

# Peer Analysis and Balance Sheet Strategies Update



May 20, 2025

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# Presenters



**Andrew Paolillo**

Vice President, Director of Member Strategies + Solutions



**Tyler Buckeridge**

Sales & Strategies Specialist

# Overview

- Markets & Economy Update
- Peer Analysis & Call Report Trends
- Balance Sheet Strategies

## Poll Question

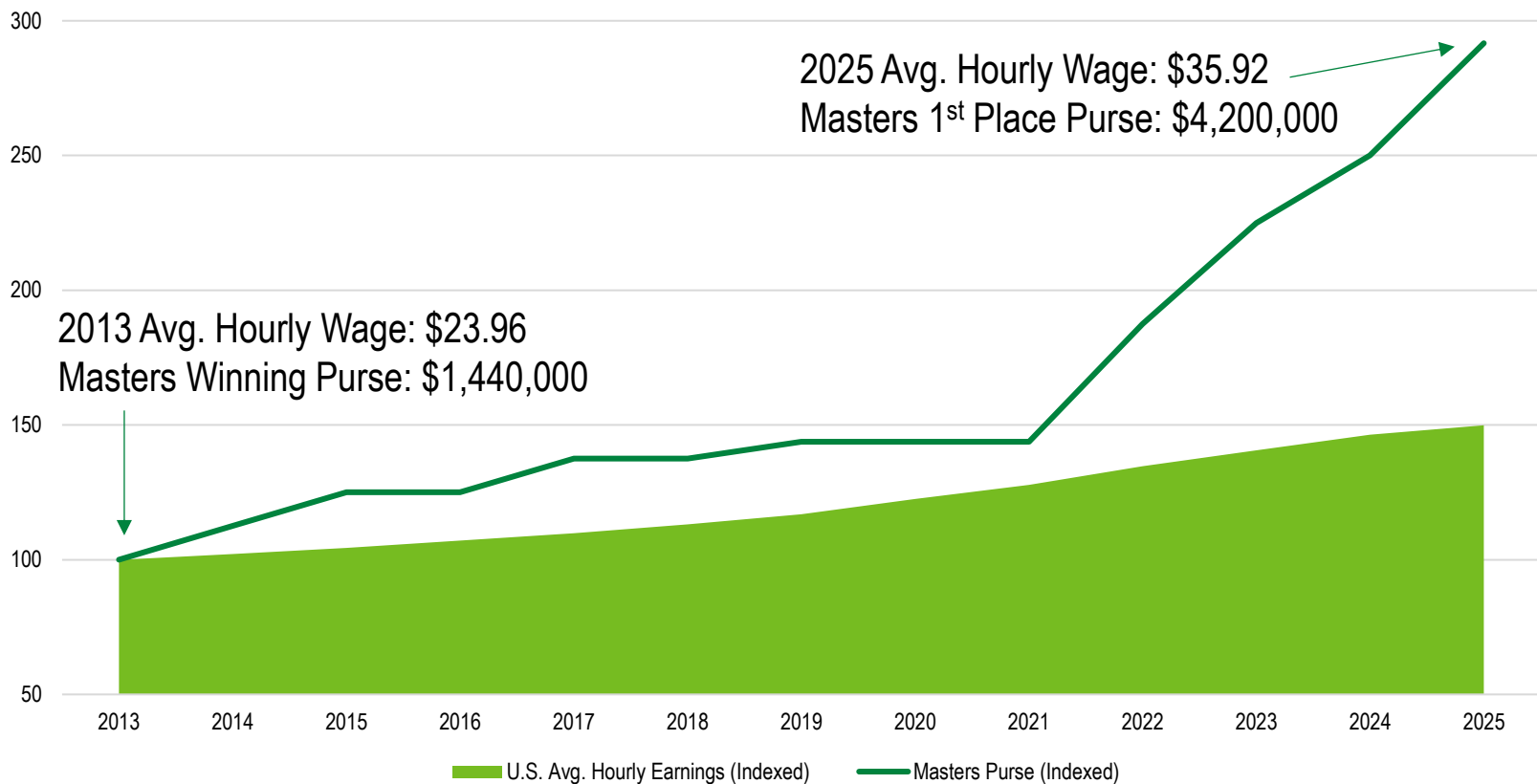
Over the next 12 months, what scenario do you believe is most likely for your institution?

- A: Loan growth exceeds deposit growth by a lot
- B: Loan growth and deposit growth move in lockstep
- C: Deposit growth exceeds loan growth by a lot
- D. Your guess is as good as mine, nothing would surprise me

# Masters Winnings and Hourly Wages

While U.S. average hourly earnings increased by about 50% from 2013 to 2025, the Masters Tournament winner's purse rose by 292% over the same period, so leaving work early to golf is probably a smart career move.

**Masters Purse versus U.S. Avg. Hourly Wages**



Source: Federal Reserve Bank of St. Louis, FHLBank Boston

# Markets & Economy Update

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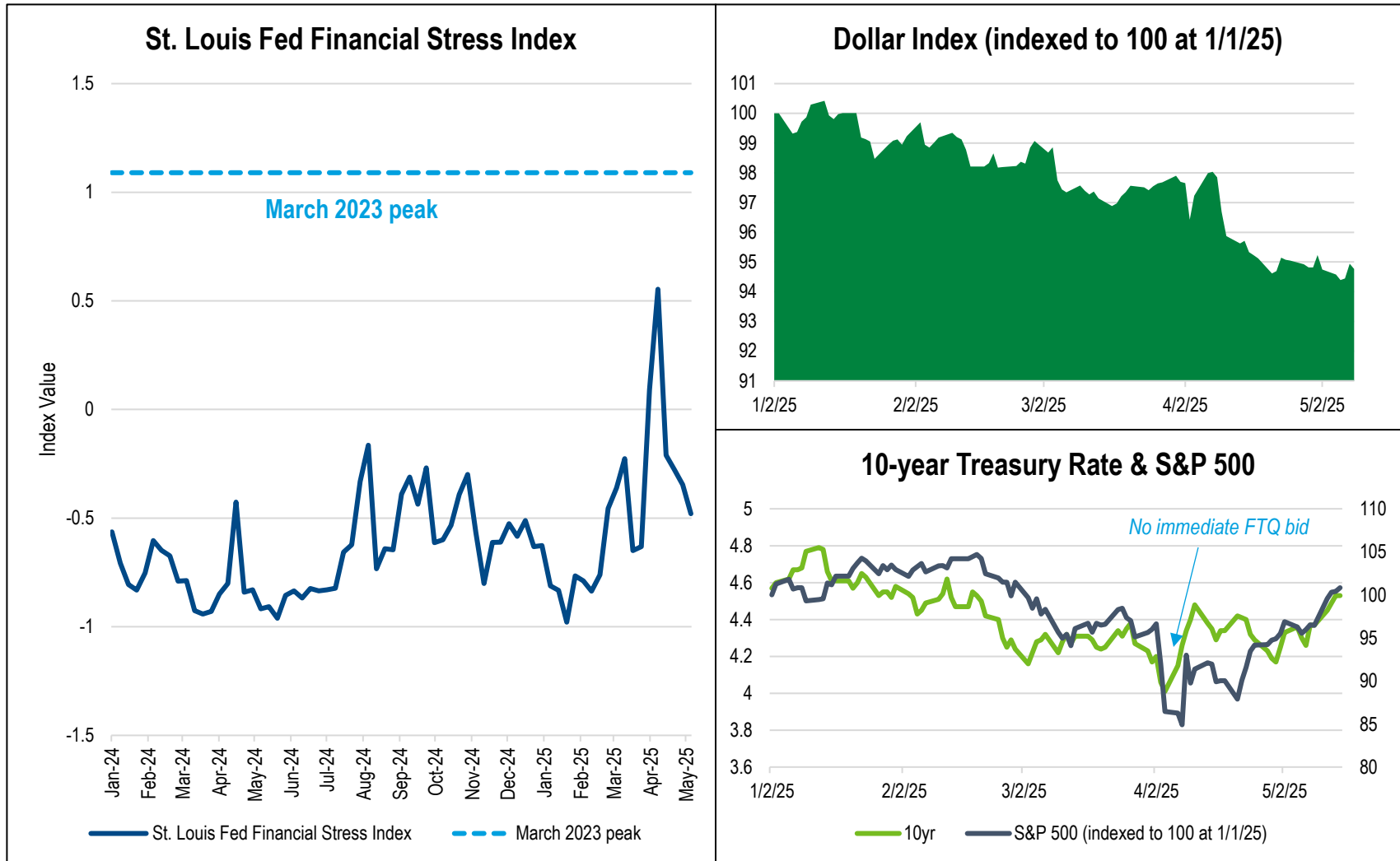
# Markets & Economy Update

- Interest Rate Volatility
- The Level and Slope of the Yield Curve
- Bank Stock Performance
- What's Next for Inflation & Unemployment?



# Volatility in April

Tariff-related uncertainty drove weakness in the U.S. dollar, and volatility (in both directions) of interest rates.

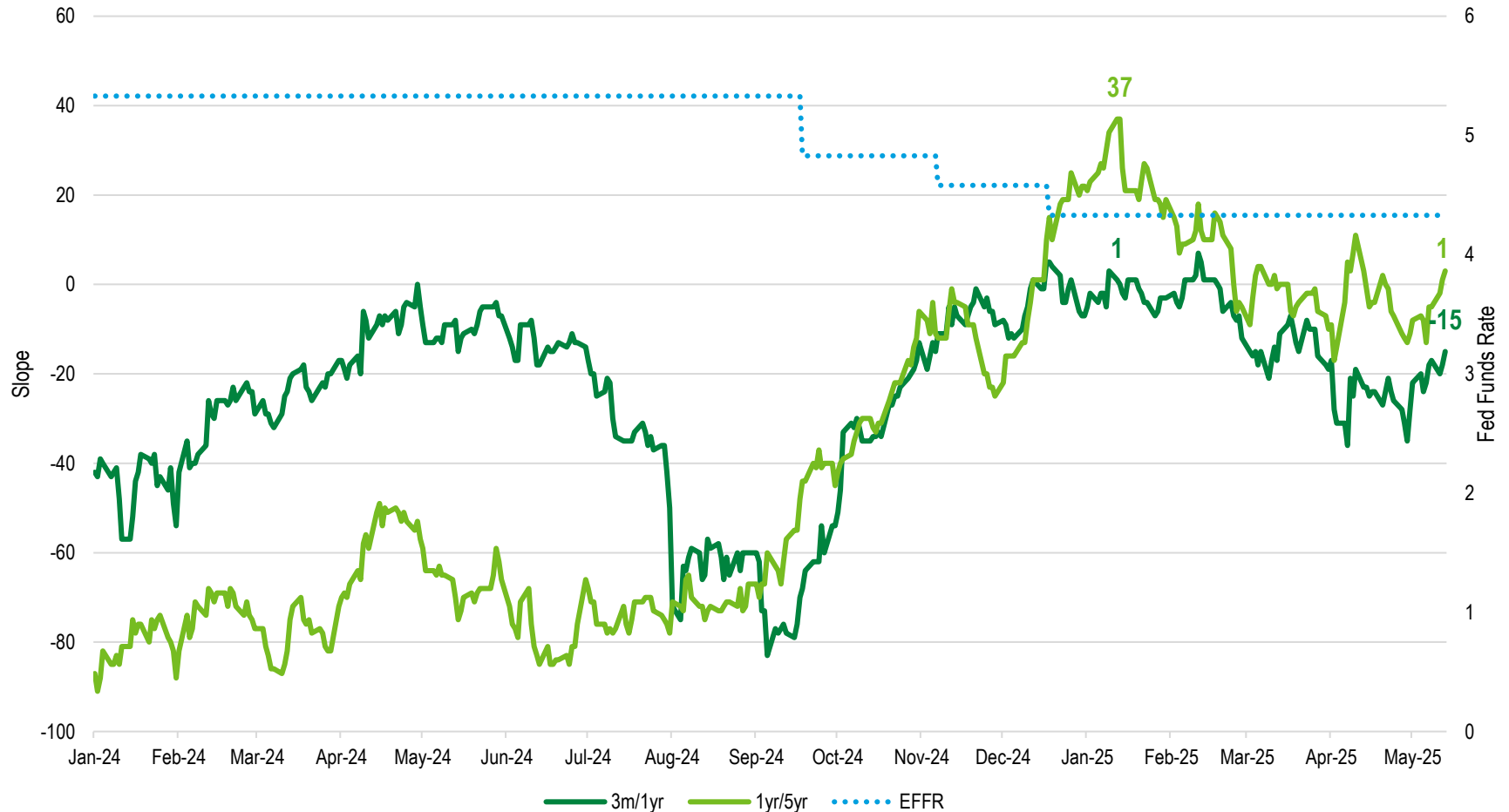


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

# Yield Curve Slope

The return to steepness in Q1 was fleeting, but the selloff in May has nudged conditions back towards a normal shape.

