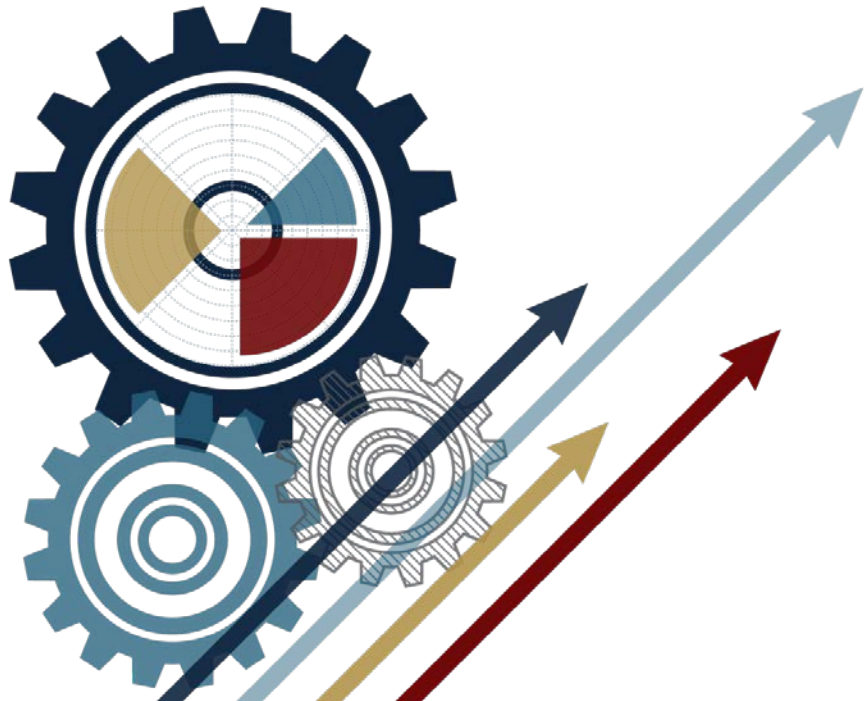


Trendwatch 2Q 2017

Data for June 30, 2017

Call Dates: August 23 & 24, 2017



Welcome!



When you join the event, you should automatically be connected to the audio broadcast with your computer. To listen by phone, please dial **+1-415-655-0003**, then input the access code **662 626 962**.



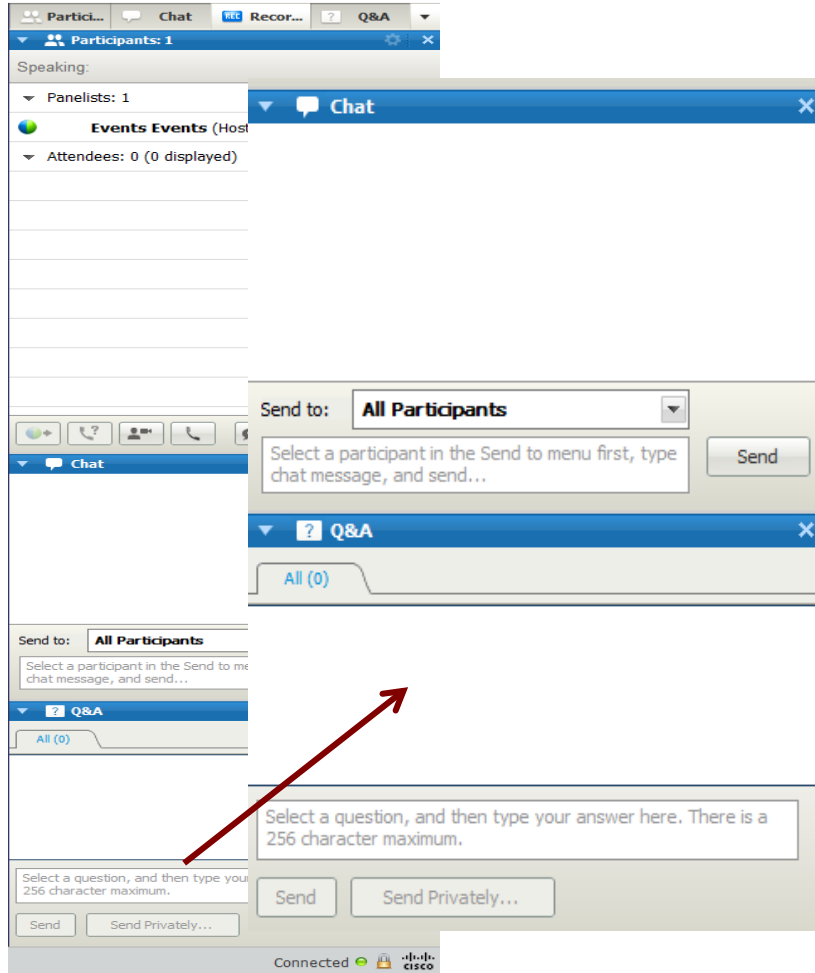
To help you follow along with TrendWatch, earlier today we sent the presentation slides for the event to the email address you used to register for TrendWatch. We will also send you a copy of slides after the event.

Slide Link

Today's slides can be found online at:

<http://bit.ly/2Q17Trendwatch2>

We Encourage Questions!!!



Use the **Q&A box** located on the right side of the screen to type your comments or questions.



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Wednesday, 9/6 at 2:00 p.m. ET

Tuesday, 10/10 at 1:00 p.m. ET

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Is The NCUA Finally Doing The Right Thing?

The Case for Merging the TCCUSF & NCUSIF

Hosted by Chip Filson

Free Callahan Webinar

Tuesday, August 29th

2 PM Eastern

Register Online: bit.ly/NCUA2017



NCUA's request for comment is due by September 5. Make sure you understand what is at stake for your members!

Tell us what you thought!



Please answer our post-event survey.

One lucky survey respondent will win a Starbucks gift card.

Agenda

Market Update

Jason Haley, Managing Director, Investment Management Group, ALM First

2Q 2017 Credit Union Trends & Key Issues

“On Pace for Another Record Year!”

Jon Jeffreys, Managing Partner, Callahan & Associates

Jay Johnson, Partner, Callahan & Associates

Connecting with the Community

Karen Harbin, President/CEO, Commonwealth CU

Patty Smith, Chief Marketing Officer, Commonwealth CU

ALM First Market Update

Jason Haley

Managing Director, Investment Management Group



2911 Turtle Creek Blvd.
Suite 500
Dallas, Texas 75219
Phone: 800.752.4628
Fax: 214.987.1052
www.almfirst.com

Speaker – Jason Haley



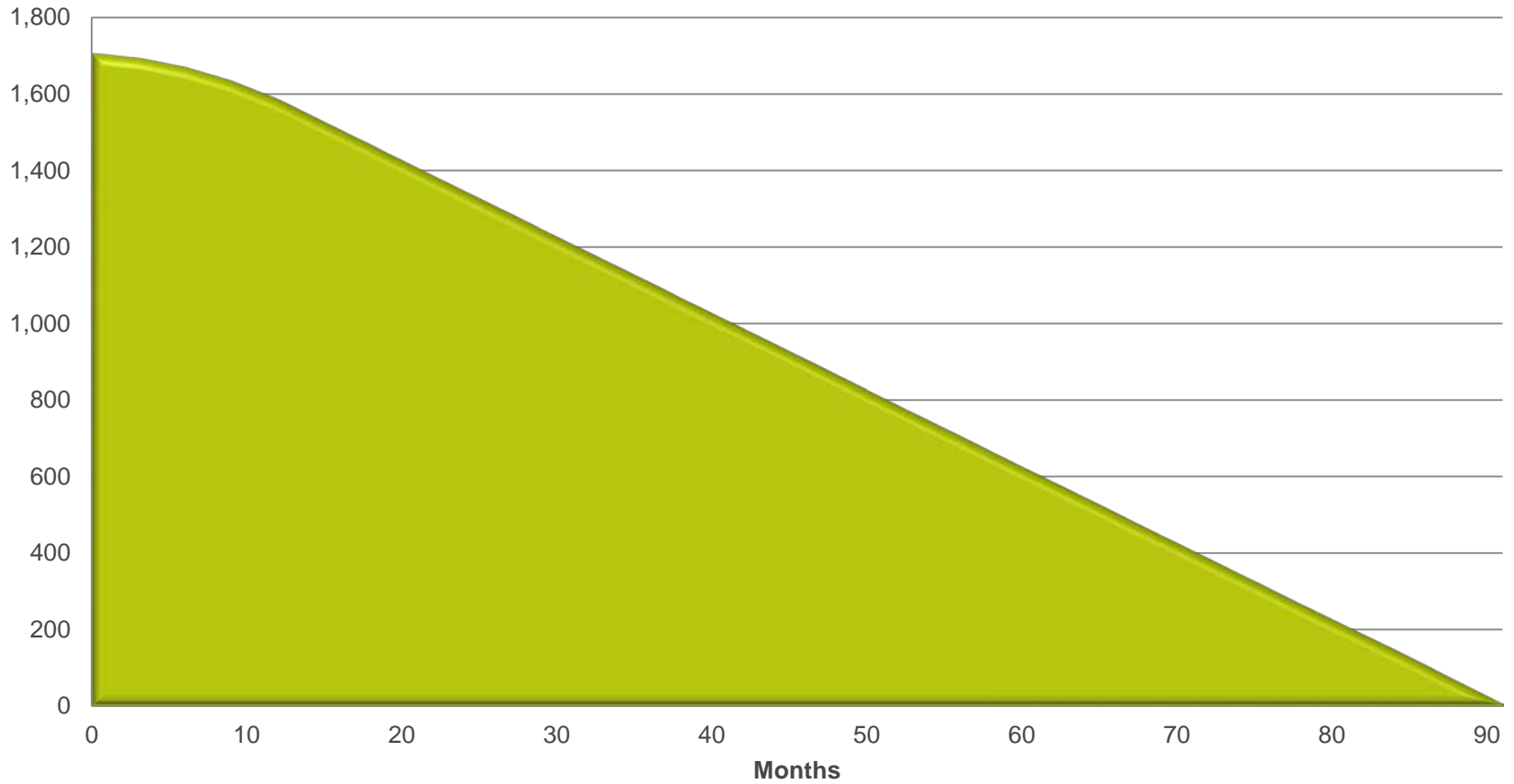
- Managing Director, Investment Management Group
- Responsible for cross-sector relative value analysis and all capital markets activities
- Oversees the development and execution of model and client-specific portfolio strategies
- Responsible for market research & commentary

Economic Update

- Primary economic themes of the last few months have been 1) disinflation concerns, and 2) political disappointments
- Fed officials have largely dismissed inflation weakness as transitory, but July FOMC minutes revealed growing divide on inflation forecast
 - “Many” worried that inflation will hold below 2% target “longer than currently expected”
 - A “number” of participants engaged in a debate about whether Phillips curve theory remained a useful tool for inflation forecasting
- Paul Ryan and Mitch McConnell have reportedly been working behind the scenes to secure support from moderate Republicans and Democrats for a “clean” debt ceiling bill
- Market expectations for significant tax reform in the next 6-12 months have diminished

Fed Balance Sheet Reduction

Fed Projected MBS Holdings (\$ billions)



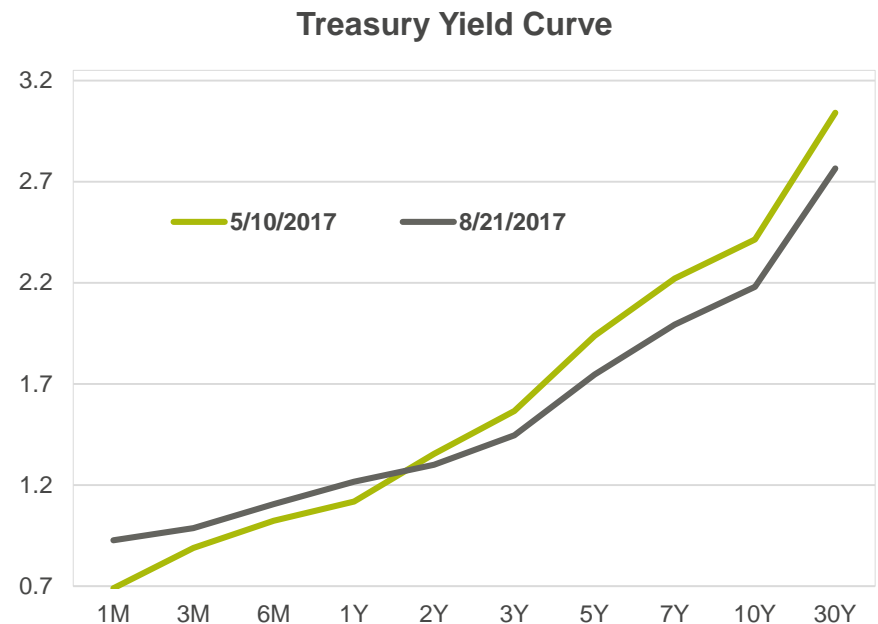
LIBOR Headlines

- On July 27, U.K. Financial Conduct Authority (FCA) chief Andrew Bailey made headlines by announcing their intent to phase out LIBOR by 2021
- Been in the works for many years to move from survey-based benchmark rate based on “expert judgement” to more transparent and actively-traded market based rates
- Fed-sponsored ARRC recommended on 6/22 the Broad Treasuries Financing Rate (BTFR) as alternative to LIBOR
- Next steps:
 1. Launch repo-backed futures and options on CME/LCH
 2. Amend ISDA CSAs for swaps to reflect new discount rate
 3. Changing reference rate for end-users of consumer loans/securities
 - FN/FRE prospectus for REMICS already provide guidance for changing benchmarks for floating-rate securities
- *This affects the entire financial markets, so all participants have vested interest in working toward a reasonable solution*

Current Market Themes

- Treasury curve has flattened since mid-May on inflation concerns and political disappointments
- Actual Treasury yield volatility has fallen to decade lows
- 2017 fixed income performance has been solid amid firmer spreads and low volatility

	8/21/2017	5/10/2017	Change
Tenor	(%)	(%)	(bps)
3-Months	0.99	0.89	0.10
6-Months	1.11	1.02	0.08
1-Year	1.22	1.12	0.10
2-Year	1.30	1.36	-0.05
5-Year	1.75	1.94	-0.19
10-Year	2.18	2.41	-0.23
30-Year	2.77	3.04	-0.28
Curves			
2yr-5yr	0.45	0.58	-0.14
2yr-10yr	0.88	1.06	-0.18
2yr-30yr	1.46	1.69	-0.22
5yr-10yr	0.43	0.48	-0.04



Curve Positioning

Bullet Vs. Barbell Portfolio Structure

		Duration	YTD	12M Return
Portfolio A	2yr Treasuries	1.90	0.52%	-0.05%
Portfolio B	Floater & 5yr/10yr UST	1.90	1.25%	0.35%
Portfolio C	Floater & MBS/CMBS	1.90	1.48%	1.01%

Questions?

