



## TRENDWATCH 2Q22



August 31, 2022

# Welcome!



When you join the event, you should automatically be connected to the audio broadcast with your computer. To listen by phone, please dial **646 558 8656** , then input the webinar ID **835 0468 6156** followed by the passcode **071304**.



## Slide Link

Today's slides can be found online at:

<http://bit.ly/2Q-22>

# We Encourage Questions

Use the

## **Questions Box**

located on the bottom of your screen to type your comments or questions.



# Tell Us What You Think!



Please take our post-event survey. We value your feedback!

# Better Payments, Happier Members

Alacriti



✓ REAL-TIME PAYMENTS

✓ ONLINE LOAN PAY

✓ INSTANT TRANSFERS

✓ INSTANT PAYMENTS

The Orbipay Platform helps credit unions offer a better payments experience, all from one unified platform that integrates with your online banking system and core.

## ONE PLATFORM FOR:

- TCH RTP® Network
- ACH
- Fedwire® Funds Service
- Visa Direct
- FedNow<sup>SM</sup> Service
- Money Movement
- EBPP
- Push-To-Card



# Strategic Planning Season Is Here!

Callahan is here to guide your organization step-by-step to create alignment on your strategic direction.

---

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



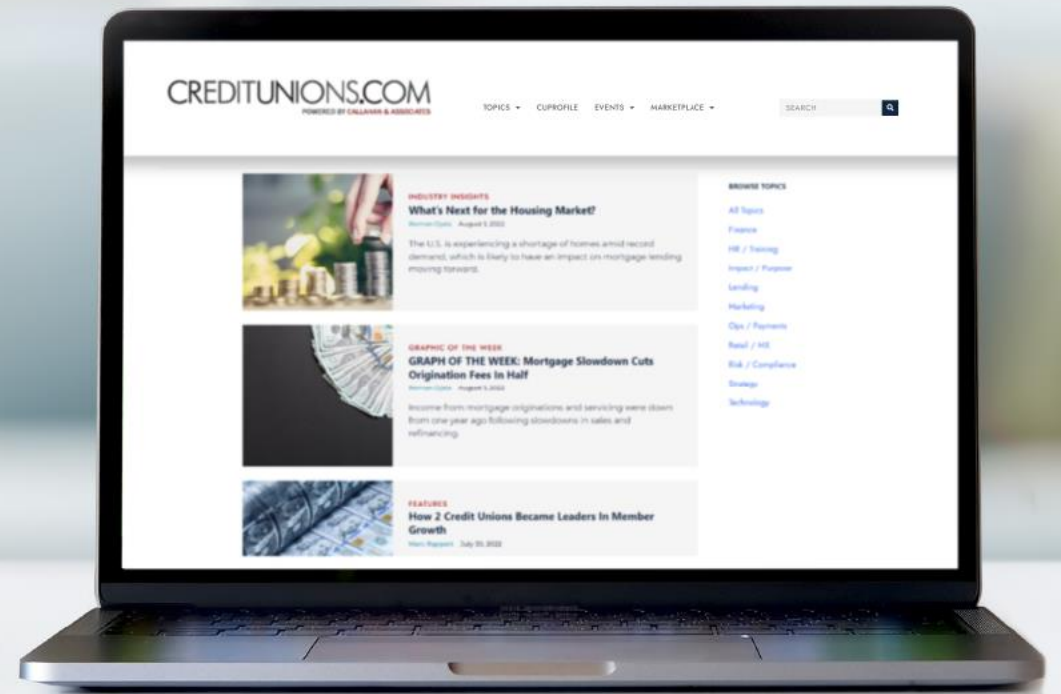
# CREDITUNIONS.COM

POWERED BY CALLAHAN & ASSOCIATES

---

A brand-new  
CreditUnions.com  
experience.

*Coming Fall 2022*







## NEW PORTFOLIOS

for Employee Benefits  
Pre-Funding Plans &  
Charitable Donation Accounts

[www.trustcu.com](http://www.trustcu.com)





## TRENDWATCH 2Q22



August 31, 2022



# Today's Lineup

## **Market Update**

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

## **2Q 2022 Credit Union Results**

*Jon Jeffreys, Chief Executive Officer, Callahan & Associates*

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

## **Community Access Centers**

*Lisa Ginter, CEO, CommunityAmerica Credit Union*





**ALM FIRST**

for a partnership built on trust.

**TRUST**  
MUTUAL FUNDS  
FOR CREDIT UNIONS BY CREDIT UNIONS

Callahan Quarterly Trendwatch | August 31, 2022

# ALM FIRST MARKET UPDATE



# Speaker



**Jason Haley**  
Chief Investment Officer

- **An evolving narrative**

- Inflation has been the dominant economic theme of 2022 and has fueled a significant repricing in the bond market
  - Higher rates, wider asset spreads, and surge in interest rate volatility
  - Worst year for broad fixed income performance since 1980
- After higher-than-expected inflation in the May CPI report, the Fed turned more hawkish, fueling increased market speculation that recession risks were increasing
  - Treasury curve the most inverted since 2000

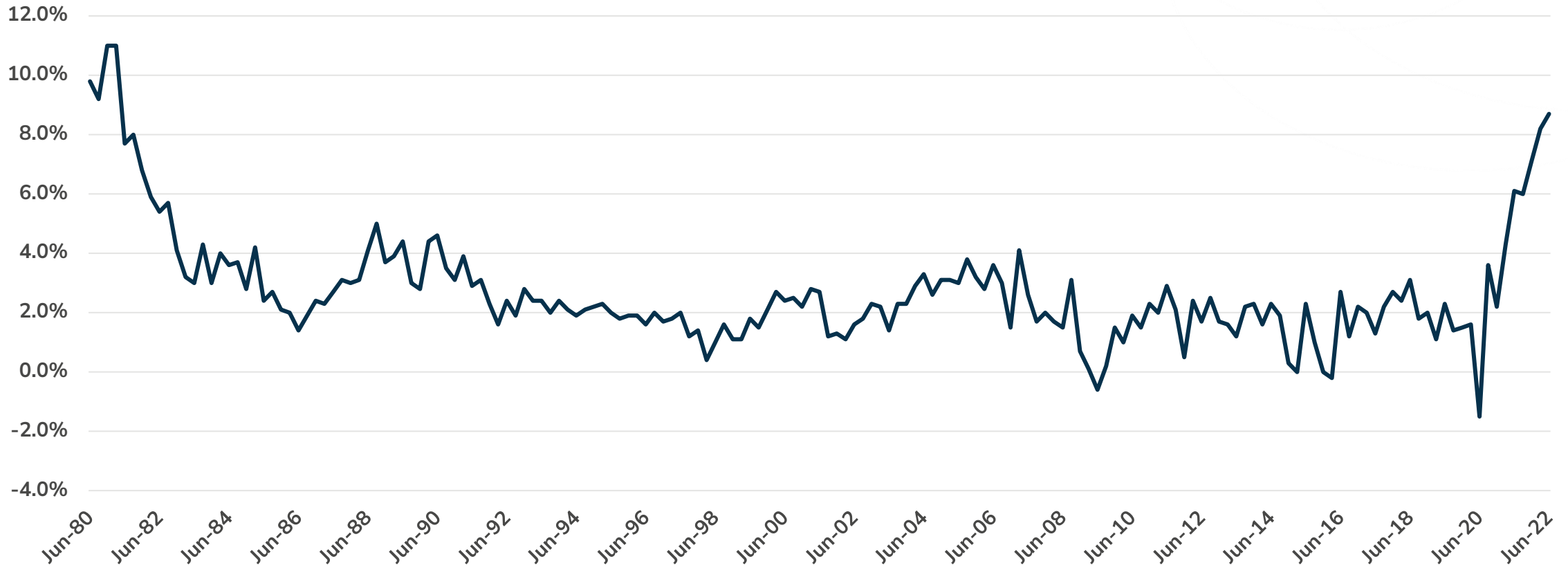
- **Q2 GDP weaker, but jobs and inflation data still running hot**

- GDP contracted 0.9% in Q2 (annualized), the second consecutive quarterly contraction
  - Two consecutive quarterly GDP declines, by itself, does not define a recession according to the official scorekeeper (National Bureau of Economic Research)
  - Q1 declines was more attributable to technical factors, including significant growth in imports and declining business inventories
- Q2 data included a 0.3% decline in real final sales to domestic purchasers (i.e., “core” GDP)
  - This metric, which excludes trade and inventories, rose 2% in Q1
  - Contraction in more interest-sensitive categories like residential and business investment
- July jobs report showed no signs of slowdown in the labor market
  - Headline unemployment rate fell to 3.5%, the lowest since 1969; still nearly 2 open jobs for every unemployed person
  - Q2 Employment Cost Index (wage inflation) higher than expected and just below record high set in Q1



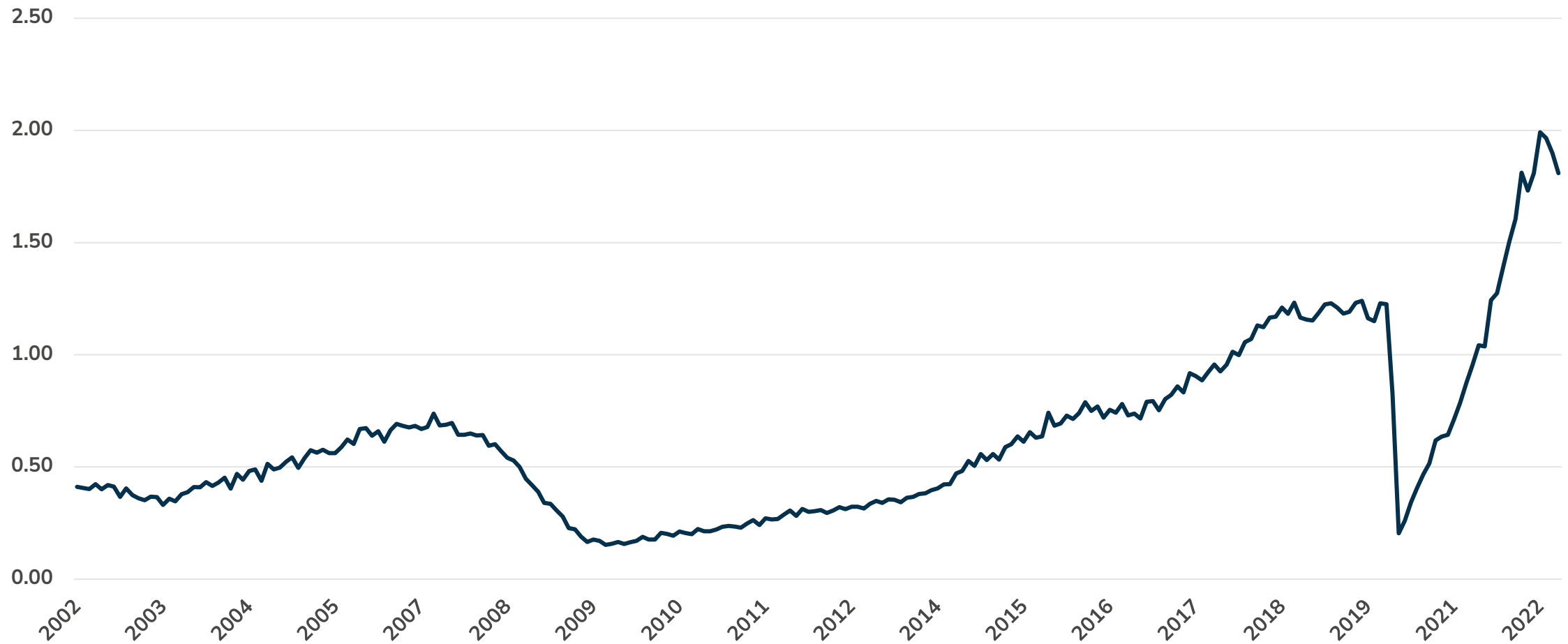
# Weaker GDP Growth, Inflation Still Strong

GDP Price Index  
Q/Q Annualized



# Important Labor Market Metric Improving, But Still Historically High

Job Openings/Unemployment Ratio

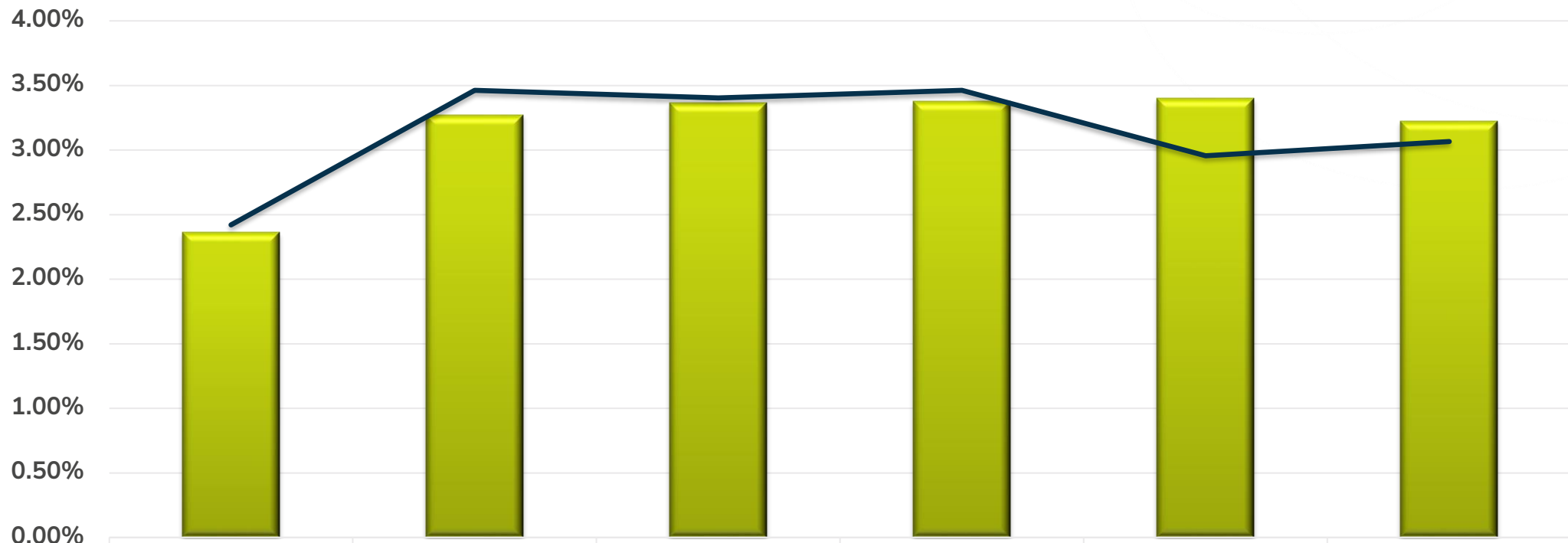


# Fed More Committed to Inflation Fight

- **From “transitory” to historic tightening pace**
  - FOMC fell behind the inflation curve to start the year and has since turned much more hawkish
  - 225 bps of rate hikes in just 4 FOMC meetings, with no slowdown in sight
    - Following July FOMC decision, Fed Chair Powell acknowledged that a “slowdown” in the pace of hikes would be appropriate “at some point,” but resisted commitment to any timeline (still unknown)
    - At the end of February, fed funds futures were priced for a 135 bps of rate hikes in 2022
- **Fed balance sheet reduction underway**
  - Announced at the 5/4 FOMC meeting and initiated 6/1 at initial pace of \$47.5 billion per month
    - Pace accelerates to \$95 billion per month in September (\$1.14 trillion annualized)
  - Fed leaders have not discussed altering pace of BS reduction amid recent upside surprises in inflation data (and no discussion of asset sales in the near future)
- **Soft or hard landing?**
  - Fed speak has been consistent in recent months regarding a commitment to price stability first and foremost even if it comes with economic pain

# What's Priced In?

Front-End Treasury Yields: What's Currently Priced In?  
As of 8/29/2022



█ Spot Rate  
— Implied 1mo Rate

- **Inflation vs. recession debate will likely persist in coming months**
  - Fed leaders have suggested a continued hawkish approach until there are clear, consistent data showing inflation moving toward the target 2% rate
  - Financial markets likely to remain volatile until there is more clarity on the path of inflation and subsequent Fed response
  - How does this really impact my institution?
- **Credit union loan growth has been historic in 2022**
  - Critical to maintain disciplined asset pricing in a volatile market
  - Mispriced loans can lead to liquidity issues, particularly if funded with less sticky deposits

# Disclaimer

ALM First Financial Advisors is an SEC registered investment advisor with a fiduciary duty that requires it to act in the best interests of clients and to place the interests of clients before its own; however, registration as an investment advisor does not imply any level of skill or training. ALM First Financial Advisors, LLC ("ALM First Financial Advisors"), an affiliate of ALM First Group, LLC ("ALM First"), is a separate entity and all investment decisions are made independently by the asset managers at ALM First Financial Advisors. Access to ALM First Financial Advisors is only available to clients pursuant to an Investment Advisory Agreement and acceptance of ALM First Financial Advisors' Brochure. You are encouraged to read these documents carefully. All investments involve risk and may lose money.

