



## TRENDWATCH 4Q20



February 11, 2020

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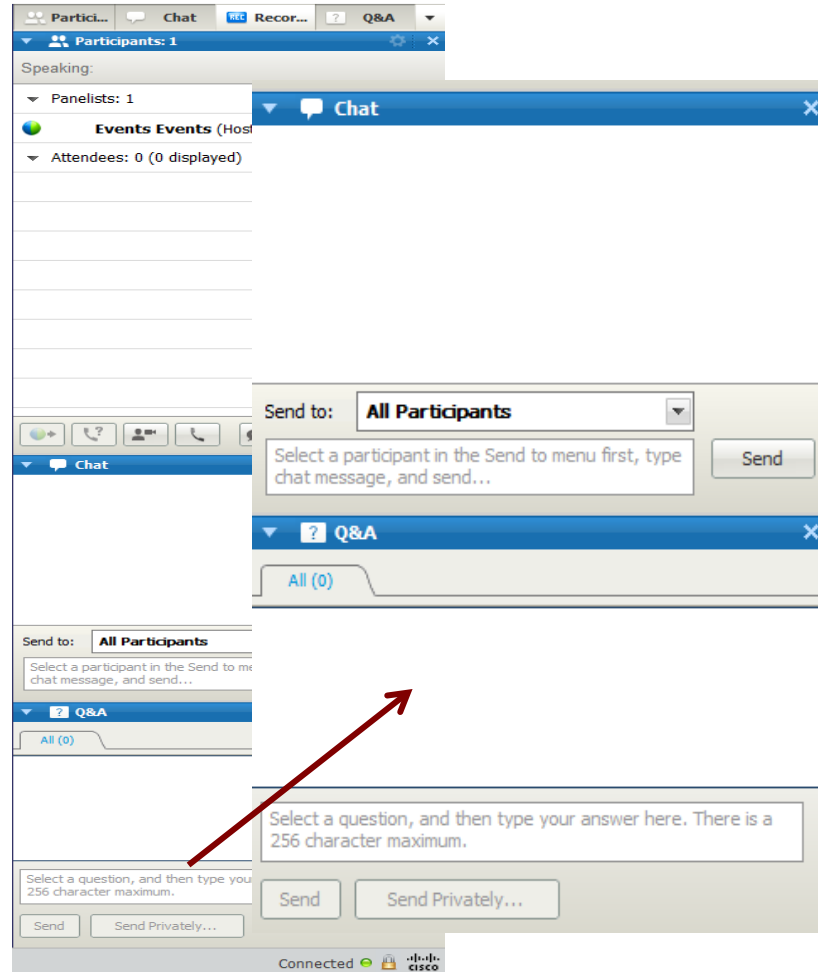
To help you follow along with TrendWatch, earlier today we sent the presentation slides for the event to the email address you used to register for TrendWatch. We will also send you a copy of slides after the event.

# Slide Link

Today's slides can be found online at:

<http://bit.ly/4Q-2020>

# 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

<i>Fund Name</i>	<i>30-Day Yield*</i>
<b>Ultra-Short Duration Portfolio</b>	<b>0.33</b>
<b>Short Duration Portfolio</b>	<b>0.77</b>

Get started quickly and easily with institutional investment options designed by and for credit unions.

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\*The yields reflect the 30-day annualized Effective Yield (net of fees/expenses) as of February 9, 2021

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& ASSOCIATES  
*the credit union company*

CALLAHAN  
ACADEMY

# Leverage Purpose For Greater Impact

*Sustainable Business Strategy  
with Rebecca Henderson*

in collaboration with Harvard Business School Online

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[Callahan.com/Purpose](https://Callahan.com/Purpose)

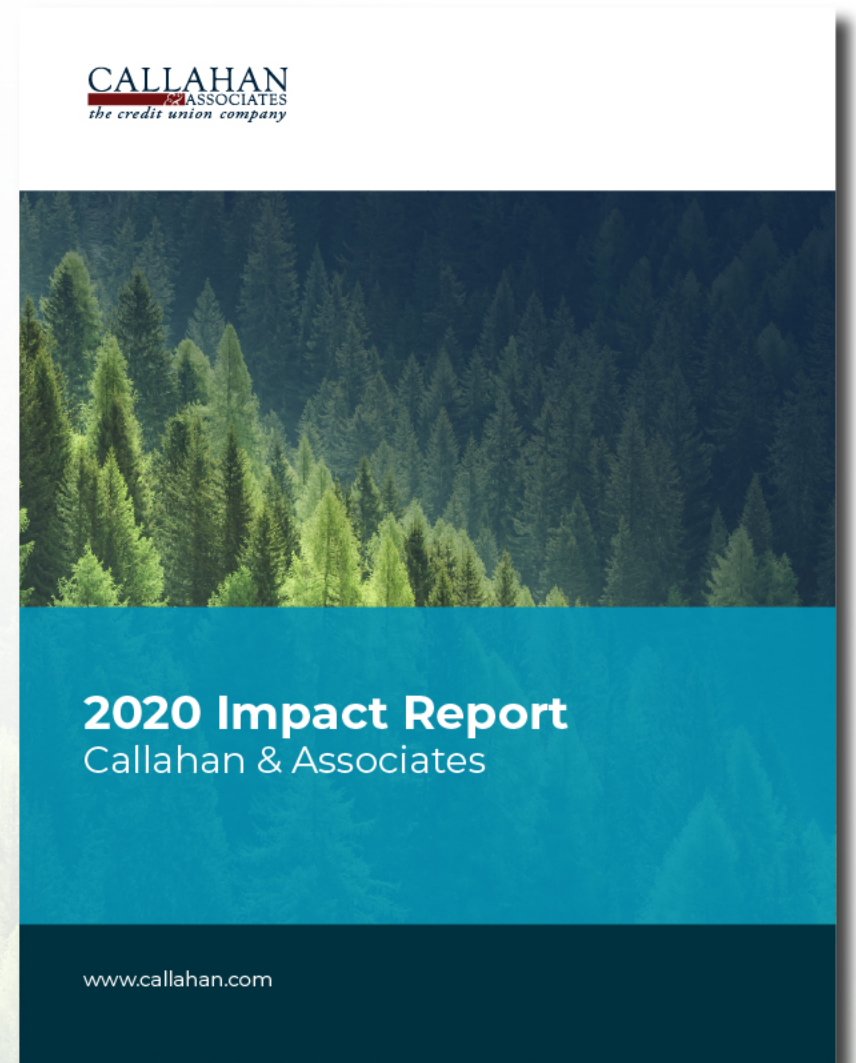




# 2020 Impact Report

Learn how Callahan served the credit union community over the past year.

[Callahan.com/Impact-Report](https://www.callahan.com/Impact-Report)







# Today's Lineup

## **Market Update**

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

## **4Q 2020 Credit Union Results**

*Jon Jeffreys, President & CEO, Callahan & Associates*

*Jay Johnson, Chief Collaboration Officer, Callahan & Associates*

## **A Purpose Driven Credit Union**

*Seth Schaefer, President & CEO, Rivermark Community CU*





Callahan Quarterly Trendwatch | February 11, 2021

# ALM First Market Update



**Speaker**



**Jason Haley**  
Chief Investment Officer

# Economic & Market Themes

- **Markets still focused on Covid-19 aid and virus trajectory**

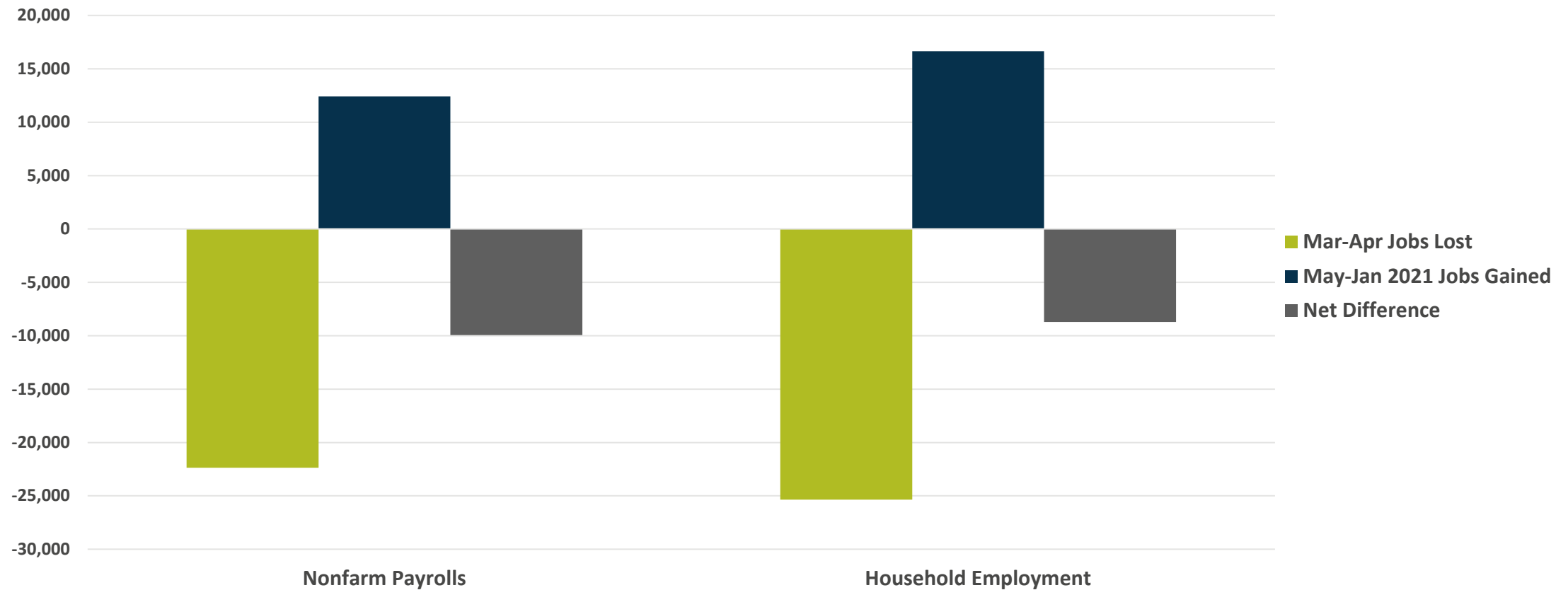
- House Democrats on Monday unveiled the first draft of a Covid relief that includes the \$15 minimum wage hike despite the recently-released CBO report on the matter
  - Sets the stage for a House floor vote the week of February 22
  - If passed, it's designed to pass the Senate with a simple majority vote
  - More debate arising in the economist community on the size of the package
- Growth rates for Covid cases and hospitalizations continue to improve, now at the lowest levels since October
- Vaccine rollout still a question mark
  - How long before herd immunity is reached? What about new Covid variants?

- **Economic data have been mixed in recent weeks**

- More backwards looking data, such as the January jobs and CPI reports, have disappointed amid renewed Covid-related lockdowns in December/January
- Most recent weekly jobless claims were improved
- Outlook is more optimistic given recent virus trajectory and expectations (hope) of improved vaccine distribution

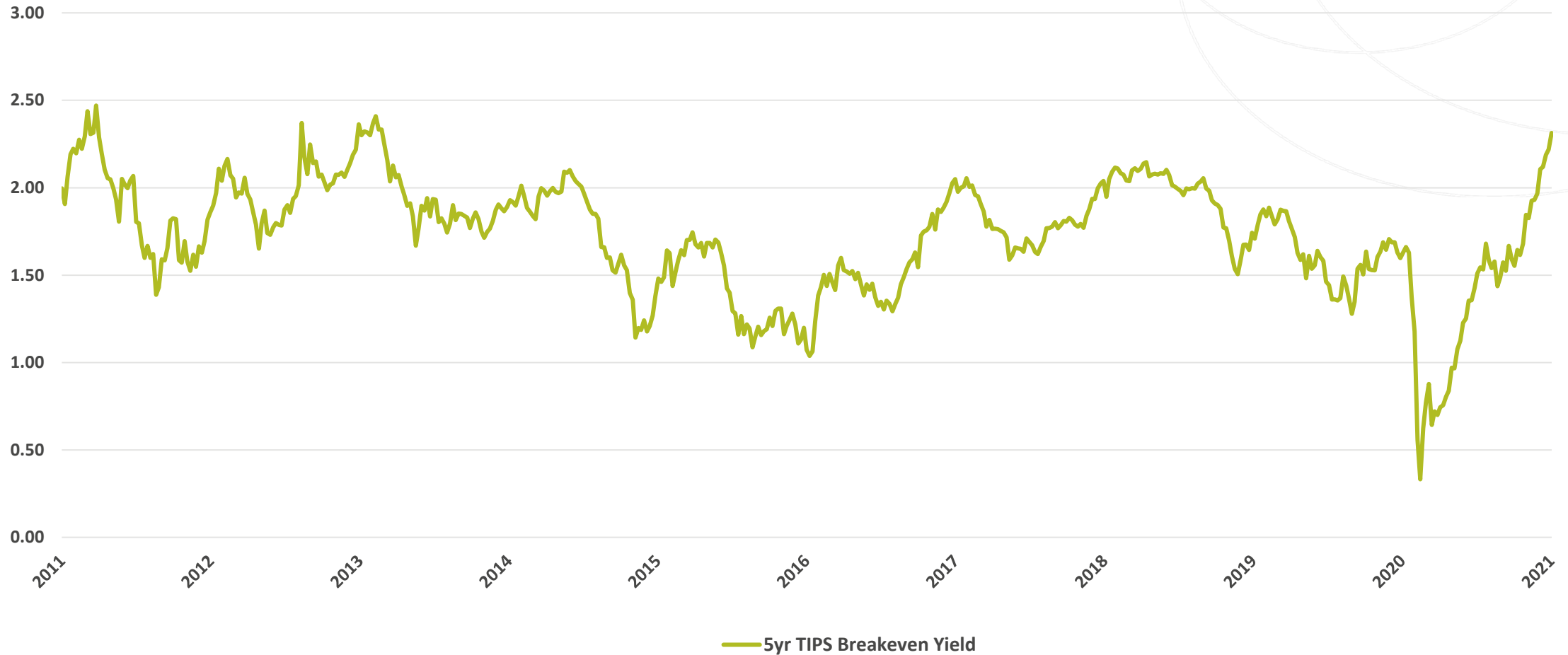
# Progress Made, But More Needed

Labor Market Recovery (,000s)



