

The Economy and Credit Unions

Federation and Community Credit Union Conference

November 16, 2016

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Credit Union National Association

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Agenda

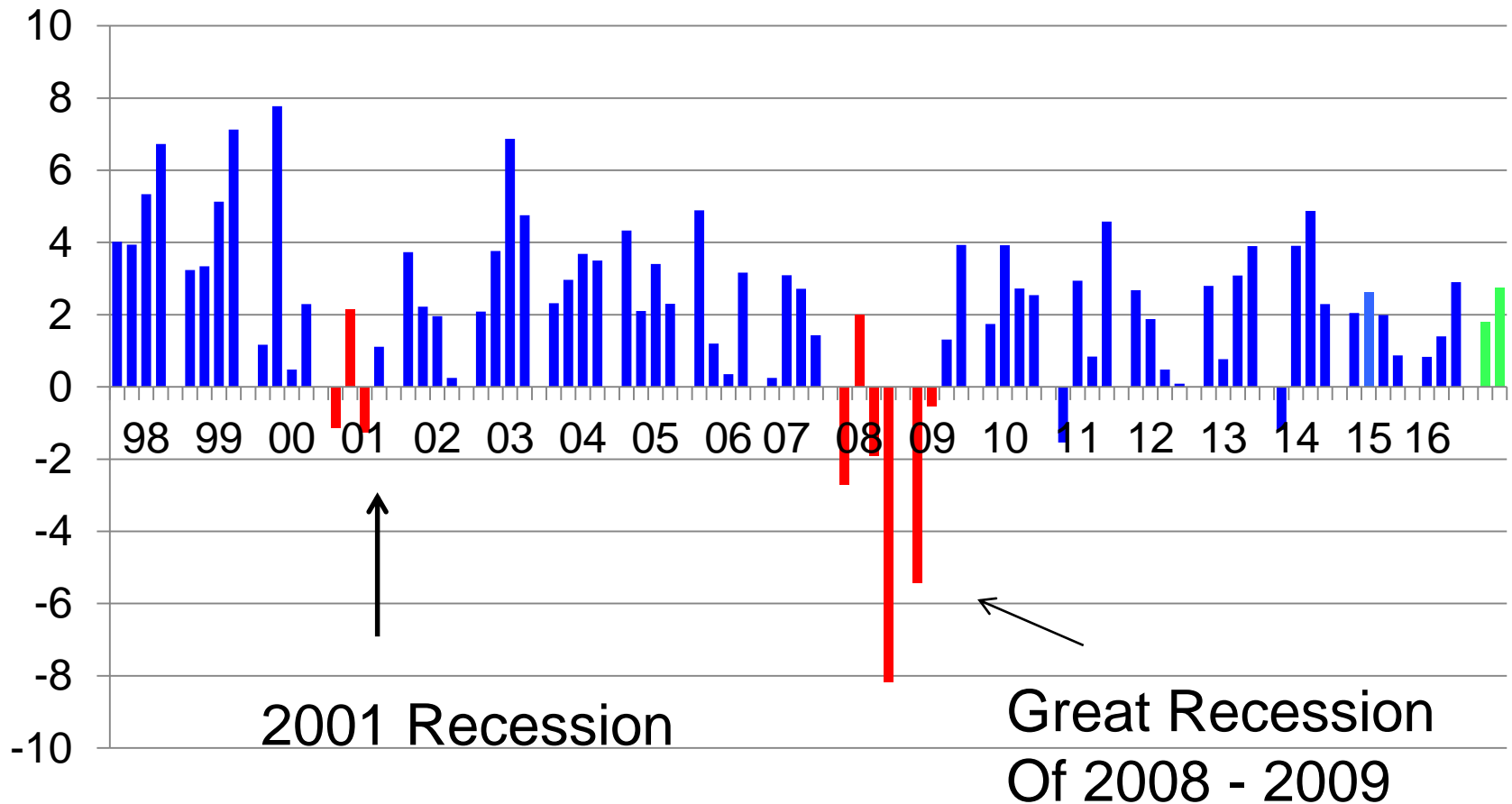
- The economic outlook through 2017
- Credit union finance issues

Economic Summary

- Beginning eighth year of recovery.
- Approaching full employment, but still some slack.
- Inflation outlook moderate.
- Interest rates poised to start rising.
- External risks overstated, not life threatening.

Gross Domestic Product

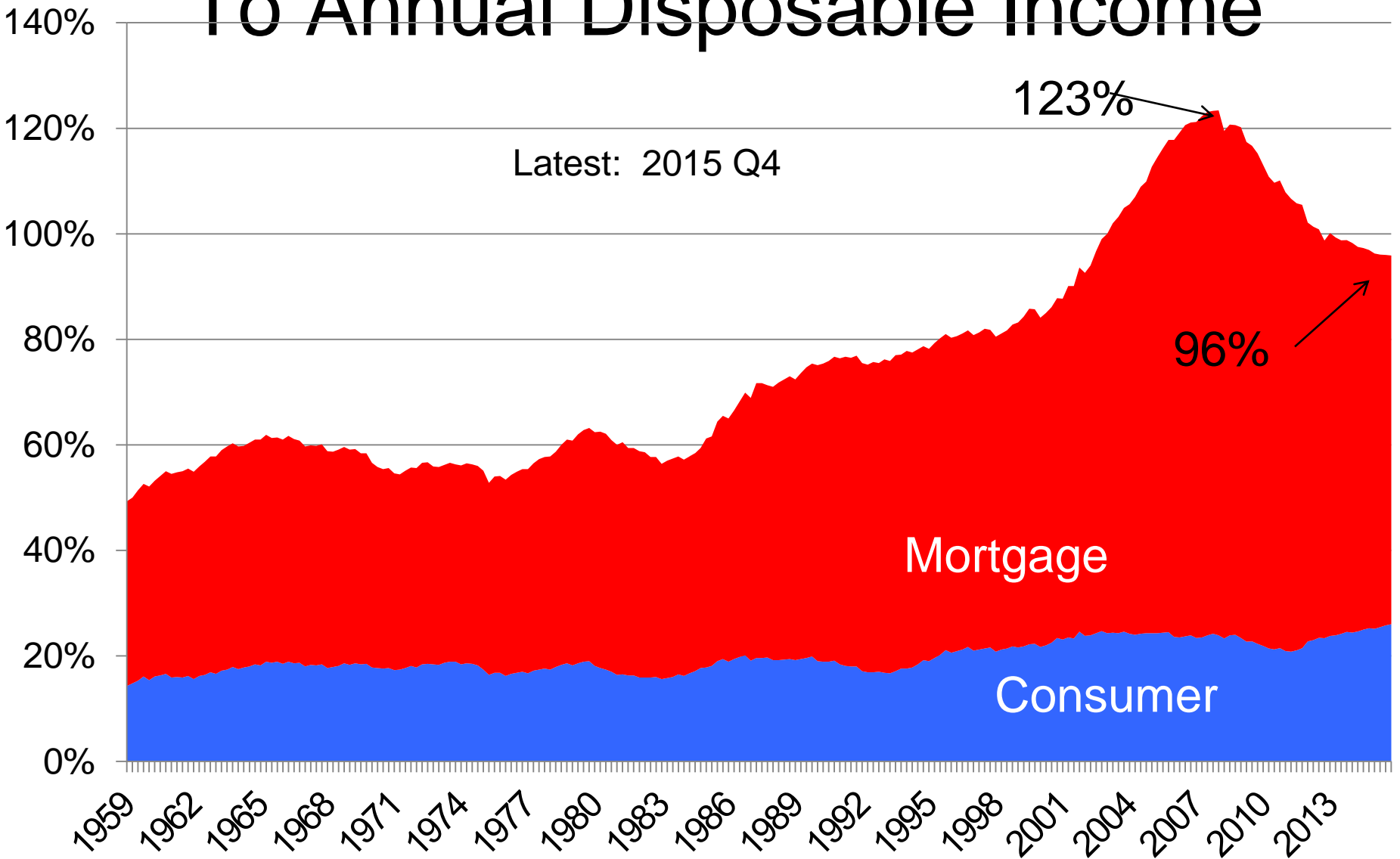
Quarterly Changes at Annual Rates, Real



Household Finances

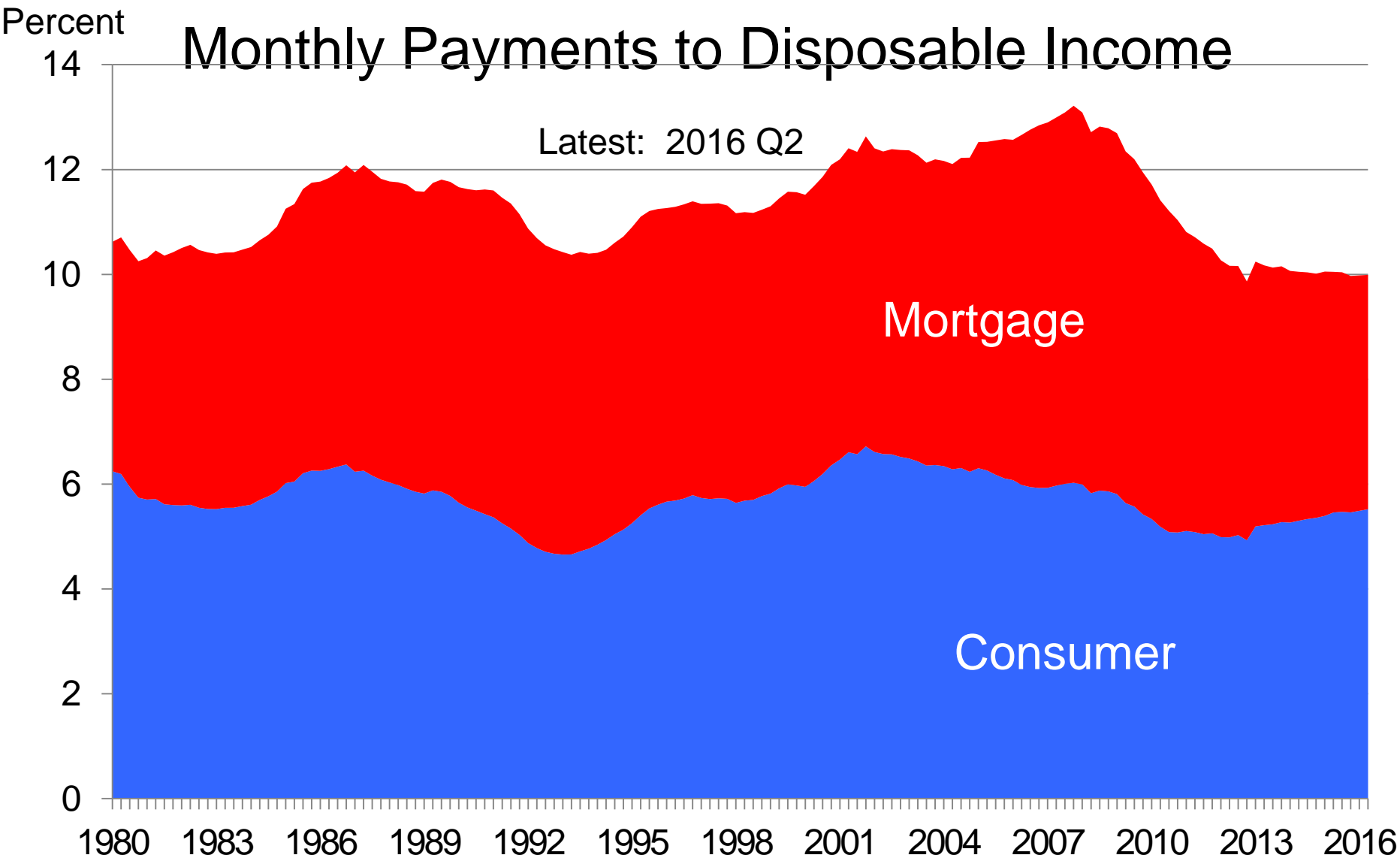
- Recovered:
 - Debt payments low
 - Stock market recovered, but touchy
 - Home prices recovered
 - Jobs and incomes
- But still room for further improvement:
 - Debt outstanding still relatively high
 - Labor force participation rate
- Improved ability to spend, willingness finally catching up
- Demand backlogs

