Credit Union Asset Quality At Mid-Year 2025

Delinquencies climbed across loan types in the second quarter, reversing gains made in the first three months of the year.

Report By

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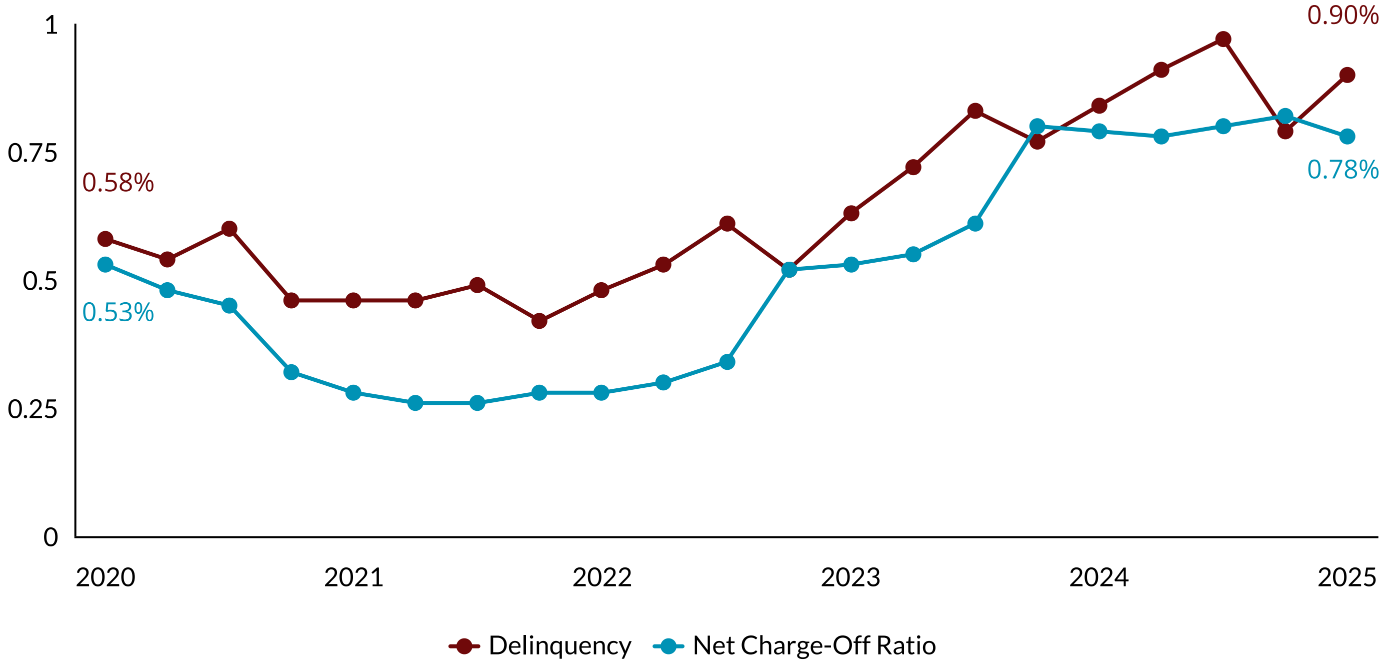
ASSET QUALITY: DELINQUENCY AND NET CHARGE-OFF RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.2025
SOURCE: CALLAHAN & ASSOCIATES



The first quarter of 2025 brought a welcome 18-basis-point drop in delinquency rates — the largest in five years — thanks to seasonal boosts like tax returns and post-holiday savings. At first, this appeared to be a genuine sign of improvement, but second quarter performance reversed this promising trend.

