CATALYST
Corporate Federal Credit Union

SCAN

News for Member/Owners of Catalyst Corporate Federal Credit Union

SECOND QUARTER 2021

2021 Economic & Payments Forum: Double the Experience, Double the Fun!

For more than four decades, Catalyst Corporate gathered leading economists, financial industry mavens and credit union professionals together *in person* to explore economic forecasts, balance sheet strategies, and in recent years, payments trends, at its annual Economic & Payments Forum.

Then 2020 came along, and circumstances dictated that we forego an in-person event. So, Catalyst Corporate offered its first digital Forum. Although different from the past, participants indicated the experience was just as valuable.

Where does that take us for 2021?

We're glad you asked. Recently, Catalyst surveyed members who registered for either of the last two Forums to determine whether they would attend this year's event in-person or online. The results were evenly split down the middle: *in person* – 45 percent; *online* – 45 percent; and *no preference* – 10 percent.

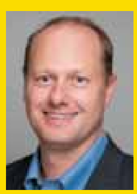
So, this year, Catalyst Corporate will hold, for the first time, both an in-person event AND an online event.

Catalyst also asked survey participants to provide suggestions on potential topics for the Forum. To no one's surprise, the most common topic listed was navigating the post-COVID era economy. What impact will stimulus payments have? How can we maximize investment income in a low interest rate environment? What is the inflationary outlook?

Respondents also suggested topics on payments trends and best practices, such as real-time payments, digital issuance of plastic cards and fraud prevention.

Catalyst Corporate's Forum planning team is hard at work designing two Forums that will give members the economic and payments insights they need to plan for 2022. Registration opens soon with more exciting details to come! In meantime, mark your calendar and view the latest event developments at catalystcorp.org/forum.

Interest Rate Derivatives... Worth Another Look?



By Mark DeBree, CFA
Managing Principal
Catalyst Strategic Solutions

Credit unions often turn to borrowings to hedge interest rate risk on their balance sheet. But sometimes, borrowings may not be the best choice.

The current inflow of deposits has pushed asset levels up materially in less than a year, while the corresponding drop in interest rates has produced downward pressure on earnings. These two events together have placed pressure on capital levels. With net worth already under pressure, further inflating the balance sheet by using borrowings for interest rate risk management may not be the best path.

Borrowings vs. interest rate derivatives

Interest rate derivatives, when used effectively, are off-balance sheet items, which means you can enjoy the risk management benefits without inflating the balance sheet. Fortunately, NCUA's recently proposed rule will make it easier for credit unions to incorporate derivatives into their balance sheet management practices.

Especially during periods of heightened uncertainty, using borrowings to lower interest rate risk also ties up external liquidity capacity when liquidity could become extremely important. Essentially, this would reduce interest rate risk exposures, but end up increasing liquidity risk exposure in the process.

Additionally, the cost of an interest rate swap, relative to borrowings, is lower. To effectively hedge a pool of new 30-year mortgages, a credit union would typically apply a 7-year borrowing to offset the interest rate risk of the mortgages. At the time of this writing, the net interest rate (pay fixed rate less the receive floating rate) for a 7-year term swap was almost 40 basis points lower than term borrowings from the Federal Home Loan Bank.The lower cost of interest rate swaps relative to borrowings means more earnings flowing to the bottom line for credit unions.

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Term	Net Swap Rate	FHLB Advance Rate	Difference
3Y	0.28%	0.53%	**-0.26%**
4Y	0.51%	0.79%	**-0.28%**
5Y	0.72%	1.00%	**-0.28%**
7Y	1.08%	1.47%	**-0.39%**
10Y	1.40%	1.86%	**-0.46%**

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Managing risk on low-rate mortgages

Finally, the decline in mortgage rates combined with the uptick in production that credit unions are experiencing makes many credit unions increasingly uncomfortable booking mortgage loans. To manage this risk, many are turning to Catalyst Corporate to help with participating out loan pools or selling them directly on the secondary market. This brings cash back to the credit union for them to redeploy…but where and at what rate?

Should you originate and sell mortgages only to find your organization investing in securities? If so, you may find yourself on the wrong side of the yield trade. When you sell your members' mortgages and enter the investment market, you are now (thanks to quantitative easing measures) competing with the Federal Reserve, which is buying heavily in the mortgage securities market – ultimately pushing up prices and lowering yields. This is where interest rate derivatives can help. A proper strategy can significantly reduce the interest rate risk added by the low-rate mortgages, while still enabling your credit union to enjoy most of the earnings stream. In fact, there are ways to maintain a stable interest rate risk exposure and increase the bottom-line benefit to your credit union and its members.

In summary, the right application of a derivative strategy relative to borrowings can help keep your balance sheet from expanding, stabilize or even lower your interest rate risk position, maintain full access to external liquidity, and improve your bottom line. For credit unions concerned about risk or looking to expand their presence in the real estate markets, it may be worthwhile to explore interest rate derivatives. They behave a little differently, so do your research or reach out and we can walk you through the details.

Catalyst Strategic Solutions is here to help credit unions achieve effective balance sheet management. For more information on interest rate derivatives, call 800.301.6196, or contact your Financial Solutions Consultant.

Annual Meeting: 'Another Successful Year,' Four Members Elected to Board


Connie Cofer


Richard Hein


Michael Hooper


Yvonne Kershner

Catalyst Corporate recently held its 10th Annual Meeting of the Members. Board Chairman Lin Hodges reported that "Although 2020 brought new challenges, it also pushed {Catalyst Corporate} to grow and innovate…The results were positive, and your corporate had another very successful year."

Attendees at this year's online event received reports on Catalyst's 2020 and 2021 initiatives and elected four members to its volunteer Board of Directors.

Three individuals were re-elected to fill three-year terms. They are: **Connie Cofer,** SVP Finance/CFO of Communication FCU in Oklahoma City, Oklahoma; **Richard Hein,** President/CEO of Oregon State CU in Corvallis, Oregon; and **Michael Hooper,** President/CEO of La Capitol FCU in Baton Rouge, Louisiana. Additionally, **Yvonne Kershner**, President/CEO of Brazos Valley Schools CU in Katy, Texas, was elected to a two-year term.

If you missed the Annual Meeting, a video recording is available, along with Catalyst Corporate's 2020 Annual Report, Audited Financials and other related materials at catalystcorp.org/annual-meeting.