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.

Investments in securities are valued based on quotations obtained from independent pricing services or independent dealers. With respect to securities where independent valuations are not available on the valuation date, or where a valuation is not deemed reasonable by ALM First, ALM First will determine the fair value. The fair valuation process requires judgment and estimation by ALM First. Although ALM First uses its best judgment in estimating the fair value of investments, there are inherent limitations in any estimation technique. Future events may affect the estimates of fair value and the effect of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to returns. The production and delivery of this material to any investor/recipient does not establish any express or implied duty or obligation between ALM First and any such investor/recipient, including (without limitation) any duty to determine fair market value or update such material.

Moreover, this report was prepared as of the date indicated herein. No representation or warranty is made by ALM First that any of the returns or financial metrics detailed herein will be achieved in the future, as past performance is not a reliable indicator of future results. Certain assumptions may have been made in preparing this material which have resulted in the returns and financial metrics detailed herein. Changes to the assumptions may have a material impact on any returns or financial metrics herein. Furthermore, ALM First gives no representation, warranty or undertaking, or accepts any liability, as to the accuracy or completeness of the information contained in this report.

This report was prepared for informational purposes only without regard to any particular user's investment objectives, financial situation, or means, and ALM First is not soliciting any action based upon it. This material is not intended as, nor should it be construed in any way as accounting, tax, legal, or investment advice including within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Certain transactions give rise to substantial risk and are not suitable for all investors. The strategies discussed herein can have volatile performance and may employ leverage. Moreover, investment advisory fees and expenses may offset trading gains.

This report was prepared by ALM First Financial Advisors, LLC. The hereto mentioned report contains information which is confidential and may also be privileged. It is for the exclusive use of the intended recipient(s). If you are not the intended recipient(s), please note that any distribution, copying, or use of this report or the information contained herein is strictly prohibited. If you have received this report in error, please notify the sender immediately and then destroy any copies of it. ALM First neither owes nor accepts any duty or responsibility to the unauthorized reader. ALM First shall not be liable in respect of any loss, damage, or expense of whatsoever nature which is caused by any use the unauthorized reader may choose to make of this report, or which is otherwise a result of gaining access to the report by the unauthorized reader.

Index performance is discussed for illustrative purposes only as a benchmark for each strategy's performance and does not predict or depict performance of that strategy. While index comparisons may be useful to provide a benchmark for a strategy's performance, it must be noted that investments are not limited to the investments comprising the indices. Each of the strategy benchmark indices are unmanaged and cannot be purchased directly by investors. This content contains information derived from third-party sources. We believe that this third-party data is reliable; however, we cannot guarantee this data's currency, accuracy, timeliness, completeness, or fitness for any particular purpose.

The Trust for Credit Unions (TCU) is a family of institutional mutual funds offered exclusively to credit unions. Callahan Financial Services is a wholly-owned subsidiary of Callahan & Associates and is the distributor of the TCU mutual funds. ALM First Financial Advisors, LLC is the advisor of the TCU mutual funds. Please read the prospectus carefully before investing or sending money. Units of the Trust portfolios are not endorsed by, insured by, or otherwise supported by the U.S. Government, the NCUSIF, the NCUA or any other governmental agency. An investment in the portfolios involves risk including possible loss of principal.

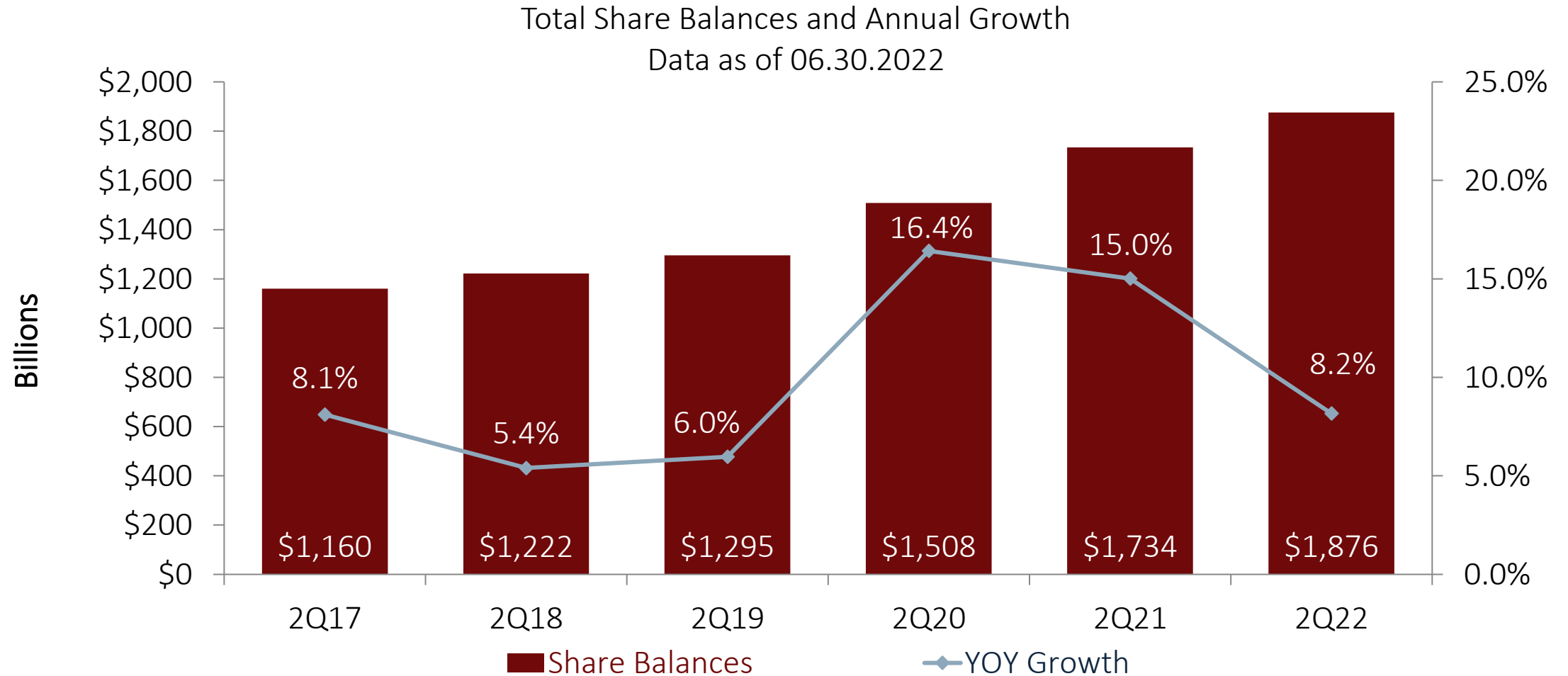


# 2Q 2022 Credit Union Results

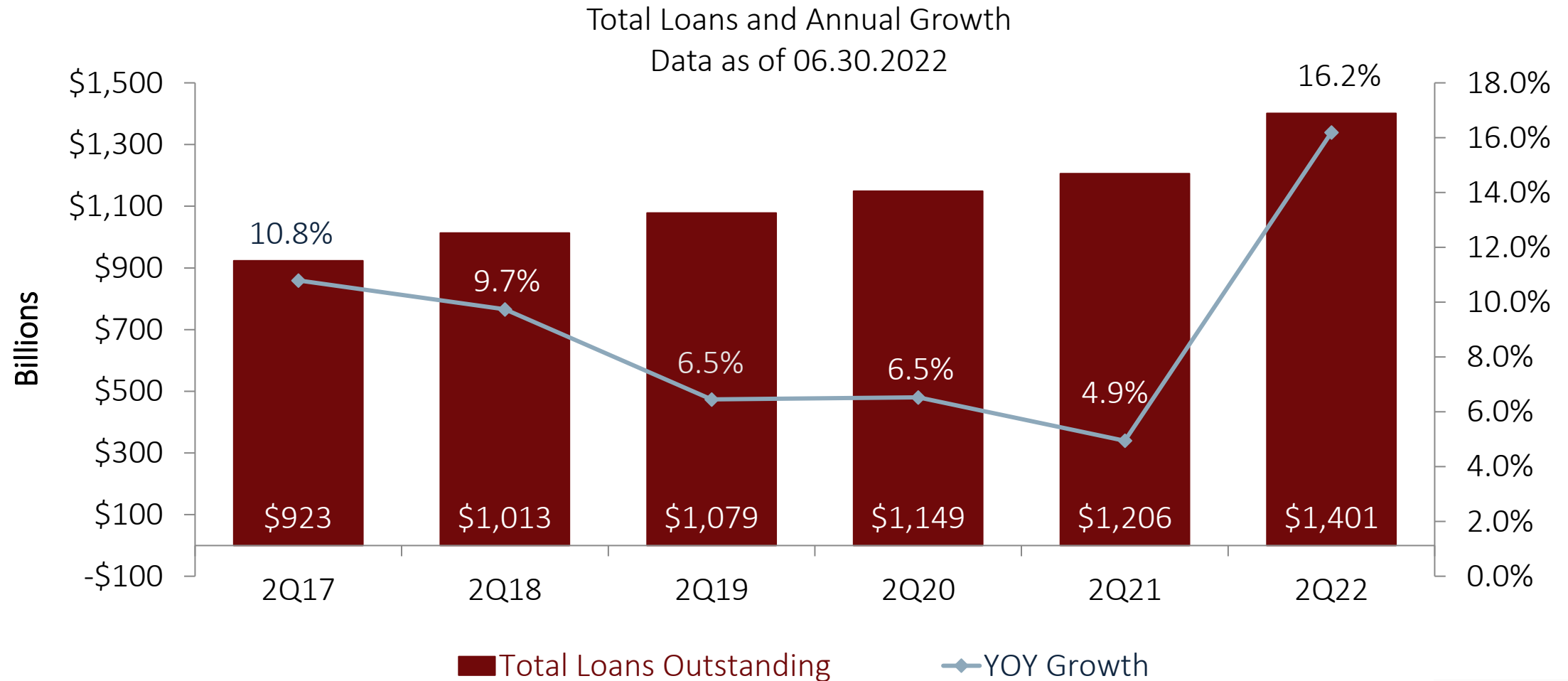
Loan growth nearly doubles share growth, a significant shift from the past three years

	6/30/2022	12-Mo. Growth	6/30/2021	12-Mo. Growth
Assets	\$2,160.5B	8.1%	\$1,999.4B	13.0%
Loans	\$1,401.0B	16.2%	\$1,205.7B	4.9%
Shares	\$1,876.1B	8.2%	\$1,734.5B	15.0%
Investments	\$658.2B	-6.1%	\$701.0B	31.3%
Capital	\$205.8B	-3.6%	\$213.4B	7.7%
Members	134.1M	4.3%	128.5M	3.9%

