Credit Union Trends Report

May 2021 ▪ March 2021 Data

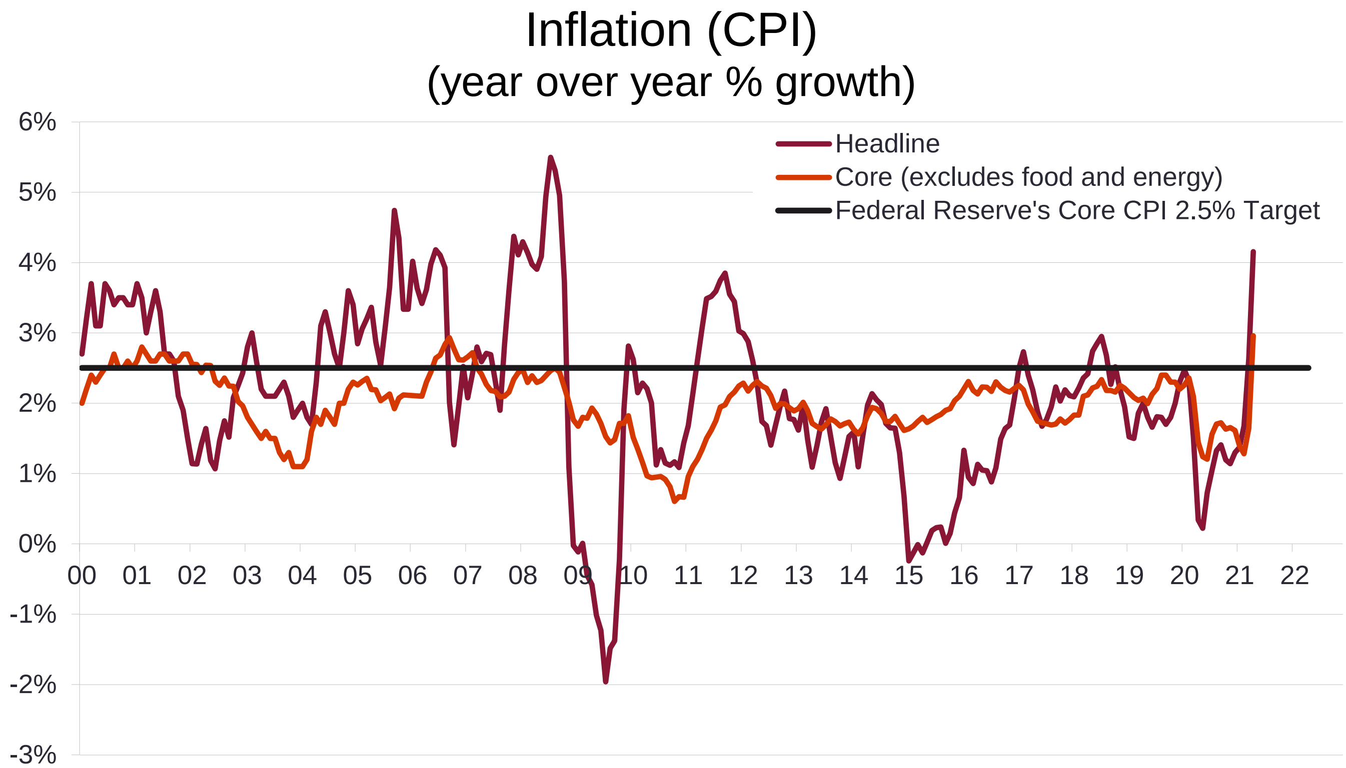
01

Economic Trends

Inflation rises to the highest level since 2008

Economic Trends

Prices are rising as too many dollars are chasing too few goods.



Source: Bureau of Labor Statistics

Inflation is currently rising at the fastest pace since 2008. On a year-ago basis, the headline Consumer Price Index rose 4.2% while the core CPI (excluding food and energy prices) rose 3% **(see Figure above)**. Used care prices and airfares were up more than 10% in April versus March contributing to the headline CPI rising 0.8% for the month. Excluding food and energy prices the core CPI jumped 0.9% the fastest monthly pace since the early 1990s.

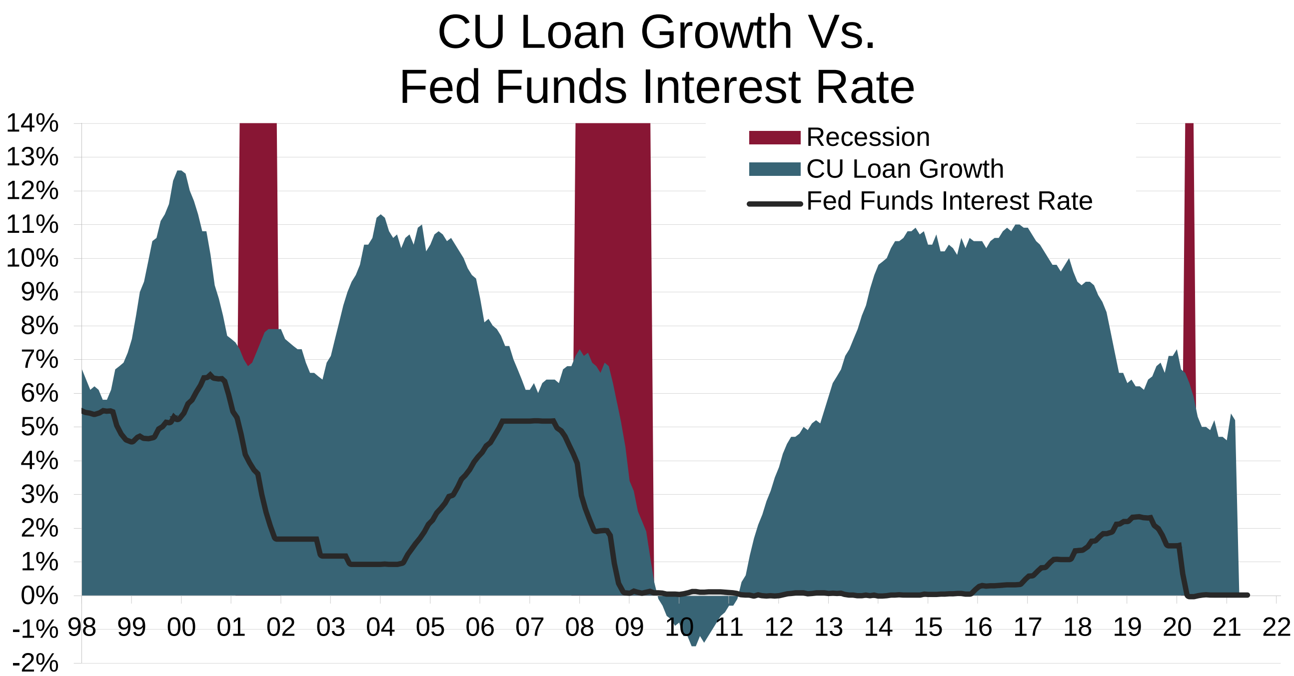
This surge in inflation could unanchor inflation expectations in the bond market which would then push up longer term interest rates. This surge in inflation may therefore cause the Federal Reserve to change their communication regarding forward guidance of monetary policy to reassure bond market participants that they will not let inflation rise significantly above their 2% average inflation target for a prolonged period.

