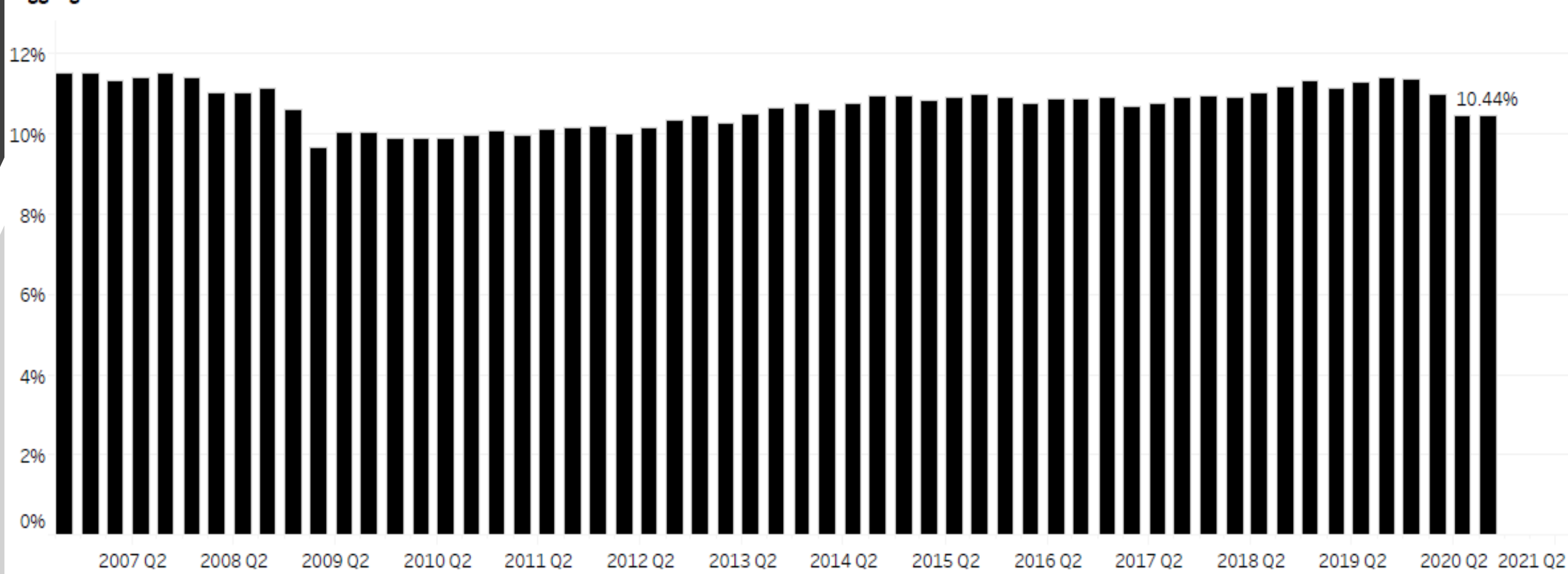




The Future of Capital in Credit Unions and the Broader System

Future of Capital in Credit Unions and the Broader System

Aggregated Net Worth Ratio



Future of Capital in Credit Unions and the Broader System