# The "I" Word

## Market Inflation Expectations (%)



Source: Bloomberg

# Market Themes

- **Treasury curve bear steepened by 17-20 bps in January**
  - 10yr yield up another 9 bps MTD, pushing the 2yr/10yr spread another 8 bps wider to 1.04%
  - Curve at steepest level since May 2017 but still below 10yr average (1.22%) and 20yr average (1.35%)
- **Expectations for less T-bill issuance is weighing on short rates**
  - SOFR at 2 bps yesterday, and 3mo Libor hit a new all-time low on Friday
  - Conditions could remain prevalent until/unless
    - 1) we see a larger fiscal spending package at some point this year (e.g., infrastructure spending) OR
    - 2) the Fed chooses to make an upward adjustment to IOER or Rev Repo Rate
- **Demand continues to outpace supply in the spread sectors**
  - Investors chasing every basis point of yield amid flood of liquidity
  - For many depository institutions, the risk of future spread widening and curve steepening is outweighed by the need for earnings today
    - Steeper yield curve typically coincides with a stronger economy and increase deposit franchise values

Treasury Curve			
Tenor	1/31/2021 (%)	12/31/2020 (%)	Change (bps)
1-Month	0.04	0.03	0.01
3-Month	0.04	0.06	-0.02
6-Month	0.06	0.08	-0.02
1-Year	0.07	0.10	-0.03
2-Year	0.10	0.12	-0.02
5-Year	0.41	0.36	0.05
10-Year	1.06	0.91	0.15
20-Year	1.64	1.44	0.20
30-Year	1.82	1.65	0.18
Curves			
3mo-10yr	1.02	0.86	0.17
2yr-5yr	0.31	0.24	0.07
2yr-10yr	0.96	0.79	0.17
2yr-30yr	1.72	1.52	0.20
5yr-10yr	0.65	0.55	0.10

Source: Bloomberg

# 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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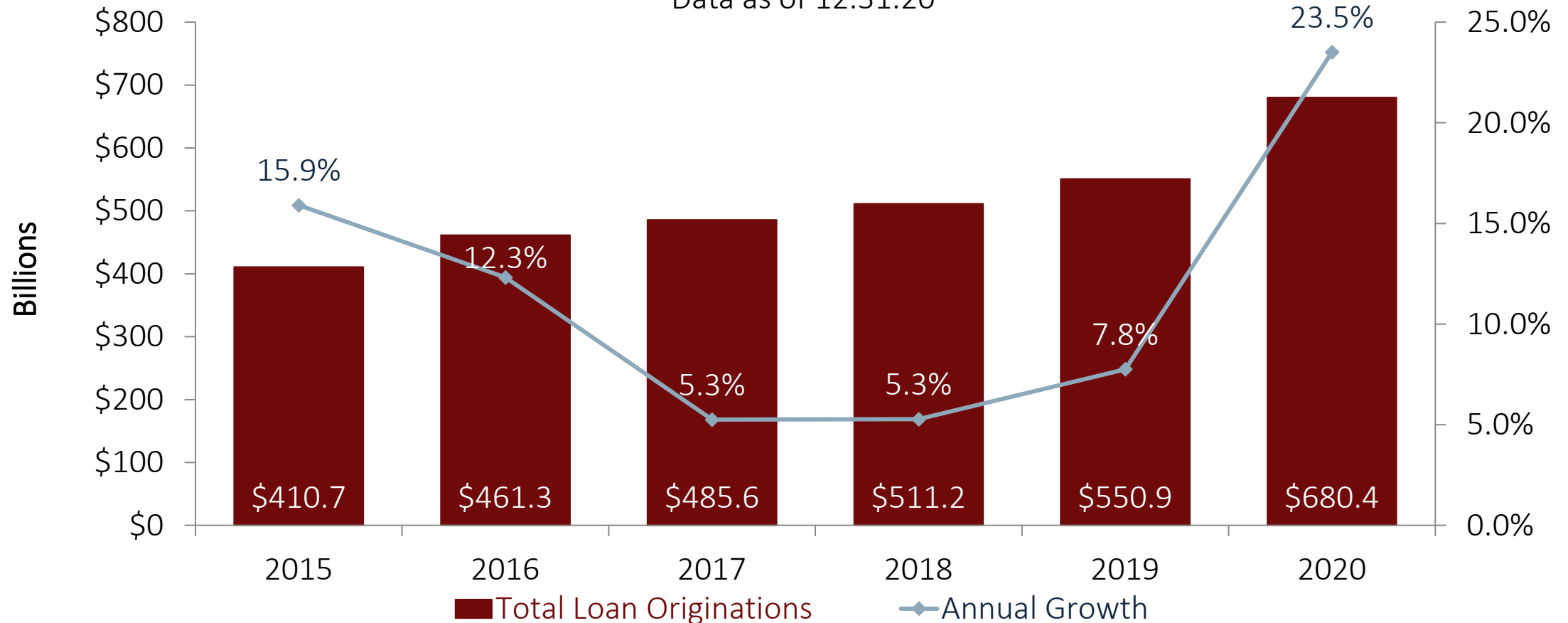


# The surge in member savings headlines 2020 credit union results

	12/31/2020	12-Mo. Growth	12/31/2019	12-Mo. Growth
Assets	\$1,868.0B	17.9%	\$1,584.7B	7.7%
Loans	\$1,176.7B	5.0%	\$1,120.2B	6.1%
Shares	\$1,608.2B	20.4%	\$1,335.4B	8.2%
Investments	\$602.3B	54.7%	\$389.3B	11.1%
Capital	\$206.8B	10.0%	\$188.1B	10.5%
Members	125.9M	3.4%	121.7M	3.6%

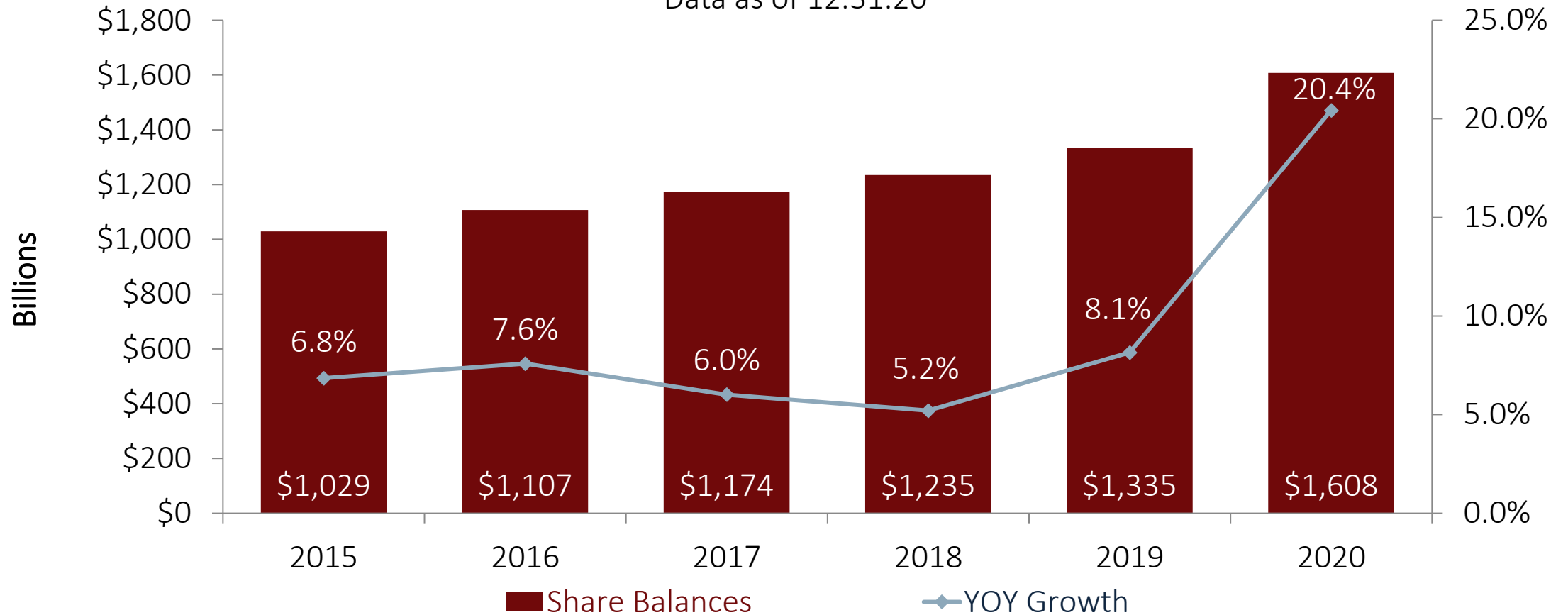
# Loan originations reach a record \$680 billion in 2020 as credit unions help members take advantage of low interest rates

YTD Loan Originations and Annual Growth  
Data as of 12.31.20

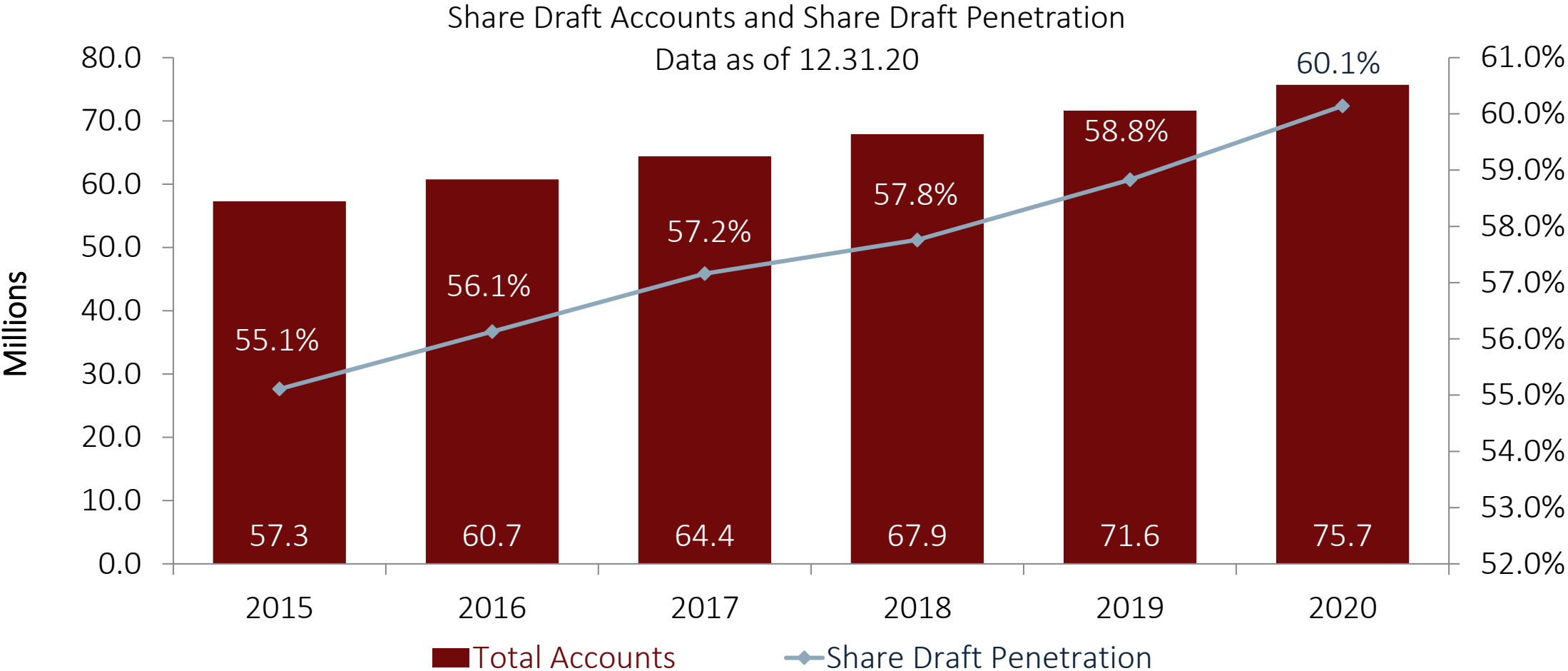


# Total share balances increase \$273 billion in 2020, the largest annual change ever

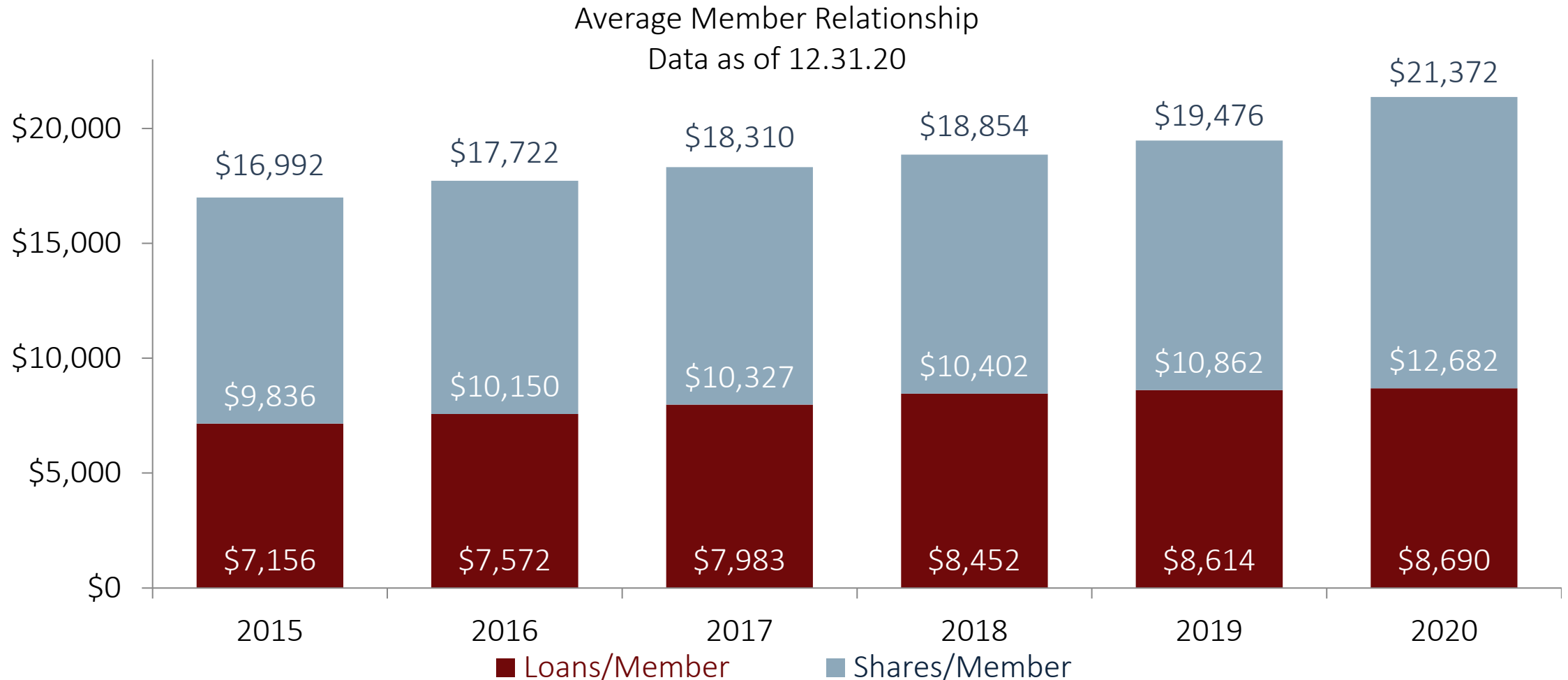
Total Share Balances and Annual Growth  
Data as of 12.31.20