Household Debt Outstanding To Annual Disposable Income



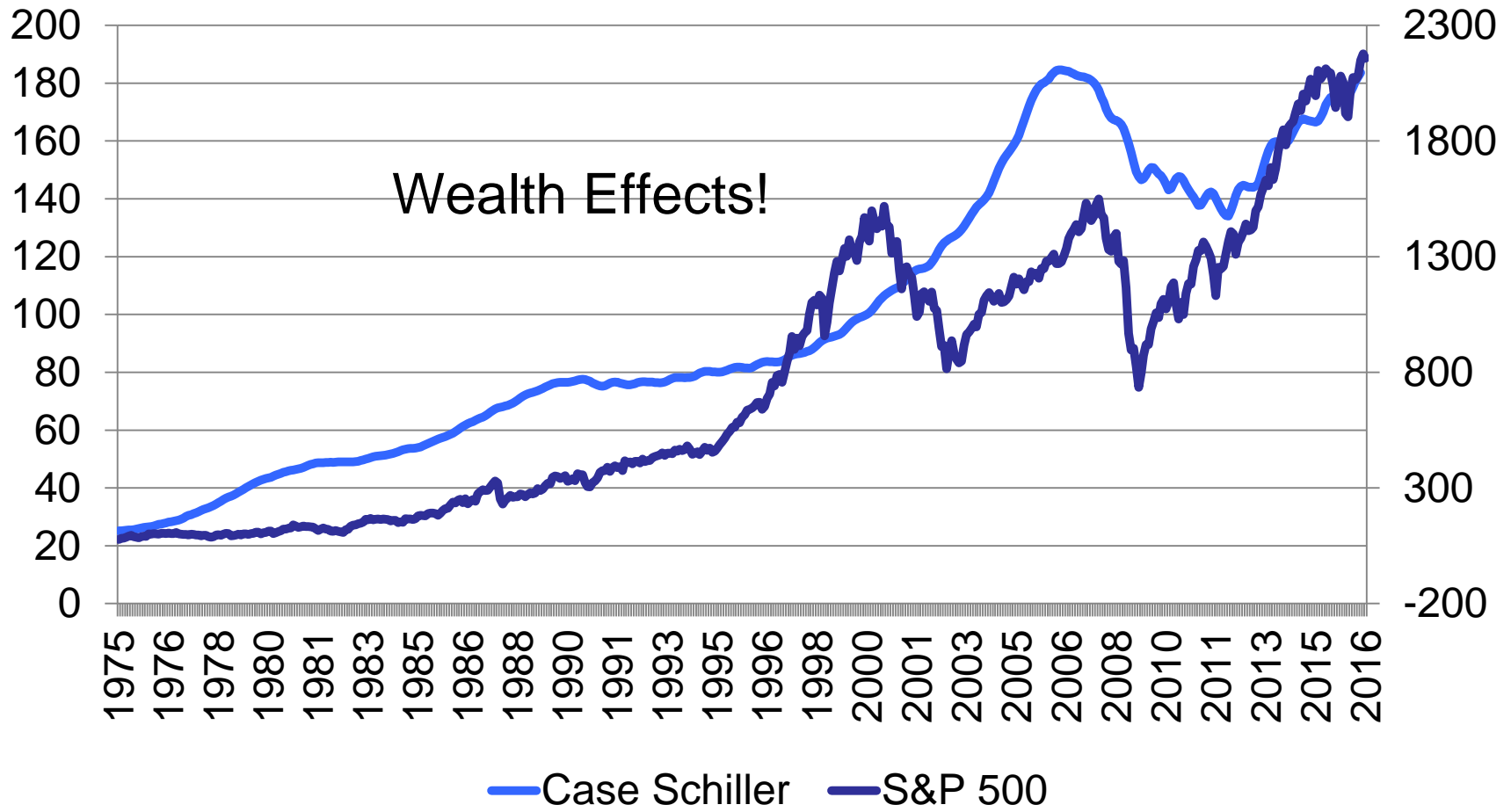
Household Debt Service Ratio

Monthly Payments to Disposable Income

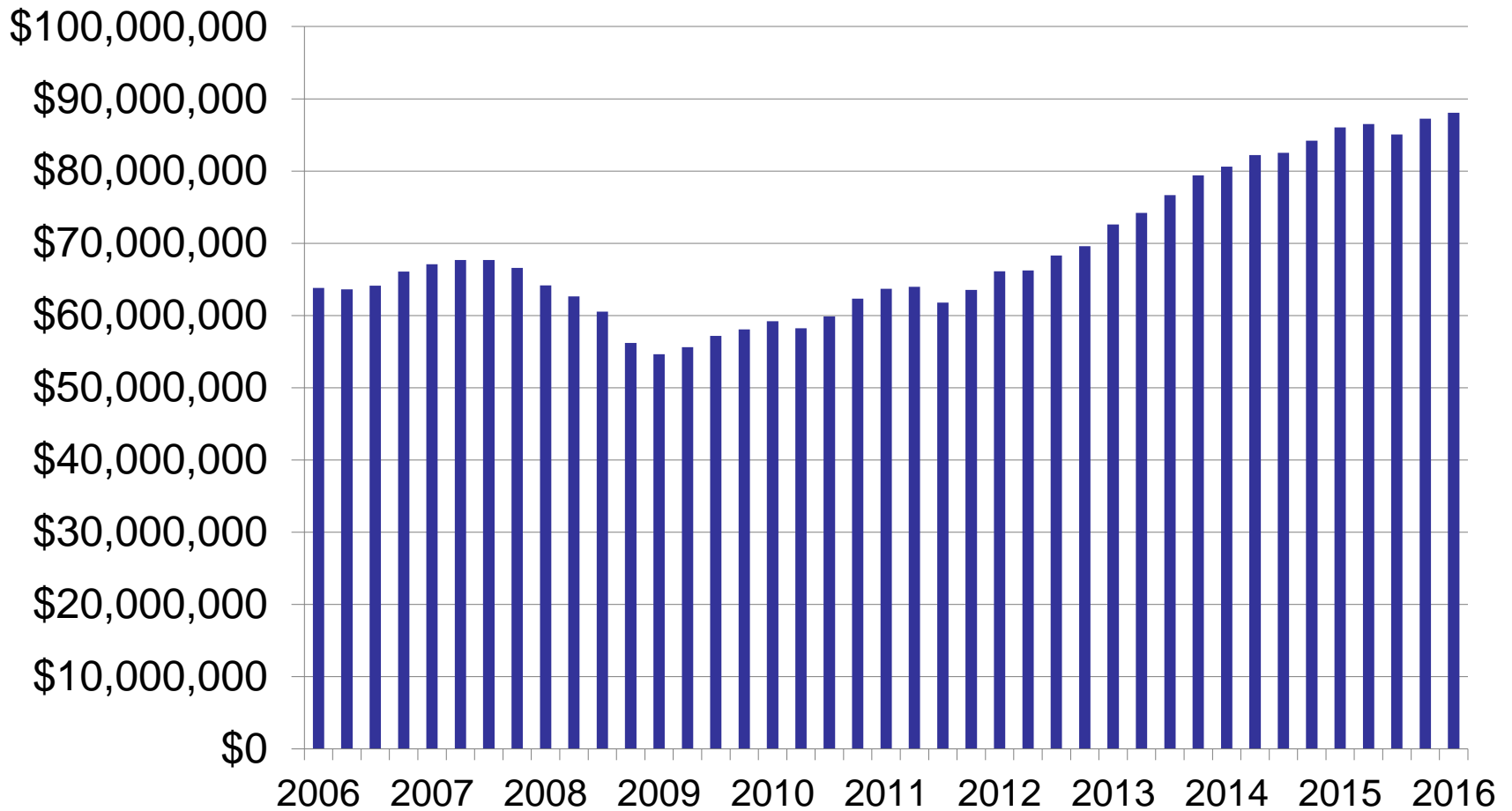


US Home vs. Stock Prices

Case-Schiller National Index, S&P 500

