



2020 Economic Recap & 2021 Outlook for Credit Unions

James Hotchkiss, Jr.

VP & Director of Economic Analysis & Member Solutions
Federal Home Loan Bank of Chicago

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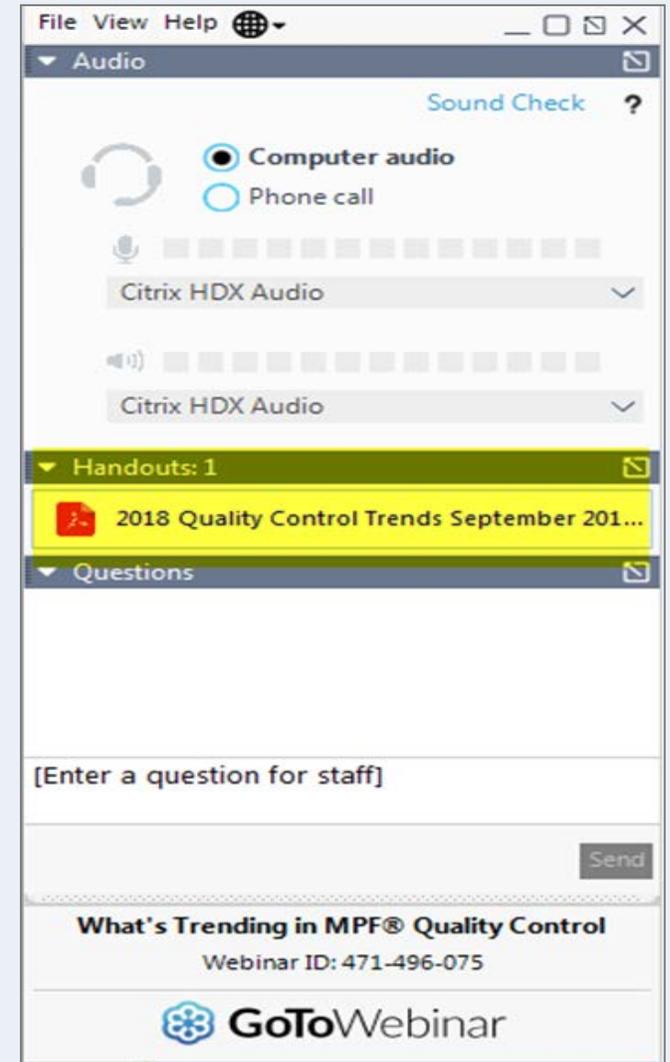
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Opening Remarks

Tracy Ashfield, President of ACUMA



Tracy Ashfield is the President of the American Credit Union Mortgage Association (ACUMA), an organization with which she has had close ties for 20 years.

Ashfield has worked as a consultant and subject matter expert with ACUMA since 2000. In that time, working with founder and former president Bob Dorsa, she has helped the non-profit grow from a handful of members to an organization with more than 400 mortgage-lending credit union leaders.

In that same time, credit unions have seen their market share grow from 2% to nearly 9%. And ACUMA is now the premiere education and networking association for credit unions that are serious about mortgage lending.

During her years with the association, Ashfield has been the curator of ACUMA's event programming, bringing relevant and timely educational content to the growing list of members.

Ashfield received her Bachelor's Degree from the University of New Hampshire, and she is a Graduate of The Mortgage Bankers Association's School of Mortgage Banking.



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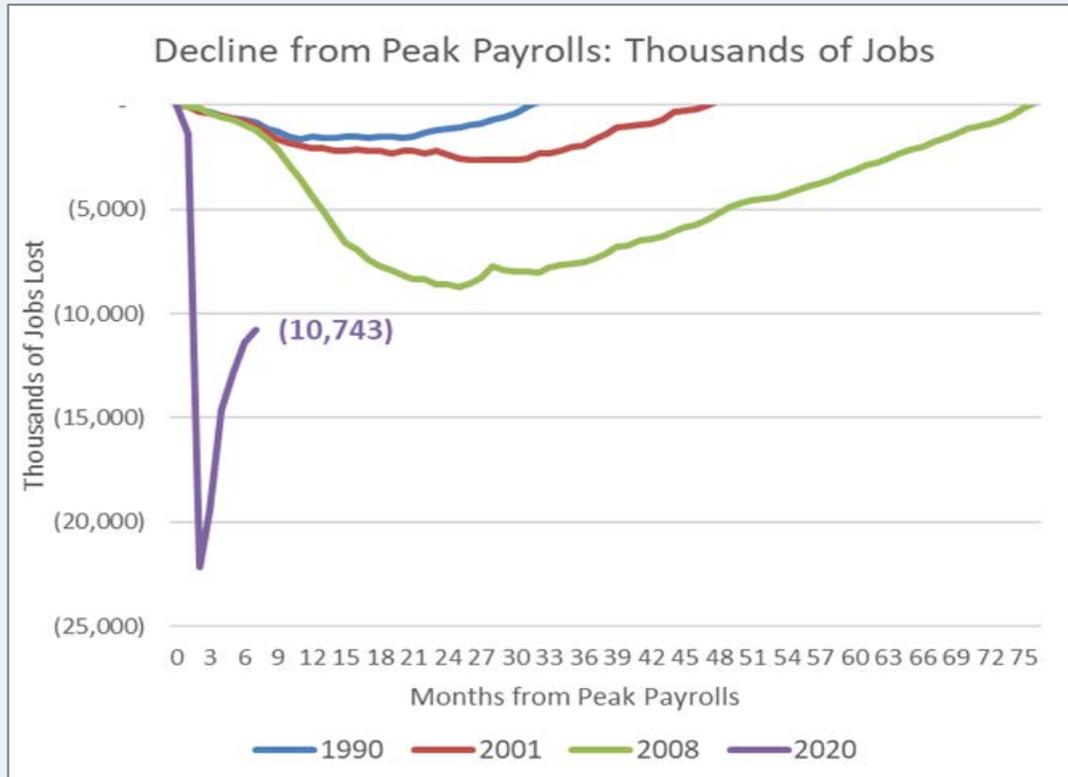
James works within the member strategy and solutions group, analyzing member balance sheets and district trends in Illinois and Wisconsin to provide strategies and insights for member financial institutions. He also prepares daily and weekly market commentary reports that highlight significant developments in financial markets and economic conditions.

Prior to this, his responsibilities included pricing advance products, calculating prepayments and hedging the advance portfolio. James joined the FHLBC in 2009. Before joining the FHLBC, James worked at Capital Market Daily in London where he analyzed and wrote commentary on European medium term note markets, focusing on new issuances.

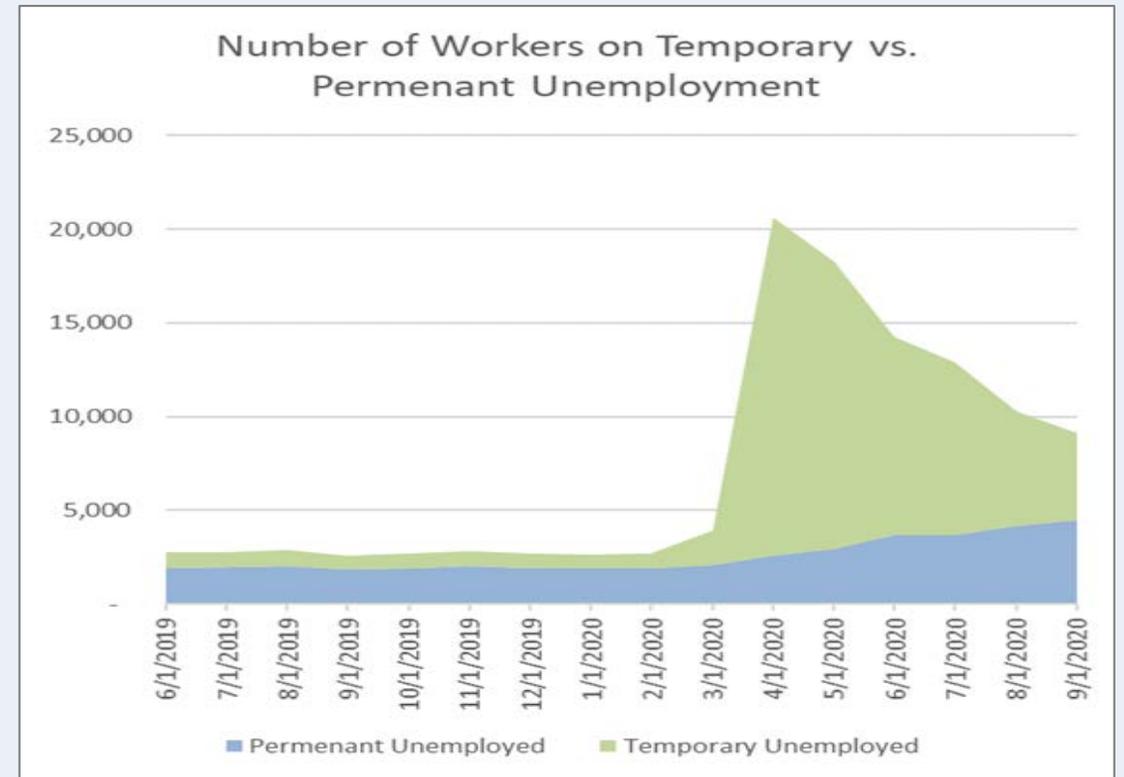
He earned a BS in Economics and Mathematics from the University of Iowa and an MBA in Analytical Finance, Economics, and Managerial and Organizational Behavior at the University of Chicago Booth School of Business.