**Fed Funds Rate & Yield Curve Slope**

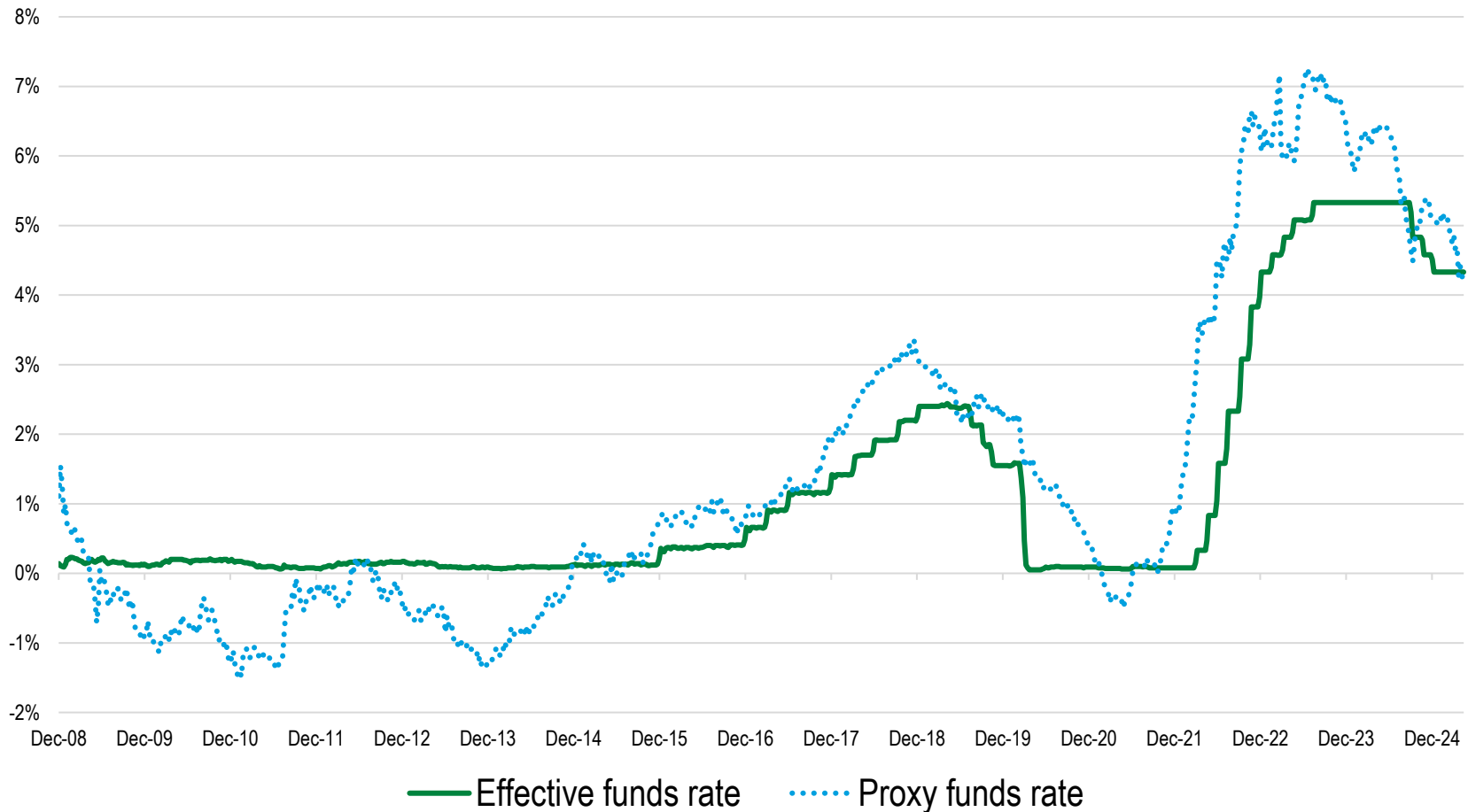


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

# The Path of Short-Term Rates

The proxy rate is a measure that incorporates prevailing financial conditions that impact monetary policy.

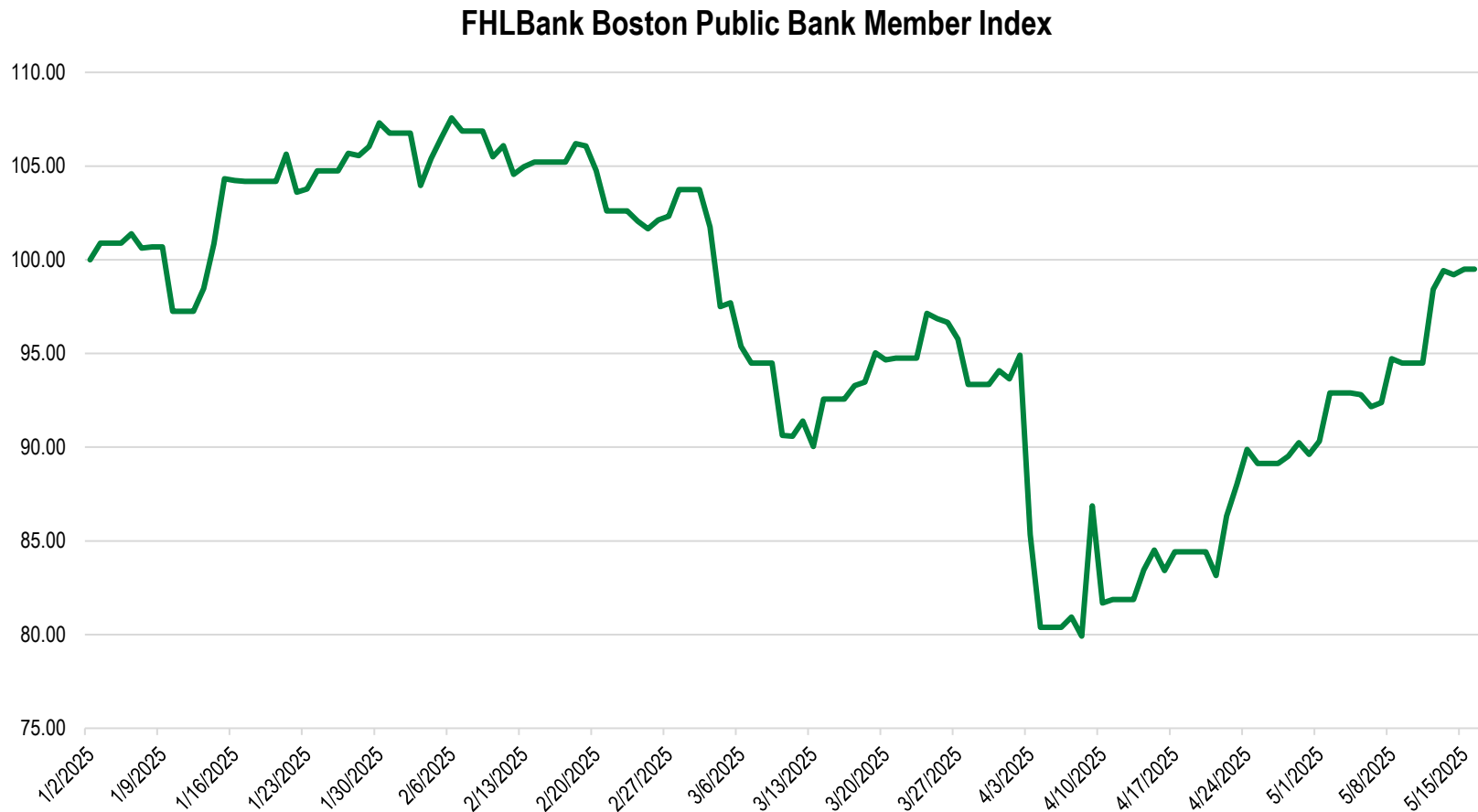
## Fed Funds Rate vs. Proxy Funds Rate



Source: Federal Reserve Bank of San Francisco, FHLBank Boston

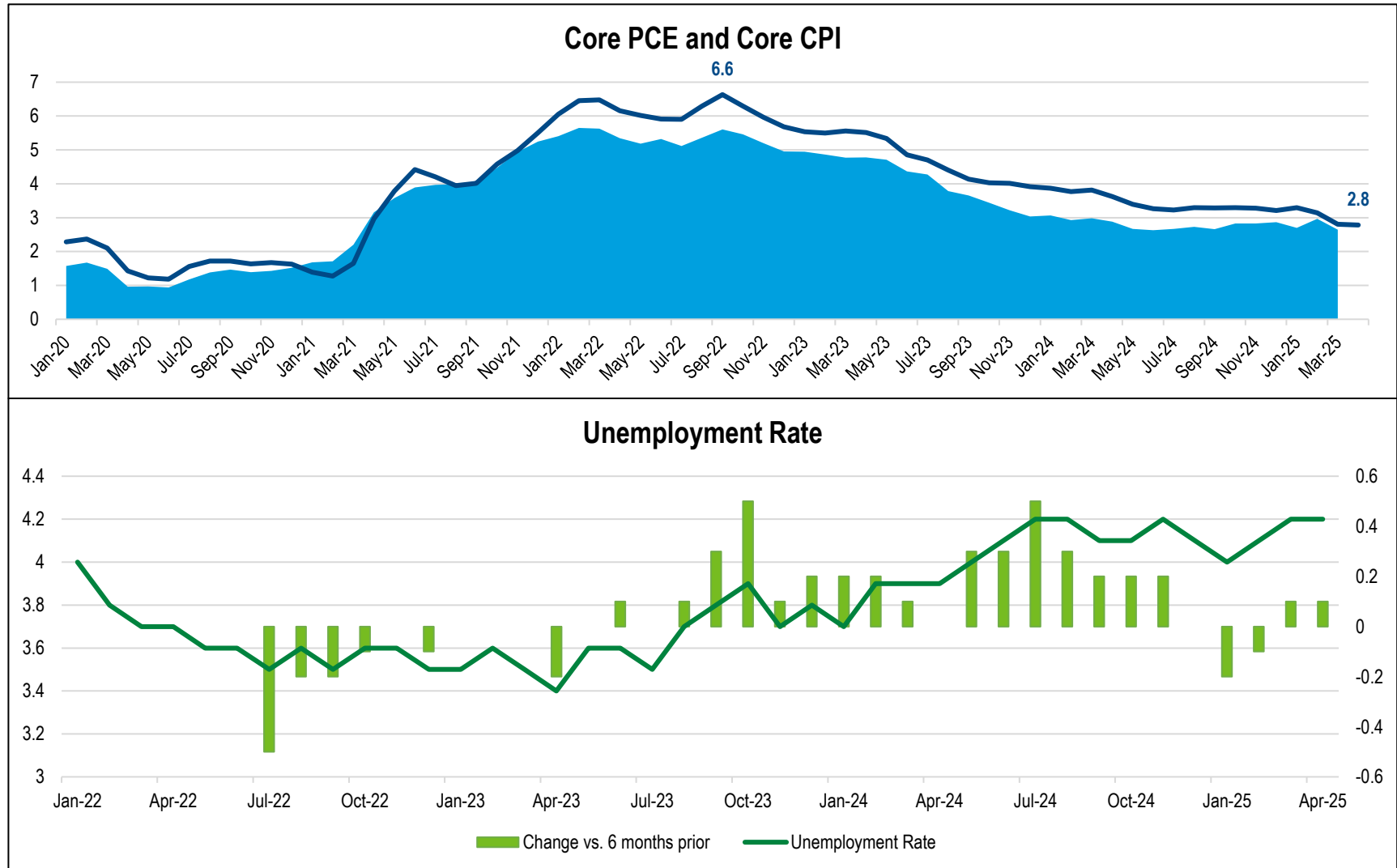
# Bank Stock Performance

Regional and community bank stocks felt the pressure of broad market weakness but are trending back towards 2025 starting values.



# Inflation & Unemployment

Headline inflation is cooling, but the compounding effect is still at play. Unemployment remains in the low 4% range.