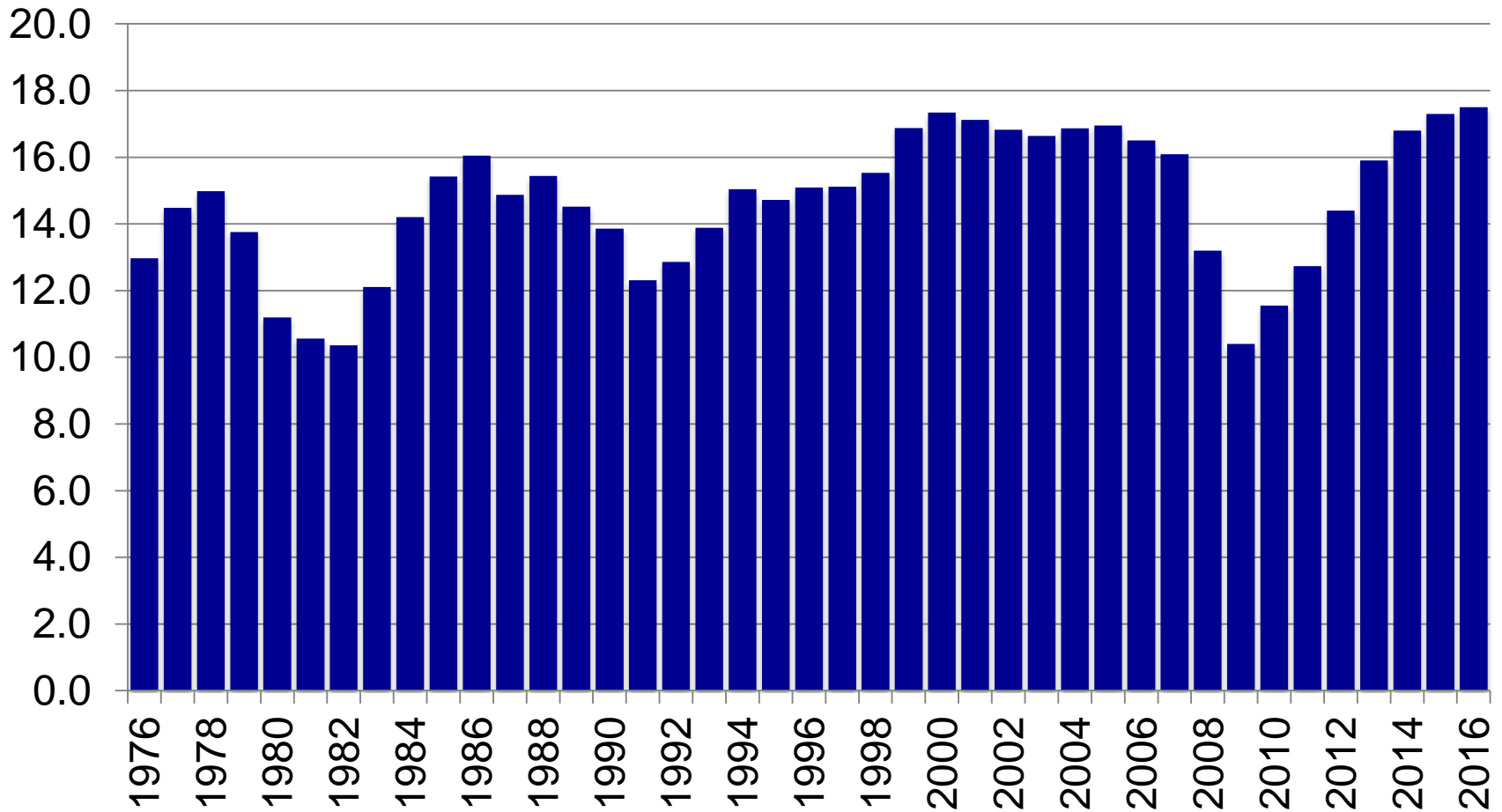


Household Net Worth



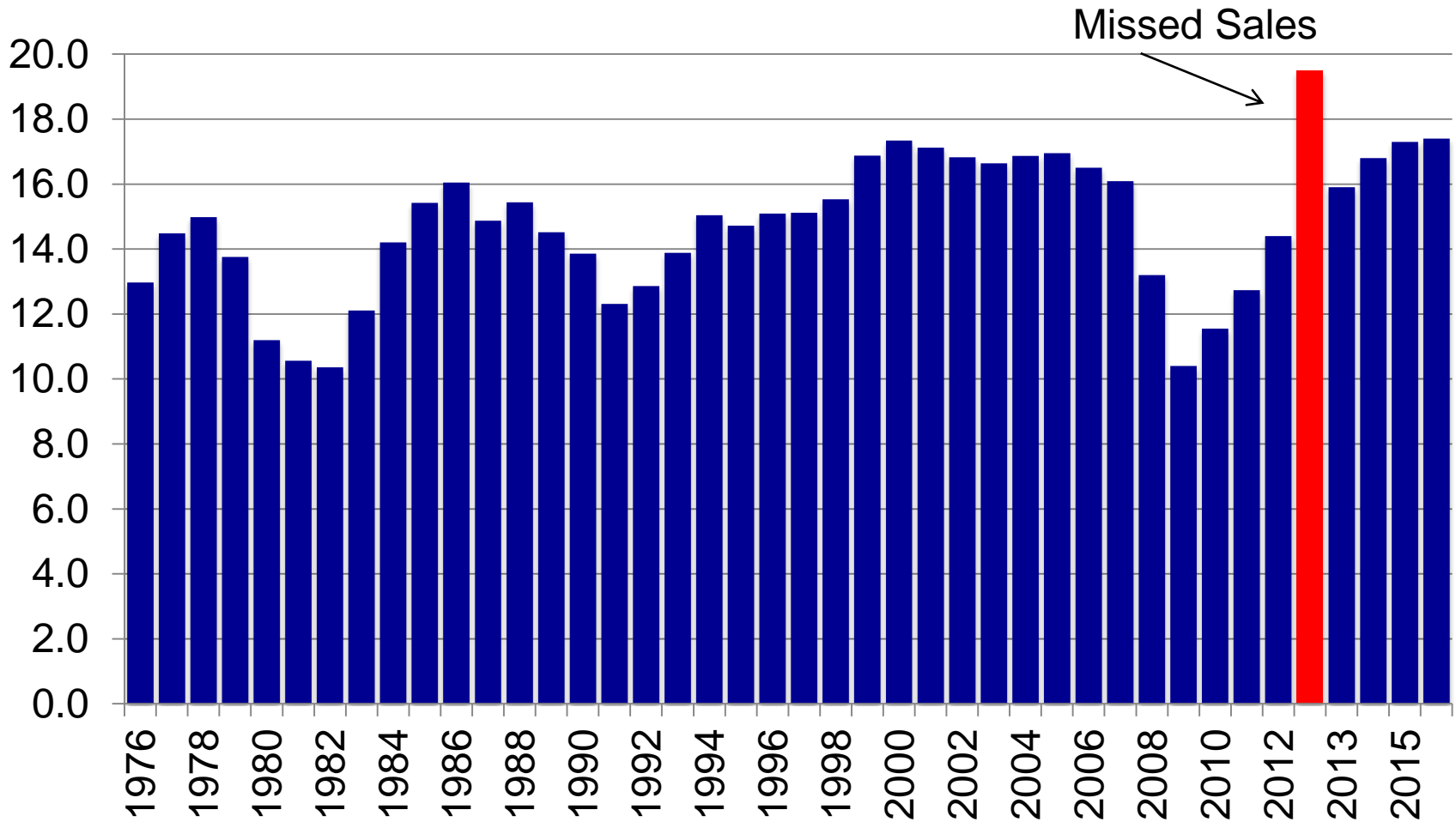
Annual Light Vehicle Sales

Millions



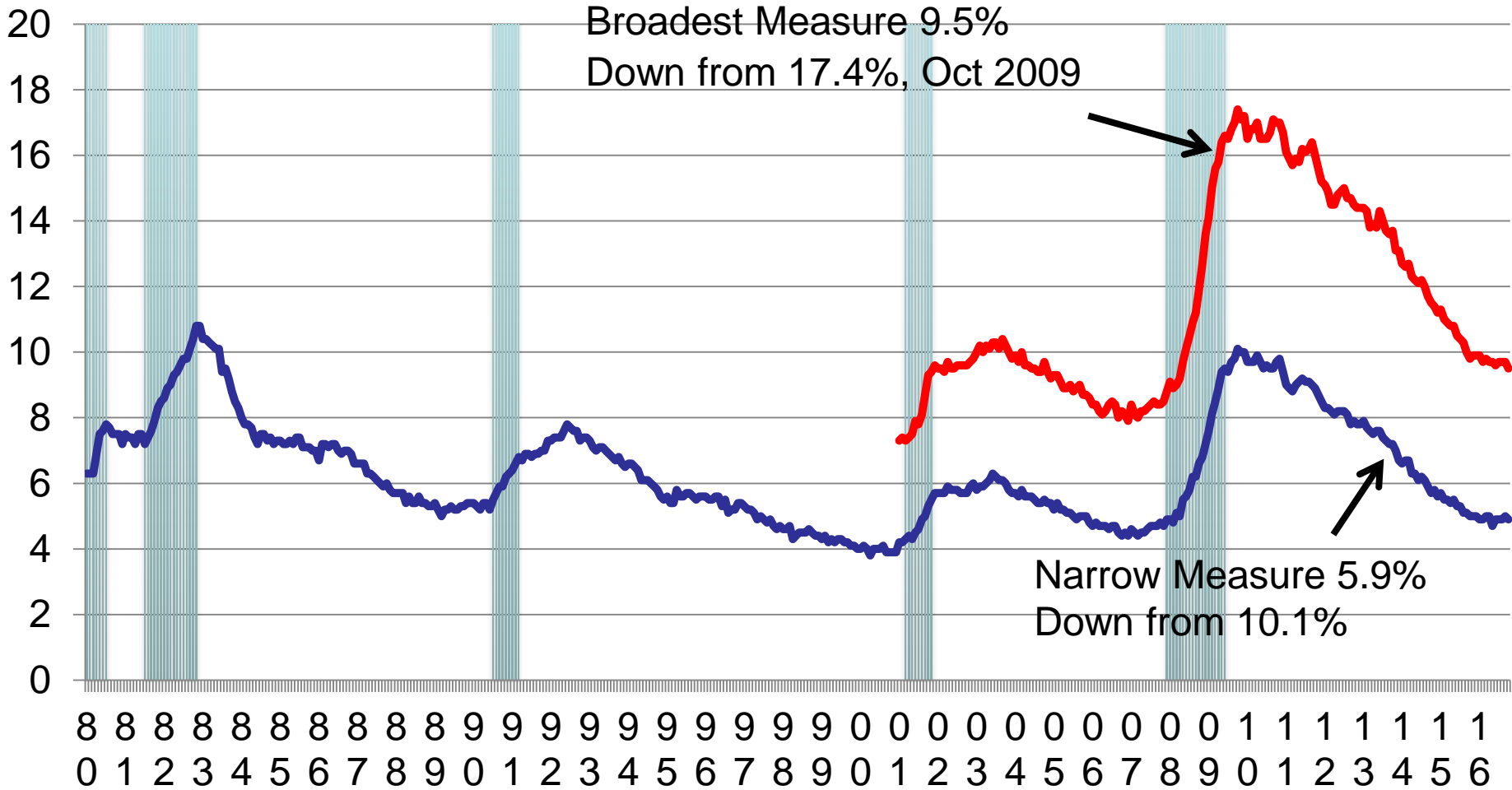
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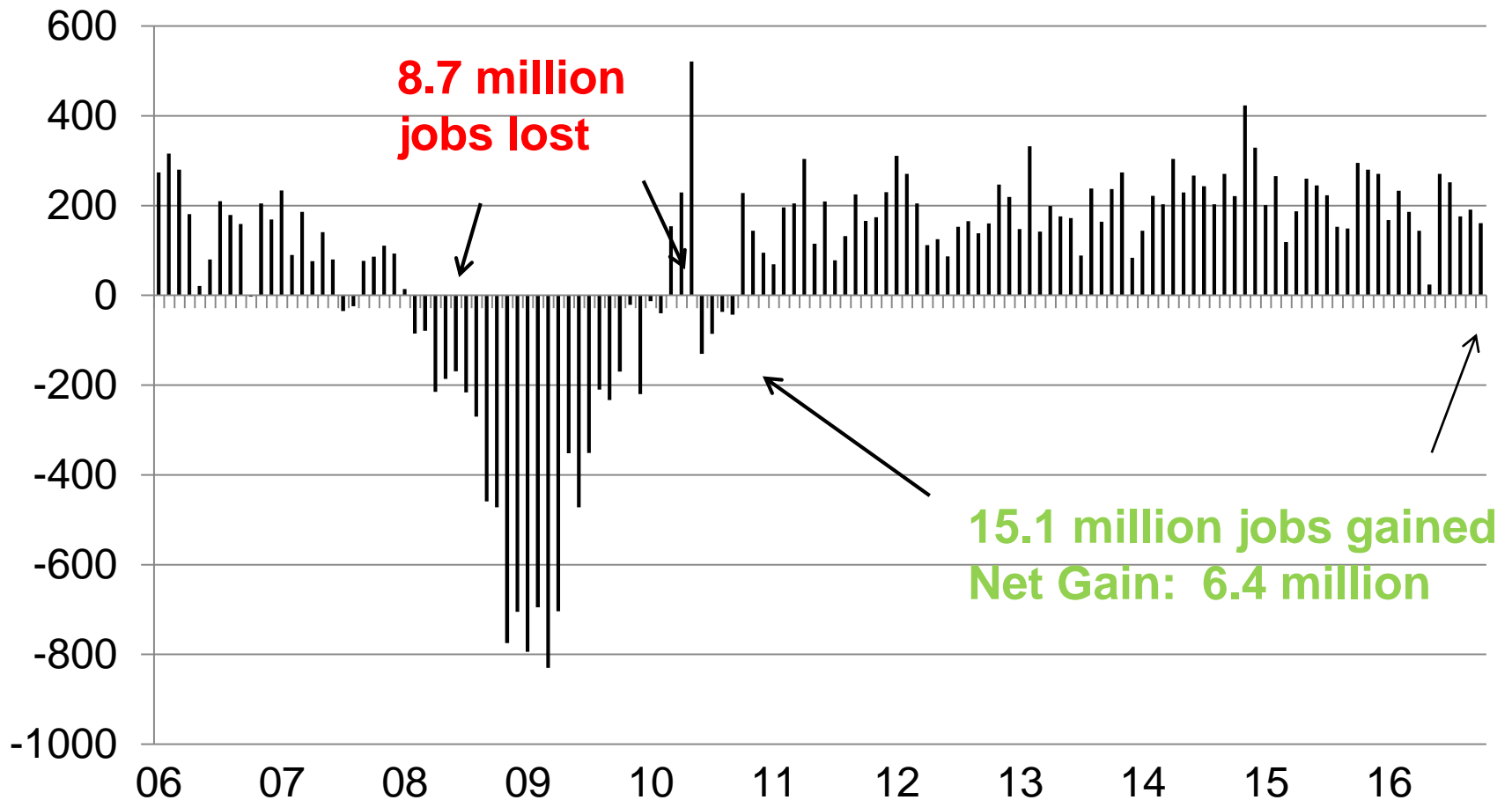
Unemployment Rates and Recessions

