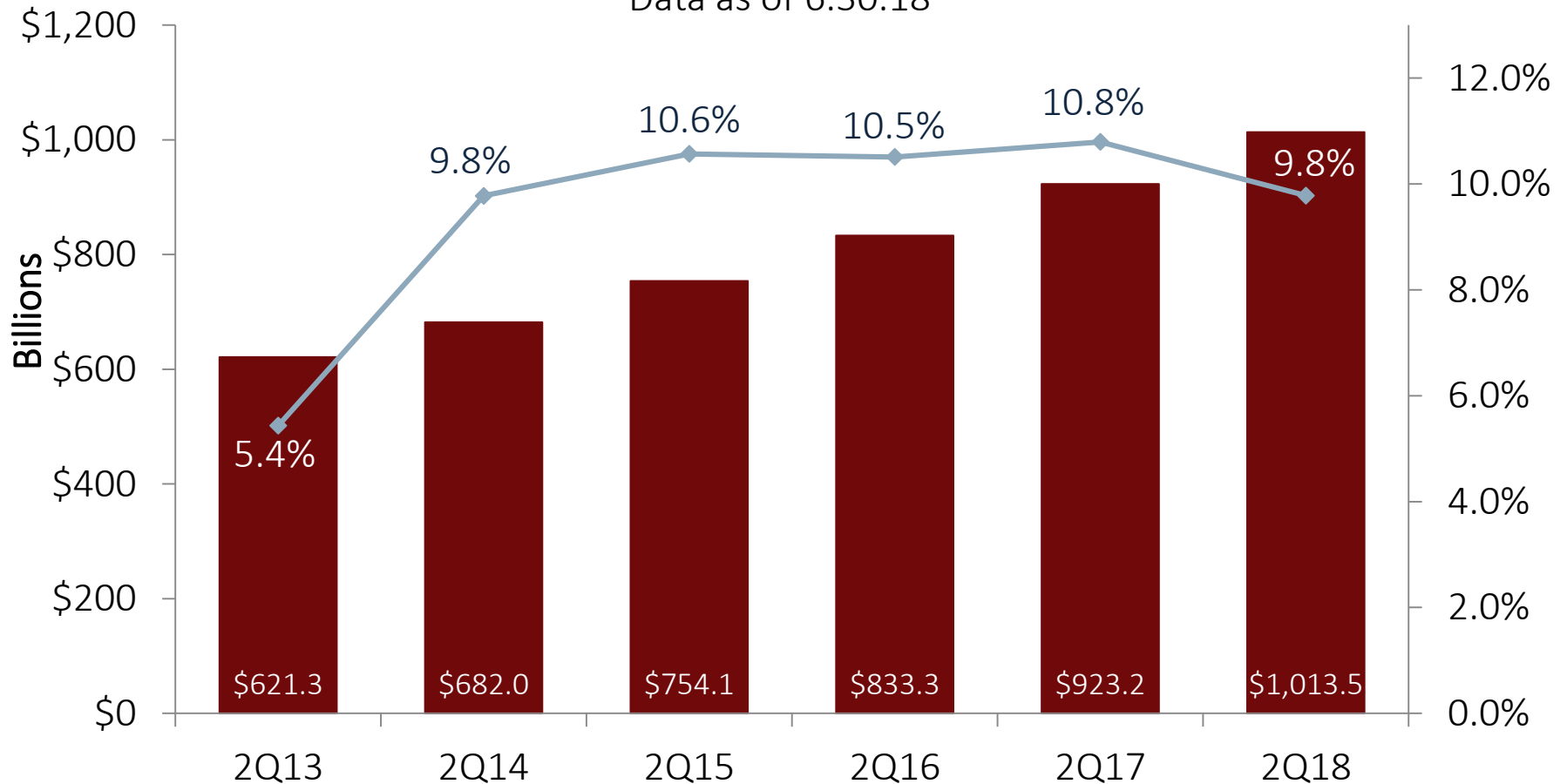
Attend a Home Buying Workshop

Come learn about the current housing market, get helpful tips on home buying and various types of loans available in a comfortable and casual environment.

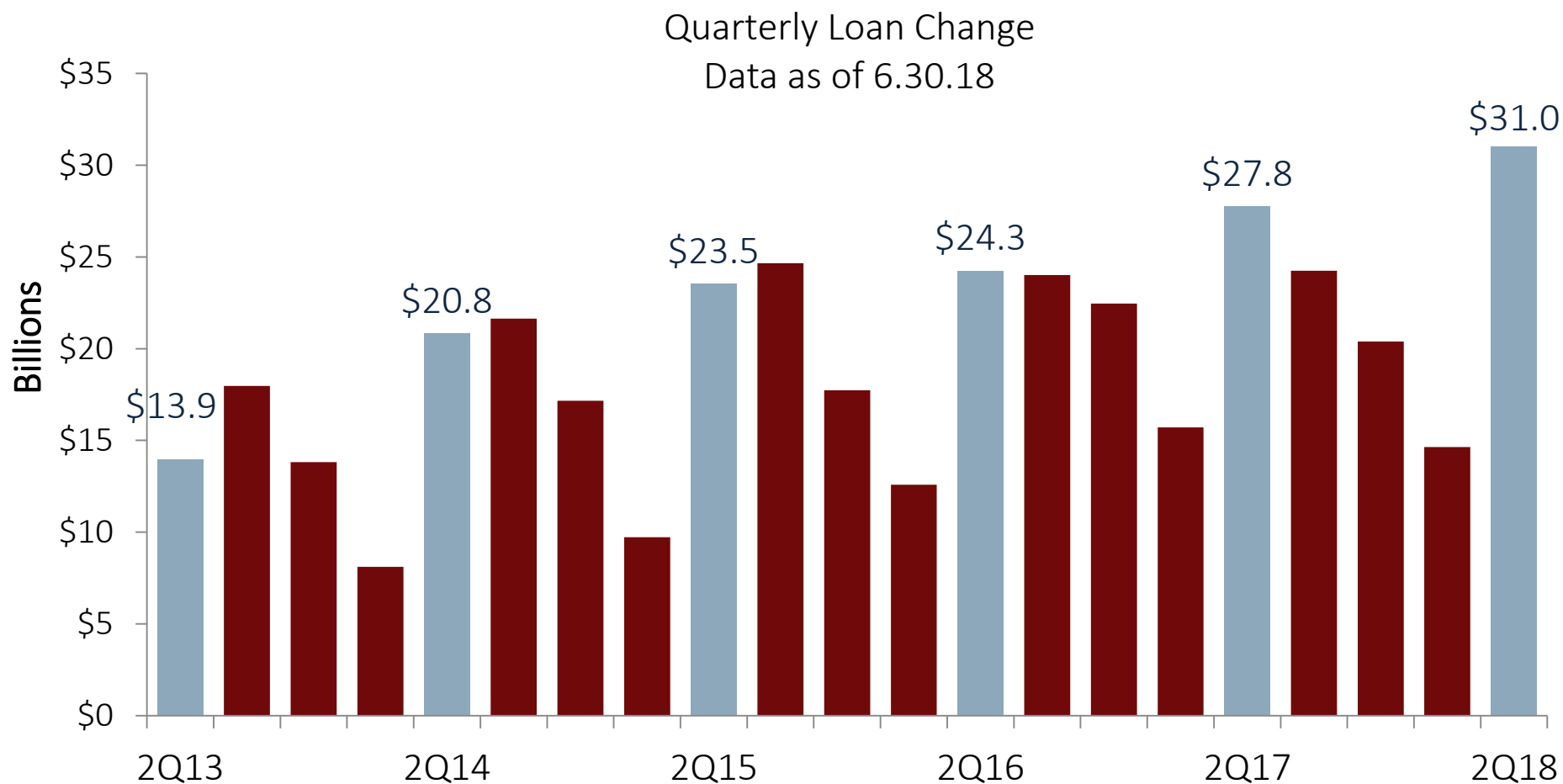
[Upcoming Workshops >](#)

