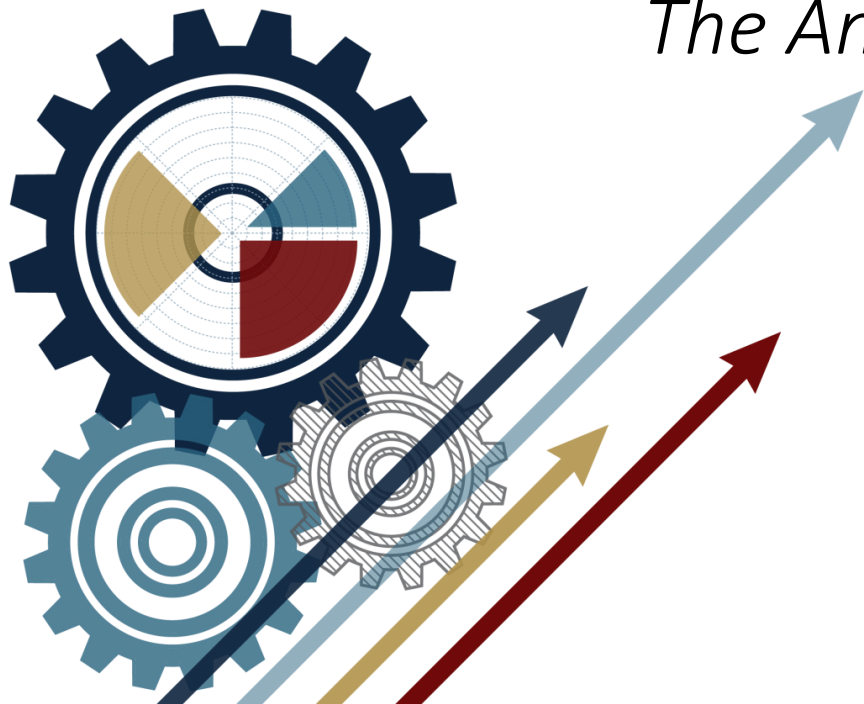


TrendWatch 3Q 2019

The Annual Report for the Industry

Data for September 30, 2019

Call Date: November 13, 2019



Welcome!



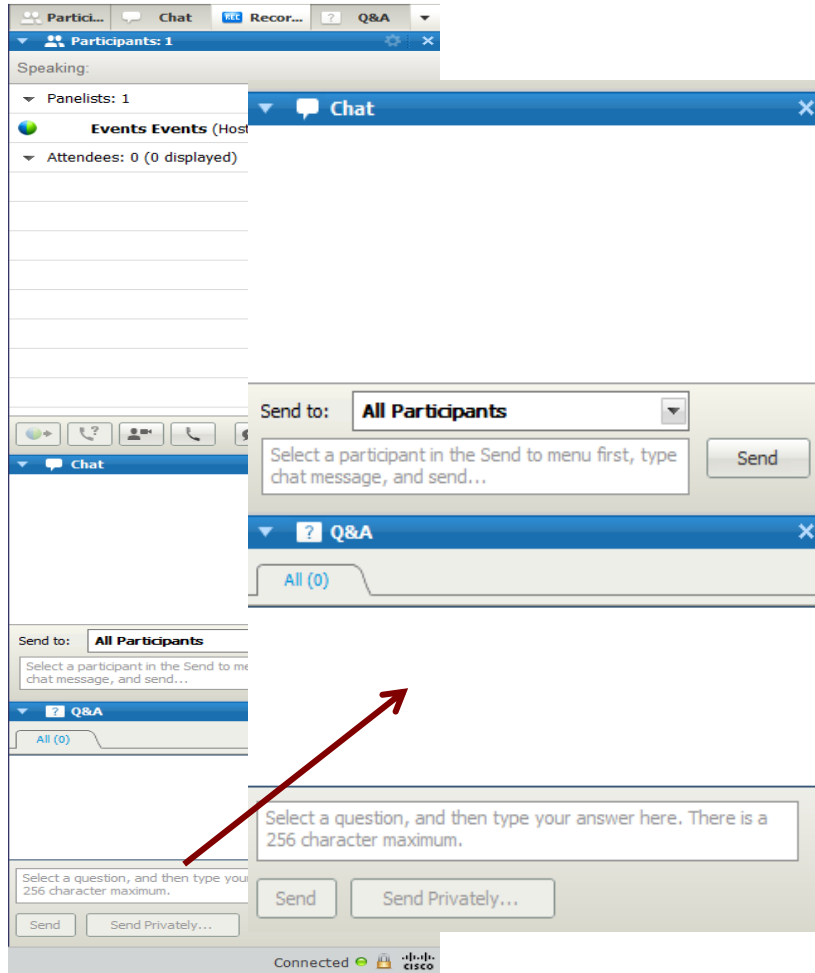
When you join the event, you should automatically be connected to the audio broadcast with your computer. To listen by phone, please dial **+1-415-655-0003**, then input the access code **665 238 439**.



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.

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*

3Q2019 Credit Union Results

Jon Jeffreys, President & CEO, Callahan & Associates

Alix Patterson, Chief Experience Officer, Callahan & Associates

Building Big Dreams with Microloans

Andrea Mosher, SVP of Lending, Lake Trust Credit Union

ALM FIRST MARKET UPDATE

Callahan Quarterly Trendwatch | November 13, 2019



Jason Haley

Managing Director, Investment Management Group

SPEAKER



Jason Haley

*Managing Director, Investment
Management Group*



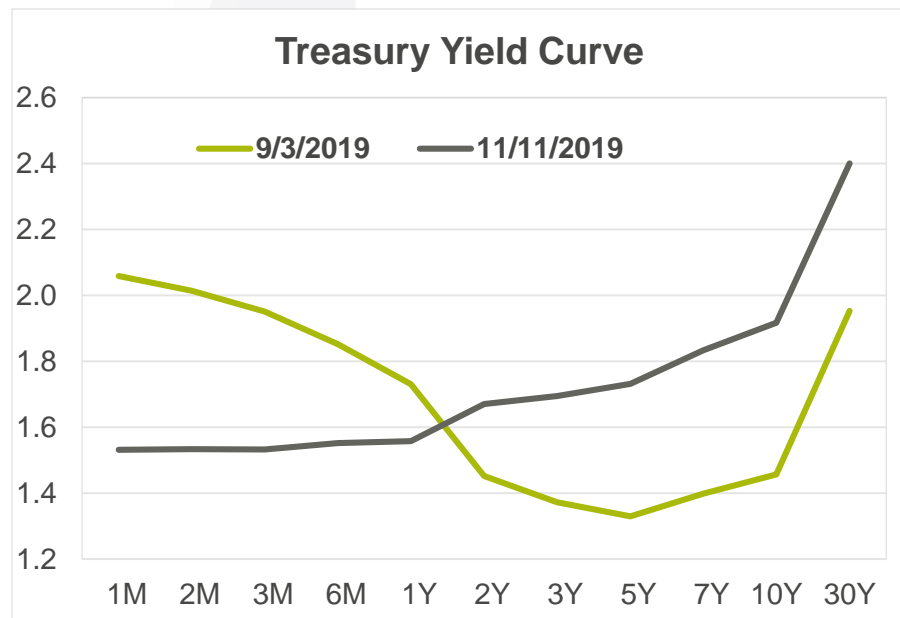
Economic Update

- FOMC cut fed funds target range another 25 bps on 10/30/19, but signaled a neutral bias going forward
 - Commitment to “act as appropriate to support the expansion” replaced with “asses the appropriate path of the target range”
 - Powell said monetary policy is “in a good place” and is “likely to remain appropriate”
 - A change in policy would require a “material reassessment of our outlook”
- Recent economic data have surpassed expectations
 - October payrolls growth above expectations (+128k) despite GM strike and loss of temporary census workers, and prior two months revised by 95,000 jobs
 - Q3 GDP +1.9% annualized (1.6% expected)
 - Down just 10 bps from Q2 despite greater uncertainty surrounding trade and global growth
 - Consumer spending leading the way once again

Current Market Themes

- Long-end Treasury yields are up 45 bps since early September
 - Curve slope 25 bps steeper (2yr/10yr spread)
 - Combination of trade optimism and the Fed on hold are primary catalysts
- Interest-rate volatility has subsided from the Aug/Sept highs
- Mortgage refi activity still elevated but down 25% since 8/16/19

Tenor	11/11/2019 (%)	9/3/2019 (%)	Change (bps)
1-Month	1.53	2.06	-0.53
3-Month	1.53	1.95	-0.42
6-Month	1.55	1.85	-0.30
1-Year	1.56	1.73	-0.17
2-Year	1.67	1.45	0.22
5-Year	1.73	1.33	0.40
10-Year	1.92	1.46	0.46
30-Year	2.40	1.95	0.45
Curves			
2yr-5yr	0.06	-0.12	0.18
2yr-10yr	0.25	0.01	0.24
2yr-30yr	0.73	0.50	0.23
5yr-10yr	0.19	0.13	0.06



Looking Ahead

- With the Fed expected to be on hold, Treasuries should trade in a tighter range
- Trade optimism can quickly shift, as witnessed in May and August this year
- Current mortgage pricing is very attractive when considering current spread levels relative to Treasuries/swaps
- Recent steepening helps, but rates remain low and the curve relatively flat
- Combating margin compression still an area of focus
 - Profitable risk management becomes critical as it relates to asset pricing, funding mix, and liquidity management
 - Greater focus on non-interest items (fees, efficiency, etc.)



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Fax: 214.987.1052

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Are You Maximizing Your Investment Options?

<i>Fund Name</i>	<i>30-Day Yield*</i>
TCU Ultra-Short Duration Portfolio	2.20
TCU Short Duration Portfolio	2.46

*The yields reflect the 30-day Effective Yield (net of fees/expenses) as of November 8, 2019.

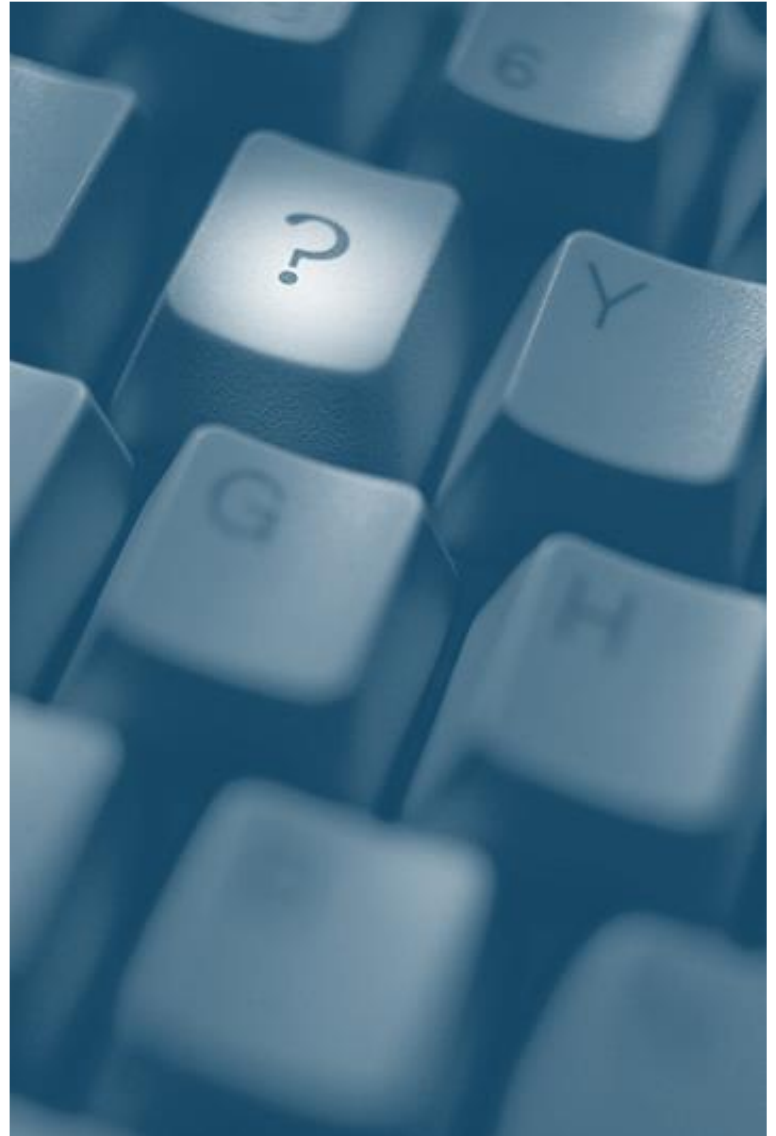
To learn more about how these institutional investment options may benefit your credit union, contact

TCUGroup@Callahan.com

or visit www.trustcu.com



Questions?



3Q19 Credit Union Results

Sponsored by:



