



## TRENDWATCH 1Q21



May 12, 2021

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When you join the event, you should automatically be connected to the audio broadcast with your computer. To listen by phone, please dial **+1-301-715-8592**, then input the access code **850 5028 7475**.



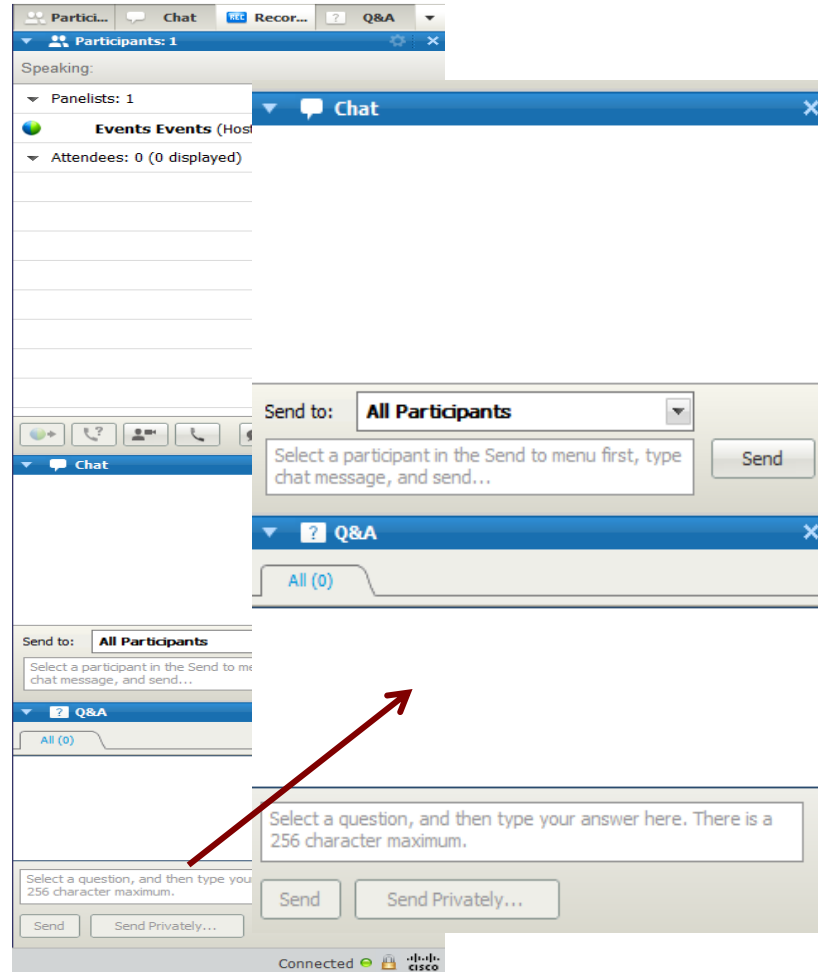
To help you follow along with TrendWatch, earlier today we sent the presentation slides for the event to the email address you used to register for TrendWatch. We will also send you a copy of slides after the event.

# Slide Link

Today's slides can be found online at:

<http://bit.ly/1Q-2021>

# We Encourage Questions!!!



Use the **Q&A box** located on the right side of the screen to type your comments or questions.

# Put Excess Liquidity to Work

**30-Day Yield: 0.22%\***

\*The yield for the Ultra-Short Duration Portfolio above reflects the 30-day annualized effective yield (net of fees/expenses) as of May 10, 2021



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# Join The Impact Network

Callahan is building a network of leading credit unions that will help us define impact metrics, share perspectives and practices, and work to evolve the credit union story.

# Strategy Never Stops

Callahan is here to help your credit union communicate, plan, and stay strategically aligned through the entire calendar year.

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**[Callahan.com/Strategy](https://Callahan.com/Strategy)**







# Today's Lineup

## **Market Update**

*Jason Haley, Chief Investment Officer, Investment Management Group,  
ALM First*

## **1Q 2021 Credit Union Results**

*Jay Johnson, Chief Collaboration Officer, Callahan & Associates  
Alix Patterson, Chief Experience Officer, Callahan & Associates*

## **ScoreUp Credit Builder Loan**

*Josh Garrison, VP, Consumer Lending & Cards, Patelco CU  
Kipp Riesland, Sr. Program Manager, Financial Wellbeing, Patelco CU*





Callahan Quarterly Trendwatch | May 12, 2021

# ALM FIRST MARKET UPDATE



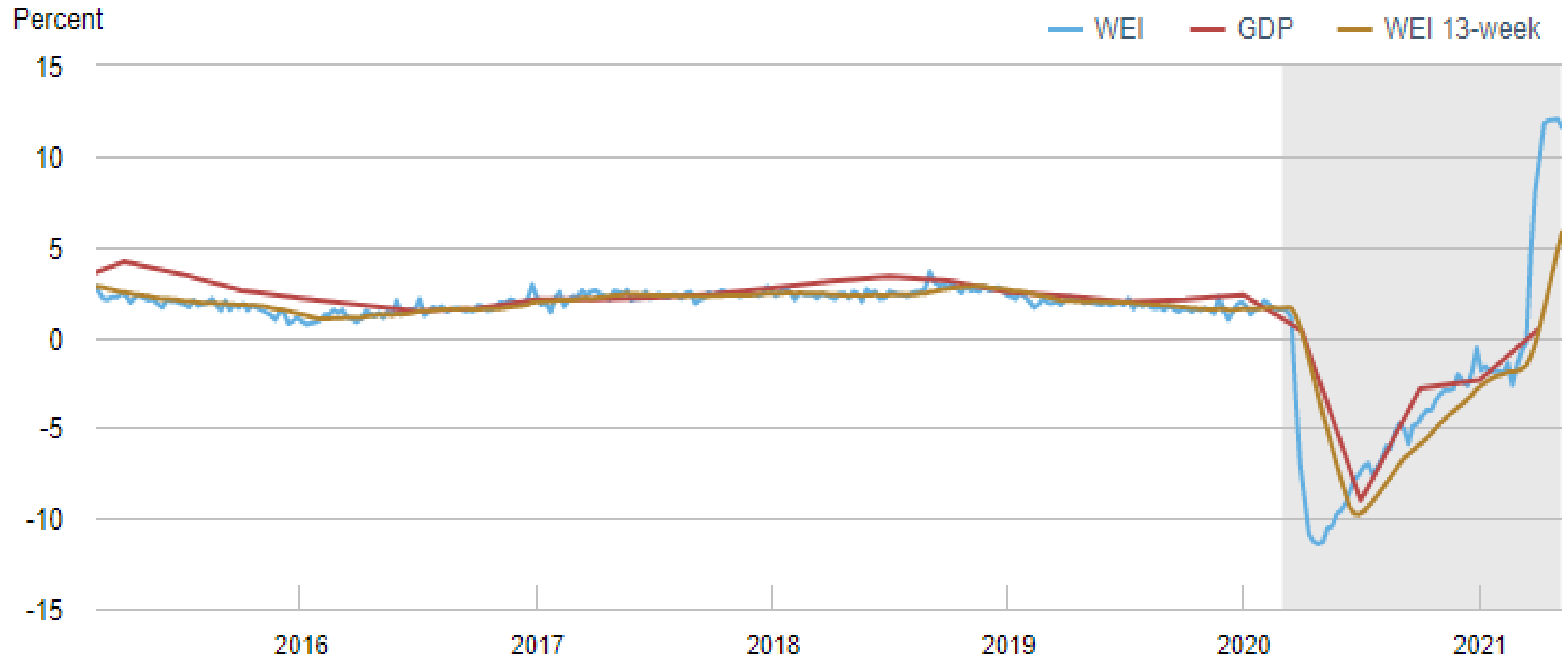
**Speaker**



**Jason Haley**  
Chief Investment Officer

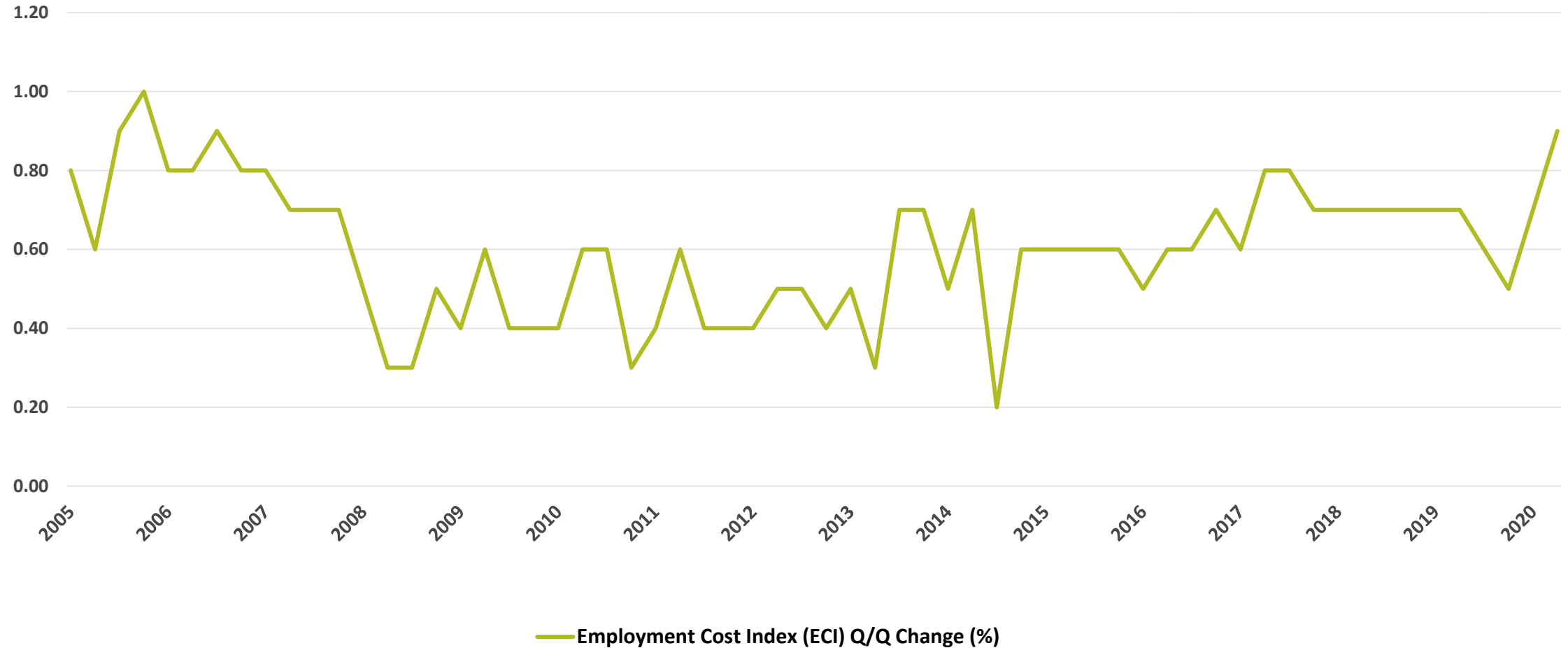
- **High economic optimism, inflation worries, and the Fed**
  - First estimate of Q1 GDP growth +6.4% q/q (annualized)
    - Consumer spending +10.7%, including 23.6% q/q increase in goods consumption
    - Decline in inventories subtracted 2.6 percentage points from the headline rate (supply bottlenecks)
    - +10.2% Q2 growth assumption based on Bloomberg economist survey (weighted average)
  - Still a healthy debate regarding future inflation concerns
    - Several corporations have said they are preparing to raise prices to consumers due to higher input prices
  - The Fed still believes any near-term inflation pressures will be transitory due in large part to base effects and Covid-related supply chain bottlenecks
    - Likely to be challenged in the coming months by the markets if year-over-year inflation metrics surge
- **April jobs report was a head scratcher**
  - Only 266k jobs added vs. 1mm expected and unemployment rate rose for first time since last April
  - Inconsistent with other recent labor market metrics
  - How does it affect Fed QE tapering discussion, if at all?

# NY Fed Weekly Economic Index



# Wage Inflation Emerging?

## Growth in Labor Costs



# Market Themes

- **Sharp and swift Treasury curve steepening in Q1**
  - Positive Covid trends and corresponding economic optimism sent long-end-yields higher and steeper
    - Market pricing for first Fed rate hike moved up to early 2023
  - 5yr and 10yr yields down 14 bps and 12 bps so far in Q2
- **Fed chose to keep IOER rate unchanged at April FOMC**
  - Supply and demand technical have pushed repo and other money market rates to the zero bound amid reduced T-bill issuance
  - Fed’s reverse repo facility has so far been successful in absorbing excess liquidity and keeping rates from going negative
- **Fixed income returns negative for most sectors YTD**
  - Higher Treasury yields 3yrs and beyond pushed bond prices lower in Q1, but April was, at least partially, a bounce-back month
  - Fixed income spreads have continued to grind tighter given continued heavy presence from the Fed

Treasury Curve			
Tenor	3/31/2021 (%)	12/31/2020 (%)	Change (bps)
1-Month	0.00	0.03	-0.03
3-Month	0.02	0.06	-0.04
6-Month	0.03	0.08	-0.05
1-Year	0.06	0.10	-0.05
2-Year	0.16	0.12	0.04
5-Year	0.94	0.36	0.58
10-Year	1.74	0.91	0.83
20-Year	2.31	1.44	0.87
30-Year	2.41	1.65	0.77
Curves			
3mo-10yr	1.73	0.86	0.87
2yr-5yr	0.78	0.24	0.54
2yr-10yr	1.58	0.79	0.79
2yr-30yr	2.25	1.52	0.73
5yr-10yr	0.80	0.55	0.25

Source: Bloomberg

# Higher Rates Are Ultimately Good for Banking

**Recent curve steepening stings as it relates to matters such as accountings measures on securities portfolios, but the operating environment is more favorable looking forward**

- Higher interest rates increase the value of the core deposit franchise
- Expanded NIM as higher yielding assets are added to the balance sheet

## **General principals of banking and interest rates...**

- Bank stocks trade at higher multiples of book when interest rates are higher.
- Net interest margins are higher when interest rates are higher.
- Acquisition values are higher when interest rates are higher.
- Net charge offs are lower when interest rates are higher.
- Bond portfolio values are lower when interest rates are higher.



# Disclaimer

- Returns are gross of fees, unaudited, and estimated using the Modified Dietz method. ALM First does not have complete discretionary trading authority over each account reflected in the performance discussed herein. Some clients had investment results materially different from those portrayed in this document. These data were compiled from client portfolios that consistently accepted ALM First investment advice.
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A graphic celebrating 25 years of service. It features a large, stylized number '25' in white and light blue, with a green and yellow crescent shape behind it. To the right of the '25', the text 'YEARS SERVING' is in white and 'OUR CLIENTS' is in light blue, both in a bold, sans-serif font.