Total loan delinquency climbed from 0.79% to 0.90%, a 6-basis-point increase over the second quarter of 2024. Mortgages alone jumped 24 basis points, the sharpest single quarter increase of any loan type, while delinquency in commercial lending rose for the second consecutive quarter. Together, these two categories account for much of the industrywide deterioration. Worsening quality in mortgages is particularly worrisome. These are typically the last loan type to suffer from delayed repayment, and an increase in delinquency could indicate members are struggling to repay high-value, high-rate mortgages issued during the real estate boom of the past few years

Notably, credit card delinquency *declined* in the second quarter. However, these accounts comprised just 10.8% of total delinquencies, muting the effect on the overall portfolio and providing a strong reminder that lending concentration drives trends and all categories do not move in unison.

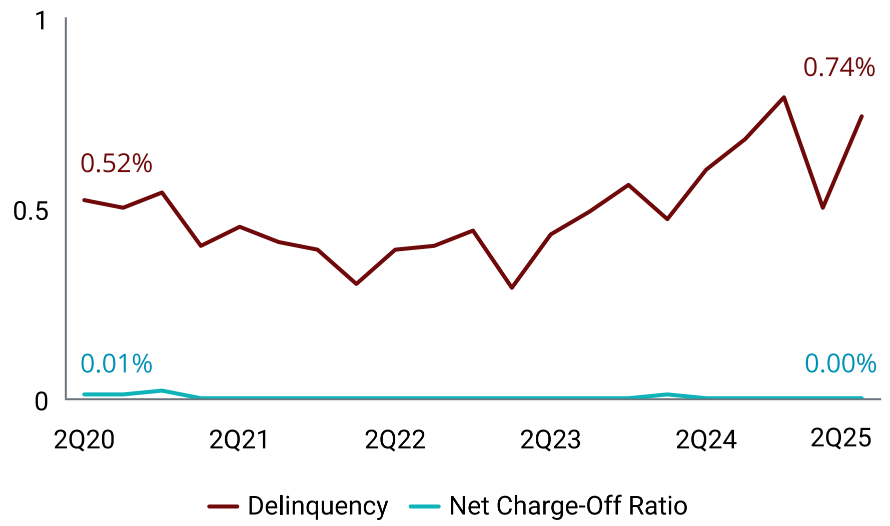
Although credit union delinquency rates rose, net charge-offs fell 4 basis points to 0.78% this quarter, suggesting the decline in asset quality might be more tempered than delinquency rates alone would indicate.

Overall, second quarter performance indicates first quarter improvements were more mirage than momentum. Credit unions would be well-advised to prepare for a challenging environment. Still, the industry’s strong capitalization and coverage ratios give credit unions a healthy foundation from which to support struggling Americans. By strengthening financial education and engaging members early when repayment issues arise, credit unions can safeguard portfolios and reinforce their role as trusted financial partners; further fulfilling their mission and role in the U.S. economy.

First Mortgage Asset Quality

First mortgage delinquency at credit unions increased 24 basis points in the second quarter, the sharpest increase of any loan type and a reversal from the improvement reported earlier in the year. This comes even as national averages reported by the Mortgage Bankers Association showed repayment improvements across conventional, FHA, and VA loans this quarter.

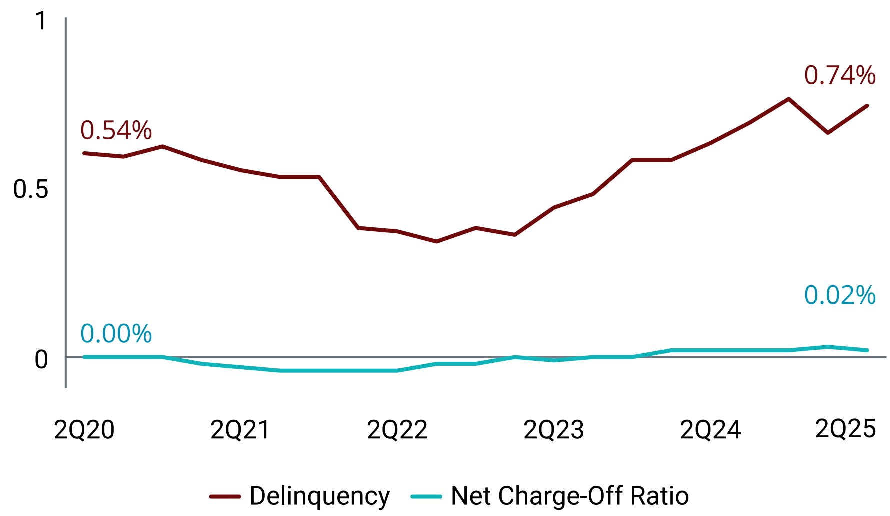
Mortgages are usually the last loan type to show repayment stress, and this rise in delinquencies is a troubling sign.



