Survey Overview

• As we approach the end of 2014, we asked 142 credit union executives and managers throughout the United States about their anticipated growth opportunities, challenges and changes for the next 12 months.

• The survey results provide insight into how credit union executives are ranking growth opportunities for growth in 2015.

• We also asked how new and noteworthy products in the industry, such as Apple Pay™, are affecting credit unions.

• Credit union executives shared their views on the challenges they face from products such as student loans and HELOCs.
Loan growth opportunities over the next 12 months
Credit unions are clearly focused on auto loan growth opportunities in 2015

By a 2-to-1 margin, auto loans (46%) were chosen as the top growth opportunity over the next 12 months relative to the next highest rated loan product.

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Ranked 1st</th>
<th>Ranked in Top 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto loan</td>
<td>45.8%</td>
<td>83.9%</td>
</tr>
<tr>
<td>Mortgage loan</td>
<td>22.1%</td>
<td>49.6%</td>
</tr>
<tr>
<td>Credit card</td>
<td>6.8%</td>
<td>31.9%</td>
</tr>
<tr>
<td>Small business loan</td>
<td>6.8%</td>
<td>29.0%</td>
</tr>
<tr>
<td>Share draft account</td>
<td>5.3%</td>
<td>33.6%</td>
</tr>
</tbody>
</table>
Auto loans for subprime consumers have grown by nearly 7% in the last year alone.

It should be noted that the number of subprime auto loans is still low compared to what was observed in Q2 2008, when there were 11.78 million subprime auto accounts on the books.

Source: TransUnion Consumer Credit Database
Mortgage loans for subprime consumers have decreased by 12.4% in the last year

Source: TransUnion Consumer Credit Database
Credit cards for subprime consumers have grown by 4.6% in the last year

Q2 2013 26.04 M

Q2 2014 27.24 M

Source: TransUnion Consumer Credit Database
Credit union plans for competition and other challenges in 2015
Competition and compliance are the biggest worries for CU executives, followed distantly by credit risk

Respondents ranked the following challenges among their top three:

- **90.7%** • Competition from large banks, captives, other credit unions
- **80.7%** • Regulatory compliance
- **52.3%** • Member credit risk
Credit unions are thinking long-term about HELOC and student loan risk in the coming years

Approximately six in 10 credit union executives are at least slightly concerned about their members’ student loan debts and HELOC balances with other financial institutions.

However, neither product type seems to be as much of a priority relative to competition and regulatory compliance.
Credit unions could be affected by upcoming end-of-draw payment shock from HELOCs

According to a recent TransUnion study, billions of dollars could be at risk when members face end-of-draw payment shock from HELOCs they have opened over the last 10 years, if not managed effectively.

While credit unions face risks in the next few years, proper risk management strategies can help mitigate these potential threats.
Seven in 10 credit union executives believe they are now more competitive with banks.
Shifting perceptions of technology and cyber-security
Credit unions are clearly concerned about cyber theft and cyber security risks

85% of credit union respondents are materially concerned about their credit unions’ level of risk related to cyber theft.
In response, the level of investment in IT security has increased throughout 2014

Nine in 10 executives (90%) say their investment in IT security has somewhat or significantly increased. Only 2 executives (1.5%) say their investment in IT security has somewhat or significantly decreased.
Credit unions are planning for and exploring Apple Pay integration
Summary

- There is a clear consensus among credit union executives that auto lending will be a top growth channel in 2015. Our survey results show that credit union executives ranked auto loans as a top opportunity by a 2-to-1 margin.

- Although credit unions are optimistic about growth, executives remain cautious regarding competition from large banks, captives, and other credit unions, as well as the challenging regulatory compliance burden they must manage. Credit union executives also intend to remain conservative about member credit risk.

- Credit union executives are thinking long-term about the risks associated with student loans and HELOCs from their own portfolios, as well as their members’ student loans and HELOCs with other institutions.

- The evolution of technology presents both clear risks and big opportunities, which CU executives are planning for today and going forward.