

TRUST

MUTUAL FUNDS

FOR CREDIT UNIONS BY CREDIT UNIONS

CREDIT UNION INVESTMENT TRENDS

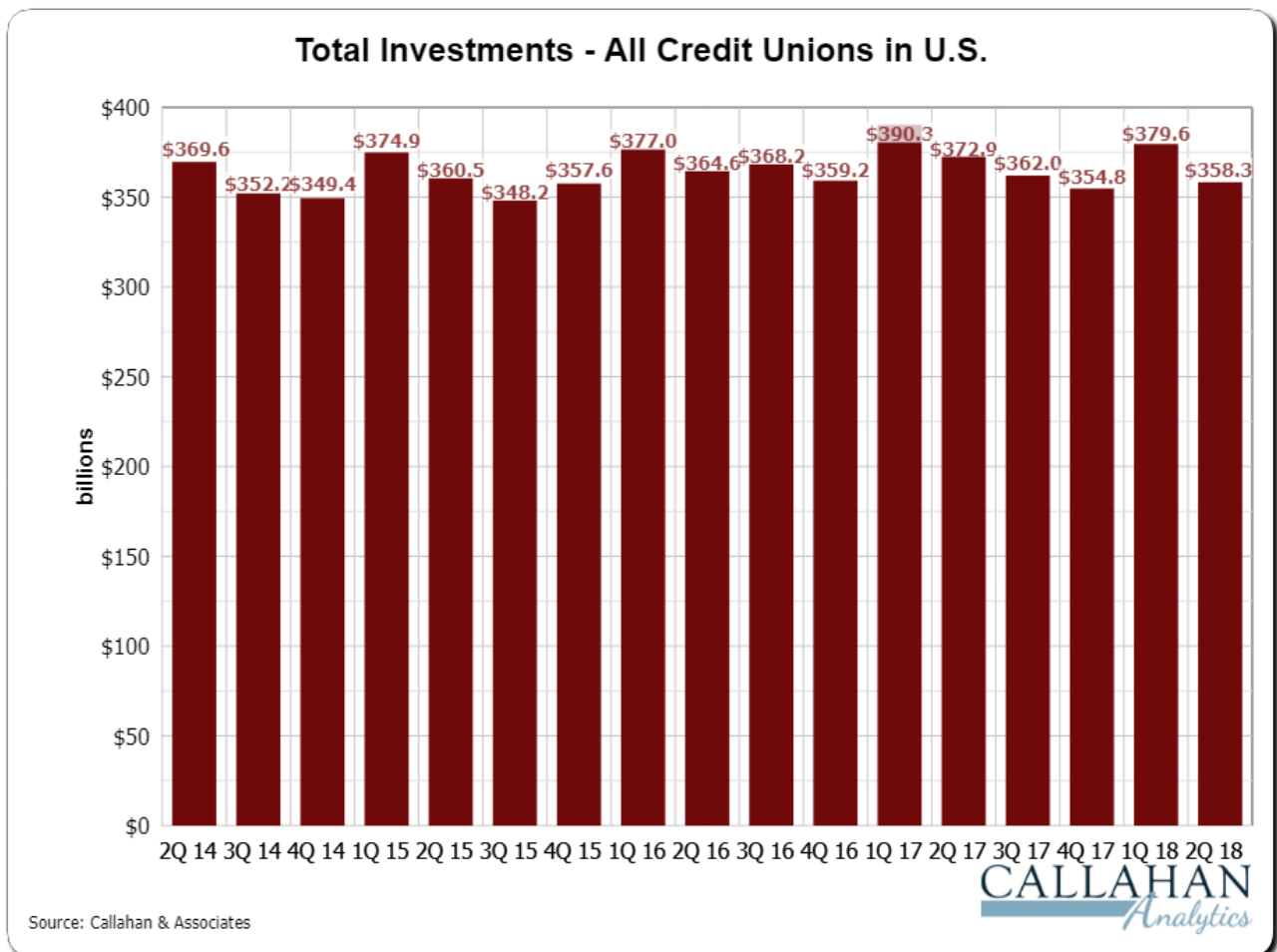
*The investment trends and information included in this review
are for all
U.S. credit unions. Data is as of June 30, 2018.*

Published August 27th, 2018

Total Credit Union Investments

Balances fall in the second quarter following trend of continued run-off.

