CATALYST Strategic Solutions

Market Overview AND DATA REPORT

MAY 2017

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2016
ECONOMIC GROWTH				
GDP (QoQ)	Q4	2.1%	1.9%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Apr	211	79	2,242
Private Payrolls (000s)	Apr	194	77	2,054
Unemployment Rate	Apr	4.4%	4.5%	4.7%
Underemployment Rate	Apr	8.6%	8.9%	9.2%
INFLATION				
Wholesale (YoY)	Mar	2.3%	2.2%	1.6%
Consumer (YoY)	Mar	2.4%	2.7%	2.1%
Core Consumer (YoY)	Mar	2.0%	2.2%	2.1%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Mar	16.4	13.7	6.4%
Personal Income	Mar	0.2%	0.3%	3.5%
Personal Spending	Mar	0.0%	0.0%	2.7%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Apr	16.8	16.5	18.3
New & Existing Home Sales (M)	Mar	6.33	6.06	6.03
S&P/Case Shiller HPI (YoY)	Feb	5.76%	5.64%	5.61%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Apr-17	Mar-17	Mar-16
MONEY MARKETS			
Effective Fed Funds	0.83%	0.82%	0.30%
Prime Rate	3.75%	3.75%	3.50%
3 month LIBOR	1.17%	1.15%	0.64%
2 year UST	1.26%	1.25%	0.78%
10 year UST	2.28%	2.39%	1.83%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.47%	3.57%	3.17%
CU 30 year Mtg	4.14%	4.25%	3.74%
EQUITY MARKETS			
Dow Jones Industrial Average	20,940.5	20,663.2	17,773.6
NASDAQ Composite	6,047.6	5,911.7	4,775.4
S&P 500	2,384.2	2,362.7	2,065.3
OTHER COMMODITIES			
CRB Index	184.9	184.9	170.5
Crude Oil	50.6	50.6	44.3

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The job market regained traction In April after a sharp slowdown in March. Employers have added an average of 185,000 jobs per month in 2017. Wages rose 0.3 percent in the month, but dipped to a 2.5 percent growth year-over-year. Businesses remain confident about future growth, which could push wages higher.

Consumer and wholesale price indices declined in March due to lower energy and oil prices. Both CPI and PPI posted the first decline in over seven months. Higher food prices were not enough to offset the drop in energy prices. The quarterly core PCE index increased to 2.0 percent, the Federal Reserve's targeted inflation measure.

The demand for homes continues to strengthen despite higher prices and less inventory. Sales of both new and existing homes rebounded in March after weak activity in February. Concerns about rising mortgage rates and higher prices are creating a seller's market that is reducing the amount of time a home is for sale.

The economy grew at the slowest pace in three years during the first quarter of 2017. Gains in business equipment spending and residential real estate were not enough to make up for sluggish consumer spending. A 0.5 percent decline in auto expenditures contributed to the weak 0.3 percent rate of consumer spending.

April could be called the month of apprehension. The month began with investors seeking refuge in safe haven sectors, from Treasury securities to gold and even utility stocks. The financial markets were driven by continued uncertainty over Washington's ability to carry out its promises for tax reform, a health care plan and regulatory changes. On top of that, there were concerns about elections in France, terrorist attacks and discrepancies with North Korea. The economic data began to show more weakness in consumer spending than had been expected and some slippage in inflation reports. The flight to safety trades resulted in lower long-term Treasury yields, as investors became more defensive against economic growth.

Mortgage rates retreated in April, following the lead of the 10-year Treasury note. The average 15-year mortgage rate offered by credit unions declined 10 basis points to 3.47 percent. The average rate for a 30-year mortgage decreased 11 basis points to 4.14 percent. Mortgage rates are the lowest since the year began. The spread between the 30-year mortgage and Treasury rates was unchanged at 186 basis points. Mortgage applications were up 2.3 percent during the month.