Loans top \$1T despite modest slowing

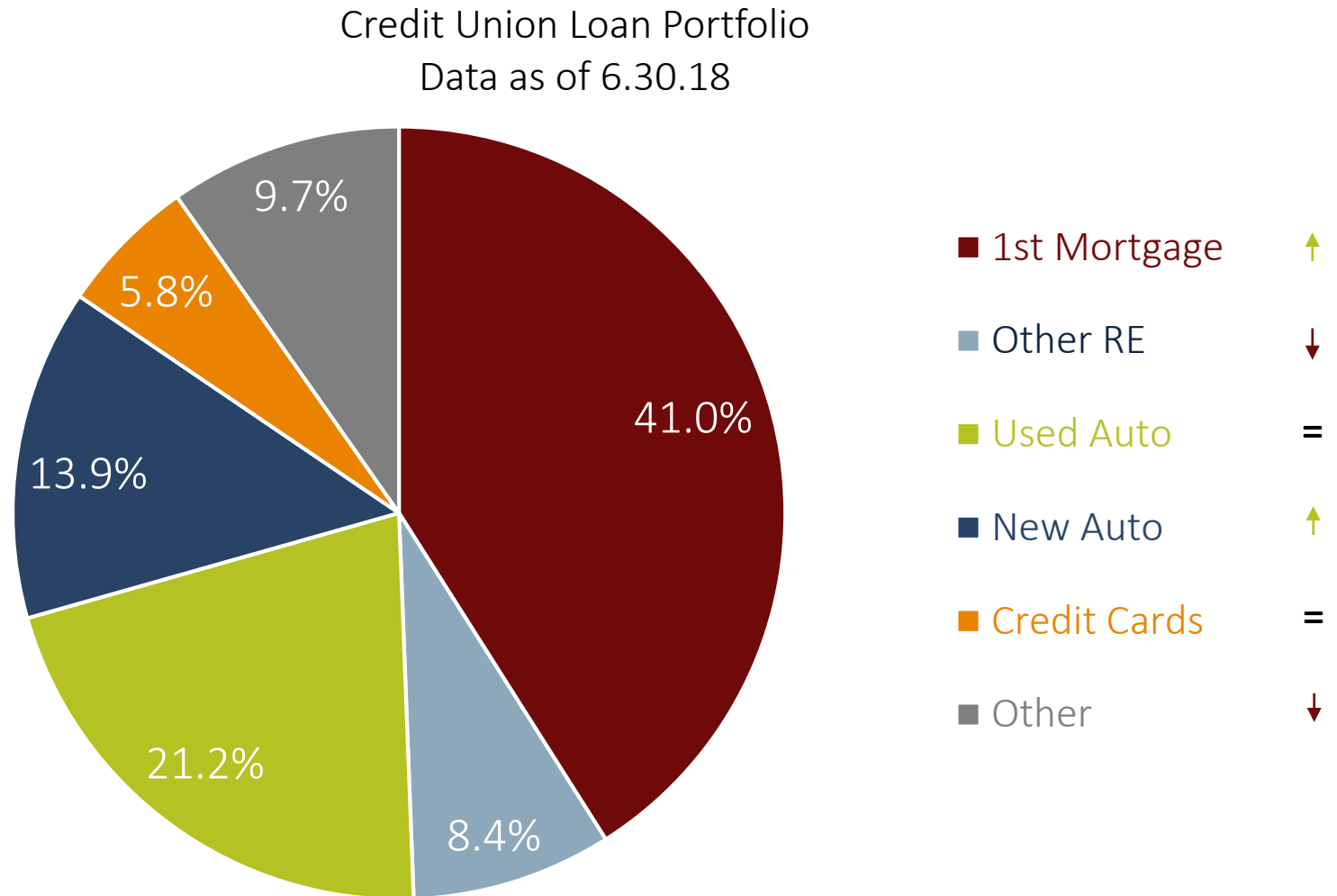
Total Loans and Annual Growth
Data as of 6.30.18



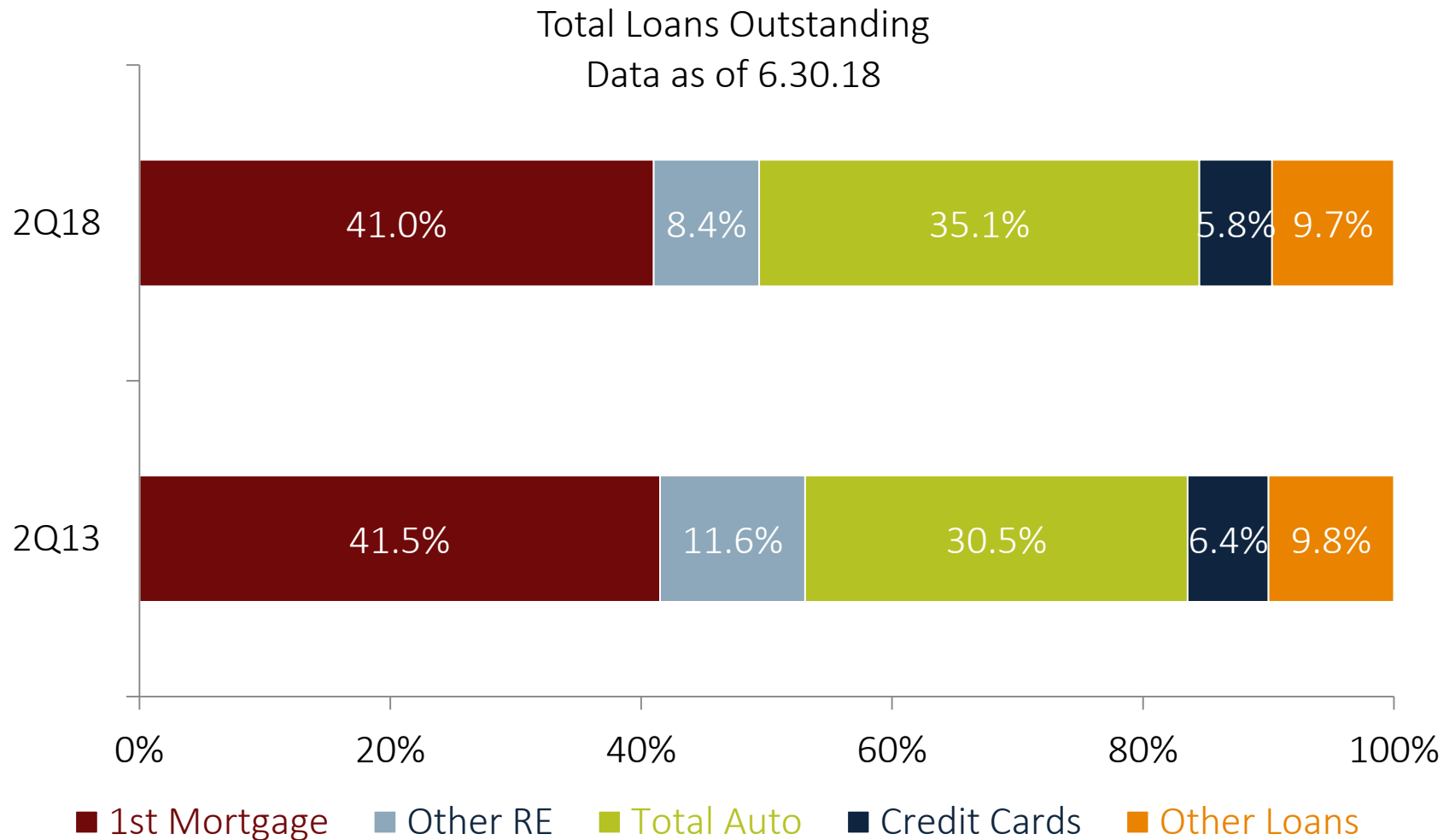
\$31B in loans added to the balance sheet in the last quarter



