# Mergers Shrink the Number of Credit Unions, But the Mortgage Business Just Keeps Growing

*By Sam Taft*

There were more than 20,000 credit unions in the United States at one time. Not very many of those did mortgage lending, though.

Now, there are less than 5,900, but well more than half originate first mortgages, providing a critical, trusted service essential to the financial security and well-being of millions of American families, and doing it the credit union way.


**TAKEAWAY POINTS**

- Credit unions are being merged at a rate of 2.7% to 4.1% a year since this century began.
- Aggregate merged assets are ranging between $4 billion and $6 billion per year.
- Since 2012, 77% of merged credit unions were under $20 million in assets.
- Credit union mortgage market share is at record levels.
- The number of credit unions offering first mortgages has been relatively stable.
- The number of credit unions using CUSOs to offer mortgage services demonstrates continued collaborative approach.

The number of credit unions originating first mortgages has slightly declined over the past five years. **(See Graph 1.)** According to Callahan data, 3,556 credit unions originated a first mortgage in 2011. At the end of 2016, that number had fallen by 267 institutions to 3,289.

Crucially, what this data also shows is that while the number of credit unions with more than $100 million in assets that originate mortgages has steadily grown (11.7% in the past six years), the number of credit unions below $100 million in assets that originate has declined (19.8% in the past six years) as of the first quarter of this year.

**GRAPH 1** Number of Credit Unions Originating First Mortgages

Data as of 12/31/15


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At Callahan, we see two forces driving that equation:

- The attrition in the ranks of small credit unions themselves.
- Credit unions once too small to handle much mortgage lending increasingly using the power of CUSO collaboration and technology to take advantage of scale and streamline the application, underwriting, and servicing processes.

According to data from CUSOAnalyzer, a joint project of Callahan & Associates and NACUSO, there are more than 400 CUSOs with some association to lending, of which 88 are involved in mortgage lending.

Of those 88 CUSOs, they have 742 credit unions reported as owners or clients. The average size of a credit union owning or investing in a mortgage CUSO is $401.9 million, with the median asset size of $99.4 million. Digging deeper, asset sizes of participating credit unions cover the spectrum, ranging from $1.4 million to $21.3 billion.

They're all responding to a continuing demand for home ownership, and in doing so, have helped grow credit union market share to new heights. **(See Graph 2.)** Market share for first mortgage originations sits at 8.6% as of March 2017, a one percentage point increase from first quarter 2016, and the highest level on record.

Remember, this is all happening with a rapidly shrinking base of credit unions. In 2000, there were 10,847 credit unions reporting to the NCUA, originating $19.7 billion in mortgages that year with a first mortgage portfolio of $81.7 billion. Today, there are 5,859 credit unions and the movement wrote a total of $143.3 billion in mortgages in 2016 to grow its portfolio to $359.1 billion.

That's 2.5 million individual mortgages held by credit unions, among the now more than 109 million credit union memberships in the United States, another record.

## A DEEPER LOOK AT MERGER NUMBERS

Weak financial condition, the inability to modernize products and services, and succession woes have kept mergers occurring at a steady pace, ranging from 2.2% to 4.1% a year of the total population of credit unions being absorbed voluntarily or by regulator order. **(See Graph 3.)**

Interestingly enough, the competi-

**GRAPH 3** Number of Credit Unions Merges & Merger Rate

Data as of 3/31/17


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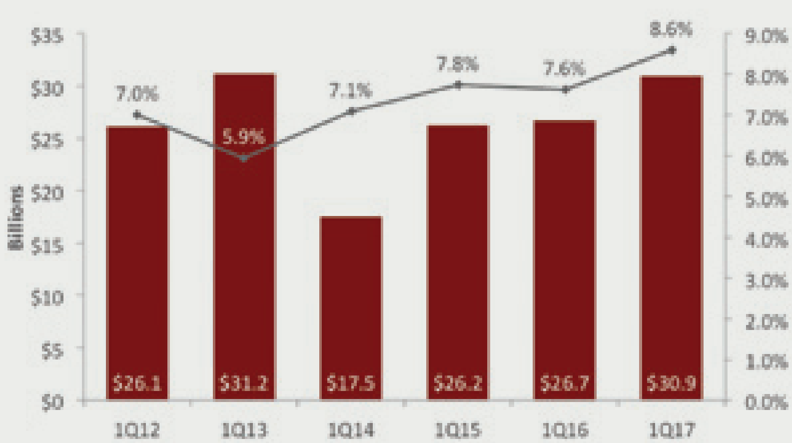
**GRAPH 2** YTD First Mortgage Originations & Market Share

