



CAPITAL MARKETS *monthly*

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GENERAL MARKET OVERVIEW

Softening labor and economic data provided cover for the Federal Reserve to capitulate to rate cut pressure. In their September Federal Open Market Committee (FOMC) meeting, the Federal Reserve cut the federal funds rate by 25 basis points, which establishes the range of 4.00% - 4.25% for fed funds. The Fed's "dot plot" projects two more potential 25 basis point interest

rate cuts by the end of this year. The FOMC meets again on October 28-29 and then on December 9-10. The swap futures market has estimated a probability of +85%-90% for the Fed to reduce rates another 25 basis points for each of the remaining meetings this year.

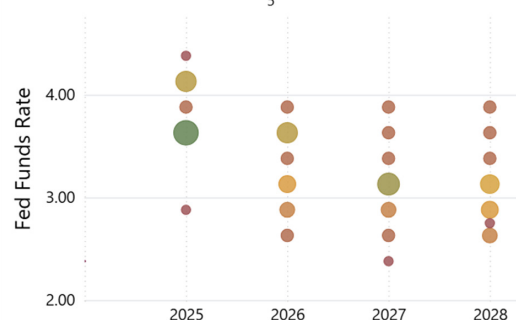
The median "dots," representing each Fed official's estimates of future interest rate projections, drifted lower from the June forecast. Note the wide dispersion in year-end rate outlook despite only three months to go. While a majority (nine of 19 votes) anticipates two additional cuts by year-end, one voting member actually sees a hike in rates, while another (presumably President Trump's latest appointee Stephen Miran) wants the equivalent of five cuts by year-end. The divergence in projections highlights the complexity of balancing inflation, growth, employment and stability in a dynamic economy.

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FOMC Fed Funds Projections ("dot plot")

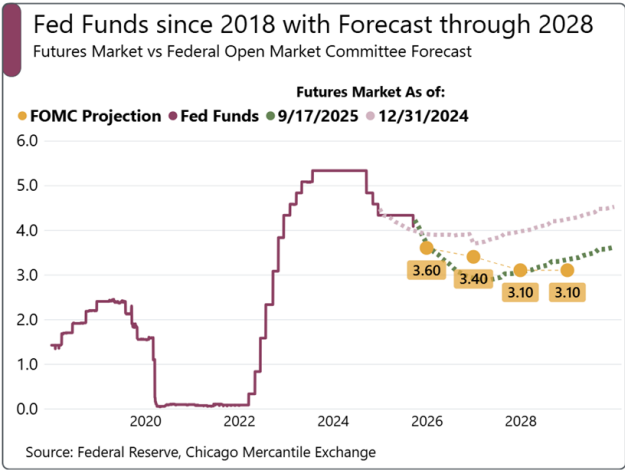
Midpoint target level for the federal funds rate

Number of Voting Members: 1 5 9

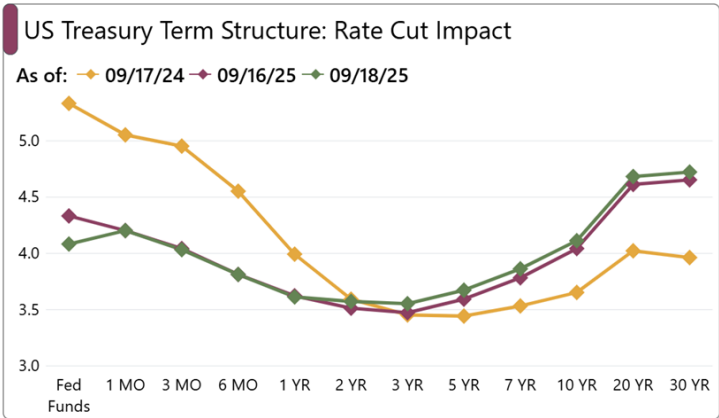


Source: Federal Open Market Committee Projections

The market forecast, as derived from fed funds futures contracts, sees lower rates through 2027 compared to FOMC projections and then higher rates in 2028. The futures market forecast is volatile. At the beginning of 2025, futures pointed to higher rates than the Fed forecast. Now, the market forecast for year-end 2025 and 2027 aligns with the FOMC, but the market anticipates additional cuts in 2026 not projected by the Fed.



