



TRENDWATCH 3Q20



November 10, 2020

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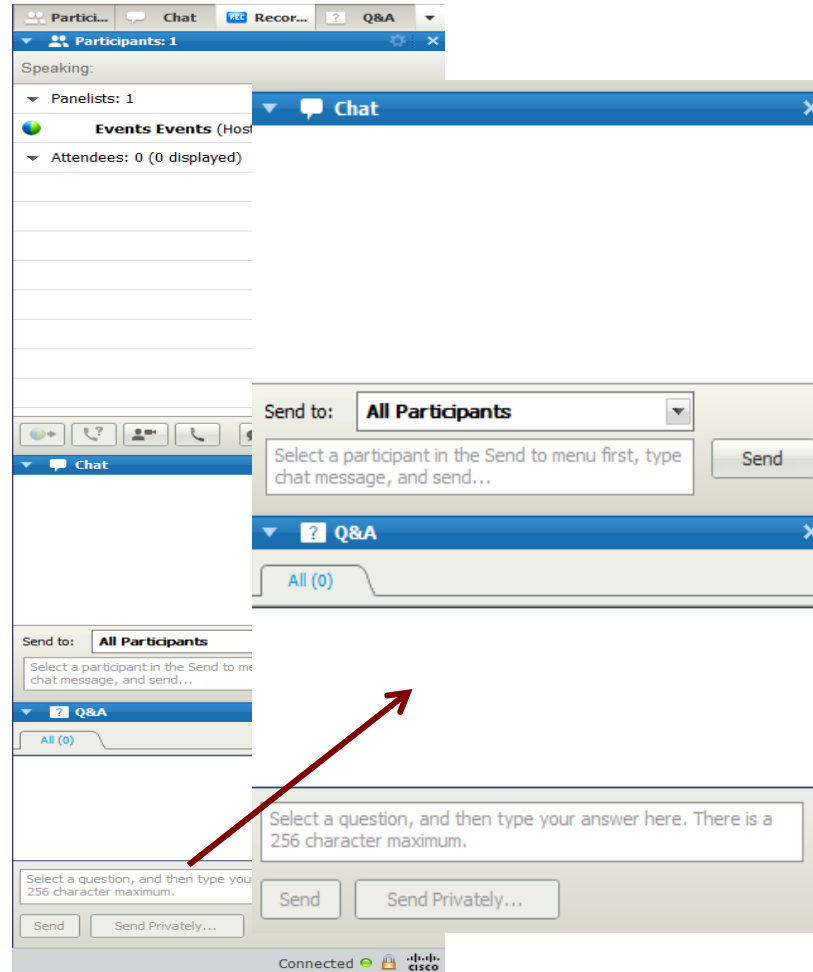
To help you follow along with TrendWatch, earlier today we sent the presentation slides for the event to the email address you used to register for TrendWatch. We will also send you a copy of slides after the event.

Slide Link

Today's slides can be found online at:

<http://bit.ly/3Q-2020>

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Are You Seeking Competitive Investment Options?

<i>Fund Name</i>	<i>30-Day Yield*</i>
Ultra-Short Duration Portfolio	0.41
Short Duration Portfolio	0.93

To learn more about how the TCU Portfolios may fit within your credit union's overall investment portfolio, contact **TCUGroup@callahan.com** or visit **www.trustcu.com**

*The yields reflect the 30-day Effective Yield (net of fees/expenses) as of November 6, 2020

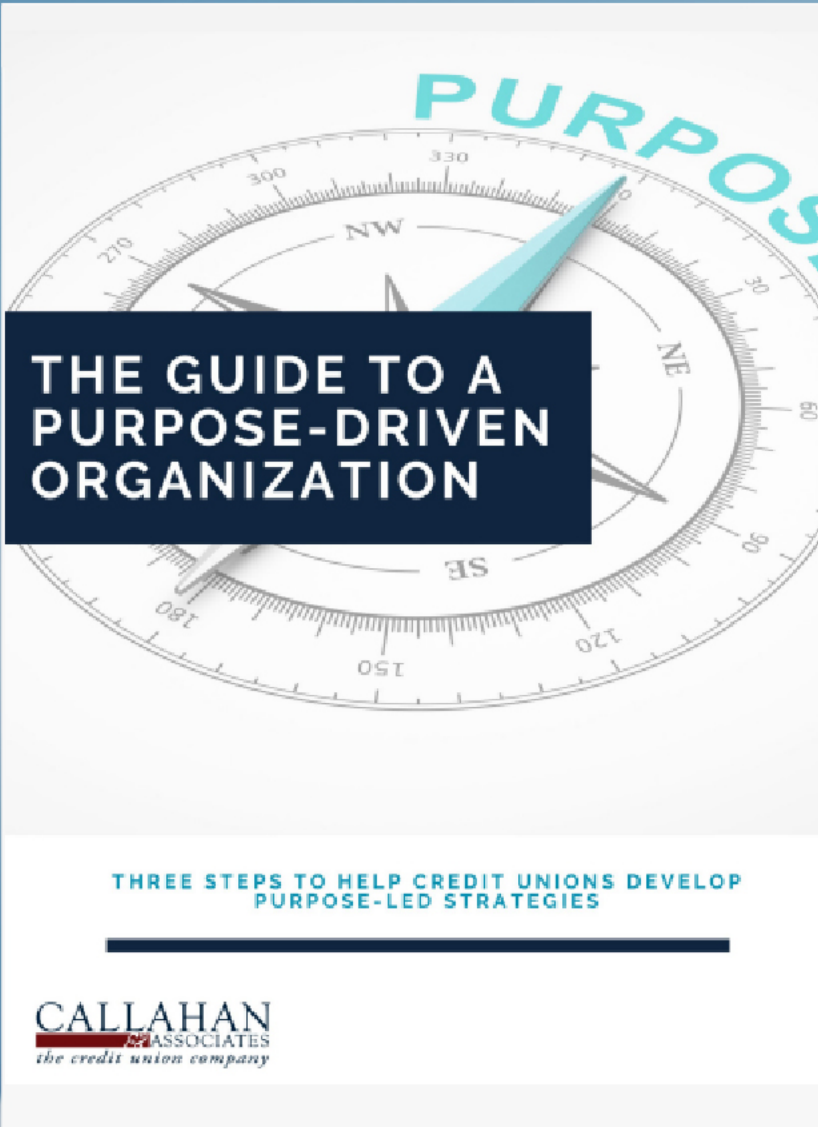
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Free Download:

The Guide To A Purpose-Driven Organization

Learn three steps credit unions can take to start the discussion of purpose at their organization.

Callahan.com/purpose-guide

Today's Lineup

Market Update

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

3Q 2020 Credit Union Results

Jon Jeffreys, President & CEO, Callahan & Associates

Jay Johnson, Chief Collaboration Officer, Callahan & Associates

Employee Benefit Spotlight

Heather Savage, SVP of Human Resources, Arkansas FCU



3Q20 Credit Union Results

- Share balance growth and mortgage lending continue to thrive, though have slowed from a record quarter in 2Q
- Liquidity remains high and margins are tightening as yields fall
- The industry is posting solid results, and member engagement is strong. Credit unions are positioning their balance sheets for potential headwinds in 2021



Callahan Quarterly Trendwatch | November 10, 2020

ALM FIRST MARKET UPDATE

Speaker



Jason Haley
Chief Investment Officer

Economic & Market Themes

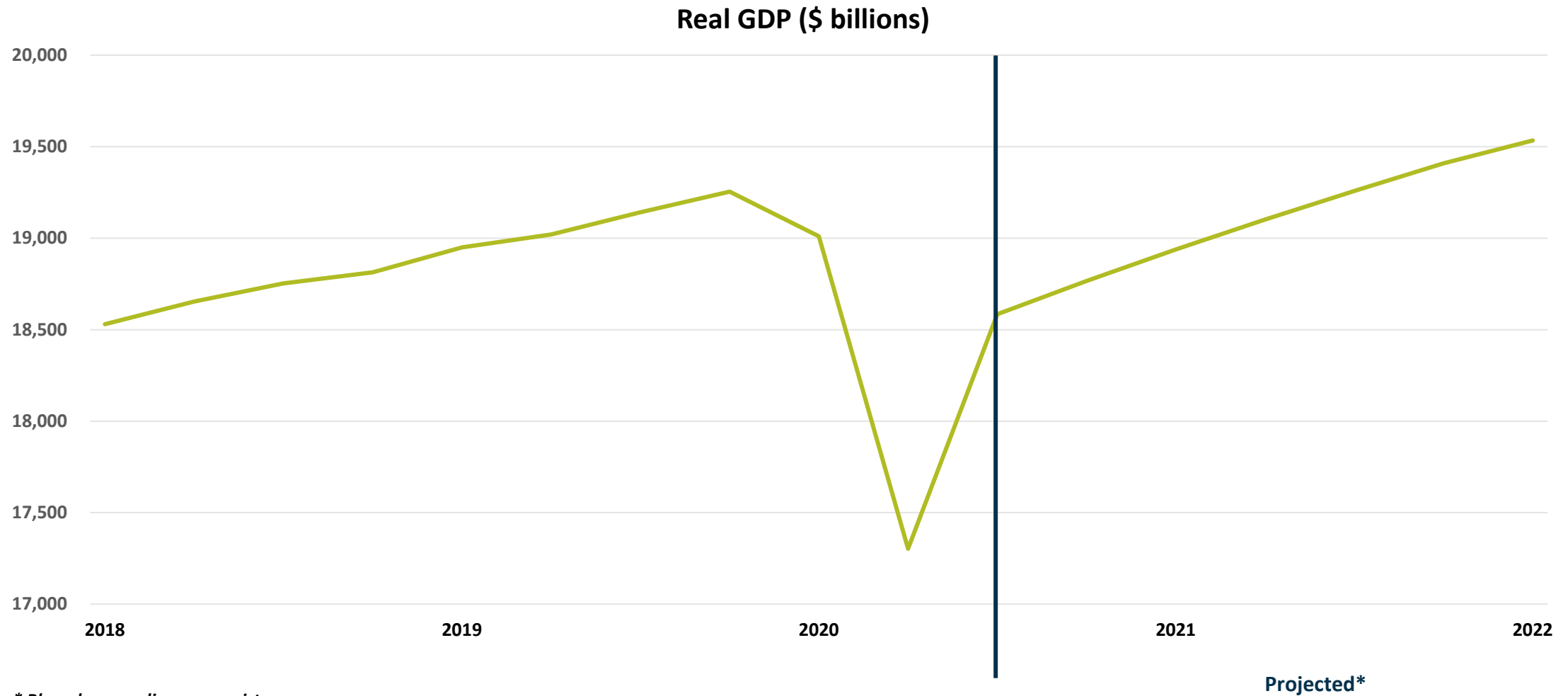
- **Election results and Covid vaccines**

- Financial markets reacted last week to higher probability of Biden presidency and Republican majority in the Senate (will depend on results of GA runoffs in January)
 - Both stocks and Treasuries rallied on perceived impact on fiscal policy, regulations, etc.
- Major announcement yesterday that Pfizer's Covid vaccine was 90% effective in preventing virus infection
 - European and U.S. equity markets soared higher, and Treasury yields were higher and steeper

- **Economic data trend remains positive, but certain sectors still struggling**

- Q3 GDP better than expected at +33.1% (annualized) following the 31.4% Q2 decline
 - Reflective of very aggressive monetary and fiscal policy
 - Economy remains down 3.5% (not annualized) from Q4 2019
- October jobs report was much better than expected, with private payrolls adding 906,000 jobs and the unemployment rate fall 100 bps to 6.9% (7.6% expected)
- Prior to the election (and Pfizer announcement), rising Covid cases in Europe and the U.S. weighed on global risk markets as European nations announced new lockdowns

U.S. GDP Recovery



* Bloomberg median economist survey

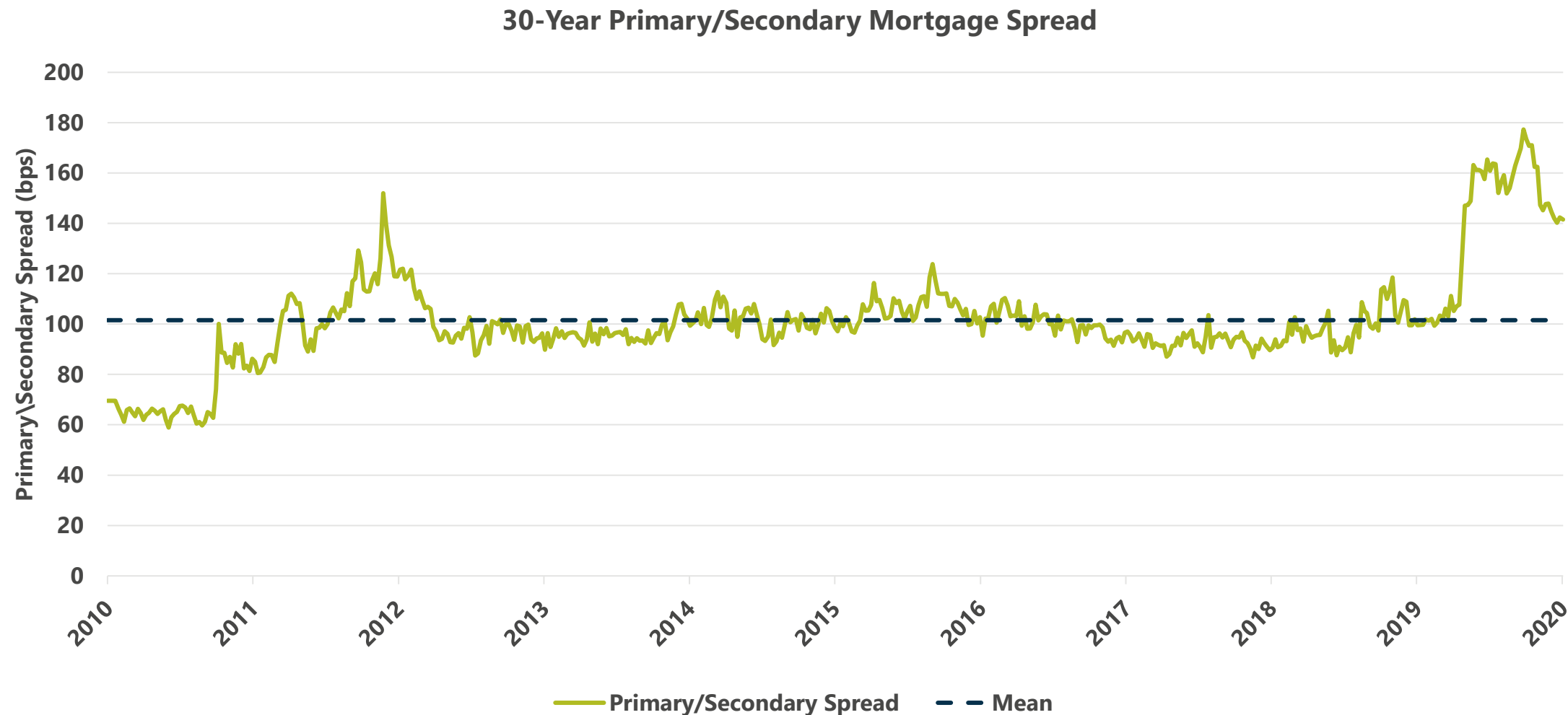
Market Themes (Cont.)

