



ACCOLADE

Three Yards and a Cloud of Dust:

Balance Sheet Management Principles in a  
Changing Rate Environment

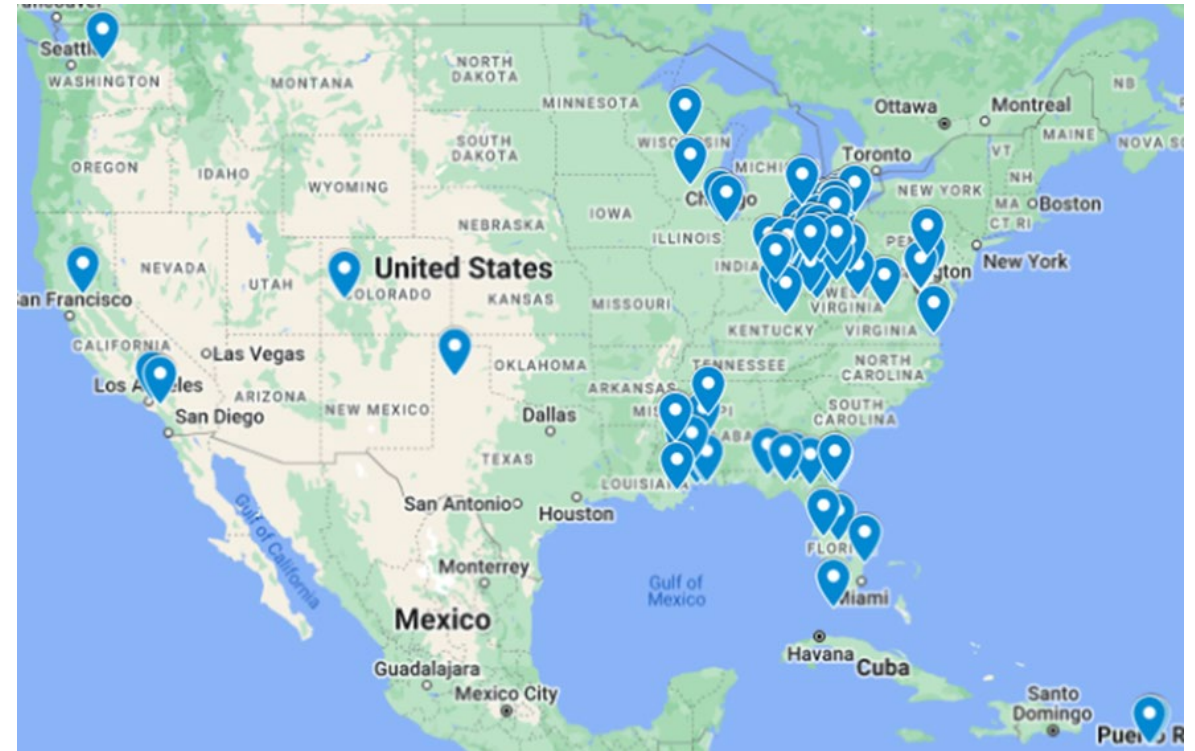
JD Pisula, CFA  
President/CEO

October 2025

# About Accolade

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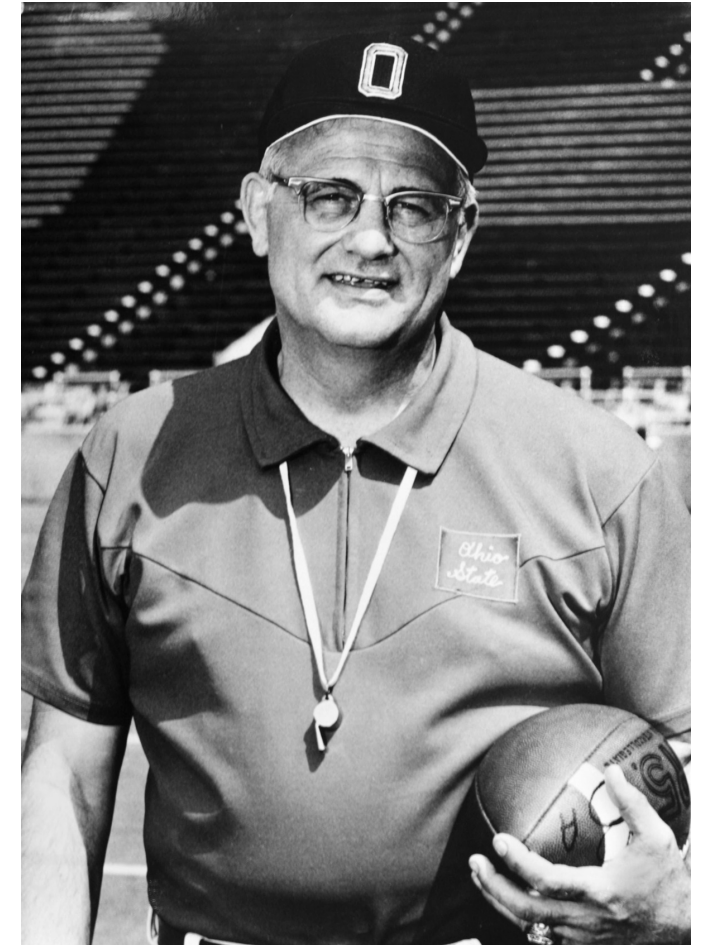
- A wholly-owned CUSO of Corporate One Federal Credit Union
- We provide:
  - Outsourced Chief Investment Officer
  - ALM reporting and consulting
  - Loan Analytics and CECL tools
  - Loan Pricing & Profitability consulting
- We've got your back, empowering credit union leaders to focus on what only they can do—serving members and driving their mission forward.



# Woody Hayes: Discipline, Fundamentals, and Persistence

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- Head Coach, **Ohio State (1951-1978)**
  - 5 national championships
  - 13 Big Ten championships
  - Head Coach at **Denison University (1946-48)** and **Miami University (1949-50)**
- Known for discipline, preparation and building depth—teams that outlast opponents
  - Success comes from persistence, fundamentals and avoiding unnecessary risks





# Agenda

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- The Game Plan
  - Economic Update
- Game Day Strategy
  - Controlling the Line of Scrimmage: ALM
  - Reluctance to Pass: Investment Strategy
  - Recruiting and Development: Lending



# The Game Plan: Economic Update

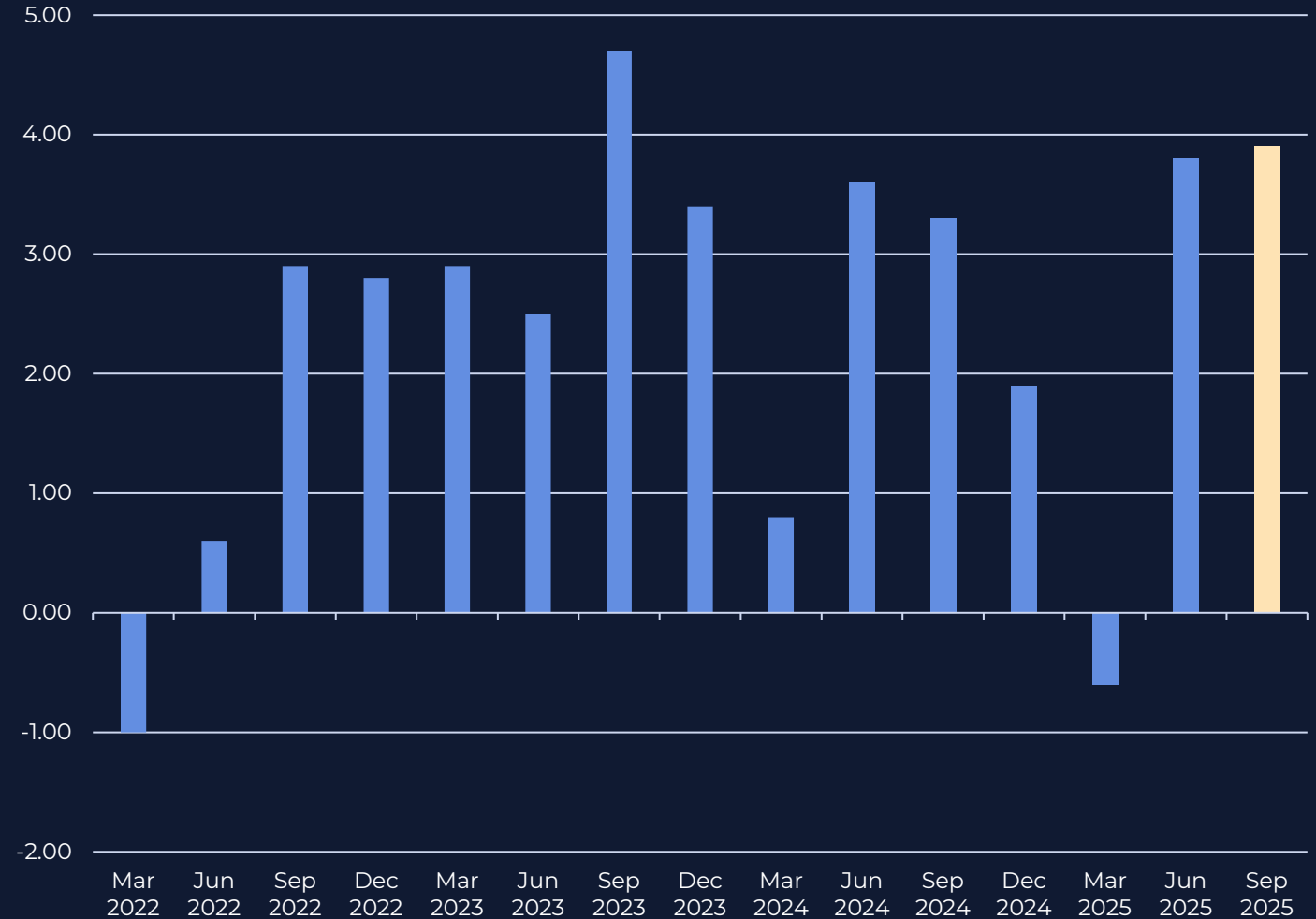


Like Hayes facing Michigan in November snow, you can't control the weather—but you can prepare your playbook.

# Big Picture: We're All Good!

- 2Q GDP growth reversed from 1Q decline – all about imports
- Negative economic growth in 1Q2025 was due to dramatic increase in imports (to avoid tariffs)
- Huge rebound in second quarter, with third quarter expected to be okay as well
- Focus on consumer spending, not volatile trade flows, for signs of economy's health

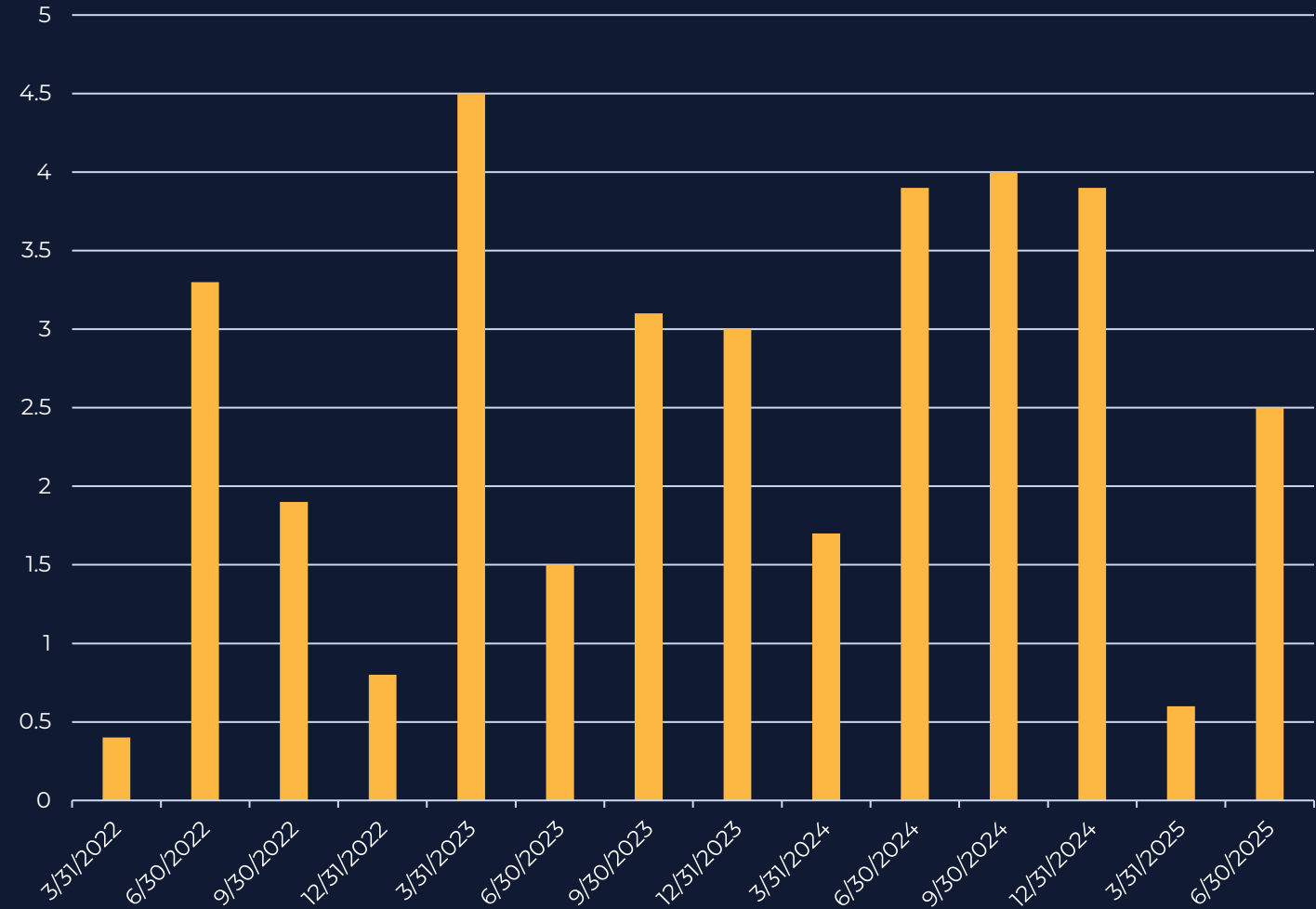
Quarterly GDP Growth



# US Total Household Spending

- Quarterly change in PCE shows pullback by consumers driven by tariff announcements
- Consumption recovered in 2Q as tariffs haven't begun to bite consumers yet

