



TRENDWATCH 2Q24



August 14, 2024

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Today's Lineup

Market Update

Jason Haley, Chief Investment Officer, ALM First

2Q24 Credit Union Results

Jay Johnson, Chief Collaboration Officer, Callahan & Associates

Alex Gekas, Vice President, Callahan & Associates

Impacting Communities via Small Business Microloans

Theresa Dubiel, EVP, Chief Experience Officer, Lake Trust Credit Union





ALM FIRST

for a partnership built on trust.

August 14, 2024

ALM First Market Update

Callahan Trendwatch

Speaker



Jason Haley
Chief Investment Officer, IMG
ALM First

Current Economic Themes

- **That escalated quickly**

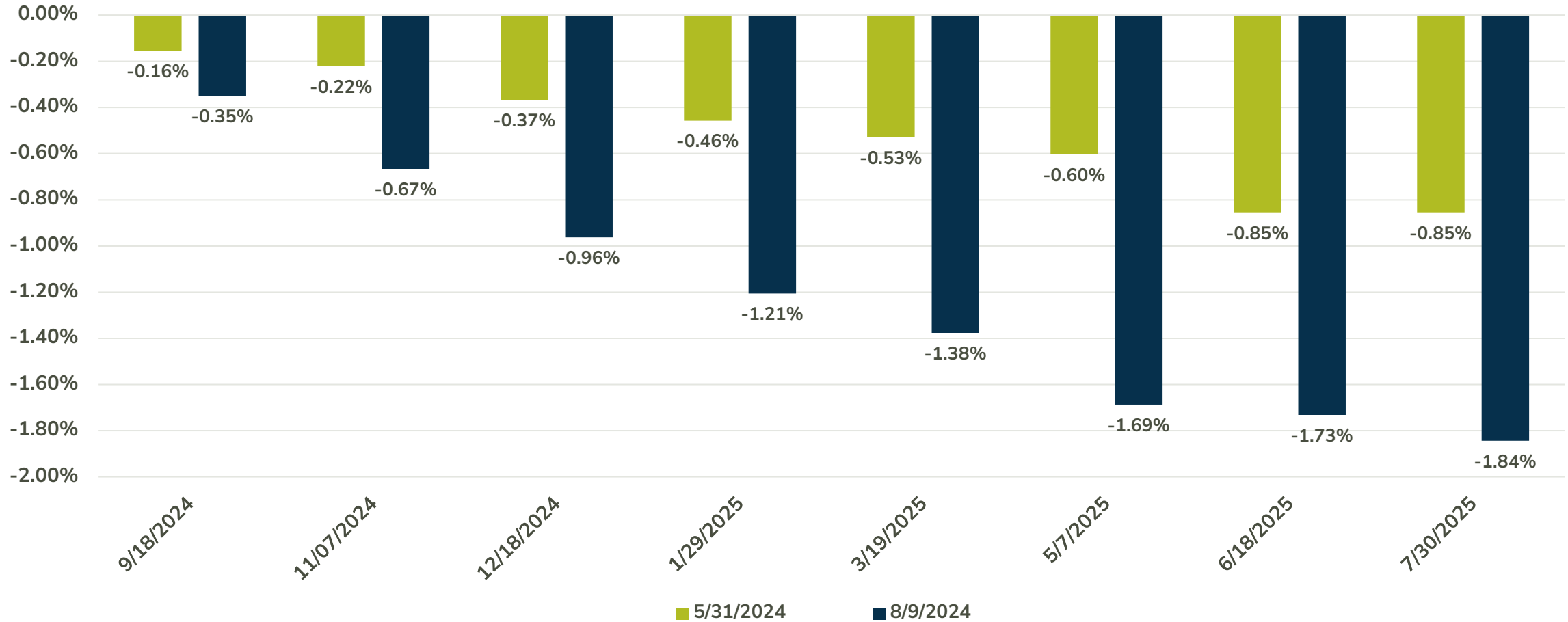
- Market volatility surged over the last couple of weeks amid softer economic data and multiple external factors
 - Unwind of Japanese Yen “carry trade” after surprise rate hike from the Bank of Japan
 - July jobs report a virtual feast for more negatively biased market participants
 - Disappointing earnings reports from the tech sector
 - Concerns of escalating tensions in the Middle East
- July 31 FOMC meeting opened the door for a potential rate cut in September
 - As of 8/12, 100 bps of cuts in 2024 and 210 bps through 2025

- **Softer, but not cratering**

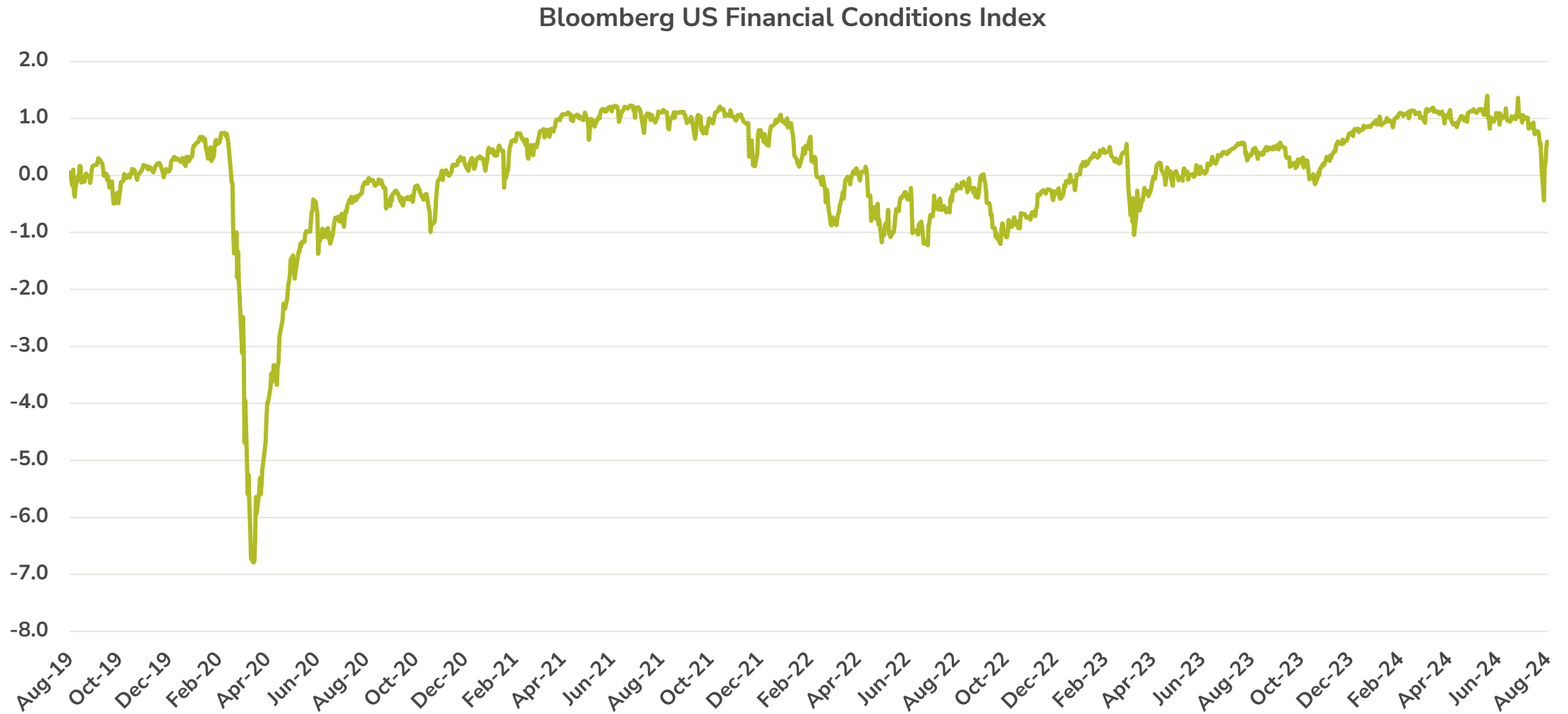
- Clear signs that the economy is slowing from robust growth in recent years
 - Job growth has slowed and unemployment rate rising from historically-low level
 - Inflation still above Fed’s target but trending lower
- PPI, CPI, retail sales, and jobless claims this week
- Fed Chair Powell speaks from Jackson Hole next week

Summer Shift in Market Pricing For More Dovish Fed

Overnight Indexed Swap (OIS) Implied Rate Change
August 9, 2024



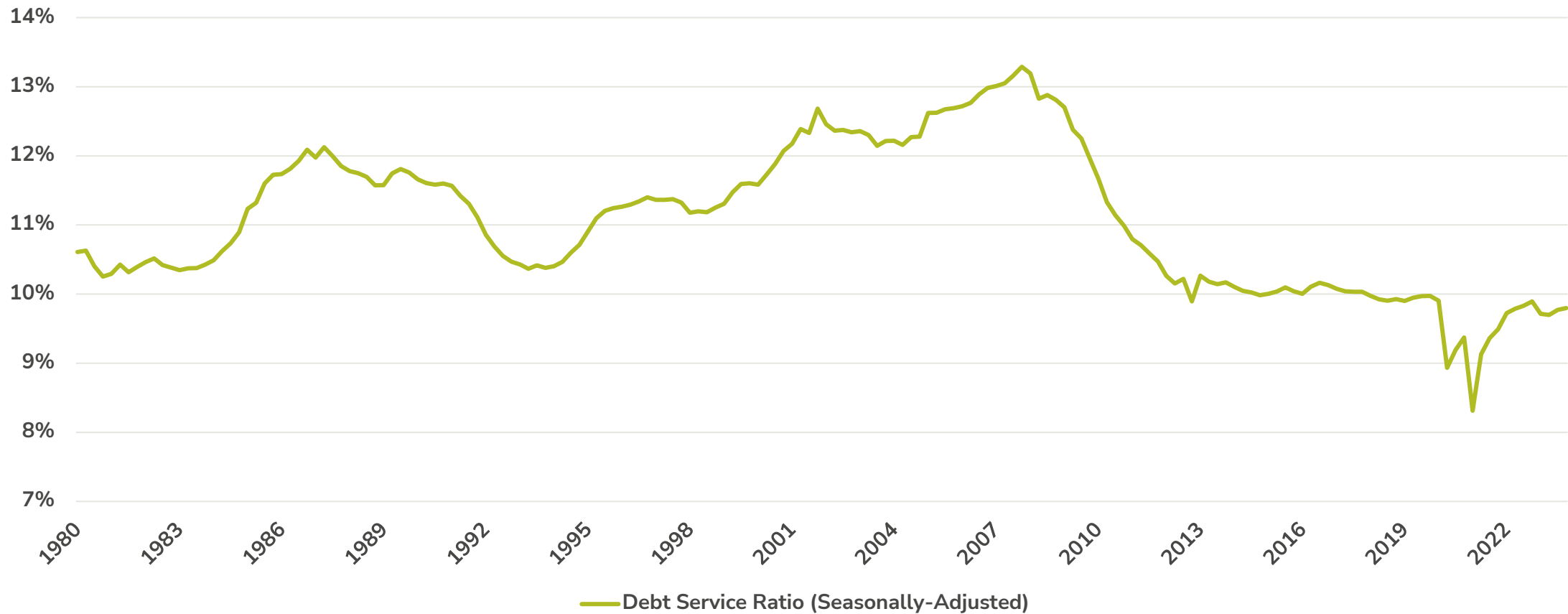
Are Financial Conditions Really Tight?



Source: Bloomberg

Household Debt Service Burdens Historically Low

Consumer Debt Payments as a % of Disposable Income



Source: Federal Reserve; ALM First

Economic soft landing still possible?

- Overall fundamentals show slowing, but still positive, growth
- External factors still present greatest risks (geopolitical, financial volatility, etc.)
 - ***“Economic expansions do not die of old age; they are murdered.”*** – late economist Rudi Dornbusch

Aggregate credit union profitability marginally better in Q2

- Operating environment remains challenging for most institutions, but overall NIM expanded, and charge-offs were effectively flat quarter-over-quarter
- Hedging activity has steadily increased across the industry, which is positive for overall risk management
- Potential impact of interest rate volatility remaining elevated for a prolonged period?

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Credit Union Results

Loan and member growth slow in 2024 as share growth picks up

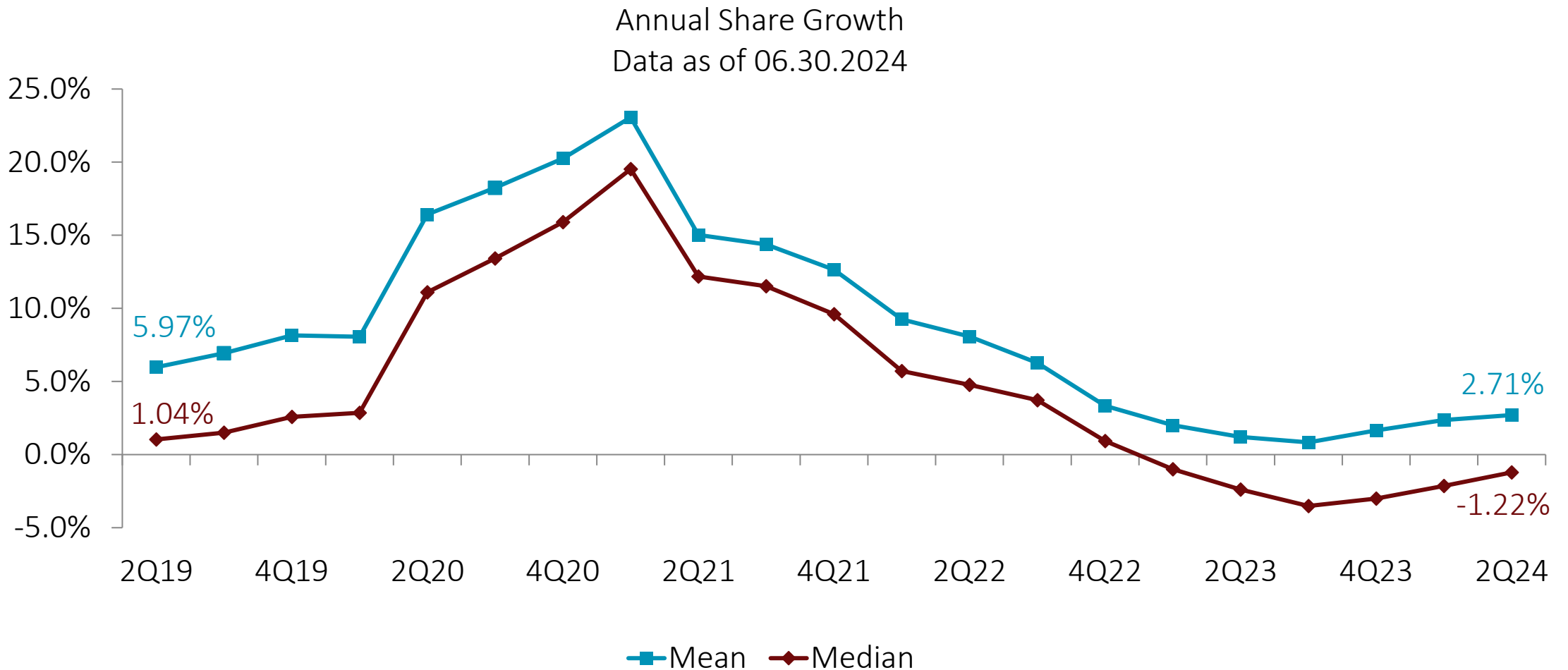
	6/30/2024	12-Mo. Growth	6/30/2023	12-Mo. Growth
Assets	\$2,322.1B	3.6%	\$2,241.1B	3.8%
Loans	\$1,634.5B	3.7%	\$1,576.5B	12.6%
Shares	\$1,948.4B	2.7%	\$1,897.1B	1.2%
Investments (incl. Cash)	\$584.7B	2.1%	\$572.9B	-12.8%
Capital	\$240.7B	10.1%	\$218.5B	6.3%
Members	142.5M	2.4%	139.1M	3.8%

Mean vs. Median Explained

- Mean = “average” credit union (\$ amount/# of credit unions)
- Industry averages are driven by larger credit unions’ performance
 - 21 largest CUs (over \$10B in assets) hold **>25% of industry assets**
 - The mean credit union in the country has **~\$505M** in assets
- Median = “middle” credit union performance for each metric
- Provides another perspective on credit union performance
 - There are **4,600 active charters** today
 - The median credit union in the country has **~\$59M** in assets

