



*Investing in a Volatile World:  
The Comprehensive Approach to Fixed Income  
Portfolio Strategy and Management*

*NYCUA EXCEL 25 Session  
June 13, 2025*

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Institutional Fixed Income Sales  
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1


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## Overview

- The Economy, The Fed and Interest Rates
- Capital Markets Update
  - Loan Participations
  - Subordinated Debt
- Focus on Value
  - U.S. Treasuries and CDs
  - New and Seasoned Mortgage-Backed Securities
  - Front-End Sequential CMOs
  - Freddie Ks
- Conclusions

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3

## Trump 2.0 Economic Policy

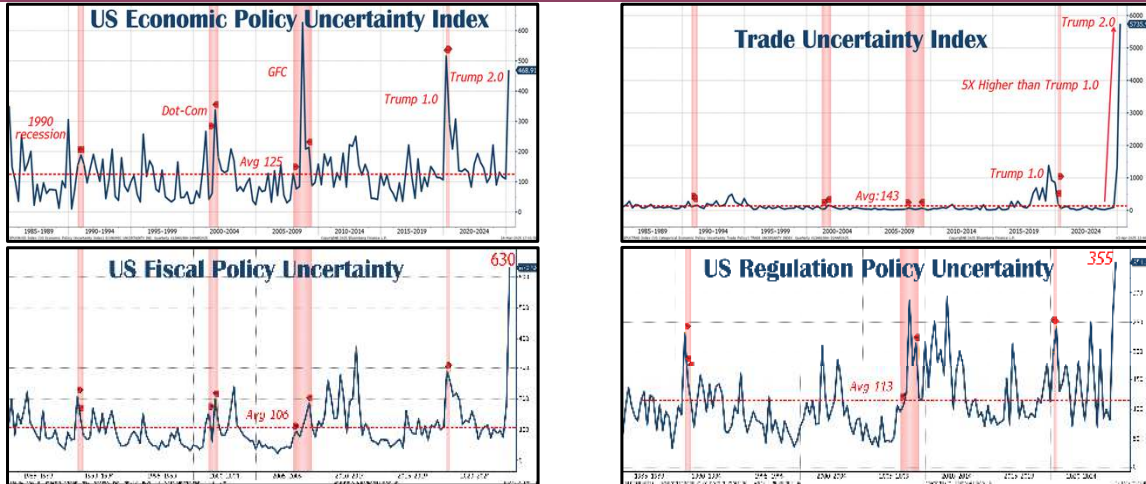
- **Trade Policy:** Increase tariffs on imports to balance trade deficit, replace income taxes with tariffs & decouple from China (“America First”).
- **Manufacturing & Jobs:** Bring manufacturing and jobs back to the U.S. (Made in America).
- **Maximize Energy Production:** “Drill Baby Drill.”
- **Deregulation:** Cut regulation in energy, finance and other industries.
- **Fiscal Policy:** Extend Tax Cuts... ???
- **Monetary Policy:** Pressure Fed to lower rates.

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## Uncertainty at Record-High Levels

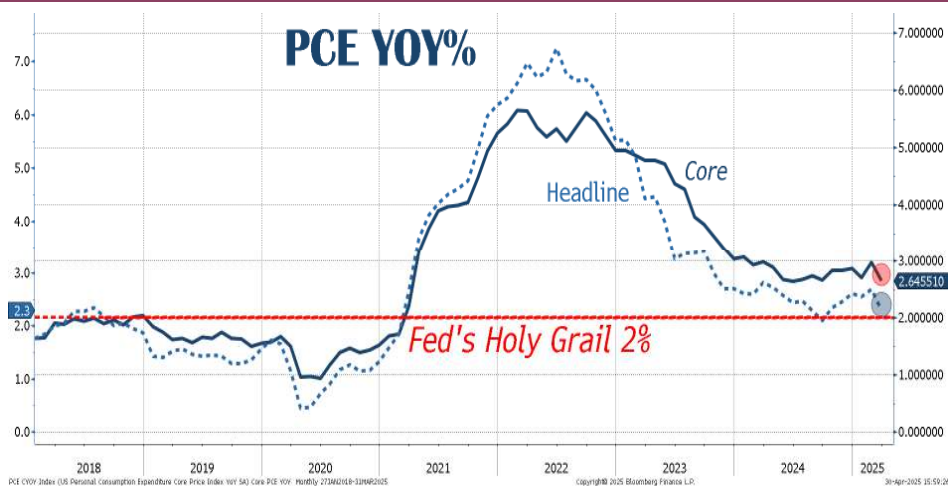


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## Heading Towards Fed's Goal