Job Loss More Severe, But Recovering Quicker



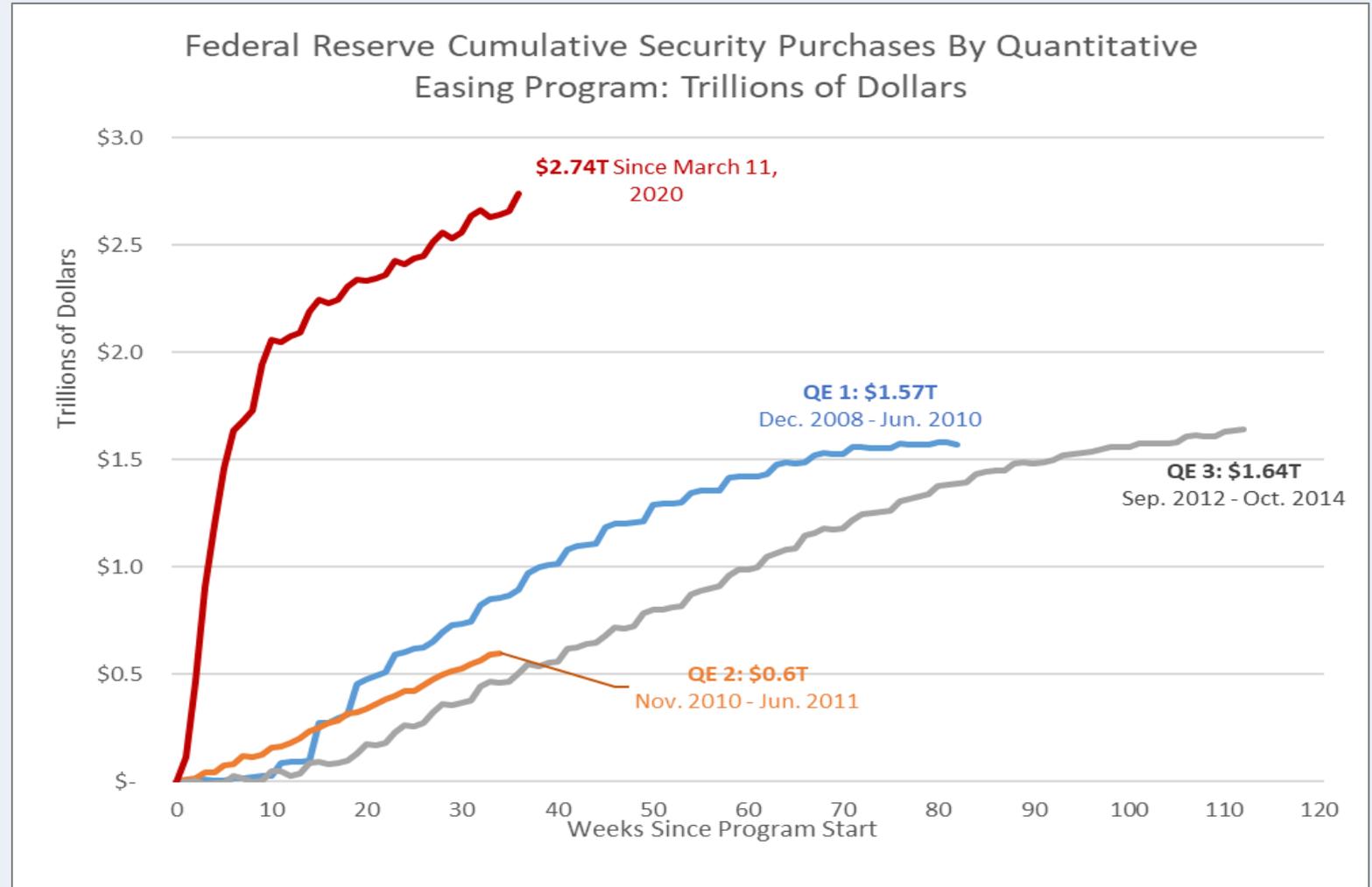
- The decline in payrolls has been historic, far surpassing other recent recessions. However, the rebound has also been strong. At the current rate, we will return to pre-pandemic employment levels in 17 months



- About half of all job losses are still considered “temporary”, suggesting that a reopening of the economy could lead to continued payroll growth. However, the number of non-temporary layoffs has continued to rise in recent months.

Record Monetary and Fiscal Relief

- The Federal Reserve's \$4.7 billion in liquidity facilities and \$2.3 billion in lending programs have been much quicker to insert liquidity into the financial system than any prior programs from 2008-2014.
- An additional \$2.4 trillion in fiscal stimulus via the CARES act also significantly helped to support the economy.



FHLBank Chicago COVID-19 Member Relief



Advance Products

- Extended deadline to execute LIBOR-based advances maturing after 2021 to June 30, 2020
- Offered a one-year, 0% interest rate COVID-19 Relief Advance of up to \$4 million per member



Collateral

- Accepting loans granted forbearance due to COVID-19 as eligible collateral
- Accepting loan modifications and renewals executed with an e-signature (with conditions)
- Allowed QCRs to be completed by June 15, 2020 and either deferring or offering desktop collateral reviews



MPF[®] Program

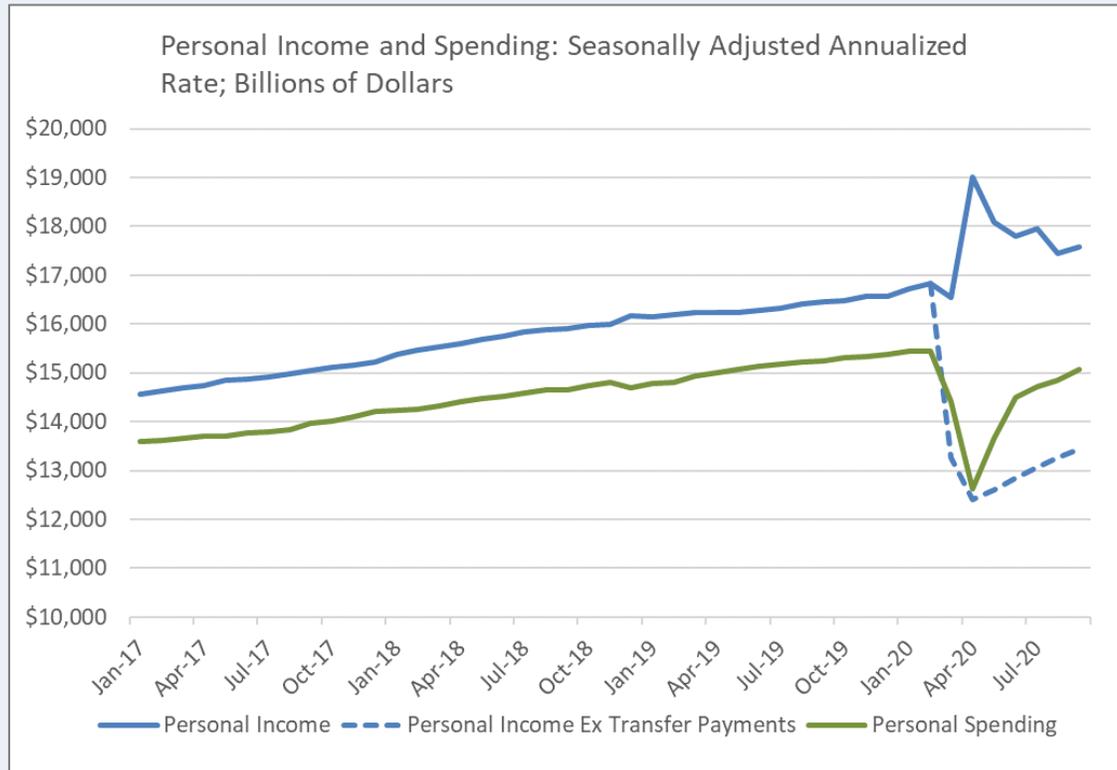
- Offering flexibility on QC requirements and loan documentation (income verification, tax docs, etc.)
- Suspending evictions on borrowers and granting borrowers forbearance on loans
- Giving flexibility on appraisals by allowing desktop appraisals or exterior-only appraisals



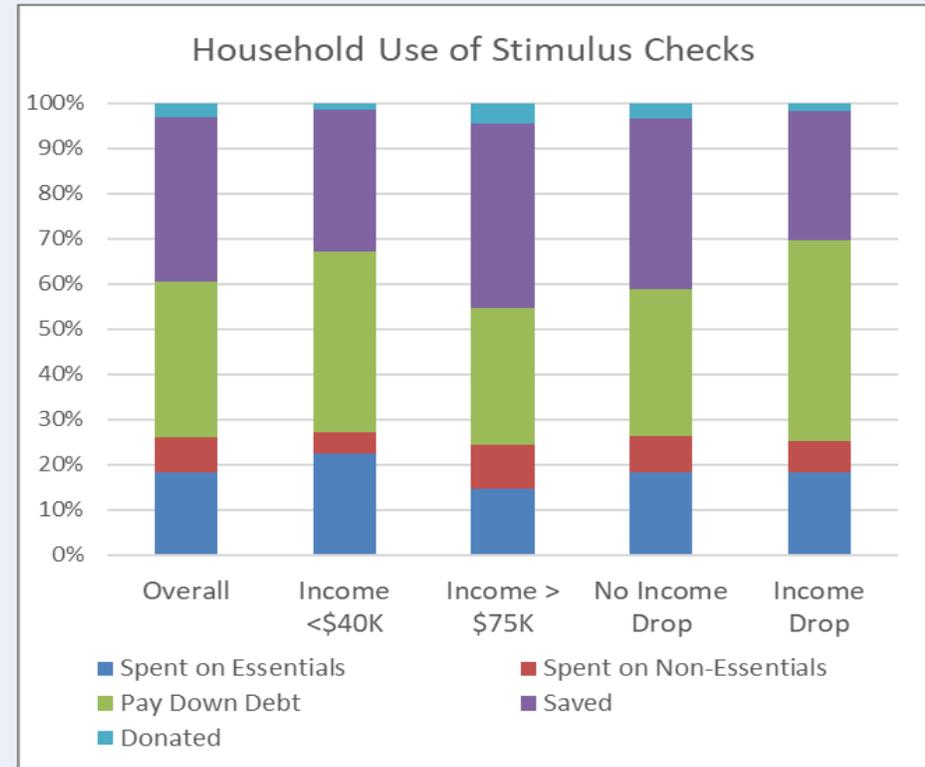
Community Investment Programs

- Offered a COVID-19 Relief Grant of up to \$20,000 per member
- Allocated an additional \$250,000 to the Community First[®] Fund Program
- Offering a \$14M Targeted Impact Fund to assist members in supporting communities hit hardest by COVID

