TRENDWATCH 2023

February 15, 2024

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Today's Lineup

Market Update

Jason Haley, Chief Investment Officer, ALM First

2023 Credit Union Results

Jon Jeffreys, CEO, Callahan & Associates

Jay Johnson, Chief Collaboration Officer, Callahan & Associates

Blue FCU's Vitality Index

Kim Alexander, Chief Strategy and Growth Officer, Blue Federal Credit Union

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February 15, 2024

ALM First Market Update

Callahan Trendwatch

Speaker

Jason Haley

Chief Investment Officer

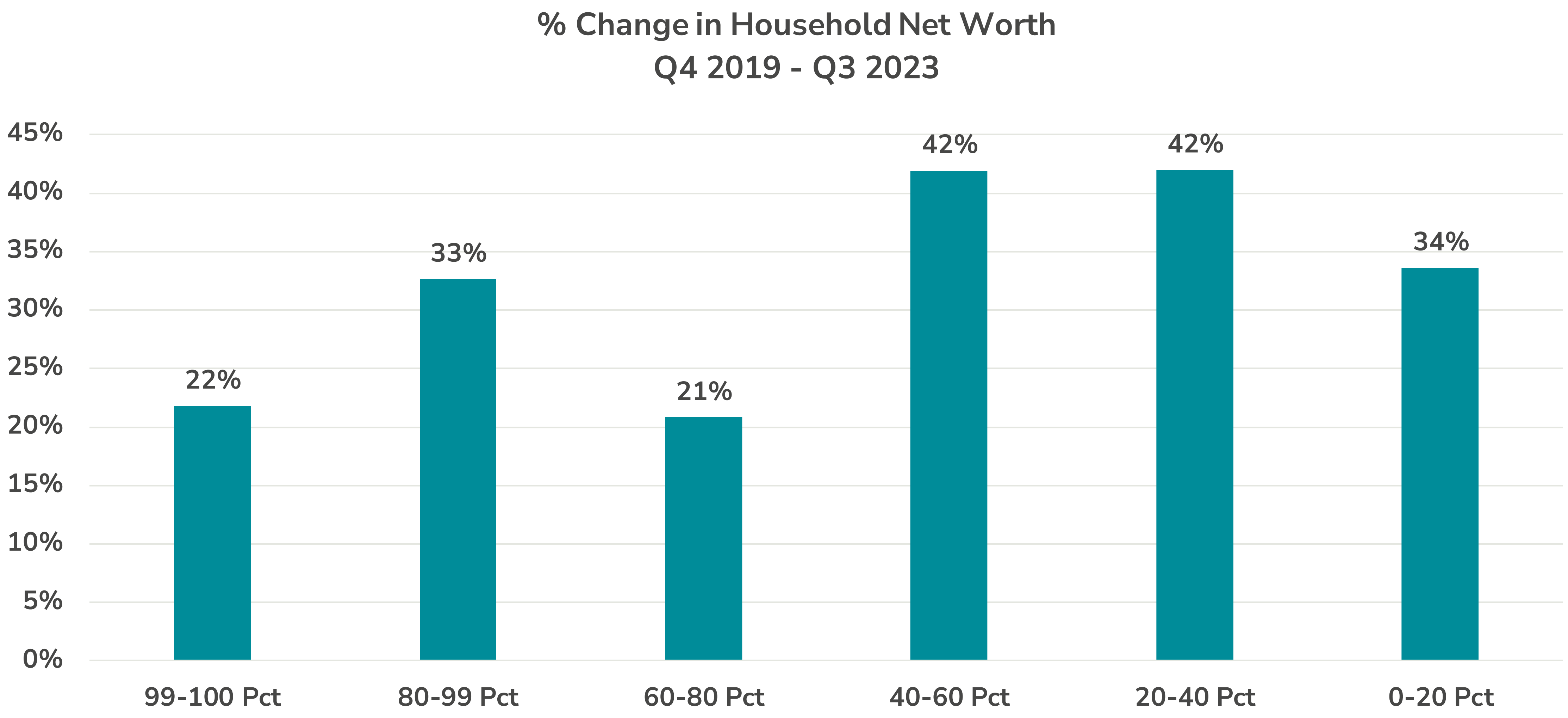
ALM First

Current Economic Themes

- **Economy continues to defy a more pessimistic market narrative**
  - Blowout January jobs report followed stronger than expected Q4 GDP report
  - January CPI report surprises to the upside
    - Core CPI +0.4% m/m and 3.9% y/y; "supercore" +0.85% (highest since April 2022)
  - Fed funds futures market now pricing <50% odds of a May 1 cut and ~100 bps of cuts in 2024 (lowest since November)

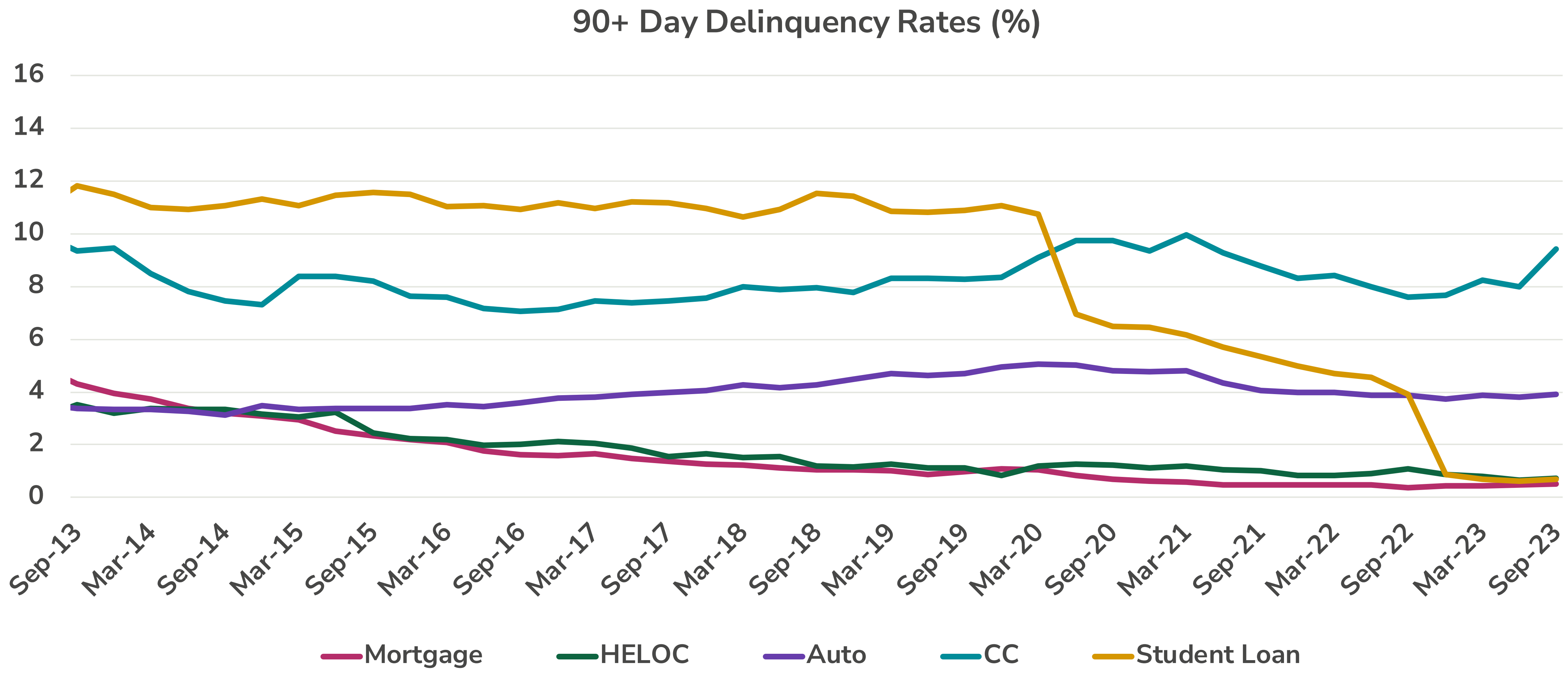
- **Risks to growth/markets**
  - Excess household liquidity has diminished amid robust spending and inflation
    - Household net worth remains above pre-Covid levels across income brackets
  - Commercial real estate fears lingering
    - NYCB recently in the headlines after writing down to large CRE loans (1 multifamily & 1 office)
  - Geopolitical tensions
  - Fiscal deficit/Treasury supply

Healthy Household Metrics



Source: Federal Reserve; ALM First

Delinquency Rates Below Pre-Covid Levels



Source: NY Fed; Equifax

Household Liquidity: Back to Pre-COVID Levels for Most

Changes in Household Liquid Assets Since End of 2019			
Income brackets	Nominal Liquid Assets	PCE Inflation	Real Liquid Assets
Top 1%	51%	15%	36%
80% - 99%	34%	15%	19%
60% - 80%	19%	15%	4%
40% - 60%	23%	15%	8%
20% - 40%	14%	15%	-1%
0% - 20%	14%	15%	-1%

Source: Santander Capital Markets; Federal Reserve; BEA

Looking Ahead

- **Economy poised to slow, but will it be at the pace the market expects?**
  - Consumption should slow given savings erosion, but wage growth remains strong
  - Bond market still priced for a fairly-dovish Fed in 2024

- **Credit union profitability deteriorating amid rising credit costs**
  - Aggregate Q4 data shows steady NIM despite rising funding costs, but rising charge offs are pushing ROA lower
  - $1-$50 billion banks had nearly double CU ROA in Q4 with nearly the same difference in credit costs (lower)
  - Asset pricing, capital utilization/allocation, and hedging remain important topics amid margin pressures
    - Institutions with excess capital have greater flexibility to combat margin pressures if utilized

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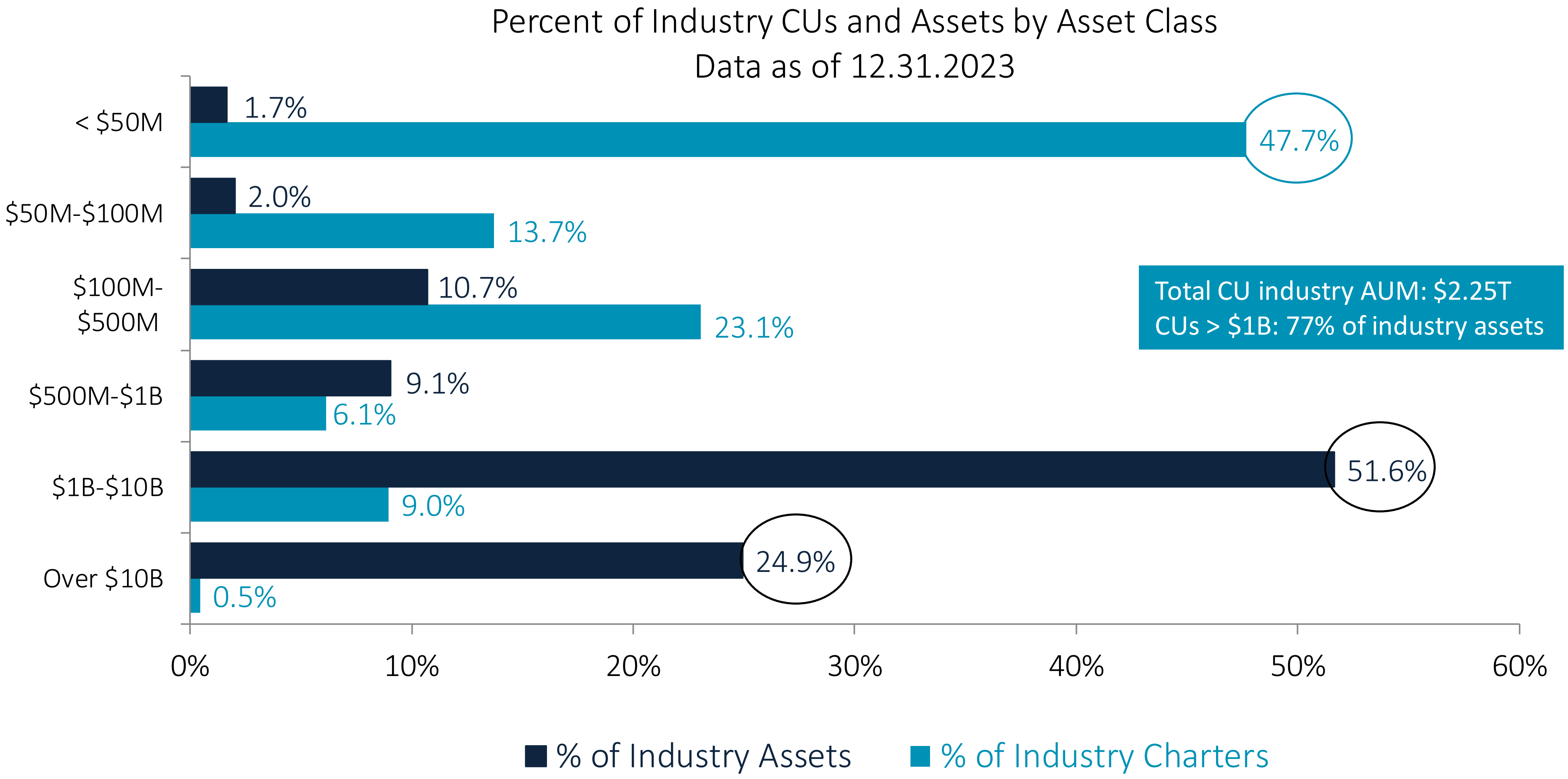
Credit union growth slows in 2023

	12/31/2023	12-Mo. Growth	12/31/2022	12-Mo. Growth
Assets	$2,279.5B	4.1%	$2,190.2B	5.1%
Loans	$1,618.3B	6.4%	$1,521.0B	19.9%
Shares	$1,901.3B	1.7%	$1,869.4B	3.3%
Investments	$564.9B	-1.4%	$573.0B	-20.6%
Capital	$232.3B	12.2%	$207.2B	-5.9%
Members	140.7M	3.0%	136.6M	4.3%

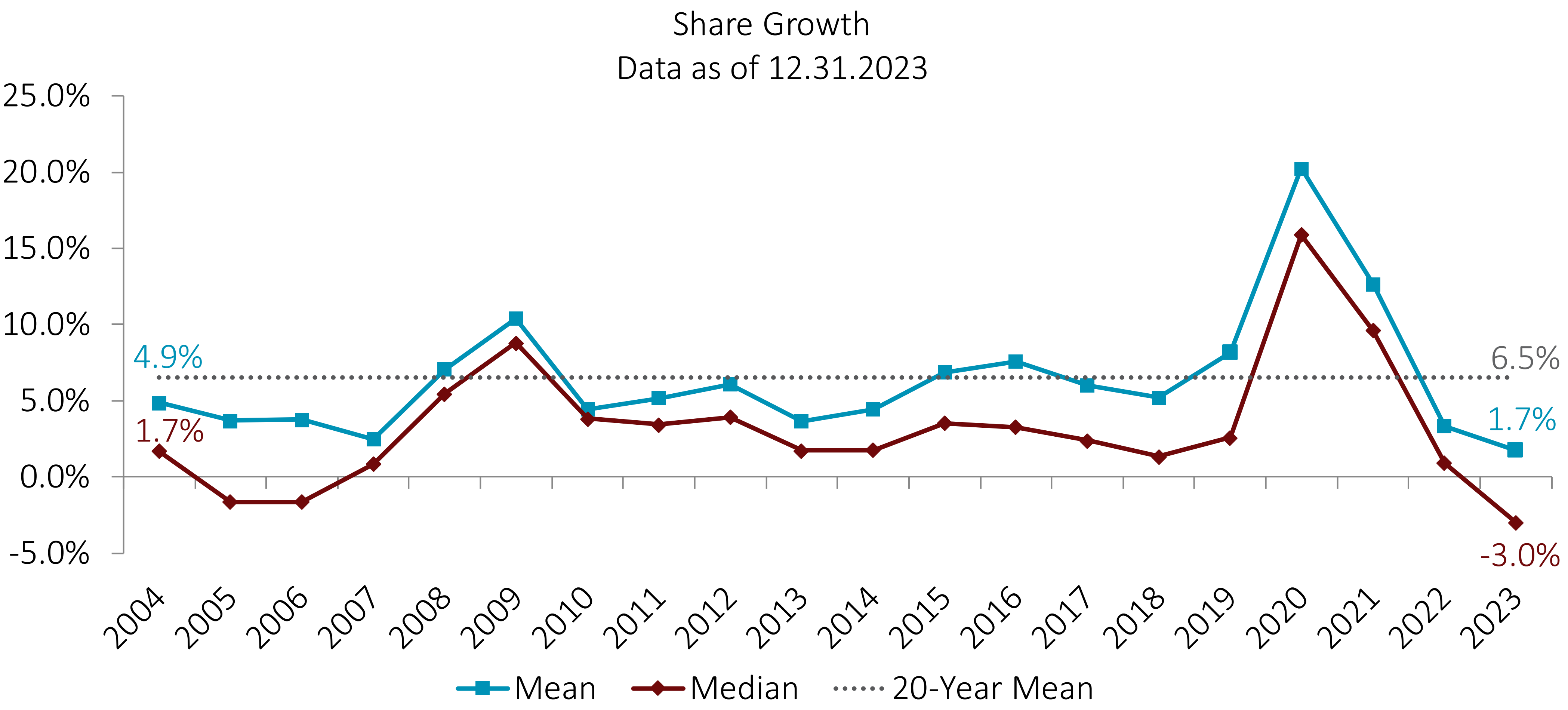
Source: Callahan's Peer-to-Peer Analytics