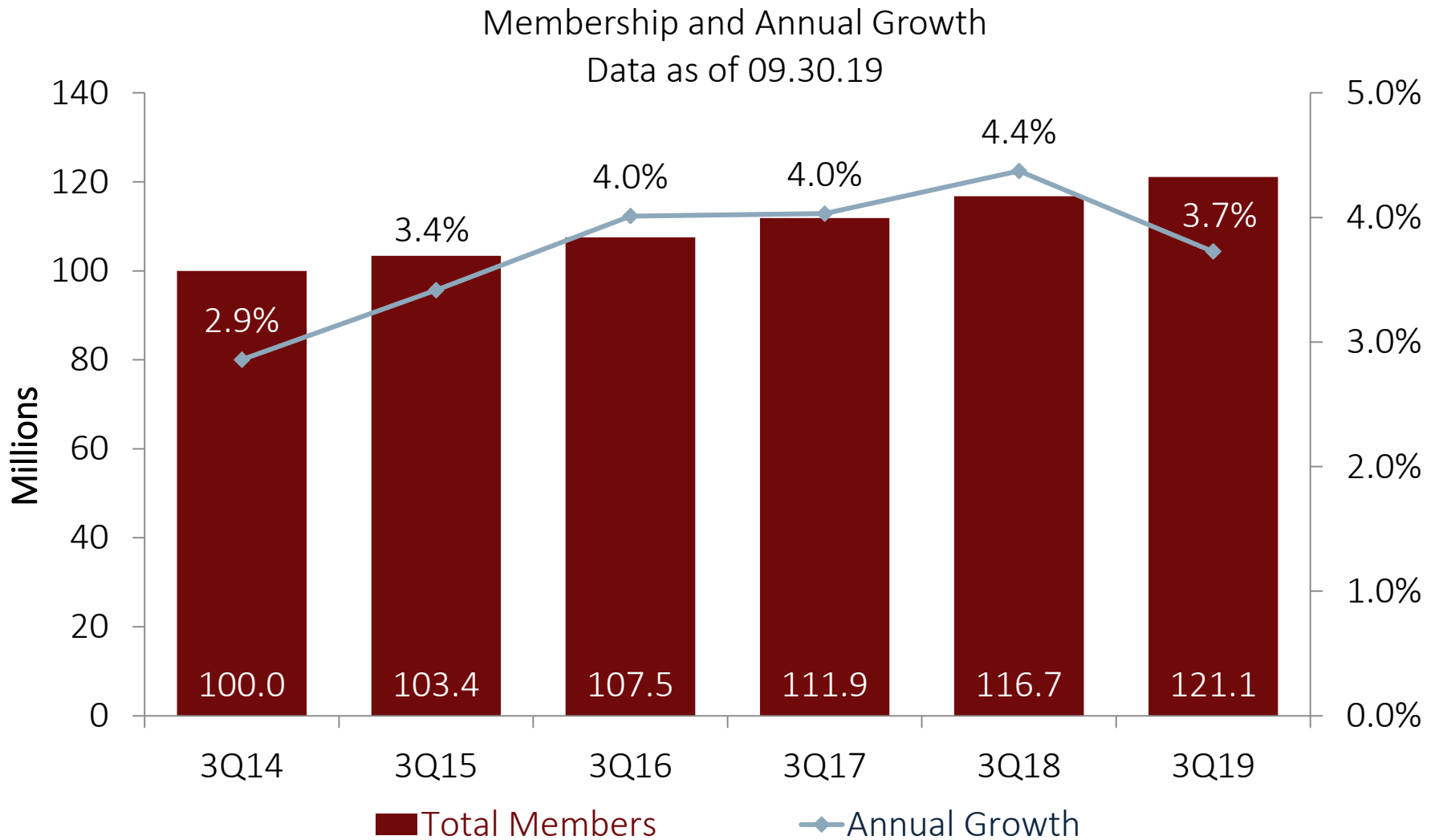
Q3 recap

1: Mortgage origination fuels lending activity

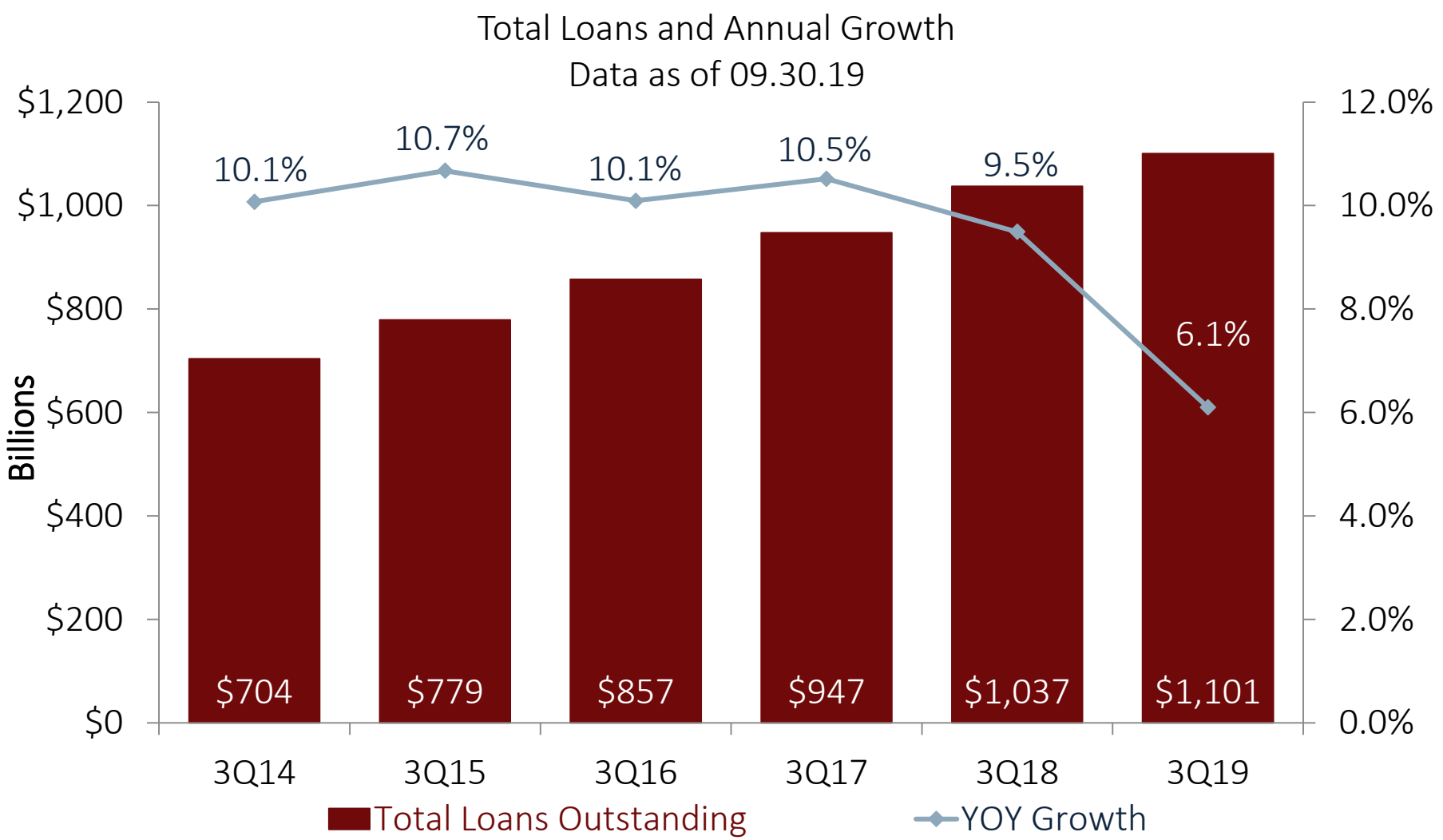
2: Certificates drive positive share growth

3: Strong ROA and Net Worth allows for future growth and investment

4.4 million net new members added in last year

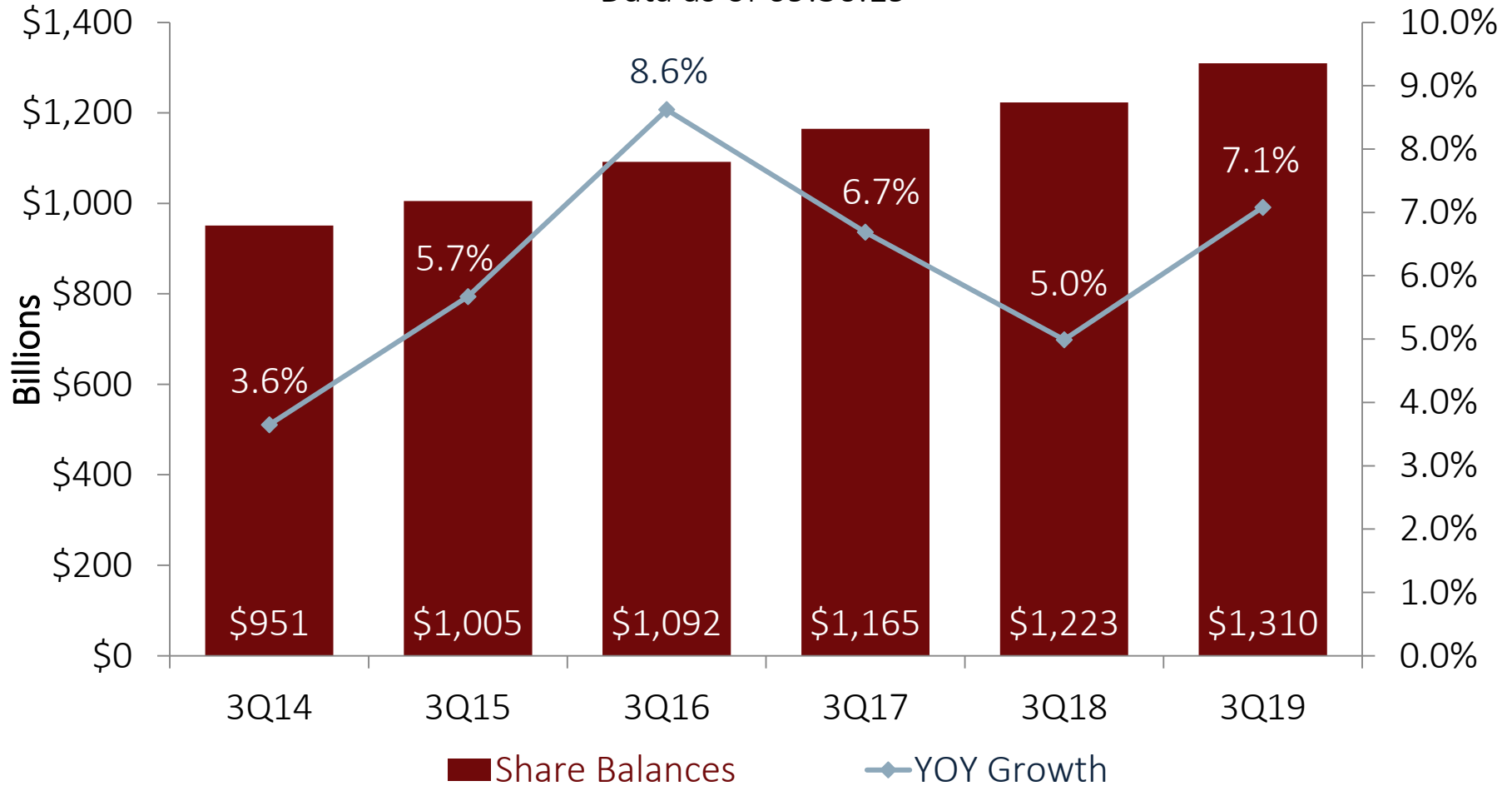


Balance sheet loan growth slows despite rebound in originations



Share growth rate recovers from 2-year slowdown

Total Share Balances and Annual Growth
Data as of 09.30.19

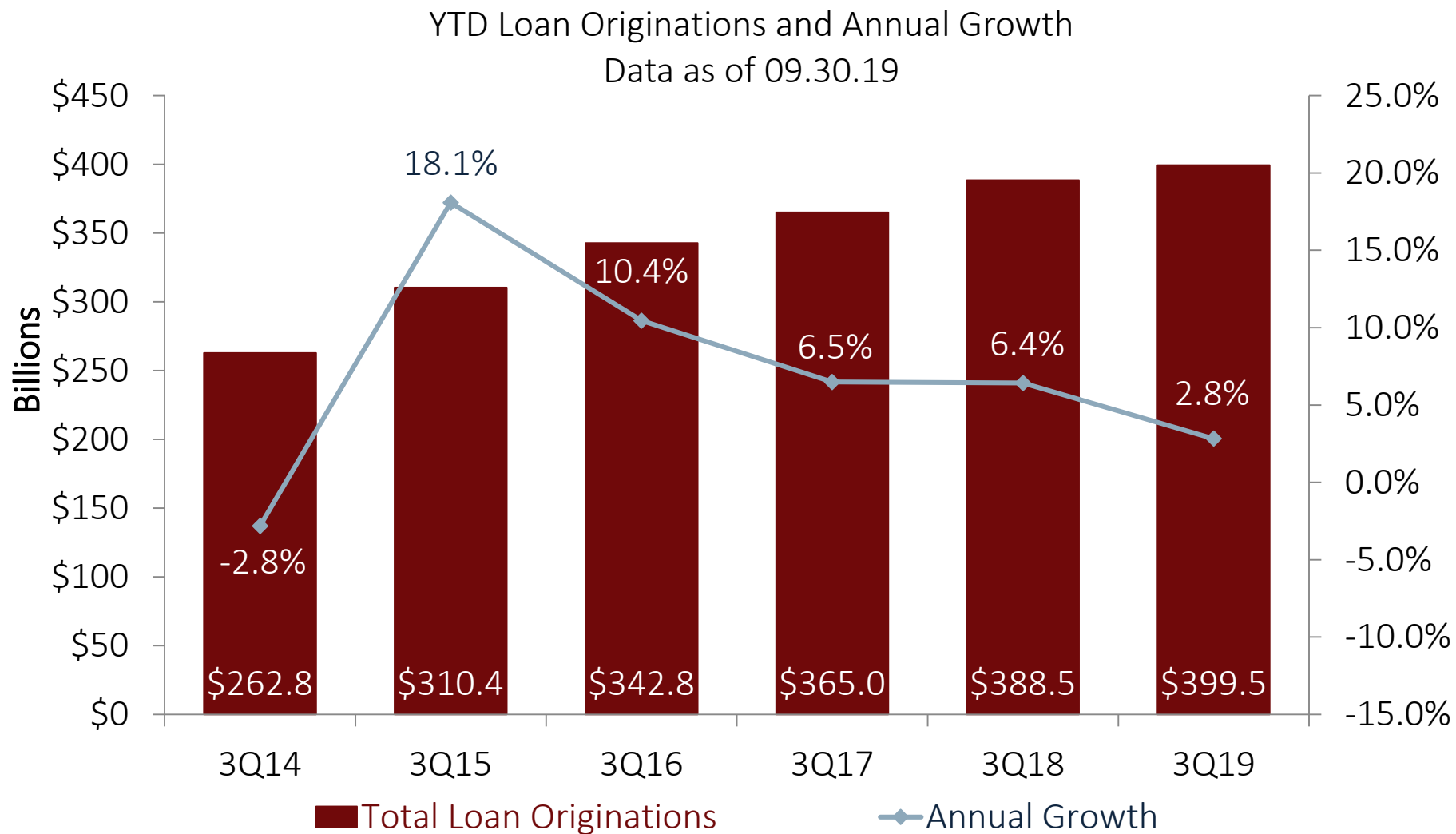


Strong trends in an uncertain environment

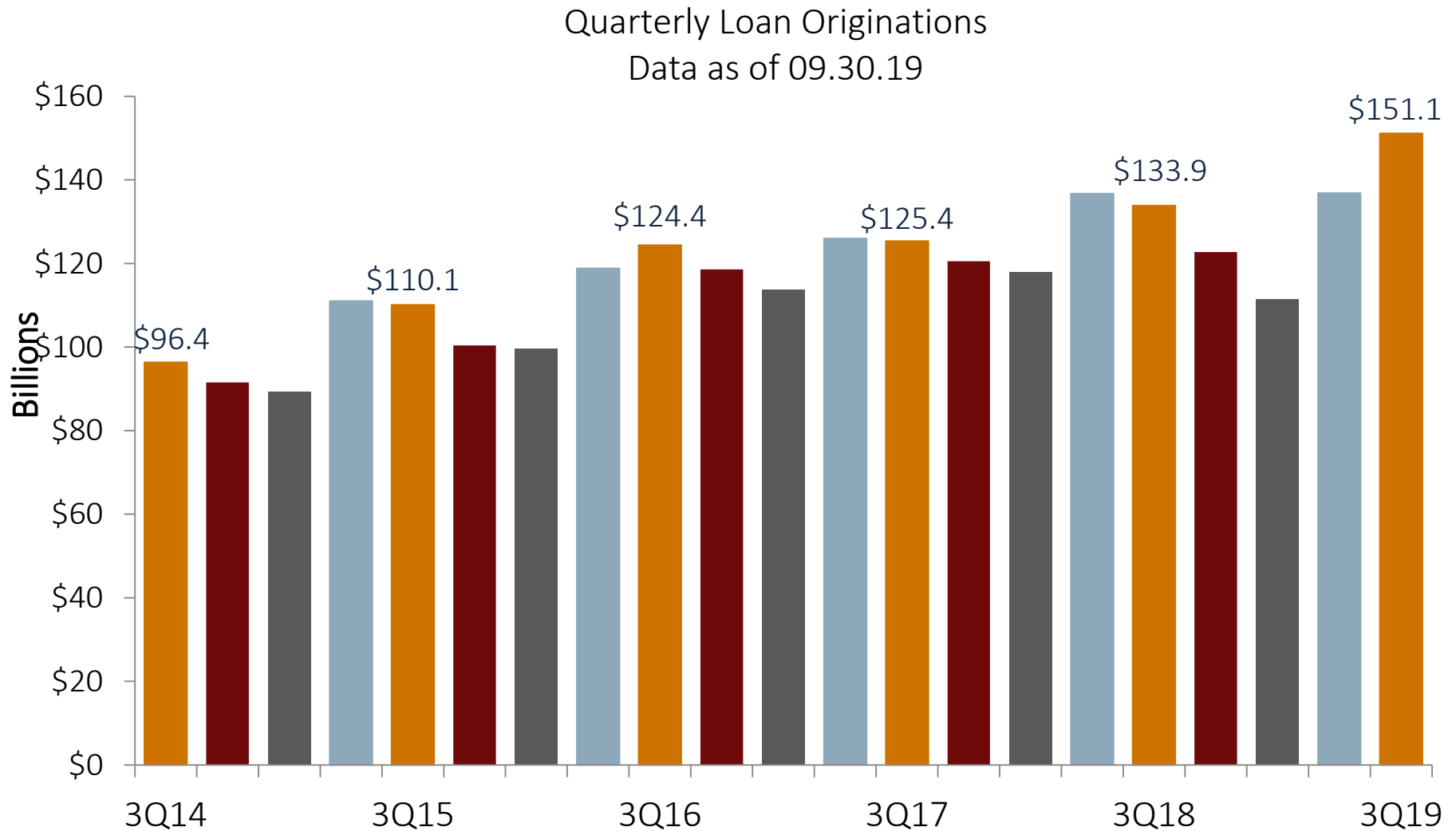
	As of 09/30/2019	12-mo. Growth 3Q19	12-mo. Growth 3Q18
Assets	\$1,558.7B	7.0%	5.6%
Loans	\$1,100.7B	6.1%	9.5%
Shares	\$1,309.6B	7.1%	5.0%
Investments	\$382.0B	8.4%	-5.7%
Capital	\$185.6B	11.7%	6.4%
Members	121.1M	3.7%	4.4%

Lending

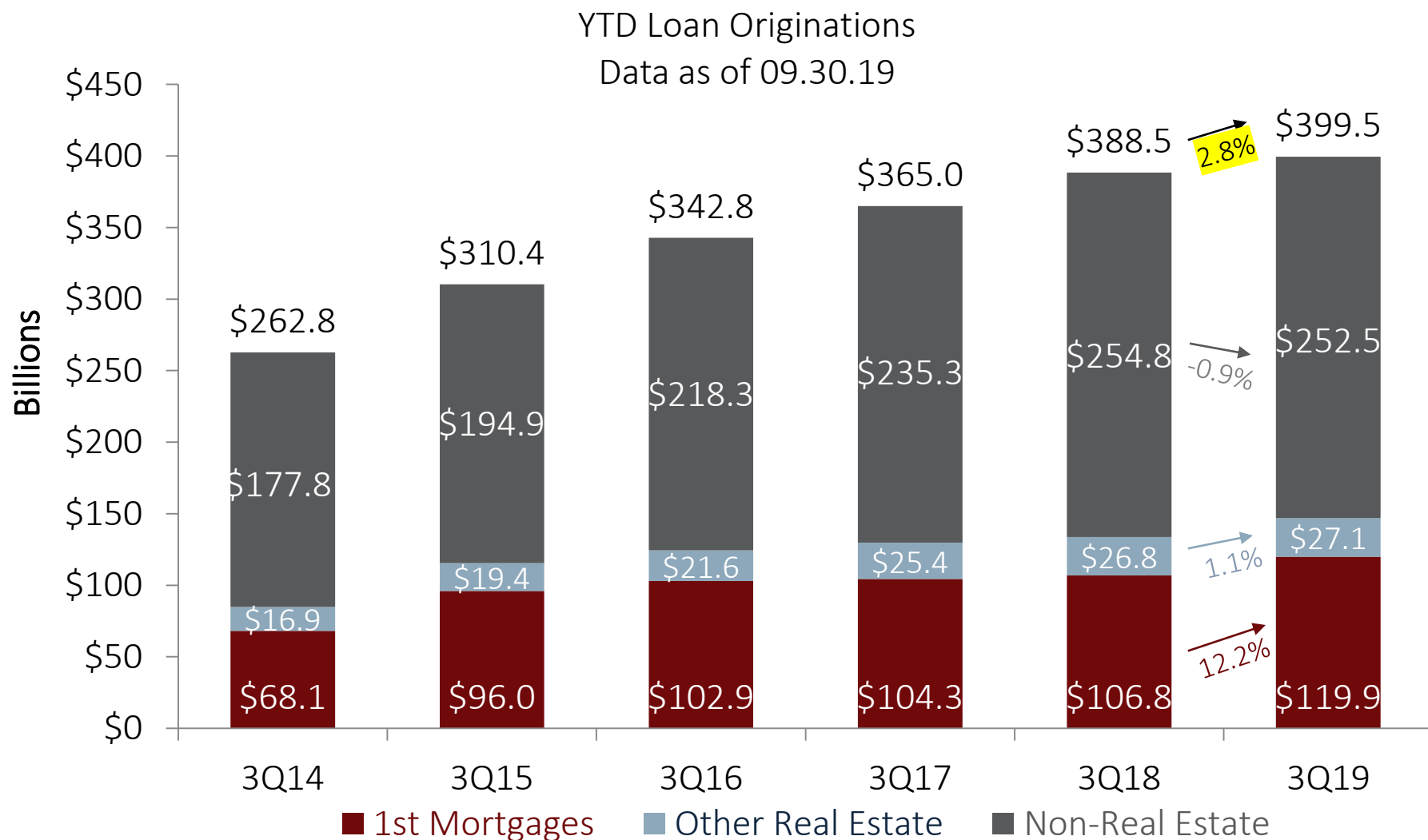
Spike in 3Q originations makes up for slower first half