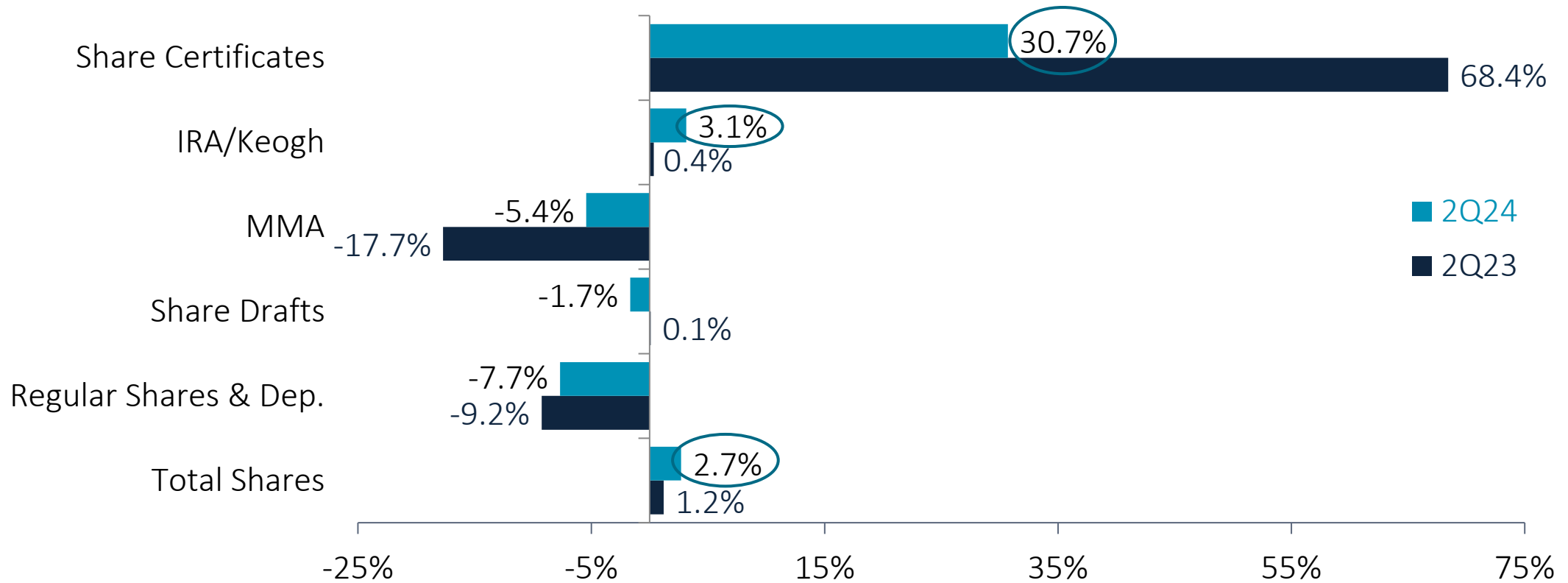
Shares

Share growth is trending up, with larger credit unions outpacing the median

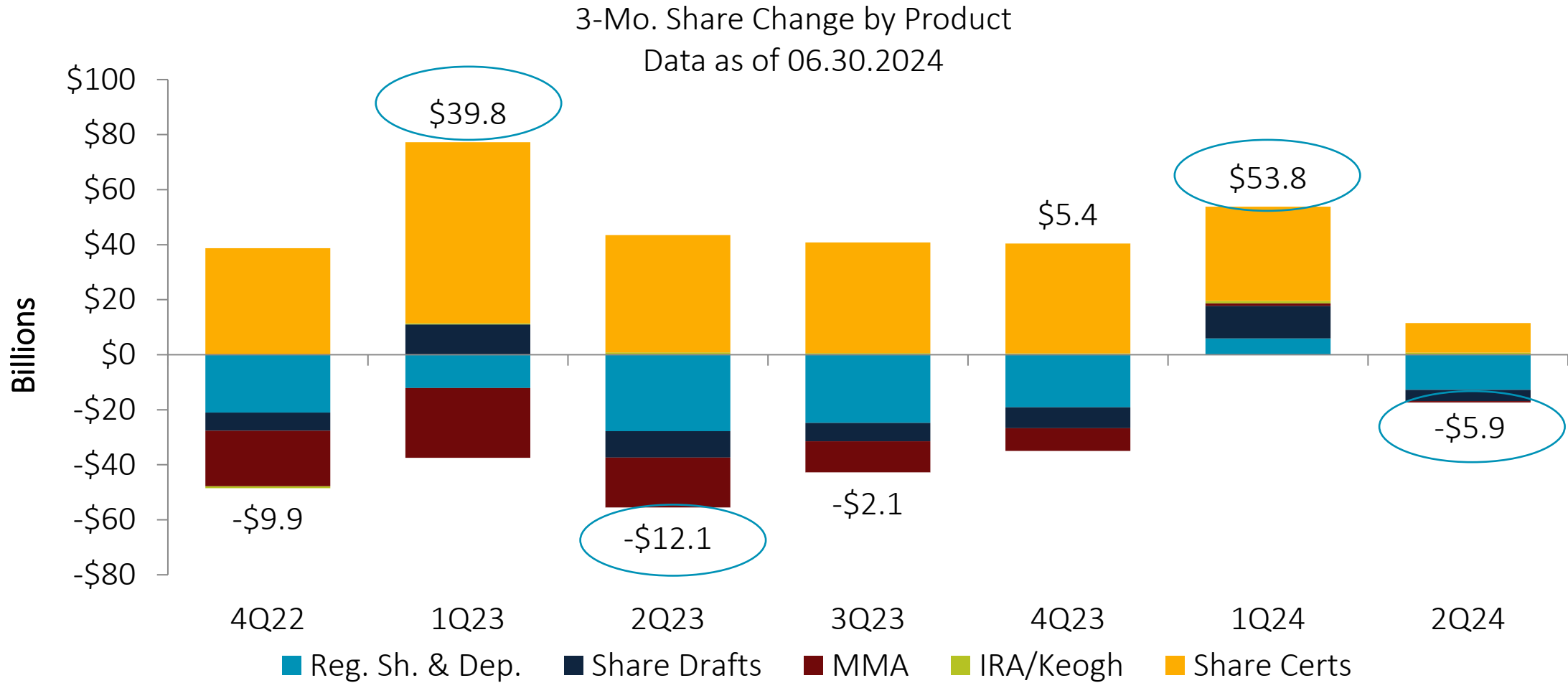


Certificate growth has slowed but remains high; total share growth is positive

12-Mo. Growth in Shares Segments
Data as of 06.30.2024



Share growth in the first half of 2024 is up 73% versus the first half of 2023



Members benefit from CU certificate specials



Clearview
5.00% APY*
7-month certificate
Other rates and terms available

BEST CERTIFICATE RATE



We're ready to rescue you from low rates

Earn 5.00% APY* with our 10-Month Certificate

Lock In Rate

Guaranteed Growth, No Guesswork Needed

- ✔ 6-Month Share Certificate at 5.00% APY*
- ✔ 9-Month Share Certificate at 5.00% APY*
- ✔ 12-Month Share Certificate at 5.00% APY*



3 Month High Yield Certificate
4.50% APY*

\$500 minimum balance (to earn dividends)³

Open now

Already a member? Sign-in to open.

6 Month High Yield Certificate
5.00% APY*

\$5,000 minimum balance (to earn dividends)³

Open now

Already a member? Sign-in to open.

9 Month High Yield Certificate
4.75% APY*

\$5,000 minimum balance (to earn dividends)³

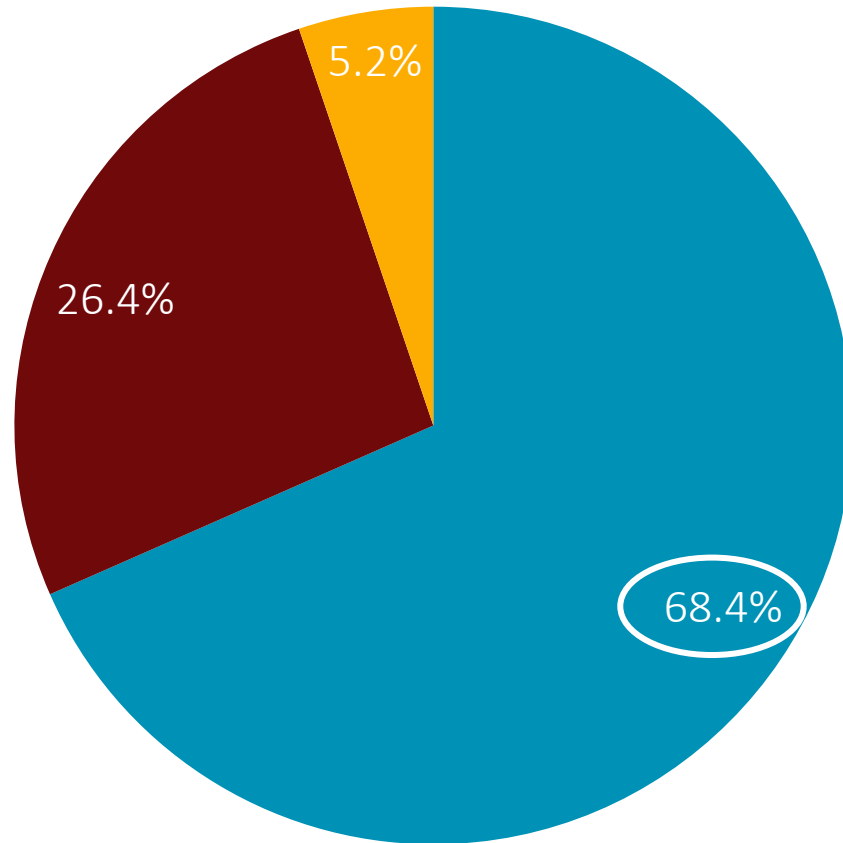
Open now

Already a member? Sign-in to open.

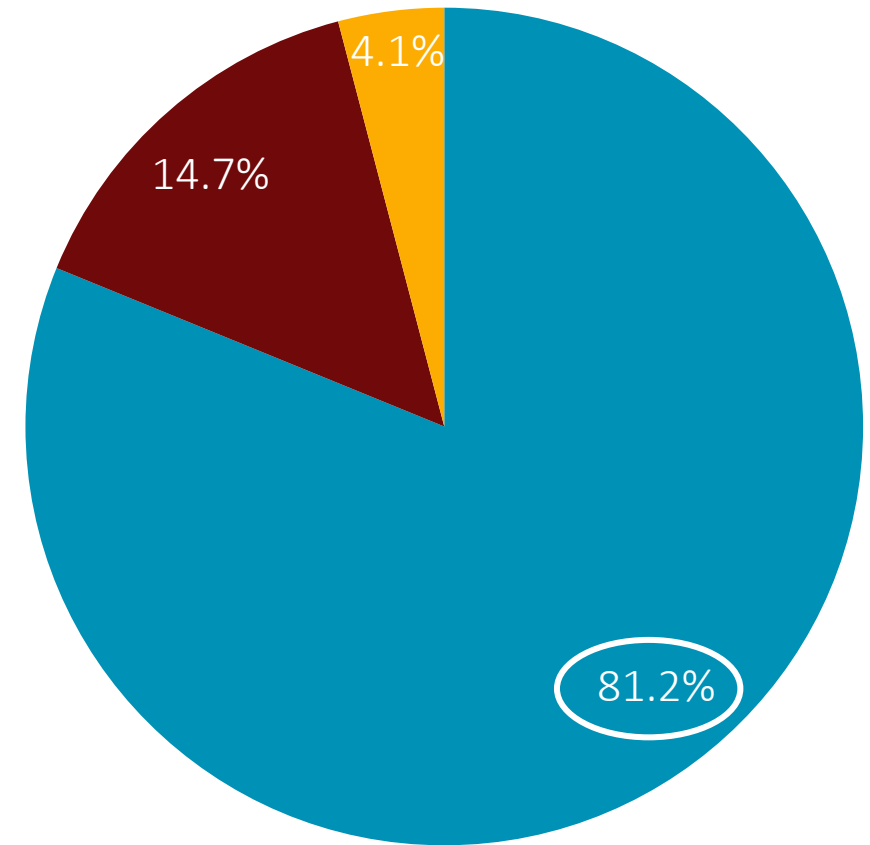


Short term certificates account for 81% of certificate balances as of June 2024

Share Certificate Maturity
Data as of 06.30.2023



Share Certificate Maturity
Data as of 06.30.2024

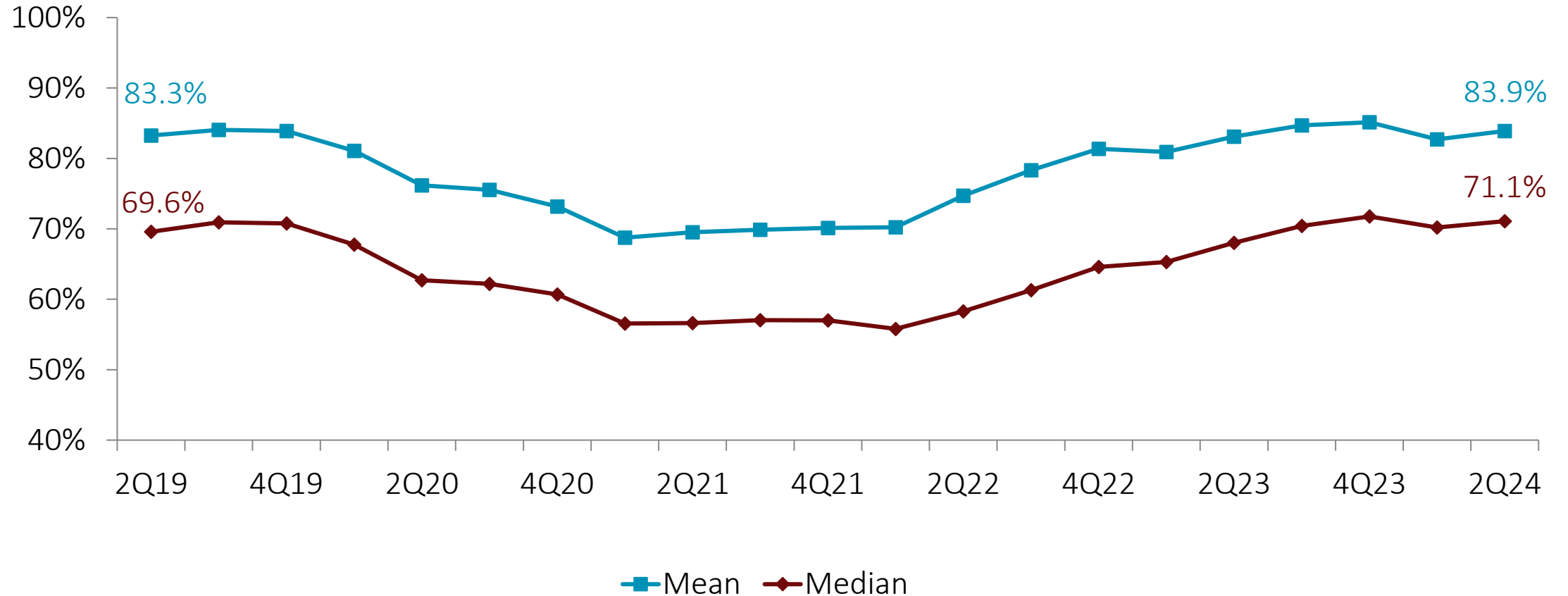


- < 1 Year
- 1-3 Years
- > 3 Years

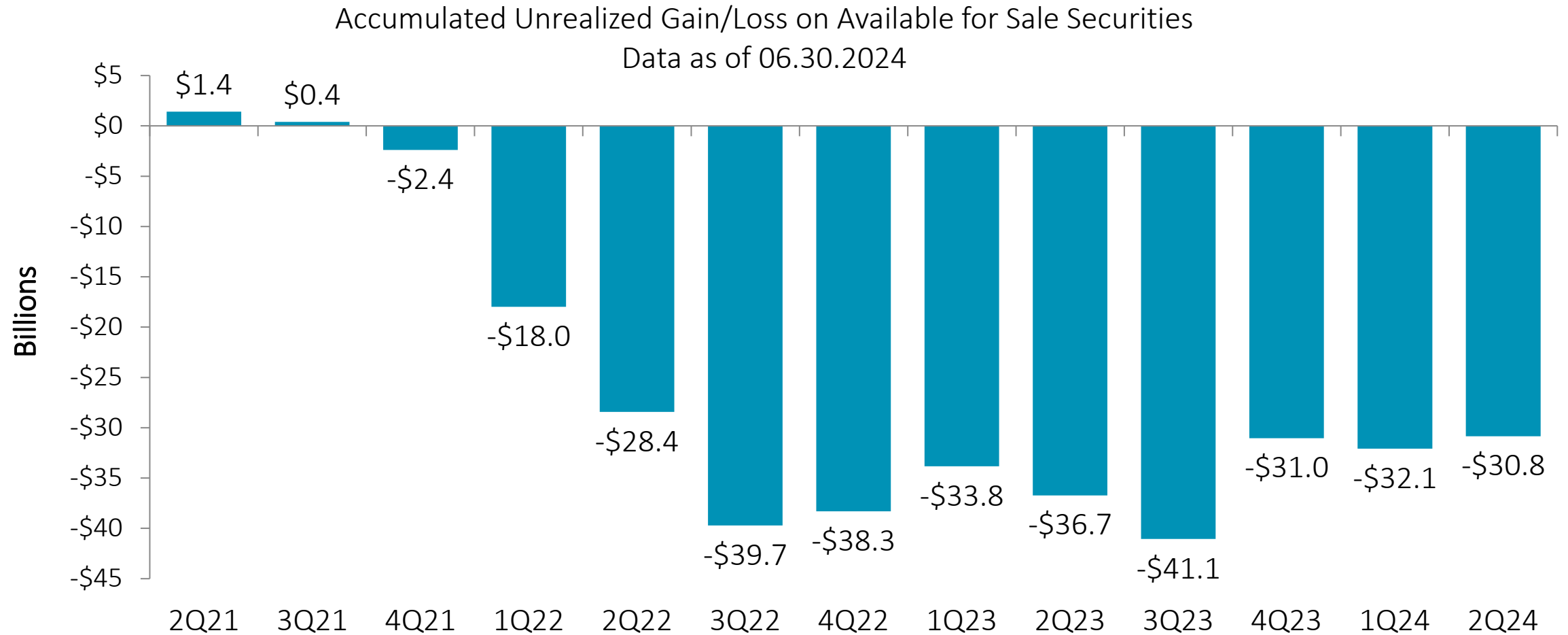
Liquidity

The loan-to-share ratio rises in 2Q24, remains below 4Q23 peak

Loan-to-Share Ratio
Data as of 06.30.2024



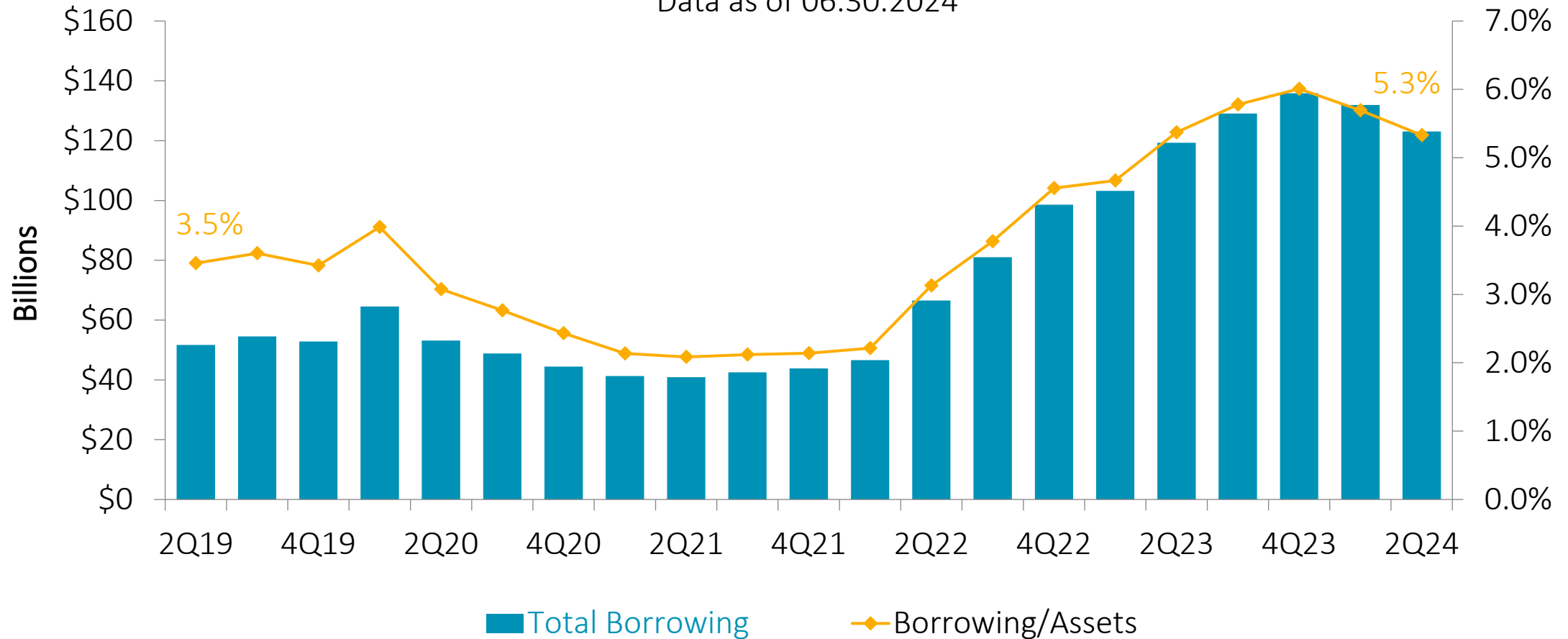
Unrealized losses constrain investment portfolios for larger CUs



