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2026 Mid Year Market & Rates Outlook

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Agenda

- CU Industry Trends
- State of the Economy
  - Inflation: Acceleration Due to Energy and More
  - Strength Labor Market
  - More “K-Shaped” Economic Pain
  - Housing Sector Remains Sluggish
  - Recession Watch
- Rate Path Expectations
- Strategy Ideas

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Balance Sheet Themes

81.5%
Loan-to-Share Ratio
10yr avg: 79.9%

57.7%
Real Estate % of Total Loans
near-record concentration

+19.6%
3–5yr Investment Growth YoY
CUs extending duration

–2.2%
New Auto Loan Growth YoY
credit demand still weak

- **Share growth (+5.1%) outpacing loan growth (4.6%) — deposit liquidity is building**
  - Money Market up +8.7% YoY; Certificates +6.4% — members chasing yield
- **Loan-to-share at 81.5% — above the 10yr average, but easing from 2023 highs**
- **Real estate concentration at 57.7% — highest in credit union history**
  - Junior lien RE growing +14.4% YoY — members extracting home equity aggressively
- **3–5yr investment bucket growing fastest — CUs locking in rates**
  - Net long-term assets / assets at 34.5% vs. 35.2% avg — duration risk manageable

1st Mortgage Structure Mix (2026 Q1)

ARM and Balloon/Hybrid structures growing

Investment Growth by Maturity Bucket — YoY (2026 Q1)

<1yr	1–3yr	3–5yr	5–10yr	10yr+
+3.5%	+0.1%	+19.6%	+6.8%	–3.0%

Loan Portfolio Mix (% of total loans, 2026 Q1)

Real Estate	Vehicles	Unsecured	Other
57.7%	27.7%	9.1%	5.5%

Sources: NCUA Financial Trends in FICUs 2026 Q1 | TruStage Credit Union Trends Report, April 2026

Income Statement Themes

3.4%
Net Interest Margin
highest in a decade

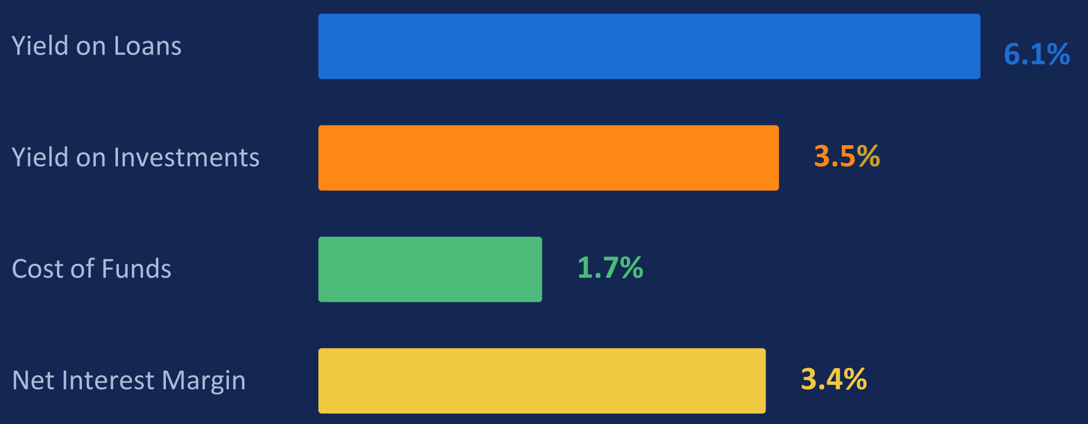
0.8%
Return on Avg Assets
up from 0.6% in 2024

+0.6%
NCO Growth YoY
vs +87% in 2024 — plateauing

1.7%
Cost of Funds
declining from ~2% peak

- **NIM at 3.4% — highest level since the pre-ZIRP era; many CUs will post record income**
  - NIM (3.4%) now exceeds NIE (3.1%) — operating leverage positive for first time in years
- **ROA recovered to 0.8% — up from cycle low of 0.6% in 2024**
- **Charge-off surge is plateauing: NCO growth just +0.6% YoY vs. +87% in 2024**
  - Gross charge-offs still $16.1B rolling 4Q — elevated in dollars, just not accelerating
- **Fee income compressing: 1.0% of assets today vs. 1.4% pre-cycle — structural headwind**
- **Investment income likely flat in 2026 as portfolio reprices lower**
- **$50M–$100M tier: −0.2% ROA — overhead pressure crushing smaller CUs**

Yield vs. Cost of Funds — Key Spreads (2026 Q1)



ROA Component Trend

Year	NIM	NIE	Provision	ROA
2022	2.9%	2.8%	0.3%	0.9%
2023	3.0%	2.9%	0.5%	0.7%
2024	3.1%	3.0%	0.6%	0.6%
2025	3.4%	3.1%	0.6%	0.8%
2026 Q1	**3.4%**	**3.1%**	**0.5%**	**0.8%**

Sources: NCUA Financial Trends in FICUs 2026 Q1 | TruStage Credit Union Trends Report, April 2026

State of the Economy

Labor Market Update

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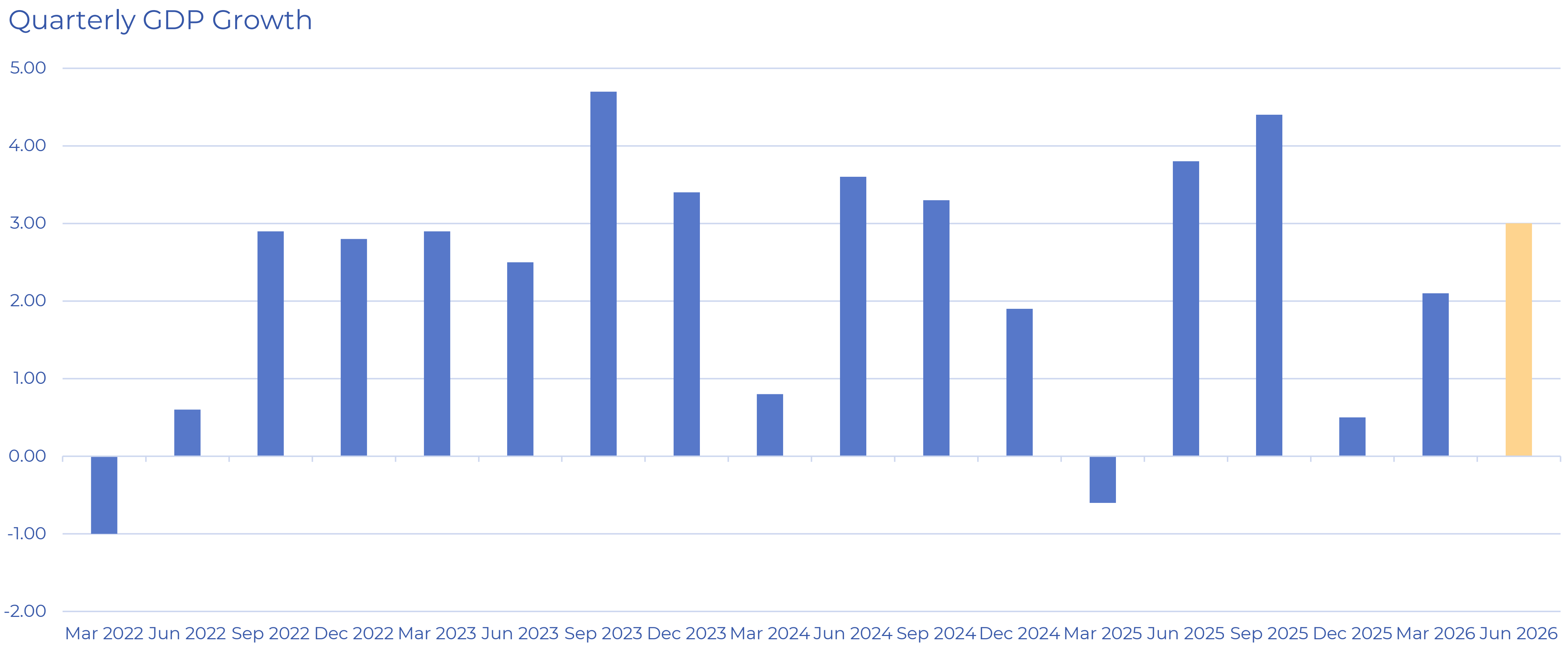
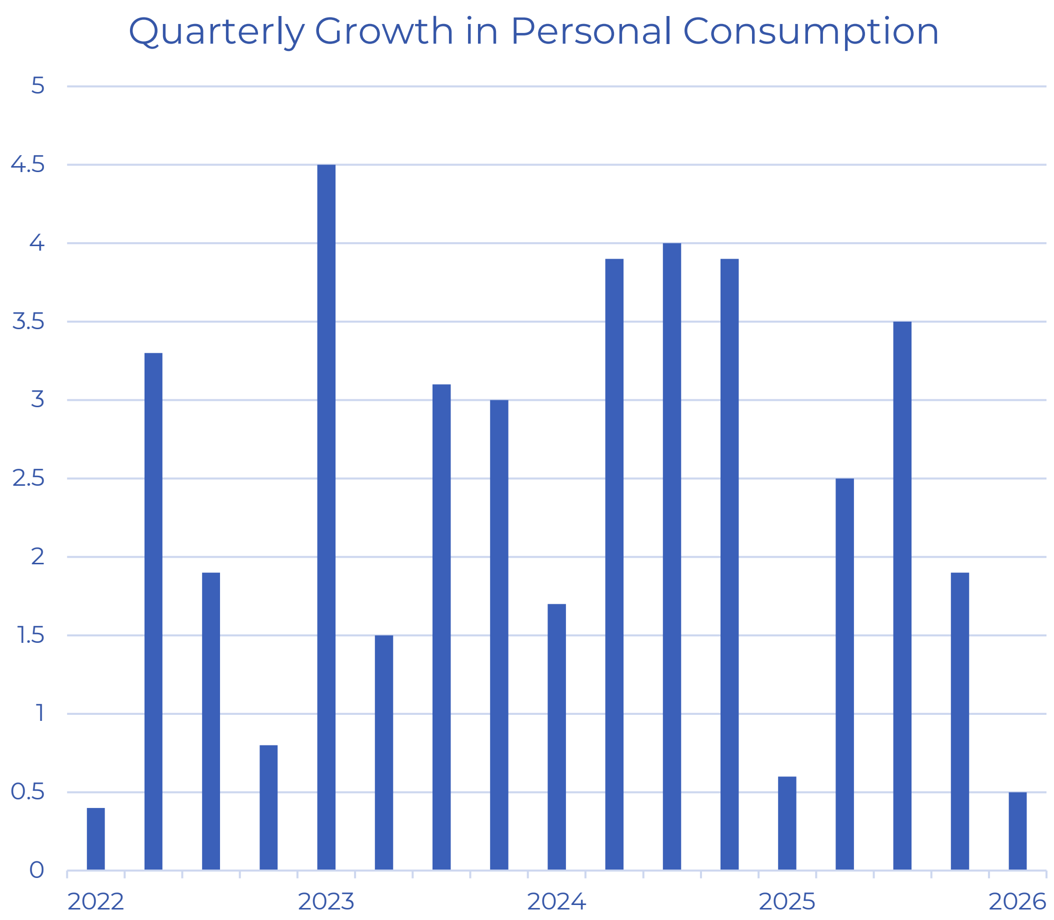
Weak Close to 2025, But Headed Higher

