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2026 Quarterly Insights & Outlooks

The webinars will address key areas of concern for credit unions relative to the current and future state of the economy.

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catalyst

2026 Insights & Outlooks
Quarterly Economic Webinars

Register Today


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What happens to interest rates & the curve in 2026?



- Endless Scenarios
 - Fed/Economy/Rates
- Let's Keep It Simple
 - Lower Rates - Parallel
 - Higher Rates - Parallel
 - Steeper Curve

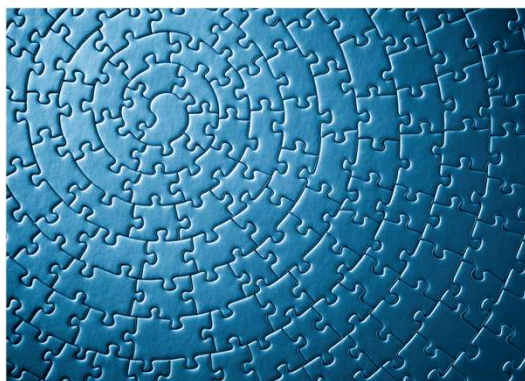
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Why do we need to care where rates may go?

Asset and liability management is constant. Testing and stressing the balance sheet helps financial institutions manage their assets and liabilities to reduce risk and increase profitability.

- Balance Sheet Management
- Capital Growth
- Earnings Profile
- Pricing Loans and Shares
- Manage Interest Rate Risk



Scenario 1 - Interest Rates Drop - Hedging Using Cash Products

- What is in your control? Get long equity duration via asset management
- Extend Asset Duration
 - Invest in non callable assets
 - Bonds/CDs such as 5 Year Treasuries/Agencies
 - Non-Prepayable loans
 - Seasoned lower coupon MBS provide duration and positive convexity
 - Sell floaters
 - Evaluate which callable loans such as mortgages to hold on balance sheet



Scenario 1 - Interest Rates Drop - Hedging Using Derivatives

- What is in your control? Get long equity duration via derivatives
- Extend Asset Duration Synthetically
 - Swap floating rate assets to fixed
 - Buy receiver swaptions
 - Floors
 - Futures



Scenario 1 - Interest Rates Drop - Hedging Using Cash Products

- What is in your control? Get long equity duration via liability management
- Shorten Liability Duration
 - More NMDs
 - Less term fixed rate certificate issuance
 - Issue floating rate certificates
 - Floating and callable advances from FHLB
 - Short borrowings from FHLB/Wholesale



Scenario 1 - Interest Rates Drop - Hedging Using Derivatives



- What is in your control? Get long equity duration via derivatives
- Shorten Liability Duration Synthetically
 - Swap fixed rate issuance liabilities to floating

Scenario 2 - Interest Rates Climb - Hedging Using Cash Products

- What is in your control? Get short equity duration via asset management
- Shorten Asset Duration
 - Invest in floating rate assets
 - Sell fixed rate loans – Loan Participations
 - Sell fixed rate securities



Scenario 2 - Interest Rates Climb - Hedging Using Derivatives

- What is in your control? Get short equity duration using derivatives
- Shorten Asset Duration Synthetically
 - Swap fixed rate assets such loans and investments to floating



Scenario 2 - Interest Rates Climb - Hedging Using Cash Products

- What is in your control? Get short equity duration using liability management
- Lengthen Liability Duration through Cash products
 - Concentrate on extending the fixed rate term certificate portfolio
 - Fixed rate term borrowing from FHLB



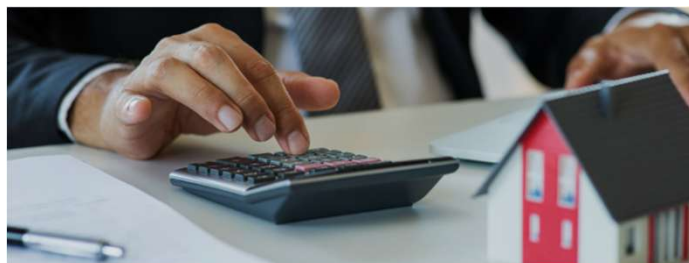
Scenario 2 - Interest Rates Climb - Hedging Using Derivatives

- What is in your control? Get short equity duration using derivatives
- Lengthen Liability Duration Synthetically
 - Swap any term floating rate liabilities to fixed
 - Swap short term deposits to fixed through paying fixed in term swaps
 - Payer Swaptions



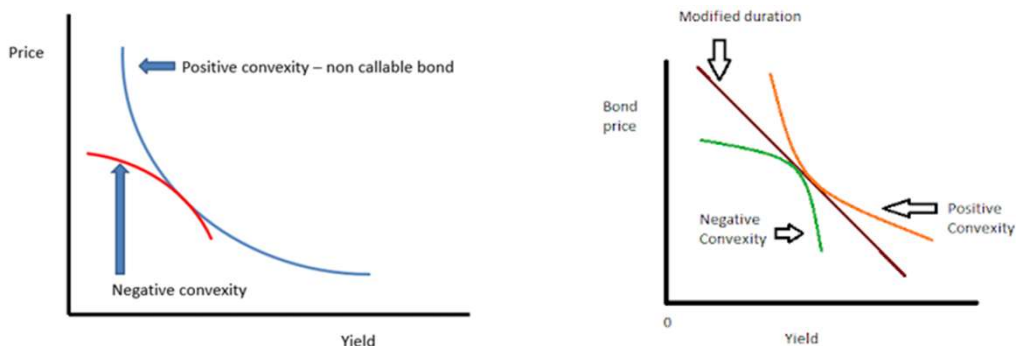
Example 1 - Hedging Mortgage Product - Negative Convexity Risk

