CATALYST Strategic Solutions

Market Overview AND DATA REPORT

JUNE 2016

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2015
ECONOMIC GROWTH				
GDP (QoQ)	Q1	0.8%	0.5%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	May	38	123	2,650
Private Payrolls (000s)	May	25	130	2,551
Unemployment Rate	May	4.7%	5.0%	5.0%
Underemployment Rate	May	9.7%	9.7%	9.9%
INFLATION				
Wholesale (YoY)	Apr	0.0%	-0.1%	-1.0%
Consumer (YoY)	Apr	1.1%	0.9%	0.5%
Core Consumer (YoY)	Apr	2.1%	2.2%	2.0%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Apr	13.4	28.4	21.4
Personal Income	Apr	0.4%	0.4%	4.4%
Personal Spending	Apr	1.0%	0.0%	3.4%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	May	17.4	17.3	17.4
New & Existing Home Sales (M)	Apr	6.07	5.89	5.99
S&P/Case Shiller HPI (YoY)	Mar	5.15%	5.32%	5.43%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	May-16	Apr-16	May-15
MONEY MARKETS			
Effective Fed Funds	0.29%	0.30%	0.12%
Prime Rate	3.50%	3.50%	3.25%
3 month LIBOR	0.68%	0.64%	0.28%
2 year UST	0.88%	0.78%	0.61%
10 year UST	1.85%	1.83%	2.12%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.14%	3.17%	3.30%
CU 30 year Mtg	3.72%	3.74%	3.96%
EQUITY MARKETS			
Dow Jones Industrial Average	17,787.2	17,773.6	18,010.7
NASDAQ Composite	4,948.1	4,775.4	5,070.0
S&P 500	2,097.0	2,065.3	2,107.4
OTHER COMMODITIES			
CRB Index	186.2	184.6	223.2
Crude Oil	49.1	46.7	62.7

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

Employers only added 38,000 jobs in May, far less than expected. This was the smallest monthly gain since 2010. The unemployment rate fell to 4.7 percent as a result of 458,000 people leaving the labor force. Wages increased 0.2 percent. Weather and the Verizon strike may have contributed to the weakness in jobs.

Consumer and wholesale prices moved higher in April, largely due to the continued rise in energy costs. The increase was more pronounced on the consumer side, with prices increasing the most in over three years. Gasoline prices surged 8.1 percent, the biggest gain since 2012. Rising medical and housing costs continue to put pressure on prices.

After three months of dismal activity, retail sales regained some life. Overall sales rose 1.3 percent in April, the strongest activity in over a year. The control group (minus autos, gasoline and building materials) posted the best month in two years. The April report reflected a key change in shopping habits, with heavier internet sales beating out brick-and-mortar store sales. Internet sales increased 2.1 percent, while sales at department stores fell 1.7 percent.

First quarter GDP was revised to 0.8 percent from 0.5 percent. The key adjustments included increases in inventory investments and exports, as well as stronger consumer spending on services and non-durable goods. Estimates for second quarter GDP revolve around a healthier 2.5 percent.

The financial markets were jolted from the doldrums mid-month when the minutes from the April FOMC meeting were released. The minutes were the first serious indication the Committee is leaning toward a rate increase sooner, rather than later. With the global risks diminishing and first quarter economic slowdown unlikely to continue, most officials believed it could be “appropriate …to increase the fed funds rate in June.” Subsequent statements from various Federal Reserve officials continued to fuel the notion that the Fed might be serious this time. The fed funds futures market continues to put a heavier weighting on a move in July, rather than June. One obstacle to a June move is the upcoming vote by Britain on whether to remain in the European Union. The Brexit vote is scheduled for a week after the June FOMC meeting. The FOMC meeting is scheduled for June 14-15.

Mortgage rates continue to hover at the lowest levels in three years. The average 15-year mortgage rate offered by credit unions fell three basis points to 3.14 percent. The average rate for a 30-year mortgage was 3.72 percent, two basis points lower than a month ago. Average mortgage rates are16 to 24 points lower than a year ago. The spread between mortgage rates and Treasury rates narrowed as Treasury rates finished the month higher.

The three key U.S. equity indices ended May on a positive note after being down mid-month. The NASDAQ posted the best performance for the month, up 3.62 percent, but gave up the most on a year-to-date basis. The Dow gained 0.8 percent in May, and the S&P 500 was up 1.53 percent. The year-to-date returns for the indices are: Dow Jones Industrial Average: +2.1 percent, NASDAQ Composite: -1.2 percent and S&P 500 Index: +2.6 percent. Oil was up 18.8 percent year-to-date. During May, the price of oil reached the highest level since November 2015.

