

Trendwatch will begin at 2:00 PM EST.

Today's slides can be found online at:

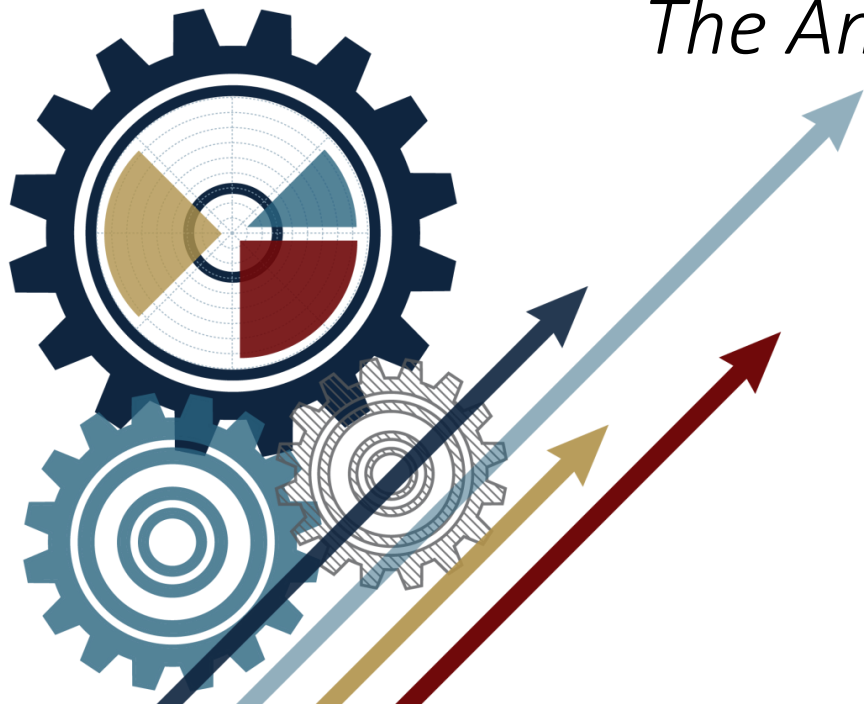
<http://bit.ly/2Q-2019>

TrendWatch 2Q 2019

The Annual Report for the Industry

Data for June 30, 2019

Call Date: August 15, 2019



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 **663 638 814**.



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.

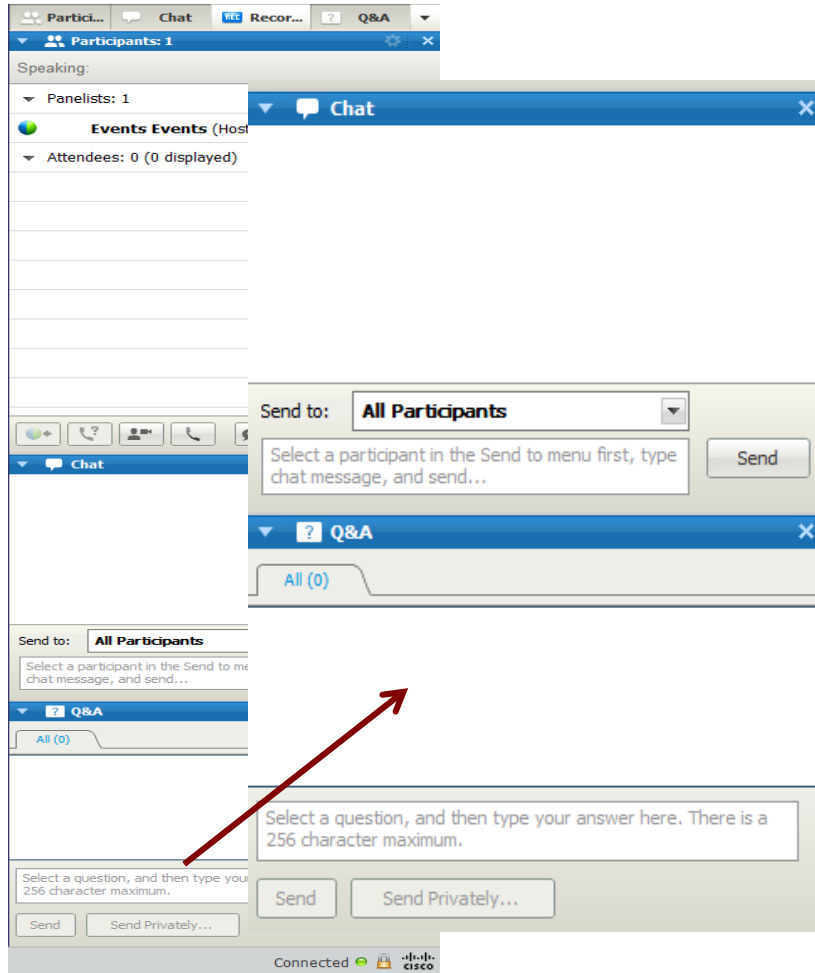
Slide Link

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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.



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Today's Lineup

Market Update

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

Mid-Year 2019 Credit Union Results

Jon Jeffreys, President & CEO, Callahan & Associates

Jay Johnson, Chief Collaboration Officer, Callahan & Associates

Strategic Challenges & Opportunities

Amy Sink, Chief Executive Officer, Interra Credit Union

ALM FIRST MARKET UPDATE

Callahan Quarterly Trendwatch | August 15, 2019



Jason Haley

Managing Director, Investment Management Group

SPEAKER



Jason Haley

*Managing Director, Investment
Management Group*



Economic Update

- Financial market volatility has surged higher in August
- July 31 FOMC meeting was less dovish than many were hoping for
 - Statement opened the door for future cuts, but Powell was more reserved in his comments, characterizing the rate cut as a “mid-cycle adjustment”
- Trump has been very critical of the Fed’s “hawkishness,” and he sent out a tweet on August 1 that roiled global risk markets
 - Beginning September 1, a new 10% tariff will be applied on the remaining \$300 billion of goods imported from China
 - Attributed the decision to China not honoring its agreements to buy U.S. agricultural goods or “stop the sale of Fentanyl” to the U.S.
- A significant risk-off trade ensued, sending Treasury yields and stock prices lower
- Yesterday, the president announced delays on tariffs for certain products ahead of holiday shopping, including phones and toys

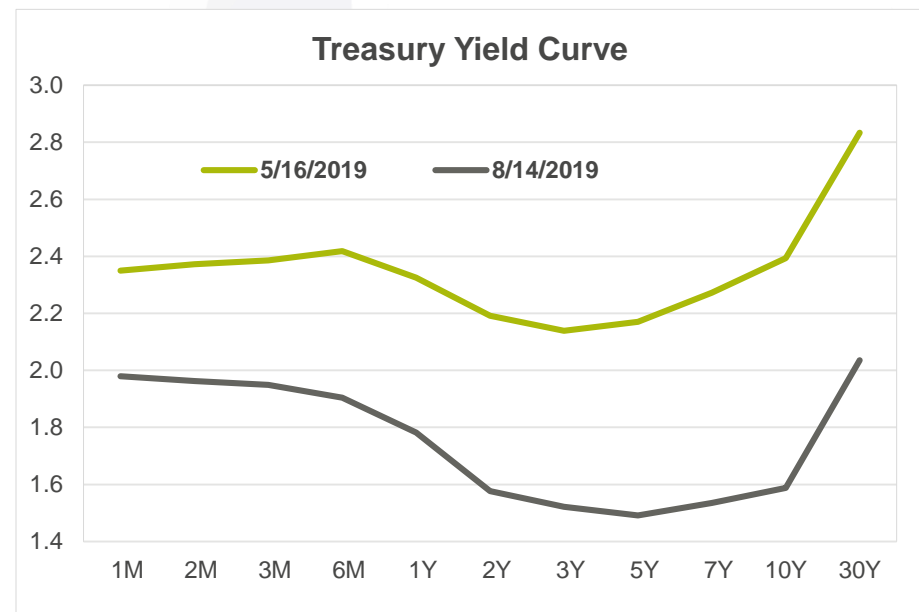
Economic Overview (cont...)

- While U.S./China trade risks are at the forefront, markets have also been negatively impacted by geopolitical concerns
 - Escalating protests in Hong Kong, political turmoil in Italy and Argentina
- While global economic data has been weaker, particularly manufacturing data, the domestic trend has been ok
 - Job growth still solid
 - July CPI growth higher than expected (core y/y at 2.2%)
- However, the concern of market participants is that things have already gone too far, and growth/inflation will eventually suffer
- Will the Fed appease the markets (and the White House) with more rate cuts *and* quantitative easing?

Current Market Themes

- Treasury yields are sharply lower over the last 3 months, with 30-50 bps of the move coming in August alone
- Implied interest rate volatility is at a 3-year high
- Despite the recent volatility, fixed income performance has been strong in 2019 for high credit quality spread sectors
 - TCU Short Duration Portfolio +94 bps vs. benchmark YTD through July

Tenor	8/14/2019 (%)	5/16/2019 (%)	Change (bps)
1-Month	1.98	2.35	-0.37
3-Month	1.95	2.39	-0.44
6-Month	1.90	2.42	-0.51
1-Year	1.78	2.33	-0.54
2-Year	1.58	2.19	-0.62
5-Year	1.49	2.17	-0.68
10-Year	1.59	2.39	-0.81
30-Year	2.04	2.83	-0.80
Curves			
2yr-5yr	-0.09	-0.02	-0.06
2yr-10yr	0.01	0.20	-0.19
2yr-30yr	0.46	0.64	-0.18
5yr-10yr	0.10	0.22	-0.13



Looking Ahead

- Stay focused on spreads, not rates
 - Depository portfolios are funded with liabilities that are also exposed to rates
- Mortgage prepayment risk is more about how actual prepayment speeds deviate from model estimates
 - Convexity risk can be hedged at the portfolio level
- Strategies should be repeatable, and adding securities with wider risk-adjusted spreads on the margin should generate portfolio alpha over a long time horizon
- Some securities/sectors may appear less attractive in isolation, but provide diversification benefits that increase portfolio-level returns and reduce portfolio risk
- When making investment decisions, we spend very little time, if any, considering Fed policy decisions, particularly interest rate policy



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Are You Maximizing Your Investment Options?

<i>Fund Name</i>	<i>30 Day Yield*</i>
TCU Ultra-Short Duration Portfolio	2.57
TCU Short Duration Portfolio	2.59

*The yields reflect the distribution yields for each Portfolio as of August 13, 2019.

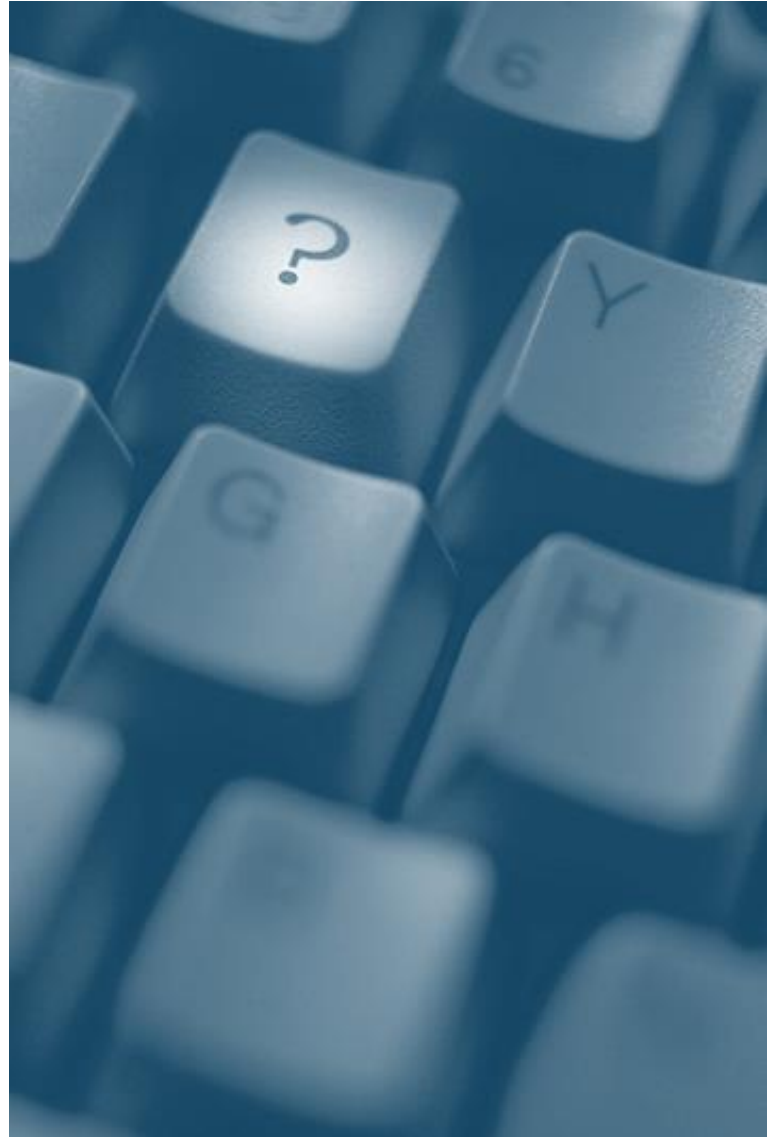
To learn more about how these institutional investment options may benefit your credit union, contact

TCUGroup@Callahan.com

or visit www.trustcu.com



Questions?



