The Callahan & Associates 2018 Economic Outlook Survey

Region 1 (Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, Vermont, and Wisconsin)

Please describe what you expect will be the condition of your local market in 2018. Why do you think this?	What are the top goals of the credit union in the coming year?	What challenges might prevent the credit union from reaching its goals in 2018?	What industry topics are top-of-mind for you?	State	Peer Group
Tightening a little because of higher interest rates.	Deposit growth of 10-12%. Member satisfaction. Loan growth of 10%. Credit card portfolio growth of 20%. Opening two branches.	Our goal for member service is very aggressive. Interest rates on loans will reduce volume. Competition in credit cards is fierce.	Interest rates and economic trends. CECL.	MI	$500M-$1B
Very tight labor market, hot real estate market due to limited inventory, auto lending down slightly.	Greater penetration in our market (specifically our sponsor's team members), grow our mortgage program significantly.	Keeping ahead of staffing needs due to limited skilled labor, cost of compliance, and having to add staff to meet compliance demands.	Cybersecurity, what will the economy do, disruption from fintechs.	MI	$50M-$100M
Our market condition is improving, driven by the strength of small business and the real estate market.	Improved technology offerings including a new mobile platform. Branch expansion. Membership growth.	Increased competition might prevent us from making our ROA and membership targets.	Fraud prevention/mitigation, membership growth, mergers.	ME	$250M-$500M
Strong local market, low unemployment, rising interest rates, slower housing growth, steady demand for vehicle loans.	Our 2018 goals include deposit growth and more diversified lending with more direct and less indirect loans.	Liquidity is a challenge. Compression of interest rate spread.	ADA compliance, interest rate risk, liquidity, and concentration risk. Essentially enterprise risk management.	WI	$100M-$250M
I'm in a mature market that will experience slow growth.	Grow consumer loans, reduce expenses, move staff and members to greater technology use, business loan originations.	Fierce competition in our saturated marketplace. Economic downturn.	Deregulation, new technology, new legislation.	MI	$100-$250M
The banking industry will continue to get more competitive and who knows where payments will go - it changes so fast now.	Growing non-interest income and deposit growth.	Our biggest challenegges are competition and a rising rate environment.	How to grow non-interest income, and our technology roadmap.	NY	$500M-$1B

CALLAHAN & ASSOCIATES
the credit union company

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Region 1 (cont)					
Southeast Michigan will continue to prosper. Auto sales are strong and technology is ever increasing new business opportunities.	Loan growth. Member engagement (relationship building).	Burdensome regulation and talent shortfall.	Selling the credit union difference, competition for talent from the banks with new tax benefits.	MI	$500M-$1B
Our market is seeing strong demand for credit cards, auto loans, and purchase mortgages. Refinances will go down as rates continue to rise. Delinquency will continue to decline as the job market continues to improve.	Loan growth, moderate savings growth, and cost reduction.	The uncertainty Trump brings to the nation.	Loans and regulatory uncertainty.	RI	$250M-$500M
Housing prices should see a slight increase; employment is not an issue.	Increased membership/loansl Educating staff and members. Increasing income. Community involvement.	Not opening enough accounts to make up for closed account run off. Compliance. Cybersecurity. ADA.	Top of mind for us in 2018 are compliance issues, technology expectations, and improving the member experience.	CT	$20M-$50M
We have a strong housing market with sustained auto sales. Jobs have continued to grow and new businesses are launching. Employees are needed.	Loan growth. Member growth. FOM expansion. Core processing conversion.	Competition Keeping employees engaged to work on growth when they are in the midst of working on a core conversion.	Compliance. Loan growth.	MI	$100M-$250M
Tax reform may slow down the real estate market in Connecticut.	Open new branch in New Haven, CT, underserved area.	Loan growth, delinquencies, and charge-offs.	NCUA net worth requirements.	CT	$100M-$250M

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Region 2 (Delaware, Maryland, New Jersey, Ohio, Pennsylvania, Virginia, West Virginia, and the District of Columbia)

