

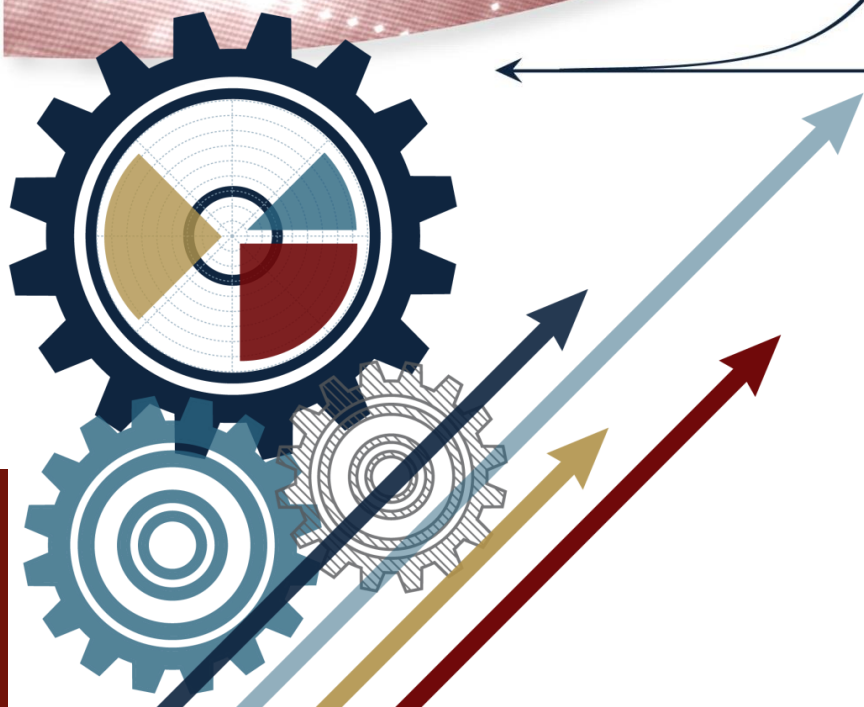
CALLAHAN  
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*presents a complimentary event*

# 4th Quarter TRENDWATCH

Data for December 31, 2016

Call Dates: February 22 & 23, 2017



# Welcome!

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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 **661 219 852**.



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.

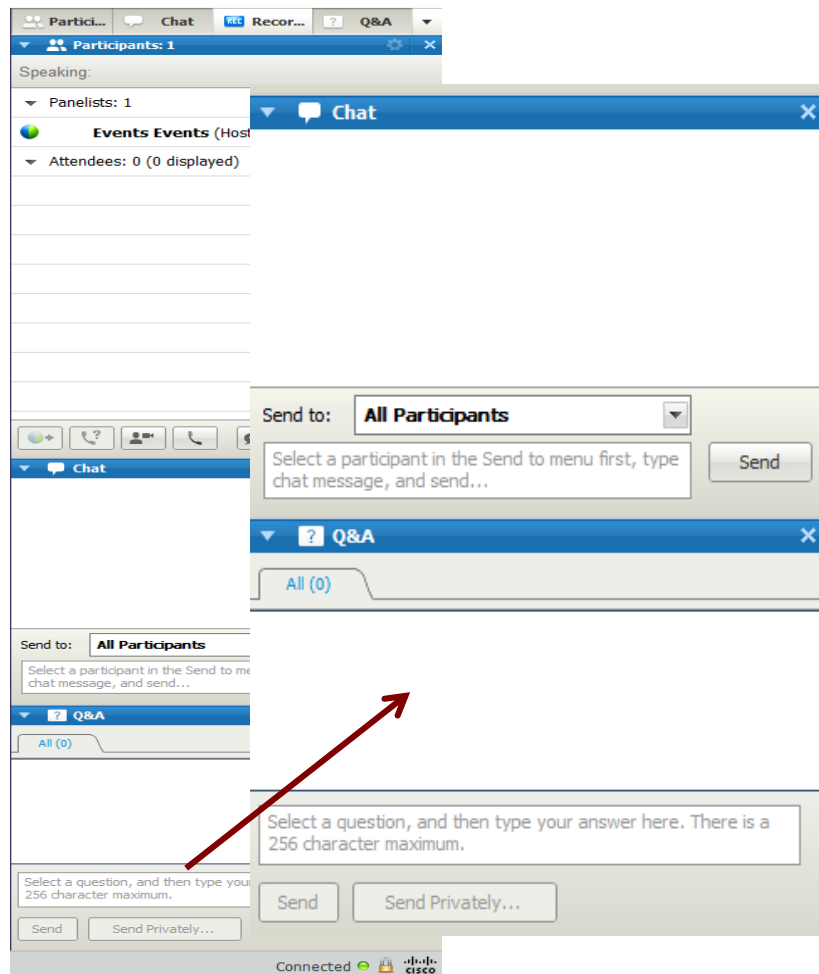
# Slide Link

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Today's slides can be found online at:

<http://bit.ly/Callahan-4Q2016Day2>

# We Encourage Questions!!!



Use the **Questions Box** located on the right side of the screen to type your comments or questions.

**Self-Driving Cars**

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**Financial Health**

**Disruption**

**Merger Models**

**Next Gen  
Members**



**Leadership  
Development**

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Upcoming webinars: **March 9<sup>th</sup> – 2:00 p.m. ET** | **April 11<sup>th</sup> – 1:00 p.m. ET**

[www.studentchoice.org/credit-unions/webinar](http://www.studentchoice.org/credit-unions/webinar)

# Tell us what you thought!

---



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One lucky survey respondent will win a Starbucks gift card.



# Agenda

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## **Economic Outlook**

*Dwight Johnston, Chief Economist, California & Nevada Credit Union Leagues*

## **4Q 2016 Credit Union Trends & Key Issues**

### ***“Success Across the Board”***

*Jay Johnson, Partner, Callahan & Associates*

*Alix Patterson, Partner, Callahan & Associates*

## **Impacting Members Through Employee Engagement**

*Steven Bugg, CMO, Heritage FCU*

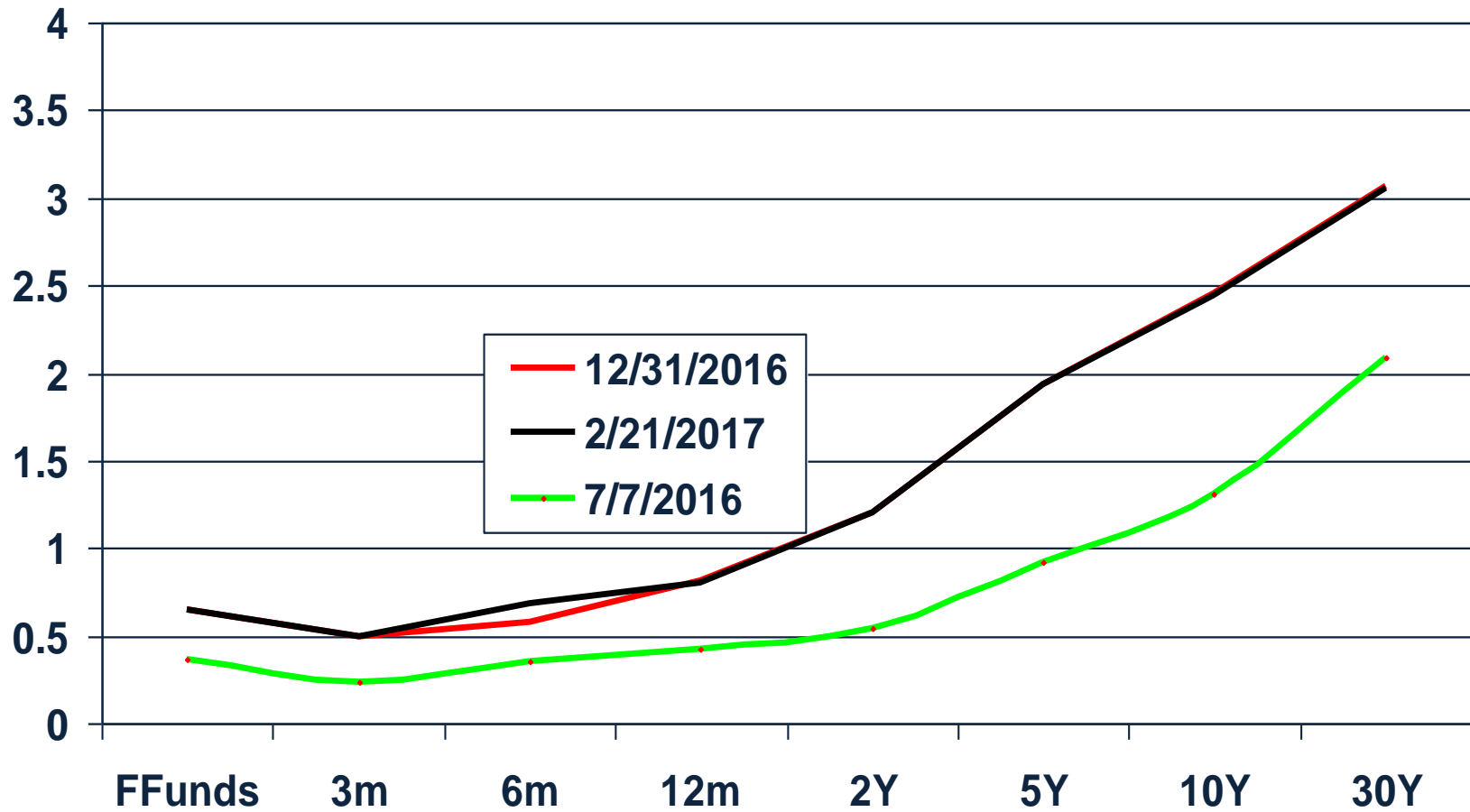
# Dwight Johnston

## Chief Economist, California & Nevada CU Leagues



D.J.'s ECONOMIX

# Yields almost unchanged



# Highlights

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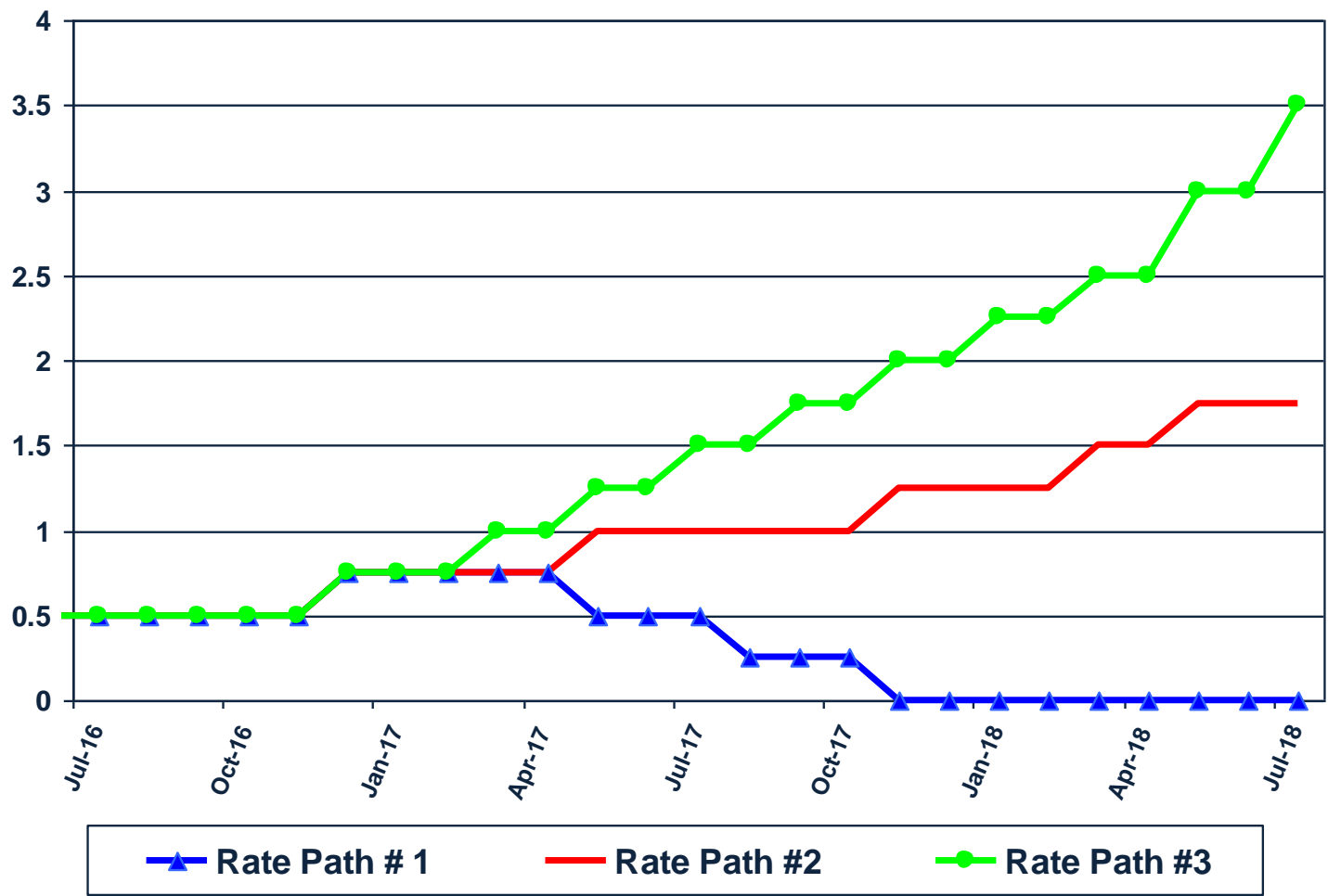
- Rates have moved little since year-end
- Fed upbeat on economy but noncommittal on timing and extent of future rate increases
- Trump's erratic performance helping to keep rates capped despite upbeat economic news
- Attention on French election not far off – also something that could keep a lid on rates

