



Trendwatch Deep Dive: NCUA's New NSF/OD Fee Reporting



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Your Speaker:



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Today's Agenda

- Overview of the New Fee Reporting and its Significance
- Credit Union Performance Data
- How Do Banks Compare?
- Where to find Callahan's NSF/OD Fee data – only in Peer Suite



NSF/OD Fees: Both Sides of the Debate

- **Pros of NSF/OD**

- OD allows charges to process, even when members lack cash
 - Fees are necessary to cover the costs of this service
- Encourages members to take actions to avoid fees
- Saves members from turning to payday lenders or others...

- **Cons of NSF/OD**

- Fees are pricey for members who can least afford them
- Fees can stack and spiral
- Do these fees fit within a credit union's mission?

New Account Codes on the 5300 Call Report

Credit Union Name: _____

Federal Charter/Certificate Number: _____

STATEMENT OF INCOME AND EXPENSE
This page must be completed by all credit unions.

[Back to Navigation Page](#)

REPORT YEAR-TO-DATE AMOUNTS

NON-INTEREST INCOME YEAR-TO-DATE		Amount	Account
13. Fee Income			131
Enter an amount in Account IS0048 and IS0049 if assets in Account 010 are greater than \$1 billion, as applicable.		Amount	Account
a.	Overdraft Fee Income (also include amount in Account 131)		IS0048
b.	Non-Sufficient Funds Fee Income (also include amount in Account 131)		IS0049

Why is the NCUA tracking these fee types now?

- Simply put, fees are in the public eye
- More consumers and media outlets are concerned that these fees are predatory
- The NCUA and others are worried about the industry's financial and reputational risk.
- **Key Consideration:** It's possible that credit unions will be expected to *defend* their fee policy to examiners, using this data as a baseline



Risk Areas Associated with NSF/OD

- **Operational Risk/Strategic Risk:** NSF/OD fees are an important part of the credit union income statement.
- **Compliance Risk:** Policymakers and regulators are looking into NSF/OD fees more closely. Any new regulations will need to be accounted for.
- **Reputation Risk:** Media (including social media) can lock in on NSF/OD fees at a given institution, significantly harming brand reputation.

Benefits & Concerns of New Reporting

Benefits	Concerns
Help understand the systemic reliance on NSF/OD fees	Data is in the eye of the beholder
Individual CUs can learn if they are “overreliant” vs. peers	<u>Absolute</u> fee totals can overshadow differences in membership and model
Provide limited ability to compare fee policy with banks	How might fee reduction hurt members in other ways?



Limitations

- Data is only available for credit unions over \$1B in Assets
- Little detail on specific fee policy (maximums, per-instance costs, etc.)
- No itemized detail on expenses associates with NSF/OD
- Data only available for 1Q24: No Trending

- Draws regulatory, media, and member focus to fees, and away from other areas like rates and services, where credit unions are often better positioned



Industry Data: Earnings Model



Earnings Model for Credit Unions >\$1B in Assets

	3/31/2024	3/31/2023
Interest Income	4.76%	3.97%
Interest Expense	2.01%	1.16%
Net Interest Margin	2.75%	2.82%
Operating Expenses	2.74%	2.73%
Provision for Loan Losses	0.48%	0.34%
Non-interest Income	1.13%	1.06%
NSF/OD Fees (incl. in NII)	0.19%	N/A
ROA	0.66%	0.81%

