

COVID Deposits Surge: The Tide is Turning

We've been flooded with deposits

Menu Search October 17, 2021 **Bloomberg Wealth**

Economics

\$2.7 Trillion in Crisis Savings Stay Hoarded by Wary Consumers

Bloomberg Economics calculates the total of excess savings built up since the crisis began at about \$2.3 trillion in the U.S. and almost 400 billion euros (\$464 billion) in the euro zone.

POLICY & ISSUES

CUNA/Leagues call for PCA relief

Congress should provide NCUA ability to offer PCA forbearance

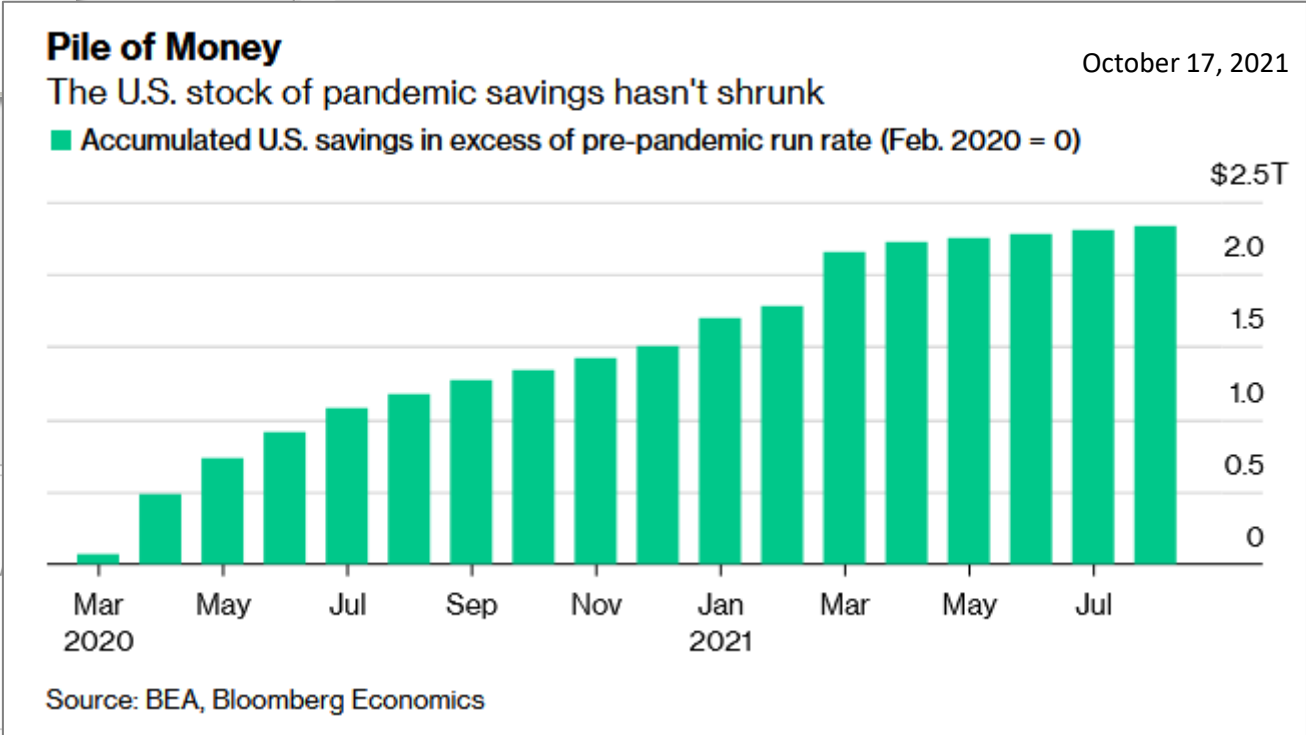
CUNA encourages Congress to enact legislation providing NCUA flexibility to offer PCA forbearance to otherwise healthy credit unions impacted by emergencies, as the

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Regulatory compliance hot topics

A rollback in regulatory relief may increase credit unions' regulatory burden.



