



IMPORTANT NOTICE



Your Member Update: July 1, 2020

Dear Recipient's First Name,

Well, it is hard to believe that it is already mid-year 2020, and oh what a year it has been. We hope you and your families continue to be safe and healthy through this crazy time we are living through. While some parts of the country and our membership are slowly reopening, others are experiencing some rather startling upticks in COVID-19 cases. What appears obvious is that we must all remain diligent in realizing that we are still in the midst of a pandemic and must not return to a business-as-usual mindset any time soon.

With half of the year now behind us and an uncertain second half awaiting us, we wanted to provide a brief update on what's going on at your corporate.

Operations Update

We have settled into our remote work environment and operations at the Corporate continue to proceed close to normal outside the fact that very few employees are actually in one of our offices. We were in the early stages of transitioning our Columbia, S.C., employees back into the office starting in July, but have put that on hold due to the spike in COVID-19 cases in South Carolina. With things operating well remotely, we are focusing on making sure employees have the equipment they need at home to operate effectively. We currently have about 90 percent of our workforce working remote, and at this point in time, have no immediate plans to move the remaining personnel back into the offices. Those employees who are in the offices are following state protocols and we are taking every precaution possible to make sure they are safe and adequately distanced while in an office.

We are not aware of any operational or accessibility issues credit unions are having reaching our staff. Please let us know if you experience any difficulties so we can immediately address any issues.

Central Liquidity Facility (CLF)

While liquidity is clearly not an issue right now, we are pleased that we are established as an agent for the CLF stock and that all our member credit unions with assets below \$250 million are now covered by this federal liquidity backstop should the need arise. The regulatory changes that made this possible through the CARES Act are, however, temporary and will expire at year-end. We are working with other corporates and credit union leaders to try to get

these regulatory changes extended and/or ideally made permanent.

Financial Update

Balances continue to run extremely high and June's deposits look to be coming in above May's record levels. We have started to move funds off our balance sheet into our Excess Balance Account (EBA) account at the Federal Reserve, but it will take some time to get the dollar amounts moved that we need to effectively bring down our 12-month rolling average assets, which had been on a steady increase before skyrocketing over the last four months.

The EBA account is a limited purpose account Vizo Financial maintains at the Fed specifically to deal with a surge in balances. It allows us to move member deposits off our balance sheet and hold them in our limited purpose account. Those balances are no longer counted as part of our assets. It is a very effective way for a corporate credit union to manage the size of its balance sheet and, subsequently, our capital ratios. We will end the month with about \$225 million in our EBA account.

Average assets for June will come in slightly above May, despite moving about \$160 million into our EBA account. This will continue to push our capital ratios lower, although additions to retained earnings remain strong. Our 12-month rolling average assets is the metric we use for calculating our retained earnings and tier 1 capital ratios. This figure has increased by \$2 billion since the start of the year (\$6.2 billion, up from \$4.2 billion). Subsequently, our capital ratios have dropped to 2.27 percent (retained earnings) and 6.54 percent (tier 1). Our risk-based capital (RBC) ratios, which are calculated using month-end assets, remain very high in the 25-26 percent range. We remain well above regulatory requirements (Tier 1= 4.0 percent; Tier 1 RBC= 4.0 percent; Total RBC= 8.0 percent).

Hopefully, balances will have peaked, although if there is another stimulus package passed, we could see more inflows of funds. This will only increase the value of utilizing our EBA account going forward. Due to our dropping capital ratios, we have put any further member givebacks on hold and will re-evaluate this later in the year as we gain a better sense of the longevity of our inflated balances sheet.

Corporate Stabilization Fund Estates

The NCUA has publicly announced that nearly 900 institutions are set to receive a payout related to the demise of Southwest Corporate FCU, but the agency could ultimately return as much as \$2.5 billion tied to the corporate credit union failures of 2009 and 2010. This initial payout would be in the amount of \$171 million of the \$403 million membership capital lost by SW Corporate members. This announcement, in addition to comments recently made by NCUA board member, Mark McWatters, has certainly generated a lot of buzz around the status of possible recoveries through a corporate credit union. While the projections regarding recoveries are quite positive, it is important to understand that there are still a number of hurdles to overcome before they become a reality.

-The only estate that will impact Vizo Financial's potential recoveries is the U.S. Central (USC) estate. Assets held in the estate are still mostly tied up in the remaining NCUA Guaranteed Notes (NGNS) that will mature over the next 12 months (the final NGN matures in June 2021).

-Once the NGNs mature, the underlying private mortgage-backed securities have to be sold off, at which time we will know the monetary value of the estate's assets.

-We don't know exactly how the pandemic and its impact on the economy will affect the market value of these securities.

-All of the underlying collateral (mortgage securities) are LIBOR floaters. With LIBOR expected to go away at the end of 2021, it is unknown whether this will impact the market values of these bonds.

So, while we remain optimistic about recoveries, it does not appear to us that we will begin to see anything out of the USC estate until the third quarter of 2021 at the earliest. We will be discussing plans with our board over the next several months so we can communicate a clear plan of action if and when these recoveries materialize.

Product Update

We are making good progress with the rollout of our person-to-person (P2P) product, Paymoli, which is a product offered through our newest corporate CUSO, Aptys Solutions, LLC. In May, Vizo Financial and two other corporate credit unions purchased Aptys to gain greater control over our current payments product line and the development of future payment platforms.

Board Election Update

No nominations by petition were received by the deadline. Therefore, we have just three candidates for our three open board seats, meaning there will not be an election balloting process this year. The three candidates who will be confirmed during the annual meeting are Genice DeCorte, CEO of HealthShare Credit Union in Greensboro, N.C.; Mark Volponi, CEO of USX Federal Credit Union in Cranberry Township, Pa.; and R. Scott Weaver, CEO of Carolina Foothills Federal Credit Union in Spartanburg, S.C.

That's it for now. Please let us know if you have any questions. We appreciate your ongoing support of Vizo Financial and our subsidiary, MY CU Services, LLC.

Remain safe and let us know if we can be of any assistance!

If you have any questions, please feel free to contact us at (800) 622-7494.

*Sincerely,
David Brehmer & Jay Murray*