- **Treasury yields are higher and steeper over the last 3 months**
 - 2yr/10yr spread up 25 bps to 0.76%
 - Rates currently at the high-end of the range since late March following positive vaccine news
- **Fixed income spreads remain tight**
 - Spreads have fully retraced (and more) relative to pre-Covid levels across most sectors thanks to Fed efforts
 - Signs of stabilization and resistance to additional tightening
- **Mortgage prepayments continue to be a major market theme**
 - Refi activity remains elevated at historically high levels
 - MBS portfolios require active management
 - How will lenders respond into recent steepening (i.e., raise primary rates or allow primary/secondary spread to tighten?)

Tenor	11/9/2020 (%)	8/12/2020 (%)	Change (bps)
1-Month	0.08	0.07	0.02
3-Month	0.09	0.09	0.00
6-Month	0.09	0.11	-0.02
1-Year	0.12	0.13	-0.01
2-Year	0.18	0.16	0.02
5-Year	0.44	0.30	0.13
10-Year	0.94	0.68	0.27
20-Year	1.51	1.14	0.36
30-Year	1.74	1.37	0.36
Curves			
3mo-10yr	0.85	0.58	0.27
2yr-5yr	0.26	0.14	0.11
2yr-10yr	0.76	0.51	0.25
2yr-30yr	1.56	1.21	0.34
5yr-10yr	0.50	0.37	0.13

Source: Bloomberg

Mortgage Pricing Power



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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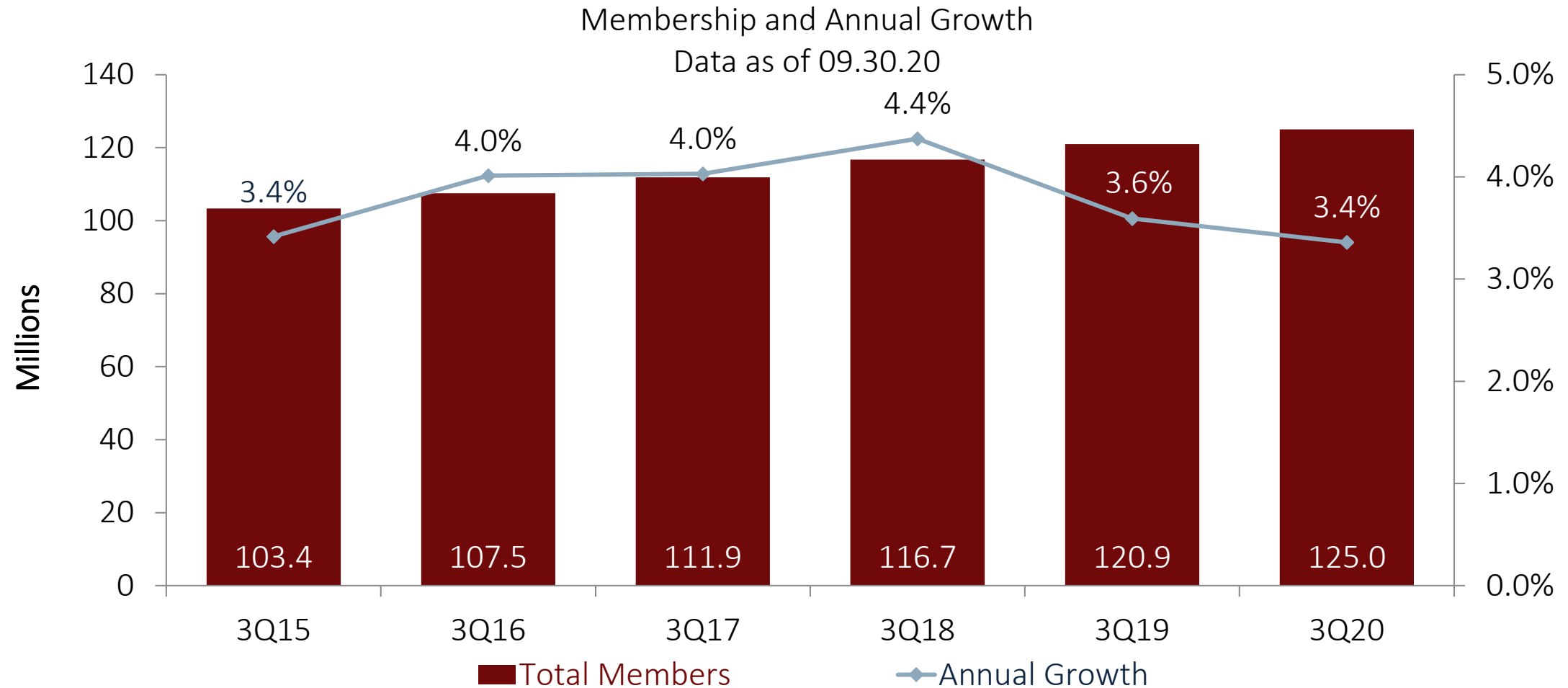
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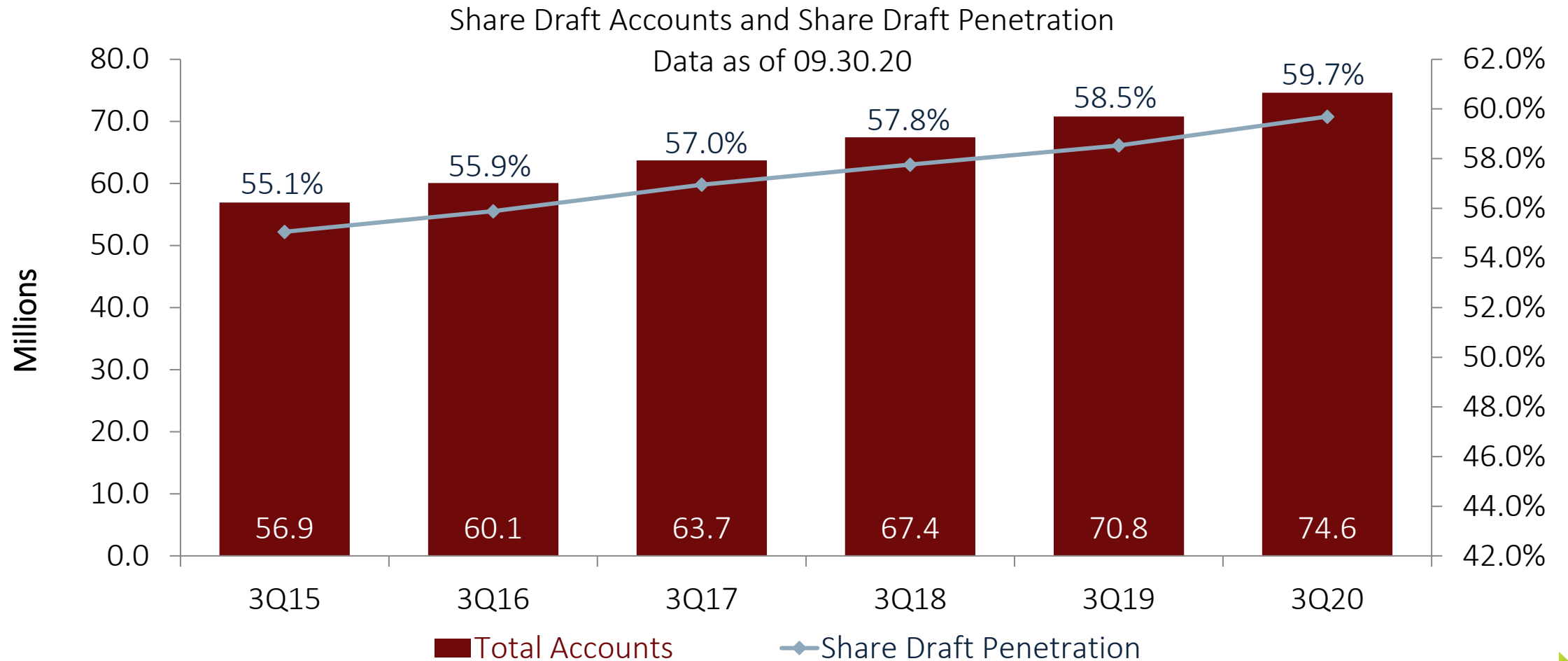
Share growth leads 2020 results, with loan and member growth in line with 2019

	09/30/2020	12-Mo. Growth	09/30/2019	12-Mo. Growth
Assets	\$1,807.2B	16.1%	\$1,556.5B	6.8%
Loans	\$1,168.0B	6.3%	\$1,099.1B	5.9%
Shares	\$1,546.3B	18.2%	\$1,307.7B	6.9%
Investments	\$552.6B	44.8%	\$381.5B	8.2%
Capital	\$202.7B	9.4%	\$185.4B	11.5%
Members	125.0M	3.4%	120.9M	3.6%

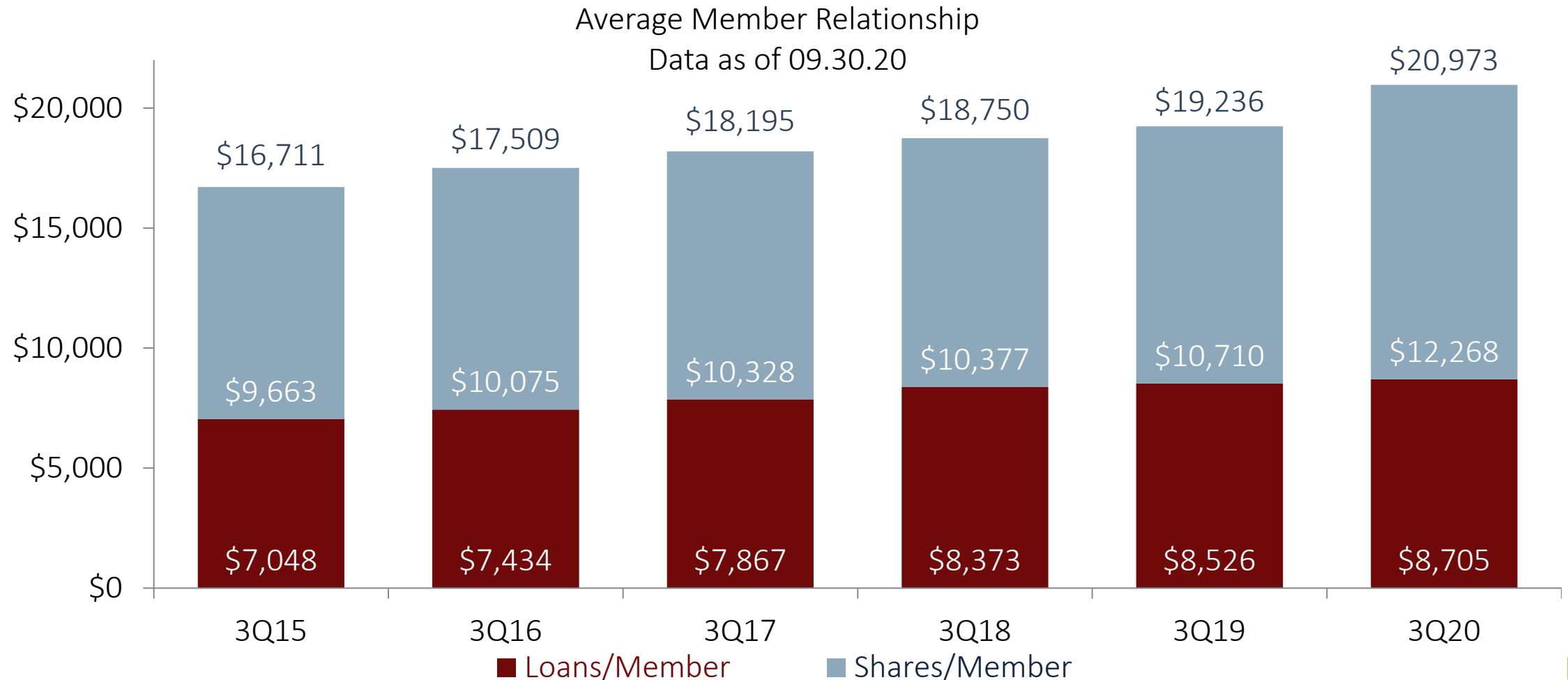
Credit Unions are adding over one million members each quarter



Share draft penetration reaches a record high with 6 in 10 credit union members holding a credit union checking account



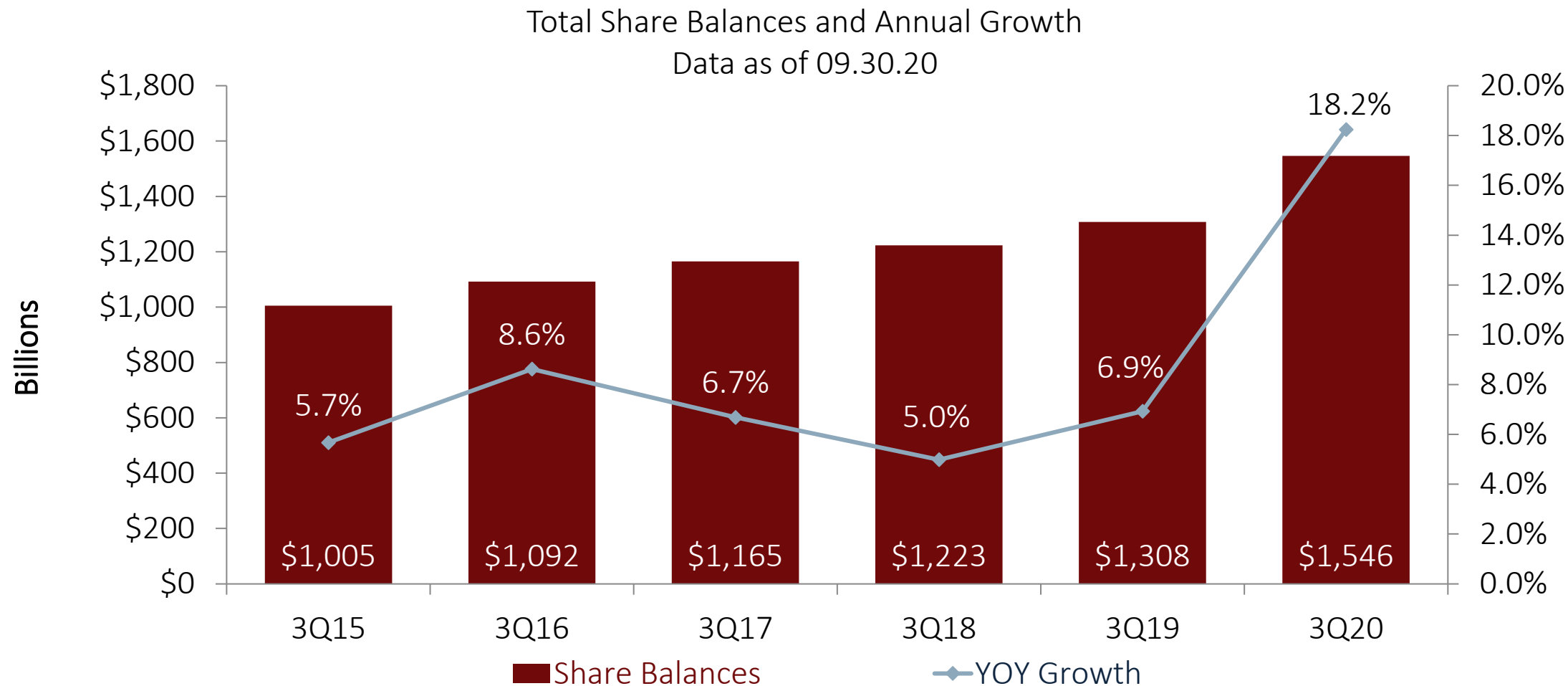
Led by record share growth, the average member relationship has grown over \$1,700 since last September



