

PORTFOLIO MANAGEMENT

The Case for Active Portfolio Management at the Credit Union

Avoiding the Mistake of Passive Portfolio Management — or No Management at All

Buy and hold assumes the portfolio you built yesterday is still the best portfolio for today — and tomorrow.

IN BRIEF

Of all the behaviors on the "Mistakes" list, this one can be the most consequential — and the most common. Many credit unions buy securities and simply hold them, treating the portfolio as a static asset rather than a dynamic one. No repositioning. No rebalancing in response to rate shifts. No pruning of underperforming holdings.

The portfolio just sits. Meanwhile, the market changes, rate environments evolve, and your portfolio falls further out of alignment with what it could be contributing to interest income.

Active management doesn't mean speculation — it means ongoing stewardship of what is often the second or third largest asset class on the balance sheet.

The Quiet Flaw in Buy and Hold

For a long time, one of the main tenets of credit union investment philosophy has been buy and hold. A credit union buys a bond, holds it to maturity, and then lends the proceeds to members or reinvests in another bond. In a perfectly static yield environment, this would work quite well. Typically, we add a bond to the portfolio and it pays us a semi-annual or monthly coupon payment. As long as the coupon stays market relevant, we are happy.

Unfortunately, the reality is that the portfolio is constantly subjected to changing interest rate cycles. Just in the past five years, we've seen the Fed Funds Target Rate (upper bound) as low as 25 bps and as high as 550 bps. A bond purchased in 2020–2021 at a coupon that was historically low at the time can, by the end of 2022 to now, be sitting significantly below current market yields — and that bond doesn't know or care what the market is doing. It simply keeps paying the coupon it was issued with, for as long as the credit union chooses to hold it.

This is the quiet flaw in the buy and hold strategy: it is not built for a near-zero yield rate environment, where the main goal of investing was attempting to find any yield in a dismal fixed income market landscape. A bond that never defaults and pays its coupon on schedule looks, on paper, like it "worked." But, working and performing are not the same thing. A bond can fulfill every obligation it was issued to fulfill, and still be a drag on the investment portfolio relative to what is currently available in the market — and under the buy and hold strategy, that gap is allowed to persist indefinitely, simply because nothing forces a decision to be made. This is passive portfolio management.

AFS in Name Only

Part of what makes passive management so persistent is that it doesn't look or feel like a choice. No one sits down in an ALCO meeting and votes to do nothing with the investment portfolio. It simply happens by omission — the AFS portion of the portfolio isn't reviewed with the same rigor as the loan portfolio, repositioning isn't on the agenda, and securities that were purchased 5+ years ago are still sitting in the same place, earning the same yield, with no one asking whether that's still the right call.

This is the central problem with treating "buy and hold" as a philosophy rather than recognizing it for what it actually is: the absence of active portfolio management. A genuine investment strategy involves an ongoing assessment of whether the bonds you hold continue to represent the best use of those assets. All too often, the portfolio isn't being managed — it's being tolerated, and the rate environment is exacting its toll in the form of opportunity cost.

In the rate environment we've experienced over the past several years, that opportunity cost has not been inconsequential.

Active Management Is Not Speculation

It's worth being precise about what active management actually means in this context, because the term can be misunderstood — particularly by boards that hear "active" and think "trading" or "market timing." This is neither. Active management is not about predicting where rates go next or chasing performance; it's a disciplined, periodic review process that asks whether each holding still belongs in the portfolio.

Active portfolio management at a credit union means:

- Periodic review of the portfolio against current market conditions, not just at purchase.
- Analysis of repositioning opportunities in the AFS portfolio — analyzing the impact of divesting low-yielding securities that no longer serve the portfolio's needs, and reinvesting in bonds that better reflect the current rate environment and the credit union's liquidity and risk position.
- Loss harvesting where appropriate, to recapture value from underperforming holdings.

- Pruning structures that were reasonable at purchase but have since become structurally disadvantaged, such as deeply out-of-the-money callable bonds and/or low-coupon MBS extending well beyond their original expected average life.
- Utilizing leverage to create income (spread) — a powerful active investment management tool, and a discussion for another day.

Simply reviewing the economics of a potential repositioning strategy is a step in the right direction. It presents an opportunity for the credit union to make an informed decision based on the modeled outcome of selling a low-yielding bond at a loss, reinvesting the proceeds into a higher-yielding bond, and assessing the financial impact over the remaining holding period of the "sold" bond. It doesn't mean the bond must be sold — but management now has the information to make the decision.

What Repositioning Actually Looks Like

It's one thing to argue for active management in the abstract. It's another to see what it produces in practice. The examples below — drawn from real repositioning scenarios (May 2026) — illustrate the mechanics of loss harvesting, sometimes called "pruning the portfolio": selling a low-yielding bond at a loss and reinvesting the proceeds into a higher-yielding security, then measuring how quickly the incremental income recovers that realized loss.