CUNA/Leagues call for PCA relief | 2021-03-19 | CUNA News

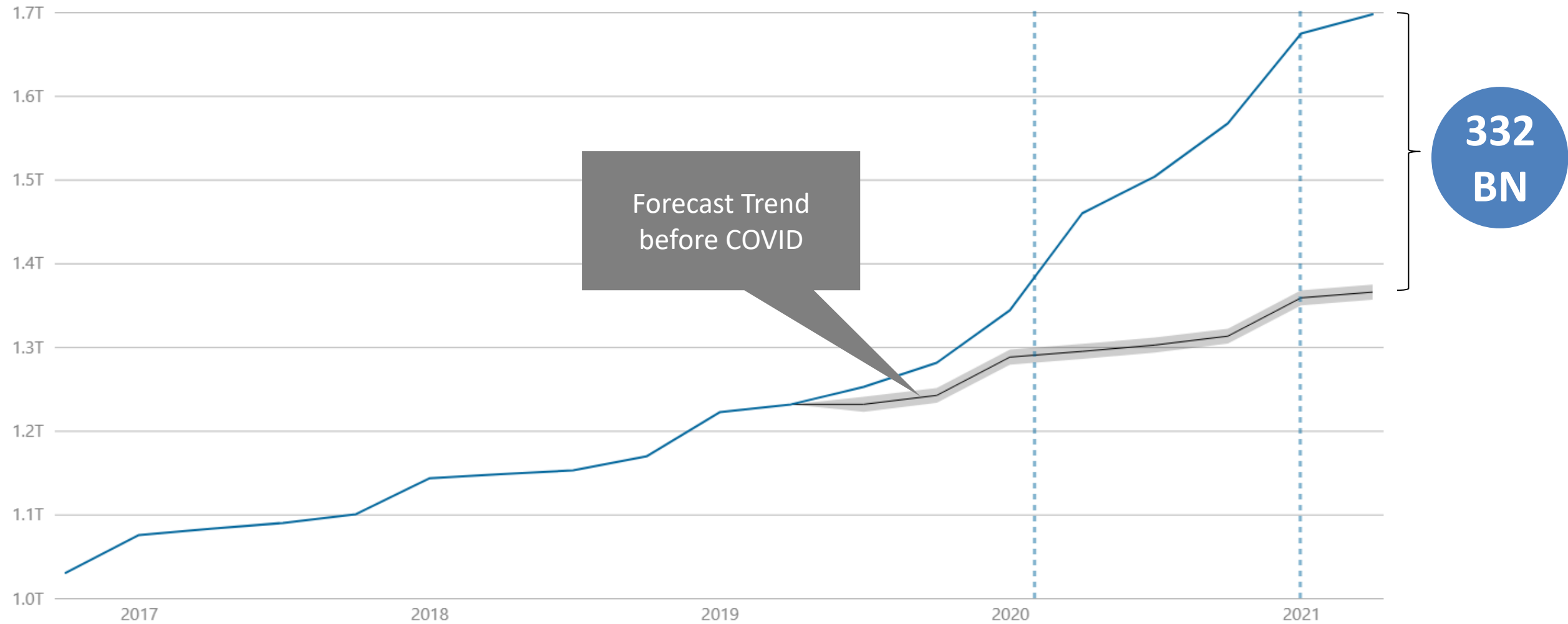
CUNA and Leagues called on the NCUA board to adopt an interim final rule to provide Prompt Corrective Action (PCA) relief. The 2020 interim final rule (IFR) on PCA expired December 31, 2020. "We ask the NCUA to adopt an IFR essentially identical to the 2020 IFR adopted last year that provided relief to credit unions experiencing PCA issues related to an increase in share growth," the ...

news.cuna.org



24% of CU Funding exceeds historical projections. Uncharted waters.