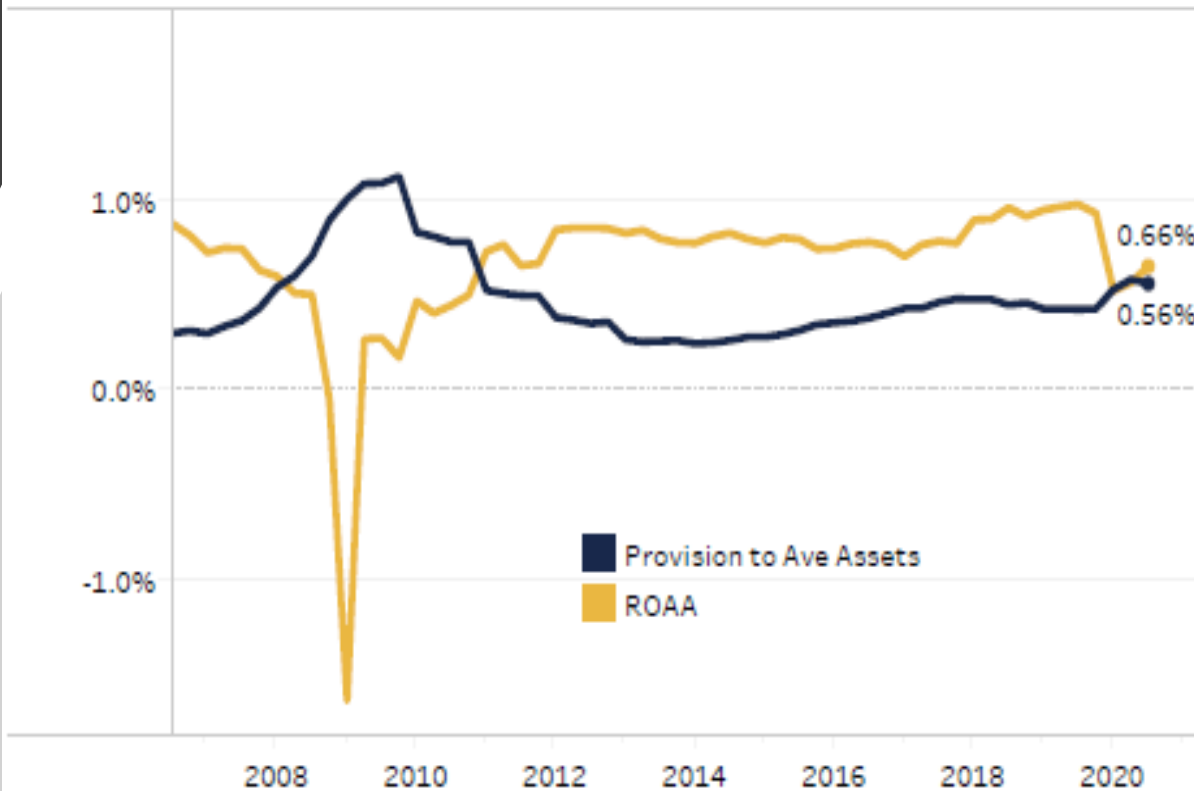
Evaluating capital in the industry

Focus on four areas:

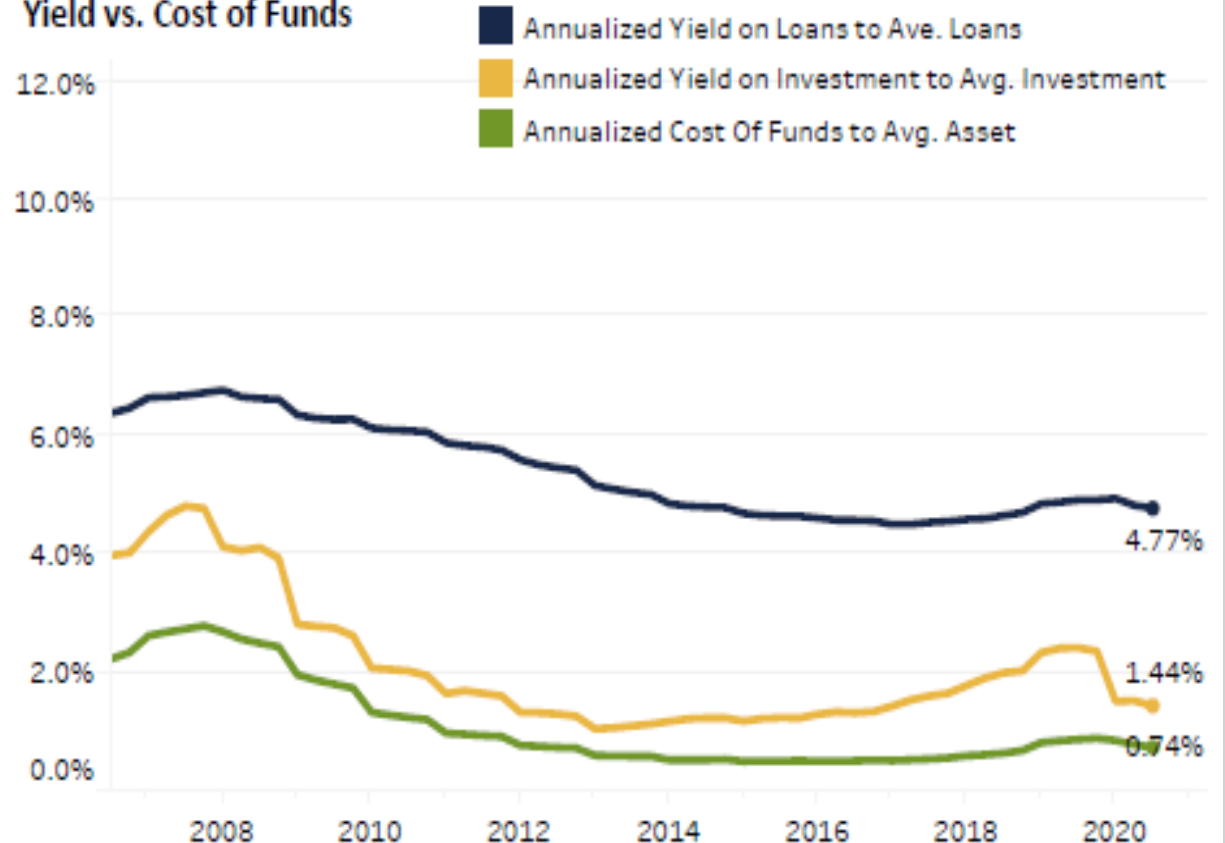
- 1) Earnings capacity
- 2) Asset growth
- 3) Credit losses
- 4) External events