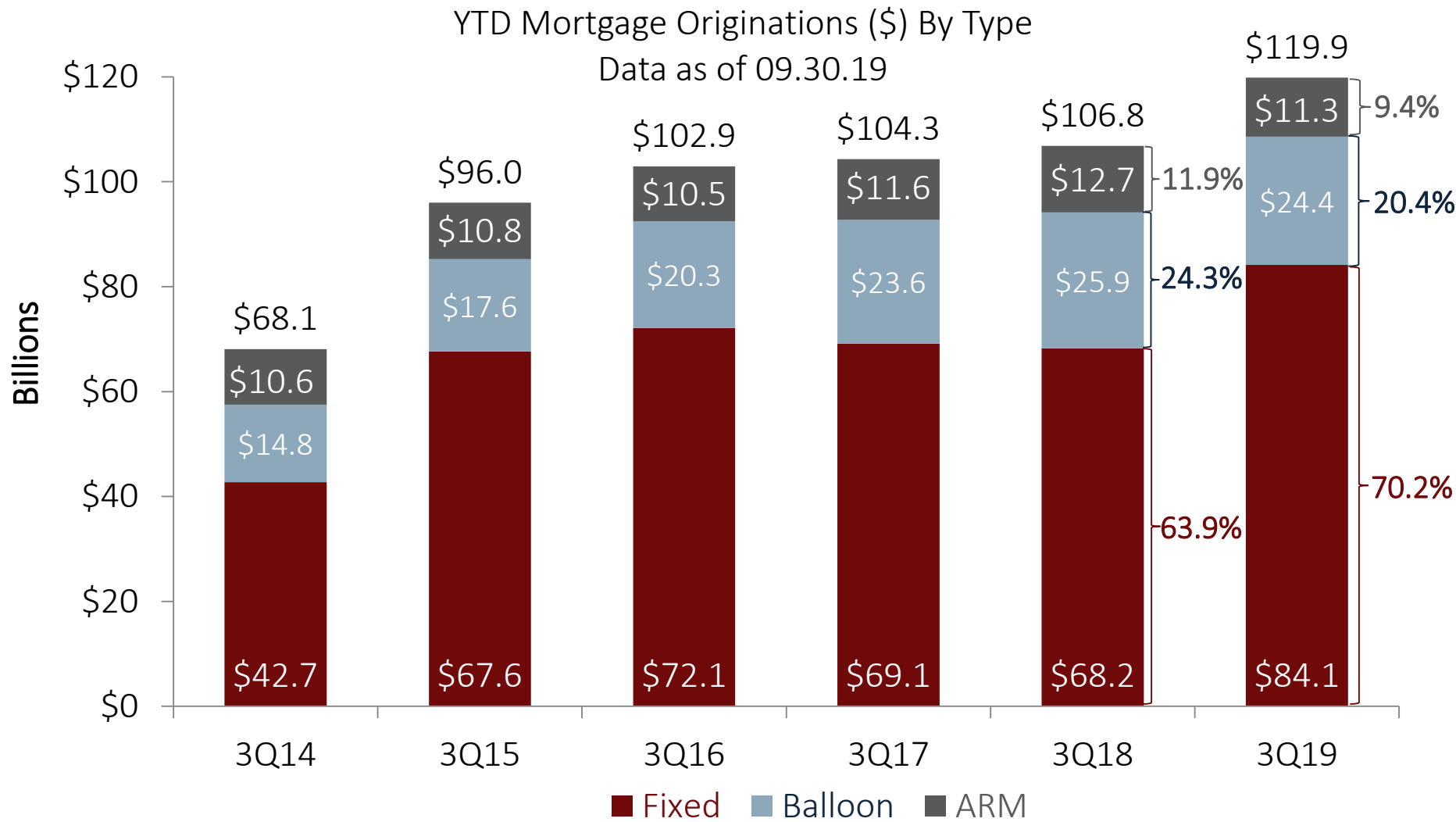
3Q posts highest quarterly change in originations on record



1st mortgage surge reverses YTD decline in originations

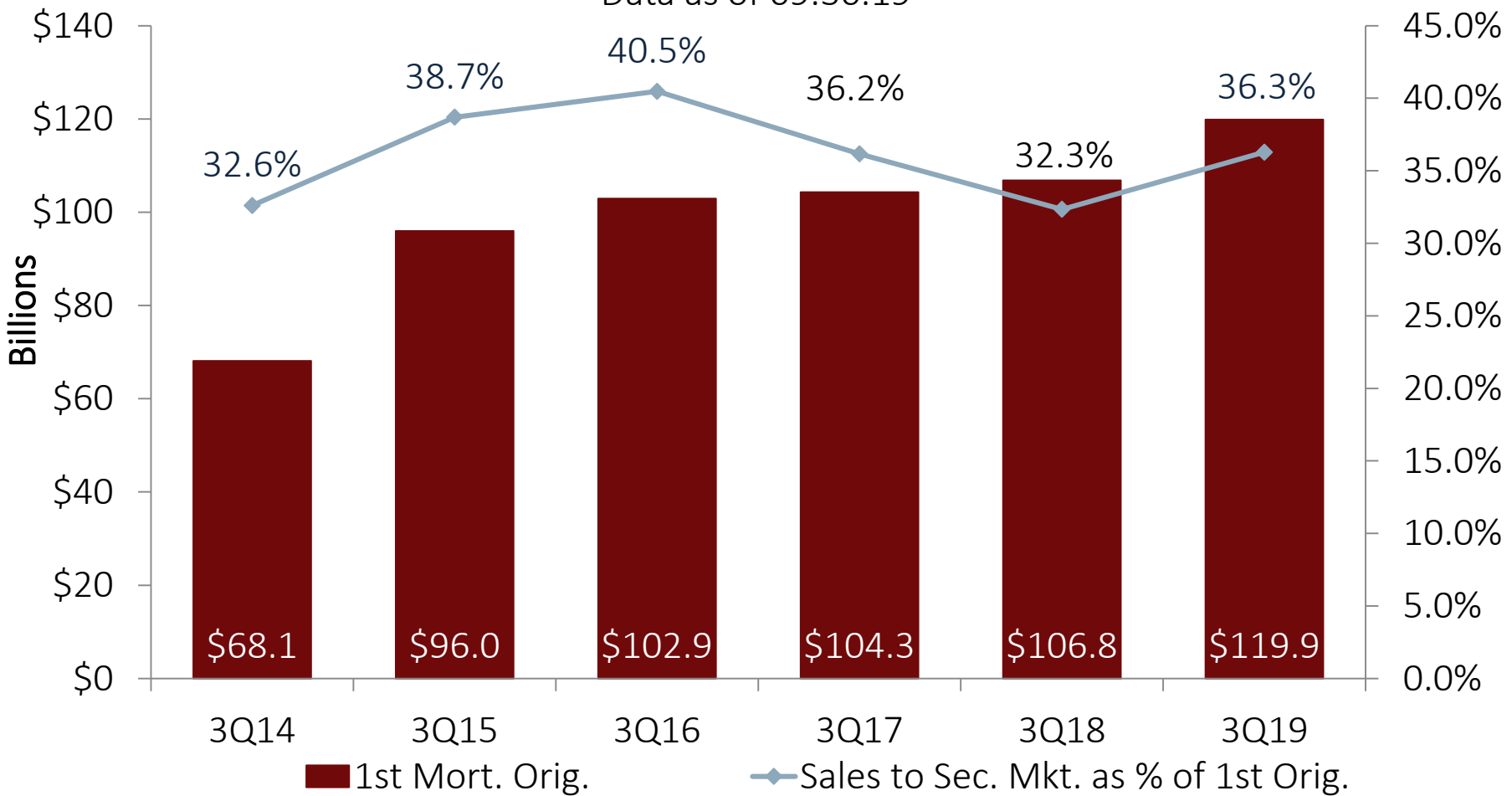


Consumers turn to fixed rate mortgages as Fed lowers key rates

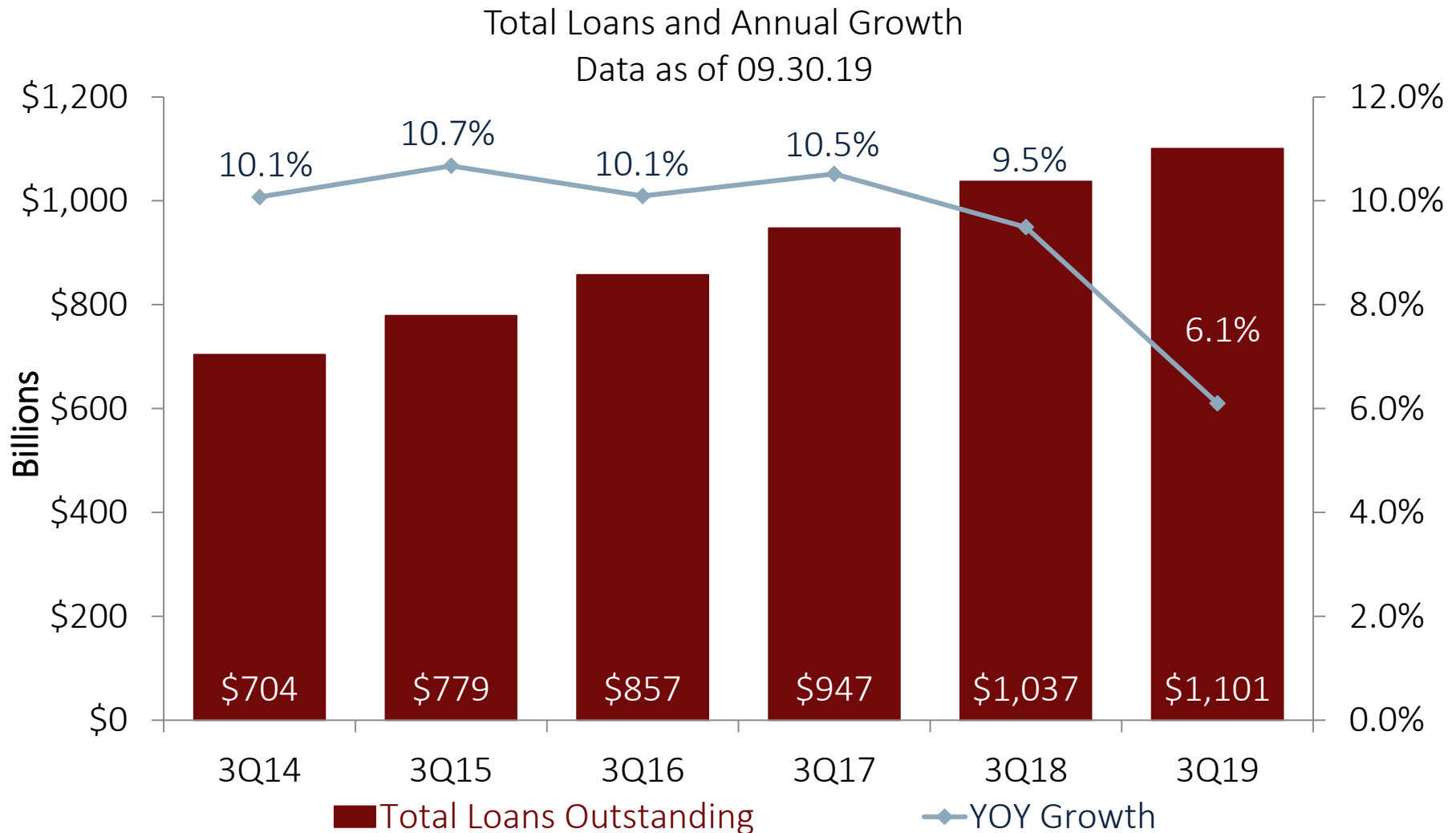


Increase in fixed rate originations drives higher secondary market sales

YTD 1st Mortgage Originations & Secondary Market Sales as % of 1st Orig.
Data as of 09.30.19