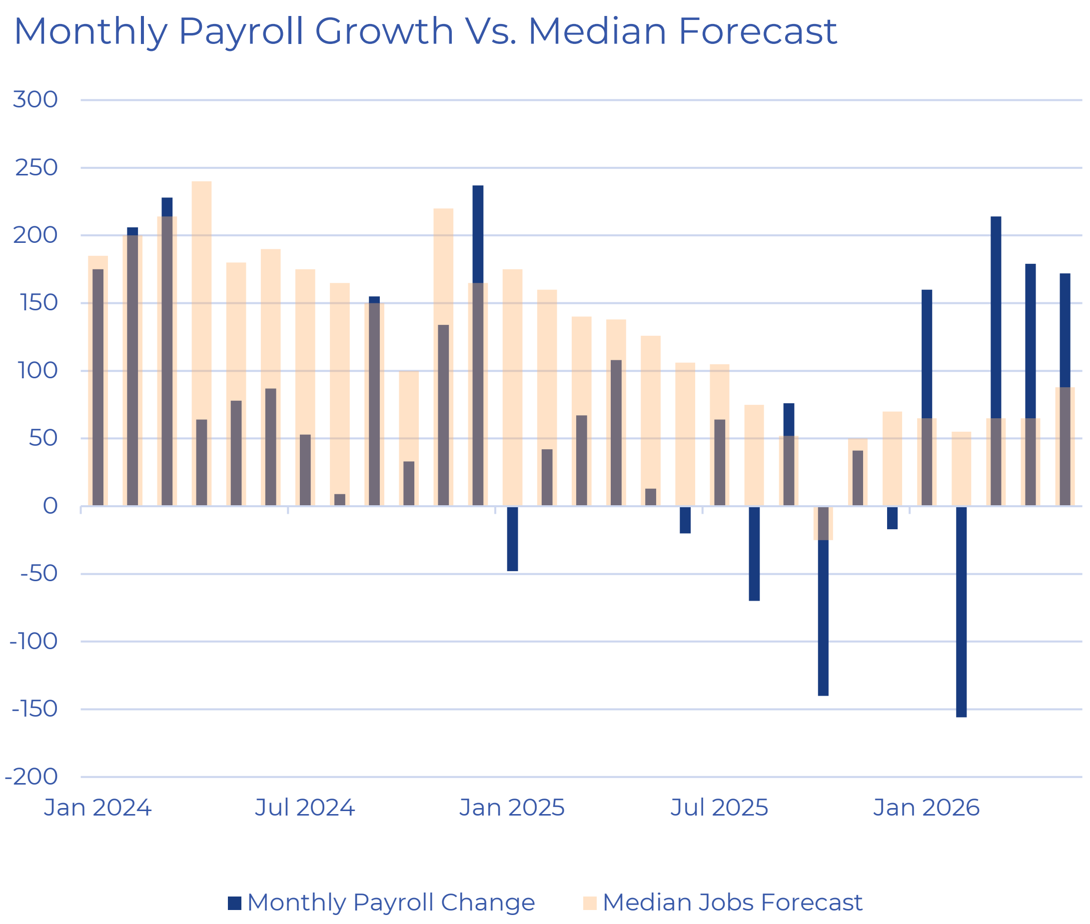


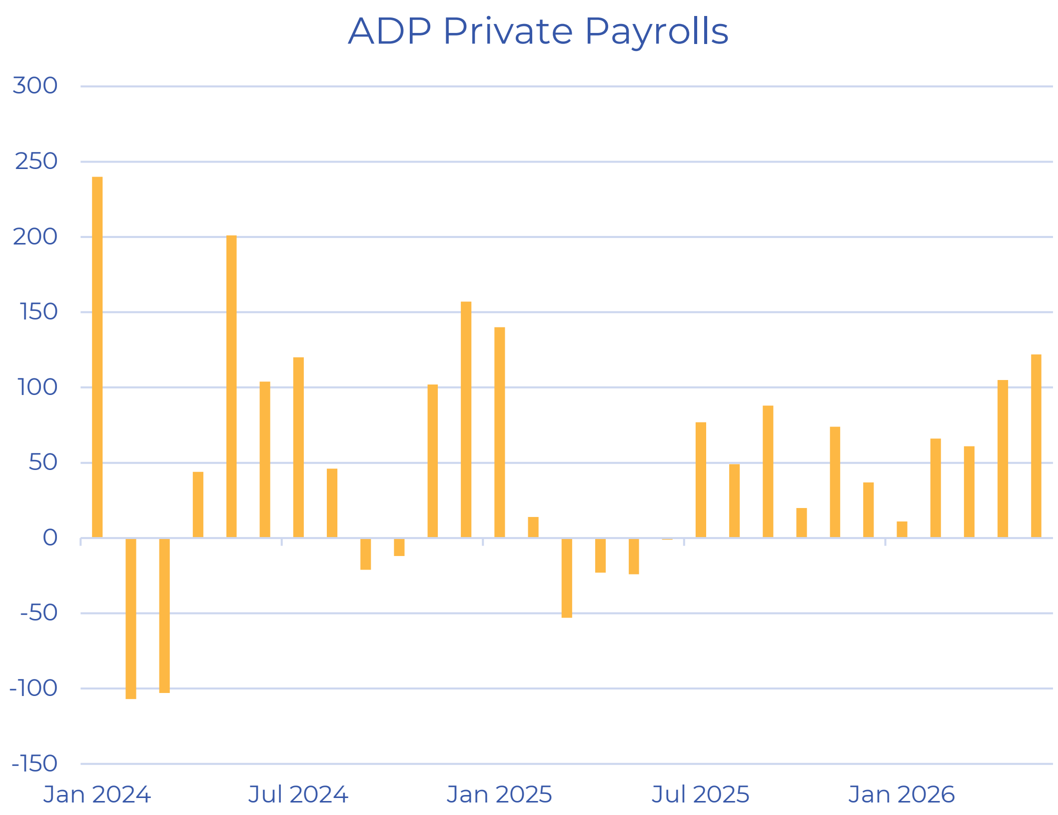
Personal Consumption Is Long-Term GDP Driver



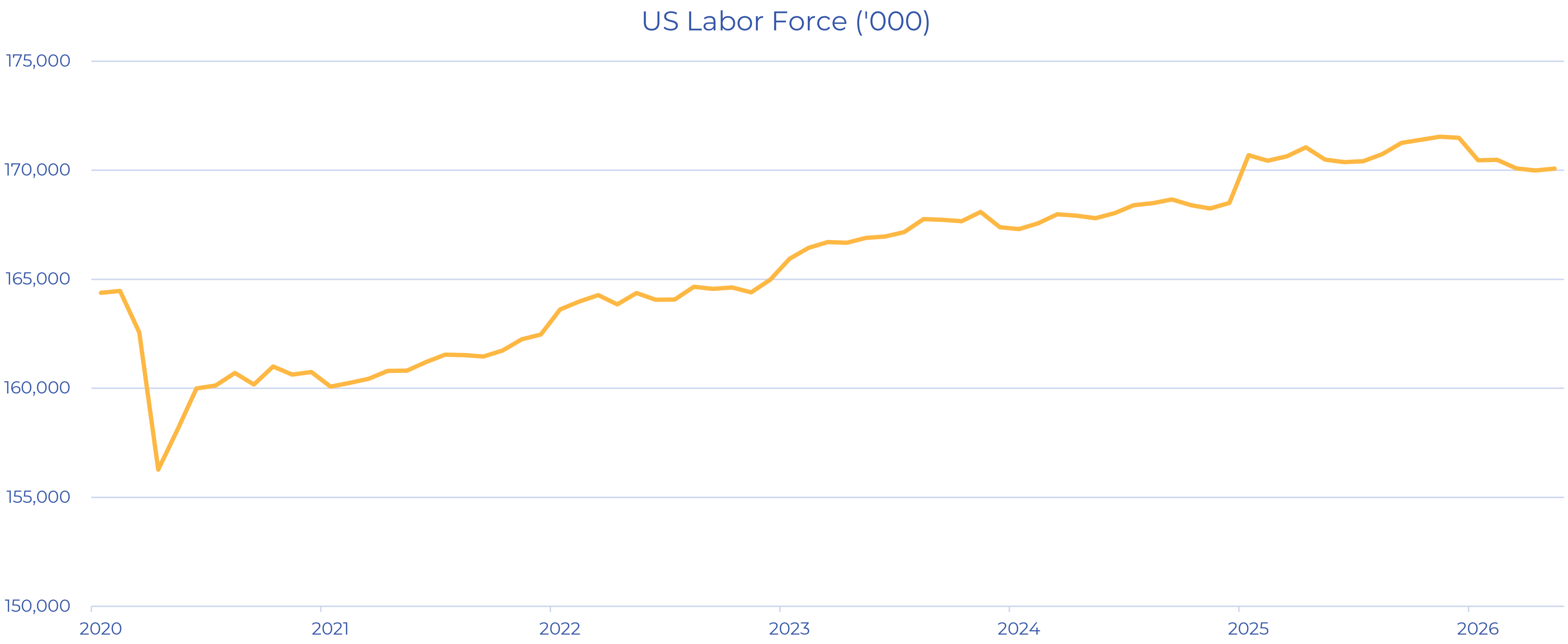
- Slower GDP growth lead by consumption pullback
- Real wage growth turned negative as inflation outpacing wage growth

Labor Market Recovery

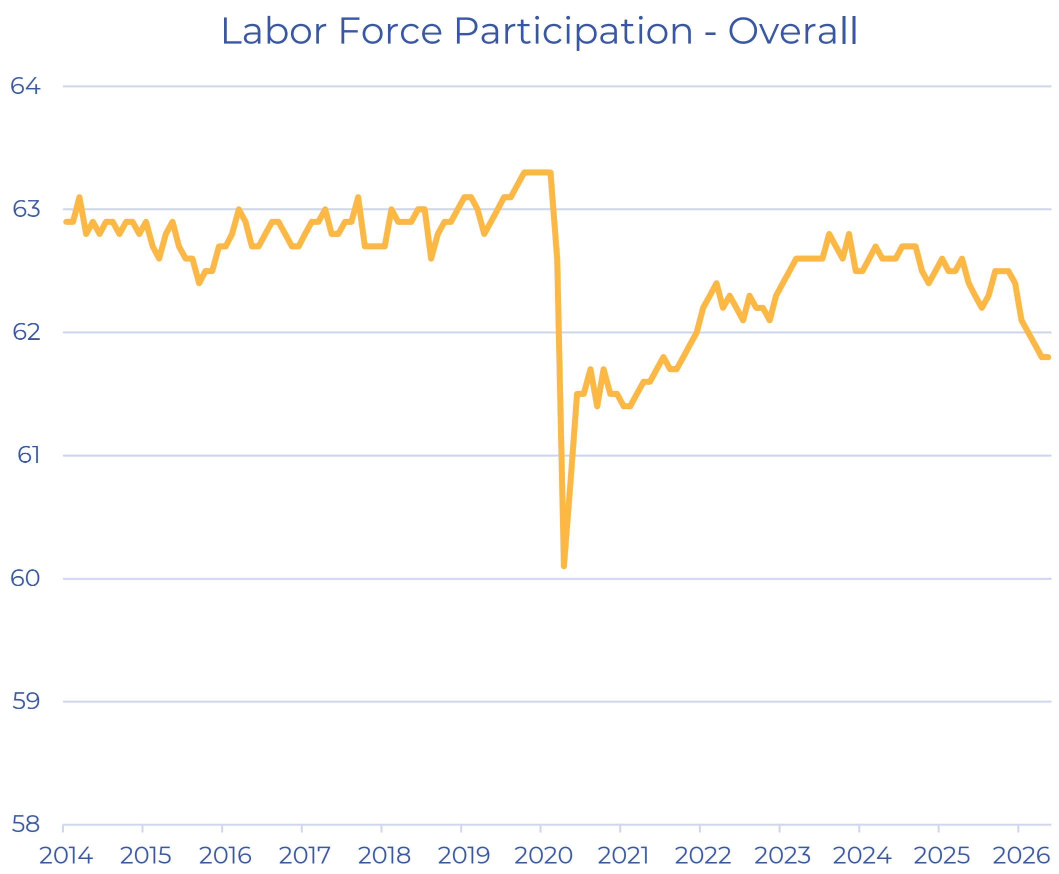


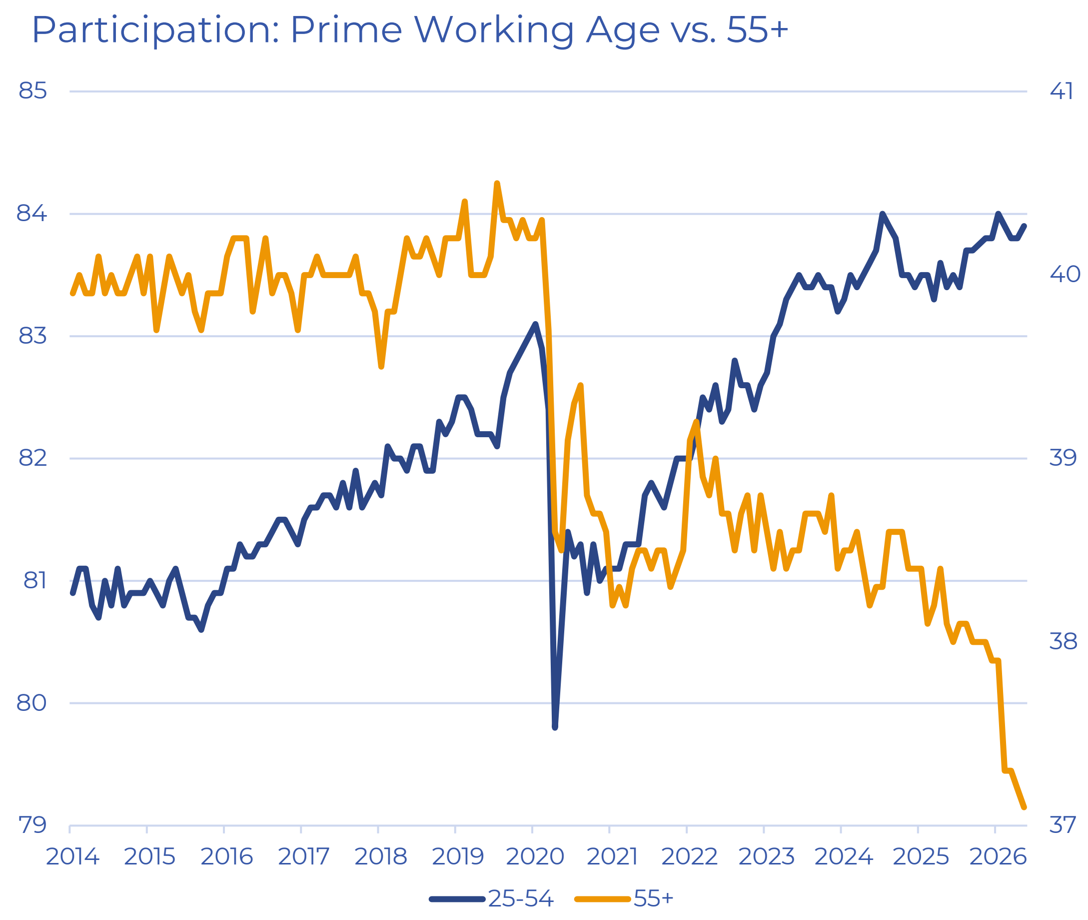


Labor Force Not Growing



Where are the workers?





