



TRENDWATCH 3Q23



November 14, 2023



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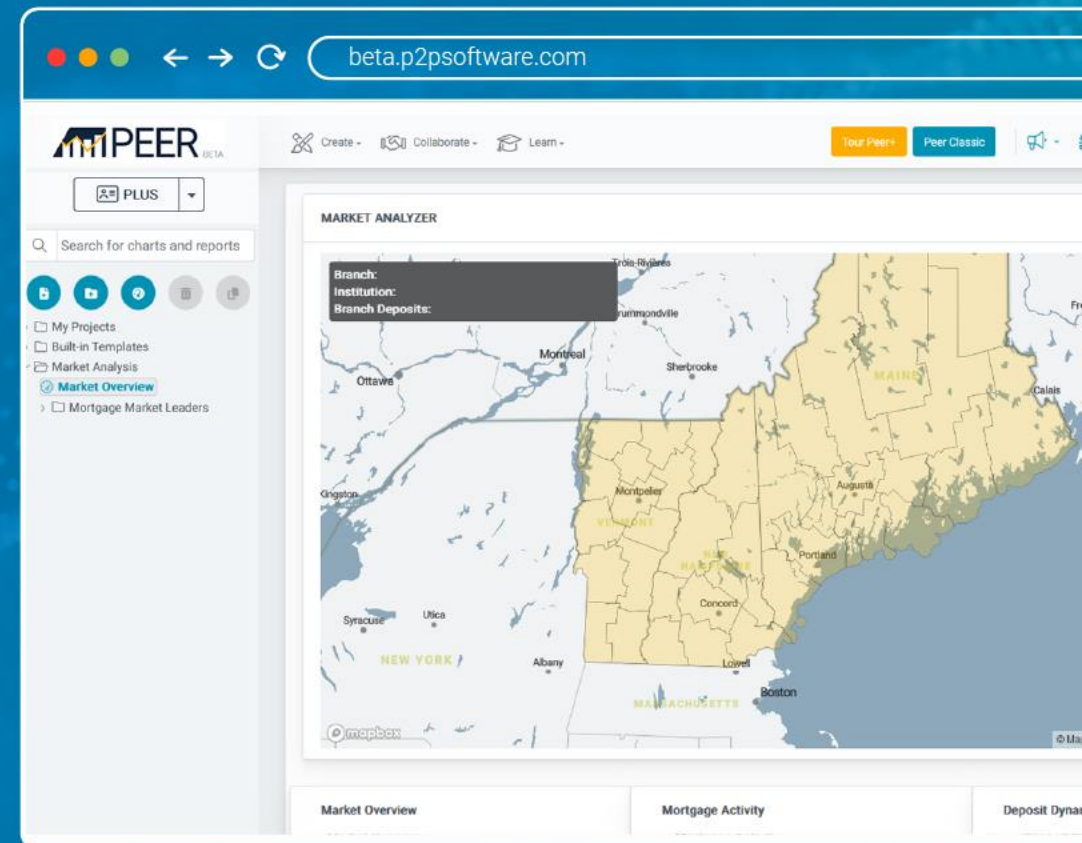




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Today's Lineup

Market Update

Jason Haley, Chief Investment Officer, ALM First

3Q 2023 Credit Union Results

Jon Jeffreys, CEO, Callahan & Associates

Chris Howard, Senior Vice President, Callahan & Associates

Looking Ahead to 2024

Ray Springsteen, CEO, Abound Federal Credit Union





ALM FIRST

for a partnership built on trust.

November 14, 2023

ALM First Market Update

Speaker



Jason Haley
Chief Investment Officer

- **Is the Fed done?**

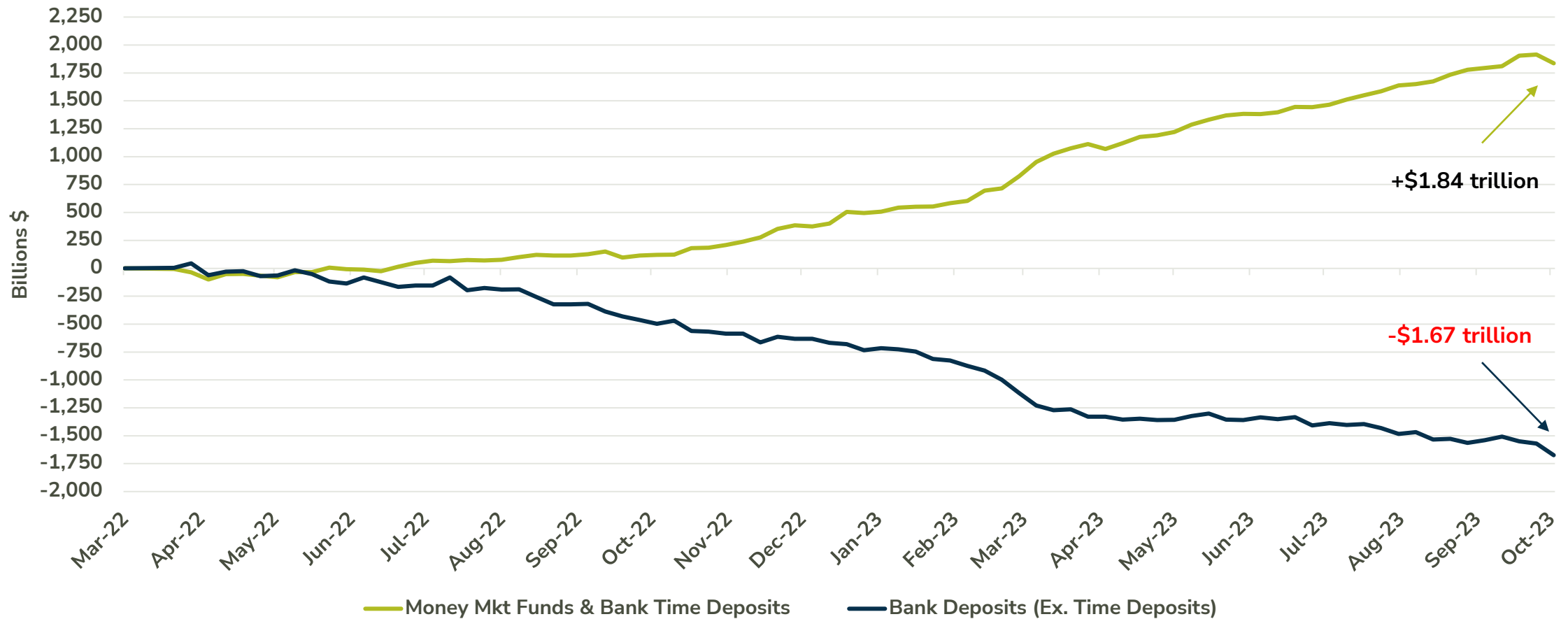
- Another pause at the 11/1 FOMC meeting, and the tone was perceived as more dovish despite recent economic strength (including 4.9% Q3 GDP print)
 - Powell still attempted to convey a tightening bias in the press conference
- Will a hard landing be necessary to bring inflation down in a reasonable timeframe?
- What about Fed balance sheet reduction (quantitative tightening)?

- **Solid fundamentals, but headwinds are growing**

- Labor market and consumption data trends remain strong, still fueled by excess household liquid assets
- “Higher for longer” impact on growth
- Heavy supply expectations in the Treasury market have contributed to much higher long-end yields in recent months (related to fiscal deficit and Fed balance sheet reduction)
- Will China be able to avoid a financial crisis and/or severe recession?
- Unpredictable geopolitical risks

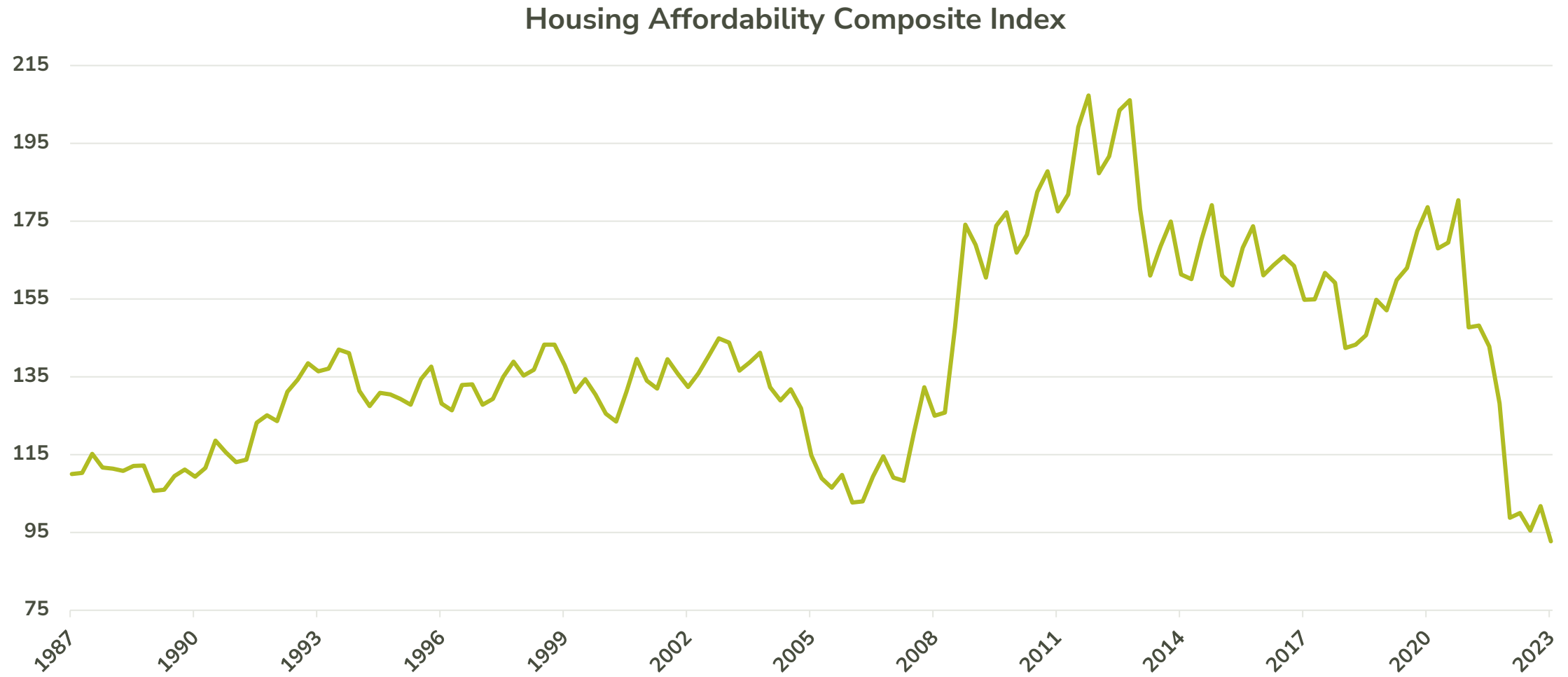
Where Have All The Deposits Gone?

Change in Money Market Fund and Deposit Balances
March 30, 2022 - October 18, 2023



Source: Federal Reserve H.8; Santander Capital Markets; ALM First

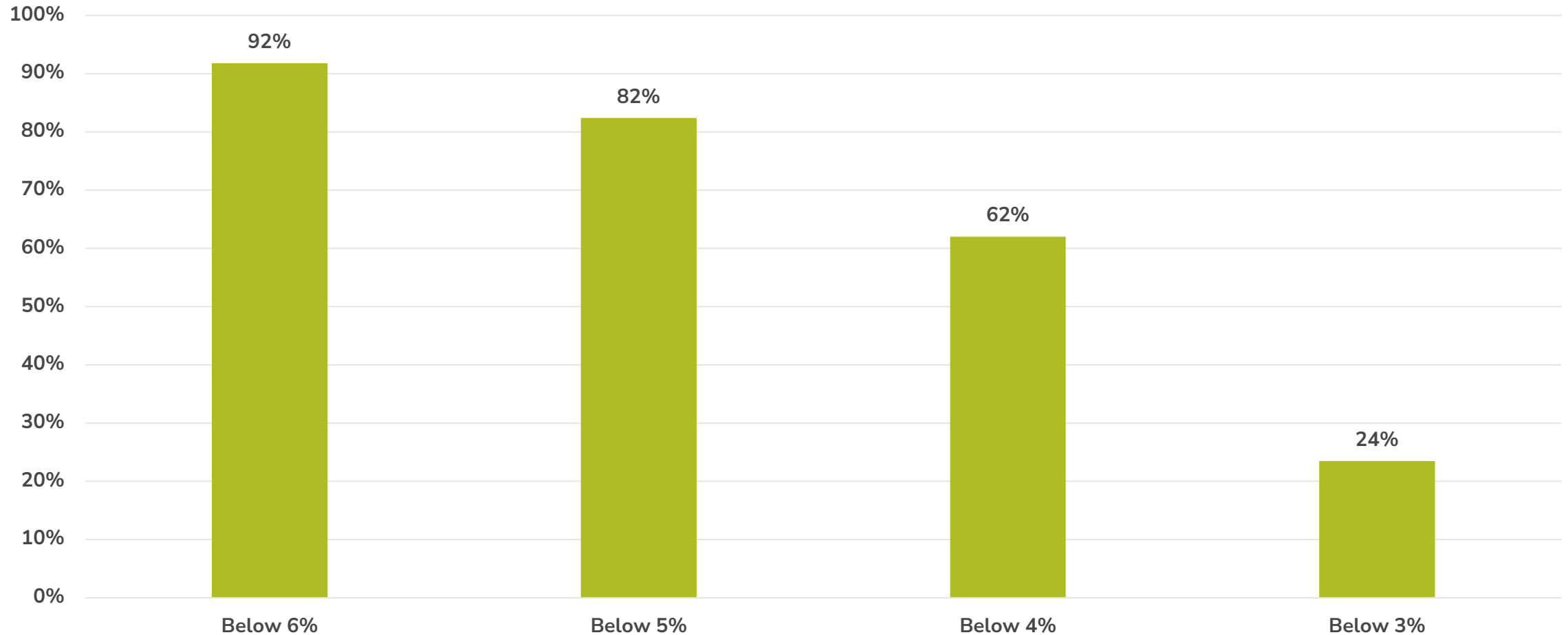
Sticky Home Prices & Surging Mortgage Rates



Source: National Association of Realtors; Bloomberg

Most Households Still Have Historically Low Mortgage Rates

Mortgage Rates of U.S. Homeowners



- **How will the economy stand up to growing headwinds?**
 - Growth and inflation have surpassed expectations in 2023, thanks in large part to strong consumer balance sheets
 - How quickly will excess savings erode and consumers turn defensive?
- **Credit unions continue to face funding/liquidity challenges**
 - Industry cost of funds continues to rise, weighing on margins
 - Will non-maturity deposits continue to decline as a % of total funding?
 - More CUs are utilizing interest-rate derivatives to hedge non-core liabilities and more effectively manage funding costs and interest rate risk
 - Asset pricing, capital allocation, and capital utilization remain important topics amid margin pressures

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Context: A New Cycle

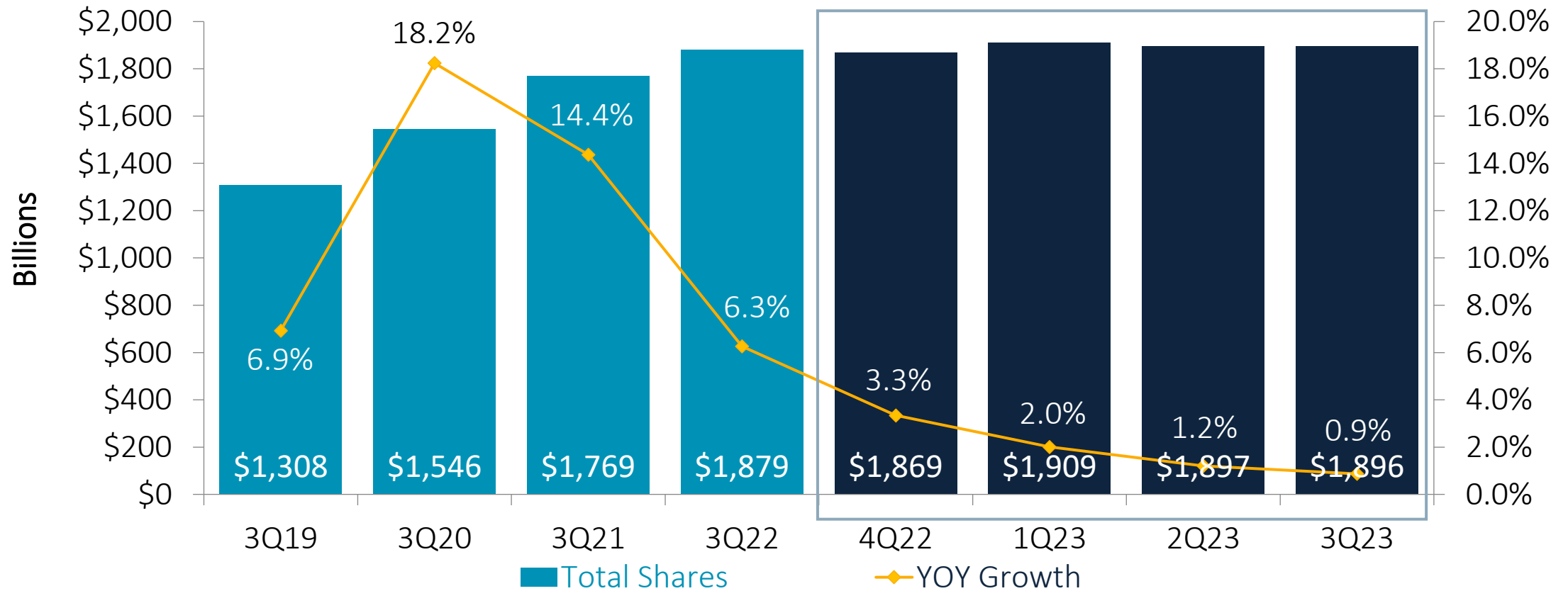
- The Fed has raised rates at an unprecedented pace over the past 18 months to slow economic activity
- The impact of the Fed's actions are felt in a few major ways:
 - Consumers have less savings and tighter budgets
 - Consumers are borrowing less in response to high rates
 - Financial institutions are tightening credit standards
 - Corporate profit margins are shrinking

