CATALYST Strategic Solutions

Market Overview AND DATA REPORT

JULY 2016

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2015
ECONOMIC GROWTH				
GDP (QoQ)	Q1	1.1%	0.8%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Jun	287	11	2,650
Private Payrolls (000s)	Jun	265	-6	2,551
Unemployment Rate	Jun	4.9%	4.7%	5.0%
Underemployment Rate	Jun	9.6%	9.7%	9.9%
INFLATION				
Wholesale (YoY)	May	-0.1%	0.0%	-1.0%
Consumer (YoY)	May	1.0%	1.1%	0.5%
Core Consumer (YoY)	May	2.2%	2.1%	2.0%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	**May**	18.6	13.4	21.4
Personal Income	May	0.2%	0.5%	4.4%
Personal Spending	May	0.4%	1.1%	3.4%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Jun	16.6	17.4	17.4
New & Existing Home Sales (M)	May	6.08	6.02	5.99
S&P/Case Shiller HPI (YoY)	Apr	5.03%	5.11%	5.43%

Sources:

US Labor Dept; US Commerce Dept; National Association of Realtors; Bloomberg

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Jun-16	May-16	Jun-15
MONEY MARKETS			
Effective Fed Funds	0.29%	0.30%	0.08%
Prime Rate	3.50%	3.50%	3.25%
3 month LIBOR	0.65%	0.68%	0.28%
2 year UST	0.58%	0.88%	0.65%
10 year UST	1.47%	1.85%	2.35%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.09%	3.14%	3.44%
CU 30 year Mtg	3.65%	3.72%	4.14%
EQUITY MARKETS			
Dow Jones Industrial Average	17,930.0	17,787.2	17,619.5
NASDAQ Composite	4,842.7	4,948.1	4,986.9
S&P 500	2,098.9	2,097.0	2,063.1
OTHER COMMODITIES			
CRB Index	192.6	186.2	227.2
Crude Oil	48.3	49.1	62.1

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

In June, 287,000 jobs were added, while May job growth was revised lower by 27,000. Returning Verizon workers accounted for 31,000 jobs in June. Six-month average monthly job growth is 171,000, compared to 220,000 for the same period in 2015. Wage growth increased 2.6 percent from a year ago.

Inflation levels continued to move higher in May. Consumer prices rose 0.2 percent, and wholesale prices increased 0.4 percent on a monthly basis. Most of the increase was due to higher energy costs at both levels. The increases were offset by modest declines in consumer food and auto prices and medical services costs. Wholesale energy prices rose the most in a year, up 2.8 percent.

Retail sales rose for the second month in a row in May. Overall sales increased 0.5 percent. Nine of the 13 categories posted gains. Gasoline sales rose the most with a gain of 2.1 percent. Clothing sales increased 0.8 percent, the biggest gain in six months. The control group index, which is counted in GDP, rose 0.4 percent with the previous month reading revised to 1.0 percent from 0.9 percent.

The U.S. economy grew 1.1 percent in the first quarter of the year. This was better than the initial estimate of 0.8 percent. The stronger growth came from improved business investment and a narrowing of the trade gap. Exports increased slightly, while imports declined. Consumer spending, while still a positive contributor to GDP, was the weakest in two years.

The financial markets made a complete 180-degree reversal in June. The month began with a 53 percent chance for a rate increase by July 2016 and swung to a 31 percent chance for the first rate move not occurring until September *2017*. The turnaround in forecast was already beginning mid-month when the Federal Reserve chose not to raise the short-term lending rate at its June FOMC meeting. The Fed took that opportunity to lower its near- and long-term forecasts for interest rates by 25 to 60 basis points. The projection for interest rates in the "longer run" was moved to 3.00 percent from 3.30 percent. And then the one real obstacle to future interest rate increases occurred – Britain voted to leave the European Union. The move, commonly referred to as Brexit, shook financial markets around the world. Stock markets collapsed, bond yields plummeted, and currencies were decimated. The uncertainty of the full impact of this historical move all but removes the chance for any increase in interest rates for a long time. The Fed funds futures markets even began forecasting the chance for an interest rate decline.

