Credit Union Trends Report

April 2022 ▪ February 2022 Data

CUNA MUTUAL GROUP

01

Economic Trends

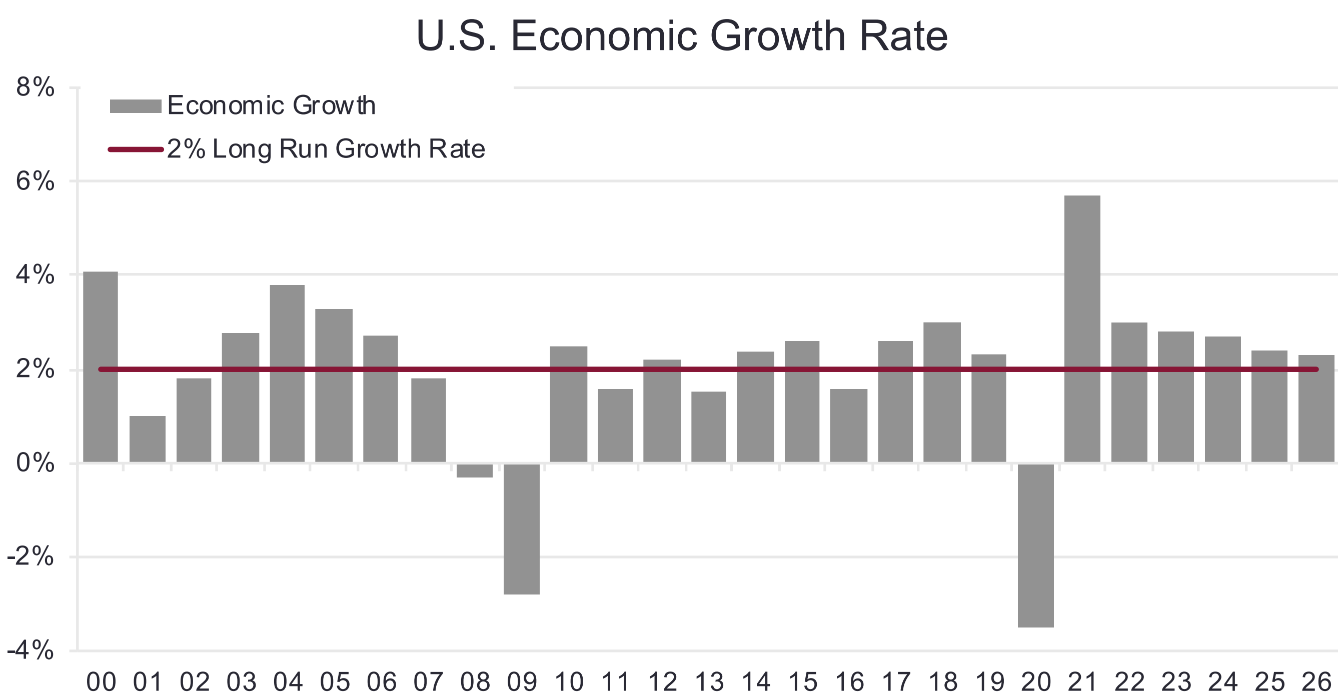
Higher interest rates will cause the economy to reach an inflection point.

Economic Trends

The economy and housing market, in particular, are facing an inflection point as interest rates have risen quickly over the last few months. So, the economy will downshift from increasing at an increasing rate to increasing at a decreasing rate. We expect the economy, as measured by the growth in real GDP, to rise by 3% in 2022 which is slower than the 5.7% pace set in 2021 **(see figure below).** The 3% pace is still above the natural long-run growth rate of 2% due to households spending some of the substantial savings built up during COVID, as well as the strong job growth and rising labor force participation boosting household income.

Negative growth is the economy's reaction to rising interest rates. The housing market is one of the most interest rate-sensitive sectors of the economy, with mortgage interest rates now over 5%, the demand for housing and mortgage loans will decline significantly in 2022. This will cause significant overcapacity in the mortgage lending space so we can expect significant downsizing and layoffs by many mortgage lenders.

Looking further down the road, we expect the economy to grow in the 2-3% range through 2026. This is essentially the "soft landing" scenario where the Fed raises interest rates just enough to slow inflation without precipitating a recession. Such soft landings are rare, and the risks are to the downside, i.e. a slower economy in 2023 or possibly even a recession.