Further improved economic conditions. The recovery is picking up steam and the tax cuts should help put more money into people's pockets and improve consumer confidence.	Accelerate loan growth. Member growth strategies taking hold. Operational improvements.	Unexpected economic downturns. Lack of member growth. ALCO constraints on loan growth. Deposit pressure.	Regulation, litigation, and merger opportunities will be top of mind for us this year.	MD	$50M-$100M
Our local markets (we are in three) will be mixed. One is a growing market and the other two are recovered, but stable.	Offer innovative solutions that make meaningful difference in members' financial lives. Take better care of members than anyone else can or will and provide hassle-free product and service delivery.	Regulators and regulatory environment squash innovation. Ourselves, too, because we have too many competing priorities at times and inefficient processes.	Member experience. Digital transformation. Fintechs. Efficiencies.	OH	$1B-$10B
I expect the central Ohio market to continue to thrive. We have had a very stable economy and continue to attract fintech, industry, and millennials to our city. Stable employment is support by The Ohio State University and multiple Fortune 500 companies.	Loan growth, profitability, and member experience.	Loan competition. If my theory on the Columbus economy is wrong.	Cybersecurity. Data management. Loan quality.	OH	$250M-$500M
Slightly higher than last year.	We are working to increase share of wallet and our loan portfolio, and decrease expenses.	Members are skeptical after losing money on investments.	Economy. Education.	MD	$1B-$10B

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Region 2 (cont)

Status quo. We are low income designation. I don't think local needs for loans or other products will dramatically change in 2018.	In 2018 we're focusing on increasing non-real estate loans, increasing membership, and increasing penetration in our existing membership.	Increasing membership is always tough due to being a SEG credit union. As to loans, we are too heavy in real estate, but the need for unsecured loans has decreased. As to car loans and credit cards, competition makes it difficult to increase the numbers without bringing down yield.	ADA compliance and mortgage regulations.	NJ	$10M-$20M
The Columbus Metro market remains robust with low unemployment and rising real estate market values.	Continued loan and deposit growth, 8-10%; ROA in excess of 1.00%; financial performance in top quartile of peers.	Significant deterioration in economic performance or hyper inflation would challenge growth and earnings goals.	Cybersecurity, fintech enhancments, maintaining our tax-free status.	OH	$500M-$1B
Our local market will continue to rebound slowly. Cleveland-area housing is still down from prior years.	Increase share deposits. Big staff turnover requires in-depth staff training	Staff's lack of functional knowledge of our products.	Cybersecurity. 2018 loan rate adjustments by the Fed.	OH	$25M-$50M
Share rates will continue to rise in the NYC Metro area which will put increased strain on the bottom line due to loan re-pricing being historically lagging behind shares.	Increase gross revenue, complete core system conversion, implement data warehouse and CRM system, and expand our financial wellness initiative through our CUSO.	Rising costs and skilled employees.	Cybersecurity, alternative lines of business to increase revenue.	NJ	$250M-$500M
Highly competitive with some consolidation.	Grow core deposits to fund asset growth, return value to members, retain talent.	Competition, market conditions, and board reluctance on initiatives will make it tougher to meet our goals for 2018.	Talent acquisition and retention.	VA	$1B-$10B

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Region 2 (cont)

The Dayton market should be steady in employment. Nothing significant in terms of growth, but certainly not declining. The Columbus market should have more robust growth in terms of employment, households, and opportunities for financial institutions.	Our strategic priorities over the next three years are to: Leverage data and other information to better understand member needs; invest to make it faster, easier, and safer, for members to use WPCU in an increasingly digital world; invest in top talent, employee, and management development; develop products and solutions for helping members improve their financial well-being; invest in increasing market share and develop new revenues for supporting stakeholder value.	Our challenges: Operating expenses rising faster than revenue. Lack of growth in members, loans, and deposits. Resource constraint, primarily in the people area. Do we try to do too much and not get enough done?	Regulation and the cost of compliance. GSE reform. Digital competition.	OH	$1B-$10B

Region 3 (Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Puerto Rico, and the U.S. Virgin Islands

Market is beginning to show some expansion but is not vibrant yet. More traffic and larger loans.	Member and product expansion.	If the market should stagnate or rumors abound to the extent that low income members become scared of using the credit union.	For us in 2018, it's compliance, always regulatory expansion; digital growth that is not affordable; and marketing improvements.	MS	$10M-$20M
Robust.	Loan growth. Share growth. ROA growth.	Slowing auto sales. Bull stock market.	Cybersecurity. Artificial intelligence (AI). Improving delivery channels.	IN	$1B-$10B

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Region 3 (cont)