Quarterly Growth in Personal Consumption



# Uncertainty Weighing on Americans

- Stop/Start tariff rollout
- Jobs picture
- High home prices
- Geopolitical events

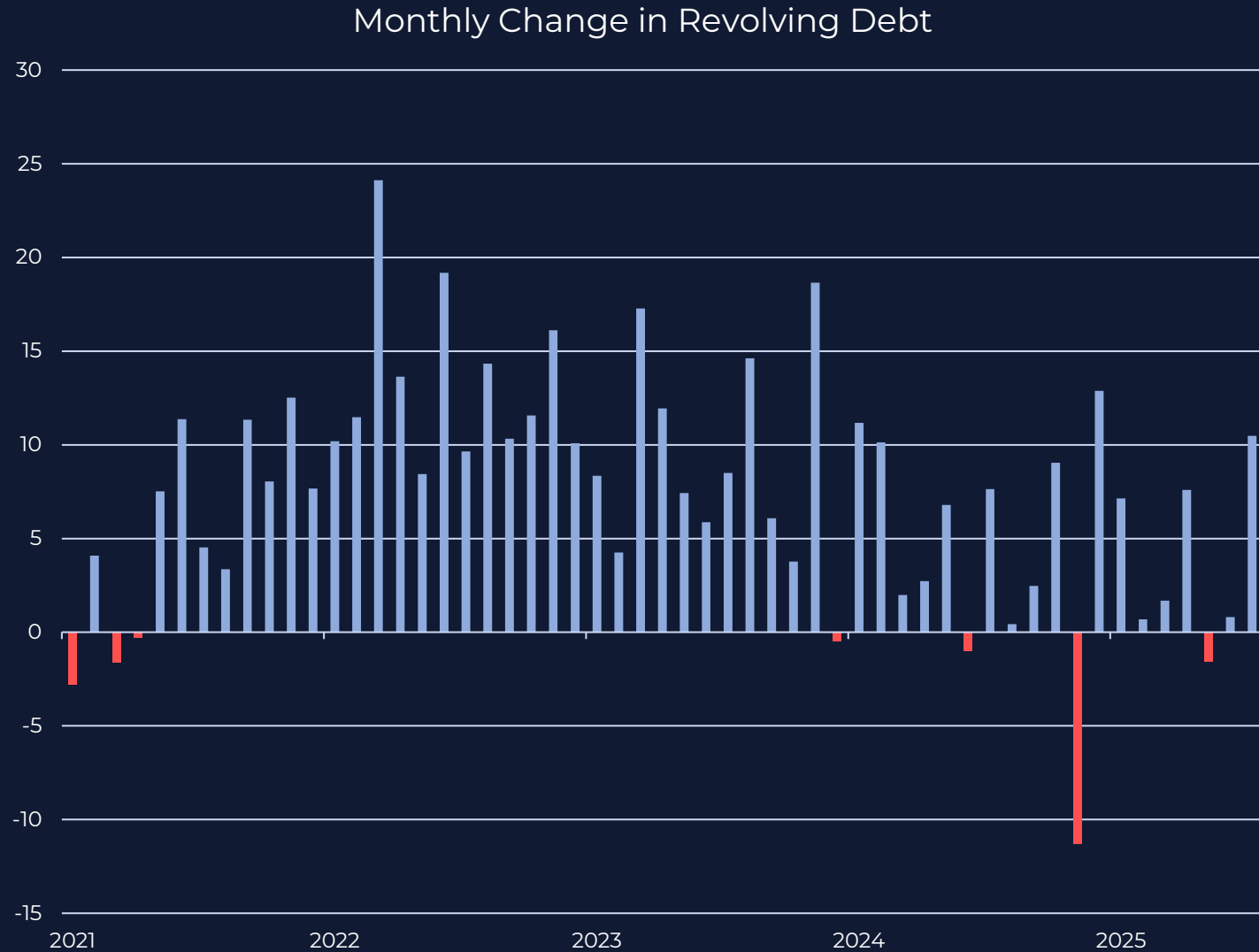
Consumer Confidence (Univ of Mich)





# Revolving Debt

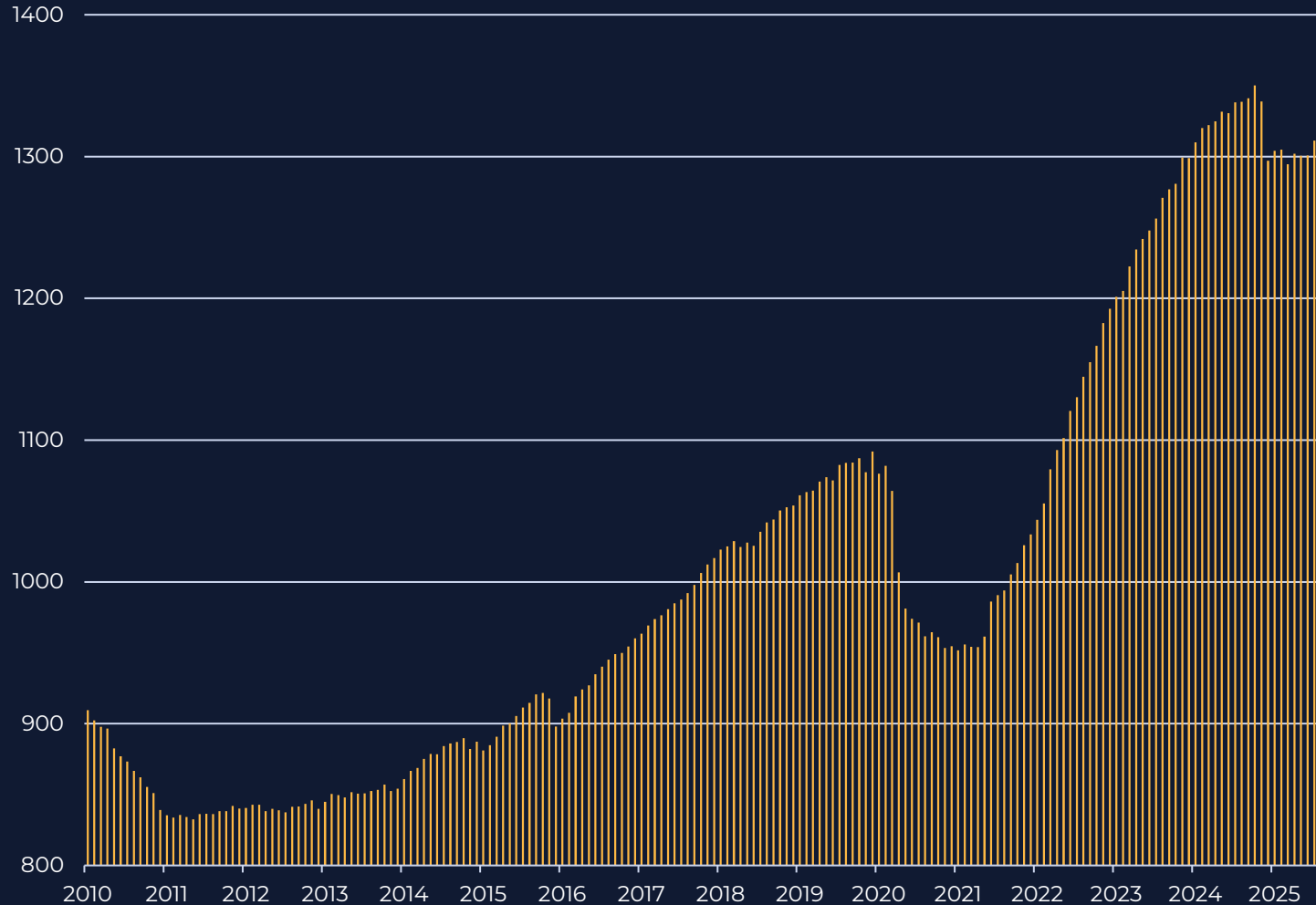
- Pullback in credit card balances appears to have been temporary
- Volatility in credit card balance growth
- Despite stated concerns, American consumers adding to balances
- Uncertain outlook for CU credit card balances



# Revolving Debt

- Bigger picture over the past 15 years
- Increase in consumer credit outstanding was only temporarily paused by pandemic stimulus funds
- Flip side of reduced spending is increased savings

Revolving Consumer Credit Outstanding



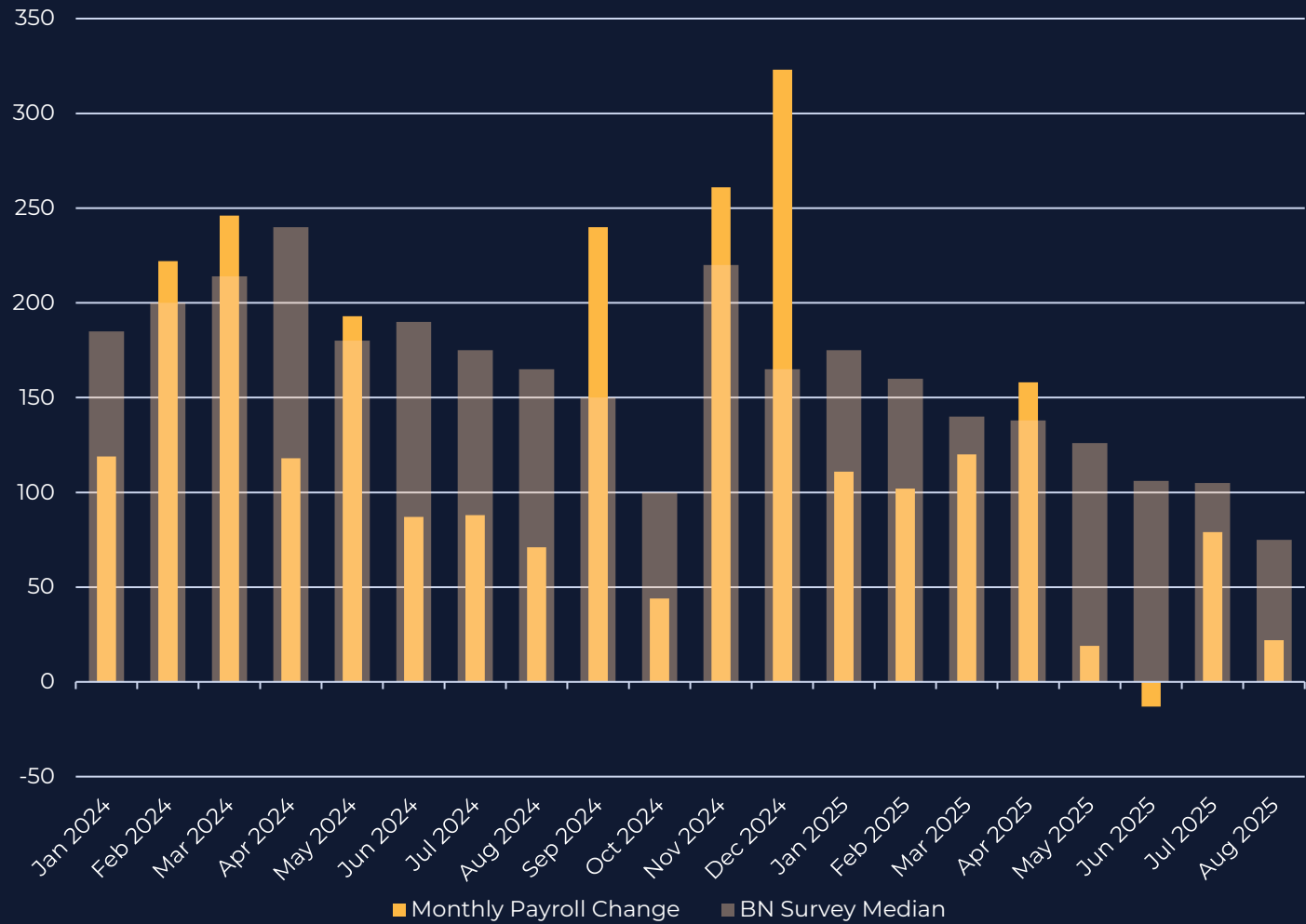
# “Duel” Mandate: Jobs and Inflation



# Job Growth

- Very significant slowdown in job creation beginning in May
- Dramatic shift in payrolls data was revealed in July's report
- Negative revisions caught President's attention
- Set the stage for rate cuts as labor market undeniably weak