# 25 YEARS SERVING OUR CLIENTS

3800 Maple Avenue Suite 600  
Dallas, TX 75219  
Phone: 800.752.4628  
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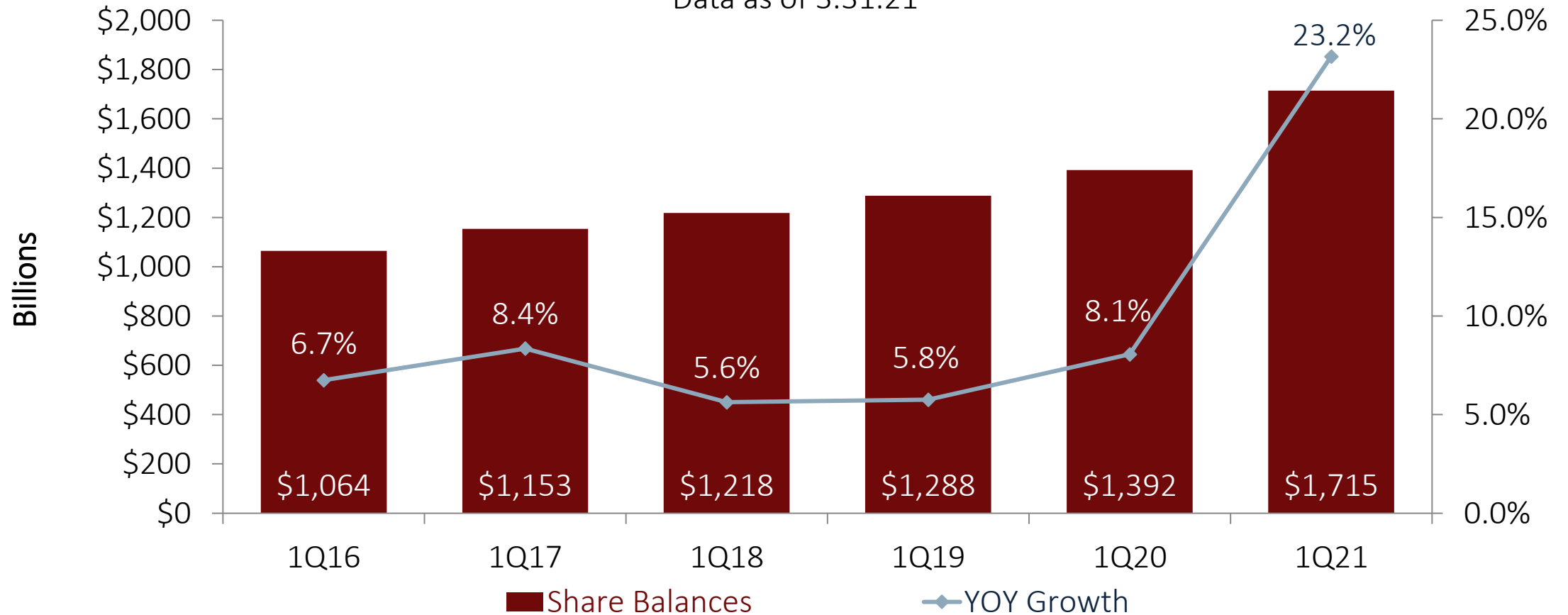


The balance sheet continues to grow as stimulus checks and tax refunds flow into deposit accounts

	3/31/2021	12-Mo. Growth	3/31/2020	12-Mo. Growth
Assets	\$1,973.0B	19.1%	\$1,657.0B	8.7%
Loans	\$1,178.5B	4.4%	\$1,128.7B	6.5%
Shares	\$1,714.6B	23.2%	\$1,392.2B	8.1%
Investments	\$703.6B	57.4%	\$446.9B	13.1%
Capital	\$207.4B	7.5%	\$192.9B	10.1%
Members	127.3M	3.7%	122.7M	3.5%

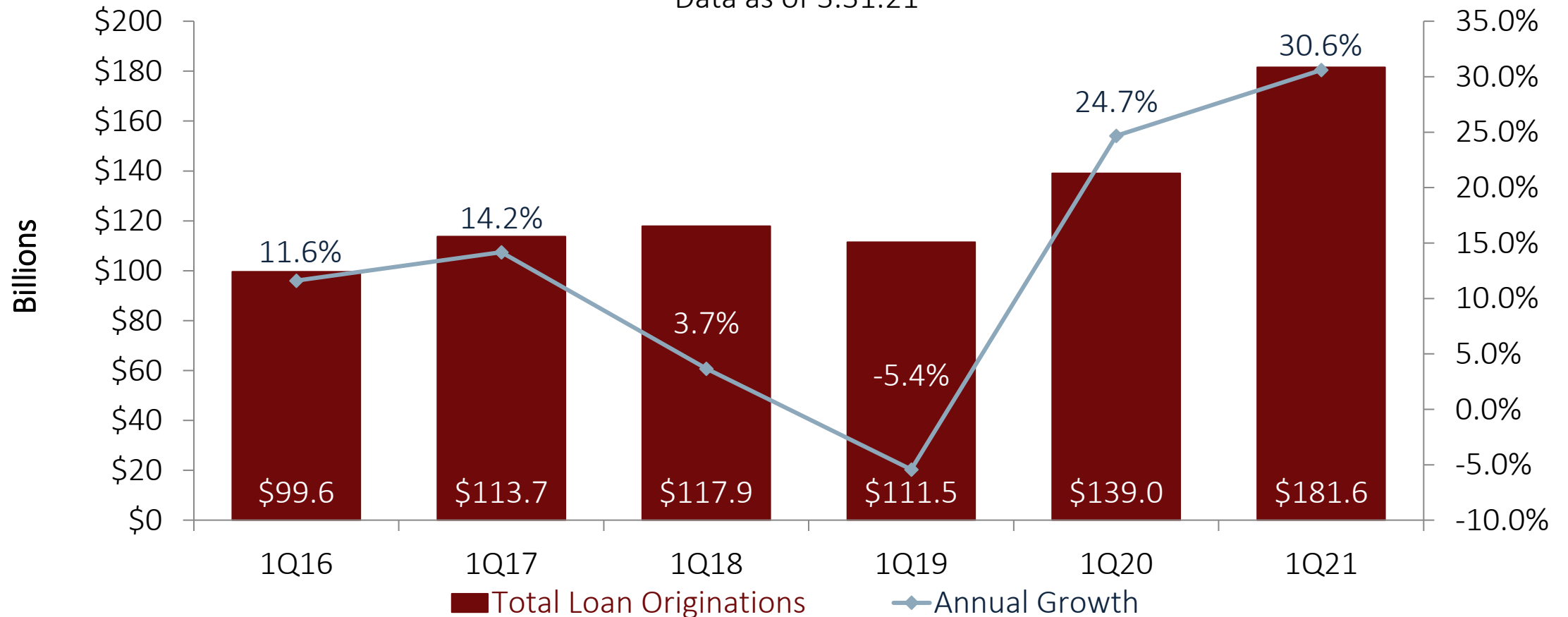
# Share balances at credit unions are rising at the fastest pace on record and have doubled over the last nine years

Total Share Balances and Annual Growth  
Data as of 3.31.21

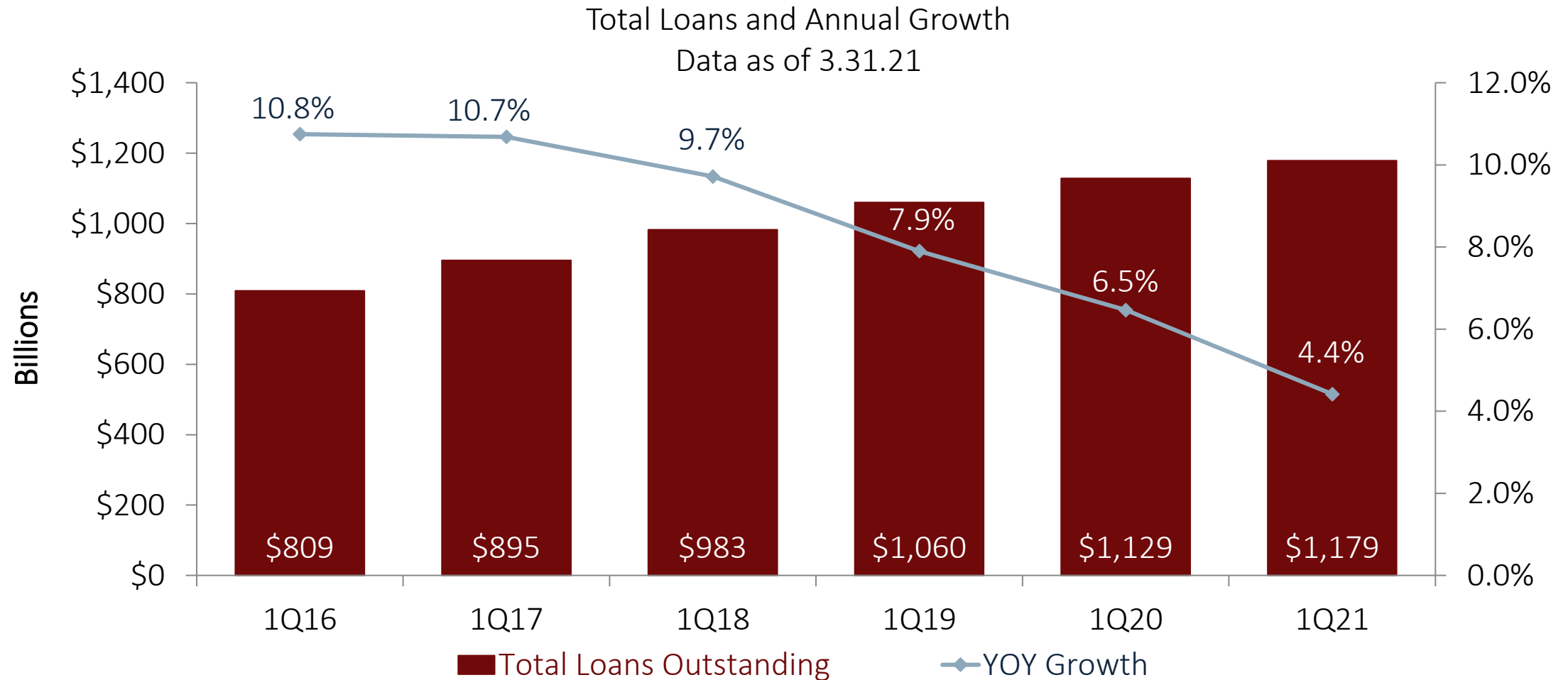


# 1<sup>st</sup> quarter loan originations increase 31% as both mortgage and consumer production accelerates

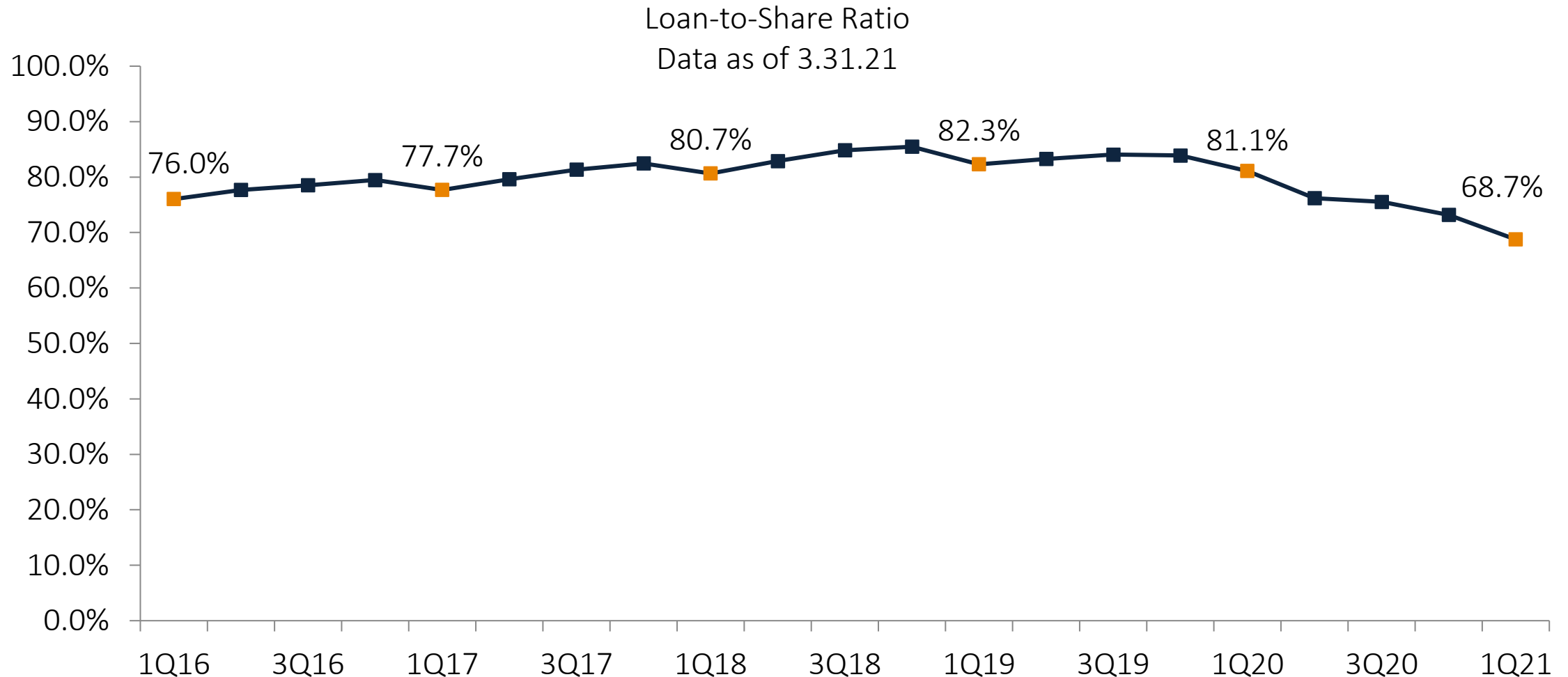
YTD Loan Originations and Annual Growth  
Data as of 3.31.21



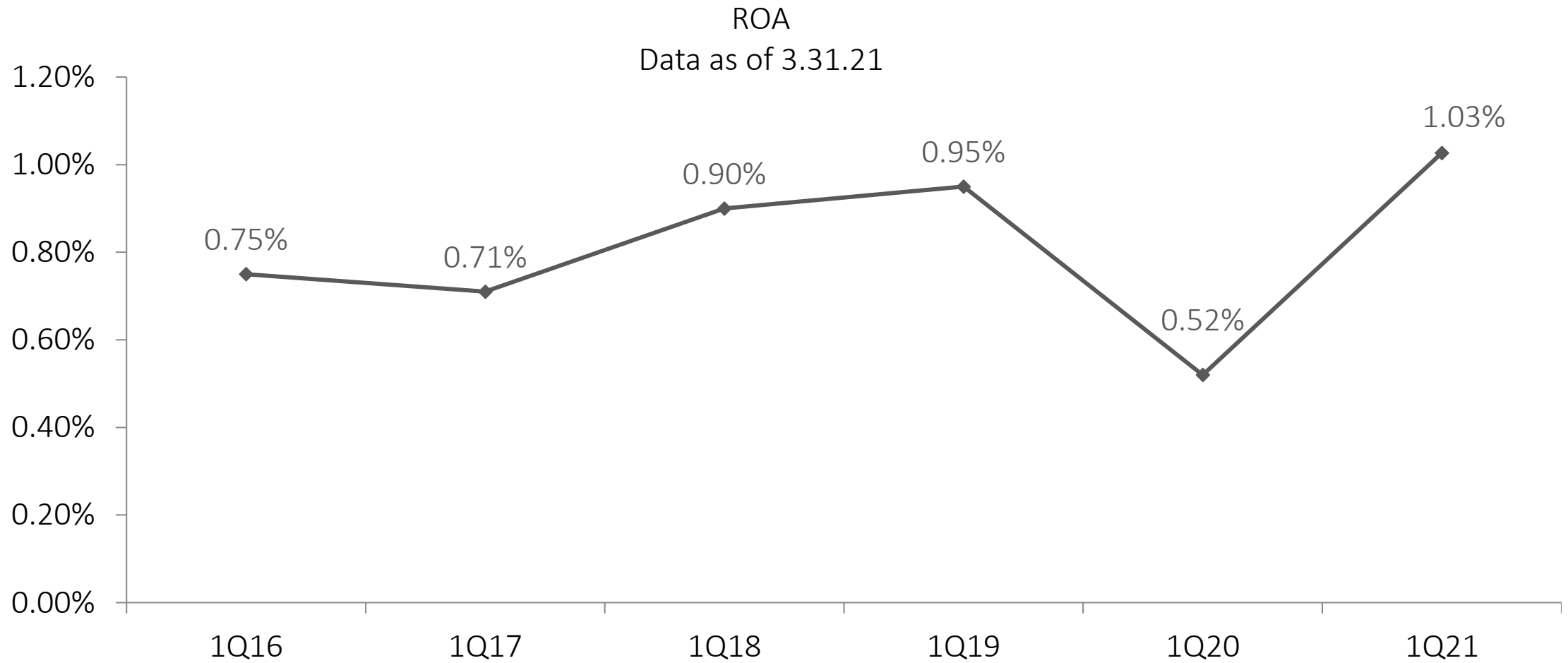
However, balance sheet loan growth slows as members continue to pay down debt



