

# Monthly Financials

Vizo Financial Corporate Credit Union

November 2021 Edition | October 2021 Financials



David Brehmer  
President & CEO

## Corporate Update

I have always loved this time of year as something seems to shift in the atmosphere. Smiles are brighter, feelings of excitement and generosity fill the air, and sounds of

the holidays can be heard all around you. To-do lists seem to grow endlessly keeping us all busy until the start of the new year. The good news is we have top-notch educational opportunities and valuable services available to help make sure your credit union is prepared throughout the holiday season and into the new year. And, of course, we would be remiss if we did not take this opportunity to thank you for your continued patronage and wish you all a very Happy Thanksgiving and magical holiday season!

### ALM Services & Annual ALM Tune-Up Webinar

The economy, monetary policy and regulations are all heavy hitters when it comes to your credit union's balance sheet. And we know the need to devote increasing time and resources to ALM management while operating with limited resources can be a challenge for credit unions.

However, there is a bright spot in all of this. You don't have to take on the challenges of your asset liability management (ALM) tasks alone. Vizo Financial has ALM solutions backed by a team of experts to help your credit union with interest rate risk, liquidity modeling and model validation. To ensure your credit union is ready to confront the primary issues going into 2022, we also have the Annual ALM Tune-Up webinar:

#### Annual ALM Tune-Up Webinar

*Lisa Boylen, senior ALM consultant, Vizo Financial*  
December 16, 2021 at 10:00 a.m. ET

Similar to a tune-up we perform on our vehicles, an ALM tune-up ensures our model and associated processes are operating at their full performance potential. With earnings under pressure and lower capital ratios, it is more important than ever for your ALCO to receive the best information possible to assist in making key strategic decisions. It also helps with upcoming regulatory exams. There is no fee to attend this educational webinar.

[Register today](#) or learn more about this webinar by visiting the [Upcoming Webinars page](#) on our [website](#).

### CECL Webinar Series

As a reminder, every federal credit union over \$10 million in assets must adopt the new CECL model by January 1, 2023. To assist your credit union with the implementation process, we have a CECL Webinar Series available for your educational viewing.

Please join Vizo Financial's CECL partner, Michael Umscheid, president/CEO of ARCSys, as he provides guidance on how your institution can successfully prepare for CECL in this webinar series. During registration, please select the sessions you wish to attend.

#### [The Pros and Cons of the Warm Method](#)

November 30, 2021 at 2:00 p.m. ET

#### [The Ins and Outs of Vizo Financial's CECL Modeling Solution](#)

December 7, 2021 at 10:00 a.m. ET

#### [Why Public Banks Primarily Use Discounted Cash Flow and Probability of Default Models](#)

December 14, 2021 at 10:00 a.m. ET

[Register today](#) for this free webinar series or learn more about this webinar series by visiting the [Upcoming Webinars page](#) on our [website](#)!

### EBA Flex Account Update

We appreciate all of our members for working with us this year to move money to the EBA Flex account. The EBA Flex account was created to allow Vizo Financial to manage our balance sheet during this period of very high liquidity. Our goal was to pay as much above market on the EBA Flex account as we could, for as long as we could, based on the current market, financial impact and investment options. However, with the lack of investment options available as spreads continue to tighten and prepayments continue to increase, it has become difficult for Vizo Financial to pay the higher rate. Therefore, on November 10, 2021, we changed the rate on the EBA Flex account to 16 bps and the Flex account to 13 bps. We greatly appreciate your understanding and continued support of your corporate.

As always, if you have any questions regarding the financials, please don't hesitate to [contact me](#).



# Financial Condition & Performance October 2021

Enclosed please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of October 31, 2021. These reports include information regarding our balance sheet, income statement, asset quality, capital adequacy, liquidity and interest rate risk. It contains all the financial data required for review under Regulation 703.