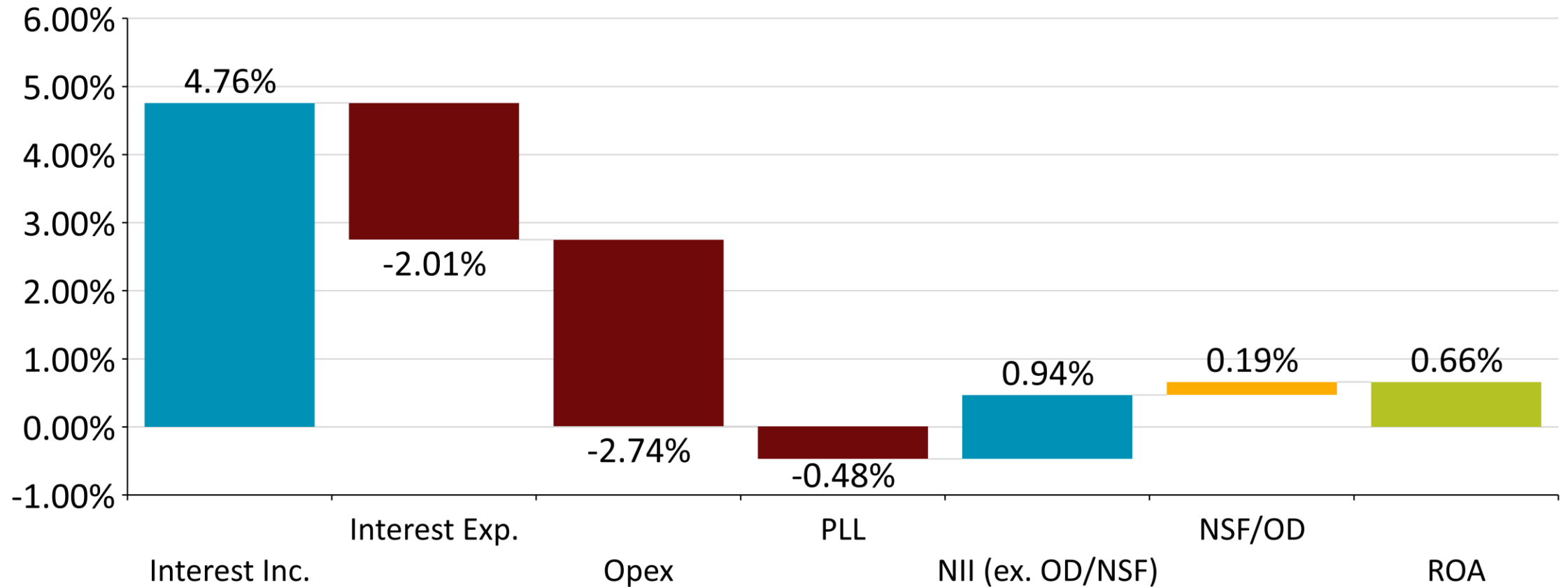
Data is annualized

Expressed as a % of Avg. Assets

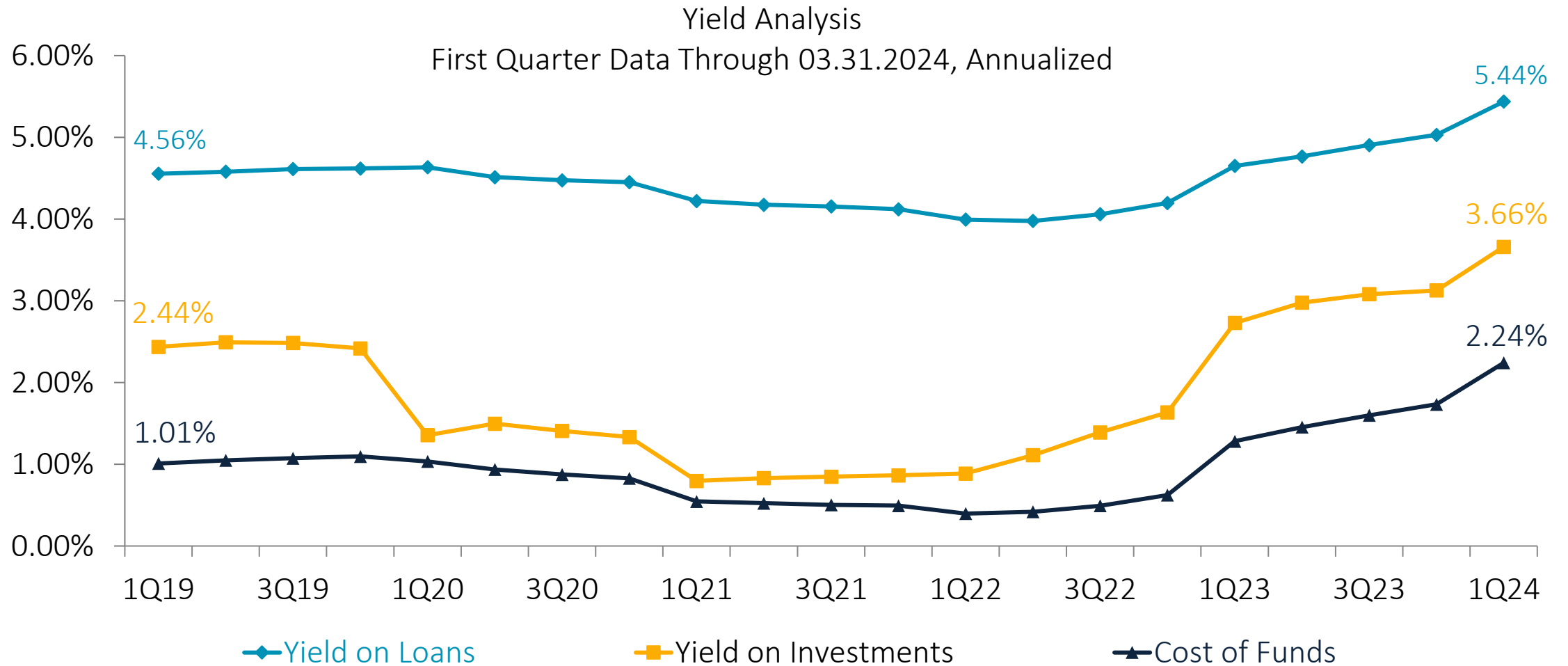
May not sum due to rounding

NSF/OD comprises about one-third of net income

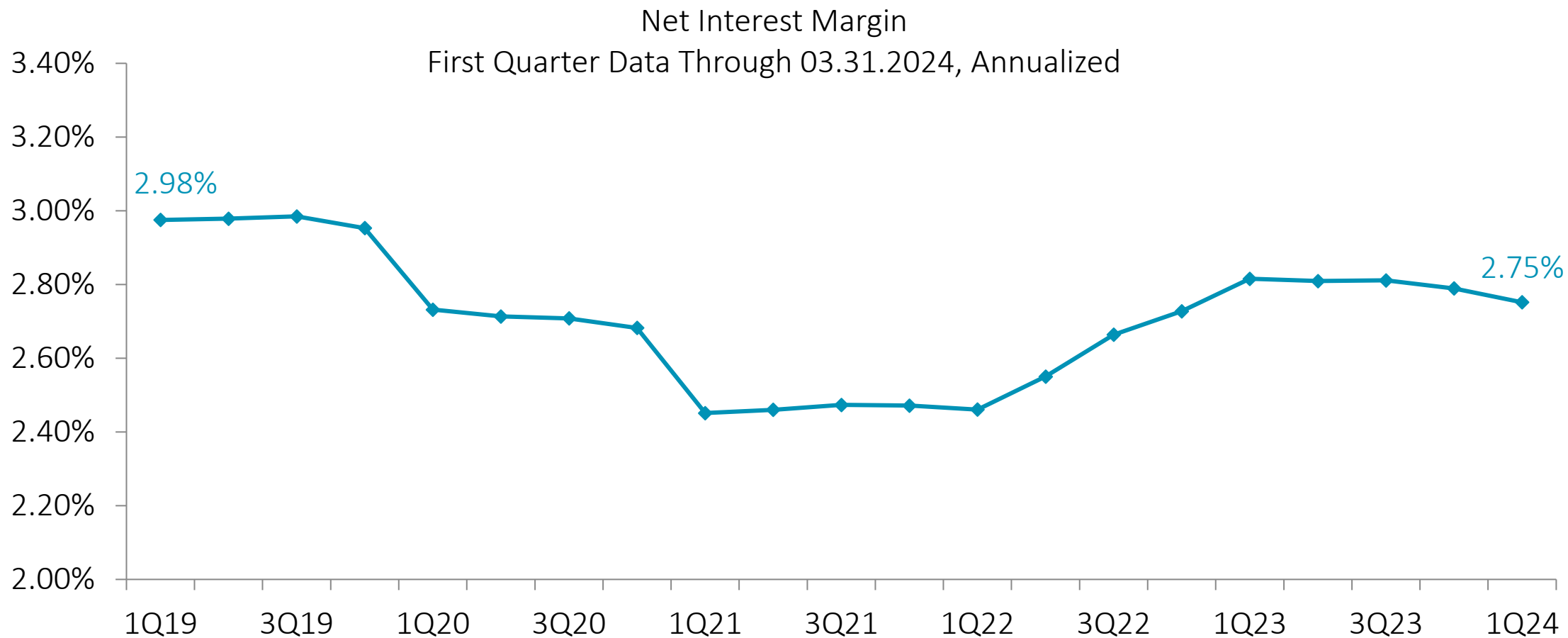
2024 YTD Earnings
Data as of 03.31.2024



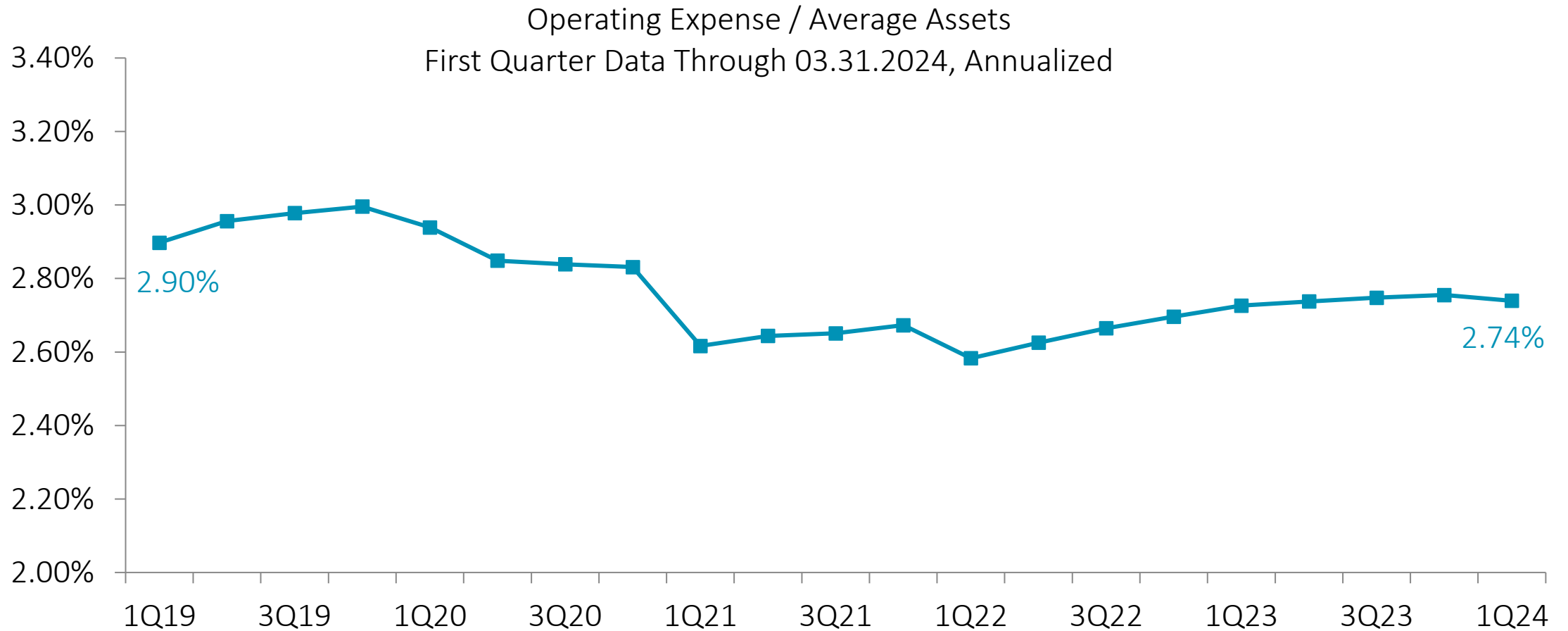
Both asset yields and funding costs are rising



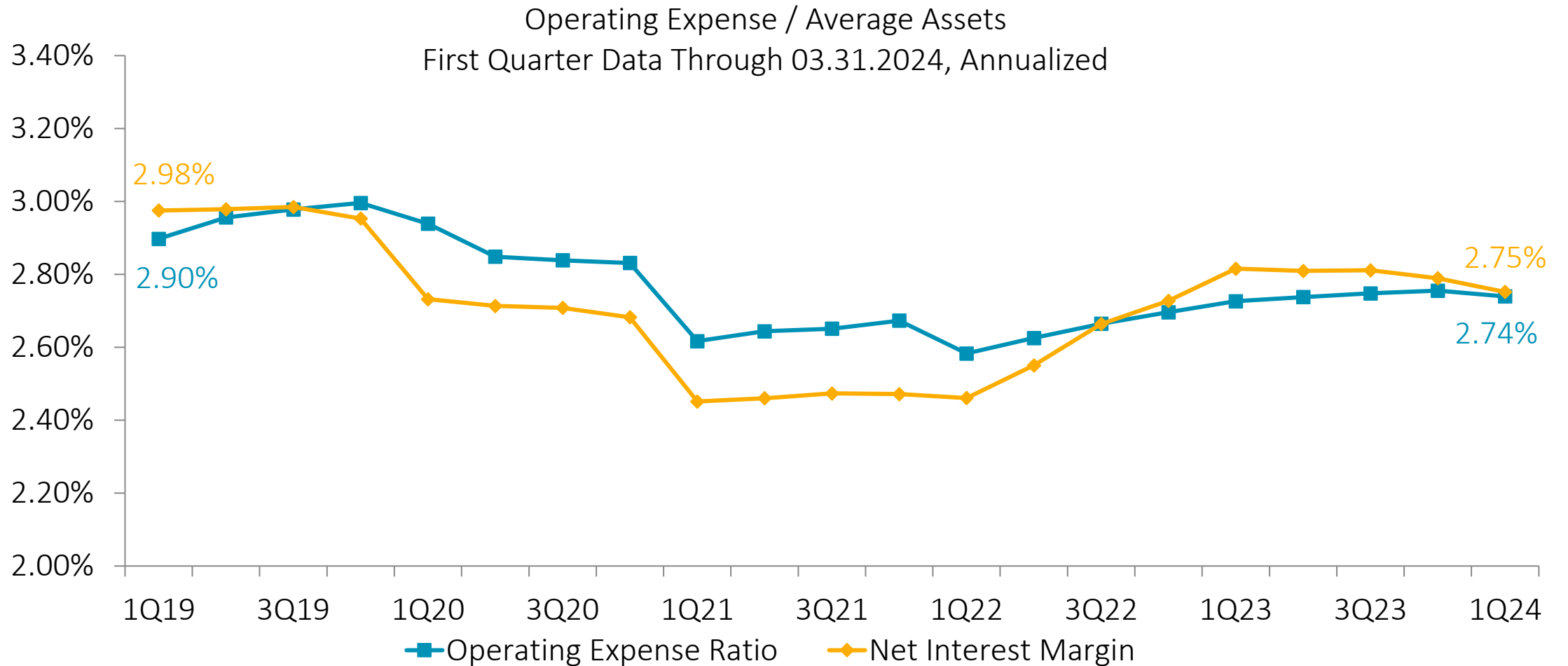
Net interest margin has tightened slightly down over the past year