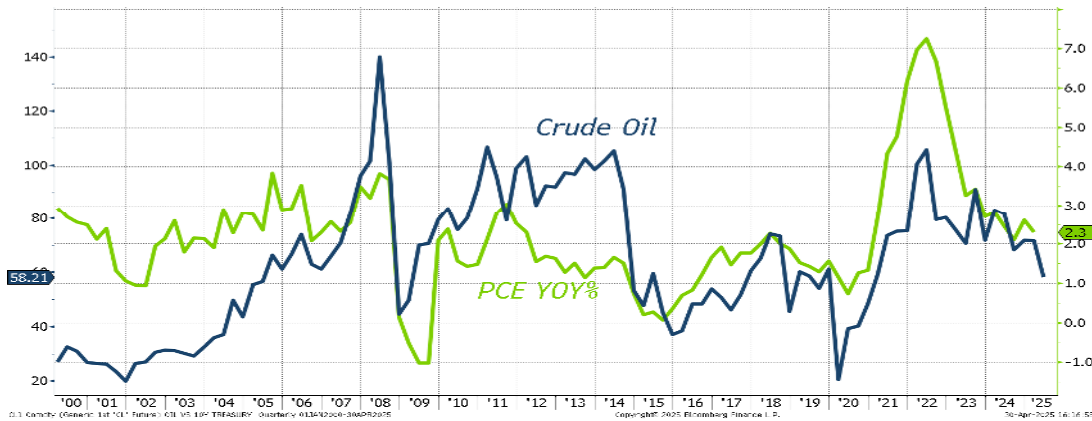
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## Strong Correlation Between Crude and Inflation

### WTI Crude is Down 42% Since June 2022

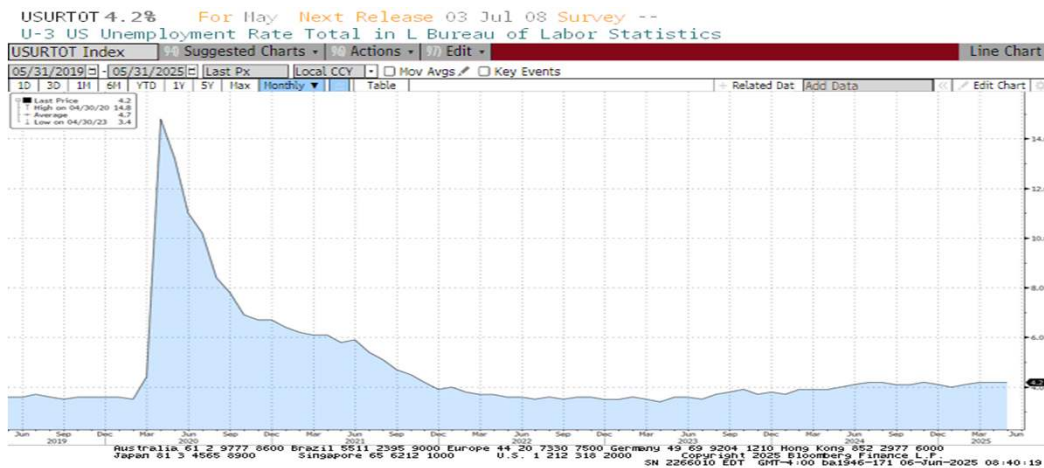


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## Unemployment Rate

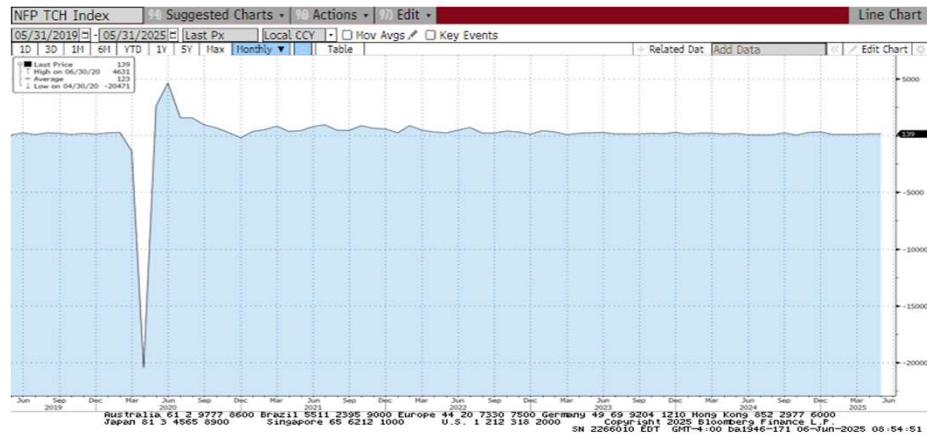


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## Non-Farm Payrolls



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## Time to Deregulate

### Manufacturers Regulations Costs

**All Manufacturers:** \$350B to \$400B per year

**Large Manufacturers:** Avg. of \$29,100 per employee, per year

**Small Manufactures:** Avg. of \$50,100 per employee, per year

Over 90% of manufacturers are small firms that account for 40% of manufacturing employment.