02

Total Credit Union Lending

Credit union loan growth is expected to be weak this year but pick up in 2022

Total Credit Union Lending



Credit union loan balances rose 0.22% in March, below the 0.33% reported in March 2020 and 4.9% during the last 12 months. March is historically the 3rd weakest loan growth month of the year, with seasonal factors typically shaving off 0.24 percentage points from the underlying trend growth rate. The lending season for credit unions begins in earnest in April and continues through August.

Driving overall loan growth was strong growth in unsecured personal loans (2.6%), used-auto loans (0.7%) and fixed-rate first mortgages (0.6%).

How do low short-term interest rates affect credit union loan growth? The **Figure above** shows the relationship between credit union annualized loan growth numbers and the Fed Funds interest rate for the past 23 years. Periods of low Fed Funds interest rates, (2002-2004 and 2009-2016) have a stimulative effect on overall credit union loan growth. This is, of course, the goal of expansionary monetary policy, which is to raise the rate of credit creation from below trend growth to something closer to normal. Credit union loan growth is currently around 5%, below its long run average of 7%. Expect credit union loan balances to rise 5% in 2021 and 8% in 2021 and 2022 which will be slightly above the long run average.

03

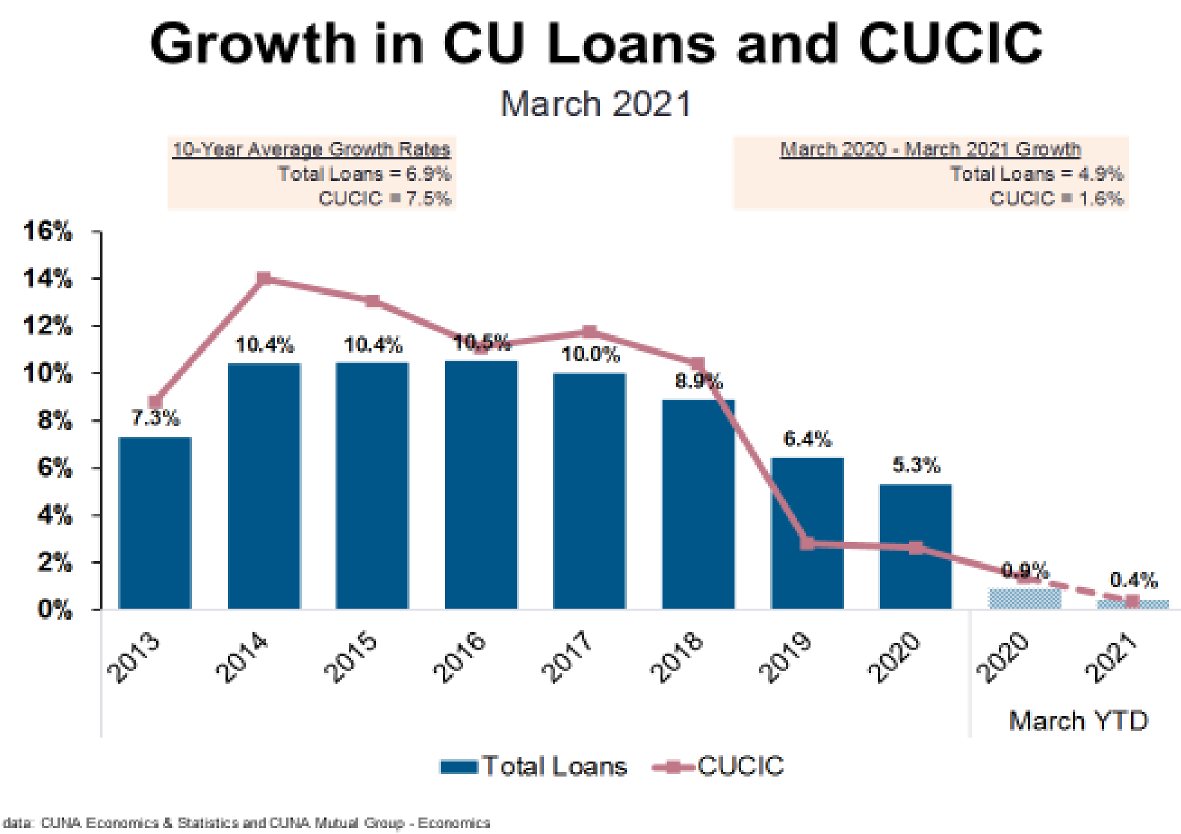
Consumer Installment Credit

Credit union credit card loan balances falling the fastest in credit union history

Consumer Installment Credit

Credit union consumer installment credit balances (auto, credit card and other unsecured loans) fell 1% in March, below the 0.8% pace set in March 2020, due to negative growth in new-auto lending (-3.2%) and credit cards (-2.5%). Credit card balances fell in March due to seasonal factors that typically shave 1.23 percentage points from the underlying trend growth as members use tax refunds and bonuses to pay down outstanding credit card balances. But this year many credit union members also received $1,400 stimulus checks in March and used part of these funds to pay off higher rate credit card debt. Over the last year, credit union credit card loan balances fell 10.3%, the biggest drop in credit union history.

Credit union consumer installment credit grew 0.4% year to date, less than half the 0.9% pace set in the first quarter of 2020 **(see Figure below)**. Credit union consumer installment credit grew 1.6% during the last year, which is slightly above the 0.9% for the total market excluding credit unions.



04

Vehicle Loans

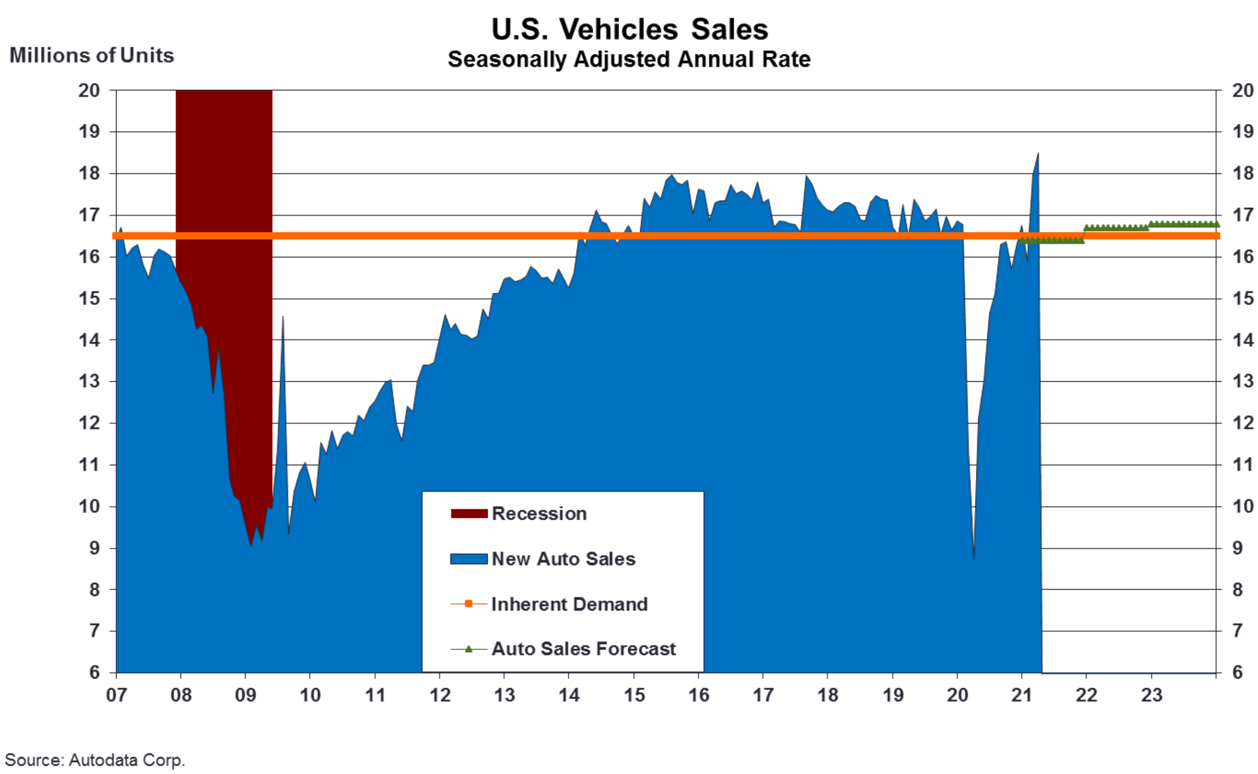
New-auto sales are at the highest pace since 2005