# Increased deposit inflows and slowing loan growth results in the lowest loan-to-share ratio since 2013

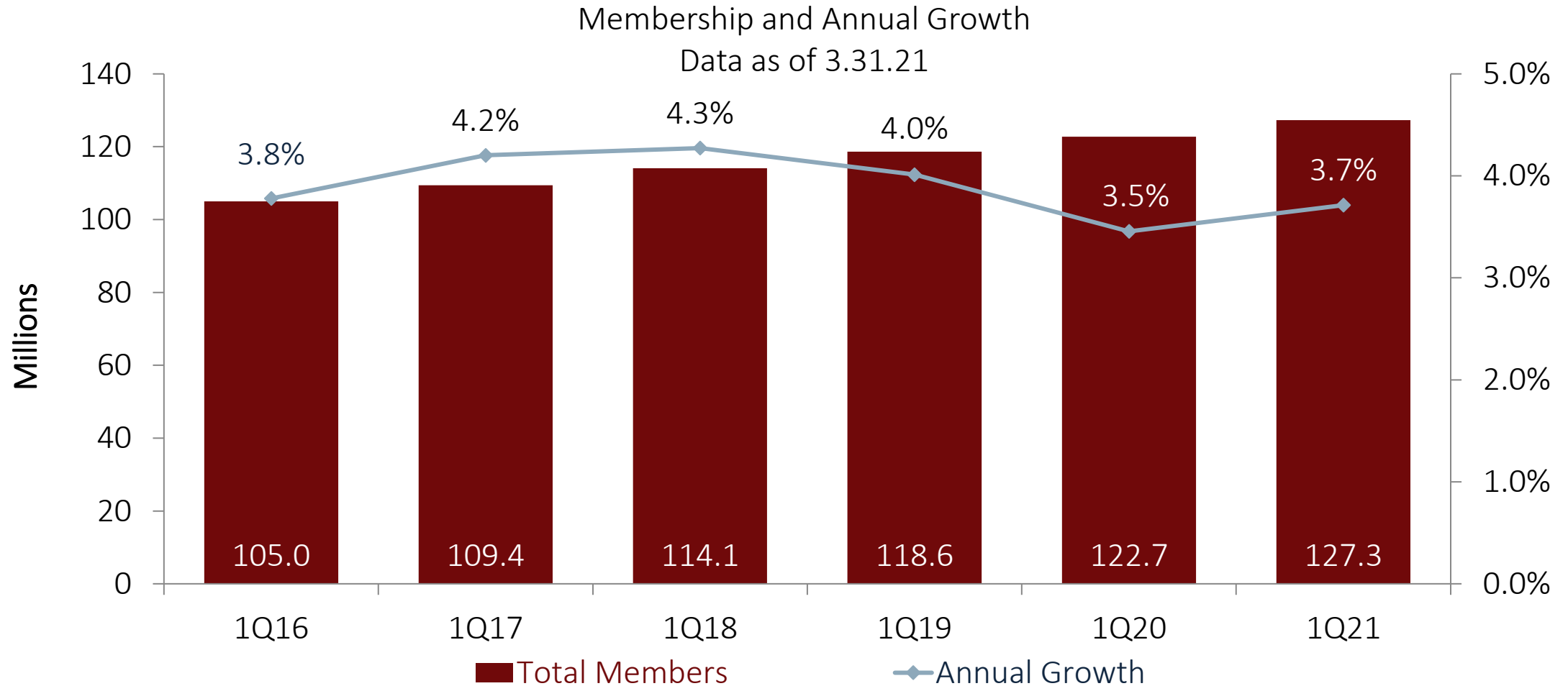


# ROA has nearly doubled since last March



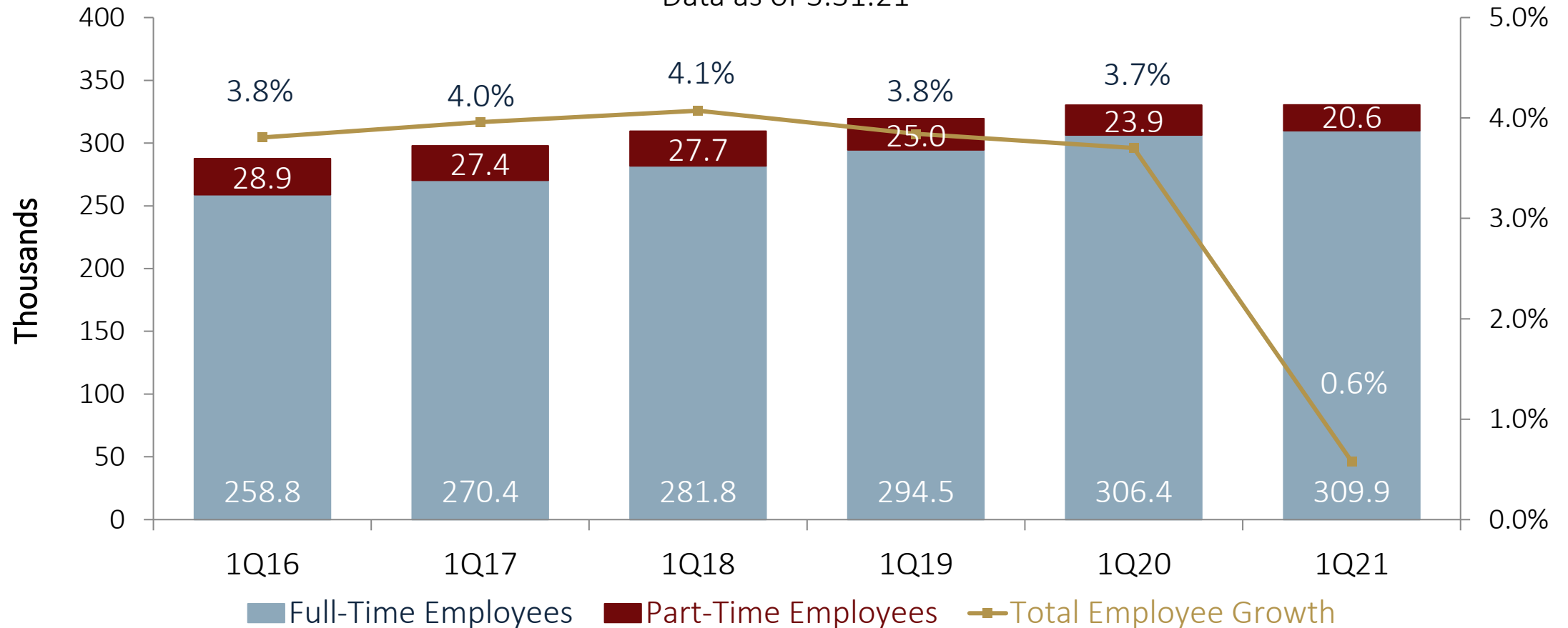


# Membership growth has picked up since last March



# Credit unions continue to shift to more full-time employees while reducing part-time roles

FT & PT Employees and Annual Total Employee Growth  
Data as of 3.31.21

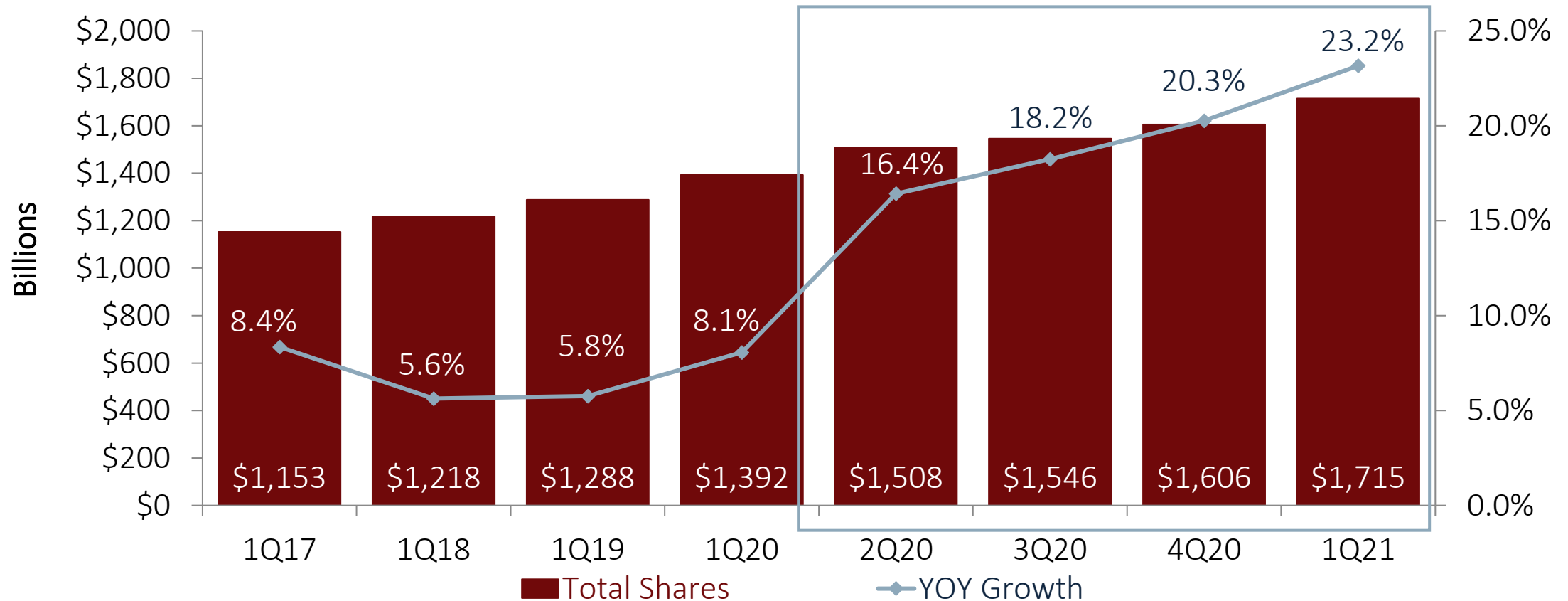


# Savings

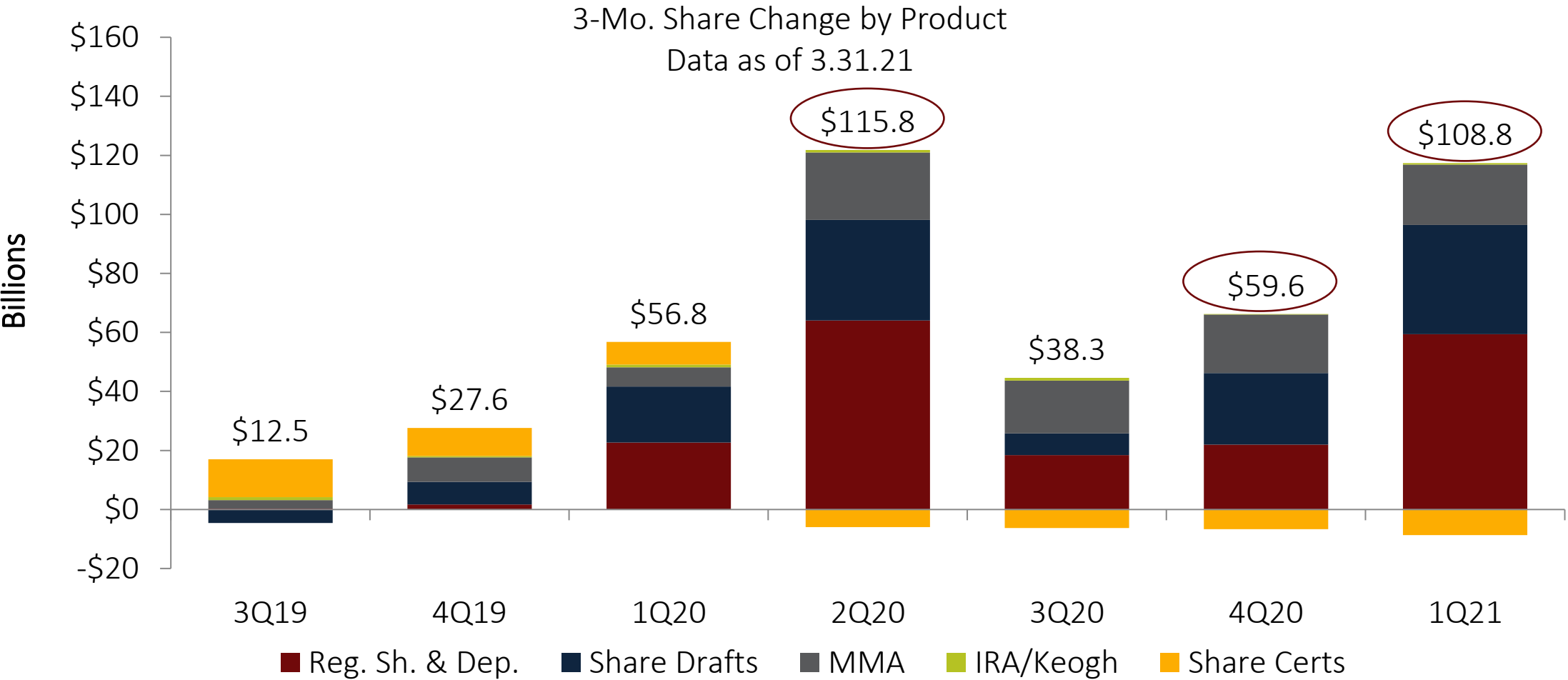
- Core deposits continue to grow at record pace as stimulus checks and tax refunds flow into checking and savings accounts
- Deeper member engagement is evident in higher usage of checking accounts
- Savings balance increases drive the average member relationship to a new high

# Share growth is accelerating to a record pace

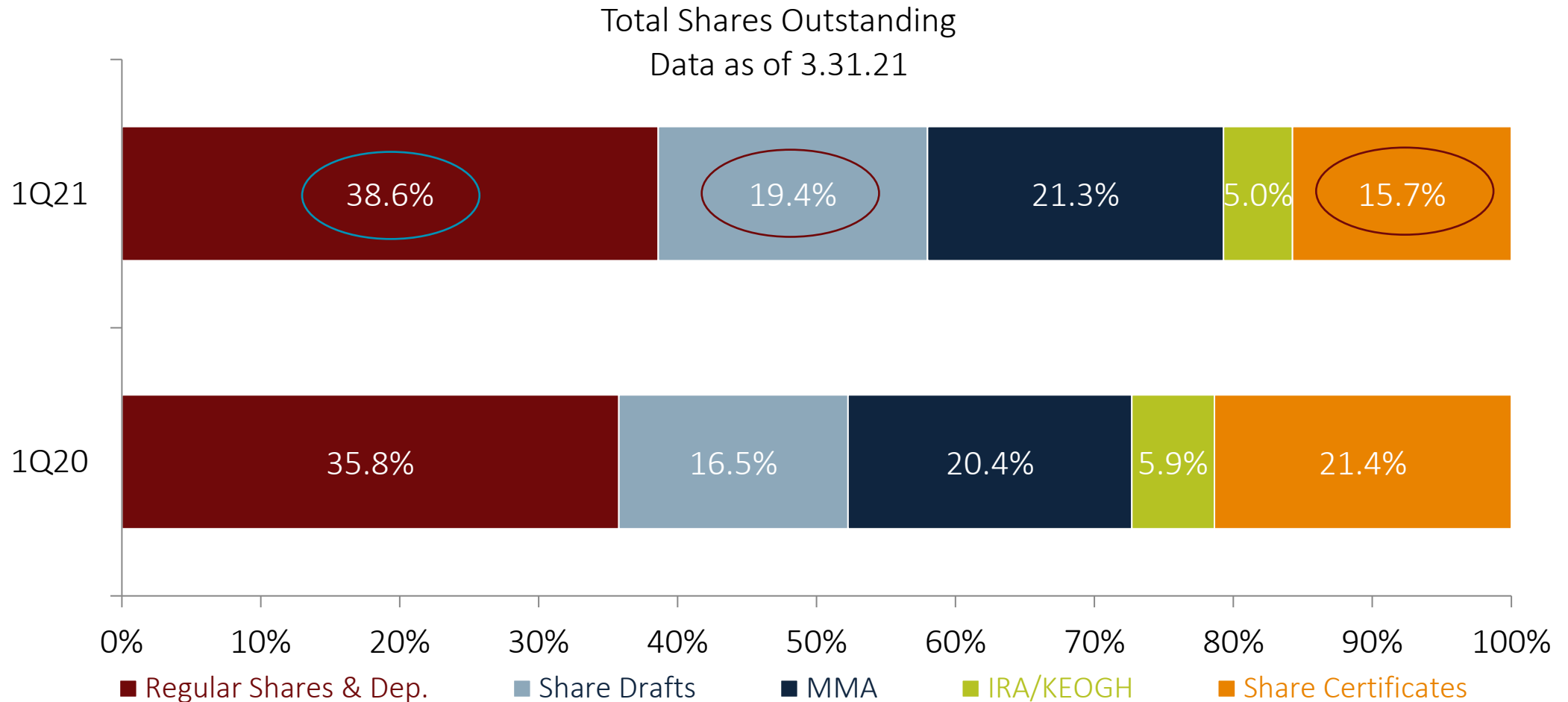
Total Shares and Annual Growth  
Data as of 3.31.21



