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2023 ALM Academy to Address Complex Economic Trends

At an economic policy symposium on August 25, 2023, Federal Reserve Chair Jerome Powell discussed his outlook for, and the evolving risks in the U.S. economy, stating, "As is often the case, we are navigating by the stars under cloudy skies." What are these "clouds"? Some uncertainties--whether the Fed has been sufficiently restrictive to reach and maintain its inflation target, for example-- are expected with a tightening monetary policy, he says, while others are complications unique to the current market. He describes "historically unusual" trends in the labor market impacted by inflation and unexpected shifts in supply and demand. These changing dynamics require agile policymaking, Powell asserts, as well as thoughtful risk management.

Economic indicators tell conflicting tales of the health and growth of the U.S. economy. Economists state the market distortions caused by the pandemic are slowly unwinding, while other indicators, including loan growth, industrial production, and residential investment, signal slowing economic growth. The central bank and other policy makers proceed with caution, leaving many investors wondering how to proceed themselves. A delicate approach may be required in this complex economic market. It is more important than ever that a credit union's team has a solid understanding of the dynamics of their balance sheet.

Credit union professionals are invited to EasCorp's 2023 ALM Academy, presented in partnership with ALM First, to learn to identify sound strategies to respond to and capitalize on economic trends while managing risk. With a special focus on liquidity, stress testing, and valuing the deposit franchise, this year's courses will equip your leadership, financial management staff and analysts, and committee members with decision-making competence and confidence. Join us for expert-led instruction, peer discussion, regulatory updates, timely real-world case studies, and much more.

Registration is now open with a link to the event website on the News and Events page of EasCorp's website. If you have any questions, please contact Kevin Peters (kpeters@eascorp.org) at 800.428.1144, Ext. 3354.

EasCorp and Vertifi's offices will be closed on Monday, September 4 in observance of Labor Day.

We recognize the contributions of our staff, our credit union colleagues, and workers everywhere, and hope you all enjoy a restful holiday.

Fed Chair Powell Suggests Rate Hiking is Slowing, Not Over

In his keynote address at the Federal Reserve's annual Jackson Hole conference, Fed Chair Jerome Powell said the committee is prepared to raise interest rates more even as inflation has improved over the past few months. The FOMC's preferred measurement of inflation, the personal consumption expenditures (PCE) price index, rose 3% in June from a year earlier, the slowest pace since early 2021.

"Although inflation has moved down from its peak, a welcome development, it remains too high," Powell said. "We are prepared to raise rates further if appropriate and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective."

The FOMC's long-stated objective is for 2.00% annual inflation. Most economists expect the Fed to hold rates steady at their next meeting on September 20 as they did at the June meeting. "Given how far we have come, at upcoming meetings we are in a position to proceed carefully as we assess the incoming data and the evolving outlook and risks," Powell added.

Powell and other FOMC members have definitely become less hawkish in public comments lately, focusing on communicating that an economic downturn is avoidable and that a soft landing is possible while remaining vigilant on fighting inflation. Recent numbers have boosted these expectations. The US GDP grew at a 2.4% annualized pace in the second quarter, a number that prompted many economists to raise forecasts for the third quarter and lower expected odds of a recession.

More FedNow Service Myths

Last month, we shared a few of the myths and misconceptions about the FedNow Service since its launch in July 2023. One of the most common misunderstandings by consumers relates to the Fed's access to individual bank accounts. See below.

Myth: *Through the FedNow Service, the Fed will access and monitor consumer bank accounts, and may limit transactions based on political affiliations or other factors.*

Fact: According to the Federal Reserve website, "The Federal Reserve and the FedNow Service cannot access individuals' bank accounts or control how they choose to spend their money. The FedNow Service is an instant payment service that the Federal Reserve offers to banks and credit unions to transfer funds for their customers. The Federal Reserve does not provide accounts or offer instant payment services to individual consumers and businesses."

If you have any questions about the FedNow Service that we can answer in future articles, please send them to marketing@eascorp.org.

A Special Thanks to Our Golf Tournament Supporters

On September 11, EasCorp will hold its 2023 Invitational Golf Tournament benefitting Credit Unions Kids at Heart®, and this event would not be possible without the support of Corporate Sponsors, Participating Credit Unions, donors, volunteers, golfers, and friends.