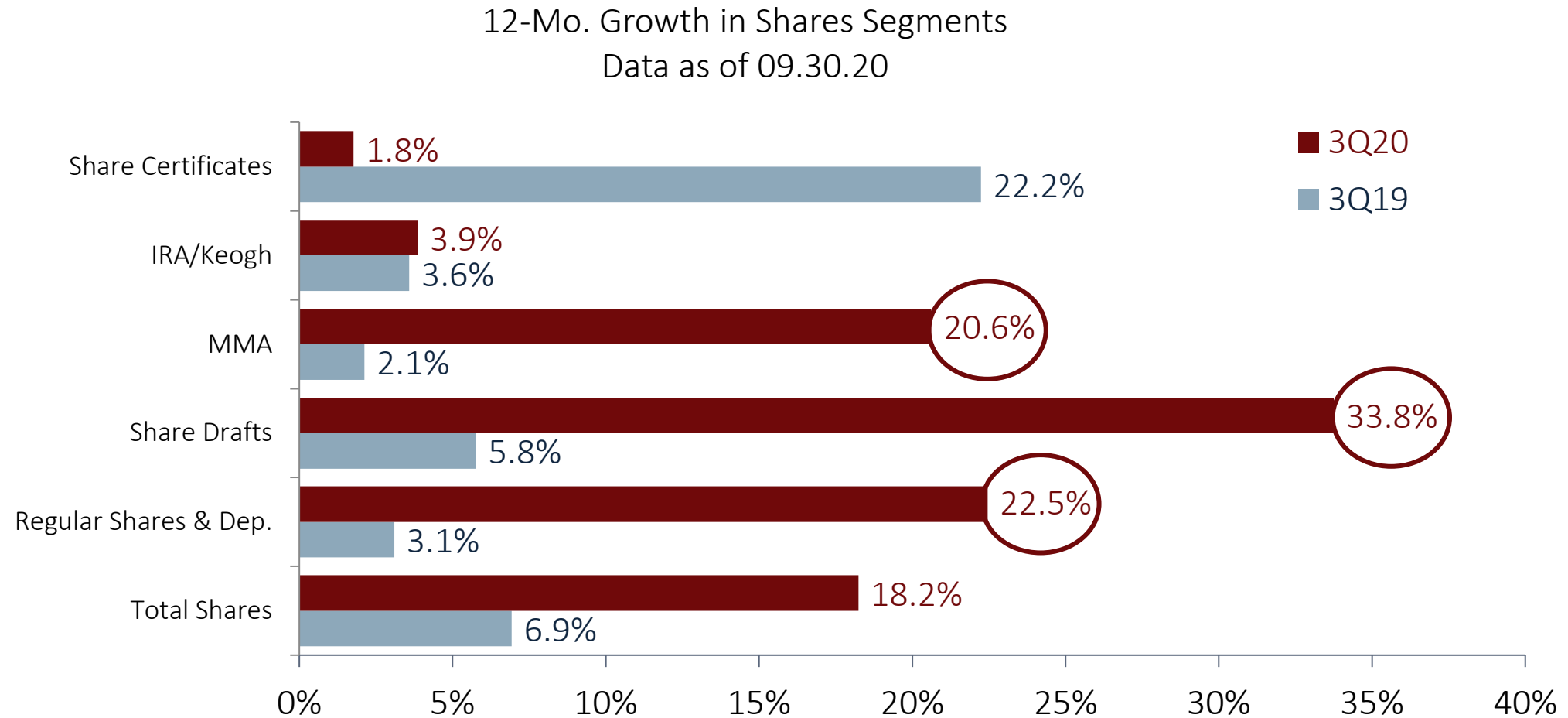
Savings

- Core deposits are the main driver of share growth, with regular share, share draft, and money market account balances each up over 20% year-over-year
- The surge in liquidity has increased cash on the balance sheet as credit unions look to put deposits to work

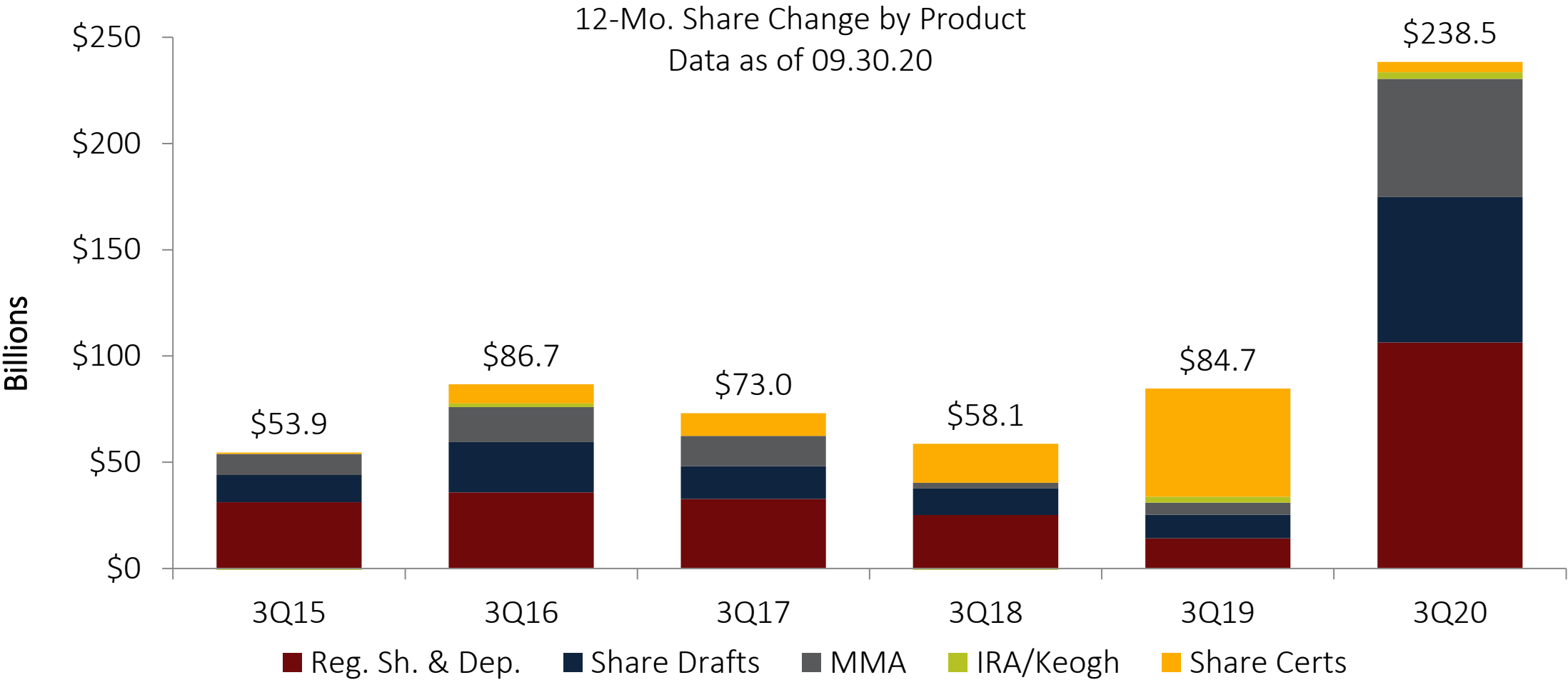
Total share balances increase \$238.5 billion annually, the largest change on record



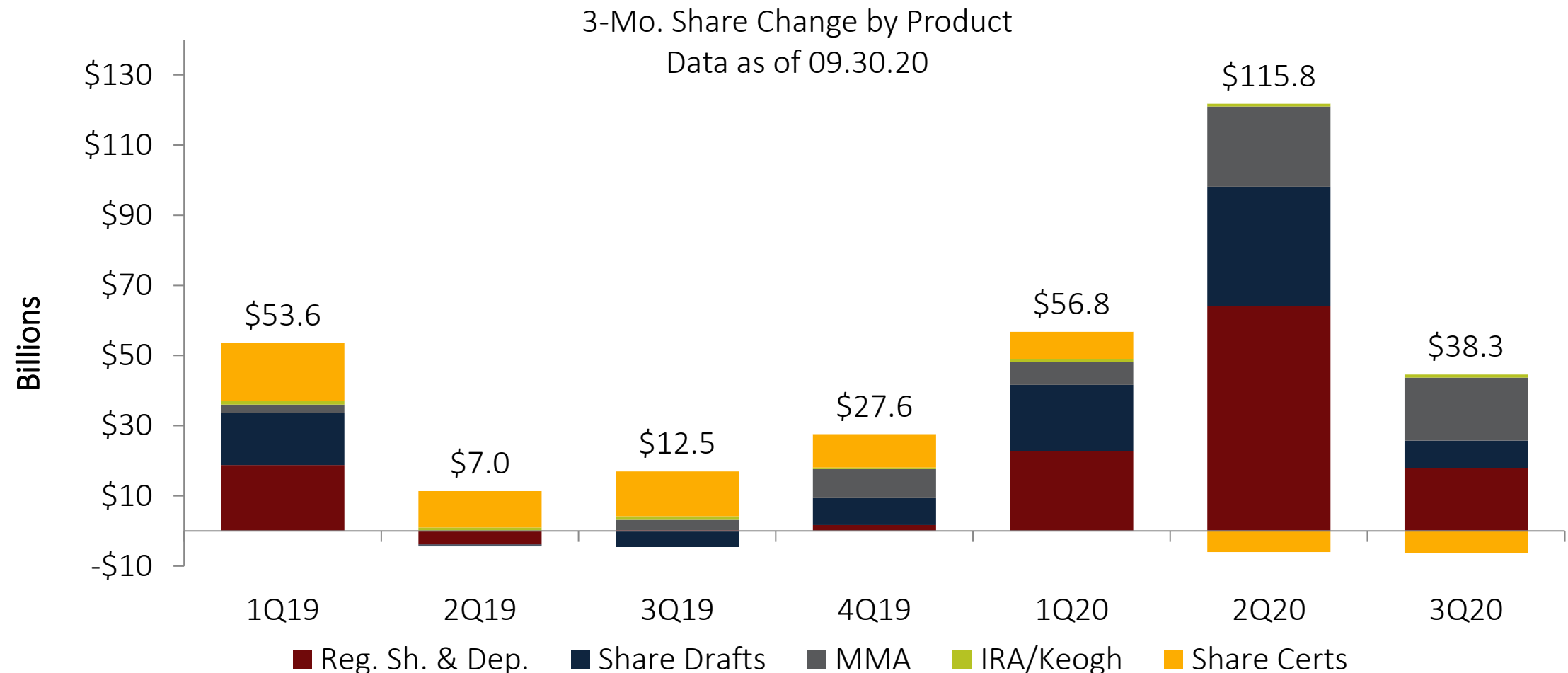
All categories except certificates are growing at a faster pace in 2020



Share drafts and regular shares account for 71.5% of annual change in share balances over the past year



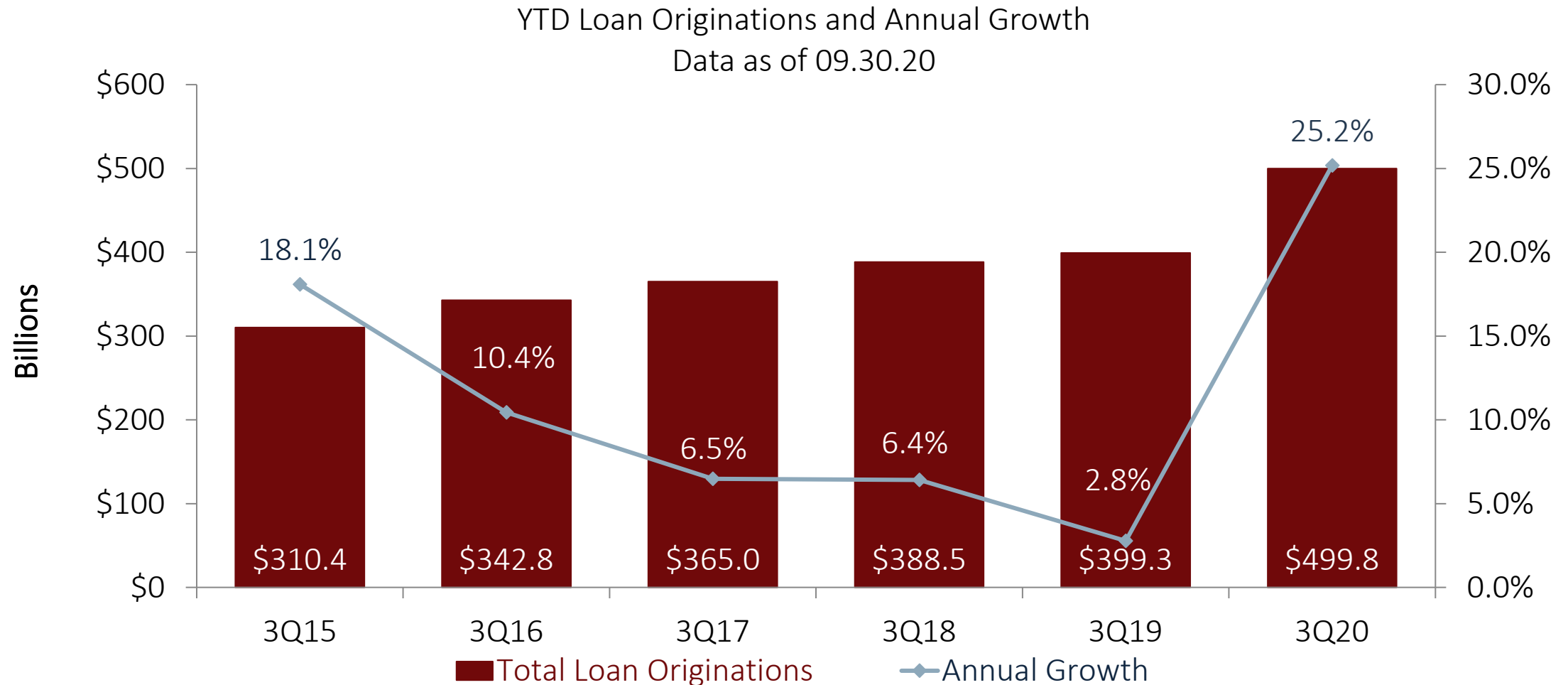
Share growth slowed in the third quarter but 2020 continues to set a record pace