Other Real Estate Asset Quality

Other real estate delinquency rose 8 basis points this quarter. Net charge-offs fell slightly to 0.02%, suggesting credit unions are actively working with members to prevent losses.

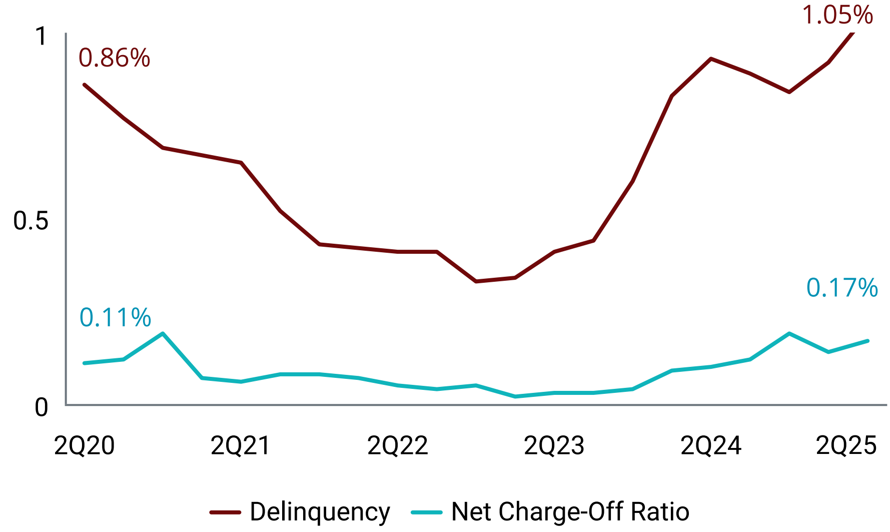
Other real estate loans often include HELOCs, which are popular among homeowners looking for cash. Elevated home prices and equity levels have supported loan demand, but repayment difficulties are becoming evident. Credit unions frequently work with members to avoid charging off a HELOC, but sustained pressure might warrant a closer look at underwriting standards and member repayment capacity.



Commercial Asset Quality

Commercial loan delinquency rose again for the second straight quarter. Net charge-offs also inched higher as repayment issues started to turn into realized losses.

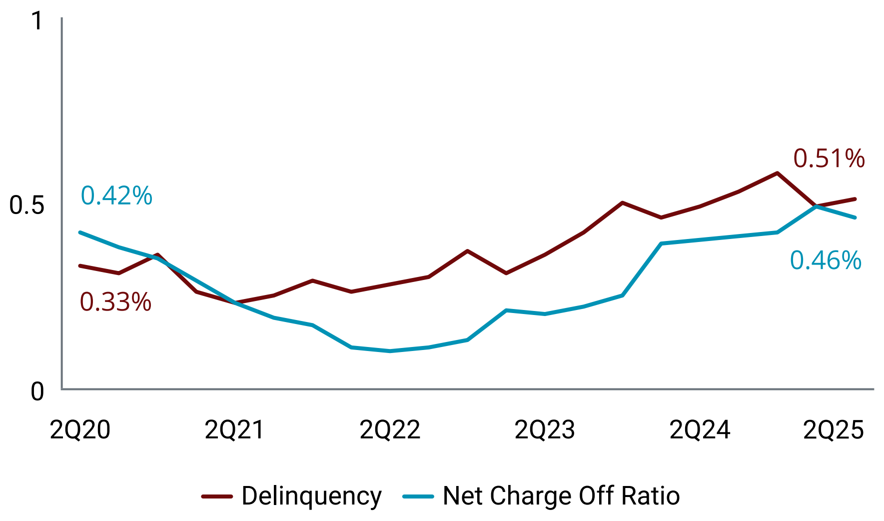
Commercial loans have posted double-digit quarterly growth during the past five years and accounted for 11% of total outstanding balances at midyear. Although at 12.7% they remain a smaller share of delinquent balances, their steady upward trend is significant. Elevated borrowing costs, persistent office vacancies, and repricing property values continue to weigh on performance, making this one of the most important areas for credit unions to monitor.



