

Peer Analysis and Balance Sheet Strategies Update



February 19, 2026

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Sales & Strategies Specialist

Overview

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

Beta Control 101 (Ski Edition)

Rates change the slope. Pricing discipline determines whether you carve... or skid.



Source: FHLBank Boston

Markets & Economy Update



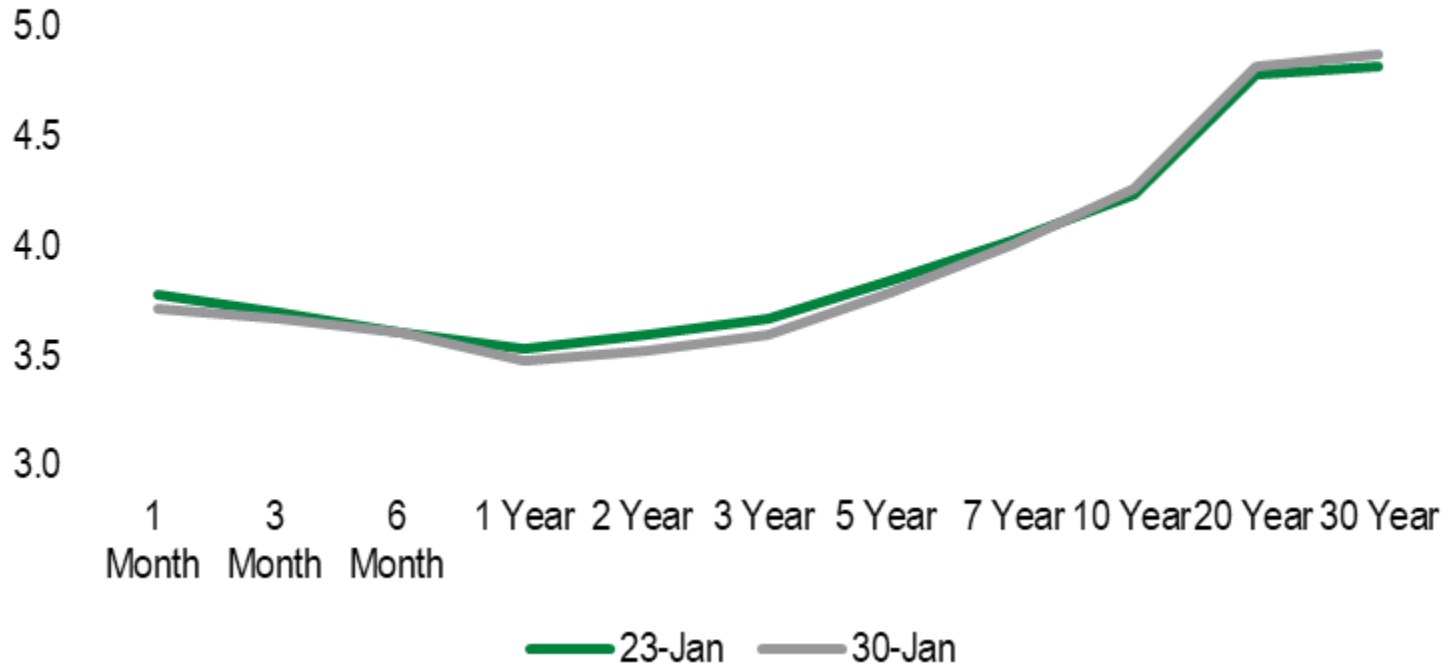
Markets & Economy Update

- The Fed
- Inflation
- Employment
- Housing

FOMC Update: No Real Surprises

Rates were held constant at the January FOMC meeting, where the Committee expressed more confidence in the outlook for the labor market. President Trump's nomination of Kevin Warsh for Fed Chair had little impact on rates.

Treasury Yield Curve Before and After Week of January FOMC Meeting, Warsh Announcement

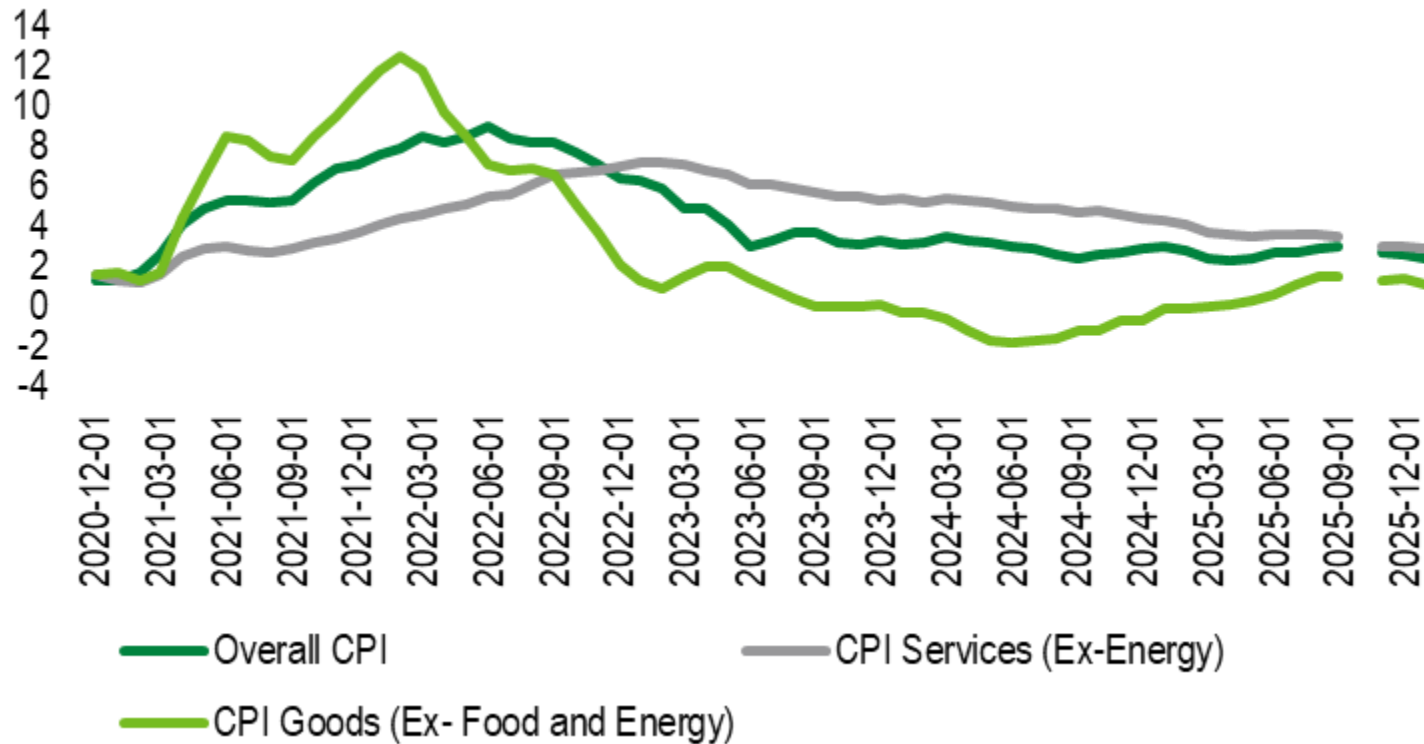


Source: FHLBank Boston, Treasury Department

Inflation: Stuck Above Target, FOMC Blames Tariffs

Inflation remains well above targets. Sectors sensitive to tariffs have seen outsized contributions to overall inflation, where sectors more associated with fundamental demand (like shelter and autos) have seen less inflation pressure.

CPI Indices, Change from a Year Ago (%)

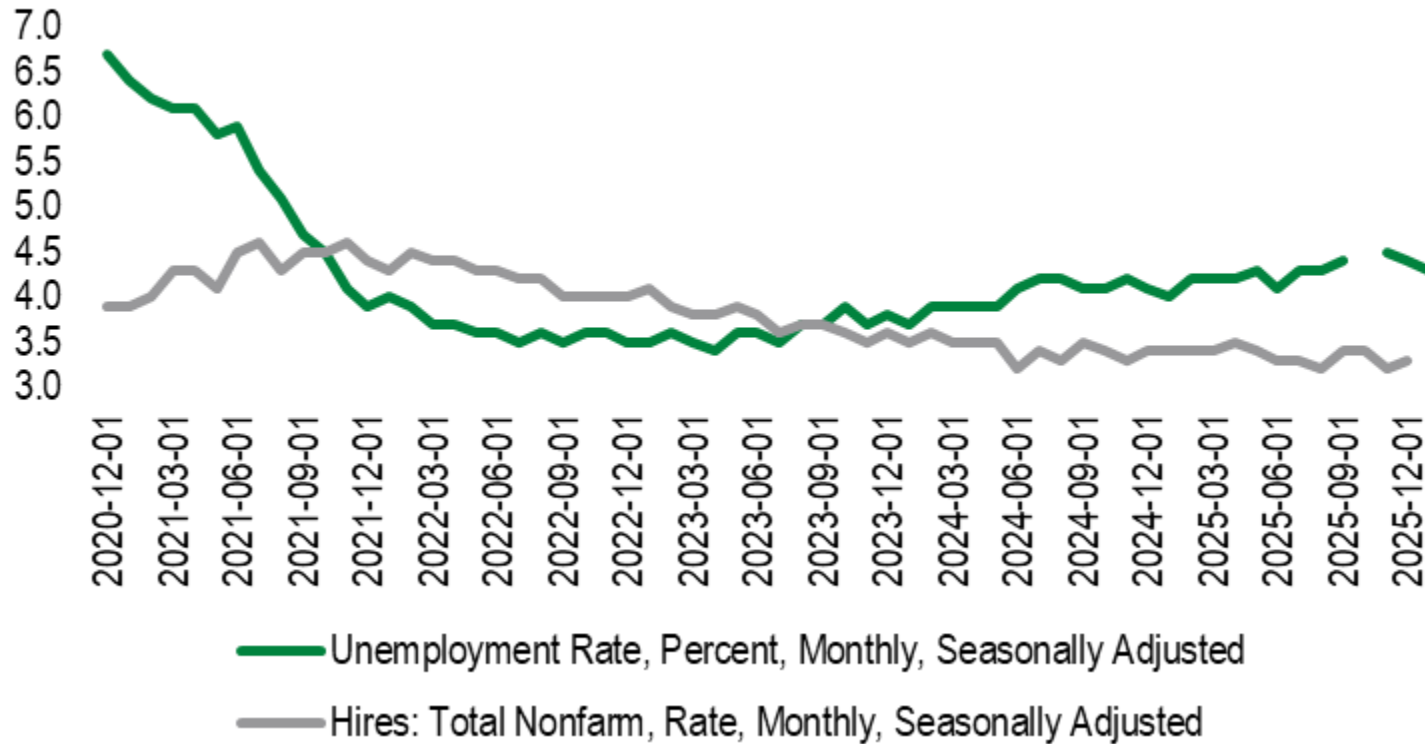


Source: U.S. Bureau of Labor Statistics via FRED, FHLBank Boston

Employment: Case for Further Stabilization is Growth

The unemployment rate stabilized, but hiring remains low. The case for improvement in the labor market is the strength of underlying growth – Atlanta Fed estimates Q4 2025 GDP grew at 3.7% (largely consumer strength and AI spending).