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On Pace for Another Record Year!

- Momentum continues in membership, loan and share growth
- Credit unions are increasing their member engagement and market impact
- The financial fundamentals remain sound for the industry

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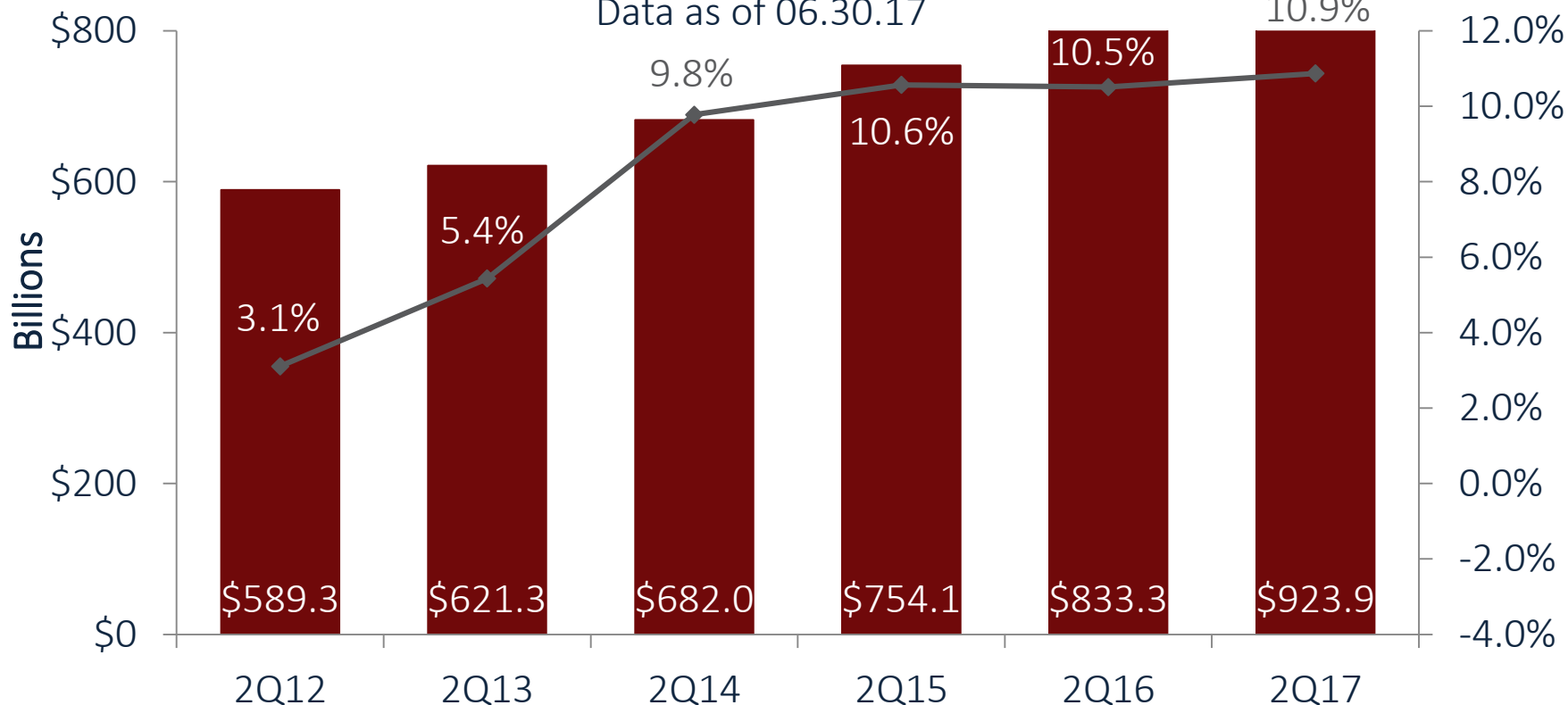
The U.S. Credit Union Industry as of June 2017

	As of 06/30/2017	12-mo. Growth 2Q 2017	12-mo. Growth 2Q 2016
Assets	\$1.4T	7.7%	7.4%
Loans	\$924.0B	10.9%	10.5%
Shares	\$1.2T	8.2%	7.3%
Investments	\$374.9B	1.9%	0.4%
Capital	\$153.0B	5.8%	7.8%
Members	110.8M	4.4%	3.8%

Loan portfolio posting third straight year of double-digit growth

Total Loans and YOY Loan Growth

Data as of 06.30.17



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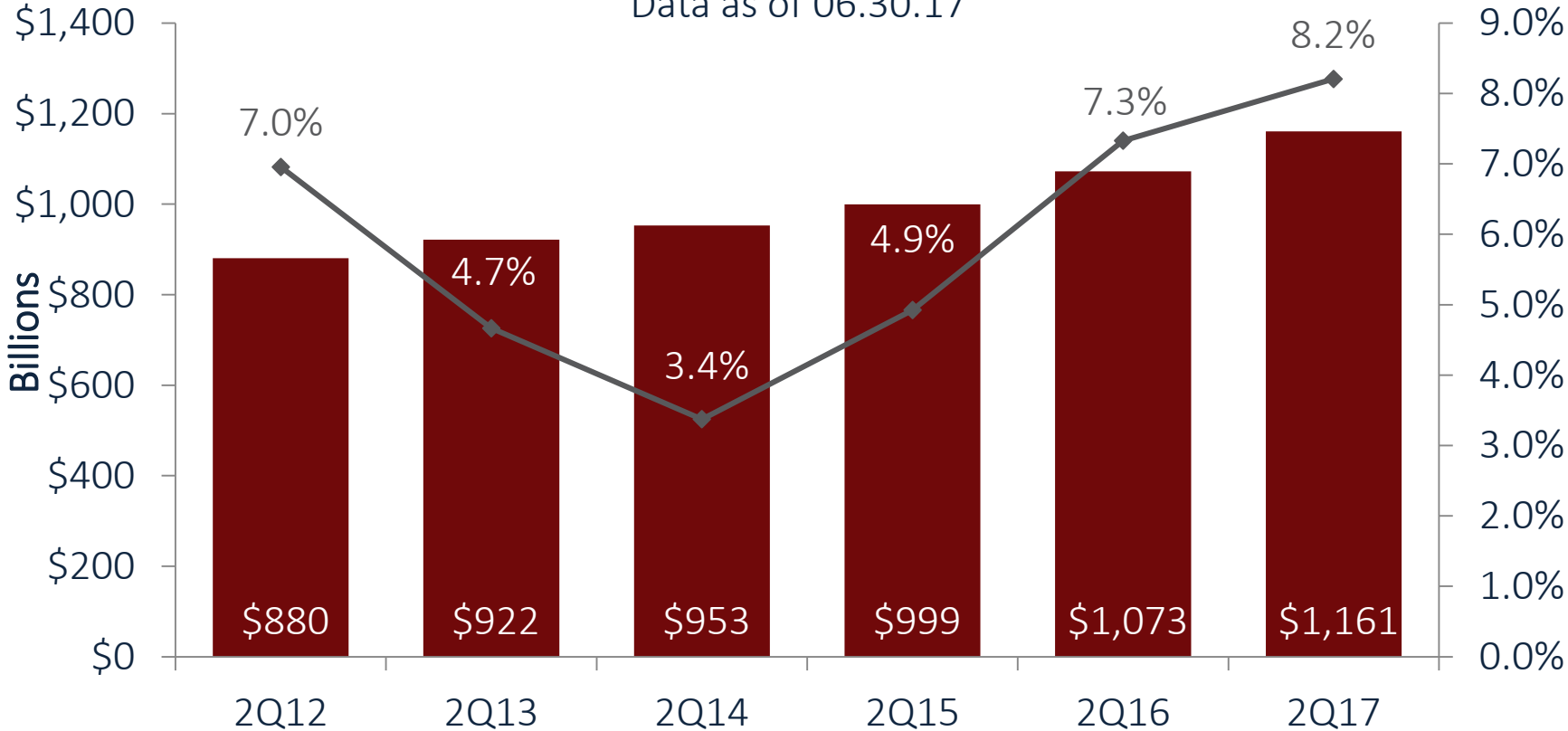


