CAPITAL MARKETS *monthly*

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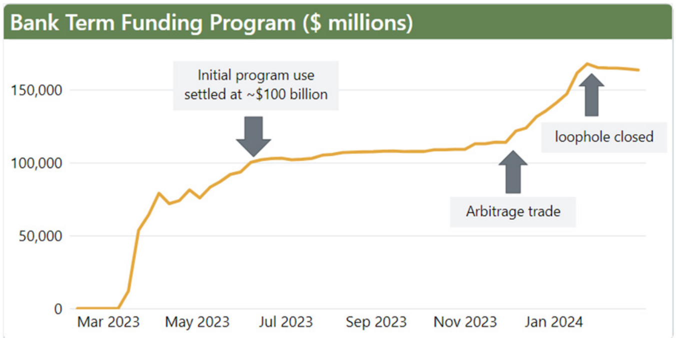


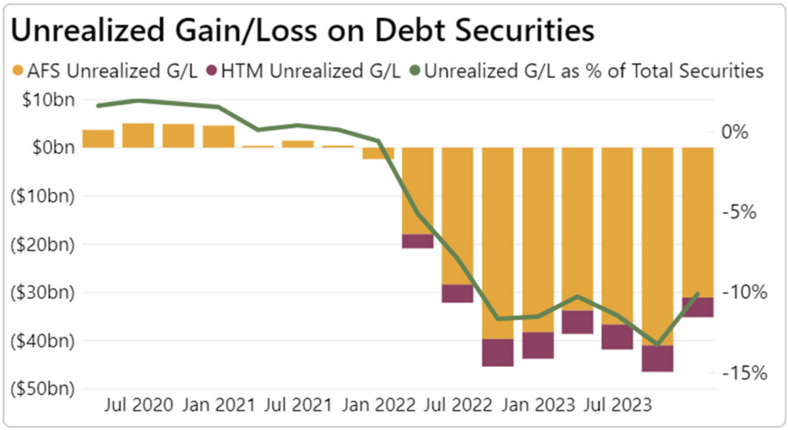
GENERAL MARKET OVERVIEW

Despite ongoing liquidity and balance sheet concerns, the Federal Reserve sunsetted their Bank Term Funding Program (BTFP) on March 11 after mounting public scrutiny. There was too much widespread attention on the arbitrage trade of borrowing from (and lending to) the Fed, capturing a riskless spread rather than the original intent to provide funding for banks experiencing a deposit run during the Silicon Valley Bank (SVB) crisis. From an optics standpoint, the Fed was right to close the BTFP to curtail growing negative public perception. If the Fed is committed to anything, it's that perception is reality. To be fair, in an era of activist investors, any public bank not taking advantage of the BTFP arbitrage opened themselves up to an unfavorable proxy. If management does not take the free money, activists could accuse management of breaching their fiduciary duty and use the issue to stir up controversy with shareholders to gain access to board seats in the next shareholder vote. Any amount of risk-free basis points is more attractive than the alternatives in an economy wrestling between hard- and soft-landing narratives.

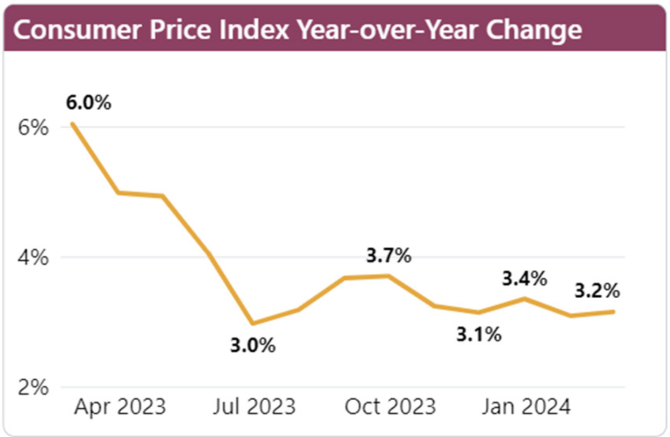
The initial program grew rapidly from March to June during the banking crisis and stabilized at around $100 billion. Banks and credit unions utilized the facility to manage deposit flight without the forced selling of underwater assets. As the deposit walk slowed, so did the need for the new Fed liquidity facility. Fast forward to late November and the facility again jumped significantly, but this time not due to financial troubles.

Continued on page 2

The additional program usage came from an arbitrage opportunity that the central bankers did not foresee when implementing the new facility over a stressful weekend last March. The masterstroke of this new program allowed borrowers to value collateral at par even if significantly underwater. This avoided the need to sell assets in times of stress into illiquid markets that become even more illiquid from downward price pressure in a vicious cycle. Forced selling leads to illiquid markets and illiquid markets lead to forced selling, and on and on. The Fed stepped in with loans and set the interest rate at 1-year overnight index swap (OIS) plus 10 basis points.