With over 60% of members holding a credit union checking account, credit unions are increasingly their primary financial institution



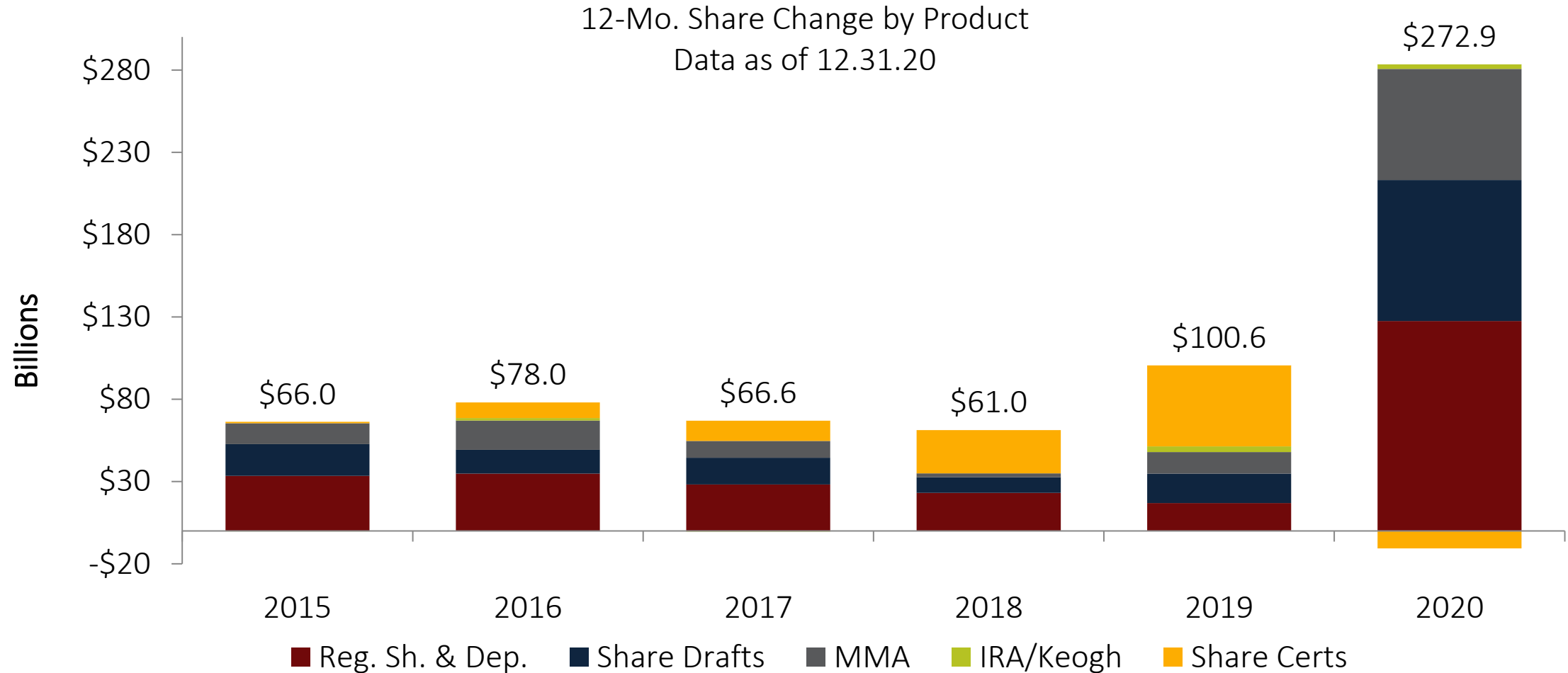
# The average member relationship grows over \$1,800 in 2020, led by record share growth



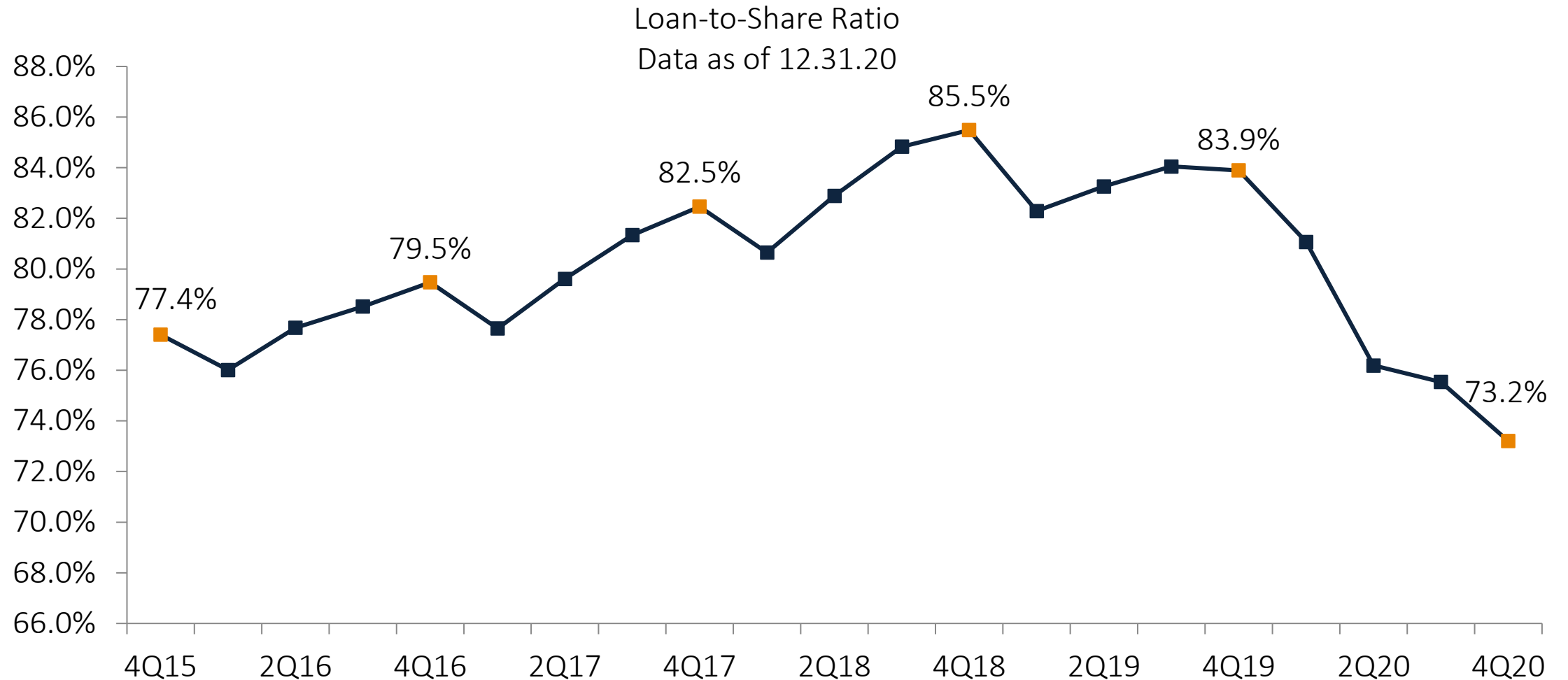
# Savings

- Total deposit balances increase 20.4%, or \$272.8 billion, in 2020 to reach \$1.6 trillion at year-end.
- Members direct their savings to core deposit accounts in 2020, with total balances in this segment (share drafts, savings, money market) increasing 29.1% annually and accounting for 102.8% of total share growth over the period.

# Core deposits drive the saving surge, growing nearly 6 times 2019's results



# Rapid deposit growth quickly pushed the loan-to-share ratio lower in 2020



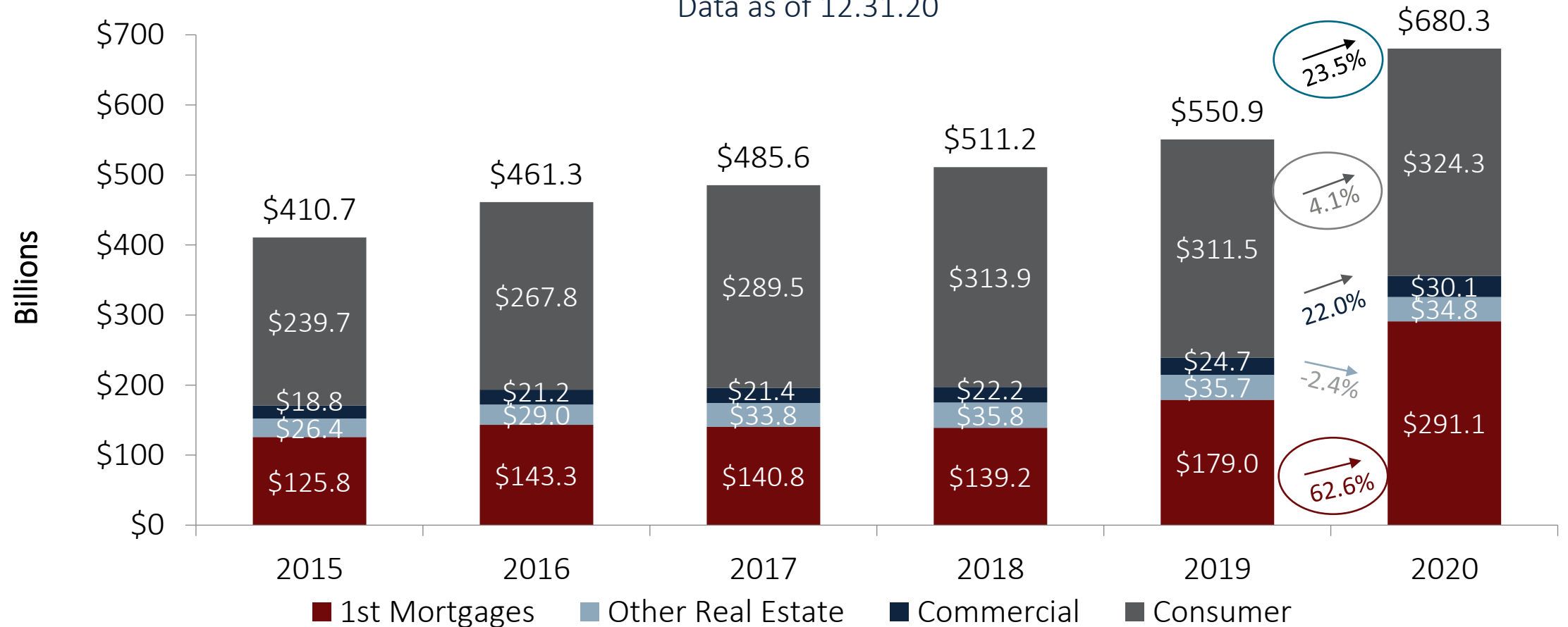


# Lending

- Record loan originations are led by mortgage lending, with credit unions granting 1.2 million loans for home purchases and refinancings.
- Asset quality remains strong at year-end and credit unions are well-prepared to navigate member financial challenges in 2021.