Labor Market Summary

- Jobs market has stabilized following the weakness that ended 2025
- Job growth paired with lower wages
- Enough job growth to keep unemployment rate stable; remove the labor market from the list of FOMC concerns
- Lack of immigration has been key driver of steady unemployment rate

State of the Consumer

Impact of Inflation

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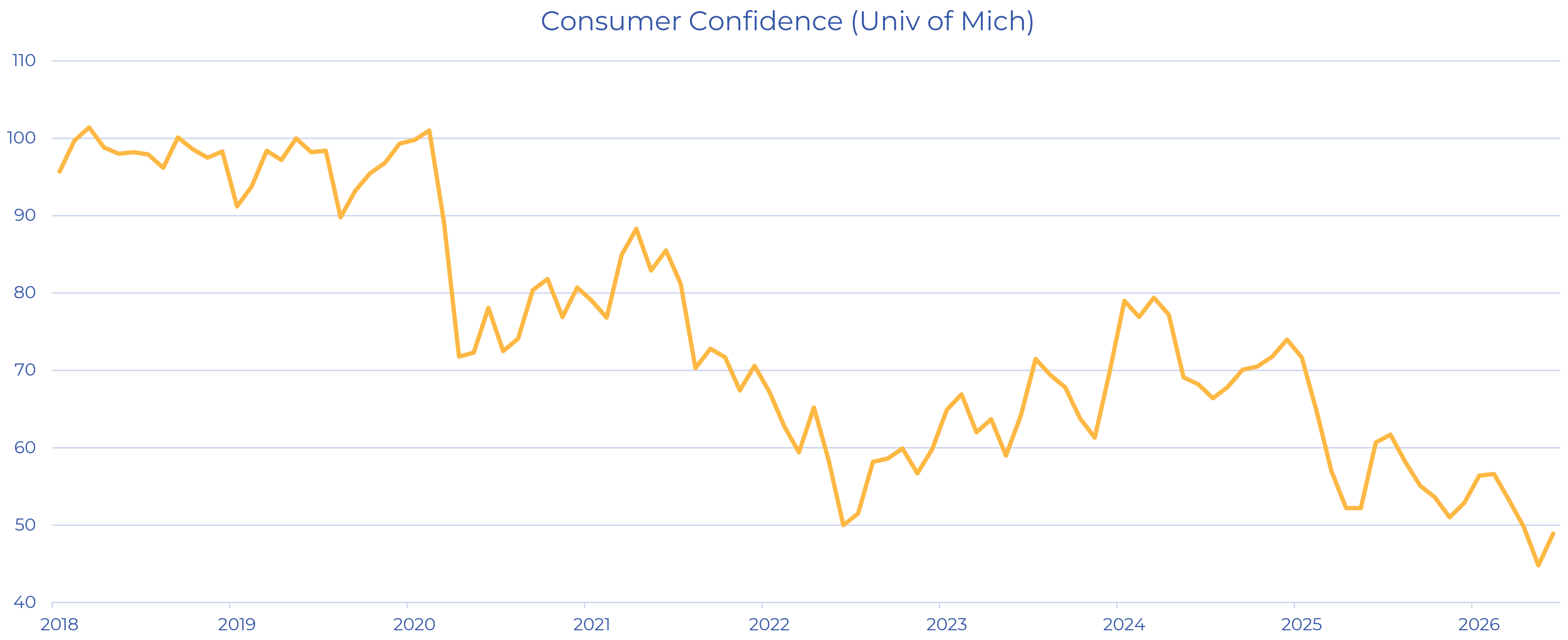
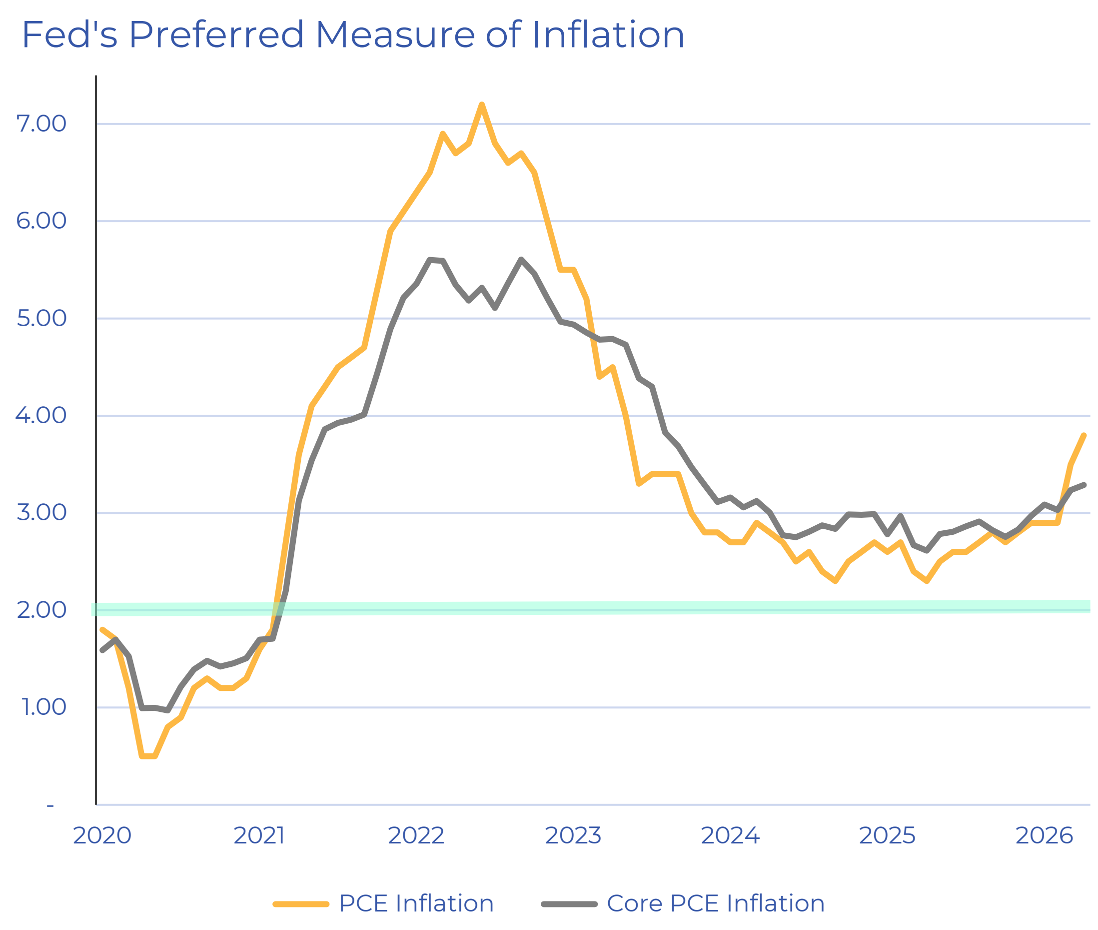
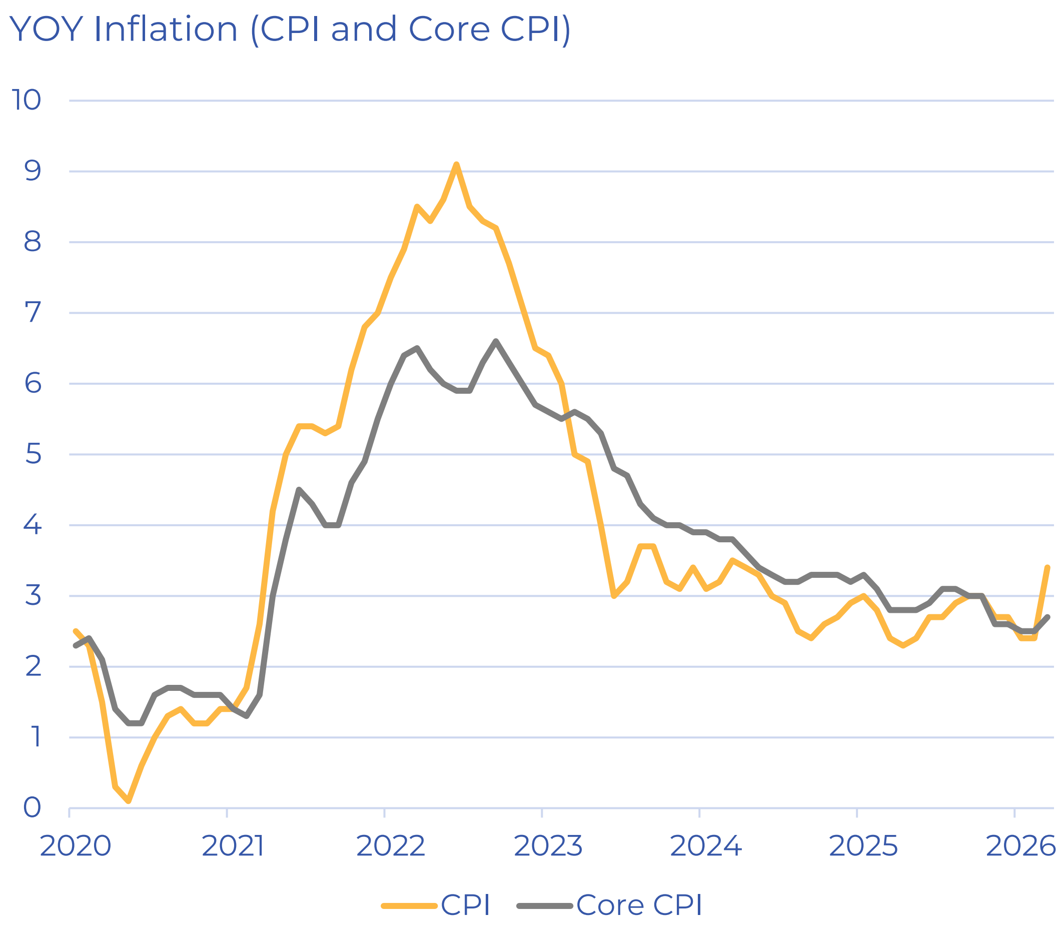
Consumer Discontent