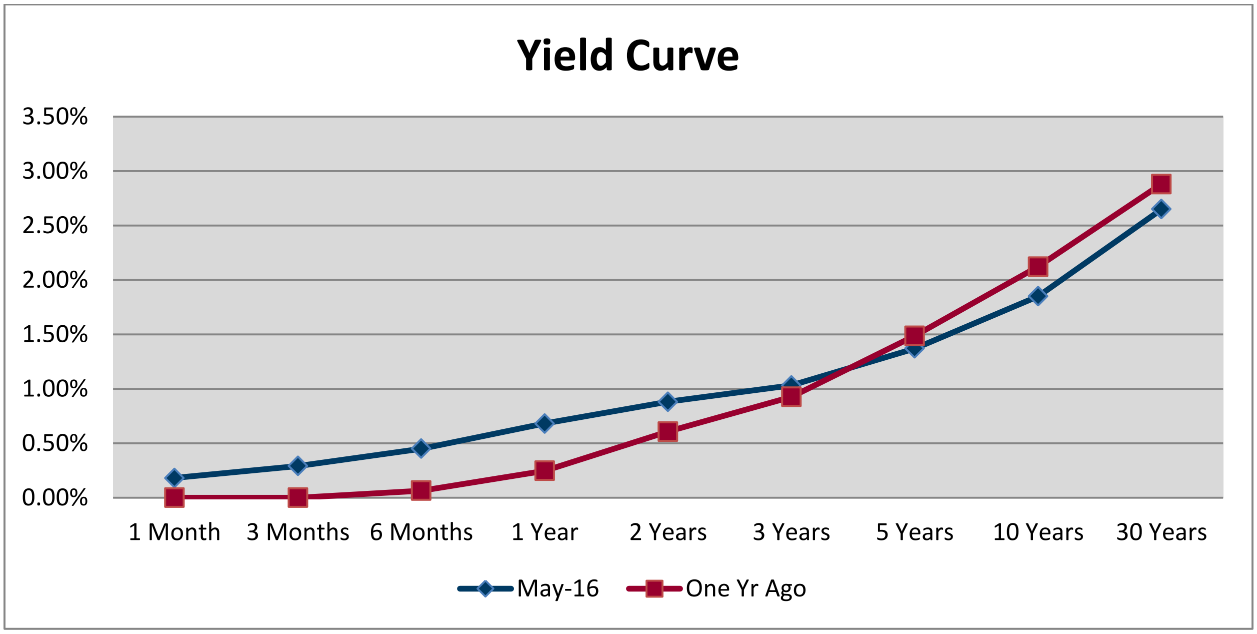
For Credit Unions:

- Consumer spending rebounded in April. After a dismal performance in the first quarter, spending surged 1.0 percent at the beginning of the second quarter. Most of the rebound in consumption came from a 5.6 percent increase in auto sales. Spending was also strong on durable goods, which include big ticket items such as computers and appliances. Durable goods sales rose 2.2 percent. The increase in more expensive items shows consumers are feeling more confident about their financial situations. Incomes rose 0.4 percent. The savings rate declined to 5.4 percent from 5.9 percent. The 10-year average savings rate is 5.2 percent.

- By all measures, April was a good month for the housing industry. All the key housing indicators – sales of new and existing homes, construction on new homes, building permits and pending home sales – increased for the first time in months. Prices continued to move higher and are within four percent of the 2006 housing peak. First-time home buyers accounted for 32 percent of home sales, up from 30 percent. Higher prices and lack of medium-priced homes continue to plague the industry despite the progress in sales.

- Auto sales continued to rebound for the second month in a row in May. The seasonally adjusted annualized rate of sales reached 17.37 million, up from 17.32 million in April. Auto loans increased 11 percent during the first quarter, surpassing the $1 trillion mark for the first time. The average auto loan is $30,000, and the average term is 68 months. Higher prices are driving the shift to longer loans for affordability.

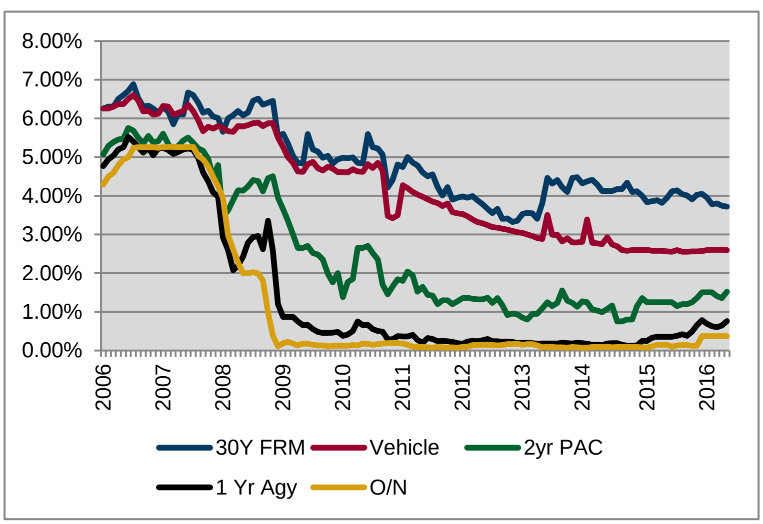
- Credit unions continue to grow. Membership grew by over one million during the first quarter, a gain of 3.8 percent from a year ago. Shares increased 3.4 percent during the first quarter, reaching $1.05 trillion. Loans grew more than 10.7 percent year-over- year, the strongest pace since 2000, to $800 billion. Credit unions have the second highest market share of auto loans, growing by 15.9 percent in the first quarter.