Credit union balance sheet continues to slow

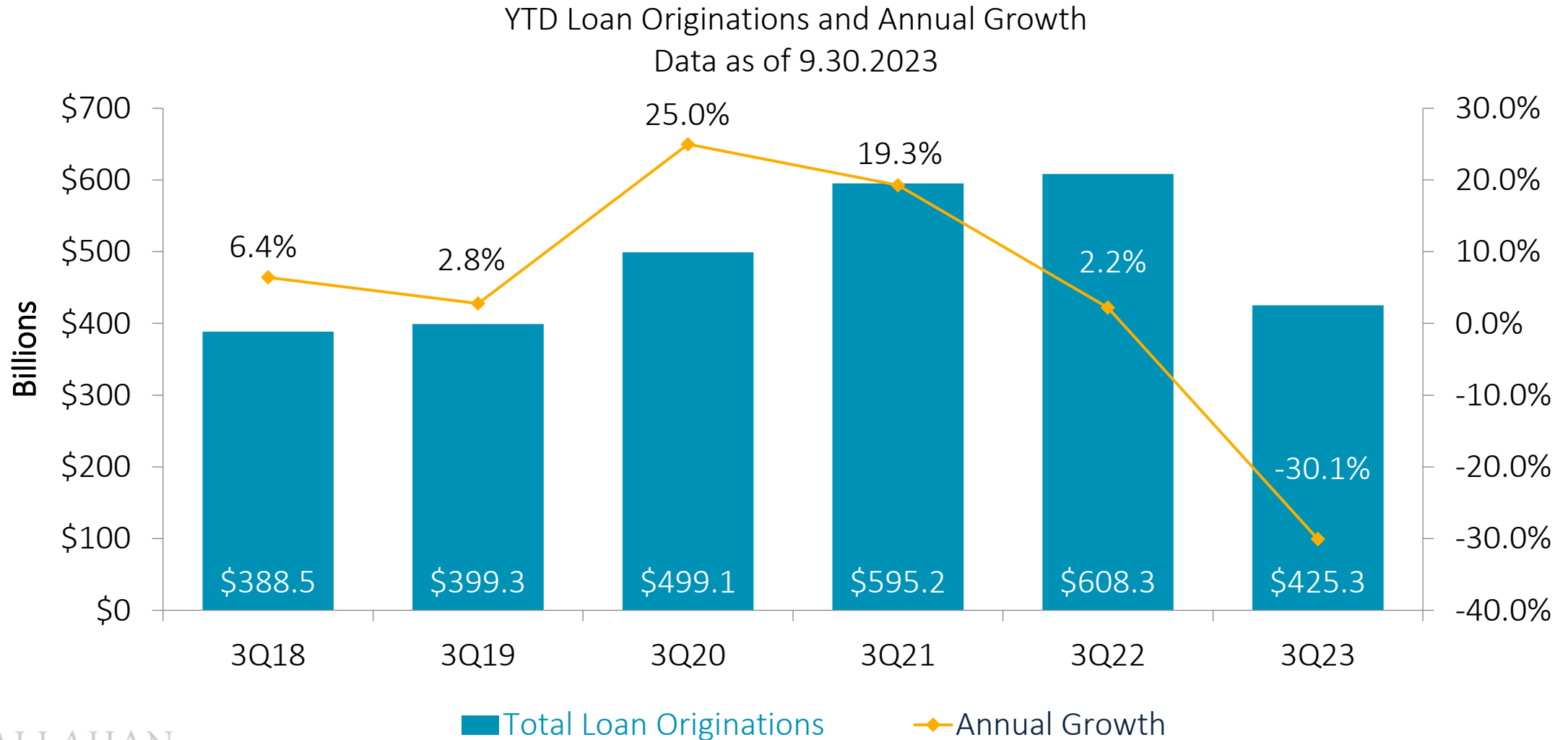
	9/30/2023	12-Mo. Growth	9/30/2022	12-Mo. Growth
Assets	\$2,252.8B	3.7%	\$2,172.7B	6.5%
Loans	\$1,605.3B	9.1%	\$1,471.7B	19.1%
Shares	\$1,895.7B	0.9%	\$1,879.3B	6.3%
Investments	\$554.8B	-8.6%	\$607.3B	-14.5%
Capital	\$219.0B	9.4%	\$200.2B	-8.0%
Members	140.2M	3.4%	135.7M	4.3%

Tighter consumer budgets and competition make deposits harder to attract

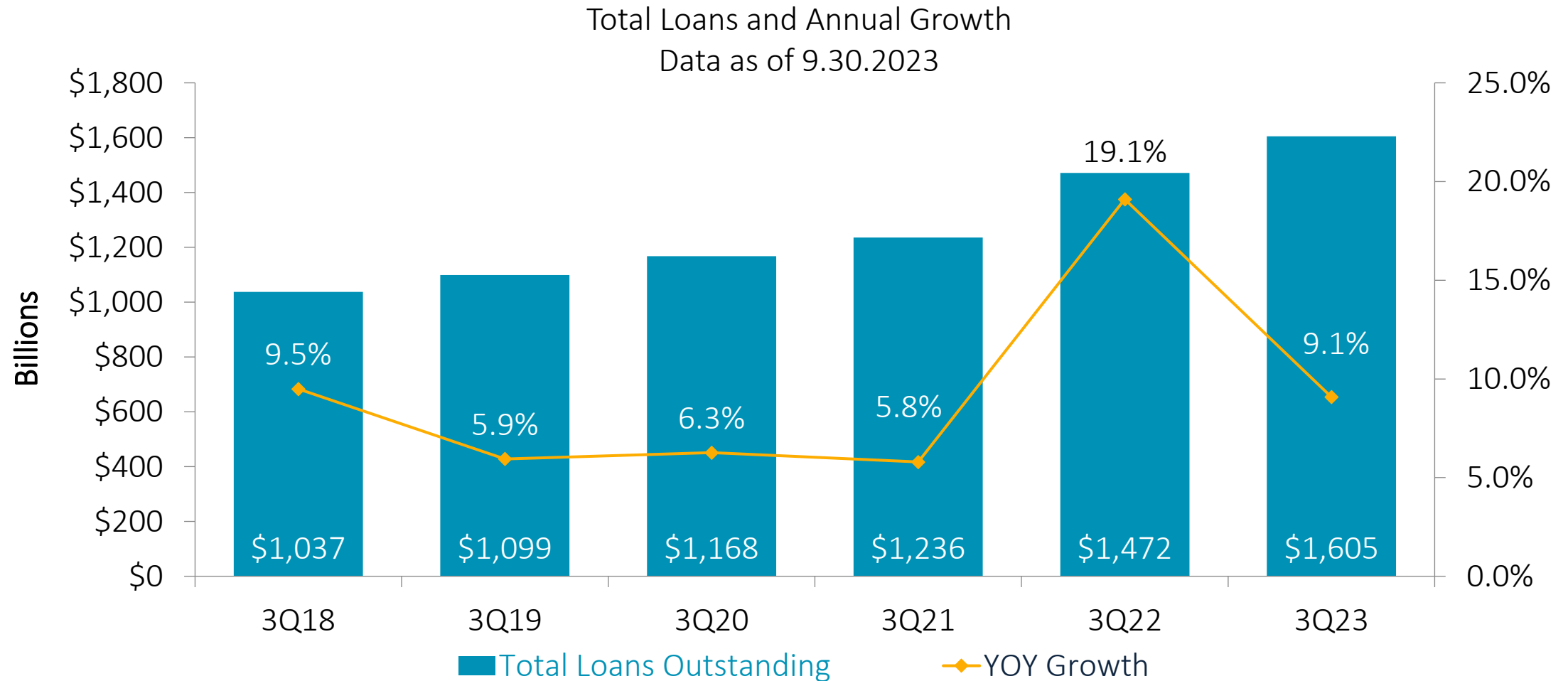
Total Shares and Annual Growth
Data as of 9.30.2023



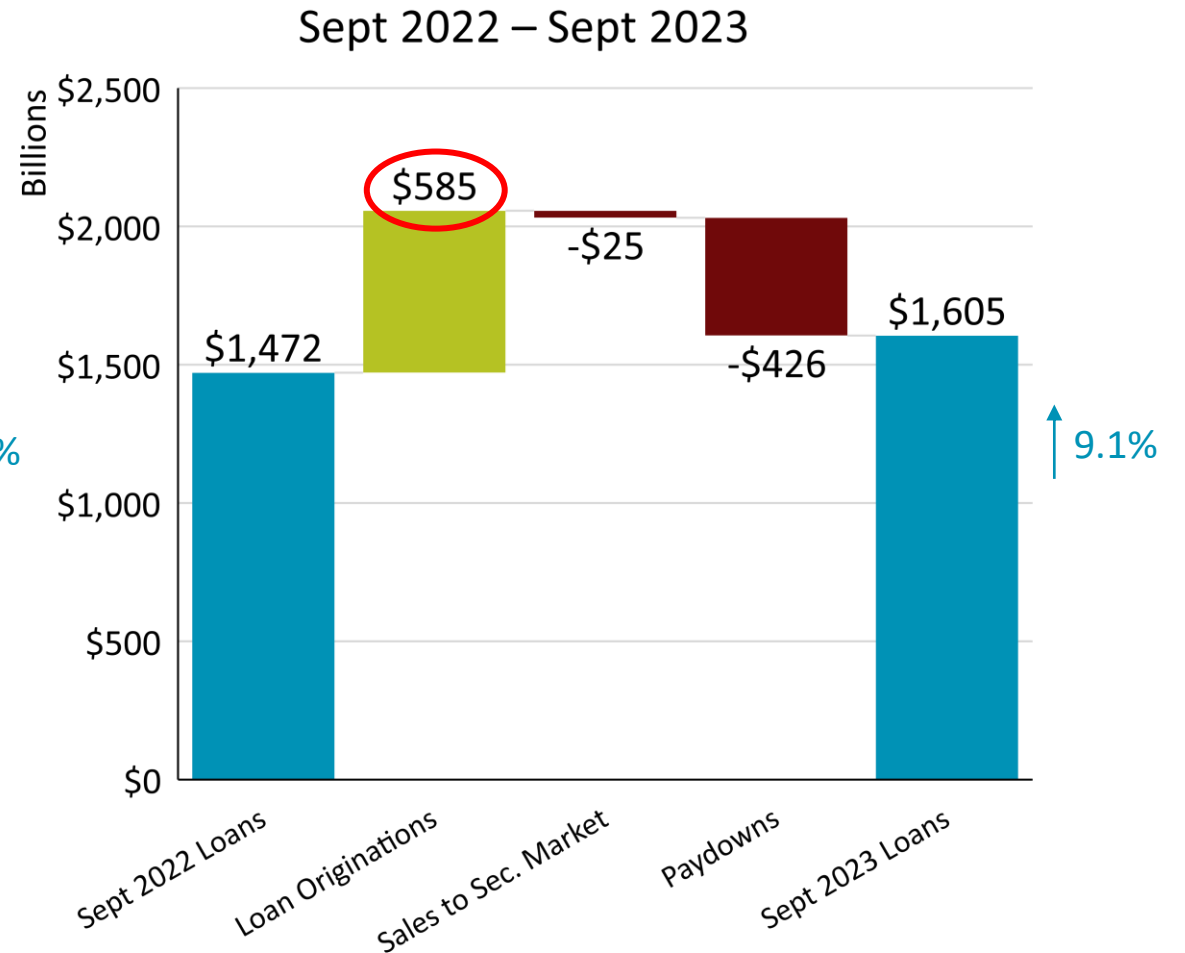
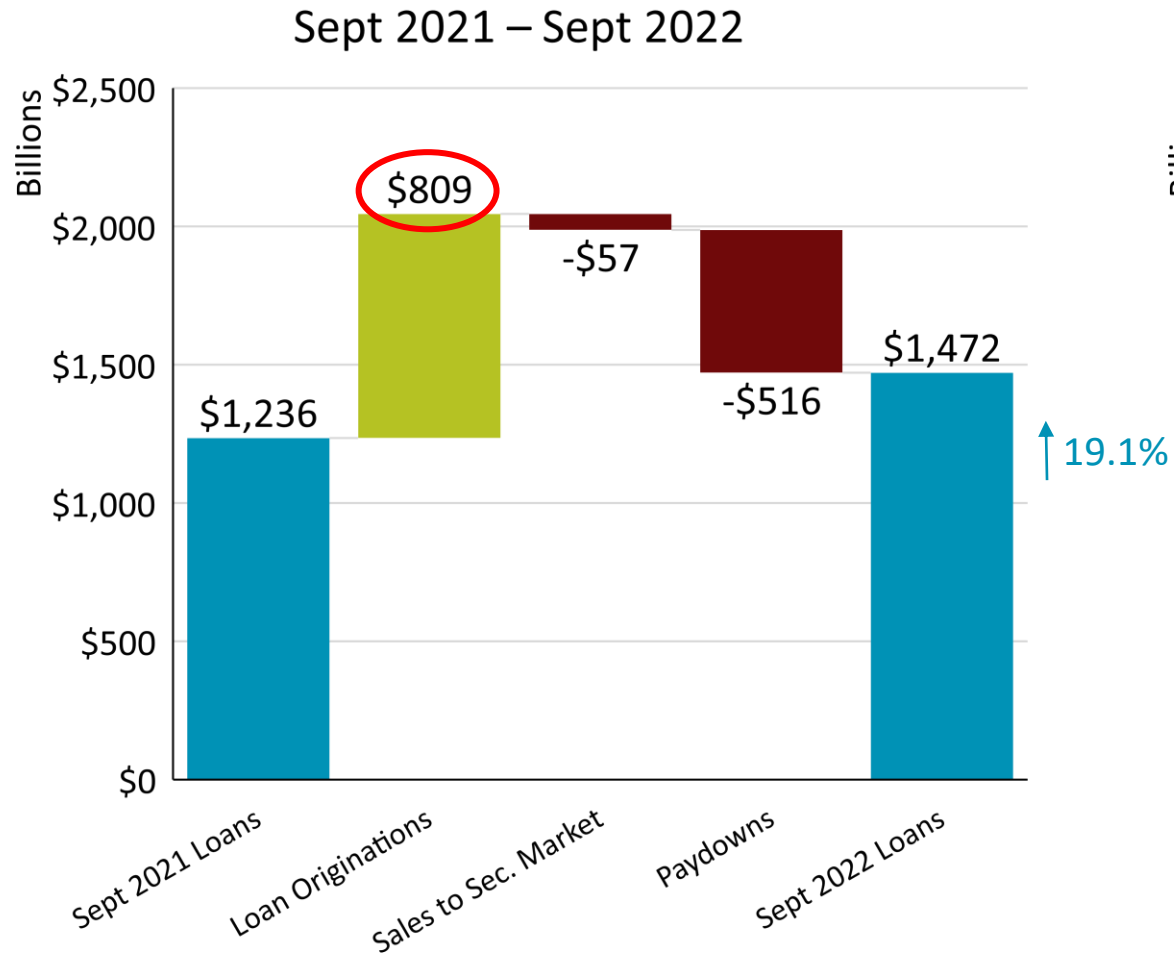
Higher interest rates drive down loan demand



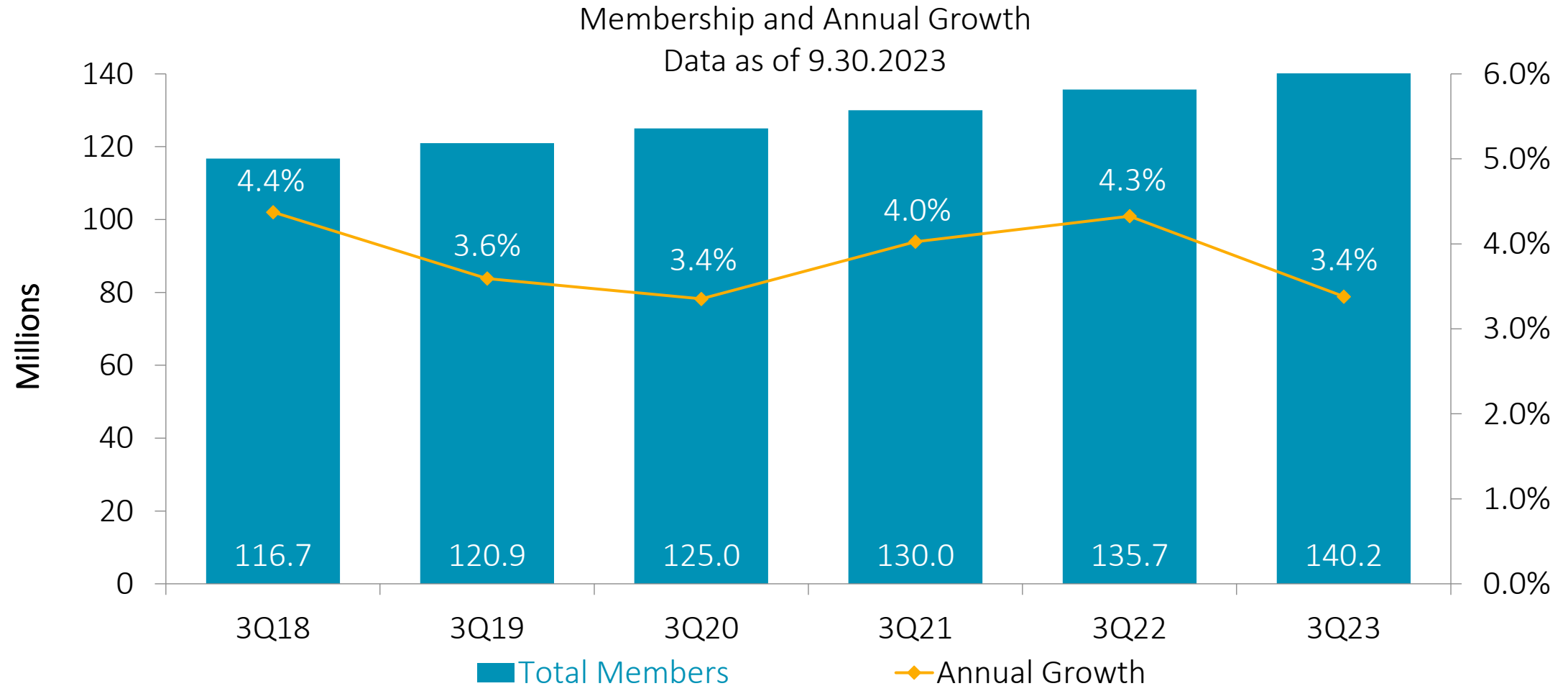
Loan growth slows from record paces but remains historically high



