

# Balance Sheet Strategy: Preparing for 2021

November 2020

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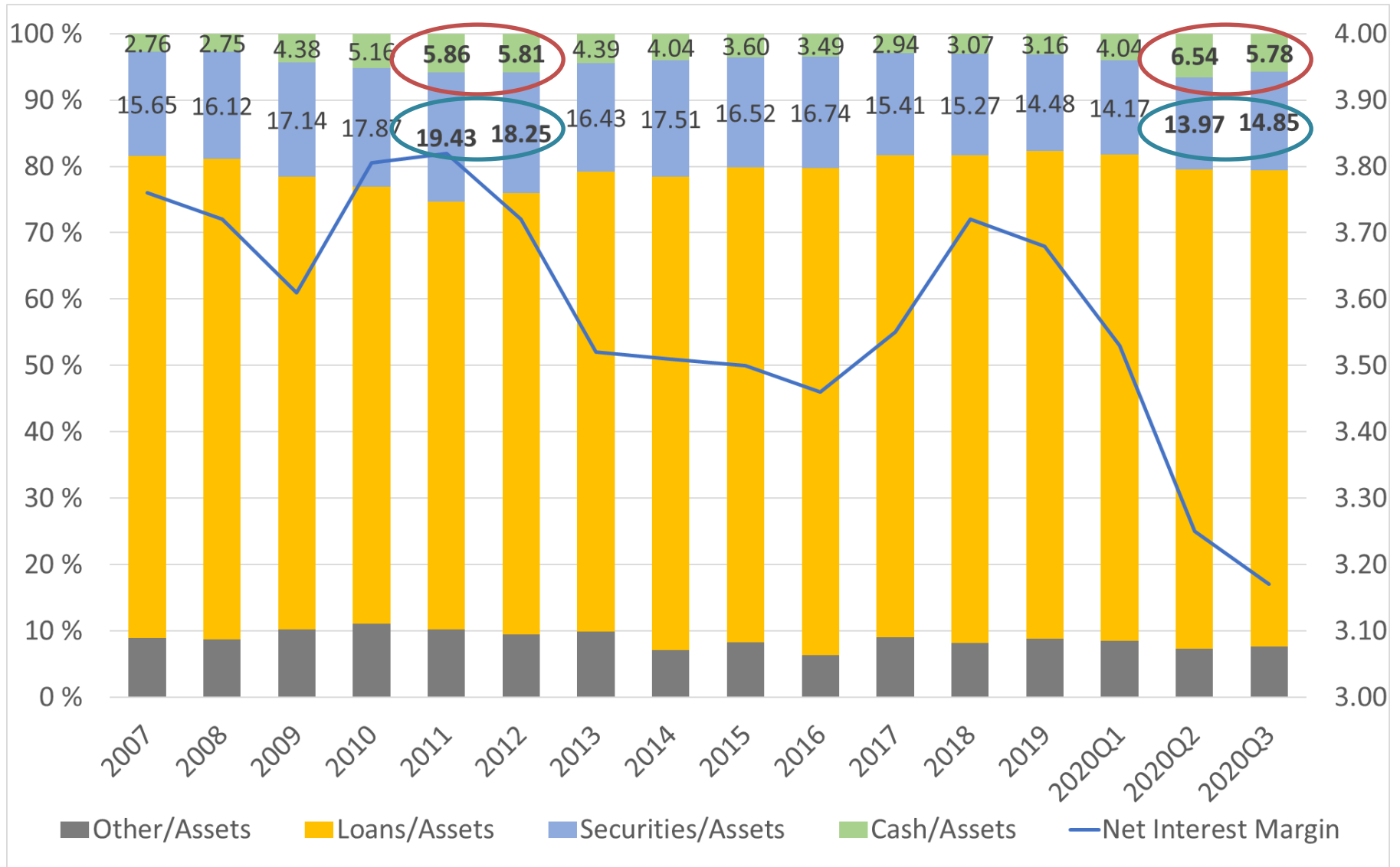
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# Learning Objectives

- The session will explore balance sheet challenges as a result of excess liquidity in today's operating environment
- The session will highlight relative value opportunities across the investment portfolio landscape
- The session will illustrate optimal uses of excess liquidity across the balance sheet, setting up for full year 2021

- ***Excess Liquidity***
  - State of PPP
  - Investment Universe Review
  - Cash Deploy
  - Deleverage Considerations
  - Portfolio Restructuring
  - Hedging Application
  - Loan Market Update
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# Cash Balances Increased in 2020Q2, But May Continue to Grow



- Excess Liquidity
  - ***State of PPP***
  - Investment Universe Review
  - Cash Deploy
  - Deleverage Considerations
  - Portfolio Restructuring
  - Hedging Application
  - Loan Market Update
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# State of the State: PPP Loans & Forgiveness

## Many Concerns and Questions remain now that we have entered the forgiveness stage

- **Regulatory Changes**
  - **Covered Period Extended:** *Covered period moved from 8 weeks to 24 weeks – only 2 weeks left!*
  - **PPPLF Window Extended:** *Window extended from 9/30 to 12/31 – impacts secondary market for PPP*
  - **Simplified forms:** *PPP Loans under \$50k now allow for simplified forgiveness form*
  - **FDICIA Audit Update:** *Asset Size hurdle - temporary relief from part 363 audit and reporting requirements*
- **Outstanding Items**
  - **Automatic forgiveness:** *Legislation providing relief for PPP loans under \$150k?*
- **Focus on Forgiveness**
  - **Resources required:** *Concerns around personnel, expenses, legal liability related to forgiveness process*
  - **Solidifying new customer relationships:** *How can banks keep the market share gained?*
  - **Preparing for post-forgiveness world:** *What is the plan for loans that are not forgiven?*
- **Forecasting Challenges**
  - **Amount Forgiven:** *What is the estimated amount forgiven, and what is happening with associated DDA?*
  - **Timing of forgiveness:** *When will the bulk of the loans be forgiven?*
  - **Earnings volatility:** *Concerns around how to time earnings impact of origination fees*
  - **Liquidity events:** *For many banks, forgiveness will likely lead to an influx of liquidity*
- **Considerations**
  - **Applications Staggered:** *To handle flow of forgiveness, banks are staggering based on loan size*
  - **Selling PPP Loans:** *Opportunity to sell, but what to do with the cash and the acceleration of fees?*

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## Polling Question #1

- Excess Liquidity
  - State of PPP
  - ***Investment Universe Review***
  - Cash Deploy
  - Deleverage Considerations
  - Portfolio Restructuring
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## *Agency Debenture Sector*

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# Berm Spreads Continued to Narrow as Supply Ebbled

Berm spreads continued to narrow despite a rise in rates. Supply was relatively solid in the structure, suggesting good reverse inquiry from investors.

## MoM Change (Berm)

2YrNC1Yr: -4bps

3YrNC1Yr: -4bps

5YrNC1Yr: -7bps

10YrNC1Yr: -9bps

## YTD Change (Berm)

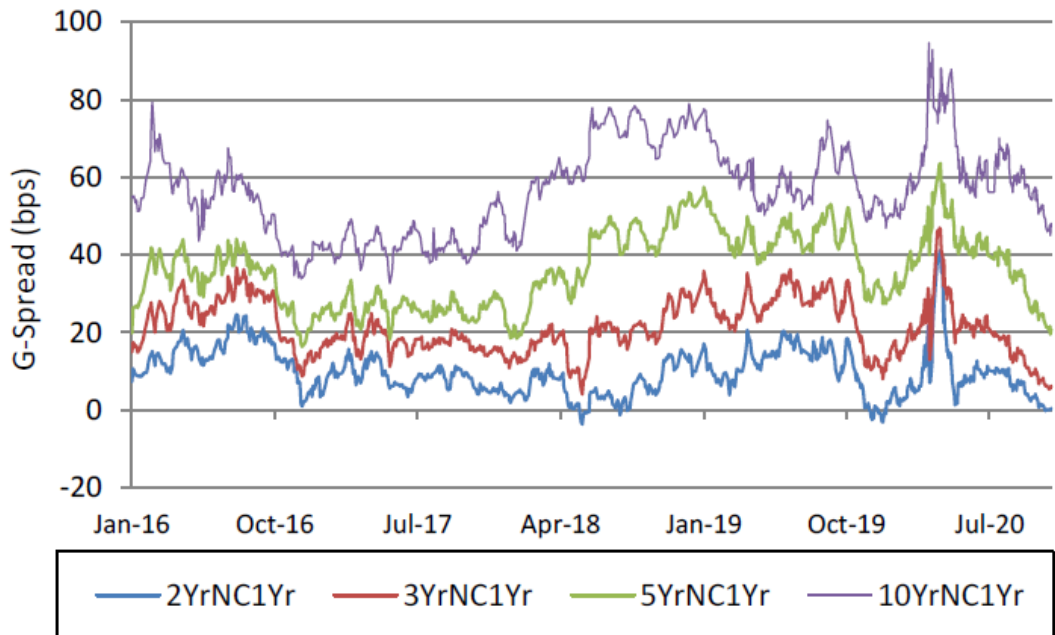
2YrNC1Yr: -4bps

3YrNC1Yr: -10bps

5YrNC1Yr: -11bps

10YrNC1Yr: -2bps

### Agency Bermudan Callable Spreads



Source: FNMA, FHLB, FHLMC, Stifel

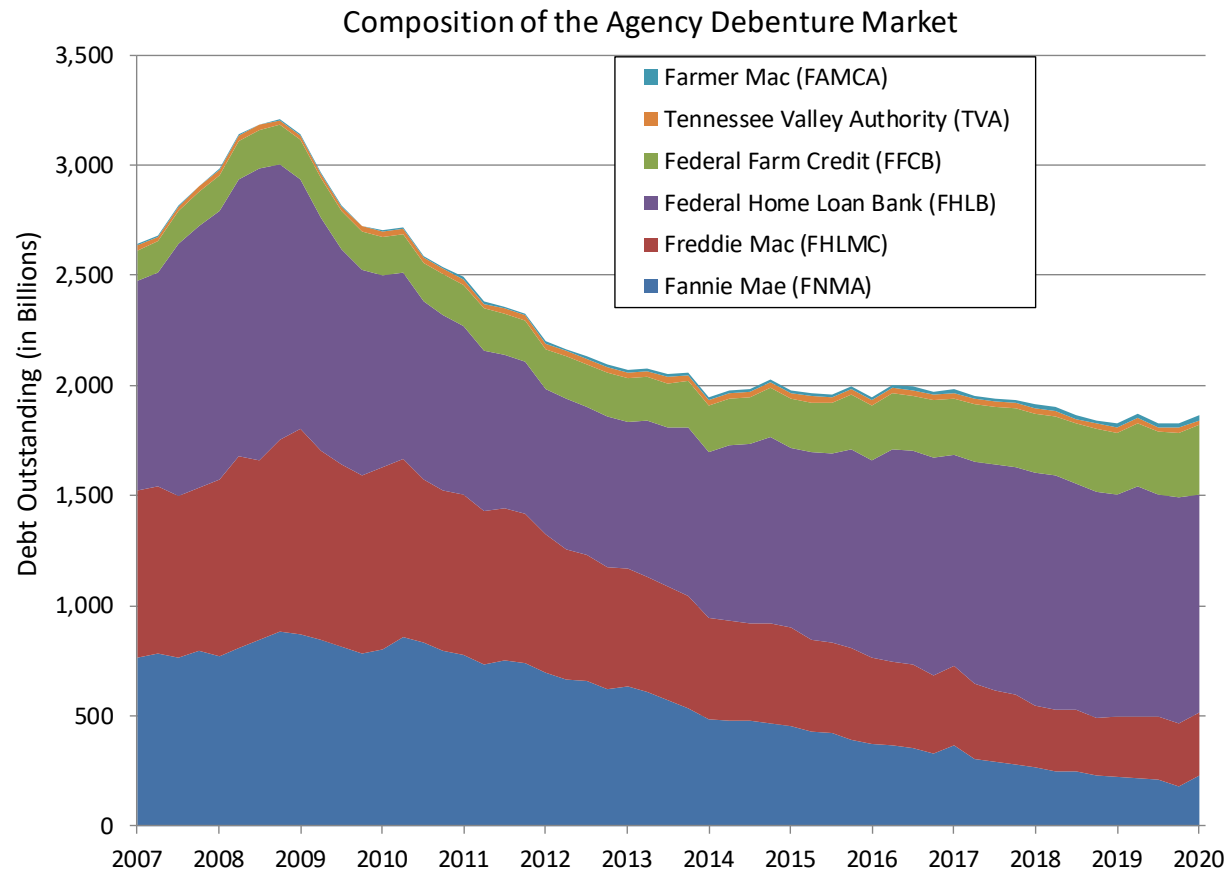
Indications as of October 30, 2020

# The Stock of Agency Debt Declined QoQ

Outstanding agency debt fell by -218B (QoQ) as of 2020:Q2. Total outstandings of \$1.83T were \$35B lower (-1.9%) on a YoY basis.

The quarterly contraction was accounted for by FHLB where outstandings dropped by \$259B QoQ.

GSE reform will be on hold until after the 2020 election. While the FHFA will issue directives, substantive reform awaits that outcome.



Source: Securities Industry and Financial Markets Association, Stifel

# Short-Dated Vol Remained Low; Longer Dates Ticked Up Near Month End

Volatility moved higher later in the month, as investors moved to the sidelines in front of the presidential election process. Uncertainty over an expected stimulus plan and UST supply were contributing factors.

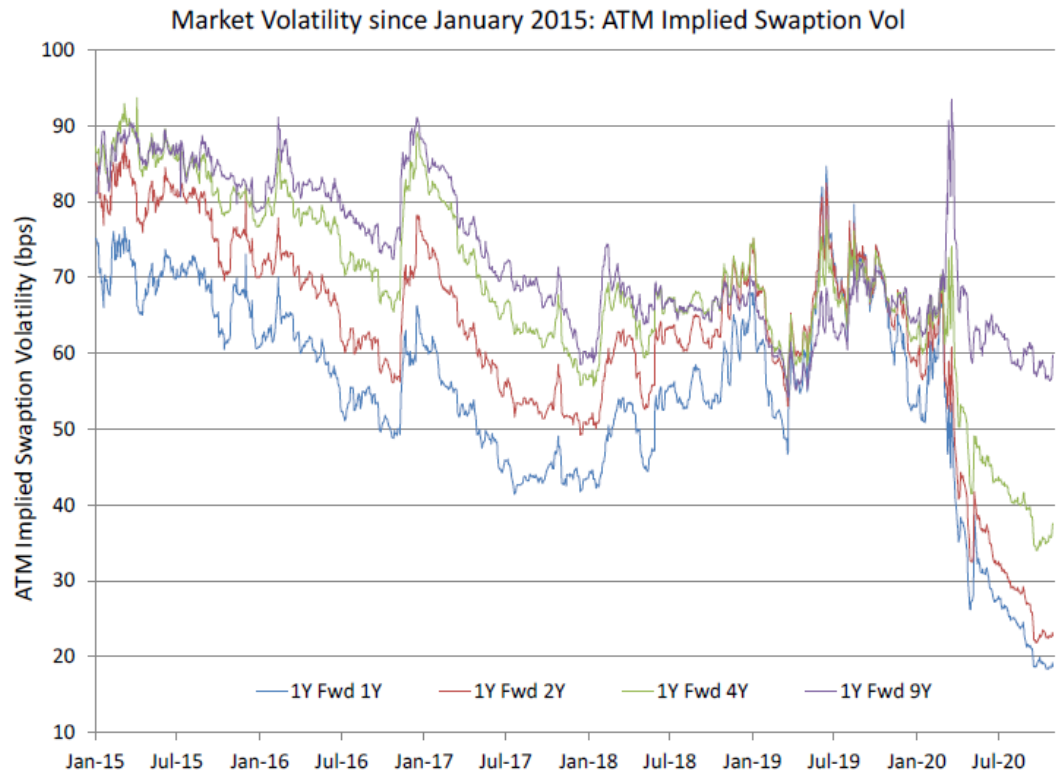
## MoM BPS Change

1Y Fwd1Y: -1bps

1Y Fwd2Y: 0bps

1Y Fwd4Y: 3bps

1Y Fwd9Y: 1bps



Source: Bloomberg Finance L.P., Stifel

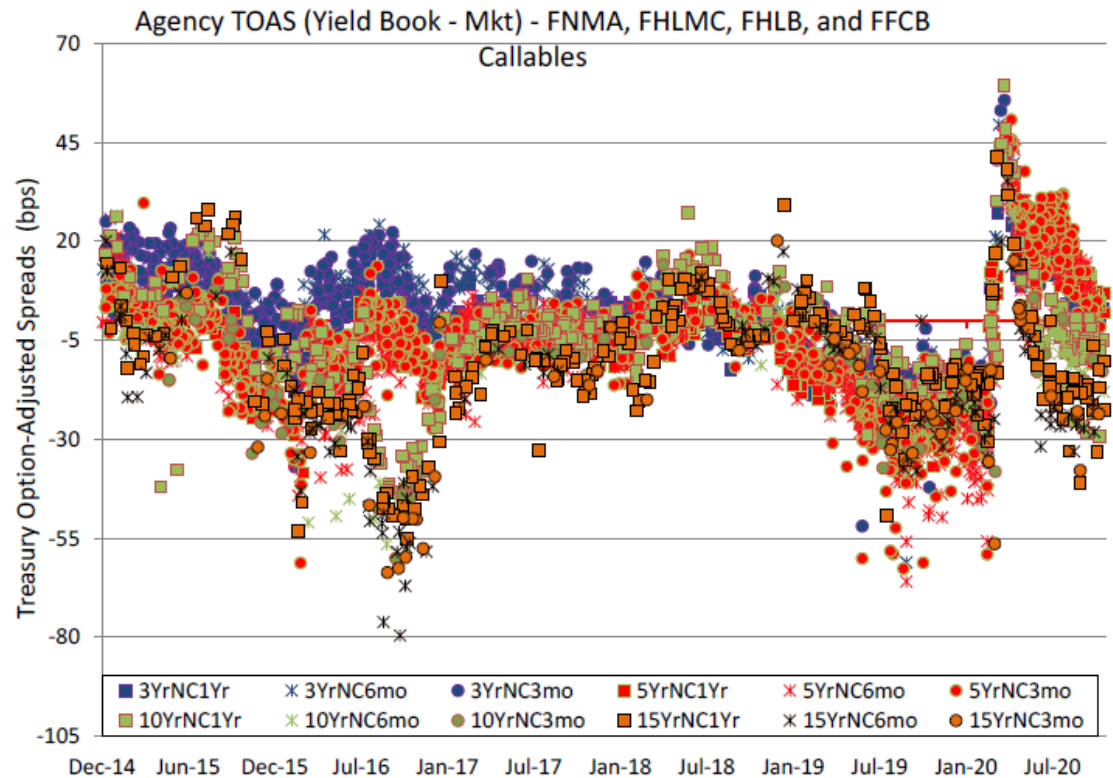
Indications as of October 30, 2020

# TOAS Continued to Narrow in October.

The model generated negative TOAS on most structures by month's end.

The 5Yr NC 1Yr structure remained in positive territory, migrating from the mid-teens to the low single digits.

Longer underlyings continued to model in negative territory. 10Yr underlyings were in the high-teens (-), while 15Yrs priced in the mid-twenties (-).



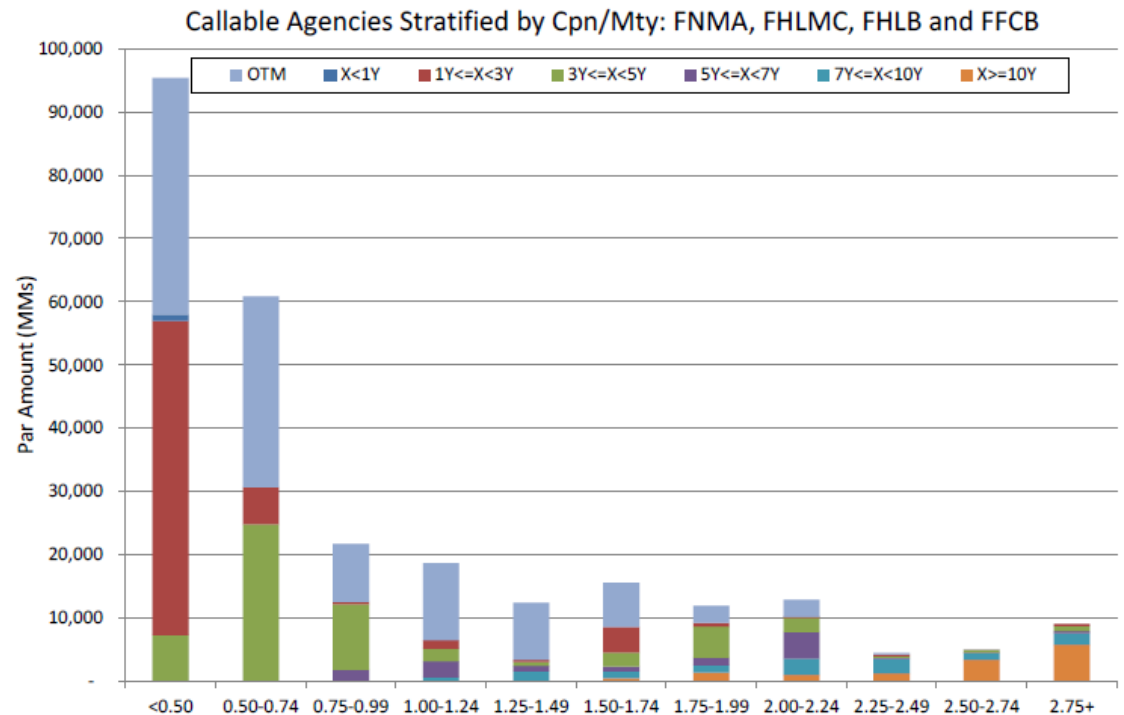
Source: Bloomberg Finance L.P., Yield Book, Stifel

Indications as of October 31, 2020

# Callability is Declining as Outstandings Cluster Into Lower Coupons

At current yields, we estimated that roughly 59% of the fixed rate callable supply has 10bps or more of refi incentive. That estimate is down 12% from September's 71% projection.

If rates were to rise by 25bps, the model suggests that 20% of the universe would be exposed to a possible call. Up 50bps lowers that probability to 17%.



Source: Bloomberg Finance L.P., Stifel

Indications as of October 30, 2020

## *Mortgage Sector*

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# Portfolio Strategy and Recommended Trades

Conventional 30yr TBA MBS are facing incredibly stiff headwinds in the form of 1) inflated valuations from QE4, 2) extremely fast prepayment speeds and 3) a deluge of supply as the market transitions away from non-traditional products toward 30yr fixed rate loans. Given near-record low benchmark rates and overwhelming support from the Fed, 30yr TBAs are likely near the peak of price appreciation & payups for specified pools just hit an all-time high. **For TRR investors**, a meaningful slowdown in speeds will likely be the result of deflating MBS prices when the Fed eventually tapers purchases, so improvement in carry will be offset by mark-to-market losses; **we recommend an underweight to the MBS basis. For buy & hold, book yield investors, we recommend moderate premium MBS & CMOs** backed by the “peasant forms of prepay protection.”

