CUNA MUTUAL GROUP

Economic and Credit Union Update

April 2023

If you have any questions or comments, please contact:
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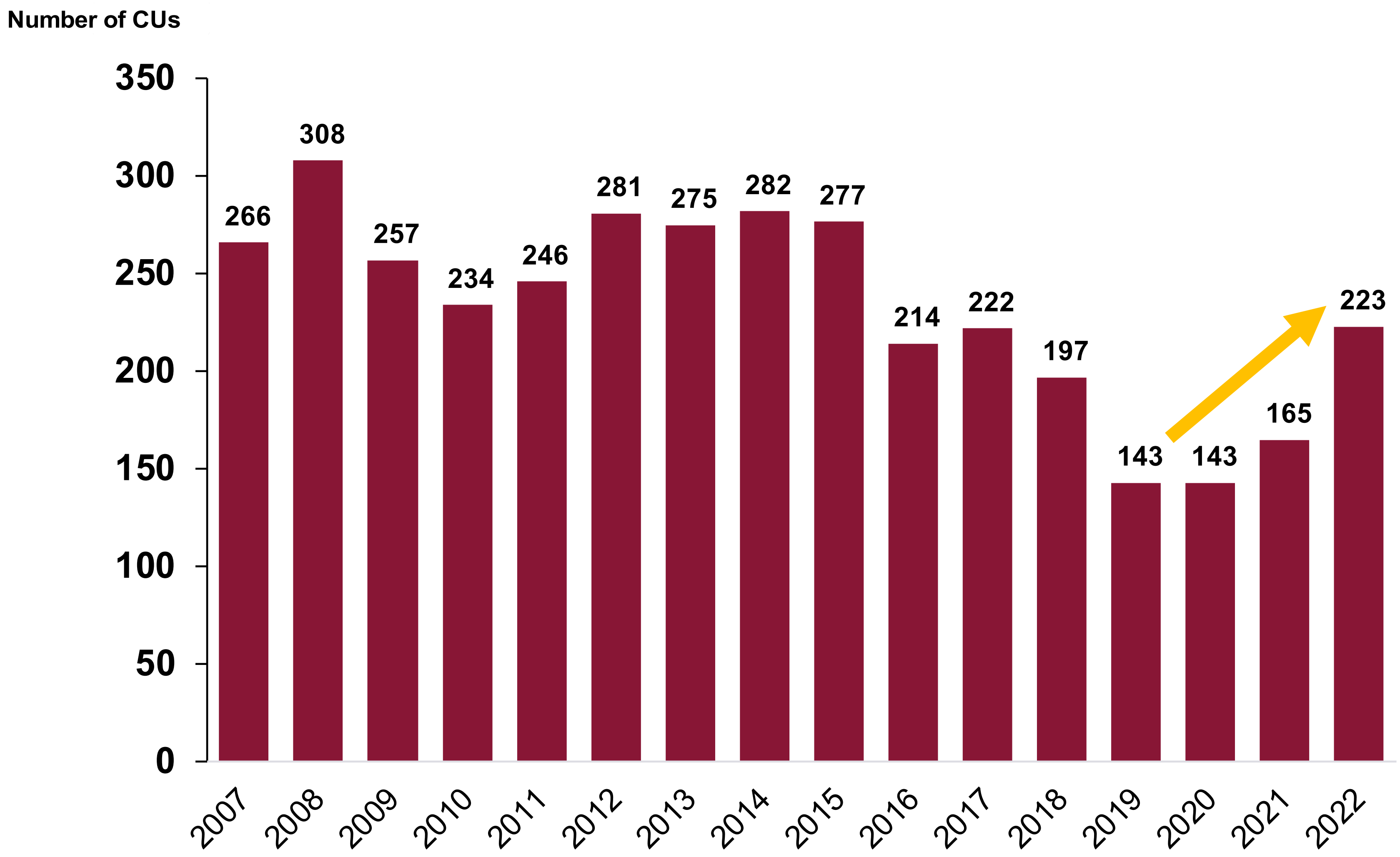
CUNA Mutual Group – Economics
800.356.2644, Ext. 665.5454
Steve.rick@cunamutual.com

Annual Net Decline in Number of CUs

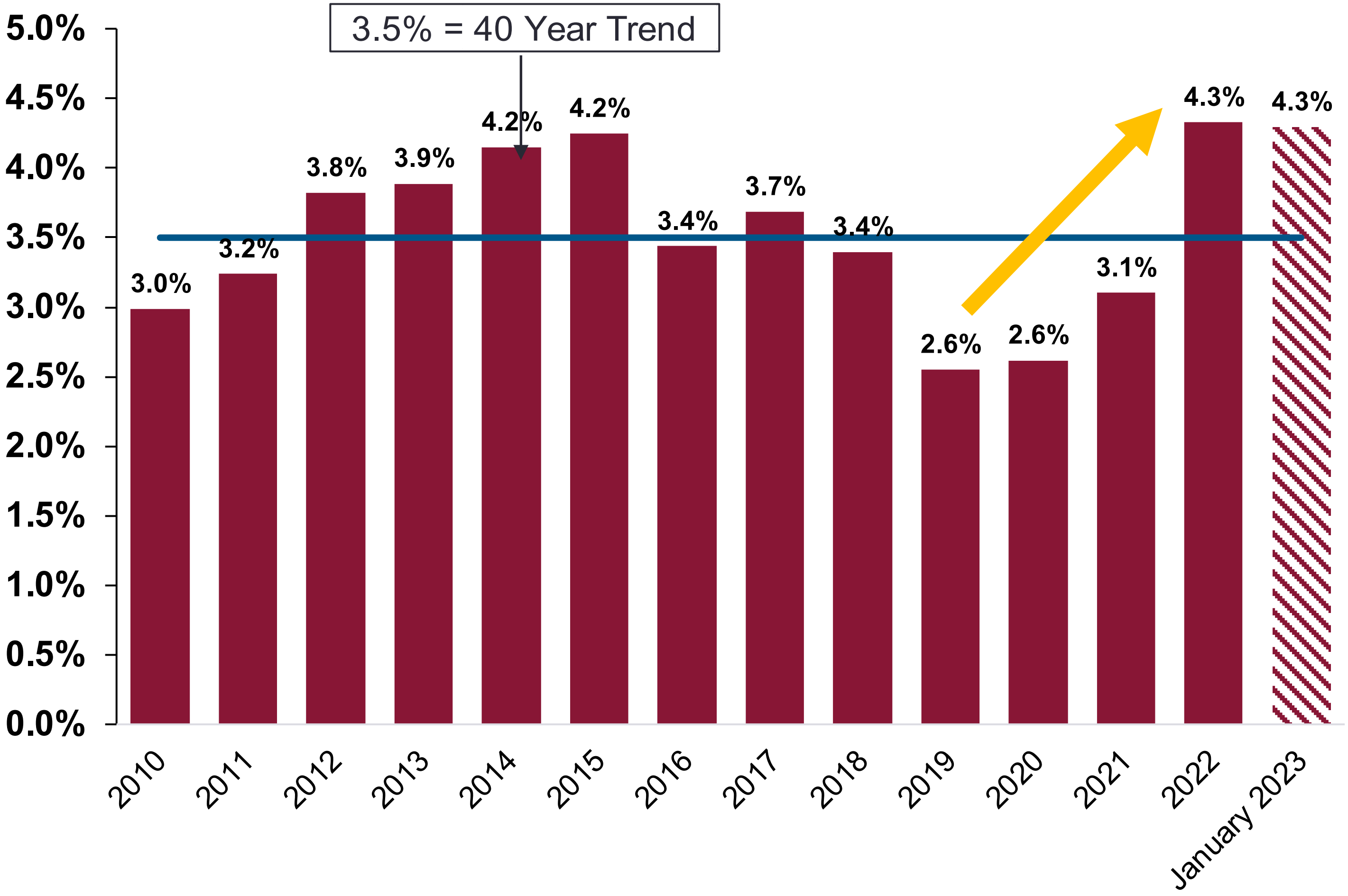


Source data: CUNA Economics & Statistics and CUNA Mutual Group - Economics

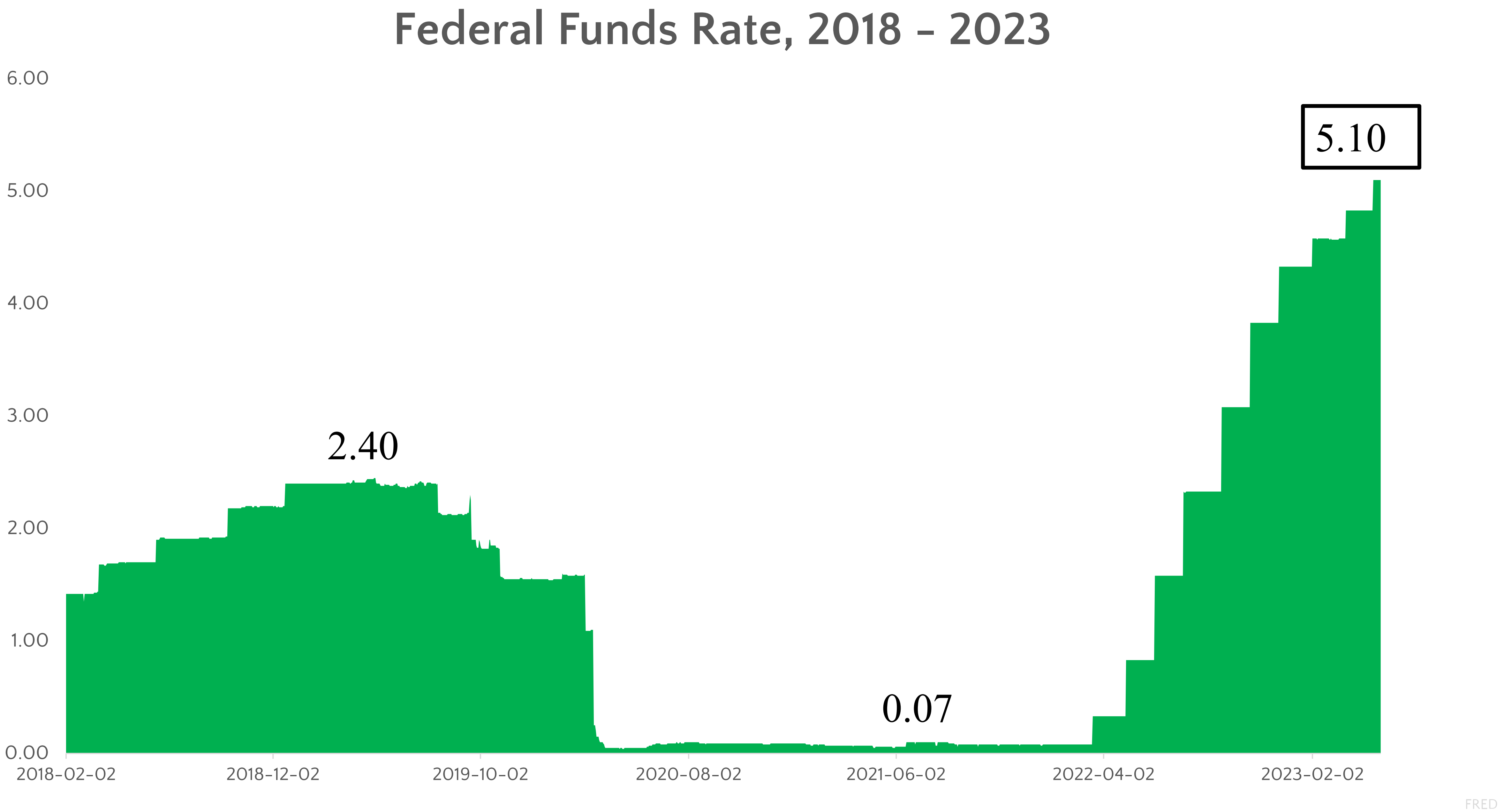
Annual Contraction Rate in CU Marketplace

January 2023

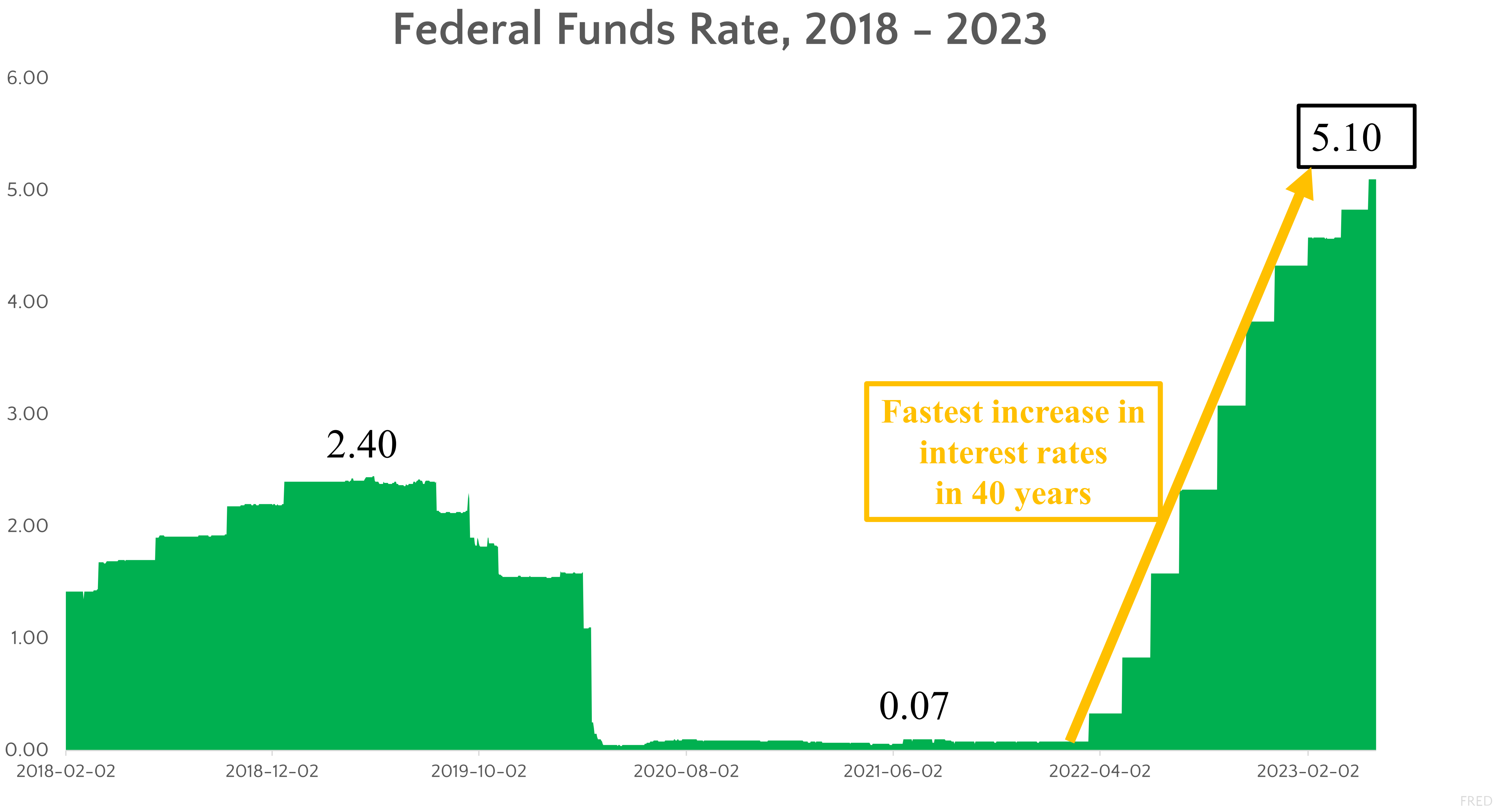
January 2022 - January 2023 Decline = 221 CUs

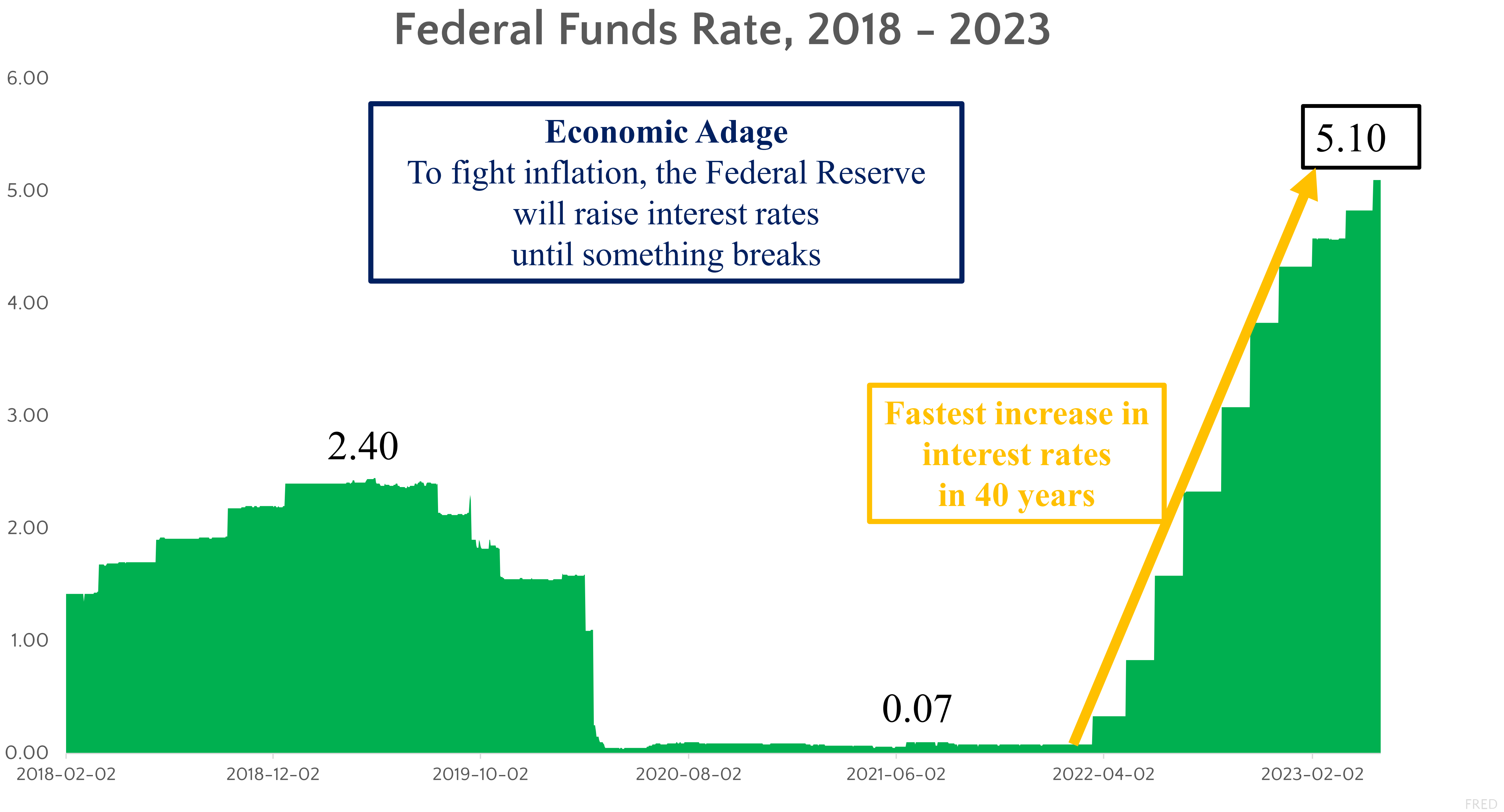


Source data: CUNA Economics & Statistics and CUNA Mutual Group - Economics

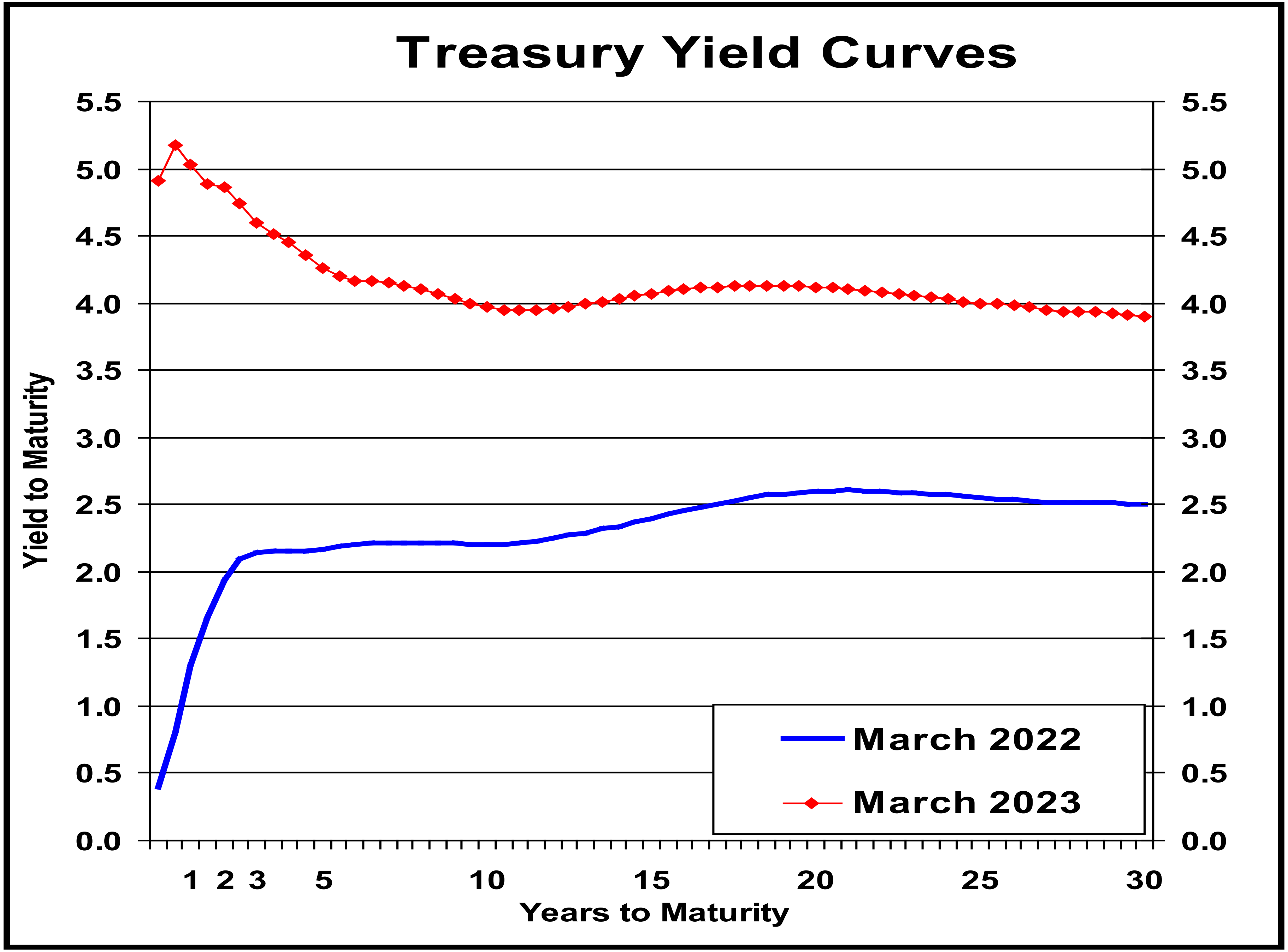


Federal Funds Rate, 2018 - 2023
6.00
5.00
4.00
3.00
2.00
1.00
0.00
2018-02-02
2018-12-02
2019-10-02
2020-08-02
2021-06-02
2022-04-02
2023-02-02
2.40
0.07
5.10
FRED

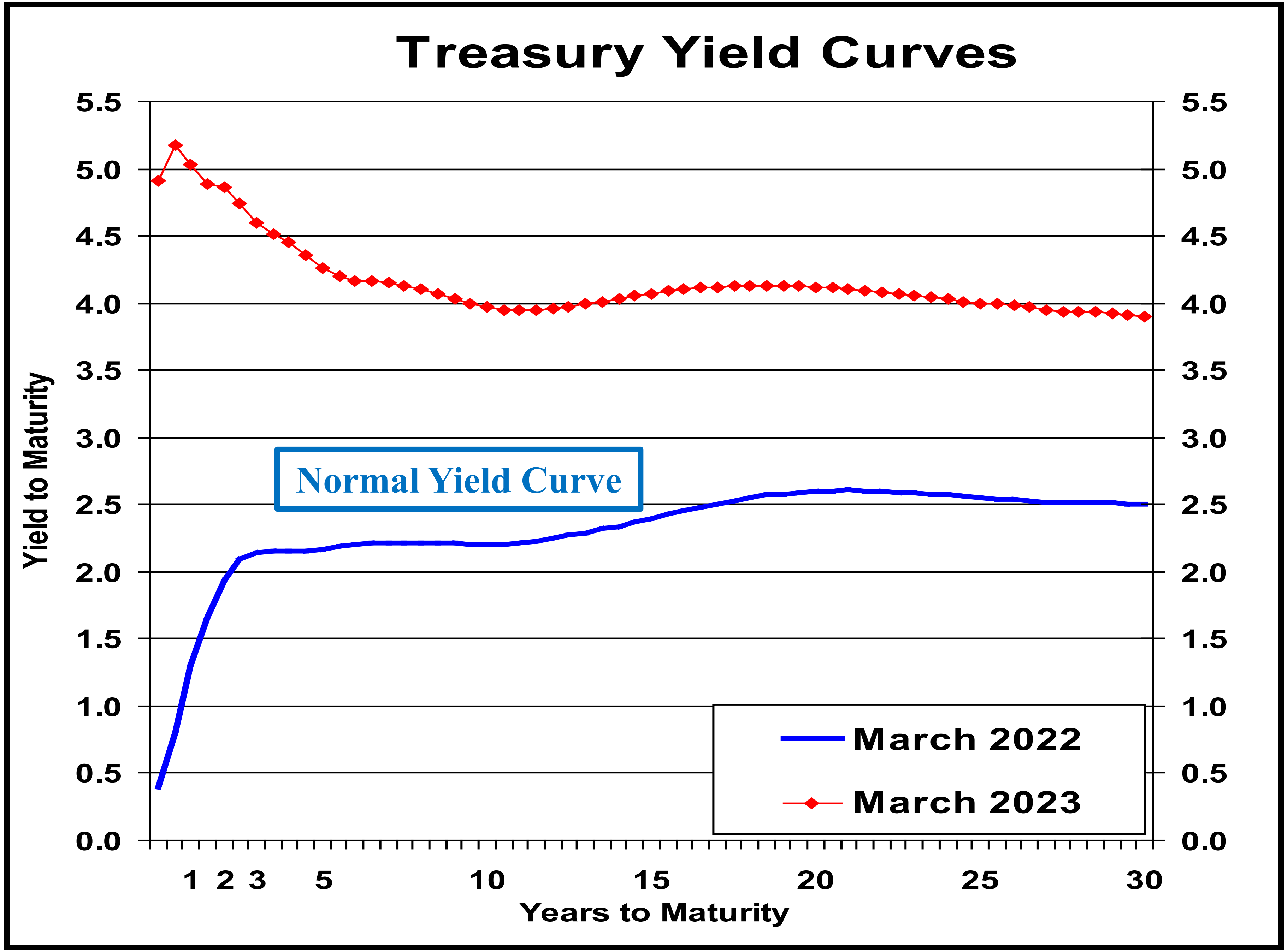

Federal Funds Rate, 2018 - 2023
6.00
5.00
4.00
3.00
2.00
1.00
0.00
2018-02-02
2018-12-02
2019-10-02
2020-08-02
2021-06-02
2022-04-02
2023-02-02
2.40
0.07
5.10
Fastest increase in interest rates in 40 years
FRED

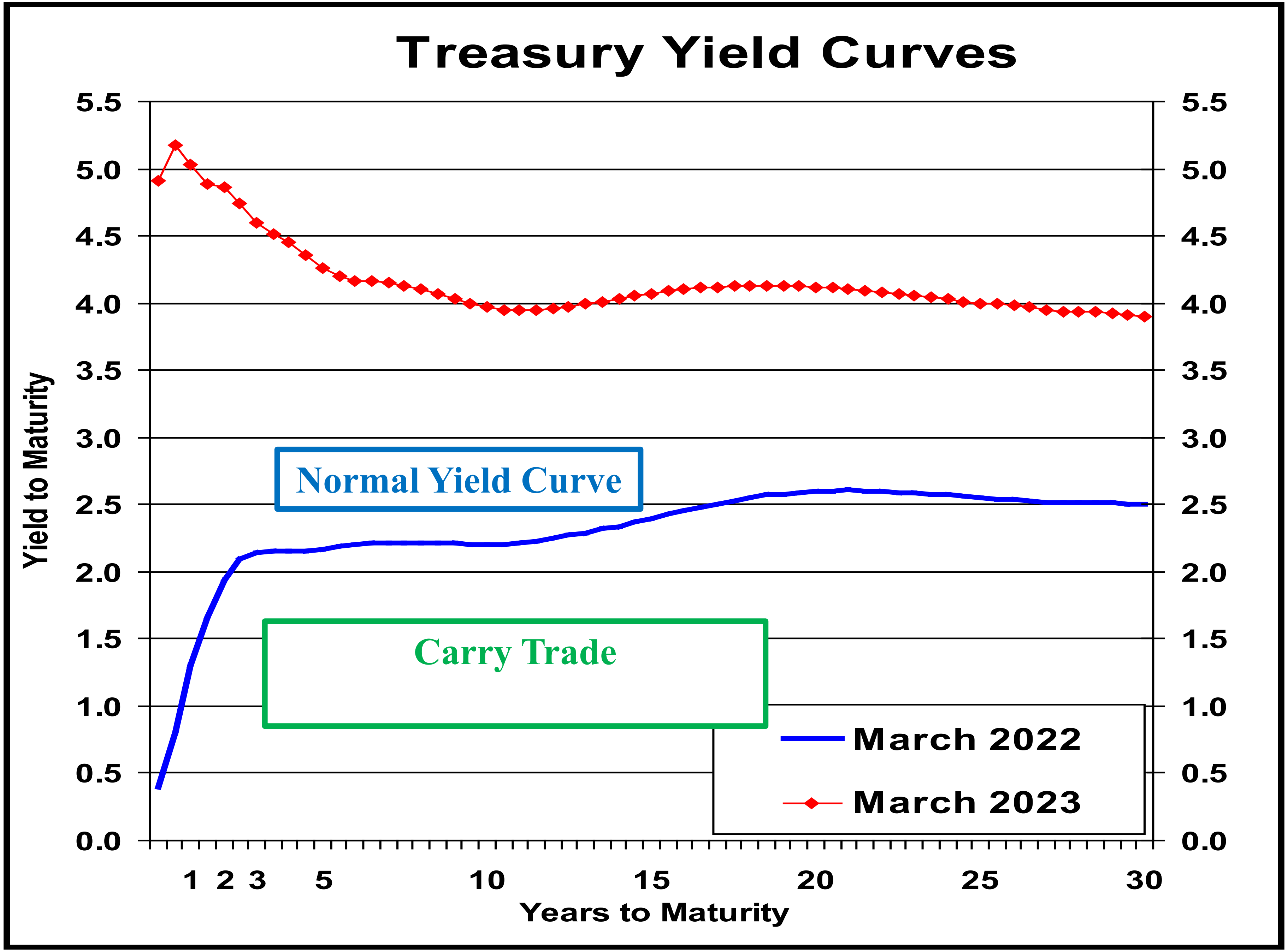


Federal Funds Rate, 2018 – 2023
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Economic Adage
To fight inflation, the Federal Reserve
will raise interest rates
until something breaks
5.10
2.40
Fastest increase in
interest rates
in 40 years
0.07
2018-02-02
2018-12-02
2019-10-02
2020-08-02
2021-06-02
2022-04-02
2023-02-02
FRED

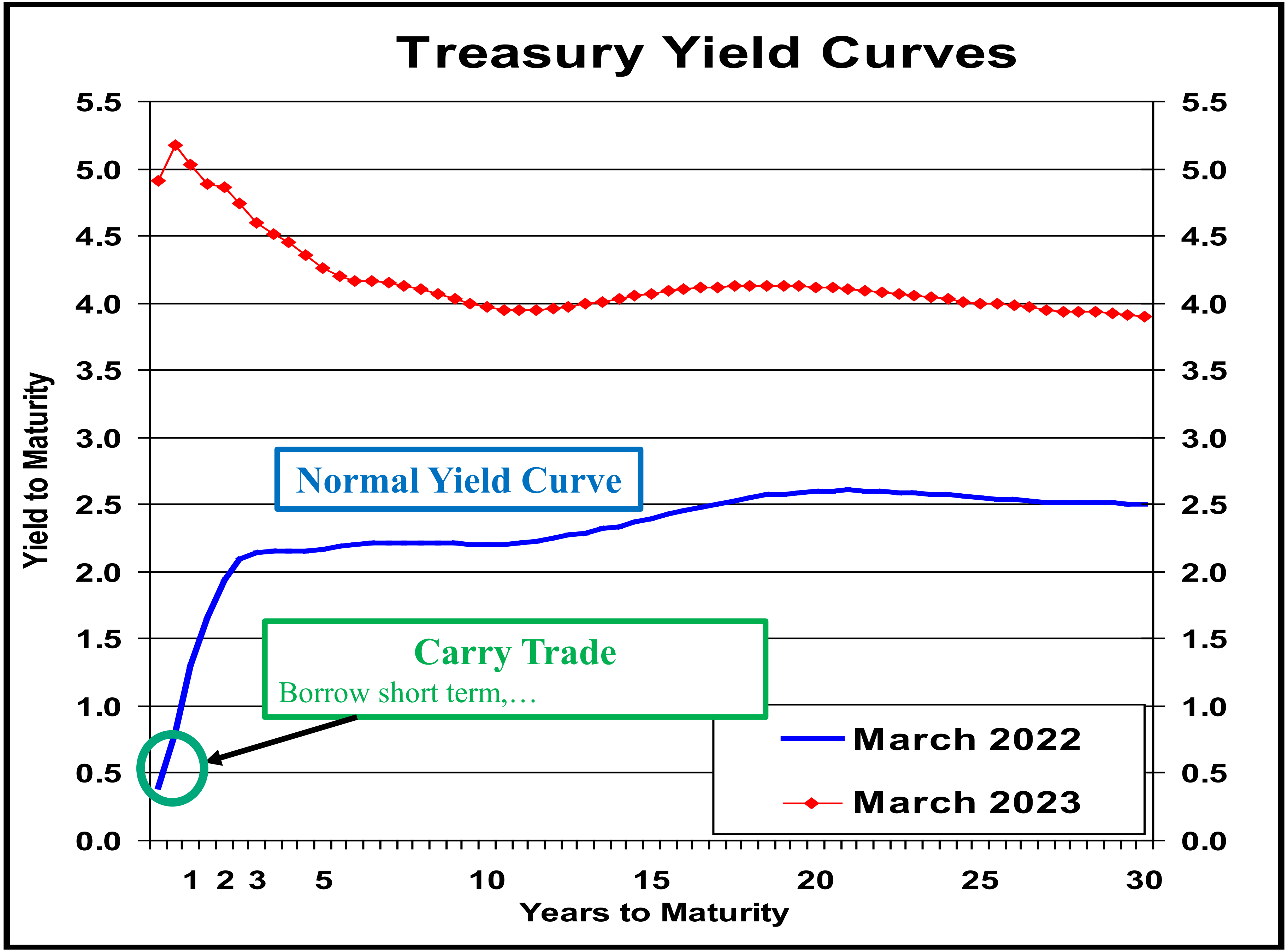


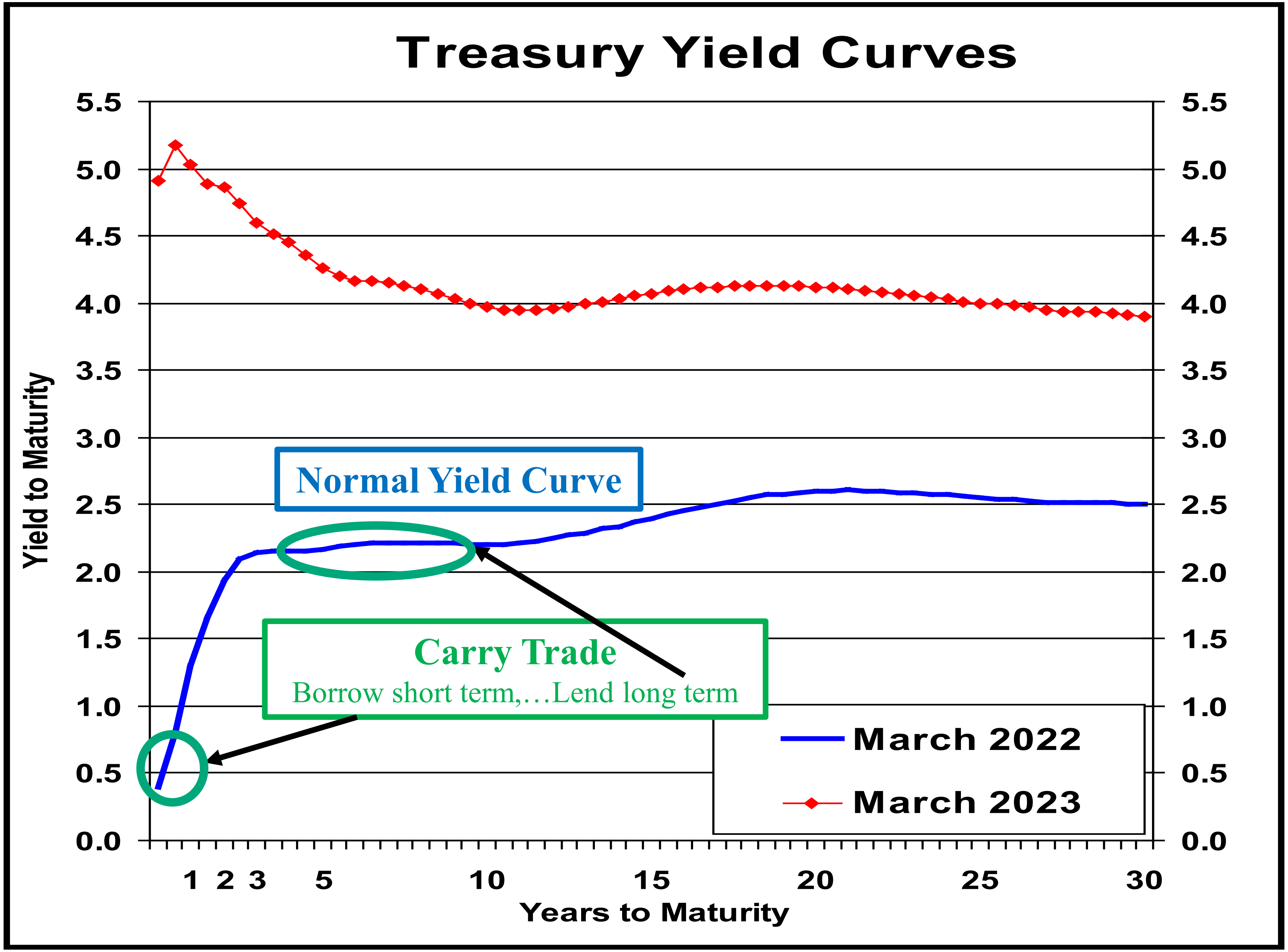
Treasury Yield Curves
Yield to Maturity
Years to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1 2 3 5 10 15 20 25 30
March 2022
March 2023


Treasury Yield Curves
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Yield to Maturity
Normal Yield Curve
March 2022
March 2023
1 2 3 5 10 15 20 25 30
Years to Maturity

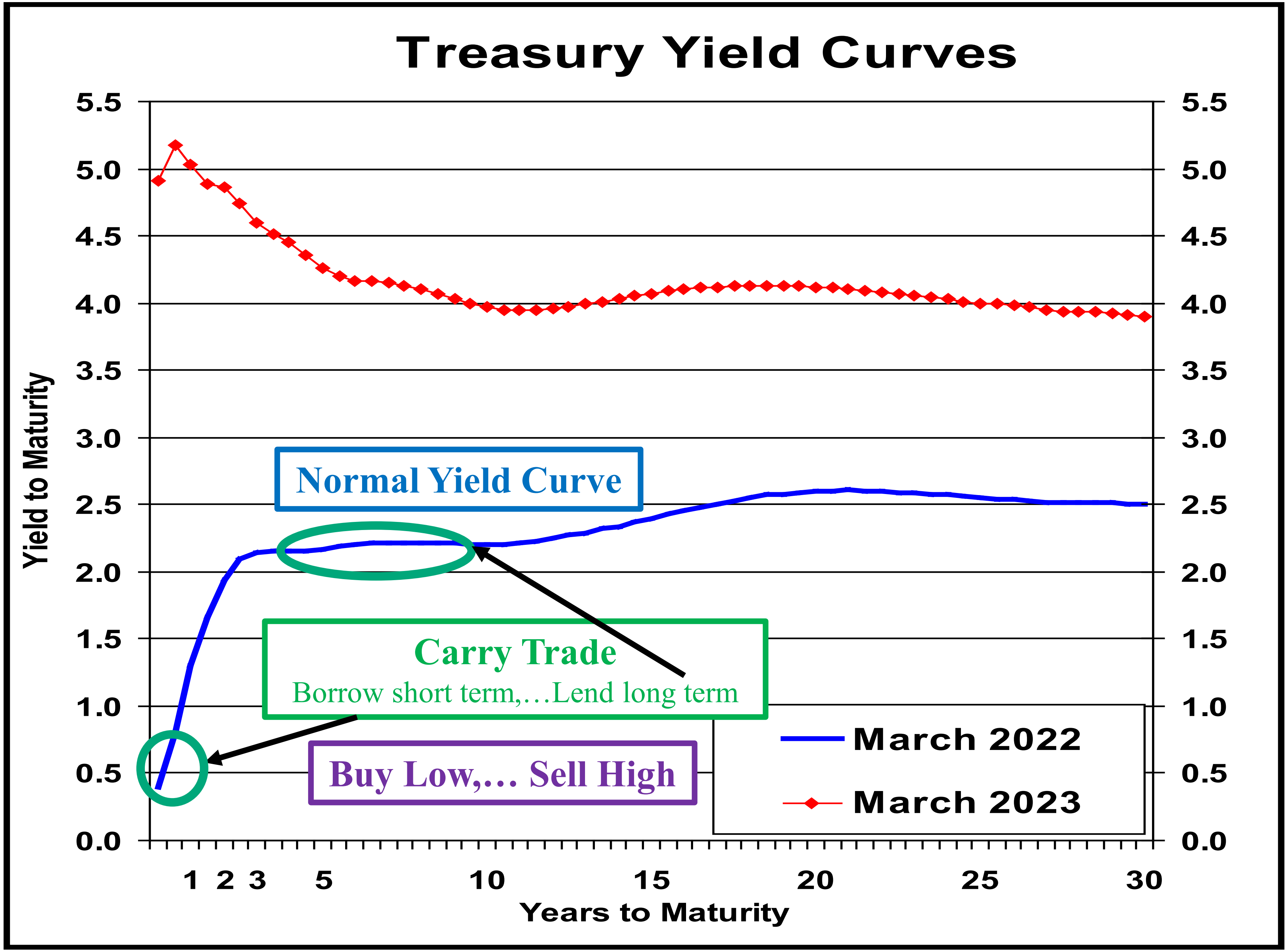


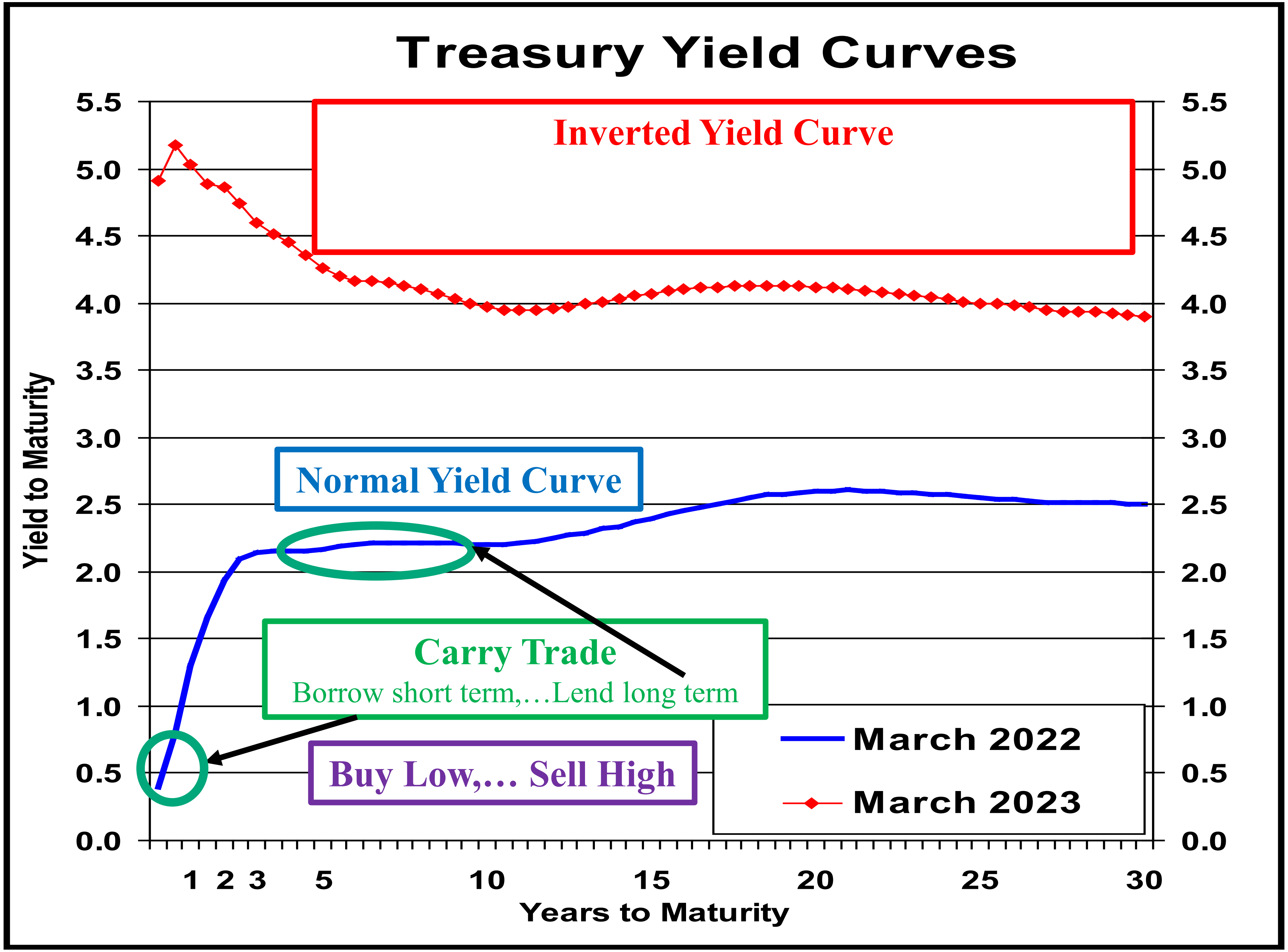
Treasury Yield Curves
Yield to Maturity
Years to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1
2
3
5
10
15
20
25
30
Normal Yield Curve
Carry Trade
March 2022
March 2023