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## Financial Regulatory Costs

### Credit Unions

Total: \$6-\$8 billion

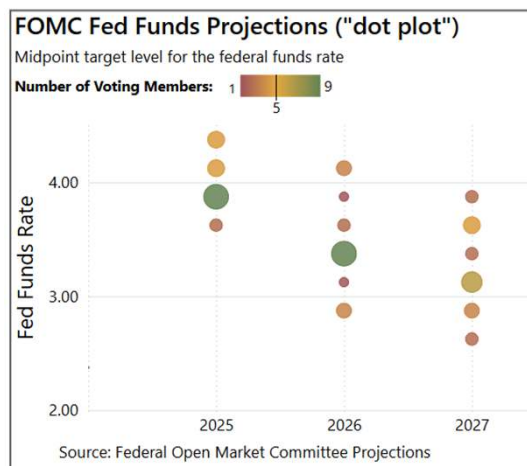
- Large (>\$1B): \$1M-\$5M per year (3%-6% of revenue)
- Medium (\$100M-1B): \$200K-\$1M per year (7%-8% of revenue)
- Small (<\$100M): \$50K-200K per year (10%-15% of revenue)

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## The Fed Still Has No Clue...

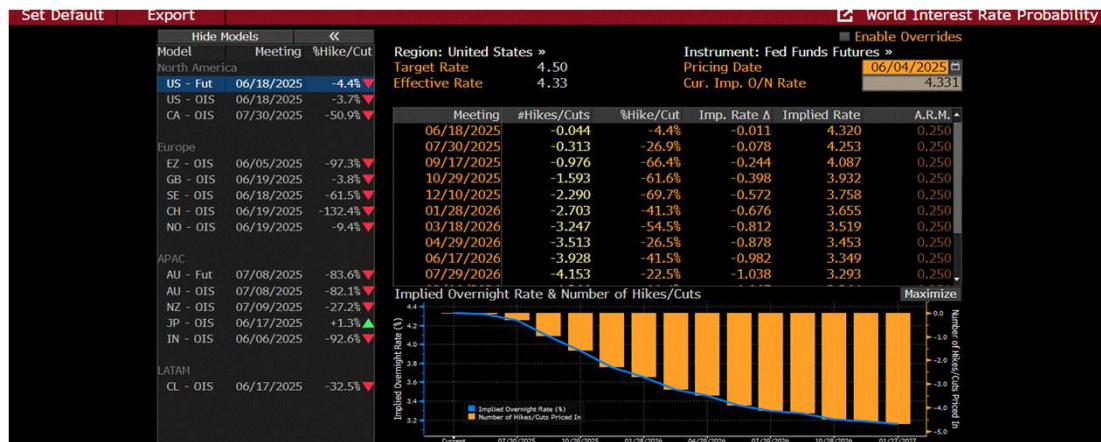


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12

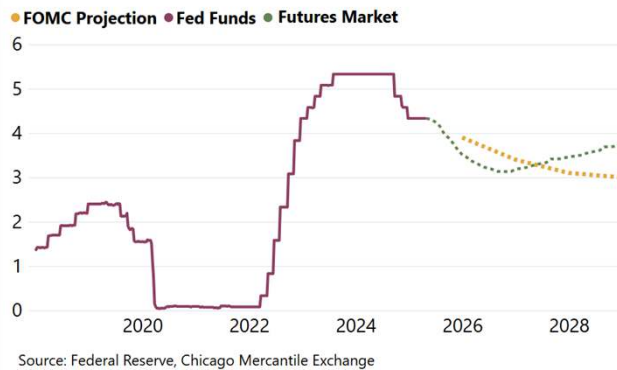
# Fed Funds Futures



13

# Market vs. Fed Projections

Fed Funds since 2018 with Forecast through 2028  
Futures Market vs Federal Open Market Committee Forecast

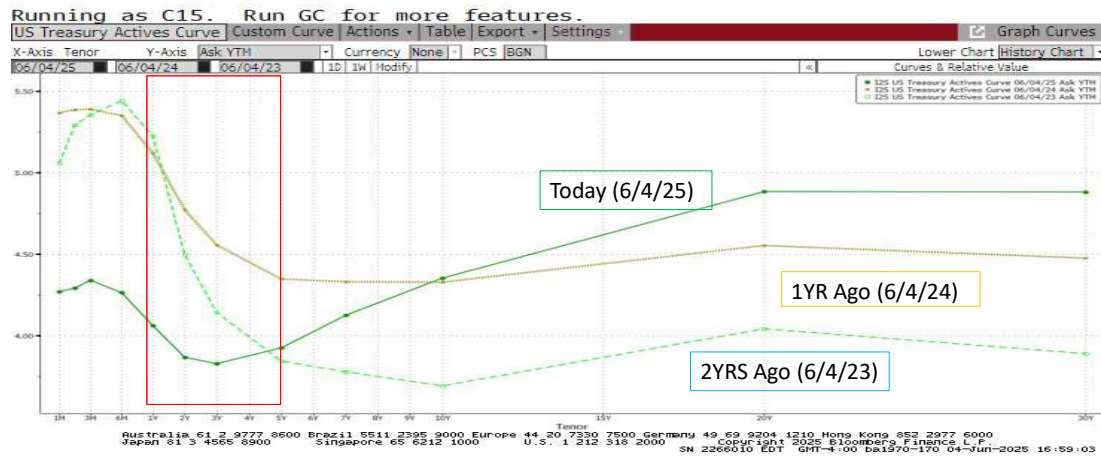


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## U.S. Treasury Yield Curve Comparison