Portfolio Strategy Recommendation: ***Exercise your Put Option, Courtesy of the Fed.*** QE4 has inflated MBS valuations far beyond intrinsic value based on current speeds. The Fed is apparently willing to earn a negative yield in fast prepaying TBA pools. Sell to the Fed. Reinvest proceeds and/or paydowns in products that mitigate prepayment risk and limit spread widening when the Fed tapers. Where possible, ***Buy What the Fed's Not Buying.***

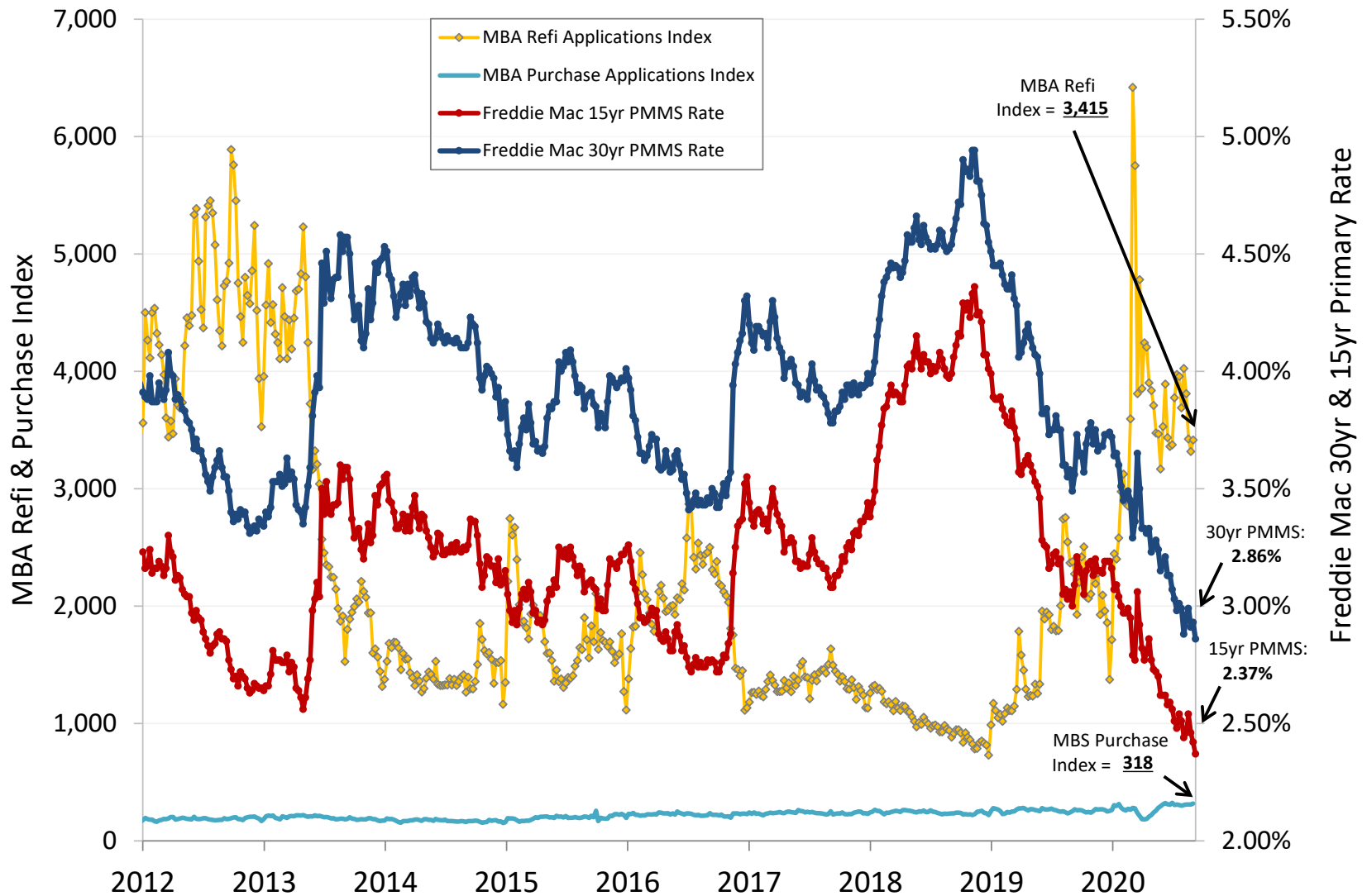
## Example Trades:

- 1) Buy lower-payup spec. pools such as FNCL 3 175k, FNCL 3 100%NY, FNCL 2.5 NoTPO/LowPIW, FNCL 2.5 100%NY, FNMDI4 3.5 Modif, FNJMCK 2 LowWAC, FNCI 3 200k, FNCI 3 100%NY, FNCI 2.5 200k, FNCI 2.5 Investor Prop, FNCI 2.5 100%NY,
- 2) Buy New Issue 2% CMOs off UMBS 2s or Jumbo 2s w/ sub-3% WAC vs. Dwarf 2s
- 3) Buy 20yr 2s vs. Dwarf 2s
- 4) Buy 10x1 hybrids vs. Dwarf 2s
- 5) Buy \$110+ DUS (no forbearance, high DSCR, mild COVID location) over \$≤103 Ks & DUS
- 6) Buy M-TEMS & TEL PCs vs. 12-15yr DUS/Ks or AAA/AA 20nc10 Munis
- 7) Buy SBA Floaters vs. CMO/ ACMBS floaters
- 8) Buy new Low WAC SSNR RMBS 2.0 30yr Passthrus vs. UMBS 30yr
- 9) Buy AAA-rated CLO Floaters
- 10) Create Synthetic Floaters with interest rate swaps



# Refi Index Remains Elevated Amid Record Low Mortgage Rates

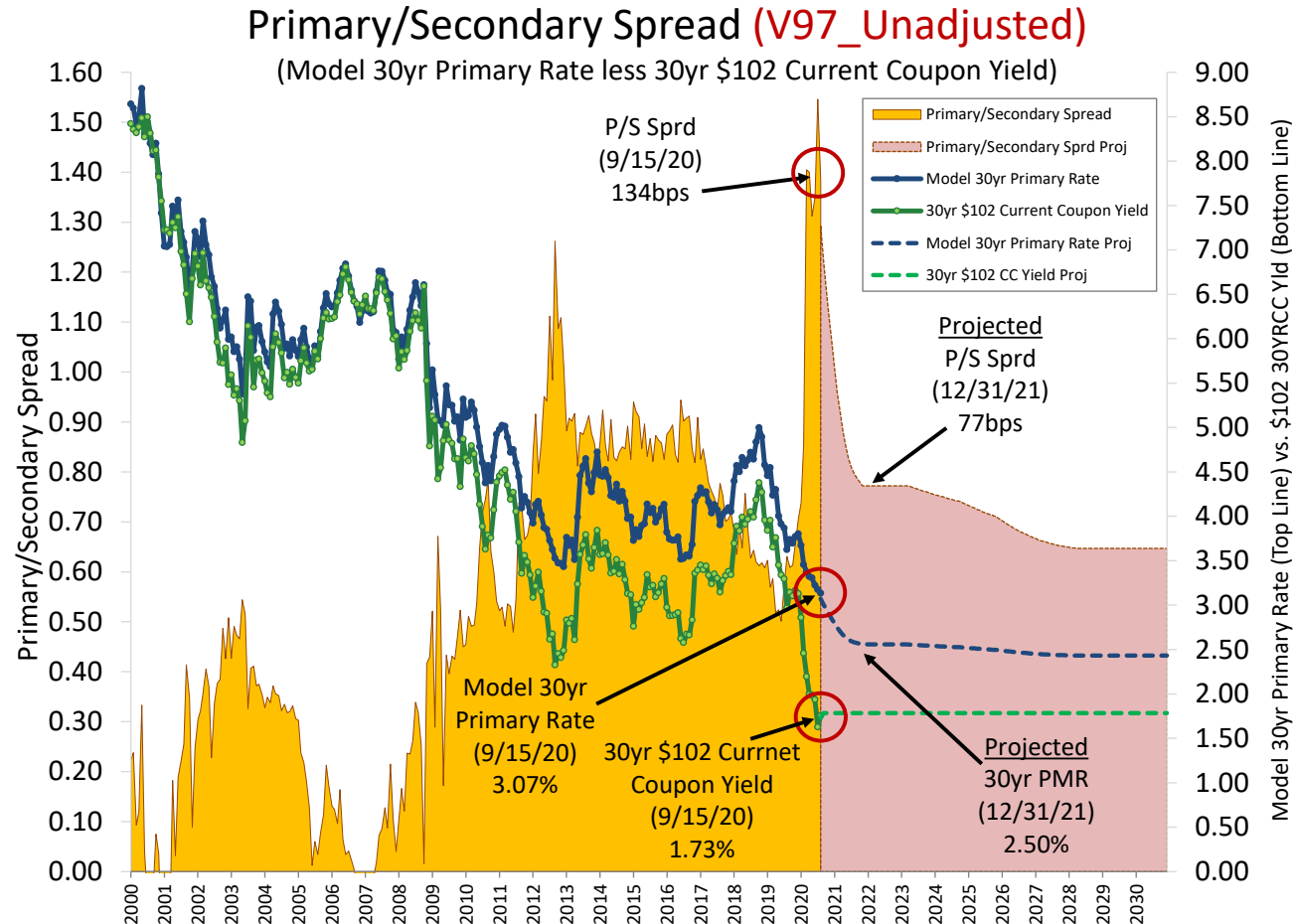
## Primary Mortgage Rates and Refi Applications Activity



# How Low Can Mortgage Rates Go?

## Models Project a Mean-Reversion Tightening in the P/S Spread

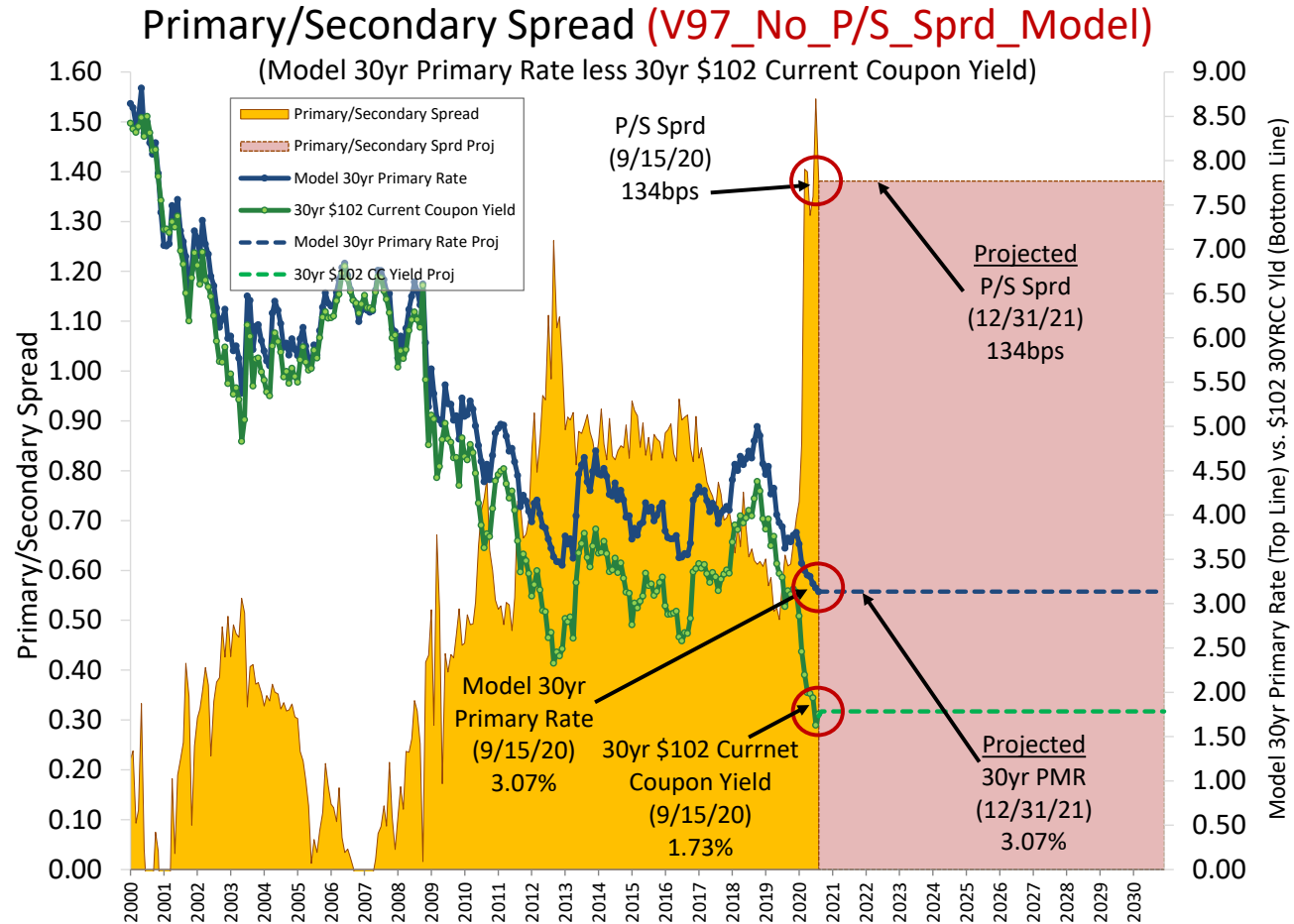
- The Primary/Secondary Spread tends to widen sharply amid a sharp rally in benchmark interest rates and increase in MBS prices
- The P/S Spread is extremely wide at 134bps
- The P/S Spread tends to gradually revert to the long-term historical average after the initial onslaught of refi applications, as origination pipelines begin to clear and lenders become more competitive pricing their loans by reducing their mortgage rates
- Yield Book, Bloomberg and other sophisticated prepayment models simulate this phenomenon to drive their speed projections



# How Low Can Mortgage Rates Go?

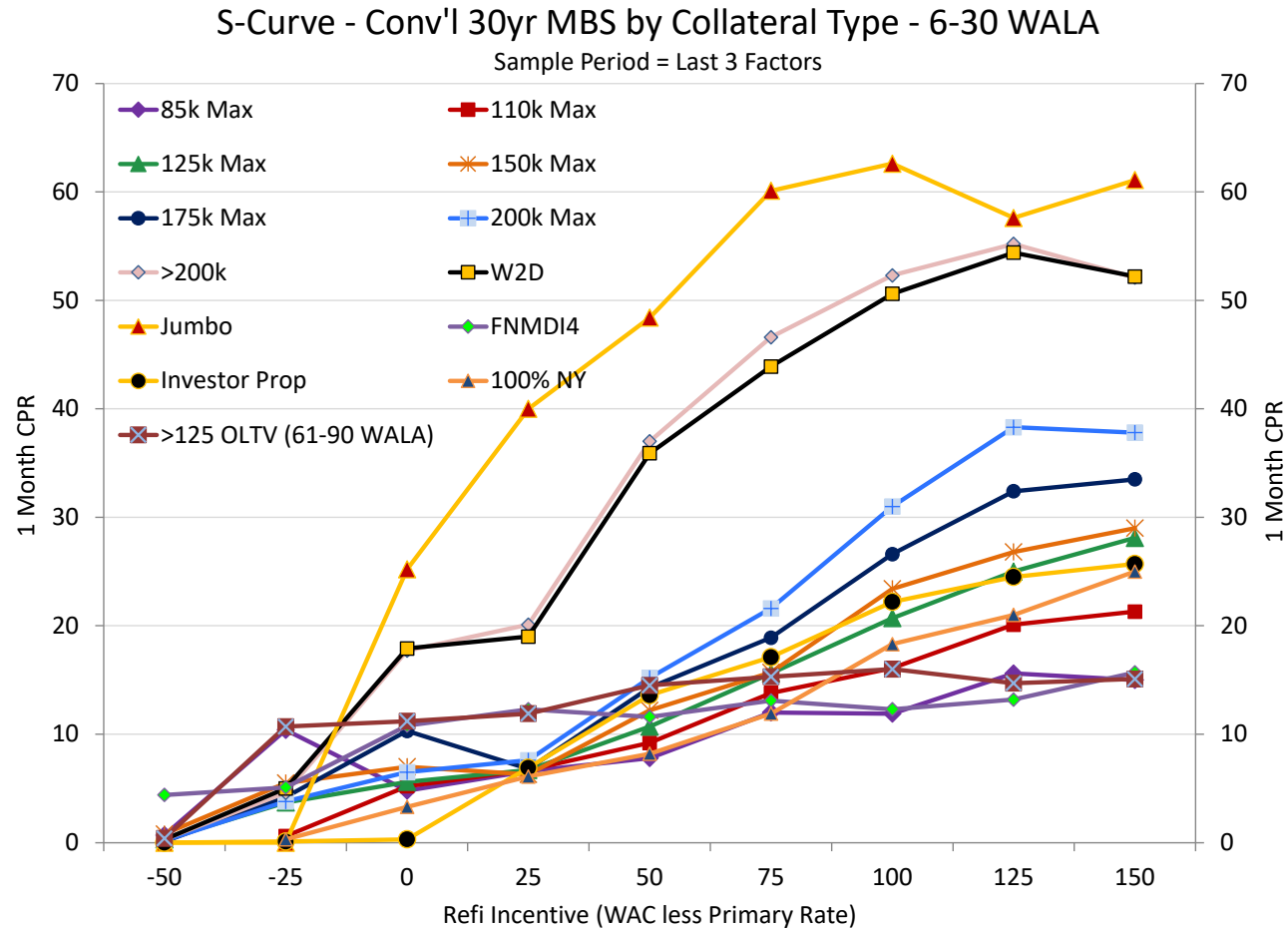
## Models Can be Adjusted to Hold the P/S Spread Unchanged

- The Primary/Secondary Spread tends to widen sharply amid a sharp rally in benchmark interest rates and increase in MBS prices
- The P/S Spread is extremely wide at 134bps
- Although prepayment models project the P/S Spread to tighten, this feature of the model can be turned off to allow the P/S Spread to remain constant at its historically wide level, which also keeps the Primary Model Rate (PMR) constant (i.e., higher than the default PMR projection)



# Collateral Characteristics: Loan Balance, LTV, Inv Prop, Modif, NY

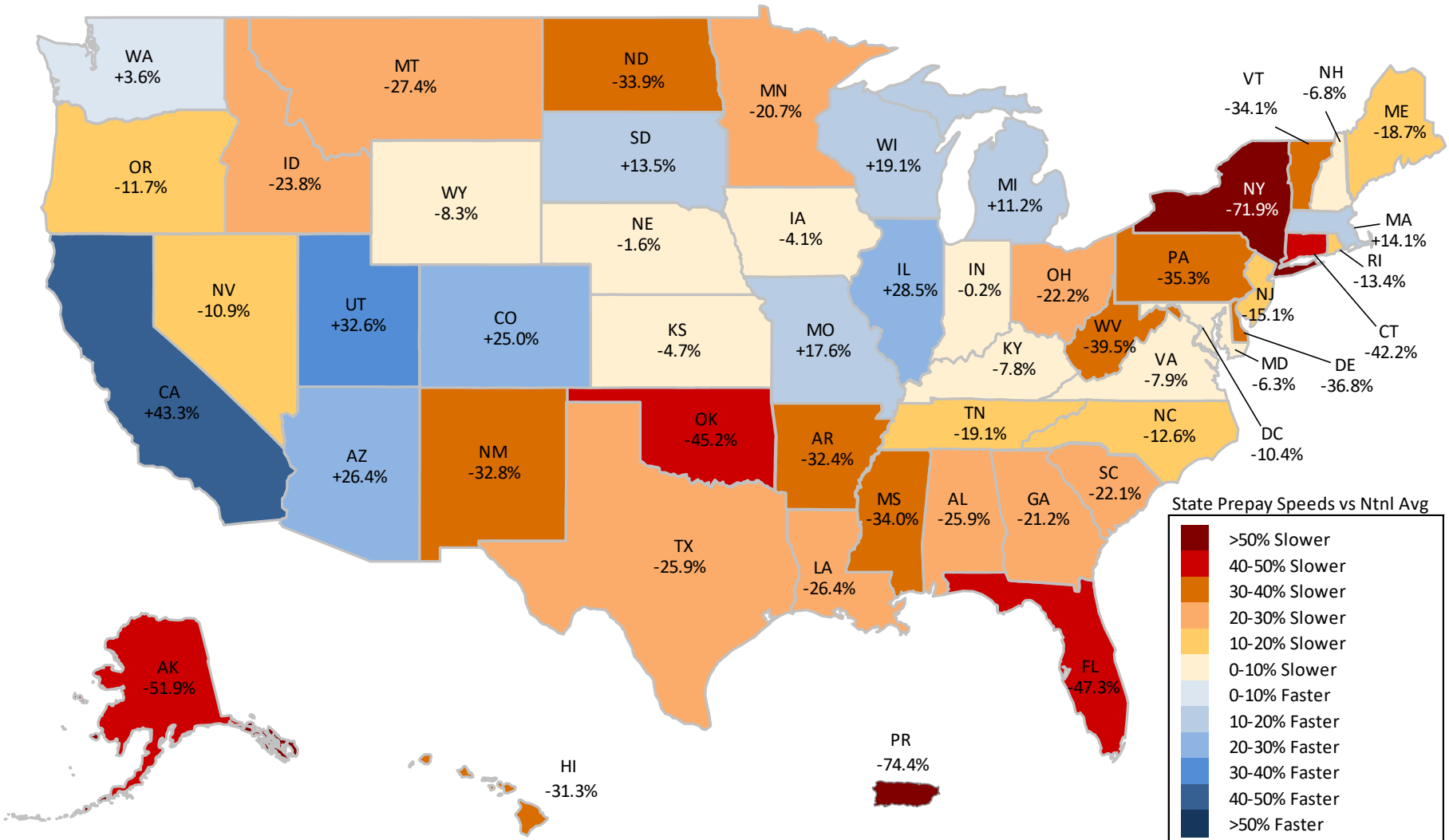
- Loan size is arguably the largest driver of prepayment behavior
- The lower the loan size, the slower the prepays
- W2D (Worst to Deliver) or TBA collateral
- Jumbo collateral contain loans above the “conforming loan limit” (\$510.4k for most states)
- Loan limit for high-cost areas is \$765.6k



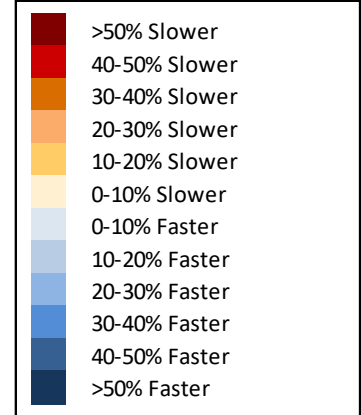
# Speeds by State: Conventional 30yr by Geographics

State vs. National Average - Percent Difference in CPR

Conventional 30yr MBS with +25 to +75bps of Refi Incentive | 6-30 WALA | AOLS 151k-800k | OLTV <85



State Prepay Speeds vs Ntnl Avg

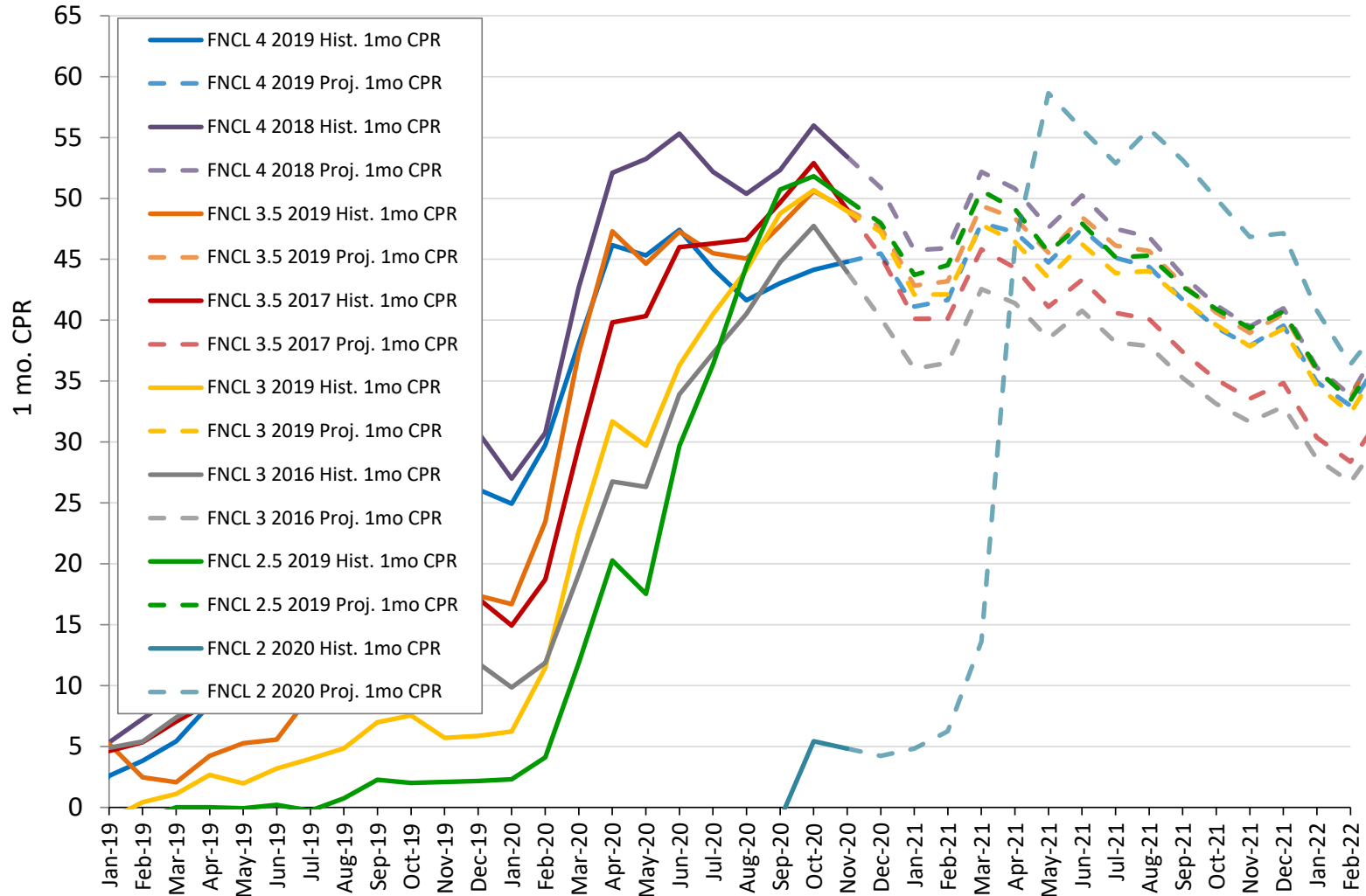


# Cash Flows Accelerate

## Historical and Projected Speeds: Fannie 30yr

### Historical 1mo. CPR vs. Projected 1mo. CPR

For Selected 30yr FNMA Cohorts



As of 11/9/2020 (Nov. Factors)