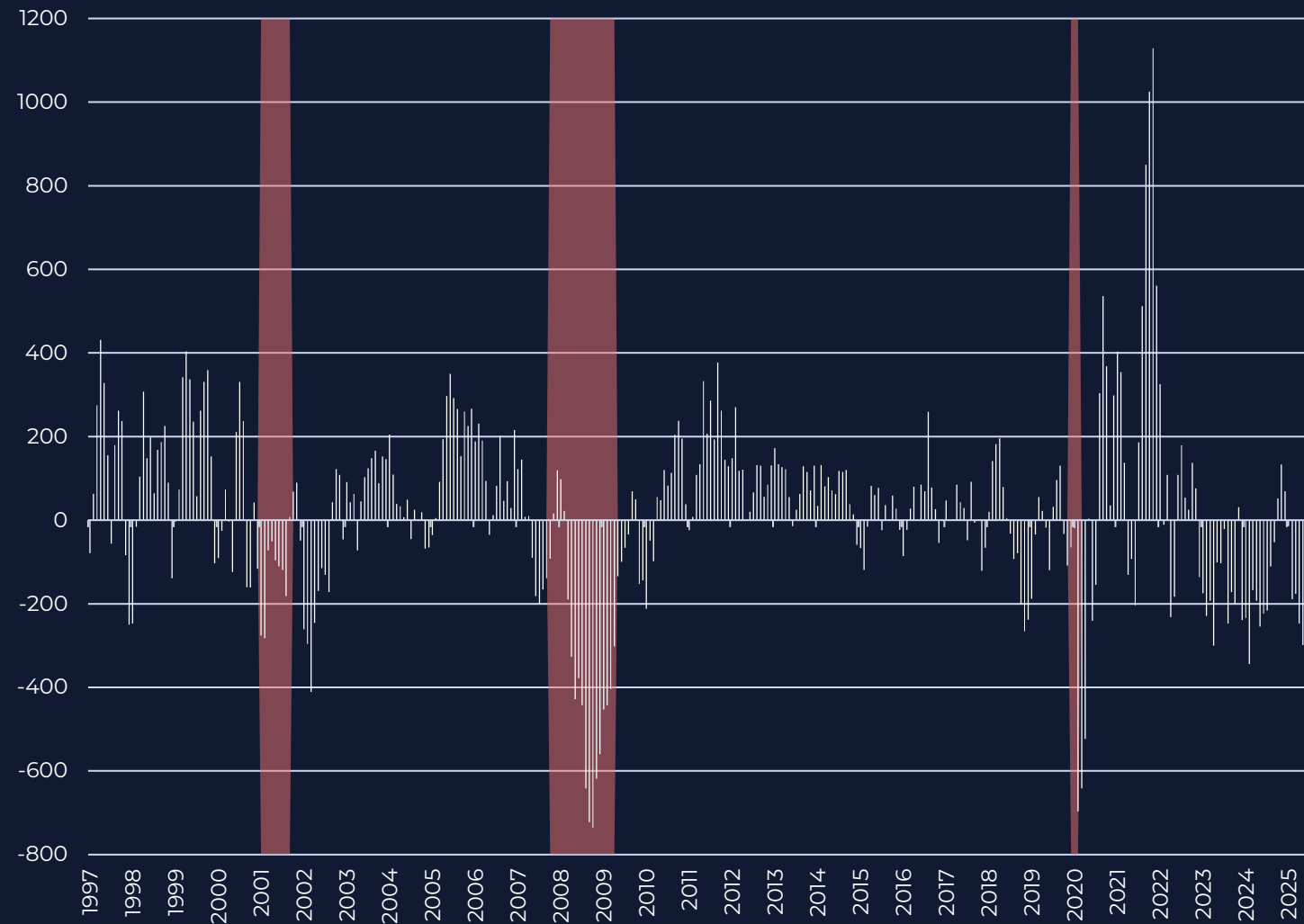
Monthly Payroll Growth Vs. Median Forecast



# Payroll Revisions

- “You can have it fast or you can have it right”
- Size of revisions not large by historical standards
- Large downward revisions frequently coincide with turning points in the economy
- BLS has to make assumptions about late filers – their assumptions were too bullish

Trailing 3-Month Net Revisions to Nonfarm Payrolls



## Why Hasn't Unemployment Rate Moved More in 2025?

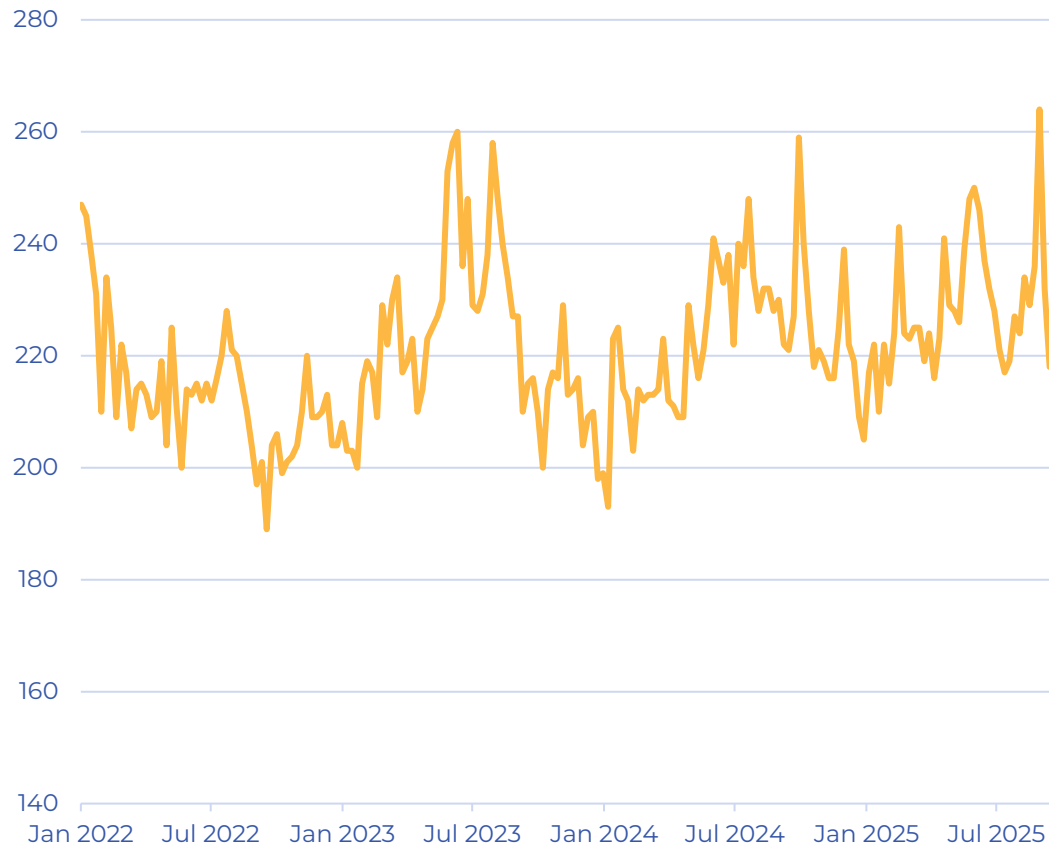
- US undergoing changes to labor force amid immigration crackdown
- Labor force hasn't materially changed size so far this year
- No job growth + no labor force growth = no change in unemployment rate
- August's bump up to 4.3% marks highest level since 2021