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## U.S. Treasury Yield Curve Comparison

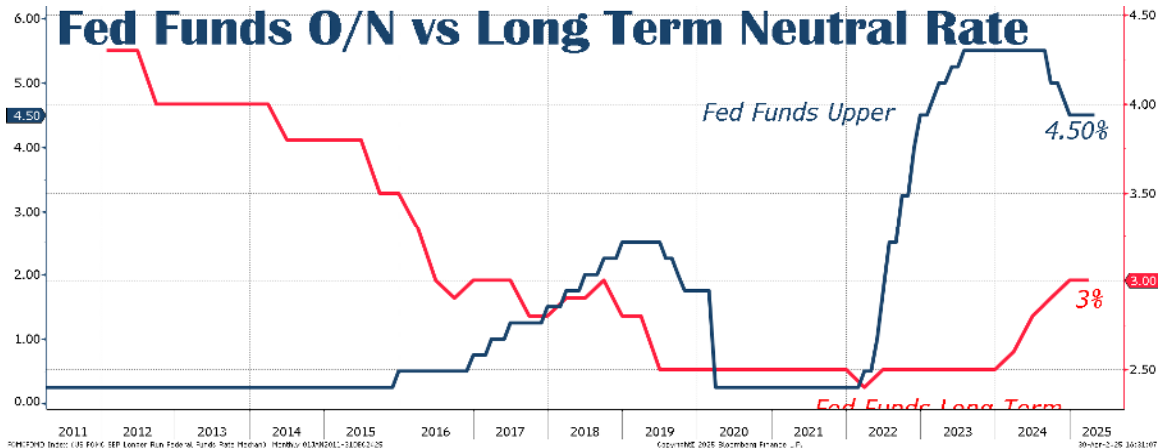
Year	2025	2024	2023
1YR Treasury	4.05%	5.11%	5.22%
2YR Treasury	3.86%	4.77%	4.49%
3YR Treasury	3.82%	4.55%	4.14%
5YR Treasury	3.92%	4.34%	3.84%
10YR Treasury	4.35%	4.32%	3.69%
30YR Treasury	4.87%	4.47%	3.88%

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## Fed Will Normalize Rates



17

## Capital Markets Updates

### Loan Participations

- Loan participations have gained popularity and portfolios continue to grow.
- Liquidity is high and demand is strong (meaning competition is strong).
- Loan originations are down (meaning inventory is down).
- Credit unions on both sides of the trade.

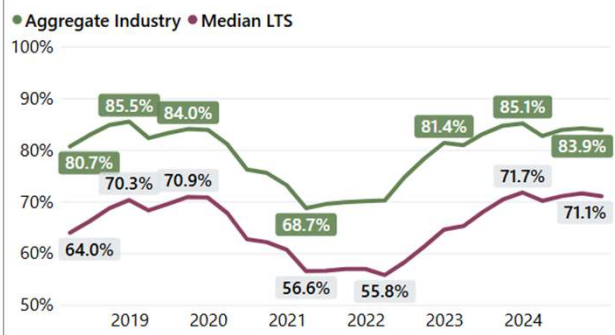
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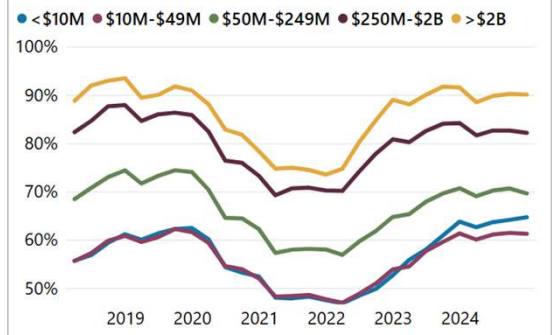
18

## Credit Union Liquidity

### Loan to Share Ratio



### Median Loan to Share Ratio by Asset Size



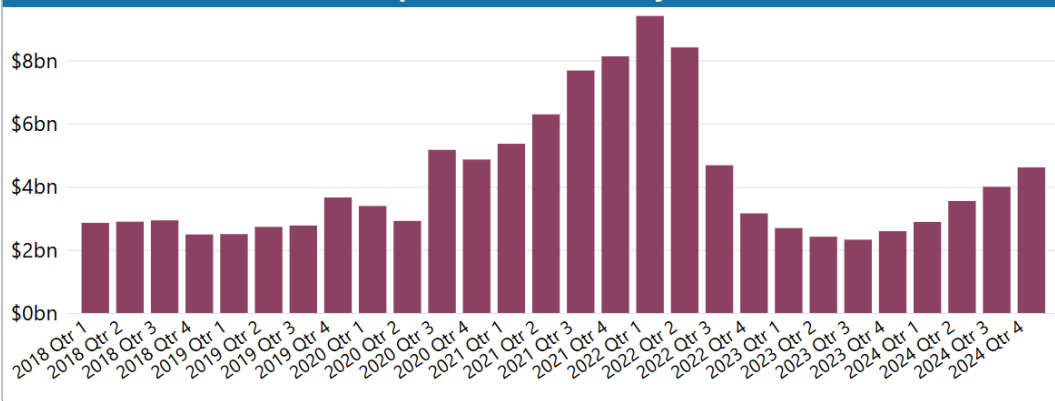
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19