Vehicle Loans

Credit union new-auto loan balances declined 3.2% in March; a bigger decline compared to the 0.8% drop in March 2020. New auto loan balances are down 6.5% from one year ago but used-auto loan balances are up 4.8%. The new-auto buying and lending season begins in May and runs through October. On a seasonally-adjusted annualized growth rate basis, new-auto loan balances fell 5.7% in March, as loan payoffs are exceeding loan originations.

Vehicle sales were 17.7 million in March and 18.5 million in April **(see Figure below)** at a seasonally-adjusted annualized sales rate. The April sales number is the strongest April in the history of the U.S. auto market and the fastest of any month since July 2005.

The April sales number (18.5 million) was 112% above the pandemic-ravaged totals of April 2008 (8.7 million). Sales of both light trucks and SUVs remained strong in April. Sales of light trucks and SUVs were 22% above the April 2019 sales pace. Car sales were 14% below the April 2019 as consumers continue to shift towards larger vehicles.



Source: Autodata Corp

05

Real Estate Information

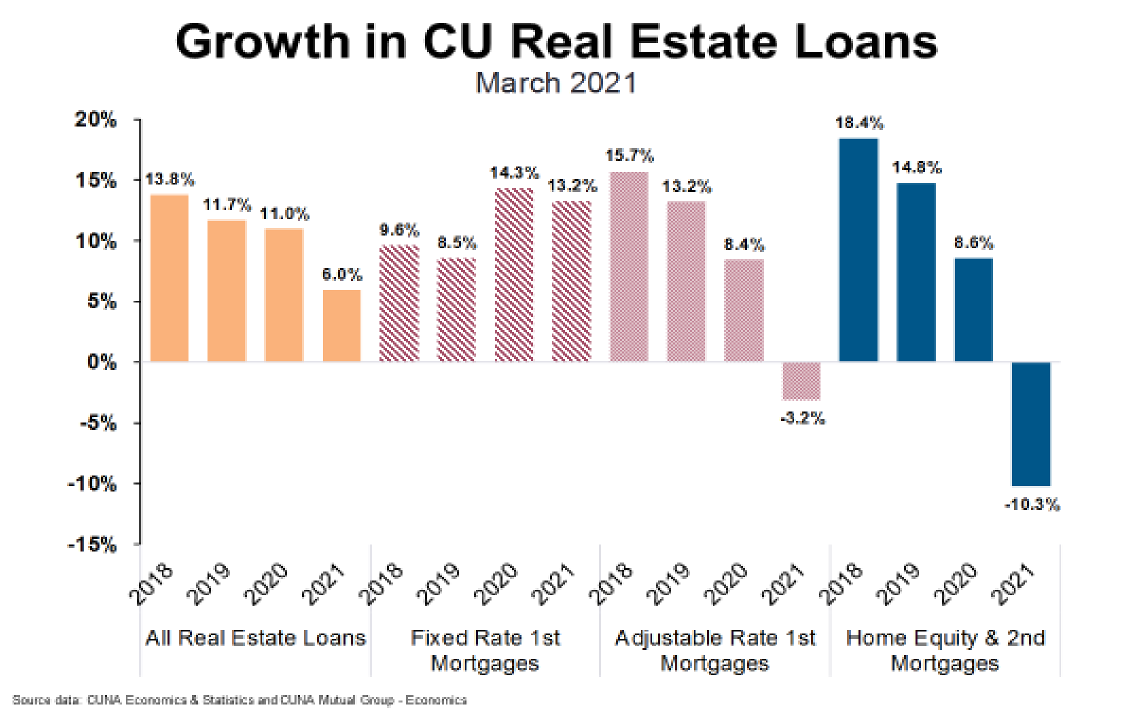
Real estate loan balance growth has slowed significantly in 2021

Real Estate Information

Credit union fixed-rate first mortgage loan balances rose 0.6% in March, below the 5.1% increase reported in March 2020, as mortgage interest rate began to rise. Credit union fixed-rate first mortgage loan balances rose 13.2% over the last 12 months, slightly below the 14.3% pace set for the similar time period last year **(see Figure below)**. Home equity loans and second mortgage balances fell by 10.3% over the last year as members rolled these loans into refinanced low-rate first mortgage loans.

The contract interest rate on a 30-year fixed-rate conventional home mortgage rose to 3.08% in March, up from the 2.81% in February but lower than the 3.45% reported in March 2020. The increase in mortgage rates is partly due to the 10-year Treasury interest rate rising from 1.26% in February to 1.56% in March 2021. Interest rates are moving higher due to higher inflation expectations (4 basis points) and higher real interest rates (26 basis points).

Home prices rose 2% in March from February, according to the Core Logic Home Price Index, and 11.3% year-over-year which is the fastest pace since 2006. U.S. home prices are rising faster than incomes due to limited supply of homes colliding with steady demand. The shortage of new homes is due to homebuilders not producing enough new inventories to satisfy demand. With the Federal Reserve not expected to raise interest rates this year, expect mortgage interest rates to remain below 3.5% for the rest of the year.