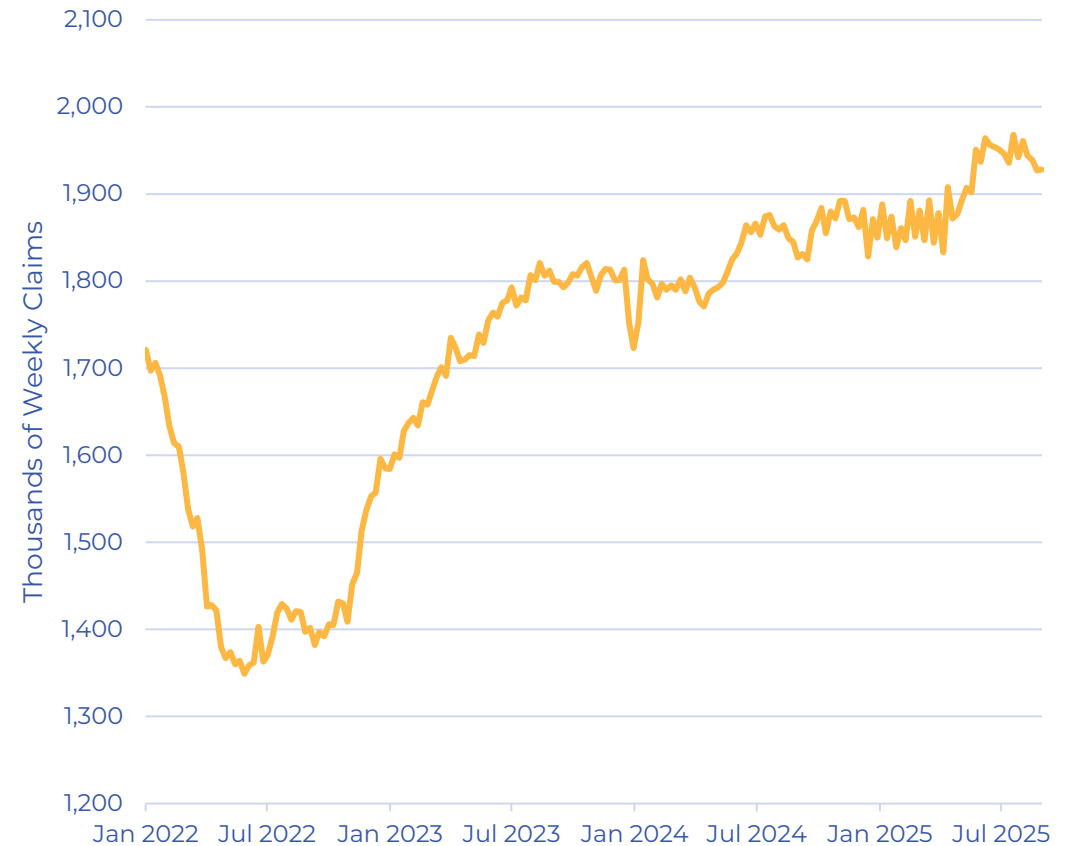


# Low-Hire, Low-Fire Labor Market

Initial Jobless Claims



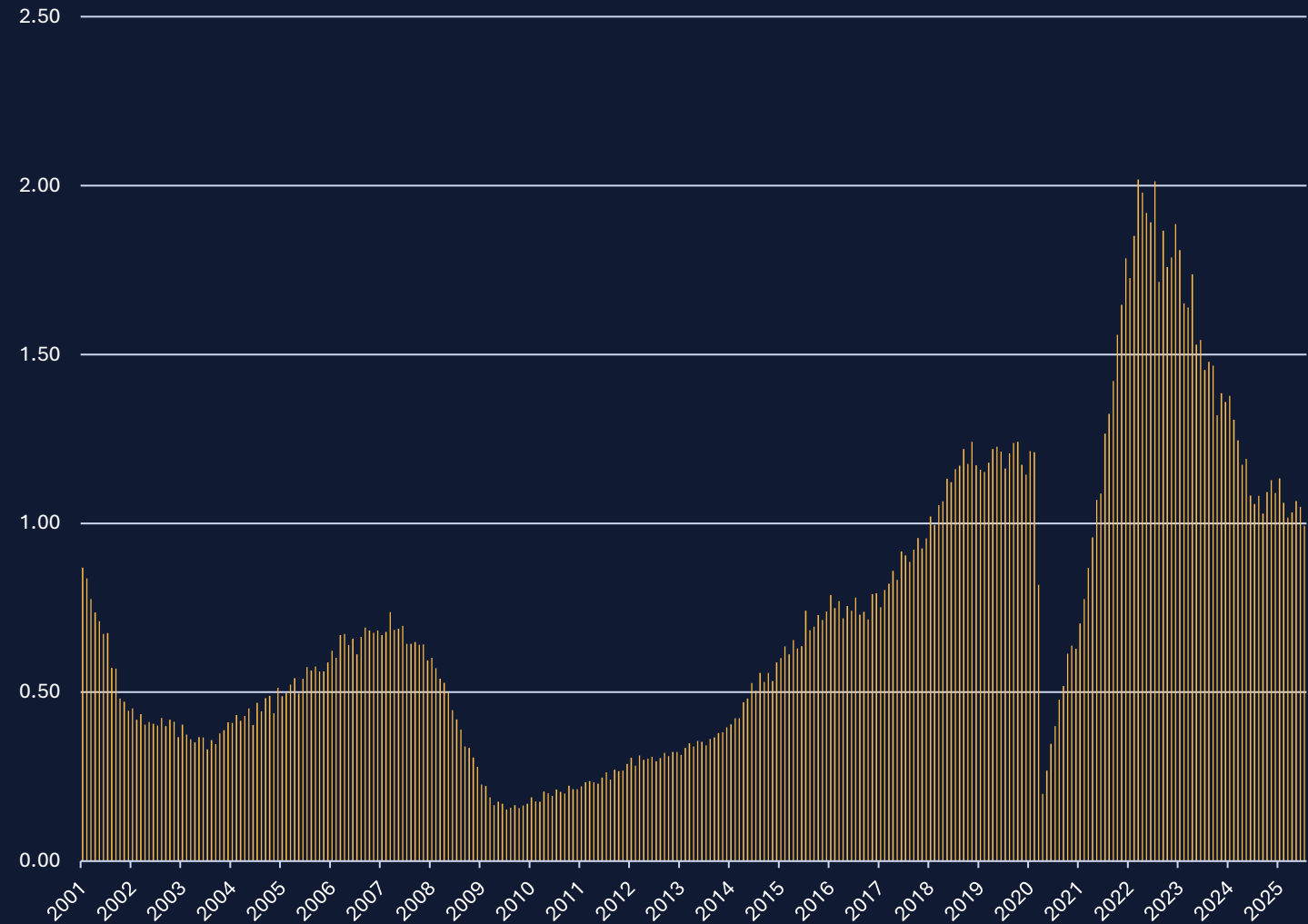
Continuing Jobless Claims



## Number of Unemployed Exceeds Open Jobs

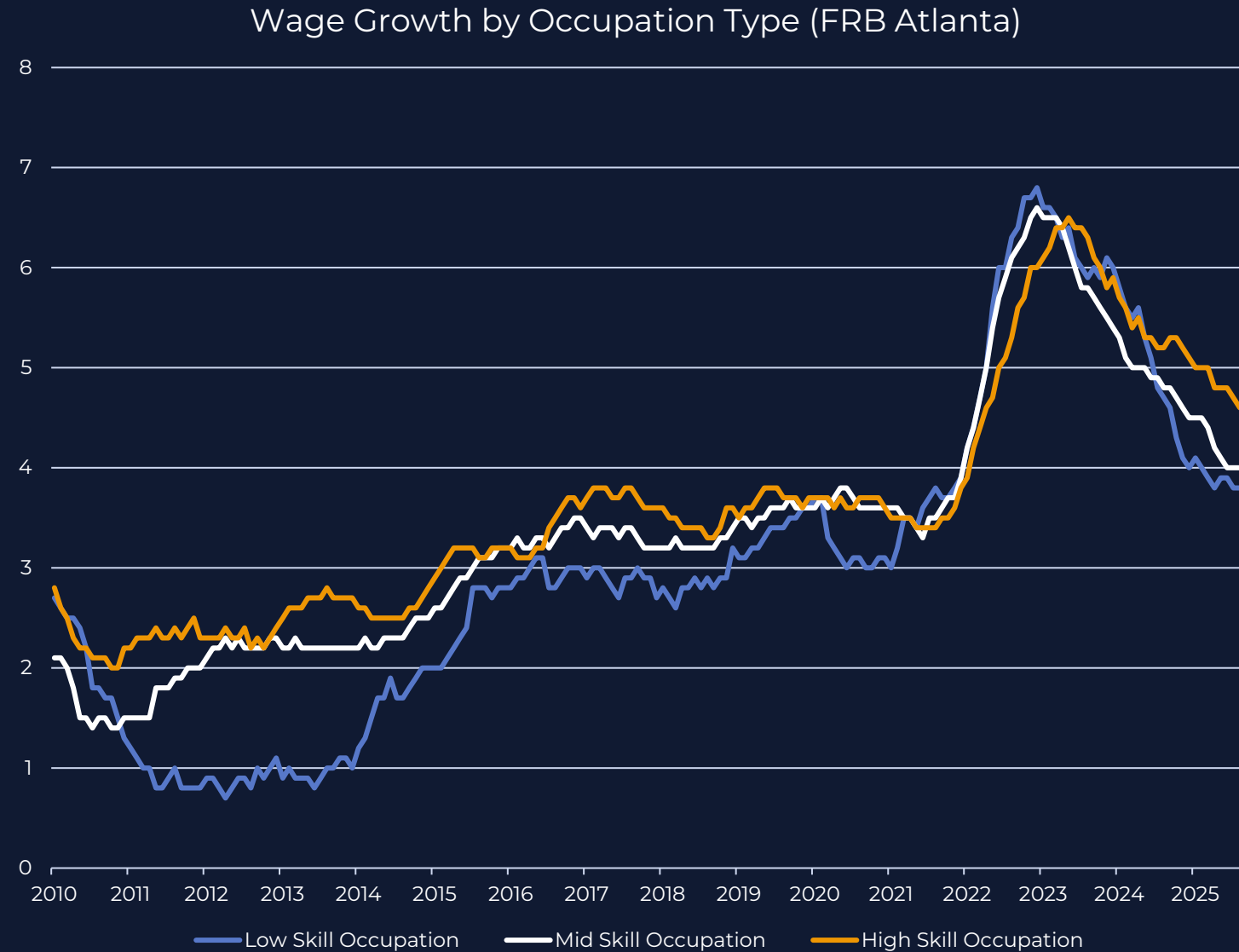
- Less than 1:1 ratio of openings to unemployed Americans
- Difficulty for those on the sidelines re-entering workforce

Number of Job Openings per Unemployed Person



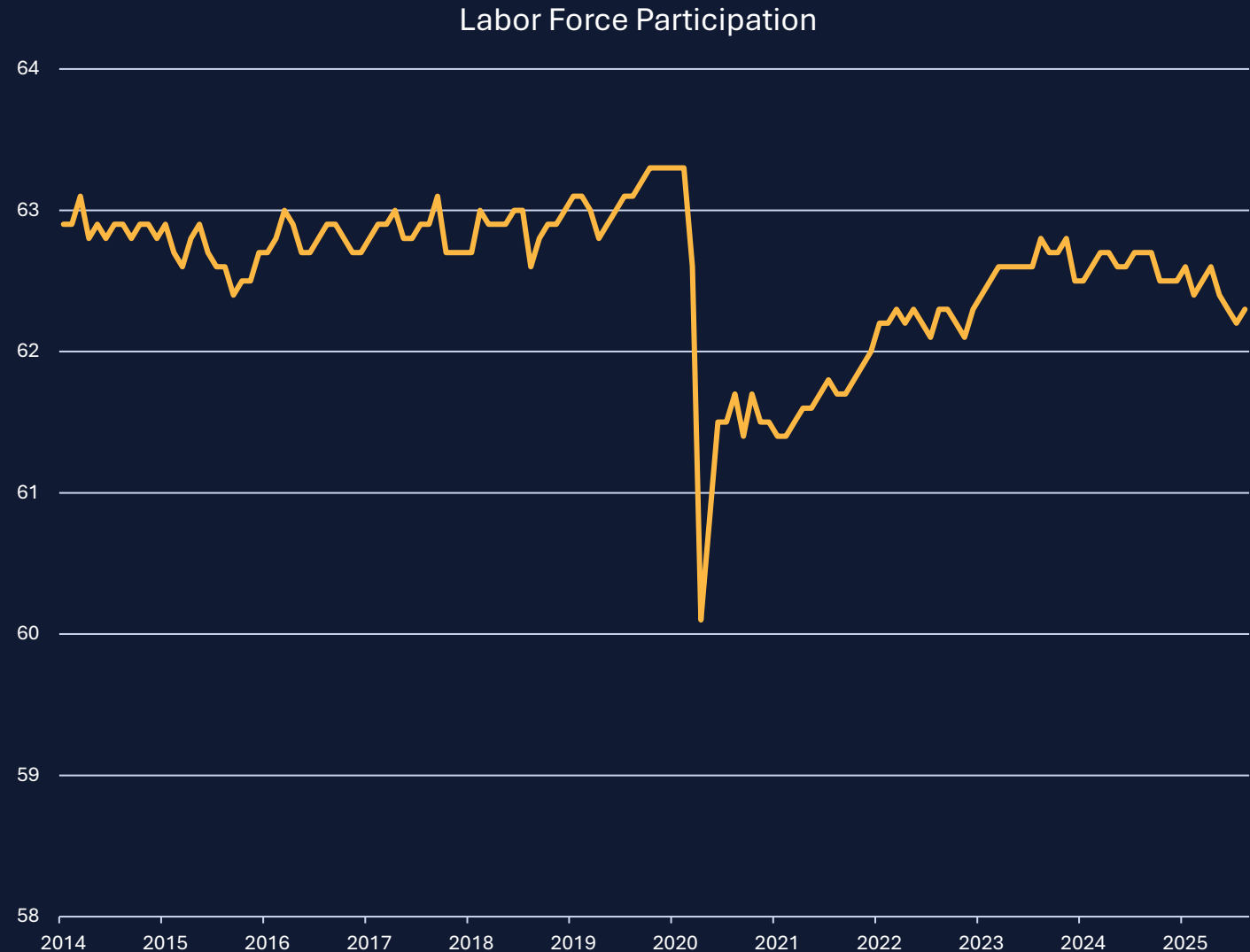
# Wage Growth

- Disparate wage growth reappearing after pandemic lifted all wages similarly (%-wise)
- Wage growth for entry-level, lower skill positions dropping significantly
- Wage growth at high skill positions nearly 1% higher vs. lower/medium skill positions



# Working Americans As a % of Population

- Dramatic COVID-induced decline was largely reversed
- However, demographic trends have pushed labor force participation lower
- Larger economic responsibility for those in the workforce



## Dramatic Change in 55+ Participation

- Great recovery in prime age participation – 83.5% of those aged 25-54 are in work force
- Lower cohorts pulling overall participation down and Americans are aging
- 55+ participation rate near 38% (from 40% pre-COVID)

Labor Force Participation: Prime Working Age vs. 55+



## Labor Market Wrap-Up

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- Lack of job growth is very concerning and could be indicative of recessionary conditions
- Long-term impact of lower population/labor force growth is lower economic output

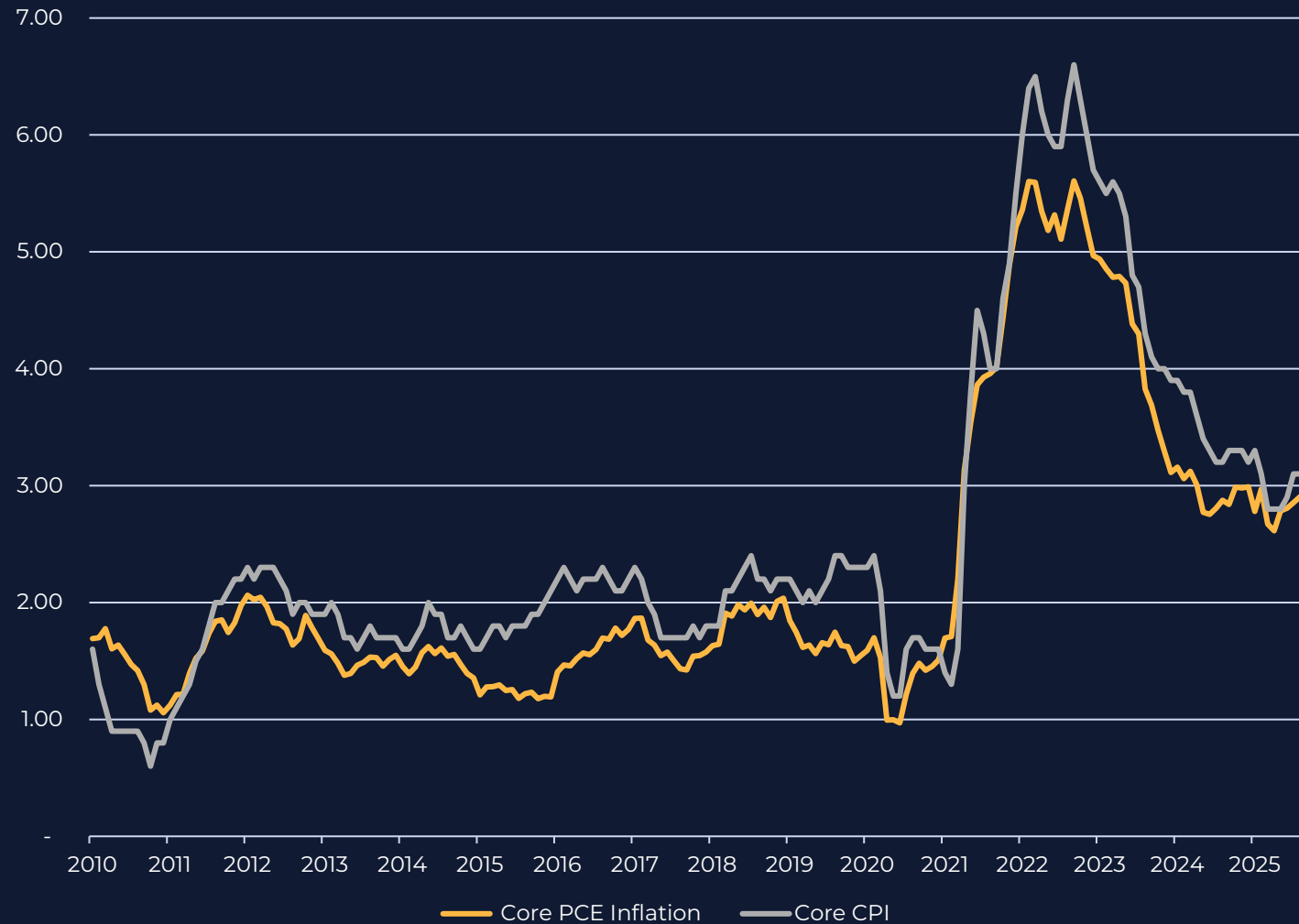




# Inflation

- Prices were moderating nicely after COVID spike and had been close to Fed's 2% goal for over a year
- Tariff announcements led to spike in inflation forecasts
- Recent increases in prices not sufficient enough yet to derail rate cut expectations

