

PUTTING LIQUIDITY TO WORK

This Day in History: Today is National Two Different Colored Shoes Day. On May 3, 1978, a marketing executive for Digital Equipment Corporation sent the first unsolicited bulk commercial email (later known as spam), pitching a new line of computers to 400 prospects. In 1997, Chess Grandmaster Garry Kasparov began a chess match against IBM supercomputer Deep Blue (the computer won).

Market Update: Term interest increased across a steepening curve on the strength of strong economic data and promising COVID-19 news. This despite the Federal Reserve reassuring the markets they are on hold for the foreseeable future.

Term	Swap Rates				Change		
	4/30/2021	4/23/2021	3/23/2021	8/4/2020	WoW	MoM	Since 8/4/2020
2y	0.28	0.28	0.26	0.18	0.00	0.02	0.10
3y	0.48	0.47	0.44	0.18	0.01	0.04	0.30
5y	0.95	0.92	0.92	0.24	0.04	0.03	0.71
7y	1.31	1.25	1.30	0.35	0.06	0.01	0.96
10y	1.63	1.56	1.64	0.51	0.07	-0.01	1.12
20y	2.00	1.92	2.02	0.73	0.08	-0.02	1.27
2s/10s slope	1.35	1.28	1.38	0.32	0.07	-0.03	1.03

Desk activity was moderately active and driven by portfolio hedgers and commercial borrowers - both of whom are looking for rising rate protection. In the case of portfolio hedgers, most are using pay fixed interest swaps to create their own floating rate securities. We refer to this as our DIY floater which is described below.

Many banks are looking for adjustable rate investments that provide an acceptable current return without jeopardizing future earnings. Bankers generally have an inherent fear of rising rates and the current low rate environment only adds to that fear. Banks generally fall into one of the following interest rate risk positions:

- (1) liability sensitive banks with a valid concern about future rising rates.
- (2) asset sensitive banks that question how much risk they should accept as they extend liquid assets.

In either situation, finding adjustable rate investments with an acceptable return is difficult.

Long term municipal bonds, a traditional community bank investment, provide a viable solution for either interest rate risk position. They provide absolute returns higher than most other investments but have a higher level of rising rate risk.

The solution? Purchase the municipal and add an interest rate swap, converting the bond to a floater to its call date. The combination provides:

- a floating rate investment with a current yield of greater than 1%
- an interest rate swap that increases in value as rates increase, mitigating the bond's loss of value caused by rising rates (changes in credit spreads cannot be hedged).

If the bond is not called, the bank owns a fixed rate security for the remaining term at par (assuming the premium has been amortized during the call period) with a market value that has been significantly protected by the swap.

An example of a recent offering combined with a swap to the call date:

Cusip: 350784JPO

Coupon/TEY: 2.00%/2.50%

Call: 8/1/2028

Maturity: 8/1/2042

Plus 300: -29.27% PV (roughly a 9.9 duration)

After swap to call:

Effective FF plus 1.21% (currently 1.27%)

Plus 300: -11.2% PV (roughly a 3.7 duration)

The swapped municipal offers a floating rate yield well in excess of other floating rate offerings while reducing about 2/3 of the interest rate risk. Call us to explore other combinations that may help you put excess liquidity to work, increase current earnings, and control rising rate risk.

Have a great week!

Vining Sparks Interest Rate Products, LLC

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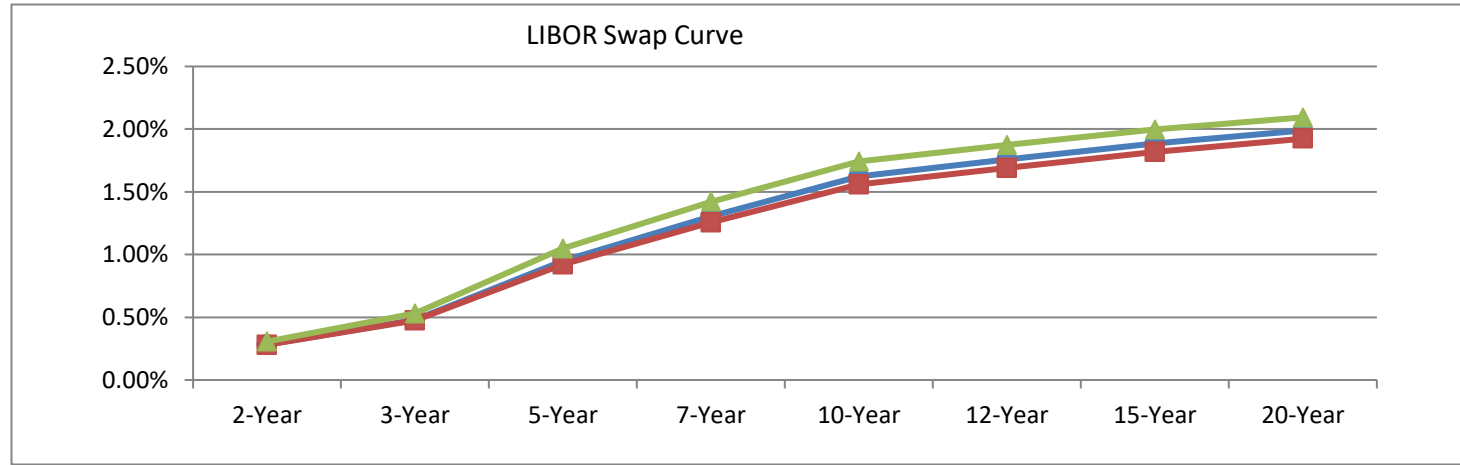
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Interest Rate Swap Curves