However, later in November when rates fell on Fed pivot speculations, an arbitrage was created where institutions could borrow at the 1-year OIS+10, and then just hold the reserves and get paid at IOR (interest on reserves). By late January the arb spread closed in on 50 basis points and public perception rumored on "another bailout for Wall Street." On January 24, the Fed closed the loophole, and to nobody's surprise, that was when program usage peaked. It remains to be seen if genuine users of the BTFP will have sufficient collateral to pivot to the Discount Window, Federal Home Loan Bank (FHLB) or repo market. Since the BTFP was a one-year term, facility users have some breathing room until March 2025.



Related, the Federal Reserve Bank of Cleveland published a working paper analyzing credit union interest rate risk. The report concluded, "credit unions' balance sheet positions seemed to be more resilient to unrealized interest rate risk than banks." The Cleveland Fed cited two primary drivers to support this conclusion. First, credit unions have lower unrecognized losses than banks. And second, credit unions are much less likely to experience a run on deposits that would force losses to be recognized due to shares more likely to be fully insured. That said, bank unrealized losses did improve over the fourth quarter, now "only" at a cumulative loss of $478 billion compared to an unrecognized $4 billion for credit unions.

In broader markets, equities and gold are at all-time highs in spite of the Fed's ongoing shrinking of its balance sheet though quantitative tightening. For our Gen Z readers, gold is a barbarous relic once used as a hedge against currency debasement before bitcoin swamped headlines.

Corporations continue to pass through price increases, keeping both margins and earnings growth strong. Inflation stopped going down eight months ago, with the most recent month's key metrics all coming in above expectations. *Continued on page 3*

We are in the last mile to the Fed's 2% target, but will we be able to get there without a recession? There remains a material risk of re-accelerating inflation from the massive fiscal spending that's flowing through to the real economy. This structural fiscal problem in the global reserve currency is causing inflation-sensitive assets to melt up. Both gold and bitcoin recently hit fresh, all-time highs. Opinions on bitcoin vary as wide as its unorthodox volatility, but it is signaling a call for caution.

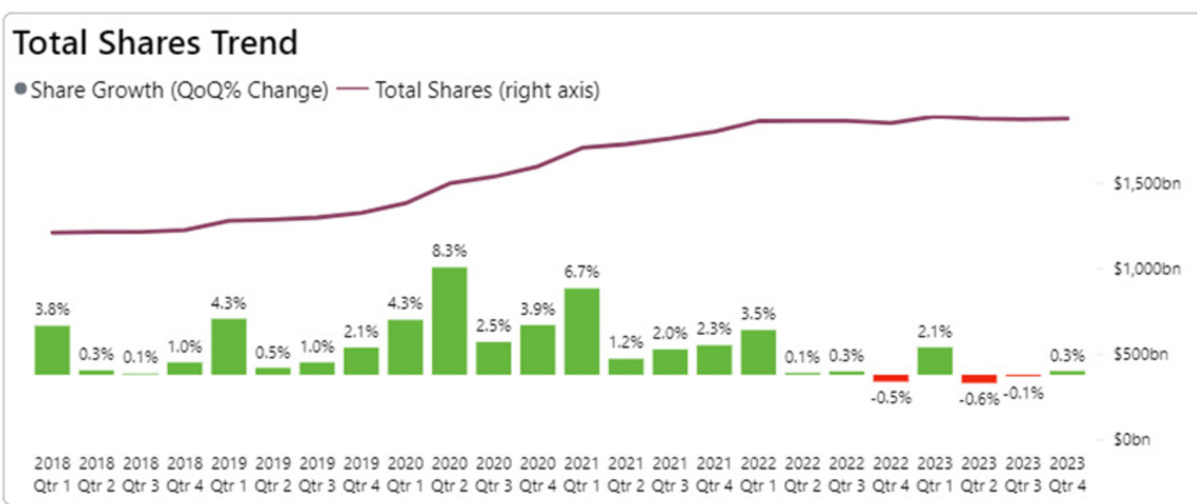
Metric	Estimate	Actual	Actual Vs Estimate
PPI (M-o-M)	0.3%	0.6%	0.3%
PPI (Ex-Food & Energy) (M-o-M)	0.2%	0.3%	0.1%
PPI (Y-o-Y)	1.2%	1.6%	0.4%
PPI (Ex-Food & Energy) (Y-o-Y)	1.9%	2.0%	0.1%
CPI (M-o-M)	0.4%	0.4%	0.0%
Core CPI (M-o-M)	0.3%	0.4%	0.1%
CPI (Y-o-Y)	3.1%	3.2%	0.1%
Core CPI (Y-o-Y)	3.7%	3.8%	0.1%

