Credit Union Trends Report

January 2023 ▪ November 2022 Data

CUNA MUTUAL GROUP

01

Economic Trends

Expect a mild recession in the second half of 2023 as consumers' excess savings dries up.

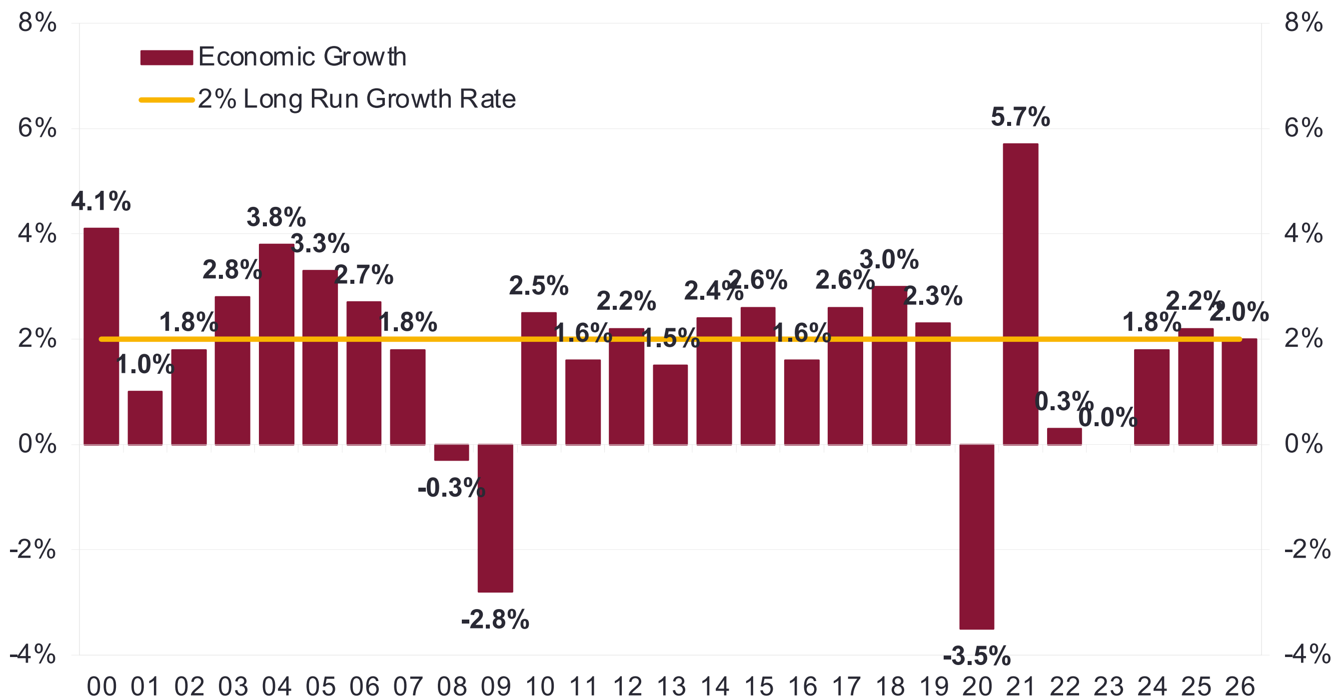
Economic Trends

As we begin 2023, the Federal Reserve is expected to raise interest rates another 50-75 basis points to reduce inflationary pressure this year. And so, the question on the mind of many credit union leaders is when the next recession may take place. We believe the economy could experience a mild recession in the second half of 2023 as consumers' excess savings has been eliminated by higher spending on higher priced goods and services by this summer.

We are currently forecasting real gross domestic product to flatline in 2023 with essentially no growth, which is below the long-run average of 2% growth rate, **(see figure below)**. Other factors contributing to the recession are higher interest rates, lower stock and home prices, and satiated consumer demand for many durable goods.

During the pandemic, a dramatic shift occurred in the composition of household spending, where the amount spent on services declined while spending on goods increased. Over the next few years, as we transition from a COVID pandemic to an endemic, consumer spending will transition back towards the pre-pandemic trend of higher spending on services. This trend was mainly driven by an aging population demanding additional healthcare services.