Source: Department of Commerce

02

Total Credit Union Lending

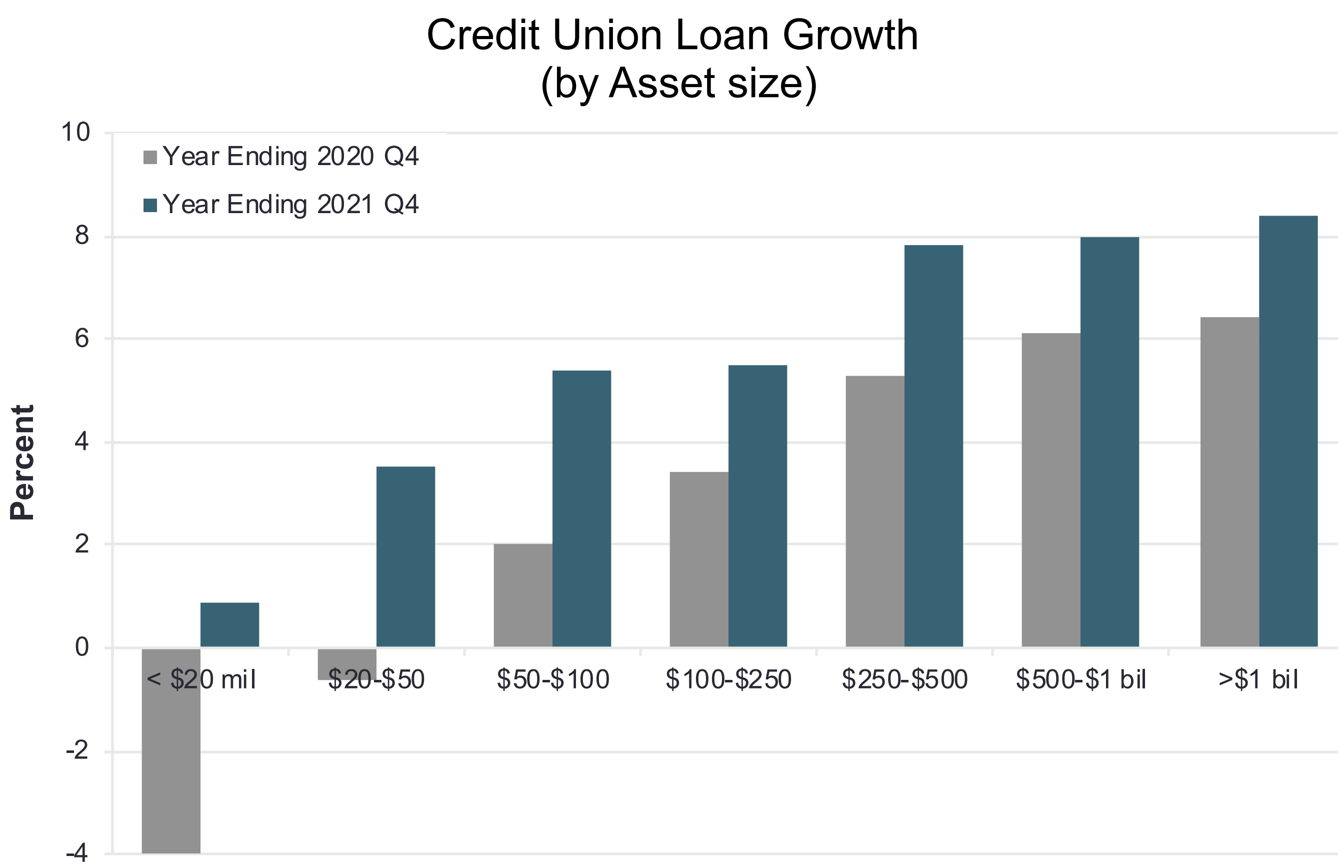
Credit union loan balances rose 9.6% in the last 12 months, the fastest pace since 2017.

Total Credit Union Lending

Credit union loan balances rose 1.1% in February, faster than the 0.2% reported in February 2021, and 9.6% during the last 12 months. Driving this growth was first mortgage loans balances (1.3%), home equity loan balances (1.2%) and used-auto loan balances (1%). February is historically the weakest loan growth month of the year, with seasonal factors typically shaving off 0.6 percentage points from the underlying trend growth rate.

Credit union members will release some of their pent-up demand for spending this year. We are forecasting credit union loan growth of around 9% this year, up from 7.7% last year.

Large credit unions reported significantly faster loan growth in 2021 as compared to smaller credit unions **(see figure below).** Credit unions with assets greater than $1 billion reported loan growth of 8.4% compared to credit unions with assets less than $20 million, reporting loan growth of 0.9%. All asset size categories reported faster loan growth in 2021 compared to 2020, but it was smaller credit unions that reported bigger swings in loan growth trends.



Source: CUNA & NCUA

03

Consumer Installment Credit

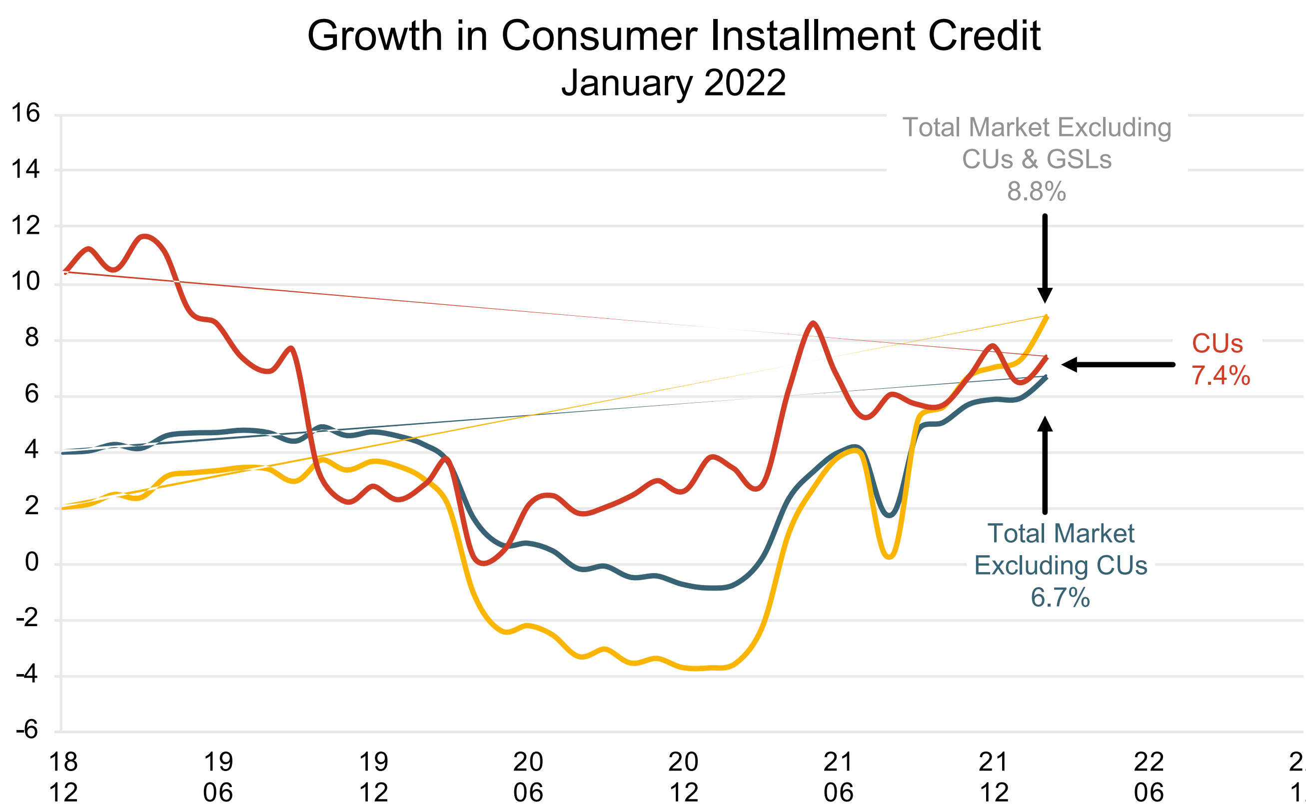
Credit union consumer installment credit balances rose 6.7% over the last year, slower than bank lending at 8.8%.