## Balance Sheet

Member overnight balances averaged \$4.485 billion compared to \$4.441 billion in September and \$4.540 billion in August. Comparing total deposits, which include the Excess Balance Account (EBA) balances, overall average deposits increased \$81.3 million in October. The spread between the single day high and low balances was \$1.444 billion compared to \$1.133 billion in September and \$1.145 billion in August (including EBA balances). Volatility of total member balances (on-balance sheet + EBA) continues to be low, rising slightly to 14%.

Average off-balance sheet credit union balances – those held in our EBA – averaged \$5.295 billion and ended the month at \$5.110 billion. We appreciate all of the members who have moved funds into our EBA account at the Fed, which has helped control the size of our balance sheet.

From a seasonal cash flow perspective, March has historically been the month where deposits peak. However, this has not been the case in 2020 or 2021, due primarily to government stimulus packages that, both years, brought in over \$2 billion to the Corporate. From a total deposit perspective, April 2021 recorded our highest combined balances (on-balance sheet + EBA) to date, averaging \$10.365 billion. In October, this average stood at \$9.780 billion. Our 12-month rolling average assets decreased dropping from \$6.359 billion to \$6.258 billion. We expect our rolling 12-month average assets will continue to drop over the next few months.

Member participation in the EBA program should enable us to control the size of our balance sheet going forward. Pre-pandemic, we targeted maintaining a minimum balance of \$500 million in our Fed account to ensure we always have sufficient liquidity to support member settlement and lending activity. In 2020, our Fed balances averaged \$2.471 billion with an average low of \$1.949 billion. So far in 2021, our Fed balances are averaging \$1.792 billion with an average low of \$1.071 billion. In October, our Fed balances averaged \$1.438 billion with a low of \$937.8 million.

Liquidity remains high on the balance sheet and remains readily accessible through our primary borrowing sources.

Some line items to note on this month's balance sheet:

- › On-balance sheet (month-end) member shares were slightly up from the prior months, coming in at \$5.204 billion compared to \$4.728 billion in September and \$4.717 billion in August. Month-end figures vary considerably depending on the day of the week on which a month ends. Of this month's total, \$318.3 million were in certificates, while the remaining balances were distributed between the various PSA and settlement deposit accounts.
- › Month-end assets came in at \$5.738 billion. Average assets were below month-end assets, coming in at \$5.338 billion. Excluding non-perpetual capital accounts, our total net equity is at \$457.5 million. The unrealized gain/loss/AOCL figure was down slightly, coming in at a gain of \$15.5 million. More details regarding market values of securities are discussed later in the report under the heading "Unrealized Gains/Losses."
- › Total retained earnings ended the month at \$228.0 million. Gross operating income for the month came in at \$555,873. Distributions to members via PCC dividends totaled \$136,467. Our net increase to retained earnings was \$419,407.
- › Our 12-month average assets decreased for a sixth consecutive month, which continues to help our leverage/tier 1 capital ratio which finished the month at 6.91% (up from 6.81%). Likewise, our retained earnings ratio ended the month at 3.64% (up from 3.58%). *Our total capital ratio also climbed to 7.05% (up from 6.94%).*
- › The net economic value (NEV) dollar value of assets came in at \$458.3 million at the end of October, with an NEV ratio of 7.99% compared to the prior month's 8.71%. The NEV ratio will fluctuate quite a bit month-to-month since it is calculated based on month-end assets versus average assets. In the up 300 basis points scenario, the NEV ratio drops to 7.54% with a negative fluctuation of 6.2%. We are well above required regulatory NEV levels (2%).
- › The available liquidity section reflects our capacity for generating liquidity. We factored out securities in the "available-for-sale" (AFS) portfolio whose current market values were lower than we realistically believed we would sell. Although 100% of our marketable securities are classified as AFS, unless the market value is positive or the unrealized loss is estimated at under \$5,000, we do not include it as liquid in our "Available Liquidity" report.