Shares and Deposits

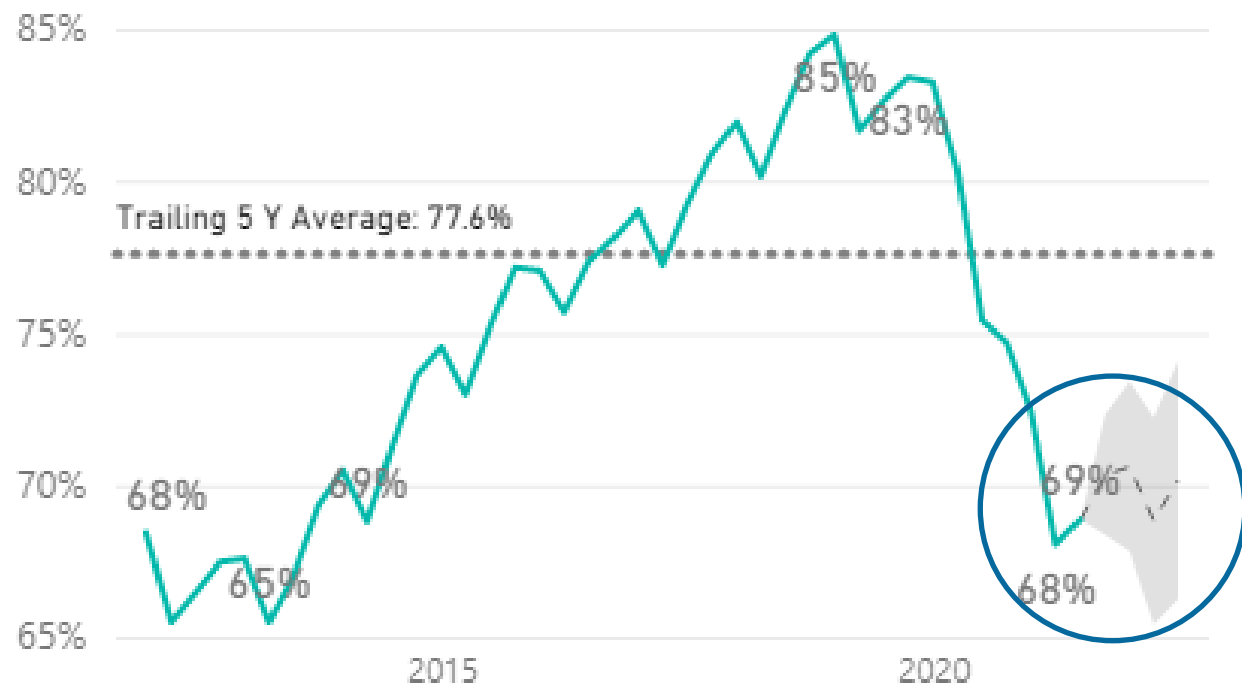


Source: NCUA Call reports data, FlowTracker Analytics

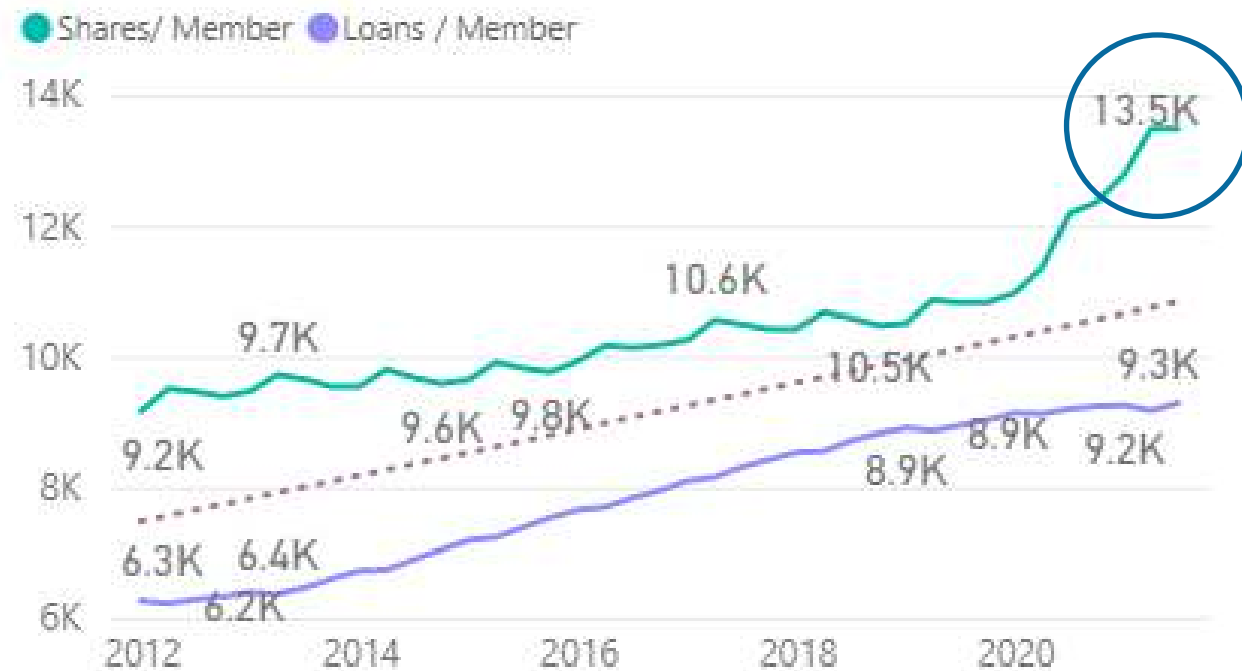


The surge has crested. What happens next?

Loan-Share Ratio



POSITION: Shares, Loans / Member



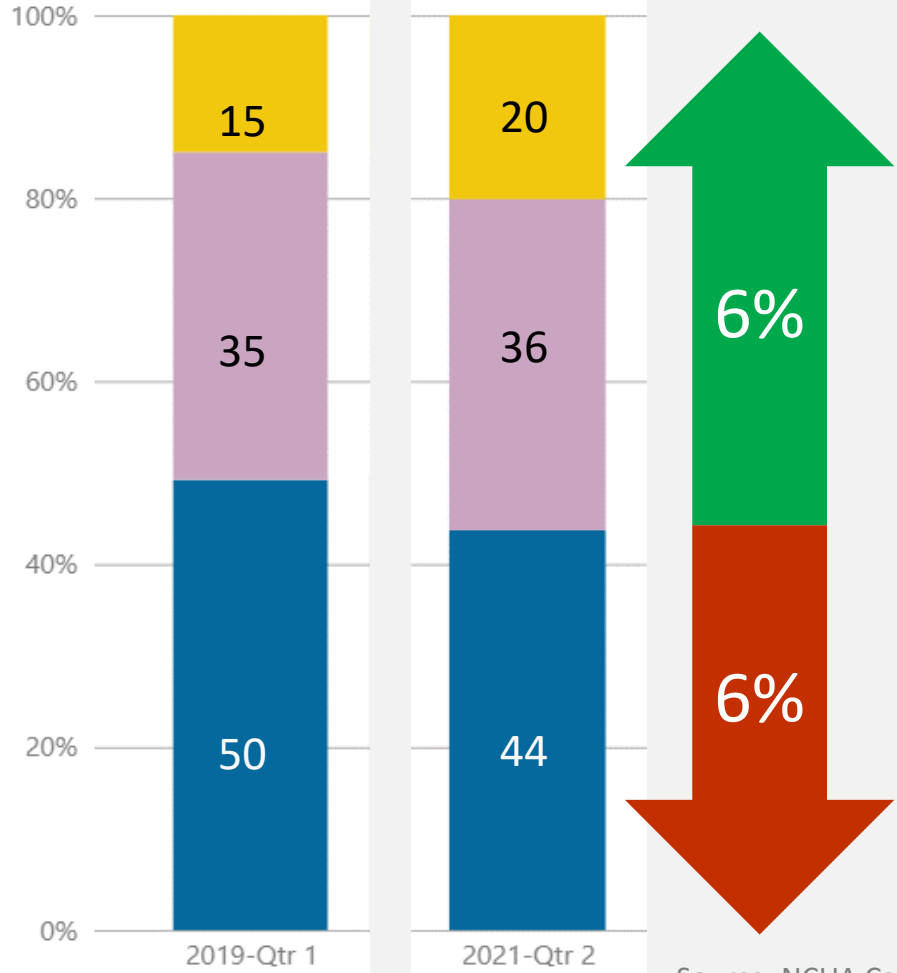
Source: NCUA Call reports data, FlowTracker Analytics



In CUs, the deposit surge is skewed to Shares and short-term CDs.