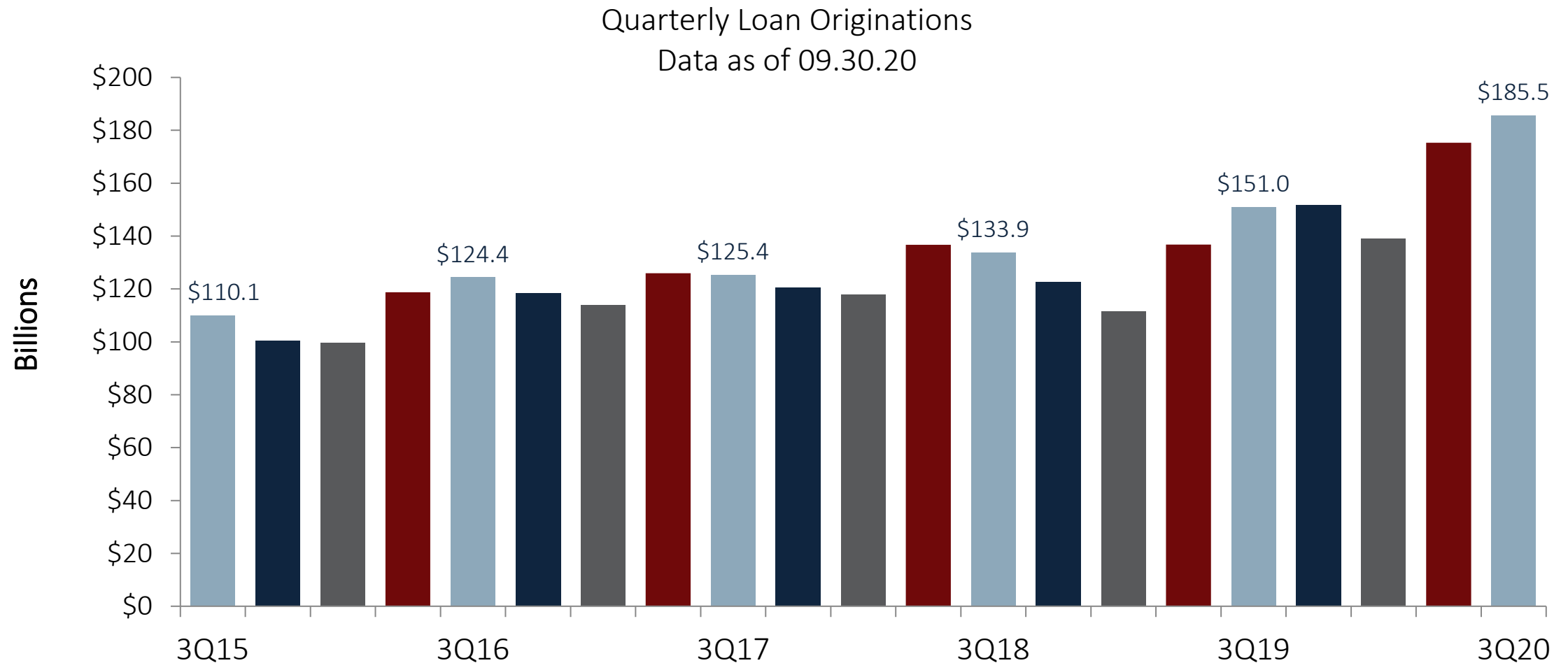
Lending

- Loan production continues to reach record highs as mortgage refinancing surges due to low interest rates
- Consumer origination growth accelerates for the first time since the onset of the COVID-19 pandemic
- Asset quality remains strong, but the outlook is uncertain

Loan originations near \$500 billion through September as members take advantage of low interest rates

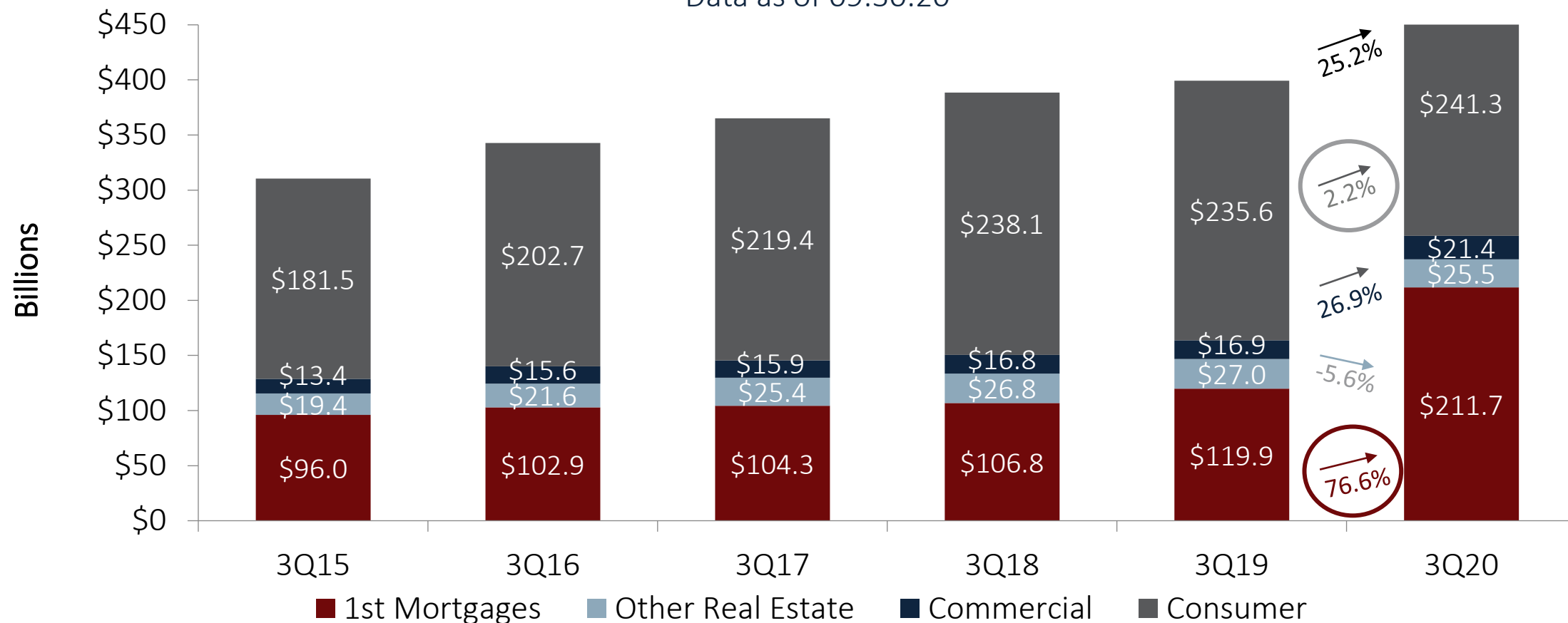


Credit unions report record originations for each quarter of 2020

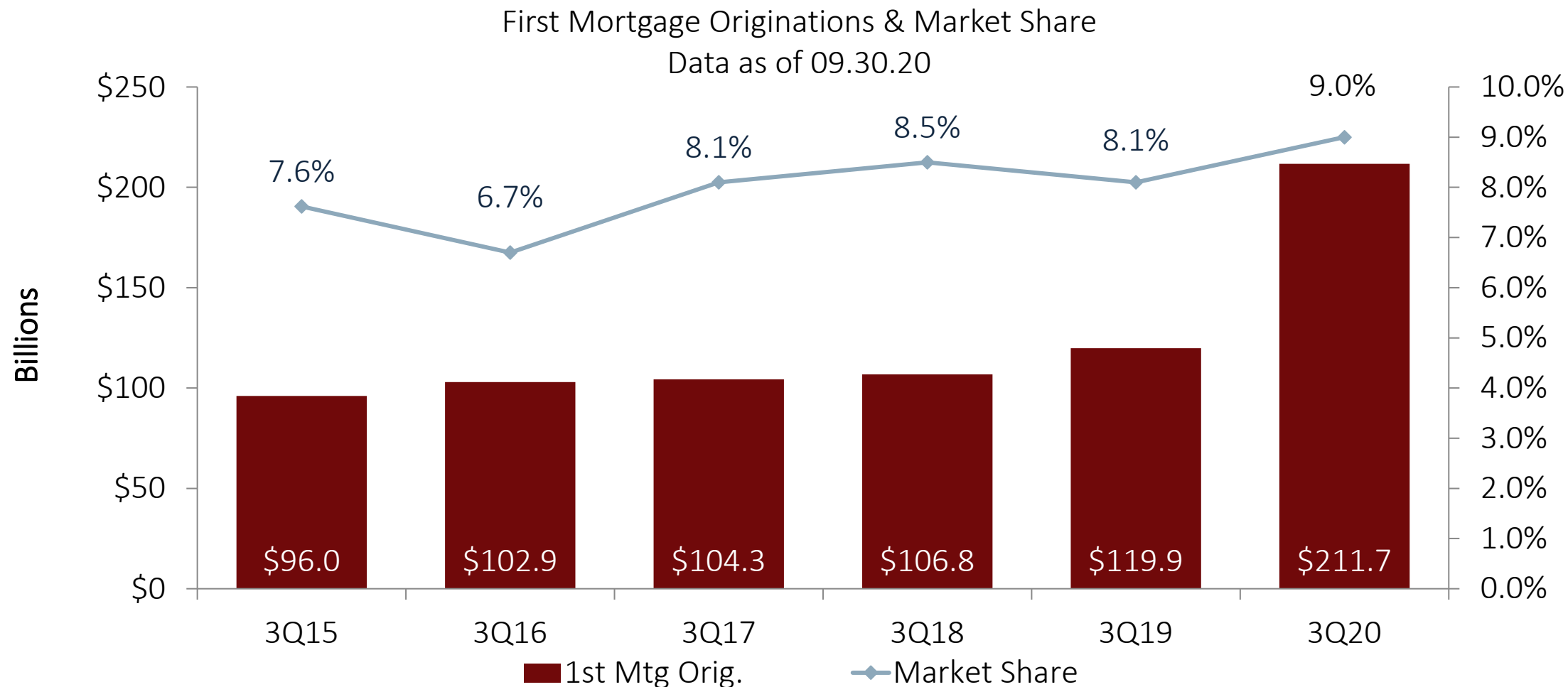


Mortgage lending is driving origination growth but consumer lending remains credit unions' primary business

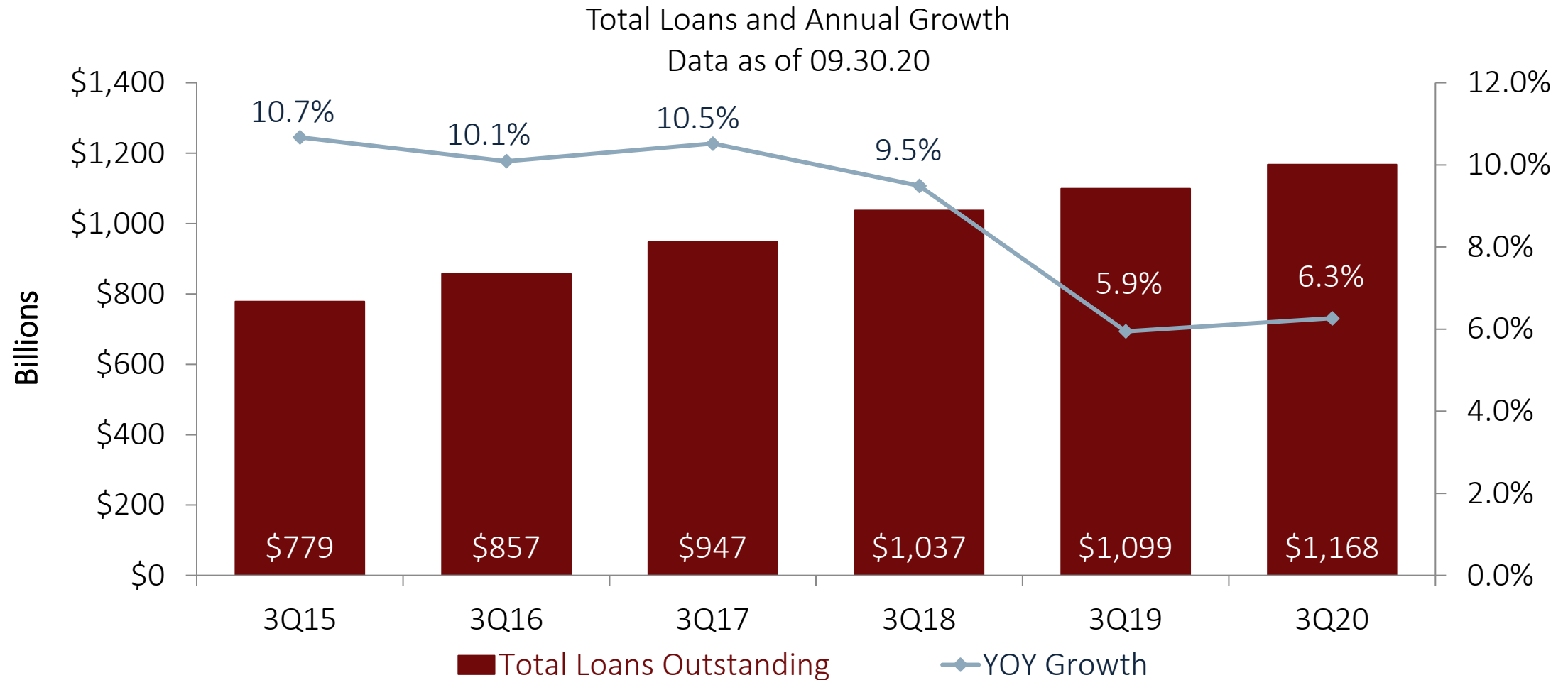
YTD Loan Originations
Data as of 09.30.20