Pushing through the hype, the U.S. government's stance on crypto is conflicted with some potential use-cases for the powers that be. For one, bitcoin is acting as a pressure release valve for monetary inflation. Hot money in bitcoin is not money out in the real economy, bidding up the prices of Consumer Price Index (CPI) components. And two, the advent of so-called "stablecoins" have amassed huge portfolios of U.S. Treasuries in order to peg their token price at par to the U.S. dollar. The top five stablecoins are now the sixteenth largest holder of U.S. Treasuries, making it possible for officials to look the other way as foreign holders divest their U.S. Treasury position.

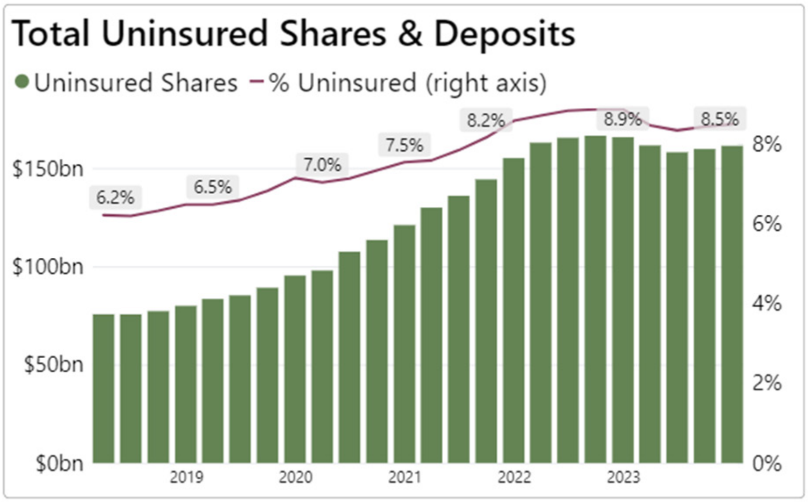
Love it or hate it, bitcoin is more relevant to credit unions than we like to think. The NCUA has taken notice, and a new 5300 Call Report schedule is on the docket with many crypto-related fields. The economic, as well as social, implications of a rising bitcoin will be explored in future publications.

CALL REPORT UPDATE

A picture is worth a thousand words. Each quarter we bring you an industry overview and fresh insights from the most recent Call Report. Total shares increased by 30 basis points in Q4, reversing the trend after two consecutive quarters of modest declines. The credit union industry in aggregate remains in the green for year-over-year share growth, while domestically chartered banks have shed deposits since late 2022. *Continued on pg 4*