Credit unions continue to reduce borrowings

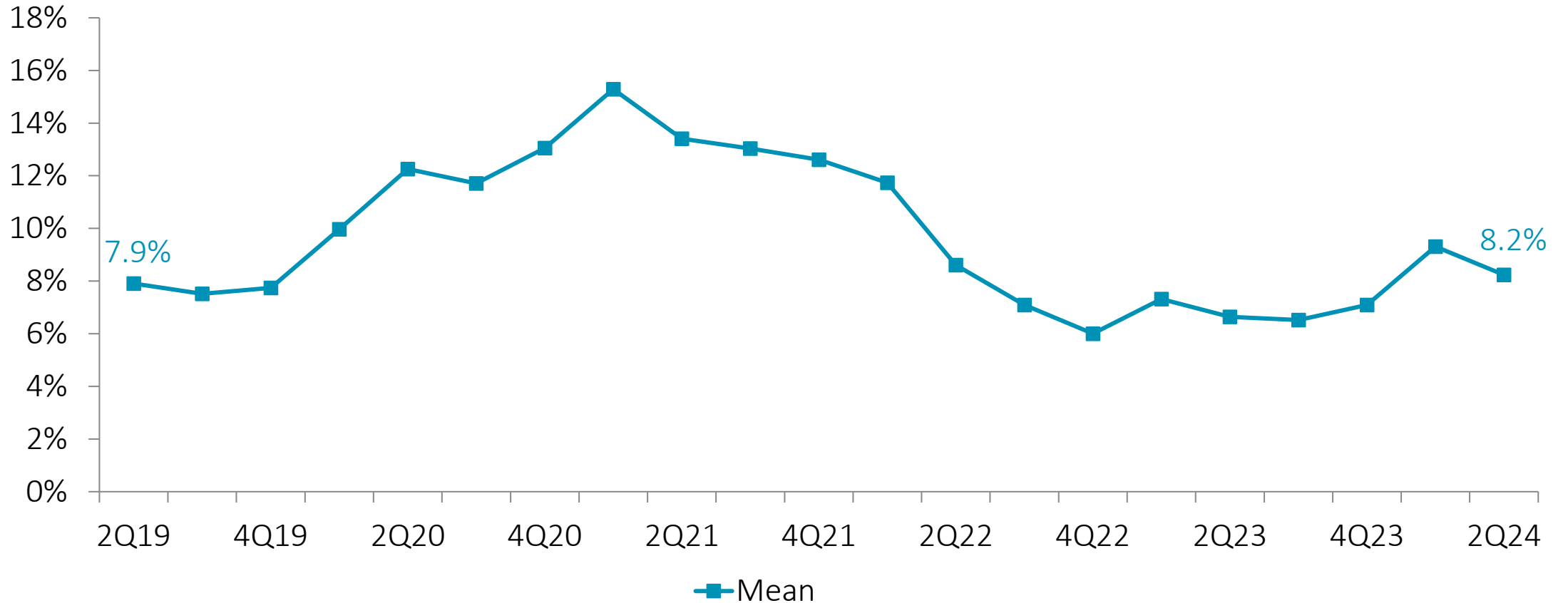
Total Borrowing and as a Percentage of Assets

Data as of 06.30.2024



Cash balances remain above 8% of assets

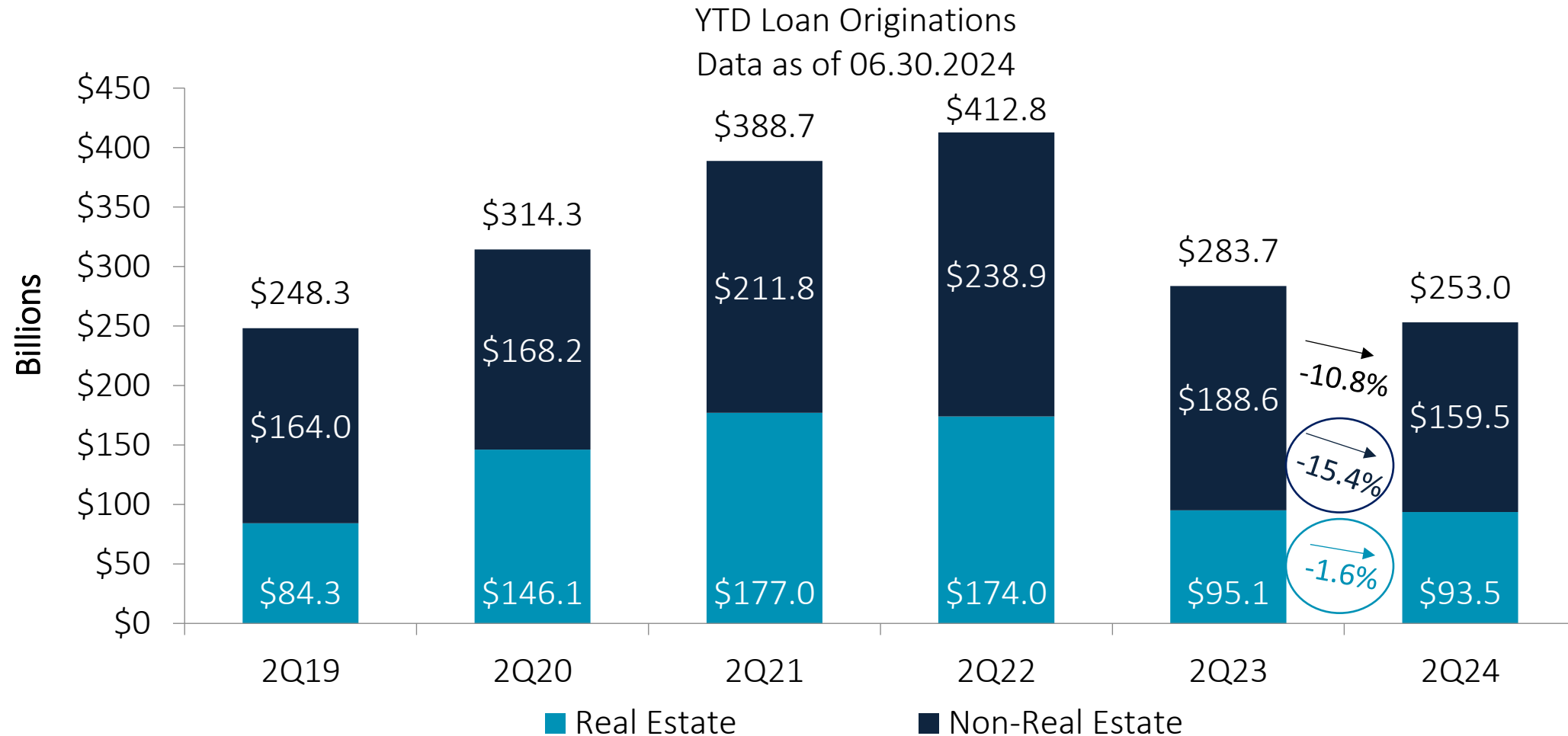
Cash Balances and % of Assets
Data as of 06.30.2024



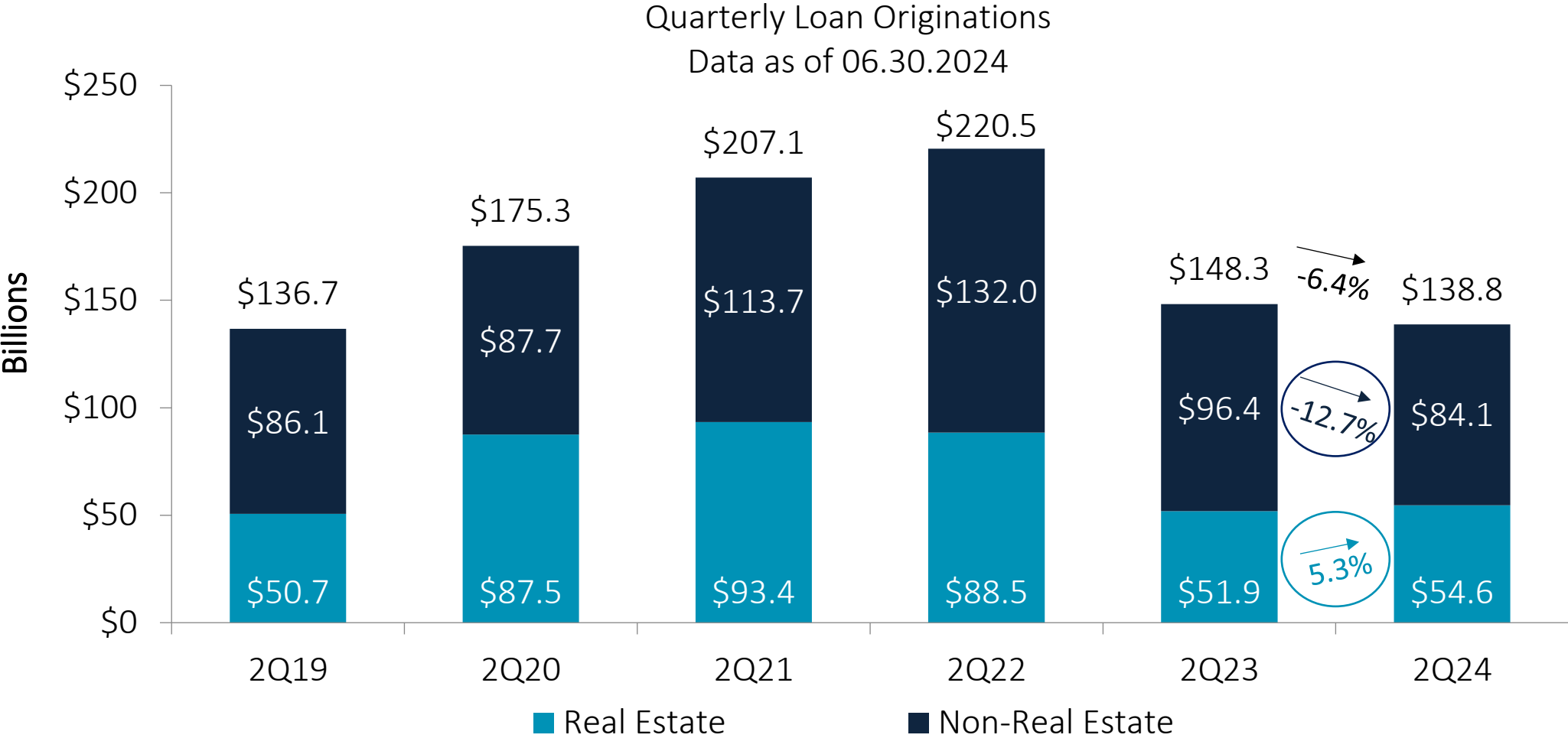


Lending

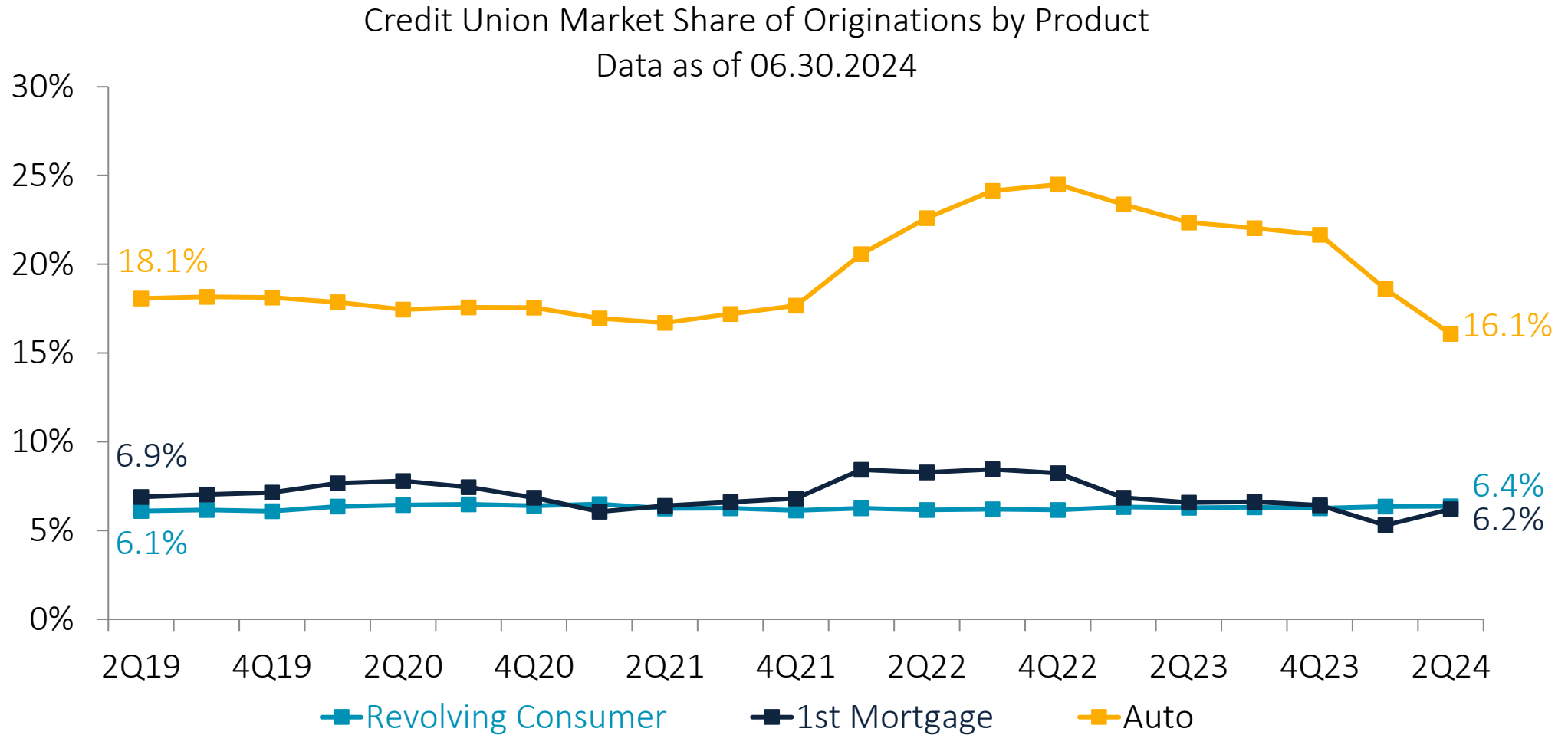
Real estate originations decline only 1.6% annually while consumer lending continues to slow