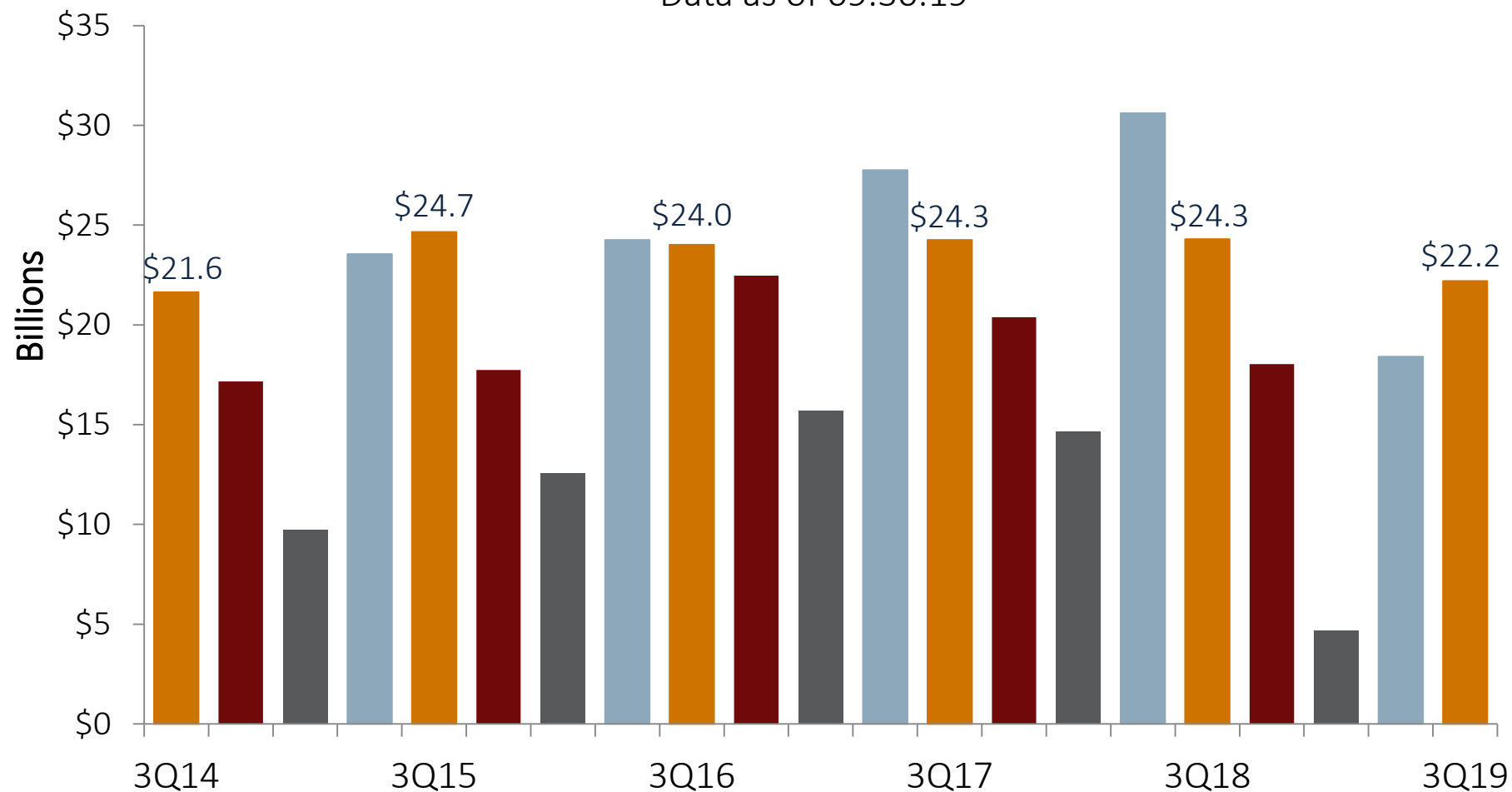


Net result is expanding balance sheet at slower pace

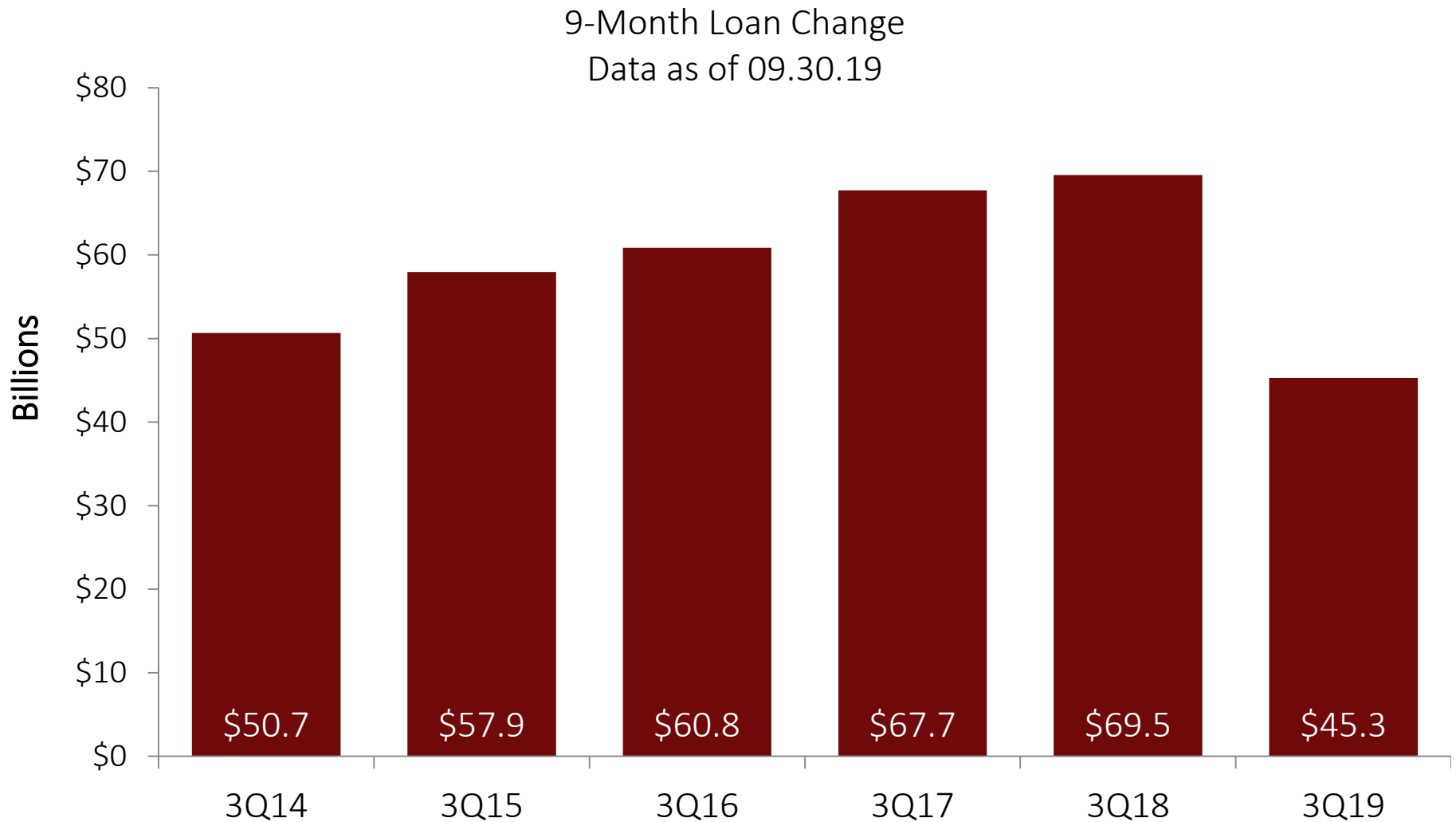


Balance sheet growth rallying, although...

Quarterly Change in Loans on Balance Sheet
Data as of 09.30.19

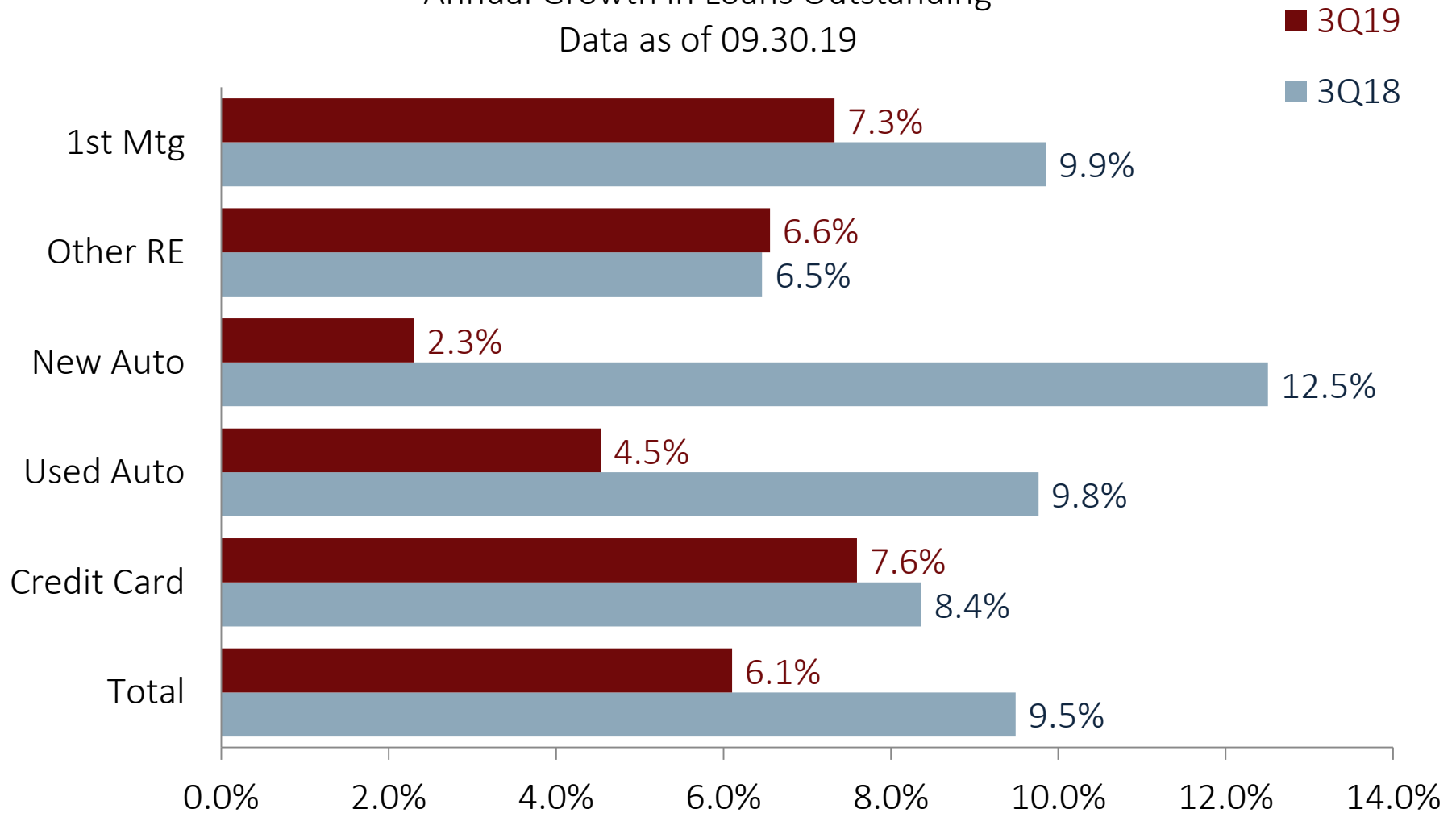


Slow 1Q still holds back YTD balance sheet loan growth

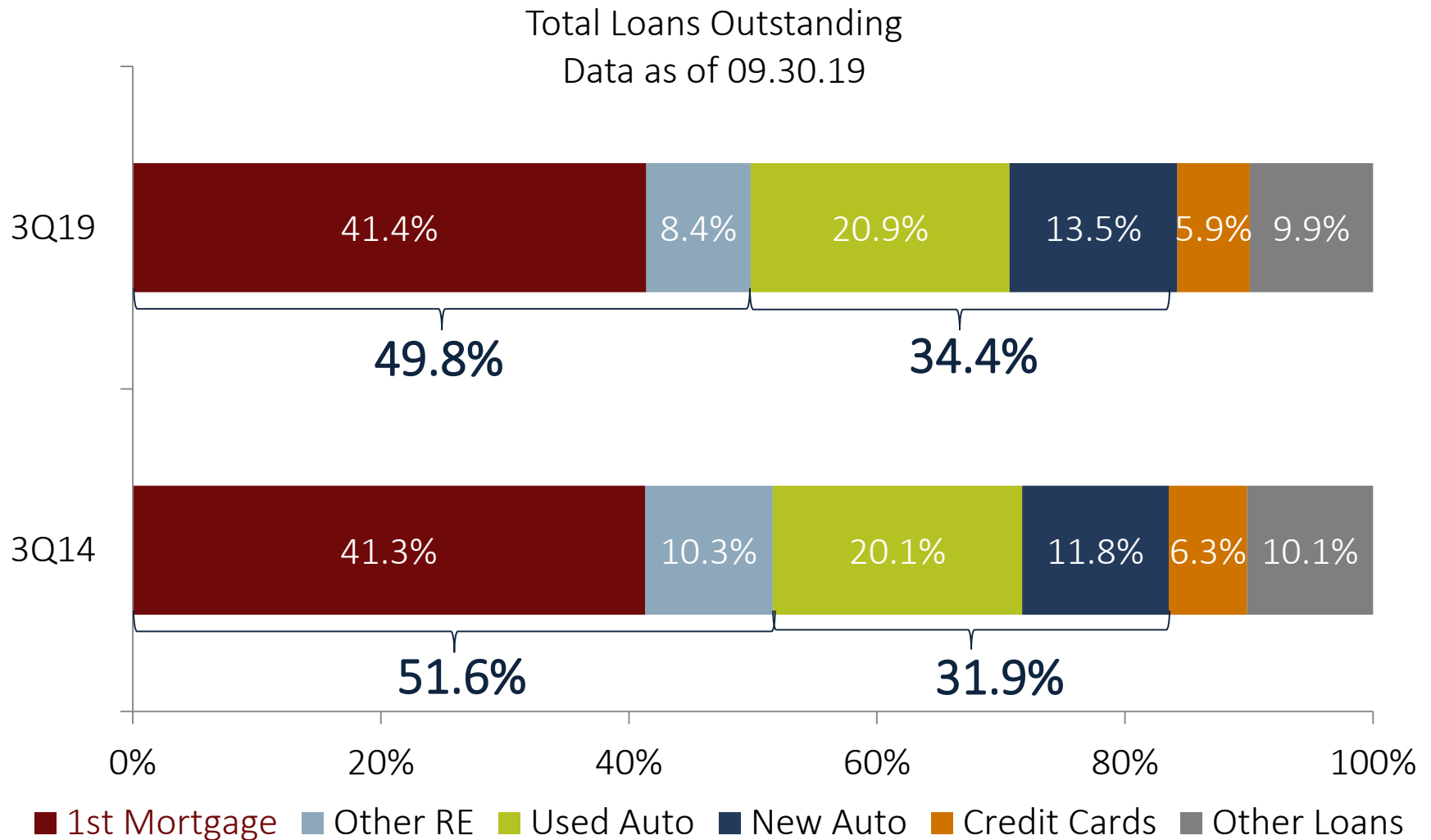


Slowdown in auto market affects balance sheet growth

Annual Growth in Loans Outstanding
Data as of 09.30.19



1st mortgage concentration up for first time since 2013



Delinquency rate steady in face of strong economy

Annual Change in Delinquency
Data as of 09.30.19



Total
0.67%
0.00%



1st Mortgage
0.55%
↑ 0.02%



Auto
0.58%
↓ 0.02%



Other RE
0.50%
↓ 0.01%



Indirect
0.58%
↓ 0.03%



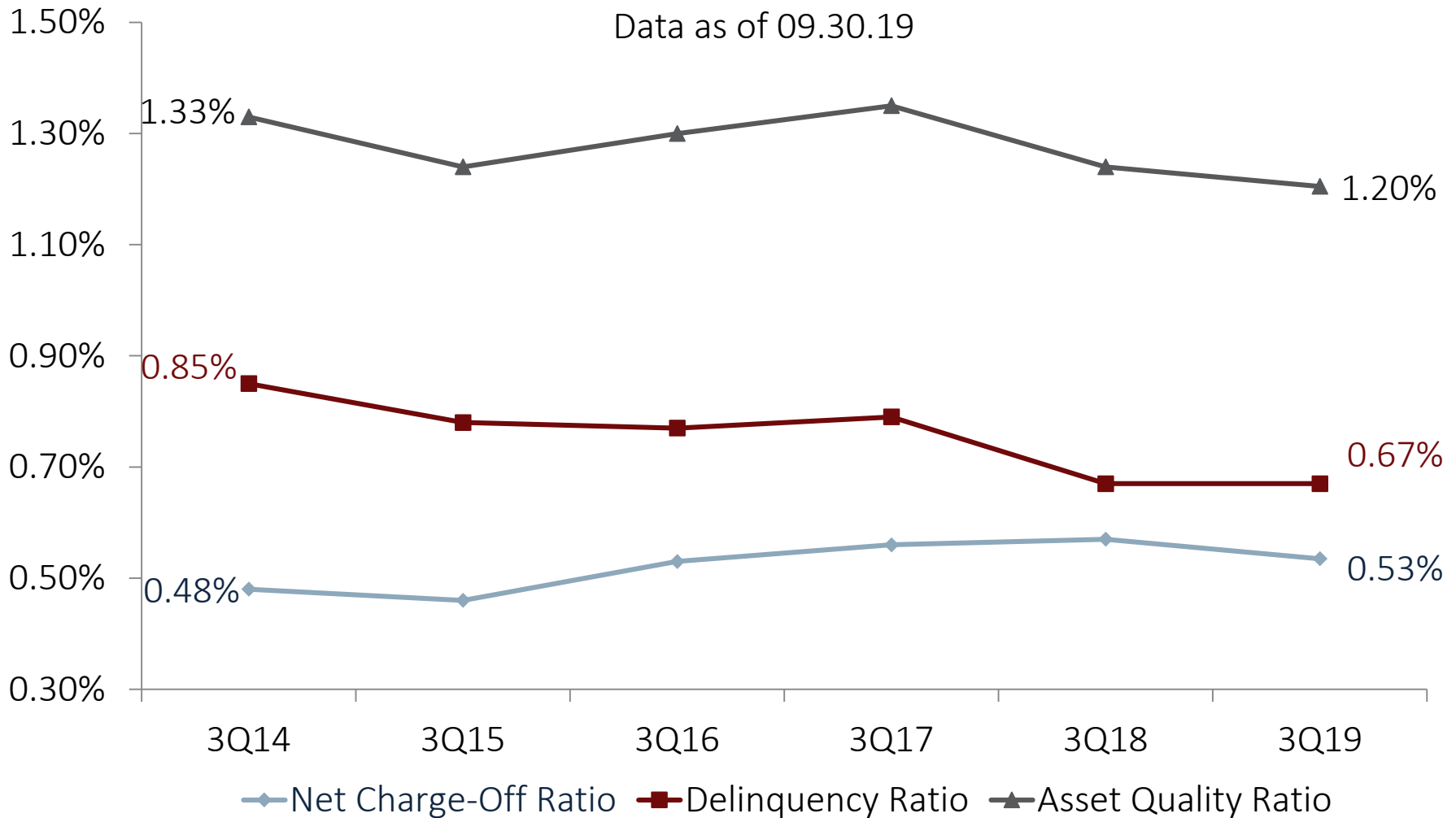
Credit Card
1.32%
↑ 0.06%



Member Commercial
0.60%
↓ 0.05%

Lower NCOs leads to improvement in asset quality ratio

Asset Quality Ratio: Net Charge-Off Ratio + Delinquency Ratio
Data as of 09.30.19



Building Big Dreams with Microloans



*Andrea Mosher, SVP of Lending
Lake Trust Credit Union*

About Lake Trust Credit Union

- Headquartered in **Brighton, Michigan**
- **Over \$1.9B** in assets
- More than **170,000 members**
- **431** employees
- **23** branch locations



OUR MEMBERS MAKE US SPECIAL

Our motivation and inspiration to work each day comes from the 170,000 people across Michigan who want to make this state a better place.

[SEE WHY WE WORK](#)

Despite Success, Something Was Missing

- Lake Trust has been doing *member business lending since 2010*, when we were created through a merger of equals
- We have a healthy **MBL portfolio, business checking, treasury services, credit cards, and commercial real estate lending**
- In 2017, Lake Trust was the first credit union to be named **Michigan lender of the year** by the *Small Business Administration*
- Despite the array of business services we offered, **there was still an unmet need**

A Small Solution

A Small Loan For A Big Idea

Start or grow your business with a micro business loan.



