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The Exchange

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Year-End Wrap Up, 2016 Foresight

CUNA Mutual Group TruStage *What Matters Now*™ Research Reveals New Insights into How Middle- Income Americans Define Success



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Concerns about financial stability are keeping middle-income Americans up at night. In fact, they're so worried about their finances that 62% say money occupies their thoughts every single

day. That's one of the key findings from the ongoing *What Matters Now* research study conducted by TruStage, CUNA Mutual Group's brand of insurance products and programs.

What Matters Now is designed to uncover key similarities and differences between credit union members and the middle-income American population overall, and to gain insights credit unions can use to more effectively serve their current members and attract new ones. It's a critical tool in the credit union systems' ongoing efforts to meet Americans' financial service needs.

Who are middle-income Americans and why are they important? TruStage defines this group as those aged 30-70 who have household income of \$25,000-\$100,000; they make up 36% of the U.S. population and 42% of credit union members. Middle-income Americans are an important target for credit unions because of the sheer size of the group, most non-members in this segment (64%) would consider joining a credit union and nearly half of this group (43%*) doesn't have life insurance (a critical area of opportunity for credit unions).

Connecting with members. TruStage engages in more than two million conversations with members each year,

drawing from a database of over 65 million members. In our quest to gain a richer understanding of what matters now to middle-income Americans, we also gathered quantitative and qualitative data from over 25,000 consumer touch points. Topics of focus evolve annually based on input from credit unions.

What did we learn? This year's research uncovered a wide variety of insights that credit unions can use to better engage current and prospective members. Some of the most critical are:

- **Americans are worried about their finances—but stability is more important than wealth.** Many members are living paycheck to paycheck and want help reducing their debt and building their savings. The majority (83%) reported they don't need to be rich to feel successful; they just want to know what it feels like not to be strapped for cash every month.
- **Money isn't how they define success.** Middle-income Americans don't measure success by their bottom line.

Survey respondents "top five" indicators of success include:

- #1. Their children—the values they instill and their children's accomplishments, which they measure by productivity and being "good people."
 - #2. Their partnerships—having strong, dependable relationships is important to these members.
 - #3 and #4. Financial stability and good health (tied)
 - #5. Strong spiritual relationships
- "Making a lot of money," didn't make an appearance until #13 and just 6% of respondents felt having a lot of money was an important element of success.

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• **What matters most changes over time.** What matters to consumers has changed throughout their lives. This belief was supported by 77% of survey participants and wasn't just a sentiment held by Boomers: Millennials were just as likely to say that their personal definition of success had changed over their life.

• **Middle-income Americans want help from their credit unions.** Most members don't feel confident in their ability to navigate their finances. They want financial guidance—and 80% say they want it from their credit unions.

How credit unions are using What Matters Now

To better understand how to most effectively leverage the research to meet member needs, we asked a team of credit union leaders for their insights. They shared these thought starters:

- *Promote loans for remodeling.* Middle-income members are interested in home remodeling, especially bathrooms and kitchens. Do your loan offerings and marketing reflect this?
- *Encourage members to consider loan consolidation.* This can be an effective way to help members address their deep concerns about financial stability. What kinds of consolidation products are you offering?
- *Incorporate key measures of success into your marketing.* Family, relationships, health, and financial stability are important to your members. Integrate these elements into your marketing campaigns to convey your credit union understands what matters now.
- *Create loans that reflect member needs.* When it comes to auto loans, for instance, What Matters Now data shows that members take longer to pay their car loans, struggle to make payments, and often have negative equity on their trade-in vehicle. Use these findings to create car loans and terms that better meet member needs.
- *Promote financial literacy.* Members are looking for help managing their financial health and are comfortable getting it from you. Offer online educational tools, seminars, etc.
- *Connect with Millennials.* Millennials need help with everything from paying off their student loans to affordable car loans, mortgages, and more. And too many of them are using expensive borrowing products like payday lenders. How are you meeting their needs and communicating with them?
- *Promote bundled insurance offerings.* Many members don't know their credit union can make insurance products available to them and that bundling their coverage can save them money. This is a great opportunity to show how credit unions contribute to members' financial stability.

