CATALYST
Corporate Federal Credit Union

# SCAN

News for Member/Owners of Catalyst Corporate Federal Credit Union
THIRD QUARTER 2023

## Forum 2023: Delivering Expertise for Success


Catalyst Corporate's 2023 Economic & Payments Forum will bring together strategic financial management insights, economic outlooks and the latest faster payments developments.

Some of Catalyst Corporate's own experts will take center stage to speak on credit union-specific topics.

**Featured in-house speakers are:**

- Catalyst's Faster Payments Team will share insights on the rapidly evolving payments landscape in a pre-conference bonus session – "Faster Payments Essentials."
- Catalyst Strategic Solutions Senior Advisor Casey Peterson and Senior ALM Consultant Christopher Uhl will provide new balance sheet management tactics in their joint session.
- Catalyst Strategic Solutions Senior Advisor Mark Wert and Managing Principal Mark DeBree will discuss strategies for supporting growth and managing risk.

**Guest speakers include:**

- Economist and Tulane University finance professor Peter Ricchiuti will focus on the financial markets and what's ahead for the economy.
- VP-National Account Director at Federal Reserve Financial Services Dan Gonzalez will provide an update on the FedNow® Service, its adoption and roadmap for the future.
- Geopolitical strategist Peter Zeihan will analyze the impact of global events on our marketplace.
- Department of Treasury Macroeconomist Tara Sinclair will detail her findings on the U.S. economy.
- Leadership expert Sara Ross will share tips for working with a greater sense of energy and vitality from her book, "Dear Work: Something Has to Change."

This year's Forum also includes a fireside chat with Catalyst executives and, of course, the opportunity to earn up to 14 CPE credits. Register today: catalystcorp.org/forum.

## First Credit Union Live on the FedNow® Service through Catalyst

Tucson, Arizona-based Pima Federal Credit Union is live and successfully receiving instant payment transactions on the Federal Reserve's FedNow Service through Catalyst. Pima Federal launched its service to members in tandem with the general release of the Federal Reserve's service on July 19.

"This is a significant milestone for the payments industry. Both members and businesses continue to ask for the flexibility and 24/7/365 availability that instant payments deliver," said Celyna Cervantes, chief retail officer at Pima Federal. "From day one, our primary goal was to fulfill member demand, enabling them to receive payments from anyone, anywhere, any time. Now, they won't have to look elsewhere to do so."

"Pima Federal has been the ideal partner for the initial launch of the FedNow Service through Catalyst's suite of software applications. They share our vision to be an active participant in today's payment evolution and are committed to meeting member expectations for instant transactions," said Brad Ganey, chief operating officer at Catalyst.

"In 2020, our strategic acquisition of Aptys Solutions further solidified Catalyst's role as a faster payments leader and positioned our credit unions for future success," Ganey said. "Catalyst and Aptys have built top-of-the-line software applications for full FedNow functionality, with solutions for receiving, sending and settlement."

Catalyst's end-to-end solution – which includes connectivity to any core, online or mobile banking platform – makes it easy for credit unions to get connected. It also offers exclusive benefits, such as extended settlement hours for greater interest earnings, a FedNow sub-account to simplify reporting and reconciliation – and coming soon: the Digital Payments Experience, a new interactive site and online community dedicated to faster payments!


Catalyst is actively onboarding credit unions for the FedNow Service. Sign up now to get in our queue for the FedNow Service. For more information, visit catalystcorp.org/fednow.

SCAN is published quarterly for the member/owners of Catalyst Corporate Federal Credit Union by the Catalyst communications and marketing department. Expanded content and archived issues may be found online at www.catalystcorp.org. For questions or comments on this issue or to submit content ideas for future issues of SCAN, please contact Courtney Wilson at news@catalystcorp.org or 800.442.5763, Ext. 7847.



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# Hedging Risk with Interest Rate Derivatives

By Mark DeBree
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Credit unions of all shapes and sizes are turning to derivatives to support risk management practices. Total derivatives outstanding have increased from $13.2 billion at year-end 2019 to almost $34 billion as of March 31, 2023.

**Who is hedging risk with derivatives?**

Two main groups of credit unions are hedging risk with derivatives:

1. Those with large and growing mortgage portfolios
2. Those with shorter asset maturities structures and significant growth in high-rate term deposits

Given current mortgage rates, credit unions in the first group need risk capacity to continue to originate and portfolio more real estate loans. Swap strategies enable them to mitigate mortgage interest rate risk (IRR) on the balance sheet by synthetically converting a portion of their fixed-rate mortgage loans into adjustable-rate assets. Risk capacity expands so loan growth can continue.

Overall shape of the yield curves offers another benefit to the first group. When you hedge real estate assets, you enter a pay fixed/receive floating rate swap to be a net receiver of interest payments over the initial terms of the transaction. Some credit unions want the potential short-term income boost over the near-term.

The second group addresses credit unions with relatively short asset maturity structures (i.e., auto loans) that have had strong growth in high-rate member term certificates (non-member deposits). The concern is that when the economy turns, asset yields will fall when interest rates decline (as autos roll over into lower yielding loans) and term certificates will remain at elevated interest rates, materially hurting their earnings profile.

These credit unions are entering into an opposite interest rate derivative structure, where they pay floating and receive fixed rates. This hedge is typically applied against the high-rate term certificates, synthetically converting these deposits into adjustable-rate deposits. The goal is to ensure that cost of funds declines when market interest rates decline. Margin compression is alleviated when asset yields decline with falling market rates.


**Why interest rate derivatives?**

Interest rate derivatives offer certain advantages over borrowings, which are also used to manage IRR exposures. They include:

1. The fixed rate side of an interest rate swap is typically lower than FHLB alternatives
2. Using interest rate swaps does not consume secondary liquidity, as the use of borrowings would

Currently, there is extremely high competition for deposits, low liquidity and economic uncertainty. Any one of these challenges creates liquidity pressures, but all three at the same time requires prudent liquidity management.

**Interested in derivatives?**

Catalyst guides credit unions toward a low-cost solution to achieve their goals, while preserving liquidity sources. For more information on managing risk with interest rate derivatives, contact your Area Sales Manager today.