Stimulus Funds Led to Higher Income and Higher Savings

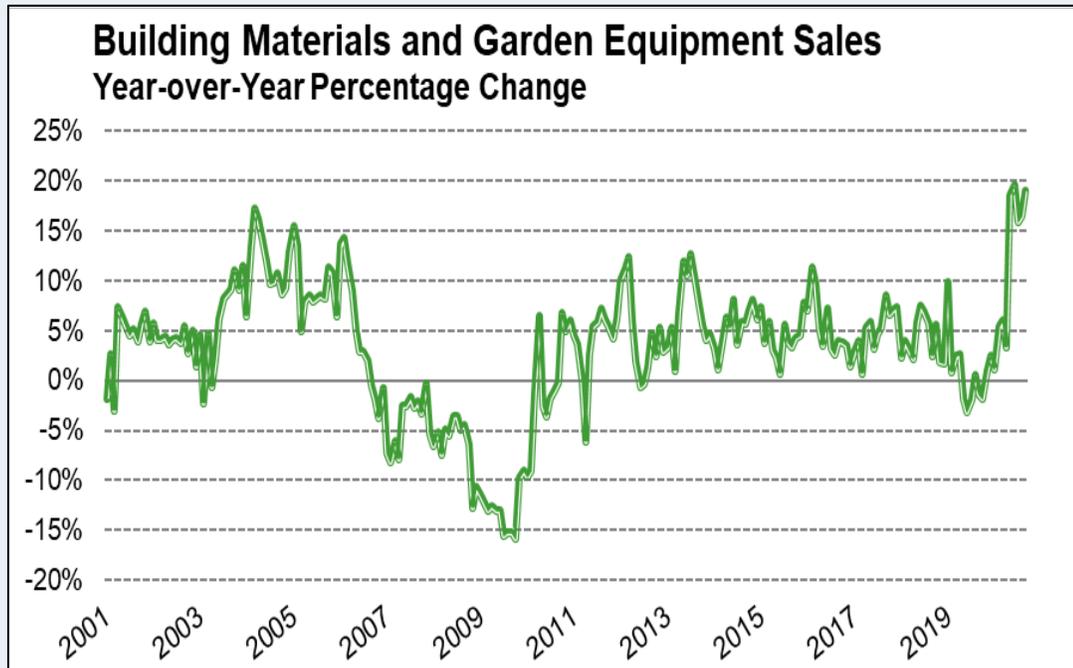


- Stimulus funds and additional unemployment insurance have led to personal income rising significantly during the recession and remains above pre-pandemic levels. The decline in spending has led to the savings rate rising to an unprecedented 33.6% at the height of the crisis.

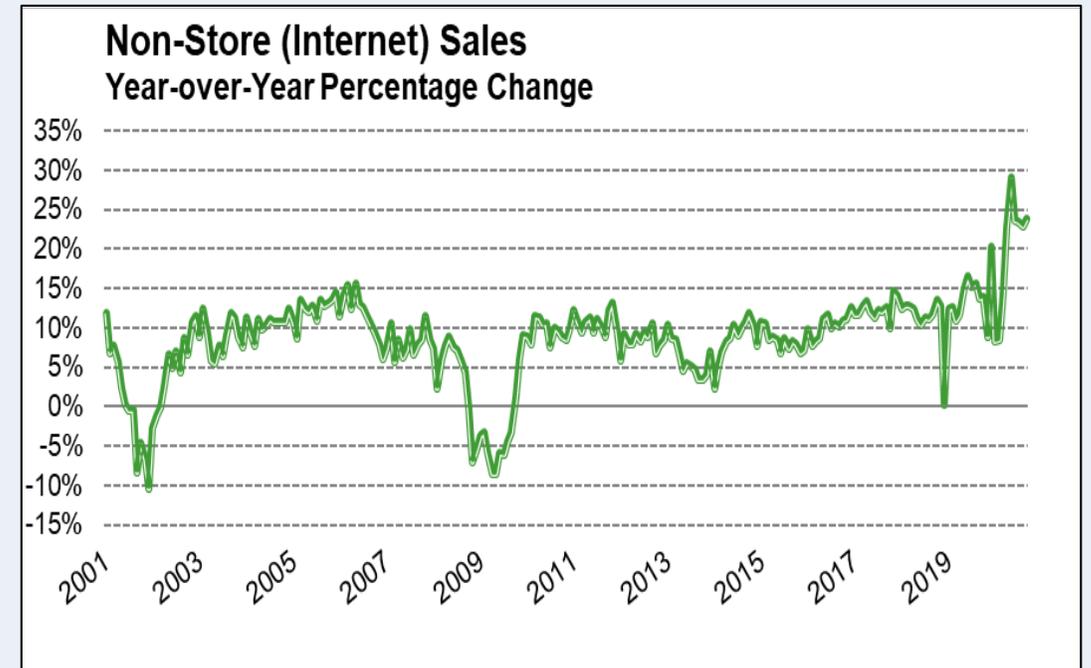


- An average of only 28% of stimulus funds received this year were used on consumption, which held steady across income groups and employment status.

Spending Elevated in Certain Sectors...

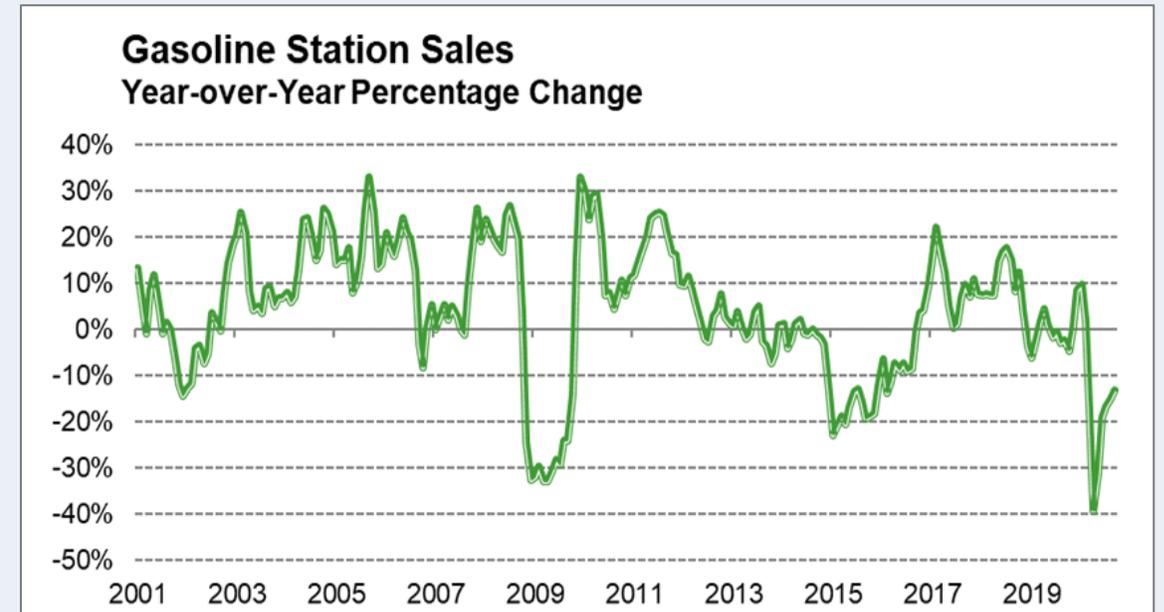
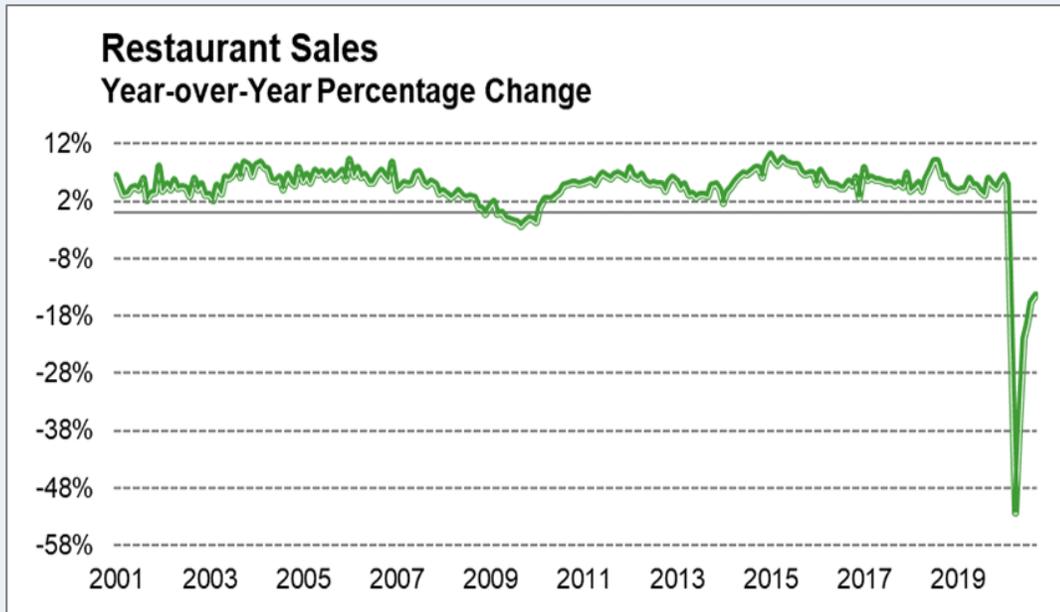


- Building materials, garden equipment, and supplies dealers have risen 19.1% year-over-year, as many consumers have taken on home renovation and new construction projects during the quarantine.



