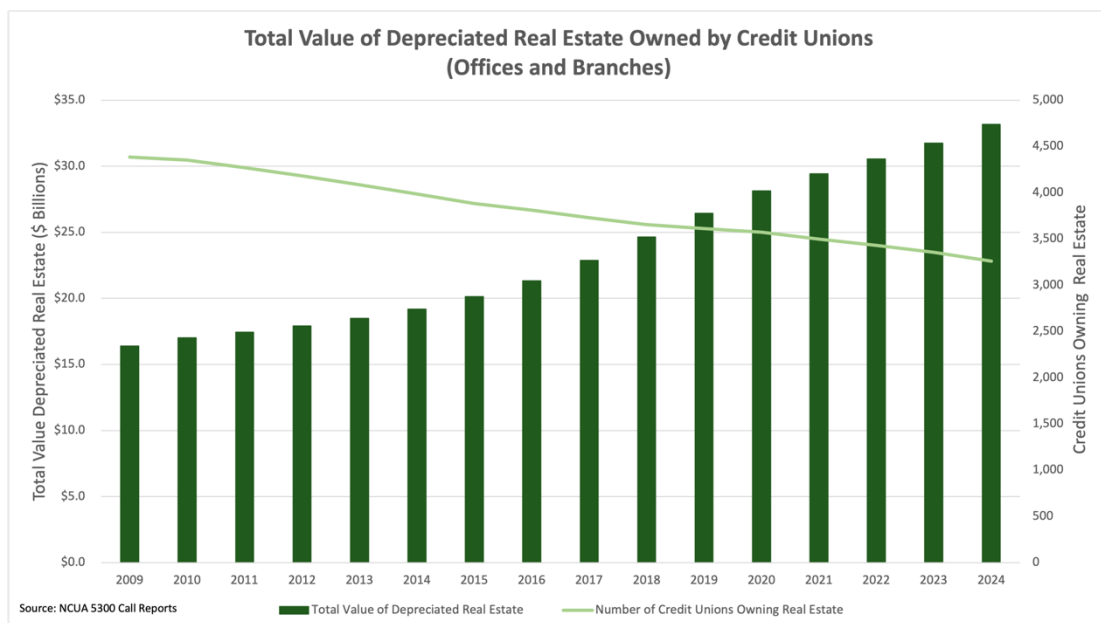




## Generating Non-Interest Income with Low Risk

### A Unique Collaboration Opportunity for Credit Unions

Over two-thirds of all credit unions own some of the real estate used for their operations, including office buildings and/or retail branch locations. Collectively, the depreciated book value of these real estate holdings sit at over \$33 billion on credit union balance sheets. Enter CU Capital Management (“CUCM”), a CUSO, which was formed to provide credit unions with a turnkey solution to raise capital and liquidity by accessing the value of their real estate through a sale leaseback. Crucially, CUCM’s unique sale leaseback model keeps the full benefits of a sale leaseback within the credit union industry and provides an ongoing alignment of interest between credit unions as sellers/tenants and credit unions as investors/landlords.



In a sale leaseback, a selling credit union receives an **immediate increase in net worth and liquidity** while seeing no change in their ongoing operational use of a property. The selling credit union can then utilize that new capital to further grow net income by expanding lending and investing capacity, or for other uses including investments in employees, technology, CUSOs, branches or other initiatives to fulfill their mission.

### **Investment Opportunity**

In 2022, 23 credit unions joined together to become the founding investors in CUCM's first sale leaseback investment vehicle, CUSO Realty Investors One (the "Funding CUSO"). The Funding CUSO was established to allow credit unions to invest in sale leasebacks by *other* credit unions. Investor credit unions receive attractive and stable returns tied to the revenue streams from long-term leases to credit union tenants. Initial lease terms are typically set at 15 – 20 years with similar lease extension options. Lease rates increase annually and have absolute NNN terms, meaning the credit union tenants continue to operate and maintain the properties as they did when they owned them. This eliminates the uncertainty of property-related expenses for the Funding CUSO and its investors.

### **Investment Returns (Annualized)**

- 2022 – 4.93%
- 2023 – 5.46%
- 2024 – 5.75%
- 2025 – 6.25% (est.)



To-date, credit unions have invested over **\$66,000,000** in the aggregate into the Funding CUSO to fund credit union sale leasebacks.