U.S. Economic Growth Rate



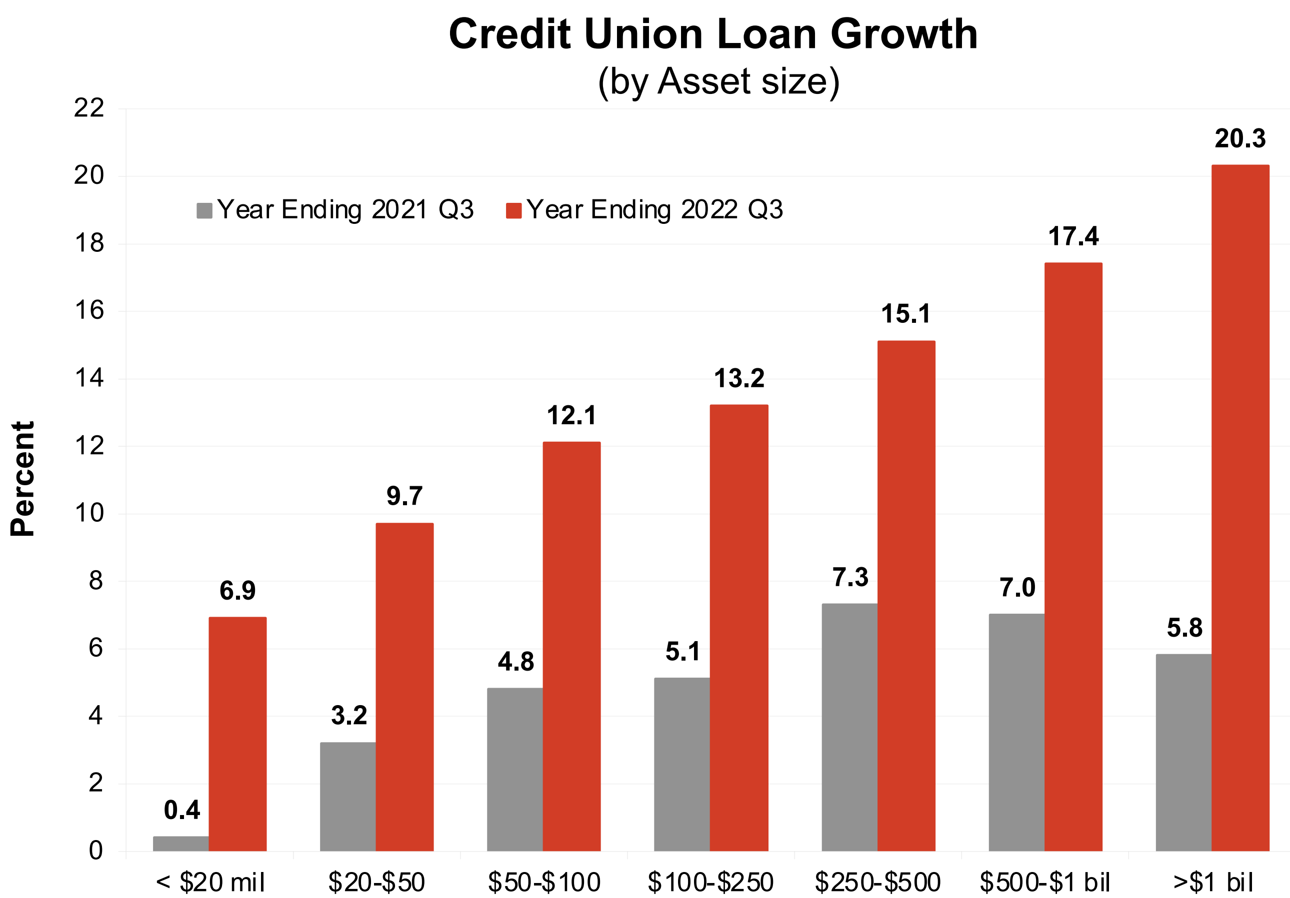
Source data: Department of Commence

02

Total Credit Union Lending

Credit unions of all size reported strong loan growth during the last 12 months.

Total Credit Union Lending



Source data: CUNA Economics & Statistics and CUNA Mutual Group – Economics

Credit union loan balances rose 1.2% in November, above the 0.7% pace reported in November 2021. Driving overall loan growth was strong growth in credit card loans (2.6%), adjustable-rate mortgages (2.4%) and home equity lending (2.1%). November seasonal factors typically subtract 0.22 percentage points from the underlying trend loan growth as winter weather slows auto and home purchases.

Over the past 12 months, total credit union loan balances rose a remarkable 19.3%, above the 7.2% long-run average. However, industry growth rates mask big disparities between large and small credit unions. In the year ending in the third quarter of 2022, credit unions with assets greater than $1 billion reported a 20.3% increase in loan balances, which was up from a similar period one year earlier. During the same period, credit unions with assets less than $20 million reported loan growth of 6.9%, which is above the 0.4% pace set a year earlier **(see figure above)**. We expect overall credit union loan growth to rise to 8.0% in 2023.

03

Consumer Installment Credit

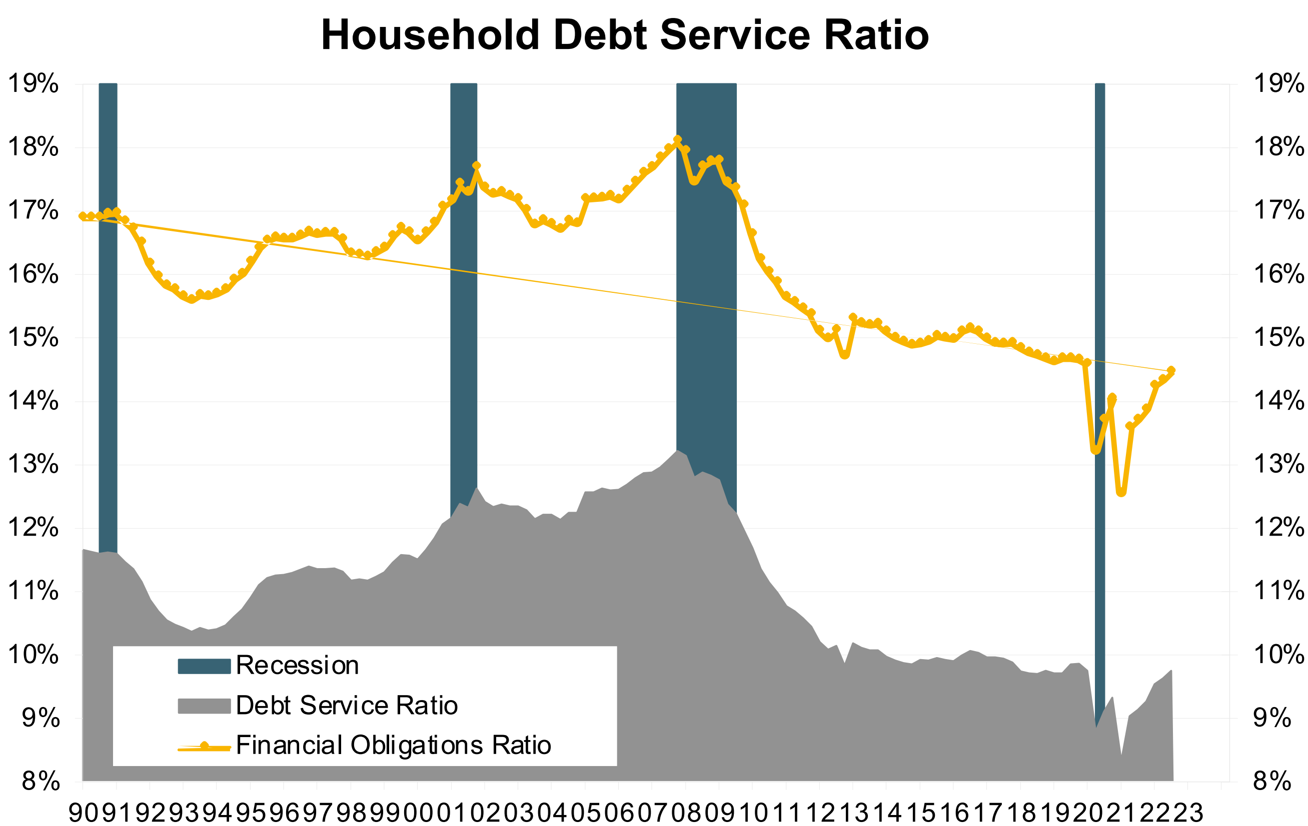
Consumer spending on servicing debt is rising rapidly.

Consumer Installment Credit

Credit union consumer installment credit balances (auto, credit card and other unsecured loans) rose 0.3% in November, below the 1.0% jump set in November 2021, as consumer spending ebbed in the fourth quarter of 2022.