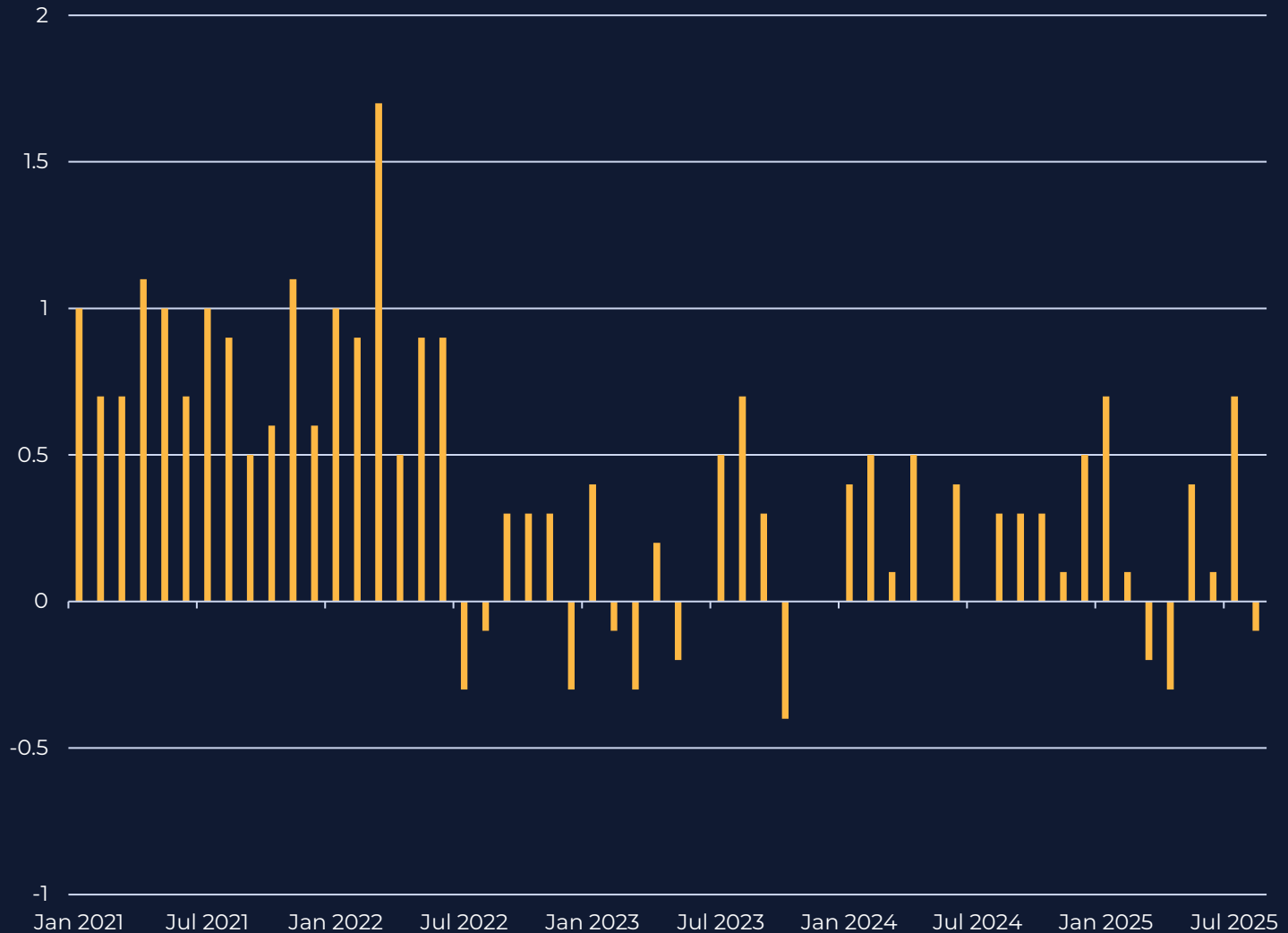
YOY Inflation (Core PCE and Core CPI)



# Producer Prices

- July's spike in wholesale inflation fanned flames of inflation expectations, but August didn't follow through
- Tariff passthrough hasn't been seen in consumer prices in a significant way (yet)

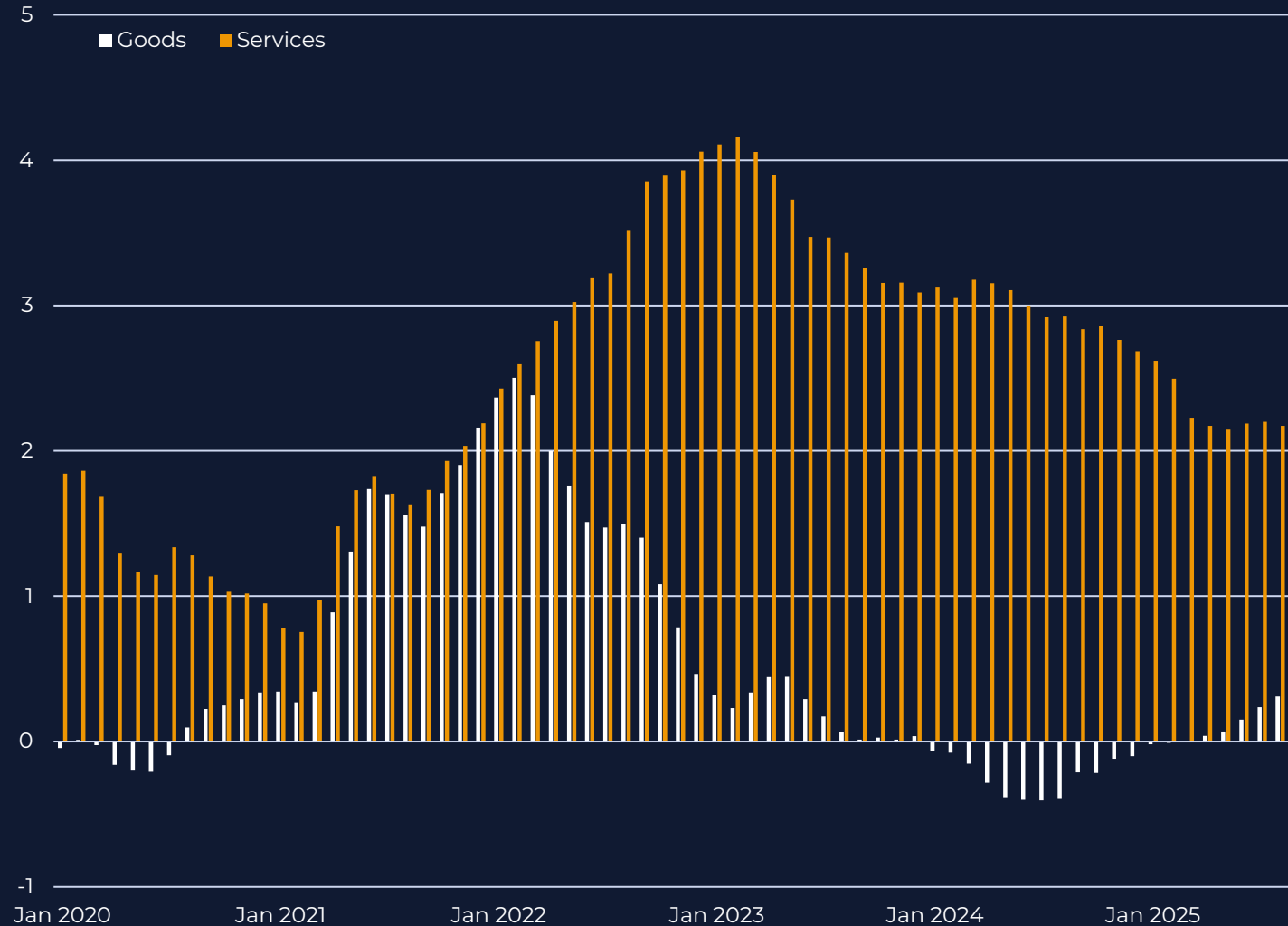
Monthly Increase in Wholesale Inflation



# Goods v. Services

- But goods prices are rising
- Inflation was already going to have upward pressure as goods pricing no longer falling
- Higher goods prices expected to keep pressuring inflation

Contributions to Overall CPI



# Inflation Is Expected

- Both consumers and businesses have bumped up their expectations for inflation over the coming year
- Expectations not important as economic indicators, but more as a component of how each group will make spending decisions

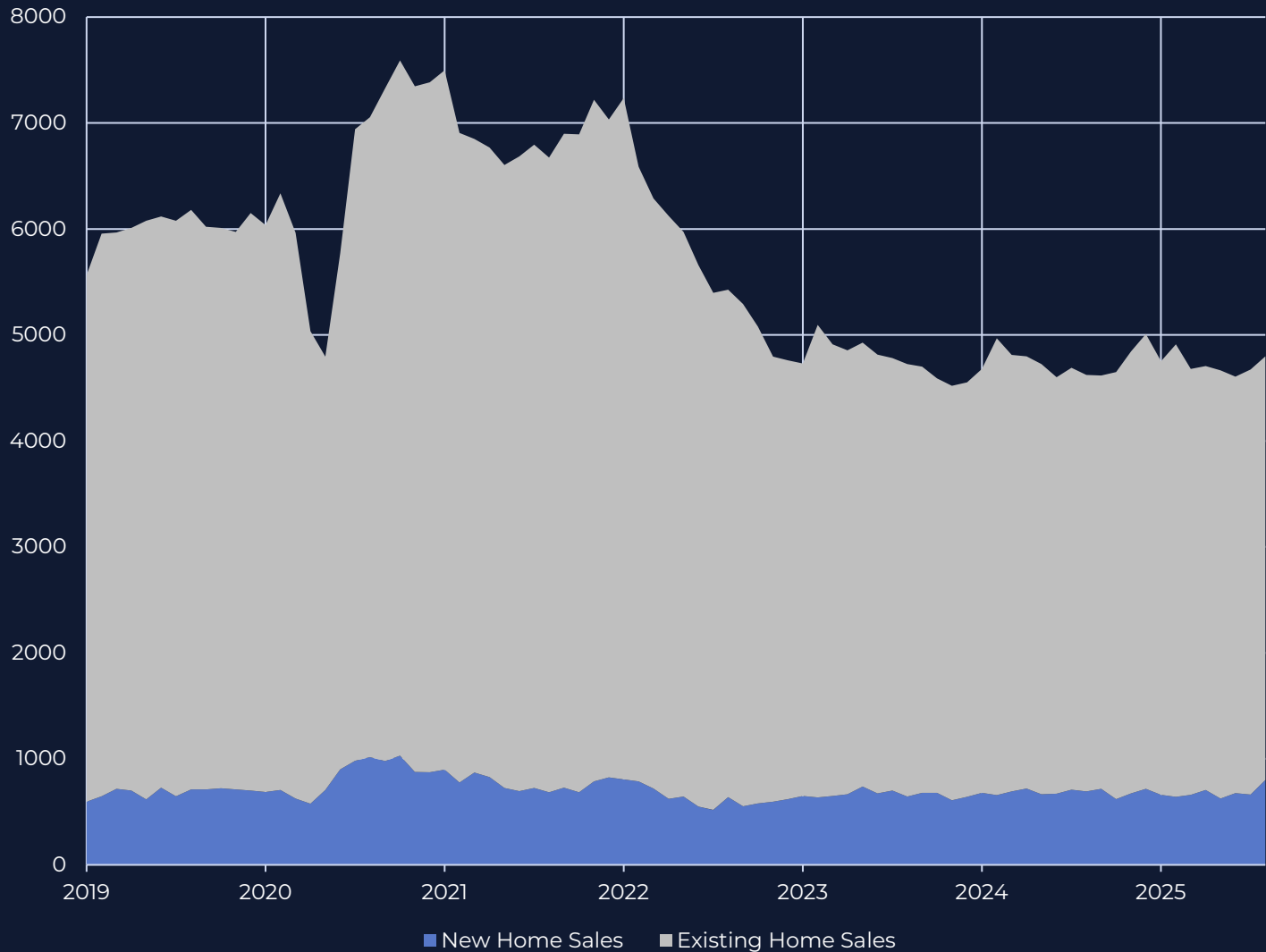
Year-Ahead Inflation Expectations



# Home Sales

- Housing market remains weak
- Slight bump in August new home sales, but overall levels still consistently low

