May 2023

Bolstering Credit Union Membership With Superior Lending Options

Credit Union Tracker® Series

Read the previous edition

APRIL 2023

Credit Union Tracker® Series

What's Inside

PYMNTS | PSCU

Acknowledgment

The Credit Union Tracker® Series is produced in collaboration with PSCU, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

Need to Know

Financial Strain Is an Opportunity for CUs

The coming year looks bleak for consumer finances, but credit unions (CUs) are poised to stand out in difficult economic times. Sixty-six percent of Americans in a recent survey said they expect no personal economic improvement in 2023, and another 29% expect worse financial fortunes in the coming year.

As consumers feel the economic squeeze, CUs can offer better terms and lower fees than competitors. CUs have the highest average annual percentage yield for 12-month CDs, at 4.08%, and the rates on CU high-yield savings accounts are more than double those offered by all but online banks.

Financial concerns could drive United States consumers to CUs for shelter.

66%
Share of U.S. consumers who do not expect financial improvements in 2023

29%
Share of U.S. consumers who expect worse finances in 2023

18%
Share of those expecting a worse 2023 who say it will be somewhat worse

11%
Share of those expecting a worse 2023 who say it will be significantly worse

Need to Know

CUs have the lending advantage.

CUs have an excellent lending reputation among members, with 86% of those surveyed having a positive view of the ease of getting a loan from their CUs. At the same time, 49% said their CUs' loans are low-cost, more than double the 23% of nonmembers who said the same about their financial institutions (FIs).

CUs are doing exceptionally well with auto loans. A CU member receiving an auto loan rate of 5.45% could expect to pay 6.86% on average at a bank. Lower rates also contribute to better payment performance from nonprime borrowers and the lowest delinquency rate in the industry.

Member satisfaction with CU lending is far ahead of nonmember satisfaction with other FIs in the space.

Share of CU members who are very positive about the ease of getting a loan from their CUs

Share of nonmembers who are very positive about the ease of getting a loan from their FIs

Need to Know

Credit products can communicate CUs' value to nonmembers.

Lending and credit products could be a bridge to help nonmembers understand why CU members have high satisfaction and loyalty with their FIs. Seventy-seven percent of surveyed CU members are satisfied with their CUs — a higher share than for any other type of FI — and 51% cite low fees as a reason to choose a CU.

As consumers seek financial resilience, CUs offer a solid answer. Thirty-four percent of consumers are considering a new FI in the next year, while 13% say they will definitely switch FIs. In their search, those consumers are looking for the very features at which CUs excel, such as low fees and good customer service.

Consumers seeking new FIs value the same features that promote CU member loyalty.

22%
Share of consumers who say low fees will be the most important factor in their search for a new FI

51%
Share of CU members who cite low fees as an important reason for being members

11%
Share of consumers who say customer service will be the most important factor in their search for a new FI

16%
Share of CU members who cite customer service as an important reason for being members

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News and Trends

CFPB Rule Requires Business Lending Data Reporting

The Consumer Financial Protection Bureau (CFPB) recently finalized a rule for reporting small business lending data that will add to the workload for lenders with more than 100 covered small business loans annually. CUs and other lenders must collect geographic and demographic data and report on lending decisions and the price of credit.

The CFPB cited a lack of data on access to credit such as CU small business loans as the basis for the new rule. The intent is to detect discrimination and provide better information for investors and regulators. The CFPB also asserts that the data set will make programs such as the Paycheck Protection Program more effective.

News and Trends

Interest rates offset CU loan loss provisions

CUs ended 2022 in a favorable position, with only a 0.02% decrease in their annualized average return on assets (ROA) from the third to fourth quarters. According to National Credit Union Administration data, lending rates played a role as interest rates rose in the final months of 2022. Lower savings rates also contributed to offsetting substantial loan loss provisions.

CUs' net interest income in the fourth quarter was up 51 basis points year over year, while loan loss provisions increased by 31 basis points. Along with small increases and decreases in other areas, this put 2022's 0.92% fourth-quarter ROA on par with 2021's 0.91%.

Auto loans drive CU consumer debt share

CUs outpaced banks in nonrevolving consumer debt growth in January, though banks did better with credit cards. CU car loans have been a significant driver of this growth, with CU market share in this area making strong gains. CUs' share of nonrevolving debt was more than 15% at the end of January, compared to banks' 26%. While both banks and CUs have steady credit card debt growth, CUs' 6.3% share was unchanged, while banks' share grew 0.6% to just over 91%.