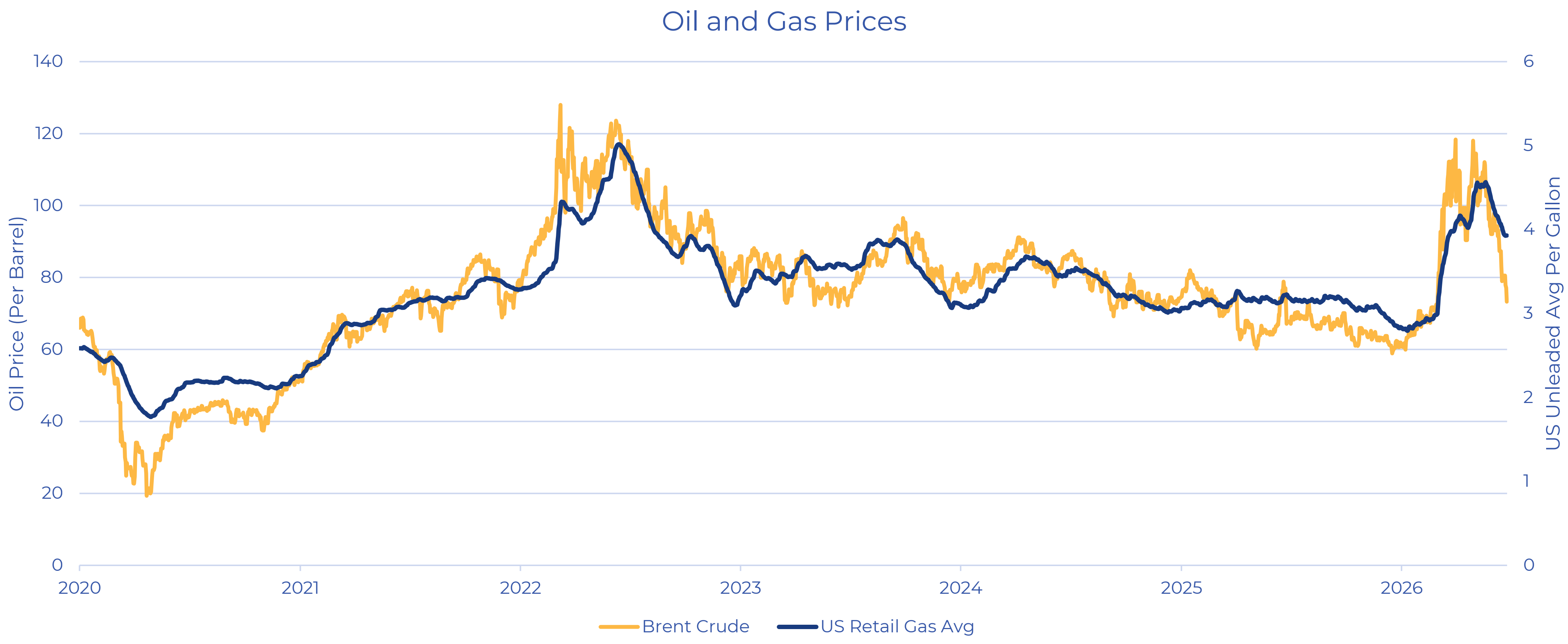


Inflation Remains Above Target

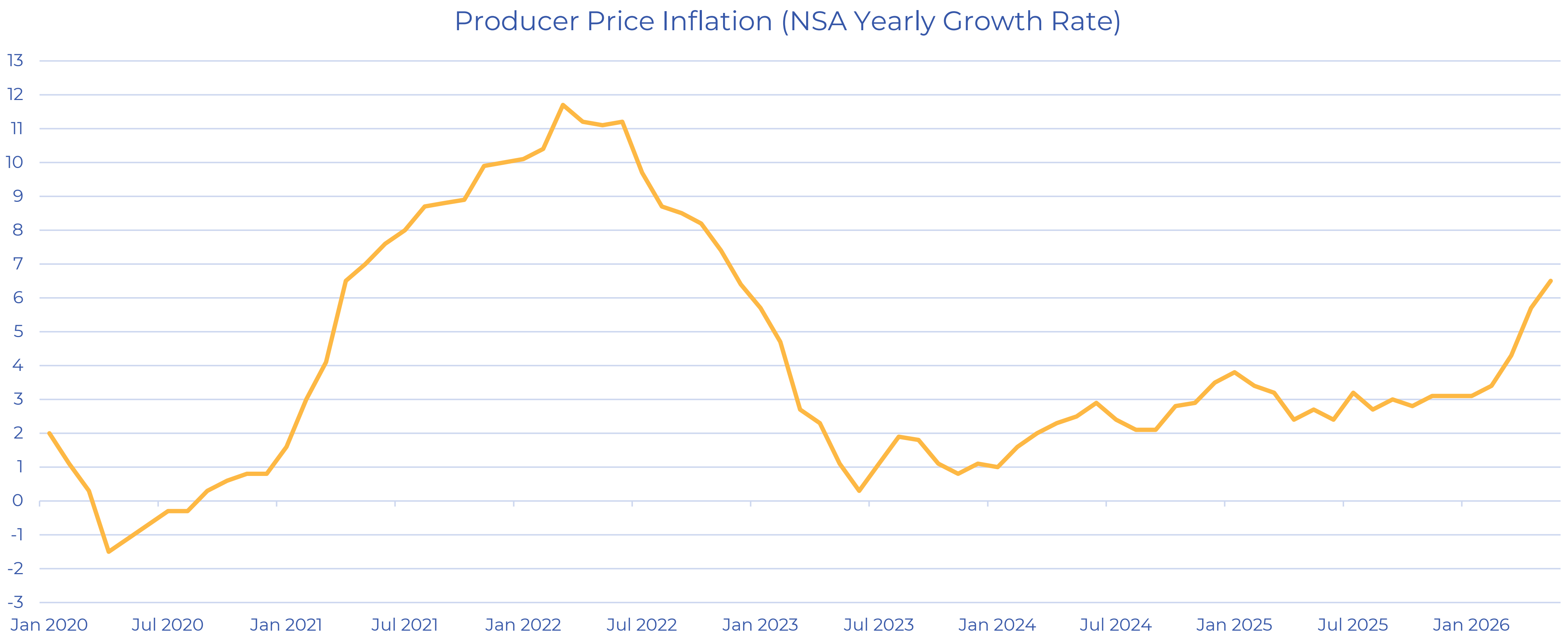




Energy Price Spike



Wholesale Prices



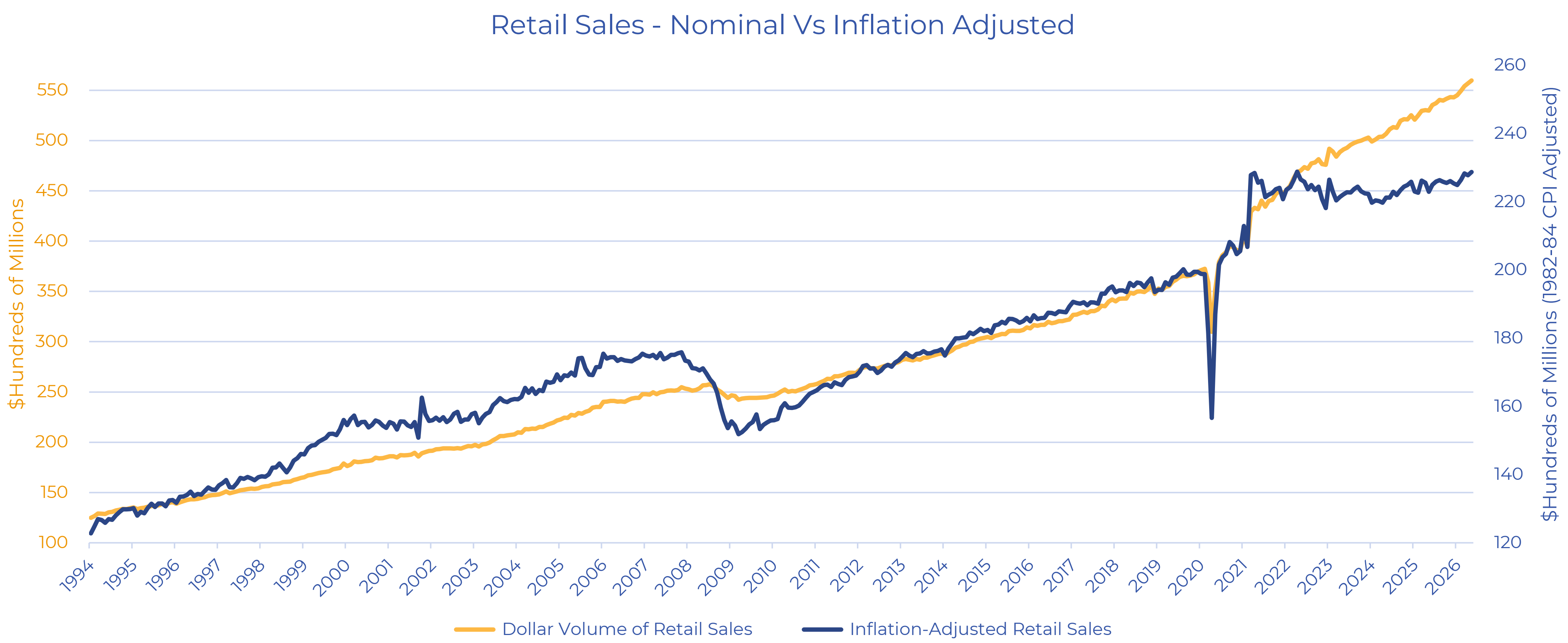
Delayed Pricing Recovery

Energy Prices:	Ongoing – 8 Weeks
Airline Tickets:	3-6 Months
Trucking/Shipping	3-6 Months
Industrial Inputs:	6-12 Months
Food:	6-18 Months

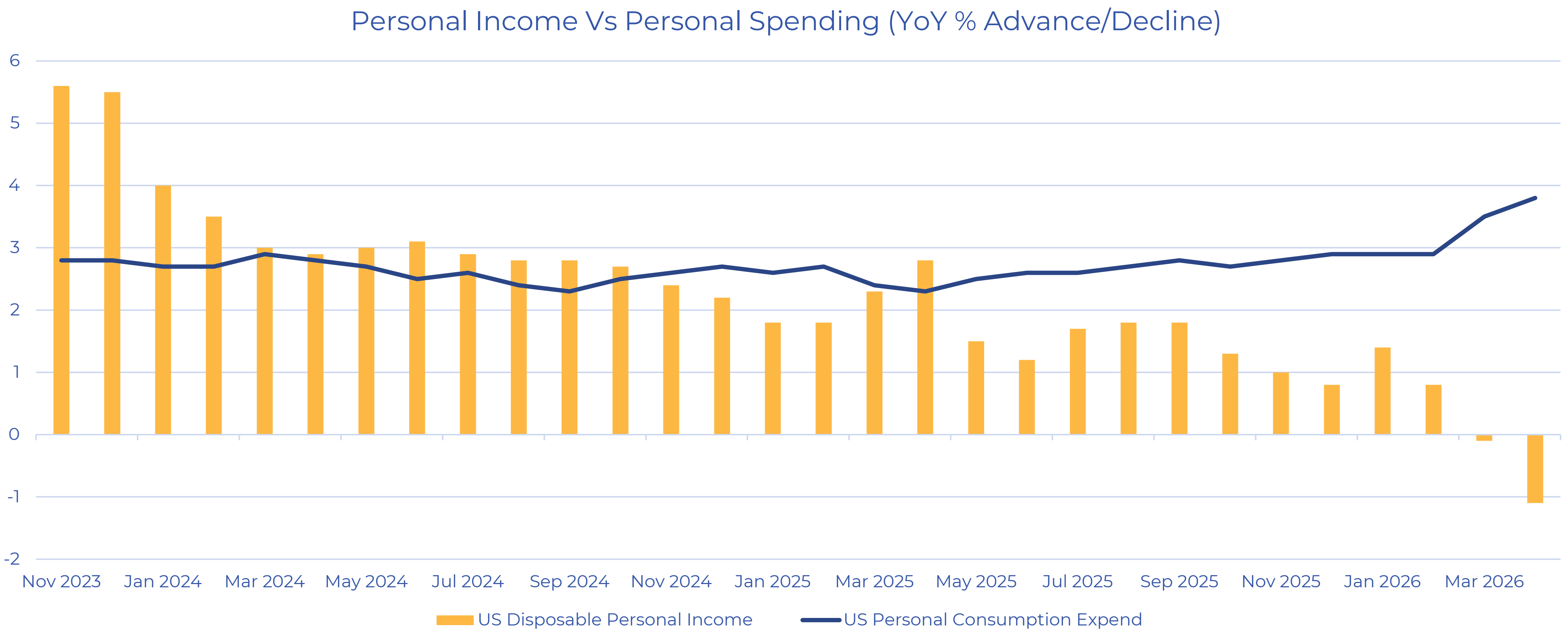
Full inflationary impact has not yet been felt, but recovery will mute YOY inflation in 2027

