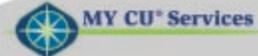




## IMPORTANT NOTICE



### Your Member Update: May 8, 2020

Dear Recipient's First Name,

We hope you and your families continue to be safe and healthy through this rather bizarre environment in which we find ourselves. Thankfully, it appears there could be some light at the end of the tunnel as some areas start to re-open. What is obvious, though, is that our lives will not return to anything we once considered normal anytime soon. Operations at the Corporate continue to proceed as normal while in our remote work environment. We have begun internal discussions on our plan for returning to the offices, but the safety of our employees will determine over what time period this will take place. Given the stability of our operation, we have the luxury of not having to rush back into the offices.

This week's update will be very brief with just an update on the CLF and our balance sheet.

#### **Central Liquidity Facility (CLF)**

We are pleased to announce that we have officially purchased our CLF stock (\$59 million) to become an Agent member of the CLF. This covers 576 of our member credit unions who are below \$250 million in assets. All 11 corporates participated in the initiative to ensure that an emergency liquidity backstop was in place for all of our member credit unions who generally have fewer options for liquidity. While currently there appears to be little concern about liquidity, as most credit unions are flush with cash, it is a tremendous asset for the credit union system to be prepared if liquidity were to become a problem sometime in the future. The current CARES Act changes to the CLF allow us to serve in this Agent role run through year-end, although efforts are being made to extend that timeline or, ideally, make the changes permanent.

#### **Balance Sheet**

On the balance sheet front, our assets continue to grow, exceeding \$8 billion over the past weekend. With minimal new issuance of the investments we generally purchase and questions as to how long these funds will remain on deposit, we continue to hold cash balances well above our norm. We target having at least \$500 million in our Fed account to ensure we always have sufficient funds to cover our fluctuating settlement needs. However, so far in 2020, our average minimum balance at the Fed has been almost \$1.4 billion, with our average Fed balance in April

being \$2.7 billion.

The financial impact on us has simply been that, despite strong earnings, we see our capital ratios falling, as there is no way for us to earn enough to compensate for the surge in deposits we have experienced. It is important to keep in mind that this is essentially the role of your Corporate, to store liquidity during times of excess cash within the credit union system and then be prepared to see it roll out as monies get re-invested in loans and longer term investments.

At the end of April, our retained earnings ratio fell to 2.47% (it had reached a high of about 2.66% in 2019), which means we have to deduct a portion of PCC from our Tier 1 capital ratio calculation. However, the amount of deduction was only \$4.7 million and when we reach \$119 million in retained earnings (currently \$115 million), we will no longer have any deduction requirements regardless of our retained earnings ratio.

As mentioned in last week's update, the NCUA is well aware of the dramatic increases in assets at all corporate credit unions and, at this point, is supportive of us having inflated balance sheets with excess cash holdings to allay concerns about this current crisis becoming a liquidity one.

In the meantime, we appreciate all our members' continued support and we will continue to reach out to stay in touch and to better understand your challenges and how we may be able to assist.

Please let us know if there's anything we can do to assist you and your credit union.

Enjoy your weekend!

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

*Sincerely,  
David Brehmer & Jay Murray*