Increase in CU-held consumer debt from January 2022 to January 2023

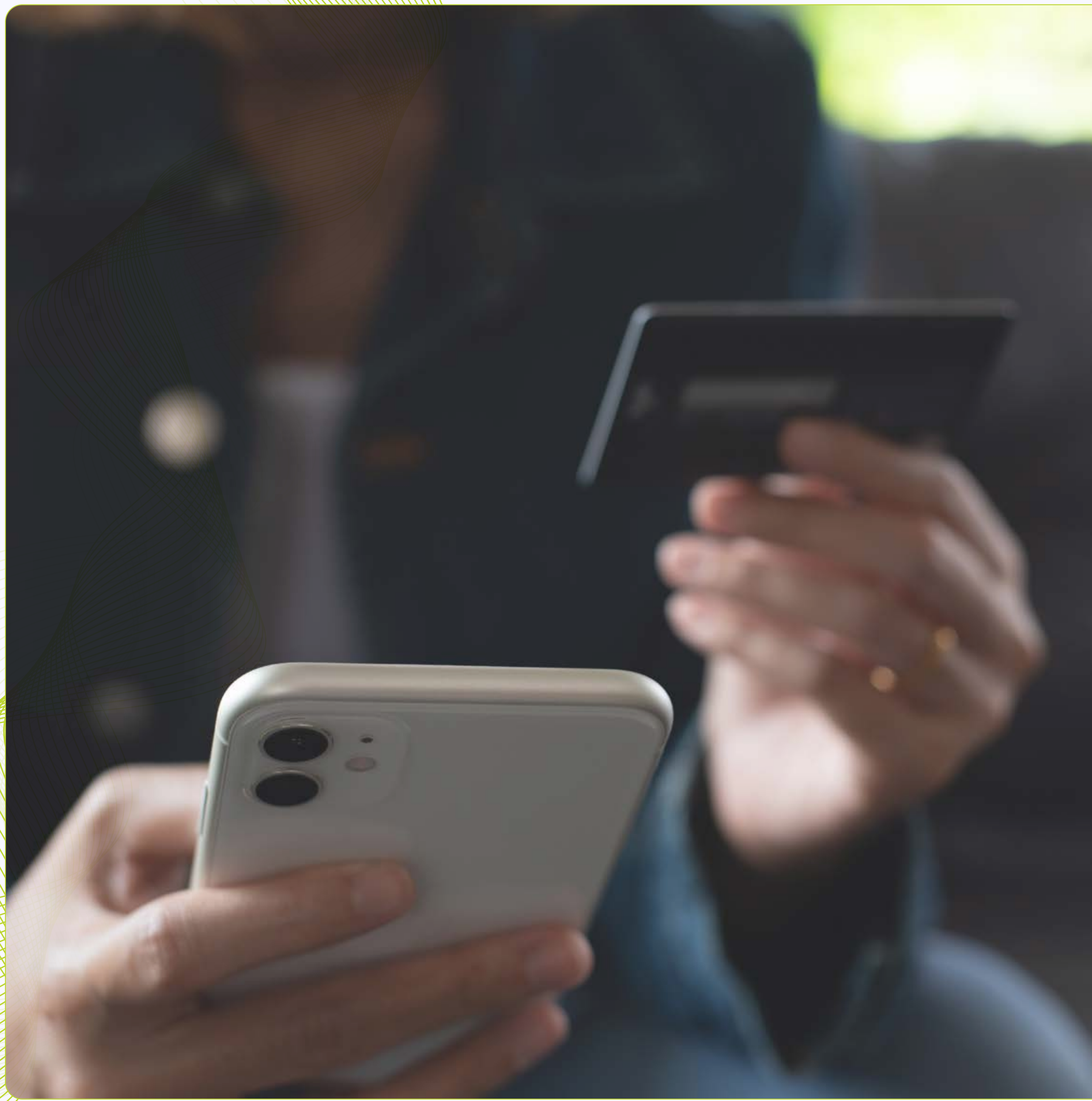
Increase in bank-held consumer debt from January 2022 to January 2023

PYMNTS Intelligence

The Best Lending Product Wins in Retention and Enrollment

CUs know they need to be digitally savvy, but having the most user-friendly mobile app is not enough to catch and keep consumer attention. Fifty-six percent of surveyed CU executives said that convenient banking matters, and 46% of surveyed members said it is something they care about. Only 10% of members, however, said convenience was the most important factor in choosing a lender.