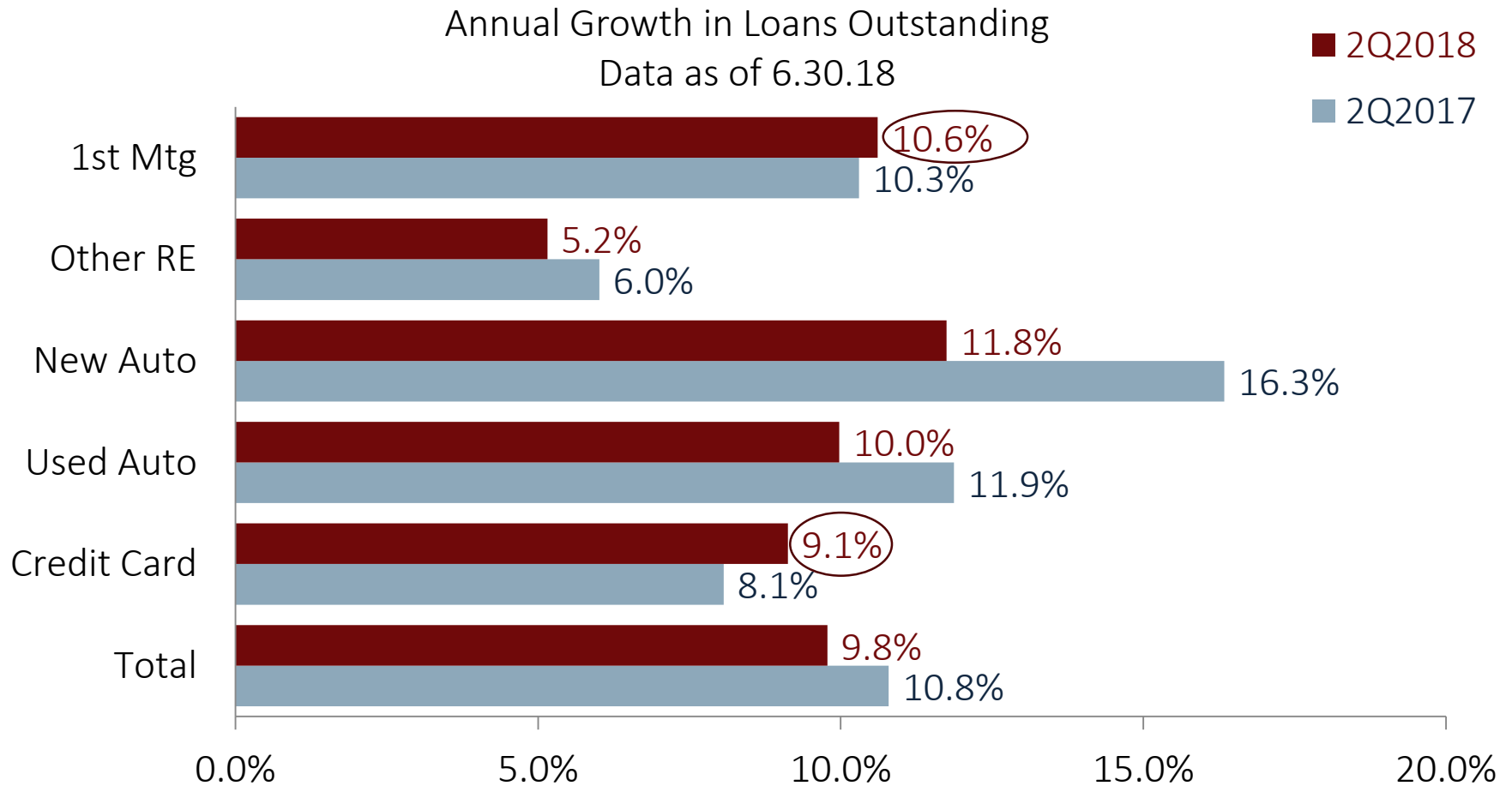
New auto and 1st mortgage drive loan growth



Auto concentration grow to over 1/3 of portfolio



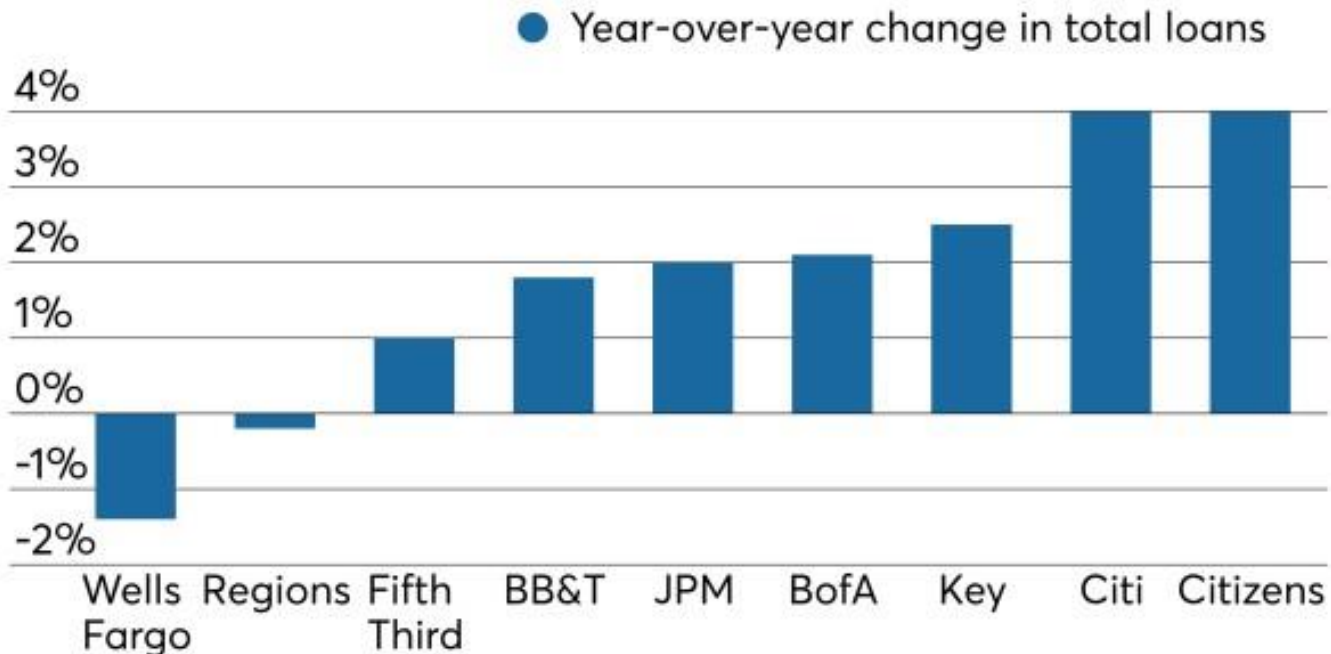
Credit card and 1st mortgage loan growth accelerates



Banks face consumer lending challenges

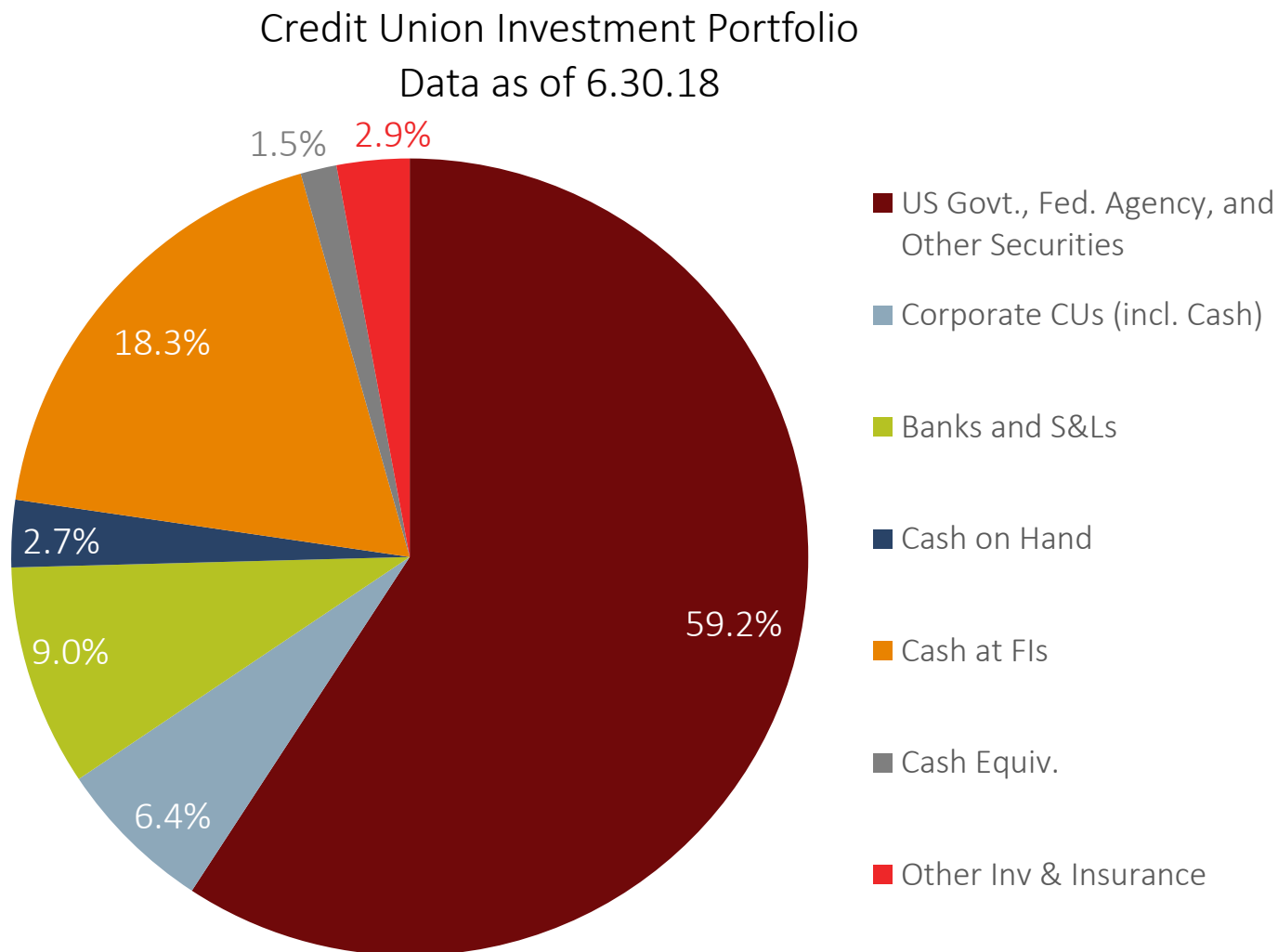
Still hard to come by

Loan growth exceeded 2.5% at only two of these banks in the second quarter despite hot credit segments such as C&I and consumer lending. SunTrust showed no growth