# Three Scenarios

---

- **Low rate view** — Trump optimism fades; tax reform stalls; trade war threat rises; series of negative outcomes in European votes
- **Consensus** — Optimism drives business growth as progress made; wages higher but contained; EU holds; moderate rise in rates; no global slowdown
- **Inflation Case** — Monetarist case; wages rise more than expected; inflation expectations turn sharply higher even if economy sputters on trade problems

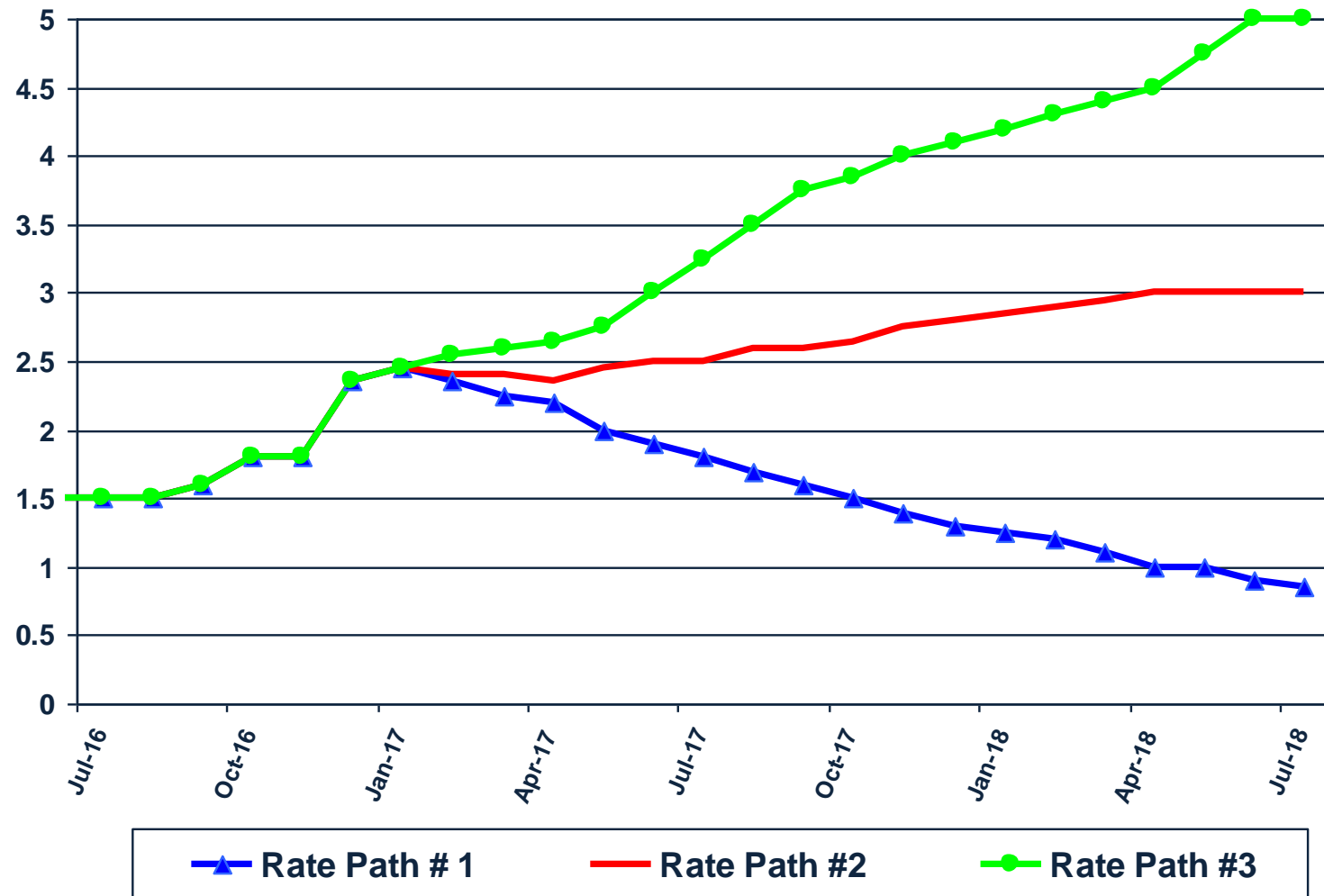
# Fed Funds Scenarios (Rate is high end of Fed range)



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# Ten-Year Note Scenarios



# Things To Remember

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- Economy will not turn on a dime – the stock market is not the economy
- This Fed remains slave to the markets; decisions will be market risk based
- The transition from the world we knew to the Trump world will not be easy
- Bond volatility will accelerate as some risks come and go
- Don't expect any big changes in rates for a few months



# QUESTIONS?

**If you have a question or comment,  
please use the chat box.**

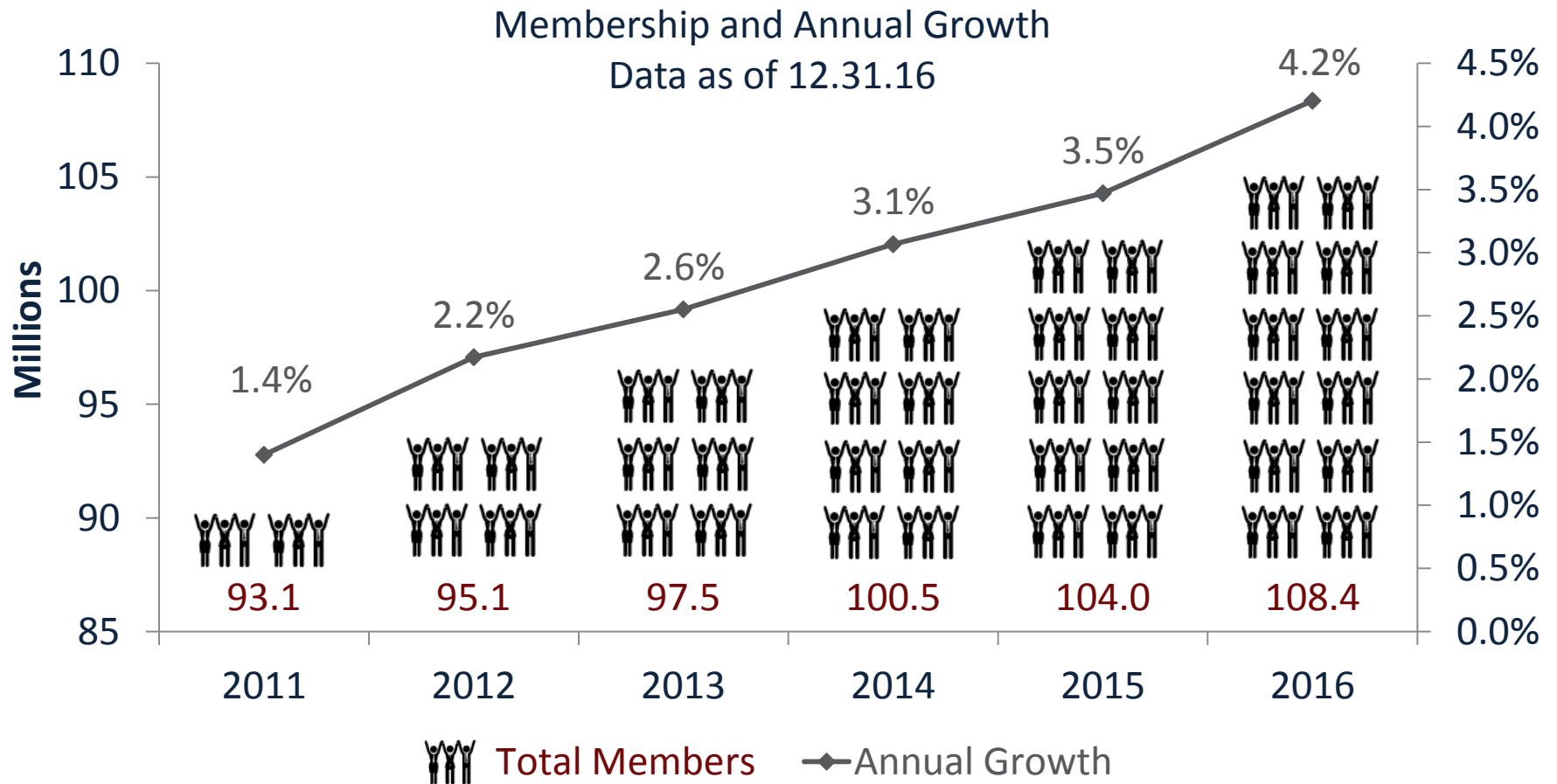
# Success across the board in 2016

- Growth accelerates in all major balance sheet components
- Financial soundness evident in revenue, earnings and capital growth
- Member relationships are stronger

# The U.S. Credit Union Industry at December 2016

	As of 12/31/2016	12-mo. Growth 4Q 2016	12-mo. Growth 4Q 2015
Assets	\$1.3T	7.5%	7.3%
Loans	\$880.2B	10.5%	10.5%
Shares	\$1.1T	7.7%	6.9%
Investments	\$362.3B	0.0%	1.6%
Capital	\$146.7B	6.6%	6.0%
Members	108.3M	4.2%	3.5%

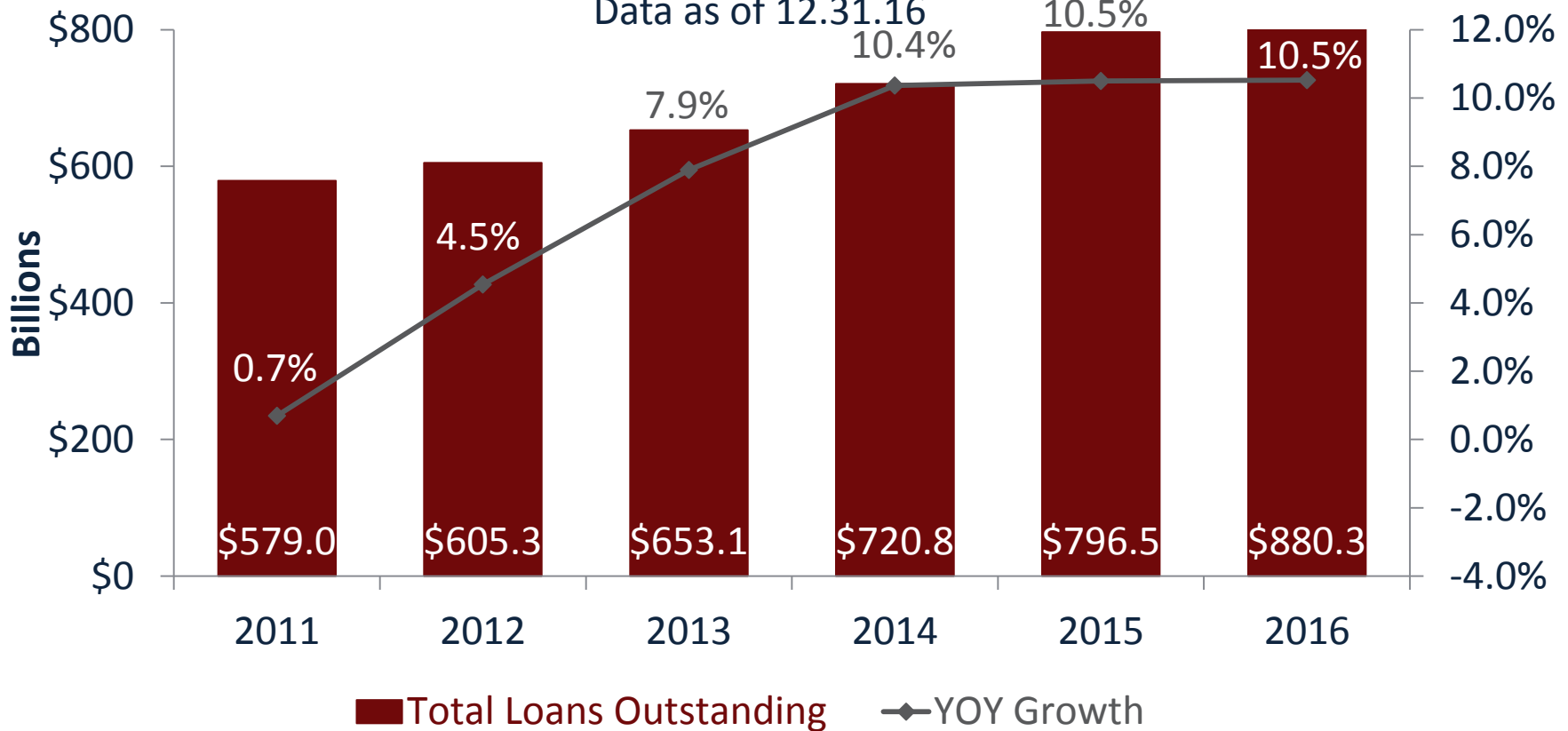
# Membership posts fastest annual growth rate since 2002