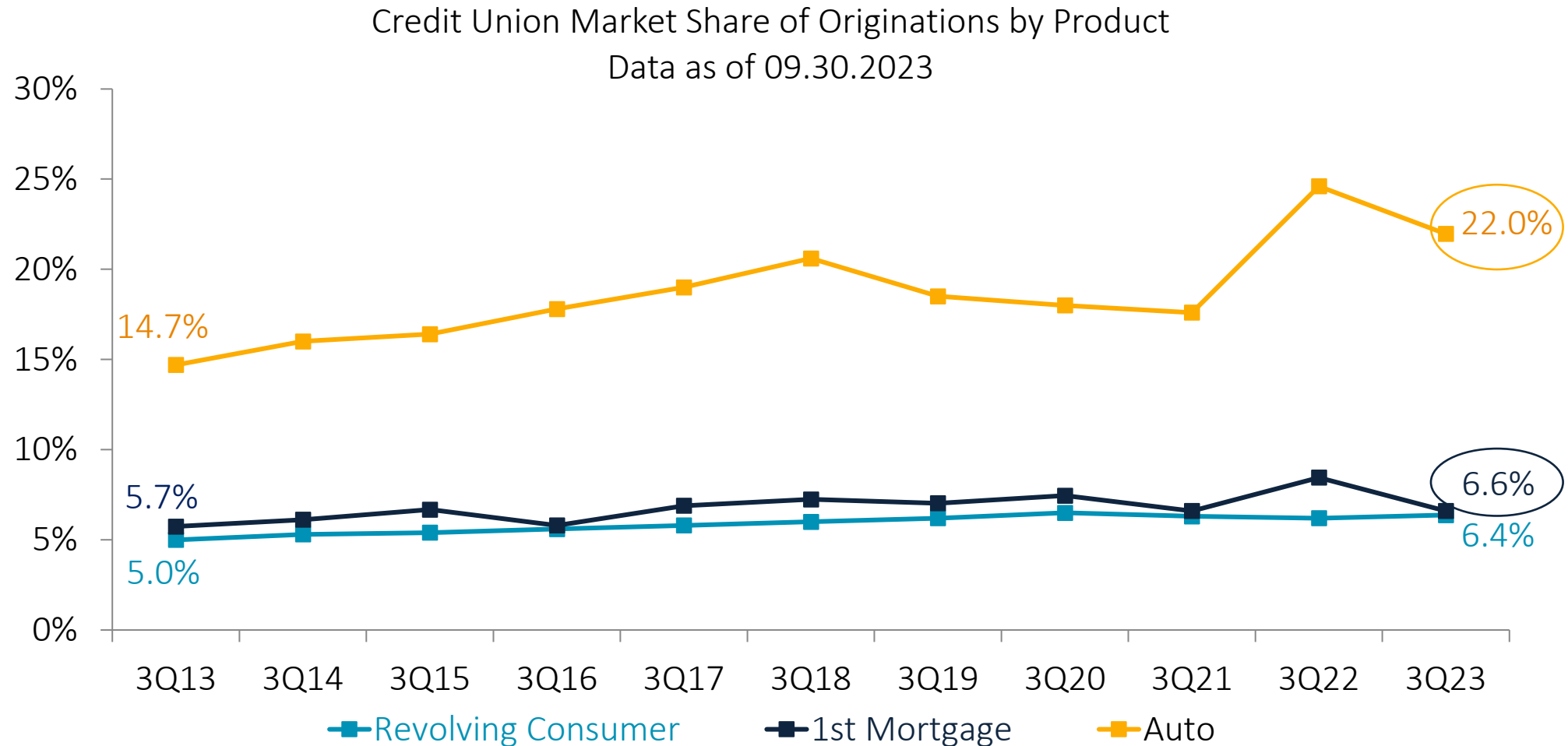
Paydowns slow as rates rise, offsetting lower originations



Consumers continue turning to credit unions for financial needs



Credit union market share growing in several key lending areas



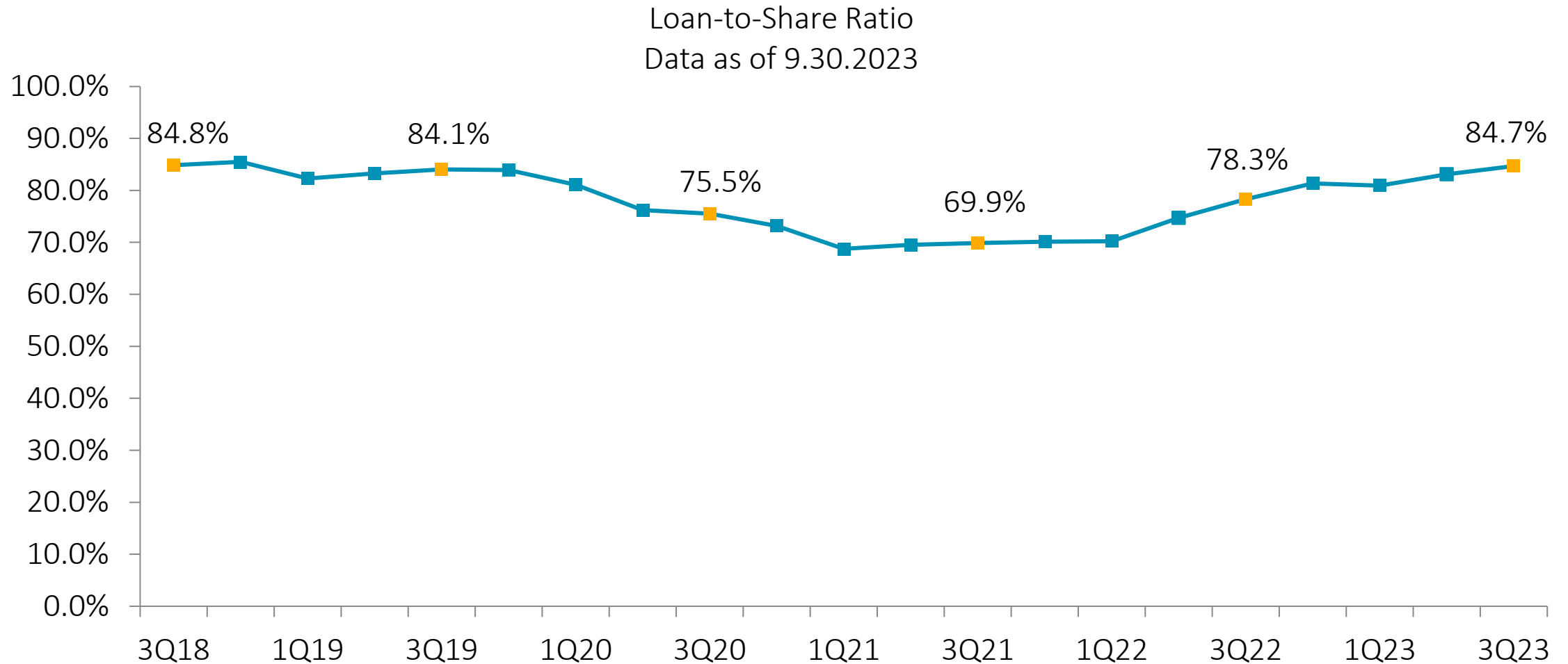
Source: The Federal Reserve, Mortgage Bankers Association, Experian



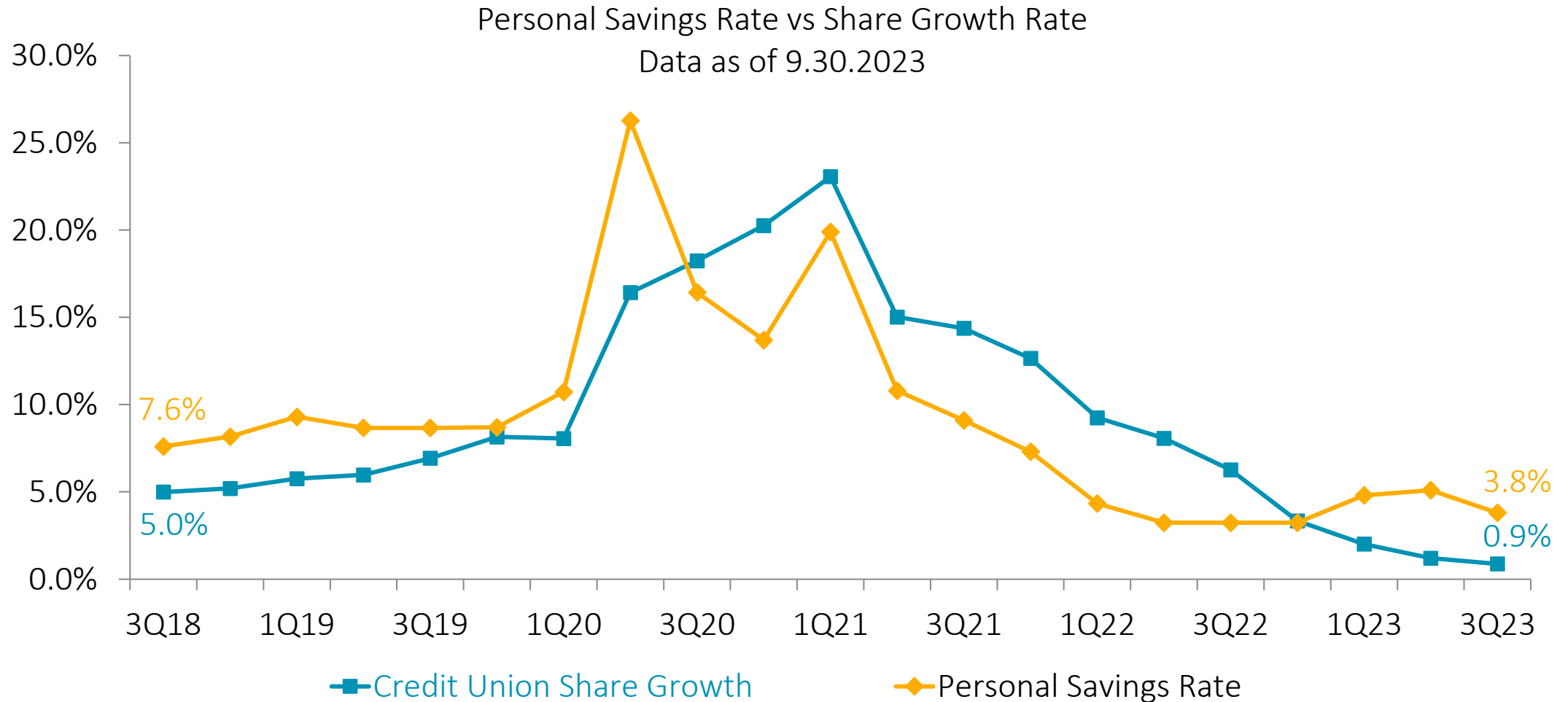
Savings & Liquidity



The loan-to-share ratio climbs back to near pre-pandemic highs

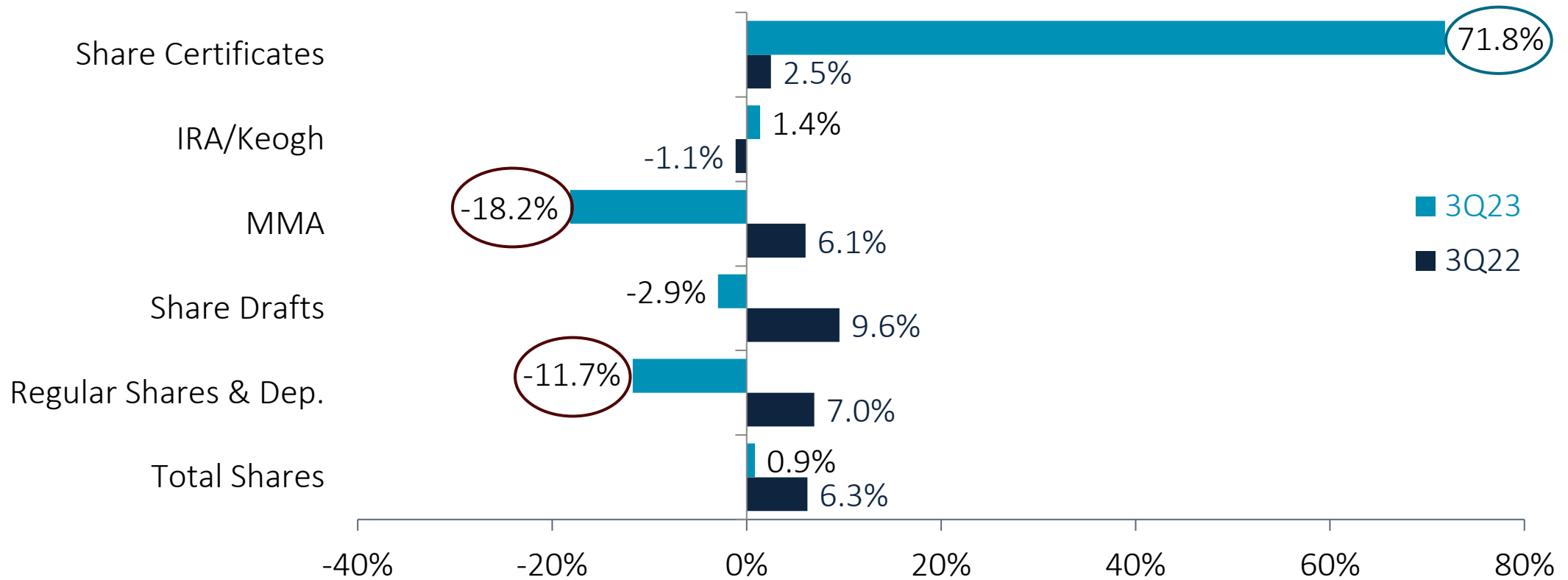


National savings rate declines again in September, competitors fighting for fewer deposits

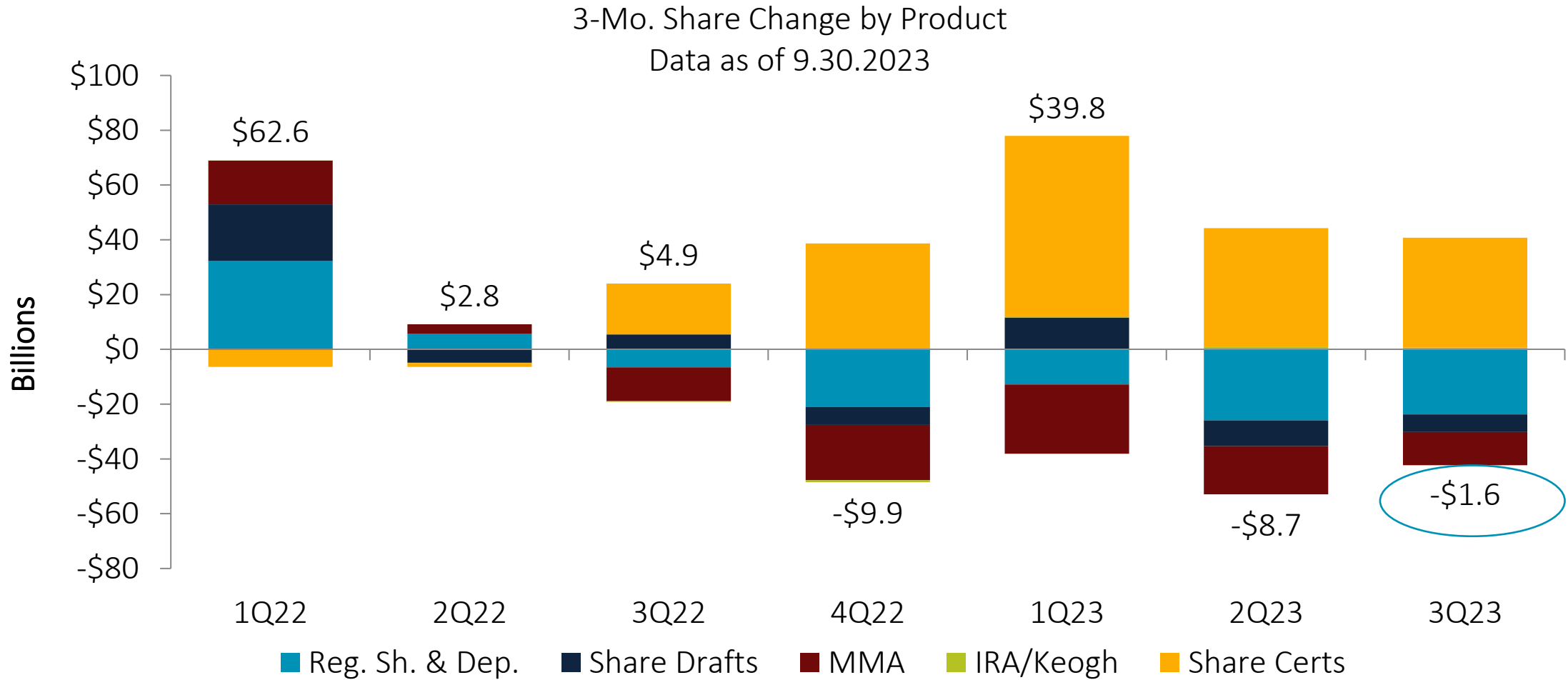


Certificates are used both to attract new shares and retain existing member deposits

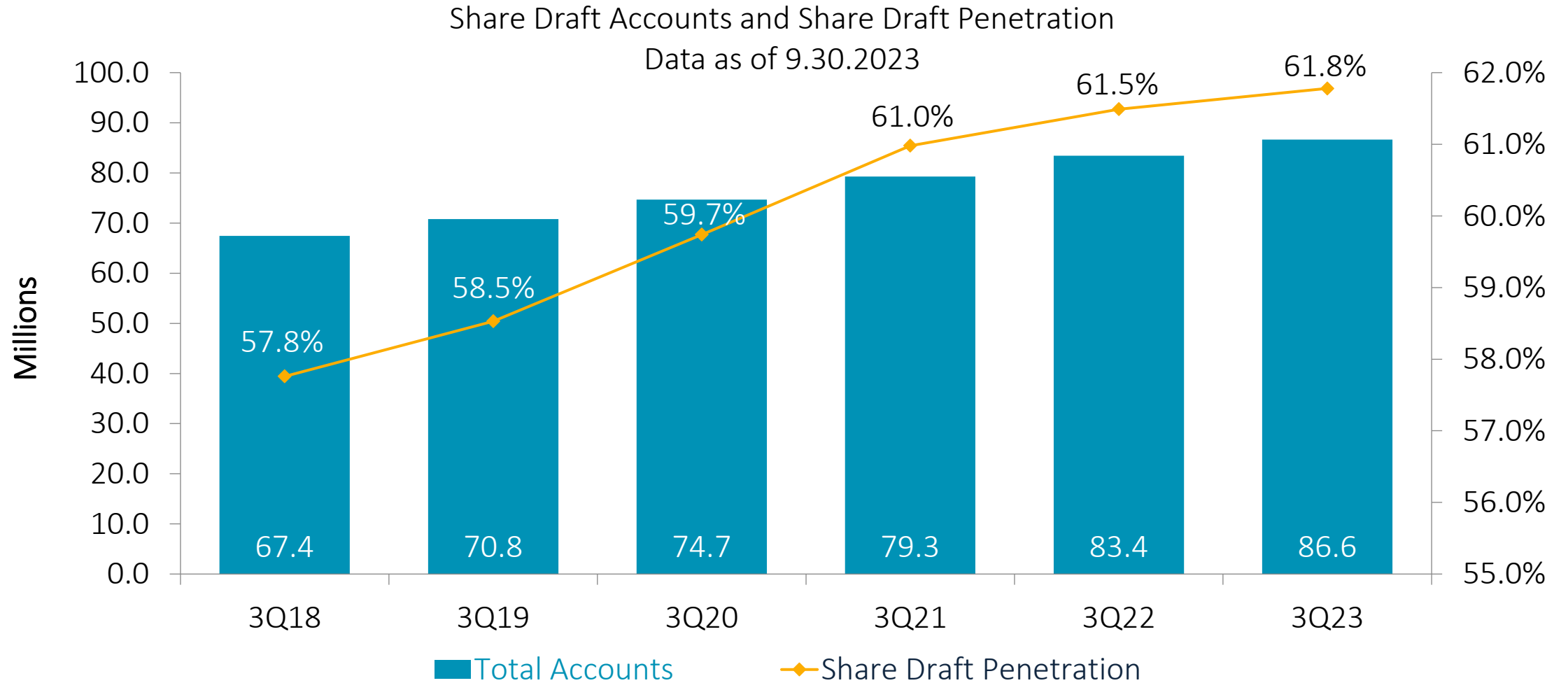
12-Mo. Growth in Shares Segments
Data as of 9.30.2023