Source: Federal Reserve Bank of St. Louis, FHLBank Boston

# Peer Analysis & Call Report Trends

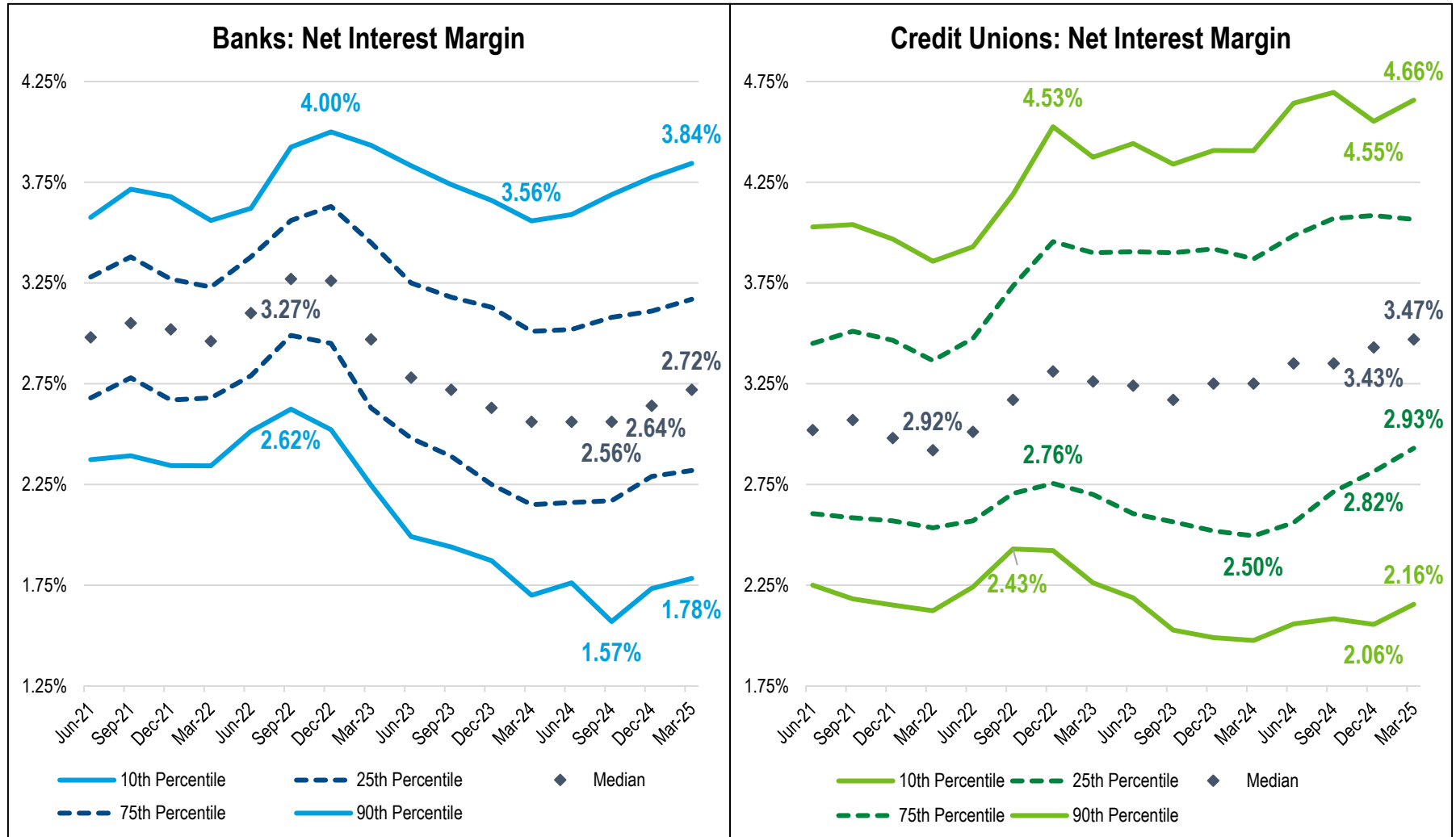


# Peer Analysis & Call Report Trends

- Margin & Earnings
- Loan Growth & Composition
- Deposit Drifts
- Liquidity Shifts on the Horizon
- Credit & Capital Trends

# Margins Continue to Recover...

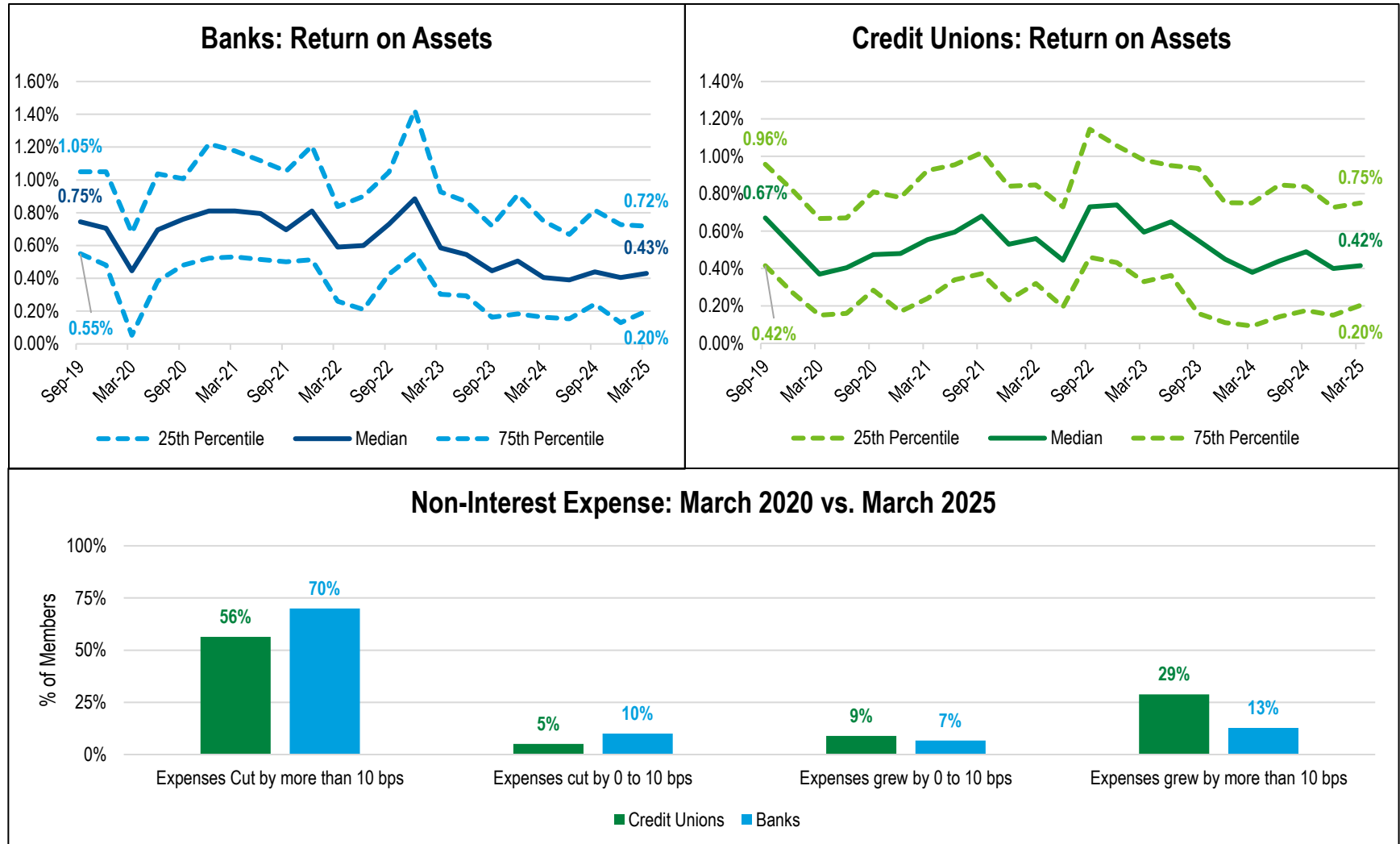
NIM again ticks higher, as most credit unions are now above pre-rate hike levels, while many banks still have a ways to go.





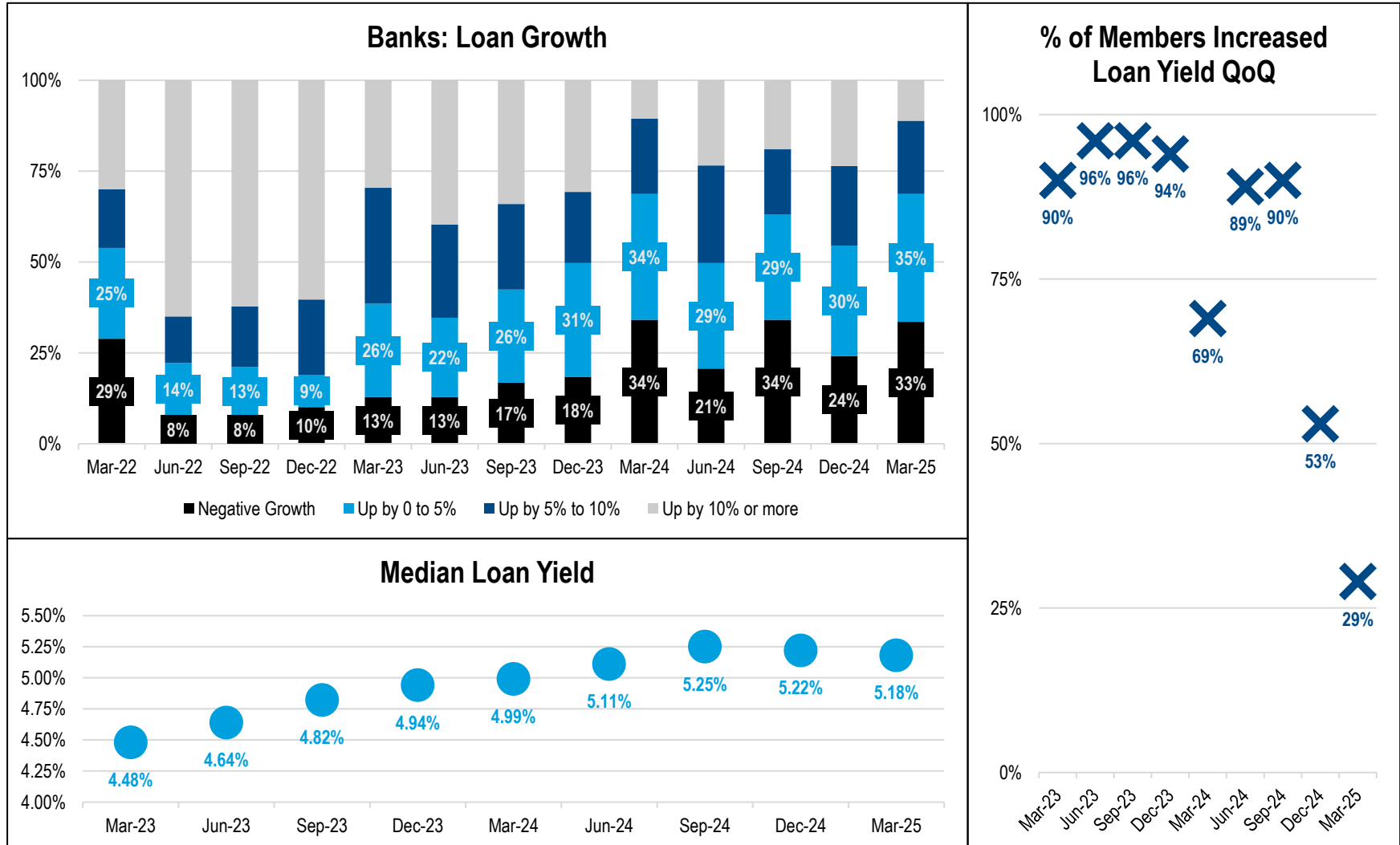
# ...But Earnings Remain Under Pressure

ROA today is generally lower than where it's been, and balance sheet growth has helped soften non-interest expense costs.



