CALLAHAN & ASSOCIATES
the credit union company

Credit Union Asset Quality In 4Q 2024

Delinquency and charge-offs are up for credit unions. Does that spell trouble, or is it an opportunity to help members in need?

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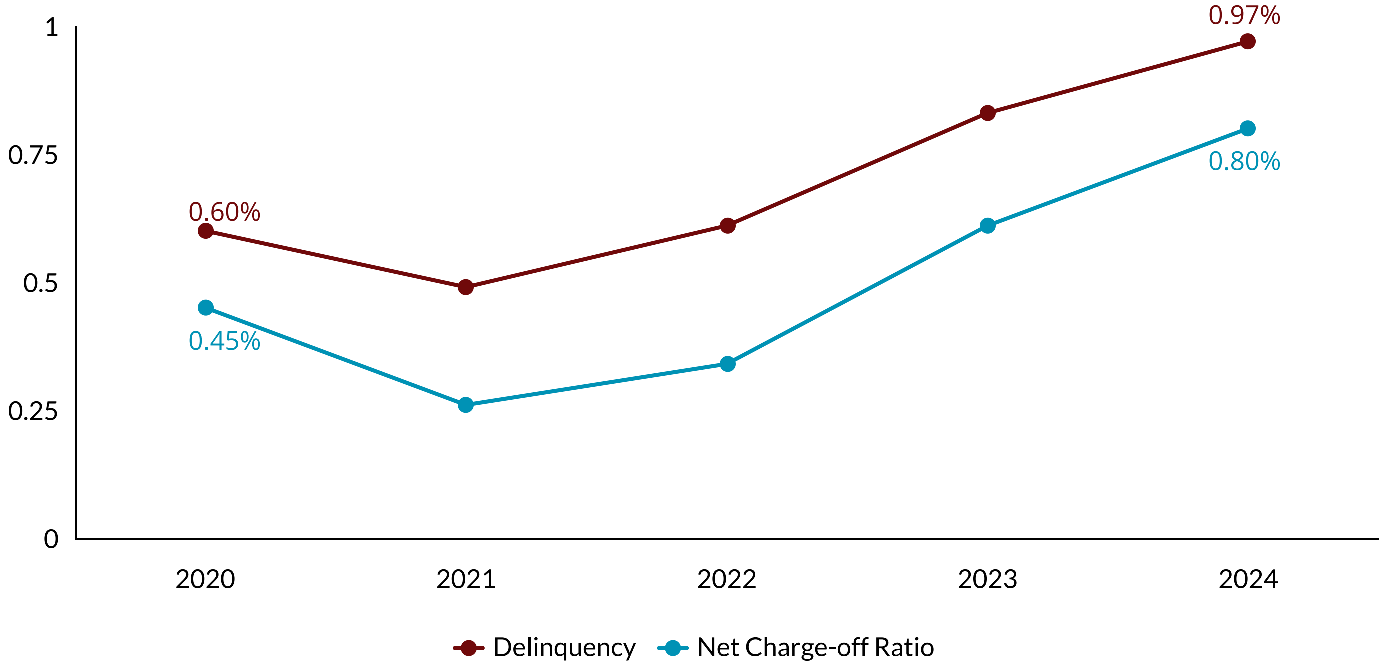
ASSET QUALITY: DELINQUENCY AND NET CHARGE-OFF RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 12.31.2024
SOURCE: CALLAHAN & ASSOCIATES



The ability of members to repay loans is declining. Total loan delinquency at U.S. credit unions increased 14 basis points in 2024; the net charge-off ratio rose 19 basis points. Delinquency has gradually risen since the pandemic, when it was near 0%, and at year-end 2024 rested well above historical norms. Regulators are on top of this trend, making CECL provisioning a heavy priority and placing credit risk at the top of the NCUA's 2025 Supervisory Priorities list.

A higher cost of living and higher interest rates are striking a one-two punch, making it difficult for households to make debt payments. According to the New York Fed's Quarterly Report on Household Debt and Credit, household debt reached a whopping $18.0 trillion in the fourth quarter of 2024. That's an increase of $3.9 trillion since the end of 2019. However, data from the St. Louis Fed shows household net worth also has reached record highs.