Large credit unions drive industry average results

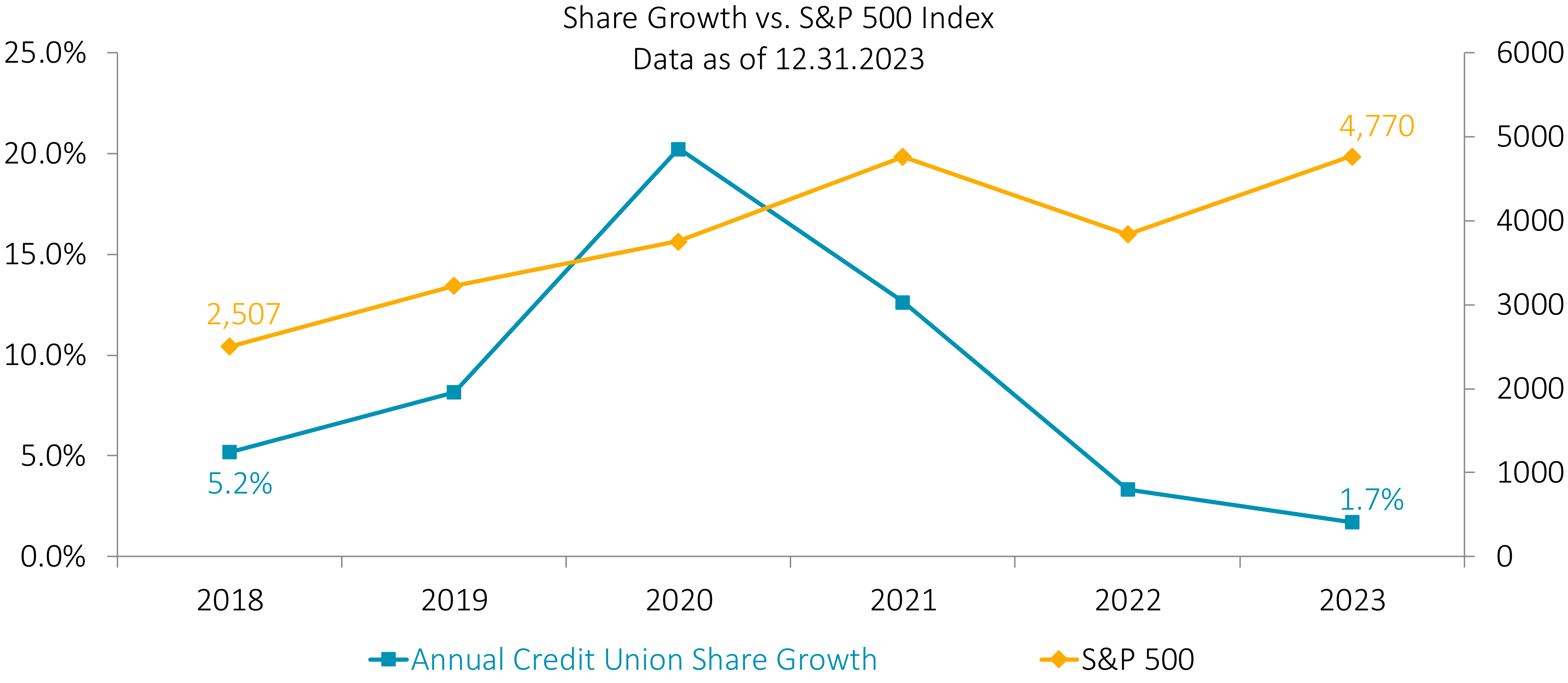


Savings & Liquidity

Share growth in 2023 was the slowest in the past 20 years

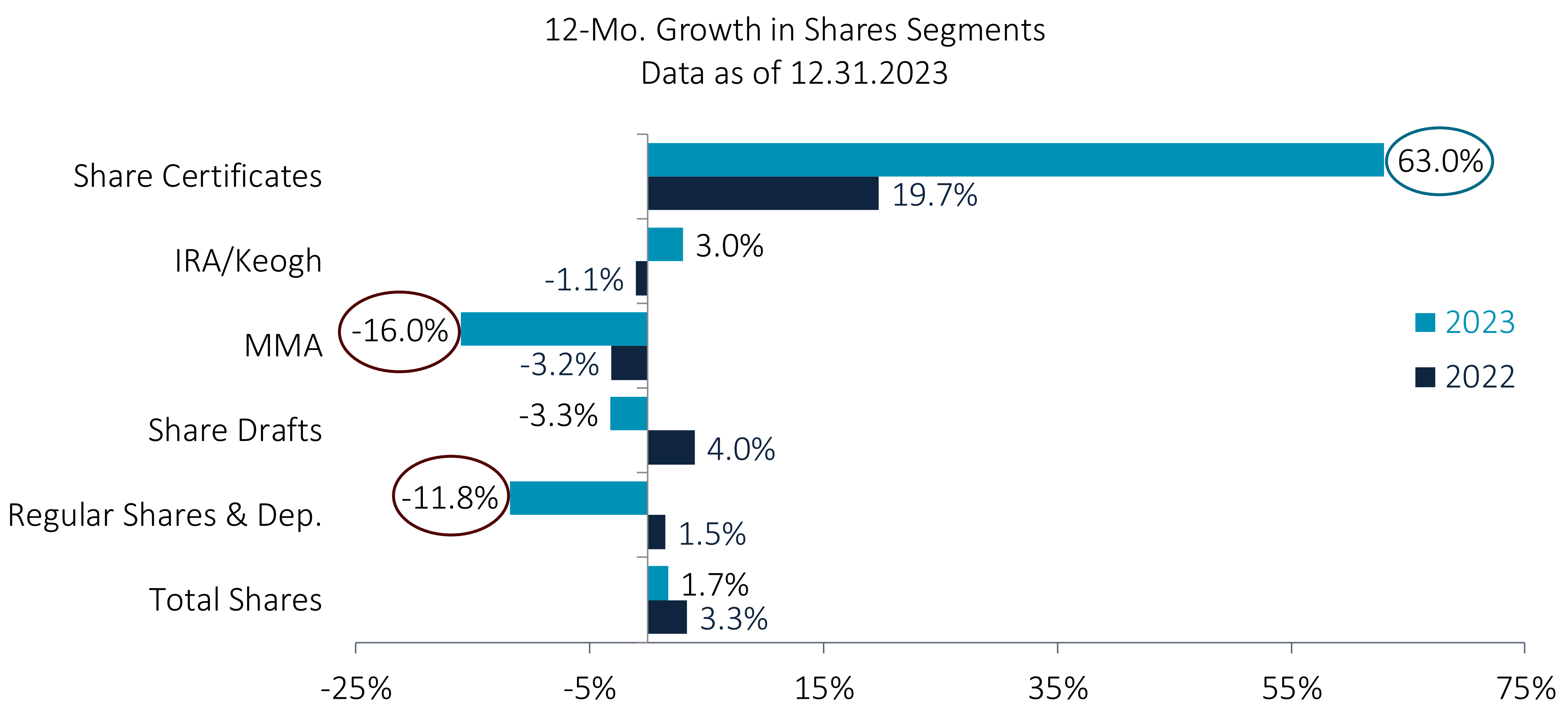


Share growth typically has an inverse correlation with the stock market

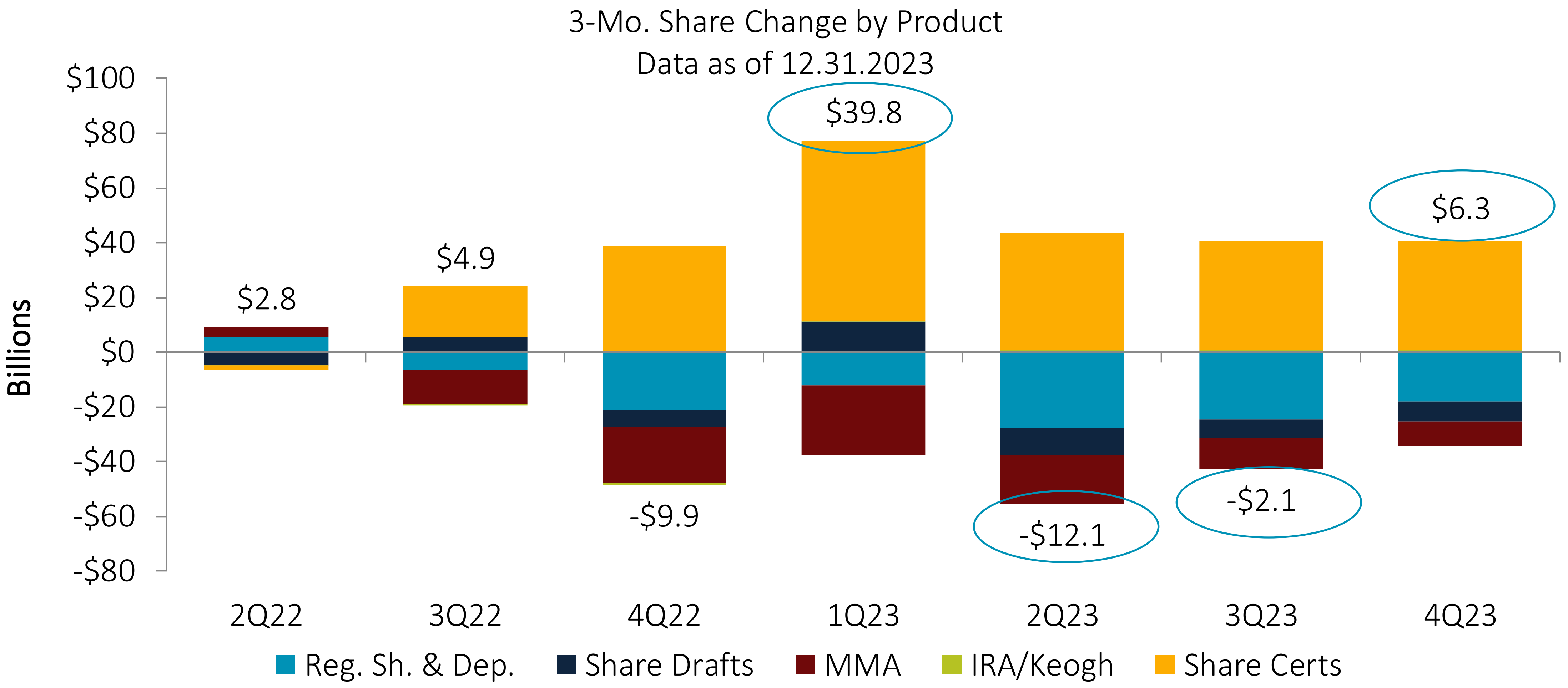


Source: FRED data

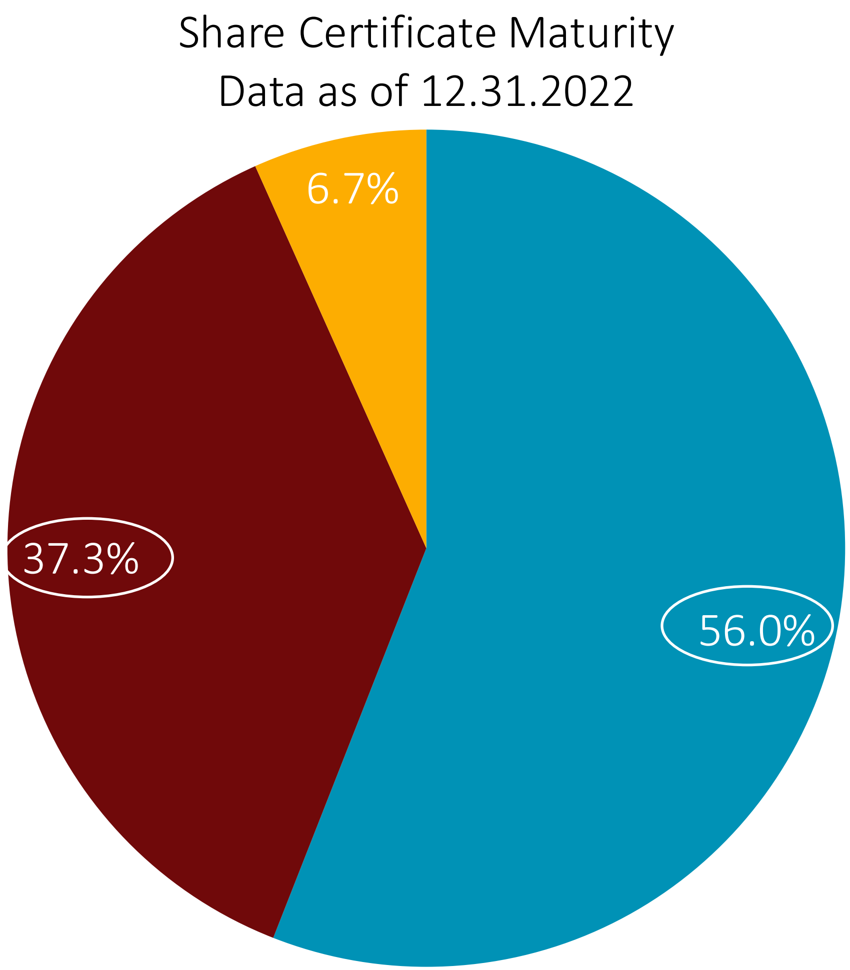
Certificates post extraordinary growth in 2023, helping to both retain existing shares and attract new deposits