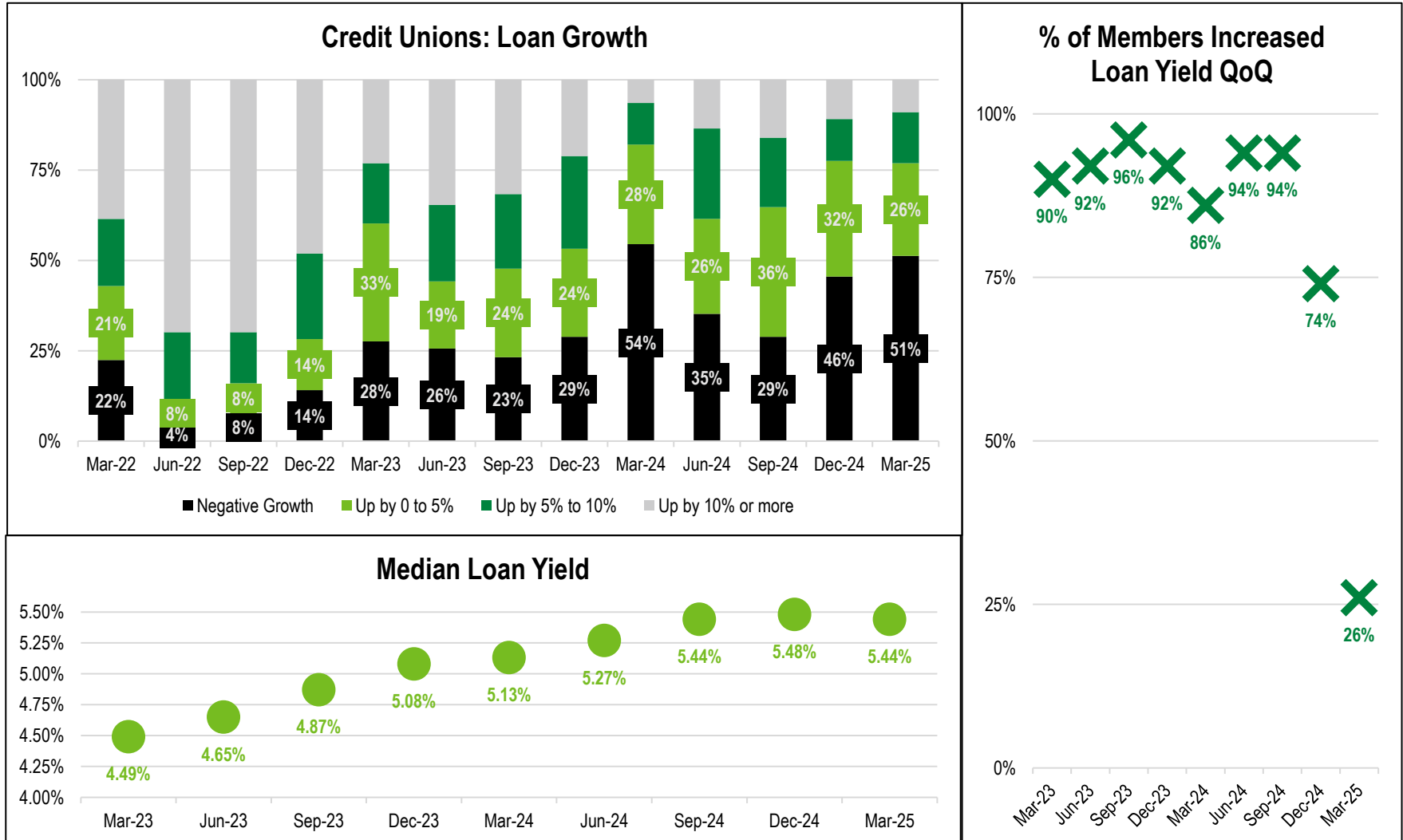
# Banks: Loan Growth & Yields

Whether driven by credit, capital, or liquidity, growth is slowing down, while portfolio yields are ticking down too.



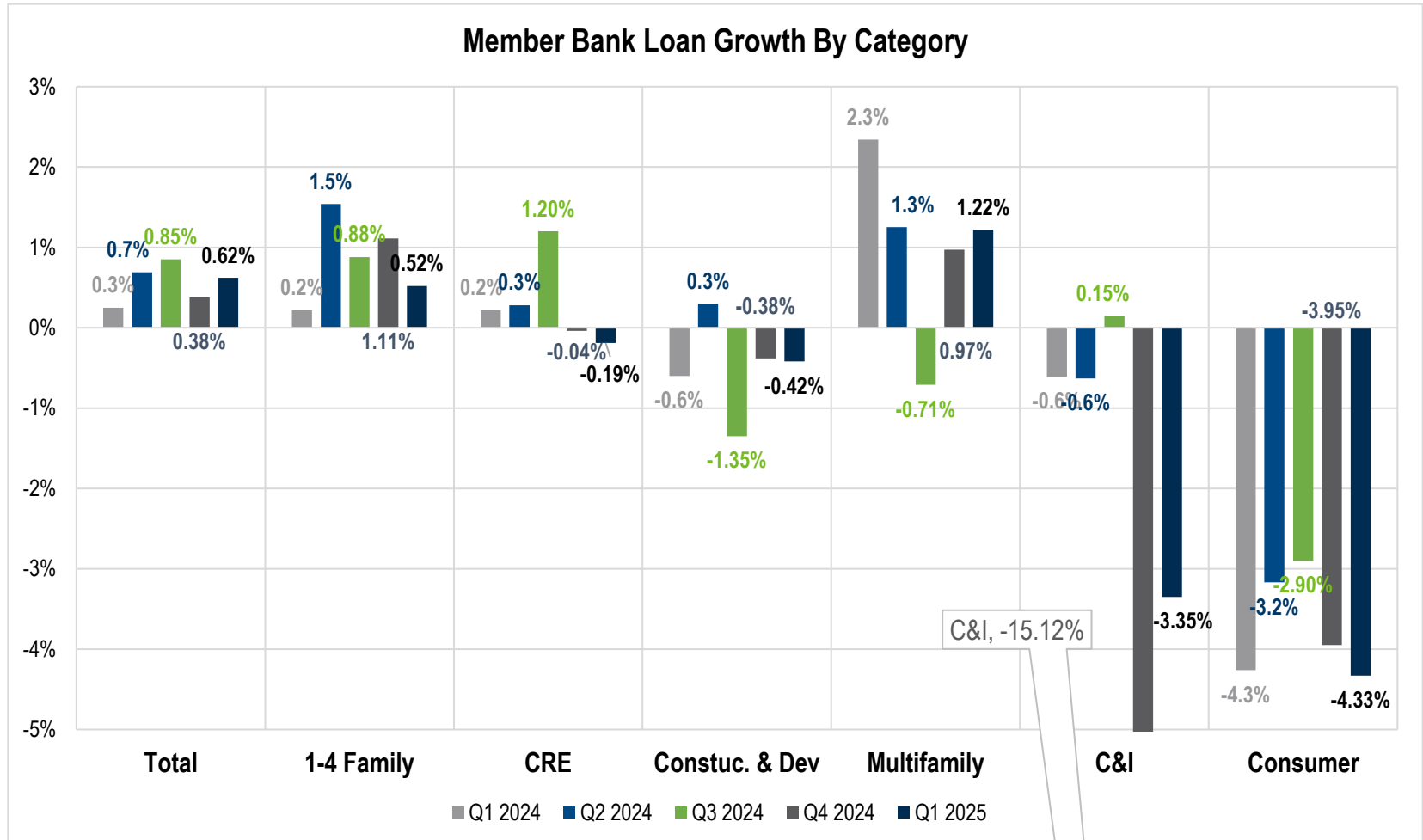
# Credit Unions: Loan Growth & Yields

Whether driven by credit, capital or liquidity, growth is slowing down, while portfolio yields are ticking down too.



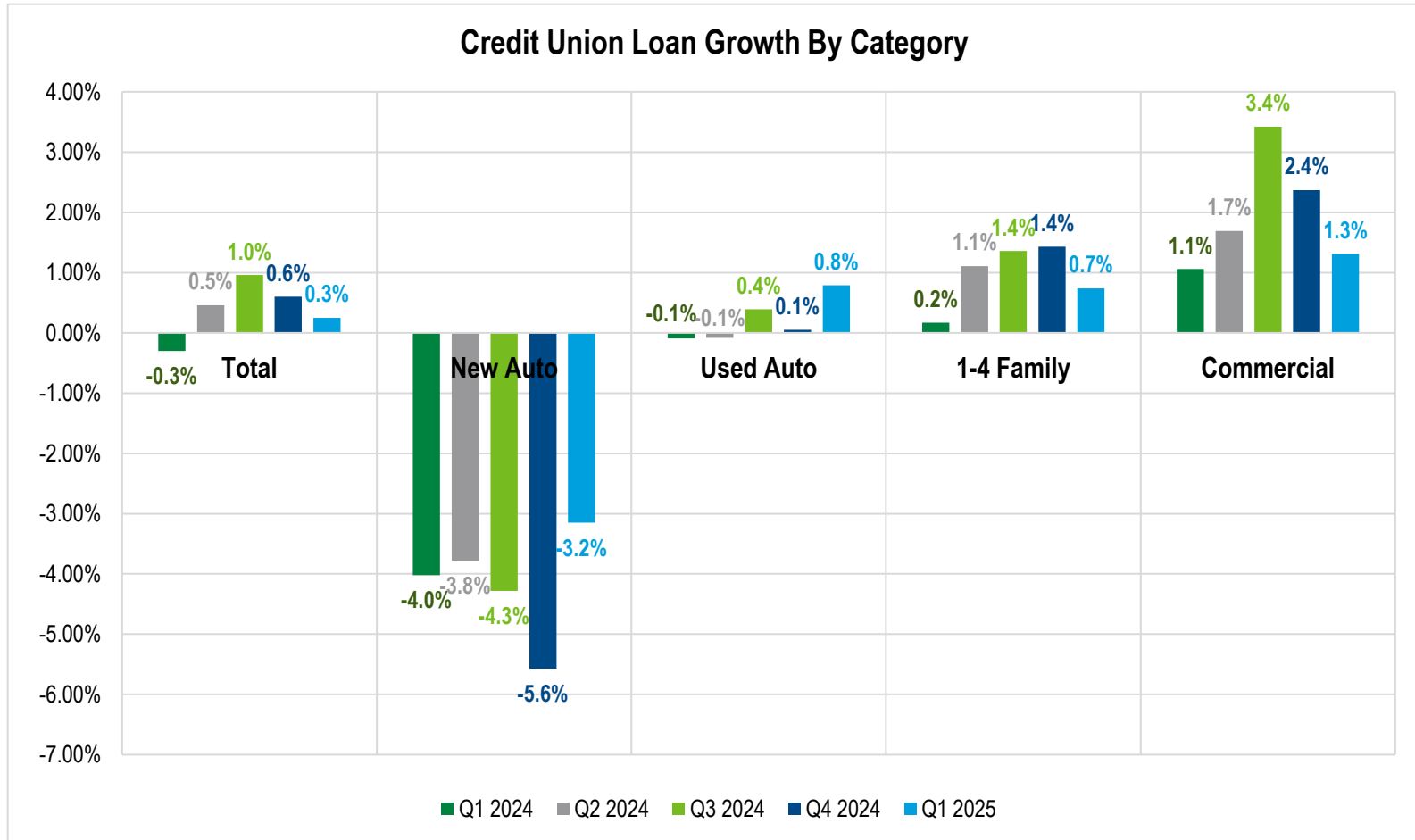
# Bank Loan Growth Breakdown

Residential and multi-family lending is leading the way on growth.



# Credit Union Loan Growth Breakdown

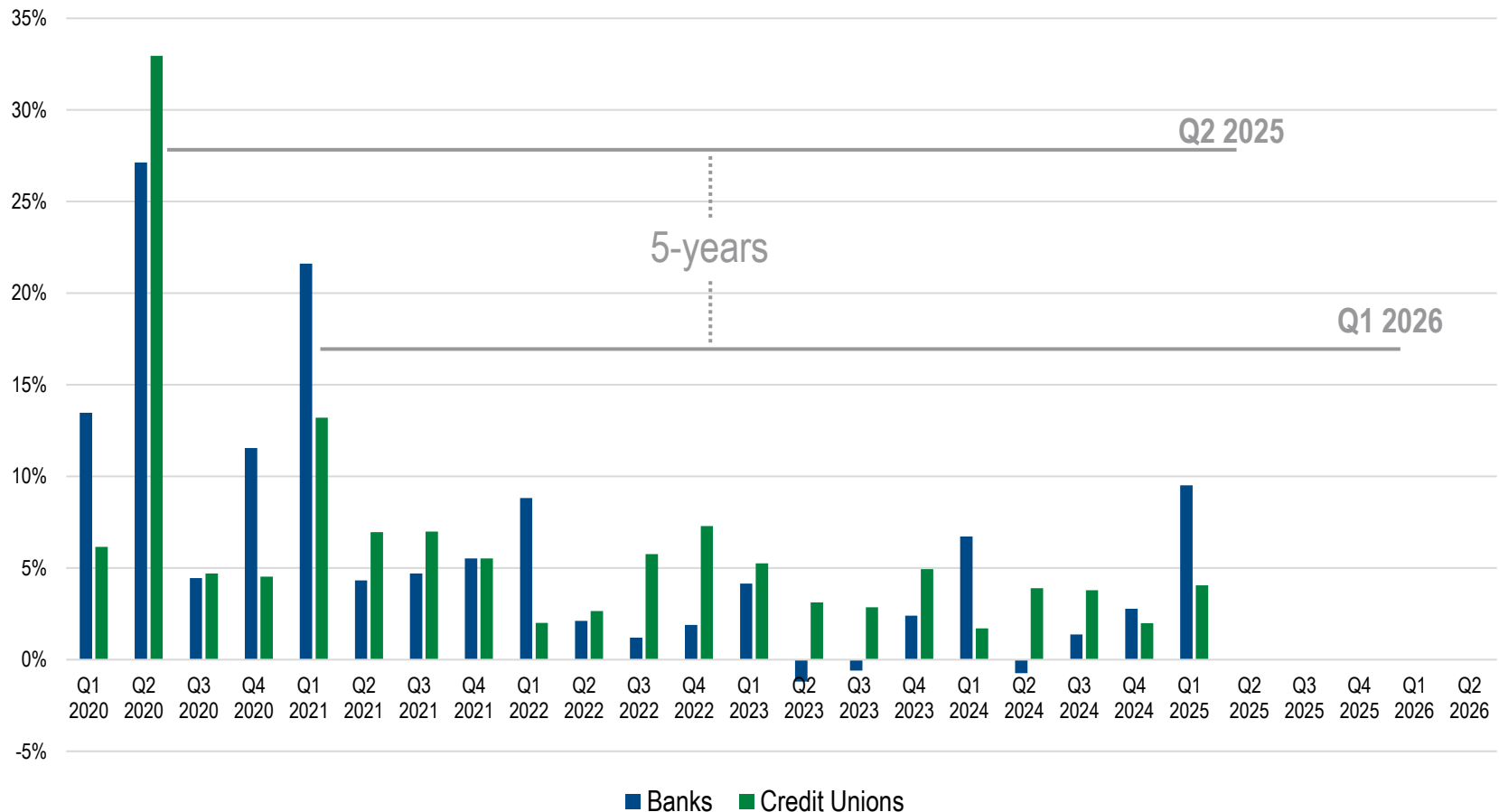
New auto lending continues to see declines, while the trend continues of diversifying into commercial loans.