2Q24 real estate originations increase 5.3% versus 2Q23

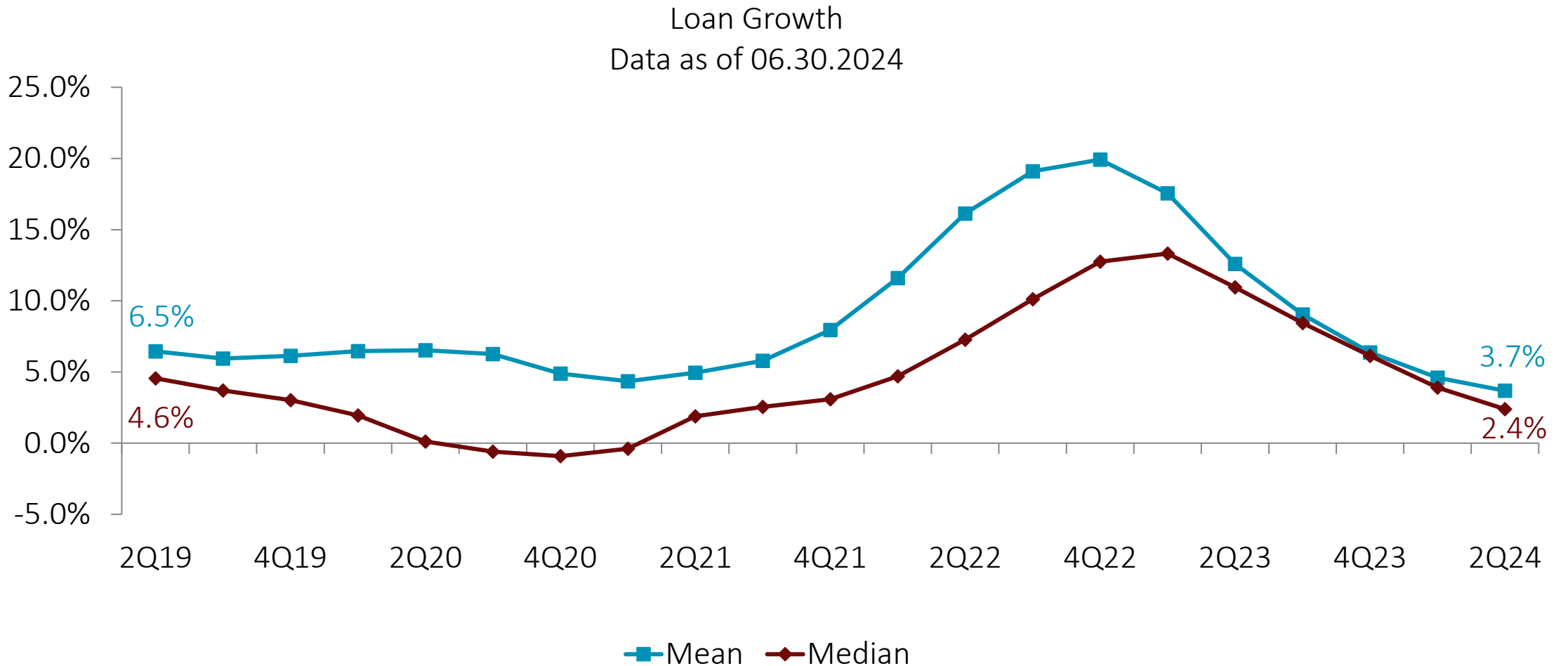


Credit unions' share of auto originations falls in 2024



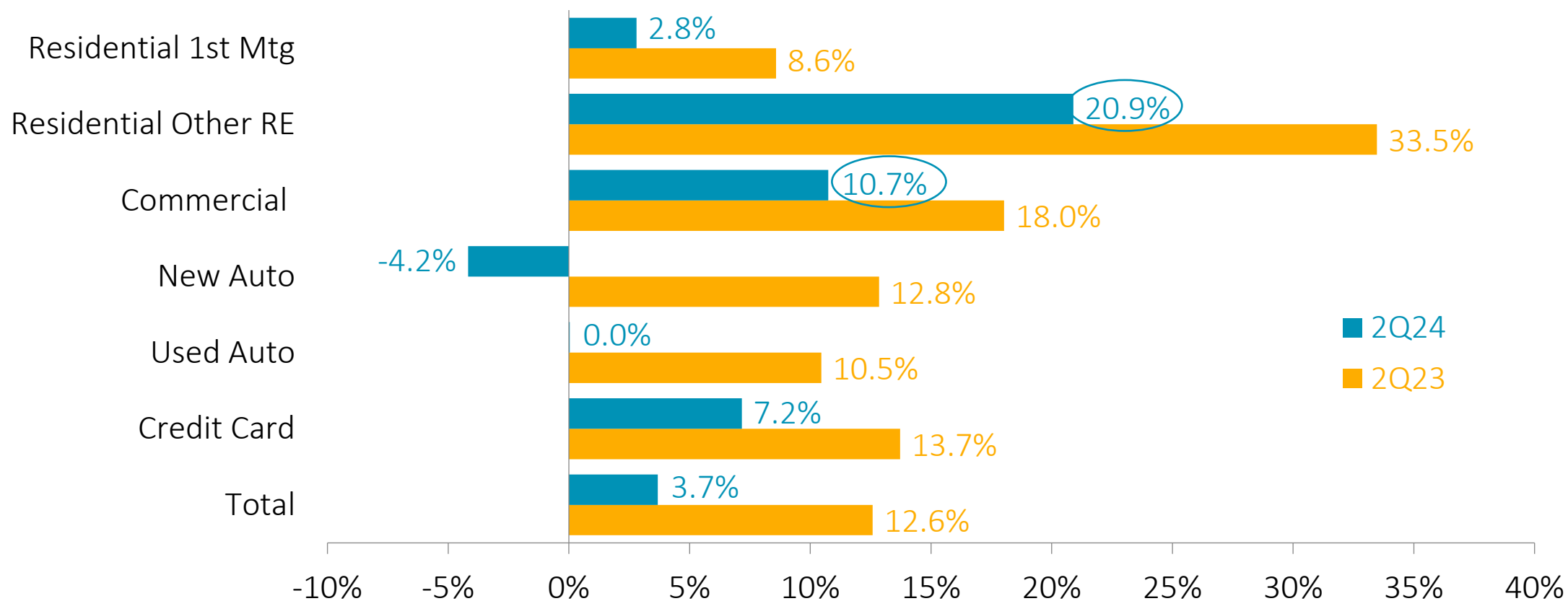
Source: The Federal Reserve, Mortgage Bankers Association, Experian

Both large and small credit unions are growing loans at a similar pace



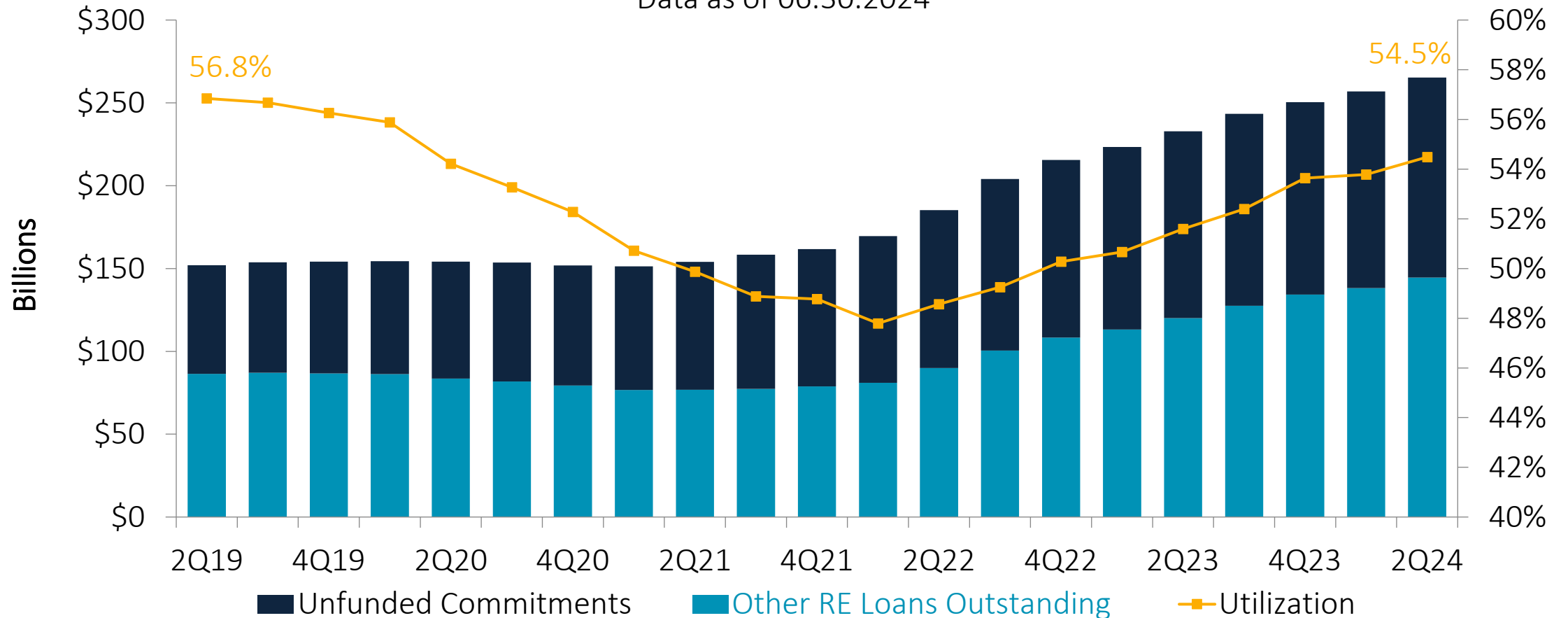
Loan growth slows across the portfolio in 2024, particularly in auto

Annual Growth in Loans Outstanding
Data as of 06.30.2024



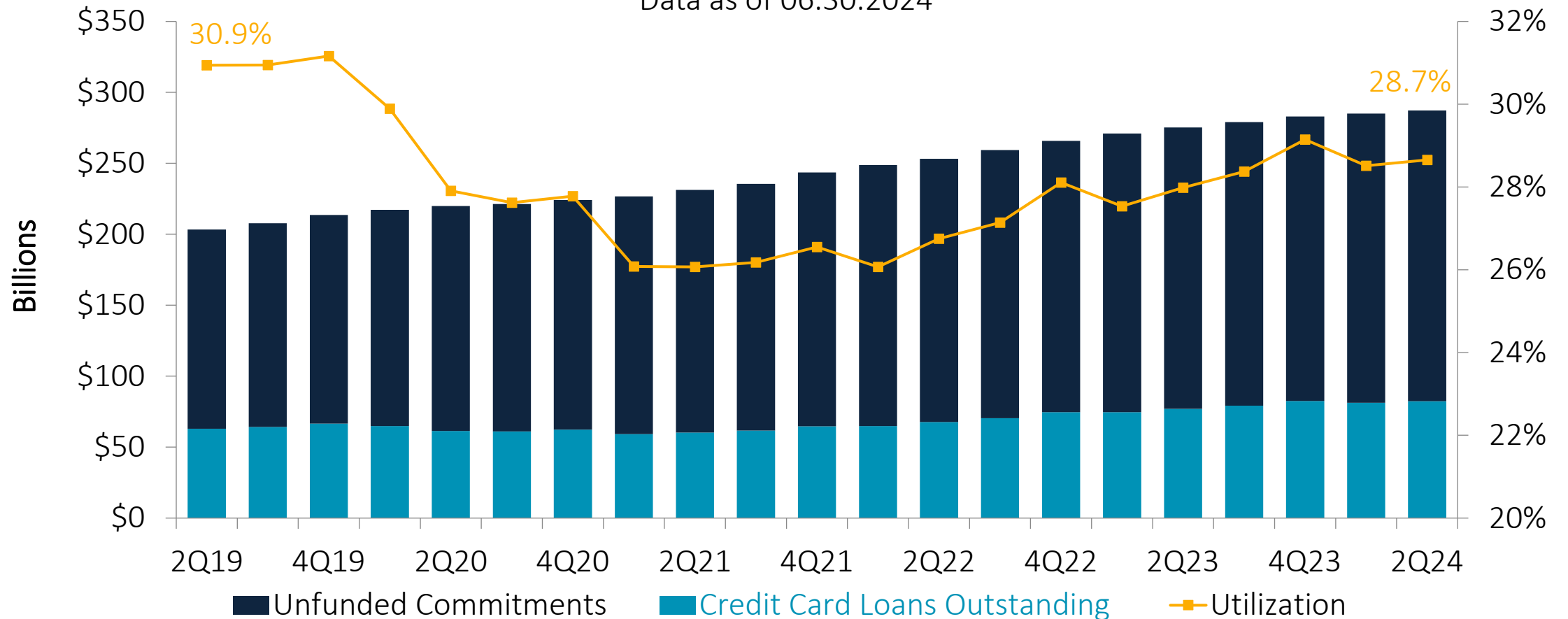
HELOC utilization continues to increase

Total HELOC Lines and Utilization
Data as of 06.30.2024



Credit card utilization increases marginally

Total Credit Card Lines and Utilization
Data as of 06.30.2024



More Than a Third of Americans Worry About Monthly Bills and Housing Costs

■ % Very/Moderately Worried ■ % Not too/Not at all worried ■ % Does not apply

- Not having enough to pay your normal monthly bills



- Not being able to pay your rent, mortgage or other housing costs



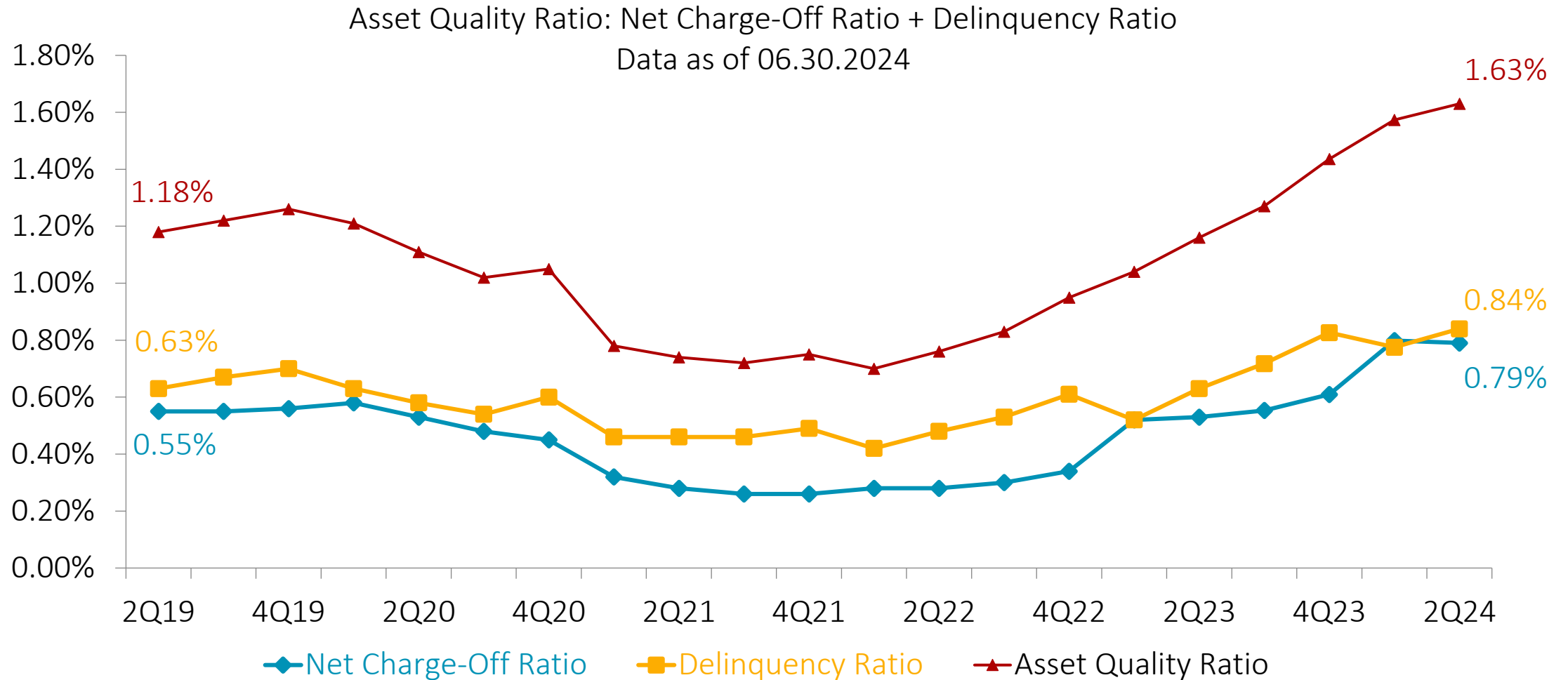
- Not having enough money to pay for your children's college



- Not being able to make the minimum payments on your credit cards



Charge-offs improve, but delinquency rises



THE POWER IN ALL OF US

LAKE TRUSTSM

Small Business Microloans



Lake Trust

- Brighton, MI
- \$2.6 Billion in Assets
- 180,000 Members
- 22 Branches
- Serving all of Michigan
- CDFI since 2018

Small Business Microloan

Business purpose loan up to
\$50k

- Business Vehicle Microloan
- Business Signature Microloan
- Business Line of Credit
Microloan
- Business Secured Microloan





Bleu Bowtique

"I worked with Lake Trust to get a line of credit for my business, which helped me purchase a new sewing & embroidery machine. Now I can offer more custom services to my customers."

—NE'GYLE B., OWNER/FOUNDER
BLEU BOWTIQUE IN DETROIT

Mr. Leslie's Cheesecakes

"Lake Trust empowers me
to serve my community
happiness one
cheesecake at a time."