## Loan Participation Market

### Credit Union Loan Participation Volume by Quarter



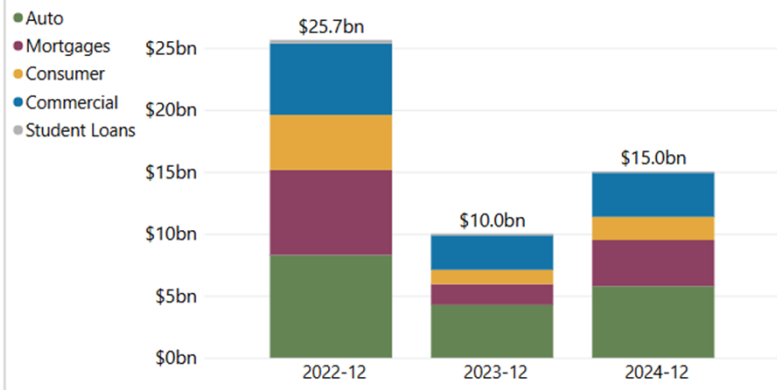
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## Loan Participation Market Loan Type

**Credit Union Loan Participation Volume (Year-to-Date)**



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## Loan Participation Market 5-Year Change

12/31/2024	
CU's with LP Outstanding	2029
% of CU's with LP Outstanding	45%
CU's with LP Purchased	1933
CU's with LP Sold	879
5 Yr Change in # of CU's with LP	▲ 77
5 Yr Change in % of CU's with LP	▲ 4%
LP Purchased Outstanding	\$63bn
5 Yr \$ Change in LP Purchased Outstanding	▲ \$29bn
5 Yr % Change in LP Purchased Outstanding	▲ 85%

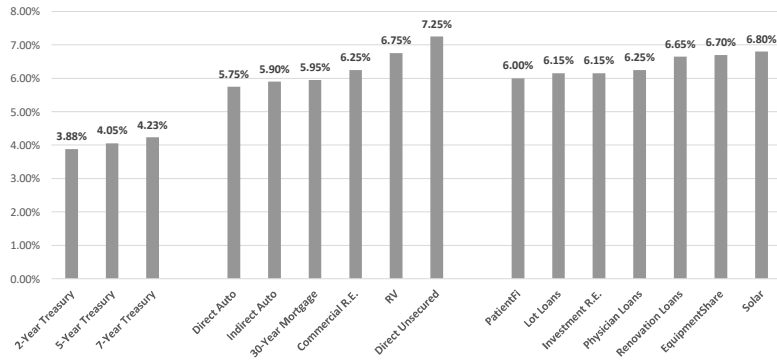
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## Transparency in the “Grey Market”

### The Current Market



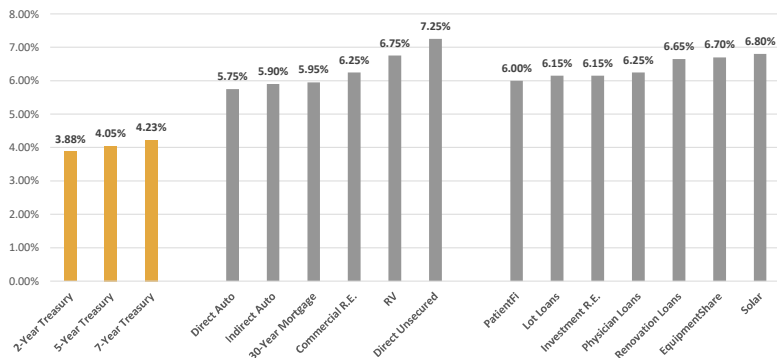
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23

## Transparency in the “Grey Market”

### Treasury Rates



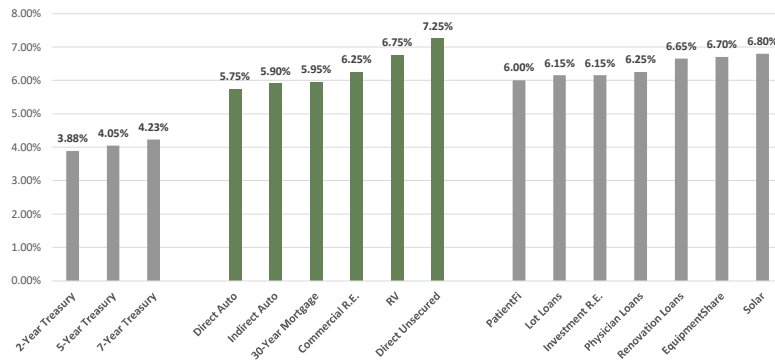
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24