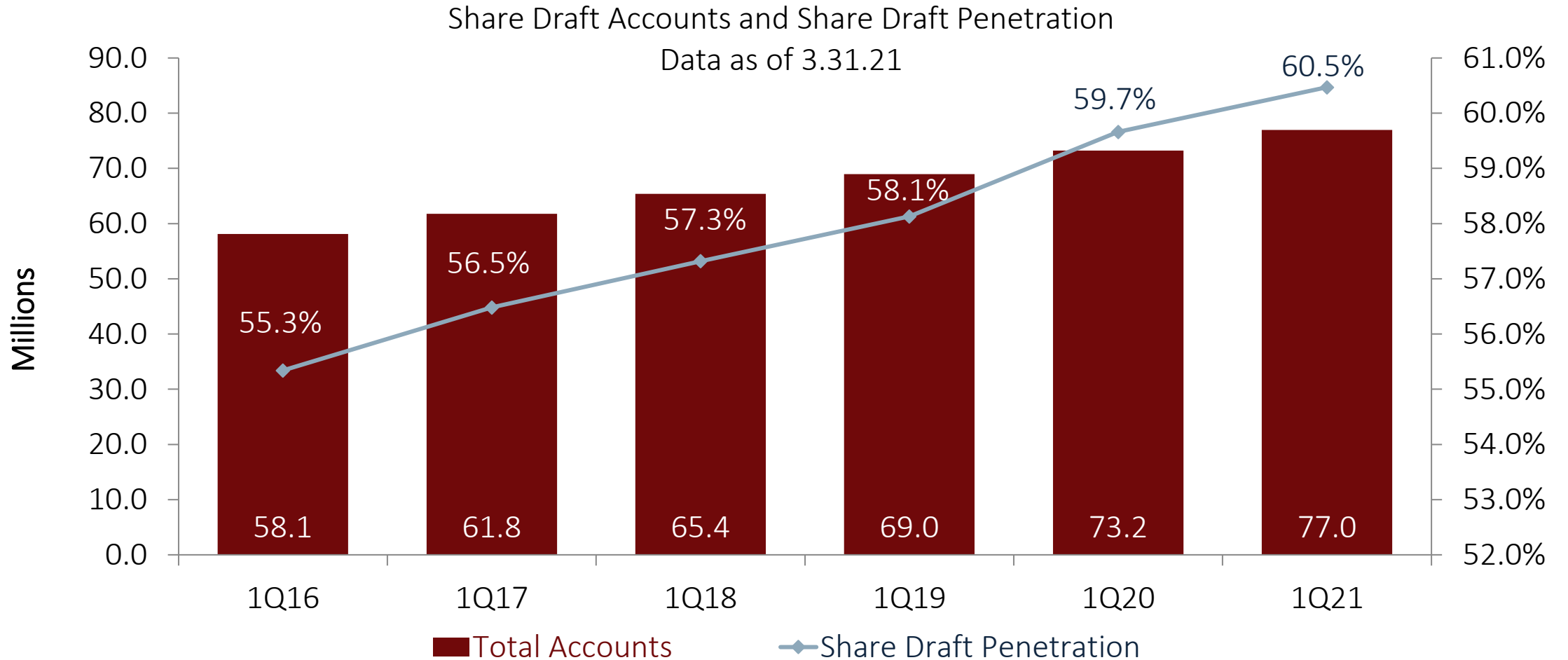
# Stimulus payments are evident in quarterly share growth dynamics



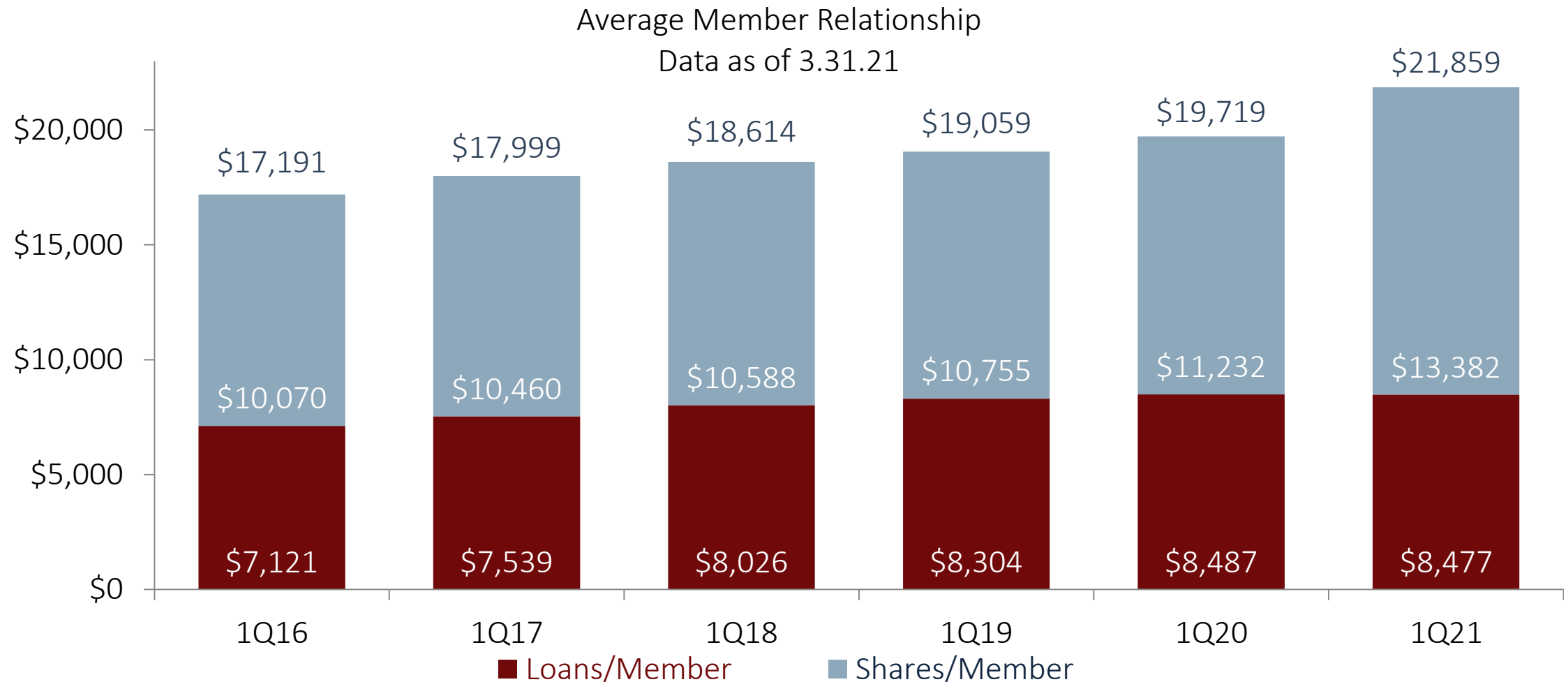
# Certificate balances have fallen over the past year as members moved funds into more liquid accounts



# Checking penetration is at record highs...a good sign of increasing member engagement



# Average member relationship expanded 10.9% as share balances continue to climb



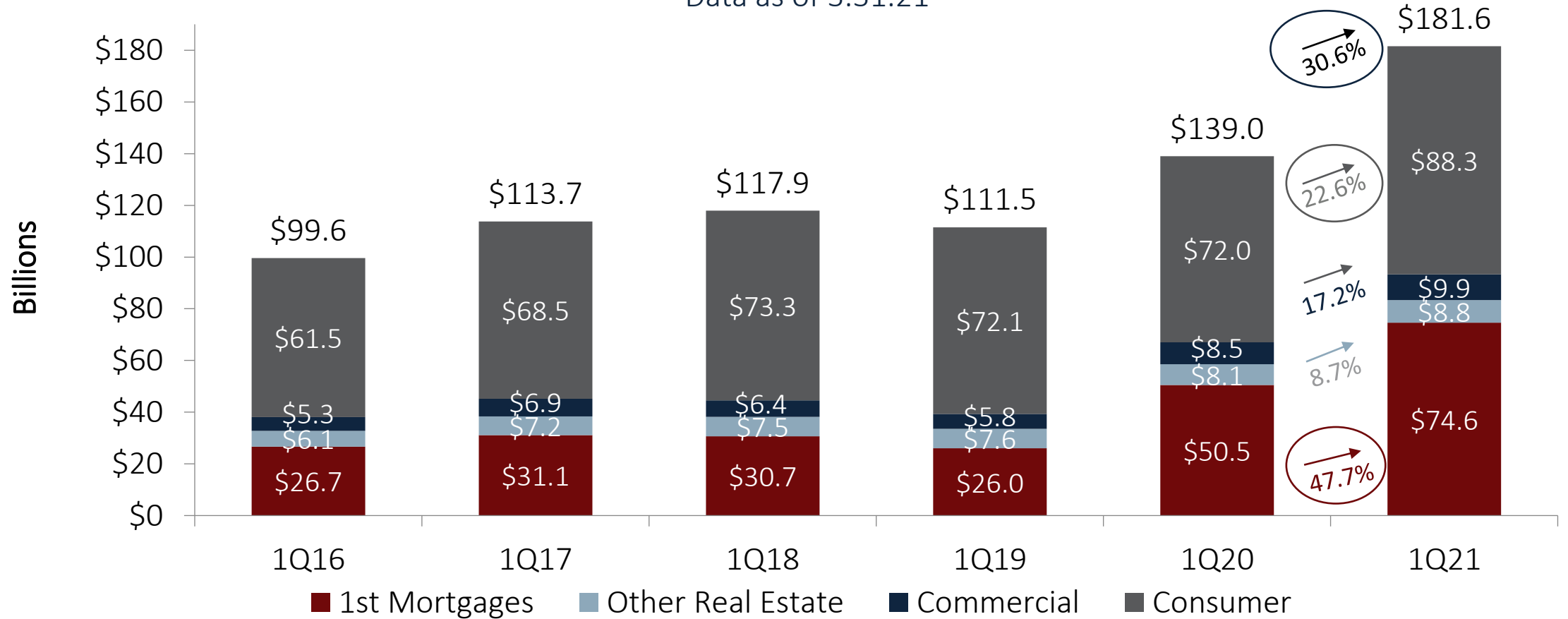


# Lending

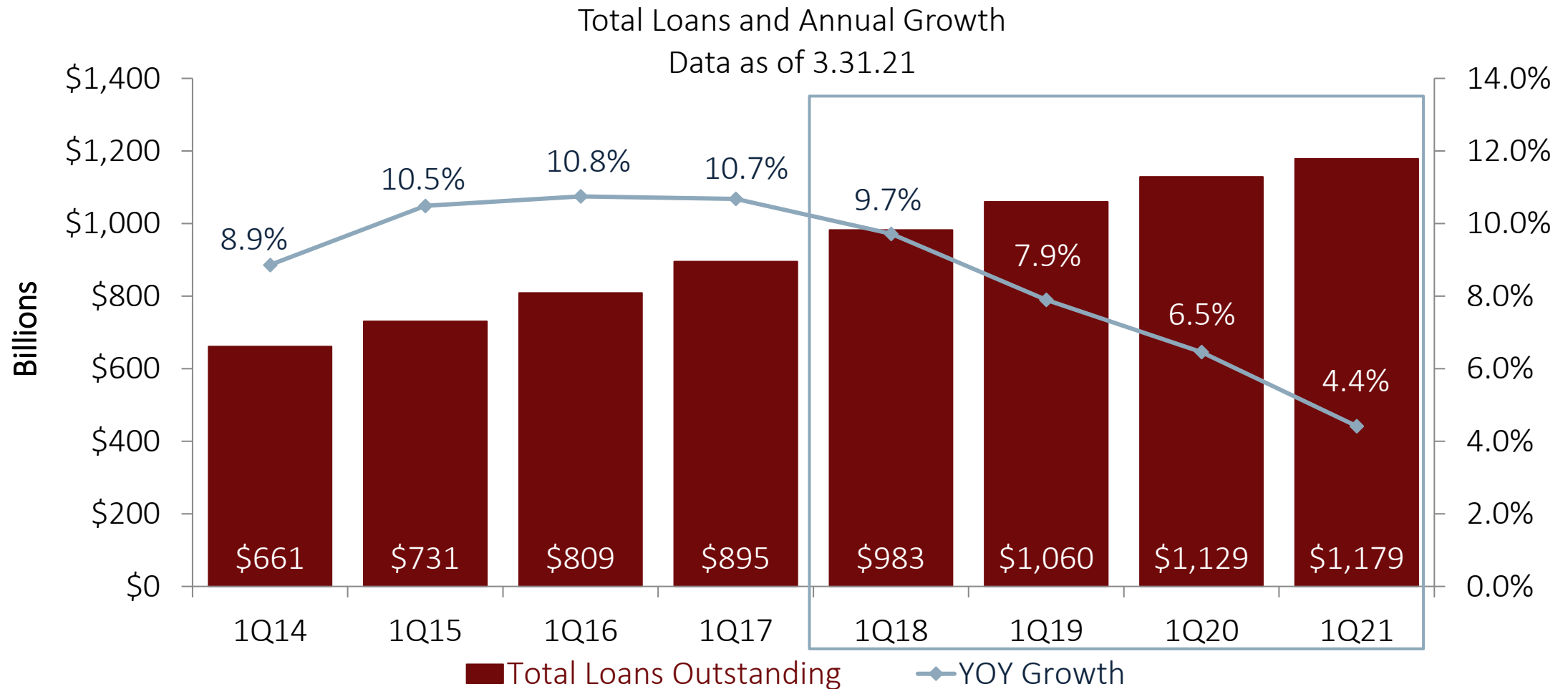
- Record first quarter loan originations are driven by consumer lending
- Loan balances continue to rise but at a slower rate than recent years
- Asset quality improves across the loan portfolio