# Share growth slows from its pandemic pace

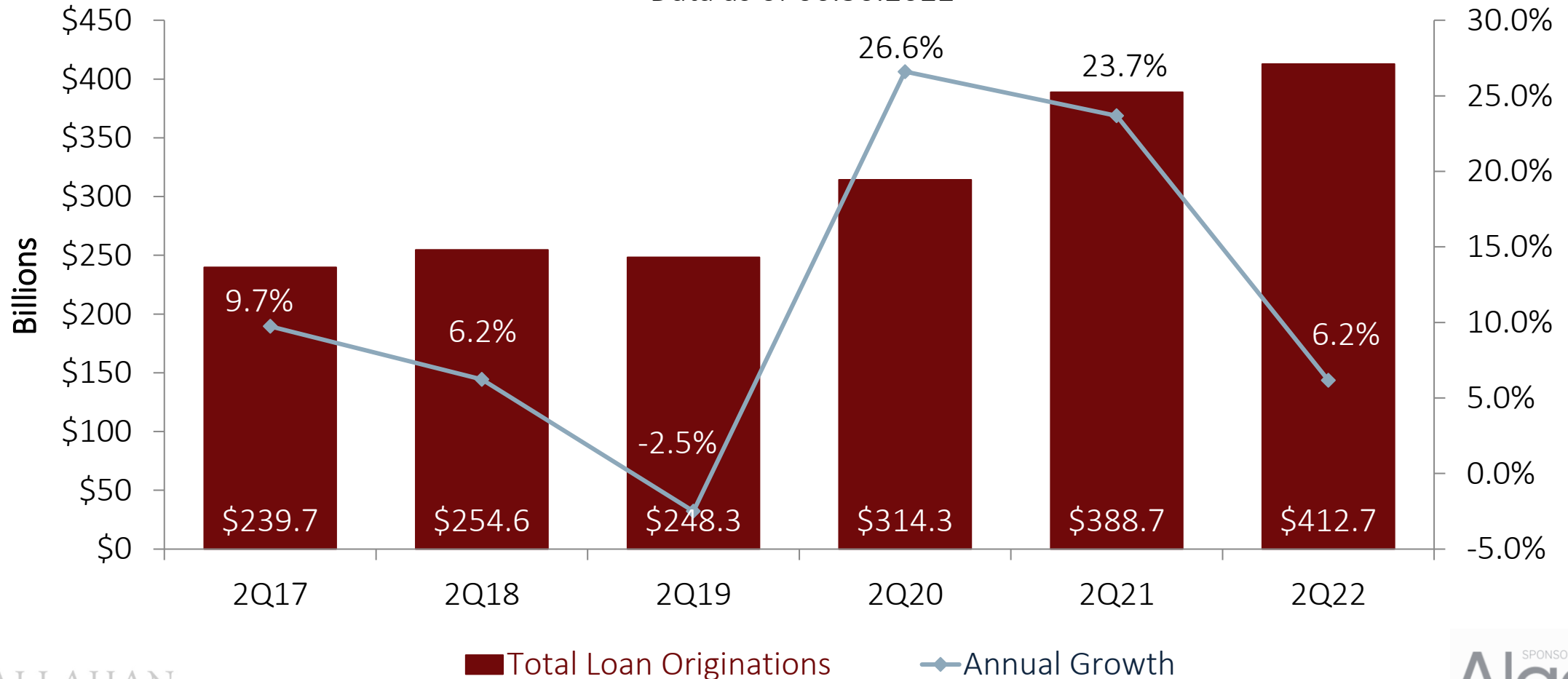


# Loan growth reaches the highest annual rate in nearly two decades

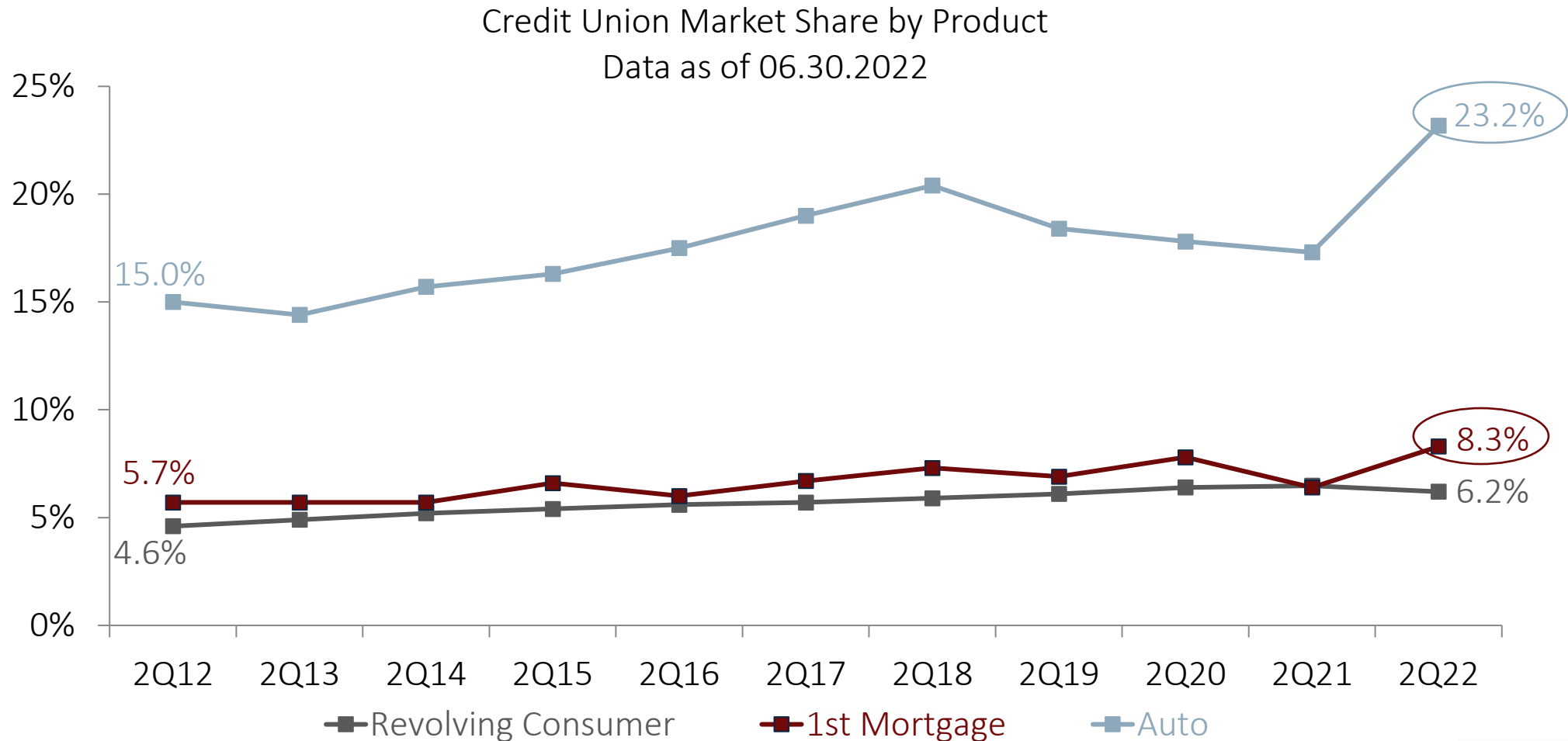


# Mid-year loan originations top \$400 billion for the first time

YTD Loan Originations and Annual Growth  
Data as of 06.30.2022

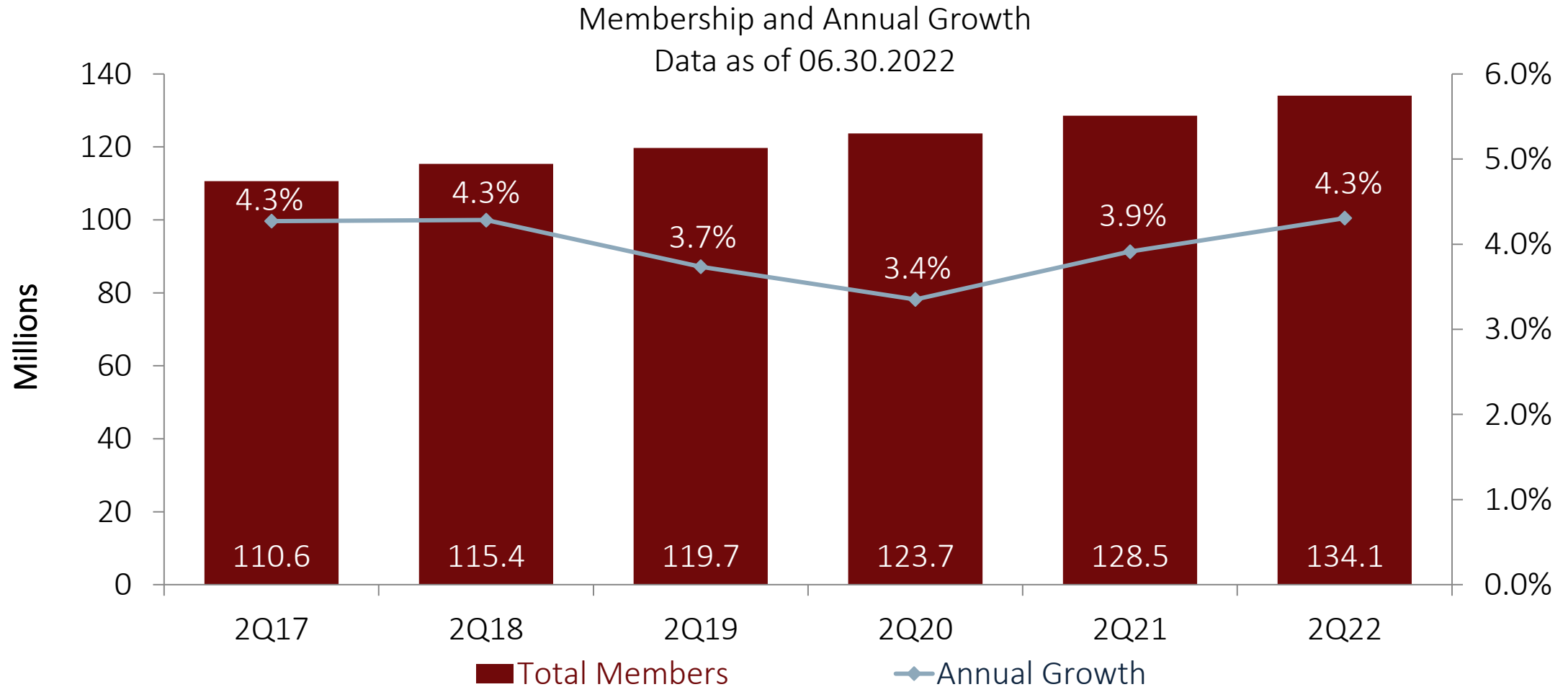


# Credit unions are capturing their largest share of auto and mortgage loans at mid-year ever



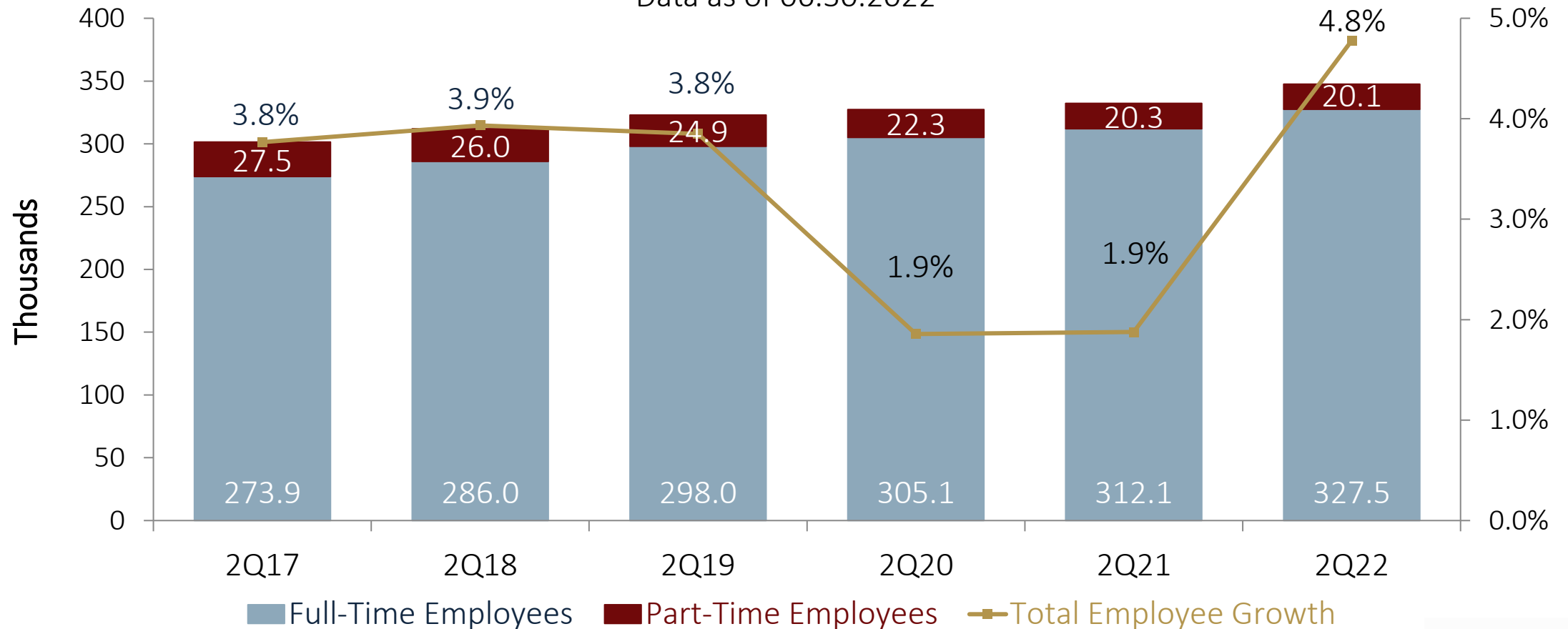


# Over 5.5 million consumers joined a credit union in the past year



# Credit unions are hiring to meet record loan demand and member service needs

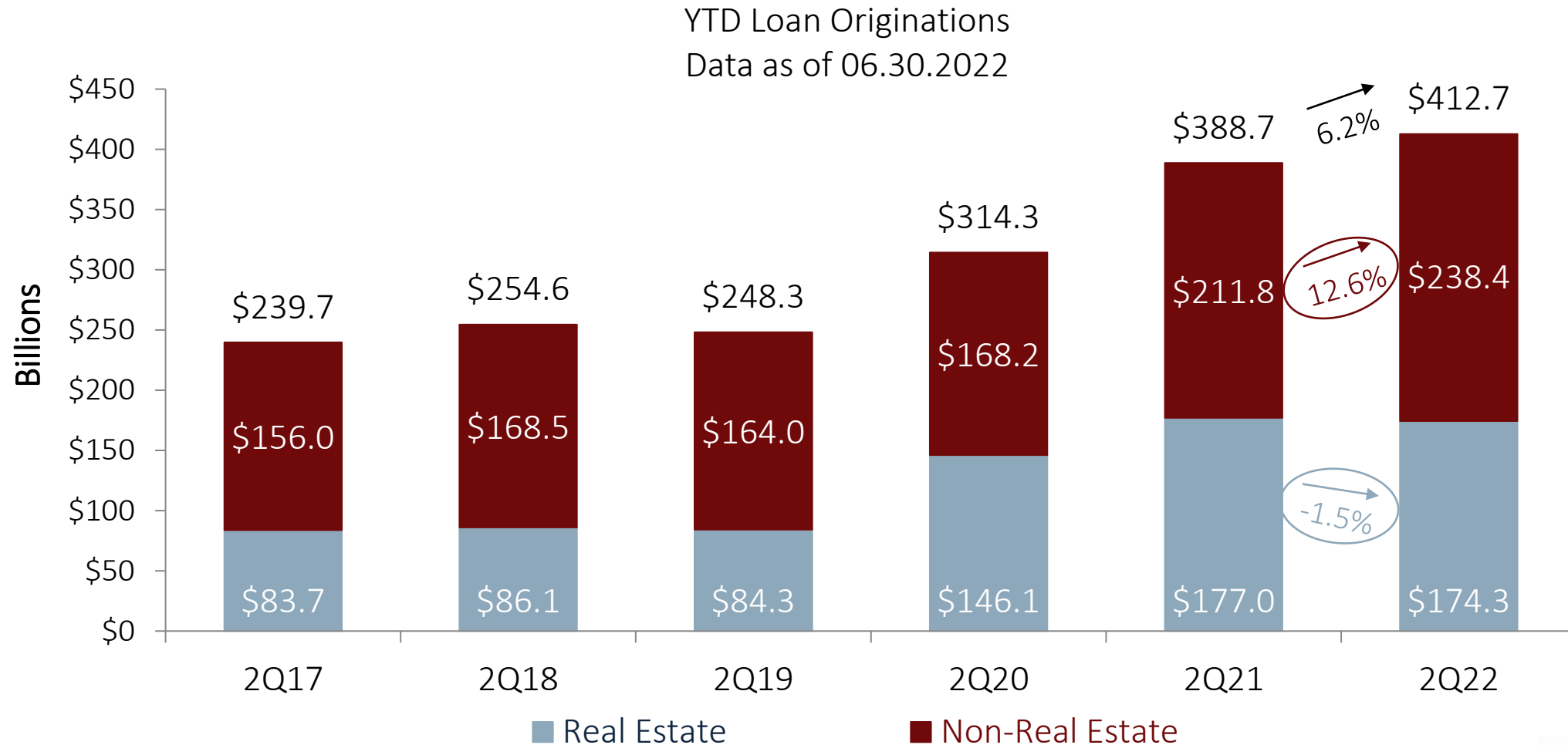
FT & PT Employees and Annual Total Employee Growth  
Data as of 06.30.2022