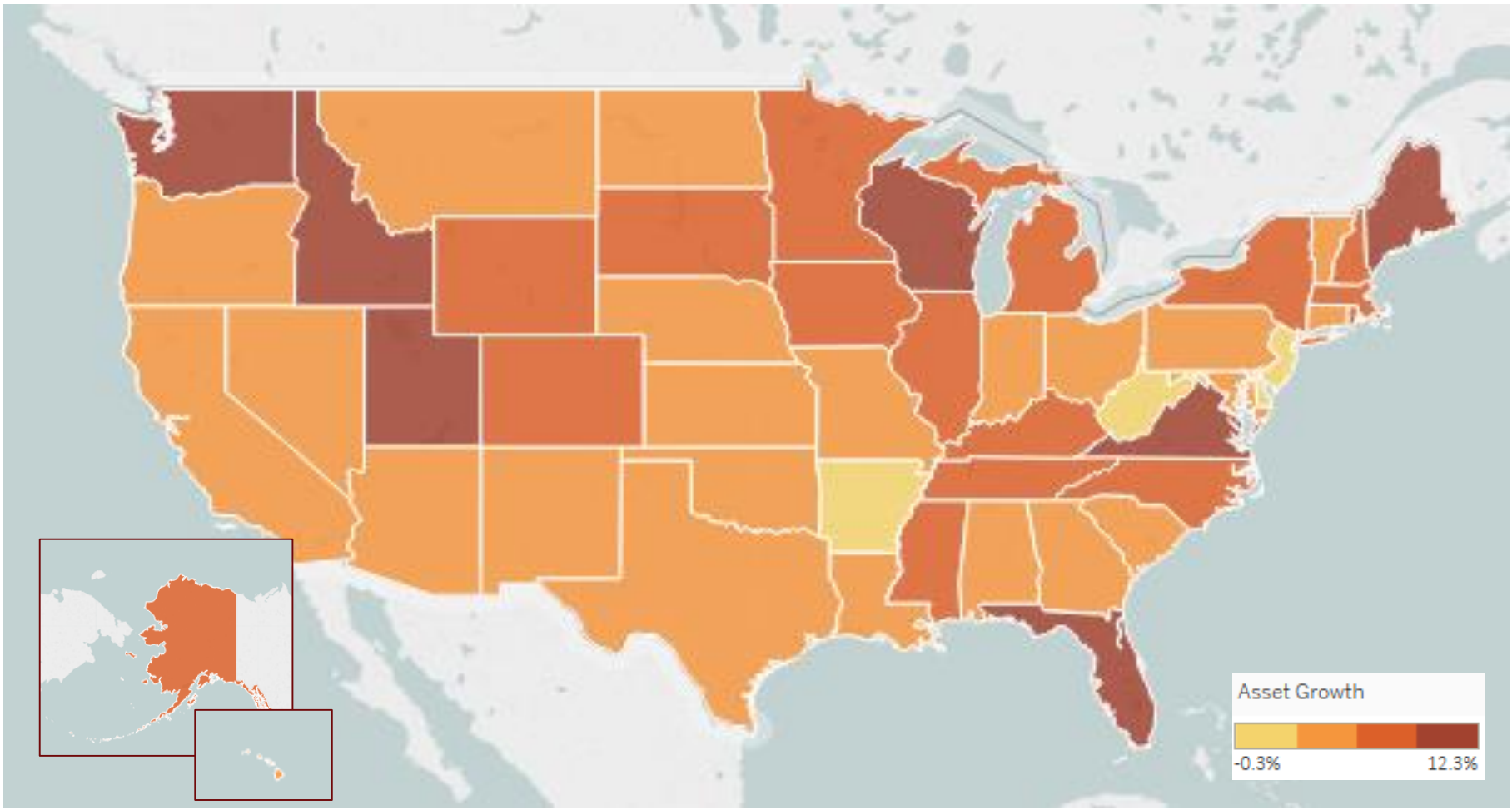
Mid-Year 2019 Credit Union Results

- After a slow start to 2019, growth accelerated in the second quarter
- Interest rate increases helping margins and earnings
- Consumers continue to turn to credit unions for financial services

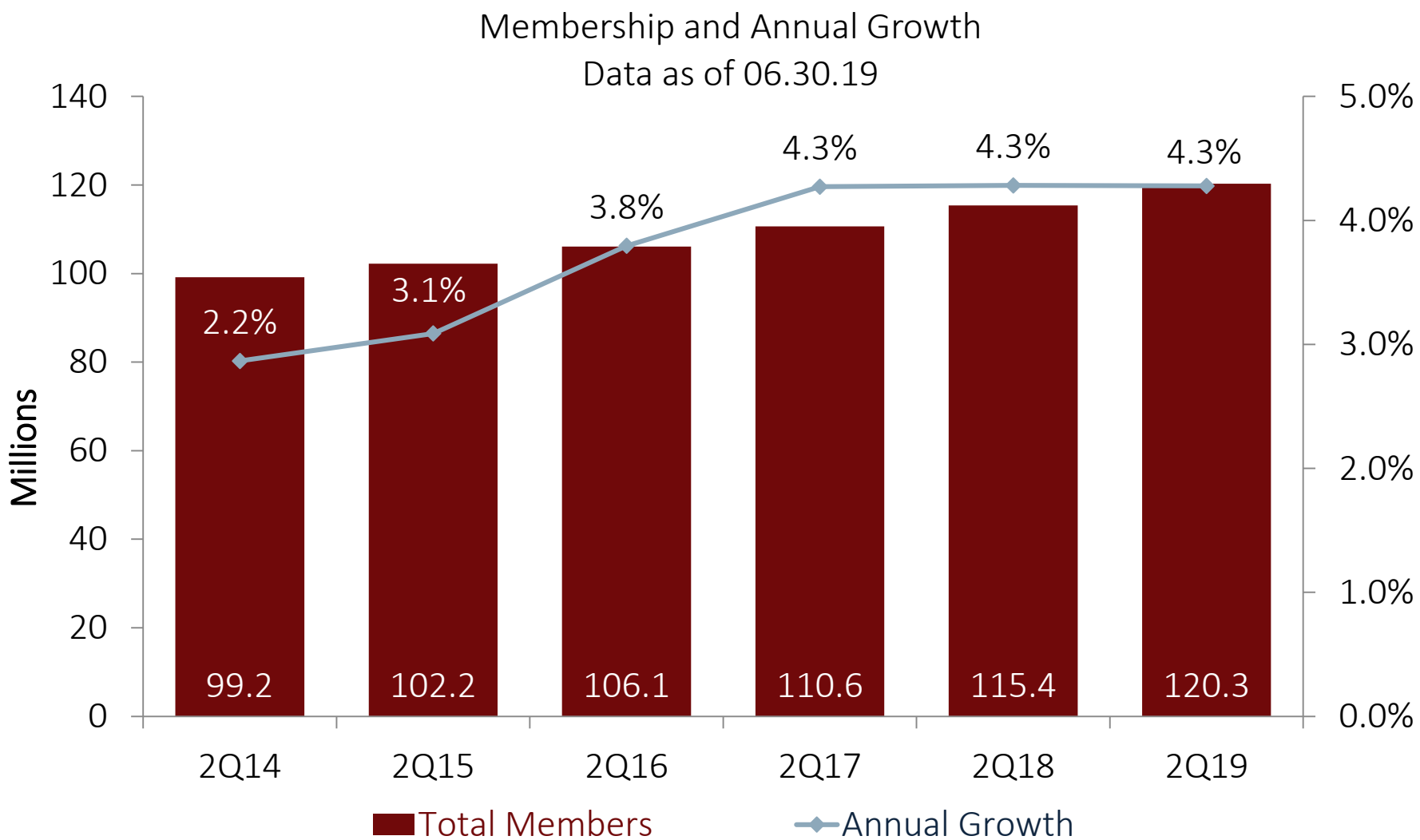
Loan growth slows while share growth picks up at mid-year 2019

	As of 06/30/2019	12-mo. Growth 2Q19	12-mo. Growth 2Q18
Assets	\$1,539.5B	6.4%	5.8%
Loans	\$1,079.4B	6.5%	9.7%
Shares	\$1,296.4B	6.1%	5.4%
Investments	\$386.7B	4.6%	-4.0%
Capital	\$181.1B	11.4%	6.4%
Members	120.3M	4.3%	4.3%

