2013 NON-INTEREST INCOME SURVEY

CALLAHAN & ASSOCIATES

KEY FINDINGS

- Non-interest income as a percentage of average assets for credit unions nationwide stood at 1.38% in 2013, down 5 basis points from 2012.

- Fee income posted 1.5% growth in 2013, down from 6.3% growth reported a year ago. Other operating income increased 16 basis points in 2013 versus the 30.7% growth reported in 2012. Slower growth in other operating income is partially due to lower income from mortgage sales to secondary market as refinancing activities began to wind down.

- Credit unions sold $55.3 billion in first mortgage originations to secondary market in 2013, down 16.8% from 2012. The percentage of first mortgages sold to total first mortgage originations also decreased to 45.9% in 2013 from 53.6% a year ago.

- The largest component of non-interest income among the 2013 survey respondents was debit card and interchange fee income, comprising 23.8% of total non-interest income. Total card-related interchange and fee income accounted for 34.0% of total non-interest income in 2013, up from 32.3% in 2012.

- NSF/Courtesy pay income, which had been the largest component since 2007, was the second largest component at 22.8% in 2013.

- Income from mortgage sales, servicing rights, and real estate lending fees was the third largest component, making up 12.8% of total non-interest income in 2013 compared to 17.7% reported in 2012.

- Safety deposit box fees and skip-a-payment fees are the two most common sources of miscellaneous income at the survey respondents.

2013 SURVEY RESPONDENTS PROFILE

	2013 Survey Respondents	All Credit Unions in U.S.
Number of CUs	102	6,687
Federal Chartered CUs	47	4,105
State Chartered CUs, NCUSIF Insured	53	2,449
State Chartered CUs, ASI Insured	2	133
Total Members	10,701,091	97,462,474
Members, Average per CU	104,913	14,575
Total Assets	$129.3 Billion	$1.1 Trillion
Average Asset Size	$1.3 Billion	$160.8 Million

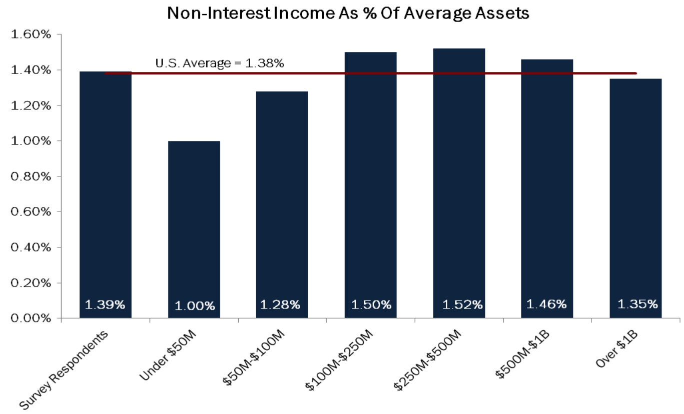
INDUSTRY OVERVIEW

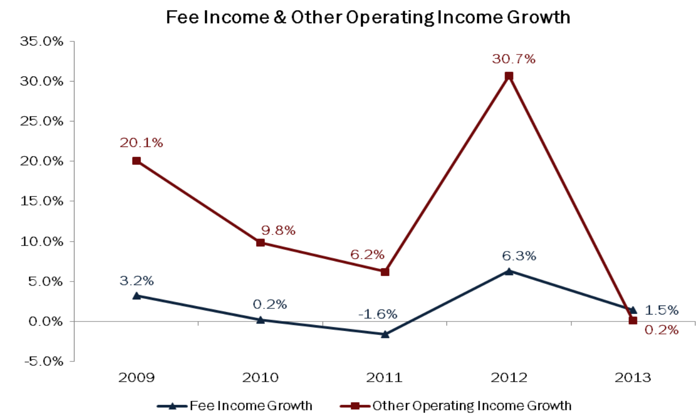
The 5300 Call Report requires credit unions to report only two non-interest income categories: fee income (account code 131) and other operating income (account code 659). However, in reality, non-interest income is much more complex and there are many sub-categories that comprise these two main ones. Without a detailed breakdown of the components of non-interest income, it can be difficult for credit unions to know how they are driving non-interest income in comparison to their industry peers. In an effort to provide more details and insight into this revenue source, Callahan & Associates conducted an annual year-end survey, which uncovers industry trends in non-interest income that are not shown on the 5300 Call Report.