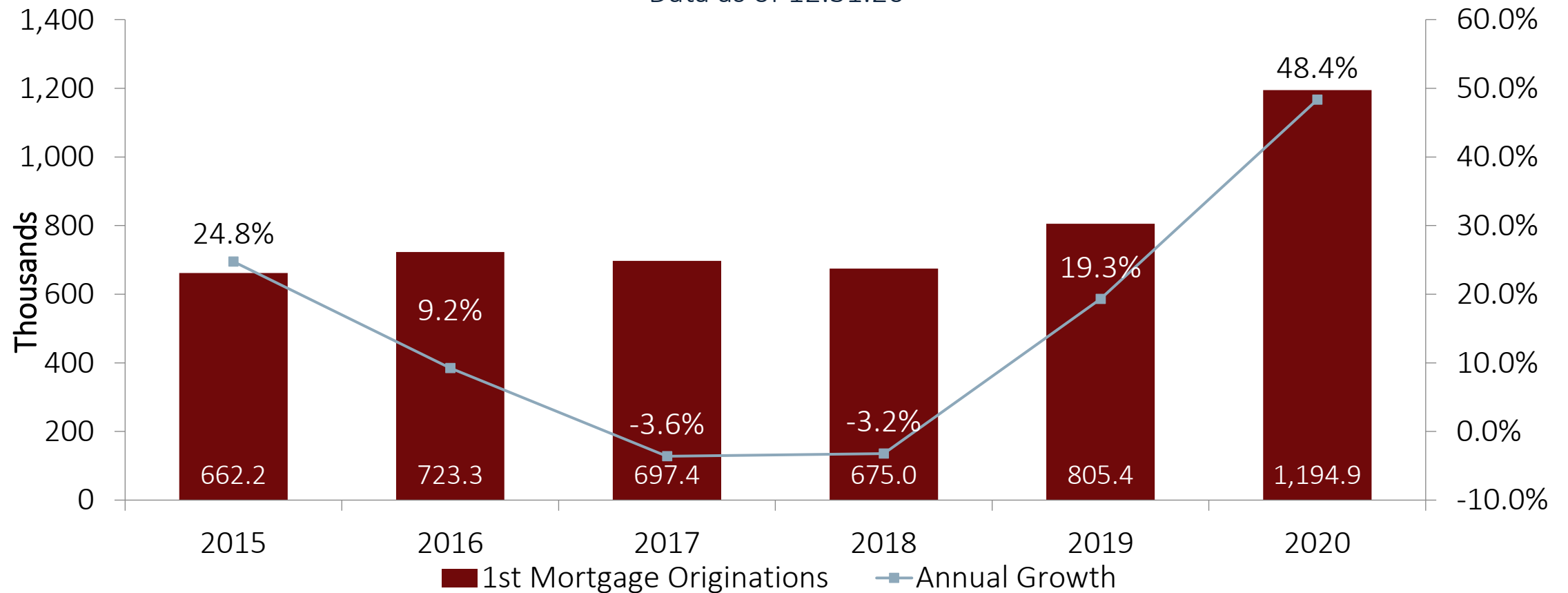
# Mortgage lending drives origination growth, though consumer lending remaining credit unions' primary business

YTD Loan Originations  
Data as of 12.31.20



# Credit unions originate 1.2 million mortgage loans for members in 2020 as rates reached record lows

Number of YTD Mortgage Originations and Annual Growth  
Data as of 12.31.20



# Tempe, Desert Financial offer Covid-19 microloans to businesses



## Opportunity Fund Partners with Meriwest Credit Union, Self-Help Federal Credit Union, and UMe Credit Union, Increasing Small Businesses' Access to Credit

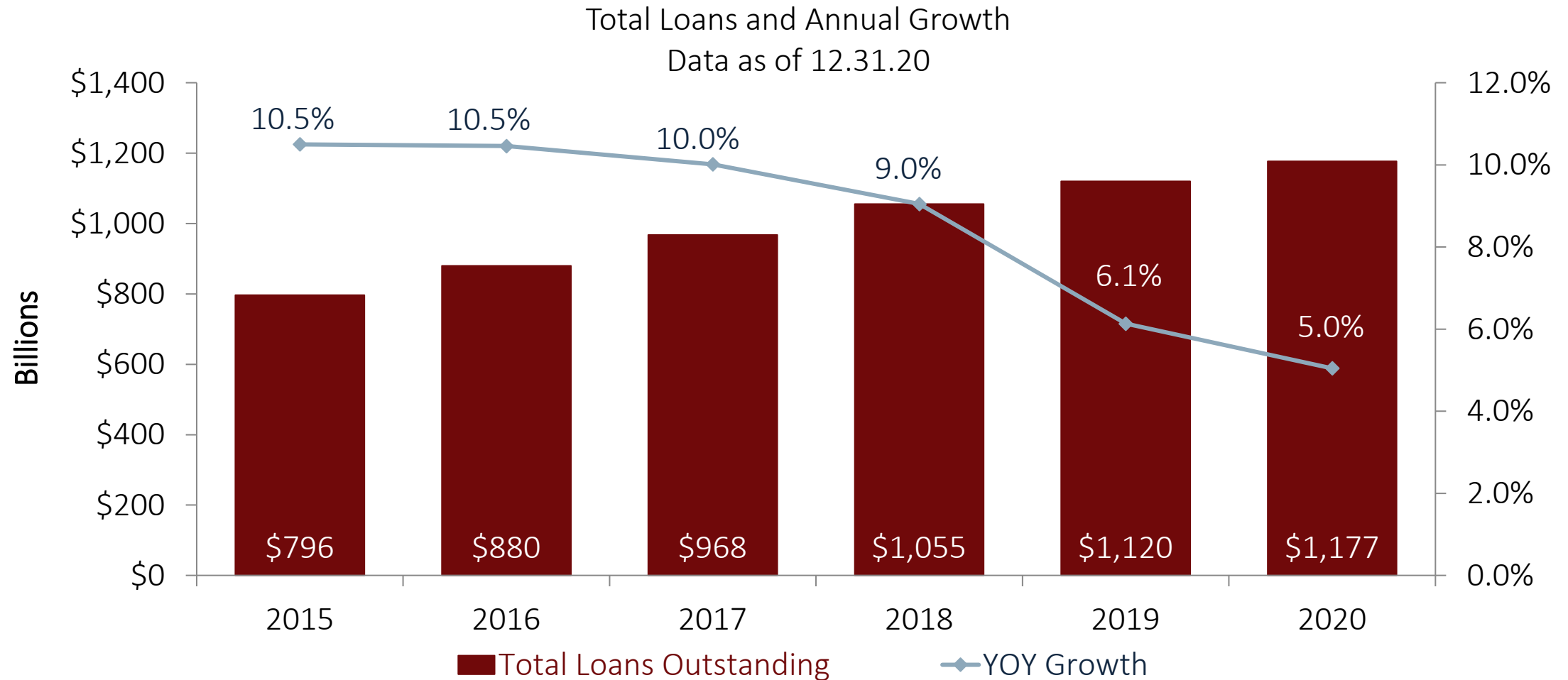


January 5, 2021



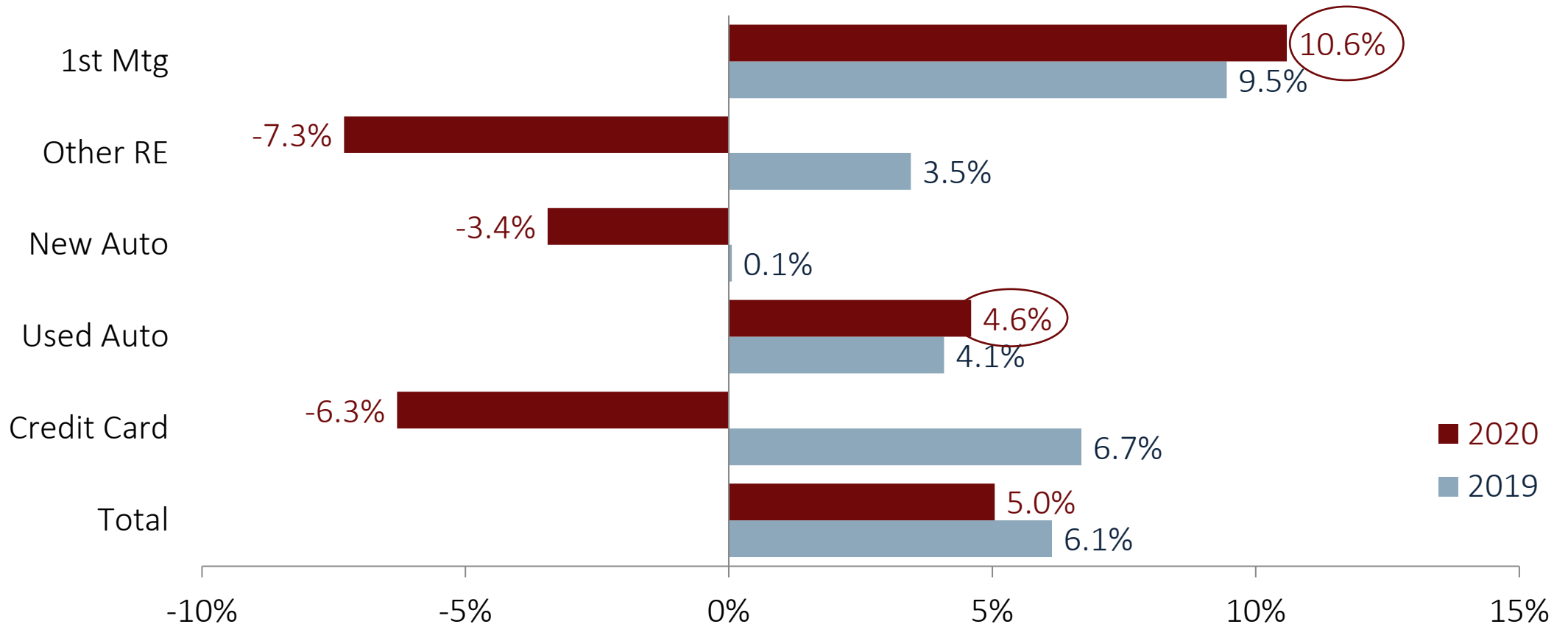
As small businesses struggle to access affordable capital during the COVID-19 pandemic, California's leading nonprofit lender joins forces with community-based