Source: Yield Book

Calculations use Version 97 of Yield Book's Prepayment Model, which is adjusted for the impact of COVID-19

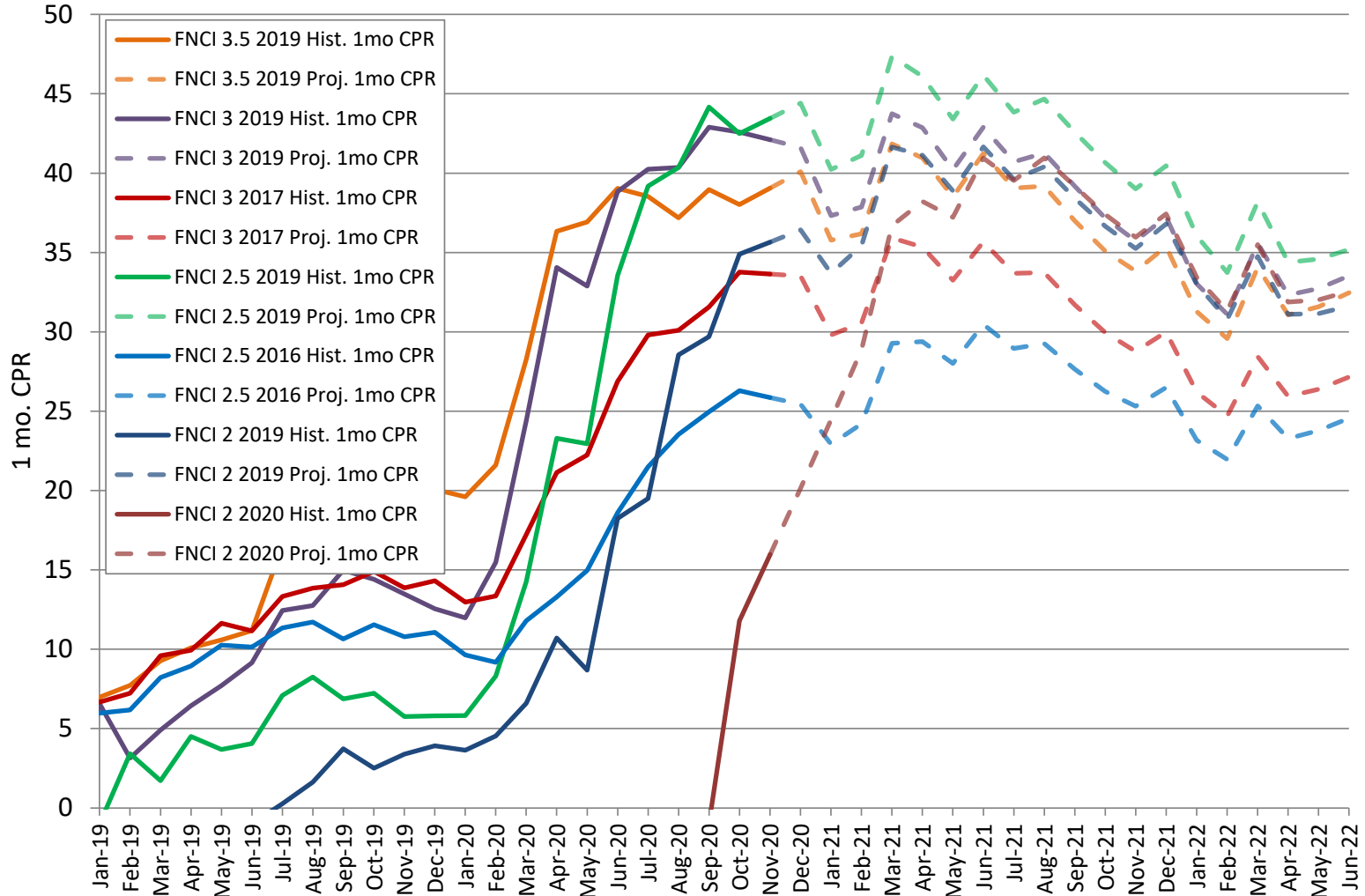
Primary/Secondary Spread Model is turned on

# Cash Flows Accelerate

## Historical and Projected Speeds: Fannie 15yr

### Historical 1mo. CPR vs. Projected 1mo. CPR

For Selected 15yr FNMA Cohorts



As of 11/9/2020 (Nov. Factors)

Source: Yield Book

Calculations use Version 97 of Yield Book's Prepayment Model, which is adjusted for the impact of COVID-19

Primary/Secondary Spread Model is turned on







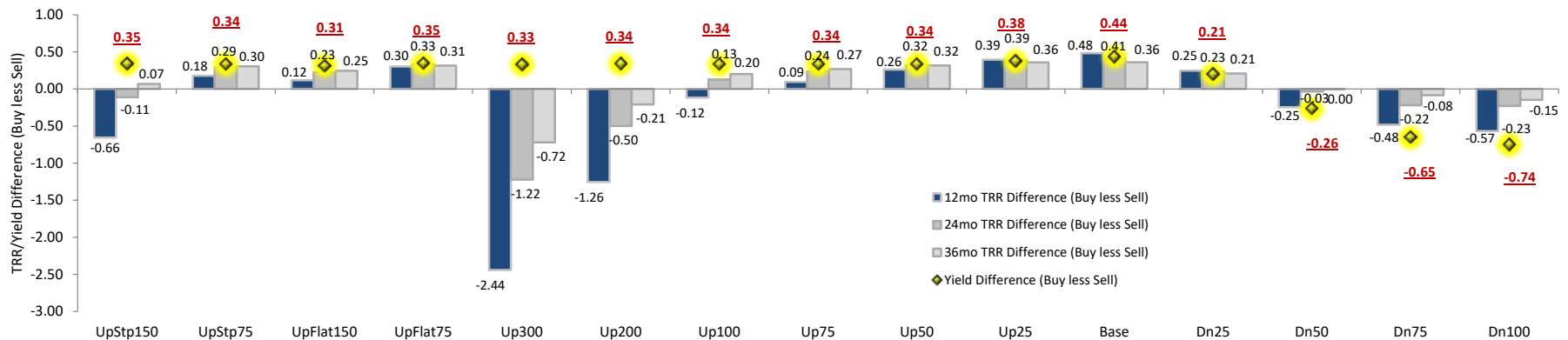
# Buy Front Sequentials off Low-WAC (sub-3%) Jumbos

## 2% Front SEQ off Jumbo 2s vs. New 15yr 2% Passthru

- Maintain Coupon, Drop Dollar price by \$1.45
- Duration-neutral; Extend WAL by 0.4yr
- Pick 40bps I-Spread & 44bps Yield in Base Case
- Pick Yield in All but Extreme Down-Rate Scenarios
- Pick Total Return in All but Extreme Down- and Up-Rate Scenarios

Pool #	Security Description	Cpn	WAC	Age	WAM	Pricing Spread	I-Sprd (YldBk)	Mkt Price	Mkt YTM	WAL	Proj 1YCPR	Proj LTCPR	Zvol LOAS	Opt Cost	Labor OAS	Eff Dura	Eff Cnvx
Buy	FHR 5035 KC	2.00	2.92	1	357	92/i/354PSA	104	102.27	1.41	4.21	6.6	9.5	76.0	55.7	20.3	2.15	-4.57
Sell	FN MA4179	2.00	2.61	1	177	+ 2/32s vs. TBA	64	103.72	0.97	3.85	16.4	16.2	41.7	29.2	12.5	2.23	-3.23
<b>difference</b>		<b>0.00</b>	<b>0.32</b>	<b>0</b>	<b>180</b>		<b>40</b>	<b>-1.45</b>	<b>0.44</b>	<b>0.36</b>	<b>-9.8</b>	<b>-6.8</b>	<b>34.3</b>	<b>26.4</b>	<b>7.9</b>	<b>-0.07</b>	<b>-1.35</b>

TRR & Yield Difference (Buy less Sell; 12mo. Horizon)



### Yield Curve Twist Scenarios:

UpStp150 - 3mo LIBOR up 50bps, 2yr Swap up 75bps, 5yr Swap up 100bps, 10yr swap up 150bps

UpStp75 - 3mo LIBOR up 25bps, 2yr Swap up 37.5bps, 5yr Swap up 50bps, 10yr swap up 75bps

UpFlat150 - 3mo LIBOR up 150bps, 2yr Swap up 100bps, 5yr Swap up 75bps, 10yr swap up 50bps

UpFlat75 - 3mo LIBOR up 75bps, 2yr Swap up 50bps, 5yr Swap up 37.5bps, 10yr swap up 25bps

\* Total Return Scenarios are ramped to a 12, 24 & 36 month horizon and assume constant-OAS horizon pricing to a 12, 24 & 36 month horizon; P&I payments are reinvested at 1 month LIBOR.

Source: Bloomberg, Yield Book & Stifel

Analysis run as of 11/9/2020

Calculations use Version 97 of Yield Book's Prepayment Model, which is adjusted for the impact of COVID-19

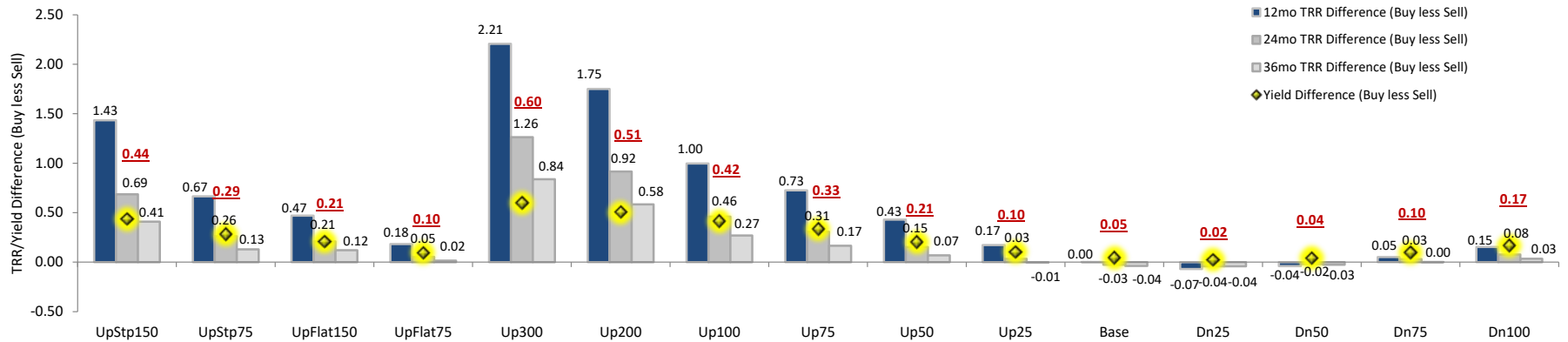
# Buy Low-WAC 10x1 Hybrids

## Low-WAC 10x1 Hybrid ARMs vs. New 15yr 2% Passthru

- +52bps in Coupon, Increase Dollar price by \$0.81
- Give-up 0.5yr WAL & 0.9yr Eff. Dur.
- Pick 9bps I-Spread & 5bps Yield in Base Case
- Pick Yield in All but Extreme Down-Rate Scenarios
- Pick TRR in All but Extreme Down- and Up-Rate Scenarios

Pool #	Security Number	Security Description	Cpn	WAC	Age	WAM	Pricing Spread	I-Sprd (YldBk)	Mkt Price	Mkt YTM	WAL	Proj 1YCPR	Proj LTCPR	Zvol LOAS	Opt Cost	Libor OAS	Eff Dura	Eff Cnvx
Buy	FH 841144	10x1 Hybrid	2.52	3.14	4	356	69/z/15CPB	73	104.53	1.01	3.40	28.3	24.3	58.5	23.3	35.2	1.30	-2.07
Sell	FN MA4179	15yr 2% MBS	2.00	2.61	1	177	+ 2/32s vs. TBA	64	103.72	0.97	3.85	16.4	16.2	41.7	29.2	12.5	2.23	-3.23
<b>difference</b>			<b>0.52</b>	<b>0.53</b>	<b>3</b>	<b>179</b>		<b>9</b>	<b>0.81</b>	<b>0.05</b>	<b>-0.45</b>	<b>11.9</b>	<b>8.1</b>	<b>16.9</b>	<b>-5.9</b>	<b>22.8</b>	<b>-0.92</b>	<b>1.15</b>

TRR & Yield Difference (Buy less Sell; 12mo. Horizon)



### Yield Curve Twist Scenarios:

UpStp150 - 3mo LIBOR up 50bps, 2yr Swap up 75bps, 5yr Swap up 100bps, 10yr swap up 150bps

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Source: Bloomberg, Yield Book & Stifel

Analysis run as of 11/9/2020

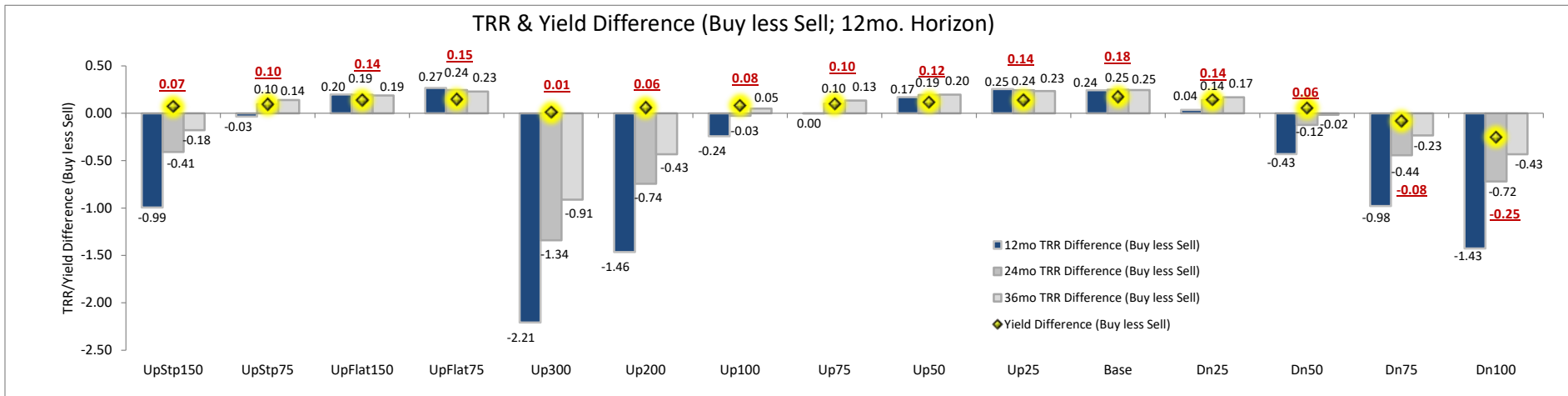
Calculations use Version 97 of Yield Book's Prepayment Model, which is adjusted for the impact of COVID-19

# Go Down-In-Coupon versus Paying Up for Loan Bal Collateral

## New 30yr 2% Passthru vs. New 30yr 2.5% 150k Max Passthru

- Drop Coupon by 50bps, Drop Dollar price by \$4.16
- Give-up 0.5yr WAL & 0.9yr Eff. Dur.
- Pick 9bps I-Spread & 5bps Yield in Base Case
- Pick Yield in All but Extreme Down-Rate Scenarios
- Pick TRR in Base Case & Mild Up-Rate Scenarios

Pool #	Security Description	Cpn	WAC	Age	WAM	Pricing Spread	I-Sprd (YldBk)	Mkt Price	Mkt YTM	WAL	Proj 1YCPR	Proj LTCPR	Zvol LOAS	Opt Cost	Libor OAS	Eff Dura	Eff Cnvx
Buy FN MA4182	30yr 2% MBS	2.00	2.91	2	354	+ 2/32s vs. TBA	78	103.14	1.52	7.46	6.4	9.4	56.7	54.7	2.0	4.08	-4.45
Sell FN CA7028	30yr 2.5% 150k Max	2.50	3.27	4	355	+ 3 2/32s vs. TBA	64	107.30	1.35	7.00	7.5	10.5	49.4	38.1	11.3	4.37	-3.23
<b>difference</b>		<b>-0.50</b>	<b>-0.36</b>	<b>-2</b>	<b>-1</b>		<b>14</b>	<b>-4.16</b>	<b>0.18</b>	<b>0.47</b>	<b>-1.1</b>	<b>-1.1</b>	<b>7.3</b>	<b>16.6</b>	<b>-9.3</b>	<b>-0.29</b>	<b>-1.22</b>



### Yield Curve Twist Scenarios:

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Analysis run as of 11/9/2020

Calculations use Version 97 of Yield Book's Prepayment Model, which is adjusted for the impact of COVID-19

# Pulse of the Market – ACMBS Menu as of 11/9/2020

Pool	Description	Cpn	WAC	Age	WAM	Mkt Price	Pricing Spread	0 CPY					100 CPY						
								I-Sprd (YldBk)	Mkt YTM	LIBOR WAL	Eff Dura	Eff Cnvx	I-Sprd (YldBk)	Mkt YTM	LIBOR WAL	Eff Dura	Eff Cnvx		
<b>DUS</b>																			
FN AM9941	10/9.5	2.89	4.50	61	59	108.595	55/n	60	1.02	4.71	53.6	4.43	0.23	45	0.83	4.25	39.6	4.02	0.19
FN BL0533	7/6	3.57	4.32	24	60	111.062	80/n	85	1.30	5.03	80.4	4.64	0.25	42	0.77	4.03	37.5	3.77	0.17
FN AN3842	10/9.4	2.56	4.23	47	73	107.135	70/n	73	1.27	5.73	67.5	5.36	0.34	69	1.17	5.29	62.4	4.98	0.29
FN BL0701	10/9.5	3.86	4.90	24	96	118.795	57/n	57	1.35	7.84	58.0	6.91	0.56	47	1.21	7.38	48.1	6.55	0.50
FN BL2452	10/9.5	3.16	4.04	18	102	114.023	53/n	53	1.32	7.98	51.6	7.18	0.61	48	1.23	7.55	46.0	6.82	0.55
FN BL3435	10/7	2.90	3.79	14	106	110.161	81/n	81	1.66	8.63	81.5	7.74	0.69	55	1.11	5.82	52.6	5.40	0.33
FN BL5656	10/9.5	2.26	3.75	9	111	107.560	50/n	50	1.35	8.66	48.1	7.95	0.73	50	1.31	8.24	47.4	7.59	0.67
FN BL5134	10/7	2.46	3.80	10	110	107.778	67/n	67	1.53	8.73	66.1	7.94	0.73	55	1.14	6.05	52.4	5.66	0.37
FN BL8716	10/9.5	1.41	3.40	1	119	100.839	40/n	40	1.33	9.70	39.1	9.14	0.92	43	1.33	9.25	42.1	8.74	0.84

<b>Ks &amp; ACEs</b>																			
FNA 2015-M15 A2	ACE A2	2.92	4.31	63	57	109.370	40/n	44	0.86	4.74	39.5	4.46	0.23	44	0.86	4.74	39.5	4.46	0.23
FNA 2017-M3 A2	ACE A2	2.48	3.83	47	73	108.483	42/n	43	0.99	5.83	39.4	5.47	0.34	43	0.99	5.83	39.4	5.47	0.34
FNA 2017-M14 A2	ACE A2	2.88	3.83	36	84	111.219	50/n	49	1.17	6.80	48.2	6.25	0.45	49	1.17	6.80	48.2	6.25	0.45
FNA 2018-M14 A2	ACE A2	3.58	4.37	27	93	116.412	59/n	56	1.32	7.57	57.1	6.76	0.53	56	1.32	7.57	57.1	6.76	0.53
FNA 2018-M12 A2	ACE A2	3.64	4.66	28	116	119.147	60/n	58	1.49	9.44	59.6	8.20	0.78	58	1.49	9.44	59.6	8.20	0.78
FNA 2018-M13 A2	ACE A2	3.70	4.69	28	116	119.616	61/n	59	1.51	9.49	61.1	8.22	0.78	59	1.51	9.49	61.1	8.22	0.78
FHMS K046 A2	K A2	3.21	3.80	69	53	110.235	31/n	36	0.74	4.31	31.2	4.04	0.19	36	0.74	4.31	31.2	4.04	0.19
FHMS K058 A2	K A2	2.65	3.97	52	70	109.523	34/n	38	0.92	5.74	33.9	5.36	0.33	38	0.92	5.74	33.9	5.36	0.33
FHMS K062 A2	K A2	3.41	4.00	49	74	113.963	39/n	42	1.01	6.07	39.0	5.55	0.35	42	1.01	6.07	39.0	5.55	0.35
FHMS K070 A2	K A2	3.30	4.04	38	84	113.960	47/n	47	1.17	6.91	46.5	6.26	0.45	47	1.17	6.91	46.5	6.26	0.45
FHMS K078 A2	K A2	3.85	4.36	31	91	117.937	55/n	56	1.30	7.48	54.9	6.62	0.51	56	1.30	7.48	54.9	6.62	0.51
FHMS K087 A2	K A2	3.77	4.56	25	97	118.159	55/n	56	1.35	8.02	55.3	7.07	0.58	56	1.35	8.02	55.3	7.07	0.58
FHMS K102 A2	K A2	2.54	3.75	15	107	110.015	45/n	46	1.32	8.85	45.1	8.03	0.73	46	1.32	8.85	45.1	8.03	0.73
FHMS K157 A2	K A2	3.99	4.54	28	135	122.093	59/n	59	1.53	9.78	58.5	8.35	0.81	59	1.53	9.78	58.5	8.35	0.81

Pool	Description	Cpn	WAC	Age	WAM	Mkt Price	Pricing Spread	5 CPR					10 CPR						
								I-Sprd (YldBk)	Mkt YTM	LIBOR WAL	Eff Dura	Eff Cnvx	I-Sprd (YldBk)	Mkt YTM	LIBOR WAL	Eff Dura	Eff Cnvx		
<b>FRESB (Freddie Small Business)</b>																			
FRESB 2020-SB79 A5H	5yr Hybrid ARM	0.80	3.35	5	237	100.147	35/n	39	0.75	4.19	33.6	4.03	0.44	43	0.75	3.72	37.4	3.59	0.35
FRESB 2020-SB79 A7H	7yr Hybrid ARM	0.99	3.25	5	236	99.754	47/n	24	0.98	7.37	23.7	5.95	3.62	24	0.98	7.37	23.7	5.95	3.62
FRESB 2020-SB79 A10F	10yr Fx Balloon	1.03	3.90	5	117	99.299	41/n	41	1.13	7.10	40.4	6.80	0.60	61	1.15	5.72	57.0	5.48	0.44