Consumer Installment Credit

Credit union consumer installment credit balances (auto, credit card and other unsecured loans) rose 1% in January, significantly above the 0.1% reported in February 2021. Consumer installment credit year-over-year growth rates have been rising over the last year due mainly to a surge in used-auto loans and credit card lending. During the last year, credit union members were using funds from cash-out mortgage refinances to pay down higher-rate consumer loan debt and using around 30% of their stimulus checks to pay down debt. Those two behaviors have come to an end with rising mortgage interest rates and the ending of the COVID pandemic.

Credit union consumer installment credit grew 7.4% during the last year, faster than the total market, excluding credit unions which rose 6.7% **(see figure below).** The total consumer installment credit market, excluding credit union and government student loans, rose a very strong 8.8% during the last year.

February's loan seasonal factors typically shave off 0.59 percentage points from the underlying trend growth as members use tax refunds and bonuses to pay down outstanding credit card and home equity loan balances.



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

04

Vehicle Loans

Expect credit union new-auto lending to surge in the second half of 2022.

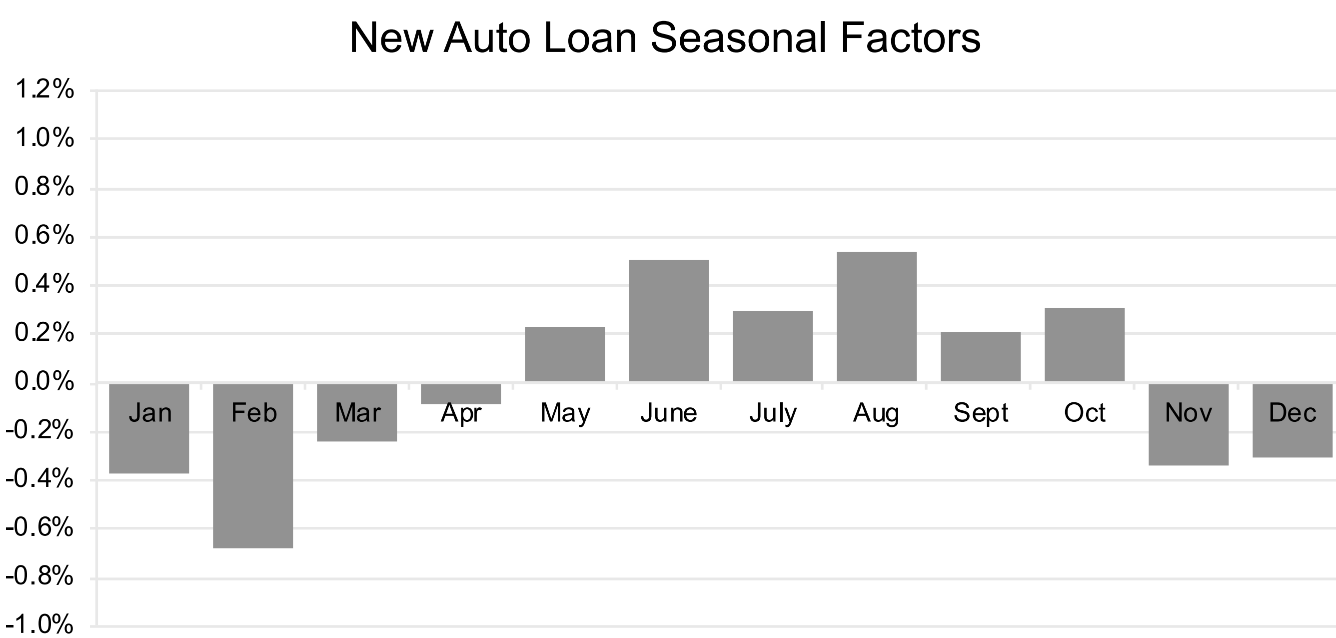
Vehicle Loans

Credit union new-auto loan balances rose 0.8% in February, stronger than the -0.1% decline set in February 2021, and rose 0.7% during the last 12 months. On a seasonally-adjusted annualized basis, new-auto loan balances rose at a 5.9% pace in February **(see figure on next page),** slightly above the 5% long-run average growth rate.

The first quarter is typically the weakest quarter for credit union new-auto loan growth due to various seasonal factors. February is historically the weakest new-auto loan growth month of the year, with seasonal factors typically adjusting -0.68 percentage points from the underlying trend growth rate **(see figure below)**.