CU Shares by YYYYQQ

● Certificates ● RegularShares ● ShareDraft



Share drafts: up 159 Bn = 87%

Regular Shares: up 186 Bn = 43%

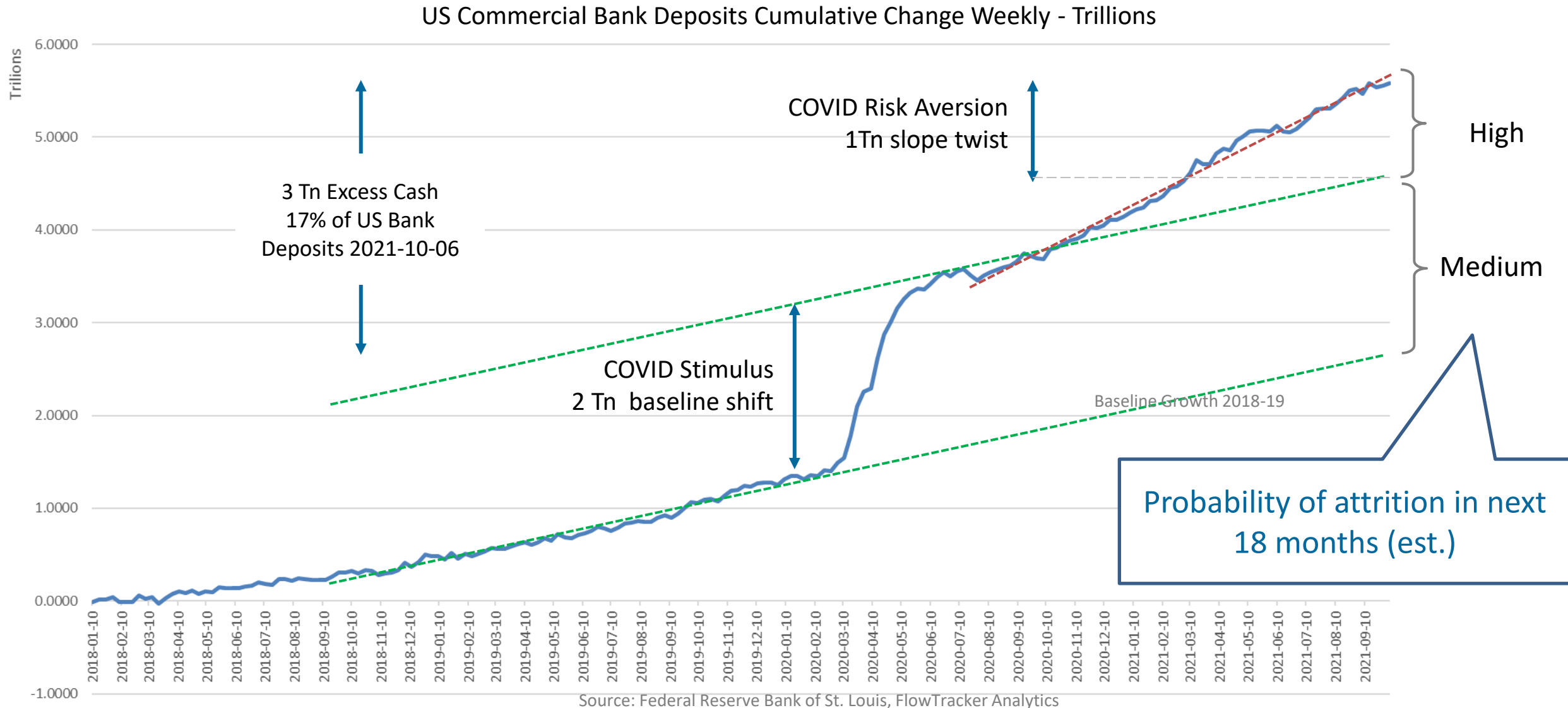
Other Deposits: up 140 Bn = 23%

+ Term shift within CDs; long --> short
(not exposed in NCUA stats)

Source: NCUA Call reports data, FlowTracker Analytics



US Banks shows surge structure: Stimulus “shift” & Covid Risk Aversion “twist”