Inflation Adjusted Wage Growth

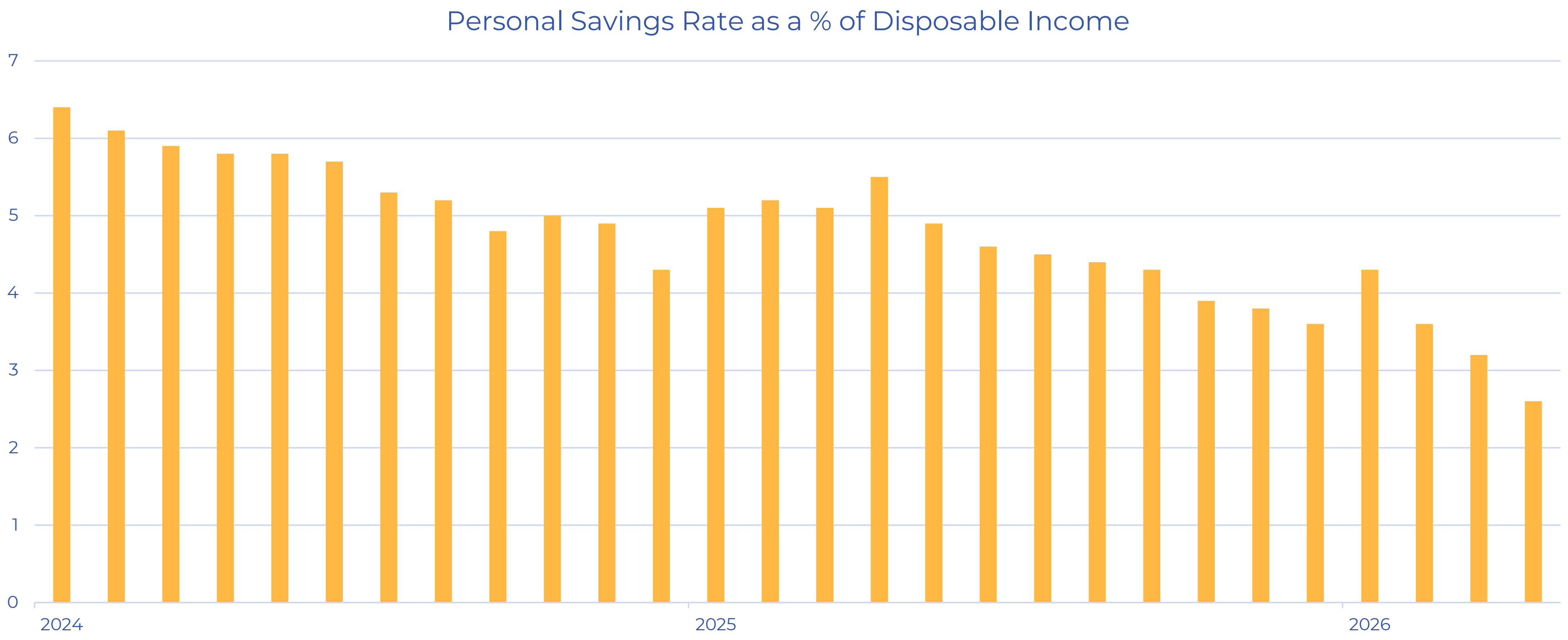
Paying More For Less



Spending Outpacing Income

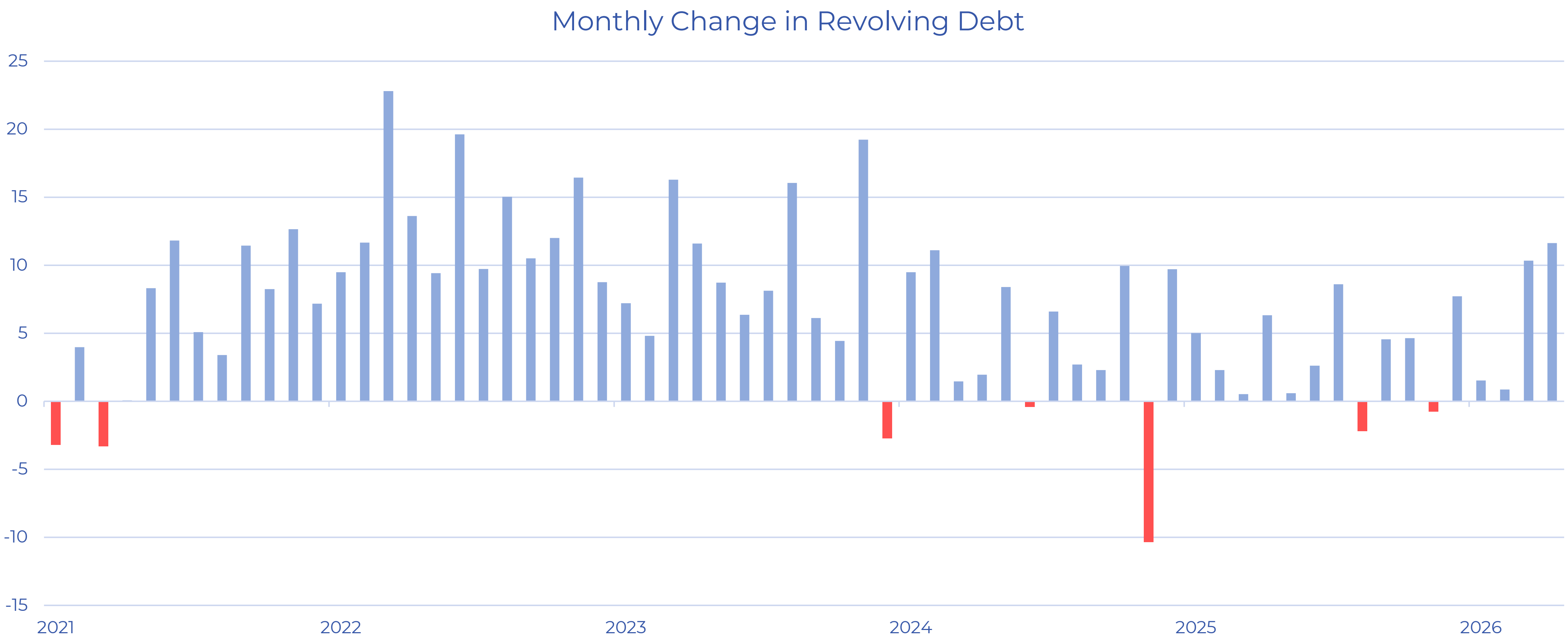


Less Saving



Personal Savings Rate as a % of Disposable Income
7
6
5
4
3
2
1
0
2024
2025
2026

More Credit Card Debt



Inflation and Consumer Summary

- Combination of tariff and energy price-induced inflation has lifted price levels even further above target
- End of hostilities is a positive for energy prices, but more widespread inflation measures will take time to moderate
- Consumer stress likely to continue into the fall as wage growth remains slower while prices remain high

State of the Housing Market

Better Affordability, But Activity Remains Slow

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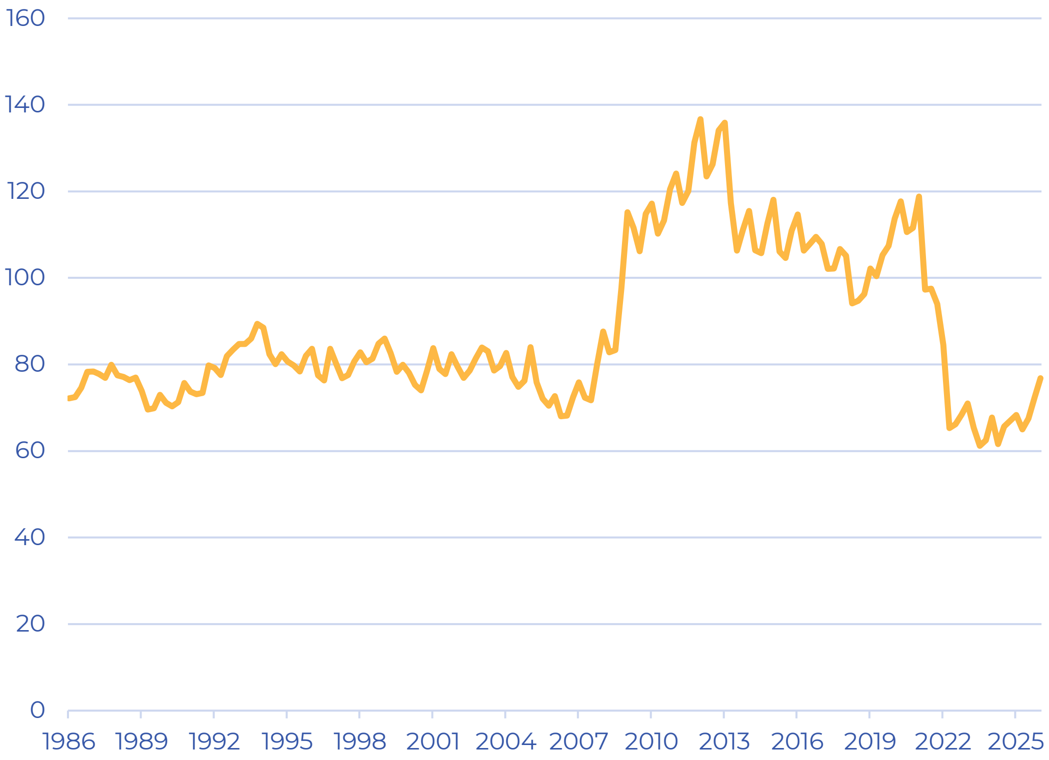
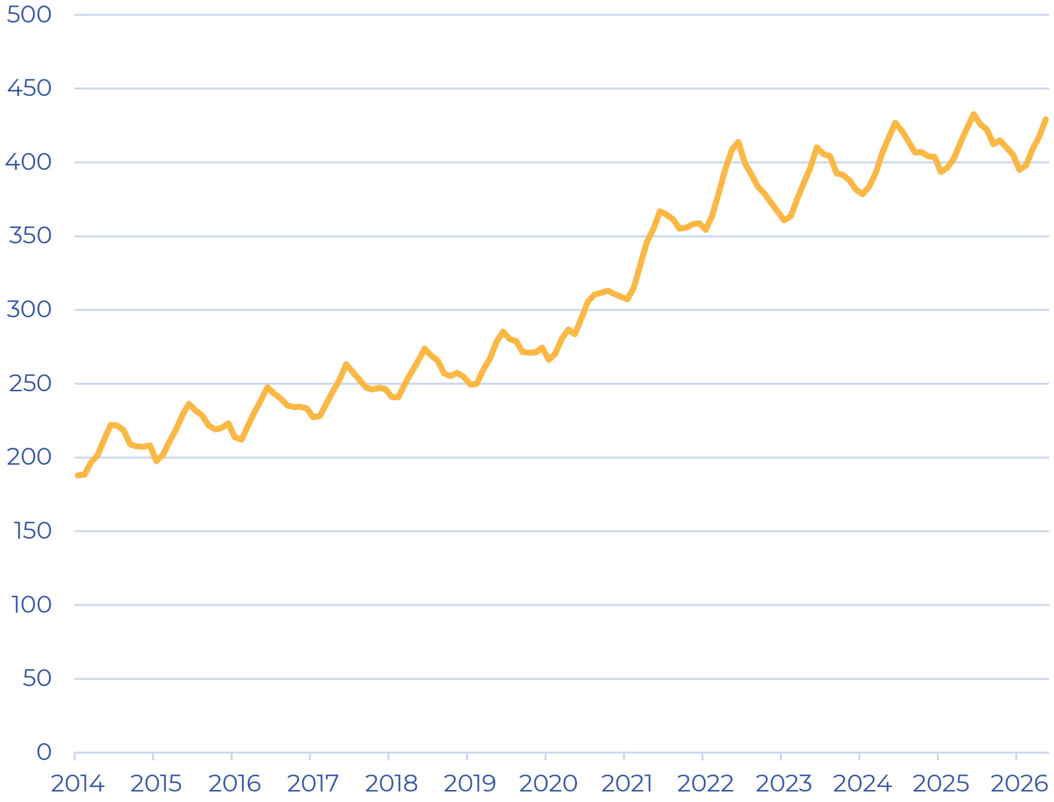
Housing Affordability Challenges