Percent of the Labor Force

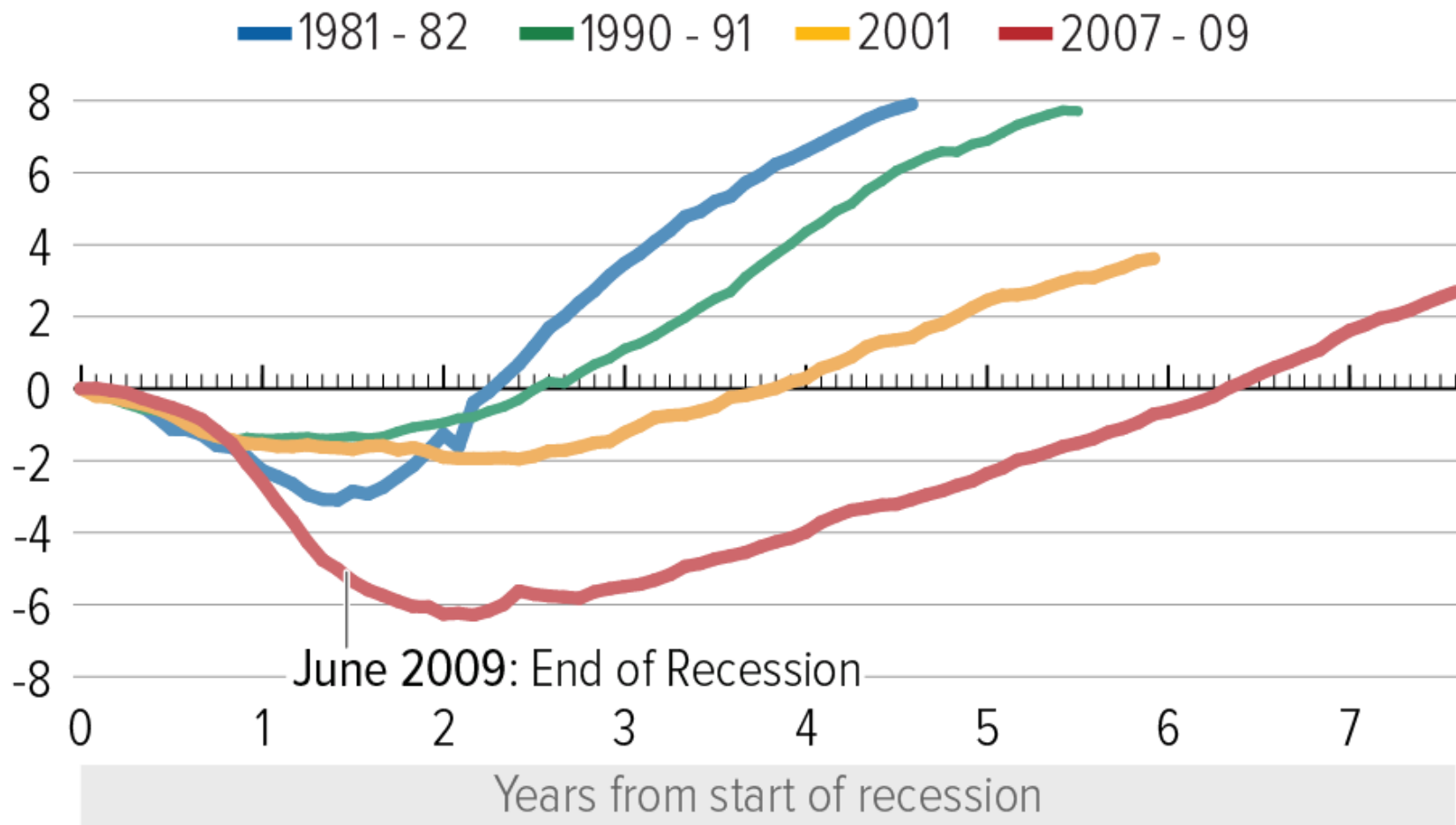


Non-Farm Payrolls

Monthly Changes SA, to October 2016



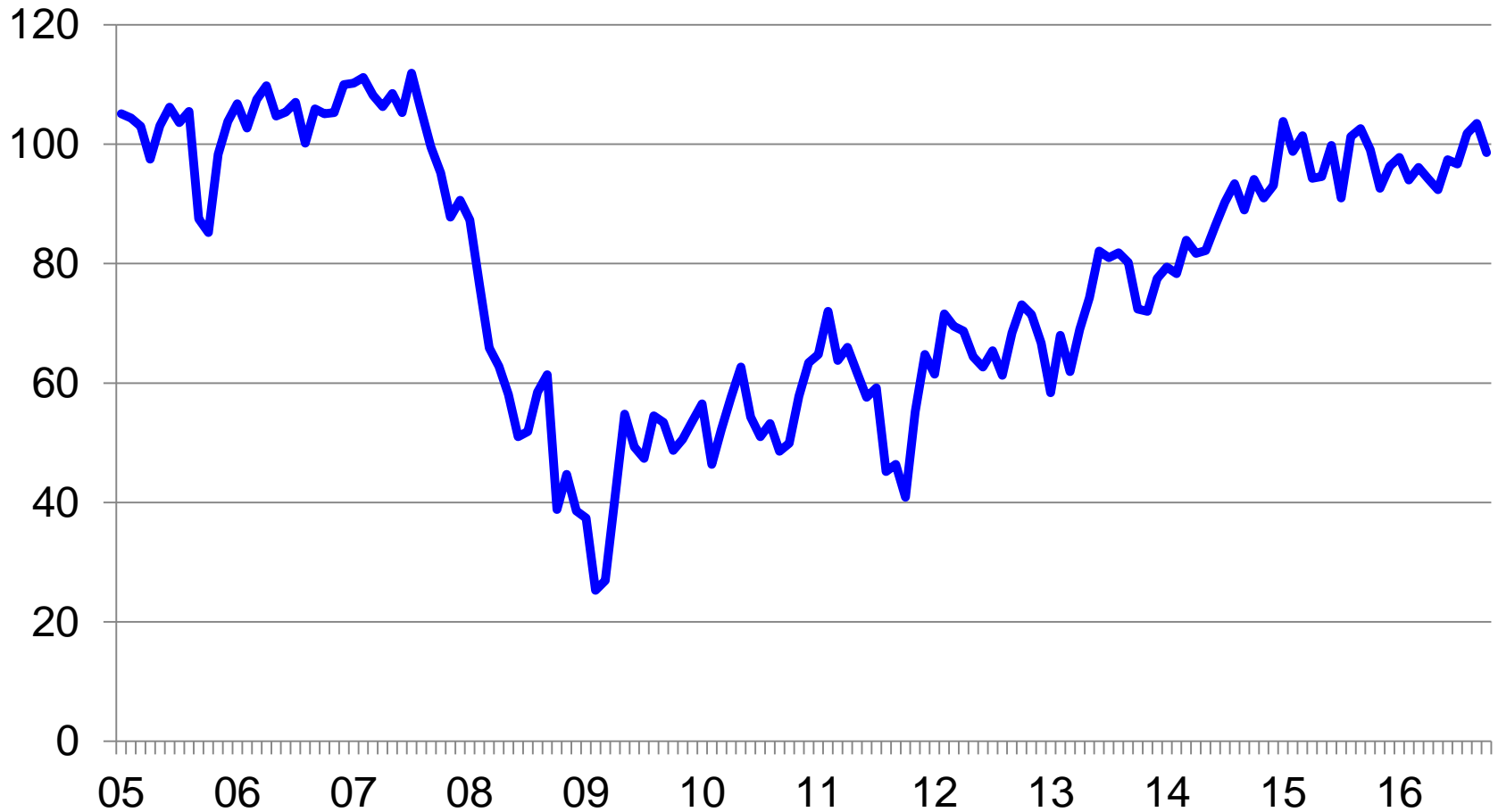
Percent Change in Nonfarm Payroll Employment Since Start of Recession



Source: CBPP calculations from Bureau of Labor Statistics data.

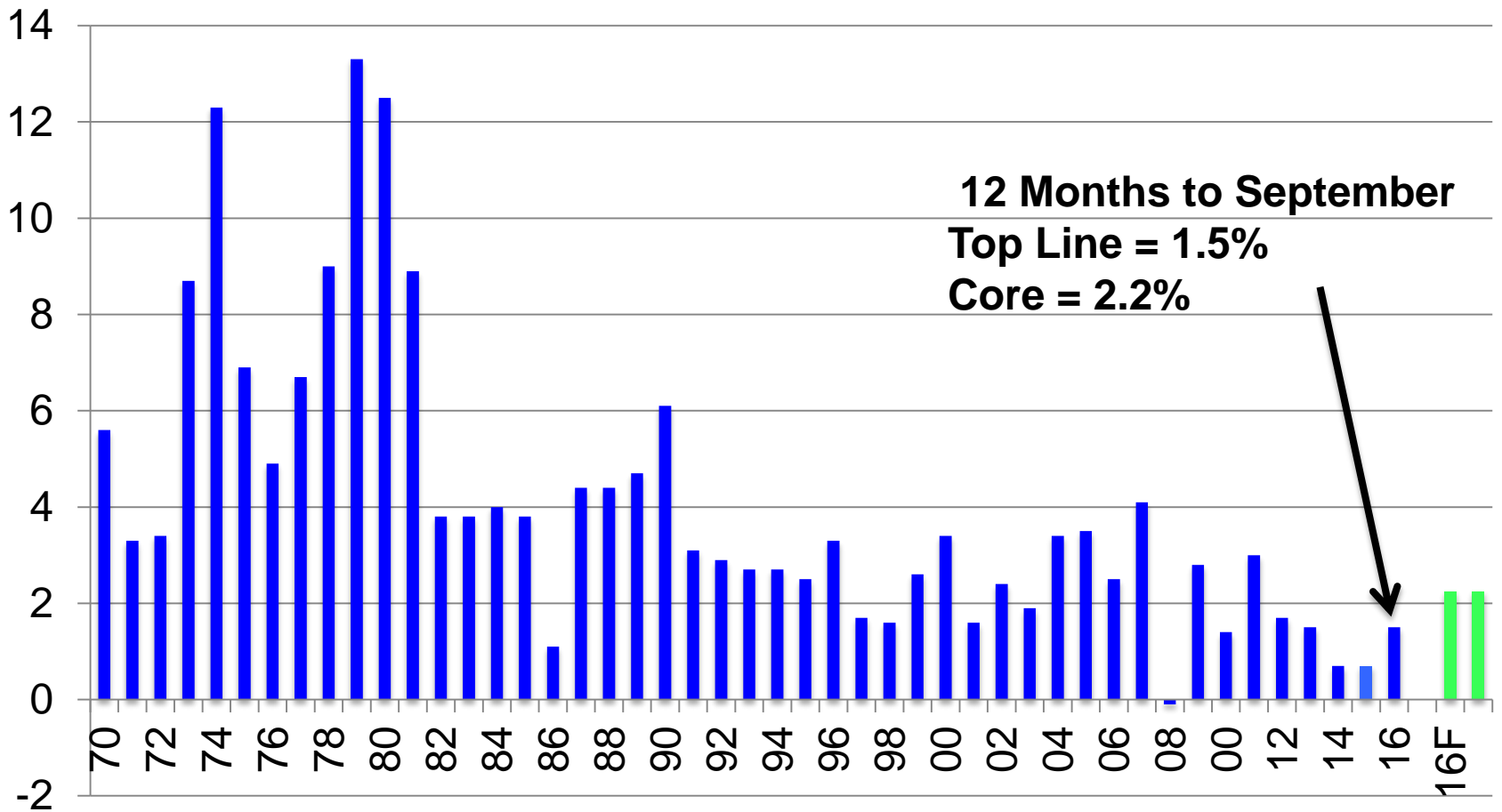
Consumer Confidence?

