

Strategic Growth

Economic & Industry Trends Briefing



Chris Howard

April 3, 2024





One mission.
One focus.
For over 35 years.



OUR MISSION

We empower credit unions to impact their members and communities in meaningful ways.



20+

League Clients



2000+

**League Affiliates
Supported**

Our Reach



700+

Credit Union Clients



250+

Vendor Clients



15,000+

Data Users





Our company is
100% employee-owned.



Today's Agenda

- Economic Update
- Industry Overview
- League Performance Profile
- Taking Action
- Q&A





Economic Update

Economic and Market Themes

Economy continues to defy a more pessimistic market narrative

- Economy exceeded expectations in 2023
- Labor market remains strong, and Q4 GDP was better than expected
- CPI and labor market data will drive Fed rate cuts – will first cut come at May 1st FOMC meeting?

Risks to growth/markets

- Excess household liquidity has diminished amid robust spending and inflation
 - Household net worth still above pre-pandemic levels across income brackets
- Commercial real estate fears lingering
- Geopolitical tension

Looking Ahead

Economy poised to slow, but will it be at the pace the market expects?

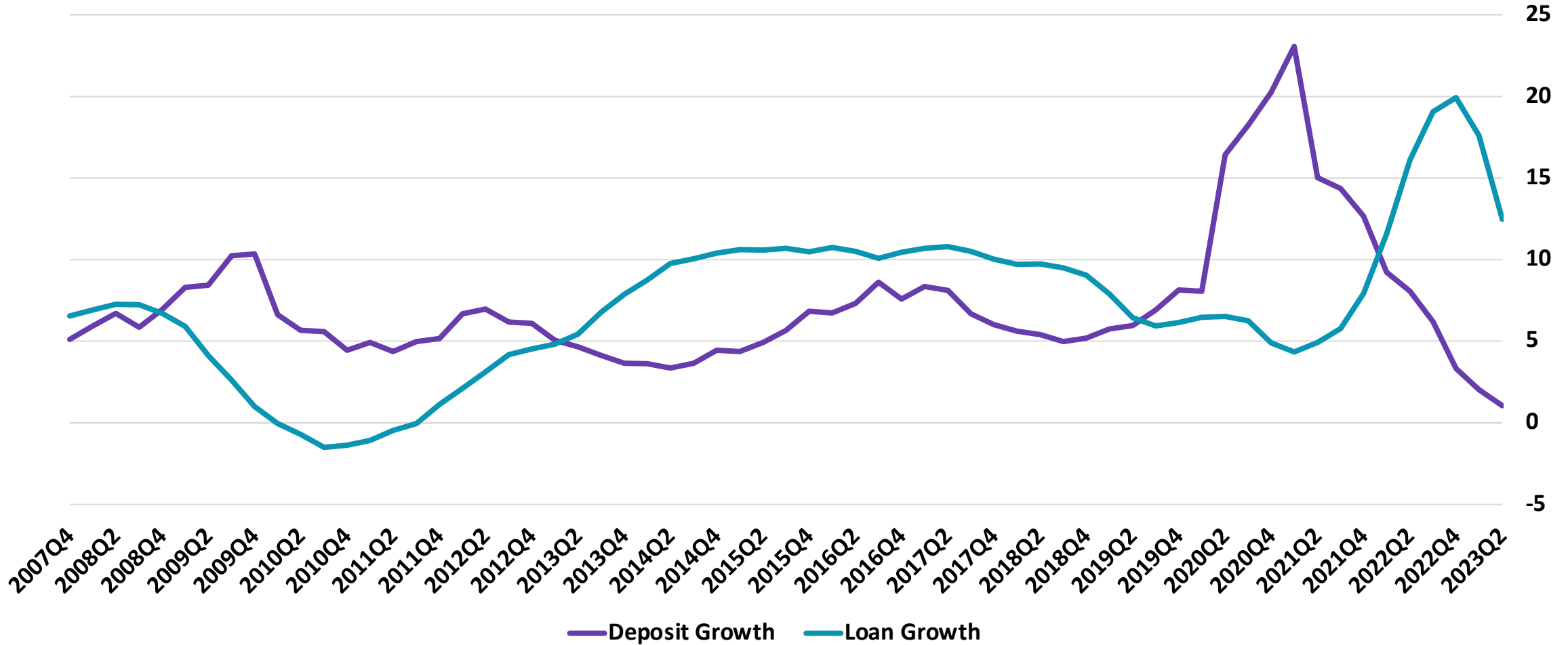
- Consumption should slow given savings erosion, but wage growth remains strong
- Strong economic data buys the Fed time to keep rates high
 - Fed wants to be sure inflation is heading back to their target

Credit union profitability declining amid rising credit costs

- Net interest margin was steady despite rising funding costs, but worsening asset quality is pushing ROA lower
- Asset pricing, capital utilization/allocation, and hedging remain important topics amid margin pressures
- Institutions with excess capital have greater flexibility to combat margin pressures if utilized

A COVID Liquidity Roller Coaster

Credit Union Industry Growth Rates for Loans & Deposits (%)



2023 Credit Union Results

Economic activity slows, as intended by Fed using high rates to fight inflation

- Consumers have less savings and tighter budgets
- Consumers are borrowing less
- Financial institutions are tightening credit standards

Credit union growth slows in 2023

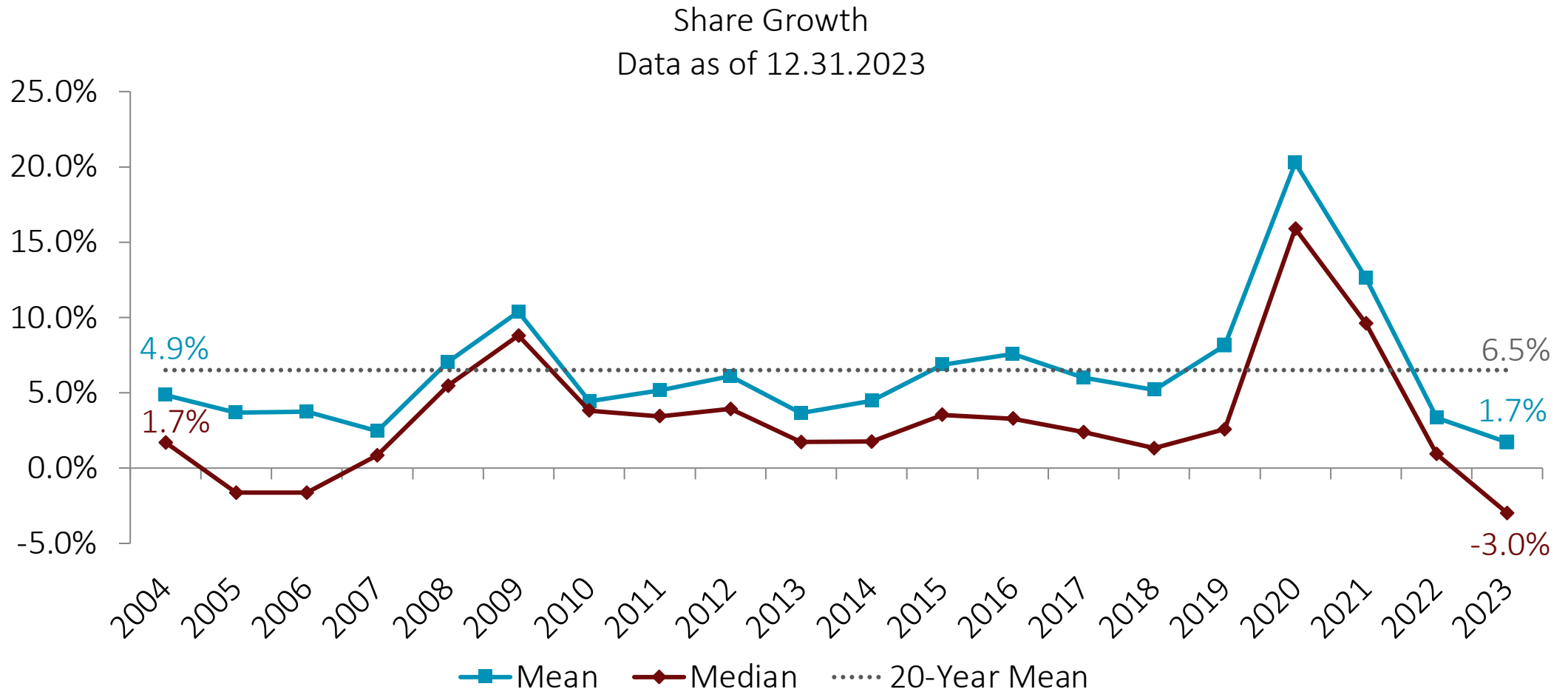
	12/31/2023	12-Mo. Growth	12/31/2022	12-Mo. Growth
Assets	\$2,278.3B	4.0%	\$2,190.2B	5.1%
Loans	\$1,617.8B	6.4%	\$1,521.0B	19.9%
Shares	\$1,900.4B	1.7%	\$1,869.4B	3.3%
Investments	\$564.2B	-1.5%	\$573.0B	-20.6%
Capital	\$232.2B	12.1%	\$207.2B	-5.9%
Members	140.6M	3.0%	136.6M	4.3%



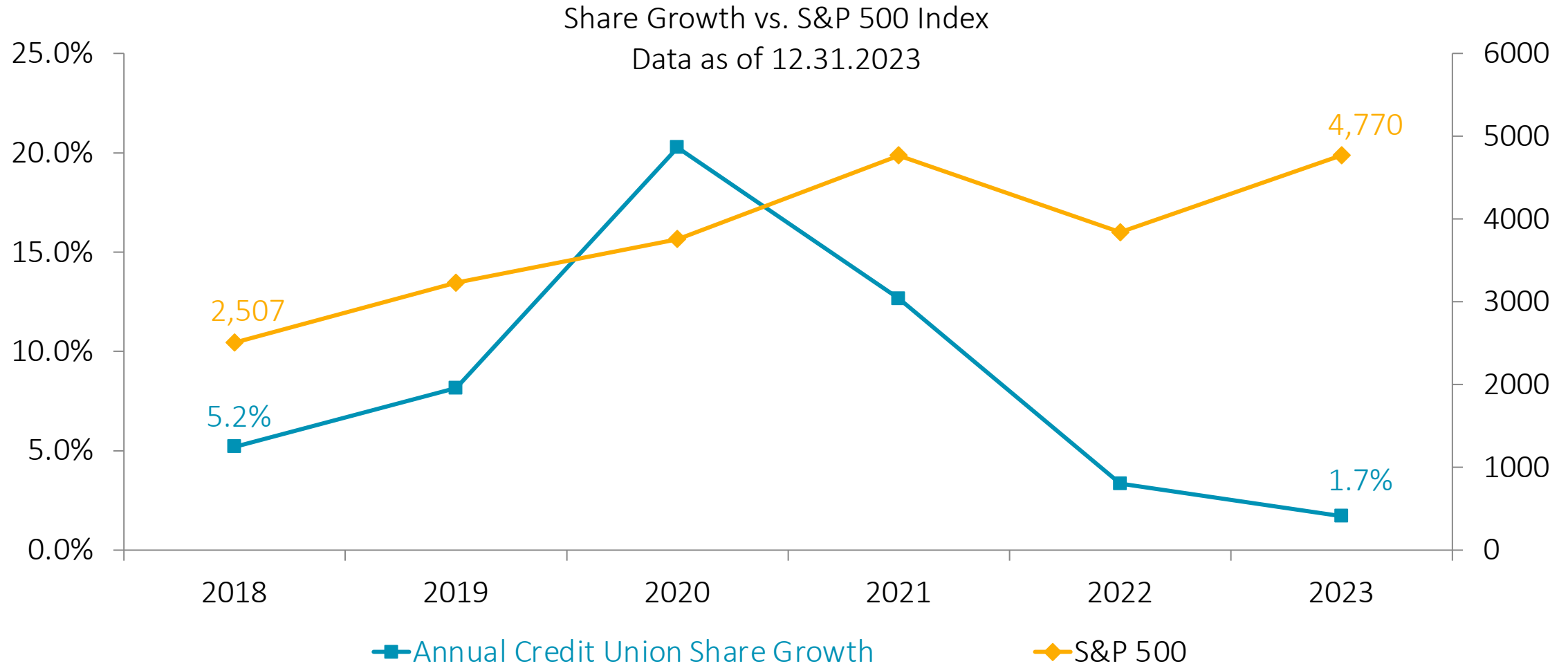
2023 Data Analyzed: Key Industry Trends

1. Deposits & Liquidity
2. Lending & Asset Quality
3. Earnings/Capitalization

Share growth in 2023 was the slowest in the past 20 years

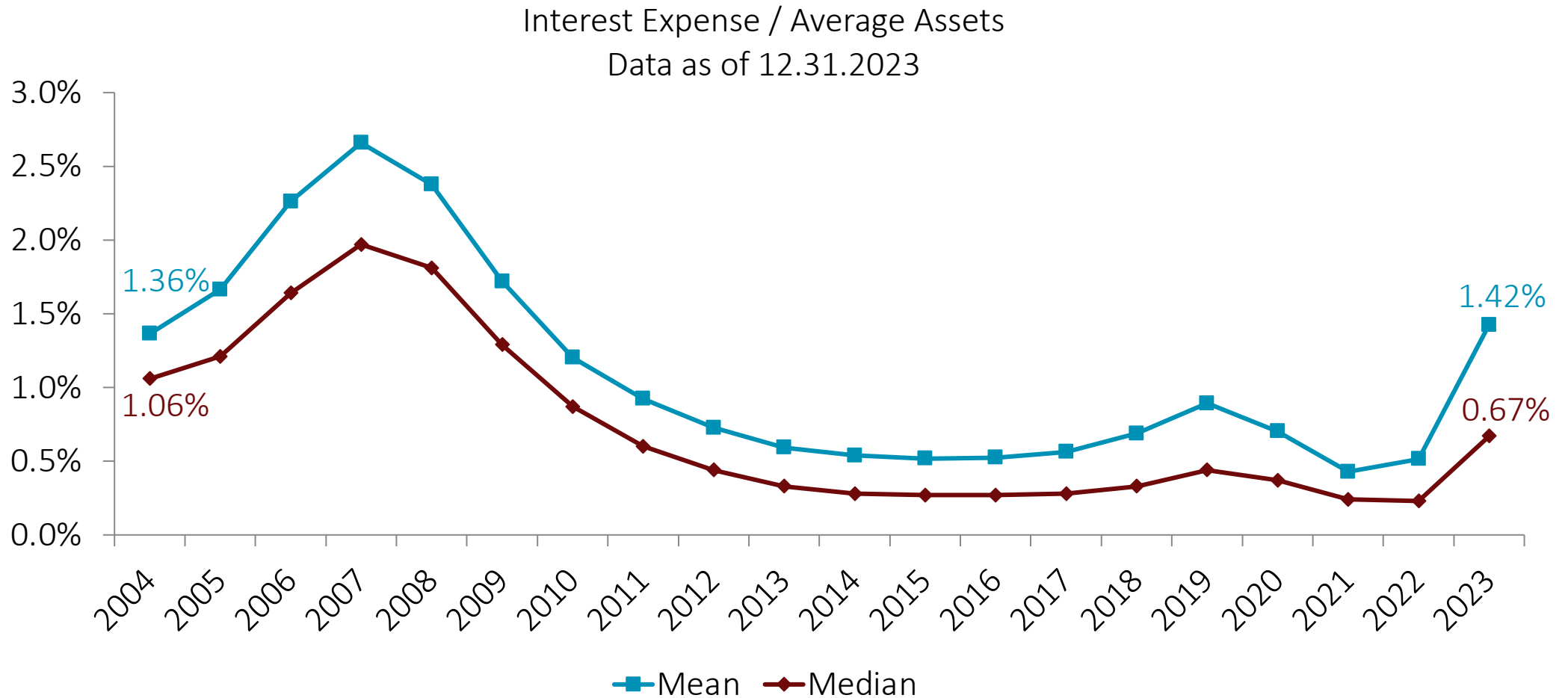


More of what savings *are* available are going to stock markets

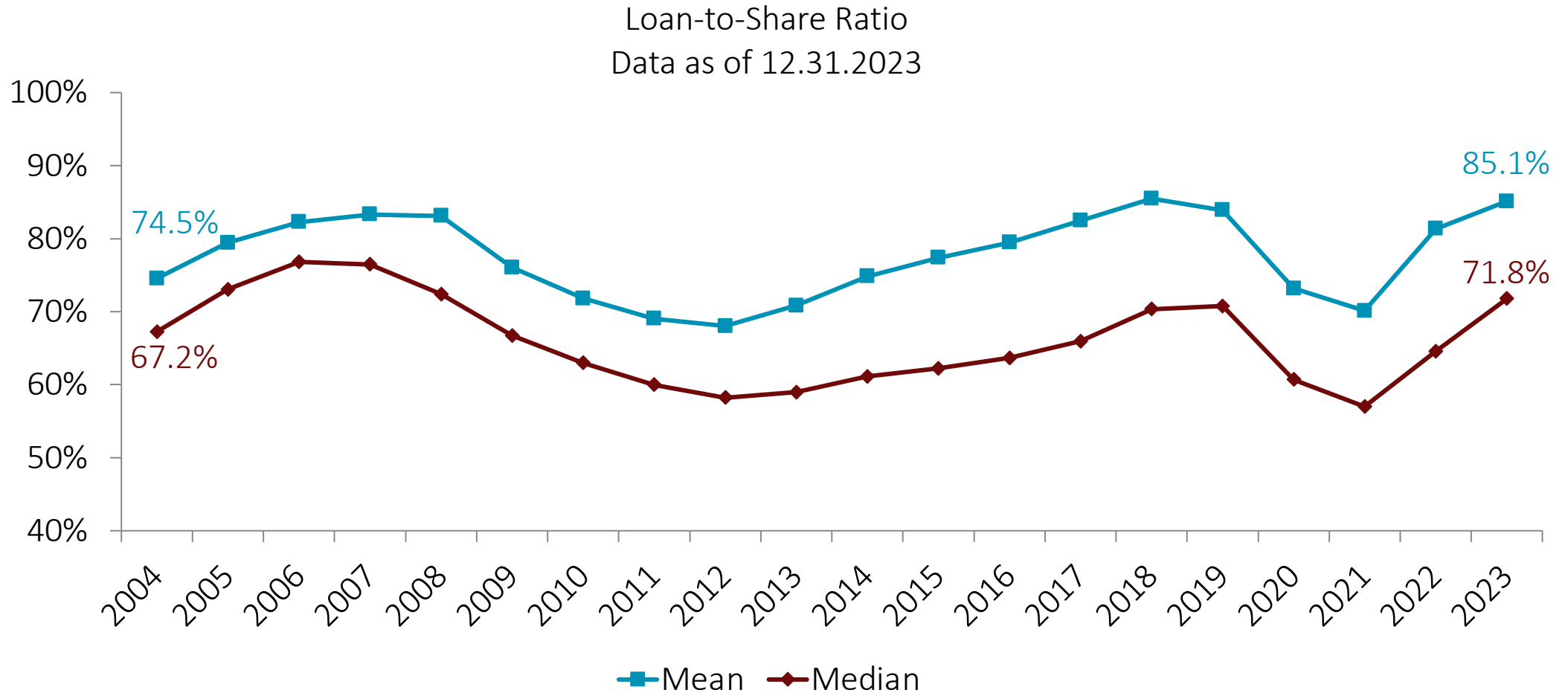


Source: FRED data

Credit unions – particularly larger ones – are paying more for new funds

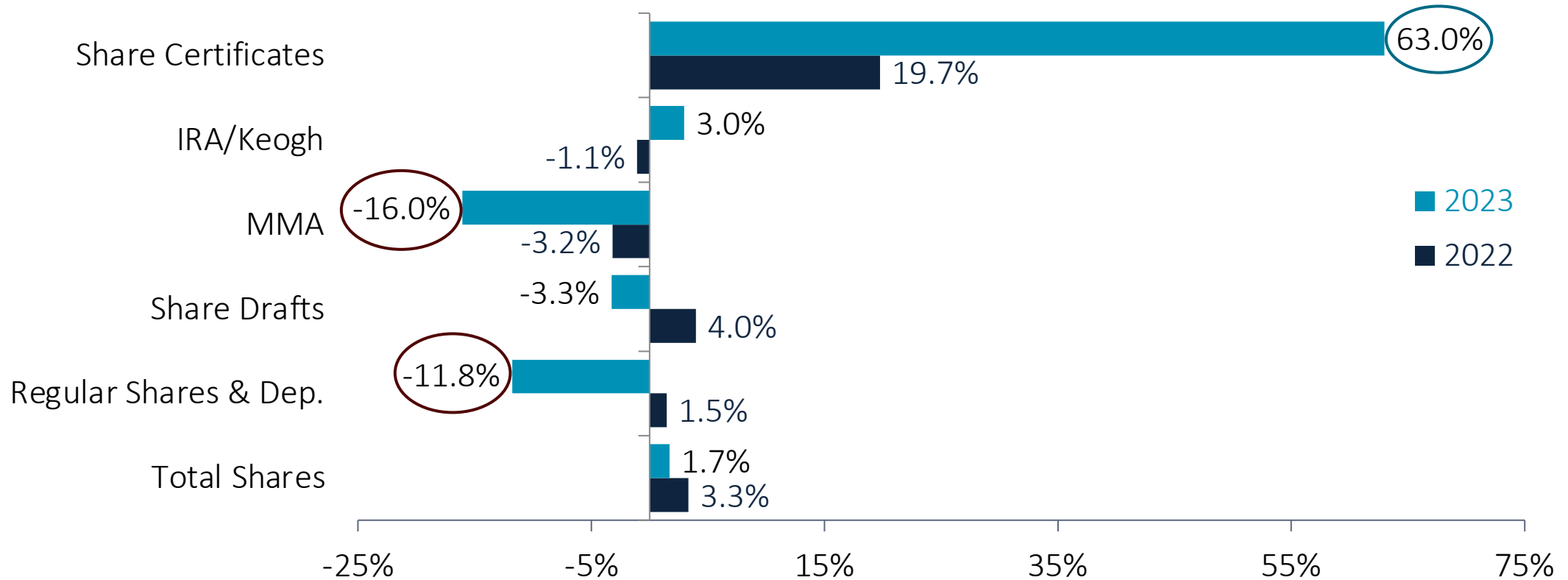


The need for funds is greater in larger credit unions, as seen in the gap between the mean and median loan-to-share ratio