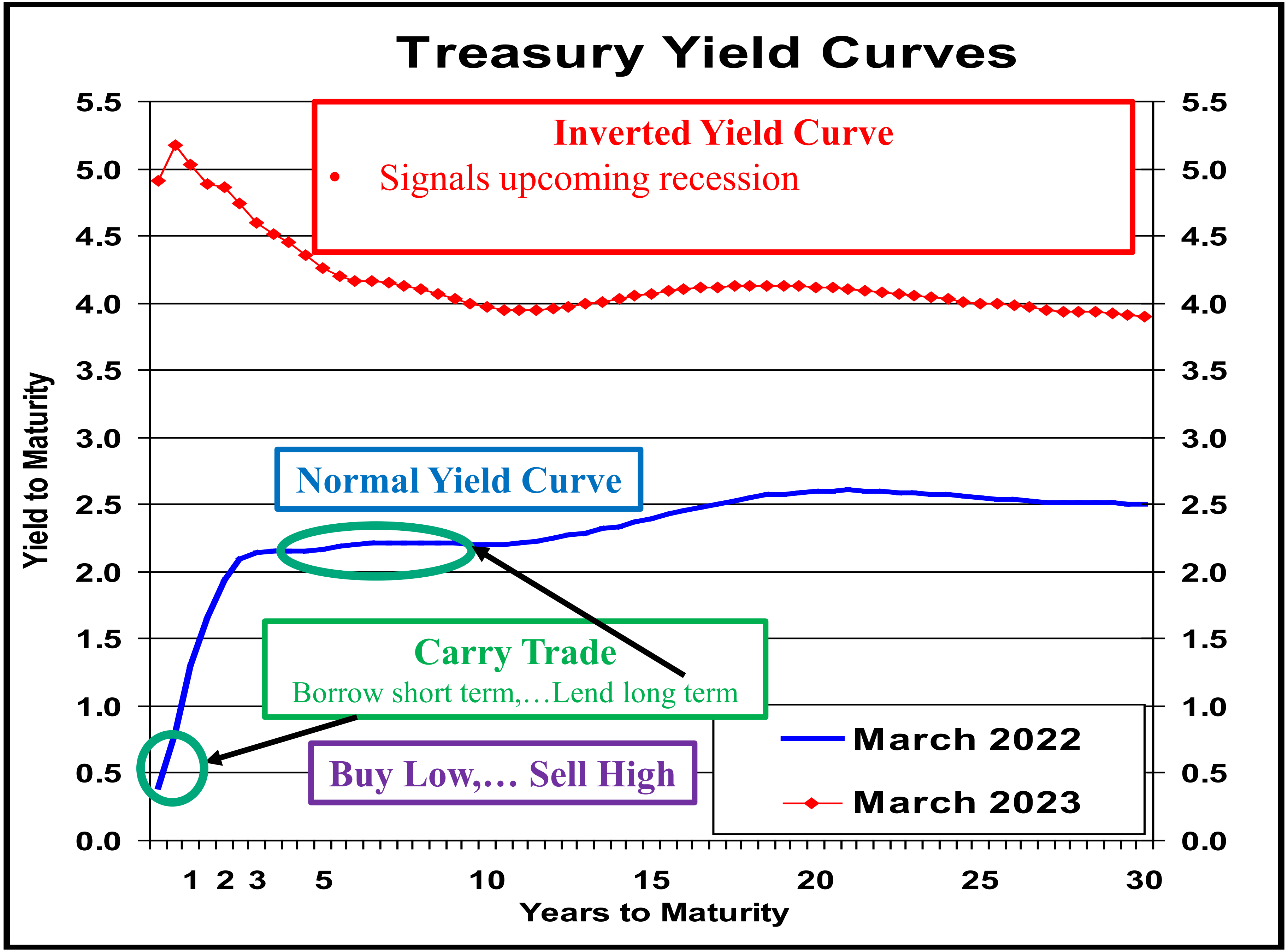

Treasury Yield Curves
Yield to Maturity
Years to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1 2 3 5 10 15 20 25 30
Normal Yield Curve
Carry Trade
Borrow short term,…
March 2022
March 2023



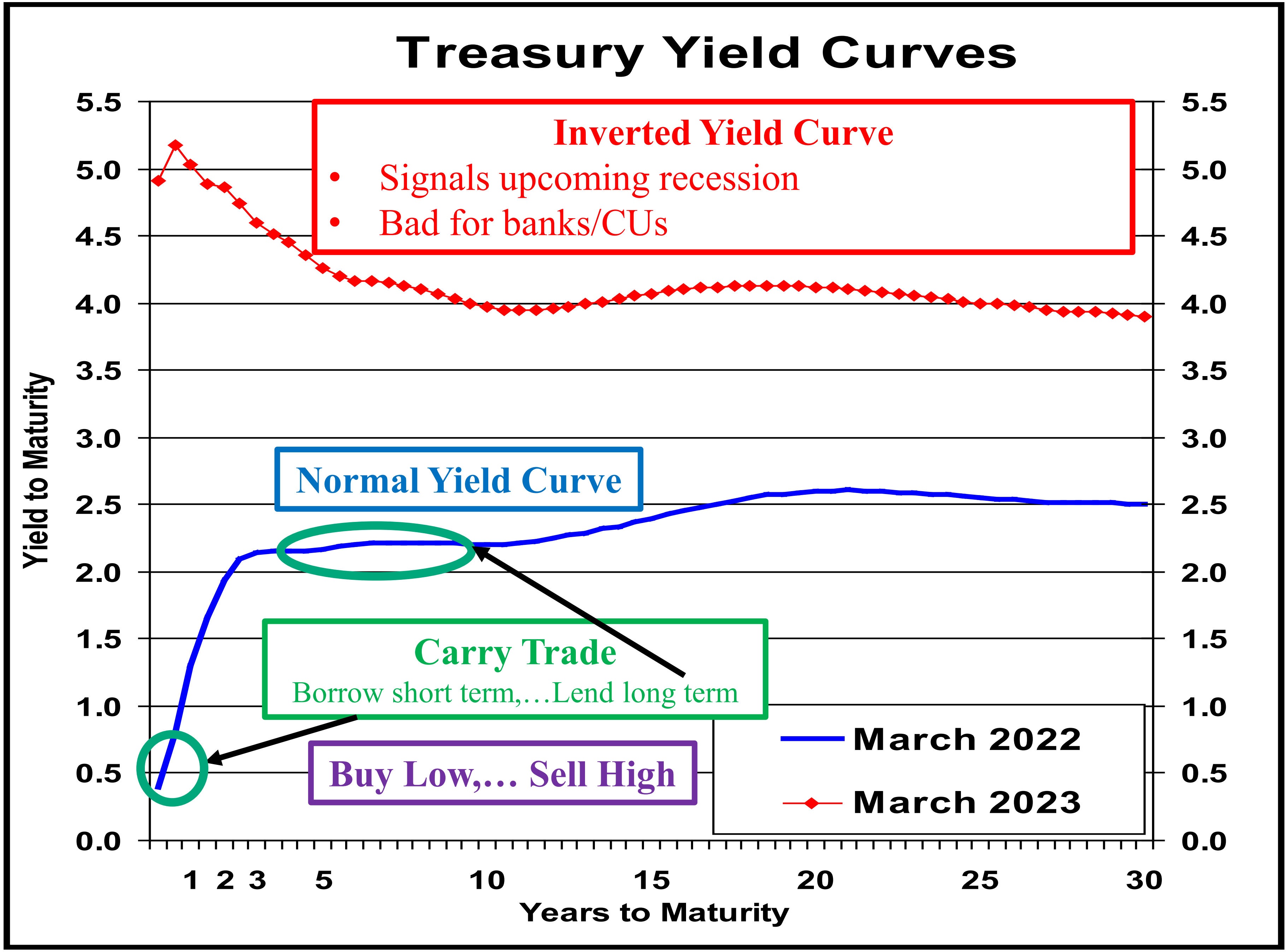
Treasury Yield Curves
Yield to Maturity
Years to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1
2
3
5
10
15
20
25
30
Normal Yield Curve
Carry Trade
Borrow short term,…Lend long term
March 2022
March 2023

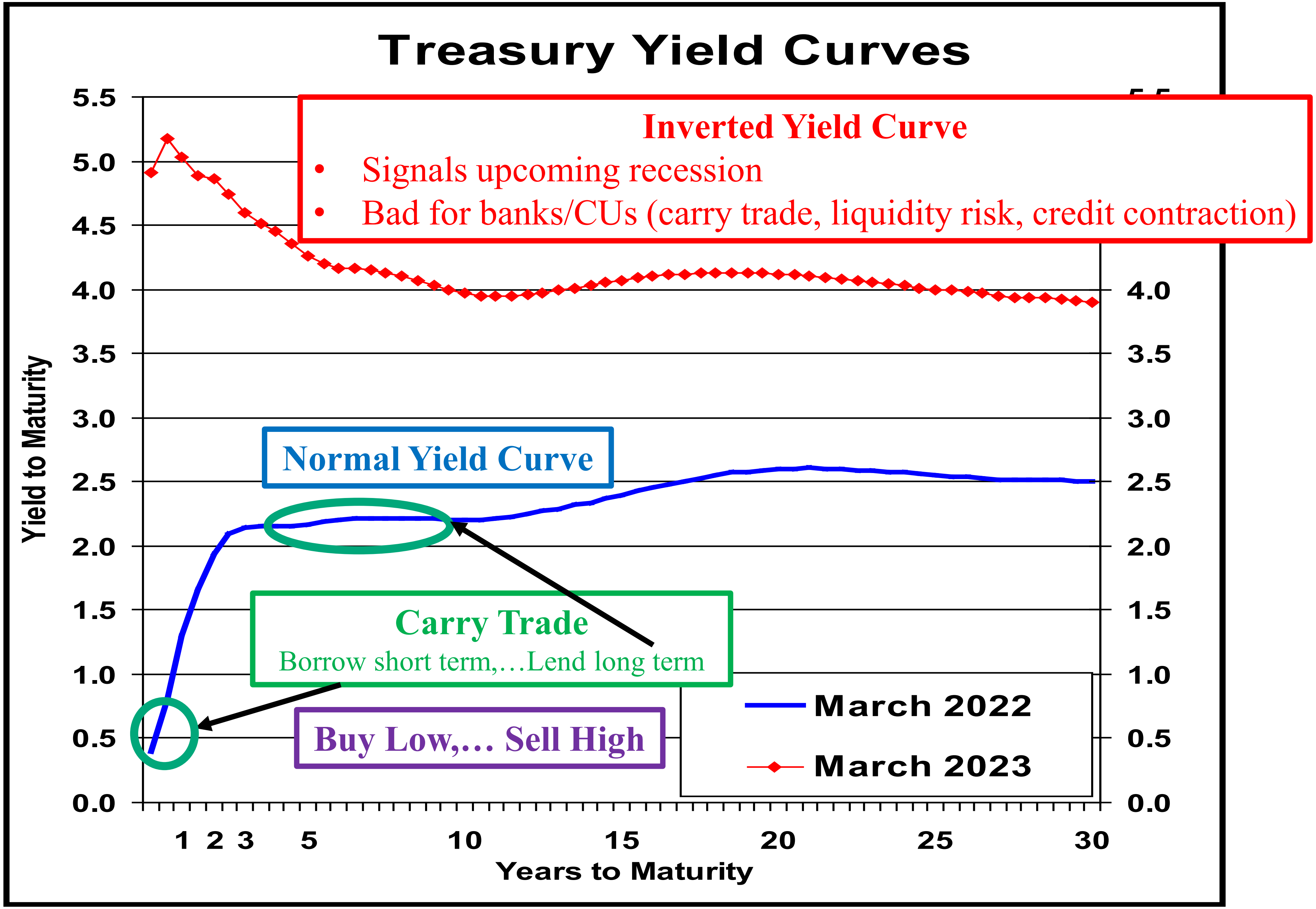

Treasury Yield Curves
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Yield to Maturity
Normal Yield Curve
Carry Trade
Borrow short term,…Lend long term
Buy Low,… Sell High
March 2022
March 2023
1 2 3 5 10 15 20 25 30
Years to Maturity


Treasury Yield Curves
Inverted Yield Curve
Normal Yield Curve
Carry Trade
Borrow short term,…Lend long term
Buy Low,… Sell High
March 2022
March 2023
Yield to Maturity
Years to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1 2 3 5 10 15 20 25 30

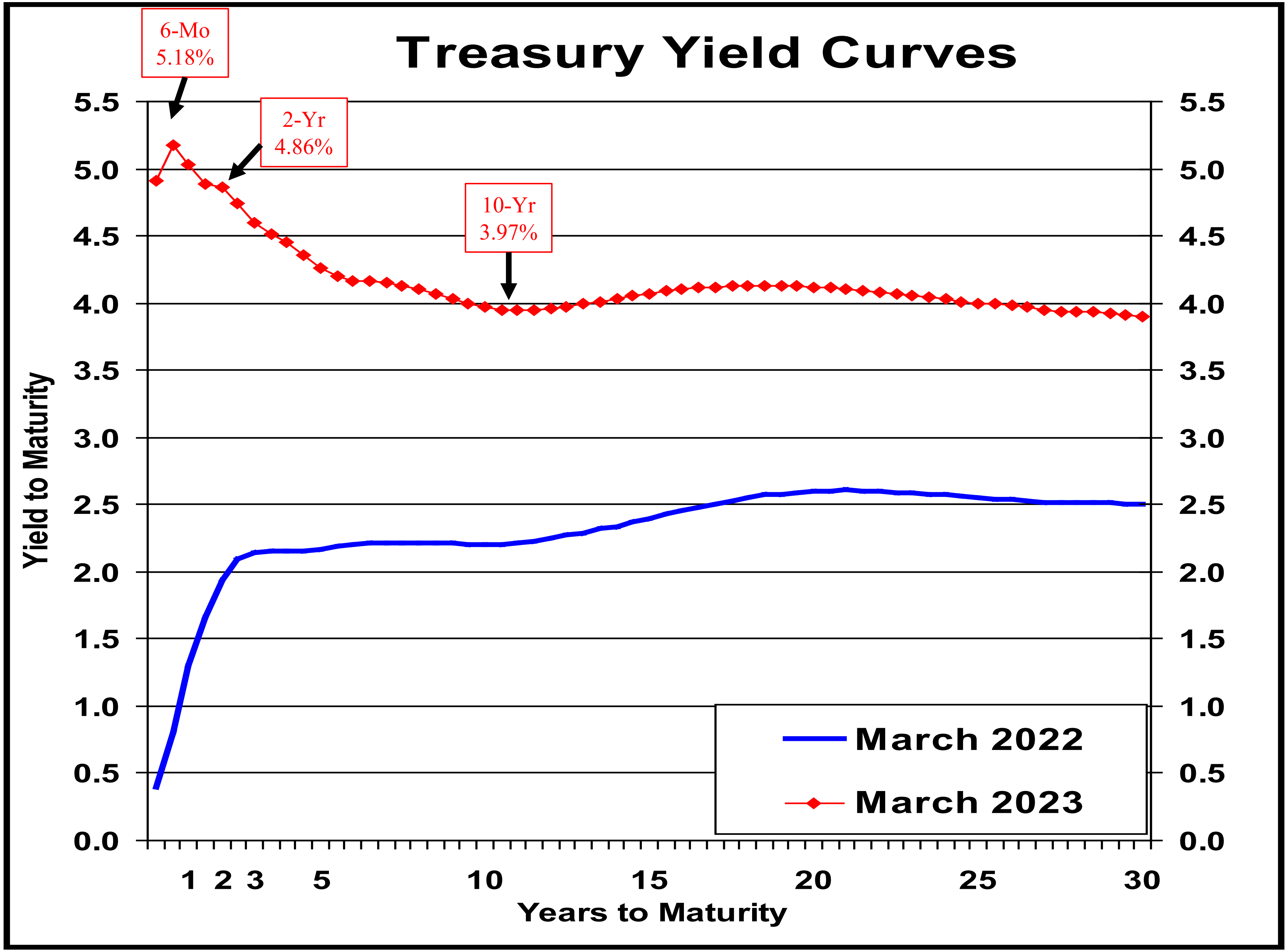


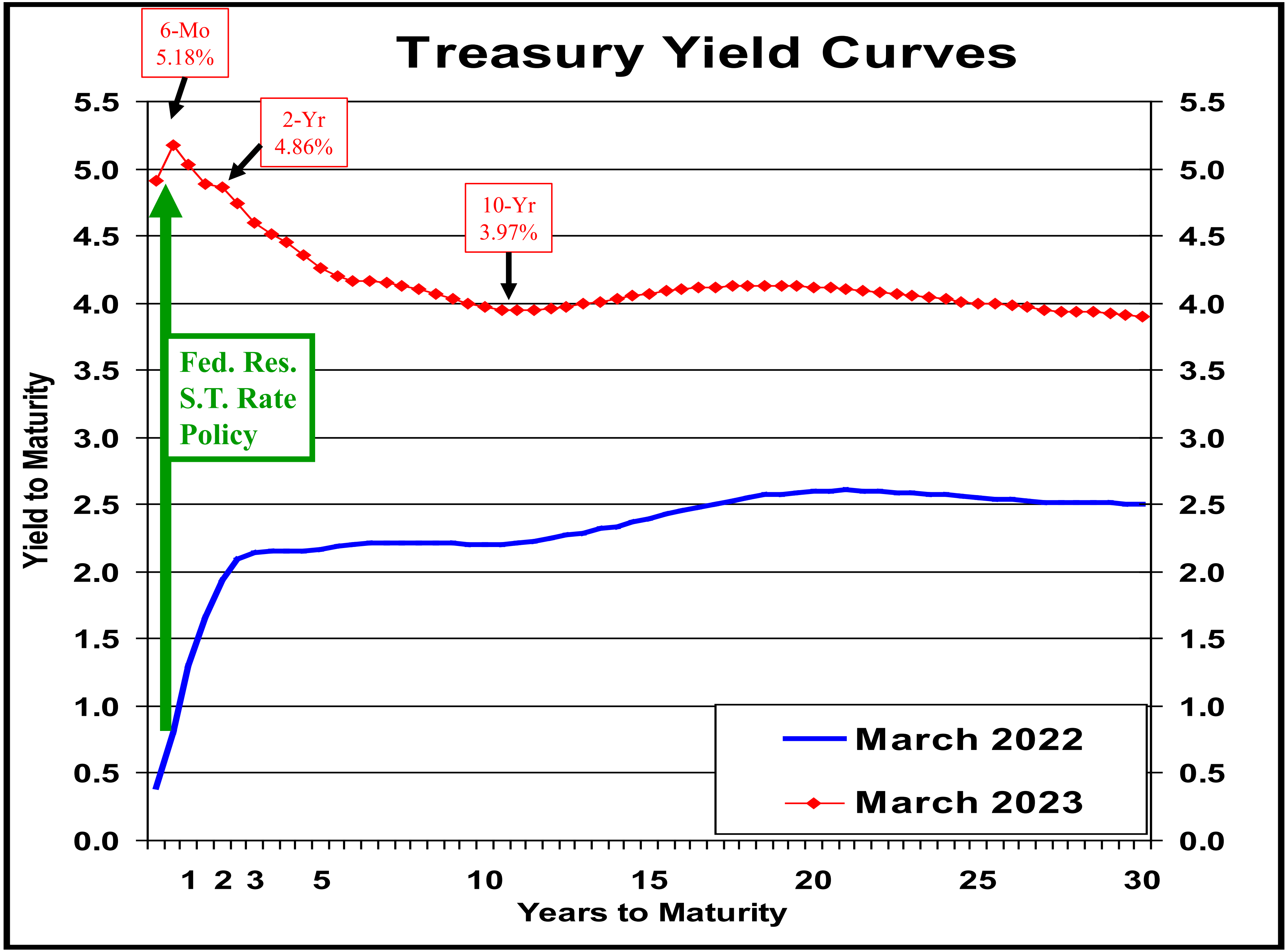
Treasury Yield Curves
Inverted Yield Curve
• Signals upcoming recession
Normal Yield Curve
Carry Trade
Borrow short term,…Lend long term
Buy Low,… Sell High
March 2022
March 2023
Yield to Maturity
Years to Maturity
0.0
0.5
1.0
1.5
2.0
2.5
3.0
3.5
4.0
4.5
5.0
5.5
1
2
3
5
10
15
20
25
30

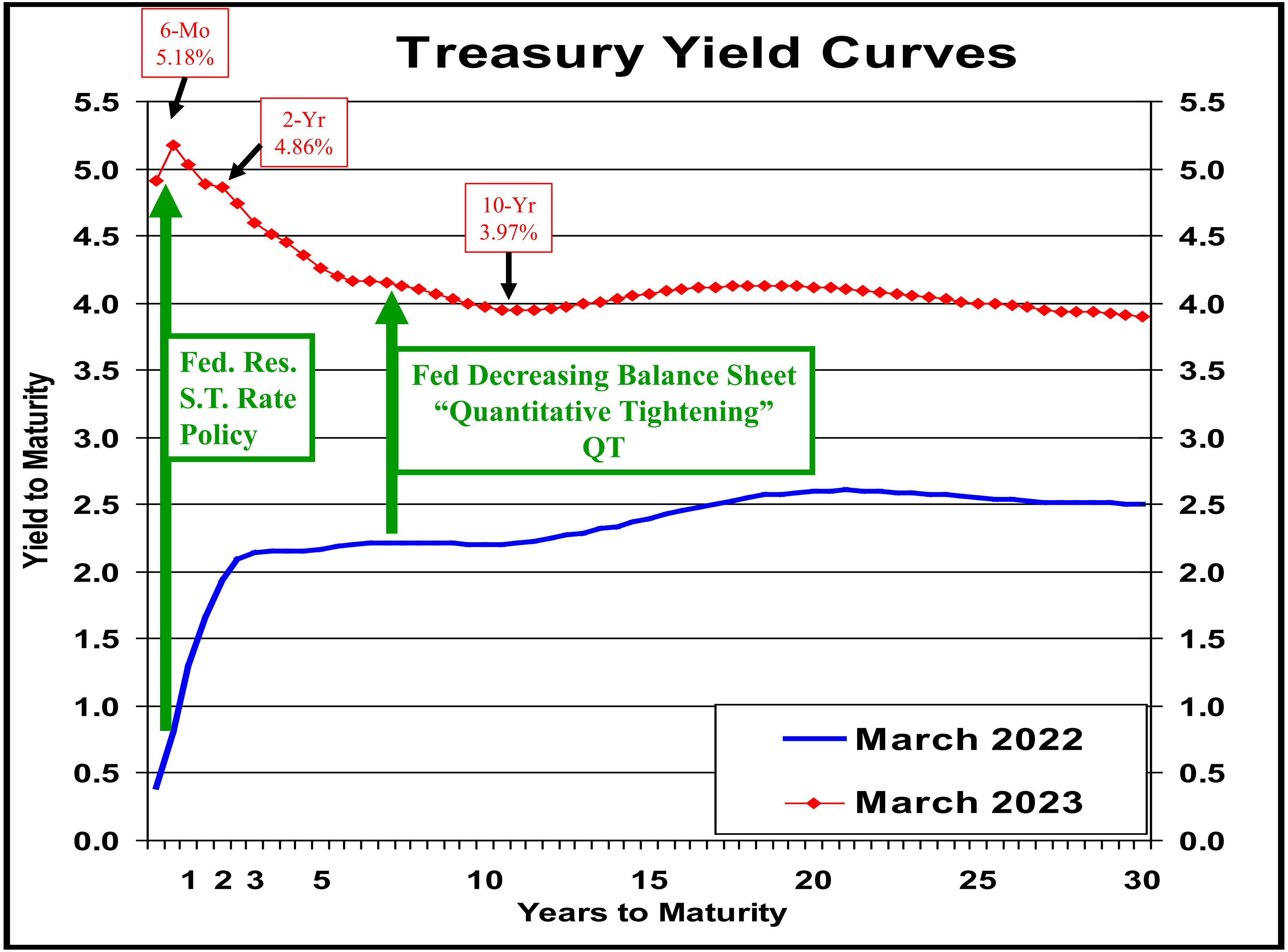

Treasury Yield Curves
Inverted Yield Curve
• Signals upcoming recession
• Bad for banks/CUs
Normal Yield Curve
Carry Trade
Borrow short term,…Lend long term
Buy Low,… Sell High
March 2022
March 2023
Yield to Maturity
Years to Maturity
0.0
0.5
1.0
1.5
2.0
2.5
3.0
3.5
4.0
4.5
5.0
5.5
1
2
3
5
10
15
20
25
30



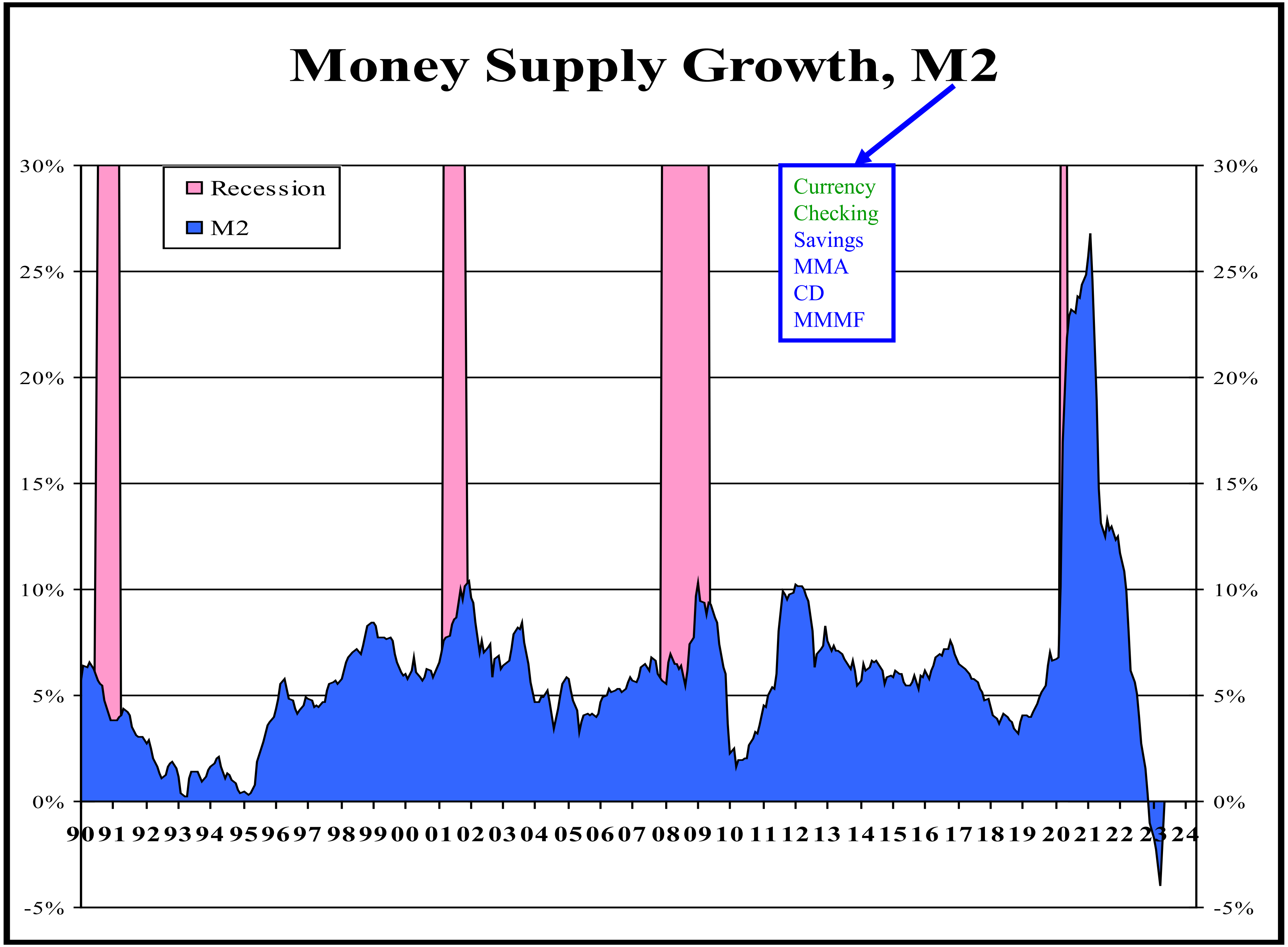
Treasury Yield Curves
Inverted Yield Curve
• Signals upcoming recession
• Bad for banks/CUs (carry trade, liquidity risk, credit contraction)
Normal Yield Curve
Carry Trade
Borrow short term,…Lend long term
Buy Low,… Sell High
March 2022
March 2023
Yield to Maturity
Years to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1
2
3
5
10
15
20
25
30

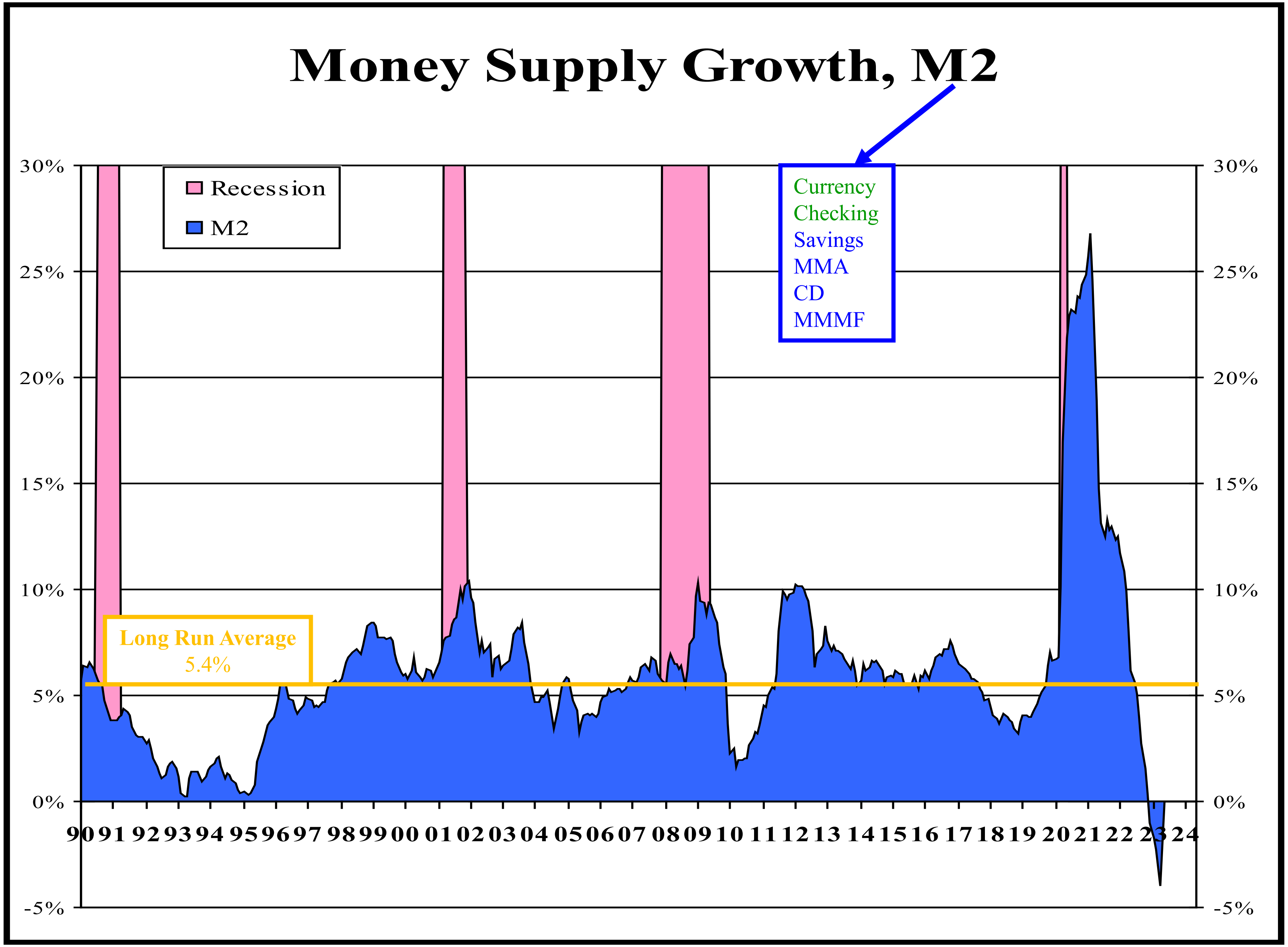

Treasury Yield Curves
6-Mo
5.18%
2-Yr
4.86%
10-Yr
3.97%
Yield to Maturity
Years to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1 2 3 5 10 15 20 25 30
March 2022
March 2023

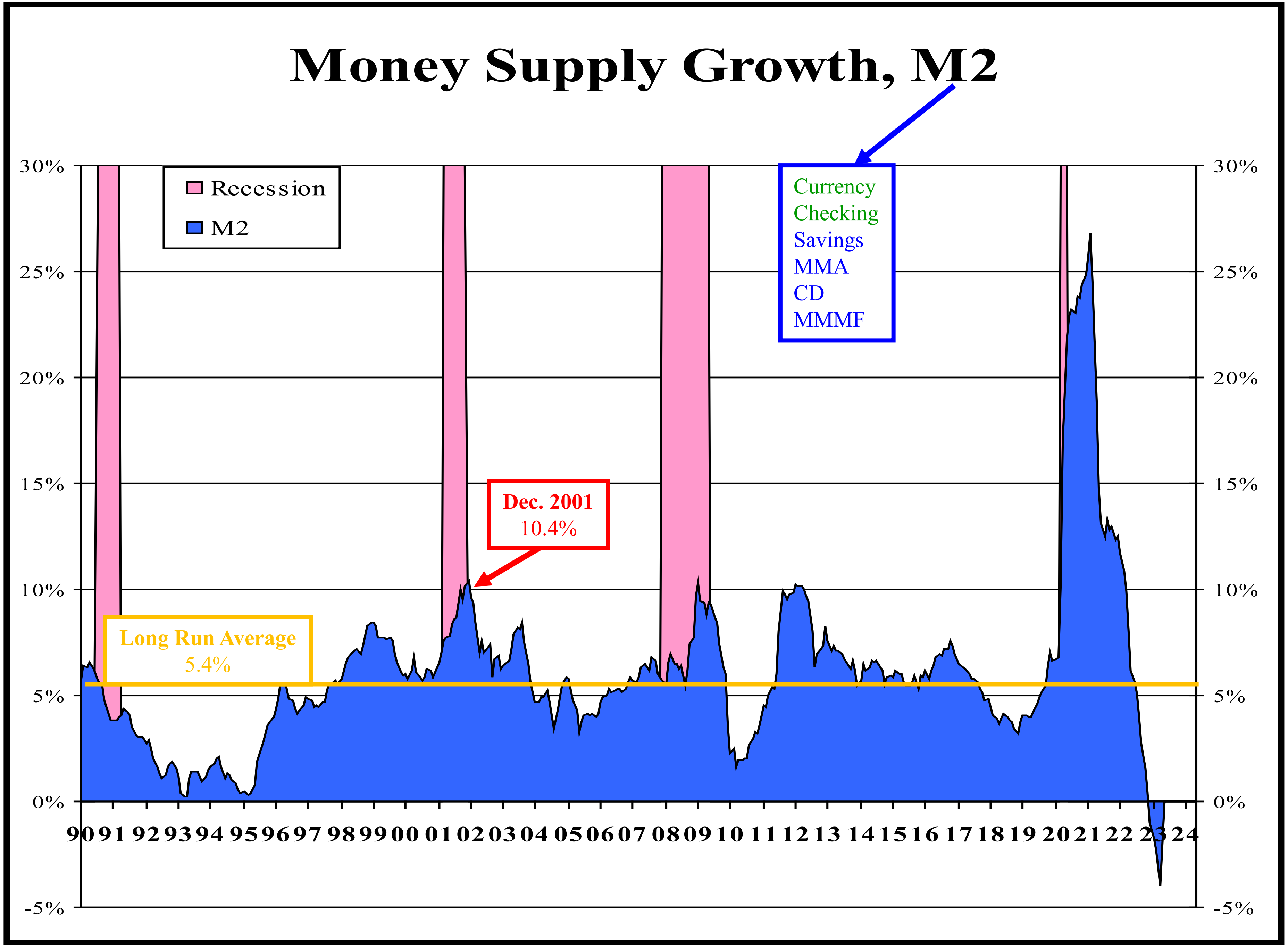

Treasury Yield Curves
6-Mo
5.18%
2-Yr
4.86%
10-Yr
3.97%
Fed. Res.
S.T. Rate
Policy
Yield to Maturity
Years to Maturity
March 2022
March 2023
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1
2
3
5
10
15
20
25
30



Treasury Yield Curves
6-Mo
5.18%
2-Yr
4.86%
10-Yr
3.97%
Fed. Res.
S.T. Rate
Policy
Fed Decreasing Balance Sheet
"Quantitative Tightening"
QT
Yield to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1 2 3 5 10 15 20 25 30
Years to Maturity
March 2022
March 2023

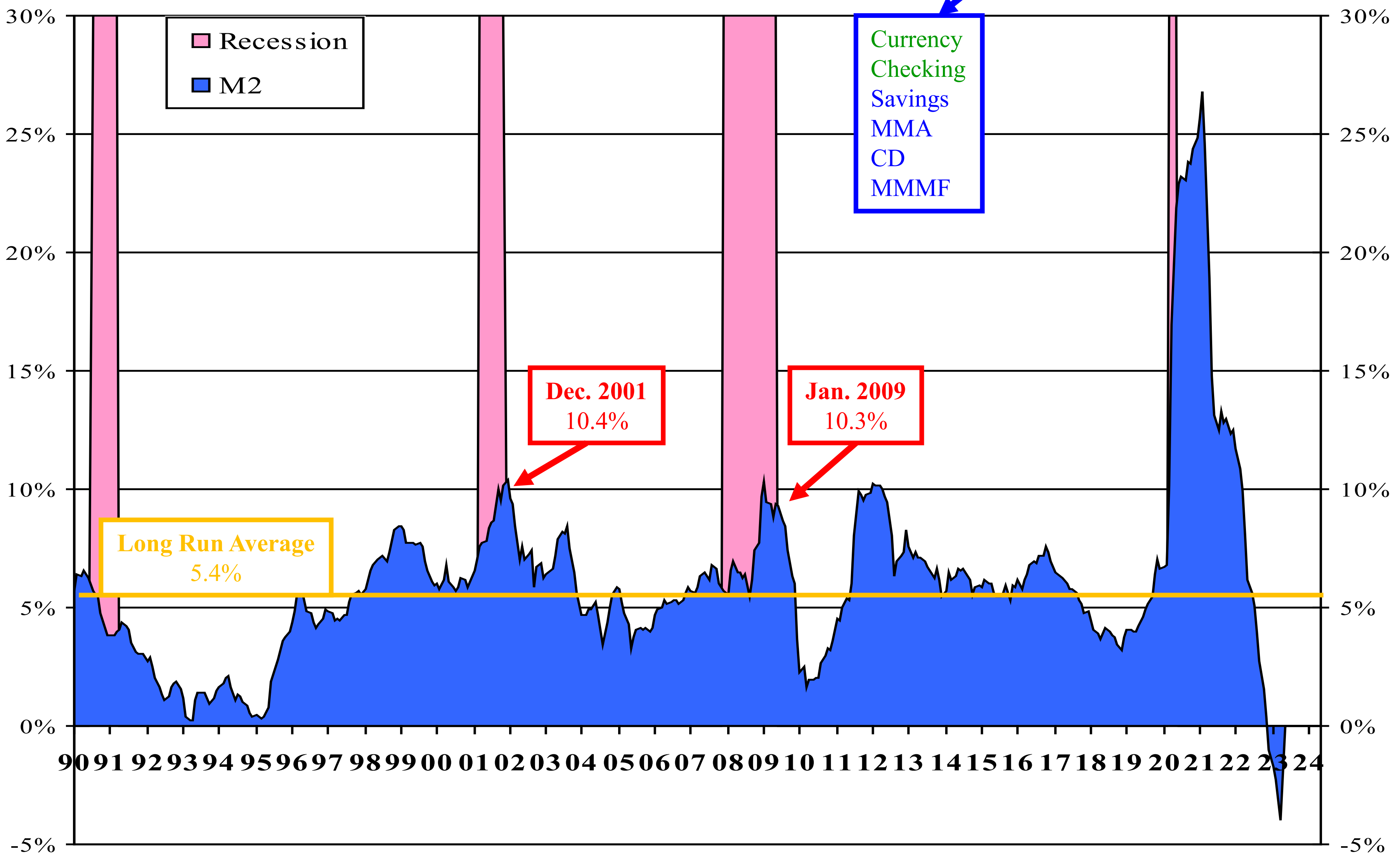

Money Supply Growth, M2
Recession
M2
Currency
Checking
Savings
MMA
CD
MMMF
30%
25%
20%
15%
10%
5%
0%
-5%
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

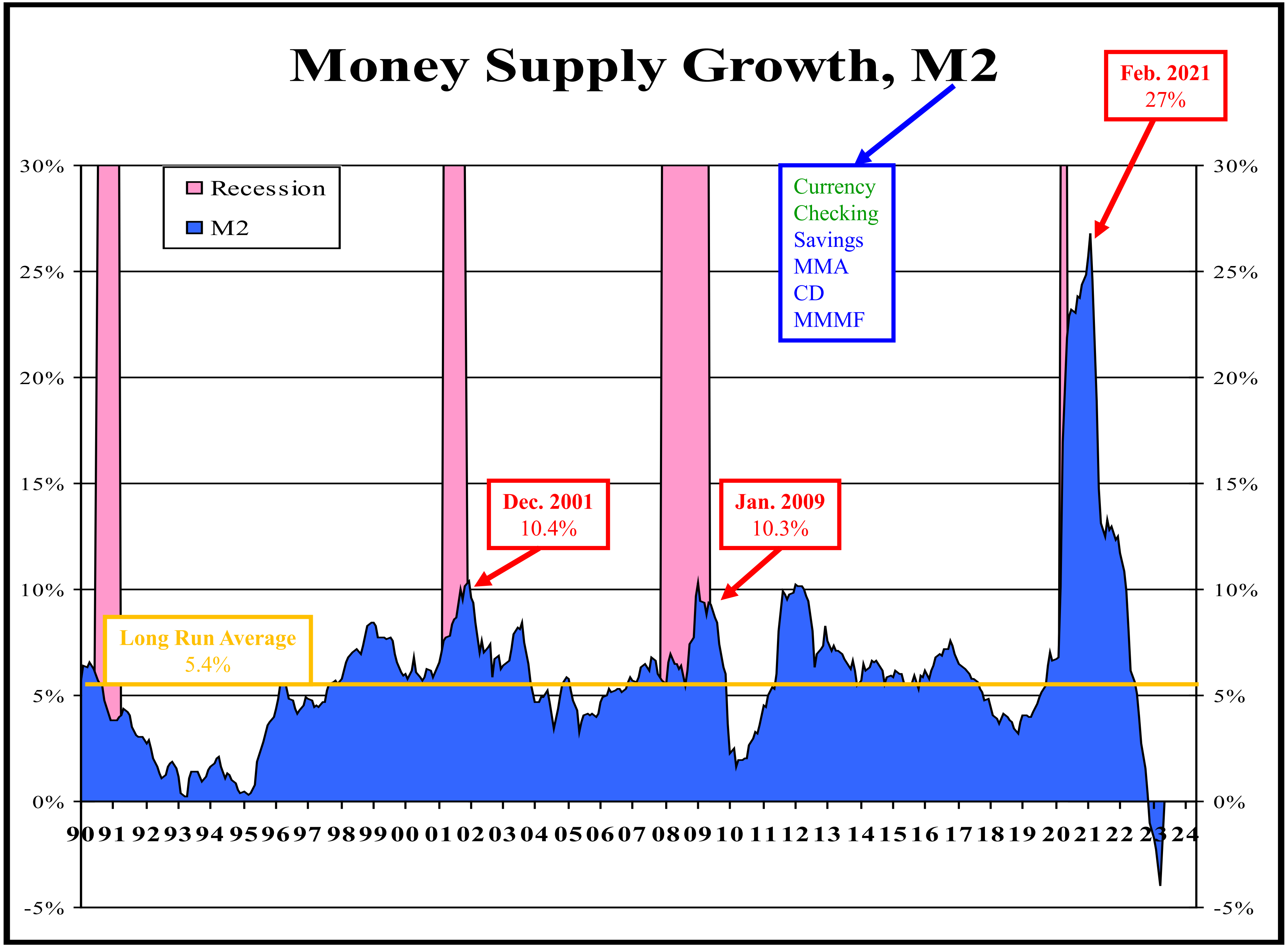

Money Supply Growth, M2
Recession
M2
Currency
Checking
Savings
MMA
CD
MMMF
Long Run Average
5.4%
30%
25%
20%
15%
10%
5%
0%
-5%
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24