Conference Board



Consumer Price Inflation

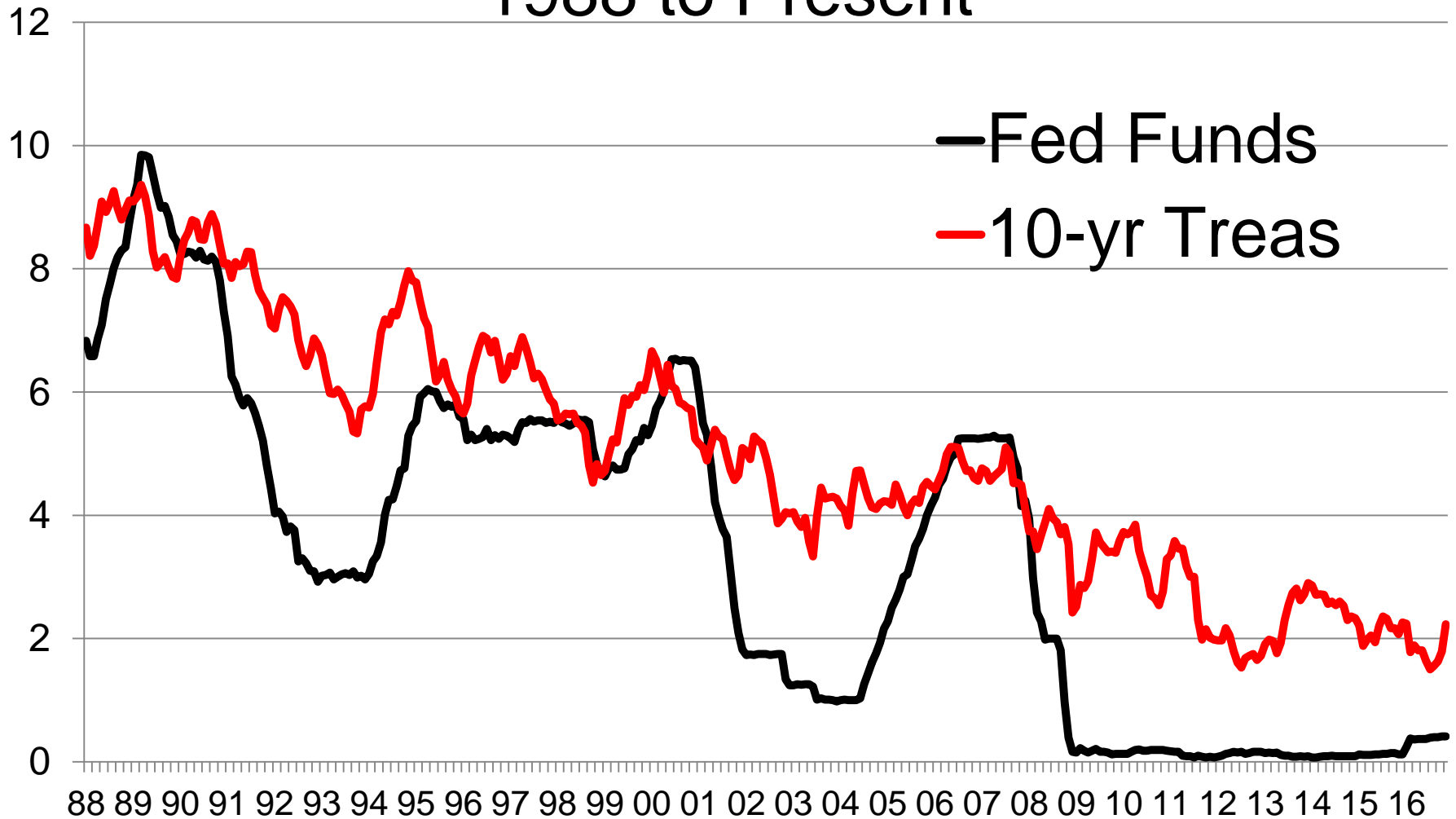
1970 to Present, Annual Rates



Interest Rate Outlook

Interest Rates

1988 to Present

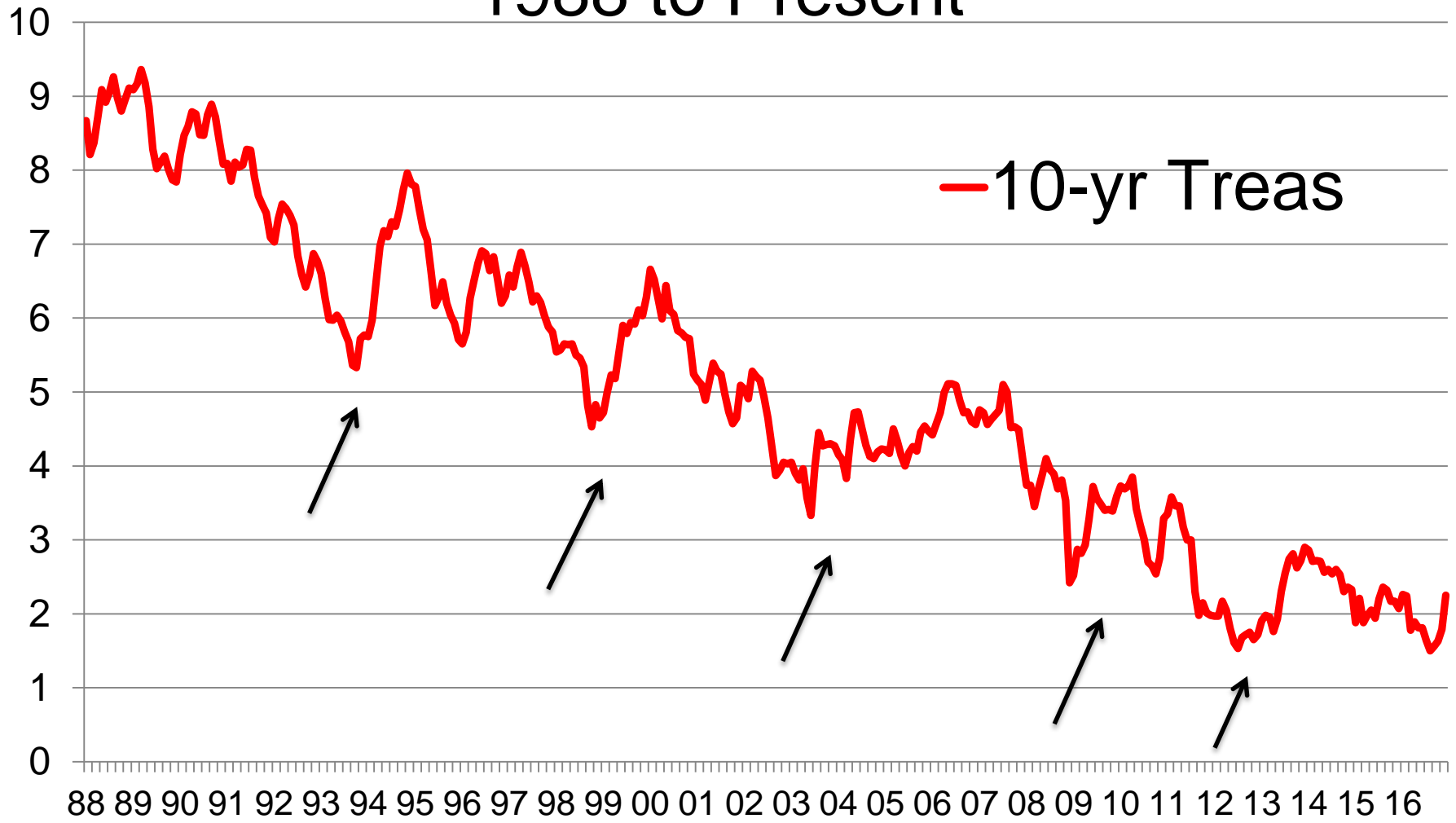


Watching the Fed

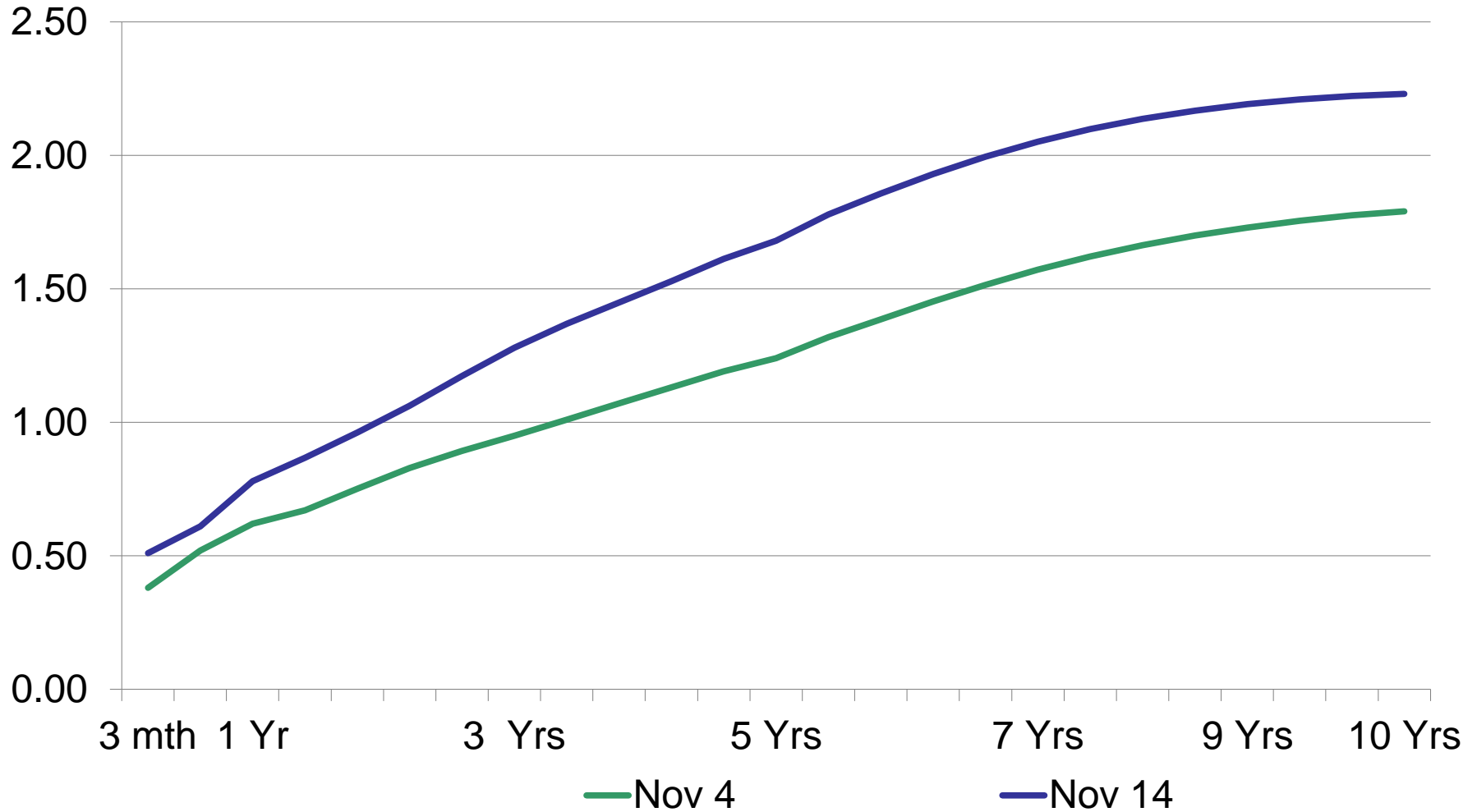
- Inflation approaching target.
- But we exist in international financial markets.
- How many Fed Funds rate moves next year:
 - 0, 2, 4?
- Longer-term rates.
- Liquidity vs. NEV or Net Interest Income

Interest Rates and Mortgage Refis

1988 to Present



Treasury Yield Curves



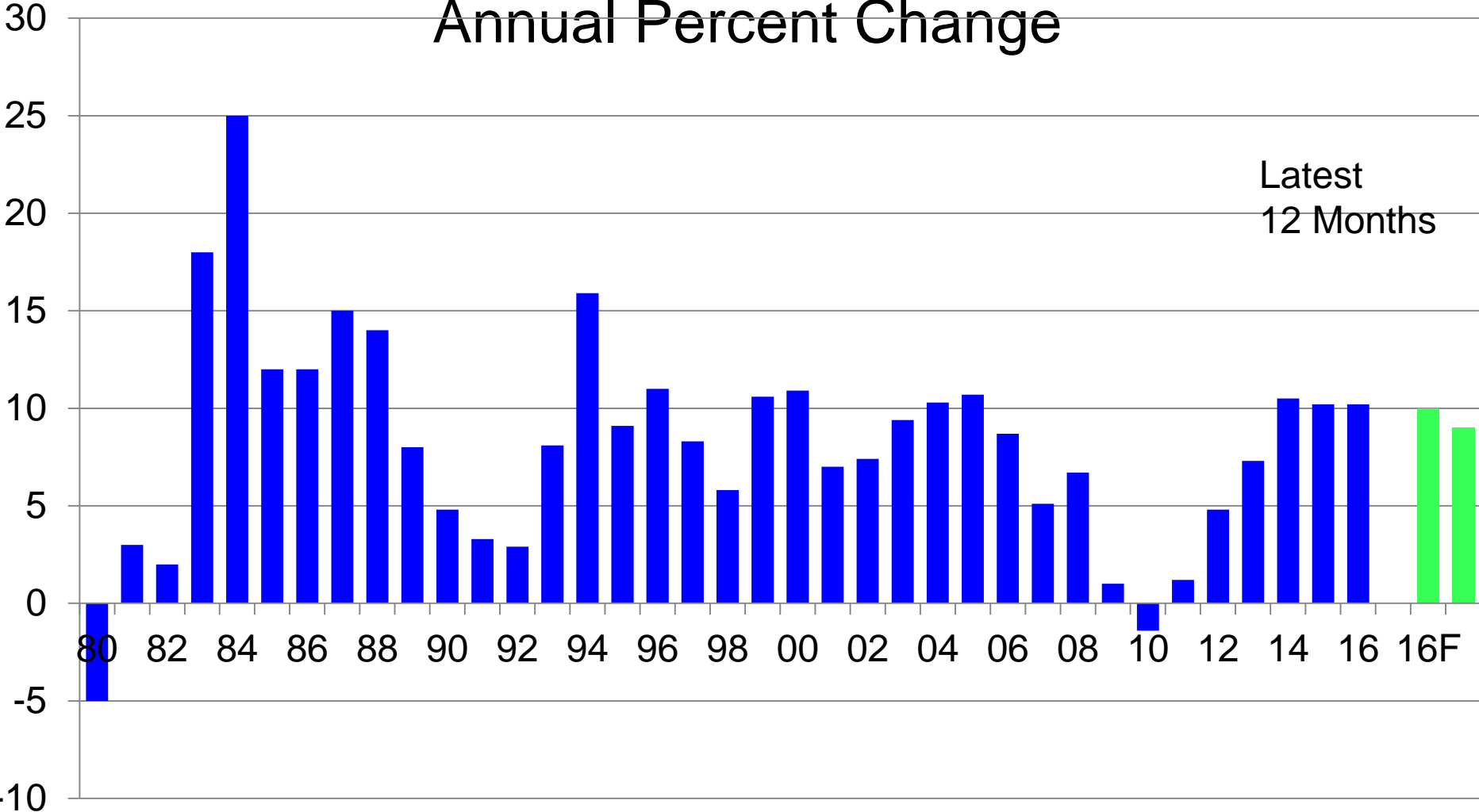
Credit Union Outlook Through 2017

- Moderate savings and asset growth
 - Low interest rates
 - Rising short rates?
 - Consumer spending growth
- Strong loan growth
 - More jobs, spending
 - Still backlogs
- Loan delinquencies and losses back to normal
- Mixed outlook for net income
 - See below
- Stable/rising net worth ratios