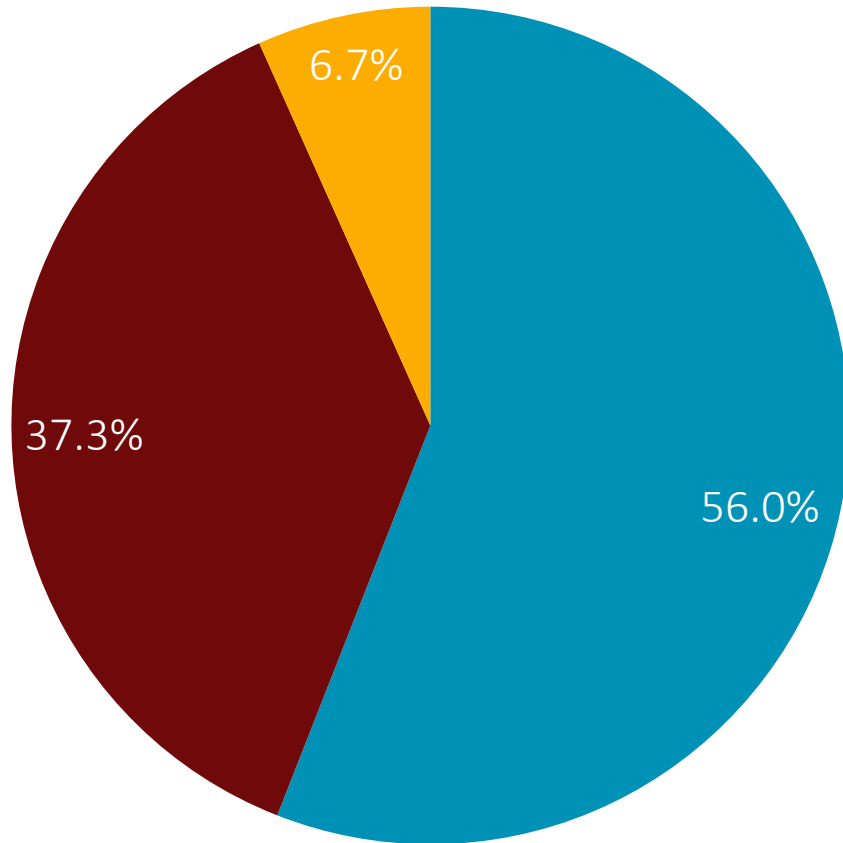
Certificates post extraordinary growth in 2023, helping to both retain existing shares and attract new deposits

12-Mo. Growth in Shares Segments
Data as of 12.31.2023

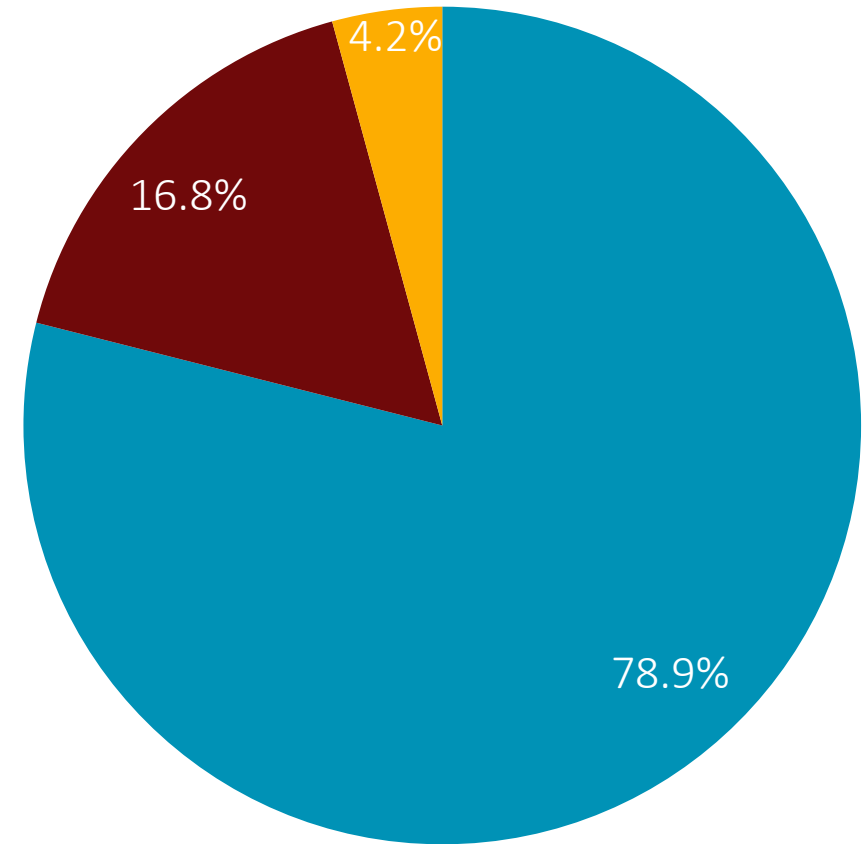


Short term certificates make up 79% of certificates

Share Certificate Maturity
Data as of 12.31.2022

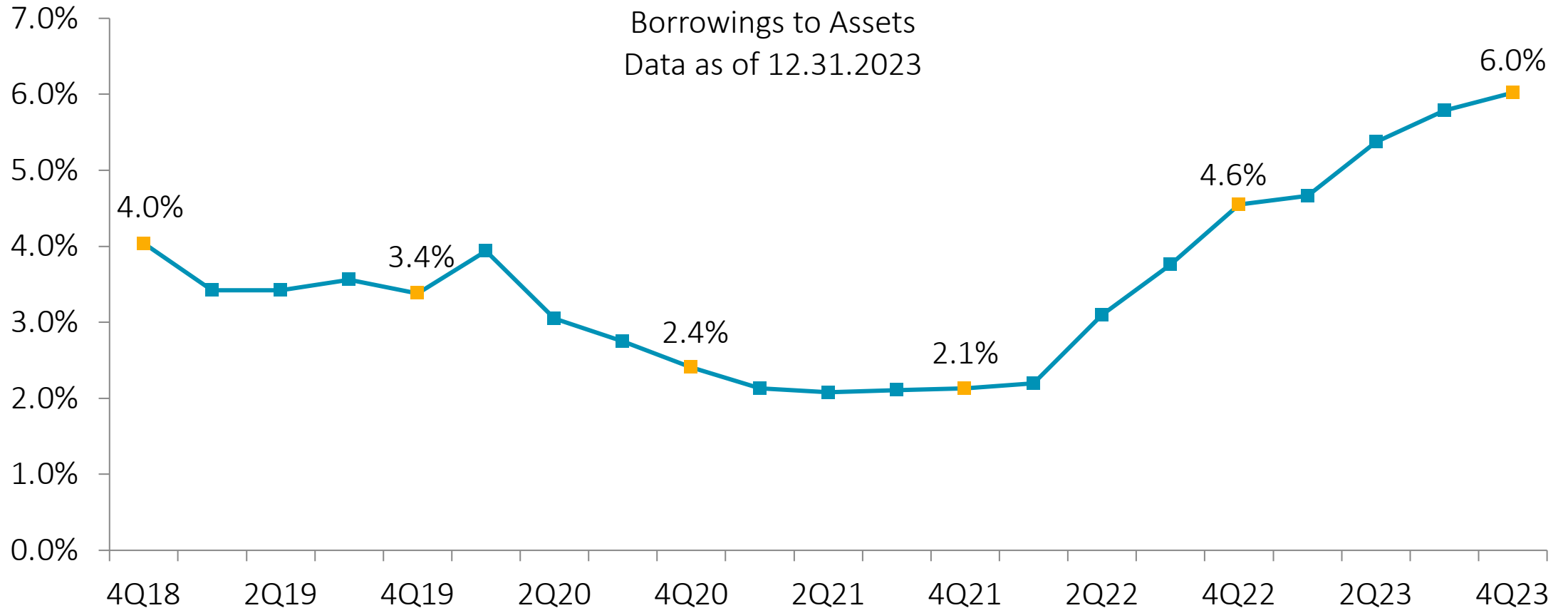



Share Certificate Maturity
Data as of 12.31.2023



- < 1 Year
- 1-3 Years
- > 3 Years

Credit unions also turned to borrowings to fund more loans

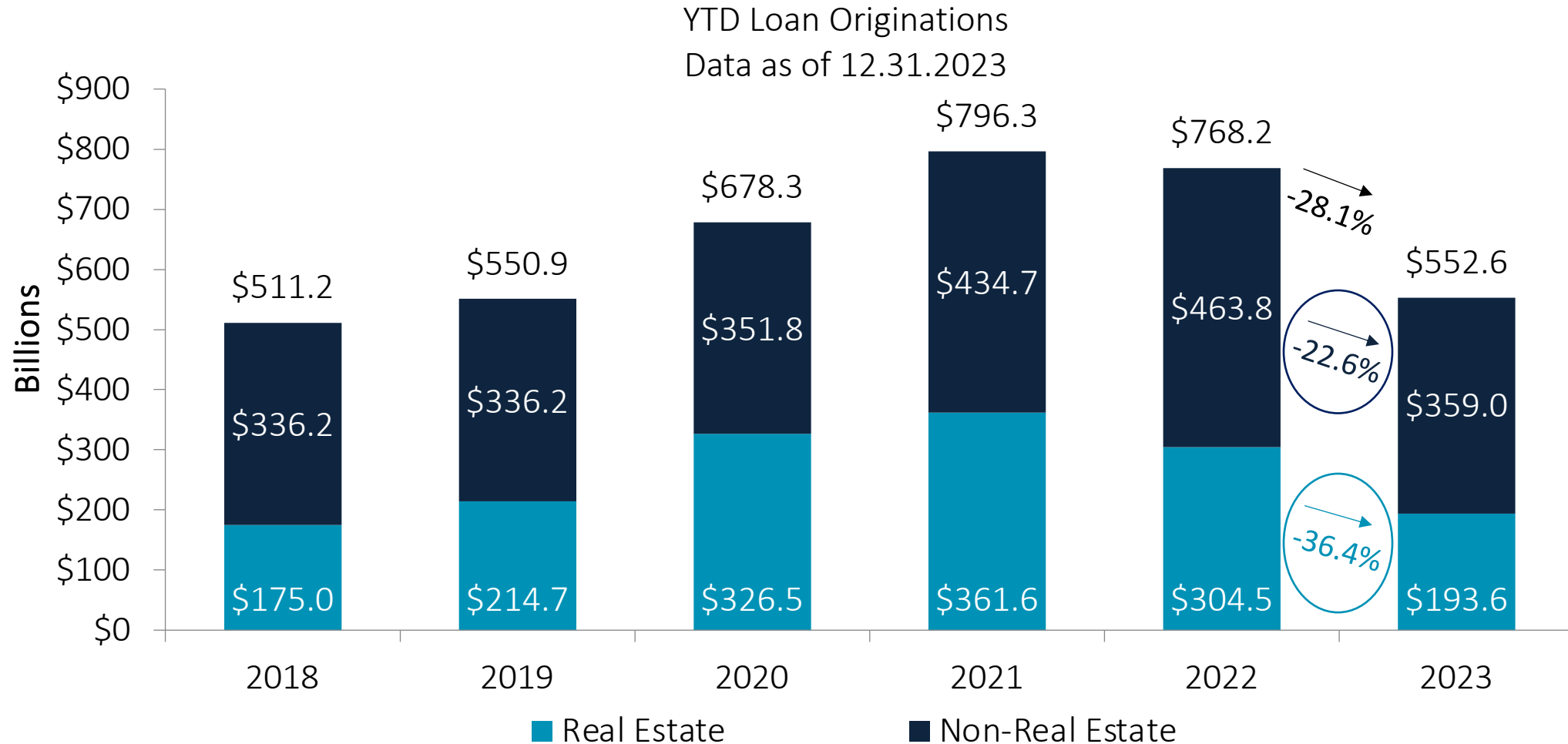




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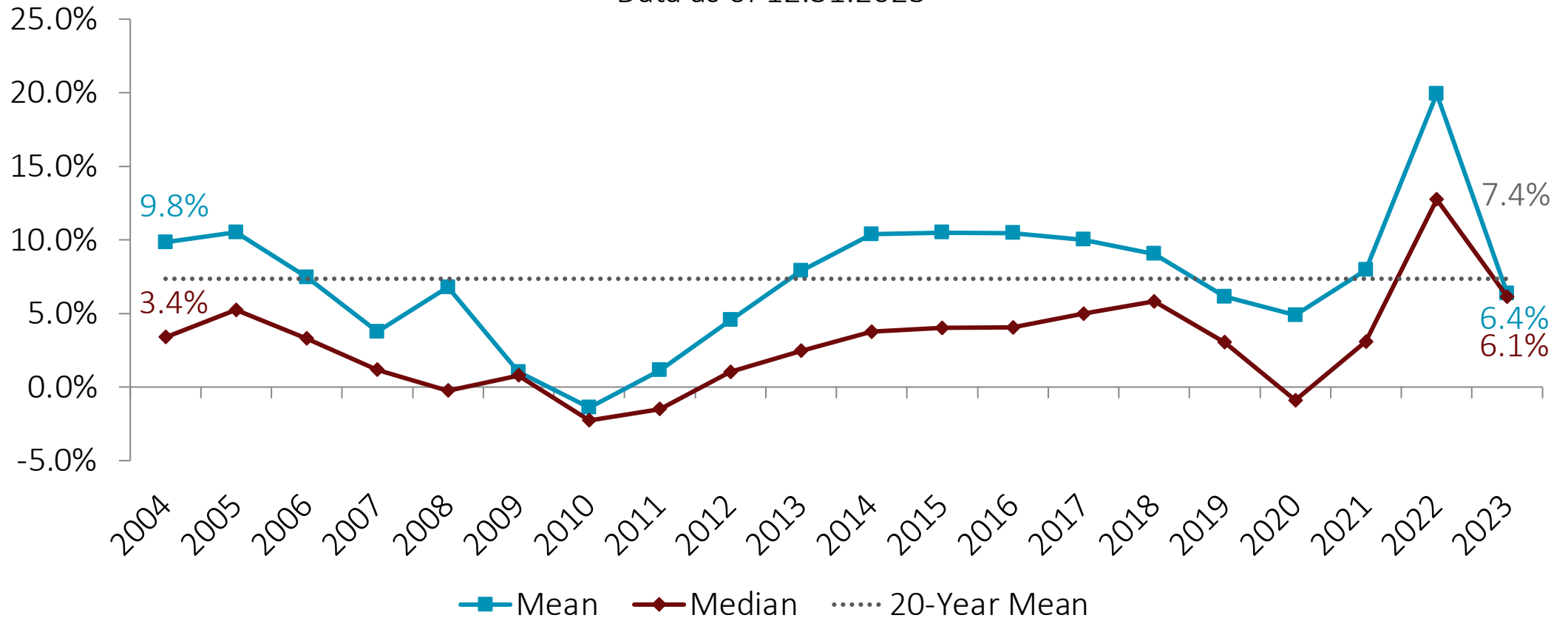
1. Deposits & Liquidity
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Mortgage originations decline 36.4%, below 2019 level



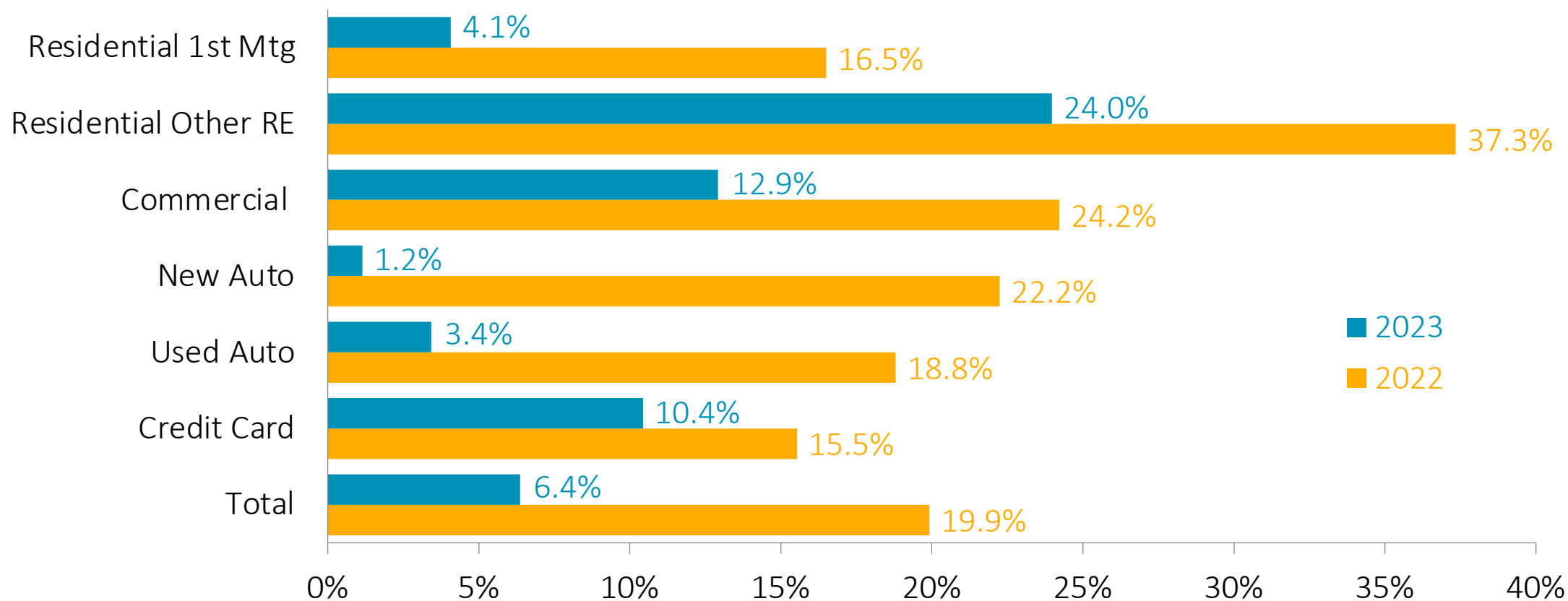
Smaller credit unions' liquidity advantage resulted in solid loan growth in 2023