Operating expenses rising faster than asset growth

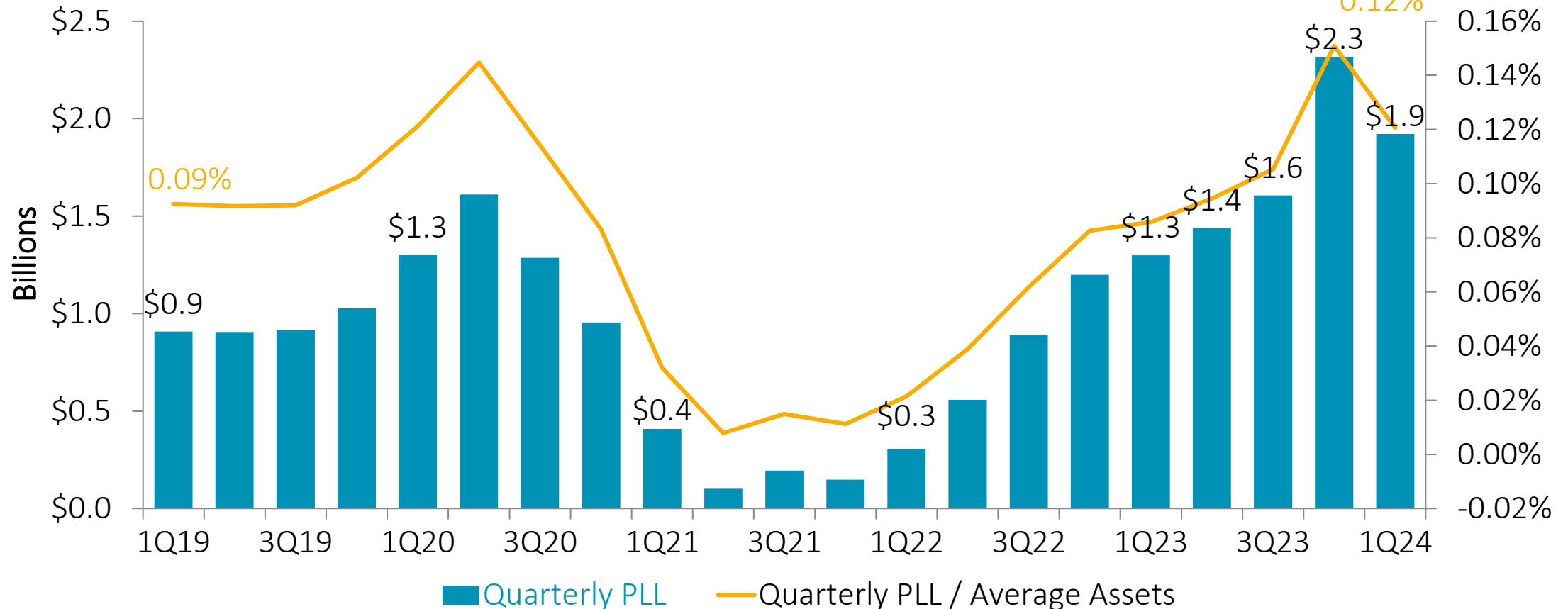


Credit union margins just barely covering operating costs

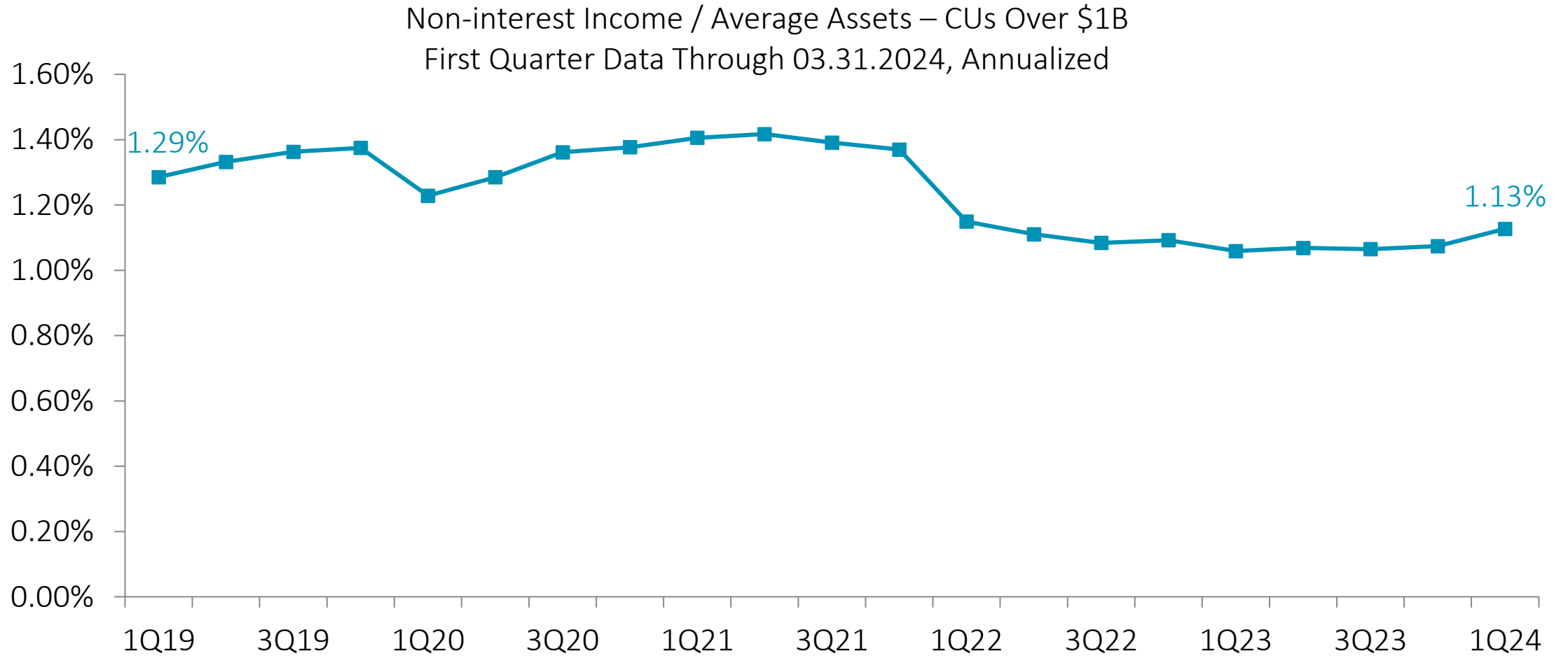


Credit union provision expenses remain high

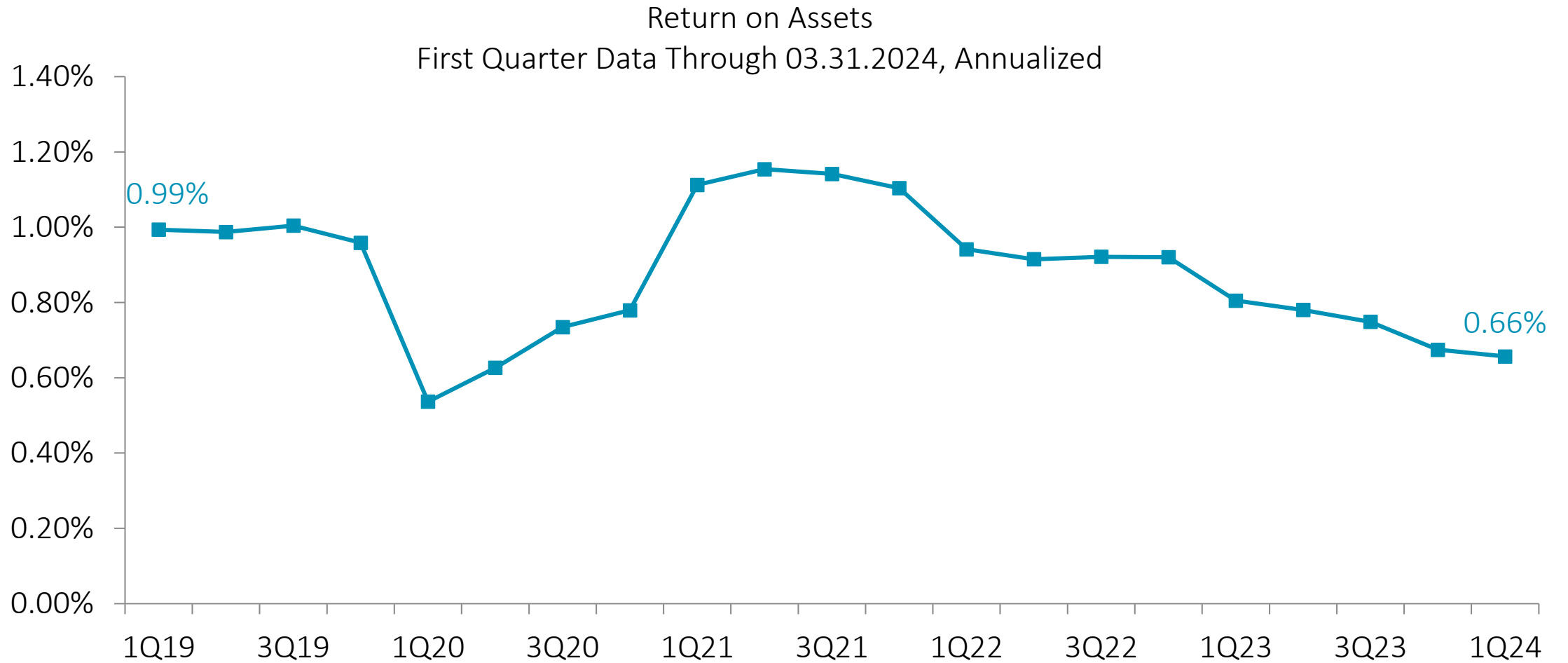
Quarterly Provision for Loan & Lease Losses and % of Avg Assets
Data as of 3.31.2024



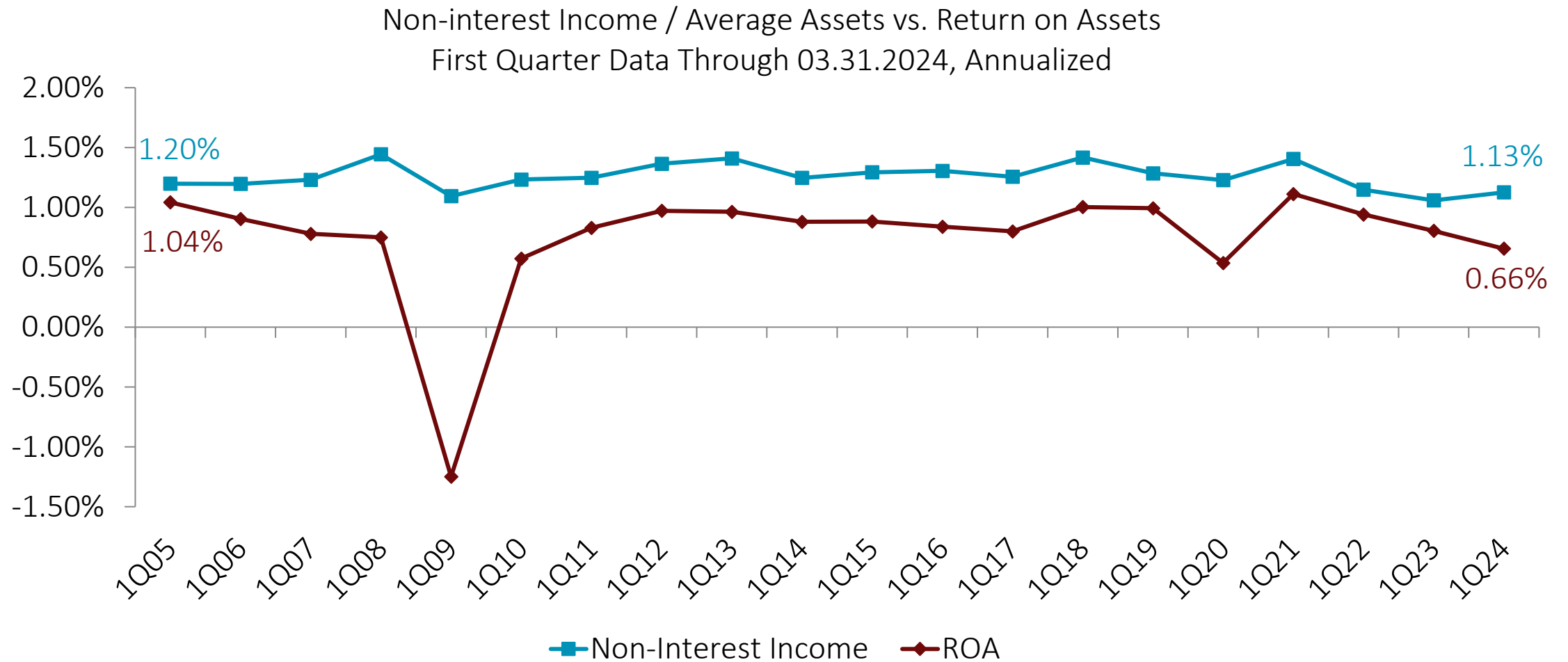
Non-interest income is up slightly over the past year



