Update May 2018

alloya®
Corporate Federal Credit Union

www.alloyacorp.org

Rates are Rising...Q&A with Our Experts on Preparation & Interest Rate Risk

Interest rates are on the rise! As we come to the close of April, the 10-year Treasury yield is set to close above 3.0% for the first time since 2013. Short term rates have risen more than 1.0% over the past year, and the Federal Reserve has alluded to more rate hikes by the end of 2018.

How can credit unions prepare for rising interest rates?
First, credit unions need to understand how their balance sheet might react to higher market interest rates. This is accomplished through a robust asset-liability management (ALM) interest rate risk (IRR) program, plus a proactive asset/liability management committee (ALCO) process. Credit unions need to anticipate how member share deposits and earning assets will respond as rates move higher. A good ALM-IRR program will provide insight as to how loan and investment balances will pay down or extend as well as how deposit pricing strategies will impact their net interest margin and earnings.

How will rising rates impact credit unions?
No two credit union balance sheets are identical, so rising interest rates can impact every credit union differently. The composition of the balance sheet drives this. Loan or investment portfolios that are heavily weighted with longer-term fixed rate instruments could expect to see principal prepayment cash flows extend out longer, which creates duration or "extension risk." This can alter the liquidity projections, hinder the credit union's ability to reinvest balances at higher yields, and ultimately impact the net economic value (NEV) risk measure.

On the share-liability side, most credit unions are focused on rate-sensitive member share accounts (e.g. money market shares). Higher interest rates could mean the credit union has to increase their dividend rates sooner and by a larger magnitude to prevent member deposits from fleeing out the door. Non-core shares or brokered deposits could be at a higher risk of leaving the credit union. Combined, these factors may force credit unions to pay higher dividend rates, which will result in higher interest expense. As stated in the previous answer, a good ALM-IRR program and ALCO process can help credit unions anticipate such changes and the potential impact to their business and earnings plans
– Dan Frilot, Senior Vice President, ALM Risk Management Operations, Balance Sheet Solutions, LLC

What does Alloya do to mitigate interest rate risk?
Alloya's primary objective is to meet the liquidity needs of members, both through short- and long-term loans. Alloya manages its interest rate risk through pricing on its loans, shares and certificates to influence volume, as well as through management of the investment portfolio. Additionally, Alloya received regulatory approval to hedge fixed rate and capped floating rate loans with derivatives. Even more recently, Alloya received regulatory approval to purchase interest rate floors to protect net interest income from the spread compression that occurs in low rate environments, such as the one experienced over the past decade. These tools, used by experienced management, let Alloya prudently manage its balance sheet and serve members by offering fair rates on its financial products to support credit union success.
– Robert McMillen, CFA, Vice President, Risk Management, Alloya Corporate FCU

If you have any additional questions, or need any guidance, please contact your Senior Business Consultant.

Alloya's Liquidity Options

Term Lending: Alloya's Advised Line of Credit provides for the ability to borrow on a term basis. We offer a variety of short- and long-term loans to meet balance sheet needs.

Loan Participations: This program is ideal for credit unions who are A) looking to raise funds, by **selling** originated loans; or B) seeking to diversify their loan portfolio income by **buying** shares in a loan or pool of loans.

SimpliCD Issuance: Issuing certificates to other credit unions can help raise funds from within the credit union network – this can also be a component of your Liquidity and Contingency Funding Plan.

To learn more, please email
LendingDepartment@alloyacorp.org

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Credit Union Executive Leadership SYMPOSIUM

September 5-7, 2018
Westin River North – Chicago, IL
www.alloyacorp.org/symposium2018

Returning to this year's symposium is renowned motivational speaker, Sam Glenn. Also known as the "Attitude Guy." Sam has been named a speaker of the year on several occasions by meeting and event organizations and won two national awards for his training videos. Additionally, he is a gifted author and artist (which symposium attendees witnessed firsthand last year).

At this year's symposium, Sam promises to entertain and inspire attendees with his sense of humor and storytelling during his presentation titled, "Real Leaders Share Their Popcorn." We recently caught up with Sam to talk about what motivates and inspires him.

What motivates you to speak in front of leaders?
Seeing people feel encouraged by my stories and the ideas I share with them. When I was a kid, my parents would come home from work unhappy. They didn't enjoy their work – so I'm motivated by this memory to help leaders who really want to lead and create the right kind of work culture.

Who in your life inspires you – who are your mentors that you strive to mold yourself after?
Zig Ziglar! He blazed a trail for motivational speaking. I met Mr. Ziglar by accident. I was at a buffet when I literally bumped him, knocking him down. He was gracious about it and from that point on, everything just started to click for me. Mr. Ziglar became a good friend, routinely sharing great wisdom with me. He never set out for me to become a speaker; he set out for me to be a better person – to find the best version of me. And that is now what I encourage others to do.

But inspiration doesn't always have to come from a celebrity. For instance, when I worked nights as a janitor, I happened to meet the owner of the warehouse that my company was working out of. Since our first meeting, we hit it off. So much so that after I shared with him some of my artistic aspirations, he found space in the warehouse for me to practice my art. Today, we get together for coffee every month to talk about life, family, faith and everything else. He truly is one of my superheroes – without him and his encouragement and wisdom, I don't know where I would be today.

What should the concept of "sharing your popcorn" mean to a leader?
First, leadership is not a rank, it is a choice about the attitude and behavior you bring every day to the work that you do. Sharing your popcorn is a metaphor for sharing good wisdom with others, and how to be a leader, while leading yourself. I encourage leaders to listen to the laughter in your workplace. Just like the idea of sharing your popcorn, laughter pulls people together. It creates an atmosphere of positivity, making your workplace a better place to be – a place where people look forward to going.

*Don't miss Sam at this year's symposium. To register, go to **www.alloyacorp.org/symposium2018**. Sam's highly-anticipated book "Share Your Popcorn" is expected to be released this summer.*

Identifying Value in the Fixed Income Markets
Connection Webinar | Thursday, May 10, 2018, at 2:00 pm ET

Register at **www.balancesheetsolutions.org/learn_connection**
To view past Connection Webinars, visit **www.balancesheetsolutions.org/learn_webinars**

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