# Consumer loan originations are up substantially for the first time since the onset of the pandemic

YTD Loan Originations  
Data as of 3.31.21

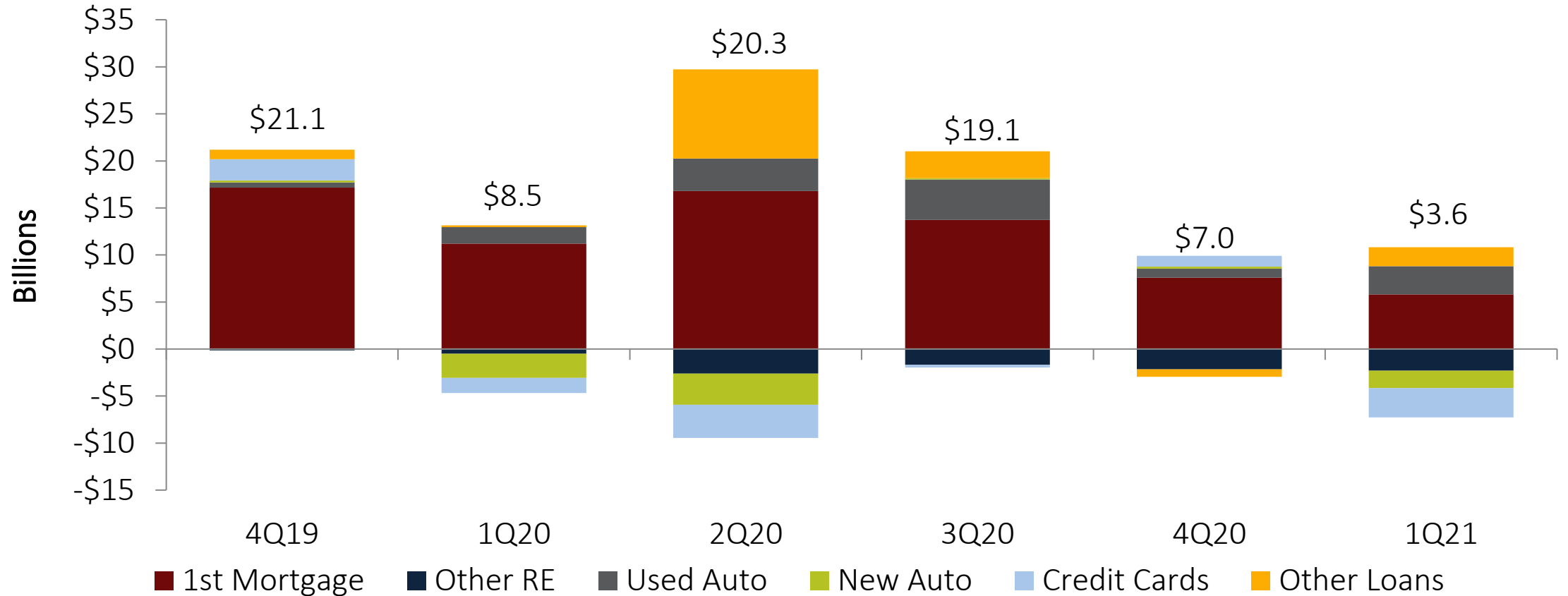


# Despite record originations, members are paying off existing loans almost as fast as new credit can be granted

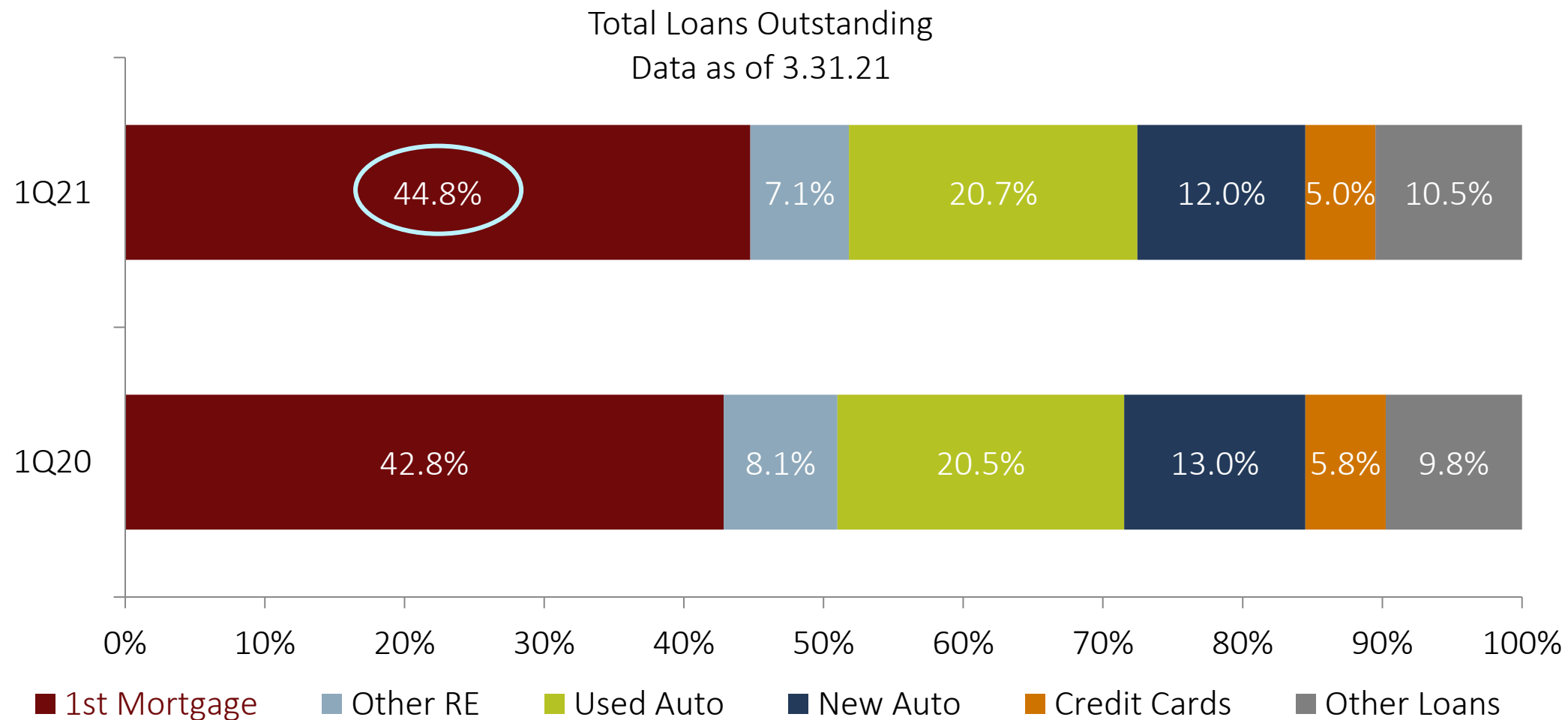


# 1<sup>st</sup> mortgages make up the bulk of net loan growth over the past 6 quarters

3-Mo. Loan Change by Product  
Data as of 3.31.21



# 1<sup>st</sup> mortgages are the largest component of the loan portfolio

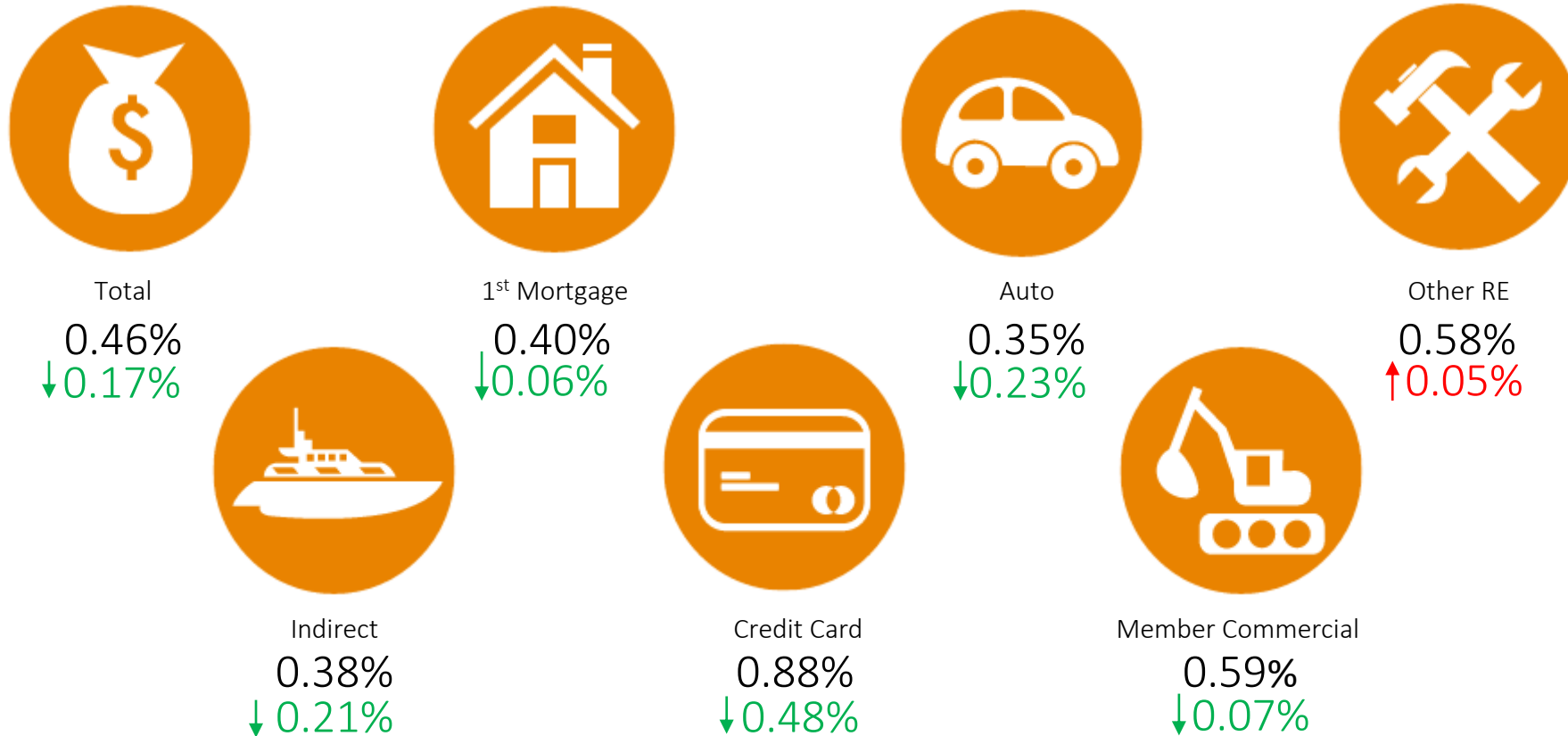


Over the last three quarters, credit unions have increased loan purchases in response to high liquidity and low interest rates



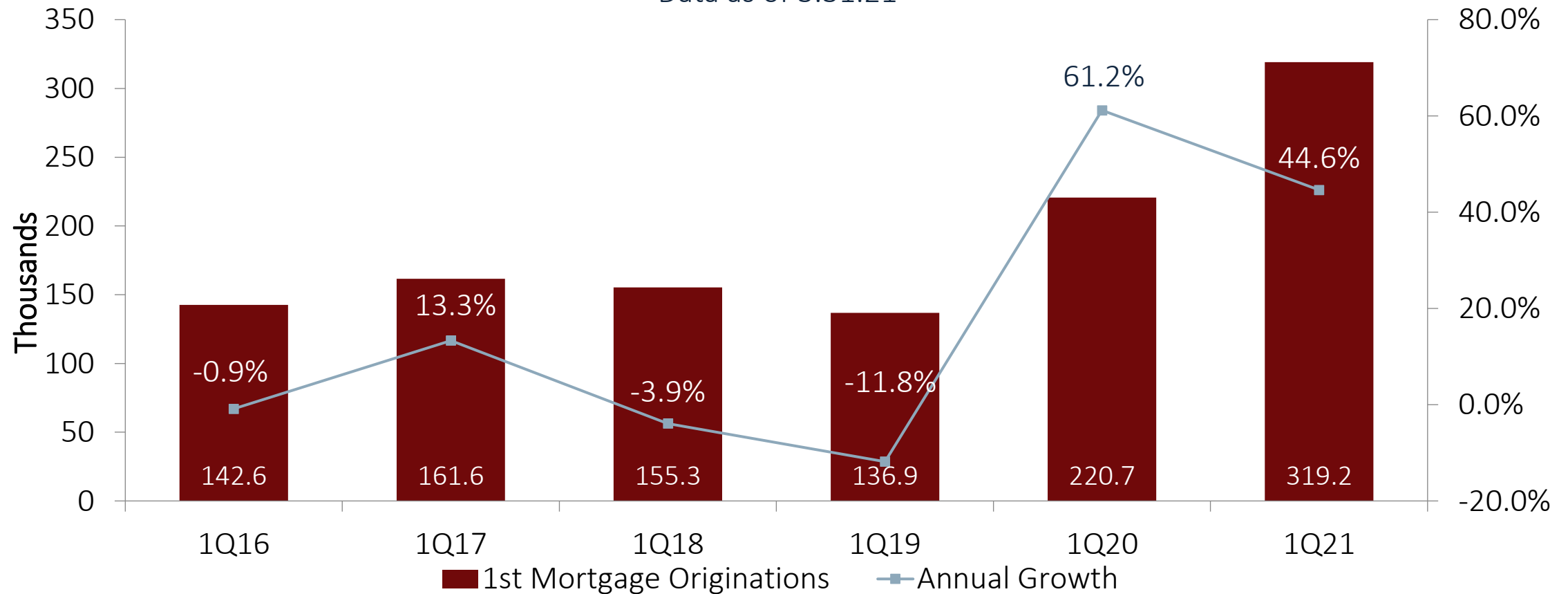
# Delinquency rates continue to improve across the portfolio

Annual Change in Delinquency  
Data as of 3.31.21



# Credit unions originated over 98,000 more mortgages in the first 3 months of 2021 than a year ago...and are nearly double 1Q 2017 originations

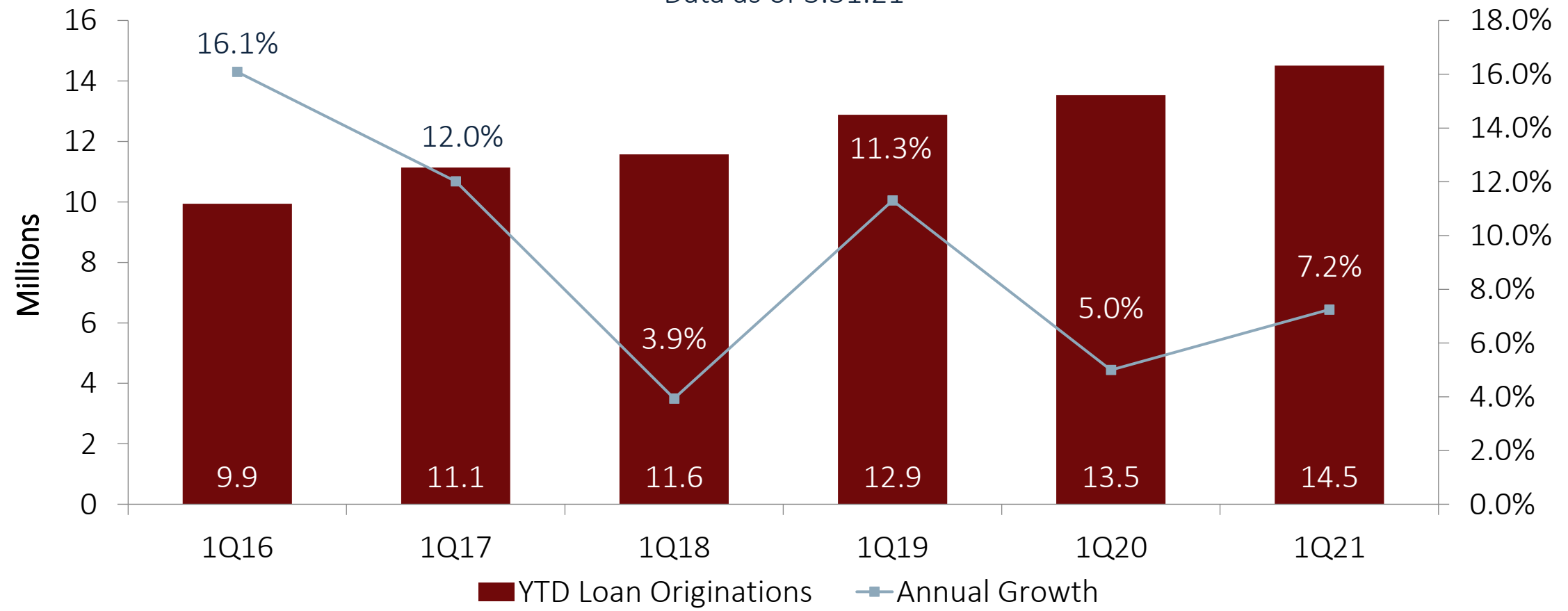
Number of YTD Mortgage Originations and Annual Growth  
Data as of 3.31.21