# Asset Repricing Timing

Of the assets added on during the heavy growth in 2020-2021, much of those with 5-year repricing intervals and maturities will be repricing or coming due over the next 12 months.

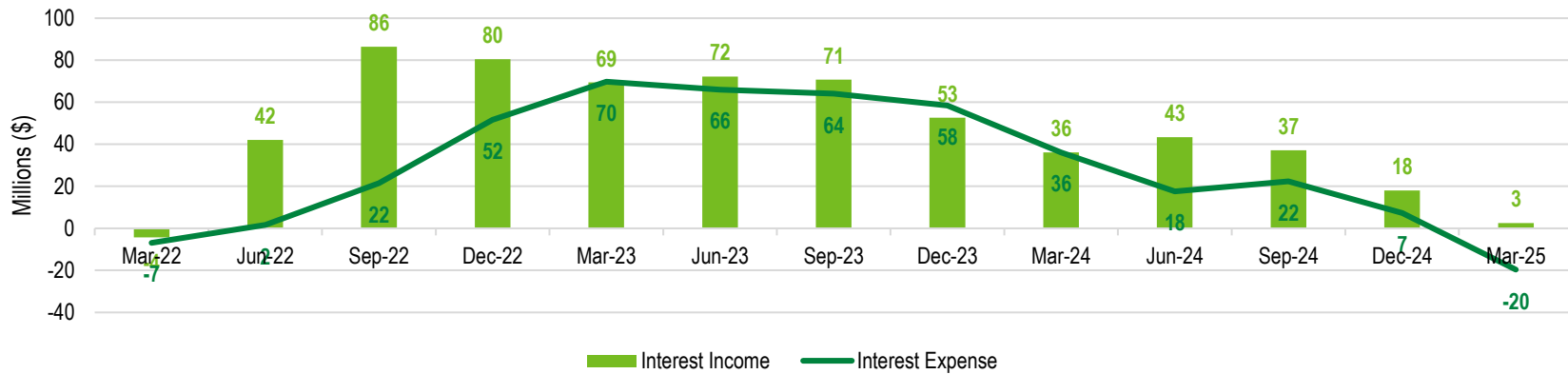
**Member Asset Growth Rates**



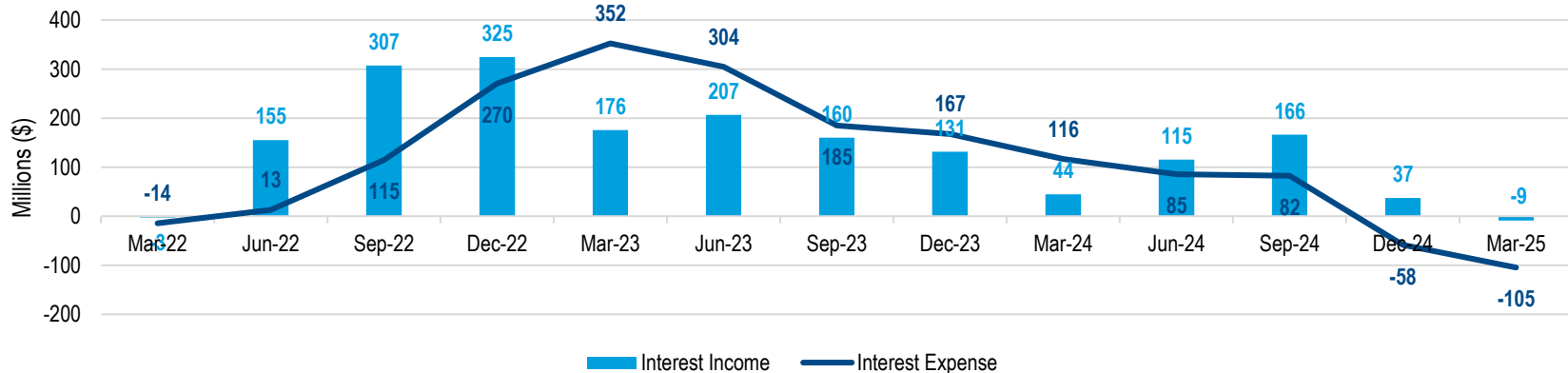
# Lower Funding Costs are Leading the Way

Continued reductions in interest expense are counteracting a plateauing of interest income.

**Credit Unions : Q/o/Q Change**

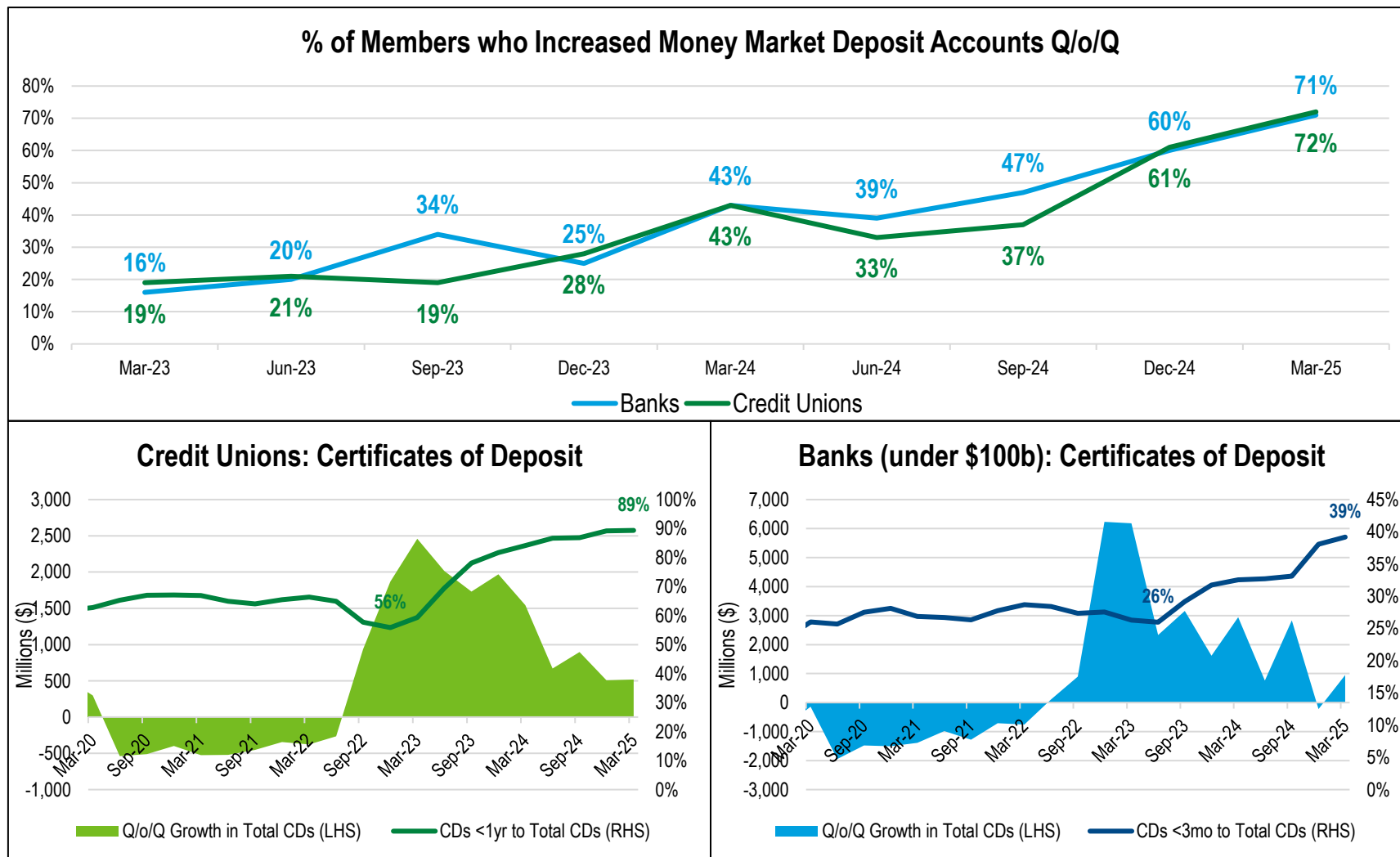


**Banks (under \$100b): Q/o/Q Change**



# Deposit Trends

Reliance on term deposits is waning, with inflows returning to non-maturity deposit products.

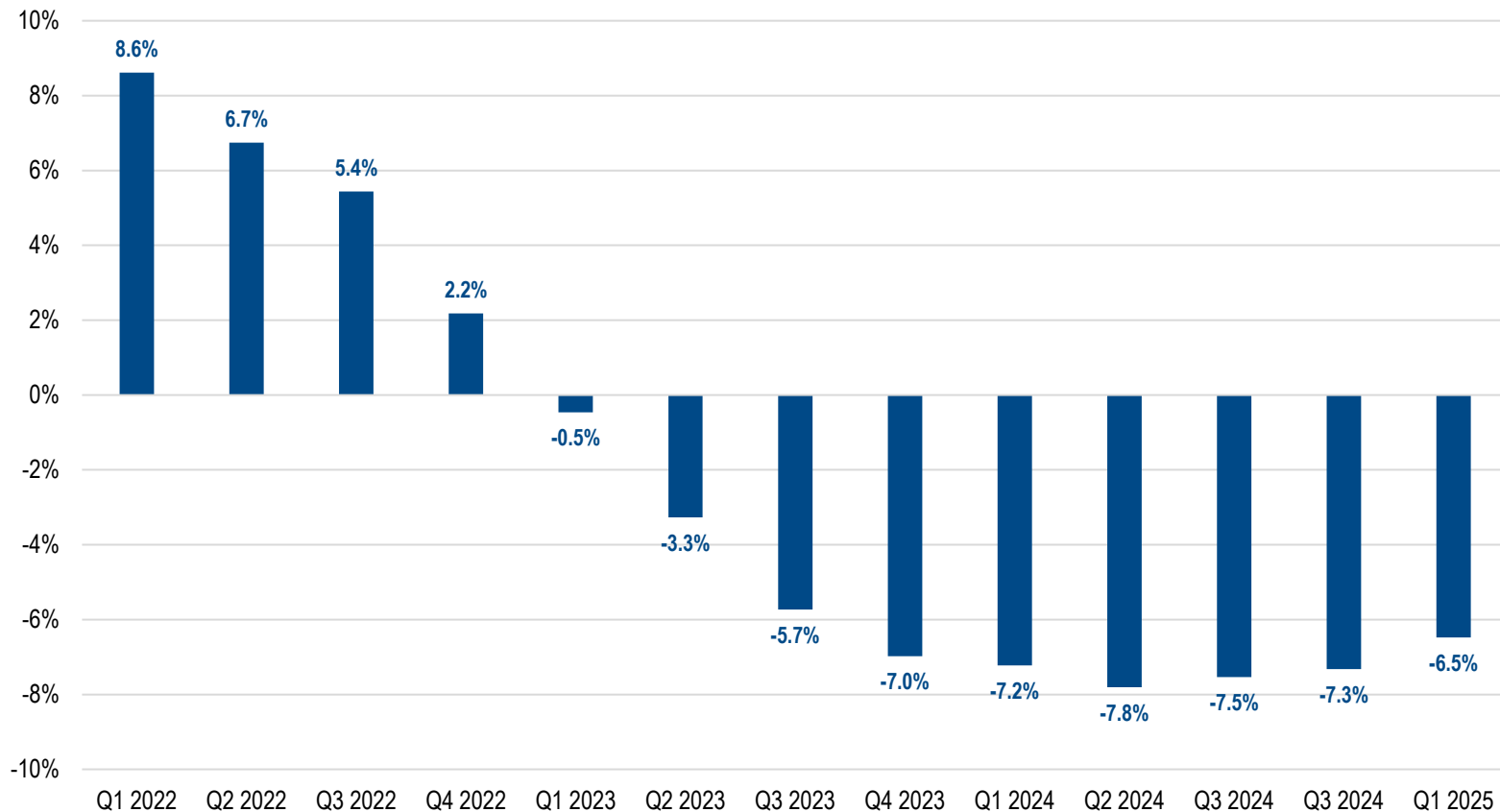




# Liability Sensitivity is Moderating

After bottoming out in 2024, member banks' one-year repricing gap shows early signs of recovery, hinting at easing pressure as asset yields begin to catch up with funding costs.