Learn more! Uncover member needs, improve employee training, and drive more effectively targeted multi-media campaigns.

Visit www.cunamutual.com/whatmattersnow.



January 13 Live Webinar and Q/A: A Look Ahead: Risks in 2016

Exclusively for Policyholders from CUNA Mutual Group

Are you prepared for the New Year and the risks that come along with it? Register to join CUNA Mutual Group Risk Management experts as they share the trends, risk and loss mitigation tips that should be on your radar in 2016.

This Webinar is available to CUNA Mutual Group Bond policyholders.

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Where Will Loan Growth Occur in 2016?

Rising Consumer Confidence and Income Growth will Bolster the Auto Market

By: Mike Schenk

Improvements in members' ability and willingness to borrow will almost certainly fuel credit union loan growth into 2016. But where will growth likely occur?

Mortgages, auto loans, and member business lending are likely to be the most promising areas of growth.

At midyear 2015, first mortgages accounted for 41% of total credit union loans outstanding, making it the largest (by far) of the seven key portfolios CUNA tracks.

Credit union first mortgages outstanding increased 8.7% in 2013, 9.1% in 2014, and 9.6% in the year ending June 2015.

The Mortgage Bankers Association's (MBA) newly minted mortgage market forecast reflects expectations of a 26% increase in purchase originations in 2015 and an 11% increase in 2016.

But refinancings are expected to increase 22% in 2015, and then decline 35% in 2016 (due in large part to their expectation of a 70 basis point [bp] increase in the 10-year Treasury yields during the period).

All else equal, the 35% decline in mortgage refinance business would have bottom-line effects, reducing credit union "gain on sale" income and mortgage origination fees.

But the 11% increase in purchase volume would offset part of this loss as more first-time borrowers enter the market.

Overall, the MBA expects originations to increase 24% this year and decline 9% in 2016. The path for credit unions might be slightly different.

It's important to note that the credit union first mortgage origination market share steadily increased each year since the beginning of the financial crisis.

The credit union share in 2007 was 2.6%. But that has more than tripled, growing to 8.6% in the first half of 2015.

That momentum is likely to continue, especially if membership growth continues to outpace population growth.

Recent history suggests that even though aggregate origination volume may be falling, credit unions should fare better than their competitors in the for-profit sector.

For 2016, credit union first mortgage growth in the 8.5% to 9.5% range seems most likely.

Used-Auto Loans

Used-auto loans accounted for 20% of total credit union loans outstanding. Momentum has been building during the past few years, and credit union used-auto loans outstanding increased quickly.

Overall balances grew 10.5% in 2013, 12.9% in 2014, and 13% in the year ending June 2015.

As in the mortgage arena, credit unions seem to be grabbing a disproportionate share of overall activity.

Used-car sales are up 5.1% in the year ending June 2015, according to recent data from Edmunds. That's less than half the credit union increase during the same period.

CNW Marketing Research estimates the used-car industry will top 41 million units annually into the foreseeable future with 2016 hitting a peak of 43.5 million sales.

Credit unions' favorable pricing will continue to fuel relatively strong loan growth in the coming year.

The average interest rate on credit union four-year used-auto loans is 2.8%. That's 1.34 percentage points below the 4.14% bank average, according to [Informa Research Services](#), a CUNA Strategic Services alliance provider.

On a \$20,000 loan, that difference translates into a savings of nearly \$12 per month, \$144 per year, or about \$720 during the life of the four-year loan.

Credit union used-auto loan growth seems likely to settle into a range between 12% and 13% in 2016.

New-Auto Loans

At mid-year 2015, new-auto loans accounted for 12% of total credit union loans outstanding.

Credit union new-auto loans outstanding grew 12.7% in 2013, 20.9% in 2014, and 19.6% in the year ending June 2015.