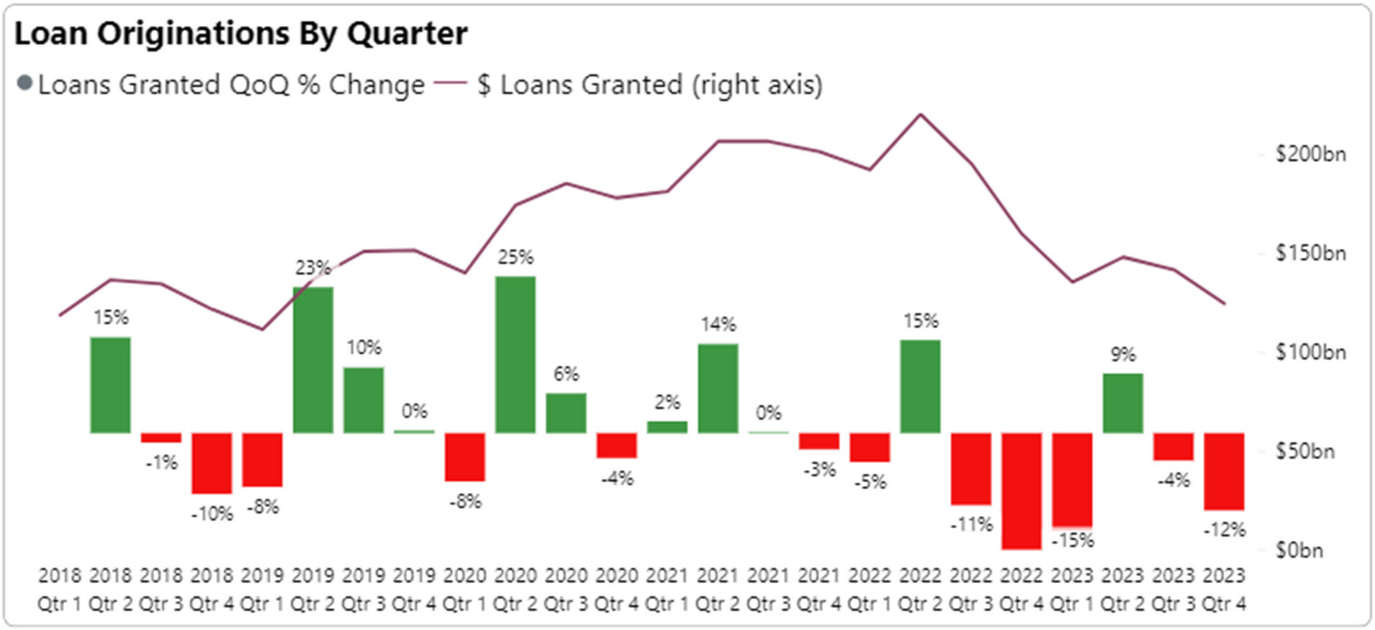


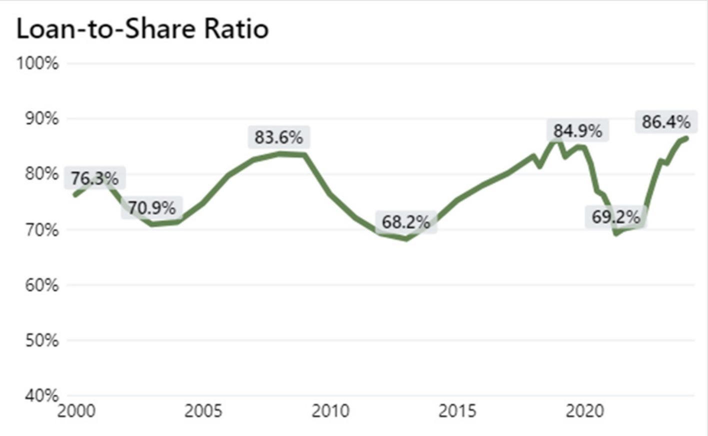
Recall from the general market update above that the Federal Reserve Bank of Cleveland studied credit union uninsured deposits in a recent working paper. Uninsured shares increased slightly in Q4 to 8.5% but remain below the high reached in Q1 2023.

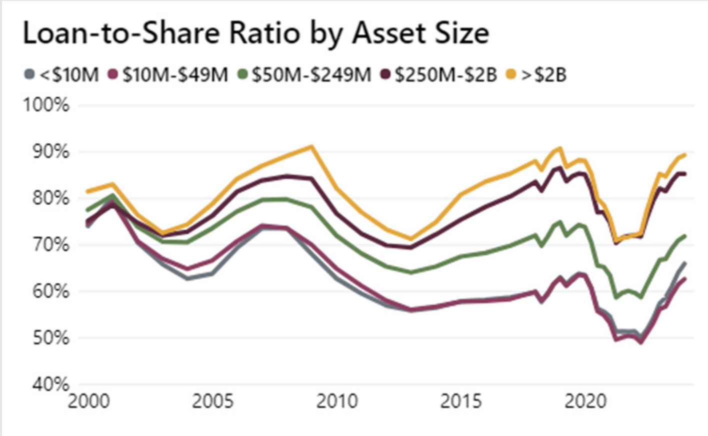


Total loans and leases outstanding increased 0.8%, the slowest expansion in loans since Q1 2021. The pace of loan originations continues to fall and has been trending down since mid-2022.

Loan and share crosswinds led to a record-high industry loan-to-share (LTS) ratio of 86.4% at the end of 2023. Credit unions continue to meet their members' needs in a competitive landscape for deposits. Looking under the hood by asset size, larger credit unions (>$2 billion in assets) at 89% LTS are still below their all-time cyclical high of 91% reached in 2008 and 2018. *Continued on page 5*