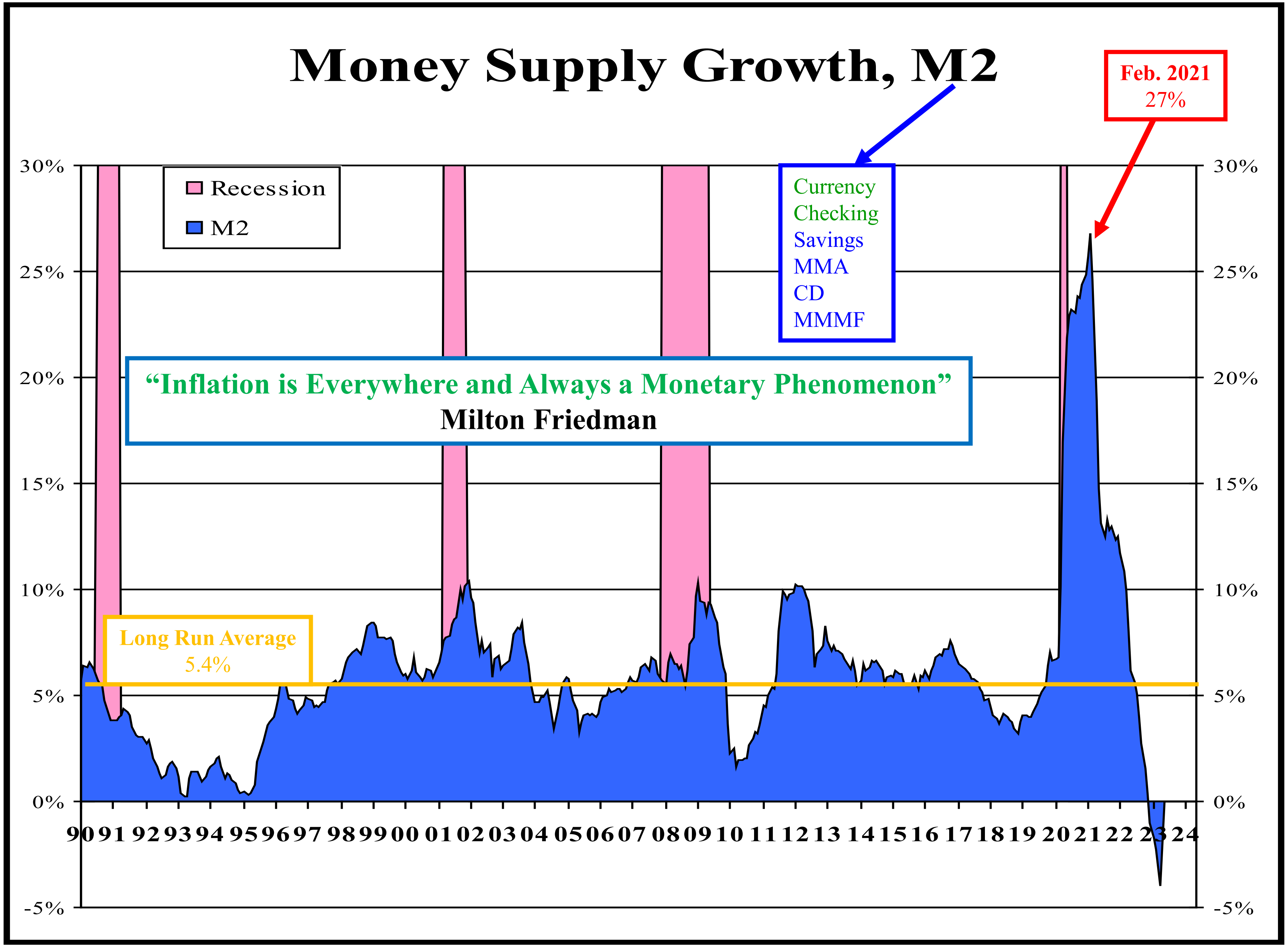
Money Supply Growth, M2
Recession
M2
Currency
Checking
Savings
MMA
CD
MMMF
Dec. 2001
10.4%
Long Run Average
5.4%
30%
25%
20%
15%
10%
5%
0%
-5%
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

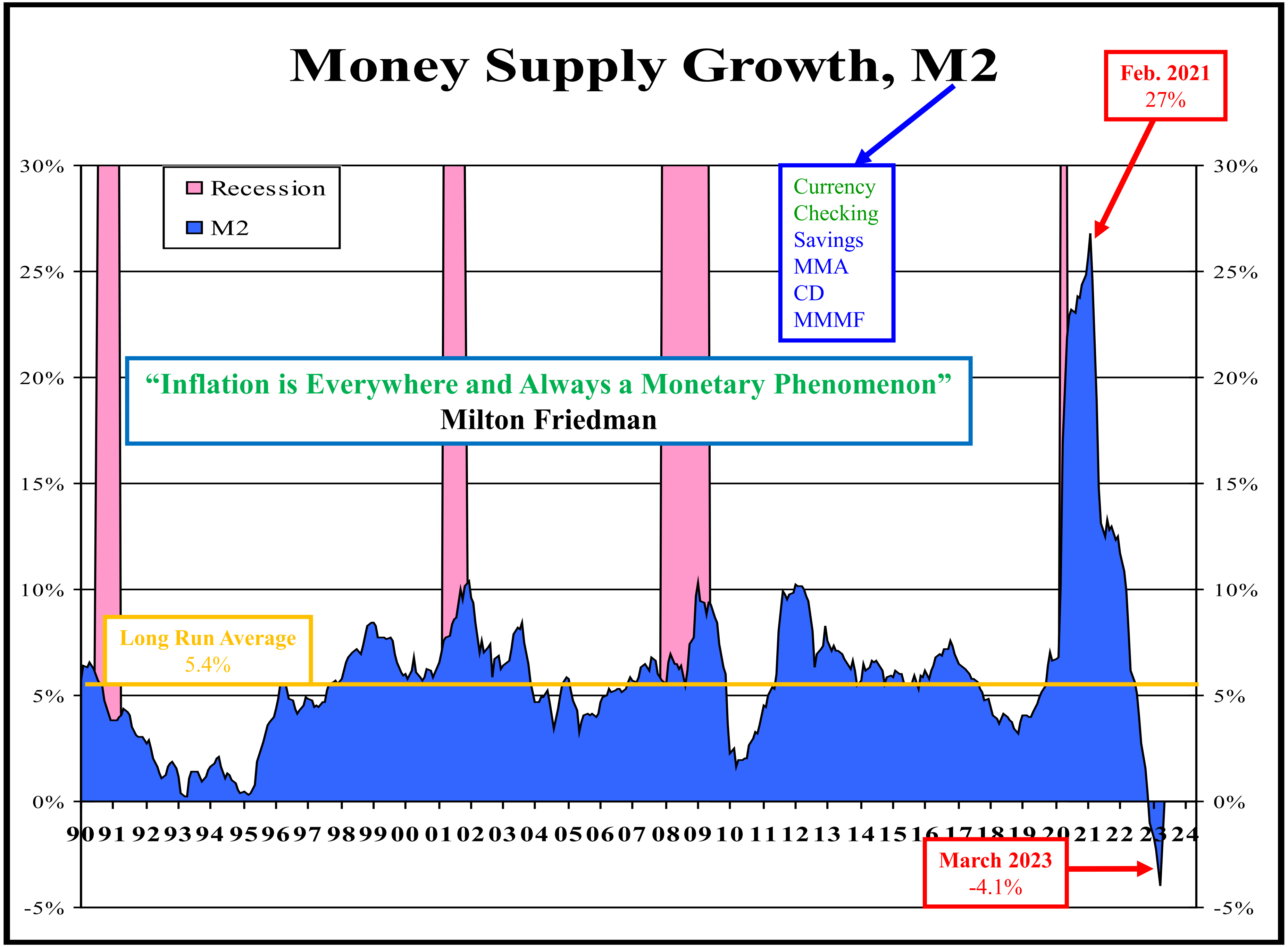
Money Supply Growth, M2

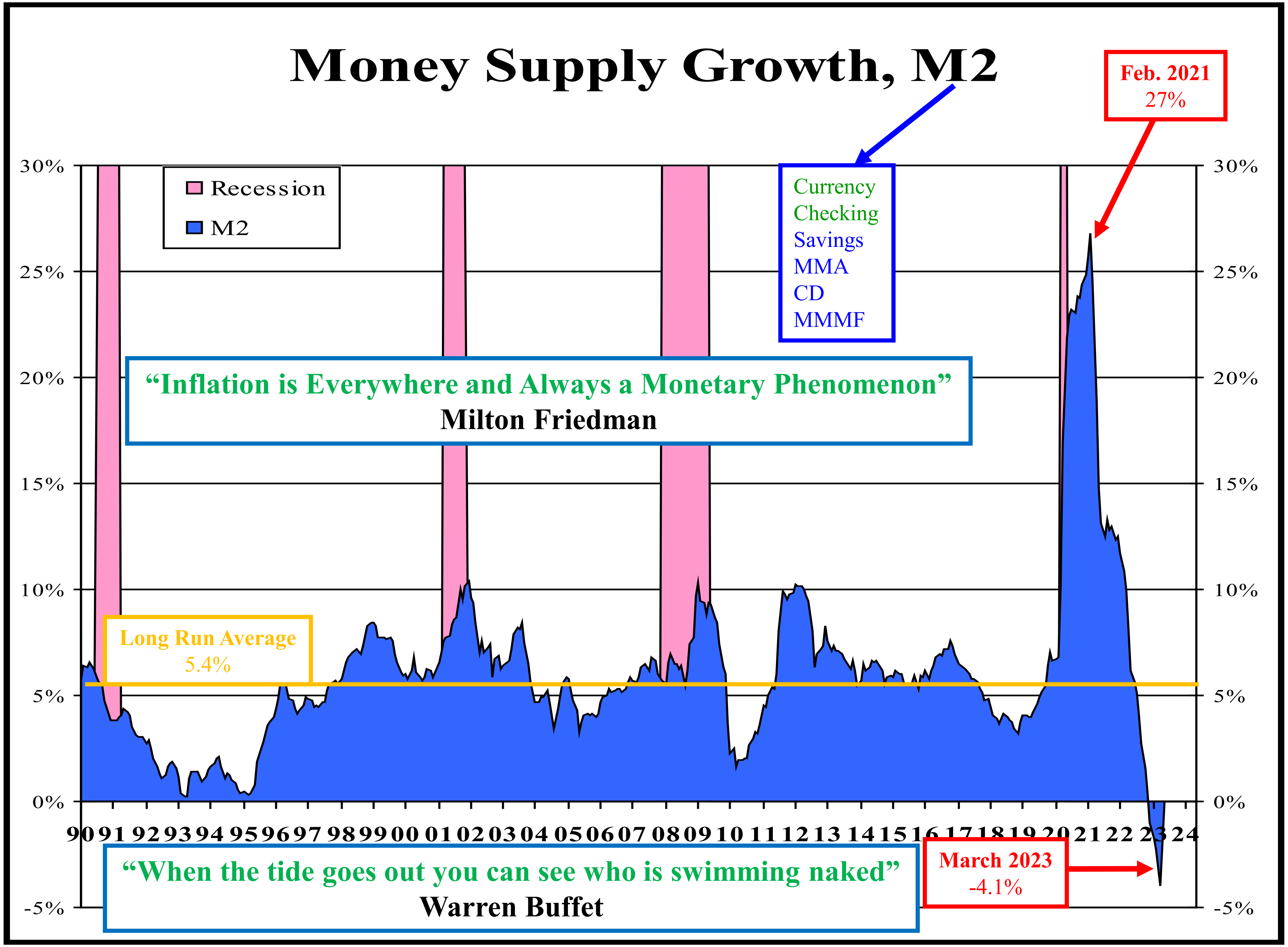




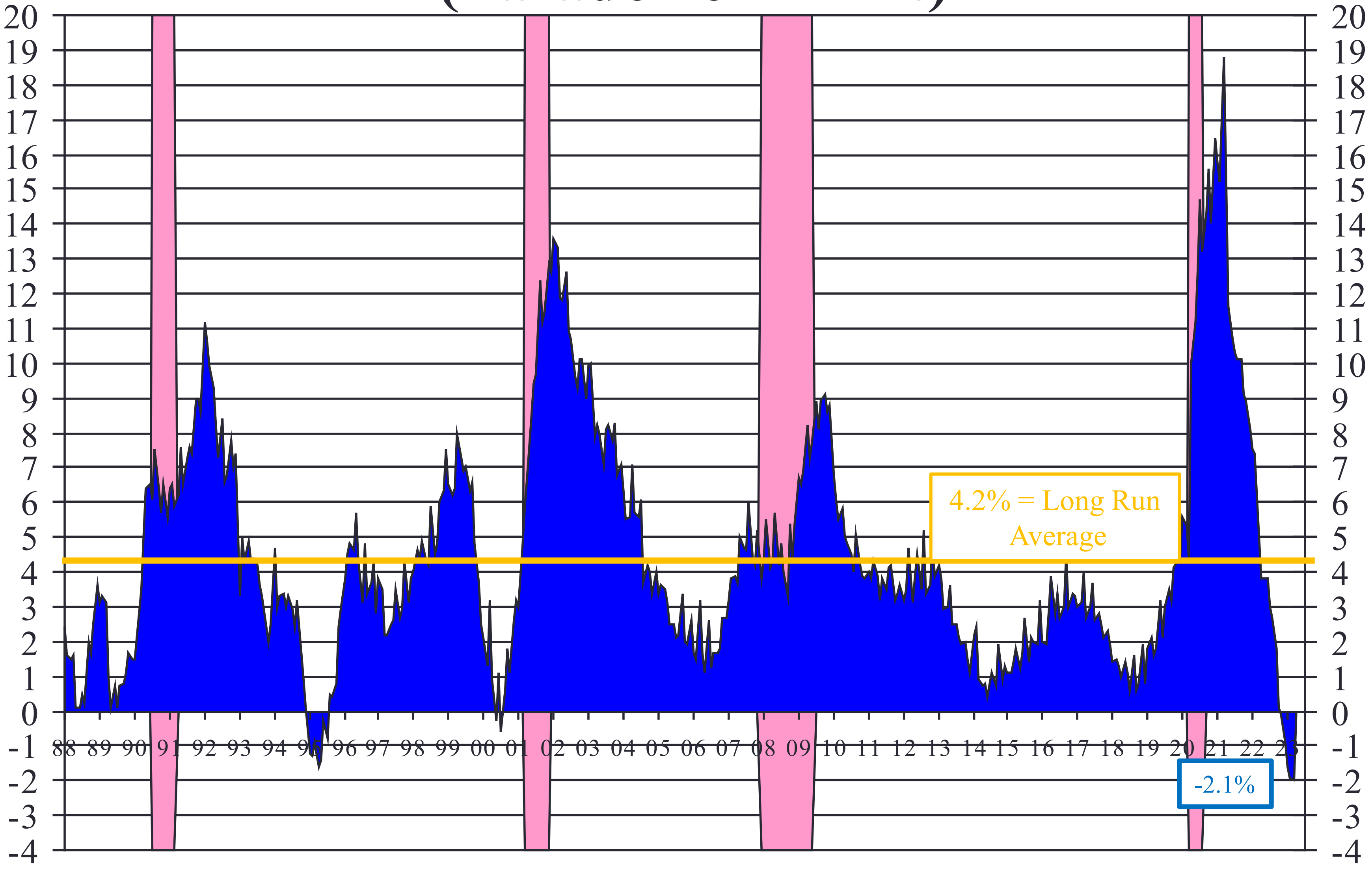
Money Supply Growth, M2
Feb. 2021
27%
30%
25%
20%
15%
10%
5%
0%
-5%
Recession
M2
Currency
Checking
Savings
MMA
CD
MMMF
Dec. 2001
10.4%
Jan. 2009
10.3%
Long Run Average
5.4%
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

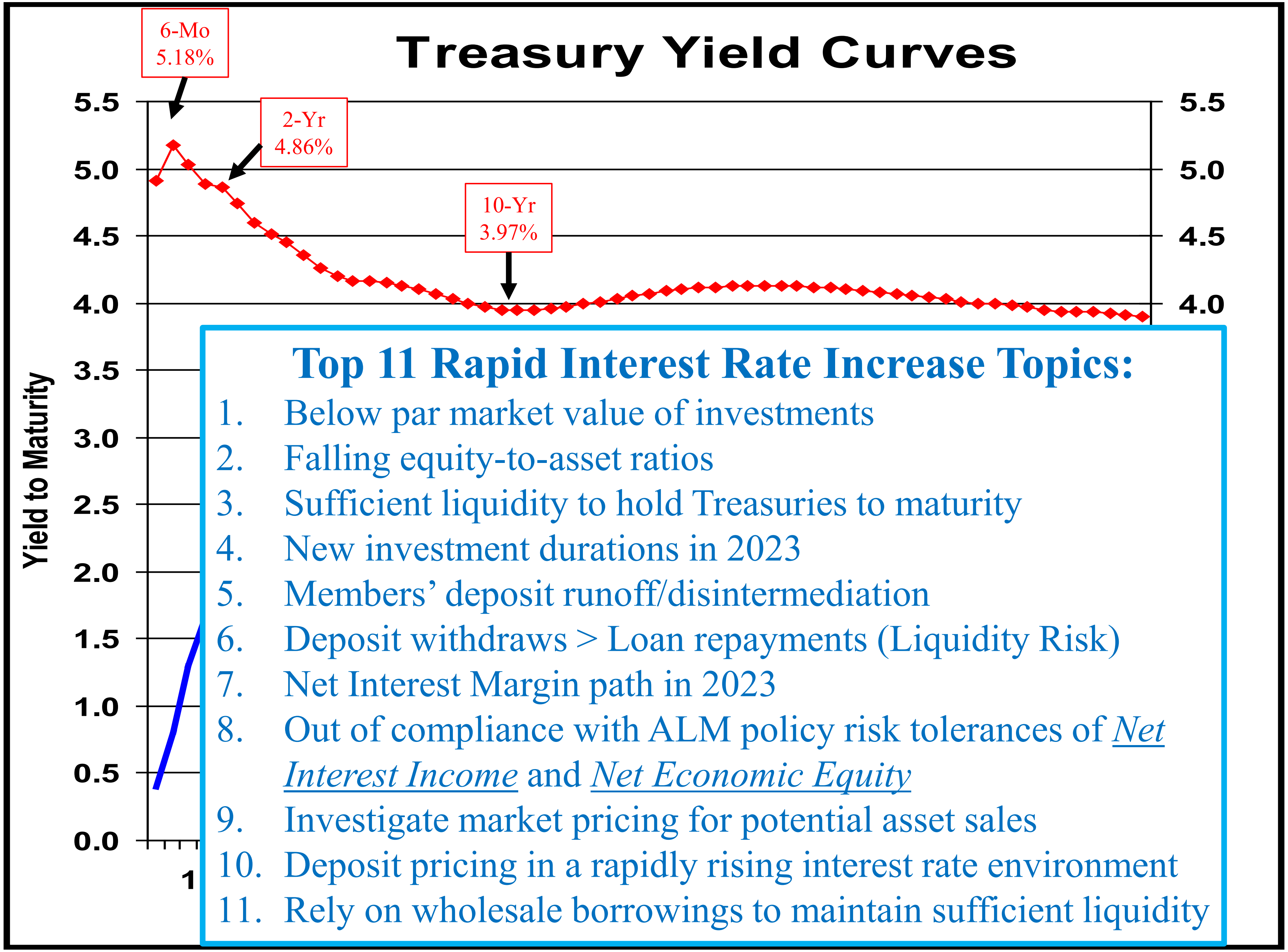

Money Supply Growth, M2
Feb. 2021
27%
Recession
M2
Currency
Checking
Savings
MMA
CD
MMMF
“Inflation is Everywhere and Always a Monetary Phenomenon”
Milton Friedman
Long Run Average
5.4%
30%
25%
20%
15%
10%
5%
0%
-5%
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24


Money Supply Growth, M2
Feb. 2021
27%
Recession
M2
Currency
Checking
Savings
MMA
CD
MMMF
"Inflation is Everywhere and Always a Monetary Phenomenon"
Milton Friedman
Long Run Average
5.4%
March 2023
-4.1%
30%
25%
20%
15%
10%
5%
0%
-5%
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24


Money Supply Growth, M2
Feb. 2021
27%
Recession
M2
Currency
Checking
Savings
MMA
CD
MMMF
30%
25%
20%
15%
10%
5%
0%
-5%
"Inflation is Everywhere and Always a Monetary Phenomenon"
Milton Friedman
Long Run Average
5.4%
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24
"When the tide goes out you can see who is swimming naked"
Warren Buffet
March 2023
-4.1%

Savings per Member Growth Rate (Paradox of Thrift)





Top 11 Rapid Interest Rate Increase Topics:

1. Below par market value of investments
2. Falling equity-to-asset ratios
3. Sufficient liquidity to hold Treasuries to maturity
4. New investment durations in 2023
5. Members' deposit runoff/disintermediation
6. Deposit withdraws > Loan repayments (Liquidity Risk)
7. Net Interest Margin path in 2023
8. Out of compliance with ALM policy risk tolerances of *Net Interest Income* and *Net Economic Equity*
9. Investigate market pricing for potential asset sales
10. Deposit pricing in a rapidly rising interest rate environment
11. Rely on wholesale borrowings to maintain sufficient liquidity

Credit Union Balance Sheet

Credit Union Balance Sheet

Assets

Credit Union Balance Sheet

Assets | **Liabilities + Capital**

Credit Union Balance Sheet

Assets	Liabilities + Capital
	Deposits • Checking Accounts • Savings • Money Market Deposits • Certificates of Deposits

Credit Union Balance Sheet

Assets

Liabilities + Capital

Deposits

- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Borrowings

- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

Credit Union Balance Sheet

Assets

Liabilities + Capital

Deposits
- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Borrowings
- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

Equity (Net Capital)
1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

Credit Union Balance Sheet

Assets	**Liabilities + Capital**
Cash (Reserves)	**Deposits** • Checking Accounts • Savings • Money Market Deposits • Certificates of Deposits
	Borrowings • Federal Home Loan Bank • Corporate Line of Credit • Fed Funds Purchased • Bank Term Funding Program
	Equity (Net Capital) 1. Undivided Earnings 2. Regular Reserves 3. Gains (losses) on Available For Sale (AFS) Securities

Credit Union Balance Sheet

Assets	Liabilities + Capital
Cash (Reserves)	**Deposits** • Checking Accounts • Savings • Money Market Deposits • Certificates of Deposits
Fixed Assets • Land • Building • Equipment	**Borrowings** • Federal Home Loan Bank • Corporate Line of Credit • Fed Funds Purchased • Bank Term Funding Program
	Equity (Net Capital) 1. Undivided Earnings 2. Regular Reserves 3. Gains (losses) on Available For Sale (AFS) Securities

Credit Union Balance Sheet

Assets

Cash (Reserves)

Fixed Assets
- Land
- Building
- Equipment

Investments
- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

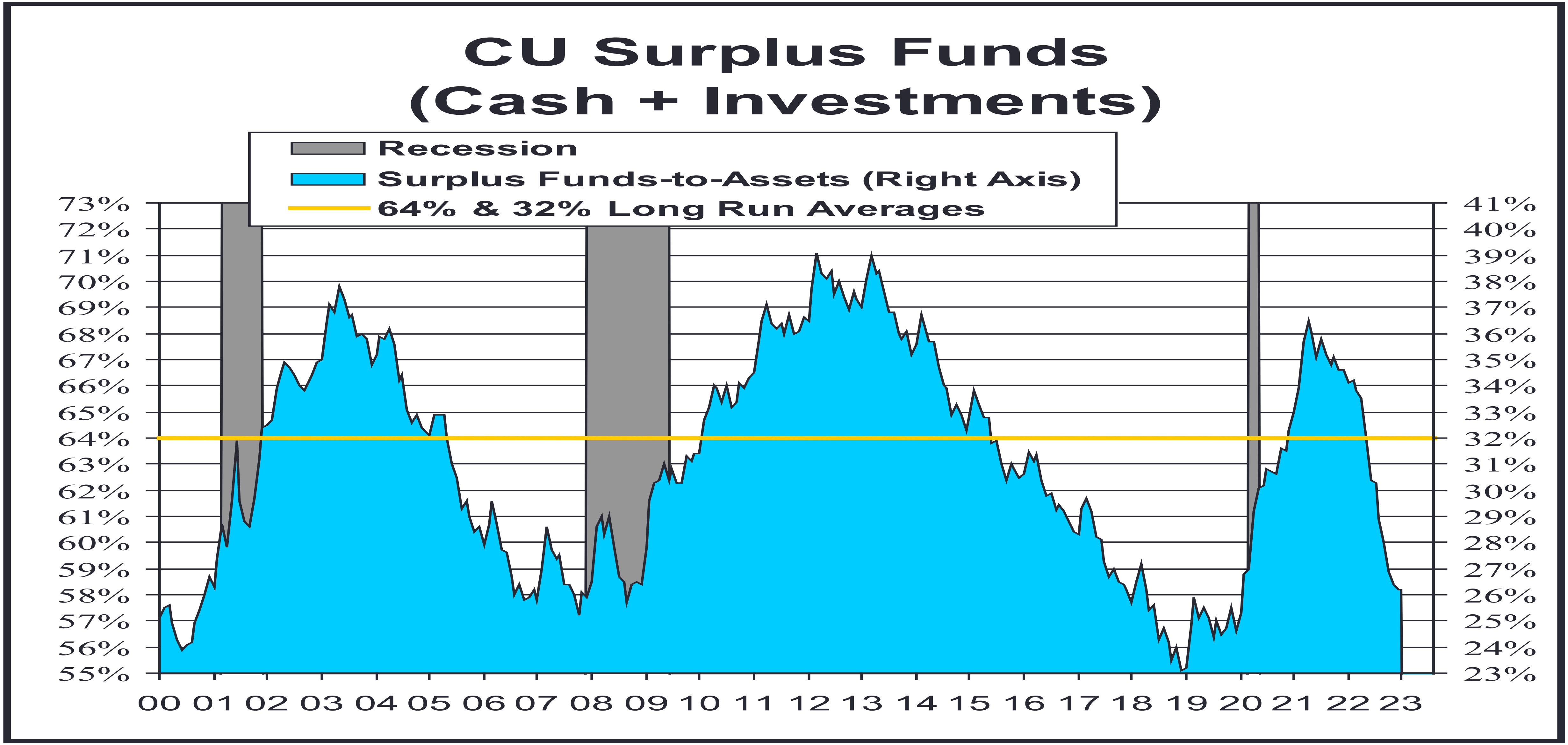
Liabilities + Capital

Deposits
- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Borrowings
- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

Equity (Net Capital)
1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

Investments Are Falling and Yields Are Rising



Credit Union Balance Sheet

Assets

Cash (Reserves)

Fixed Assets
- Land
- Building
- Equipment

Investments
- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans
- Commercial
- Auto
- Home
- Credit Card

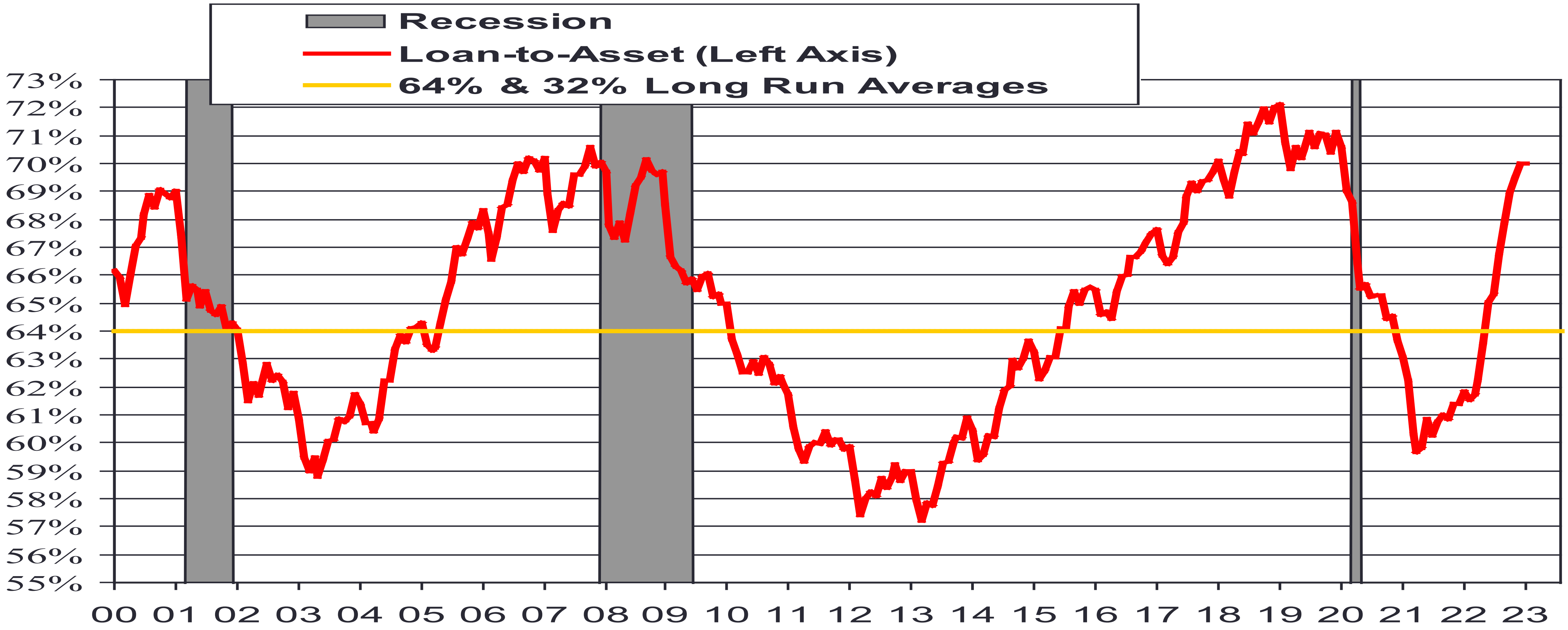
Liabilities + Capital

Deposits
- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

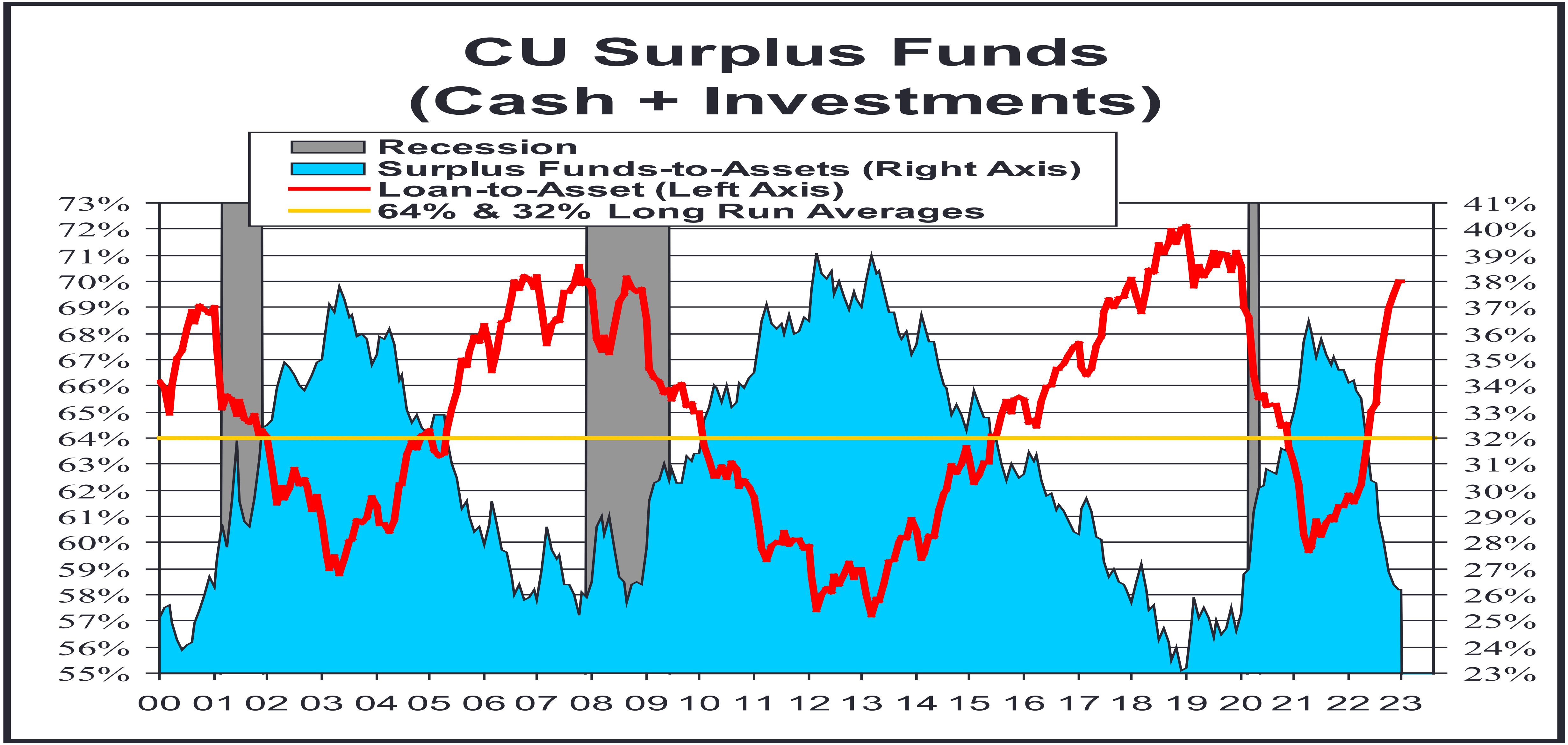
Borrowings
- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

Equity (Net Capital)
1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

CU Loan to Asset Ratio



Investments Are Falling and Yields Are Rising



CUNA MUTUAL GROUP

Credit Union Balance Sheet

Assets

Cash (Reserves)

Fixed Assets
- Land
- Building
- Equipment

Investments
- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans
- Commercial
- Auto
- Home
- Credit Card

Liabilities + Capital

Deposits
- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Borrowings
- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

Equity (Net Capital)
1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

Credit Union Balance Sheet

Assets

Cash (Reserves)

Fixed Assets
- Land
- Building
- Equipment

Investments
- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans
- Commercial
- Auto
- Home
- Credit Card

Allowance for Loan Loss

Liabilities + Capital

Deposits
- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Borrowings
- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

Equity (Net Capital)
1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

Credit Union Balance Sheet

Assets	Liabilities + Capital

Cash (Reserves)

Fixed Assets
- Land
- Building
- Equipment

Investments
- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans
- Commercial
- Auto
- Home
- Credit Card

Allowance for Loan Loss

$

Deposits
$
- Checking Accounts
- Savings
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Equity (Net Capital)
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"Non progredi est regredi"

Credit Union Balance Sheet

Assets

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- < 1 year maturity
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Allowance for Loan Loss

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Liabilities + Capital

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"Non progredi est regredi"

To not go forward is to go backward

Credit Union Balance Sheet

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Liabilities + Capital

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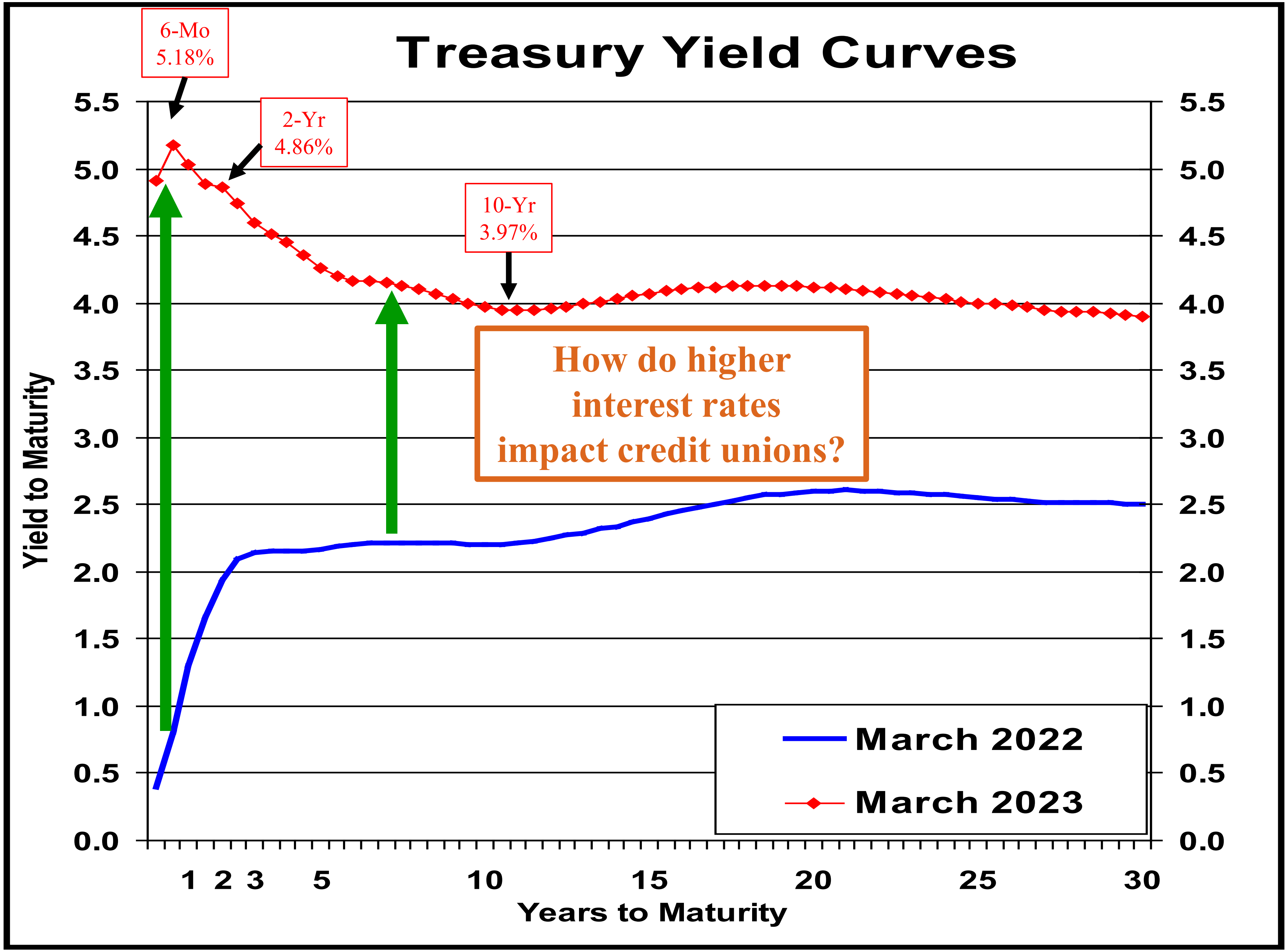
"Non progredi est regredi"

To not go forward is to go backward

If you're not growing, you're dying


Treasury Yield Curves
6-Mo
5.18%
2-Yr
4.86%
10-Yr
3.97%
How do higher
interest rates
impact credit unions?
Yield to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1 2 3 5 10 15 20 25 30
Years to Maturity
March 2022
March 2023

Credit Union Balance Sheet

How do higher interest rates impact credit unions?

Assets

Cash (Reserves)

Fixed Assets
- Land
- Building
- Equipment

Investments
- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans
- Commercial
- Auto
- Home
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Allowance for Loan Loss

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Liabilities + Capital

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- Checking Accounts
- Savings
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- Bank Term Funding Program

Equity (Net Capital)
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2. Regular Reserves
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Credit Union Balance Sheet

↑ interest rates => ↓ Bond Prices

1. Below par market value of investments

Assets

Cash (Reserves)

Fixed Assets
- Land
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- Equipment

Investments
- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans
- Commercial
- Auto
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- Credit Card

Allowance for Loan Loss

$

Liabilities + Capital

$

Deposits
- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Borrowings
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- Bank Term Funding Program

Equity (Net Capital)
1. Undivided Earnings
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Credit Union Balance Sheet

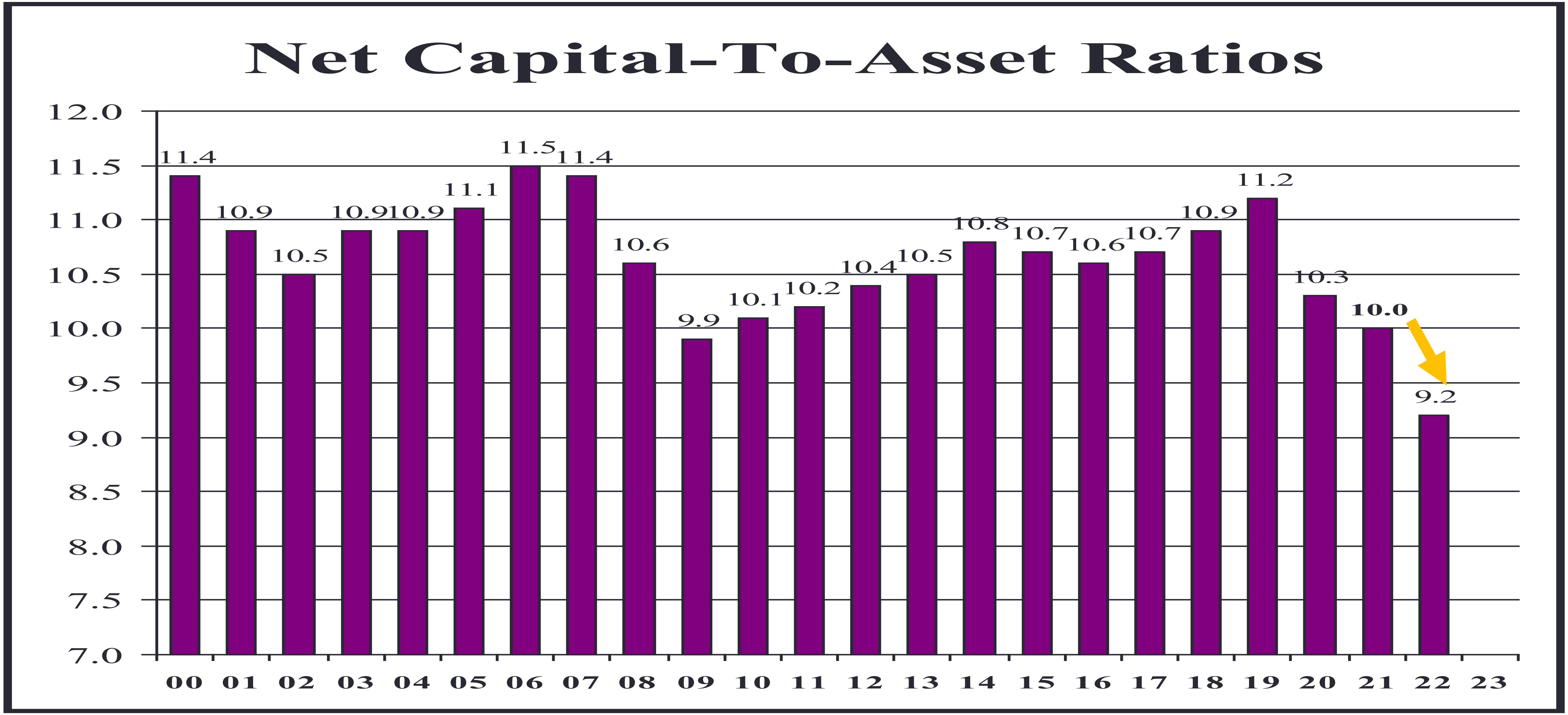
Assets	Liabilities + Capital
Cash (Reserves)	**Deposits** $
Fixed Assets • Land • Building • Equipment	• Checking Accounts • Savings • Money Market Deposits • Certificates of Deposits
Investments • < 1 year maturity • 1–3-year maturity • > 3-year maturity	**Borrowings** • Federal Home Loan Bank • Corporate Line of Credit • Fed Funds Purchased • Bank Term Funding Program
Loans • Commercial • Auto • Home • Credit Card **Allowance for Loan Loss**	**Equity** (Net Capital) 1. Undivided Earnings 2. Regular Reserves 3. Gains (losses) on Available For Sale (AFS) Securities

$

1. Below par market value of investments

2. Falling equity-to-asset ratios

Falling Net Capital Ratios



Credit Union Balance Sheet

Assets

Cash (Reserves)

Fixed Assets
- Land
- Building
- Equipment

1. Below par market value of investments

Investments
- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans
- Commercial
- Auto
- Home
- Credit Card

Allowance for Loan Loss

$

Liabilities + Capital

Deposits
$
$
- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

3. Sufficient liquidity to hold Treasuries to maturity

Borrowings
- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

Equity (Net Capital)
1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

2. Falling equity-to-asset ratios

Credit Union Balance Sheet

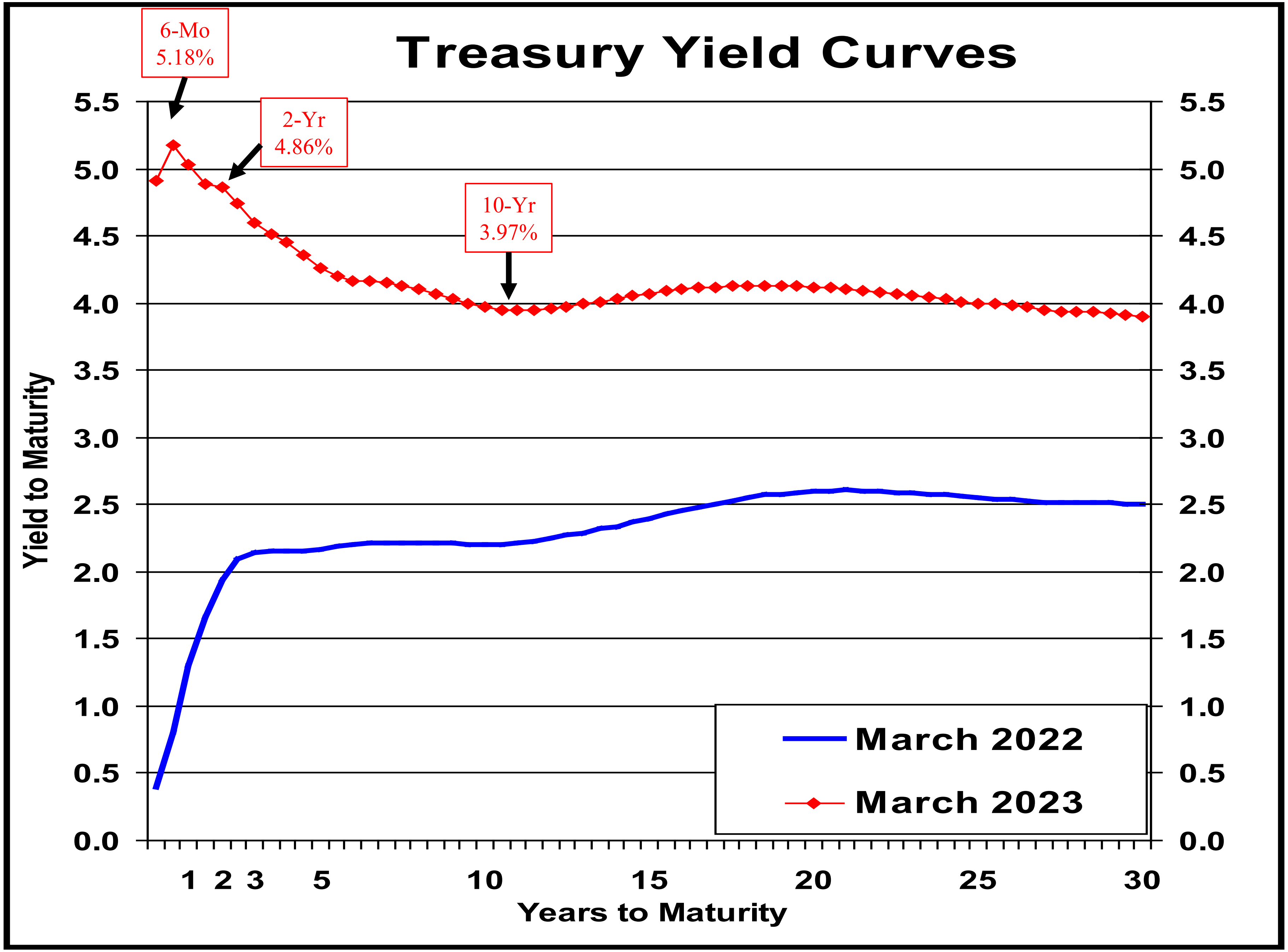
Assets	**Liabilities + Capital**
Cash (Reserves)	**Deposits** $ • Checking Accounts • Savings • Money Market Deposits • Certificates of Deposits
Fixed Assets • Land • Building • Equipment	**Borrowings** • Federal Home Loan Bank • Corporate Line of Credit • Fed Funds Purchased • Bank Term Funding Program
Investments • < 1 year maturity • 1–3-year maturity • > 3-year maturity	**Equity (Net Capital)** 1. Undivided Earnings 2. Regular Reserves 3. Gains (losses) on Available For Sale (AFS) Securities
Loans • Commercial • Auto • Home • Credit Card **Allowance for Loan Loss** $	