06

Surplus Funds

(Cash + Investments)

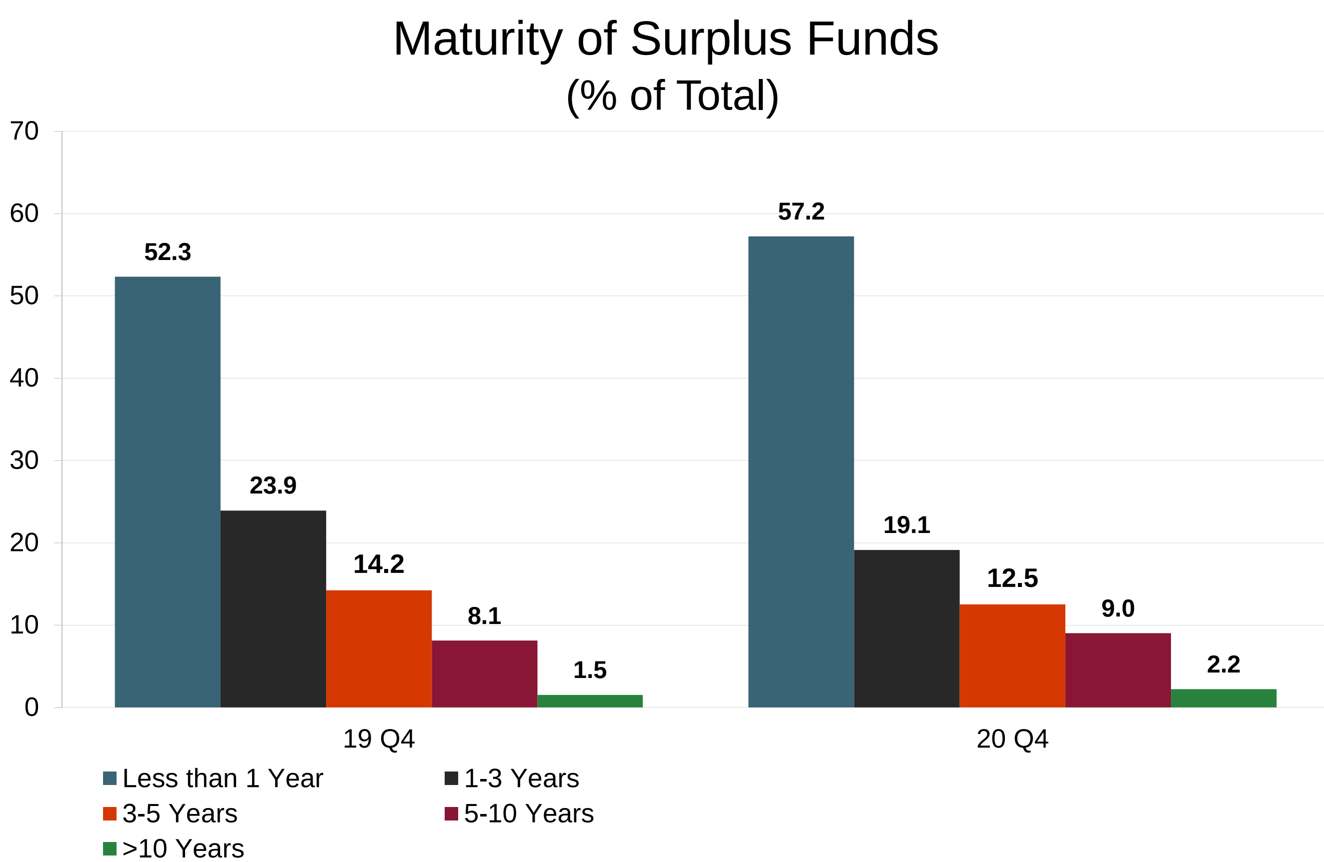
Almost 28% of credit union surplus funds held as cash deposits in financial institutions

Surplus Funds

Credit union surplus funds as a percent of assets rose to 35.7% in March from 27% last year, as credit unions placed strong deposit growth into investments as loan growth slowed. During March, a 4.4% surge in savings balances funded a 0.2% increase in loans and an 8.9% increase in surplus funds. External borrowings fell a large 22% in March.

Surplus funds are expected to rise to 38% of assets by the end of the year, the loosest liquidity position since the second quarter of 2013, as loan balances grow only 5% and savings balances rise a very strong 14%.

The COVID-19 pandemic and low market interest rates has shifted credit union surplus funds maturity toward shorter term investments and away from 1–5-year investments. Surplus funds with less than one year maturity rose to 57.2% of total surplus funds in the 4th quarter of 2020, up from 52.3% one year earlier **(see Figure below).** Investments with a maturity from 1-3 years reported the biggest drop, falling from 23.9% of total to 19.1%. Cash deposits in financial institutions rose from 20.8% of total surplus funds in 2019 to 27.8% in 2020.



07

Savings and Assets

The average credit union member has 20% more savings balances today than they did one year ago

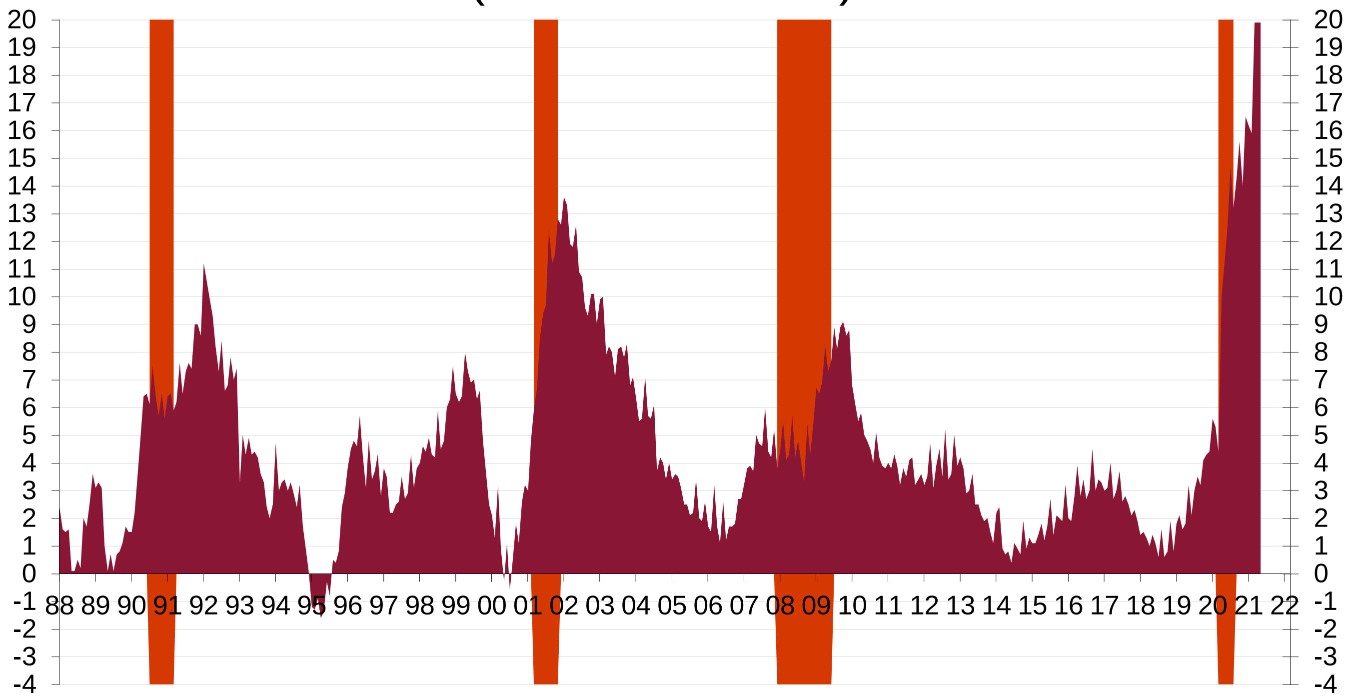
Savings and Assets

Credit union savings balances surged 4.4% in March, above the 0.9% gain reported in March 2020, due to $1,400 stimulus checks and the seasonal factors of tax refunds and bonuses being deposited in credit union members' share draft and regular share accounts, which increased 7.1% and 6.9%, respectively. March's seasonal factors typically add 1.2 percentage points to the underlying savings trend growth, making it the second biggest month of the year for credit union savings growth.