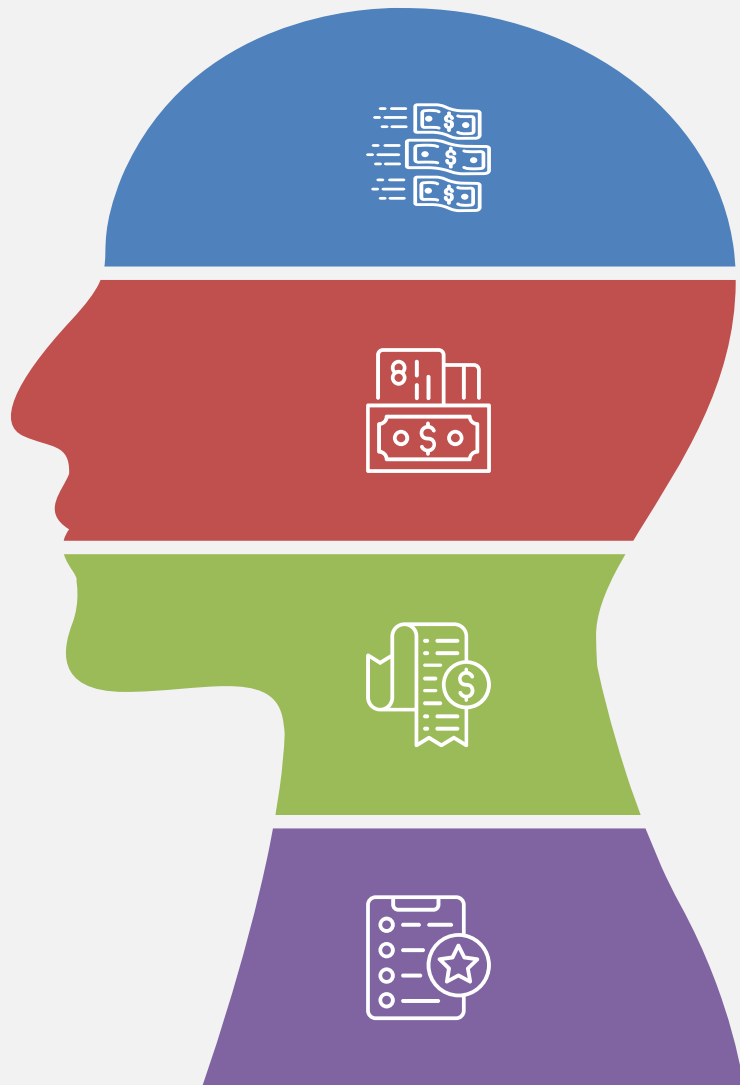




Largest deposit outflow in history is probable, leaving us high and dry



As the tide turns, Top of Mind for CU Treasury & Finance execs:



1

Liquidity

Excess liquidity affects profitability. NCUA is asking CUs get the same consideration as community banks

2

Pricing

Rate compression has gravely impacted profitability. How long this will last, what can be done in the interim

3

Changing regulation

How will the end of the COVID programs impact their portfolio.