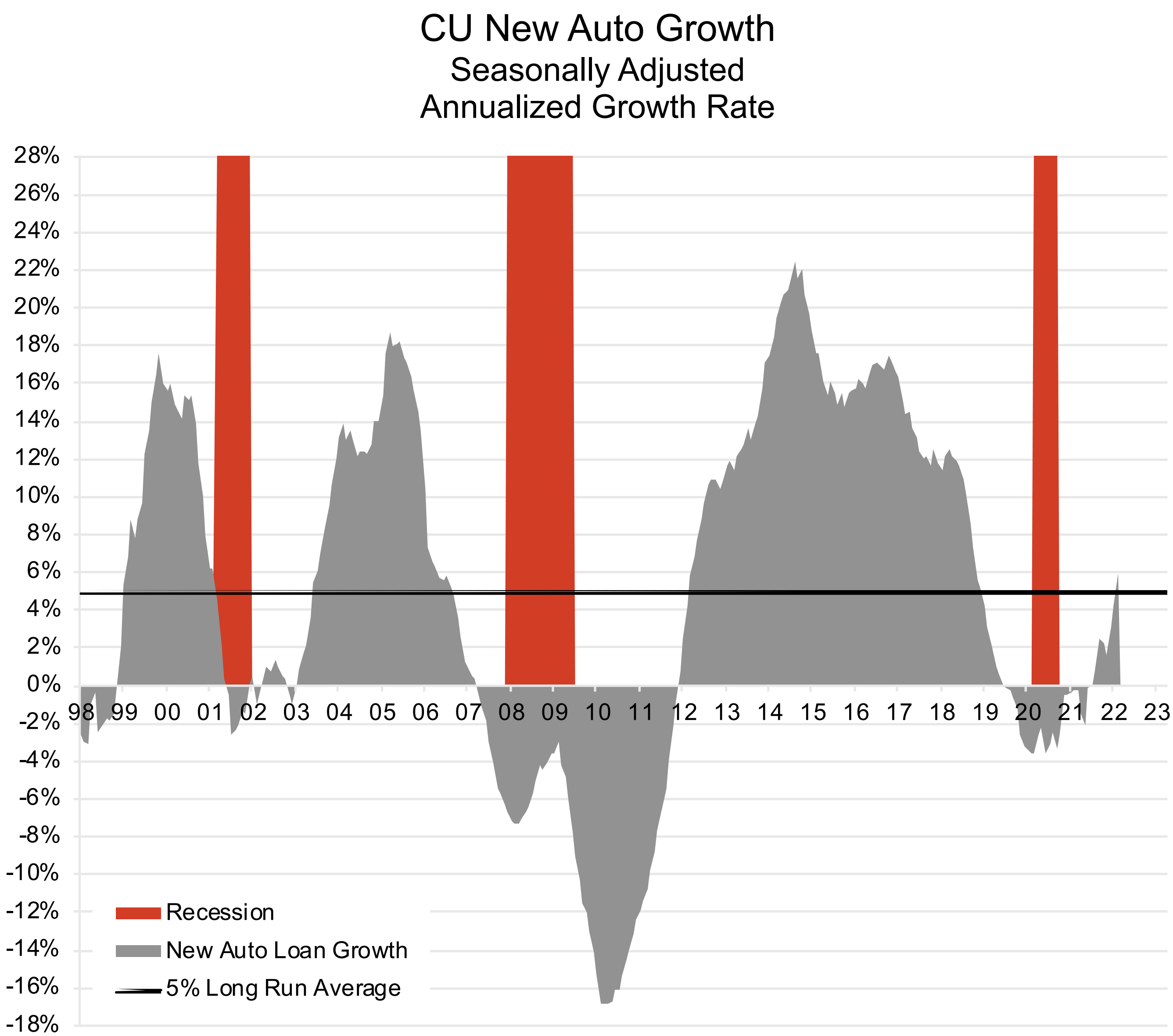
Vehicle sales were 14 million in February, which at a seasonally-adjusted annualized sales rate is 12% below the 15.9 million pace set one year earlier and 6% below January sales. Tight auto inventories continue to keep prices high, with used-vehicle prices still 70% above their pre-COVID levels.

U.S. new-vehicle annual sales should be around 17 million, or what economists believe is the inherent long-run demand. Expect vehicle production to increase slowly over the first half of the year and normalize by the end of 2022 as supply chain issues get resolved. New vehicle sales, and hence credit union auto lending, will follow a similar path. They will remain below normal levels during the first half of the year and increase toward the 17 million seasonally-adjusted annual pace in the second half of the year, with credit union lending surging by the fourth quarter.



Source: CUNA & NCUA

Vehicle Loans



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

05

Real Estate Information

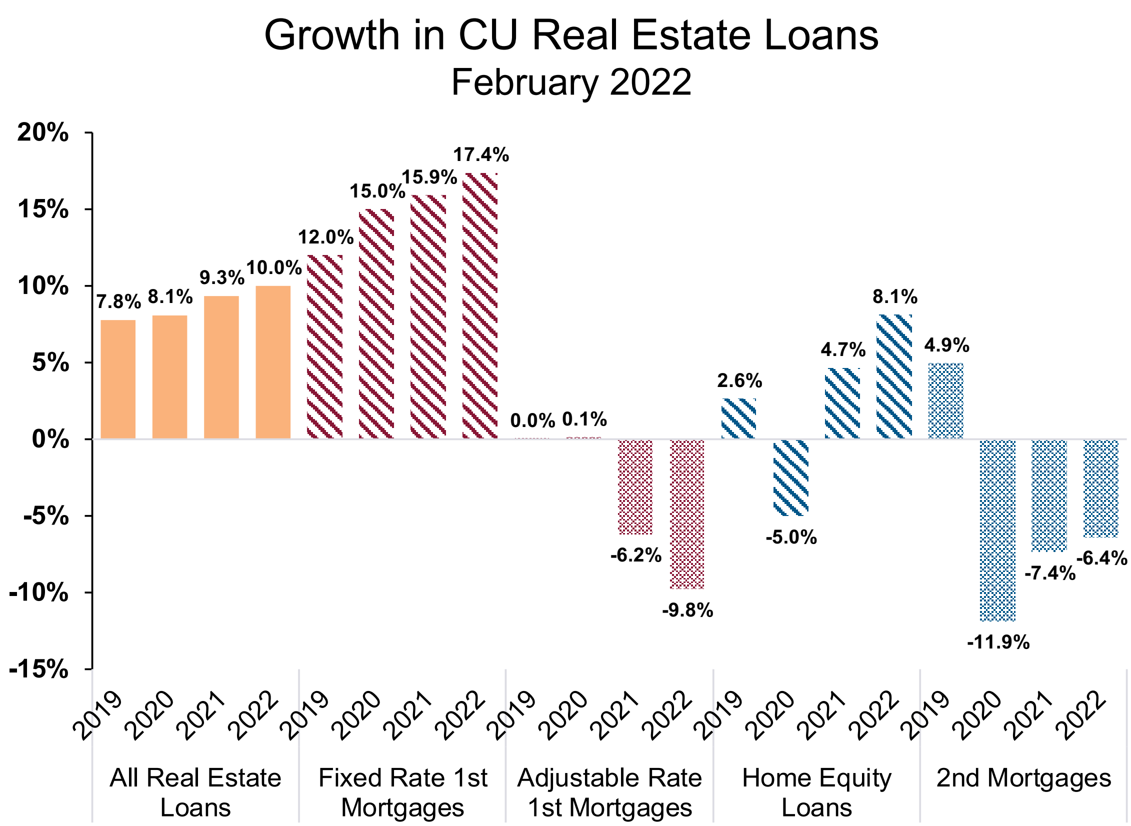
Expect mortgage interest rates to remain above 5% for the rest of the year.