The average credit union member had $13,562 in total savings deposits in March 2021, up from $11,307 in March 2020. This $2,255 jump in savings balances is the biggest in credit union history and is due to a combination of stimulus checks, enhanced unemployment insurance benefits, less gasoline purchases and increased savings of income due to fear and uncertainty caused by the COVID-19 pandemic.

In percentage terms, per member savings balances rose almost 20% during the last year, even higher than the 13.5% reported during the 2001 stock market crash **(see Figure below)**. The big question going forward is how "sticky" will be these additional deposits? Will credit union members keep the additional two thousand dollars as a savings cushion or will they spend those funds once the economy reaches herd immunity sometime in the second half the 2021?

Savings per Member Growth Rate
(Paradox of Thrift)



Source: CUNA & NCUA

08

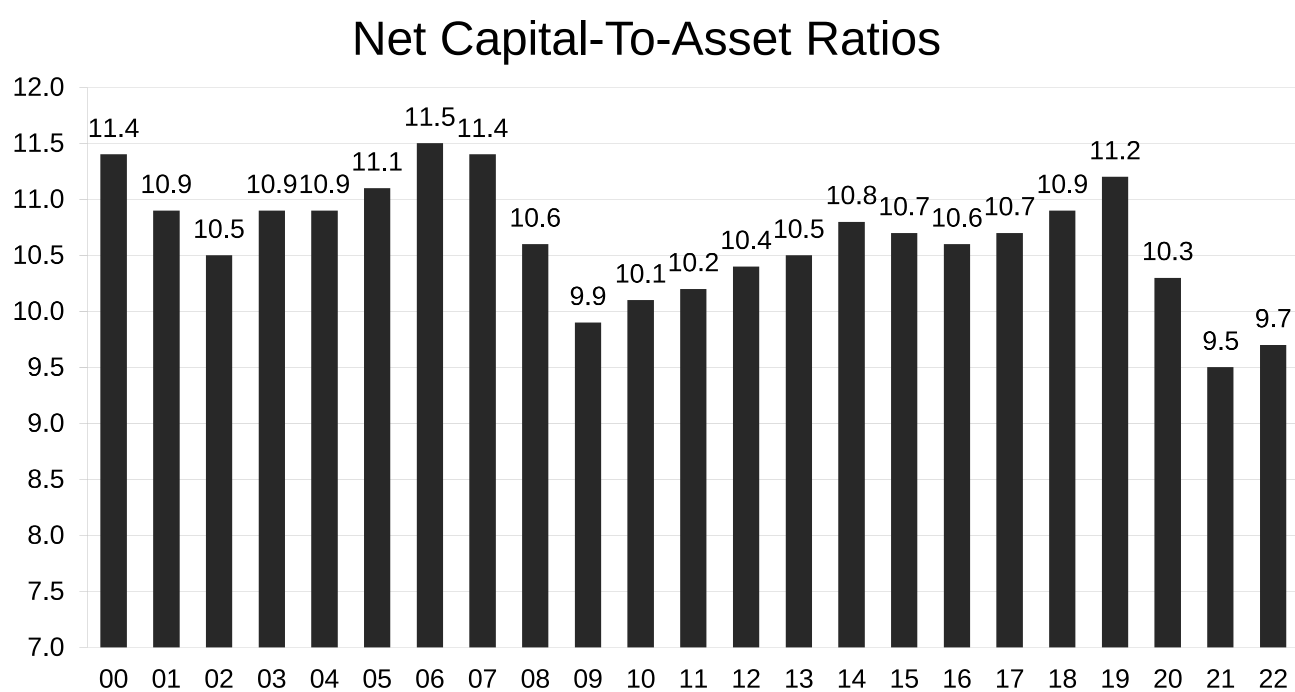
Capital and Other Key Measures

Credit union capital-to-asset ratios expected to fall to 9.5% at year end, the lowest since 1994

Capital and Other Key Measures

The credit union average capital-to asset ratio fell to 9.8% in March 2021, down from 11% in March of 2020. In the year ending in March, credit union capital rose 6.4% while assets grew 19.4%, which decreased the capital ratio 1.2 percentage points and 11 percent which is the approximate difference between the numerator and denominator growth rates. During the first quarter, credit unions reported strong deposit and asset growth due to $1,400 stimulus checks and many members receiving their tax refund and bonuses. Capital ratios could fall to 9.5% by year end as the capital growth rate remains low but asset growth surges 14% **(see Figure below)**.

The credit union loan delinquency rate (loans two or more months delinquent as a percent of total loans outstanding) fell to 0.49% in March, down from 0.6% in December 2020, and down from 0.63% in March 2020. Credit unions normally report large declines in the delinquency rate in February and March as members use bonuses and tax refunds to catch up on overdue loans. The labor market is now in recovery mode, with the unemployment rate close to 6%, which is slightly above the 4.5% considered to be full employment. With the unemployment rate expected to fall below 4.5% by the end of 2022, we can expect the credit union loan delinquency rate to remain low over the next two years.