LAKE TRUSTSM

THE POWER IN ALL OF US



Theresa Dubiel

EVP/Chief Experience Officer

517-267-7124

tdubiel@laketrust.org

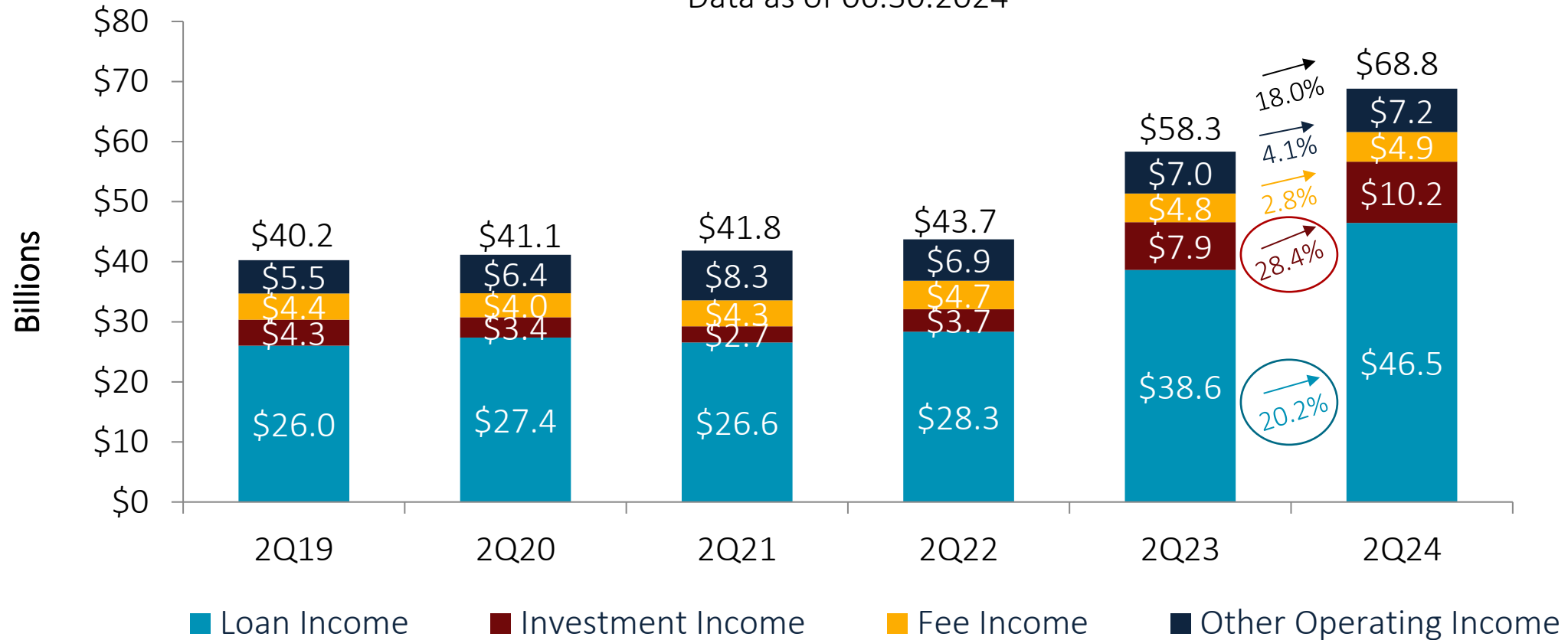
4605 S. Old US Highway 23

Brighton, MI 48114

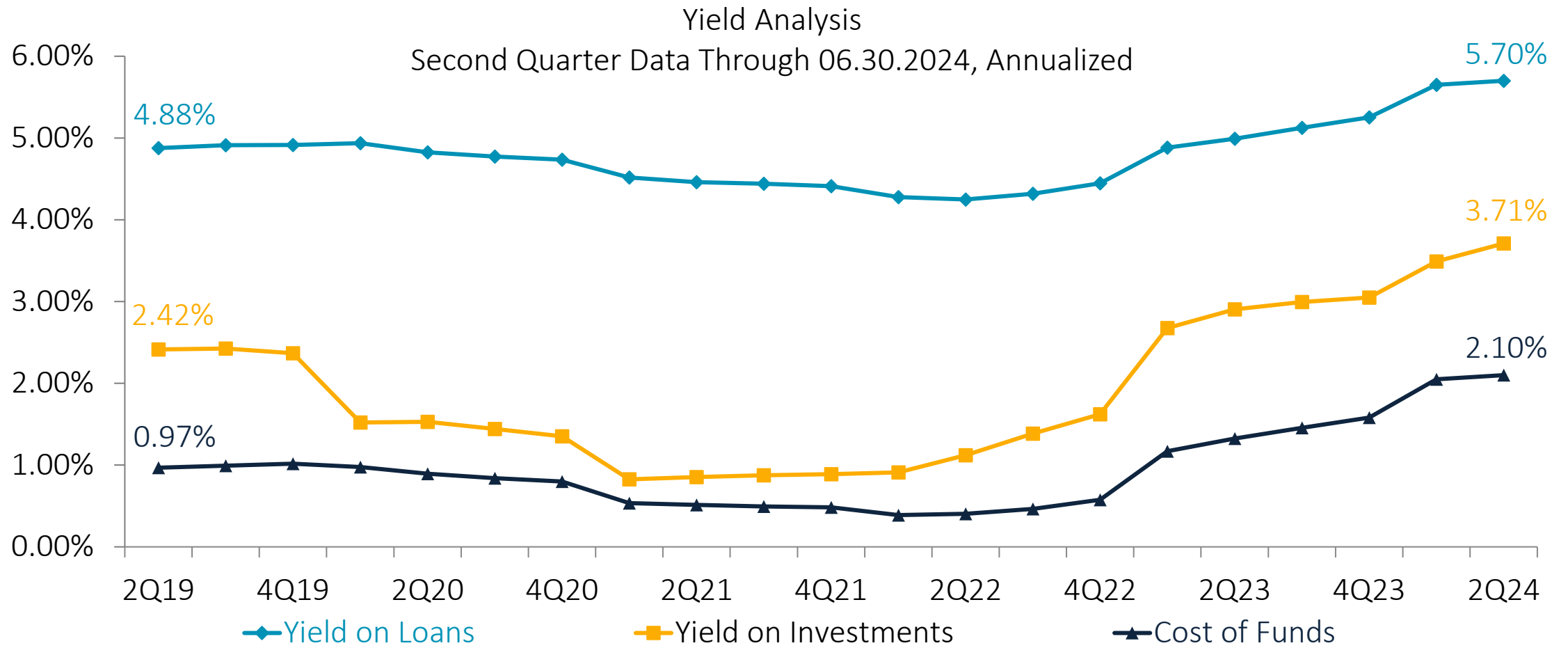
Earnings & Capital

With higher interest on loans and investments, revenue climbs 18%

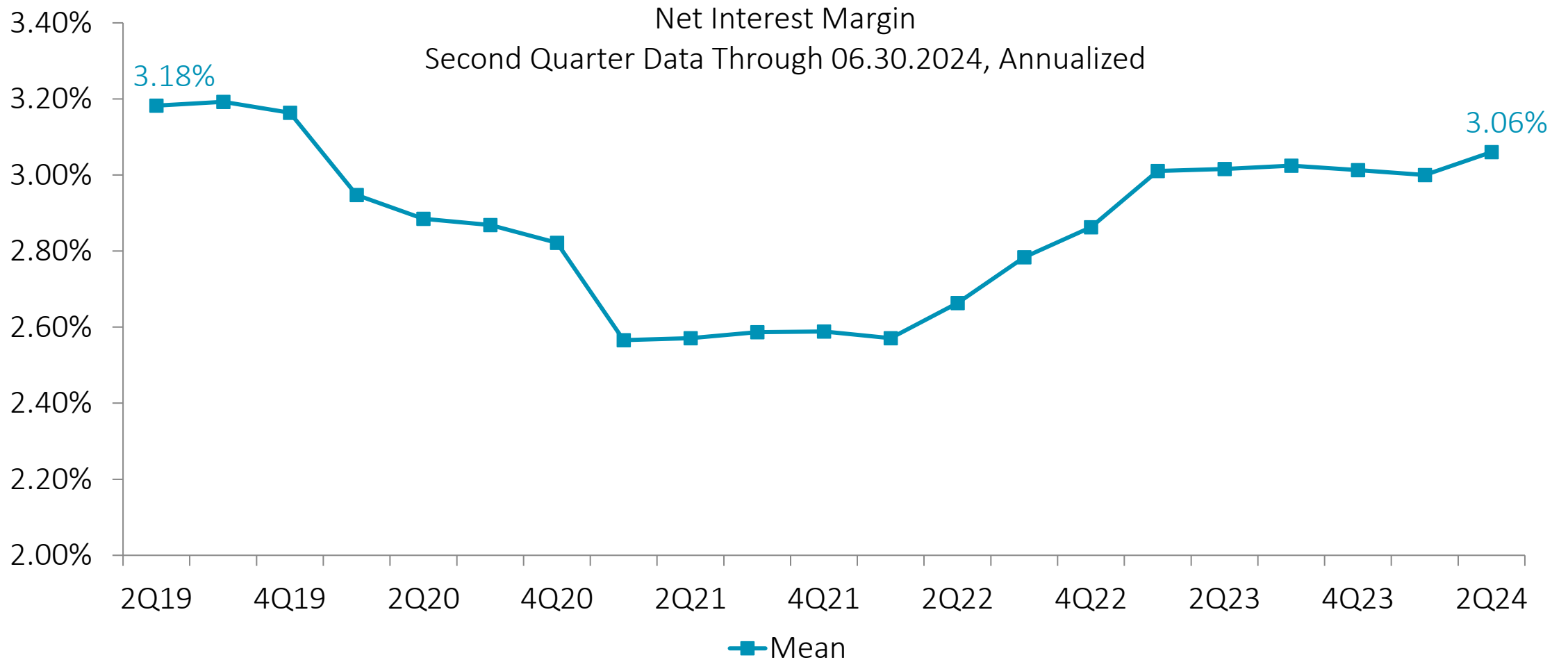
YTD Total Revenue
Data as of 06.30.2024



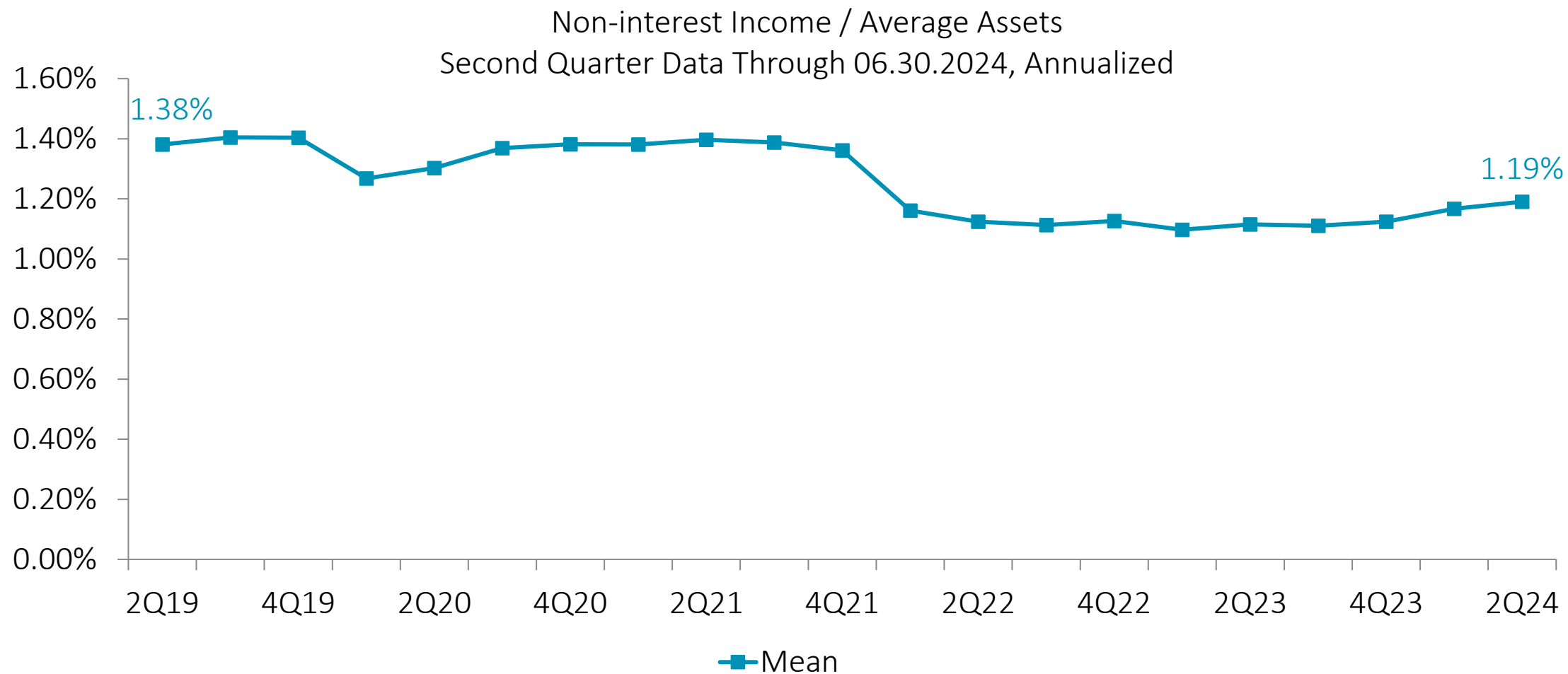
As cost of funds flattens, investment yields continue to increase



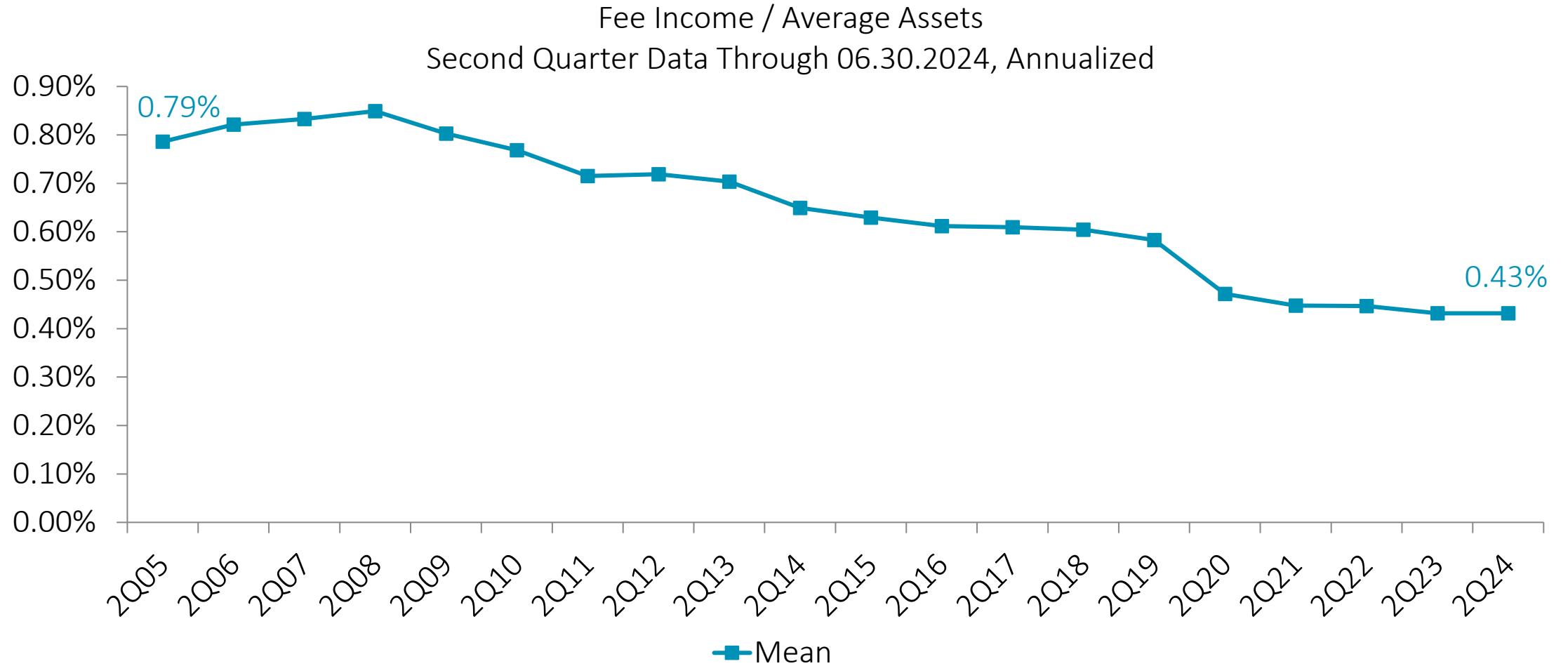
Lower borrowings reduces cost of funds, leads to increasing net interest margin



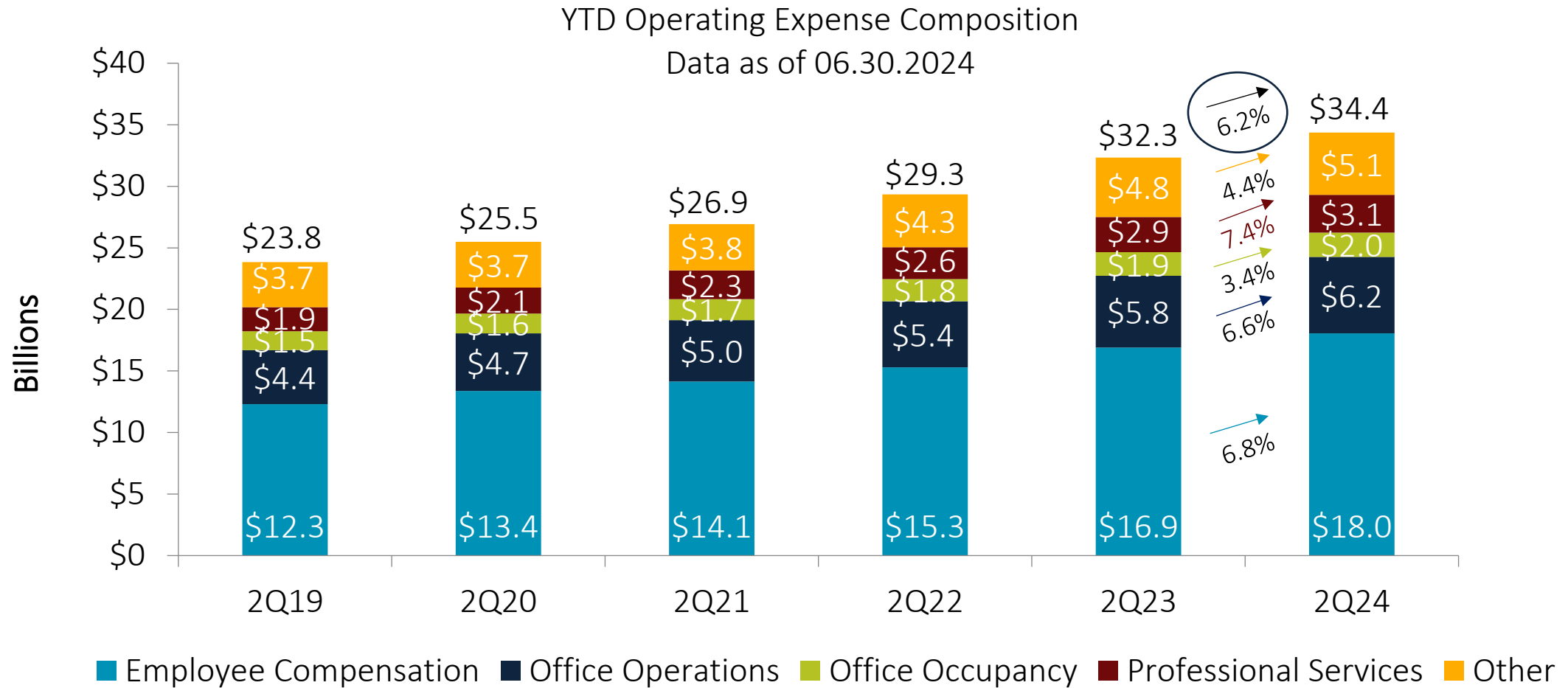
Non-interest income ticks up three straight quarters...