*continued on page 3*

continued from page 2

› Total capital stands at \$441.0 million, excluding unrealized gains and/or losses on securities and accumulated other comprehensive losses. This consists of PCC, retained earnings, equity acquired in merger and eligible non-perpetual capital accounts (NCAs), less total equity held in unconsolidated CUSOs. NCUA regulations require us to reduce capital by the total equity held in unconsolidated CUSOs in calculating our leverage and total capital ratios. Total equity in unconsolidated CUSOs stood at \$9.5 million as of month-end, so without this reduction, our gross total capital amounts to \$450.5 million.

We also help members manage funds through the use of off-balance sheet products:

- › Marketable securities
- › SimpliCD brokered certificates
- › Federal Reserve Bank's EBA program

## Off-Balance Sheet Activity

Current balances/usage of these off-balance sheet products are reflected below:

SimpliCDs	\$ 580 million
Security Sales*	\$ 1.072 million
EBA Balances	\$ 5.110 billion
<b>Total Off-Balance Sheet</b>	<b>\$ 6.762 billion</b>

\*Security sales reflect sales over the past 18 months

## Unrealized Gains/Losses

Market values remained stable in October, with our unrealized gains decreasing slightly from \$15.7 million to \$15.5 million. The SBA portfolio remains the largest percentage of our overall investment portfolio and showed unrealized gains of \$8.9 million. We have enough collateral to borrow our full line at the Federal Home Loan Bank if needed, and all remaining securities are acceptable collateral for the Fed's Discount Window. *From a credit perspective, our portfolio remains solid with a total risk-based capital ratio of 41.0%.*

To provide additional insight on this month's unrealized gain/loss figures, we are providing a breakdown of what securities make up these changes in fair market value and book values.

- › \$3.528 million GAIN is related to our government agency CMO securities portfolio (\$747.8 million total book value)
- › \$0.036 million GAIN is related to our agency MBS/CMBS/Notes/Callable securities (\$6.8 million total book value)
- › \$0.176 million GAIN is related to our government guaranteed mortgage securities (\$28.7 million total book value)
- › \$0.828 million GAIN is related to our corporate bond portfolio (\$60.5 million total book value)
- › \$1.642 million GAIN is related to our credit card asset-backed securities (\$502.4 million total book value)
- › \$0.251 million GAIN is related to our auto floor-plan asset-backed securities (\$104.7 million total book value)
- › \$0.108 million GAIN is related to our student loan asset-backed securities (\$56.8 million total book value)
- › \$8.911 million GAIN is related to our government guaranteed SBA portfolio (\$2.153 billion total book value)

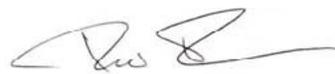
Market values and the associated unrealized gains/losses indicate an estimate of what the sale price of these assets in today's markets would be, and do not necessarily reflect the actual gains/losses that would be realized if the assets were to be sold or held to maturity.

## Summary

Please take a moment to review our financial statements. We also recommend that you share this information with your board of directors to satisfy the due diligence requirements set forth in NCUA Regulation 703.

Our highest priority will remain the financial strength and safety of the organization and total transparency in the reporting of our financial condition.

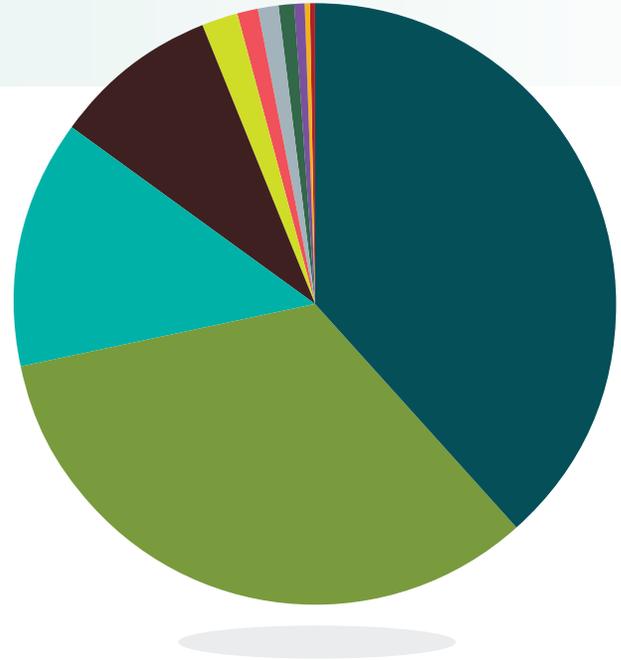
We are very grateful to our members for their continued support and for the trust you place in us. If you have any questions, please do not hesitate to contact us.