Credit union consumer installment credit grew 17.2% over the last year, which is above its 30-year average of 6.3%, and much faster than the 1.7% rise in real estate loans**.**

The household debt service ratio (mortgage and consumer debt payments required to remain current on that debt as a percent of disposable income) rose to 9.7% in the third quarter, from the 9.6% reported in the second quarter, and above the record low of 8.37% reported in the first quarter of 2021, according to the Federal Reserve **(see figure below)**. The record-low debt service ratio was caused by record-low interest rates and government stimulus checks, which were used to pay off debt. Higher interest rates in the future will mean higher spending on servicing debt which will reduce household disposable income for spending on goods and services or will decrease the national savings rates.



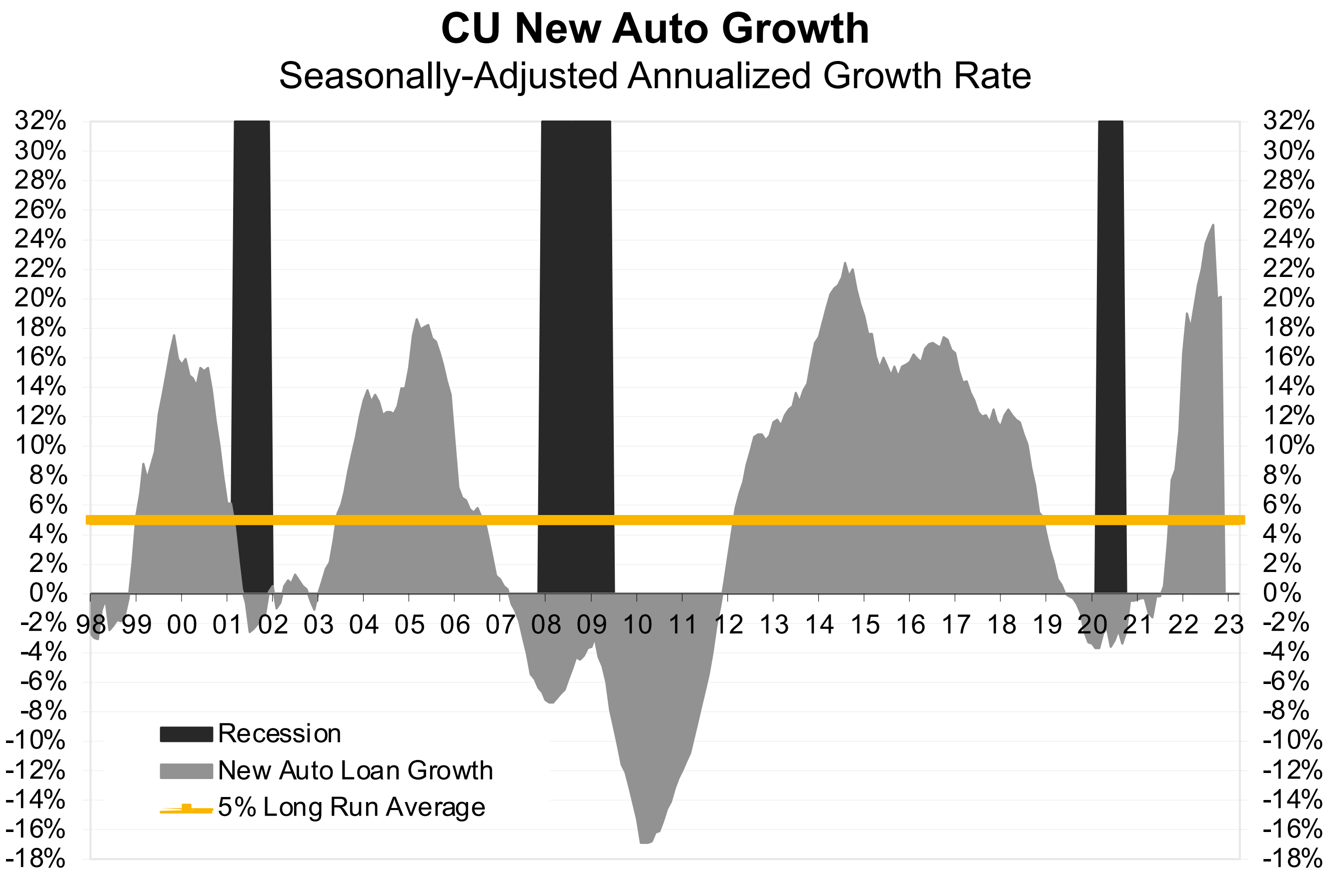
Source data: Federal Reserve

04

Vehicle Loans

Credit union new-auto loan balances continue to surge at historic growth rates.

Vehicle Loans



Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

Credit union new-auto loan balances rose at a 20.1% seasonally-adjusted annual rate in November, significantly above the double-digit pace set during 2012-2018 **(see figure above)**, as we typically see during a post-recession period. Looking at seasonal factors, November is typically one of the slower months of the year for new-auto loan originations due to normally weak new auto sales in November.

Four factors are driving this rapid credit union growth pace. First, credit union new-auto loan interest rates are significantly lower than other lenders' interest rates, leading to a competitive advantage. Second, many other lenders have either run low of liquidity or are tightening their lending standards which has reduced the availability of credit.

Third, new auto prices have increased 5.9% over the last year, increasing the size of the auto loan to finance the auto purchase. And, finally, rapid growth into indirect auto lending over the last year has boosted credit unions' loan growth rate.

The seasonally-adjusted annualized rates for U.S. new-vehicle sales declined to 14.1 million in November from 15.1 in October, down 6.5%, but up 7.9% from November 2021.

05

Real Estate Information

Fixed-rate mortgage lending slows due to rising interest rates and credit spreads.

