CATALYST Strategic Solutions

Market Overview AND DATA REPORT

OCTOBER 2016

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2015
ECONOMIC GROWTH				
GDP (QoQ)	Q2	1.4%	1.1%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Sep	156	167	2,650
Private Payrolls (000s)	Sep	167	144	2,551
Unemployment Rate	Sep	5.0%	4.9%	5.0%
Underemployment Rate	Sep	9.7%	9.7%	9.9%
INFLATION				
Wholesale (YoY)	Aug	0.0%	-0.2%	-1.0%
Consumer (YoY)	Aug	1.1%	0.8%	0.5%
Core Consumer (YoY)	Aug	2.3%	2.2%	2.0%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Aug	25.9	17.8	21.4
Personal Income	Aug	0.2%	0.4%	4.4%
Personal Spending	Aug	0.0%	0.4%	3.4%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Sep	17.7	16.9	17.4
New & Existing Home Sales (M)	Aug	6.35	6.34	5.99
S&P/Case Shiller HPI (YoY)	Jul	5.10%	4.98%	5.43%

Sources:

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Sep-16	Aug-16	Sep-15
MONEY MARKETS			
Effective Fed Funds	0.29%	0.30%	0.07%
Prime Rate	3.50%	3.50%	3.25%
3 month LIBOR	0.85%	0.84%	0.33%
2 year UST	0.76%	0.81%	0.63%
10 year UST	1.59%	1.58%	2.04%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.01%	3.02%	3.35%
CU 30 year Mtg	3.53%	3.54%	4.01%
EQUITY MARKETS			
Dow Jones Industrial Average	18,308.2	18,400.9	16,284.7
NASDAQ Composite	5,312.0	5,213.2	4,620.2
S&P 500	2,168.3	2,171.0	1,920.0
OTHER COMMODITIES			
CRB Index	186.3	180.2	193.8
Crude Oil	48.2	44.7	50.4

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

Employers added 156,000 jobs in September, and the unemployment rate increased to 5.0 percent. While the increase in jobs was less than forecast, the gain is considered solid and in line with the slowly improving economy. Wages improved 0.2 percent in the month, bringing the year-over-year increase to 2.6 percent. The labor participation rate rose to 62.9 percent.

Consumer prices rose 0.2 percent in August, while wholesale prices were unchanged. Lower food and fuel costs are keeping wholesale costs low. Costs for services, rather than goods, are putting pressure on consumer prices. Shelter costs continue to be a major driver of core inflation, with electricity and gas services close behind. Neither sector is attracting much attention from the Federal Reserve.

Retail sales took a step back in August. Sales declined for the first time in five months. Seven of the 12 categories posted declines. Auto sales were down 0.9 percent, and sales at building material stores fell 1.4 percent. Sales during the three summer months were the weakest since 2008.

The final revision for second quarter GDP pushed the growth rate to 1.4 percent. The increase came from a greater amount of exports and stronger business investment. Consumer spending remains strong at 4.3 percent.

The quietness of August exploded early in September, as the financial markets became unsettled leading up to the September FOMC meeting. Even though most analysts and economists expected the Fed to leave rates unchanged, the element of a potential surprise caused stock prices to move in triple-digit patterns and interest rates to return to the highest levels since June. In the end, the Fed once again left the target federal funds rate unchanged. The committee believes economic activity has picked up this year and jobs gains have been solid, but chose to wait for additional evidence of progress before increasing rates. Their projection for future rates does suggest a rate move sometime this year. A repeat of 2015 is likely, with a target rate increase in December. By the end of the month, Treasury yields and major stock indices were little changed.

Mortgage rates declined by one basis point in September. The average 15-year mortgage rate offered by credit unions ended September at 3.01 percent. The average rate for a 30-year mortgage was 3.53 percent. Average mortgage rates are 34 to 48 points lower than a year ago. The spread between mortgage rates and Treasury rates increased three basis points on 15-year mortgages and decreased two basis points on 30-year mortgages.