## Transparency in the “Grey Market”

### Plain Vanilla



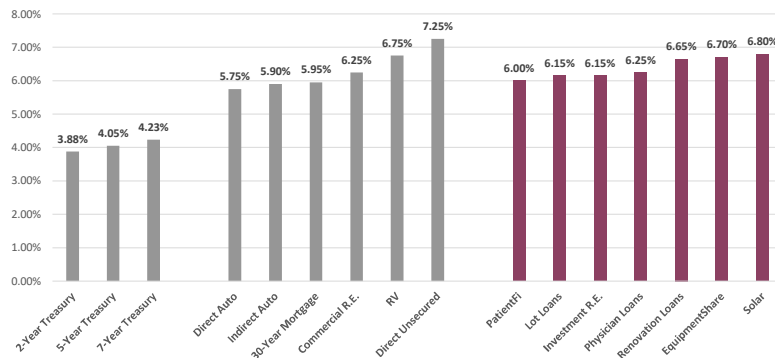
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25

## Transparency in the “Grey Market”

### Niche Loan Types



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26

## Strategies in Today's Market

- Sellers – fill the void
- Be choosy – but not picky
  - If a loan type hits your requirements for credit and yield, but isn't the exact loan type you're looking for, consider it. You don't know if and when the next deal is coming.
- Broaden your horizons
  - Modify loan policies if needed. Don't paint yourself into a corner.
- Communication is key
  - Remain in contact with us. Let us know your preferences, liquidity situation, yield requirements, etc.

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## Risks in Current Market

- Prepayment risks are real – if rates fall.
  - Focus is almost always on C/O's, but CPR is an important consideration.
    - Utilize a term sheet to determine yields at various CPR speeds and C/O.
  - Buyer analytics
    - Monitor your pool purchases by loan type, seller, geography etc.
    - This information will help you decide on future purchases.

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28

## Subordinated Debt

### Subordinated Debt

- We have 76 credit unions signed up to purchase
- \$40M waiting for approval
- \$315M at the NCUA waiting for approval (seeing delays)
- Doing what we can to bring deals to market
- Rates are at 8.00% +/-

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29

## Subordinated Debt

### Subordinated Debt – Current Pipeline

Credit Union	Asset Size	NW	Issuance Size	Est. Date
Credit Union A	\$2,100,000,000	10.70%	\$40,000,000	2025
Credit Union B	\$1,540,000,000	10.60%	\$50,000,000	2025
Credit Union C	\$7,860,000,000	8.90%	\$150,000,000	2025
Credit Union D	\$900,000,000	10.60%	\$40,000,000	2026
Credit Union E	\$1,846,000,000	9.20%	\$75,000,000	2025

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## Subordinated Debt Investment – Refresher

### What is Subordinated Debt?

Subordinated debt is a borrowing designed to receive favorable regulatory capital treatment by the NCUA.

- ☐ Eligible to count towards **net worth** and **risk-based capital** ratios for issuers
- ☐ Unsecured investment (each deal must be approved by NCUA)
- ☐ Business plan and financials **must** be able to support growth plan and service debt to obtain NCUA approval
- ☐ Credit unions investing in credit unions to support the credit union movement!

### How do I Invest?

Gaining access to view available offerings is simple:

- ☐ Broker/dealer agreement signed
- ☐ Non-disclosure agreement signed (one time)
- ☐ Subordinated debt policy (can be included in investment policy)

Be mindful of investment limits:

- ☐ 15% of net worth to one borrower (issuer)
- ☐ 25% of net worth in aggregate investment in sub debt

\*Two webinars available online.

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31

## Why Fixed Income for Credit Unions?

- **Managing liquidity** on the balance sheet
- **Preservation of capital** for member deposits
- **Predictable cash flows** for liability matching
- **Diversification** from loan portfolio
- **Regulatory alignment** with NCUA investment guidance
- **Interest rate risk management** during economic shifts

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32

## Portfolio Management & Strategies

- Strong case continues for U.S. Treasuries
  - Investment portfolios have extended due to slower prepayments in amortizing securities
  - Low liquidity and price risk
- Smaller investors might prefer CDs
  - Pros: No premiums or discounts; easy safekeeping
  - Cons: Less liquidity; investment limits

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33

## Portfolio Management & Strategies

### U.S. Treasuries (USTs)

- Continue to be the top choice for credit unions
- Backed by the **full faith and credit** of the U.S. government
- T-Bills, T-Notes, and T-Bonds
- Highly liquid and actively traded
- Considered the **benchmark for risk-free rates**

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## Portfolio Management & Strategies

### U.S. Treasuries Benefits

- **Zero credit risk**
- **Easy to ladder** for cash flow needs
- **No optionality** compared to other investments and loans
- **Liquidity** in secondary markets
- **Safe haven** during economic uncertainty

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35

## Portfolio Management & Strategies

### Relative Yield Comparison

Term (years)	Alloya Certificates	SimpliCD *	US Treasuries *	Agencies	Mortgage Backed Securities **	Bank Notes	Loan Participations **
1	3.82%	4.04%	3.954%	3.96%	4.34%	4.34%	7.08%
2	3.73%	4.02%	3.75%	3.77%	4.15%	4.15%	6.39%
3	3.73%	3.98%	3.73%	3.76%	4.23%	4.43%	6.39%
4	3.85%	3.97%	3.81%	3.85%	4.41%	4.51%	6.35%
5	3.91%	3.97%	3.88%	4.92%	4.78%	4.58%	6.35%

