CATALYST Strategic Solutions

Market Overview AND DATA REPORT

SEPTEMBER 2016

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2015
ECONOMIC GROWTH				
GDP (QoQ)	Q2	1.1%	1.2%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Aug	151	275	2,650
Private Payrolls (000s)	Aug	126	225	2,551
Unemployment Rate	Aug	4.9%	4.9%	5.0%
Underemployment Rate	Aug	9.7%	9.7%	9.9%
INFLATION				
Wholesale (YoY)	Jun	-0.2%	0.3%	-1.0%
Consumer (YoY)	Jun	0.8%	1.0%	0.5%
Core Consumer (YoY)	Jun	2.2%	2.3%	2.0%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Jul	17.7	14.5	21.4
Personal Income	Jul	0.4%	0.3%	4.4%
Personal Spending	Jul	0.3%	0.5%	3.4%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Aug	16.9	17.8	17.4
New & Existing Home Sales (M)	Jul	6.04	6.15	5.99
S&P/Case Shiller HPI (YoY)	Jun	5.07%	5.07%	5.43%

Sources:

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Aug-16	Jul-16	Aug-15
MONEY MARKETS			
Effective Fed Funds	0.30%	0.30%	0.08%
Prime Rate	3.50%	3.50%	3.25%
3 month LIBOR	0.84%	0.76%	0.32%
2 year UST	0.81%	0.66%	0.74%
10 year UST	1.58%	1.45%	2.22%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.02%	3.02%	3.38%
CU 30 year Mtg	3.54%	3.55%	4.04%
EQUITY MARKETS			
Dow Jones Industrial Average	18,400.9	18,432.2	16,528.0
NASDAQ Composite	5,213.2	5,162.1	4,776.5
S&P 500	2,171.0	2,173.6	1,972.2
OTHER COMMODITIES			
CRB Index	180.2	181.0	202.1
Crude Oil	44.7	41.6	55.2

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

Employers added 151,000 jobs in August. This was the fifth month this year with job gains below 200,000. Manufacturing lost 14,000 jobs, while health care continues double digit growth. Hourly earnings increased 0.1 percent, less than expected, and are up 2.4 percent over the past 12 months.

The cost of living was unchanged in July after rising 0.8 percent in June. Wholesale prices fell 0.4 percent. Retail gasoline prices were down 4.4 percent, the first decline in five months. Food prices were unchanged for the month and up 0.2 percent over the past 12 months. Meat prices posted the largest decline within the category. Prices for both services and goods were lower at the producer side.

Retail sales were flat in July after rising 0.8 percent the prior month. Most of the key sectors posted declines. Gas station receipts were 2.7 percent lower due to a drop in gasoline prices. Of the five sectors with an increase in sales, autos and internet shopping were the only sectors to post gains over 1.0 percent.

Second quarter GDP was revised lower from 1.2 percent to 1.1 percent. The decline was due to greater than previously estimated import activity. Business inventories declined for the first time since the third quarter of 2011. The bright spot was an upward revision to consumer spending, from 4.2 percent to 4.4 percent.

The financial markets had a tough time gaining momentum for most of August. After spending the month solidly between 1.50 percent and 1.58 percent for 25 days, the 10-year Treasury note temporarily broke out of this range three business days before the month ended. The trigger was Federal Reserve Chair Janet Yellen's long-awaited speech at the Jackson Hole Economic Symposium. Yellen began her talk by suggesting the case for raising the federal funds rate has strengthened and that gradual rate hikes would be appropriate. However, the Fed Chair stopped short of discussing any particular timing for the next interest rate move. The speech also focused on the Fed's "toolkit" for handling future recessionary periods, defending bond purchases and pledges to keep rates low for an extended period if needed.

Mortgage rates were largely unchanged in August. The average 15-year mortgage rate offered by credit unions remained at 3.02 percent. The average rate for a 30-year mortgage was 3.54 percent, just one basis point lower than a month ago. Average mortgage rates are 36 to 50 points lower than a year ago. The spread between mortgage rates and Treasury rates decreased an average of 15.5 basis points due to Treasury yields rising.

The key U.S. equity indices barely moved in August, making the month the least volatile since 1995. Both the Dow and the S&P indices posted the first losses in over five months. The Dow closed the month down 0.2 percent, the S&P 500 was down 0.1 percent and the NASDAQ Composite barely eked out a gain of 1.0 percent. Trading volumes were slim as investors tried to figure out what and when the Federal Reserve's next rate move will be. The year-to-date returns for the indices were positive across the board: Dow Jones Industrial Average: +5.6 percent, NASDAQ Composite: +4.0 percent, and S&P 500 Index: +6.2 percent.