Real Estate Information

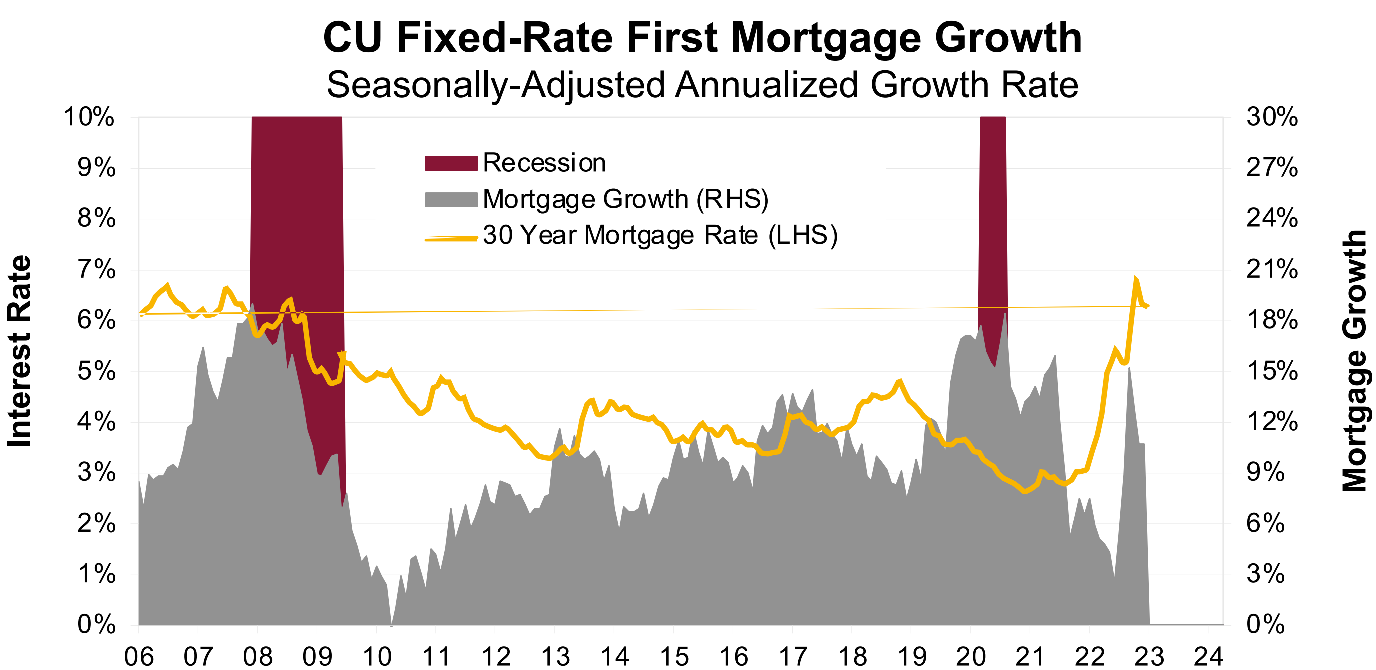
Credit union fixed-rate first mortgage loan balances grew 0.8% in November, below the 1.3% pace set in November 2021. Existing home sales fell 7.7% in November from October and fell 35% over the last year due to high interest rates and poor affordability. Fixed-rate mortgage loan balances are currently growing at a robust 10.7% seasonally-adjusted annualized growth rate **(see figure on next page)** as credit unions choose to hold more of their first mortgage originations on their own balance sheet.

The contract interest rate on a 30-year, fixed-rate conventional home mortgage fell from 6.9% in October to 6.8% in November, and that rate is above the 3.1% reported in November 2021 **(see figure below)**. With the Federal Reserve expected to raise short-term interest rates 50-75 basis points in 2023 but the 10-year treasury interest rate expected to remain around 3.5%, expect the 30-year mortgage interest rate to remain in the low 6% range for the rest of 2023.

Home prices fell 0.2% in November from October, according to the Core Logic Home Price Index. Home prices are up 8.6% year-over-year, the slowest pace of growth since November 2020.

The national homeownership rate rose to 66.0% in the third quarter of 2022, above the 65.4% reported in the third quarter of 2021. Today's homeownership rate is above the 62.9% nadir reported in the second quarter of 2016, but below the 69.2% apex reached in the fourth quarter of 2004.

Expect mortgage originations to drop 10% in 2023 as the economy enters a mild recession and mortgage interest rates remain above 6% throughout 2023.



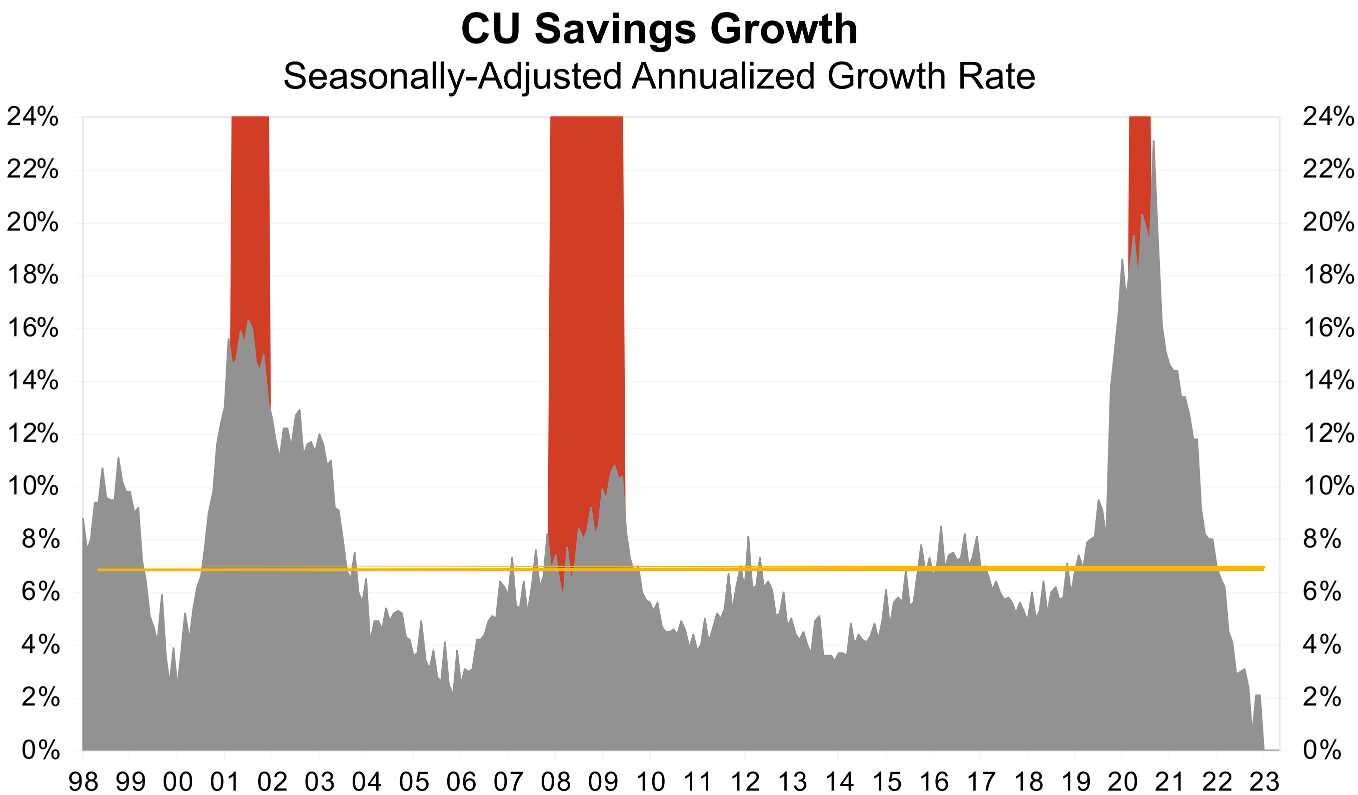
Source data: NCUA and Freddie Mac

06

Savings and Assets

Credit union members have an average of $2,609 more in their savings balances today compared to two years ago, a 24% increase.