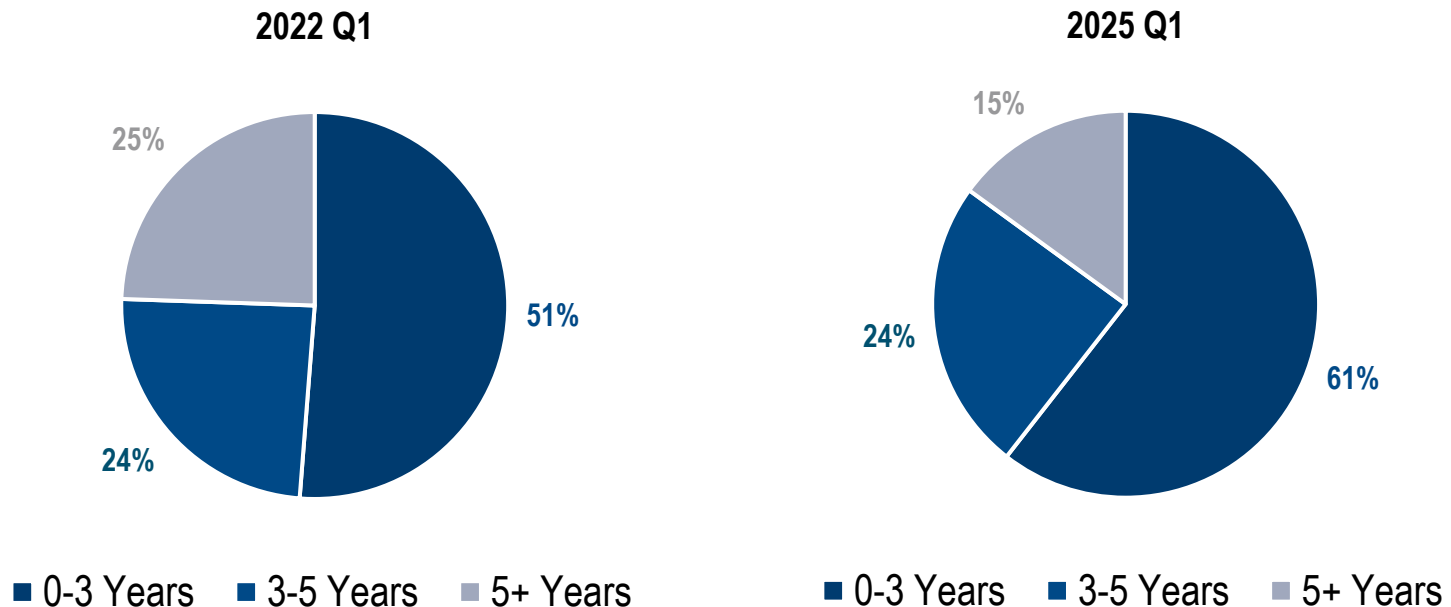
**Banks: One Year Cumulative Repricing Gap/Assets (%)**



# Banks: Investments Repricing Relief

Bank investment books have shortened in average tenor over the last three years, while only growing at 1.47% annualized (4.47% total) over that period.

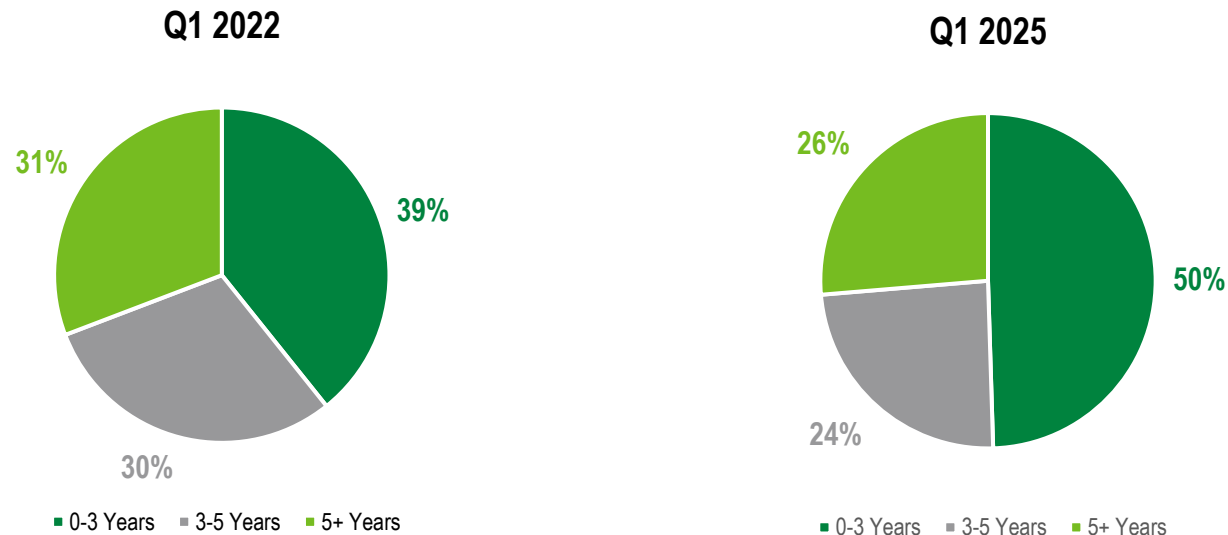
## Banks: Debt Securities Maturing/Repricing Distribution



# Credit Unions: Investment Repricing Relief

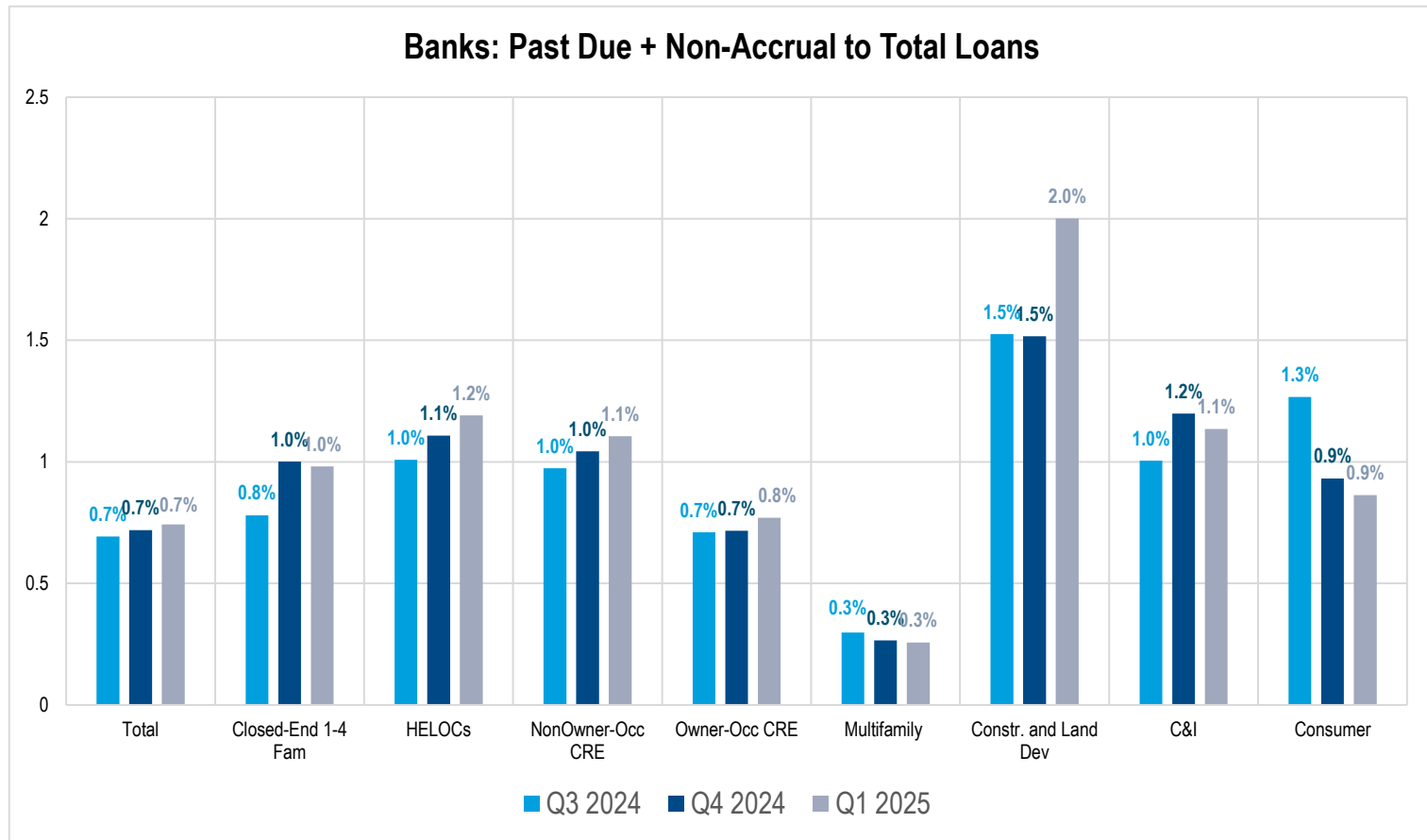
Credit Union investment books have shortened in average tenor over the last three years, while shrinking by 6.91% annualized (22.2% total) over that period.

## Credit Unions: Debt Securities Maturing/Repricing Distribution



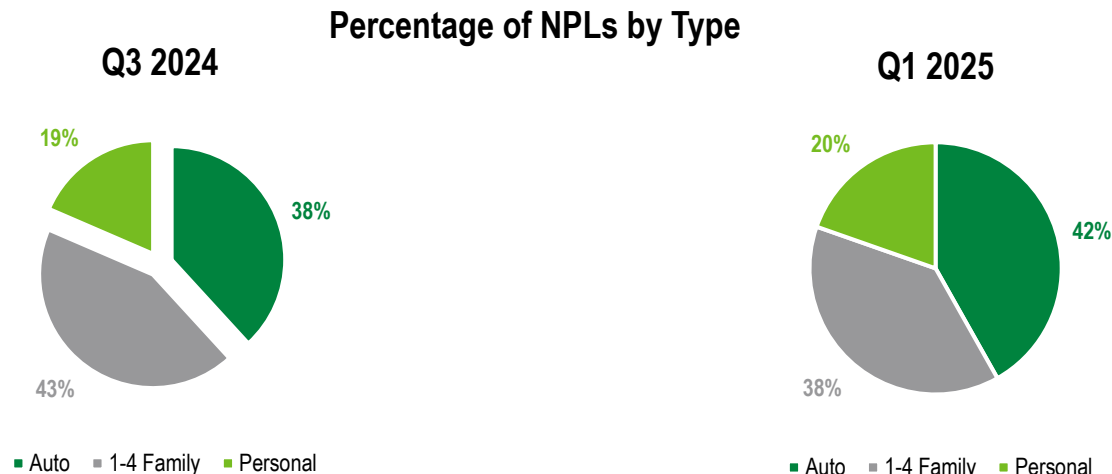
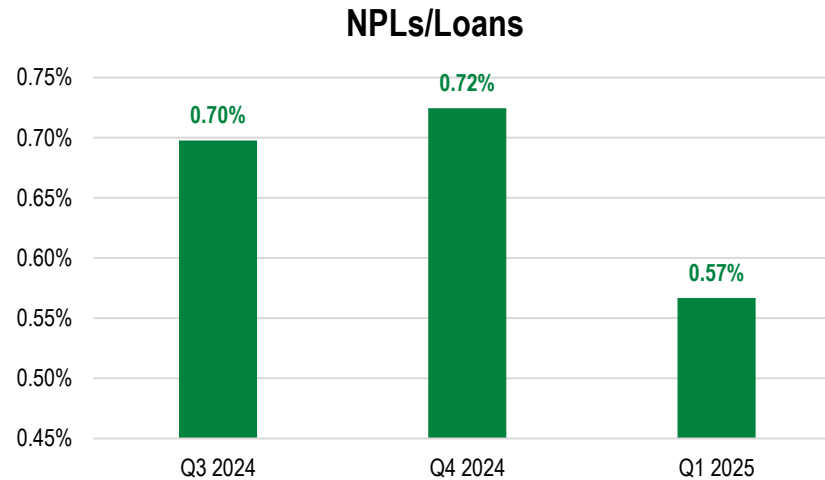
# Banks: Asset Quality Breakdown

Weakness in the loan book continues to incrementally tick up across most loan categories.