# Annual loan growth slows as members reduce debt amid slower consumer spending and economic uncertainty

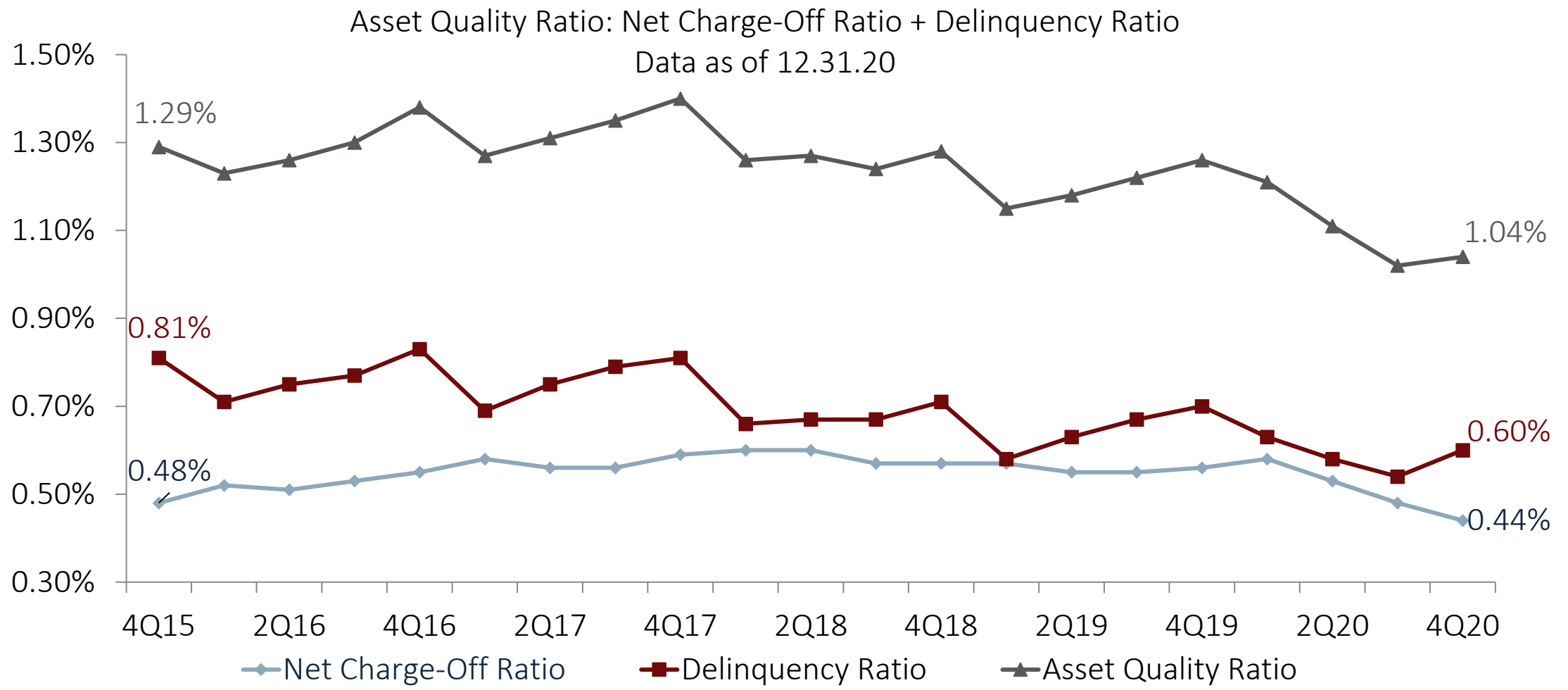


# Loan portfolio growth is concentrated in first mortgages and used auto loans in 2020

Annual Growth in Loans Outstanding  
Data as of 12.31.20

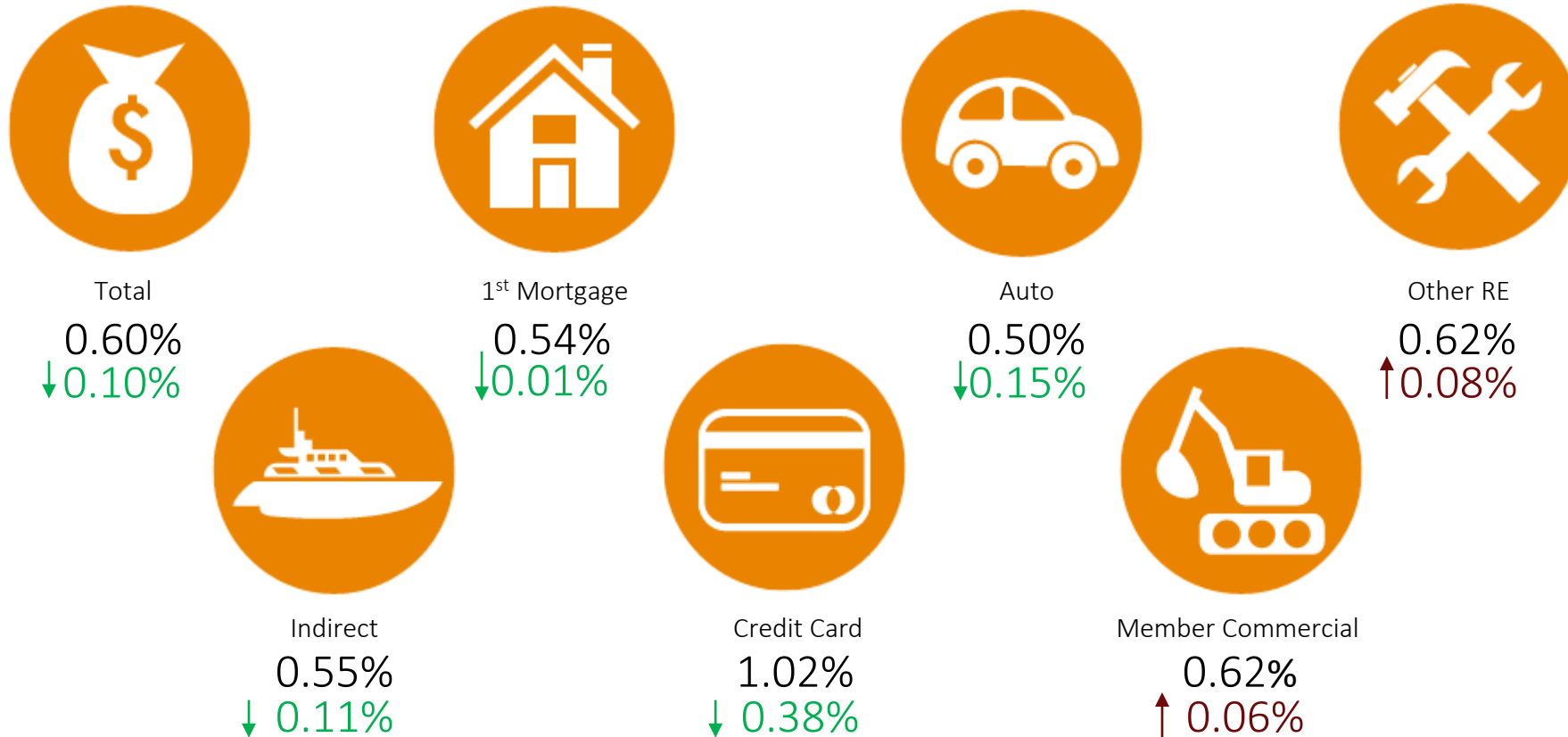


# Delinquency rises 6 basis points in the fourth quarter, the first quarterly increase of year, but asset quality metrics improve in 2020



# Delinquency improves across the balance sheet, but there is uncertainty about the depth and duration of the economic slowdown

Annual Change in Delinquency  
Data as of 12.31.20





# Seth Schaefer

**President / CEO**

**Rivermark Community Credit Union**

- Headquartered in Beaverton, Oregon
- \$1.1 Billion in Assets
- Serving Over 85,000 Members with Purpose



# A Purpose Driven Credit Union



**“People don’t buy what you do;  
they buy why you do it.**

**And what you do simply  
proves what you believe”**

- Simon Sinek, *Start with Why: How Great Leaders Inspire Everyone to Take Action*



**If you stand**



**for nothing,**

**Burr,**

**what'll you fall for?**

*-Hamilton, Lin-Manuel Miranda*





# Purpose Driven *Members*



# Members

**2/3** of consumers want companies to take a stand on social issues

- 2018 Edelman Earned Brand "Brands Take a Stand" Report



# Members

**64%** of consumers worldwide  
are "belief-driven buyers"

↑ 51% in 2017

✓ Authentic

✓ Belief Driven

✓ A Positive Cultural Force

- 2018 Edelman Earned Brand "Brands Take a Stand" Report



# Members

True across **income** demographics

True across **age** demographics

True across **ethnicity** demographics

- 2018 Edelman Earned Brand "Brands Take a Stand" Report







Purpose Driven  
*Employees*

A decorative graphic on the left side of the slide featuring a waterfall cascading over a bridge, set against a lush green forest background. The graphic is partially obscured by a white curved shape that frames the text.

# Employees

“The mission or **purpose** of my company makes me feel my job is important.”

“What do I get?”

“What do I give?”

“Do I belong?”

- Gallup Employee Engagement Survey



Purpose Driven

*Some considerations...*

# Process Example with DEI



# Mission and Values

✗ Integrity

✗ Trust

✗ Competence

✓ Curiosity

✓ Real

✓ Inclusive

✓ Team

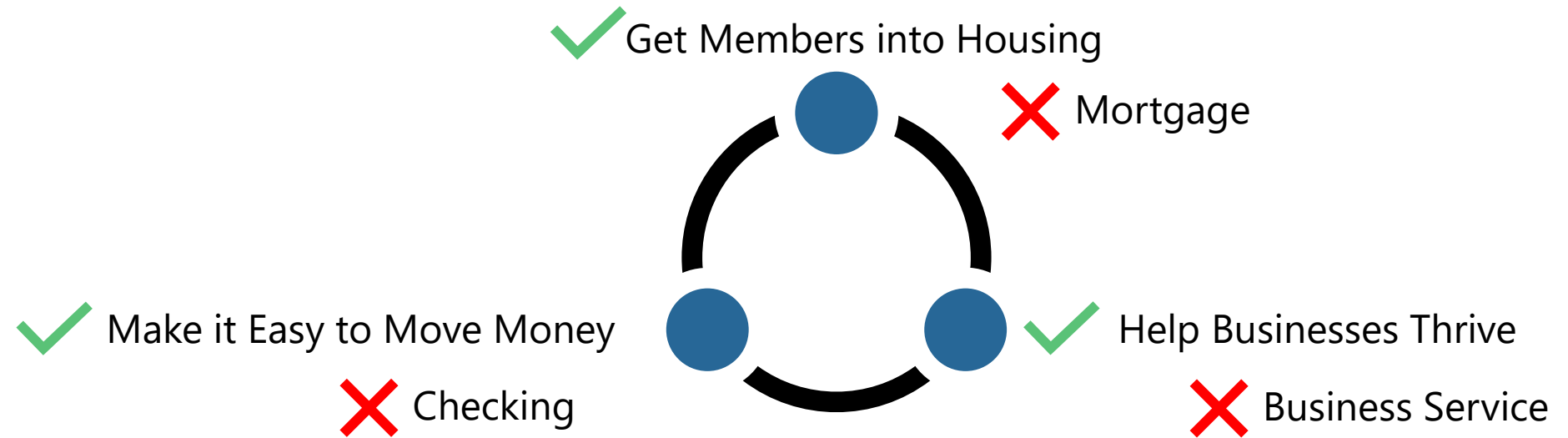
Continuous coaching – are you measuring it?

“Tell me about a time...”



# Strategic Priorities

## Access to Strategic Plan



## Simplicity of Strategic Plan



# Alignment

what you believe your purpose to be



what your behaviors suggest your purpose truly is.

- ✓ Behavior Incentives
  - ✓ Purpose over product
  - ✓ Community Advocacy
- ✗ Stop doing?