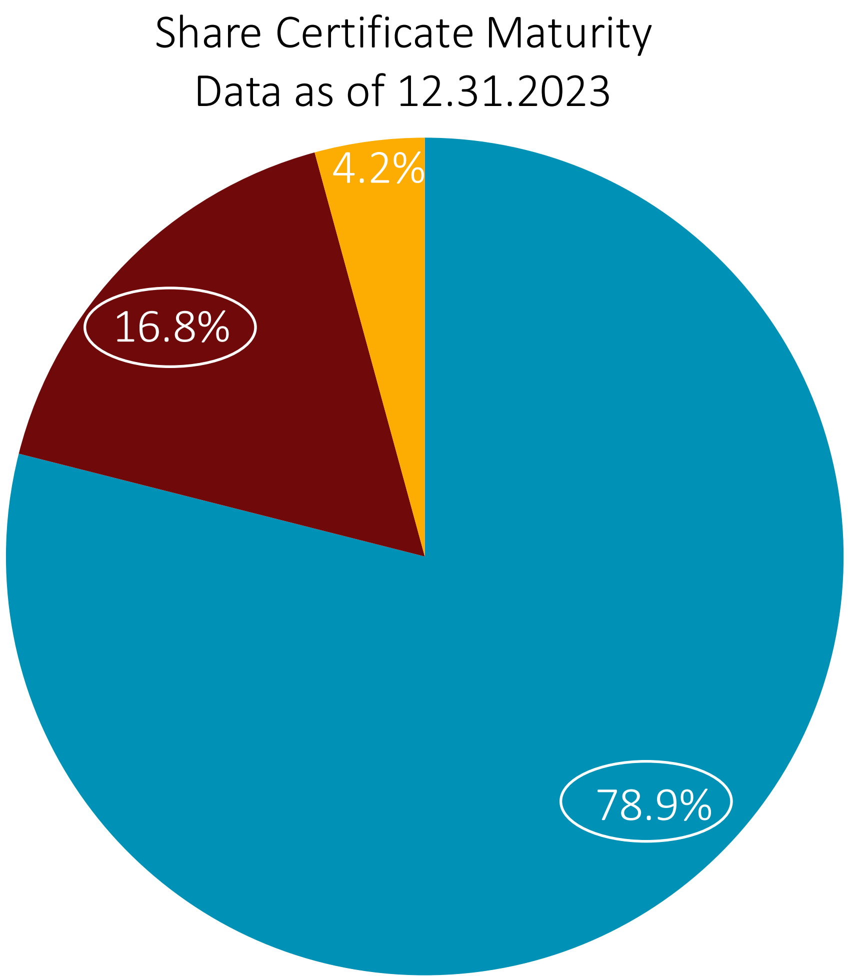


Members shift $189 billion to certificates in 2023 while lower-paying core deposit balances decline $159 billion



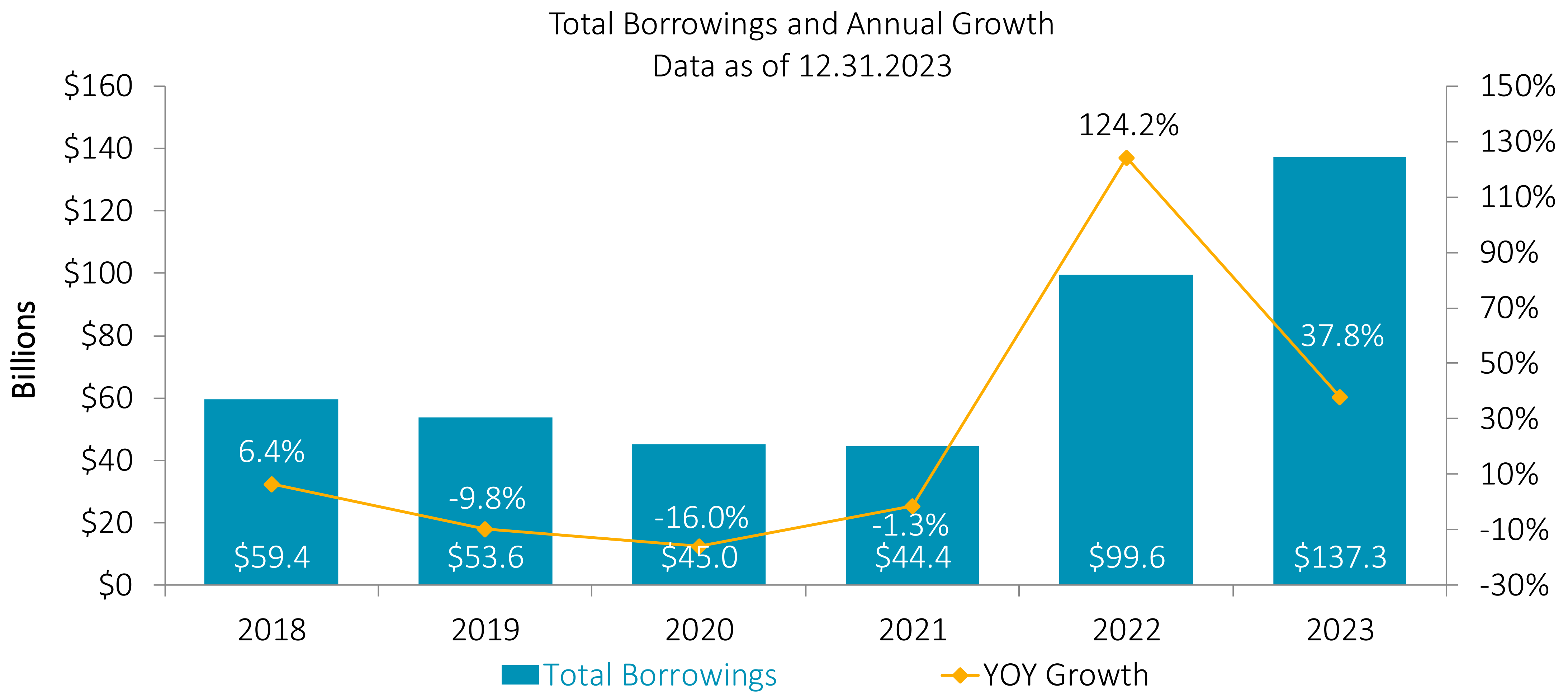
Short term certificates make up 79% of certificates at year-end 2023





< 1 Year
1-3 Years
> 3 Years

Borrowed funds increase $38 billion over past year



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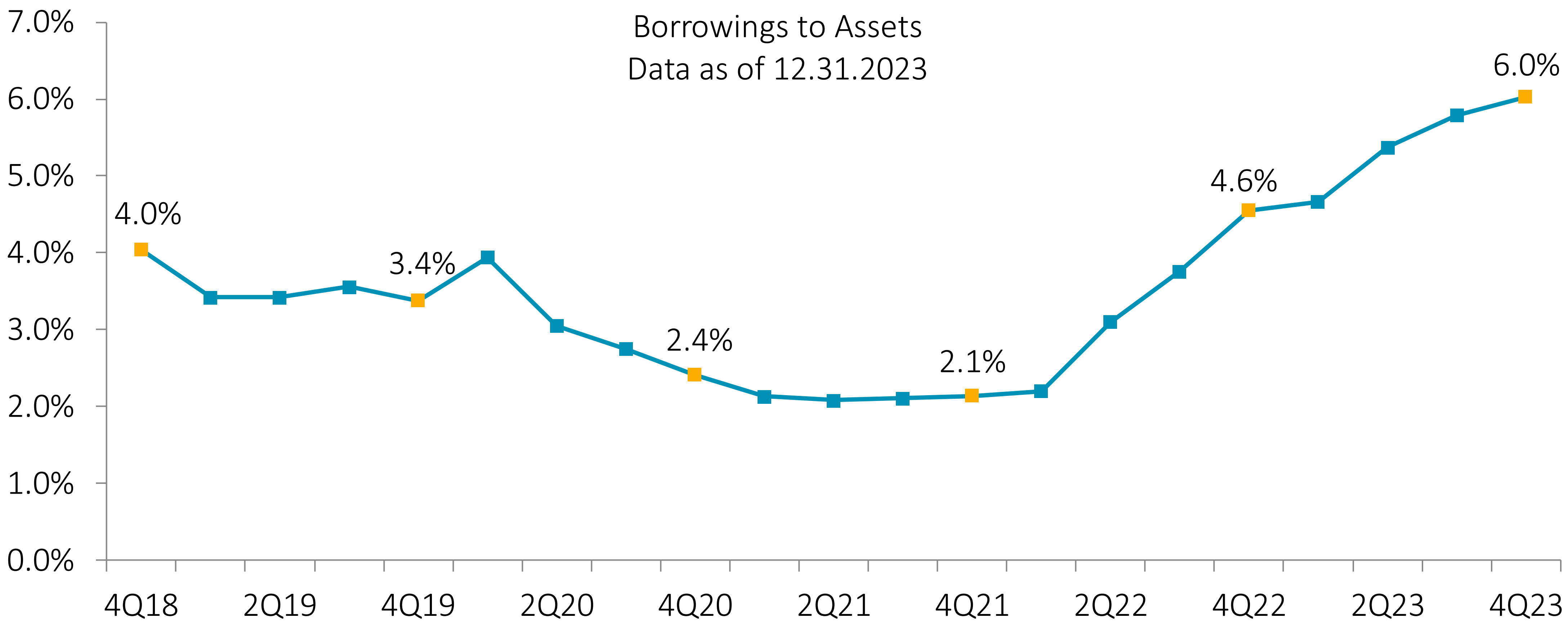
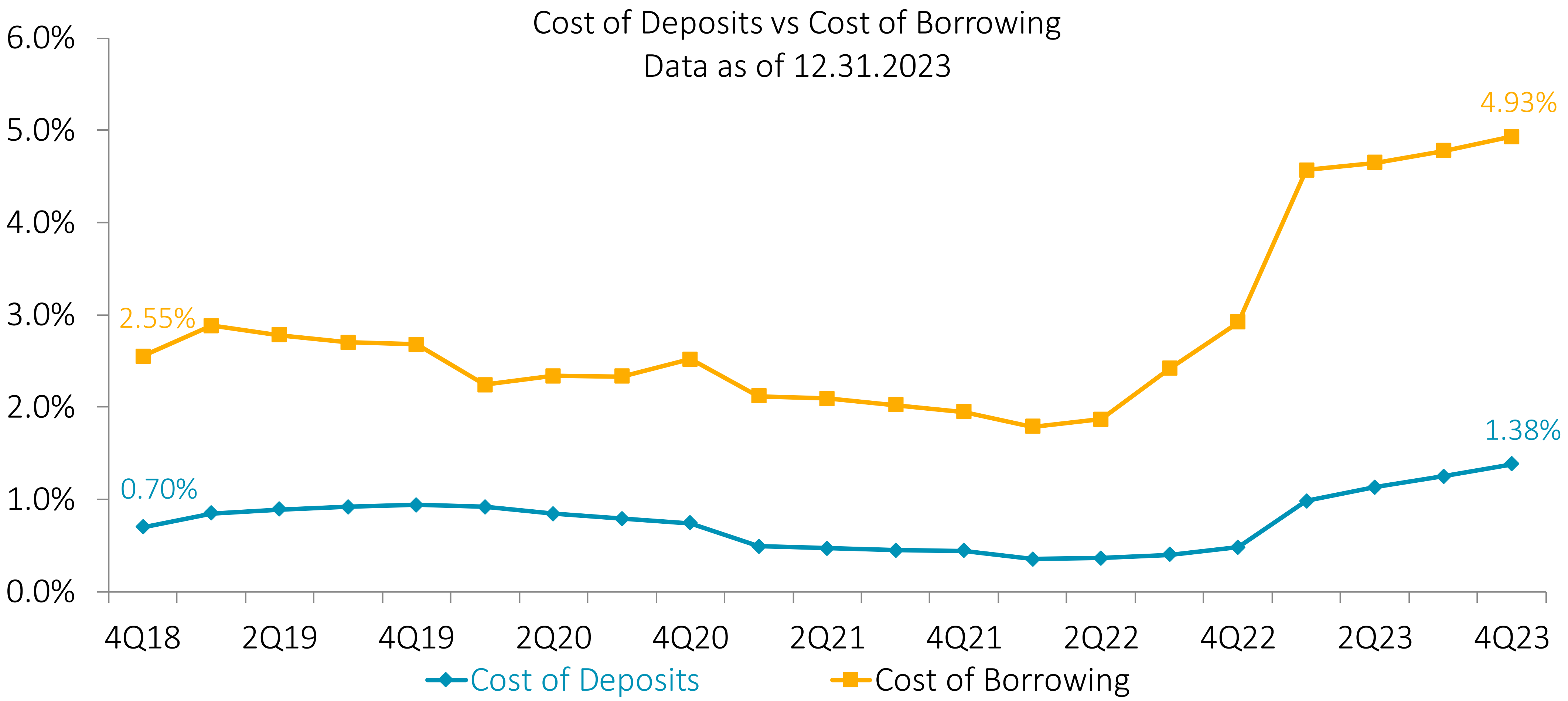
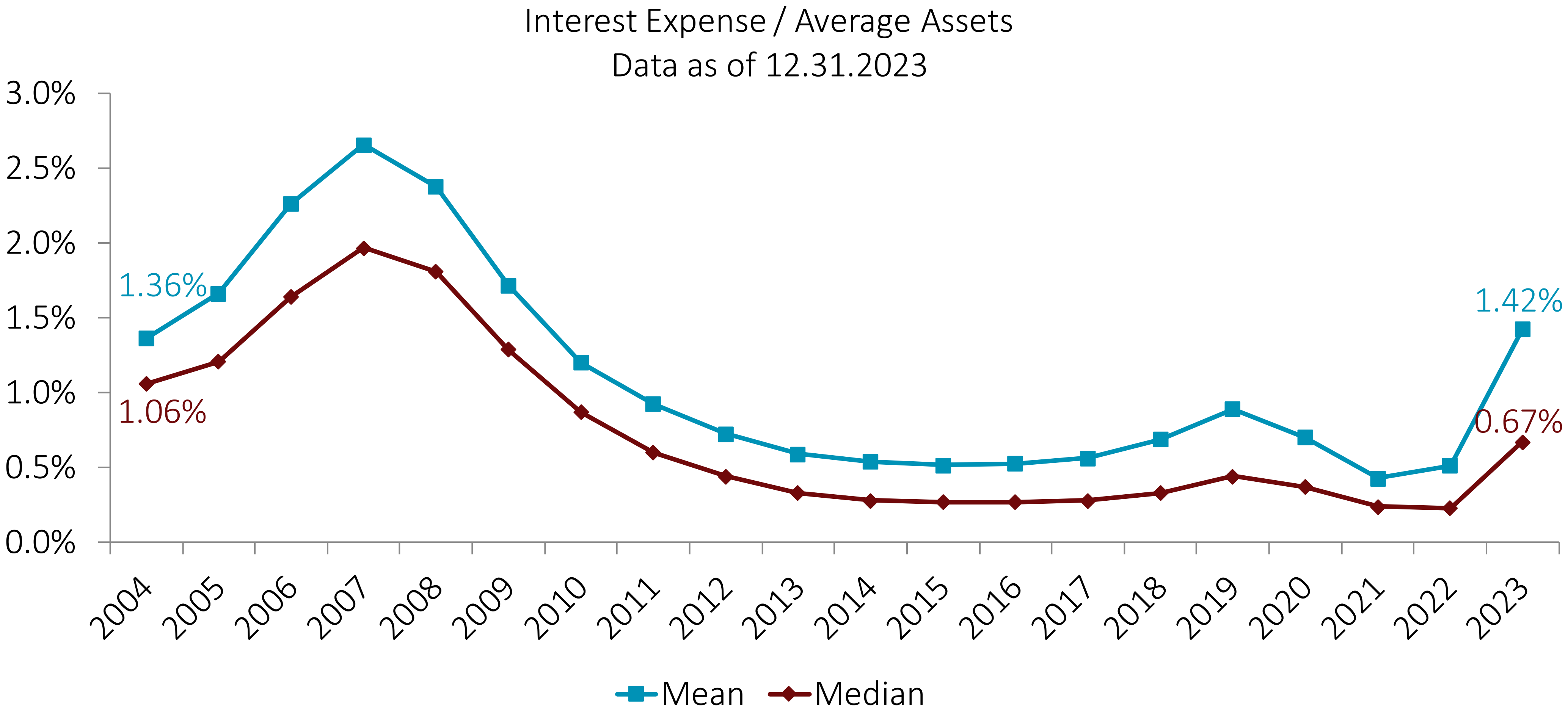
And increase to 6.0% of assets