**David W. Brehmer**  
President & CEO

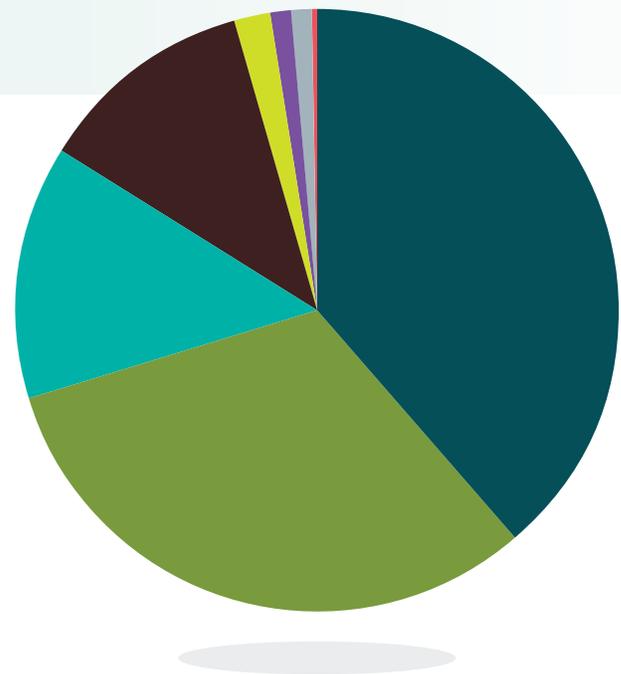
## Total Book Values as of October 31, 2021

- \$ 2,154 - SBA Pool
- \$ 1,882 - Cash/FI Deposits
- \$ 748 - Agency CMO
- \$ 502 - ABS Credit Cards
- \$ 105 - ABS Auto
- \$ 60 - Corporate Bonds
- \$ 58 - CLF Stock
- \$ 57 - ABS Student Loans
- \$ 29 - GNMA
- \$ 10 - CUSOs
- \$ 7 - CMBS/MBS
- \$ 4 - FHLB Stock



## Credit Quality as of October 31, 2021

- \$ 2,182 - U.S. Gov't Guaranteed
- \$ 1,779 - Federal Reserve
- \$ 755 - U.S. Gov't Agency
- \$ 664 - Asset-Backed Securities (AAA)
- \$ 103 - CU/Bank Cash Holdings
- \$ 60 - Corporate Bonds (AA-/AA+)
- \$ 58 - CLF Stock
- \$ 10 - CUSOs
- \$ 4 - FHLB Stock



\* All figures in the charts above are in millions.