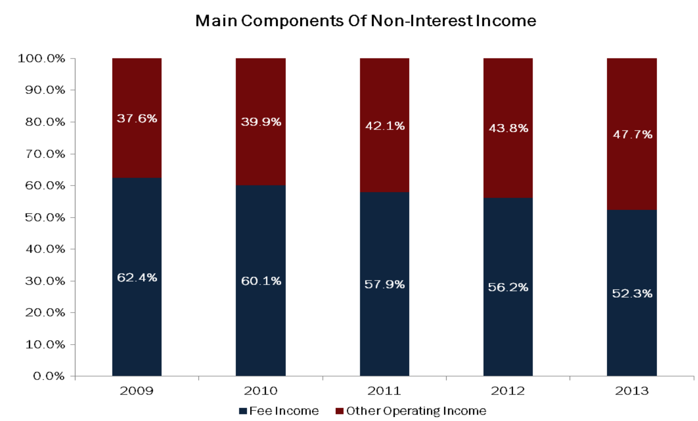
The recession-era trend of declining interest income and rising non-interest income started to shift modestly in late 2013. After several hints, the Federal Reserve finally made an official decision to taper its quantitative easing efforts in December of 2013. At year-end, the 10-year treasury exceeded 3%, marking a 1.3 percentage point increase within just eight months. The rise in interest rates has led to a slowdown in refinancing activities, affecting the growth in other operating income, which includes income from mortgage sales to the secondary market. In 2013, non-interest income as a percentage of average assets for all credit unions stood at 1.38%, down 5 basis points from 2012. The year marked the first time since the recession that the non-interest income as a percentage of average assets decreased from the previous year. Survey respondents reported a non-interest income to average assets of 1.39%, comparable to the national average.

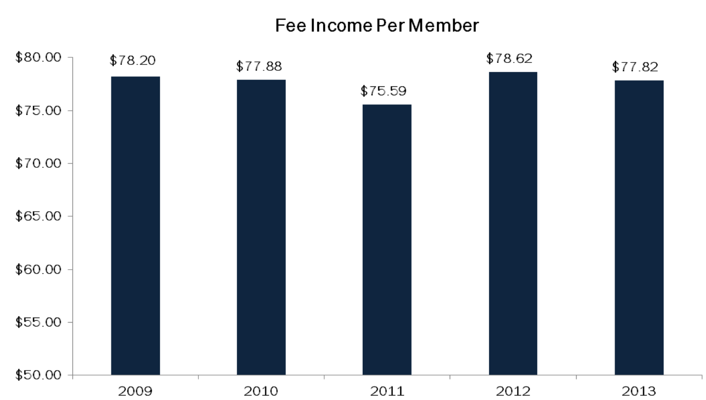
Total non-interest income increased 0.8% over the past year, accounting for 28.9% of total income at credit unions nationwide. Both annual non-interest income growth and the percentage of non-interest income to total income decreased from the levels seen in 2012. Fee income posted 1.5% growth in 2013, down from 6.3% growth reported a year ago. Other operating income also increased 16 basis points over 2012, but this annual growth is significantly less than the 30.7% growth reported in 2012. The slowdown in other operating income growth is due in part to credit unions selling a lower amount of mortgages to the secondary market. During 2013, credit unions nationally sold $55.3 billion, or 45.9% of their first mortgage originations, to the secondary market. This is down from $66.5 billion, or 53.6% of first mortgage originations, reported in 2012.

Fee income has historically been the larger of the two main components of non-interest income; however, the spread between the two components has decreased over the past several years. As of 2013, fee income accounted for 52.3%, down from 56.2% from the previous year. This decrease is in part to credit unions' efforts in adhering to the cooperative principles and looking for other ways to increase income beyond raising fees. Meanwhile, other operating income now accounts for 47.7%, posting a 3.9 percentage point increase from 2012. With a decrease in the proportion of fee income to total non-interest income and a slower growth in fee income, fee income per member decreased 1.0% annually to $77.82 at year-end 2013.









