Allied Solutions

State of the Market
2025

California Credit Unions

State of Risk Management, Fraud, and Lending

California credit unions face a mixed outlook in 2025 – fraught with regulatory challenges and a unique market landscape. This *State of the Market* report explores five key trends impacting California credit unions this year, along with strategies for improving recovery processes, fostering lending growth, and safeguarding against fraud.

© 2025 Allied Solutions, LLC.

The information presented in this document is intended for informational purposes only and should not be construed as legal advice or a legal opinion and it may not reflect the most current legal developments. You should seek the advice of legal counsel of your choice before acting on any information provided in this document.

Table of Contents

Letter from the Editor

California Credit Union,

I am pleased to present Allied Solutions' inaugural, state-specific State of the Market address. Of all the states, **why publish a resource for California credit unions?** Because we are seeing some unique market hurdles emerging from California that credit union leaders, quite frankly, deserve to be aware of — along with practical, tactical steps to grow their organizations despite these challenges.

If you have stumbled upon this resource and are not a leader of a California credit union, I believe that there are relevant insights in this report that can give a roadmap of proactive measures for credit union leaders in every state.

"People helping people" looks a little different in 2025 than it did in the late 1930s, when credit unions first began serving the Golden State members. Over the decades, there have been high highs and some low lows, namely the evolution of technology in banking services. Unlike the bygone years of the 1930s, this year is bringing some key trends that are impacting how credit unions do business.

Key Trends

1. Delinquency management and charge-offs continue to be a concern.
2. With stabilizing rates and inventory, lending is expected to grow slowly.
3. Processes that are not enhanced through automation remain vulnerable to regulatory scrutiny and fraud.
4. The potential reduction in overdraft fee revenue highlights the importance of diversifying non-interest income.
5. Cybersecurity threats disrupt operations, instill fear, and result in significant losses – lost dollars, trust, and resources that credit unions cannot afford.

Looking ahead, there will be twists and turns but the future of credit unions is one full of possibilities. Now is the time to expand your resources and maintain a curious, solution-focused mindset to overcome these market challenges.

In partnership with Allied Solutions, I am committed to building a bright, strong, and successful future for California credit unions.

Regards,
Nikki Warner
Senior Vice President of Sales, Western Region
Allied Solutions

Legislative and Litigation Landscape

Uninsured collateral, GAP waivers, overdraft programs, and fraud are taking center stage in the regulatory landscape. The following sections dive into each specific challenge.

Getting the Insurance Crisis Back on Track

With more and more drivers forgoing insurance, the number of uninsured drivers rose by 11% last year.[1] Recent high-impact natural disasters along the West Coast, combined with the strain of inflation and persistently high interest rates, have created additional insurance coverage challenges for borrowers and lenders alike.

Members are at greater risk of becoming uninsured especially as major insurance providers withdraw or greatly reduce thousands of policies for Golden State customers. Five major insurance carriers have partially or completely reduced coverage in high-risk areas of the state. Notably, State Farm placed an exorbitant 22% rate increase re-entry offer on the table.[2] Record-breaking wildfires have destroyed high-value homes in Los Angeles, raising concerns that remaining carriers may face insolvency. As doubt grows regarding insurance companies' ability to pay claims, rates are expected to rise further, leaving many California residents upside down on their debts. The surge in claim payouts may also strain state-based programs like California's Low-Cost Auto (CLCA) Insurance Program.

High risk, uninsurable areas plus more uninsured drivers on the road, and many homeowners finding themselves upside down on mortgages — combined with other risk factors such as older vehicles on the road, declining used vehicle values, rising delinquencies, higher monthly payments, and an increase in vehicles deemed total losses — are injecting significant challenges into risk mitigation strategies.

These trends highlight the critical need for proactive lending management.

> *With more and more drivers forgoing insurance, the number of* ***uninsured drivers rose by 11%*** *last year.*[1]

Mind the GAP [Waivers]: Bridging the Distance Between Regulations and Process Improvement

Guaranteed Asset Protection (GAP) waivers have been under significant scrutiny on the regulatory front, particularly in California, where oversight has been heightened and remains ongoing. The passing of Assembly Bill 2311 and Senate Bill 1311 not only restricts the sale of GAP waivers to military members, but also bans the waiver in certain situations and explicitly **places liability for GAP waiver refunds on the creditor** – rather than the dealer.[3]

When a vehicle is repossessed, deemed total loss, or is paid off early, these waivers terminate, triggering a responsibility for the creditor to ensure the borrower receives a prorated refund of the amount paid for the waiver. Additionally, the CFPB's supervisory authority over credit unions with assets exceeding $10 billion is intensifying focus on refunds for this ancillary purchase agreement.