# Tax-Exempt Multifamily CMBS: M-TEMS and TEL PCs

Pool	Description	Cpn	WAC	Age	Balloon WAM	IO Prd	Rem. YM	Pricing Spread	Mkt Price	Mkt YTM	Mkt YTC	TEY tefra	TEY no-tef	WAL	Eff Dura	Eff Cnvx	
<b>Tax-Exempt</b>																	
FR WE2019	TEL PC (Seas 18/15/35)	1.80	3.81	15	200	0	165	50/n/OCPY	104.969	1.38	1.33	1.62	1.75	13.38	11.72	1.61	
MTEMS 17/16.5	MTEMS (New 17/16.5)	1.54	2.89	0	204	0	198	55/n/OCPY	101.563	1.44	1.42	1.68	1.82	14.23	12.57	1.75	
MTEMS 19/18.5	MTEMS (New 19/18.5)	1.58	2.93	0	228	60	222	65/n/OCPY	100.563	1.56	1.55	1.84	1.97	17.26	14.91	2.11	
<b>Taxable</b>																	
FN BL6438	DUS (New 15/14.5)	2.05	2.91	3	177	93	174	55/n/OCPY	108.188	1.44	1.43	1.44	1.44	14.24	12.56	1.79	
FHMS K-1513 A3	K-Fred (Seas 15yr LCF/A3)	2.80	4.16	15	162	0	158	60/n/OCPY	116.406	1.47	1.43	1.47	1.47	13.79	11.75	1.59	
Katy TX Ind SD	20nc10 Aaa Gen Mkt GO Muni	4.00	2/15/40 Maturity				2/15/30	Call	71/n/Call	122.694	2.52	1.42	1.66	1.79	9.50	8.55	-0.45

a) Assumes federal corporate income tax rate of 21%

b) Assumes 100% TEFRA disallowance and 50bps cost of funds

## Tax-Exempt Multifamily CMBS in a Nutshell

- M-TEMS are tax-exempt CMBS secured by and exchangeable for Fannie Mae DUS bonds
- M-TEMS' cashflows precisely mirror the underlying Fannie Mae DUS bond with a 1 day payment delay
- A typical structure has a 17yr final balloon maturity with a 15yr yield maintenance period (17/15), which is intended to coincide with the 15yr compliance period associated with low income housing tax credits
- The combination of LIHTC compliance, prepayment restrictions (YM) and strong credit quality coalesces into a very low risk of prepayment, low optionality and highly predictable cashflows
- TEL PCs are tax-exempt Freddie Mac multifamily passthru certificates (i.e., Freddie's version of DUS)
- Unlike M-TEMS, TEL PCs do not have a municipal wrapper; they are direct Freddie Mac ACMBS
- Securities that finance affordable housing will naturally be expected to satisfy CRA requirements
- The exchange feature results in a lower capital risk weight for M-TEMS than traditional revenue bonds
- M-TEMS & TEL PCs offer yield advantages compared to similar maturity, high quality MBS & Munis

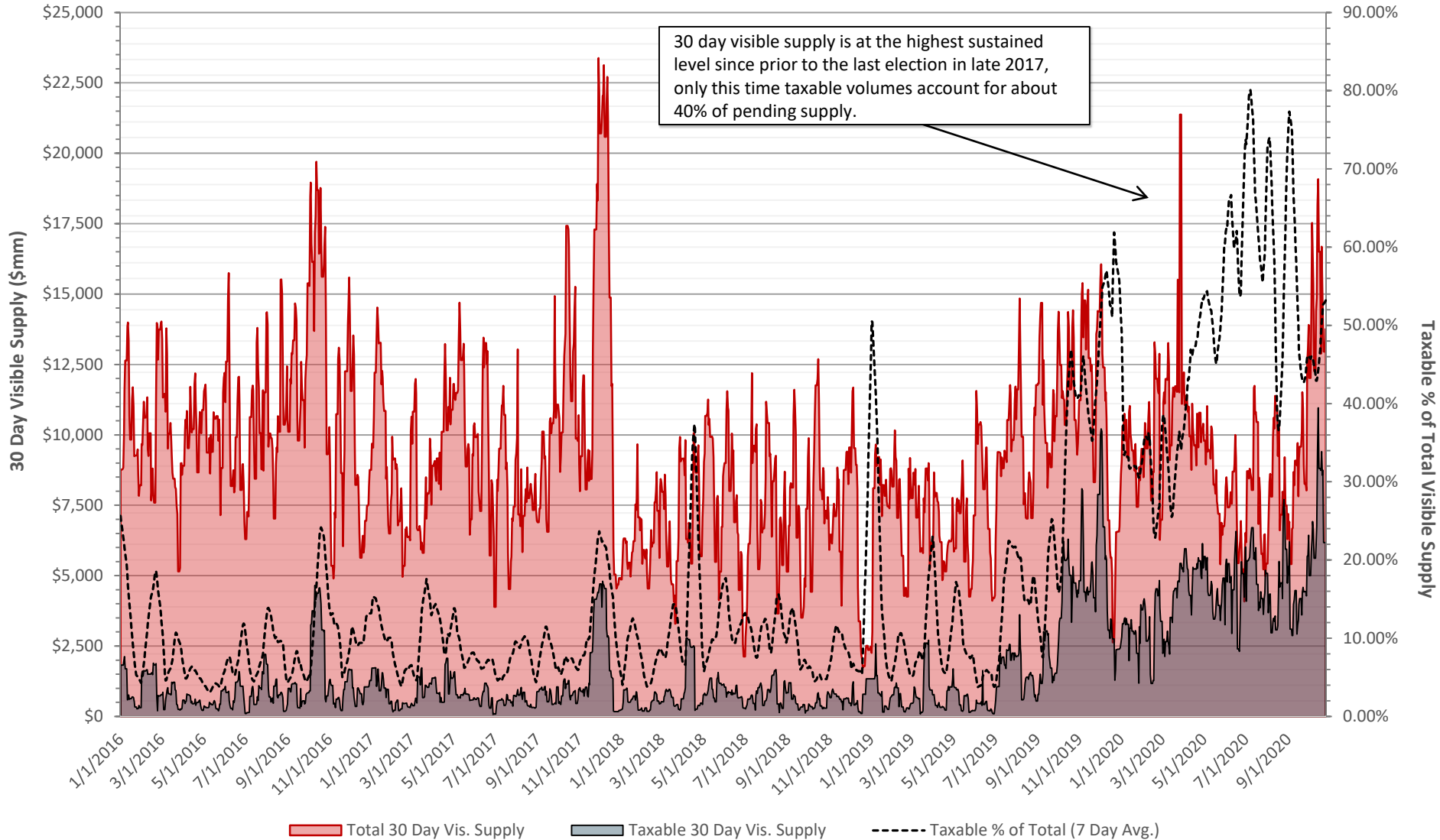
\* For more details, see MBS Relative Value 6/16/20, "Tax-Exempt MF CMBS: A Mash-up of Mortgages and Munis"

## *Municipal Sector*

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# Municipal Market Update: Supply Dynamics

## Taxable vs. Tax-Exempt Visible Supply Since 2016



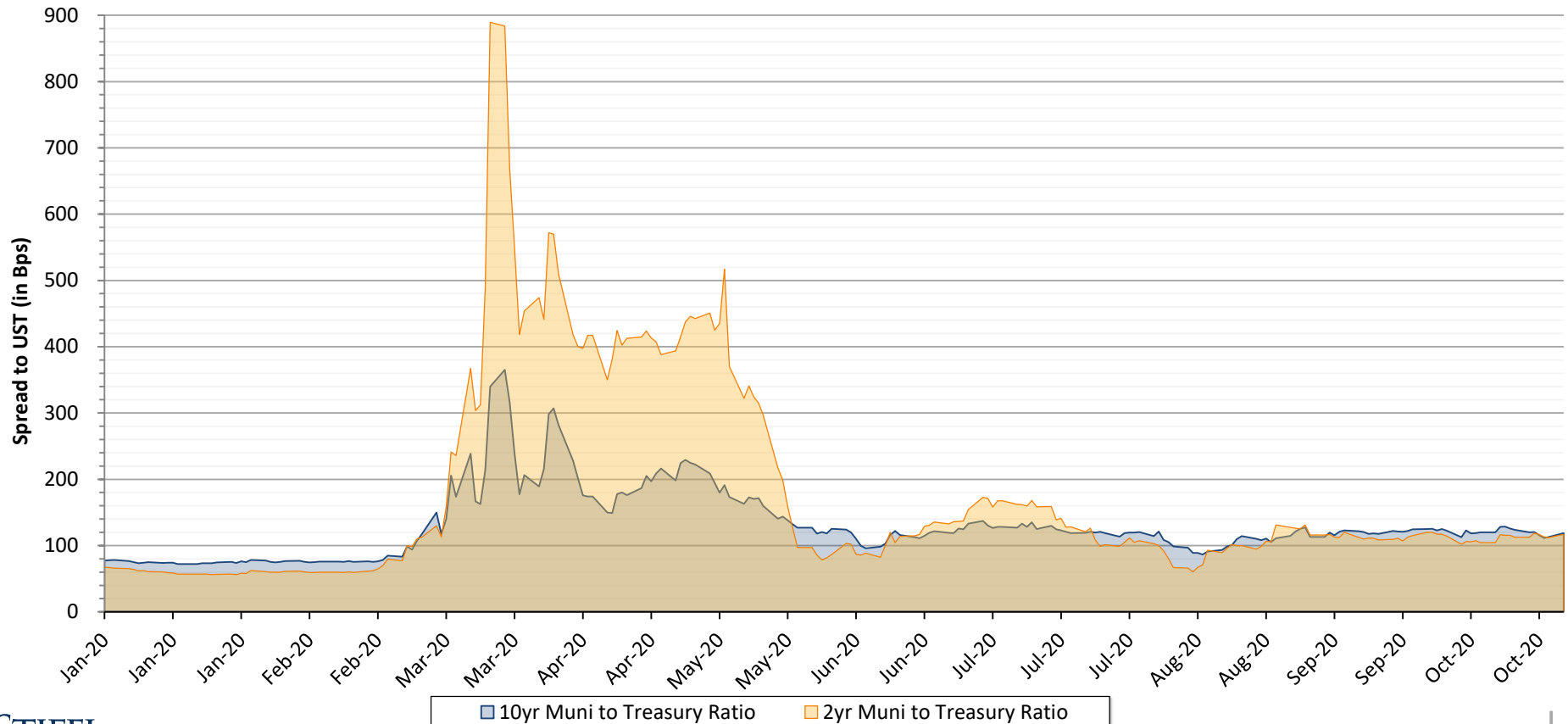


# Municipal Market Update: Treasury Ratios and Spreads

- Municipal spreads and values have widened after a significant rally in August, when ratios briefly touched pre-pandemic levels, but have not blown out despite the surge in supply.
- Spreads in late Oct approximate levels we saw throughout most of June and Sept and continue to offer meaningful value where longer duration can be tolerated.

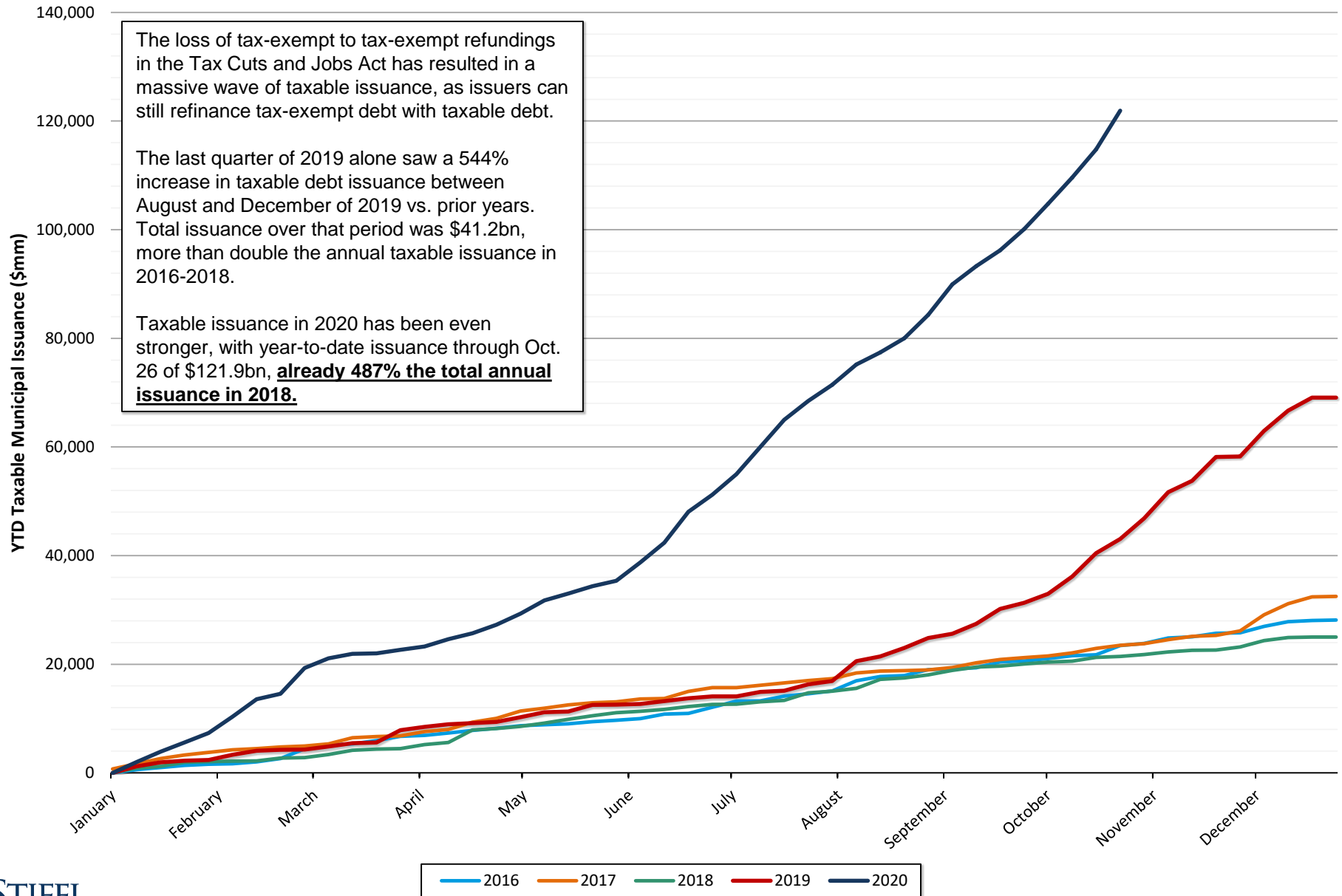
AA Spread to Treasuries (Bps)						
	Feb. 2, 2020	Mar. 23, 2020	Jun. 1, 2020	Jun. 30, 2020	Aug. 7, 2020	Oct. 26, 2020
2 Year AA	(0.38)	3.67	(0.01)	0.04	(0.26)	0.07
5 Year AA	(0.31)	3.45	0.24	0.24	(0.15)	0.11
10 Year AA	0.01	3.33	0.59	0.55	0.09	0.51
30 Year AA	0.55	3.68	0.99	1.16	0.54	0.74

## AAA Tax-Exempt-to-Treasury Ratios



(1) Sources: Stifel; Bloomberg LP

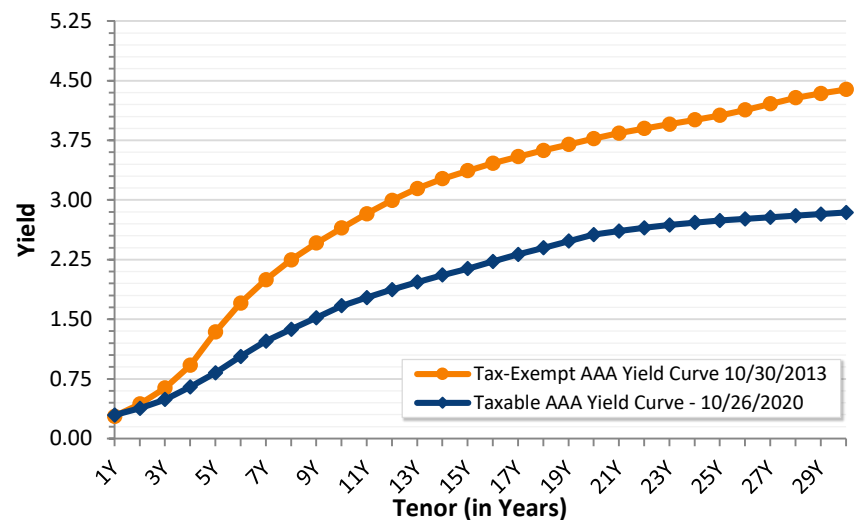
# Municipal Tax Treatment: Wave of Taxable Issuance



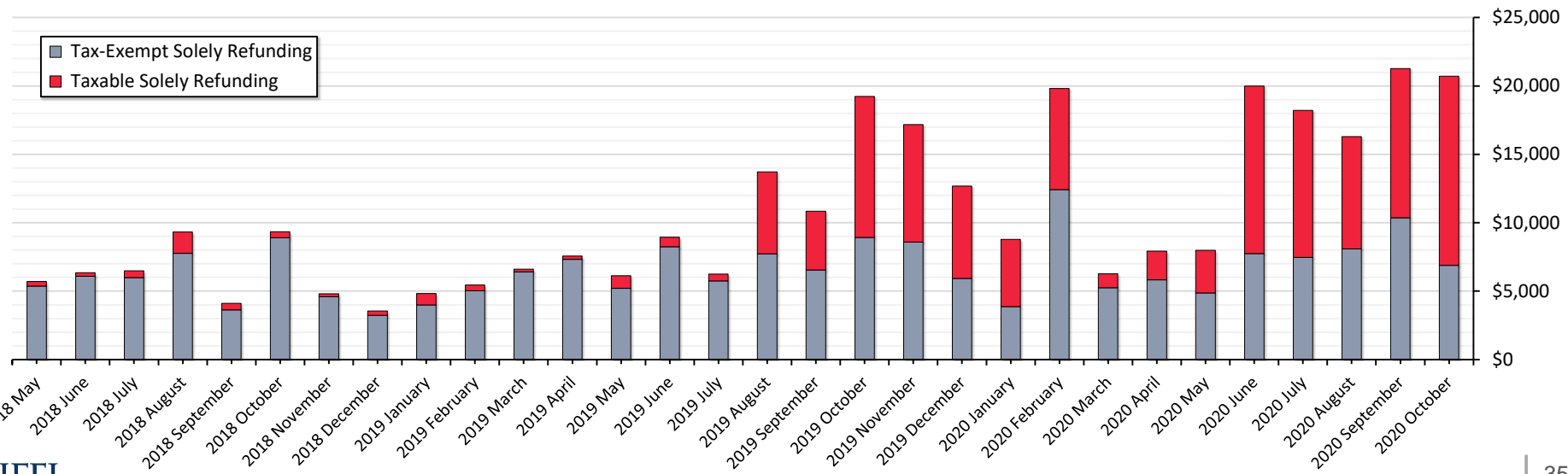
# Taxable Market: Advanced Refundings

- The Tax Cuts and Jobs Act eliminated tax-exempt to tax-exempt advanced refundings to avoid \$2 in tax-exempt debt outstanding for every \$1 in projects financed. Nothing, however, precludes issuing taxable debt to refinance tax-exempt debt.
- Given the shape and steepness of the tax-exempt curve in 2013, many longer tenured securities that have since rolled down the curve are eligible to be advanced refunded with taxable debt for net present value savings.
- \$10.9bn of taxable debt marketed September 2020 was issued solely to refund outstanding debt, more than the \$10.3 of tax-exempt debt sold for the same purpose.
- **Although the outcome of the election is uncertain, any administration that attempts to tackle infrastructure might do so by revitalizing the American Recovery and Reinvestment Act (ARRA) programs, which would be very supportive of taxable supply in 2021 and beyond.**

2013 Tax-Exempt vs. 2020 Taxable Curve



Refunding Issuance since May 2018



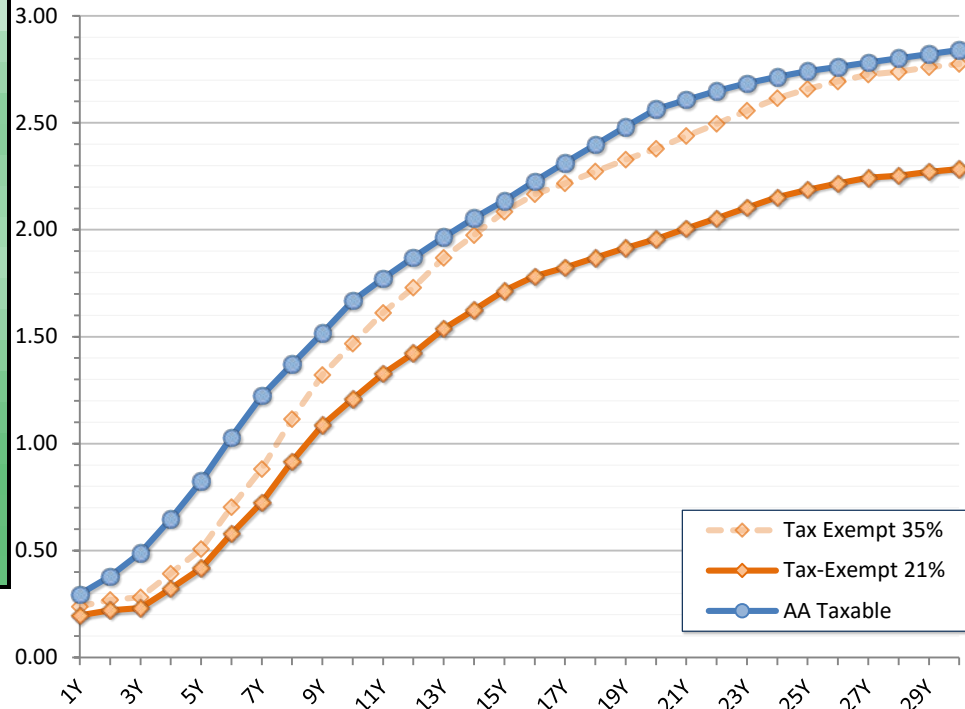
# Municipal Market Update: Tax Rate Sensitivity Analysis

## Tax-Exempt to Taxable Spreads

	Cost of Funds					
	21.0%	26.0%	31.0%	35.0%	40.0%	45.0%
1Y	(0.10)	(0.09)	(0.07)	(0.06)	(0.04)	(0.01)
2Y	(0.16)	(0.14)	(0.13)	(0.11)	(0.09)	(0.06)
3Y	(0.26)	(0.24)	(0.22)	(0.21)	(0.19)	(0.16)
4Y	(0.33)	(0.30)	(0.28)	(0.26)	(0.22)	(0.18)
5Y	(0.41)	(0.38)	(0.35)	(0.32)	(0.28)	(0.23)
6Y	(0.45)	(0.41)	(0.37)	(0.33)	(0.27)	(0.20)
7Y	(0.50)	(0.45)	(0.39)	(0.34)	(0.27)	(0.18)
8Y	(0.45)	(0.39)	(0.32)	(0.26)	(0.16)	(0.05)
9Y	(0.43)	(0.36)	(0.27)	(0.20)	(0.09)	0.04
10Y	(0.46)	(0.38)	(0.29)	(0.20)	(0.08)	0.07
11Y	(0.45)	(0.36)	(0.25)	(0.16)	(0.03)	0.13
12Y	(0.45)	(0.35)	(0.24)	(0.14)	0.00	0.17
13Y	(0.43)	(0.32)	(0.21)	(0.10)	0.06	0.24
14Y	(0.43)	(0.32)	(0.19)	(0.08)	0.09	0.28
15Y	(0.42)	(0.30)	(0.17)	(0.05)	0.12	0.33
16Y	(0.44)	(0.32)	(0.19)	(0.06)	0.12	0.33
17Y	(0.49)	(0.37)	(0.23)	(0.10)	0.09	0.31
18Y	(0.53)	(0.40)	(0.26)	(0.13)	0.06	0.29
19Y	(0.57)	(0.44)	(0.29)	(0.15)	0.04	0.27
20Y	(0.61)	(0.47)	(0.32)	(0.19)	0.01	0.25
21Y	(0.60)	(0.47)	(0.31)	(0.17)	0.03	0.27
22Y	(0.60)	(0.46)	(0.30)	(0.15)	0.05	0.30
23Y	(0.58)	(0.44)	(0.28)	(0.13)	0.09	0.34
24Y	(0.56)	(0.42)	(0.25)	(0.10)	0.12	0.38
25Y	(0.55)	(0.41)	(0.24)	(0.08)	0.14	0.40
26Y	(0.55)	(0.40)	(0.22)	(0.07)	0.16	0.42
27Y	(0.54)	(0.39)	(0.21)	(0.06)	0.17	0.44
28Y	(0.55)	(0.40)	(0.22)	(0.06)	0.16	0.43
29Y	(0.55)	(0.40)	(0.22)	(0.06)	0.17	0.44
30Y	(0.56)	(0.40)	(0.23)	(0.07)	0.17	0.44

- Although the wave of taxable supply has made taxable more attractive at the current 21% federal tax rate, COVID's economic impact could compel an increase in federal or state taxes that would reduce or eliminate the spread advantage taxables securities confer.
- Implied tax rates, measured by either the SIFMA Municipal Swap-to-LIBOR ratio or tax-exempt to taxable spreads, are well in excess of 45% of the shorter part of the curve traditionally dominated by individual retail investors.
- Long-end tax-exempt yields are substantially below taxables at the current 21% federal tax rate, and taxables will remain relatively attractive so long as the tax rate remains below approximately 37%.**

## 21% vs. 35% Taxable Equivalent Yield Curves



Long-end tax-exempt to taxable spreads, which are negative at a 21% federal tax rate, move significantly positive only if tax rates grow to 40% or more.