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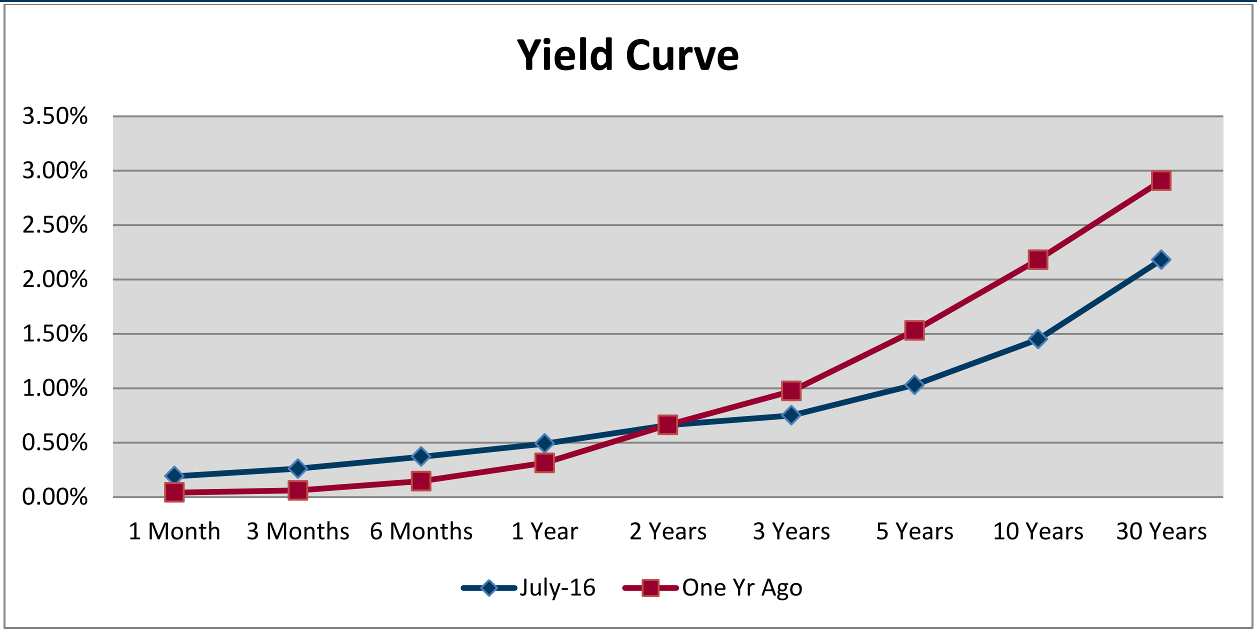
For Credit Unions:

- Consumers continue to carry the economy. Overall consumer spending increased 0.3 percent in July. This was the fourth month in a row for an increase in expenditures. Most of the activity came from purchases of durable goods, up 1.9 percent, the largest increase in three months. Spending is being boosted by continued gains in income. Personal incomes rose 0.4 percent, making July the fifth consecutive month of increases. The savings rate increased to 5.7 percent from 5.5 percent.

- The housing sector continues to struggle due to a lack of affordable housing to meet the demand. July painted a clear picture of this with a divergence between new and existing home sales. New home sales surged 12.4 percent despite the lowest supply of new homes on the market in eight months. Inventory is down 5.8 percent from a year ago. Existing home sales, on the other hand, fell 3.2 percent, the first decline since February. The supply of homes for sale has fallen for the past 14 months. New home prices declined 0.5 percent, and prices for existing homes rose 5.3 percent. Existing home sales make up 90 percent of the housing market.

- Seasonally adjusted annualized car sales fell below 17 million for the third time this year. August sales totaled 16.9 million, the lowest volume for August sales since 2013. Discounts and spending on car promotions is at the highest level since 2009, according to data from Kelley Blue Book.

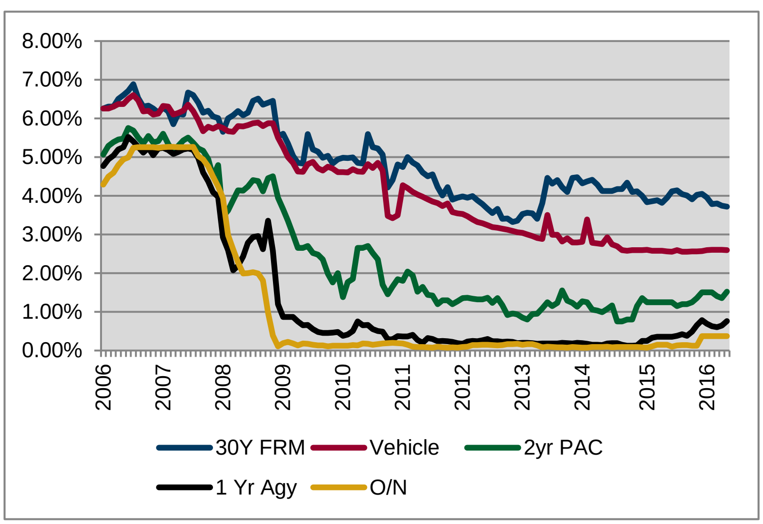
- Lending increased 9.2 percent in the second quarter, boosting the loan to share ratio to 77.8 percent from 75.5 percent a year ago. Membership increased 1.2 million during the second quarter, an increase of 3.8 percent over second quarter 2015.



