

# Case Study: Restructure Advances and Invest

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# Member Considerations



High cash levels combined with dampened loan production



Intermediate and long-term rates on the rise



Reliance on mortgage sale income



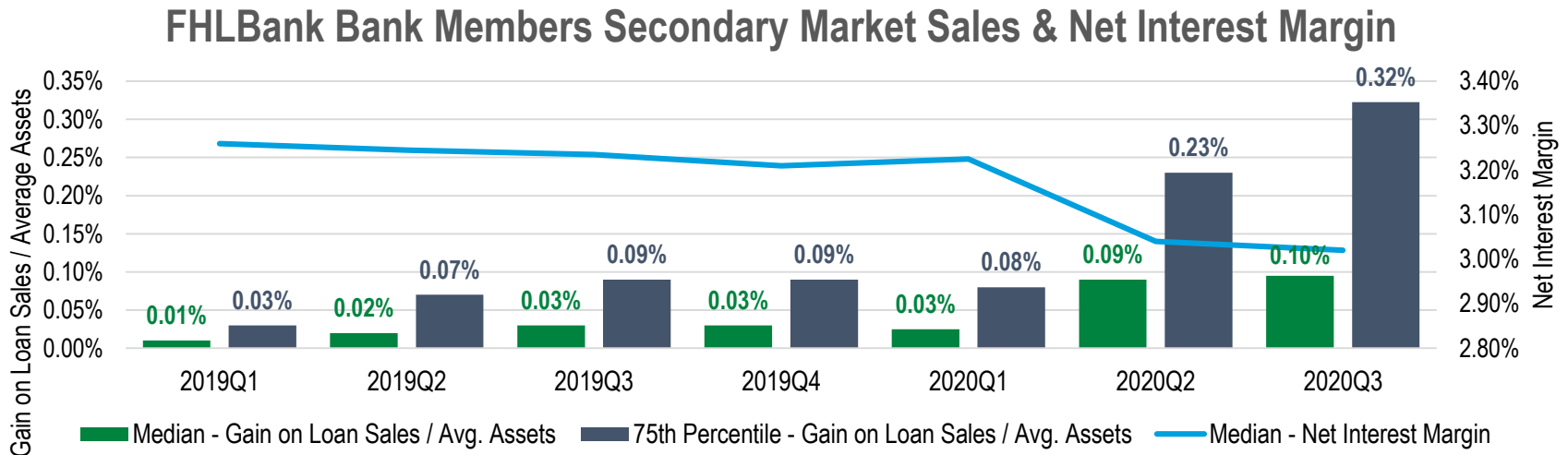
Margin pressure continues to be a top concern for members

# Consideration: Rising Intermediate Rates



- Intermediate and long-term rates trend higher on prospects of improved economy and changing political control
- Where is your exposure on the yield curve?
  - Rising or falling rates – short or long rates

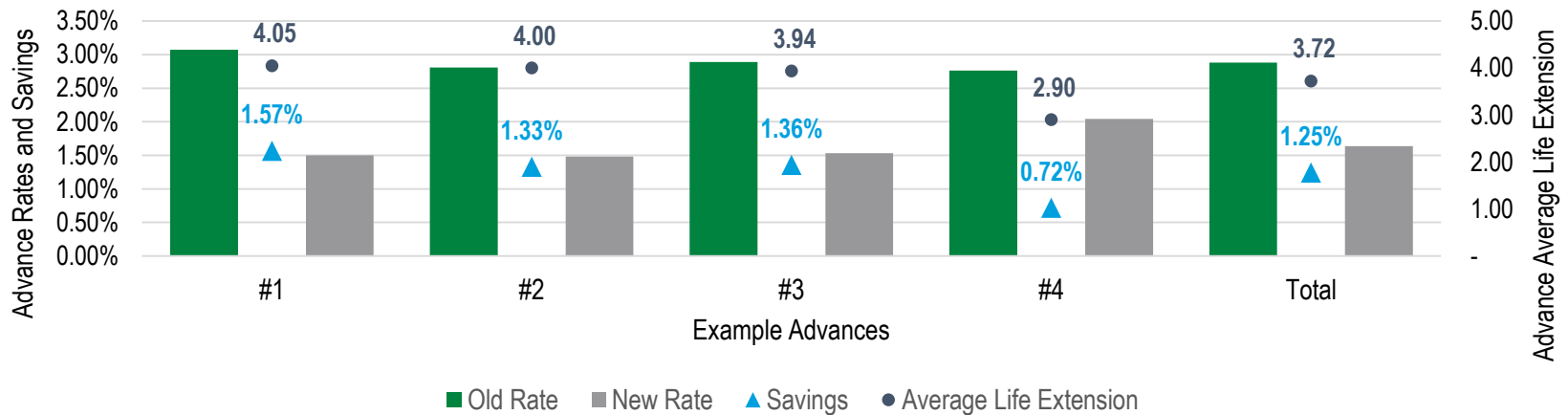
# Consideration: Reliance on Secondary Market Sales



- Secondary market sales bolstering bottom line profits even with tightening margins - How long will this last and what happens if rates rise quickly?
  - Highly rate sensitive business line - exposure to rising rates
  - Scenarios analysis – rates rise 25 basis points and pipeline shrinks by 20%
    - Impact to margins?
    - Balance sheet exposure?