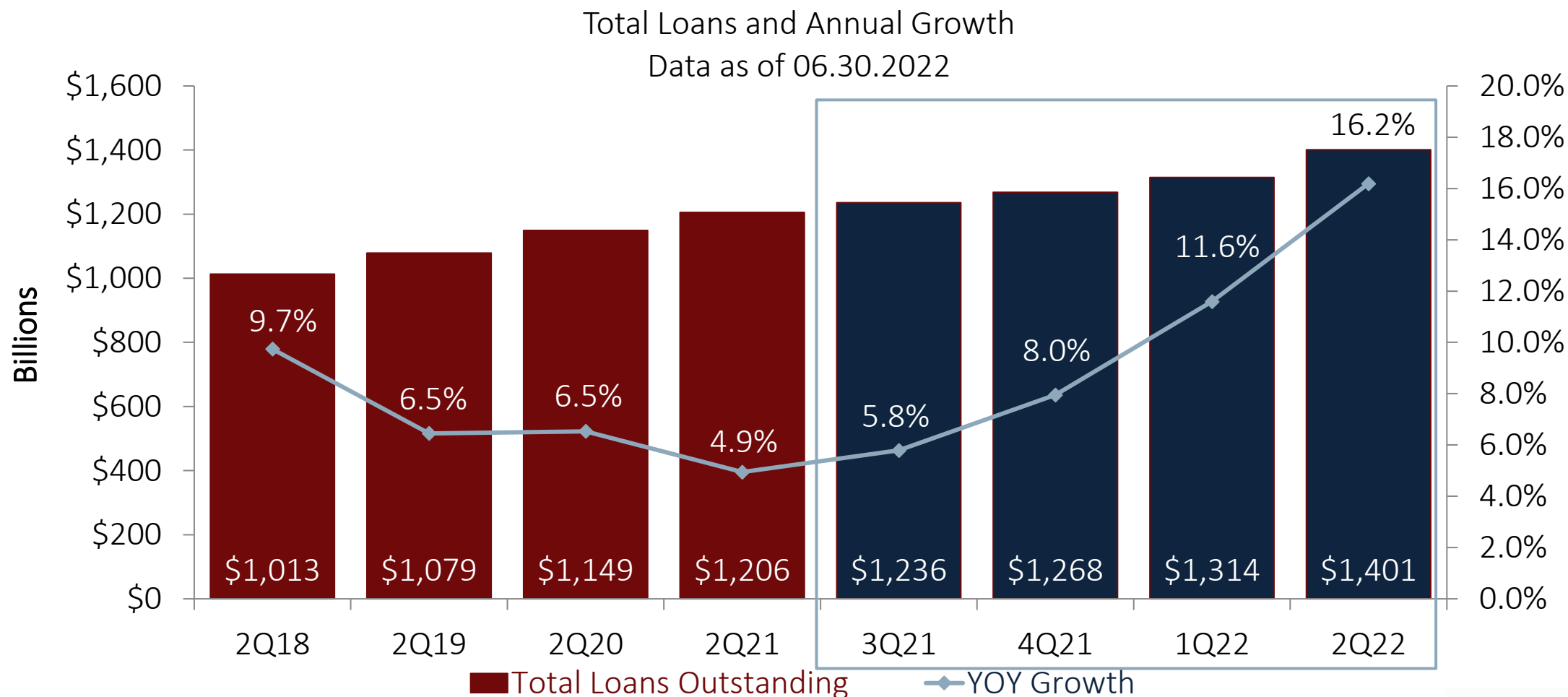


# Lending

# Consumer lending is driving origination growth as real estate lending slows

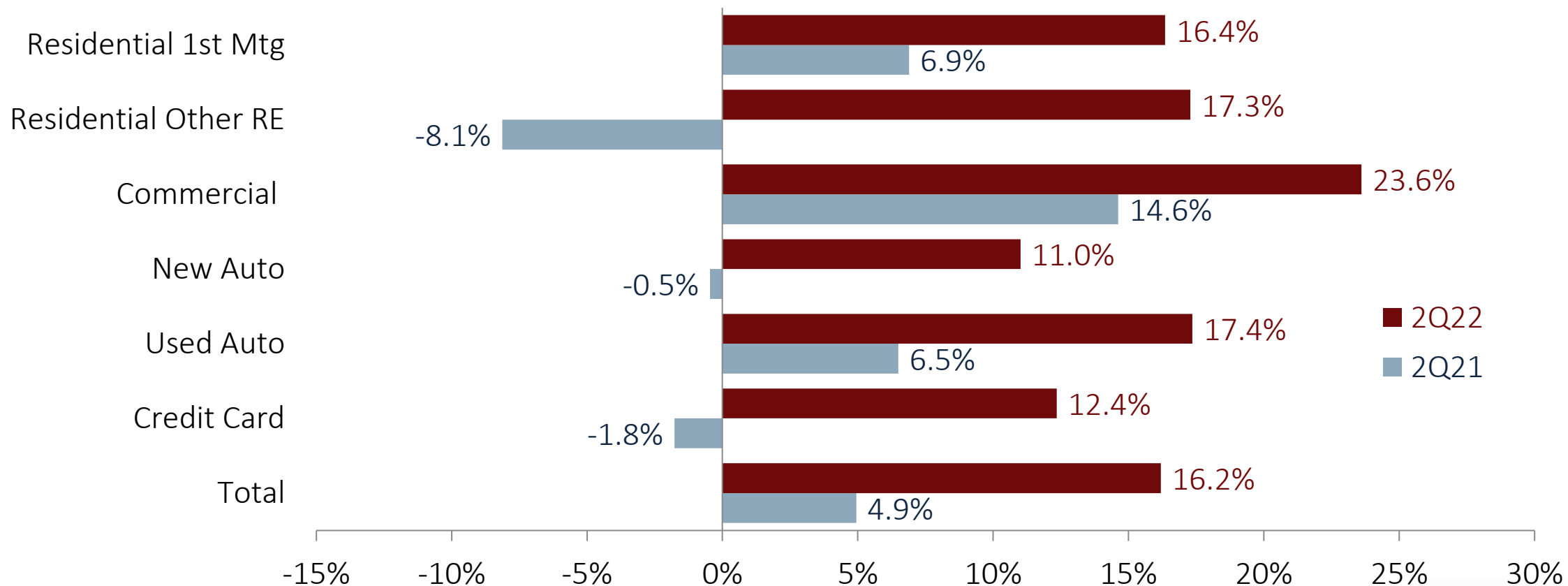


# Loan growth ramps up quarter-over-quarter



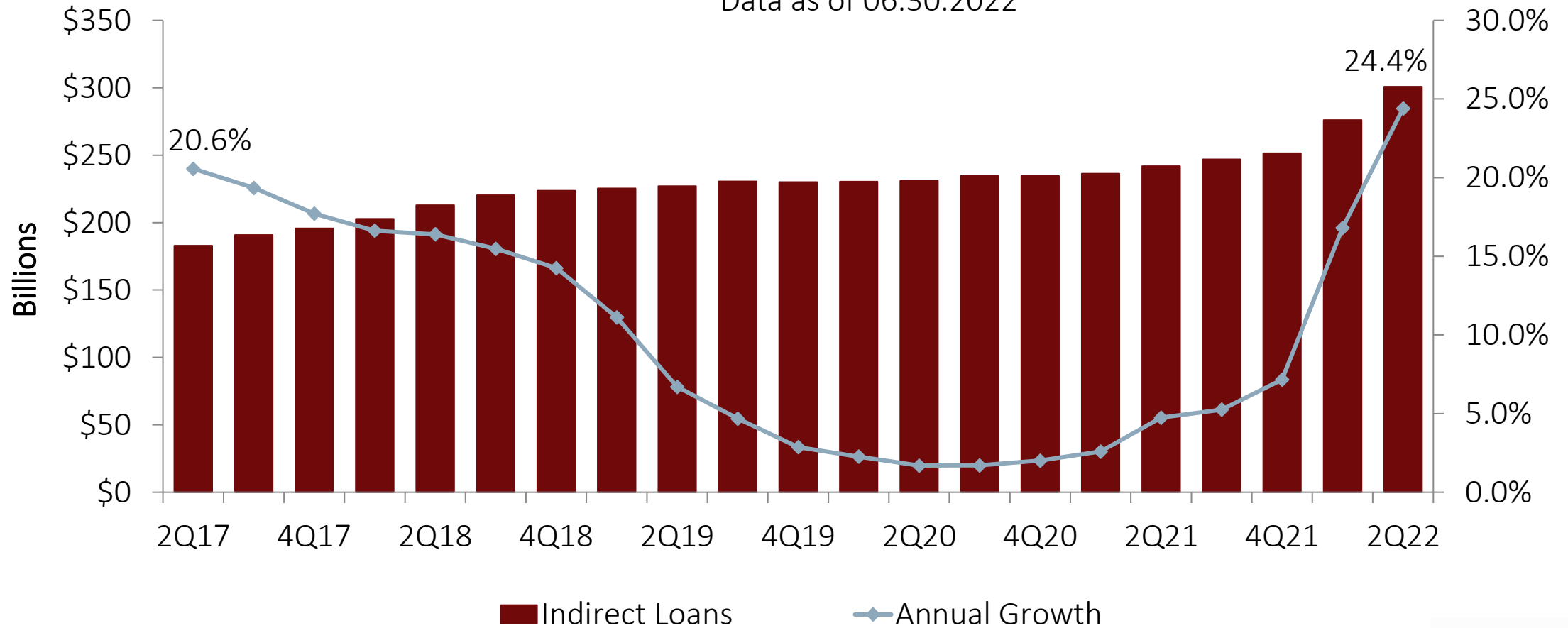
# All lending categories post double-digit annual growth