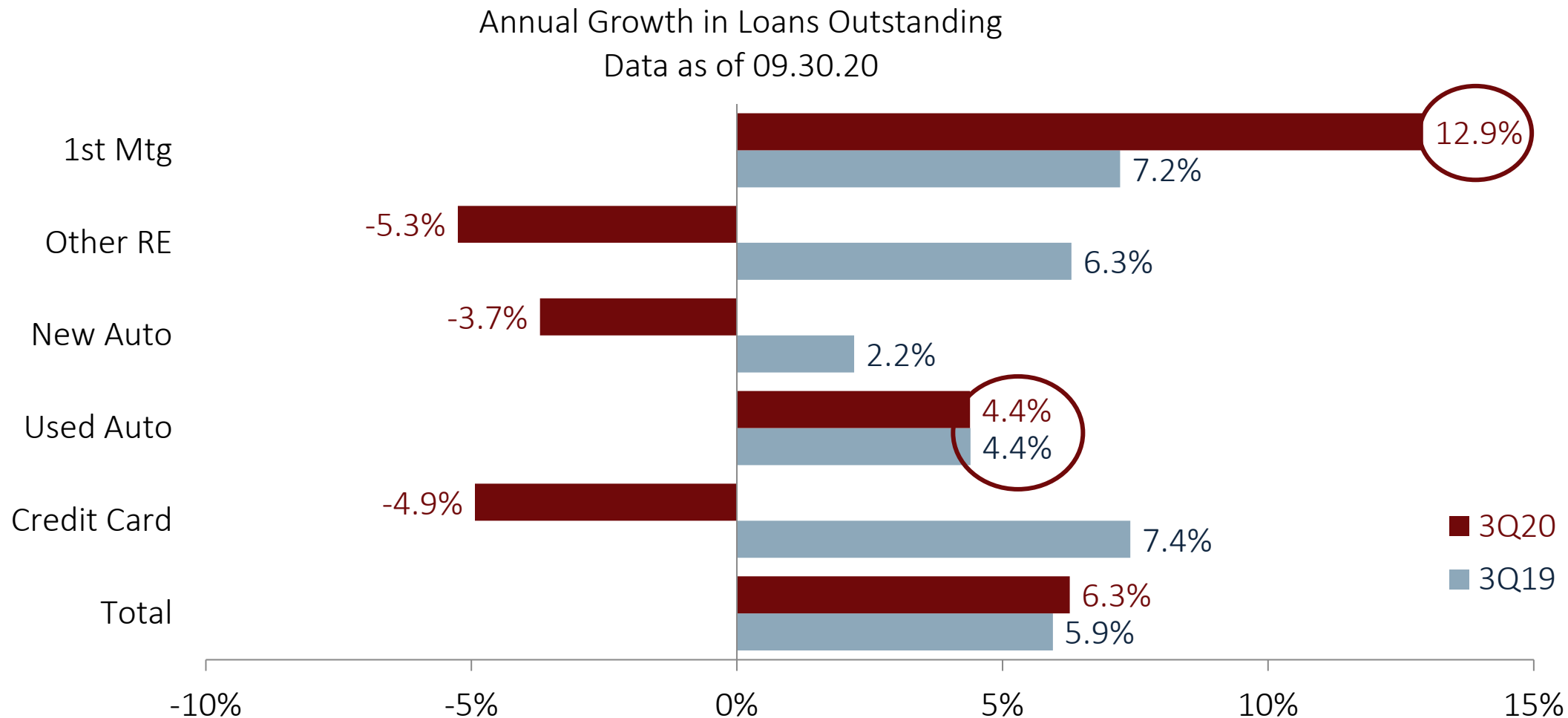
Mortgage market share reaches a new high as members are drawn to credit union value



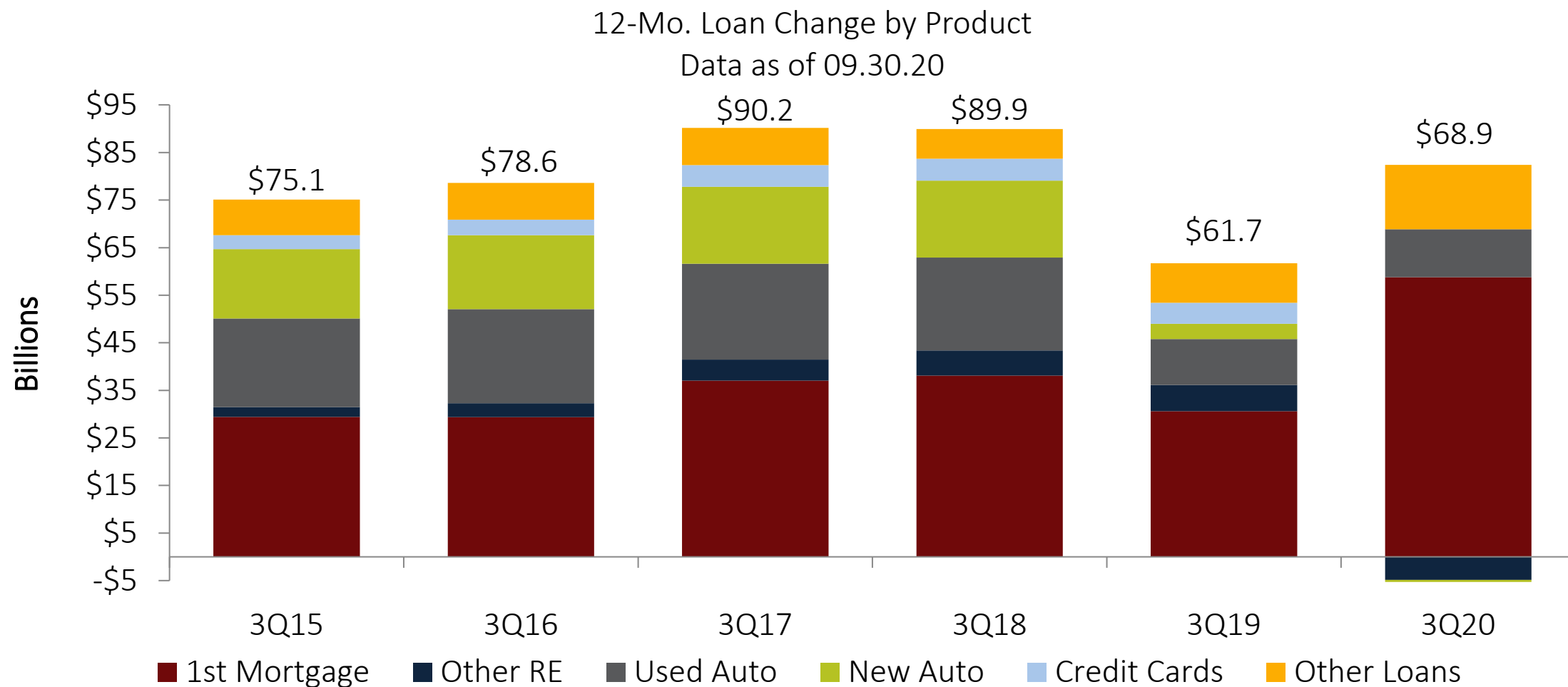
Loans outstanding are growing slightly faster than in 2019



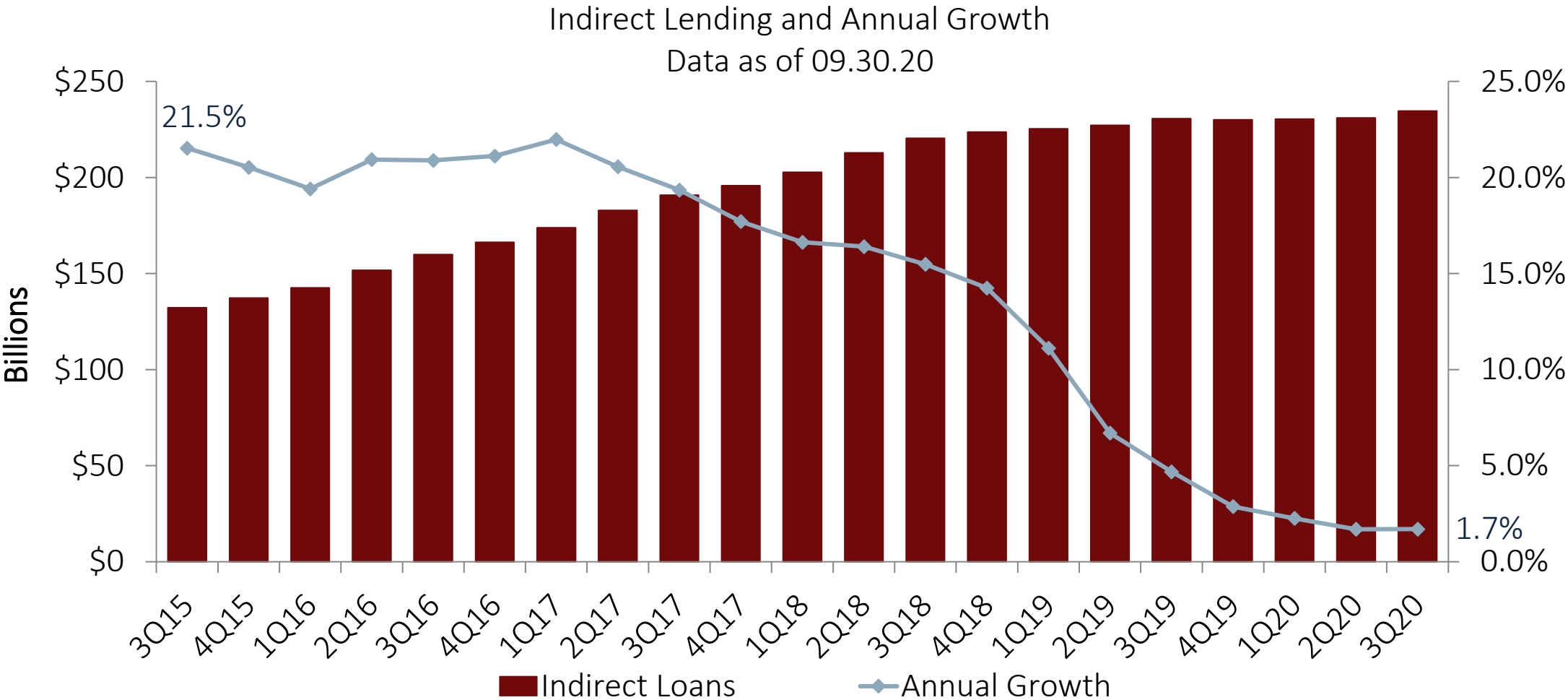
First mortgage and used auto loans are the only products growing at a faster pace in 2020



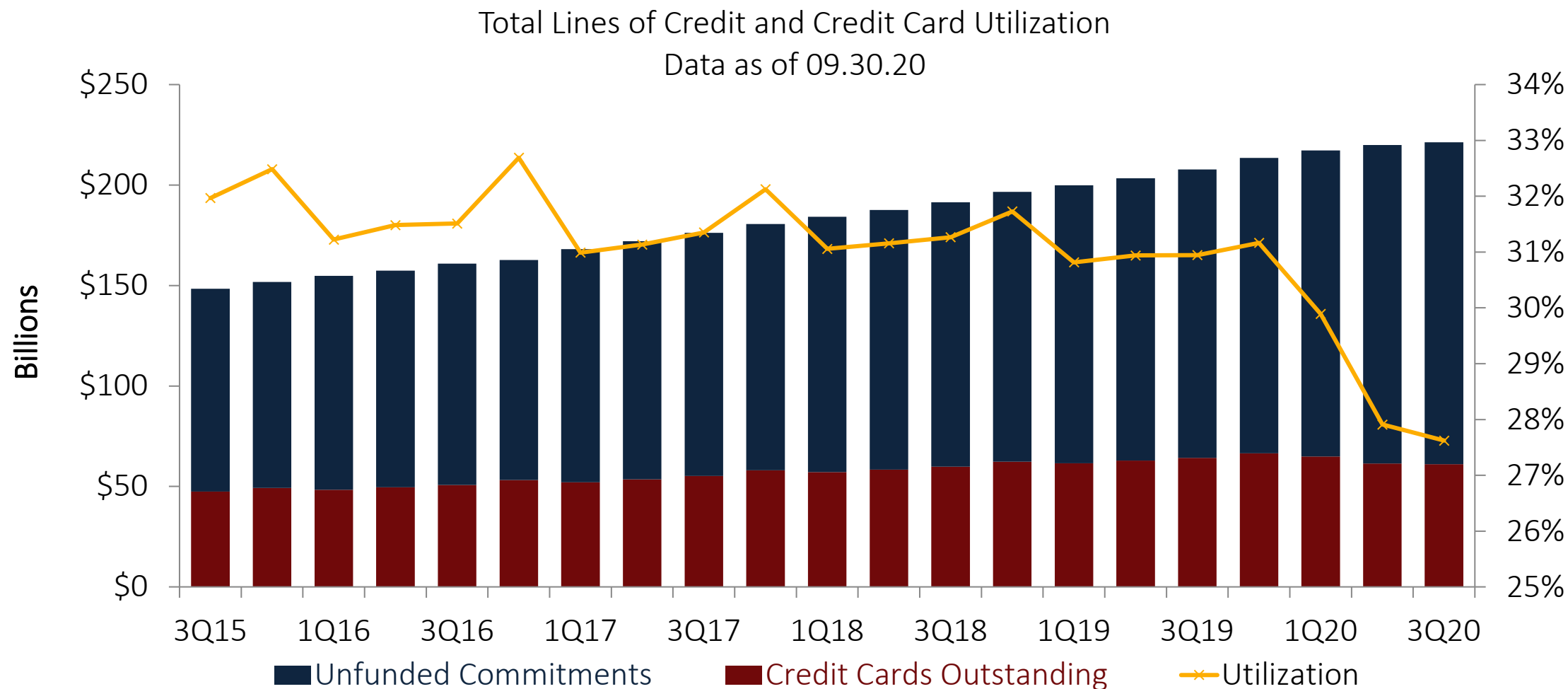
First mortgage balances grow \$58.8 billion over the last year, accounting for 85.4% of loan portfolio growth