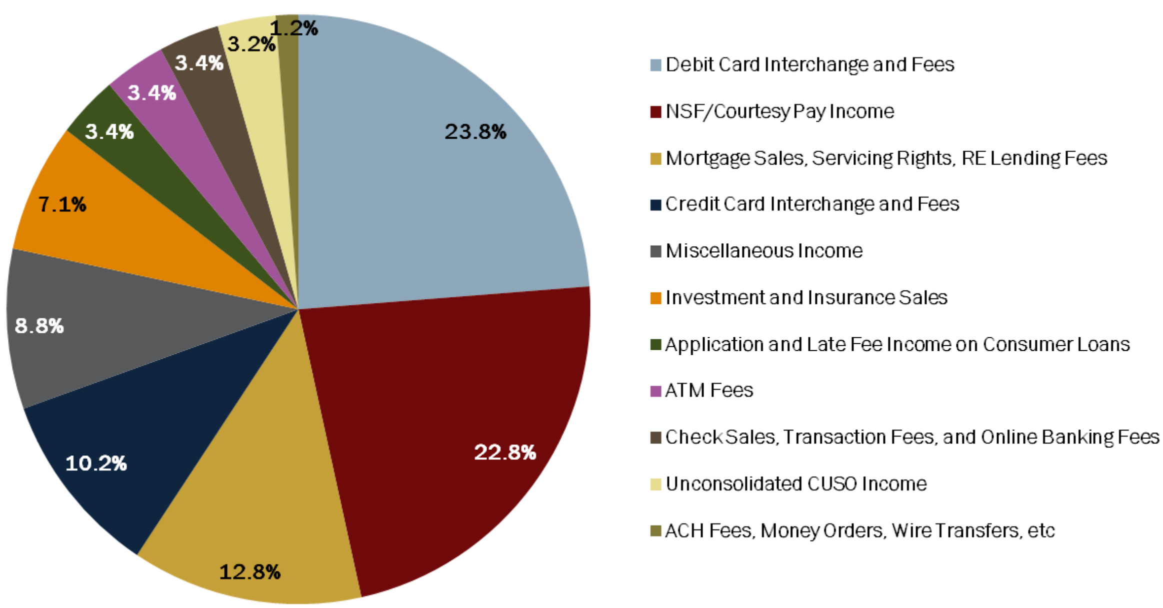
2013 SURVEY RESULTS

A total of 102 credit unions participated in Callahan and Associates' 2013 Non-Interest Income Survey, representing 12% of the industry's total assets. These credit unions varied in asset size from $19 million up to nearly $12 billion. They accounted for 12.4% of the total non-interest income reported by all credit unions nationwide. The average asset size for these credit unions was $1.3 billion, with a median asset size of $669 million as of December 2013. These credit unions posted solid financial performance, exceeding a number of national trends. For instance, the responding credit unions reported an ROA of 101 basis points, 23 basis points higher than the national average. Non-interest income accounted for a slightly larger percentage of total income at these credit unions at 29.9% compared to the national average of 28.9%.

	2013 Survey Respondents	All Credit Unions in U.S.
Average Asset Size	$1.3 Billon	$160.8 Million
Median Asset Size	$668.5 Million	$22.7 Million
Net Interest Margin	2.75%	2.81%
Non-Interest Income/Ave. Assets	1.42%	1.38%
Non-Interest Income/Total Income	29.9%	28.9%
ROA	1.01%	0.78%