LIBOR Swap Curve			
	Current	Last Week	Last Month
2-Year	0.283%	0.281%	0.307%
3-Year	0.480%	0.473%	0.532%
5-Year	0.948%	0.923%	1.048%
7-Year	1.306%	1.257%	1.421%
10-Year	1.624%	1.560%	1.741%
12-Year	1.758%	1.691%	1.873%
15-Year	1.885%	1.818%	1.998%
20-Year	1.990%	1.924%	2.094%

*Bloomberg mid-market quotations



Money Market Rates		3M LIBOR Forward Rates	
1M LIBOR	0.10725%	Jun-21	0.19000%
3M LIBOR	0.17638%	Sep-21	0.20000%
6M LIBOR	0.20488%	Dec-21	0.25500%
12M LIBOR	0.28113%	Mar-22	0.22500%
Prime	3.25000%	Jun-22	0.26500%
FFTR	0.2500%		
Eff FF	0.0600%		
SOFR	0.0100%		

Spot Start Loan Hedging

Rate Term (Years)	Floating Rate	Amortization Term (Years)							
		3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	25-Year	Bullet
2-Year	LIBOR + 2.00%	2.31%	2.32%	2.33%	2.33%	2.33%	2.33%	2.33%	2.33%
3-Year	LIBOR + 2.00%	2.36%	2.45%	2.47%	2.48%	2.49%	2.50%	2.50%	2.51%
4-Year	LIBOR + 2.00%		2.57%	2.64%	2.68%	2.71%	2.72%	2.73%	2.74%
5-Year	LIBOR + 2.00%		2.62%	2.77%	2.86%	2.90%	2.92%	2.93%	2.95%
6-Year	LIBOR + 2.00%			2.86%	2.99%	3.06%	3.08%	3.09%	3.12%
7-Year	LIBOR + 2.00%			2.90%	3.09%	3.18%	3.21%	3.23%	3.27%
8-Year	LIBOR + 2.00%				3.16%	3.27%	3.32%	3.34%	3.42%
9-Year	LIBOR + 2.00%				3.19%	3.34%	3.41%	3.45%	3.50%
10-Year	LIBOR + 2.00%				3.20%	3.41%	3.49%	3.52%	3.60%
12-Year	LIBOR + 2.00%	Customer Pays Fixed, Monthly, Act/360				3.50%	3.58%	3.64%	3.71%
15-Year	LIBOR + 2.00%	Customer Receives 1-Month LIBOR + 2.00%				3.53%	3.67%	3.72%	3.82%

Forward Starting Swap Quotes

Rate Term (Years)	Floating Rate	20-Year Amortization		
		3-Month	6-Month	12-Month
2-Year	LIBOR + 2.00%	2.37%	2.44%	2.63%
3-Year	LIBOR + 2.00%	2.58%	2.67%	2.88%
4-Year	LIBOR + 2.00%	2.81%	2.90%	3.10%
5-Year	LIBOR + 2.00%	3.00%	3.09%	3.28%
6-Year	LIBOR + 2.00%	3.16%	3.25%	3.42%
7-Year	LIBOR + 2.00%	3.28%	3.36%	3.51%
8-Year	LIBOR + 2.00%	3.38%	3.45%	3.59%
9-Year	LIBOR + 2.00%	3.48%	3.54%	3.67%
10-Year	LIBOR + 2.00%	3.55%	3.61%	3.73%
12-Year	LIBOR + 2.00%	3.63%	3.69%	3.79%
15-Year	LIBOR + 2.00%	3.72%	3.77%	3.86%