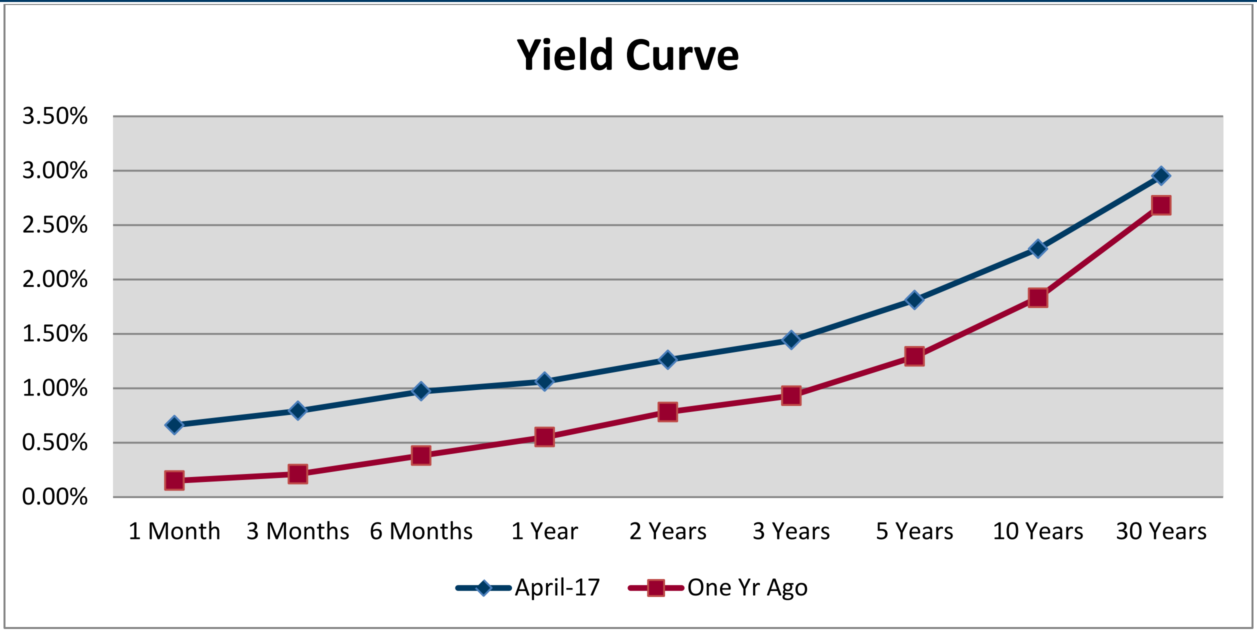
The three key U.S. equity indices finished April on a positive note. Strong quarterly earnings boosted stock prices, especially in the tech sector. Banks and financial stocks were hit the hardest, as Washington hinted at overhauling the Dodd-Frank Act. The Nasdaq Index finished the month up 2.3 percent, the best return of the three major indices. The Dow gained 1.3 percent in the month and the S&P 500 closed up 0.91 percent. The Nasdaq continues to perform the best year-to-date, up 12.3 percent. The S&P 500 is up 6.5 percent for the year, followed by the Dow, ahead by 5.9 percent.

For Credit Unions:

- Weak consumer spending continues to be the story of 2017. Spending declined to 0.3 percent in the first quarter from a 3.5 percent rate at the end of 2016. Economists had been hoping for something closer to 2.5 percent. Falling auto sales account for a larger portion of the weakness, but other areas are being affected as well. Building materials, restaurants and sporting goods stores all posted negative sales in March. The Federal Reserve's Beige Book, an account of the economy from the 12 Federal Reserve districts, presented a mixed review of spending growth. Personal income growth remains at a healthy pace, increasing 4.5 percent year-over-year, which should (hopefully) help spur spending in the second quarter.