Loan Growth
Data as of 12.31.2023

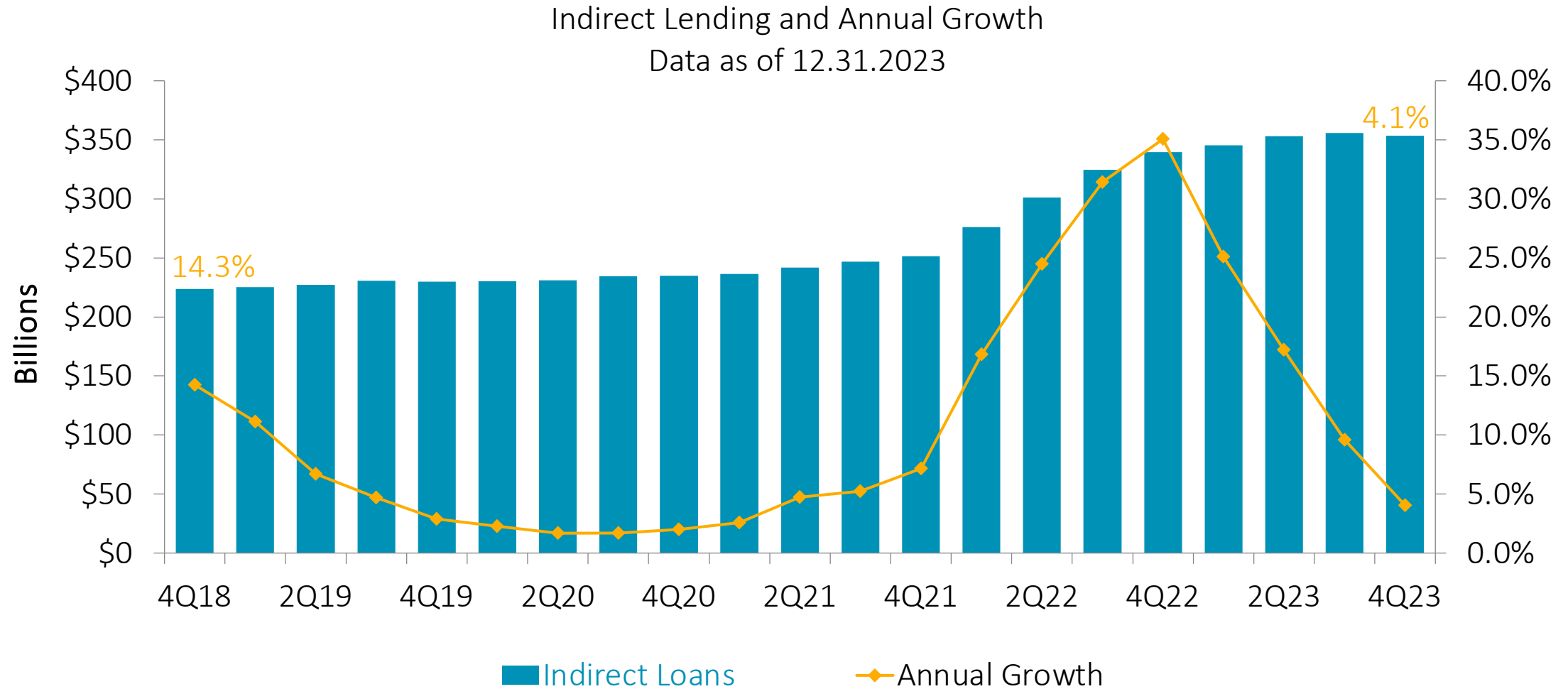


But growth slows across the loan portfolio

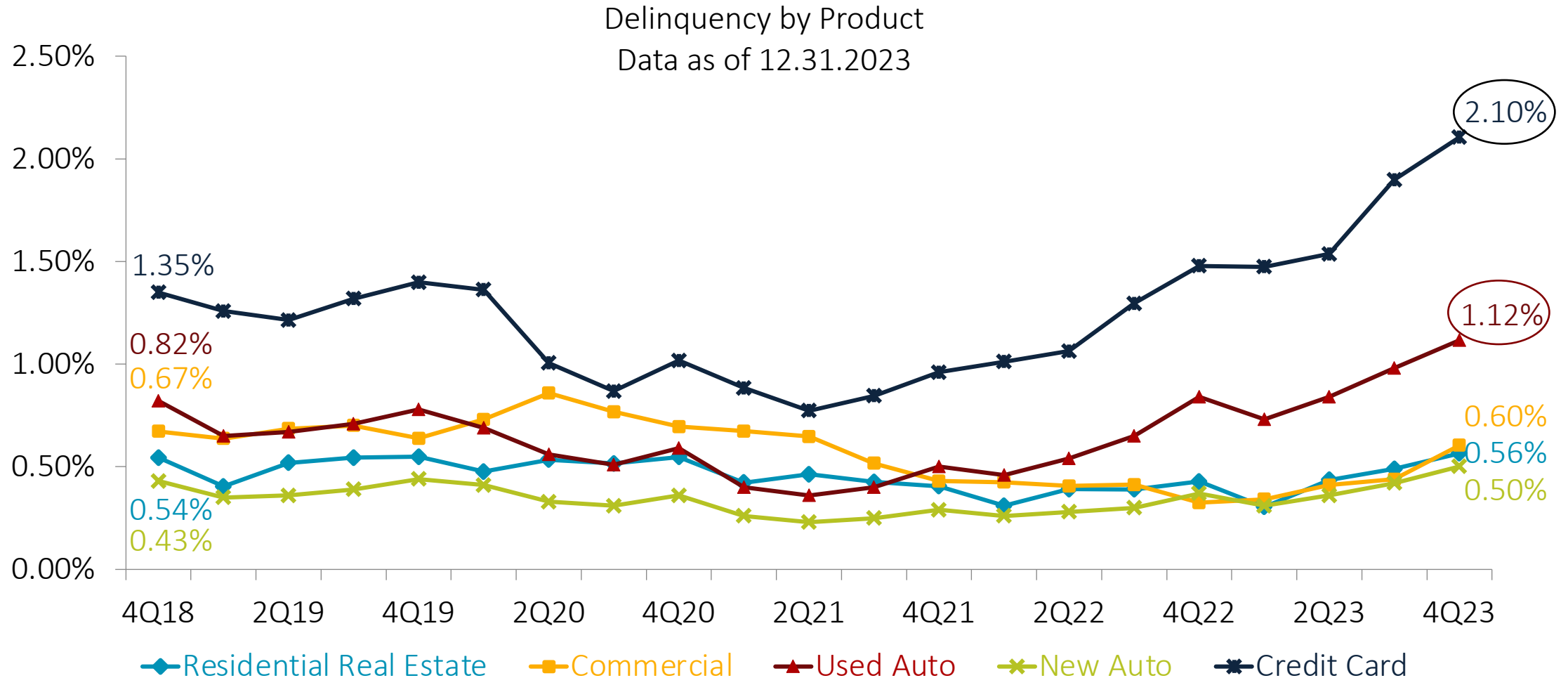
Annual Growth in Loans Outstanding
Data as of 12.31.2023



With liquidity tighter, credit unions are focusing on core members



Credit card and used auto delinquency diverges from other major loan products to drive delinquency

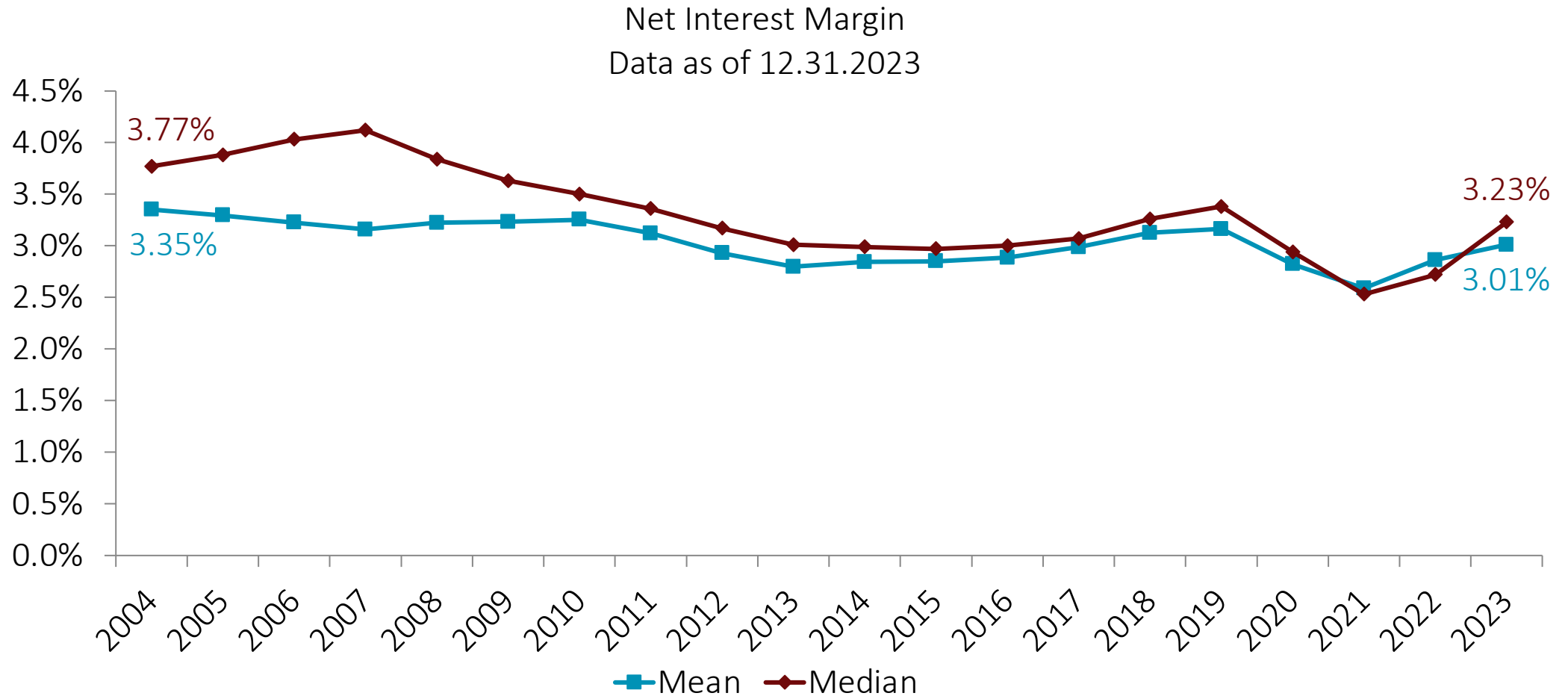




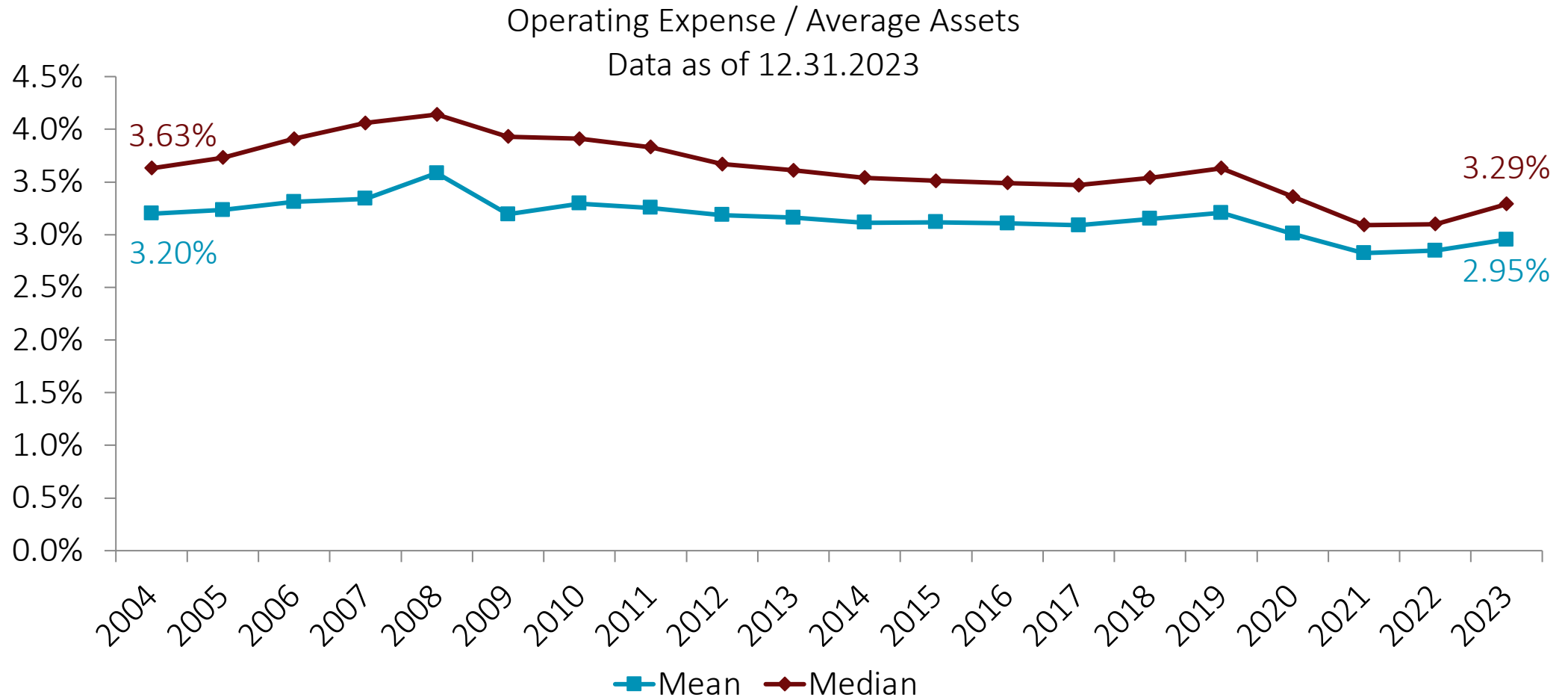
2023 Data Analyzed: Key Industry Trends

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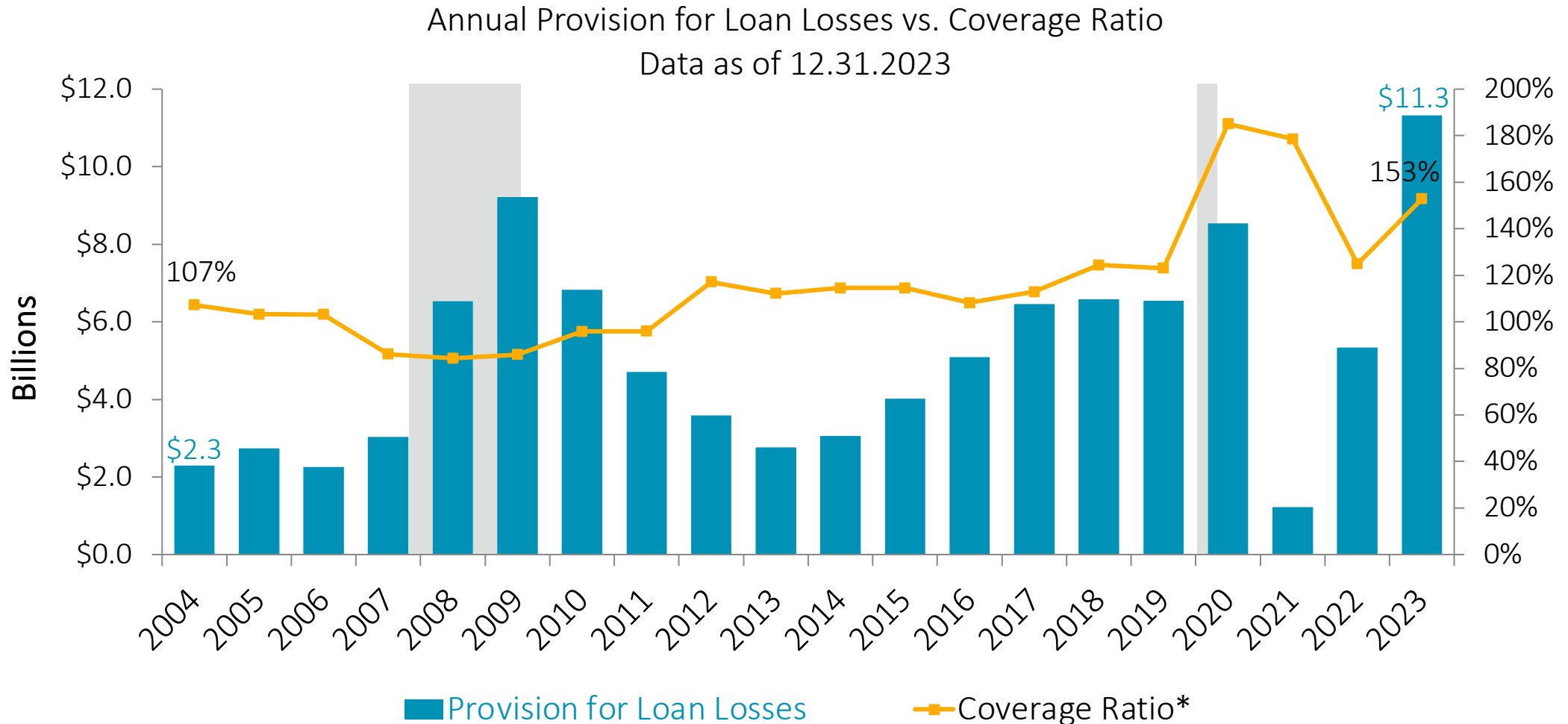
Net interest margin is moving higher after reaching historic lows in 2021



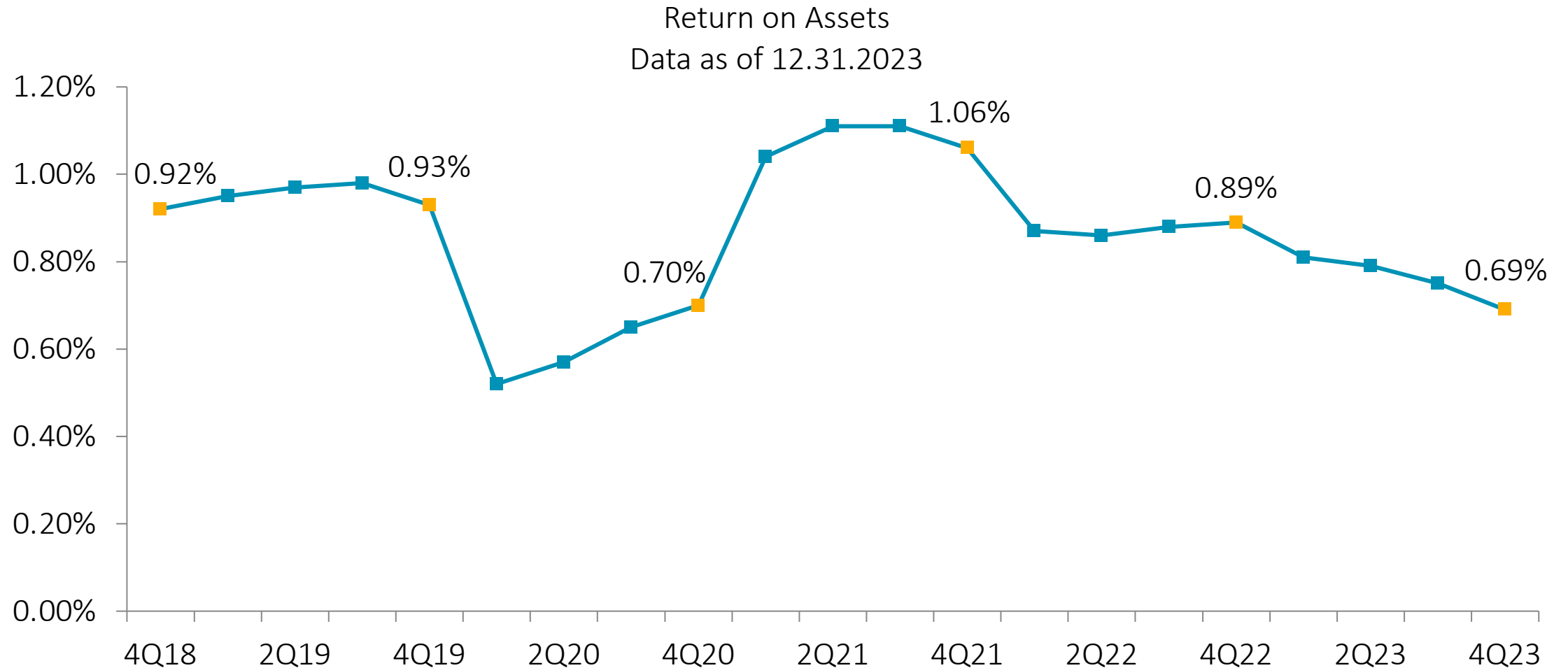
Operating expense ratio is also rising but remains low historically



Provision expenses jump due in part to CECL; potential loan losses are well-covered by reserves



ROA is lower in 2023 due to higher expenses, but capitalization remains OK



Key Takeaways and Closing Thoughts

- 2024 will likely be another slow-growth year as credit unions manage liquidity and margins, the credit cycle, and increased fraud.
- Many member households aren't feeling great about their financial situation. They need hope!
- “Success” is different in this environment. It is not as much about traditional performance measures. It is more about member and community impact – the reason credit unions exist!
- Strategic trade-offs should be considered. Credit unions can take the long view...look at the environment with a telescope rather than a microscope.



Cornerstone: Performance Profile

Comparisons:

- Cornerstone Affiliates (597 CUs)
- Cornerstone Affiliates Over \$100M In Assets (195 CUs)
- Cornerstone Affiliates Under \$100M In Assets (402 CUs)
- Credit Union Industry (4,702 CUs)

Data as of December 31, 2023

Source: Callahan's Peer-to-Peer Analytics

Peer Averages Comparison

Data as of 12.31.2023

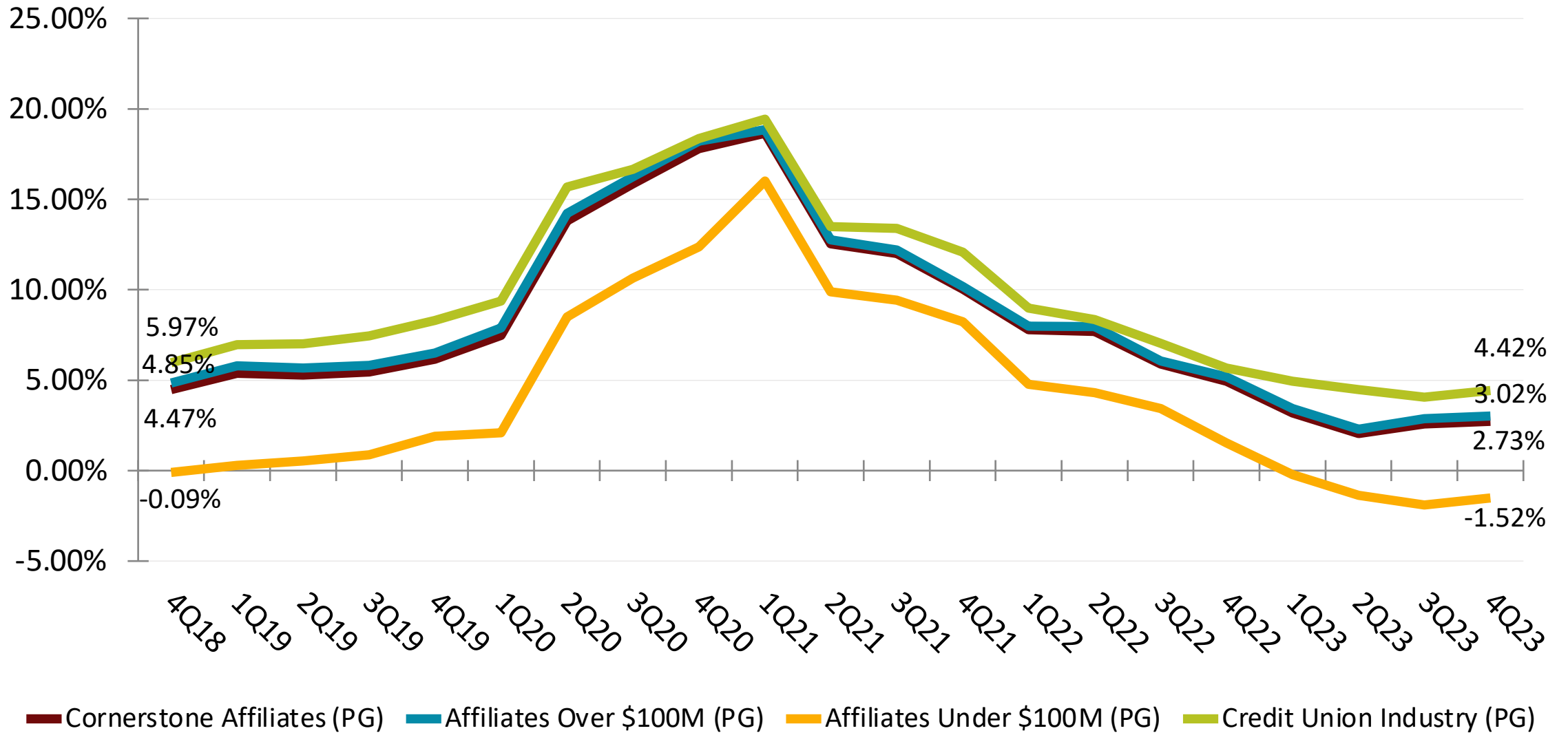
	Cornerstone Affiliates	Cornerstone Affiliates Over \$100M	Cornerstone Affiliates Under \$100M	CU Industry
Assets	\$312.6M	\$898.2M	\$28.6M	\$484.6M
Members	21,514	59,933	2,878	29,908
Employees	60	164	9	75
Branches	4	9	1	4
Institutions	597	195	402	4,702