Annual Growth in Loans Outstanding  
Data as of 06.30.2022

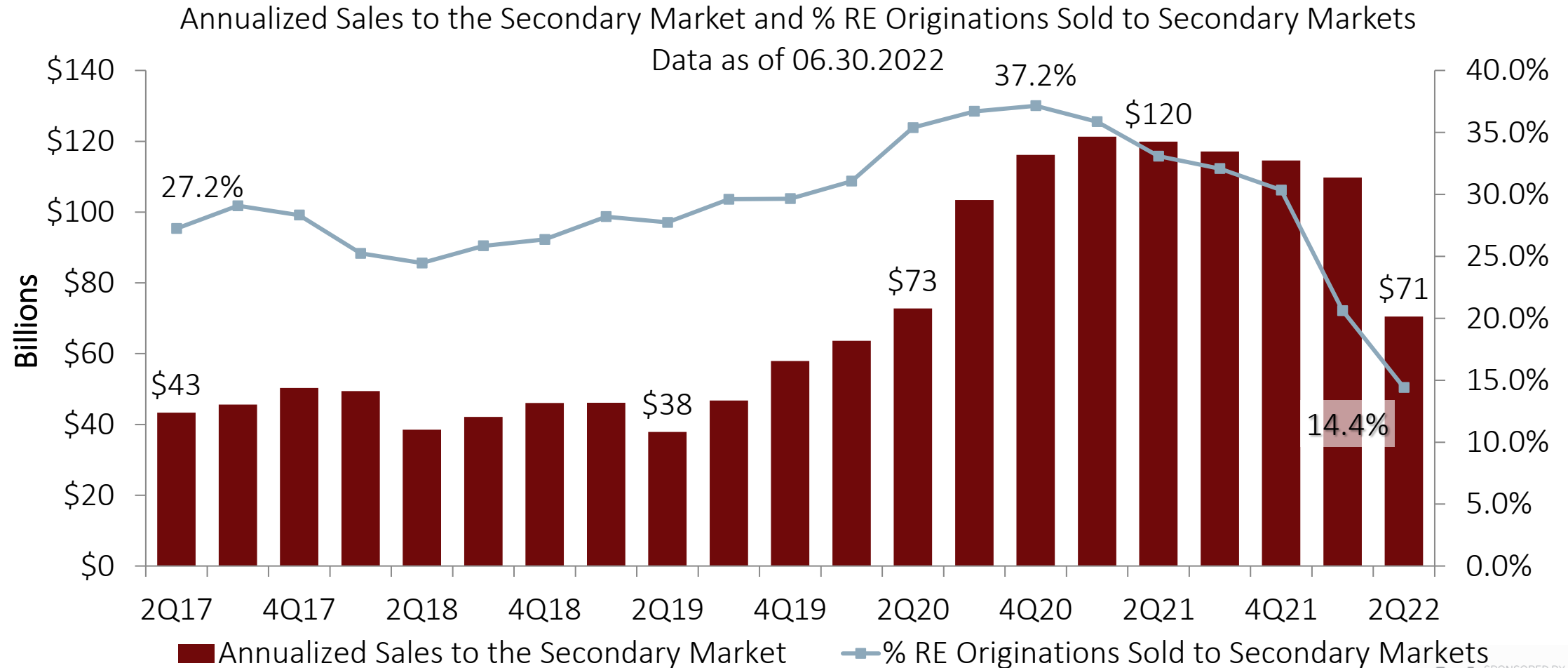


# Indirect lending surge helps auto lending success

Indirect Loans Outstanding and Annual Growth  
Data as of 06.30.2022

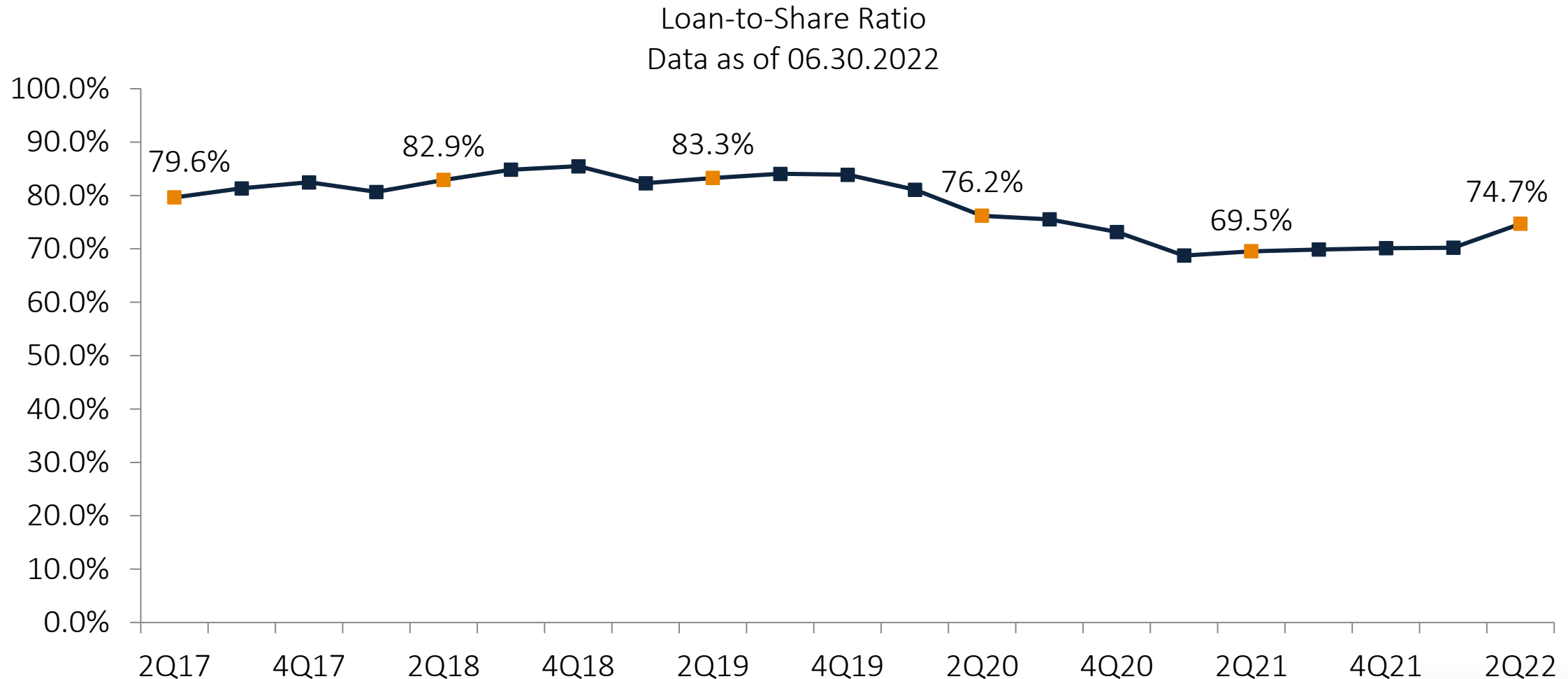


# Secondary market sales fall as mortgage lending slows and interest rates rise

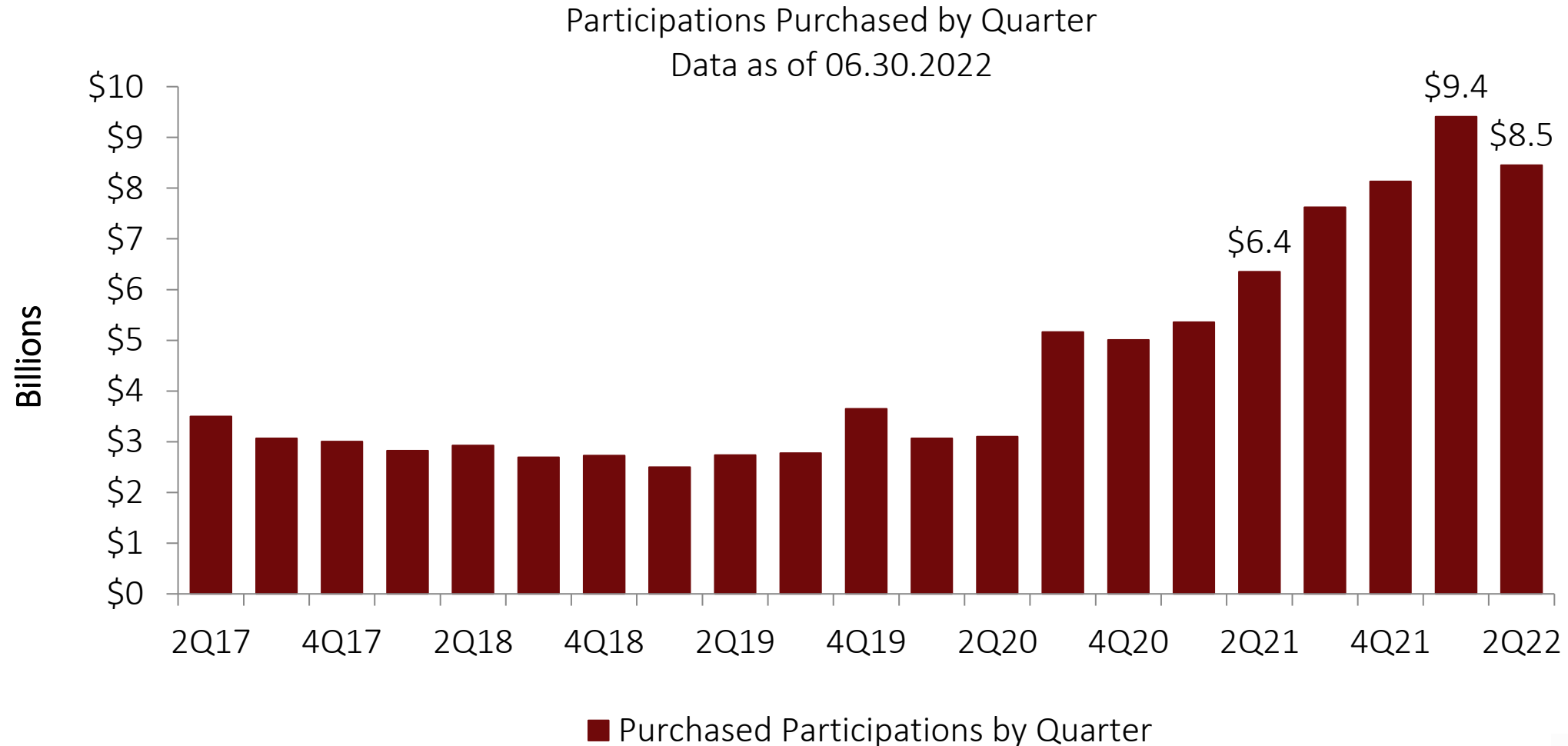




# The loan-to-share ratio jumps 4.5 percentage points in 2Q22; largest quarterly increase on record



# Loan participations purchased decline in the second quarter as organic loan growth accelerates



# Credit card and auto delinquency rates increase over the past year

Annual Change in Delinquency  
Data as of 06.30.2022



Total  
0.48%  
↑ 0.02%



Residential 1<sup>st</sup> Mortgage  
0.39%  
↓ 0.06%



Auto  
0.45%  
↑ 0.14%



Residential Other RE  
0.37%  
↓ 0.18%

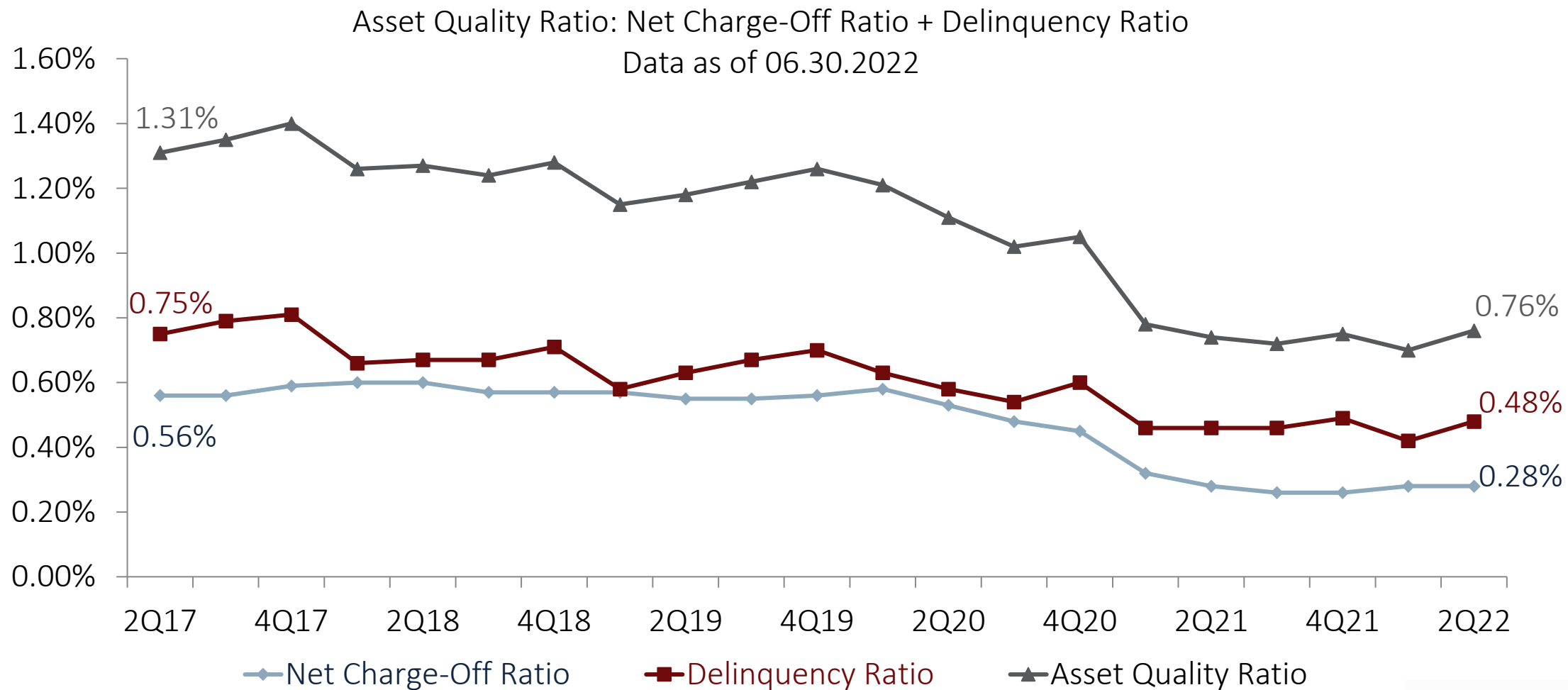


Credit Card  
1.07%  
↑ 0.30%



Commercial  
0.41%  
↓ 0.24%

# Delinquency and net charge-offs remain well below historical norms

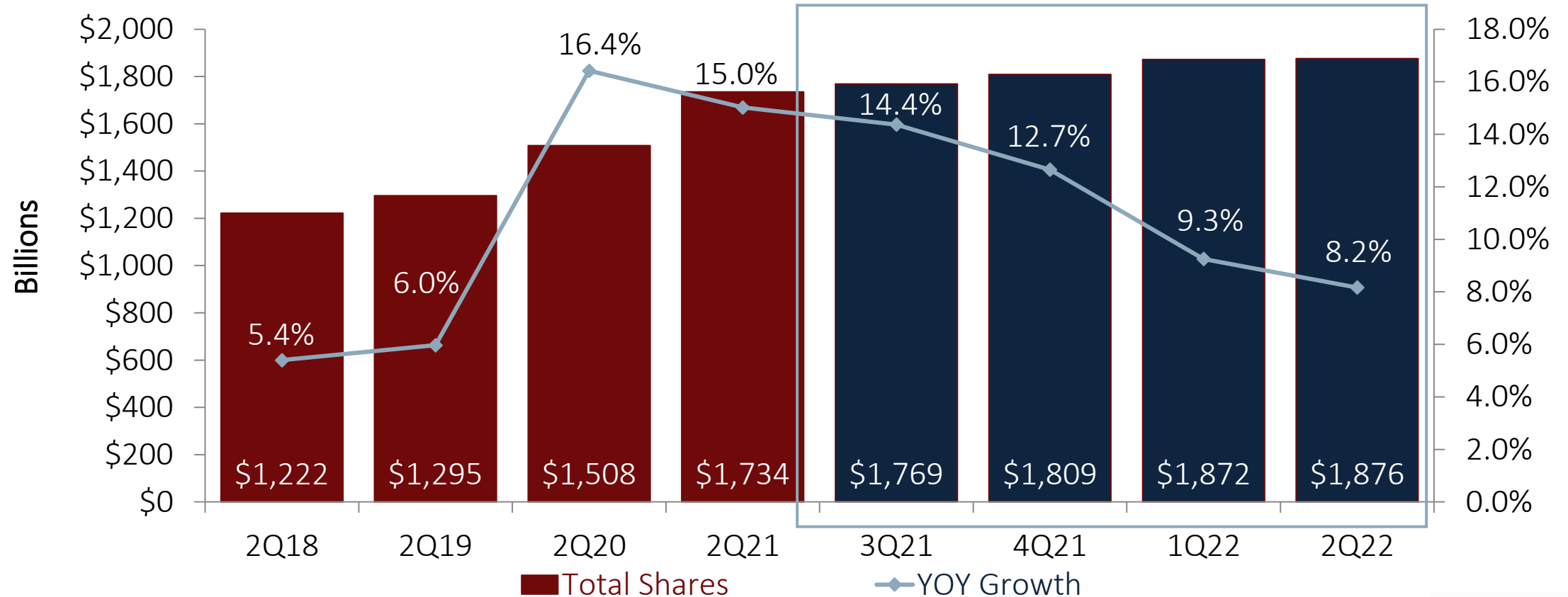




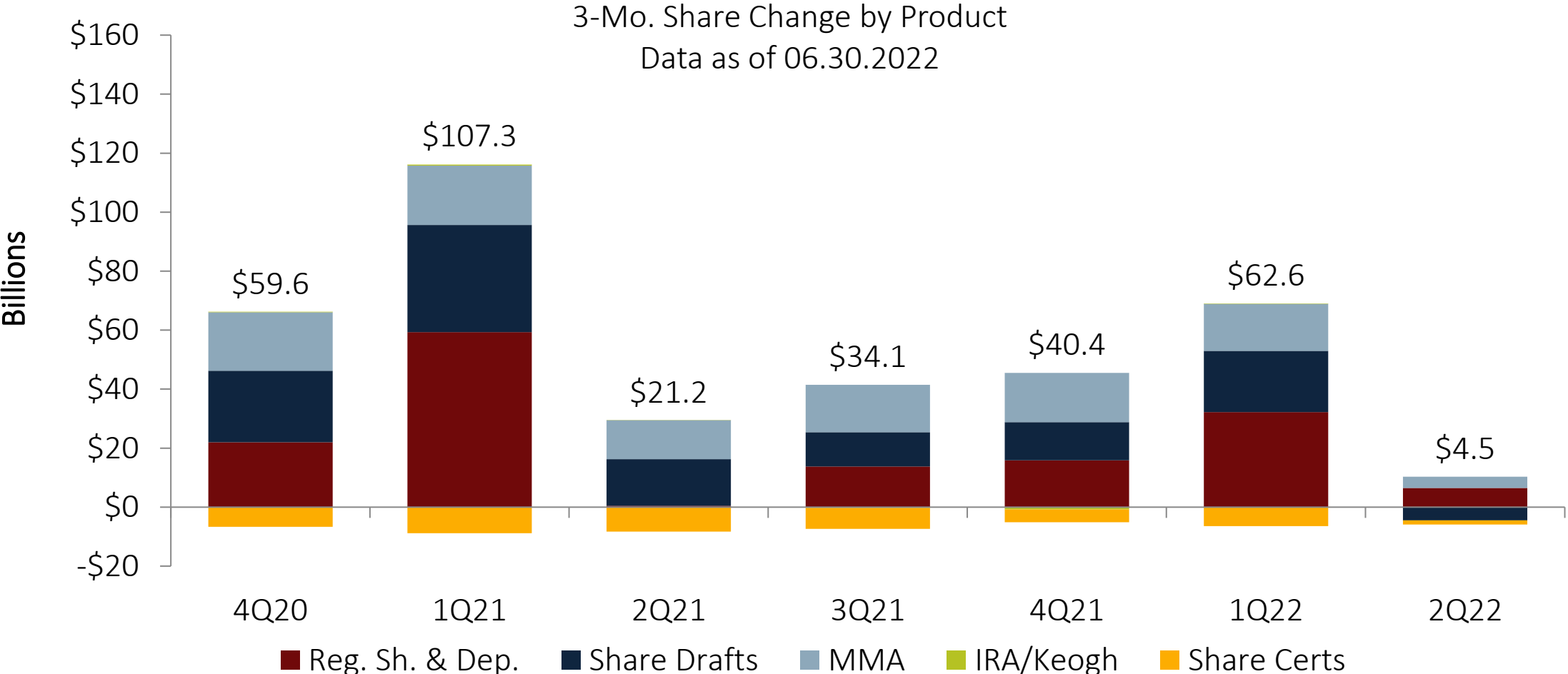
# Savings

# Annual share growth returns to single digits for the first time in two years

Total Shares and Annual Growth  
Data as of 06.30.2022

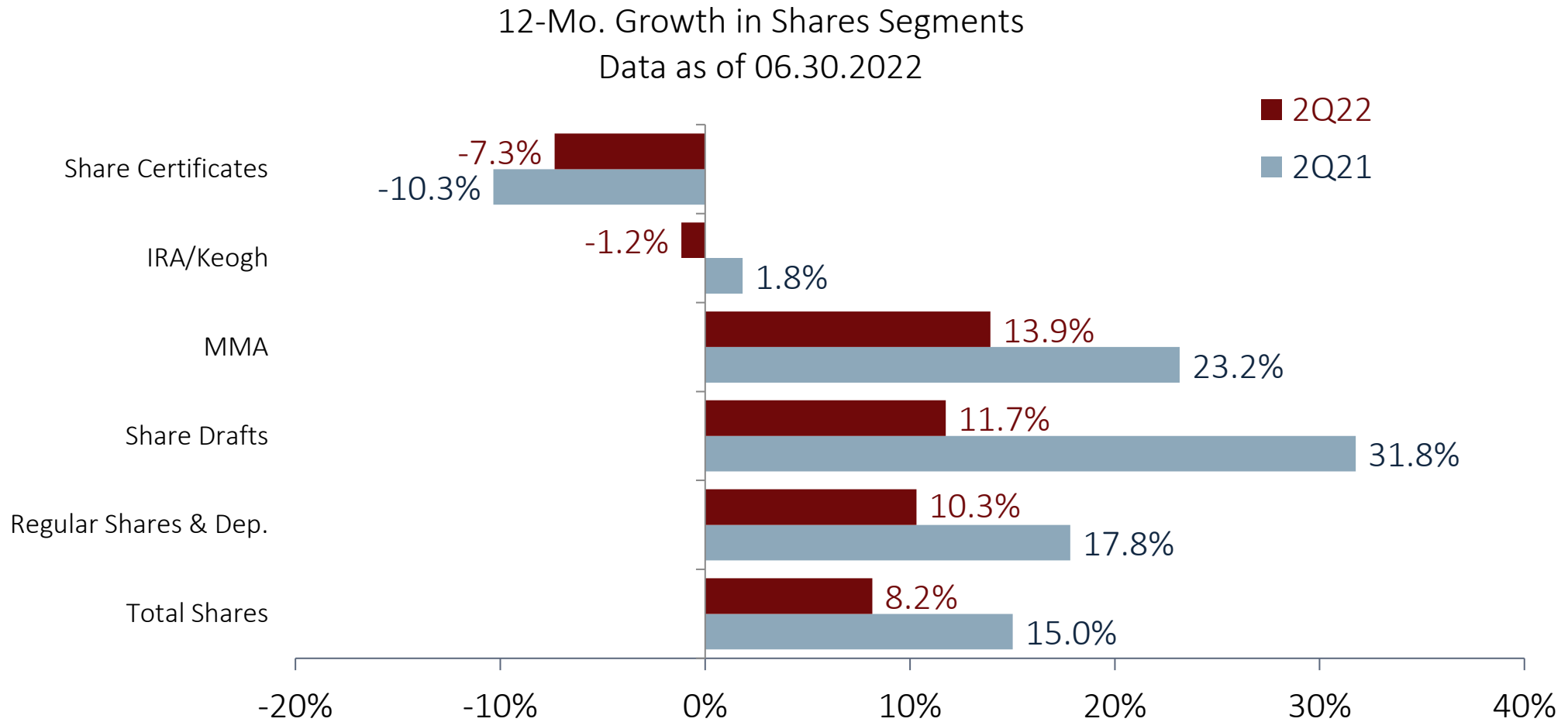


# The second quarter marks the smallest net quarterly share growth since 3Q18

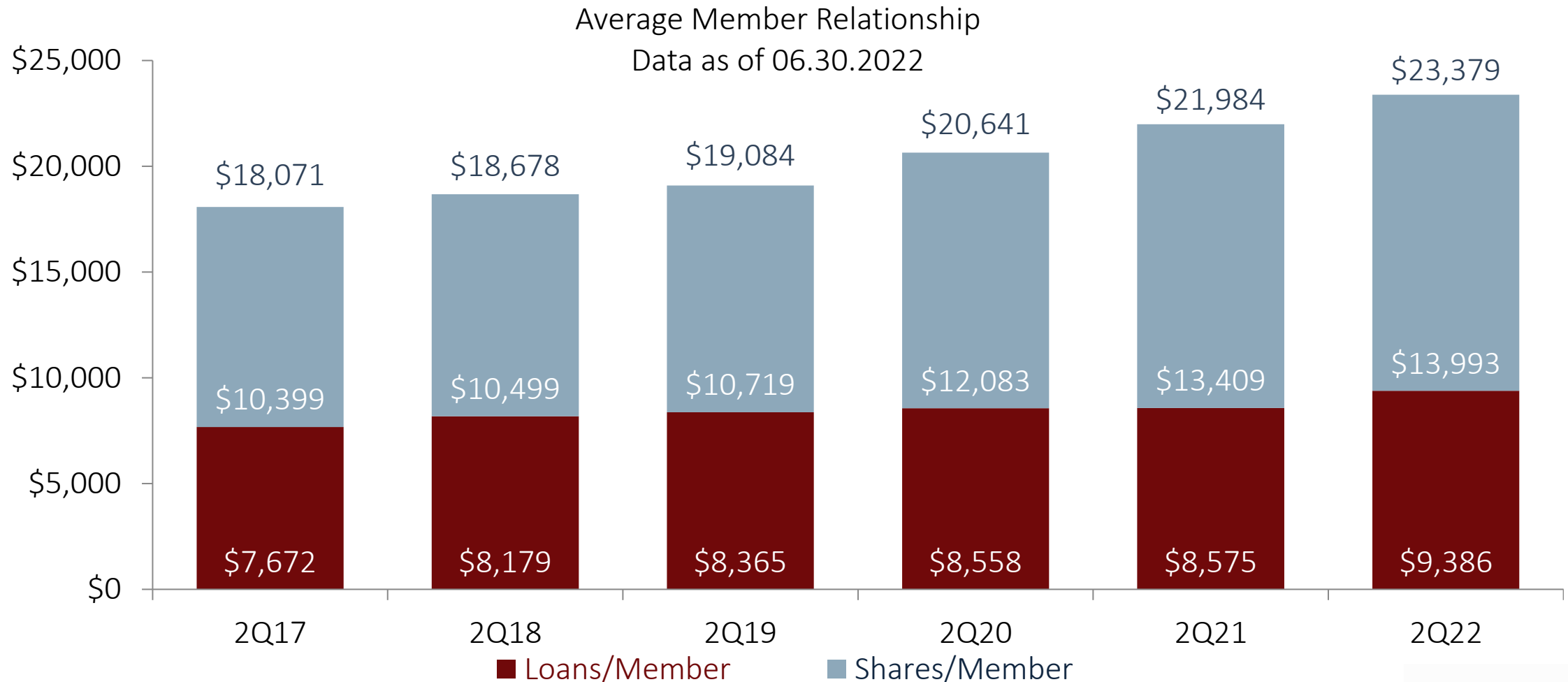




# Growth decelerates year-over-year across all deposit products



# The average member relationship increases 6.3% annually, fueled by lending



# Our Community Access Centers

*Helping members achieve  
peace of mind*



# An Overview of Our Community Access Centers

A comprehensive approach to serving members that will not only help break down barriers to banking but serve as a *single point of access* for complementary support that contributes to peace of mind.

All under one roof, we will address four primary determinants that offer peace of mind:

1. **Financial Stability** – by empowering Well-Being Coaches to provide in-depth financial coaching and education
2. **Education** – by partnering with higher education institutions like Metropolitan Community College and KCK Community College