# Loan balances post third straight year of double-digit increase

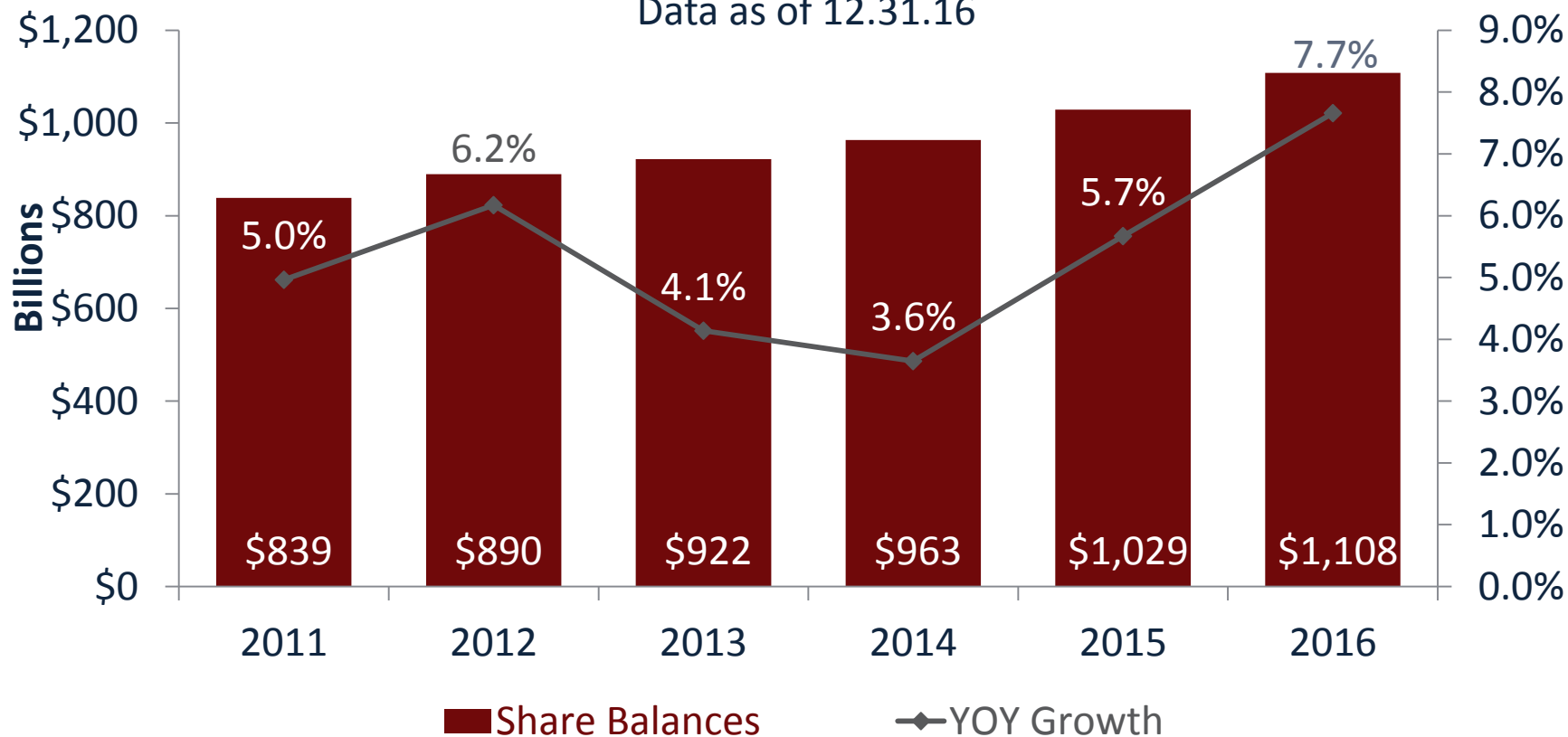
Total Loans and YOY Loan Growth

Data as of 12.31.16



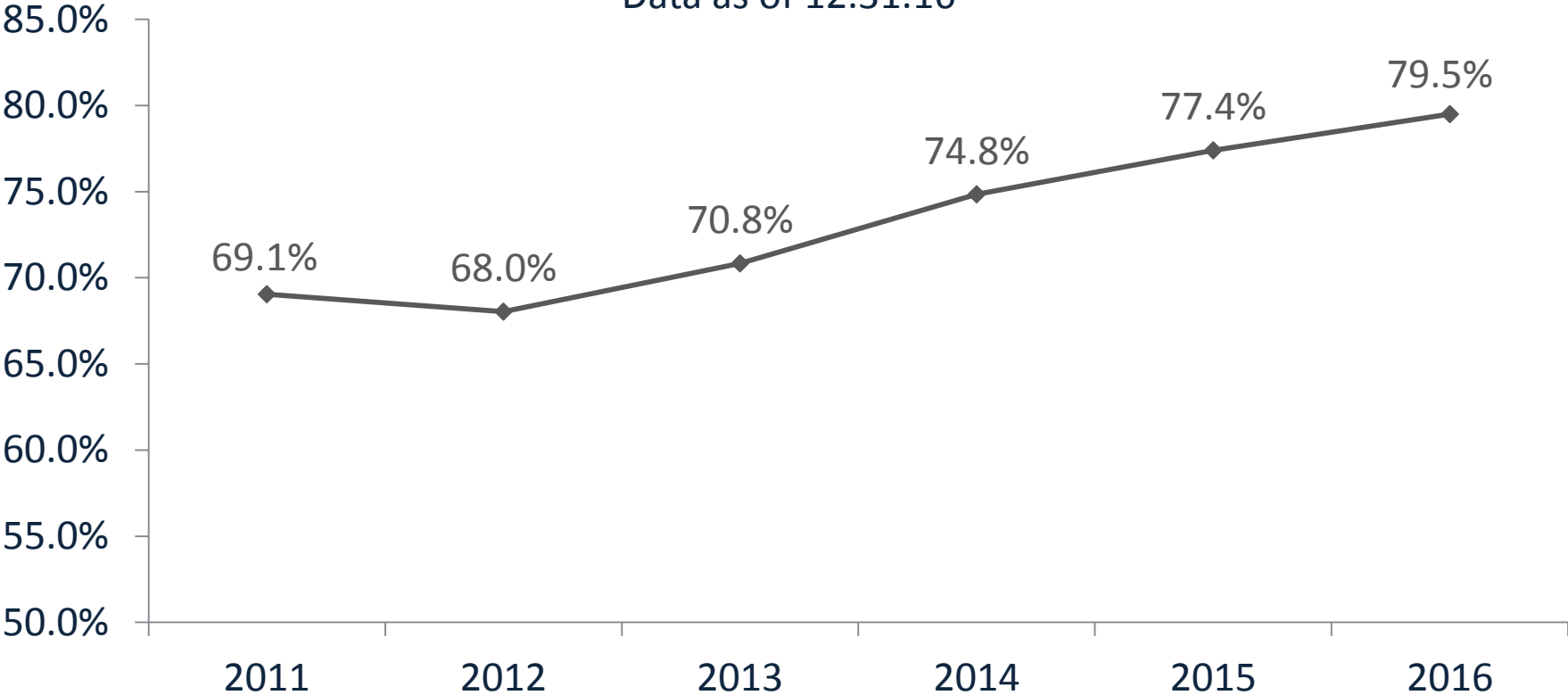
# Share growth accelerates for third straight year

Total Share Balances and YOY Share Growth  
Data as of 12.31.16

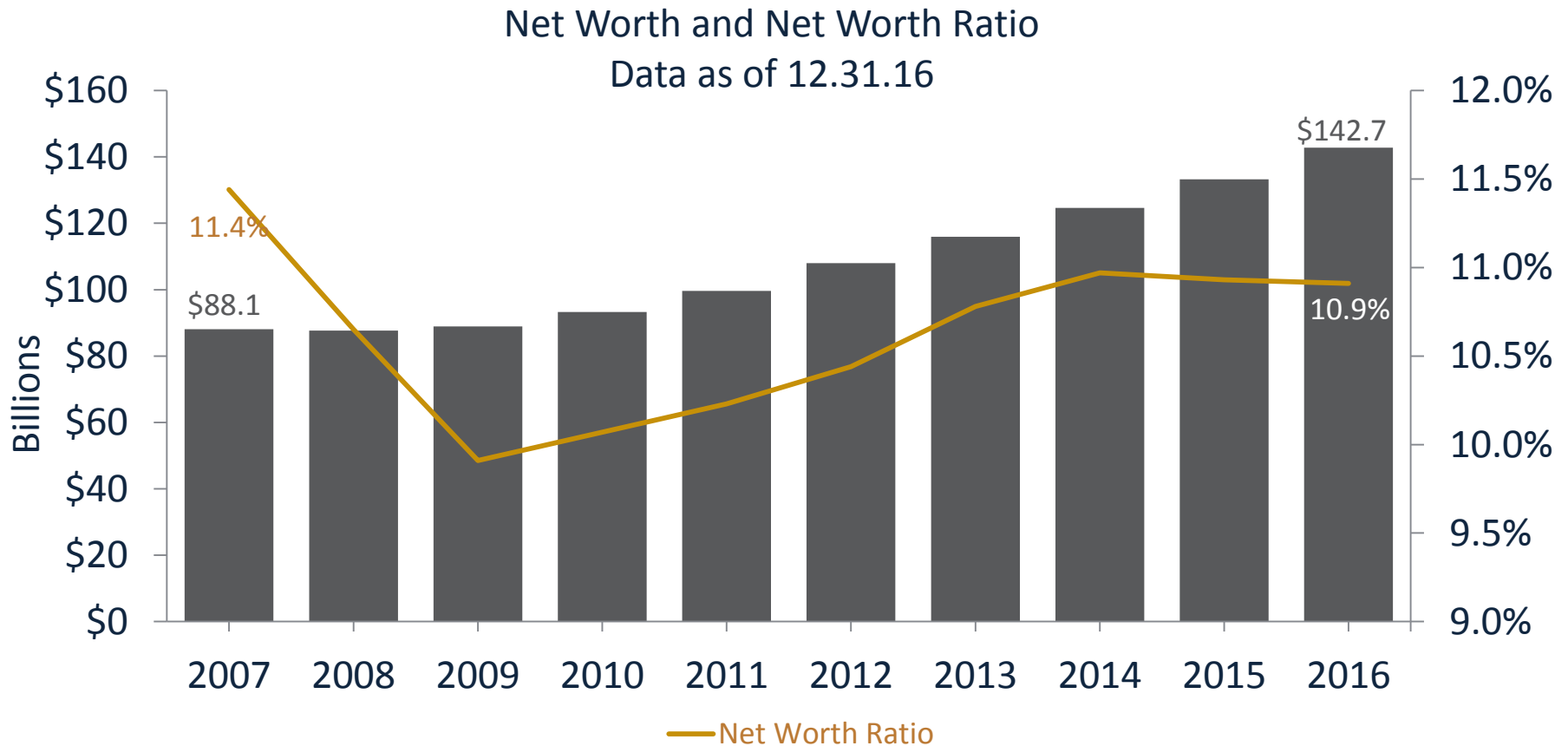


# Loan-to-share ratio reaches highest level since 2008

Loan-to-Share Ratio  
Data as of 12.31.16



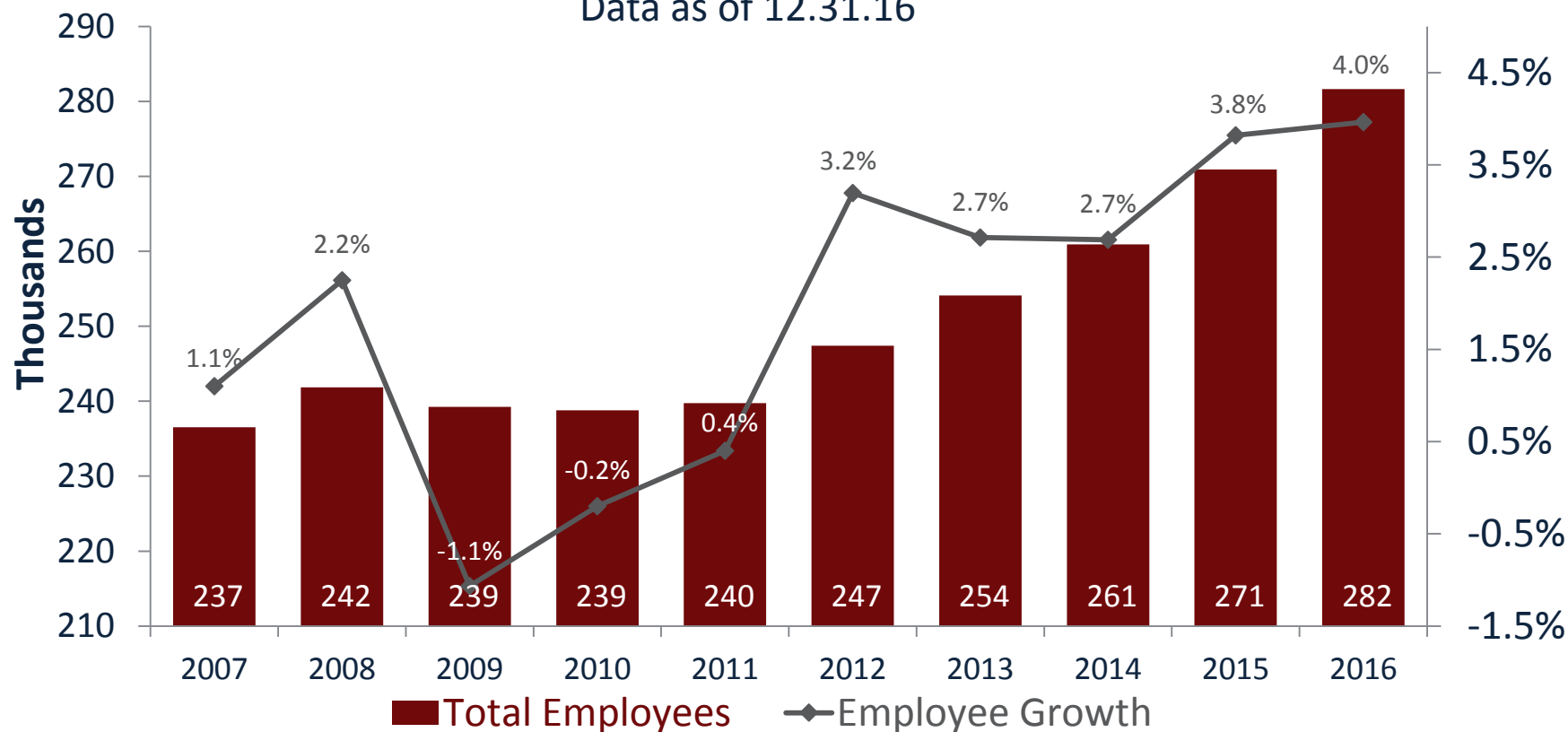
# Industry net worth exceeds \$142 billion at year-end as ratio holds steady