Even as fee income trends down

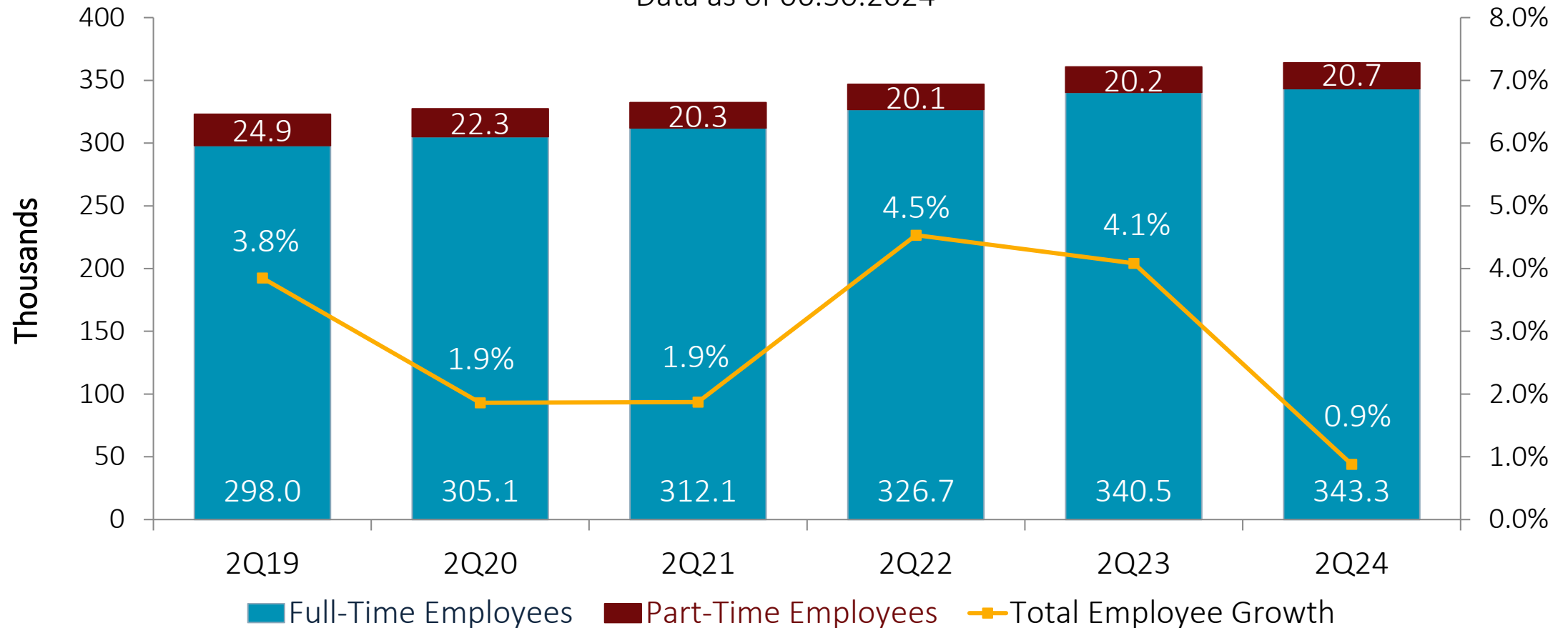


Expenses are rising but at a slower pace than 2023



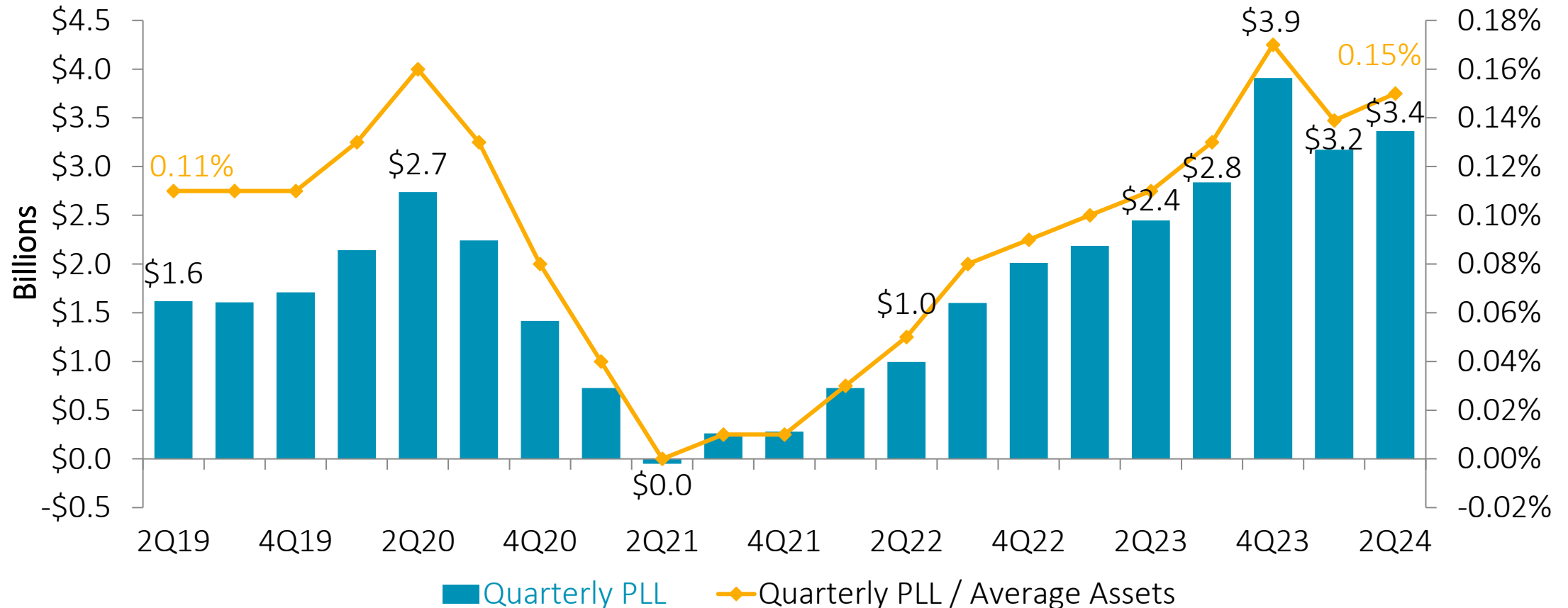
Credit union hiring is slower in 2024

FT & PT Employees and Annual Total Employee Growth
Data as of 06.30.2024

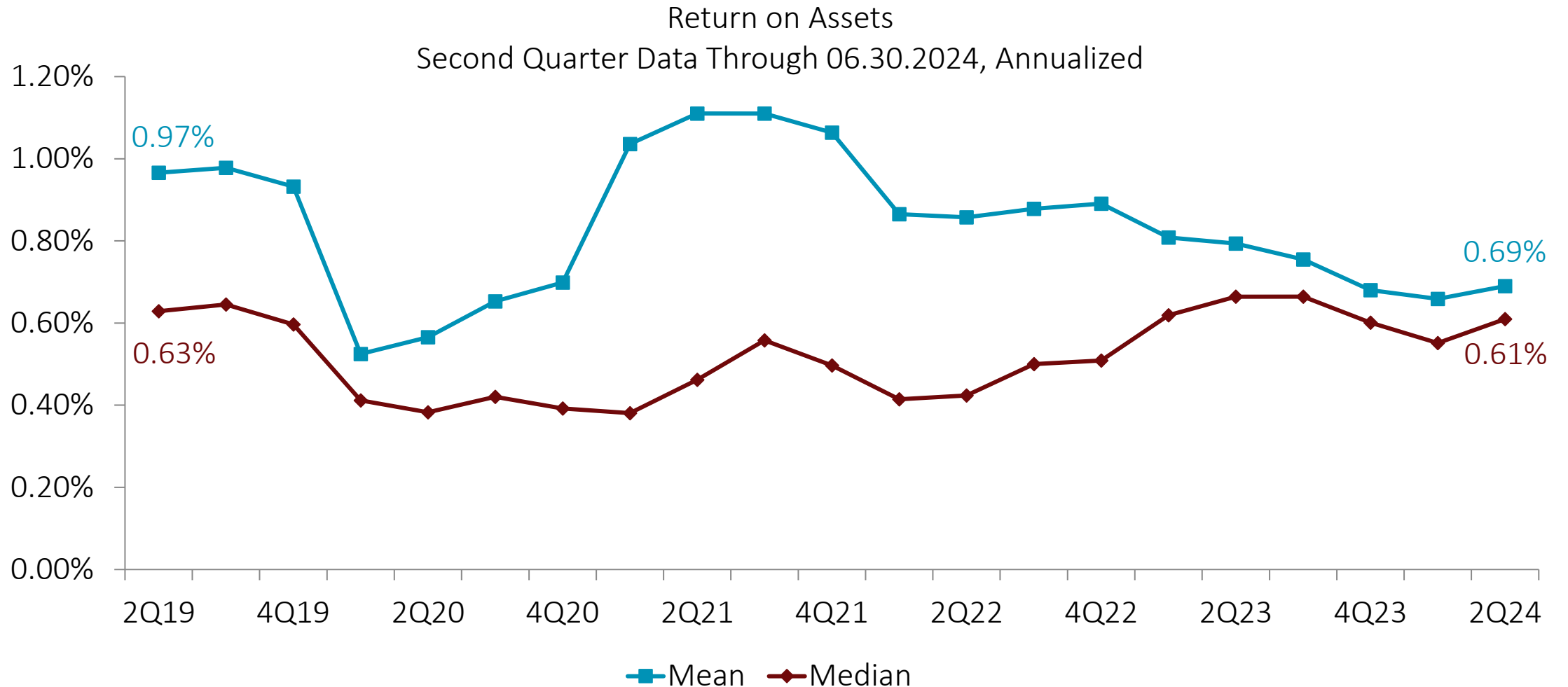


Credit unions increase provision expense as asset quality declines

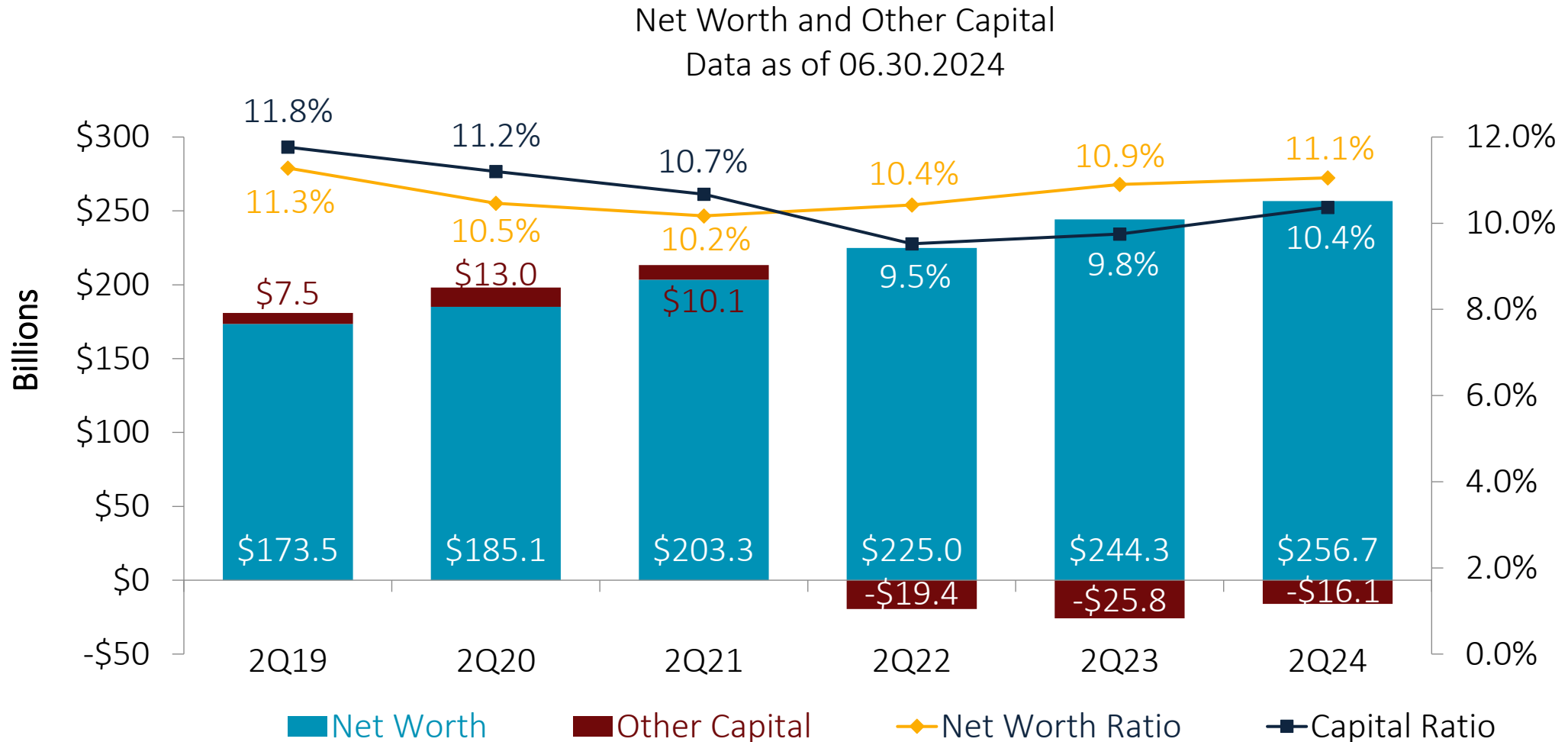
Quarterly Provision for Loan & Lease Losses and % of Avg Assets
Data as of 06.30.2024



ROA rebounds quarterly from higher net interest margin



Net worth and capital ratios continue to rise





Takeaways and Closing Thoughts

- The U.S. economy is slowing but the fundamentals remain solid. If the Fed cuts interest rates it could spur additional borrowing activity in the second half of 2024.
- While the economic fundamentals remain solid, there is evidence of household financial stress in lower savings, increased credit usage, and asset quality deterioration. They are looking for support, guidance and hope!
- While navigating short-term challenges, credit unions need to also keep an eye on the long-term as they develop their plans for delivering value that resonates with members and potential members.



Key Questions For Credit Union Strategic Planning

- How Do We Evolve Our Business Model?
- How Do We Achieve Sustainable Growth?
- How Do We Advance Our People and Culture?
- How Do We Meet The Evolving Needs of Members?
- How Do We Demonstrate Our Unique Purpose?

THANK YOU FOR WATCHING



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Ste. 1001
Washington, DC 20036