Credit union asset growth is solid across the U.S. , led by Utah's 12.3%

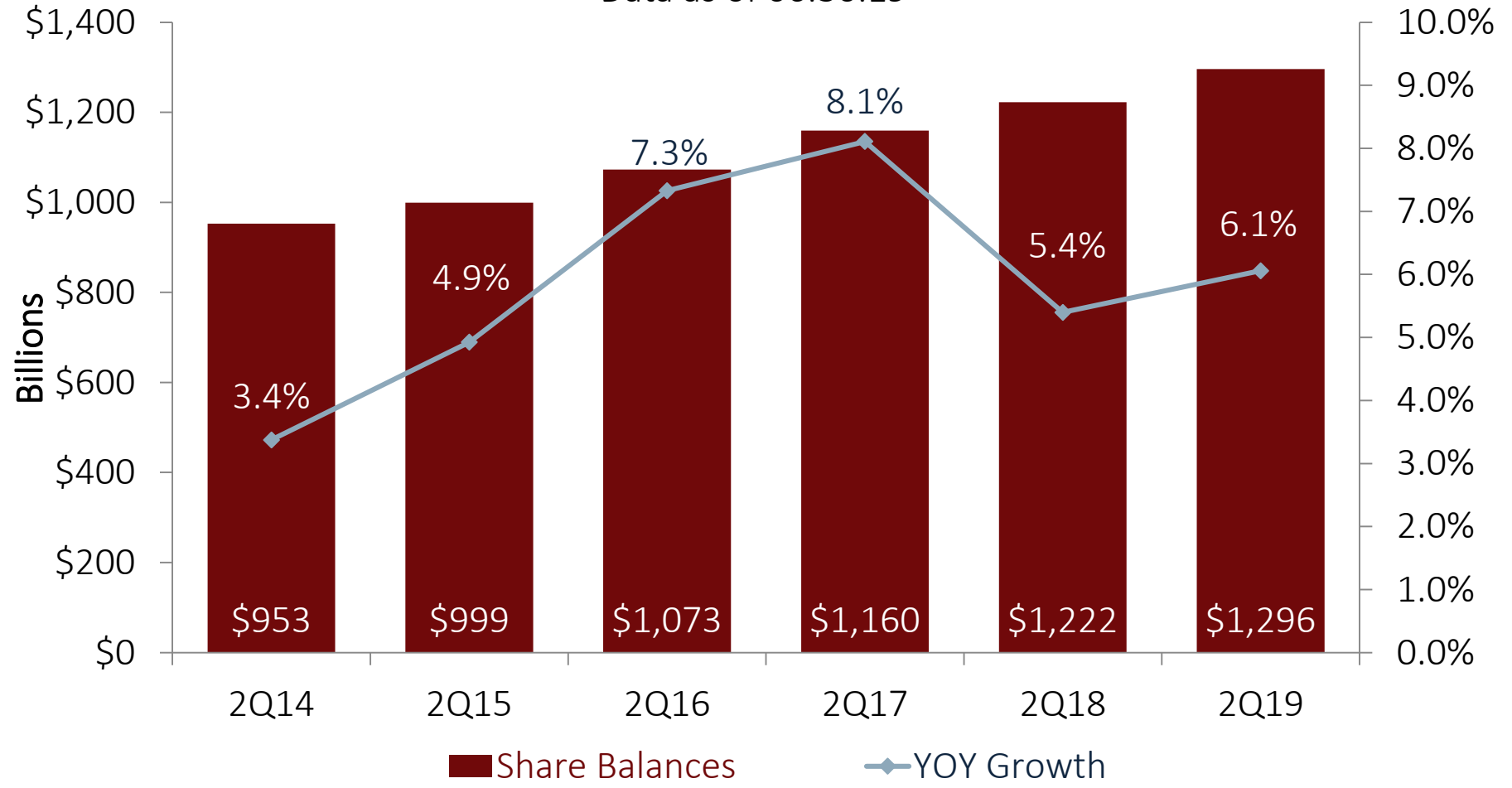


Annual membership growth remains above 4%

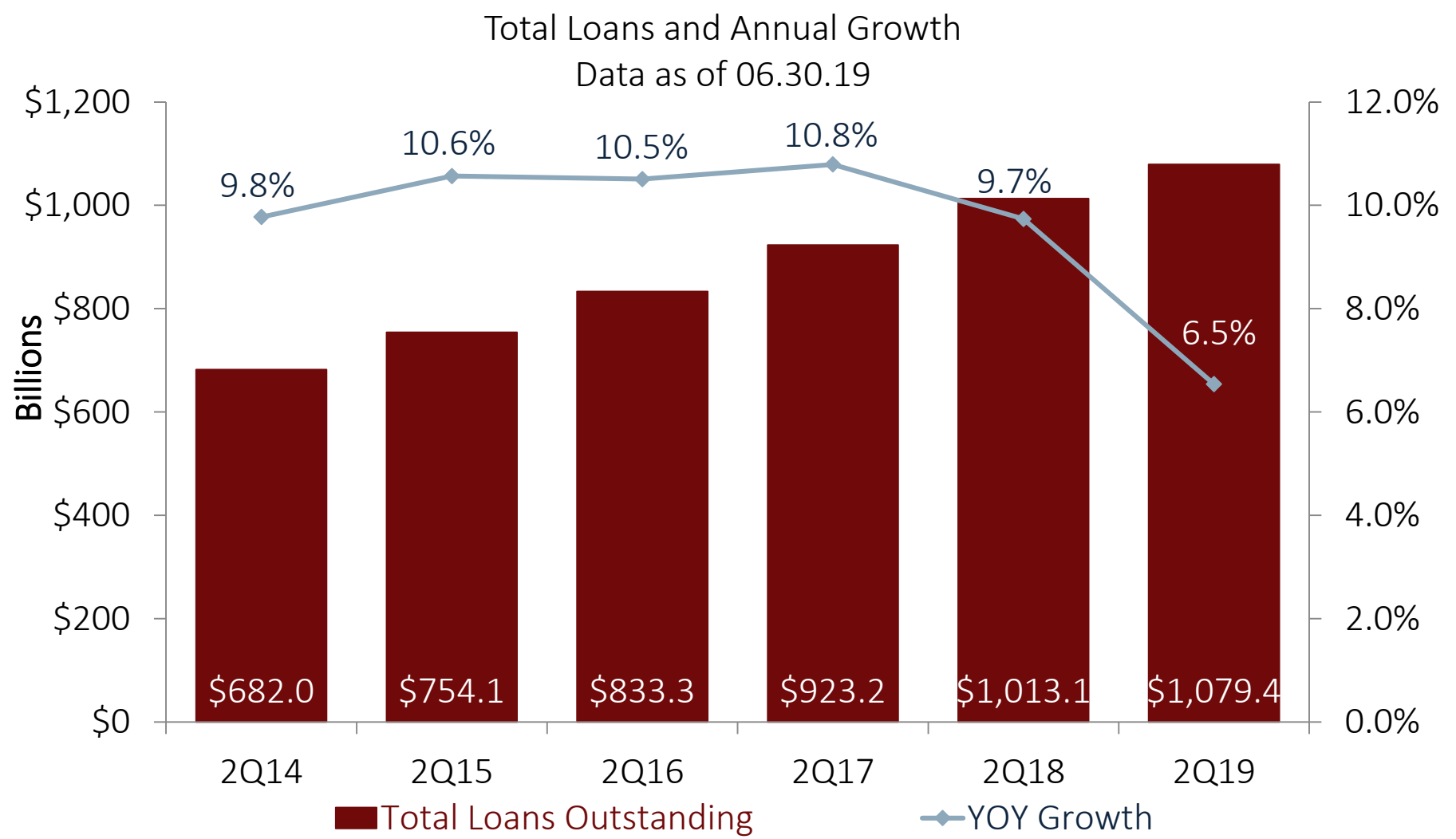


Share growth picks up as certificate balances jump

Total Share Balances and Annual Growth
Data as of 06.30.19

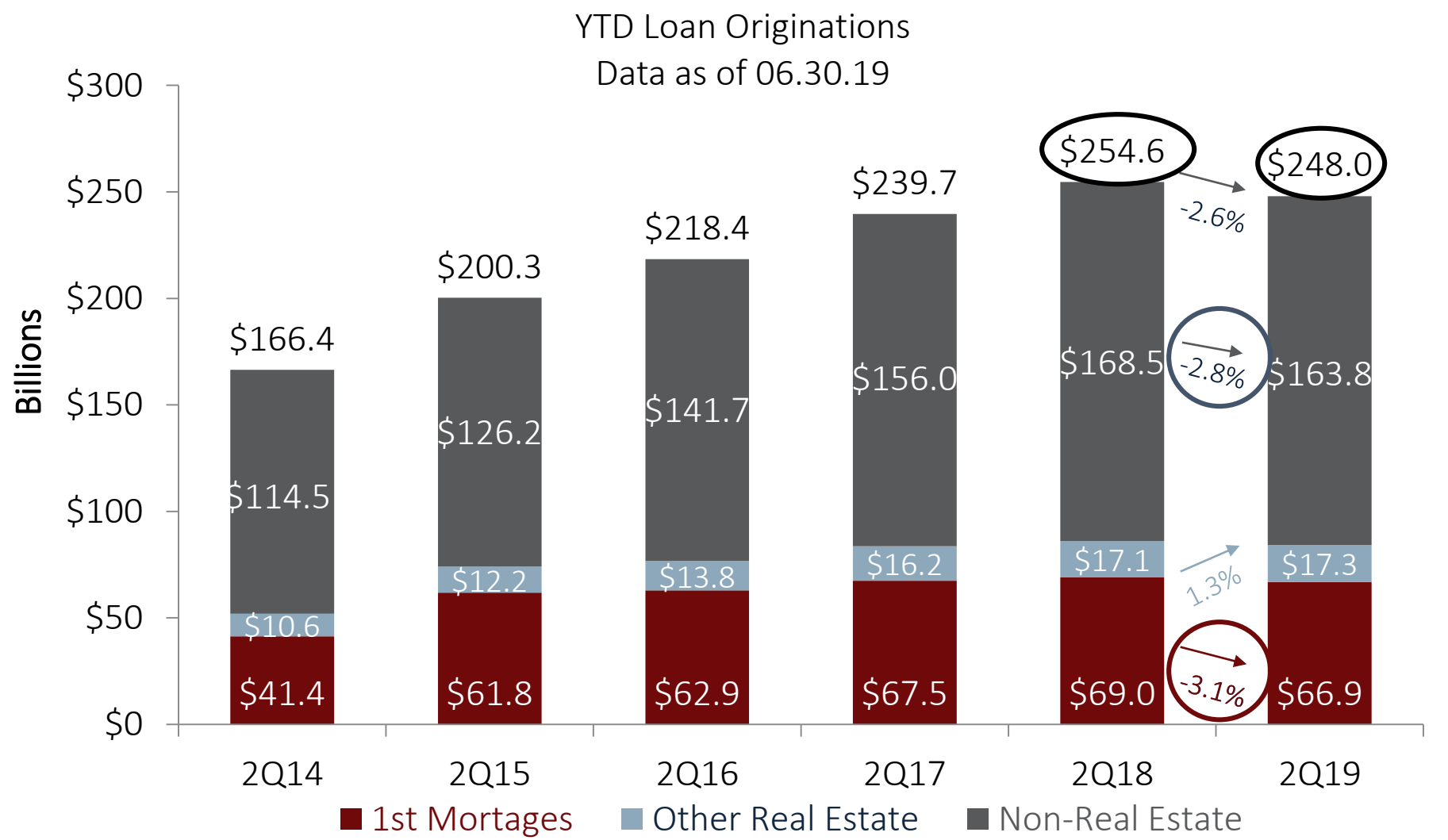


Loan portfolio growth slows from record 4-year run



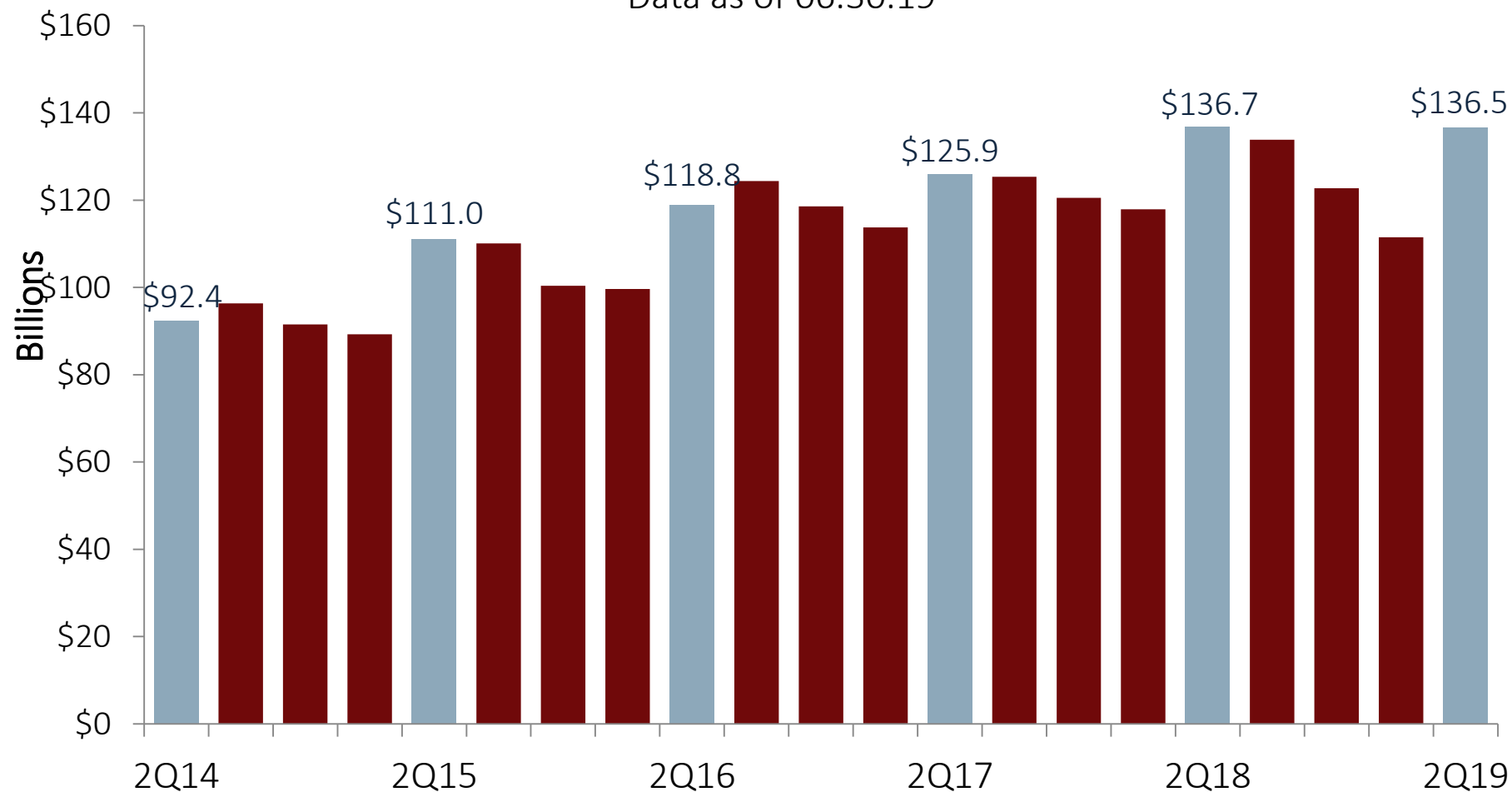
Lending

Consumer and mortgage lending activity is below 2018's pace



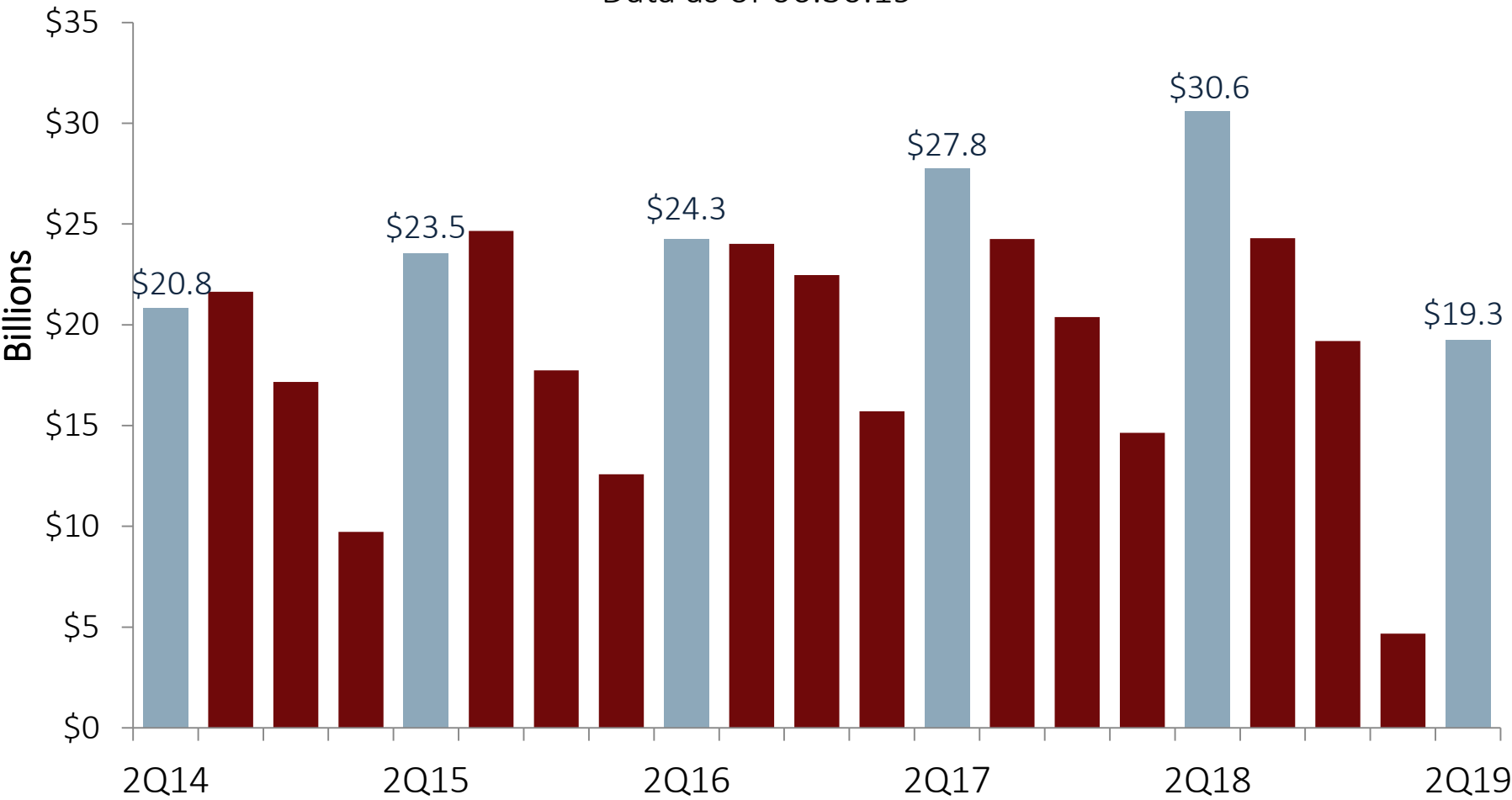
Second quarter loan originations on par with 2018