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Return on Average Assets vs. Provision for Loan & Lease Losses

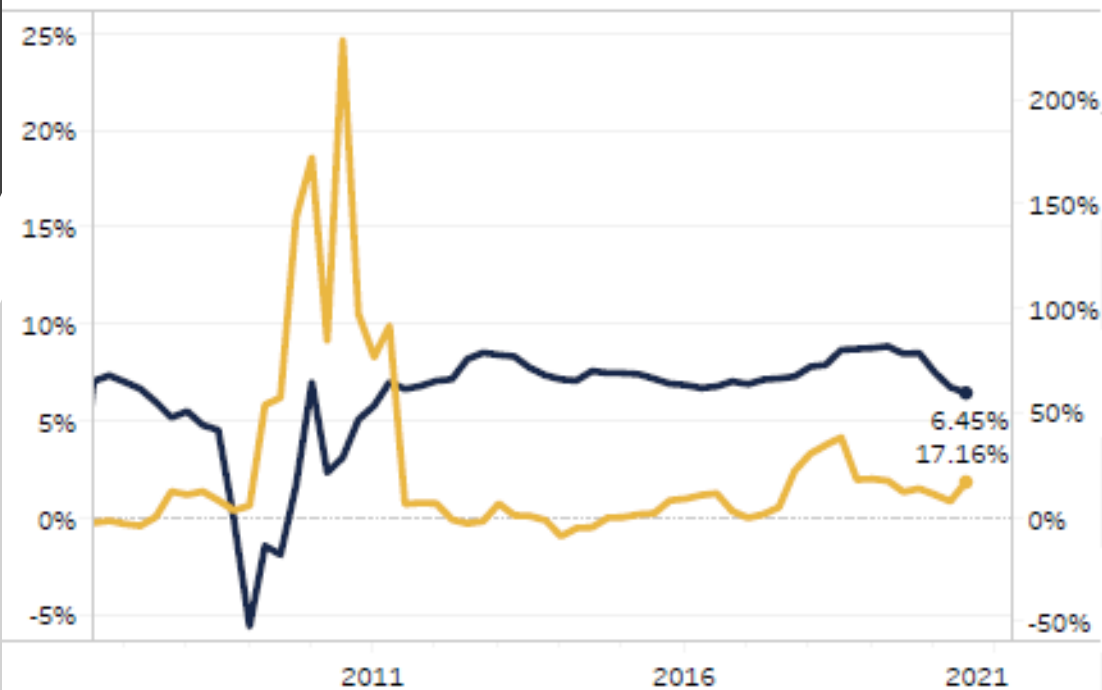


Yield vs. Cost of Funds



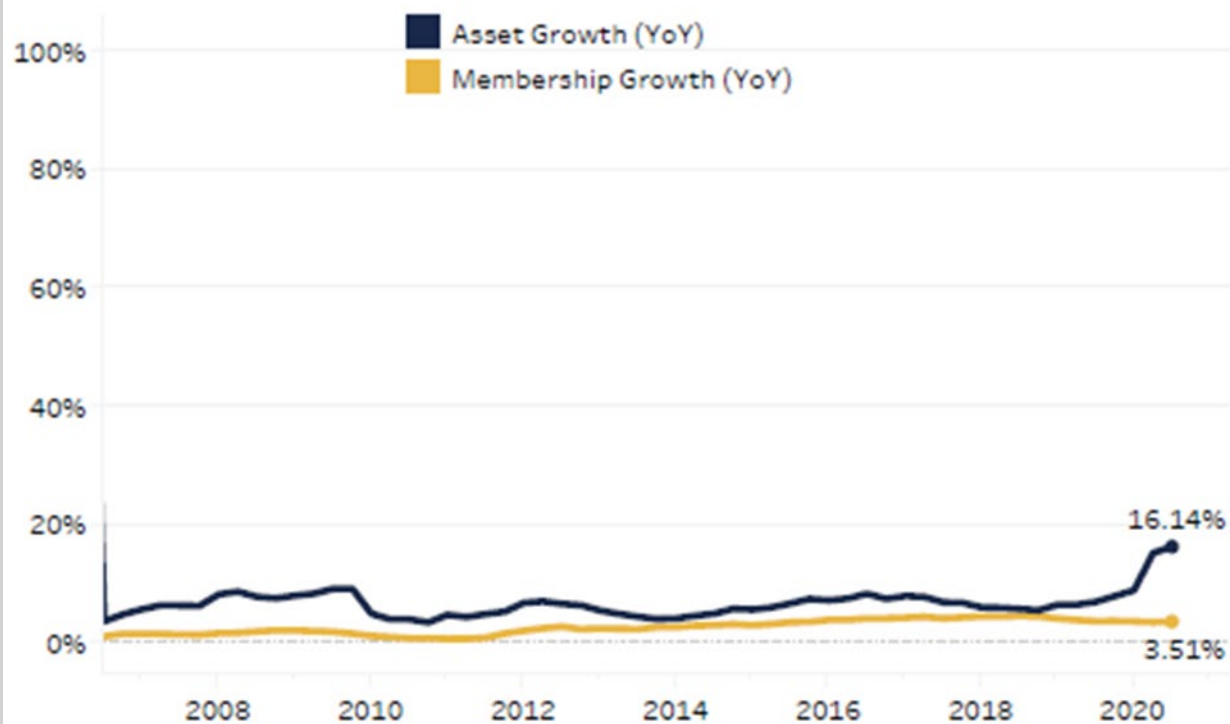
Future of Capital in Credit Unions and the Broader System

Net Worth and Secondary Capital Growth (YoY)



For low-income designated credit unions, net worth includes secondary capital.

Asset Growth vs. Membership Growth



Future of Capital in Credit Unions and the Broader System

Looking to the future

Challenges in four key areas:

- 1) Margin compression
- 2) Continued stimulus
- 3) CECL (yes, it's a factor)
- 4) Potential loan losses

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Overcoming the challenges

Four likely paths:

- 1) Large CUs operate at lower capital levels
- 2) Small to mid-sized CUs will continue to consolidate
- 3) Increased focus on RE & Commercial lending
- 4) Interest in external forms of capital (i.e., Sub Debt)

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Specific paths are size dependent

Larger CUs:

- 1) Heavy focus on RE & Commercial lending
 - Autos are not what they once were
- 2) Interest in external capital injections
 - Sub Debt will provide fuel to support accelerated growth

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Specific paths are size dependent

Small to mid-size CUs:

- 1) Consolidation to gain economies of scale
 - Need efficiencies to compete effectively
- 2) Transition to RE lending (less commercial) from autos
 - Captive finance has hurt CU auto lending badly