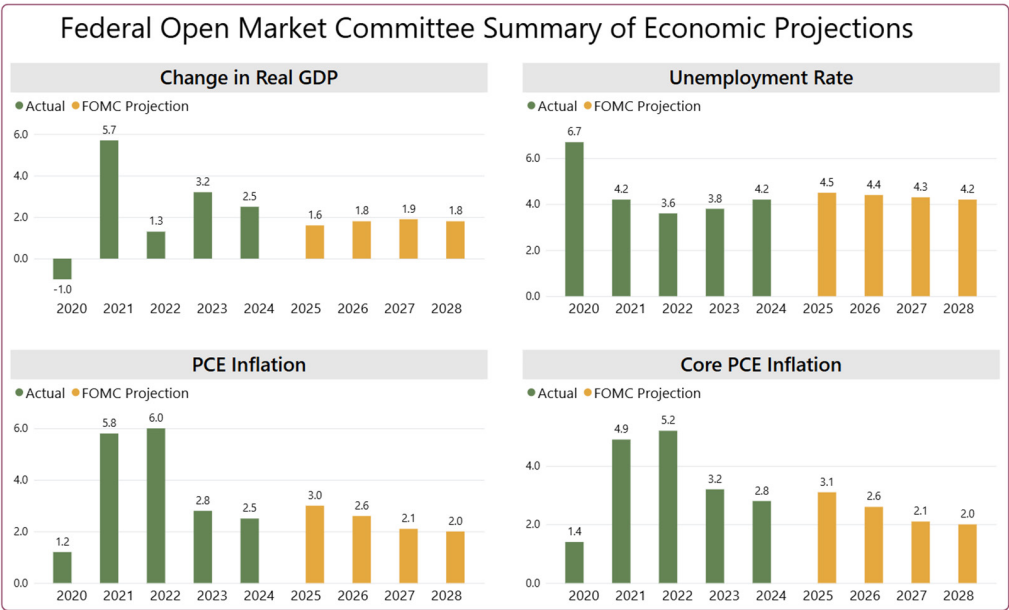
The decision to cut interest rates was based on a few factors, Chairman Jerome Powell said. Those factors included the slower hiring shown by the Labor Department’s August Non-Farm Payroll Report (only +22,000 jobs) and economic conditions, i.e., the Fed’s Beige Book. Powell said that further cuts this year will be decided “meeting by meeting.” He also stated that the September cut was a “risk management” decision. So future cuts will be data driven, meaning how the U.S. tariffs have affected inflation and the subsequent employment data. As of this writing, Treasury yields have risen since the FOMC meeting and Powell’s subsequent press conference. See the yield comparisons below. Rates from the two-year tenure on have risen.



Note that over the past year, rates at the front have fallen and increased at the long end of the curve, while rate volatility in the belly of the curve has been muted. The two-year and five-year maturity horizon, important durations for both investments and loan pricing, have been relatively range bound.

In addition to fed funds, the FOMC also provides **an outlook report** on several other key economic indicators. These economic projections help market participants glean insight into how the Fed is thinking about the indicators that underpin their dual mandate of stable prices and maximum employment.

The accompanying graphic shows the four key indicators and projections for real gross domestic product (GDP), unemployment, personal consumption expenditures (PCE) inflation and core PCE. For each indicator, we provide the actual figures from 2020 to 2024 and the Fed’s projection for full-year 2025 through 2028. The Fed expects the change in real GDP to decline below 2% and level off at 1.8% to 1.9% for the next several years. The Fed anticipates unemployment to tick up to 4.5% by year-end but then level off and decline back to 2024 levels of 4.2% by 2028. Both PCE and core PCE, the Fed’s preferred inflation measures, follow similar trajectories through 2028. Interestingly, the Fed is cutting rates into anticipated elevated PCE inflation at 3% and 2.6% in 2025 and 2026, respectively, materially higher than the supposed 2% inflation target.