As of June 30, 2018, credit unions held \$358.3 billion in investments, down 5.6% from the first quarter, and down 3.9% from June 2017. The dip in total investments for the quarter followed past cyclical trends of growth in the first three months of the year, followed by a slight decline in the following three quarters combined with growing liquidity pressure due to sustained loan demand. Share balances remained steady over the past quarter, up slightly (0.40%) to \$1.2 billion, and up 5.5% in the last twelve months. Total credit union assets reached a record high of \$1.4 trillion, increasing 1.0% quarterly, and 5.9% year-over-year, while loan balances grew 3.2% since March 2018, and 9.8% from June 2017.

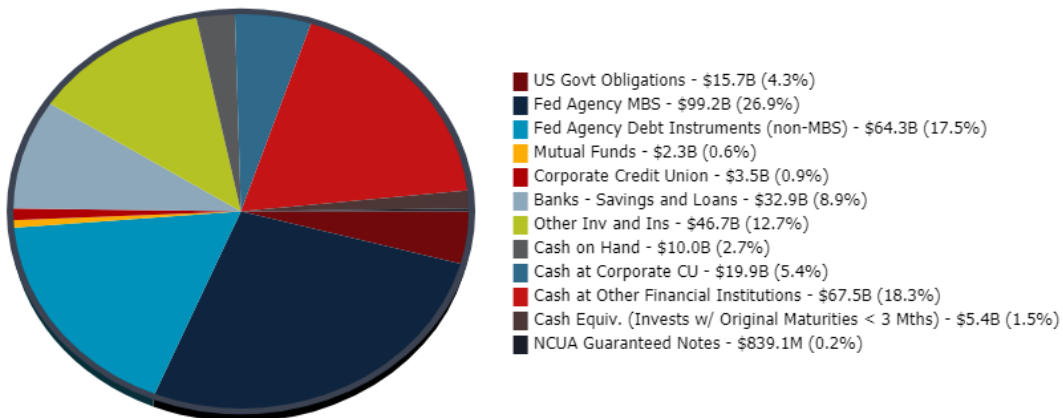


Investment Composition

Fed balances and corporate cash fall.

The net \$21.3 billion drop in investments and cash in the first quarter was largely a result of declining Fed balances and cash at corporate credit unions. The former dropped 18.5% quarterly, from \$82.8 billion to \$67.5 billion, and decreased its share of the portfolio 2.9 percentage points quarterly. The latter dropped 19.8% quarterly, falling from \$24.8 billion to \$19.9 billion, with its share of the portfolio contracting 97 basis points. The only components of the investment portfolio to expand over the quarter were cash on hand (0.7%), other investments and insurance (1.9%), corporate credit union investments (8.1%), and U.S. government obligations (0.4%). Fed agency MBS remains is the largest component of the investment portfolio and saw its share increase by 1.3 percentage points to 26.9% despite a net decline of 0.4%. Collectively, Agency MBS and Debt remain the largest non-cash investment vehicles, accounting for 44.4% of the portfolio, up 2.2 percentage points from March 2018.

Investment Composition - All Credit Unions in U.S.



Source: Callahan & Associates

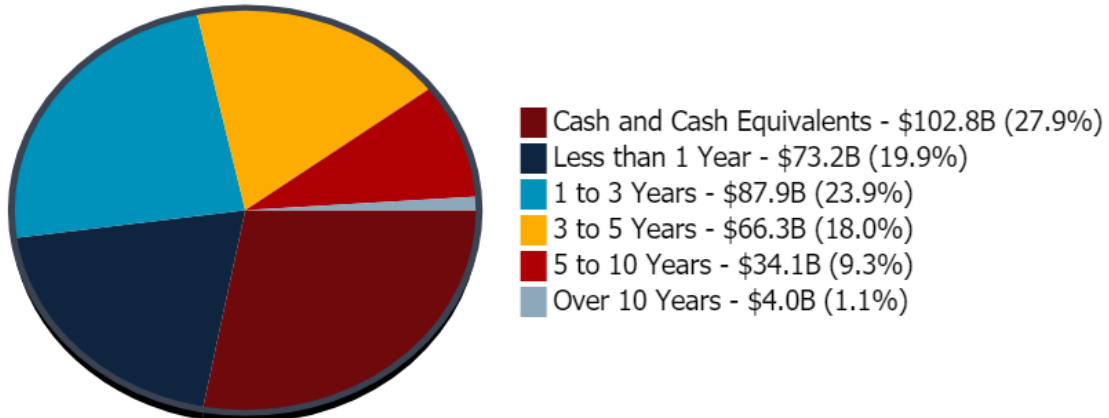
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Investment Maturity

Cash and equivalents decline, average maturity lengthens.