# Credit union employment continues to expand as membership grows

Total Employees and Annual Growth  
Data as of 12.31.16



# Credit union asset growth has exceeded bank asset growth in three of the past four years

Asset Growth for Credit Unions and Banks  
Data as of 12.31.16



*Data as of 9/30/16*

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Source: Callahan's Peer-to-Peer Analytics

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# Market share, member relationships growing

- Loan originations hit record \$461 billion in 2016
- Credit union auto finance share continues to rise
- Member product usage and average balances increasing

# Loan originations jump 11.4% to record \$461.3B with all key categories rising at double-digit pace



Consumer



First Mortgage



Other RE

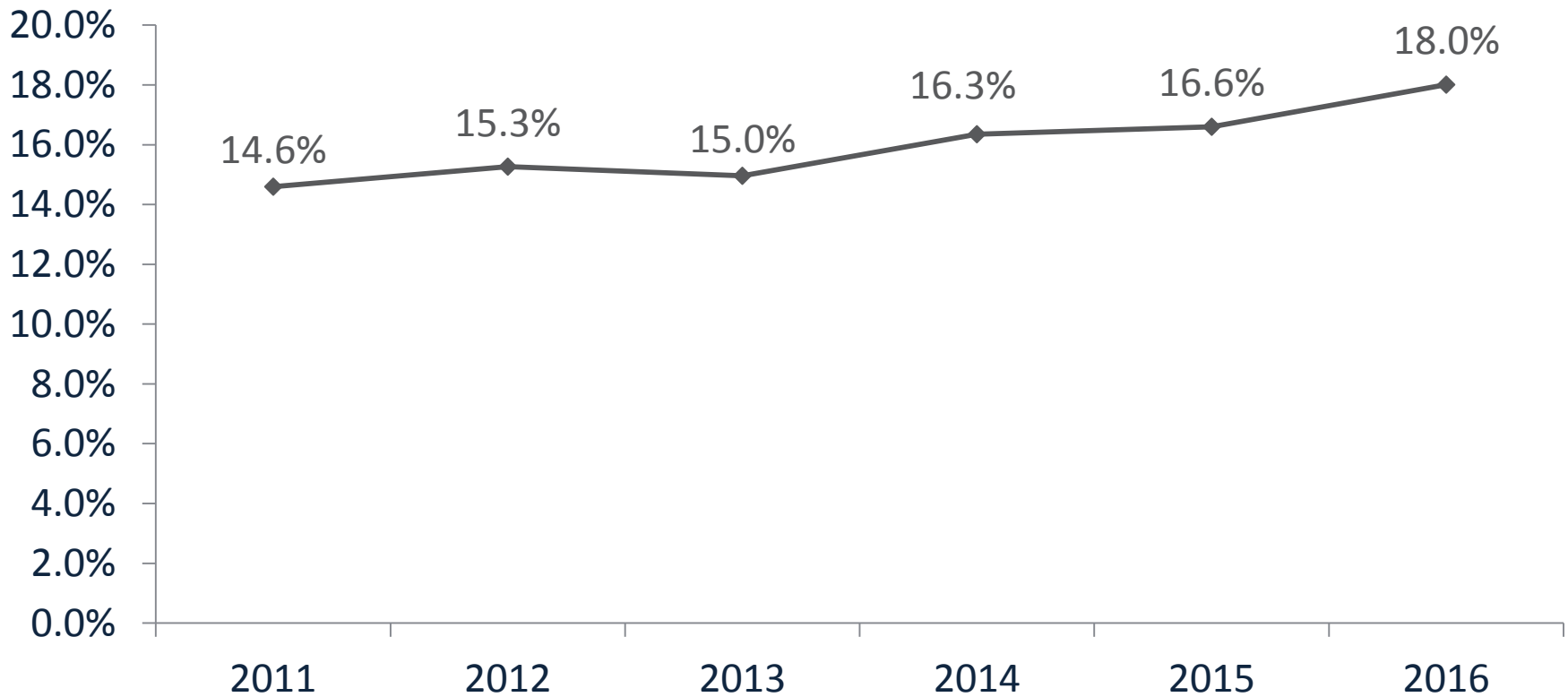


MBL

<b>YOY Growth</b>	<b>+ 11.4%</b>	<b>+ 14.1%</b>	<b>+ 10.0%</b>	<b>+ 15.2%</b>
<b>YTD Orig.</b>	<b>\$267.1B</b>	<b>\$143.6B</b>	<b>\$29.0B</b>	<b>\$21.6B</b>

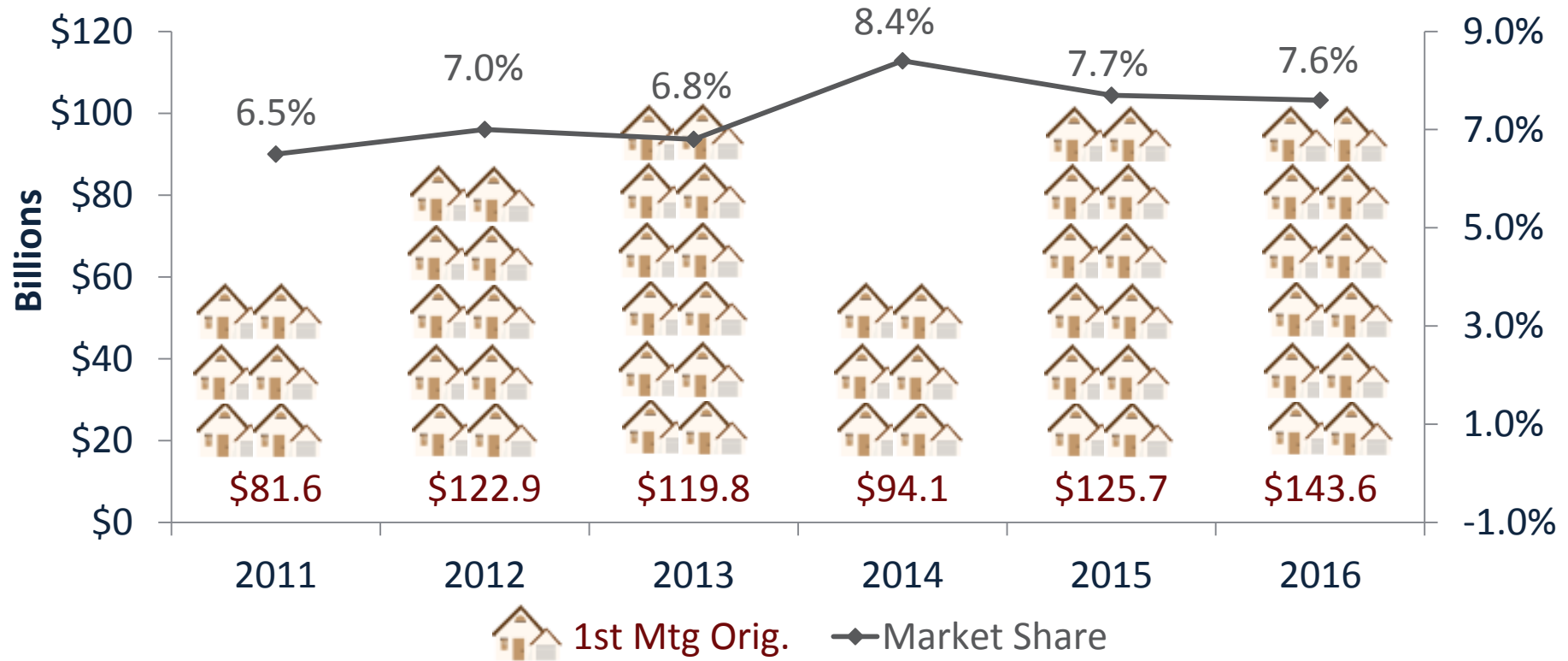
# Credit union auto finance market share continues to rise