# Credit Unions: Asset Quality Breakdown

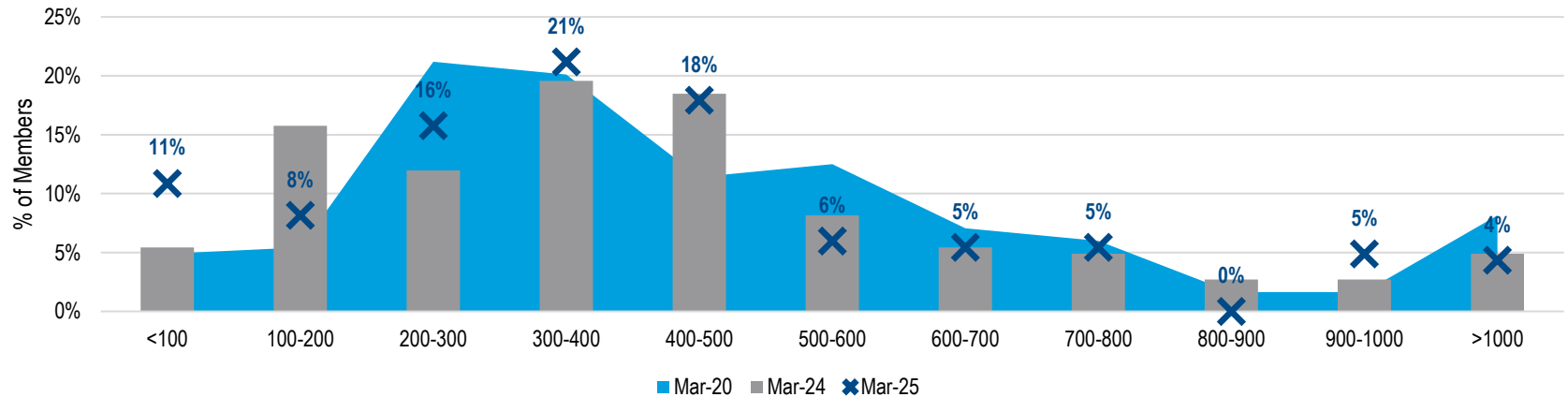
Non-performing loans ticked down vs. the end of 2024, and autos now are the loan type with the most NPL's.



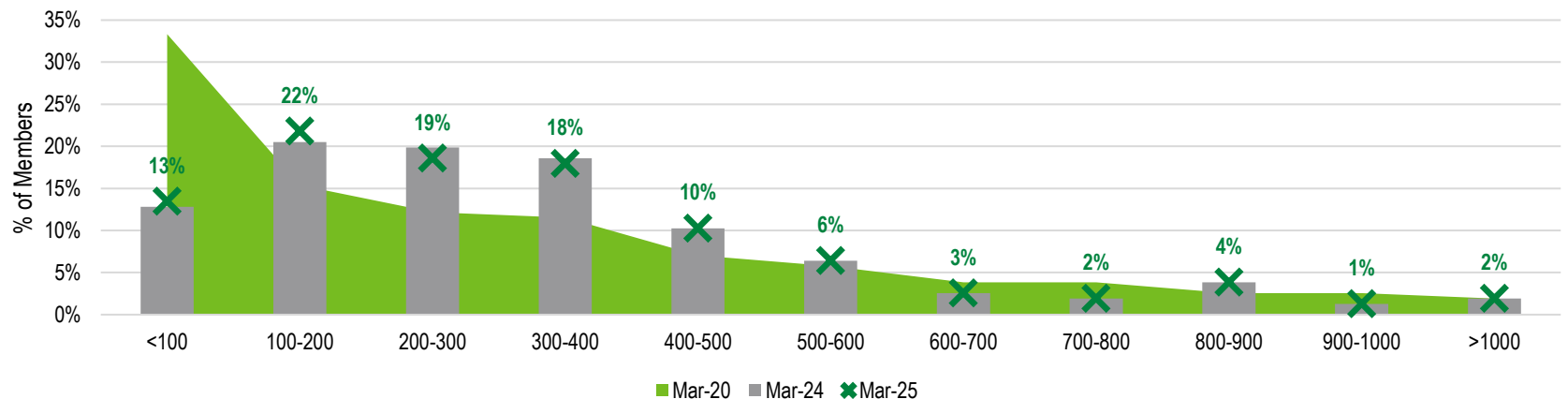
# Capital Cushion

Despite growth that was pulled forward, lower earnings, and provisioning, depositories are still generally well capitalized.

## Banks: Excess Capital to Limiting Ratio



## Credit Unions: Excess Capital to Limiting Ratio



# Balance Sheet Strategies

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# Balance Sheet Strategies

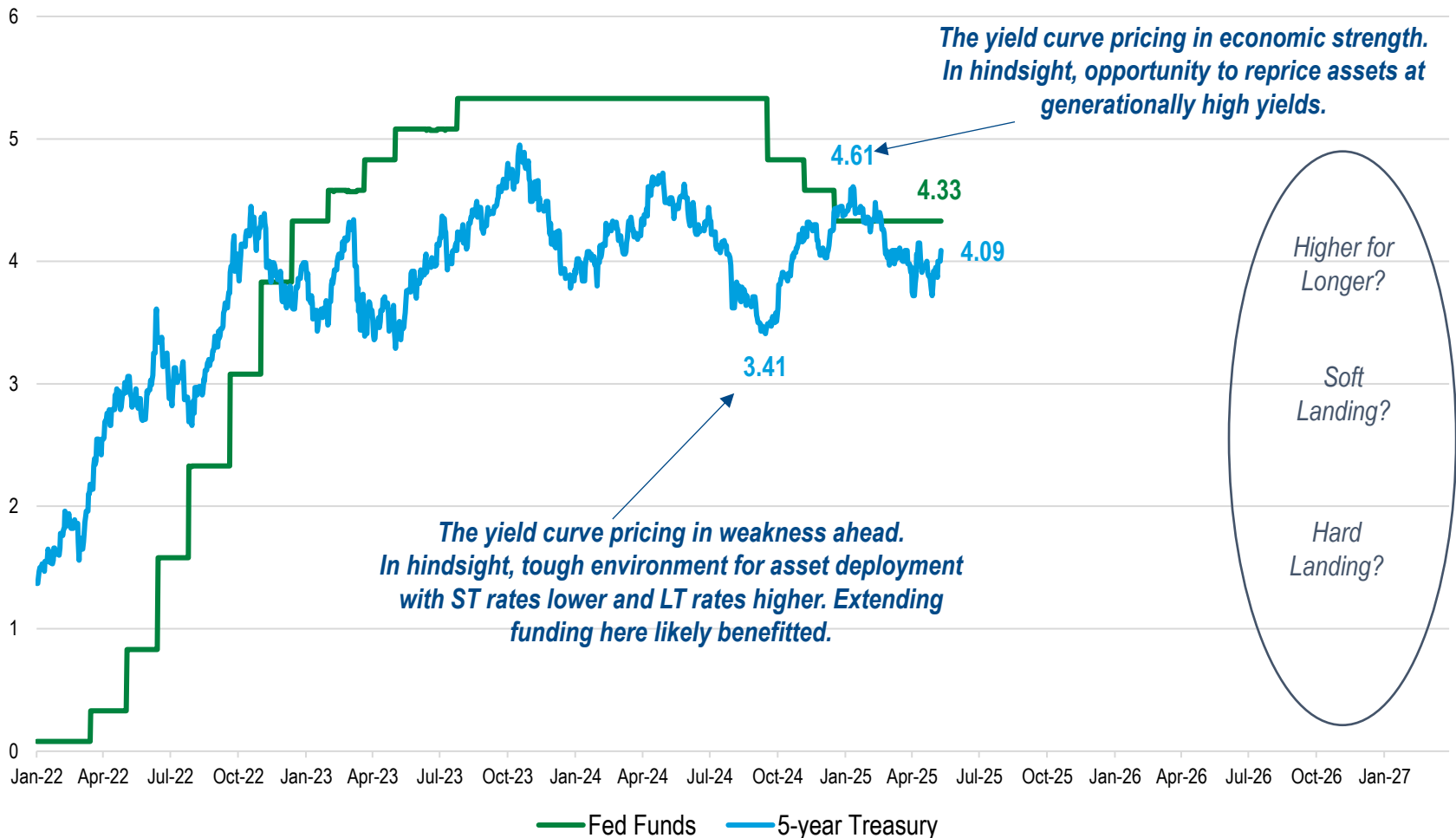
- Where Do We Go From Here?
- What is the Yield Curve Pricing in?
- Creating Capacity to Add Asset Duration
- Benefitting from Current Market Volatility
- Strategies for Future Volatility



# Where Do We Go From Here?

The level of short-term rates is key, but so is the path and level of intermediate rates, and the slope of the yield curve.

## Fed Funds vs. 5-year Treasury Rate

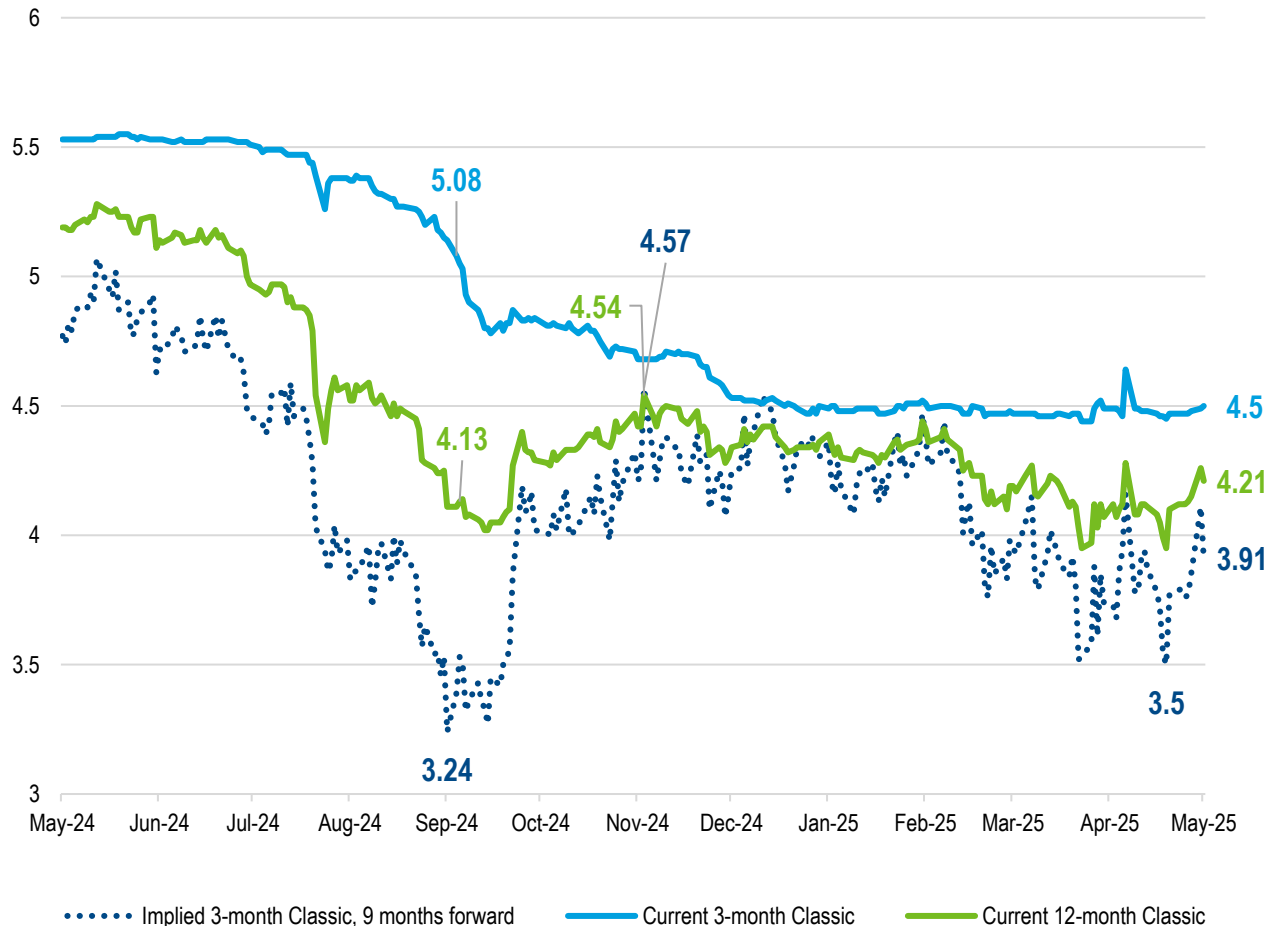


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

# What is the Yield Curve Pricing In?

As interest rates fluctuate, expectations for where short-term rates may be in the future shift and create opportunities.

