



GENERAL MARKET OVERVIEW

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*There is nothing
new in the world
except the history
you do not know.*

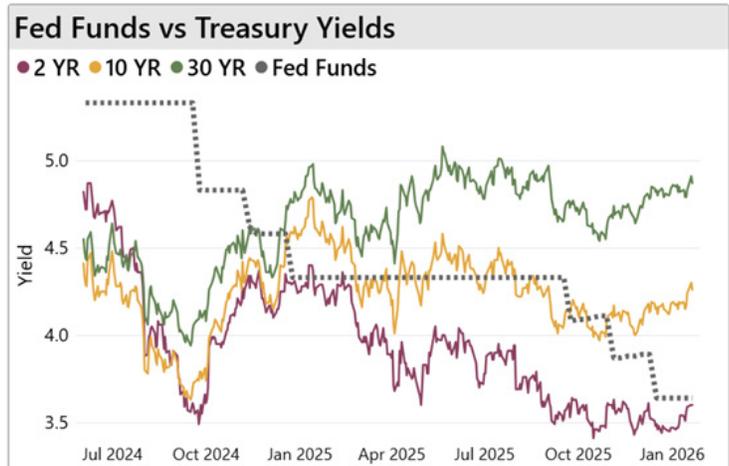
– Harry S. Truman
33rd President
of the U.S.

President Truman believed the challenges he faced had a precedent in the past. As the new year unfolds, we find markets wrestling with a reoccurring question as to whether the inflation genie is truly back in the bottle. When the Federal Reserve started their interest rate cut cycle in September 2024, the 30-year Treasury was below 4%. Now after 175 basis points of rate cuts, the 30-year bond is above 4.9%.

Long-term interest rates remain stubbornly elevated, signaling a perceived breakdown in fiscal and monetary discipline as well as potentially eroding confidence in the Federal Reserve’s ability to fulfill its price stability mandate.

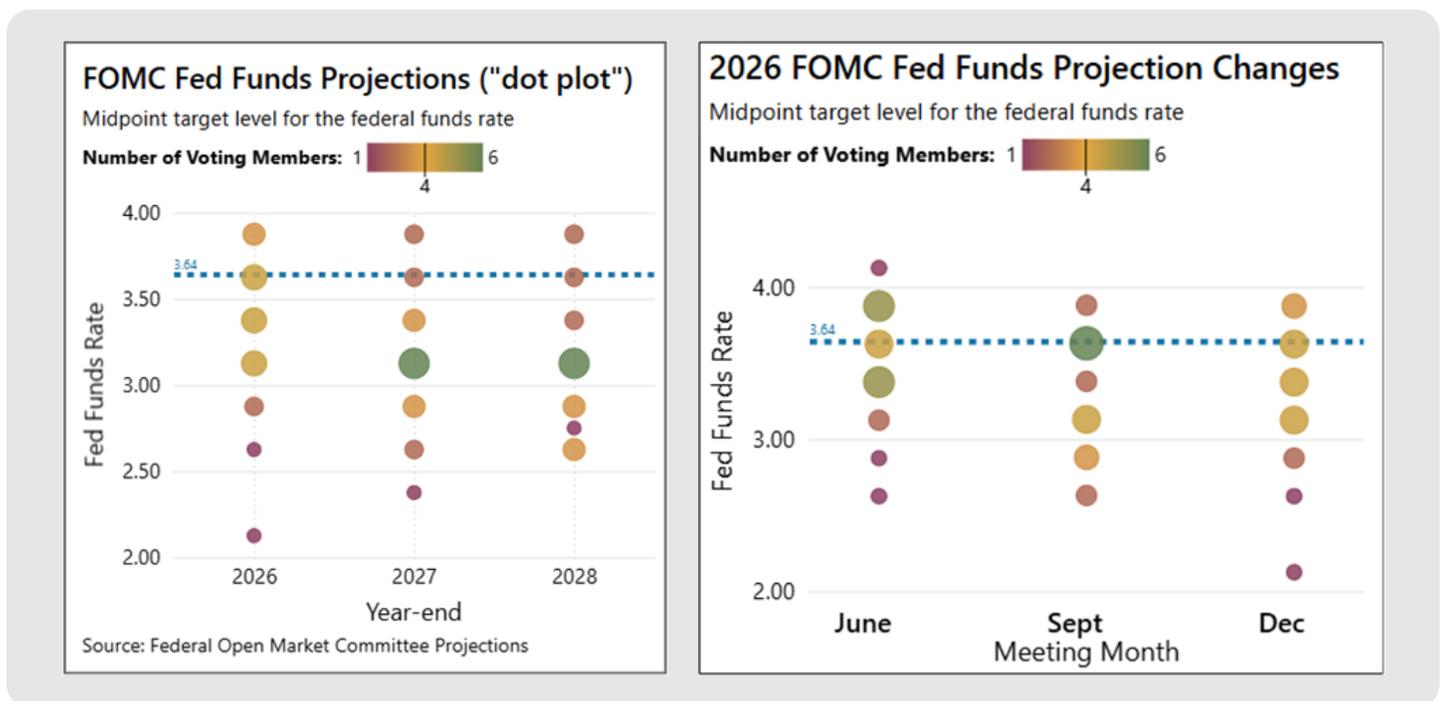
This erosion of credibility was further intensified by the coordinated messaging on Sunday, January 11 between *The New York Times* and an unorthodox video address from Fed Chairman Jerome Powell in which Powell disclosed that he had been served a subpoena and is under criminal investigation from the Department of Justice. According to *The New York Times*, the new investigation centers around whether Powell lied to Congress about the scope of the