Unemployment Rate and Hires (%)

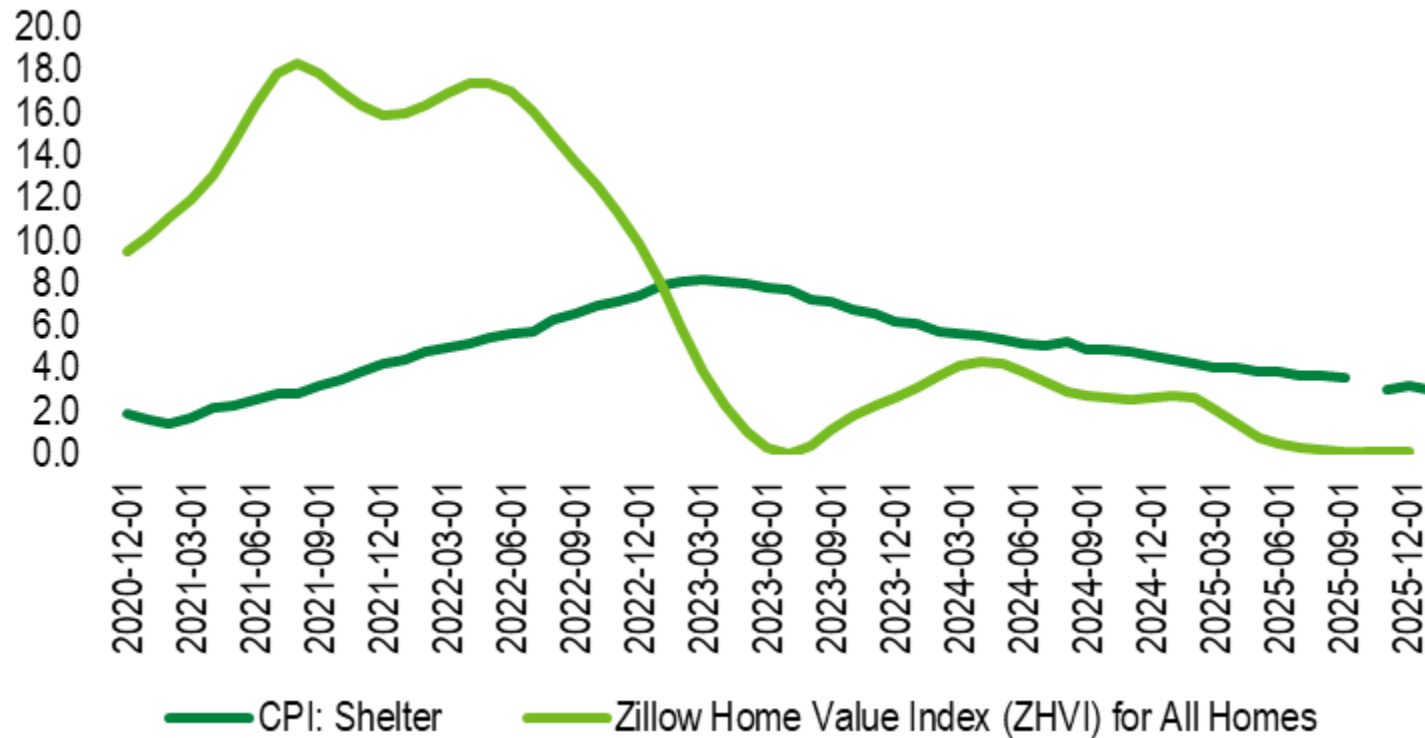


Source: U.S. Bureau of Labor Statistics via FRED, FHLBank Boston

Housing Market Fundamentals

The pace of increase in home prices and shelter inflation have stabilized, and housing transactions are very low. Policy support has increased, through Agency MBS purchases and a potential ban on investor purchases of single-family homes.

Home Prices, Change from a Year Ago (%)

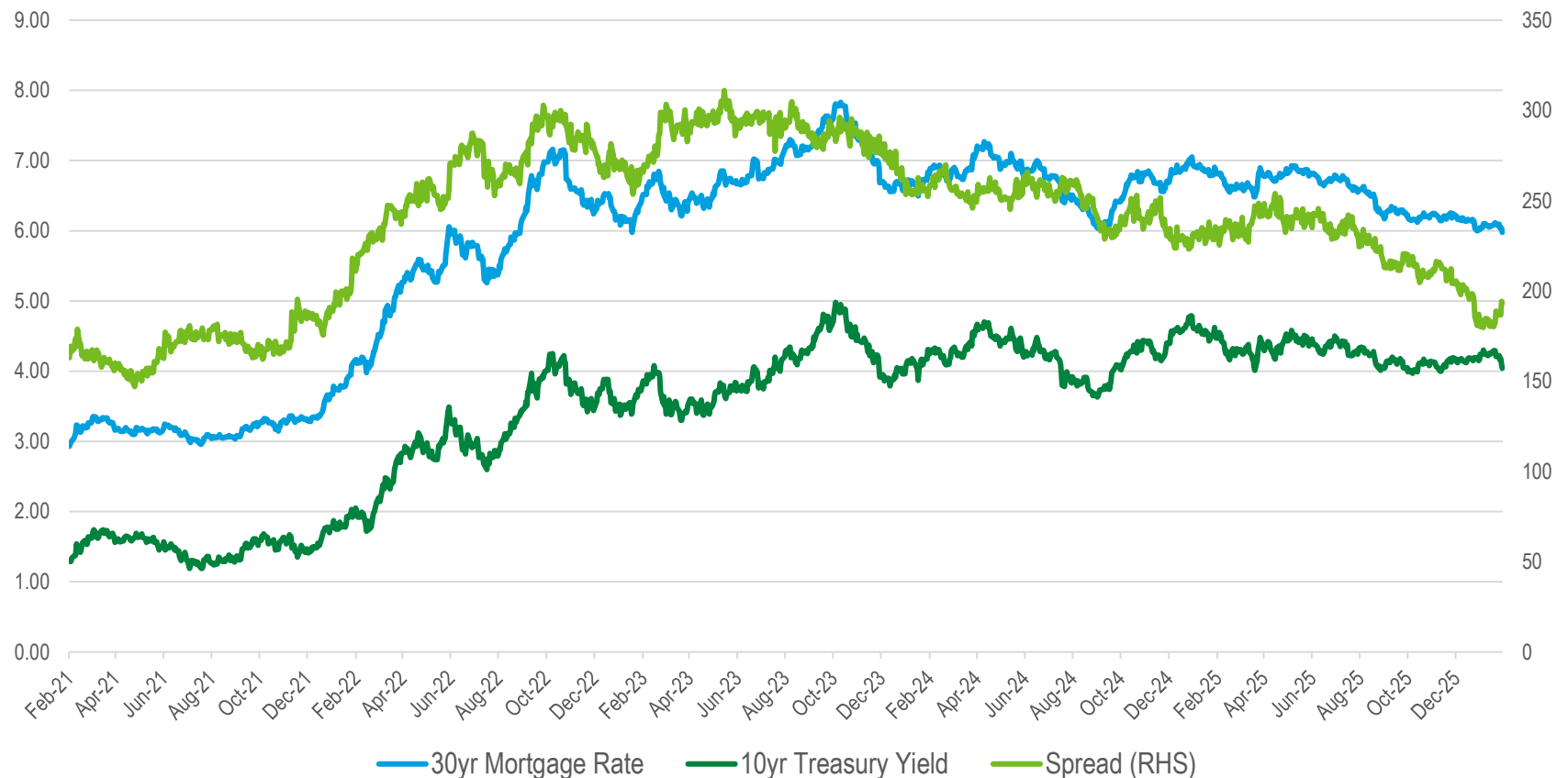


Source: Data Powered by Zillow Group via FRED, FHLBank Boston

Mortgage Activity

Mortgage spreads to Treasurys have declined over the period. Refinancing activity picked up modestly, even though origination remained quite low.

Mortgage Rates & Spreads



Source: Optimal Blue via FRED, FHLBank Boston

Peer Analysis & Call Report Trends

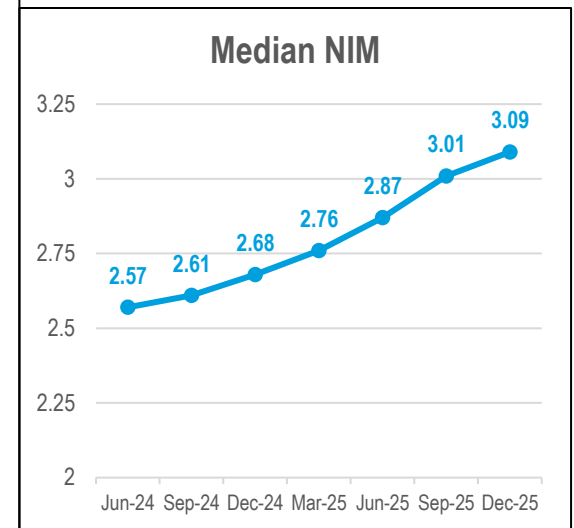
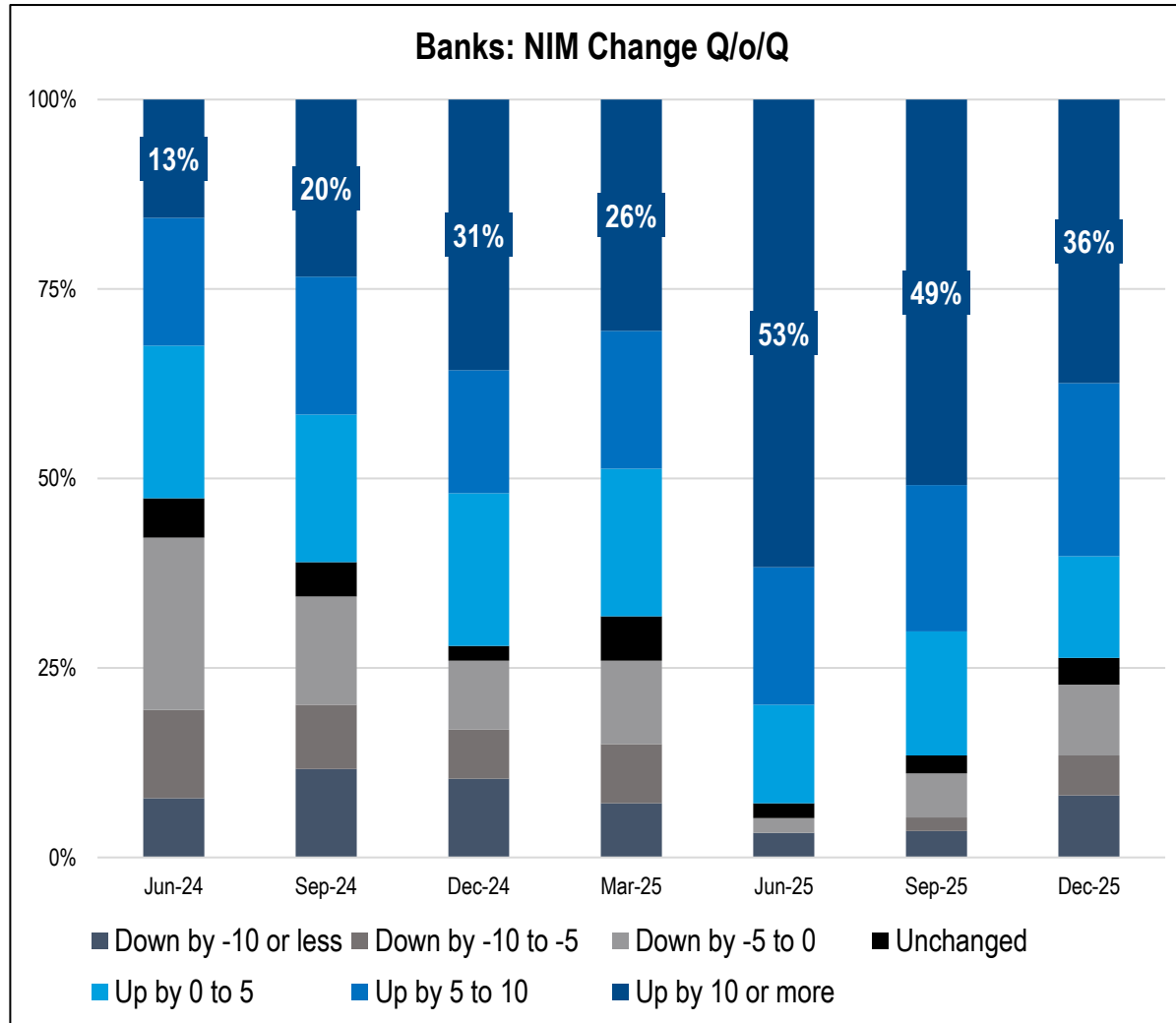


Peer Analysis & Call Report Trends

- Margins
- Asset Quality
- Mortgages: Yields, Balances, Investments
- Growth
- Deposits: Composition & Betas

Banks: Net Interest Margin

Banks are benefiting from repricing on both sides of the balance sheet, but there are signs that the margin lift is moderating.