Credit Union Loan Growth

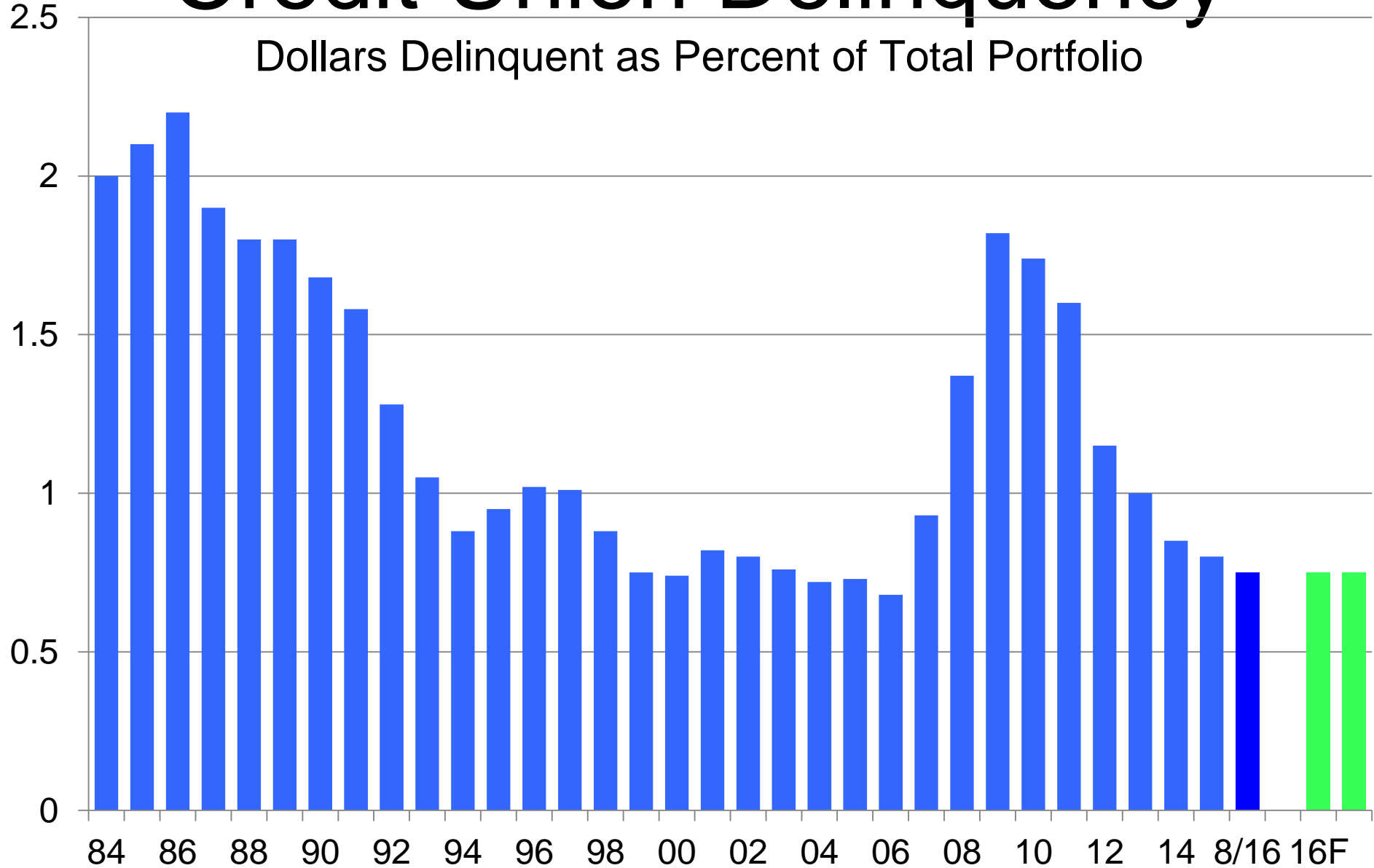
Annual Percent Change

Latest
12 Months



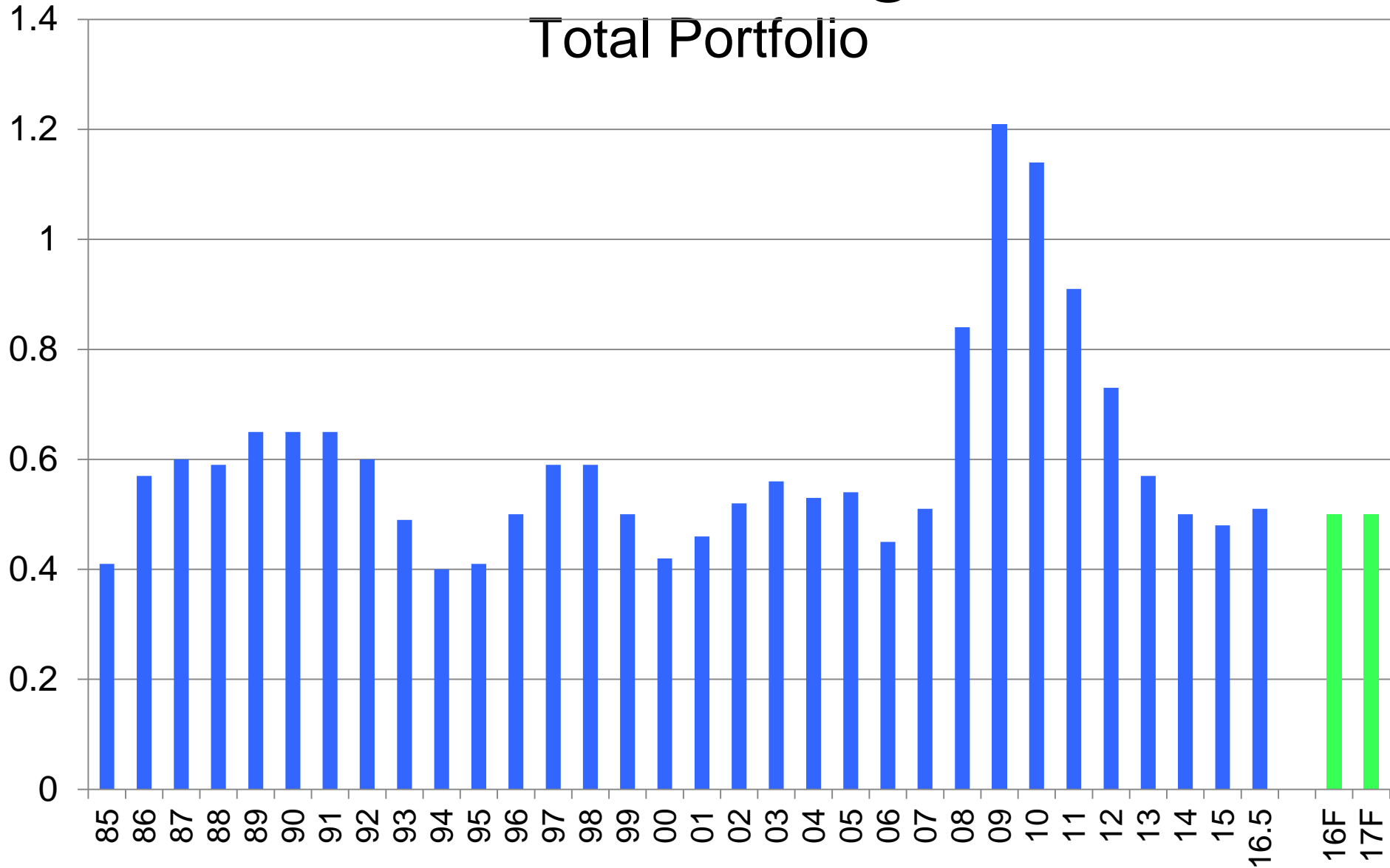
Credit Union Delinquency

Dollars Delinquent as Percent of Total Portfolio



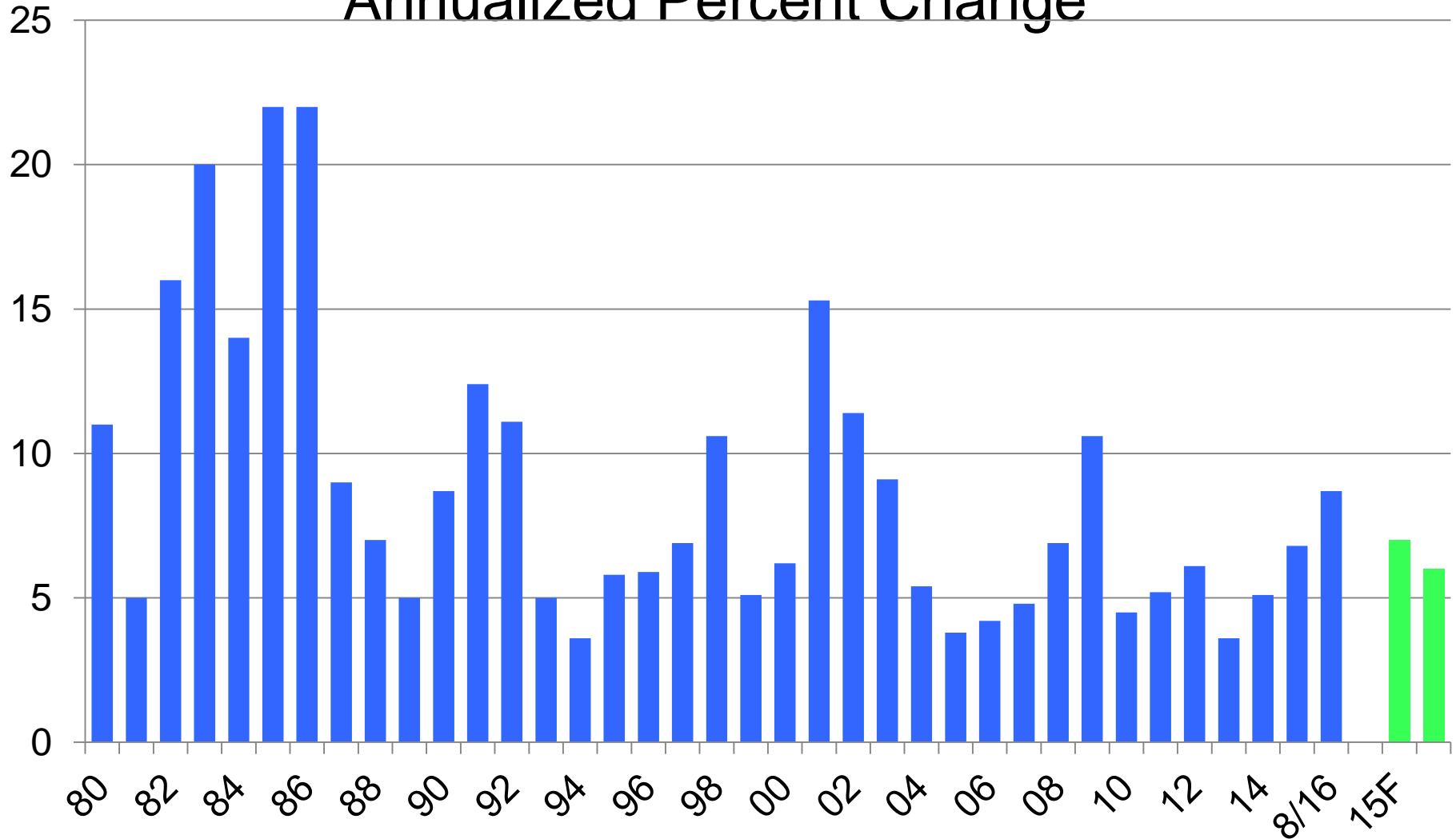
Net Loan Charge-Offs

Total Portfolio

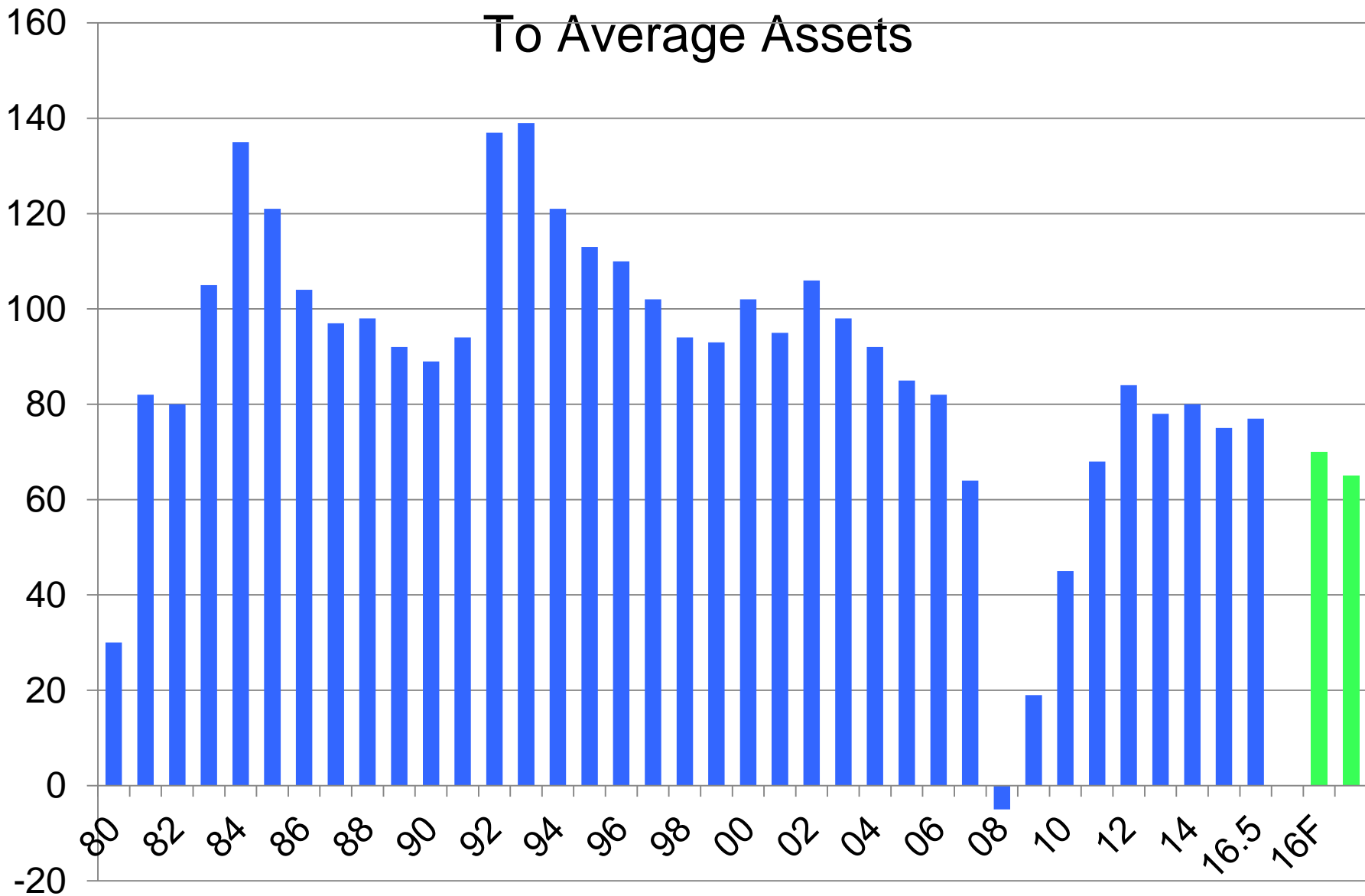


Credit Union Savings Growth

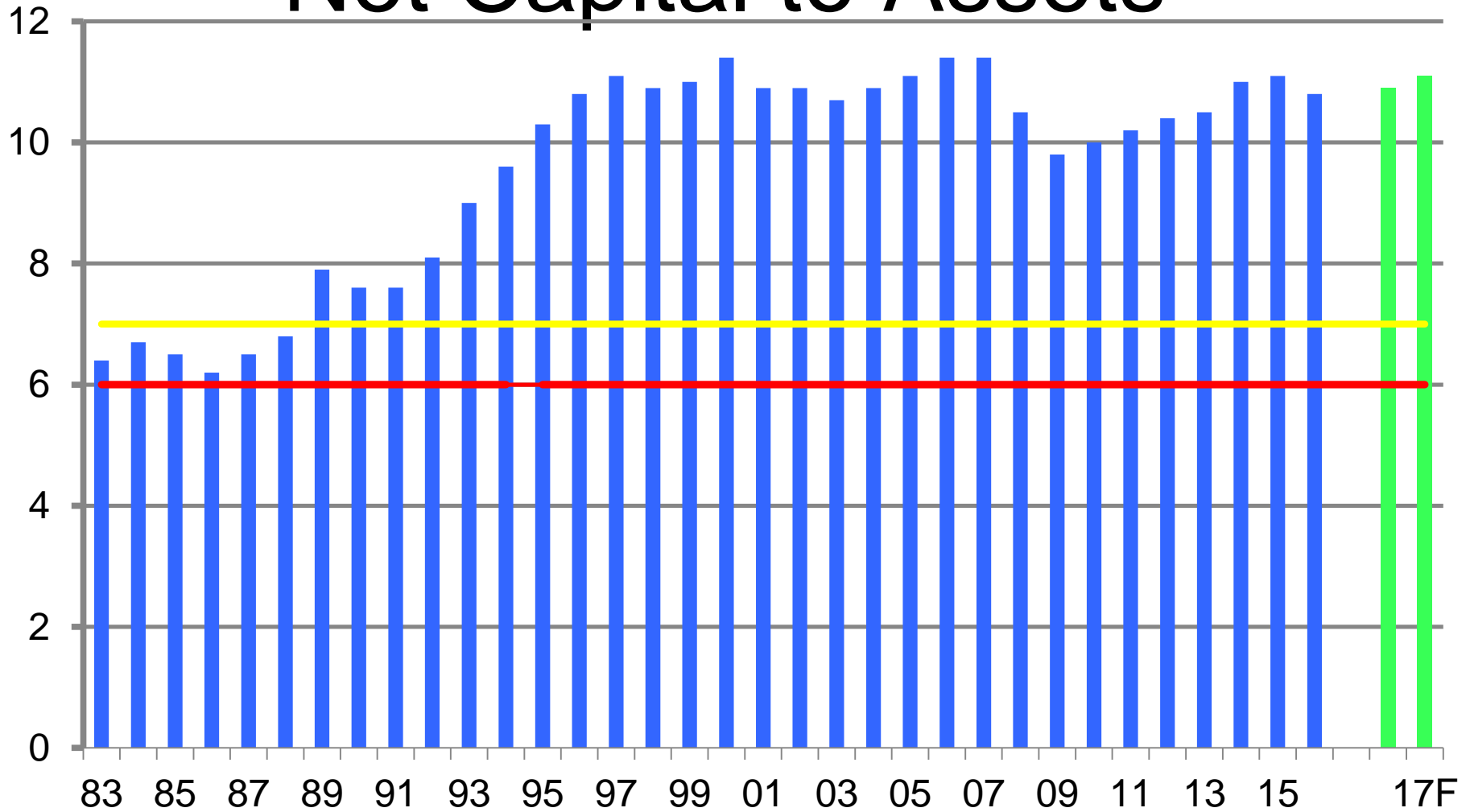