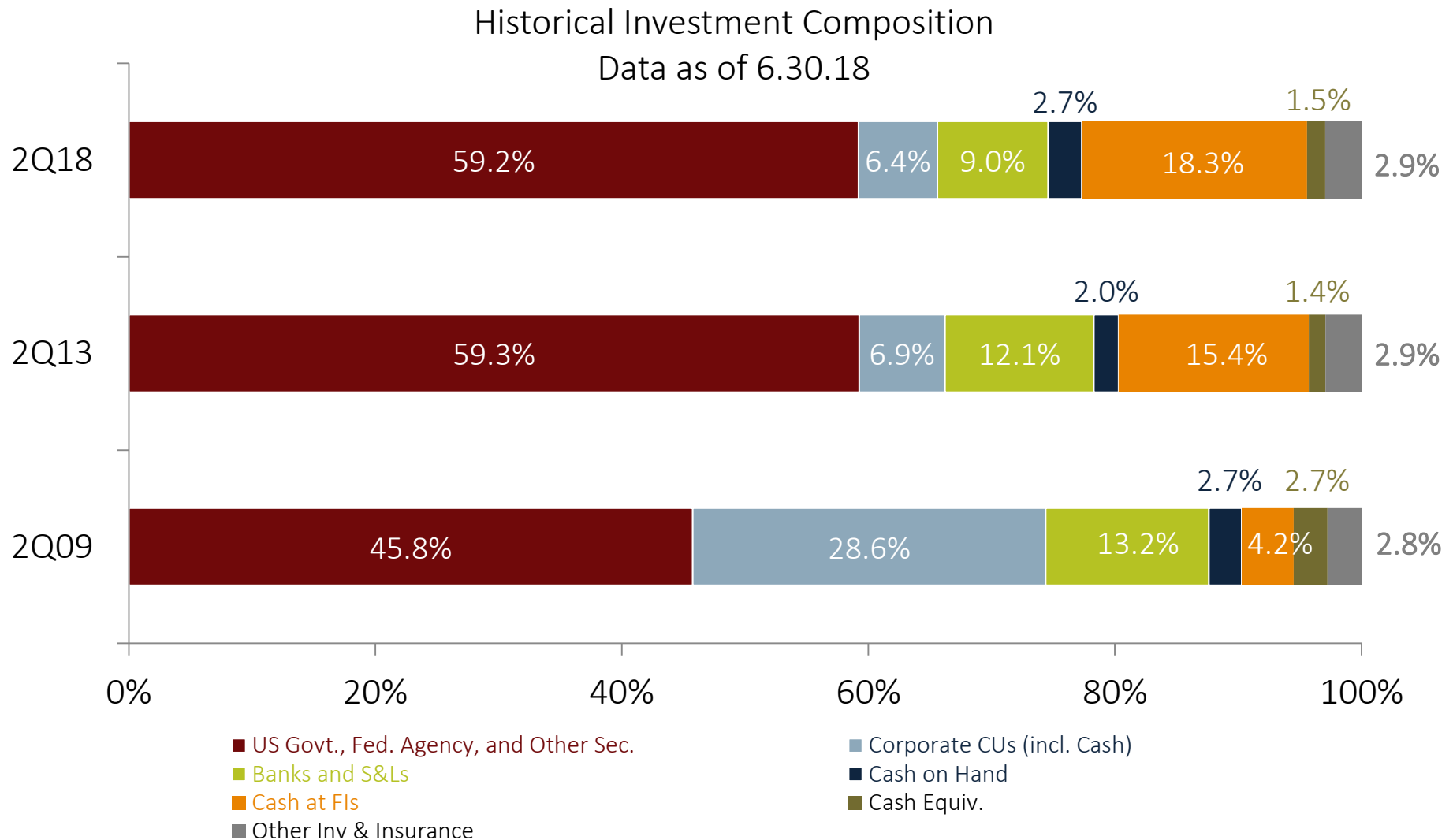


Source: The companies

Agencies and Fed Funds account for 77.5% of the portfolio

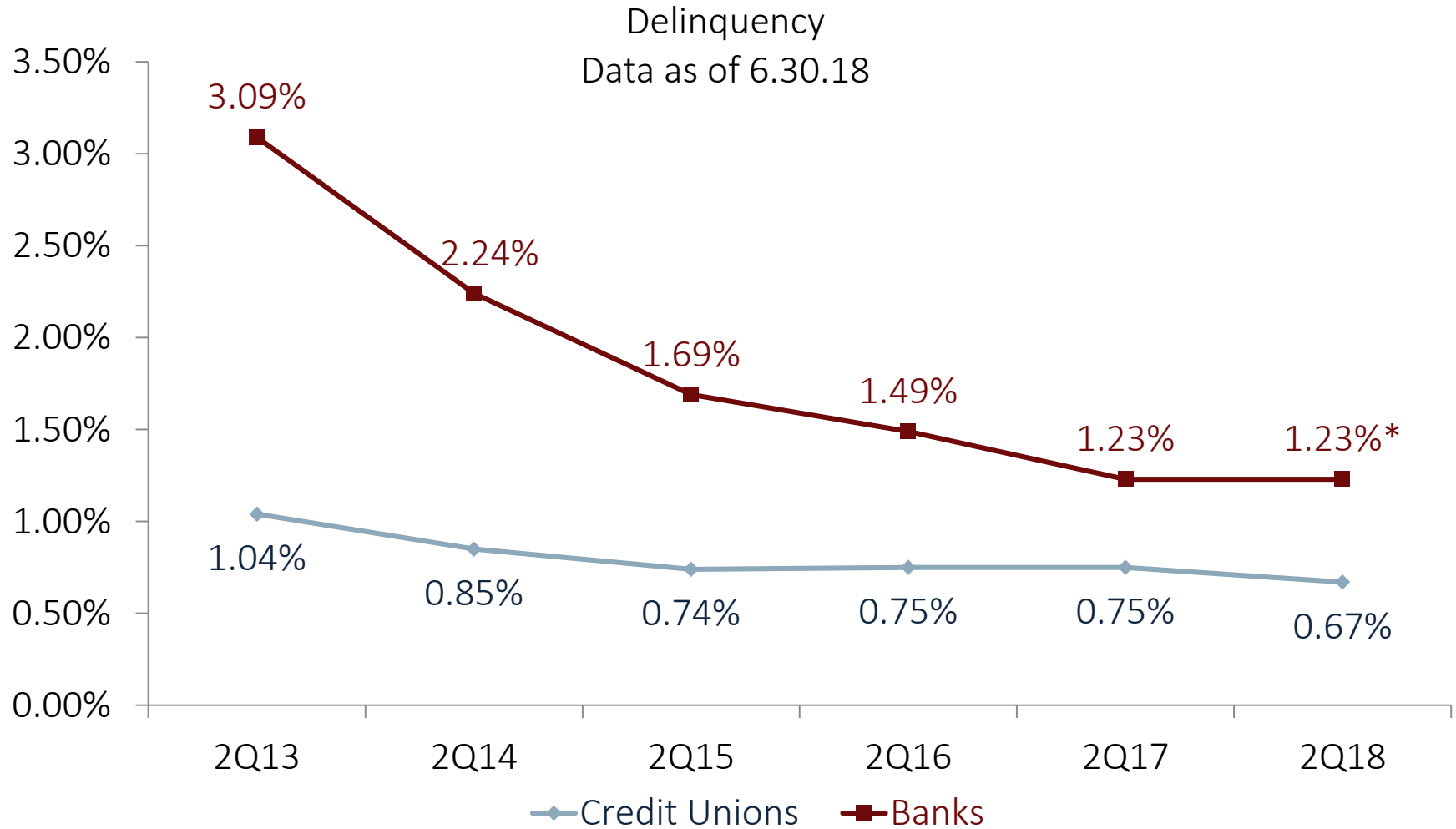


Portfolios remain short



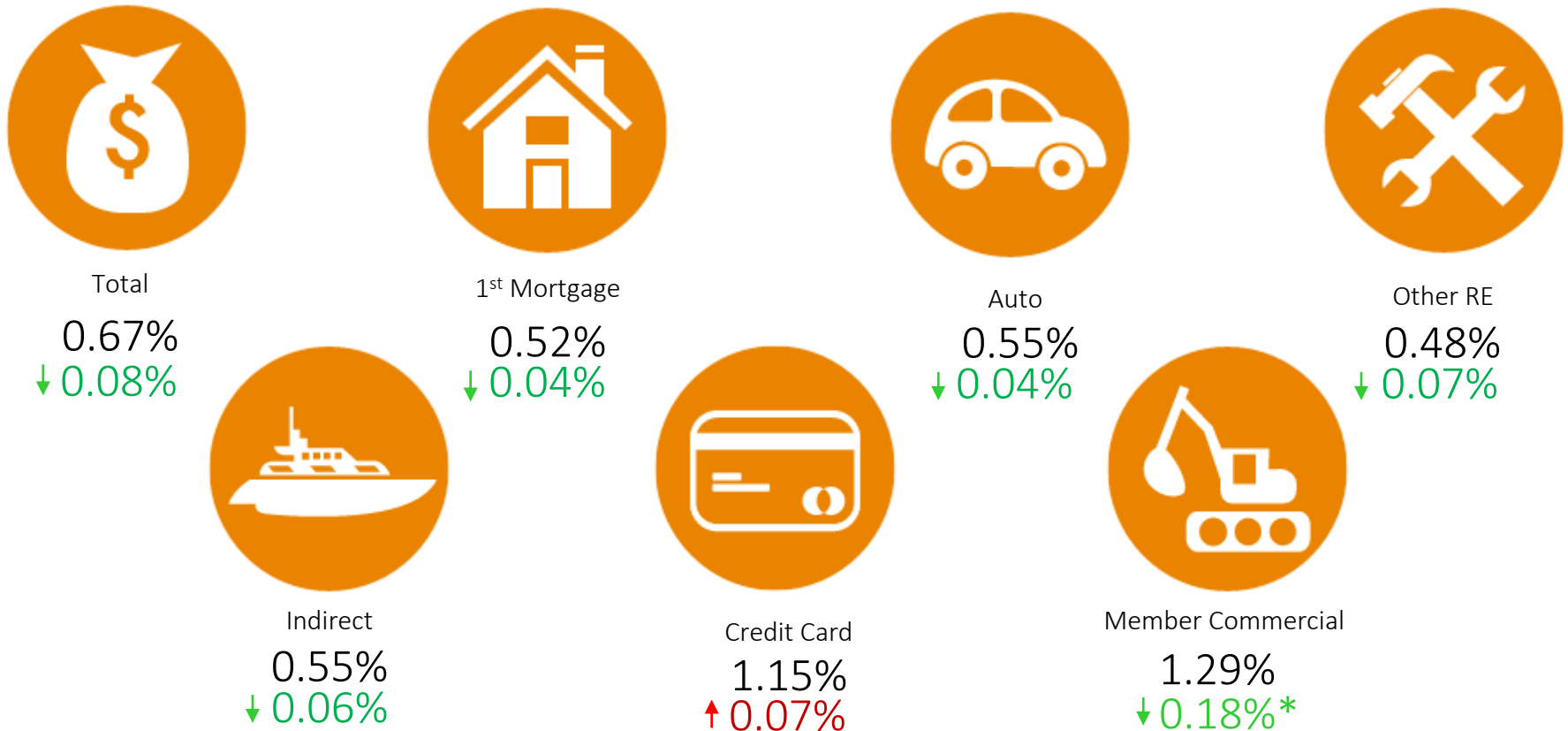
Asset Quality