1. Below par market value of investments

2. Falling equity-to-asset ratios

3. Sufficient liquidity to hold Treasuries to maturity

4. New investment maturities in 2023


Treasury Yield Curves
6-Mo
5.18%
2-Yr
4.86%
10-Yr
3.97%
Yield to Maturity
Years to Maturity
5.5
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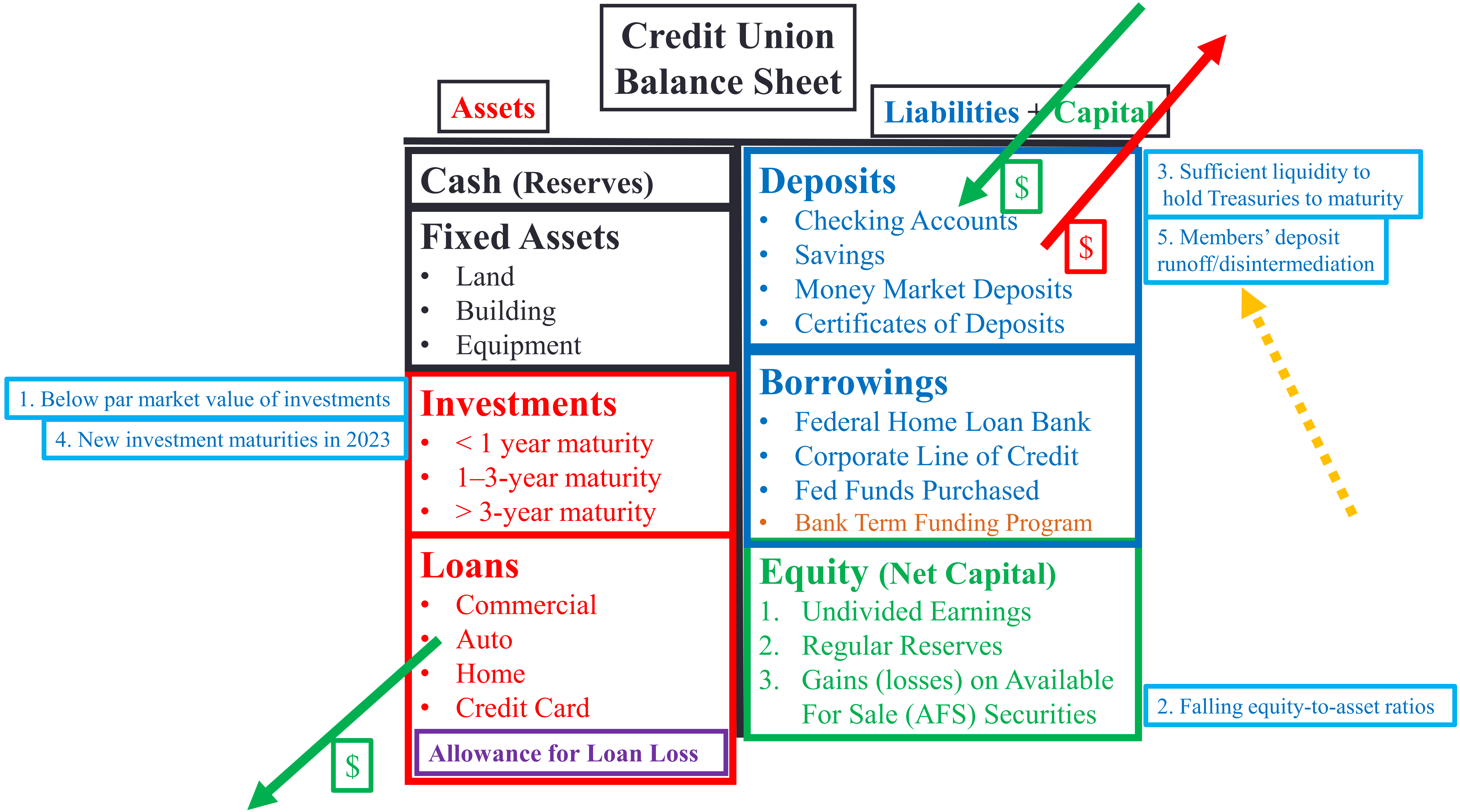
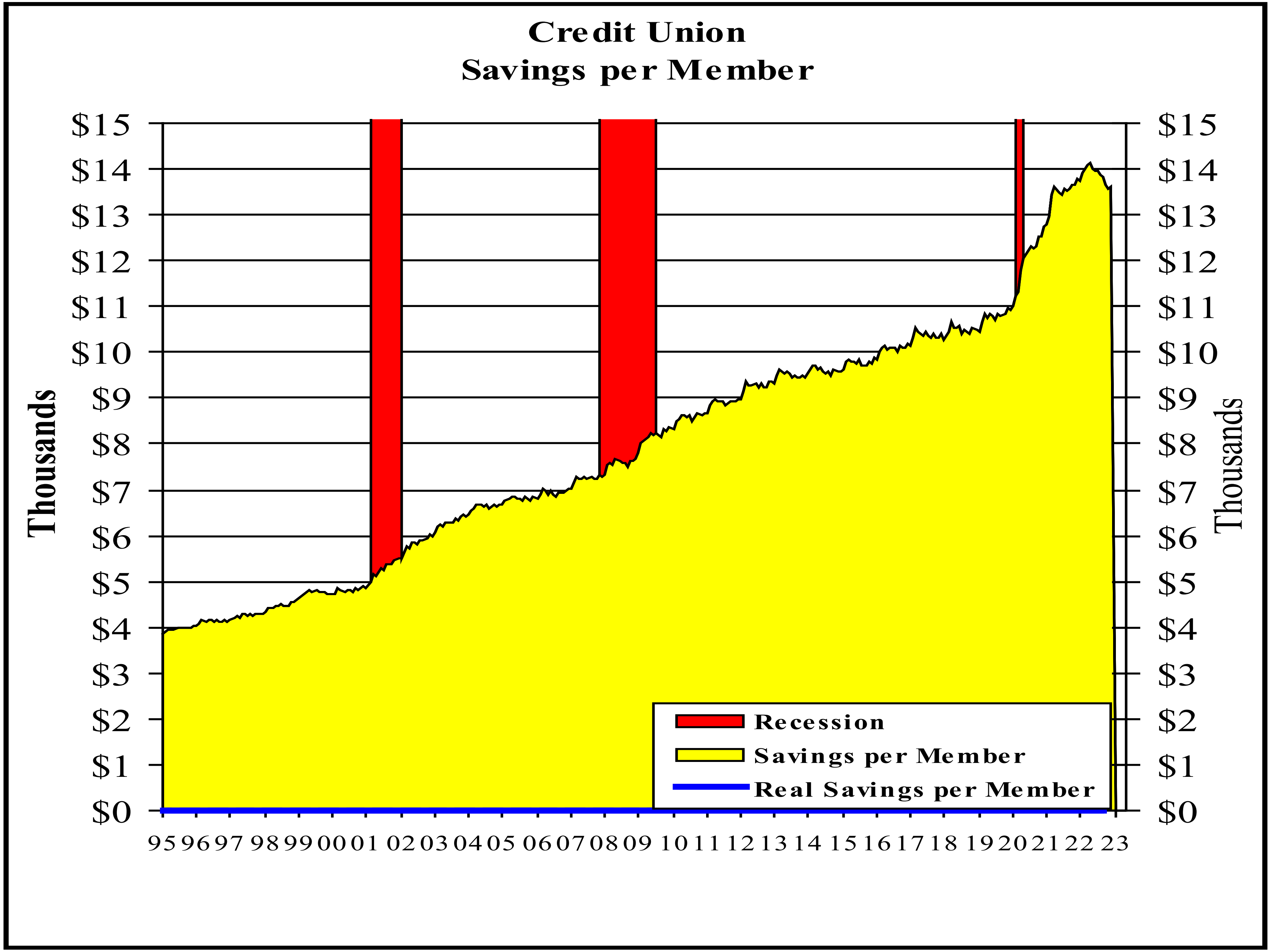
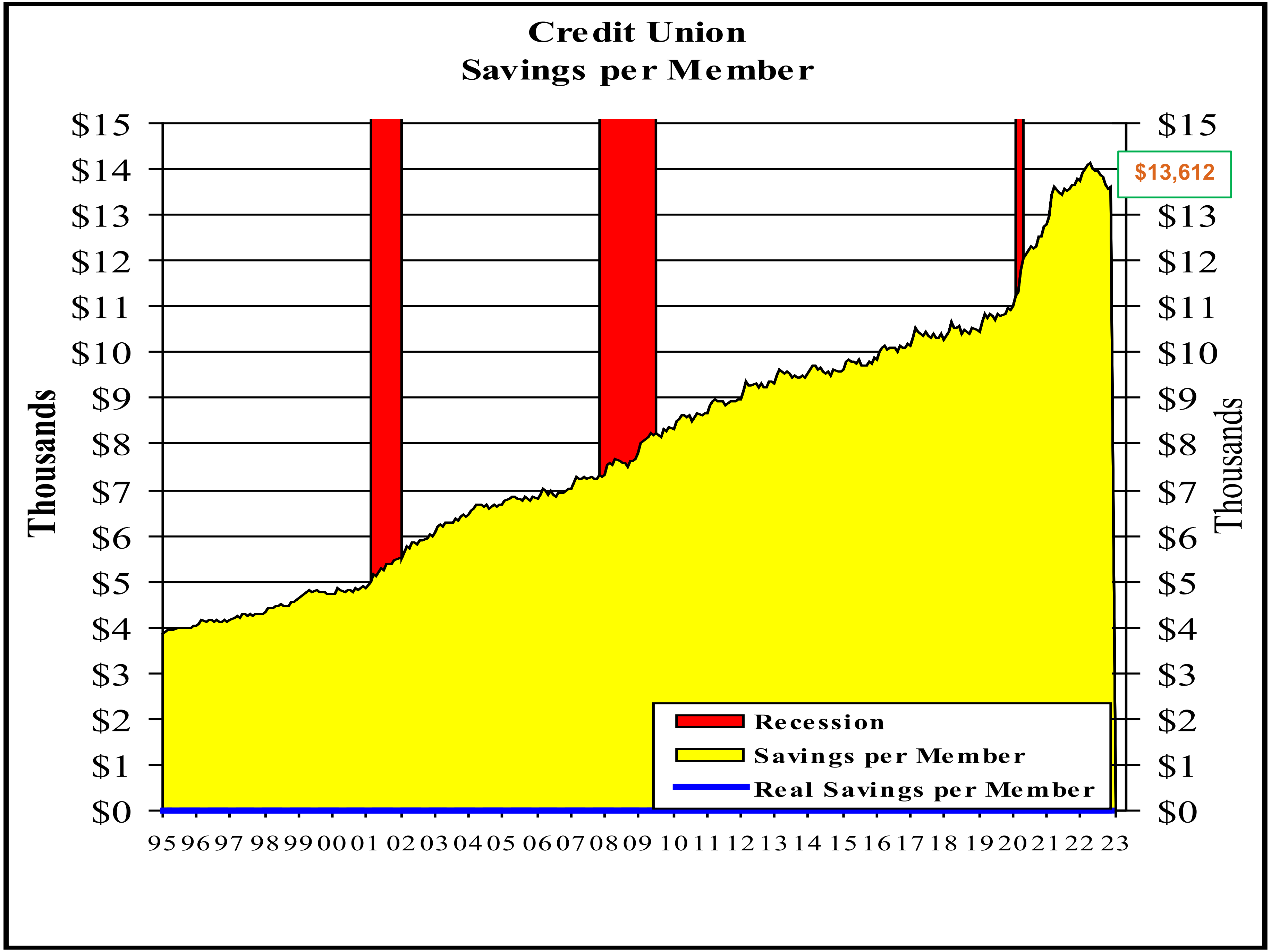
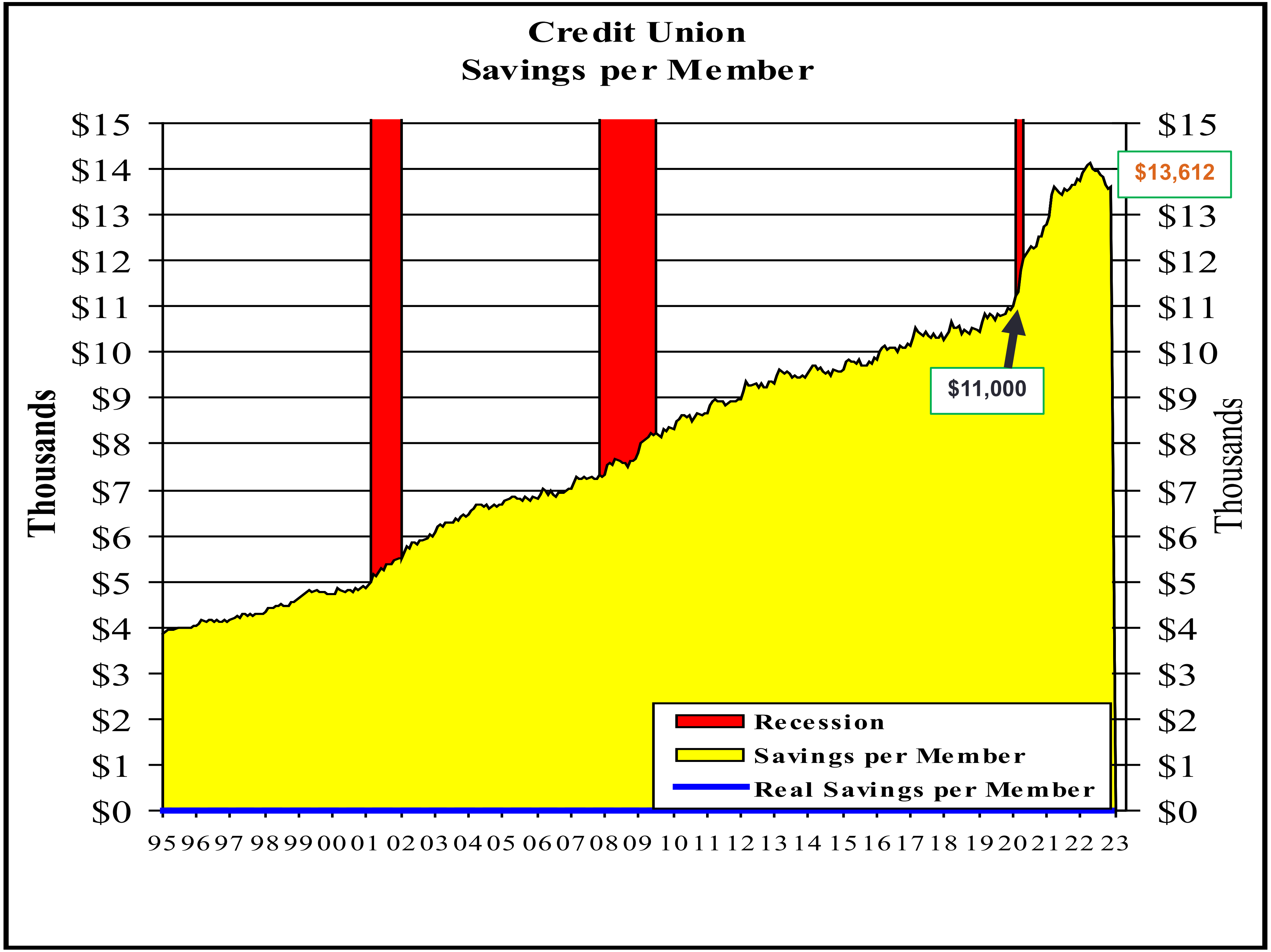
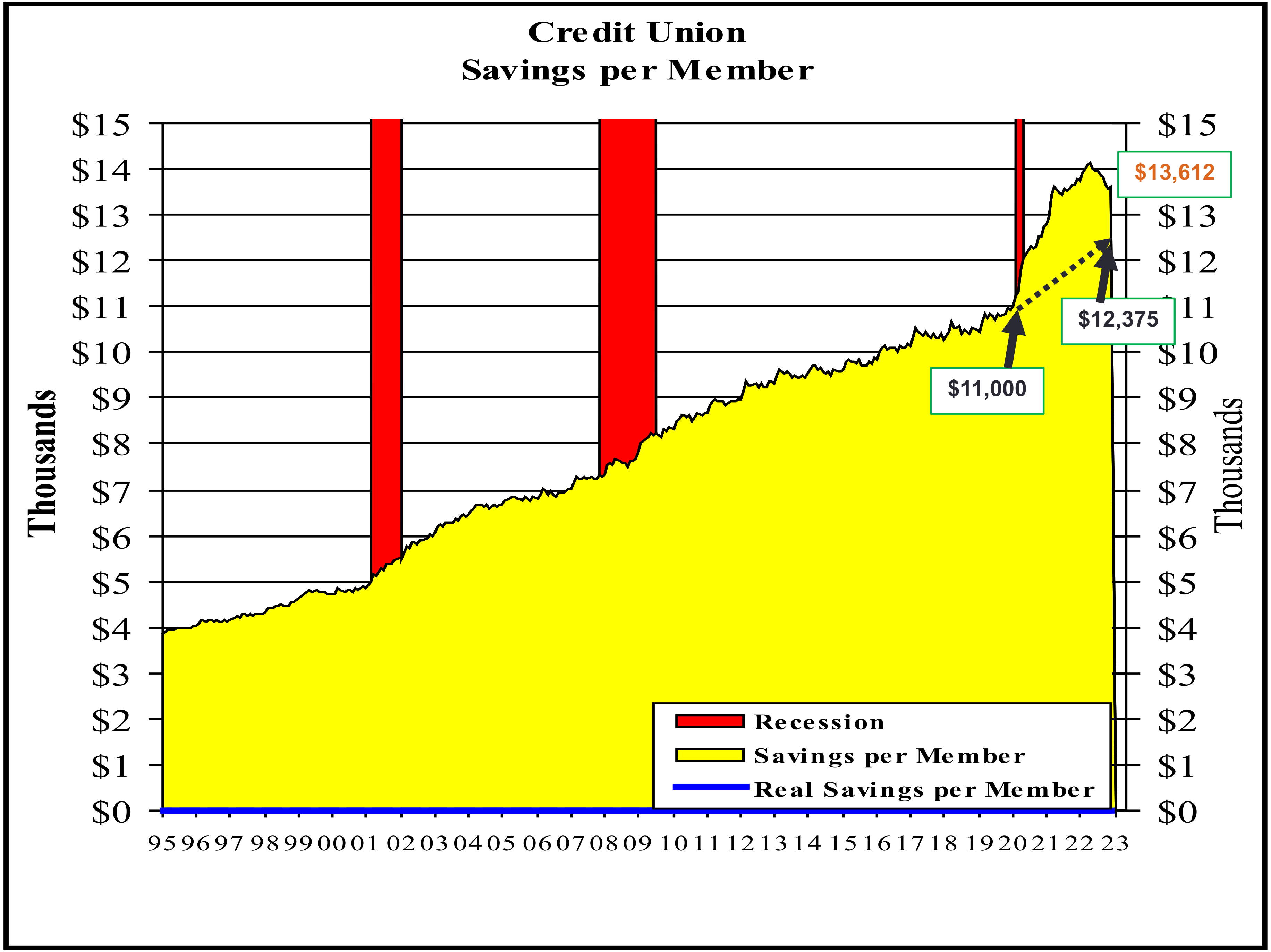
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1 2 3 5 10 15 20 25 30
March 2022
March 2023

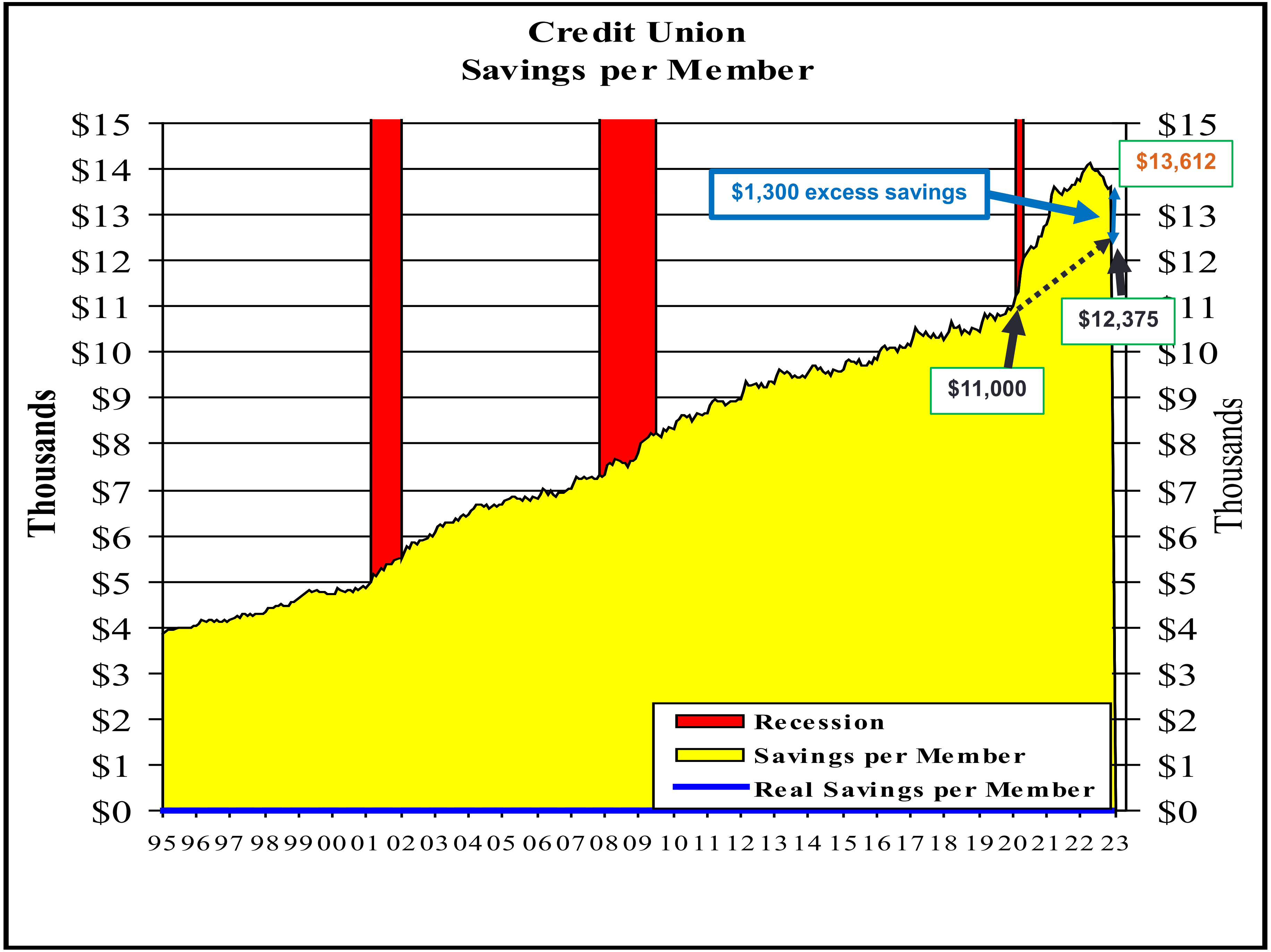

Credit Union Balance Sheet
Assets
Liabilities + Capital
Cash (Reserves)
Fixed Assets
Land
Building
Equipment
Investments
< 1 year maturity
1–3-year maturity
> 3-year maturity
Loans
Commercial
Auto
Home
Credit Card
Allowance for Loan Loss
$
Deposits
Checking Accounts
Savings
Money Market Deposits
Certificates of Deposits
$
$
Borrowings
Federal Home Loan Bank
Corporate Line of Credit
Fed Funds Purchased
Bank Term Funding Program
Equity (Net Capital)
1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities
1. Below par market value of investments
4. New investment maturities in 2023
3. Sufficient liquidity to hold Treasuries to maturity
5. Members' deposit runoff/disintermediation
2. Falling equity-to-asset ratios


Credit Union
Savings per Member
$15
$14
$13
$12
$11
$10
$9
$8
$7
$6
$5
$4
$3
$2
$1
$0
Thousands
Thousands
95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23
Recession
Savings per Member
Real Savings per Member

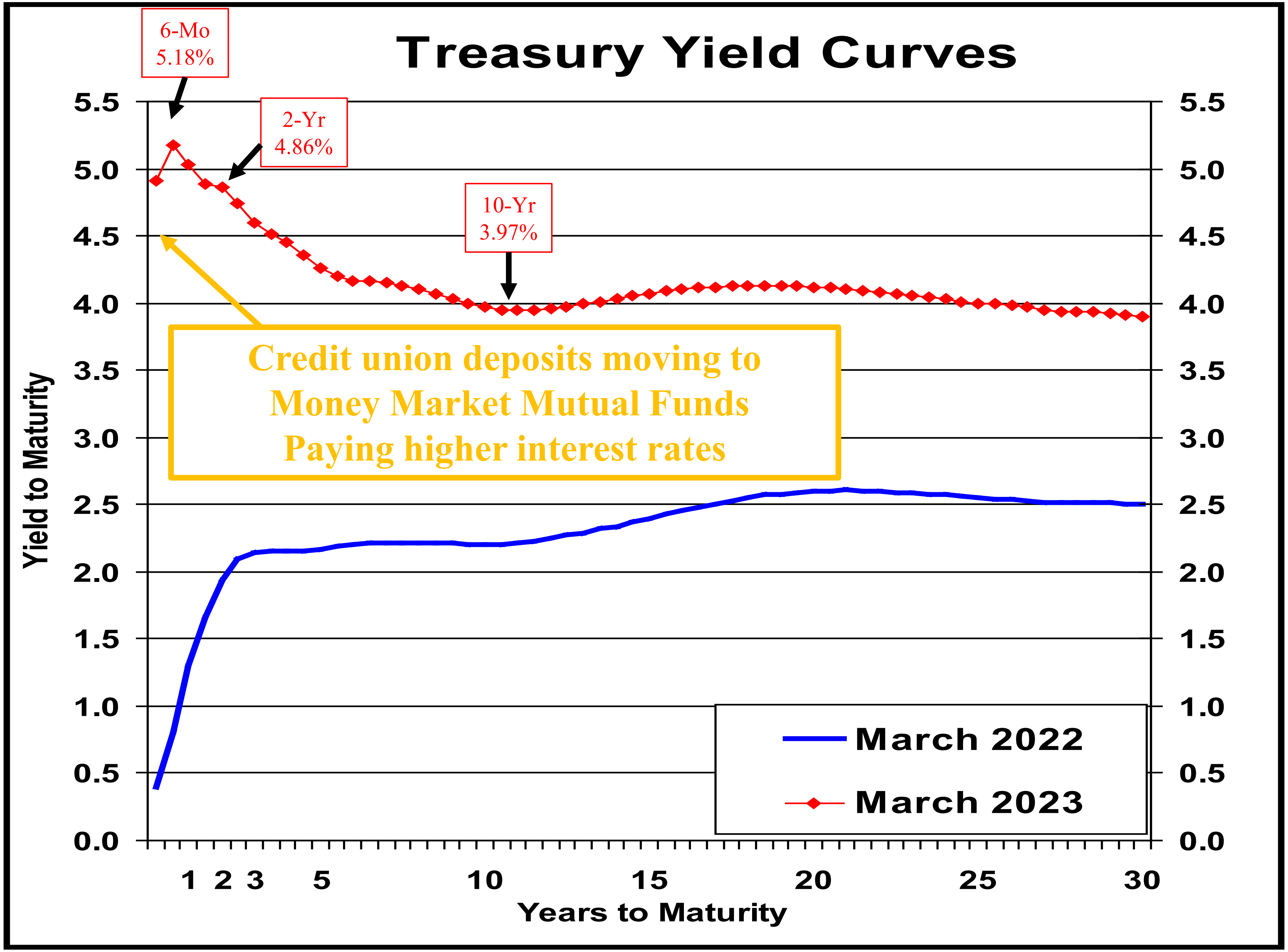

Credit Union
Savings per Member
$15
$14
$13
$12
$11
$10
$9
$8
$7
$6
$5
$4
$3
$2
$1
$0
Thousands
$13,612
Recession
Savings per Member
Real Savings per Member
95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23

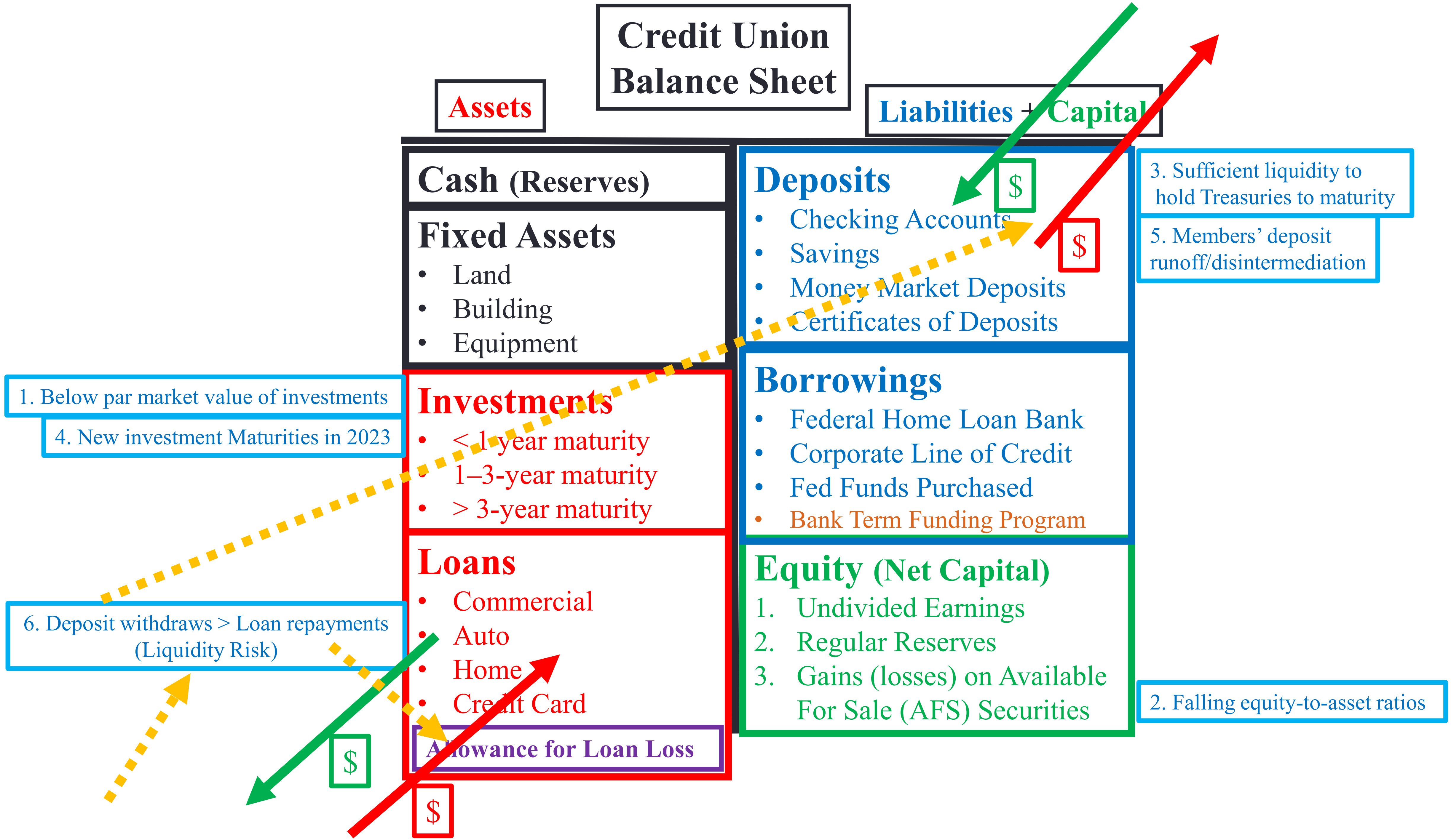

Credit Union
Savings per Member
$15
$14
$13
$12
$11
$10
$9
$8
$7
$6
$5
$4
$3
$2
$1
$0
Thousands
$13,612
$11,000
Recession
Savings per Member
Real Savings per Member
95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23


Credit Union
Savings per Member
Thousands
$15
$14
$13
$12
$11
$10
$9
$8
$7
$6
$5
$4
$3
$2
$1
$0
$13,612
$12,375
$11,000
Recession
Savings per Member
Real Savings per Member
95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23



Credit Union
Savings per Member
$15
$14
$13
$12
$11
$10
$9
$8
$7
$6
$5
$4
$3
$2
$1
$0
Thousands
$13,612
$1,300 excess savings
$12,375
$11,000
Recession
Savings per Member
Real Savings per Member
95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23


Treasury Yield Curves
6-Mo 5.18%
2-Yr 4.86%
10-Yr 3.97%
Credit union deposits moving to
Money Market Mutual Funds
Paying higher interest rates
Yield to Maturity
Years to Maturity
March 2022
March 2023


Credit Union Balance Sheet
Assets
Liabilities + Capital
Cash (Reserves)
Fixed Assets
• Land
• Building
• Equipment
Investments
• < 1-year maturity
• 1–3-year maturity
• > 3-year maturity
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• Auto
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• Credit Card
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Deposits
• Checking Accounts
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• Certificates of Deposits
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• Federal Home Loan Bank
• Corporate Line of Credit
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• Bank Term Funding Program
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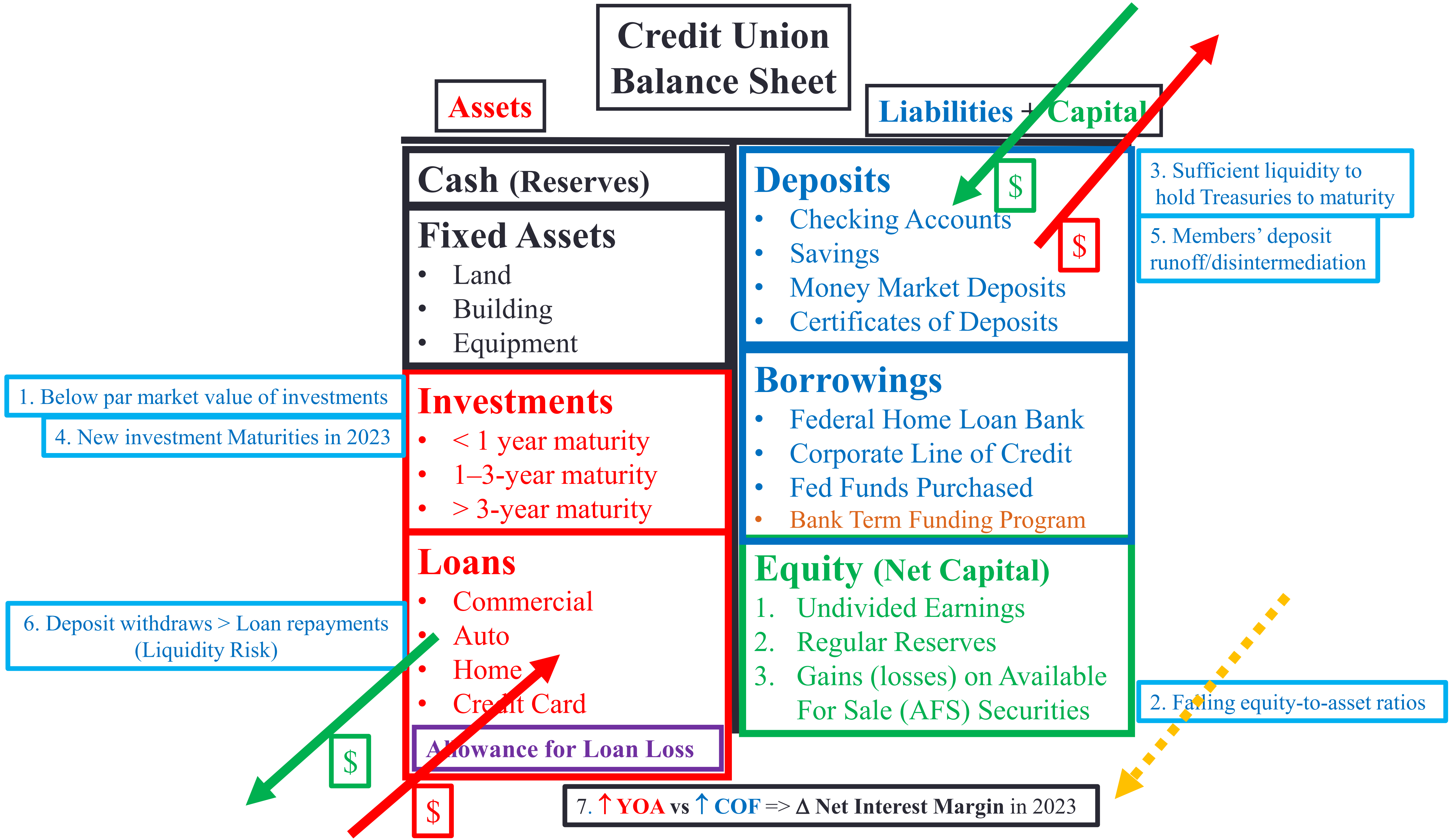
3. Gains (losses) on Available For Sale (AFS) Securities
$
$
$
$
1. Below par market value of investments
4. New investment Maturities in 2023
6. Deposit withdraws > Loan repayments (Liquidity Risk)
3. Sufficient liquidity to hold Treasuries to maturity
5. Members' deposit runoff/disintermediation
2. Falling equity-to-asset ratios



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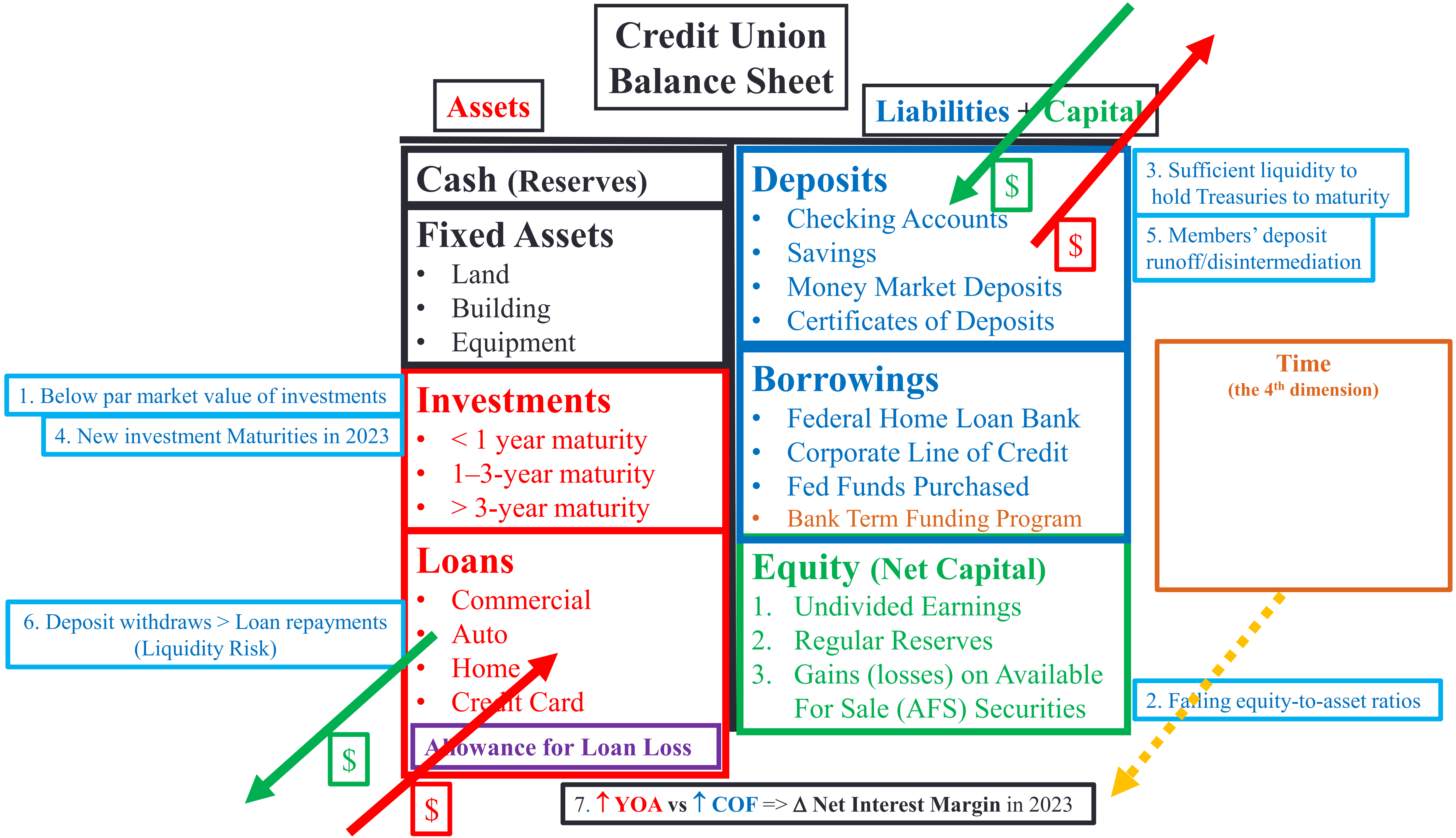
7. ↑ YOA vs ↑ COF => Δ Net Interest Margin in 2023



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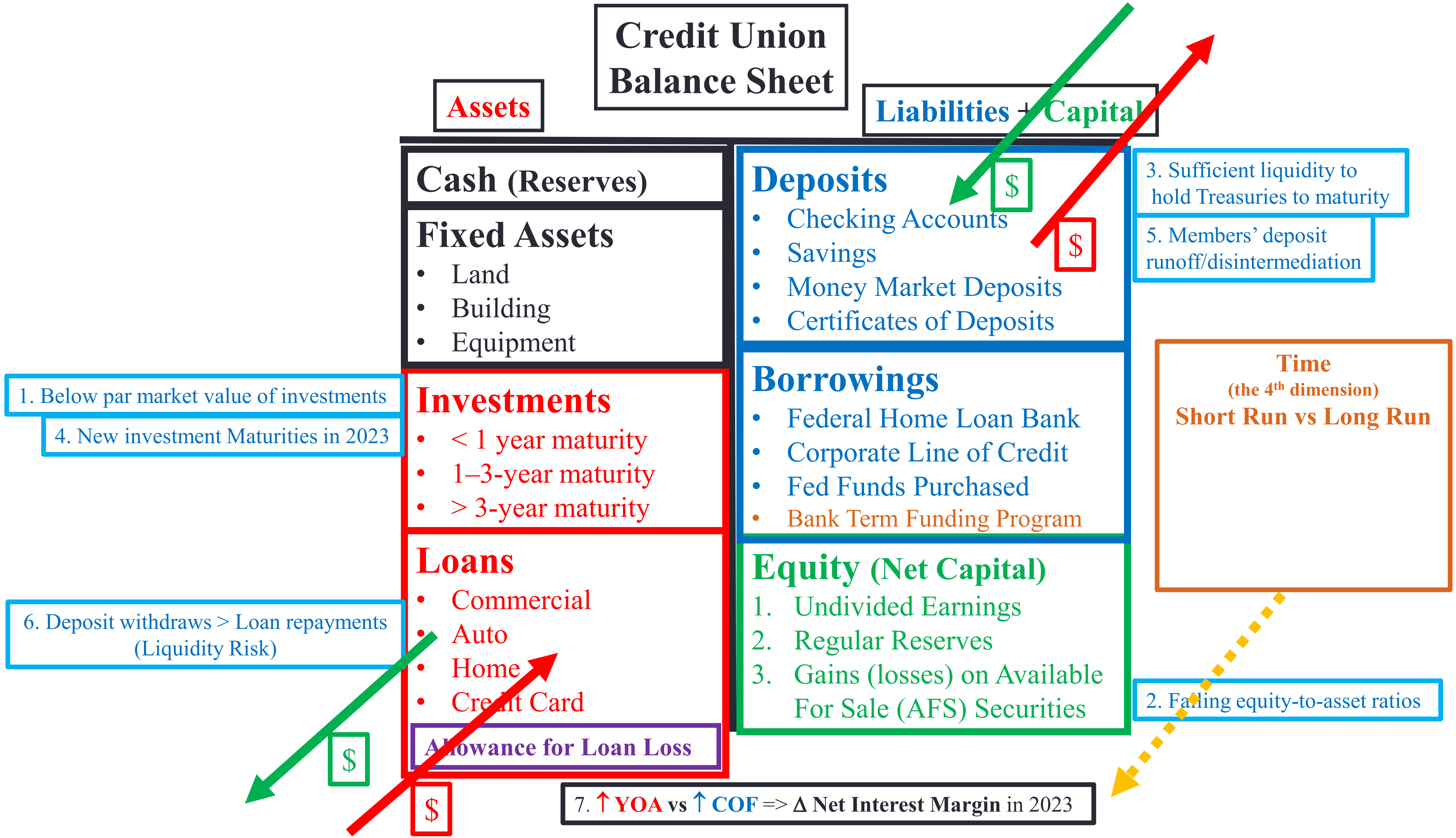
Time
(the 4th dimension)
2. Falling equity-to-asset ratios
7. ↑ YOA vs ↑ COF => Δ Net Interest Margin in 2023



Credit Union
Balance Sheet
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Liabilities + Capital
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Time
(the 4th dimension)
Short Run vs Long Run
2. Falling equity-to-asset ratios
7. ↑ YOA vs ↑ COF => Δ Net Interest Margin in 2023

Credit Union Balance Sheet

Assets

Cash (Reserves)

Fixed Assets
- Land
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Allowance for Loan Loss

Liabilities + Capital

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$

$

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3. Sufficient liquidity to hold Treasuries to maturity

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5. Members' deposit runoff/disintermediation