# Strategy: Restructure Advances

### Restructure of Four Example Advances



Advance Restructure Detail						
Balance	Original Rate	Original Maturity	New Rate	New Maturity	Savings	Average Life Extension
\$10,000,000	3.07%	12/20/2021	1.50%	1/7/2026	1.57%	4.05
\$10,000,000	2.81%	1/7/2022	1.48%	1/7/2026	1.33%	4.00
\$10,000,000	2.89%	1/31/2022	1.53%	1/7/2026	1.36%	3.94
\$10,000,000	2.76%	2/13/2023	2.04%	1/7/2026	0.72%	2.90
<b>\$40,000,000</b>	<b>2.88%</b>	<b>4/19/2022</b>	<b>1.64%</b>	<b>1/7/2026</b>	<b>1.25%</b>	<b>3.72</b>

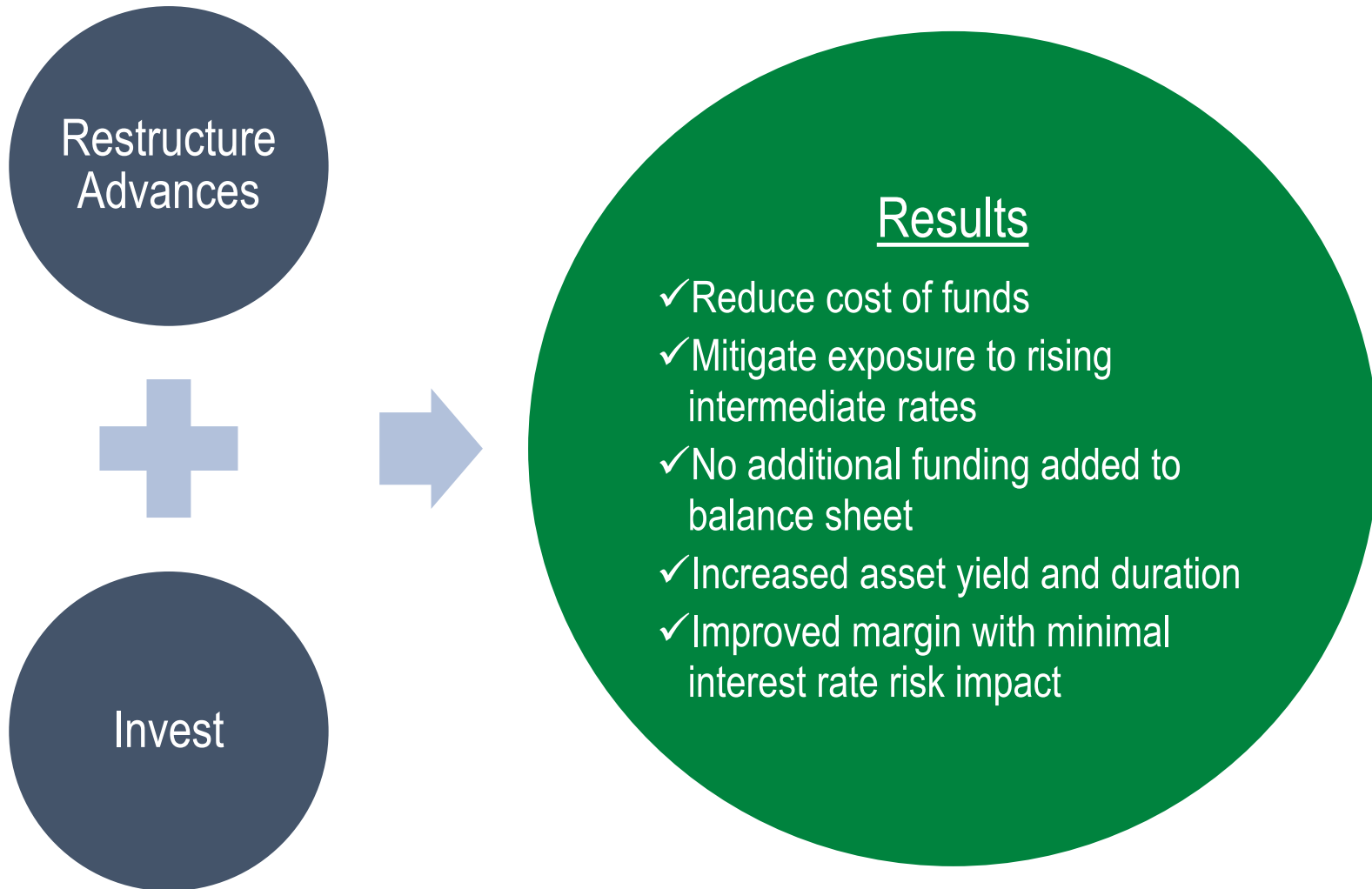
Advance average life extension of 3.72 years results in 125 basis points of annual savings

# Strategy: Combined with Investment

<i>Asset</i>	<i>Rate</i>	<i>Avg. Life</i>	<i>Liability</i>	<i>Rate</i>	<i>Avg. Life</i>	<i>Margin</i>	<i>Gap</i>
Cash	0.10%	0.0	Old Advance	2.88%	1.3	-2.78%	-1.3
<b>Restructure Advance and Invest Excess Cash</b>							
Investment	1.00%	4.0	Restructured Advance	1.64%	5.0	-0.63%	-1.0
<b>Change</b>	<b>0.90%</b>	<b>4.0</b>		<b>-1.25%</b>	<b>3.7</b>	<b>2.15%</b>	<b>0.3</b>
<b>Total Assets (\$000)</b>	<b>\$2,000,000,000</b>		<b>Improvement to Net Interest Margin</b>			<b>0.04%</b>	
<b>Strategy Amount</b>	<b>\$40,000,000</b>		<b>Improvement to Net Interest Income</b>			<b>\$861,000</b>	

- Restructuring advance out to 5 years combined with investment at 4 years, results in noteworthy margin and gap impact
  - Margin improves 215 basis points (125 basis points in advance costs + 90 basis points in asset yield)
  - Minimal change (0.3 years) to interest rate profile

# Recap: Restructure + Invest





# Thank You

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