SNL DATA DISPATCH

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Delinquencies rise on CU balance sheets with used auto showing weakness

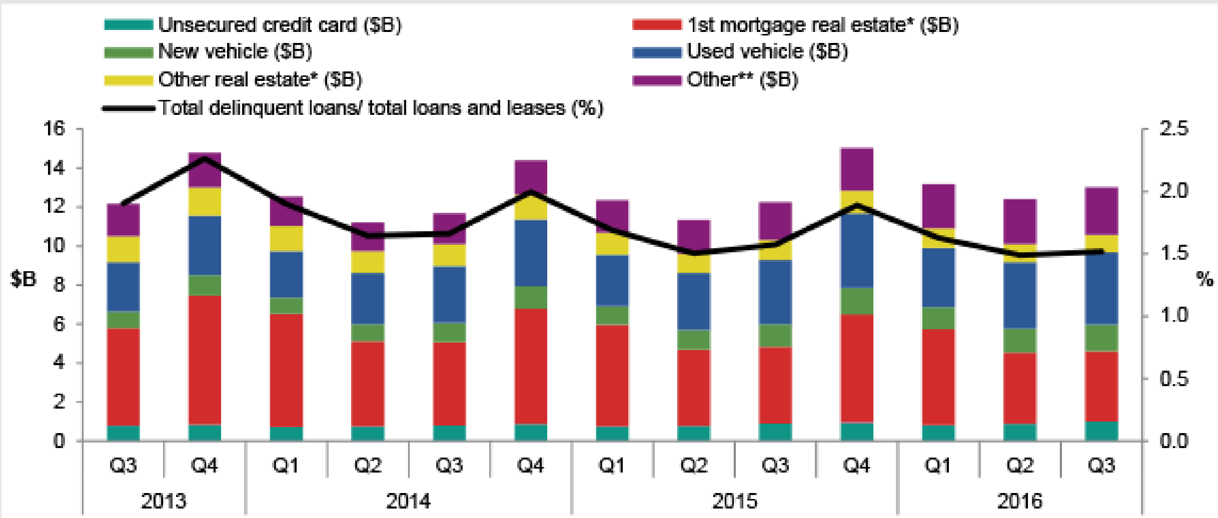
By Ken McCarthy and Razi Haider

Total delinquencies for U.S. credit unions started to tick up slightly in the most recent reporting period, with used vehicle loans showing continued weakness.

At the end of the third quarter of 2016, total delinquencies on credit union balance sheets totaled $13.02 billion after sitting at $12.40 billion in the second quarter and $12.26 billion at the end of the third quarter of 2015.

Used vehicle loans were the largest delinquent category at the third quarter's close and accounted for $3.70 billion, or 28.41% of the total. The next largest delinquent category was first mortgage real estate, which totaled $3.62 billion, or 27.8% of all delinquencies, an S&P Global Market Intelligence study found. First mortgage real estate delinquencies were $3.64 billion in the second quarter of the year.

Delinquencies at US credit unions, by loan type



Data compiled Dec. 5, 2016.
Analysis based on regulatory filings for all U.S. credit unions.
Delinquencies include loans 30 days or more past due.
* Includes fixed and adjustable rate loan delinquencies.
** Includes payday alternative loans, non-federally guaranteed student loans, lease receivables and all other loans reported by credit unions.
Data based on regulatory filings.
Source: SNL Financial, an offering of S&P Global Market Intelligence

Michigan First Credit Union has seen nonperforming loans rise recently while net charge offs have come down. Loans delinquent for 60 days or more for the Lathrup Village, Mich.-based institution stood at $5.2 million in the year-ago quarter but rose to $5.8 million by the second quarter of 2016. By the third quarter, NPLs had climbed to $7.2 million.

At the same time, net charge offs fell from $1.9 million in the linked quarter to $1.8 million in the third quarter of 2016. President and CEO Michael Poulos said in an interview that nearly every loan line continues to perform well, although the credit union has started to see some weakness within indirect lending. "I expect that will continue for a short period of time," he said. "However, I am optimistic about the potential for a strong business climate with the recent election results."

Poulos said it is likely that businesses will begin to flourish again with lower taxes and less regulation. Such changes should increase employment throughout the company's markets and relieve some of those delinquency/loss pressures. He believes the reason for the weakness in the indirect space is that the economy never really recovered from 2008 to the levels it should have because of excessive government pressure on business. "Very little, if any, increase in wages with longer hours worked, and we generally see it start to break at the lower economic levels," he said.

Aggregate credit quality data for US credit unions and community banks

Aggregate amounts ($B)	Q3'16	Change (%) QOQ	Change (%) YOY
Nonperforming assets	7.52	5.1	6.0
	34.90	-1.8	-8.5
Net charge-offs	1.22	19.5	38.1
	0.82	12.1	34.5
Loan loss reserves	7.70	1.3	6.9
	24.35	0.9	3.7

Ratios (%)	Q3'16	Change (bps) QOQ	Change (bps) YOY
Net charge-offs/average loans	0.58	8	12
	0.16	1	3
Reserves/nonperforming assets	102.5	-391.0	80.0
	69.77	184	822
Texas ratio [1]	5.12	17	-6
	11.19	-38	-205
Reserves/total loans & leases	0.90	-1	-3
	1.20	-2	-10