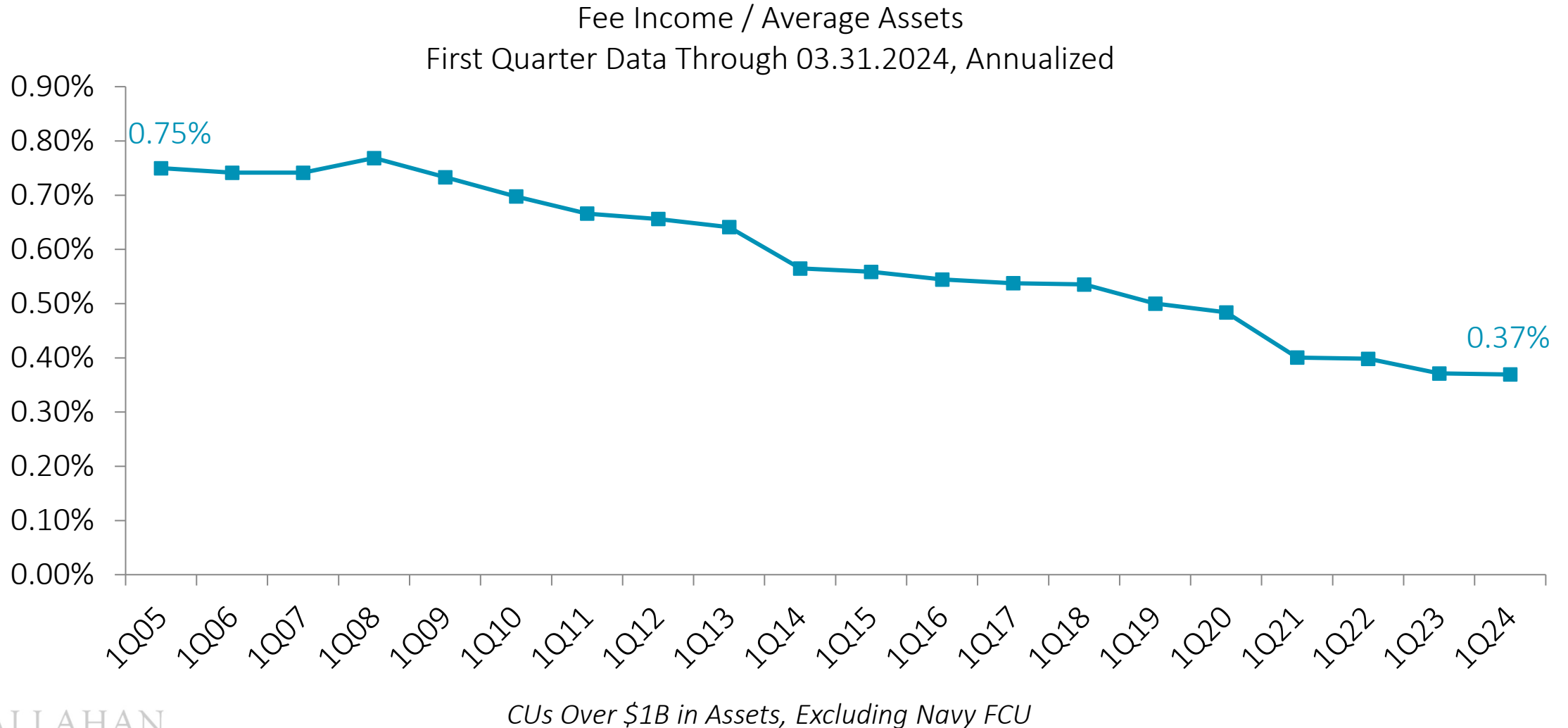
Higher operating and provision expenses result in lower ROA



Non-interest income exceeds net income at the average credit union



Total Fee income has trended down across CUs, especially since 2019



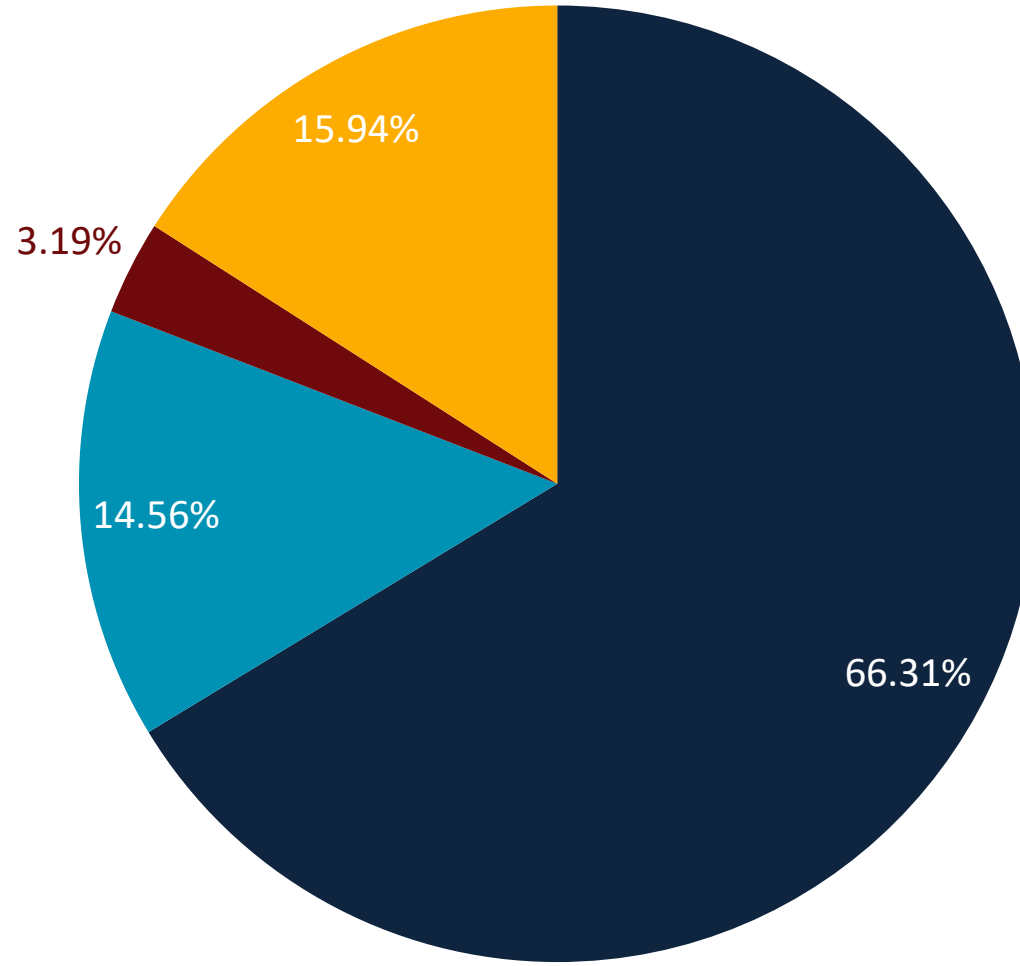


Takeaways from Earnings Data

- Rate environments are competitive on both the loan and deposit side. From an earnings standpoint, winning on margins is a difficult long-term strategy, especially because we want to do right by the member.
- CECL accounting and rising delinquency place pressure on earnings too.
- In nearly all historical periods, credit unions need NII to maintain a positive ROA, which is necessary to maintain stability and capitalization.