The average investment maturity for all U.S. credit unions lengthened in the first quarter of 2018 as institutions reallocated shorter investments to fulfill loan demand. Cash and equivalents contracted 16.5% on a quarterly basis, falling from \$123.2 billion in March 2018 down to \$102.8 billion in June 2018, largely due to the 18.5% and 19.8% declines in Fed and corporate cash balances, respectively. Investments maturing in one to three years were the only segment to expand over the period, growing 2.9% to \$87.9 billion. Looking ahead, with 71.7% of the portfolio allocated to investments under three years, institutions are well-positioned to benefit from future rate increases.

Investment Maturity - All Credit Unions in U.S.



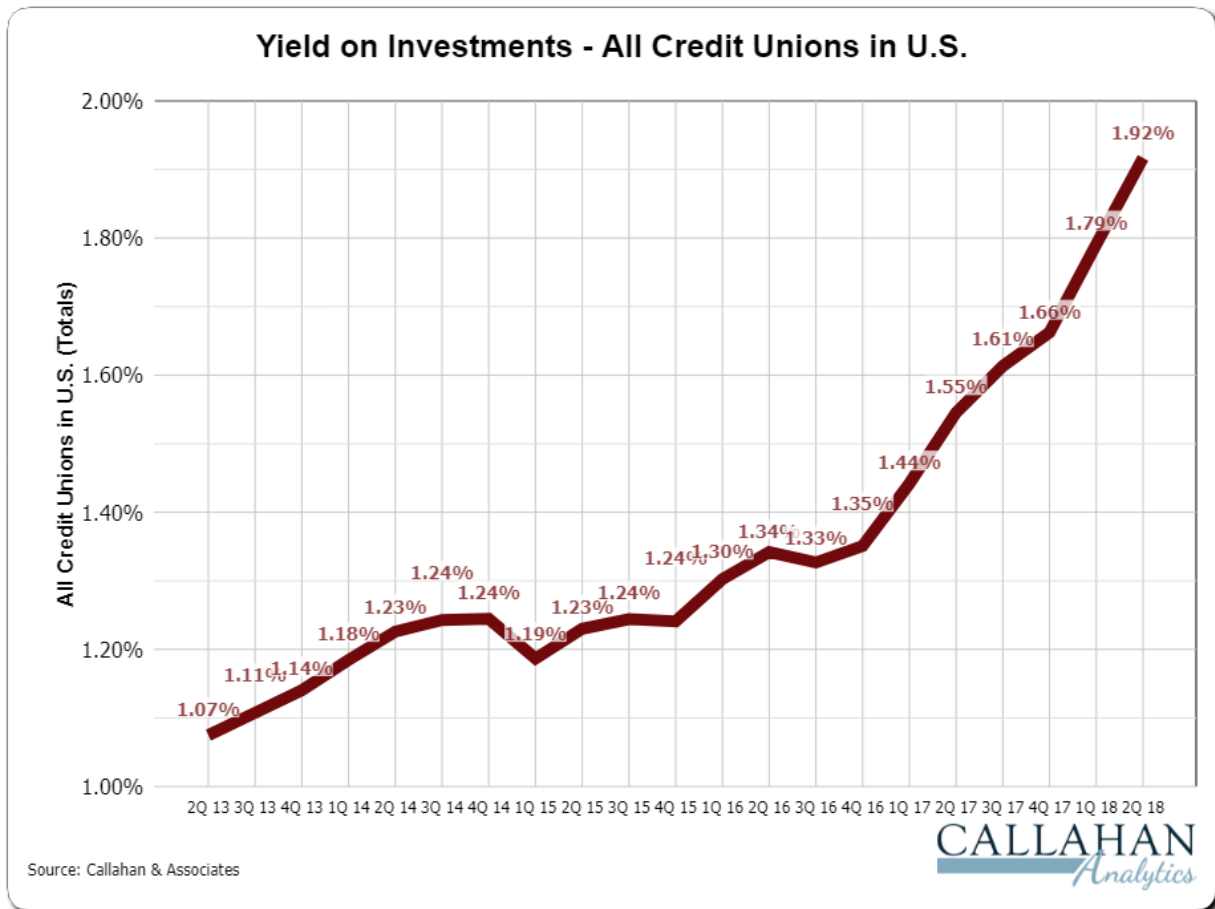
Source: Callahan & Associates

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Yield on Investments

Yield on investments rises with Fed rate increases.