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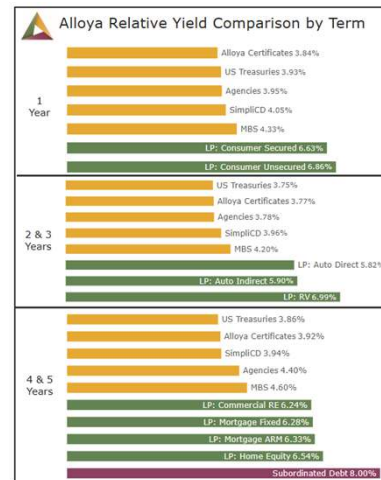


36

## Portfolio Management & Strategies

Add other risk-appropriate investments/alternatives when you need them:

- New/seasoned Mortgage-Backed Securities (MBS)
- Short, front-end Sequential CMOs (SEQ)
- CMBS, e.g., Freddie K bullet alternatives



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## Portfolio Management & Strategies

### New and Seasoned Mortgage-Backed Securities

- Pools of **residential mortgage loans** (FNMA, FHLMC, GNMA)
- **New** = new mortgages/current coupons
- **Seasoned** = past the period of greatest prepayment uncertainty
- Cash flows include **principal + interest**

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## Portfolio Management & Strategies

### New and Seasoned Mortgage-Backed Securities Benefits

- **Higher yield** than Treasuries with minimal added risk
- Seasoned MBS offers even more **stable cash flows**
- Can add to loan **portfolio diversification**
- Backed by **GSEs**
- Enhanced **prepayment predictability**
- Seasoned MBS offers **good performance history** under stress scenarios

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39

## Portfolio Management & Strategies

### NEW 15YR MBS

vs.

### NEW 20YR MBS

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40

# Portfolio Management & Strategies

## NEW 10YR MBS

vs.

## SEASONED 20YR MBS

FR RDS244 MBS									
Actions • Export • Settings									
Yield Table									
100% FNCH 5 N	5.848(119)0	CUSIP 31131F210	Pool Level	#	As of 04/2025	98%			
4/25	---	---	---	---	---	---	---	---	---
3Mo	---	---	---	---	---	---	---	---	---
6Mo	---	---	---	---	---	---	---	---	---
12Mo	---	---	---	---	---	---	---	---	---
Life	---	---	---	---	---	---	---	---	---
Settle	05/06/25	0 MED	+300 MED	+200 MED	+100 MED	-100 MED	-200 MED	-300 MED	
Vary	0	287 PSA	175 PSA	200 PSA	234 PSA	454 PSA	798 PSA	1150 PSA	
Price	101-04	4.601	4.653	4.641	4.626	4.523	4.362	4.207	
Avg Life		3.75	4.29	4.16	3.99	3.13	2.33	1.87	
Mod Duration		3.27	3.68	3.58	3.45	2.78	2.14	1.74	
Prin Wtd	Date	6/25-2/35	6/25-2/35	6/25-2/35	6/25-2/35	6/25-2/35	6/25-2/35	6/25-2/35	
1 Spread		72	73	73	73	67	52	34	
Apr 25	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul
138P	105	33	40	171	156	160	254	149	162
6.3C	6.3	2.0	2.4	10.2	9.4	10.1	15.2	9.0	9.7

FN NA2164 MBS									
Actions • Export • Settings									
Yield Table									
100% FNCH 5 S	4.246(109)123	CUSIP 31410DND	Pool Level	#	As of 05/2025	99%			
4/25	138P	8.3C	0.00	---	---	---	---	---	---
3Mo	93	5.6	1.0	---	---	---	---	---	---
6Mo	108	6.5	0.5	---	---	---	---	---	---
12Mo	139	8.4	0.5	---	---	---	---	---	---
Life	272	14.4	---	---	---	---	---	---	---
Settle	05/06/25	0 MED	+300 MED	+200 MED	+100 MED	-100 MED	-200 MED	-300 MED	
Vary	0	138 PSA	105 PSA	110 PSA	120 PSA	155 PSA	173 PSA	201 PSA	
Price	96-25	4.420	4.372	4.379	4.393	4.445	4.473	4.517	
Avg Life		3.82	4.04	4.01	3.94	3.71	3.60	3.43	
Mod Duration		3.36	3.56	3.53	3.47	3.27	3.17	3.03	
Prin Wtd	Date	6/25-5/34	6/25-5/34	6/25-5/34	6/25-5/34	6/25-5/34	6/25-5/34	6/25-5/34	
1 Spread		53	47	48	50	56	60	66	
Apr 25	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul
138P	105	33	40	171	156	160	254	149	162
6.3C	6.3	2.0	2.4	10.2	9.4	10.1	15.2	9.0	9.7

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41

# Portfolio Management & Strategies

## Front-End Sequential CMOs Overview

- Type of **structured MBS**, organized by tranches
- **Front-end tranches** receive principal payments first
- Designed to offer **shorter duration** and **predictable cash flows**