Core deposits decline \$42.3 billion since June

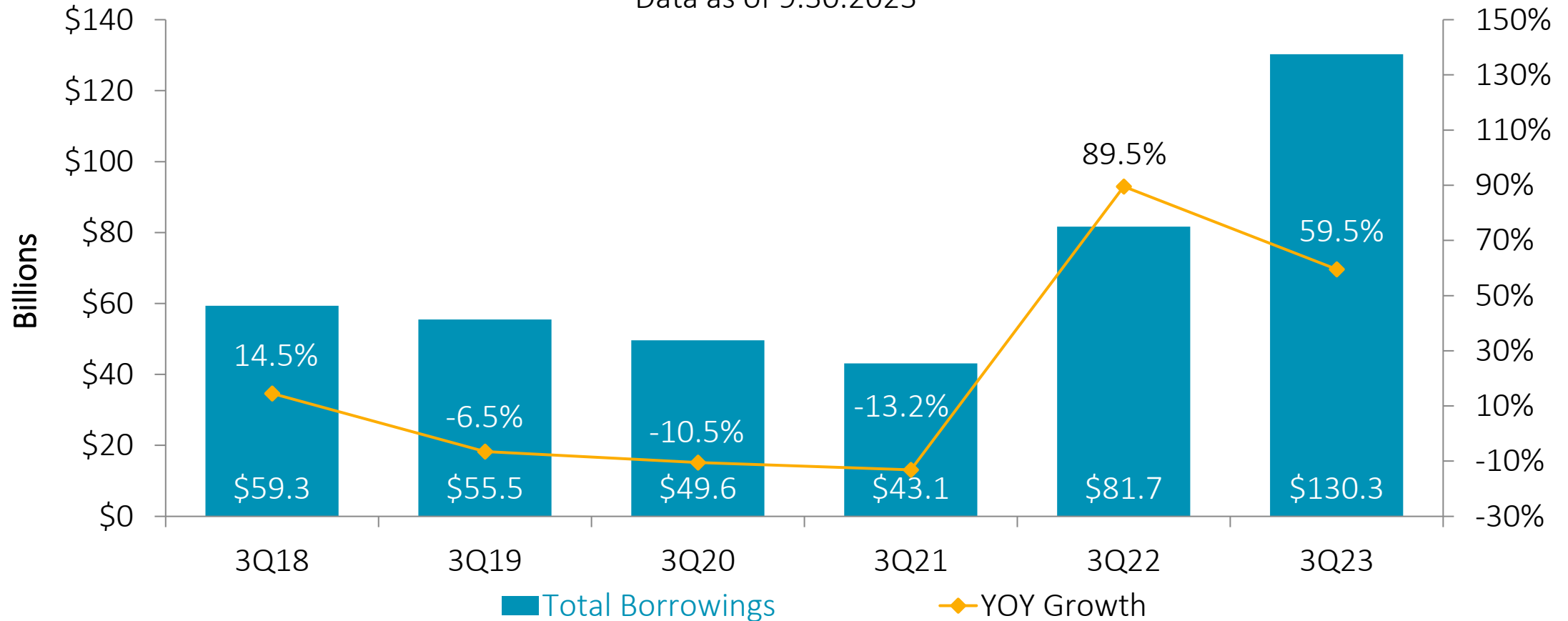


Share draft accounts and penetration climb steadily

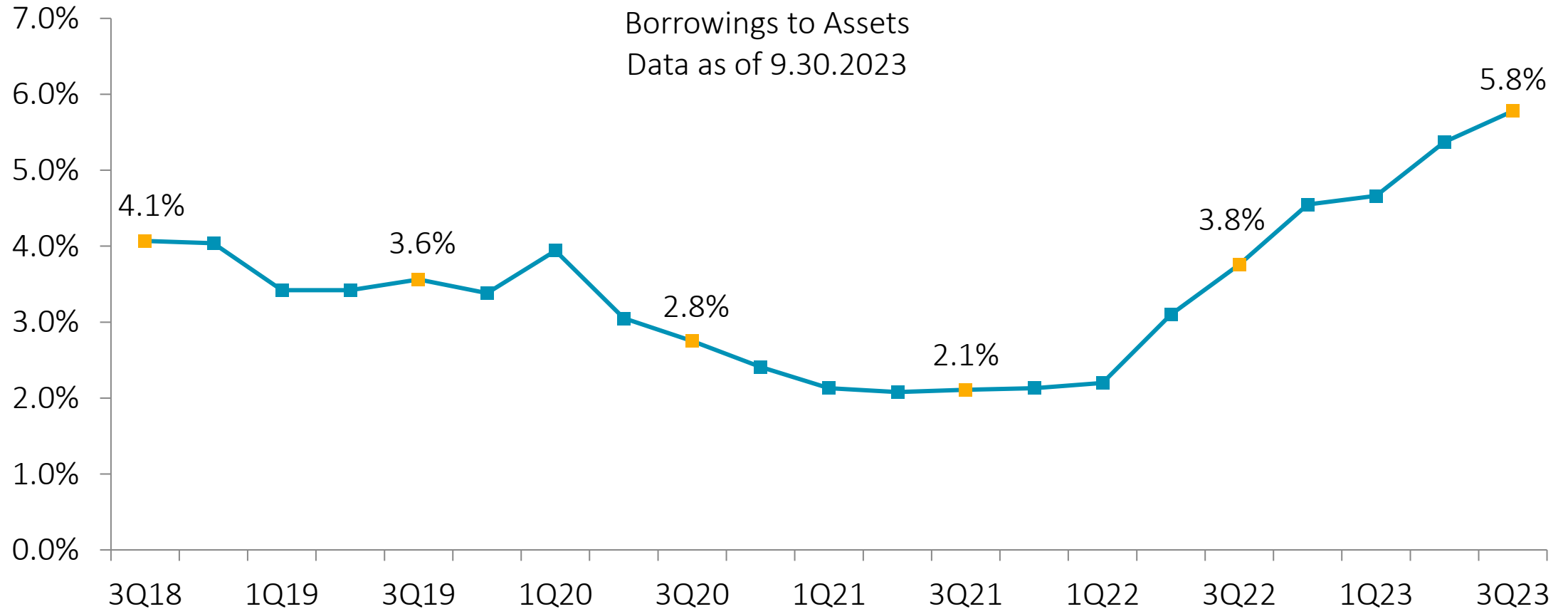


Borrowed funds triple over past 2 years

Total Borrowings and Annual Growth
Data as of 9.30.2023



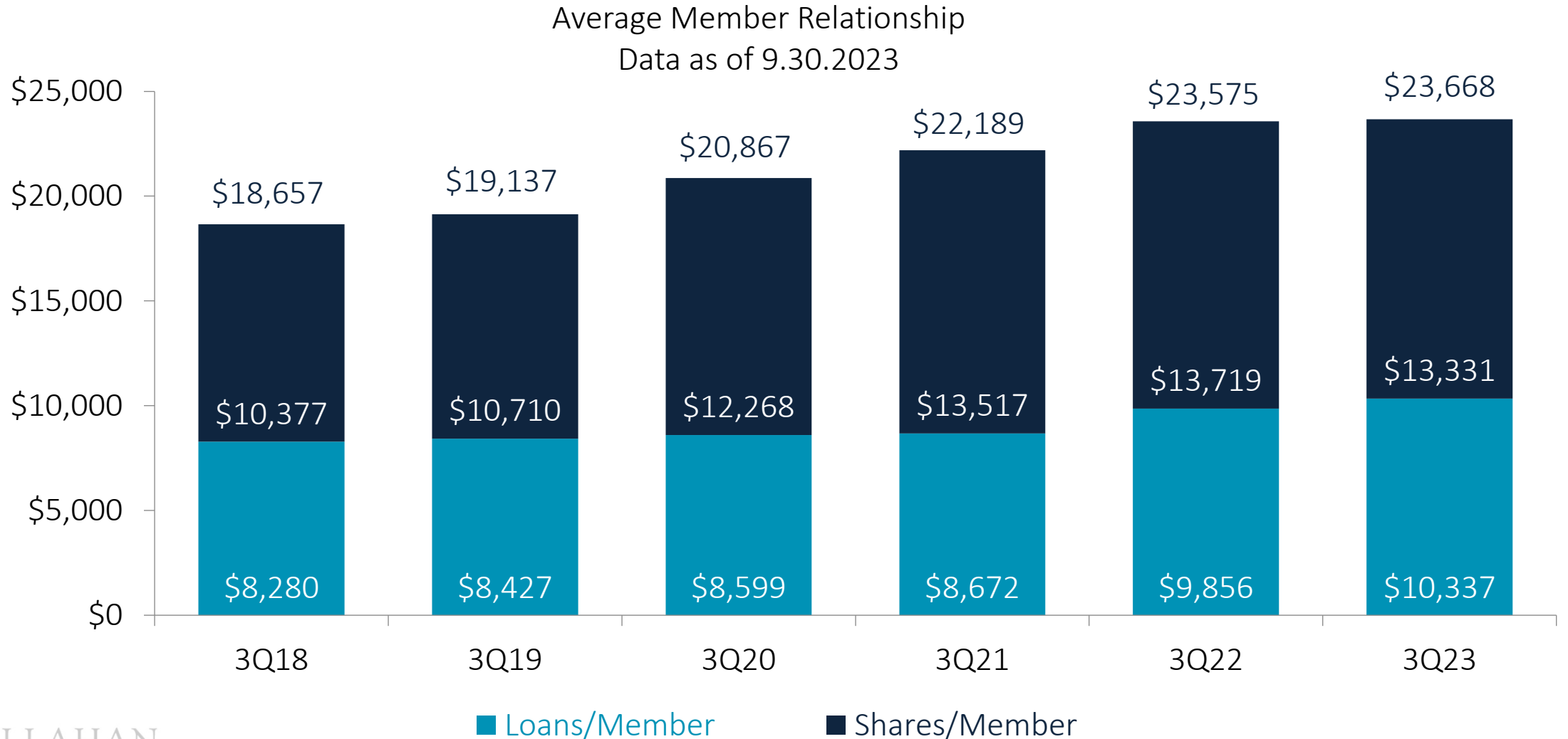
Credit unions are also turning to borrowing to support liquidity



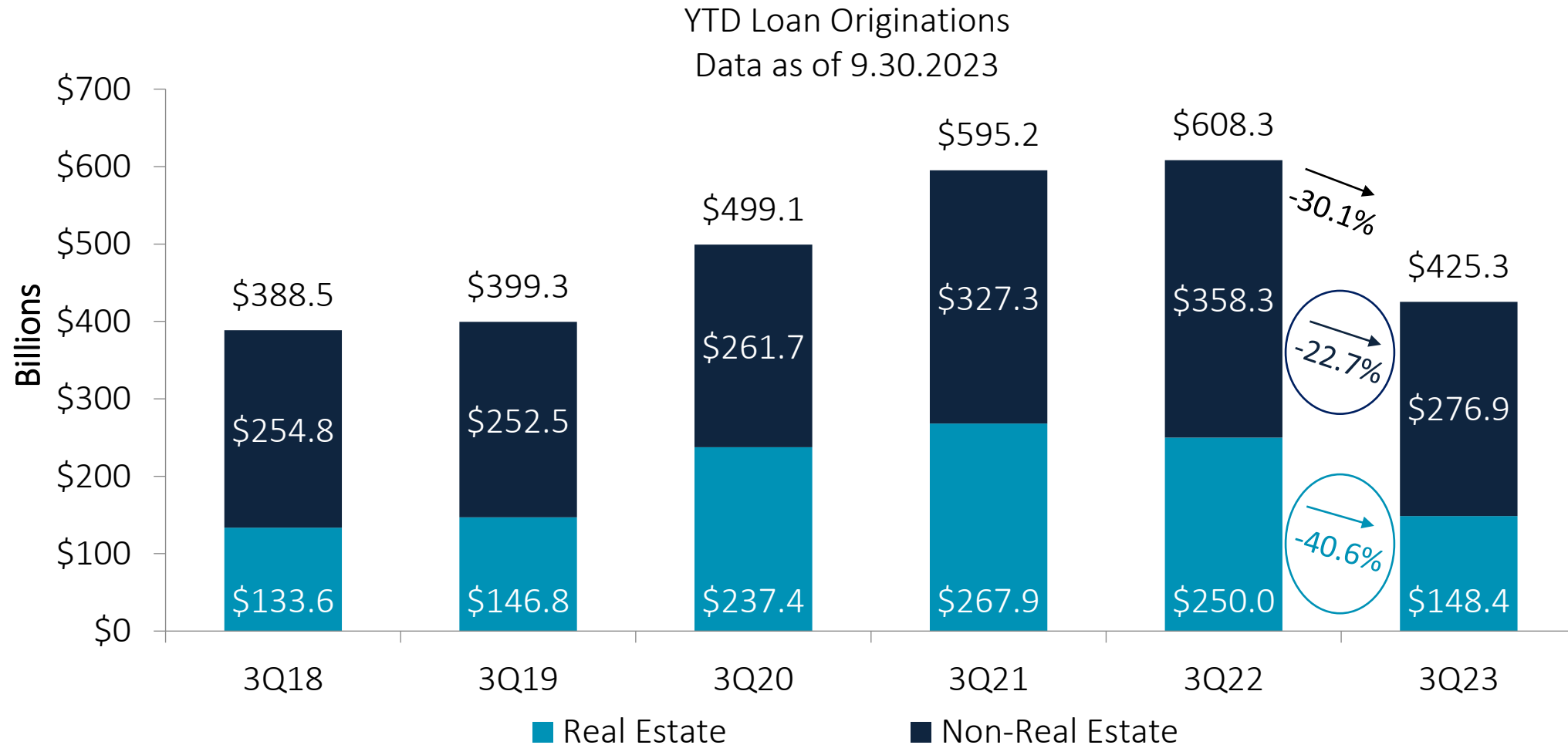


Lending

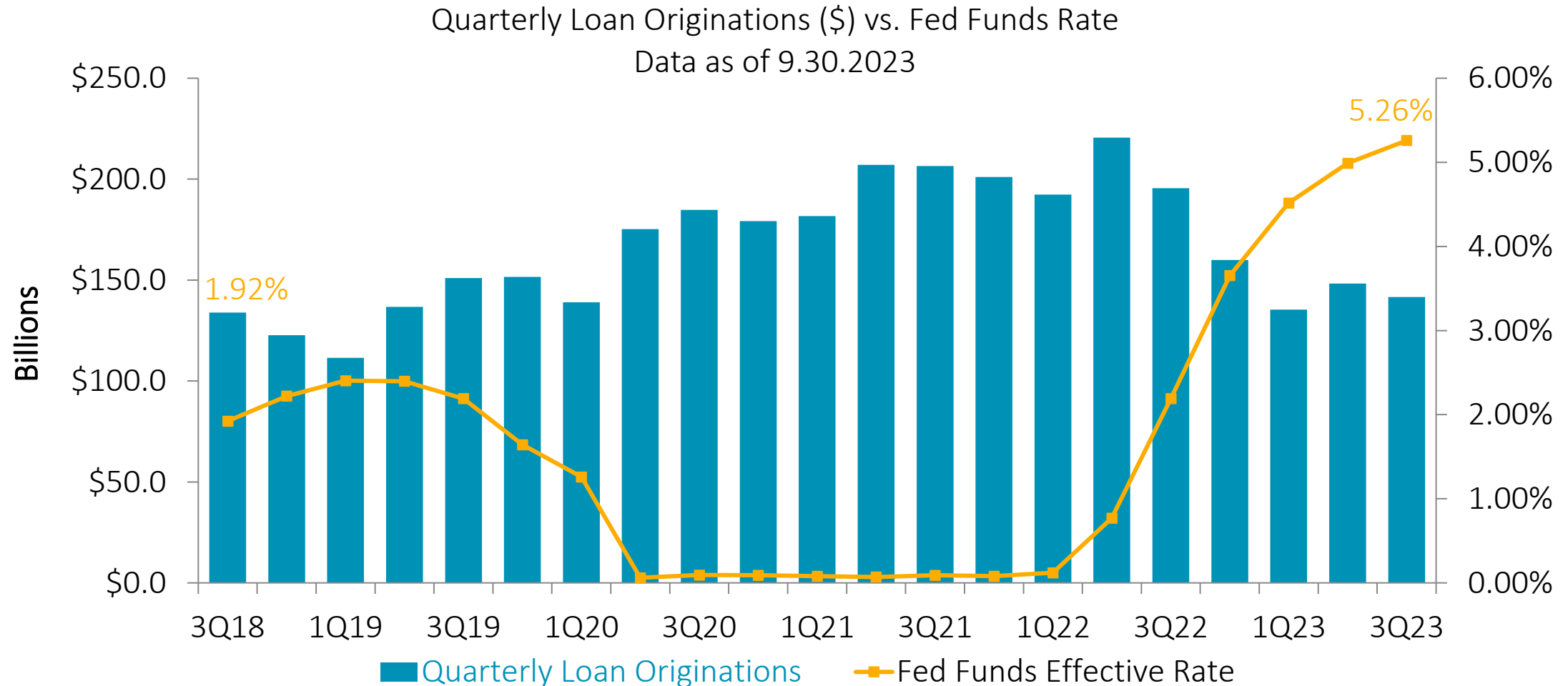
Total member relationship growing in part by larger loan balances