Quarterly Loan Originations Change
Data as of 06.30.19

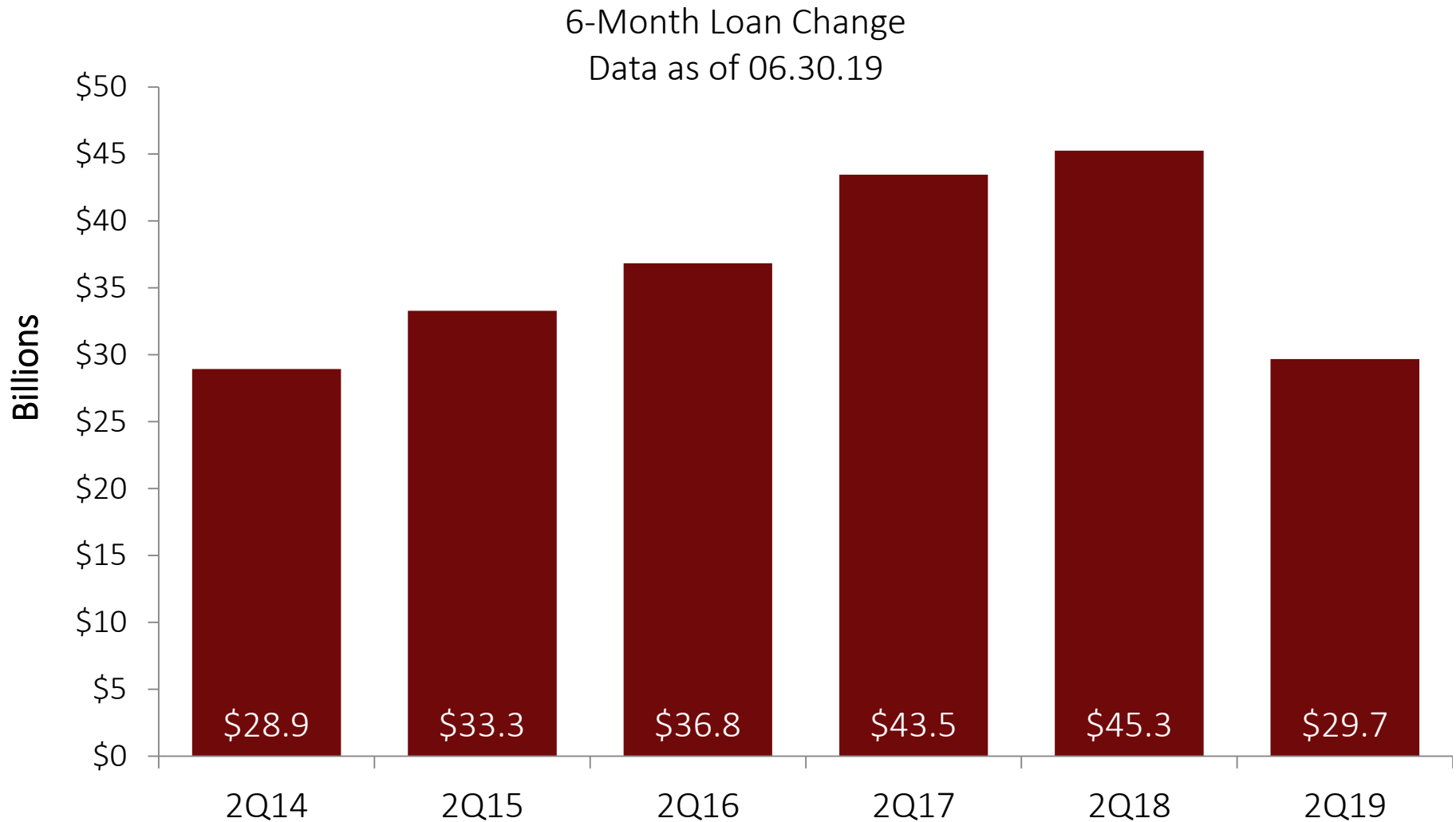


Smallest 2Q change in loan balances since 2013

Quarterly Loan Change
Data as of 06.30.19

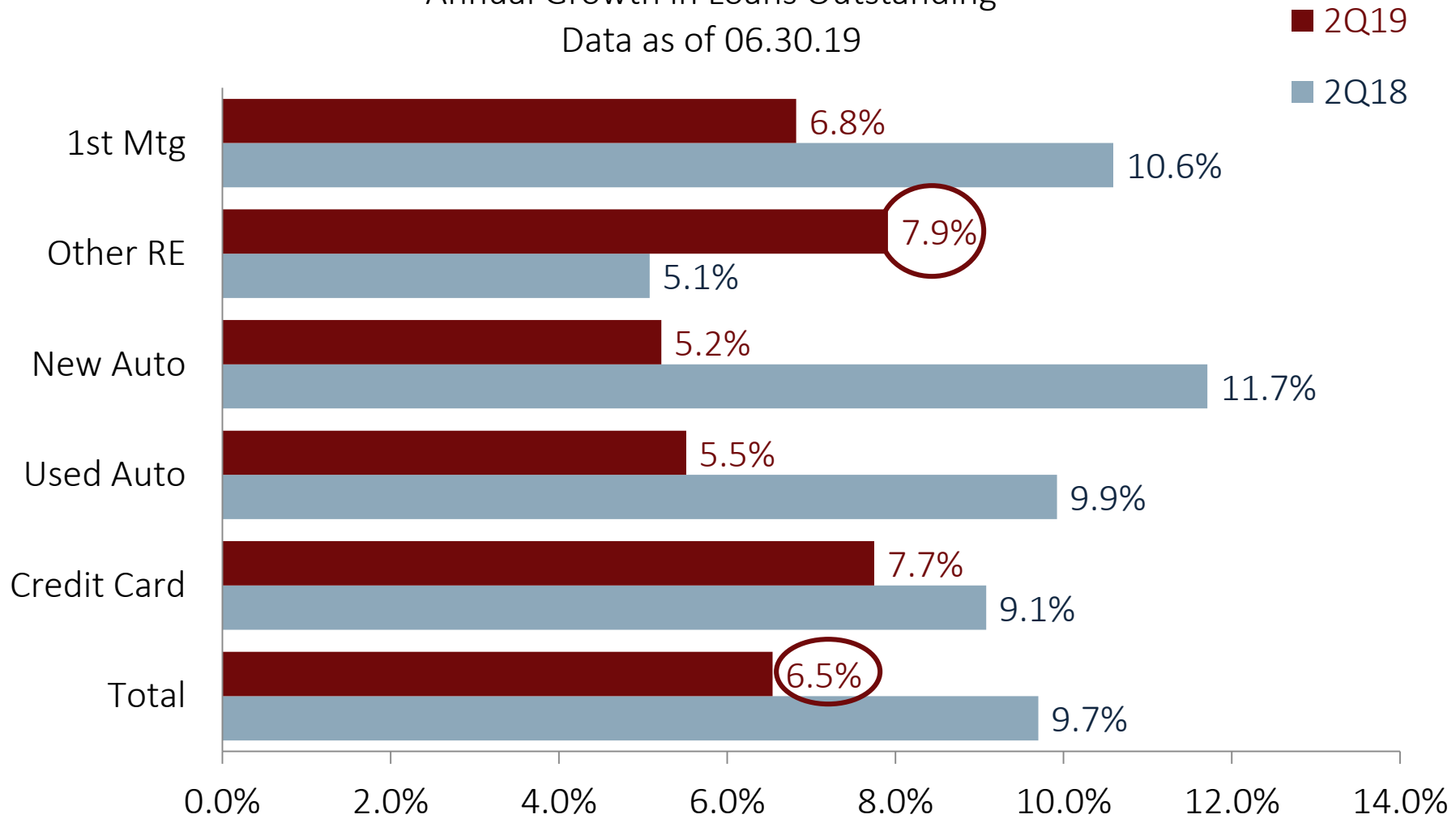


Loan balances rise by the smallest amount since 2014 through the first 6 months of the year