The yield curve, measured between the two- and 10-year Treasury notes, flattened by two basis points to 77 basis points in August. The short end of the curve moved the most on the renewed expectations the Federal Reserve may increase the target lending rate. Compared to a year ago, the yield curve is 71 basis points flatter.

Both the two and 10-year Treasury notes posted the highest closing yields since May. The two-year Treasury note yield ended the month 15 basis points higher at 0.81 percent, the largest monthly increase since December. The yield on the 10-year Treasury note increased 13 basis points to 1.58 percent, the largest yield increase since June 2015.

Relative Value of Assets and Funding:

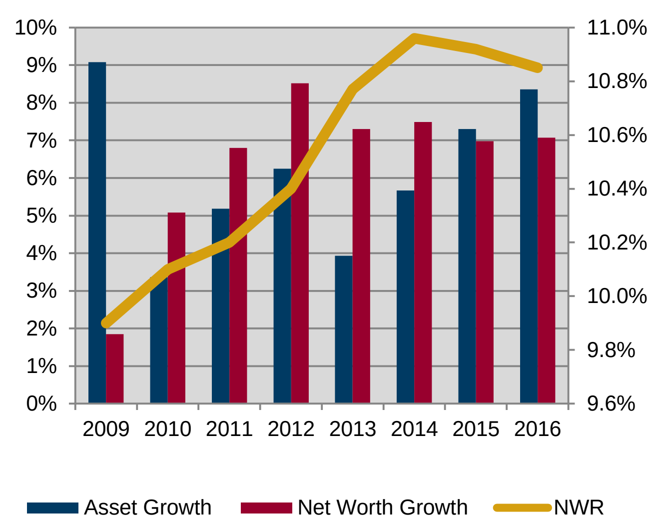


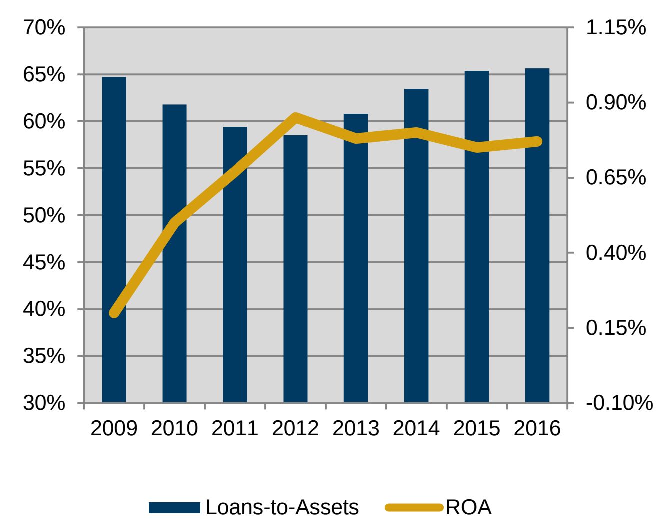
- The spread between core loan rates and investment yields continues to narrow this year. Value remains in core loan assets, but keep asset quality in mind.
- Interest rates are projected to remain low for an extended period of time. Market conditions are forecasting a 60 percent chance for a rate change 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

SEPTEMBER 2016

Monday	Tuesday	Wednesday	Thursday	Friday
			1 Initial Claims ISM Manufacturing Construction Spending Auto Sales	**2** Non-Farm Payrolls Unemployment Rate Trade Balance
5  	**6**	**7** JOLTS Fed Beige Book	**8** Jobless Claims Consumer Credit	**9** Wholesale Inventories
12	**13**	**14**	**15** Jobless Claims Leading Indicators PPI Retail Sales Business Inventories Industrial Production Capacity Utilization	**16** CPI
19	**20** Housing Starts Building Permits	**21** FOMC Decision	**22** Jobless Claims Durable Goods Orders Existing Home Sales Leading Index	**23**
26 New Home Sales	**27** S&P/Case-Shiller HPI Consumer Confidence	**28** Durable Goods Orders	**29** Pending Home Sales GDP 2Q Final	**30** Personal Spending Personal Income