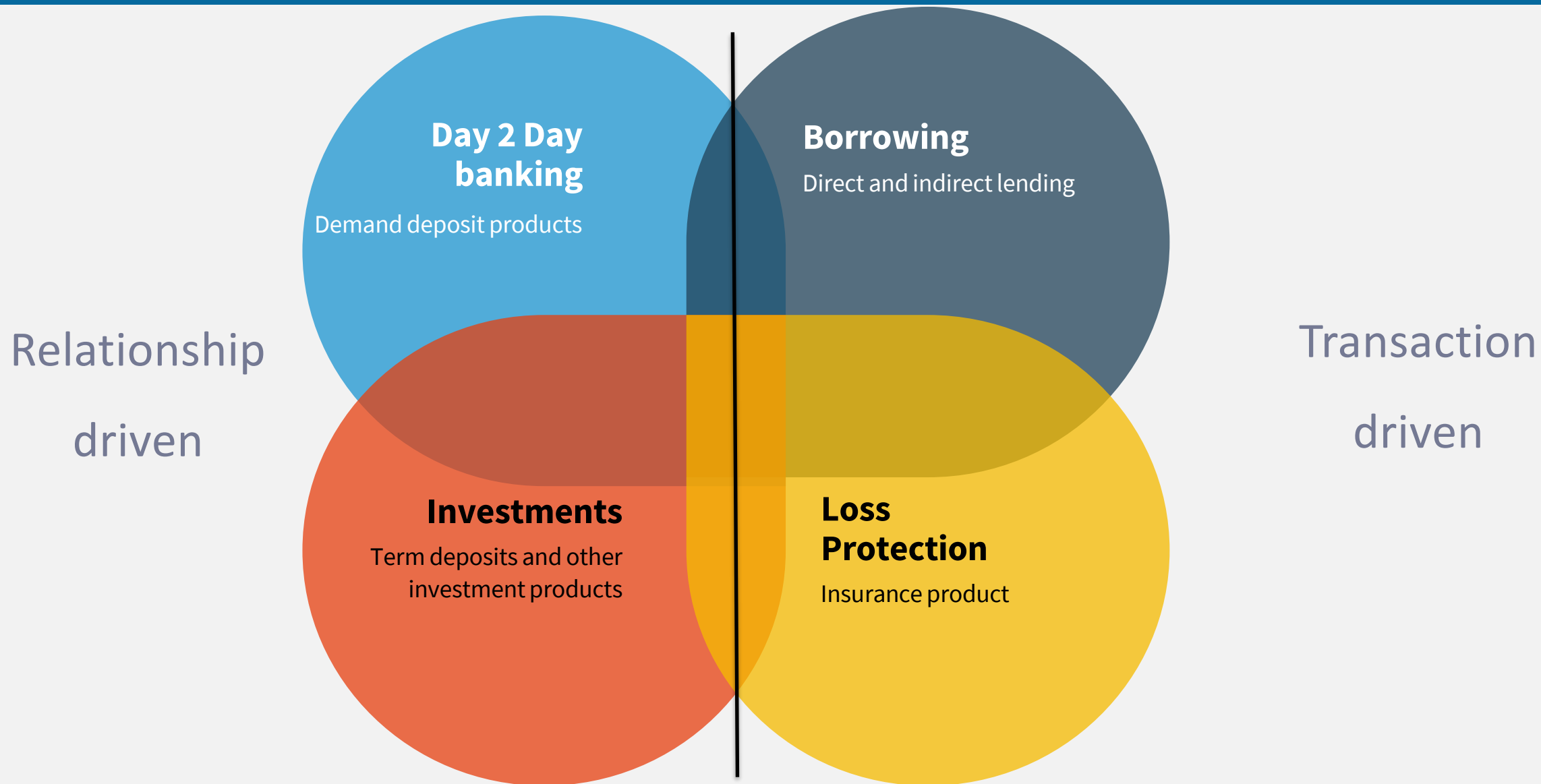
4

Macro-economics concerns

Inflation risk, risk of increase defaults,



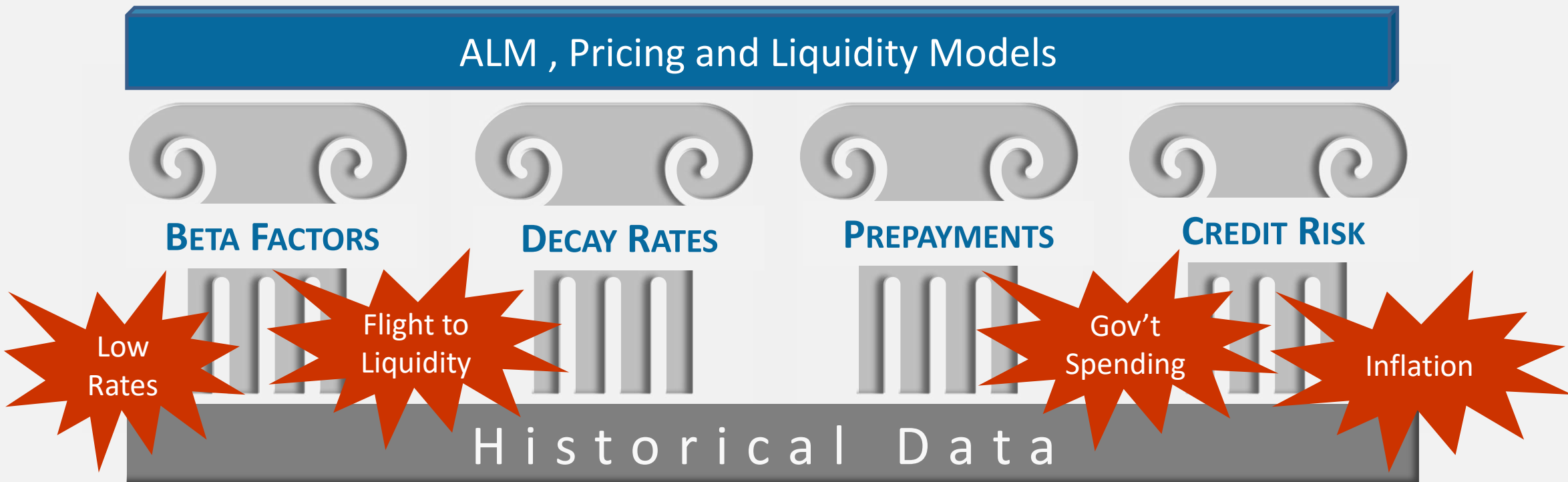
The skew creates a golden opportunity to reinforce the relationship with your members



Today's Risk models weren't built for this. We need different information.

Q: What does unprecedented really mean?

A: History is no longer a reliable basis for prediction.



An unpredictable liquidity event with enormous implications. What to do?



Observe signals. Investigate assumptions, plan for shocks. Act.

Without history to inform us we need to read behavior signals and react to change





Signal #1 – Changes in velocity of money Flows

Deposit Sales

Year over Year

Net Sales

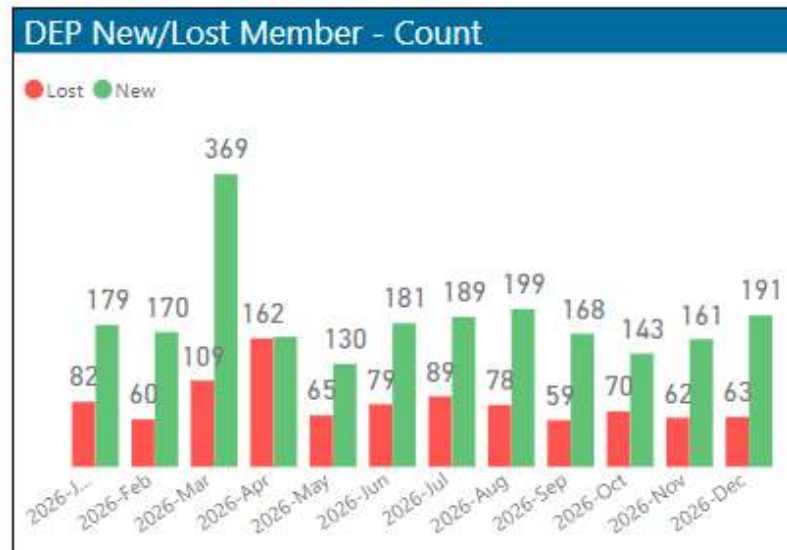
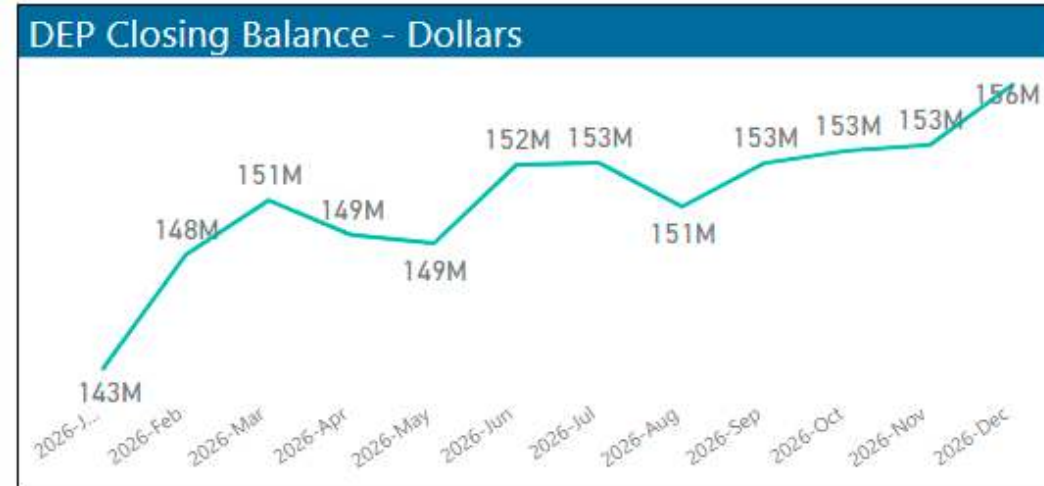
New Money

