Loan Trends In 2Q24

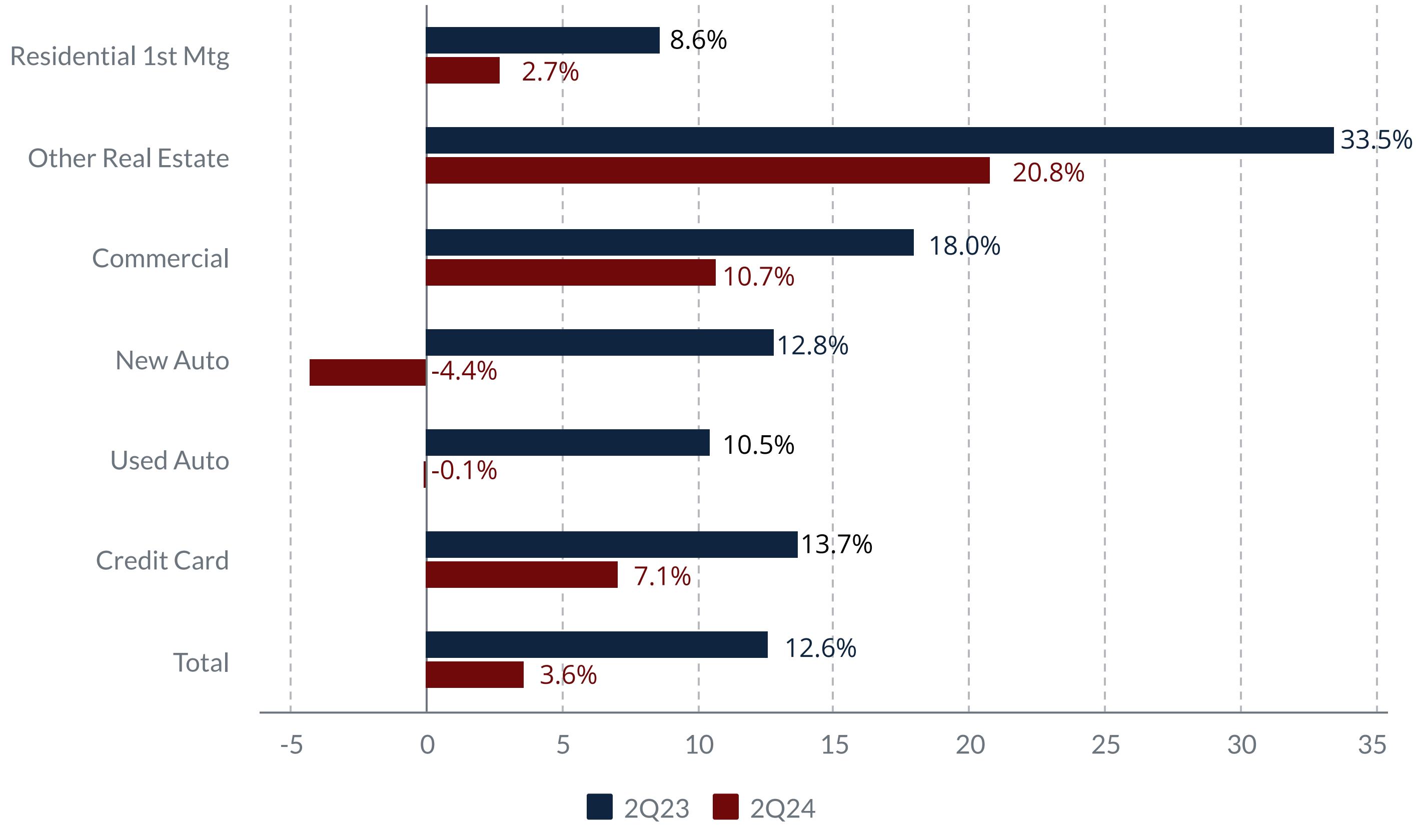
Fluctuating loan demand upset credit union lending pipelines and balance sheets in the first half of the year. How significant were these impacts?

REPORT BY

Andrew Lepczyk
Industry Analyst

Annual Growth In Loans Outstanding

FOR U.S. CREDIT UNIONS | DATA AS OF 6.30.2024



With interest rates standing between 5.25% and 5.50%, many credit union members are putting off taking out new loans for high-value assets. At the same time, many members also rely on revolving credit lines to pad their budgets. For these reasons and more, year-over-year loan growth dropped to 3.6% as of June 30, down significantly from the 12.6% recorded one year ago.

What's driving this decline in loan balances? First, the loan-to-share ratio has steadily climbed. It reached 83.9% in the second quarter, pushing credit unions to pull back on funds for lending. Second, higher interest rates have sidelined many would-be borrowers. In fact, the annualized amount of loans granted per member fell to $3,543 at midyear. That's up from the first quarter yet still down from $4,080 this time last year. Meanwhile, the average balance per loan has climbed 4.0% in the past year to top $18,000, a sign of higher-asset prices and fewer early paydowns.