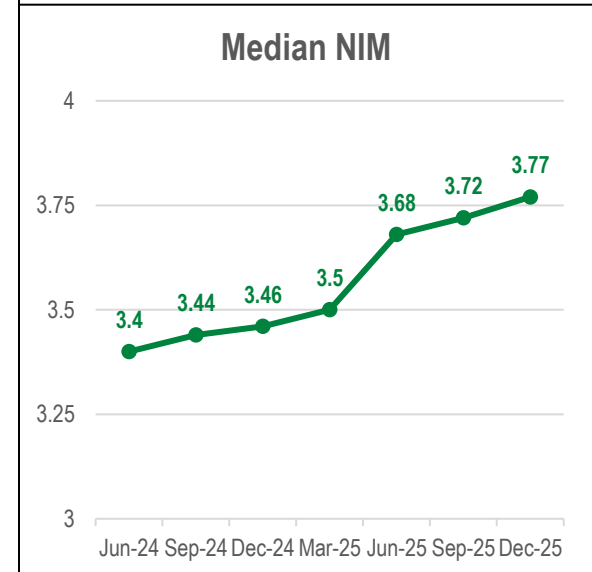
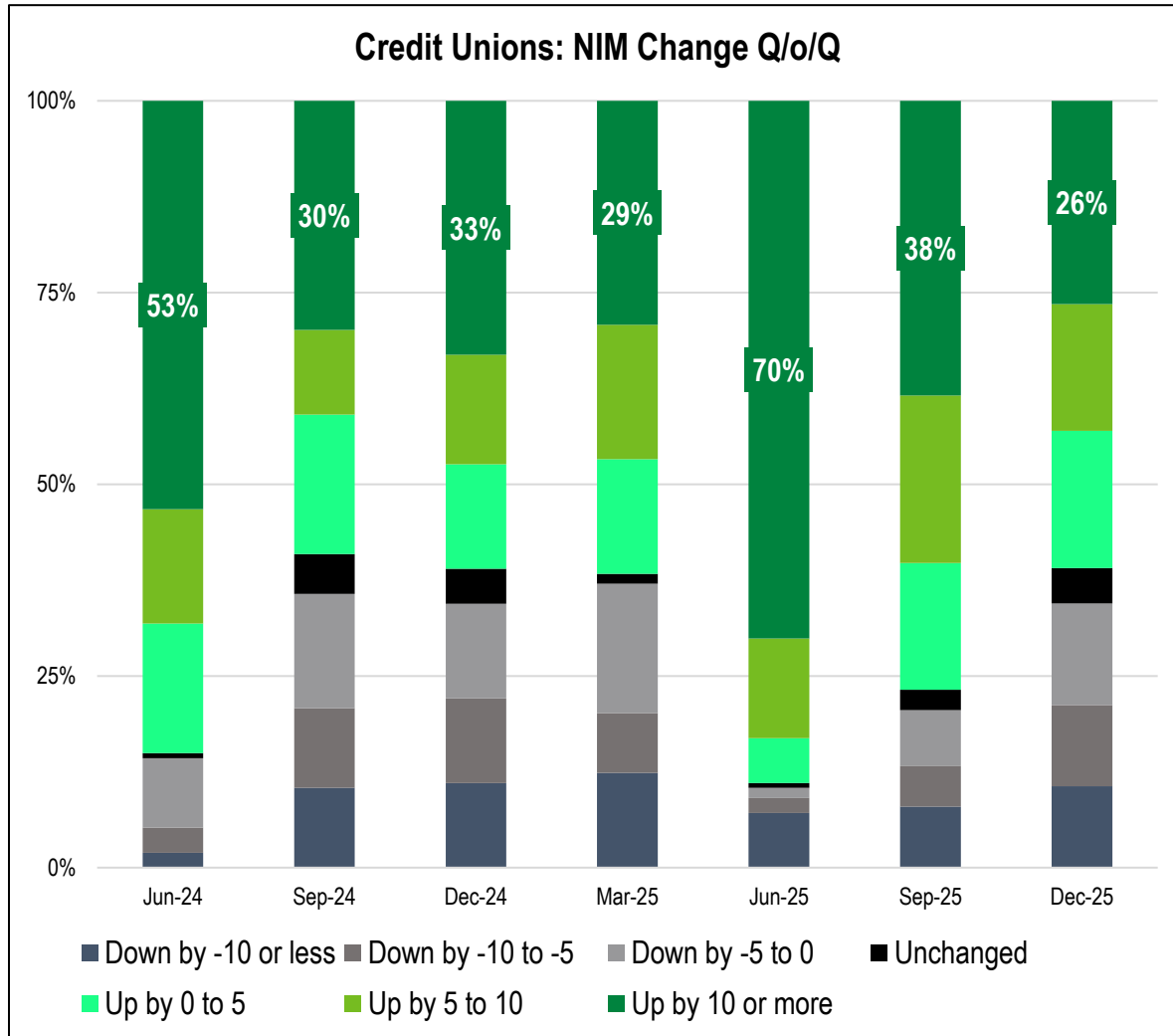


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Source: S&P Global, FHLBank Boston

Credit Unions: Net Interest Margin

For most, reduction in funding costs have had a greater impact on margin as opposed to enhanced asset yields.