- Why? Lower rates, will the 10-year drop?
- Fed - QE and Curve Shaping: Inflation drops leading to lower 10-year yield, sparking prepays from 2023 - 2026 mortgage production in the 5.50% - 7.50% range
- Concentrate on negative convexity - prepayments could have an adverse impact on the balance sheet
- Two products that are currently helpful in hedging negative convexity tied to mortgage products:
 1. Receiver swaptions - Buying Insurance
 2. Buy lower coupon seasoned MBS



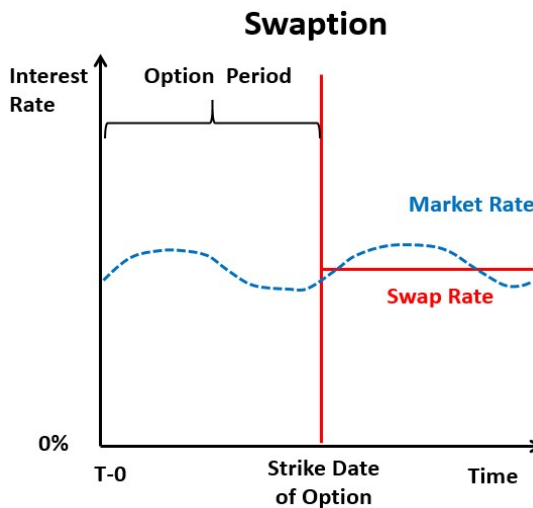
Mortgages – Negative Convexity – Taking a Step Back

- A bond characteristic in which price appreciation is less than price depreciation for a large change in interest rates due to optionality such as prepayment optionality.



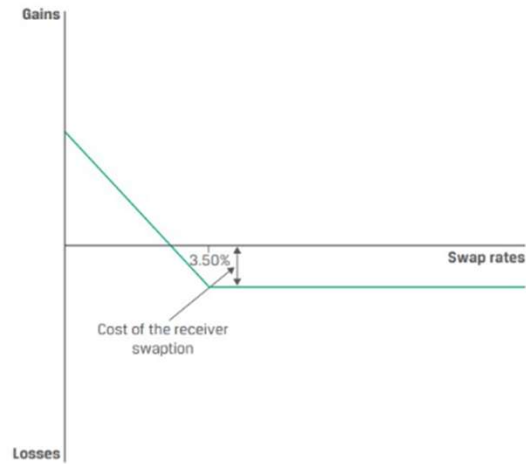
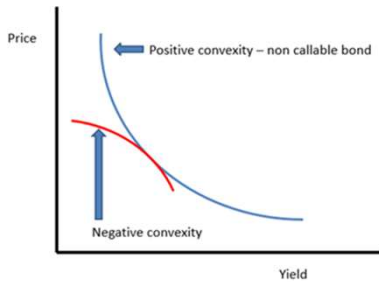
Interest Rate Swaption – Option on a Swap

- A swaption provides the owner the right but not the obligation to enter an interest rate swap at a predetermined interest rate on a fixed date(s) in the future.
- The cost of a swaption is known as the premium and depends on the structure of the swaption and how close or far it is from the at-the-money strike which is the fixed rate on the underlying swap.
- The cost of the option is upfront



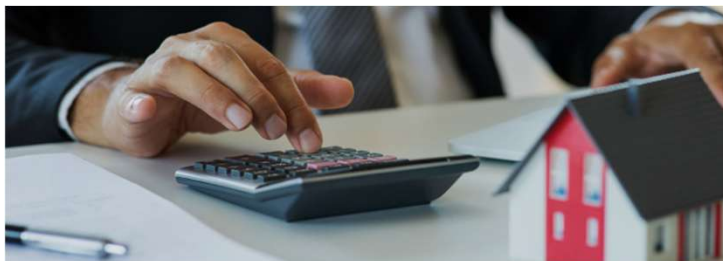
Interest Rate Swaption – Benefits and Results

- Customizable
- Provides flexibility and protection from unpredictable interest rate movements
- Cash/swap settlement
- No additional fees
- Easy way to hedge something complex

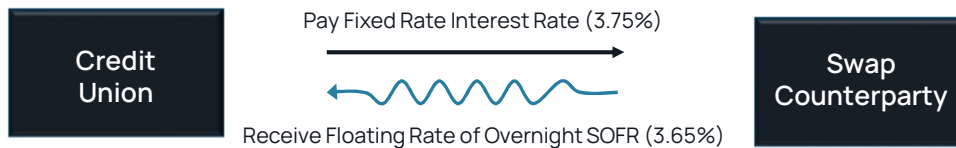


Example 2 – Hedging Mortgage Product – Extension Risk

- **Higher rates** – mortgage products naturally extend, and market value deteriorates. Pay fixed on swaps either against pool of mortgages or securities.



Pay Fixed/Receive Variable Rate Swap for 10 Years



- Interest Rate Swaps - CPs swap fixed for floating payments
 - Hedge against exposure to increasing rates - pay fixed and receive floating
 - This example: $6.50\% - 3.75\% + 3.65\% = \text{Receive } 6.40\%$ for the first month, nearly the same as the WAC at 6.50%
 - Fair Value Hedge - Protect NEV when rates move higher

Interest Rate Risk Measurements

Two of the most effective methods for assessing IRR exposure include:

- **Net Interest Income analysis (NII)** - measures the volatility of projected net interest income over a period of a couple years. NII is the difference between total interest income and total interest expense. The more the projected NII results vary among the different interest rate scenarios, the greater the exposure to interest rate risk.
- **Net Economic Value analysis (NEV)** - a point in time analysis that captures the long-term impact changing interest rates have on all contractual cash flows associated with the balance sheet (assets and liabilities). The NEV ratio is a credit union's Net Economic Value divided by its Economic Value of assets for a given rate shock.

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Questions


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