The yield curve, measured between the two- and 10-year Treasury notes, flattened by eight basis points to 97 basis points in May. The two-year Treasury note was 10 basis points higher, while the 10-year note was only two basis points higher. Compared to a year ago, the yield curve is 57 basis points flatter. The curve is the flattest since 2007.

The two- and 10-year Treasury notes moved within a 17 to 20 basis point range during May. The two-year note reached a high mark of 0.92 percent and the 10-year note touched 1.87 percent. The short end of the yield curve is being affected by the promise of higher rates, while the longer maturities are stymied by low inflation and the concern of slowing economic growth.

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.
- With the Fed changing its forecast for interest rate moves this year, rates will remain low. Market conditions are calling for one increase later this year.
- 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.

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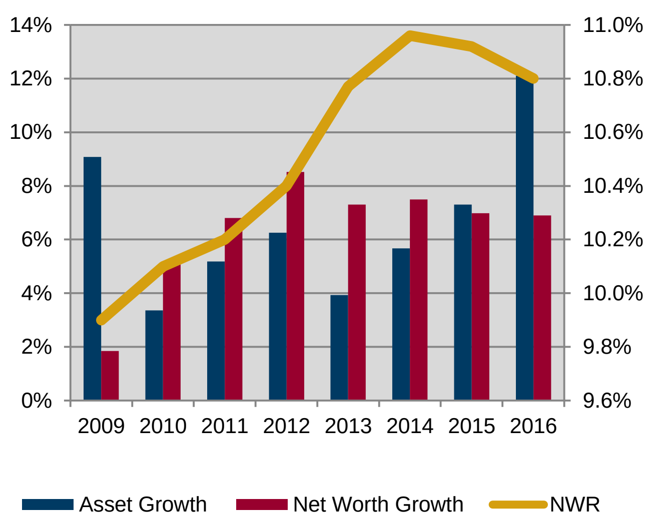
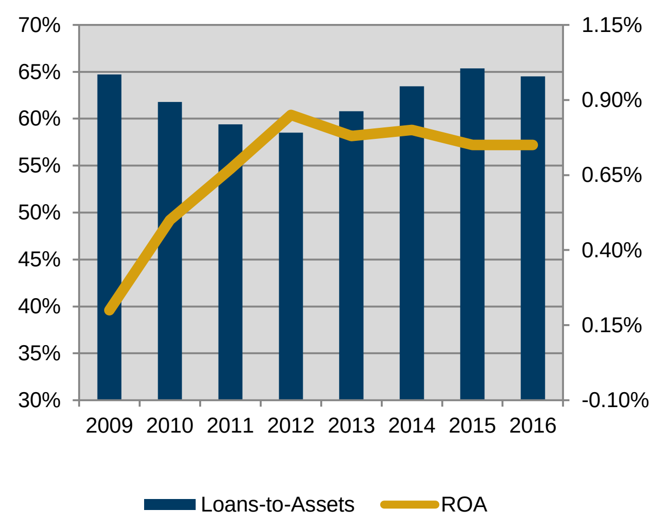
KEY CREDIT UNION DATA	2011	2012	2013	2014	2015	2016
GROWTH RATES						
Total Assets	5.18%	6.25%	3.93%	5.66%	7.33%	12.06%
Total Loans	1.20%	4.55%	7.97%	10.42%	10.49%	6.35%
Total Shares	5.21%	6.10%	3.67%	4.47%	6.86%	13.76%
Net Worth	6.81%	8.52%	7.36%	7.49%	6.98%	6.94%
CAPITAL ADEQUACY						
Net Worth Ratio	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)





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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

JUNE 2016

Monday	Tuesday	Wednesday	Thursday	Friday
		1 Auto Sales Fed Beige Book ISM Manufacturing Construction Spending	**2** Jobless Claims	**3** Non-farm Payrolls Unemployment Rate Trade Balance Factory Orders
6	**7** Consumer Credit	**8** JOLTS Report	**9** Jobless Claims Wholesale Inventories	**10**
13	**14** Retail Sales Import Prices Business Inventories	**15** PPI FOMC decision Industrial Production Capacity Utilization Empire Manufacturing	**16** Jobless Claims CPI	**17** Housing Starts Building Permits
20	**21**	**22** Existing Home Sales	**23** Jobless Claims New Home Sales Leading Index	**24** Durable Goods Orders
27	**28** GDP 1Q16 Final S&P/Case-Shiller HPI Consumer Confidence	**29** Personal Income Personal Spending Pending Home Sales	**30** Jobless Claims	