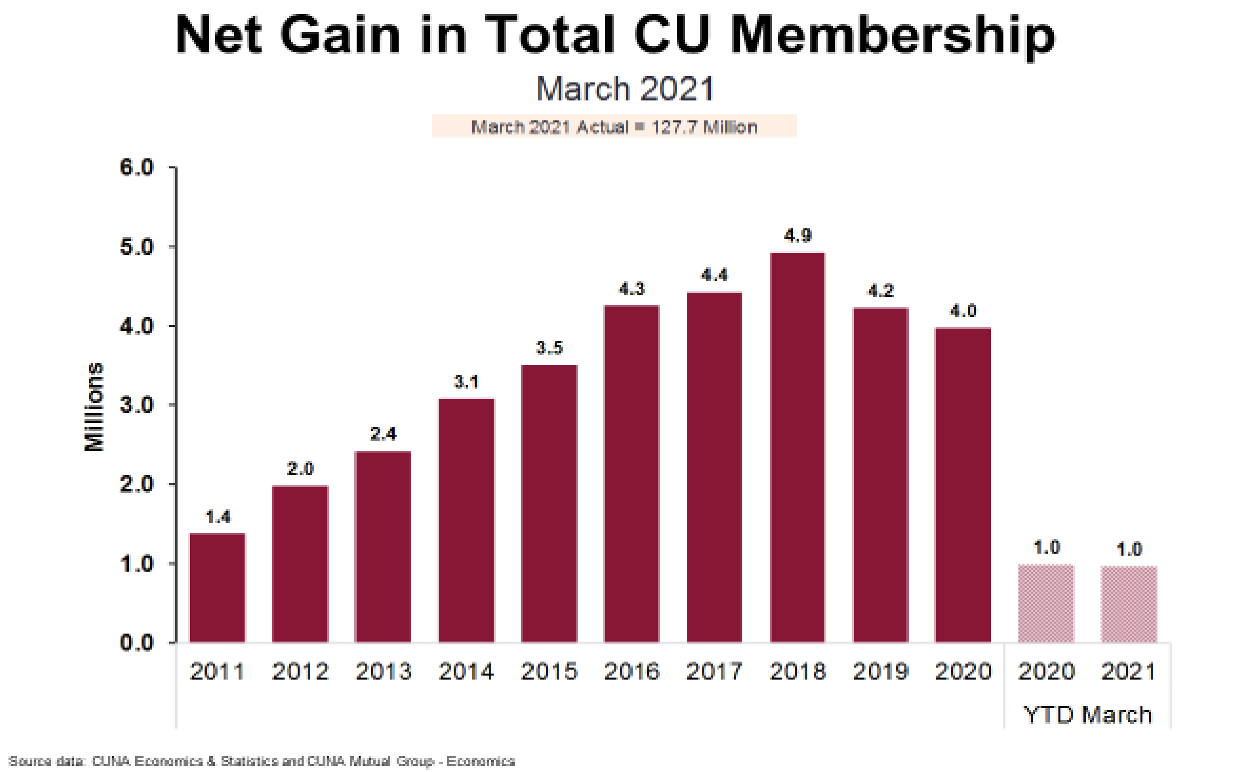


09

Credit Unions and Members

Credit union memberships expected to rise 3% in 2021 and 3.5% in 2022

Credit Unions and Members



Credit union membership growth slowed slightly in the first quarter of 2021, adding 0.965 million new memberships, slightly slower than the 0.993 million added in the first quarter of 2020 **(see Figure above)**. On a growth rate basis, memberships are up 3.2% in the year ending in March 2021, below the 3.4% pace set in the year ending in March 2020. The membership growth was partially driven by the 1.539 million jobs gained in the first quarter, according to the Bureau of Labor Statistics, which is far above the 1.079 million jobs lost in the first quarter of 2020 when the COVID-19 Pandemic began affecting the economy.

Credit unions should expect membership growth around 3% in 2021, before picking up slightly to 3.5% in 2022. Most of the membership growth is taking place at credit unions with assets greater than $1 billion due to organic growth and mergers. These large credit unions reported membership growth in the 6% range. Credit union with assets in the range of $250-999 million reported membership growth of around 2% for the last 2 years. Credit unions with less than $100 million in assets lost memberships during the last two years.

Distribution of Credit Union Loans

Estimated $ (Billions) Outstanding

YR/MO	TOTAL LOANS	NEW AUTO	USED AUTO	TOTAL AUTO	UNSEC Ex. CC's	CREDIT CARDS	CUCIC	1st MORT. TOTAL	TOTAL OTHER MORT 2ND + HE	TOTAL REAL ESTATE	MBLs*
19 03	1,069.7	148.2	224.2	372.4	43.8	61.9	471.6	438.2	90.3	528.5	69.6
19 04	1,075.2	148.1	225.2	373.3	44.4	62.5	475.0	438.3	92.4	530.6	69.6
19 05	1,082.8	148.6	226.3	374.9	44.1	62.9	473.7	442.0	91.8	533.9	75.3
19 06	1,090.9	148.8	227.8	376.6	45.0	63.3	476.1	446.1	92.0	538.1	76.6
19 07	1,097.3	148.8	228.7	377.5	45.5	64.0	478.1	448.4	92.8	541.2	78.0
19 08	1,106.6	149.2	229.7	378.8	46.2	64.4	482.5	453.3	92.8	546.2	78.0
19 09	1,112.9	149.6	230.7	380.3	46.2	64.7	483.6	457.8	93.0	550.9	78.5
19 10	1,120.1	148.5	231.4	379.9	46.7	64.9	483.7	464.1	94.0	558.0	78.4
19 11	1,126.2	148.2	232.1	380.3	47.0	65.1	482.0	470.1	94.2	564.2	80.0
19 12	1,133.6	149.7	231.3	381.0	47.3	66.9	482.4	471.8	93.0	564.8	86.4
20 01	1,137.3	149.4	231.9	381.3	47.1	66.3	482.5	471.8	92.9	564.7	90.1
20 02	1,139.9	148.4	232.6	381.0	46.3	65.8	484.9	465.8	93.1	558.9	96.0
20 03	1,143.6	147.2	233.0	380.2	46.7	65.3	489.0	486.2	92.4	578.6	76.0
20 04	1,146.9	146.4	231.2	377.6	47.4	62.7	476.1	488.8	91.7	580.5	90.3
20 05	1,159.9	144.7	232.9	377.5	48.6	61.9	476.0	494.2	91.0	585.2	98.7
20 06	1,168.1	143.9	236.5	380.4	53.2	61.7	486.4	503.2	89.8	592.9	88.8
20 07	1,176.6	143.8	239.2	383.0	52.3	61.5	489.9	508.0	90.2	598.2	88.7
20 08	1,180.2	143.7	239.9	383.6	52.8	61.5	491.4	511.6	89.6	601.1	87.6
20 09	1,186.6	144.0	240.8	384.9	54.4	61.5	493.6	517.0	88.1	605.2	87.9
20 10	1,189.4	145.0	241.5	386.5	53.5	61.4	495.7	516.6	88.0	604.6	89.1
20 11	1,191.3	145.8	241.6	387.5	53.5	62.0	496.5	519.2	87.1	606.3	88.5
20 12	1,193.9	144.4	241.7	386.0	53.2	62.6	495.1	524.6	85.9	610.5	88.3
21 01	1,193.7	143.4	242.4	385.8	51.0	60.8	501.0	528.1	85.5	613.6	79.2
21 02	1,196.5	142.1	242.4	384.5	52.5	60.1	501.6	529.4	84.4	613.8	81.1
21 03	1,199.1	137.6	244.1	381.7	53.9	58.6	496.8	530.2	82.9	613.1	89.2

* Member Business Loans

CUCIC = Total Loans – Total Real Estate - MBLs CUCIC = Total Vehicle Loans + Unsecured Loans + Credit Card – 14% of MBLs