You have a big idea, a problem you want to solve, or a product that you're excited to share with the world. Our new Fast \$50K micro business loans are perfect for business expenses under \$50,000* and the lending process is typically shorter than the process for other business loans. A micro business loan can help fill the gap between what you have now and what you need to grow, as a start-up entrepreneur or a seasoned business owner.

If you're looking for a business loan over \$50,000, check out our **Business Lending solutions**.

Loans + Guidance for Entrepreneurs

Using a CDFI grant of \$975,000 to bolster reserves, we made approximately 50 microloans that average \$20,000 to \$25,000 each.

Landscapers, HVAC providers, photographers, plumbers, movers, truckers, pharmacists, solar solutions providers, and a sound and lighting specialist have put the money toward vehicles, equipment, supplies, and other expenses.

You can use a micro business loan for:



Business Vehicle



Equipment



Supplies



Other Expenses

Help for the Community, A Niche for the CU

- Providing these small businesses this much-needed capital has a *positive impact on their financial wellness that extends to the communities where they live and work* through job creation and economic development
- *People were coming to us for help*, so we formed a business advisory group that helped us understand what needs were not being met: **Small-business owners needed capital, seed money they could access without having to max out their credit cards or mortgage their homes.**
- *There wasn't anywhere else for them to go.* Typical commercial lending is too expensive and not timely enough, and the size of these loans is not something that banks want to spend time and energy on. It's just not their niche.

Results to Date

- As of 9/30/19, the credit union has made **68 loans for \$1.6M** comprised of the following:
 - Vehicle loans- 22%
 - Other equipment secured- 25%
 - Signature-25%
 - LOC- 28%
- Without the benefit of formal advertising** or marketing, *we more than doubled our goal of \$500,000 in loans for 2019.*
- We've had no losses**, and we've validated what we believed was a real need in our communities.
- It's far exceeded our expectations so far.

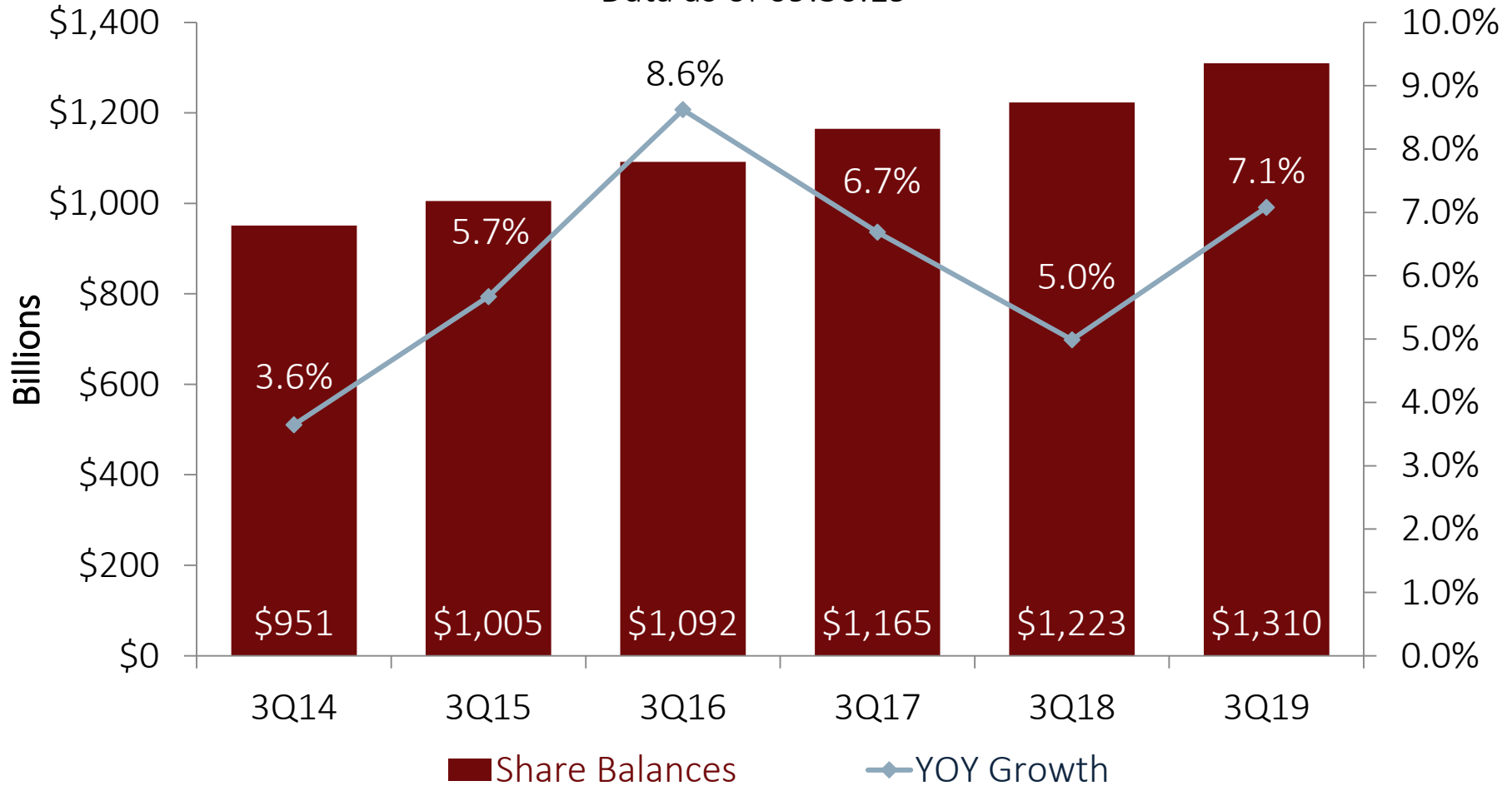


Questions for Andrea?

Savings

Rate of share growth increases for first time in 3 years

Total Share Balances and Annual Growth
Data as of 09.30.19

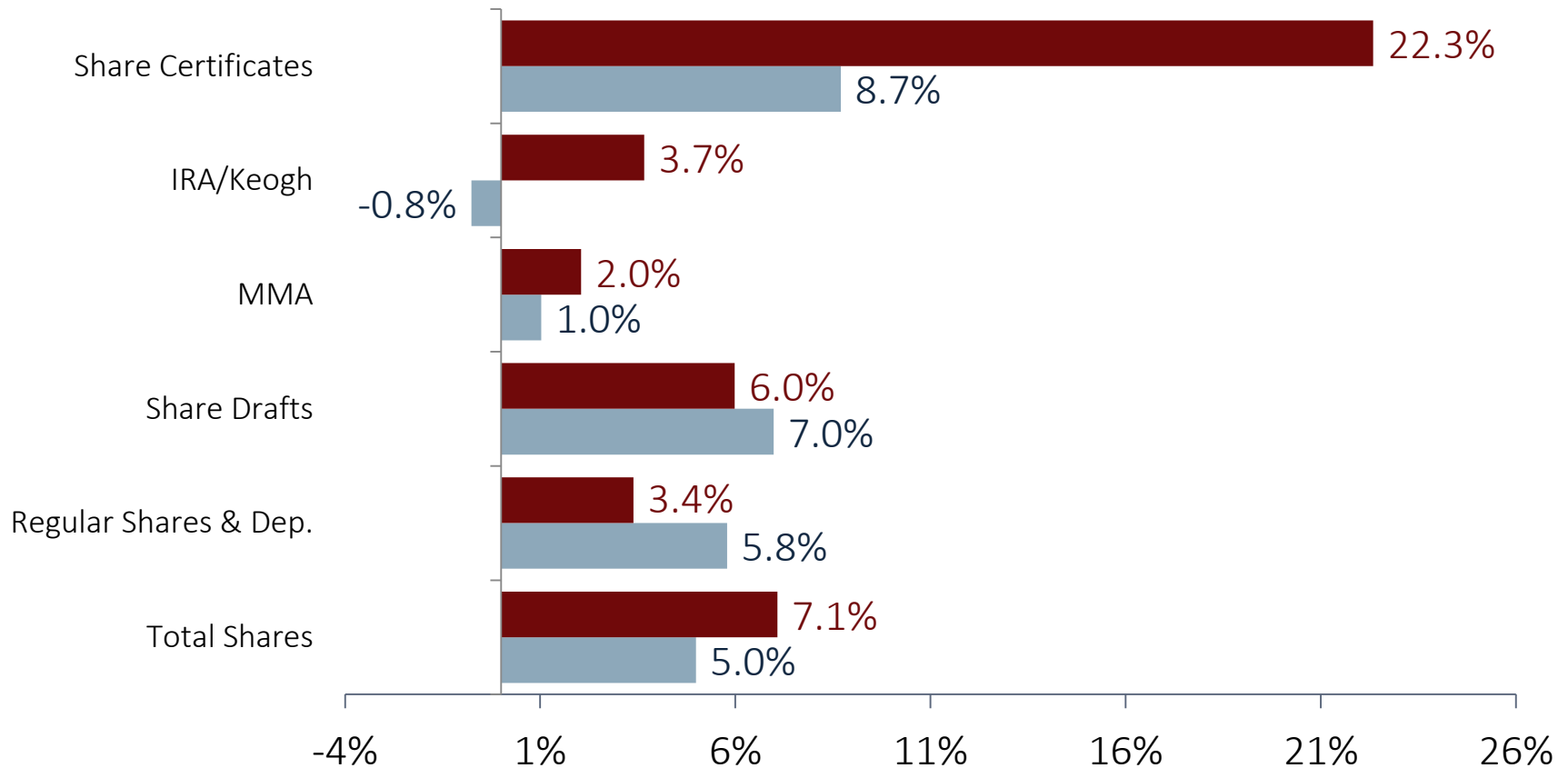


Share certificates drive share growth, up \$51.2B YOY

12-Mo. Growth in Shares Segments
Data as of 09.30.19

■ 3Q19

■ 3Q18



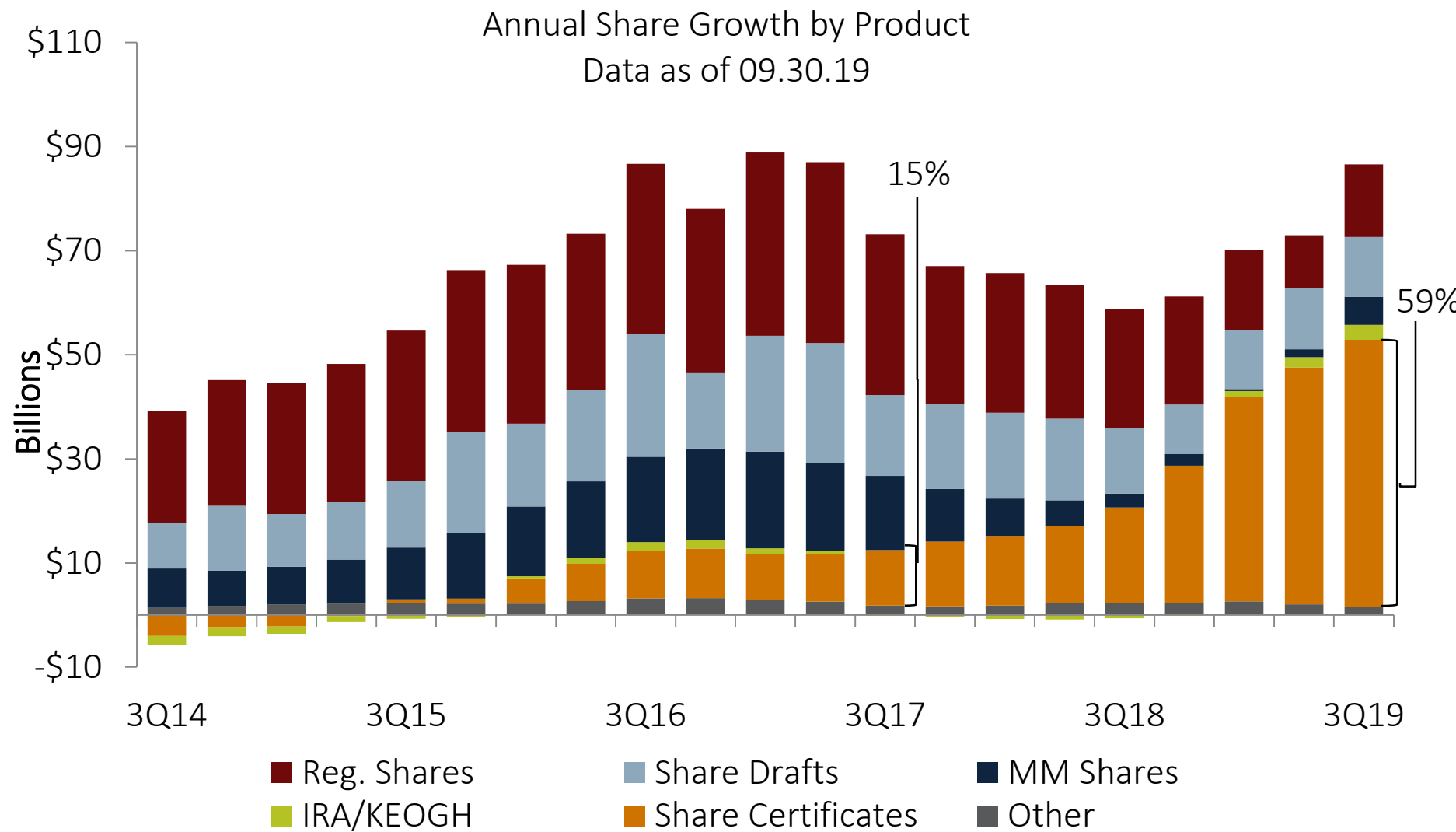
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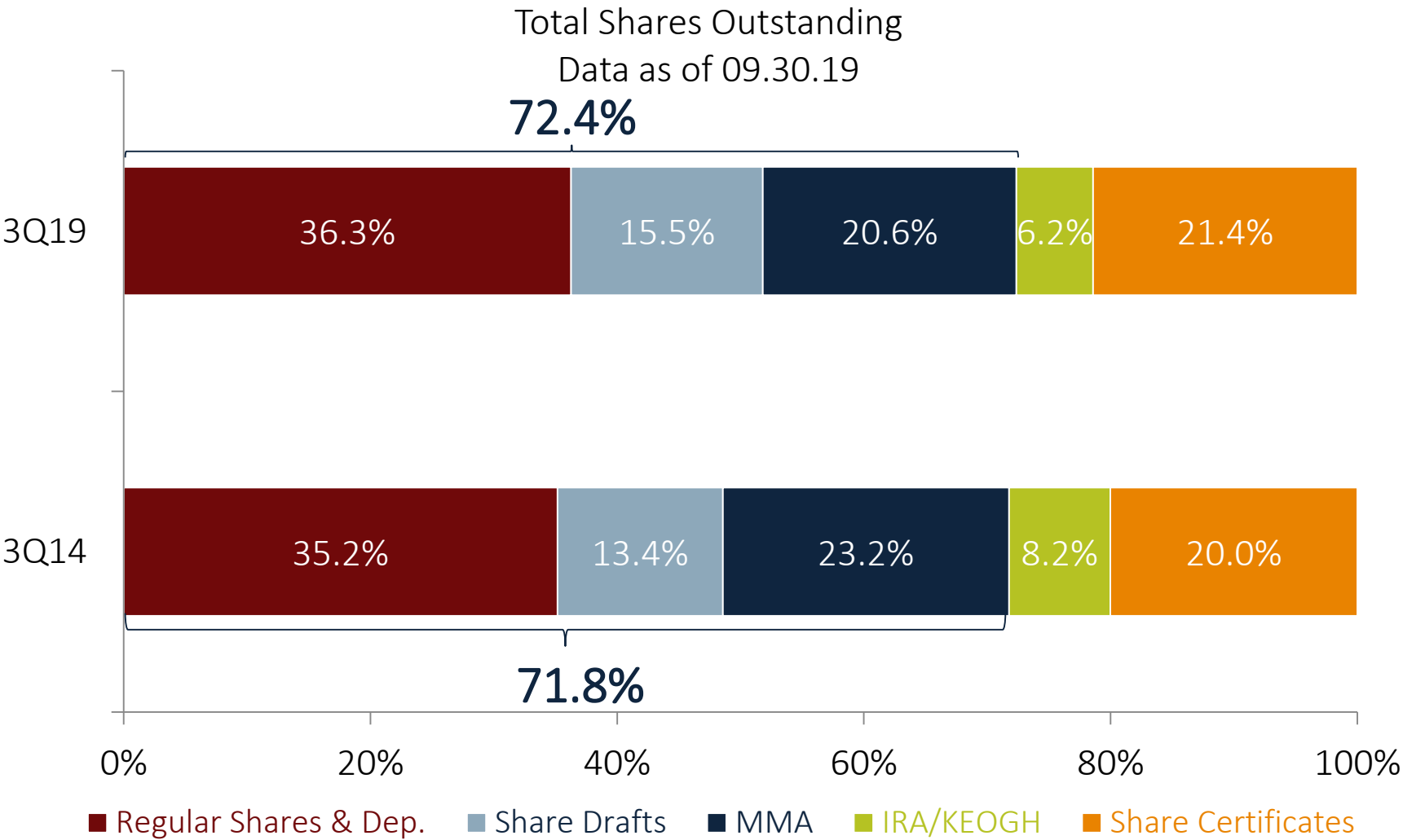
Source: Callahan's Peer-to-Peer Analytics