Source: Callahan's Peer-to-Peer Analytics

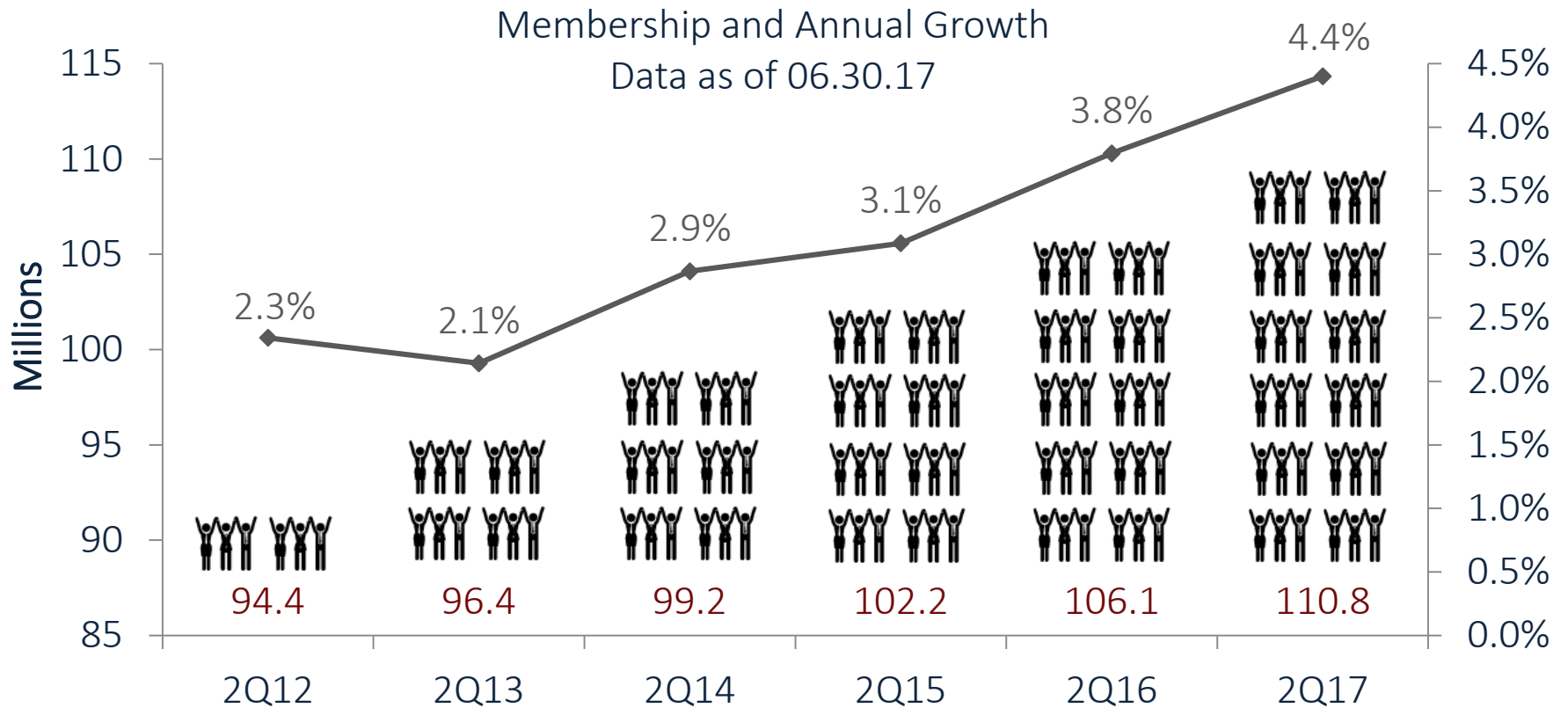


Fastest share growth at mid-year since the recession

Total Share Balances and YOY Share Growth
Data as of 06.30.17



Membership grows at fastest rate ever



Lending Still Going Strong, Outpaces Share Growth

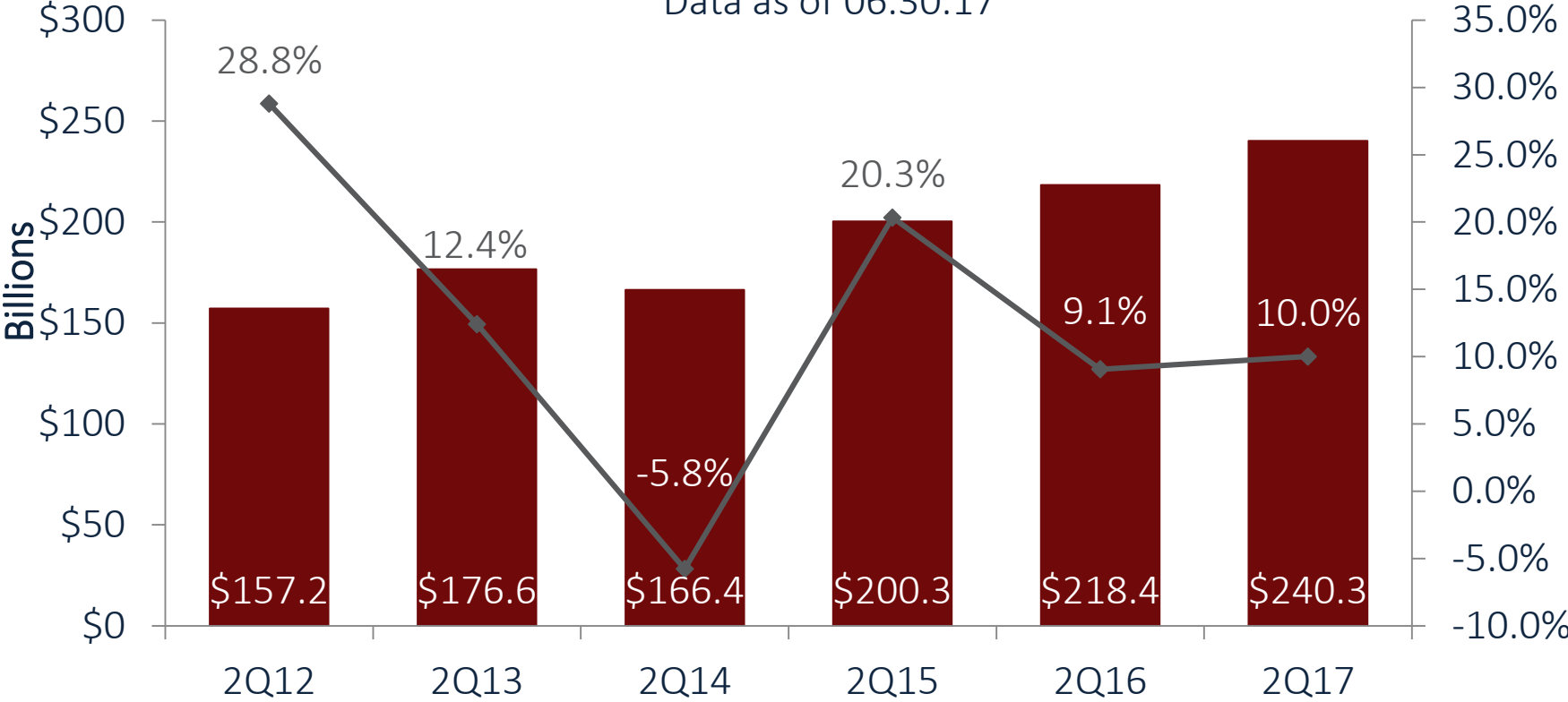
- Loan originations rise in all key categories
- Solid growth across the loan and share portfolios
- Loan to share ratio approaching 80% nationally

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Loan originations ahead of 2016's record pace

YTD Loan Originations and Annual Growth
Data as of 06.30.17



Loan production expanding in all product segments

Year-To-Date Originations
Data as of 06.30.17



Consumer



First Mortgage



Other RE



MBL

YOY
Growth

+ 9.3%

+ 7.4%

+ 17.0%

+ 26.3%

YTD
Orig.

\$143.6B

\$67.5B

\$16.2B

\$13.0B

Sponsored by:



Source: Callahan's Peer-to-Peer Analytics

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Altra (WI, \$1.3B) is part of a loan consortium with 11 FI's

MORTGAGES MADE EASY

\$8.5 MILLION DOLLARS IN MORTGAGES ARE NOW AVAILABLE!

The following lenders are familiar with the La Crosse Promise program. They have agreed to raise the loan-to-value threshold requirement for mortgage insurance from 80% to 95%, for qualified* borrowers.

Families will save as much as \$100 per month!

These loans, for the most part, will be maintained by the local lending institutions and will not be sold to outsiders.

For more information, contact any of the lenders listed below.

**This is not an income subsidized program. These are standard home mortgages available to families meeting the bank's normal mortgage requirements.*

ALTRA FEDERAL CREDIT UNION

2715 Losey Blvd. S, La Crosse, WI 54601
Mike Glassmaker, 608-787-4545
mglassmaker@altra.org
Brenda Fisher, 608-787-4504
bfisher@altra.org

BMO HARRIS BANK

3500 Highway 16, La Crosse, WI 54601
Larry Bodin, 608-783-9125
larry.bodin@bmo.com

BREMER BANK

2570 Midwest Drive, Onalaska, WI 54650
Erik Beach 608-791-5624
ebeach@bremer.com

CITIZENS STATE BANK

620 Main Street, La Crosse, WI 54601
Julie Berg 608-785-2265
jberg@citizensstatebank.us

COULEE BANK

1516 Losey Blvd S, La Crosse, WI 54601
Amy Marcou 608-784-9550
amarcou@couleebank.net

GUNDERSEN CREDIT UNION

1910 South Ave, La Crosse, WI 54601
Sam Sauer 608-775-6767
sam@gundersencu.org

MARINE CREDIT UNION

127 West Ave North, La Crosse, WI 54601
Liz Malott 608-791-1350
liz.malott@marinecu.com

MAYO EMPLOYEES FEDERAL CREDIT UNION

130 23rd Ave. SW, Rochester, MN 55902
Pat Stewart 507-293-8047 or 800-535-2129
stewart.patrick@mayo.edu

MERCHANTS BANK

3140 Market Pl, Onalaska, WI 54650
Dawn Garms 608-779-8200
dmgarms@merchantsbank.com
Tina Mueller 608-779-8200
tmmueller@merchantsbank.com

PARK BANK

700 State Street, La Crosse, WI 54601
Todd Holtz or Paul Franke, 608-782-2265

STATE BANK FINANCIAL

401 Main Street, La Crosse, WI 54601
608 -791-4216

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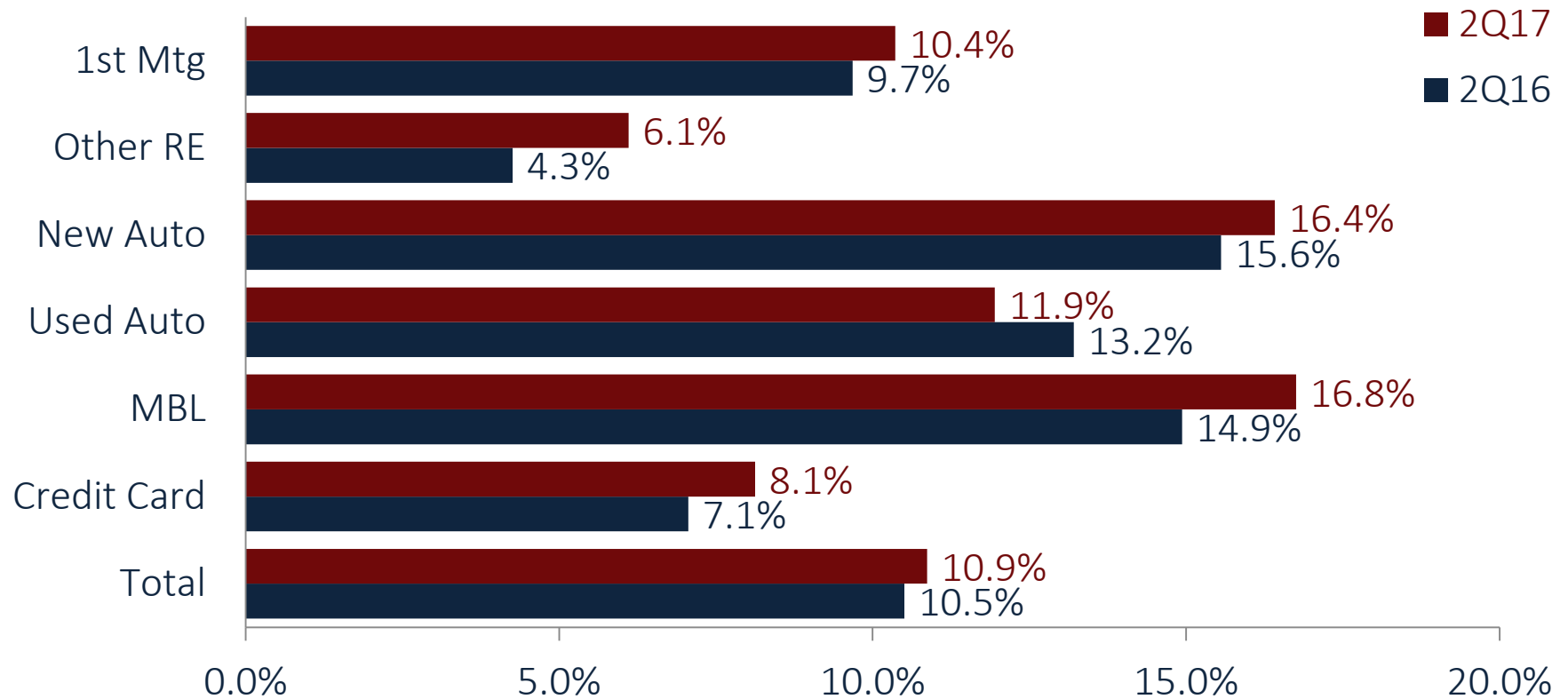