6. Deposit withdraws > Loan repayments (Liquidity Risk)

7. ↑ YOA vs ↑ COF => Δ Net Interest Margin in 2023

Time
(the 4th dimension)
Short Run vs Long Run

How long it takes for financial instrument interest rates to reprice to current market rates

8. Out of compliance with **ALM policy** risk tolerances of *Net Interest Income* and *Net Economic Equity*

Balance Sheet

Assets

Liabilities + Capital

Cash (Reserves)

Fixed Assets
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6. Deposit withdraws > Loan repayments (Liquidity Risk)

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$

3. Sufficient liquidity to hold Treasuries to maturity

5. Members' deposit runoff/disintermediation

2. Falling equity-to-asset ratios

7. ↑ **YOA** vs ↑ **COF** => Δ Net Interest Margin in 2023

8. Out of compliance with **ALM policy** risk tolerances of *Net Interest Income* and *Net Economic Equity*

Balance Sheet

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1. Below par market value of investments

4. New investment Maturities in 2023

9. Investigate market pricing for potential asset sales

6. Deposit withdraws > Loan repayments (Liquidity Risk)

$

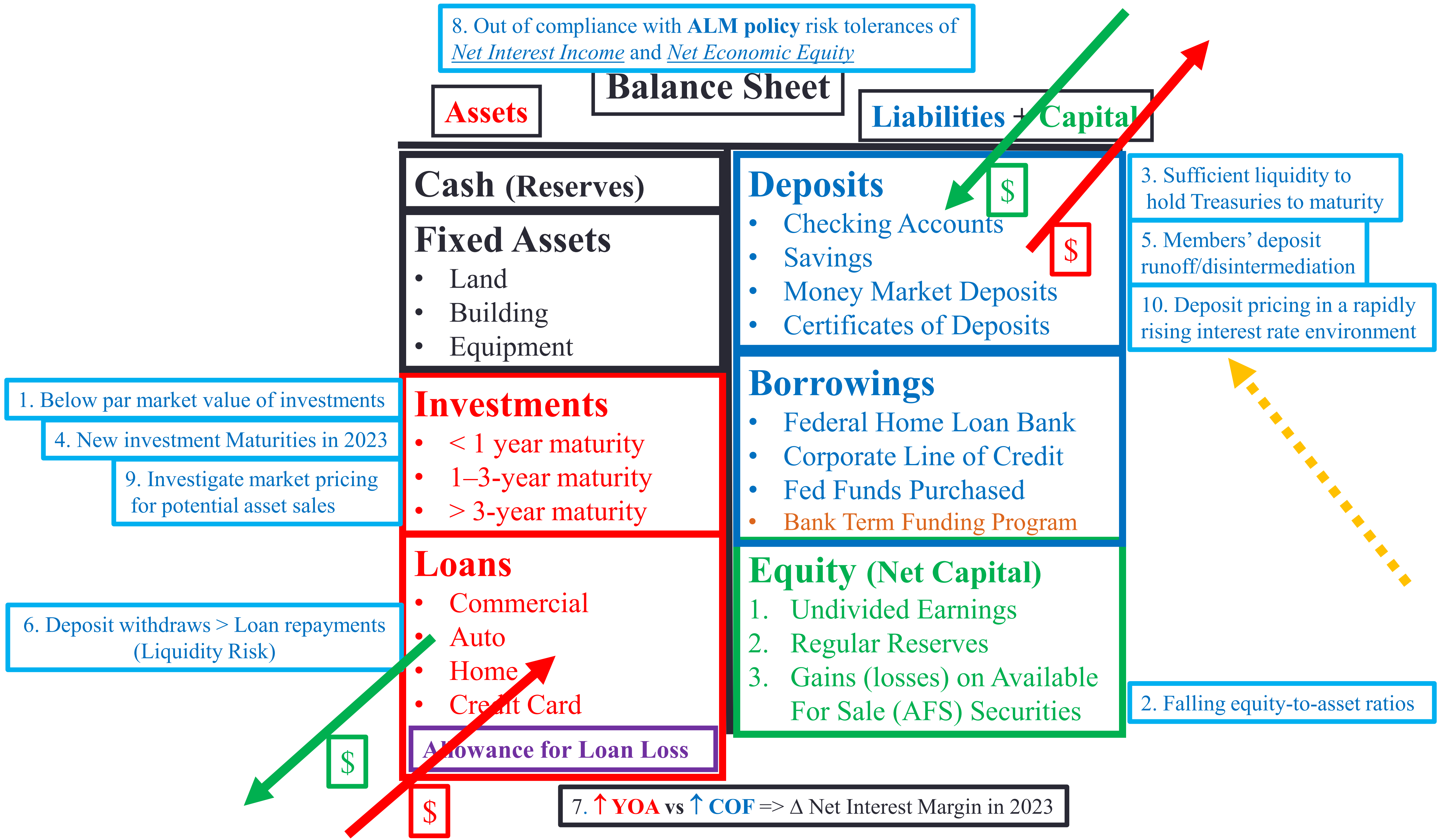
$

3. Sufficient liquidity to hold Treasuries to maturity

5. Members' deposit runoff/disintermediation

2. Falling equity-to-asset ratios

7. $\uparrow$ **YOA** vs $\uparrow$ **COF** => Δ Net Interest Margin in 2023


8. Out of compliance with ALM policy risk tolerances of Net Interest Income and Net Economic Equity
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Liabilities + Capital
Cash (Reserves)
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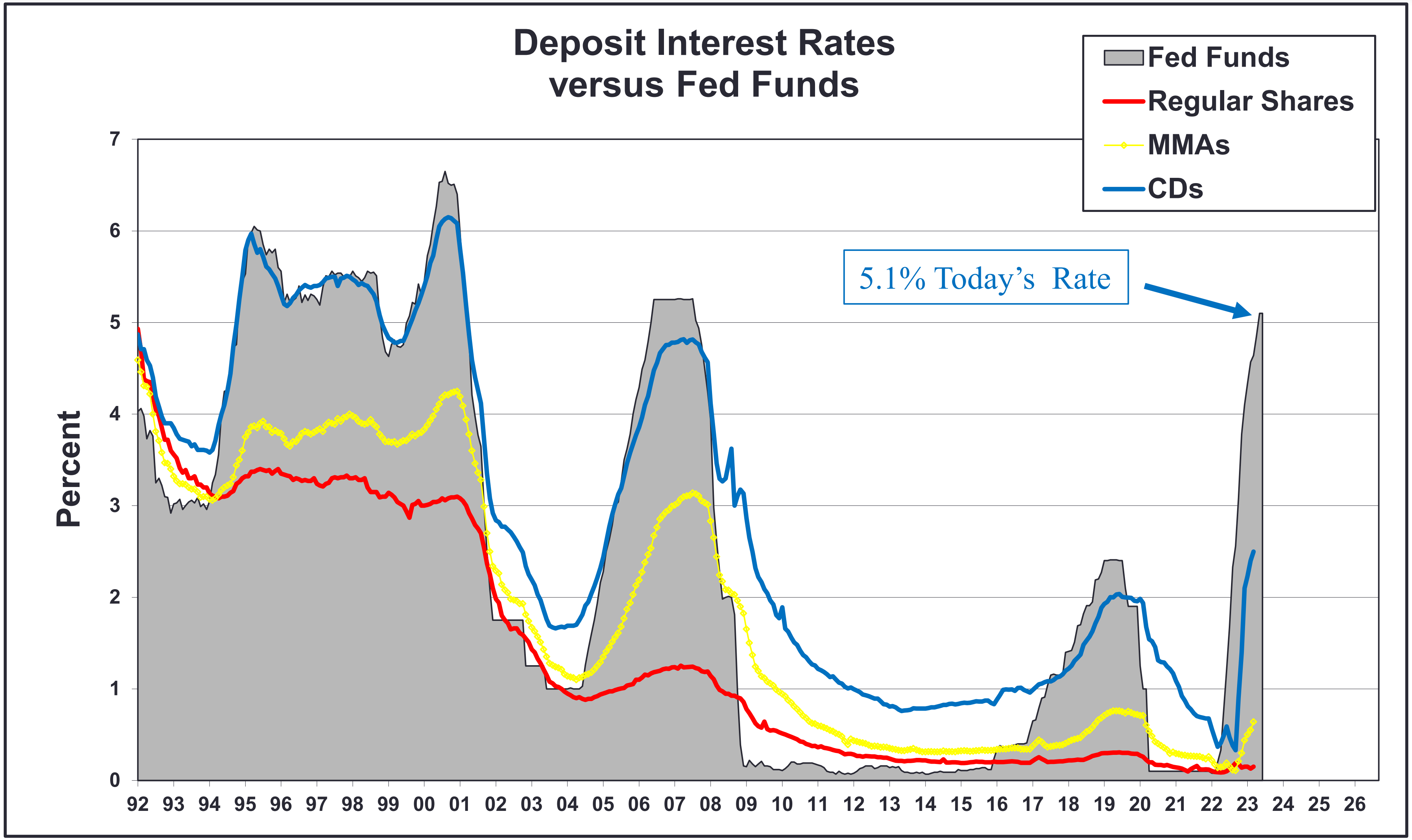
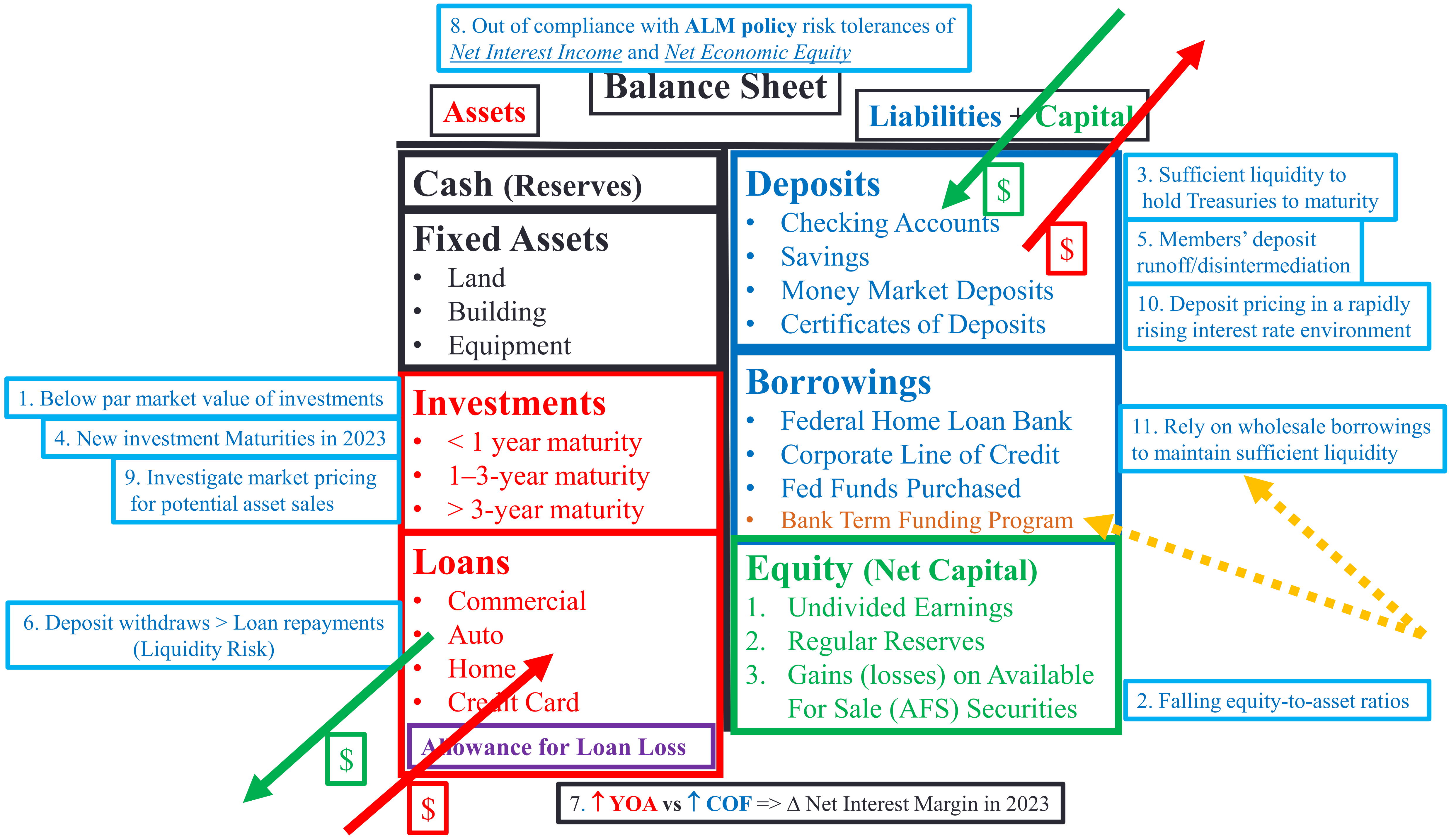
10. Deposit pricing in a rapidly rising interest rate environment
2. Falling equity-to-asset ratios
7. ↑ YOA vs ↑ COF => Δ Net Interest Margin in 2023

Rising Fed Funds Interest Rate and Deposit Pricing





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Balance Sheet
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Liabilities + Capital
Cash (Reserves)
Fixed Assets
Land
Building
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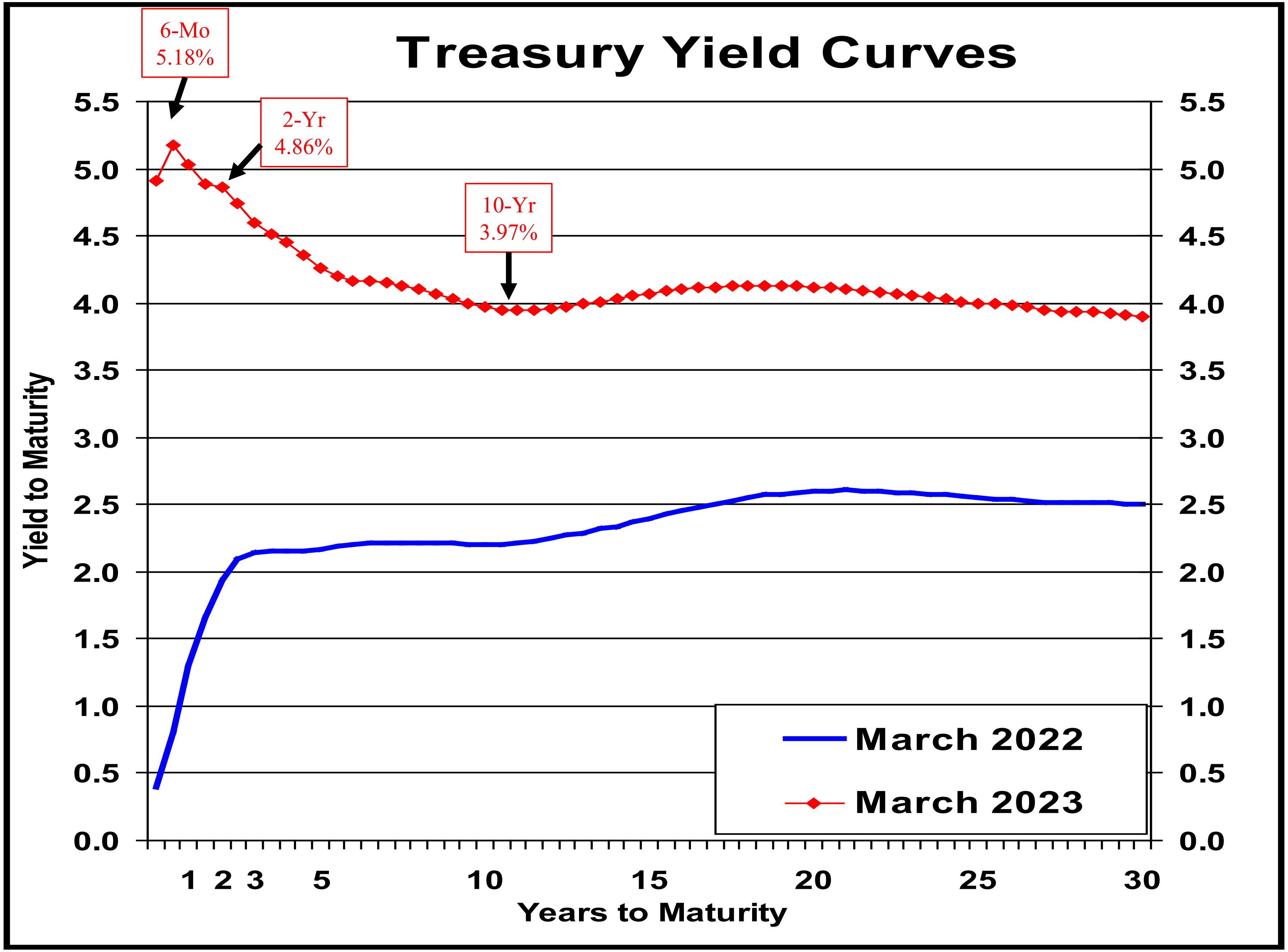
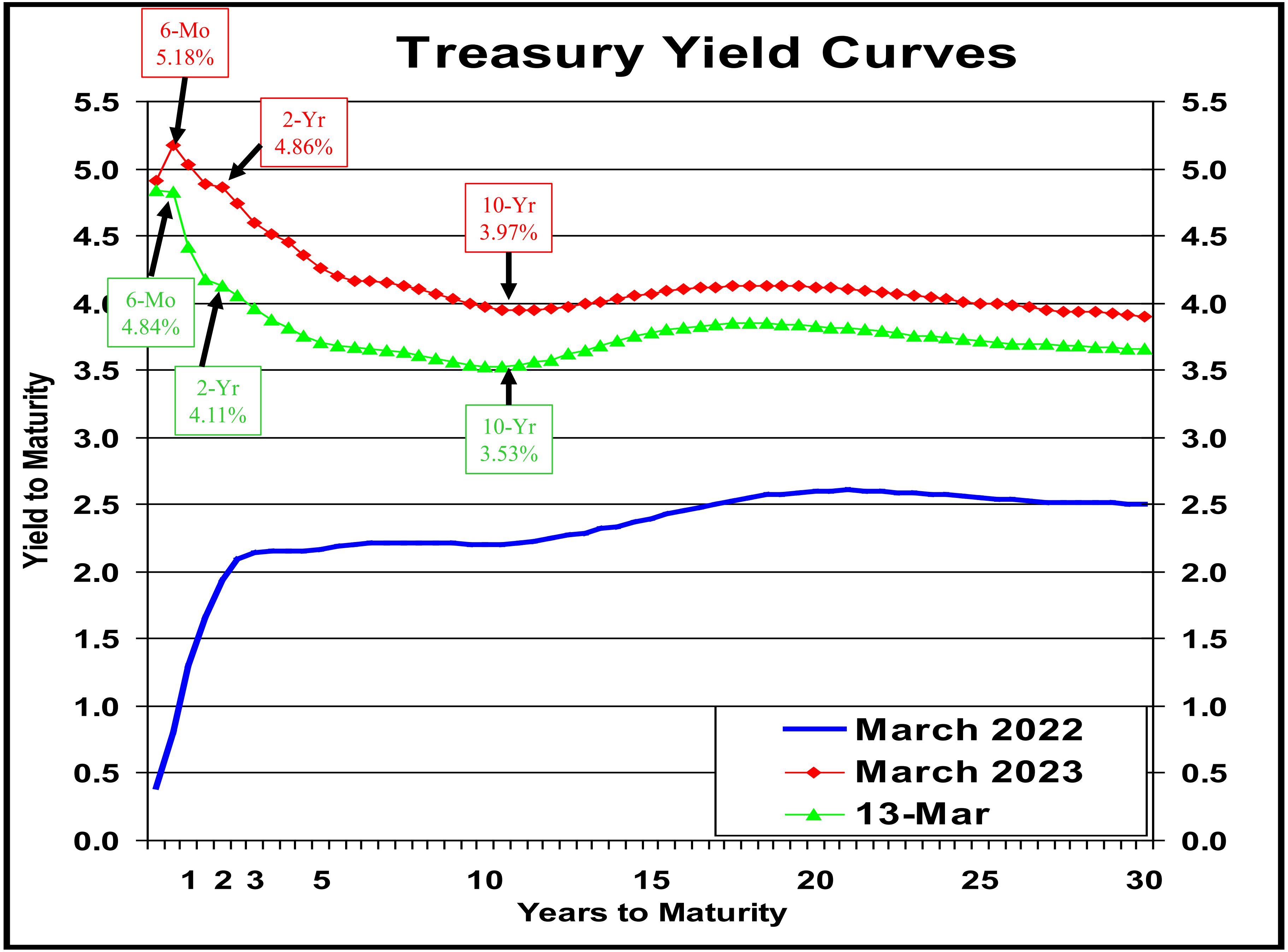
3. Gains (losses) on Available For Sale (AFS) Securities
$
$
$
$
1. Below par market value of investments
4. New investment Maturities in 2023
9. Investigate market pricing for potential asset sales
6. Deposit withdraws > Loan repayments (Liquidity Risk)
3. Sufficient liquidity to hold Treasuries to maturity
5. Members' deposit runoff/disintermediation
10. Deposit pricing in a rapidly rising interest rate environment
11. Rely on wholesale borrowings to maintain sufficient liquidity
2. Falling equity-to-asset ratios
7. ↑ YOA vs ↑ COF => Δ Net Interest Margin in 2023

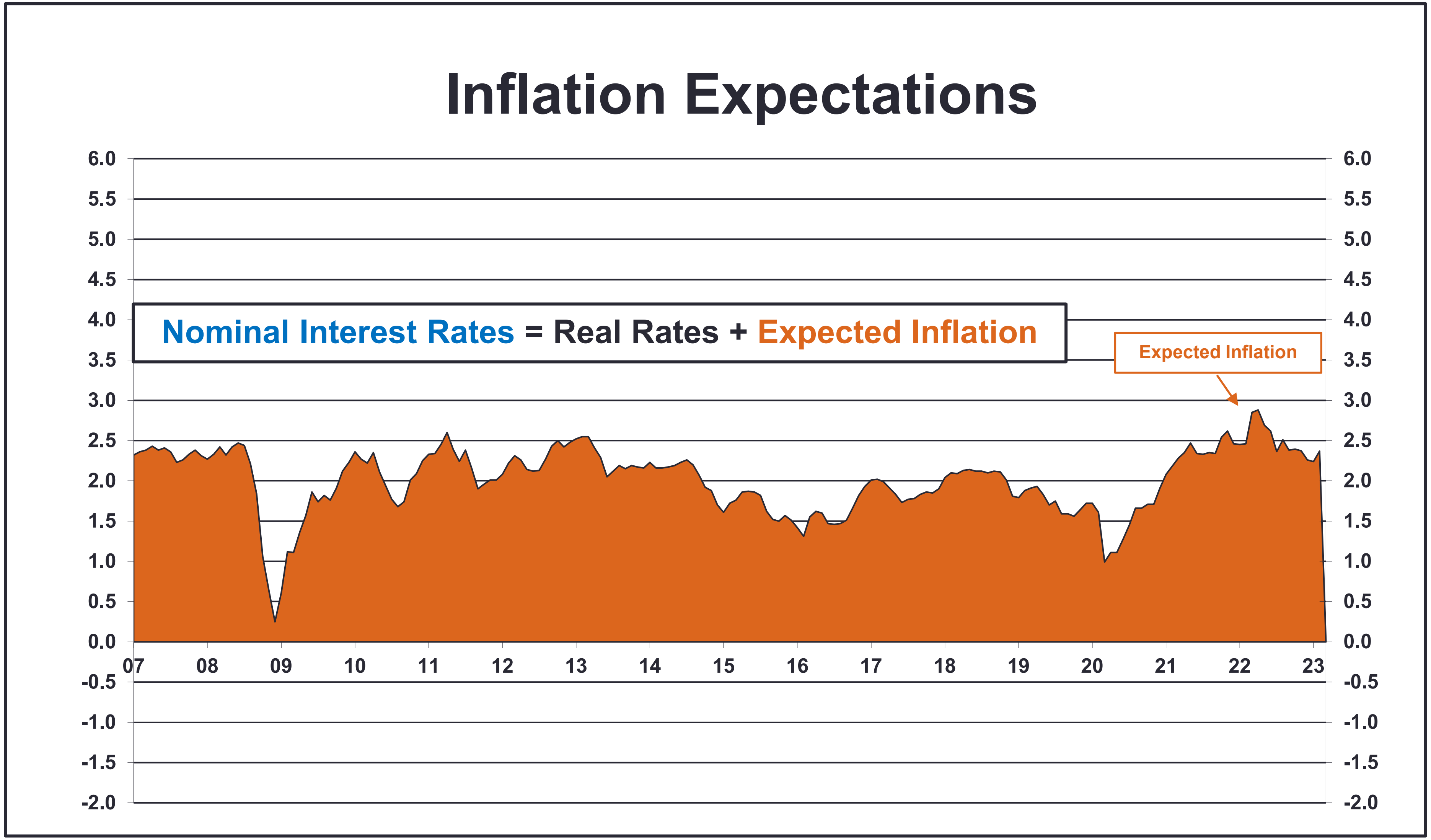


Treasury Yield Curves
6-Mo
5.18%
2-Yr
4.86%
10-Yr
3.97%
Yield to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1
2
3
5
10
15
20
25
30
Years to Maturity
March 2022
March 2023

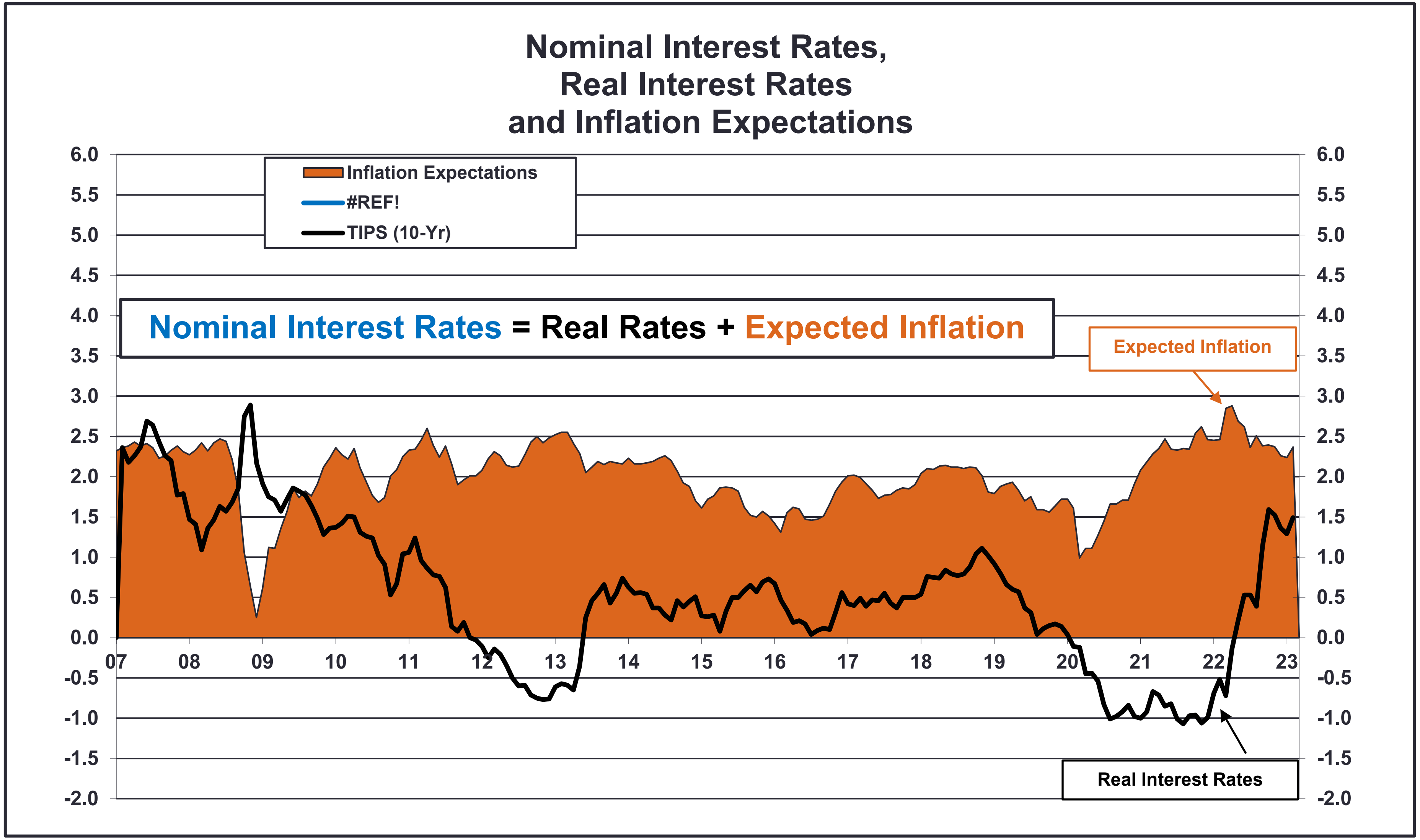


Treasury Yield Curves
6-Mo
5.18%
2-Yr
4.86%
10-Yr
3.97%
6-Mo
4.84%
2-Yr
4.11%
10-Yr
3.53%
Yield to Maturity
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1 2 3 5 10 15 20 25 30
Years to Maturity
March 2022
March 2023
13-Mar

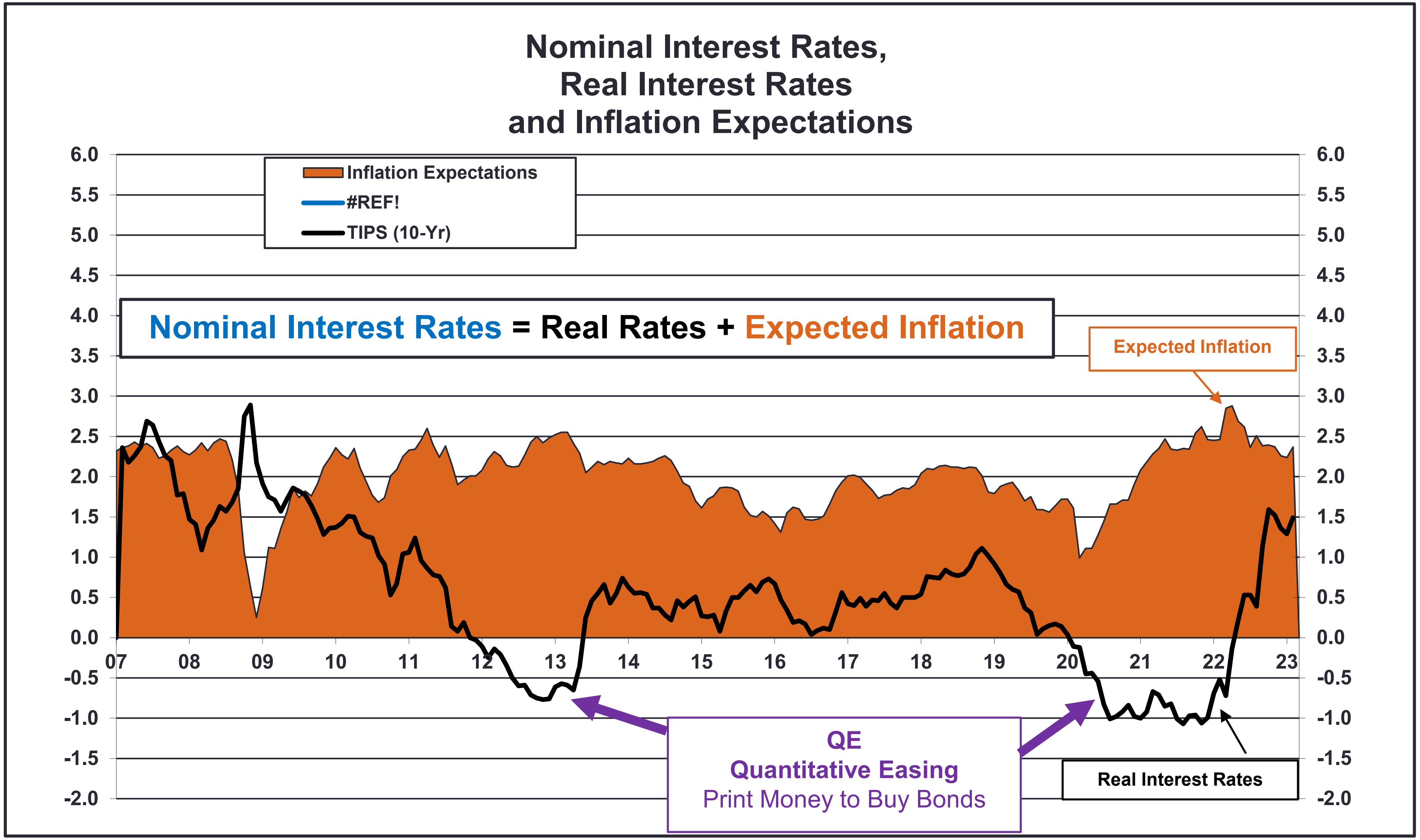
Inflation Expectations are Anchored Below 3.0%



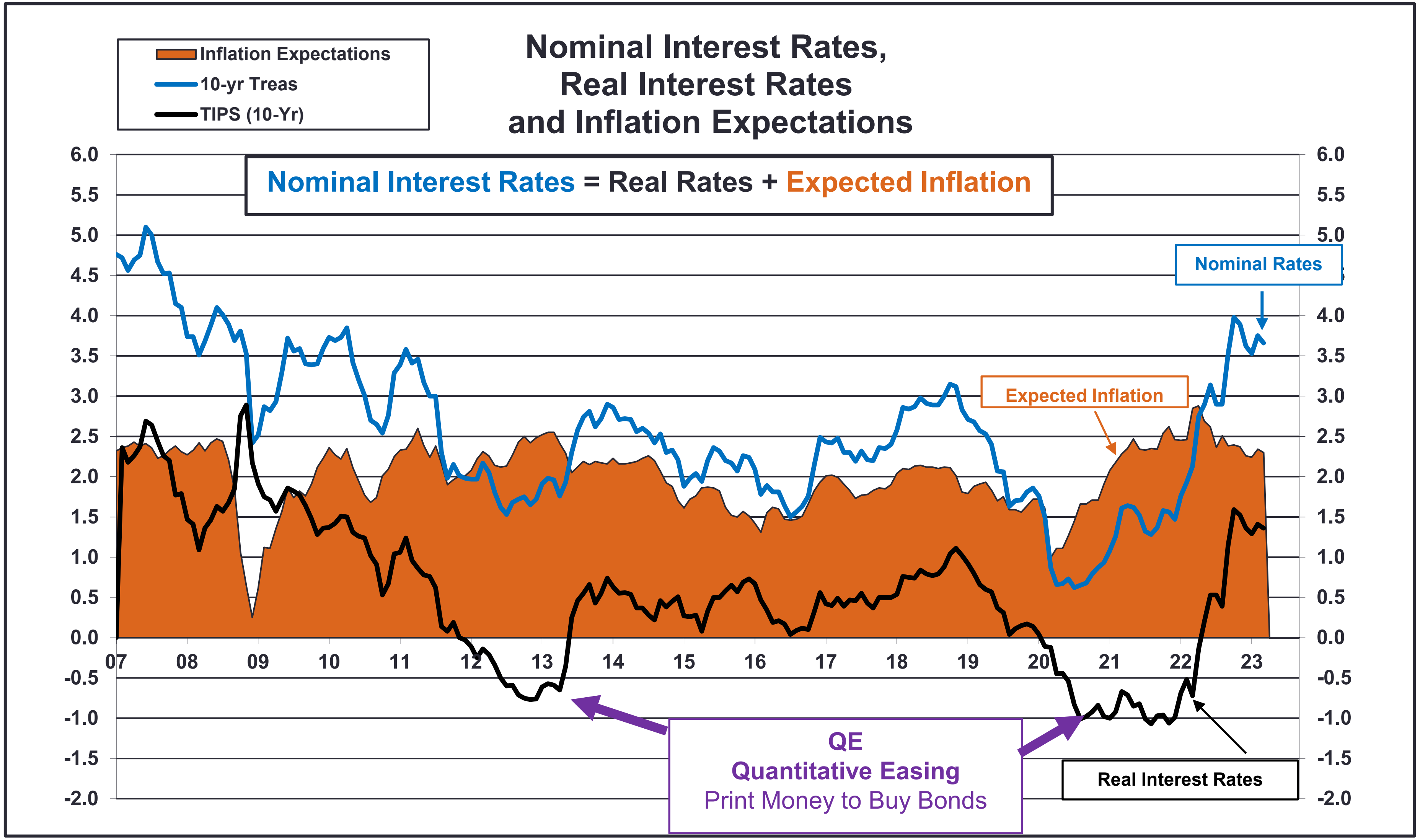
Rising Real Interest Rates are offsetting Falling Inflation Expectations to Push Up Nominal Interest Rates

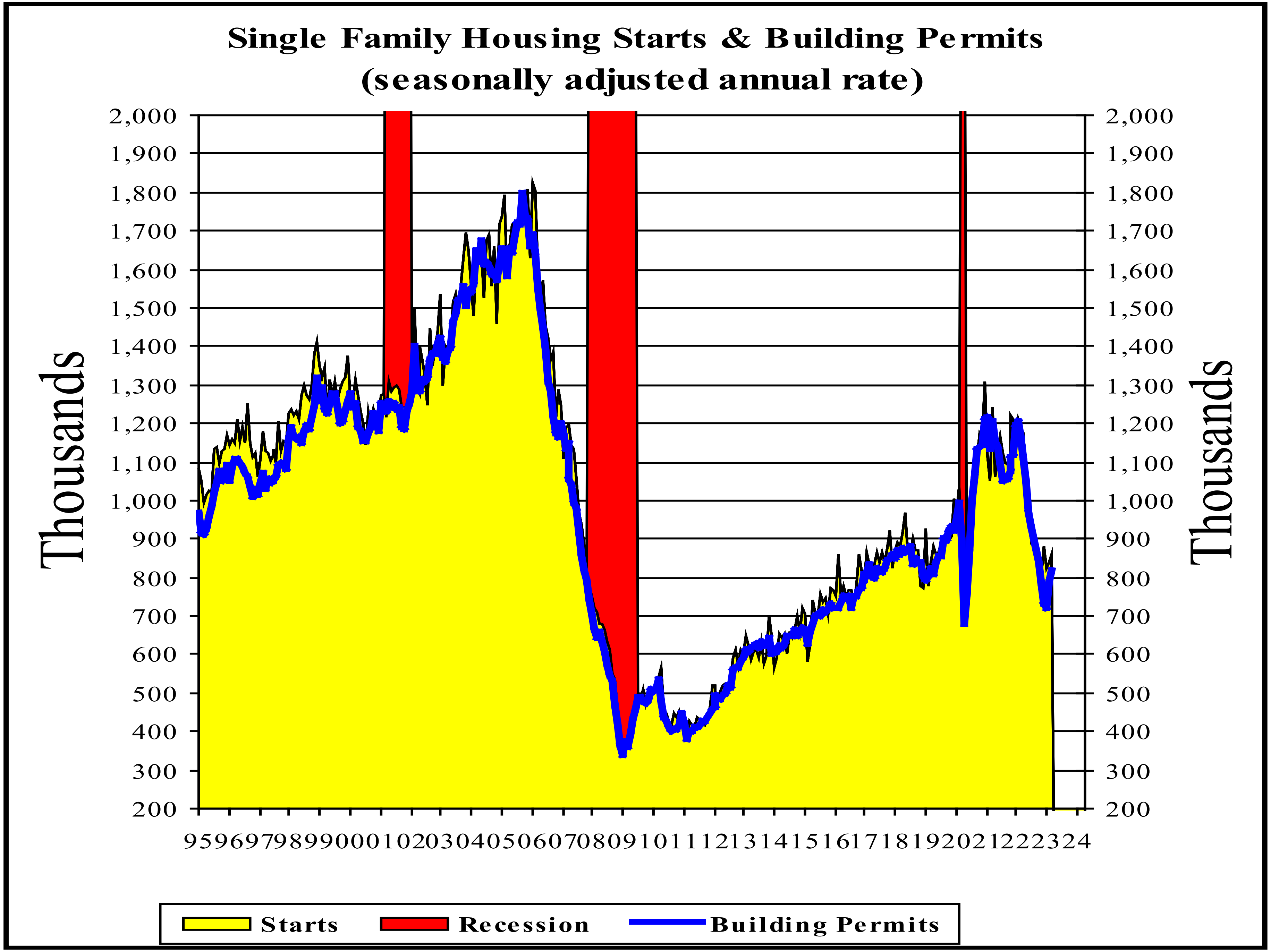


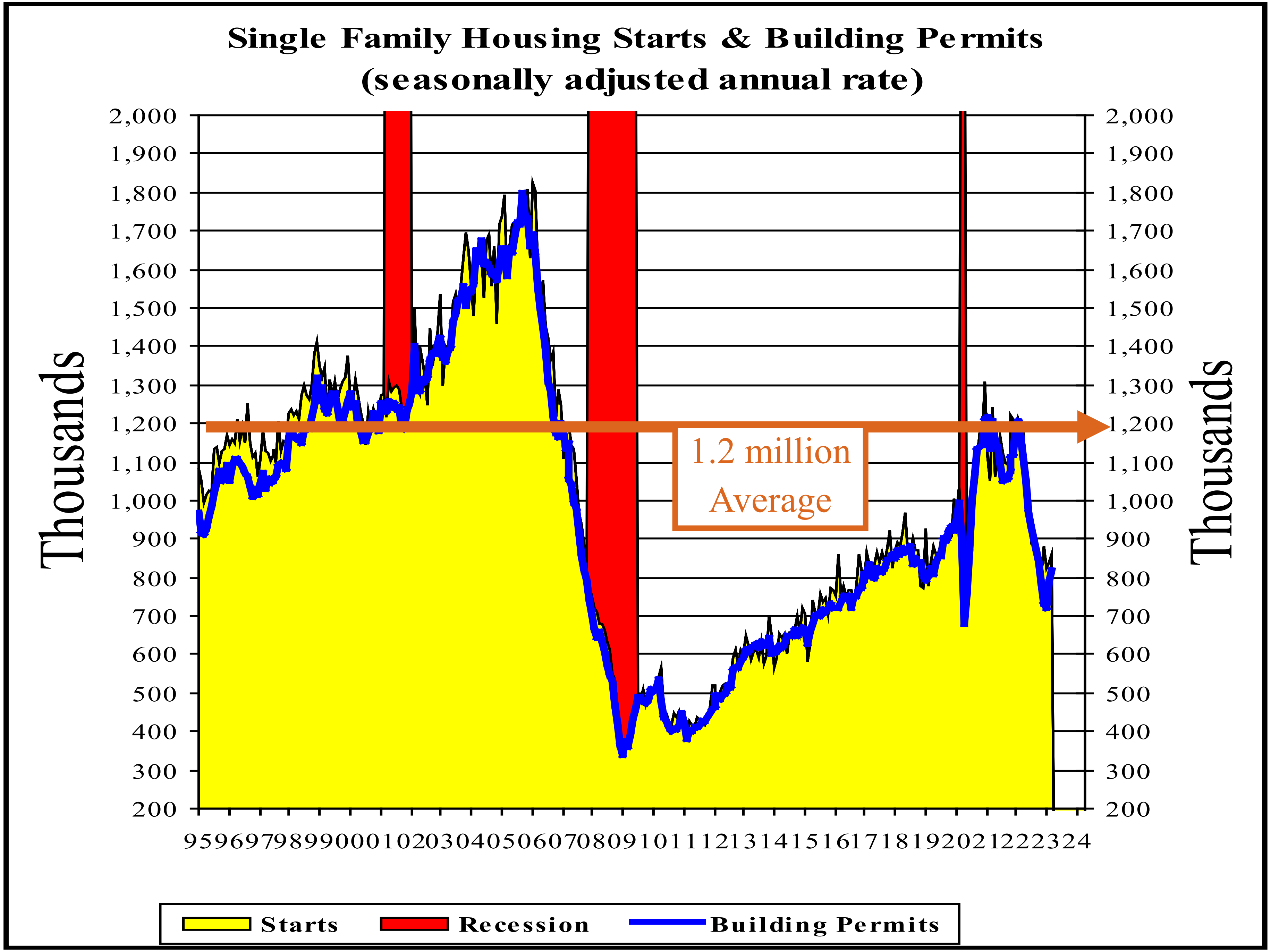
Rising Real Interest Rates are offsetting Falling Inflation Expectations to Push Up Nominal Interest Rates

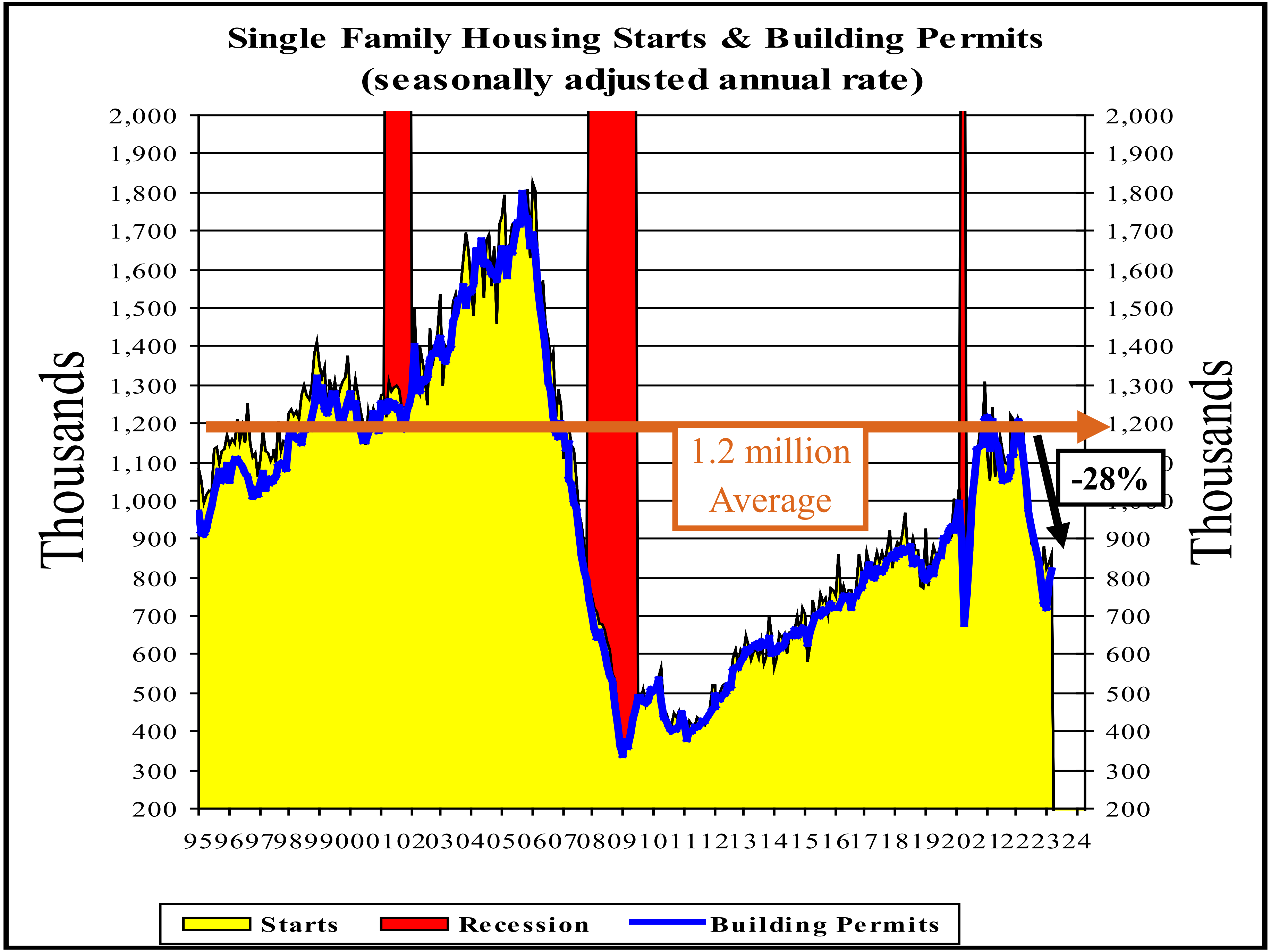


Rising Real Interest Rates are offsetting Falling Inflation Expectations to Push Up Nominal Interest Rates