● Credit unions ● Community banks*

Data compiled Dec. 5, 2016.
Analysis based on regulatory filings of U.S. credit unions and community banks as of Sept. 30, 2016.
* Community banks include all commercial banks, saving banks and saving and loan associations that reported assets less than $10 billion for the third quarter of 2016. Excludes industrial banks and nondepository trusts.
[1] Texas ratio for credit unions is the total nonperforming assets as a percentage of total equity, loan loss reserves and uninsured secondary capital at low-income designated credit unions. Texas ratio for community banks is the total nonperforming assets plus loans 90 days or more past due as a percentage of tangible equity and loan loss reserves.
Source: SNL Financial, an offering of S&P Global Market Intelligence

Credit quality for community banks has been a bit stronger recently in some categories than it has been for credit unions. The net charge-off-to-average loan ratio was 0.16% for community banks and 0.58% at credit unions in the third quarter. Also, nonperforming assets fell 8.5% for community banks on a quarter-over-quarter basis but just 1.8% at credit unions.

Nonperforming loans at Andover Bank, including all non-accrual loans and total restructured loans and leases, fell to $2.4 million in the third quarter after sitting at $2.7 million in the year-ago quarter. President Stephen Varckette said in an interview that he has noticed a disturbing trend in which the bank's competitors have begun to loosen credit standards during the past year. He said although asset quality, in general, has greatly improved since the financial crisis, smaller banks have absorbed considerable risk in their portfolios by reaching outside of their traditional strengths. "It seems small banks can't make enough CRE loans," he said.

Andover, Ohio-based Andover bank historically has taken a methodical approach to credit standards, Varckette said. And when the bank does vary from those standards it is gradual and consistent with its strategic direction. "This is evidenced by our strong performance through the financial crisis," he said. "And we're not experiencing any problematic trends in any category relating to asset quality now."

And consumers are taking advantage of the low interest-rate environment but maximizing their borrowing capacity, said Michael Calcote, CFO of Elevations Credit Union. He said the Boulder, Colo.-based credit union is seeing that through increasing revolving debt usage by members and and the purchase of higher end homes and more expensive cars.

But Calcote said some concerning trends are also developing including heavier unsecured debt usage. Household revolving debt is on the rise and customers are seeking financial solutions, particularly leveraging their homes to secure debt consolidation requests, he said. Also, there have been steep property value increases, he said. "While this is an insulator for mitigating credit losses, eventually it is expected for the market to flatten out, which will result in higher loss rates," Calcote said.

Asset quality at the 20 largest US credit unions

Companies ranked by total loans and leases as of Sept. 30, 2016

Company	Q3'16 total loans & leases ($B)	NPLs/loans (%) Q3'16	NPLs/loans (%) vs. Q2'16	Reserves/ NPLs (%) Q3'16	Reserves/ NPLs (%) vs. Q2'16	NCOs/ average loan (%) Q3'16	NCOs/ average loan (%) vs. Q2'16
Navy FCU	57.06	0.96	▲	200.59	▼	1.45	▼
State Employees' CU	19.71	1.55	▲	73.91	▼	0.27	▼
Pentagon FCU	17.97	0.31	▲	95.77	▼	0.36	▲
Boeing Employees CU	10.03	0.27	▼	312.41	▲	0.21	▼
Security Service FCU	8.50	1.28	▲	82.92	▼	0.96	▼
Golden 1 CU	6.89	0.41	▲	137.88	▼	0.35	▲
First Technology FCU	6.80	0.31	▲	143.50	▼	0.15	NC
Digital FCU	6.25	0.57	▲	135.53	▼	0.30	▲
SchoolsFirst FCU	6.24	0.50	▲	182.73	▼	0.36	▼
Alliant CU	6.12	0.69	▲	85.50	▼	0.28	▲
America First FCU	5.73	0.76	▲	204.72	▼	0.68	NC
Randolph-Brooks FCU	5.73	0.34	▼	133.37	▲	0.35	NC
San Diego County CU	5.58	0.29	▼	215.41	▼	0.12	▲
Suncoast CU	5.45	0.88	▼	129.58	▼	0.64	▲
Alaska USA FCU	5.16	1.16	▲	57.68	▼	0.54	▼
Mountain America FCU	5.04	0.60	▲	98.65	▼	0.46	▲
Bethpage FCU	4.70	1.45	▲	39.93	▼	0.13	▲
VyStar CU	4.29	0.43	▲	167.01	▼	0.28	▲
Logix FCU	4.08	0.50	▲	274.08	▼	0.30	▲
Citizens Equity First CU	4.01	0.42	▼	146.89	▲	0.36	▲
Industry median*		0.73	▲	93.55	▼	0.23	▲

Data compiled Dec. 5, 2016.
Analysis based on regulatory filings for all U.S. credit unions.
* Analysis includes all credit unions that filed call reports for the third quarter of 2016.
NPLs = nonperforming loans; NCOs = net charge-offs; NC = no change
Source: SNL Financial, an offering of S&P Global Market Intelligence

Product Tips

Click here to access a template that allows users to analyze key performance metrics, credit quality, balance sheets and income statements for banks and credit unions.

Commercial banks, savings banks and savings & loan associations report information on past-due and nonaccrual loans on call report Schedule RC-N while credit unions report information on delinquent loans under the statement of financial condition on the call report. They can be accessed under the Regulatory Financials section of a company's page on SNL.com or in SNL's Excel add-in tool.