Nationally, sales of cars and light trucks increased 7.5% in 2013, 5.8% in 2014, and 2.2% in the year ending June 2015.

The National Automobile Dealers Association (NADA) expects sales of 17.2 million units in 2015 and 17.6 million units in 2016. If achieved, those results would translate into percentage increases of 4.7% and 2.3% in 2015 and 2016, respectively.

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Demand will increase due to the combination of more consumers looking to replace old vehicles and more wealth-effect spending fueled by lofty equity prices and continuing improvement in home prices.

Rising consumer confidence and more income growth in the coming months also will bolster the auto market.

Favorable pricing will help credit unions, too. The average interest rate on credit union five-year new-auto loans is 2.57%, 1.31 percentage points below the 3.88% bank average, according to Informa.

On a new \$30,000 loan, that difference translates into a savings of nearly \$18 per month, \$210 per year, or \$1,100 during the life of the five-year loan.

Given this backdrop, an increase in credit union new-auto loan growth of 12% to 13% seems reasonable during the coming year.

Member Business Loans

Credit union member business loans (MBLs) accounted for roughly 7% of total credit union loans outstanding, as of mid-year 2015.

Credit union member business loans outstanding increased 10% in 2013, 12.4% in 2014, and 11.3% in the year ending June 2015.

Credit union business lending has outpaced bank business lending by a wide margin for nearly a decade. Don't expect that to change.

While banks are pricing more aggressively, credit unions offer more underwriting flexibility and the local decision making and high-touch service that most small businesses look for when in the market for loans.

Recent NCUA technical changes to the definition of MBLs, especially the treatment of participations, will mean that some of the loans historically characterized as MBLs will be viewed differently in the future.

While that may slow the recent growth in MBLs, it's a function of the "accounting" (loosely speaking). The economics will tell a different story.

Movementwide, MBL growth will be healthy and, absent definitional/categorical changes, these balances should increase 10.5% to 11.5% in 2016.

Credit Cards

At mid-year 2015, credit cards accounted for 6.1% of total credit union loans.

Dollar balances in credit union credit card accounts increased 7.7% in 2013, 7% in 2014, and 6.8% in the year ending June 2015.

In the aggregate, credit union credit card balances seem on track to expand 5.5% to 6.5% in 2016. As is the case in the auto arena, pricing will drive relatively strong gains in credit union portfolios.

Informa data reflects a 366 bp rate differential on reward cards at credit unions versus banks. The average credit union interest rate is 10.34%, compared with 14% at banks.

Moreover, the average annual fee for credit union credit cards (among those that charge such a fee) is \$43.75. That's nearly \$54 lower than the bank average fee.

Also, the average maximum late fee on credit union cards is \$23.62, \$11.16 lower than the \$34.78 bank average.

Whatever your credit union's size, it's a fair bet that 2016 loan growth will be relatively strong. And the increases will continue in nearly every key segment of your portfolio.

Mike Schenk is CUNA's vice president of economics and statistics. Contact him at 608-231-4228.



Federal Home Loan Bank
NEW YORK

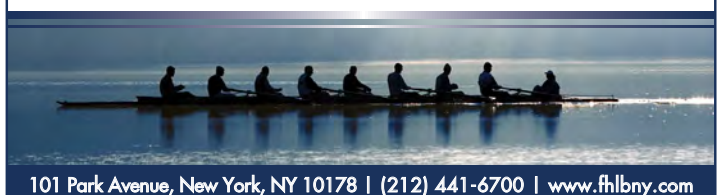
FHLBNY Credit Union Members Doubled Since the Start of the Financial Crisis.

At a period of unprecedented stress in the capital markets, when our members needed liquidity, we were able to step up and meet the demand. With new regulatory and interest rate risk concerns, having access to reliable wholesale liquidity is essential.

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2015 NJCUL Chapter Round-Up

As the year comes to a close, we would like to reflect on this year's chapter events. Several of the chapters had League staff as the presenters.