Credit unions originated 1 million more loans to members in the first quarter of 2021 compared to the same period a year ago

Number of YTD Originations and Annual Growth  
Data as of 3.31.21





# ScoreUp Credit Builder

## Loan

May 12, 2021



# Introducing the Speakers...



**Josh Garrison**

VP, Consumer Lending & Cards



**Kipp Riesland**

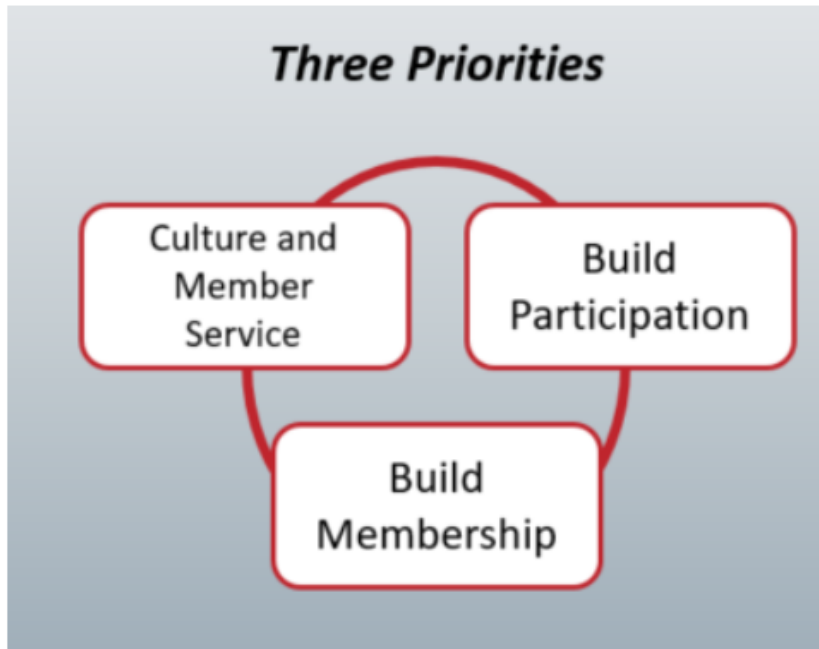
Sr. Program Manager, Financial Wellbeing

## **Our vision is to be our members' lender of choice.**

We are earning that right by putting member needs at the center of everything we do:

- 1 Solutions that improve our members' financial wellbeing
- 2 Experiences designed for speed and ease on par with FinTechs
- 3 Being a source for trusted advice

## Financial Health Lending



**Culture and Member Service:** Expand ability to serve financial health needs of our members.

**Build Participation:** Increase member use of products, services, loans and shares.

**Build Membership:** Acquire new members, reduce attrition, enhance channels.

## **Culture / Member Service**

- Rounds-out financial health offering / product suite
- Provides team a path for declined loans
- Reinforces the culture of test-and-learn (partnership with Common Cents Lab / Duke University)

## **Build Membership**

- Community Engagement (United Way)
- National recognition & traction of new product (CU Broadcast; CreditUnions.com)

## **Build Participation**

- Deepens overall relationship (loan & deposit)



## Thumbs up for ScoreUp

Our ScoreUp Credit Builder Loan is here to help if you have no credit, little credit or may need some help improving your credit score. By making manageable, on-time monthly payments, you can establish a positive credit history – all while also building a savings account.

BOOST  
YOUR  
SCORE

BUILD  
YOUR  
SAVINGS

LOW  
RATES  
AND NO  
FEES

### Basics

- Fixed 3.95% APR; no fees
- 6-36 Month Terms (as low as \$22/month for 2 years)
- Loan Amounts \$500 - \$5,000
- No Credit History Needed & No Cosigner

### How It Works

1. Funds put into a secured savings account, where it earns interest
2. Member pays loan monthly and builds 'equity' in the savings account (similar to a home loan)
3. Once paid in full, funds released to member

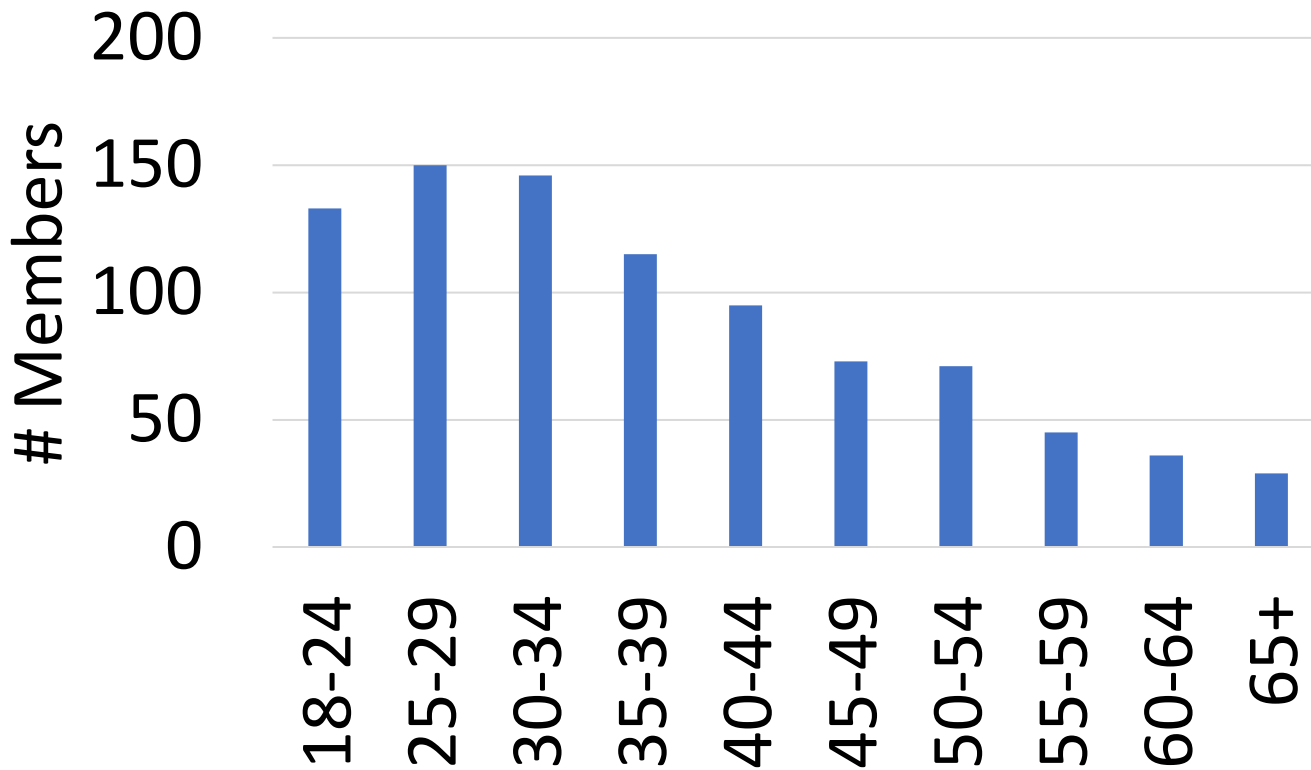
**Payment Assistance** – comes with every ScoreUp loan – if the member stops paying, or can't pay, we close out the loan without dinging the member's credit – and any equity already built is released to the member



Products	Credit Score Not Required	No Upfront Deposit Required	Build Credit	Installment Trade	Payment Assistance
ScoreUp Credit Builder	✓	✓	✓	✓	✓
Secured Credit Card	✓		✓		
Asset Secured Loan	✓		✓	✓	
Student Mastercard	✓	✓	✓		
Overdraft Line of Credit		✓	✓		

- ScoreUp fills a gap in our financial wellness offering for folks who have no credit, thin file, or bad credit – particularly since it requires no upfront deposit
- Historically, if we declined a secured loan application, we had nothing else to offer the member...now, we have the ScoreUp Loan
  - Since launching in July 2020, we've booked 1,107 ScoreUp loans\*
  - This is **~120% of the volume we were expecting**

## ScoreUp Age Distribution



- **62%** of members who've made 3 or more on-time payments have seen their **FICOs improve by 5+ points**, on average
- **80%** of funded ScoreUp loans were opened by members with **thin / no file** or **FICOs <630**
- 12 months is the most popular term, followed by 2 years, then 6 months
- The **average loan size is \$1,806** even though it's smaller for shorter terms (e.g. \$811 average loan for 6 month term) and larger for longer terms (e.g. \$4,505 average loan for 3 year term)



## Building your credit from bad to great can save you **\$11,460** a year.\*\*

Bad credit can cost you...



...**\$805 more a month** on your mortgage.



...**\$39 more a month** on your credit card payments.



...**\$111 more a month** on your auto loan.

\*\*Assumptions: 30 year period with a \$2,000 limit credit card every month; \$250,000 mortgage with a 30 year term; a 48 month car loan.



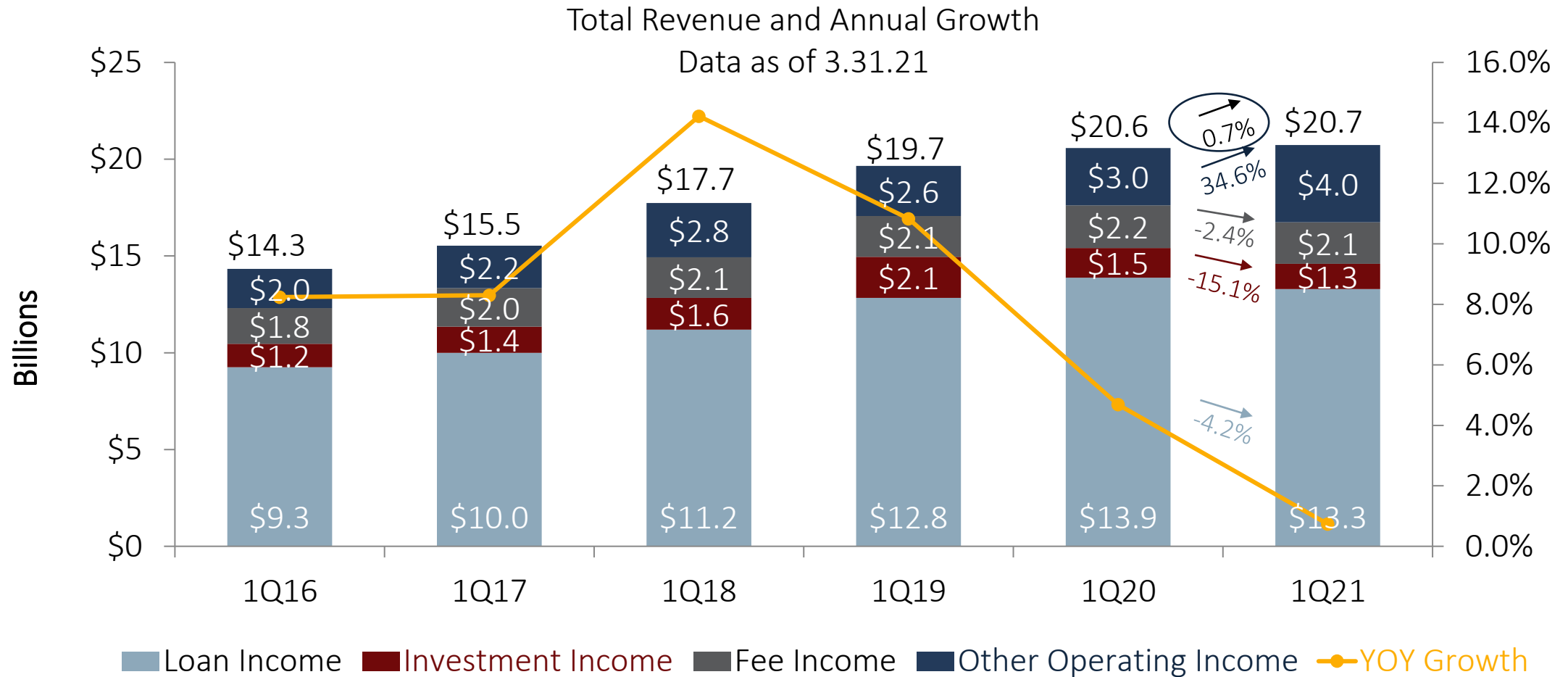
***Be the change you want to see in the world...***

**Josh Garrison** – [jgarrison@patelco.org](mailto:jgarrison@patelco.org)  
**Kipp Riesland** – [kriesland@patelco.org](mailto:kriesland@patelco.org)

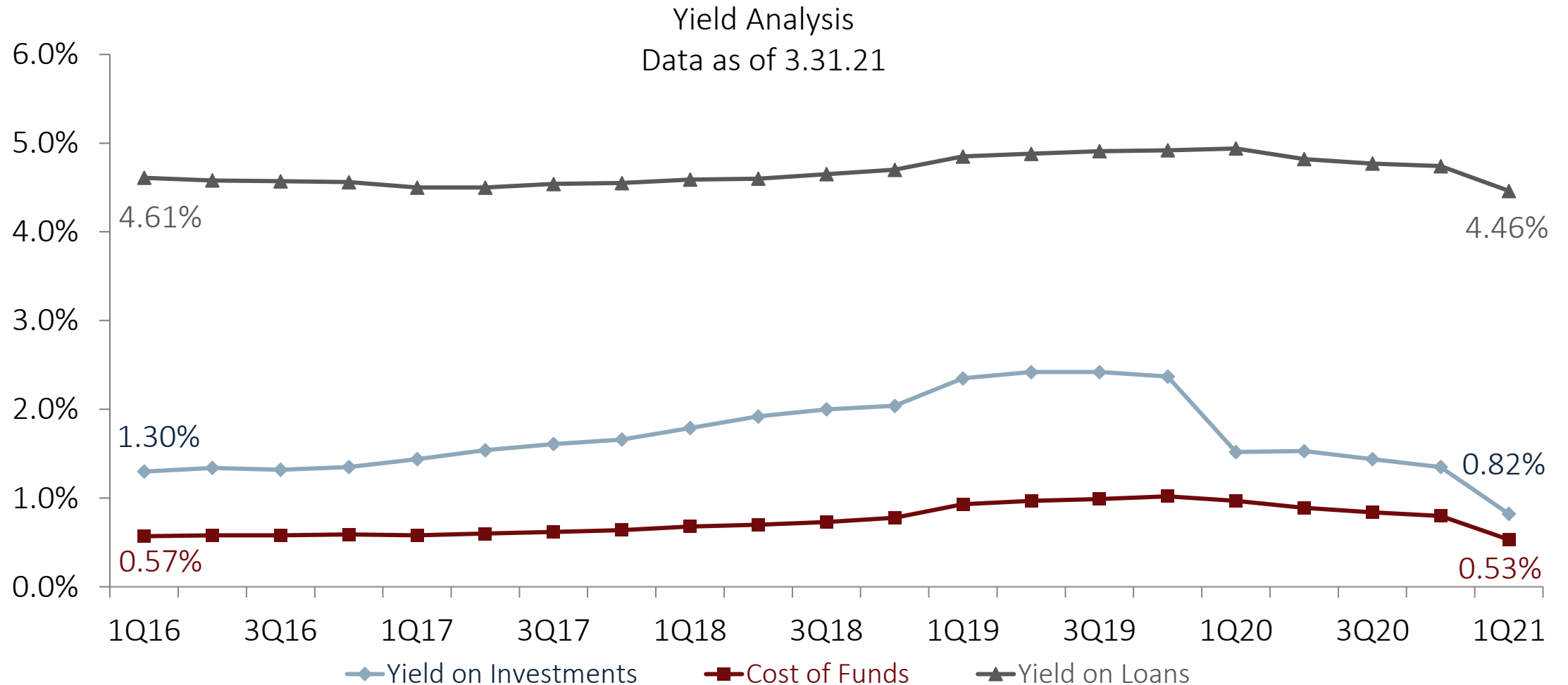
# Earnings & Capital

- Lower interest rates push net interest margin to lowest level on record
- Non-interest income increases due to mortgage sales and interchange income
- Earnings rise but asset growth pushes capital ratios lower