More than one-quarter of all consumers would likely change FIs for better credit products. For members, that portion is 26%. Despite their reputation for being motivated by convenience, consumers who bank primarily through digital channels are even more influenced by the hard numbers. Interest rates and loan terms are the primary motivators determining where 32% of those borrowers apply for loans, compared to 27% of all consumers.



PYMNTS Intelligence

Younger and higher-income consumers are more likely to switch

The potential for consumers seeking loans outside of their primary FIs is much higher as consumer age decreases and income increases. Millennials and bridge millennials are the most likely to switch, with 49% saying better loan terms could lure them away, followed by 38% of Generation Z respondents. In contrast, only 26% of Generation X respondents and a mere 7.2% of baby boomers share that sentiment.

As for income, 36% of those making more than $100,000 a year are likely to jump ship for a better offer, compared to only 16% who make less than $50,000. However, income alone is not the whole picture regarding finances. More than 42% of those living paycheck to paycheck and having problems paying bills said they are likely to switch, compared to just under 15% of consumers not living paycheck to paycheck. At the same time, almost 33% of those with credit scores between 650 and 750 and nearly 36% of those with credit scores below 650 are likely to move for better terms.

Income and age play a significant role in how fluid consumer loyalty is when it comes to picking an FI based on loan terms.

49%

Share of millennial and bridge millennial respondents who are likely to change FIs for better loan terms

36%

Share of consumers making more than $100,000 annually who are likely to change FIs for better loan terms

PYMNTS Intelligence

Better data informs better lending

Technology can still play an essential role in complementing the best lending products. Consumers are seeking financial wellness in 2023, and a solid understanding of their habits and needs will be critical to helping them find it. Technology can reinforce this well-known CU strong suit and make it even easier to personalize products and services.

The answer for FIs of all sizes has been to turn to greater banking automation through artificial intelligence (AI) and machine learning. CU adoption has been hampered by size and scale, but CUs can take advantage of the expertise of third-party providers with a broader view of the marketplace. With the proper implementation, a CU can provide personalized offers and targeted messaging based on member behaviors and habits that reinforce the deeply rooted relationships for which they are known.

Technology can reinforce the relationships CUs have with members and help tailor credit product offers.

Member spending data informs better credit product offerings and timing.

CUs' more limited demographic profiles simplify member data automation.

PYMNTS Intelligence

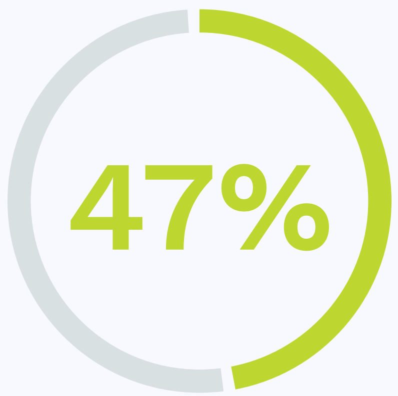
Lending and credit products are a growth sector for CUs

CUs have already had success taking a large share of the auto loan market and could seek a larger share of other loan types. Near the end of 2022, CUs held almost 35% of all vehicle loans in the U.S. It has helped that many consumers seek vehicle financing outside their primary FIs, but the same is true for other lending products as well. For instance, 52% of consumers are motivated more by mortgage rates than loyalty to an FI when buying a home.

Across the board, CUs are already seeing increased inquiries for lending and credit products. The demand for personal loans is up at 71% of CUs, while 74% of CUs offering credit cards said applications have risen for that product as well. CUs offering business lines of credit have also seen greater demand, with 71% saying applications have risen. At the same time, CUs are identifying the need to speed up the loan application process, with almost all surveyed CU executives saying they are taking steps toward that end.

As CUs recognize the potential in loan and credit products for attracting and retaining members, speeding up the application process has become a priority.

Share of CU executives who said they are taking very or extremely significant steps to speed up the application process



Share of CU executives who said they are taking slightly or somewhat significant steps to speed up the application process