Source: Callahan's Peer-to-Peer Analytics

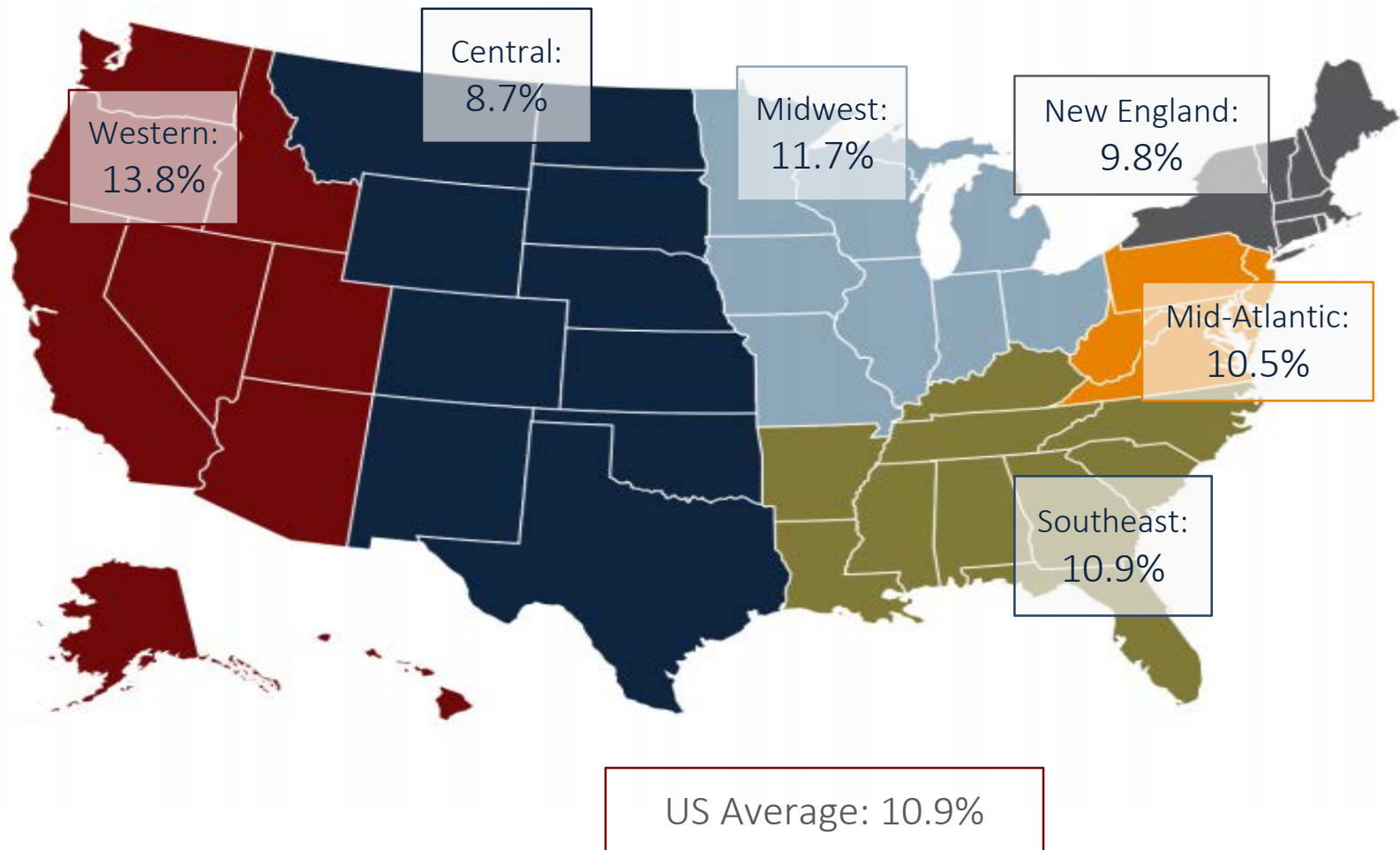


Four out of six loan categories post double-digit annual growth

12-Mo. Growth in Loans Outstanding
Data as of 06.30.17

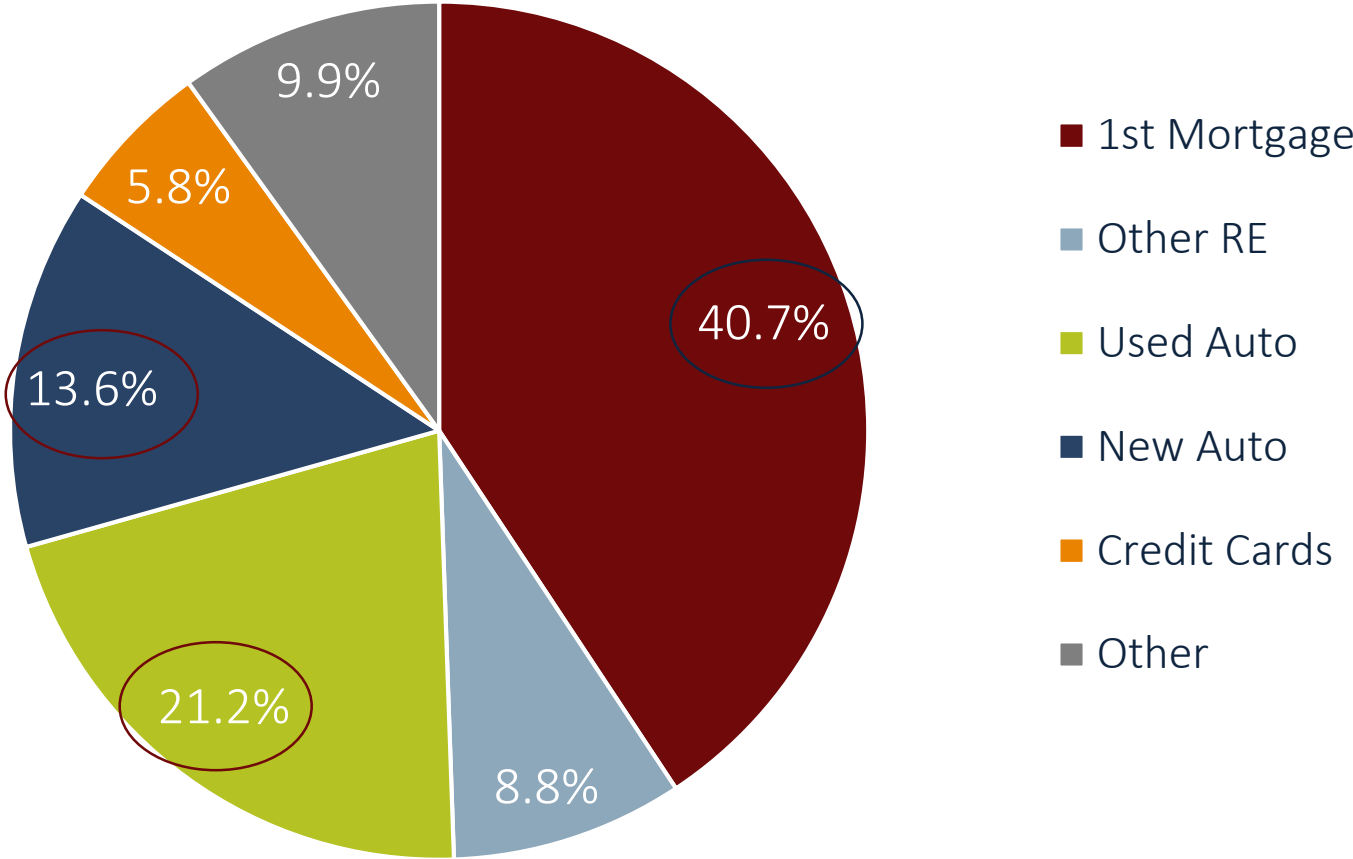


Western region is posting the fastest annual loan growth rate in the U.S.



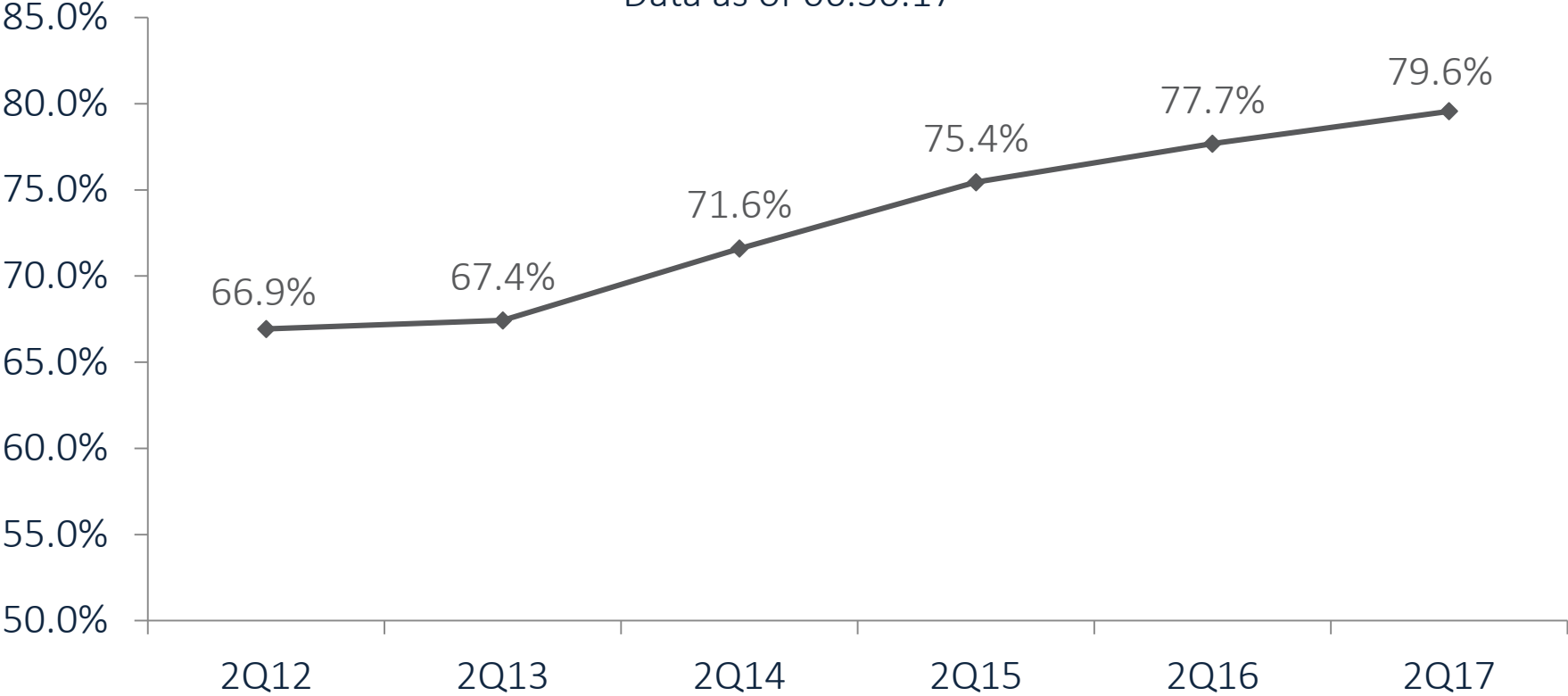
Mortgages and auto loans comprise 75% of the \$924 billion loan portfolio

Credit Union Loan Portfolio
Data as of 06.30.17



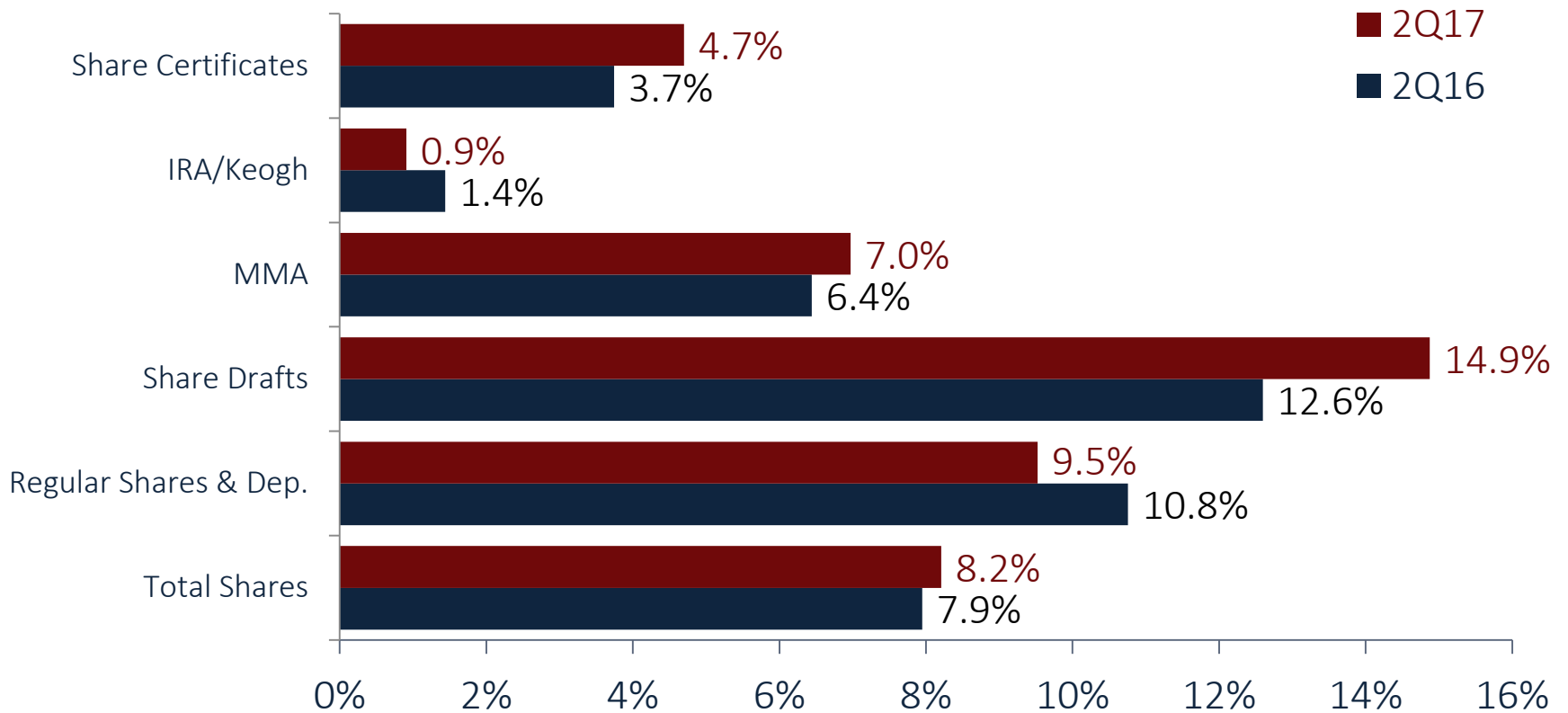
Loan growth outpaces share growth for the fifth straight year

Loan-to-Share Ratio
Data as of 06.30.17



Share drafts and regular shares lead share portfolio growth

12-Mo. Growth in Shares Outstanding
Data as of 06.30.17



Jefferson Financial (LA, \$519.8M) sees returns from raising certificate rates

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- Lower your Rate
- Lower your Payment
- Offer Ends July 31, 2017

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Share Certificates

< Back to Investments

You will find that Jefferson Financial offers the most competitive rates on CDs(Certificates of Deposit). Rates on CDs are higher than regular share accounts-making them a valuable financial investment.

There are a variety of options when choosing a Certificate:

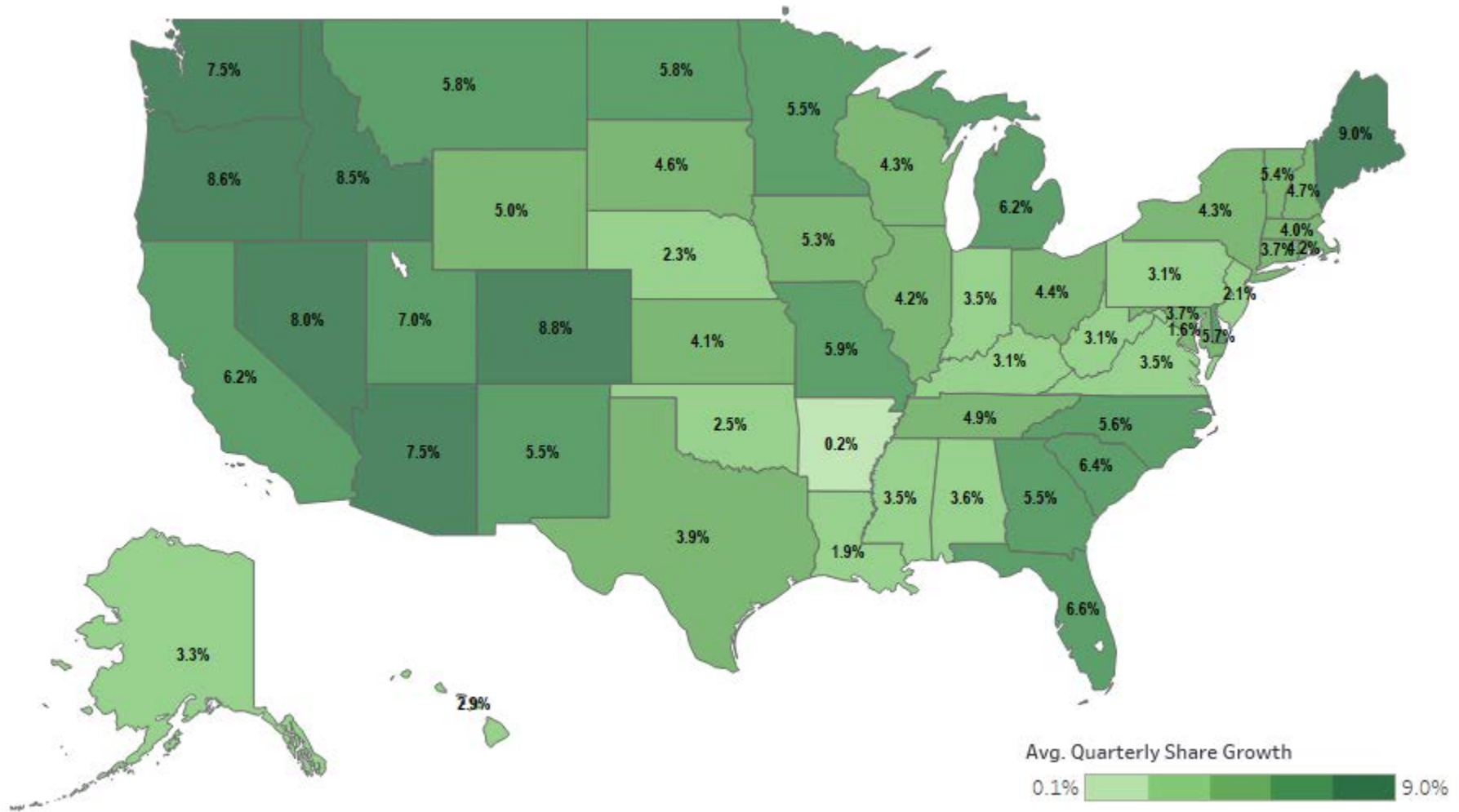
- Standard & IRA Certificates
- Earn High Returns at Fixed Rates
- Terms from 6 Months - 5 Years
- Minimum investment \$1000
- Jumbo Certificates with Minimum of \$10,000
- Funds are Insured up to **\$250,000** by the NCUA