Savings and Assets



Source: CUNA & NCUA

Credit union savings balances fell 0.3% in November, slightly below the 0.1% gain reported in November 2021, as credit union members continue to spend their excess savings accumulated during the last 2 years. Savings balances typically decline 0.2% in November due to recurring seasonal factors.

Savings balances are currently growing at an anemic 2.1% seasonally-adjusted annualized growth rate, which is above the 7% long-run average **(see figure above)**. Members are saving less than normal due to the increased spending on leisure and hospitality after the COVID-19 pandemic ebbed.

The average credit union member was sitting on $13,587 in deposits in November 2022, up from $10,978 in November 2019, before the COVID-19 pandemic and the resulting three stimulus checks. This $2,609 in additional liquidity, a 24% increase, has provided members with significant additional spending power. These excess savings will reduce the desire of many credit union members to keep building their savings balances, which will ultimately reduce credit union deposit growth to below the 7% long-run average over the next few years.

Expect credit union savings balances to rise only 6% in 2023 and 2024, the slowest pace since 2013, due to lower COVID-19 fears, increased spending on leisure and hospitality, and above average inflation.

07

Capital and Other Key Measures

Credit union loan delinquency rates will rise to 0.75% in 2023 from 0.56% today.

Capital and Other Key Measures

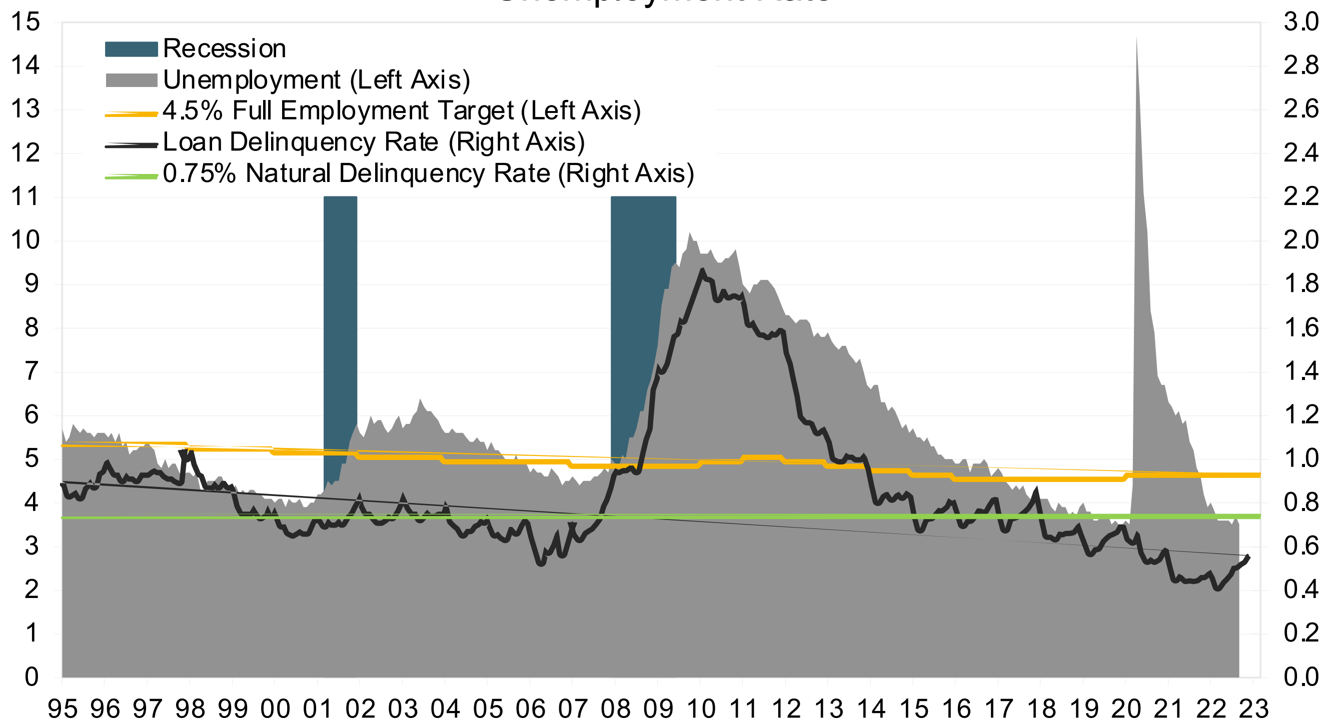
The credit union loan delinquency rate (loans two or more months delinquent as a percent of total loans outstanding) rose to 0.56% in November from 0.47% in November 2021. This is in line with the traditional seasonal pattern **(see figure below)**.

Delinquency rates typically reach their nadir in any year's first quarter as members use their tax refunds and bonus checks to catch up on any late loan payments. As the year progresses, delinquency rates slowly rise and reach their apex late in the fourth quarter.

Credit union loan delinquency rates are significantly below the 0.75% long-run natural delinquency rate because of past stimulus checks, enhanced unemployment benefits, loan forbearance programs, very low unemployment rates and a rather large denominator effect due to loan balances rising over 19% during the last 12 months.

But the numerator of the delinquency rate, delinquent loans, rose 43% during the last year, as high inflation is reducing real incomes of consumers and putting financial pressure on low-income households. Expect loan quality measures to deteriorate during 2023 due to rising interest rates, a slowing economy and falling real household incomes.