We thank all those who support our mission to help children lead healthy and happy lives. Event sponsorships and other donations directly support the organization's research initiatives; no portion is used to cover event or organizational expenses or overhead.

We look forward to a fun day out on the course with exceptional golf, great food, and lots of fun and surprises. Whose ball will land in the hole at the Helicopter Ball Drop? Will we have a hole-in-one at Hole 3 this year? Stay tuned for photos from this year's tournament as well as a listing of contest winners!

A Tale of Two Instant Payments Rails: The FedNow® Service and the Real-Time Payments Network

Launched in 2017, The Clearing House's Real-Time Payments (RTP) Network was the first payments network in the United States to offer near instant settlement and clearing. After six years on the market and having grown to more than 1,200 financial institution* users, this private network now has competition, the FedNow® Service, a public sector payments infrastructure built by the Federal Reserve and live as of July 20 of this year. Pitted by some as rivals, RTP and the FedNow Service are perhaps better described as alternative solutions to a common problem—consumer and business demand for modern and ever faster payments. Each has the potential to expand and evolve the U.S. economy, and, while they offer some of the same functions, there are differences between the two.

Both platforms allow for interbank settlement 24 hours a day, 7 days a week, 365 days a year, for domestic, push transactions. These payments are irrevocable and clear and settle in under 20 seconds. The primary difference between these payments rails is, as mentioned above, their ownership. The RTP Network is owned by The Clearing House, a banking association and payments company that is itself owned by the nation's largest commercial banks. Membership in The Clearing House is no longer required for RTP Network participation. But, while the network touts widespread adoption, real-time payments prior to the FedNow Service launch accounted for only one percent** of all U.S. payment transactions. The FedNow Service, due in part to the Fed's existing customer service relationships and long-standing operational role in interbank settlement, and the low cost of entry, is better suited to reach and to provide equitable access to the more than 10,000 diverse depository institutions, and their agents, in the U.S.

Funding for the networks differs as well. The RTP Network settles payments on a private ledger with a joint account at a Federal Reserve Bank that is prefunded by network participants. Here, the FedNow Service may have an edge. The RTP Network prefunding amount and funding structure are a barrier for entry for some, while the Fed's system allows for intelligent liquidity management; settlement can occur through a financial institution's Fed master account or via a correspondent bank.

Other differences include transaction limits—RTP's \$1 million cap vs. the FedNow Service at \$500,000—and current integrations. The RTP Network is interoperable with the popular P2P payments service, Zelle, which can use the network for settlement. Both systems operate on a transaction fee model and per transaction pricing is essentially the same for now (no surprise as the Fed aims for both nationwide reach and healthy public-private competition). And, while both networks utilize the global ISO 20022 messaging standard, there are differences in message flow, structure, and format that will require resolution before the systems are interoperable. Financial institutions can integrate either service with their digital banking and other payments platforms directly, through service providers, or through correspondents, and the cost and complexity of those integrations will vary depending on their legacy systems and processors.

As early adopters of the FedNow Service with capabilities live today, we at EasCorp are here to help you understand the payments systems available today and their potential benefits to you and your members. To learn more about EasCorp's and Vertifi's instant payment solutions, please contact Michael O'Brien (mobrien@eascorp.org) at 800.428.1144, Ext. 3324.

* Data reported by The Clearing House, 2023. Most financial institutions are understood to be receive only.

** According to a July 2023 article by Payments Dive.

ACUSO MEMBERS

The launch of the FedNow Service will be discussed at the September 20th members' meeting. Visit the News and Events page of our website to learn more or register.

ALM Market Trends to Watch

Asset Liability Management (ALM) ensures that your credit union is not only financially viable but also performing well with adequate capital, stable earnings, sufficient liquidity, and well-informed policies to manage interest rate risk. Understanding your balance sheet composition and ensuring the accuracy of your ALM models and assumptions are critical in a changing rate environment. A well-rounded ALM strategy will address any interest rate fluctuations that impact the fair market value of the balance sheet. It can also help mitigate potential risk, capitalize on market trends and opportunities, and, ultimately, position the credit union for growth. Credit unions should look now, for example, at the trends listed below:

- 1. Liquidity:** With rising rates, tightening liquidity is a concern for both credit unions and their regulators. Your ability to effectively manage liquidity in response to loan demand, deposit growth, or other factors has significant implications for your credit union's profitability, stability, and reputation.
- 2. Loan Growth:** Rising interest rates can often benefit loan programs through an increase in interest income, this year, however, from a valuation standpoint, many financial institutions are experiencing unrealized losses on long-term assets. Loan originations have slowed, particularly in the real estate market where rising interest rates have decreased affordability for buyers and disincentivized homeowners to sell. Non-real estate originations, auto loans and credit cards, are also impacted by interest rate increases and are down about 20% year over year from Q2 2022*.
- 3. Deposit Funding:** With core deposits down, many credit unions are paying higher rates to attract and retain deposits and are offering certificate of deposit specials to attract new deposits.
- 4. Borrowing Sources:** To prepare for market-driven liquidity events, credit unions need to have contingency funding sources in place, ensure documentation is complete and collateral pre-pledged, and that operational needs are understood. Consider performing an operational test of this credit facility.

EasCorp offers ALM Professional Services, including ALM Modeling and Validation, as well as its annual ALM Academy, a two-day educational program now in its 24th year. To learn more, please contact Kevin Peters (kpeters@eascorp.org) at 800.428.1144, Ext. 3354.

*According to Callahan and Associates data reported in June 2023.

Security Guidelines Published

EasCorp and Vertifi Software have published their *Security Guidelines for Online Financial Activity* online. The *Security Guidelines for Online Financial Activity* describe some of the threats financial institutions may face when performing financial transactions online, and itemize the methods that our companies use to protect our systems and data against these threats. They also address current regulatory guidelines and requirements. We encourage you to download and review these documents now available under the Due Diligence sections of our websites for those with an EasCorp- or Vertifi-issued digital certificate and authorities. For more information, please contact us at (support@vertifi.com).

Coin & Currency Reminder

In observance of Labor Day, all Federal Reserve offices will be closed on Monday, September 4, 2023. As a reminder, cash orders prepared by the Federal Reserve Bank must be placed two business days in advance of delivery (e.g., orders must be placed by 11:30 a.m. ET on Monday for Wednesday delivery). Due to the holiday, you may need to place your cash order a day earlier than normal (e.g., the same order referenced above should be placed on Friday for Wednesday delivery). If you have any questions regarding your cash orders, please contact Taylor King (tking@vertifi.com) at 800.428.1144, Ext. 3516, or the Payment Systems Department (corrsvc@eascorp.org) at Ext. 4.

SAVE THE DATE
for the International Payments
Services Webinar

October 19, 2023, marks the 75th anniversary of International Credit Union Day, and we're marking the day with a webinar for our International Payments Services users, presented in partnership with Corpay. This year, after an overview of international wire transfers and iACH, highlighting time-saving features and functions in the portal, we'll review the pros and cons of making payments in U.S. vs. foreign currency and discuss fraud trends and tips. This year, we're also covering international check collection, and encourage any members who are interested in learning more about these timelines, methods, and conversations to join us. Registration will open online by mid-September. If you have any questions, please contact Paula Seremetis (pseremetis@vertifi.com) at 800.428.1144, Ext. 3319.

*** SEPTEMBER 20, 2023 PHONE**
SYSTEM MAINTENANCE *

EasCorp and Vertifi Software will conduct scheduled telephone system maintenance on Wednesday, September 20, 2023, from 5:30 p.m. until approximately 6:30 p.m. ET, during which time our staff will be unable to make or receive phone calls. If you need assistance during this temporary outage, please email your regular service contacts or support@vertifi.com.

UPCOMING EVENTS

EasCorp's Invitational Golf Tournament
Benefitting Credit Unions Kids at Heart®
Monday, September 11, 2023
Tedesco Country Club, Marblehead, MA

Association of Credit Union Senior Officers
Wednesday, September 20, 2023
Annual Meeting &
The Newest Payments Rail
MHA Conference Center, Burlington, MA

Wednesday, December 6, 2023
Meet the Regulators
MHA Conference Center, Burlington, MA

International Payments Services Users Webinar
Presented in Partnership with Corpay
Thursday, October 19, 2023
on International Credit Union Day
Virtual

ALM Academy
Presented in Partnership with ALM First
Tuesday, October 24 - Wednesday, October 25, 2023
MHA Conference Center, Burlington, MA

*For more information about the events listed above,
please call 800.428.1144, Ext. 3300
or email to admin@eascorp.org.*



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