Largest annual drop in delinquency since 2015

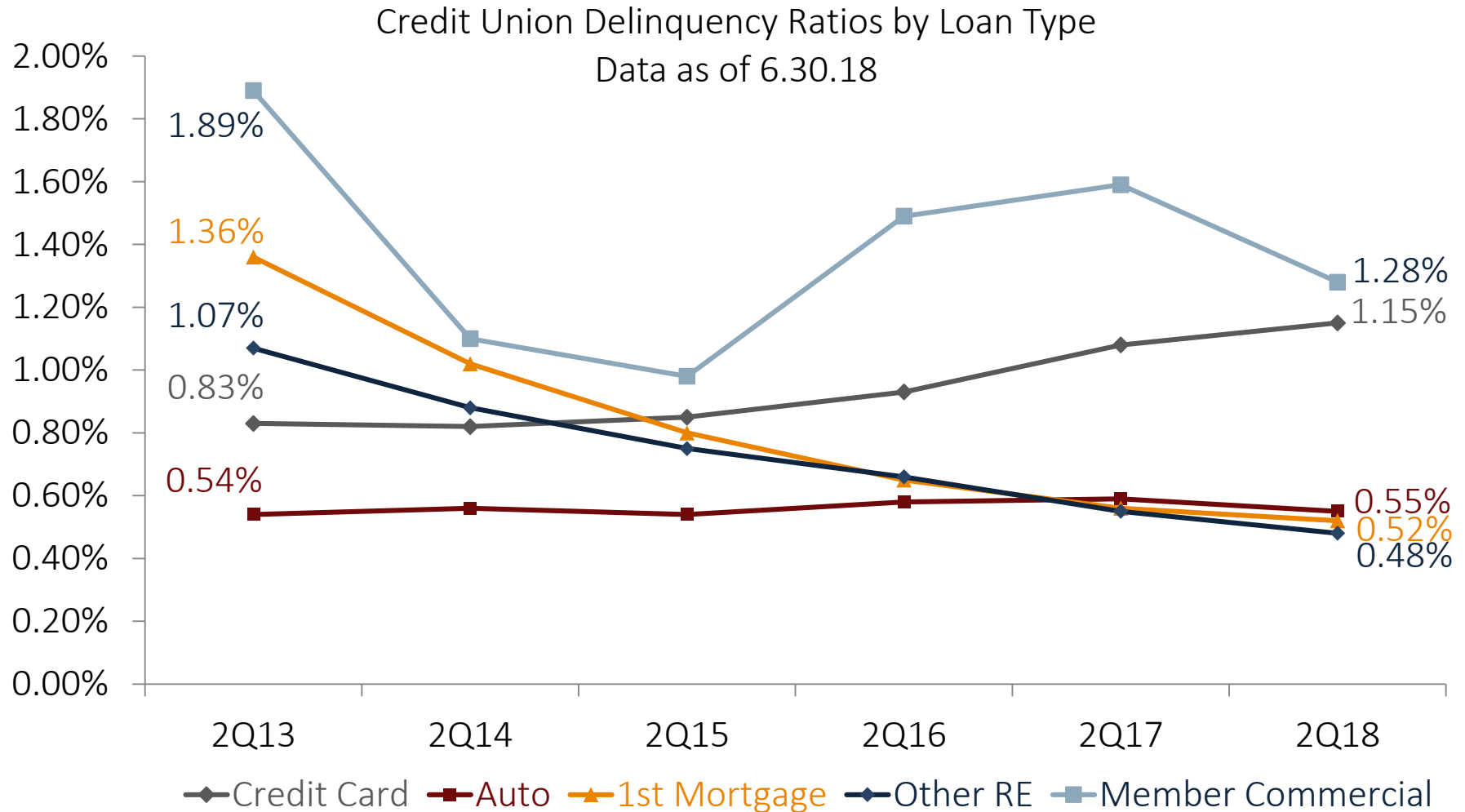


Portfolio asset quality remains strong

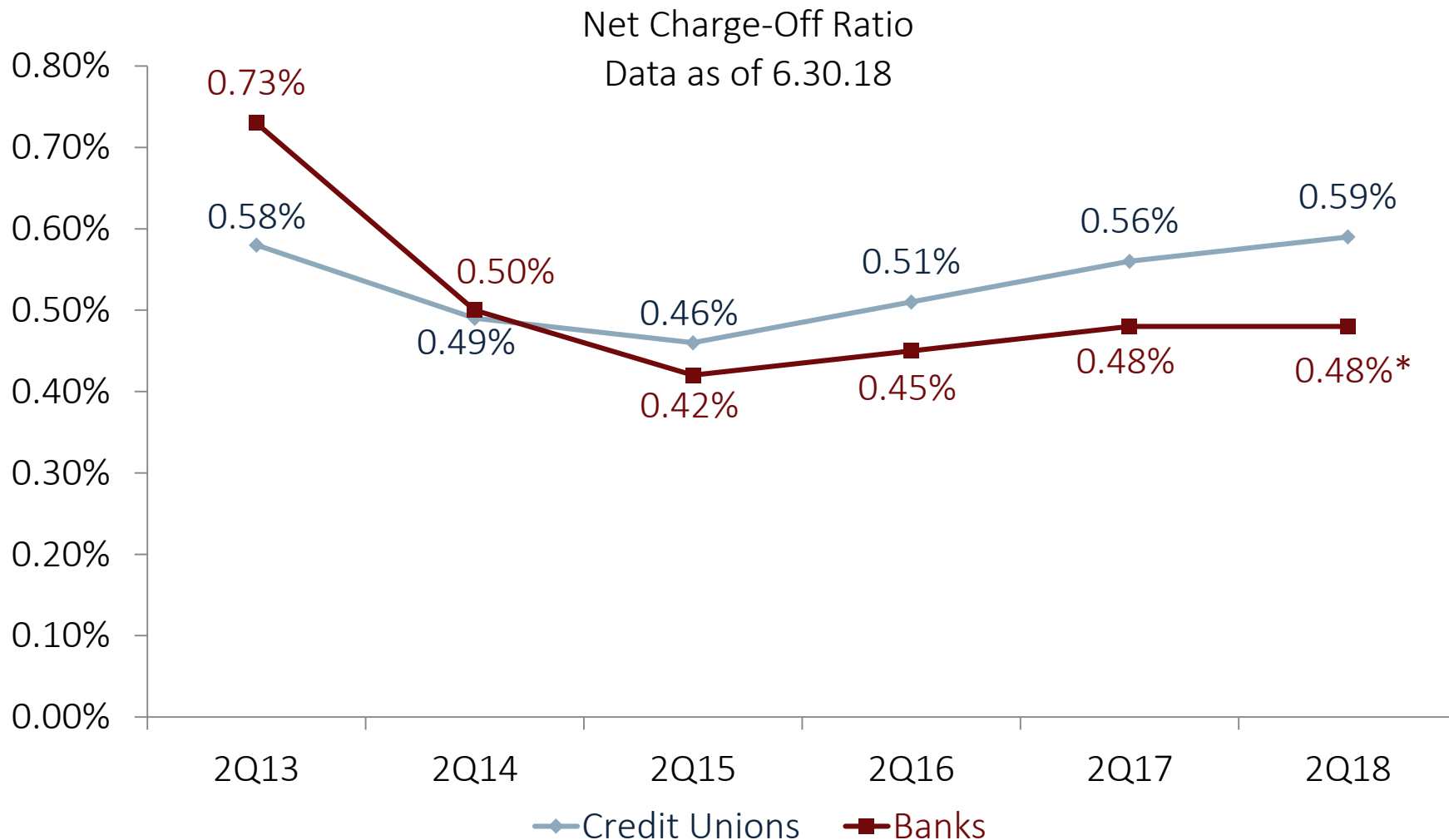
Annual Change in Delinquency
Data as of 6.30.18



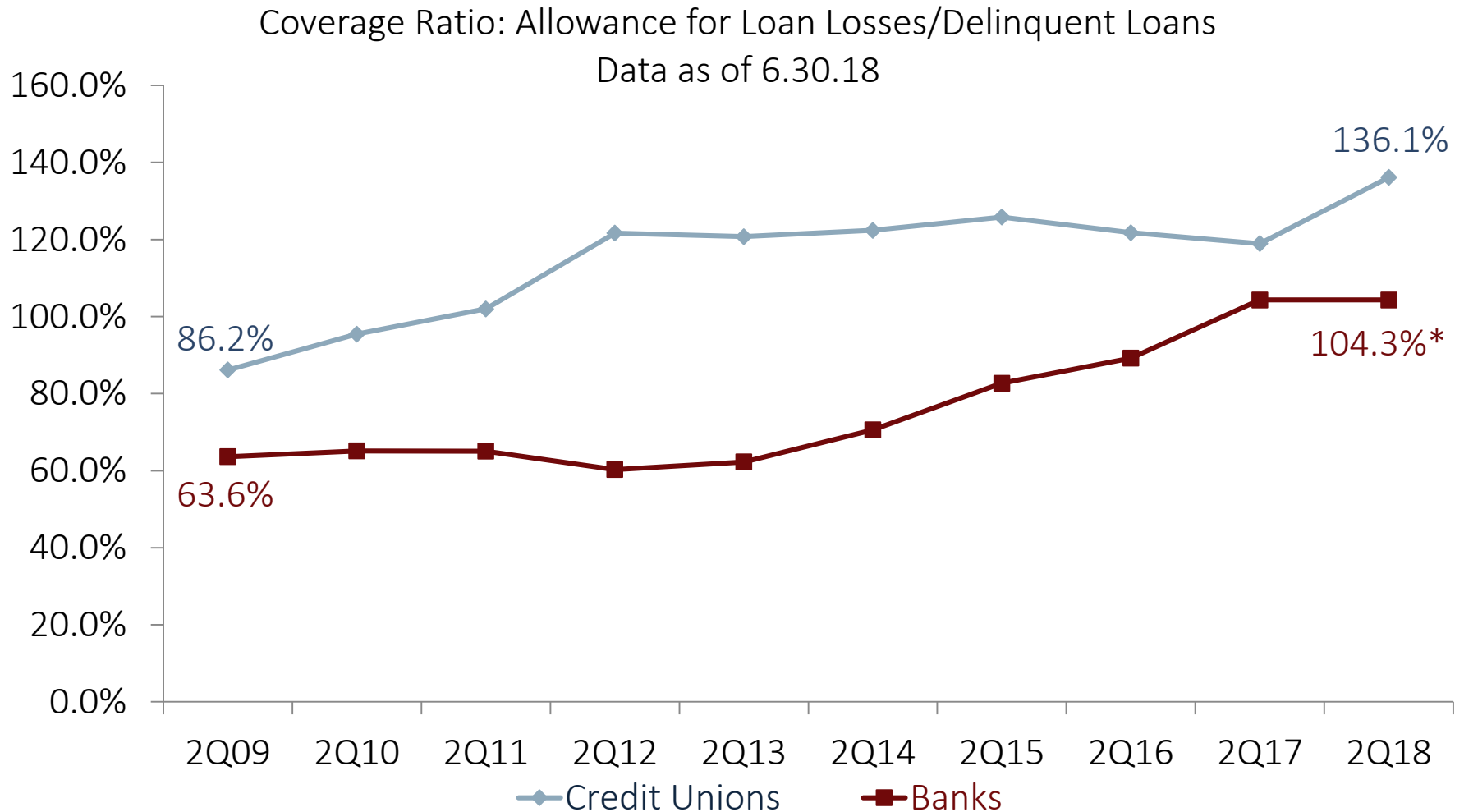
Delinquency improves in nearly every segment



Net charge off ratio higher than banks for fourth consecutive year



Credit unions are well covered



The Bottom Line

Revenue and ROA rise. Credit union capital levels remain strong.