While there are numerous nuances regarding how and where the waiver is sold, the primary concerns with processing these refunds revolve around ensuring they are **both timely and accurate**. Timeliness and accuracy remain critical gaps in many credit union processes. Over two dozen financial institutions in California are already automating the process of GAP waiver refunds to stay in lock-step with evergreen regulations and compliance requirements – and stand up under regulatory scrutiny.[4]

Death to Overdraft Fees?

Overdraft revenue is also facing uncertainty, with tightened regulation on fees proposed by Assembly Bill 2017 and Senate Bill 1075. Pending approval, these Bills would prohibit California credit unions from charging a member an overdraft fee exceeding $14.00. These bills escalate regulatory oversight from mere reporting on overdraft fee revenue to mandating the maximum amount allowed to charge.

Additionally, the CFPB recently addressed Authorize-Positive Settle-Negative (APSN) overdraft fees and dolled out hefty fines as a response.[5] These actions indicate a **zero-tolerance approach** to re-presentment of NSF fees.

With the strong potential for overdraft restrictions credit unions should explore alternate channels for generating non-interest income to remain agile for pivoting budget expectations.

Fraud on the Frontlines

Fraud is skyrocketing – and it doesn't have a single, straightforward source. Synthetic ID fraud, ATM jackpotting, a resurgence of Treasury check fraud, and complex phishing attacks are slow-drip sources of fraud that erode at more than bottom lines – member trust is also on the line. Credit unions may struggle to balance convenient transactions for members with strict fraud prevention measures – however, prioritizing experience over safety is putting credit unions at greater risk of being targeted for these types of attacks.

Fraud losses combined with rising costs of natural disasters are pushing bond rates and liability losses far beyond what credit unions know how to budget for. However, fraud doesn't wait to be budgeted. Shock losses are happening at greater severity and frequency. While more stringent underwriting can reduce losses and *should* be considered, more diligence is needed to detect entry points of fraud – before it spreads its ripe tide of loss. Good coverage is important but will never be as effective as proactive fraud detection measures.

Serving People on Main Street – Not Wall Street

The "Don't Tax My Credit Union" campaign continues to gain momentum as Federal tax reform discussions once again threaten the long-standing tax-exempt status of credit unions. This exemption isn't a loophole—it's a recognition of credit unions' unique mission to serve members, not shareholders.

If credit unions' tax exemption gets swept away, the tax revenue would be marginal – but the financial hit to members would be significant. Members will suffer from higher loan rates, reduced credit access, more expensive loans, and diminished support for the communities credit unions are known to uplift.

The California and Nevada Credit Union Leagues remain vigilant and vocal, urging credit unions to rally their members to get involved. Now more than ever, it's critical to reinforce and preserve access, equity, and choice for Main Street Americans.

Recovery Forecast: Partly Sunny with a Chance of Regulatory Headwinds and Non-Interest Income Tailwinds

California credit unions are facing a mixed forecast. The combination of upcoming and ongoing regulations, coupled with a challenging market with growing fraud, presents new hurdles that divert resources from other business priorities.

Key Challenges and Opportunities for California Credit Unions

As mentioned in the opening letter of this report, there are many broad challenges facing California credit unions. Our team of risk mitigation and technology advancement experts has identified five specific challenges impacting the West Coast region and the Golden State - and solutions that safeguard against them:

1 Subduing the Negative Impact of Delinquencies

Overall delinquencies are at their highest levels in a decade, and charge-off rates are the highest since 2012.[6] While delinquencies specific to California aren't as high as other states, an influx of delinquencies is inevitable. To combat further portfolio losses, credit unions must review underwriting standards, credit decisioning, and recovery processes – while prioritizing overall loan health.

2 Loan Growth Brings New Risk

With the stabilization of interest rates and inventory, lending is expected to grow—albeit slowly—in the back half of 2025 and into 2026. Anticipation for loan growth is dampened by an alarming number of vehicles that are under or non insured in the face of growing natural disaster risks. Insurance tracking and placement will become a priority to holistically protect portfolios of all sizes.

3 Automate to Comply

Ongoing litigation and regulatory strictness emphasize the need to leverage new technologies. Whether your credit union's assets are above or below $10 billion, it is best practice for all credit unions to implement uniform and consistent processes for calculating and issuing vehicle service contract refunds. Automation that stays in step with evolving regulations is key to ensuring efficiency and transparency in the lending experience. Processes that remain manual are vulnerable to errors and regulatory scrutiny.