Annualized Percent Change



Credit Union Net Income



Net Capital to Assets



■ U.S. — PCA Well Cap'd — PCA Adequate

What's Driving Earnings?

POSITIVES:

- Finished stabilization assessments

ALMOST POSITIVE:

- Net Interest Income

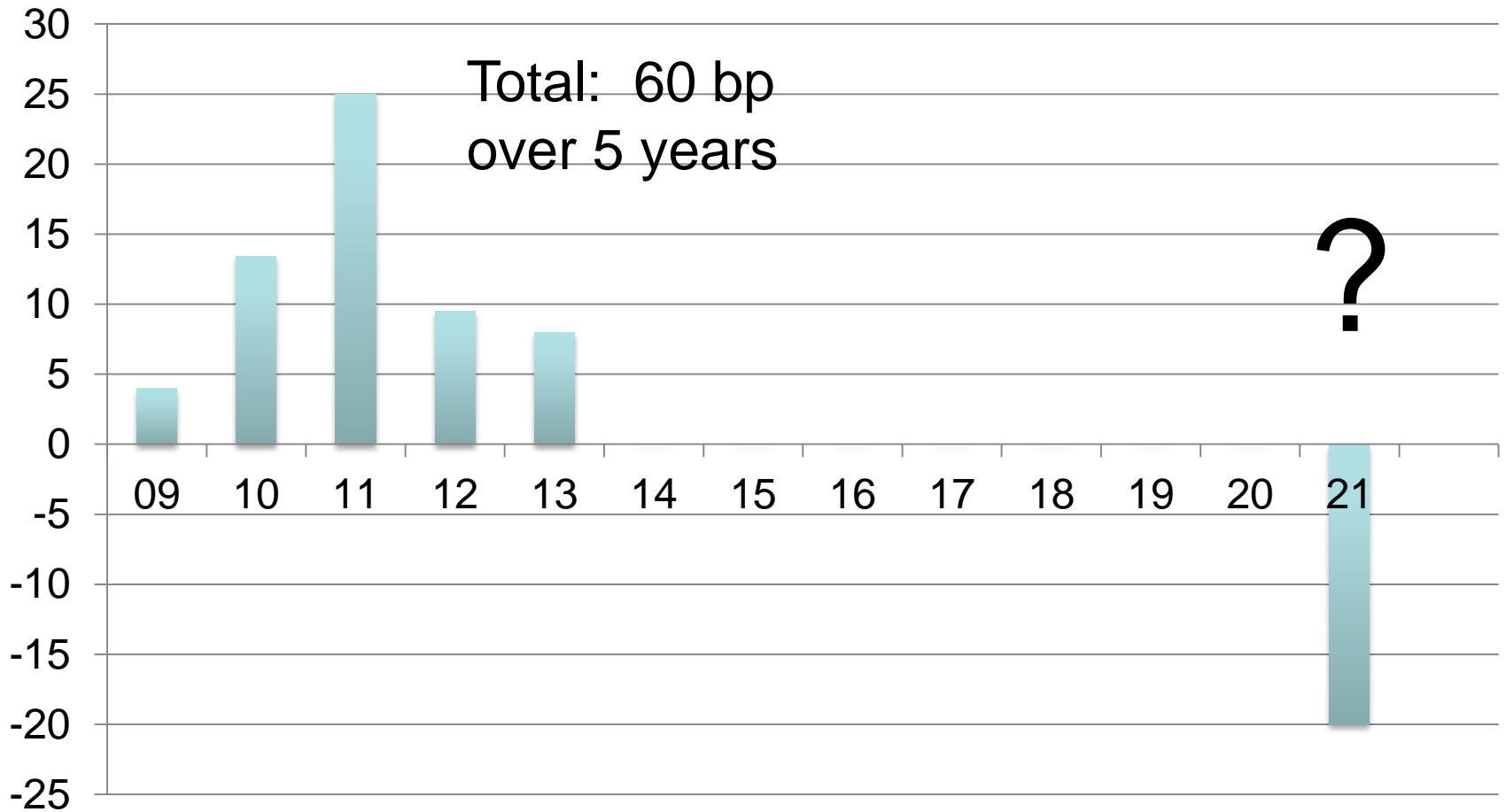
EVAPORATING

- Lower Provision Expenses
- Mortgage refinance revenue

AT LONG-TERM RISK

- Debit interchange revenue
- Overdraft revenue

Future of Stabilization Fund?