Real Estate Information

Credit union fixed-rate first mortgage loan balances rose 1.3% in February, above the 0.4% increase reported in February 2021, due to historically low mortgage interest rates. Credit union fixed-rate first mortgage loan balances rose 17.4% over the last 12 months, similar to the pace set in the year ending in February 2021.

The contract interest rate on a 30-year fixed-rate conventional home mortgage rose to 3.76% in February, up from the 3.45% in January and higher than the 2.81% reported in February 2021. In April of this year, mortgage interest rates rose above 5% for the first time since the spring of 2010. The February increase in mortgage rates is partly due to the 10-year Treasury interest rate rising from 1.76% in January to 1.93% in February. Interest rates are increasing due to higher inflation expectations (7 basis points) and higher real interest rates (10 basis points).

Home prices rose 2.2% in February from January, according to the Core Logic Home Price Index, and 20% year-over-year. U.S. home prices are rising faster than incomes due to the 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 expected to raise interest rates this year, expect mortgage interest rates to remain above 5.0% for the rest of the year.



06

Savings and Assets

Credit union savings balance growth will slow to below its long-run average in 2022.

Savings and Assets

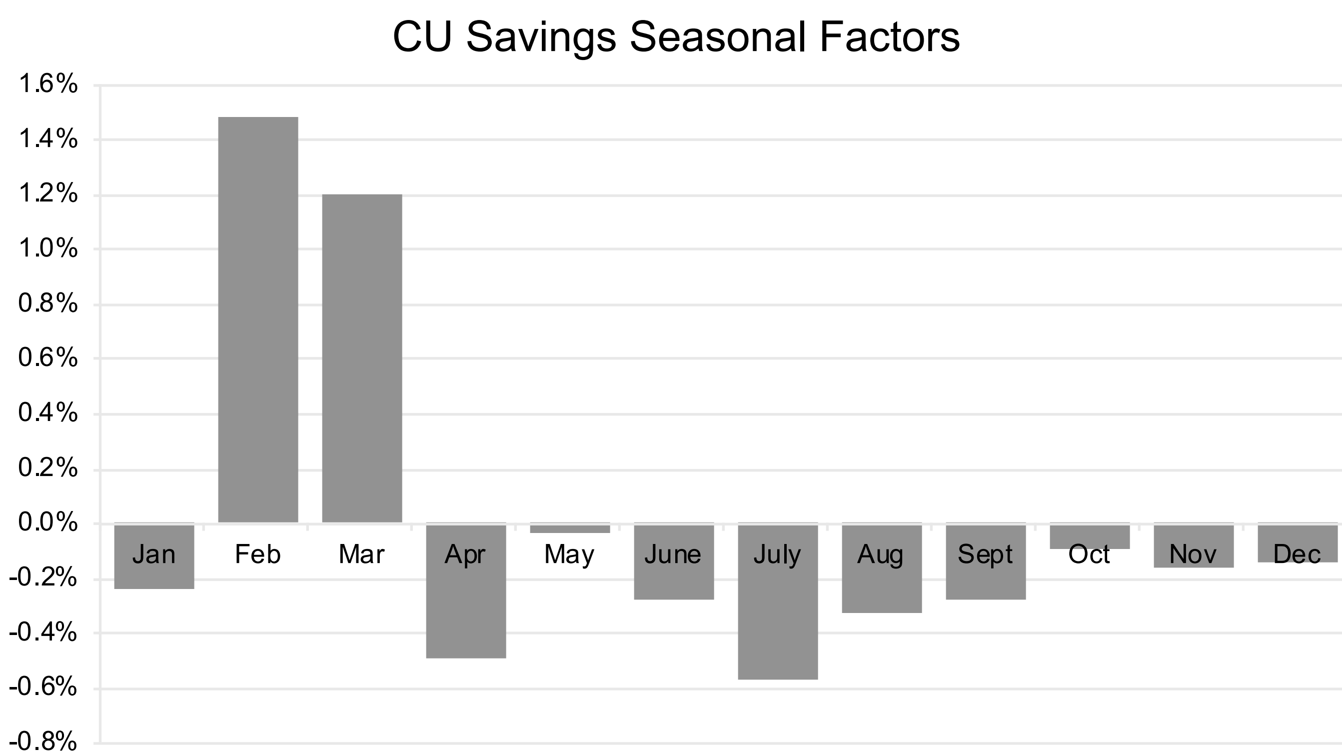
Credit union savings balances rose 1.6% in February, the same 1.6% gain reported in February 2021, due to the seasonal factors of tax refunds and bonuses being deposited in credit union members' share draft and regular share accounts, which increased 3.3% and 1.9% respectively.

February's seasonal factors typically add 1.48 percentage points to the underlying savings trend growth, the biggest of the year **(see figure below)**.

Credit union savings balances grew at an 8.1% seasonally-adjusted annualized growth rate in February, below the 14.4% rate set in February 2021 **(see figure on next page)**.