# Financial Condition & Performance October 2021

Balance Sheet	October 31, 2021		October 31, 2020	
<b>Assets</b>				
Loans	\$	1,693,062	\$	391,653
Investments:				
Asset-Backed Securities (Non-Mortgage)	\$	665,884,462	\$	881,261,803
U.S. Gov't (Notes/Floaters/Callables)	\$	0	\$	400,761
U.S. Gov't Agency (CMOs)	\$	780,199,099	\$	1,064,988,069
U.S. Gov't Agency (MBS)	\$	6,797,892	\$	15,405,263
U.S. Gov't (SBA)	\$	2,162,465,851	\$	1,996,857,985
Corporate Bonds	\$	61,278,769	\$	61,310,210
Commercial Paper	\$	0	\$	0
Federal Home Loan Bank - Atlanta	\$	3,692,000	\$	4,551,200
Credit Union & Bank Deposits	\$	103,334,780	\$	176,465,473
CUSOs	\$	9,513,780	\$	8,690,512
Federal Reserve Bank	\$	1,778,858,728	\$	2,974,354,716
CLF Stock	\$	57,738,003	\$	58,244,334
Receivables	\$	52,395,216	\$	34,993,739
Fixed Assets	\$	2,886,694	\$	5,697,945
Goodwill/Core Deposit Intangible	\$	2,282,127	\$	2,282,127
Other Assets	\$	49,127,940	\$	47,361,364
<b>Total Assets:</b>	<b>\$</b>	<b>5,738,148,403</b>	<b>\$</b>	<b>7,333,257,154</b>
<b>Liabilities</b>				
Other Liabilities:	\$	2,096,073	\$	2,959,244
Accounts Payable:	\$	65,551,001	\$	54,653,223
Accrued Liability for Member Payout:	\$	0	\$	400,000
Notes Payable:	\$	0	\$	6,306,475
Shares	\$	4,886,029,849	\$	6,239,762,717
Certificates/Term Deposits	\$	318,286,868	\$	657,869,410
<b>Total Shares:</b>	<b>\$</b>	<b>\$5,204,316,717</b>	<b>\$</b>	<b>\$6,897,632,127</b>
Non-Perpetual Capital Accounts (NCA)	\$	8,505,410	\$	8,505,410
Perpetual Contributed Capital (PCC)	\$	214,237,649	\$	214,237,649
Reserves & Undivided Earnings	\$	205,399,119	\$	101,834,894
Equity Acquired in Merger	\$	22,562,000	\$	22,562,000
Accumulated Other Comprehensive Loss	\$	15,480,434	\$	24,166,132
<b>Total Equity:</b>	<b>\$</b>	<b>466,184,612</b>	<b>\$</b>	<b>371,306,085</b>
<b>Total Liabilities &amp; Equity:</b>	<b>\$</b>	<b>\$5,738,148,403</b>	<b>\$</b>	<b>7,333,257,154</b>

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# Financial Condition & Performance October 2021

Income Statement YTD	October 2021	October 2020
Interest Income	\$ 31,090,006	\$ 48,103,487
Interest Expense	\$ (3,863,940)	\$ (17,264,829)
<b>Net Interest Income</b>	<b>\$ 27,226,066</b>	<b>\$ 30,838,658</b>
Correspondent Service Income	\$ 23,965,041	\$ 19,809,424
Correspondent Service Expense	\$ (13,356,954)	\$ (7,177,223)
<b>Net Correspondent Income</b>	<b>\$ 10,608,087</b>	<b>\$ 12,632,201</b>
<b>Gross Operating Income</b>	<b>\$ 37,834,153</b>	<b>\$ 43,470,859</b>
Operating Expense	\$ (26,158,052)	\$ (24,873,608)
<b>Net Income</b>	<b>\$ 11,676,101</b>	<b>\$ 18,597,251</b>
Non-Operating Gains/(Losses)	\$ 1,750,455	\$ 464,780
Amortization of Core Deposit Intangible	\$ 0	\$ 0
CUSO Income	\$ (124,047)	\$ 41,788
USC MCA Distribution	\$ 149,126,684	\$ 0
-Less Member Distributions	\$ (59,659,145)	\$ (1,484,391)
<b>Net Income before PCC Distributions</b>	<b>\$ 102,770,048</b>	<b>\$ 17,619,428</b>
Less: Non-Controlling Interest in Net Income	\$ 0	\$ (234)
Less: Equity Transfer for PCC Distribution	\$ (1,338,252)	\$ (1,415,896)
<b>Net Increase to Retained Earnings</b>	<b>\$ 101,431,796</b>	<b>\$ 16,203,298</b>
Earnings Spread/Net Operating Margin	October 2021	October 2020
Return on Average Assets	0.605%	0.900%
Interest/Dividend Expense	-0.075%	-0.323%
<b>Net Interest Margin</b>	<b>0.530%</b>	<b>0.577%</b>
Correspondent Service Income	0.206%	0.236%
Operating Expenses	-0.509%	-0.466%
Non-Operating Gains/(Losses)	0.034%	0.009%
Amortization of Core Deposit Intangible	0.000%	0.000%
USC MCA Distribution	2.902%	0.000%
CUSO Income	-0.002%	0.001%
Non-Controlling Interest in Net Income	0.000%	0.000%
Trf to Accrued Liability/Member Payout	-1.161%	-0.028%
PCC Distributions	-0.026%	-0.026%
<b>Net Margin</b>	<b>1.974%</b>	<b>0.303%</b>
Asset Quality	October 2021	
Non-Earning Assets/Average Assets	2.18%	
Delinquent Loans/Total Loans	0.00%	
<b>Investment Portfolio</b>		
U.S. Gov't/Agency Securities	51.91%	
Asset-Backed Securities (Non-Mortgage)	11.72%	
Federal Home Loan Bank	0.06%	
Corporate Bonds	1.08%	
Commercial Paper	0.00%	
Bank & Credit Union Deposits	1.82%	
Federal Reserve Bank	31.31%	
CUSO Equity	0.17%	
Cash & Receivables	0.92%	
<b>Credit Ratings</b>		
Asset-Backed Securities (Credit Card/Auto)	AAA/Aaa	
Asset-Backed Securities (Student Loans)	AAA/Aaa	
Corporate Bonds	AA- to AA+/A1 to Aa1	
Gov't Agencies/SBAs	AA+ to AAA	