What's Driving Earnings?

POSITIVES:

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ALMOST POSITIVE:

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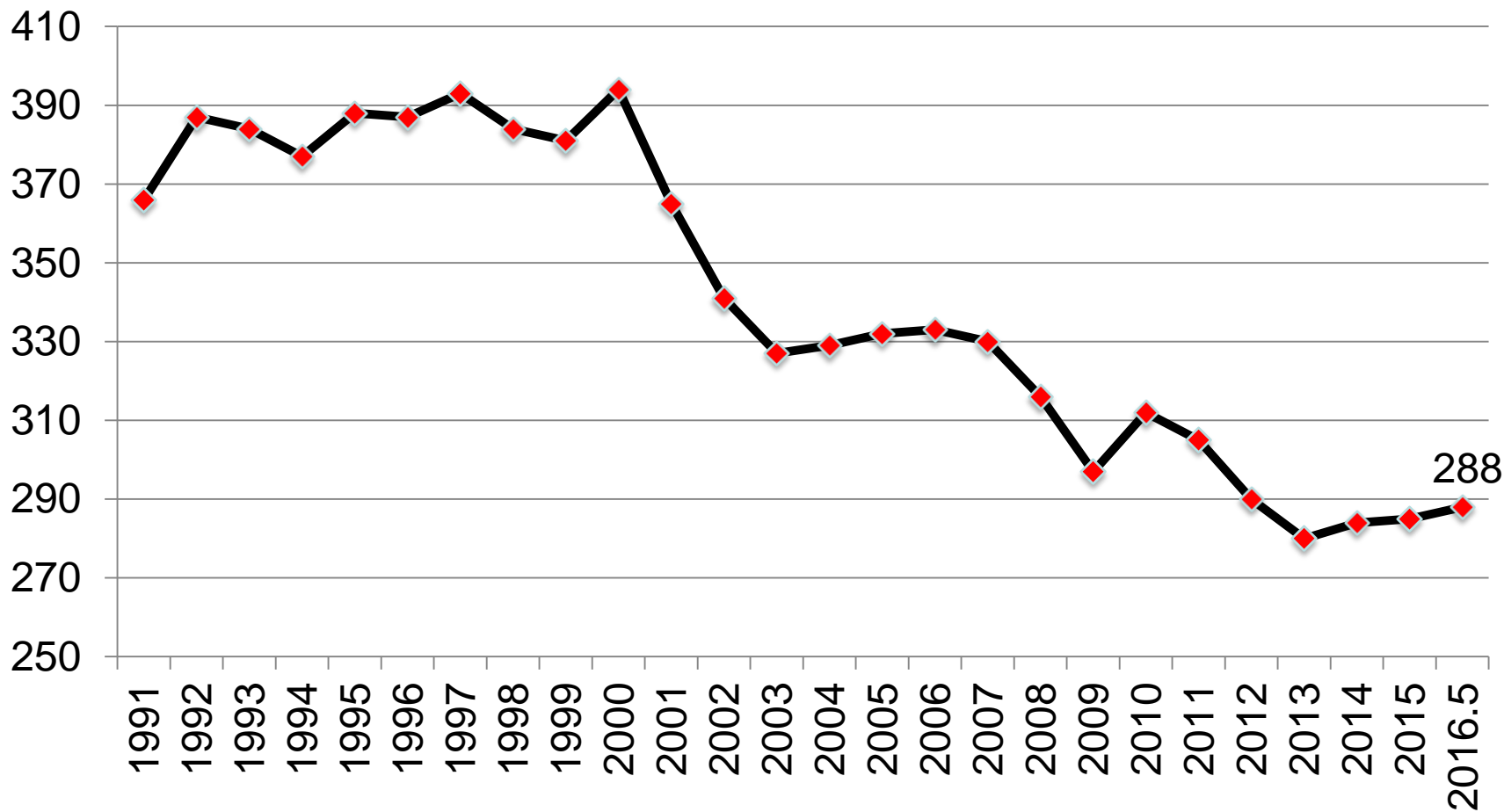
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Credit Union Net Interest Income



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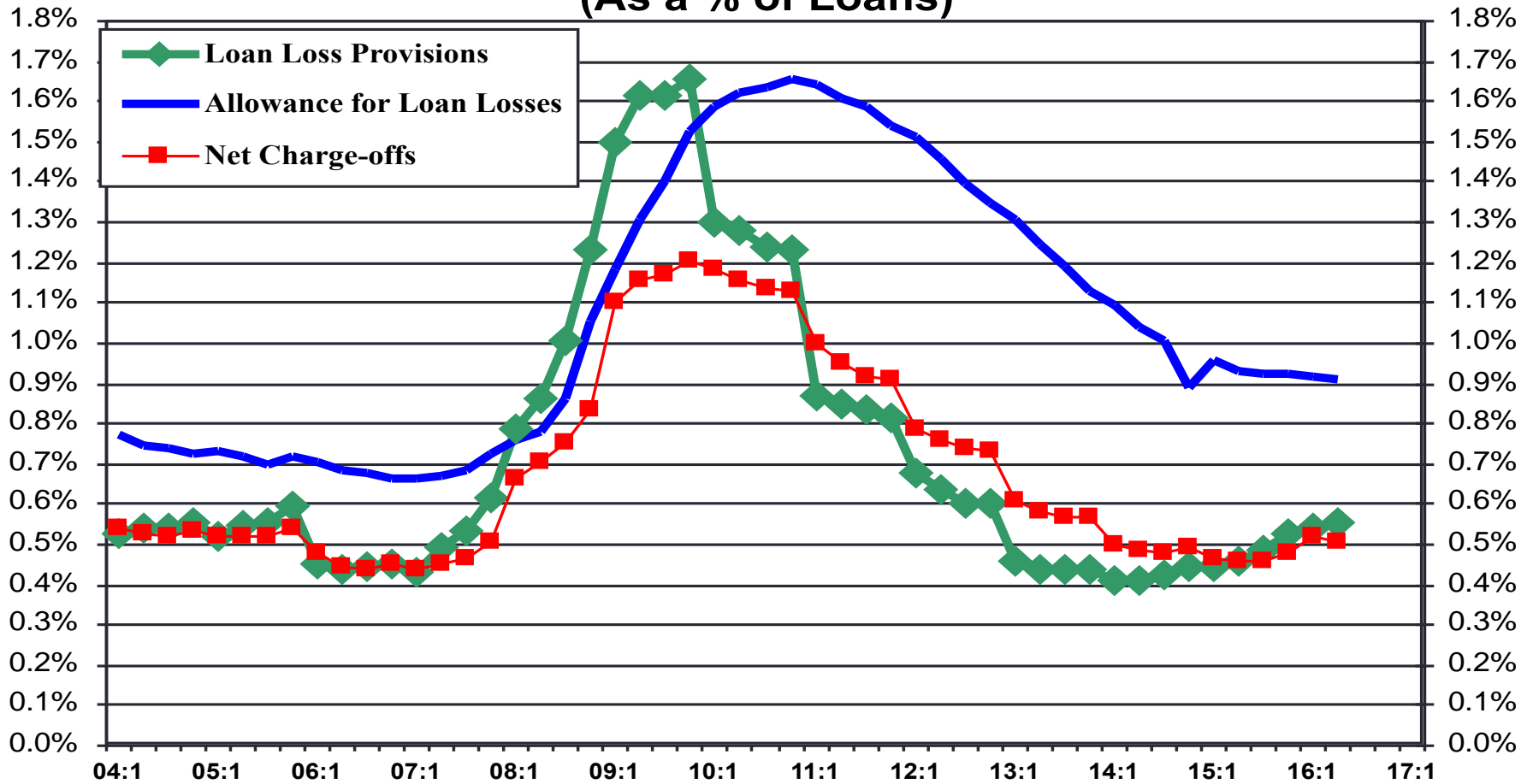
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Loan Loss Provision, Net Charge-Offs, Allowances

Credit Union Credit Quality (As a % of Loans)



Source: NCUA

What's Driving Earnings?

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ALMOST POSITIVE:

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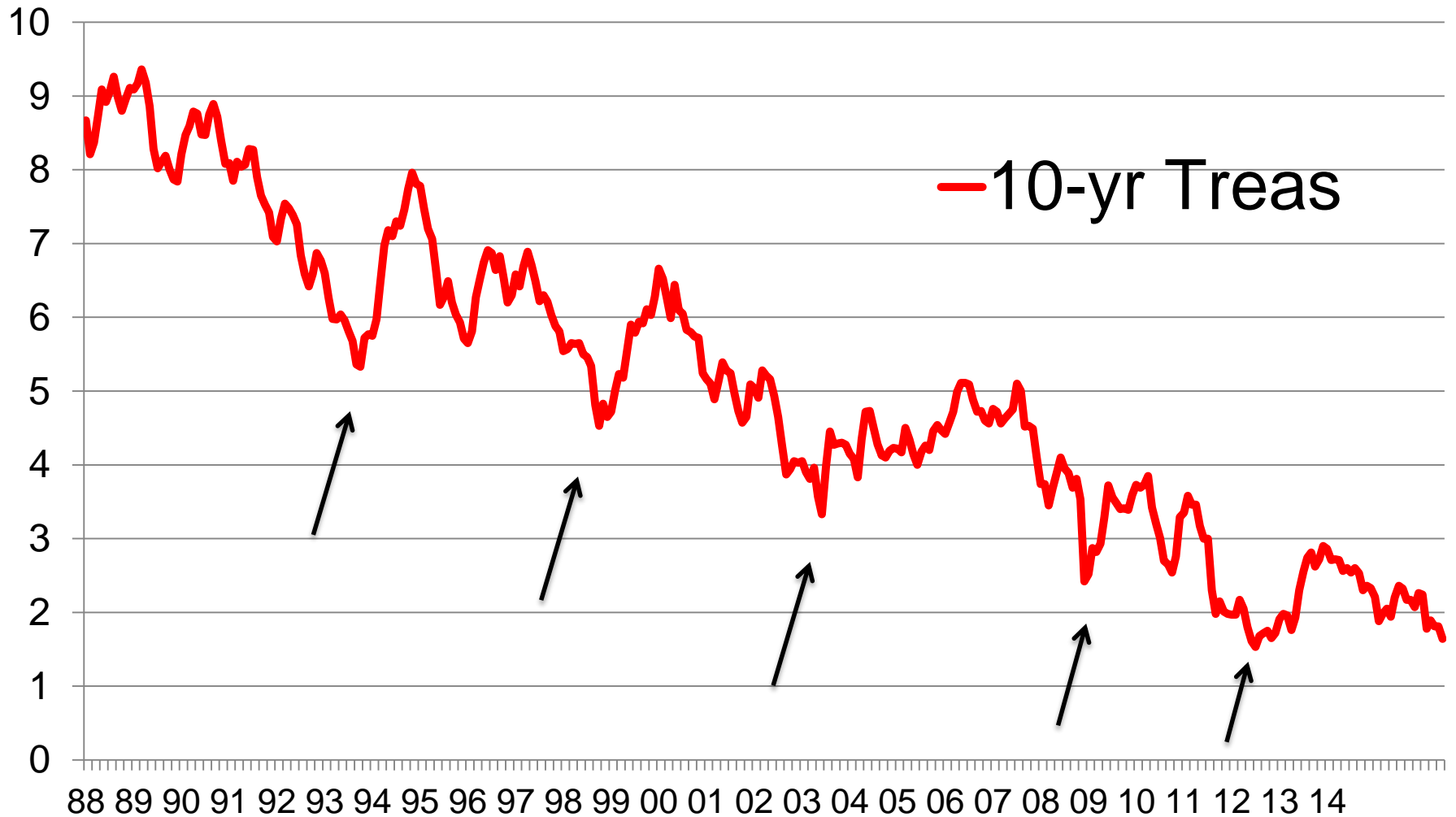
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Mortgage Refinancing



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EVAPORATING

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AT LONG-TERM RISK

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IS 80 THE NEW 100? (basis points, that is)

- To maintain a net worth ratio of 11%:
 - With 10% asset growth, takes ~100 bp of ROA
 - With 8% asset growth, takes ~80 bp of ROA
- To grow by 6% a year after inflation:
 - With 4% inflation, takes 10 % of top line growth
 - With 2% inflation, takes 8% of topline growth
- If 100 bp works at 4% inflation, 80 bp works at 2% inflation