In January, Barbara Agin spoke at the South-Central Chapter about her experience in becoming a Credit Union Development Educator (CUDE). Nicola Foggie provided a Compliance Update to the Southern Chapter in March and to the South-Central Chapter in September. Marissa Anema talked about Reality Fairs at the April South-Central Chapter Meeting and interestingly we had great participation from this group at future fairs.



Southern Chapter Meeting on October 28th.

The Southern Chapter welcomed Your Marketing Co.'s Bo McDonald in April to share his insight with the group. In June, the North-Central Chapter invited Assemblyman Craig Coughlin (D-19) Chairman, NJ Assembly Financial Institutions & Insurance Committee, to address the group. He shared his knowledge and admiration for credit unions in addition to providing a legislative update.

At the NJCUL Annual Meeting & Convention, all four chapter leaders collaborated to man a Chapter Booth in the Exhibit Hall, where flashy buttons were given out in exchange for contact information. Realizing the benefits of connecting and collaborating, the chapter officials' goal was to increase awareness and participation. In October, the North Chapter held election and had NCUA on hand discussing the new Cyber Security Tool. Young Professionals were targeted for the North-Central's Fall Fest Happy Hour in November where Barbara Agin talked about the League's new Web site Redesign Project and solicited feedback on methods the League should consider to connect with millennials. As a direct result of this meeting a Young Professionals Facebook Group was created.



North-Central Chapter Fall Fest Happy Hour on November 17th.

At the NJCUL Annual Meeting & Convention, all four chapter leaders collaborated to man



The Northern Chapter elected leadership at their meeting in October.



South-Central Chapter meeting in April.

Lastly, the Southern and South-Central Chapters each held Holiday Gathering Meetings in December.

As the year comes to a close and planning begins for 2016, the New Jersey Credit Union League hopes you will look to attend some chapter meetings if you have not done so in a while, or, if you're a regular, bring a colleague with you to a future meeting. Chapter meetings serve as great networking events as well as forums to learn about various issues facing the industry.

Remember, the chapters are an extension of the League and together we are stronger.

Upcoming Meetings

Southern Chapter - January 27, 2016

South-Central Chapter - March 8, 2016



Save the Date!

Credit Union Reality Check

2016

We're back at the Golden Nugget in 2016 with hard-hitting, can't-miss topics and speakers.

Plan to join us for the hot topics, high caliber speakers, top-notch networking, and audience interaction that you can't find anywhere else.

Registration information coming soon!



March 14-16, 2016

www.CURealityCheck.com

NJCUL Hosts Compliance Roundtable with NCUA on the Cybersecurity Assessment Tool

HIGHTSTOWN, N.J. – Earlier this month, the New Jersey Credit Union League hosted its final roundtable of the year. Credit union leaders and compliance professionals in attendance heard from the National Credit Union Administration's Tim Segerson, deputy director of examination and insurance.

Segerson outlined the uses and benefits of the new cybersecurity tool issued by the National Credit Union Administration (NCUA) and the other Federal Financial Institutions Examination Council (FFIEC) agencies earlier in 2015.

The cybersecurity assessment tool (CAT) is receiving a lot of attention and represents nearly 12 months of intensive analysis, research and collaboration between the federal agencies. It is designed especially to help institutions develop an effective cybersecurity risk management process and appropriate a level of preparedness.

Segerson discussed current and changing threats to the industry, the changing landscape, and how NCUA plans to use this tool as part of our safety and soundness examinations.

In his presentation, Segerson indicated that NCUA will be making cybersecurity assessments part of the regular examination process beginning sometime in July 2016.

For more information: Click [here](#) for the NCUA presentation and [here](#) to access NCUA's cybersecurity resources site; including the cybersecurity assessment tool (CAT).



The NCUA's Deputy Director of Examination and Insurance, Tim Segerson facilitating the Compliance Roundtable at the League office.

6th Annual NJ CU Foundation Casino Night

NJ Credit Union
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When: Thursday, March 3, 2016
6 p.m. to 10 p.m.