Expect our local market to remain strong throughout 2018.	Refocus on building new membership within targeted segments.	Our market is heating up and new entrants (including credit unions) are moving in.	Mergers and acquisitions, organic growth strategies, digital transformation.	FL	$1B-$10B
Strong. Low unemployment. Home values appreciating. Low inventory of houses for sale. Lots of construction lending opportunities. Businesses flourishing and unable to find employees to staff up. Interest rate environment become more competitive as well as rewards becoming hyper competitive.	Deposit growth. Create more yield in loan portfolio. Convert more members to electronic banking. Grow specialized services (ag, commercial, residential mortgage, and investment division).	Liquidity and competitive pressure from local financial institutions as well as competition in the consumer space by online providers and big bank electronic offerings.	Interest rate sensitivity is big for us in 2018. So are low-balance consumer accounts and how to best manage the serving underserved vs. the profitability of those members.	IN	$1B-$10B
Above average growth with lower net income. More products and services with increased costs but free to members.	Boost net income and maintain growth in members and loans.	Core conversion costs and integration work.	Mobile, ADA compliance	FL	$500M-$1B
It should be very good. Our local economy is strong with low unemployment.	Increase loans, staff development, market growth/expansion, and strong financial performance.	Rapidly rising interest rates or an unexpected geopolitical event.	Cybersecurity and fraud prevention, and industry best practices, will be top of mind for us in 2018.	GA	$1B-$10B

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Region 3 (cont)

Liquid funds in flux due to new tax structure. In our area, a majority of homeowners will no longer be itemizing with the increased personal deductions, especially for a married couple. We are already seeing very large withdrawals from accounts to pay off mortgages. The home equity arena is going to be a challenge for the same reason. And, depending on the stock market correction we have started to see this week, will there be a flight to safety again? Or more impetus to pay down debt?	Organizational culture/retention/recruitment, loan growth, managing liquidity and interest rate risk, explore low income initiatives.	We're facing CD rate wars, unprecedented loan/mortgage payoffs and finding out core deposits weren't core but just artificially inflated deposits during the low point in the interest rate cycle. Demand pent up for many years could be combustible.	Top of mind for us in 2018 will be data analytics. Also, balancing fraud mitigation with member convenience. And the five generations in the workforce. It's crazy to think we will be hiring staff who were born after 9/11. Finding membership that will join because they are "choosing" the credit union vs. simply "unchoosing" their bank. I see a difference in their level of engagement.	IN	$250M-$500M
Local economy in Baton Rouge and Gonzales has been good and improving. We serve a BASF chemical plant and they continue to thrive. We also expect the new tax bill to have positive impacts on both companies and individuals.	Our main goal is to move from providing great member service reactively to providing it proactively. We are hiring a full-time marketing person to help accomplish this.	As rates rise, some members might move money to alternative investments which could cause some liquidity concerns.	Compliance and cybersecurity.	LA	$100M-$250M

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Region 3 (cont)

The Bowling Green regional market is stable and expected to remain stable in 2018. Manufacturing companies continue to move into the area. Our two commercial and industrial parks are full and not far from being full.	Diversifying loan portfolio. Engaging associates to engage members with new technology.	Auto loan slowdown.	Balance between digital banking and branches. Portfolio diversification. Field of membership. Cost of technology and compliance.	KY	$100M-$250M
Continued competition from local credit unions and banks, leakage of members as local employers shift, competition nationally for credit card balances.	Growth (new members and product penetration), operational efficiency, digital excellence.	Competition, unforeseen employer changes, financial institution disrupters for loan products.	Artificial intelligence, credit bureau changes, data privacy and security, data analytics, organizational structures.	IN	$1B-$10B
Upswing in earnings, modest loan growth, consumers still trying to figure out how to earn more from their savings. This is what trending points toward.	Continued loan production while growing deposits to offset strong lending. Increase checking accounts and interchange income. Keeping ahead of mobile technology.	Vendor reliance. Rapid pace of change. Competitive pressures.	Field of membership. Technology. Changing consumer preferences. Analytics. Data use.	IN	$500M-$1B

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Region 4 (Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Wyoming)					
Our local market will be similar to 2018, but more competitive as we are starting to see some niche players working to gain market share of deposits, mortgages, etc.	Our top goals are to increase deposit growth, continue to diversify our loan portfolio, and improve our branch infrastructure.	Increasing rates driving higher cost of deposits, as well as decreasing market for loan refinancing, could make it hard for us to hit our 2018 goals.	Rising interest rates, credit card growth, and IT security-related risks.	AR	$1B-$10B
We believe our local market conditions in 2018 are favorable to continue expanding our loan portfolio and providing competitive deposit rates.	Our top goals are to continue improving the member experience and meeting the needs of our members.	Any sudden changes in market conditions or occurrence of systematic risks.	Some of the industry topics include liquidity, stress testing, the real estate and auto industry, as well as the outlook for participations, indirect lending, and the risk landscape.	IL	$500M-$1B
Steady growth. There are many development projects happening right now and more in the works. Unemployment remains steadily low at 3-4%.	Grow loans and expand facilities.	Rising interest rates could discourage some borrowers from borrowing. We also experience delayed product enhancements due to regulatory and core system limitations.	CECL, rising interest rates, loan growth, fraud (identity and plastic card specifically).	MT	$100M-$250M
Better. More economic growth in our area. Consumer confidence is up. Effects of recent tax cuts will give the member more money to spend.	Continue to grow loans. Improve our bottom line and achieve a higher ROA. Expand technology use. Maintain conservative delinquency and charge-off numbers.	If delinquencies begin to rise and loan demand decreases.	ADA accessibility lawsuits, reduction in compliance issues, and small credit union survival. Those are top of mind for our credit union this year.	TX	$50M-$100M
Competitive. Mortgage rates are increasing and auto purchases are declining.	Growth in loans and members.	Small staff and competitive environment.	Creating a dynamic organization.	CO	$50M-$100M