The key U.S. equity indices ended September with mixed results, after moving wildly throughout the month. Both the Dow and the S&P indices posted their first back-to-back losses since earlier this year. The Dow closed the month down 0.5 percent, and the S&P 500 was down 0.1 percent. The NASDAQ Composite saved the trio with a gain of 1.9 percent. The year-to-date returns for the indices were positive across the board: Dow Jones Industrial Average: +5.1 percent, NASDAQ Composite: +6.1 percent, and S&P 500 Index: +6.1 percent.

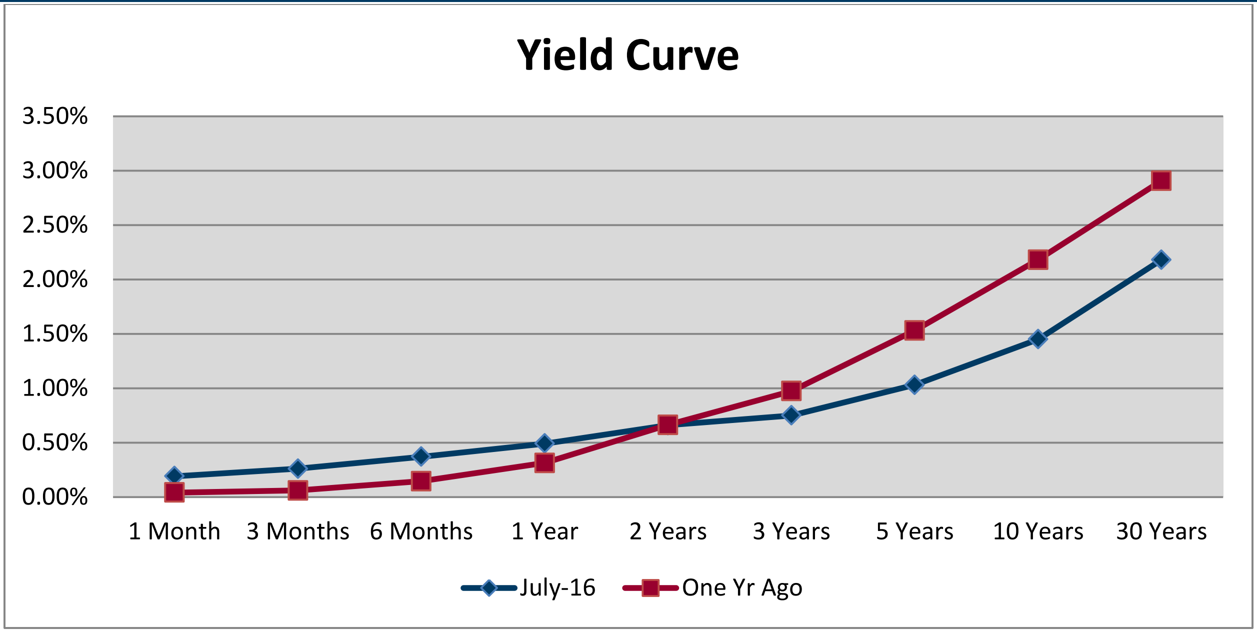
For Credit Unions:

- Consumer spending remains the strong point in the economy, but there are signs of weakness. The pace of spending was flat in August, as consumers shifted away from bigger-ticket durable goods purchases. Purchases of durable goods fell 1.3 percent, and non-durable goods declined 0.2 percent. The increase in services consumption remains positive, but is increasing at a smaller pace. Third quarter spending is around 3.4 percent, almost half of the previous rate of 6.4 percent.

- The housing market posted dismal results in August, as sales of new and existing homes declined. A lack of supply continues to hurt sales, as there are simply not enough affordable homes on the market. The inventory of existing homes declined 10.1 percent to the fewest homes in five months. The shining light in the data is an increase in the backlog of homes waiting to be built. The number of new homes sold, but not started, is at a nine-year high. The average price of a new home declined 5.4 percent, a sign that builders are beginning to focus on more moderate-priced entry-level homes.