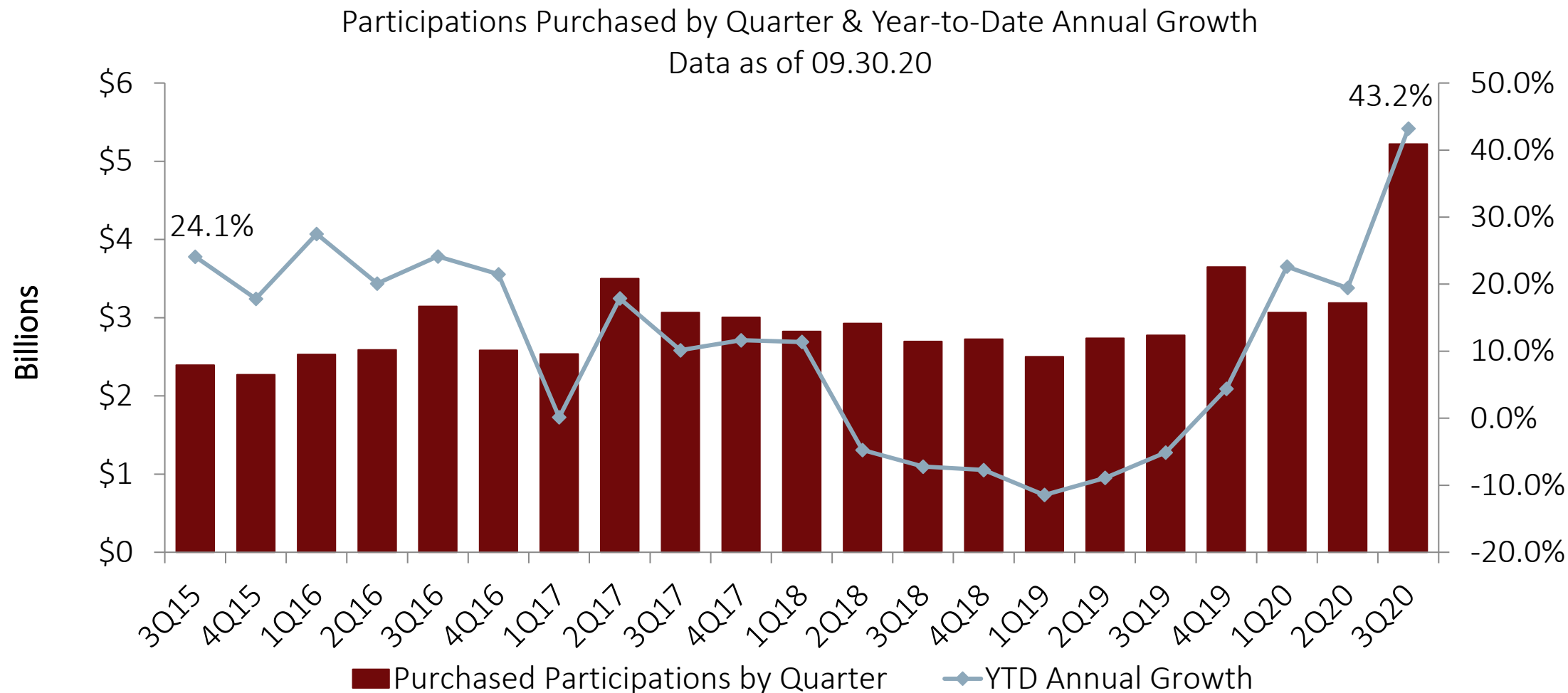
Slower growth in indirect lending is a factor in auto loan portfolio trends



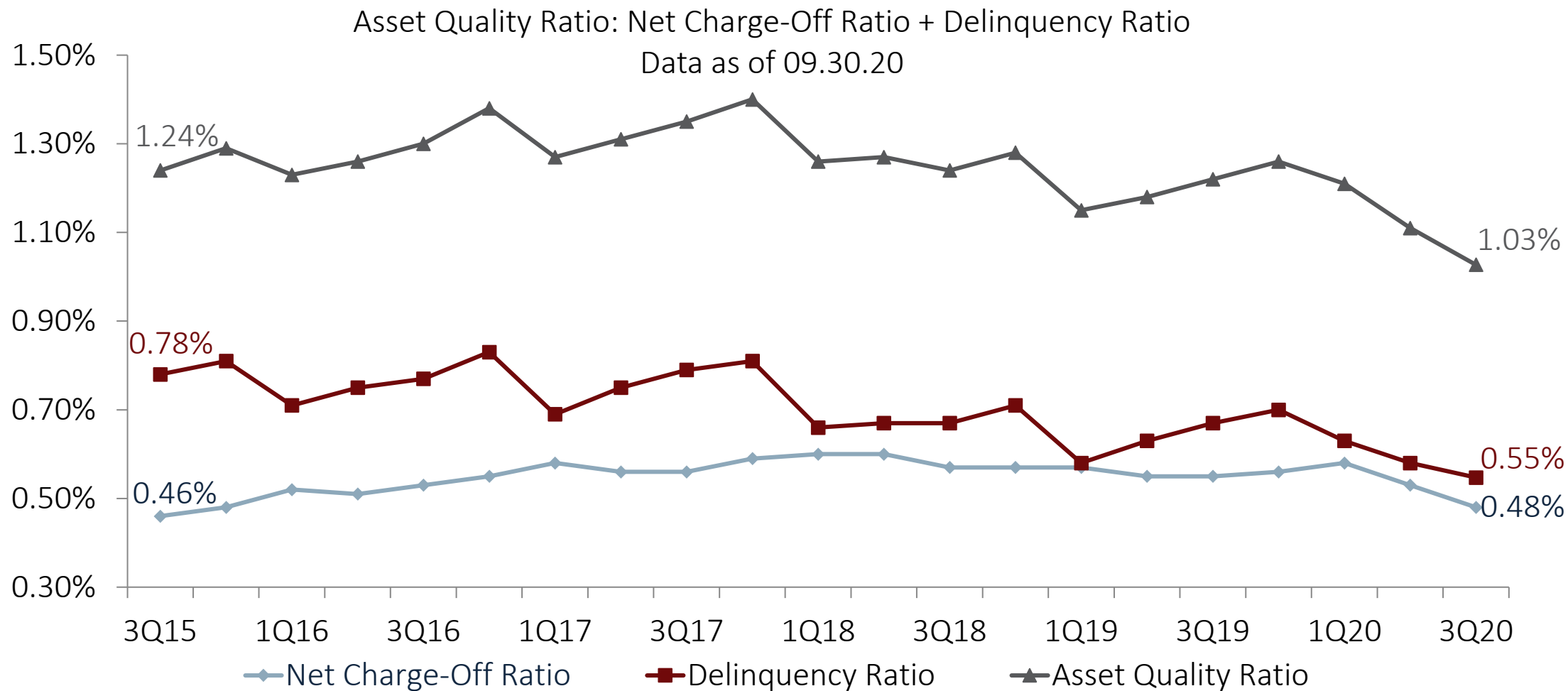
Credit unions continue to extend credit to members, even as utilization is down



Credit unions are purchasing more loans to put liquidity to work



Asset quality continues to improve, but the outlook is uncertain due to the impact of member relief programs



EMPLOYEE BENEFIT SPOTLIGHT

ARKANSAS FEDERAL CREDIT UNION

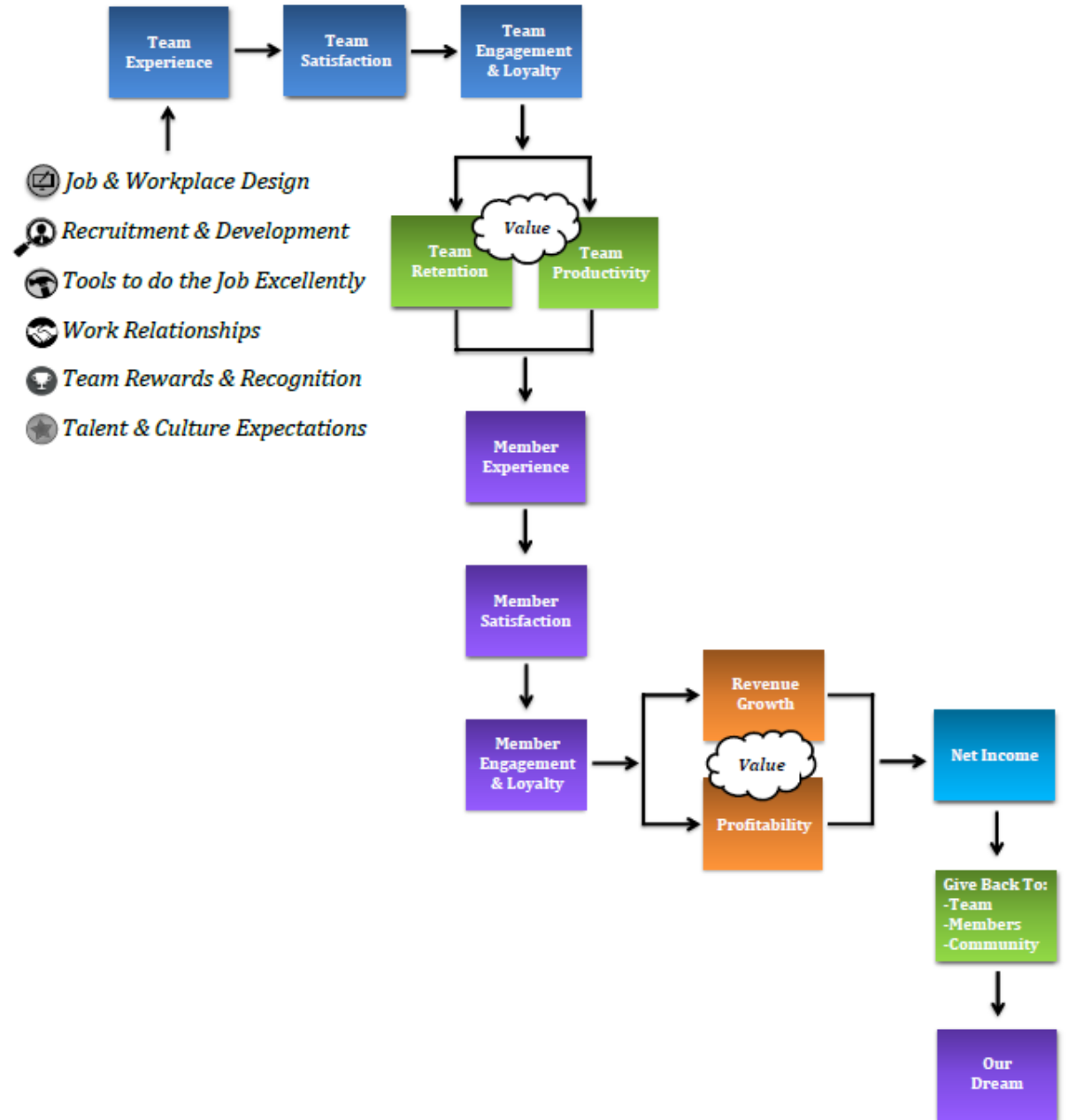
PRESENTED BY: HEATHER SAVAGE, SVP OF HUMAN RESOURCES

OUTLINE

1. Our WHY?
2. Our VALUES
3. Our PHILOSOPHY
4. Our Annual EMPLOYER Savings
5. Our Annual EMPLOYEE Savings
6. Our ENGAGEMENT
7. Our SUCCESS
8. What our employees say

OUR WHY?

Be The Difference



OUR VALUES

Act like an owner (Responsibility, Accountability)

Always do the right thing (Integrity)

Be one team moving in one direction (Collaboration)

Challenge the status quo (Innovation)

Do what we say we are going to do (Responsibility)

Make dreams come true

Show passionate and sincere concern for others
(Caring)

Strive for perfection and settle for excellence
(Excellence)

Think different (Innovation)

Value diverse opinions and ideas (Respect)



PHILOSOPHY

1. Offer employees a robust benefit package and allow them to choose what benefit products & services best fit their needs.
2. Promote education of the benefits of a HDHP health plan and provide resources to manage health costs each year.
3. Match employee contributions into an HSA account (offered through AFCU) dollar for dollar based on their coverage level.
 - Employee Only - \$400
 - Employee + One - \$600
 - Employee + Family - \$800
4. Partner with our Insurance CUSO to broker our employee benefits. (Win/Win)
 - Provides our employees with a personal experience with our insurance solutions that can be shared with our business members
 - Supports a business unit that is a source of NII for our CU
5. Investment in your most valued asset (people) leads to long-term success.
6. Realize our Member experience will never be better than our Team experience.
7. This year (2020) has been stressful. Paying 100% of our Basic Health, Dental, and Vision coverage is an attempt to reduce the financial stress of our Team in 2021.

ANNUAL EMPLOYER SAVINGS

Annual Savings to AFCU	
Health	\$ 105,322.56
Health PEPM Credit**	\$ 27,360.00
Dental	\$ 3,574.23
Dental - 100% ER Paid	\$ (38,820.72)
Vision - 100% ER Paid	\$ (36,220.56)
Total Annual Savings	\$ 136,256.79
Total w/ 100% ER Paid	\$ 61,215.51

ANNUAL EMPLOYEE SAVINGS

Annual Savings to EMPLOYEE Only	
Basic Health	\$ -
Premium Health	\$ 345.00
Dental - 100% ER Paid	\$ -
Vision - 100% ER Paid	\$ 104.88
Total Annual Savings	\$ 449.88

Annual Savings to EMPLOYEE + ONE	
Basic Health	\$ -
Premium Health	\$ 707.76
Dental - 100% ER Paid	\$ 204.72
Vision - 100% ER Paid	\$ 199.44
Total Annual Savings	\$ 1,111.92

Annual Savings to EMPLOYEE + FAMILY	
Basic Health	\$ -
Premium Health	\$ 1,104.72
Dental - 100% ER Paid	\$ 358.80
Vision - 100% ER Paid	\$ 261.12
Total Annual Savings	\$ 1,724.64

ENGAGEMENT

1. Recognized as one of the **Best Places to Work** by Arkansas Business (2015, 2016, 2018, 2019 & 2020)
2. Recognized as one of the **Best Credit Unions to Work For** by Credit Union Journal (2015, 2016, 2018, 2019 & 2020)
3. Maintained “**Excellent**” Net Promotor Scores (2015 @ 64%; 2016 @ 66%; 2017 @ 60%; 2018 @ 67%; 2019 @ 69%) & has a “**World Class**” Net Promoter Score @ 72% as of 3Q2020
4. Increased **Overall Employee Engagement** from 69% in 3Q2017 to **84%** in 2Q2019
5. Increased **Employee Recommendation of AFCU as a ‘Best Place to Work’** from 92% in 3Q2017 to **98%** in 2Q2019



Date	Net Worth Ratio	Net Worth	Net Income	Loans	Member Shares	Members	Assets
Dec-10	9.18%	75,353,308.00	5,246,875.79	593,702,637.98	592,196,408.87	84,668.00	821,206,178.34
Dec-11	9.52%	79,789,751.77	4,436,443.77	617,791,205.25	617,748,628.84	87,118.00	837,739,462.66
Dec-12	9.88%	85,396,055.41	5,606,303.64	639,767,244.81	647,059,883.52	88,859.00	864,467,863.35
Dec-13	9.49%	90,823,532.85	5,427,477.85	700,612,111.21	670,821,685.86	91,118.00	957,446,462.09
Dec-14	9.26%	95,317,597.67	4,494,064.82	781,331,949.27	716,627,989.37	95,725.00	1,029,107,268.13
Dec-15	9.88%	99,524,349.39	4,206,751.72	769,384,117.02	759,851,683.93	92,195.00	1,007,343,659.46
Dec-16	9.45%	105,682,816.90	6,158,468.64	893,570,380.75	795,215,260.00	94,702.00	1,118,792,160.63
Dec-17	9.93%	113,980,886.61	8,298,069.71	940,343,647.82	836,884,029.19	98,001.00	1,147,747,570.68
Dec-18	10.53%	124,595,252.38	10,614,365.77	993,855,173.36	899,818,383.47	104,633.00	1,182,879,361.50
Dec-19	10.57%	135,950,040.48	11,354,788.10	1,087,810,574.70	1,019,381,226.71	112,679.00	1,286,507,142.34
Sep-20	9.54%	144,805,988.67	8,454,180.35	1,264,408,527.86	1,149,029,659.40	122,027.00	1,518,514,764.67

OUR SUCCESS

WHAT OUR EMPLOYEES SAY

“I have worked for 7 different financial institutions all over this country. Nowhere have I worked that is more focused on employee development, growth and satisfaction than AFCU. From the job to the social activities to the **benefits**. Nowhere has the grass been greener than it is here at AFCU. I will never leave.”