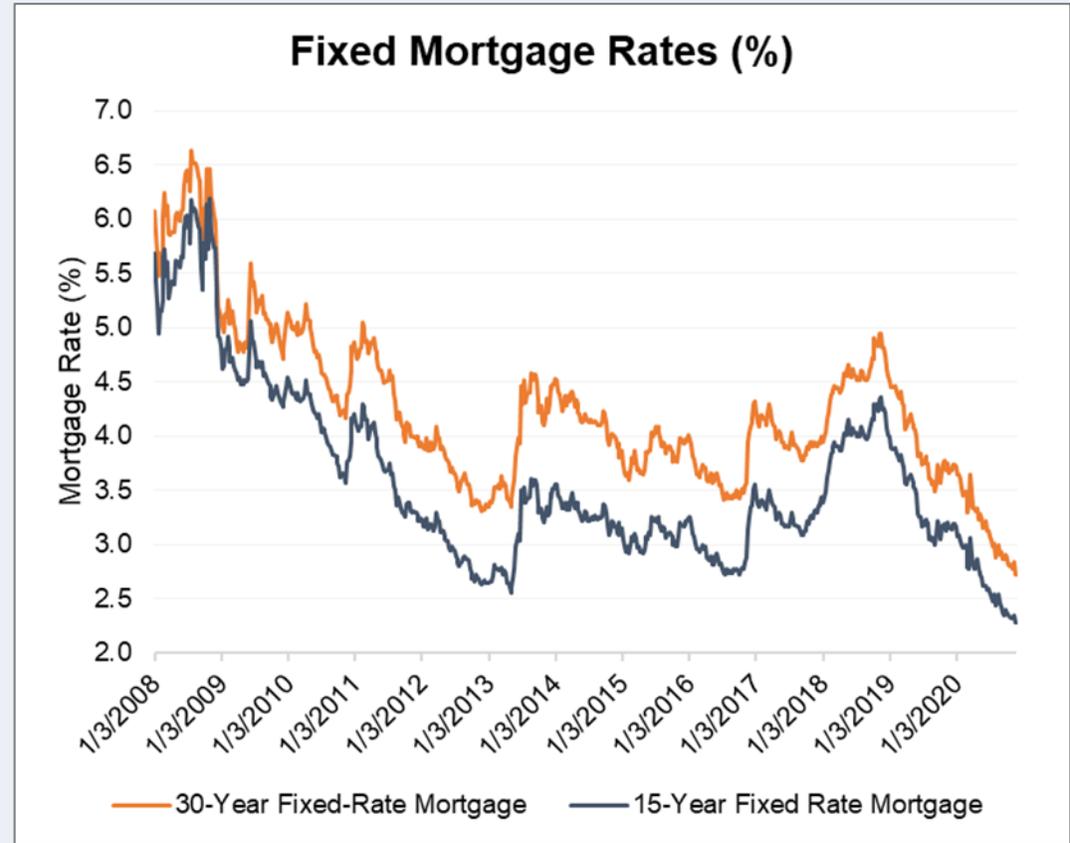
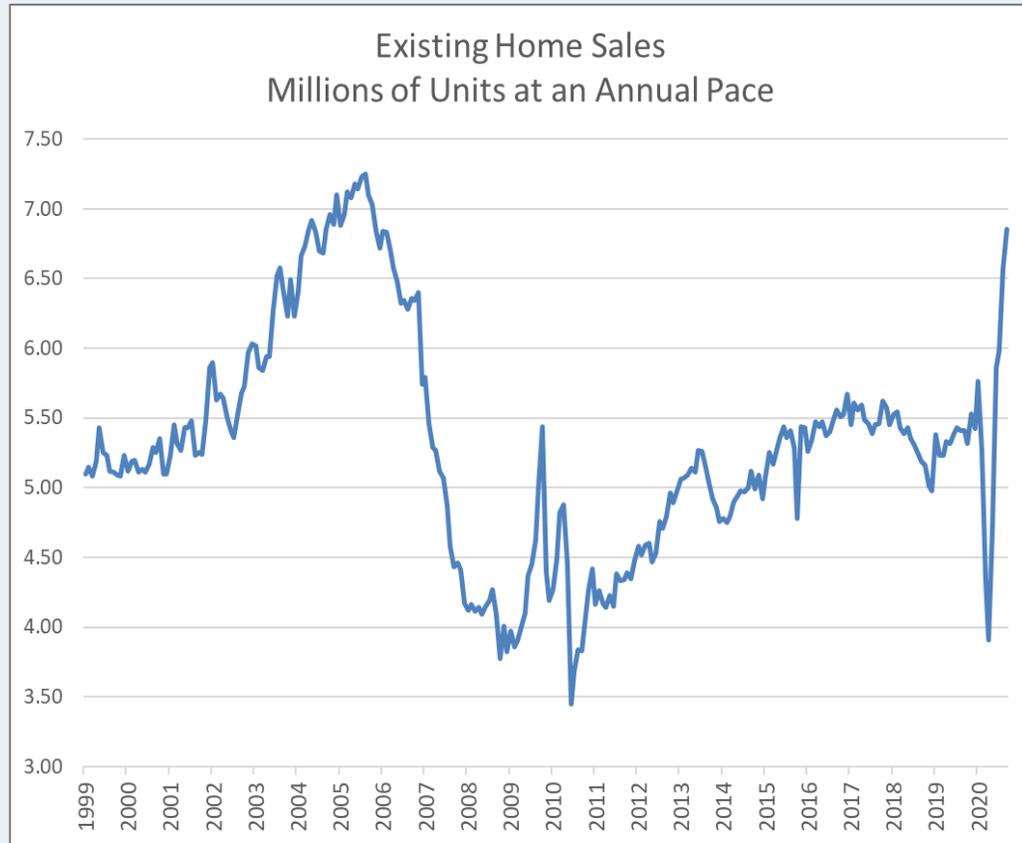
- On a year-over-year basis, non-store (online) retailers have increased significantly, rising 23.8%, as the COVID-19 pandemic deterred consumers from shopping in brick and mortar stores.

...But Spending Remains Subdued in Other Sectors



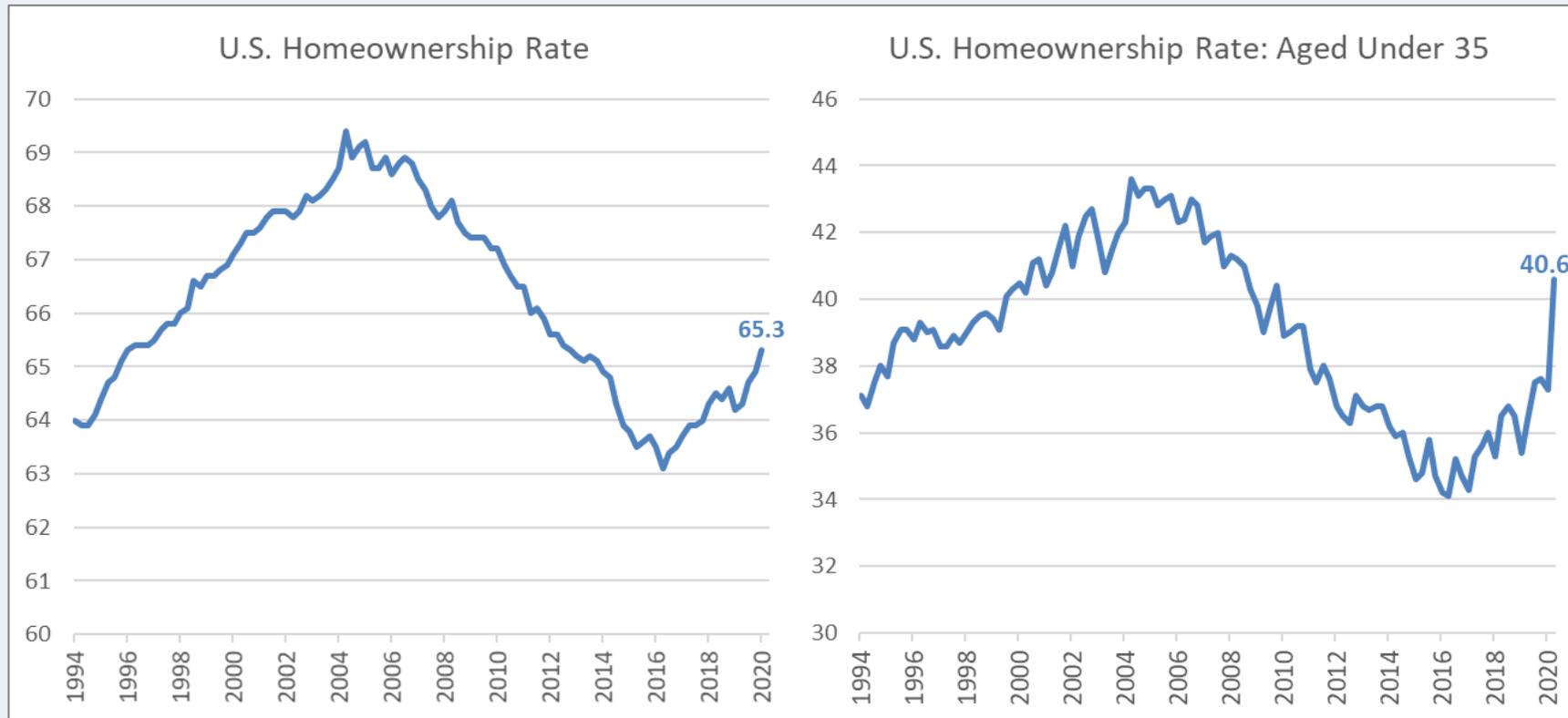
- Offsetting growth, restaurant and gasoline sales have declined the most on an annual basis, falling 14.45% and 13.34%, respectively. Both categories have recovered significantly in recent months but remain well below pre-pandemic levels.