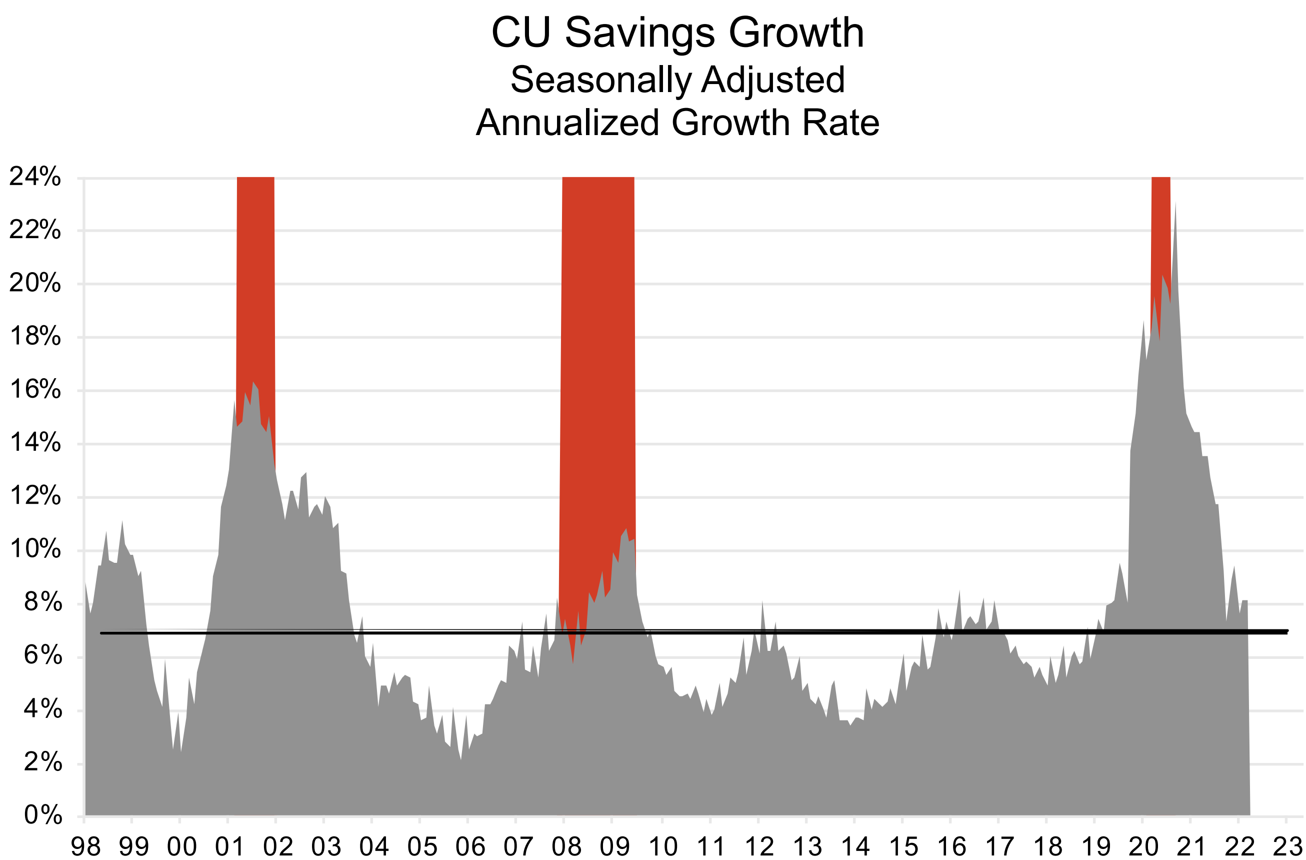
We forecast credit union savings balances to grow 5% in 2022, below the 7% long-run 30-year average, and significantly below the record-setting 23.3% growth rate set in September 2020.

Credit union savings growth will slow during the next two years. This is largely payback for the torrid deposit growth of the past two years, fueled by COVID's impact on consumer spending. There is also the possibility that members holding high-balance non-maturity shares and deposits (particularly money market accounts) might find yields on money market mutual funds attractive as the year progresses.



Source: CUNA & NCUA

Savings and Assets



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

07

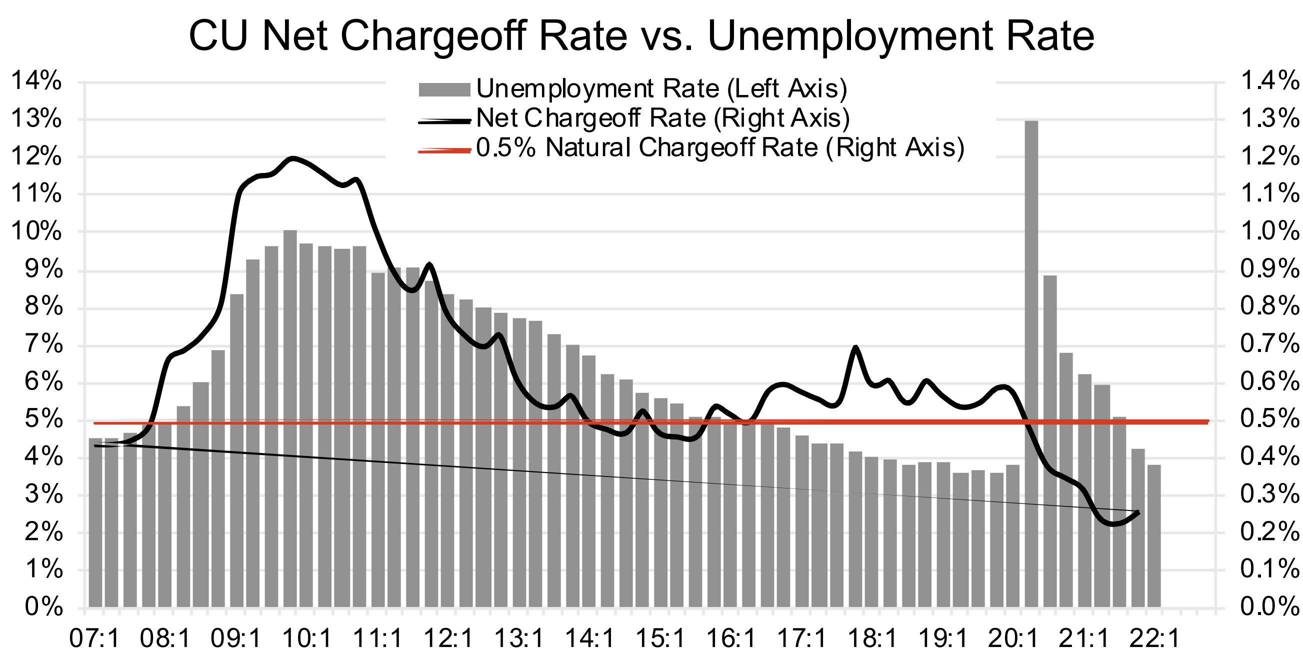
Capital and Other Key Measures

Credit union loan charge off rates is around half of the natural rate.