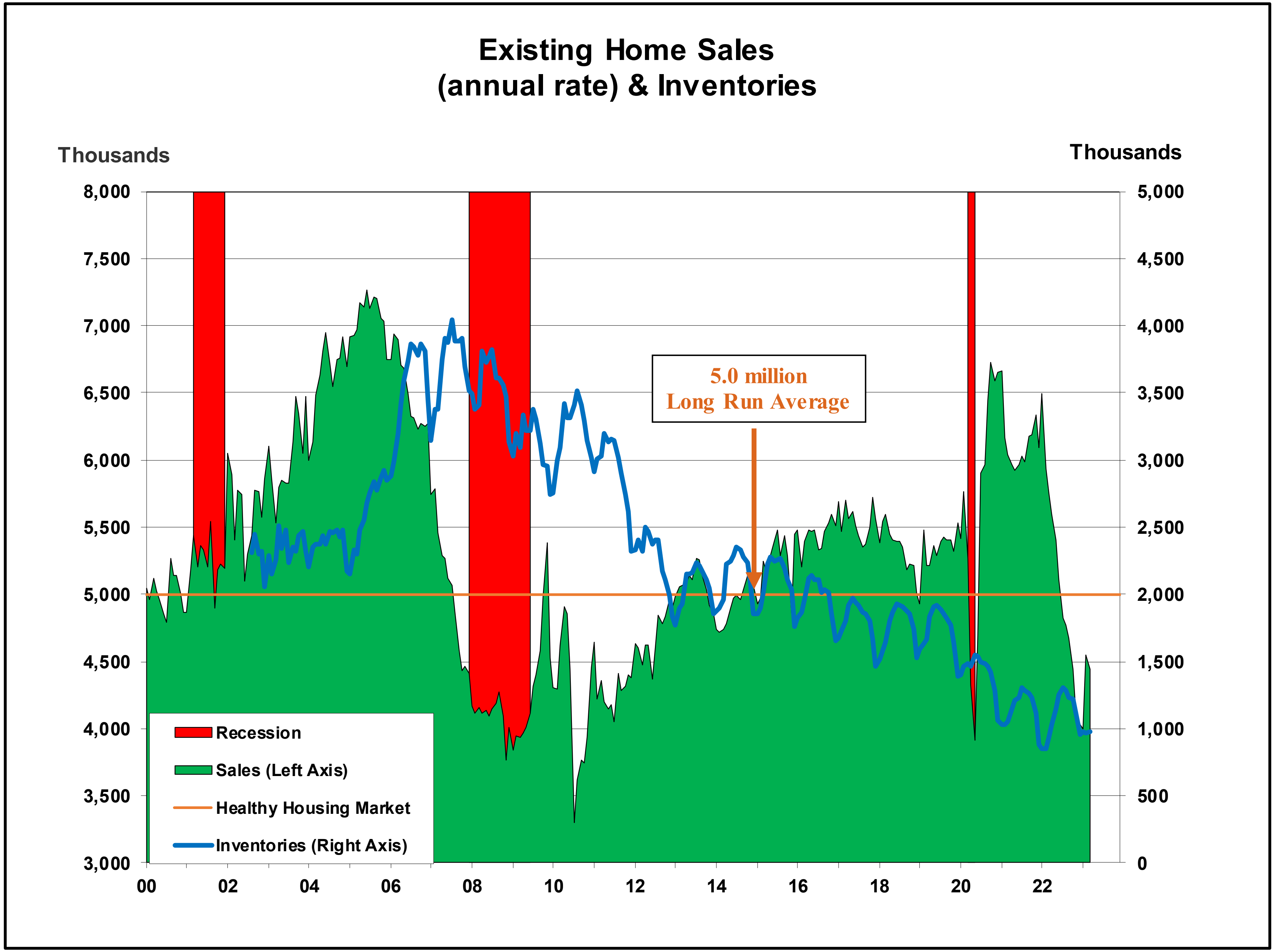



Single Family Housing Starts & Building Permits
(seasonally adjusted annual rate)
Thousands
Thousands
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
959697989900010203040506070809101112131415161718192021222324
Starts
Recession
Building Permits

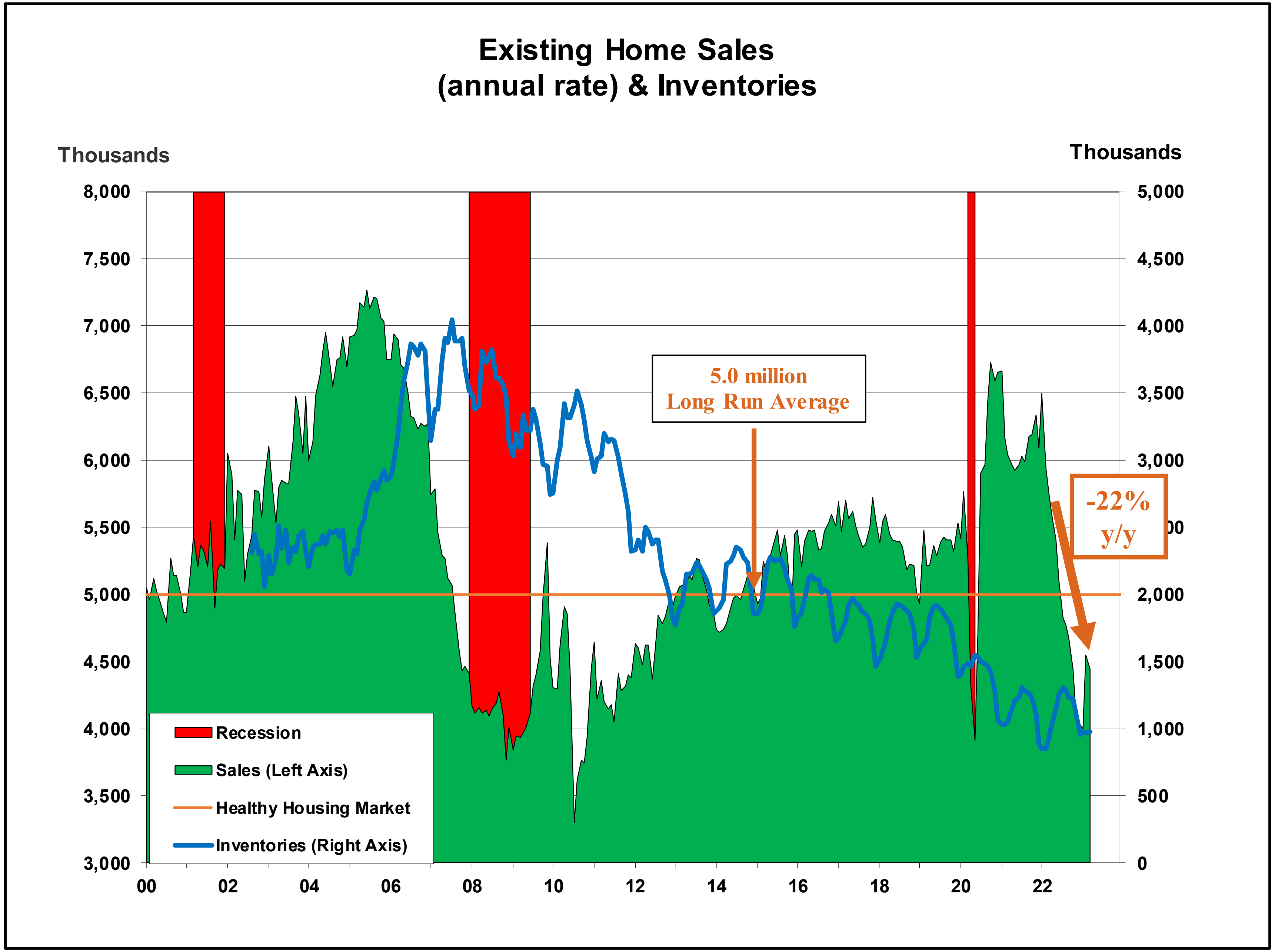

Single Family Housing Starts & Building Permits
(seasonally adjusted annual rate)
Thousands
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
1.2 million
Average
95969798990001020304050607080910111213141516171819202122232 4
Starts
Recession
Building Permits

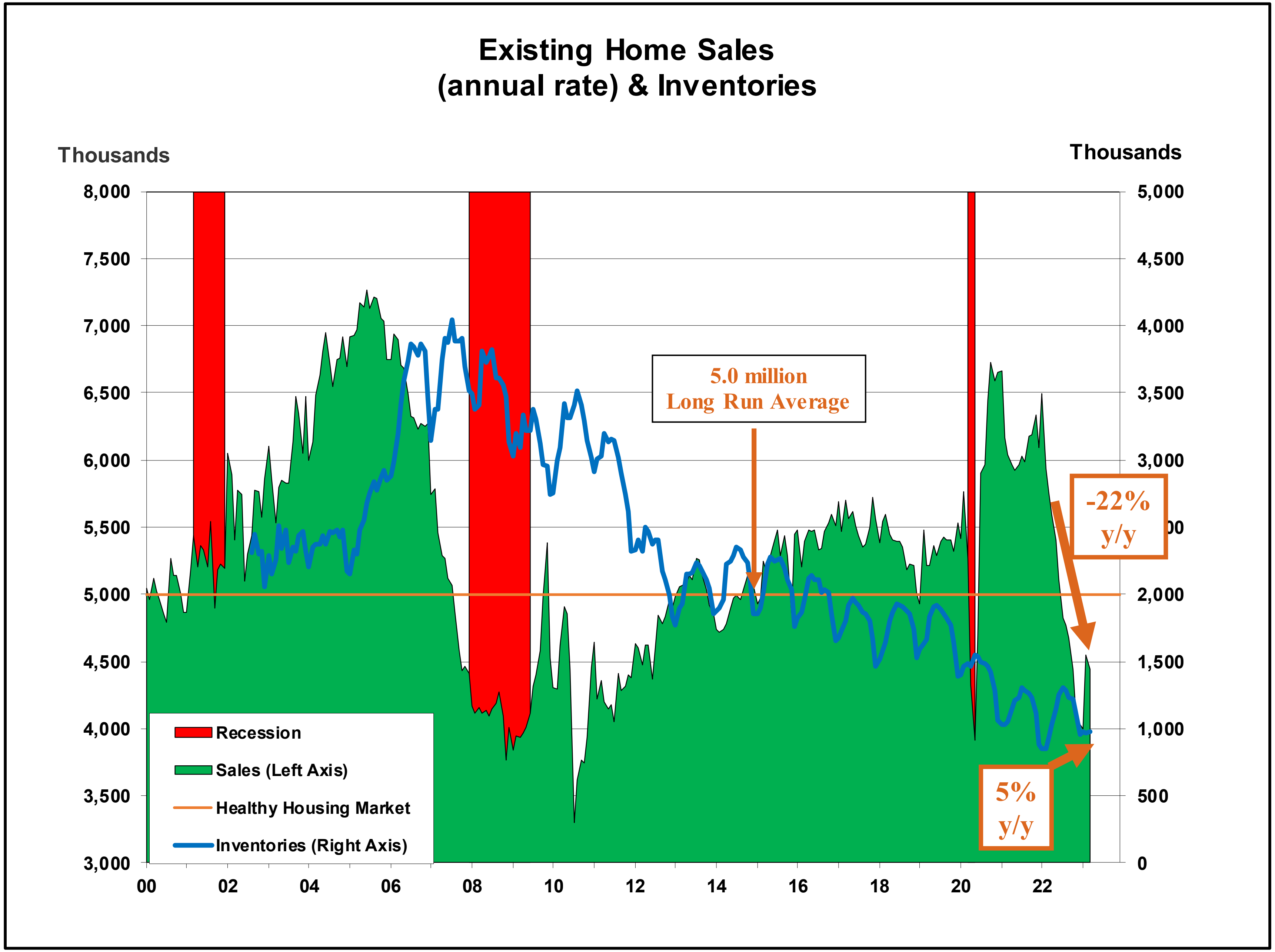


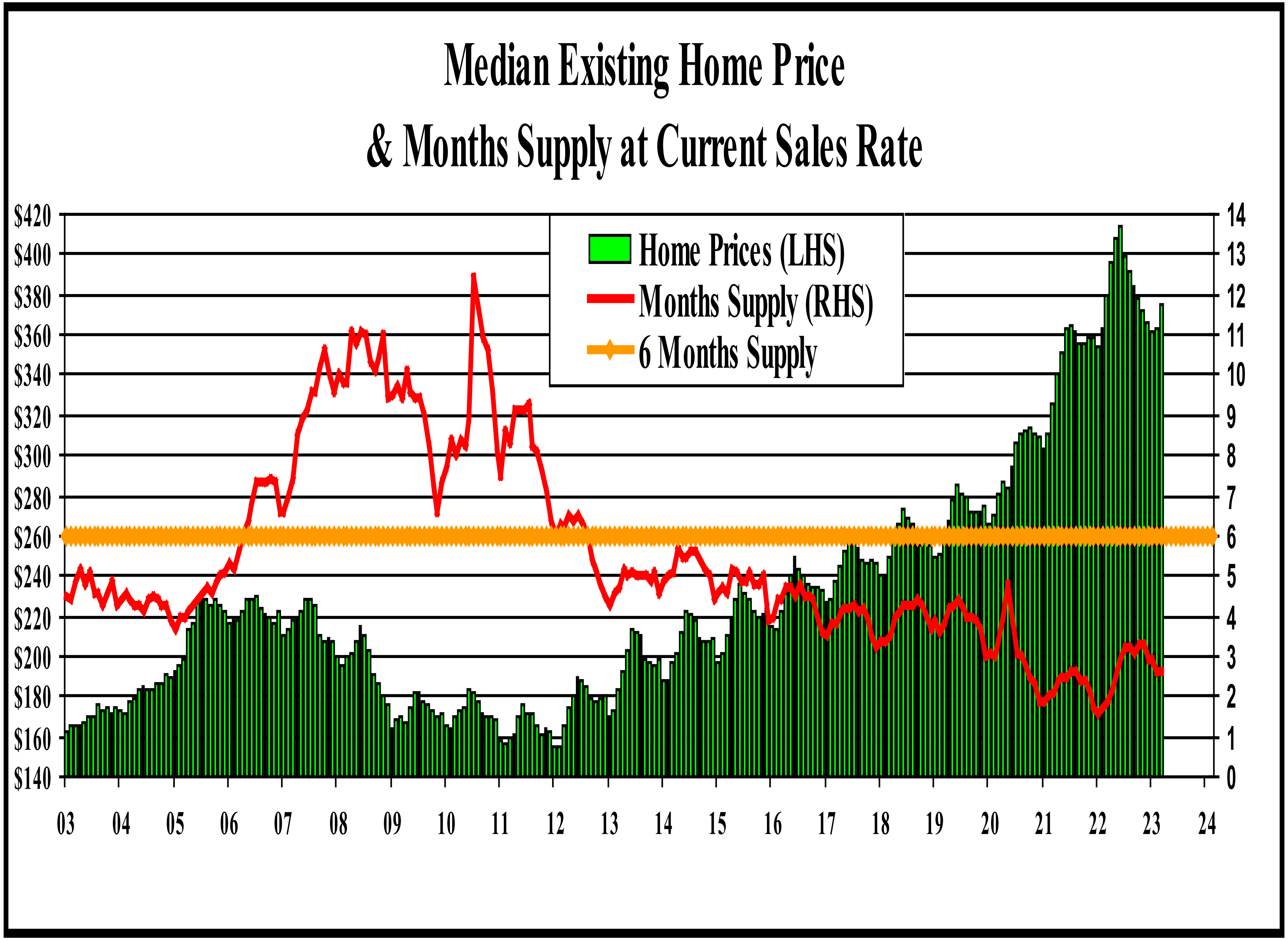
Single Family Housing Starts & Building Permits
(seasonally adjusted annual rate)
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
Thousands
1.2 million Average
-28%
95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24
Starts
Recession
Building Permits



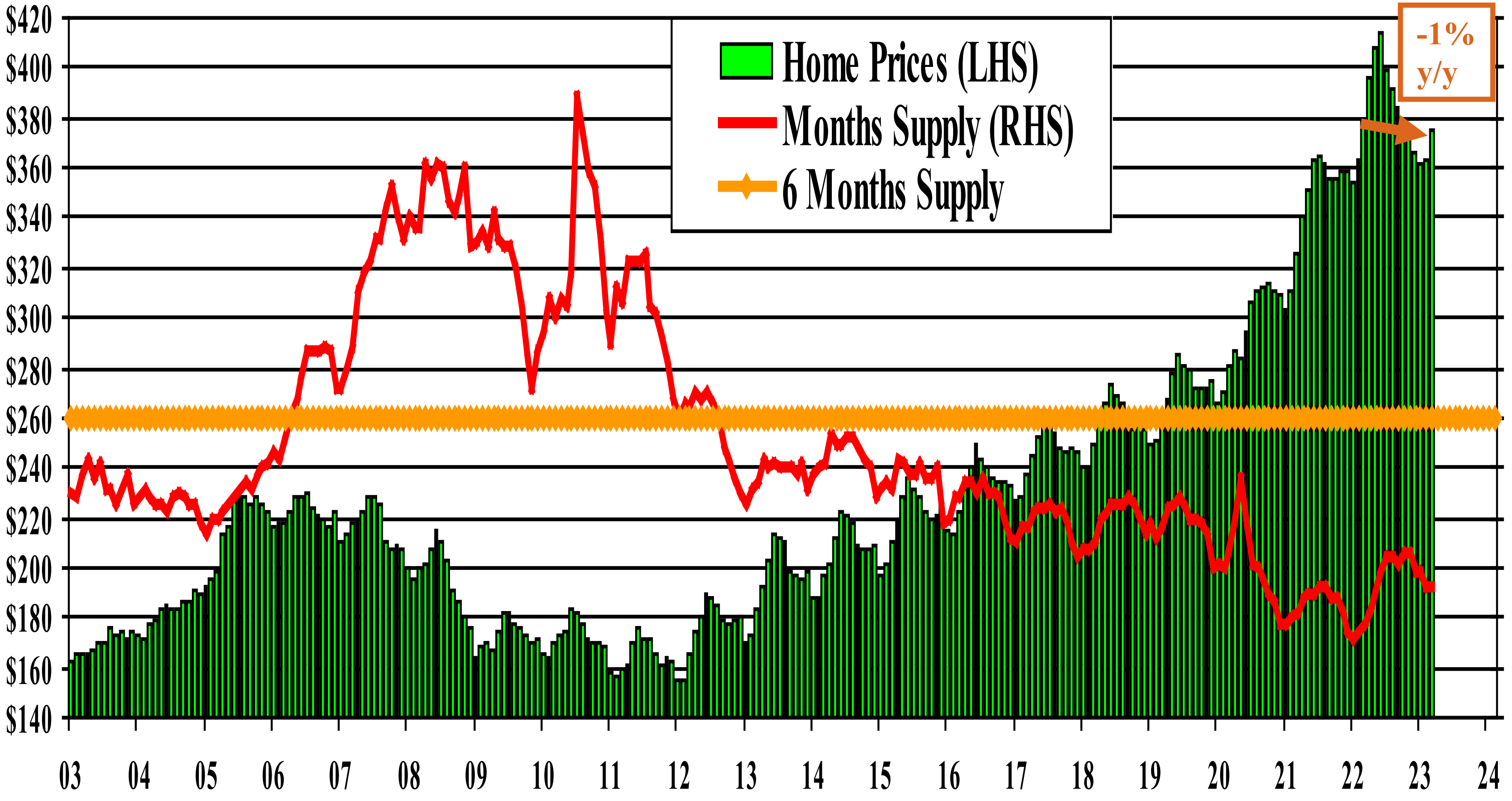
Existing Home Sales
(annual rate) & Inventories
Thousands
Thousands
8,000
7,500
7,000
6,500
6,000
5,500
5,000
4,500
4,000
3,500
3,000
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
00
02
04
06
08
10
12
14
16
18
20
22
5.0 million
Long Run Average
Recession
Sales (Left Axis)
Healthy Housing Market
Inventories (Right Axis)

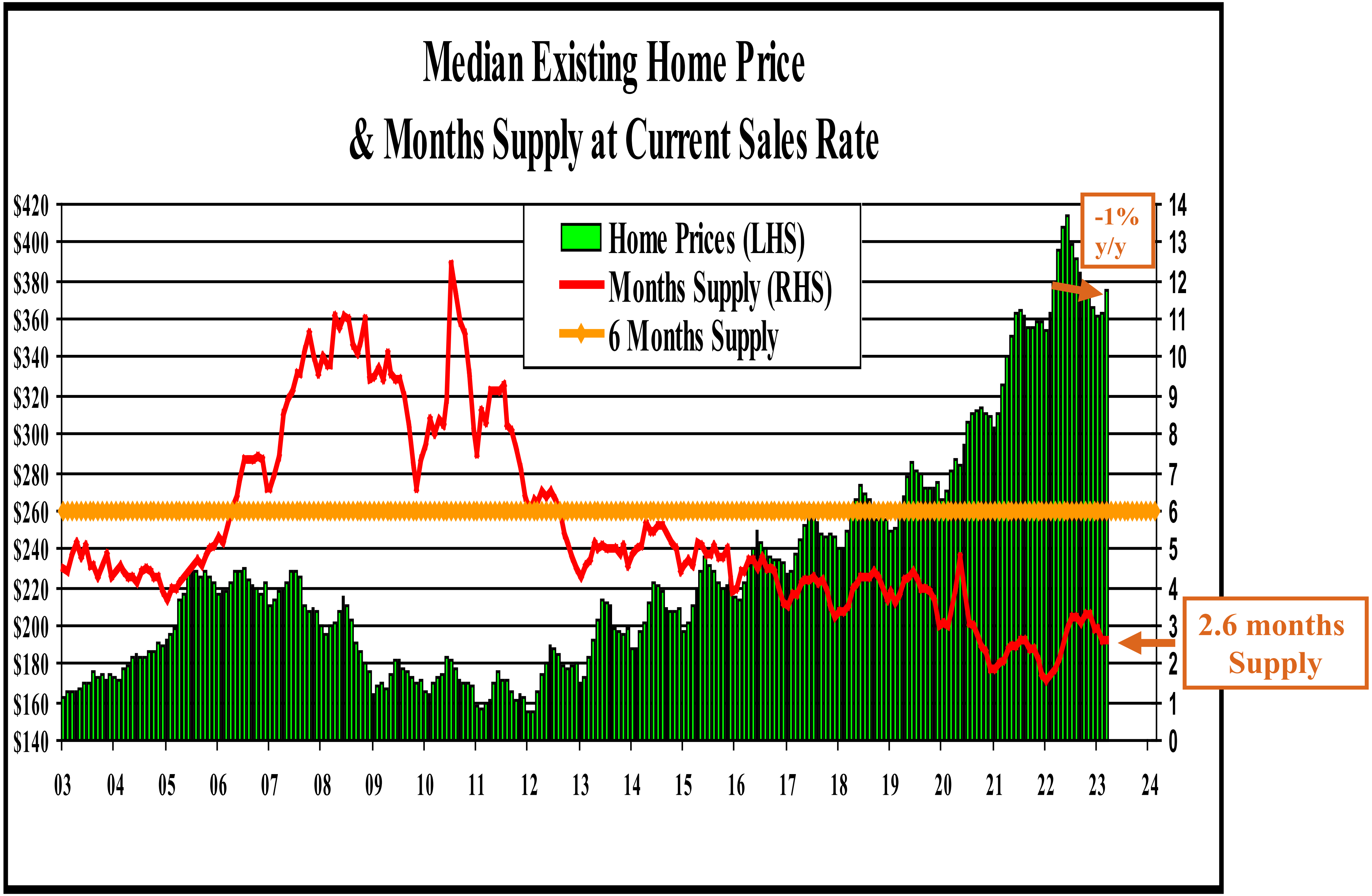

Existing Home Sales
(annual rate) & Inventories
Thousands
Thousands
8,000
7,500
7,000
6,500
6,000
5,500
5,000
4,500
4,000
3,500
3,000
5,000
4,500
4,000
3,500
3,000
2,000
1,500
1,000
500
0
00
02
04
06
08
10
12
14
16
18
20
22
5.0 million
Long Run Average
-22%
y/y
Recession
Sales (Left Axis)
Healthy Housing Market
Inventories (Right Axis)


Existing Home Sales
(annual rate) & Inventories
Thousands
Thousands
8,000
7,500
7,000
6,500
6,000
5,500
5,000
4,500
4,000
3,500
3,000
5,000
4,500
4,000
3,500
3,000
2,000
1,500
1,000
500
0
00
02
04
06
08
10
12
14
16
18
20
22
5.0 million
Long Run Average
-22%
y/y
5%
y/y
Recession
Sales (Left Axis)
Healthy Housing Market
Inventories (Right Axis)


Median Existing Home Price
& Months Supply at Current Sales Rate
Home Prices (LHS)
Months Supply (RHS)
6 Months Supply
$420
$400
$380
$360
$340
$320
$300
$280
$260
$240
$220
$200
$180
$160
$140
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
03
04
05
06
07
08
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

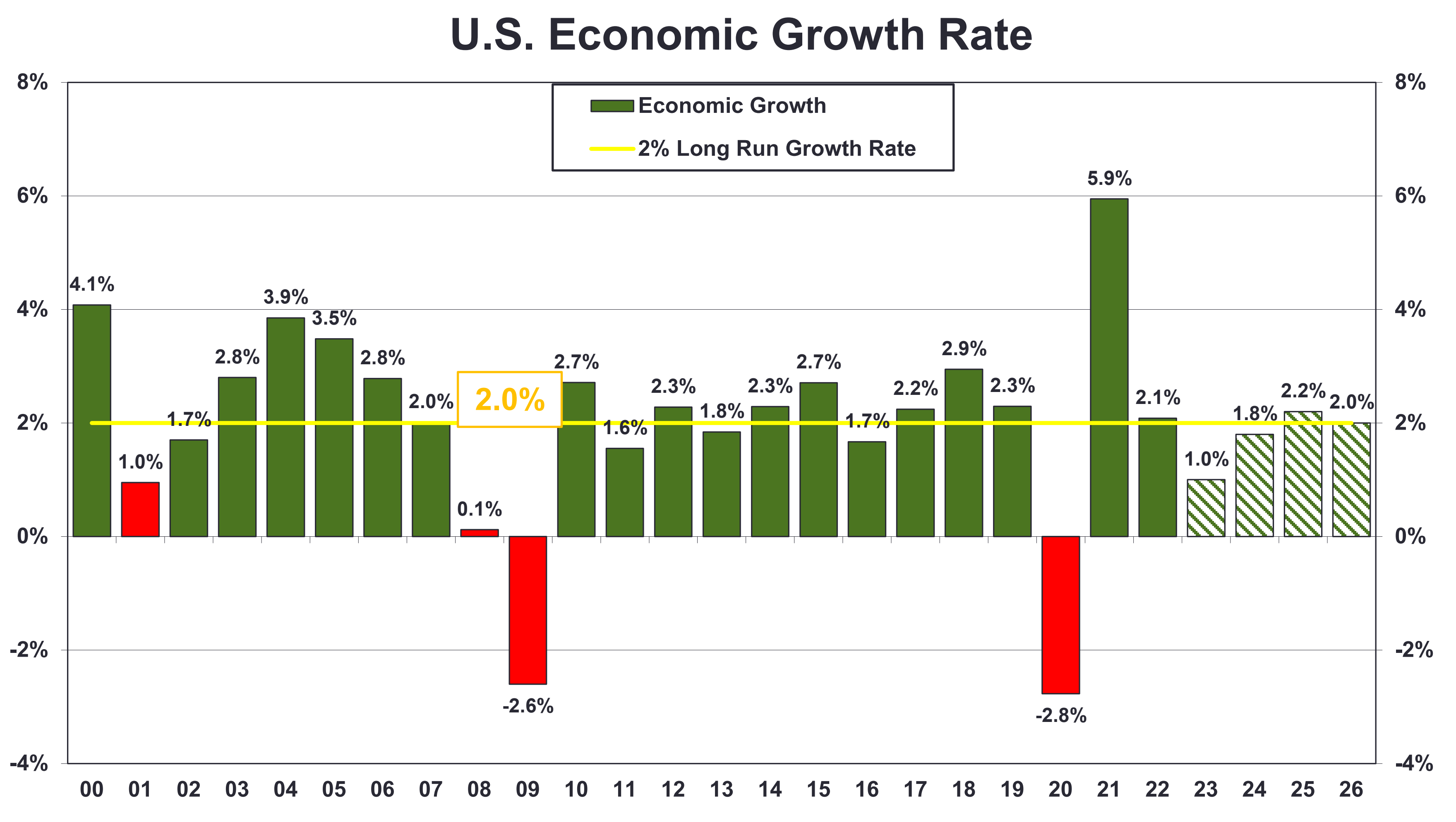
Median Existing Home Price
& Months Supply at Current Sales Rate





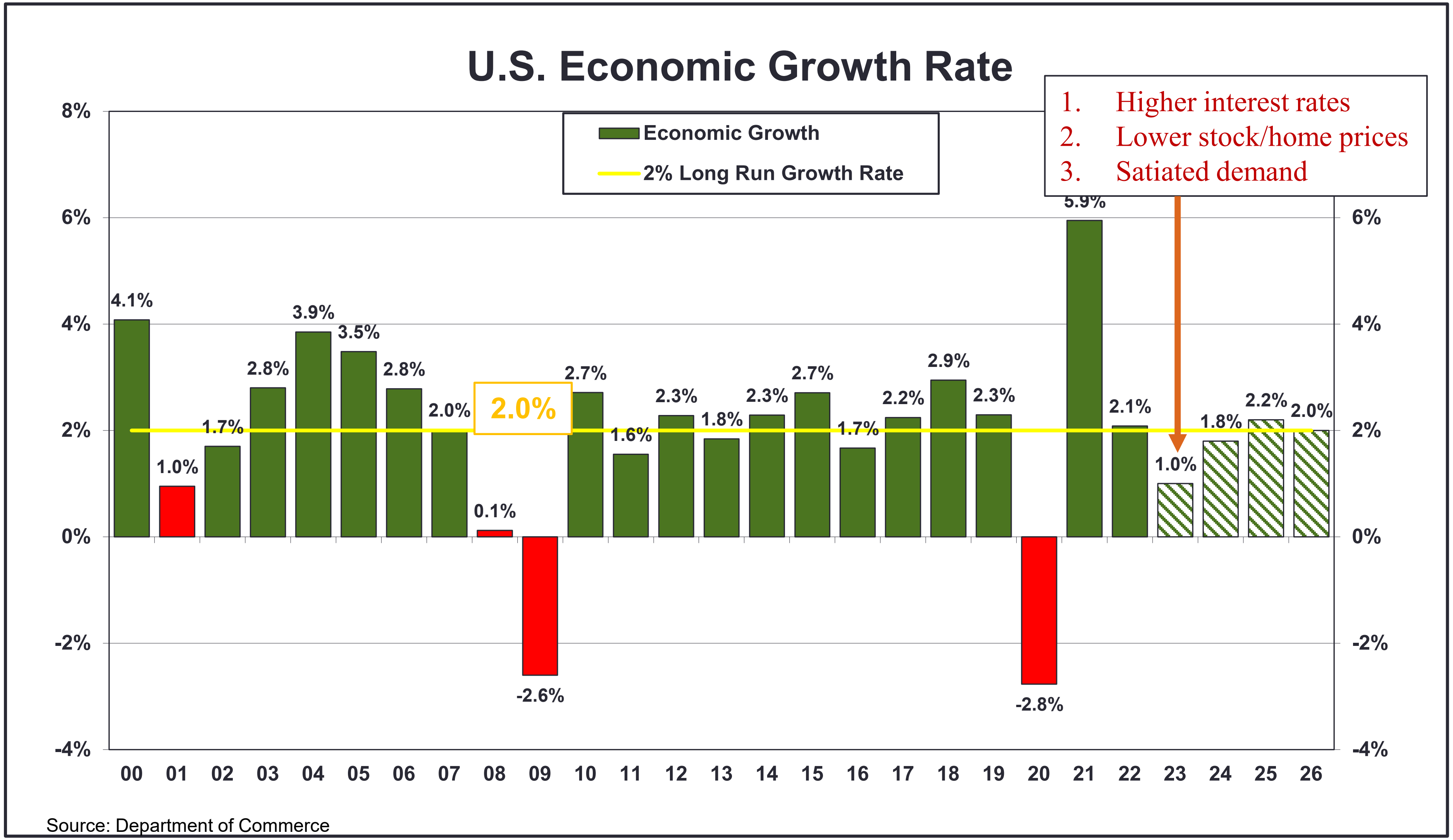
Median Existing Home Price
& Months Supply at Current Sales Rate
Home Prices (LHS)
Months Supply (RHS)
6 Months Supply
-1% y/y
2.6 months Supply
$420
$400
$380
$360
$340
$320
$300
$280
$260
$240
$220
$200
$180
$160
$140
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

Weak Economic Growth in 2023



Source: Department of Commerce

Weak Economic Growth in 2023

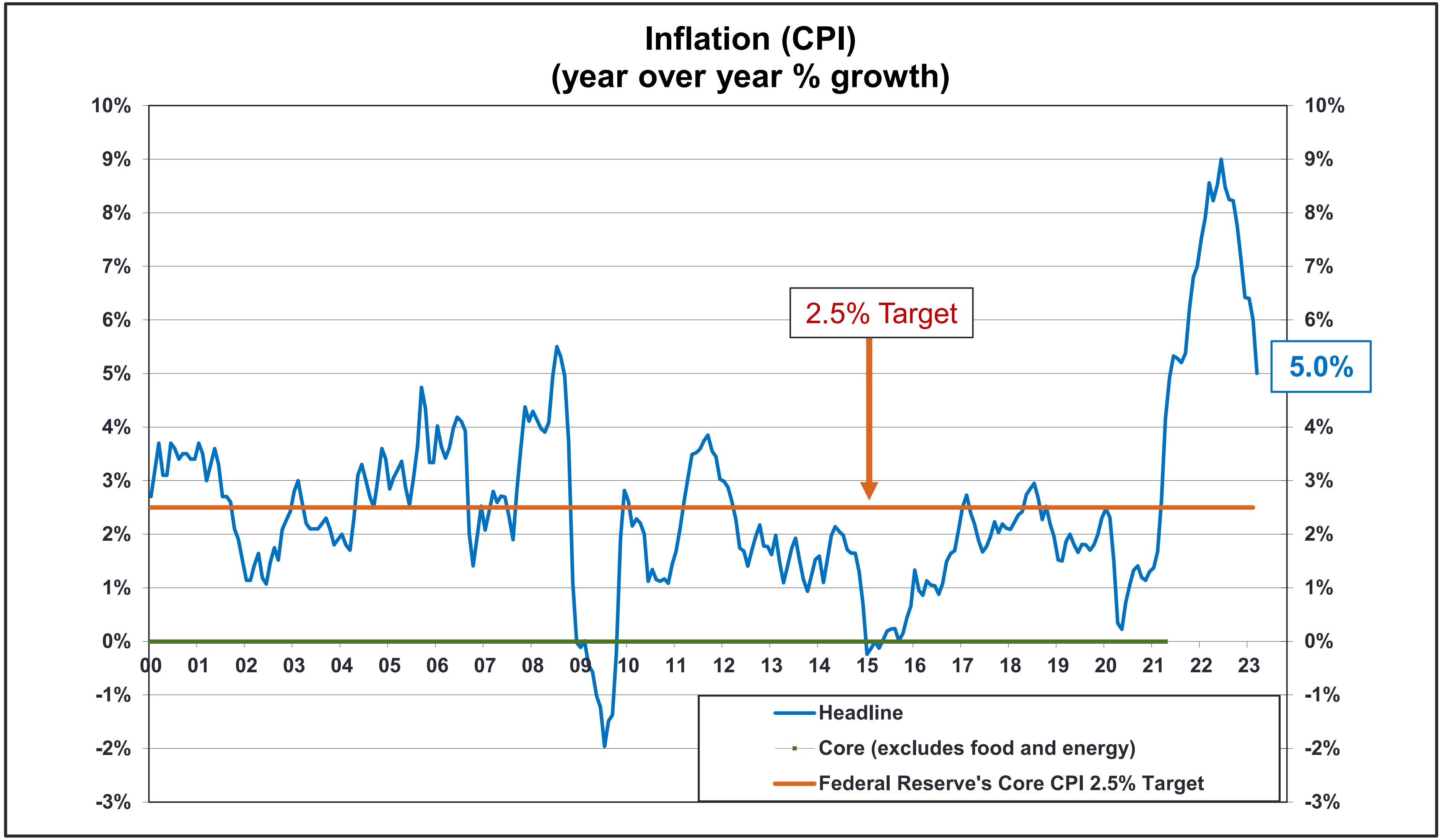


The Big Question

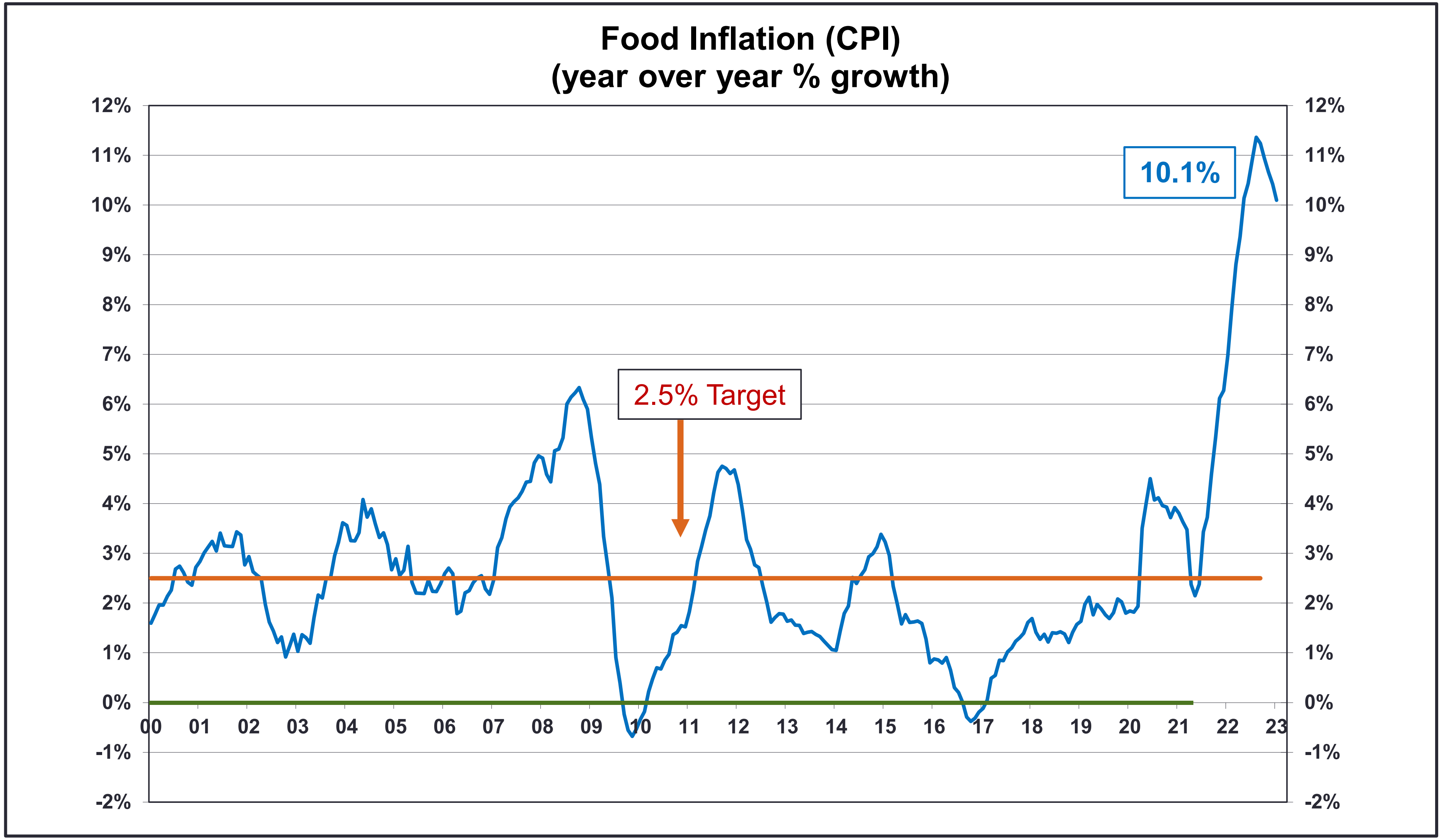
The Big Question

Inflation or Deflation
tell me if you can
will we be Zimbabwe
or will we be Japan?