Strong Housing Demand Supporting the Economy



- Existing home sales jumped 9.9% and 4.3% in September and October, respectively, fueled by record low interest rates and pandemic inspired flight from larger cities to suburban or rural locations.

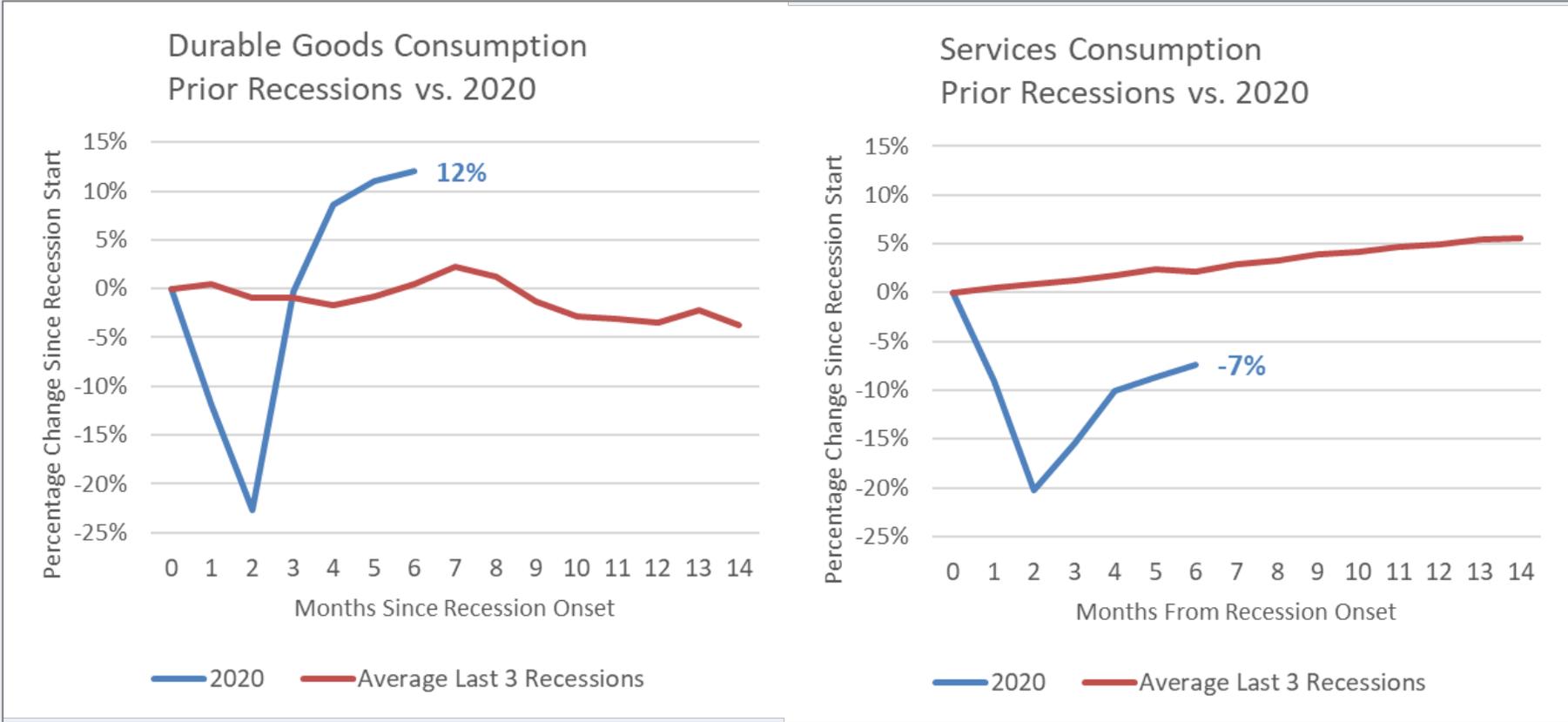
Strong Housing Demand Will Likely Continue



- The homeownership rate has risen as record low rates, increased savings, pent up demand, and desire for more space has all led to a substantial increase in housing purchases as well as refinances.

- With the rise mainly driven by an increase in millennial homeownership, a demographic that has seen much lower than normal levels of homeownership than past generations at the same age.

Consumption Dynamics Unlike Previous Recessions



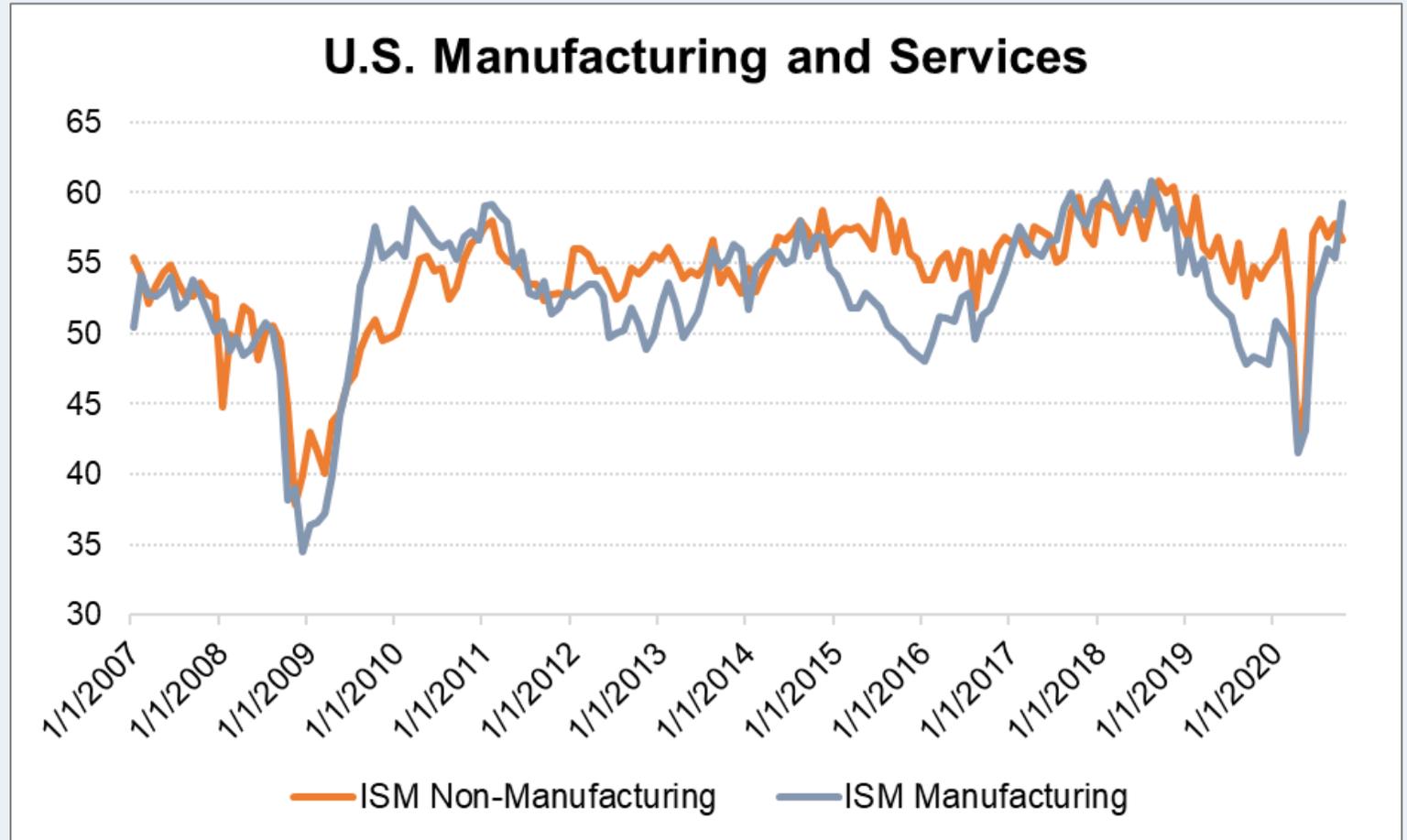
- Durable goods consumption normally stalls prior to declining in past recessions as uncertainty and reduced job prospects cause consumers to put off large purchases. The opposite has occurred in this recession, which bodes well for the manufacturing sector.

- Services consumption has historically steadily increased during recessionary periods. However, lockdowns have caused service spending to drop substantially in 2020.