Distribution of Credit Union Loans

Percent Change From Prior Year

YR/MO	TOTAL LOANS	NEW AUTO	USED AUTO	TOTAL AUTO	UNSEC Ex. CC's	CREDIT CARDS	CUCIC	1st MORT. TOTAL	TOTAL OTHER MORT 2ND + HE	TOTAL REAL ESTATE	MBLs*
19 03	7.8	8.5	7.2	7.7	8.4	7.6	11.7	7.6	8.0	7.7	-12.2
19 04	7.2	7.2	6.0	6.0	9.4	8.3	11.2	6.6	8.8	7.1	-12.6
19 05	6.5	5.5	4.9	4.9	7.3	7.9	9.0	6.5	7.4	6.7	-7.5
19 06	6.6	5.2	5.3	5.3	8.2	7.6	8.6	6.7	7.7	6.9	-6.5
19 07	6.3	4.2	4.8	4.6	8.4	7.3	7.4	7.2	6.2	7.0	-3.8
19 08	6.4	3.0	4.4	3.8	8.7	7.4	6.9	7.8	5.4	7.4	-2.5
19 09	6.2	2.2	4.4	3.5	8.1	7.4	7.6	7.2	6.3	7.0	-6.3
19 10	6.2	0.7	4.5	3.0	8.1	7.2	3.3	8.9	4.7	8.2	11.5
19 11	6.2	0.0	4.5	2.7	7.5	5.9	2.2	9.6	4.1	8.7	15.0
19 12	6.4	0.0	4.1	2.4	7.0	6.7	2.8	8.7	3.5	7.8	20.1
20 01	6.5	-0.1	3.9	2.3	6.7	6.3	2.3	8.8	1.8	7.6	26.4
20 02	6.8	-0.2	4.0	2.3	6.0	6.4	2.9	7.1	2.4	6.3	36.9
20 03	6.9	-0.7	3.9	2.1	6.8	5.4	3.7	11.0	2.3	9.5	9.2
20 04	6.6	-1.3	2.7	1.1	7.1	0.5	0.2	11.5	-0.3	9.4	28.0
20 05	7.1	-2.6	2.9	0.7	10.2	-1.5	0.5	11.8	-0.9	9.6	31.1
20 06	7.1	-3.3	3.8	1.0	18.2	-2.5	2.2	12.8	-2.5	10.2	15.9
20 07	7.2	-3.3	4.6	1.5	15.0	-3.9	2.5	13.3	-2.8	10.5	13.8
20 08	6.6	-3.7	4.4	1.2	14.2	-4.5	1.8	12.8	-3.5	10.1	12.4
20 09	6.6	-3.7	4.4	1.2	17.5	-4.9	2.1	12.9	-5.3	9.8	12.0
20 10	6.3	-2.7	4.6	1.8	14.7	-5.4	2.5	11.9	-6.4	8.8	11.1
20 11	5.9	-2.2	4.7	2.0	14.5	-4.9	3.0	11.7	-7.4	8.5	5.8
20 12	5.3	-3.6	4.5	1.3	12.7	-6.4	2.6	11.2	-7.6	8.1	2.2
21 01	5.0	-4.0	4.5	1.2	8.2	-8.4	3.8	11.9	-8.0	8.7	-12.2
21 02	5.0	-4.3	4.2	0.9	13.4	-8.7	3.4	13.7	-9.4	9.8	-15.6
21 03	4.9	-6.5	4.8	0.4	15.4	-10.3	1.6	9.0	-10.3	6.0	17.4

* Member Business Loans

CUCIC = Total Loans – Total Real Estate - MBLs CUCIC = Total Vehicle Loans + Unsecured Loans + Credit Card – 14% of MBLs

National Monthly Credit Union Aggregates

YR/MO	LOANS ($ Billions)	ASSETS ($ Billions)	SAVINGS ($ Billions)	CAPITAL ($ Billions)	MEMBERS (Millions)	CREDIT UNIONS	LOAN/ SAVINGS RATIO	CAPITAL/ ASSET RATIO
19 03	1,069.7	1,532.6	1,295.7	166.6	119.7	5,561	82.6	10.9
19 04	1,075.2	1,522.7	1,288.2	167.9	119.9	5,556	83.5	11.0
19 05	1,082.8	1,543.1	1,304.7	170.1	120.3	5,548	82.0	11.0
19 06	1,090.9	1,547.0	1,302.7	172.2	120.7	5,534	83.7	11.1
19 07	1,097.3	1,542.5	1,298.9	172.4	121.2	5,530	84.5	11.2
19 08	1,106.6	1,567.4	1,319.6	174.9	121.7	5,518	83.9	11.2
19 09	1,112.9	1,565.3	1,315.1	176.5	122.0	5,506	84.6	11.3
19 10	1,120.1	1,575.6	1,324.8	177.2	122.1	5,482	84.5	11.2
19 11	1,126.2	1,597.1	1,345.6	177.3	122.3	5,469	83.7	11.1
19 12	1,133.6	1,593.5	1,342.7	179.1	122.8	5,460	84.4	11.2
20 01	1,137.3	1,610.7	1,358.5	180.5	123.2	5,450	83.7	11.2
20 02	1,139.9	1,651.0	1,387.6	181.8	123.4	5,446	82.1	11.0
20 03	1,143.6	1,666.0	1,399.7	183.5	123.8	5,419	81.7	11.0
20 04	1,146.9	1,729.9	1,463.7	182.8	124.0	5,421	78.4	10.6
20 05	1,159.9	1,769.8	1,500.7	185.8	124.4	5,384	77.3	10.5
20 06	1,168.1	1,778.8	1,516.3	187.4	124.8	5,384	77.0	10.5
20 07	1,176.8	1,804.0	1,539.7	189.2	125.3	5,380	76.4	10.5
20 08	1,180.2	1,807.7	1,544.0	189.7	125.8	5,378	76.4	10.5
20 09	1,186.6	1,817.4	1,555.0	190.8	126.2	5,353	76.3	10.5
20 10	1,189.4	1,846.2	1,582.1	191.3	126.3	5,355	75.2	10.4
20 11	1,191.3	1,846.2	1,584.1	193.0	126.5	5,321	75.2	10.5
20 12	1,193.9	1,875.8	1,614.8	194.1	126.8	5,317	73.9	10.3
21 01	1,193.7	1,893.9	1,629.2	195.2	127.1	5,292	73.3	10.3
21 02	1,196.5	1,925.5	1,658.8	195.0	127.3	5,279	72.1	10.1
21 03	1,199.1	1,989.7	1,732.3	195.3	127.7	5,259	69.2	9.8

