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Credit Unions and 2018...

An Insider's Look at Regulatory and Marketplace Trends and Outlook for Credit Unions in 2018 and Beyond

Presented by
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CHALLENGES TO GROWTH AND COMPETITIVENESS WILL REMAIN

- Technology necessity, but high touch cannot be lost – costly balancing act that requires capital and willingness to take on managed risk even with higher supervisory scrutiny.
- Fraud losses have joined loan losses as major cost. Cyber security to be the top shelf issue for next 5 years.
- Supervisory increase with fewer credit unions, larger credit unions, more CUSO evaluation, longer exams could create more fear of the referee's flag that drives more risk aversion and member service challenges.
- Risk-based capital rule goes into effect as scheduled in January 2019 as regulation always creeps, often leaps but seems to never retreat.
- CFPB has been very activist. The future of the CFPB in a Trump administration is yet to be fully determined. But, unless it is changed, CFPB will be the regulator most impacting credit union regulatory environment over the next five years – maybe longer. Election by election will determine its direction, not its existence.

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A COUPLE OF INTERESTING QUESTIONS

- Will there be an impact, if any, of the Hatch Letter?
- Is the tax exemption safe for the foreseeable future
- Does the excise tax on not-for-profit compensation above $1 million impact credit unions enough to be concerned about?
- Will NCUA intentionally, through supervision or regulation, try to slow down or restrain merger activity through its proposed merger disclosure rule?
- What will come of the field of membership lawsuit by the bankers? Are there still good FOM options out there?
- Why is the state and federal regulators of credit unions getting authority to regulate and examine credit union vendors not a good idea/
- How do we differentiate ourselves in a more commoditized marketplace?
- Is the essentiality of growth still a driving strategic consideration for credit unions or are we entering a period of re-entrenchment?

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Summary of Trends Report

As of December 31, 2017	Asset Group Under $10 million	Asset Group $10 million to $100 million	Asset Group $100 million to $500 million	Asset Group Over $500 million
# of Credit Unions	1533	2483	1026	531
Total Assets	$6.39 billion	$94.87 billion	$229.32 billion	$1,048.32 billion
Average Assets	$4.17 million	$38.21 million	$223.51 million	$1.974 million
Net Worth/Total Assets	15.43%	11.99%	11.03%	10.82%
Net Worth Growth	0.52%	3.55%	5.01%	9.05%
Return on Average Assets (ROA)	0.07%	0.39%	0.49%	0.89%
Loans/Shares	59.04%	62.45%	76.10%	86.09%
Delinquent Loans/Total Lns	1.80%	1.10%	0.93%	0.76%
Share Growth	0.11%	2.53%	4.37%	7.65%
Loan Growth	2.03%	5.86%	8.29%	11.47%
Asset Growth	0.25%	2.73%	4.77%	8.22%
Membership Growth	-1.25%	0.02%	2.47%	6.53%

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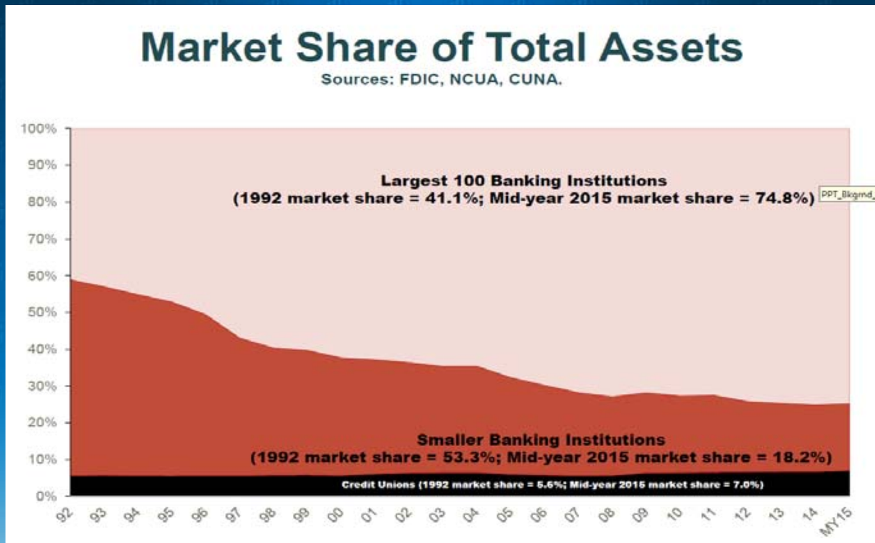

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The Regulatory Pendulum

MERGERS – WHERE ARE THEY GOING

- Most mergers remain survival related and involve smaller credit unions – many choosing to merge, either under supervisory pressure or out of difficulty competing, with another smaller to mid-sized credit union for fear of being absorbed or into a larger credit union if they value expanded service more than fearing the “absorption” factor.
- More mid-size ($100 million to $500 million) credit unions looking to voluntarily merge for competitive reasons as size of all financial institutions rise as it relates to viability, including credit unions.
- While still few in number, there is a rising interest in strategic mergers of larger ($500 million and up) credit unions for economies of scale, efficiency ratio and growth opportunity reasons.
- The essentiality of growth will continue to drive credit union mergers, regardless of regulator desire to slow merger activity. The protection of the NCUSIF will prevent NCUA from becoming a voluntary merger stumbling block and creating more involuntary mergers of troubled credit unions.

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ESSENTIALITY OF GROWTH 2018-2025

- Whether through organic growth, merger or both - best opportunity in our credit union careers to grow credit union footprint as a leading community based FI
- Acquisition mania will hit community banking arena – Fewer competitors, but larger
- The need for strong and responsive community based FIs remains and is growing
- Economies of scale are essential for an industry of smaller institutions
- Flexibility and mobility is the advantage smaller FIs like credit unions have
- Trump era regulatory pendulum will provide a respite from excessive regulation – but this will not be permanent
- Must respect regulatory and supervisory environment but cannot allow it to drive your credit union's strategic plans

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