Apply Online



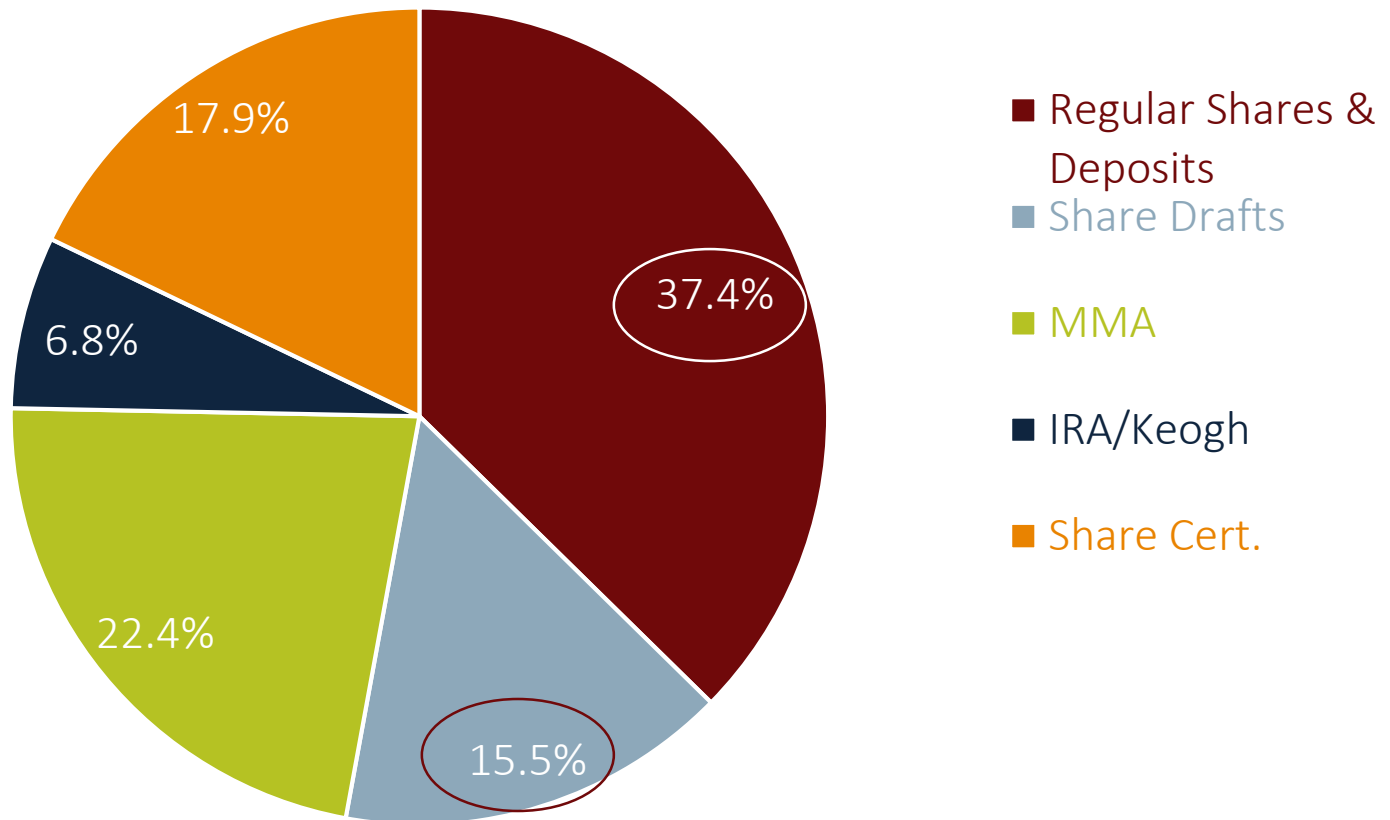
> Disclosures

Maine leads the way in quarterly share growth across the U.S.



Regular shares and share draft balances comprise a majority of the \$1.2 trillion credit union share portfolio

Share Composition
Data as of 06.30.2017

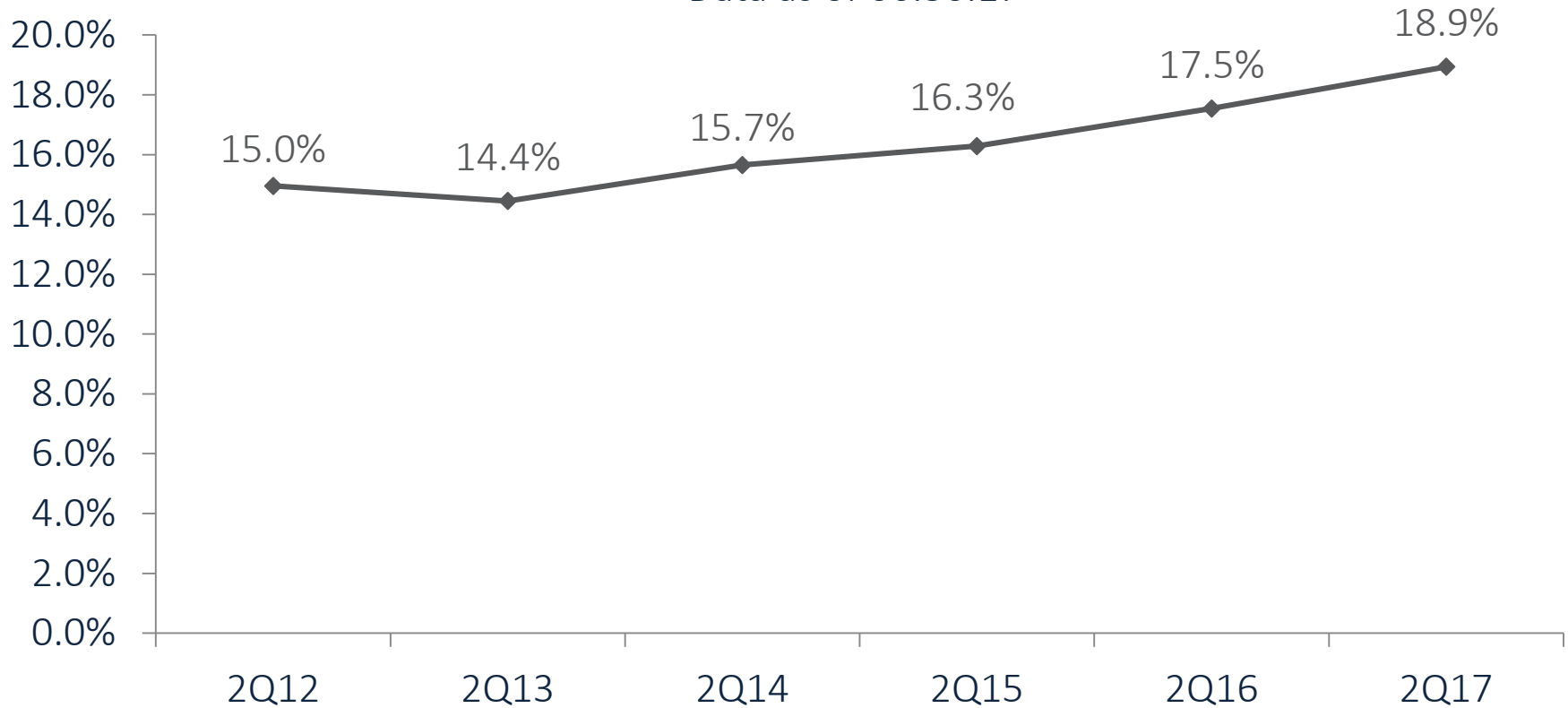


Credit Unions' Market and Member Impact

- Market share increasing in key lending products
- Asset quality remains solid
- Member relationship measures continue to improve

Credit union auto finance market share rises as auto sales slow

Credit Union YTD Auto Finance Market Share
Data as of 06.30.17



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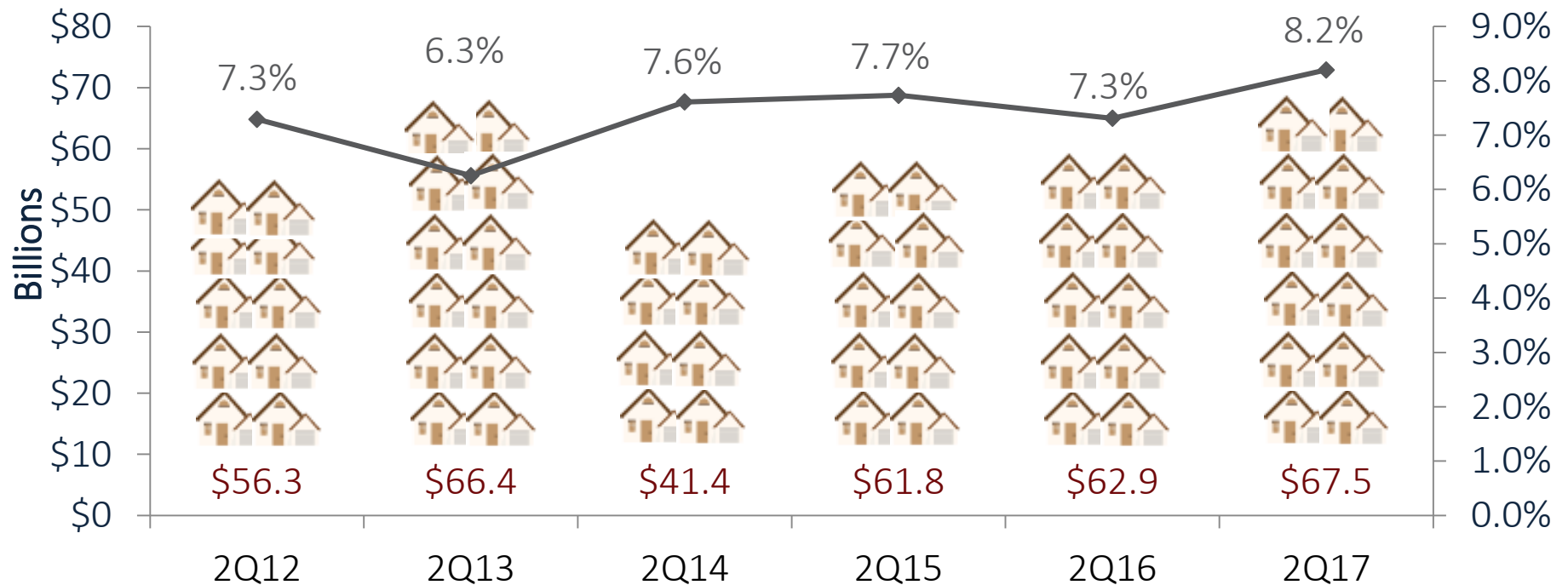


Source: Callahan's Peer-to-Peer Analytics
AutoCount Data from Experian Automotive

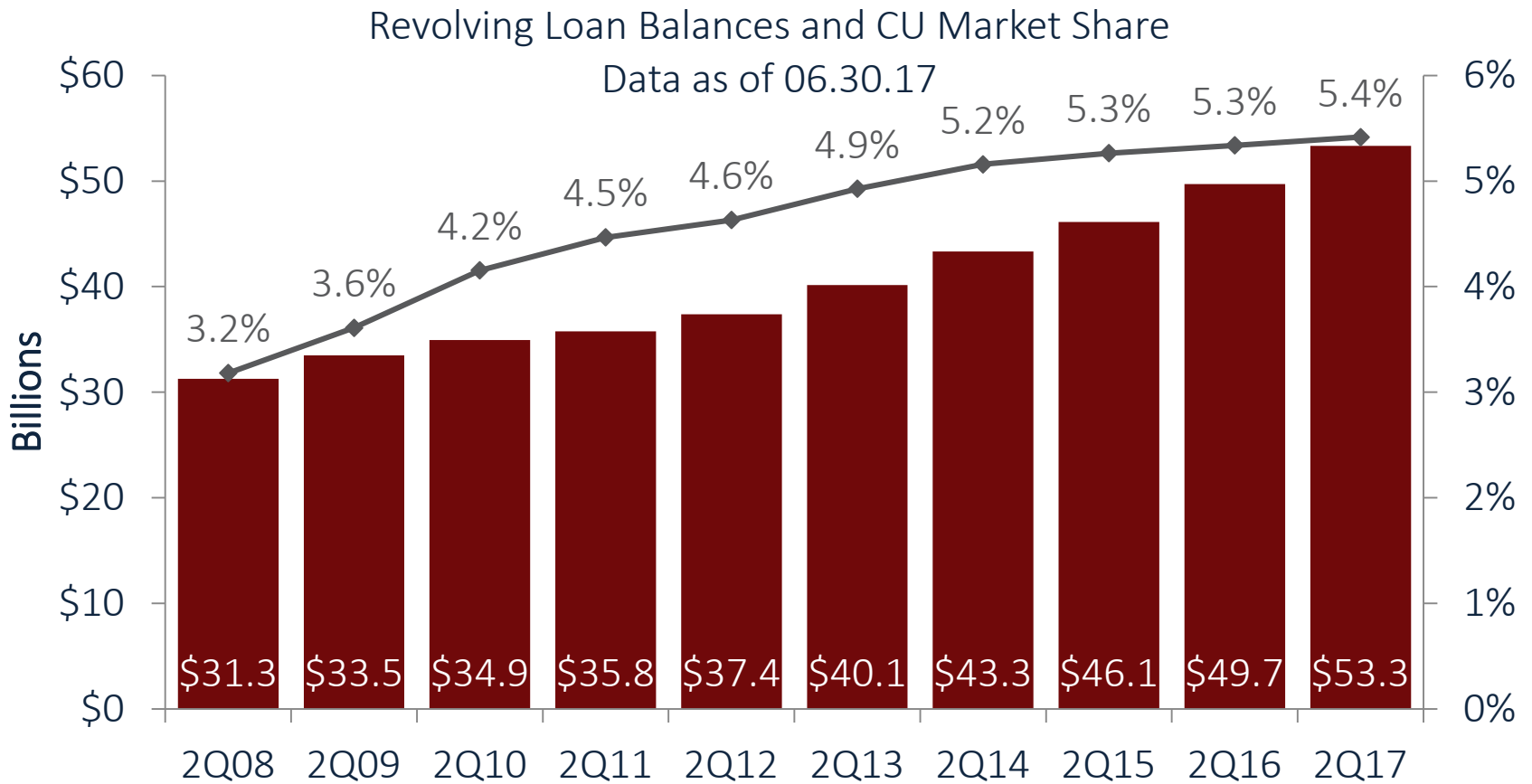


Credit union first mortgage originations and U.S. market share hits new mid-year high

