

Credit Unions: Strategies for Managing the Net Economic Value (NEV) Test



Cautionary Statements Regarding Disclaimer

Disclaimer: The data, material, and information provided in this presentation (“Content”) does not, and is not intended to, constitute legal, accounting, consulting, or other professional advice. The Content is for general informational purposes only, may not constitute the most up-to-date legal, accounting, or other information, and may become stale. Some Content is unaudited. Nothing in the Content shall constitute an offer by the Bank to transact on any terms contained herein. The Content does not necessarily represent the views of the Bank or its management and should not be construed as indicating the Bank’s business prospects or expected results. Content identified herein with a third-party source is provided without any independent verification by the Bank, the Bank does not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content, and the Bank expressly disclaims any responsibility for providing any additional information that might be necessary to make the Content not misleading. Accordingly, you are cautioned against placing any undue reliance on the Content. You should consult with your accountants, counsel, financial representatives, consultants, or other advisors regarding the extent the Content may be useful to you and with respect to any legal, tax, business or financial matters. In no event shall the Bank be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. Reproduction of any Content, in any form, is prohibited except with the Bank’s prior written consent.

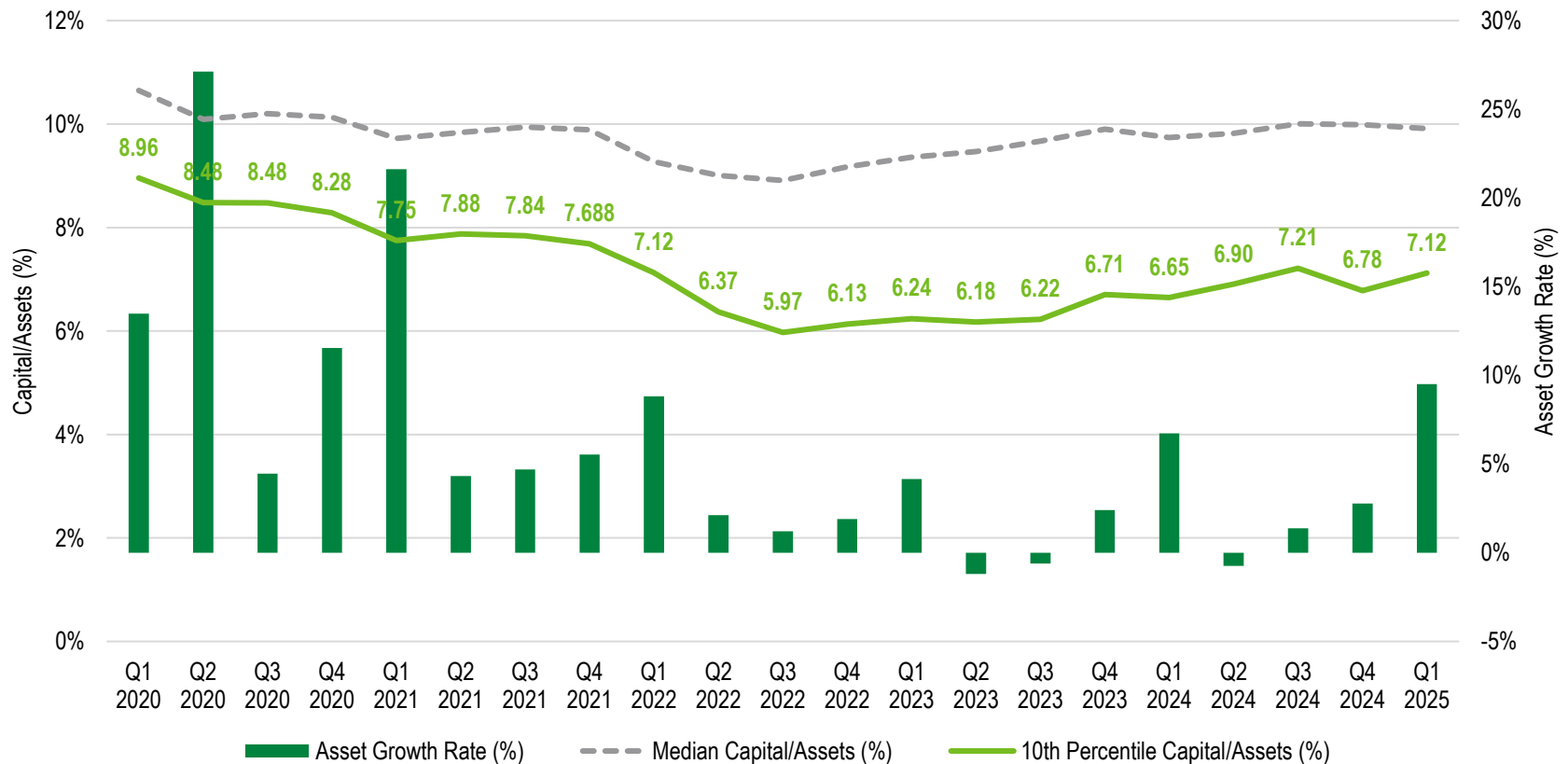
Overview

- Asset Growth and Capital Ratios Trend Analysis
- NEV Test Mechanics and Considerations
- Funding Strategies

Historic Growth Followed by a Huge Rate Shock

Exceptional levels of balance sheet growth at credit unions paired with historic rate hikes caused “reluctant leverage” and pushed capital ratios lower.

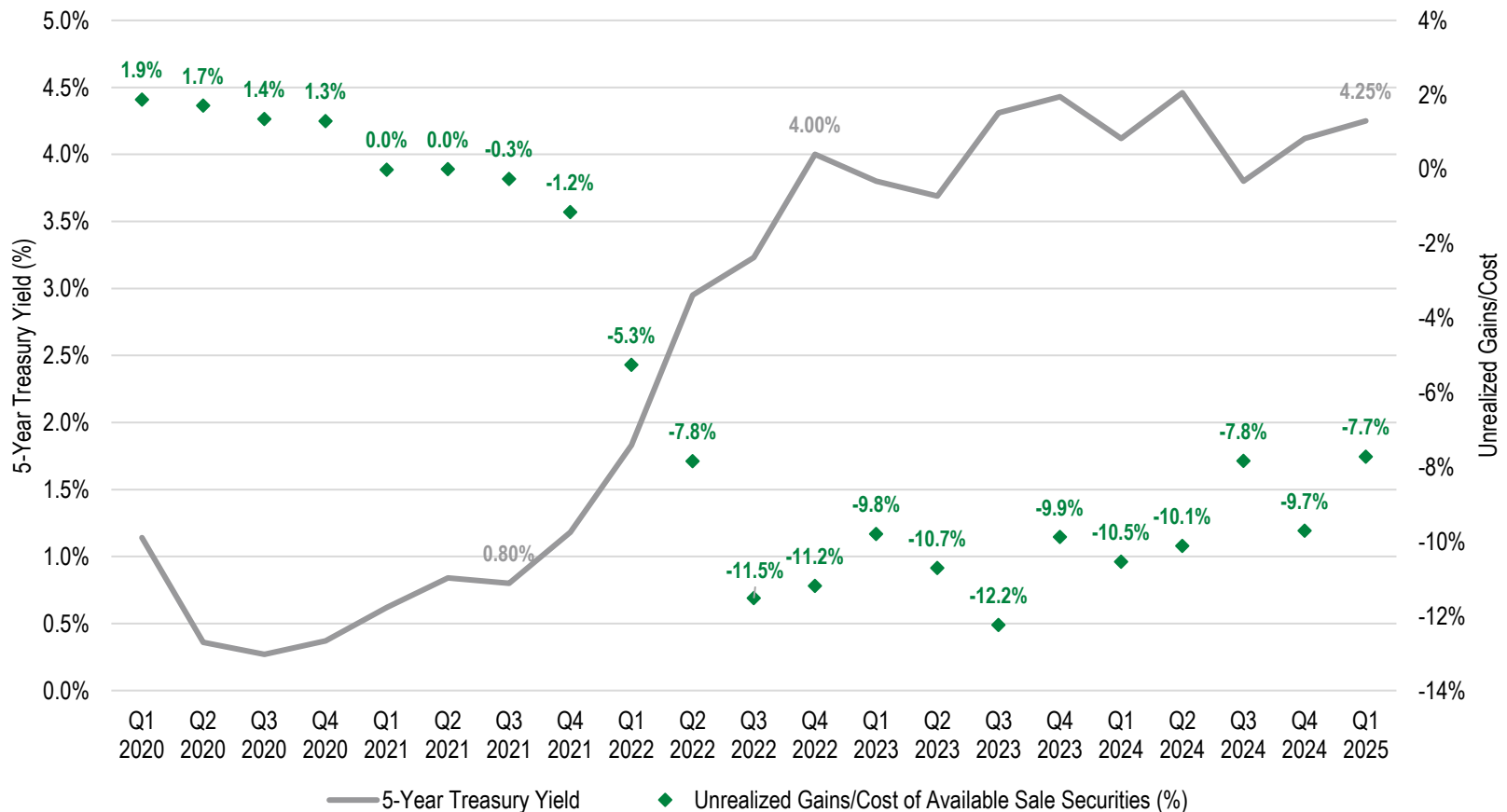
Credit Union Asset Growth and Capital to Asset Ratios