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# Key Financial Ratios October 2021

Capital Adequacy	October 2021	October 2020
RUDE + Acquired Equity Capital/monthly Average Net Assets	4.27%	1.90%
RUDE + Acquired Equity Capital/12-month Average Net Assets	3.64%	2.05%
Tier 1 (Leverage) Capital/12-month Average Net Assets	6.91%	5.44%
Total Capital/12-month Average Net Assets	7.05%	5.58%
Tier 1 Capital/12-month Average Risk-Weighted Assets	40.20%	26.12%
Total Capital/12-month Average Risk-Weighted Assets	40.98%	26.79%
Total Capital	\$ 441,049,970	\$ 338,352,222
Tier 1 (Leverage) Capital	\$ 432,684,988	\$ 329,944,031
Tier 2 Capital	\$ 8,364,982	\$ 8,408,191
PCC deducted from Tier 1 Capital	\$ 0	\$ 0
Unrealized Gain/Loss on Securities	\$ 15,480,434	\$ 24,166,132
Monthly Average Assets	\$ 5,337,594,393	\$ 6,549,812,787
Average 12-month Assets	\$ 6,258,293,359	\$ 6,062,433,635
Year-to-date Average Assets	\$ 6,170,189,222	\$ 6,394,432,422

## Liquidity & Interest Rate Risk as of October 31, 2021

Available Liquidity:	Available Within 90 Days
Net Cash and Receivables:	\$ 1,831,253,944
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	\$ 1,841,811,568
Overnight & Investments Maturing within 90 days:	\$ 93,174,780
Unsecured Fed Funds Lines Available:	\$ 150,000,000
Secured Fed Funds Lines Available:	\$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity:	\$ 1,553,920,933
-less fixed term existing loan advances	\$ 0
Primary Sources of Liquidity:	\$ 5,620,161,225
Federal Reserve (FRB) Discount Window - borrowing capacity:	\$ 38,397,280
Excess Balance Account (EBA) - funds held for members @ FRB:	\$ 5,110,058,068
Secondary Sources of Liquidity:	\$ 5,148,455,348
<b>Total Available Liquidity:</b>	<b>\$ 10,768,616,573</b>

## Interest Rate Risk as of October 31, 2021

		Regulation 704 Operating Level: Base Plus
<b>Base/Current Rate Environment</b>	Net Economic Value (NEV):	\$ 458,325,171
	NEV Ratio:	7.99%
<b>Up 3% Rate Environment</b>	Net Economic Value (NEV):	\$ 430,126,099
	NEV Ratio:	7.54%
	Percentage Change:	-6.2%
<b>Down 1% Rate Environment</b>	Net Economic Value (NEV):	\$ 473,257,677
	NEV Ratio:	8.22%
	Percentage Change:	3.3%