**Current & Implied Forward Classic Advance Rates**



## Funding Strategy Considerations

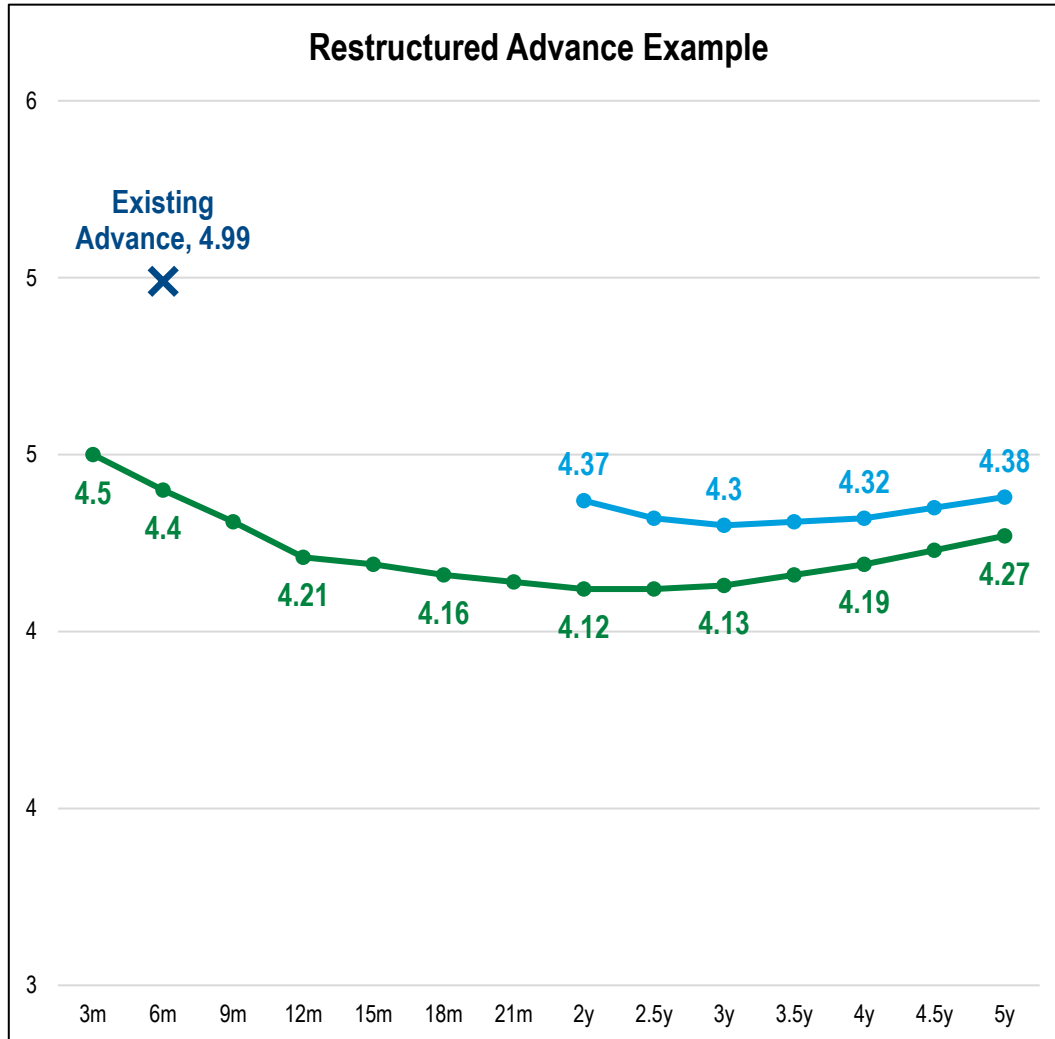
Identify separately the liquidity (cash flow and growth) and interest-rate needs of the balance sheet

Be prepared to be opportunistic, when volatility/flight to quality prices in more and more rate cuts

If extending, consider usage of CDA and ARDP to save on interest expense

# Creating Capacity to Add Asset Duration

Advance restructures can enhance margin, interest-rate risk, and liquidity metrics without adding any new funding.



## Advance Restructuring Considerations

- Mitigate IRR
- Improved liquidity profile
- No added growth
- Immediately improve margin
- Prepay fee is blended into new coupon

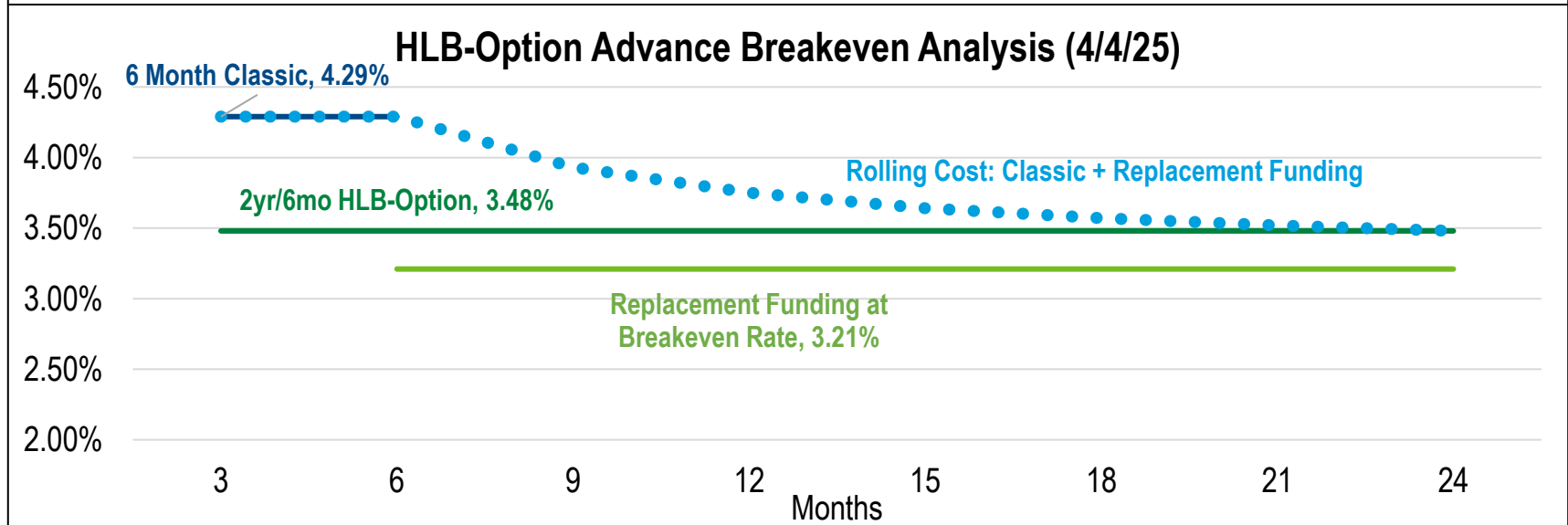
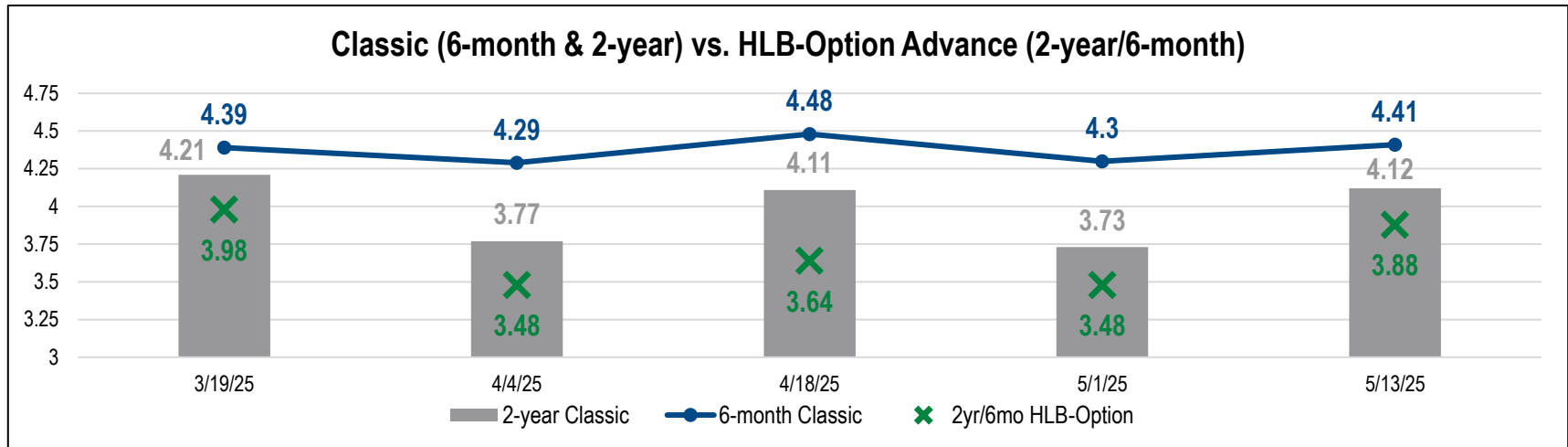
**Restructure + Invest**  
Blending and extending an advance can create room to deploy cash into longer assets without adding all the duration

Don't have an eligible advance to restructure?  
Consider the Forward-Starting Advance, especially as the curve inverts

CDA can be used in restructures, to gain an additional 8-15 bps of savings

# Benefitting from Current Market Volatility

Yield curve inversion and increased volatility can make putable advances an alternative to higher cost term deposits.



Source: FHLBank Boston

# Strategies for Future Volatility

What lessons can we learn from past cycles, and how can we prepare now for opportunities later?

Investment  
Leverage  
Now

- Capture high yields and wide spreads now, and align funding to roll off when liquidity may be more favorable

Investment  
Leverage  
Later

- If spreads widen materially and quickly, do you have the ability, capacity and inclination to take advantage?

Seasoned  
loan sales

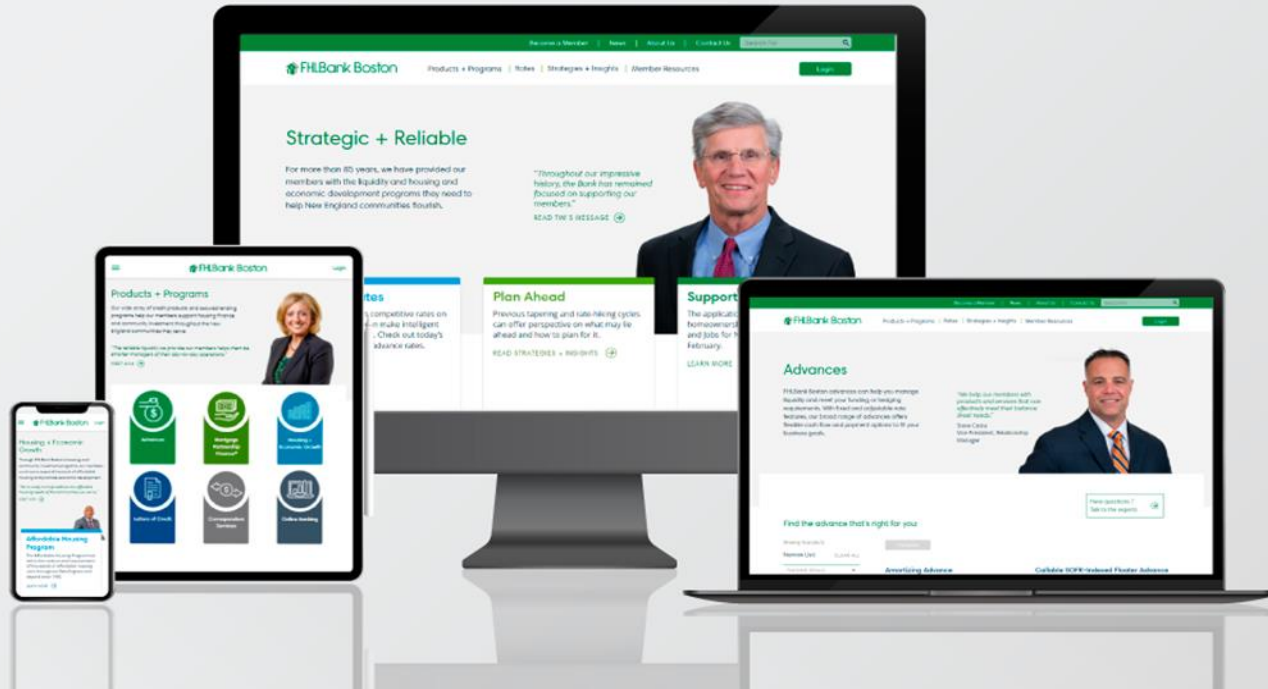
- Sell low-yielding assets to de-lever and/or redeploy into target ALM profile. Identify now the thresholds for liquidity, earnings impact, margin lift and capital ratios.

Fade  
Extreme  
Dovishness

- Forward-Starting Advances for when rates rally and invert to capture overly bearish expectations

Fade  
Extreme  
Hawkishness

- As Higher for Longer sentiment returns, callable floating funding (member owns the option) to benefit from 100% beta and ability to pay it down when liquidity surges



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# Thank You



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