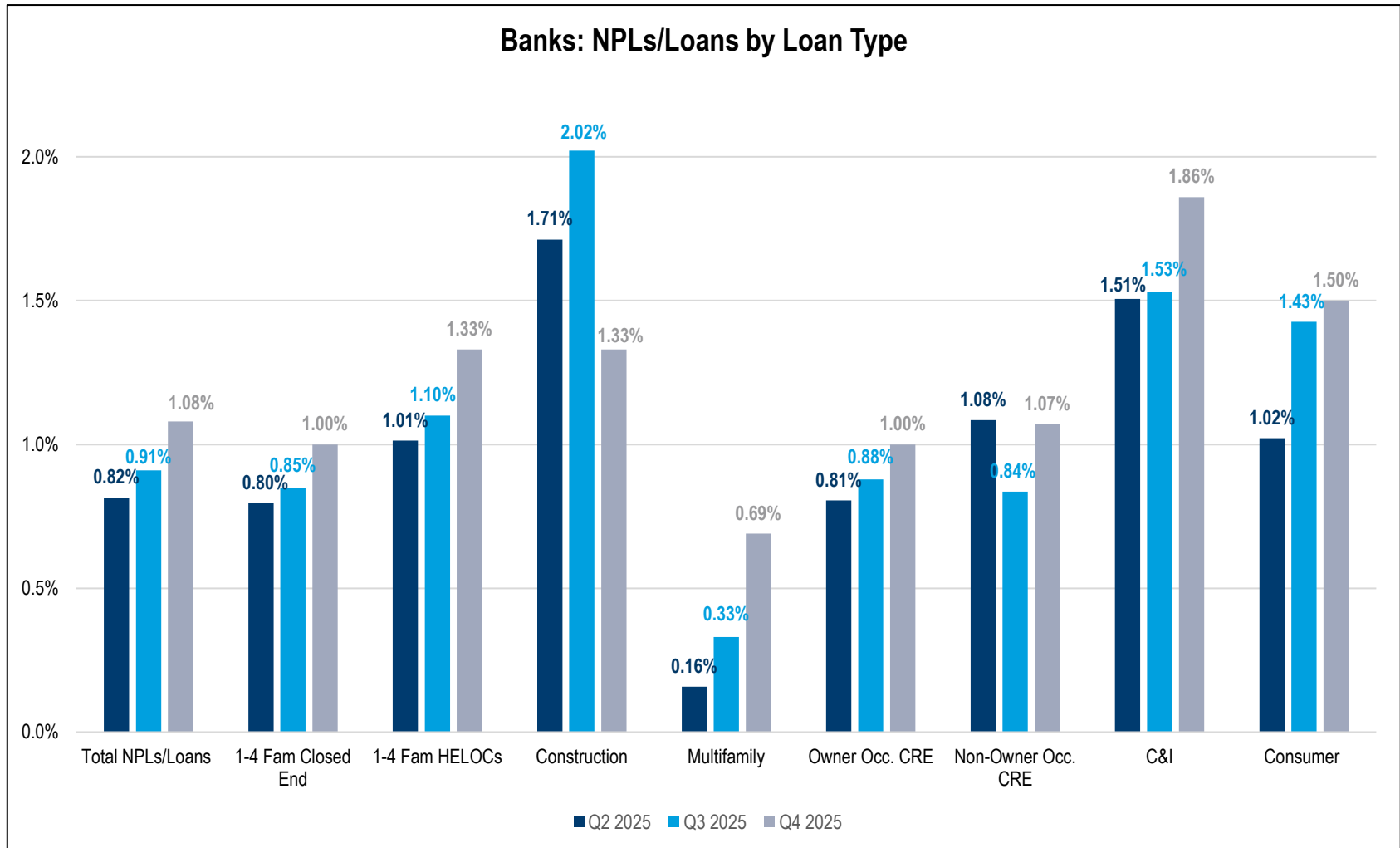


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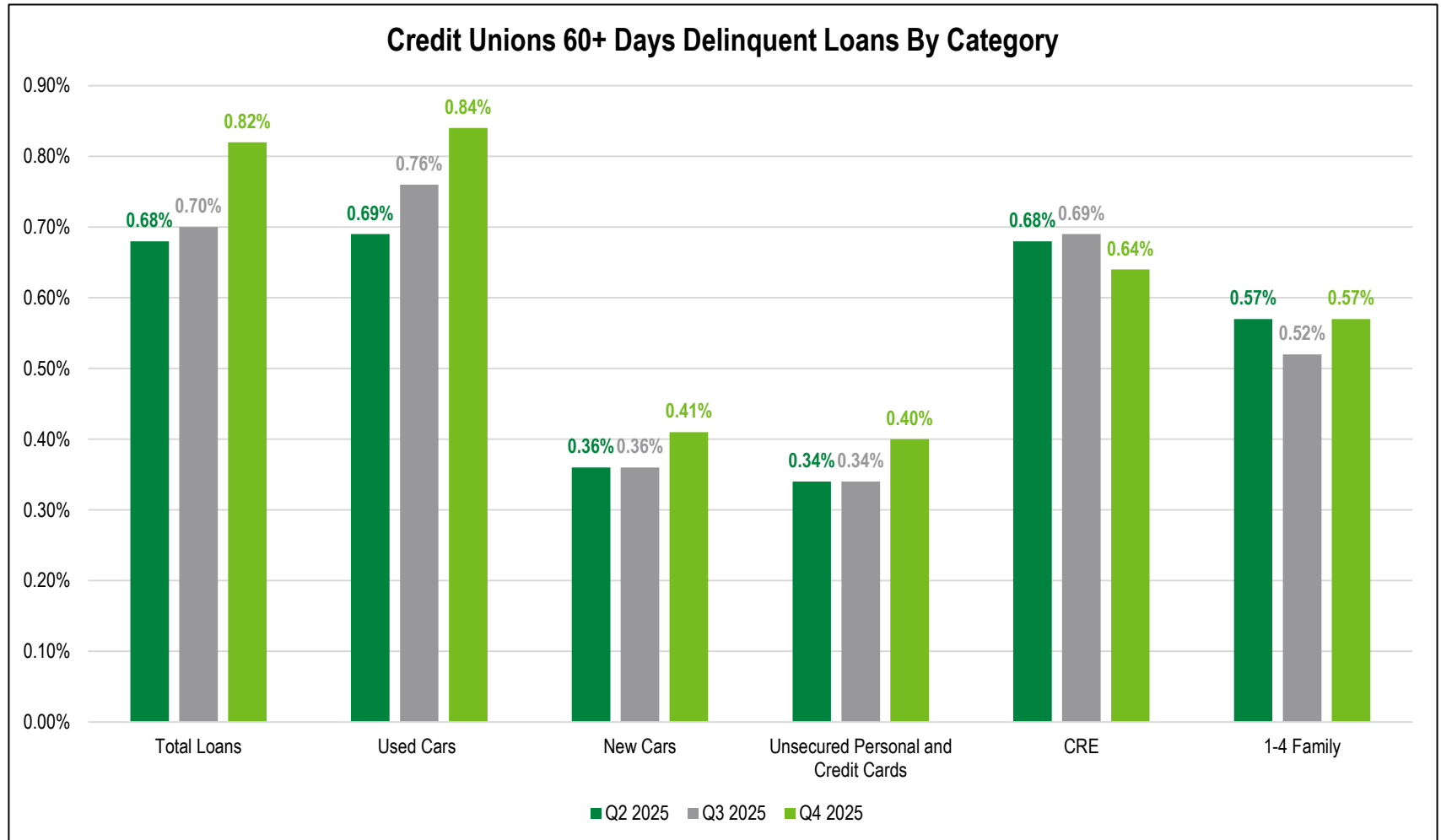
Banks: Credit Performance

There has been broad creep in NPLs, with every category except for construction deteriorating.



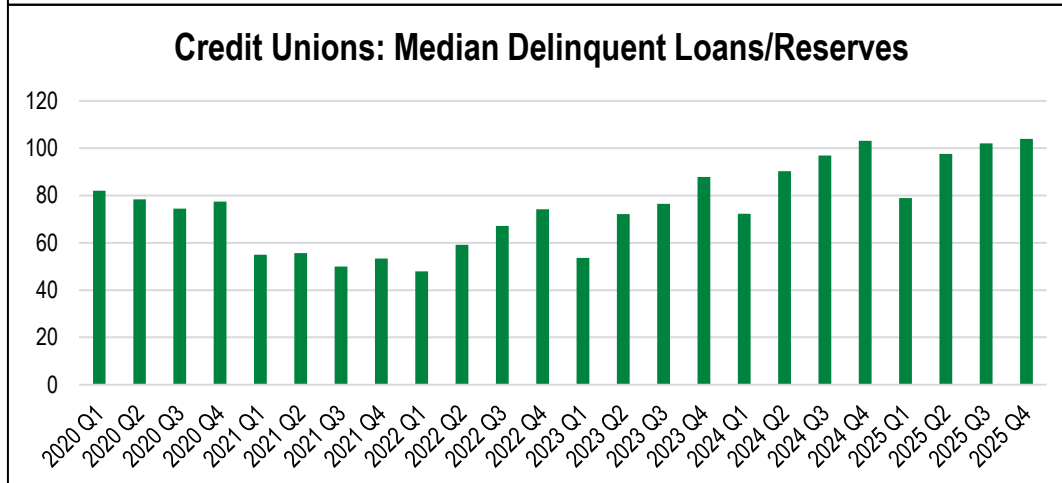
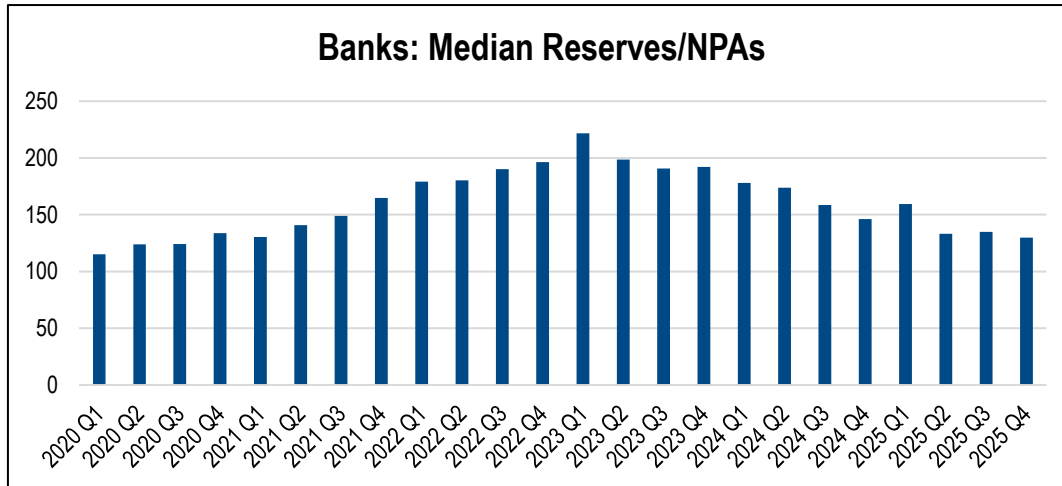
Credit Unions: Credit Performance

NPLs rising broadly, with personal and auto driving deterioration, residential flat, and CRE improving slightly.



How Much Cushion Is There?

While credit unions show more seasonal choppiness than banks, the ratio of reserves to problem assets is decreasing for member banks and credit unions.



Banks: 2025 Q4 Percentile Breakdown

Percentile	Reserves/NPAs
25th	76.1775
50th	129.71
75th	235.24

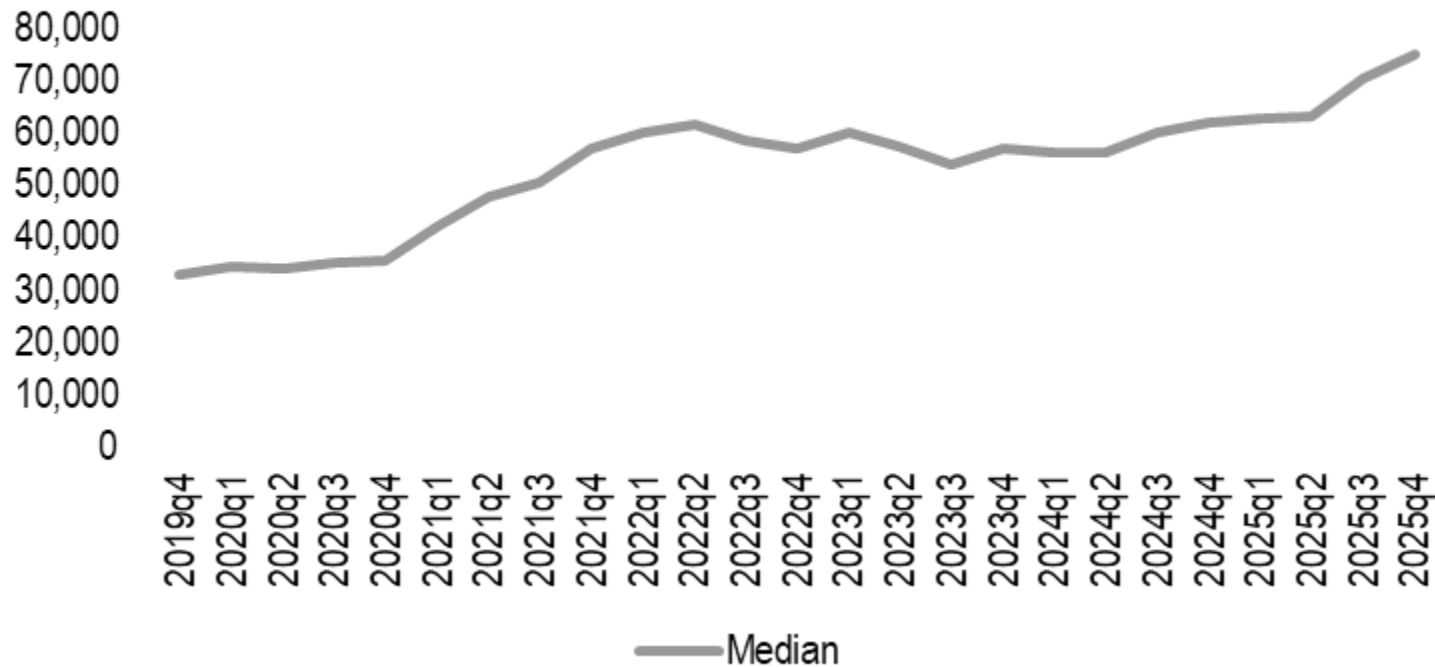
Credit Unions: 2025 Q4 Percentile Breakdown

Percentile	Delinquent Loans/Reserves
25th	61.35
50th	103.83
75th	192.6

Member MBS Fair Value

The fair value of member MBS has increased, even as rising Treasury yields have increased unrealized losses on securities issued in the lower rate regime.

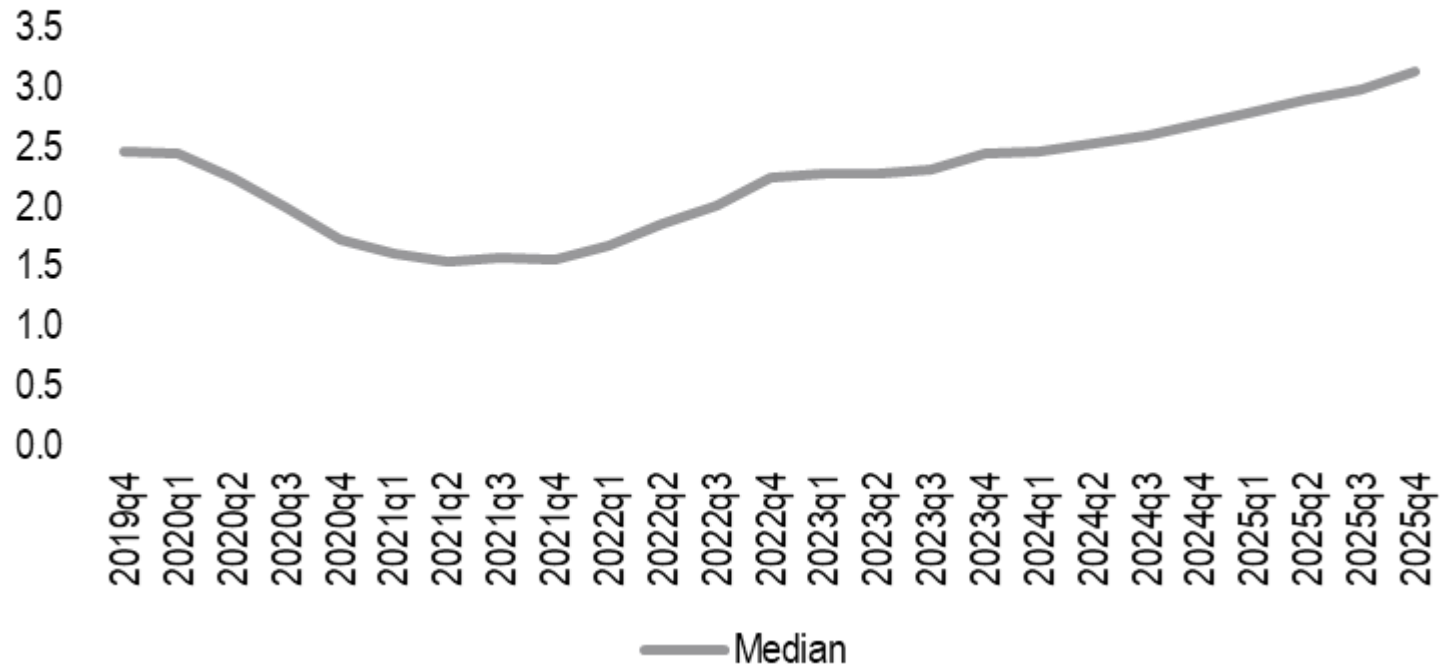
Fair-Value: Member Holdings of Residential Mortgage-Backed Securities (\$000)



Member MBS Yield

The yields members have realized on MBS securities have increased because newly issued mortgages are higher-yielding than securities issued in the lower interest-rate regime, even though mortgage spreads have come in.