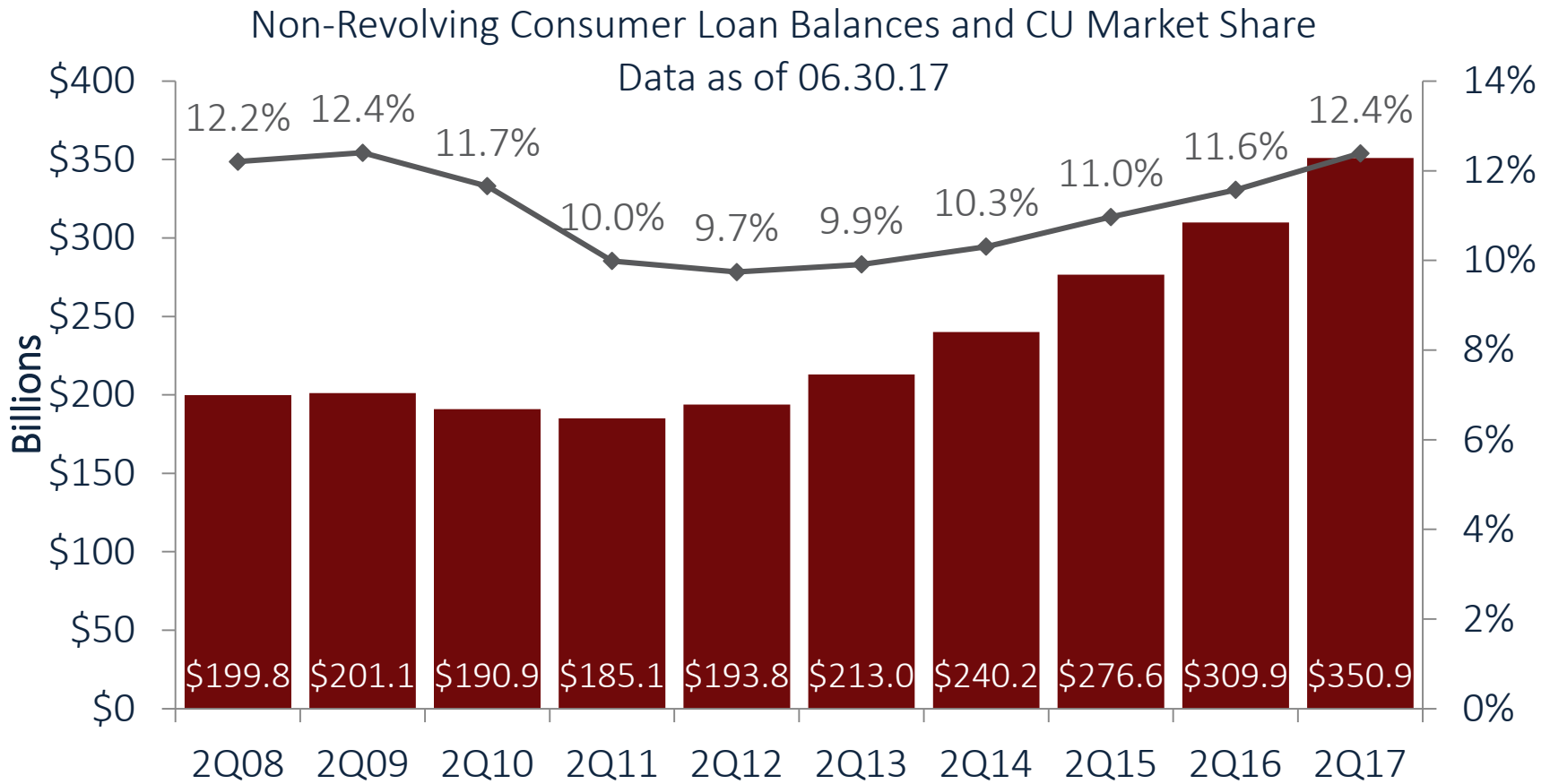
YTD First Mortgage Originations & Market Share
Data as of 06.30.17



Credit union revolving consumer credit increased 7.3% year-over-year



Credit union share of consumer credit reaches highest level since June 2009

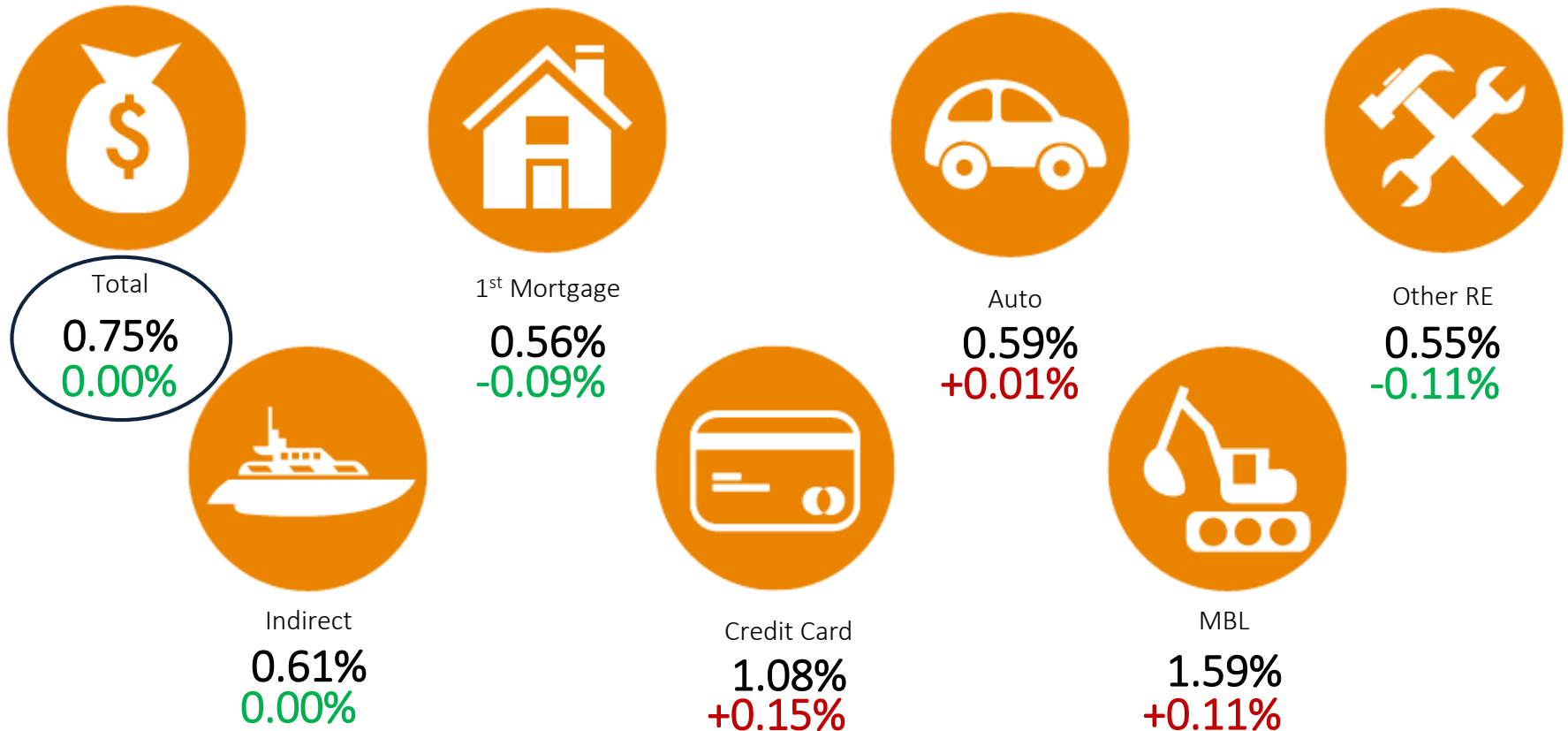


Credit union and bank second quarter performance comparison

	Credit Unions in U.S.	All Banks in U.S.	Community Banks in U.S.
Annual Loan Growth	10.9%	3.7%	4.4%
Annual Deposit Growth	8.2%	4.6%	2.8%
Delinquency Ratio	0.75%	1.23%	0.94%
Net Charge-Off Ratio	0.56%	0.45%	0.14%
Net Interest Margin	2.93%	3.21%	3.58%
ROA (after tax)	0.77%	1.09%	1.03%
Average Assets	\$236M	\$2.9B	\$413M

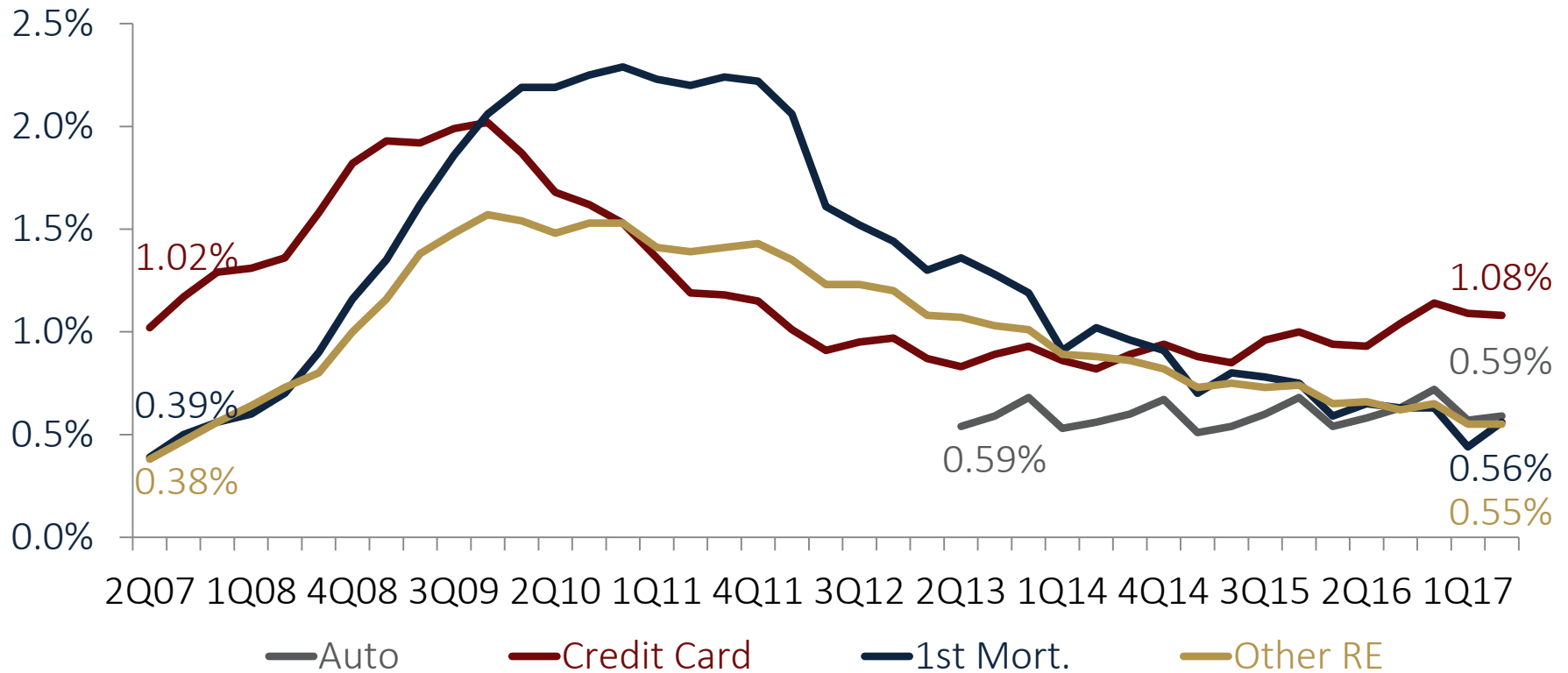
Asset quality remains strong even as some categories post slight increases

Year-Over-Year Change in Delinquency
Data as of 06.30.17

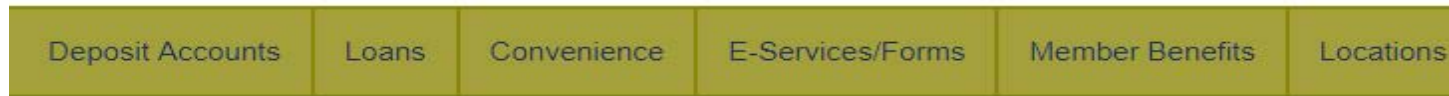


RE products post year-over-year improvements in asset quality, consumer delinquency up slightly

Delinquency by Product
Data as of 06.30.17



Total Choice (LA, \$50M) educates members to reduce delinquency



Quick Links

[Apply for a Loan](#)

[Calculators](#)

[Current Rates](#)

Community

We love teaching and learning!