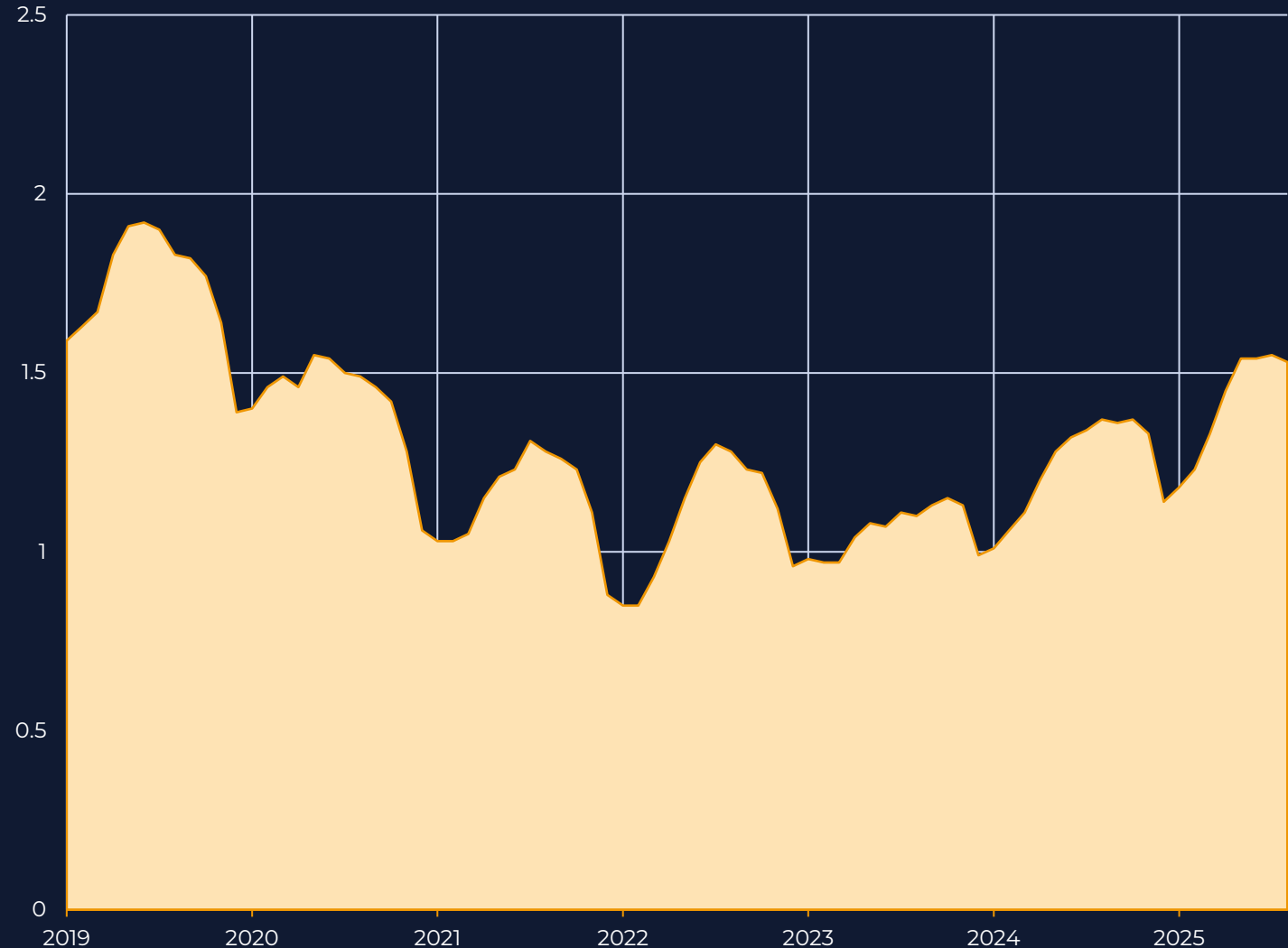
Total Home Sales



# Home Supply

- >1.5mm homes for sale
- Largest number since early 2020
- Supply isn't fixing frozen housing market, rates need to help

Inventory of Existing Homes for Sale (Millions)





# Homebuilders Anxious

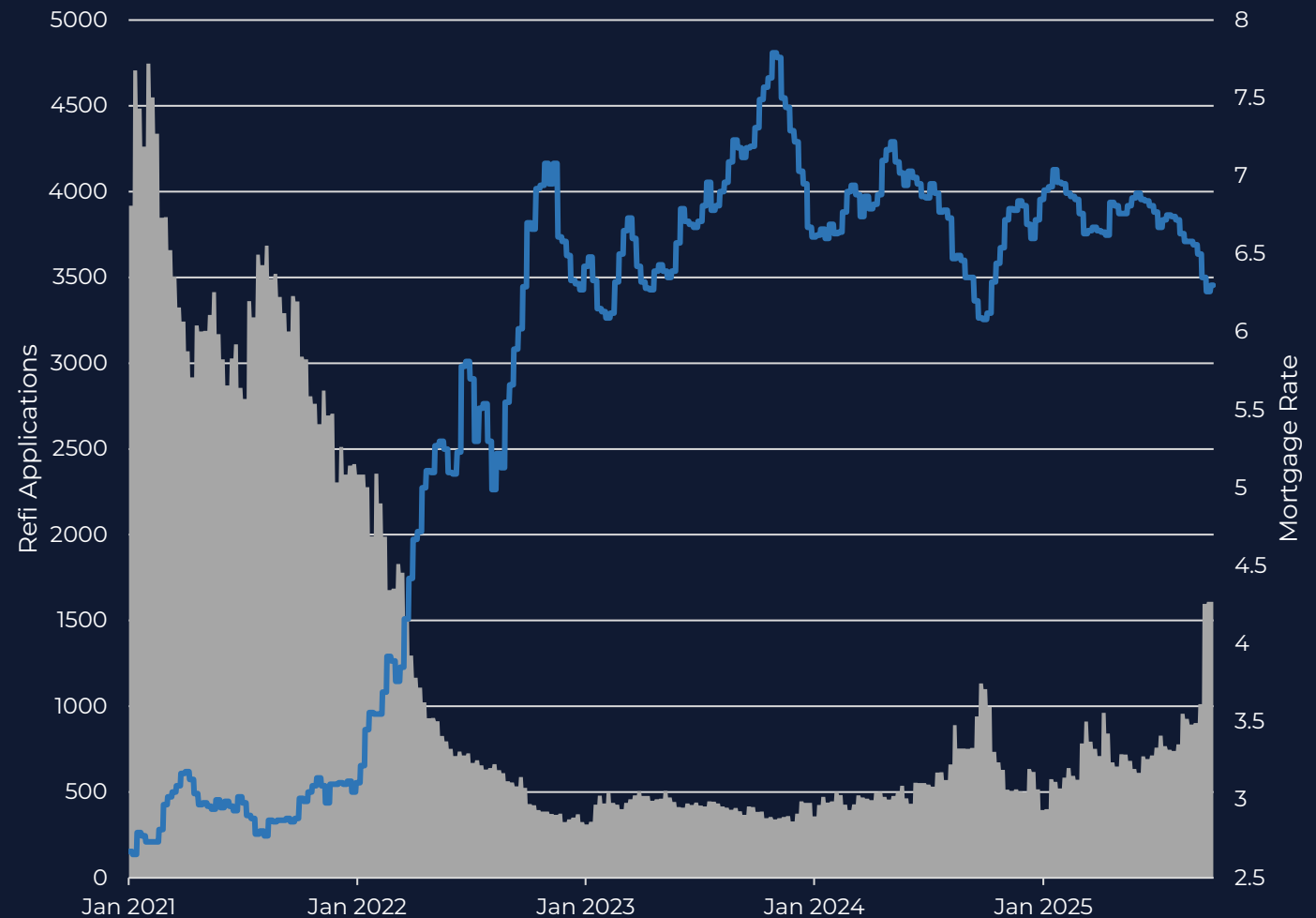
- Single-family homebuilders see stockpile of homes building up and are cutting back new construction

Single Family Homes Under Construction



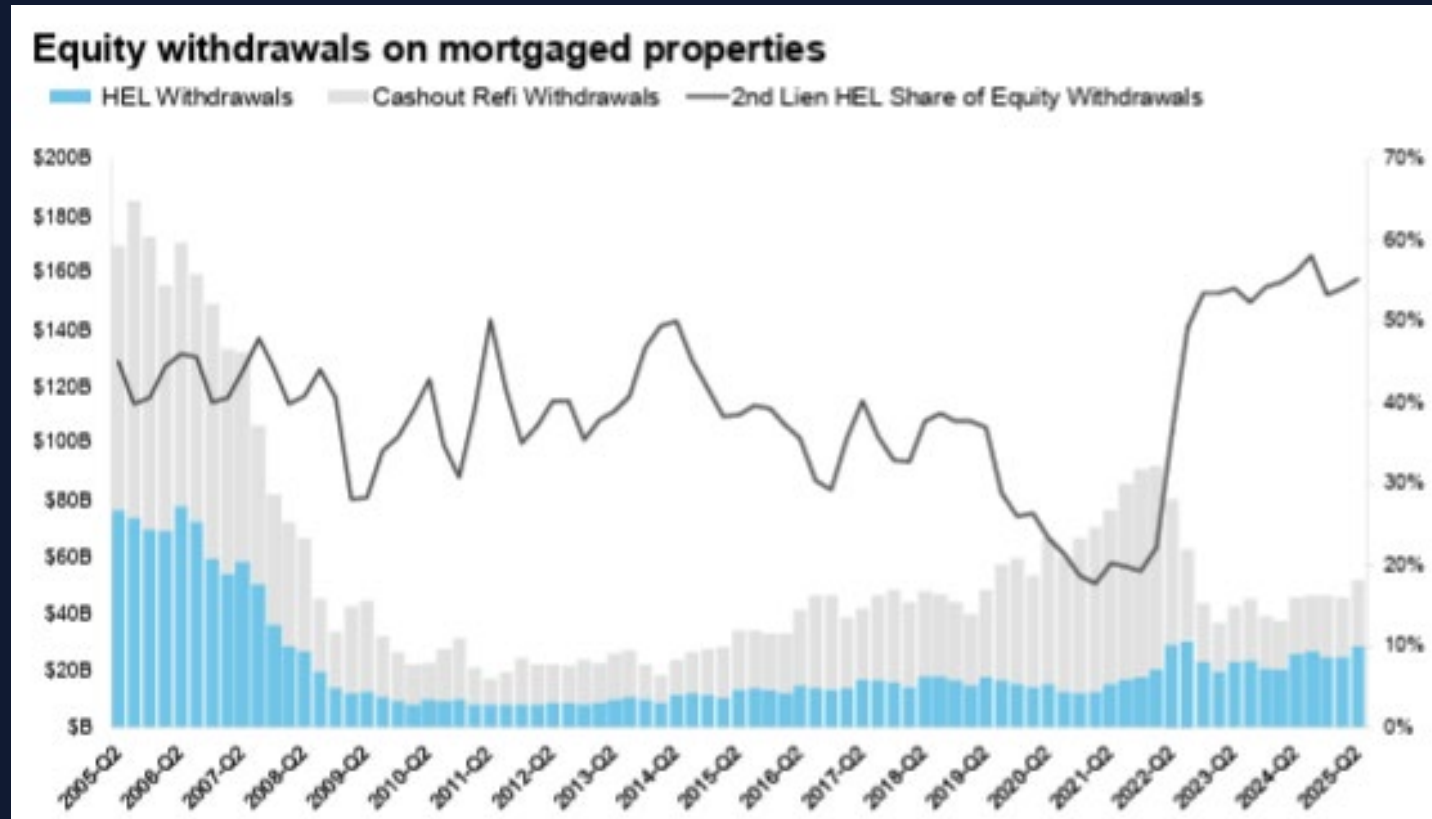
# Some Refi Activity

- Increase in refi volume comes as 30-year mortgage rates approached 6.25%
- Lock-in effect starting to fade (very, very slowly)



# Home Equity Activity

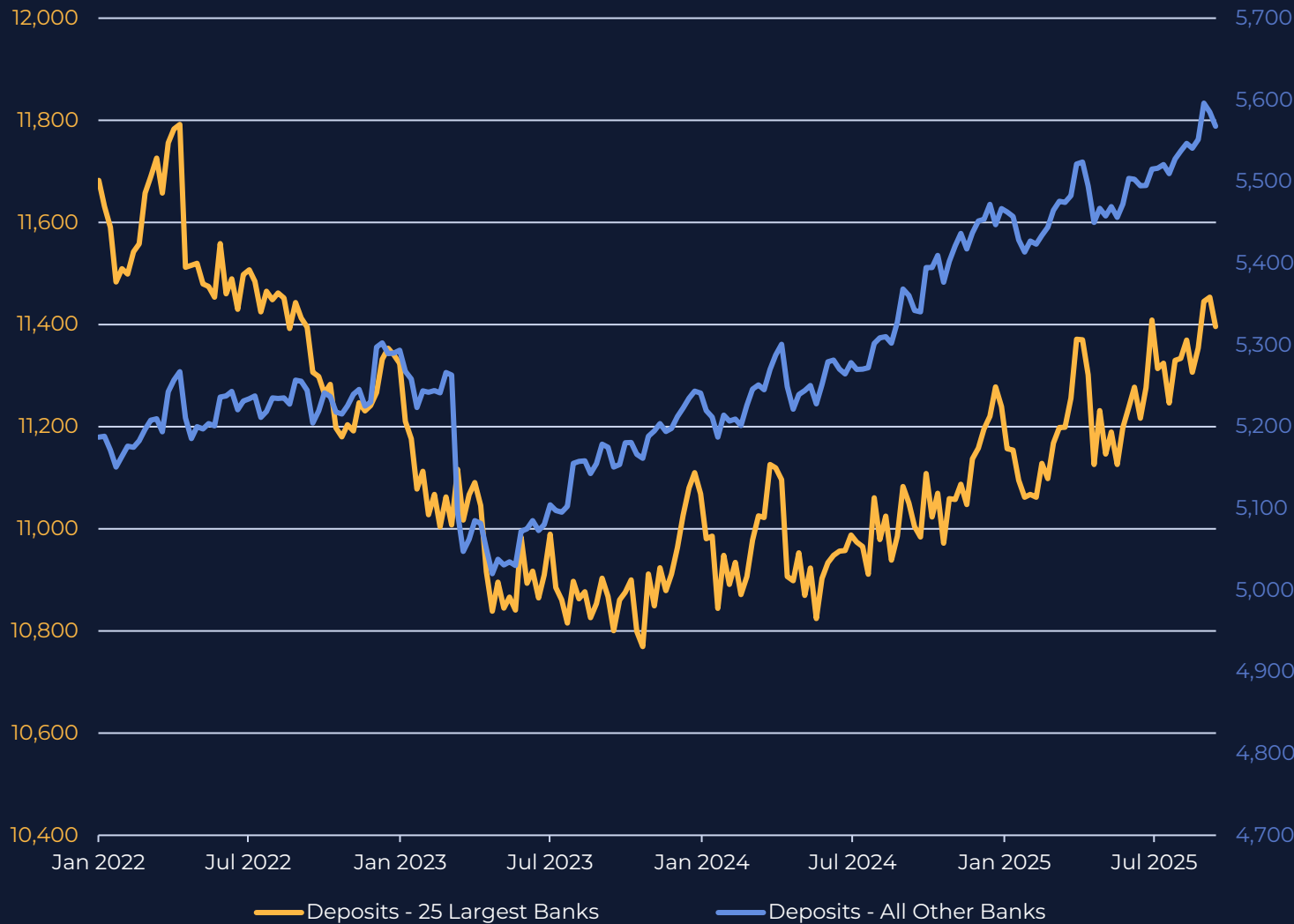
- Homeowners withdrew \$52B in equity via second-lien HEL products and cash-out refinances in Q2 marking the largest single quarter of equity extraction in nearly three years
- High rates impacting volumes here as well, but some decent volumes are lifting balances at CUs
- Subsequent decline in rates should be continuing to support HEL volumes