# Measurement



BRAND  
AWARENESS



RETURN TO  
MEMBER



IMPACT  
SCORECARD

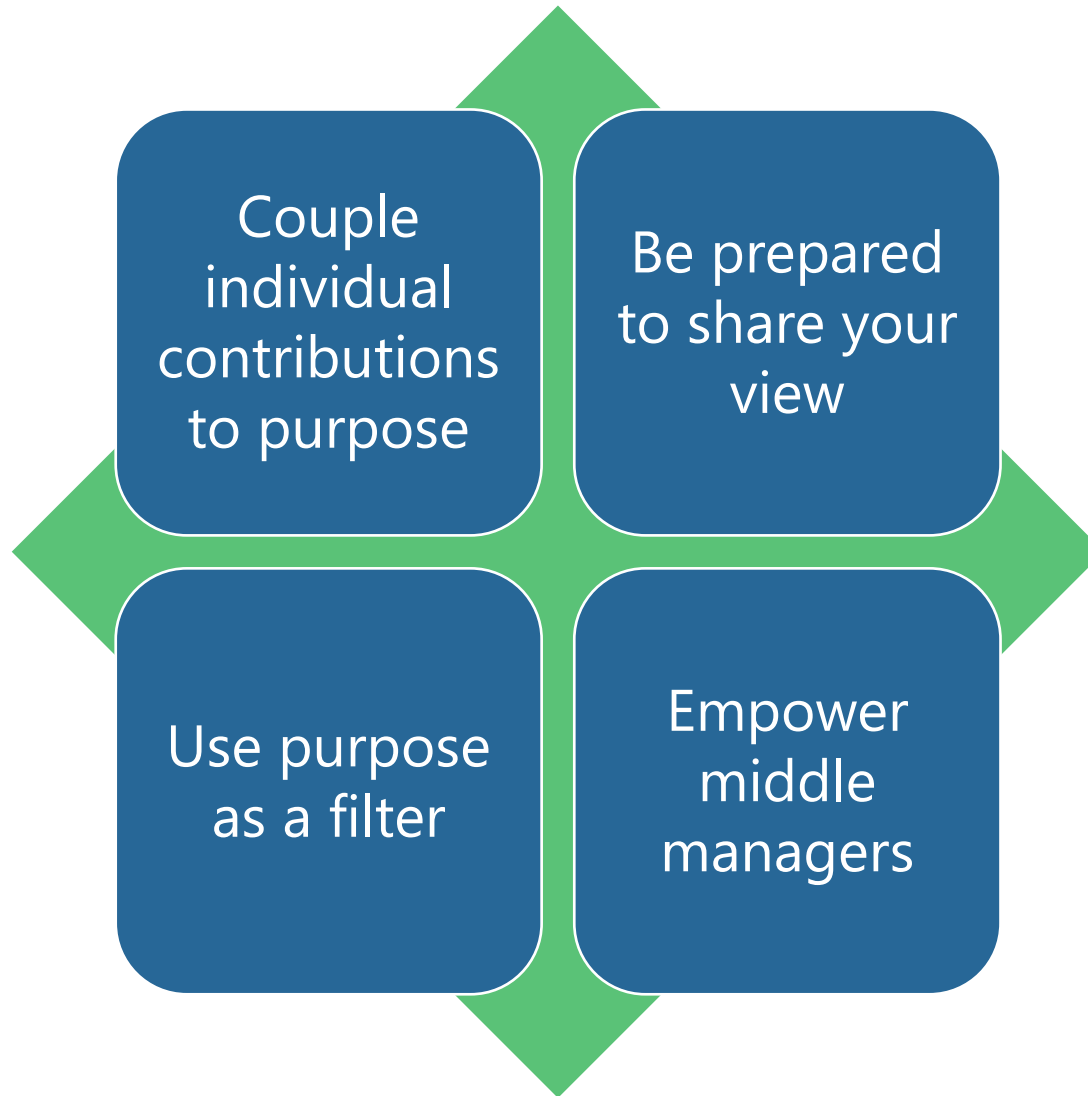


EFFORT  
SCORE





# Leadership





**“...if there is a  
purpose about  
which you are passionate,  
dedicate yourself to that  
purpose.”**

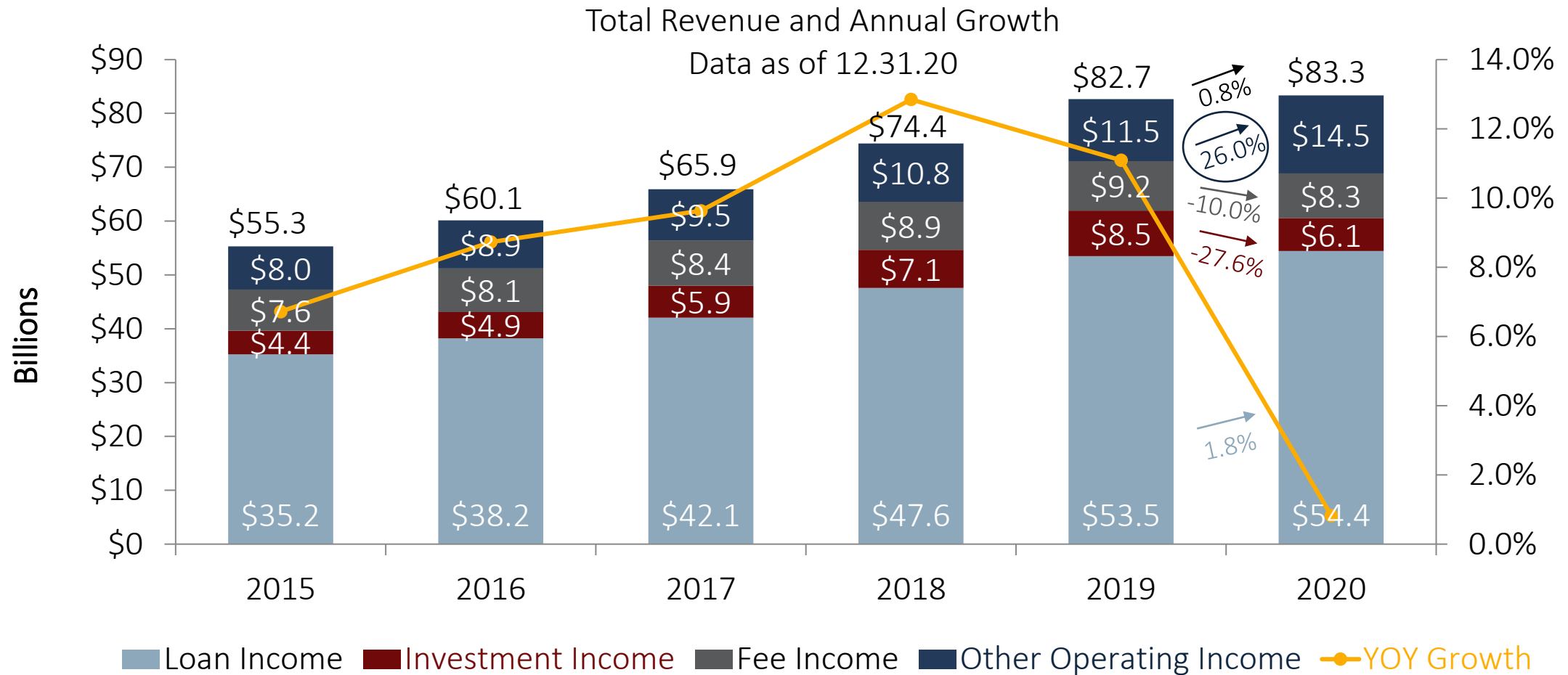
- Janet Yellen



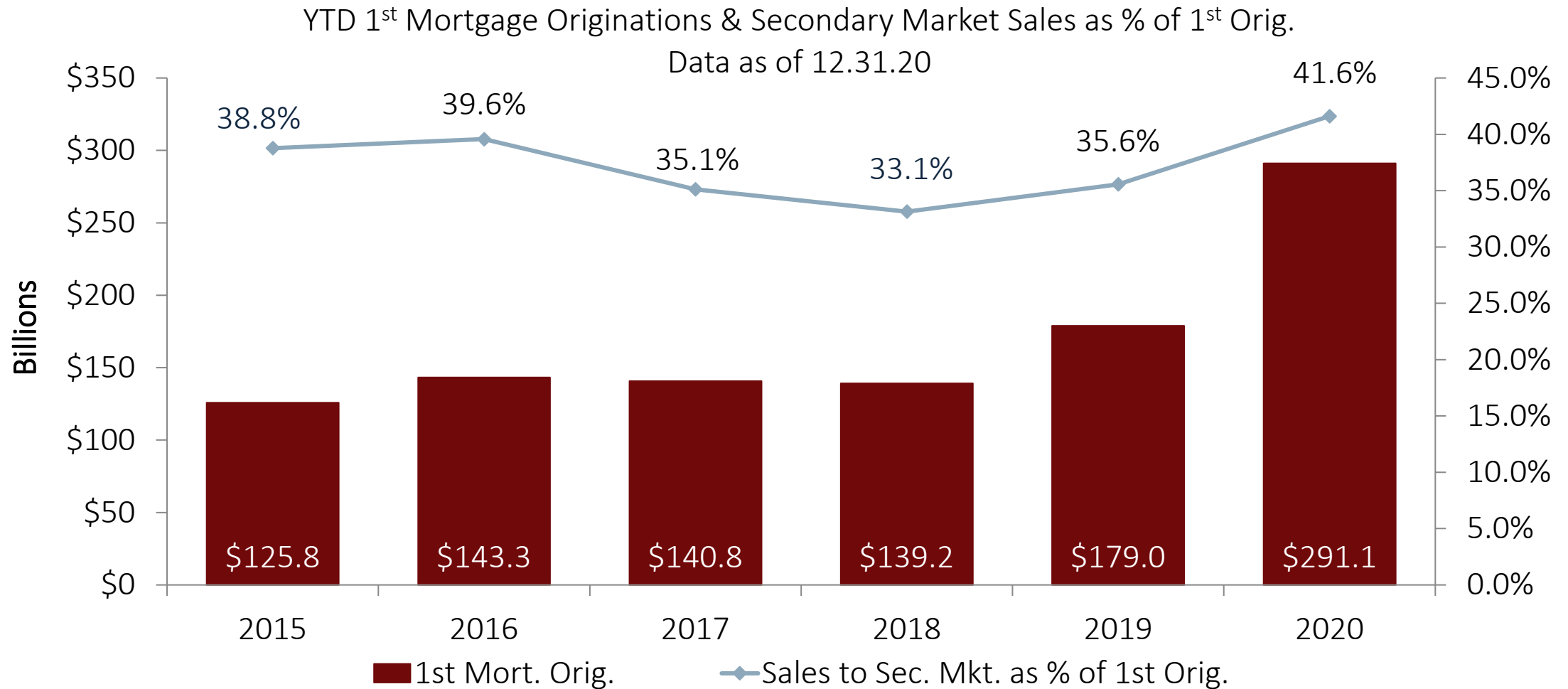
# Earnings & Capital

- Historically low interest rates are reducing net interest margin.
- Despite a challenging environment, credit unions still post a positive bottom line and end the year in a strong financial position.

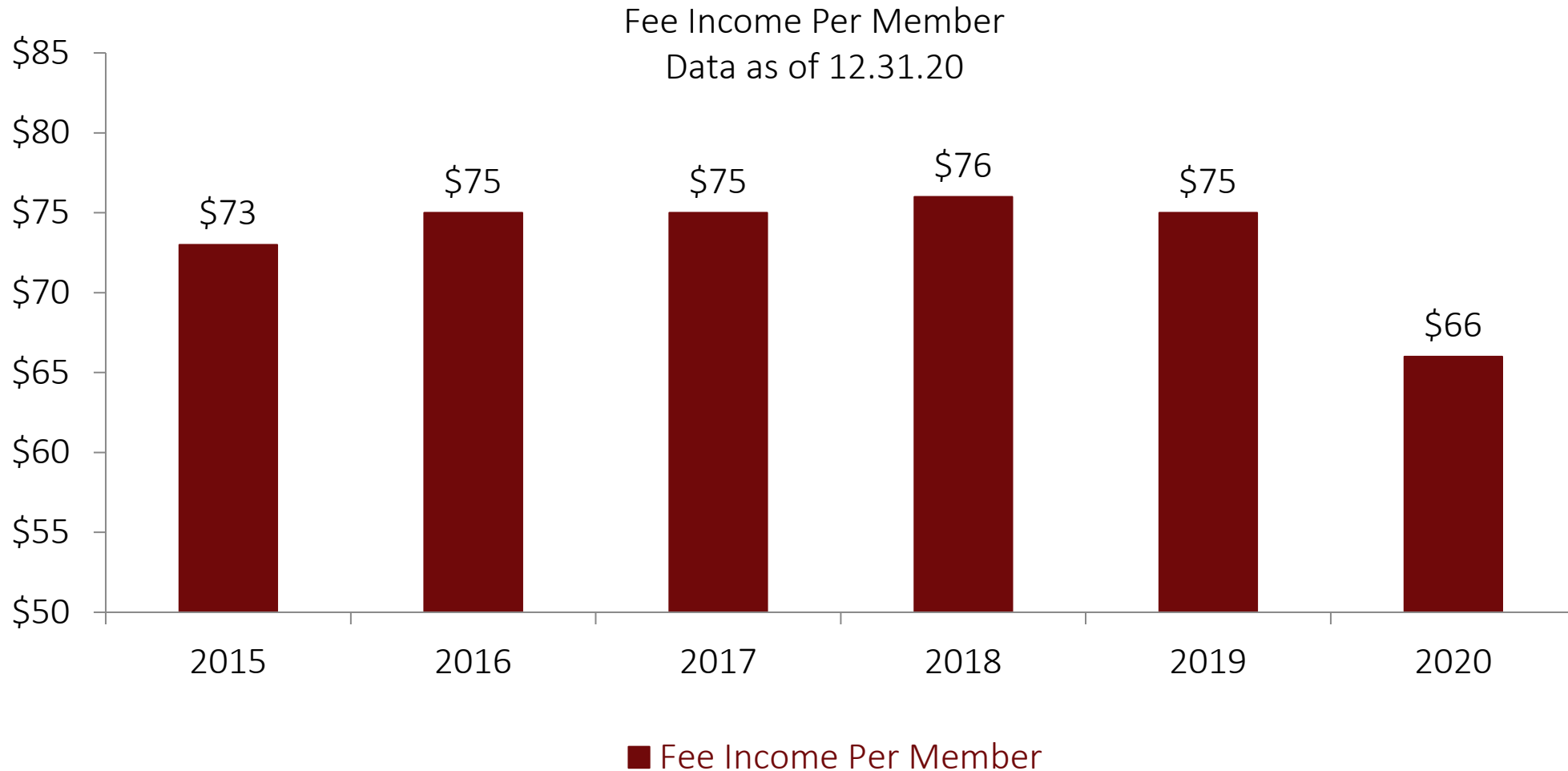
# Other operating income, including from mortgage sales and interchange income, generates marginal revenue growth



# Credit unions sell a record amount of low-yielding mortgages to the secondary market



# Credit unions reduce fees during economic downturn, lowering fee income per member to its lowest level since 2005



## Financial Relief: How We Can Help

Payment relief, loans and other resources designed to help members facing financial hardship due to the COVID-19 crisis, job loss and other unforeseen circumstances.

### Financial Relief Solutions

BECU believes in people helping people, and are doing everything we can to help you. We take our role as your credit union seriously and have identified loan relief and payment deferral options for those affected by the COVID-19 crisis. We are continually developing additional ways to help, so please know that new offerings will be added as they become available.

[Payment Relief Assistance](#) | [Personal Loans](#) | [Student Loan Deferral](#) | [Mortgage Payment Suspension](#) | [Business Member Assistance](#) | [Debt & Credit Counseling](#)