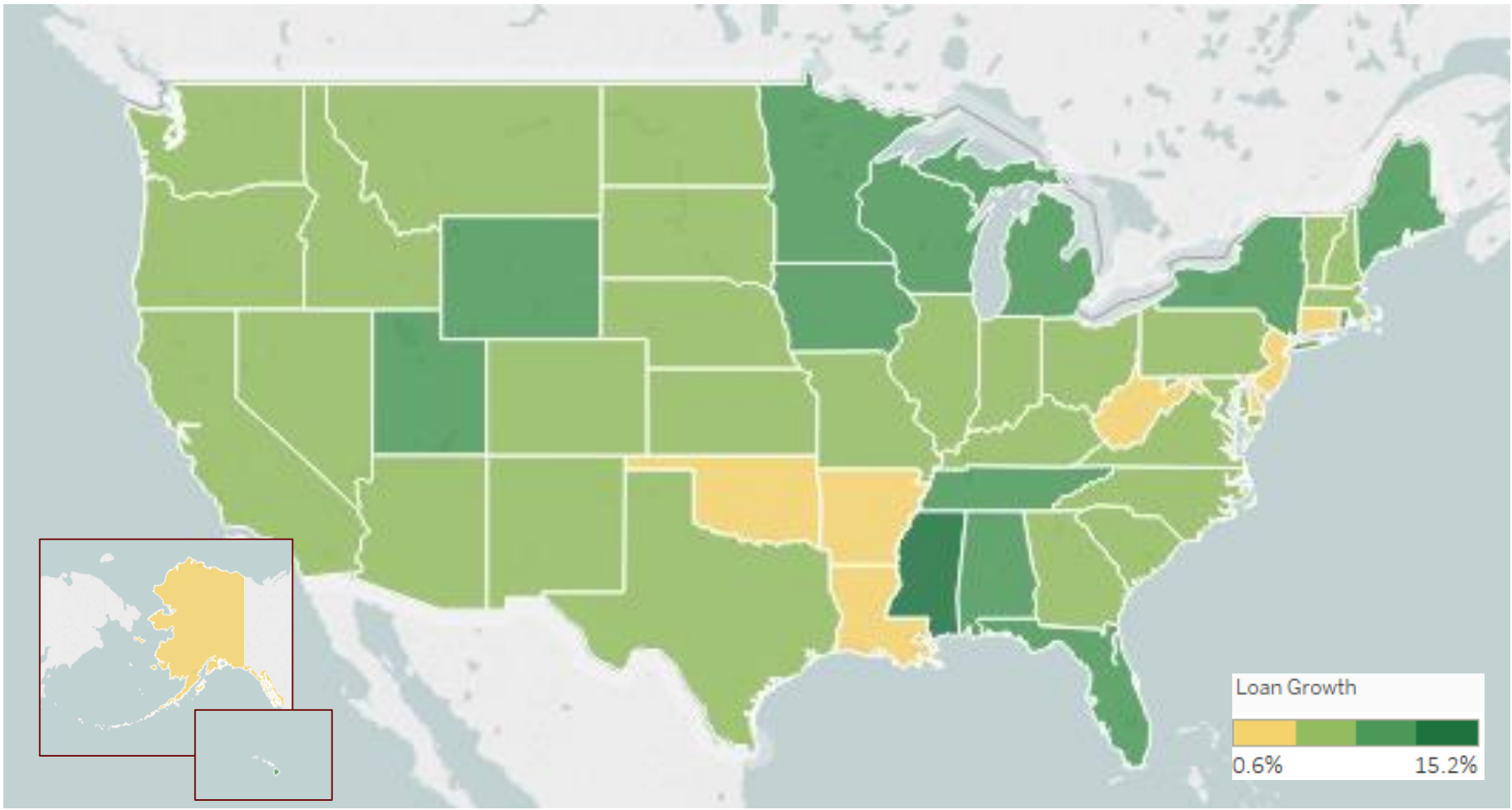


Other RE is the only loan product to see accelerating growth

Annual Growth in Loans Outstanding
Data as of 06.30.19

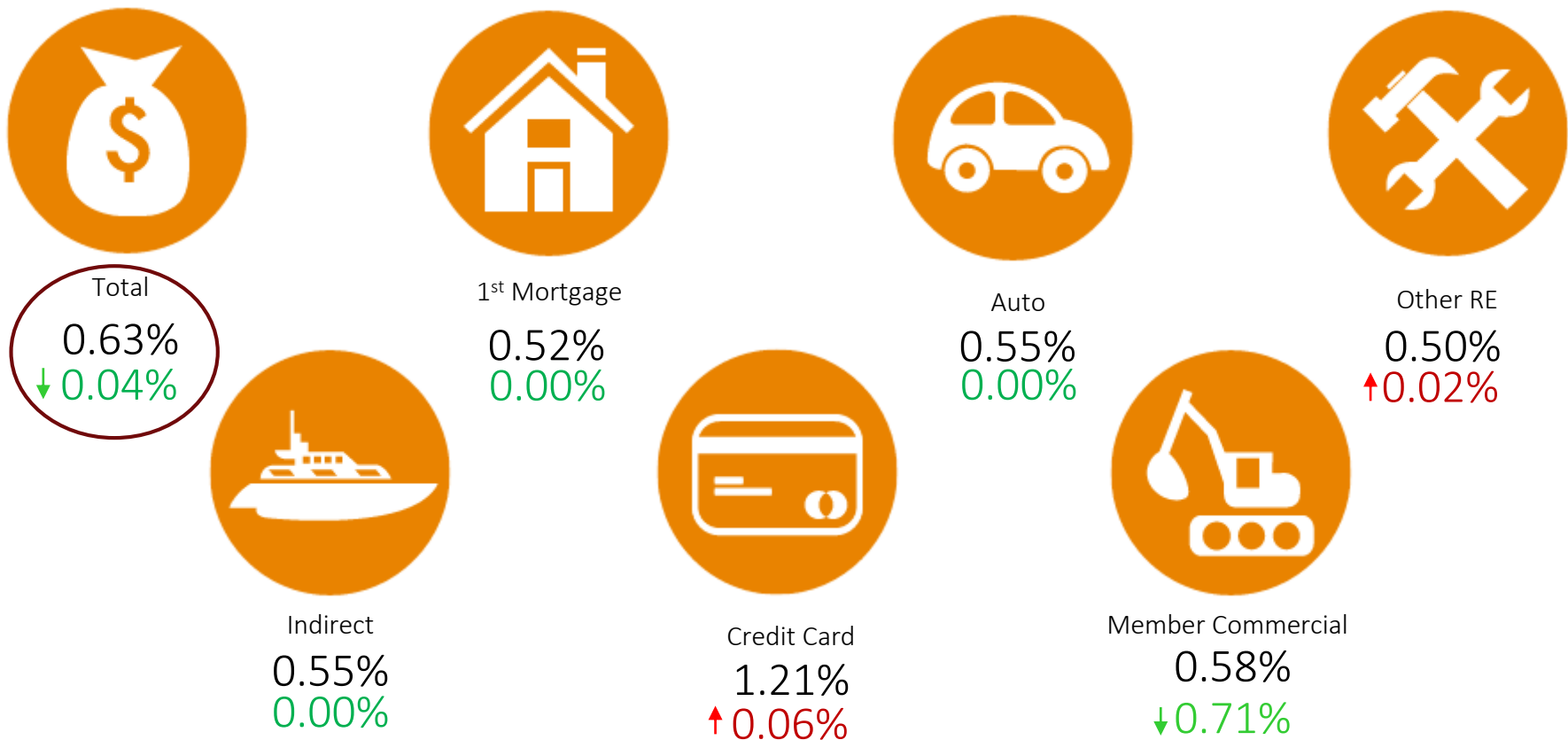


4 states have double-digit annual loan growth – MS, WY, ME, MN



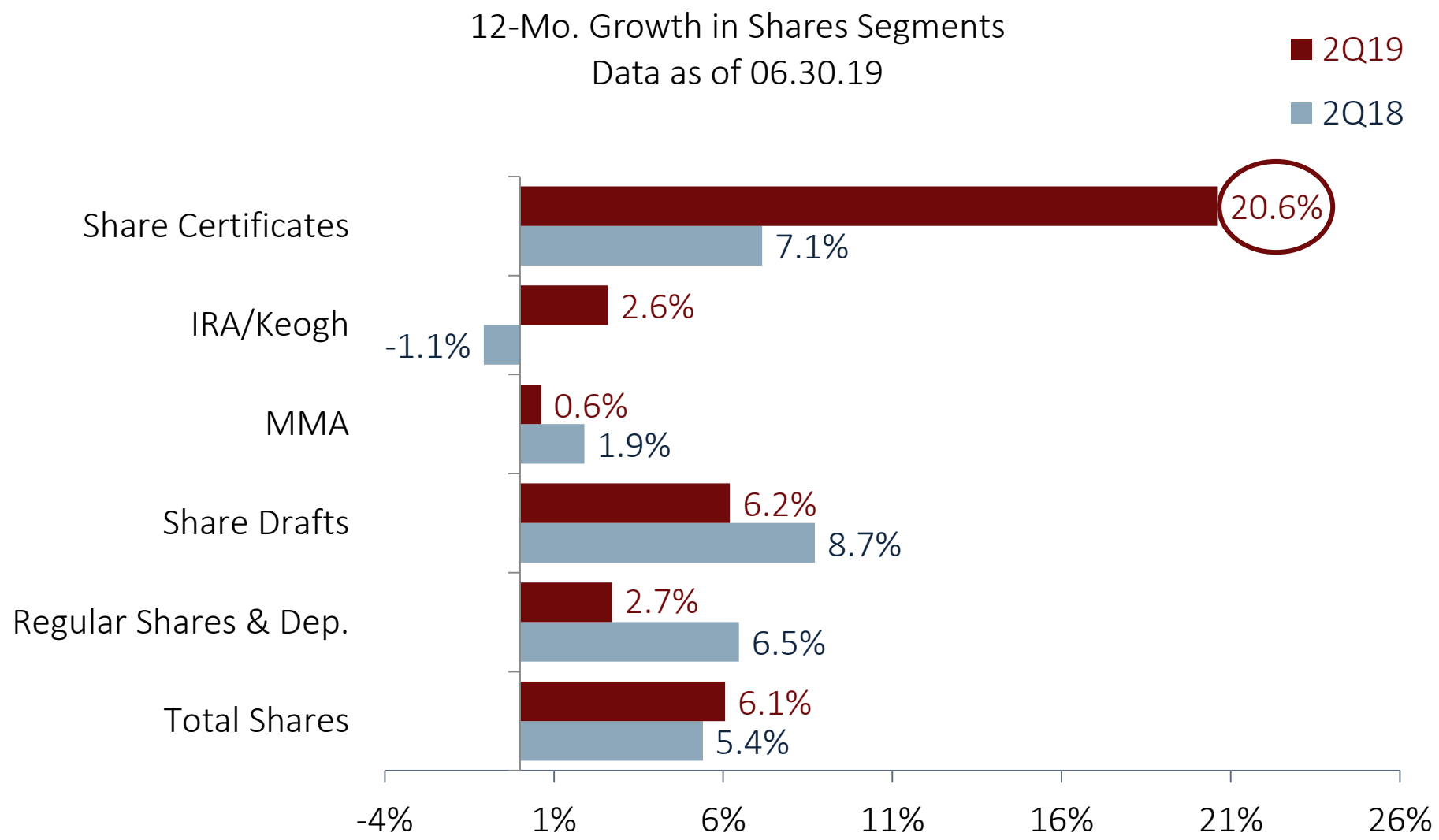
Asset quality remains strong across the loan portfolio

Annual Change in Delinquency
Data as of 06.30.19

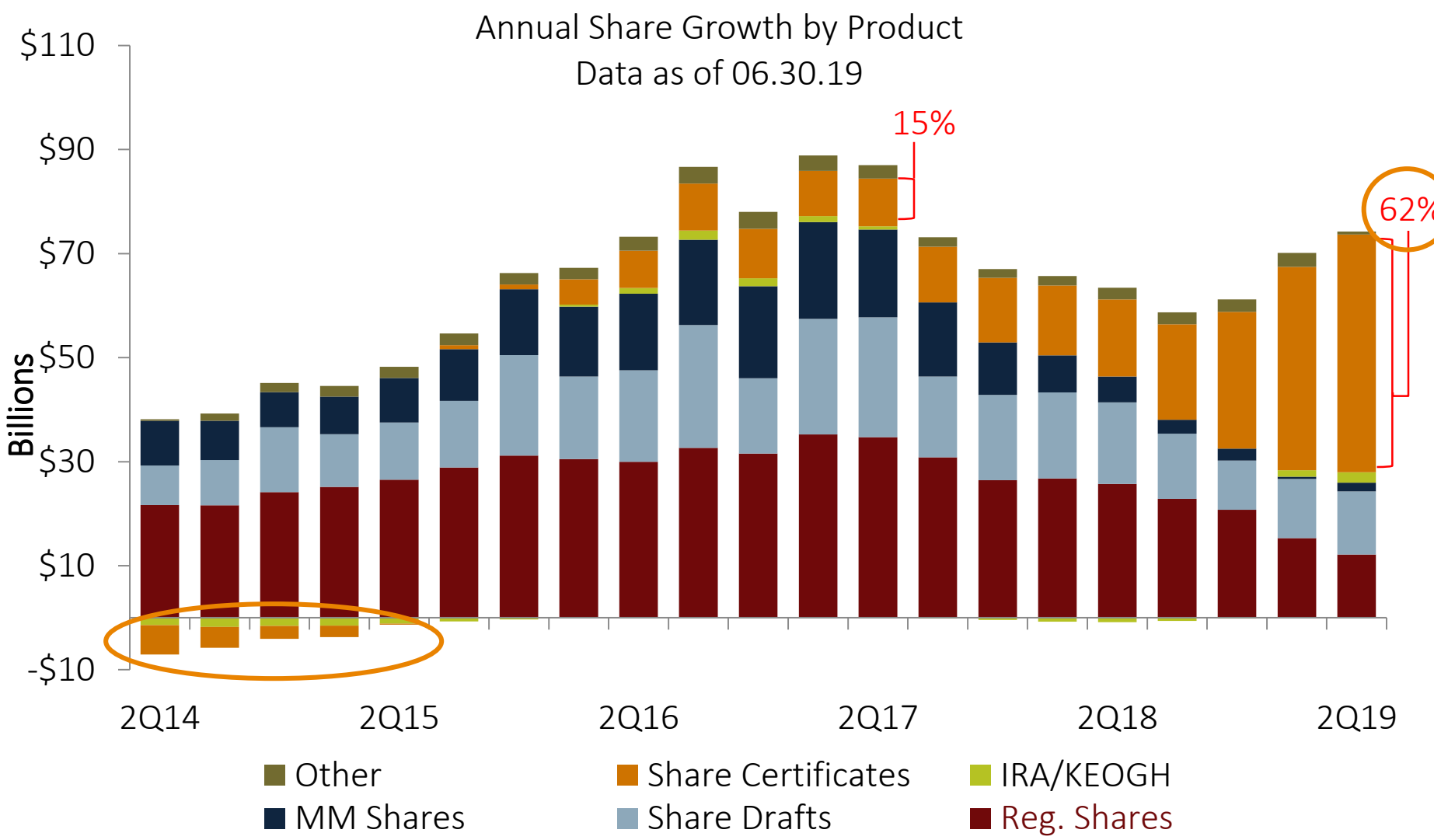


Savings

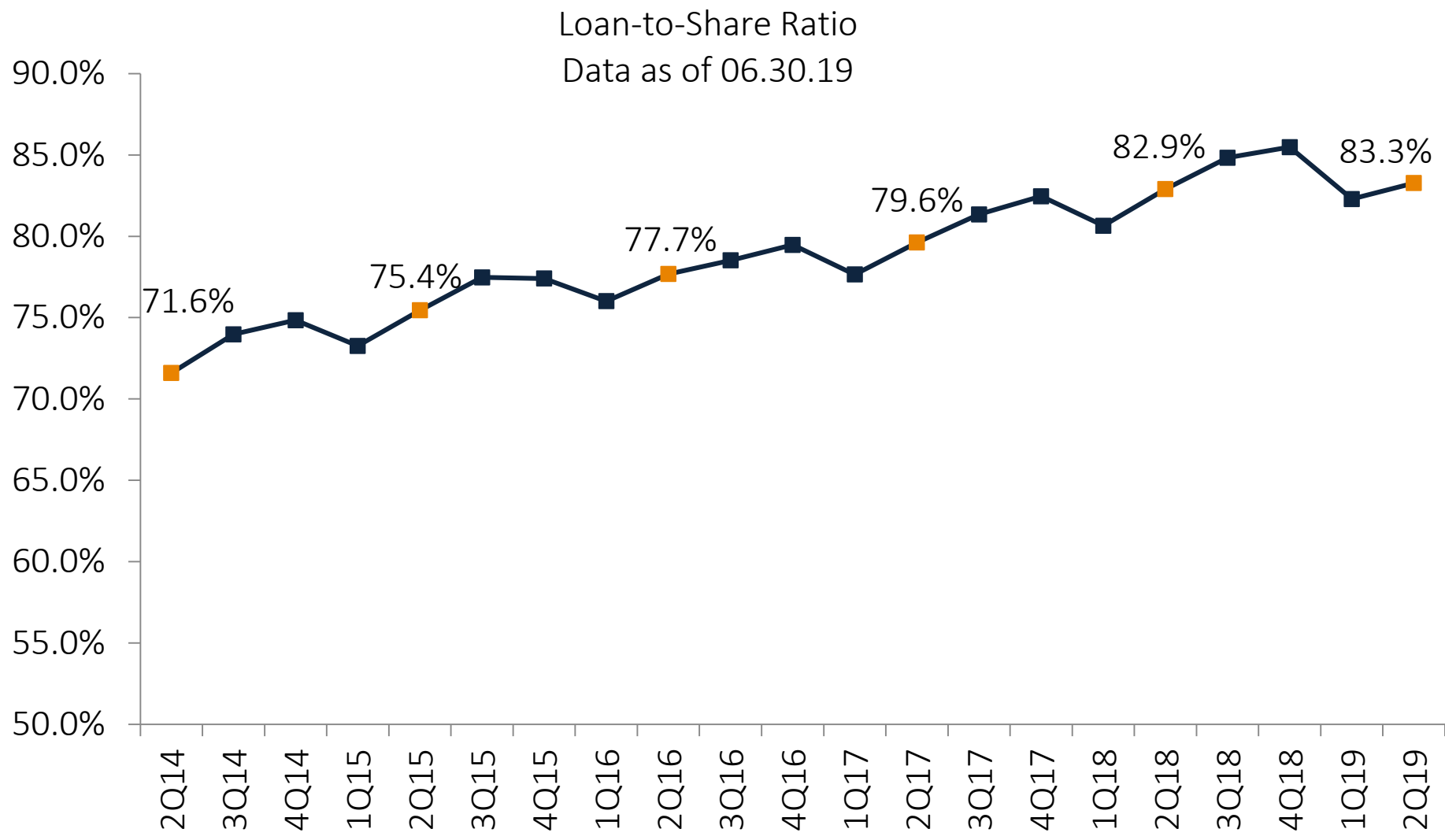
Share certificates lead portfolio growth, up \$49.9 billion annually



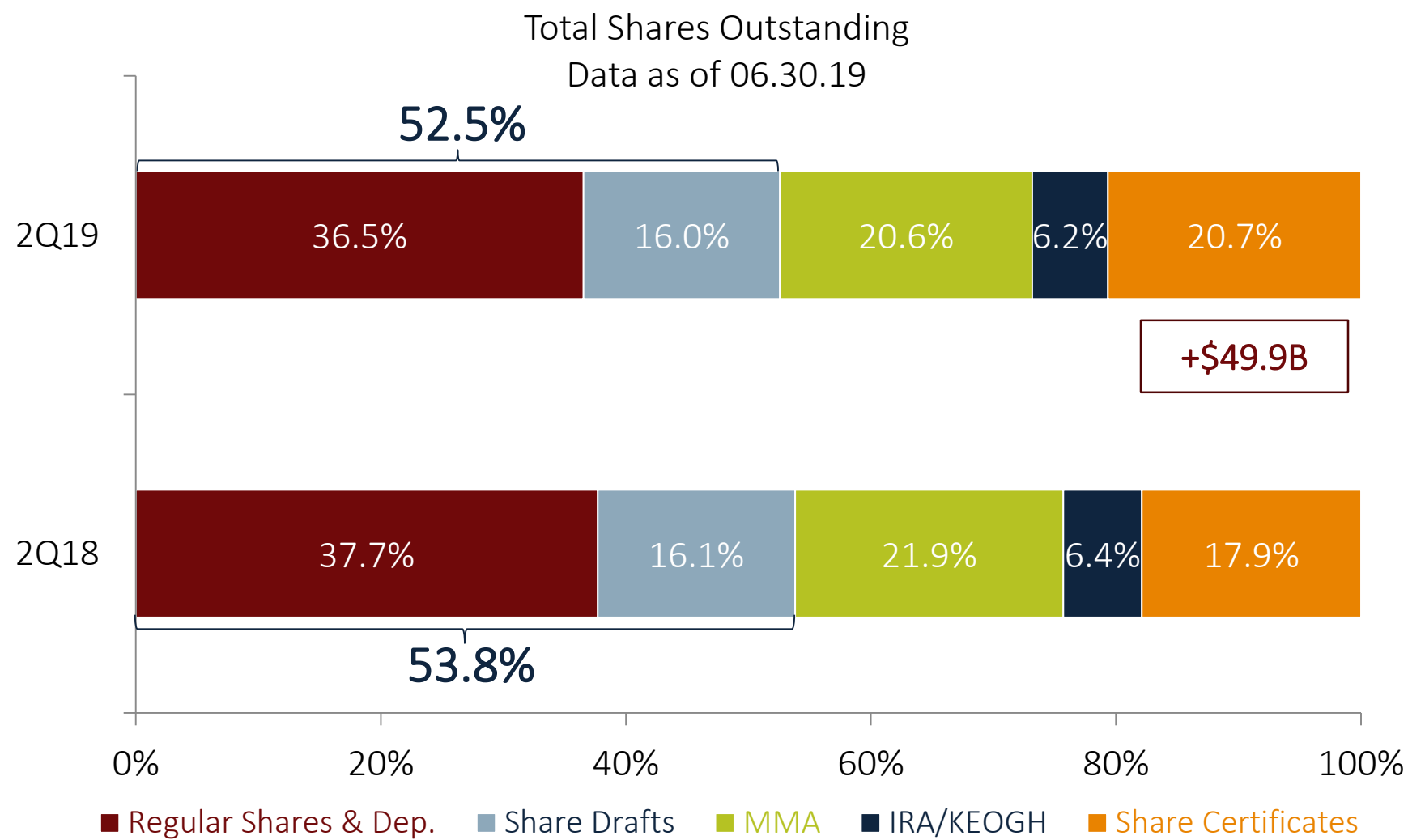
Certificate balance increases account for over 60% of share growth over the past year



Loan-to-Share ratio ticks up; beginning to plateau?