3. **Community Support** – by coordinating with our library of partners to offer access to a variety of resources (i.e., scout affordable housing, transportation and other needed community support)
4. **Health and Well-Being** – by connecting with other non-profits and organizations to offer preventative health services

# Our Approach

**Build** centers in the community that will provide solutions to achieving sustainable, long-term financial empowerment and provide a rolodex of resources under one roof for access to supplemental services.

**Create** tracking and life planning tools for members and employees.

**Connect, educate and offer** vital skills and workshops such as financial literacy, job skill development, continuing education, employment connection to KC workforce, preventative health & well-being services, etc.

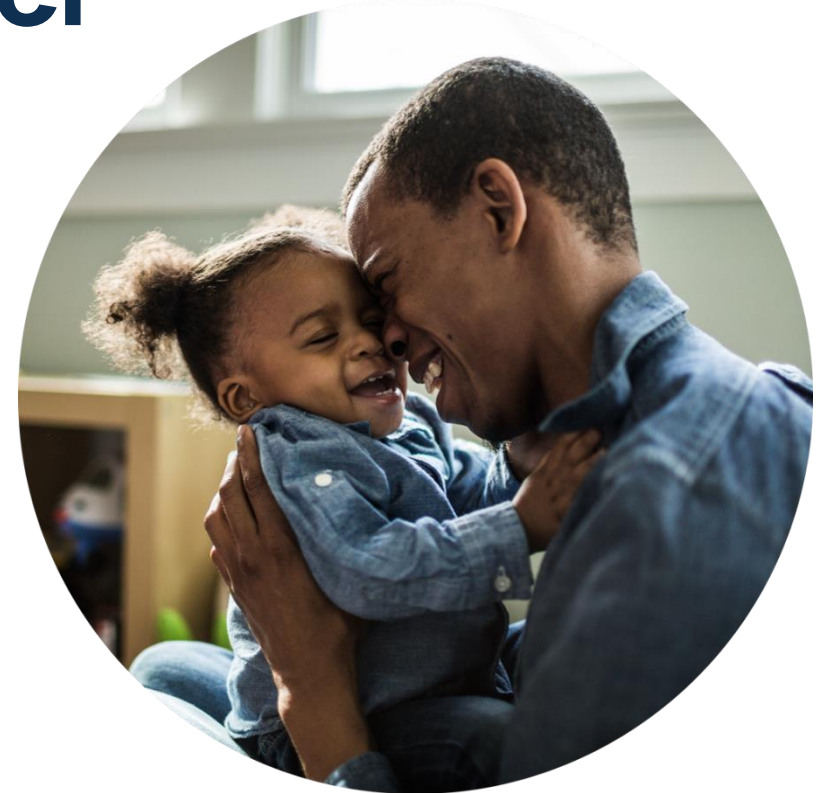
**Proactively partner** with community leaders in sectors of government, higher education, social services, healthcare and other non-profits that have a common mission to help elevate and strength our communities and to present solutions that can address the gap in education, wellness, other community services.

**Achieve Peace of Mind** by transitioning families and small businesses from surviving to thriving and beyond.

# What it Means to Consider the *Whole Person*

Our Community Access Centers will lead with a focus on financial well-being, but we will partner with non-profits and other businesses who can help us fully enrich the lives of individuals and elevate the community overall by:

- Improving financial literacy and credit scores
- Addressing housing challenges & homeownership
- Training skilled workers and therefore, improving livable wages
- Closing education gaps and improving graduation rates
- Reducing the unemployment rate
- Improving crime statistics



# It's Not Just a Place, It's the People

## Well-Being Coaches:

Trusted advisor who will help create a life plan and navigate the path to achieve financial peace of mind.





# Well-Being Coach Tools and Resources



**One-on-one Money  
Management  
Coaching Sessions**



**Customized Life  
Plan Development**



**Regular Financial  
“Check Ups”**



**Connection to Social,  
Educational and Other  
Community Services**

# Our First Location

Our first Community Access Center opening is August 2022 in south Kansas City, MO.