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Source: Callahan's Peer-to-Peer Analytics



Members are using more credit union products



Credit Card



Real Estate



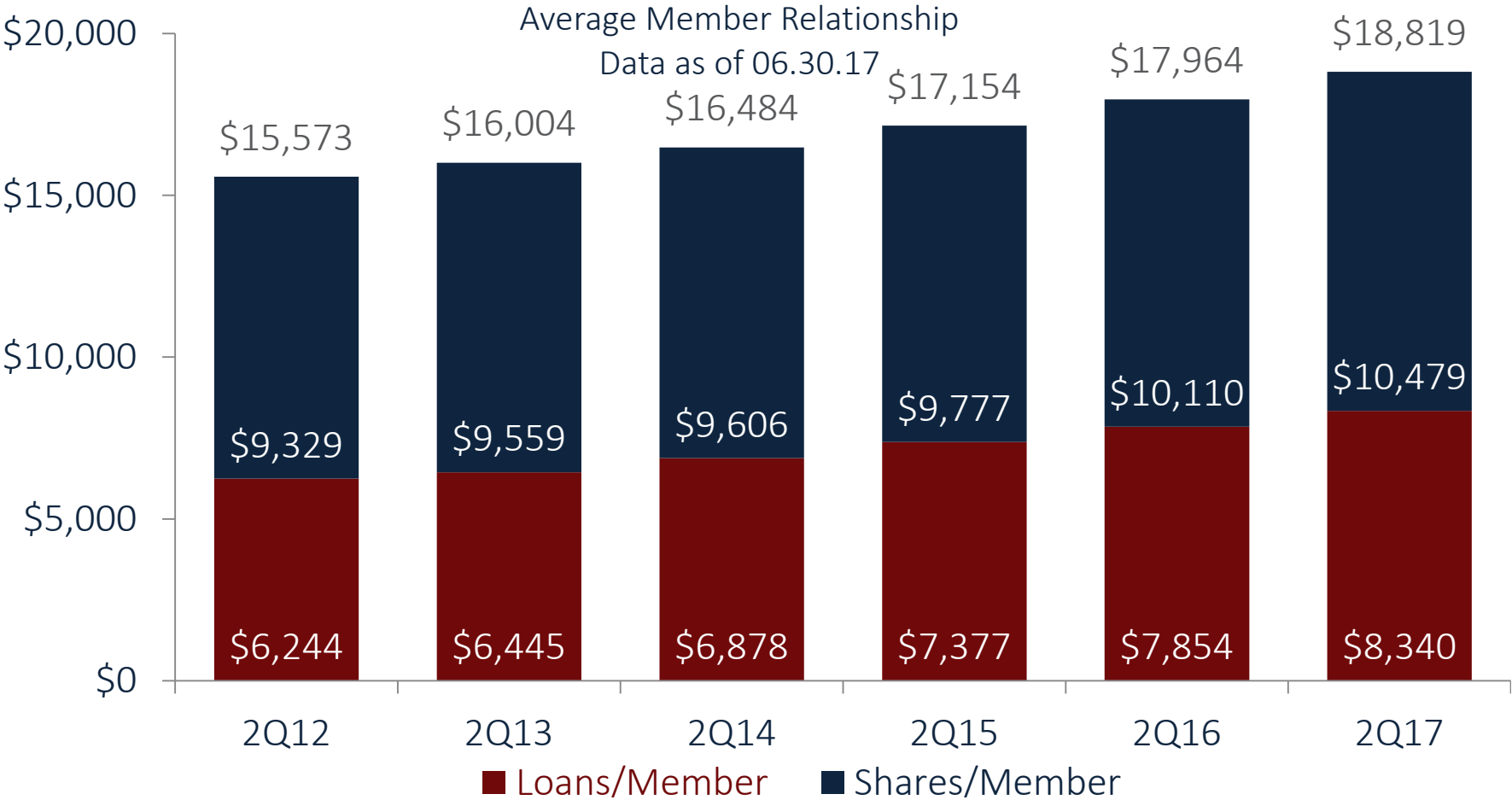
Share Draft



Auto

2Q17	17.4%	4.4%	56.7%	20.0%
2Q12	14.9%	2.0%	50.5%	15.9%
Change	+2.5%	+2.4%	+6.2%	+4.1%

Members balances are also rising to new highs



Connecting With The Community



COMMONWEALTH
CREDIT UNION

\$1.1B, Frankfort, KY

Karen Harbin
President/CEO



Patty Smith
Chief Marketing Officer



Commonwealth Credit Union at a glance



COMMONWEALTH
CREDIT UNION

Commonwealth Credit Union

June 30, 2017

Assets:	\$1.1B	(+4.9%)
Loans:	\$826.5M	(+11.4%)
Shares:	\$943.1M	(+8.2%)
Members:	92,035	(+3.2%)
Loans/Shares:	87.6%	

10 Branches
290 FTE Emps.

Connecting With The Community

- Origin Story and Vision
- Benefits and Challenges:
 - From Organizational Perspective
 - From a Member Perspective
- Future Applications and Lessons Learned

Origin story and vision

- Need: Show that CEO is accessible and relatable
- Need: Bringing internal culture to external operations
- Need: Out of the box thinking

#HeyKaren Campaign

#HEYKAREN



MEET KAREN HARBIN

Karen is the President/CEO of Commonwealth CU. She is also an identical twin, grew up in Mt. Sterling, Kentucky, and loves peanut M&Ms and going to the beach. She is married with three children and loves her Golden Doodle named Bailey. She also volunteers with several non-profit agencies. More importantly, Karen has got all of your answers when it comes to finances.

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Benefits and Challenges

- Benefits:
 - Connecting with members of the community
 - Boosting social media presence
 - Effective means to showcase brand and culture
 - Addressing member concerns and making strategic recommendations
- Challenges:
 - Time commitment from CEO

New "Meet Your BFF" Launch

MEET YOUR BFF

At Commonwealth Credit Union, we're committed to creating an exceptional experience built on trust, integrity, and consistency for everyone who walks through our doors. We strive to enrich the communities around us and pride ourselves on building relationships that will last a lifetime. We're not just tellers, managers, and loan officers; we're your banking BFFs! Check out some of our outstanding team members and find out how we are bettering lives.



I have the privilege of gaining the trust of people who are in need of financial services, while also leading an incredibly talented team.

My name is Lynette, and I've been bettering lives since 2004.

Want to learn more about Lynette?
[Watch Her Full Interview Here](#)



It's a great feeling to know that you've given someone the chance to better their finances while also working at a job that you love doing.

My name is Kevin, and I've been bettering lives since 2011.

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Future Applications and Lessons Learned

- Be consistent with your credit union
- Connect with members and member needs

Questions?

Use the **Q&A box** located on the right side of the screen to type your comments or questions.

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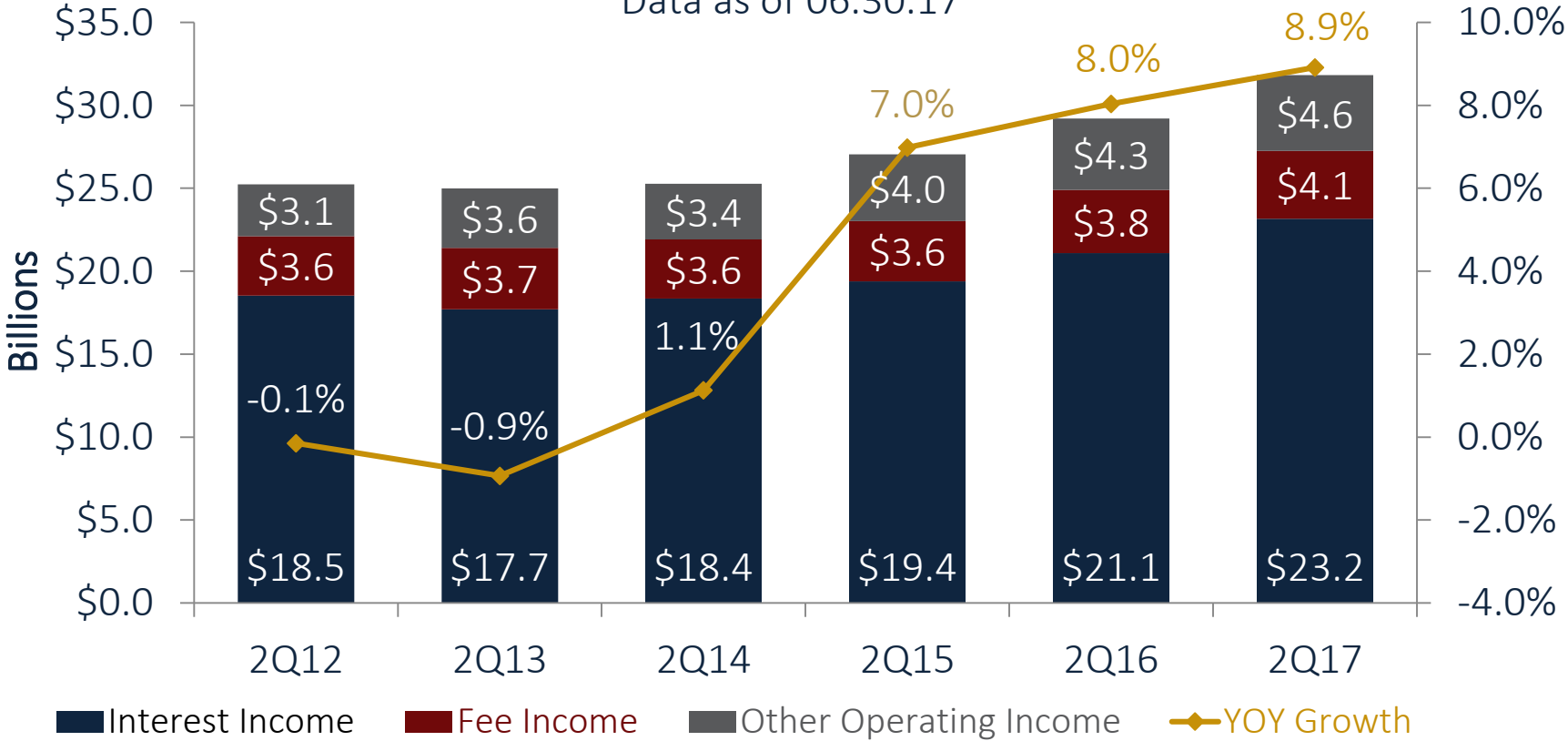


Lending Activity Pushes Revenue Higher

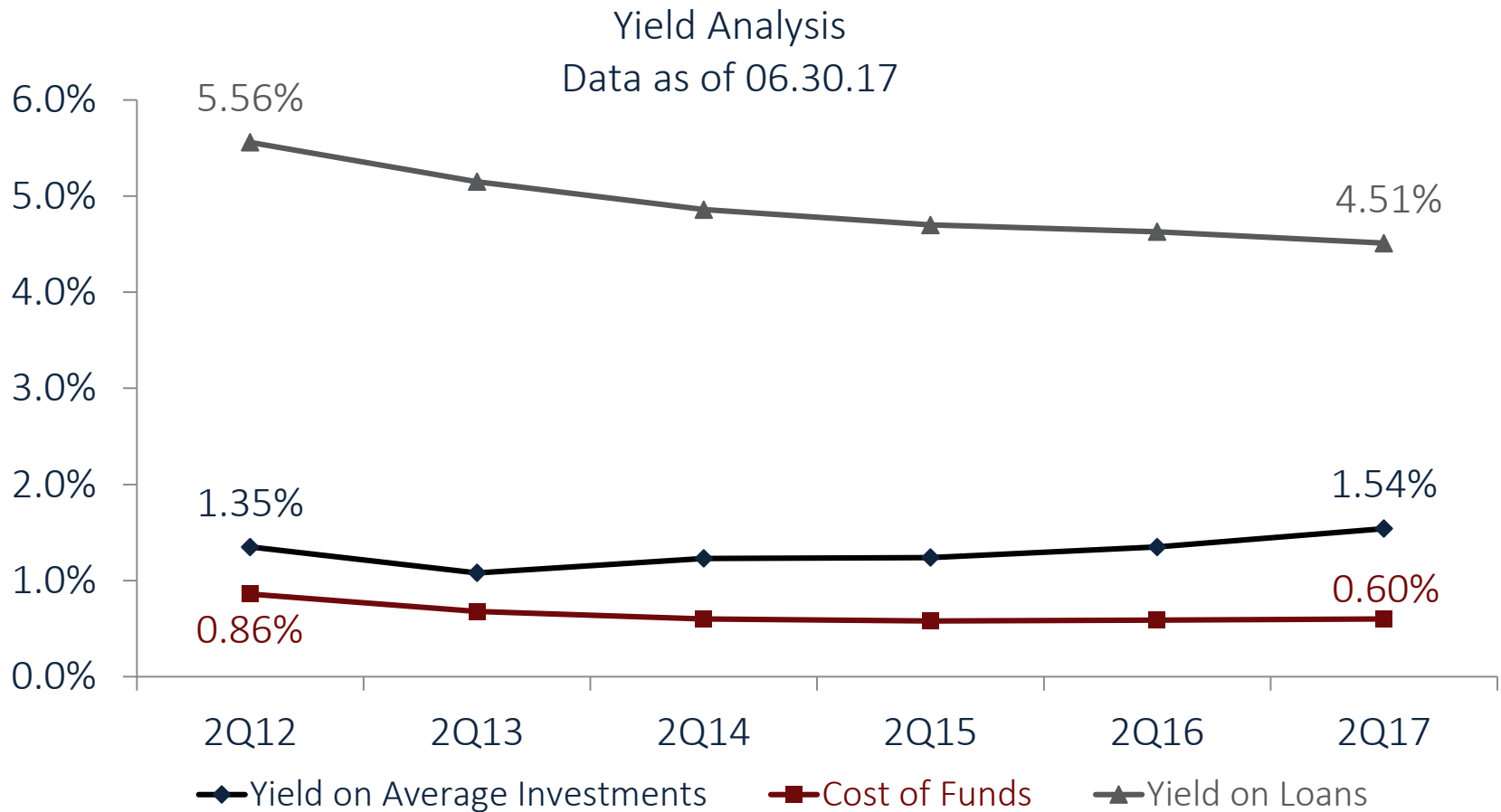
- Revenue growth is accelerating as lending remains robust
- Net interest margin improves as expenses are managed
- Net worth remains strong, topping \$147 billion