Rising Rates and Lower Asset Values

As rates have risen during this cycle, market values have dropped for fixed assets.

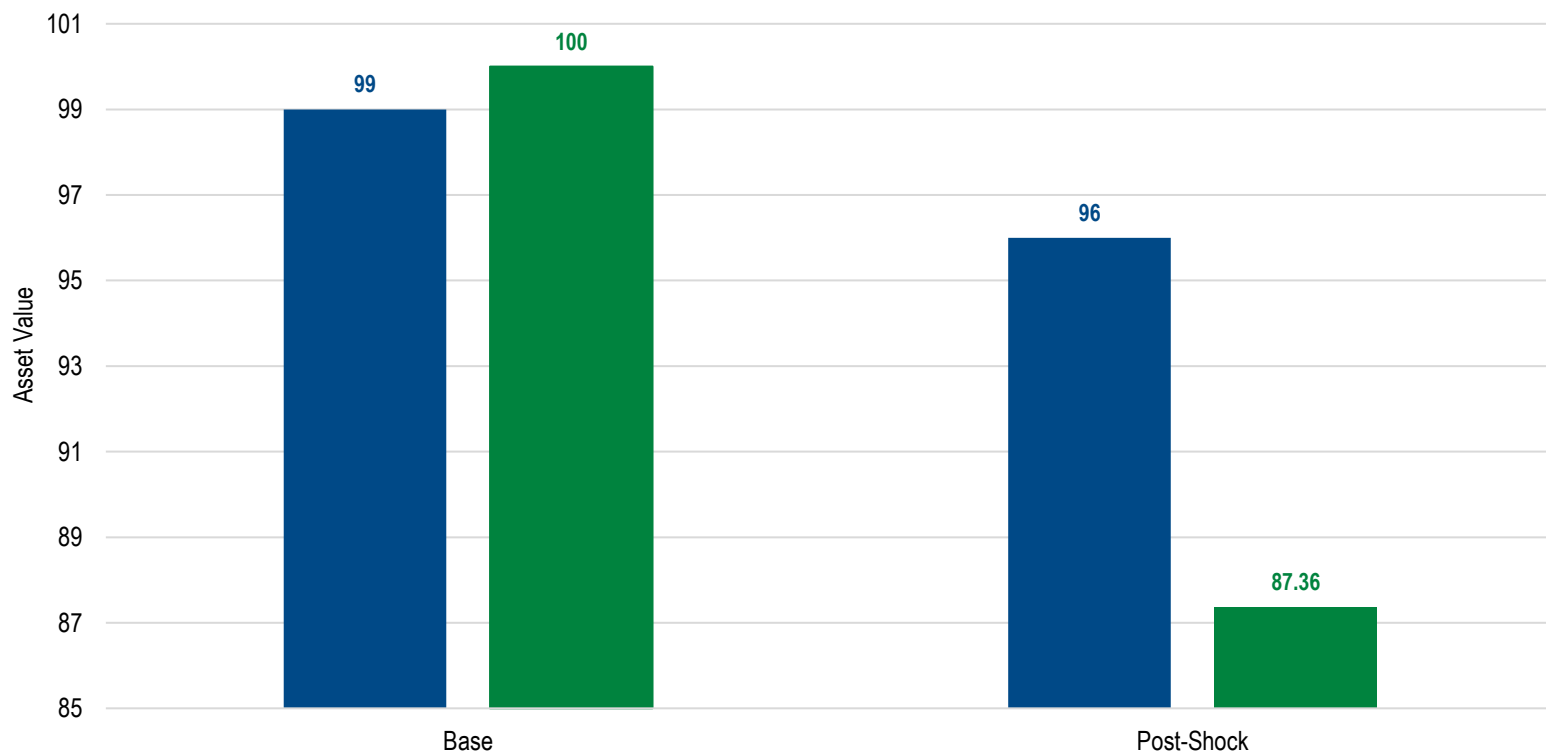
5-Year Treasury Yield & Median Unrealized Gain/Loss