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42

## Portfolio Management & Strategies

### Front-End Sequential CMOs Benefits

- **Controlled average life**, suitable for short- to medium-term needs
- **Stable and predictable cash flow**, even in volatile rate environments
- Backed by **agency MBS collateral** (low credit risk)
- Useful for **liquidity planning**

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43

## Portfolio Management & Strategies

### SEQ CMO: FNR 2025-22 EA

FNR 2025-22 EA Mtge									
100% FNCL 6.5 N 7.376(353)S CUSIP 31368VNU3 Pool Level As of 04/25/2025									
4/25 22P	0.2C	0.0B	Traits	SEQ	Coupon	5.00% Maturity	09/25/52 WA	22% 2025	
3Mo	--	--	03/31/2025	6,306,894	175/18 TV	86/88 Accrual	04/01/04/26 CH	11% 2025	
6Mo	--	--	04/25/2025	6,298,427	WACS	694,000 Next Pay	05/25/25 TX	10%	
12Mo	--	--		Factor	0.99877082	WACS	338,921 Collar	No Band FL	10%
Life	22	0.2	0.0	# Loans	106				
Price to Yield									
Settle	04/29/25	0 MID	+300 MID	+200 MID	+100 MID	-100 MID	-200 MID	-300 MID	-1C
Vary	0	341 PSA	116 PSA	137 PSA	165 PSA	591 PSA	871 PSA	112	
Price	99.20	5.0001	5.0261	5.0235	5.0201	4.9755	4.9520		
Avg Life		3.15	7.14	6.15	5.54	2.07	1.56		
Mod Duration		2.79	5.54	5.05	4.52	1.90	1.45		
Prin Win	5/25-4/32	5/25-9/41	5/25-1/40	5/25-3/38	5/25-1/29	5/25-4/28	5/25-4/30		
1 Scored	120	90	96	104	118	109			
Apr 25	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul
22P	--	--	--	--	--	--	--	--	--
0.2C	--	--	--	--	--	--	--	--	--

FNR 2025-22 EA Mtge									
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4/25 22P	0.2C	0.0B	Traits	SEQ	Coupon	5.00% Maturity	09/25/52 WA	22% 2025	
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1 Scored	120	90	96	104	118	109			
Apr 25	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul
22P	--	--	--	--	--	--	--	--	--
0.2C	--	--	--	--	--	--	--	--	--

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44

## Portfolio Management & Strategies

### Freddie Ks (Freddie Mac K-Deals) Overview

- A type of **securitization** for multifamily mortgages
- **CMBS**; structured as multi-class, pass-through certificates
- **Credit quality** is high due to strong underwriting standards
- Historically, Freddie Ks have shown **strong performance** with low default rates
- Considered a **bullet alternative** with **interest-only** payments until maturity

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45

## Portfolio Management & Strategies

### Freddie K Benefits

- **Higher yield** than Treasuries and bullets with minimal added risk
- **Inventory** has been better than agency bullets
- Offers **stable cash flows** with less reinvestment risk
- Can add to **portfolio diversification** due to commercial exposure
- Meets **regulatory guidelines** and easy to add to credit union investment policies

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46

# Portfolio Management & Strategies

Freddie K Agency CMBS			FHMS K088 A2										Super Yield Table									
Descriptive Information			US CMBS : FREDDIE 4.607(46)76 CUSIP 3137FKZZ2										<div>10 Buy</div> <div>10 Sell</div>									
Issue	FHMS K088 A2		3/25 1Mo 0.00 WAOLS 40MM Hfam 72.0% CA 19.3% Coupon 3.69% Delay 24 Maturity 01/25/29																			
Cusip	3137FKZZ2		300 0.00 3Mo 0.00 LTV 64.69 HCa 2.6% MD 8.7% Traits SC_SEQ CFace 1.1MMM Created 04/23/25																			
Original Face	\$12,000,000		600 0.00 6Mo 0.00 DSCR 1.79 Mob 0.5% PA 7.2% Call 1% Collat OFace 1.1MMM 1st Proj 04/25/25																			
Current Face	\$12,000,000		90+ 0.00 12Mo 0.00 CL Pls -- NY 5.7% # Loans 63 Factor 1.0000 Next Pay 05/25/25																			
Factor	1		Model Notes TX 5.5%										Mthly									
Coupon	3.690																					
Pool Issue Size	\$1,080,626,000																					
Issue Date	3/1/2019																					
Final Maturity	1/25/2029																					
Mortgage Type	SC,SEQ																					

Collateral Information			1) Price-to-Yield										
No. of Loans	63	WAM	46										
Deceased Loans		WA Loan Age	76										
Balance	351,692,833	Curr WAC	4.607										
% Of Balance	24.96%	WAOLS (MM)											
Property Type		LTV	64.69										
Multi-Family	71.98%	DSCR	1.79										
Mobile Home	0.47%												
		Geographics											
		CA	19.32%										
		MD	8.66%										
		FL	8.60%										
		PA	7.75%										
		TX	7.20%										

# Questions?

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