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Region 4 (cont)					
We expect strong market conditions in 2018. Employment is high, inflation is low for now, the housing market is solid, and commercial activity is growing	Increase deposits to accommodate loan growth. Increase member and employee engagement. Continue to attract younger members and prepare for a core conversion.	Rapidly rising interest rates, a shift in the economy or stock market, unexpected outside events.	Technology, member engagement, and employee engagement.	IA	$1B-$10B
Will improve. Consumers will spend more and increase debt, including credit cards.	Digital. Digital. Digital. We're trying to become best of breed.	Deposit growth has slowed, unless you raise rates and overpay.	CECL, fintechs, member experience, consumer products by segments (e.g,, retired, young family).	TX	$500M-$1B
Local market continues to grow, but has become more competitive.	Upgrade delivery channels and products for members.	Competition, money to invest in new technology.	Changing technology.	TX	$500M-$1B
Should see a lot of spending due to susceptibility to oil and gas industry and increased pricing in that sector. Also due to overall increased consumer confidence. Some wage pressure.	We plan to open a micro-branch facility and build an addition onto another current facility. Basically, facilities upgrade and branch expansion.	A rapid change in the economic winds. Perhaps some major geopolitical event that would cause all major economic activity to reverse course.	Top of mind for us in 2018 are fintech-based delivery channels, regulation reform, tax exemption challenges, lawsuit challenges (ambulance chasers), cybersecurity and attacks.	CO	$50M-$100M
The housing/mortgage industry will be a bit slower and the HELOC loans (due to new regulations) will take a hit. Auto loans will remain positive.	We're working to increase member growth and increase member engagement. Cross-selling and more front-line engagement as a whole. Find new ways while using effective ways to reach the youth and millenials.	Industry and tax changes will have their impact; however, we're looking at ways to overcome them ahead of time, such as mortgages and HELOCs. We're going to find new ways to make a negative into a positive and continue our growth.	Cross-selling, analytics, mortgages and HELOCs, digital advertising and mobility.	KS	$100M-$250M

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Region 4 (cont)

Strong real estate demand in first mortgages and HELOCs. Weak auto loan demand. Gradual increases in deposit and loan rates.	We're building infrastructure to support increased dependence on technology in retail banking as an expectation by our members. Also, better reporting tools and analytics, and introducting MBL and commercial accounts.	Compliance issues and related costs. Low loan demand. Competition from non-traditional banking entities taking profitable segments, leading to new revenue strategies.	Compliance, competition, apathy of membership.	IL	$100M-$250M
Strong economic growth as we are located in a rather affluent community.	Build capital, improve efficiency, improve product pricing methods.	Rapid growth, strong competition, resistance to change.	Regulation, tighter labor markets, CECL, risk-based capital.	IL	$250M-$500M
I believe our local market will continue to be as good as 2017 was. There is very little going on in the local market that should make it change much from last year.	Our primary focus is restoring our net worth above 7%. To do this we have to manage our expenses by staying within our 2018 budget.	Examiners are the largest challenge. Another challenge would be any extraordinary expense that keeps us from restoring our net worth.	Cybersecurity, data breaches, and survival of small credit unions.	KS	$20M-$50M

Region 5 (Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington)

The Metro Phoenix economy should be rather robust this in 2018. However, my caution is that hot economies can suddenly turn cold, some fear of exaggerated home equity values and possible implications for the quality of related loan portfolios.	Net membership growth particularly with highly engaged members. Operating efficiency. A digital-first strategy.	I think our ERM initiatives have identified most reasonable risks within our tolerance. We've also positioned ourselves to be nimble and able to minimize the impact of the unknown. I suspect the greatest challenge would be a sudden and sustained economic downturn.	Top of mind in 2018: Membership retention. Digital-first best practices. Proactive organizational agility in preparation for inevitable disruptions in the financial marketplace.	AZ	$1B-$10B

