CATALYST
Corporate Federal Credit Union

SCAN

News for Member/Owners of Catalyst Corporate Federal Credit Union

THIRD QUARTER 2021

4 Things to Know About NCUA's Recently Revised Derivatives Rule

By Chris Shipman, CFA, CFP®
Advisor
Catalyst Strategic Solutions

A new derivatives rule, which took effect June 21, 2021, provides more flexibility for federal credit unions (FCUs) to effectively and efficiently manage interest rate risk (IRR). The rule applies only to FCUs; state-chartered credit unions may be required to seek approval from their governing body prior to derivative usage.

The rule enacts the following changes:

1. Streamlines the application process for derivative use. FCUs with at least $500 million in assets and a CAMEL rating of 1 or 2 are not required to apply for derivatives usage but must notify their Regional Directors in writing or by email within five business days after entering into their first derivatives transaction. FCUs below $500 million in assets must still complete the derivatives application. Credit unions that don't qualify for the exemption will need to apply to their Regional Director for approval to use derivatives.

2. Removes reference to specific derivative types and permits FCUs to enter into derivatives that meet the following characteristics of §703.103:

- For the purpose of managing interest rate risk
- Denominated in U.S. dollars
- Based on Domestic Interest Rates or the U.S. dollar-denominated London Interbank Offered Rate (LIBOR)
- Contract maturity is equal to or less than 15 years, as of the trade date
- Not used to create Structured Liability Offerings for members or nonmembers

An FCU may not engage in embedded options required under U.S. generally accepted accounting principles (GAAP) to be accounted for separately from the host contract.

3. Clarifies the new operational support requirement for a liquidity review. In addition to existing reporting frequency and other requirements, a liquidity review must also be conducted.

4. Provides expanded pipeline management to all loans.

With this amended rule now in effect, why would a credit union consider using derivatives to manage IRR? As we know, the Fed's actions in March 2020 had a significant impact on lending rates. Rates fell precipitously and continue to remain at or near historic lows. The impact of new origination and refinancing of real estate loans will be felt for several years on both earnings and IRR. A credit union has the option of either retaining the loan(s) on their balance sheet or selling them to the secondary market. The

Continued on page 2

Turning Insights into Action at Forum 2021

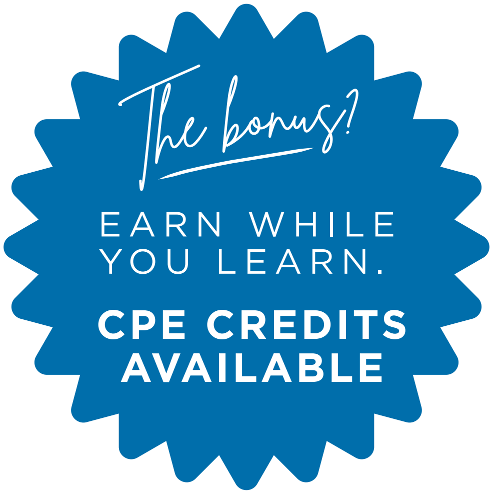
Year after year, Catalyst Corporate's Economic & Payments Forum features thought leadership that delivers actionable information. That tradition continues in 2021.

Among the presenters scheduled for this year's Forum will be economist and author Jason Schenker. A former guest host of Bloomberg TV and author of more than 30 books, Schenker – ranked one of the "most accurate financial forecasters" – is the founder of the Futurist Institute.

Schenker will provide a macroeconomic view based on the lingering effects of the COVID-19 pandemic, while long-time "Forum favorite" Bill Hampel will offer a more focused view on how credit unions can position for success during the rebound. The former chief economist for the Credit Union National Association, Hampel has shared his expertise at more than a dozen previous Forums.

As the payments industry continues to evolve at a rapid clip, the executive director of the U.S. Faster Payments Council (FPC) – Reed Luhtanen – will present a state-of-the-industry update at this year's Forum. Luhtanen brings a wealth of expertise gained during his extended period of payments leadership at Walmart.

These are just a few of the many experts among this year's exciting lineup. And the best part? It's not too late to join us for the interactive online version. For more information, or to register, visit www.catalystcorp.org/forum.



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.

© 2021 Catalyst Corporate Federal Credit Union. All rights reserved.

CATALYST
Corporate Federal Credit Union
6801 Parkwood Boulevard
Plano, Texas 75024
catalystcorp.org

4 things to Know About NCUA's Recently Revised Derivatives Rule
Continued from page 1

use of derivatives can assist in hedging interest rate risk for both options.

Ultimately, the recent amendment to the NCUA Derivative Rule provides greater access to hedging opportunities for all credit unions. And while hedging is a complex strategy, the proper application can help keep a credit union's interest rate risk in check. For a more comprehensive overview of the NCUA's final rule, please visit www.ncua.gov.

Catalyst Strategic Solutions is here to help you navigate the latest regulations and effectively manage your balance sheet. If you would like additional information on IRR management or tailored hedging strategies, call 800.301.6196 or contact your Financial Solutions Consultant today.

Catalyst Launches CECLution Service to Help CUs Adopt CECL Standards

CECLution
brought to you by CATALYST STRATEGIC SOLUTIONS

In June, Catalyst Corporate announced the launch of a new product specifically designed to help credit unions prepare for the adoption of new accounting requirements.

Current Expected Credit Loss – also known as CECL – will have a significant impact on how credit unions account for expected credit losses in the future. "With CECL requirements set to take effect in January 2023, credit unions should be evaluating solutions and determining the most appropriate type of modeling now," said Mark DeBree, Managing Principal of Catalyst Strategic Solutions. "The advance rollout of CECLution will help credit unions get ready in a timely manner."

CECLution is a robust, self-directed, online platform built upon the financial know-how of Catalyst Strategic Solutions, a wholly owned subsidiary of Catalyst Corporate.

Based on the Weighted Average Remaining Maturity (WARM) method, CECLution offers several benefits:

- Captures and maintains credit union historical data
- Automatically integrates economic data
- Displays credit union and peer data
- Enables fully customizable Q-factors and carve-outs
- Preserves core assumptions for easy updates
- Saves and stores forecasts

While CECLution is available to any credit union, it was created for those seeking an independent, fast and flexible option, rather than an in-house solution, DeBree noted.

CECLution is provided on a subscription basis that permits credit unions unlimited access to the platform.

For additional information on CECLution, visit www.ceclution.org, or contact Catalyst Strategic Solutions today: 800.301.6196.

DID YOU KNOW?

Catalyst Corporate now has TWO options for advanced deposit fraud detection:

1. Early Warning's *Deposit Chek*® Service
2. **Advanced Fraud Solutions TruChecks® Service – NEW!**

The Early Warning name and *Deposit Chek* are registered and/or owned by Early Warning Services, LLC.