Credit Union YTD Auto Finance Market Share  
Data as of 12.31.16



# Credit union first mortgage originations rise 14.2% but U.S. market share recedes as non-bank competitors gain

YTD First Mortgage Originations & Market Share  
Data as of 12.31.16



# Members are increasingly turning to credit unions for financial products



Credit Card



Real Estate



Share Draft



Auto

4Q16

17.3%

4.4%

55.3%

19.6%

4Q11

14.7%

4.6%

50.9%

16.0%

Change

+2.6%

-0.2%

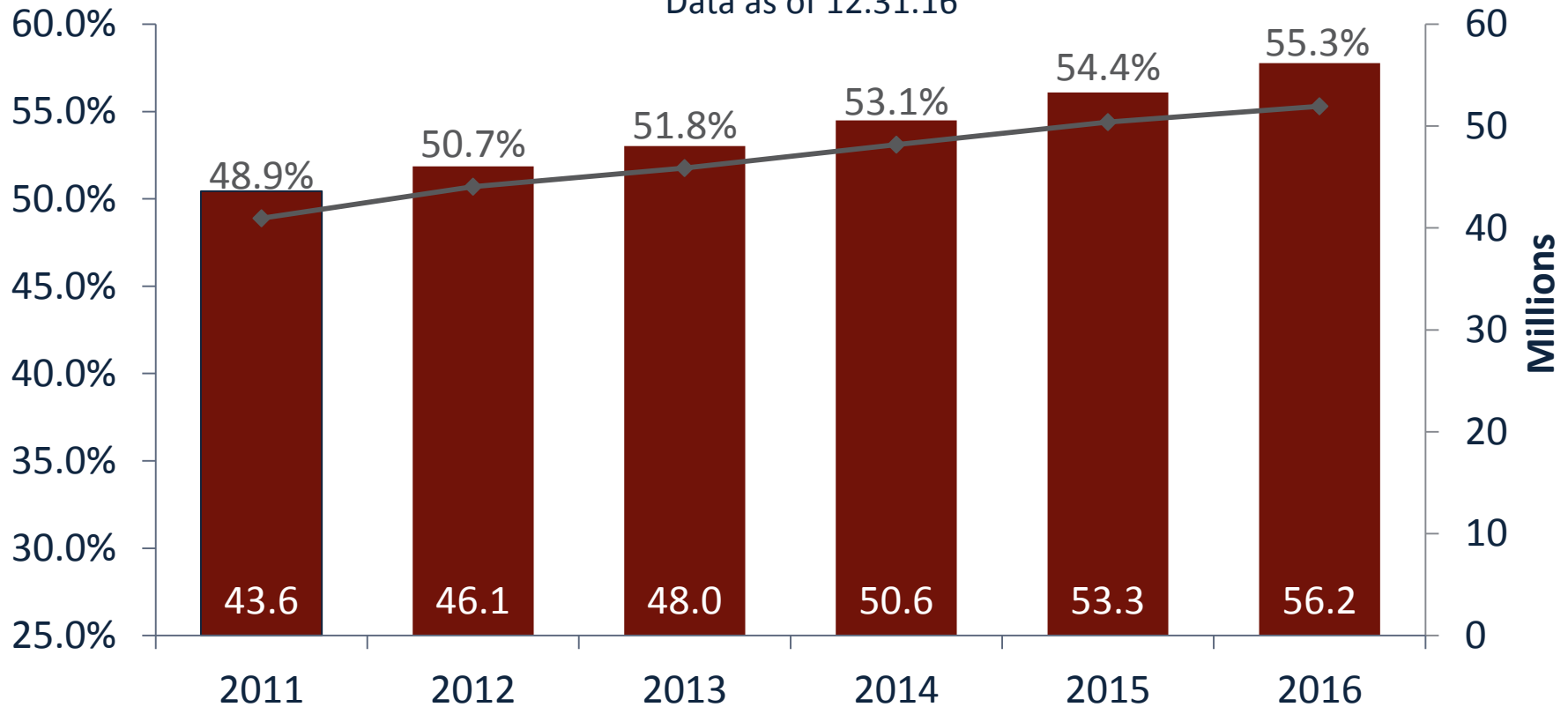
+4.4%

+3.6%

# Share draft penetration tops 55%

\* Share Draft Penetration =  
% of members holding a CU  
checking account

Share Draft Penetration\* & Number of Accounts  
Data as of 12.31.16



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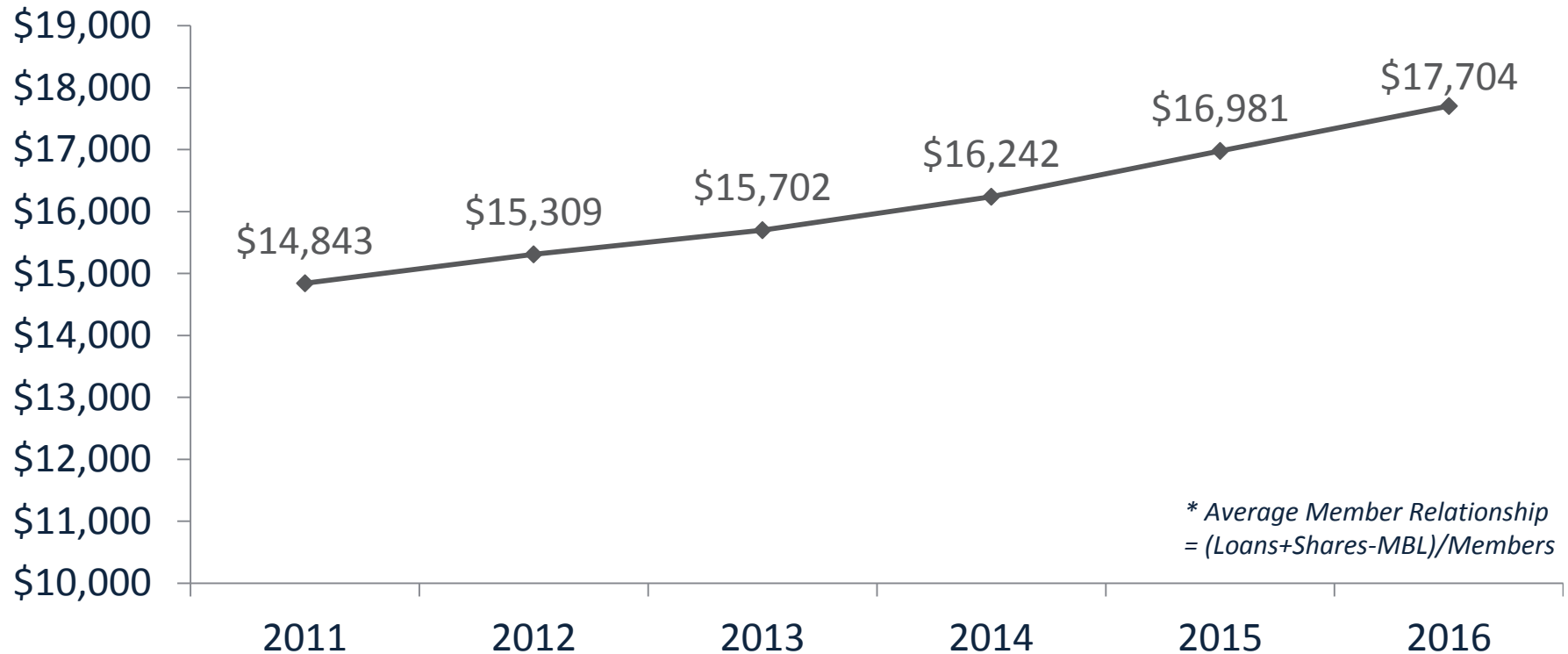
Source: Callahan's Peer-to-Peer Analytics

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# Average member relationship reaches highest level ever: \$17,704

Average Member Relationship\*  
Data as of 12.31.16



\* Average Member Relationship  
= (Loans+Shares-MBL)/Members

# Impacting Members Through Employee Engagement

---



Steven Bugg  
Chief Marketing Officer  
Heritage FCU  
\$531.4M, Newburgh, IN

# Heritage FCU at a Glance



## Heritage FCU | December 31, 2016

Assets:	\$531.4M	(+0.6%)
Loans:	\$375.7M	(+3.4%)
Shares:	\$471.5M	(+5.9%)
Members:	53,123	(+6.9%)
Loans/Shares:	79.7%	
ROA:	0.40%	



8 Branches  
164 FTE Emps.

# Employee Engagement → Member Engagement

- Heritage uses multiple avenues to facilitate increased member engagement, including:
  - Balanced Scorecard
  - “8:08” Call – weekly conference call with entire staff, focused on how to improve impact on the members



# Employee & Member Engagement: 8:08 Call

- 8:08 Call:
  - Every Monday at 8:08 AM – employees share success stories
  - Tie back to impact on Balanced Scorecard
  - Use as avenue to inform all employee contact with members
- Stories provide relatable perspective and experiences to other employees:
  - Remove stigma around “cross-sell”
  - Insights on nuances of selling different products



# Employee & Member Engagement: Balanced Scorecard

- Enables employees to see and better understand their impact
- Helped create tangible change in Product per Household metric:
  - 2.67 (2010) to 3.73 (2016)
- Notable penetration:
  - Auto: 28.4%
  - Share Draft: 64.2%

## Member Satisfaction

	2017 Minimum	2017 Target	2017 Exceeds	YTD Proposed 2017
Annual Raddon Survey - Very Satisfied / Raddon Loyalty Index				
Monthly member survey satisfaction score - Overall				
<i>Treated me like a valued Member</i>				
<i>Helped me in a timely manner</i>				
<i>Processed transaction accurately</i>				
<i>Offered me another product or service</i>				
<i>Thanked me for my business</i>				
<i>Overall Quality of Services</i>				
<i>Would I refer HFCU to a family member or friend</i>				
Quarterly Mystery shop - Overall				
Local Competition Scores (Lobby / Platform)				
<i>Drive thru service</i>				
<i>Information/Call Center service</i>				
<i>Lobby service (teller area)</i>				
<i>Platform service (FSC / Managers)</i>				
% Perfect Shops				
Products per Household				

# QUESTIONS?

**If you have a question or comment,  
please use the chat box.**

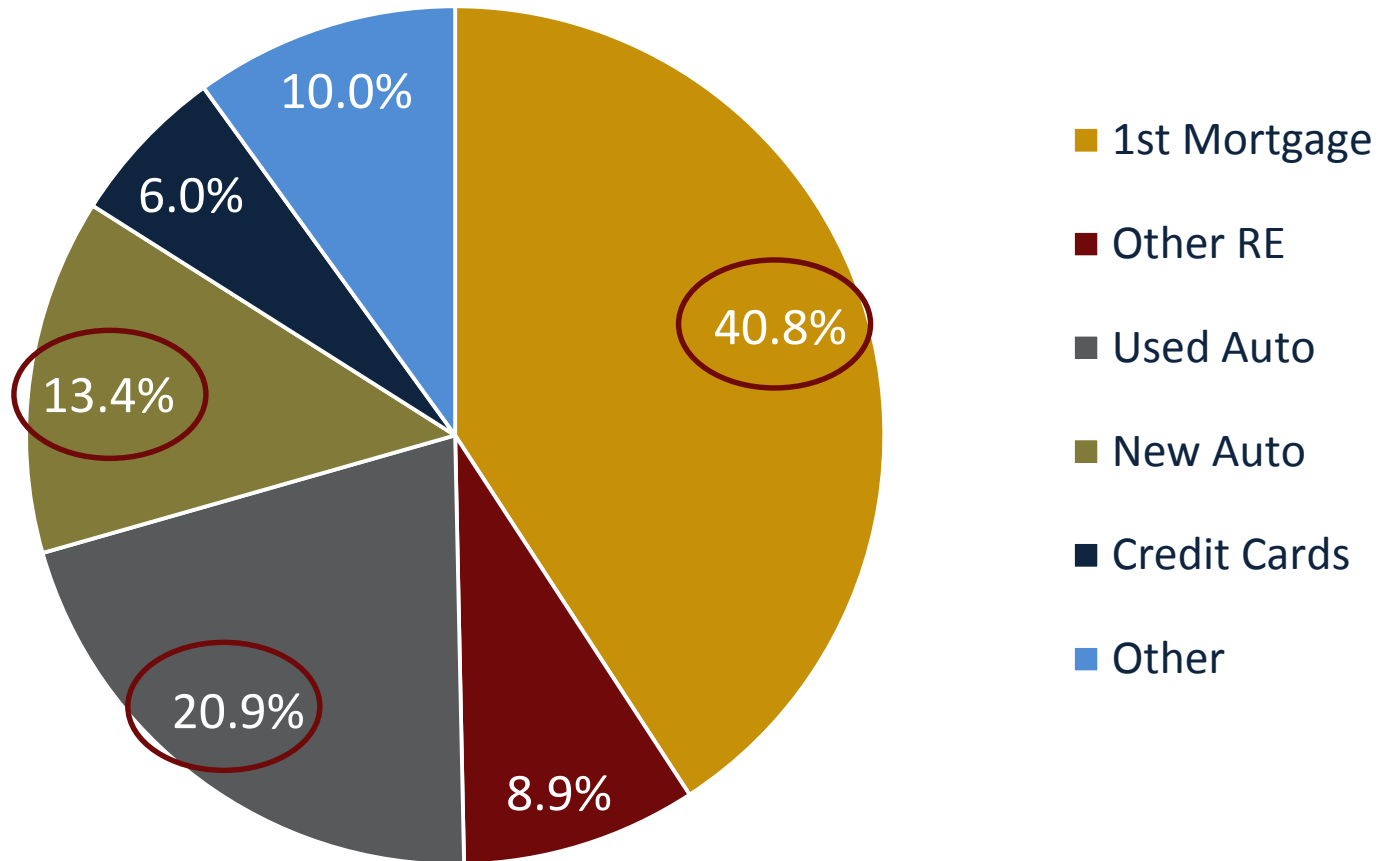
# Loan growth continues double-digit pace

- Loan growth is strong across the country
- Auto and mortgage loans drive double-digit portfolio growth
- Asset quality remains sound