Originations slow; mortgages down 40%

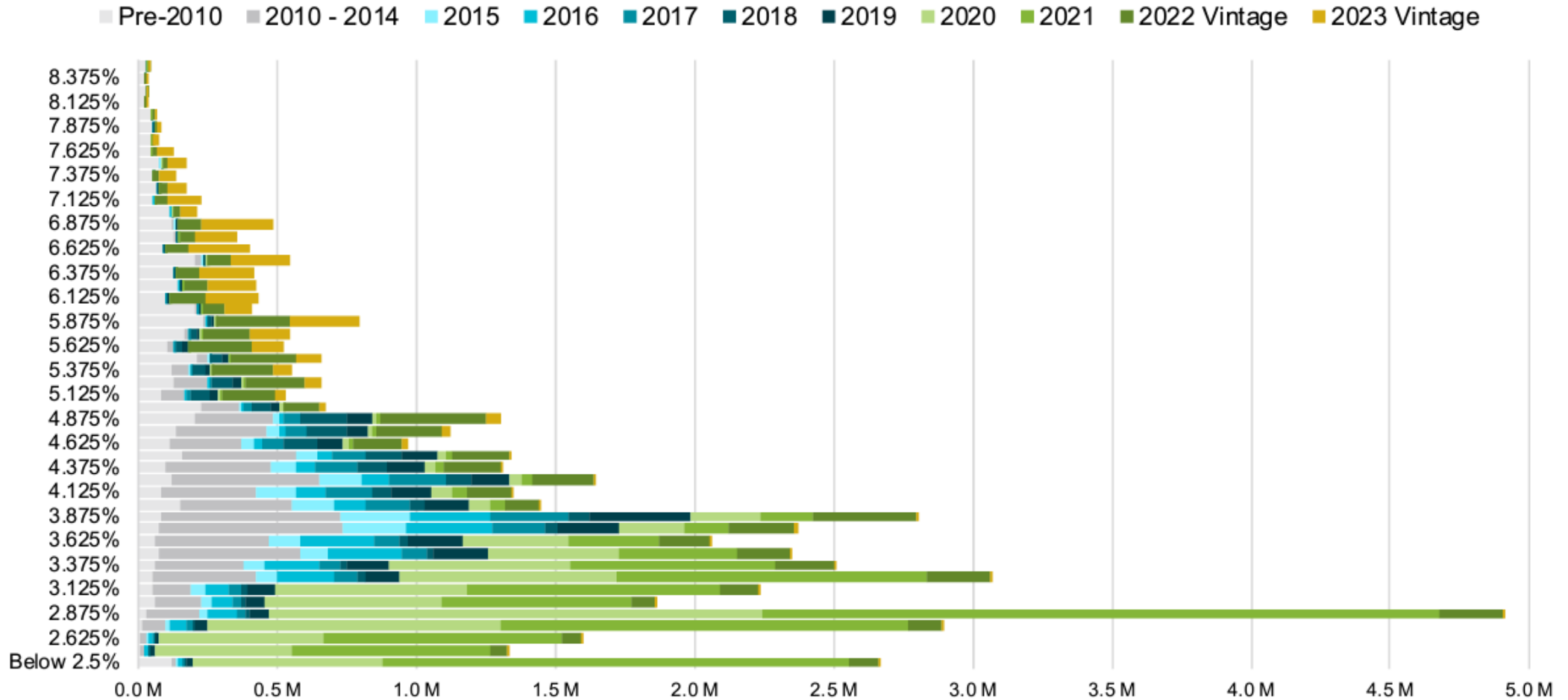


As expected, higher interest rates reduce loan demand

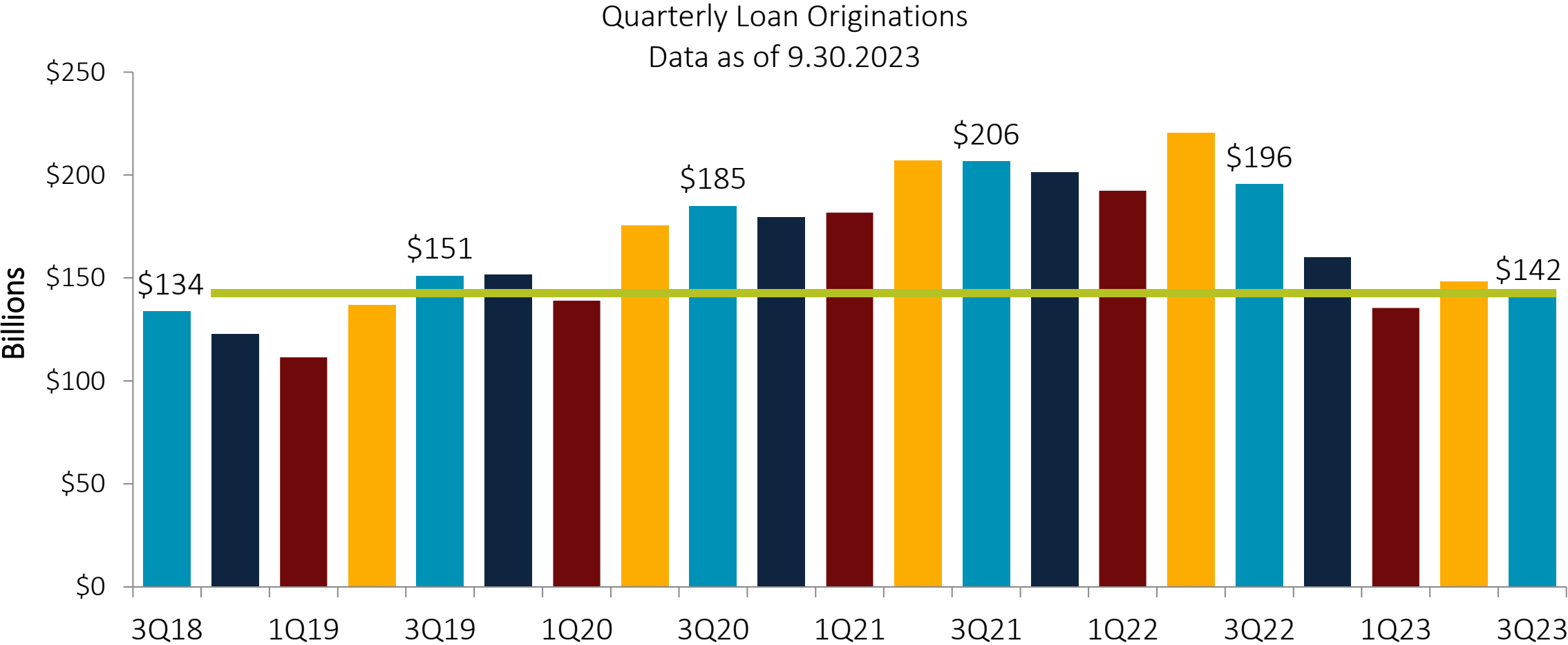


Given where the portfolio is, it's likely a purchase money market for several years

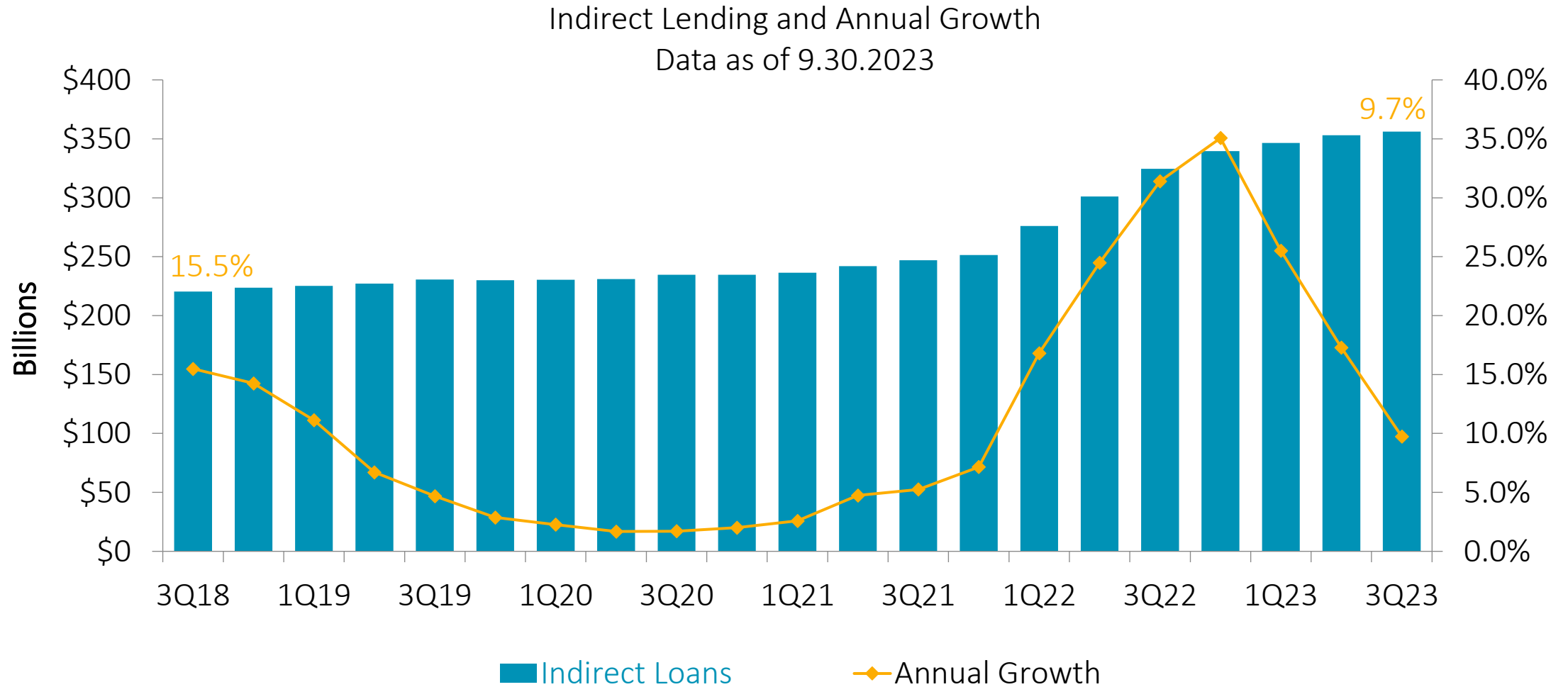
ACTIVE MORTGAGES BY INTEREST RATE AND VINTAGE



Still, quarterly originations remain on par with pre-pandemic level

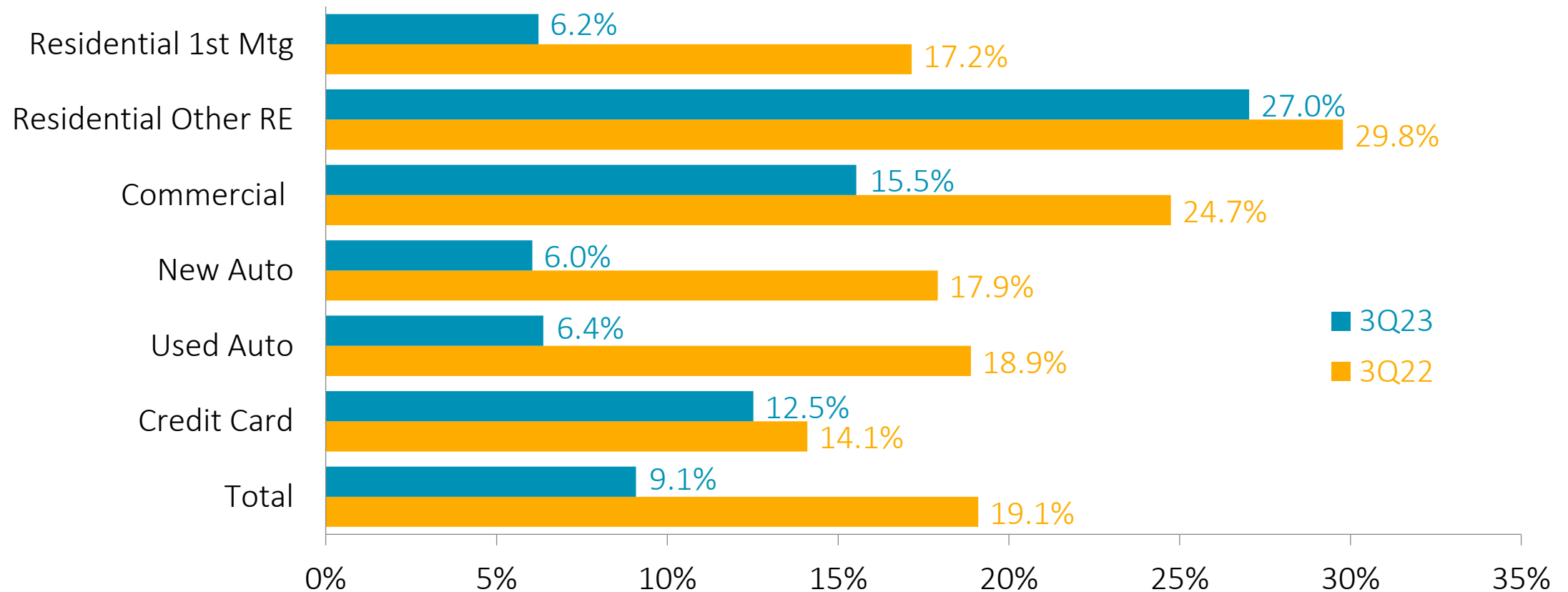


With liquidity tighter, credit unions are reducing indirect lending and pivoting resources to core members

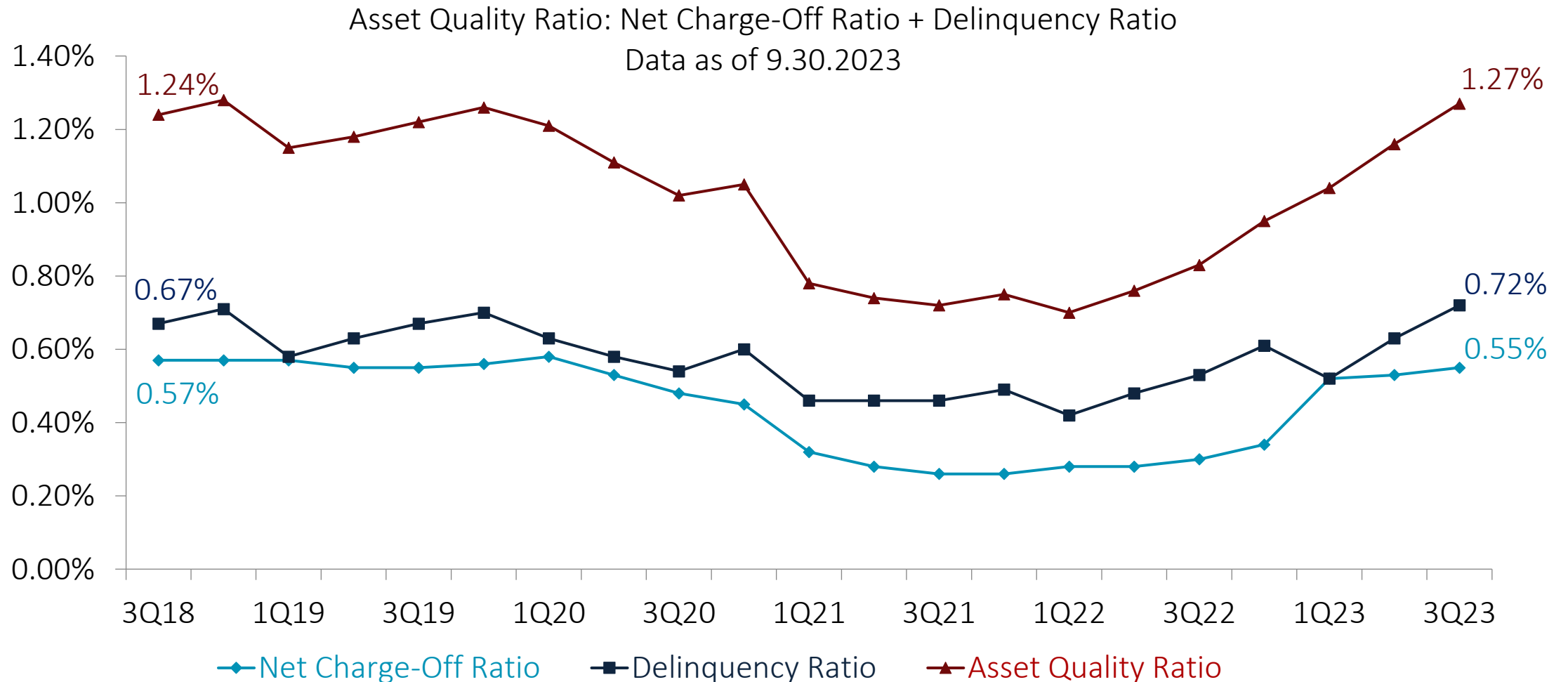


All loan categories slow year-over-year, but revolving credit usage remains elevated

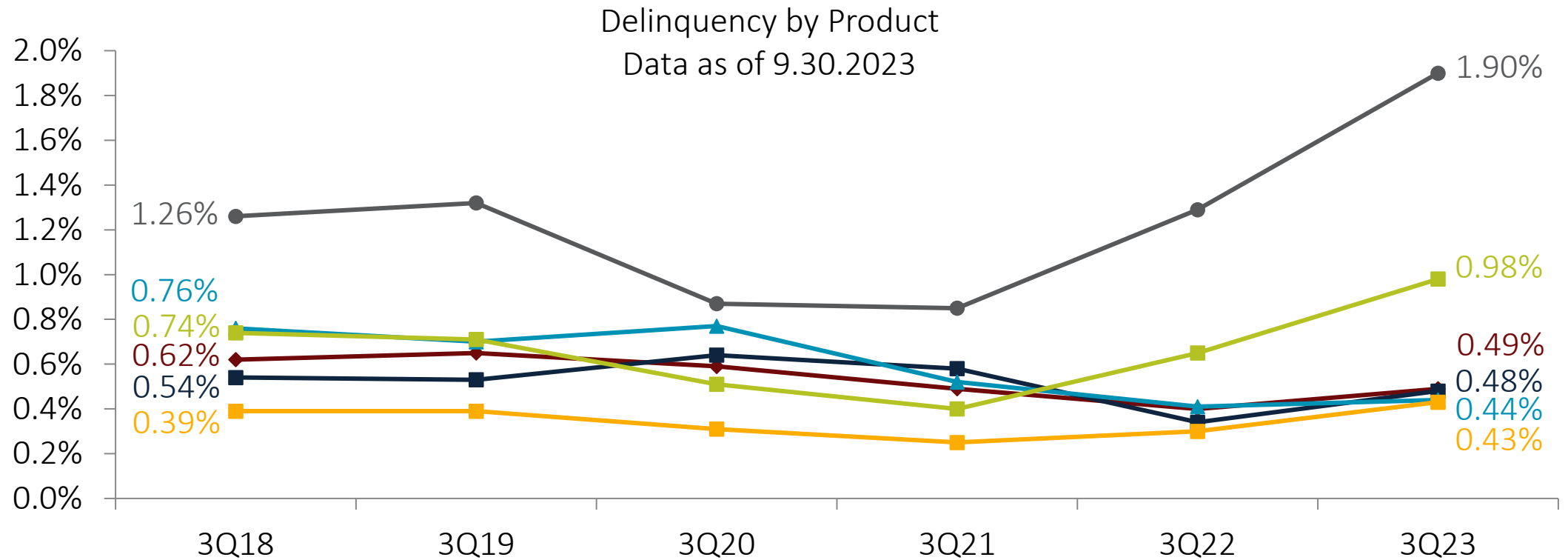
Annual Growth in Loans Outstanding
Data as of 9.30.2023