- Auto sales increased to an annualized sales pace of 17.6 million in September, from 16.9 million in August. This was the second highest pace of sales for the year. Year-to-date sales are up 0.5 percent from last year. Sales of minivans increased the most of all categories, surging 19.4 percent on a year-to-date basis from September 2015. At the other end of the spectrum, sales of large cars experienced the biggest decline, falling 56 percent.

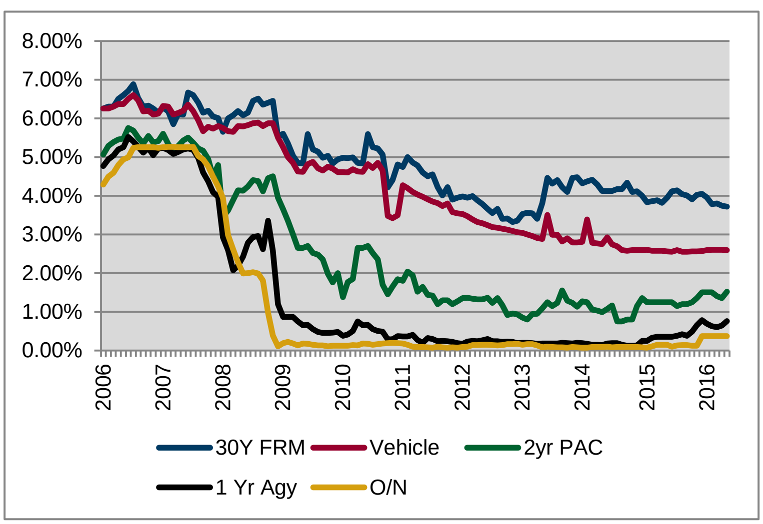
- Consumer borrowing increased an annualized 8.5 percent in August, the largest monthly increase in over a year. The surge was led by the largest rise in non-revolving debt since last September. Of the $20.2 billion increase in non-revolving debt, $18.7 billion was lent by the federal government, mostly for student loans.



The yield curve, measured between the two- and 10-year Treasury notes, widened by six basis points to 83 basis points in September. The short end of the curve declined the most, as hopes for a rate increase by the Federal Reserve were once again squashed. Compared to a year ago, the yield curve is 58 basis points flatter.

The two- and 10-year Treasury notes performed differently during September. The two-year note moved in a tight seven basis point range, while the 10-year note experienced a 19 basis point swing. The two-year Treasury note yield ended the month five basis points lower at 0.76 percent. The yield on the 10-year Treasury note increased one basis point to 1.59 percent, closing near the low end of the range.

Relative Value of Assets and Funding:

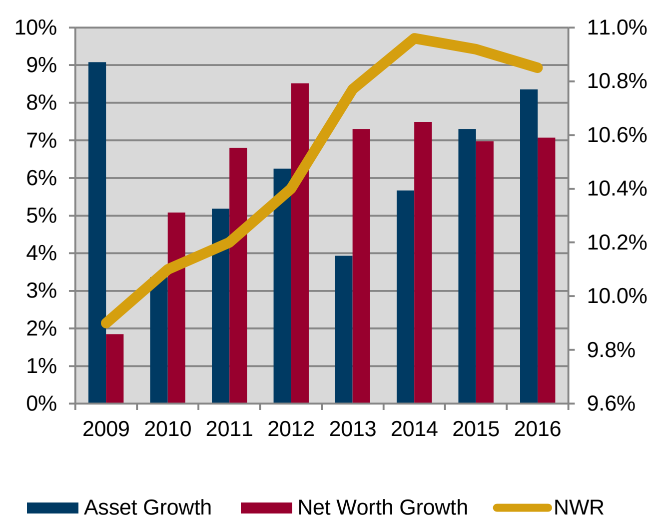


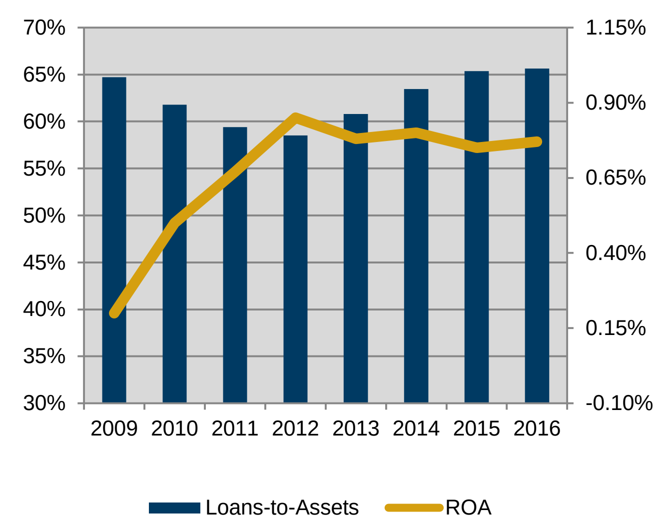
- The spread between core loan rates and investment yields continues to narrow this year. Value remains in core loan assets, but keep asset quality in mind.
- Interest rates are projected to remain low for an extended period. Market conditions are forecasting a 63 percent chance for a rate change in December.
- 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 – June 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%	8.36%
Total Loans	1.20%	4.55%	7.97%	10.42%	10.49%	9.24%
Total Shares	5.21%	6.10%	3.67%	4.47%	6.86%	8.45%
Net Worth	6.81%	8.52%	7.36%	7.49%	6.98%	7.07%
CAPITAL ADEQUACY						
Net Worth Ratio	10.21%	10.43%	10.77%	10.96%	10.92%	10.85%
Equity Capital Ratio	10.19%	10.42%	10.47%	10.78%	10.66%	10.77%
Capital Ratio	11.10%	11.20%	11.10%	11.40%	11.27%	11.37%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.30%	17.49%	14.87%	13.64%	13.49%	13.98%
Loans-to-Total Assets	59.42%	58.48%	60.75%	63.48%	65.35%	65.63%
Vehicle-to-Total Loans	28.88%	29.87%	30.80%	32.29%	33.30%	34.03%
Real Estate-to-Total Loans	54.78%	53.58%	52.51%	51.12%	50.41%	49.94%
Delinquency Rate	1.60%	1.16%	1.01%	0.85%	0.81%	0.75%
Net Charge-off Rate	0.91%	0.73%	0.57%	0.50%	0.48%	0.51%
"Misery" Index	2.51%	1.89%	1.58%	1.35%	1.30%	1.26%
EARNINGS						
Gross Asset Yield	4.62%	4.01%	3.65%	3.66%	3.71%	3.76%
Cost of Funds	0.93%	0.73%	0.59%	0.54%	0.52%	0.51%
Gross Interest Margin	3.69%	3.28%	3.06%	3.12%	3.20%	3.24%
Less: Provision Expense	0.50%	0.36%	0.26%	0.28%	0.34%	0.37%
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%	2.48%
Net Income (Return on Assets)	0.67%	0.85%	0.78%	0.80%	0.75%	0.77%

Source: NCUA (June 2016)