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ASSOCIATES

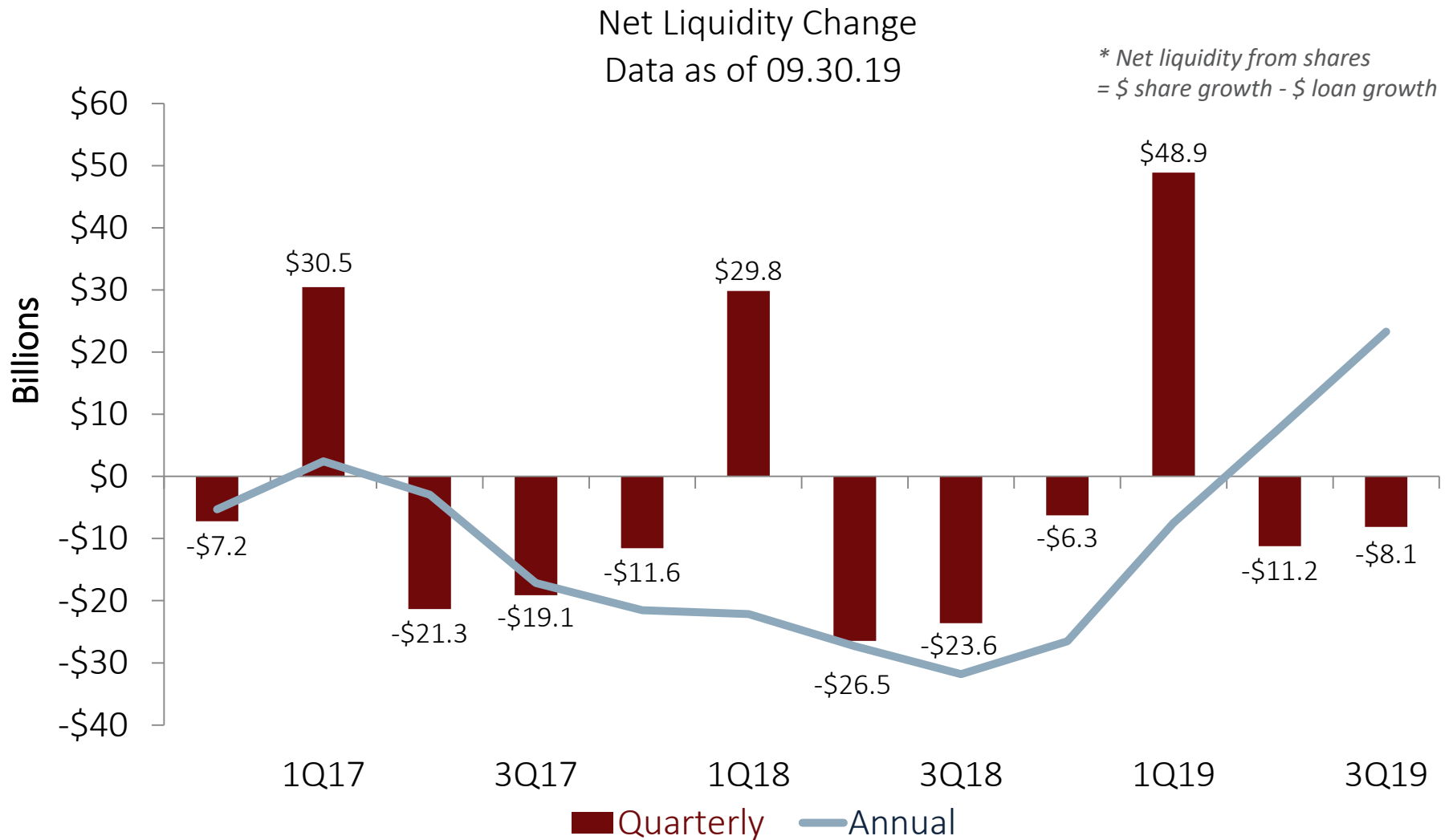
Certificates comprise almost 60% of total share growth



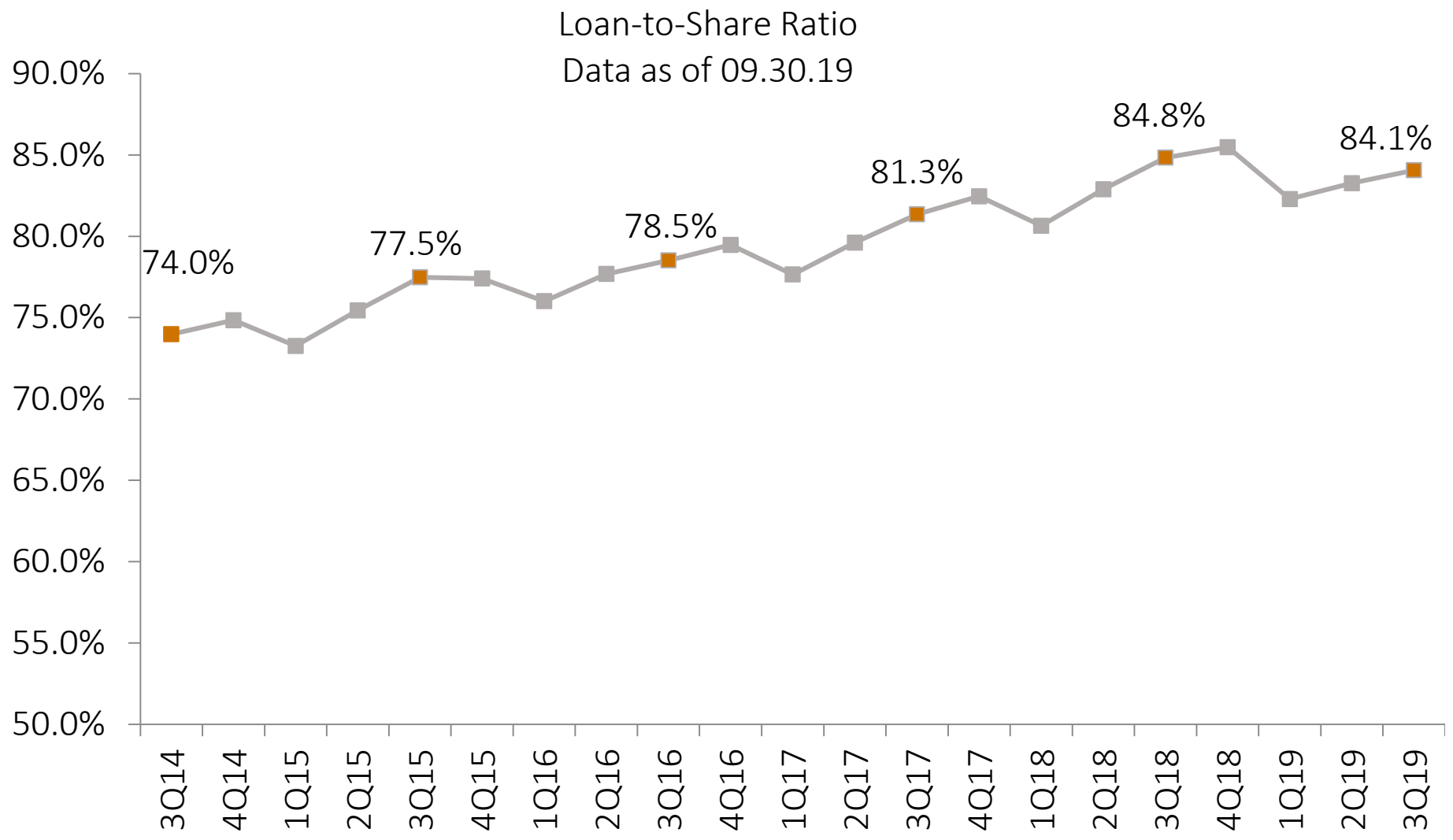
Core deposits make up 72% of shares similar to 2014



Industry is cash flow positive YTD for first time since 2016

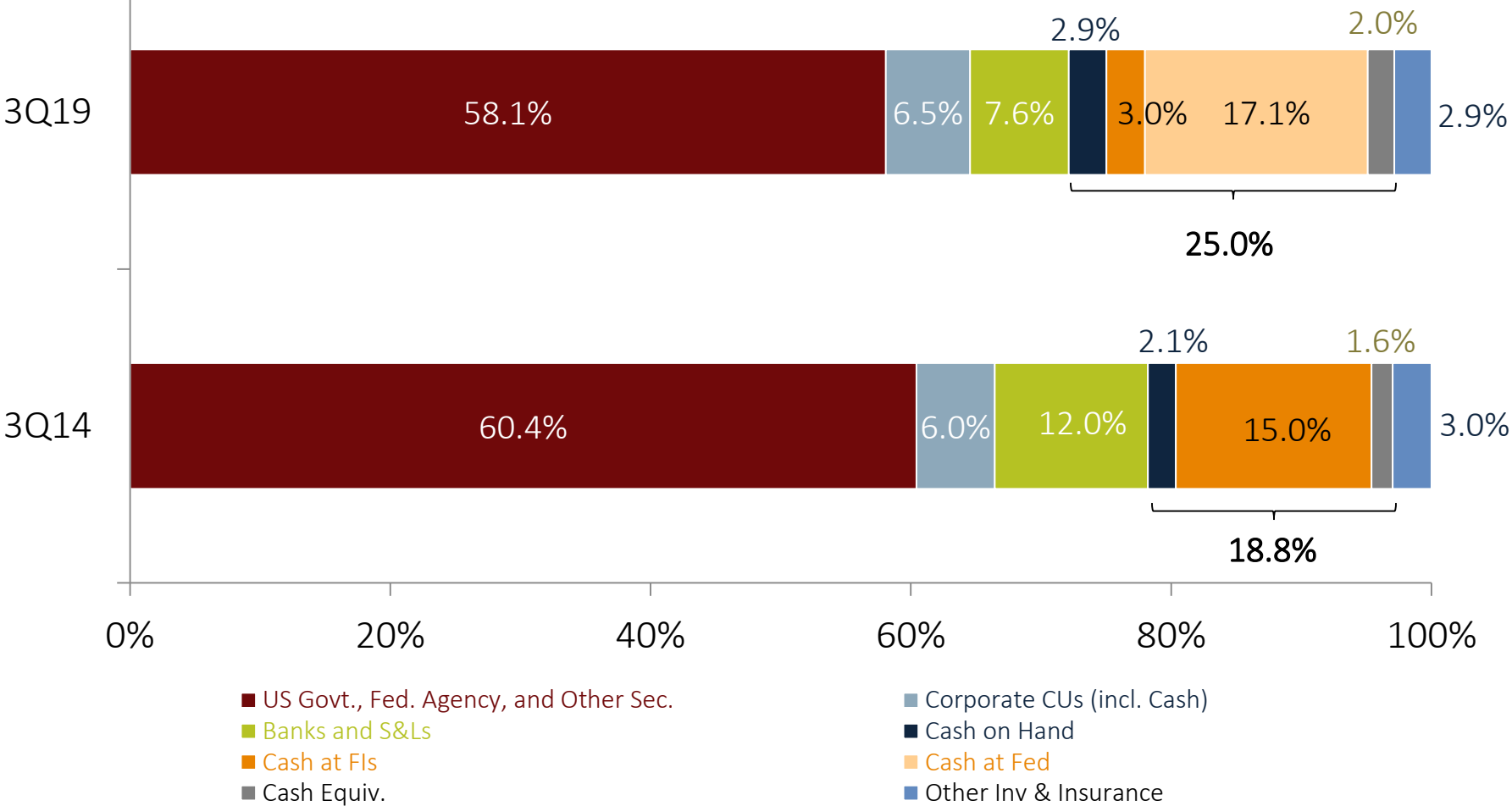


Loan-to-share ratio climbs on strong 1st mortgage originations



Credit unions keeping liquidity position short

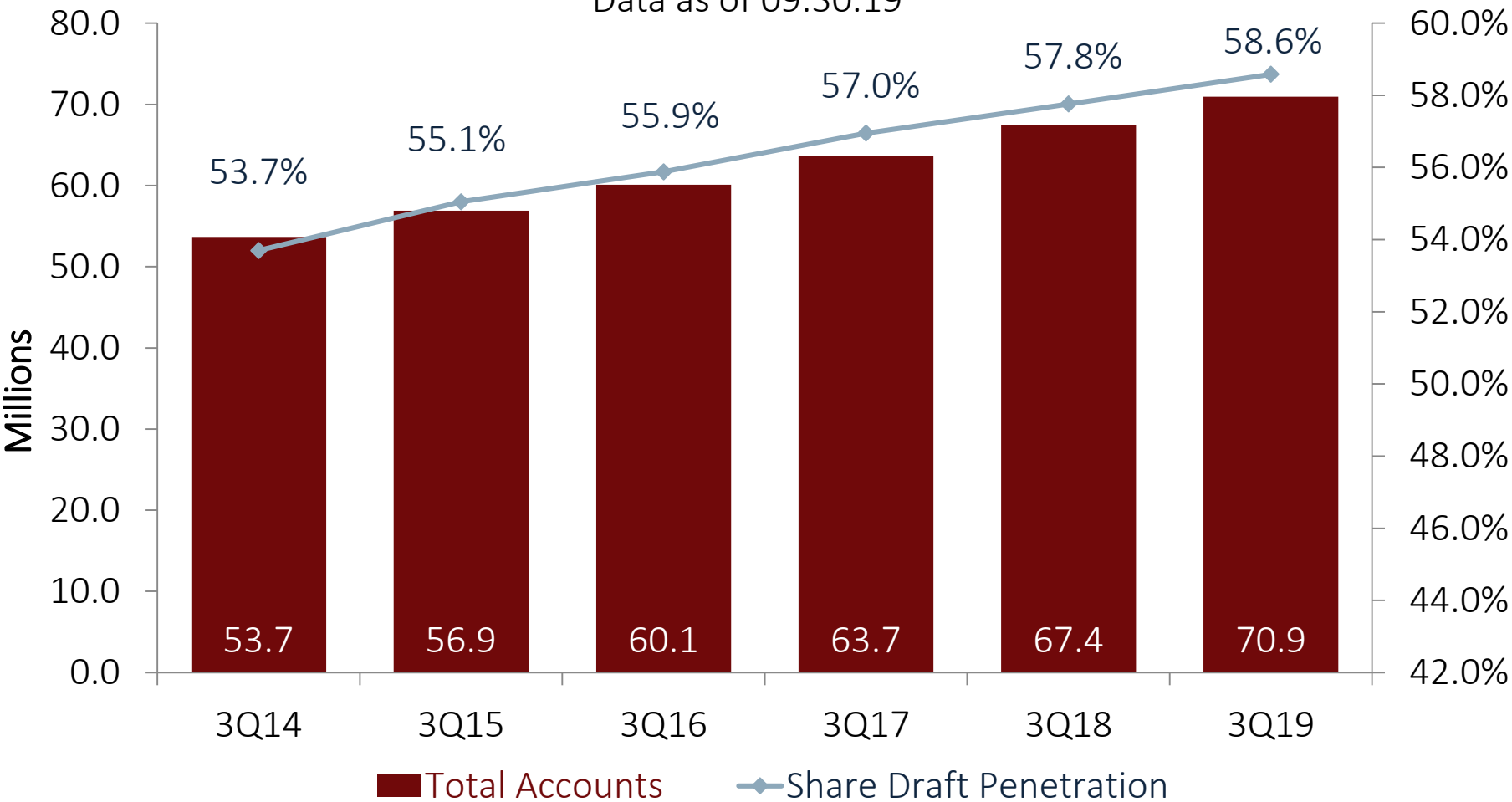
Historical Investment Composition
Data as of 09.30.19