4 Banking on Non-Interest Income

The reduction in overdraft fee revenue highlights the importance of diversifying non-interest income streams. Credit unions in California who are already grappling with decreasing membership and deposit growth must strategize to meet revenue-generation goals outside of traditional overdraft programs.[7] Alternative deposit programs, such as secondary capital and loan participations, can provide diversified income during lean years and additional yield during periods of growth.

5 Cybersecurity and AI-Fueled Fraud

Cyber and fraud attacks are catalyzed by AI and target your members – putting your entire credit union at risk. The advancement of artificial intelligence has made cyber threats more frequent and severe. Beyond financial harm, lost trust and resources have long-lasting effects that credit unions cannot afford. It is critical to tighten processes, research how and where losses are happening, and review liability coverage options to create a cyber-secure future for members.

Despite these challenges, we continue to remain optimistic that with the right tools in place for holistic risk mitigation and remediation, **California credit unions can thrive** in any economy and geopolitical environment. As one of the largest providers of data-driven solutions for credit unions, Allied Solutions aids over 250 financial institution clients in tracking 160,000 properties in California. In 2024, we placed $1.3 million in premium, proving our deep commitment to understanding the unique needs of this market and providing California credit unions with the solutions they need to mitigate portfolio risks.

Get in touch with one of our risk mitigation experts today.

> *Allied Solutions aids **over 250** financial institution clients in tracking **160,000 properties** in California.*

The (Bumpy) Road Ahead for the Golden State

In today's landscape, specialized risk mitigation strategies and solutions are critical. Harnessing the power of a suite of specialized recovery tools provides a clear path from delinquency to recovery. Allied Solutions' revamped suite of risk management solutions reduces cycle time in locating and repossessing collateral, decreases the time from vehicle recovery to liquidation, increases recovery dollars, and boosts lenders' visibility throughout the recovery process using compliant, end-to-end technology.

Our state-of-the-art recovery solutions improve recoveries, lower efficiency ratios, and enhance compliance awareness.

How It Works

1 **Locate & Recover Collateral**

Lender submits locate request to Allied, Allied assigns collateral to locate provider, and provider secures collateral

2 **Transport & Remarket Collateral**

Lender executes documentation for release and auction assignment, collateral is transported to auction, prepped for sale, and Lender initiates Auto Notice process

3 **Prepare & Filing REPO Plus® Claim**

Allied determines insurance status of collateral and files RepoPlus® claim

4 **Liquidate Collateral**

Allied remarkets collateral with pre-established parameters and liquidates collateral

5 **Sale Proceeds Transferred & Deficiency Process Initiated**

Locate expenses are deducted and remaining proceeds transferred to Lender, Lender initiates deficiency collection process

The golden years are far from over for Golden State credit unions. The future of lending and risk mitigation can be a bright one. By combining industry expertise with credit union-tailored technology and industry-leading products, California credit unions are empowered to face the bumpy road ahead with confidence.

About Allied Solutions

Experience working with Financial Institutions since

1978

2000

employees in several offices strategically located across the country

170+

products

130+

providers

Headquartered in

Carmel, IN

One of the largest providers of insurance, lending, marketing, risk management products,and data-driven solutions to North American Financial Institutions

More than 6,000 clients in the Credit Union, Bank, Finance Company, Mortgage Servicer, and Auto Dealer markets

Nearly $1.75B in premium under management and **$4.5MM** in annual revenue

22MM auto and mortgage loans tracked via proprietary tracking system

Sources and Citations

[1] CCC Intelligent Solutions. Crash Course 2024.

[2] https://www.insurancejournal.com/news/west/2025/03/14/815708.htm

[3] https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB2311

[4] According to Allied Solutions data. 2024.

[5] files.consumerfinance.gov/f/documents/cfpb_Supervisory-Highlights-Issue-37_Winter-2024.pdf

[6] NCUA. 2025 Supervisory Priorities. January 2025.

[7] https://ncua.gov/analysis/credit-union-corporate-call-report-data/ncua-quarterly-us-map-review/fourth-quarter-2024

Learn More

- Get personalized solutions for California Credit Unions
- Follow Allied on LinkedIn
- Read Allied Insights Thought Leadership
- Subscribe to Allied Insights Newsletters
- Listen to The Allied Angle on Podbean

Allied Solutions®
GROW, PROTECT AND EVOLVE YOUR BUSINESS.®

alliedsolutions.net

© 2025 Allied Solutions, LLC.

The information presented in this document is intended for informational purposes only and should not be construed as legal advice or a legal opinion and it may not reflect the most current legal developments. You should seek the advice of legal counsel of your choice before acting on any information provided in this document.

2193-R3-6.25