The math is straightforward, but the psychology is where most credit unions get stuck. Realizing a loss feels like a mistake being admitted. In reality, it is simply an investment decision that was made in a rate environment that no longer exists. Selling simply converts an invisible, ongoing cost into a visible, one-time event with a defined recovery timeline.

EXAMPLE 1 · A SHORT-DATED BOND TRADING BELOW MARKET

A 3.00% FHLB bond purchased in April 2022, maturing April 2027, was sold and replaced with a 4.75% mortgage-backed security carrying a 5-year weighted average life, purchased to yield 4.92%. The sale realized a \$13,950 loss, but the higher coupon on the replacement bond generated enough incremental income to break even on that loss in just 8.7 months — with the loss projected to be fully recovered by roughly January 2027, well before the original bond would have even matured.

EXAMPLE 2 · A DEEPLY BELOW-MARKET, LONGER-DATED BOND

A 1.40% FFCB bond purchased in May 2021, maturing May 2028, was sold at a \$53,480 realized loss and reinvested into the same 4.75% MBS structure yielding 4.92%. Despite the steeper loss, the wider coupon spread meant breakeven will arrive in 25.8 months — full recovery is projected by approximately November 2027, again ahead of the original bond's maturity.

EXAMPLE 3 · A LONGER-MATURITY, LOW-COUPON HOLDING

A 1.60% FFCB bond purchased in May 2021 but not maturing until May 2029 — nearly four years further out than Example 2 — was sold and reinvested into the same 4.92% MBS structure. The realized loss was the largest of the three examples at \$73,350, and the breakeven threshold is the longest at 26.2 months, with full recovery projected by July 2028. Even so, that recovery date would still arrive well ahead of the bond's original 2029 maturity — meaning the credit union would capture nearly a full year of improved income it would not have otherwise realized.

The pattern across all three: in all three cases, the breakeven timeline on the realized loss was shorter than the time remaining until the original bond's maturity. That is the test that matters. If the income improvement pays back the loss before the old bond would have matured anyway, the repositioning trade has ultimately left the credit union better off — the only question is whether the board and management are willing to act on it. Keep in mind, not all bonds will present a positive breakeven scenario.

Figures above are for illustrative purposes only and do not represent guaranteed outcomes. Actual results will vary based on market conditions, security selection, and timing.

The Cost of Comfort

Buy and hold persists in part because it is comfortable. It requires no difficult conversations about realizing a loss. It requires no defense of a repositioning decision to a board that may be skeptical of selling a bond before maturity. It requires nothing, in fact, except patience — and patience is easy to mistake for prudence.

What makes this hardest is rarely the math — it's what one industry strategist calls the "psychology of loss." A board that has never realized a loss on the investment portfolio can experience real discomfort at the idea of doing so, even when the trade clearly improves the credit union's earnings. It helps to reframe the decision correctly: staying in a low-yielding bond to avoid recognizing a loss is not a neutral choice. It is itself a financial decision — one that locks in the underperformance for as long as the bond is held. The original purchase was made in a different rate environment than the one the credit union operates in today. Trading a lower-paying investment for a higher-paying one, even at a realized loss, is not a mistake being corrected after the fact — it is the active management decision the portfolio has been waiting for.

There's also a regulatory dimension worth naming directly. Examiners are not indifferent to chronic income erosion sitting in the investment portfolio. Being proactive — repositioning on the credit union's own timeline, with a clear breakeven analysis already in hand — is a materially stronger position than waiting to be told. Prudence and passivity are not the same thing. Investment management doesn't end at the moment of purchase; it extends through the life of the holding, and it requires periodically asking the question that buy and hold is specifically designed to avoid: is this still the right bond for this portfolio, in this rate environment, today?

For credit unions of all asset sizes, where the investment portfolio is often the second or third largest asset class behind loans, the answer to the question above — asked consistently, and acted on when necessary — is where real, recoverable yield is sitting right now.

Where to Start

None of this requires an overhaul of your investment philosophy or a wholesale departure from buy and hold as a baseline. It requires one thing: a periodic, structured review of what's actually sitting in the portfolio, measured against what's currently available in the market.

That review doesn't commit you to selling anything. It simply gives your board and your ALCO the information needed to make an informed decision — the same standard you'd apply to any other asset on the balance sheet. If a breakeven analysis on your own holdings shows a repositioning opportunity similar to the examples above, you'll know. If it doesn't, you'll have confirmed that buy and hold remains the right call for that bond, and you can move on with confidence rather than assumption.

Either outcome is better than not knowing.

START THE CONVERSATION

If you are interested in seeing how active management looks in relation to your credit union's investment portfolio, submit your information below and a member of our small, 9-person team will contact you to schedule a discovery call and to answer any questions that you may have about the process, or contact Kevin Lynch, Managing Director — Investments, directly at Kevin.Lynch@opco.com to schedule an introductory discussion.

Request a discovery call

oppenheimer.com/thecreditunionisg/2026-form

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