Cross-Sales

Deposit Attrition

Demand Deposits

Term Deposits





Signal #2 - Shifting term preferences

Drill on Rows [Icons]

Product Substitution (From ROW to COL) - Dollars

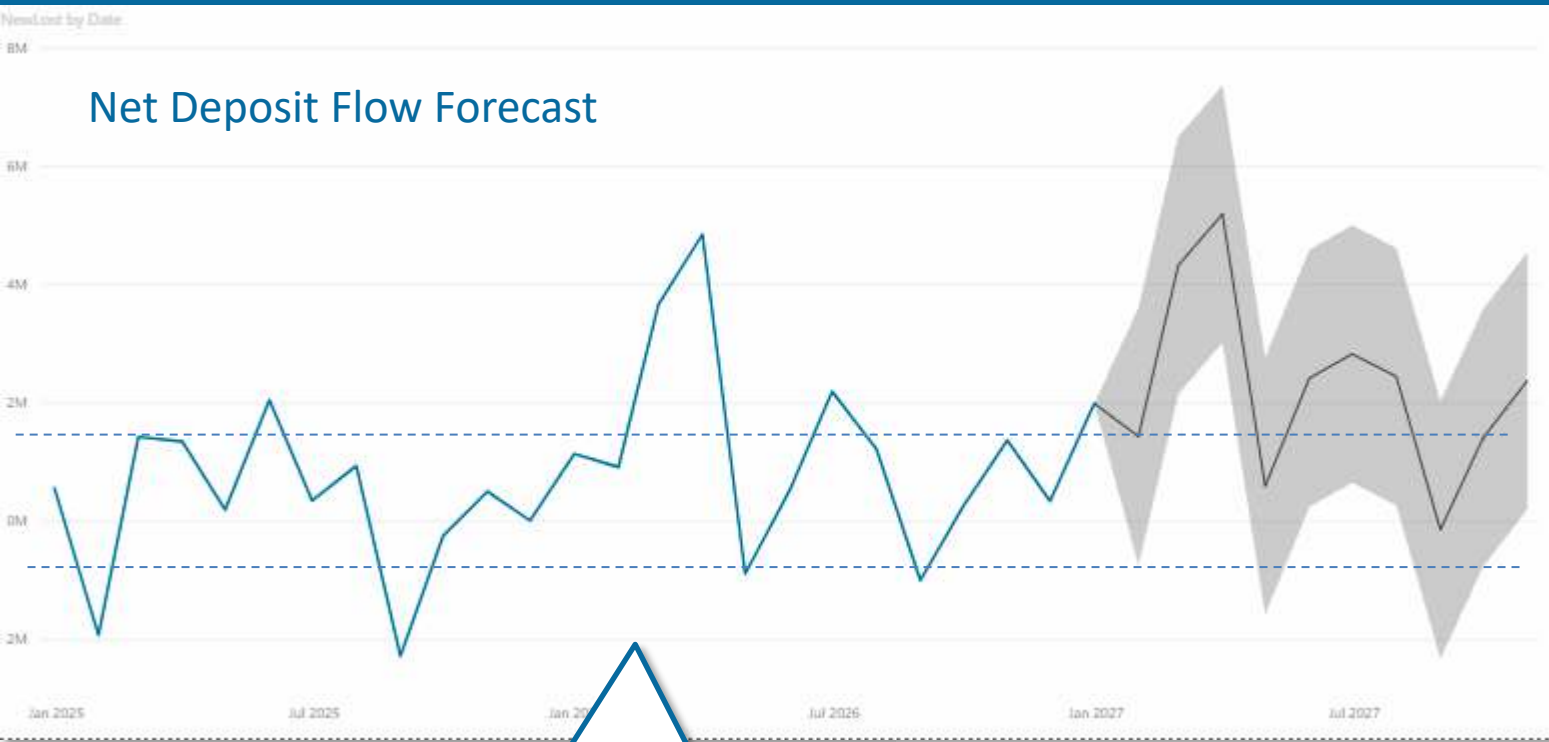
Product Line	Demand Shares				Certificates							Total
	Checking	Saving	Money Market	Total	<1 Year	1 Year	2 Year	3 Year	4 Year	5 Year	Total	
Demand Shares	23,733,438	1,087,490	23,467,690	48,288,618	786,439	315,909	338,867	180,977	-	50,375	1,672,567	49,961,185
Checking	3,104,567		12,875,046	15,979,613								
Savings	12,934,561		10,592,644	23,527,205	435,819	210,079	138,406	50,093				
Money Market	7,694,310	1,087,490		8,781,800	350,620	105,830	200,461					
Certificates	1,233,581	11,931,819	14,060,872	27,226,272	4,513,237	5,680,393	411,525	975,124	560,976	1,436,164	13,577,419	40,803,691
<1 Year	125,947	1,894,520	3,169,439	5,189,906	531,945	658,932		131,205				
1 Year	100,358	2,178,053	500,465	2,778,876	67,987	129,402		5,201				
2 Year	321,895	1,487,094	780,963	2,589,952	3,385,906	4,539,483	168,940	712,548	213,560			
3 Year	259,863	2,103,857	4,120,548	6,484,268	78,942	81,327	165,882	76,512	347,416	612,368	1,362,447	14,330,983
4 Year	103,824	2,564,817	2,895,410	5,564,051	187,947	190,718	50,110	49,658			478,433	11,606,535
5 Year	321,694	1,703,478	2,594,047	4,619,219	260,510	80,531	26,593				367,634	9,606,072
Total	24,967,019	13,019,309	37,528,562	75,514,890	5,299,676	5,996,302	750,392	1,156,101	560,976	1,486,539	15,249,986	90,764,876