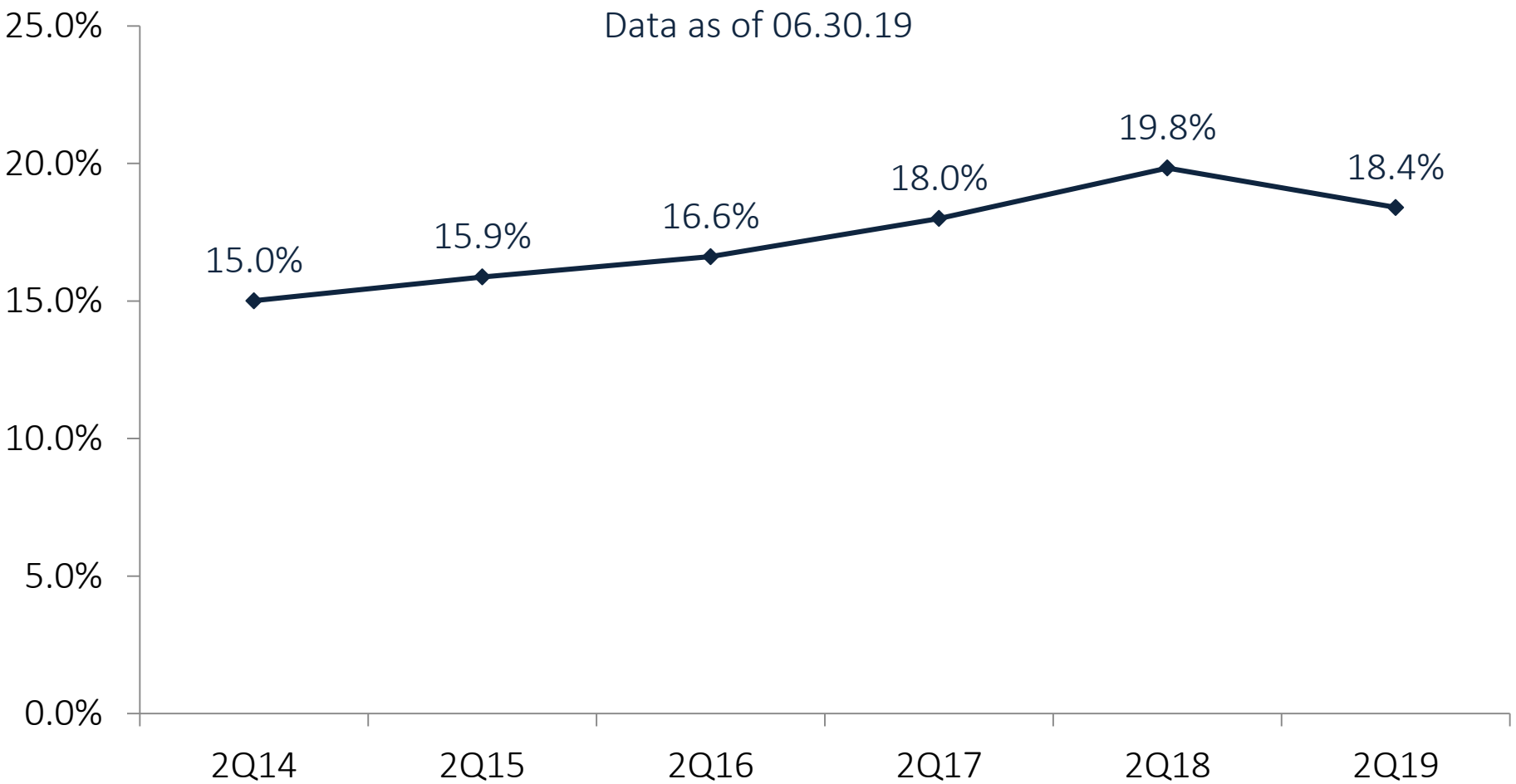
Share portfolio composition shifting with liquidity pressures and interest rate environment



Market & Member Impact

Credit unions' share of auto lending remains above 18%

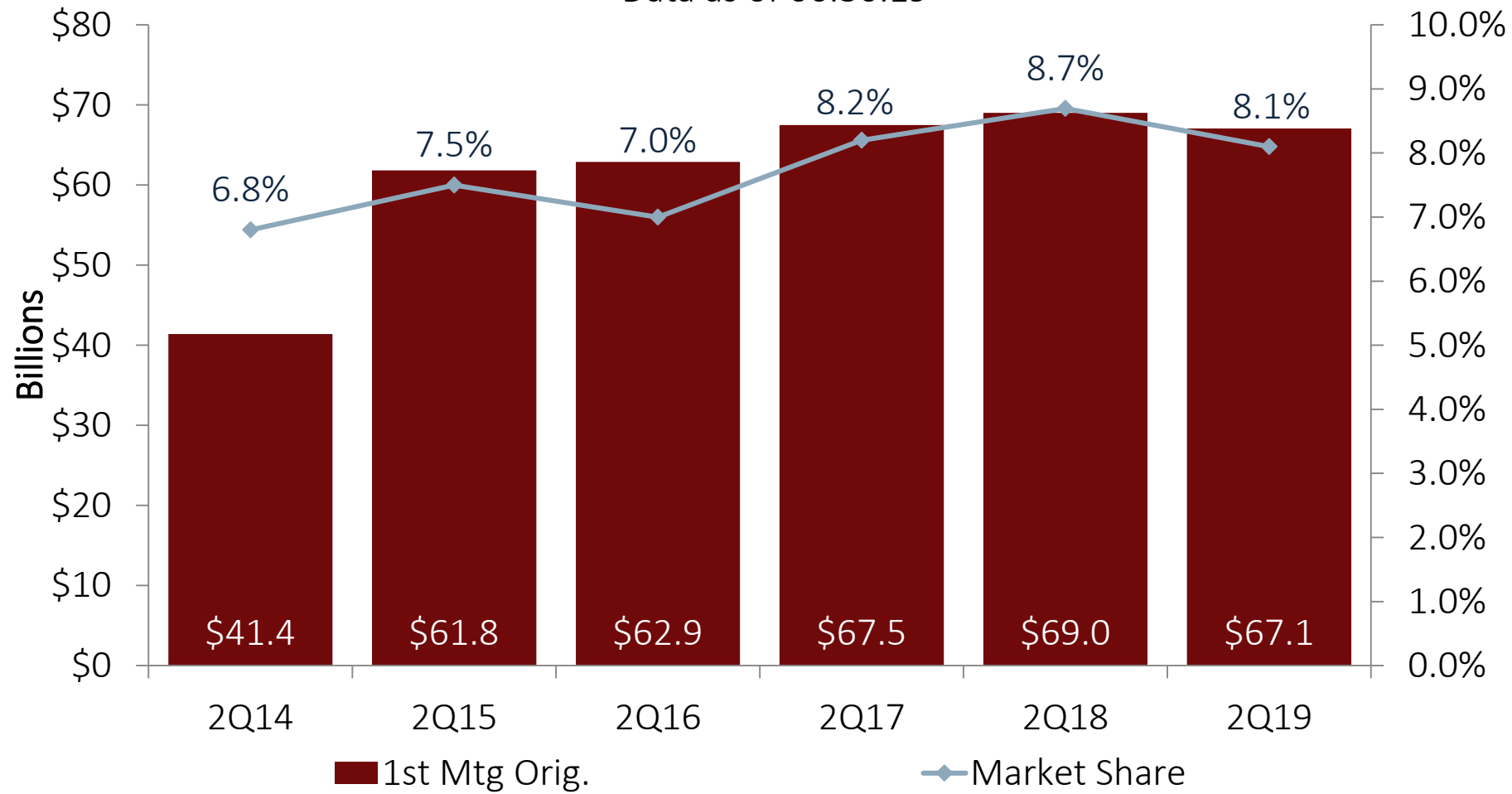
Credit Union Auto Finance Market Share
Data as of 06.30.19



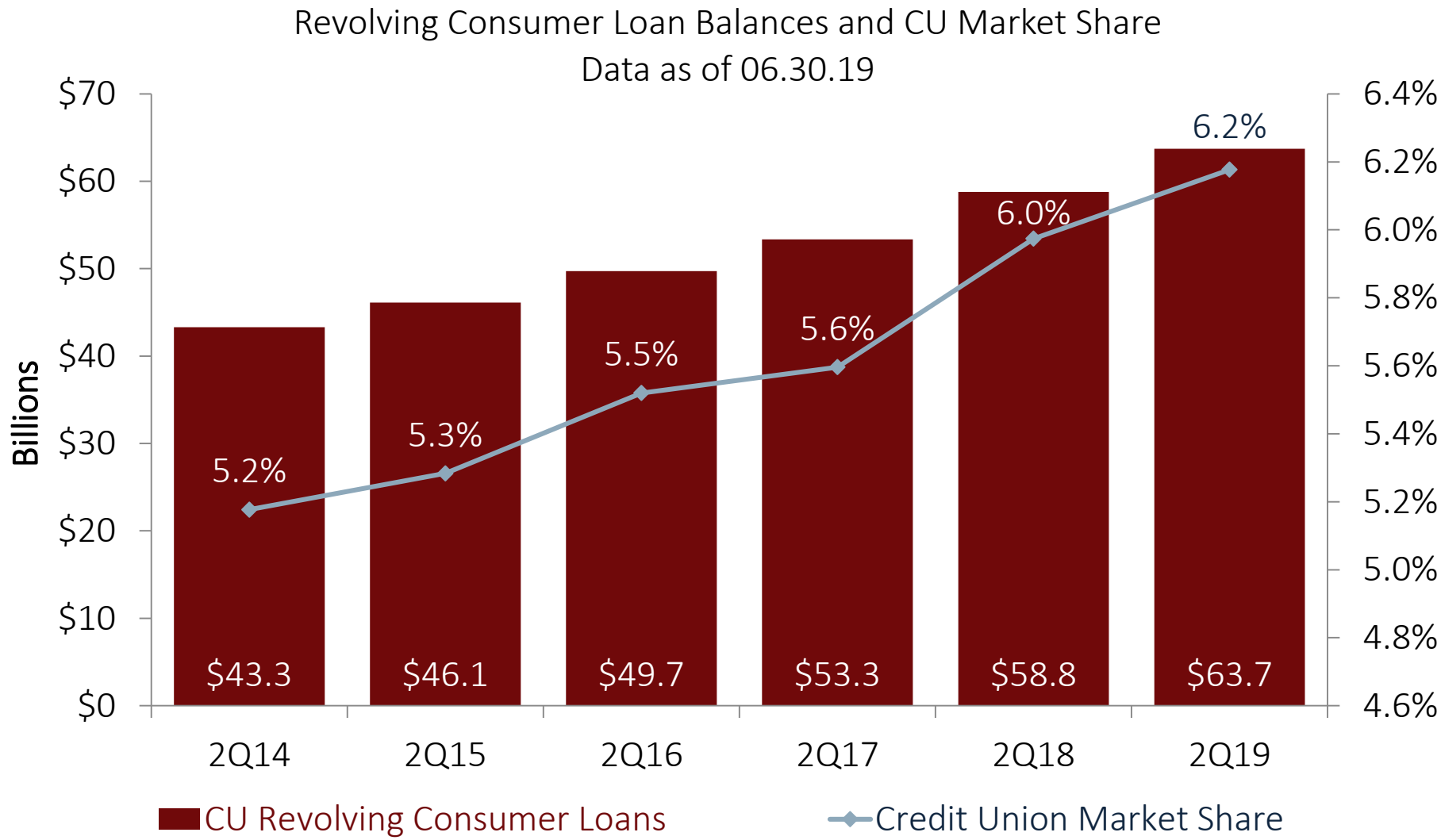
* Several states were delayed/late reporting February/March data ◆ Auto Market Share

Mortgage lending market share has fallen in 2019

First Mortgage Originations & Market Share
Data as of 06.30.19



Revolving consumer loan market share continues to rise



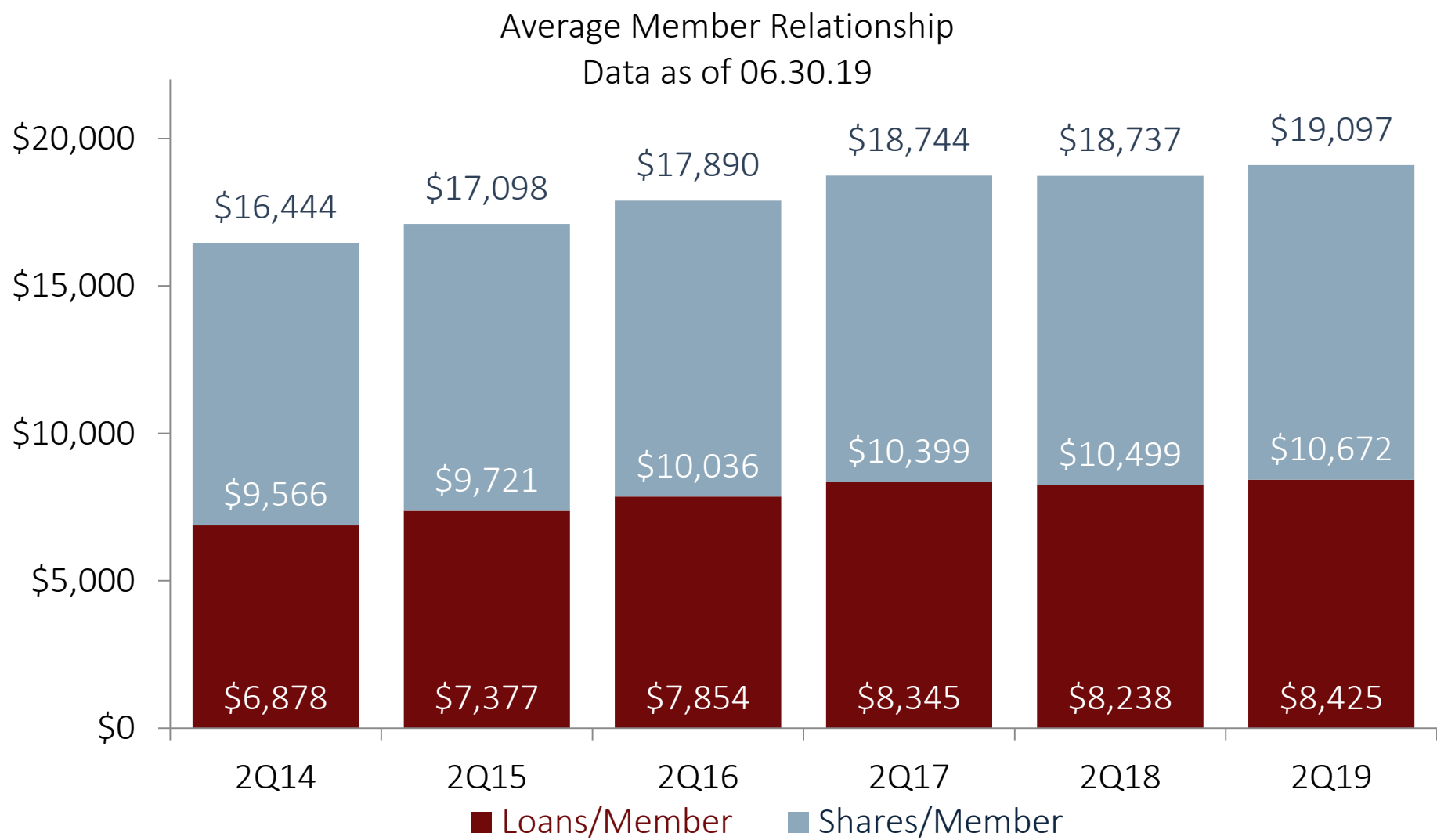
Members are increasingly turning to credit unions for their financial needs

Penetration Rates
Data as of 06.30.19



	Credit Card	Real Estate	Share Draft	Auto
2Q19	17.5%	5.7%	58.2%	21.2%
2Q14	16.2%	5.6%	53.4%	17.0%
Change	+1.3%	+0.1%	+4.8%	+4.2%

Average loan balances per member increase 22.5% over the last 5 years



Strategic Challenges & Opportunities

*Amy Sink, CEO
Interra Credit Union*



CALLAHAN
ASSOCIATES
the credit union company

Knowledge. Insight. Strategy.