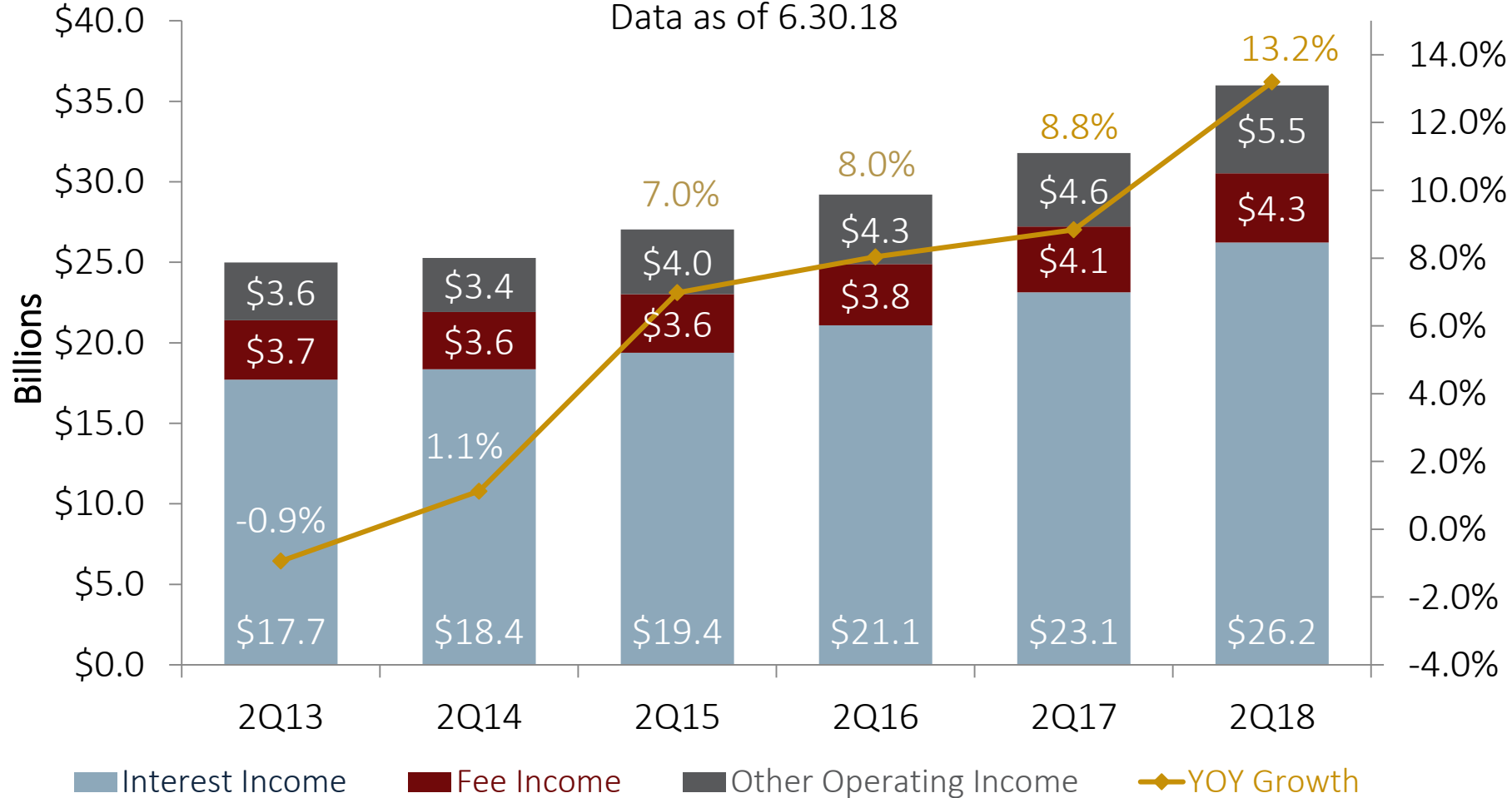
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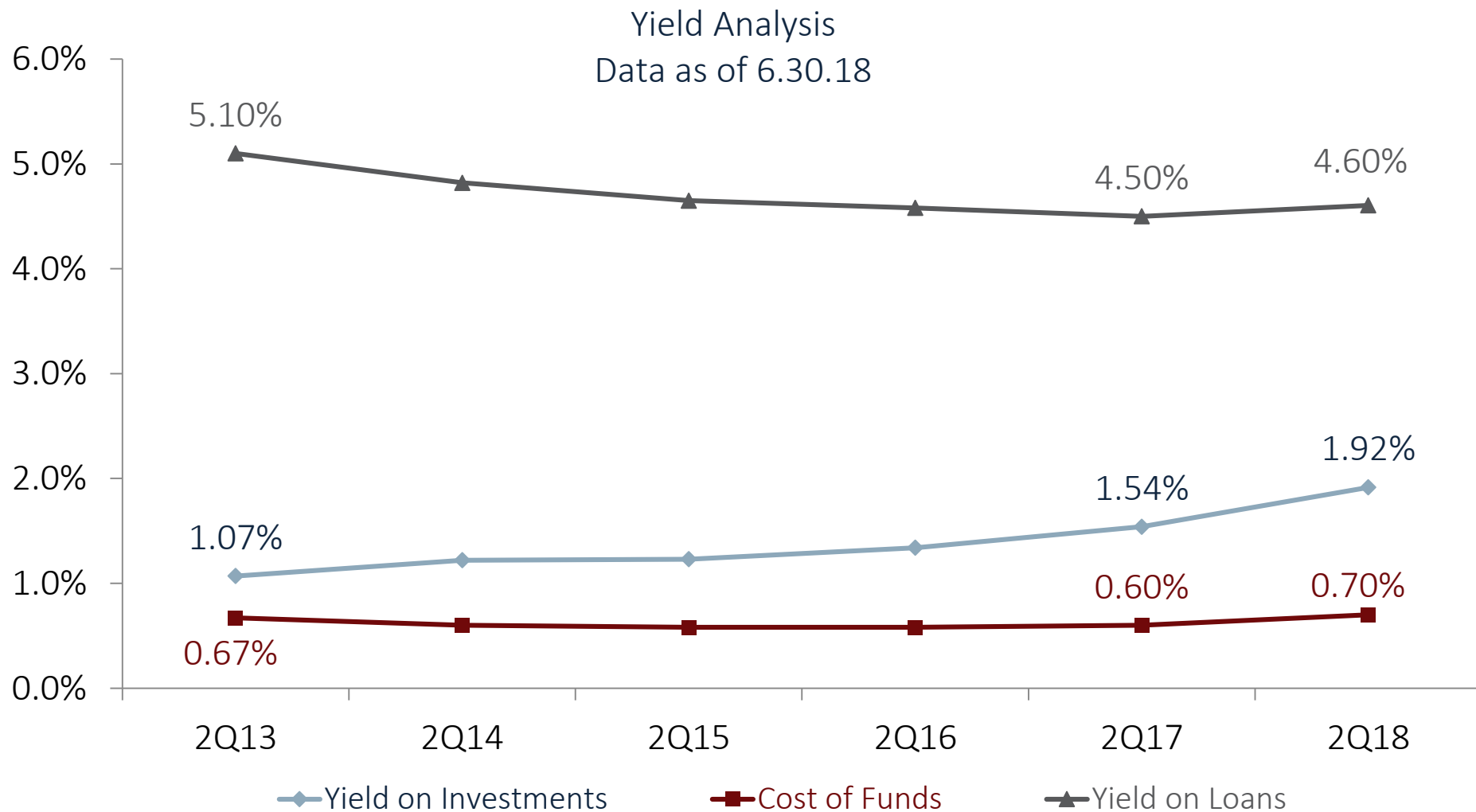
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NCUSIF rebate drives other operating income growth 19.6%

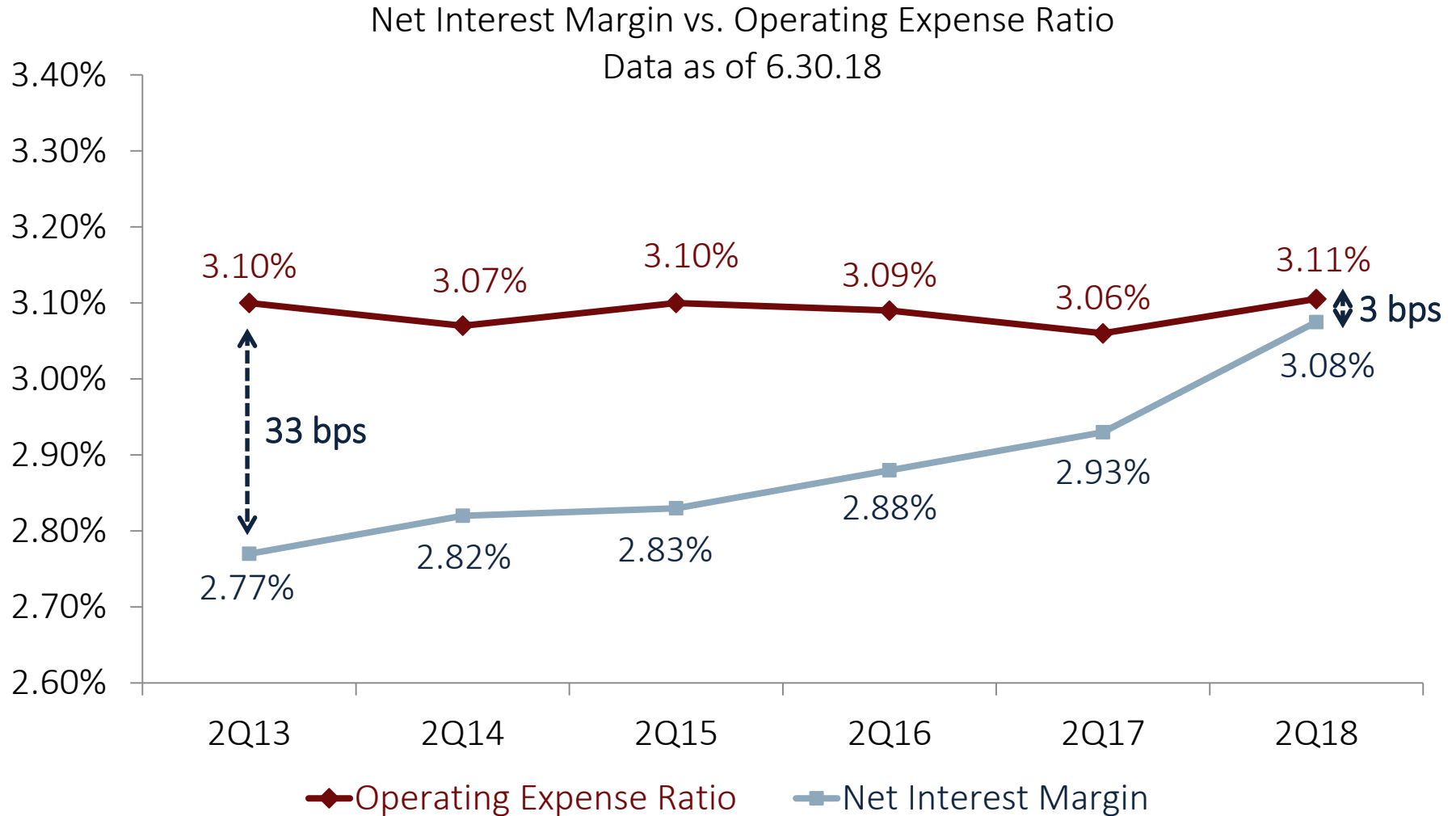
Total Revenue and Annual Growth
Data as of 6.30.18