renovation project at the Fed’s new headquarters in Washington. The Fed chair didn’t mince words in opining that this is political retribution for the Federal Reserve remaining independent. This is the most antagonistic the executive branch (and U.S. Treasury) has been since 1951 when Fed independence was enshrined in the Fed-Treasury Accord of February 1951. The Accord was a landmark shift to operational independence after decades of monetary passivity due to the fiscal demands of the Great Depression and World War II. Since the 1951 Accord, we have experienced several bouts of political pressure, namely President Lyndon Johnson pressuring Fed Chair William Martin to keep rates low to finance the Vietnam War and Great Society policy, as well as President Richard Nixon pressuring Fed Chair Arthur Burns to maintain low rates to ensure his re-election. Ironically, the Federal Reserve building under renovation was specifically named after Marriner S. Eccles, the Fed Chair from 1934-1948, for his role in securing the Fed’s independence after President Truman tried to force Eccles to surrender monetary policy control to the Treasury Department. In an era of high government spending, monetary policy is increasingly overwhelmed by fiscal requirements making the argument for “independence” anachronistic. *Continued on page 2*



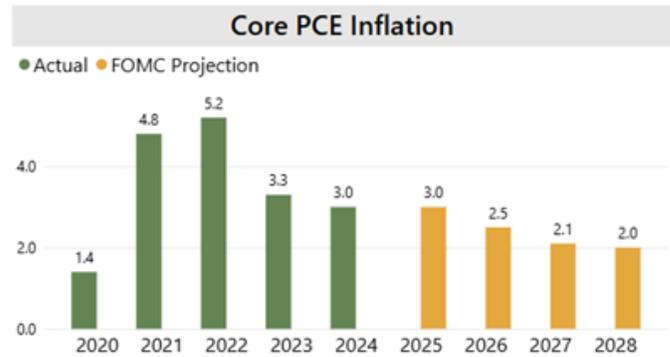
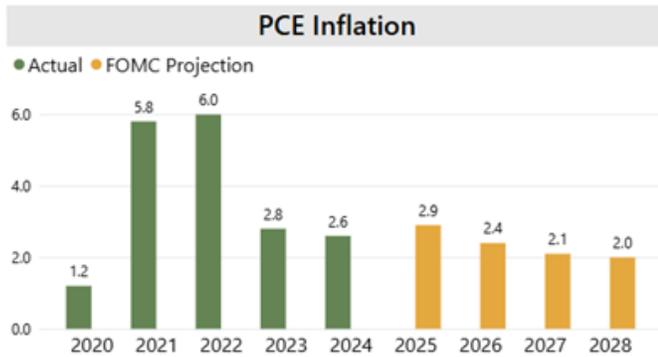
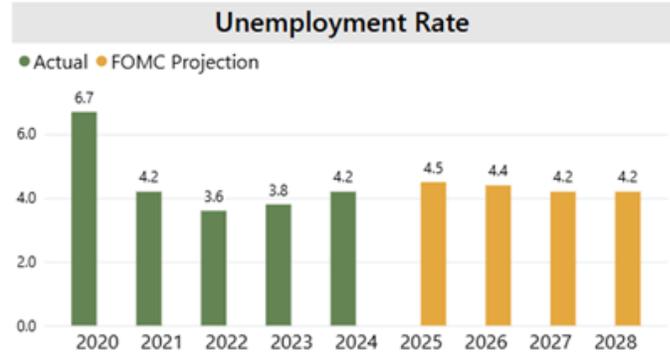
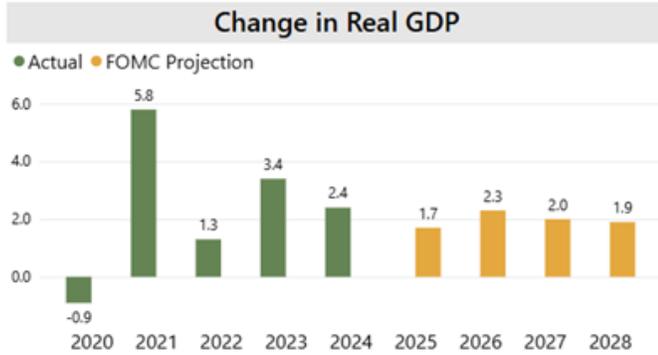
Back to the present with the most recent Federal Open Market Committee’s (FOMC) release of official rate expectations. In the chart below, the median “dots,” representing each Fed official’s estimates of future interest rate projections, continue to drift lower from the prior two FOMC meetings in June and September. The wide dispersion of forecasts for year-end 2026 highlights the mounting friction among committee members. While Fed Chair Jerome Powell successfully marshalled a fractured committee to push through a 25-basis point cut at the December meeting, there remains a spectrum of dissent with both dovish and hawkish factions. In the dovish wing, Governor Miran dissented in favor of a more aggressive 50 basis point cut, and multiple Fed presidents dissented arguing against any rate cuts due to a persistent inflation threat. Looking ahead to year-end 2026, three voting committee members see a need to raise rates in strong juxtaposition to (presumably) Stephen Miran who projects rates will fall to 2.125%. The blue horizontal bar in the “dot plot” is the current fed funds rate at 3.64%. The majority of voting members anticipate two additional cuts over the next couple of years.