### **Stable, Non-Interest Income**

Investment returns are tied to the collective rents received across all sale leasebacks in the Funding CUSO's portfolio. Given the long-term nature of the leases as well as the

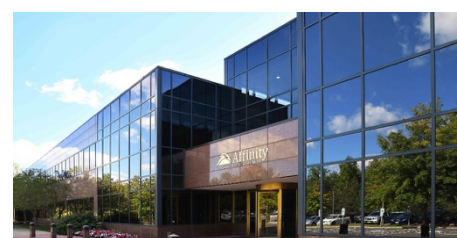
annual increases built into each lease, the returns to investors are expected to continue to increase for the foreseeable future. While investment returns for the Funding CUSO may be comparable to gross returns a credit union may receive on its loan portfolio, there are no ongoing internal costs like there are with administering a loan portfolio (underwriting, monitoring, reporting, charge-offs, etc.). Plus a credit union's loan and investment portfolios are subject to changes in the interest rate environment, whereas returns for the Funding CUSO are expected to continue to increase, providing a much better long-term return opportunity. Elevated interest rates over the last few years have also led to increases in real estate cap rates, which in turn means that the Funding CUSO is receiving higher initial returns on all new sale leasebacks.

The Funding CUSO provides an attractive and regular non-interest income stream to investors through 1.0% quarterly distributions and an annual true-up distribution after the year-end audited financials are completed. In time, that regular quarterly distribution is also expected to increase. New investors in the Funding CUSO share in the ownership, diversification and returns from the full existing sale leaseback portfolio as well as those that will be added going forward. With each newly approved sale leaseback, investors may elect to invest additional funds into the Funding CUSO if they so choose but are never required to do so. Regardless of their funding decision, all investors receive exposure to the additional revenue stream derived from that new sale leaseback. The minimum initial investment in the Funding CUSO is currently set at \$1 million. Other than periodic requests for votes or email responses, there is no ongoing workload required of investors in the Funding CUSO.

### **Portfolio and Pipeline**

The Funding CUSO's current portfolio includes:

<u>Selling Credit Union</u>	<u>Purchase Price</u>
Wescom Central CU	\$59,000,000
Affinity FCU	\$51,750,000
Mission City FCU	\$5,000,000
Telhio CU	\$5,320,000



The Funding CUSO has three additional credit union sale leasebacks (totaling nine additional properties) under contract and expected to close in Q3/Q4 2025, with potentially another three sale leasebacks (totaling another fifteen additional properties) in the pipeline for a possible late 2025 closing.

### **Risk Mitigation Considerations**

- The income stream is from well-capitalized credit unions paying rent on critical operational assets
- Credit union sellers have specifically selected these properties as locations that they want to use for the long-term
- The rental income is not reduced by market fluctuations or by property expenses and increases every year
- The Funding CUSO has diversified its risk by funding a portfolio of properties
- Credit union tenants have full responsibility for all insurance, property taxes, maintenance and repairs.
- If a credit union tenant is merged into another credit union, the continuing credit union assumes the lease obligations.
- If a credit union tenant is conserved, the conservator has an obligation to continue to make lease payments to remain in the property.
- The underlying value of a property and the ability to find a new tenant and/or sell a property if a credit union is no longer a tenant in the future is considered prior to agreeing to purchase the property.

### **Lending Opportunities**

In some cases, larger sale leaseback transactions are funded in part by credit union loans. Funding CUSO investors are given priority to be a lead lender or purchase loan participations in these transactions. The loans are at market rates and the typical loan-to-value will be in the 40% to 60% range. This is a very attractive lending opportunity from a risk/return standpoint.

## **CU Capital Management and NACUSO Business Services**

With assistance of partnerships and professionals, CUCM provides all the administrative and management work in the purchase, leasing, tenant relations and investor relations process for the Funding CUSO. CUCM does not receive any ongoing assets under management fee from the Funding CUSO and only receives a profit sharing fee when the investors receive at least a 5% net annualized return on their investments. NACUSO Business Services (“NBS”), is a wholly owned subsidiary of NACUSO. Through a long-term partnership, NBS helps CUCM communicate the benefits of this unique collaboration opportunity to the credit union industry.

## **New Investment and Lending Opportunities**

The initial group of investors in the Funding CUSO have priority to make new investments but the growth of this collaboration means that we now require new investors. As outlined above, multiple new purchase opportunities are in the pipeline, including three under contract totaling over \$100 million. We estimate that the Funding CUSO will need in excess of \$200 million in new credit union investments and loans over the next twelve months to fund purchases. If your credit union is looking for non-interest income with attractive returns paid regularly with low risk, this is it. Due to the timing deadlines of pending transactions, this is a first come, first served situation, so do not delay.

For more information, visit the CUCM website ([www.cucapitalmanagement.com](http://www.cucapitalmanagement.com)) or contact us at either email address below to set up a video conference.

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