Profitability Analysis

Rate Term (Years)	Profit Per Basis Point of Mark-up, Per \$1,000,000 of Notional							
	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	25-Year	Bullet
2-Year	\$141	\$167	\$178	\$186	\$193	\$196	\$198	\$203
3-Year	\$160	\$221	\$247	\$267	\$282	\$289	\$294	\$304
4-Year		\$254	\$301	\$336	\$363	\$377	\$385	\$404
5-Year		\$265	\$340	\$396	\$438	\$459	\$472	\$502
6-Year			\$364	\$444	\$506	\$537	\$555	\$599
7-Year			\$372	\$483	\$567	\$609	\$633	\$694
8-Year				\$510	\$621	\$676	\$708	\$788
9-Year				\$526	\$668	\$737	\$777	\$878
10-Year				\$532	\$707	\$792	\$842	\$967
12-Year	Fee Income Generation Only Possible With				\$764	\$887	\$959	\$1,139
15-Year	Back-to-Back Swaps and SMART Loan Products				\$796	\$989	\$1,102	\$1,384

Macro-Hedging

Protection Against Rising Rates							
3mL Pay Fixed Swap		Pay Fix, quarterly, act/360 both sides	3-Month LIBOR Caps - Premium in Basis Points				
Rate Term	Rate		Strike	2-Year	3-Year	4-Year	5-Year
2-Year	0.39%		0.30%	0.50%	1.22%	2.64%	4.32%
3-Year	0.59%		0.50%	0.40%	0.98%	2.24%	3.76%
4-Year	0.83%		0.75%	0.36%	0.79%	1.86%	3.18%
5-Year	1.05%						

Protection Against Falling Rates							
Prime Rcv Fixed Swap		Receive fixed, monthly, act/365 both sides	3-Month LIBOR Floors - Premium in Basis Points				
Rate Term	Rate		Strike	2-Year	3-Year	4-Year	5-Year
2-Year	3.20%		0.25%	0.49%	0.75%	0.89%	1.06%
3-Year	3.37%		0.15%	0.42%	0.66%	0.79%	0.94%
4-Year	3.60%		0.10%	0.40%	0.63%	0.75%	0.90%
5-Year	3.81%						

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FFTR	0.2500%		
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SOFR	0.0100%		

Spot Start Loan Hedging

Rate Term (Years)	Floating Rate	Amortization Term (Years)							
		3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	25-Year	Bullet
2-Year	Prime	3.41%	3.42%	3.42%	3.43%	3.43%	3.43%	3.43%	3.43%
3-Year	Prime	3.46%	3.54%	3.56%	3.58%	3.58%	3.59%	3.59%	3.60%
4-Year	Prime		3.66%	3.73%	3.77%	3.80%	3.81%	3.82%	3.83%
5-Year	Prime		3.72%	3.87%	3.95%	3.99%	4.01%	4.02%	4.04%
6-Year	Prime			3.96%	4.08%	4.15%	4.17%	4.18%	4.20%
7-Year	Prime			3.99%	4.19%	4.27%	4.30%	4.32%	4.35%
8-Year	Prime				4.25%	4.36%	4.40%	4.43%	4.49%
9-Year	Prime				4.28%	4.42%	4.50%	4.53%	4.57%
10-Year	Prime				4.29%	4.49%	4.57%	4.59%	4.66%
12-Year	Prime	Customer Pays Fixed, Monthly, Act/360				4.58%	4.66%	4.71%	4.76%
15-Year	Prime	Customer Receives Prime				4.60%	4.74%	4.78%	4.88%

Forward Starting Swap Quotes

Rate Term (Years)	Floating Rate	20-Year Amortization		
		3-Month	6-Month	12-Month
2-Year	Prime	3.47%	3.53%	3.71%
3-Year	Prime	3.67%	3.76%	3.96%
4-Year	Prime	3.90%	3.99%	4.19%
5-Year	Prime	4.09%	4.18%	4.37%
6-Year	Prime	4.25%	4.33%	4.50%
7-Year	Prime	4.37%	4.44%	4.59%
8-Year	Prime	4.46%	4.53%	4.66%
9-Year	Prime	4.56%	4.62%	4.74%
10-Year	Prime	4.62%	4.68%	4.79%
12-Year	Prime	4.71%	4.76%	4.86%
15-Year	Prime	4.79%	4.83%	4.92%

Profitability Analysis

Rate Term (Years)	Profit Per Basis Point of Mark-up, Per \$1,000,000 of Notional							
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2-Year	\$141	\$167	\$179	\$187	\$194	\$197	\$199	\$203
3-Year	\$160	\$222	\$249	\$268	\$283	\$290	\$295	\$304
4-Year		\$256	\$303	\$339	\$366	\$379	\$387	\$404
5-Year		\$268	\$343	\$399	\$442	\$463	\$475	\$502
6-Year			\$367	\$449	\$512	\$542	\$560	\$599
7-Year			\$376	\$489	\$575	\$616	\$640	\$694
8-Year				\$517	\$630	\$685	\$717	\$787
9-Year				\$534	\$678	\$748	\$788	\$878
10-Year				\$540	\$719	\$805	\$855	\$967
12-Year	Fee Income Generation Only Possible With				\$778	\$905	\$977	\$1,139
15-Year	Back-to-Back Swaps and SMART Loan Products				\$813	\$1,012	\$1,127	\$1,383

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