NEV Test Mechanics

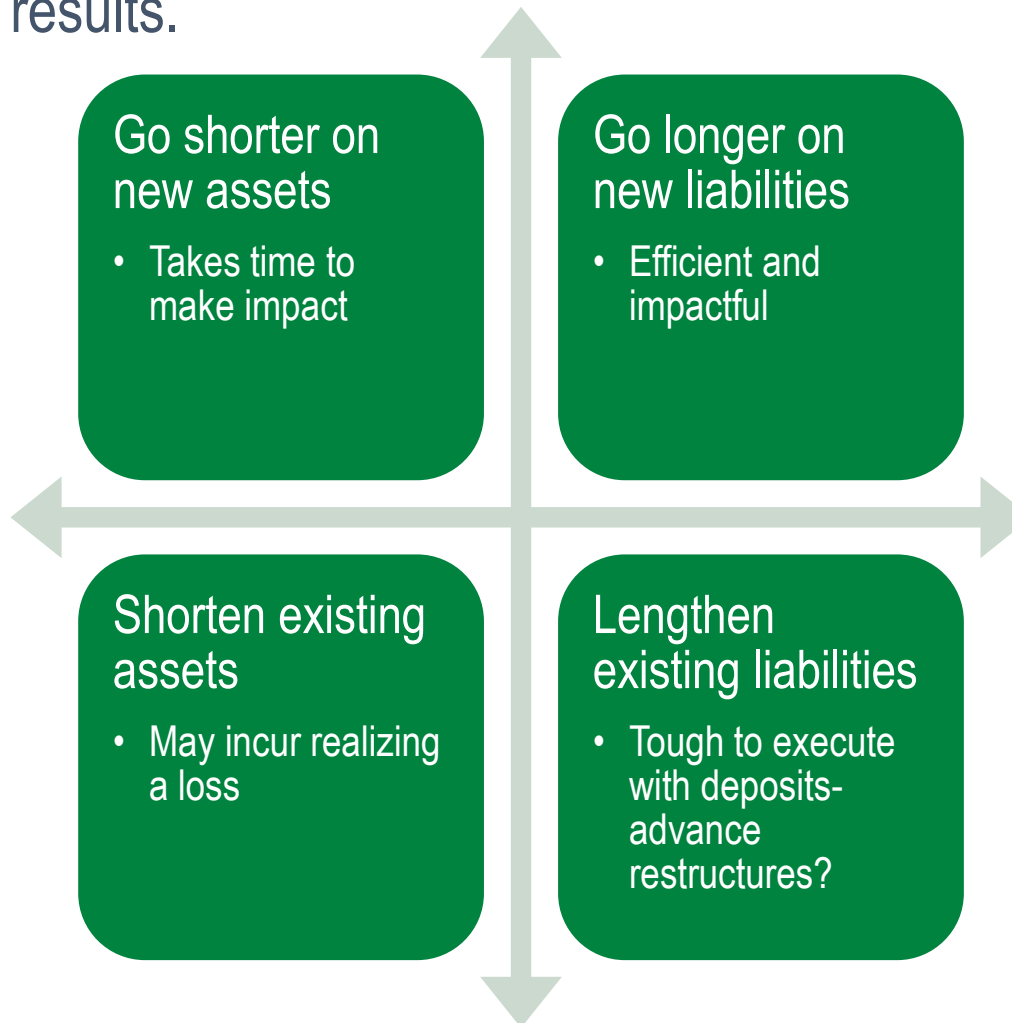
The NEV Test assigns a standardized premium to non-maturity deposits in the rate shock test, while advances are calculated according to the specific duration.