Delinquencies continue to rise, but still not much above the pre-pandemic average



Credit card and used auto delinquencies drive the increase



◆ Residential 1st Mortgage Delinquency
▲ Commercial Delinquency
■ Used Auto Loan Delinquency

■ Residential Other RE Delinquency
■ New Auto Loan Delinquency
● Credit Card Delinquency

Ray Springsteen, CEO



Abound FCU Key Statistics



\$2.2B
ASSETS



132,774
MEMBERS



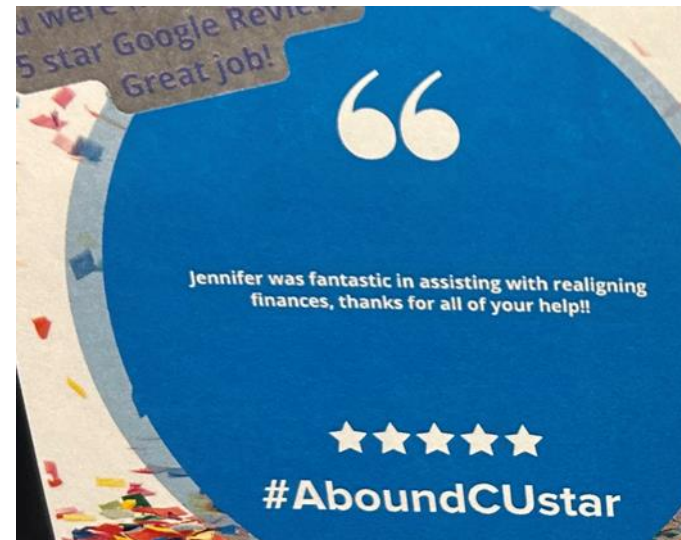
17
BRANCHES



348
EMPLOYEES

Connecting with the Community

- Veterans Programs
- Educational Support
- Member Connections



Opportunities for the Future

Kentucky's largest-ever economic development project is hiring

Louisville Courier-Journal

September 17, 2023

'Our game changer.' Beshear tours SK BlueOval

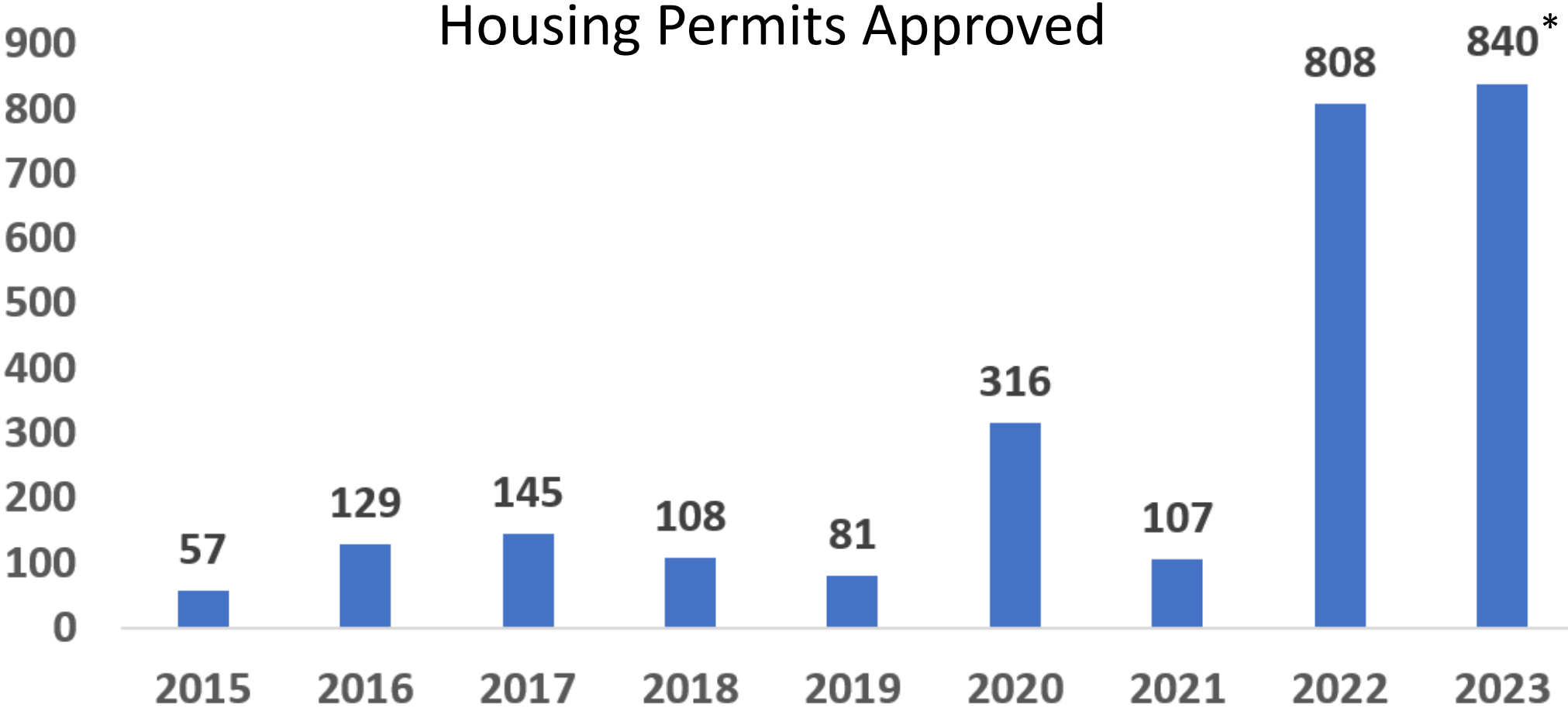
Hardin County, KY News Enterprise

August 23, 2023



**8 million sq ft
factory that will
eventually employ
6,000 people**

Housing Permits Increase 600%



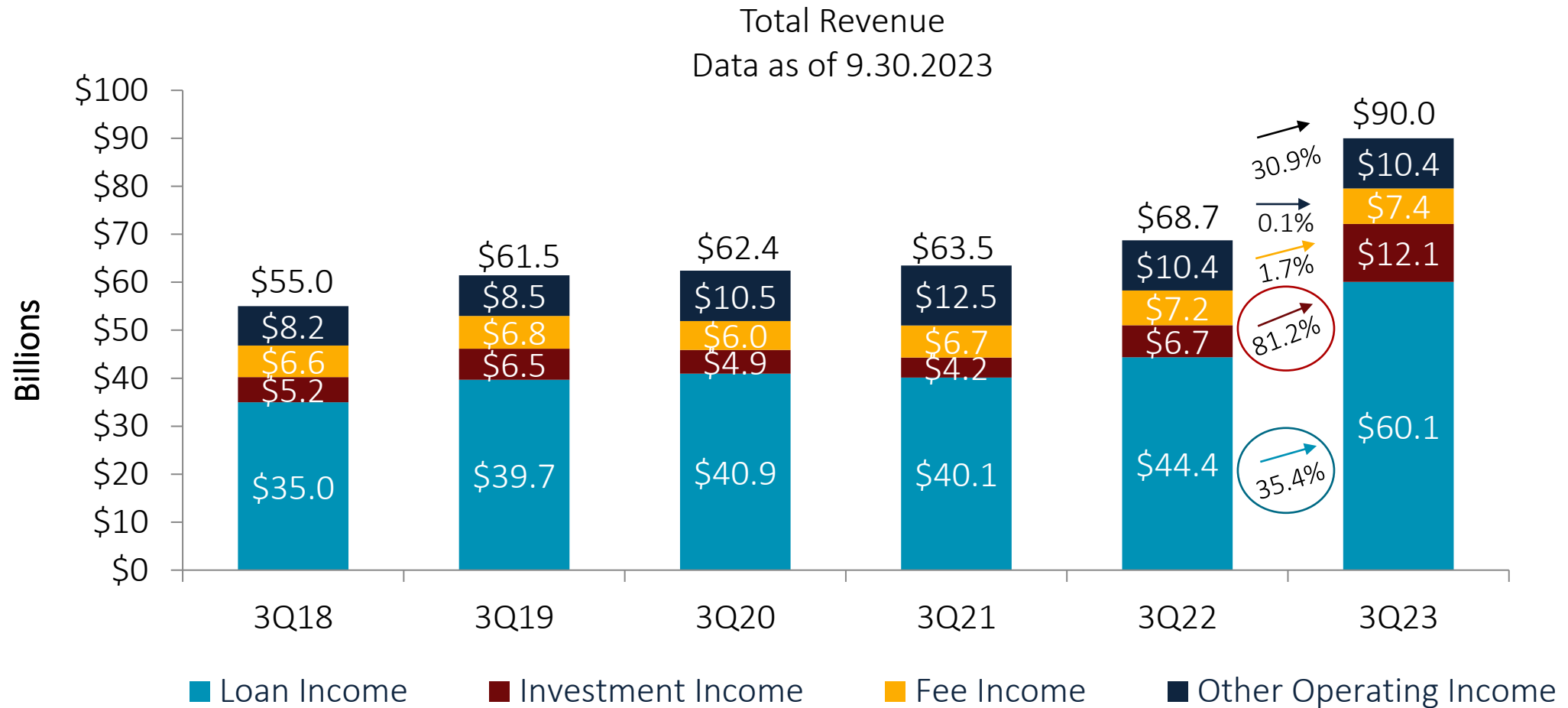
Source: Elizabethtown, KY Planning Commission

Plan Going Forward

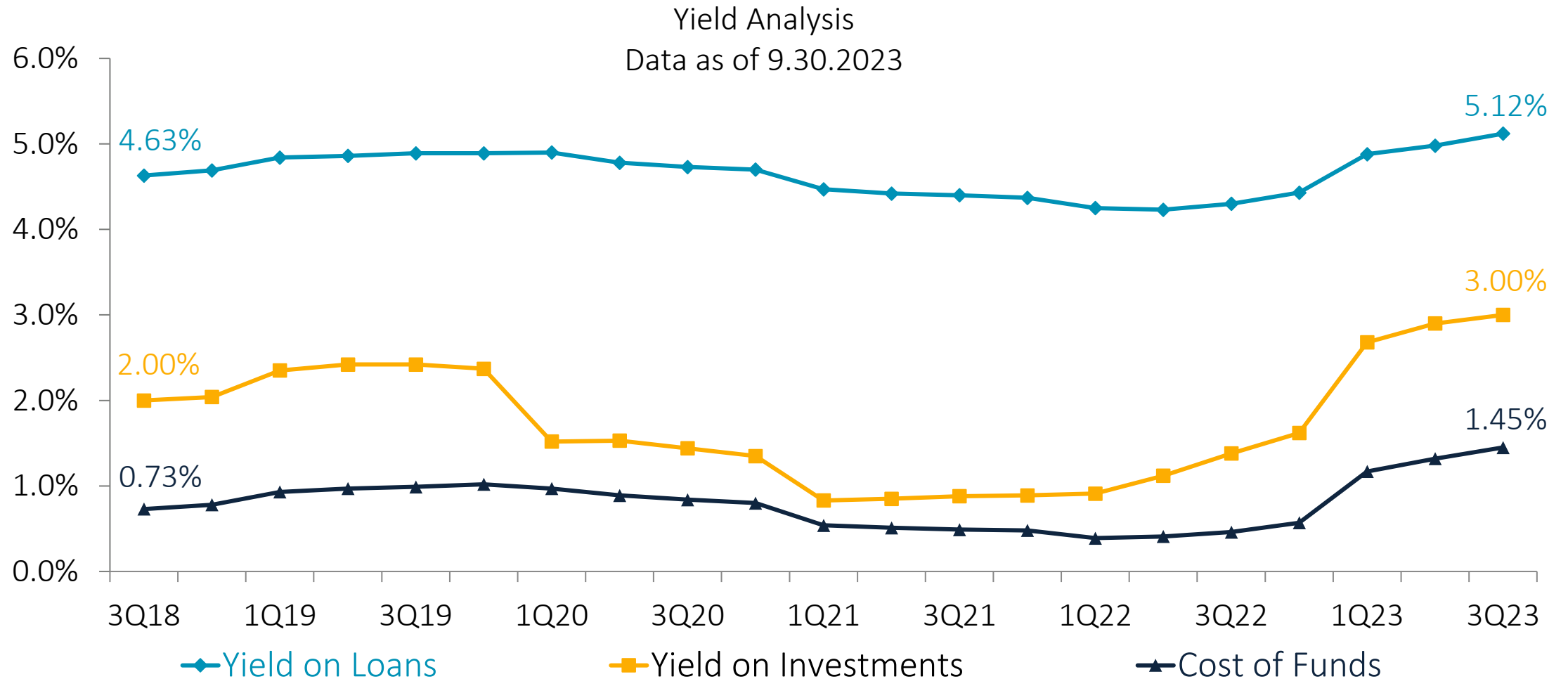
- Connecting with key membership groups / employers
- Creating value and support as community grows
- Continuing to understand member needs as community changes

Earnings & Efficiency

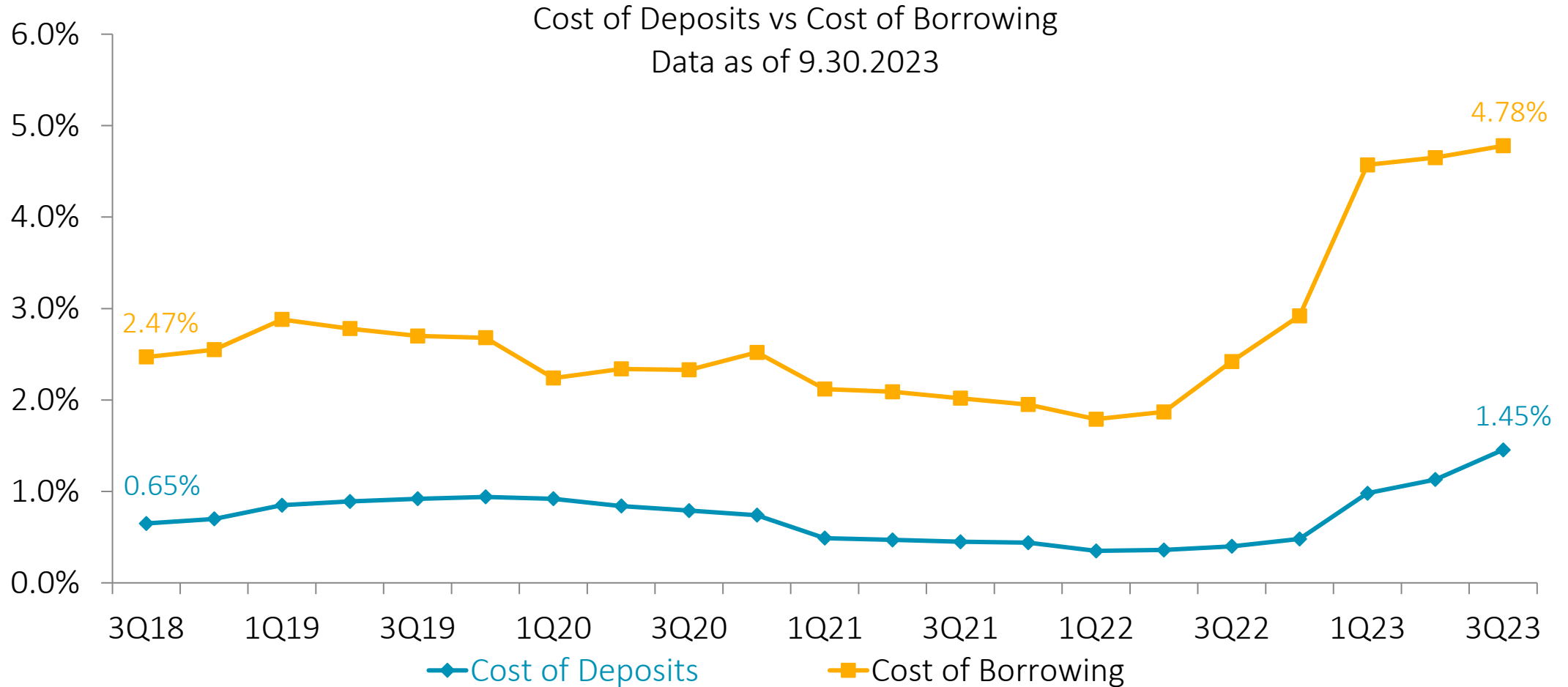
Repricing interest-earning portfolios drive a record increase in total revenue



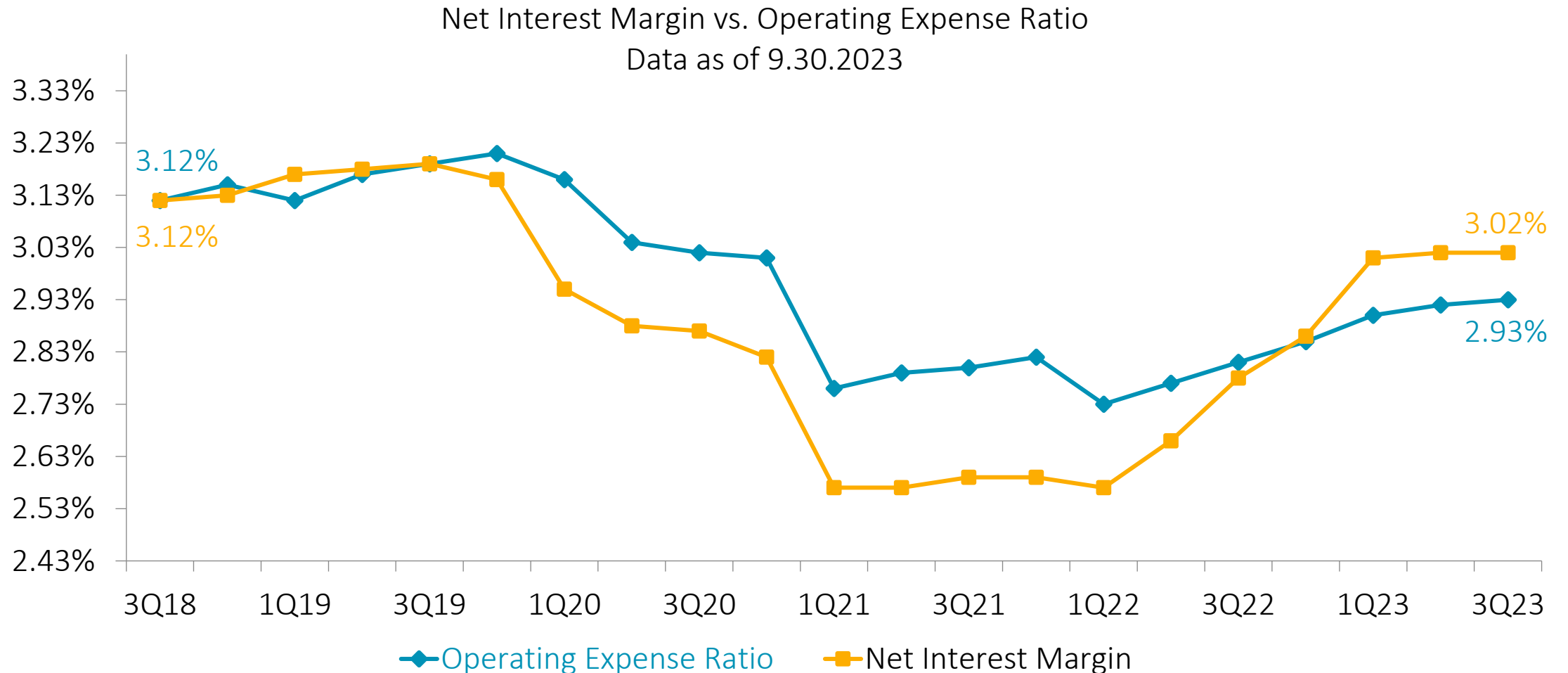
Both asset yields and funding costs are rising