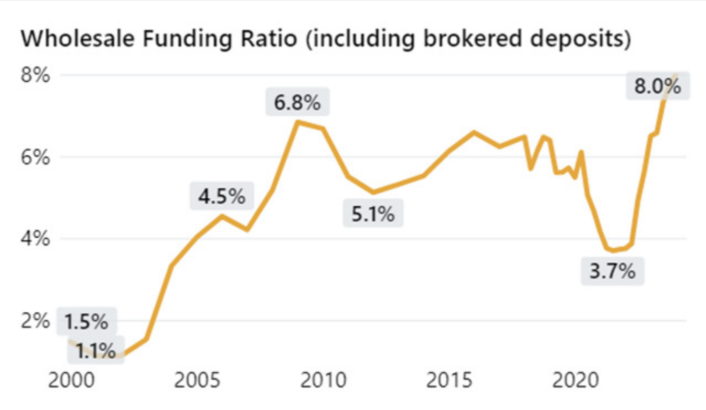


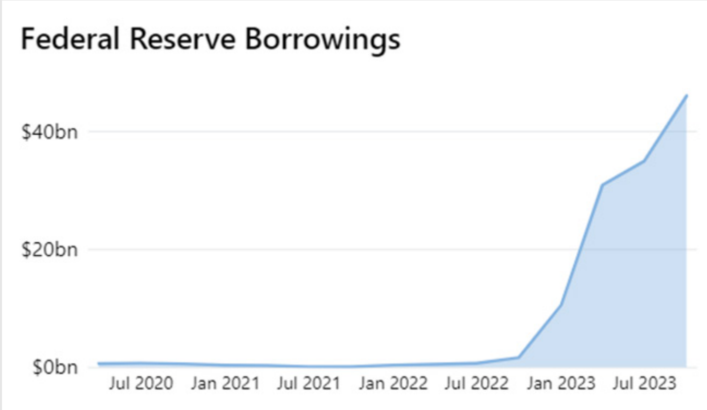
2-Year Change in Shares and Loans By Assets Size

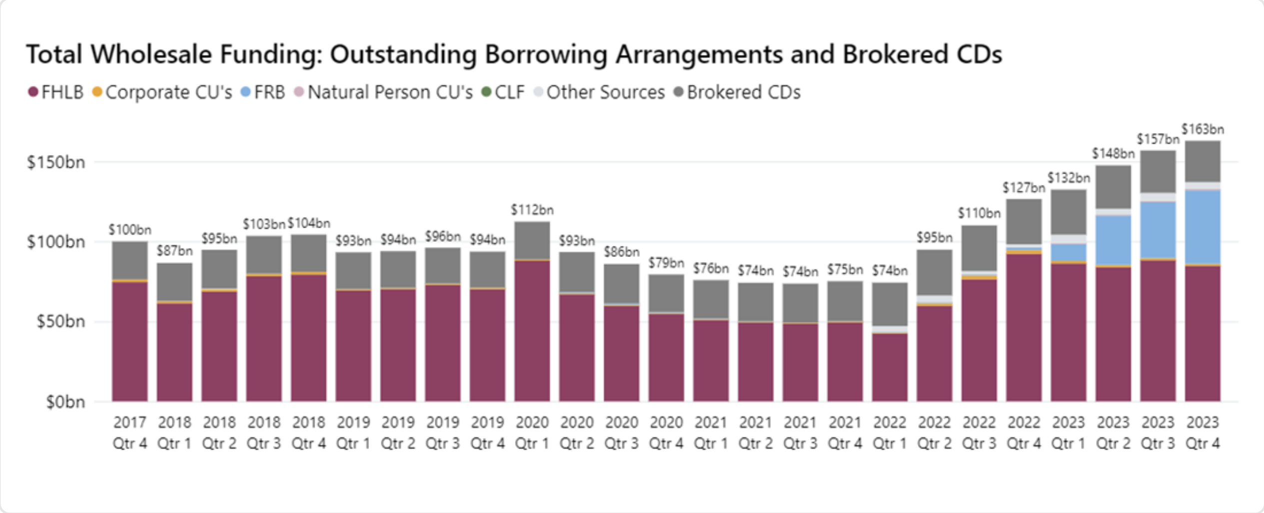
Asset Size	# of CUs	% of CUs	2 Yr $ Shares Change	2 Yr % Shares Change	2 Yr $ Loans Change	2 Yr % Loans Change
<$10M	942	20%	($0.4bn)	-12%	$0.2bn	13%
$10M-$49M	1294	28%	($4.5bn)	-13%	$1.4bn	8%
$50M-$249M	1354	29%	($9.3bn)	-6%	$11.1bn	13%
$250M-$2B	873	19%	($26.8bn)	-5%	$49.6bn	13%
>$2B	239	5%	$116.1bn	11%	$287.2bn	37%
Total	**4702**	**100%**	**$75.1bn**	**4%**	**$349.5bn**	**28%**

Considering the BTFP ending, we will need to monitor liquidity indicators that much more closely. Wholesale funding usage is at record levels, up to 8%, though we anticipate a reduction in usage as the Fed arbitrage trade unwinds.