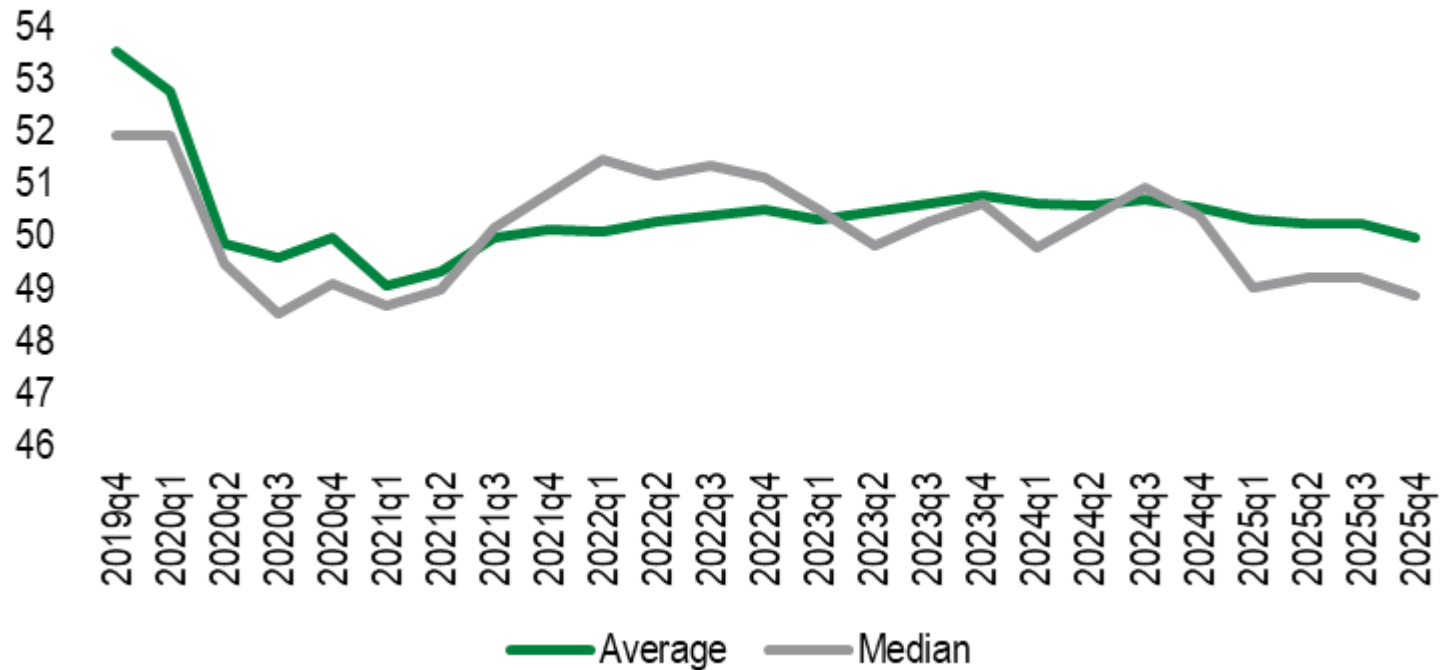
Yield (%) Earned by Members on Mortgage-Backed Securities



Mortgage Loans

The percent of outstanding member loans from 1-4 family residential loans have declined, which makes sense given low originations.

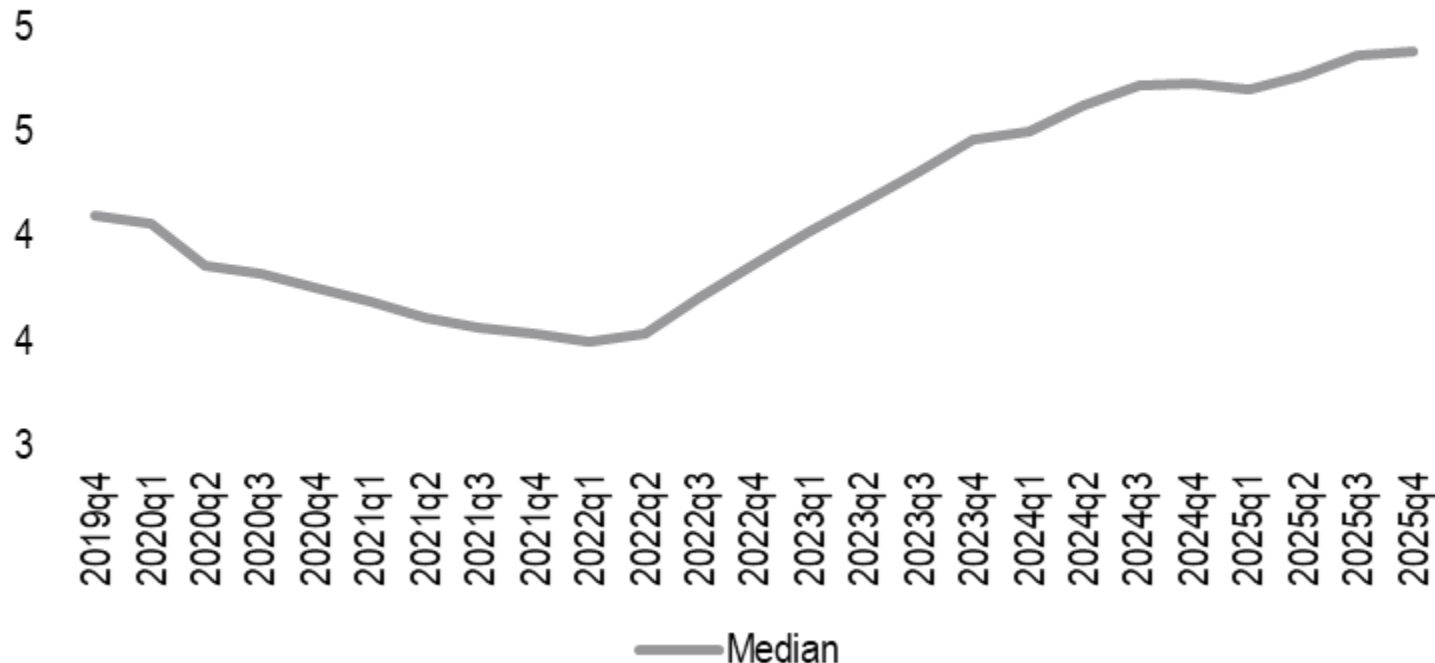
Total Member Loans (%) Consisting of 1-to-4 Family Residential Real Estate Loans



Yields on Mortgage Loans

Yields on 1-4 Mortgage Loans have increased...

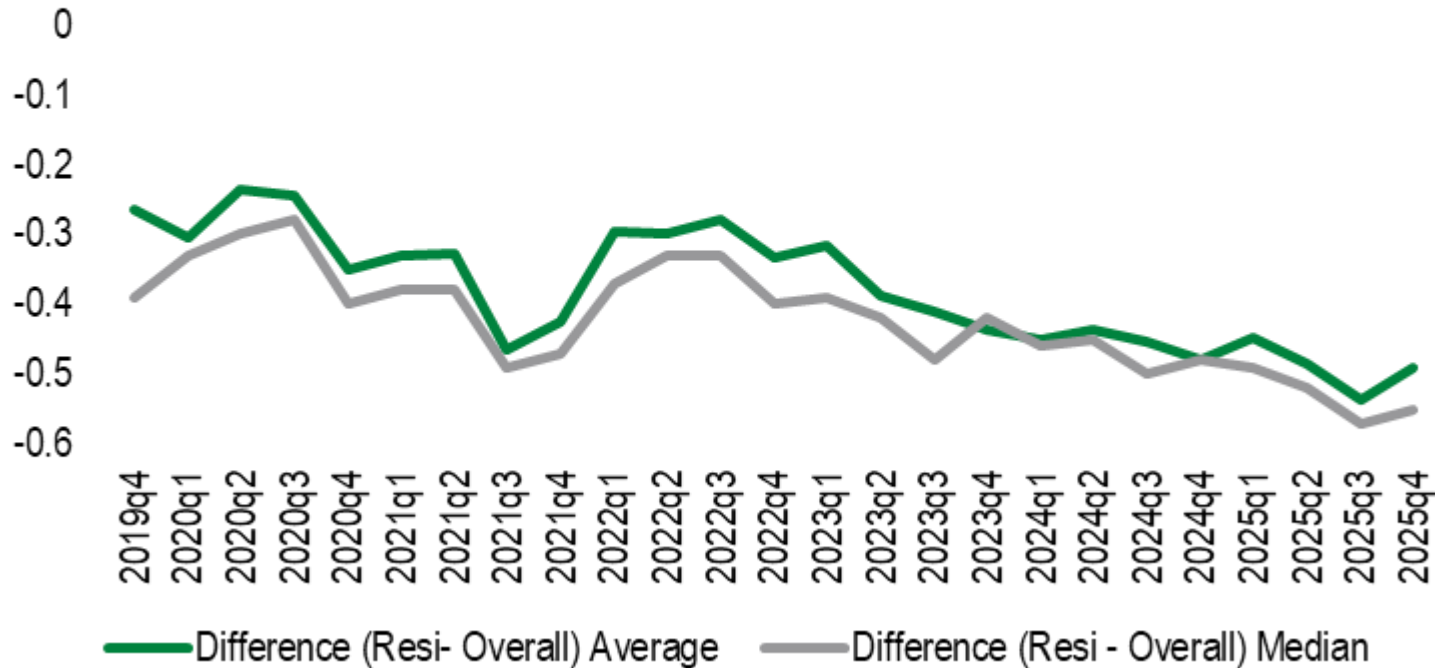
Average Yield (%) Earned by Member on 1-to-4 Family Residential Mortgage Loans



Yields on Mortgage Loans vs Overall Loans

Yields on 1-4 Mortgage Loans have increased...but not by as much as yields on overall loans.

