CALLAHAN & ASSOCIATES

2012 NON-INTEREST INCOME SURVEY

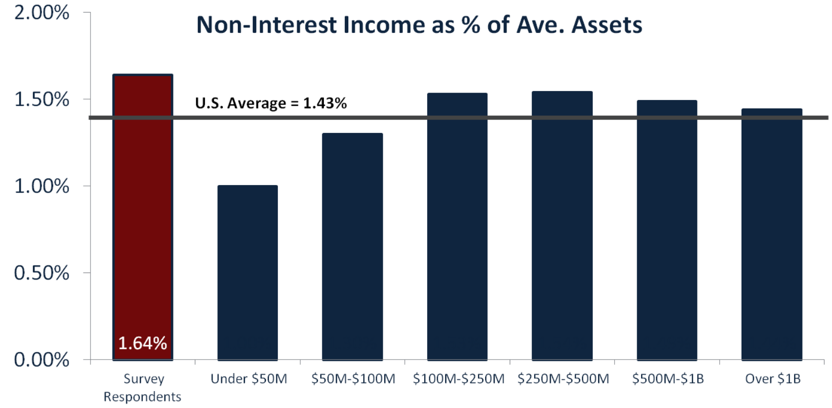
CALLAHAN ANAYLTICS TEAM | 2013

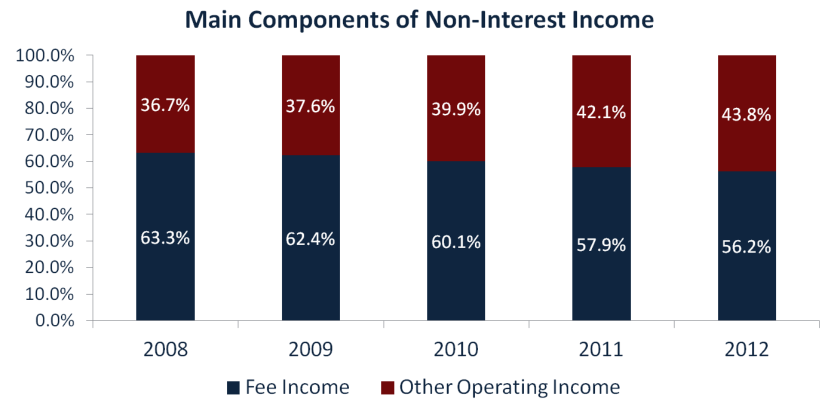
BACKGROUND

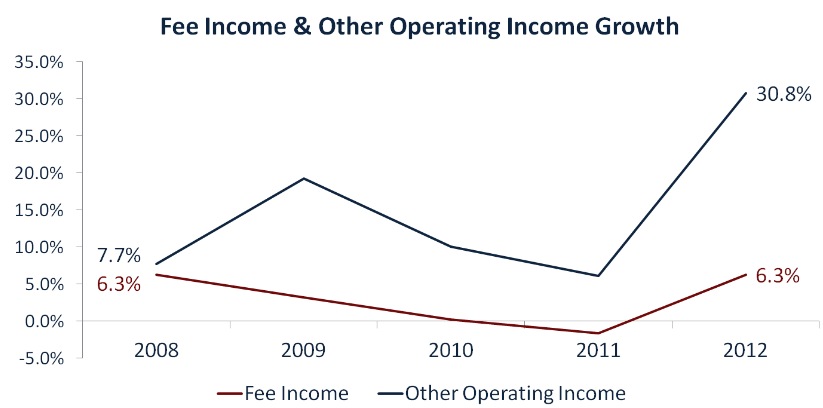
Non-interest income is broken down on the 5300 Call Report into only two main categories – fee income (account code 131) and other operating income (account code 659). Without having a detailed breakdown of the various components of non-interest income, it can be hard for credit unions to gauge how they are raising non-interest income in comparison to their peers. Callahan & Associates' annual year-end non-interest income survey uncovers trends in non-interest income that are not apparent from the 5300, and can help credit unions have a better picture of this income source.