# Balance Sheets

- Liquidity continues to rise
- Increase in deposits during the summer is unusual
- Could reflect depositor uncertainty

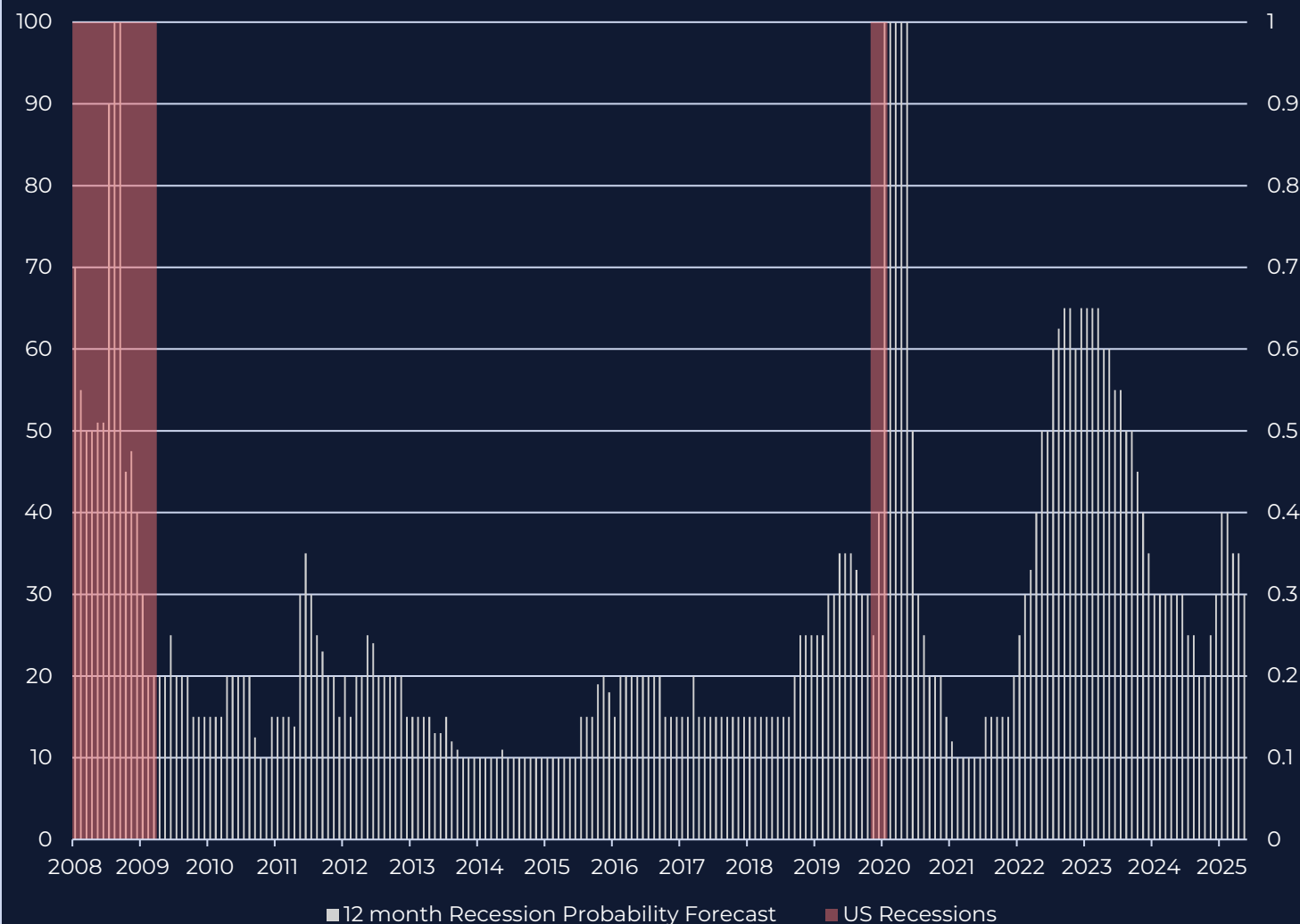
US Bank Deposits



# Recession Risk

- Tariff announcements cause economists to lift recession odds
- But tariff realities causing reversal of this move (perhaps too soon?)

Economist Survey: Recession Probability in 12 Months



# Real Economy Summary

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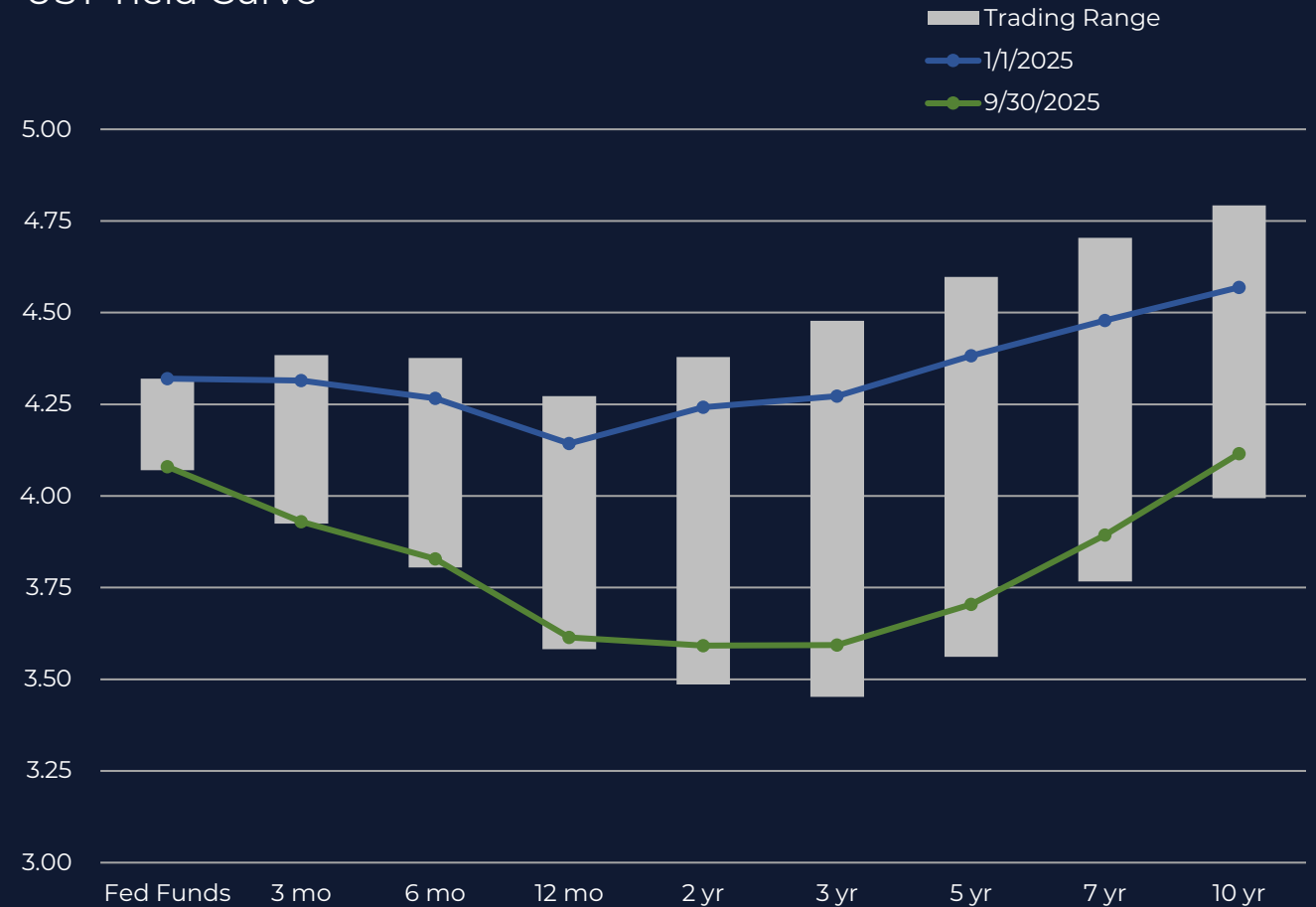
- Inflation and housing market pictures haven't changed significantly this year
  - Inflation expectations are a different story
- Major change this year has been deteriorating labor market
- With realized inflation near target and job picture weak, Fed will cut rates
- Big concern: Inflation increase materializes while jobs picture (and GDP growth) remain subdued



# Rates

- Rates near their lowest levels of the year as markets price in rate cuts
- Two-three year term looks unattractive due to market's expectation for rate cuts
- Go shorter or longer (or both)
- 10yr rates likely to remain elevated
  - Mortgages could still tighten though...

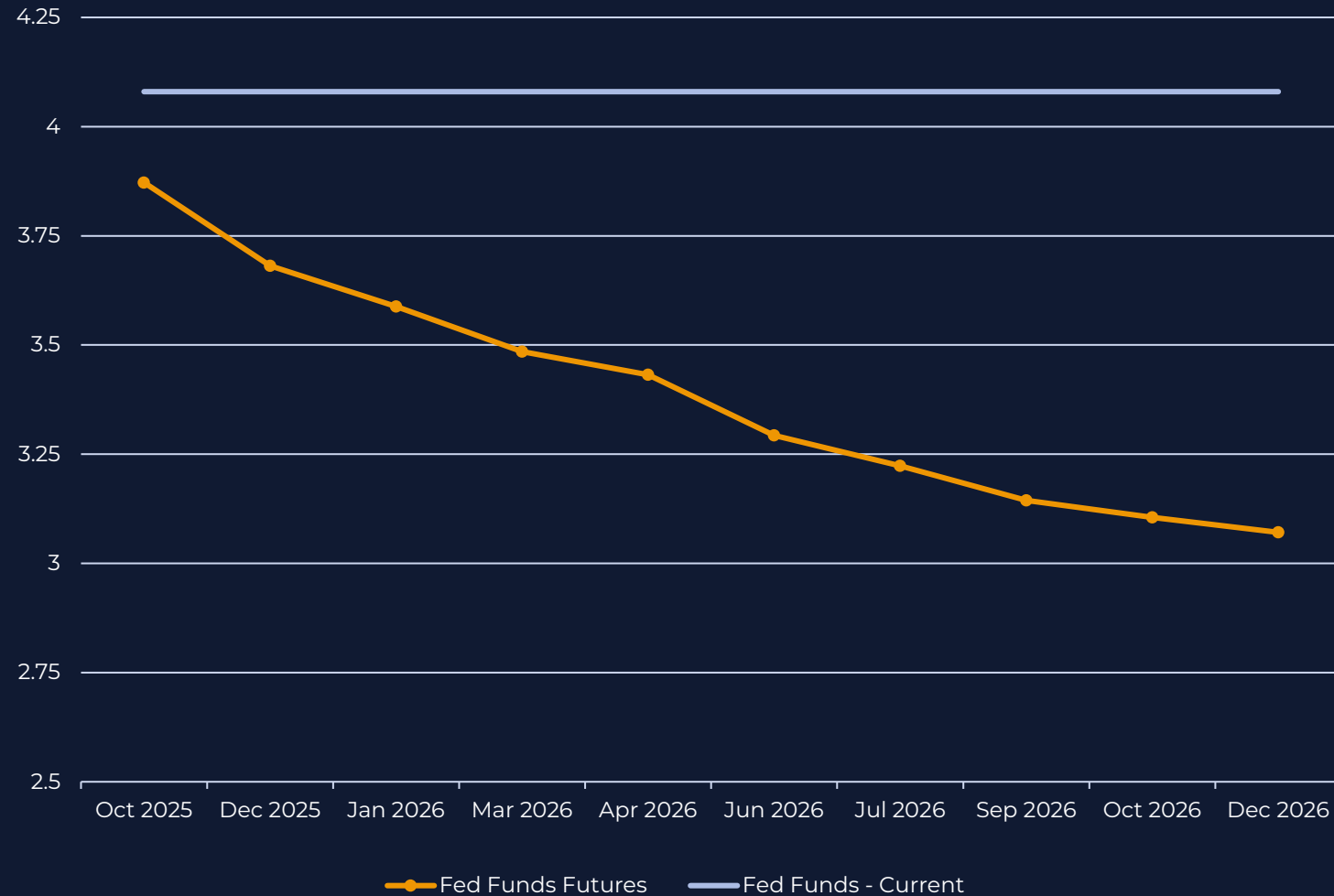
UST Yield Curve



# Overnight Rates

- Market expects next rate cut in September
- Steady rate cuts through beginning of 2026, FOMC policymakers disagree
- With weak labor market, only thing that stops Fed from cutting is inflation