CU Delinquency Rate Versus
Unemployment Rate



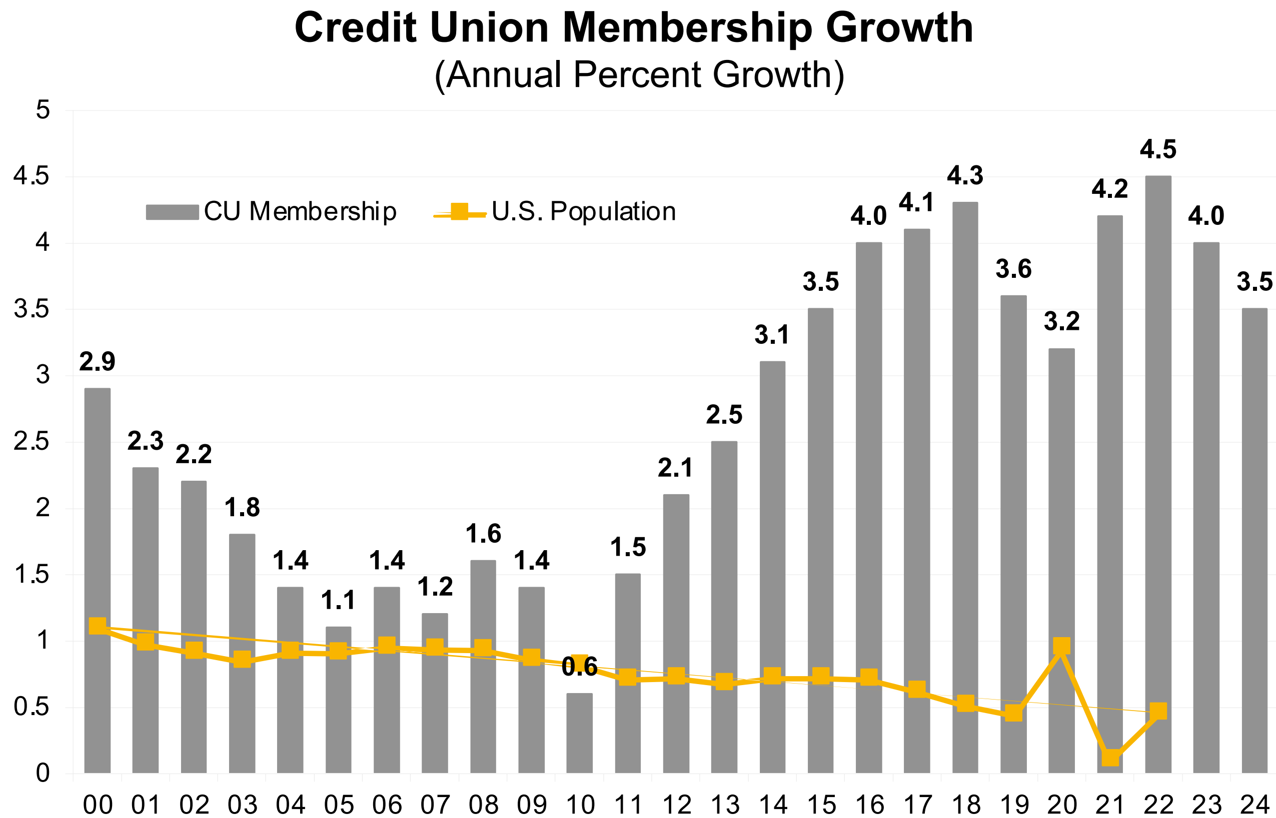
Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

08

Credit Unions and Members

Credit union membership growth is expected to slow to 4% in 2023.

Credit Unions and Members



Source: CUNA Economics & Statistics and CUNA Mutual Group – Economics

Credit union memberships grew 231,000 in November, or 0.17%, which is below the 320,000 new members, or 0.24%, that were added in November 2021. Year-to-date, credit unions added 5.553 million new members, faster than the 4.901 million members added during a similar period in 2021. During the last 12 months, credit union memberships rose 4.5%, the fastest pace since 1985 **(see figure above)**. Credit union membership growth of 4.5% is outpacing the 0.45% growth rate of the U.S. population.

Total credit union memberships reached 137.6 million in November, 6 million more than November 2021. Strong auto and home equity lending and the surge in job hirings are two major factors driving the rise in credit union memberships.

Job growth is a major factor determining credit union membership growth. The U.S. economy gained 4.5 million jobs during 2022, according to the Bureau of Labor Statistics. For 2023, expect only 1.6 million new jobs to be created as the economy slows and maybe experiences a mild recession in the second half. Slower job growth will weigh on membership growth while new-auto indirect lending will be a major factor supporting membership growth. We expect membership growth to fall slightly to 4% in 2023 and then to 3.5% in 2024.

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*
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	1,192.9	144.7	242.4	387.1	51.5	61.0	501.0	527.8	86.0	613.8	78.1
21 02	1,194.8	144.6	242.4	387.1	53.6	60.6	501.6	528.8	85.4	614.2	79.0
21 03	1,195.5	142.2	244.5	386.6	53.5	59.5	502.9	530.2	83.5	613.7	78.9
21 04	1,201.7	142.6	245.9	388.4	51.8	58.9	505.7	535.0	83.9	618.9	77.2
21 05	1,211.5	143.9	249.1	393.1	51.2	60.1	517.1	537.5	84.0	621.5	72.9
21 06	1,223.1	143.2	251.9	395.1	53.1	60.7	519.4	545.3	83.6	629.0	74.7
21 07	1,232.5	143.2	254.3	397.5	51.6	61.2	515.7	549.6	84.9	634.5	82.3
21 08	1,244.4	143.2	257.4	400.7	51.5	61.8	521.3	555.4	84.6	640.0	83.1
21 09	1,251.8	143.7	260.7	404.4	52.0	62.0	522.0	562.0	84.7	646.6	83.2
21 10	1,263.4	142.7	262.5	405.2	53.3	62.7	523.9	567.0	86.2	653.2	86.3
21 11	1,271.6	142.6	264.5	407.1	52.6	64.2	529.8	576.2	83.7	659.9	81.8
21 12	1,286.2	144.2	266.7	410.9	52.5	65.0	533.8	581.3	86.2	667.5	84.8
22 01	1,293.9	144.4	268.7	413.1	52.5	64.6	533.6	550.5	85.3	635.8	124.5
22 02	1,306.6	145.4	271.2	416.5	54.1	64.6	538.7	526.2	84.5	610.7	157.2
22 03	1,328.3	147.2	276.9	424.1	53.8	65.2	547.3	503.7	81.5	585.2	195.9
22 04	1,351.0	153.4	282.1	435.5	54.7	65.7	557.8	512.4	84.6	597.0	196.2
22 05	1,379.5	156.0	288.0	444.0	55.9	67.2	570.5	522.9	86.7	609.6	199.4
22 06	1,411.4	158.9	295.3	454.2	57.9	68.1	584.3	530.1	90.4	620.5	206.6
22 07	1,433.8	166.4	299.1	465.5	59.4	69.2	594.9	543.2	94.0	637.2	201.7
22 08	1,457.6	170.2	304.0	474.2	61.1	70.1	602.6	547.7	97.7	645.3	209.6
22 09	1,482.5	169.3	309.8	479.2	62.0	70.7	616.2	549.0	101.0	650.0	216.3
22 10	1,502.5	171.1	313.7	484.8	63.5	71.7	619.1	555.7	105.6	661.3	222.1
22 11	1,519.9	173.4	316.1	489.4	64.4	73.6	620.9	561.4	108.2	669.6	229.4