NCUA PEER DATA	<$10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK						
Average Asset Size (000s)	$4,139	$24,823	$71,300	$221,203	$1,856,401	$213,115
Pct of Number of Credit Unions	17%	32%	12%	18%	8%	100%
Pct of Industry Assets	0%	4%	4%	18%	73%	100%
GROWTH RATES						
Total Assets	-8.8%	-5.8%	-1.7%	2.5%	11.4%	8.36%
Total Loans	-13.7%	-6.7%	-2.1%	2.3%	12.3%	9.24%
Total Shares	-8.6%	-5.8%	-1.8%	2.5%	11.7%	8.45%
Net Worth	-9.6%	-6.4%	-2.5%	2.2%	10.0%	7.07%
CAPITAL ADEQUACY						
Net Worth Ratio	15.7%	12.3%	11.4%	10.9%	10.7%	10.85%
Equity Capital Ratio	15.6%	12.2%	11.3%	10.8%	10.6%	10.77%
Capital Ratio	16.4%	12.7%	11.8%	11.3%	11.3%	11.37%
BALANCE SHEET COMPOSITION						
Cash & Investments-to-Total Assets	51.6%	47.0%	40.5%	31.8%	27.6%	29.8%
Loans-to-Total Assets	47.2%	49.7%	55.1%	63.0%	67.8%	65.63%
Vehicle-to-Total Loans	57.5%	44.0%	39.7%	36.5%	32.7%	34.03%
Real Estate-to-Total Loans	8.1%	33.5%	40.3%	46.3%	52.1%	49.94%
Delinquency Rate	2.12%	1.14%	0.97%	0.82%	0.70%	0.75%
Net Charge-off Rate	0.60%	0.44%	0.47%	0.46%	0.53%	0.51%
"Misery" Index	2.71%	1.59%	1.44%	1.28%	1.23%	1.26%
Non-term Shares-to-Total Shares	85.4%	78.4%	75.5%	73.9%	71.6%	72.6%
Net Long-term Assets-to-Total Assets	8.9%	20.6%	26.1%	31.5%	33.6%	32.2%
EARNINGS						
Gross Asset Yield	3.80%	3.41%	3.58%	3.70%	3.80%	3.8%
Cost of Funds	0.32%	0.28%	0.31%	0.37%	0.58%	0.51%
Gross Interest Margin	3.49%	3.13%	3.27%	3.33%	3.22%	3.2%
Less: Provision Expense	0.26%	0.22%	0.25%	0.31%	0.40%	0.37%
Net Interest Margin	3.22%	2.92%	3.02%	3.02%	2.83%	2.9%
Net Operating Expense	3.18%	2.73%	2.82%	2.81%	2.35%	2.48%
Net Income (Return on Assets)	0.06%	0.30%	0.43%	0.54%	0.89%	0.77%
COST EFFICIENCIES						
Avg Loan Balance	$5,857	$8,771	$9,537	$12,329	$15,156	$13,938
Avg Share Per Member	$3,839	$6,851	$7,803	$8,880	$11,096	$10,099
Avg Compensation per FTE	$35,329	$54,110	$57,873	$63,553	$76,994	$70,987
Comp & Benefits-to-Total Assets	0.96%	0.83%	0.88%	0.90%	0.73%	0.77%
Pct of Total Operating Expense	52%	48%	48%	50%	52%	51%
Office Occ & Ops-to-Total Assets	0.52%	0.47%	0.46%	0.47%	0.35%	0.38%
Pct of Total Operating Expense	28%	27%	25%	26%	25%	25%

Source: NCUA (June 2016)

Economic Calendar

OCTOBER 2016

Monday	Tuesday	Wednesday	Thursday	Friday
3 ISM Manufacturing Construction Spending Auto Sales	**4**	**5** ADP Employment ISM Services Factory Orders	**6** Jobless Claims	**7** Non-Farm Payrolls Unemployment Rate Wholesale Inventories Consumer Credit
10 	**11**	**12** JOLTS FOMC September minutes	**13** Jobless Claims	**14** PPI Retail Sales Business Inventories
17 Industrial Production Capacity Utilization	**18** CPI	**19** Housing Starts Building Permits	**20** Jobless Claims Existing Home Sales Leading Economic Index INTERNATIONAL CREDIT UNION DAY	**21**
24	**25** S&P/Case-Shiller HPI Consumer Confidence	**26** Trade Balance Wholesale Inventories New Home Sales	**27** Jobless Claims Durable Goods Orders	**28** GDP – 3Q16
31 Personal Spending Personal Income