Fed Funds Futures Implied Overnight Rates

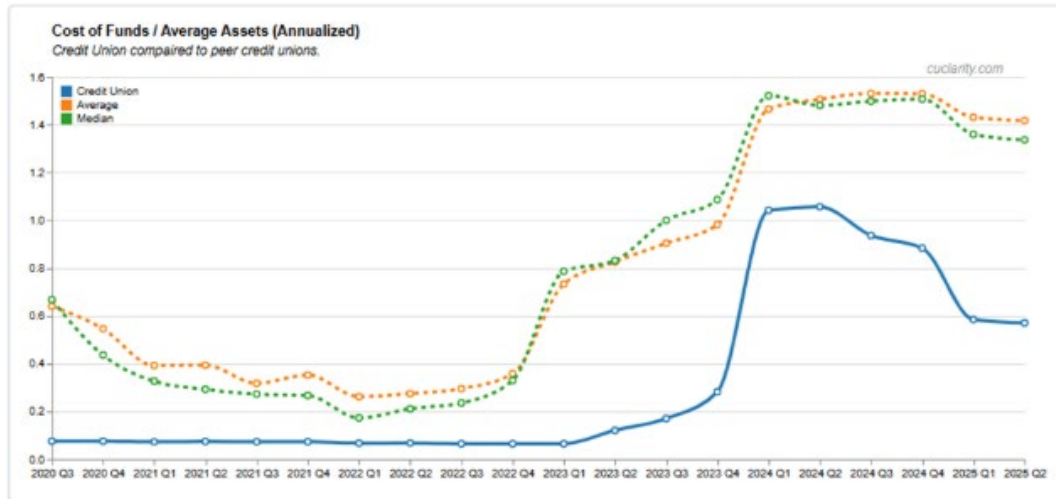


# Discipline on Game Day

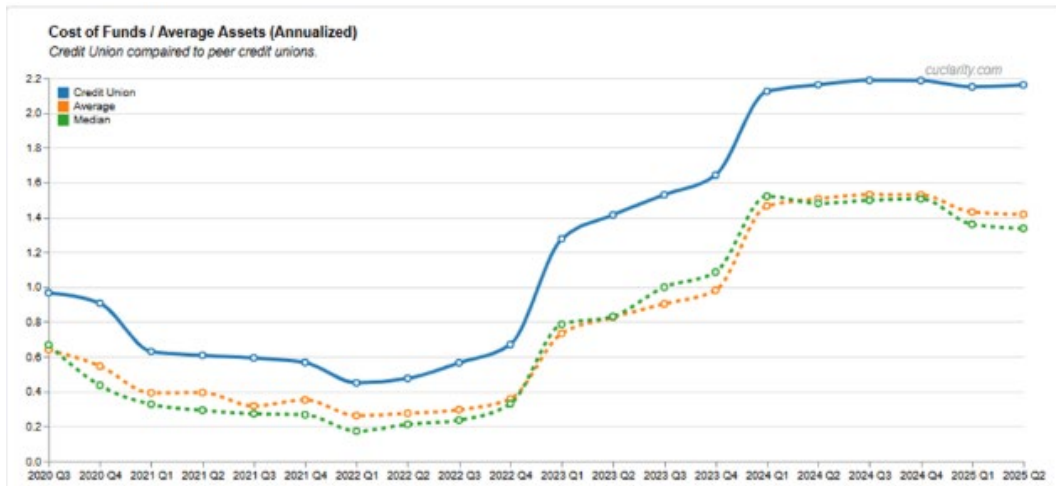
Hayes knew games were won at the line of scrimmage, for credit unions, that's the balance sheet.



# Managing Cost of Funds



- For most CUs, 80% of your CD specials are due within next 9 months
- Wholesale funding rates are now below 4%
- Unless you're making it up on relationship and loans, why offer high deposit rates?



# Or else...

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- It is very challenging to offer both the highest savings rate and the lowest loan rate in town for long periods of time.
- This strategy only works for low OpEx CUs and it catches up to most



# Lengthening Assets

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- Let's reprice assets more slowly than liabilities
  - Yes, some will prepay, but not all
- Mortgage, Fixed Home Equity, MBLs, 3+ year investments
  - Loans are easier said than done



# Special Teams: Investment Strategy

## Benchmarks

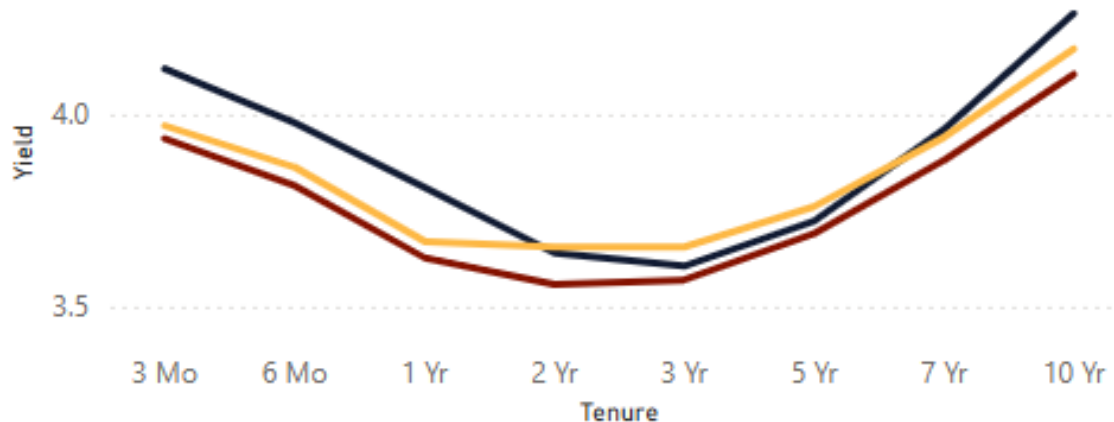
Security	1 Year	2 Year	3 Year	5 Year
Brokered CDs	3.90%	3.72%	3.64%	3.68%
Treasuries	3.63%	3.56%	3.57%	3.69%
Fixed Rate Callables (Qtly Call, 6 mo lockout)		3.90%	4.10%	4.25%
PACs (at Par)			4.22%	4.49%

Fed Funds Target	1 Mo SOFR	3 Mo SOFR	Fed Funds Eff.	O/N SOFR
4.00-4.25%	4.13%	3.96%	4.09%	4.20%

## Historical Yield Curve

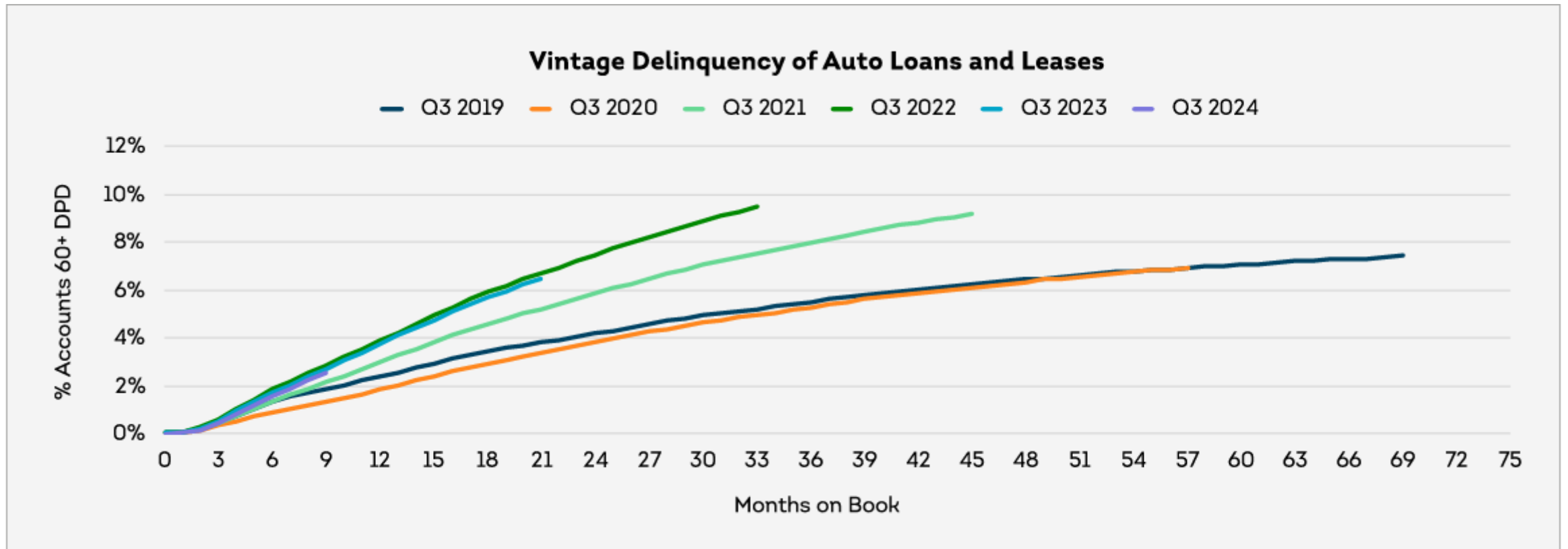
Date ● September 2, 2025 ● September 25, 2025 ● October 2, 2025



- Select securities that compliment your ALM strategy, not the best yield
- Be careful with callable bonds
- Use the menu of permissible investments to your advantage



# In-Game Adjustments: CECL



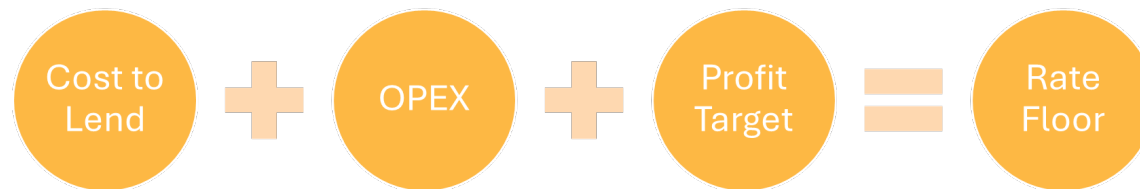
Source: TransUnion July 2025 Credit Industry Snapshot



# Disciplined Loan Pricing

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- The 4.49% Auto Loan Special is here, but does it make sense for your credit union?
- Costs to Lend (PLLL + Cost of Funds minimum)
  - $0.25\% + 0.80\% = 1.05\%$
- Net OpEx Ratio  $\sim 3.5\%$
- Profit Target: 1% ROA is common
- Break-even: 4.55% or 5.55% to hit ROA target



# Loan Rate Calculator for Credit Unions by Accolade

Loan Type

New Auto - Indirect

Loan Rate

6%

Loan Amount

\$ 50,000

Term (Months)

60

Prepayment Speed

Normal (15% CPR)

Total Dealer Reserve

2%

Cost of Funds Method

Average Cost of Funds

Average Cost of Funds

2.5%

Annual Credit Expense

0.25%

Servicing Expense

0.25%

Origination Income

0%

Other Expenses

0%

Annual % from fees, points, etc.

10%

Annual % for ongoing expenses

5%

Capital Ratio

10%

Target Growth Rate

5%

Calculate Loan Profitability

## Profitability Analysis

Estimated Return on Loan

+1.84%

Although positive, this return on loan might still be too low to cover Operating Expenses.

Weighted Average Life

1.73 years

## Return on Assets Analysis

Target ROA

0.50%

ROA Status

Accretive ✓

Build a Sample Loan Rate Sheet?

Create a comprehensive rate sheet showing pricing across all credit categories (A+ through E) with equal returns.

Yes!

Not right now

# Disciplined Rate Sheets

## New Auto - Indirect 60-Month Loan Rate Sheet

<u>Credit Grade</u>	<u>Loan Rate (%)</u>	<u>Cost of Funds (%)</u>	<u>Credit Expense (%)</u>	<u>Servicing Expense (%) - Dynamic</u>	<u>Origination Income (%)</u>	<u>Other Expenses (%)</u>	<u>Annual Dealer Reserve (%)</u>	<u>Return on Loan (%)</u>
A+	5.88	2.00	0.03	0.25	0.20	0.09	1.16	2.56
A	6	2.00	0.15	0.25	0.20	0.09	1.16	2.56
B	7	2.00	1	0.4	0.20	0.09	1.16	2.56
C	7.74	2.00	1.5	0.64	0.20	0.09	1.16	2.56
D	8.87	2.00	2.25	1.02	0.20	0.09	1.16	2.56
E	11.74	2.00	4.5	1.64	0.20	0.09	1.16	2.56

Loan Parameters:

Loan Amount:

Loan Term: 60 months

Weighted Average Life: 1.73 years

Prepayment Speed: 15% CPR

# Actionable Takeaways

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- Opportunities exist in home equity/HELOC lending as significant home equity has been built up
- Credit challenges are likely in serving members of lower means
- Deposit pricing doesn't need to be as aggressive as last year as rising deposit tide and soon-to-be lower rates offer alternatives
- Opportunities to add investment duration and provide stable income still exist, just not with the 5%+ yields that were available earlier this year
- Focus on products which are less likely to be paid off in a lower rate environment

## Disclosures

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. Information is based on data gathered from what we believe are reliable sources. Past performance is not a guarantee of future results.



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