“All employees are treated well, and everyone is helpful and friendly, no matter where they fall in the hierarchy of the organization. This organization has **excellent benefits** and PTO and pays well. There is a lot of room for advancement and continued professional and personal development.”

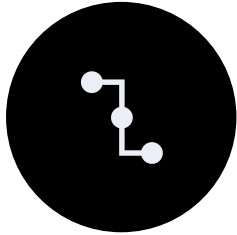
“The organization values its employees. **Employees** are always taken care of **first**. If employees are taken care of, they will take care of our members and that is what we want to be known for.”

“Arkansas Federal Credit Union is not about meeting the status quo but exceeding it in all aspects of the workplace environment. They are **always looking for a better way to serve existing and new employees**. They take the time to listen to employees' ideas that could better serve us as a company and take the necessary steps to bring those ideas to fruition. The Executive team takes the steps to ensure we have the proper tools and environment for growth.”



Questions?

CONTACT INFO



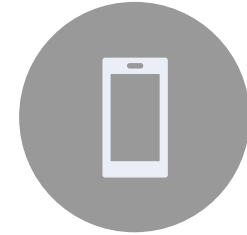
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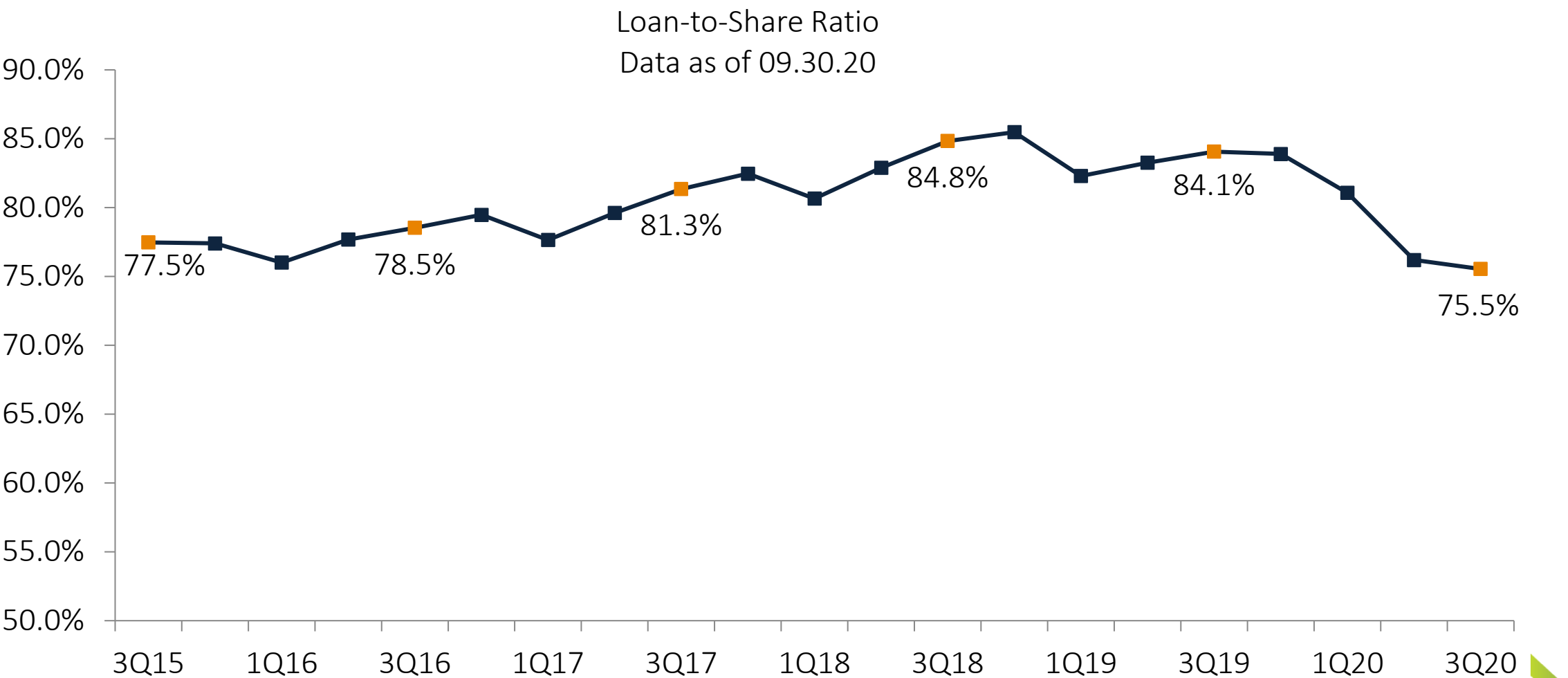


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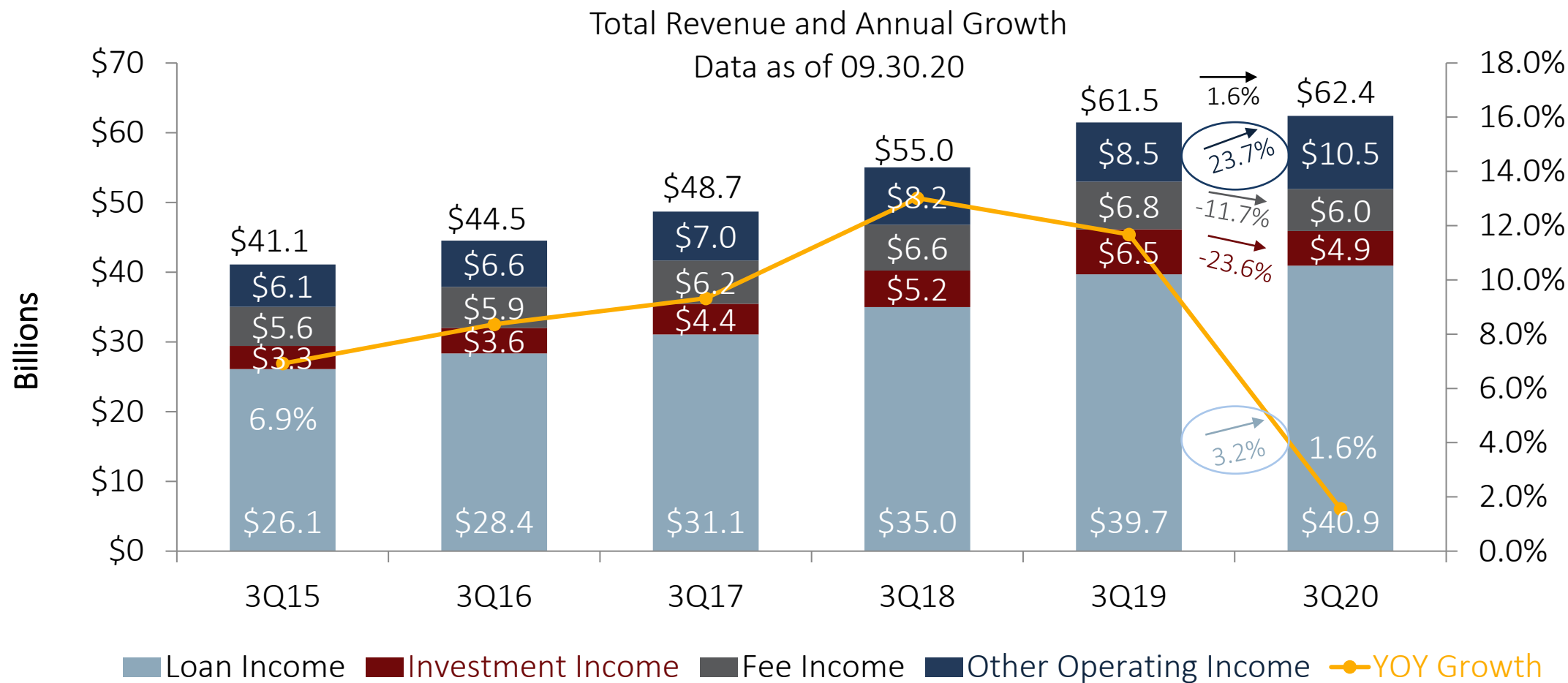
Earnings & Capital

- The net interest margin contracted 32 basis points over the year to 2.87% as of September 2020
- Both interest income and interest expense fell over the year
- Return on assets increased in the third quarter, helped by mortgage sales and lower provision expenses

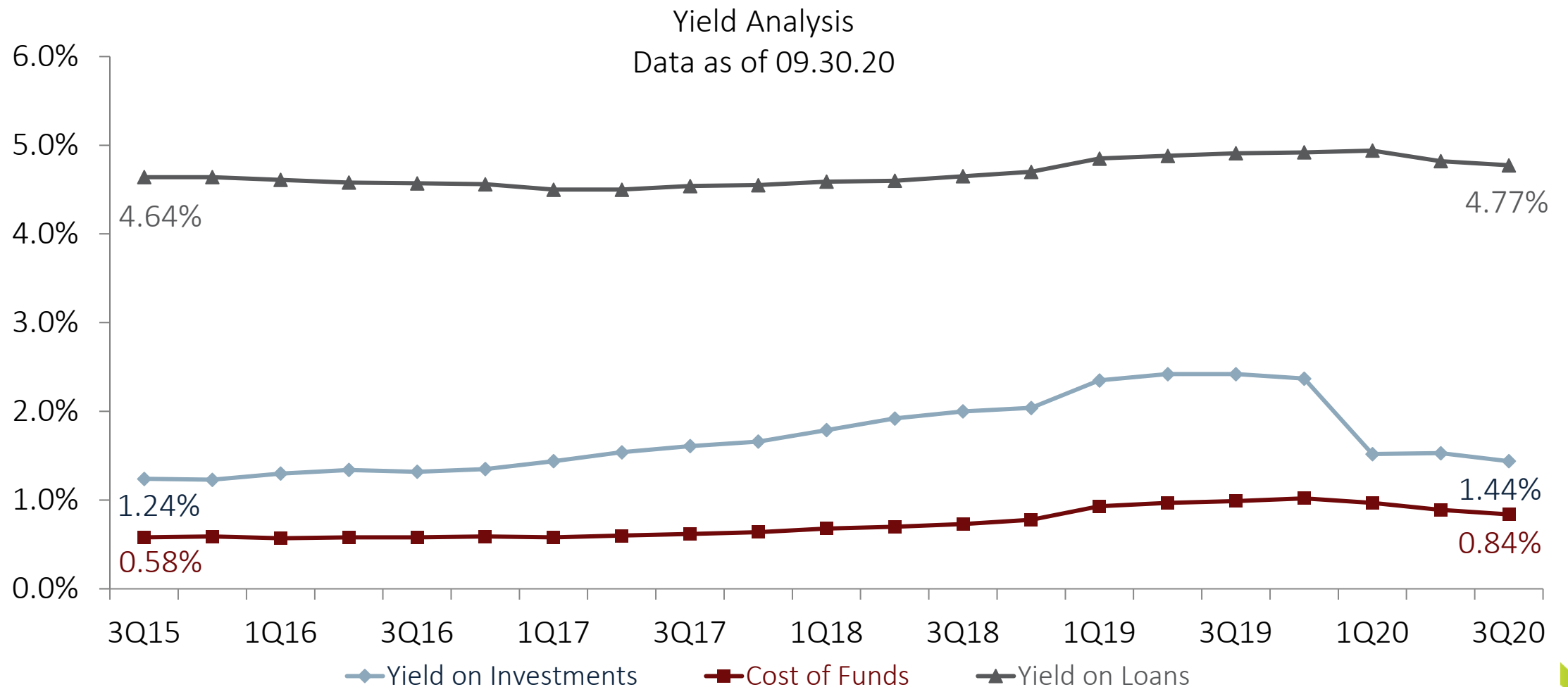
After steadily increasing for the past six years, deposit growth has quickly pushed the loan-to-share ratio lower in 2020



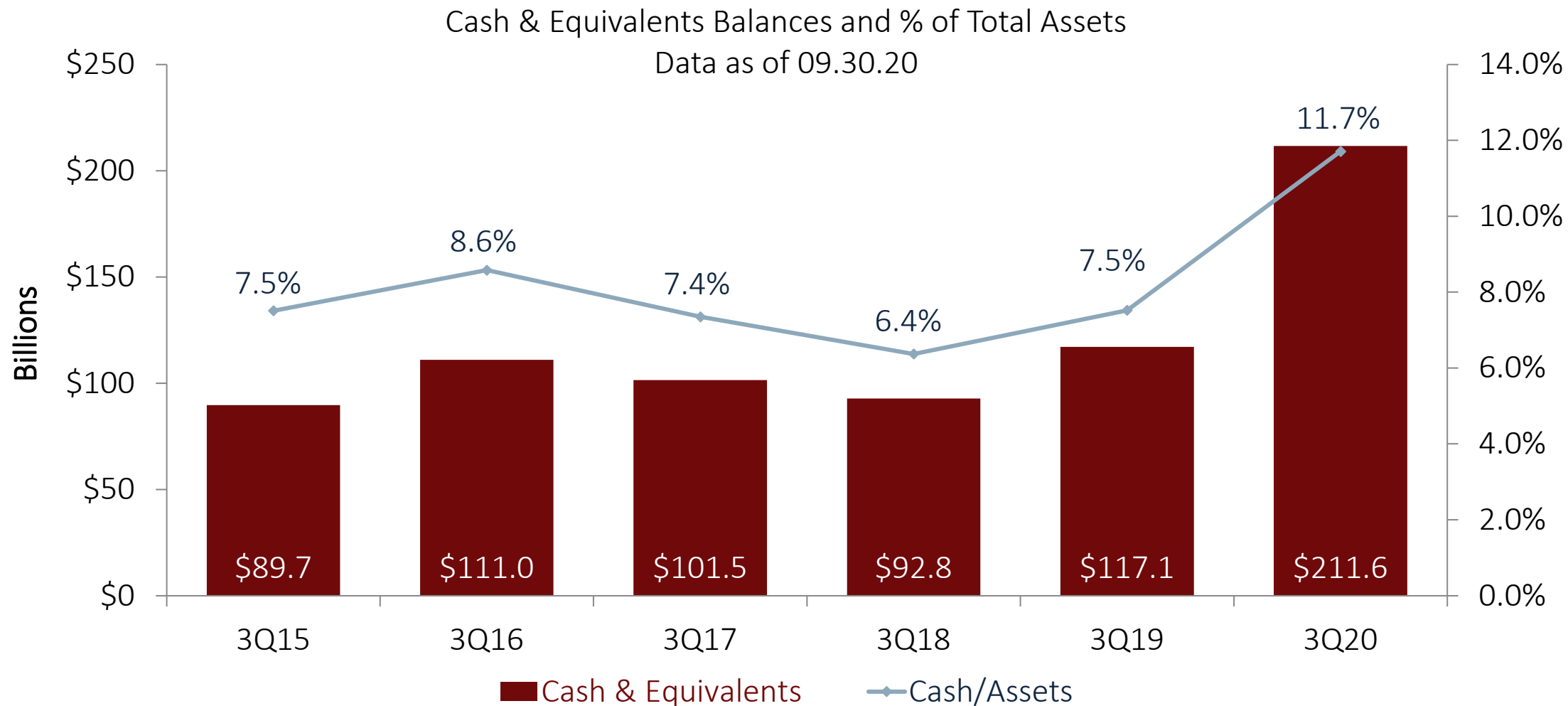
Revenue growth continues to slow as investment and fee income fall