The first “dot plot” chart shows the most recent December projections through 2028. The second “dot plot” chart highlights the 2026 projections, but as of the June, September and December 2025 FOMC meetings. This second plot helps illustrate both the divergence and drift in expected rates.



The FOMC provides additional key economic indicators on a quarterly basis, which you can read more about at the **Federal Reserve’s website**. 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 graphic on the next page 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 (2025 figures are not yet available) and the Fed’s projections through 2028. The Fed expects the change in real GDP to increase to 2.3% in 2026 before leveling off at 2%. The Fed anticipates unemployment to continue to increase, rising to 4.5% and staying above 4% through 2028. Both PCE and core PCE, the Fed’s preferred inflation measures, follow similar trajectories through 2028. Stubborn inflation above the 2% target has led to continued talks of moving to a higher inflation target. The Fed does not anticipate PCE inflation falling back to 2% until 2028.

Federal Open Market Committee Summary of Economic Projections



2026 NCUA'S EXAM PRIORITIES

The National Credit Union Administration's (NCUA) most recent letter (Letter NO: 26-CU-01) to federally insured credit unions disclosed the NCUA's 2026 supervisory priorities. These priorities are outlined as follows:

BALANCE SHEET MANAGEMENT

1. Lending
2. Sensitivity to market risk and liquidity
3. Earnings and capital adequacy

OPERATIONAL RISK MANAGEMENT

1. Payment systems
2. Fraud prevention and detection

COMPLIANCE RISK MANAGEMENT

1. Bank Secrecy Act (BSA) compliance
2. Anti-money laundering/Countering the financing of terrorism (AML/CFT) programs

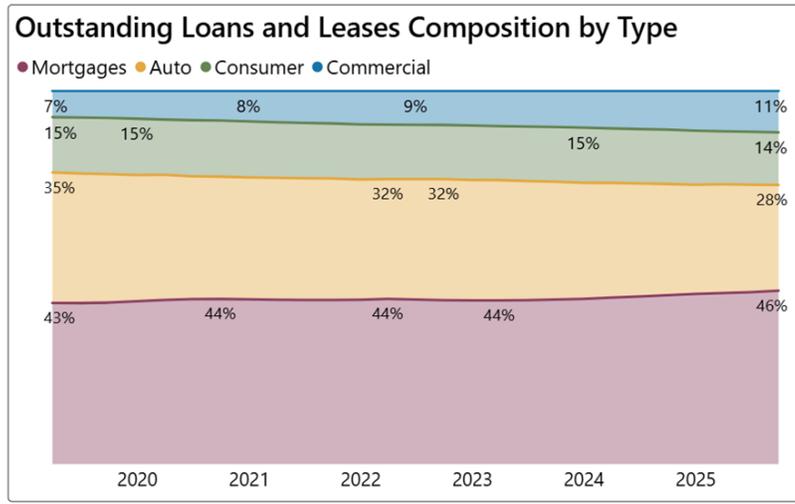
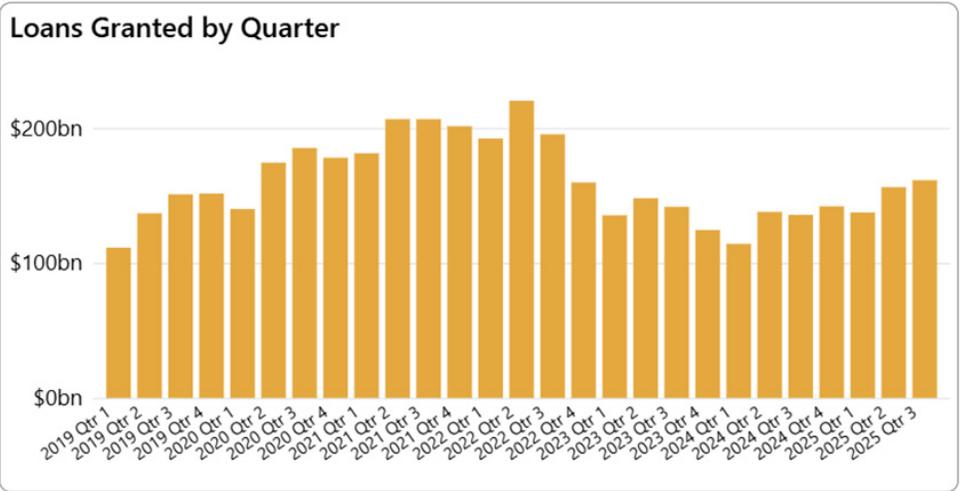
EFFICIENCY AND INNOVATION

1. No regulation-by-enforcement
2. Legislative and executive directives alignment (e.g. GENIUS Act)

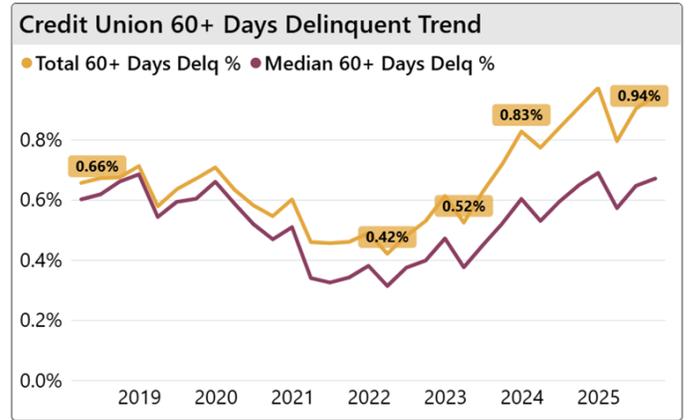
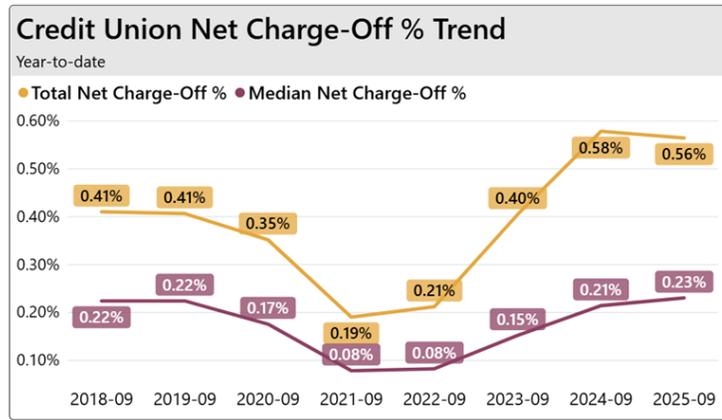
Unique to this year's priority letter is the establishment and reaffirmation of the NCUA's "no regulation-by-enforcement" and pro-innovation stance. Exams are slated to be more risk-focused and tailored compared with prior exam cycles.