Member Impact

3.5 million new checking accounts opened YTD

Share Draft Accounts and Share Draft Penetration
Data as of 09.30.19



Penetration rates remain solid even with 21% member growth past 5 years

Penetration Rates
Data as of 09.30.19



Credit Card

Real Estate

Share Draft

Auto

3Q19

17.6%

6.4%

58.6%

21.3%

3Q14

16.3%

6.6%

53.7%

17.3%

Change

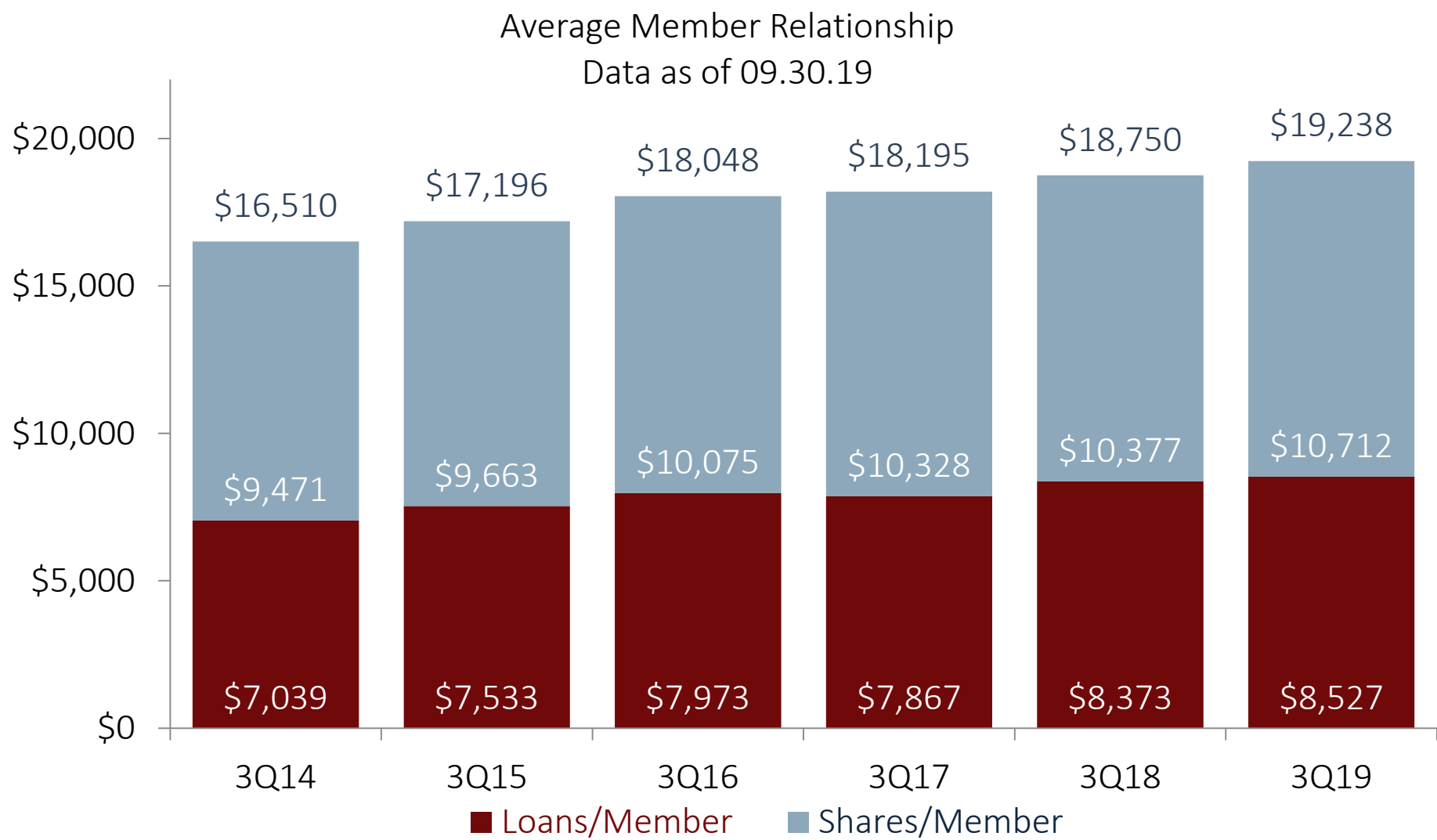
+1.3%

-0.2%

+4.9%

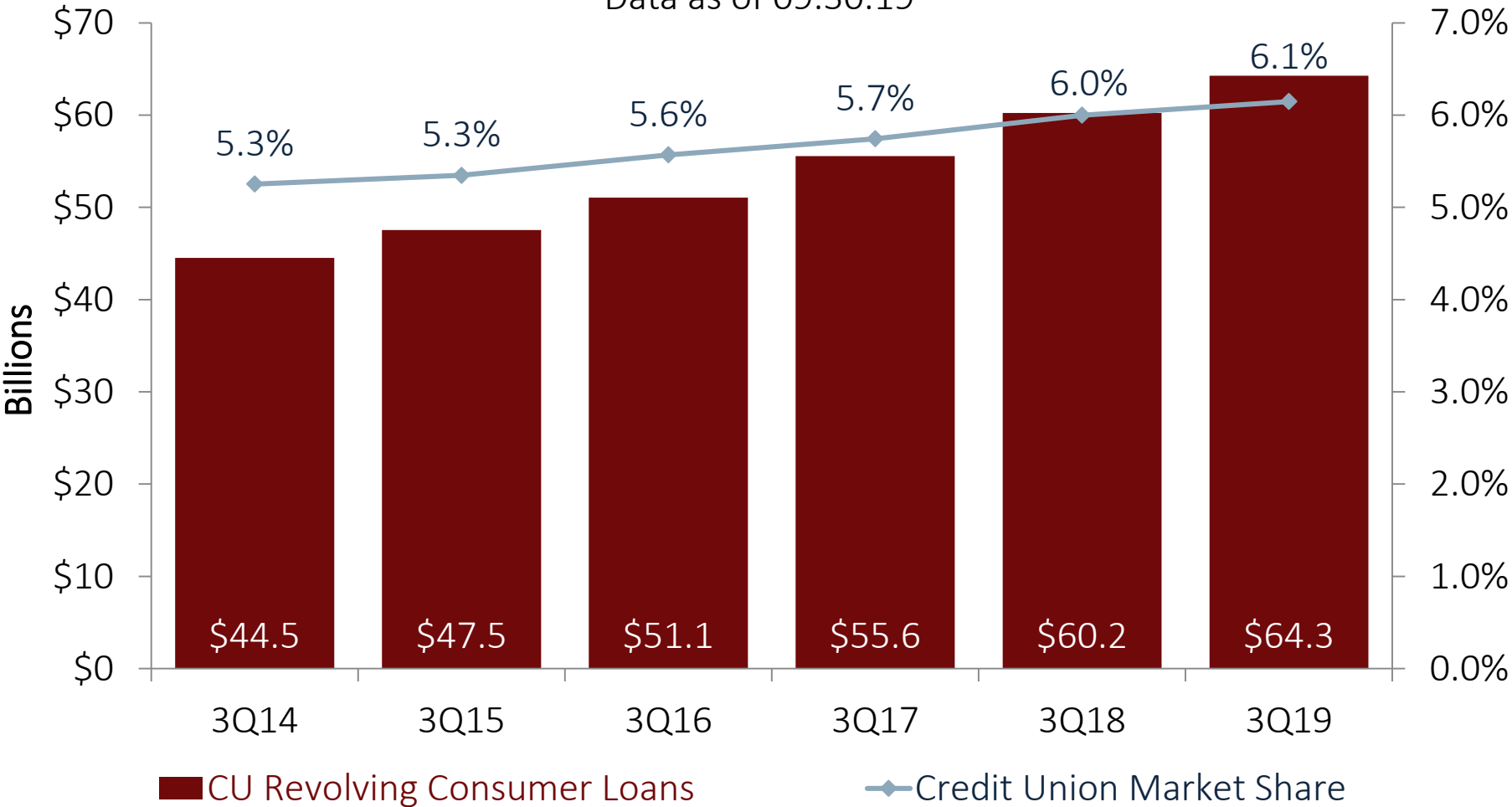
+4.0%

Average Member Relationship continues 6 year streak of increases



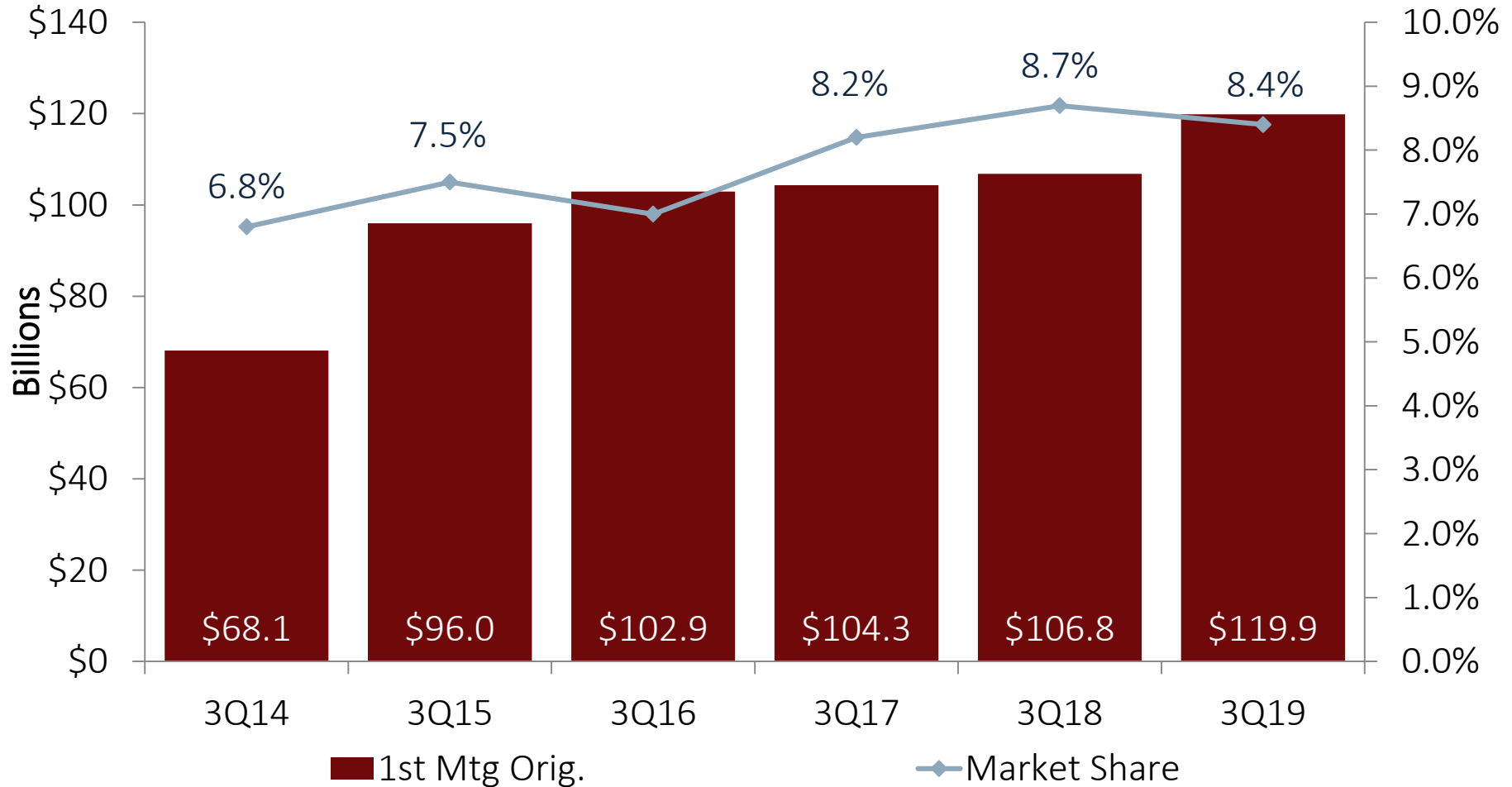
CU market share climbs as total market nears \$1.1T

Revolving Consumer Loan Balances and CU Market Share
Data as of 09.30.19



Record 3Q originations turn around declining trend at 2Q

First Mortgage Originations & Market Share
Data as of 09.30.19



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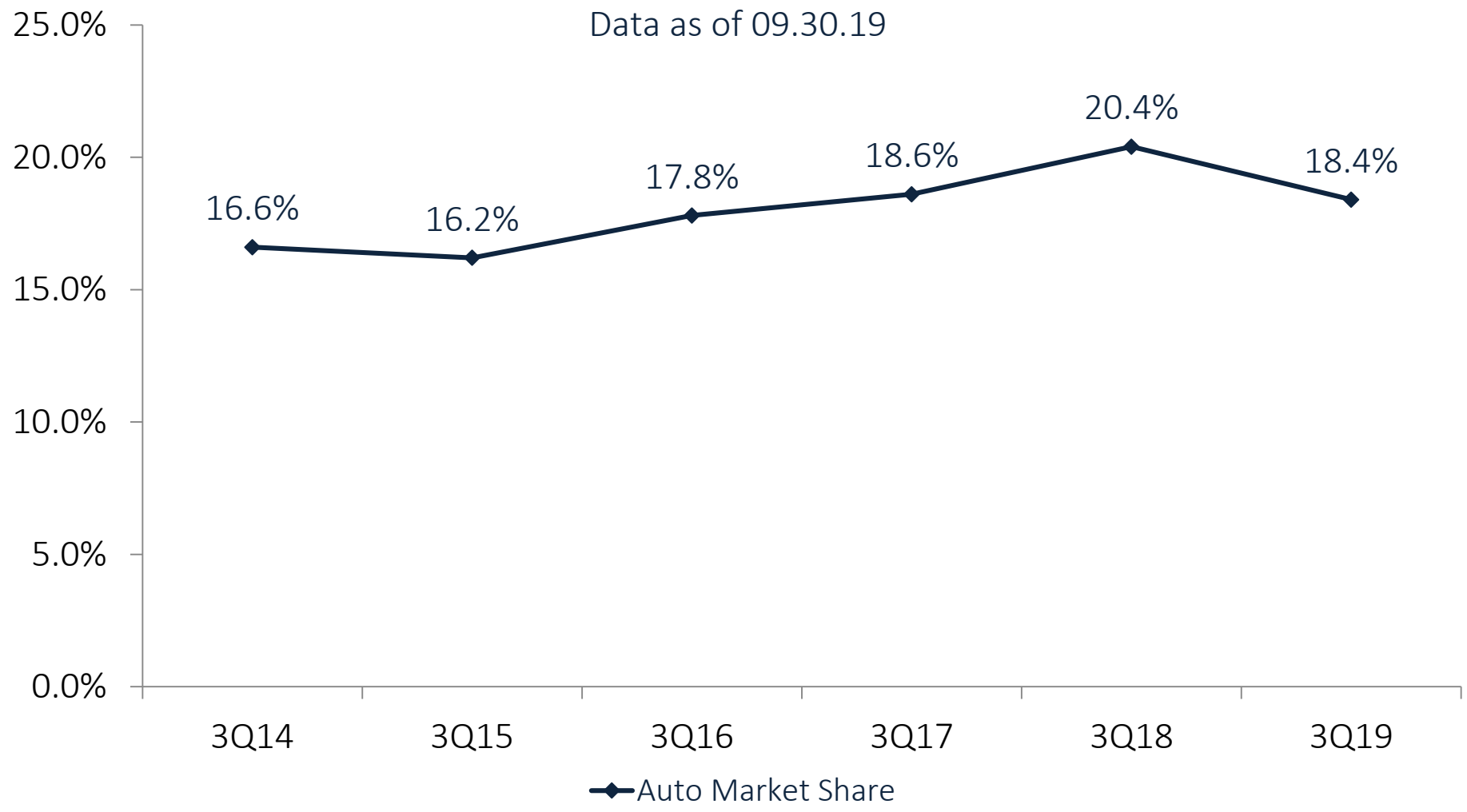


Source: Callahan's Peer-to-Peer Analytics
Mortgage Bankers Association

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Auto market share declines as CUs pump breaks on indirect

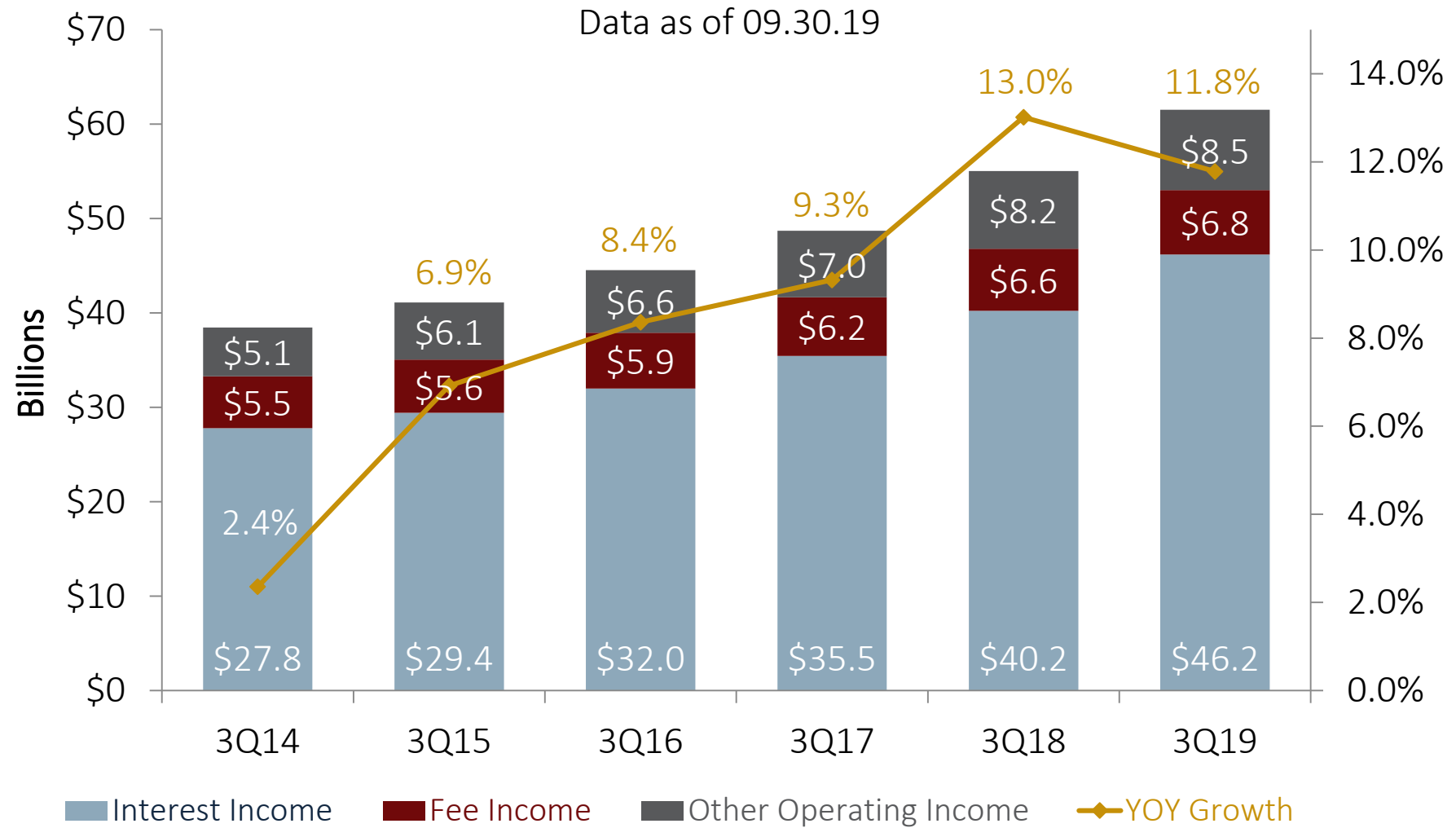
Credit Union Auto Finance Market Share
Data as of 09.30.19