Source: Callahan's Peer-to-Peer Analytics

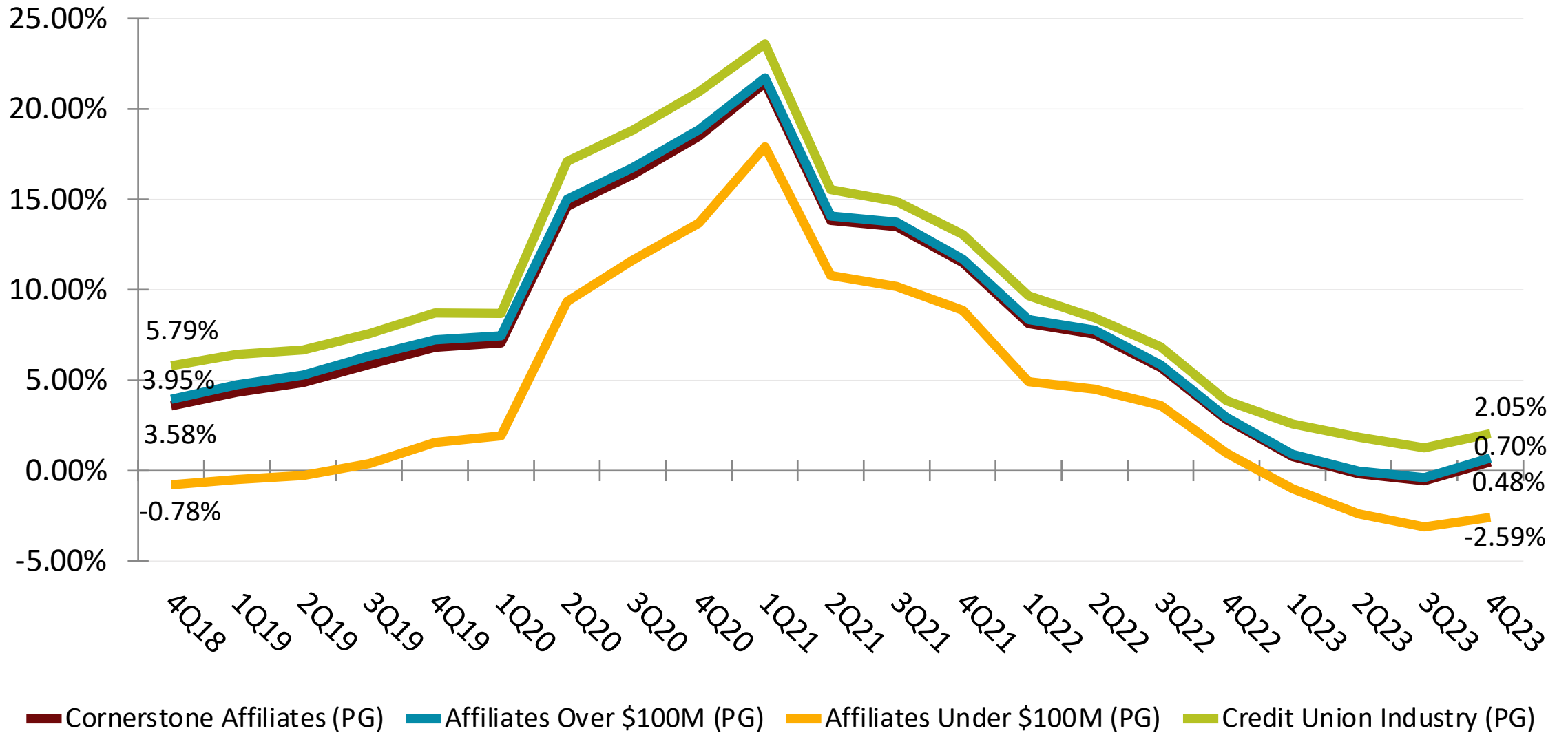


Cornerstone: Growth Trends

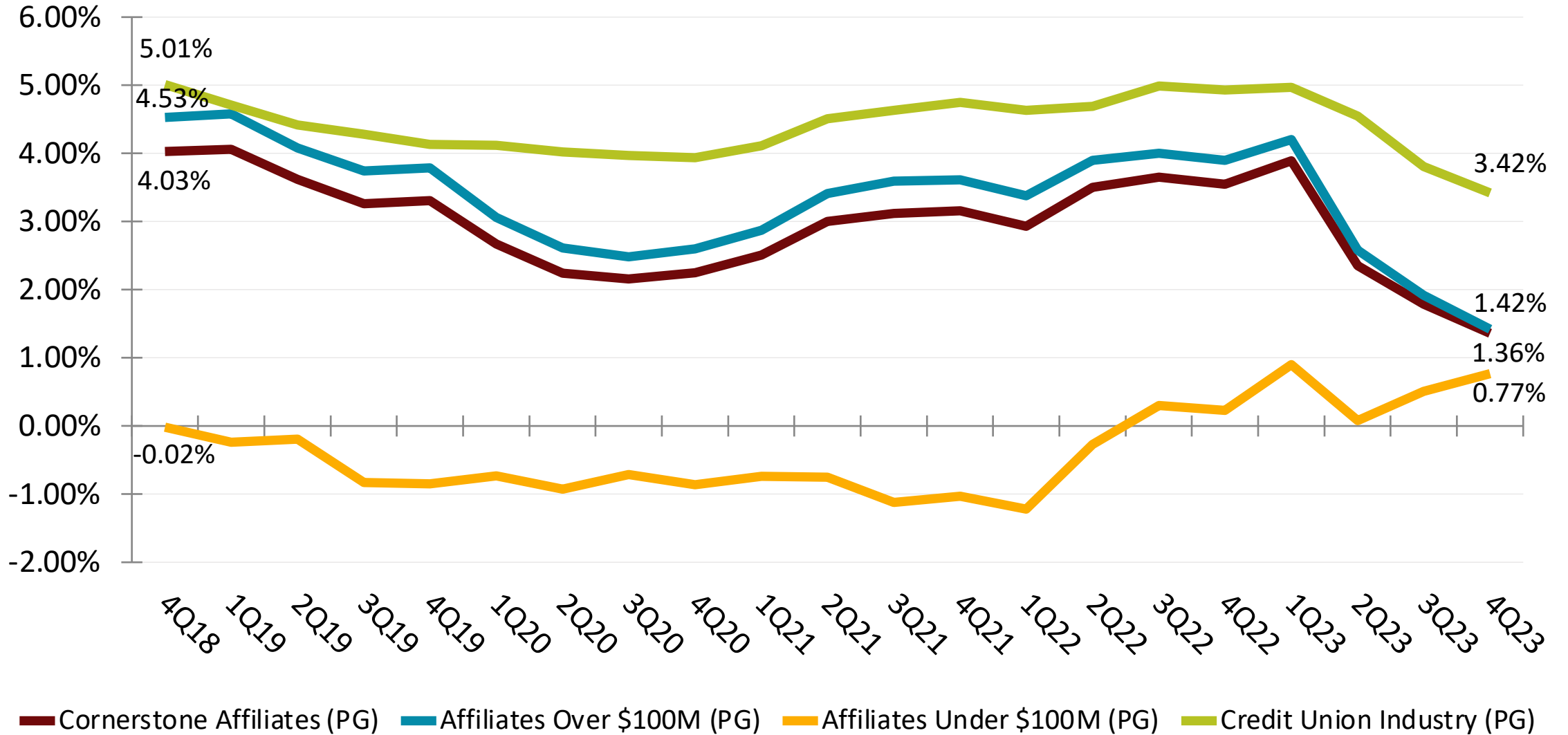
Asset Growth



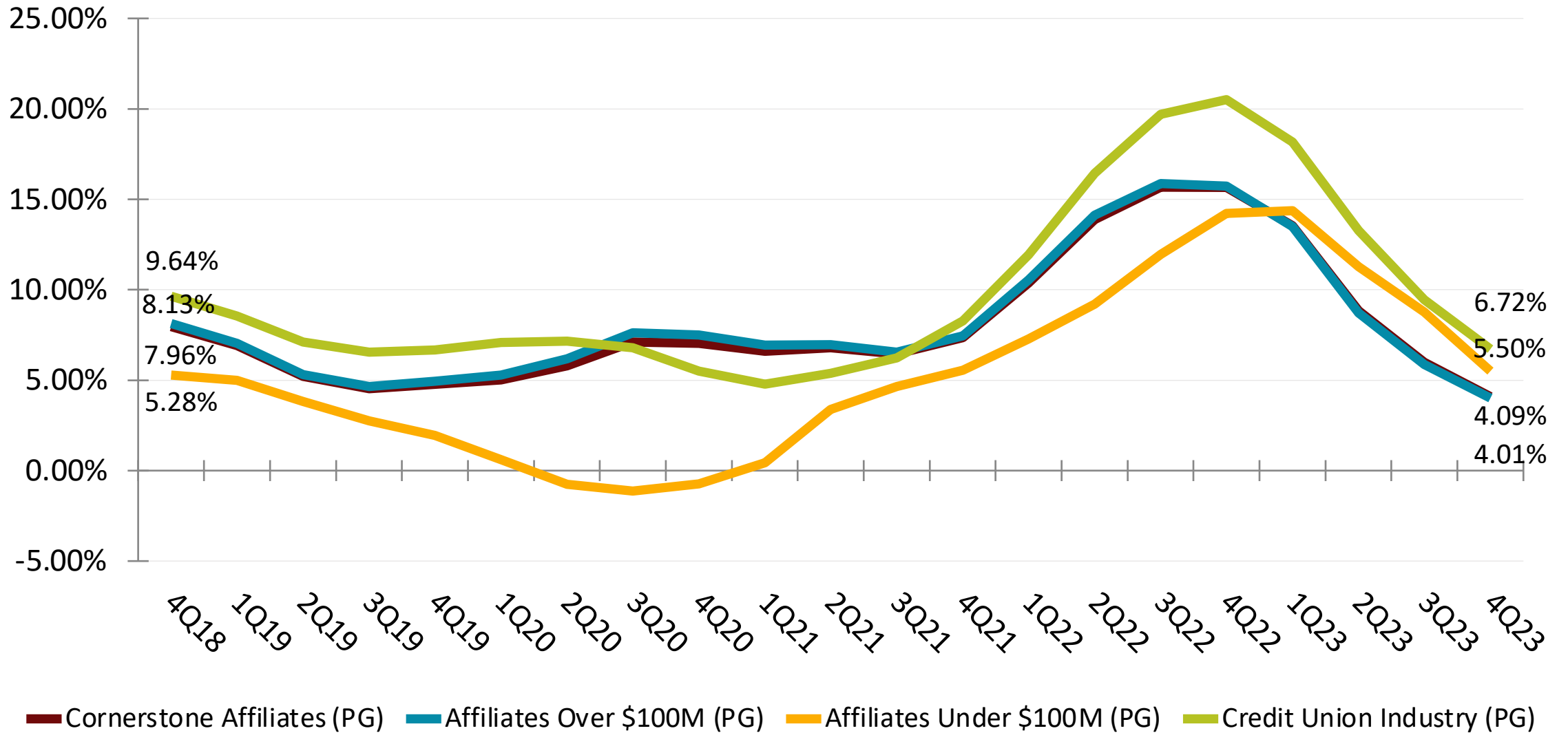
Share Growth



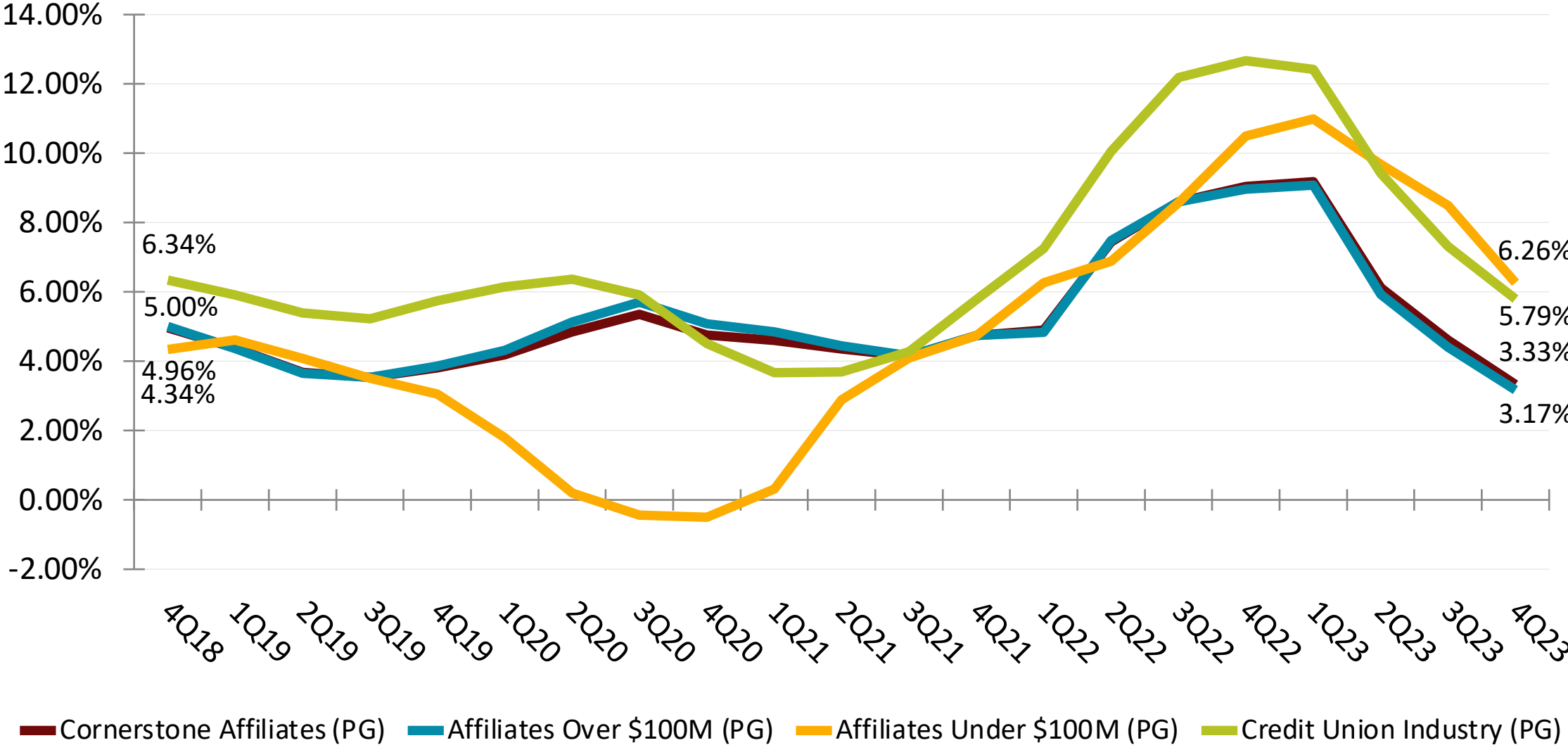
Member Growth



Loan Growth



Loan Growth (Excl. Indirect and Purchased Participations)