About Interra Credit Union

- Headquartered in **Goshen, Indiana**
- **\$1.2B** in assets
- More than **81,500** members
- **284** employees
- **15** branches



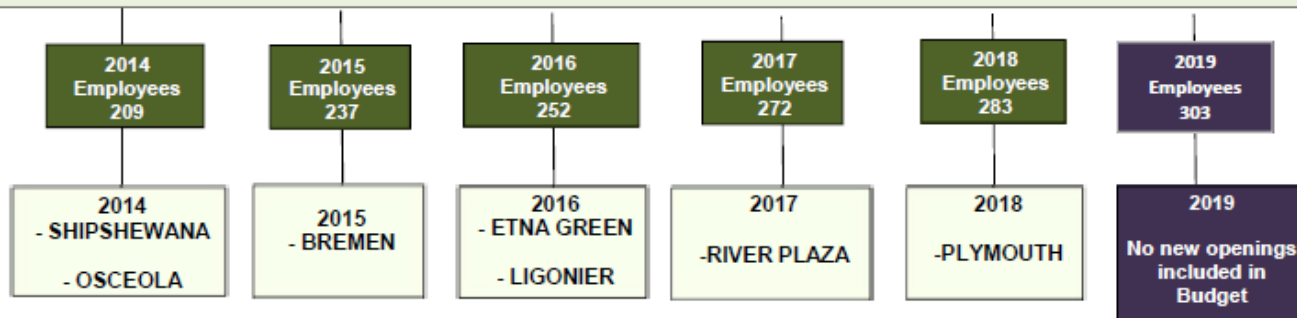
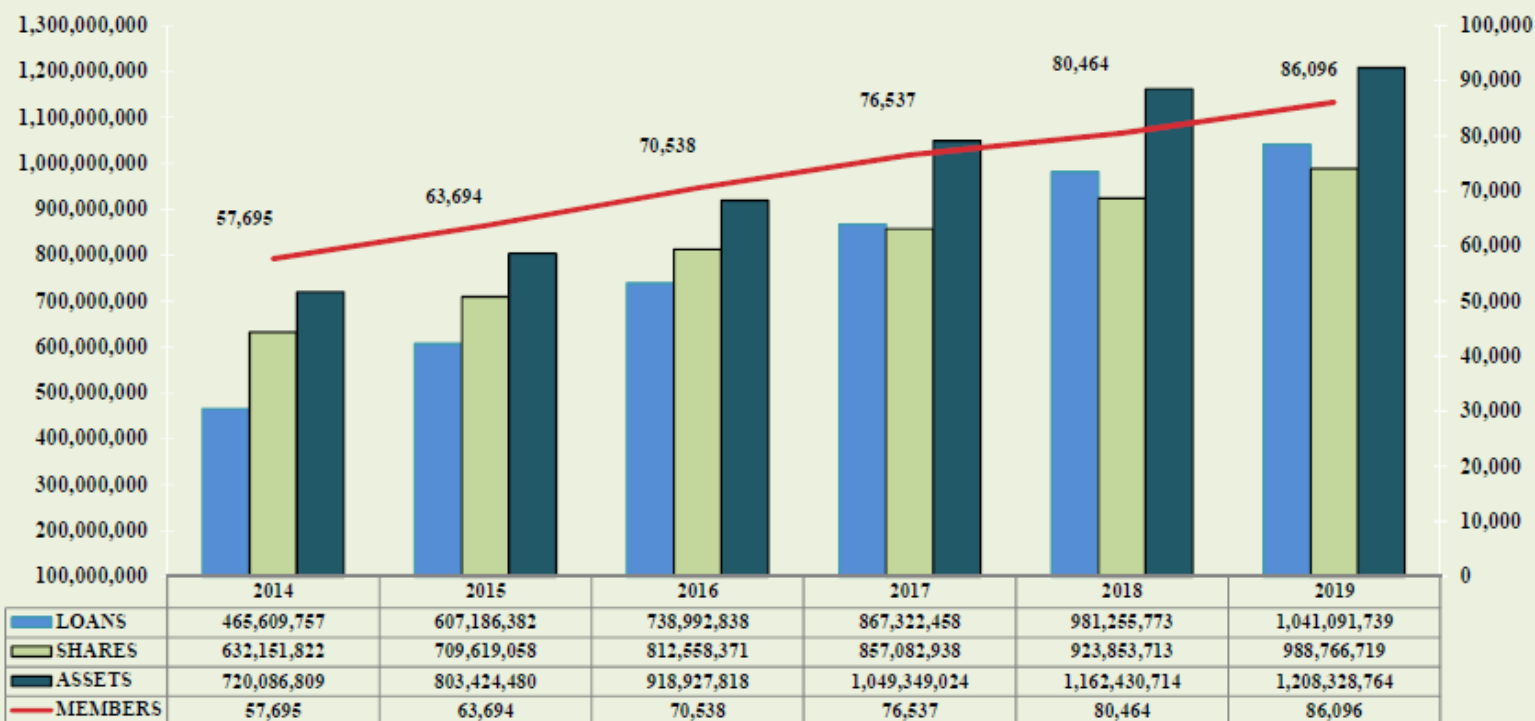
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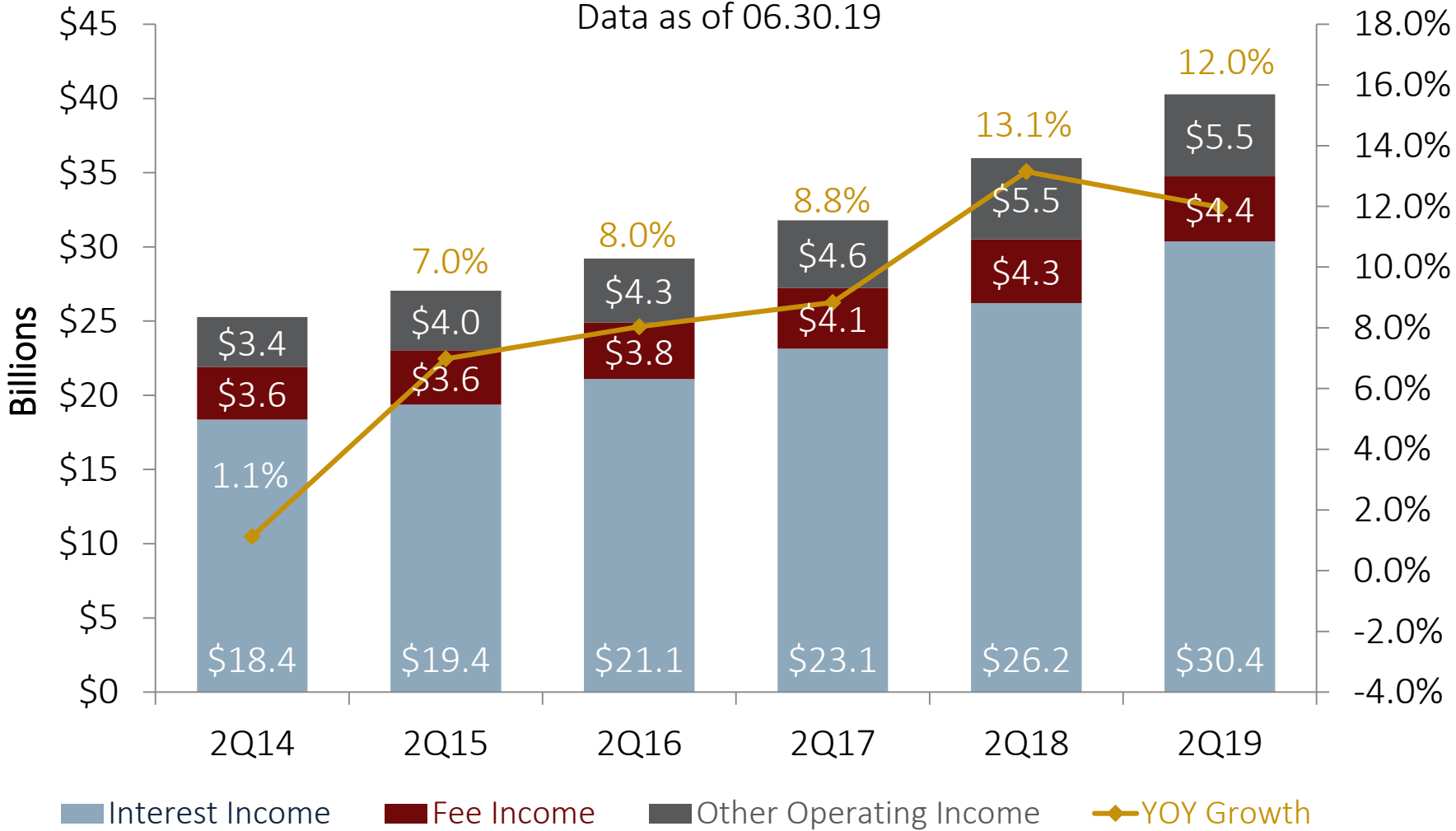
INTERRA GROWTH 2014-2019