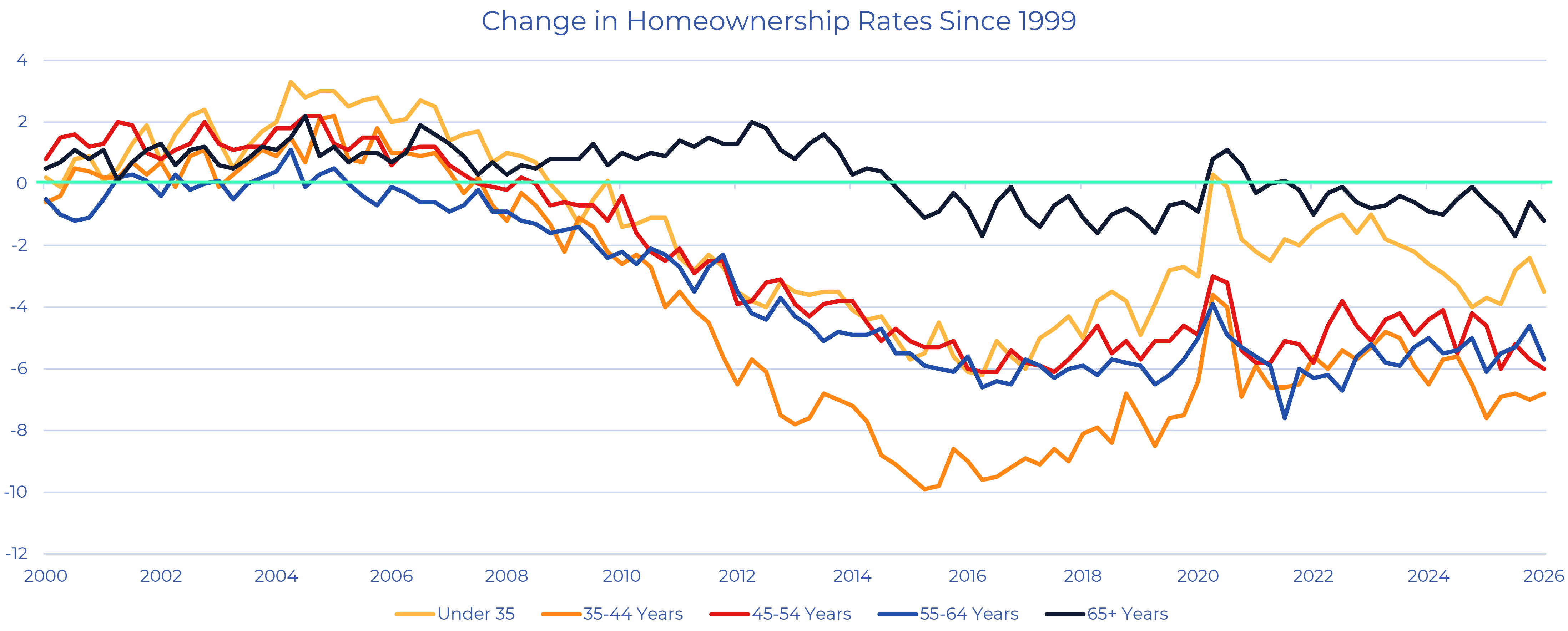
1st Time Homebuyer Affordability
Median income for 25-44 yo, 10% down payment



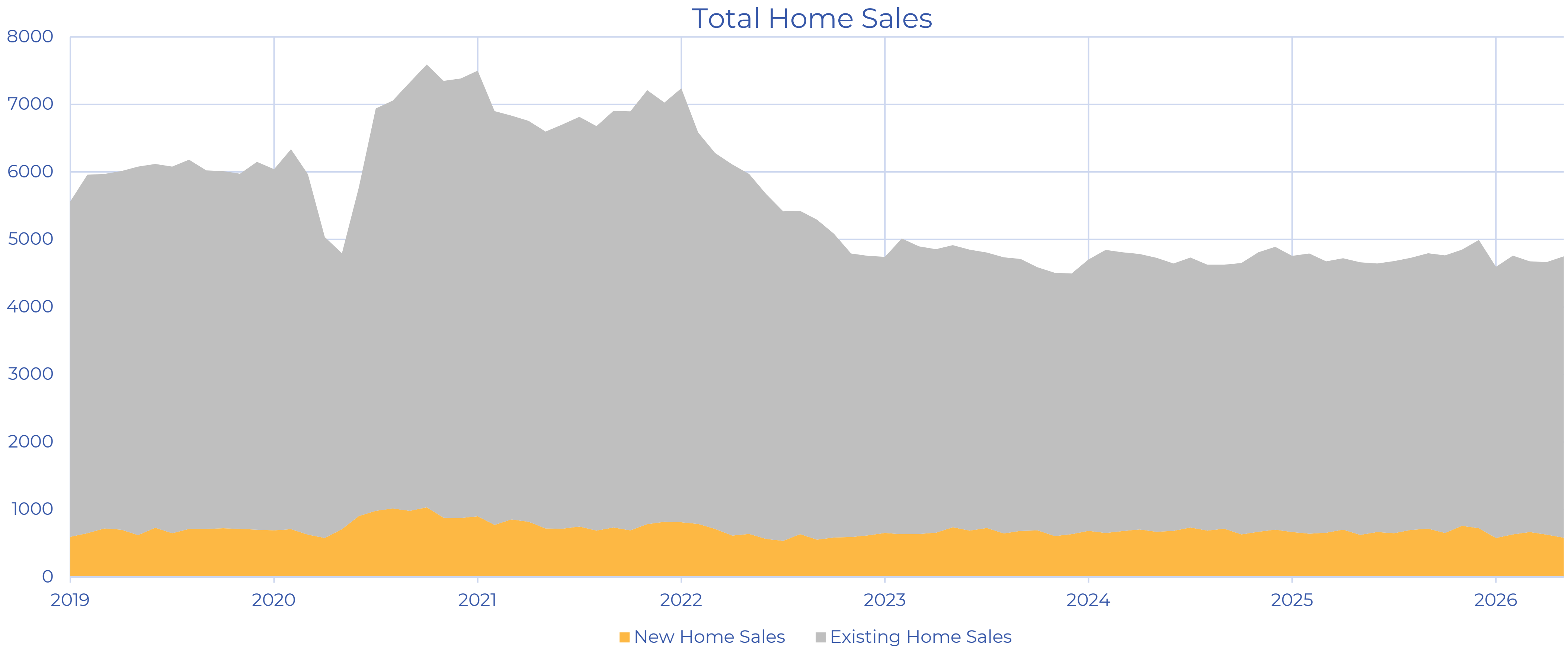
Existing Home Median Price
May 2026: $429k



Generational Challenges in Homeownership

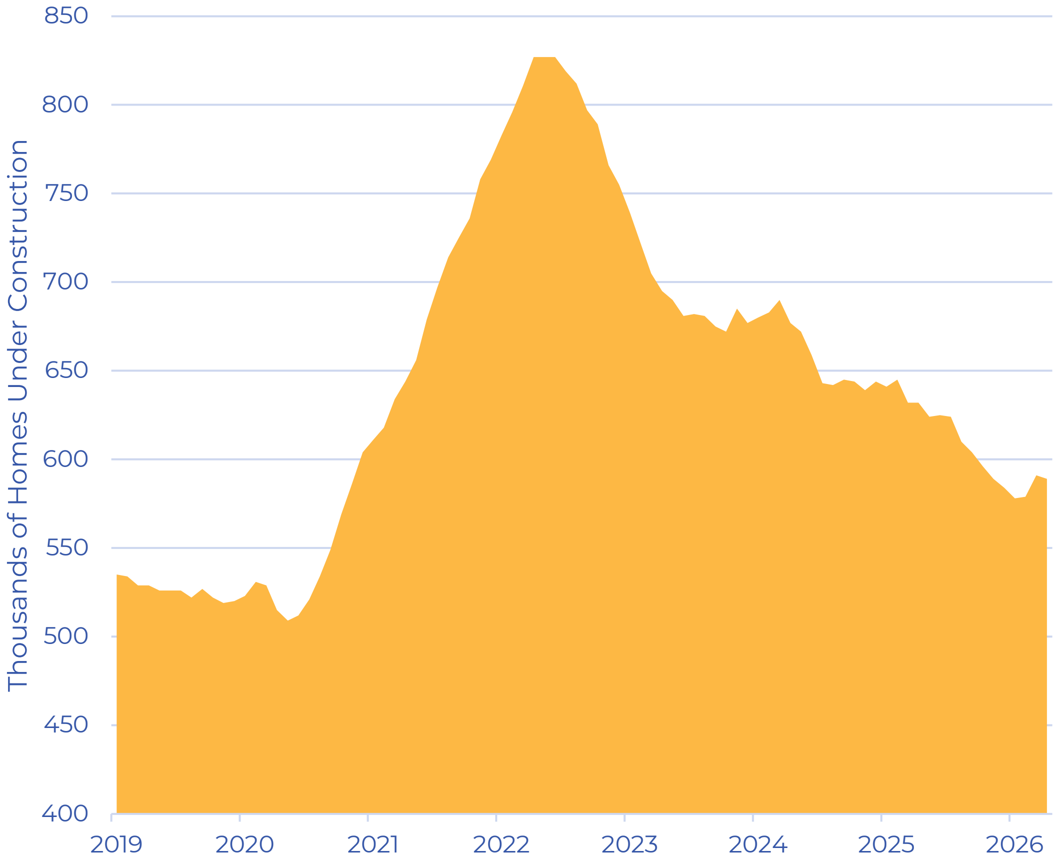


Housing Market Still Slow

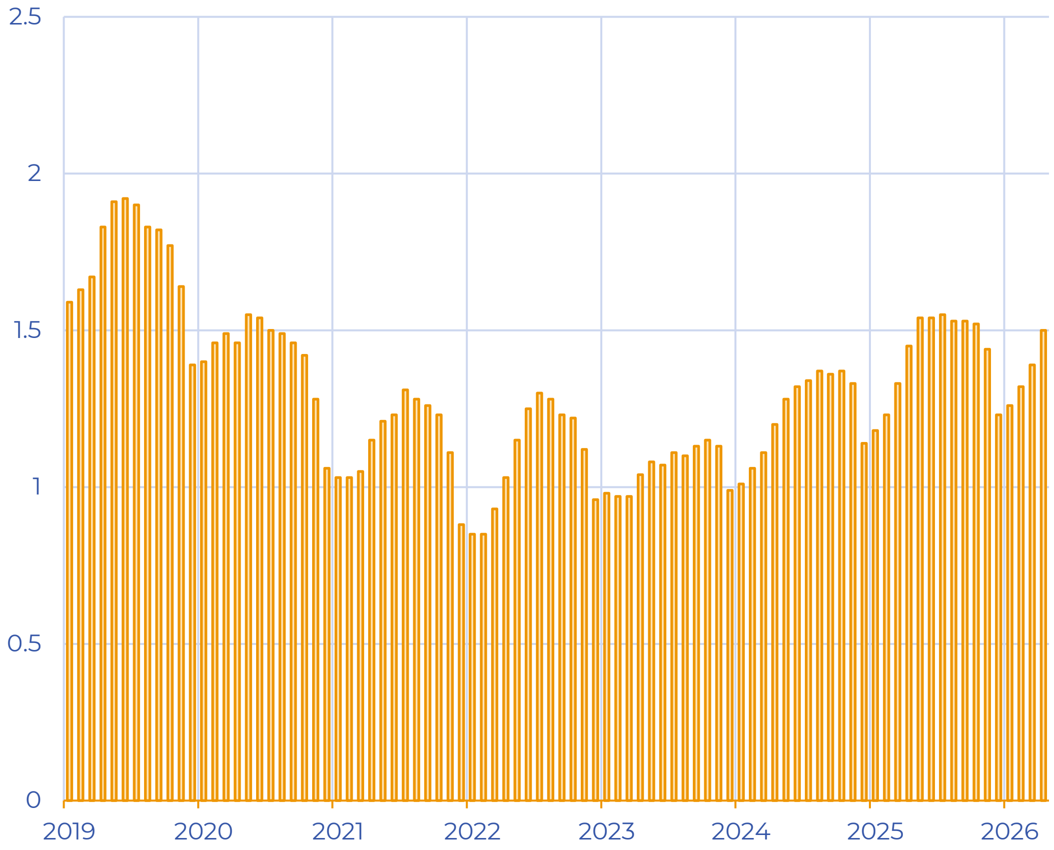


Fewer New Builds, Higher Inventory

Single Family Homes Under Construction

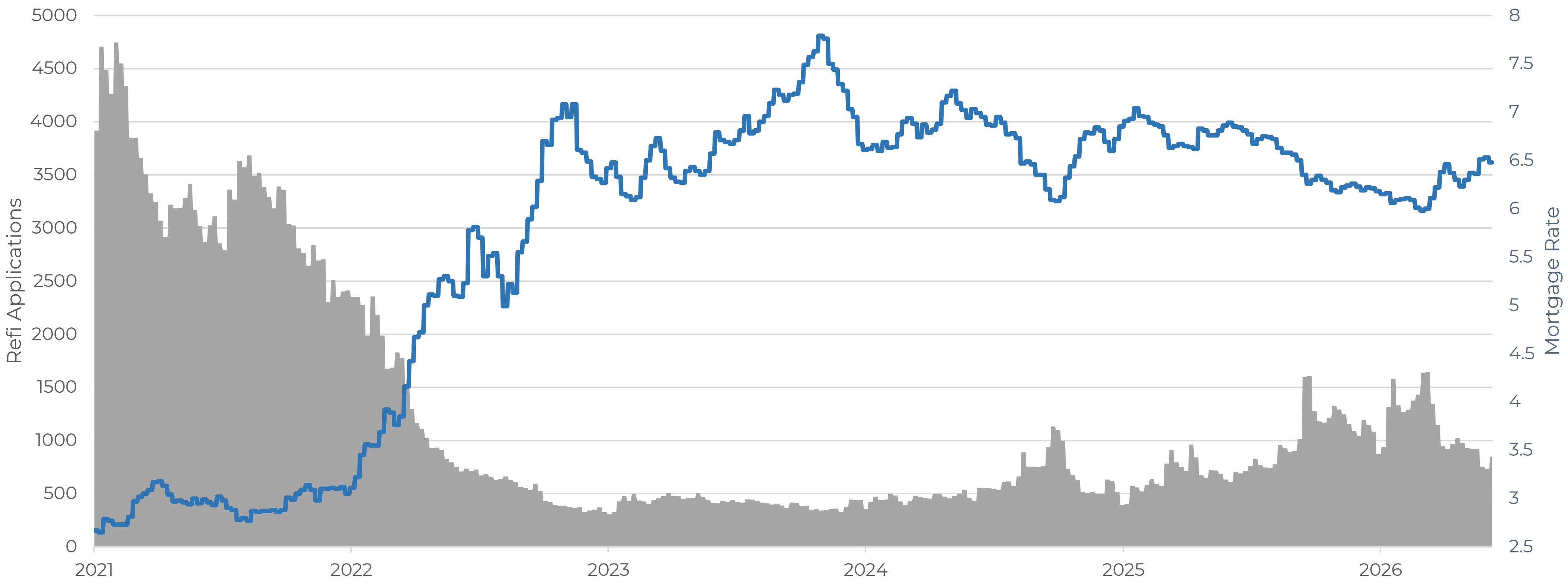


Inventory of Existing Homes for Sale (Millions)