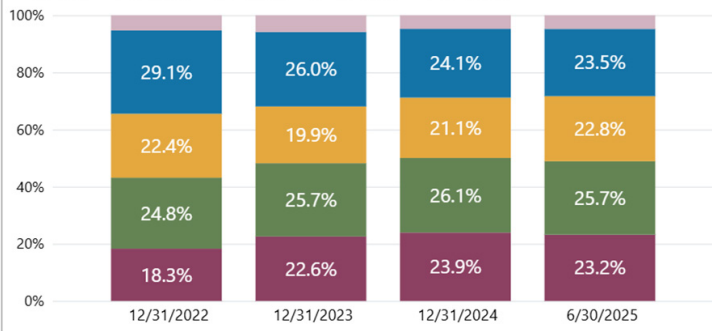




Investment Maturity Distribution

Excluding time deposits

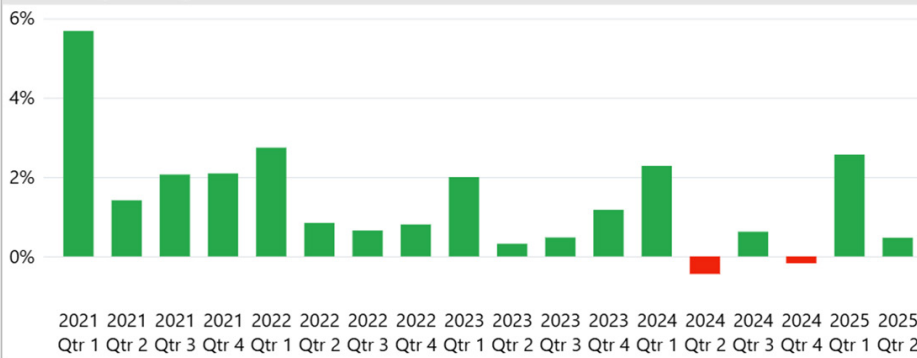
● <1 Year ● 1-3 Years ● 3-5 Years ● 5-10 Years ● >10 Years



Credit unions are anticipating rates decreasing by allocating investments to the three to five-year maturity horizon. The three to five-year allocation increased to 22.8% of investments while all other maturity horizons decreased (as a percentage of total investments).

Total assets increased by half a percentage point in Q2 2025, pushing assets over \$2.4 trillion. Over the last five years, assets have increased 36% while the number of credit unions has shrunk by 15% to 4,460 institutions.

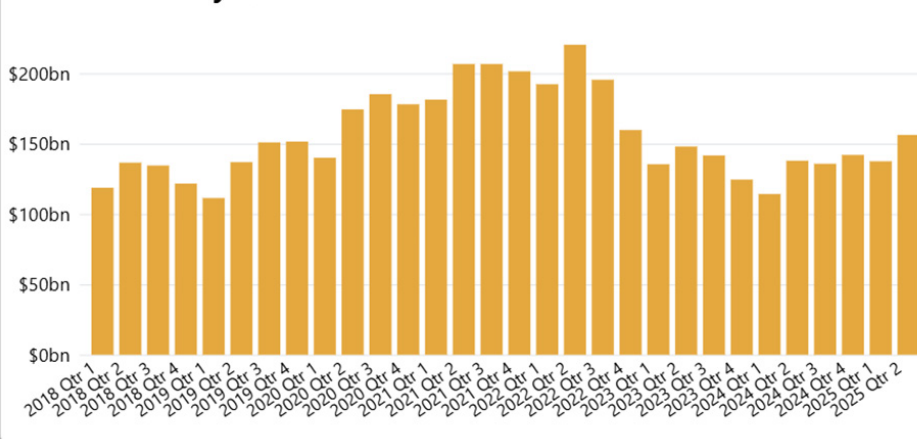
Quarterly Change in Total Assets



5-Year Change Summary

Number of Credit Unions	4,460
5 Yr Change in # of Credit Unions	▼ -815
5 Yr Change in % of Credit Unions	▼ -15%
Total Assets	\$2,402bn
5 Yr \$ Change in Assets	▲ \$632bn
5 Yr % Change in Assets	▲ 36%

Loans Granted by Quarter



The credit union industry loan book expanded 1.7% in Q2 2025 to just shy of \$1.7 trillion and \$156.3 billion in loans were granted in the second quarter, the most since Q4 2022. The composition by loan type remained stable with a slight decrease in autos offset with a marginal increase in mortgages.