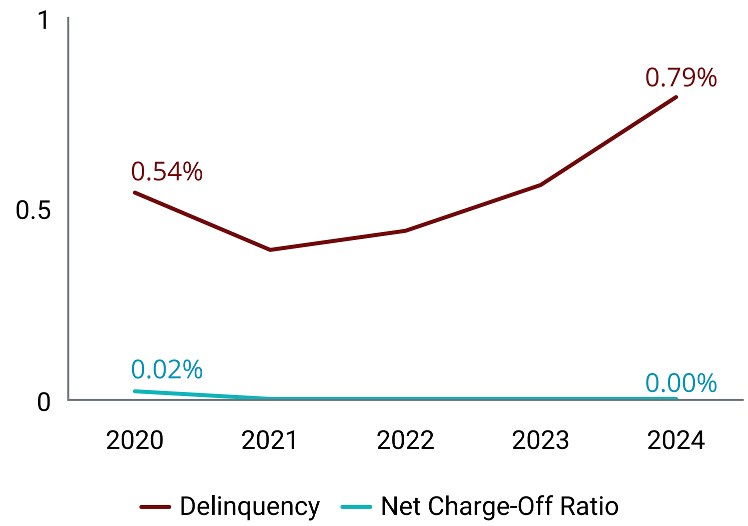
Delinquency for consumer products such as auto loans and credit cards are especially elevated, but all major loan products are feeling some pinch. Credit union performance data showed revolving loan products — HELOCs and credit cards — had the highest spikes in average delinquency as households under tight budgets searched for additional funds.

Deteriorating asset quality might prompt lenders to tighten standards; however, credit unions serve those of modest means. And at credit unions, members are repaying more than $98 of every $100 loaned on time. That's important context in telling the story of the cooperative movement's place in the nation financial landscape.

First Mortgage Asset Quality

Delinquency in first mortgages — a historically low credit risk product — climbed to its highest rate in nearly a decade. Inflation, natural disasters, and falling personal savings are making it more difficult for members to pay mortgages on time.

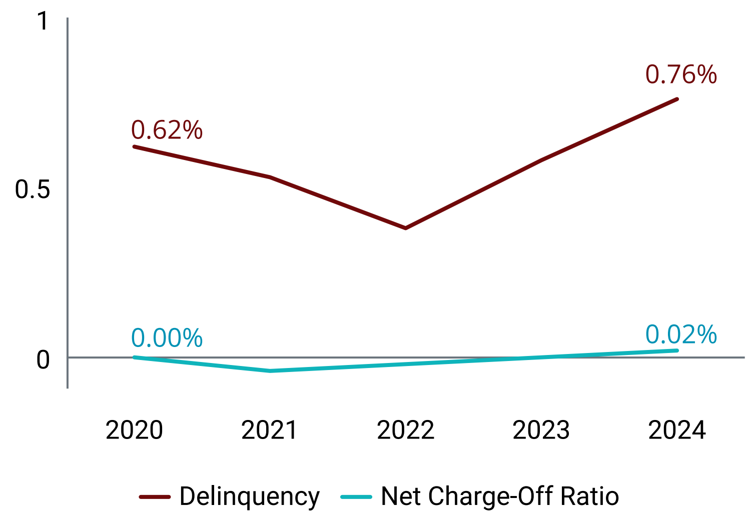
According to data from the Mortgage Bankers Association, delinquency is rising particularly in FHA lending , which is a popular option for first-time homebuyers and those with lower credit scores or income. These are the borrowers who need credit unions' help the most.



Other Real Estate Asset Quality

Other real estate loans faced a similar challenge. Delinquency in this product type was up 18 basis points annually. These loans typically include HELOCs, which are ideal for homeowners who find themselves in need of extra cash.

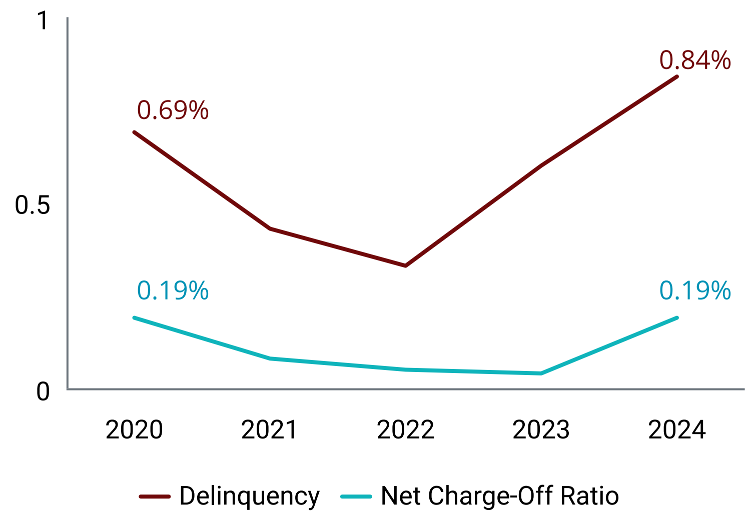
It is uncommon for credit unions to charge-off real estate revolving lines, not only because they're collateralized but also because members struggling to repay a HELOC can often refinance or take out a new loan. This level of security makes HELOCs a valuable product for credit unions that want to support cash-strapped members.