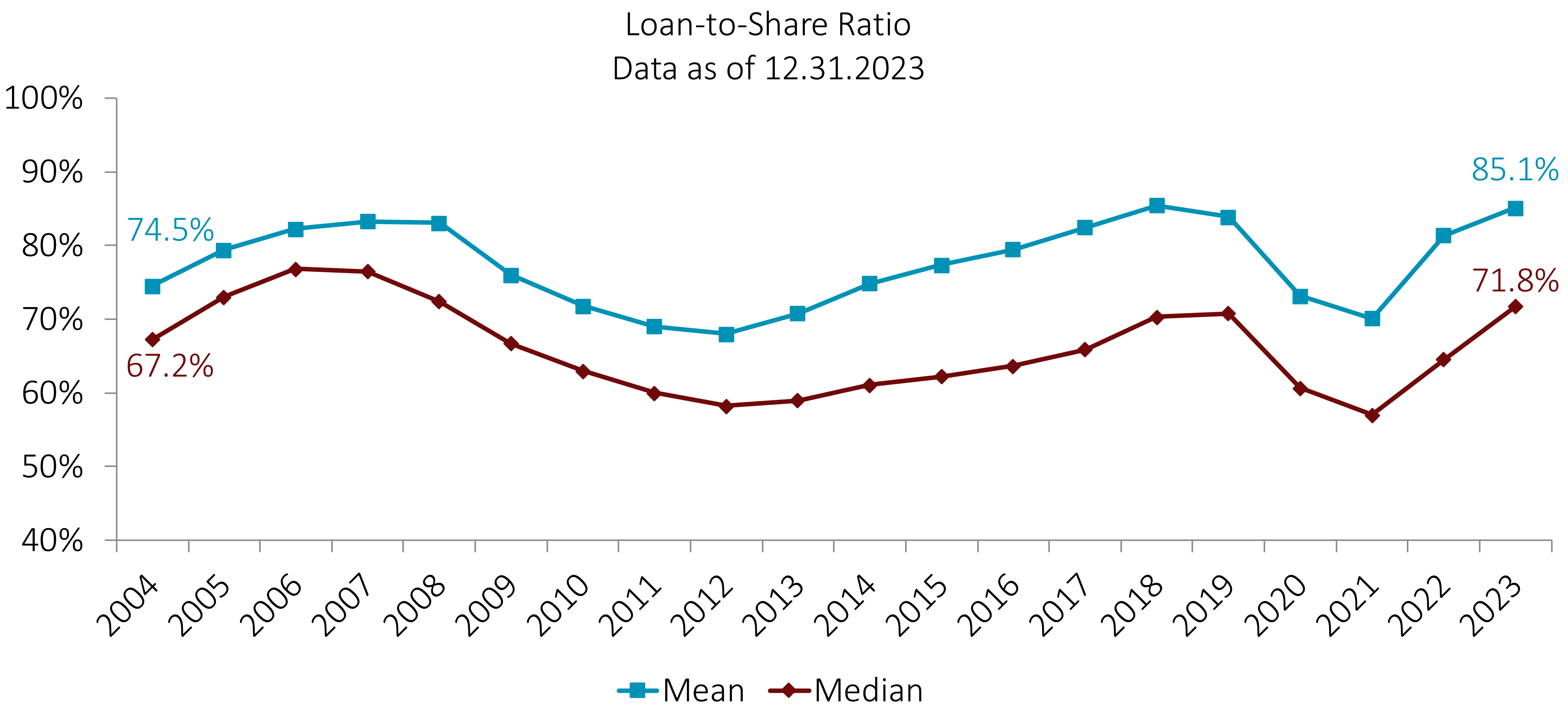
Cost of funds rose significantly in 2023



The gap between the mean and median interest expense widened in 2023 as larger credit unions paid higher funding costs

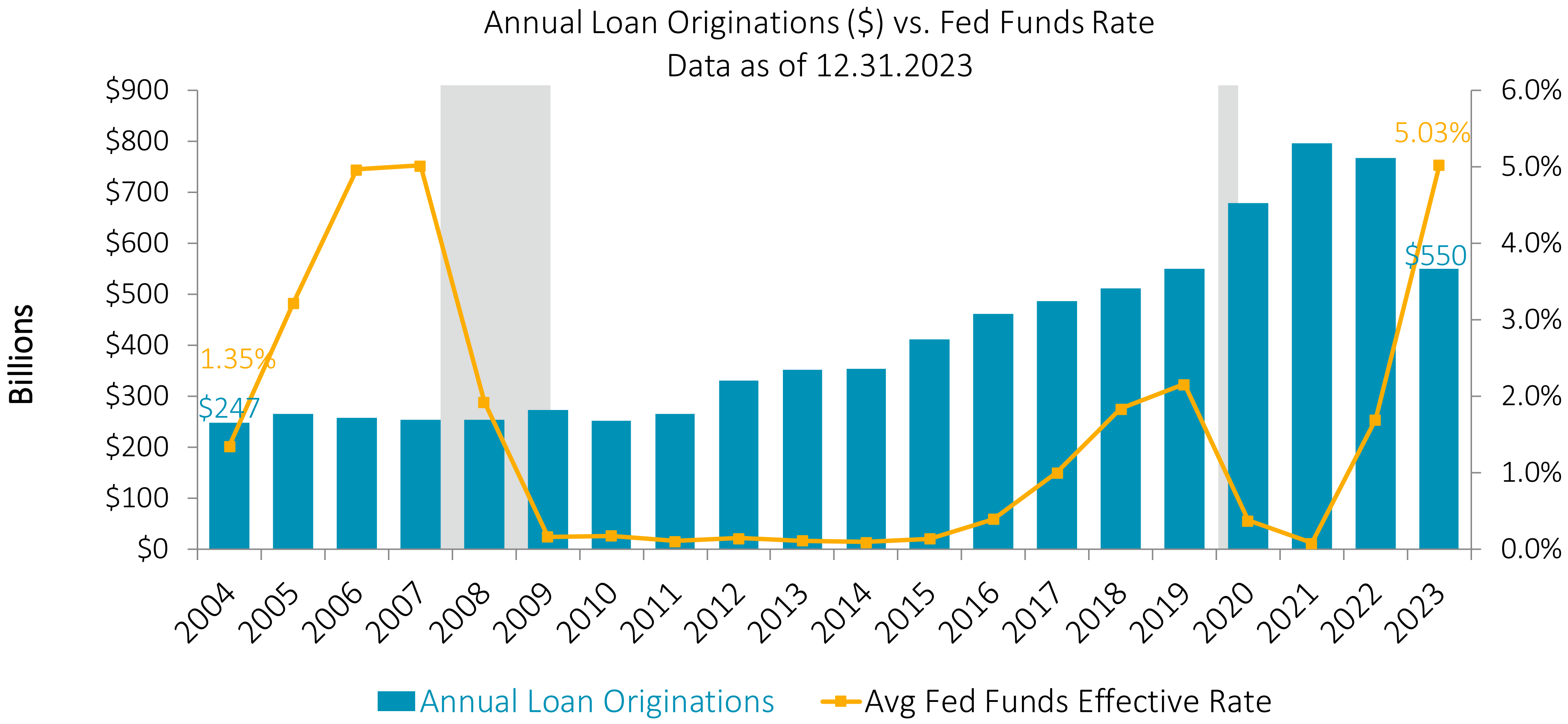


The need for funds is greater in larger credit unions, as seen in the gap between the mean and median loan-to-share ratio