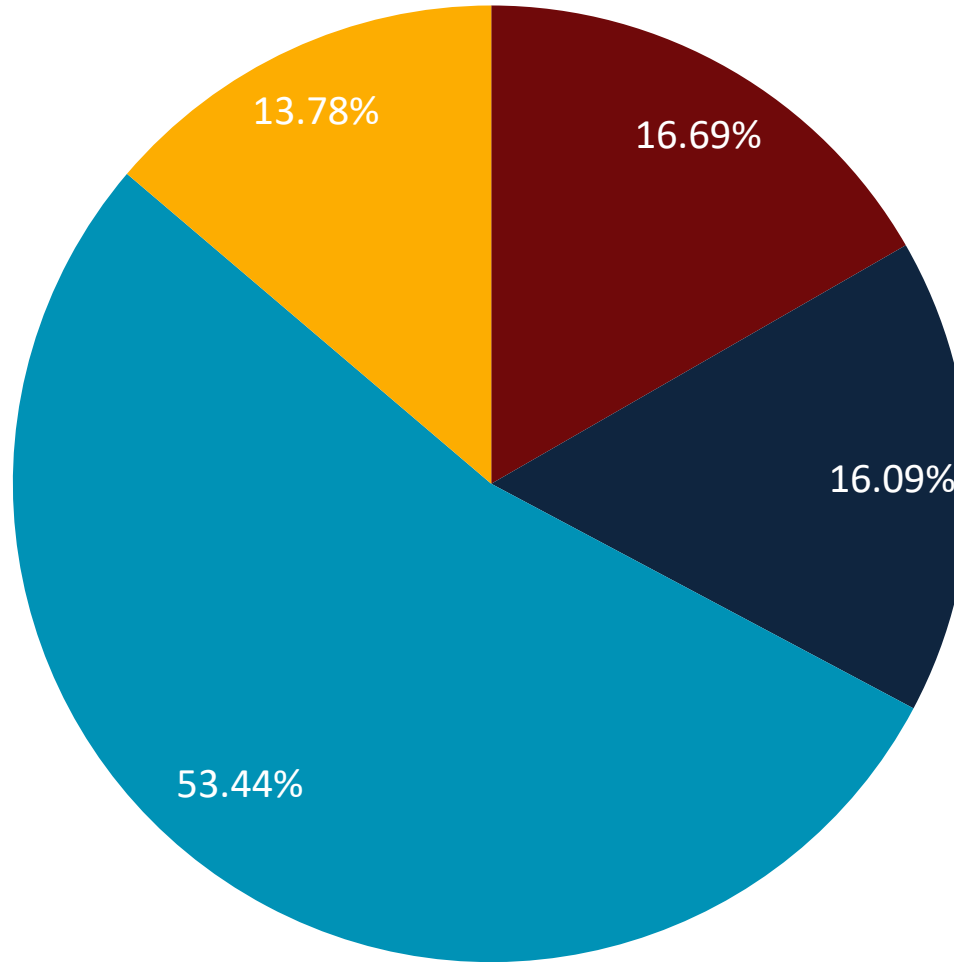
NSF & OD Fees

NSF/OD as % of Gross Income (Before Interest Expense)
Data as of 03.31.2024



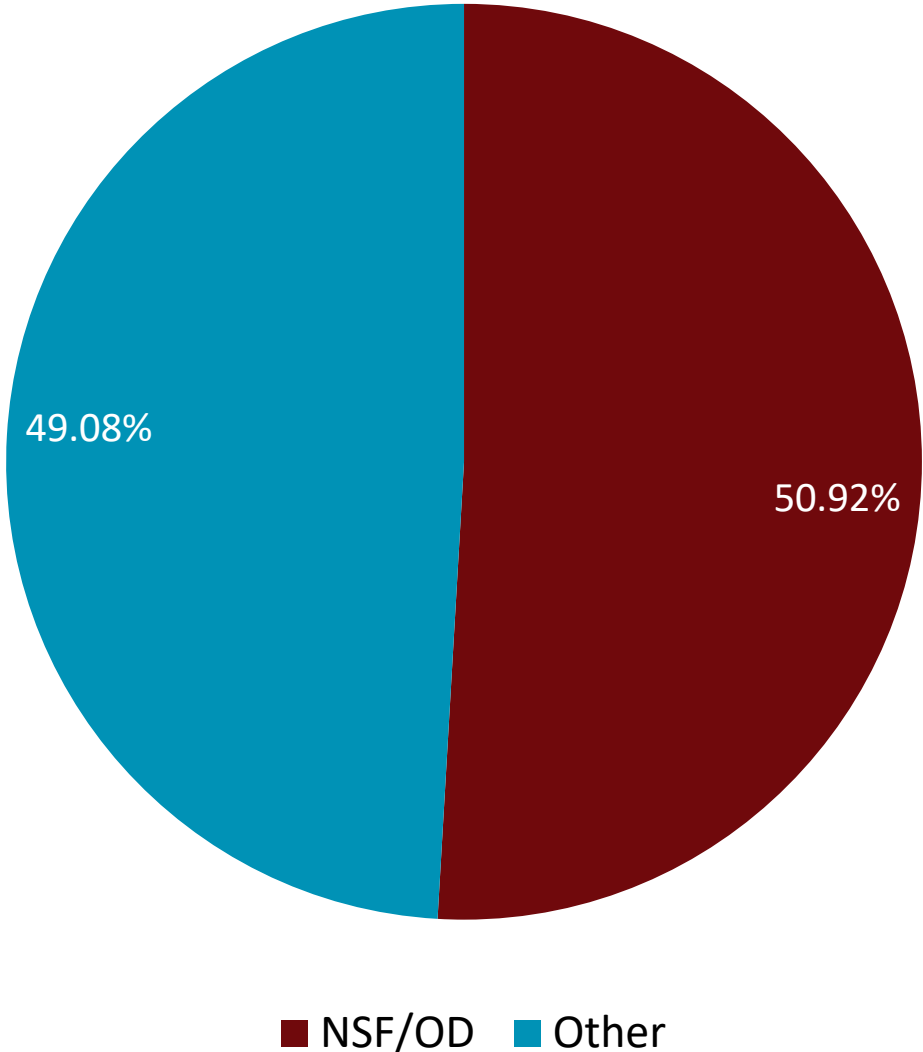
■ Loan Interest Income ■ Investment Interest Income ■ NSF/OD ■ Other NII

NSF/OD as % of NII
Data as of 03.31.2024

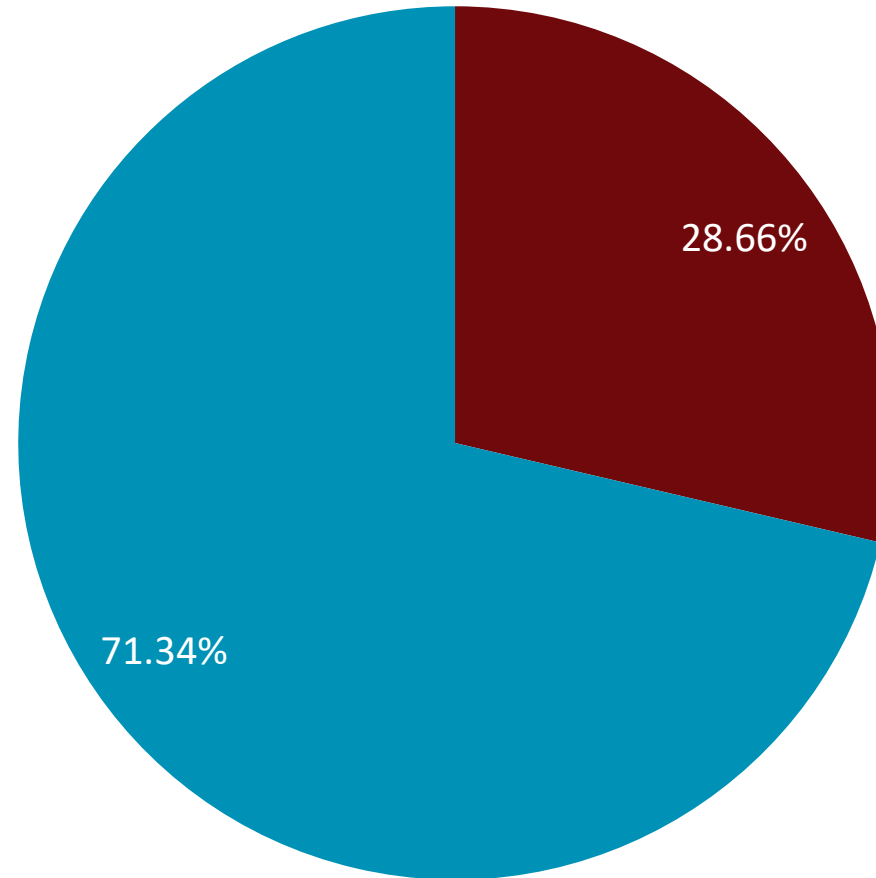


■ NSF/OD ■ Other Fee Income ■ Other Operating Income ■ Trading/Misc.

NSF/OD as % of Total Fee Income
Data as of 03.31.2024



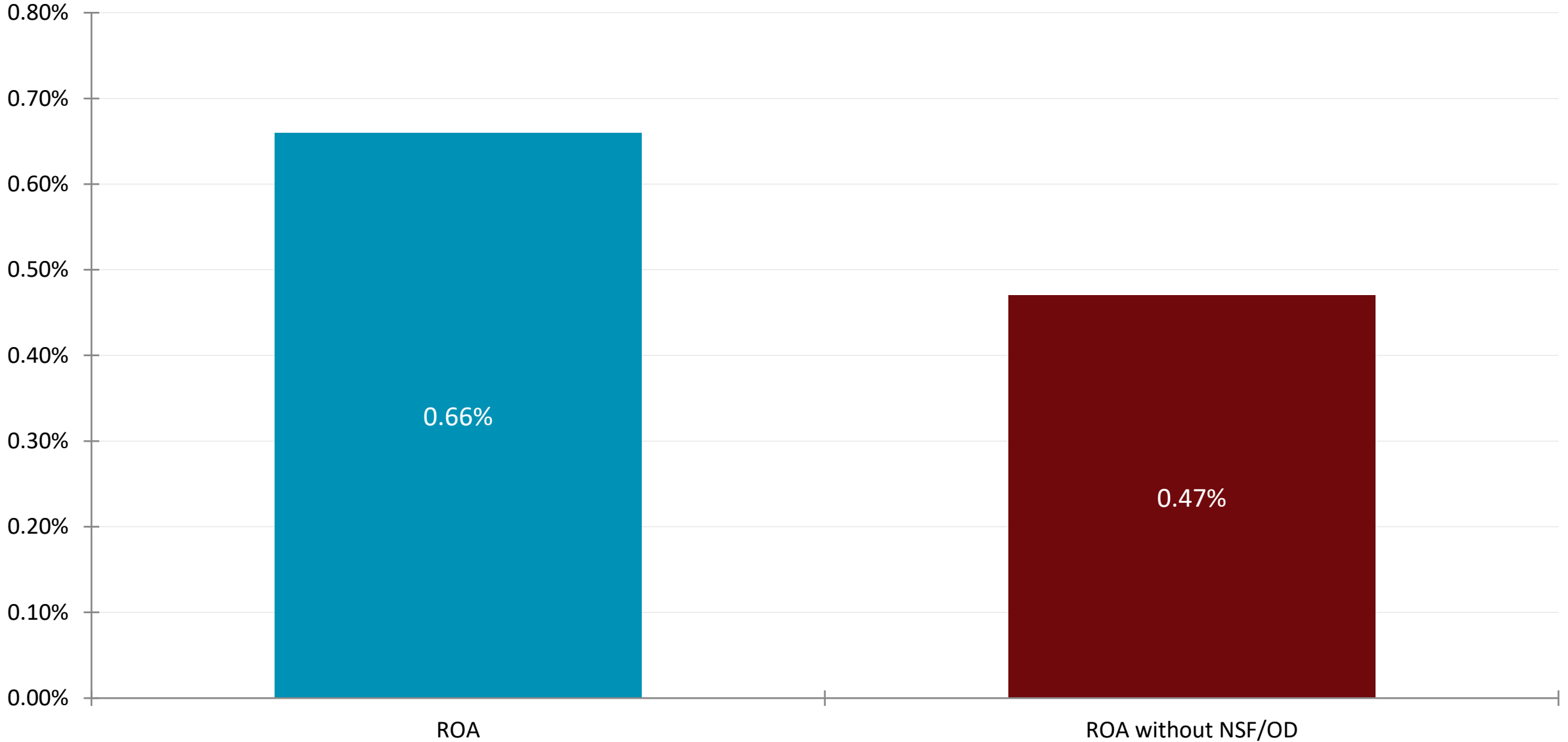
NSF/OD as % of Net Income
Data as of 03.31.2024