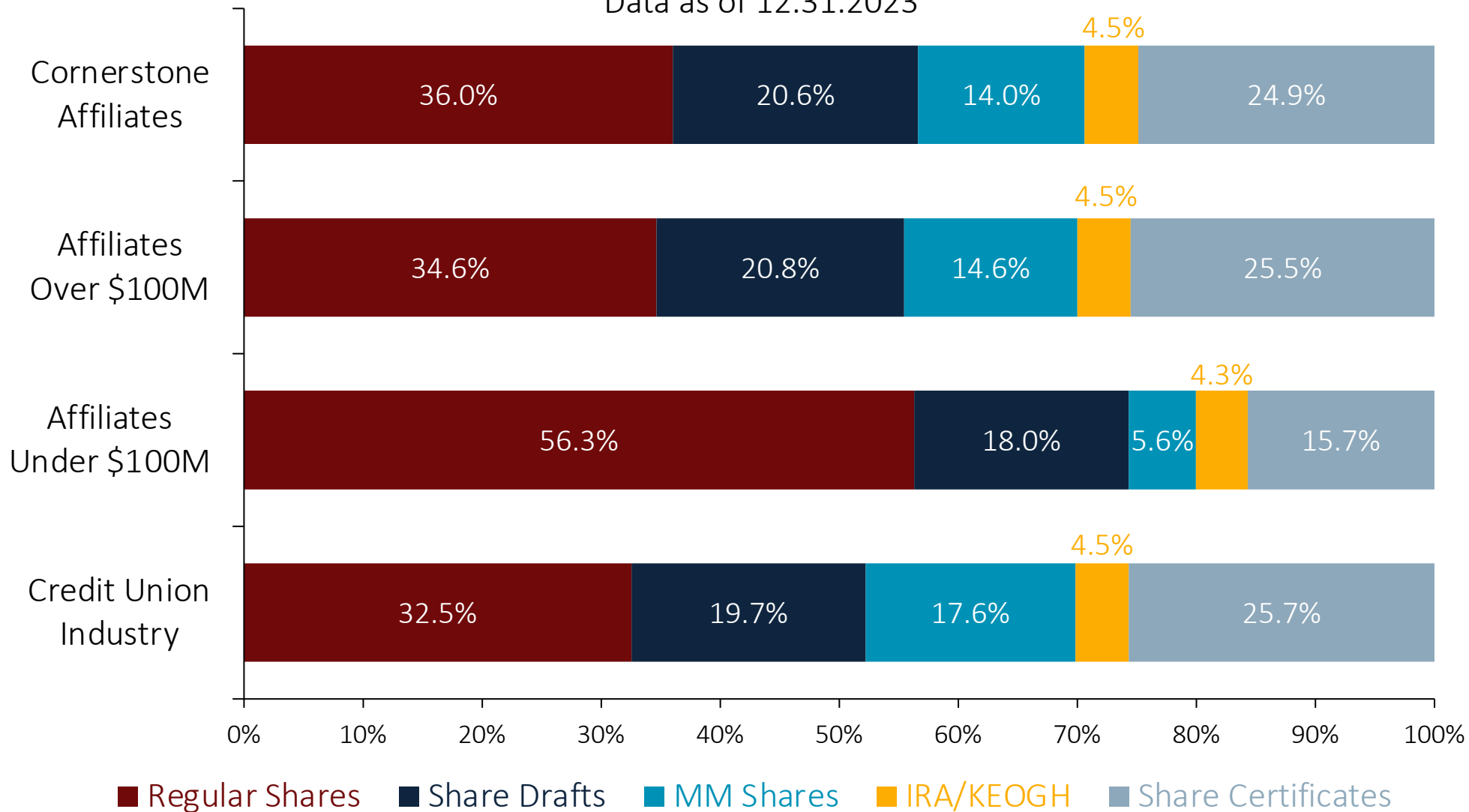




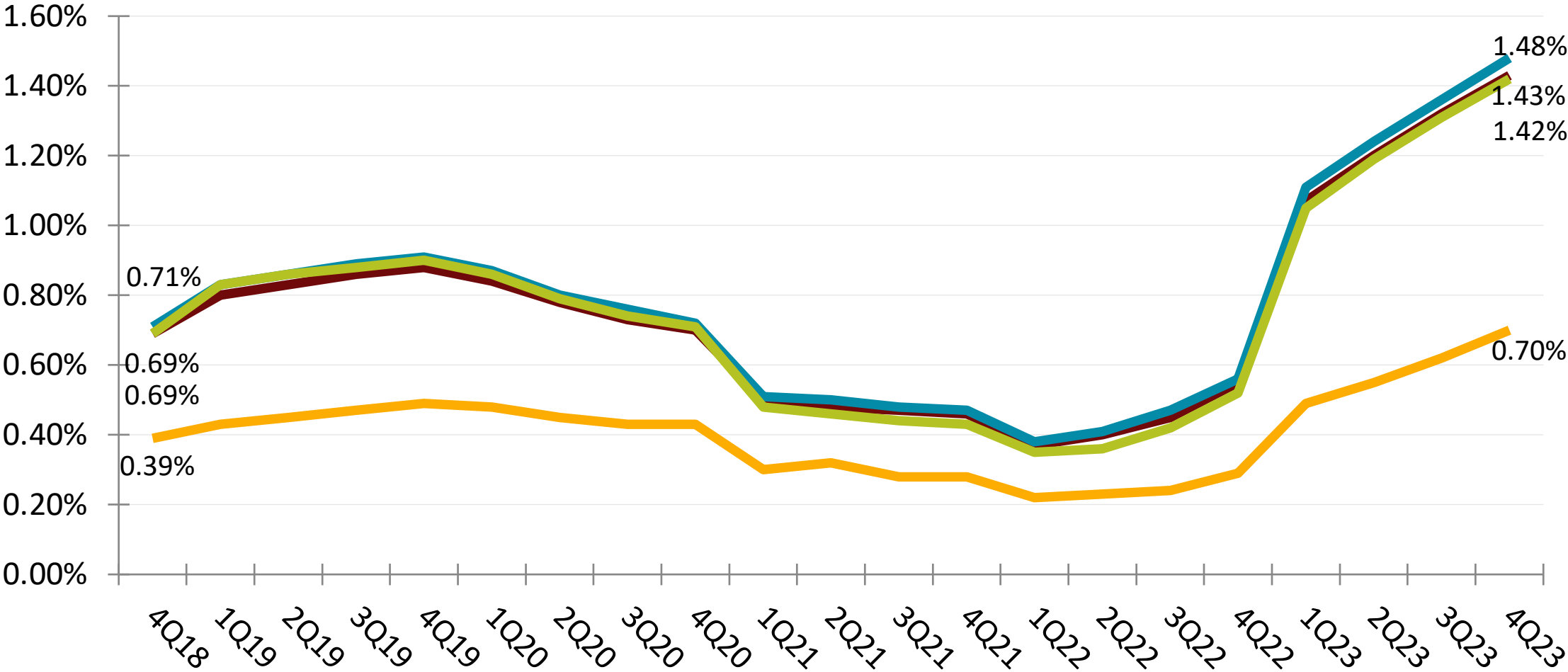
Cornerstone: Deposit Portfolio

Share Portfolio

Data as of 12.31.2023



Interest Expense/Average Assets

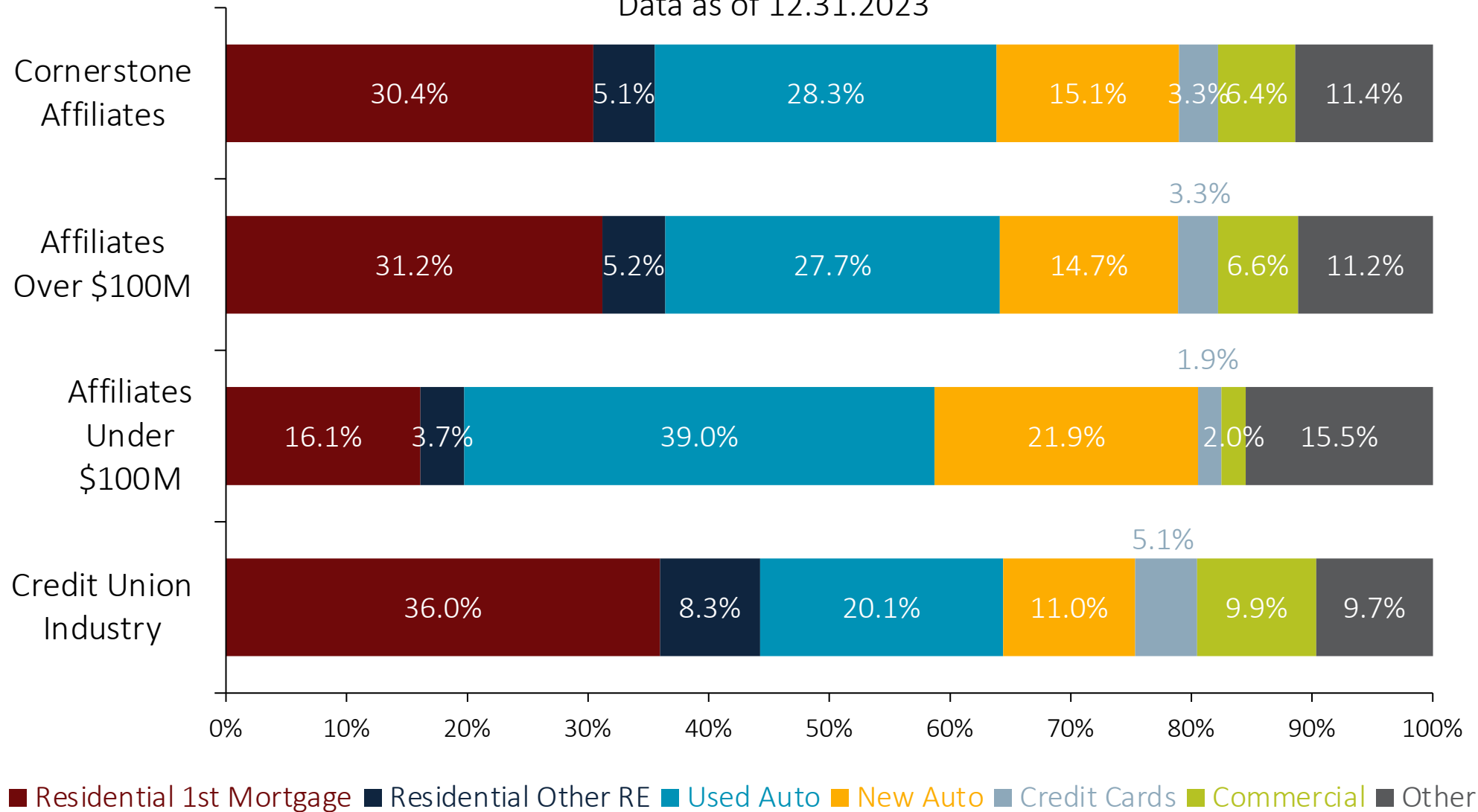


■ Cornerstone Affiliates (PG)
 ■ Affiliates Over \$100M (PG)
 ■ Affiliates Under \$100M (PG)
 ■ Credit Union Industry (PG)