# We will blanket KC with our caring hearts

**Additional Peace of  
Mind Access Centers  
Coming Soon:**



Kansas City, Missouri  
Troost Avenue  
2023



Kansas City, Kansas  
6<sup>th</sup> and State Avenue  
2024



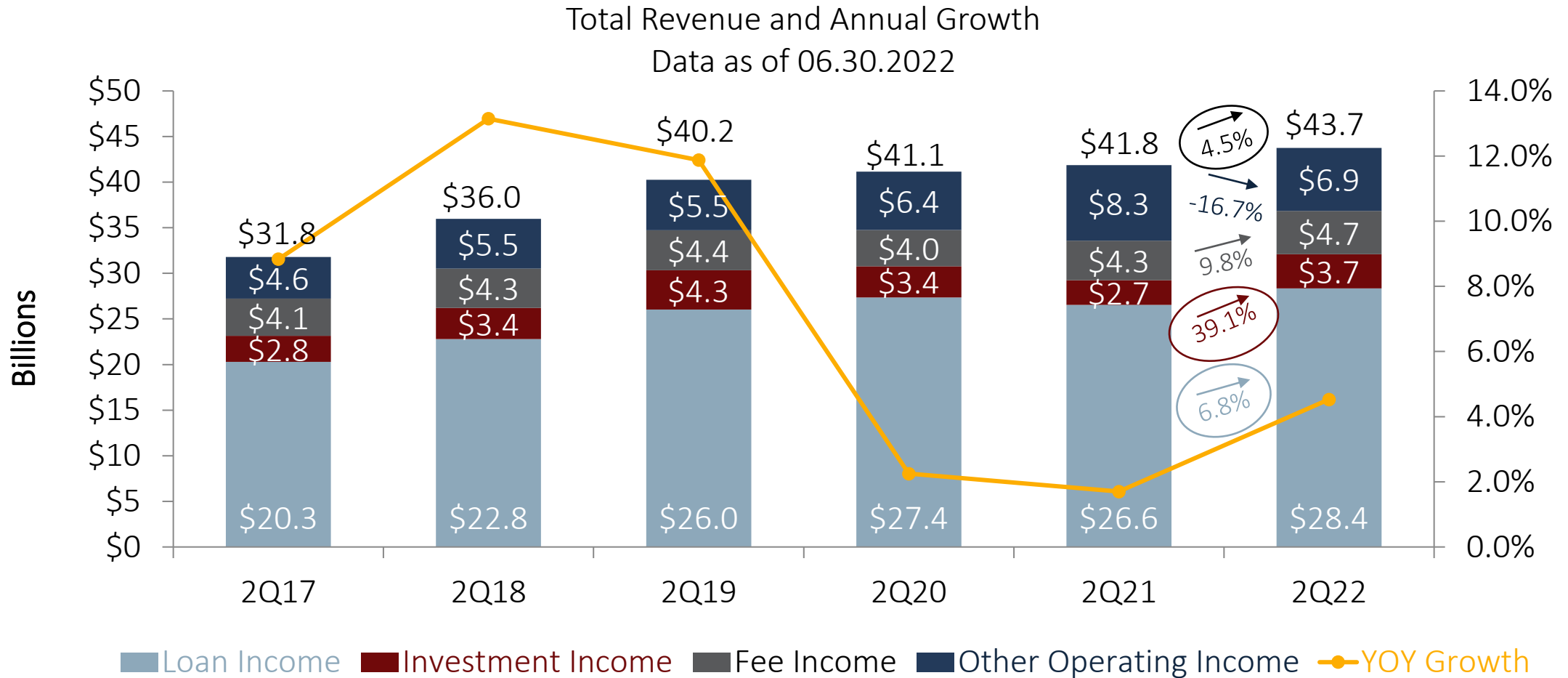
Kansas City, Missouri  
Guadalupe Center  
TBD



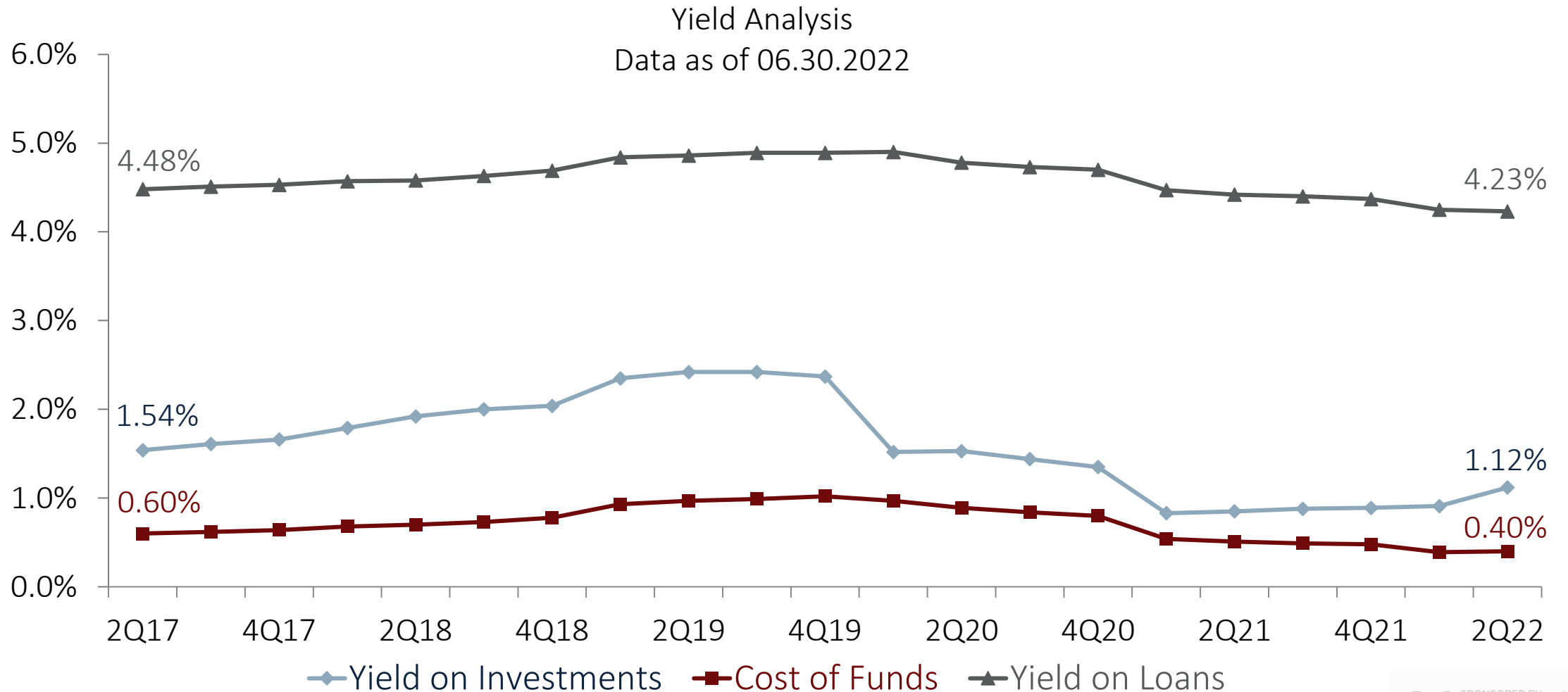
# Earnings & Capital



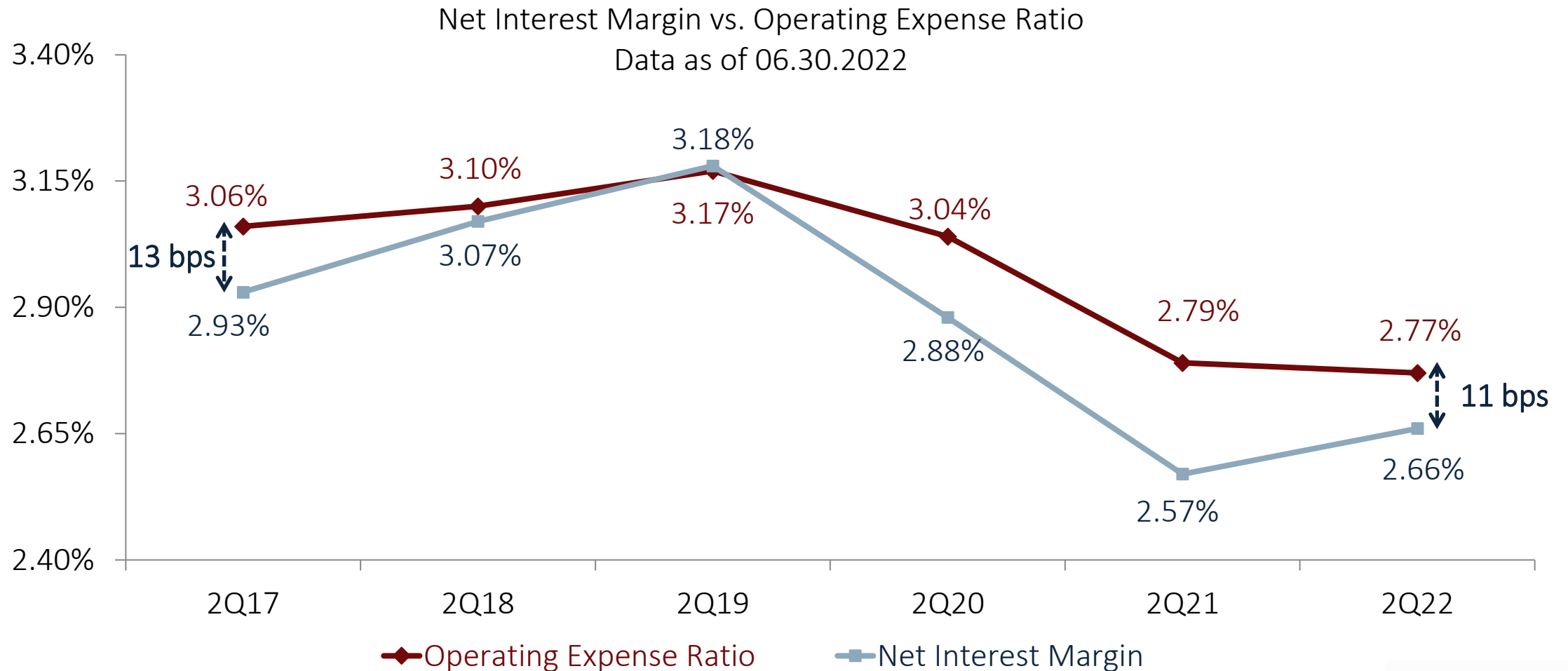
# Revenue growth is accelerating, driven by loan and investment income