GSE Efforts to Lower Mtg Rates

Higher Rates Impacting Refi’s



Housing Summary

- Return to higher rate environment nipped refi boom in the bud and delayed recovery of housing market
- Recent declines in longer-term interest rates offer a bit of hope for a return towards 6% rates, but highly uncertain
- Forecast for home sales increase is pessimistic, but stable prices should help long term
- MBS spreads have tightened, partially as a result of GSE purchase activity

Fed and Rates Outlook

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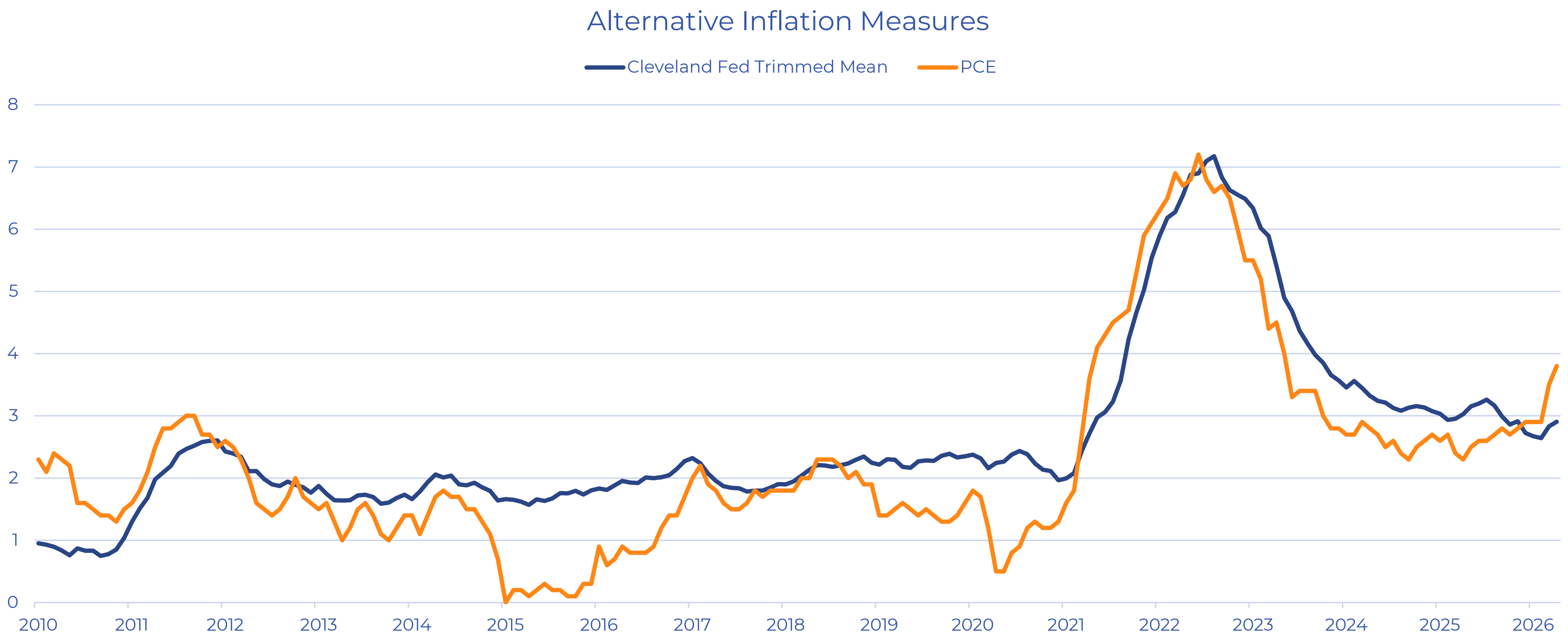
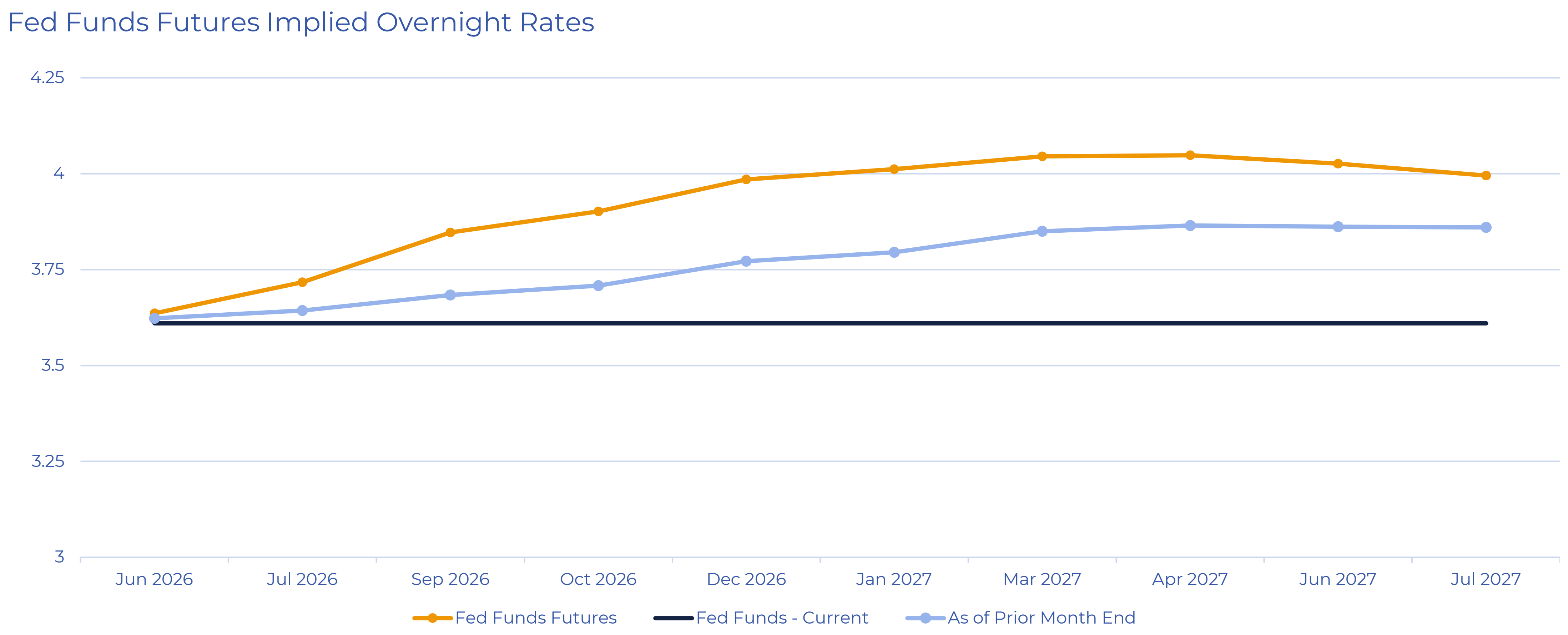
Fed Policymakers Divided

- 9 of 18 FOMC members wanted a rate hike at previous meeting
- All indications are that new Fed Chair Warsh will make significant updates to Fed policymaking process
- Pulling back on “forward guidance” or Fed officials’ views underpinning rate decisions

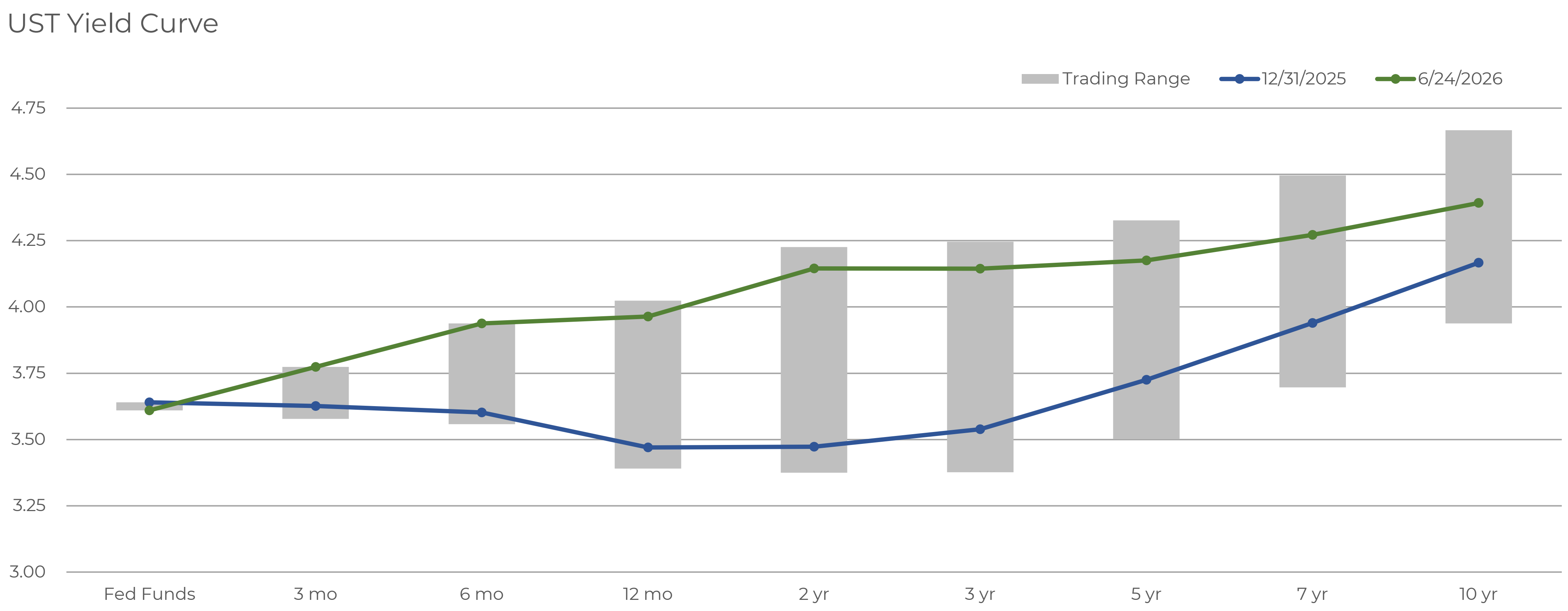
Alternative Measures On the Rise?