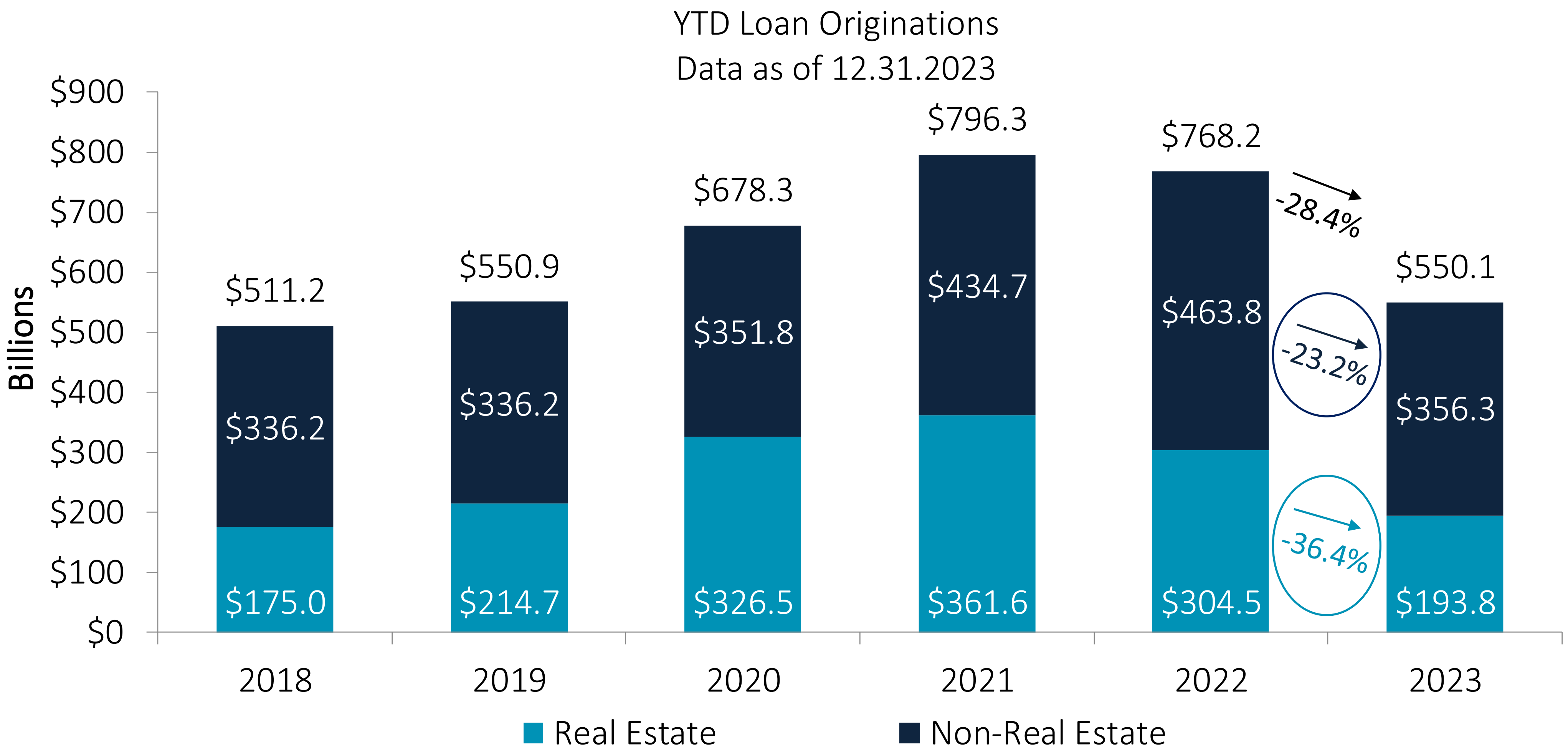
Lending

Loan originations fall to 2019 levels in 2023

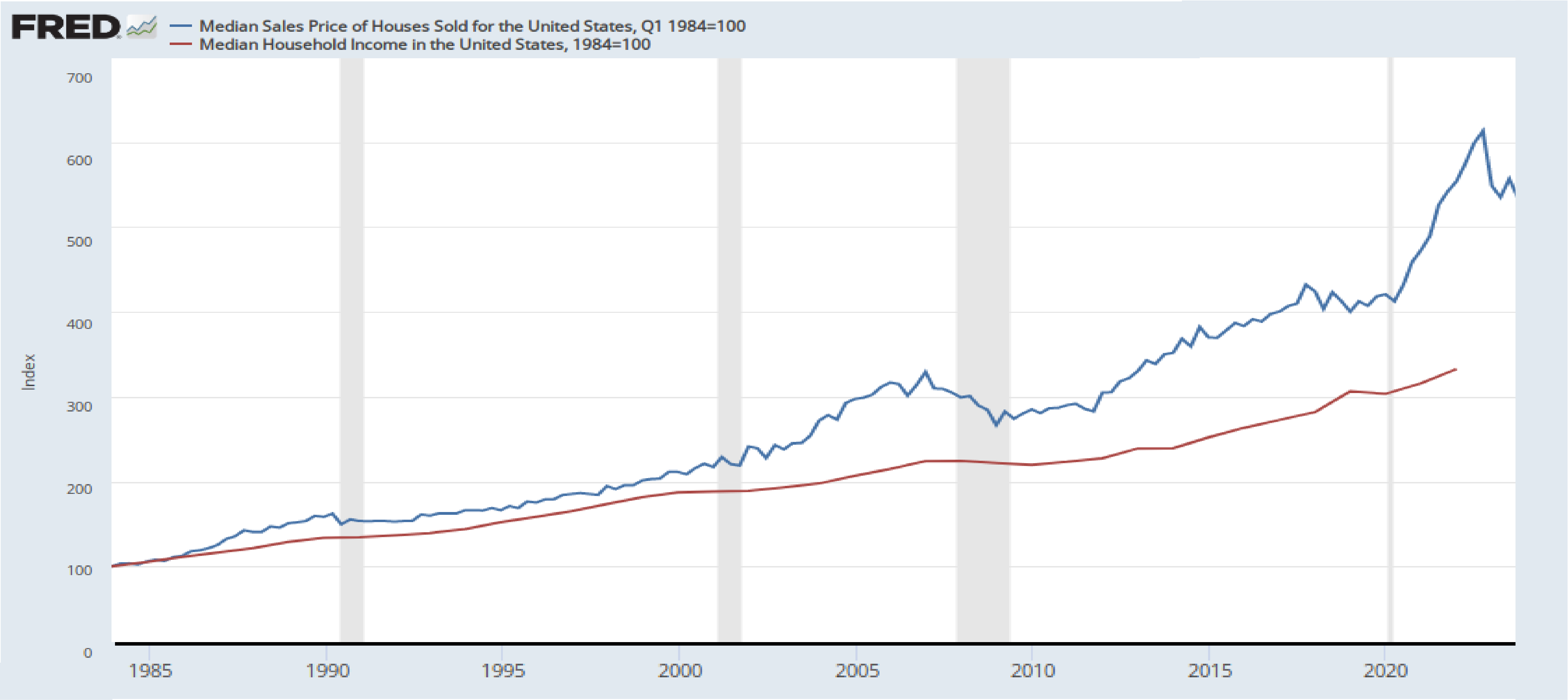


Source: FRED data

Mortgage originations decline 36.4%, below 2019 level

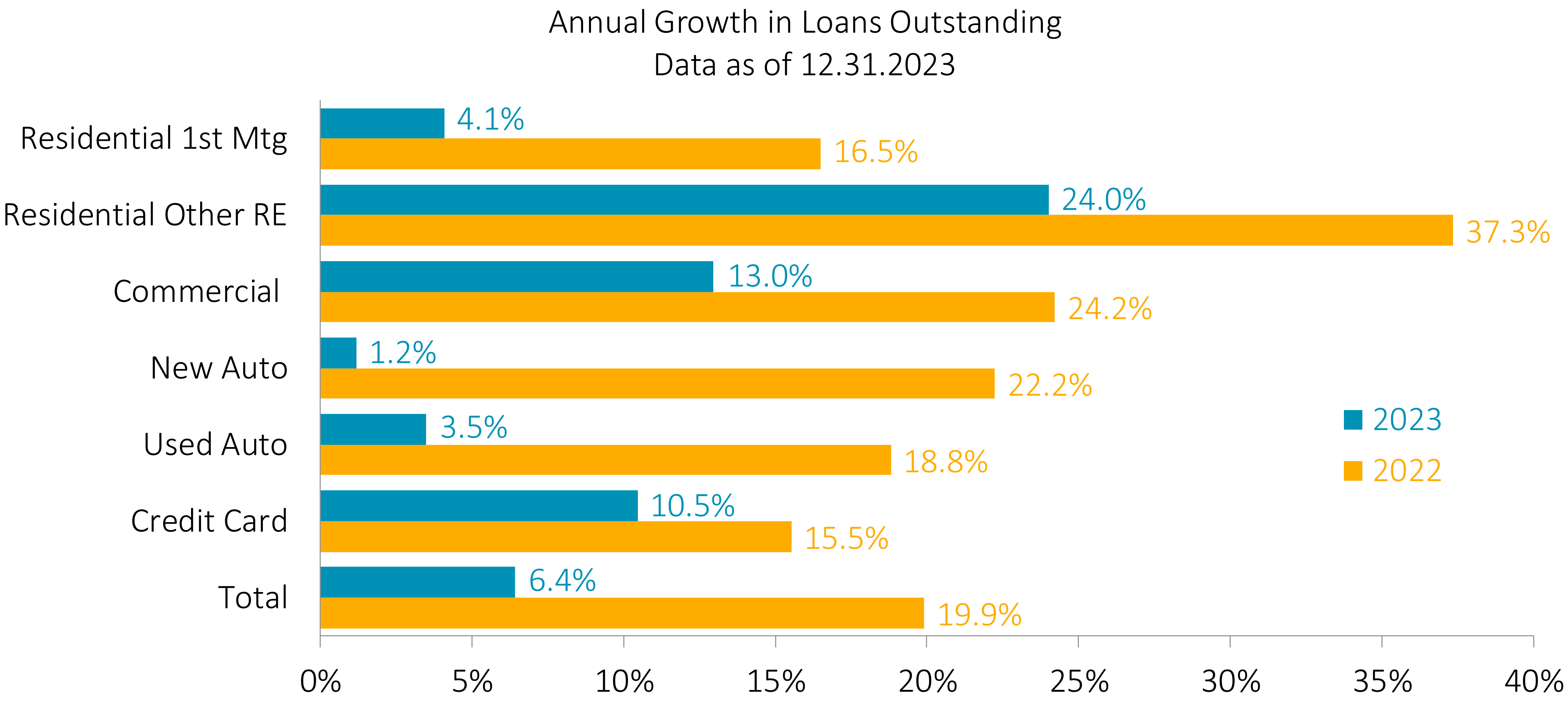


Housing affordability is a national issue

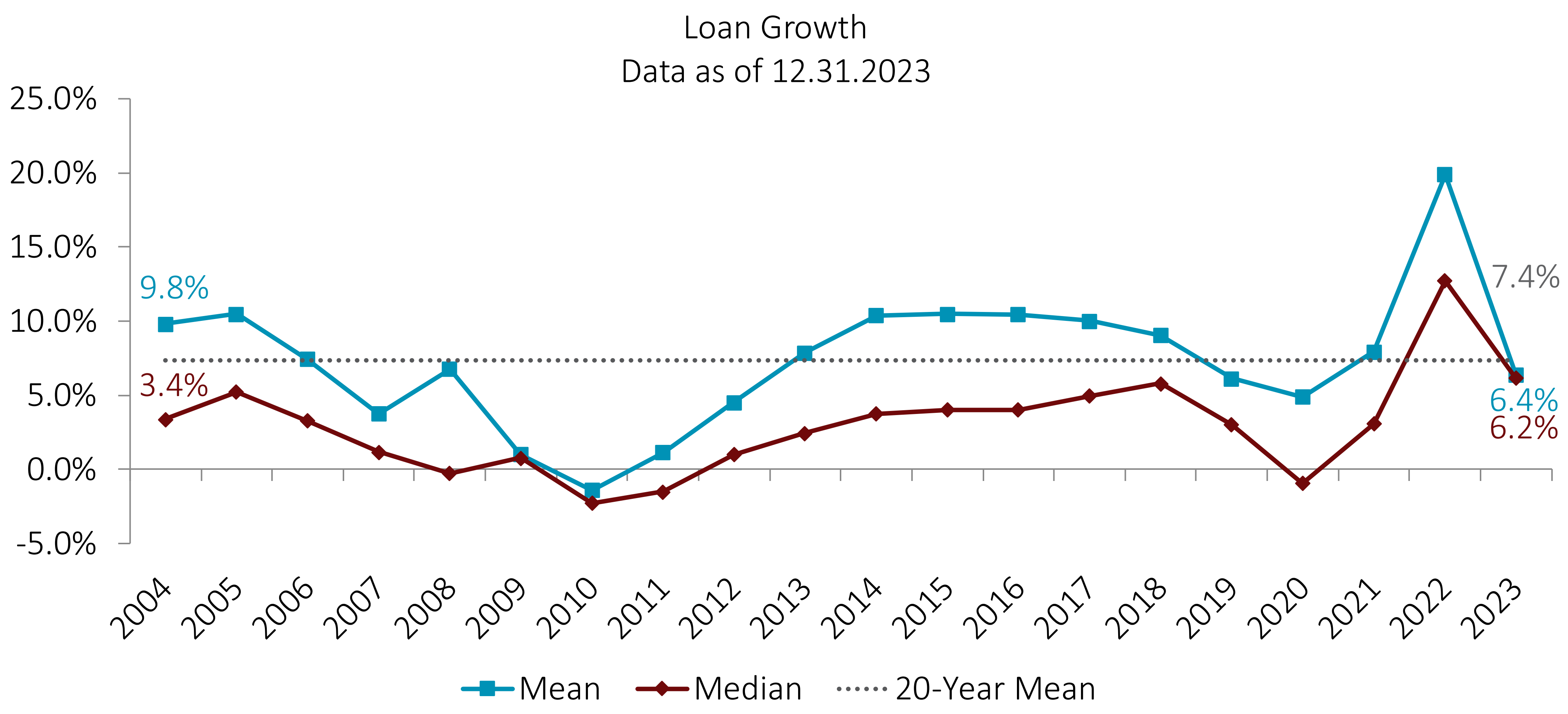


Source: Census; HUD

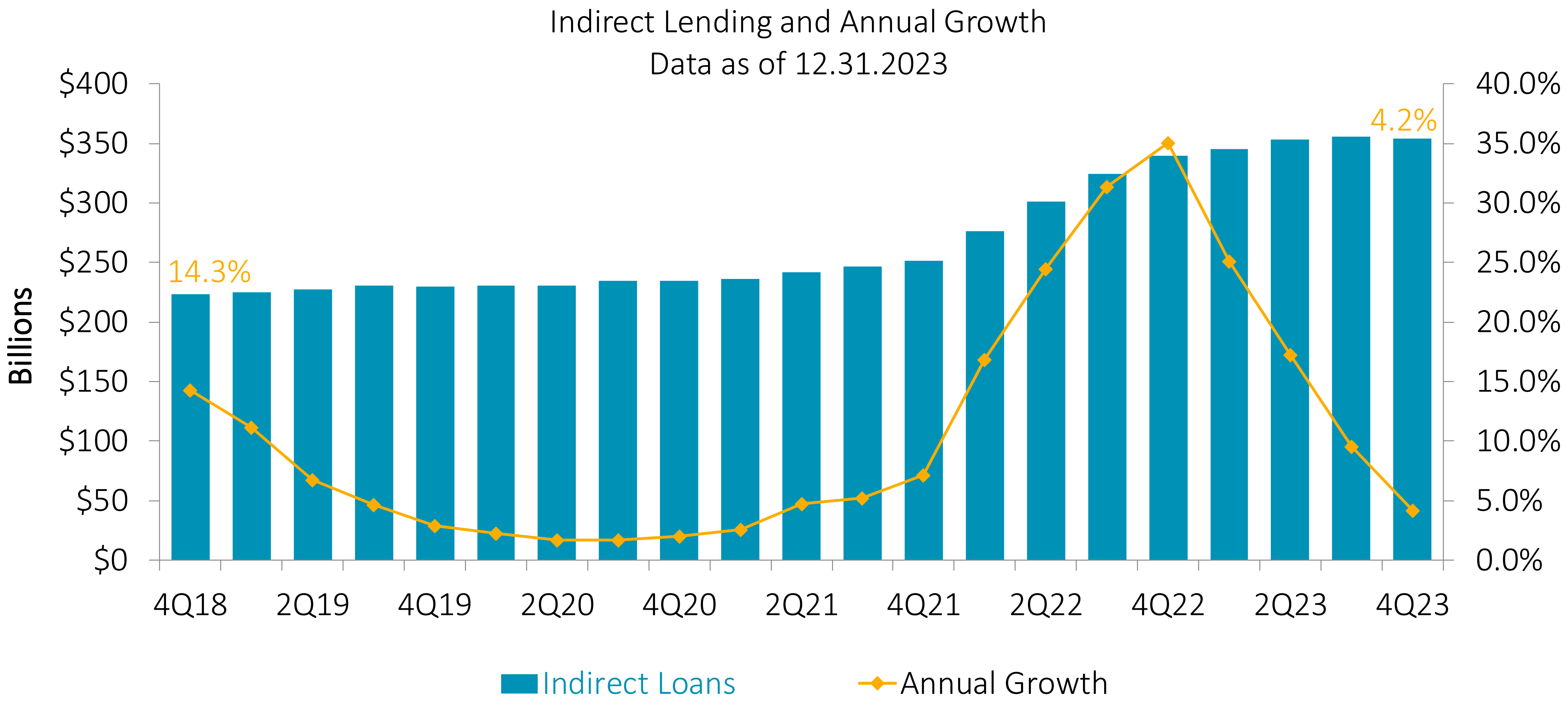
Growth slows across the loan portfolio



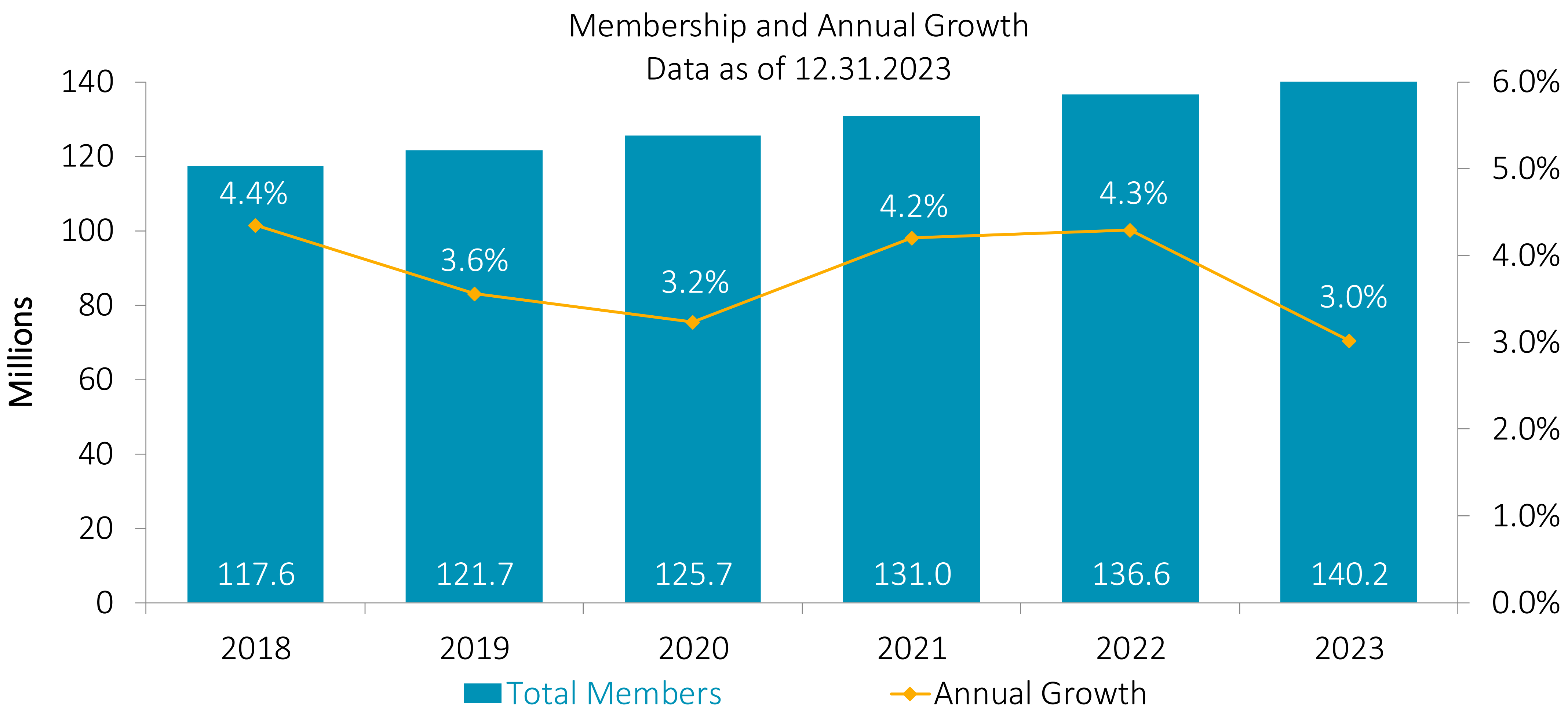
Smaller credit unions' liquidity advantage resulted in solid loan growth in 2023



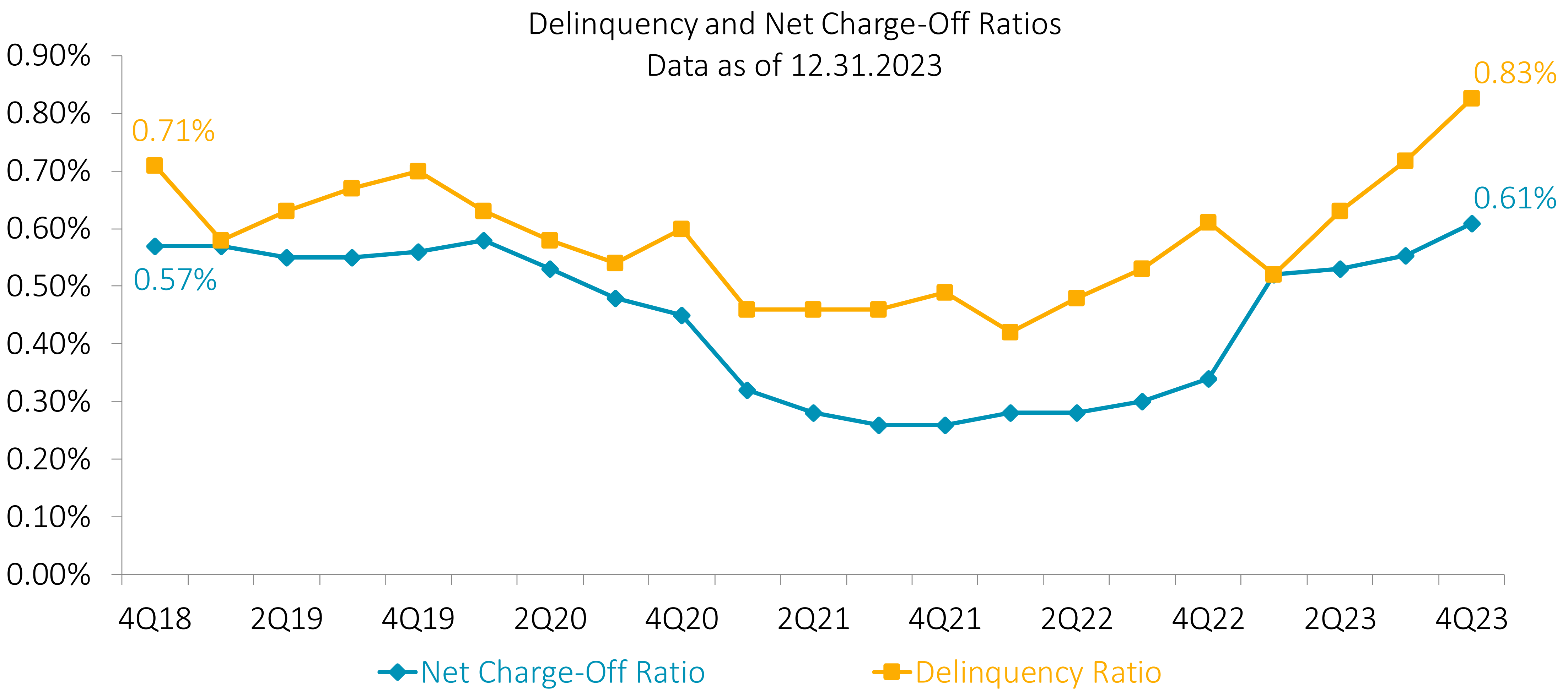
With liquidity tighter, credit unions are focusing on core members