# Yield on investments moves up as cost of funds and yield on loans are slower to reprice

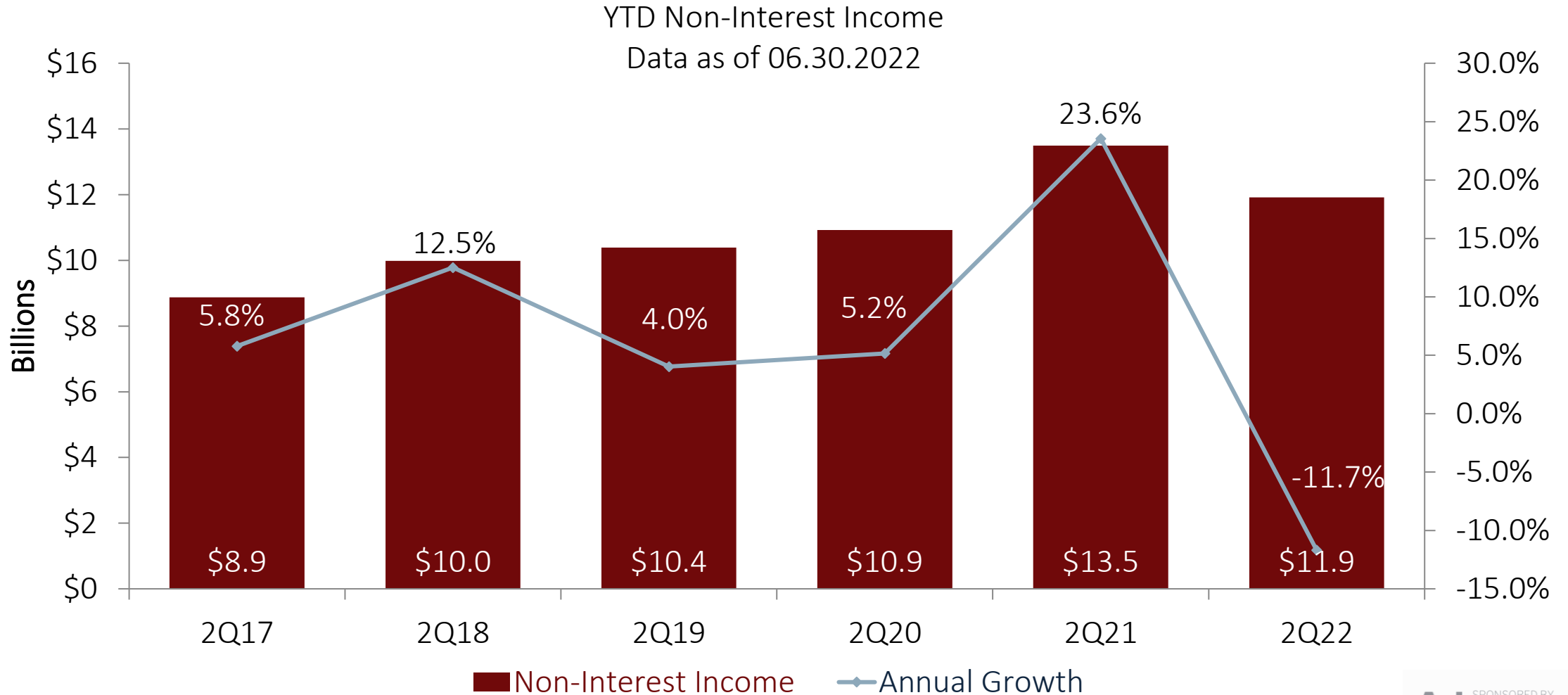


# Net interest margin increases and the gap between margin and operating expense ratio shrinks

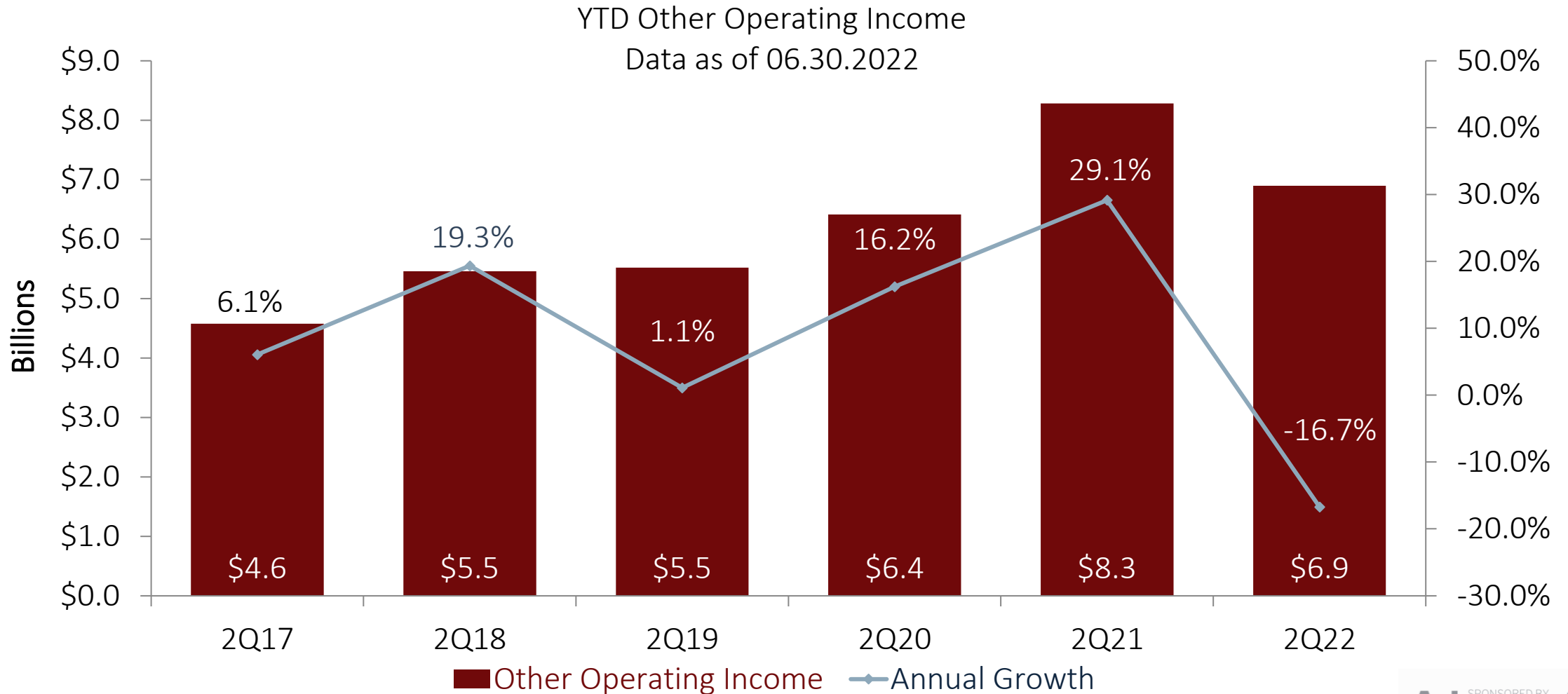




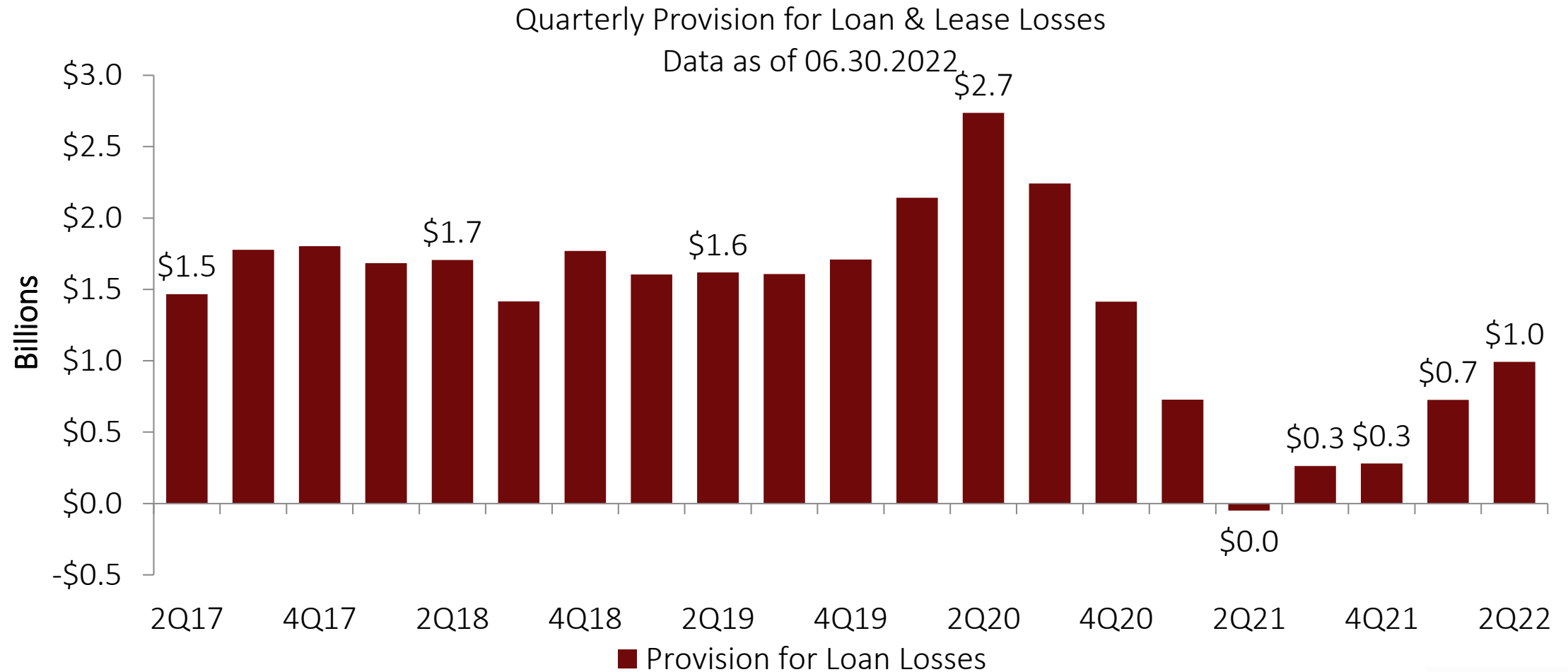
# Non-interest income falls...



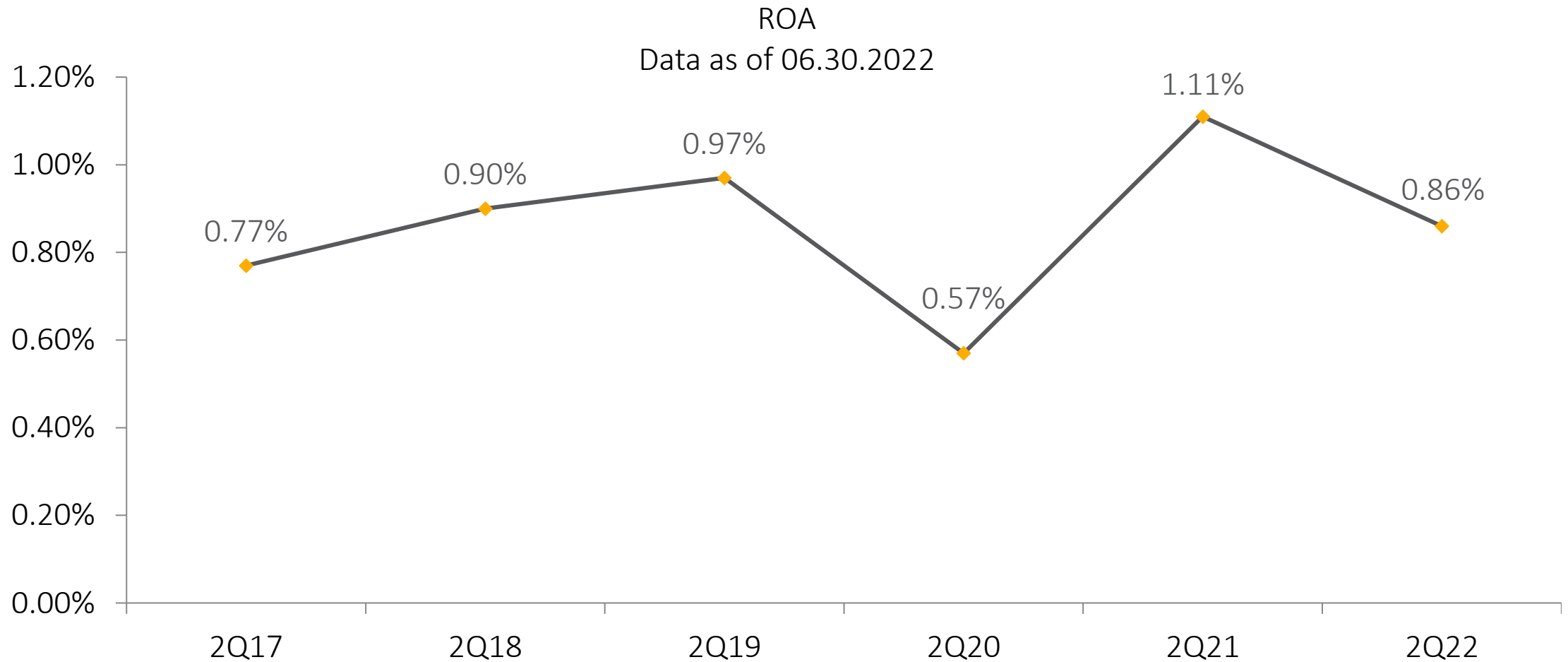
# As other operating income contracts due to lower gains on secondary market loan sales



# Credit unions are slowly increasing provision expense

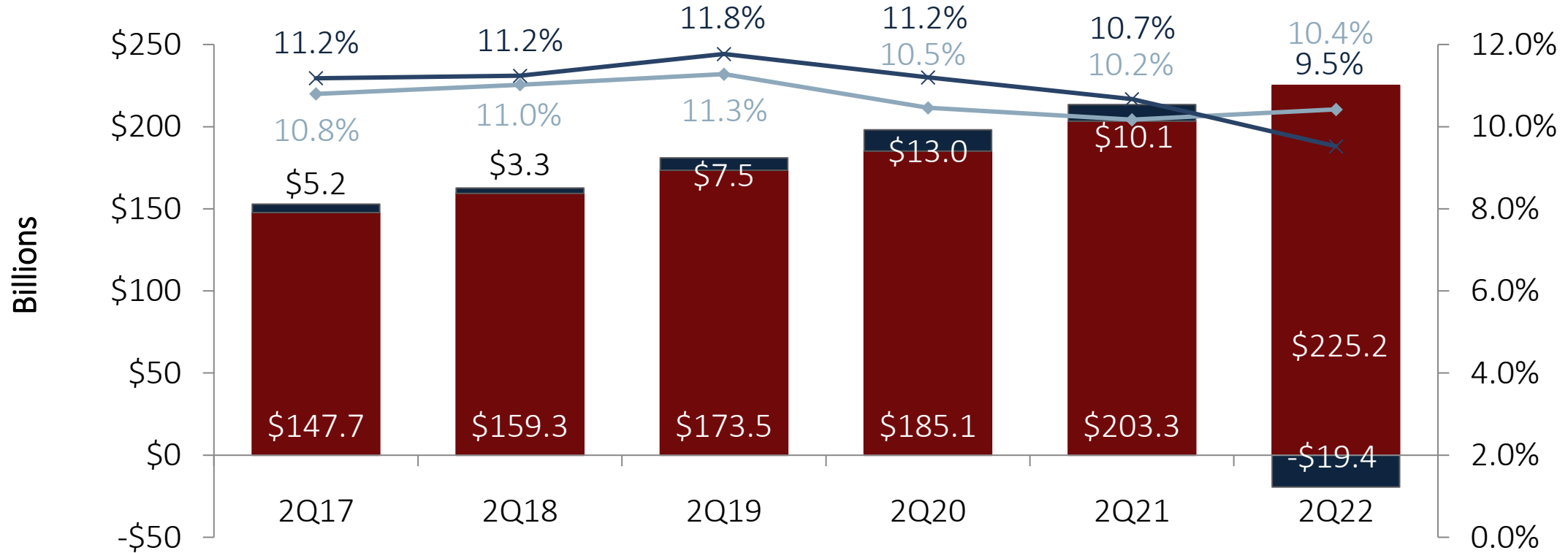


# ROA declines 25 basis points from second quarter of 2021



# Regulatory net worth ratios jump 25 basis points but unrealized losses reduce capital ratio

Net Worth and Other Capital  
Data as of 06.30.2022



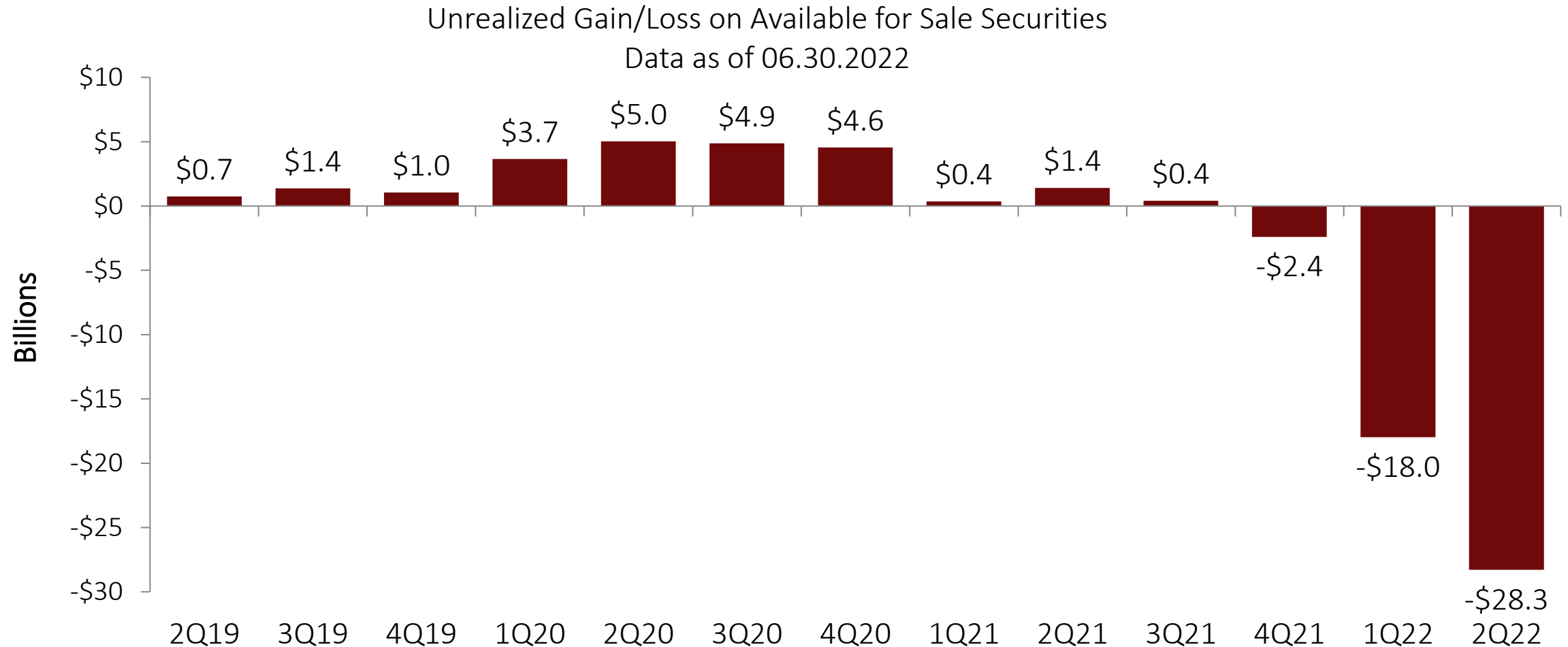
Net Worth

Other Capital

Net Worth Ratio

Capital Ratio

# A challenging bond market in 2022 is evident in the investment portfolio's unrealized losses





# Lessons & Looking Forward





## Themes for Fall Planning Sessions

- Lending – what credit unions were built to do – is stronger than ever
- Credit union balance sheets are well positioned to sustain their momentum with liquidity, strong asset quality, and a solid capital base
- As the economic environment shifts, understanding and meeting the unique needs of members is key to relevancy and growth



# Sustainable Growth Framework

Start and end with purpose.



# THANK YOU FOR WATCHING



1001 Connecticut Ave NW  
Ste. 1001  
Washington, DC 20036



[support@callahan.com](mailto:support@callahan.com)  
[www.callahan.com](http://www.callahan.com)



800-446-7453