Mortgage rates declined once again in June. The average 15-year mortgage rate offered by credit unions fell five basis points to 3.09 percent. The average rate for a 30-year mortgage was 3.65 percent, seven basis points lower than a month ago. Average mortgage rates are 35 to 49 points lower than a year ago. The spread between mortgage rates and Treasury rates widened by over 30 basis points, as Treasury rates finished lower for the month.

The key U.S. equity indices ended June barely positive after a tumultuous month. The Dow closed the month up 0.8 percent, and the S&P 500 posted a gain of just 0.09 percent. The NASDAQ Composite was hit the hardest, losing 2.13 percent during the month. The year-to-date returns for the indices are: Dow Jones Industrial Average: +2.90 percent, NASDAQ Composite: -3.29 percent, and S&P 500 Index: +2.69 percent. Oil was up 15.4 percent year-to-date, despite falling 2.42 percent in May.

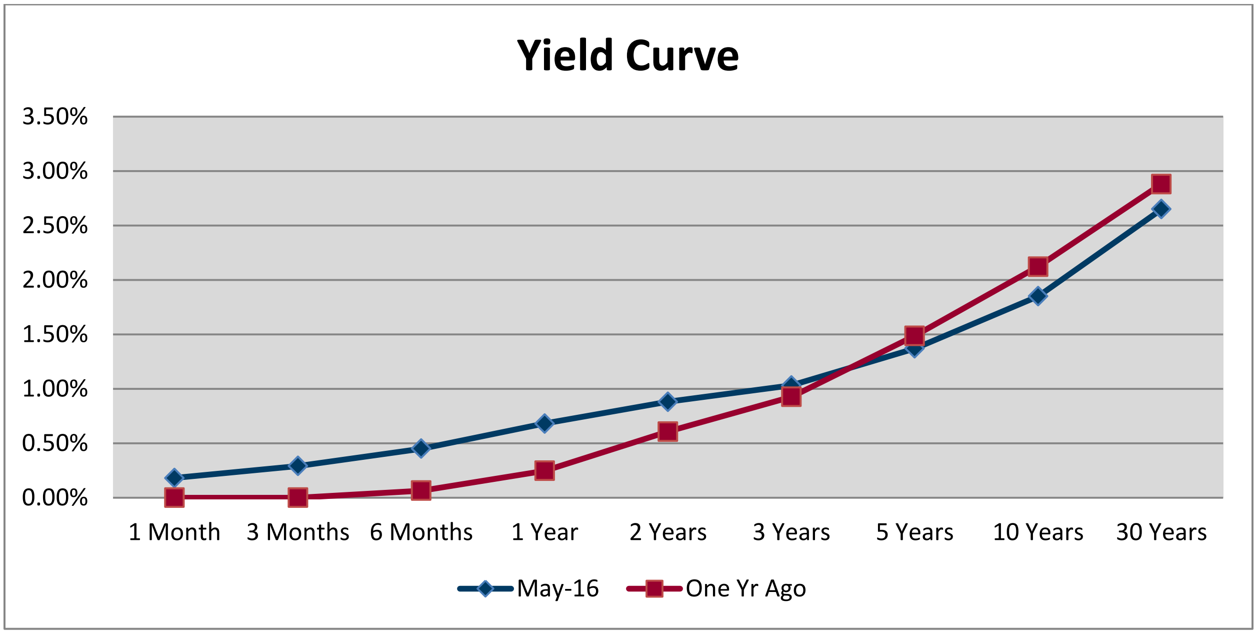
For Credit Unions:

- Consumer spending took a step back in May. After rising 1.1 percent in April, spending increased 0.4 percent in May. Even with the weakened level last month, April and May were the strongest two months of spending since 2009. Purchases of durable goods rose 0.6 percent, beating out non-durables by a tenth of a percent. Disposable incomes increased 0.1 percent, the smallest gain in over a year. The savings rate fell to 5.3 percent.

- The housing industry continues to make strides toward improvement, but at an unsteady pace. Sales of new homes declined 6.0 percent in May, while sales of existing homes rose 1.9 percent to a nine-year high. The expansion pace of the new home market has been slower than existing home sales, a reversal of the trend in 2015. Prices continue to rise in both sectors, with larger increases seen in the existing home market. Price affordability continues to weaken for most buyers, even with mortgage rates falling.