**Start date of last three recessions: July 1990, March 2001, December 2007*

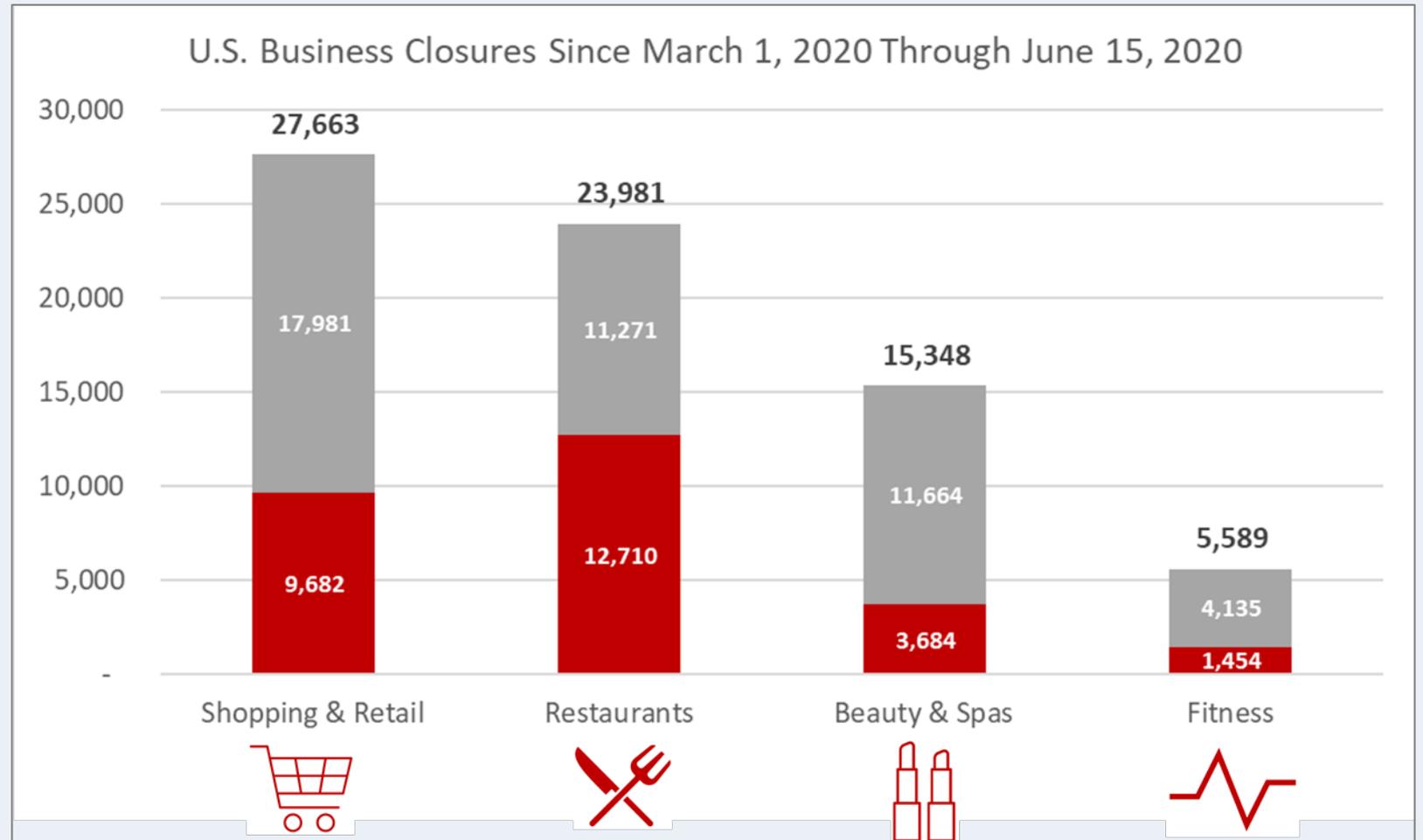
U.S. Manufacturing Continues to Rebound

- After dropping to an 11-year low of 41.5 in April, the ISM Manufacturing Index has improved, most recently reaching 59.3 in October.
- New Orders and production have improved significantly, indicating future strength.
- The service sector has also rebounded from the lows seen this spring, but gain will be capped until economies are fully reopened.



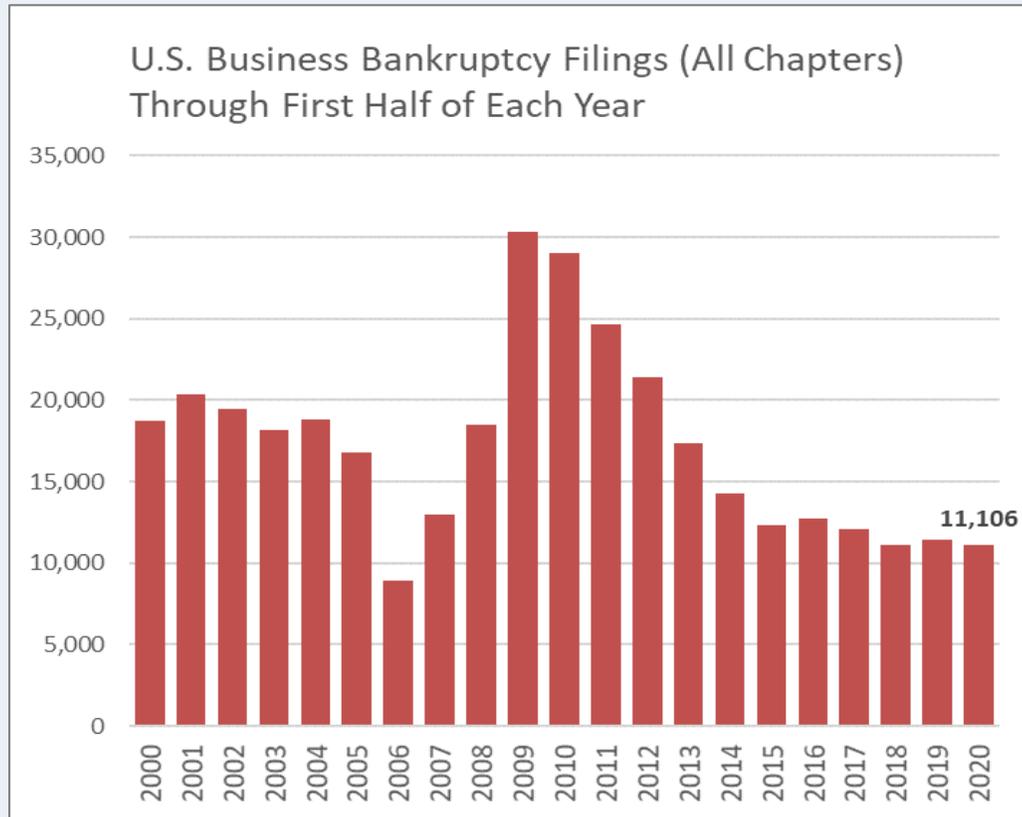
Despite Monumental Stimulus, Businesses Still Struggling

- Since March 1, 175,000 businesses were closed nationwide.
- As of June 15, nearly 140,000 businesses remained shuttered, while only 20% have reopened.
- Of the businesses still closed, 41% have been closed permanently.
- Shopping & retail, restaurants, spas, and fitness businesses have been hardest hit.

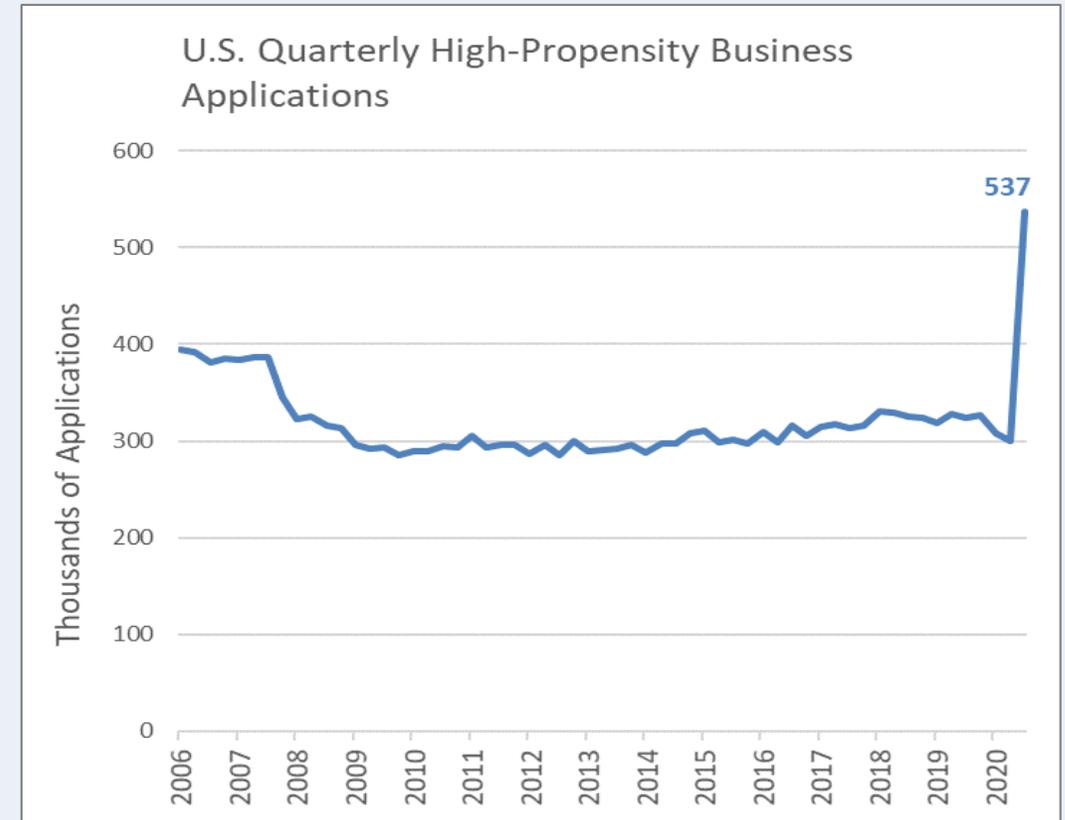


Source: Yelp.com Coronavirus Impact Report

No Signs Yet of Acceleration in Credit Deterioration, While New Businesses Ready to Grow Strongly