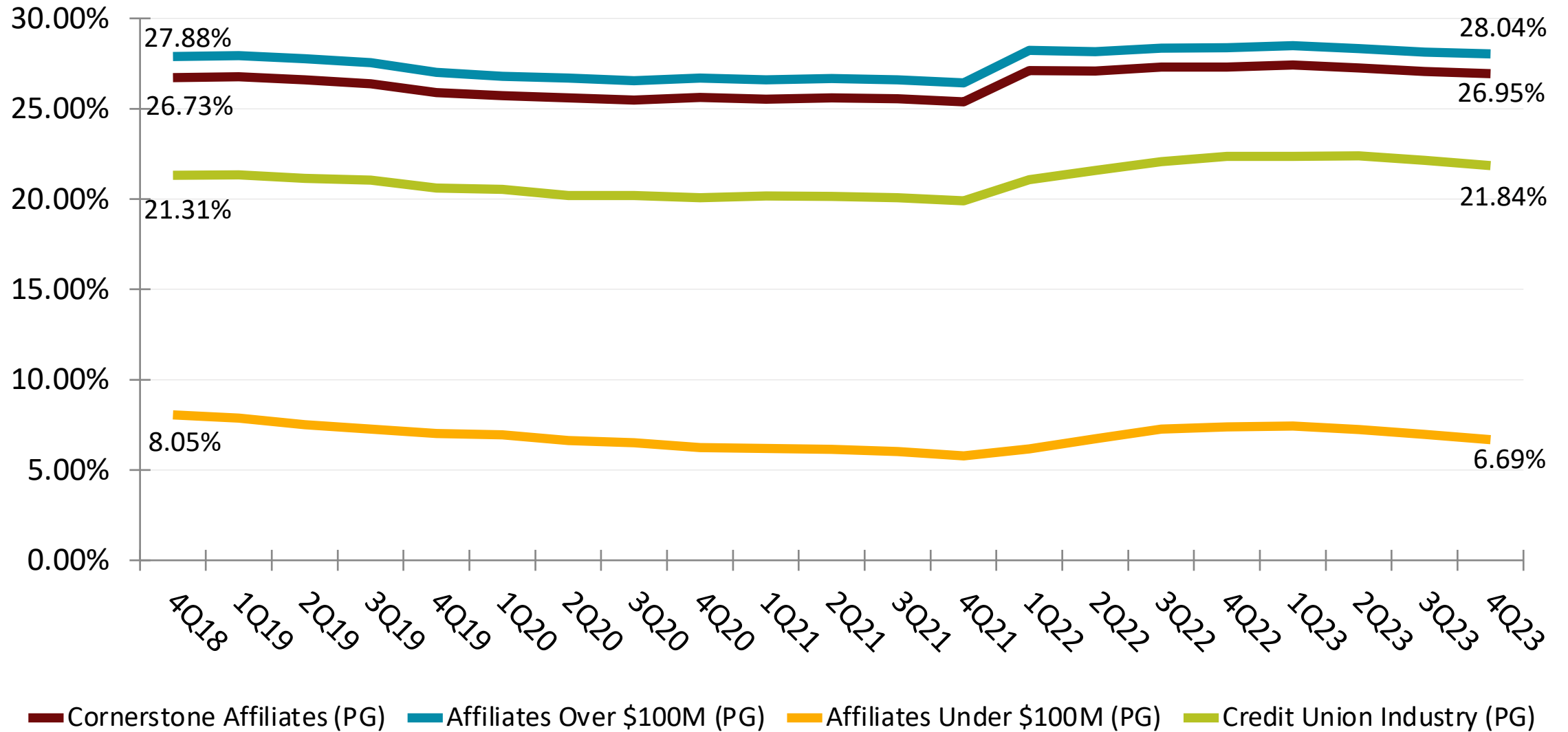


Cornerstone: Loan Portfolio

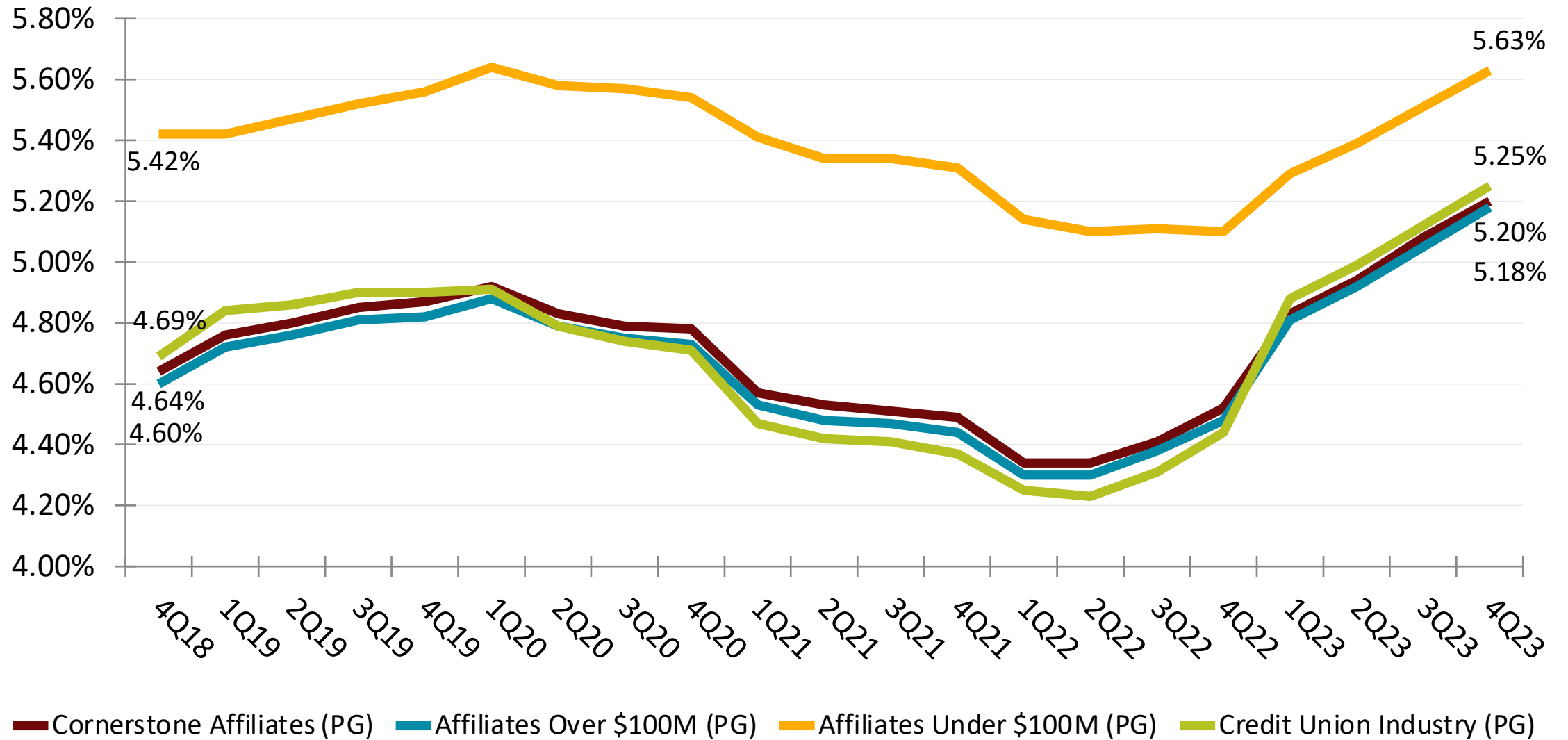
Loan Portfolio
Data as of 12.31.2023



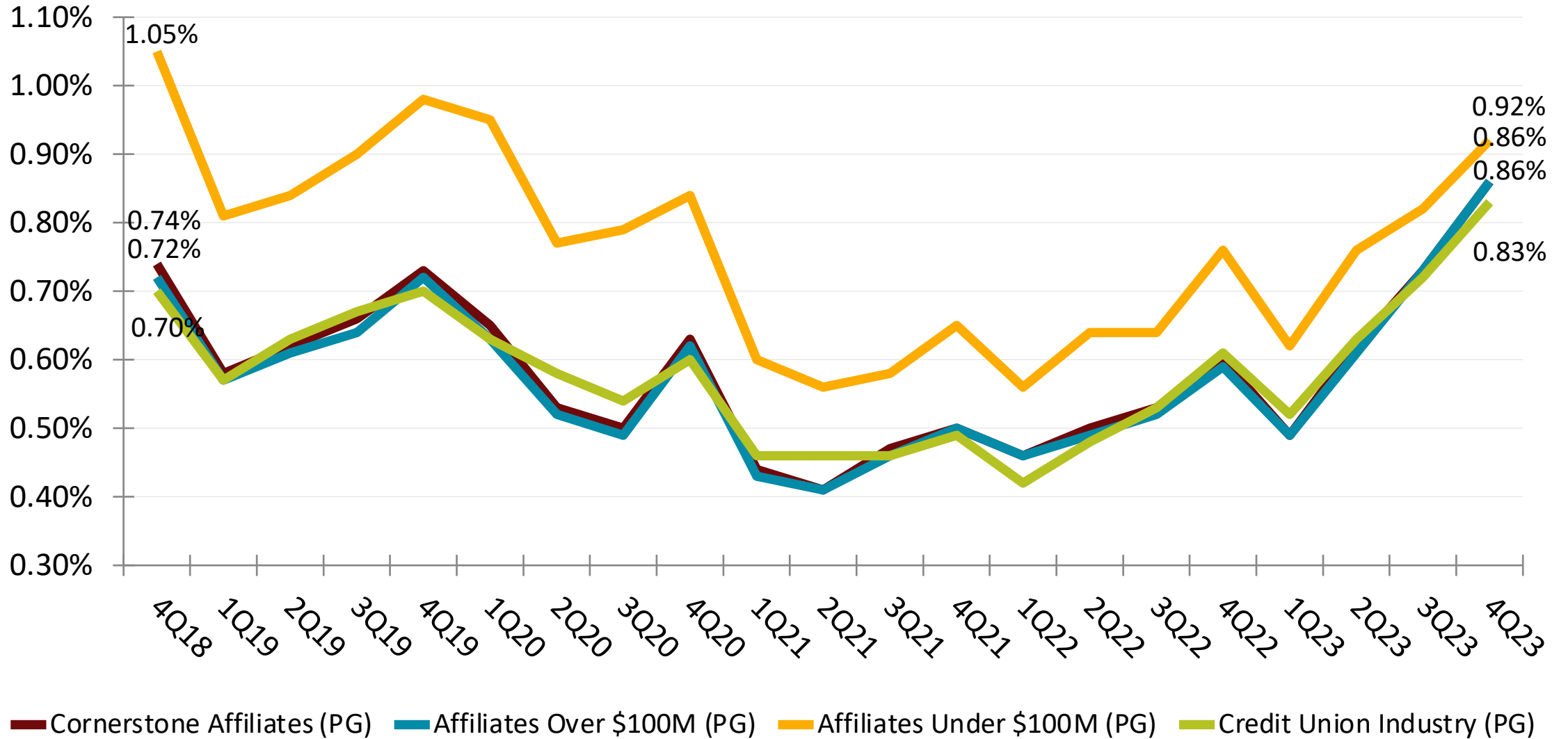
Indirect Loans/Total Loans



Yield on Loans



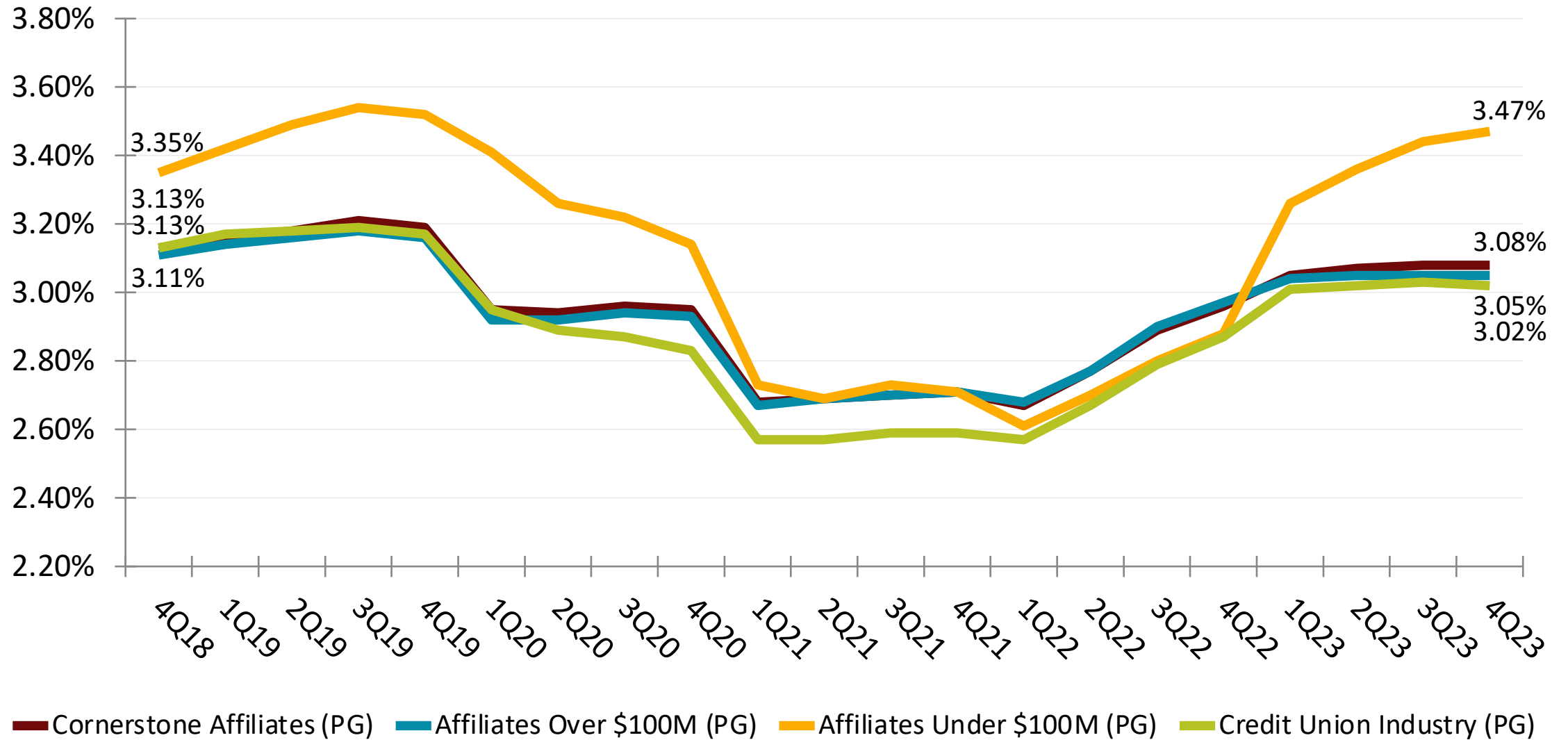
Delinquency Ratio



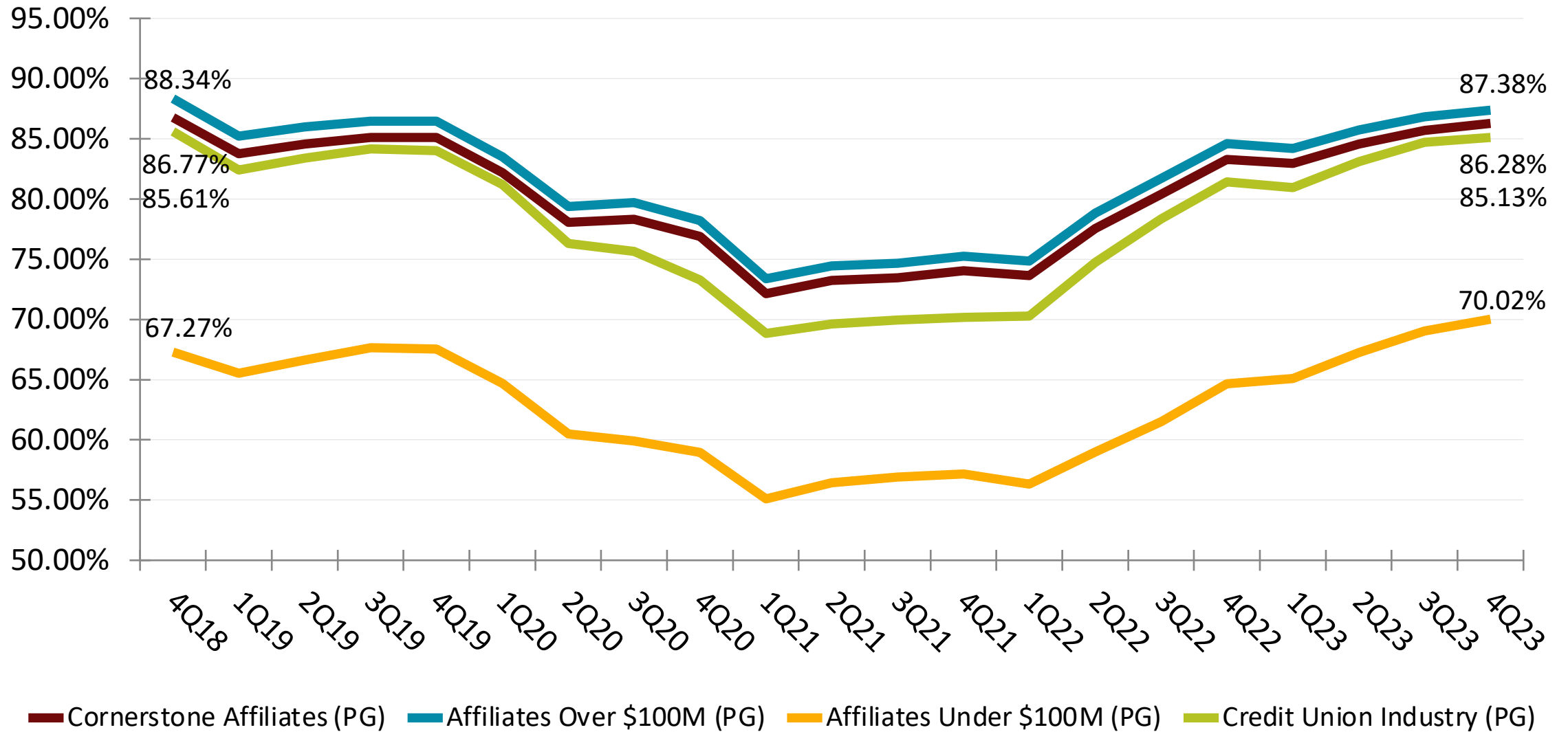


Cornerstone: Business Model

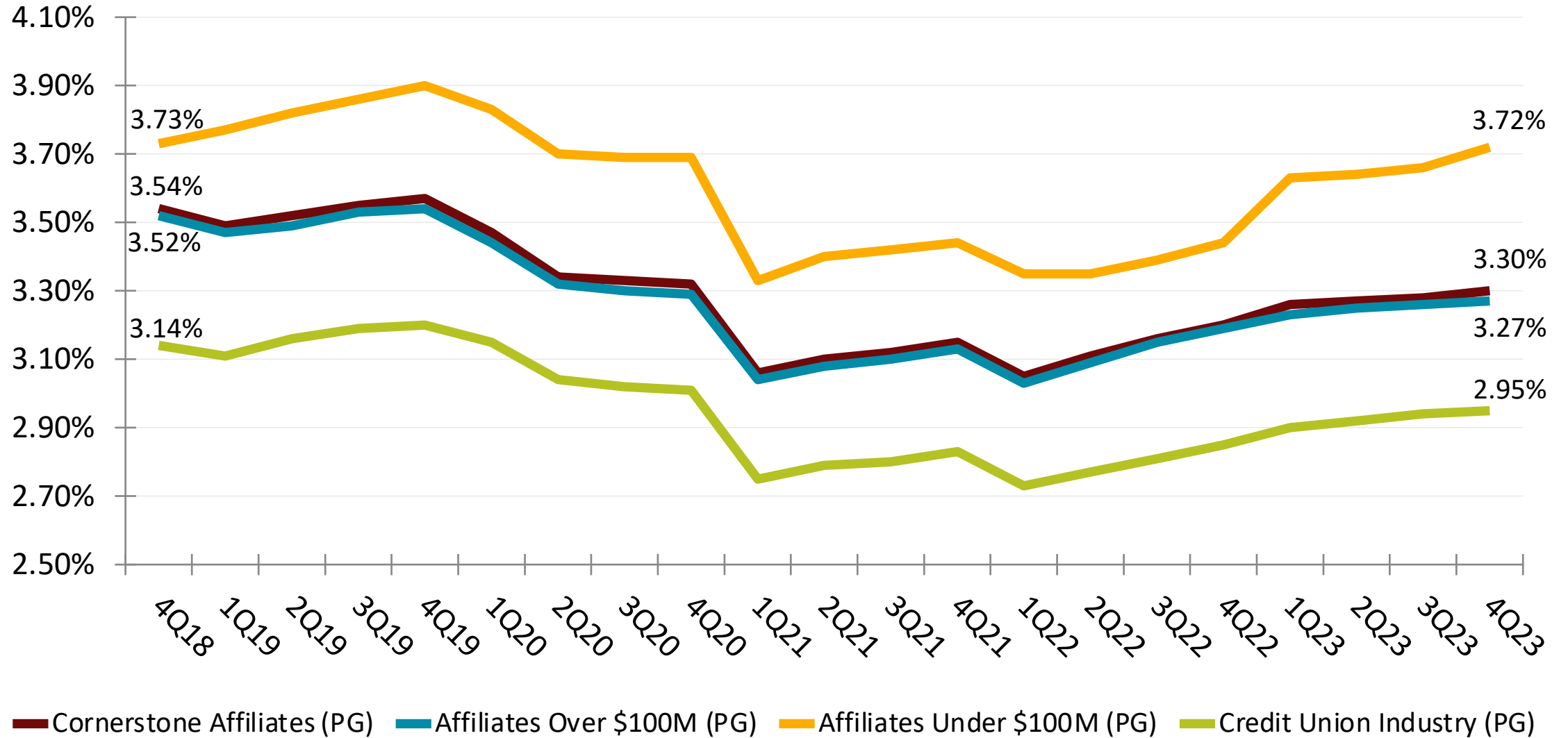
Net Interest Margin



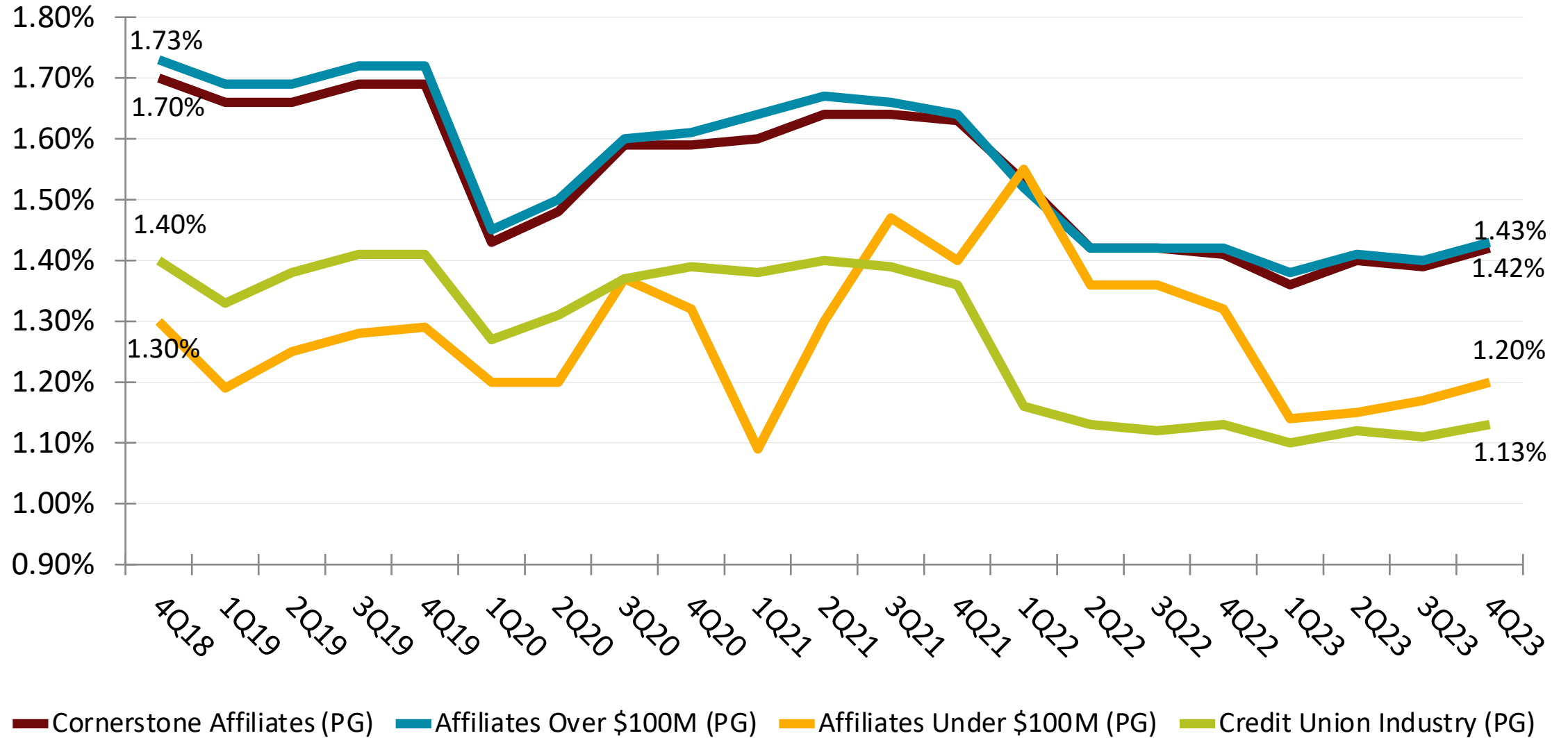
Loans/Shares



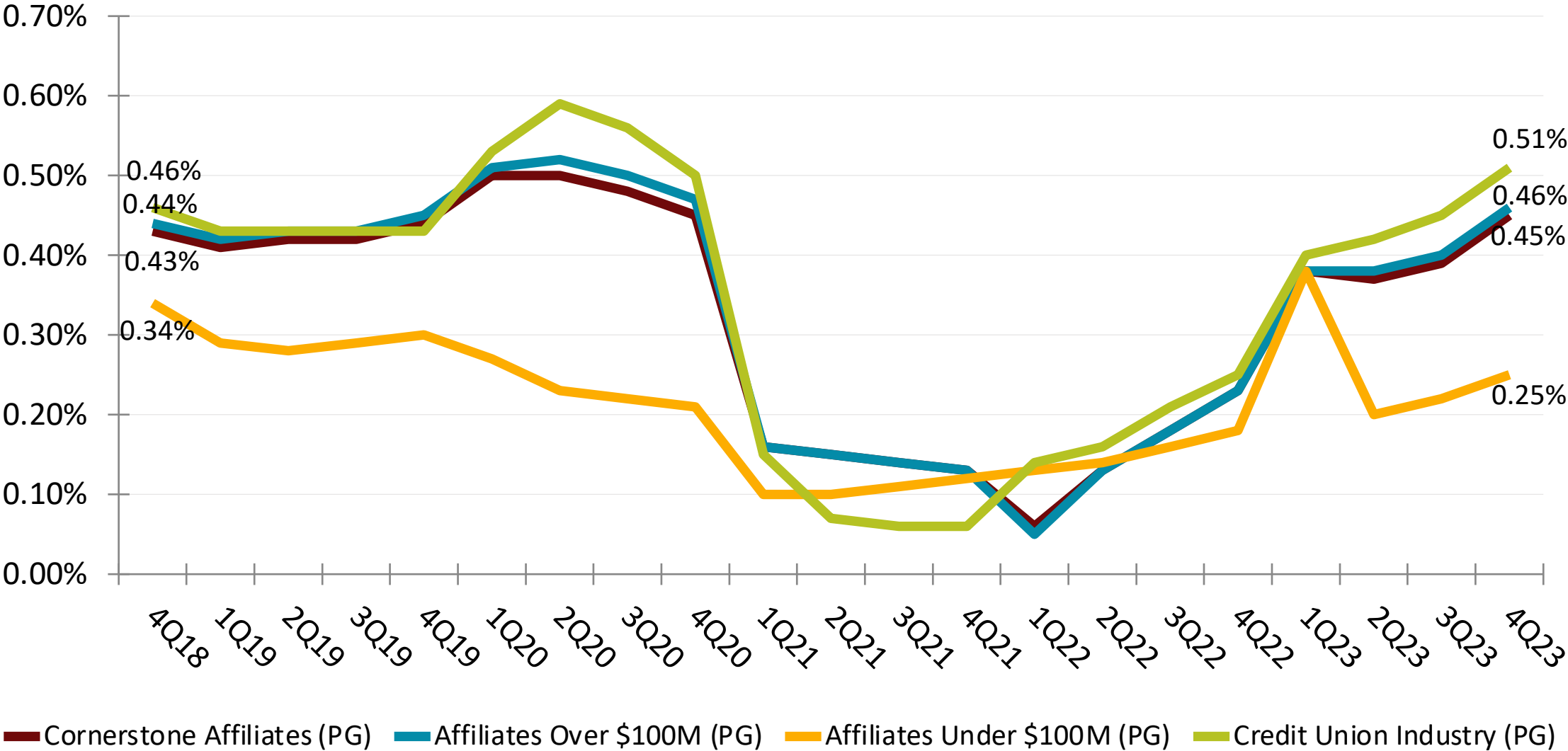
Operating Expense/Average Assets



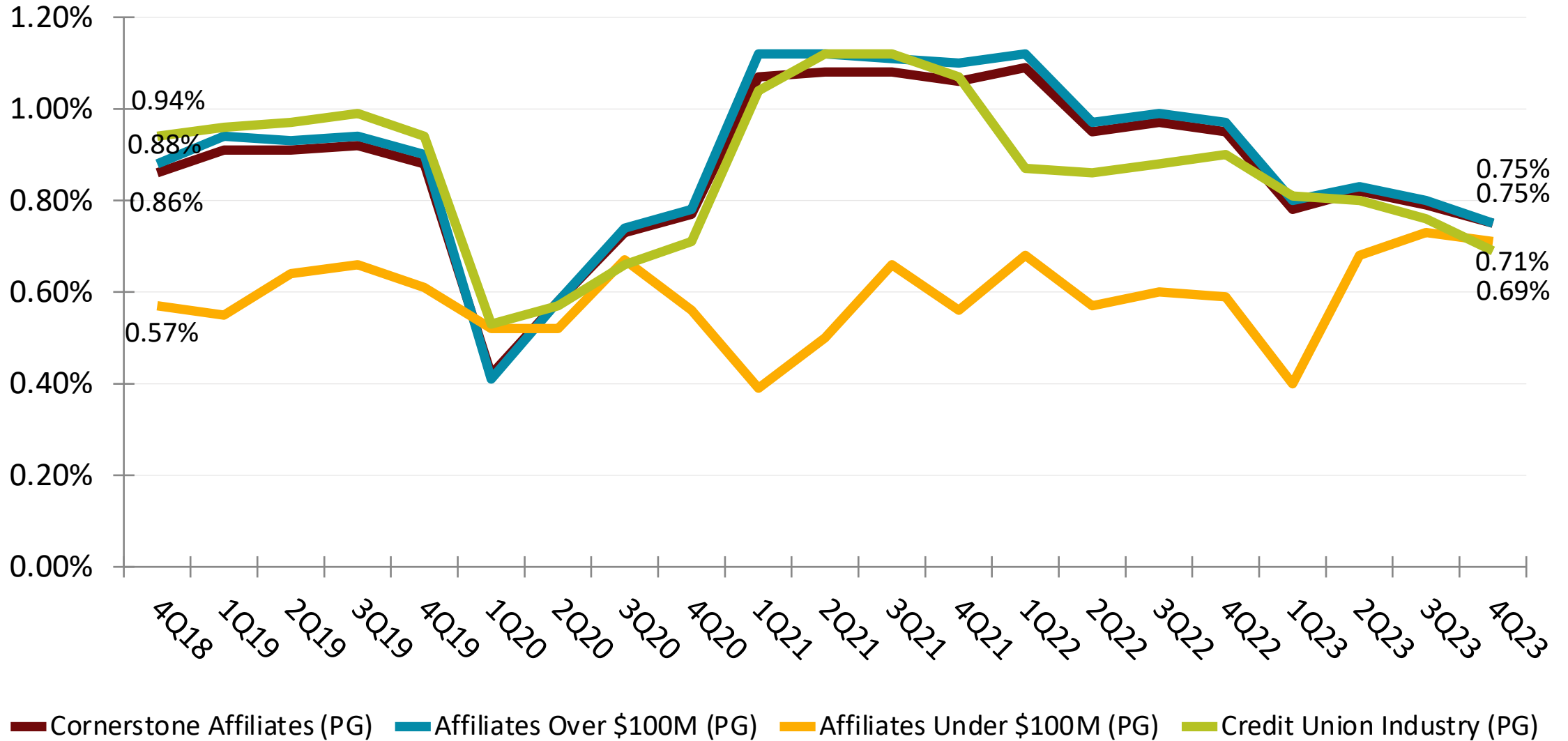
Non-Interest Income/Avg Assets



Provision for Loan Loss/Average Assets



Return on Assets



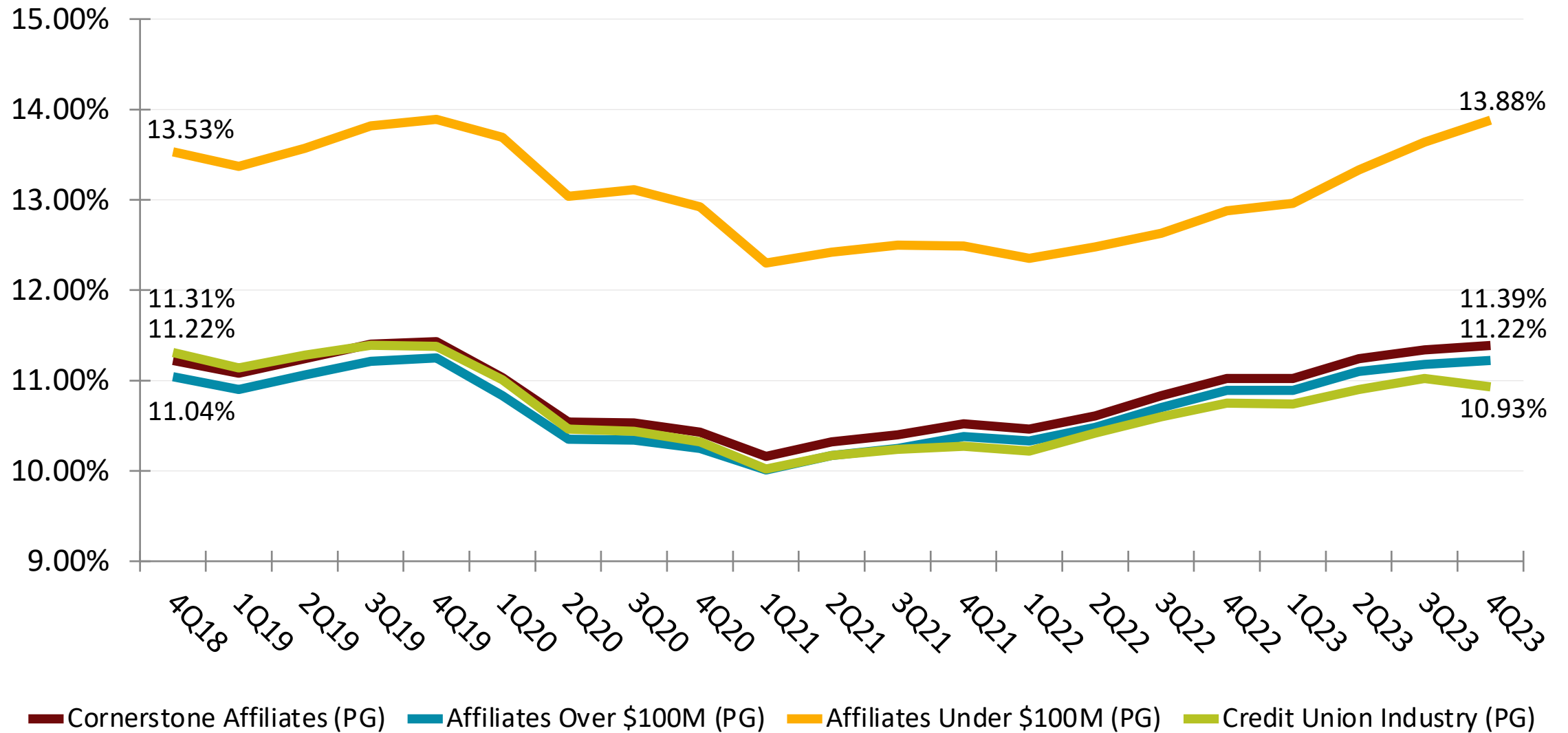
Earnings Model Comparisons

Data as of 12.31.2023

	Cornerstone Affiliates	Affiliates Over \$100M	Affiliates Under \$100M	CU Industry
Interest Income	4.52%	4.54%	4.18%	4.44%
Interest Expense	1.43%	1.48%	0.70%	1.42%
Net Interest Margin	3.08%	3.05%	3.47%	3.02%
Non-interest Income	1.42%	1.43%	1.20%	1.13%
Operating Expenses	3.30%	3.27%	3.72%	2.95%
Provision for Loan Losses	0.45%	0.46%	0.25%	0.51%
ROA	0.75%	0.75%	0.71%	0.69%