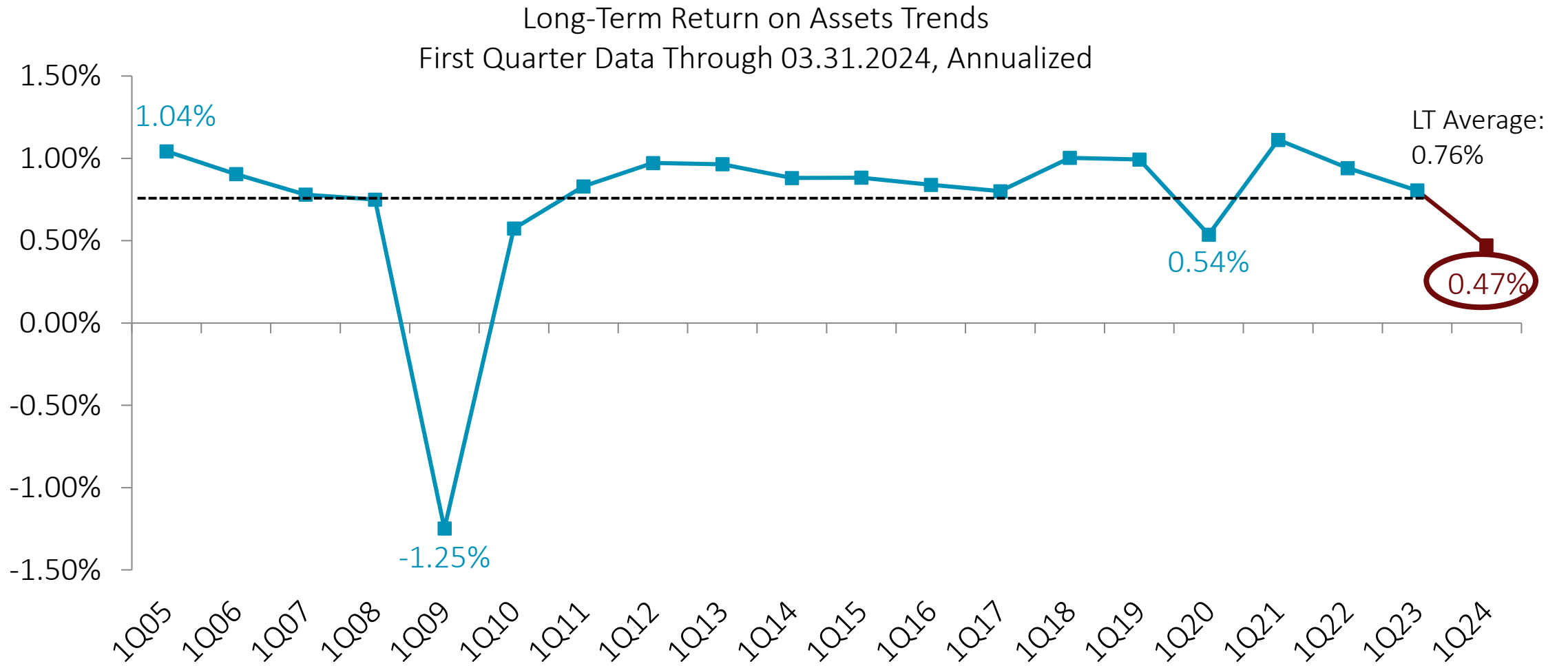
■ NSF/OD ■ Other

CUs Over \$1B in Assets, Excluding Navy FCU

ROA With vs Without NSF/OD
Data as of 03.31.2024



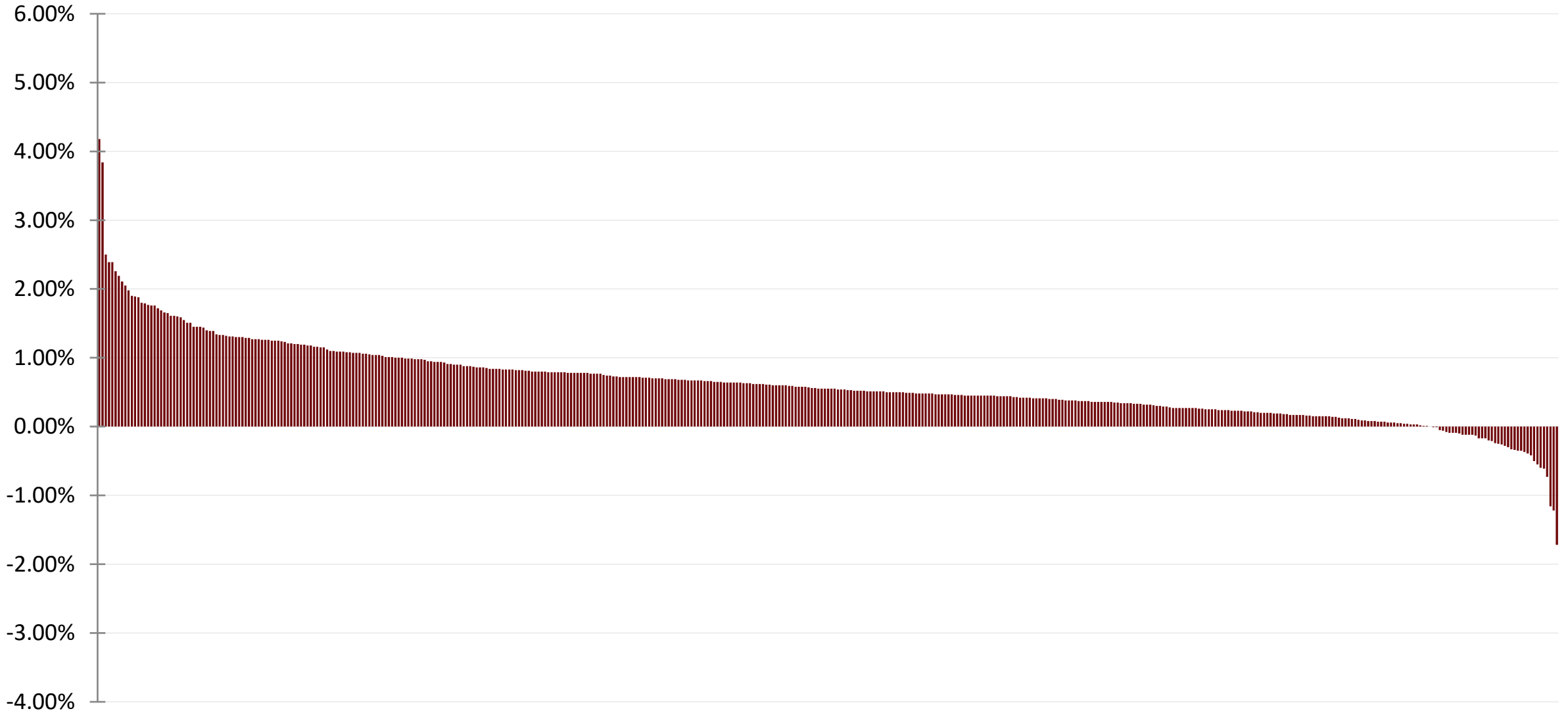
Higher operating and provision expenses result in lower ROA



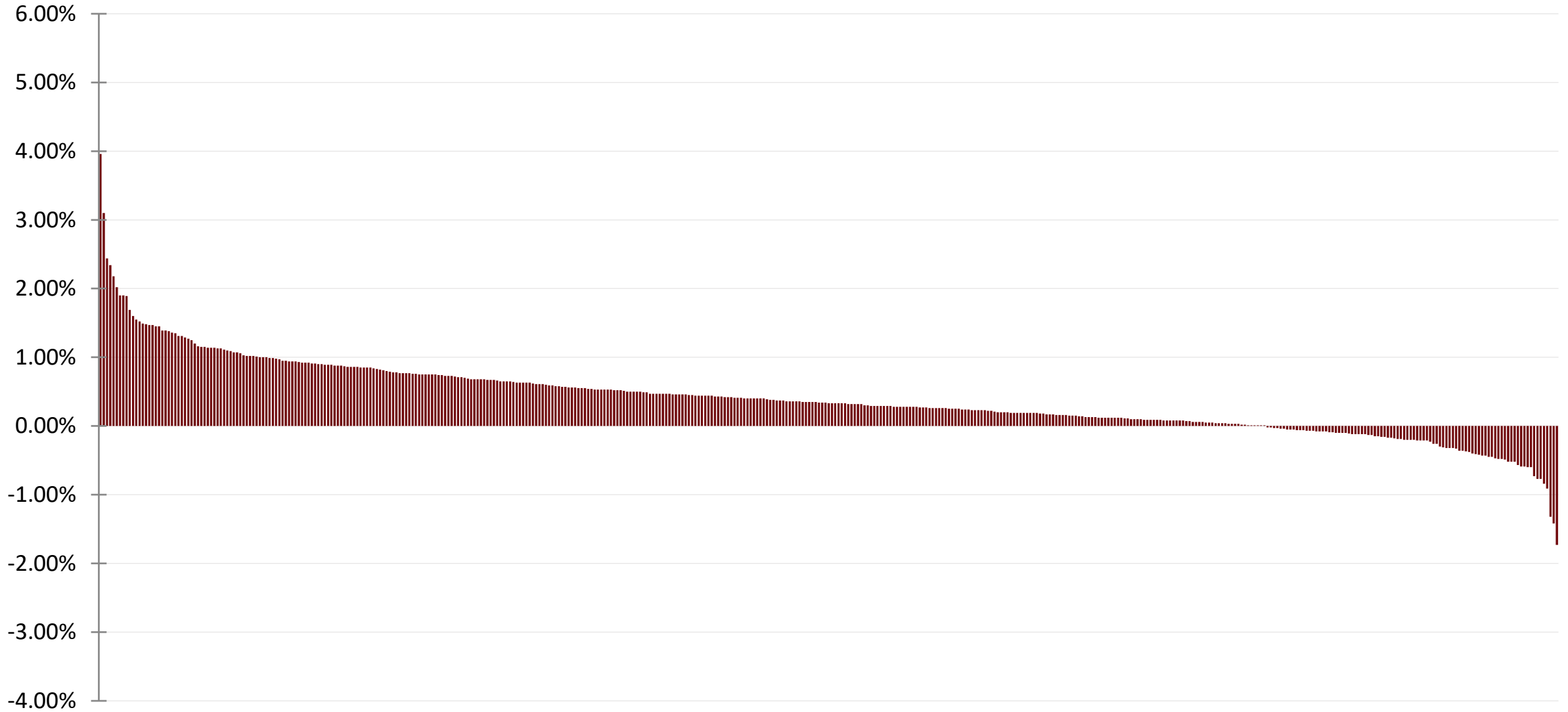
CU's Over \$1B in Assets, Excluding Navy FCU