Investment yield jumps 38 basis points, largest gain of any yield



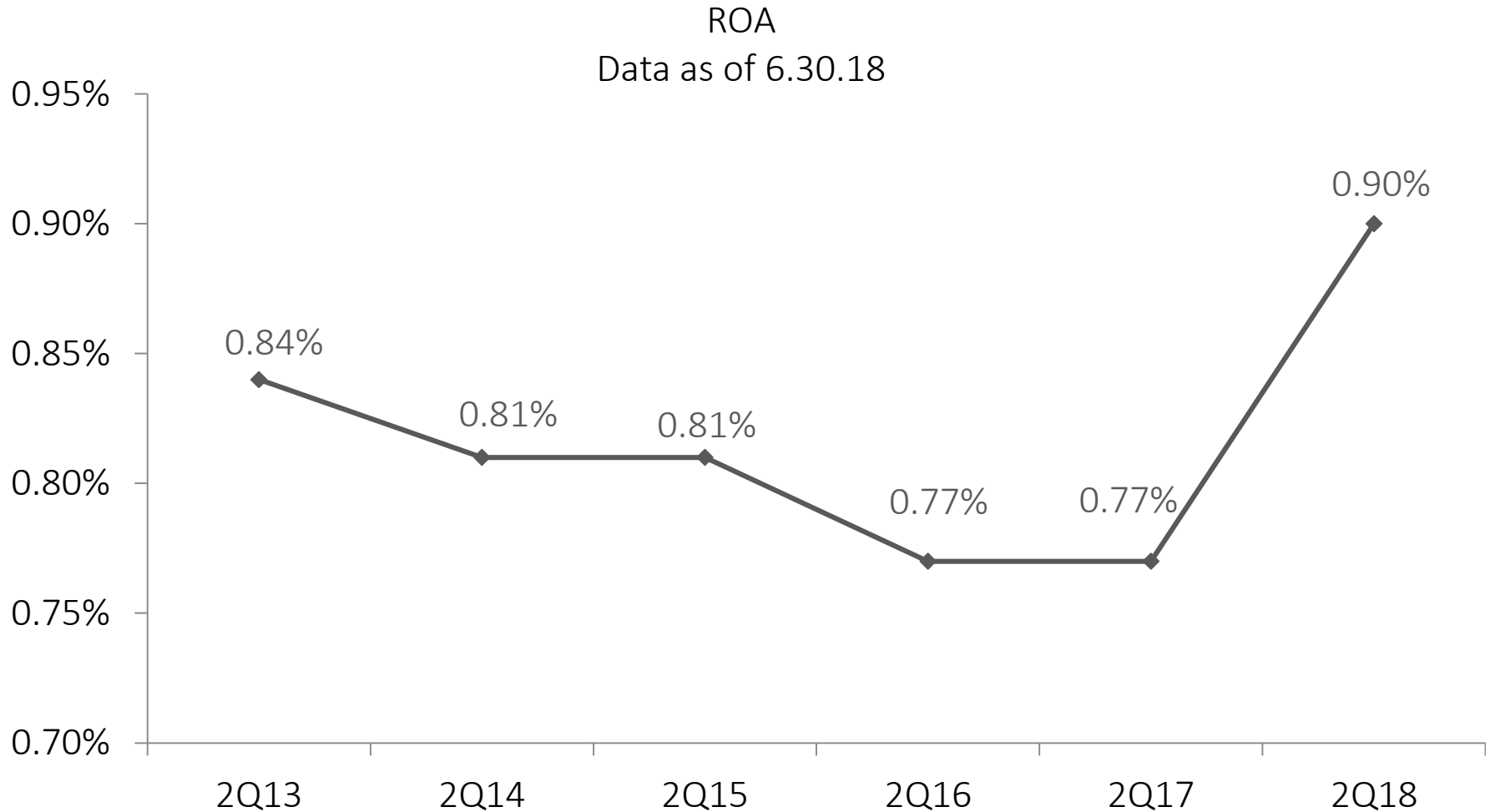
Gap narrows with margin improvement



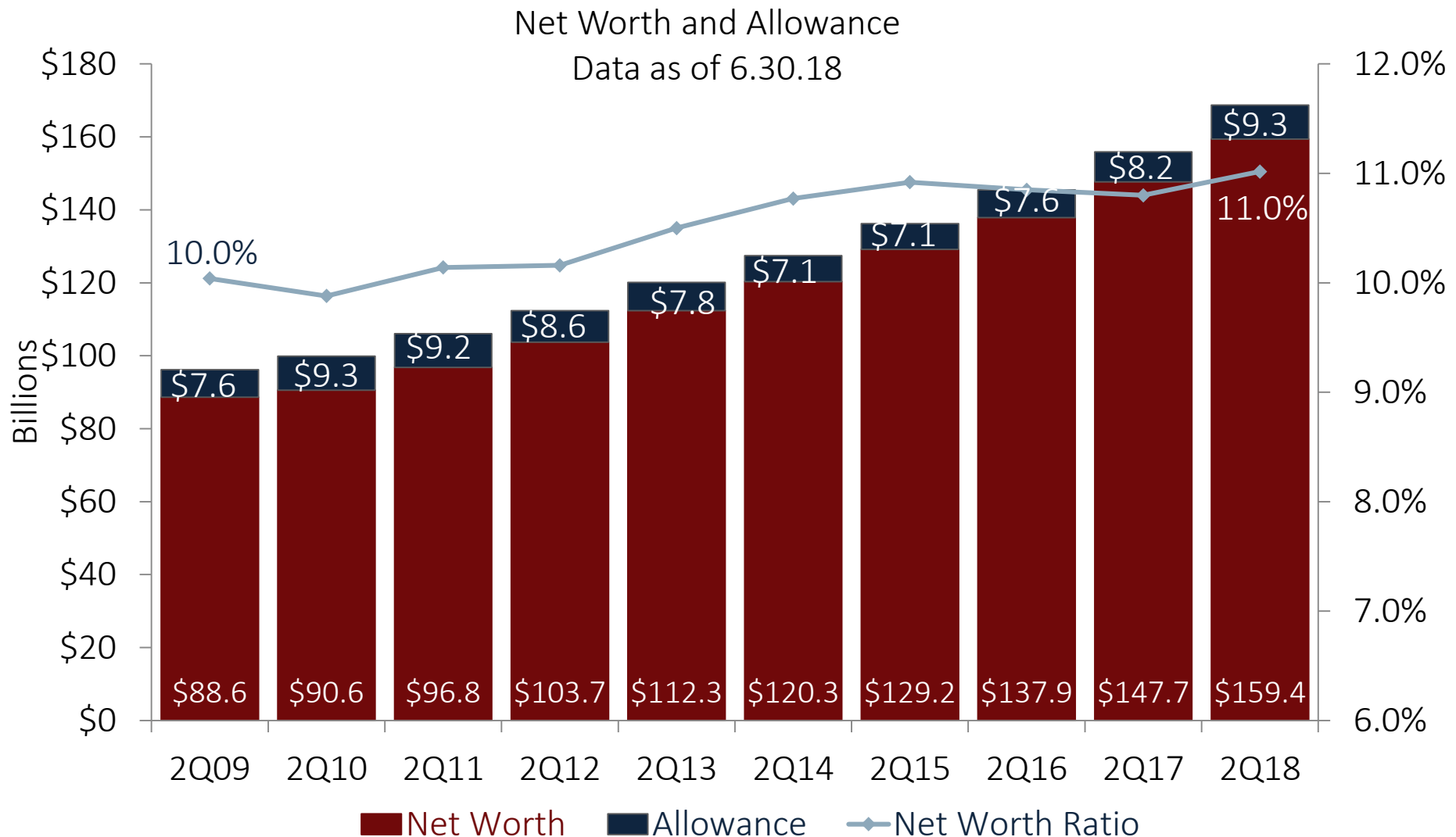
Interest income gains and rebate push ROA higher YoY

	As of 06.30.2018	As of 06.31.2017	12-mo. Change (bps)
Interest Income/Avg. Assets	3.69%	3.46%	+23
Interest Expense/Avg. Assets	0.62%	0.53%	+9
Net Interest Margin	3.08%	2.93%	+15
Non-Interest Income/Avg. Assets	1.41%	1.33%	+8
Non-Interest Expense/Avg. Assets	3.11%	3.06%	+5
Provision for Loan Losses	0.48%	0.43%	+5
ROA	0.90%	0.77%	+13

Largest annual jump in ROA since June 2011



Net worth grows 8.0% as the ratio hits 11.0%





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