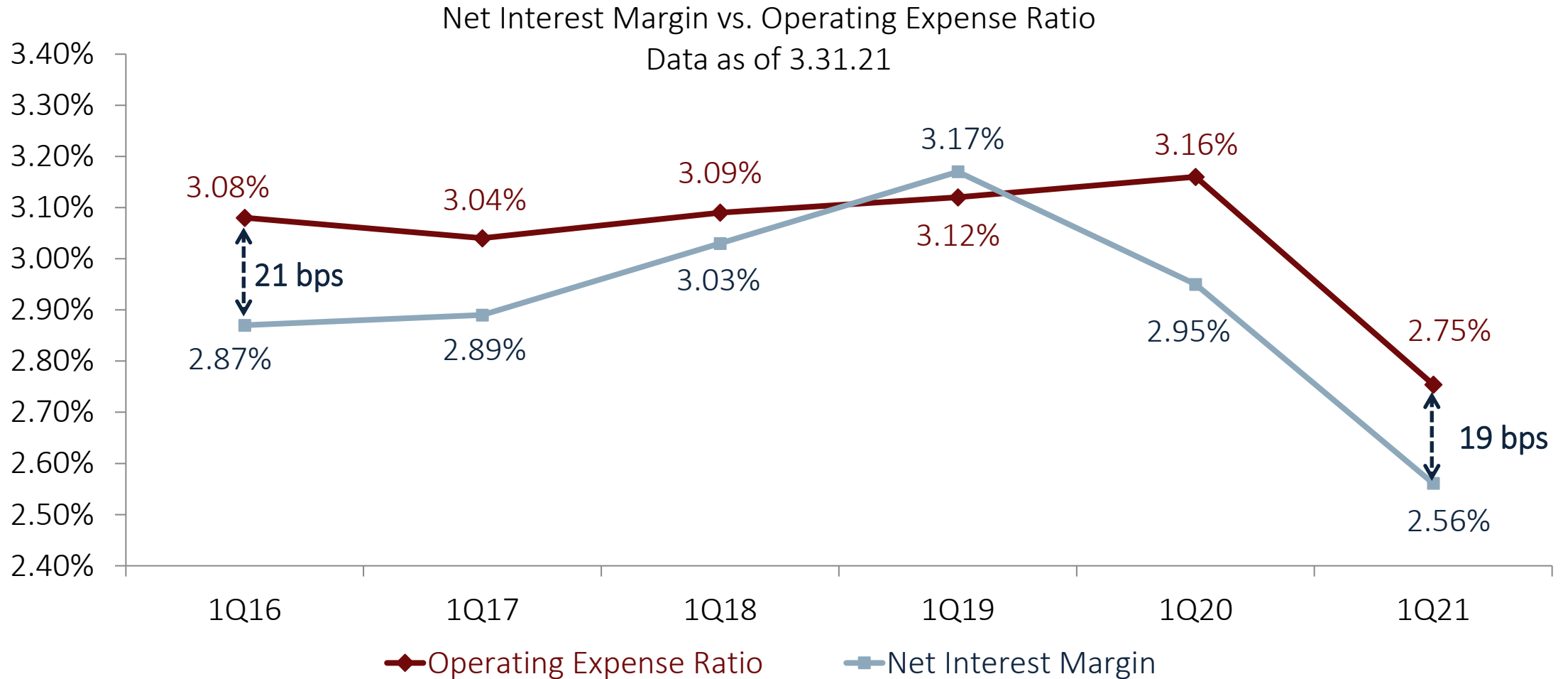
# Revenue stays flat due to low interest rates



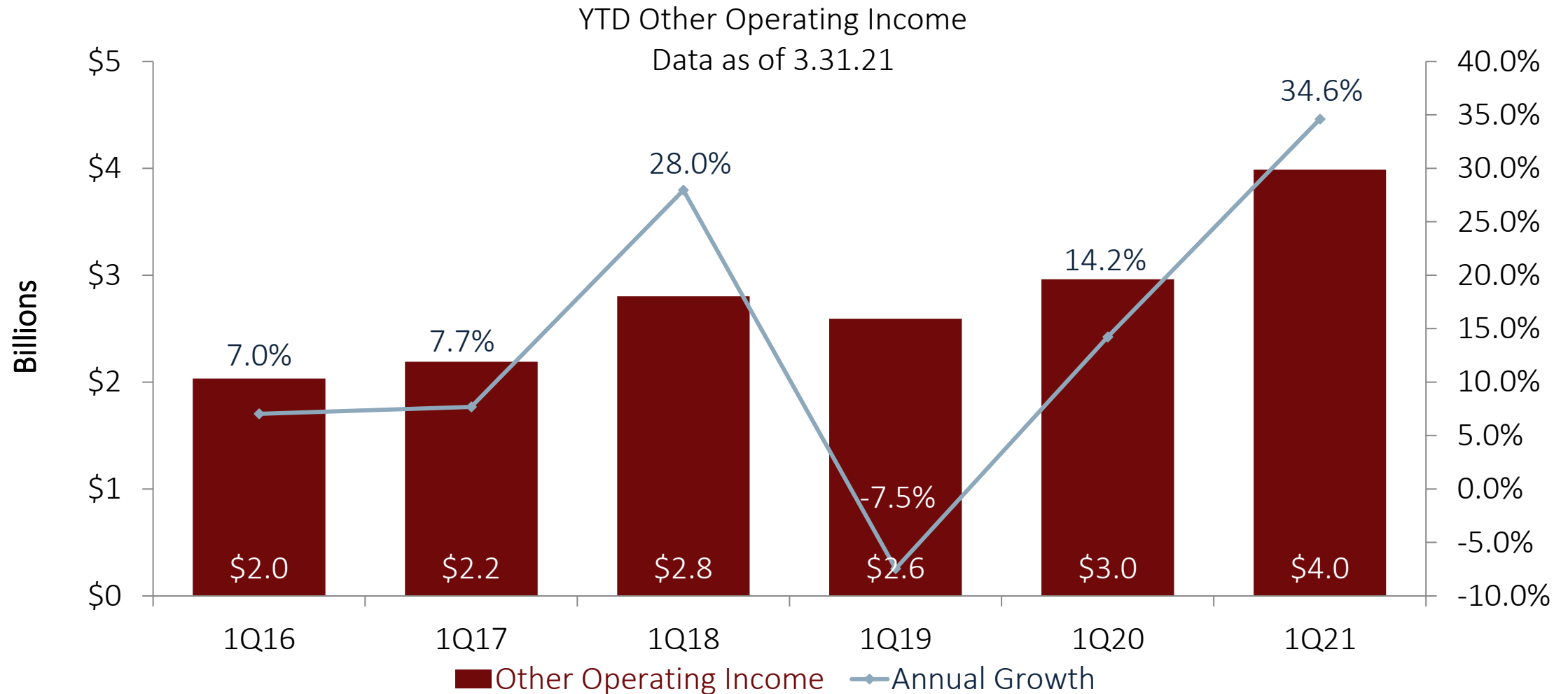
# Loan yield and cost of funds are declining at a similar rate but lower investment yield amid high liquidity is impacting interest margin



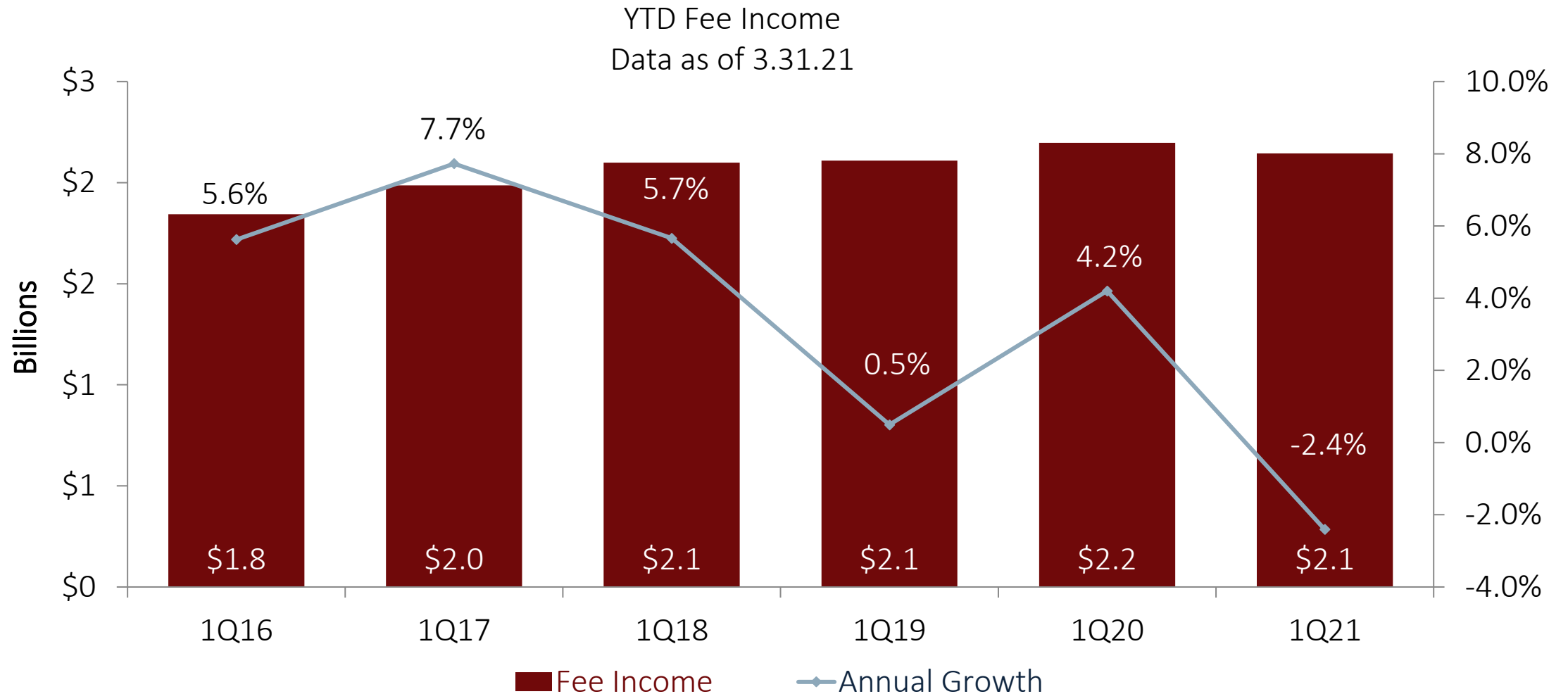
# As interest margin tightens, asset growth is significantly outpacing operating expense growth



Due to increases in mortgage sales and interchange income, other operating income increased \$1.0 billion year-over-year



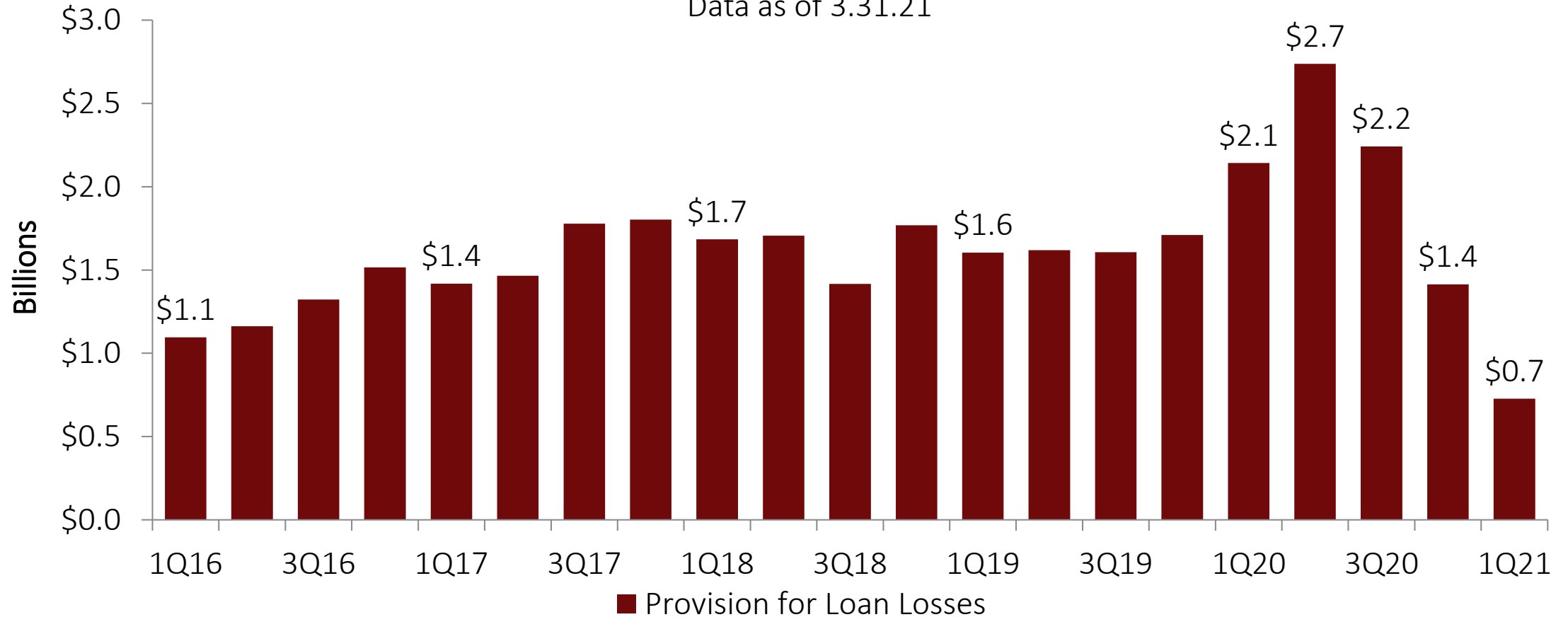
# Fee income fell 2.4% over the year as credit unions waive or reduce fees