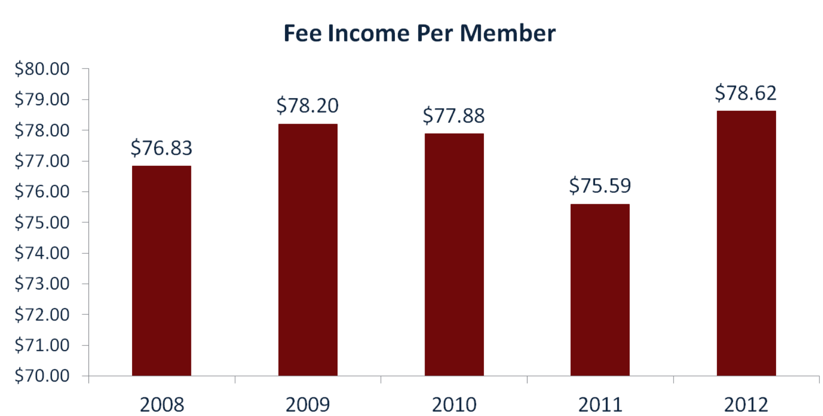
At the end of 2012, non-interest income totaled 1.43% of average assets, up 13 basis points from 2011. Non-interest income as a percent of average assets at credit unions that responded to the survey was 1.64%, 21 basis points above the national average. Total non-interest income increased 16.8% over the past 12 months. Fee income posted 6.3% growth nationally in 2012, with credit unions reporting an average of $78.62 in fee income per member. Other operating income grew by 30.8%, fueled by first mortgage sales to the secondary market. FDIC insured institutions posted an 8.0% increase in non-interest income over the same time period. In 2012, non-interest income accounted for 28.1% of total revenue at credit unions nationwide. With interest income impacted by the low-rate environment, non-interest income has increased its proportion of total income since the Great Recession. In 2007, non-interest income made up 18.5% of income at credit unions.

Fee income has historically been the larger of the two main components of non-interest income, but the spread between the two has narrowed in recent years. Driven by mortgage lending activity, growth of other operating income has significantly outpaced fee income growth. Other operating income now accounts for 43.8% of non-interest income, up from 36.7% in 2008. As credit unions adhere to the cooperative principles and find other ways to increase income beyond simply raising fees, fee income made up 56.2% of non-interest income in 2012, down from 63.3% in 2008. Although fee income now accounts for a smaller percentage of non-interest income, credit unions were still recognizing $78.62 of fee income per member, up from $75.59 last year.









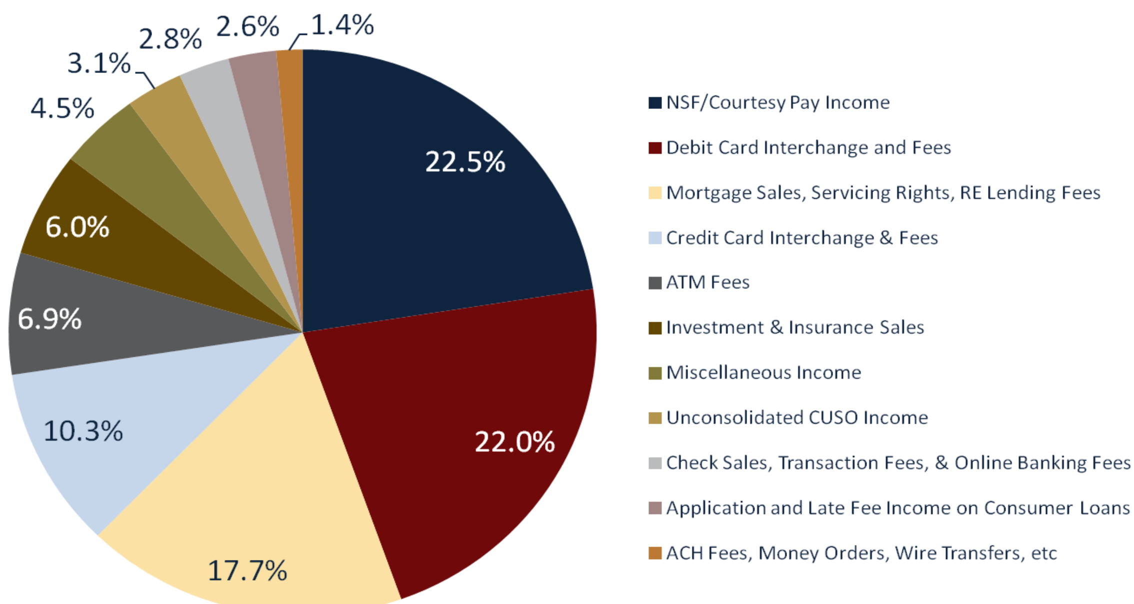
Data is as of December 31, 2012 for All U.S. Credit Unions

2012 Survey Respondents

A total of 69 credit unions participated in Callahan and Associates' 2012 Non-Interest Income Survey, varying in asset size from $21 million up to $11 billion. The responding credit unions represent 8.1% of the industry's assets and 9.2% of total non-interest income. The average asset size for these credit unions was $1.2 billion, with a median asset size of $636 million. The respondents to this year's survey reported strong financial performance in many areas, including having an average ROA of 104 basis points, 18 basis points higher than the national average. Non-interest income also accounted for a larger percentage of total income at the credit unions responding to this survey.