Shares were essentially flat, increasing 0.05% in Q2 2025 after surpassing the impressive milestone of \$2 trillion in Q1. *Continued on page 4*

CAPITAL MARKETS (SIMPLIFIED)

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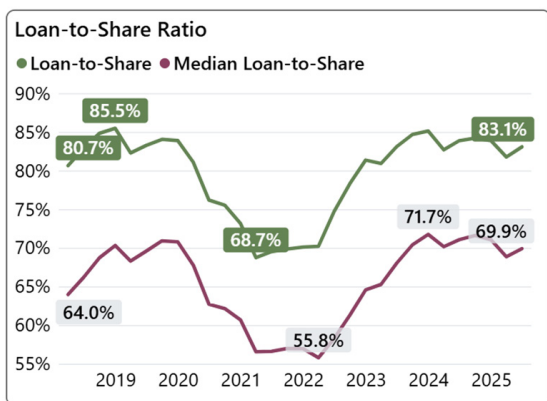
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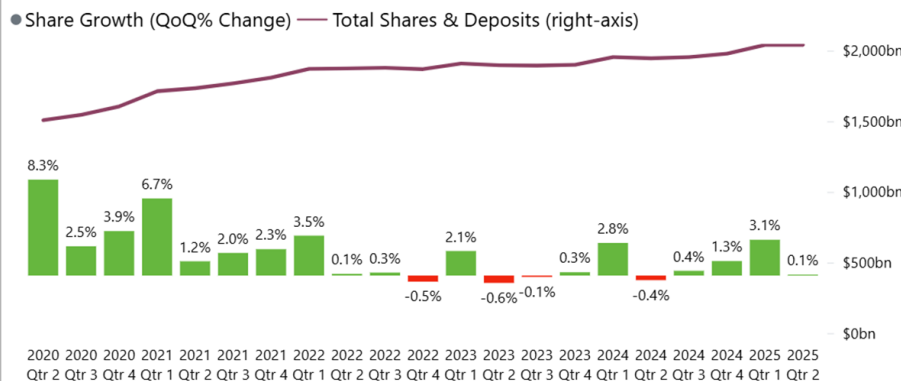
The higher loan versus share growth led to a 1% increase in the loan-to-share (LTS) ratio. The industry LTS rose to 83.1% while the median credit union LTS is 69.9%.

Wholesale funding rose \$3 billion

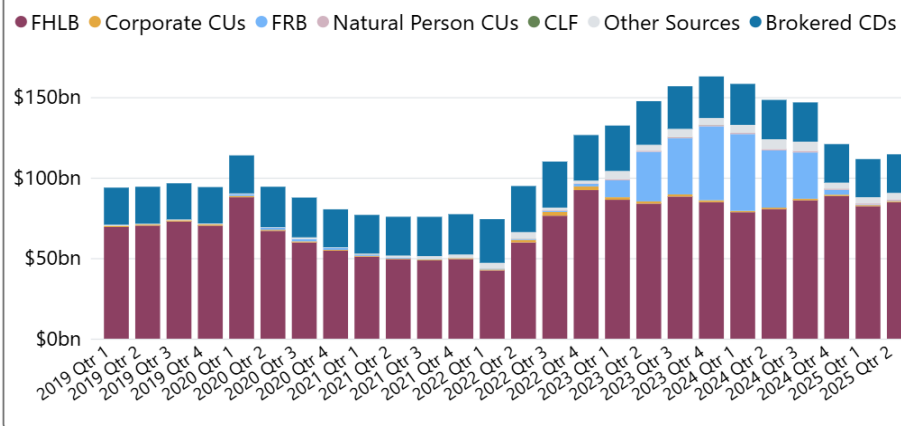
to \$115 billion, reversing the decreasing trend over the previous five consecutive quarters. The source of the rise was predominately Federal Home Loan Bank (FHLB) advances, with other sources flat from Q1.