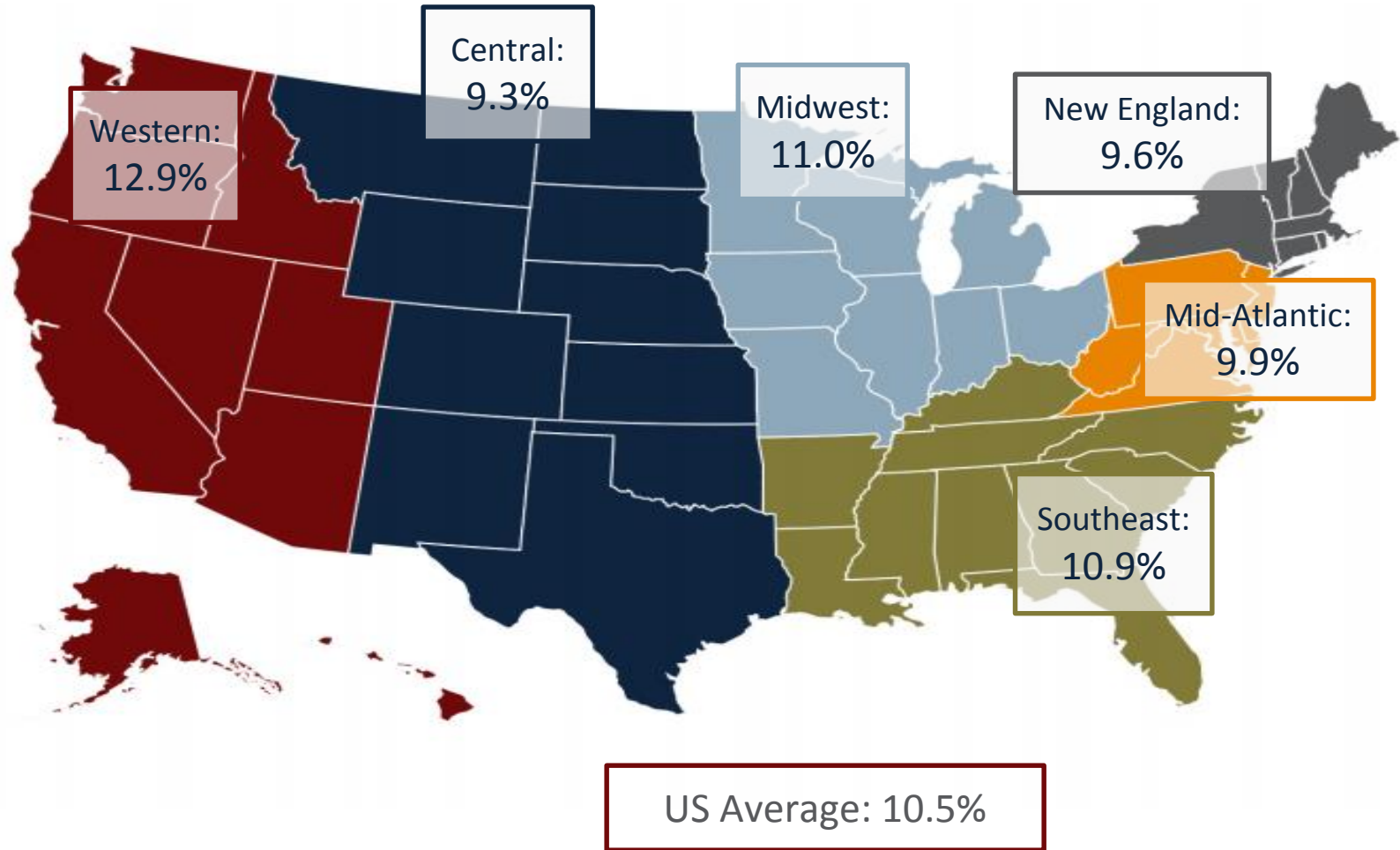


# 1<sup>st</sup> mortgage and auto loans dominate the industry loan portfolio

Credit Union Loan Portfolio  
Data as of 12.31.16

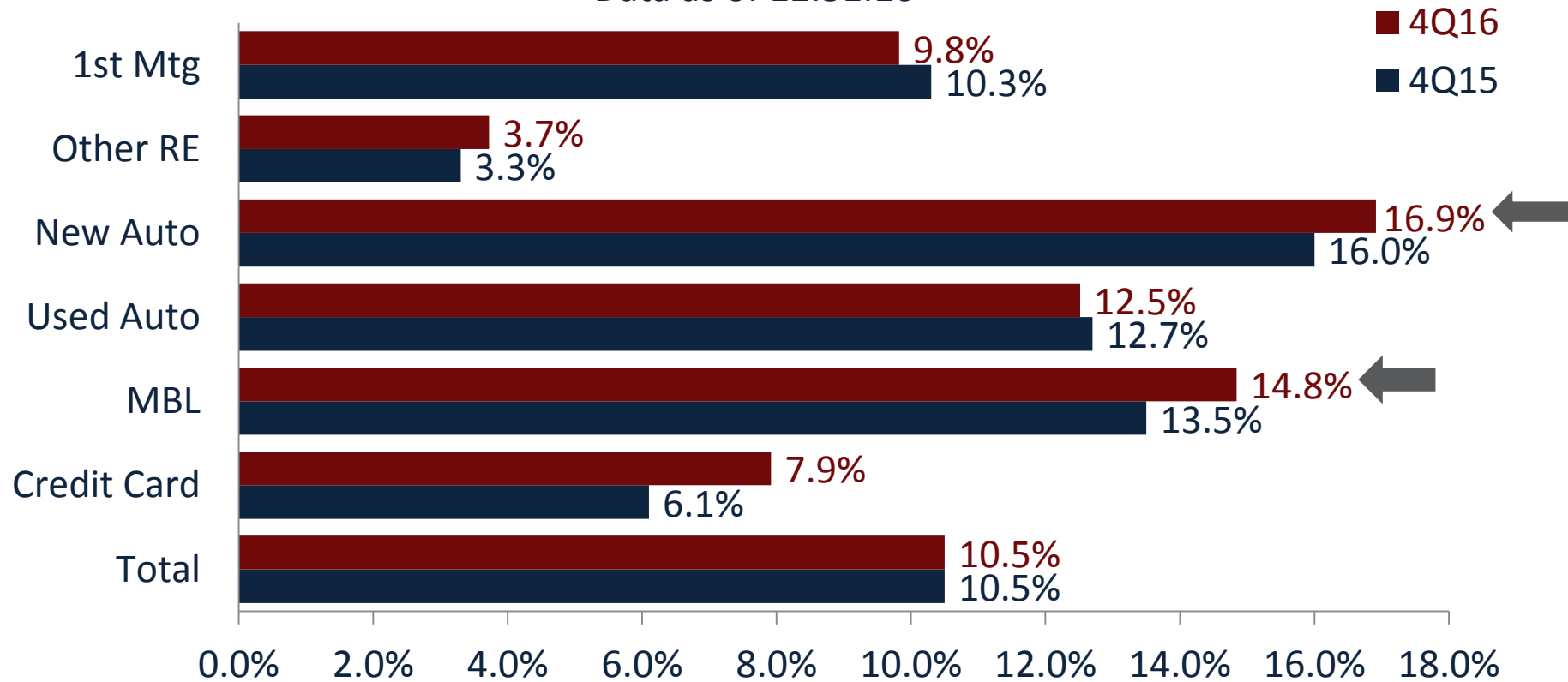


# Loan growth by region: Western states lead strong, balanced growth across the country













# Auto and mortgage lending are driving loan portfolio growth

12-Mo. Growth in Loans Outstanding  
Data as of 12.31.16



# Auto market share leader states continue to make gains in 2016

State		CU Auto Market Share 4Q16	CU Auto Market Share 4Q15	Change in Market Share
Utah		54.8%	52.4%	2.4%
Idaho		53.4%	48.0%	5.4%
Oregon		44.7%	41.9%	2.8%
Washington		42.9%	39.3%	3.6%
Iowa		35.9%	31.3%	4.6%
Colorado		35.7%	34.3%	1.4%
New Mexico		35.6%	31.5%	4.1%
Kansas		27.9%	24.7%	3.2%
New Hamp.		26.4%	28.8%	-2.4%
Wisconsin		26.4%	23.6%	2.8%

# University FCU (\$856M, UT) pairs car buying with financial education



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# Asset quality remains strong even as some categories post slight increases

Year-Over-Year Change in Delinquency  
Data as of 12.31.16



Total

**0.83%**  
**+0.02%**



1<sup>st</sup> Mortgage

**0.63%**  
**-0.12%**



Auto

**0.72%**  
**+0.04%**



Other RE

**0.65%**  
**-0.09%**



Indirect

**0.76%**  
**+0.03%**



Credit Card

**1.14%**  
**+0.14%**



MBL

**1.38%**  
**+0.30%**

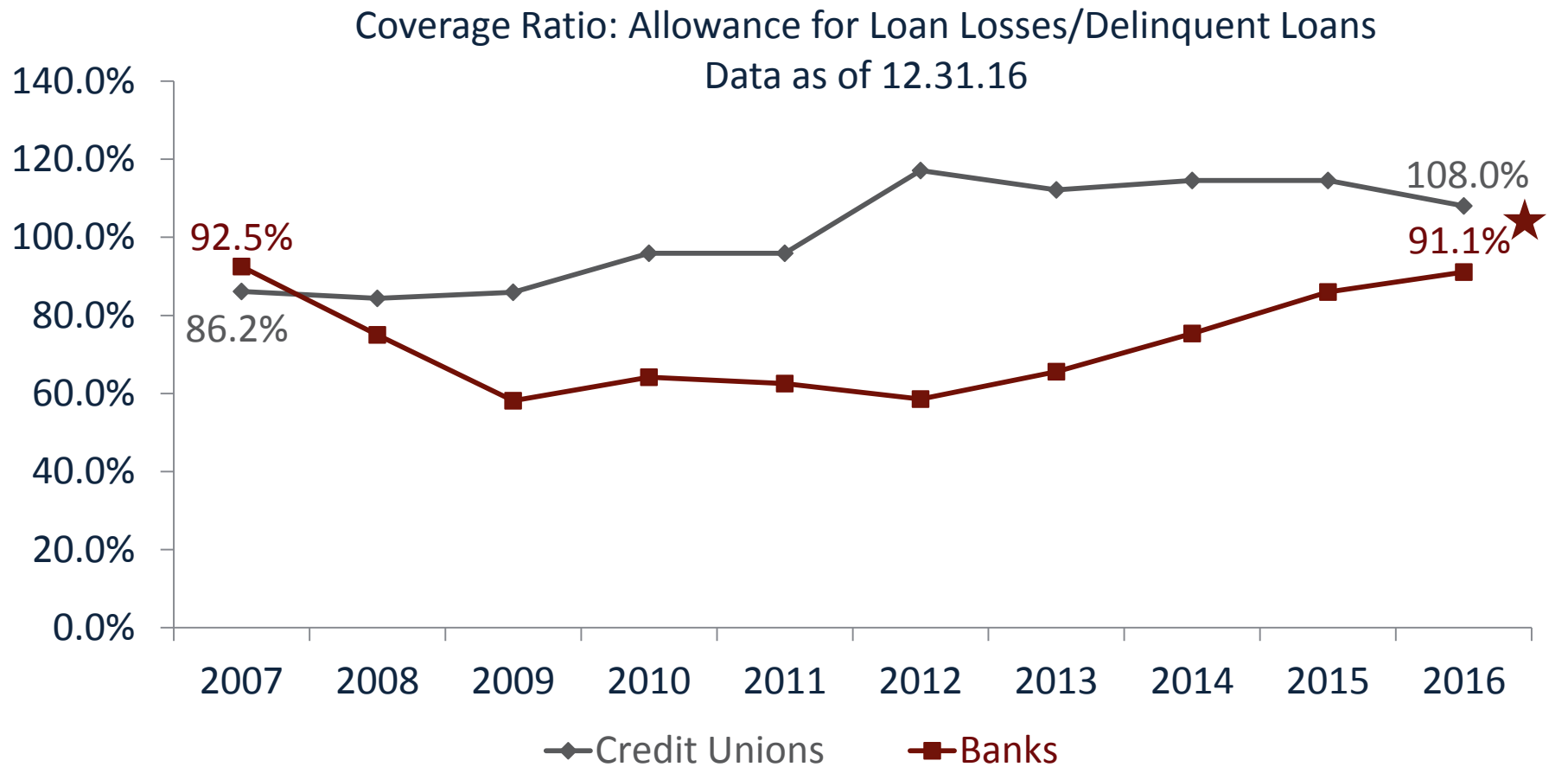
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Source: Callahan's Peer-to-Peer Analytics

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# Credit unions have reserved \$1.08 for every \$1 of delinquent loans



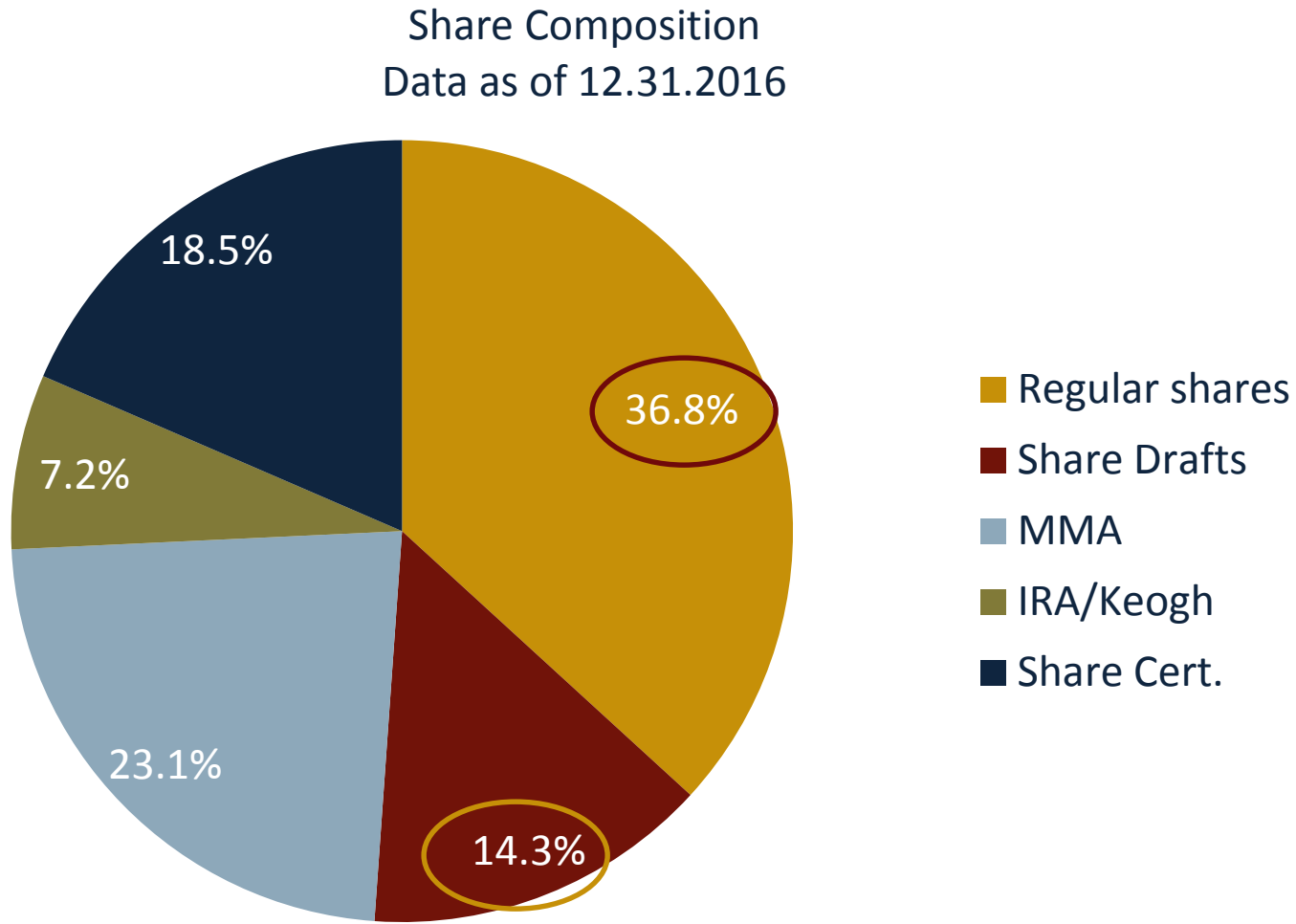
★ Data as of 9/30/16

# Shares drive member engagement, with average share balance exceeding \$10K

- Share growth accelerates as interest rate sensitive categories rise
- Certificate growth picks up as credit unions look to fund loan growth
- Dividends rise to highest level since 2012