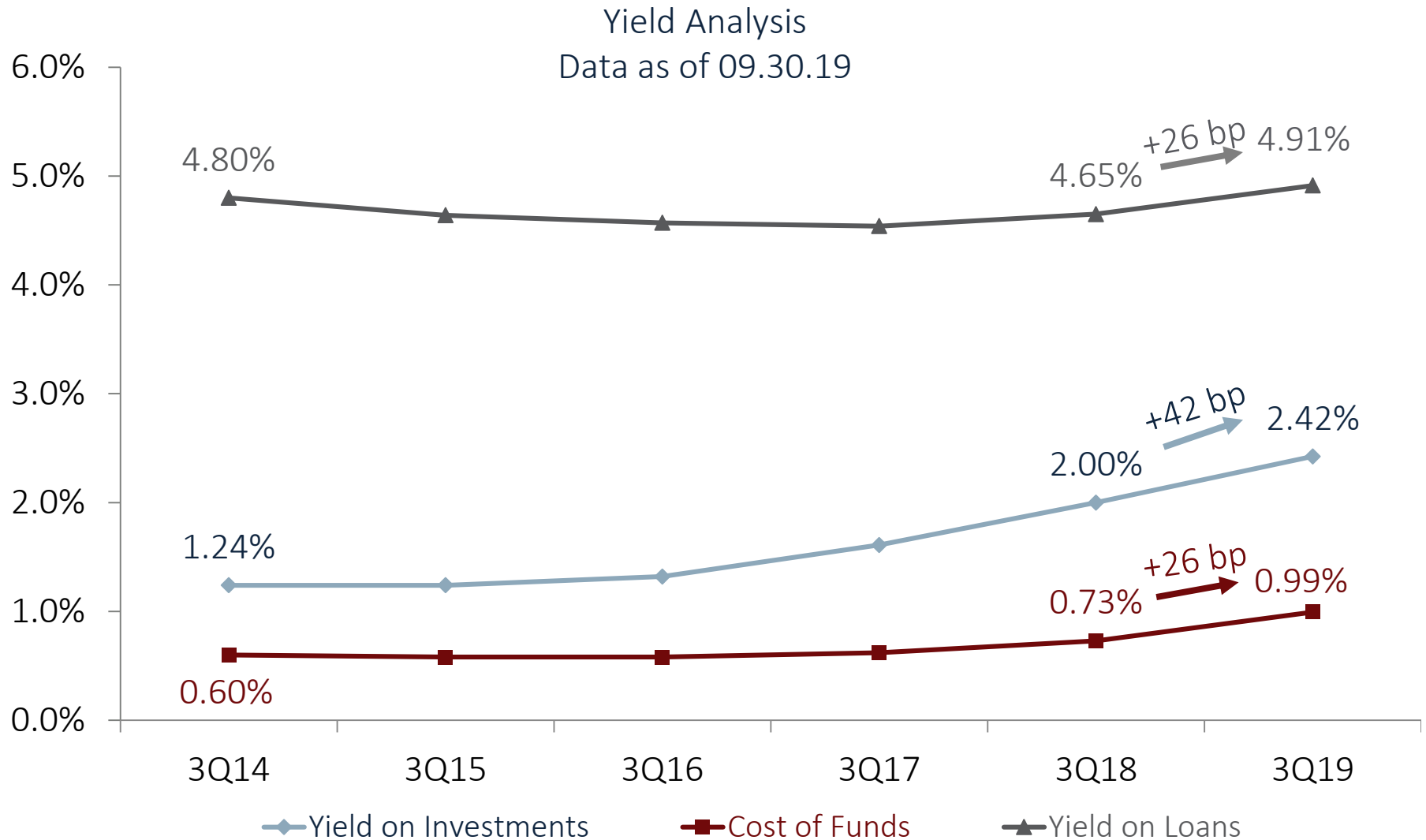
The Bottom Line

Interest income primary driver of overall income, up 14.8%

Total Revenue and Annual Growth
Data as of 09.30.19

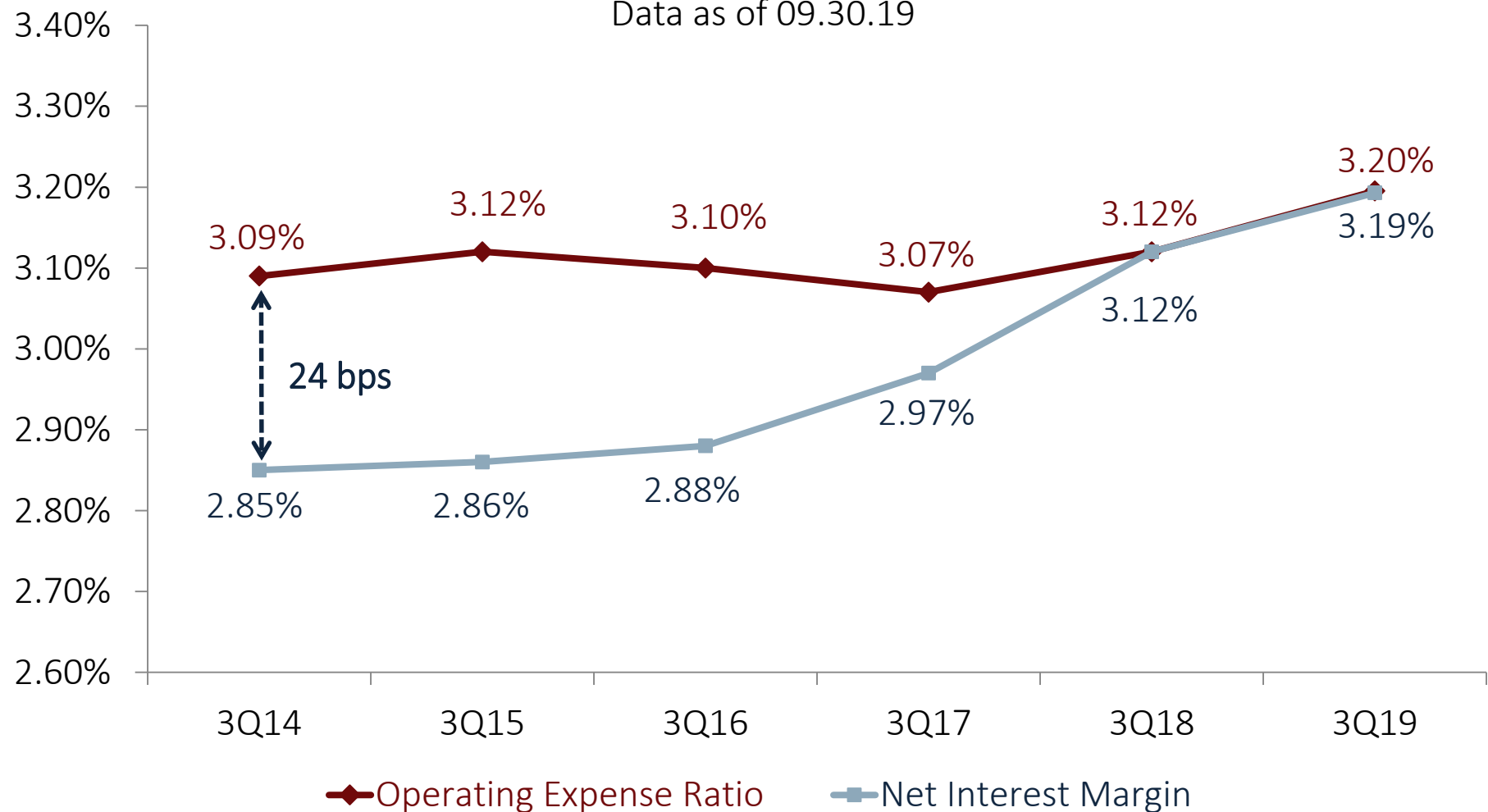


Loan yields and the cost of funds rise in unison

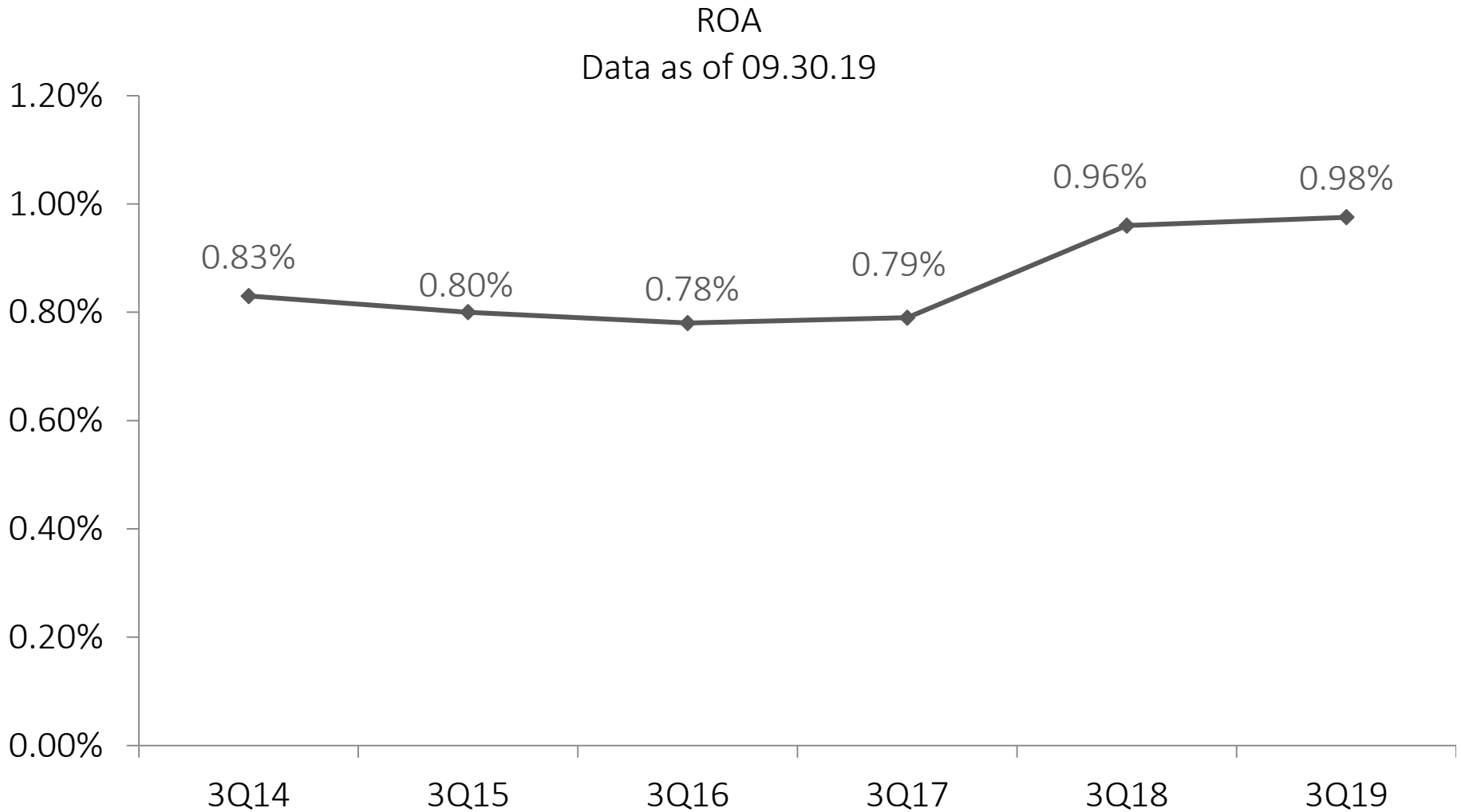


Operating expenses inch above net interest margin

Net Interest Margin vs. Operating Expense Ratio
Data as of 09.30.19



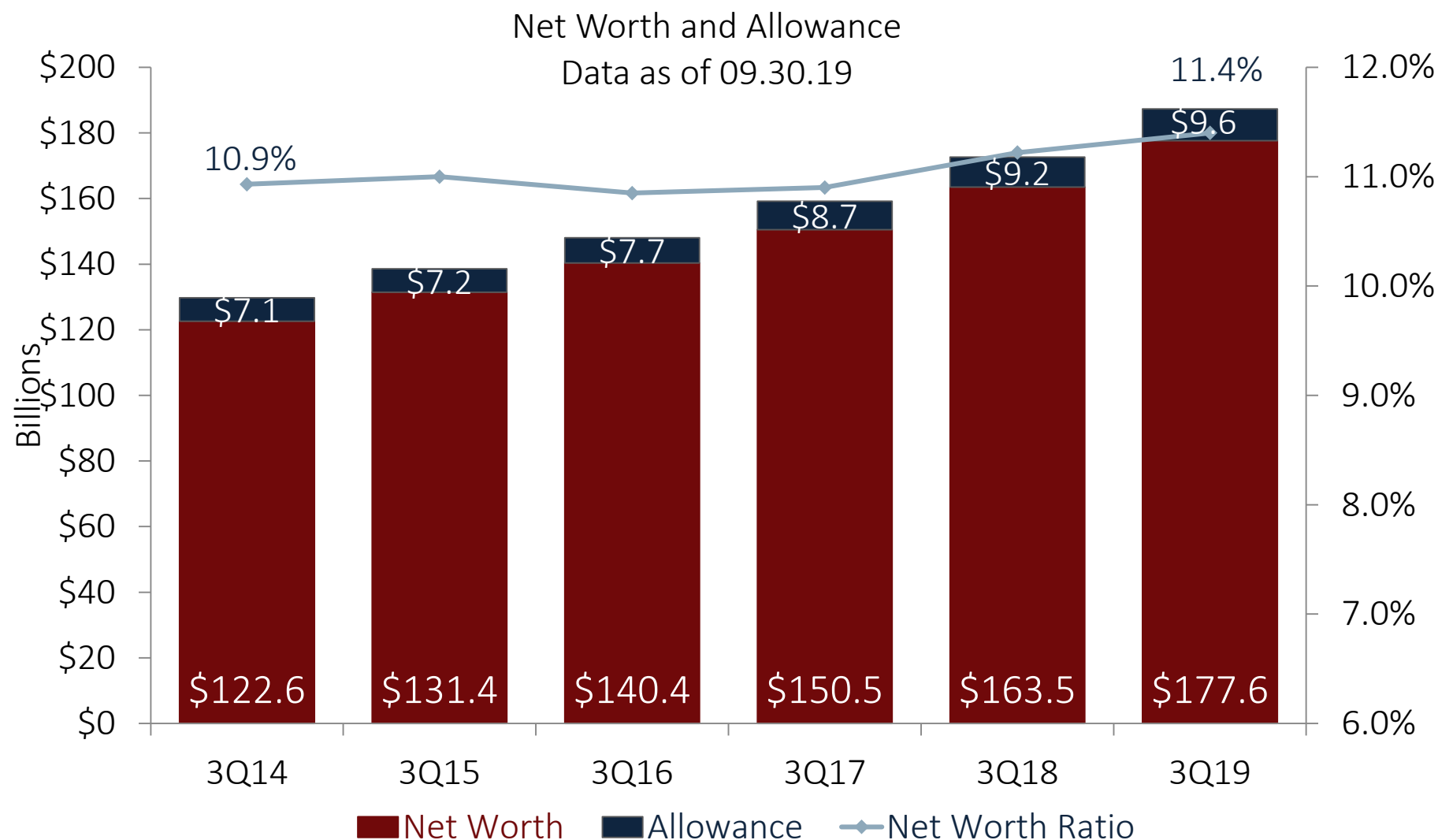
ROA approaches 1% through the third quarter



Interest income gains, PLL decline prop up ROA

	As of 09.30.2019	As of 09.30.2018	12-mo. Change (bps)
Interest Income/Avg. Assets	4.07%	3.76%	+31
Interest Expense/Avg. Assets	0.87%	0.64%	+23
Net Interest Margin	3.19%	3.12%	+7
Non-Interest Income/Avg. Assets	1.40%	1.41%	-1
Non-Interest Expense/Avg. Assets	3.20%	3.12%	+8
Provision for Loan Losses	0.43%	0.45%	-2
ROA	0.98%	0.96%	+2

Strong net worth ratio bodes well for economic shocks



Looking forward

- 1) Credit unions are looking to differentiate in a crowded market
- 2) Renewed focus on purpose and mission
- 3) Increased marketing spend on telling our story and changing perception
- 4) Volatility in markets may create opportunity



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Tell us what you thought!



Please answer our post-event survey.

One lucky survey respondent will win a Starbucks gift card.

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