Future of Capital in Credit Unions and the Broader System

Other factors

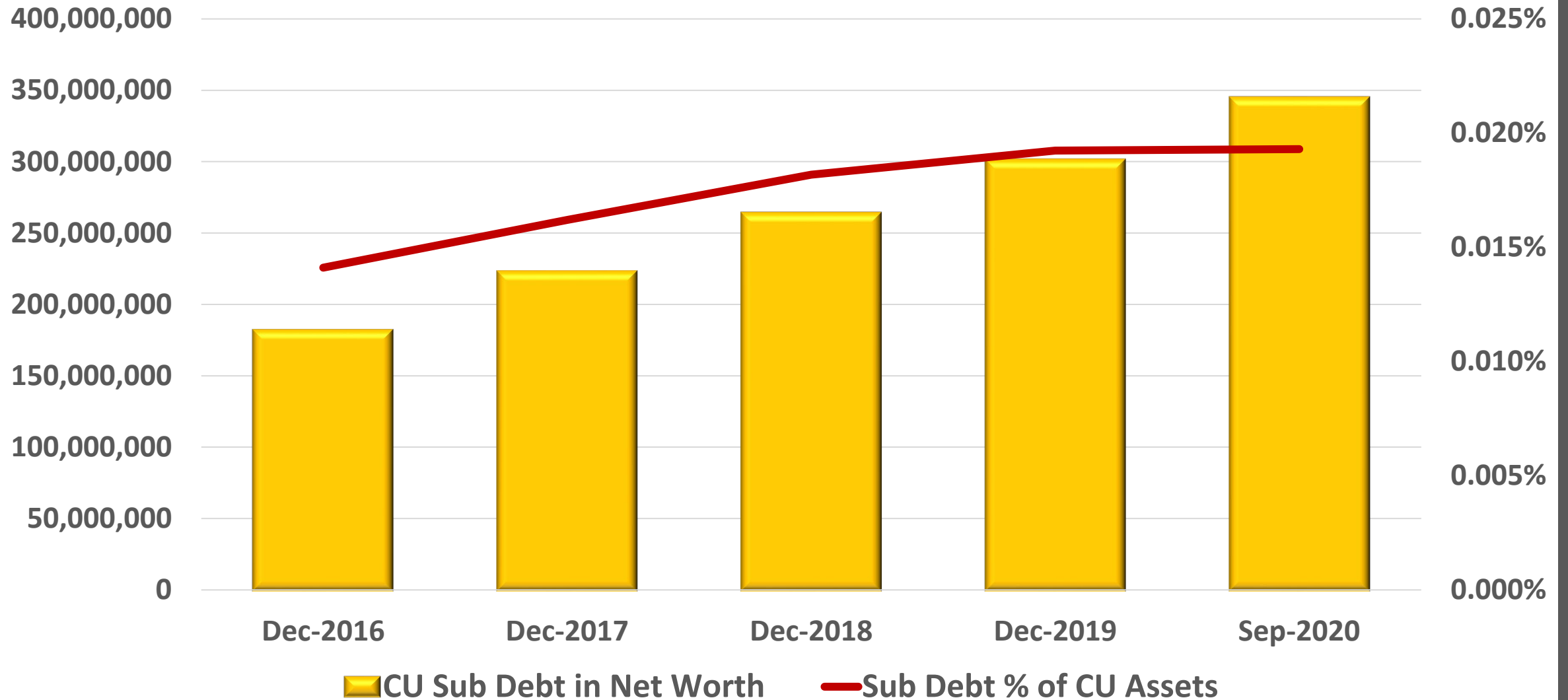
- 1) Higher loan mixes will become a “must”
- 2) Rise in booked vs. sold loans
 - FRB activity is hurting the liquidity trade
- 3) Increased complexity in risk management approaches

Future of Capital in Credit Unions and the Broader System

Summary

- 1) Industry will remain strong
- 2) Plan for a focus on producing bottom line earnings
 - Expect a rise in riskier lending (RE & Commercial)
- 3) Consolidations will continue at lower asset ranges
 - Small CUs bring capital to the table, mid-size have lending capacity
- 4) Sub Debt issuances will fuel growth at the upper end

Outstanding Subordinated Debt



Contact Information

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