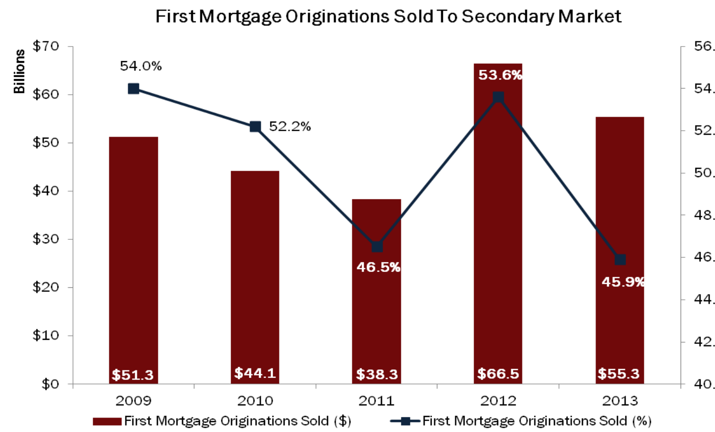
In 2013, the largest component of non-interest income among the participating credit unions was debit card interchange and fee income, comprising 23.8% of total non-interest income. NSF/Courtesy pay income, which had been the largest component every year since 2007, was the second largest component at 22.8% of participating credit unions' non-interest income in 2013. Despite a slowdown in refinancing activities, mortgage sales, servicing rights, and real estate lending fees continued to make up a large portion of non-interest income, accounting for 12.8%. Credit card interchange and fee income was the fourth largest component of non-interest income at 10.2%.

Of the 102 credit unions who participated in 2013 Non-Interest Income Survey, 43 of these credit unions participated in 2010 Non-Interest Income Survey as well. Despite concerns over the possible implications of the Durbin Amendment that passed in May 2010, the pre-Durbin Amendment (2010) and the post-Durbin Amendment (2013) numbers for total income from debit card interchange for these credit unions suggest that the rule has had limited impact on credit unions to date. According to 2013 and 2010 surveys, total income from debit card interchange increased 30.8% in 2013 from 2010 with all but five of these credit unions posting a growth in income from debit card interchange over 2010. Growth in the total number of checking accounts as well as members' increased debit card usage has helped to mitigate the decrease in per transaction debit income at many credit unions.



PRIORITIES FOR 2013 SURVEY RESPONDENTS

One of the most important categories of non-interest income in 2013 was the mortgage sales, servicing rights, and real estate lending fee component. In 2013, it comprised 12.8% of total non-interest income. Although the survey respondents change yearly, which affects the composition, this category accounted for 17.7% of total non-interest income last year. As the Federal Reserve began to discuss the start of its tapering program and long-term interest rates started to rise in 2013, the amount of first mortgage originations decreased as refinancing activities began to wind down at credit unions. In 2013, credit unions across the country originated $120.5 billion, down 2.8% compared to 2012. During the same period, credit unions sold $55.3 billion, or 45.9%, of the total first mortgage originations. This proportion is significantly slower than the 2012 rate of 53.6%. The total is down from $66.5 billion in mortgages credit unions sold during 2012.



A great number of credit unions reported that they are focusing on increasing debit and credit card interchange income from a larger transaction volume. This suggests a growing importance of cards at credit unions, as the total card-related interchange income - along with debit card and credit card fees - accounted for 34.0% of total non-interest income in 2013, up from 32.3% in the previous year. Some credit unions said that they are considering starting reward programs for debit and credit cards to drive growth in members' card usage.

Another way credit unions can raise their non-interest income is through miscellaneous income sources. According to the survey, the two most common miscellaneous items were safety deposit box fees and skip-a-payment fees. Other ways credit unions are increasing their non-interest income include income from shared branching, paper statement fees, and gift cards, just to name a few. The miscellaneous income category made up 8.8% of total non-interest income for the participating credit unions in the 2013 survey, up from 4.5% reported by the last year's survey respondents. Nearly 12% of 2013 survey respondents reported that over 10% of their total non-interest income was derived from miscellaneous income sources.

Many participating credit unions indicated that they would like to increase their total non-interest income through a variety of different measures other than raising fee income. A number of credit unions reported that they are looking at expanding insurance services and investment products as sources of non-interest income in 2014. Income from increased mortgage sales & originations, courtesy pay income on debit cards, and CUSO income were some of the popular areas of focus for many credit unions to drive non-interest income growth.