New Auto Asset Quality

Amid the backdrop of increased tariffs and rising interest rates, total vehicle sales fell nearly 14% from last quarter, marking the largest decline since 2021. Credit union auto portfolios also contracted, with balances shrinking by 1.47%. Delinquency in the new auto portfolio edged up only a few basis points; however, repayment performance continues to be a concern as affordability challenges and softer demand weigh on overall lending activity.

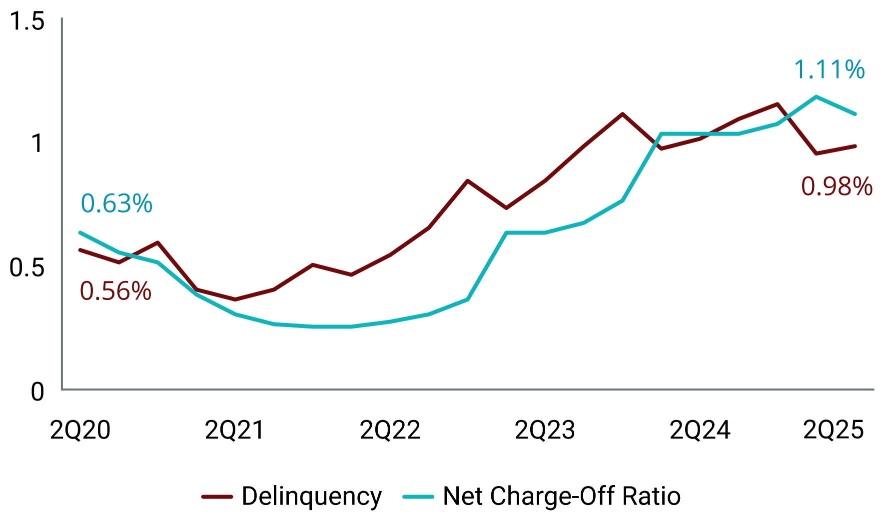
Rising consumer costs and stretched household budgets could strain auto performance even further.



Used Auto Asset Quality

Trends in the used auto portfolio mirrored those in the new. Delinquency and loss levels inched higher, reflecting tighter borrower budgets and higher loan-to-value ratios. Elevated secondary market prices in recent years left some borrowers overextended, making repayment harder as rates and living costs climb.

Notably, used autos represent approximately 21% of delinquent loans at credit unions. Even small quarter-to-quarter changes carry weight, making this a segment to watch closely.



Credit Card Asset Quality

Credit card delinquency and net charge-offs improved 8 and 17 points, respectively, in the second quarter. Delinquencies reached their lowest level in nearly two years. Although this decline is a welcome shift, credit cards account for only a small share of total delinquent balances, so the improvement does little to move total asset quality.

Credit cards still remain structurally riskier than most other loan types. Borrowers use them for daily purchases and emergency expenses, leaving repayment sensitive to inflation, interest rates, and household budget pressures. Performance pressures might have eased for now, but continued economic strain could quickly reverse the trend.