# Municipal Credit Update: CoVID-19 Credit Impacts

## Essential Service Utility Revenues

- Usually well positioned from a logistical perspective, and the inelasticity in demand will be a key credit positive.

## Higher Education

- Long term changes in demand, especially for institutions heavily reliant on foreign students, could be impactful. Short-term enrollment disruptions should be manageable through distance learning programs, but should those distance learning regimens continue for a period of time, institutions might face a push back on tuitions and fees.
- Institutions with good liquidity, strong selectivity, previously solid enrollment trends, and meaningful external support (state or donor) will be best positioned.

## Healthcare, Hospital, and CCRC

- Healthcare providers across the country could be strained to provide both coronavirus care (at perhaps a subsidized rate) and other more profitable services. Disruptions in staffing and administration could compound those impacts.
- CCRCs face meaningful risks if the virus disrupts occupancy.

## Transportation

- Port revenue bonds have already been impacted by declines in cargo volumes from China and will further be impacted as shifts in consumer behavior propagate through the supply chain.
- Airport revenue bonds will hinge on the health and viability of airline companies and the timing and recovery of passenger volumes.

## Special Tax Revenue Bonds

- The ultimate effect of temporary disruptions in sales or income tax collections due to either a tax holiday or changing consumer demand will vary depending on underlying credit quality and coverage ratios.

## Local and State General Obligations

- ***In general, we believe most state and local governments will successfully manage the stress from COVID-19.***
- Additional federal support is likely, but internal liquidity to manage the immediate crisis will be paramount. For example, school districts whose state aid revenue is disrupted by a temporary lack of enrollment may have to manage with funds on hand.
- Disruptions in the market could limit access to external capital and put unique stresses on large VRDO issuers.

## *Sub Debt Sector*

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# Regulatory Considerations: Investments in Financials

	Depository Institution Debt Adjustment (DIDA)	Basel III Non-Significant Investment in the Capital of Unconsolidated Financial Institution <sup>1</sup>
<b>Subject instruments</b>	Long-term unsecured debt of another unsecured depository institution (IDI)	Net long position in instrument that is recognized as capital by the primary supervisory of an unconsolidated financial institution or in an instrument that is part of GAAP equity of an unconsolidated unregulated financial institution
<b>Maturity Threshold</b>	Remaining maturity > 1 year	None
<b><i>De Minimis</i> Level for Deduction</b>	3% of Tier 1 Capital	25% of adjusted Common Equity Tier 1 Capital (CET1)
<b>Deduction</b>	50 bp additional FDIC assessment for every dollar in excess of <i>de minimis</i> level	Corresponding deduction approach for every dollar in excess of <i>de minimis</i> level

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## Polling Question #2



- Excess Liquidity
  - State of PPP
  - Investment Universe Review
  - ***Cash Deploy***
  - Deleverage Considerations
  - Portfolio Restructuring
  - Hedging Application
  - Loan Market Update
-

# Investment Options Grid

Investment Options Grid											
Type	SubSector	Price	Duration	Cvx	WAL	0-12mo Yield			Price Volatility		
						-100	Base	+100	-100	+100	+300
Agency Debt	2 Year Bullet Agency	100.03	1.9	0.0	1.9	0.14	<b>0.14</b>	0.14	1.9%	-1.9%	-5.5%
Agency Debt	3 Year Bullet Agency	99.86	3.0	0.1	3.0	0.27	<b>0.27</b>	0.27	3.0%	-2.9%	-8.5%
Agency Debt	5 Year Bullet Agency	109.71	4.7	0.3	5.0	0.54	<b>0.54</b>	0.54	4.9%	-4.6%	-13.2%
Agency Debt	7 Year Bullet Agency	99.33	6.8	0.5	6.9	0.85	<b>0.85</b>	0.85	7.0%	-6.5%	-18.2%
Agency Debt	10 Year Bullet Agency	97.35	9.4	1.0	9.7	1.16	<b>1.16</b>	1.16	9.9%	-9.0%	-24.4%
Agency Debt	5YNC1Y Bermudan Callable	100.00	2.8	-4.2	2.7	0.60	<b>0.60</b>	0.60	1.5%	-4.1%	-12.9%
Agency Debt	7YNC2Y Bermudan Callable	100.00	4.6	-2.4	4.4	0.84	<b>0.84</b>	0.84	3.4%	-5.5%	-17.1%
Agency Debt	10YNC2Y Bermudan Callable	100.00	5.7	-3.1	5.3	1.30	<b>1.30</b>	1.30	4.1%	-6.8%	-21.8%
Agency MBS	10 Year 1.5% MBS	102.64	2.5	-1.9	3.4	0.14	<b>0.67</b>	0.78	1.6%	-3.2%	-10.6%
Agency MBS	15 Year 1.5% MBS	102.30	3.2	-2.6	4.4	0.23	<b>0.94</b>	1.07	1.9%	-4.3%	-15.0%
Agency MBS	20 Year 1.5% MBS	101.41	4.4	-3.0	6.1	0.85	<b>1.24</b>	1.29	2.8%	-5.6%	-18.6%
Agency MBS	30 Year 1.5% MBS	100.78	5.9	-3.8	9.0	1.21	<b>1.40</b>	1.41	3.8%	-7.4%	-24.1%
Hybrid ARM	Short-Reset Hybrid ARM	105.38	0.1	-0.3	4.4	-0.27	<b>0.74</b>	1.66	-0.1%	-0.4%	-1.9%
Hybrid ARM	Hybrid ARM - 75-90MTR	105.09	-0.0	-0.8	2.6	-0.40	<b>0.95</b>	1.80	0.1%	-1.1%	-7.7%
Hybrid ARM	Hybrid ARM - >100MTR	104.06	2.5	-2.8	4.3	0.15	<b>0.99</b>	1.38	1.5%	-3.7%	-13.7%
Agency CMO	Short CMO (1.50% xPAC x 30Y 3.5s)	101.70	3.0	-2.6	2.7	0.43	<b>0.82</b>	1.14	2.1%	-4.3%	-18.5%
Agency CMO	Mid CMO (1.25% PT \$125k Max 20Y 3s)	101.38	4.3	-2.1	4.6	0.76	<b>0.92</b>	1.00	3.3%	-5.0%	-16.5%
Agency CMO	Long CMO (1.50% PAC x \$110k Max 30Y 4s)	102.69	5.1	-0.6	6.8	0.93	<b>1.07</b>	1.07	4.9%	-5.4%	-16.3%
Agency CMO	Long CMO (2.0% PAC x 30Y Jumbo 2s)	102.31	2.4	-4.3	4.4	-1.24	<b>1.43</b>	1.61	0.2%	-4.4%	-17.3%
Agency CMO	Floating CMO	100.56	0.8	2.4	4.6	0.24	<b>0.41</b>	1.41	1.8%	-0.3%	-0.7%
Agency CMBS	3 Year Agency CMBS	108.33	3.3	0.1	3.4	0.59	<b>0.59</b>	0.59	3.3%	-3.2%	-9.2%
Agency CMBS	5 Year Agency CMBS	108.06	5.0	0.3	5.3	0.89	<b>0.89</b>	0.89	5.2%	-4.9%	-13.8%
Agency CMBS	7 Year Agency CMBS	113.97	6.2	0.4	6.8	1.04	<b>1.04</b>	1.04	6.4%	-6.0%	-16.7%
Agency CMBS	10 Year Agency CMBS	102.20	9.2	0.9	9.8	1.25	<b>1.25</b>	1.25	9.5%	-8.6%	-23.5%
Agency CMBS	FRESB 5 Year Hybrid	100.44	3.9	0.2	4.0	0.70	<b>0.70</b>	0.70	4.0%	-3.8%	-10.9%
Agency CMBS	FRESB 7 Year Hybrid	100.63	5.0	0.3	5.2	0.98	<b>0.98</b>	0.98	5.2%	-4.9%	-13.7%
Agency CMBS	FRESB 10 Year Hybrid	99.39	6.8	0.7	7.1	1.20	<b>1.20</b>	1.21	7.1%	-6.4%	-17.7%
Agency CMBS	GNMA Project Loan	104.47	4.2	0.3	4.4	0.78	<b>1.42</b>	1.71	2.7%	-5.4%	-20.4%
SBA Floater	Floating Rate SBA	108.25	0.7	0.2	6.6	0.06	<b>0.96</b>	1.85	0.8%	-0.6%	-1.7%
Municipal	10 Year GM Muni (AA GO, 4% Cpn)	126.21	8.4	0.8	9.6	1.23	<b>1.23</b>	1.23	8.7%	-8.0%	-22.2%
Municipal	15 Year GM Muni (AA GO, 4% Cpn)	123.03	9.3	0.4	10.7	1.65	<b>1.65</b>	1.65	9.5%	-9.2%	-26.2%
Municipal	20 Year GM Muni (AA GO, 4% Cpn)	121.20	9.9	-0.0	11.9	1.87	<b>1.87</b>	1.87	9.9%	-9.9%	-28.2%
Municipal	10 Year TXBL Muni (AA GO)	97.90	9.3	1.0	10.0	1.73	<b>1.73</b>	1.73	9.8%	-8.9%	-24.1%
Municipal	15 Year TXBL Muni (AA GO)	97.60	11.9	1.1	12.9	2.22	<b>2.14</b>	2.14	12.3%	-11.5%	-30.9%
Municipal	20 Year TXBL Muni (AA GO)	101.87	12.7	0.1	14.7	2.57	<b>2.57</b>	2.63	12.8%	-12.3%	-33.3%
Corporate	5 Year Financial Corporate (A)	105.14	4.3	0.2	4.4	0.90	<b>0.90</b>	0.90	4.4%	-4.2%	-11.9%
Corporate	8 Year Financial Corporate (A)	105.07	6.1	0.4	6.6	1.37	<b>1.37</b>	1.37	6.4%	-5.9%	-16.7%
Corporate	10 Year Financial Corporate (A)	106.77	8.5	0.8	9.4	1.74	<b>1.74</b>	1.74	8.9%	-8.1%	-22.3%
Corporate	Community Bank Sub Debt (BBB)	100.00	4.4	-0.0	5.0	4.00	<b>4.00</b>	4.00	4.3%	-4.3%	-12.2%
Municipal + Swap (Deferred)	11NC10yr Taxable Muni - In 3y for 7y	103.72	9.5	0.9	9.8	1.76	<b>1.76</b>	1.78	2.3%	-2.7%	-7.9%
ACMBS + Swap (Deferred)	New Issue 15yr K - In 3y for 10y	99.86	12.8	1.8	14.3	1.72	<b>1.72</b>	1.72	2.7%	-2.7%	-7.4%

# Cash Deploy Summary

- The following analysis for Sample Bank shows the impact of three \$100M Cash Deployment strategies with varying goals and constraints
- The strategies assume cash is earning 0.10%, and that the Sample Bank can deploy that cash into a basket of securities
- Securities options include MBS, Hybrid ARMs, CMOs, CMBS, SBAs, Municipals, Corporates and Swapped Municipals/CMBS
- The following goals and constraints were used in solving for the optimal asset mix:

<b>Strategy 1:</b>	<p><b>“Short Allocation”:</b> \$100M Cash Deploy, Maximize Spread, Limit +300 Price Volatility to -12.0%</p> <p><b>Result: Spread of 1.43% on cash vs. purchases (yielding 1.53%)</b></p>
<b>Strategy 2:</b>	<p><b>“Long Allocation”:</b> \$100M Cash Deploy, Maximize Spread, Limit +300 Price Volatility to -20.0%</p> <p><b>Result: Spread of 1.78% on cash vs. purchases (yielding 1.88%)</b></p>
<b>Strategy 3:</b>	<p><b>“More Spread, Less Volatility”:</b> \$100M Cash Deploy, Minimize +300 Price Volatility, Achieve the Same Spread on cash as the Long Allocation (1.78%), Allow for the use of swapped municipals and swapped CMBS products</p> <p><b>Result: Spread of 1.78% (Matches Long Alloc.), +300 Price Volatility of -12.1% (Matches Short Alloc.)</b></p>

- The majority of the securities were selected to represent an array of bonds that provide a tradeoff between base case yield, diversification and price volatility

(1) Assumes Cash Earns 0.10%

(2) Securities pricing provided by Stifel Fixed Income Proprietary Pricing matrix as of 11/10/2020 and may not represent executable levels

(3) Analytics provided by Bloomberg, The Yield Book, and ZM Financial

# Cash Deploy Allocations

- Below are the allocation percentages for the three strategies

Securities Purchases											Allocation			
Type	SubSector	Price	Duration	Cvx	WAL	0-12mo Yield			Price Volatility			Strategy 1	Strategy 2	Strategy 3
						-100	Base	+100	-100	+100	+300			
Agency Debt	2 Year Bullet Agency	100.03	1.9	0.0	1.9	0.14	0.14	0.14	1.9%	-1.9%	-5.5%	0%	0%	0%
Agency Debt	3 Year Bullet Agency	99.86	3.0	0.1	3.0	0.27	0.27	0.27	3.0%	-2.9%	-8.5%	0%	0%	0%
Agency Debt	5 Year Bullet Agency	109.71	4.7	0.3	5.0	0.54	0.54	0.54	4.9%	-4.6%	-13.2%	0%	0%	0%
Agency Debt	7 Year Bullet Agency	99.33	6.8	0.5	6.9	0.85	0.85	0.85	7.0%	-6.5%	-18.2%	0%	0%	0%
Agency Debt	10 Year Bullet Agency	97.35	9.4	1.0	9.7	1.16	1.16	1.16	9.9%	-9.0%	-24.4%	0%	0%	0%
Agency Debt	5YNC1Y Bermudan Callable	100.00	2.8	-4.2	2.7	0.60	0.60	0.60	1.5%	-4.1%	-12.9%	0%	0%	0%
Agency Debt	7YNC2Y Bermudan Callable	100.00	4.6	-2.4	4.4	0.84	0.84	0.84	3.4%	-5.5%	-17.1%	0%	0%	0%
Agency Debt	10YNC2Y Bermudan Callable	100.00	5.7	-3.1	5.3	1.30	1.30	1.30	4.1%	-6.8%	-21.8%	0%	0%	0%
Agency MBS	10 Year 1.5% MBS	102.64	2.5	-1.9	3.4	0.14	0.67	0.78	1.6%	-3.2%	-10.6%	0%	0%	0%
Agency MBS	15 Year 1.5% MBS	102.30	3.2	-2.6	4.4	0.23	0.94	1.07	1.9%	-4.3%	-15.0%	0%	0%	0%
Agency MBS	20 Year 1.5% MBS	101.41	4.4	-3.0	6.1	0.85	1.24	1.29	2.8%	-5.6%	-18.6%	0%	0%	0%
Agency MBS	30 Year 1.5% MBS	100.78	5.9	-3.8	9.0	1.21	1.40	1.41	3.8%	-7.4%	-24.1%	0%	5%	0%
Hybrid ARM	Short-Reset Hybrid ARM	105.38	0.1	-0.3	4.4	-0.27	0.74	1.66	-0.1%	-0.4%	-1.9%	20%	0%	16%
Hybrid ARM	Hybrid ARM - 75-90MTR	105.09	-0.0	-0.8	2.6	-0.40	0.95	1.80	0.1%	-1.1%	-7.7%	10%	5%	0%
Hybrid ARM	Hybrid ARM - >100MTR	104.06	2.5	-2.8	4.3	0.15	0.99	1.38	1.5%	-3.7%	-13.7%	0%	0%	0%
Agency CMO	Short CMO (1.50% xPAC x 30Y 3.5s)	101.70	3.0	-2.6	2.7	0.43	0.82	1.14	2.1%	-4.3%	-18.5%	0%	0%	0%
Agency CMO	Mid CMO (1.25% PT \$125k Max 20Y 3s)	101.38	4.3	-2.1	4.6	0.76	0.92	1.00	3.3%	-5.0%	-16.5%	0%	0%	0%
Agency CMO	Long CMO (1.50% PAC x \$110k Max 30Y 4s)	102.69	5.1	-0.6	6.8	0.93	1.07	1.07	4.9%	-5.4%	-16.3%	0%	0%	0%
Agency CMO	Long CMO (2.0% PAC x 30Y Jumbo 2s)	102.31	2.4	-4.3	4.4	-1.24	1.43	1.61	0.2%	-4.4%	-17.3%	15%	20%	4%
Agency CMO	Floating CMO	100.56	0.8	2.4	4.6	0.24	0.41	1.41	1.8%	-0.3%	-0.7%	15%	0%	0%
Agency CMBS	3 Year Agency CMBS	108.33	3.3	0.1	3.4	0.59	0.59	0.59	3.3%	-3.2%	-9.2%	0%	0%	0%
Agency CMBS	5 Year Agency CMBS	108.06	5.0	0.3	5.3	0.89	0.89	0.89	5.2%	-4.9%	-13.8%	0%	0%	0%
Agency CMBS	7 Year Agency CMBS	113.97	6.2	0.4	6.8	1.04	1.04	1.04	6.4%	-6.0%	-16.7%	0%	0%	0%
Agency CMBS	10 Year Agency CMBS	102.20	9.2	0.9	9.8	1.25	1.25	1.25	9.5%	-8.6%	-23.5%	0%	0%	0%
Agency CMBS	FRESB 5 Year Hybrid	100.44	3.9	0.2	4.0	0.70	0.70	0.70	4.0%	-3.8%	-10.9%	0%	0%	0%
Agency CMBS	FRESB 7 Year Hybrid	100.63	5.0	0.3	5.2	0.98	0.98	0.98	5.2%	-4.9%	-13.7%	0%	0%	0%
Agency CMBS	FRESB 10 Year Hybrid	99.39	6.8	0.7	7.1	1.20	1.20	1.21	7.1%	-6.4%	-17.7%	0%	0%	0%
Agency CMBS	GNMA Project Loan	104.47	4.2	0.3	4.4	0.78	1.42	1.71	2.7%	-5.4%	-20.4%	0%	20%	0%
SBA Floater	Floating Rate SBA	108.25	0.7	0.2	6.6	0.06	0.96	1.85	0.8%	-0.6%	-1.7%	10%	10%	10%
Municipal	10 Year GM Muni (AA GO, 4% Cpn)	126.21	8.4	0.8	9.6	1.23	1.23	1.23	8.7%	-8.0%	-22.2%	0%	0%	0%
Municipal	15 Year GM Muni (AA GO, 4% Cpn)	123.03	9.3	0.4	10.7	1.65	1.65	1.65	9.5%	-9.2%	-26.2%	0%	0%	0%
Municipal	20 Year GM Muni (AA GO, 4% Cpn)	121.20	9.9	-0.0	11.9	1.87	1.87	1.87	9.9%	-9.9%	-28.2%	0%	10%	0%
Municipal	10 Year TXBL Muni (AA GO)	97.90	9.3	1.0	10.0	1.73	1.73	1.73	9.8%	-8.9%	-24.1%	0%	0%	0%
Municipal	15 Year TXBL Muni (AA GO)	97.60	11.9	1.1	12.9	2.22	2.14	2.14	12.3%	-11.5%	-30.9%	0%	0%	0%
Municipal	20 Year TXBL Muni (AA GO)	101.87	12.7	0.1	14.7	2.57	2.57	2.63	12.8%	-12.3%	-33.3%	20%	20%	20%
Corporate	5 Year Financial Corporate (A)	105.14	4.3	0.2	4.4	0.90	0.90	0.90	4.4%	-4.2%	-11.9%	0%	0%	0%
Corporate	8 Year Financial Corporate (A)	105.07	6.1	0.4	6.6	1.37	1.37	1.37	6.4%	-5.9%	-16.7%	0%	0%	0%
Corporate	10 Year Financial Corporate (A)	106.77	8.5	0.8	9.4	1.74	1.74	1.74	8.9%	-8.1%	-22.3%	0%	0%	0%
Corporate	Community Bank Sub Debt (BBB)	100.00	4.4	-0.0	5.0	4.00	4.00	4.00	4.3%	-4.3%	-12.2%	10%	10%	10%
Municipal + Swap (Deferred)	11NC10yr Taxable Muni - In 3y for 7y	103.72	9.5	0.9	9.8	1.76	1.76	1.78	2.3%	-2.7%	-7.9%	0%	0%	20%
ACMBS + Swap (Deferred)	New Issue 15yr K - In 3y for 10y	99.86	12.8	1.8	14.3	1.72	1.72	1.72	2.7%	-2.7%	-7.4%	0%	0%	20%
Strategy 1 Purch.		103.22	3.6	-0.4	6.6	0.67	1.53	2.08	3.4%	-3.9%	-12.0%			
Strategy 2 Purch.		104.97	5.7	-1.0	7.7	1.05	1.88	2.12	4.8%	-6.3%	-20.0%			
Strategy 3 Purch.		102.87	7.6	0.4	9.8	1.52	1.88	2.14	4.1%	-4.3%	-12.1%			

# Cash Deploy Allocations - Consolidated

- The grid below consolidates the Funding & Securities Universe to only those line items that were chosen within the model for any of the three strategies

Funding												
Type	Maturity	Price	Duration	Cvx	WAL	0-12mo Cost (%)			Price Volatility			
						-100	Base	+100	-100	+100	+300	
Cash	11/10/2020	100.00	0.0	0.0	0.0	-0.90	<b>0.10</b>	1.10	0.0%	0.0%	0.0%	

Allocation		
Strategy 1	Strategy 2	Strategy 3
100%	100%	100%

Strategy 1 Funding	11/10/2020	100.00	0.0	0.0	0.0	-0.90	0.10	1.10	0.0%	0.0%	0.0%
Strategy 2 Funding	11/10/2020	100.00	0.0	0.0	0.0	-0.90	0.10	1.10	0.0%	0.0%	0.0%
Strategy 3 Funding	11/10/2020	100.00	0.0	0.0	0.0	-0.90	0.10	1.10	0.0%	0.0%	0.0%

Securities Purchases												
Type	SubSector	Price	Duration	Cvx	WAL	0-12mo Yield			Price Volatility			
						-100	Base	+100	-100	+100	+300	
Agency MBS	30 Year 1.5% MBS	100.78	5.9	-3.8	9.0	1.21	<b>1.40</b>	1.41	3.8%	-7.4%	-24.1%	
Hybrid ARM	Short-Reset Hybrid ARM	105.38	0.1	-0.3	4.4	-0.27	<b>0.74</b>	1.66	-0.1%	-0.4%	-1.9%	
Hybrid ARM	Hybrid ARM - 75-90MTR	105.09	-0.0	-0.8	2.6	-0.40	<b>0.95</b>	1.80	0.1%	-1.1%	-7.7%	
Agency CMO	Long CMO (2.0% PAC x 30Y Jumbo 2s)	102.31	2.4	-4.3	4.4	-1.24	<b>1.43</b>	1.61	0.2%	-4.4%	-17.3%	
Agency CMO	Floating CMO	100.56	0.8	2.4	4.6	0.24	<b>0.41</b>	1.41	1.8%	-0.3%	-0.7%	
Agency CMBS	GNMA Project Loan	104.47	4.2	0.3	4.4	0.78	<b>1.42</b>	1.71	2.7%	-5.4%	-20.4%	
SBA Floater	Floating Rate SBA	108.25	0.7	0.2	6.6	0.06	<b>0.96</b>	1.85	0.8%	-0.6%	-1.7%	
Municipal	20 Year GM Muni (AA GO, 4% Cpn)	121.20	9.9	-0.0	11.9	1.87	<b>1.87</b>	1.87	9.9%	-9.9%	-28.2%	
Municipal	20 Year TXBL Muni (AA GO)	101.87	12.7	0.1	14.7	2.57	<b>2.57</b>	2.63	12.8%	-12.3%	-33.3%	
Corporate	Community Bank Sub Debt (BBB)	100.00	4.4	-0.0	5.0	4.00	<b>4.00</b>	4.00	4.3%	-4.3%	-12.2%	
Municipal + Swap (Deferred)	11NC10yr Taxable Muni - In 3y for 7y	103.72	9.5	0.9	9.8	1.76	<b>1.76</b>	1.78	2.3%	-2.7%	-7.9%	
ACMBS + Swap (Deferred)	New Issue 15yr K - In 3y for 10y	99.86	12.8	1.8	14.3	1.72	<b>1.72</b>	1.72	2.7%	-2.7%	-7.4%	