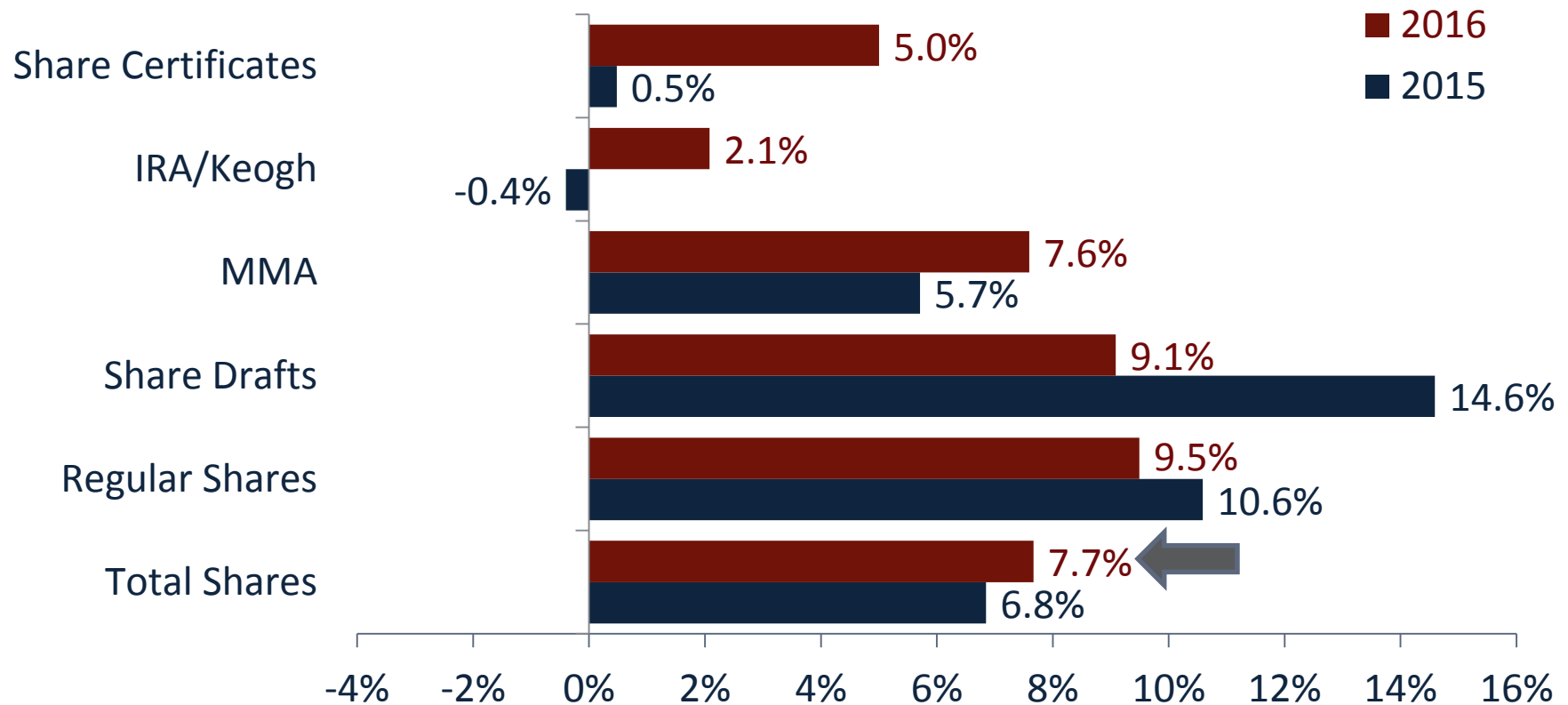


# Regular shares and checking balances account for 51.1% of industry share portfolio, up 10 percentage points in 5 years

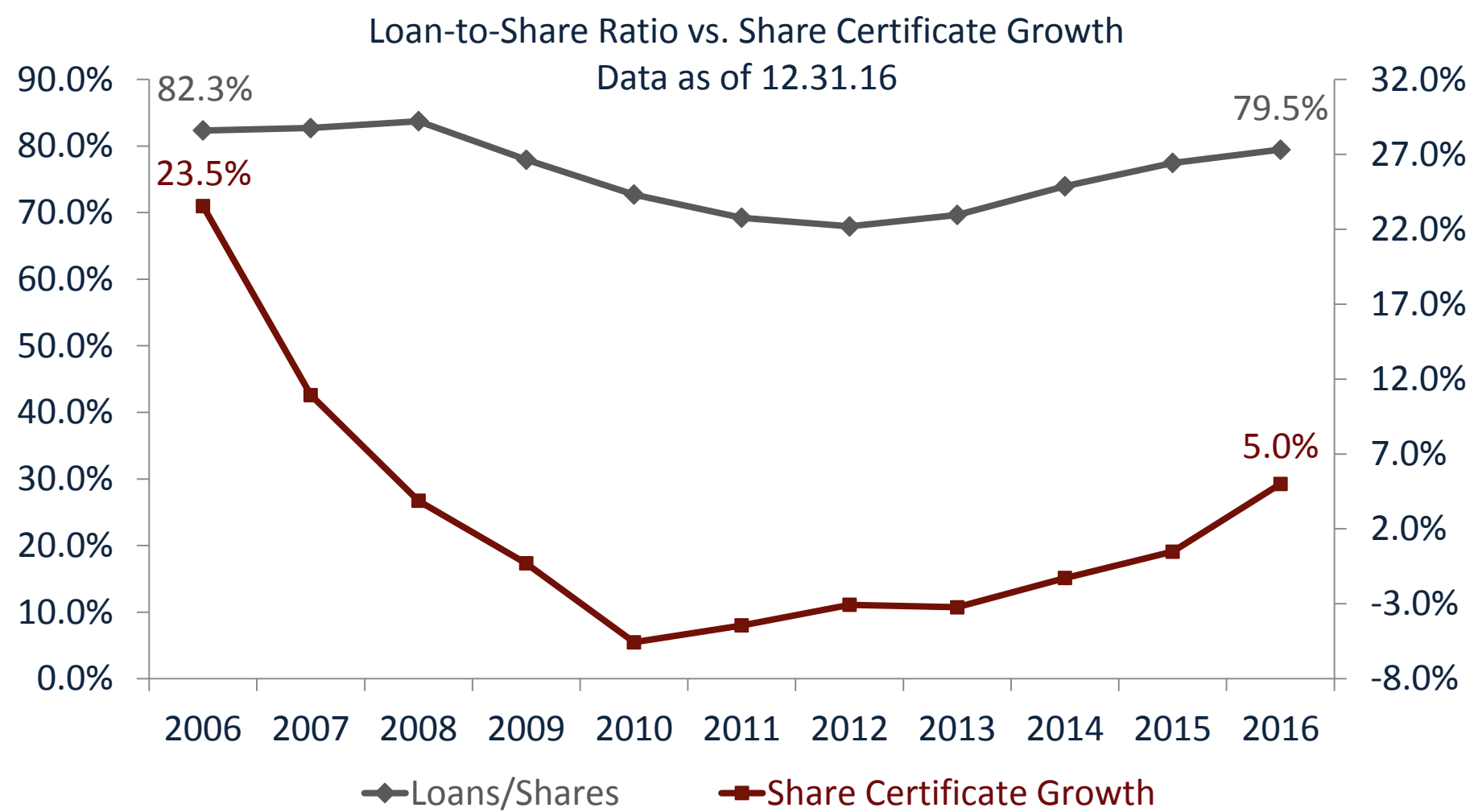


# Interest rate sensitive share products posting higher growth rates in 2016

12-Mo. Growth in Shares Outstanding  
Data as of 12.31.16



# Credit unions using share certificates to increase liquidity amidst growing loan-to-share ratio



# Nassau Educators (\$2.5B, NY) grew share certificates 10.8% in 2016



The image shows a screenshot of the NEFCU website. At the top, the NEFCU logo is on the left, and navigation links for Rates, Locations, Contact Us, and Open an Account are on the right. Below the navigation links is a "Select Language" dropdown and an "Ask us a question!" button. The main banner features a dark blue background with white snowflake patterns. On the left, there is an "ONLINE BANKING" section with fields for User ID and Password, a "Log In" button, and links for "Forgot Password?", "Enroll in Online Banking", "Business Login", and "FREE Online Protection". Below this is a blue button that says "OPEN A NEW ACCOUNT". In the center, the text "Winter CD SPECIAL" is written in a large, white, cursive font. Below this, it says "\$1,000 Minimum to Open (Consumer & Business)" and "\$500 Minimum to Open (IRA)". On the right, there are two promotional offers: "18-MONTH CERTIFICATE 1.30% APY" and "30-MONTH BUMP CERTIFICATE 1.50% APY".

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Ask us a question!

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User ID

Password

▶ Forgot Password?  
▶ Enroll in Online Banking  
▶ Business Login  
▶ FREE Online Protection

Log In

OPEN A NEW ACCOUNT

Winter  
CD SPECIAL

\$1,000 Minimum to Open (Consumer & Business)  
\$500 Minimum to Open (IRA)