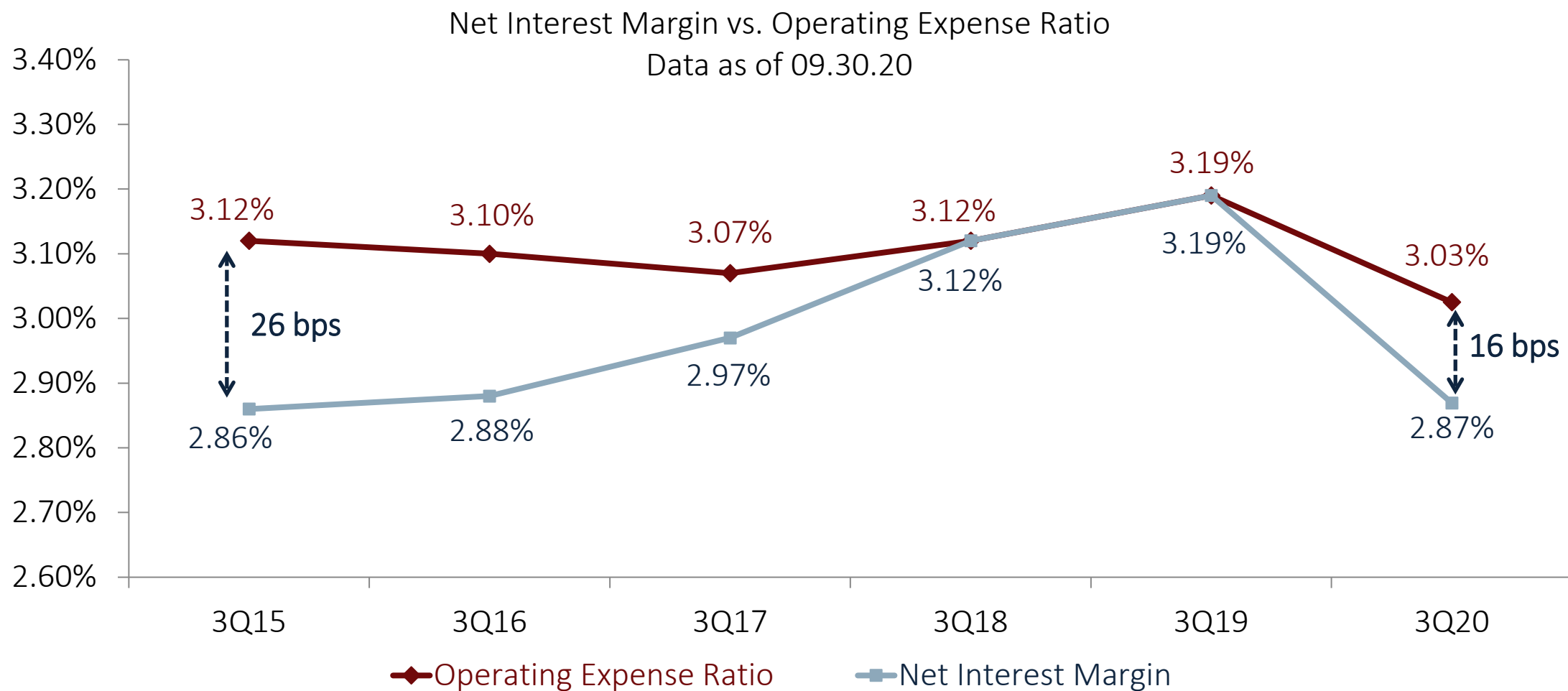
Loan yields have fallen 15 basis points in 2020, in line with the 18 basis point decline in cost of funds



Cash balances are nearly double what they were last year due to the surge in liquidity



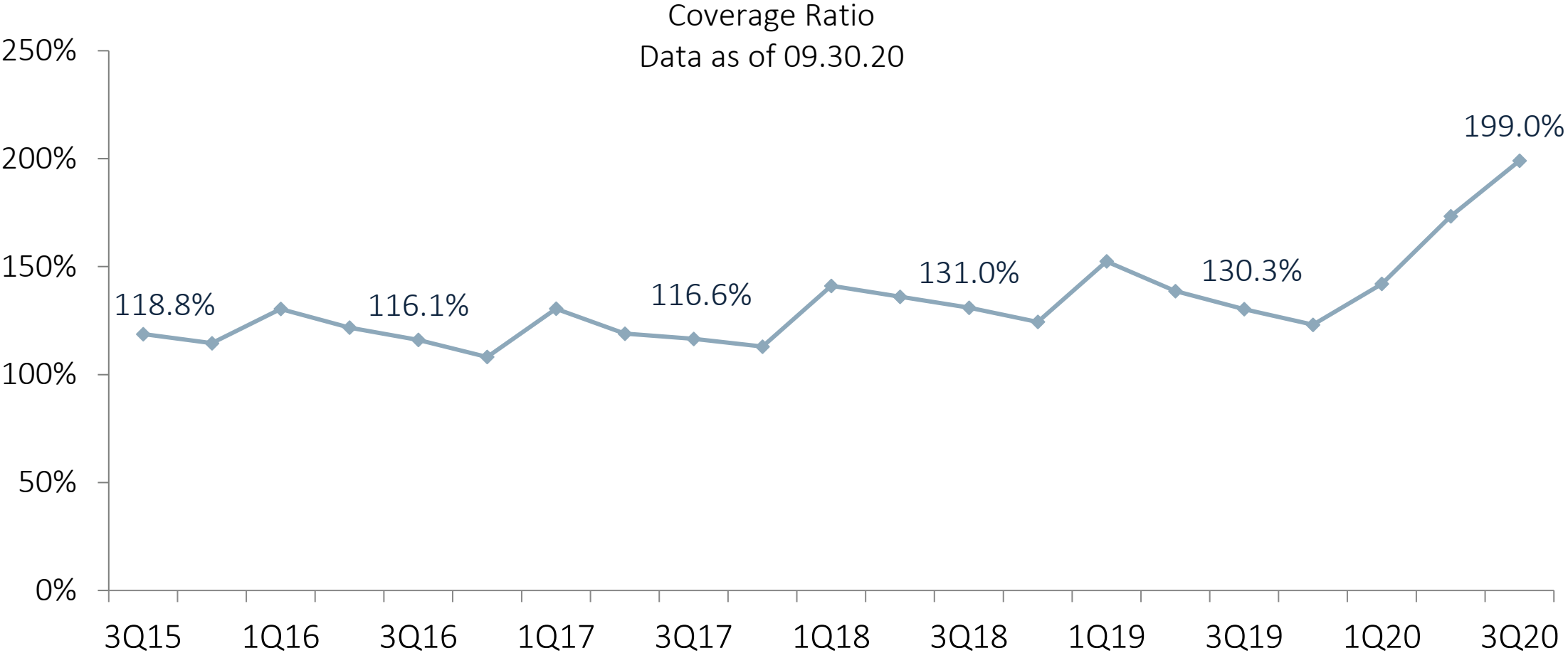
The net interest margin has tightened 32 basis points over the past 12 months



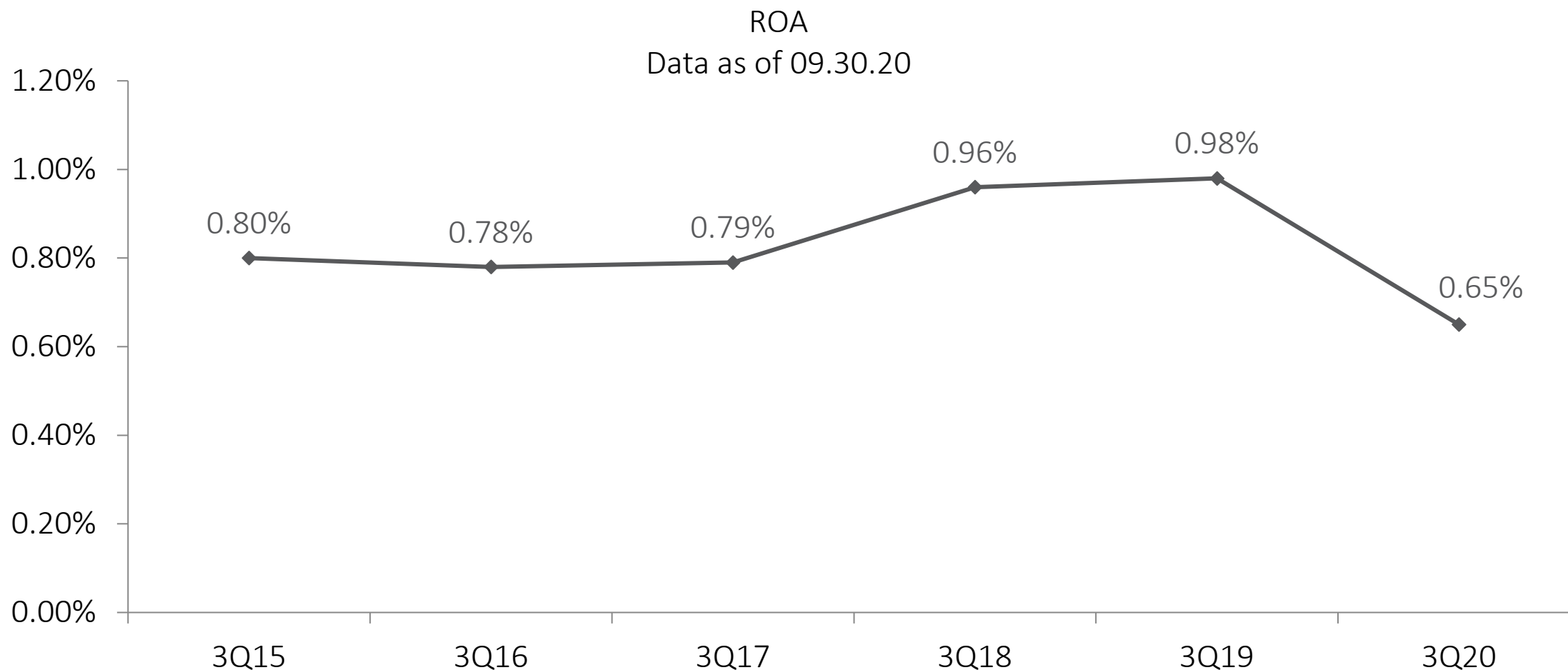
Quarterly provision expenses fall back slightly in the last three months with allowances at record highs



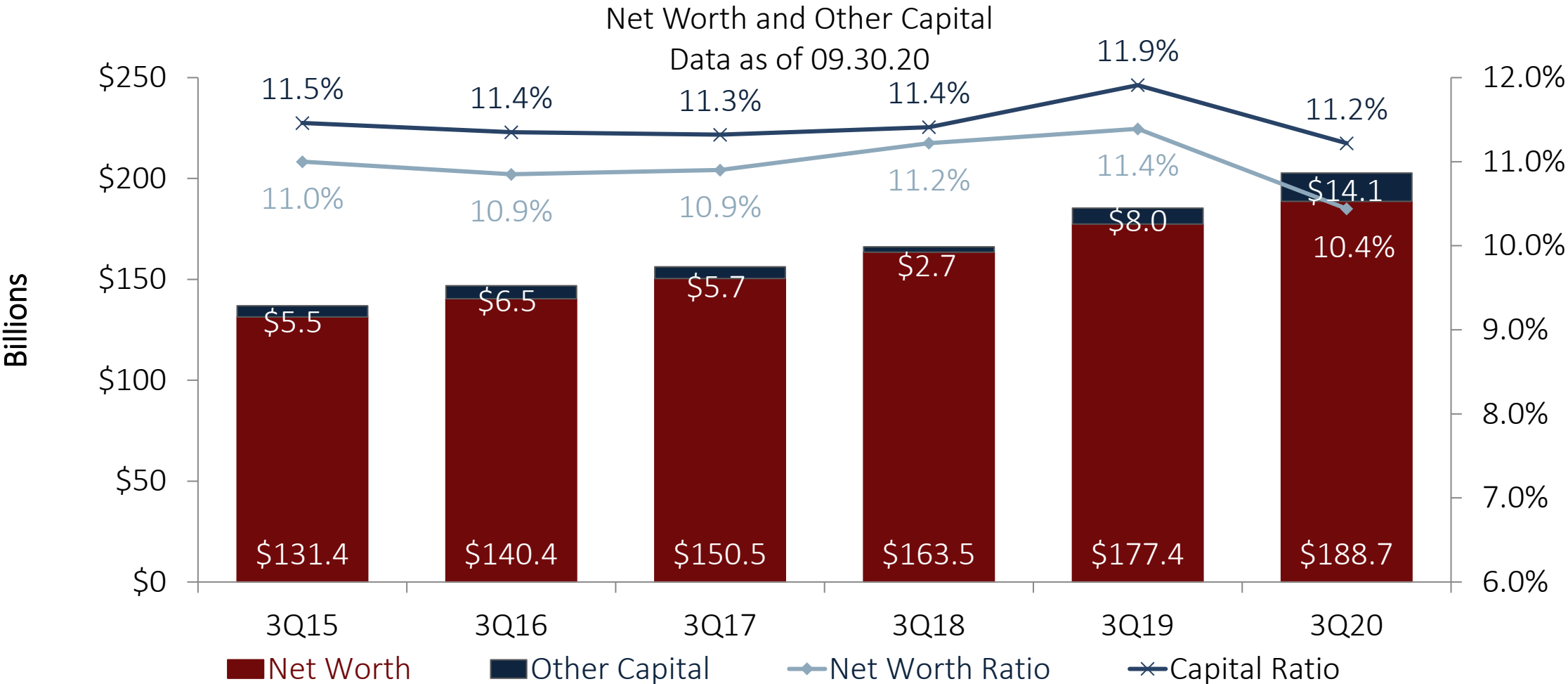
The coverage ratio increased 26.7 percentage points in 3Q to the highest level on record as allowance increases and delinquency falls



Although down 33 basis points over the past year, ROA is up 8 basis points over the quarter



The net worth ratio at credit unions remains strong even as it declines due to deposit growth



The Takeaways

- Keep a clear focus on your 'why'
 - Differentiate your credit union in the market
 - Engaged employees lead to engaged members
- Member impact may be more relevant than financial results in this environment
- Credit unions are designed to step toward challenges and can take a long-term stakeholder view



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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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