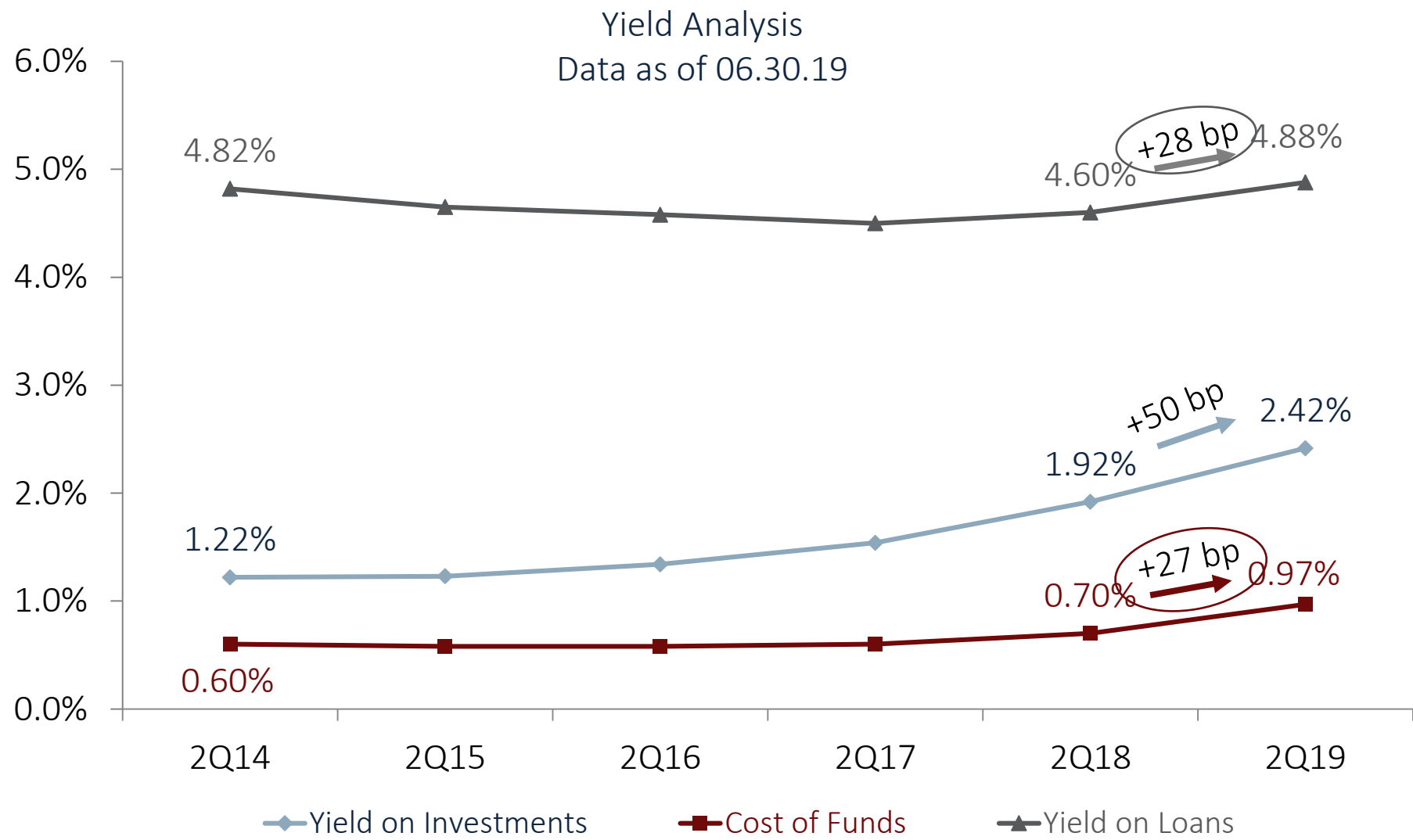
Earnings & Capital

Revenue growth driven by 15.8% gain in interest income

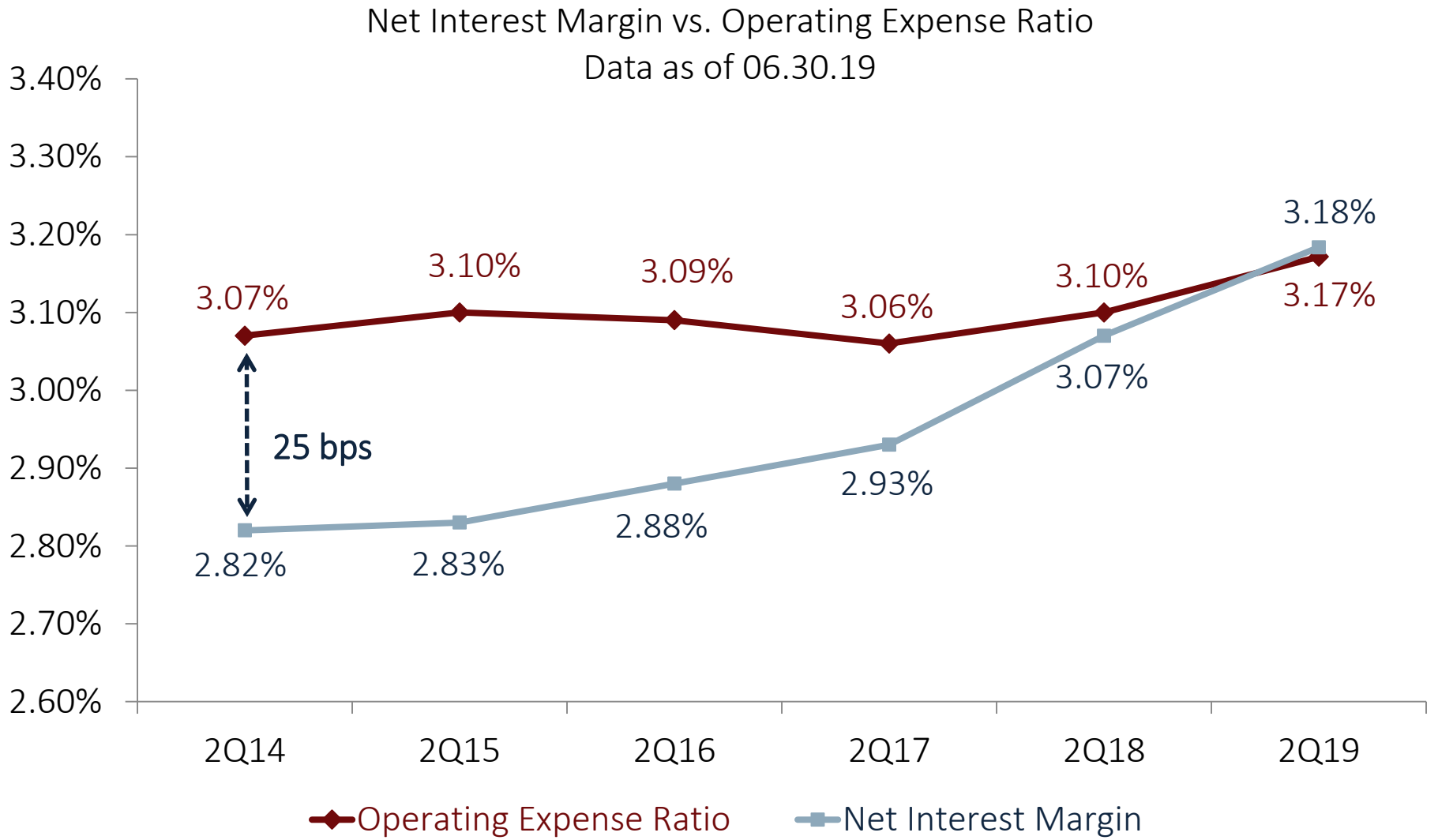
Total Revenue and Annual Growth
Data as of 06.30.19



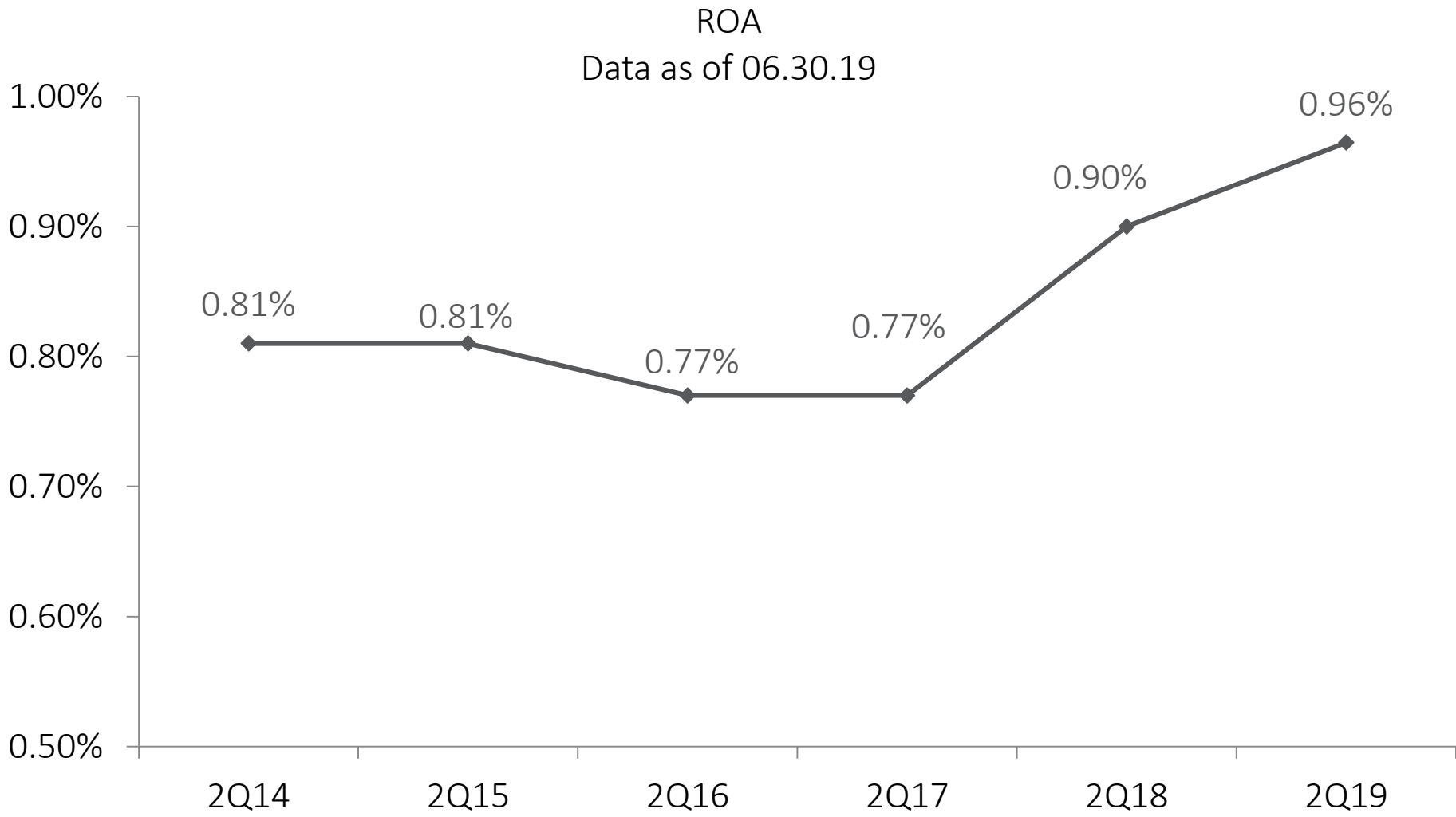
Loan yields are rising slightly faster than cost of funds



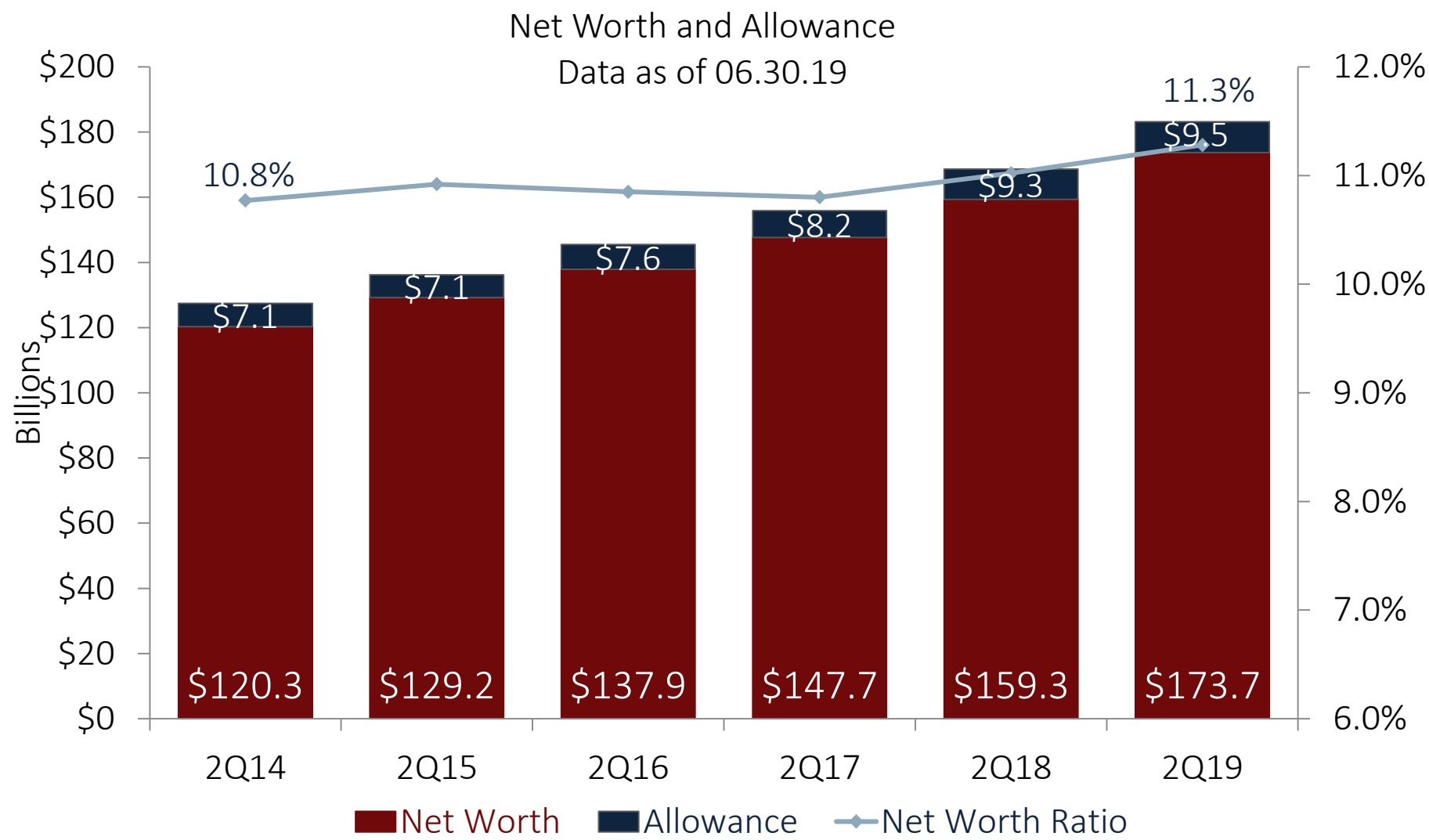
Net interest margin exceeds operating expense ratio for the first time since 2011



ROA is approaching 1% through the second quarter



Industry net worth ratio climbs to 11.3%

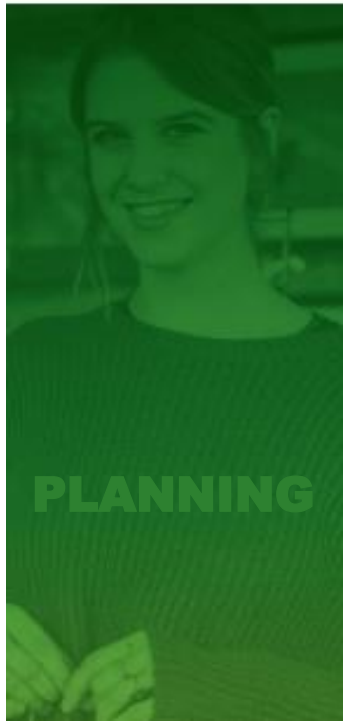


Looking Ahead

- Momentum picked up in the second quarter. How will interest rate and stock market movements affect the second half of 2019?
- Opportunities in refinancing and home equity lending are evident
- As earnings and capital rise, credit unions can continue to invest in delivering member value

2019 Strategic Planning Questions

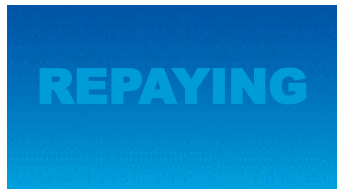
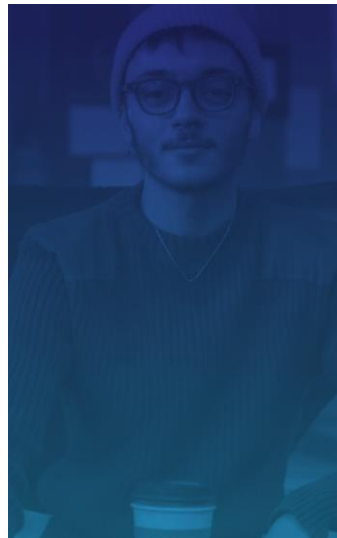
- Where are our best growth opportunities?
- Are we taking enough risk?
- How do we better incorporate members into our processes?
- Can we clarify our purpose and can it be a differentiator?
- How can we best measure the value we are delivering to our members?
- How do we ensure we are positioned for long-term success?



PLANNING



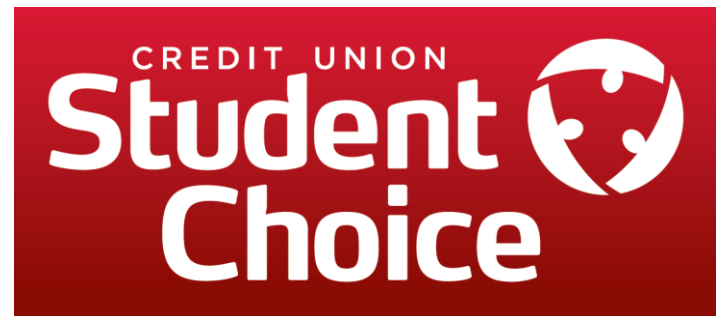
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