Where: Renaissance Woodbridge Hotel

Nussle on Bloomberg Among 2015's Top CUNA Media Appearances

MADISON, Wis. – Time and again in 2015, CUNA leaders were called upon by many of the biggest publications across the country for their insight, expertise, and advice related to financial services. The appearances also allowed CUNA to continue to raise awareness of the credit union movement.

The New York Times reached out to CUNA on several occasions this year to discuss the growing popularity of credit unions and the cost of data breaches on financial institutions.

CUNA President/CEO Jim Nussle appeared on *Bloomberg TV* and radio programs to talk about the credit union difference and to correct a number of misconceptions about credit unions.

And CUNA's stable of economists regularly appeared in *The Wall Street Journal*, *Reuters* and other publications to unpack and explain recent events in the economy.

There were many to consider, but the Top 10 media mentions for CUNA in 2015 can be found below:

1. *Nussle appears on Bloomberg TV*: In February, Nussle was a guest on the [Bloomberg TV program](#) "Bloomberg Surveillance" and talked about how credit unions—not banks—are best suited to serve the underserved. He also took the time to refute misconceptions floated by banks about credit unions.
2. *Hampel/Dykstra illustrate cost of data breaches on financial institutions*: Bill Hampel, CUNA chief economist, and Diana Dykstra, president/CEO of the California and Nevada Credit Union Leagues, were quoted heavily in a [July article](#) in *The New York Times* to explain how credit unions, not retailers, bear the cost of data breaches.
3. *Nussle's voice hits the airwaves*: CUNA's president/CEO [spoke with Bloomberg](#) radio in May about the importance of raising the member business lending cap for credit unions.
4. *Hampel explains the credit union appeal in The New York Times*: *The Times* took notice of the recent growing popularity of credit unions, and spoke with Hampel about the "appeal of credit union mortgages" in a [July article](#). "More than 100 million Americans are members of credit unions, and not just because they want inexpensive checking," the article said. "These nonprofit lenders are increasingly winning over borrowers with low-cost mortgages and programs aimed at first-time homebuyers."
5. *Nussle named top dog among Capitol Hill lobbyists*: In its annual survey in October, *The Hill* [named](#) Nussle as one of the top lobbyists of 2015.
6. *Nussle talks small-business lending with Forbes*: In a Sept. 16 article in *Forbes*, Nussle discusses the importance of introducing the Small Business Lending Enhancement Act, which would help entrepreneurs gain access to much-needed capital.
7. *Schenk on the auto industry in The Boston Globe*: In a [November article](#) in *The Boston Globe*, Mike Schenk, CUNA vice president of economics and statistics, was asked to discuss how the recent surge in auto sales in the United States has boosted credit union bottom lines.
8. *A CUNA economist in The Economist*: Hampel kept his string of appearances in high-profile publications humming along in October when *The Economist* interviewed him for [an article](#) about the international credit union movement called "Winning Converts."
9. *Hampel graces the pages of the Chicago Tribune*: In August, [Hampel spoke](#) to *The Tribune* about the availability of student loans at credit unions. "We're pretty sure that just about anybody can find two or three credit unions nearby that they can join," Hampel told *The Tribune*. The article also mentions [aSmarterChoice.org](#).
10. *National publication asks CUNA to weigh in on the Federal Reserve's interest rate decision*: After the Fed chose not to raise interest rates after its September meeting, *The Wall Street Journal* tapped Perc Pineda, CUNA senior economist, [to give a reaction](#).

Additional noteworthy mentions:

- Pineda in an [April 3 article](#) of *The Washington Post* on a recent jobs report;
- CUNA numbers are cited in a [Bloomberg article](#) from Dec. 2 on the Target settlement;
- Schenk in *Reuters* on [April 2](#) discussing the importance of "banking your child's money;"
- Pineda in a July 8 [Quartz article](#) talking about the importance of financial literacy; and
- *Politico* notes that CUNA, leagues and members were ready to "Hike the Hill" in an article prior to the CUNA Governmental Affairs Conference in Washington, D.C., in March.