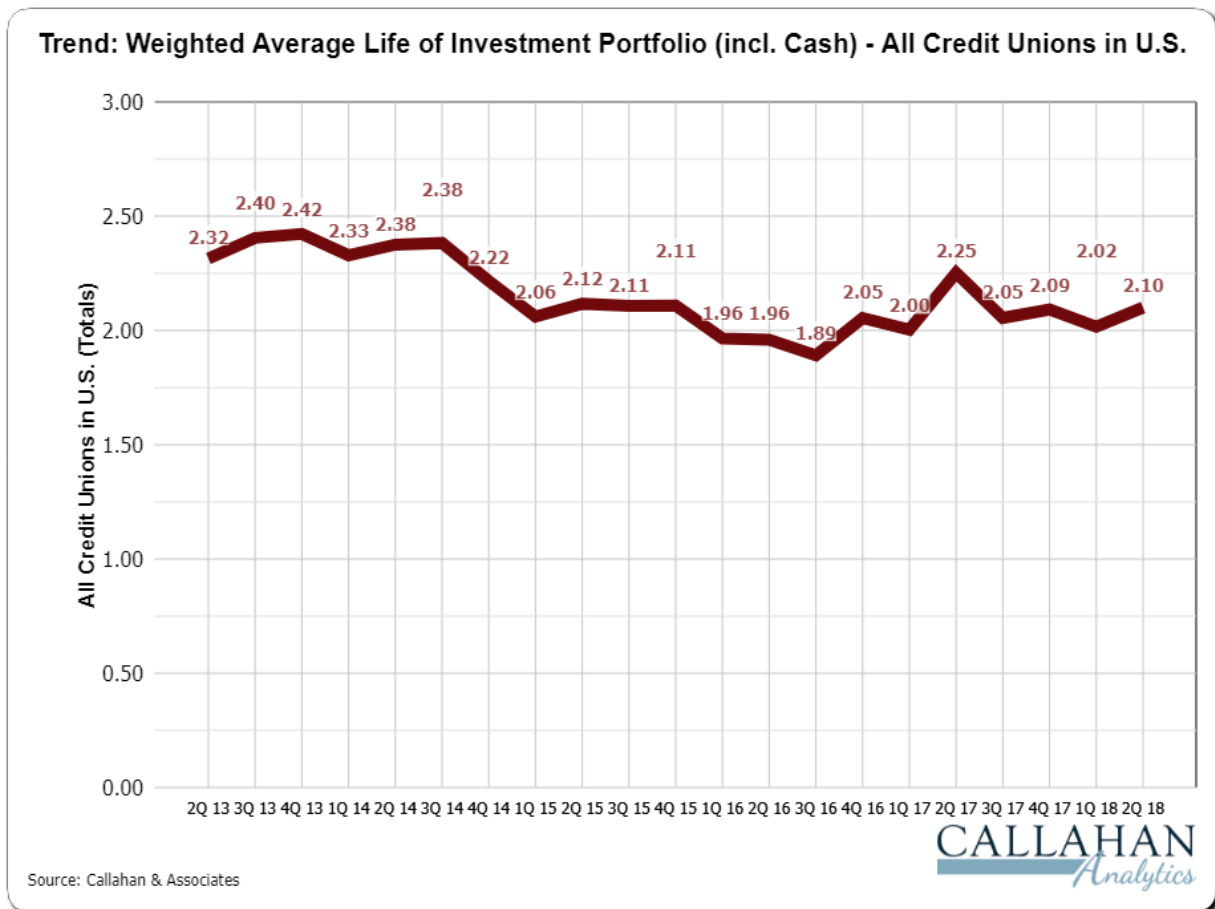
The average yield on investments rose 13 basis points from the fourth quarter, reaching 1.92% at the end of June, the highest level since December 2010 when the investment yield was 1.96%. Credit unions benefited from the Fed increasing rates three times in 2017 and twice more in 2018, with at least two rate hikes projected (and priced into the market) for the remainder of the year. Total credit union investment income expanded 3.3% quarterly and 21.4% annually, driving yield on investments higher through the first half of 2018.



Average Life Profile

Weighted average life grows as cash and equivalents decline.