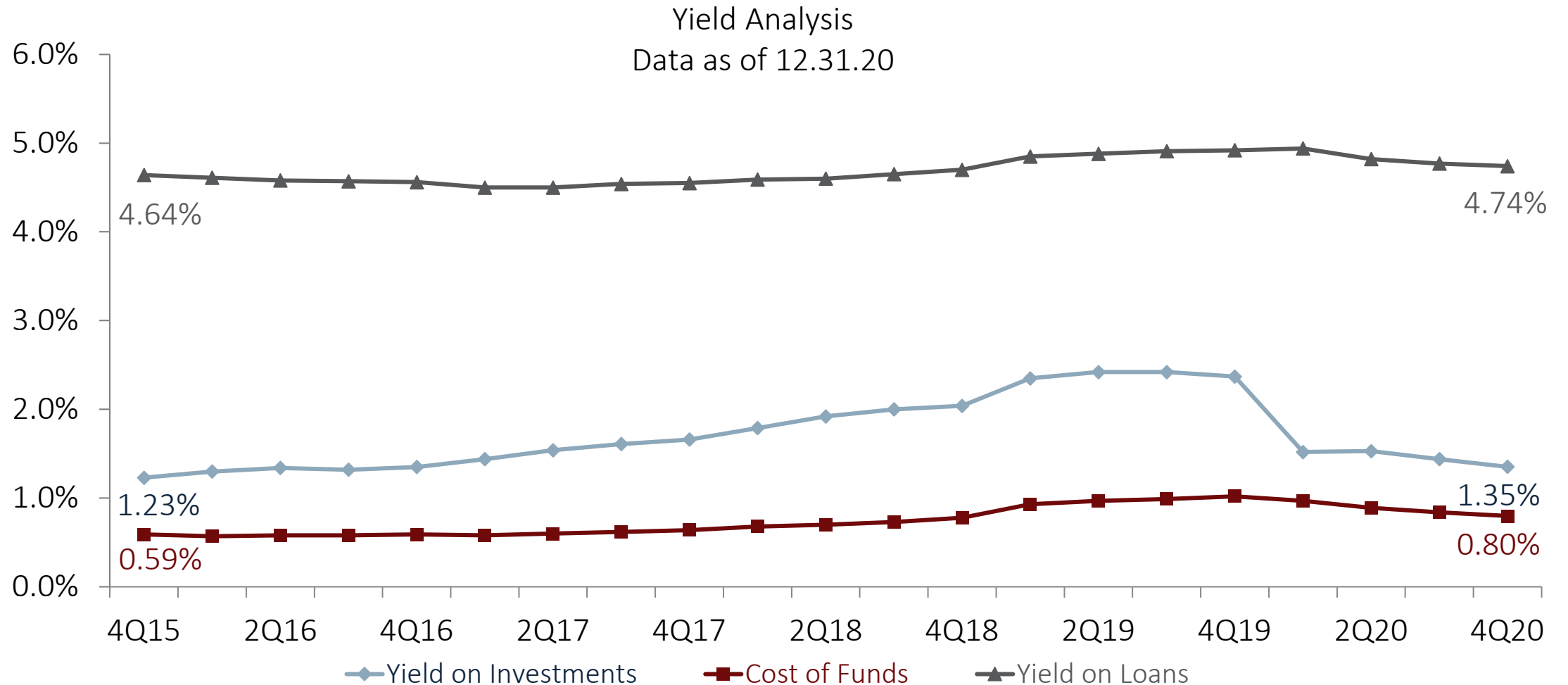


**FINANCIAL  
RELIEF:  
HOW WE  
CAN HELP**

### Articles & Assistance

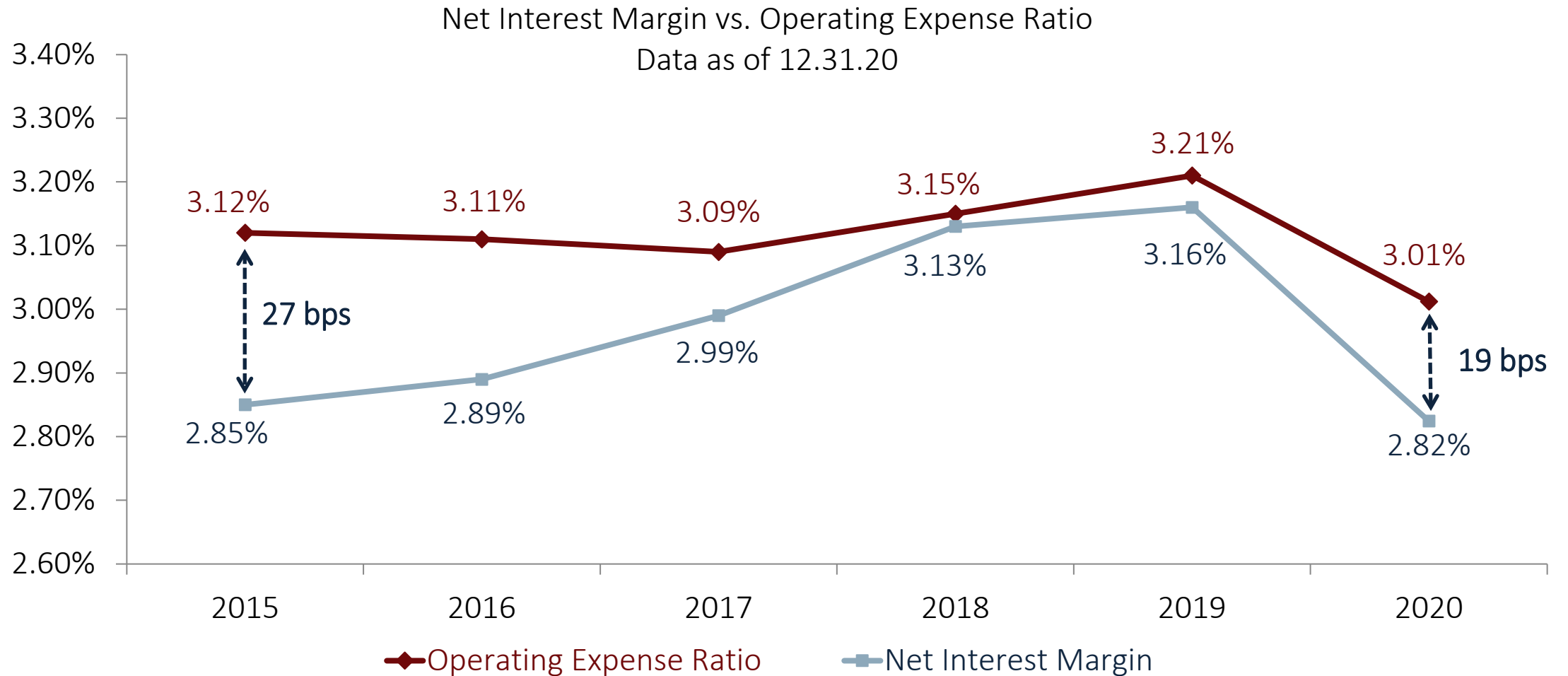
- [How to Contact Us](#)
- [BECU's COVID-19 Response](#)
- [Financial Relief Options](#)
- [Avoiding Foreclosure \(PDF\)](#)
- [Stimulus Check Information](#)

# Returns decline across the balance sheet as interest rates are reduced

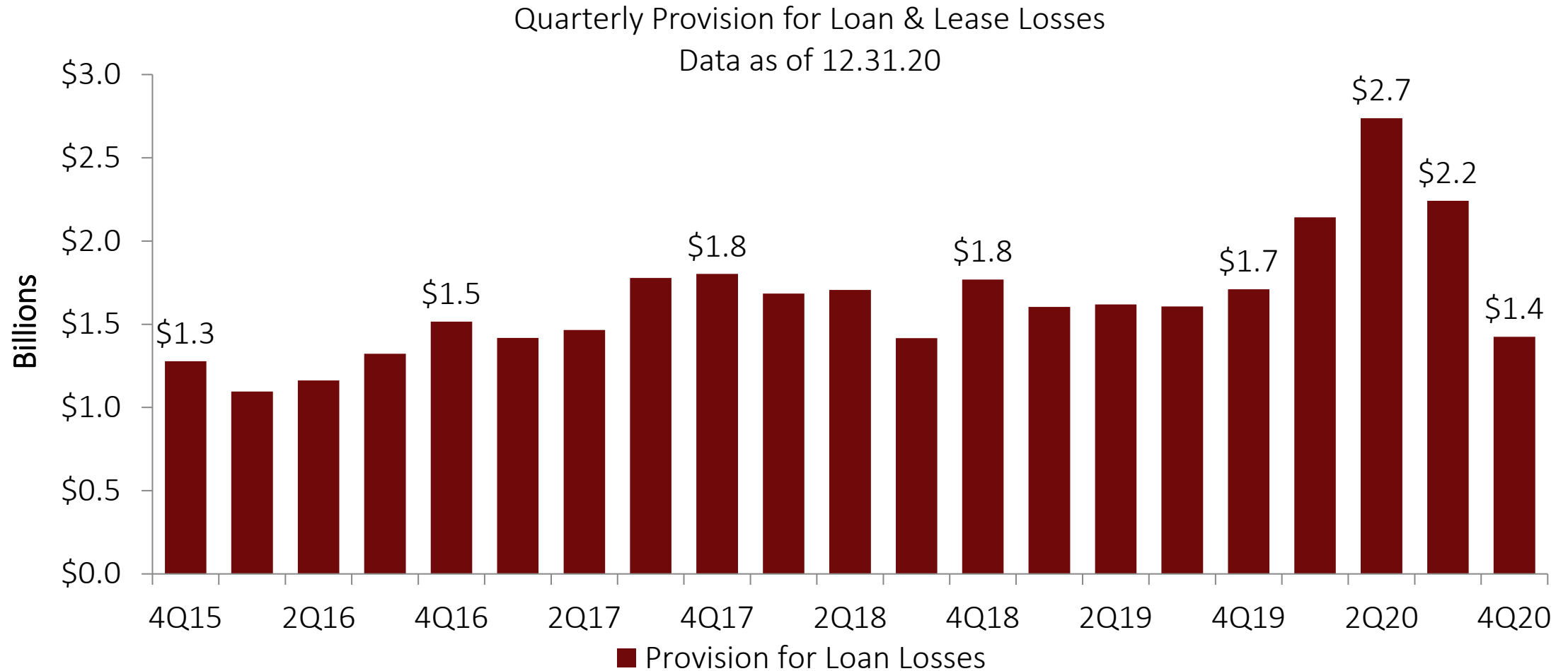




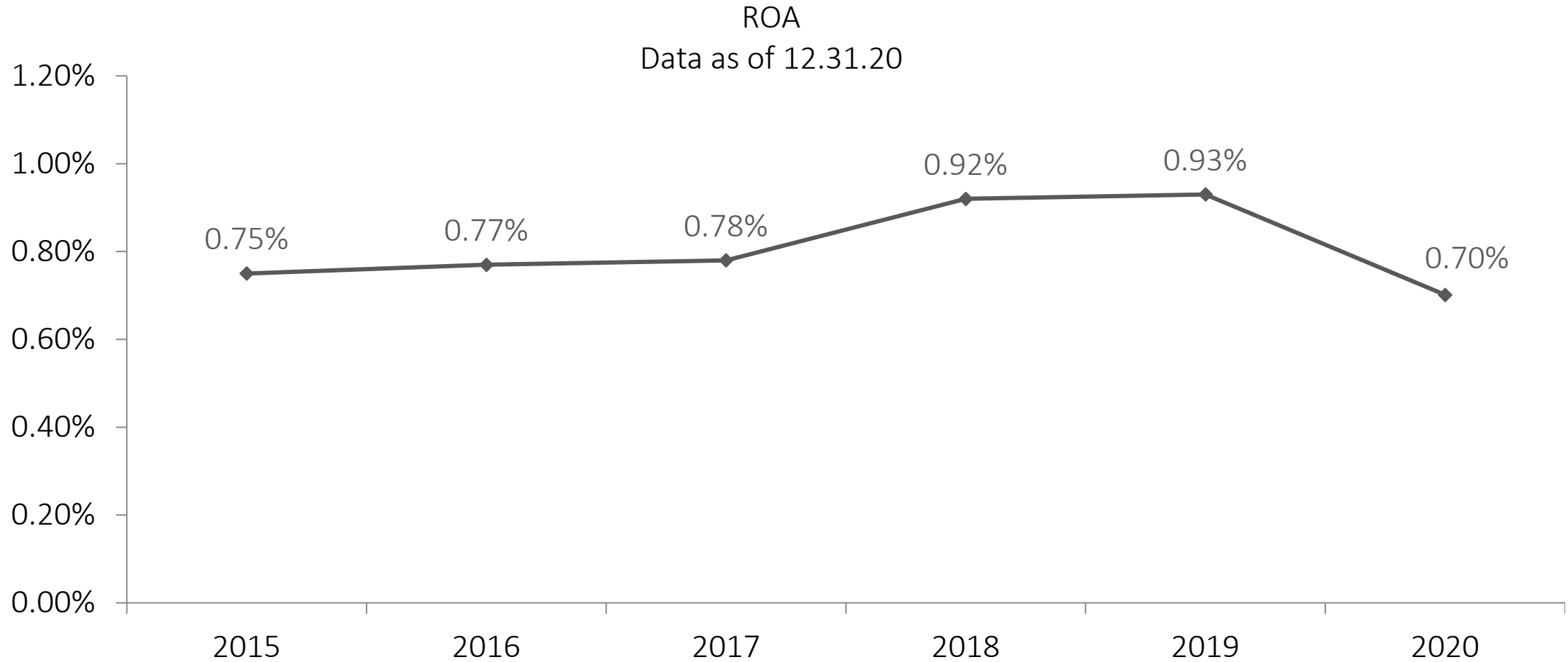
# The net interest margin tightens 34 basis points in 2020 and sits 19 basis points below the operating expense ratio



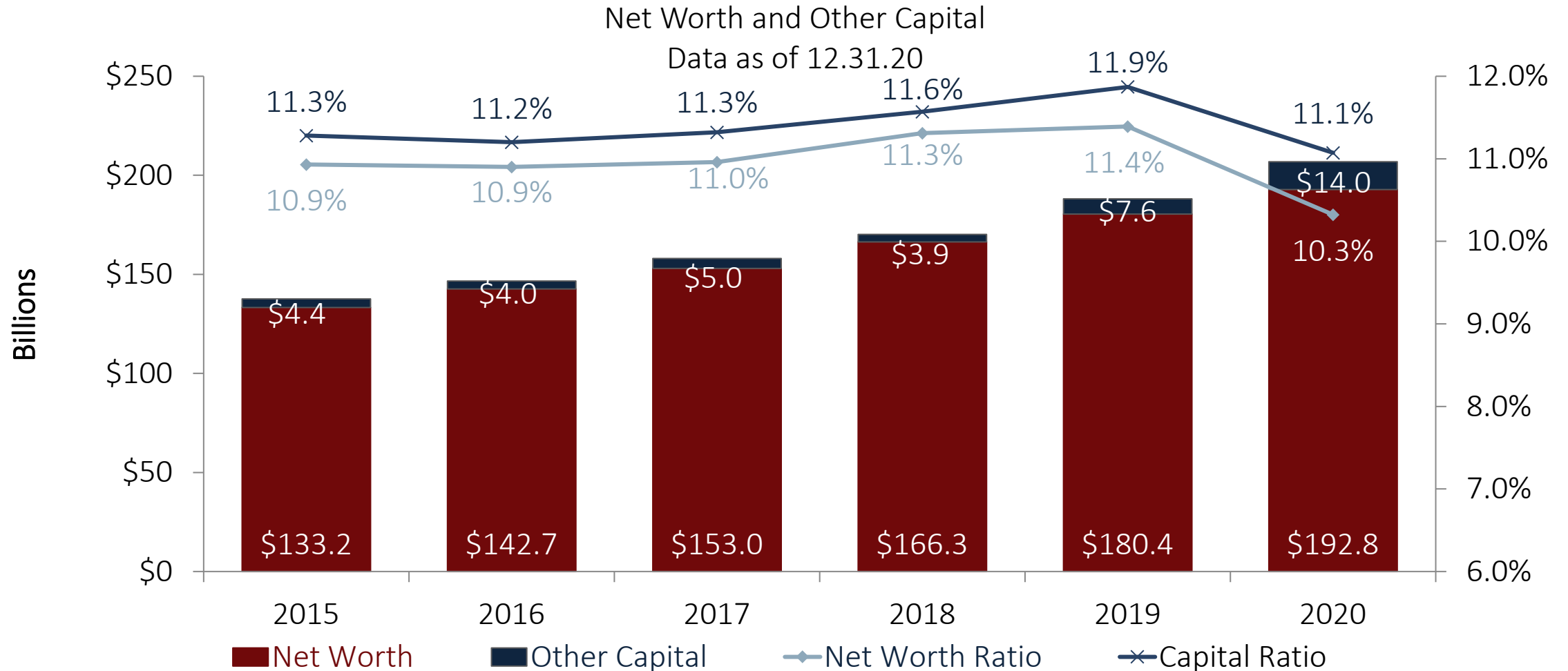
# Credit unions post \$8.5 billion in provision for loan losses in 2020, the highest ever