Rate Shock Scenario Analysis: Non-Maturity Deposit (Standardized Premium) & 5-Year Classic Advance



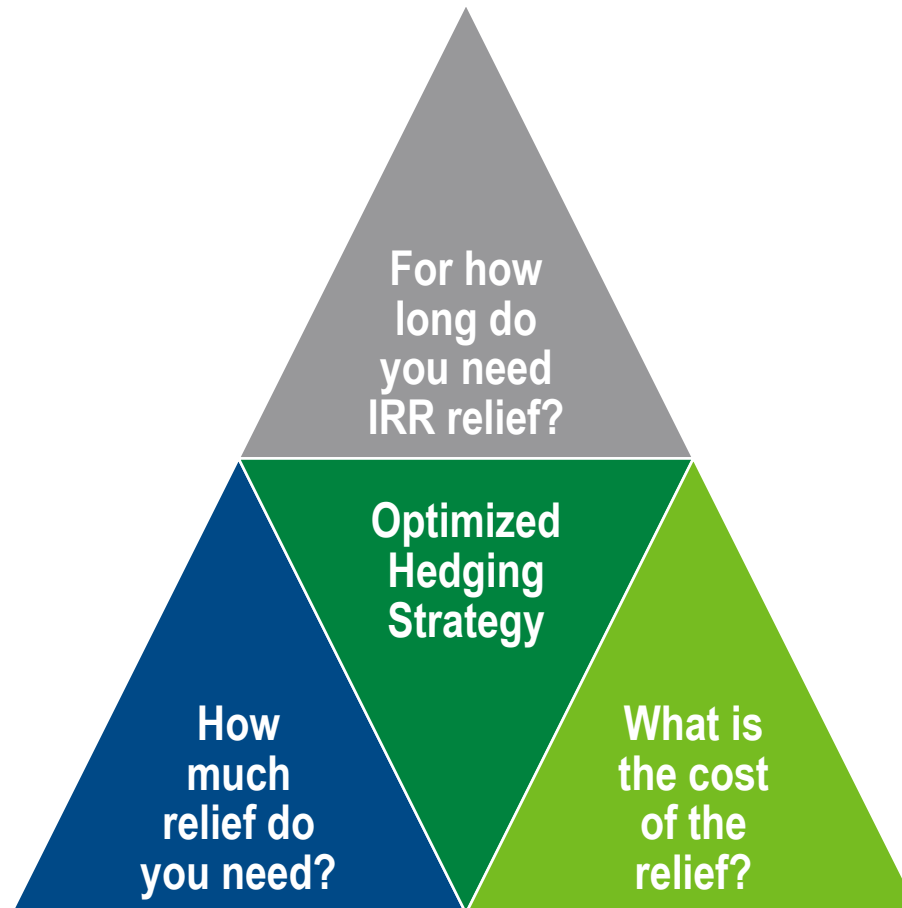
NEV Test Relief Considerations

Several approaches, on both sides of the balance sheet, can help improve NEV results.



