

## Forum 2022 = 2.5 Days, One Speak-tacular Event

Catalyst Corporate's Economic & Payments Forum speaker line-up is packed with sessions that run the gamut of topics relevant to your credit union's success. With 19 speakers over 2-1/2 days - all under one roof - Forum 2022 will bring together strategic financial management insights, economic outlooks and the latest payments trends.

**Among the diverse line-up:**

- CNBC Senior Financial Analyst **Ron Insana** sharing his expertise on the Fed, inflation and other headwinds facing the current economy.
- Geopolitical strategist and diplomacy consultant to the U.S. Department of State **John Sitolides**, who will



*John Sitolides*

examine the global and national landscape leading into mid-term elections.

- VP-National Account Director at Federal Reserve Financial Services **Dan Gonzalez** on soon-to-launch instant payments through the FedNow® Service.
- Business and technology expert



*Gene Marks*

**Gene Marks**, whose insights appear regularly in the Washington Post, Forbes, Fox News and MSNBC, on cybersecurity tactics to keep your organization safe.

- ...And more!

This year's theme - Future Vision: Unfolding our New Environment - gives a nod to the rapid changes facing



today's financial services industry. The Forum offers much more, such as peer-to-peer idea exchange, up to 14 CPE credits and, of course, plenty of networking opportunities.

It's not too late to join us onsite or online. Register today: [catalystcorp.org/forum](https://catalystcorp.org/forum).

## Subordinated Debt: How to Identify a Strong Issuer

Is your credit union considering an investment in Subordinated Debt? If so, carefully evaluate your potential issuers. Five key areas can help determine their strength: growth trends, loan quality, earnings capacity, liquidity and planned use of funds.

**1. Growth trends**

First, it's important to assess the credit union's probability of growing safely in the future. Will the credit union be able to grow loans at a rate that maintains positive net income, expands services to members and increases their market footprint?

Net worth that has declined over the past few years may warrant deeper analysis to determine the cause. For example, is net worth under pressure due to deposit inflows associated with

COVID stimulus money, or is it due to weak operating performance? If deposit inflows were due to COVID, review the credit union's historical and expected loan growth, deposit growth and earnings levels to determine the issuer's overall strength and soundness.

**2. Loan quality**

Loan quality can present operating challenges for credit unions. Pay close attention to loan quality after a period of accelerated loan growth. Has the issuer lowered underwriting standards to attract the growth? If so, determine how that may affect long-term earnings trends.

**3. Earnings capacity**

Long-term earnings capacity is a critical element in determining safety of a Subordinated Debt note investment.



By Mark DeBree  
Managing Principal  
Catalyst Strategic Solutions

Most issuers prepay Subordinated Debt notes with earnings as they become due. Therefore, it's beneficial to consider the rate of loan growth relative to broader asset and deposit growth. Credit union net income levels expand when loans grow and represent a larger portion of the balance sheet, as these typically contribute to a widening of net interest margin. However, as noted above, if loans grew because of

*Subordinated Debt continued on pg. 2*

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*Subordinated Debt continued from pg. 1*  
lower underwriting standards, take this into account.

An ideal profile to seek is a credit union with loan growth greater than asset growth and a loan-to-asset ratio that is rising without deterioration in loan quality.

#### 4. Liquidity

The overall liquidity position of the issuing credit union is also critical. Has the issuer been prudent in their liquidity management practices? Historically, the use of borrowings should not, in isolation, be viewed as a deterrent to investment. When evaluating past or current borrowing activity, look for the justification.

Were borrowings used to support funding of additional loan growth, elevating the loan-to-share ratio and reducing liquidity? In this situation, what are the issuer's plans to restore the credit union's liquidity position? Another possibility would be using borrowings as a strategic hedging strategy to lock in a yield against other earning assets.

Reviewing liquidity helps evaluate whether the issuer can prudently manage and maintain a healthy liquidity position and can justify any borrowings.

#### 5. Use of funds

How does the issuer plan to use the funds to support their mission, strategy and vision? An investor should ensure the issuer has a strong business reason for issuing subordinated debt and that the planned use of the funds aligns with the issuer's business strategy. Review

any deviation in strategy to ensure the expected outcomes are probable and that failure to execute the proposed strategy will not have a severe negative impact on the issuer's overall operating performance.

Deposit inflows during the pandemic have many credit unions experiencing above-trend growth, placing significant downward pressure on net worth. This trend may be part of a larger overall justification for issuing Subordinated Debt, such as declining net worth due to core operations.

When exploring Subordinated Debt issuance, search for a credit union that is experiencing growth, has stable loan quality, strong liquidity management, reasonable risk parameters and healthy net worth.

Need resources to put your plans into action? Subordinated Debt can turn your ideas into reality. And Catalyst Corporate, its partners and subsidiaries can help. For more information, call 800.301.6196, or contact your [Area Sales Manager](#) today.

## TranzCapture Checks and Deposits: Consolidate. Simplify. Streamline.

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