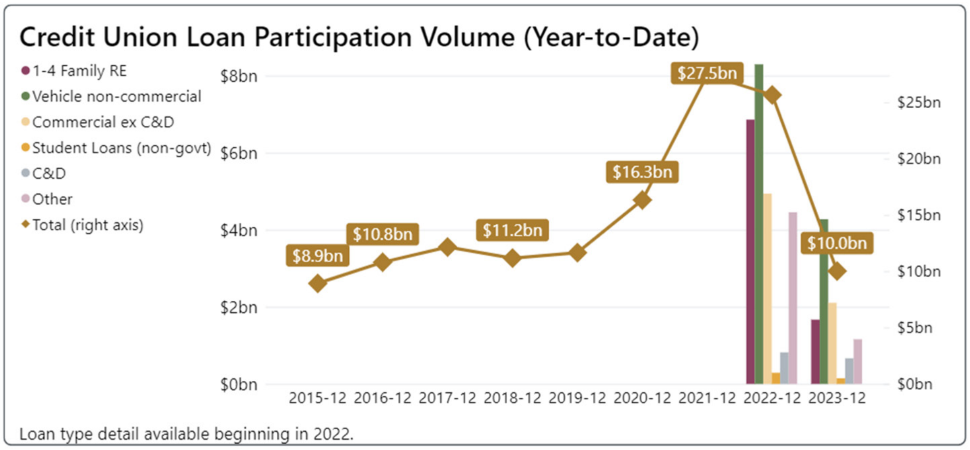
Due to the favorable terms of the BTFP, credit union Fed borrowings increased to $46 billion at the end of 2023, up an additional $11 billion from Q3 2023. We anticipate Fed borrowings to remain elevated through March 2025 and then increase at the FHLB as credit unions pivot back to FHLB advances.



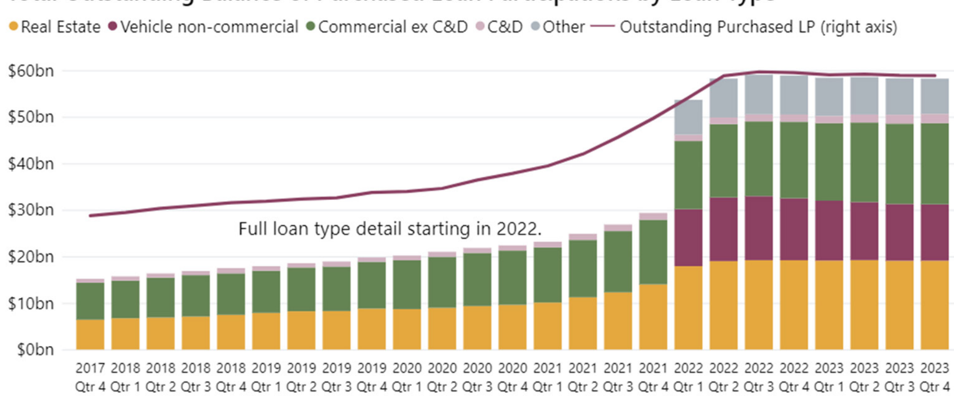




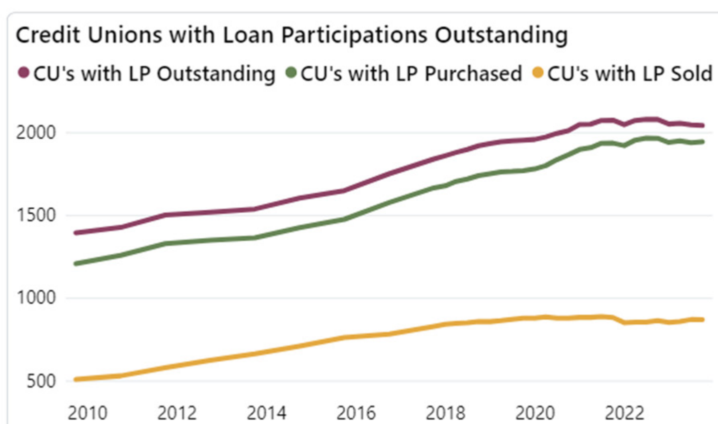
Total loan participation volume ended the year at $10 billion, down markedly from 2022, and the lowest year-to-date volume since 2015. Vehicle and commercial excluding construction and development (C&D) led volume in 2023, with the 1-4 family real estate asset type decreasing the most year-over-year. New deal volume is keeping pace with portfolio runoff. The total outstanding of participation purchases has been flat since mid-2022. That said, loan participations are still a major component of credit unions' loan portfolio strategy. Forty-three percent of credit unions show outstanding loan participations on their balance sheet.



