



New Program Seeks to Resolve What's Seen as a Growing Interest Rate Risk Threat to Many CUs

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ALPHARETTA, Ga.—To address what one company said is a growing interest rate risk threat that is going to start appearing in NCUA's NEV tests as rates rise, a new Capital Market CD (CMCD) program has been introduced that has NCUA's support.

"The problem facing credit unions is that as mortgages and other long-term assets have grown by over 82% since year-end 2017--\$703.9 billion vs. \$385.8 billion--long-term member shares & deposits have declined by 34%--\$28.1 billion vs. \$42.5 billion," CU Capital Market Solutions said in a statement to CUToday.info. "The result is more interest rate risk in the system, which will be captured in the NCUA's NEV Test and will show up in earnings as interest rates rise. The best option available today for CUs to reduce the IRR in their balance sheet is to increase the amount of non-callable, long-term, fixed-rate deposits."

According to an analysis by CU Capital Market Solutions, data from NCUA's year-end Call Reports show:

- At year-end 2021, **93.3% of member shares and deposits matured or re-priced < 1-year**, up from 89.0% at year-end 2017
- Member deposits (CDs) > 3-yrs., comprised only **1.6% of total shares & deposits at year-end 2021**
- Long-term assets (generally defined by the NCUA as loans > 5yrs and investments > 3yrs) increased to \$703.9 billion (34.16% of assets) at year-end 2021



'The Bottom Line'

"The bottom line is that CU's are lending longer and funding short. There isn't any lengthening of liabilities," said CU Capital Market Solutions. "In a rising interest rate environment, that spells disaster."

The company said NCUA is well aware of the problem and it is a "big concern."

In April of 2021 the agency issued a legal opinion regarding the application of its share insurance regulations to the proposed structure of the CMCD program. More information can be found at www.ncua.gov/regulation-supervision/legal-opinions

To help alleviate the problem, the company said it has patented its CMCD program and partnered with JP Morgan, US Bank, Hogan Lovell US, LLP and others.

How Program Works

CU Capital Market Solutions said in simple terms the program works this way:

- The company's wholly owned subsidiary, CU Funding Company (CUFCO), joins the credit union as a business member. CUFCO's sole purpose is to purchase and hold CDs, it said.

- Each quarter, on a specific date (Issuance Date), the company purchases up to \$10 million of Non-Redeemable five-year share certificates (CD). JP Morgan is the source of funds.
- The company purchases the entire amount each CU requests on the issuance date with no partial funding or "pay up" to get filled.

According to CU Capital Market Solutions, the certificate rate is competitive with FHLB rates for similar term advances and lower than brokered deposits and member certificates.

Interest payments are made to US Bank as Trustee, and all money flows through US Bank.

The company said it has spent two years developing the program and will need a minimum of 100 CUs to launch, according to CEO Lewis N. Lester.

Additional information can be found at www.cucapitalmarketsolutions.com