ROA Distribution

Data as of 03.31.2024



ROA (without NSF/OD) Distribution
Data as of 03.31.2024



Impact of Fees on the Member (Sort of*)

- **Annual NSF/OD Fees per Member**
 - Current average: \$33
 - Highest: \$145
- **Annual NSF/OD Fees per Draft Account**
 - Current average: \$58
 - Highest: \$231



*We cannot see how fees are distributed across membership



Credit Unions vs Banks



Earnings Model: Banks vs CUs

	Credit Unions >\$1B	Banks \$1B-\$100B	Banks Over \$100B
Interest Income	4.76%	5.35%	5.21%
Interest Expense	2.01%	2.23%	2.43%
Net Interest Margin	2.75%	3.12%	2.78%
Operating Expenses	2.74%	2.42%	2.47%
PLL	0.48%	0.23%	0.40%
Non-interest Income	1.13%	0.95%	1.44%
NSF/OD Fees	0.19%	0.03%	0.02%
Taxes/Adjustments	0.00%	0.30%	0.27%
ROA	0.66%	1.13%	1.07%

Data is annualized as of 03.31.2024

Expressed as a % of Avg. Assets

May not sum due to rounding

Add Context From the Balance Sheet

	Credit Unions >\$1B	Banks \$1B-\$100B	Banks Over \$100B
DDA Accounts/Assets	38.6%	23.6%	23.6%
DDA Accounts (Indiv. Only)/Assets	34.5%	5.7%	6.7%
Annual Fees per DDA (Indiv.)	0.44%	0.48%	0.34%

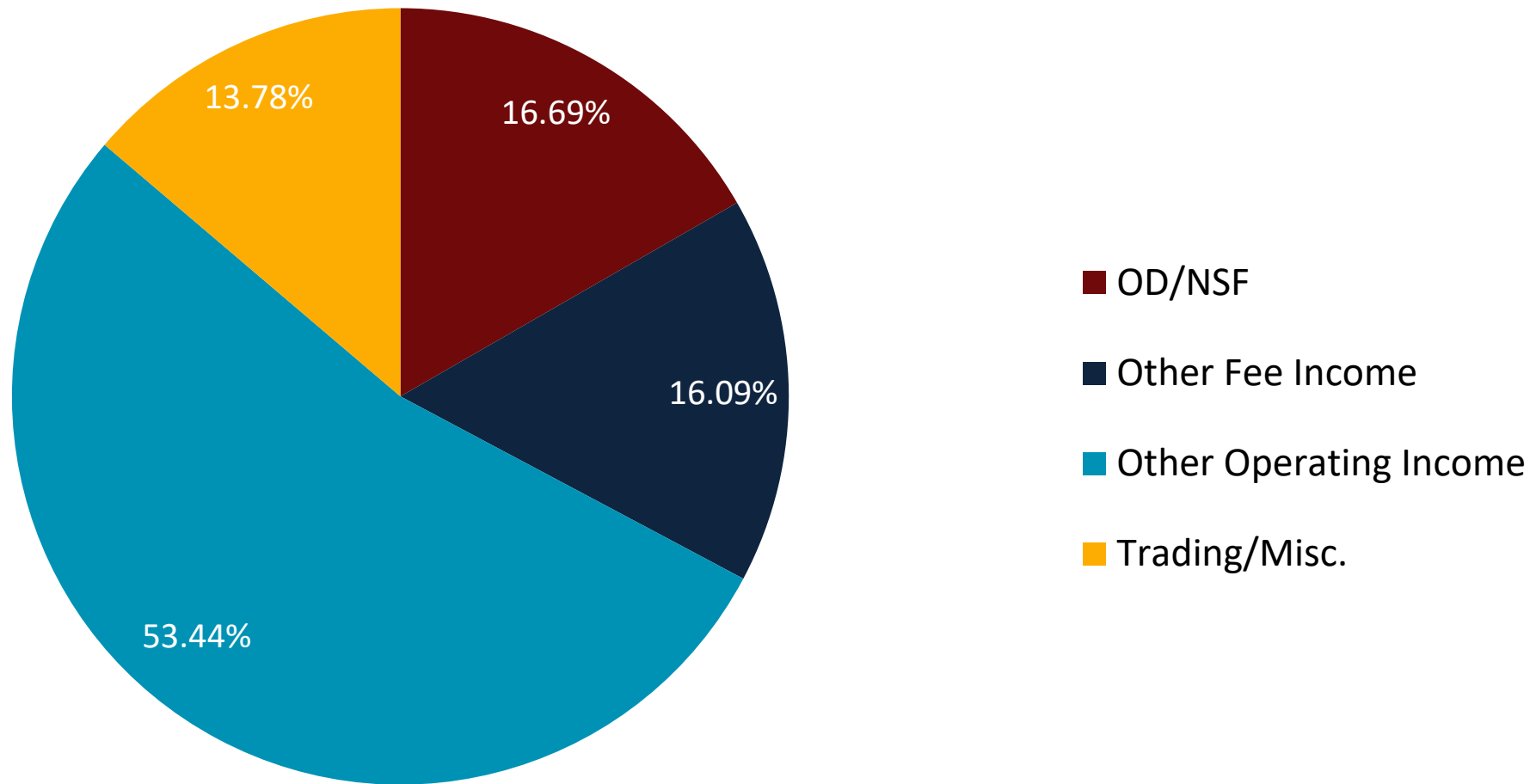
Fee income is annualized as of 03.31.2024



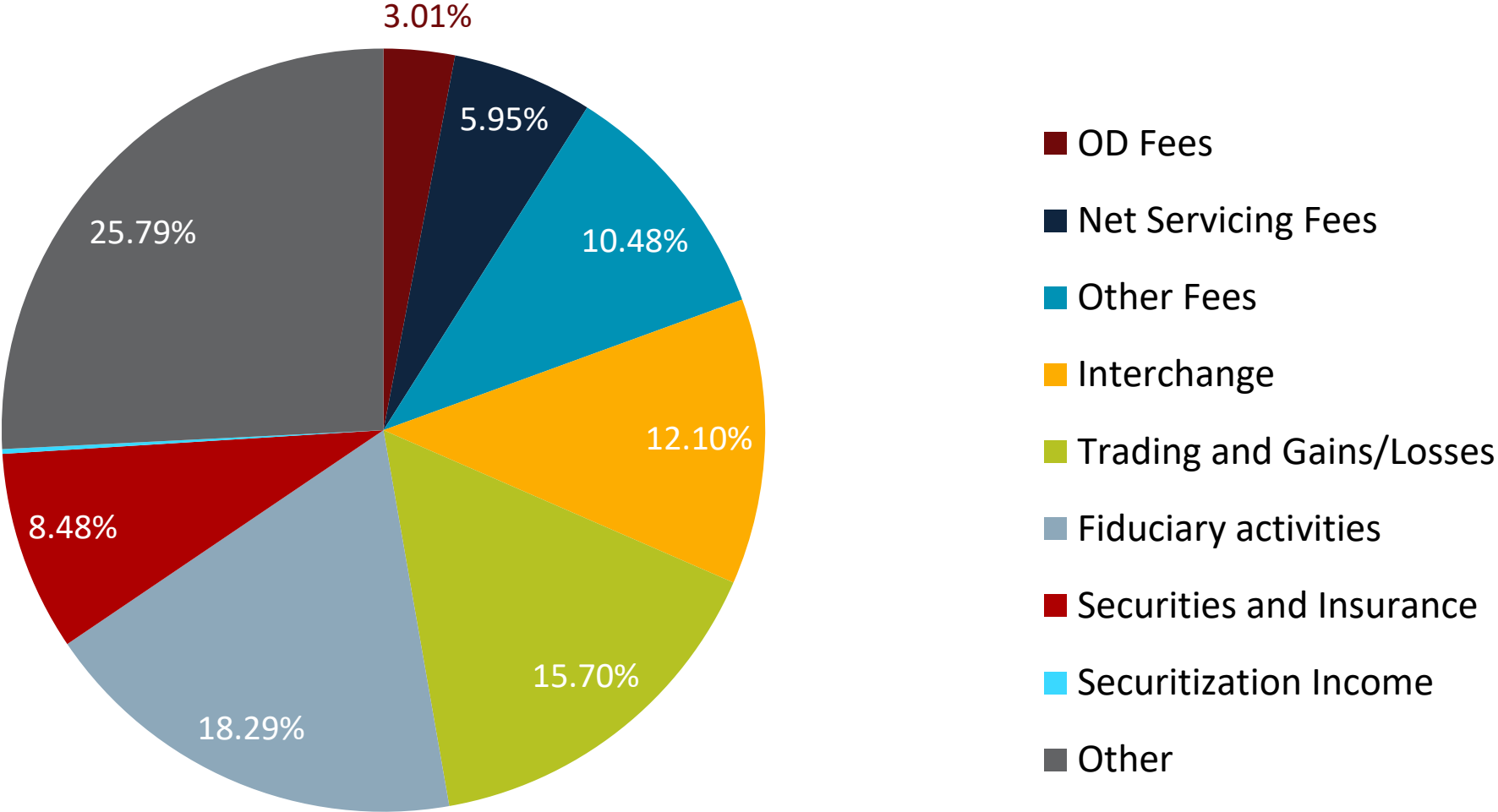
CU vs Bank Comparison – Context

- CU ROA remains significantly lower than banks, even with greater reliance on fees *and* a tax advantage.
- Personal Demand accounts are FAR more dominant on CU balance sheets.
- It is the credit union mission to serve the underserved.
- Banks have far more diversified Non-Interest Income channels.....