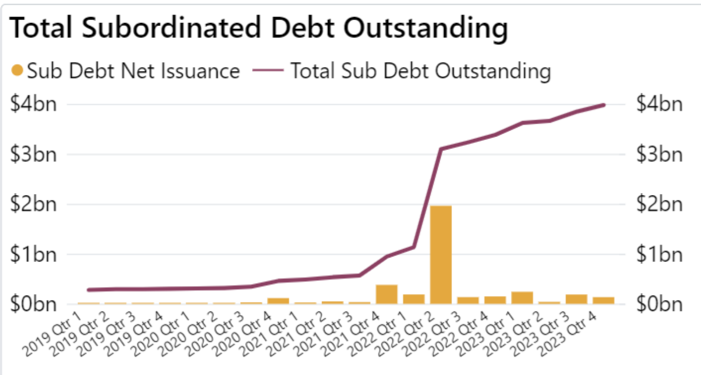
Total Outstanding Balance of Purchased Loan Participations by Loan Type



		12/31/2023
CU's with LP Outstanding		2040
% of CU's with LP Outstanding		43%
CU's with LP Purchased		1942
CU's with LP Sold		868
5 Yr Change in # of CU's with LP	▲	122
5 Yr Change in % of CU's with LP	▲	6%
LP Purchased Outstanding		$59bn
5 Yr $ Change in LP Purchased Outstanding	▲	$27bn
5 Yr % Change in LP Purchased Outstanding	▲	86%



Credit unions use subordinated debt proceeds to support various initiatives, such as expanding operations, making strategic investments or meeting regulatory capital requirements. By accessing this additional capital, credit unions can better adapt to changing economic conditions and ensure their ability to serve members.



SkyOne FEDERAL CREDIT UNION
HAWTHORNE, CA

HAS ISSUED

$2.25 MILLION
IN SUBORDINATED DEBT

FEB 27, 2024

ALLOYA SERVED AS CO-PLACEMENT AGENT

alloya

Credit unions experienced rapid growth during the pandemic, and with liquidity tightening over the past 24 months, many are looking for ways to rebuild capital to grow in the future. For low-income-designated credit unions, subordinated debt can help enhance capital ratios, making this possible.

Issuance Size	IG Egan Jones	Kroll BBB-	Kroll BBB	Kroll BBB+	Unrated
50MM	8.500% +/-	8.500% +/-	8.500% +/-	8.500% +/-	8.500%-9.000% +/-
50MM-100MM	8.500% +/-	8.500% +/-	8.500% +/-	8.500% +/-	-
100MM+	8.500% +/-	8.500% +/-	8.500% +/-	8.500% +/-	-

	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
# of CU's with Sub Debt	66	68	80	106	150	167
Sub Debt Outstanding	$265M	$301M	$460M	$948M	$3,381M	$3,981M
Combined Sub Debt as % of NW	10.1%	9.2%	8.8%	11.9%	19.8%	18.6%
AVG Assets Size of Issuing CU's	$400M	$486M	$698M	$757M	$1,059M	$1,205M
AVG Net Worth Ratio of Issuing CU's	9.7%	9.8%	9.2%	10.4%	12.3%	12.5%

The subordinated debt market ended 2023 with multiple issuances closing in December, but has seen a slower start to 2024 with rate cuts projected for June. Credit unions may be sitting on the sidelines waiting for rates to lower to decrease borrowing costs. Now is a great time to get started on applications to time those rate cuts appropriately to get the best borrowing cost possible.

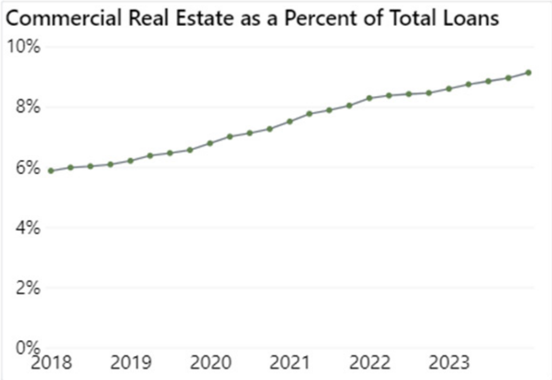
Alloya served as a co-placement agent on the subordinated debt transaction above. We anticipate more deals to come in the months ahead. If you're looking to invest in an upcoming issuance, consider discussing the opportunities with your Alloya Investment Services representative.

Congratulations to GreenState Credit Union for their first asset-backed security (ABS) issuance! This is the first credit union ABS issuance to hit the market in 2024. The deal size was $400 million in auto receivables across seven risk tranches with yields ranging from 5.6% to 6.59%.