Allocation		
Strategy 1	Strategy 2	Strategy 3
0%	5%	0%
20%	0%	16%
10%	5%	0%
15%	20%	4%
15%	0%	0%
0%	20%	0%
10%	10%	10%
0%	10%	0%
20%	20%	20%
10%	10%	10%
0%	0%	20%
0%	0%	20%

Strategy 1 Purch.	103.22	3.6	-0.4	6.6	0.67	<b>1.53</b>	2.08	3.4%	-3.9%	-12.0%
Strategy 2 Purch.	104.97	5.7	-1.0	7.7	1.05	<b>1.88</b>	2.12	4.8%	-6.3%	-20.0%
Strategy 3 Purch.	102.87	7.6	0.4	9.8	1.52	<b>1.88</b>	2.14	4.1%	-4.3%	-12.1%

Difference	3.22	3.6	-0.4	6.6	1.57	1.43	0.98	3.4%	-3.9%	-12.0%
Difference	4.97	5.7	-1.0	7.7	1.95	1.78	1.02	4.8%	-6.3%	-20.0%
Difference	2.87	7.6	0.4	9.8	2.42	1.78	1.04	4.1%	-4.3%	-12.1%

# Summary Comparison

The grid describes cash deploy strategies with various goals and constraints

- The “Short Allocation” achieves a spread of 1.43% with an +300 Price Volatility of -12%
- The “Long Allocation” achieves a spread of 1.78% with an +300 Price Volatility of -20% →
- The “More Spread, Less Volatility” scenario achieves the same spread of 1.78% but reduces +300 Price Volatility to -12.1% through the use of swapped municipals and swapped CMBS →

Descriptions	Beginning Data	Strategy 1		Strategy 2		Strategy 3	
		Pro Forma	Change	Pro Forma	Change	Pro Forma	Change
		<b>Short Allocation</b> \$100M Cash Deploy Maximize Spread +300 Px Vol > -12%		<b>Long Allocation</b> \$100M Cash Deploy Maximize Spread +300 Px Vol > -20%		<b>More Spread, Less Volatility</b> \$100M Cash Deploy Minimize +300 Px Vol Spread = 1.78% Allow for Swapped Muni/CMBS	
<b>Asset Purchases</b>		<b>100,000</b>		<b>100,000</b>		<b>100,000</b>	
Securities Yield		1.53%		1.88%		1.88%	
WAL		6.6		7.7		9.8	
Duration		3.6		5.7		7.6	
+300 Price Vol.		(12.0%)		(20.0%)		(12.1%)	
<b>Cash Balance</b>		<b>100,000</b>		<b>100,000</b>		<b>100,000</b>	
Cash Yield		0.10%		0.10%		0.10%	
<b>Net Interest Spread</b>		<b>1.43%</b>		<b>1.78%</b>		<b>1.78%</b>	
<b>0-12 Month NII</b>		\$	Spread	\$	Spread	\$	Spread
-100 0-12 Mo. NII		1,565	1.57%	1,953	1.95%	2,420	2.42%
Base 0-12 Mo. NII		1,432	1.43%	1,781	1.78%	1,779	1.78%
+100 0-12 Mo. NII		978	0.98%	1,021	1.02%	1,041	1.04%
<b>Impact On EVE</b>		\$	%Δ	\$	%Δ	\$	%Δ
-100 EVE		3,369	3.4%	4,847	4.8%	4,076	4.1%
+100 EVE		(3,888)	(3.9%)	(6,325)	(6.3%)	(4,276)	(4.3%)
<b>+300 EVE</b>		<b>(12,000)</b>	<b>(12.0%)</b>	<b>(20,000)</b>	<b>(20.0%)</b>	<b>(12,101)</b>	<b>(12.1%)</b>
<b>Key Impacts</b>			%Δ		%Δ		%Δ
Leverage	8.40%	8.40%	0.00%	8.40%	0.00%	8.40%	0.00%
Tot RB Capital	14.51%	14.40%	(0.11%)	14.41%	(0.10%)	14.40%	(0.11%)
TCE/TA	6.67%	6.67%	0.00%	6.67%	0.00%	6.67%	0.00%
NIM	3.55%	3.59%	0.04%	3.60%	0.05%	3.60%	0.05%
ROA	0.87%	0.90%	0.03%	0.91%	0.03%	0.91%	0.03%
ROE	10.96%	11.31%	0.35%	11.40%	0.44%	11.40%	0.44%
EPS	2.11	2.17	0.07	2.19	0.08	2.19	0.08

(1) Securities pricing provided by Stifel Fixed Income Proprietary Pricing matrix as of 11/10/2020 and may not represent executable levels  
(2) Analytics provided by Bloomberg, The Yield Book, and ZM Financial

# Cash Deploy Sensitivity Table: Changing Notional Amount

- The following sensitivity table shows the impacts to earnings and capital when increasing the size of the cash deploy.
- Every \$25M of cash deployed results in \$0.017 increase to EPS in Strategy 1, assuming a spread of 1.43% over cash and results in \$0.021 increase in EPS in Strategies 2 and 3, assuming a 1.78% spread over cash.
- While the strategies dilute Total Risk Based Capital ratio with the addition of earning assets that carry risk weight, all earnings metrics are significantly improved with the deployment of cash into a basket of securities.

		Beginning Data					
		Capital & Earnings Metrics					
		Leverage	TRBC	NIM	ROA	ROE	EPS
Beginning		8.40%	14.51%	3.55%	0.87%	10.96%	2.11
		Strategy 1					
		Base Capital & Earnings Metrics					
		Leverage	TRBC	NIM	ROA	ROE	EPS
25,000		8.40%	14.48%	3.56%	0.88%	11.05%	2.12
50,000		8.40%	14.45%	3.57%	0.88%	11.14%	2.14
75,000		8.40%	14.42%	3.58%	0.89%	11.22%	2.16
100,000		8.40%	14.40%	3.59%	0.90%	11.31%	2.17
125,000		8.40%	14.37%	3.60%	0.91%	11.40%	2.19
150,000		8.40%	14.34%	3.61%	0.91%	11.49%	2.21
175,000		8.40%	14.31%	3.62%	0.92%	11.57%	2.22
200,000		8.40%	14.28%	3.63%	0.93%	11.66%	2.24
		Strategy 1					
		Difference from Beginning Metrics					
		Leverage	TRBC	NIM	ROA	ROE	EPS
		-	(0.03)%	0.01%	0.01%	0.09%	0.02
		-	(0.06)%	0.02%	0.01%	0.18%	0.03
		-	(0.09)%	0.03%	0.02%	0.26%	0.05
		-	(0.11)%	0.04%	0.03%	0.35%	0.07
		-	(0.14)%	0.05%	0.03%	0.44%	0.08
		-	(0.17)%	0.06%	0.04%	0.53%	0.10
		-	(0.20)%	0.07%	0.05%	0.61%	0.12
		-	(0.23)%	0.08%	0.06%	0.70%	0.13
		Strategy 2					
		Base Capital & Earnings Metrics					
		Leverage	TRBC	NIM	ROA	ROE	EPS
25,000		8.40%	14.49%	3.56%	0.88%	11.07%	2.13
50,000		8.40%	14.46%	3.58%	0.89%	11.18%	2.15
75,000		8.40%	14.44%	3.59%	0.90%	11.29%	2.17
100,000		8.40%	14.41%	3.60%	0.91%	11.40%	2.19
125,000		8.40%	14.39%	3.61%	0.91%	11.51%	2.21
150,000		8.40%	14.36%	3.63%	0.92%	11.61%	2.23
175,000		8.40%	14.34%	3.64%	0.93%	11.72%	2.25
200,000		8.40%	14.32%	3.65%	0.94%	11.83%	2.27
		Strategy 2					
		Difference from Beginning Metrics					
		Leverage	TRBC	NIM	ROA	ROE	EPS
		-	(0.02)%	0.01%	0.01%	0.11%	0.02
		-	(0.05)%	0.03%	0.02%	0.22%	0.04
		-	(0.07)%	0.04%	0.03%	0.33%	0.06
		-	(0.10)%	0.05%	0.03%	0.44%	0.08
		-	(0.12)%	0.06%	0.04%	0.55%	0.10
		-	(0.15)%	0.08%	0.05%	0.65%	0.13
		-	(0.17)%	0.09%	0.06%	0.76%	0.15
		-	(0.19)%	0.10%	0.07%	0.87%	0.17
		Strategy 3					
		Base Capital & Earnings Metrics					
		Leverage	TRBC	NIM	ROA	ROE	EPS
25,000		8.40%	14.48%	3.56%	0.88%	11.07%	2.13
50,000		8.40%	14.45%	3.58%	0.89%	11.18%	2.15
75,000		8.40%	14.42%	3.59%	0.90%	11.29%	2.17
100,000		8.40%	14.40%	3.60%	0.91%	11.40%	2.19
125,000		8.40%	14.37%	3.61%	0.91%	11.51%	2.21
150,000		8.40%	14.34%	3.63%	0.92%	11.61%	2.23
175,000		8.40%	14.31%	3.64%	0.93%	11.72%	2.25
200,000		8.40%	14.28%	3.65%	0.94%	11.83%	2.27
		Strategy 3					
		Difference from Beginning Metrics					
		Leverage	TRBC	NIM	ROA	ROE	EPS
		-	(0.03)%	0.01%	0.01%	0.11%	0.02
		-	(0.06)%	0.03%	0.02%	0.22%	0.04
		-	(0.09)%	0.04%	0.03%	0.33%	0.06
		-	(0.11)%	0.05%	0.03%	0.44%	0.08
		-	(0.14)%	0.06%	0.04%	0.54%	0.10
		-	(0.17)%	0.08%	0.05%	0.65%	0.13
		-	(0.20)%	0.09%	0.06%	0.76%	0.15
		-	(0.23)%	0.10%	0.07%	0.87%	0.17

(1) Securities pricing provided by Stifel Fixed Income Proprietary Pricing matrix as of 11/10/2020 and may not represent executable levels

(2) Analytics provided by Bloomberg, The Yield Book, and ZM Financial

- Excess Liquidity
  - State of PPP
  - Investment Universe Review
  - Cash Deploy
  - ***Deleverage Considerations***
  - Portfolio Restructuring
  - Hedging Application
  - Loan Market Update
-



## *Deleverage Scenarios*

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# Beginning Securities Portfolio & Funding Analysis

- Sample Bank's securities portfolio pricing for this analysis was provided by Stifel's proprietary pricing matrix as of 10/15/2020 and may not represent executable levels. A sector summary of the securities portfolio is provided below as of 10/15/2020:

Asset Summary - Beginning Portfolio								
Category	Current Face	Book Price	Market Price	Book Yield	WAL	Eff		Gain / Loss
						Dur	Cvx.	
Treasury/Agency	3,000,000	100.00	98.12	2.94	0.9	0.9	0.0	(56,423)
MBS Fixed	50,720,404	100.31	103.85	2.88	2.8	1.1	(1.1)	1,793,169
ARM	6,827,337	101.42	102.35	1.72	3.3	0.4	(0.1)	64,032
CMO Fixed	7,950,395	100.24	99.81	1.92	3.1	1.6	(0.0)	(34,136)
Agency CMBS	4,544,968	99.41	103.02	3.28	3.0	2.9	0.2	164,121
Small Business	3,056,753	100.74	105.42	2.61	5.3	4.6	1.1	143,329
Municipal	44,470,000	100.55	108.20	3.22	5.9	5.6	0.4	3,402,728
Corporate	68,505,000	100.14	100.12	2.75	3.3	2.0	0.5	(16,007)
CD	250,000	100.00	97.03	3.97	9.2	6.9	1.1	(7,422)
<b>Total</b>	<b>189,324,858</b>	<b>100.32</b>	<b>103.20</b>	<b>2.84</b>	<b>3.8</b>	<b>2.6</b>	<b>0.0</b>	<b>5,453,390</b>

- Sample Bank has \$38M in pay fixed swaps outstanding. The weighted average rate of the swaps is 2.23%, as shown below, with a unrealized loss of \$1.3M. A summary of funding and estimated prepayment penalties is provided below:

Liability Summary - Beginning Portfolio						
Category	Par Amount	Rate	Unwind Price	Maturity	Flat Dur.	Gain / Loss
0-3 Month	4,187,500	1.94	100.22	11/23/2020	0.1	(9,281)
3-6 Month	1,000,000	2.70	101.22	3/29/2021	0.5	(12,222)
6-9 Month	1,000,000	1.94	101.37	7/12/2021	0.7	(13,727)
9 Mo - 1 Year	3,496,000	1.88	101.51	8/22/2021	0.8	(52,810)
1 Year - 18 Mo	4,740,000	2.79	103.12	12/22/2021	1.2	(148,118)
18 Mo - 2 Year	11,340,600	2.03	103.31	7/27/2022	1.8	(375,388)
2 Year - 3 Year	10,325,250	2.49	105.31	2/17/2023	2.3	(548,548)
3 Year - 4 Year	2,037,000	1.86	105.58	8/1/2024	3.7	(113,603)
<b>Total</b>	<b>38,126,350</b>	<b>2.23</b>	<b>103.34</b>	<b>6/4/2022</b>	<b>1.6</b>	<b>(1,273,697)</b>

(1) Book Prices and Funding Data provided by Sample Bank as of 9/30/2020, Beginning Data provided by SNL as of 6/30/2020 LTM  
(2) Market Prices provided by Stifel's Fixed Income Proprietary Pricing Matrix as of 10/15/2020 and may not represent executable levels  
(3) Funding analysis provided by Stifel as of 10/15/2020 and may not represent executable levels

# Summary of Strategies

	Beginning Data	Use Cash						No Cash					
		Strategy 1		Strategy 2		Strategy 3		Strategy 4		Strategy 5		Strategy 6	
		Pro Forma	Change	Pro Forma	Change	Pro Forma	Change	Pro Forma	Change	Pro Forma	Change	Pro Forma	Change
		<i>Maximize NII</i> <i>Gain/Loss Neutral</i>		<i>\$20M Deleverage</i> <i>Maximize NII</i> <i>Gain/Loss Neutral</i>		<i>\$10M Deleverage</i> <i>Maximize NII</i> <i>Gain/Loss Neutral</i>		<i>Maximize Deleverage</i> <i>No Cash</i> <i>Income Neutral</i>		<i>\$20M Deleverage</i> <i>No Cash</i> <i>Maximize NII</i> <i>Gain/Loss Neutral</i>		<i>\$10M Deleverage</i> <i>No Cash</i> <i>Maximize NII</i> <i>Gain/Loss Neutral</i>	
<b>Transaction Detail</b>													
Cash & Equivalents	17,795	(955)	(18,750)	4,744	(13,051)	10,857	(6,938)	17,795	-	17,795	-	17,795	-
<i>Avg Yield</i>	0.10%	0.10%		0.10%		0.10%		0.10%		0.10%		0.10%	
Portfolio Balance	189,325	179,750	(9,575)	183,385	(5,940)	186,775	(2,550)	161,161	(28,164)	171,099	(18,226)	178,955	(10,370)
<i>Avg Yield</i>	2.84%	2.80%		2.82%		2.82%		2.93%		2.92%		2.89%	
Security Sales		9,575		5,940		2,550		28,183		18,253		10,399	
<i>Avg Yield</i>		3.57%		3.51%		3.81%		2.30%		2.04%		1.93%	
Liability Prepays		28,443		19,107		9,600		28,443		18,399		10,530	
<i>Avg Cost</i>		2.31%		2.48%		2.79%		2.31%		2.66%		2.87%	
<i>Blended Asset Yield</i>		1.27%		1.17%		1.10%							
<b>Asset Yield - Liability Cost</b>		(1.04%)		(1.31%)		(1.69%)		(0.02%)		(0.62%)		(0.94%)	
<b>Impact on Earnings</b>													
Net Interest Income	37,343	37,635	292	37,591	248	37,502	159	37,350	7	37,458	115	37,442	99
<b>Net Interest Margin</b>	3.44%	3.6%	0.12%	3.52%	0.08%	3.48%	0.05%	3.53%	0.09%	3.51%	0.07%	3.48%	0.04%
Net Income	6,121	6,352	231	6,317	196	6,247	126	6,127	6	6,212	91	6,200	79
Annual. EPS	0.36	0.37	0.01	0.37	0.01	0.37	0.01	0.36	0.00	0.36	0.01	0.36	0.00
ROAA	0.52%	0.55%	0.03%	0.55%	0.03%	0.54%	0.02%	0.53%	0.01%	0.54%	0.02%	0.53%	0.01%
ROAE	5.69%	5.95%	0.27%	5.90%	0.21%	5.82%	0.13%	5.74%	0.06%	5.81%	0.12%	5.78%	0.09%
Pretax Gain / (Loss)		0		0		2		155		0		0	
After-tax Gain / (Loss)		0		0		2		123		0		0	
<b>Impact on Capital</b>													
Tier 1 Leverage	9.22%	9.45%	0.23%	9.38%	0.15%	9.30%	0.08%	9.46%	0.24%	9.37%	0.15%	9.31%	0.08%
CET1 Risk Based	10.97%	11.01%	0.04%	10.99%	0.02%	10.98%	0.01%	11.13%	0.16%	11.08%	0.11%	11.02%	0.05%
Tier 1 Risk Based	10.97%	11.01%	0.04%	10.99%	0.02%	10.98%	0.01%	11.13%	0.16%	11.08%	0.11%	11.02%	0.05%
Total Risk Based	12.01%	12.05%	0.04%	12.04%	0.03%	12.02%	0.01%	12.18%	0.17%	12.13%	0.12%	12.07%	0.06%
Tangible Equity Ratio	8.00%	8.20%	0.20%	8.13%	0.13%	8.06%	0.07%	8.19%	0.20%	8.12%	0.13%	8.07%	0.07%
TCE / TA	8.00%	8.20%	0.20%	8.13%	0.13%	8.06%	0.07%	8.19%	0.20%	8.12%	0.13%	8.07%	0.07%
Impact on -100 EVE		(91)		(86)		(41)		(410)		(336)		(174)	
Impact on +300 EVE		35		112		48		919		741		477	

- (1) Book Prices and Funding Data provided by Sample Bank as of 9/30/2020, Beginning Data provided by SNL as of 6/30/2020 LTM  
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(3) Funding analysis provided by Stifel as of 10/15/2020 and may not represent executable levels

# Strategy 2: Transaction Detail


- Strategy 2 explores the impact of a \$20M deleverage using cash and securities sales, while maximizing income pickup and remaining gain/loss neutral

## Portfolio Summary & Income Impacts

Portfolio Summary	Current Face	Book Price	Market Price	Gain / Loss	Book Yield	Avg. Life	Eff. Dur.
<b>Current Portfolio</b>	<b>189,325</b>	<b>100.32</b>	<b>103.20</b>	<b>5,453</b>	<b>2.84</b>	<b>3.8</b>	<b>2.6</b>
Security Sales	5,940	101.94	114.65	755	3.51	6.6	6.0
<b>Pro Forma Portfolio</b>	<b>183,385</b>	<b>100.27</b>	<b>102.83</b>	<b>4,698</b>	<b>2.82</b>	<b>3.7</b>	<b>2.5</b>

Liability Summary	Par Amount	Market Price	Gain / Loss	Rate	Rem. Mat.	Eff. Dur.
<b>Current Portfolio</b>	<b>38,126</b>	<b>103.34</b>	<b>(1,274)</b>	<b>2.23</b>	<b>1.6</b>	<b>1.6</b>
Liabilities Paid Off	19,107	103.95	(755)	2.48	1.7	1.7
<b>Proforma Portfolio</b>	<b>19,020</b>	<b>102.73</b>	<b>(519)</b>	<b>1.98</b>	<b>1.5</b>	<b>1.5</b>

Effect on Income (Book Values)			
	Yield	Amount	Income Change
Interest Income Given Up	3.51	6,055	(213)
Reduction in Interest Expense	2.48	19,107	474
Reinvestment Income	1.75	0	0
Income Given Up on Cash Used	0.10	13,051	(13)
Cumulative Effect on Pretax NII			248
Provision for Taxes (Assumes 21% Tax Rate)			(52)
Cumulative Effect on Net Income			196

Net Interest Margin Impact  0.08%

## Securities Sold & Liabilities Unwound

Asset Summary - Strategy Sales								
Category	Current Face	Book Price	Market Price	Book Yield	WAL	Eff		Gain / Loss
						Dur	Cvx.	
Treasury/Agency	-	-	-	-	-	-	-	-
MBS Fixed	-	-	-	-	-	-	-	-
ARM	-	-	-	-	-	-	-	-
CMO Fixed	-	-	-	-	-	-	-	-
Agency CMBS	-	-	-	-	-	-	-	-
Small Business	-	-	-	-	-	-	-	-
Municipal	5,940,000	101.94	114.65	3.51	6.6	6.0	0.4	755,081
Corporate	-	-	-	-	-	-	-	-
CD	-	-	-	-	-	-	-	-
<b>Total</b>	<b>5,940,000</b>	<b>101.94</b>	<b>114.65</b>	<b>3.51</b>	<b>6.6</b>	<b>6.0</b>	<b>0.4</b>	<b>755,081</b>

Liability Summary - Strategy Unwinds						
Category	Par Amount	Rate	Unwind Price	Maturity	Flat Dur.	Gain / Loss
0-3 Month	-	-	-	-	-	-
3-6 Month	-	-	-	-	-	-
6-9 Month	-	-	-	-	-	-
9 Mo - 1 Year	-	-	-	-	-	-
1 Year - 18 Mo	4,740,000	2.79	103.12	12/22/2021	1.2	(148,118)
18 Mo - 2 Year	9,340,600	2.14	103.44	7/12/2022	1.7	(321,598)
2 Year - 3 Year	5,026,000	2.81	105.67	12/23/2022	2.1	(285,045)
3 Year - 4 Year	-	-	-	-	-	-
<b>Total</b>	<b>19,106,600</b>	<b>2.48</b>	<b>103.95</b>	<b>7/5/2022</b>	<b>1.7</b>	<b>(754,761)</b>

(1) Book Prices and Funding Data provided by Sample Bank as of 9/30/2020, Beginning Data provided by SNL as of 6/30/2020 LTM  
 (2) Market Prices provided by Stifel's Fixed Income Proprietary Pricing Matrix as of 10/15/2020 and may not represent executable levels  
 (3) Funding analysis provided by Stifel as of 10/15/2020 and may not represent executable levels


## Strategy 5: Transaction Detail

- Strategy 5 explores the impact of a \$20M deleverage using only securities sales, while maximizing income pickup and remaining gain/loss neutral

### Portfolio Summary & Income Impacts

Portfolio Summary	Current Face	Book Price	Market Price	Gain / Loss	Book Yield	Avg. Life	Eff. Dur.
<b>Current Portfolio</b>	<b>189,325</b>	<b>100.32</b>	<b>103.20</b>	<b>5,453</b>	<b>2.84</b>	<b>3.8</b>	<b>2.6</b>
Security Sales	18,253	100.95	105.57	844	2.04	4.0	3.0
Securities Purchased	27	100.46	100.46	-	1.75	10.0	9.3
<b>Pro Forma Portfolio</b>	<b>171,099</b>	<b>100.25</b>	<b>102.95</b>	<b>4,609</b>	<b>2.92</b>	<b>3.8</b>	<b>2.6</b>