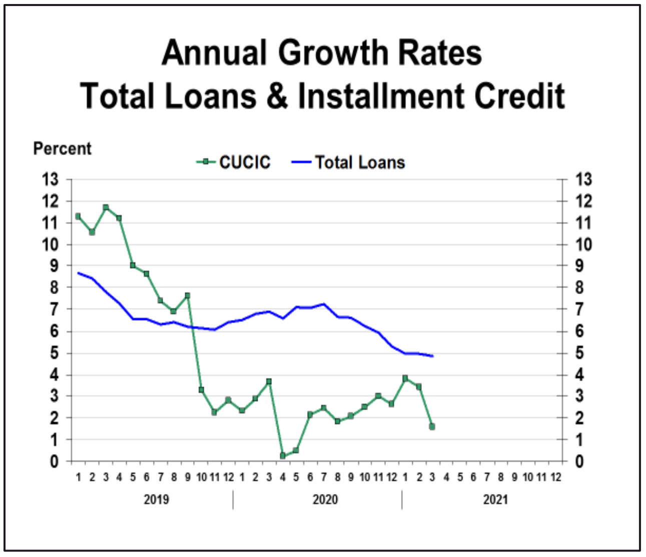
Credit Union Growth Rates

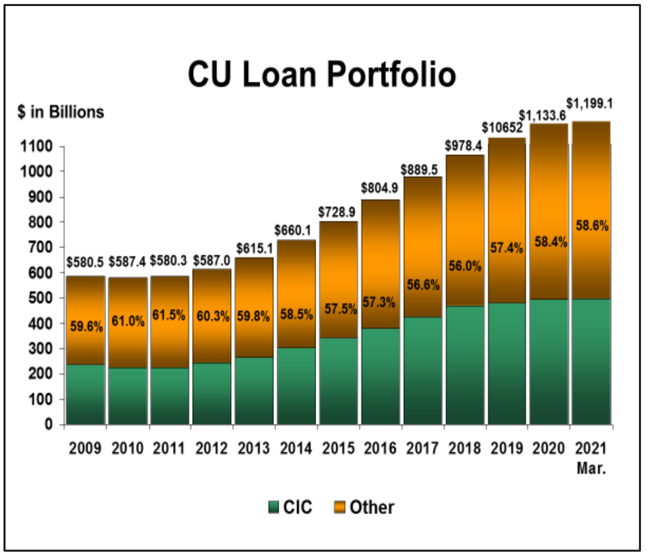
Percent Change From Prior Year

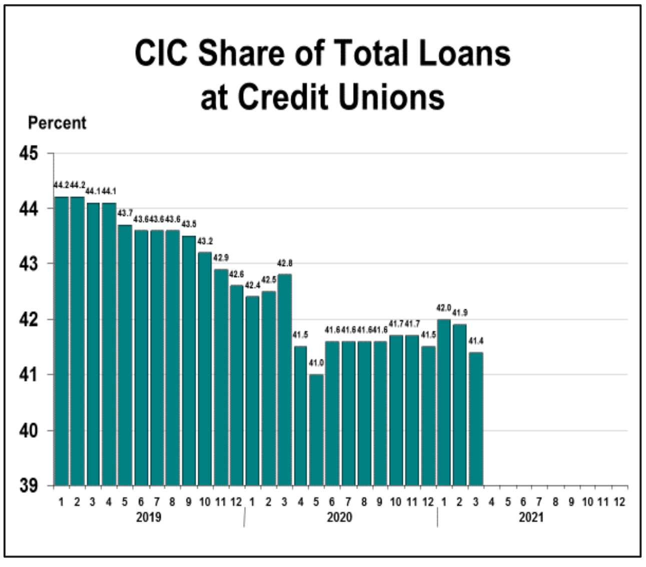
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
19 03	7.8	6.3	5.7	10.1	4.0	(3.4)	(198)	0.576%
19 04	7.2	5.8	5.8	10.7	3.9	(2.9)	(168)	0.557%
19 05	6.5	6.9	7.1	11.4	3.8	(3.0)	(174)	0.599%
19 06	6.6	6.3	5.9	11.8	3.7	(3.0)	(174)	0.631%
19 07	6.3	6.7	6.8	10.5	3.8	(3.1)	(176)	0.645%
19 08	6.4	7.2	7.4	11.4	3.7	(3.1)	(177)	0.660%
19 09	6.2	6.8	6.9	11.9	3.6	(2.8)	(156)	0.665%
19 10	6.2	7.6	7.9	12.0	3.5	(2.5)	(143)	0.677%
19 11	6.2	7.6	8.1	11.4	3.5	(2.6)	(146)	0.702%
19 12	6.4	7.7	8.1	10.9	3.6	(2.6)	(143)	0.703%
20 01	6.5	8.8	9.5	10.7	3.6	(2.3)	(126)	0.698%
20 02	6.8	9.4	9.1	10.6	3.5	(2.3)	(126)	0.640%
20 03	6.9	8.7	8.0	10.1	3.4	(2.6)	(142)	0.629%
20 04	6.6	13.3	13.6	8.7	3.3	(2.4)	(133)	0.673%
20 05	7.1	14.7	15.0	9.2	3.4	(3.0)	(164)	0.657%
20 06	7.1	15.0	16.4	8.8	3.3	(2.7)	(150)	0.574%
20 07	7.2	16.9	18.5	9.7	3.4	(2.7)	(150)	0.541%
20 08	6.6	15.3	17.0	8.5	3.4	(2.5)	(140)	0.553%
20 09	6.6	16.1	18.2	8.1	3.4	(2.8)	(153)	0.540%
20 10	6.3	17.2	19.5	7.9	3.3	(2.7)	(148)	0.549%
20 11	5.9	15.6	17.8	8.6	3.3	(3.1)	(169)	0.580%
20 12	5.3	17.7	20.3	8.3	3.2	(2.6)	(143)	0.595%
21 01	5.0	17.6	19.9	8.2	3.2	(2.9)	(158)	0.599%
21 02	5.0	16.6	19.5	7.3	3.2	(3.1)	(167)	0.544%
21 03	4.9	19.4	23.8	6.4	3.2	(3.0)	(160)	0.485%

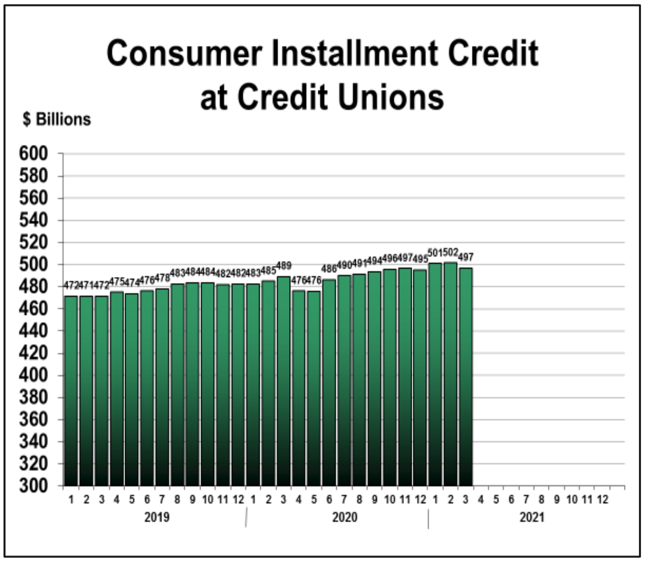
* Loans two or more months delinquent as a percent of total loans

Consumer Installment Credit









Meet
Steve Rick

Steve Rick is the Chief Economist for CUNA Mutual Group. Rick is an economic researcher, analyst and forecaster with expertise in consumer markets and the credit union industry. His forecasts serve as a starting point for client- and firm-level strategic planning by creating a clear understanding of the underlying trends and links between the general economy, the financial services industry and the firm's clients. Rick is a member of the CUNA Mutual Financial Advisors Investment Committee that approves strategy and oversees the firm's investment operations. He is also a member of the firm's Capital Markets Committee that performs ongoing research on the global economy and financial markets and on behalf of institutional and individual investors across the country.

This report on key credit union indicators is based on data from CUNA E&S's *Monthly Credit Union Estimates*, the Federal Reserve Board and CUNA Mutual Group – Economics.
To access this report on the Internet, go to www.cunamutual.com/CUTrends.
If you have any questions, comments, or need additional information, please call or complete this form. Thank you.

Steven Rick
800.356.2644, Ext. 665.5454
steve.rick@cunamutual.com
CUNA Mutual Group – Economics