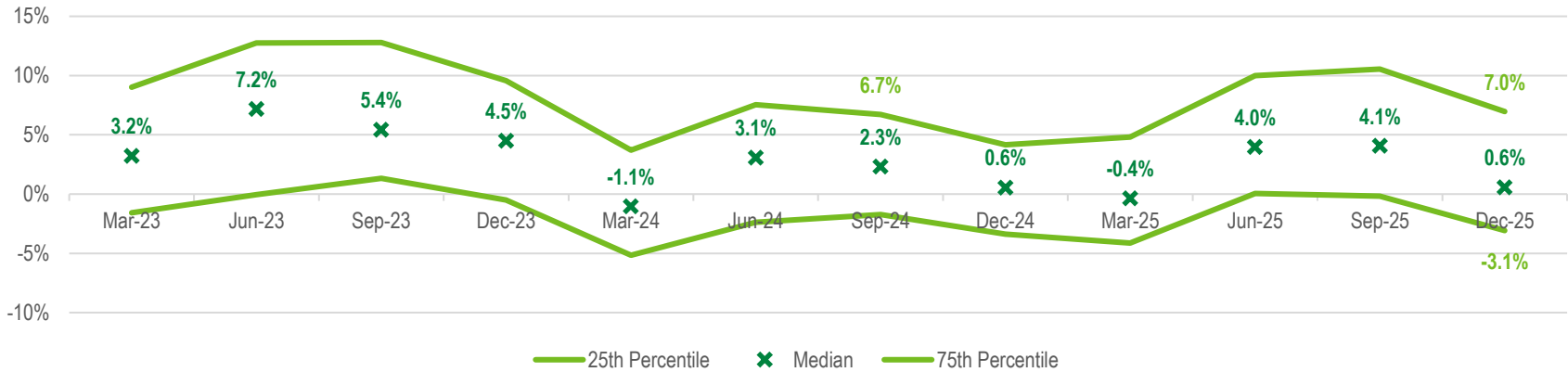
Difference in Yield (%) Earned by Members: 1-to-4 Family Residential Mortgage Loans - Overall Loans



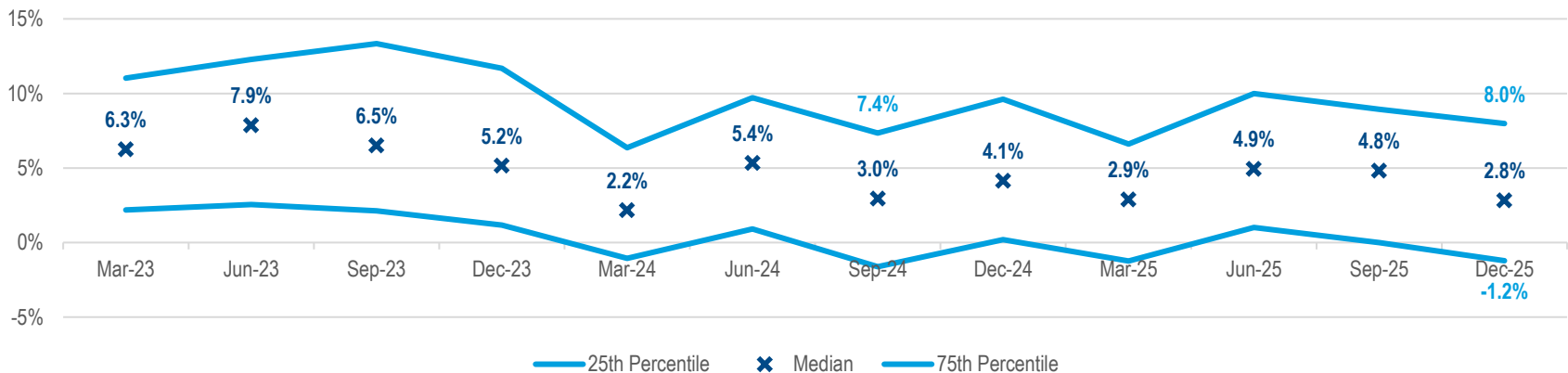
Loan Growth: Surprisingly Robust or Decelerating?

Growth has not (yet) been significantly impacted by the rate-cutting cycle and signs of economic weakness.

CU: Loan Growth

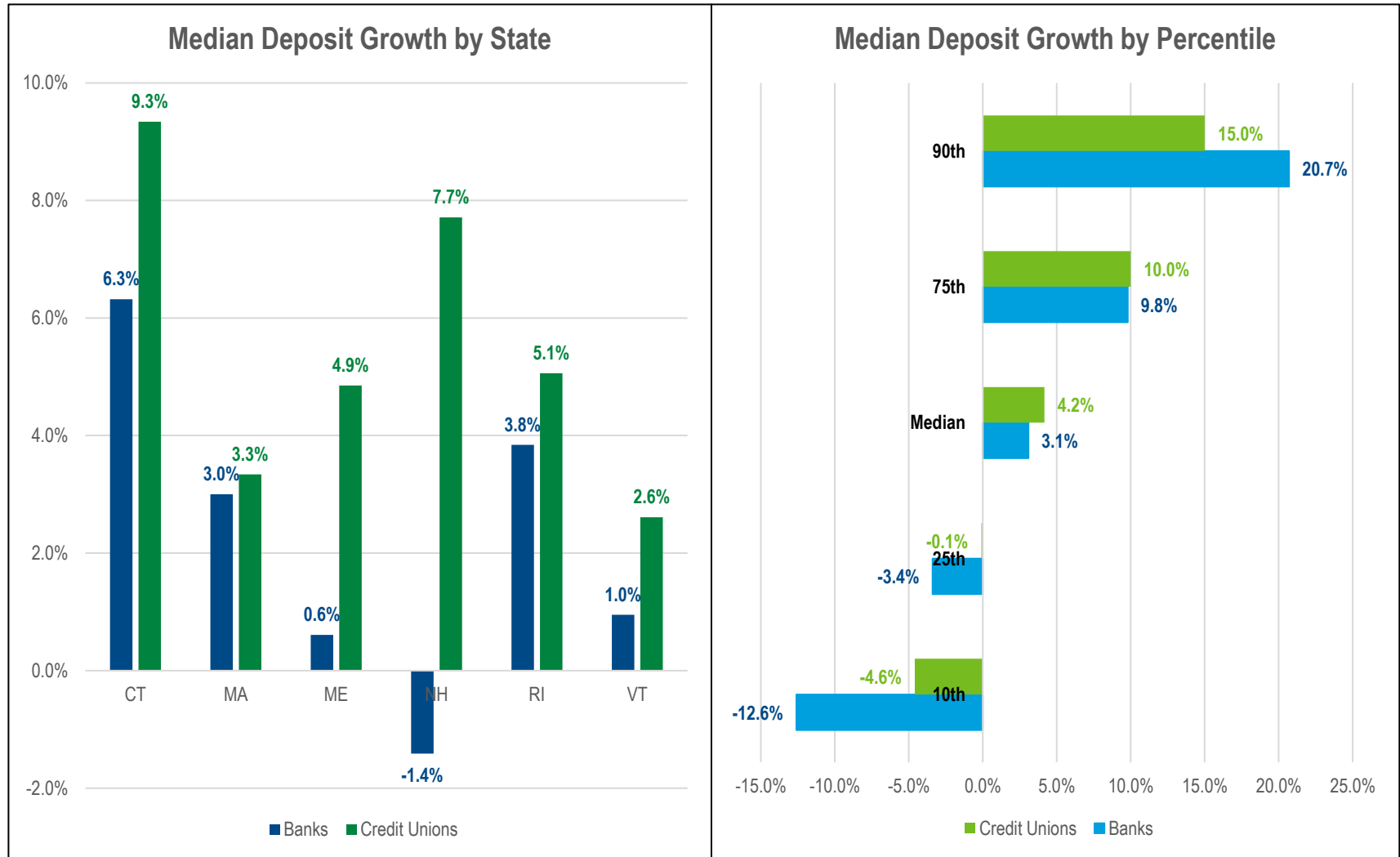


Banks: Loan Growth



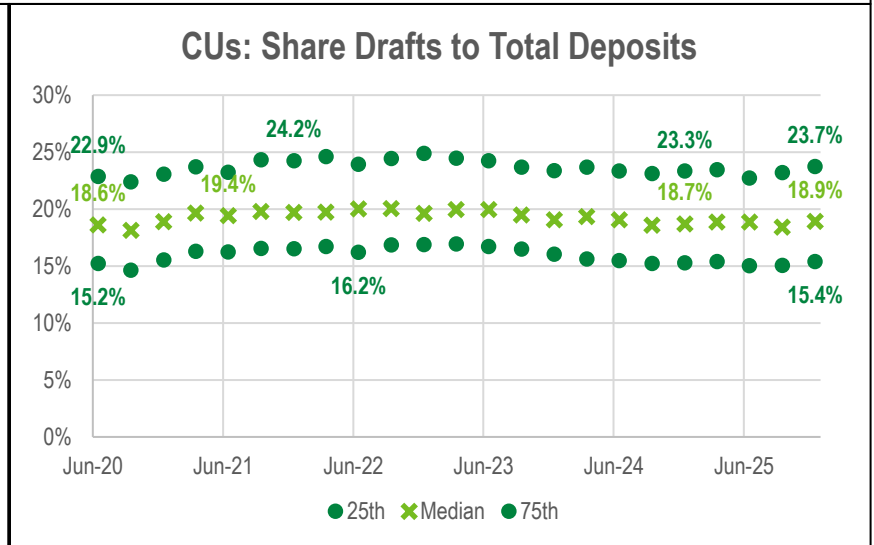
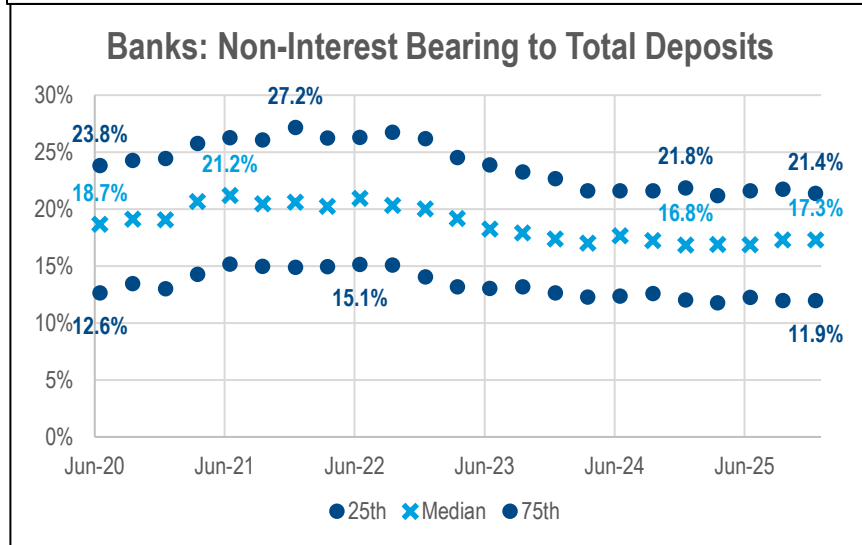
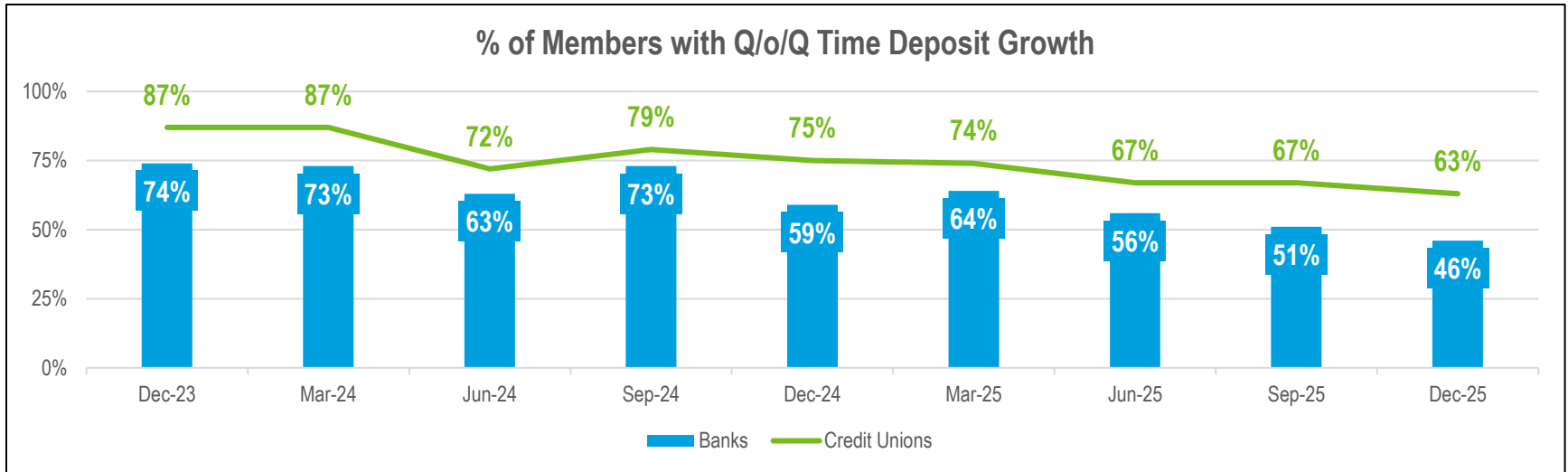
Mixed Deposit Growth Performance

Low single digit growth, but there is a wide range of outcomes driven by geography, balance sheet focus, and other factors.