Credit unions' cost of liquidity is increasing

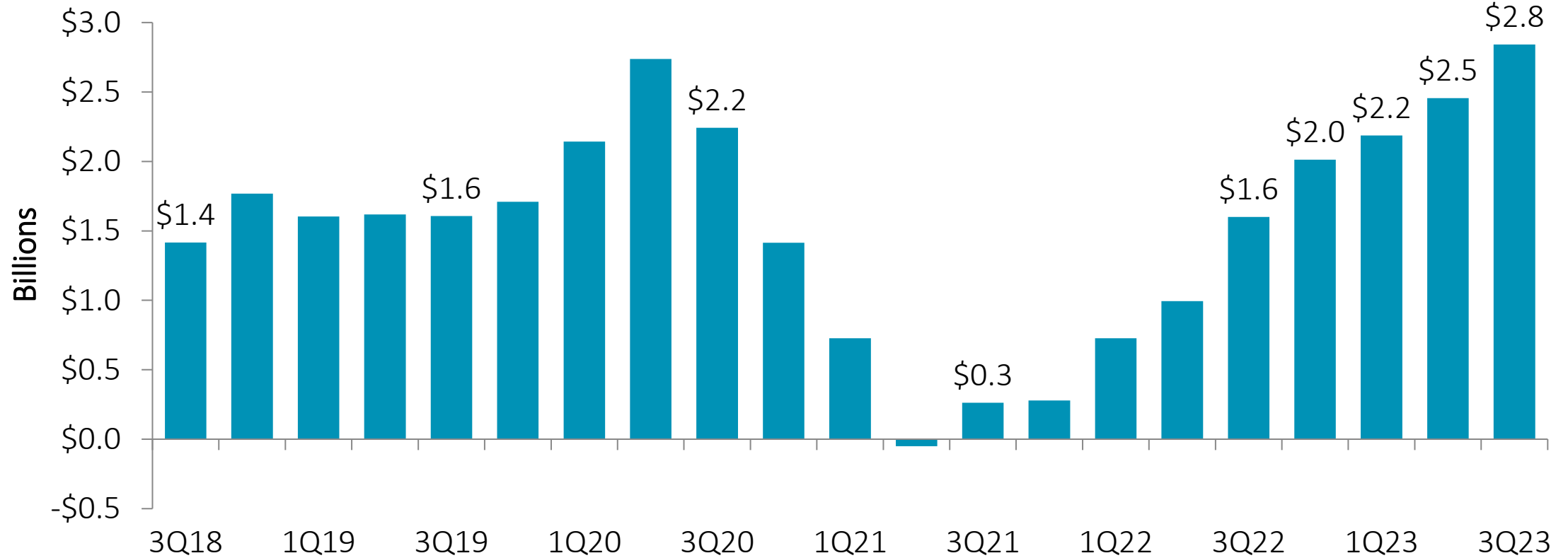


Net interest margins remain above operating costs, though the gap is closing

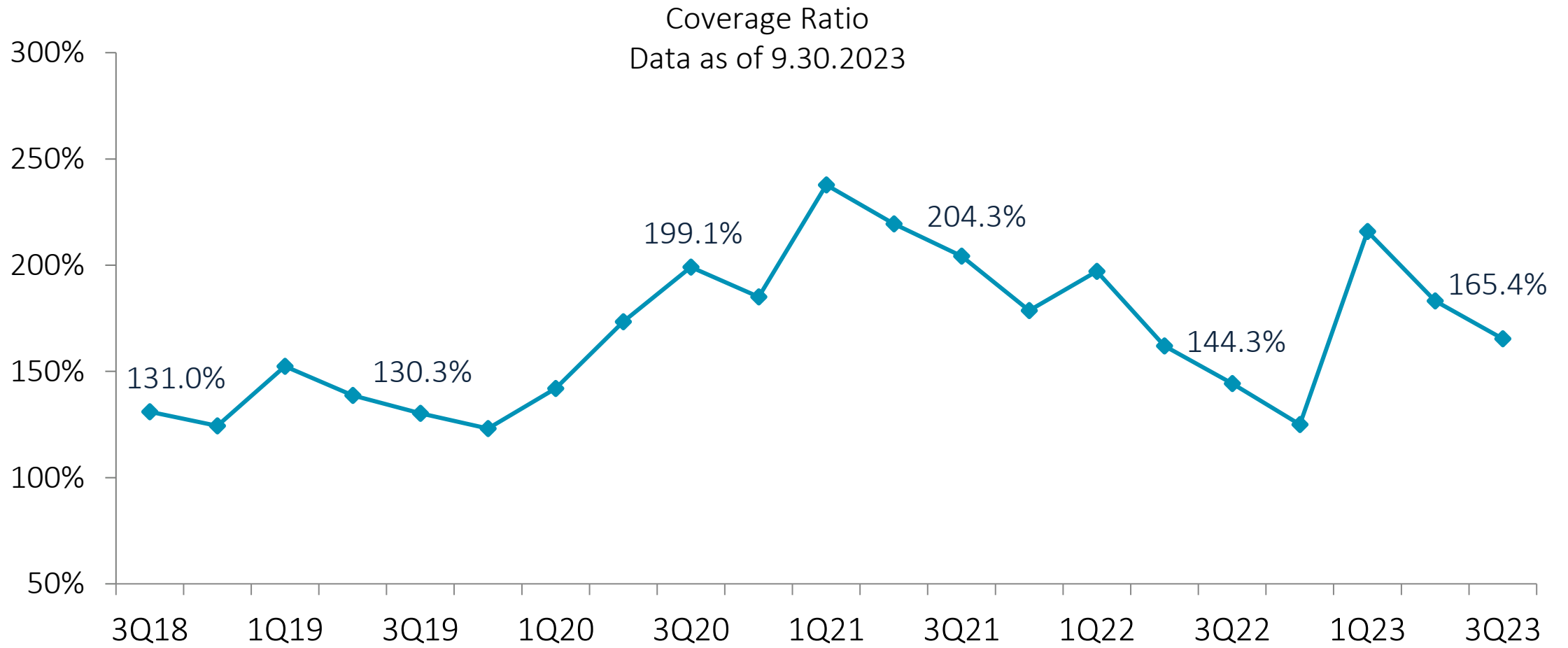


Credit unions continue to set aside reserves

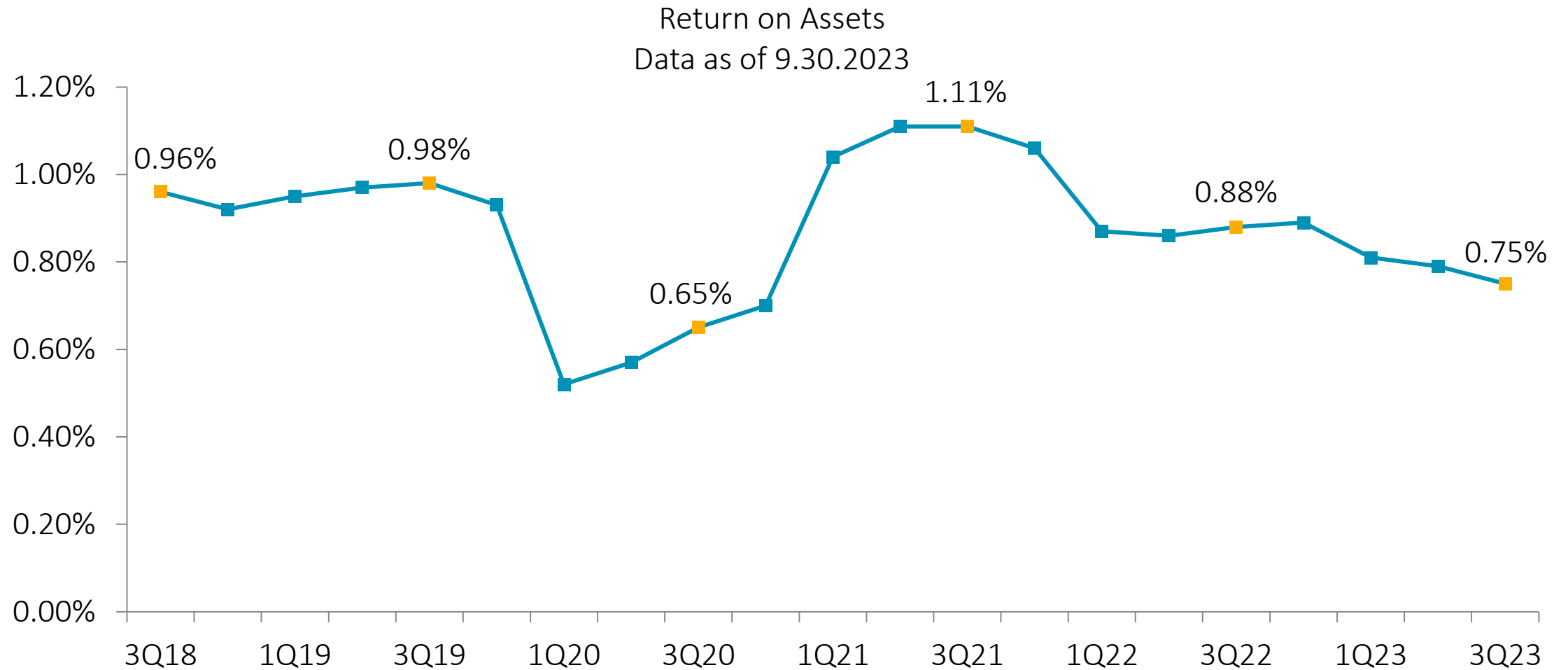
Quarterly Provision for Loan & Lease Losses
Data as of 9.30.2023



Delinquent loan growth outpaces money set aside



ROA remains healthy, especially given balance sheet slow down

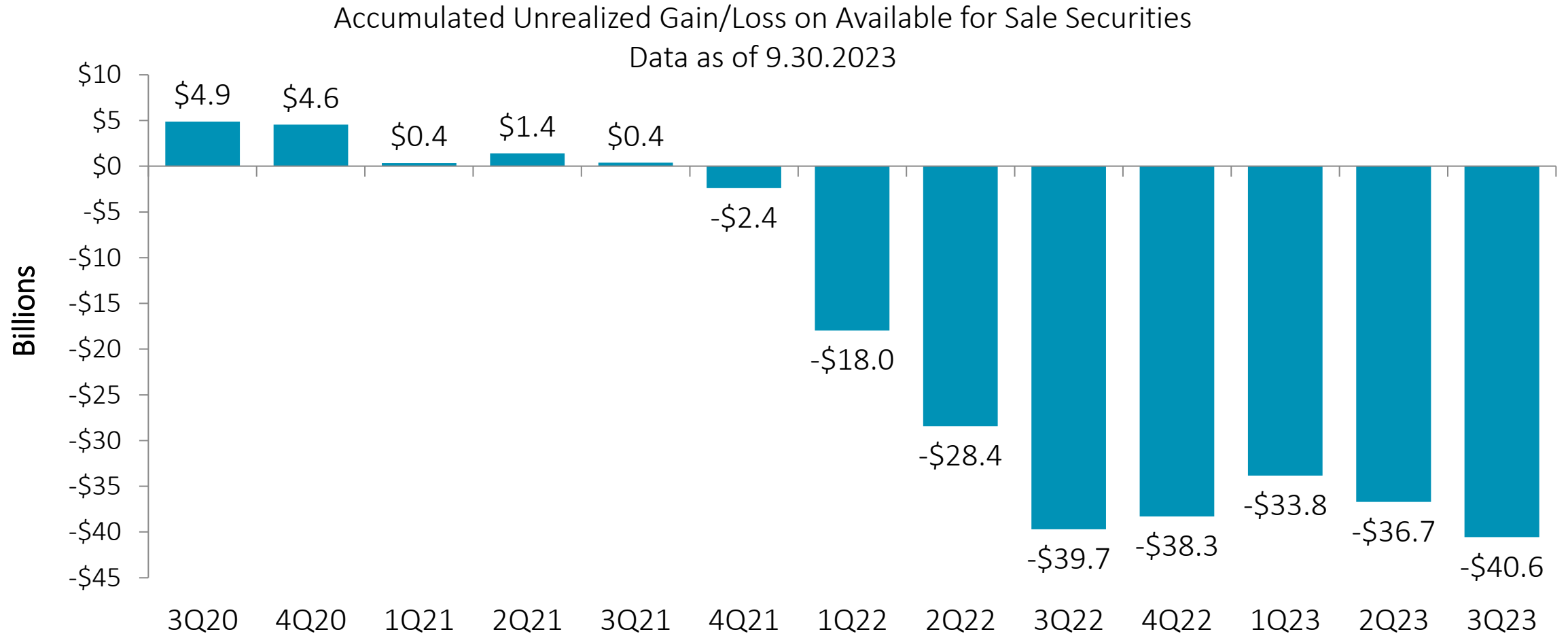


Earnings Model

	9/30/2023	9/30/2022
Interest Income	4.33%	3.20%
Interest Expense	1.31%	0.42%
Net Interest Margin	3.02%	2.78%
Non-interest Income	1.11%	1.11%
Operating Expenses	2.93%	2.81%
Provision for Loan Losses	0.45%	0.21%
ROA	0.75%	0.88%

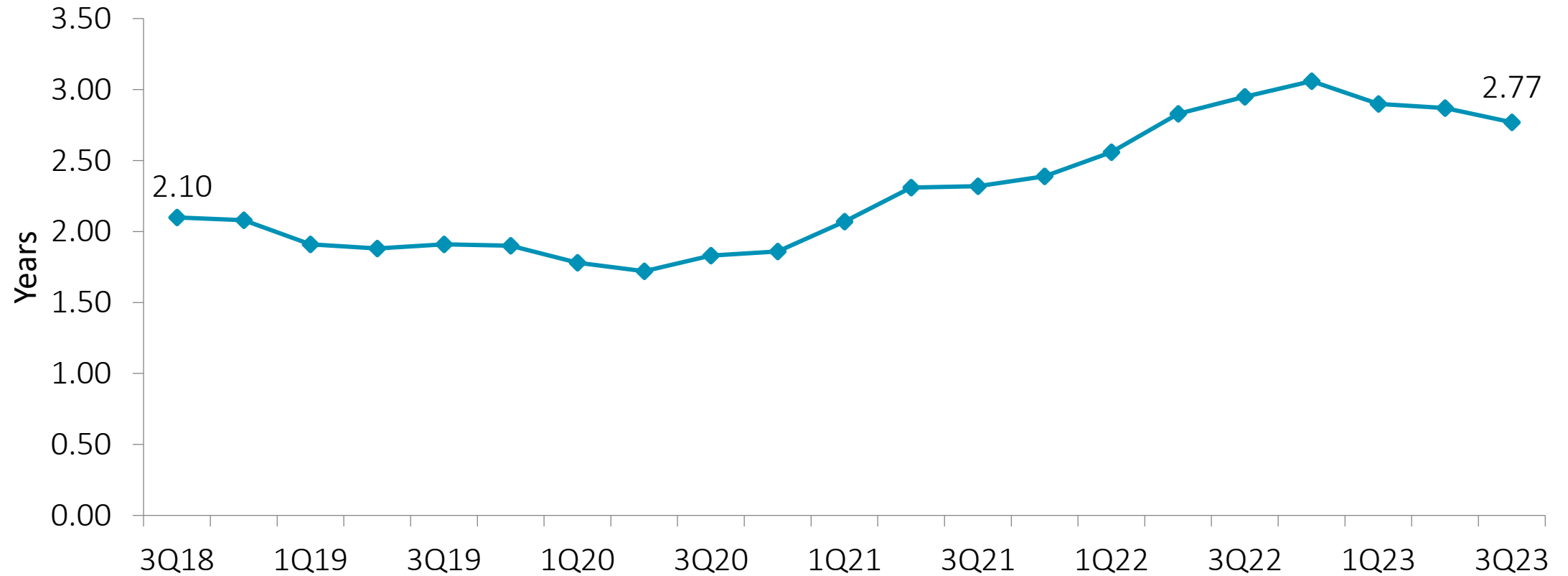
Expressed as a % of Avg. Assets
May not sum due to rounding

Many investment portfolios are holding unrealized losses



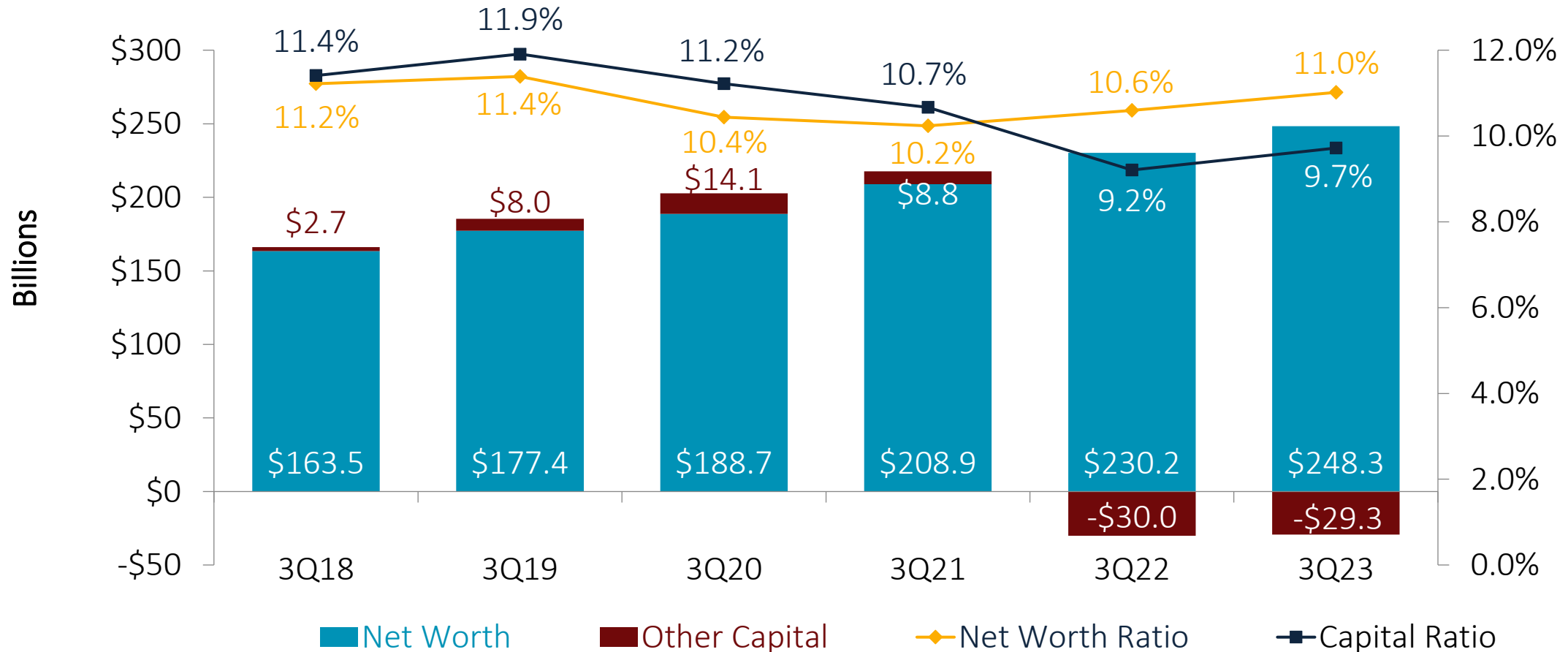
But the maturity profile is slowly shortening