* 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*
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	4.9	– 3.1	4.5	1.5	9.3	– 7.9	3.8	11.9	– 7.4	8.7	– 13.3
21 02	4.8	– 2.6	4.2	1.6	15.7	– 7.8	3.4	13.5	– 8.3	9.9	– 17.8
21 03	4.5	– 3.4	4.9	1.7	14.4	– 8.9	2.8	9.0	– 9.6	6.1	3.7
21 04	4.8	– 3.1	6.4	2.7	11.1	– 6.1	6.2	9.4	– 8.4	6.6	– 14.3
21 05	4.5	– 1.4	7.2	3.9	9.0	– 3.1	8.6	8.8	– 7.5	6.2	– 25.7
21 06	4.7	– 0.5	6.5	3.9	– 0.1	– 1.8	6.8	8.4	– 6.8	6.1	– 15.9
21 07	4.8	– 0.4	6.2	3.7	– 1.4	– 0.5	5.3	8.2	– 5.9	6.1	– 7.2
21 08	5.4	– 0.3	7.3	4.5	– 2.4	0.5	6.1	8.6	– 5.6	6.5	– 5.2
21 09	5.5	– 0.3	8.3	5.1	– 4.3	0.9	5.8	8.7	– 4.0	6.8	– 5.3
21 10	6.2	– 1.6	8.7	4.8	– 0.3	2.1	5.7	9.8	– 2.1	8.0	– 3.1
21 11	6.7	– 2.2	9.5	5.1	– 1.7	3.6	6.7	11.0	– 3.9	8.8	– 7.6
21 12	7.7	– 0.1	10.3	6.4	– 1.3	3.8	7.8	10.8	0.4	9.3	– 4.0
22 01	8.5	– 0.2	10.9	6.7	2.0	5.9	6.5	4.3	(0.8)	3.6	59.4
22 02	9.4	0.5	11.9	7.6	0.9	6.5	7.4	(0.5)	(1.0)	(0.6)	99.0
22 03	11.1	3.5	13.3	9.7	0.7	9.7	8.8	(5.0)	(2.5)	(4.7)	148.4
22 04	12.4	7.6	14.7	12.1	5.6	11.7	10.3	(4.2)	0.8	(3.5)	154.3
22 05	13.9	8.4	15.6	13.0	9.2	11.8	10.3	(2.7)	3.2	(1.9)	173.6
22 06	15.4	10.9	17.2	14.9	9.0	12.3	12.5	(2.8)	8.1	(1.3)	176.6
22 07	16.3	16.2	17.6	17.1	15.2	13.1	15.4	(1.2)	10.7	0.4	144.9
22 08	17.1	18.9	18.1	18.4	18.6	13.4	15.6	(1.4)	15.5	0.8	152.3
22 09	18.4	17.9	18.8	18.5	29.1	14.1	18.0	(2.3)	19.3	0.5	160.0
22 10	18.8	19.5	19.4	19.5	20.5	14.7	18.2	(1.8)	21.6	1.3	152.4
22 11	19.3	20.8	19.3	19.9	25.0	15.2	17.2	(2.1)	27.4	1.7	169.0

* 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
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	1,192.9	1,891.5	1,626.4	195.1	127.3	5,318	73.3	10.3
21 02	1,194.8	1,920.6	1,653.2	194.7	127.6	5,305	72.3	10.1
21 03	1,195.5	1,982.2	1,722.5	195.0	128.2	5,285	69.4	9.8
21 04	1,202.1	2,015.4	1,752.3	197.2	128.5	5,269	68.6	9.8
21 05	1,212.2	2,027.5	1,744.1	199.3	129.0	5,246	69.5	9.8
21 06	1,223.1	2,010.6	1,744.2	201.9	129.7	5,243	70.1	10.0
21 07	1,232.7	2,046.0	1,764.8	204.7	129.9	5,251	69.9	10.0
21 08	1,244.4	2,048.1	1,765.4	206.6	130.6	5,244	70.5	10.1
21 09	1,251.8	2,052.0	1,778.4	206.7	131.1	5,204	70.4	10.1
21 10	1,263.4	2,082.3	1,795.8	206.7	131.3	5,163	70.4	9.9
21 11	1,271.6	2,084.0	1,798.2	207.6	131.5	5,140	70.7	10.0
21 12	1,286.2	2,094.9	1,819.0	209.2	132.1	5,152	70.7	10.0
22 01	1,293.9	2,093.3	1,817.7	206.9	132.4	5,149	71.2	9.9
22 02	1,306.6	2,123.4	1,847.5	205.1	132.8	5,120	70.7	9.7
22 03	1,328.3	2,152.1	1,881.8	198.4	133.4	5,111	70.6	9.2
22 04	1,351.0	2,170.3	1,895.7	191.5	134.1	5,101	71.3	8.8
22 05	1,379.5	2,171.2	1,882.1	194.2	134.6	5,070	73.3	8.9
22 06	1,411.4	2,170.0	1,884.4	192.6	135.0	5,062	74.9	8.9
22 07	1,433.8	2,195.1	1,885.3	197.1	135.0	5,051	76.0	9.0
22 08	1,457.6	2,183.5	1,879.8	194.7	135.4	5,044	77.5	8.9
22 09	1,482.5	2,184.1	1,889.2	186.7	136.8	5,018	78.5	8.5
22 10	1,502.5	2,177.9	1,875.9	185.2	137.4	4,989	80.1	8.5
22 11	1,519.9	2,185.8	1,869.7	191.5	137.6	4,936	81.3	8.8