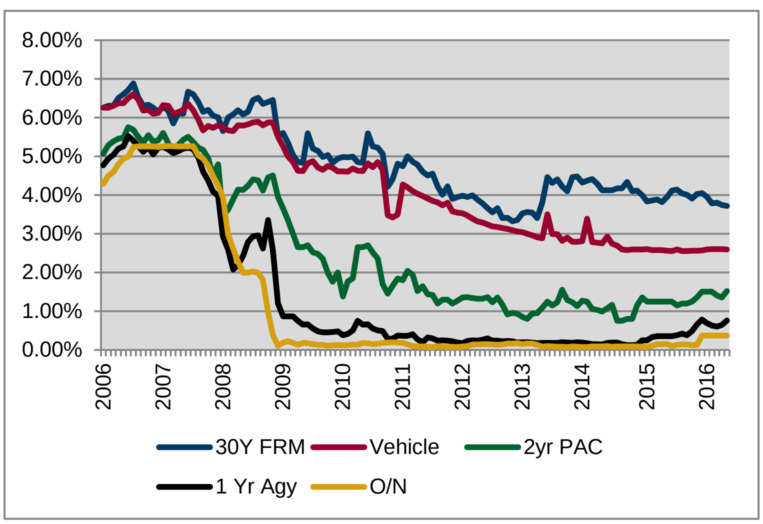
- Auto sales continue to weaken and threaten to burst the consumption bubble that has fueled the economic recovery. April sales totaled 16.8 million on a seasonally adjusted basis, the second consecutive month below the coveted 17 million level. All of the major automakers posted negative sales for the month. Inventory on dealers' lots reached the highest level in 10 years, amounting to an average 100-day supply. The overhang of inventory could prompt automakers to shut down production this summer.

- Manufacturing continues to improve, but at a slower pace. The ISM Manufacturing Index fell more than expected in April, but remains in expansionary territory for the eighth consecutive month. The employment component in the index fell, suggesting a soft patch activity is expected. As stated many times, a decline in auto sales is the main factor in the weakening manufacturing activity. There has also been a small drop in orders for machinery and electronic products.



The yield curve flattened to a level not seen since the November presidential election. By month-end, the curve measured 102 basis points. The two-year note moved in a 13-basis point range, dipping as low as 1.16 percent, before closing the month at 1.26 percent. This was one basis point higher than the prior month. The 10-year Treasury note had a more difficult time finding stable ground as it moved in a 21-basis point range, from a low of 2.17 percent to 2.38 percent. By month-end, the 10-year note was 11 basis points lower than the prior month, closing at 2.28 percent.

Relative Value of Assets and Funding:



- The spread between loan and investment rates continues to narrow. Credit unions should remain focused on credit quality and delinquency rates to maintain the proper balance of value in their balance sheet.
- Interest rates are expected to move higher throughout 2017, with most Federal Reserve members comfortable with more rate moves.
- Credit unions should be able to delay increasing deposit rates until additional Federal Reserve rate moves are completed.