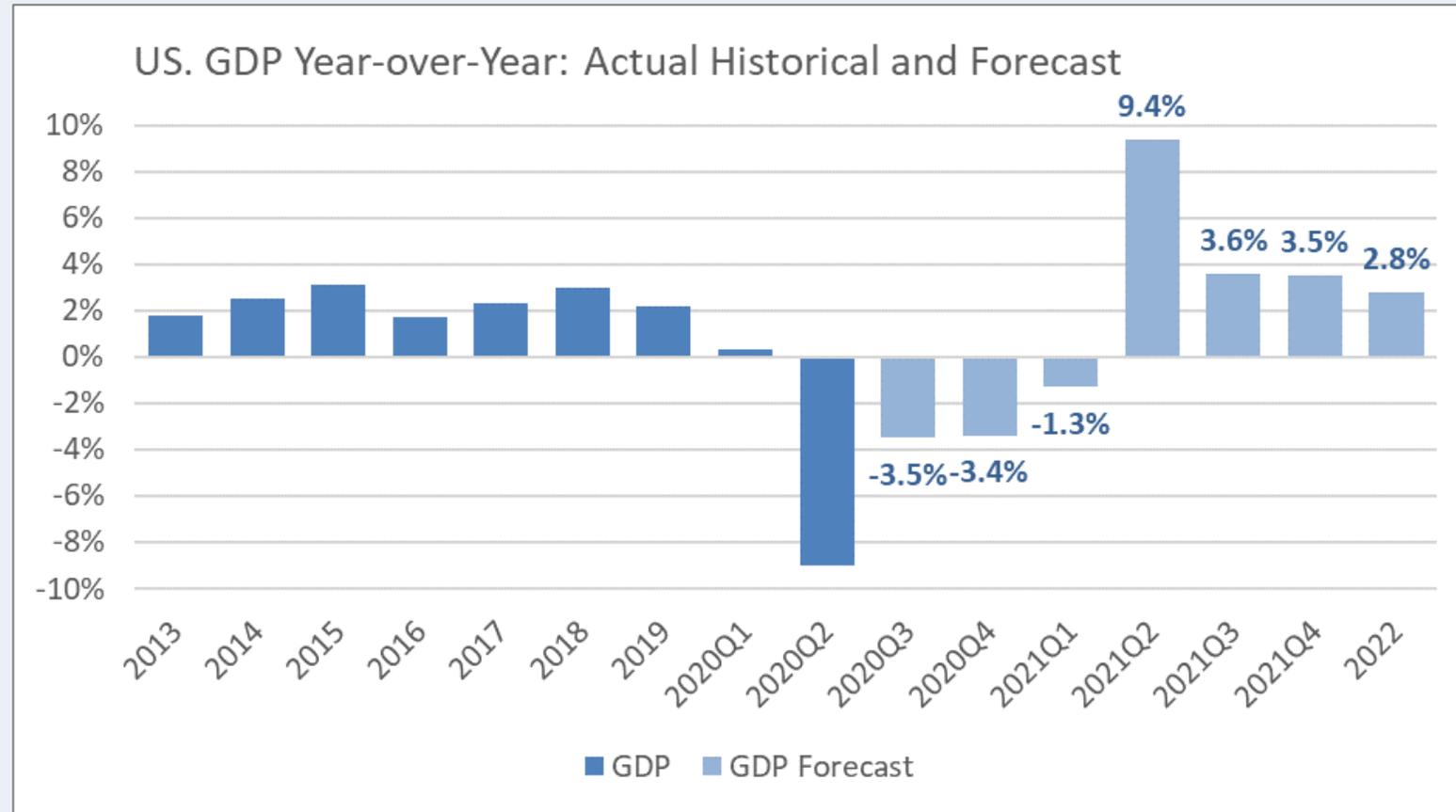


- Business Bankruptcies have not moved to elevated levels yet, suggesting that credit deterioration may not occur. However, many small businesses may not necessarily file bankruptcy prior to closing.



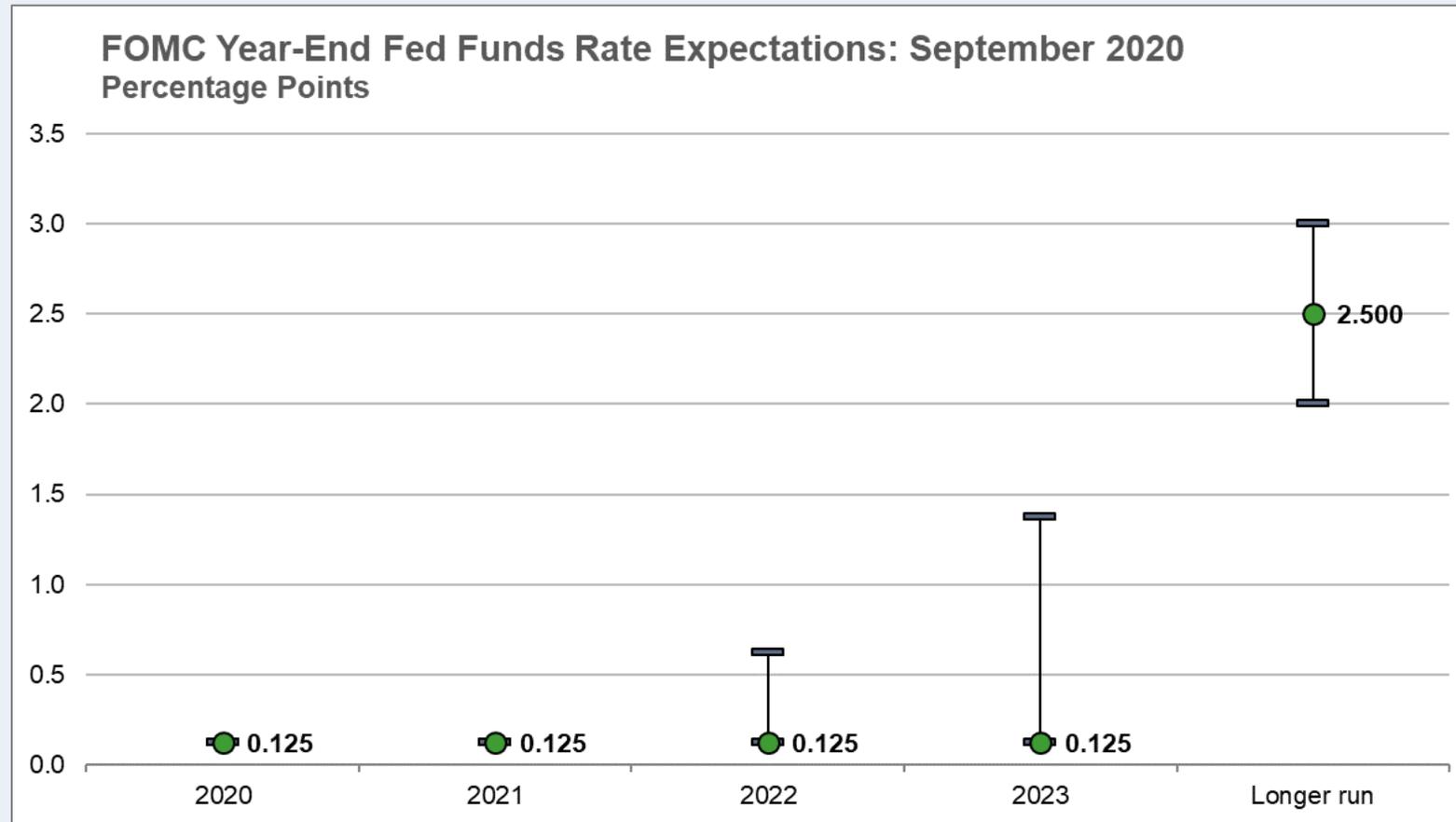
- But new business applications have accelerated strongly, rising to the highest levels on record, suggesting that new businesses are ready to replace the lost businesses due to COVID. Illinois has the second highest number of new business applications of any state.