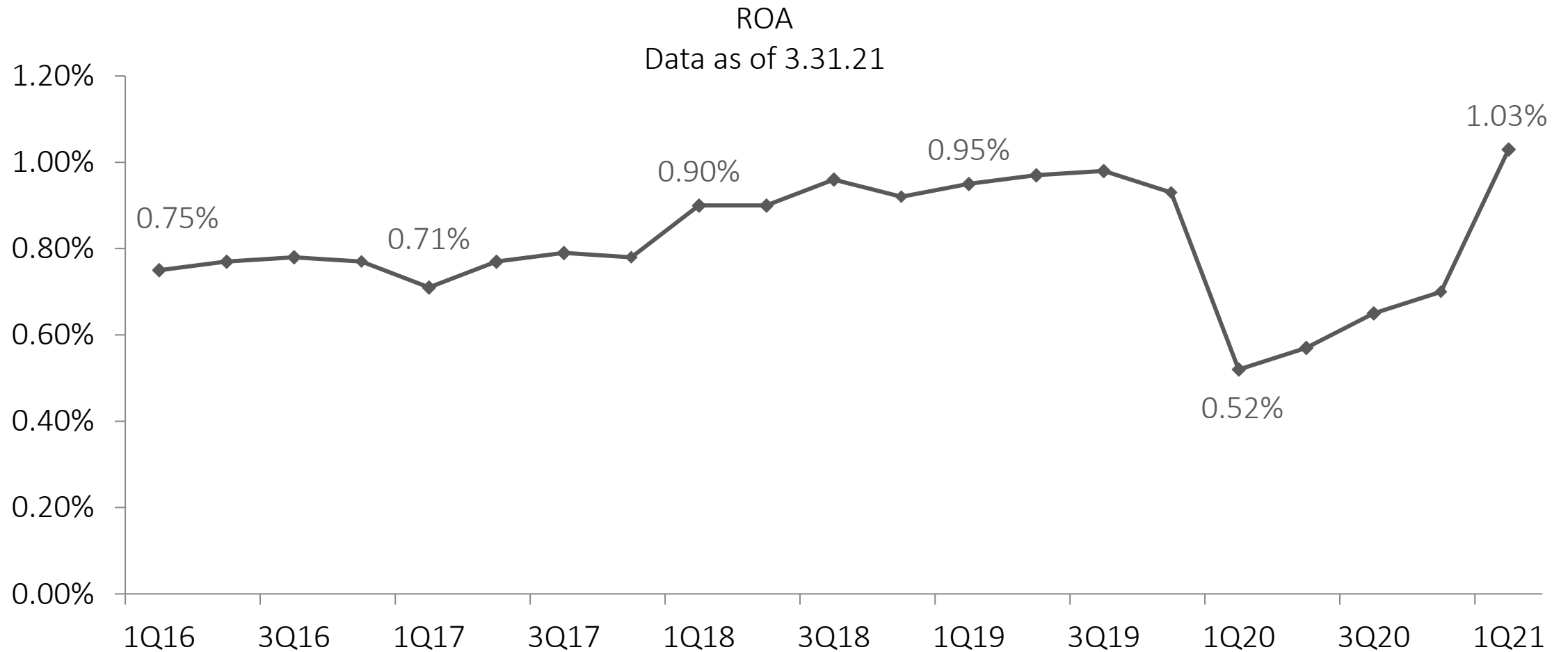


# Credit unions remain well reserved and have reduced quarterly provision expenses

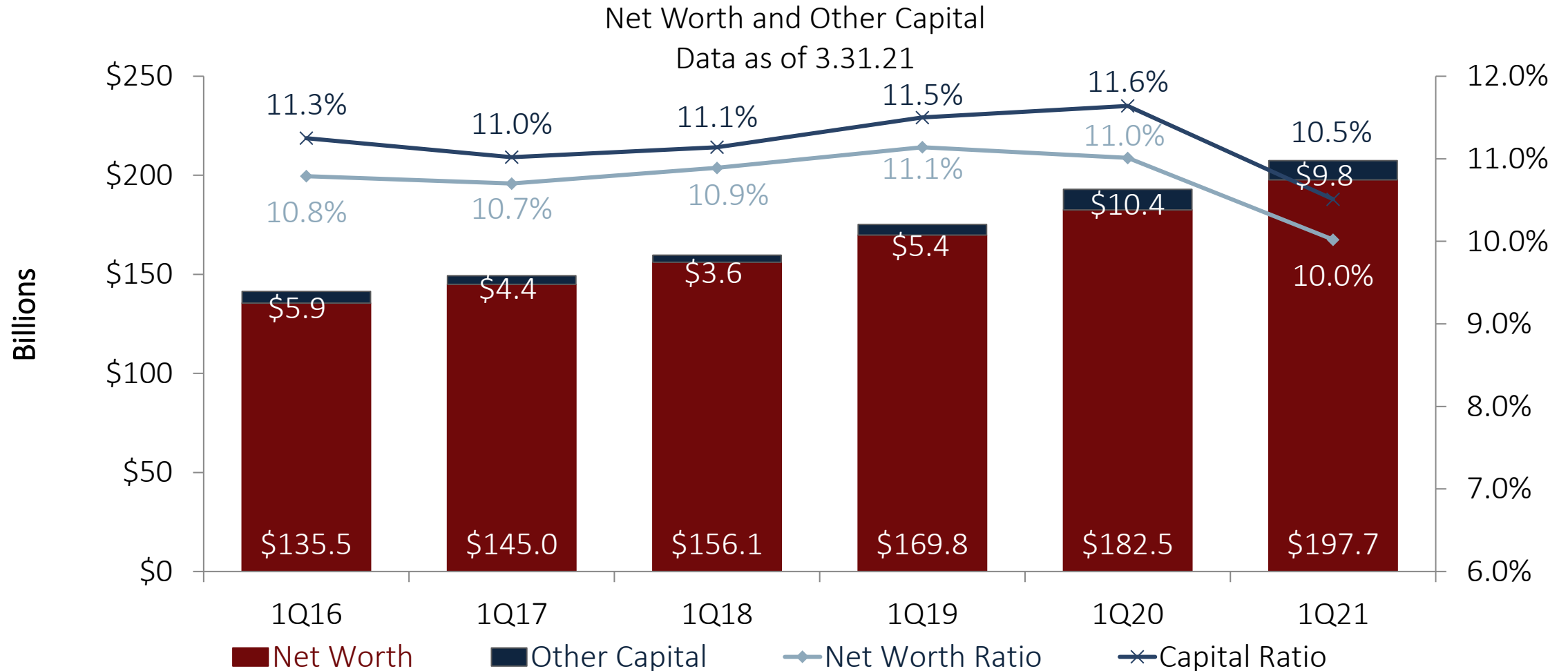
Quarterly Provision for Loan & Lease Losses  
Data as of 3.31.21



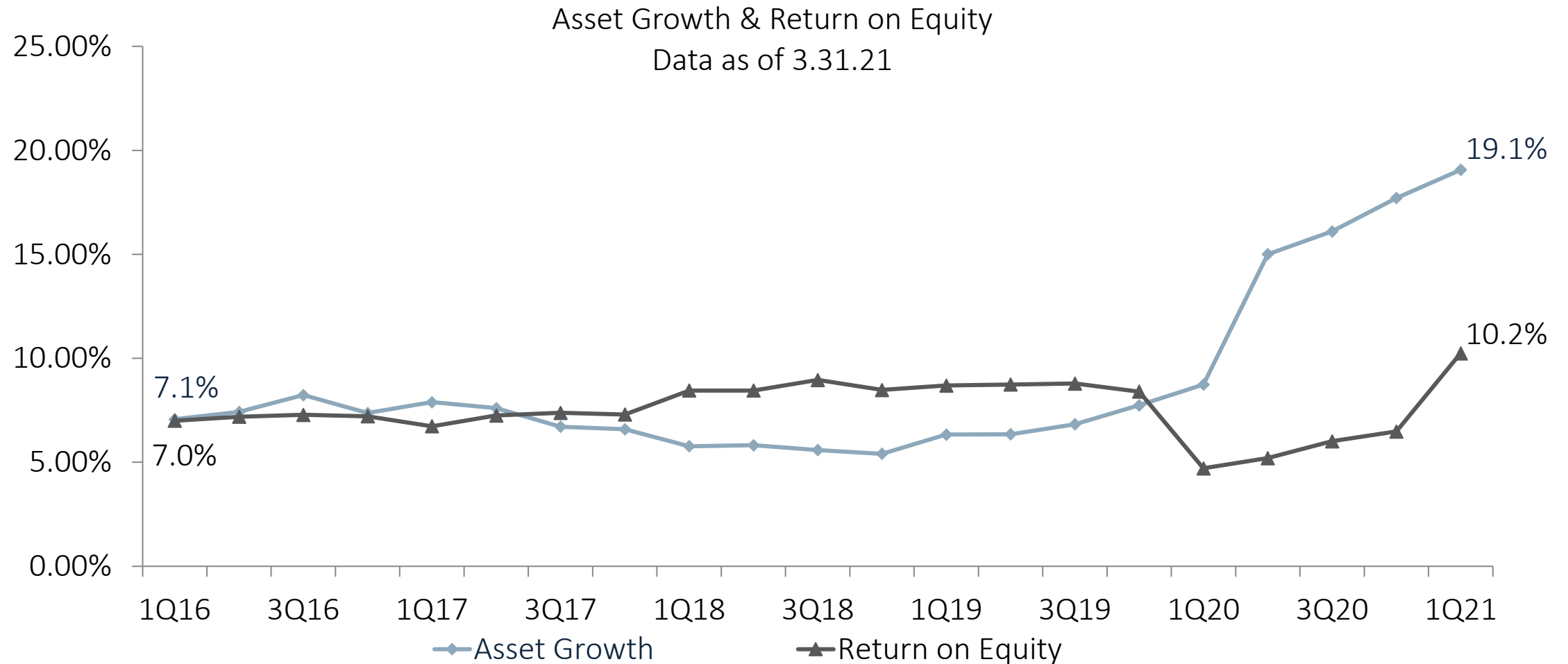
# ROA has continued to climb since first quarter 2020



# Although earnings remain solid, asset growth is reducing capital ratios

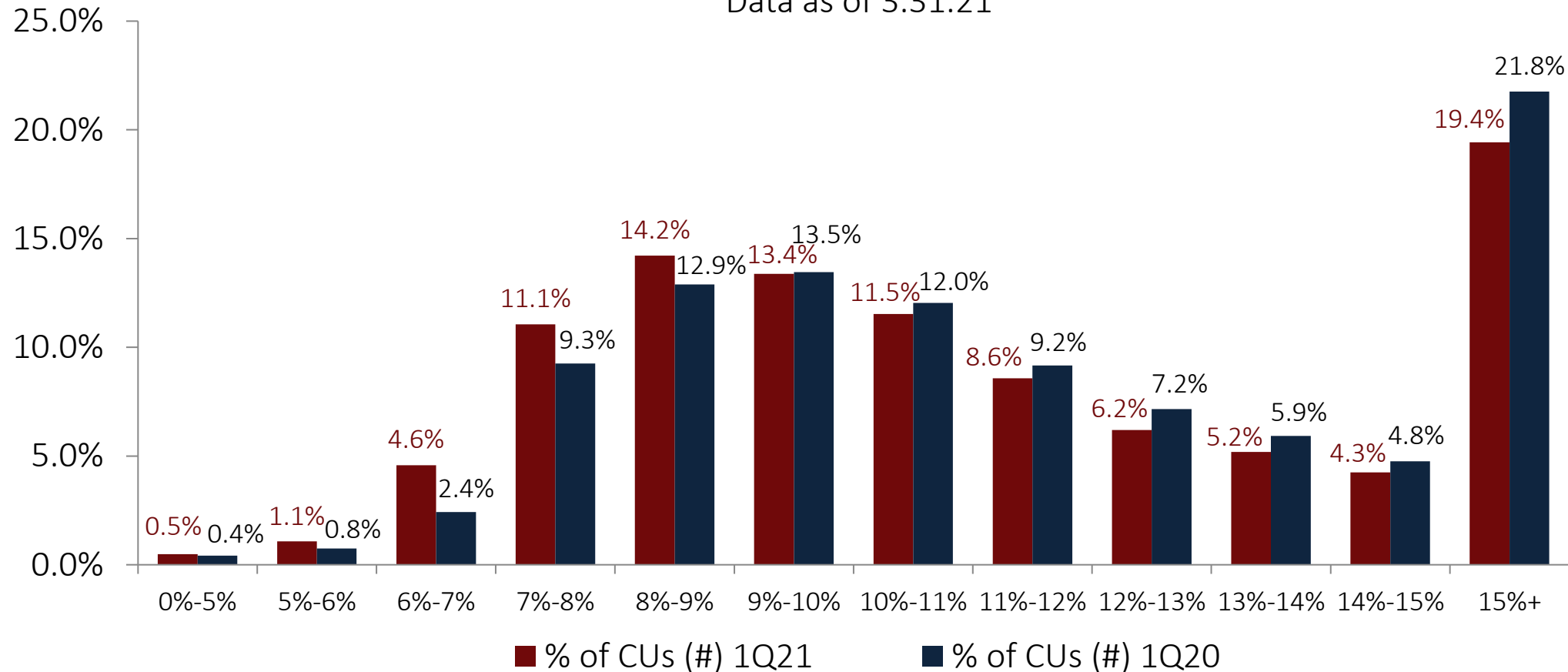


# Asset growth is nearly double the rate of return on equity, leading to the decline in the net worth ratio



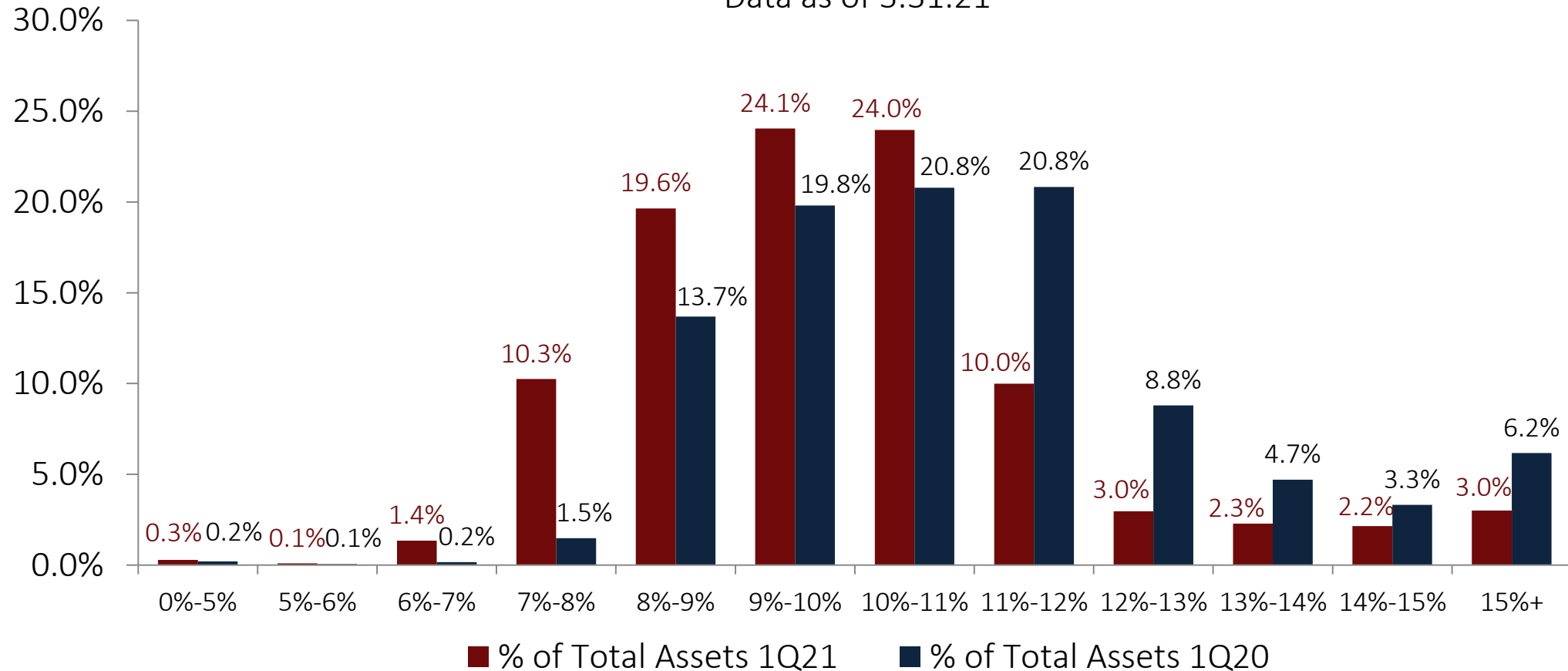
# Despite record balance sheet growth, 94% of credit unions remain “well capitalized”

Net Worth Ratio Distribution by Number of CUs  
Data as of 3.31.21



# Over 98% of credit union assets are well capitalized

Net Worth Ratio Distribution by Assets  
Data as of 3.31.21



# Lessons & Looking Forward

- Economic uncertainty continues as 2021 begins
- Credit unions have the balance sheet capacity and financial strength to continue to support member needs as they navigate the new normal

# THANK YOU FOR WATCHING



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