Capital and Other Key Measures

The credit union industry's average loan net charge-off rate fell to 0.26% in the fourth quarter, from 0.35% one year earlier. The loan charge off rate is the lowest in over a generation and is below its "natural" long-run rate of 0.5%. In other words, 50 cents of every $100 of credit union loans are normally charged off each year **(see figure below).** The charge-off rate is low due to credit union loan forbearance programs, stimulus checks, enhanced unemployment benefits and unemployment concentrated in low-wage service sector jobs. The charge-off rate typically exhibits a quarterly seasonal pattern whereby the loan charge-off rate rises by 0.05% in the fourth quarter and then declines over the next three quarters. That seasonal pattern may not happen this year due to abnormally low levels.

The credit union loan delinquency rate (loans two or more months delinquent as a percent of total loans outstanding) fell to 0.46% in February from the 0.52% reported one year earlier. A delinquency rate around 0.75% is considered the "natural delinquency rate," or the rate due to idiosyncratic life events (divorce, large medical expense, job loss), not due to the business cycle. The loan delinquency rate exhibits an annual seasonal pattern whereby the rate drops on average 0.04-0.06 percentage points in February and again in March as members use tax refunds and bonuses to catch up on late loan payments. Delinquency rates therefore typically reach their nadir in the first quarter and then slowly rise as the year progresses, reaching their apex late in the fourth quarter.



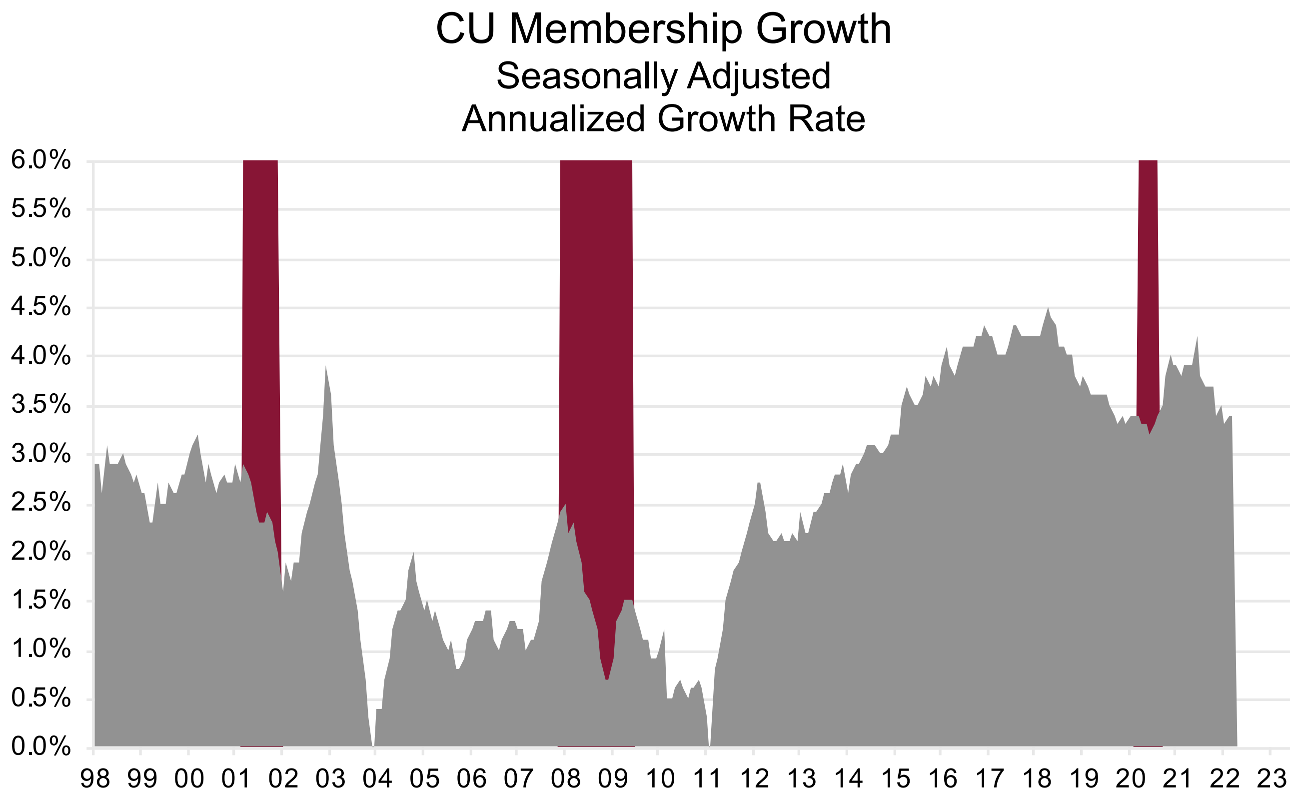
Source: Department of Labor, NCUA, CUNA

08

Credit Unions and Members

Credit union membership growth is expected to remain around 3.5% for the next two years.

Credit Unions and Members



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

Credit union membership growth slowed significantly during the first two months of 2022, adding 290,000 new memberships versus the 847,000 reported in the first two months of 2021. In percentage terms, credit union memberships rose 0.15% in February, 0.29% year-to-date, and 3.7% during the last 12 months. Memberships grew at a 3.4% seasonally adjusted annual rate in February, down from 3.8% in February 2021 **(see figure above).**

The ending of the COVID-19 pandemic is expected to keep credit union membership growth over 3% during the next few years. Americans typically join credit unions to obtain credit. With loan growth expected to be 8% this year and 7% in 2023, membership growth is expected to remain around its long-run average of 3.5% in 2022 and 2023.