Front and center of the NCUA's 2026 priorities is to assess lending practices and credit risk. The priority letter states that loan growth has moderated in recent years while loan performance has declined. The credit union industry's outstanding loan balances expanded 1.27% in Q3 2025 to \$1.72 trillion. Also in Q3, \$161.5 billion in loans were granted, the most since Q3 2022. The composition by loan type trend continues with decreasing autos as a share of total loans while mortgage and commercial loans increase. *Continued on page 4*

Despite the regulatory spotlight on loan performance, industry delinquencies and net charge-offs show signs of improvement. Net charge-offs were essentially flat from Q3 2024, with total industry net charge-offs decreasing from 58 to 56 basis points while the median credit union's year-to-date charge-off ratio increased slightly from 21 to 23 basis points. The total industry 60+ days delinquent percentage increased to 0.94%, while the median credit union delinquency rate increased to 0.67%.



Loan loss allowances remain adequate across the industry. The allowance set aside for loan losses increased to \$22.7 billion or 1.32% of outstanding loans, while the median credit union allowance increased to 86 basis points. Another way to assess allowance adequacy is to look at the delinquency coverage ratio (DCR) or the loan allowance over 60+ days delinquent loans. A ratio of 1 means the credit union has a dollar of loan allowance for every dollar 60+ days delinquent. The total industry DCR decreased to 1.4 as of Q3 2025, while the median credit union DCR decreased to 1.28.





Caffeination Meets Designation: Fueling Growth Through CDFI and LID Strategies

FEBRUARY 18 | 9:30 am CT

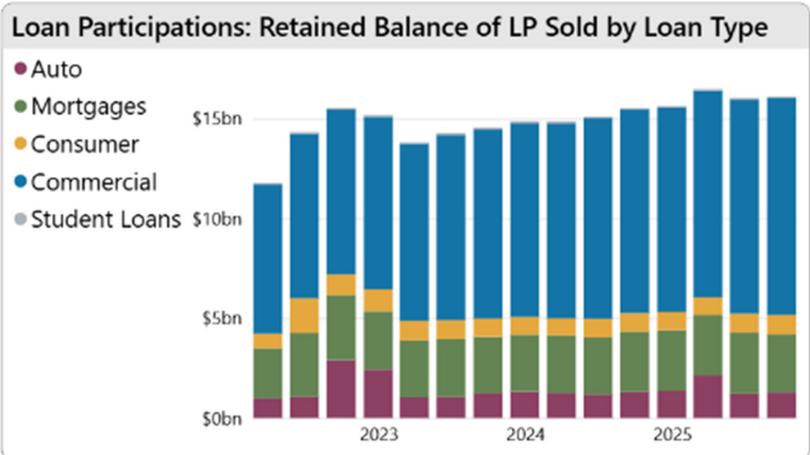
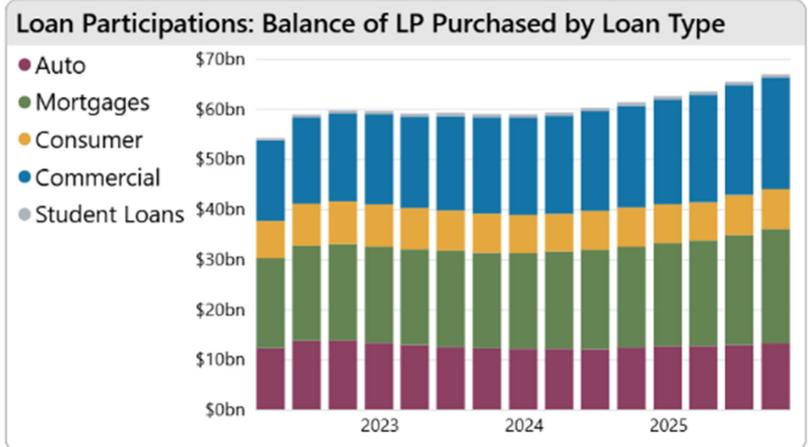
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LP MARKET OVERVIEW

New volume exceeded runoff for the seventh consecutive quarter with loan participations (LP) outstanding over \$66.2 billion as of Q3 2025. Credit unions sold \$12 billion in loan participations year to date through Q3 2025, compared to \$9.2 billion sold through Q3 2024. The loan type composition of LP volume remains consistent with prior years, with additional participation activity in commercial loans offset by decreasing consumer activity. Credit unions selling commercial loans typically retain a larger portion of the deal. Compare the two accompanying charts between the outstanding balance of LP purchased versus LP retained balances by sellers. Commercial LP deal volume accounts for one-third of purchased loan participations. However, the retained balances by loan type shows roughly two-thirds of the total retained by sellers is on commercial loans.