- Auto sales are starting to show signs of weakness after two strong months. The seasonally-adjusted annualized rate of sales reached 16.61 million in June, down from 17.37 million in May. Domestic auto sales accounted for 79 percent of sales, with 21 percent from import sales. Import deliveries declined 7.0 percent. The Brexit issue could affect auto sales going forward.

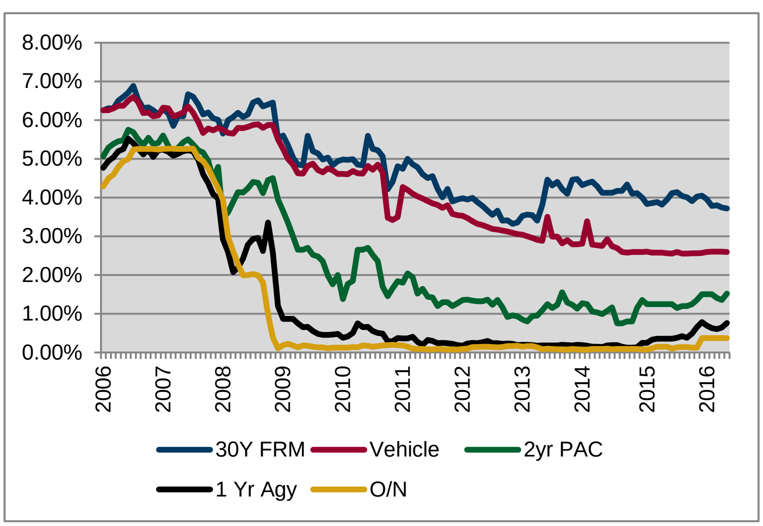
- The financial impact of regulation on credit unions increased $1.7 billion between 2010 and 2014. A recent study commissioned by CUNA, with the support of credit union leagues, found the total impact of regulation amounted to $7.2 billion. Of that, $6.1 billion was actual costs, and $1.1 billion represented lost revenue benefits for members. The study, conducted by Cornerstone Advisors, equated the regulatory costs to 54 basis points of assets. This was an increase of 15 basis points in the four-year period.



The yield curve, measured between the two- and 10-year Treasury notes, flattened by eight basis points to 89 basis points in June. The two-year Treasury note closed 30 basis points lower, while the 10-year note declined by 38 basis points. Compared to a year ago, the yield curve is 81 basis points flatter, the flattest since 2007.

The two- and 10-year Treasury note yields fluctuated dramatically during May. The benchmark securities moved within a 32 to 40 basis point range during the month before closing at the low end of the range. The two-year note reached a high mark of 0.90 percent, and the 10-year note touched 1.87 percent. The short end of the yield curve has readjusted to the prospect of no impending interest rate moves from the Fed, while the longer maturities are suffering from a flight to safety following Britain's referendum to leave the European Union.

Relative Value of Assets and Funding:

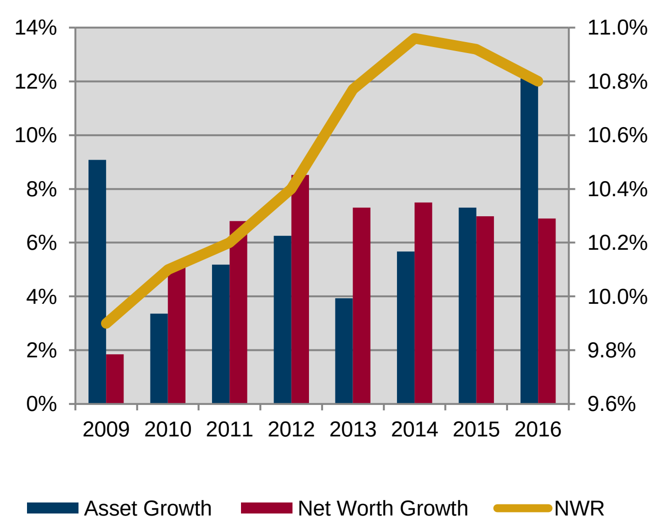


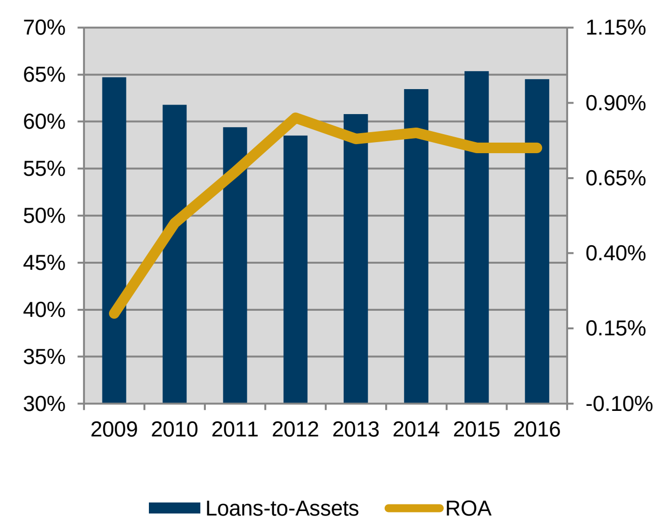
- The spread between core loan rates and investment yields continues to narrow this year. Value remains in core loan assets, but keep asset quality in mind.
- Interest rates are projected to remain low for an extended period of time. Market conditions do not forecast a move by the Federal Reserve through 2017.
- Credit unions should continue to borrow at historically low rates to fund growing loan demand. The spread between borrowing and lending will narrow over time.

NCUA – March 2016

KEY CREDIT UNION DATA	2011	2012	2013	2014	2015	2016
GROWTH RATES						
Total Assets	5.18%	6.25%	3.93%	5.66%	7.33%	12.06%
Total Loans	1.20%	4.55%	7.97%	10.42%	10.49%	6.35%
Total Shares	5.21%	6.10%	3.67%	4.47%	6.86%	13.76%
Net Worth	6.81%	8.52%	7.36%	7.49%	6.98%	6.94%
CAPITAL ADEQUACY						
Net Worth Ratio	10.21%	10.43%	10.77%	10.96%	10.92%	10.78%
Equity Capital Ratio	10.19%	10.42%	10.47%	10.78%	10.66%	10.65%
Capital Ratio	11.10%	11.20%	11.10%	11.40%	11.27%	11.24%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.30%	17.49%	14.87%	13.64%	13.49%	14.82%
Loans-to-Total Assets	59.42%	58.48%	60.75%	63.48%	65.35%	64.45%
Vehicle-to-Total Loans	28.88%	29.87%	30.80%	32.29%	33.30%	33.75%
Real Estate-to-Total Loans	54.78%	53.58%	52.51%	51.12%	50.41%	50.31%
Delinquency Rate	1.60%	1.16%	1.01%	0.85%	0.81%	0.71%
Net Charge-off Rate	0.91%	0.73%	0.57%	0.50%	0.48%	0.52%
"Misery" Index	2.51%	1.89%	1.58%	1.35%	1.30%	1.23%
EARNINGS						
Gross Asset Yield	4.62%	4.01%	3.65%	3.66%	3.71%	3.71%
Cost of Funds	0.93%	0.73%	0.59%	0.54%	0.52%	0.52%
Gross Interest Margin	3.69%	3.28%	3.06%	3.12%	3.20%	3.20%
Less: Provision Expense	0.50%	0.36%	0.26%	0.28%	0.34%	0.34%
Net Interest Margin	3.19%	2.92%	2.80%	2.84%	2.85%	2.85%
Net Operating Expense	2.52%	2.44%	2.45%	2.45%	2.47%	2.47%
Net Income (Return on Assets)	0.67%	0.85%	0.78%	0.80%	0.75%	0.75%

Source: NCUA (March 2016)