Member growth slows in 2023



Delinquency and charge-offs return to pre-pandemic levels



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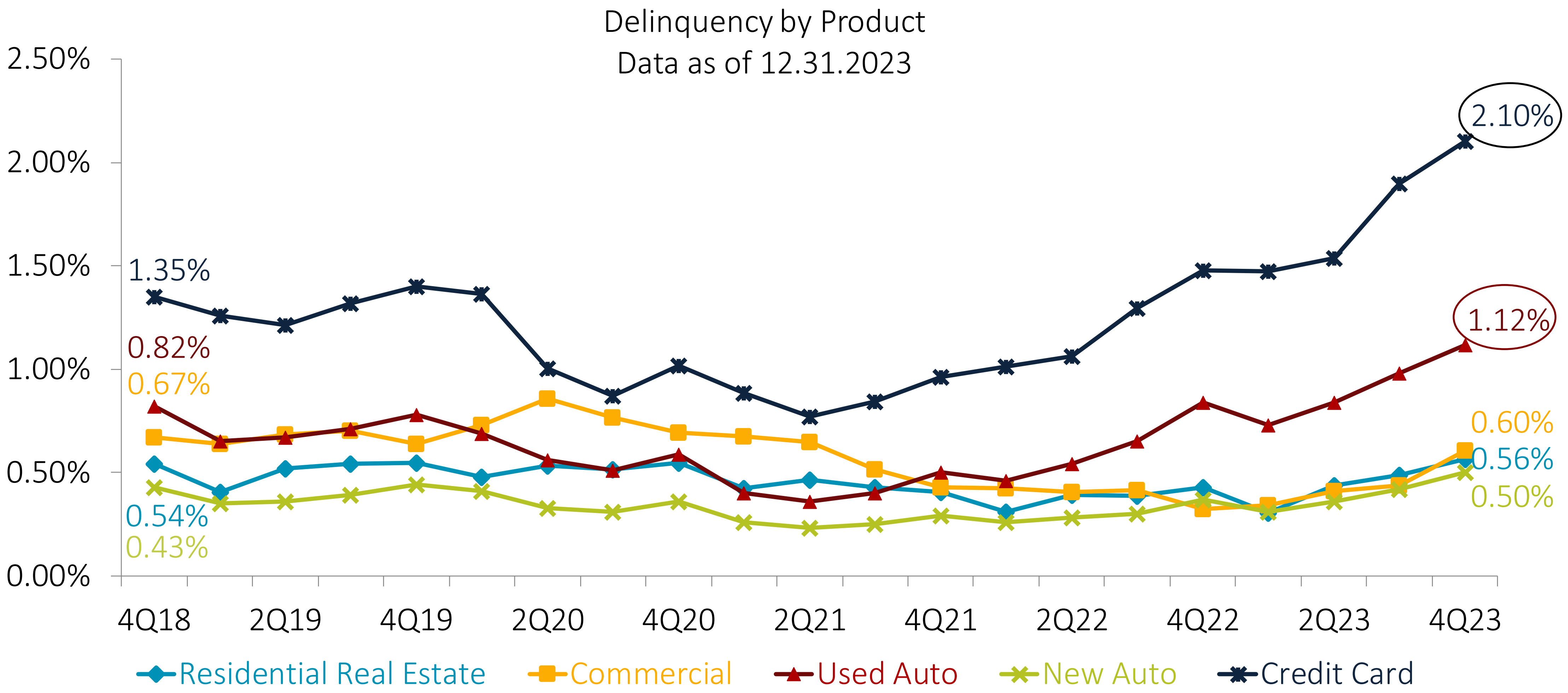
Credit card and used auto delinquency diverges from other major loan products



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FEDERAL CREDIT UNION

Kim Alexander,
Chief Strategy & Growth Officer

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Vitality Index: 2021-2023
Survey Results

Vitality Index

1. Introduction/Background
2. Survey Methodology
3. Survey Results
4. Member Pain Points/Initiatives

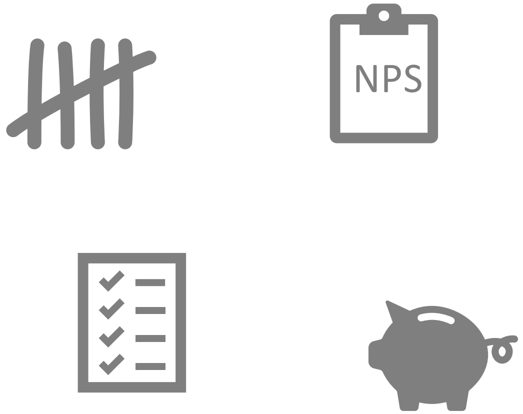
Vitality Index Introduction/Background

Introducing the Vitality Index

The **Vitality Index** measures the extent that Blue delivers on its mission for members and communities.

The Vitality Index Shifts to ***Why we Matter***

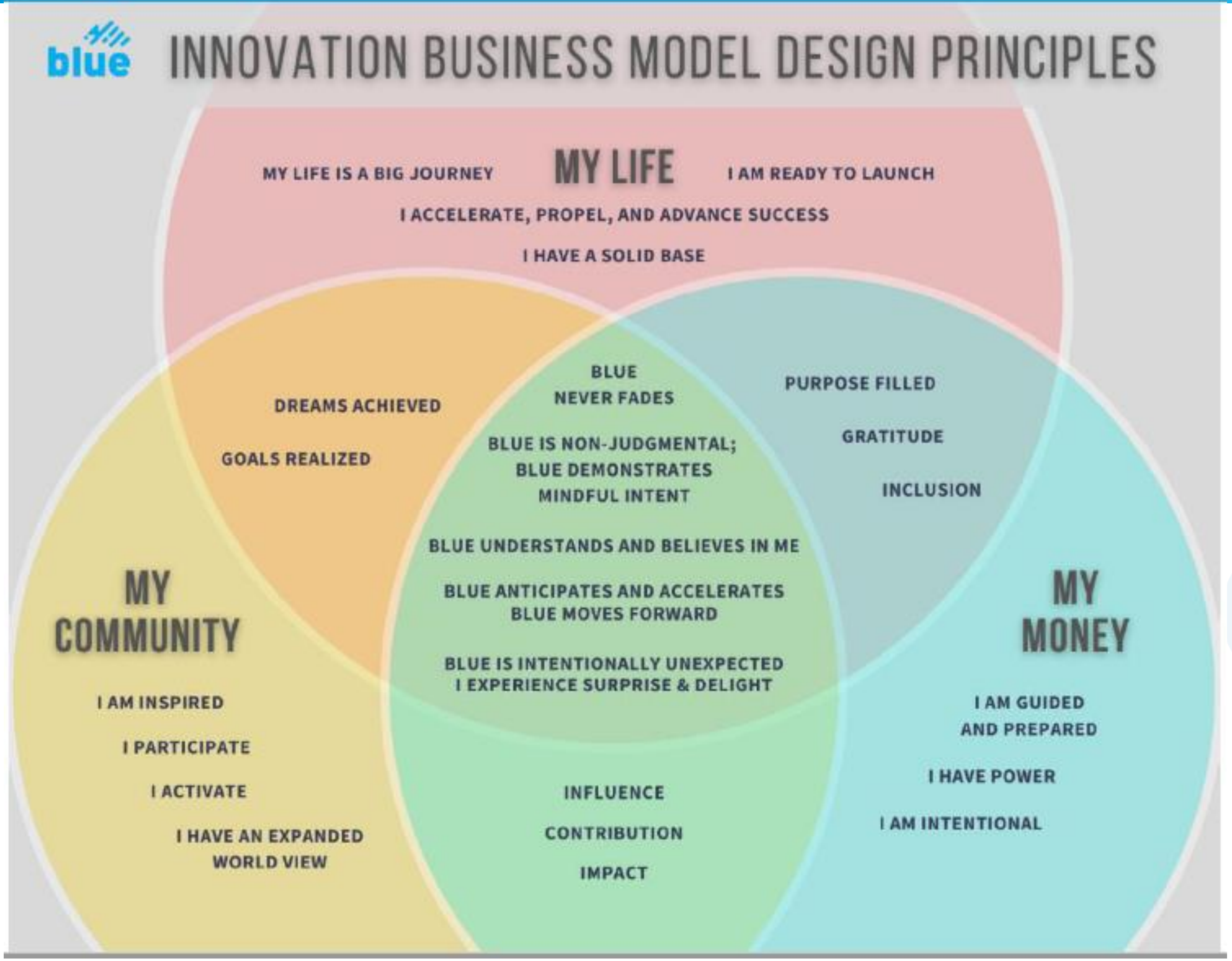
Traditional Performance Measurements



The Vitality Index

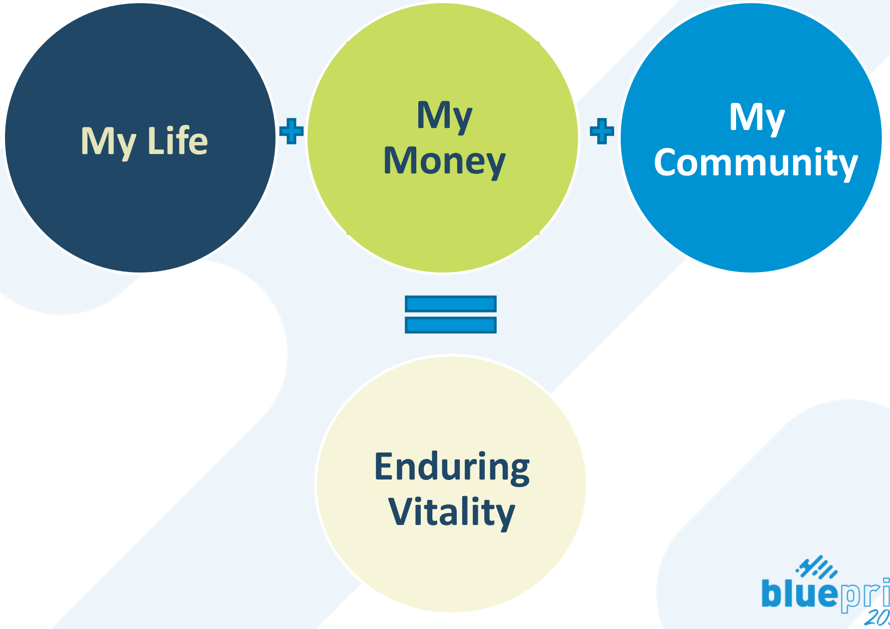
*The extent that those we serve can achieve **their** dreams and realize **their** possibilities*

Innovation Business Model



The Innovation Business Model

The Vitality Index measures ‘enduring vitality’ as the product of how well members, employees, and the communities we serve are fairing in terms of each aspect of the Innovation Business Model.



Vitality Index Survey Methodology

Vitality Index: Survey Methodology

- Blueprint 2030 is a ten (10) year vision! The Vitality Index will be measured every two years. For administrative strength in results the logistics and survey have remained under the control of Corona Insights.
  - 1st Survey – 2021. Fielded October 5th – 31st
  - 2nd Survey – 2023. Fielded April 12th – May 7th
  - Logistics of the surveys' administration were kept as similar as possible across fieldings.

- Concurrent surveys of members and a sample of non-member residents living in Blue's service area were conducted simultaneously.

- Survey fielding results
  - 2021 - 890 members and 1,119 non-members
  - 2023 - 1,310 members and 1,244 non-members

blueprint 2030

Calculating The Vitality Index

My Life × **My Money** × **My Community** = **Vitality Index**

My Life	My Money	My Community
Housing	Savings	Engagement
Education	Emergency Expense	Relationships
Health & Wellness	Financial Decision-Making	Impact
SWLS*	CFPB Financial Well-Being Scale**	SCI***
Satisfaction	Satisfaction	Satisfaction

*SWLS Satisfaction with Life Scale

** CFPB Financial Well-Being Scale

*** Sense of Community Index

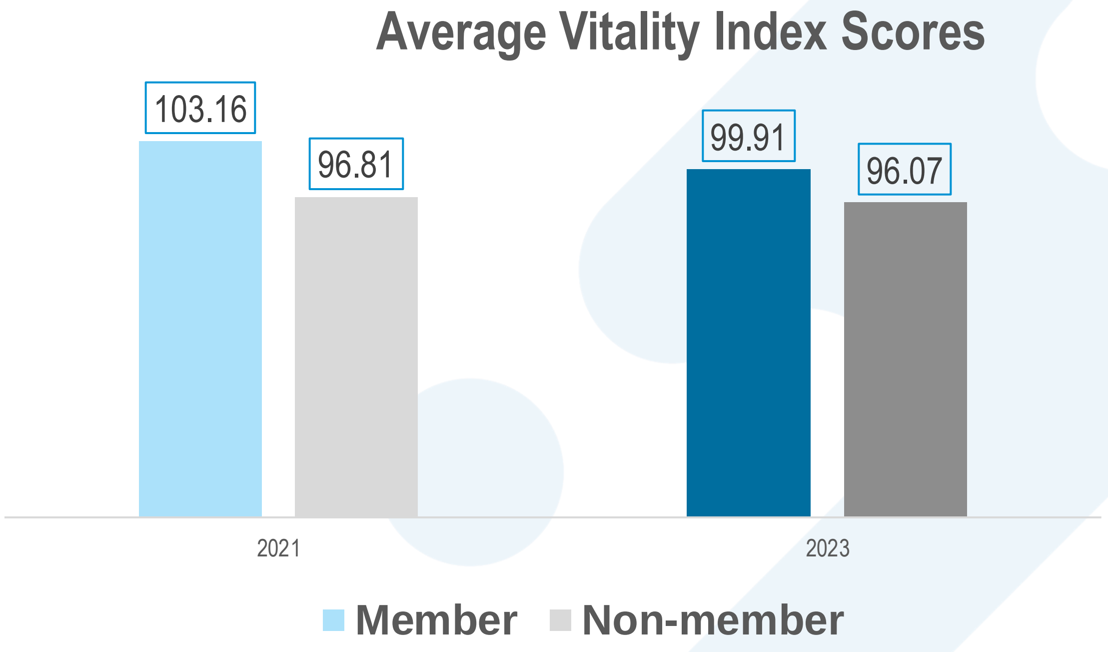
Vitality Index Survey Results

blueprint 2030

Vitality Index 2021-2023:

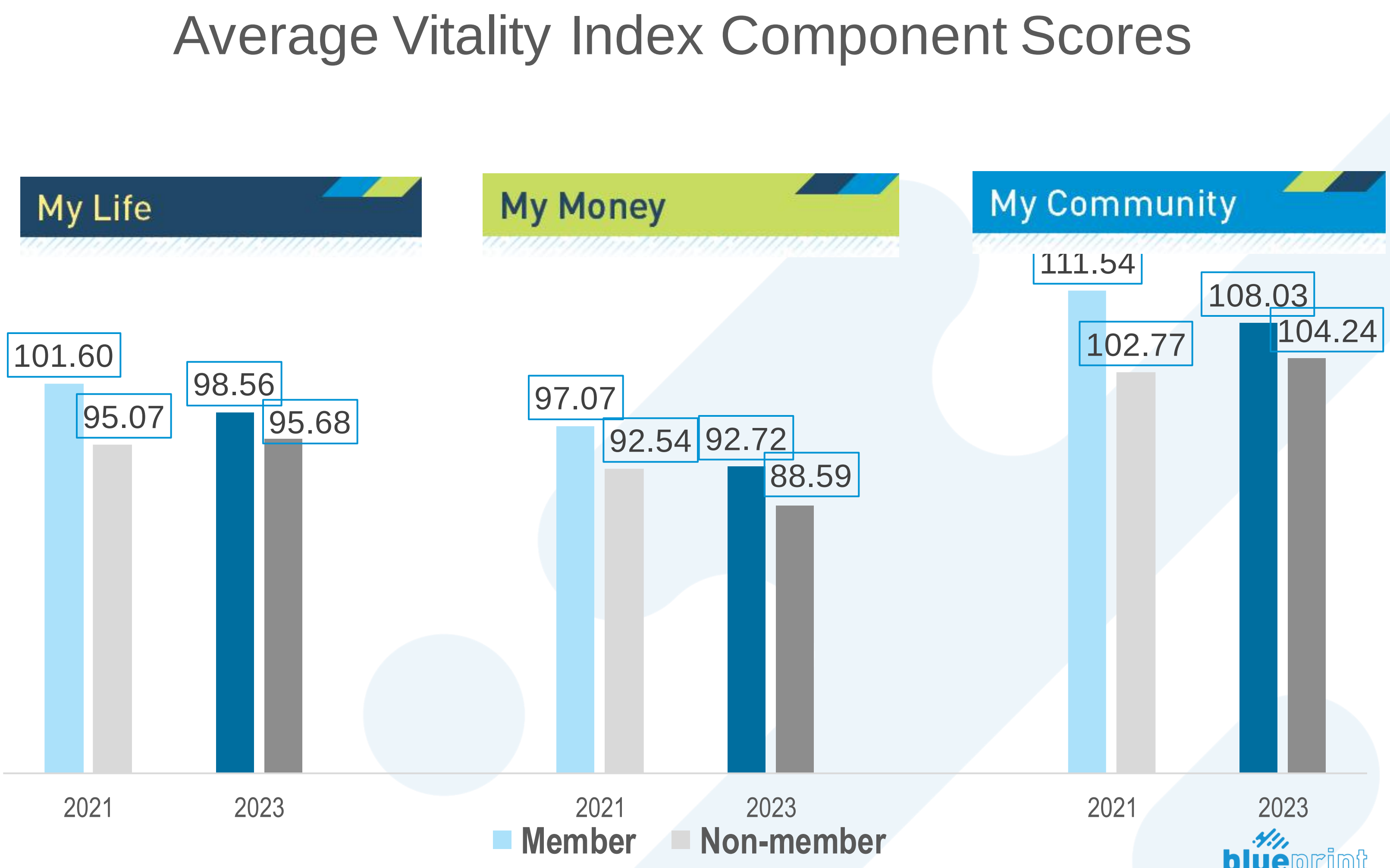
Topline Results

- Like in 2021, Blue members had higher average Vitality Index scores than non-members living in Blue's service area in 2023.
- The average Vitality Index score decreased for both members and non-members from 2021 to 2023.
- Members decreased from an average score of 103.16 in 2021 to 99.91 in 2023. This decrease was statistically significant.
- While the average score for non-members in Blue's service area decreased from 96.81 to 96.07, this difference was not statistically significant.
- The overall decrease for Vitality scores was observed across the distribution of Blue's members (seen on the next slide).



Vitality Index 2021-2023: Topline Results

- Like in 2021, Blue members had higher average My Life, My Money, and My Community scores than non-members living in Blue's service area in 2023.
- The average member scores for My Life, My Money, and My Community decreased from 2021 to 2023. All of these decreases were statistically significant.
- While non-member scores for My Life and My Community increased from 2021 to 2023, these differences were not statistically significant. However, the average non-member My Money score's decrease from 2021 to 2023 was statistically significant.



Vitality Index 2023: Average Member Scores

My Life		My Money		My Community	
Housing	90.35 ↓	Savings	94.98 ↓	Engagement	109.56 ↓
Education	93.87 ↓	Emergency Expense	78.55	Relationships	110.49 ↓
Health/Wellness	101.05 ↓	Financial Decision Making	93.93 ↓	Impact	112.50 ↓
Satisfaction With Life Score	109.18	CFPB Financial Well-Being Score	101.23 ↓	Sense of Community Score	107.72
My Life Satisfaction	94.44	My Money Satisfaction	91.42 ↓	My Community Satisfaction	98.76

↓ Indicates a statistically significant decrease (increase ↑) in average member score from 2021 to 2023

Vitality Index
Member Pain Points
&
Credit Union Initiatives

Member Pain Points in 2023 Compared to 2021

My Life

- They are spending more of their income on housing
- They are less certain they will be able to meet their housing needs in the future
- They are less certain that they will be able to receive, enough education and training to meet all their needs in the future
- They reported lower levels of health and wellness

My Money

- They reported spending more and saving less on average
- They were less certain that they would be able to save enough money for their future needs
- They were less certain they could comfortably address a financial emergency in the future
- They reported lower average knowledge and efficacy in making financial decisions
- They were more likely to say they felt behind on their finances

My Community

- They were less certain they could make new relationships in their community
- They were less likely to say they could start/run a business or nonprofit if they wanted to
- They were less likely to say they could be a leader in their community
- They reported making an effort to positively impact their community less frequently

Resulting Initiatives for Phase II

My Life	My Money	My Community
• Financial Education • Member Onboarding • Employer of Choice	• NOVA Champions • NOVA Jr. Champions • Lending • Digital Branch • CUSO Opportunities	• Blue Foundation (Boost Center) • Community Connections • Partnerships

blueprint 2030

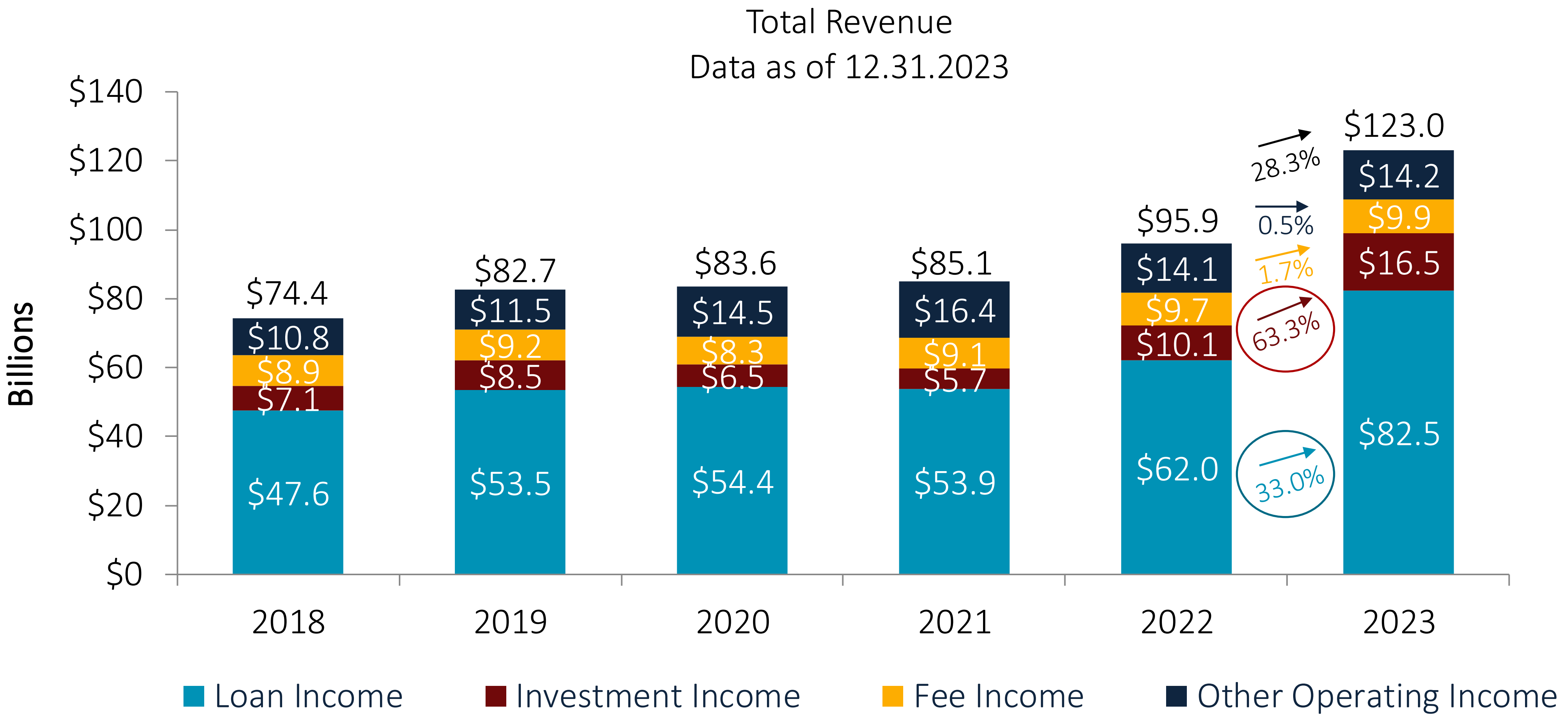
Thank You

Questions?

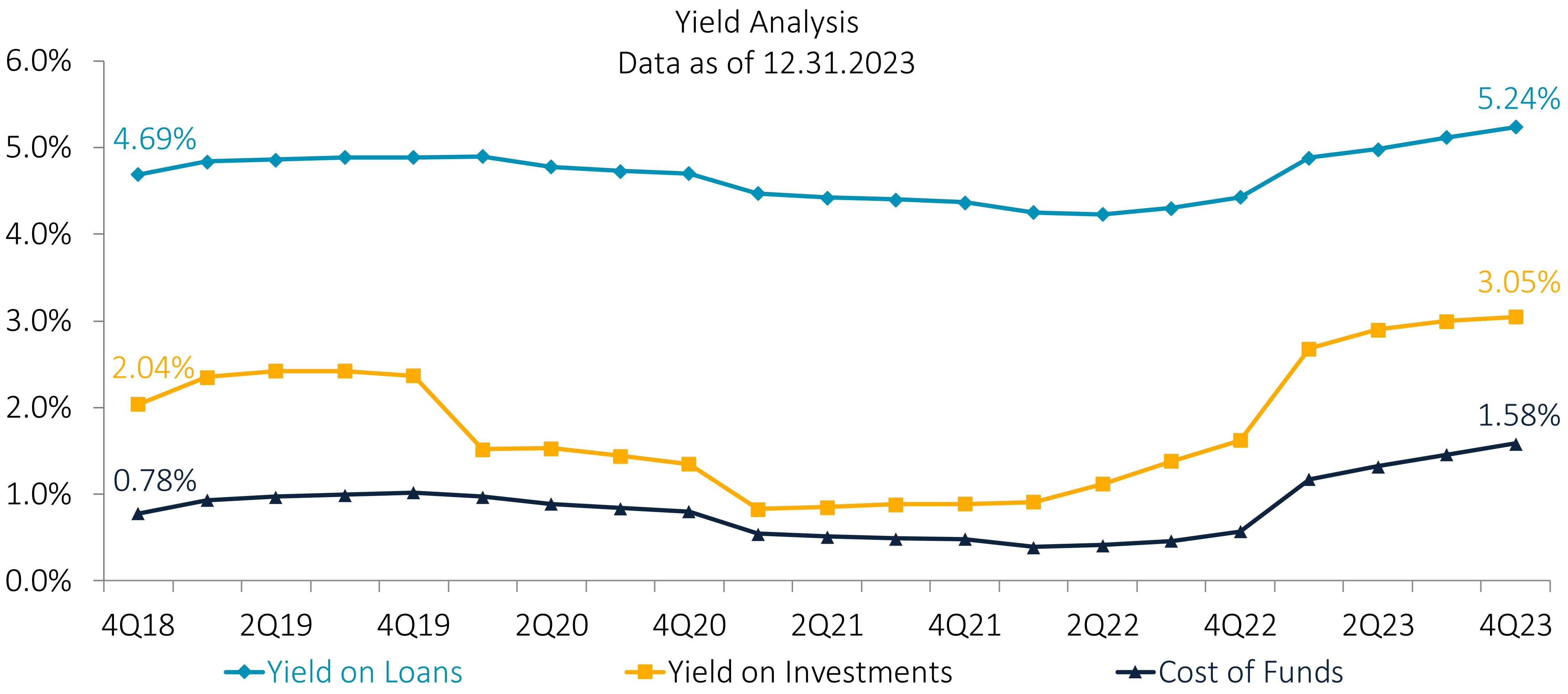
blueprint 2030

Earnings & Capital

Loan and investment portfolios continue to reprice, driving strong revenue growth; non-interest income rises 1.2%