High Inflation for the Next Year

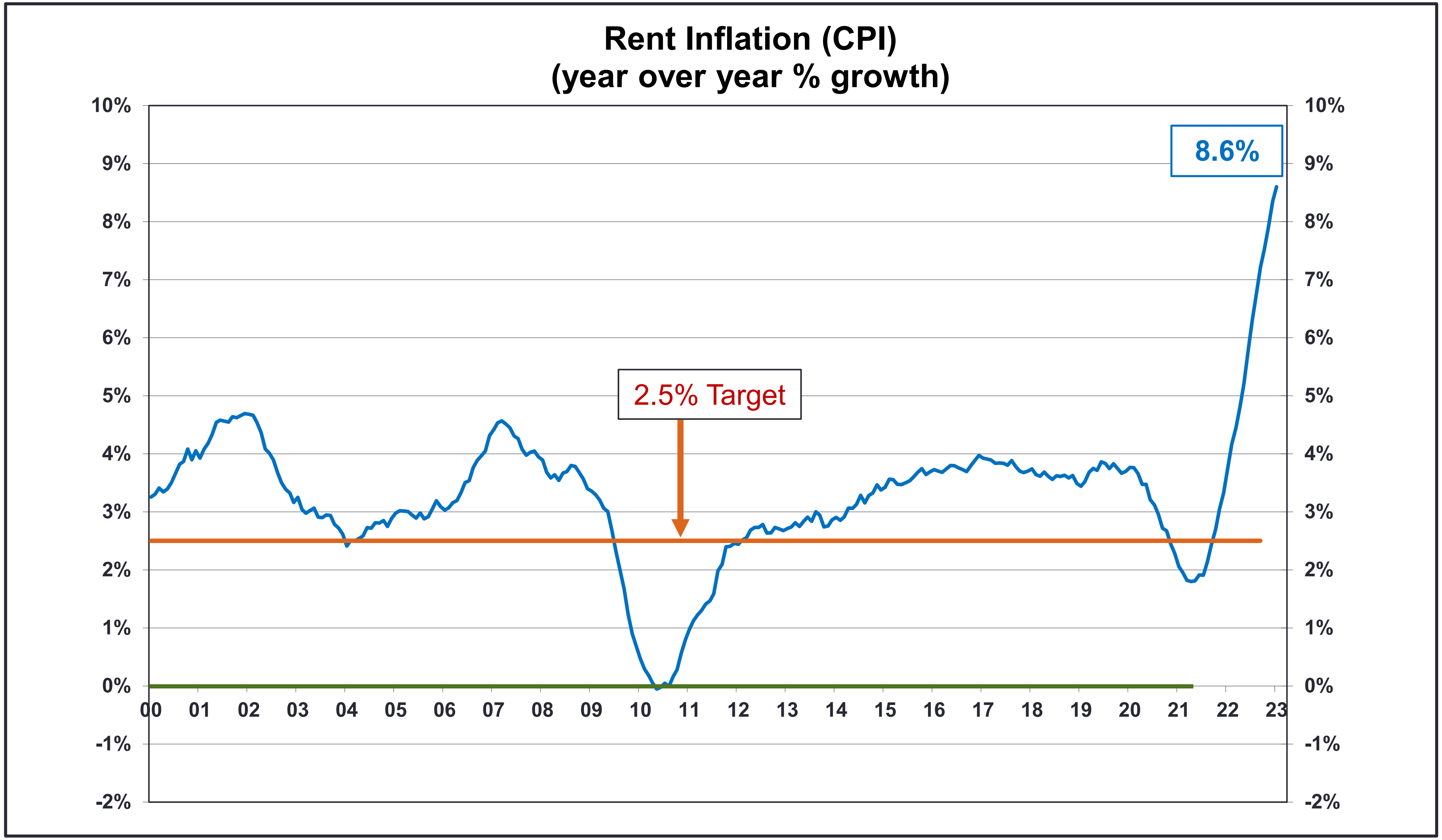


Food Prices

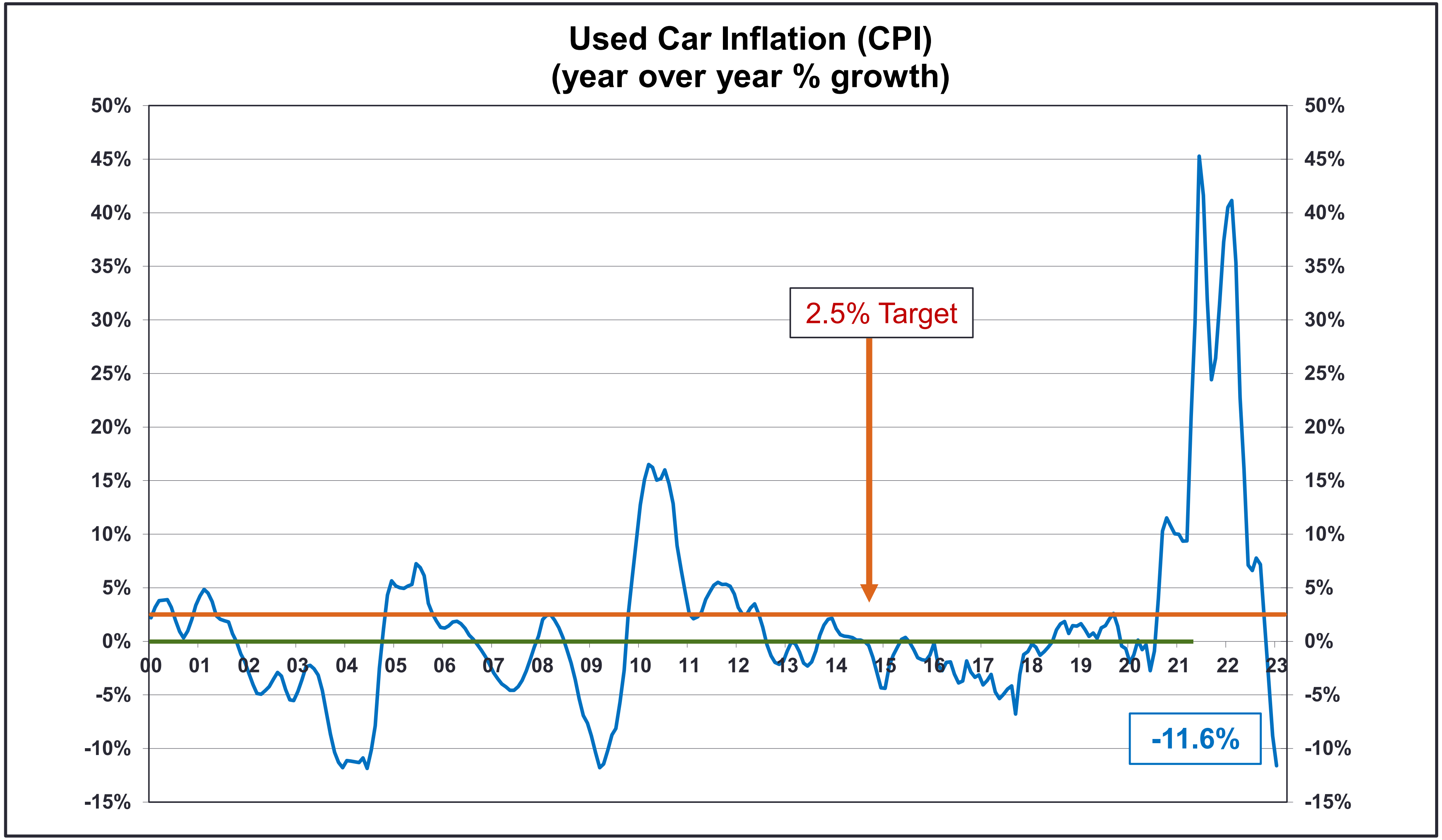


Food Inflation (CPI)
(year over year % growth)
12%
11%
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%
-2%
00
01
02
03
04
05
06
07
08
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
2.5% Target
10.1%

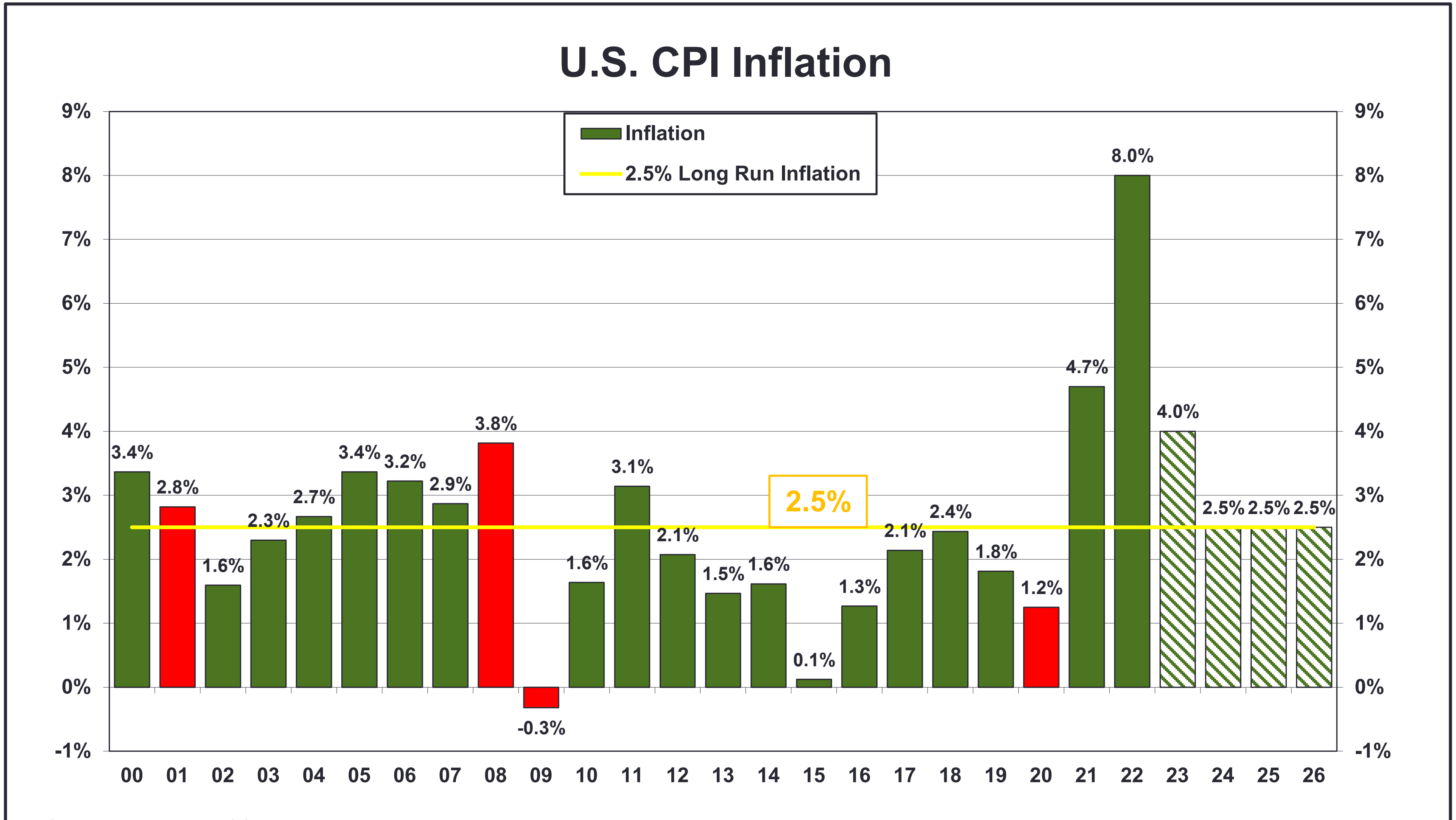
Rent of Primary Residence



Used Car Prices

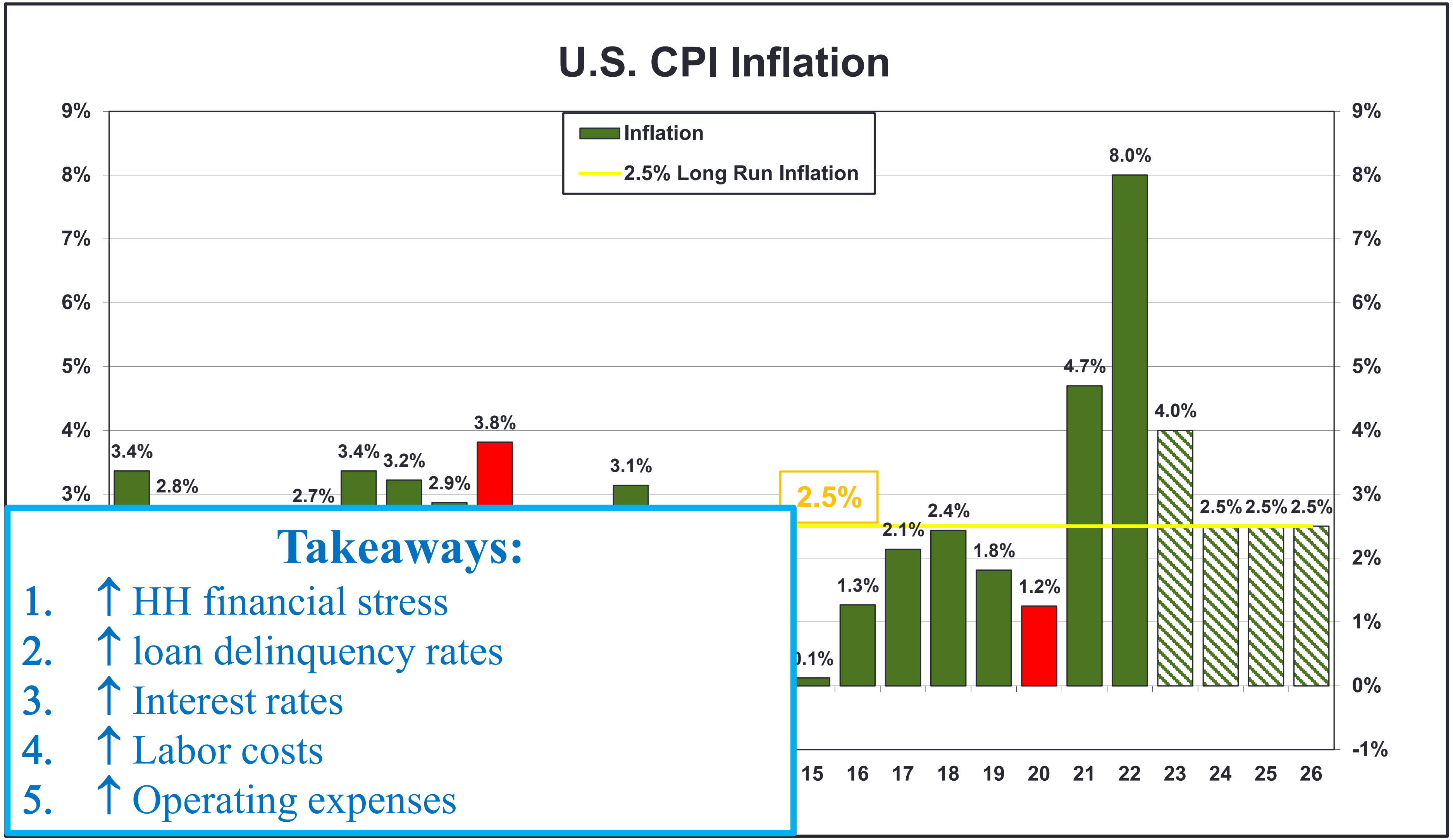


Inflation Above Target Until 2024



Source: Department of Commerce

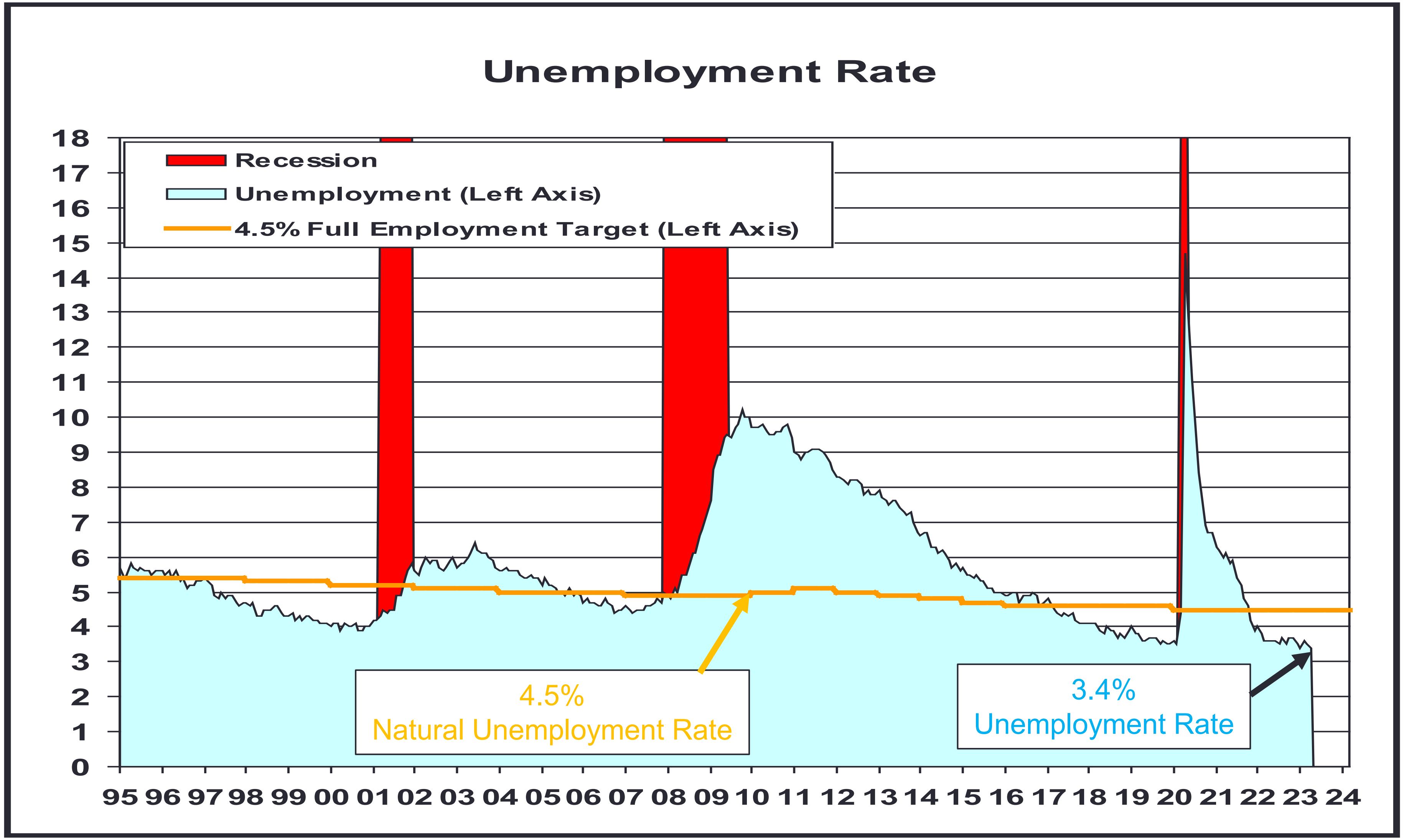
Inflation Above Target Until 2024



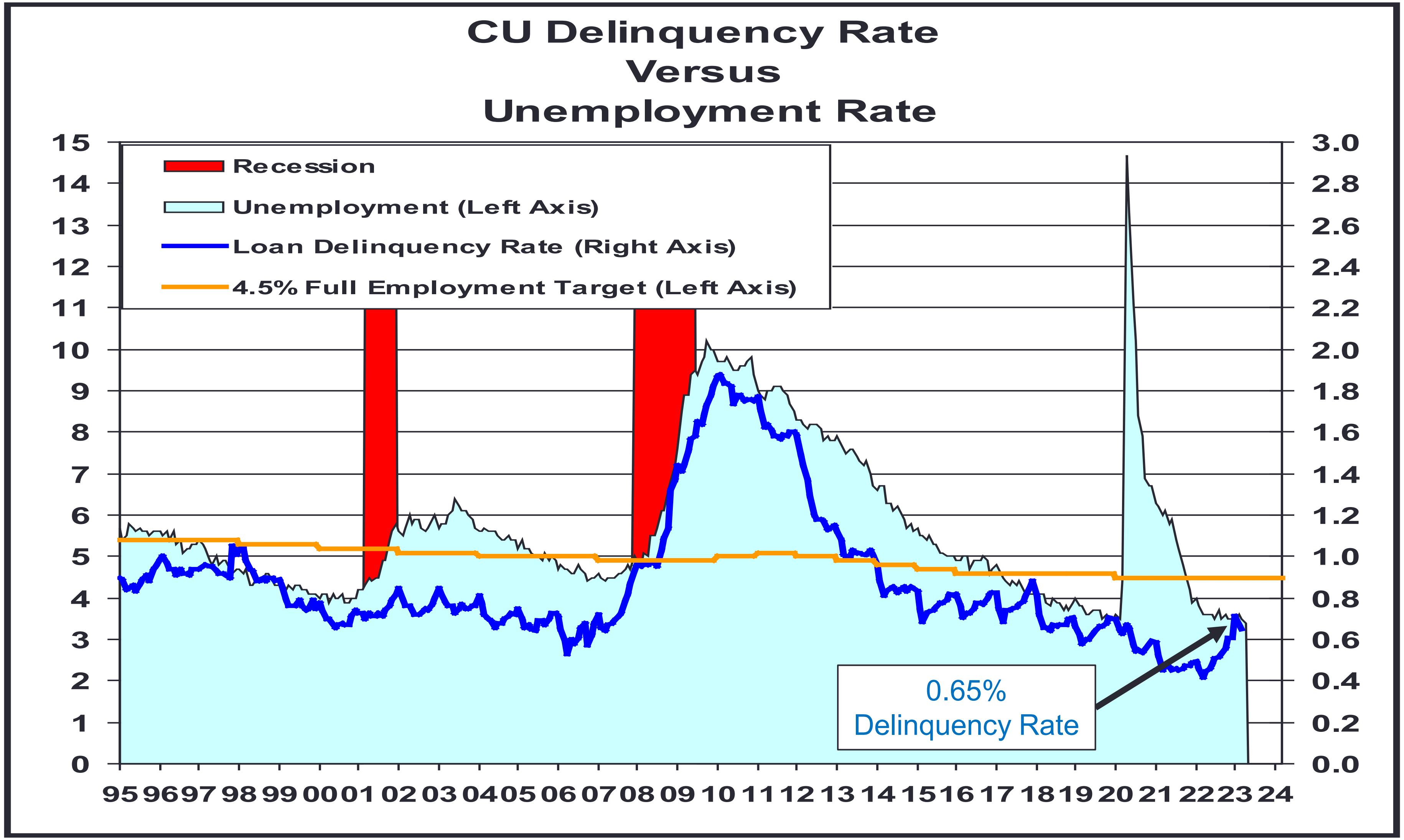
Takeaways:

1. ↑ HH financial stress
2. ↑ loan delinquency rates
3. ↑ Interest rates
4. ↑ Labor costs
5. ↑ Operating expenses

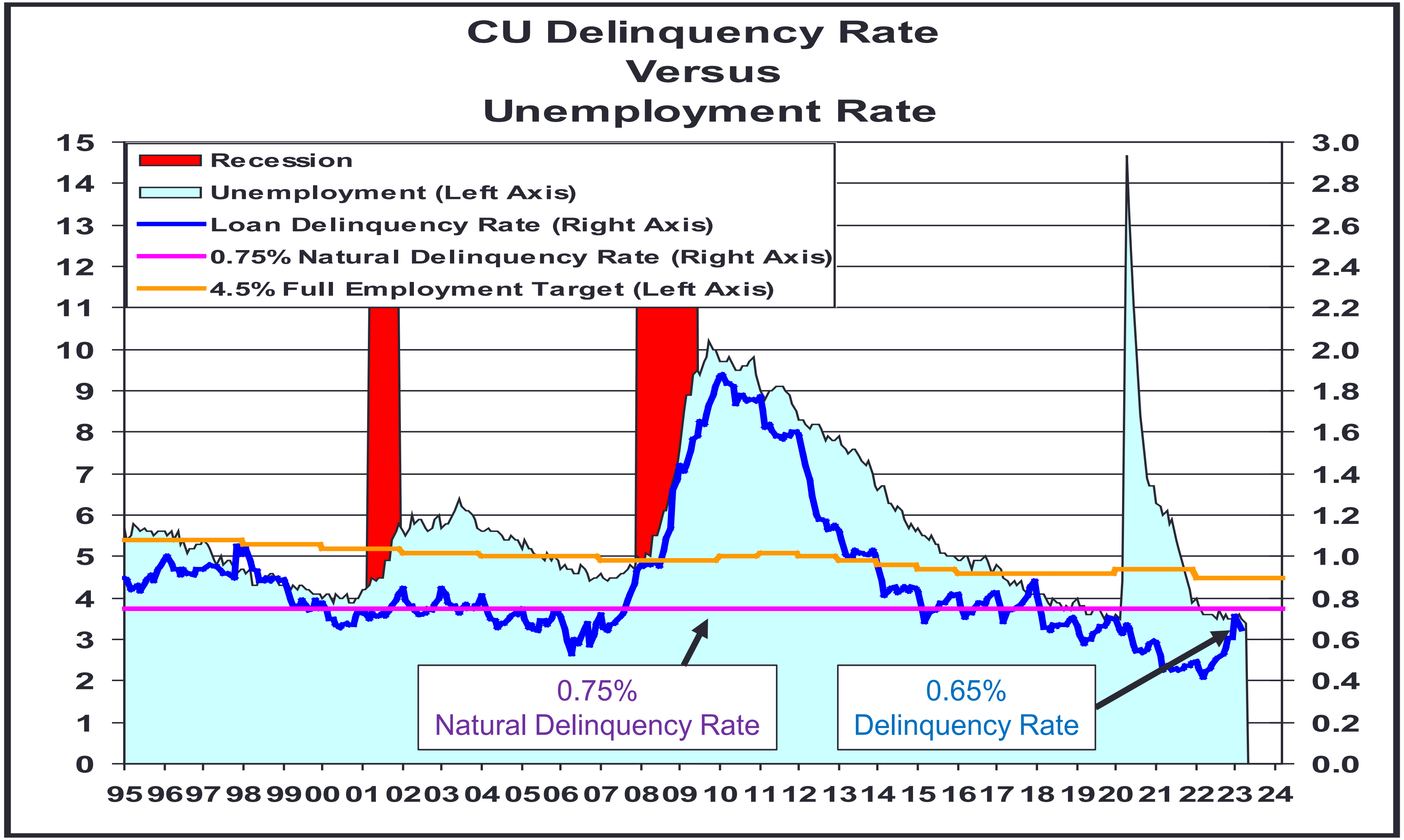
Unemployment Rate Below Natural Unemployment Rate



CU Loan Delinquency Rates are Low but Heading Up



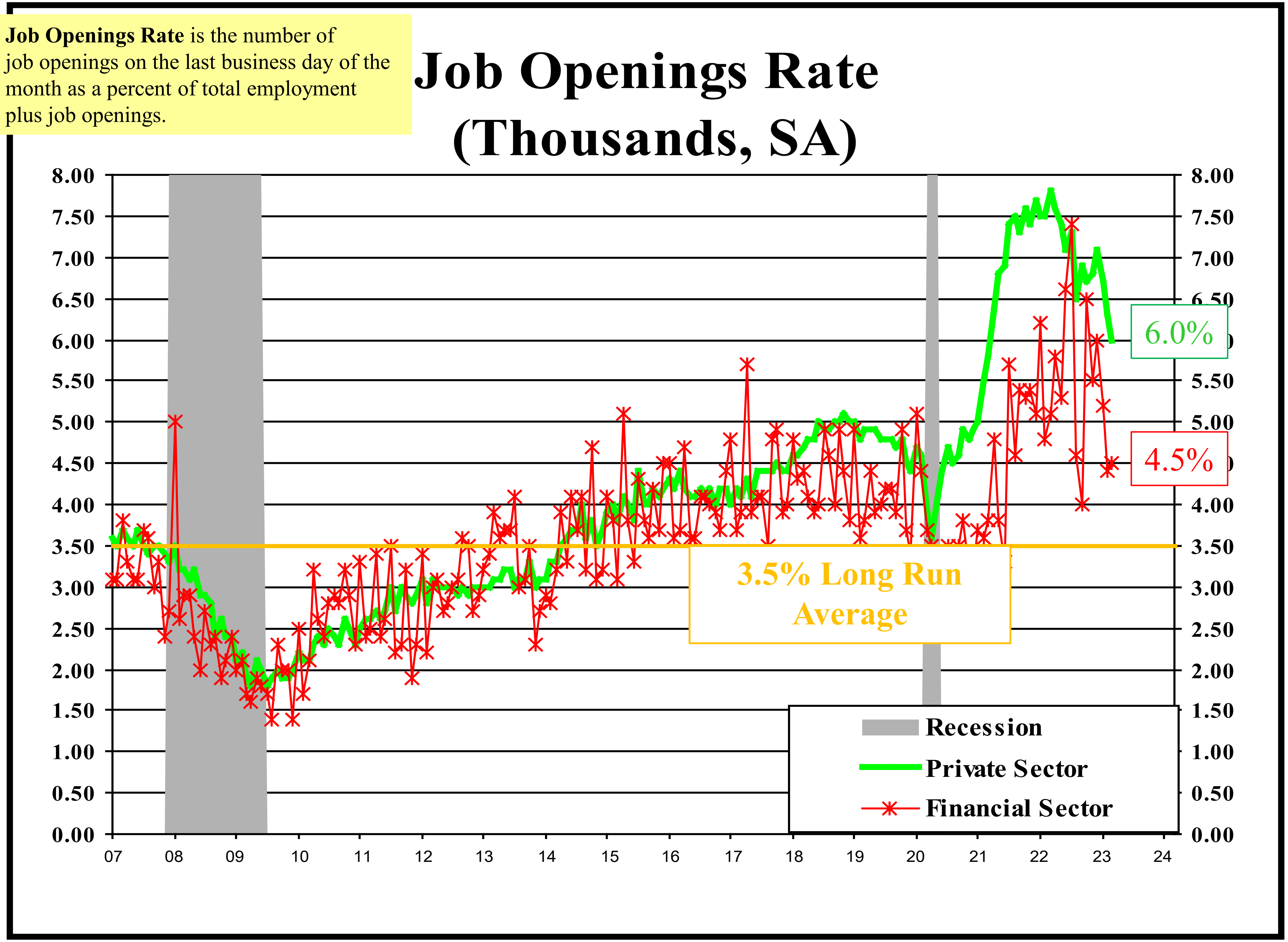
CU Loan Delinquency Rates are Low but Heading Up



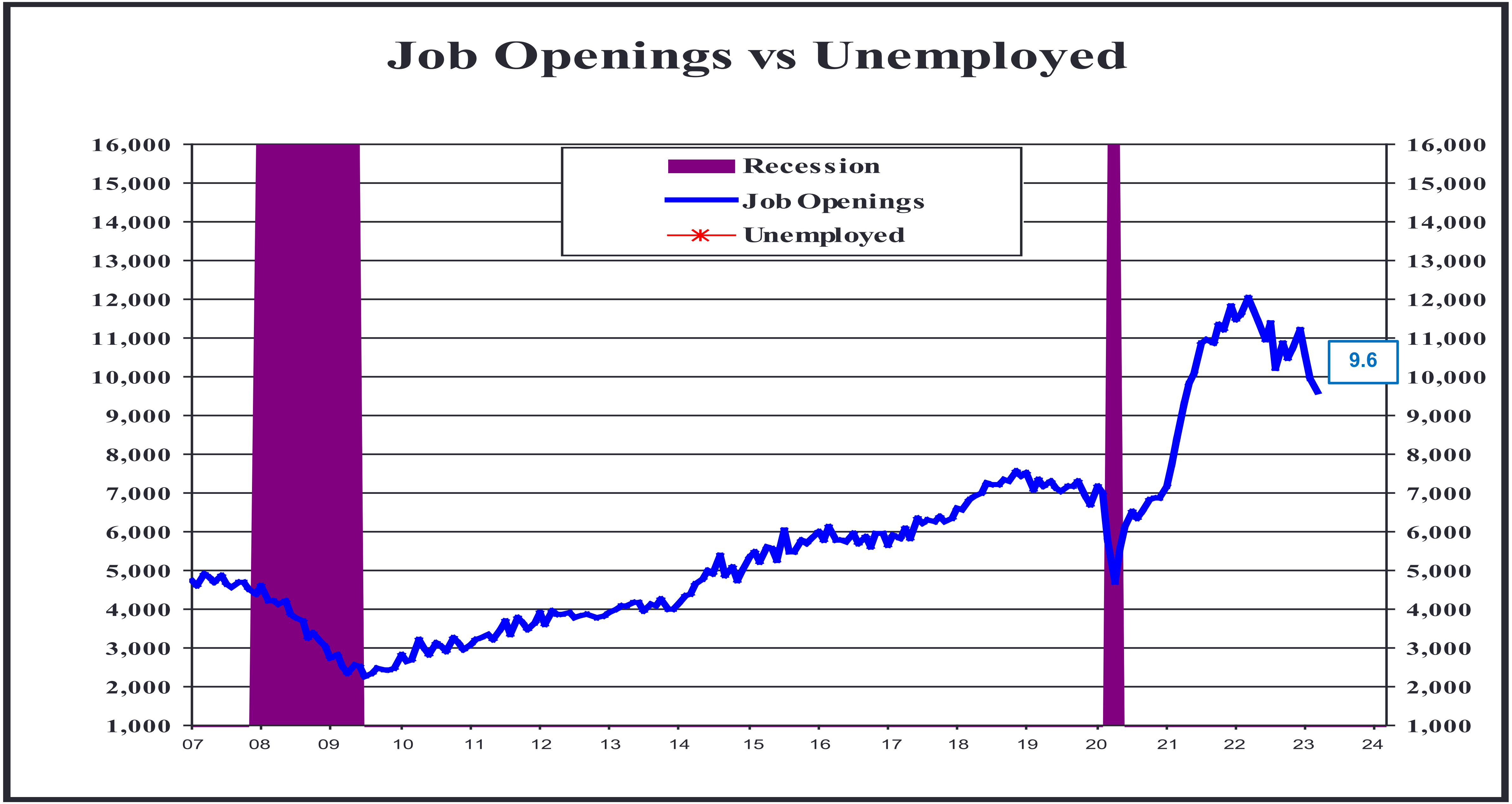
Job Openings Rate is the number of job openings on the last business day of the month as a percent of total employment plus job openings.

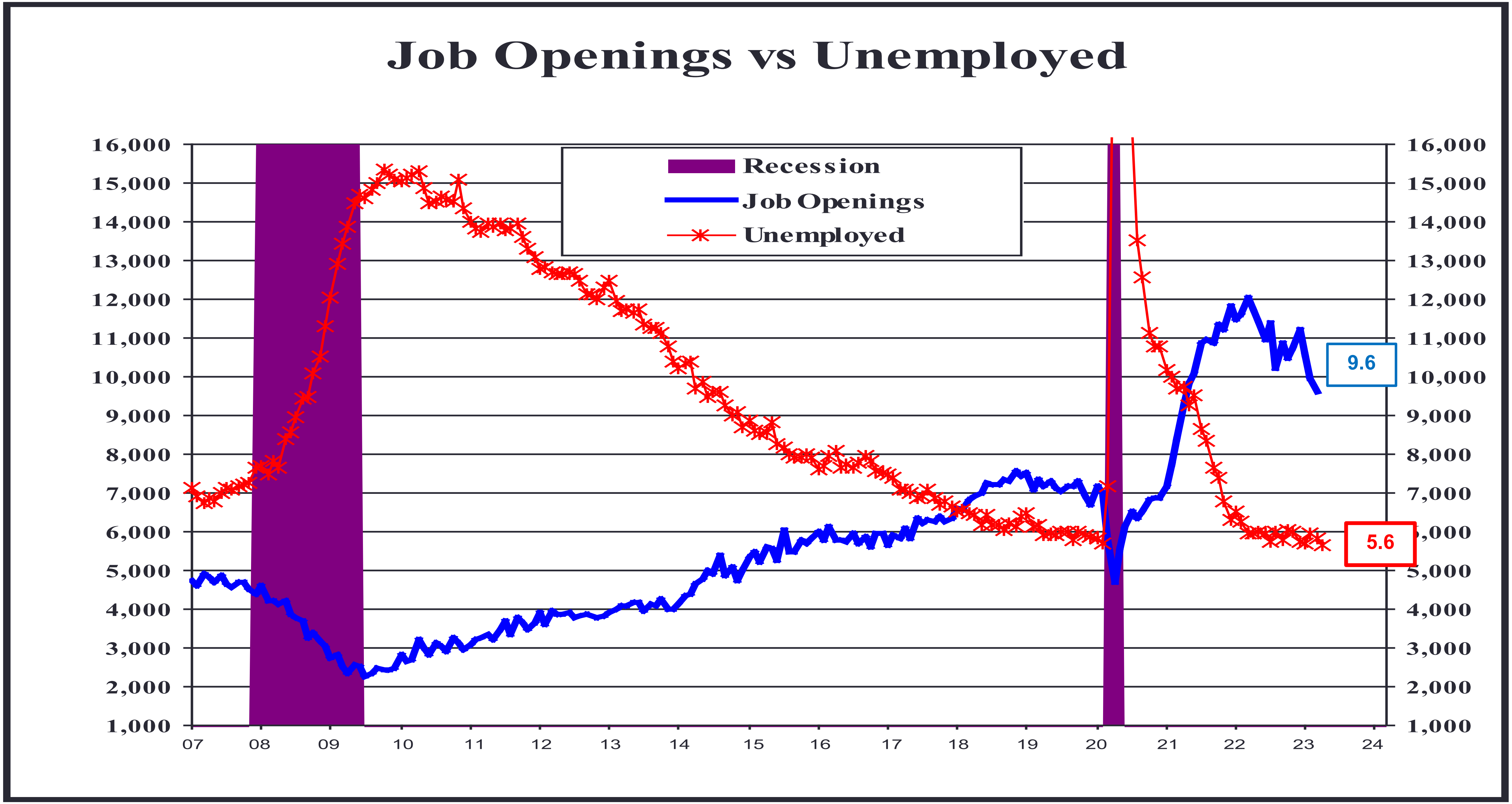
Quit Rate is the number of voluntary separations by employees as a percent of total employment

Job Openings Rate VS Quit Rate

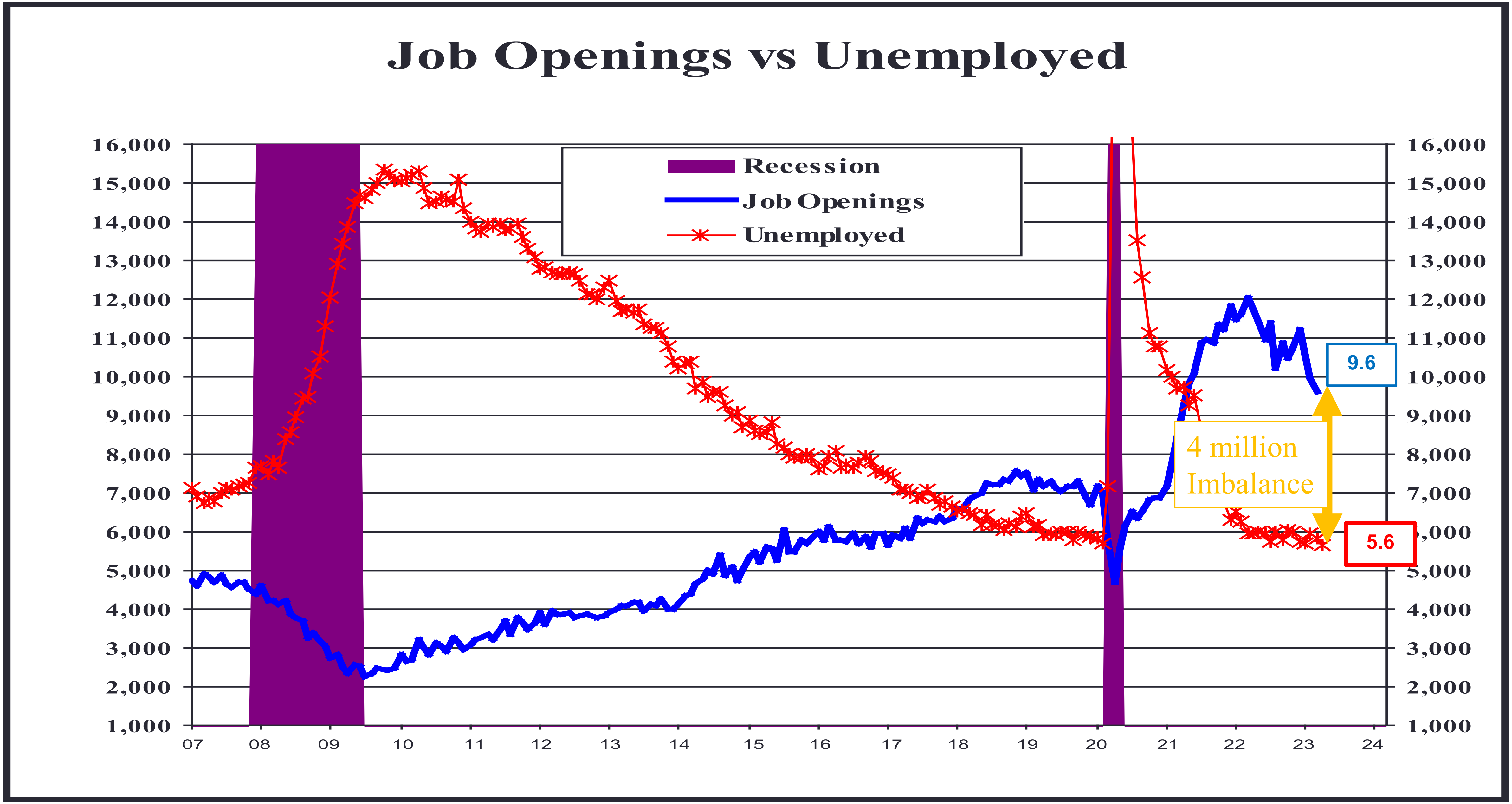


Job Openings Rate is the number of job openings on the last business day of the month as a percent of total employment plus job openings.
Job Openings Rate
(Thousands, SA)
8.00
7.50
7.00
6.50
6.00
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
07
08
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
6.0%
4.5%
3.5% Long Run Average
Recession
Private Sector
Financial Sector

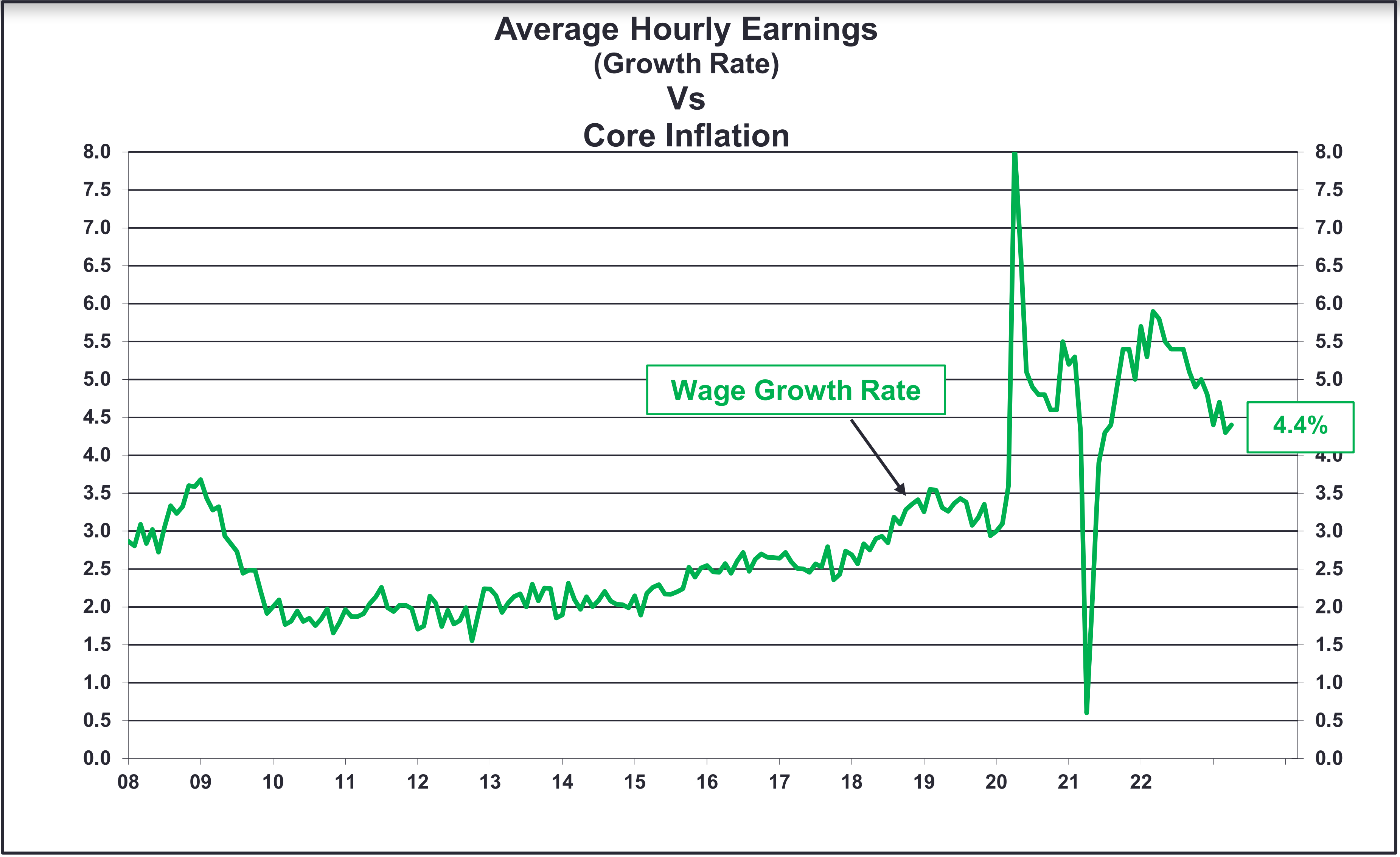

Job Openings vs Unemployed
16,000
15,000
14,000
13,000
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
Recession
Job Openings
Unemployed
9.6
07
08
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24



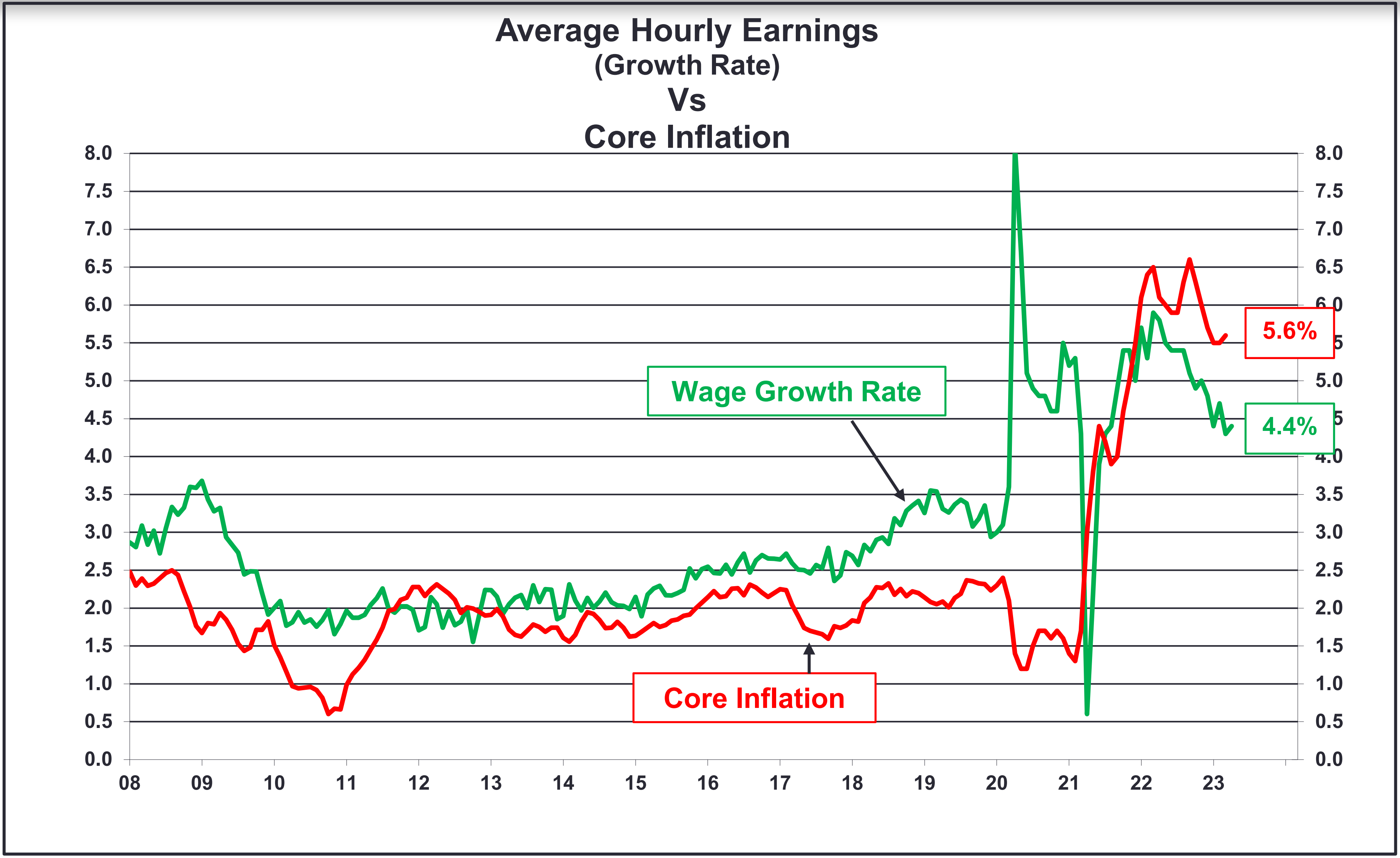
Job Openings vs Unemployed
Recession
Job Openings
Unemployed
16,000
15,000
14,000
13,000
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
07
08
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
9.6
5.6


Job Openings vs Unemployed
Recession
Job Openings
Unemployed
16,000
15,000
14,000
13,000
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
07
08
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
9.6
4 million
Imbalance
5.6