NCUA – March 2016

NCUA PEER DATA	<$10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK						
Average Asset Size (000s)	$4,105	$24,699	$71,333	$220,752	$1,830,580	$208,367
Pct of Number of Credit Unions	17%	32%	12%	18%	8%	100%
Pct of Industry Assets	0%	4%	4%	19%	73%	100%
GROWTH RATES						
Total Assets	-11.5%	-8.3%	2.9%	3.7%	16.1%	12.06%
Total Loans	-24.5%	-18.3%	-6.1%	-4.1%	10.7%	6.35%
Total Shares	-10.6%	-7.7%	3.9%	4.7%	18.3%	13.76%
Net Worth	-14.1%	-11.4%	-2.9%	-0.4%	11.0%	6.94%
CAPITAL ADEQUACY						
Net Worth Ratio	15.6%	12.2%	11.3%	10.8%	10.6%	10.78%
Equity Capital Ratio	15.6%	12.2%	11.2%	10.7%	10.5%	10.65%
Capital Ratio	16.4%	12.6%	11.6%	11.2%	11.1%	11.24%
BALANCE SHEET COMPOSITION						
Cash & Investments-to-Total Assets	51.9%	48.0%	41.7%	33.1%	28.9%	31.1%
Loans-to-Total Assets	46.8%	48.7%	54.0%	61.8%	66.7%	64.45%
Vehicle-to-Total Loans	57.7%	43.8%	39.1%	36.3%	32.4%	33.75%
Real Estate-to-Total Loans	8.1%	33.9%	41.1%	46.7%	52.5%	50.31%
Delinquency Rate	2.14%	1.10%	0.91%	0.78%	0.66%	0.71%
Net Charge-off Rate	0.63%	0.44%	0.54%	0.47%	0.54%	0.52%
"Misery" Index	2.77%	1.54%	1.45%	1.24%	1.20%	1.23%
Non-term Shares-to-Total Shares	85.3%	78.3%	75.5%	74.0%	71.8%	72.7%
Net Long-term Assets-to-Total Assets	8.9%	20.8%	26.1%	31.6%	32.8%	31.7%
EARNINGS						
Gross Asset Yield	3.86%	3.41%	3.60%	3.66%	3.78%	3.7%
Cost of Funds	0.35%	0.28%	0.31%	0.37%	0.57%	0.51%
Gross Interest Margin	3.51%	3.14%	3.29%	3.29%	3.21%	3.2%
Less: Provision Expense	0.24%	0.22%	0.25%	0.29%	0.39%	0.36%
Net Interest Margin	3.27%	2.92%	3.04%	3.00%	2.82%	2.9%
Net Operating Expense	3.29%	2.77%	2.87%	2.81%	2.35%	2.48%
Net Income (Return on Assets)	0.13%	0.25%	0.38%	0.51%	0.87%	0.75%
COST EFFICIENCIES						
Avg Loan Balance	$5,805	$8,785	$9,586	$12,280	$15,006	$13,818
Avg Share Per Member	$3,795	$6,836	$7,833	$8,907	$11,158	$10,130
Avg Compensation per FTE	$35,505	$54,519	$58,548	$64,381	$77,947	$71,774
Comp & Benefits-to-Total Assets	0.49%	0.41%	0.44%	0.45%	0.37%	0.39%
Pct of Total Operating Expense	51%	48%	48%	51%	52%	51%
Office Occ & Ops-to-Total Assets	0.27%	0.24%	0.23%	0.24%	0.18%	0.19%
Pct of Total Operating Expense	28%	27%	25%	26%	25%	25%

Source: NCUA (March 2016)

Economic Calendar

JULY 2016

Monday	Tuesday	Wednesday	Thursday	Friday
				1 ISM Manufacturing Construction Spending Auto Sales
4  	**5** Factory Orders	**6** Trade Balance FOMC June Minutes	**7** Jobless Claims ADP Payroll	**8** Non-Farm Payroll Unemployment Rate Consumer Credit
11	**12** JOLTS Wholesale Inventories	**13** Beige Book	**14** Jobless Claims PPI	**15** CPI Retail Sales Industrial Production Capacity Utilization Business Inventories
18	**19** Housing Starts Building Permits	**20**	**21** Jobless Claims Existing Home Sales	**22**
25	**26** New Home Sales S&P/Case-Shiller HPI Consumer Confidence	**27** Durable Goods Orders Pending Home Sales FOMC meeting	**28** Jobless Claims	**29** GDP 2Q