Expressed as a % of Avg. Assets
May not sum due to rounding

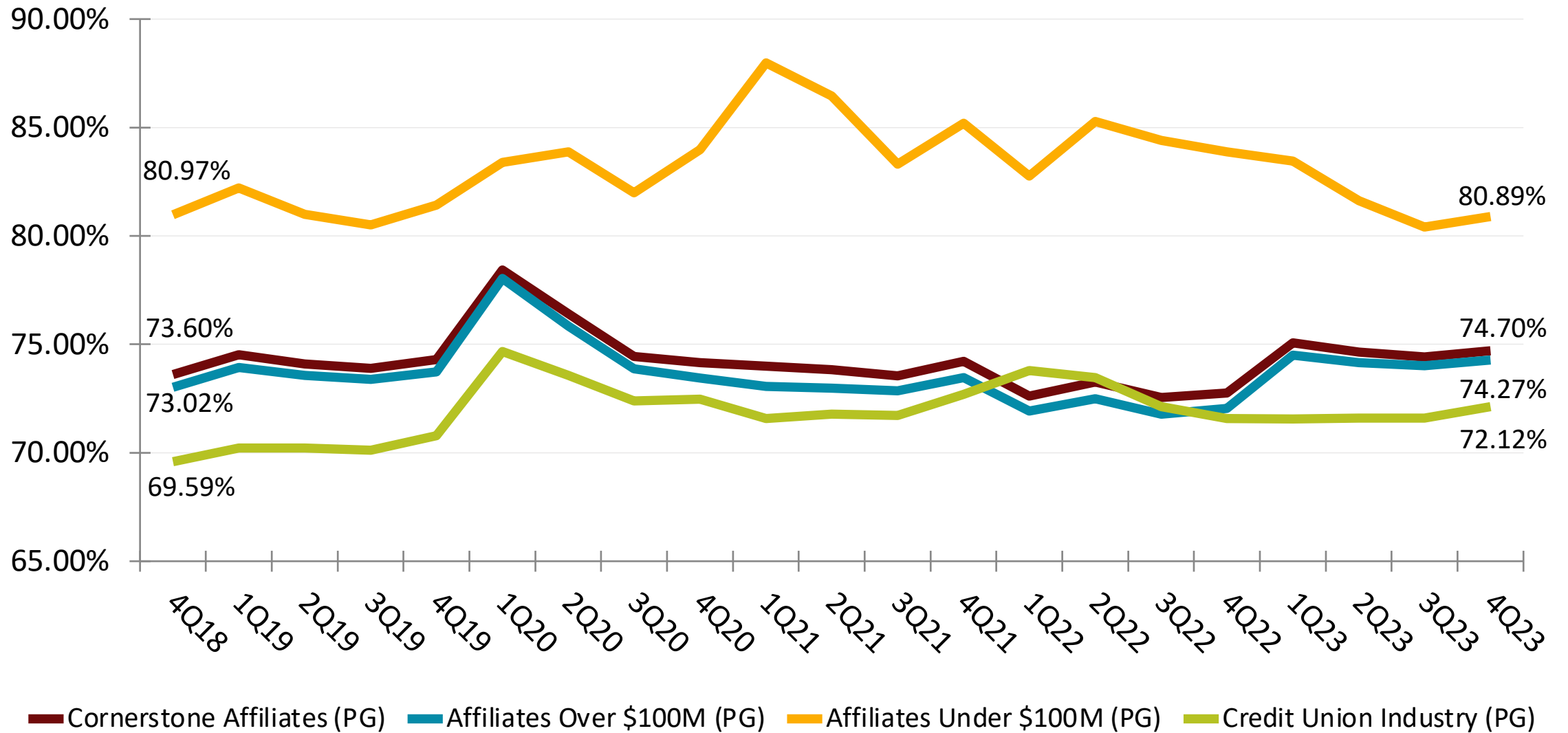
Net Worth Ratio



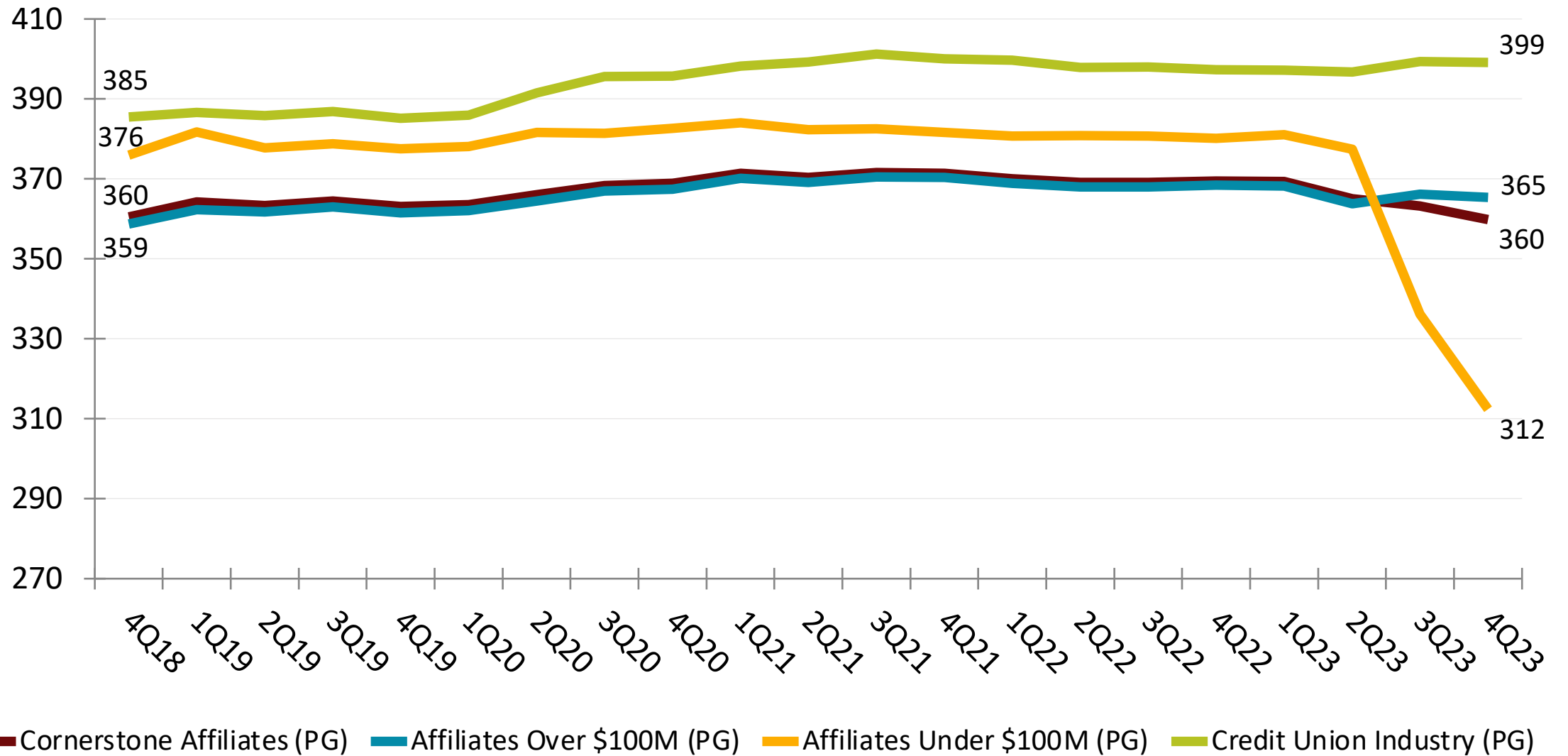


Cornerstone: Productivity & Member Relationships

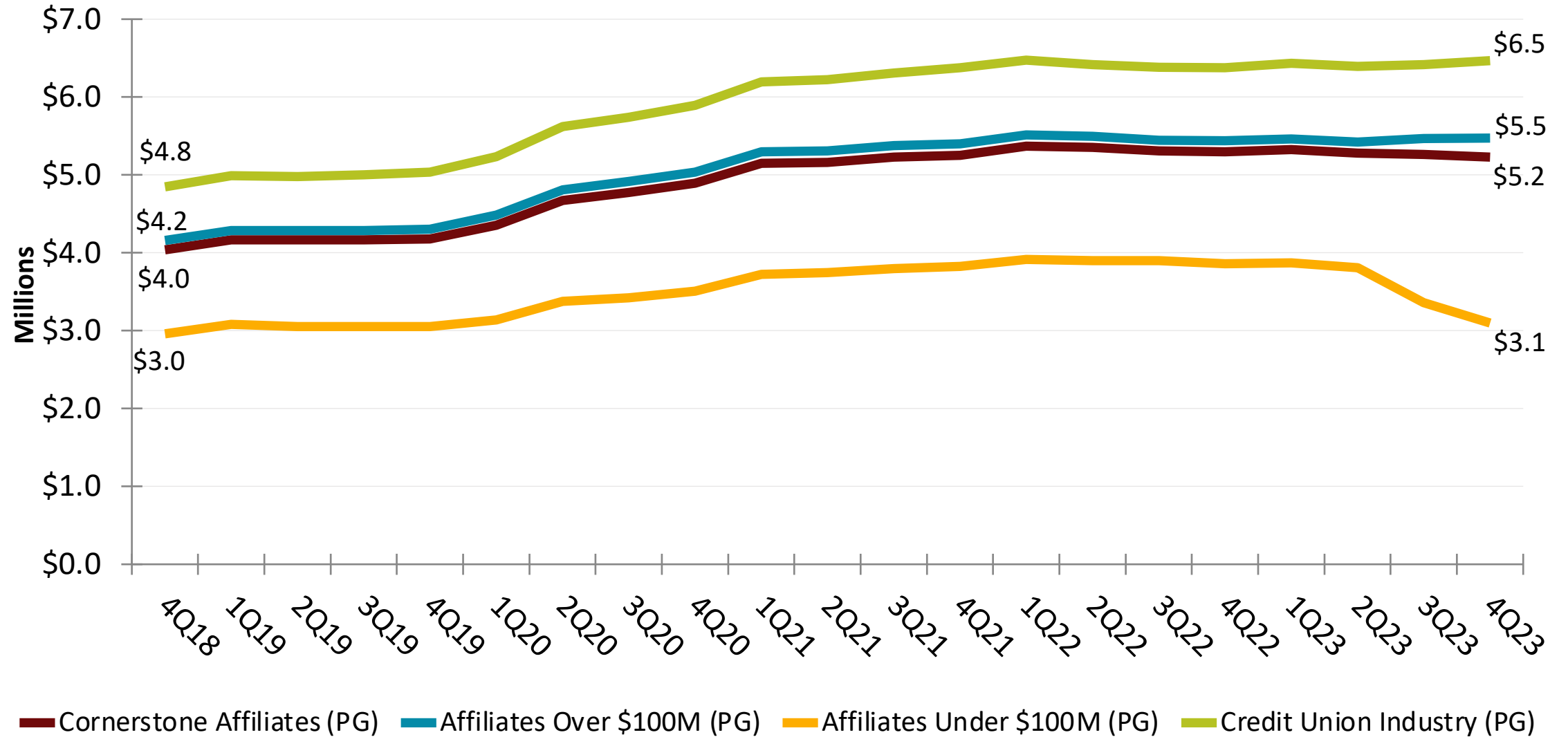
Efficiency Ratio



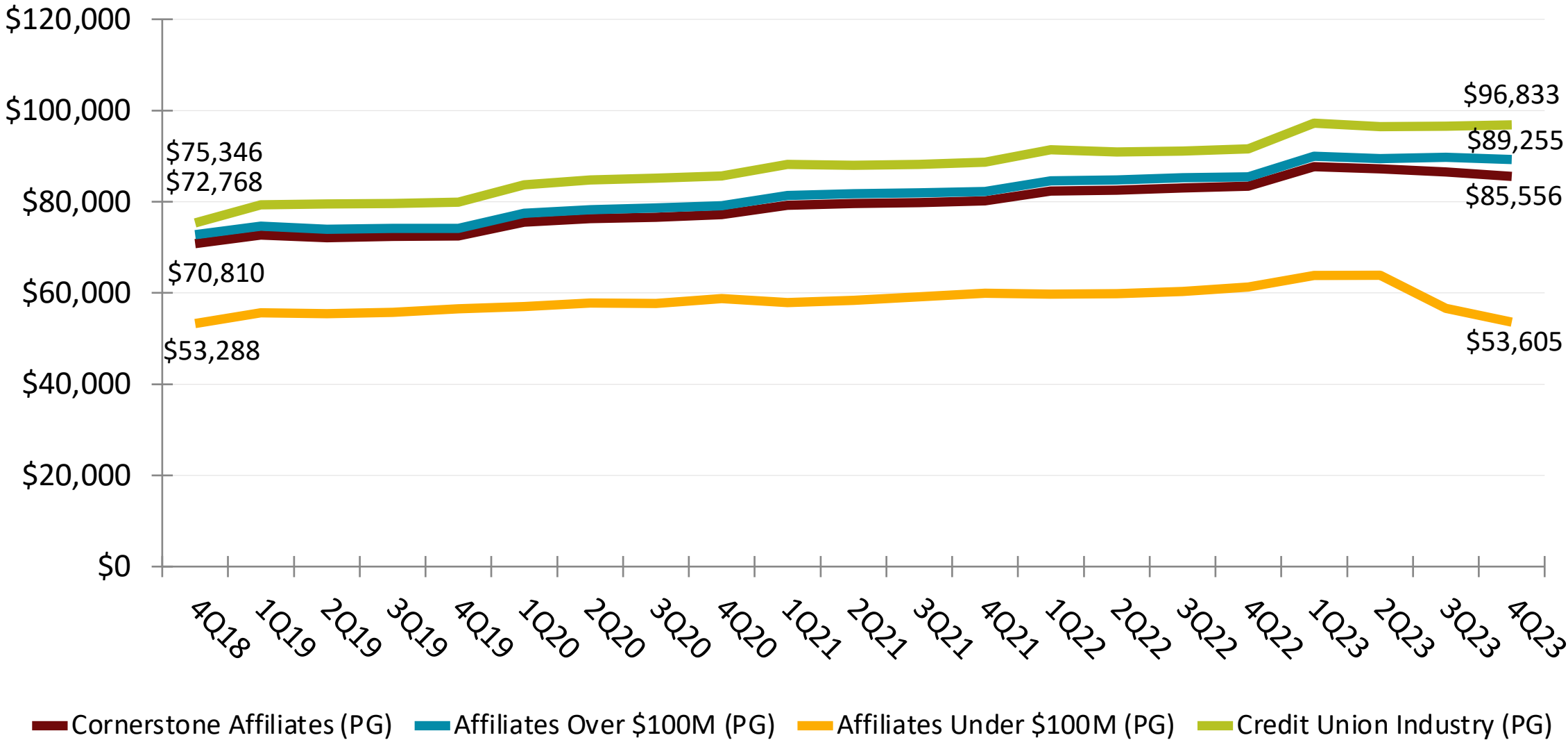
Members per Employee (FTE)



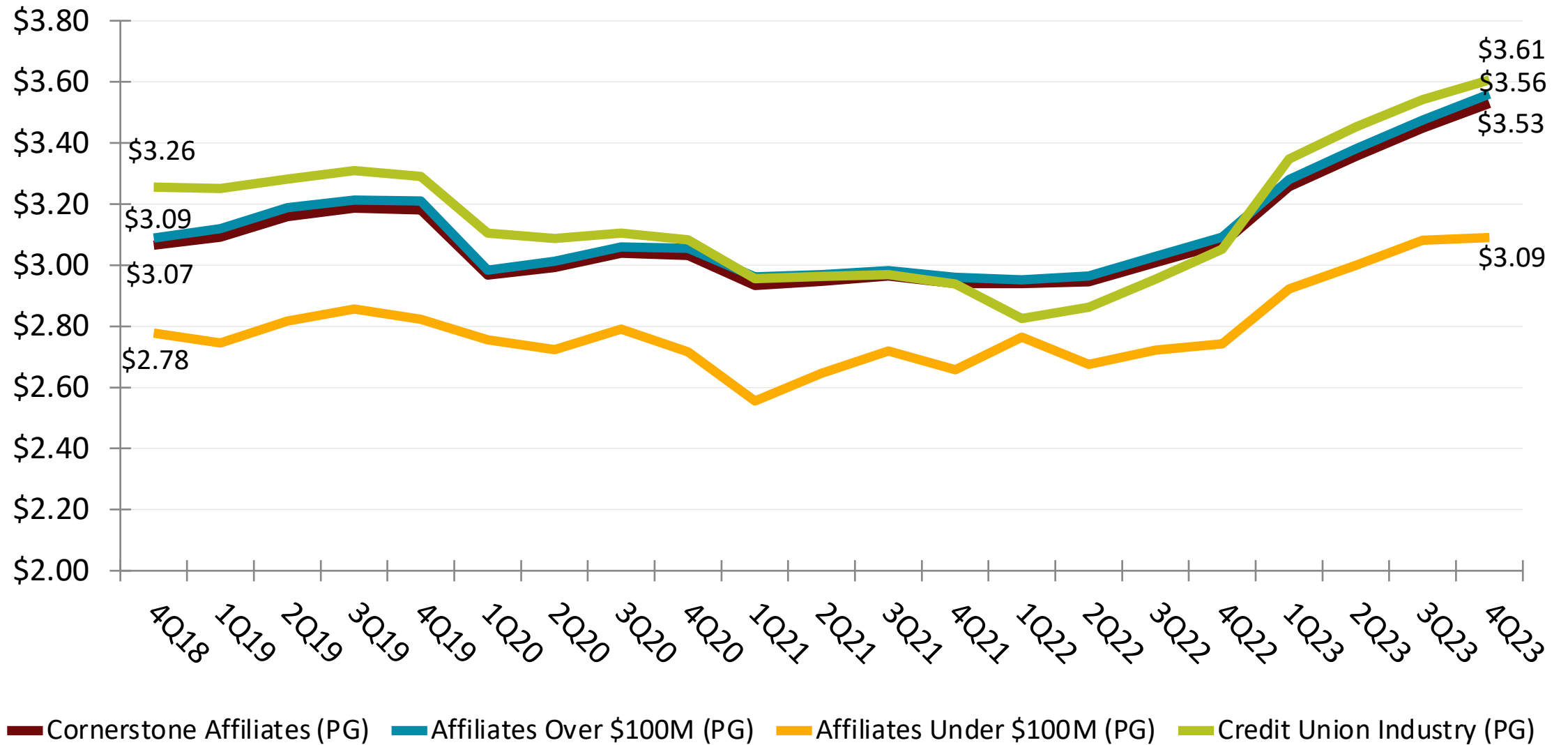
Assets per Employee (FTE)



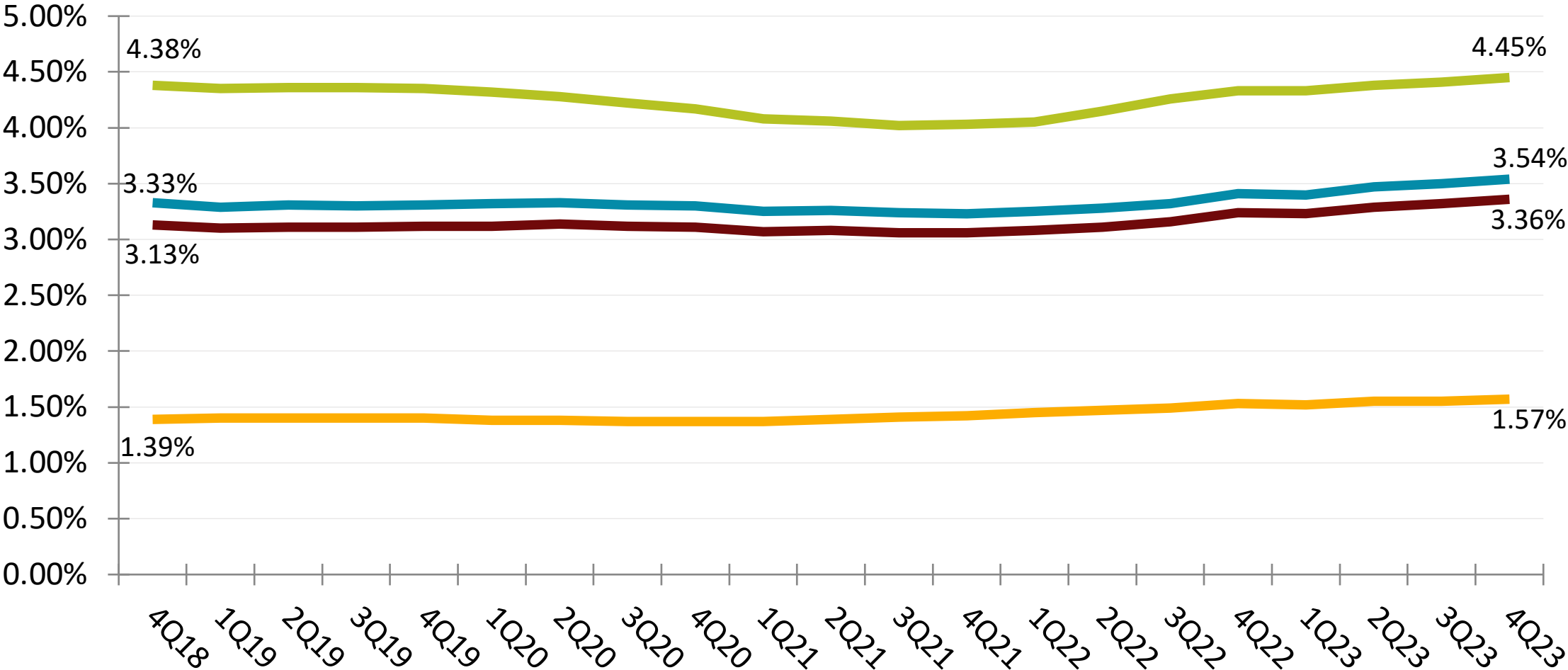
Salary & Benefits per Employee (FTE)