Total Shares Trend



Total Wholesale Funding by Source

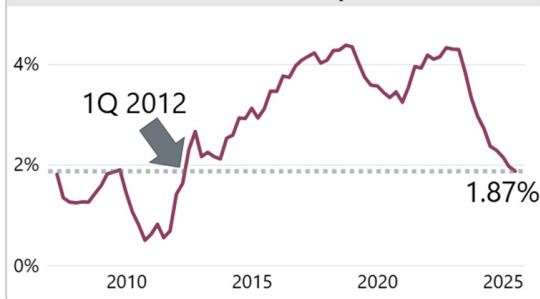


LP MARKET OVERVIEW

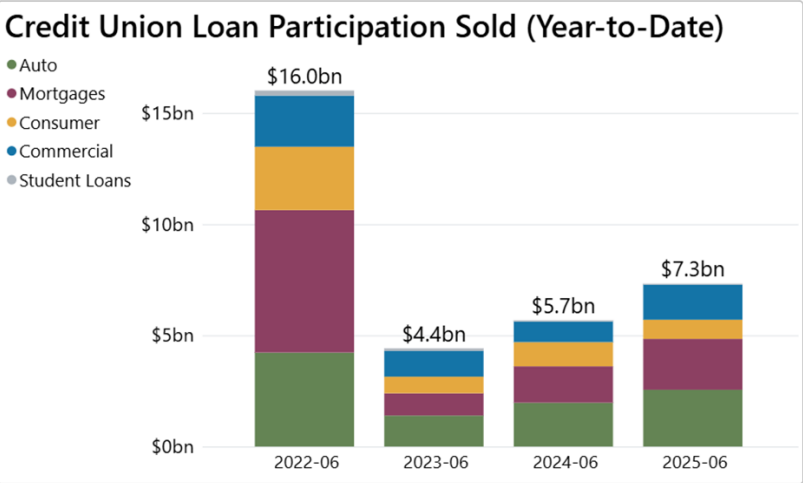
Industry membership growth is the slowest in 13 years. The year-over-year change in membership dropped to +1.87%, the slowest growth since Q1 2012. Growth varies by several dimensions, such as region or asset size. Loan participations are a strategy credit unions utilize to augment or reduce loan exposure due to uneven membership growth or loan demand.

Loan participations (LP) are currently used by 45% of credit unions to better manage their balance sheet and risk profiles. National Credit Union Administration (NCUA) examiners look for current and prospective sources of liquidity regarding a credit union's liquidity risk management framework, and nearly half of credit unions utilize loan participations to meet their liquidity management needs. Credit unions sold \$7.3 billion in loan participations year-to-date, compared to \$5.7 billion sold through Q2 in 2024. The loan type composition of LP volume remains consistent with prior years, with additional participation activity in commercial loans. New volume exceeded runoff for the sixth consecutive quarter with loan participations outstanding over \$65.3 billion as of Q2 2025. *Continued on page 5*

Year-over-Year Membership Growth



	6/30/2025
CUs with LP Outstanding	2009
% of CUs with LP Outstanding	45%
CUs with LP Purchased	1916
CUs with LP Sold	867
5 Yr Change in # of CUs with LP	▲ 38
5 Yr Change in % of CUs with LP	▲ 2%
LP Purchased Outstanding	\$65bn
5 Yr \$ Change in LP Purchased Outstanding	▲ \$31bn
5 Yr % Change in LP Purchased Outstanding	▲ 89%



CAPITAL SOLUTIONS MARKET

Low-income-designated credit unions issue subordinated debt primarily for regulatory capital purposes and to enhance financial flexibility, especially as they grow or face increasing capital needs. We are seeing subordinated debt being used in several different ways, including expansion of lending products, funding strategic initiatives, or mergers and acquisitions.

Bank acquisitions are presenting an exciting opportunity for credit unions right now, and subordinated debt is being utilized to help fund these initiatives. We are seeing both larger and smaller credit unions take advantage of these opportunities to help expand their operations for their members. These applications typically take 60 days for NCUA approval, and once approved, the credit union has 24 months to access the approved funds for various purposes.

Alloya served as placement agent on the accompanying subordinated debt transaction. 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.