Liability Summary	Par Amount	Market Price	Gain / Loss	Rate	Rem. Mat.	Eff. Dur.
<b>Current Portfolio</b>	<b>38,126</b>	<b>103.34</b>	<b>(1,274)</b>	<b>2.23</b>	<b>1.6</b>	<b>1.6</b>
Liabilities Paid Off	18,399	104.59	(844)	2.66	1.9	1.8
<b>Proforma Portfolio</b>	<b>19,727</b>	<b>102.18</b>	<b>(429)</b>	<b>1.83</b>	<b>1.4</b>	<b>1.4</b>

Net Interest Margin Impact  0.07%

Effect on Income (Book Values)			
	Yield	Amount	Income Change
Interest Income Given Up	2.04	18,426	(376)
Reduction in Interest Expense	2.66	18,399	490
Reinvestment Income	1.75	27	0
Income Given Up on Cash Used	0.10	0	0
Cumulative Effect on Pretax NII			115
Provision for Taxes (Assumes 21% Tax Rate)			(24)
Cumulative Effect on Net Income			91

### Securities Sold & Liabilities Unwound

Asset Summary - Strategy Sales								
Category	Current Face	Book Price	Market Price	Book Yield	WAL	Eff		Gain / Loss
						Dur	Cvx.	
Treasury/Agency	-	-	-	-	-	-	-	-
MBS Fixed	1,329,570	102.92	102.42	0.99	1.6	0.5	(0.7)	(6,745)
ARM	1,079,021	102.33	102.72	1.24	3.4	0.3	0.1	4,138
CMO Fixed	539,287	101.11	100.42	0.46	0.5	(2.6)	4.4	(3,715)
Agency CMBS	-	-	-	-	-	-	-	-
Small Business	-	-	-	-	-	-	-	-
Municipal	8,805,000	101.17	111.02	3.00	6.3	5.9	0.4	866,962
Corporate	6,500,000	100.00	99.75	1.22	1.8	0.3	0.8	(16,235)
CD	-	-	-	-	-	-	-	-
<b>Total</b>	<b>18,252,878</b>	<b>100.95</b>	<b>105.57</b>	<b>2.04</b>	<b>4.0</b>	<b>3.0</b>	<b>0.6</b>	<b>844,404</b>

Liability Summary - Strategy Unwinds						
Category	Par Amount	Rate	Unwind Price	Maturity	Flat Dur.	Gain / Loss
0-3 Month	-	-	-	-	-	-
3-6 Month	-	-	-	-	-	-
6-9 Month	-	-	-	-	-	-
9 Mo - 1 Year	-	-	-	-	-	-
1 Year - 18 Mo	4,740,000	2.79	103.12	12/22/2021	1.2	(148,118)
18 Mo - 2 Year	4,915,000	2.56	103.98	6/5/2022	1.6	(195,570)
2 Year - 3 Year	8,744,000	2.65	105.73	3/2/2023	2.3	(500,701)
3 Year - 4 Year	-	-	-	-	-	-
<b>Total</b>	<b>18,399,000</b>	<b>2.66</b>	<b>104.59</b>	<b>8/30/2022</b>	<b>1.8</b>	<b>(844,389)</b>

- Book Prices and Funding Data provided by Sample Bank as of 9/30/2020, Beginning Data provided by SNL as of 6/30/2020 LTM
- Market Prices provided by Stifel's Fixed Income Proprietary Pricing Matrix as of 10/15/2020 and may not represent executable levels
- Funding analysis provided by Stifel as of 10/15/2020 and may not represent executable levels

- Excess Liquidity
  - State of PPP
  - Investment Universe Review
  - Cash Deploy
  - Deleverage Considerations
  - ***Portfolio Restructuring***
  - Hedging Application
  - Loan Market Update
-

# Faster Pre Paying 3 Month Historical Clean up

MBS Speed and Yield Report  
Date: November 2020

Description	Maturity Date	Coupon	Book Price	Market Price	Current Par (000's)	\$ Gain/Loss	WAM	Num Loan	Historical Prepayments											Life CPR Book Yield	Mtge Type	Breakeven Yield @ H3M CPR
									CPR- Curr Mth	CPR- 1mth Prev	CPR- 2mth Prev	CPR- 3mth Prev	CPR- 4mth Prev	1 Mth CPR Book Yield	3 Mth CPR Book Yield	6 Mth CPR Book Yield	12 Mth CPR Book Yield					
	10/30/2043	2.99	101.72	100.79	\$45,031,885	-\$419,785	329		52.2	50.3	41.9	38.8	32.7	0.54%	0.87%	1.24%	0.89%	1.99%		1.32%		
CMO	5/20/2047	3.50	101.93	101.34	\$4,148,853	-\$24,323	342		59.9	78.8	73.8	66.4	64.5	0.62%	-0.32%	-0.25%	0.05%	0.64%	G2JM 3.5	0.73%		
MBS	1/20/2050	3.50	103.13	101.37	\$10,062,894	-\$177,106	350	227	81.8	66.7	35.7	11.1	11.9	-1.73%	0.02%	1.49%		2.07%	G2JM	1.85%		
CMO	4/15/2043	3.50	100.89	100.59	\$1,549,561	-\$4,591	319		55.0	51.7	50.8	50.6	42.9	0.46%	0.65%	0.88%	1.60%	2.55%	FGLMC3.5	1.47%		
CMO	4/15/2043	3.50	100.89	100.59	\$2,324,341	-\$6,886	319		55.0	51.7	50.8	50.6	42.9	0.46%	0.65%	0.88%	1.60%	2.55%	FGLMC3.5	1.47%		
CMO	3/25/2045	3.50	100.80	100.84	\$2,422,052	\$1,060	322		60.2	59.0	66.3	66.3	54.2	1.23%	1.13%	1.15%	1.67%	2.58%	FNJMC3.5	1.03%		
CMO	1/25/2050	1.50	101.59	98.61	\$10,527,351	-\$313,763	344		21.1	19.8	10.2	29.4	14.3	1.07%	1.14%	1.12%		1.16%	FNCL 4.5	1.79%		
CMO	1/25/2028	3.50	101.17	102.09	\$3,128,840	\$28,903	323		53.6	61.5	62.3	66.5	54.2	1.85%	1.60%	1.55%	1.96%	2.71%	FNJMC3.5	0.36%		
CMO	3/15/2029	3.50	101.55	102.16	\$5,545,658	\$33,621	317		56.9	52.2	53.6	53.1	46.5	1.47%	1.61%	1.74%	2.24%	2.82%	FGLMC3.5	0.94%		
CMO	7/15/2042	3.25	100.47	100.66	\$3,883,930	\$7,234	309		44.9	46.9	45.8	43.6	39.2	1.69%	1.65%	1.77%	2.15%	2.69%	FGLMC3.5	1.15%		
MBS	2/1/2035	3.00	101.76	104.20	\$1,020,890	\$24,954	164	126	36.2	48.4	53.0	21.9	52.3	1.99%	1.69%	1.84%	2.12%	2.53%	FNCT	0.12%		
MBS	1/1/2044	2.38	100.00	102.66	\$417,514	\$11,112	275	17	1.9	0.6	83.0	0.3	9.8	1.82%	1.81%	1.81%	1.82%	1.82%	FNARM	0.23%		
MBS	12/1/2047	2.87	100.89	102.56	\$2,102,872	\$35,118	324	210	35.7	70.1	38.1	40.4	28.2	2.23%	2.04%	2.19%	2.25%	2.27%	FNARM	0.85%		
MBS	10/1/2037	3.50	102.15	105.28	\$1,397,199	\$43,767	199	329	46.3	43.7	34.0	41.3	26.8	1.98%	2.16%	2.30%	2.60%	2.93%	FGTW	0.39%		
MBS	5/20/2050	2.50	102.65	102.57	\$13,682,823	-\$10,540	354	2769	3.9	8.5	1.9	1.4	0.8	2.22%	2.20%			2.24%	G2JM	2.21%		
MBS	6/20/2050	2.50	102.97	102.57	\$12,835,511	-\$50,961	354	1355	4.4	1.1	0.7	0.5		2.18%	2.23%			2.24%	G2JM	2.27%		
MBS	7/1/2036	3.00	101.03	104.20	\$1,189,772	\$37,768	182	3195	47.2	40.6	35.8	37.7	31.8	2.17%	2.29%	2.35%	2.53%	2.73%	FNCT	0.48%		
MBS	1/1/2044	2.70	100.00	103.41	\$1,414,044	\$48,228	264	208	5.1	65.9	37.8	66.4	20.5	2.14%	2.31%	2.30%	2.26%	2.21%	FNARM	0.38%		
MBS	8/1/2036	3.00	101.03	104.20	\$1,216,235	\$38,608	183	3705	34.5	42.3	35.6	31.8	28.2	2.41%	2.36%	2.43%	2.56%	2.73%	FNCT	0.72%		
MBS	8/1/2033	4.00	102.44	105.61	\$1,209,021	\$38,334	147	349	36.1	35.4	53.8	41.9	34.4	2.61%	2.36%	2.39%	2.47%	2.83%	FGCI	0.44%		
MBS	11/1/2036	3.00	101.93	105.59	\$1,470,204	\$53,865	184	905	19.8	20.4	17.0	14.5	6.7	2.36%	2.37%	2.47%	2.49%	2.58%	FNCT	1.31%		
MBS	1/1/2048	2.66	100.03	103.59	\$1,466,910	\$52,165	326	33	73.6	49.3	44.1	56.6	33.0	2.36%	2.38%	2.37%	2.34%	2.28%	FNARM	-0.64%		
MBS	11/20/2047	2.00	98.62	100.37	\$2,810,638	\$49,255	323	423	37.8	44.4	41.3	29.2	28.9	2.33%	2.40%	2.29%	2.20%	2.08%	G2AT	1.39%		
CMO	7/25/2028	3.00	100.15	100.97	\$12,365,824	\$101,245	307		68.1	62.0	57.5	53.0	32.2	2.34%	2.43%	2.56%	2.72%	2.88%	FNJMCK 3	1.05%		

# Portfolio Summary – Sell Municipals to offset loss on faster paying 3MO Historical

**SAMPLE**

## Transaction Summary

	Sell Side	Buy Side	Net Change
# Securities	14	1	-13
Current Par Value	\$49,151,885	\$50,086,871	\$934,986
Market Value	\$50,212,082	\$50,212,087	\$5
Gain/Loss \$	\$208		
Gain/Loss %	0.0%		
Book Yield (Exp)	1.66%	1.97%	0.31%
Book YTW	1.66%	1.97%	0.31%
Avg. Life	2.6	10.1	7.5
Avg. Life +300	6.8	14.1	7.3
% Price Chg +300	-13.0%	-29.9%	-16.8%
Effective Duration	2.23	11.69	9.47

## Cumulative Income Difference

Scenario	-100	Base	+100
Gain/Loss	\$208	\$208	\$208
After 1 year	\$552,174	\$295,913	-\$126,011
After 2 years	\$1,293,926	\$793,465	-\$149,641
After 3 years	\$2,060,068	\$1,413,450	-\$86,502
After 4 years	\$2,842,318	\$2,059,959	\$51,456
After 5 years	\$3,636,741	\$2,722,085	\$256,368
Income Difference to			
Sell Side Avg Life	\$1,357,035	\$1,202,129	\$65,541
Months to Exhaust Gain	gain+inc	gain+inc	1

## Portfolio Impacts

	Before	After	Net Change
# Securities	184	171	-13
Current Par Value	\$1,004,415,454	\$1,005,350,440	\$934,986
Market Value	\$1,080,448,944	\$1,080,448,944	-\$1
Gain/Loss \$	\$57,113,151	\$57,112,943	-\$208
Gain/Loss %	5.6%	5.6%	0.0%
Book Yield (Exp)	3.00%	3.01%	0.02%
Book YTW	2.98%	3.00%	0.02%
Avg. Life	5.4	5.8	0.4
Avg. Life +300	7.8	8.2	0.4
% Price Chg +300	-14.4%	-15.2%	-0.8%
Effective Duration	4.41	4.85	0.44

## Resulting Portfolio Book Yield (Exp) and Price Sensitivity





# MBS Under 0.50% Breakeven Yield

MBS Speed and Yield Report  
Date: November 2020

Description	Maturity Date	Coupon	Book Price	Market Price	Current Par (000's)	\$ Gain/Loss	WAM	Num Loan	Historical Prepayments					1 Mth Book Yield	3 Mth Book Yield	6 Mth Book Yield	12 Mth Book Yield	Life CPR Book Yield	Mtge Type	Breakeven Yield @ H3M CPR	
									CPR- Curr Mth	CPR- 1mth Prev	CPR- 2mth Prev	CPR- 3mth Prev	CPR- 4mth Prev								
	9/30/2038	3.04	100.14	104.27	\$16,559,533	\$684,485	210			41.6	43.9	45.8	43.0	32.7	2.84%	2.85%	2.85%	2.85%	2.87%		0.22%
MBS	1/1/2048	2.66	100.03	103.53	\$1,466,910	\$51,285	326	33	73.6	49.3	44.1	56.6	33.0	2.36%	2.38%	2.37%	2.34%	2.28%	FNARM	-0.59%	
MBS	2/1/2035	3.00	101.76	104.24	\$1,020,890	\$25,273	164	126	36.2	48.4	53.0	21.9	52.3	1.99%	1.69%	1.84%	2.12%	2.53%	FNCT	0.10%	
MBS	9/1/2037	3.00	99.20	104.27	\$8,444,183	\$427,751	197	2035	43.9	42.7	47.0	42.5	34.3	3.47%	3.47%	3.44%	3.33%	3.20%	FGTW	0.26%	
MBS	1/1/2044	2.38	100.00	102.58	\$417,514	\$10,769	275	17	1.9	0.6	83.0	0.3	9.8	1.82%	1.81%	1.81%	1.81%	1.82%	FNARM	0.28%	
MBS	10/1/2037	3.50	102.15	105.33	\$1,397,199	\$44,422	199	329	46.3	43.7	34.0	41.3	26.8	1.98%	2.16%	2.30%	2.60%	2.93%	FGTW	0.36%	
MBS	8/1/2033	4.00	102.44	105.70	\$1,209,021	\$39,467	147	349	36.1	35.4	53.8	41.9	34.4	2.61%	2.36%	2.39%	2.47%	2.83%	FGCI	0.38%	
MBS	1/1/2044	2.70	100.00	103.35	\$1,414,044	\$47,378	264	208	5.1	65.9	37.8	66.4	20.5	2.14%	2.31%	2.30%	2.25%	2.21%	FNARM	0.41%	
MBS	7/1/2036	3.00	101.03	104.24	\$1,189,772	\$38,140	182	3195	47.2	40.6	35.8	37.7	31.8	2.17%	2.29%	2.35%	2.53%	2.73%	FNCT	0.46%	
MBS	8/1/2031	2.00	96.33	103.51	\$4,093,410	\$293,728	123	614	22.8	24.2	23.9	18.5	6.3	3.51%	3.55%	3.32%	3.17%	2.98%	FGCI	0.58%	
MBS	10/1/2031	2.00	95.82	103.52	\$13,697,689	\$1,054,123	124	834	25.8	23.1	14.6	16.5	13.5	3.83%	3.62%	3.45%	3.30%	3.09%	FNCI	0.66%	
MBS	8/1/2036	3.00	101.03	104.24	\$1,216,235	\$38,988	183	3705	34.5	42.3	35.6	31.8	28.2	2.41%	2.36%	2.43%	2.56%	2.73%	FNCT	0.71%	
MBS	12/1/2047	2.87	100.89	102.56	\$2,102,872	\$35,118	324	210	35.7	70.1	38.1	40.4	28.2	2.23%	2.04%	2.19%	2.25%	2.27%	FNARM	0.85%	
MBS	11/1/2031	2.00	96.23	103.52	\$14,632,944	\$1,066,101	126	1026	15.6	15.5	12.6	15.6	9.1	3.22%	3.19%	3.14%	3.04%	2.93%	FNCI	0.90%	
MBS	1/1/2032	2.50	97.90	103.85	\$6,317,596	\$375,863	129	9881	22.6	20.6	21.0	16.1	10.7	3.33%	3.30%	3.21%	3.14%	3.04%	FGCI	1.05%	
MBS	12/1/2031	2.50	97.90	103.70	\$10,911,314	\$633,197	127	10996	24.6	21.0	20.3	18.2	13.6	3.38%	3.32%	3.25%	3.15%	3.05%	FGCI	1.07%	
MBS	2/1/2032	2.50	97.90	103.74	\$8,590,223	\$501,925	130	8867	23.6	20.4	20.2	14.8	11.6	3.35%	3.30%	3.20%	3.13%	3.03%	FGCI	1.09%	
MBS	2/1/2032	3.00	99.84	105.44	\$2,795,877	\$156,499	128	297	17.0	17.7	20.2	5.9	17.1	3.01%	3.01%	3.01%	3.01%	3.01%	FNCI	1.13%	
MBS	2/1/2032	2.50	98.00	103.86	\$8,551,788	\$500,859	130	3324	21.5	20.8	14.6	12.9	13.1	3.22%	3.18%	3.12%	3.06%	2.99%	FNCI	1.14%	

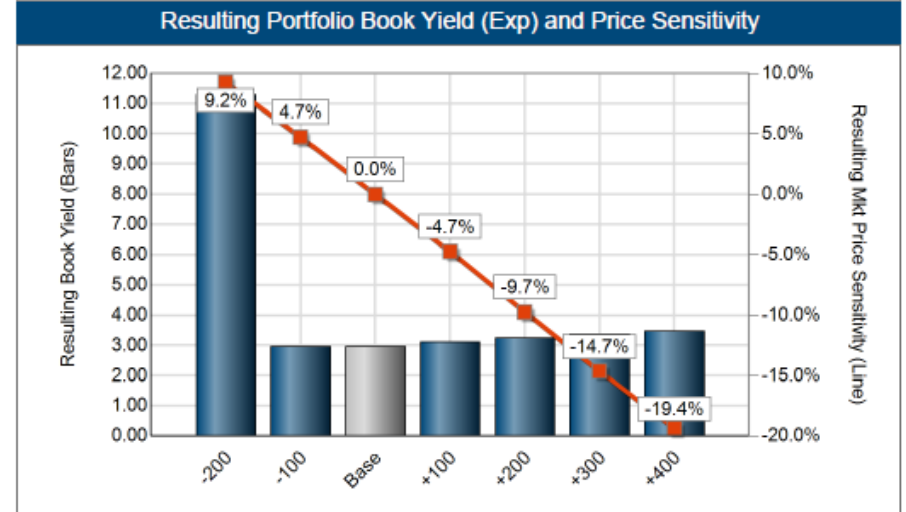
# Portfolio Summary – Reinvest proceeds into high yielding long municipal

**SAMPLE**

Transaction Summary			
	Sell Side	Buy Side	Net Change
# Securities	8	1	-7
Current Par Value	\$16,559,533	\$17,198,621	\$639,089
Market Value	\$17,266,857	\$17,241,618	-\$25,240
Gain/Loss \$	\$684,680		
Gain/Loss %	4.1%		
Book Yield (Exp)	2.86%	1.97%	-0.89%
Book YTW	2.86%	1.97%	-0.89%
Avg. Life	3.1	10.1	7.0
Avg. Life +300	5.3	14.1	8.7
% Price Chg +300	-9.2%	-29.9%	-20.7%
Effective Duration	1.15	11.71	10.56

Cumulative Income Difference			
Scenario	-100	Base	+100
Gain/Loss	\$684,680	\$684,680	\$684,680
After 1 year	\$681,287	\$633,966	\$569,315
After 2 years	\$842,972	\$698,163	\$508,518
After 3 years	\$1,069,237	\$827,149	\$478,820
After 4 years	\$1,327,685	\$995,337	\$478,107
Income Difference to			
Sell Side Avg Life	\$877,253	\$866,019	\$486,841
Months to Exhaust Gain	gain+inc	gain+inc	n/a

Portfolio Impacts			
	Before	After	Net Change
# Securities	184	177	-7
Current Par Value	\$1,004,415,454	\$1,005,054,542	\$639,089
Market Value	\$1,080,848,926	\$1,080,823,682	-\$25,244
Gain/Loss \$	\$57,513,133	\$56,828,453	-\$684,680
Gain/Loss %	5.6%	5.5%	-0.1%
Book Yield (Exp)	2.99%	2.97%	-0.02%
Book YTW	2.97%	2.95%	-0.02%
Avg. Life	5.4	5.5	0.1
Avg. Life +300	7.8	8.0	0.1
% Price Chg +300	-14.3%	-14.7%	-0.3%
Effective Duration	4.39	4.56	0.17



- Excess Liquidity
  - State of PPP
  - Investment Universe Review
  - Cash Deploy
  - Deleverage Considerations
  - Portfolio Restructuring
  - ***Hedging Application***
  - Loan Market Update
-

# Executive Overview

## Strategy Overview

Partial term fair value hedging allows a financial institution to create floating-rate or fixed-to-floating rate exposures by pairing an underlying fixed rate security with an interest rate swap. This strategy captures the spread, without the full benchmark interest rate risk, associated with longer duration securities.

## Discount Margins

- Certain longer duration Agency debentures, Agency CMBS, and municipal securities can offer compelling back-end discount margins, given the spreads that are offered

### Examples:

- 10y Agency debenture, 1.11% fixed yield for 3 years, then floating at +16 basis points SOFR
- 10y Freddie K A2, 1.22% fixed yield for 3 years, then floating at +41 basis points over SOFR
- AA 15nc10 taxable municipal, 2.18% fixed yield for 3 years, then floating at +129 basis points over SOFR

(see footnotes on following slides)

- A range of securities for each of these three sectors are shown swapped to floating and swapped to fixed-to-floating structures on the following slides (shown versus 1 month LIBOR for comparability versus other floating rate assets, as well as SOFR).
- As of 10/30, 1 month LIBOR was 0.14%, and overnight SOFR was 0.09%

## *1mL Discount Margins*

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# Agency Debentures Swapped to Floating

## Representative 1mL Discount Margins (DMs)

- The table below illustrates various floating and fixed-to-float options using fixed rate Agency bullets:

	Bond									Hedge		Hedged Position					
	Description	Price	Cpn	Yield	Mat	Avg Life	Px Chg -1	Px Chg +1	Px Chg +3	Structure	Cpn	Structure	Fixed Yld	1mL DM	Net Px Chg -1	Net Px Chg +1	Net Px Chg +3
Agency Debentures	7y FNMA Benchmark	99.79	0.75	0.78	6.9	6.9	7.0%	-6.5%	-18.2%	7y	0.57	Flt		+0.21	-0.3%	0.2%	0.7%
										In 3y for 4y	0.83	Fx to Flt	0.78	+0.05	2.8%	-2.7%	-7.8%
										In 5y for 2y	1.06	Fx to Flt	0.78	+0.27	4.9%	-4.6%	-13.1%
	10y FNMA Benchmark	97.81	0.88	1.11	9.8	9.8	9.8%	-8.9%	-24.1%	10y	0.80	Flt		+0.3	-0.9%	0.8%	2.0%
										In 3y for 7y	1.05	Fx to Flt	1.11	+0.06	2.2%	-2.2%	-6.5%
										In 5y for 5y	1.24	Fx to Flt	1.11	+0.13	4.3%	-4.2%	-12.0%
	12y Bullet	105.75	1.81	1.30	12.4	12.4	11.8%	-10.4%	-27.8%	12y	0.94	Flt		+0.41	-0.1%	0.1%	0.2%
										In 3y for 9y	1.18	Fx to Flt	1.30	+0.13	2.7%	-2.7%	-7.7%
										In 5y for 7y	1.34	Fx to Flt	1.30	+0.04	4.6%	-4.5%	-12.6%
	15y Bullet	124.85	3.35	1.42	14.3	14.3	12.6%	-11.0%	-29.0%	14y	1.02	Flt		+0.58	0.7%	-0.8%	-2.1%
										In 3y for 11y	1.24	Fx to Flt	1.42	+0.19	3.1%	-3.1%	-8.8%
										In 5y for 9y	1.38	Fx to Flt	1.42	+0.05	4.7%	-4.6%	-12.9%

(1) Indicative levels as of 10/30/20; may not represent executable levels.

(2) Interest rate swap maturities match the maturity of the security.

(3) Price shocks represent an immediate parallel curve shock.

(4) Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.