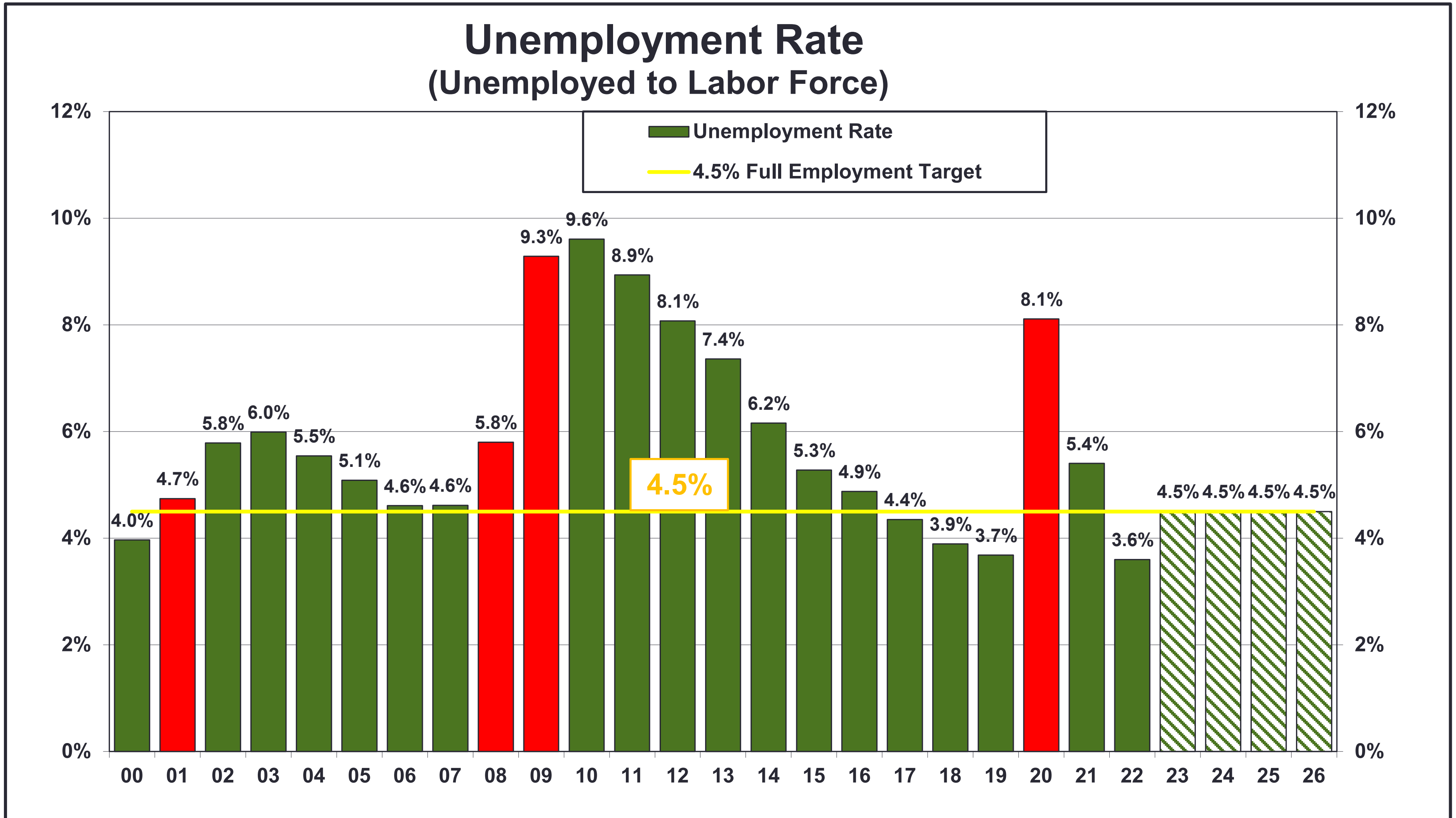
Wage Growth Slower Than Inflation



Wage Growth Slower Than Inflation

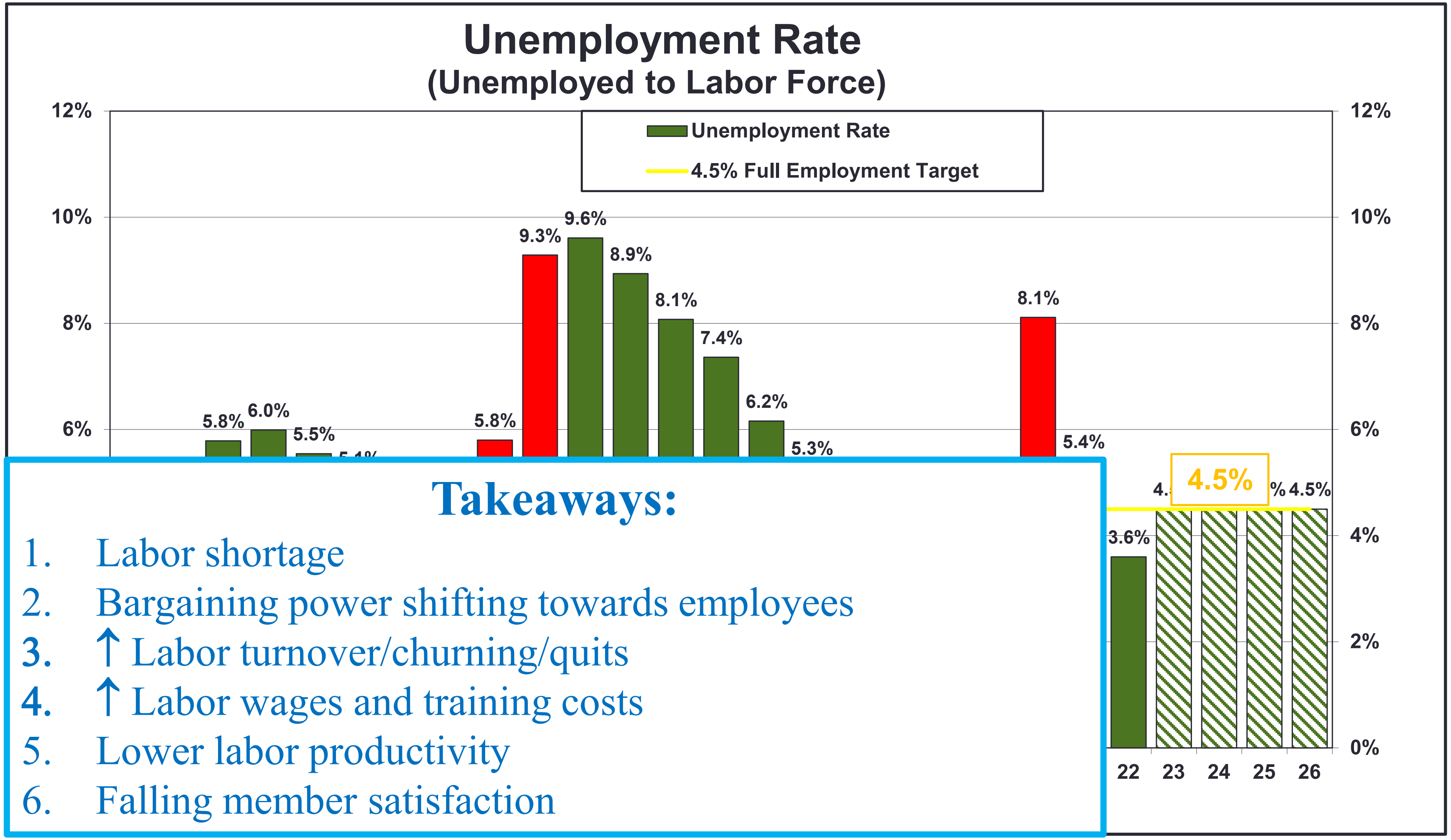


Unemployment Rate Rising to the Natural Rate in 2023



Source: Department of Commerce

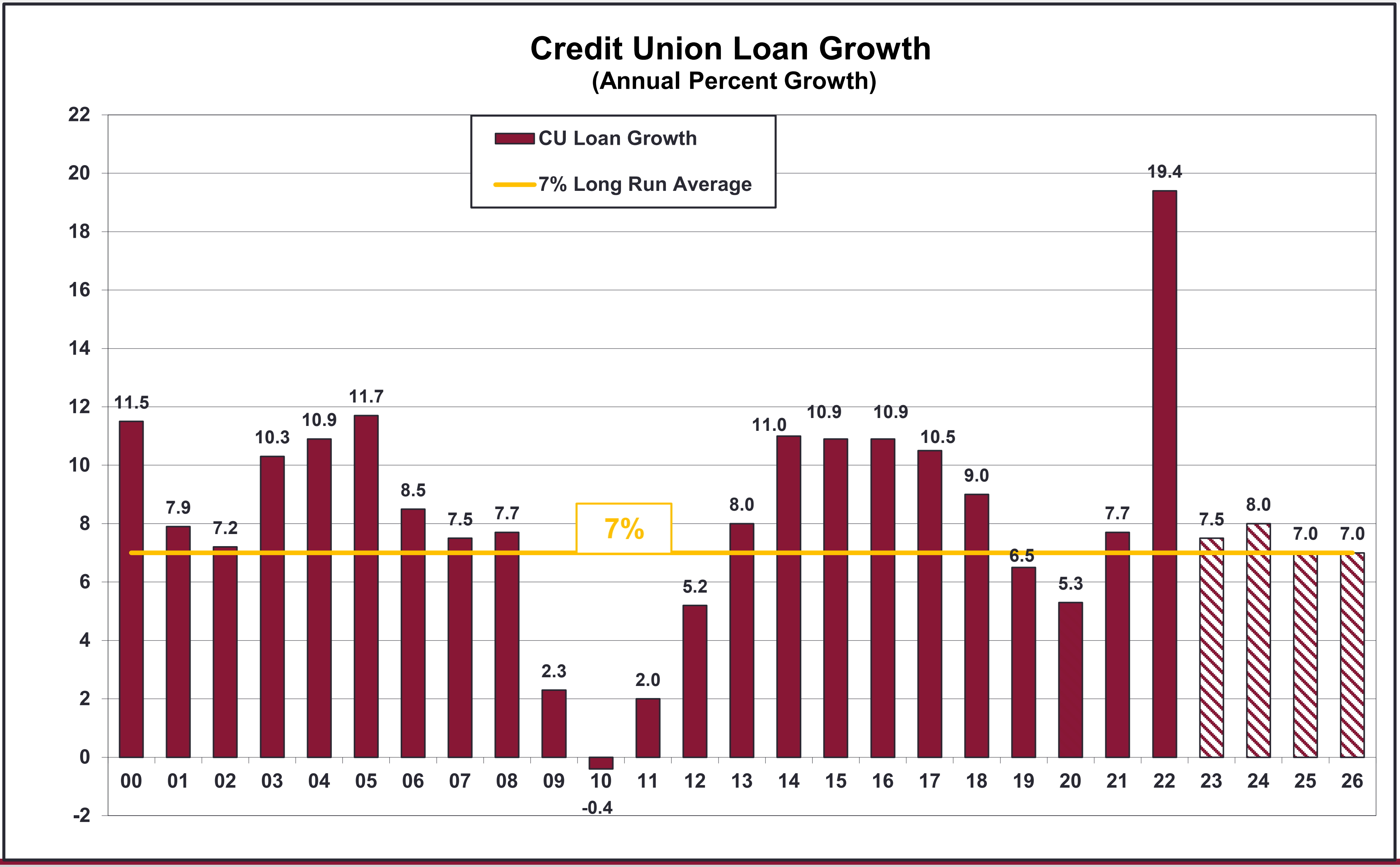
Unemployment Rate Below Normal for Next 2 Years



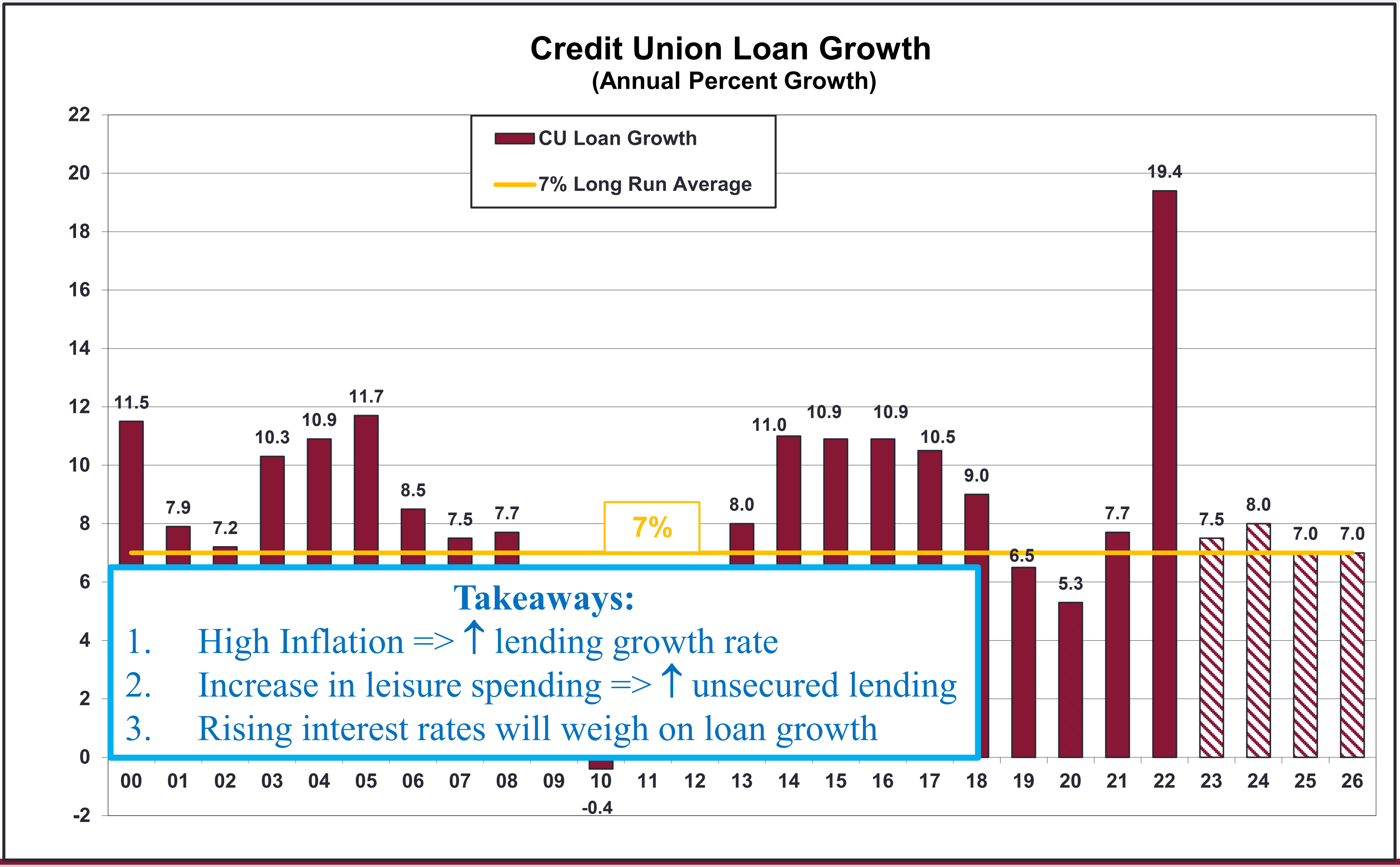
Takeaways:

1. Labor shortage
2. Bargaining power shifting towards employees
3. ↑ Labor turnover/churning/quits
4. ↑ Labor wages and training costs
5. Lower labor productivity
6. Falling member satisfaction

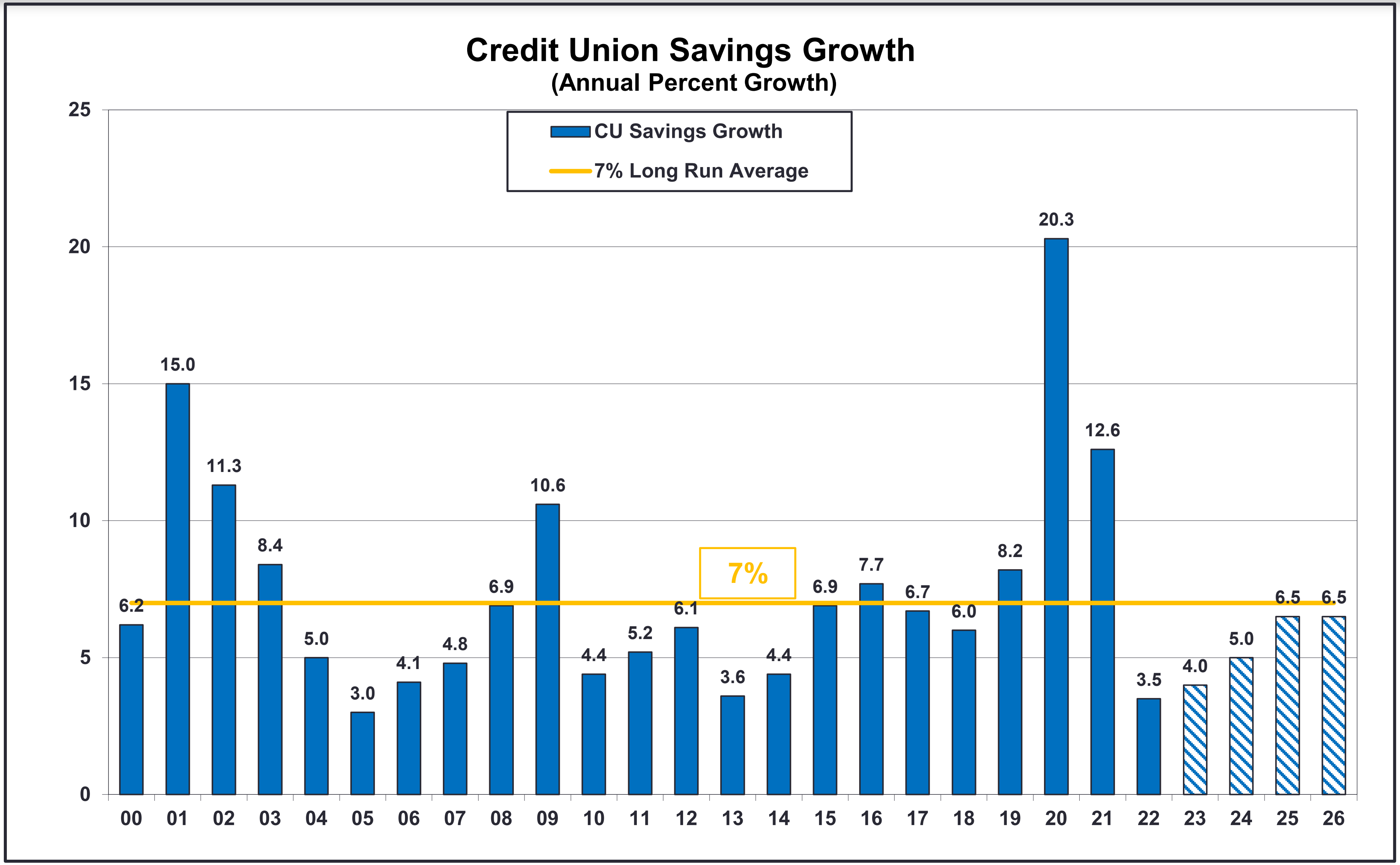
Above Trend Credit Union Loan Growth



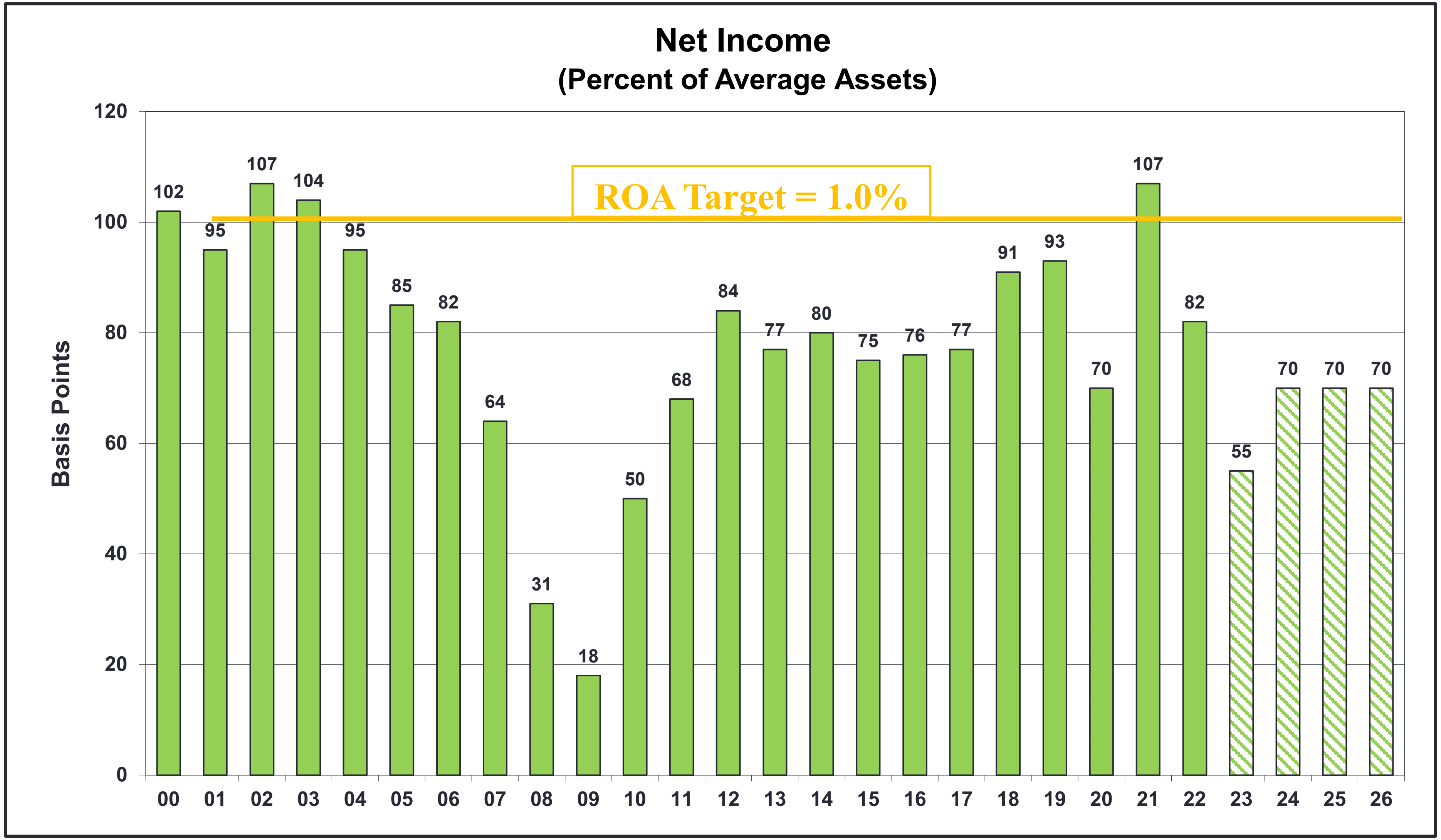
Above Trend Credit Union Loan Growth



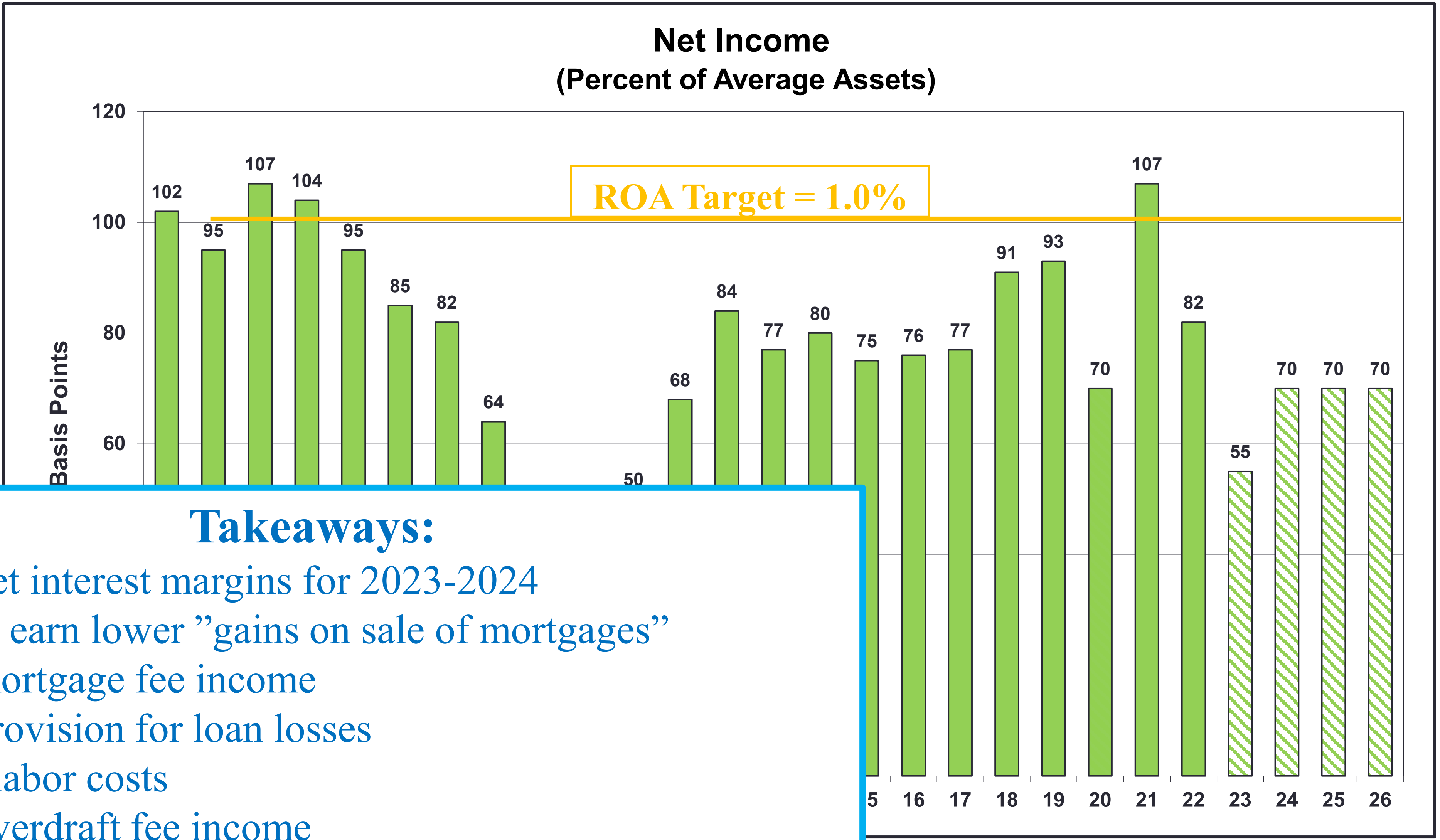
Below Trend Credit Union Saving Growth in 2023



Credit Union Earnings Below Trend in 2023



Credit Union Earnings Below Trend in 2023



Takeaways:

1. Rising net interest margins for 2023-2024
2. CUs will earn lower "gains on sale of mortgages"
3. Lower mortgage fee income
4. Rising provision for loan losses
5. Surging labor costs
6. Lower overdraft fee income

Economic Update Summary For 2023

Economic Update Summary For 2023

1. Slow economic growth for the next year

Economic Update Summary For 2023

1. Slow economic growth for the next year
2. Falling inflation rate during the next 2 years

Economic Update Summary For 2023

1. Slow economic growth for the next year
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Economic Update Summary For 2023

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4. Short-term interest rates above long-term interest rates in 2023

Economic Update Summary For 2023

1. Slow economic growth for the next year
2. Falling inflation rate during the next 2 years
3. Unemployment rate rising to natural rate in 2023
4. Short-term interest rates above long-term interest rates in 2023
5. Credit union loan growth slowing in 2023

Economic Update Summary For 2023

1. Slow economic growth for the next year
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4. Short-term interest rates above long-term interest rates in 2023
5. Credit union loan growth slowing in 2023
6. Rising net interest margins in 2023

Economic Update Summary For 2023

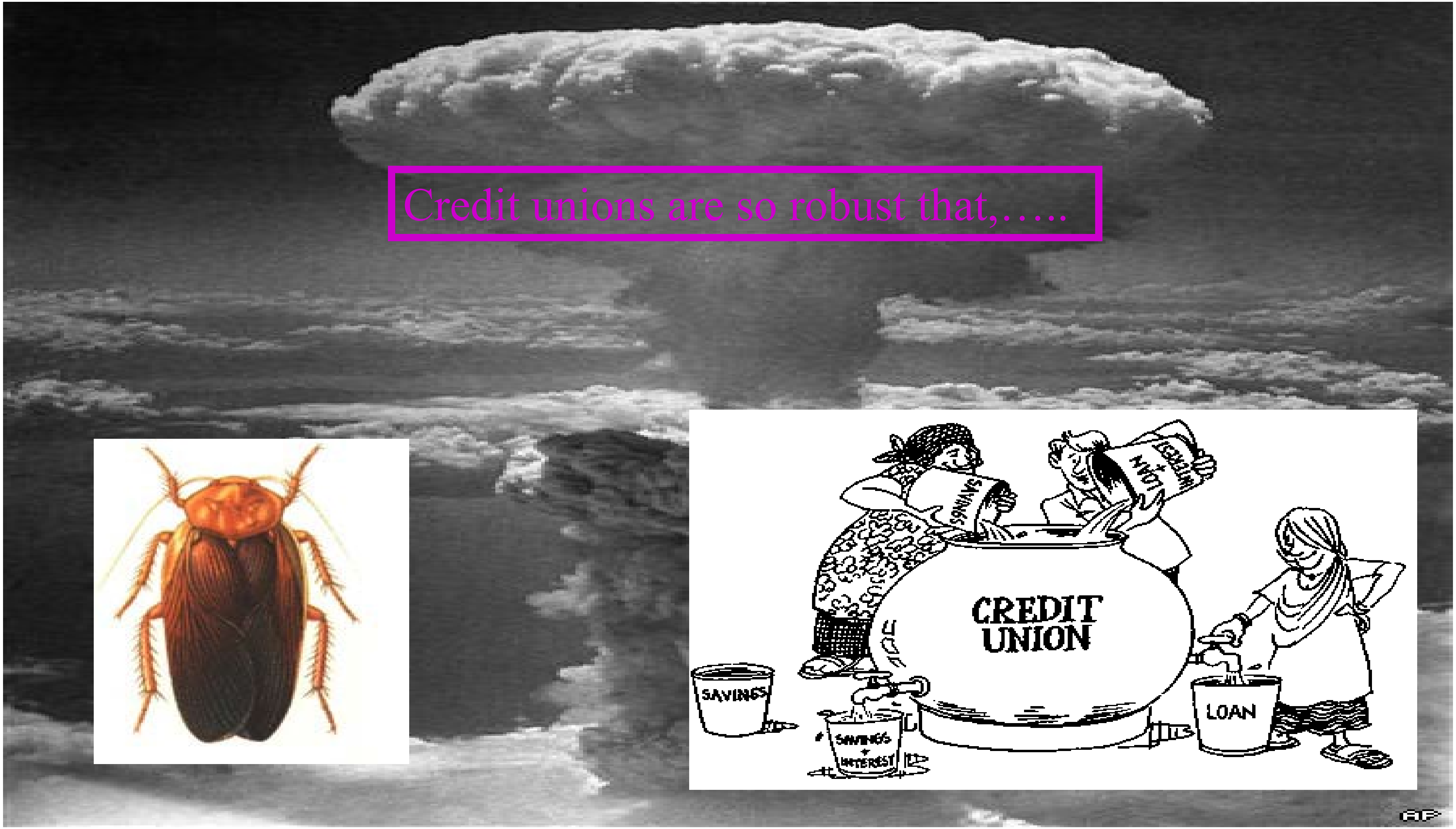
1. Slow economic growth for the next year
2. Falling inflation rate during the next 2 years
3. Unemployment rate rising to natural rate in 2023
4. Short-term interest rates above long-term interest rates in 2023
5. Credit union loan growth slowing in 2023
6. Rising net interest margins in 2023
7. Credit union mortgage originations falling 15-20% in 2023

Credit unions are so robust that,…..

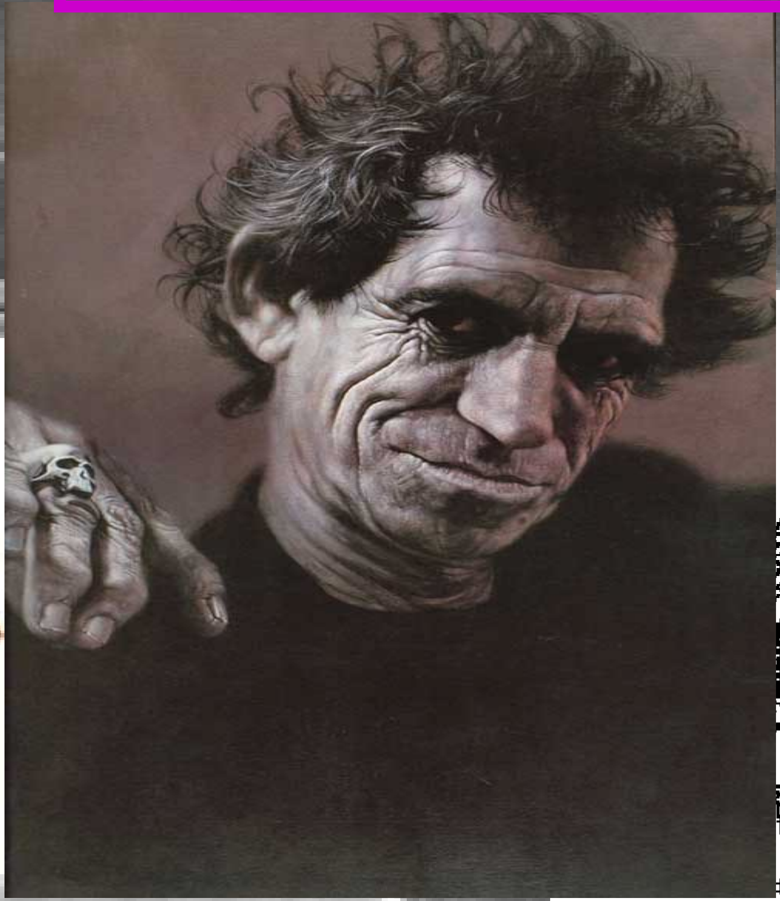

Credit unions are so robust that,…..

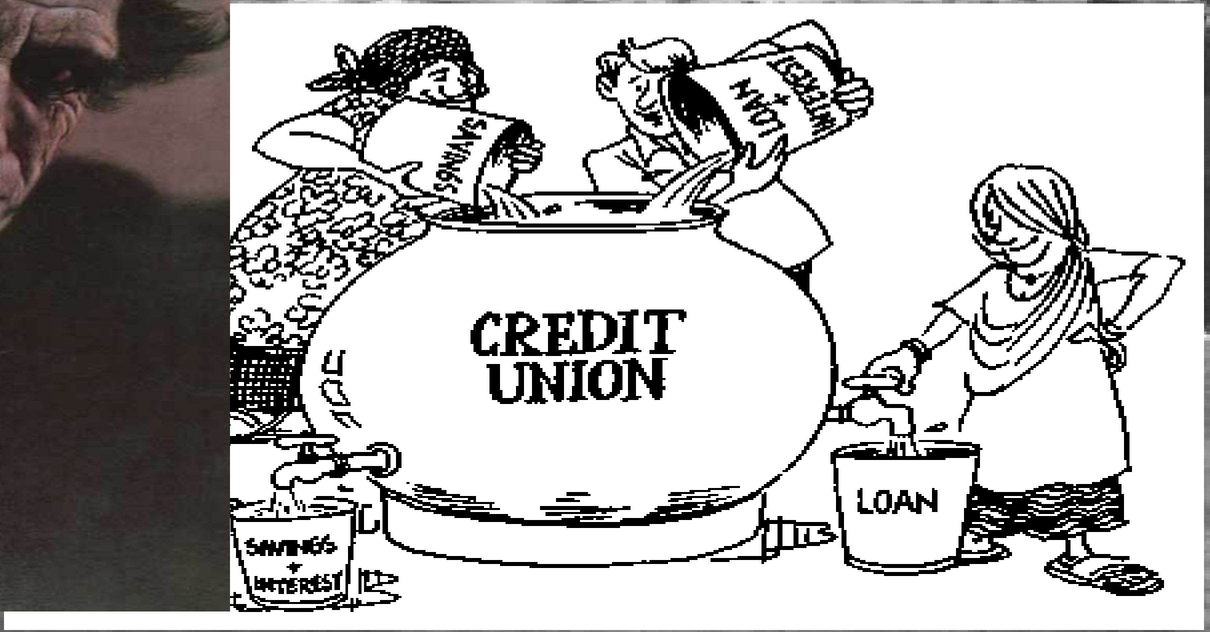

Credit unions are so robust that,…..

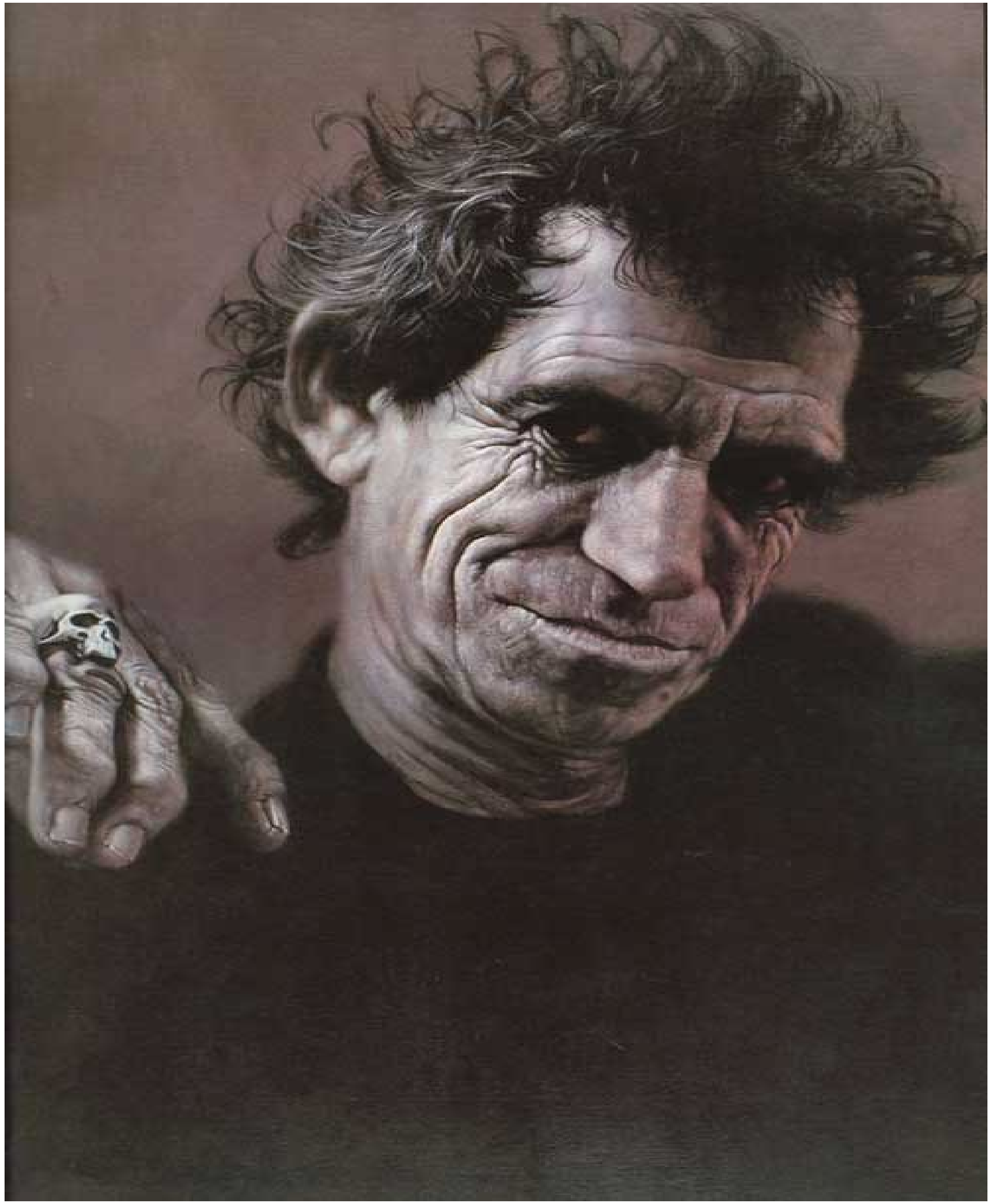
Credit unions are so robust that,…..

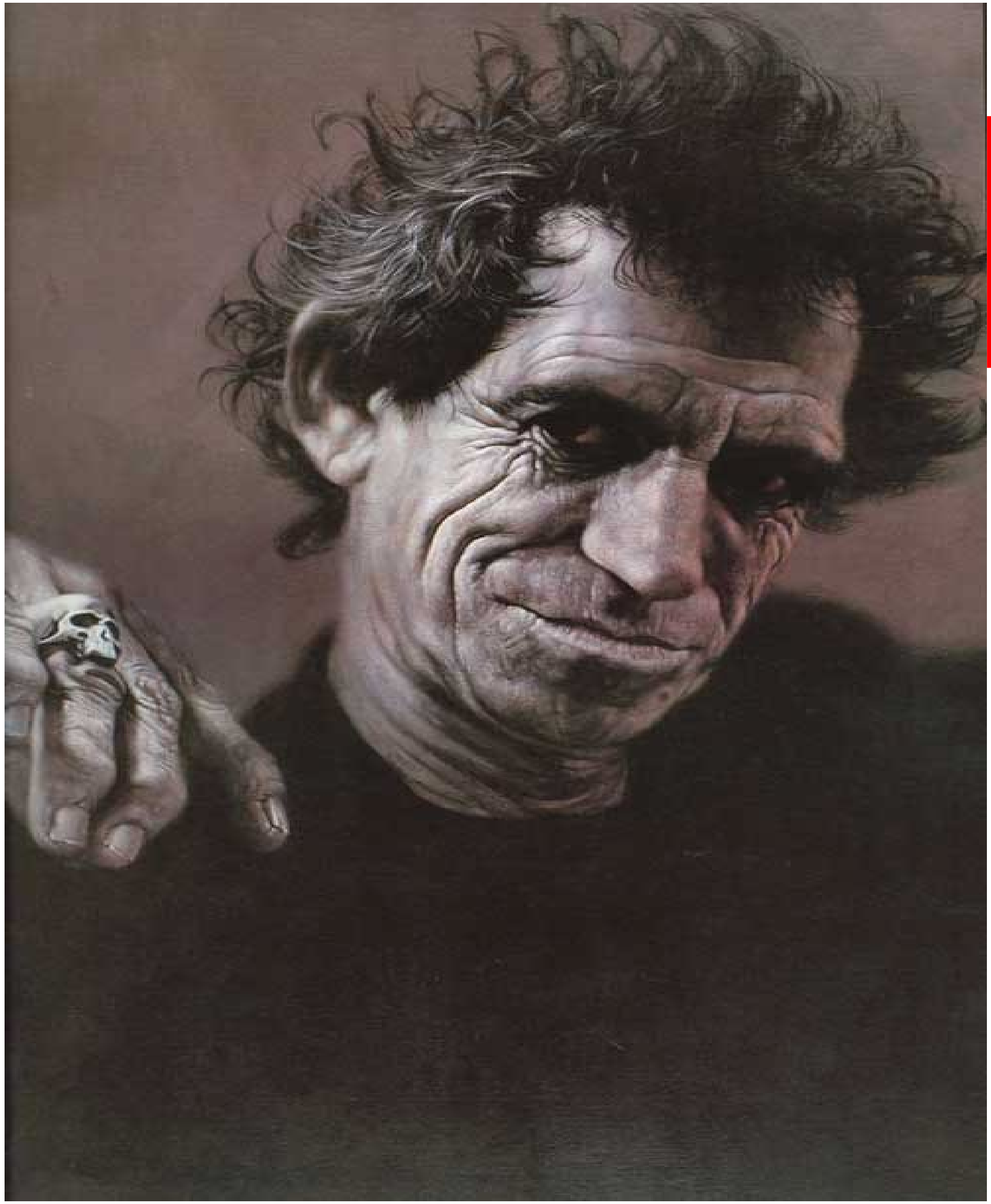


Credit unions are so robust that,…..









Carpe Diem
“Seize the day”

Questions?

Economic forecast
April 2023

	Past results		Quarterly results/forecasts				Annual forecasts	
	Previous 10 Yr. Avg	2022	2023:1	2023:2	2023:3	2023:4	2023	2024
Growth rates:								
Economic Growth (% chg GDP)*	2.1%	2.1%	1.1%	1.4%	1.0%	0.50%	1.0%	1.50%
Inflation (CPI, 12 mth % chg)	2.2%	6.5%	5.0%	4.50%	4.0%	3.50%	3.5%	2.50%
Unemployment Rate (BLS)	6.0%	3.5%	3.5%	3.70%	4.0%	4.00%	4.0%	4.50%
Federal Funds Rate (effective)	0.58%	4.33%	4.65%	5.10%	5.10%	5.10%	5.10%	4.30%
10-Year Treasury Rate	2.11%	3.88%	3.48%	3.50%	3.50%	3.50%	3.50%	3.50%
10-Year-Fed Funds Spread	1.53%	-0.45%	-1.17%	-1.60%	-1.60%	-1.60%	-1.60%	-1.60

*Percent change, annual rate. All other numbers are end-of-period values.

Credit union forecast
April 2023

	Past results		Quarterly results/forecasts				Annual forecasts	
	10 Yr Avg	2022	2023:1	2023:2	2023:3	2023:4	2023	2024
Growth rates:								
Savings growth	7.8%	3.7%	1.50%	1.45%	0.33%	0.72%	4.0%	5.00%
Loan growth	7.5%	20.0%	0.40%	2.75%	2.65%	1.70%	7.50%	8.00%
Asset growth	7.7%	4.5%	1.50%	2.9%	0.6%	1.00%	6.00%	7.00%
Membership growth	3.3%	4.8%	0.97%	0.87%	0.77%	0.39%	3.0%	3.00%
Liquidity:								
Loan-to-share ratio**	76.3%	82.1%	80.63%	81.67%	83.55%	84.37%	84.37%	86.67%
Asset quality:								
Delinquency rate**	0.87%	0.58%	0.67%	0.70%	0.72%	0.75%	0.75%	0.80%
Net charge-off rate*	0.56%	0.32%	0.40%	0.45%	0.50%	0.55%	0.50%	0.55%
Earnings:								
Return on average assets (ROA)*	0.82%	0.82%	0.55%	0.55%	0.55%	0.60%	0.55%	0.70%
Capital adequacy:								
Net worth ratio**	10.6%	10.5%	10.58%	10.41%	10.49%	10.53%	10.61%	10.59%

*Quarterly data, annualized. **End of period ratio.

Limerick of the Day

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Credit Unions have always depended

Limerick of the Day

Credit Unions have always depended
On a rate of borrowing that is splendid

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Credit Unions have always depended
On a rate of borrowing that is splendid
By consumers for whom

Limerick of the Day

Credit Unions have always depended
On a rate of borrowing that is splendid
By consumers for whom
Their means to consume

Limerick of the Day

Credit Unions have always depended
On a rate of borrowing that is splendid
By consumers for whom
Their means to consume
May soon find them overextended.