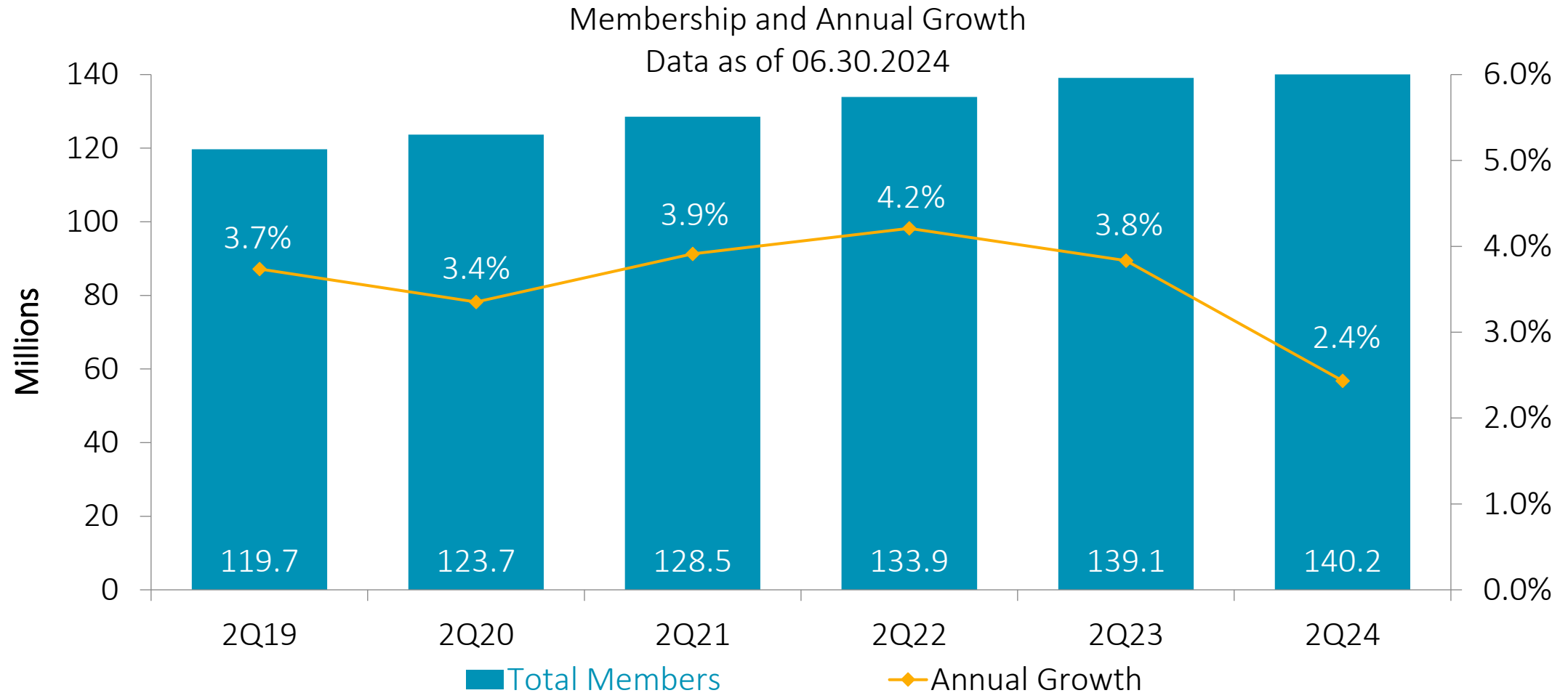
support@callahan.com
www.callahan.com



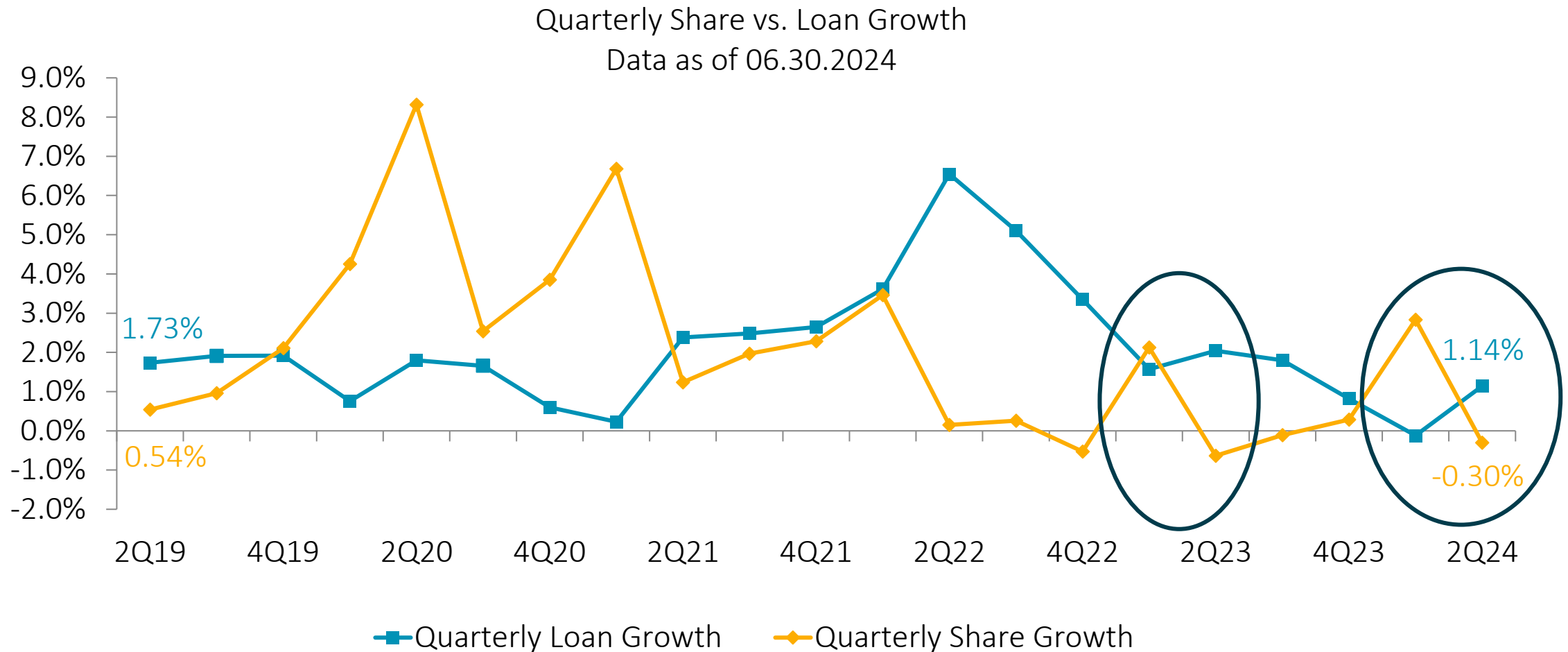
800-446-7453

Appendix

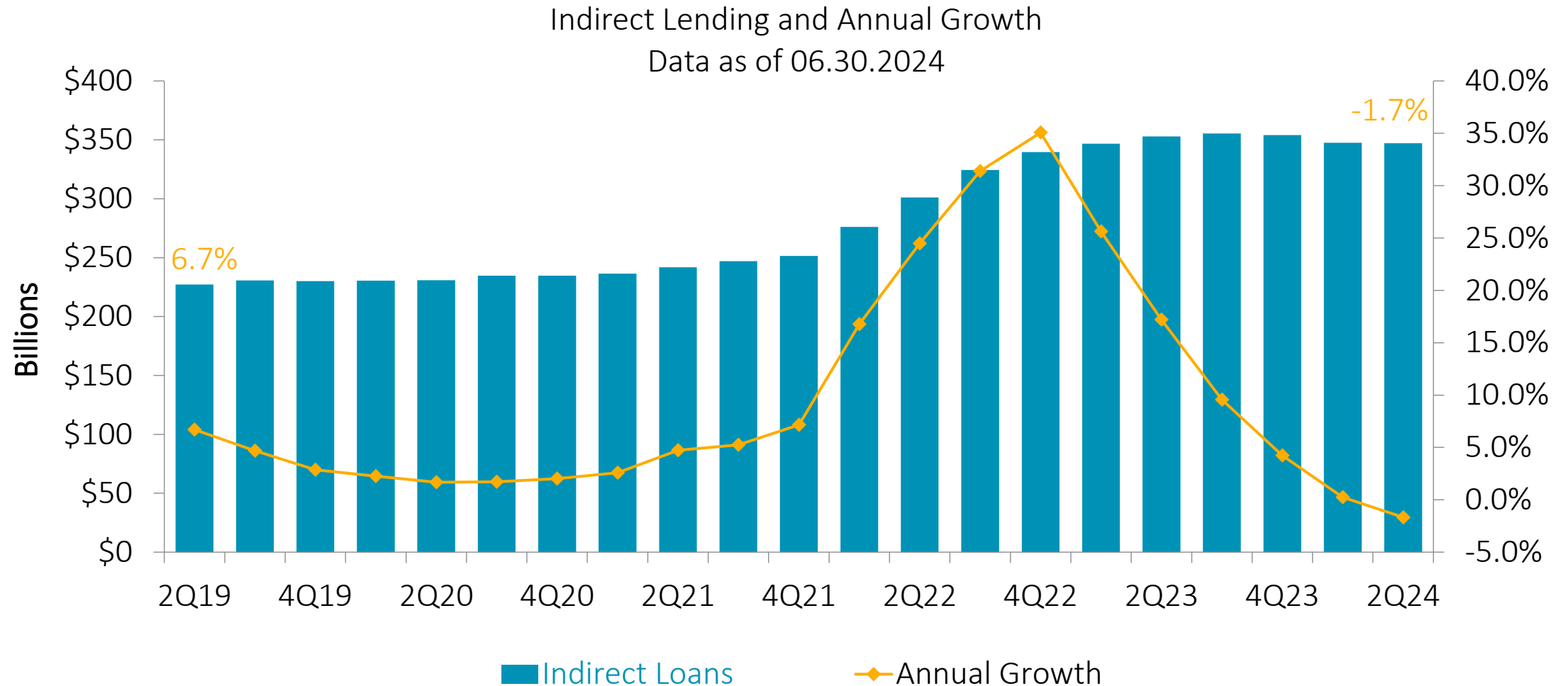
Member growth slows, likely from continued pullback on indirect



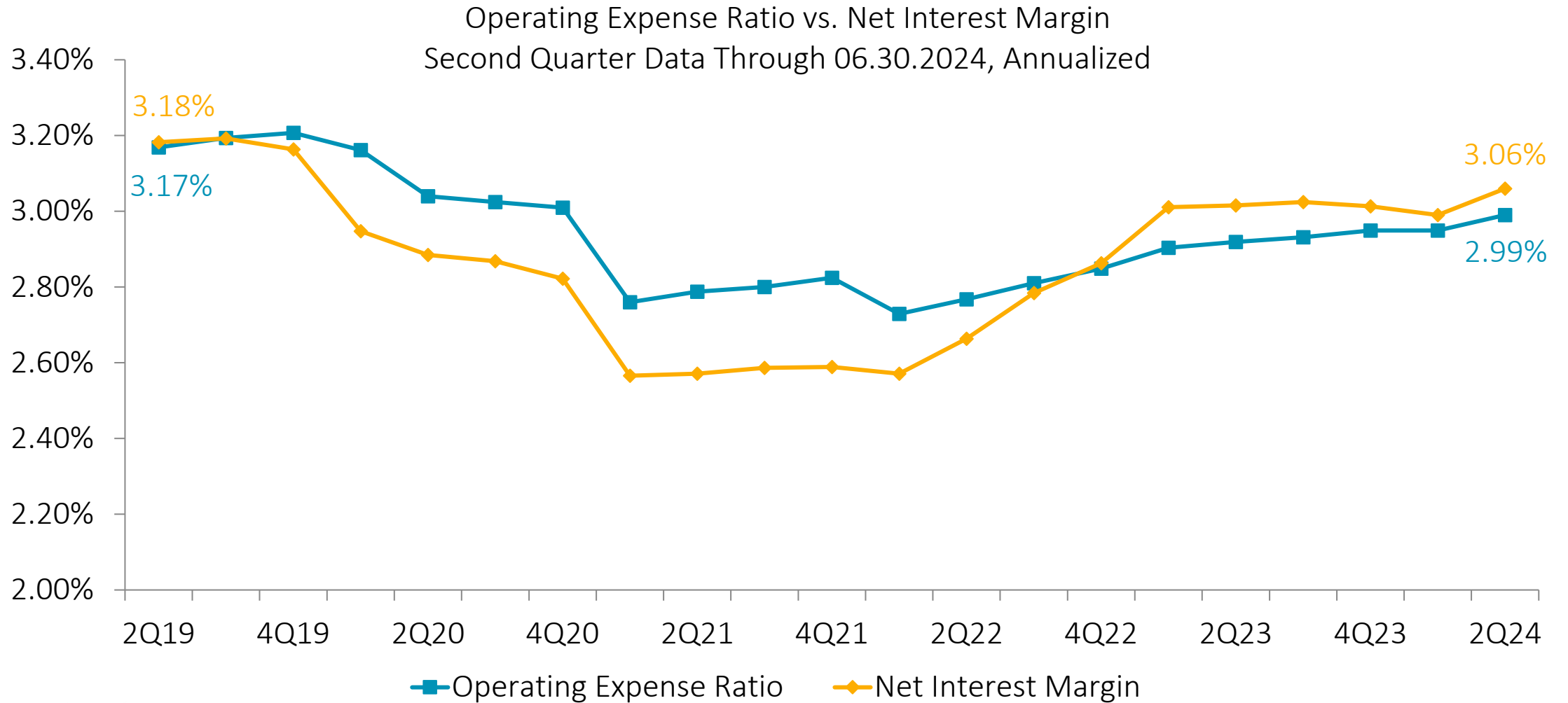
Share growth has picked up in 2024 while loan growth has slowed



Indirect loan balances decrease



Net interest margin outpaces operating expenses



Higher provision expenses reduce ROA in 2024

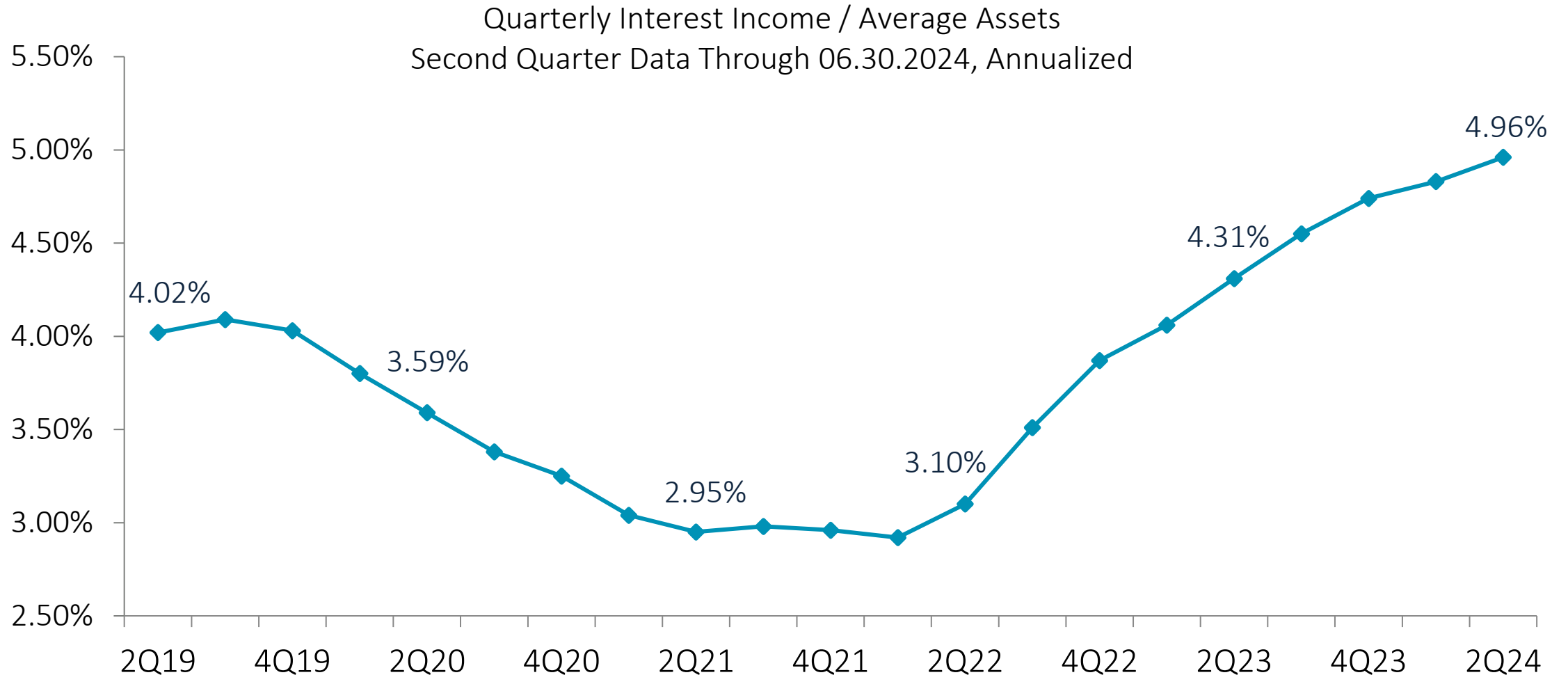
	6/30/2024	6/30/2023
Interest Income	4.93%	4.21%
Interest Expense	1.87%	1.19%
Net Interest Margin	3.06%	3.02%
Non-interest Income	1.19%	1.12%
Operating Expenses	2.99%	2.92%
Provision for Loan Losses	0.57%	0.42%
ROA	0.69%	0.79%