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# Notes to Financials October 2021

1. Tier 1 (Leverage) Capital = Reserves, Undivided Earnings, Equity Acquired in Merger and Perpetual Contributed Capital (PCC) less unconsolidated equity investments and less any amount of PCC that causes PCC minus retained earnings (all divided by moving daily average net assets) to exceed 2% (per NCUA Regulation 704).
2. Tier 2 Capital = The PCC that has been deducted from Tier 1 Capital + unamortized Non-perpetual Capital Accounts (NCAs) - \$8,364,982.
3. Total Capital = Tier 1 + Tier 2 Capital.
4. Equity acquired in merger reflects the value of the retained earnings that came to Vizo Financial from First Carolina.
5. Marketable Securities are classified 100% as "available-for-sale."
6. Net Economic Value (NEV) = the fair value of assets less the fair value of liabilities.
7. NEV Ratio = Dollar NEV divided by the fair value of total assets.
8. PCC qualifies as equity capital in calculating our NEV ratios. As equity, PCC is not treated as a liability when calculating Vizo Financial's NEV.
9. The regulatory minimum required capital ratios today are:
  - a) Leverage (Tier 1) Capital Ratio: 4.0%
  - b) Tier 1 Risk-based capital ratio: 4.0%
  - c) Total Risk-based capital ratio: 8.0%
10. The leverage capital ratio is calculated by dividing Tier 1 capital by MDANA (moving daily average net assets).
11. The Tier 1 risk-based capital ratio is calculated by dividing Tier 1 capital by the moving monthly average net risk-weighted assets.
12. The Total risk-based capital ratio is calculated by dividing Total capital by the moving monthly average net risk-weighted assets.
13. All credit card and auto related asset-backed securities are rated by S&P (AAA), Moody's (Aaa), and/or Fitch (AAA).
14. Student loan asset-backed securities are rated by Moody's (Aaa) and S&P (AAA).
15. Corporate bonds ratings ranges are from S&P (AA+/AA-) and Moody's (A1/Aa1).
16. Available-for-sale securities in the liquidity section includes only bonds with market values showing: 1) Gains, or 2) Unrealized losses below \$5,000.
17. Other Assets includes insurance policies held with Midland National, North American Company and Minnesota Life tied to 457F plans and a split-dollar plan to offset executive and employee benefits costs.
18. All borrowing capacities reflect current market value of eligible collateral plus appropriate haircuts.
19. Primary credit access is available at the Federal Reserve Bank (FRB).
20. Current limit at FHLB-Atlanta \$1,671,498,300 (10/31) - this will vary based on assets.
21. Unsecured fed funds lines: \$100 million from PNC Bank; \$50 million from Corporate One.
22. Secured fed funds lines comprised of \$150 million from U.S. Bank - line secured by asset-backed securities.
23. Accumulated Other Comprehensive Loss reflects unrealized gains and losses and non-credit related market value losses not reductions in capital.
24. NEV & capital ratios are in compliance with policy and regulatory limits.
25. Under Liquidity Measures, EBA balances exclude funds held by non-PCC credit unions that totaled only \$450.

## Required Credit Analysis Under Regulation 703

Except for investments that are issued or fully guaranteed as to principal and interest by the U.S. Government or its agencies, enterprises or corporations or fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation, you must conduct and document a credit analysis of the issuing entity and/or investment before you purchase the investment. You must update the analysis at least annually as long as you hold the investment.

*Retain this report as part of the credit analysis required under Regulation 703.*

## Financial Soundness Report

David W. Brehmer, President & CEO  
Mark Brown, CFO  
Fred Eisel, CIO

For more information concerning the content in this unaudited financial report, please contact Vizo Financial at (800) 622-7494.



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