Americans also join credit unions when they obtain a job at a business with an associated credit union. With millions of Americans expected to gain jobs this year, this avenue of membership growth will be strong. And finally, the decline in membership growth in 2020 was due to a decline in indirect auto lending. New indirect auto lending is expected to rise again in 2022 and 2023, which will bring in new members**.**

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 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	1,192.9	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	1,295.2	144.5	269.0	413.5	53.3	64.6	533.6	582.4	87.0	669.4	92.1
22 02	1,309.2	145.7	271.7	417.4	55.8	64.6	538.7	587.8	87.9	675.7	94.8

* 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 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	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	8.6	-0.1	11.0	6.8	3.6	5.9	6.5	10.3	1.2	9.1	18.0
22 02	9.6	0.7	12.1	7.8	4.0	6.5	7.4	11.1	3.0	10.0	20.0

* 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 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	1,192.9	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	1,295.2	2,092.7	1,816.7	206.7	132.1	5,127	71.3	9.9
22 02	1,309.2	2,122.2	1,845.6	204.7	132.3	5,098	70.9	9.6

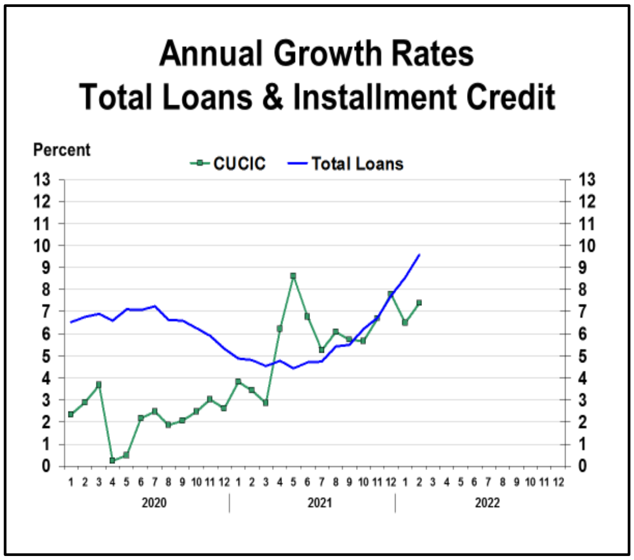
Credit Union Growth Rates

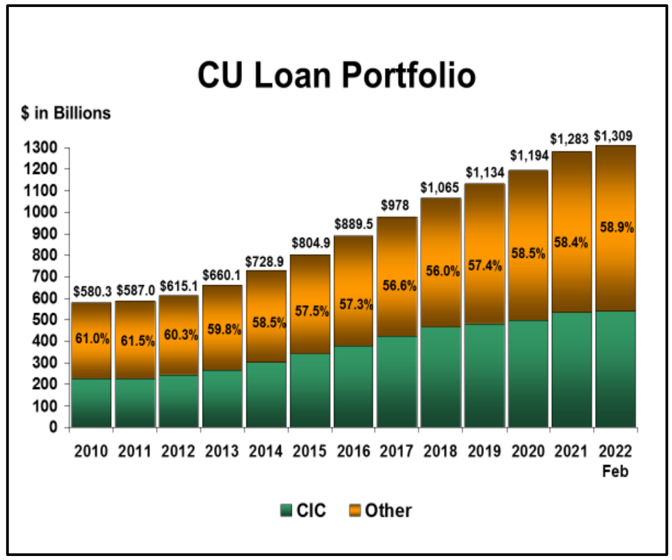
Percent Change From Prior Year

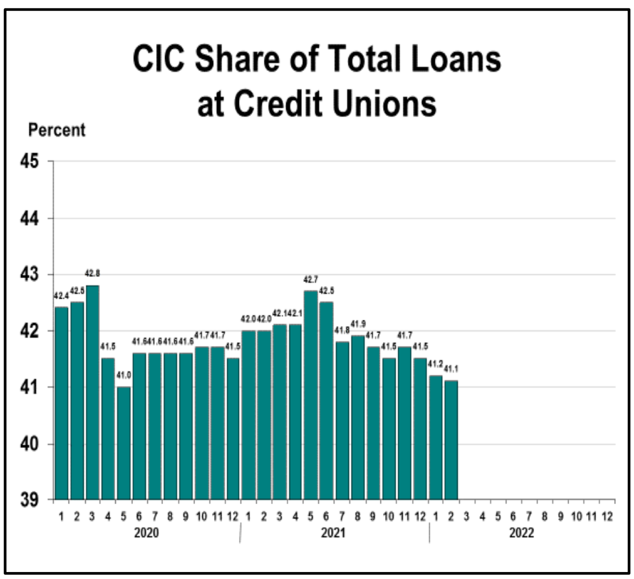
YR/MO	LOANS	ASSETS	SAVINGS	CAPITAL	MEMBERS	CREDIT UNIONS	# OF CUs DECLINE	DELINQUENCY RATE*
20 02	6.8	9.4	9.1	10.6	3.5	(2.3)	(126)	0.640%
20 03	6.9	8.7	8.0	10.1	3.4	(2.6)	(142)	0.629%
20 04	6.6	13.3	13.6	8.7	3.3	(2.4)	(133)	0.673%
20 05	7.1	14.7	15.0	9.2	3.4	(3.0)	(164)	0.657%
20 06	7.1	15.0	16.4	8.8	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	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	8.6	10.6	11.7	5.9	3.8	(3.6)	(191)	0.496%
22 02	9.6	10.5	11.6	5.1	3.7	(3.9)	(207)	0.464%

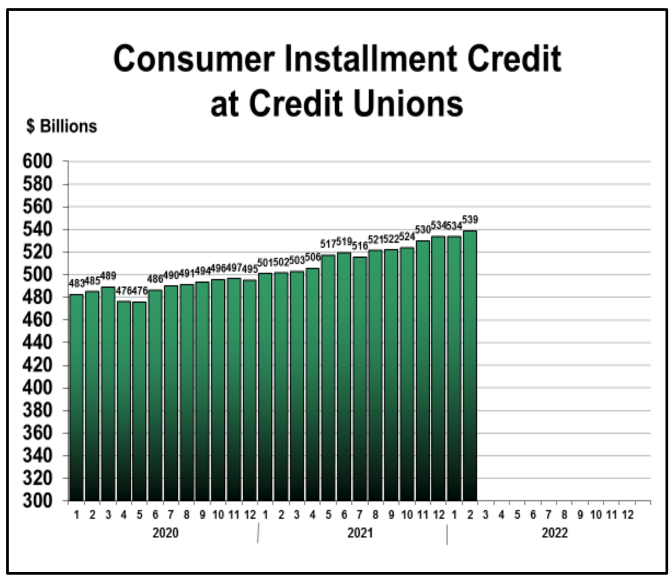
* Loans two or more months delinquent as a percent of total loans

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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