Data is annualized
Expressed as a % of Avg. Assets
May not sum due to rounding

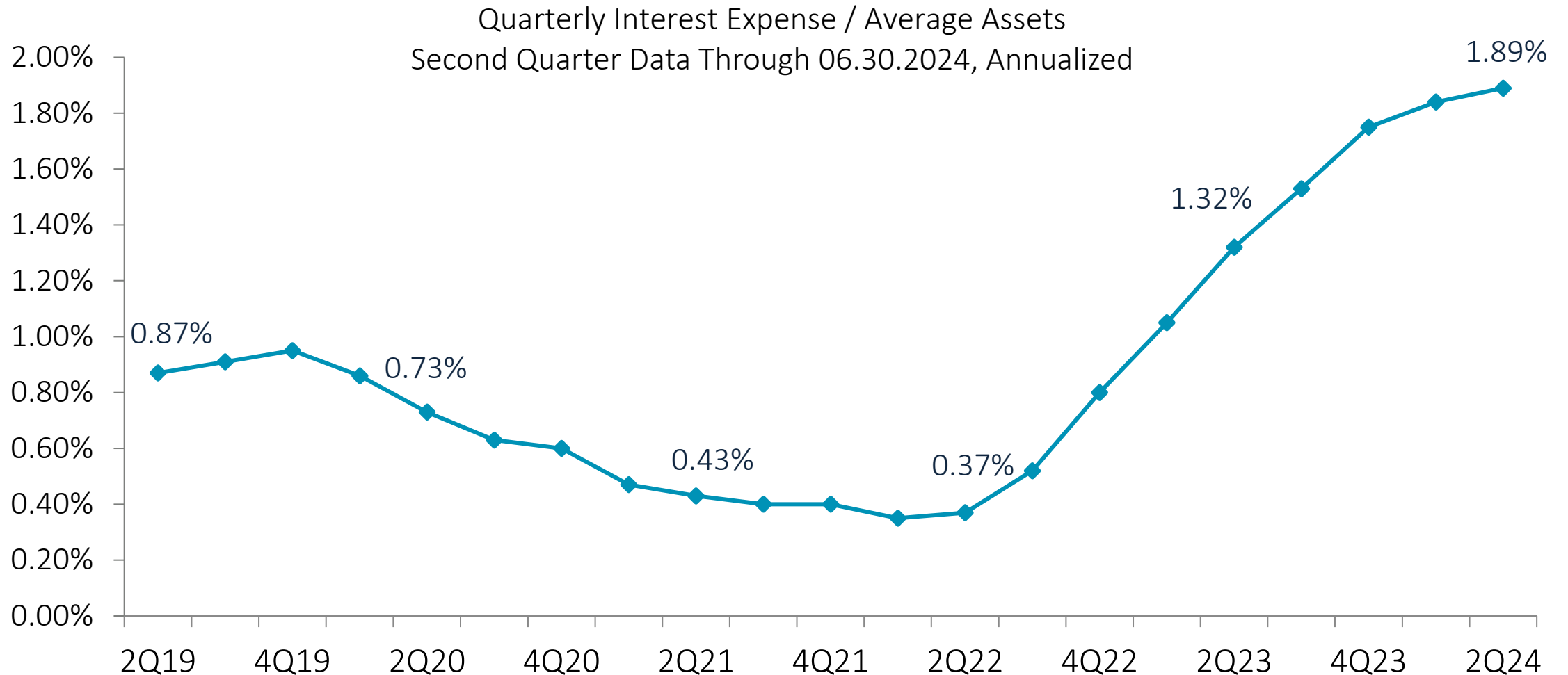


Appendix: Quarterly Earnings Model

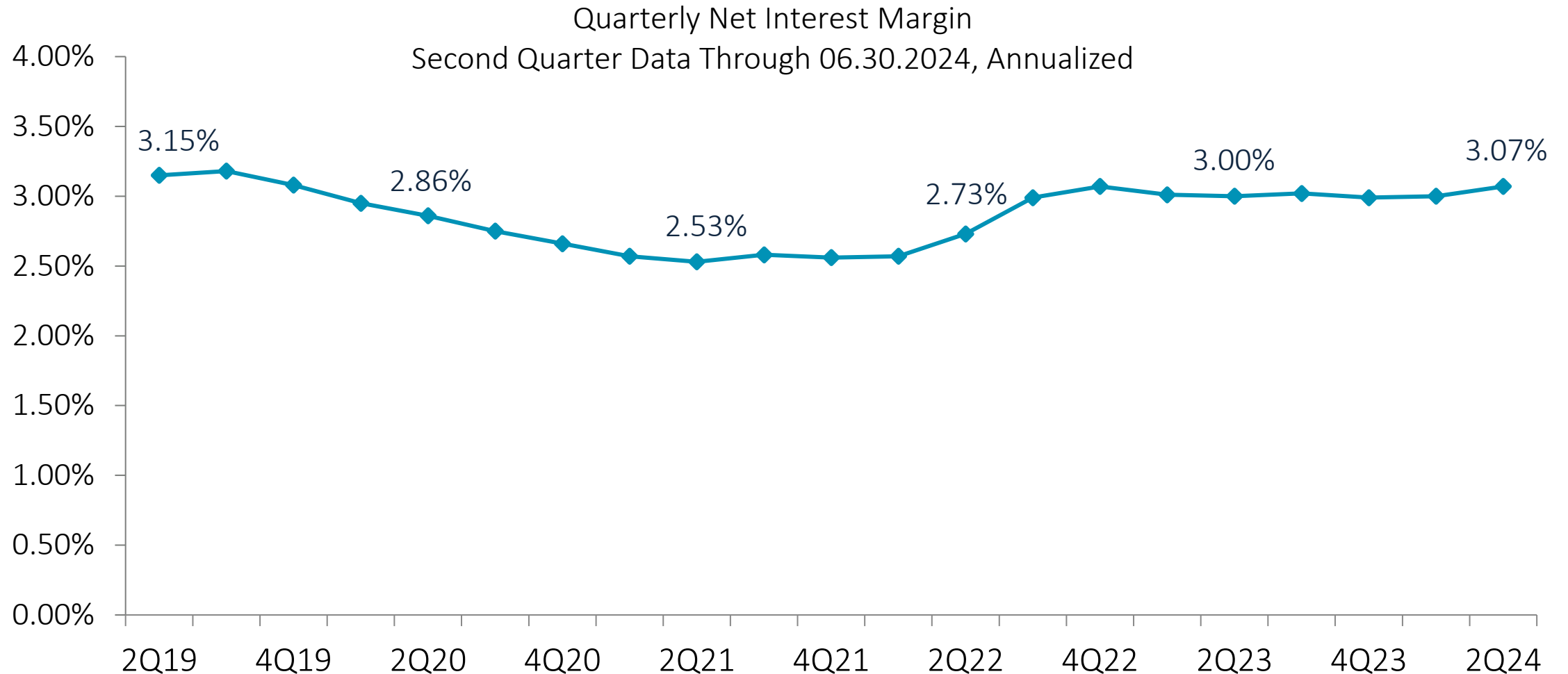
Quarterly interest income increases 13 basis points since last quarter



Quarterly interest expense rises alongside interest income

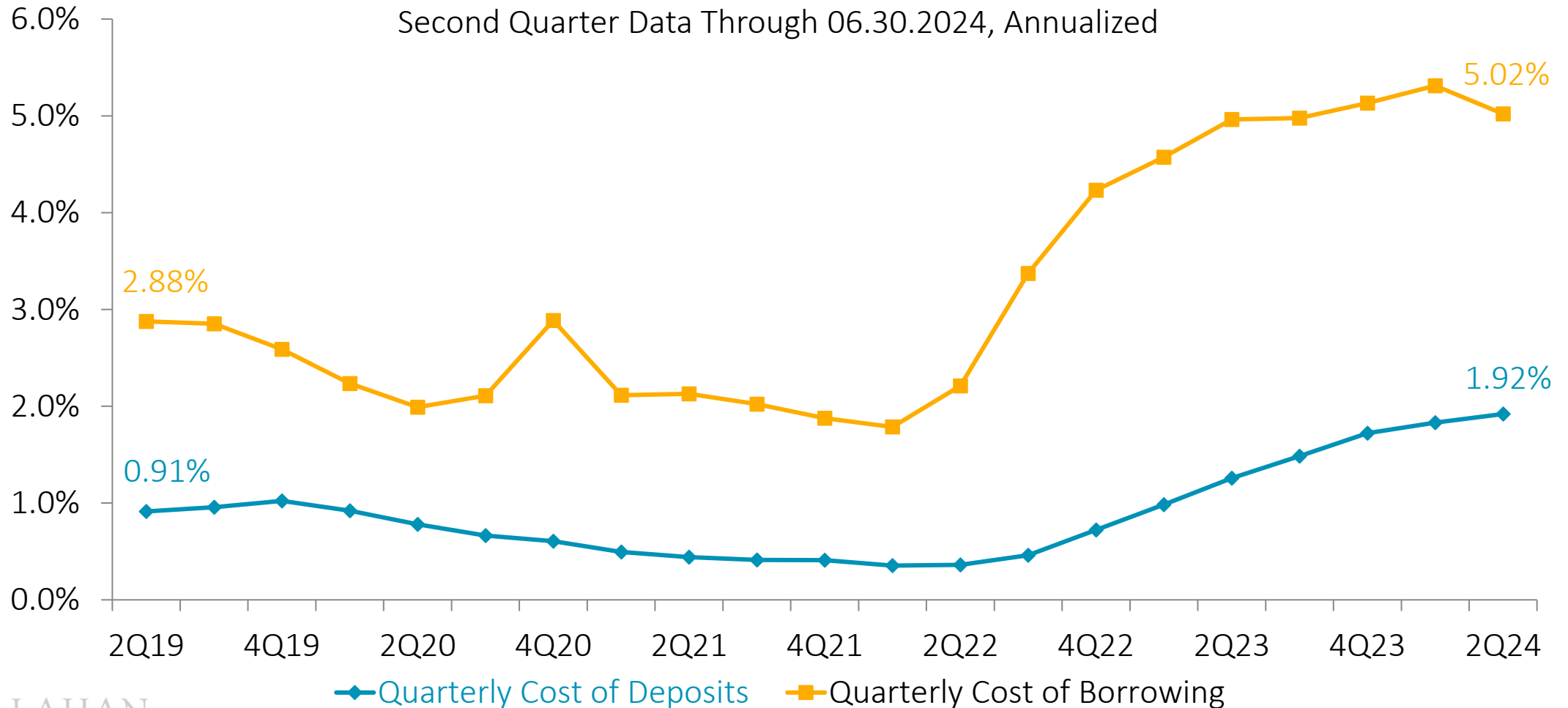


Quarterly net interest margin increases 7 bps in 2Q24

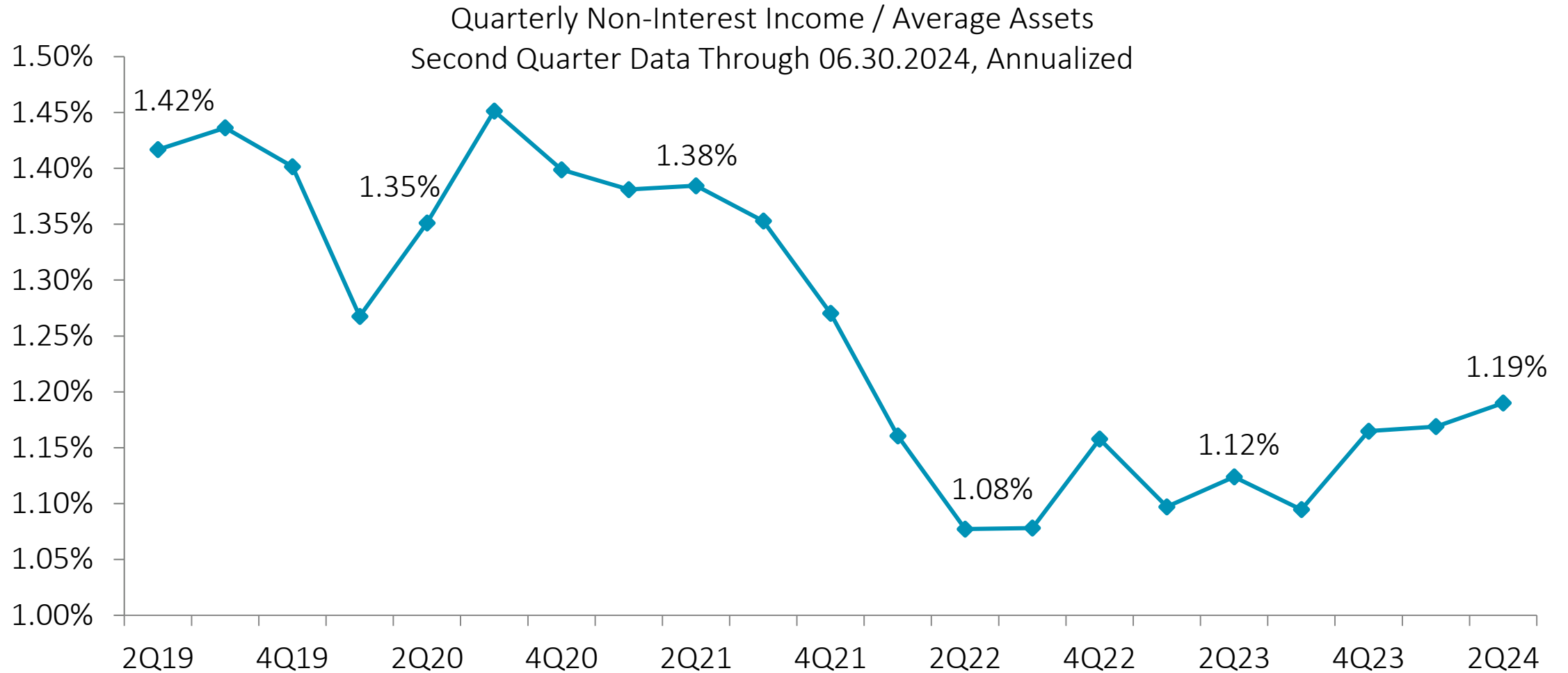


The cost of borrowing declines on quarterly basis

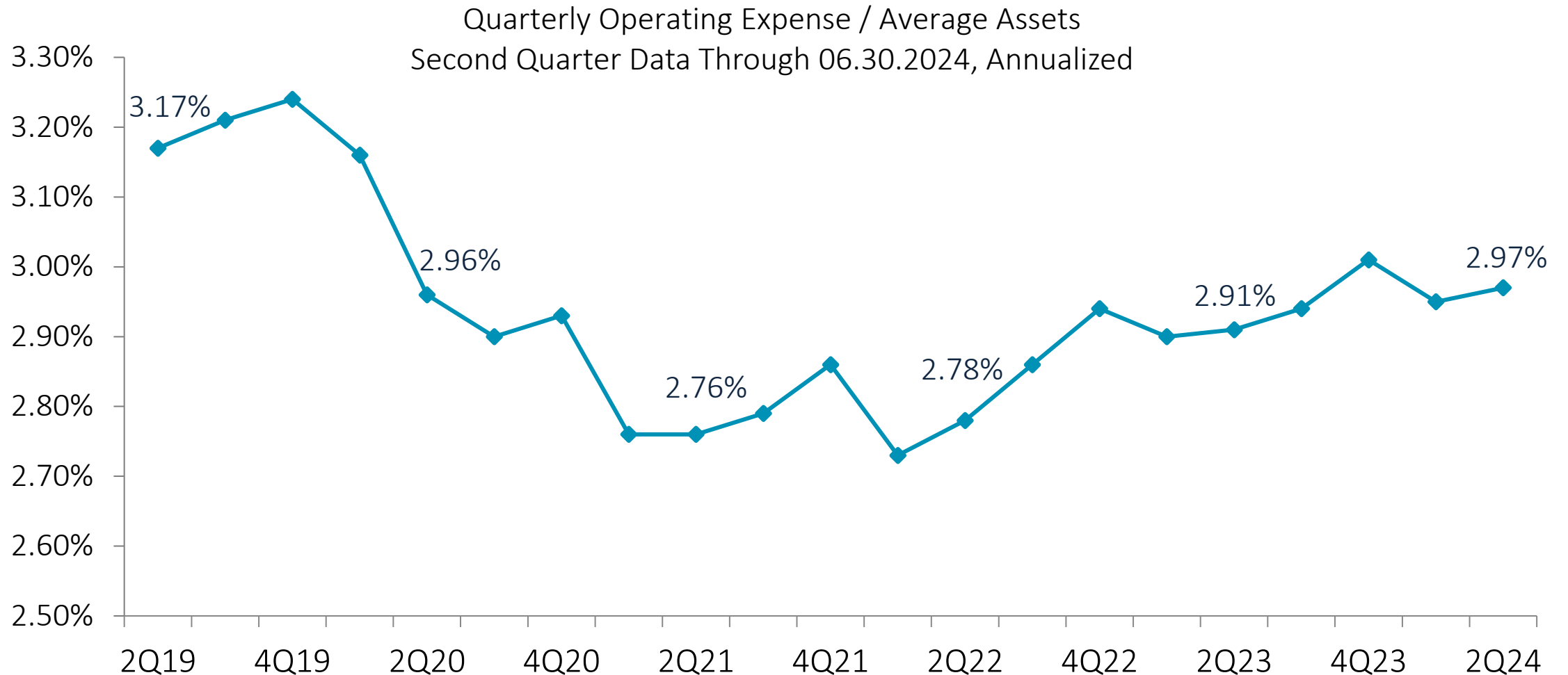
Quarterly Cost of Deposits vs Quarterly Cost of Borrowing
Second Quarter Data Through 06.30.2024, Annualized



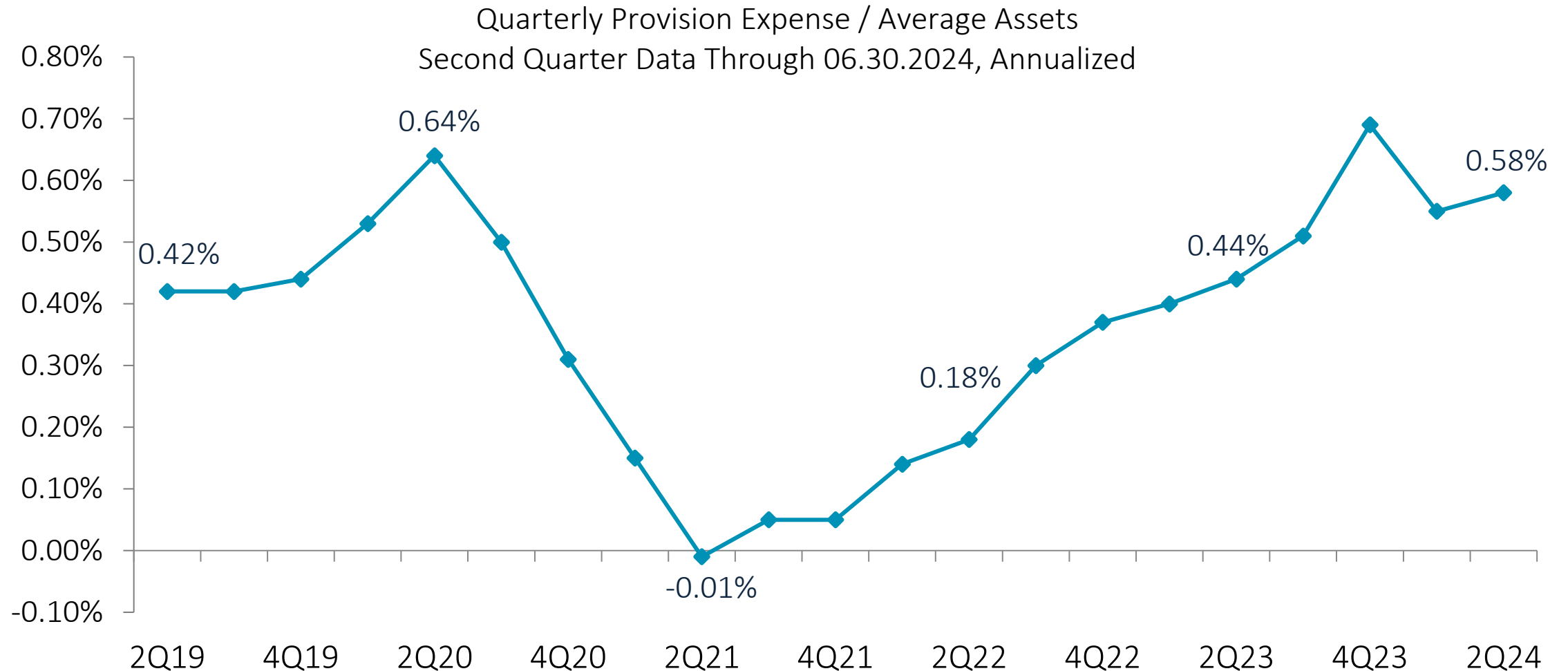
Non-fee sources increase NII



Operating expense growth is starting to slow



Credit unions increase provisions to prepare for losses



Quarterly ROA shows strong uptick the past two quarters