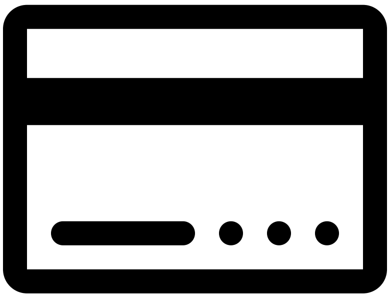
These trends in the loan portfolio are more evident in some categories than others. Auto loans, both new and used, slowed the most significantly. New auto loans fell 4.3% after credit unions pulled back on indirect lending. More flexible loan types, such as commercial, other real estate (including HELOCs and second mortgages), and credit cards, continued to grow.

Purchasing high-value items today is expensive — both in terms of price and the cost of financing — and many borrowers have been priced out of the market. As the following pages show, whereas borrowing for homes and cars is declining, "assistive" borrowing, such as lines of credit, remains in demand.

Credit Cards

Annual growth in credit card balances dropped from 13.7% one year ago to 7.1% as of June 30, 2024. Although the rate of growth has slowed, the second quarter still marks a sizeable increase in credit card loan balances — a sign that income-constrained members are trying to keep up with increased costs.

Credit card utilization rose year-over-year, from 28.0% in the second quarter of 2023 to 28.7% today. As an industry, credit unions offer nearly $290 billion in total credit card lines; members have used $82 billion of it.



New Auto Lending

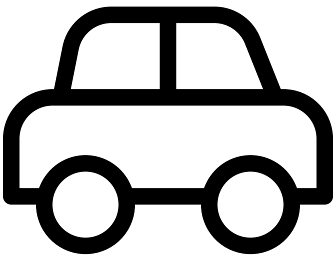
New auto loan balances fell 4.3%, a sizeable drop that underscores the overall slowdown in loan growth. Higher interest rates and a few years of record auto purchasing might be making many members reconsider a new loan. According to the U.S. Department of Transportation, 59% of American households already own two cars, suggesting this loan category has limited room to grow.

Meanwhile, credit union market share in auto lending sunk to 16.1%, from 22.4% last year. Credit unions are stepping back from indirect lending due to asset quality and liquidity constraints; at the same time, captive lenders are returning to the market. Together, these two trends drove down market share in the second quarter, although it is important to note auto lending was down for all lenders.

Used Auto Lending

According to Cox Automotive, credit unions were not alone in tightening their auto lending. Cox's index for auto lending, a measure of credit availability, declined to 93.9, from 97.2 one year ago, suggesting an economywide slowdown. Used retail vehicle sales nationwide did grow 1.4% year-over-year, but affordability continued to fall.

Although sales were higher than last year, they trailed 2022, and credit unions felt the stagnation. Used auto lending remained flat year-over-year on credit union balance sheets, a sign of a pullback in indirect lending and auto loan demand in general.



Commercial Lending

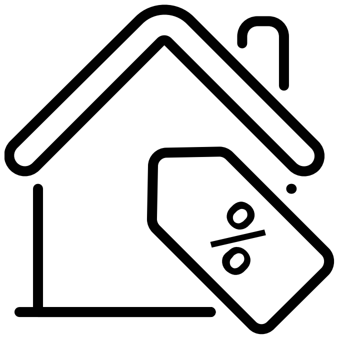
Commercial lending has not traditionally been a focus for credit unions, but it has grown recently and comprised 10.2% of the industry's loan portfolio at midyear. This is an increase from 7.2% in 2019. Year-over-year, credit unions added 10.7% more commercial loans to their portfolio.

Providing loans to small businesses is one way credit unions can serve the entire community. Many small- to medium-sized businesses struggle to access capital, giving credit unions an "in" when it comes to financing. Businesses are dealing with increasing costs as much as consumers, and a loan from a credit union can go a long way in keeping them up and running.

Other Real Estate

HELOCs comprise a smaller portion of the credit union portfolio but are surging in demand and utilization. A credit union member often uses this loan product to make home renovations, keep up with rising costs, or make a large purchase. Although utilization lags behind the pre-pandemic era, the dollar value has grown, thanks possibly to the rise in home prices that have made more equity available for homeowners to tap into.

When a member needs cash, a HELOC is cheaper to access than a credit card or a personal loan. At U.S. credit unions, HELOCs increased 20.8% year-over-year and were the fastest-growing loan segment on the industry's balance sheet.



First Mortgage

High home prices and interest rates continued to put pressure on U.S. borrowers. Nationwide, the National Association of Realtor's Housing Affordability Index fell from 103.3 in the first quarter of 2024 to 94.3 in the second quarter, a sign that homes are becoming less affordable.

Home affordability is an issue at credit unions, too, where lenders struggled to originate loans. Year-over-year, credit unions originated 6.1% fewer first mortgages and balances grew just 2.7%. On the balance sheet, credit unions are feeling the effect of homebuyers pinched by affordability and homeowners with little interest in refinancing.