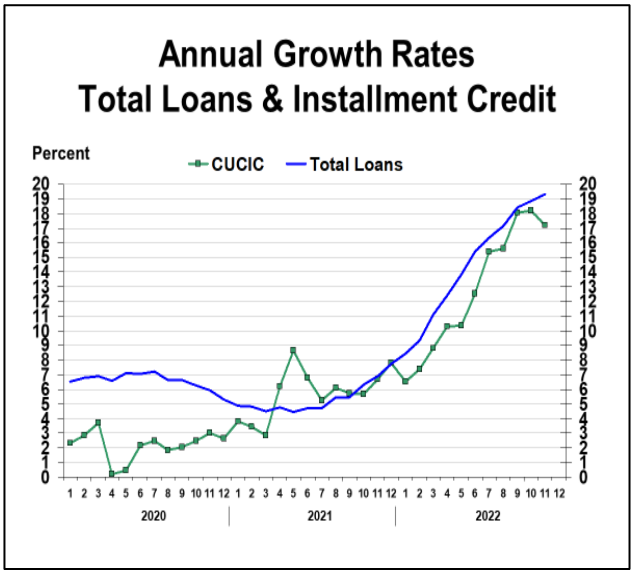
Credit Union Growth Rates

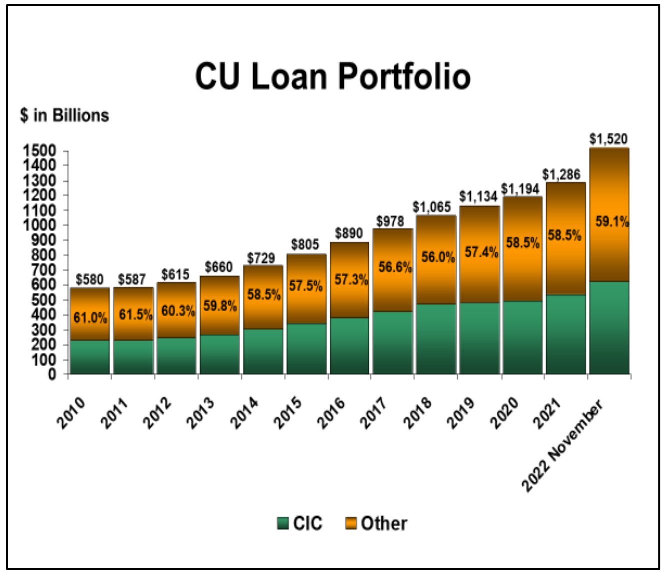
Percent Change From Prior Year

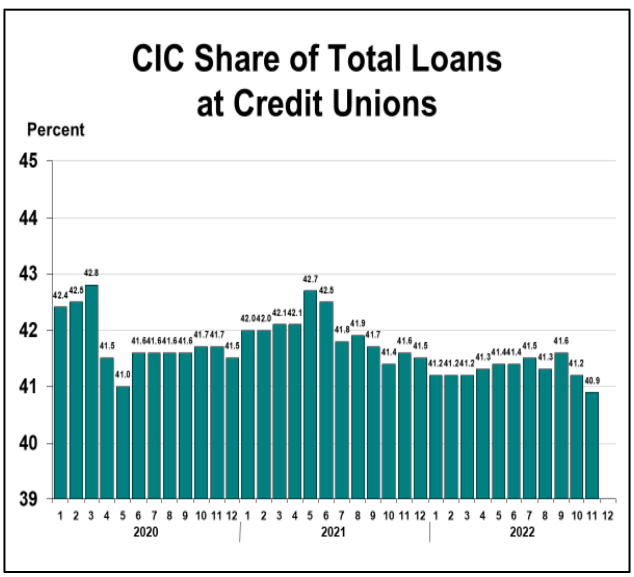
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
20 11	5.9	15.6	17.8	8.6	3.3	(3.1)	(169)	0.580%
20 12	5.3	17.7	20.3	8.3	3.2	(2.6)	(143)	0.595%
21 01	4.9	17.4	19.7	8.1	3.3	(2.4)	(132)	0.587%
21 02	4.8	16.3	19.1	7.1	3.4	(2.6)	(141)	0.524%
21 03	4.5	19.0	23.1	6.3	3.6	(2.5)	(134)	0.455%
21 04	4.8	16.7	19.7	7.9	3.6	(3.0)	(165)	0.469%
21 05	4.5	14.6	16.2	7.3	3.7	(2.8)	(151)	0.456%
21 06	4.7	13.0	15.0	7.8	3.9	(2.6)	(141)	0.452%
21 07	4.8	13.5	14.6	8.2	3.7	(2.4)	(129)	0.455%
21 08	5.5	13.3	14.4	8.9	3.8	(2.5)	(134)	0.452%
21 09	5.5	12.9	14.4	8.3	3.9	(2.8)	(149)	0.456%
21 10	6.2	12.8	13.5	8.1	3.9	(3.6)	(192)	0.480%
21 11	6.7	12.9	13.5	7.6	3.9	(3.4)	(181)	0.491%
21 12	7.7	11.7	12.6	7.8	4.2	(3.1)	(165)	0.485%
22 01	8.5	10.7	11.8	6.1	4.0	(3.2)	(169)	0.494%
22 02	9.4	10.6	11.8	5.3	4.1	(3.5)	(185)	0.461%
22 03	11.1	8.6	9.2	1.8	4.1	(3.3)	(174)	0.418%
22 04	12.4	7.8	8.2	– 3.0	4.3	(3.2)	(168)	0.443%
22 05	13.9	7.2	8.0	– 2.8	4.0	(3.4)	(176)	0.458%
22 06	15.4	7.9	8.0	– 4.6	4.1	(3.5)	(181)	0.479%
22 07	16.3	7.3	6.9	– 3.7	3.7	(3.8)	(200)	0.510%
22 08	17.1	6.6	6.5	– 5.8	3.7	(3.8)	(200)	0.515%
22 09	18.4	6.4	6.2	– 9.7	4.3	(3.6)	(186)	0.528%
22 10	18.8	4.8	4.5	– 10.4	4.6	(3.7)	(190)	0.537%
22 11	19.3	5.4	4.1	– 7.8	4.5	(4.3)	(220)	0.564%

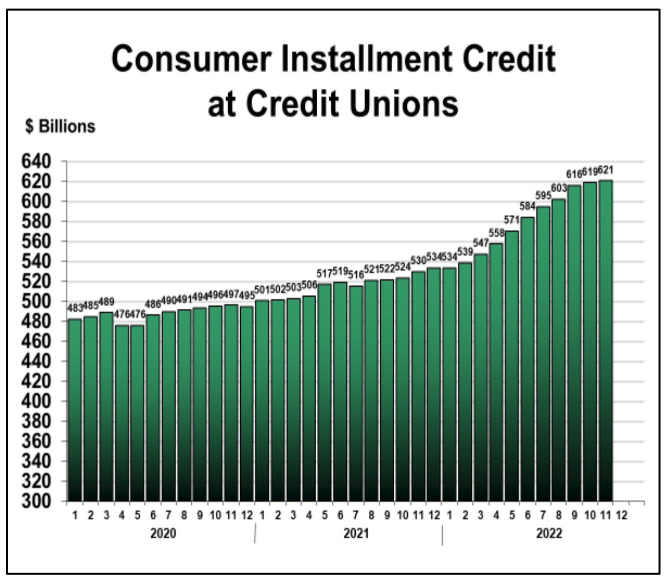
* Loans two or more months delinquent as a percent of total loans

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.

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