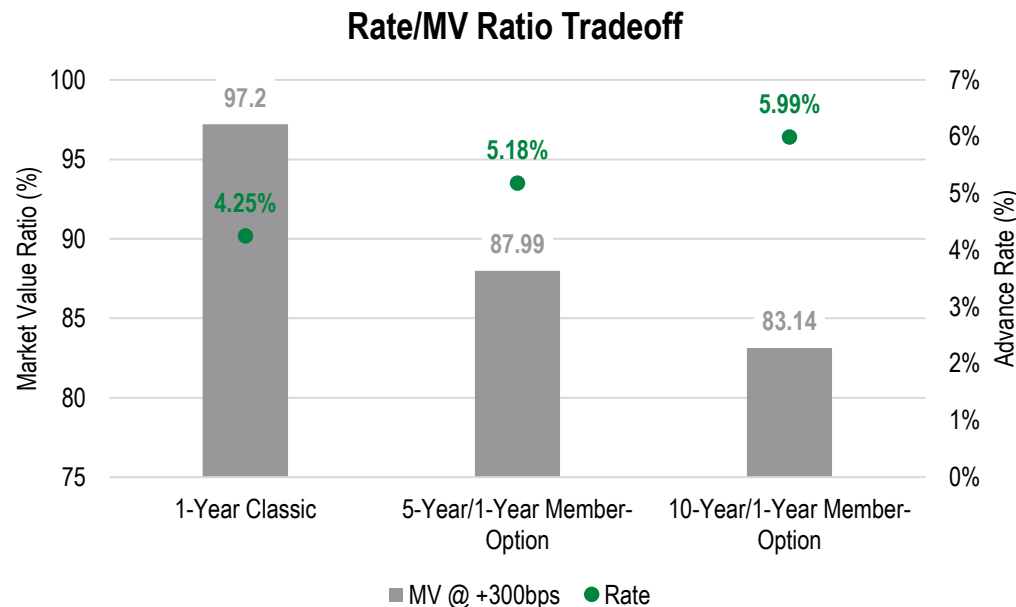
Assessing NEV Relief Solutions

Magnitude, timeframe, and cost are all factors in identifying an appropriate strategy.



NEV Test Considerations

While longer-term Member-Option Advances may cost more, the market value benefit in the NEV rate shock test compensates the member for this premium.



Scenario: Credit Union with \$500 million in assets takes down a \$10 million Advance borrowing

Product	Rate	Interest Cost Over 1 Year	MV Benefit @ +300bps	MV Benefit (% of Assets)
1-Year Classic	4.25%	\$425,000	\$280,000	0.06%
5-Year/1-Year Member-Option	5.18%	\$518,000	\$1,201,000	0.24%
10-Year/1-Year Member-Option	5.99%	\$599,000	\$1,686,000	0.34%

Member-Option Strategy Scenario

Scenario: a credit union has taken down a 10-year Member-Option Advance with an option to call after one year at 5.99% for NEV test support. What actions might they consider once the one-year call option date arrives?

Scenario	Rate Environment (EFFR)	NEV Status	Likely Action	Rationale
Rates Fall	2-4%	NEV Improved	Call the advance	NEV need is gone or reduced and cheaper funding available.
Rates Stay Flat	~4% (similar to entry rate)	Some need for NEV support remains	Keep or call and refinance	Keep the advance if NEV support still needed and possibly call and refinance cheaper if pricing allows.
Moderate Rate Rise	~4.5–5%	NEV pressure remains	Keep the advance	Still need NEV support, and likely that 5.99% is cheap relative to replacement funding.
Rates Rise Significantly	5%+	NEV under increased pressure	Keep the advance, add addition Member-Option funding	Original 5.99% is now cheap; full 10-year NEV support still needed. Can add more funding to increase support.

Thank You

Tyler Buckeridge

Email : Tyler.Buckeridge@fhlbboston.com

Phone: 617-292-9766