Catalyst Strategic Solutions

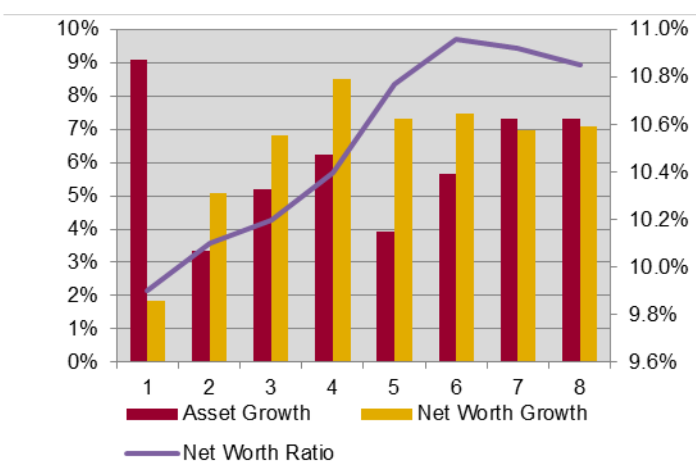
Market Overview AND DATA REPORT

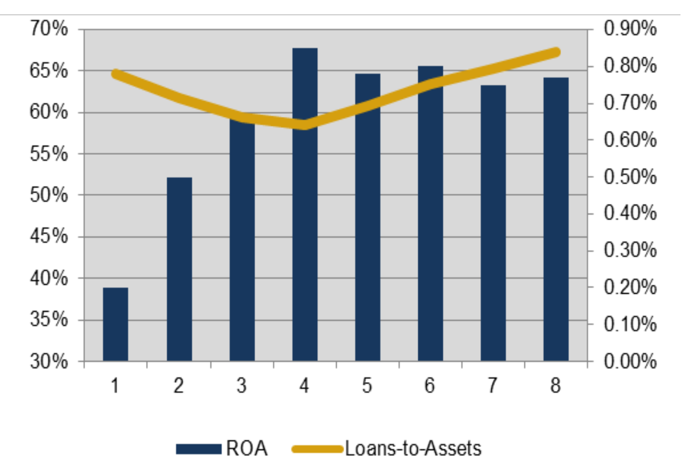
MAY 2017

NCUA – December 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%	7.33%
Total Loans	1.20%	4.55%	7.97%	10.42%	10.49%	10.43%
Total Shares	5.21%	6.10%	3.67%	4.47%	6.86%	7.54%
Net Worth	6.81%	8.52%	7.36%	7.48%	6.92%	7.06%
CAPITAL ADEQUACY						
Net Worth Ratio	10.21%	10.43%	10.77%	10.96%	10.92%	10.89%
Equity Capital Ratio	10.19%	10.42%	10.47%	10.78%	10.66%	10.58%
Capital Ratio	11.10%	11.20%	11.10%	11.40%	11.27%	11.19%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.30%	17.49%	14.87%	13.65%	13.47%	13.41%
Loans-to-Total Assets	59.42%	58.48%	60.75%	63.48%	65.35%	67.24%
Vehicle-to-Total Loans	28.88%	29.87%	30.80%	32.29%	33.29%	34.37%
Real Estate-to-Total Loans	54.78%	53.58%	52.51%	51.13%	50.41%	49.60%
Delinquency Rate	1.60%	1.16%	1.01%	0.85%	0.81%	0.83%
Net Charge-off Rate	0.91%	0.73%	0.57%	0.50%	0.48%	0.55%
"Misery" Index	2.51%	1.89%	1.58%	1.35%	1.30%	1.38%
EARNINGS						
Gross Asset Yield	4.62%	4.01%	3.65%	3.66%	3.72%	3.82%
Cost of Funds	0.93%	0.73%	0.59%	0.54%	0.52%	0.53%
Gross Interest Margin	3.69%	3.28%	3.06%	3.12%	3.20%	3.29%
Less: Provision Expense	0.50%	0.36%	0.26%	0.28%	0.35%	0.41%
Net Interest Margin	3.19%	2.92%	2.80%	2.84%	2.85%	2.88%
Net Operating Expense	2.52%	2.44%	2.45%	2.45%	2.47%	2.46%
Net Income (Return on Assets)	0.67%	0.85%	0.78%	0.80%	0.75%	0.77%
Return on Equity	6.4%	8.0%	7.3%	7.2%	6.8%	7.0%

Source: NCUA (December 2016)





NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$896	$5,600	$24,748	$71,151	$222,552	$1,905,558	$223,429
Pct of Number of Credit Unions	9%	20%	32%	13%	18%	9%	100%
Pct of Industry Assets	0%	0%	4%	4%	18%	74%	100%
GROWTH RATES							
Total Assets	-9.3%	-7.1%	-5.7%	-0.6%	2.1%	10.1%	7.33%
Total Loans	-9.7%	-6.3%	-5.1%	0.9%	3.9%	13.3%	10.43%
Total Shares	-9.3%	-7.2%	-5.7%	-0.6%	2.1%	10.5%	7.54%
Net Worth	-8.4%	-6.5%	-5.7%	-0.2%	2.0%	9.8%	7.06%
CAPITAL ADEQUACY							
Net Worth Ratio	17.8%	15.0%	12.3%	11.5%	10.9%	10.8%	10.89%
Equity Capital Ratio	17.8%	14.9%	12.2%	11.3%	10.6%	10.4%	10.58%
Capital Ratio	19.0%	15.5%	12.7%	11.8%	11.2%	11.1%	11.19%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	39.4%	29.3%	23.9%	19.3%	14.8%	12.1%	13.4%
Loans-to-Total Assets	47.6%	49.1%	50.3%	56.1%	64.2%	69.5%	67.24%
Vehicle-to-Total Loans	56.7%	58.1%	44.5%	39.8%	37.1%	33.0%	34.37%
Real Estate-to-Total Loans	1.9%	10.5%	32.9%	40.0%	45.7%	51.7%	49.60%
Delinquency Rate	3.23%	1.89%	1.22%	1.09%	0.91%	0.78%	0.83%
Net Charge-off Rate	0.62%	0.65%	0.50%	0.52%	0.49%	0.57%	0.55%
"Misery" Index	3.85%	2.54%	1.72%	1.61%	1.40%	1.35%	1.38%
Non-term Shares-to-Total Shares	90.3%	83.9%	78.8%	76.2%	74.4%	72.0%	72.9%
Net Long-term Assets-to-Total Assets	4.9%	9.9%	20.0%	25.7%	31.4%	34.5%	33.0%
EARNINGS							
Gross Asset Yield	3.98%	3.82%	3.43%	3.64%	3.75%	3.86%	3.8%
Cost of Funds	0.39%	0.30%	0.28%	0.31%	0.38%	0.59%	0.53%
Gross Interest Margin	3.60%	3.52%	3.15%	3.33%	3.37%	3.27%	3.3%
Less: Provision Expense	0.30%	0.32%	0.26%	0.30%	0.36%	0.43%	0.41%
Net Interest Margin	3.29%	3.20%	2.89%	3.03%	3.01%	2.84%	2.9%
Net Operating Expense	3.39%	3.02%	2.69%	2.80%	2.77%	2.35%	2.46%
Net Income (Return on Assets)	-0.05%	0.05%	0.25%	0.38%	0.52%	0.89%	0.77%
Return on Equity	-0.3%	0.4%	2.1%	3.4%	4.8%	8.1%	7.0%
COST EFFICIENCIES							
Avg Loan Balance	$4,230	$6,582	$8,766	$9,778	$12,418	$15,504	$14,246
Avg Share Per Member	$2,257	$4,553	$6,884	$7,889	$8,952	$11,203	$10,225
Avg Compensation per FTE	$18,513	$43,931	$55,062	$58,278	$63,836	$76,488	$70,977
Comp & Benefits-to-Total Assets	2.00%	1.95%	1.67%	1.74%	1.79%	1.44%	1.52%
Pct of Total Operating Expense	49%	53%	48%	48%	50%	51%	51%
Office Occ & Ops-to-Total Assets	1.28%	0.98%	0.94%	0.92%	0.94%	0.70%	0.76%
Pct of Total Operating Expense	31%	27%	27%	25%	26%	25%	25%

Source: NCUA (December 2016)

Economic Calendar

MAY 2017

Monday	Tuesday	Wednesday	Thursday	Friday
1 Personal Income (Mar) Personal Spending (Mar) ISM Manufacturing Construction Spending	**2** Auto Sales	**3** ADP Employment ISM Services FOMC decision	**4** Trade Balance Jobless Claims Factory Orders	**5** Non-Farm Payrolls Unemployment Rate Consumer Credit
8	**9** JOLTS	**10** Wholesale Inventories	**11** Jobless Claims PPI	**12** CPI Retail Sales Business Inventories
15	**16** Housing Starts Building Permits Industrial Production Capacity Utilization	**17**	**18** Jobless Claims Leading Index	**19**
22	**23** New Home Sales	**24** Existing Home Sales FOMC May minutes	**25** Jobless Claims Wholesale Inventories	**26** GDP 1Q17 revision Durable Goods Orders
29 	**30** Personal Income (Apr) Personal Spending (Apr) S&P CoreLogic Price Index	**31** Pending Home Sales		