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Region 5 (cont)

We struggle to fill open positions because of very low unemployment and hyper competition from many large players.	Our focus is to stop membership decline and grow consumer loans.	Unskilled, union-protected staff; hyper competition; high fixed expenses.	Regulation, compliance.	CA	$50M-$100M
Continuing to expand due to UC Merced and relocations due to lower real estate values vs. the San Francisco Bay area.	Core processor conversion.	Core processor conversion.	Rising interest rates and its impact on cost of funds are top of mind for us this year.	CA	$250M-$500M
I think we will see a slight increase in rates, similar to what we saw in 2017. I think the economy will stay strong. In addition, I think real estate values in Washington will continue to grow.	Increase ROAA and grow our net worth.	Economic downturn.	Credit union taxation and reduced non-interest income.	WA	$50M-$100M
I feel it will be average. Our local economy is weaker due to lack of job growth.	Our 2018 goals are to serve more low/moderate income members, maintain capital ratio, and grow income.	A downturn in the real estate market and lack of job growth may prevent us from reaching those goals.	Asset liability: acquiring deposits; flatter yield curve; loan pricing - credit unions in our area are well below bank auto loan rates Continued shrinking of the number of credit unions.	AZ	$100M-$250M

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Region 5 (cont)					
Locally, our market place was slower to recover than the nearby Bay area of California, and seems to be very stable. Based on what we are seeing, we expect a maintained or improved marketplace this year. Housing prices are stable and going up. Loan demand has increased.	We'll be looking at delivery channels, the cannabis business, and building capital.	Expense of technology at a smaller asset size is a problem for us. We also face loss of key management in a market where it's too expensive for most to buy a home. Those coming into the organization must rent and this leads to instability. We also face unexpected losses in lending.	Top of mind to us in 2018 are the NCUA's chokehold which still remains in many areas of the country (subjective examining); cannabis banking; income generation opportunities vs. risk.	CA	$100M-$250M
I believe my local market will stable out, with housing and consumer spending tabling towards mid 2018. housing prices have risen significantly in 2017, which slowed purchases, and increased rentals.	Our goals are to complete our technology platform; serving members through mobile services. To educate our members on credit development, budgeting, car buying, and paying down debts.	Income, regulation, and staffing.	For us in 2018, it's regulation, new products and services, credit union successes. I would like to see a DIY column for small credit unions that have to do things themselves, and not through a third party … (regulation, technology, marketing, personnel, development, etc.)	CA	$10M-$20M
Strong economic growth and real estate appreciation due to continued population growth and lack of sufficient housing.	Increased profitability and stronger share growth.	We face fierce competition and a failure to differentiate credit unions from other financial institution options.	Digital banking, blockchain technology, attracting and retaining top talent.	WA	$500M-$1B

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Region 5 (cont)					
I expect the Oregon market to continue to be hot in residential and commercial real estate. We have an influx of people moving into Oregon from the Midwest and unemployment is low. Deposits will continue to be hard to attract.	"We are working to diversify our lending portfolio, focus on deposits and relationship deepening to get those deposits, member engagement and moving more members to use electronic self-service channels, and to focus on continuing to be efficient and reduce operating expenses."	The fight for deposits, rising wages, low unemployment that makes it tougher to keep talent, cost of technology, cost of continued regulatory responses.	Growing commercial loans and member business deposits. Universal employees. Goal setting. Portfolio diversification.	OR	$1B-$10B
Continued strong employment and rising house prices.	Grow the balance sheet.	Local competition for deposits and loans, rising interest rates.	Cybersecurity and interest rate risk.	CA	$1B-$10B
Solid. Continued growth in business activity and employment.	Participating more loans (CRE, mortgage). Merger preparation. Using our low income designation.	A weak economy.	Cybersecurity. Margin pressure. Rising rates.	CA	$500M-$1B
Slight growth and more job stability. I believe this to be true as Arizona is a growing state with companies moving here from less tax- and regulation-friendly states like California and the Northeast. New home construction has increased and expansion of trade with Mexico has spurred growth in Maricopa County.	We plan to execute a successful core and online banking conversion; optimize existing systems, leverage gained efficiencies and reduce expenses. Also, achieve key ratio targets and strategic goals as planned and deploy ALM enhancements.	Increased competition and pricing by large financial institutions and credit unions regardless of market conditions; higher bankruptcies; losing focus of our priorities.	Credit, ALM, exam Issues.	AZ	$100M-$250M