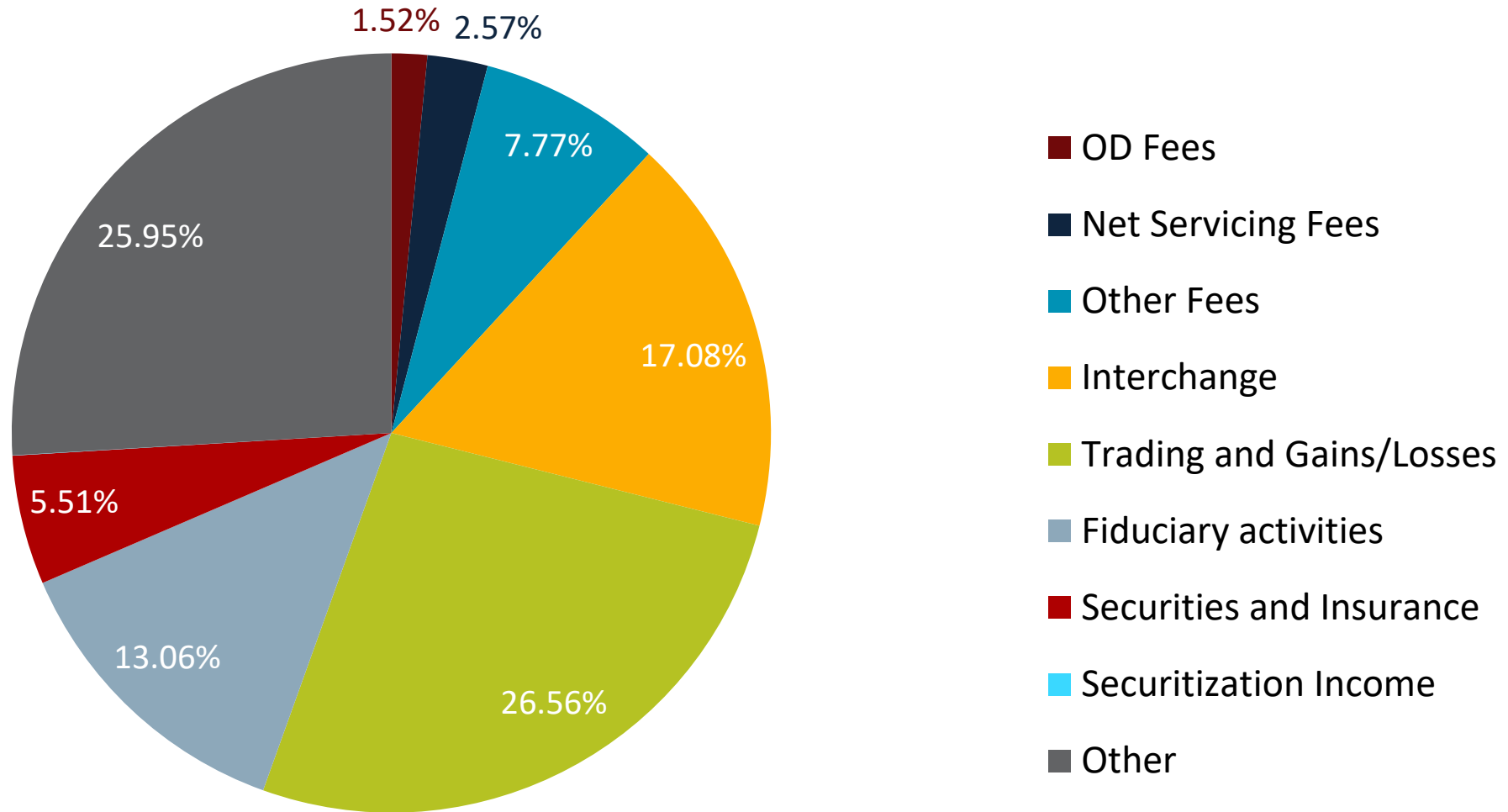
NSF/OD as % of NII – CUs over \$1B
Data as of 03.31.2024



NSF/OD as % of NII – Banks \$1B - \$100B
Data as of 03.31.2024



NSF/OD as % of NII – Banks Over \$100B
Data as of 03.31.2024



What's Next?



Regulation in Review:

- Liquidity (affects margins)
- Asset Quality/CECL (affects provisions)
- NSF/OD (affects NII)
- Capitalization (not a top industry risk today, but always a concern)

In sum, credit unions earnings are feeling pressures from many angles. We need to maintain sustainable earnings, but how?



A few thoughts:

- We don't know what will happen next with NSF/OD. Industry representatives are working with regulators to find the best way to proceed.
- It's unlikely that fees will be entirely eliminated, at least right away.
- Following the broad categories of the earnings model, there are two areas where credit unions can bolster earnings:
 - **Improve operational efficiency (reduce cost, ideally maintaining service)**
 - **Generate NII through other, Non-NSF/OD fee channels**

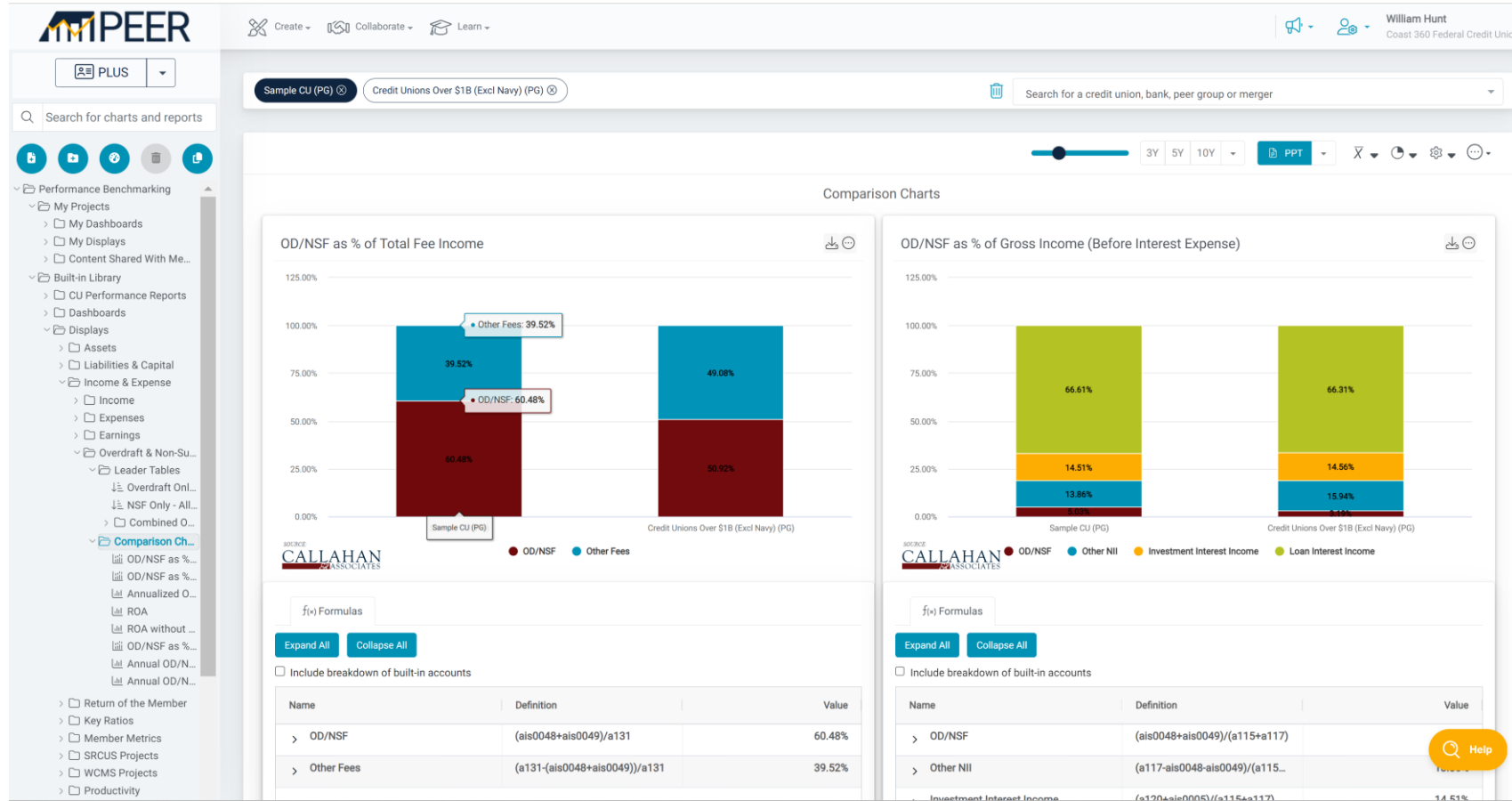
Callahan's NII Study

- Over 100 current participants
- Contains 25 different NII categories beyond NSF/OD
- Only those who share data can see data

Account Code		Dec 2023	Jan 2024
x131a	NSF/Overdraft Fees		
x131b	Loan Late Fees		
x131c	Skip-a-Payment Fees		
x131d	Mortgage Origination Fees		
x131e	Other Loan Origination Fees		
x131f	Mortgage Servicing Fees		
x131g	CPI		
x131h	Gap Insurance		
x131i	Debt Protection		
x131j	ATM & Debit Card Fees		
x131k	Credit Card Fees		
x131l	Prepaid/Gift Card Fees		
x131m	Business Account Fees		
x131n	ACH Fees		
x131o	Wire Fees		
x131p	Paper Statement Fees		
x131q	All Other		
x131z	Fees Refunded (Total)		
x659a	CUSO Earnings		
x659b	Secondary Market Mortgage Sales		
x659c	Secondary Market Auto Sales		
x659d	Debit Interchange		
x659e	Credit Interchange		
x659f	ATM/POS Interchange		
x659z	All Other		

But how does My Credit Union Stack Up?

Let's look at Callahan's new **Overdraft & Non-Sufficient Funds Folder**





Rules of the Road:

- The goal is to inform your credit union's general fee position and prompt internal questions.
- Use these graphs and tables to help prepare you for key questions about NSF/OD fees that may be asked by an examiner.
- Can you defend your numbers as being fair to members given services provided?

THANK YOU FOR WATCHING



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