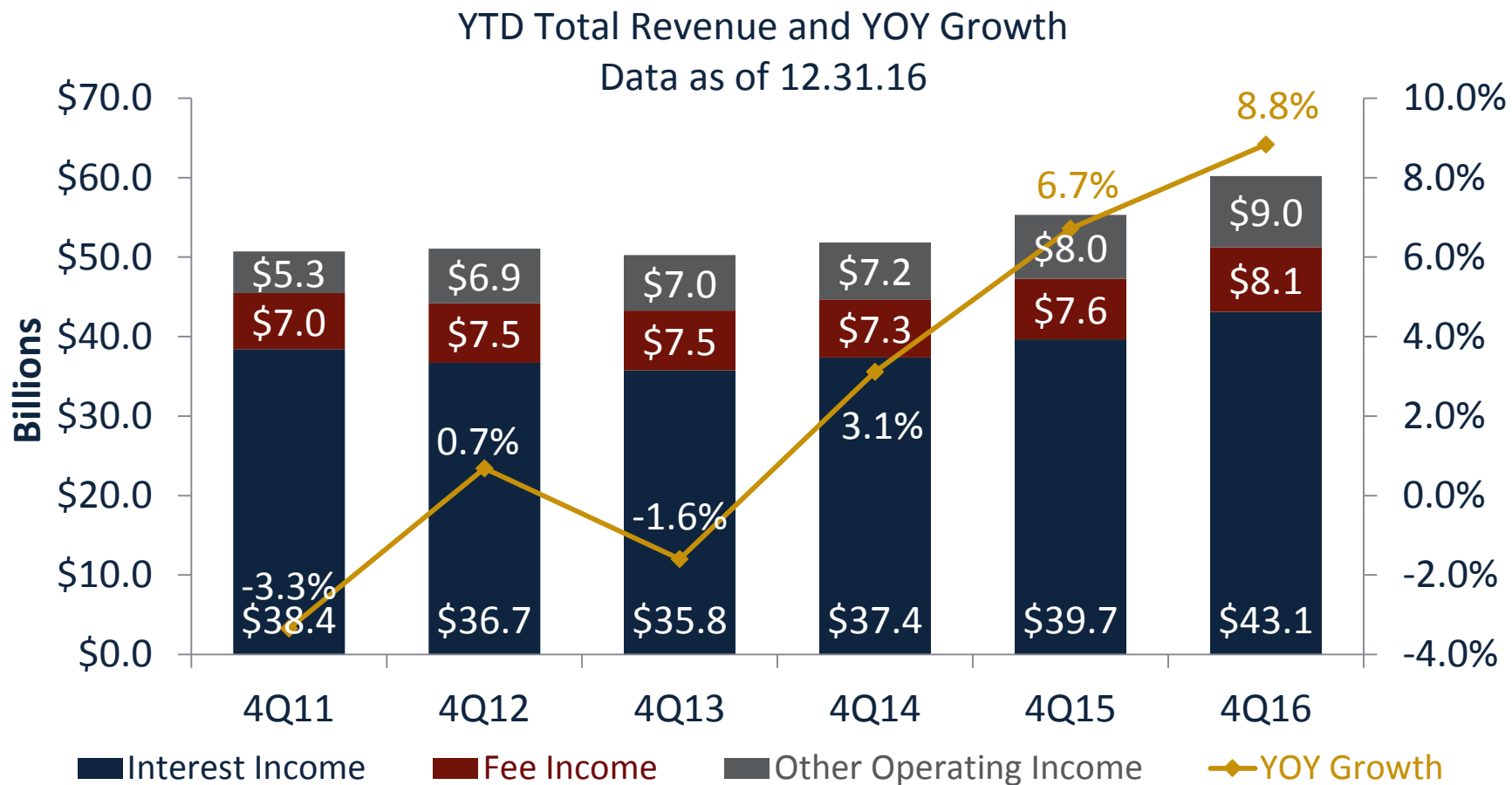
18-MONTH CERTIFICATE  
1.30% APY

30-MONTH BUMP CERTIFICATE  
1.50% APY

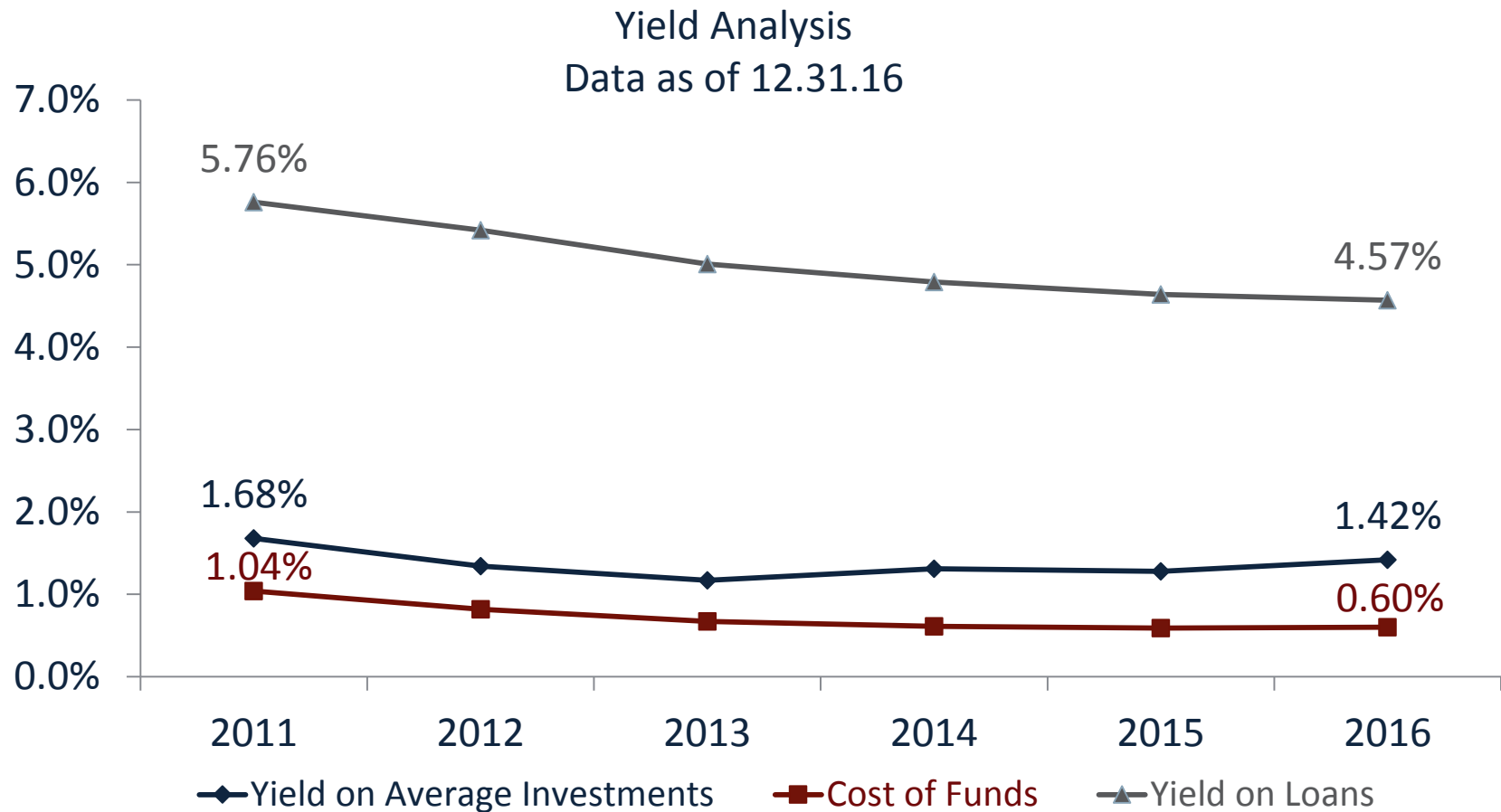
# Revenue continues to rise on strong lending

- Total revenue rises to \$60.2 billion as interest income from loans increases
- ROA is hovering at a “new normal”
- Capital balances continue to reach new highs, topping \$146 billion

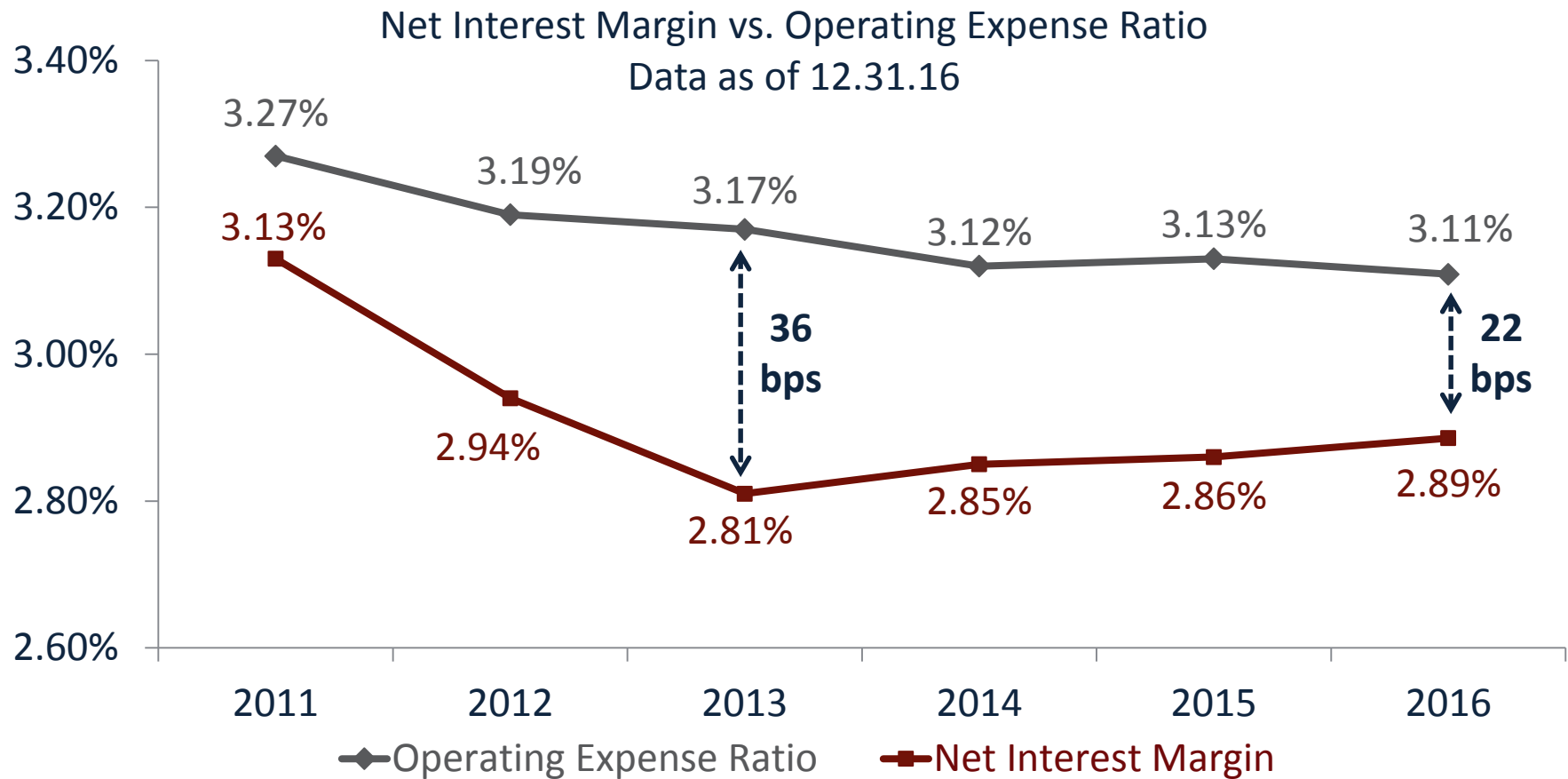
# Strong lending, PFI relationships drive revenue growth



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

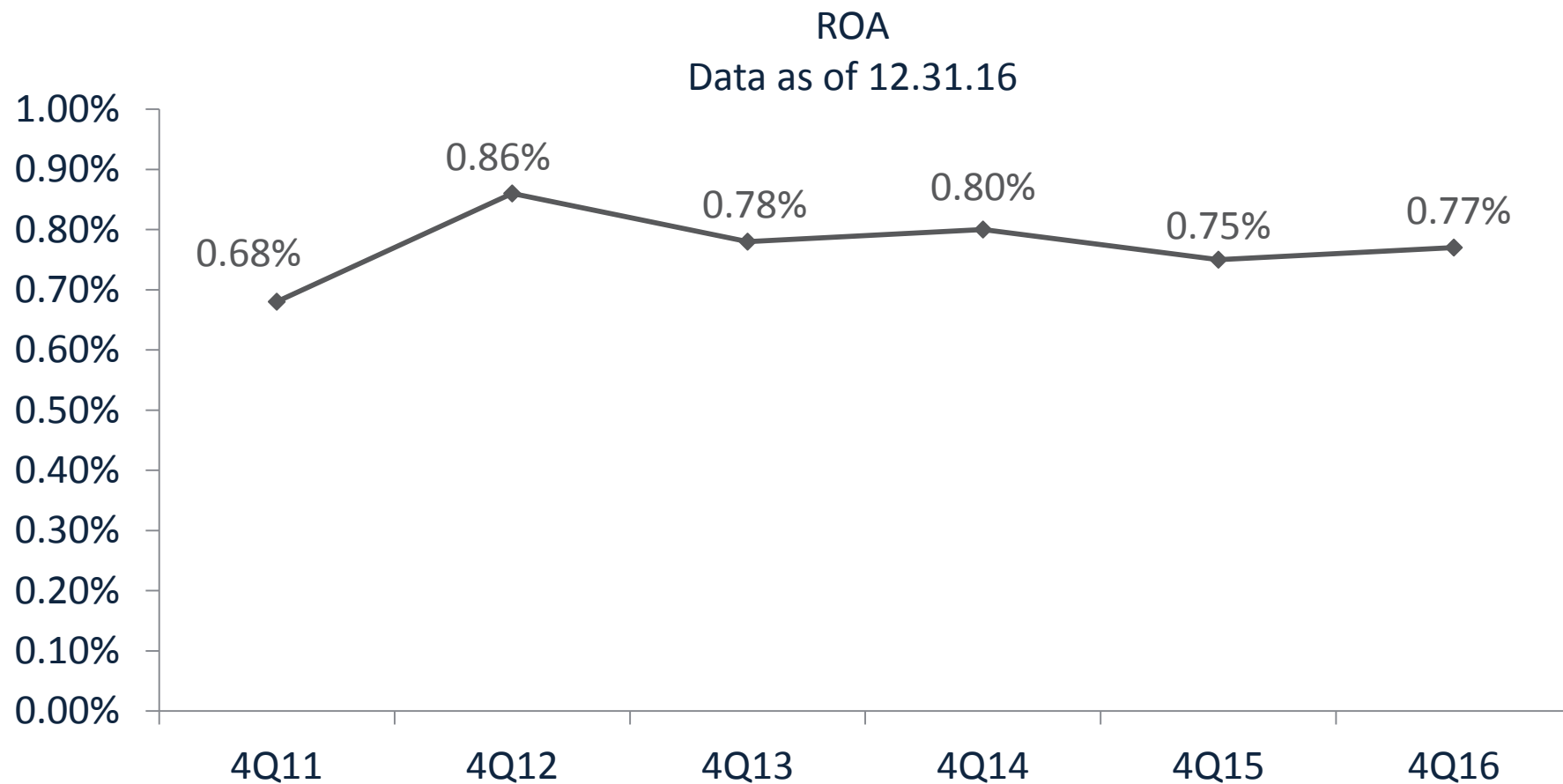


# The gap between net interest margin and operating expense ratio is narrowing





# ROA remains in narrow range



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Source: Callahan's Peer-to-Peer Analytics

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- Not available in the state of Utah.

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Bristol West  
Premium Trust Account

Health Savings Account

Tax Saver

### Loans

Agency Secured Loan

Agency Secured  
Line of Credit

Commercial Real Estate

Agency Loans

Agency Acquisition Loan

Smart Office Loan

Vehicle Loan

### Credit Cards



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# Key Questions for 2017

- Experts are forecasting declines in new car sales and mortgage originations in 2017. How will credit unions maintain their lending momentum?
- Membership growth provides new opportunities. What steps is your credit union taking to develop these relationships?
- As competition intensifies, how will your credit union define and communicate its unique member value?

# QUESTIONS?

**If you have a question or comment,  
please use the chat box.**



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# No need to bundle up for GAC!

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Thursday		 0%	74°	53°
Friday		 0%	75°	56°
Saturday		 30%	75°	53°
Sunday		 5%	51°	39°
Monday		 10%	56°	37°
Tuesday		 10%	61°	45°
Wednesday		 30%	72°	54°
Thursday		 30%	62°	45°
Friday		 0%	54°	38°
Saturday		 10%	57°	37°

# Tell us what you thought!

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