Data as of 3/31/17

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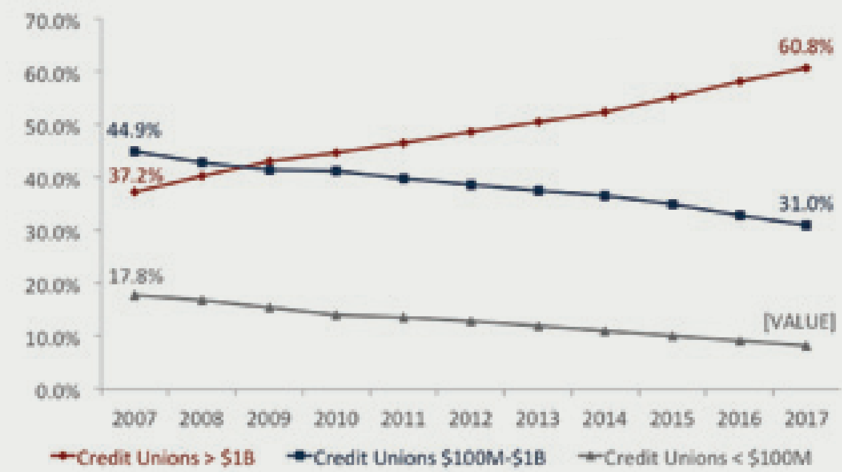
> *There are more than 400 CUSOs with some association to lending, of which 88 are involved in mortgage lending.*

tion has seen the same trend. **(See Graph 4.)** As of first quarter 2017, there were 5,859 credit unions and 5,856 bank and thrift charters, a difference of only three institutions. That's compared with more than 17,000 banks and thrifts and 15,000 credit unions in 1985.

**GRAPH 5**

Credit Union Assets as a % of Total Industry Assets
Data as of 3/31/17

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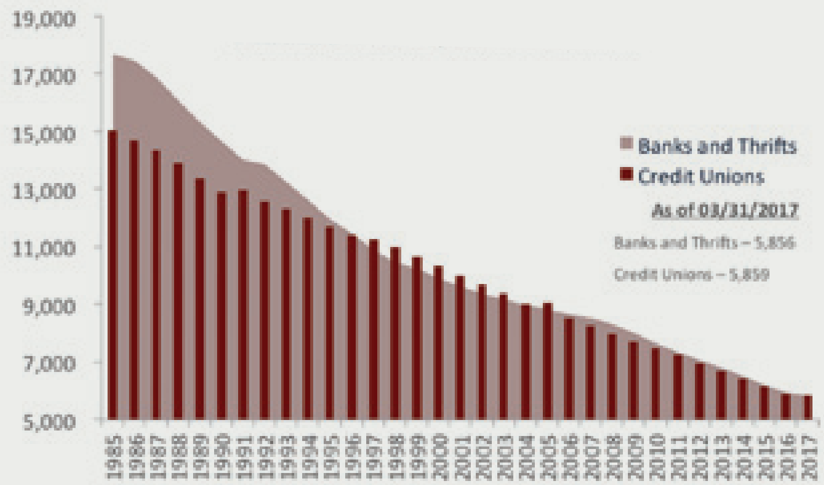
**GRAPH 4**

Number of Credit Unions and Banks
Data as of 3/31/17

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The result has been more, larger financial services providers, and the data show the effects of that concentration. For instance, as of March 31, 2017, there were 281 credit unions with more than $1 billion in assets, and that asset peer-group band has seen year-over-year member growth ranging from 3.5% to 7.2% since 2006. For credit unions under $100 million, that growth has been flat or worse.

Meanwhile, the number of the smallest credit unions—$2 million in assets or less—has dropped from 1,422 at the end of the first quarter of 2007 to 513 at the end of March 2017. The number of credit unions below $100 million also dropped sharply overall, from 2,167 in March 2007 to 1,738 in March 2017. Simultaneously, the number of credit unions over $100 million in assets grew from 1,282 to 1,605 over the same period, led by 156 additional billion-dollar institutions.

Those larger credit unions now make up more than 60% of industry assets. **(See Graph 5.)** And they make more money, too, logging a collective ROA of 0.87% as of the first quarter of 2017, compared with 0.50% for the $100 million-to-$1 billion group, and 0.32% for those under $100 million.

A lot of that is mortgage money, of course, and these larger institutions are now positioned to leverage the credit union advantage of competitive rates and personalized service to increase market share while contributing to the financial wellness of their member-owners.


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