HAS ISSUED

\$20 MILLION

IN SUBORDINATED DEBT

SEP 10, 2025

ALLOYA SERVED AS
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Current Subordinated Debt Market Issuance Rates					
Issuance Size	IG Egan Jones	Kroll BBB-	Kroll BBB	Kroll BBB+	Unrated
\$50MM	7.5000% +/-	7.5000% +/-	7.5000% +/-	7.5000% +/-	7.000%- 8.000% +/-
\$50MM-\$100MM	7.500% +/-	7.500% +/-	7.500% +/-	7.500% +/-	
\$100MM+	7.000% +/-	7.000% +/-	7.000% +/-	7.000% +/-	

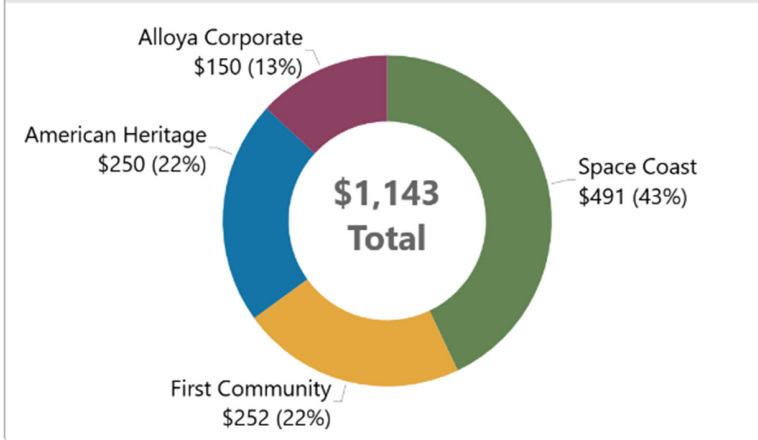


AUTO ASSET-BACKED SECURITIES MARKET

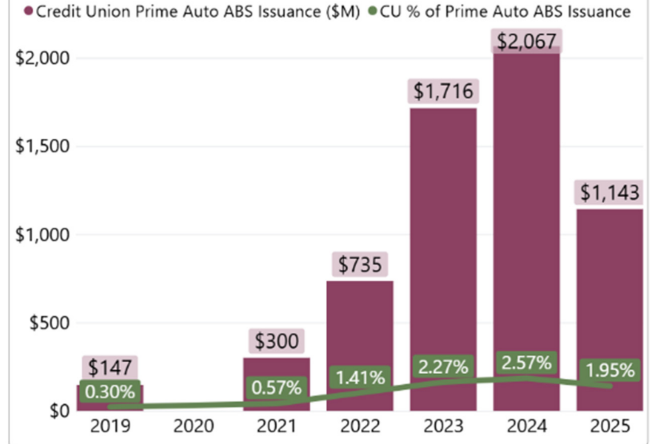
American Heritage Credit Union and Space Coast Credit Union are the latest to issue auto asset-backed securities (ABS). This additional \$250 million from American Heritage and \$491 million from Space Coast bring the year-to-date issuance by credit unions to over \$1.1 billion.

In July of this year, Alloya successfully facilitated the credit union network's first-ever multi-issuer prime auto loan ABS ([read more here](#)). Credit unions' 2025 market share of prime auto ABS issuance is 1.95%, a decrease compared with a market share of over 2.5% in 2024. Including the Alloya-led deal with three underlying issuers, a total of 15 credit unions have issued over \$7 billion in auto ABS since 2019.

2025 Credit Union Auto ABS Issuance (\$ millions)



Credit Union Prime Auto ABS Issuance and Market Share



FINAL THOUGHTS

We thank all 179 credit unions that made Alloya's Leadership Symposium in Boston a tremendous success. We were able to learn, network and discuss many of the important things at the top of credit unions' to-do lists. So many great conversations were had, many of them around what to do to navigate the current capital markets landscape. While each credit union will have its own challenges depending on their location, membership makeup and balance sheet demands, one thing remains certain: Credit unions are proactive in their approach to handling their challenges. Nothing is more important given today's current environment than being proactive with one's approach to liquidity management and the capital markets.

Alloya continues to build out its capabilities for all your capital market needs. Case in point, by pooling resources and leveraging Alloya's expertise, our member credit unions were able to access the securitization market in a way that would be difficult to achieve independently. The accompanying chart shows the volume comparison of credit union auto loan participations sold versus ABS issuance over the past few years. The chart clearly shows the ongoing importance of both strategies.

Alloya continues to explore new avenues to support credit union success through securitization, loan participations and other capital markets strategies. Learn more at alloyacorp.org/capital-markets-simplified.

Credit Union LP Sold versus ABS Issuance