Both asset yields and funding costs are rising



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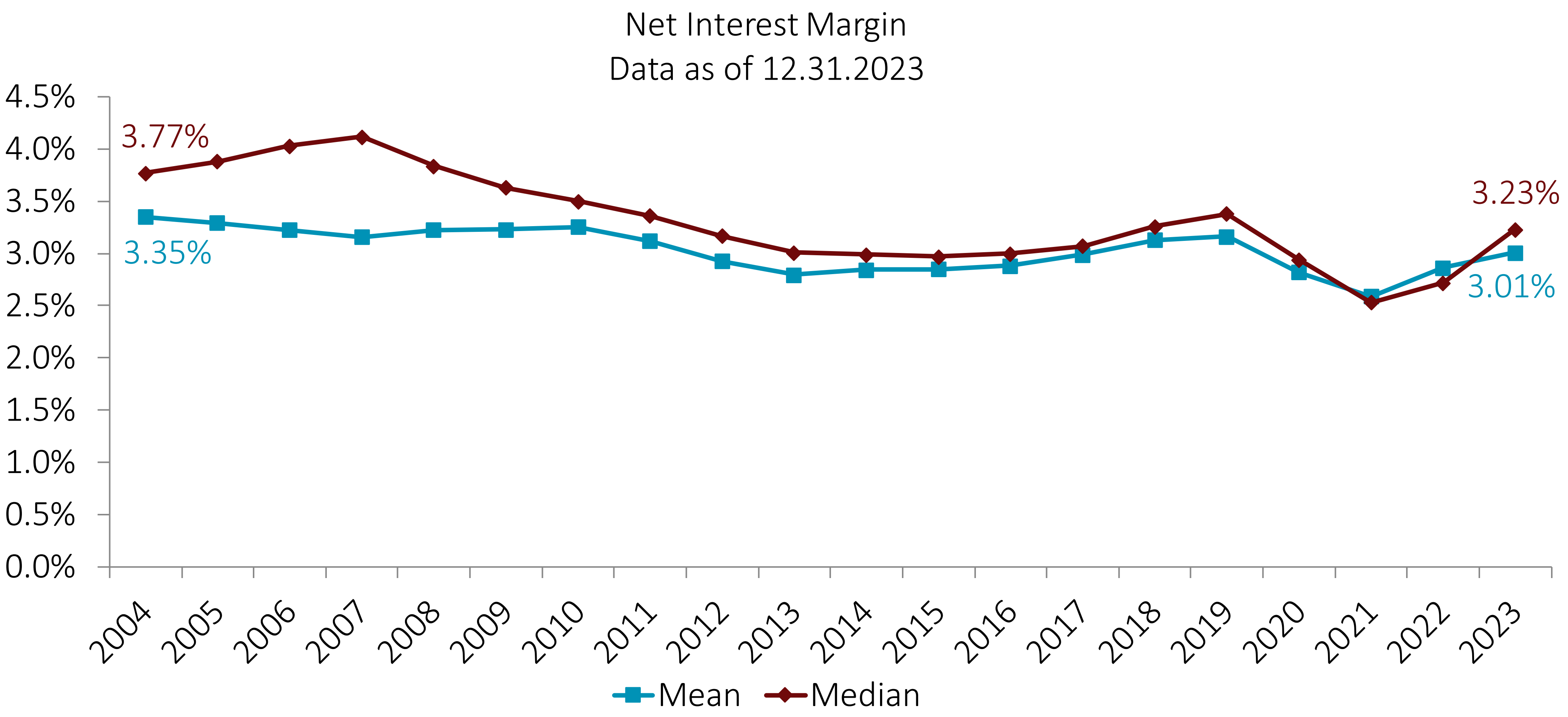
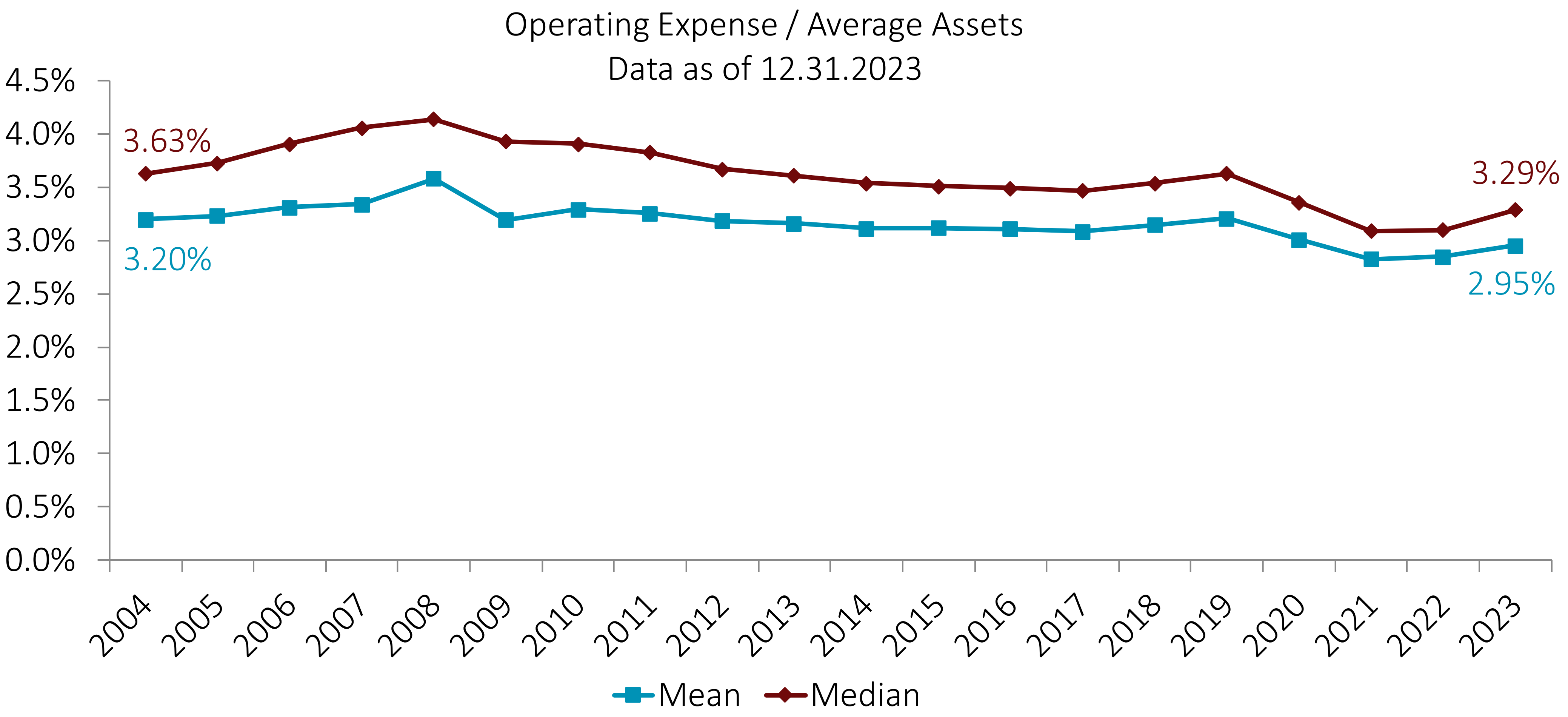
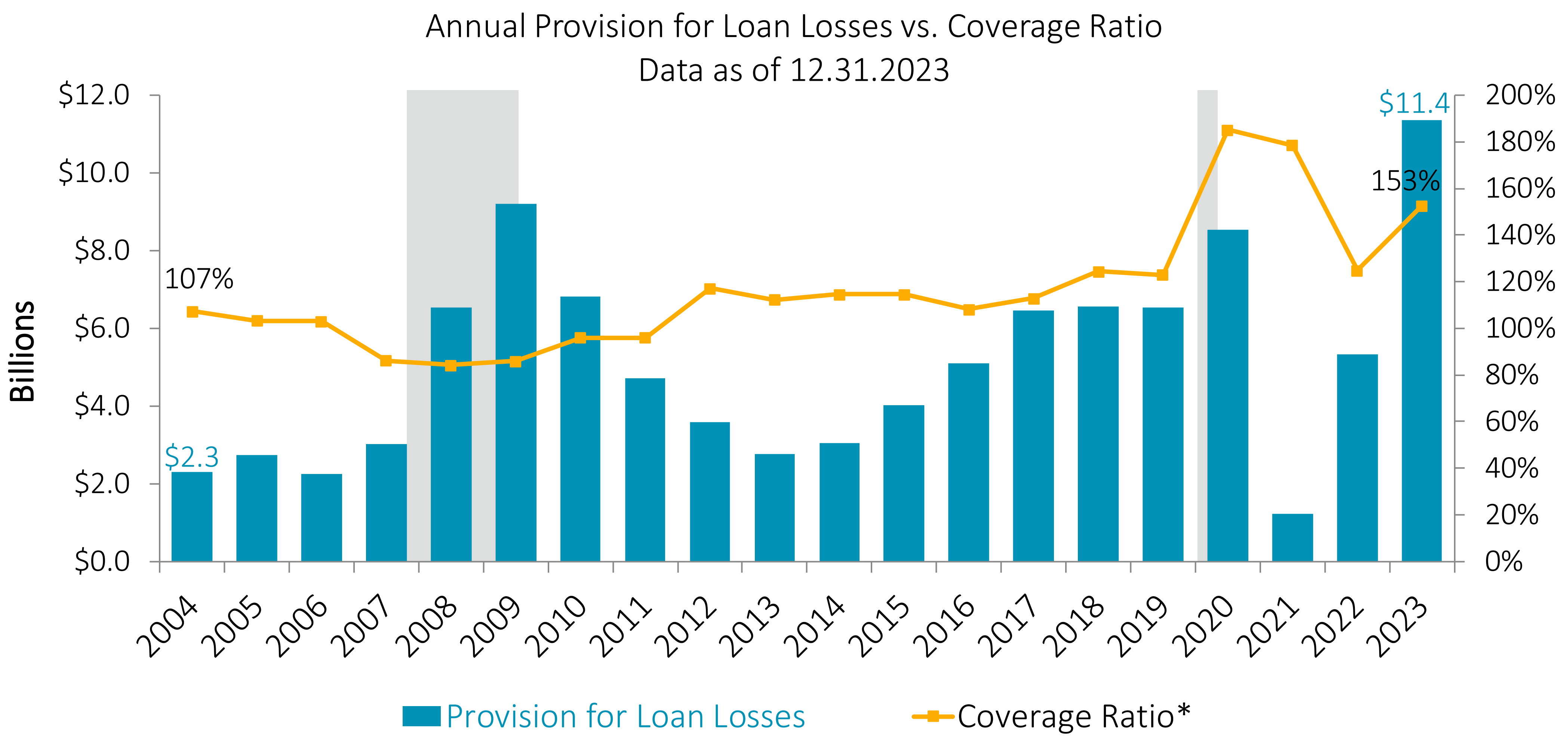
Net interest margin is moving higher after reaching historic lows in 2021



Operating expense ratio is also rising but remains low historically

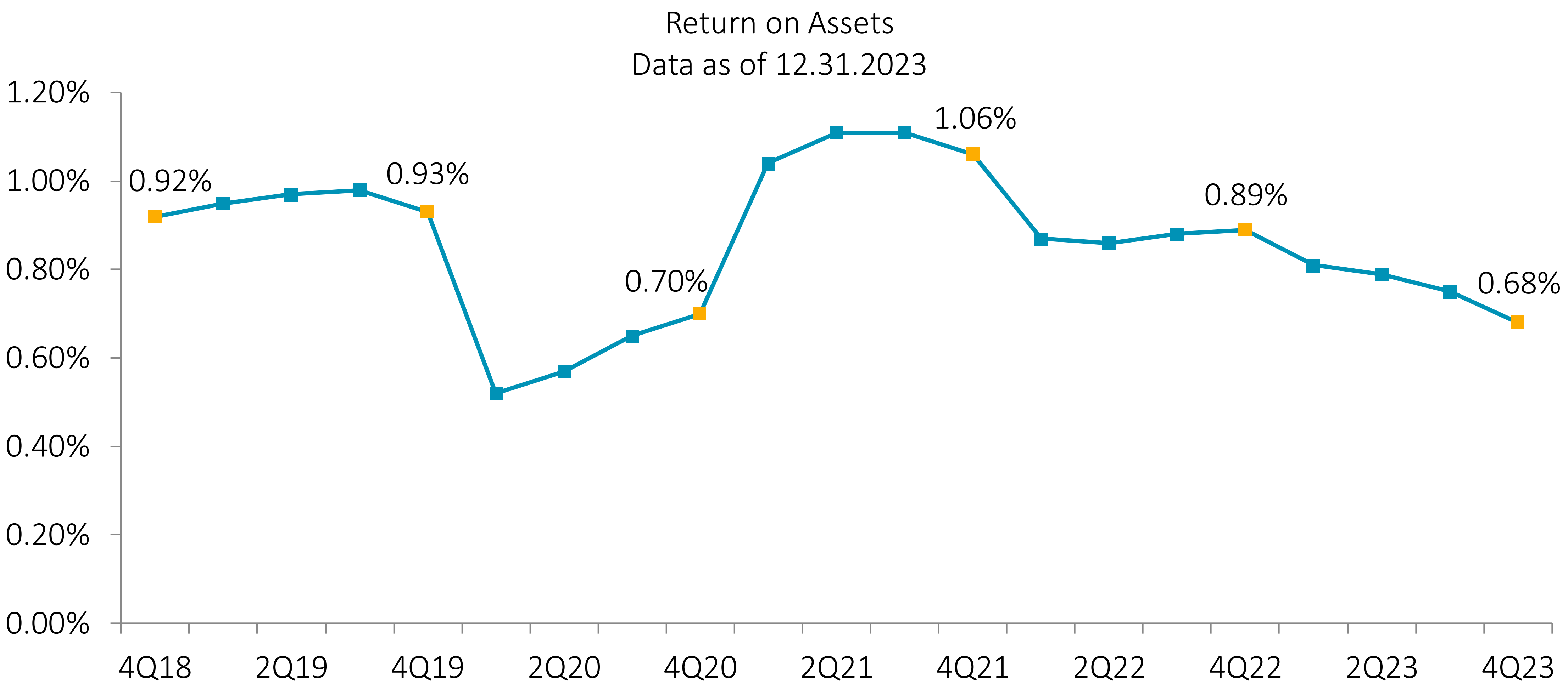


Provision expenses jump due in part to CECL; Potential loan losses are well-covered by reserves

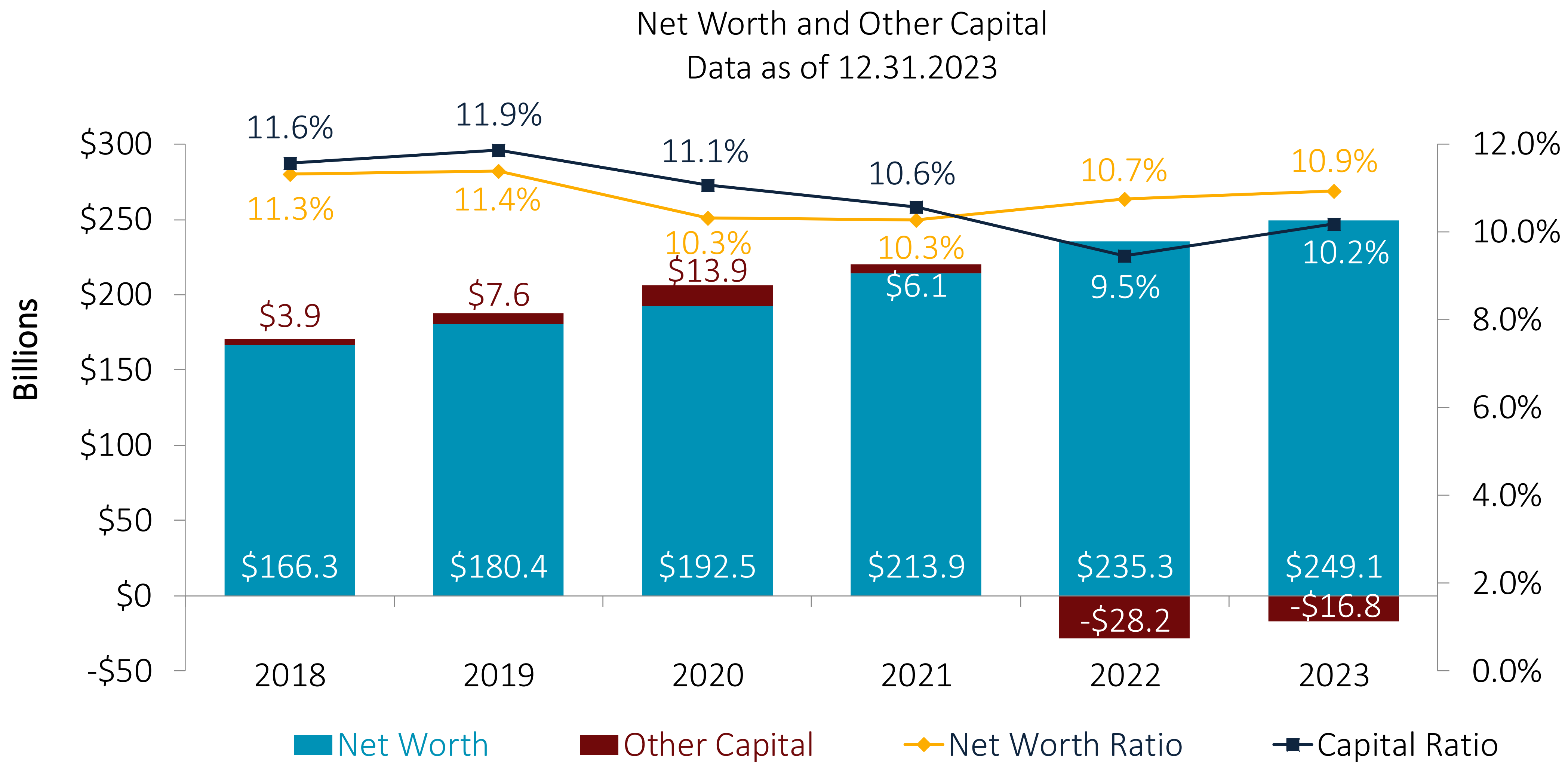


*Allowance for Loan & Lease Losses / Delinquent Loans

ROA is lower in 2023 as higher operating and provision expenses offset wider net interest margin



Capital ratio improves 70 basis points



Takeaways and Closing Thoughts

- 2024 will likely be another slow-growth year as credit unions manage liquidity and margins, pressure on non-interest income, the credit cycle, and increased fraud.

- Many member households aren’t feeling great about their financial situation. They need hope!

- “Success” is different in this environment. It is not as much about traditional performance measures such as growth and earnings. It is more about member and community impact – the reason credit unions exist!

- Strategic trade-offs will likely need to be considered. Credit unions can take the long view…look at the environment with a telescope more than a microscope.