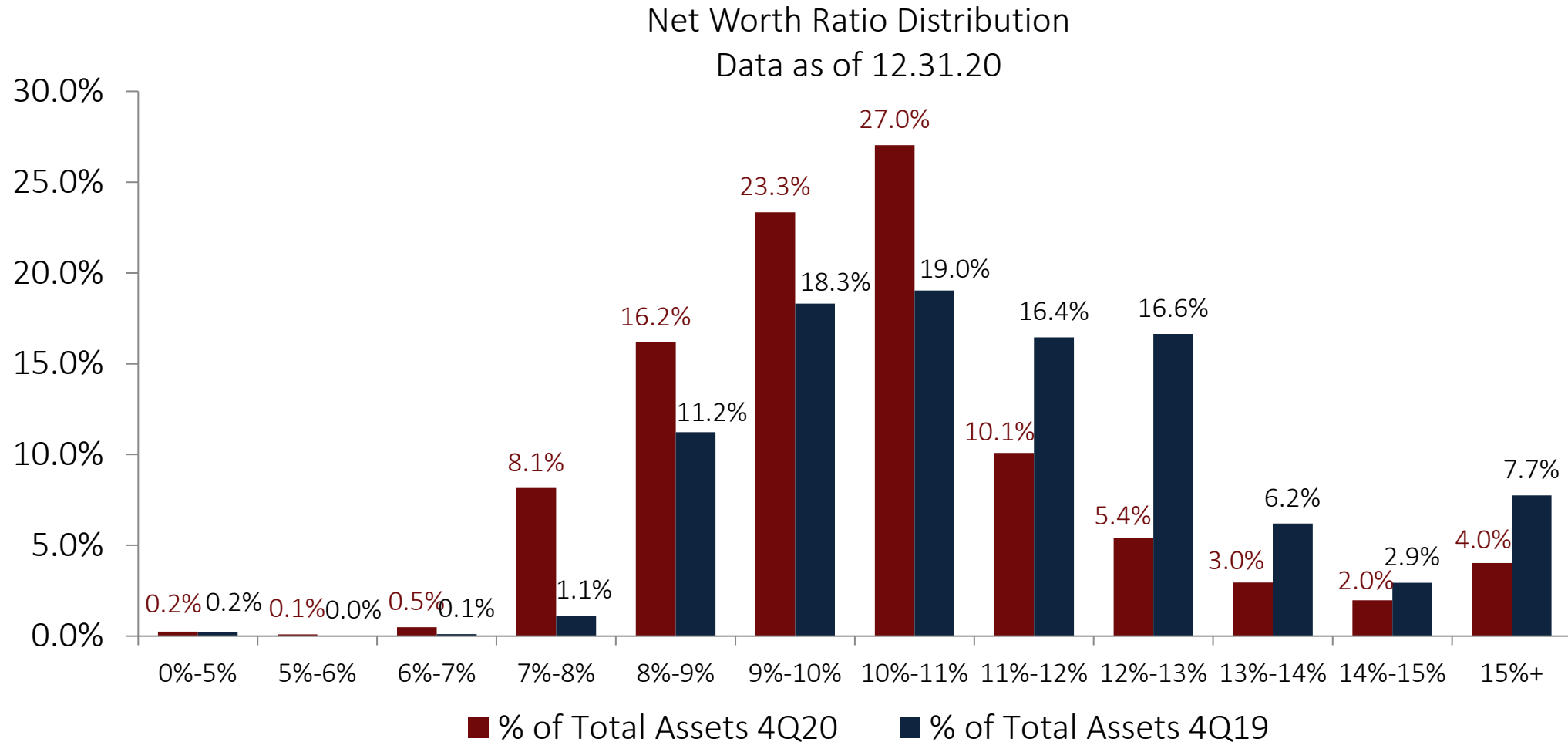
# ROA decreases 23 basis points versus 2019 but credit unions remain profitable



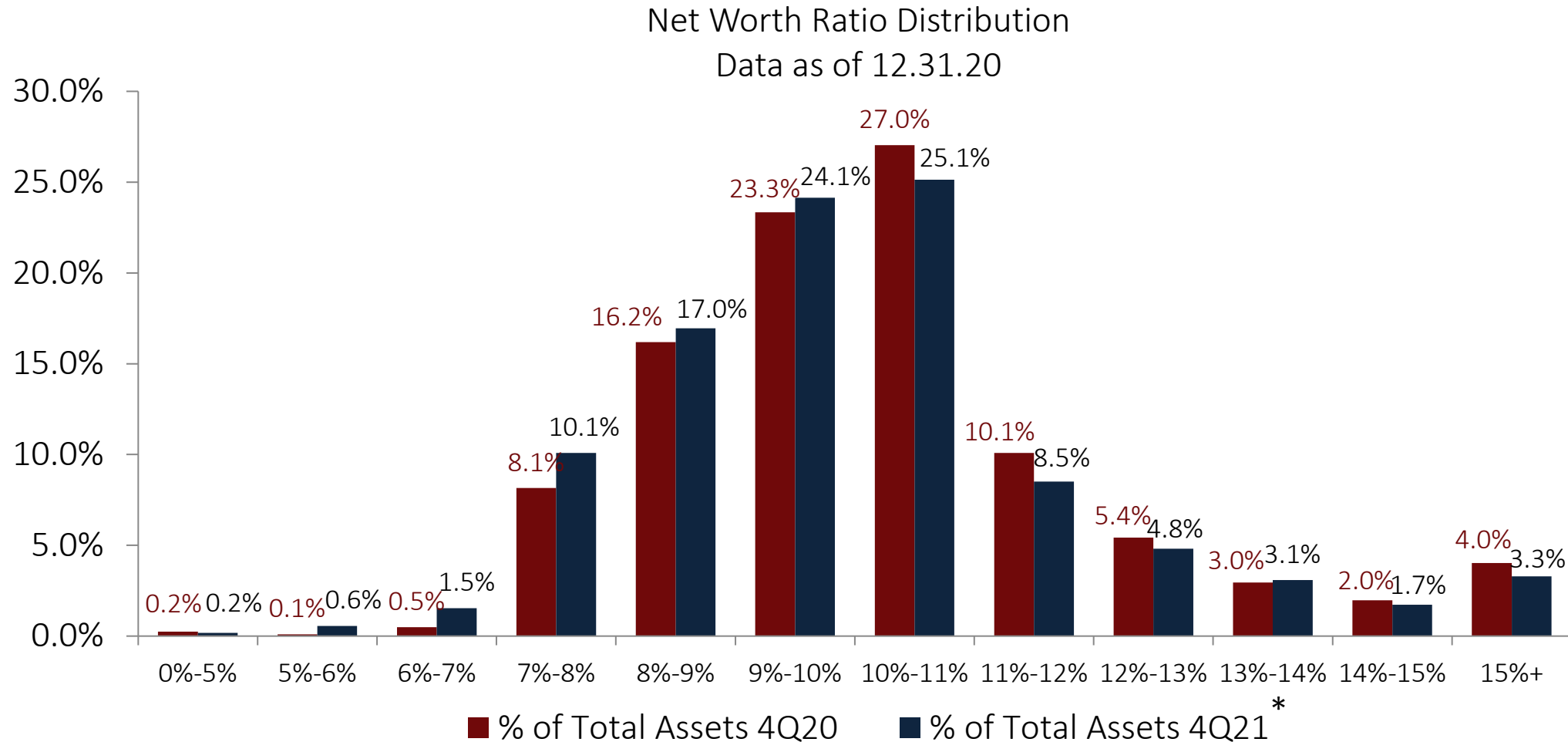
# The industry's 10.3% net worth ratio remains well above NCUA's 7% "well capitalized" level despite record asset growth in 2020



The median net worth ratio at year-end 2020 is 10.9%, with more than 99% of credit union assets “well capitalized”

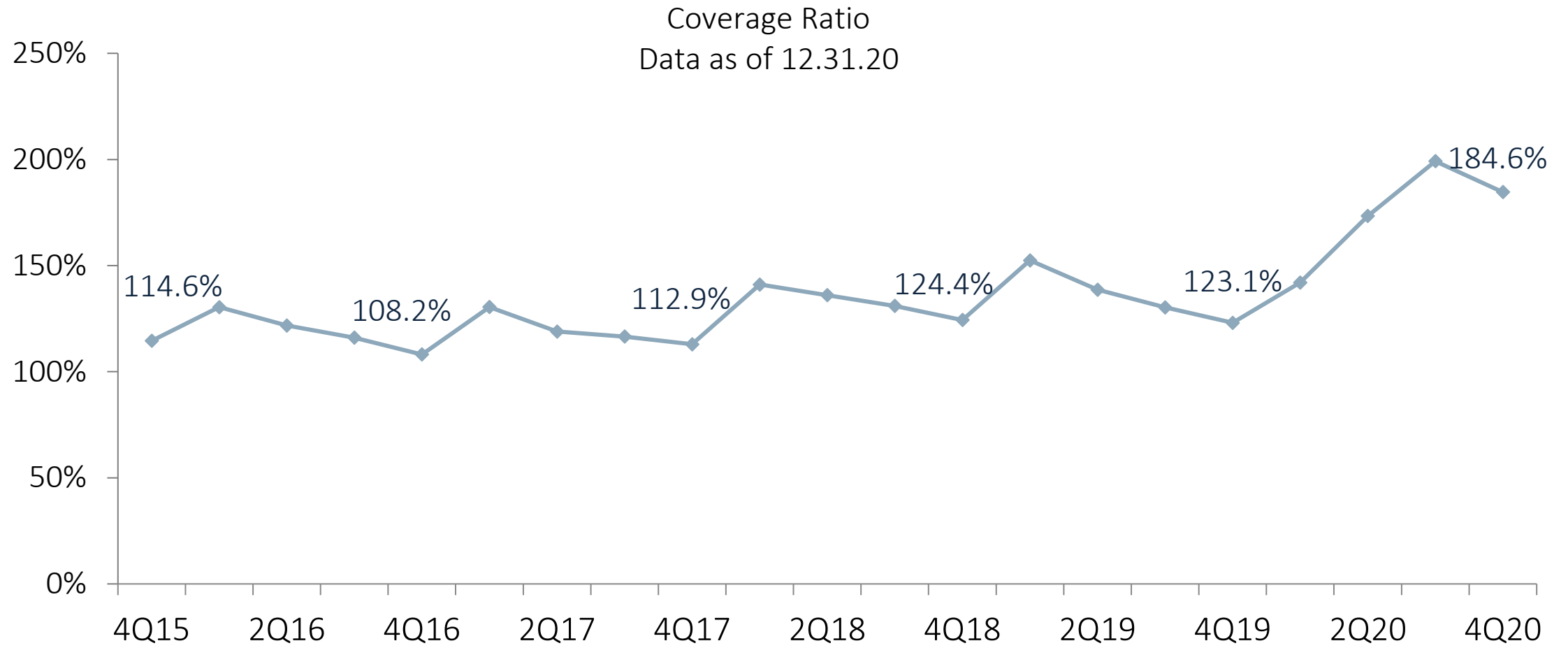


With 10% asset growth and the same ROA in 2021, 98% of credit union assets are “well capitalized” with a median net worth ratio of 10.4%



\*Assumes 10% asset growth and 2021 ROA matches 2020 ROA

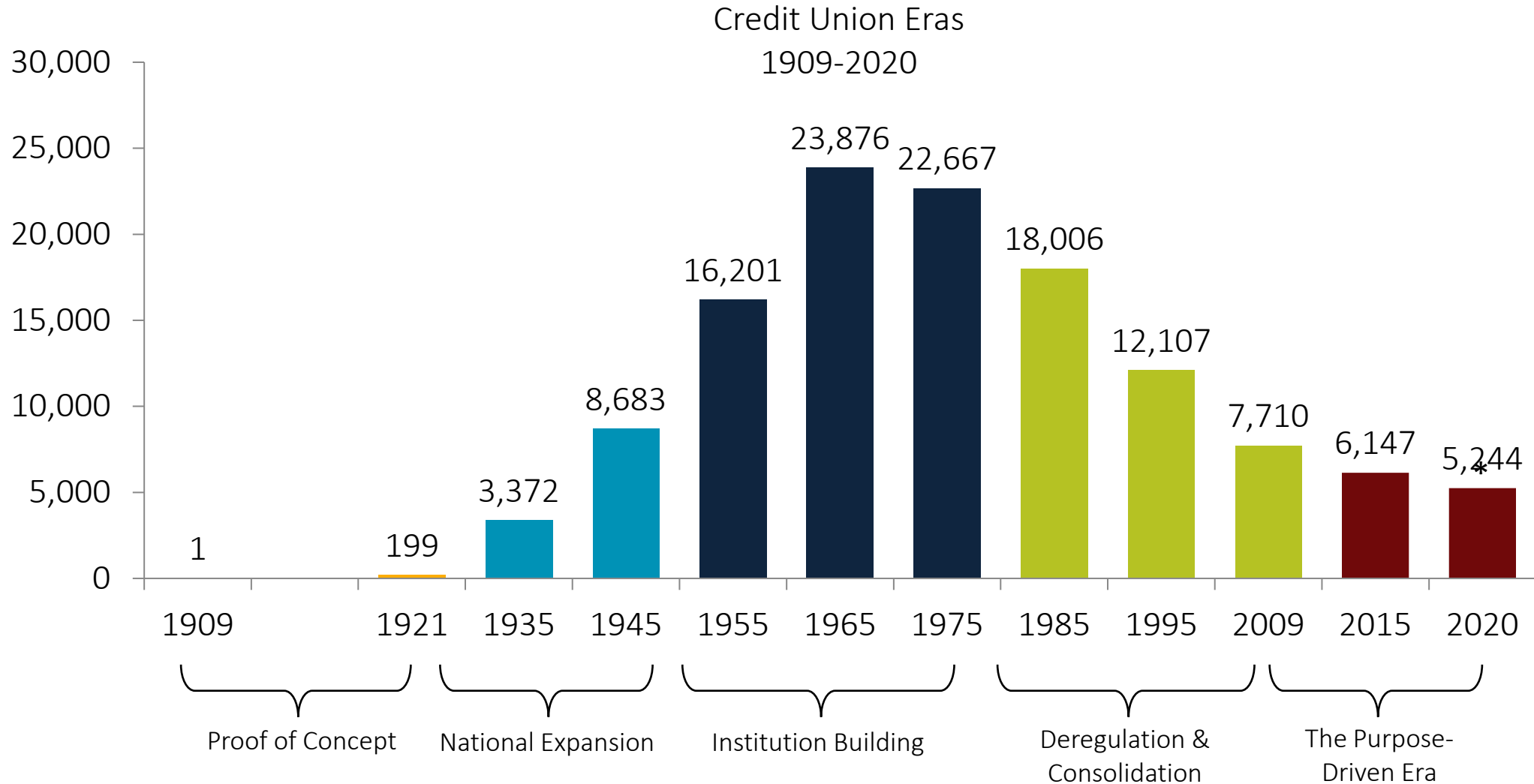
# Credit unions have reserved \$1.85 for every \$1 of delinquent loans



# Looking Ahead to 2021



# The Purpose-Driven Era



\*Count as of 3Q20

# Why we are optimistic

- In the near-term, members and communities need credit unions to be part of the recovery phase.
- Credit unions have advantages – a business model and financial capacity that allows us to take a long-term view.
- As we have seen over the past decade, the environment is rewarding those organizations that are able to differentiate based on a clear purpose that resonates with their stakeholders.

Tell us what you thought!



Please answer our post-event survey.

One lucky survey respondent will win a Starbucks gift card.

# THANK YOU FOR WATCHING



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