GreenState Credit Union (GRNST) Auto Receivables Trust 2024-1

CLASS	SZE(M)	WAL	MO	C/E	SPRD	CPN	YLD	PRICE
A1	51.1	0.22	P-1	10.85%	20	5.60%	5.60%	100
A2	174.5	1.1	Aaa	10.85%	70	5.53%	5.60%	99.99489
A3	107.5	2.48	Aaa	10.85%	85	5.19%	5.25%	99.98511
A4	39.4	3.49	Aaa	10.85%	100	5.17%	5.24%	99.97195
B	10.5	3.91	Aa2	8.33%	130	5.42%	5.49%	99.96757
C	9	3.92	A2	6.17%	165	5.77%	5.84%	99.9993
D	8	3.92	Baa2	4.25%	240	6.50%	6.59%	99.99544

BALANCE SHEET STRATEGY
Commercial Real Estate Exposure



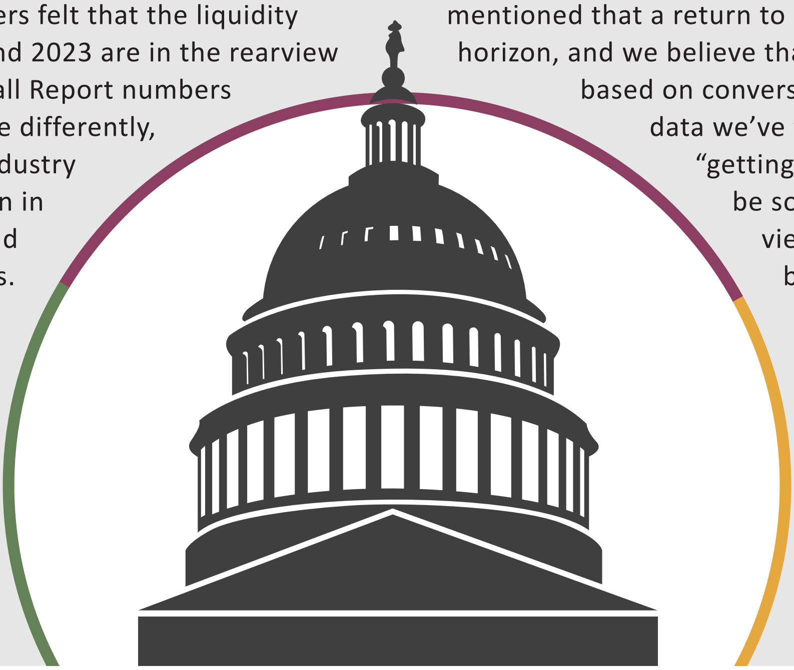
Since the beginning of the pandemic in March 2020 (yes, it has been four years!), markets have wrestled with the impact on commercial real estate (CRE). Couple that with a high interest rate environment, and many are waiting for the proverbial CRE shoe to drop. CRE has actually been a source of asset growth for the credit union industry in recent years, as banks pulled back. CRE exposure increased above 9% of total loans at year-end, up from 6% in 2018.

Recent performance and media attention has led many to rethink their CRE exposures, regardless of a potential correction. One option is to utilize loan participations to manage CRE concentrations in your loan mix. Adjusting loan type allocations through maturity runoff and new origination policy can take north of 18-24 months to materially alter loan mix exposures. With loan participations, we can more quickly reallocate risk exposures to prudent levels. Participations can move the needle in a matter of months instead of years. While the overall industry loan concentration to commercial real estate is 9%, there are several credit unions with more than a 50% concentration to CRE in their loan book. Now is a good time to dust off your loan concentration risk limit policy and consider rebalancing with loan participations if you find your risk exposure uncomfortably high.

FINAL THOUGHTS

Yearly, in the beginning of March, credit union advocates and leaders travel across the country (and globe, most recently) to Washington, D.C. for America's Credit Unions Governmental Affairs Conference (GAC). This conference serves as a general litmus test of the emotional outlook for credit unions for the upcoming year. Alloya was front and center once again at the conference, leading conversations related to capital markets and the future of payments.

In general, you could feel a sigh of relief from credit unions. Leaders felt that the liquidity crunches of 2022 and 2023 are in the rearview mirror. While the Call Report numbers listed above indicate differently, it seems that the industry is seeing a downturn in loan originations and an influx of deposits. While anecdotal, conversations had at the GAC led us to feel that credit unions are returning to where they left off just before the global pandemic.



In previous issues of *Capital Markets Monthly*, we mentioned that a return to normalcy was on the horizon, and we believe that is coming to fruition based on conversations we've had and data we've tracked. It seems odd that "getting back to neutral" would be something that would be viewed as an optimistic sign, but that is certainly true across the board for the industry. We believe that as things settle down in the first half of 2024, big things are on the horizon for the latter half of 2024 and beyond for credit unions.

REAL-LIFE STORIES, REAL-TIME PAYMENTS

Your member wakes up and realizes his electric bill is due today. Fortunately, his employer offers the ability to get paid for same-day work. With funds in his account from yesterday's paycheck, he's able to pay the bill on time and keep the lights on.

VS

Taking out a high-interest payday loan to cover the bill.

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