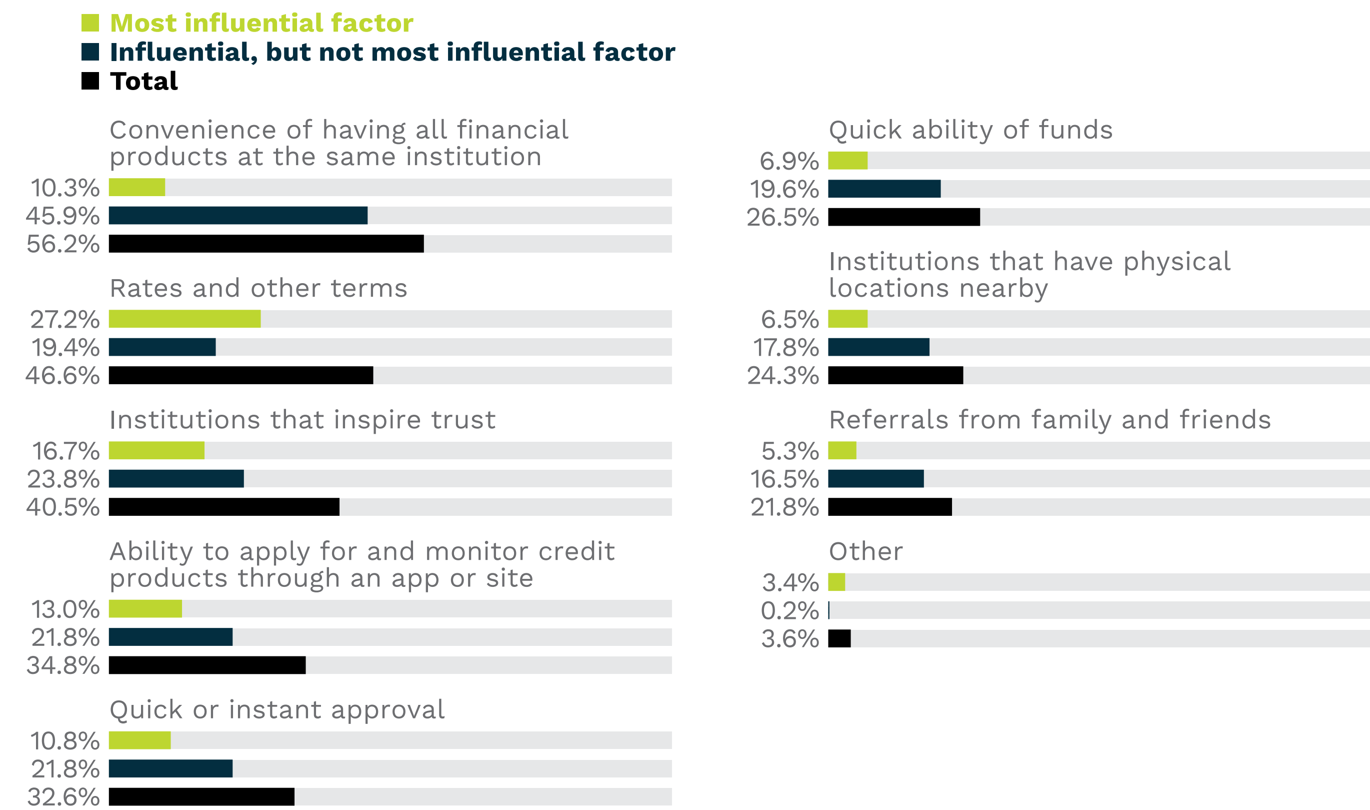
Chart of the Month

CUs' Key Lending Features Are What Borrowers Want

The leading factors influencing where CU members apply for credit products are cost and trust in the lending institution. While just over 56% cited the convenience of having a single FI for all their financial products as a factor, only a little more than 10% said it is the most important aspect. In contrast, just over 27% said rates and terms are most important, while almost 17% cited trust in the institution.

What credit product applicants consider

Factors that influence consumers when considering where to apply for credit products



Source: PYMNTS

Credit Union Innovation: Product Development Slowdown Tests Member Loyalty, January 2023

N = 4282: Complete responses, fielded Oct. 17, 2022 – Nov. 7, 2022

Insider POV

Economic Downturns Showcase CU Lending Advantages

KATE ROGERS
Senior vice president of digital and payments/chief innovation officer

"We don't want them to remember the pain or the friction they had in the process. We want them to remember they got to drive off with a new car so they can get to work."

PYMNTS interviews Kate Rogers, senior vice president of digital and payments and chief innovation officer at University of Illinois Community Credit Union (UICCU), about how CUs can come out on top as lenders in challenging economic times.

CUs offer more to borrowers than just better rates. Rogers said that even when dealing with nonmembers, CUs are able to look at people as more than just numbers on a spreadsheet. With an auto loan, for instance, dealers know that if someone does not qualify on the first try, UICCU will see if there is still a way to work with them. That personal relationship with dealers can make a big difference. While competing lenders will simply move on to the next loan approval, a CU is able to incorporate a personal touch and give more attention to each applicant.