Weighted Avg Life of Investment Portfolio (incl. Cash)
Data as of 9.30.2023

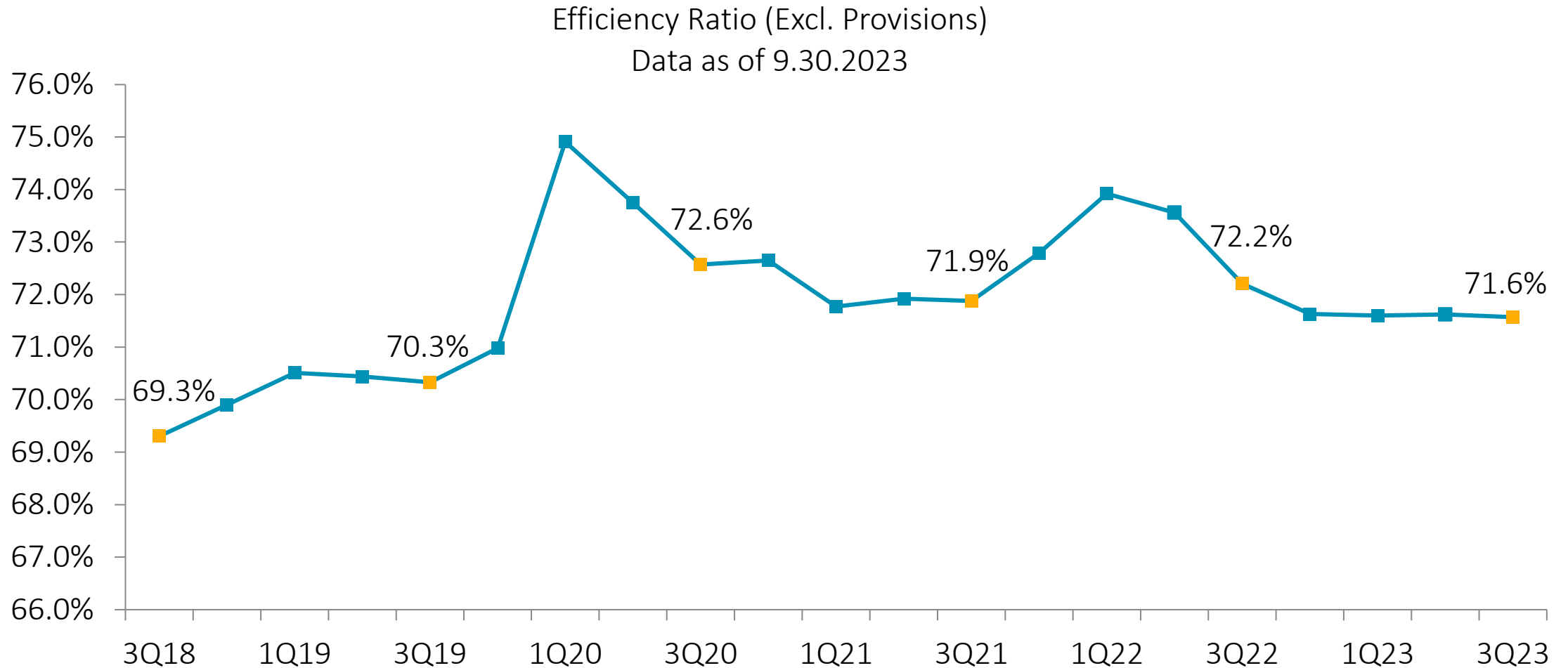


Capital ratios improve from slower asset growth

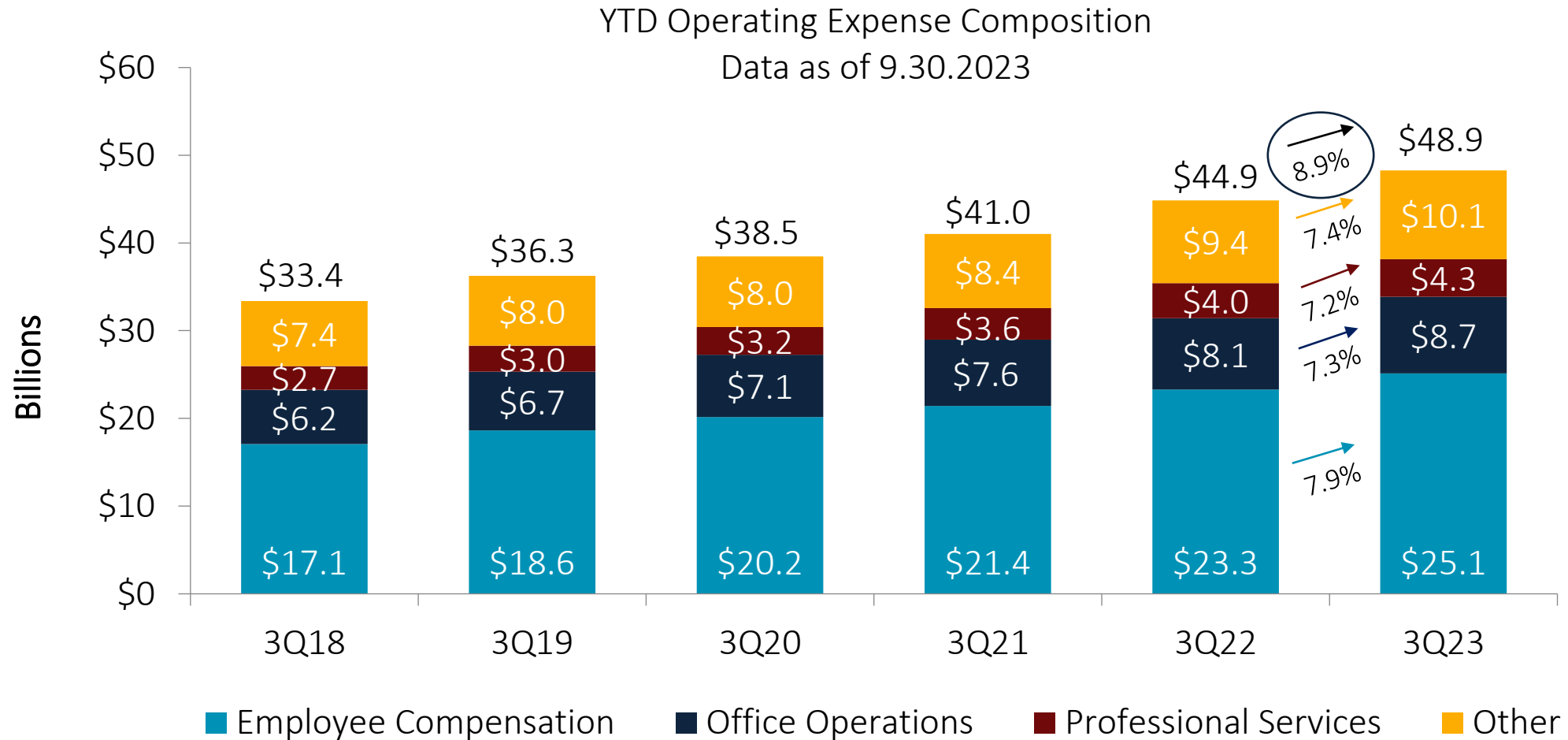
Net Worth and Other Capital
Data as of 9.30.2023



Operational efficiency improves as core revenue grows

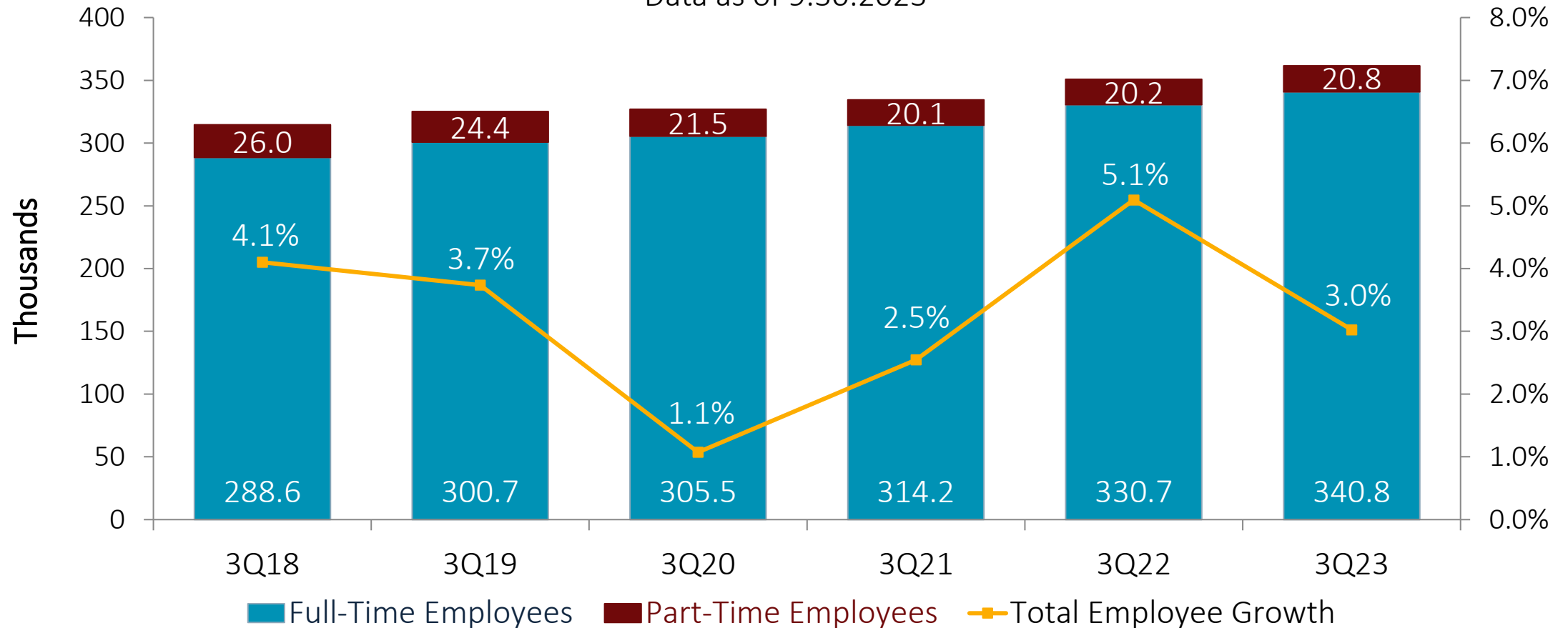


Increased focus on member service impacts all areas of operating expenses

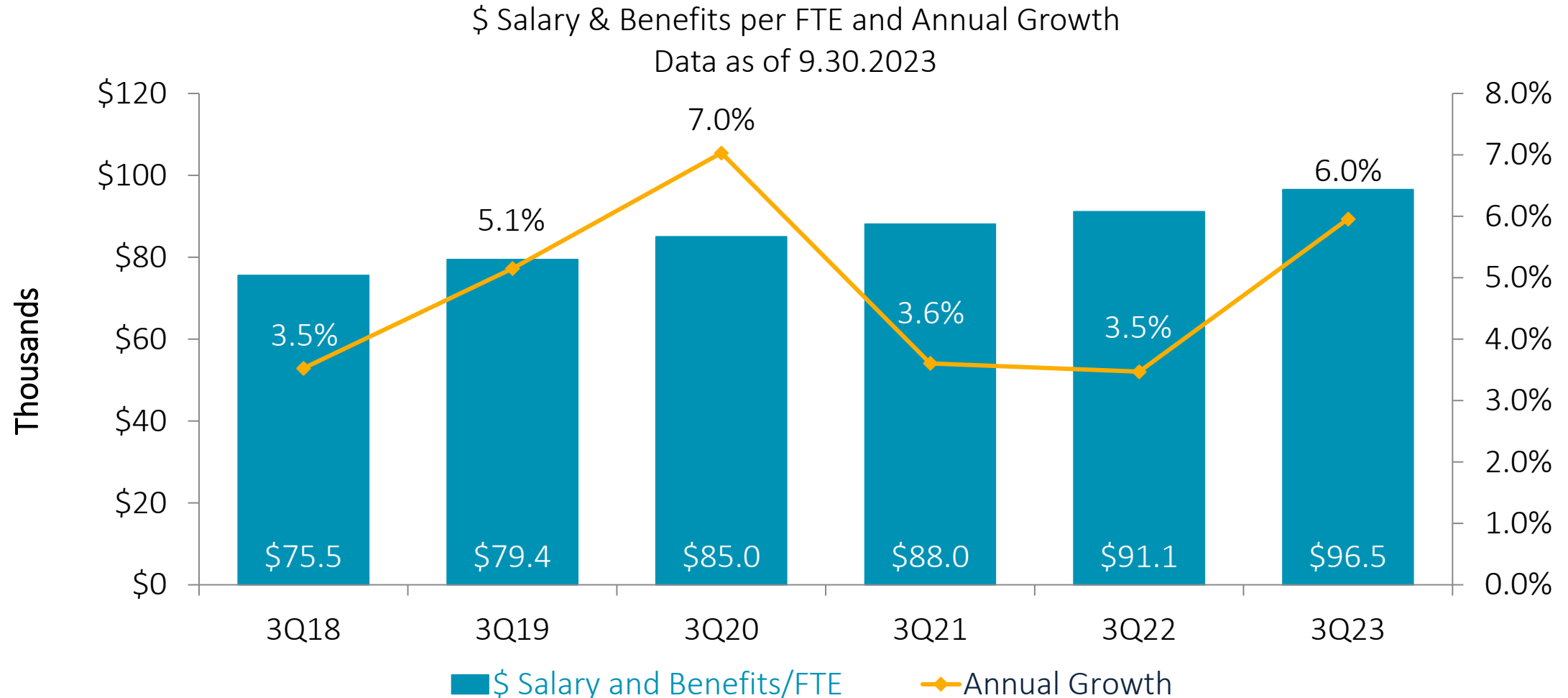


Credit unions' employee count expands 3.0% annually

FT & PT Employees and Annual Total Employee Growth
Data as of 9.30.2023

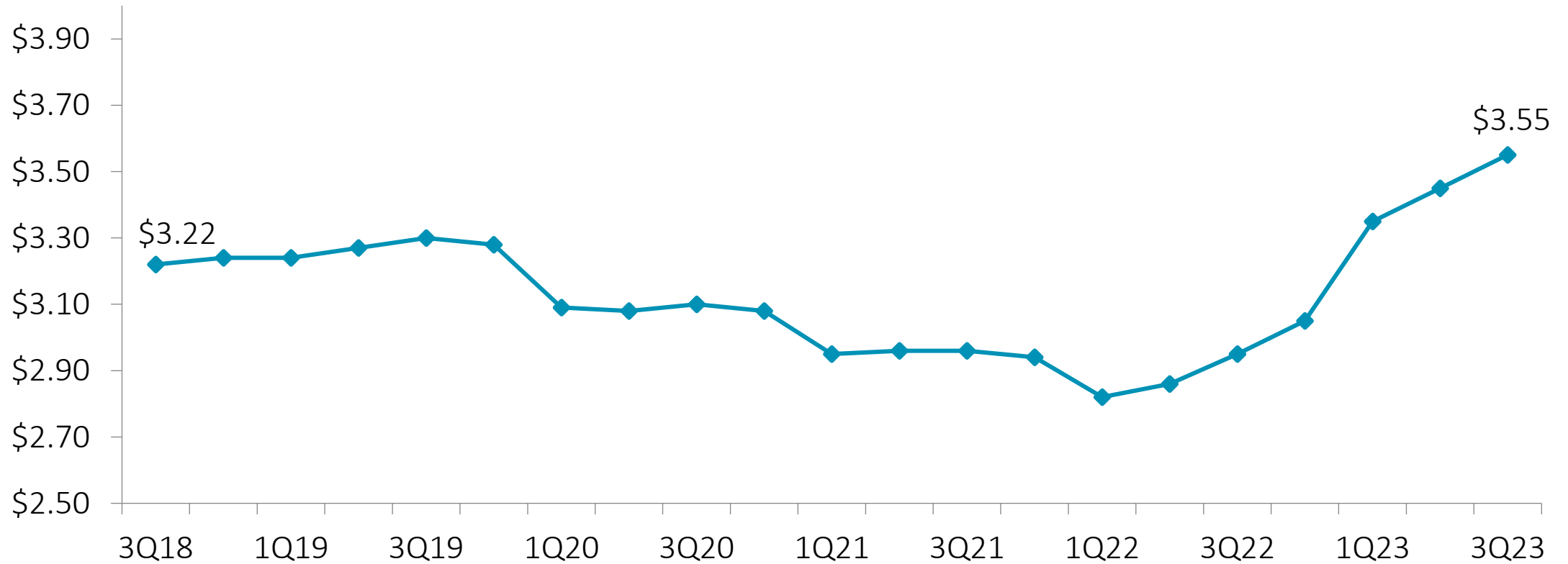


Credit unions' investment in people continues to increase



Credit unions earn \$3.55 in gross revenue per dollar spent on employee compensation, the highest rate since 2010

\$ Revenue Per \$ of Salary and Benefits Expense
Data as of 9.30.2023





Present Takeaways and Future Thoughts

- Credit unions are still working to help members in both the short and long term, despite macroeconomic challenges.
- Liquidity is tight, so the purpose of each loan grows in importance. Lend for the member, and the income statement will follow.
- The general slowdown in lending provides the first opportunity to pause and reflect on the rapid operational changes made during the pandemic. What worked, what didn't, and what needs to change?

THANK YOU FOR WATCHING



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