Loan participations are currently being used by 45% of credit unions to better manage their balance sheet and risk profiles. 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.



AUTO ASSET-BACKED SECURITIES MARKET

New this year to the Capital Markets Monthly is an Auto Asset-Backed Security (ABS) Deal Monitor. Credit unions can utilize this ABS Monitor for color into the secondary market's risk appetite as well as to better price your auto loans. The summary table on the next page shows where auto ABS investors are buying in the current market. The ABS collateral characteristics, particularly the underlying loan APRs and corresponding credit scores, are useful to monitor and will aid your proactive, risk-adjusted loan pricing. This monthly Auto ABS Monitor will allow your credit union to bridge the gap between secondary market trends and your loan-level execution to determine if your auto loan pricing is above or below the market. We removed non-prime, esoteric and other credit derivative-linked notes to focus on the prime auto market credit unions typically participate in. Keep in mind this represents secondary market activity for some of the largest ABS issuers, reflecting market efficiency and economies of scale, and may not be representative of your local market. *Continued on page 6*

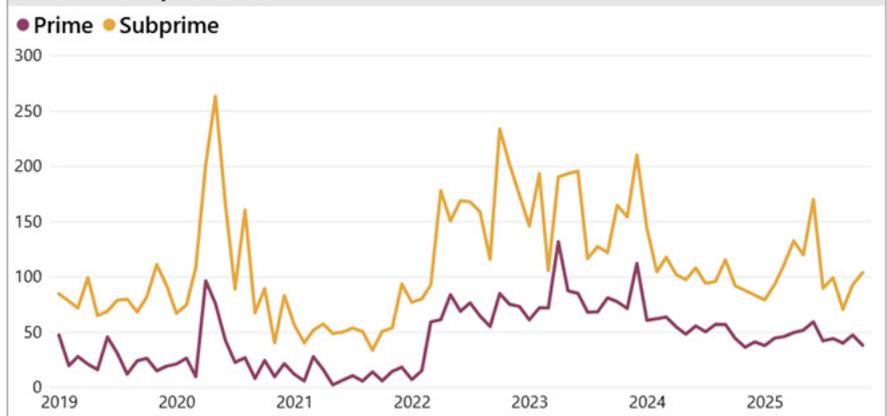
Prime Auto Asset-Backed Security Deal Summary and Collateral Characteristics

*Weighted-averages

Pricing Date	Seller	Deal Size (\$ millions)	Underwriting Characteristics *			Bond Investors *	
			APR	Credit Score	Original Term	Bond Yield	Bond Spread
11/4/2025	Lithia Motors Inc	\$583	7.63%	776	73	4.12%	45
11/5/2025	Honda Motor Co Ltd	\$2,421	4.93%	769	62	4.05%	32
11/5/2025	Hyundai Capital America	\$1,997	5.36%	773	68	4.09%	36
11/18/2025	Carvana Group LLC	\$955	11.24%	708	74	4.32%	66
11/18/2025	Ford Motor Co	\$1,032	5.15%	752	66	3.99%	32
11/18/2025	Nissan Motor Co Ltd	\$1,250	4.60%	795	66	4.04%	36
11/18/2025	Volkswagen AG	\$1,000	5.03%	773	65	4.02%	34

December was a quiet month for prime auto ABS deals with only a handful of high-yield subprime, esoteric and credit-linked derivative securities. Going forward, we will summarize prime auto ABS deals as well as provide a deal spread trend for both prime and subprime auto deals.

Auto ABS Spread Trend



FINAL THOUGHTS

As we enter 2026, the credit union industry is witnessing a shift towards a more favorable regulatory environment, marked by the NCUA's commitment to deregulation and a streamlined examination process. The priorities and risks have not changed dramatically, but the way in which the NCUA will perform their supervisory duties is adjusting. Consider this a valuable opportunity to innovate to better serve your members' needs while taking thoughtful, well-managed risks. We view these developments as a positive tailwind that will empower credit unions to navigate the year ahead with greater flexibility and strategic confidence.

Alloya continues to explore new avenues to support credit union success through securitization, loan participations and other capital markets strategies by utilizing the Power of Cooperation. Those interested in learning more can visit www.alloyacorp.org/capital-markets-simplified.

How can Alloya's Capital Market's Team help? Feel free to contact Brian Myers, Assistant Vice President of Loan Transaction Services at brian.myers@alloyacorp.org.