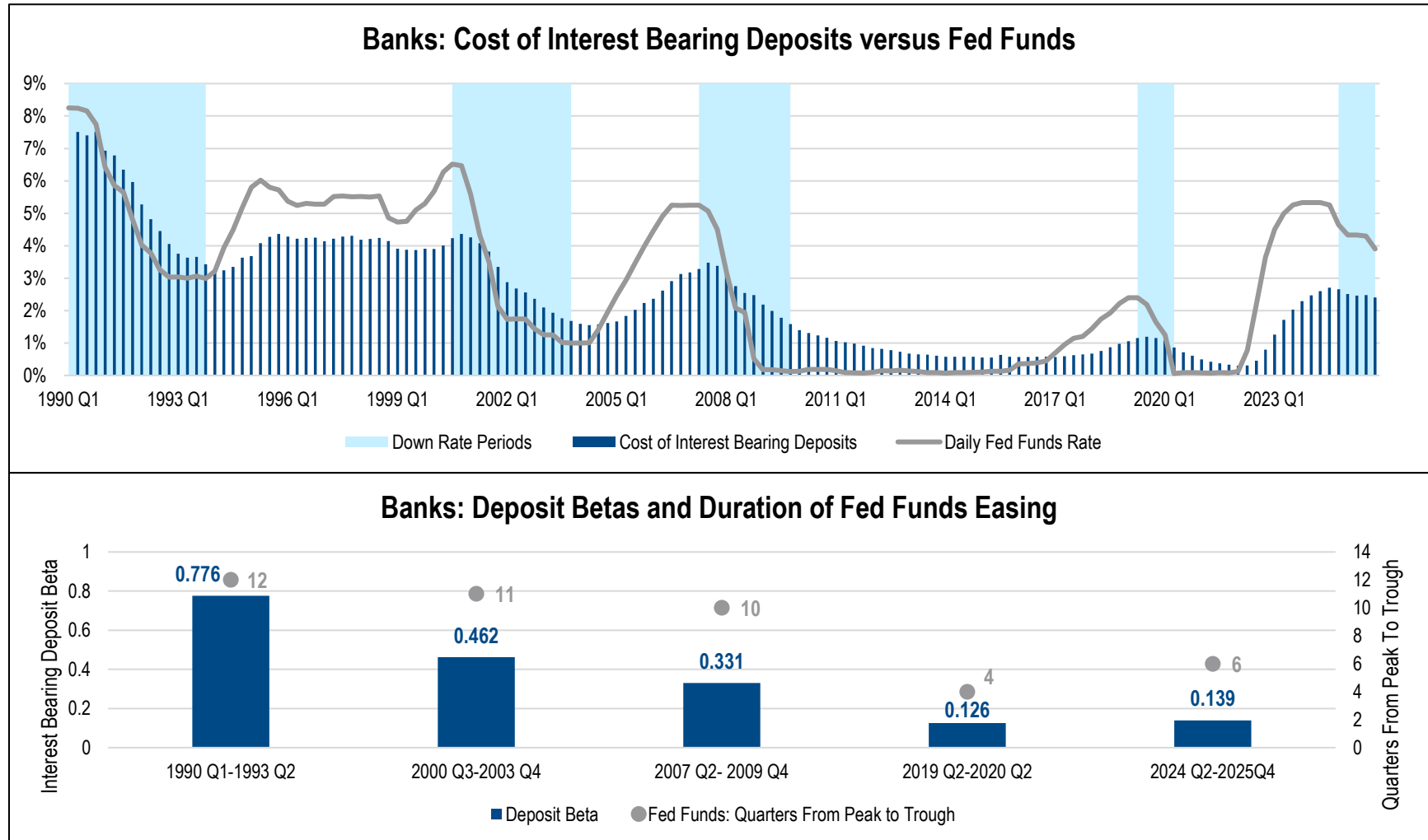
Deposit Composition

CD activity continues to wane, and checking account reliance is plateauing (not growing) as the cutting cycle progresses.



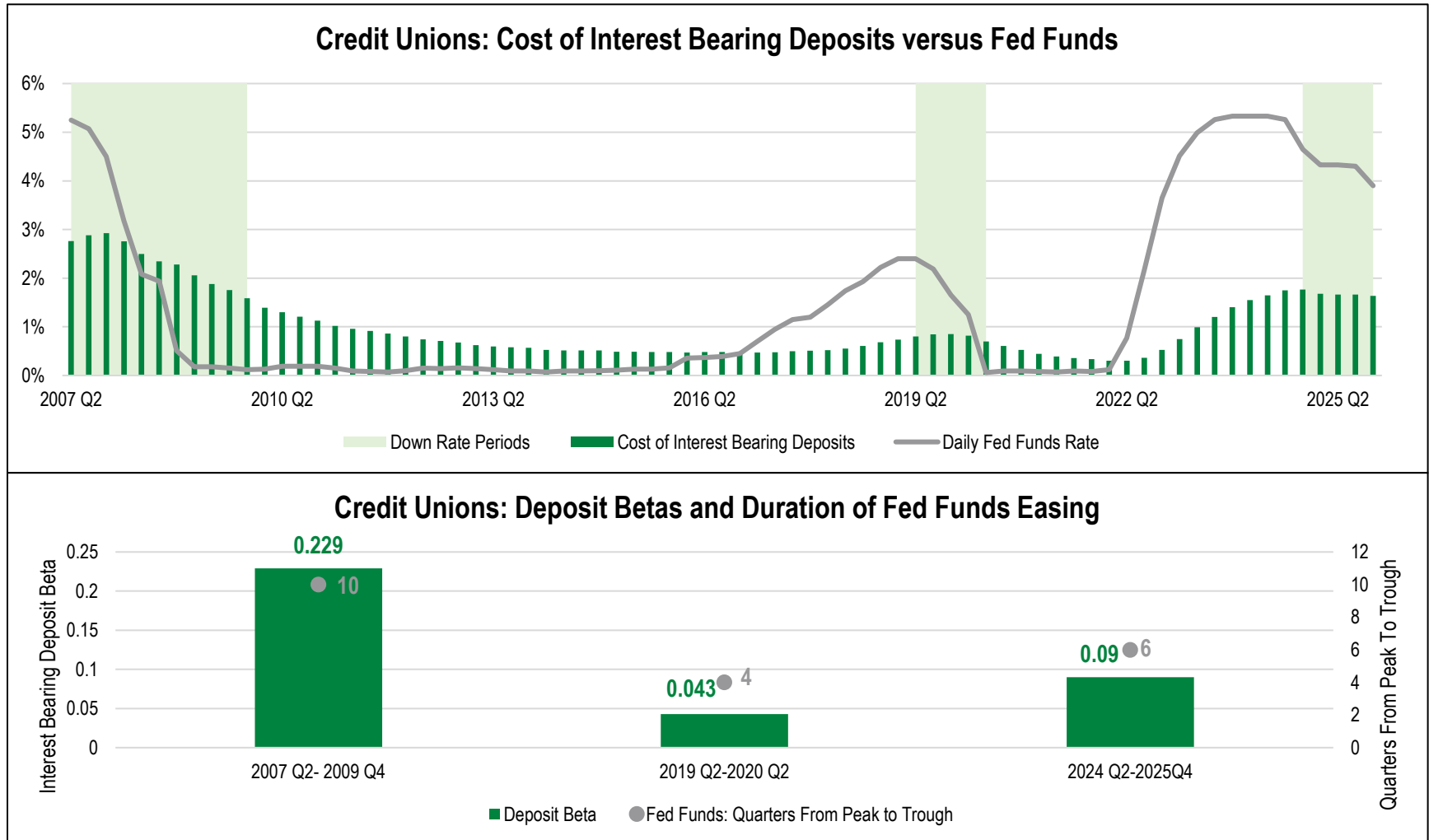
Banks: Deposit Betas

Federal Funds rate peak-to-trough duration is directionally related to deposit betas.



Credit Unions: Deposit Betas

Federal Funds rate peak-to-trough duration is directionally related to deposit betas.