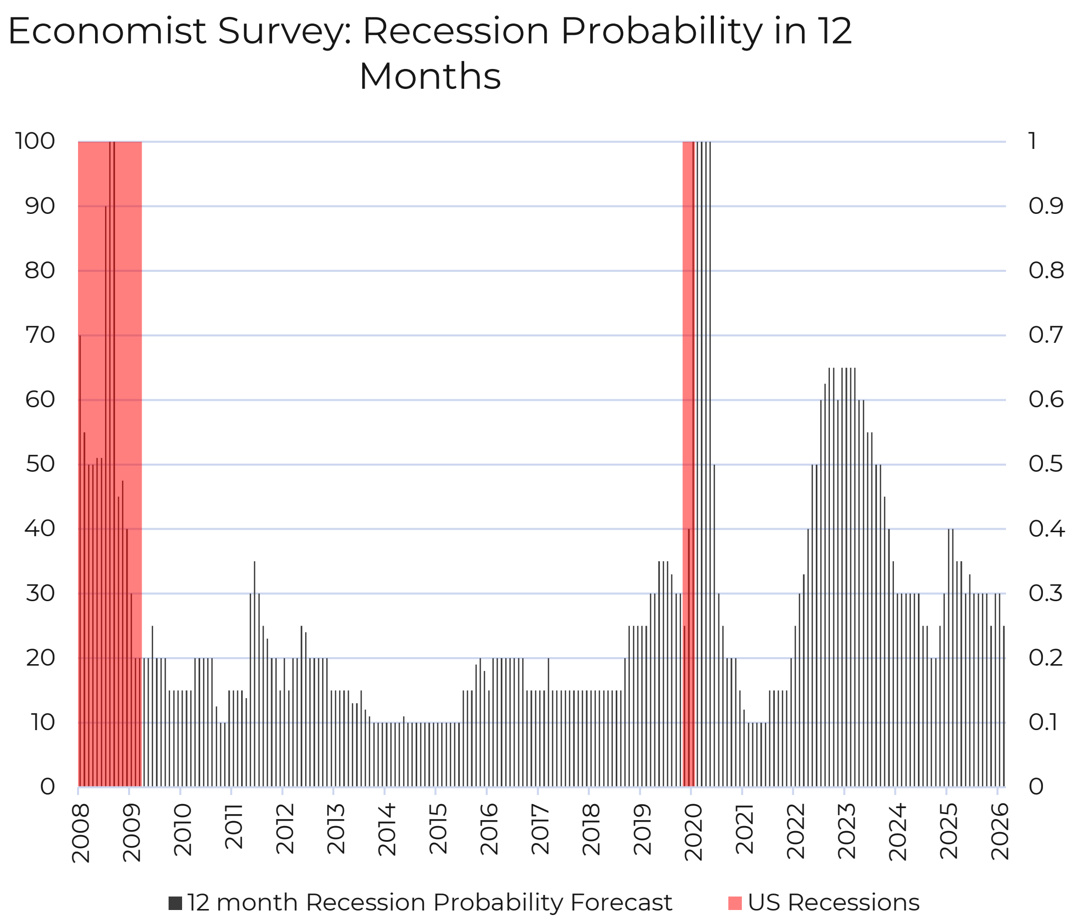
Fed Vs Market Rate Outlook

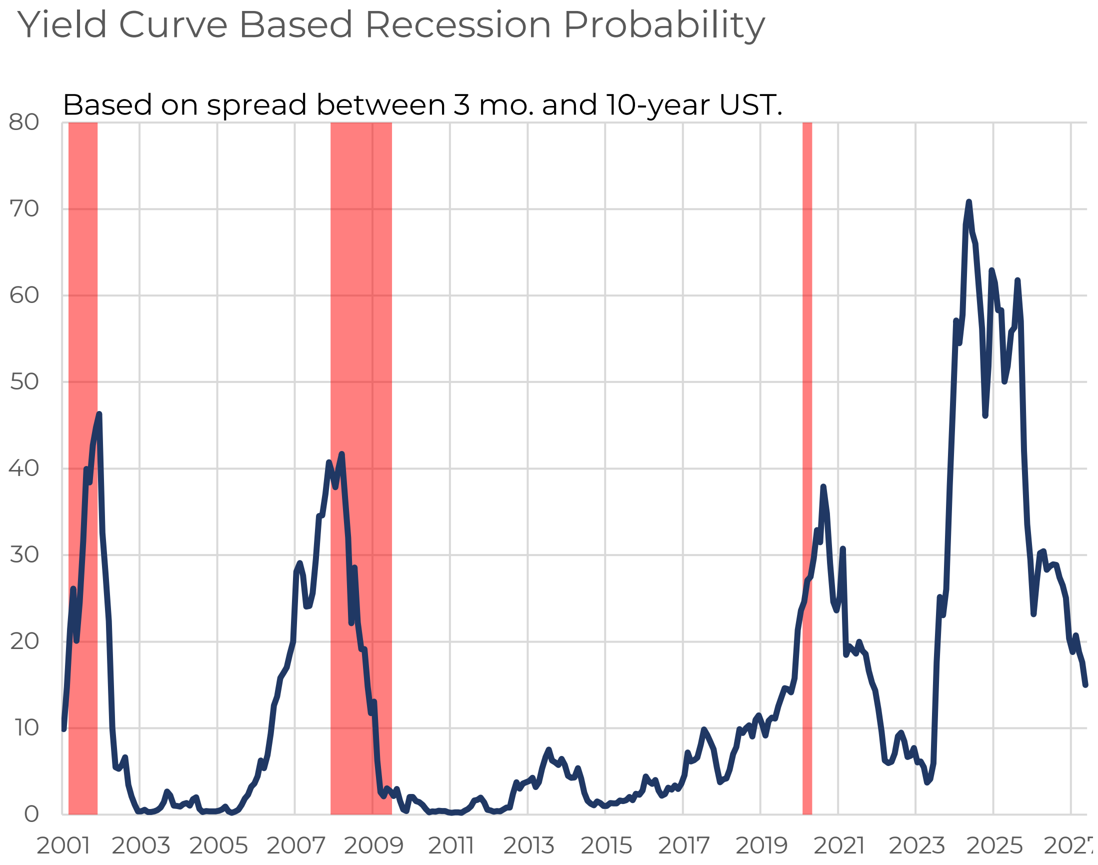


Significant Repricing of Yields



Recession Watch





Going Forward

- Further economic growth in 2026 driven by strong business investment, policy tailwinds
- Opportunities in home equity lending and business/commercial
- Lower visibility into Fed rate path going forward – could introduce rate volatility
- Muted consumer lending growth expected overall – keep an eye of borrower credit/stress profiles

Strategy

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Longer-Term Rate Outlook (Revisited)

<u>Formula for 10yr Tsy</u>

Expected Inflation +

Avg Growth Rate +

Term or Risk Premia =

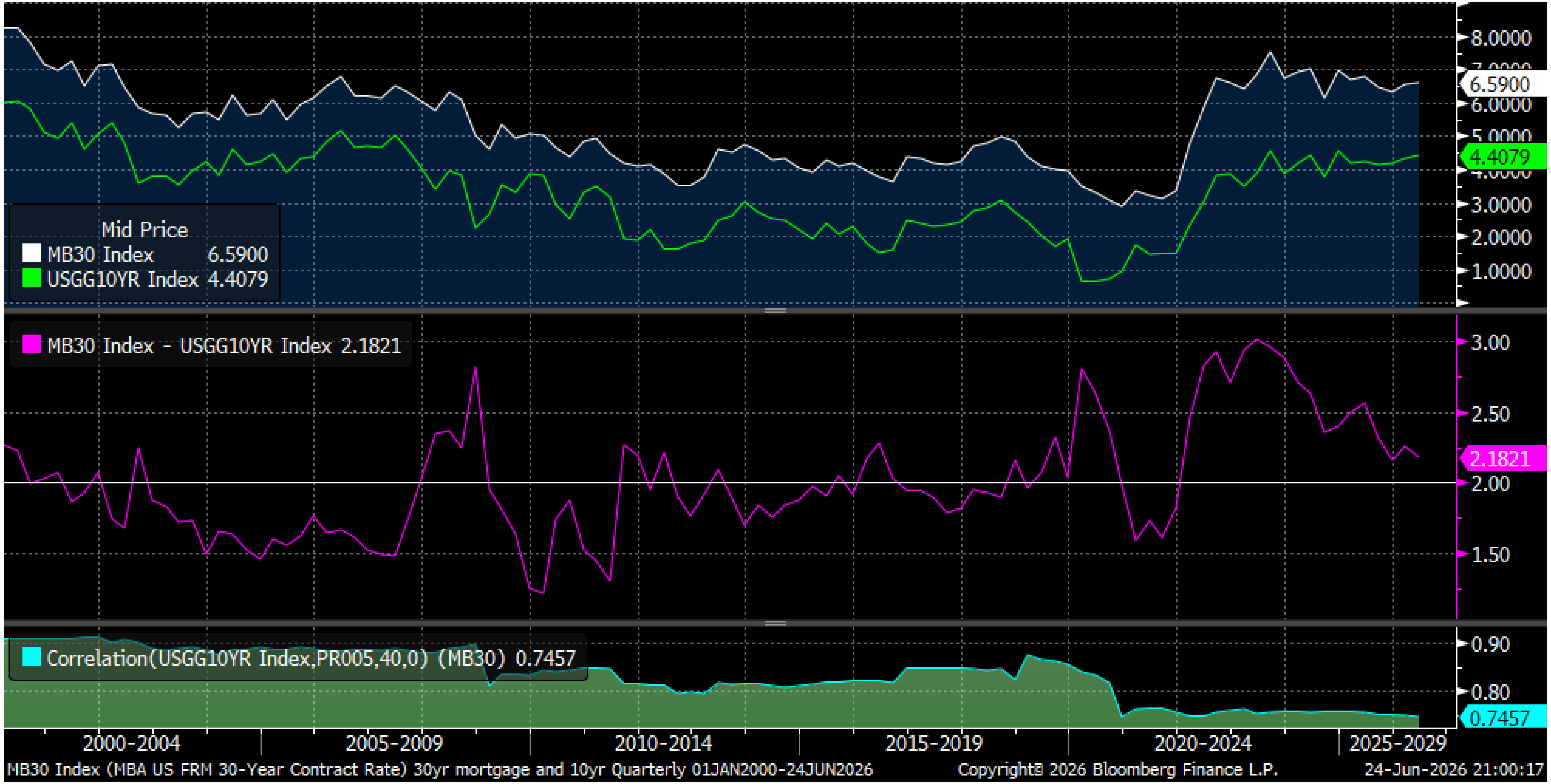
10yr Treasury Yield

Ex)

2.0% + 2.4% + 0.1% = 4.4%

- Uncertainty around US fiscal picture is supporting long term rates
  - With sticky 10yr rate, that’s propping up mortgage rates
  - Without a recession, we don’t anticipate lower mortgage rates
- Any concerns about Federal Reserve independence likely props up longer-term rates

30yr Mortgage v. 10yr Tsy



Bloomberg. 6/24/26

Deposit Strategy

Maturity	Bid Yield
1 Month	3.65%
3 Months	3.73%
6 Months	3.86%
1 Year	4.03%
2 Years	4.06%

Source: US Overnight Index Swaps. 6/24/2026

- Deposit "costs" can range from 5bps to 100bps
  - Varies based upon digital v. branch, retention v. new money, marketing, operations
- If we assume 50bps:
  - Breakeven 6mo rate ~ 3.3%
  - Breakeven 1yr rate ~ 3.5%
- The "CD special" rate should be under 4%

Loans: Favor Repriceable Assets, Caution on Long Fixed

What we like:

- ARMs, HELOCs & floating member business loans
  - Asset-sensitive — stay higher if the Fed holds
- Deeper member-engagement loans
  - Nonconforming mortgages, MBL, relationship credit
- Used autos at the "right" rates
  - Re-"memberize" the '22 indirect auto rolls
  - New-auto competition will be tough

Proceed with caution:

- Long-duration fixed-rate lending
  - Locks in yield below where rates may stay; watch extension risk
- Don't bank on a refi wave
  - 10yr ~4.4% and mortgages track it — don't staff or market to it
- Moving down the credit spectrum
  - K-shaped low end squeezed by sticky inflation — less saving, more card debt

Investment Ideas

- Investment focus has changed over last 6 months – less risk of a lower rate environment
- Focus shifting towards management of potential extension risk
- What products provide reasonable yield without too much duration?
  - ARM pools
  - Mandatory redemption CMOs to limit extension risk
- Callable products with par price, frequent calls, short lockouts remain ugly, but some discounted options outperform CD offers
- Leverage for well-capitalized CUs with below average LTS
  - Float-to-float strategies have captured current yield spreads between 50 and 100bps lately

Action Items

- Be disciplined on your target cash-to-assets
  - Opportunity cost of cash is real with upward sloping curve
- Determine whether you need to be rate competitive on member CD rollovers
- Understand which loan types and members are driving profitability
  - "Where the math and the mission meet."
- Stay on top of credit trends, its lumpy

Questions?

Thank you for tuning in and your partnership!

Select Upcoming Events

- Late Summer: CECL Validations Webinar
- August 27th: Accolade Education Day in Jackson, MS
- September 29-30th: Tennessee League Convention
- October 7-9th: Ohio Mid-Size CU CEO Roundtable
- October 20th-21st: TN/MS Small CU Forum

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