Insider POV

A personal touch does not have to slow anything down. Rogers said that UICCU is always looking for ways to keep the application process as easy and fast as possible. That means prioritizing digital tools that are intuitive and user-friendly. The goal is to ensure that all applicants have their best lending experience with UICCU. Borrowers should not remember any pain or friction from the process, only the fact that they were able to get the loan they needed to buy a car that gets them to their job without seriously interrupting their lives.

Every transaction experience is a competitor with the CU lending experience. Whether they are applying for a credit card or a mortgage, borrowers today do not judge their application experiences only against other similar experiences. Rogers said that even the experiences applicants have checking out online will inform how they evaluate their credit or loan experience. Consumers today expect the loan approval process — and even funding — to take hours or even minutes, not days or weeks. Even more so, UICCU's goal is to have a process that actually exceeds applicants' expectations. Borrowers should have an experience they want to tell their friends and family about.

Liquidity is the biggest lending challenge for CUs in the current economic climate. There was an influx of deposits during the pandemic. Those days are over, and deposits are down across the board. Everyone, from students to retirees, is keeping less in savings and even checking accounts. Rogers said that a priority at UICCU is to manage that challenge proactively, because the last thing a CU wants to do is to shut down lending during an economic downturn. During the last recessionary period, there was a noticeable drop in credit card offers in mailboxes. By continuing to offer credit solutions, CUs were able to stand out from their competitors.

Special attention not only allows CUs to keep bringing in new loans but also means lower delinquency rates. Rogers said that UICCU has a proactive approach to delinquency as well. A CU is able to reach out to borrowers and give each loan a personal approach. If there is a change in payment behavior on a loan, a CU can get in touch before that borrower becomes delinquent and ask if they need help. Borrowers remember that fact when it comes time to prioritize payments that are due. They also keep it in mind the next time they are looking for a loan, or even considering where to open any other kind of account.

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Insider POV

Keeping lending alive during hard economic times

Life does not stop for members because of a recession, and lending cannot either.

Taking a relationship approach to existing loans mitigates delinquency.

Consumers compare any digital experience against all digital experiences, even lending.

Companies to Watch

CUs Extend Lending Reach

In an effort to expand its lending reach, Verity Credit Union is automating its underwriting process in partnership with Zest AI. The new system will rely on a conglomeration of data points outside applicants' credit scores. The goal is to help those without established scores demonstrate creditworthiness.

SAFE Federal Credit Union is helping first responders and public service workers open the door to homeownership. Community Partners helps to cover costs such as down payments and closing costs for first responders, educators, veterans and essential workers making less than 80% of their county's median income.

Auto lending is a key market for CUs, and Day Air Credit Union has automated 84% of auto loan decisioning with loan origination software. The Sync1 Systems loan origination system has made it possible for more than 80% of loan application decisions to be made in under 30 seconds, giving the CU an additional competitive advantage over other lenders.

What's Next

Interest Rates and Inflation Squeeze CU Members

As the Federal Reserve continues to increase interest rates, some CU executives are concerned about the impact on smaller borrowers and lenders. The food service, real estate, construction and other sectors with small to mid-sized businesses are being squeezed from one side by inflation and from the other by rising interest rates. With less money to spare for savings, member deposit rates are also down, forcing FIs to compete for depositors even as loan demand ramps up. CUs do have an advantage, however. By emphasizing their community connection and reputation as a safe bet in a crisis, CUs can weather the current economic storm and even use it as an opportunity to grow.

> **"While inflation is declining, compounding effects continue to impact consumer spending behavior, including tapping into savings for emergency spending. CUs should lean into the personal approach they are known for and consider promoting auto lending, home equity lines of credit and credit cards to their members. These offerings could help members amid the shifting economic environment while providing growth opportunities for credit unions."**

BRIAN CALDARELLI
Executive vice president, CFO
PSCU

About

PYMNTS is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

PSCU, the nation's premier payments CUSO and an integrated financial technology solutions provider, supports the success of more than 2,400 financial institutions and processes nearly 7.7 billion transactions annually. Committed to service excellence and focused on continuous innovation, PSCU's payment processing, fraud and risk management, data and analytics, digital banking, strategic consulting and real-time payments platforms, along with 24/7/365 member support via its contact centers, help deliver personalized, connected experiences. The origin of PSCU's model is collaboration and scale, and the company has leveraged its influence on behalf of credit unions and their members for more than 45 years. Today, PSCU provides an end-to-end, competitive advantage that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit pscu.com.

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