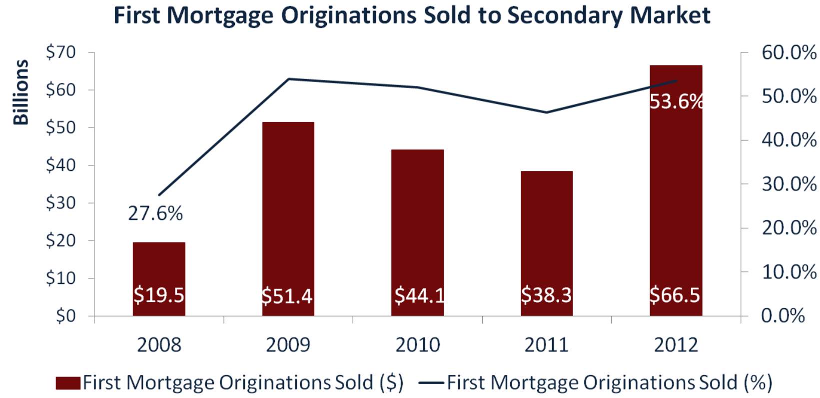
	Survey Respondents	All Credit Unions in U.S.
Average Asset Size	$1.2 billion	$148.7 million
Median Asset Size	$636.1 million	$21.0 million
Net Interest Margin	2.92%	2.94%
Non-Interest Income/Avg. Assets	1.64%	1.43%
Non-Interest Income/Total Income	31.1%	28.1%
ROA	1.04%	0.86%

In a year in which credit unions added more than 2.7 million checking accounts, the highest ever, the importance of these accounts is reflected in the top two non-interest income categories. Among the participating credit unions, NSF/Courtesy Pay income was the largest component of non-interest income in 2012 at 22.5%. This category has been the largest component every year that this survey has been conducted. The second largest component was debit card interchange and fees. With the Durbin Amendment in effect, the data indicates that credit unions have been largely unaffected by the new interchange rates. In the 2009 survey, debit card interchange and fee income made up 19.3% of non-interest income. This year, the category made up 22.0% of total non-interest income, a result that also highlights the increased debit card activity by credit union members. Credit card interchange and fees accounted for an additional 10.3%.



2012 Survey Respondents

The real story in non-interest income in 2012 is the mortgage sales, servicing rights, and real estate lending fees component. It comprised 17.7% of total non-interest income in 2012. Although the respondents change yearly, which affects the composition, mortgage sales accounted for only 11.6% of total non-interest income in the 2011 Non-Interest Income Survey. As credit unions experience record first mortgage originations, they are selling a record amount to the secondary market, leading to higher income recognition from these sales. During 2012, credit unions nationwide sold $66.5 billion in first mortgage originations to the secondary market, or 53.6% of total first mortgages originated. This is up from the $38.3 billion in mortgages credit unions sold during 2011. A significant number of respondents indicated that nearly one-third of their non-interest income was coming from the mortgage category.



One way credit unions are bolstering their non-interest income totals is through miscellaneous income sources. The most common miscellaneous item listed by credit unions was safety deposit box fees, with some credit unions recognizing over $100,000 in income from these sources alone. Skip-a-payment fees, shared branching fees, CD early withdrawal fees, rental income, and coin machine fees are some of the other creative ways credit unions nationwide are raising their non-interest income. The miscellaneous category comprised 4.5% of non-interest income in this year's survey, with some credit unions reporting up to 15.5% of their totals coming from these sources.

As 2013 progresses, some credit unions shared their specific initiatives to generate additional non-interest income. Many of the responses indicated the desire to not raise fee income, but use other measures to increase their totals. Beginning reward programs for credit and debit cards was a priority for some credit unions, while others are retaining servicing for sold mortgages, offering investment services, and increasing loan volume.

The survey results indicate there are multiple non-interest income streams that can be developed by credit unions. There is no dominant single source of non-interest income. In an era of record low interest rates and margins, diversifying revenue sources is increasingly important. Indentifying options that fit within each credit union's member service strategy is an essential component of business planning today.