\$ Revenue per \$ Salary & Benefits

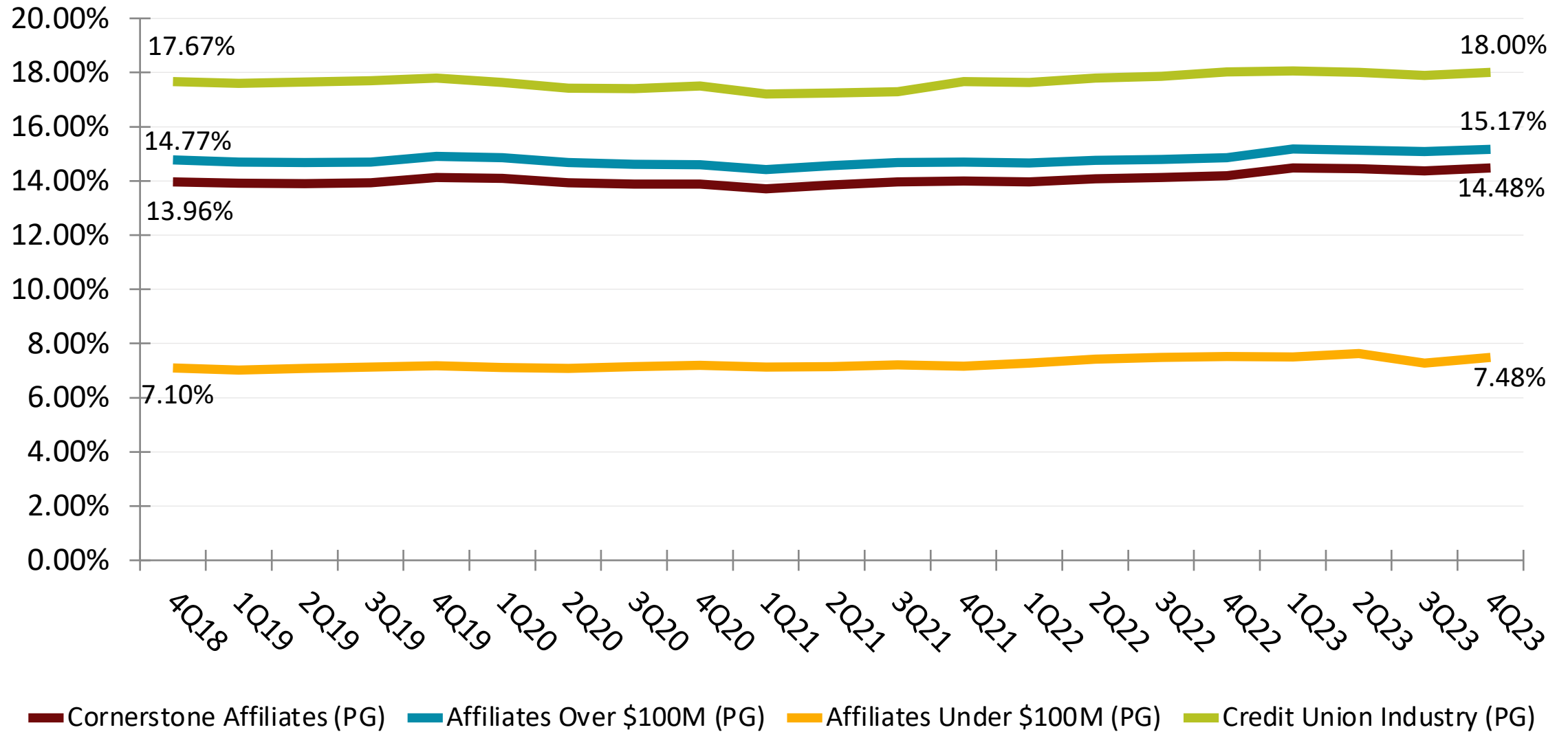


Real Estate Penetration

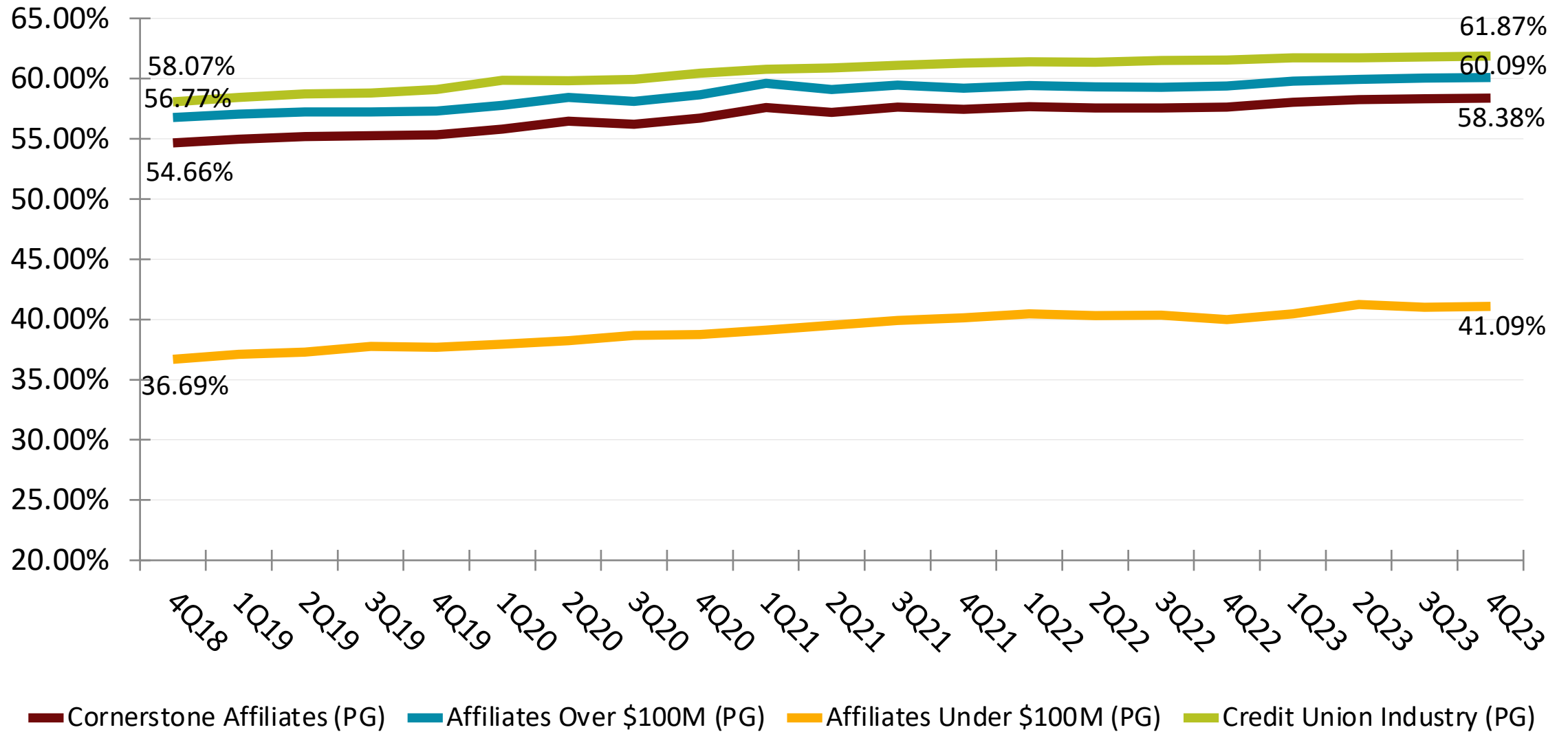


■ Cornerstone Affiliates (PG)
 ■ Affiliates Over \$100M (PG)
 ■ Affiliates Under \$100M (PG)
 ■ Credit Union Industry (PG)

Credit Card Penetration



Share Draft Penetration



Questions?



What Do We Do
About All Of This?



Commodity Bases of Competition

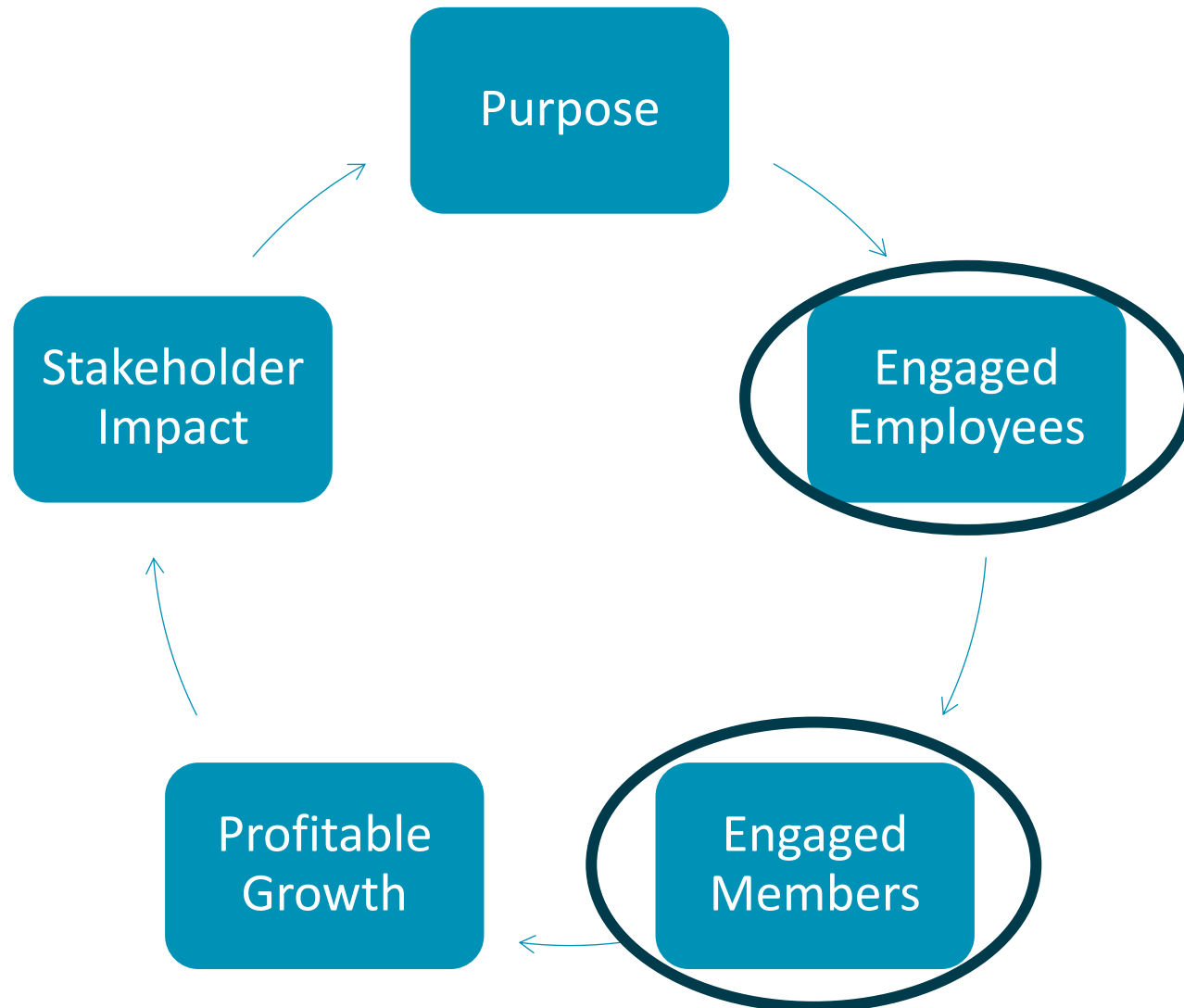
- Cost – used to favor us; less and less everyday
- Features and quality – we kept up on first and outperformed on second, but changing expectations, options, and conditions have created new, less favorable, terms of comparison
- Location and convenience – physical location is a lesser factor than ever, so the understanding of “convenience” has evolved away from us



Two Types of Credit Unions

- First type – value-driven
 - All about members
 - Great rates, low fees
 - “We care”
- Second type – purpose-driven
 - It started with a shoebox
 - “A bunch of folks got together in order to help...”
 - Everything we do today stems from...

Sustainable Growth Framework





To Matter, Purpose Can't Just Be a Slogan

- Specific to the needs and expectations of the stakeholders (people and communities) being served
- Universally understood and accepted by all stakeholders
- Embedded in the business model
- Observable, measurable, tracked, and reported on

Credit
Unions
Have
Myths
To Slay

DRAGONS

Size
Matters



US Chartered Financial Institutions

- | | | |
|-----|------------------|---------------------------|
| 1. | JPMorgan Chase | \$3,395 billion in assets |
| 2. | Bank of America | \$2,540 billion in assets |
| | US Credit Unions | \$2,278 billion in assets |
| 3. | Wells Fargo | \$1,733 billion in assets |
| 4. | Citibank | \$1,685 billion in assets |
| 25. | Navy FCU | \$ 171 billion in assets |

Economy of Scale Is a Myth For Us

- 40 years ago, compliance was straightforward, advertising was local, and banking was done in person; economies of scale were relatively small, so being small wasn't a handicap
- Today there are major economies of scale in each area:
 - Compliance is complex and expensive, but fundamentally the same across a company regardless of size
 - Advertising is national but highly segmented
 - Most consumer interaction is more dependent on complex technology interfaces than skilled and engaged professionals

Credit
Unions
Have
Myths
To Slay

Dragons

Our Value
Proposition
Matters

Size
Matters



Our Economic Value Proposition Is Great!

- Deliver amazing rates and lower fees
- Our members come first
- Consistently make a difference in the lives of employees, members, and the communities we serve
- "No margin, no mission" is our touchstone

Do People Care?

- When conditions favored credit union strengths, we did fine
 - Across a counter, desk, or phone, smiles and reassurance mattered
 - No meaningful economies of scale in branch-based delivery
- Our service-based value proposition is ever more generic
- We don't act in ways that *look* or *feel* very different from banks
- We fail to explain ourselves in terms that resonate or compel

Credit
Unions
Have
Myths
To Slay

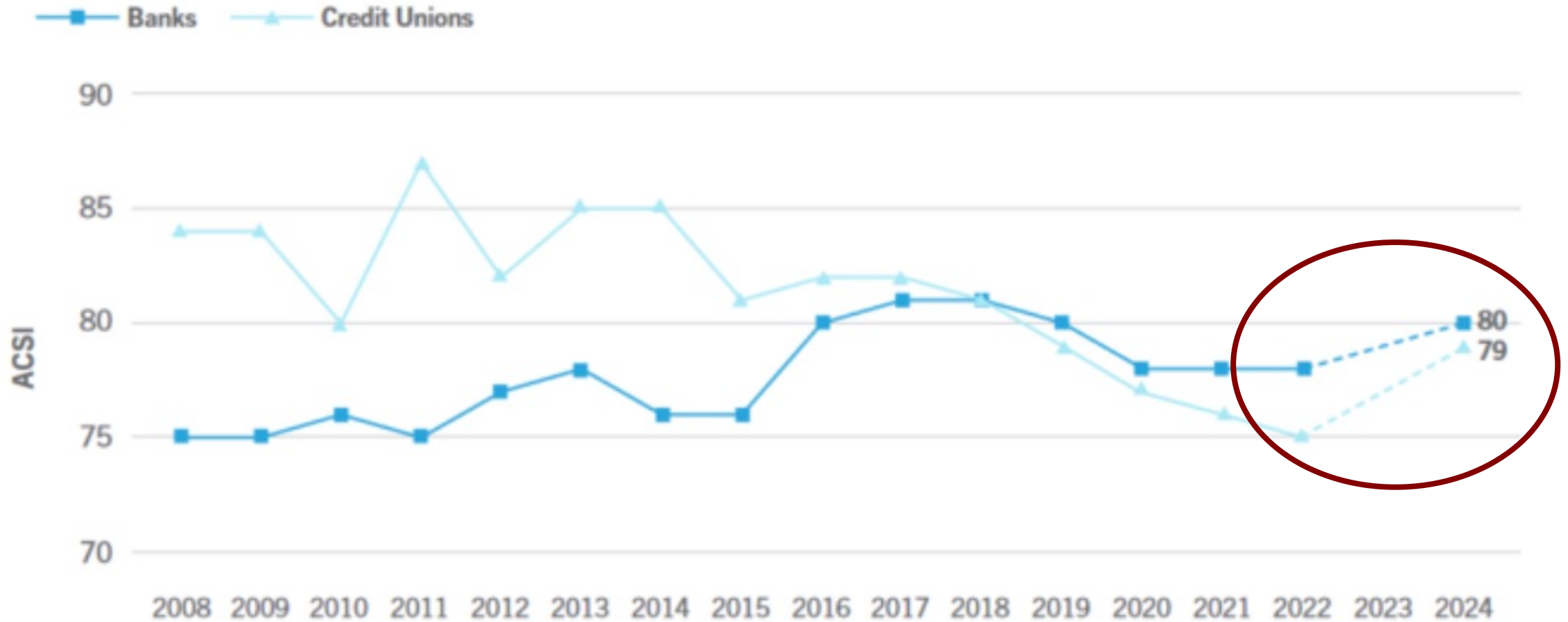
Dragons

Our Value
Proposition
Is Enough

Size
Matters

Service Will
Save Us

Bank and Credit Union 17-year ACSI Trends



This Is How Credit Unions See Members



It Is NOT How Members See Us

Businesses want to think in terms of categories. Consumers want us to think in terms of their needs.

– Clayton Christensen



Consumer *Jobs To Be Done*

To get hired by a consumer to do a job, a product or service needs to meet three different consumer needs:

- ***Functional*** needs – is the issue resolved effectively?
- ***Social*** needs – can the result be seen in a positive way?
- ***Emotional*** needs – does the result gratify, reinforcing the wisdom of the choice?

Most Decisions Are Emotional

PAST PREMISE



Products

Rates

Technology

CONVENIENCE

TODAY'S PREMISE



Why You Sell It

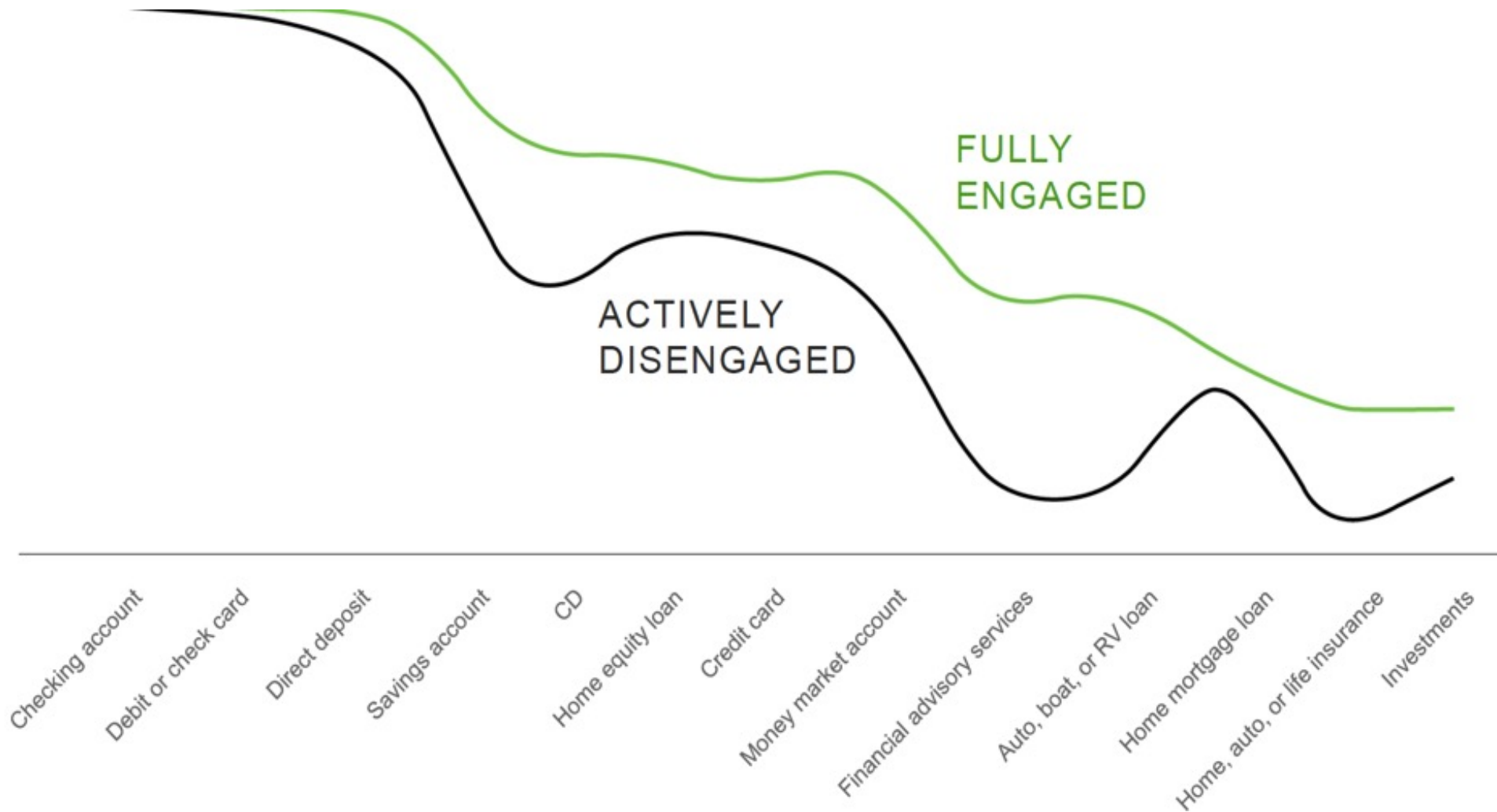
Advice

Brand

ENGAGEMENT



Emotional Engagement Drives Participation



Emotionally Engaged Members Are...

5.4x more likely to be loyal and stay with their credit union.

2.5x more likely to own multiple products with their credit union such as loans, credit cards, mortgage, insurance, investments, home equity and financial advisory services.

5.6x more likely to consider their credit union as trusted advisors and contribute more business on high-value products.

Engage With Members In Emotional Terms

- Members need reassurance, validation, and support
- When these needs are met, members feel cared about
- And when members feel cared about, they form emotional connections
- Emotionally connected members are –
 - More likely to trust you and come to you first with their needs
 - Less demanding; they care less about price and quality at the margin
 - More profitable over time and actually promote you

Top Of Mind For Credit Union Executives

Long Term Concerns

- Relevance
- Sustainable Differentiation
- Financial Wellness
- Business Model Evolution
- Succession

Near Term Concerns

- Talent Management
- Technology
- Liquidity
- Organic Member Growth
- Clarity of Mission/Purpose

Questions?

Thoughts?





Thank You

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