CDs rolling into Demand Shares

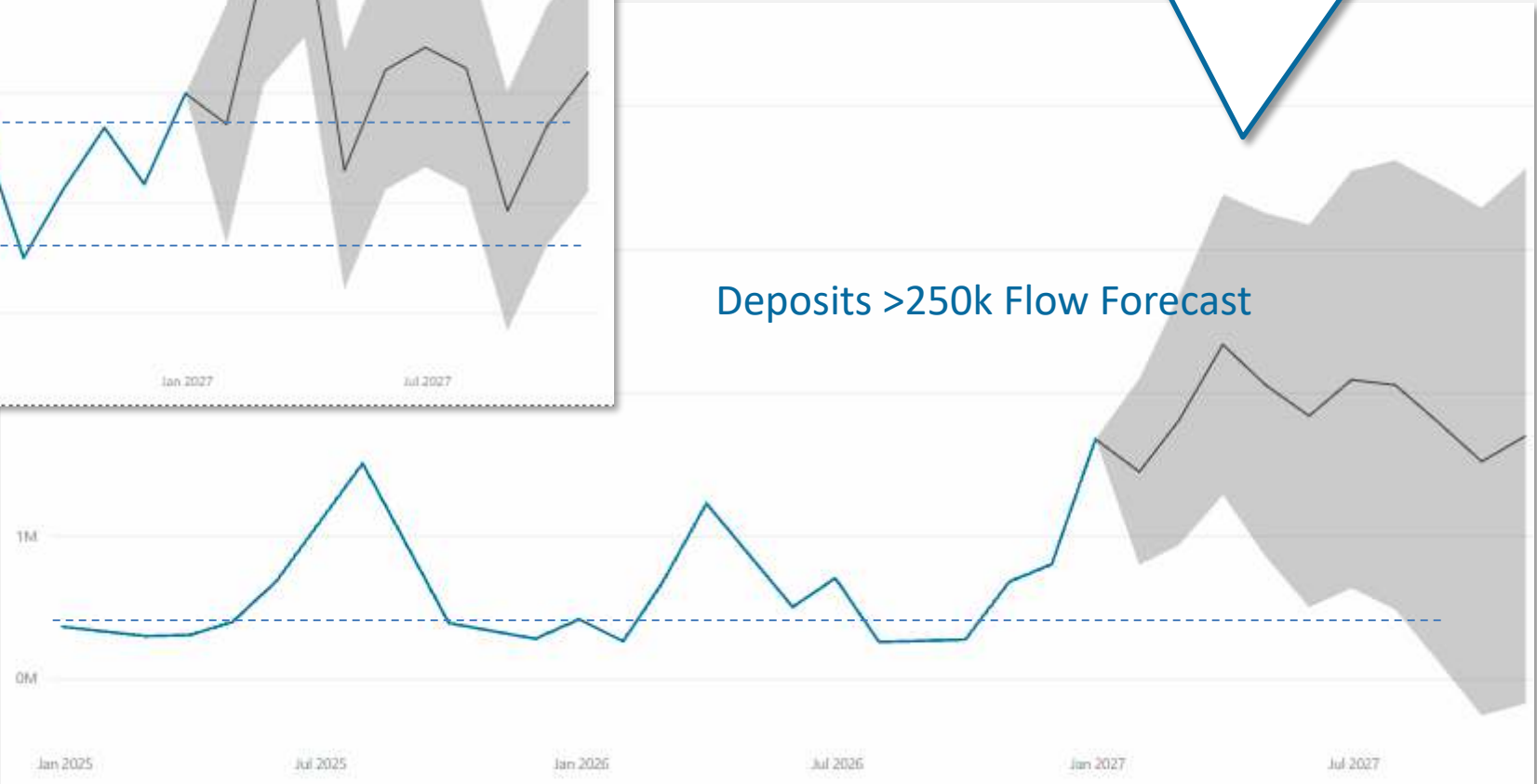
Preference shift to shorter terms



Investigate assumptions, plan for shocks



Watch 'hot money' flows and plan to replace them with core deposits



Money flow forecasts identify surges, + actuals highlight shifts in demand

3 Practical strategies

1

Focus on relationships

Focus retention / growth efforts on relationships on Members with revealed discretionary income / saving capacity.

2

Get ahead of the Curve

Lock in longer funding and build brand by being the rate leader in your market, timing your actions to observed signals.

3

Move hot money off Balance Sheet

Turn interest cost into fee revenue by moving large CD investors to Investment products.



The tide is turning... navigate to calm waters.

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CUNA/Leagues call for PCA relief

Pile of Money
 The U.S. stock market has accumulated \$2.7 trillion in excess savings since the crisis began.

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- 4

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AHEAD of the CURVE

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