Balance Sheet Strategies

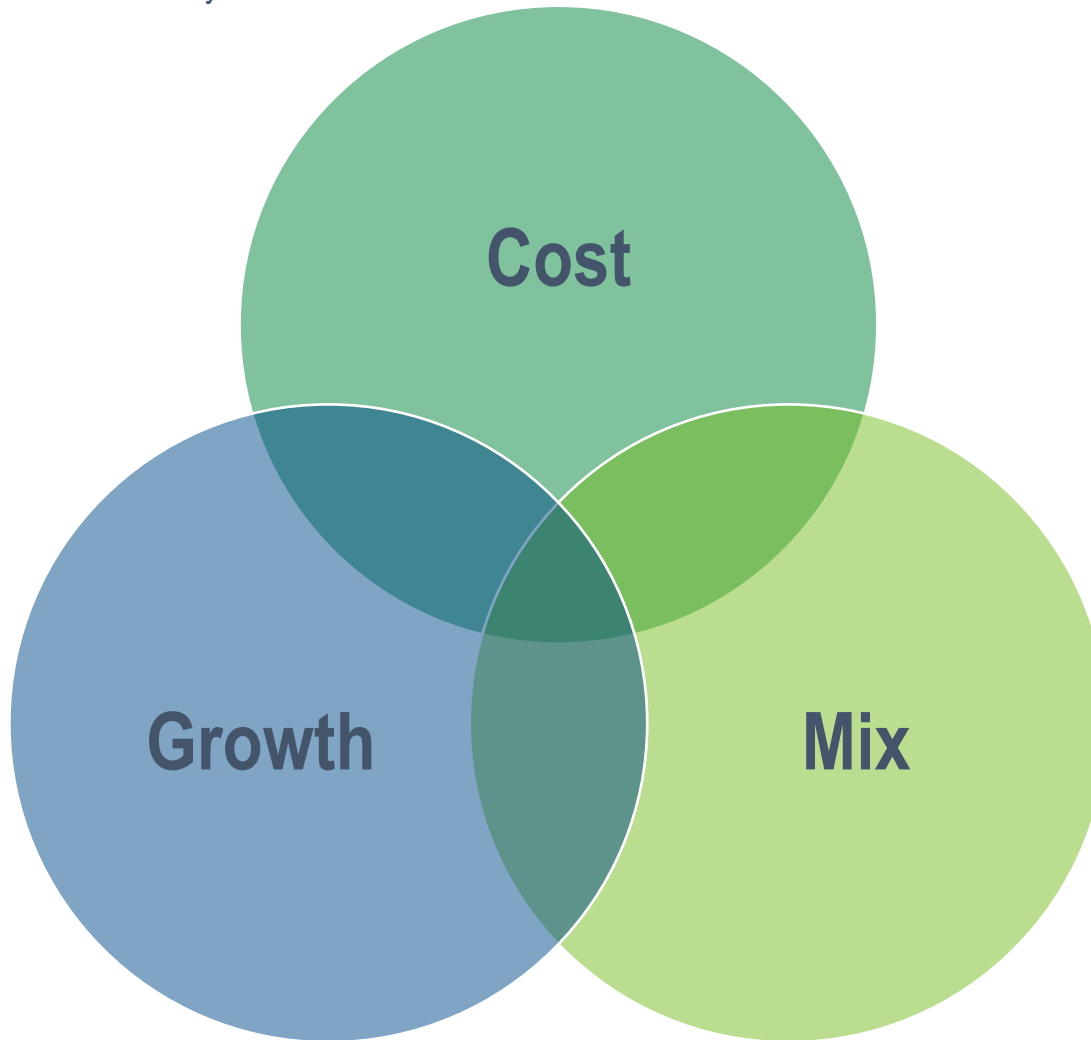


Balance Sheet Strategies

- The Big Picture
- Deposit Pricing Approaches for a Cutting Cycle
- Mortgage Strategies
- Funding Considerations

The Big Picture

What characteristic is most achievable given the current economic landscape, market conditions, industry pressures and customer dynamics?



Key Themes
Is there opportunity in extending asset duration?
Can core loan and deposit growth accelerate from here, and with efficient pricing?
How might liquidity management continue to evolve post-March 2023?

Mortgage Strategies: Sell Low Coupons, Increase Issuance

Consider selling lower-coupon mortgages to FHLBank Boston through the MPF® (Mortgage Partnership Finance®) Program and earn income for sharing credit risk. Use FHLBank Boston programs to expand customer base and increase mortgage issuance.

Problem

Low-coupon mortgages are clogging up my balance sheet.



Solution

Sell to MPF. FHLBank Boston creates a first loss account (35bps) and pays you for sharing credit risk.

Low origination makes it tough to issue mortgages, even though yields are attractive.



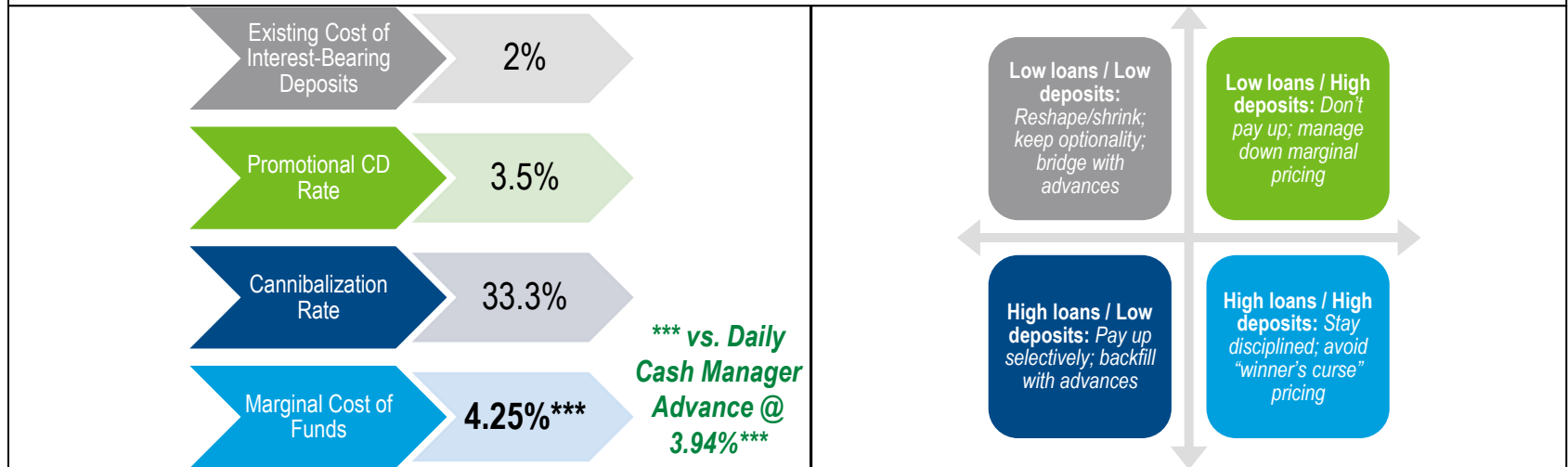
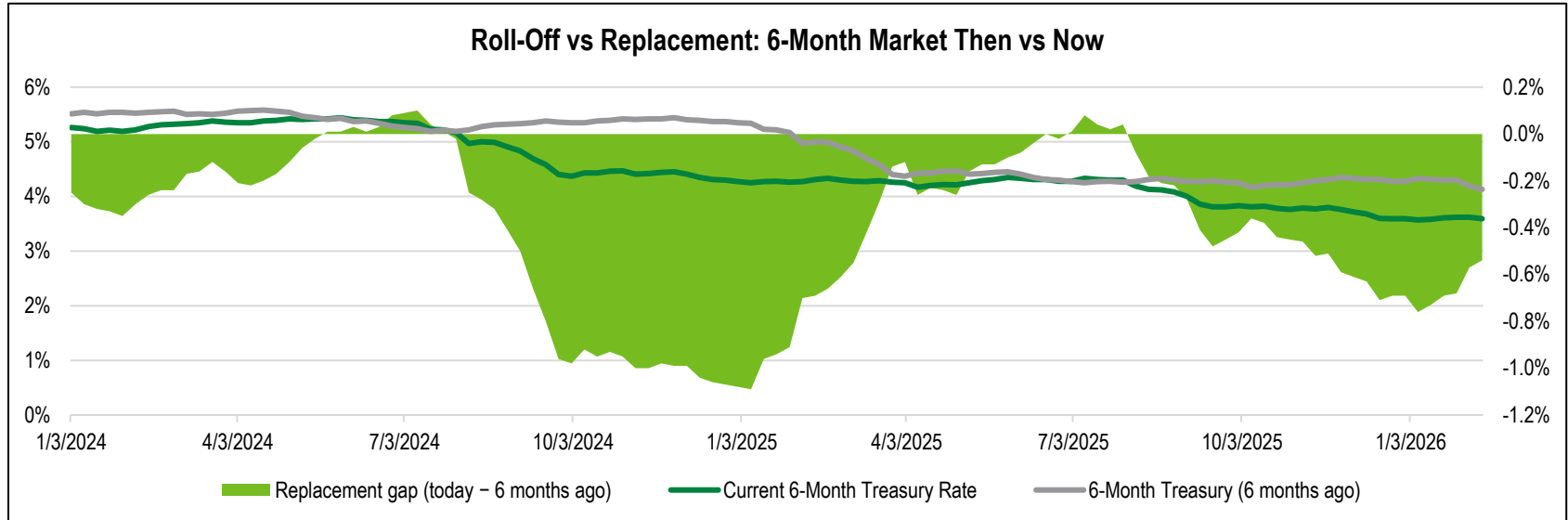
Use programs like the Affordable Housing Program, Equity Builder Program, CDA and CDA Extra to increase your potential customer base.

Source: FHLBank Boston

Mortgage Partnership Finance and MPF are registered trademarks of the Federal Home Loan Bank of Chicago

Replacing Runoff: Today's Market vs Yesterday's Book

With limited easing ahead, efficiency in pricing—and borrowing flexibility—matters more than ever.



Source: St. Louis Fed, FHLBank Boston

Funding Considerations

What strategies have appeal in the current backdrop, and what situations may emerge if conditions change quickly?

What is the Yield Curve Pricing in Right Now?

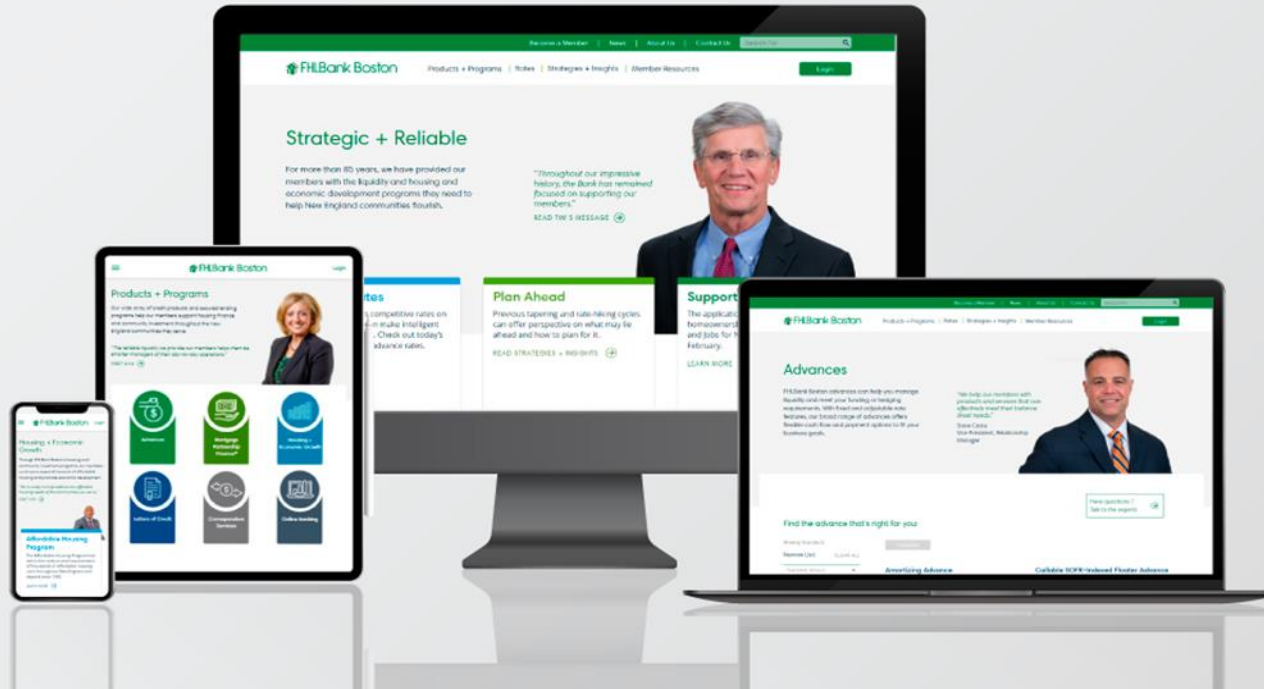
- “Only” ~2.5 cuts through 2027; does that present an opportunity to position for down-rate scenarios?

Does Investment Leverage Still Have Appeal?

- Spreads have narrowed and rates have come down, but there is slope in the curve; opportunity to accelerate asset repricing and hedge a dovish Fed.

Advance Solutions: Now and Later

- Now: Volatility and inversion have dampened dynamics for putables. Consider floaters, for liquidity support with 100% beta. Modest extension for those with continued loan growth?
- Later: Ready to act if (when?) we see an acceleration of uncertainty- forwards/restructures, putables, shift back to IRR mitigation.



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