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CREDIT UNION PEER STATS AT-A-GLANCE

NOTES TO Q3-2020 CU INDUSTRY PERFORMANCE AND PEER ASSESSMENT:

Industry:

YTD assets have increased 18.7% as share increased 17.8% - Loans increased a more modest 5.8% - Net worth increased 6.1% with an average net worth ratio of 10.4%

Loan growth is at its lowest annual pace since 2012. Portfolio allocations shifted slighted as vehicle loans account for 33% of loans while mortgages account for 51%.

Loan delinquency is at its lowest level in decades at 0.54% while net charge-offs are 0.48% - representing a "misery" index of 1.02%. We'll need a couple more months to see post-forbearance performance and how evaluate how the economy will recover after a broadband distribution of COVID vaccine.

Earnings declined to its lowest level since 2009 - the final year of the 2008-09 recession. YTD, net interest margins (post-provisions) have fallen from 2.72% to 2.29% while net operating expense dropped from 1.85% to 1.72%. This results in a 30 basis point annual decline in net operating return to 0.58%.

Peer Assessment:

Asset growth was led by a 22.9% increase at larger credit unions ($500M+) that account for 82% of industry assets but only 12% of total number of credit unions. This implies that the remaining 88% of the industry ("88-percenters") collectively had a more modest 2.6% increase.

The differentials are more prominent when assessing loan growth. Larger credit unions experienced a 9.7% annualized increase, implying the 88-percenters, collectively, experienced a -11.3% decline in loan growth.

This is also apparent in share growth where larger credit unions experienced a 21.4% annualized increase. This implied a more modest increase of 3.7% for the 88-percenters.

Still, the credit risk's "misery" indices are little different between larger and 88-percenters (1.04% vs 1.03%, respectively). In fact, net interest margins are stronger by the 88-percenters (2.61% vs 2.22%) but is offset by higher net operating expense (1.61% vs 2.19%). This results in a 18bp difference in net operating return between the two (0.61% versus 0.43%).

Other Highlights:

Larger credit union's asset growth has been so prominent over the past decade that they now face historical levels of monthly loan principal run-off that now require hundreds of millions of new monthly originations just to recover, threatening higher volatility in their revenue streams and earnings. This has caused loan rates to remain artificially low and, as the NCUA continues to permit them to enter small markets, virtually prices smaller credit unions out of the loan market, imperiling 88-percenters' revenue streams.

Cost efficiencies are being properly managed but larger credit unions are expectedly able to lever their cost structures greater than the 88-percenters. This results in a difference of 58 basis points in net operating expense (1.61% vs 2.19%). This is actually 6 basis points narrower than Q4-2019 suggesting the 88-percenters have been more successful in improving their cost efficiency.

This is also shown by net operating costs per full-time equivalent. The average net operating expense per FTE for larger credit unions is $93,748, compared with $89,164 for the 88-percenters.

The differential in earnings is also demonstrated in the average revenue stream per FTE where the larger credit average of $291,257 outpaces the rest of the industry's average of $184,655 - again going back to the artificially low loan rates established by the industry's larger credit unions that have infiltrated smaller credit union markets.