Commercial Asset Quality

Commercial loan balances have consistently grown at an annual double-digit pace for more than five years; however, late payments are up here, too. Businesses are struggling with inflationary production costs, and the popularity of remote work has increased vacancies in office buildings. Both have contributed to a 39-basis-point deterioration in asset quality in the past year.

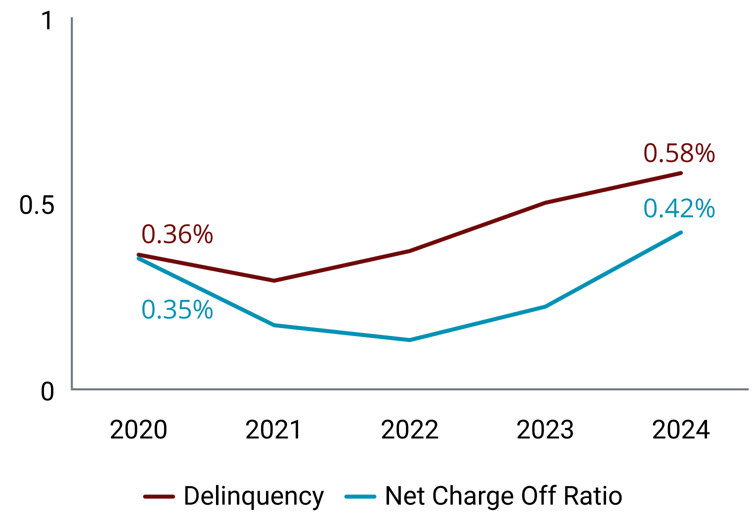
Despite strong growth, commercial lending only comprises roughly 10% of credit union loan portfolios. Ongoing pressure to reduce interest rates and better refinancing opportunities might help soften this delinquency in the future.



New Auto Asset Quality

New auto loan delinquency rose 8 basis points annually to reach 0.58% at year-end. The net charge-off ratio nearly doubled. Consequently, the asset quality ratio increased 28 basis points. Auto loans, the bread and butter of many credit unions, often reflect the financial situation at home.

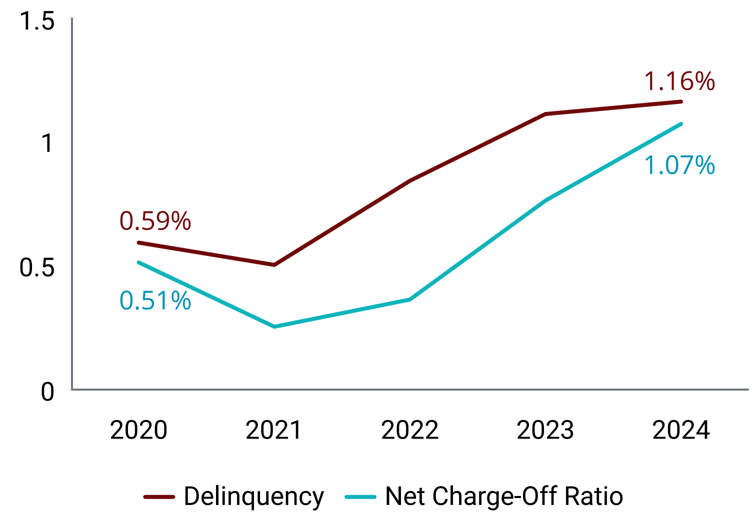
The end of the year always brings with it spikes in both delinquency and charge-off rates. However, most members need a car to get to work and earn an income, so helping them access one remains a valuable source of support.



Used Auto Asset Quality

Used auto delinquency rose just 5 basis points during the year to 1.16%. However, net charge-offs surged 31 basis points to 1.07%. Clearly, credit unions decided to cut bait on a chunk of their portfolios, most commonly in the indirect portfolio.

In the past, credit unions have relied heavily on indirect channels to attract members and loans. Recently, however, there has been a widespread shift to refocus on direct, core members. This strategy could prove beneficial for auto delinquency rates in the future.



Credit Card Asset Quality

When it comes to balances, credit cards comprise a small sliver of credit union portfolios, but their impact on members is outsized. Members use credit cards to make ends meet. Increased usage and mounting card balances are among the first signs that members are financially struggling. Rising delinquency rates often start here.

Credit card asset quality is known to run higher than other products. In 2024, cooperatives wrote off more than 5% of card balances. Looking ahead, the industry must balance prudent loan management with meaningful member assistance. That's a difficult tightrope to balance, but it's the mission nonetheless.