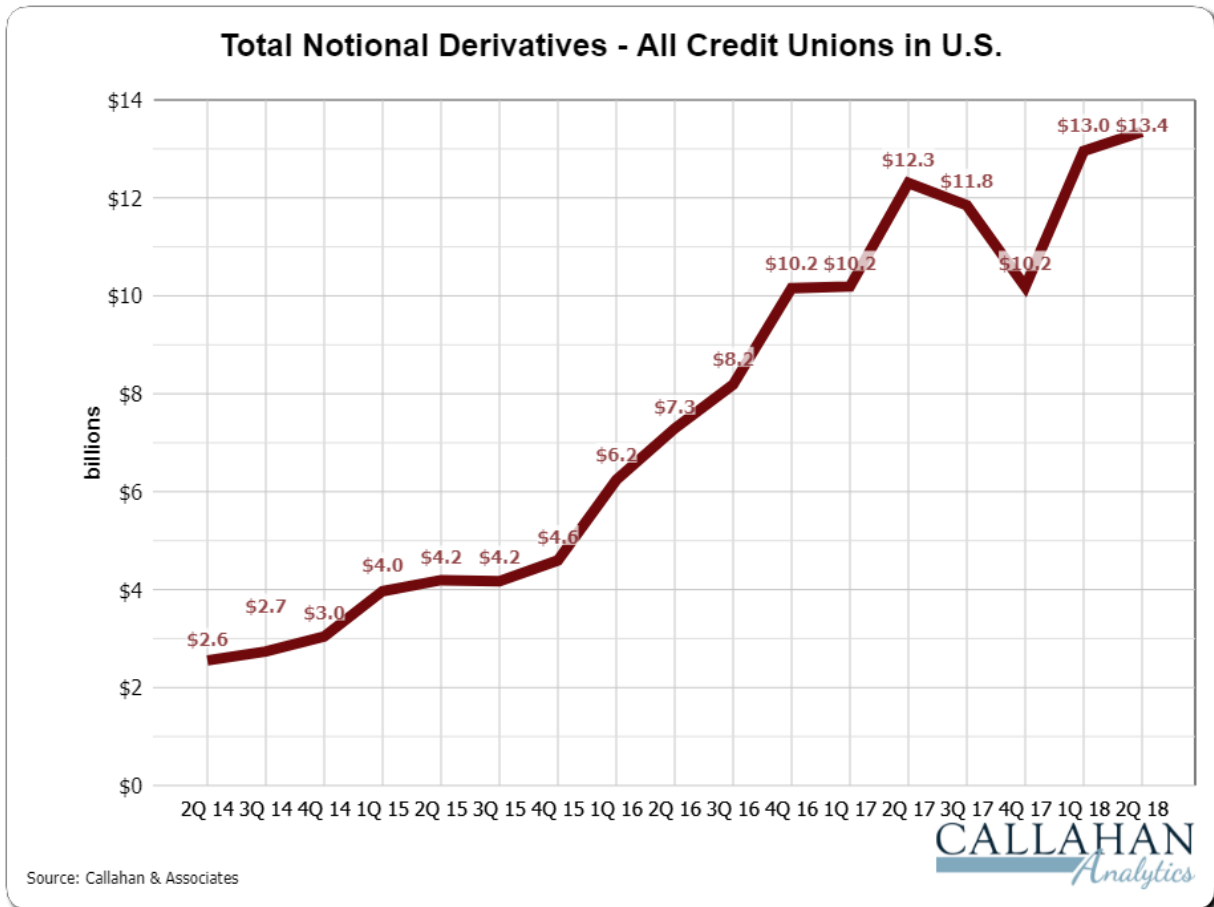
As of June 30, the average life of all credit union investments was 2.10 years, up slightly from 2.02 years in March 2018. This was primarily driven by decreases in cash and equivalents, down 16.5% quarterly. This segment's share of the investment portfolio contracted 3.7 percentage points quarterly, while segments like Agency MBS and U.S. government obligations increased their share of the investment portfolio, contributing to a longer weighted average life. This chart is part of an ALM packet available within Callahan's Peer-to-Peer Analytics solution. It can be found under the Hot Topics section within the ALM-Interest Rate Risk Packet.



Derivatives

Increased derivative program participation pushes balances higher.

Derivatives continued to climb in the second quarter of 2018, rising to \$13.4 billion, up \$400.0 million from the first quarter and representing the largest balance on record. The growth in notional derivatives was primarily driven by the 7.1% quarterly increase of Pay-fixed Interest Rate Swaps. Nine credit unions initiated derivative programs in the first half of 2018, increasing the total number of credit union participants to 67. As the Fed continues to move rates in 2018, the number of credit unions utilizing derivatives should continue to grow as these programs are an effective strategy to hedge against future rate hikes.



If you would like to compare your own institution to the industry benchmark or a specific peer group, please contact us at 800-237-5678 or TCUgroup@callahan.com

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