GDP Expected to Rebound Strongly, Return to Normal in Late 2021



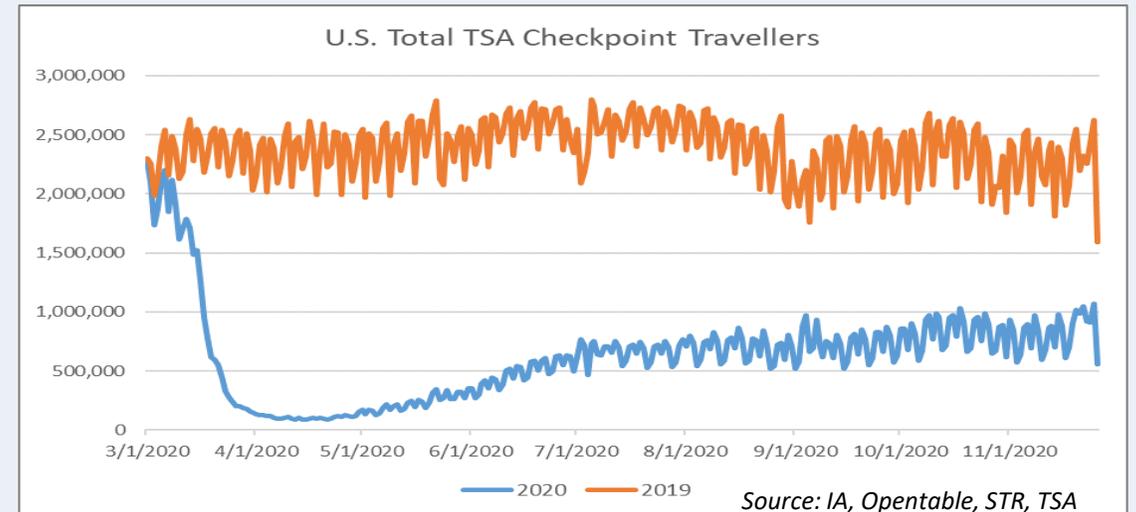
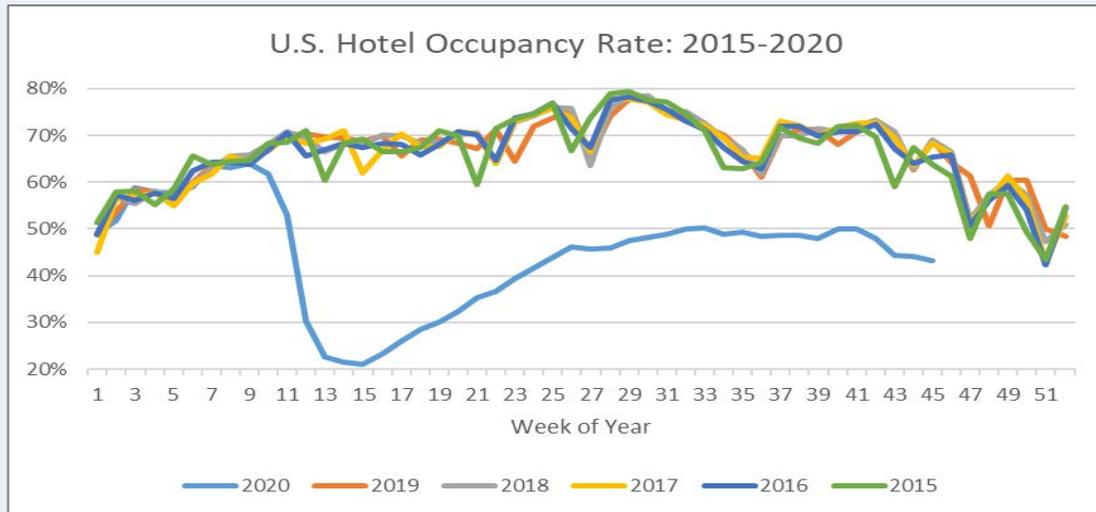
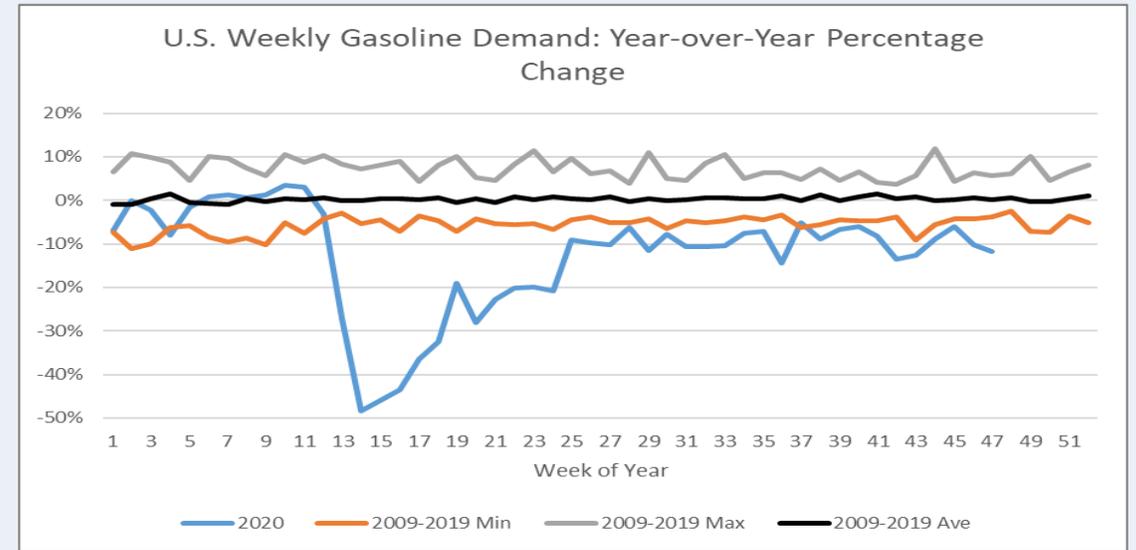
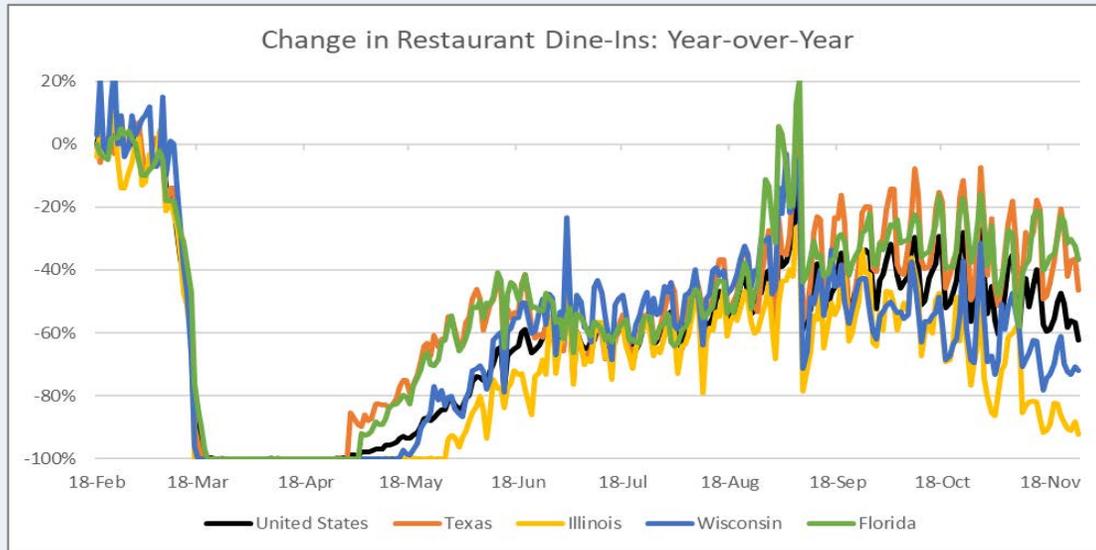
- As consumption levels remain high, expectations for 2020 Q3 GDP are a rise above 30% growth (bringing the year-over-year change to a decline of just 3.5%). However, GDP is not expected to return to its pre-pandemic trend until the second half of 2021.

Despite GDP Returning to Pre-Peak in 12-18 Months, Fed on Hold Until 2023



- With the Federal Reserve's new inflation guidance, rates are expected to remain low well into the recovery period and remain low even if we approach full employment and inflation moves above 2%. If this leads to rising inflation expectations, the curve could steepen and lead to rising income at our depository members.

Other Economic Indicators to Track

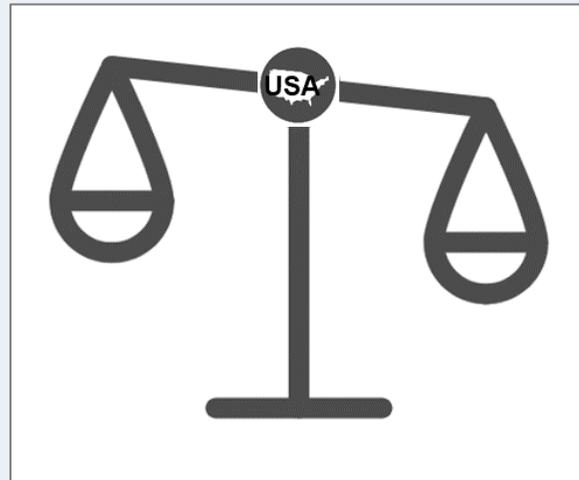


U.S. Economy: Strengths, Weaknesses, and Unknowns



STRENGTHS

- Vaccine Development
- Very Strong Housing Market
- GDP and Spending Rebounding Strongly
- No Credit Deterioration
- More Stimulus Likely Regardless of Election Results
- Unlike 2008, No Need to Repair Bank and Consumer Balance Sheets
- New Business Formation Rising to Offset loss of Closed Businesses



WEAKNESSES & UNCERTAINTIES

- Vaccine Approval, Implementation, and Usage
- Despite Improvement, Unemployment Remains High
- Some Sectors of Economy Continue to Struggle
- Return to Lockdowns Unlikely, but Possible
- Complete Return to Normal Not Possible Until Vaccine is Developed

Long-Term Unknowns and Consequences of COVID?

Inflation or Deflation?

Will unprecedented stimulus packages worldwide lead to inflation, or will massive deleveraging from the deepest recession in generations lead to deflationary consequences? And how will we pay for all that stimulus?

De-Globalization of Supply Chains?

Recent trends and strains on supply chains from COVID may lead to nations and corporations to reduce reliance on international trade. Will we see a reversal of over 40 years of increasing globalization?

A Different World for Financial Institutions?

COVID has forced many luddites into online banking. Are branches needed? Is this the end of cash? Is this an opportunity for banks to differentiate themselves by focusing on online value-added services?

The Future of the Workplace?

Many institutions have been surprised at the efficiency and productivity of their workforce at home. Will businesses cut costs by going semi- or fully-virtual? But will businesses be forced to subsidize housing or technology costs of their employees in the future?

The (Continued) Rising Dependence on Technology

As firms increasingly rely on technology to operate, privacy and security concerns will rise even more in importance. Will the cost of technology hinder growth of small firms? Will the trade war with China shift to a tech war with China?

Unknown Unknowns?

During the great plague of 1666, a bored, sheltering-in-place, Isaac Newton discovered gravity. We have yet to see what many new advancements, businesses, technologies, or outcomes will be from the current situation.

A Caveat About Predicting the Future



A postcard from 1900 predicted that by the year 2000, we would be walking on water supported by balloons.

Conclusion: humans are generally bad about predicting the future.



THANK YOU
Questions?

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