# Agency CMBS Swapped to Floating

## Representative 1mL Discount Margins (DMs)

- The table below illustrates various floating and fixed-to-float options using fixed rate Agency CMBS:

	Bond									Hedge		Hedged Position						
	Description	Price	Cpn	Yield	Mat	Avg Life	Px Chg -1	Px Chg +1	Px Chg +3	Structure	Cpn	Structure	Fixed Yld	1mL DM	Net Px Chg -1	Net Px Chg +1	Net Px Chg +3	
Freddie K-Deal	New Issue 10y K A2	102.16	1.49	1.25	9.9	9.8	9.8%	-8.8%	-24.1%	9y	0.75	Flt		+0.51	0.6%	-0.5%	-1.2%	
										In 3y for 6y	1.01	Fx to Flt	1.25	+0.24	3.5%	-3.4%	-9.4%	
										In 5y for 4y	1.21	Fx to Flt	1.25	+0.04	5.6%	-5.2%	-14.6%	
										8y	0.69	Flt		+0.58	2.0%	-1.8%	-4.7%	
										In 3y for 5y	0.96	Fx to Flt	1.22	+0.26	4.7%	-4.4%	-12.3%	
Freddie K-Deal	Secondary 10y K A2	112.03	2.65	1.22	9.1	9.0	9.4%	-8.6%	-23.6%	In 5y for 3y	1.16	Fx to Flt	1.22	+0.05	6.6%	-6.1%	-17.0%	
										13y	0.98	Flt		+0.75	-0.2%	0.2%	1.0%	
										In 3y for 10y	1.21	Fx to Flt	1.72	+0.52	2.8%	-2.7%	-7.4%	
										In 5y for 8y	1.36	Fx to Flt	1.72	+0.36	4.8%	-4.6%	-12.6%	
										8y	0.63	Flt		+0.89	4.0%	-3.6%	-9.4%	
Freddie K-Deal	New Issue 15y K A2	99.86	1.72	1.72	14.7	14.3	13.5%	-11.7%	-30.7%	In 3y for 5y	0.89	Fx to Flt	1.43	+0.54	6.4%	-5.9%	-16.3%	
										In 5y for 3y	1.11	Fx to Flt	1.43	+0.32	8.1%	-7.5%	-20.6%	
										9y	0.72	Flt		+0.58	0.3%	-0.4%	-0.9%	
										In 3y for 6y	0.98	Fx to Flt	1.25	+0.27	3.1%	-3.0%	-8.7%	
										In 5y for 4y	1.19	Fx to Flt	1.25	+0.07	5.0%	-4.8%	-13.6%	
Freddie K-Deal	Seasoned 15y K A2	123.20	3.99	1.43	12.6	9.9	10.7%	-9.7%	-26.6%	14y	1.01	Flt		+0.56	-1.6%	1.2%	3.0%	
										In 3y for 11y	1.23	Fx to Flt	1.52	+0.29	1.2%	-1.6%	-4.8%	
										In 5y for 9y	1.38	Fx to Flt	1.52	+0.14	3.1%	-3.3%	-9.7%	
										10/9.5 DUS	108.45	2.26	1.25	9.3	8.7	9.0%	-8.2%	-22.5%
										15/14.5 DUS	106.20	2.05	1.52	14.6	12.3	12.3%	-10.8%	-28.6%

(1) Indicative levels as of 10/30/20 (new issues priced at new issue spread); may not represent executable levels.

(2) For Freddie K-Deal, 10y and 15y refer to the original maturity of the underlying collateral (not necessarily the remaining maturity or average life of the deal)

(3) Interest rate swap maturities match the end of the call protection period of the security.

(4) Price shocks represent an immediate parallel curve shock.

(5) For amortizing bond structures, hedged position floating DMs and net price risk represent the hedged portion of the exposure (where the hedge notional is aligned to the current face outstanding at the end of the call protection period of the security)

(6) Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.

# Municipals Swapped to Floating

## Representative 1mL Discount Margins (DMs)

- The table below illustrates various floating and fixed-to-float options using fixed rate, AA Municipals:

	Bond										Hedge		Hedged Position				
	Description	Price	Cpn	Yield	Mat	Avg Life	Px Chg -1	Px Chg +1	Px Chg +3	Structure	Cpn	Structure	Fixed Yld	1mL DM	Net Px Chg -1	Net Px Chg +1	Net Px Chg +3
Tax-Exempt Municipal	10nc9 3.0	113.83	3.000	1.671	10.3	8.8	8.2%	-7.9%	-22.6%	9y	0.72	Flt		+1.02	-0.1%	-0.4%	-2.0%
										In 3y for 6y	0.99	Fx to Flt	1.67	+0.69	2.5%	-3.0%	-9.4%
										In 5y for 4y	1.19	Fx to Flt	1.67	+0.48	4.4%	-4.6%	-14.0%
	14nc10 3.0	113.37	3.000	2.000	14.3	10.3	9.7%	-10.1%	-28.2%	10y	0.83	Flt		+1.25	0.5%	-1.8%	-5.6%
										In 3y for 7y	1.08	Fx to Flt	2.00	+0.92	3.2%	-4.4%	-13.0%
										In 5y for 5y	1.27	Fx to Flt	2.00	+0.73	5.0%	-6.1%	-17.7%
	16nc9 4.0	121.14	4.000	1.775	15.7	8.7	7.8%	-7.6%	-25.5%	9y	0.71	Flt		+1.16	0.1%	-0.6%	-6.2%
										In 3y for 6y	0.98	Fx to Flt	1.77	+0.8	2.5%	-3.0%	-13.1%
										In 5y for 4y	1.18	Fx to Flt	1.77	+0.59	4.3%	-4.6%	-17.5%
	16nc8 5.0	126.50	5.000	1.687	15.6	7.6	6.8%	-6.3%	-20.5%	8y	0.63	Flt		+1.16	0.2%	-0.3%	-3.7%
									In 3y for 5y	0.89	Fx to Flt	1.69	+0.8	2.6%	-2.6%	-10.4%	
									In 5y for 3y	1.11	Fx to Flt	1.69	+0.58	4.2%	-4.1%	-14.6%	
19nc10 3.0	110.98	3.000	2.304	19.3	10.3	10.6%	-12.3%	-33.4%	10y	0.83	Flt		+1.54	1.2%	-3.8%	-10.4%	
									In 3y for 7y	1.08	Fx to Flt	2.30	+1.22	4.0%	-6.4%	-17.9%	
									In 5y for 5y	1.27	Fx to Flt	2.30	+1.03	5.8%	-8.1%	-22.7%	
20nc9 4.0	119.44	4.000	2.142	19.6	9.1	8.3%	-8.7%	-29.0%	9y	0.75	Flt		+1.49	0.4%	-1.6%	-9.4%	
									In 3y for 6y	1.01	Fx to Flt	2.14	+1.13	2.9%	-4.0%	-16.5%	
									In 5y for 4y	1.21	Fx to Flt	2.14	+0.93	4.7%	-5.6%	-20.9%	
20nc10 5.0	132.01	5.000	1.914	19.9	9.9	8.5%	-7.8%	-24.4%	10y	0.81	Flt		+1.27	0.6%	-0.7%	-5.0%	
									In 3y for 7y	1.06	Fx to Flt	1.91	+0.85	2.9%	-2.9%	-11.4%	
									In 5y for 5y	1.25	Fx to Flt	1.91	+0.66	4.4%	-4.3%	-15.4%	
Taxable Muni	11nc10 2.1	103.72	2.177	1.760	10.8	9.8	9.5%	-9.0%	-24.5%	10y	0.79	Flt		+0.99	-0.6%	0.1%	0.2%
										In 3y for 7y	1.05	Fx to Flt	1.76	+0.71	2.3%	-2.7%	-7.9%
										In 5y for 5y	1.24	Fx to Flt	1.76	+0.52	4.3%	-4.6%	-13.0%
	14nc9 2.2	100.55	2.250	2.180	14.3	8.8	10.6%	-11.2%	-29.7%	9y	0.73	Flt		+1.46	1.2%	-2.8%	-6.4%
										In 3y for 6y	0.99	Fx to Flt	2.18	+1.19	4.2%	-5.6%	-14.8%
									In 5y for 4y	1.19	Fx to Flt	2.18	+0.99	6.3%	-7.5%	-20.0%	
19nc9 2.4	100.49	2.479	2.420	19.3	9.3	12.6%	-13.6%	-35.0%	9y	0.76	Flt		+1.66	3.2%	-5.2%	-11.8%	
									In 3y for 6y	1.02	Fx to Flt	2.42	+1.4	6.2%	-8.1%	-20.1%	
									In 5y for 4y	1.22	Fx to Flt	2.42	+1.2	8.3%	-9.9%	-25.4%	

(1) Indicative levels as of 10/30/20; may not represent executable levels.

(2) Taxable equivalent yields represent zero cost of funds and 21% marginal federal tax rate.

(3) Interest rate swap maturities match the first call date of the security.

(4) Price shocks represent an immediate parallel curve shock.

(5) Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.



## *15yr Loan Pool Last Layer Hedge Example*

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## Last of Layer Approach: Application of Relevant Language

**815-20-25-12A** For a closed portfolio of **prepayable** financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments, an entity may designate as the hedged item a stated amount of the asset or assets that are not expected to be affected by prepayments, defaults, and other factors affecting the timing and amount of cash flows if the designation is made in conjunction with the partial-term hedging election in paragraph 815-20-25-12(b)(2)(ii) (this designation is referred to throughout Topic 815 as the “last-of-layer method”).

- a. As part of the initial hedge documentation, an analysis shall be completed and documented to support the entity’s expectation that the hedged item (that is, the designated last of layer) is anticipated to be outstanding as of the hedged item’s assumed maturity date in accordance with the entity’s partial-term hedge election. That analysis shall incorporate the entity’s current expectations of prepayments, defaults, and other events affecting the timing and amount of cash flows associated with the closed portfolio of prepayable financial assets or beneficial interest(s) secured by a portfolio of prepayable financial instruments.
- b. For purposes of its analysis, the entity may assume that as prepayments, defaults, and other events affecting the timing and amount of cash flows occur, they first will be applied to the portion of the closed portfolio of prepayable financial assets or one or more beneficial interests that is not part of the hedged item (that is, the designated last of layer).

## Last of Layer Approach – Forecasted Notional Incorrect

- The new hedging standard contains a significant degree of flexibility for situations in which the forecasted balance is no longer expected to occur during the life of the hedge.

### 815-25-40-8

For a hedging relationship designated under the last-of-layer method in accordance with paragraph 815-20-25-12A, an entity shall discontinue (or partially discontinue) hedge accounting in either of the following circumstances:

- If the entity cannot support on a subsequent testing date that the hedged item (that is, the designated last of layer) is anticipated to be outstanding in accordance with paragraph 815-25-35-7A, it shall at a minimum discontinue hedge accounting for the portion of the hedged item no longer expected to be outstanding at the hedged item's assumed maturity date.***
- b. If on a subsequent testing date the outstanding amount of the closed portfolio of prepayable financial assets or one or more beneficial interests is less than the hedged item, the entity shall discontinue hedge accounting.

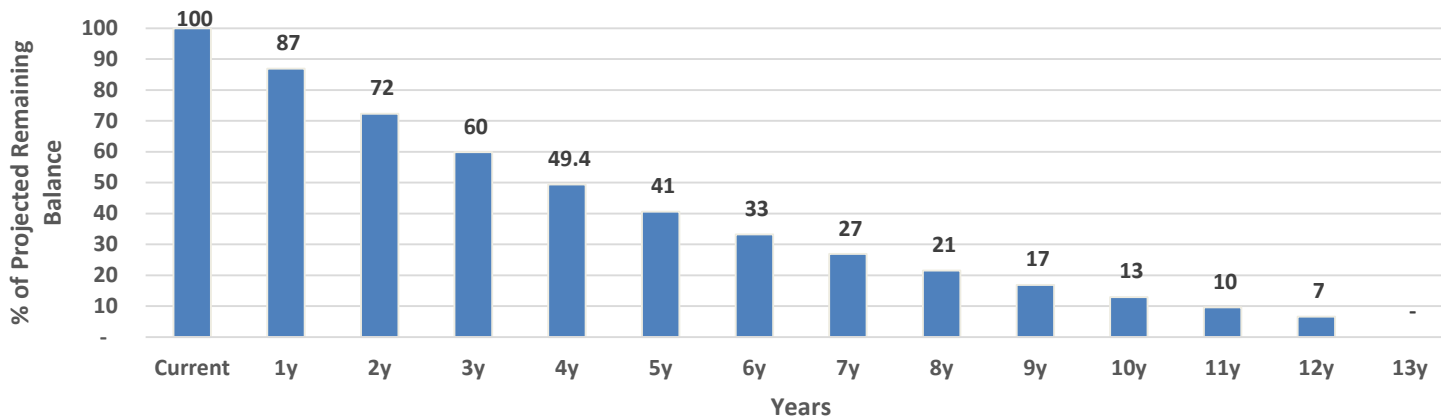
### 815-25-40-9

If a last-of-layer method hedging relationship is discontinued (or partially discontinued), the outstanding basis adjustment (or portion thereof) as of the discontinuation date shall be allocated to the individual assets in the closed portfolio using a systematic and rational method. ***An entity shall amortize those amounts over a period that is consistent with the amortization of other discounts or premiums associated with the respective assets in accordance with other Topics (for example, Subtopic 310-20 on receivables–nonrefundable fees and other costs).***

# Last of Layer Approach: Last Dollar Outstanding Analysis

- Per the guidance, an analysis must be completed that supports the entity’s expectation that the hedged item (that is, the designated last of layer) will be outstanding at the stated maturity of the hedging relationship based upon current expectations of the portfolio or collateral performance.
- The chart below illustrates the projected remaining balances in base case of Sample Institution’s provided mortgage pool.
- In practice, this analysis would be completed quarterly to serve as the hedge effectiveness testing for the associated hedge.

**Projected Remaining Balance: Sample Institution Fixed Rate Mortgage Pool**



	Current	1yr	2yr	3yr	4yr	5yr
\$ Balance	88,797,732	77,142,473	64,183,909	53,153,519	43,878,964	36,062,157
% Balance	100%	87%	72%	60%	49%	41%

- As illustrated on the following slide, the hedge should be sized conservatively according to expected collateral performance to a given hedge maturity point.

# Last of Layer Approach: \$89mm Residential Loan Pool

- Using prepayment model projected remaining balance (level rates) at the 5yr point, one can construct a \$36mm floating rate exposure by hedging the last layer using a 5yr pay-fixed interest rate swap within a \$89mm 15 yr 2.70% residential loan pool.
  - Pay fixed 0.12%, receive fed funds effective rate (initially 0.09%)

The diagram illustrates the construction of a blended yield. It starts with a \$89mm residential loan pool with a 2.70% weighted average loan rate. A 40% portion (36,000,000) is hedged using a 5-year pay-fixed interest rate swap (0.12% fixed, 0.09% floating), resulting in a floating WAC of Fed effective + 258bps. This hedged portion is then combined with the remaining 53,000,000 of the fixed-rate loan pool (2.70% yield) to create a weighted average yield of 2.69% for the entire \$89mm pool, which rises to 3.09% in an up 100 shock.

Term	Level Remaining Balance	Loan Pool	Wt Avg Loan Rate
Year 5	41%	89,000,000	2.70%

Hedged %	Hedged Amount	Initial Hedge Cost (Level Rates)	Floating WAC (Hedged)
40%	36,000,000	-0.12%+0.09% = -0.03%	Fed effective + 258bps

Components	Amount	Level Yield	+100 Yield
Fixed Rate Loan Pool	53,000,000	2.70%	2.70%
Swapped Portion of Pool (5yr term)	36,000,000	2.67%	3.67%
<b>Weighted Average</b>	<b>89,000,000</b>	<b>2.69%</b>	<b>3.09%</b>

- By swapping \$36mm of the \$89mm loan pool to a floating yield of Fed effective + 258bps (initially 2.67%) for 5 years, this results in a blended level yield for the 60% fixed/40% floating loan pool of 2.68% base case and 3.09% in an up 100 shock.

# Last of Layer Approach: Market Value Impacts

- By swapping a portion of the \$89mm loan pool with either a \$53mm 3y swap or a \$36mm 5y swap, mitigates the market value risk in rates up scenarios.
  - Both 3y and 5y swap net effects decrease the current pool's market value risk by nearly 35% in all rates up scenarios

Scenario	Curr Face/Notl (\$000s)	Avg Life	Mkt Px Chg (%)						Mkt Val Chg (\$)					
			-200	-100	+100	+200	+300	+400	-200	-100	+100	+200	+300	+400
<b>15yr Fixed Loans</b>	88,798	4.29	1.49	1.48	(5.00)	(9.92)	(14.43)	(18.56)	1,322	1,316	(4,439)	(8,813)	(12,813)	(16,485)
<b>3y swap</b>	53,000	3.00	(0.18)	(0.18)	2.79	5.64	8.38	11.04	(95)	(95)	1,479	2,989	4,441	5,851
<b>Net</b>									1,226	1,220	(2,960)	(5,824)	(8,372)	(10,634)
<b>Remaing Price Risk</b>											67%	66%	65%	65%
<b>5y swap</b>	36,000	5.00	(0.65)	(0.65)	4.58	9.15	13.47	17.56	(234)	(234)	1,649	3,294	4,849	6,322
<b>Net</b>									1,088	1,082	(2,790)	(5,519)	(7,964)	(10,163)
<b>Remaing Price Risk</b>											63%	63%	62%	62%

(1) Indicative level as of 10/27/2020.

(2) Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.

# Last of Layer Approach: ALM Impacts

- Below shows the ALM impacts of the hedging strategy, using 36mm 5y swap against a \$89mm Residential loan pool yielding 2.70%
  - Indicative structures: 5y pay fixed 0.12%/receive Fed Funds (currently 0.09%)
- NII sensitivity in +100 is mitigated to -4.5% from the current level of -5.0%, while NEV sensitivity in +100 is mitigated to +0.1% from the current level of -0.5%

### Current Position

Scenario	NII	NII Chg \$	NII Chg %
+400	62,458	-12,793	-17.0%
+300	65,392	-9,858	-13.1%
+200	68,252	-6,998	-9.3%
+100	71,488	-3,763	-5.0%
Base/Level	75,250	0	0.0%
-100	76,379	1,129	1.5%

### Hedge

Pay Fixed	Rec Fed Funds	Net	Net \$
0.12	4.09	3.97	1,429
0.12	3.09	2.97	1,069
0.12	2.09	1.97	709
0.12	1.09	0.97	349
0.12	0.09	-0.03	-11
0.12	0	-0.12	-43

### Resulting

Scenario	NII	NII Chg %
+400	63,887	-15.1%
+300	66,461	-11.7%
+200	68,961	-8.3%
+100	71,837	-4.5%
Base/Level	75,239	0.0%
-100	76,336	1.5%

### Current Position

Scenario	NEV	NEV Chg \$	NEV Chg %
+400	212,940	-82,810	-28.0%
+300	254,345	-41,405	-14.0%
+200	278,892	-16,858	-5.7%
+100	294,271	-1,479	-0.5%
Base/Level	295,750	0	0.0%
-100	275,048	-20,703	-7.0%

### Hedge

Mkt Val Chg %	Mkt Val Chg \$
17.56	6,322
13.47	4,849
9.15	3,294
4.58	1,649
-	0
(0.65)	-234

### Resulting

Scenario	NEV	NEV Chg %
+400	219,262	-25.9%
+300	259,194	-12.4%
+200	282,186	-4.6%
+100	295,920	0.1%
Base/Level	295,750	0.0%
-100	274,814	-7.1%

(1) Indicative level as of 10/27/2020.

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## Polling Question #3



- Excess Liquidity
  - State of PPP
  - Investment Universe Review
  - Cash Deploy
  - Deleverage Considerations
  - Portfolio Restructuring
  - Hedging Application
  - ***Loan Market Update***
-

# Selling PPP Portfolios: Current Environment

- **With the ever-changing regulations and the inconsistent loan/funding terms of the program, combined with the uncertainty of cash flows and earnings as it relates to the forgiveness timing, many depository institutions are examining different paths for PPP loan portfolios. Most fall into two categories:**

## 1. Institutions open to the idea of selling their PPP loan portfolio:

- Each loan has either a 2-year or 5-year final maturity and a 1% coupon. Loans may pay off sooner if the loan meets the SBA forgiveness criteria. Loans may be prepaid in full or in part by the SBA at any time.

### Servicing Retained

- The purchaser may elect to have the originating lender subservice the loans and hold the note and loan documents on their behalf; however, the purchasing party will be responsible to the SBA with respect to all servicing actions, including requests for advance purchases and loan forgiveness, and will be the party eligible for the guarantee purchase of a PPP loan. Expand on existing and new relationships developed by the PPP
- Generate non-interest income while still retaining DDA accounts created due to PPP
- If a buyer engages the originator to act as servicer (effectively servicing retained), the estimated price would be in the mid 99s<sup>1</sup>

### Servicing Released

- Avoid further investments in servicing loan payments and forgiveness internally
- Provide their bankers with more opportunity and flexibility to develop new relationships and rebuild loan pipeline
- When selling servicing released, the estimated price would be in the mid 98s<sup>1</sup>

## 2. Institutions keeping their PPP loans:

- Very liquid on balance sheet already; sale would create an influx of cash
- Have expanded their footprint due to PPP program and still unsure about expected future loan pipeline
- Have enough resources to service their PPP origination and walk customers through forgiveness

(1) Pricing only reflects 2 year maturities.

(2) <https://www.americanbanker.com/news/more-banks-opt-to-sell-ppp-loans-as-heavy-lifting-nears>

# Recent Market Traction- PPP Loan Sale

- OceanFirst Financial Corp (NYSE: OCFC)
  - “The Company made a strategic decision to sell \$298 million in PPP loans to improve operational efficiency and continue the Company’s efforts to focus on the core business. The sale is expected to close in the fourth quarter of 2020.” OCFC 3<sup>rd</sup> Quarter Financial Results
- Sold \$298mm Notional
- Accelerated \$8.7mm in fees (roughly 3%)
- Sold loans at a \$3.4mm discount (roughly 1.1%)

“Correct. Yes. So that's the net. We actually sell them at a little discount. And then we take hold, and we accelerate the fees related to those loans. And that was -- it was only about half of the portfolio. We retained the other half. And frankly, those customers and the loans we retained were the more strategic customers for the bank. They were also the customers who were being very prompt about providing us the information we needed to file for forgiveness. So if they were helping us, it was easy to move them through. If we thought those were going to be long-term difficult loans to get through forgiveness, we decided to part ways.”

“Yes, we found -- I won't give you a specific name, but we found -- there was just actually a robust market for that. So there's a little cottage industry going around of people buying PPP loans. And look, part of their calculation, I believe, is that they're pinning hopes that Congress will do a mass forgiveness, and that they will then not have to do any work and get the forgiveness, and that may happen. And if that happens, then we would've realized a little more had we held them. But the company that we sold to had bought from at least -- it was probably close -- between half a dozen and 10 banks prior to us. And there were few -- then there were a couple of bidders. So there are a couple of people putting together these pools of PPP loans in aggregate”

Christopher Maher – OCFC CEO

# Stifel Loan Group Commentary

- “Yields in the loan markets continue to trend lower with the increase in demand, but what sells is very asset specific. Consumer loans continue to meet with strong demand in prime resi, autos, home improvement and unsecured loans. In the commercial space, hospitality, major metropolitan office buildings, as well as travel and entertainment related properties are subject to significant scrutiny in due diligence or just dismissed by many. On the other hand, multi-family, warehouses and mixed use properties fare much better. Also, renewable energy related loans in residential solar and C-PACE see good demand due to strong performance and the benefits provided borrowers. COVID economic risk, and loan performance during the pandemic remains at the forefront in due diligence discussion and concern. As one might expect, we are seeing an uptick in NPLs being offered. We anticipate significant supply in the first quarter.”

## General Whole Loan Buyer Yield Ranges

*As of 11/4/2020*

Prime Product	Bank Buyer Yield	CU Buyer Yield	Prior Month – Bank Buyer Yield	Prior Month – CU Buyer Yield
SFR - Fixed	2.25-2.75	2.00-3.00	3.00-3.50	2.50-3.00
SFR - Hybrid ARM	2.00-2.50	2.00-2.50	2.00-2.50	2.00-2.50
Auto	4.00-4.15	1.50-1.75	4.15-4.25	1.75-2.00
CRE/MBL*	3.00-5.50	2.75-4.25	3.00-5.75	2.75-4.25
Consumer	5.00-5.50	4.50-5.00	5.00-5.50	4.50-5.00

\*Multifamily performing well will be 3.00-3.50% if dscr is 1.25x or greater

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