Revenue growth continues its upward trajectory

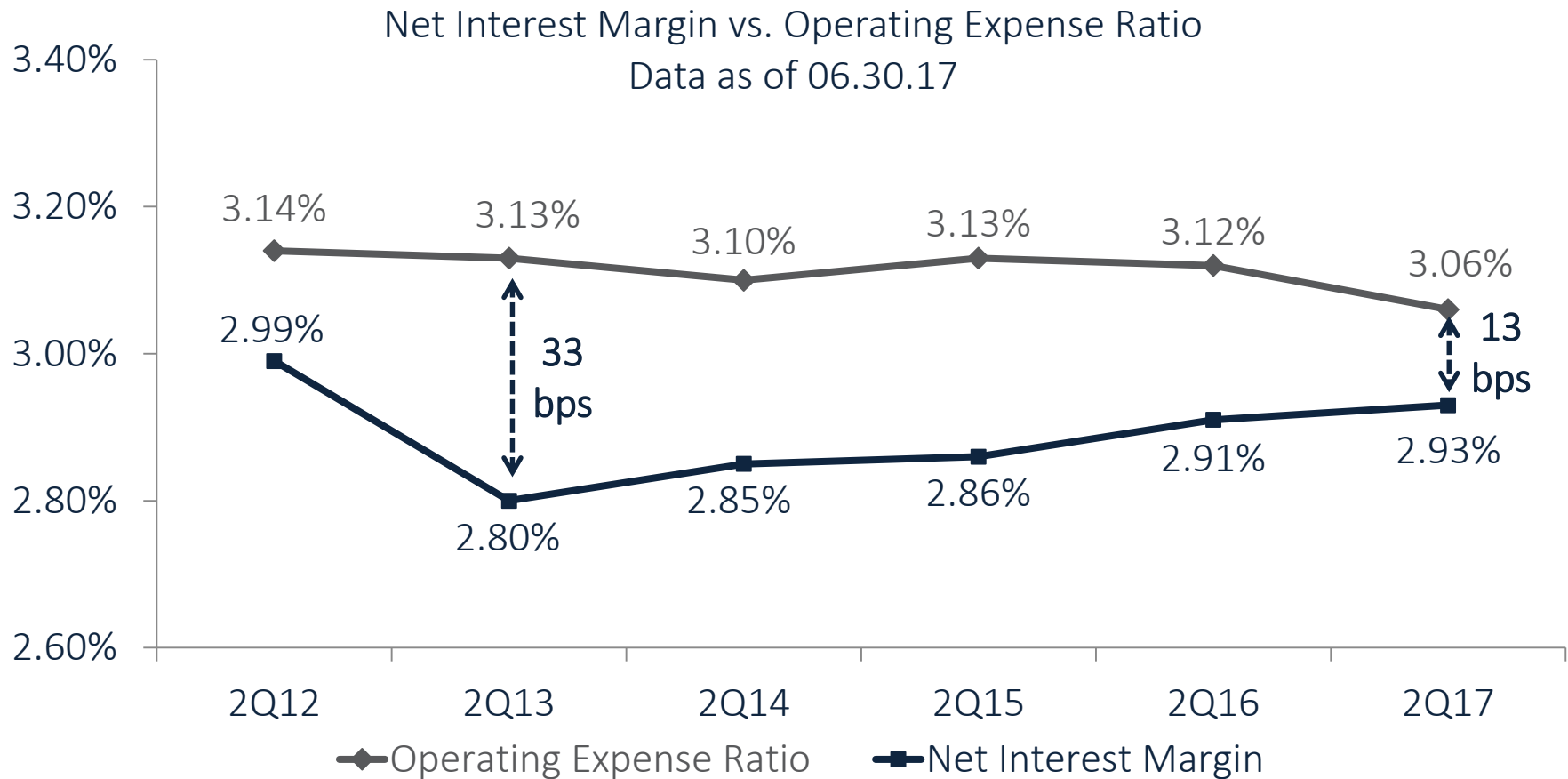
YTD Total Revenue and YOY Growth
Data as of 06.30.17



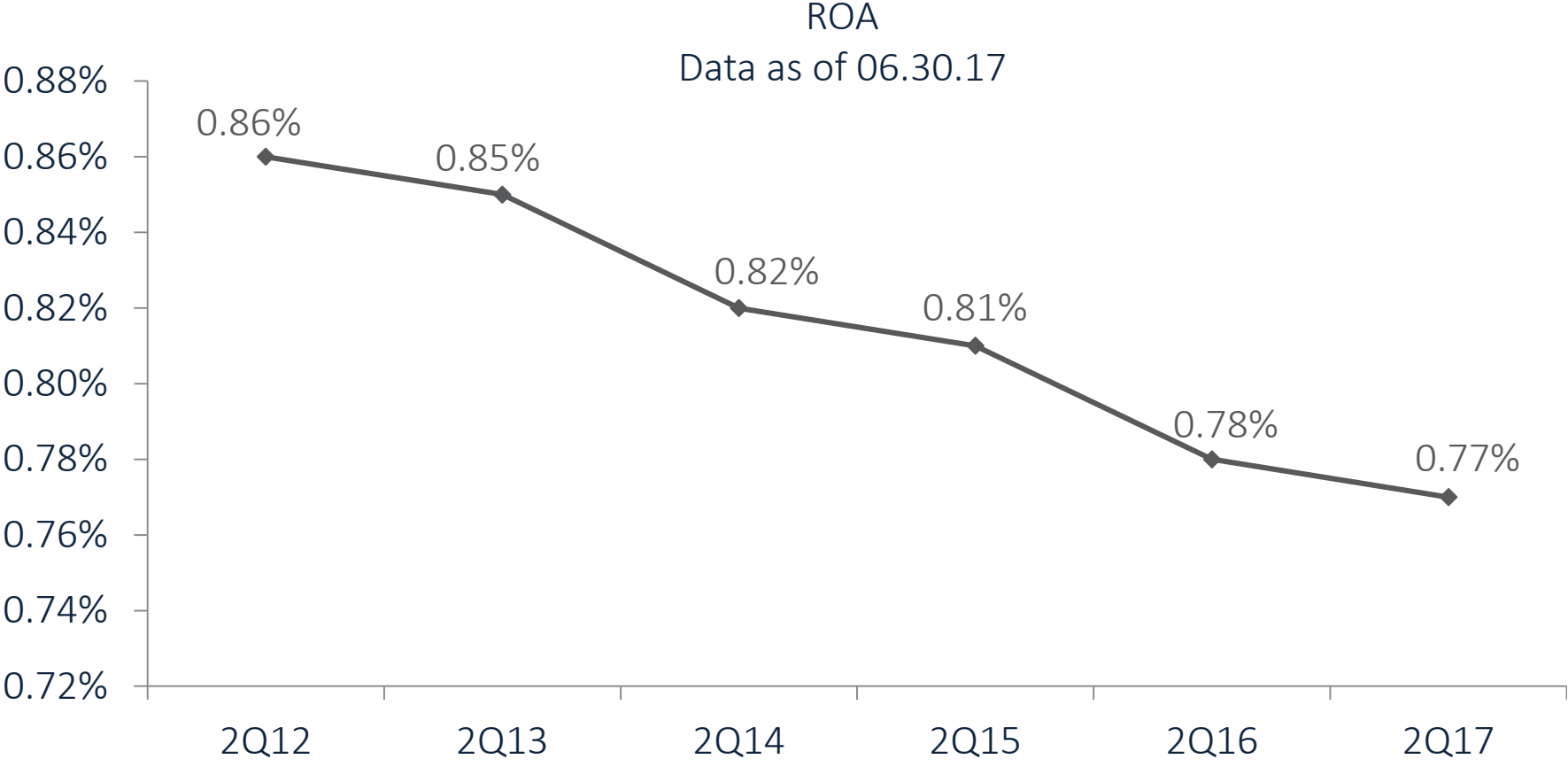
Loan yields have continued to decline as investment yields rise; Steady cost of funds



Net interest margin and operating expense ratio are as close as they have been since 2011



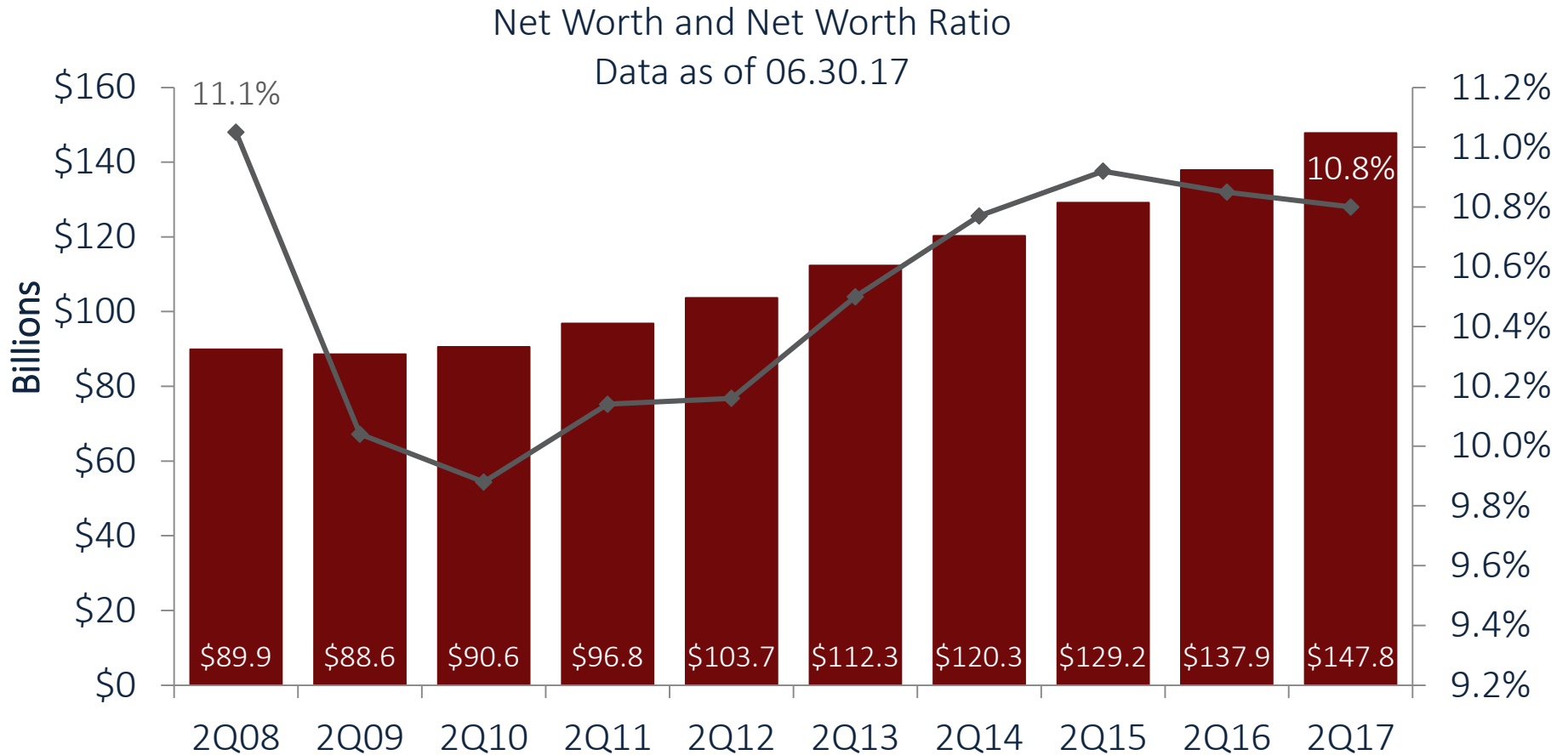
ROA is trending down



Net interest margin increases versus mid-year 2016

	As of 06.30.2017	As of 06.30.2016	12-mo. Change
Interest Income/Avg. Assets	3.46%	3.43%	0.03%
Interest Expense/Avg. Assets	0.53%	0.52%	0.01%
Net Interest Margin	2.93%	2.91%	0.02%
Non-Interest Income/Avg. Assets	1.33%	1.36%	-0.03%
Non-Interest Expense/Avg. Assets	3.06%	3.12%	-0.06%
Provision for Loan Losses	0.43%	0.37%	0.06%
ROA	0.77%	0.78%	-0.01%

Net worth continues to grow and remains well above the NCUA well capitalized threshold



Sponsored by:



Source: Callahan's Peer-to-Peer Analytics



On Pace for Another Record Year!

- Momentum continues in membership, loan and share growth
- Credit unions are increasing their member engagement and market impact
- The financial fundamentals remain sound for the industry

Planning for 2018

- Start with a growth mindset...
- Invest for the future...
- Follow the member!

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ASSOCIATES

Questions?

Use the **Q&A box** located on the right side of the screen to type your comments or questions.

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