

## INFLATION OPTIONS

*This Day in History: Today is National Cherry Cobbler Day. On May 17, 1792, 24 merchants form New York Stock Exchange at 70 Wall Street. In 1979, the Philadelphia Phillies beat the Chicago Cubs 23-22 in 10 innings; the game had 50 hits and 11 home runs. Both starting pitchers recorded one out before being relieved.*

**Market Update: Term interest rates reversed the trends of the last few weeks and popped higher as headline and core CPI numbers, as well as PPI, came in much higher than expected. The releases resulted in increased volatility in all financial markets as concerns about future inflation increased dramatically.**

| Term         | Swap Rates |          |           |          | Change |       |                |
|--------------|------------|----------|-----------|----------|--------|-------|----------------|
|              | 5/14/2021  | 5/7/2021 | 4/14/2021 | 8/4/2020 | WoW    | MoM   | Since 8/4/2020 |
| 2y           | 0.26       | 0.25     | 0.28      | 0.18     | 0.01   | -0.02 | 0.07           |
| 3y           | 0.45       | 0.42     | 0.48      | 0.18     | 0.03   | -0.03 | 0.27           |
| 5y           | 0.90       | 0.87     | 0.94      | 0.24     | 0.04   | -0.04 | 0.66           |
| 7y           | 1.27       | 1.23     | 1.30      | 0.35     | 0.04   | -0.04 | 0.92           |
| 10y          | 1.60       | 1.56     | 1.62      | 0.51     | 0.04   | -0.03 | 1.09           |
| 20y          | 1.98       | 1.94     | 2.00      | 0.73     | 0.04   | -0.02 | 1.25           |
| 2s/10s slope | 1.34       | 1.31     | 1.34      | 0.32     | 0.03   | 0.00  | 1.02           |

**Portfolio hedgers and commercial borrowers, both of whom are looking for rising rate protection, continue to be active. We expect to see more of this activity in the coming weeks as potential inflation talk makes the rounds and as bankers look to adjust portfolio durations a bit after extending them dramatically in 1Q21.**

The release of higher than expected inflation numbers last week shook up the financial markets and led to more discussion about current or potential future inflation. Many borrowers have been requesting long term fixed rates due to historically low rates but there is a good chance these inflation concerns will increase those requests. In addition to using spot start interest rate swaps to meet this demand, we believe forward start swaps provide excellent opportunities for bankers to meet customer needs and hedge against rising rates. Some examples are provided below:

**Existing construction loans:** Approaching existing commercial construction borrowers with a long term fixed rate (i.e. a rate that is locked NOW for construction to be completed at a future date) using a forward start allows them to eliminate the risk of rates rising before the project is finished. The borrower benefits by locking in future cash flow needs and eliminating stress over

future rates while the bank benefits from significantly reducing the likelihood the borrower refinances with another lender when construction is complete.

**Loans with upcoming balloon dates:** With new commercial lending difficult in most markets, retaining existing customers is critical. Approaching existing borrowers with an upcoming balloon date (even 12 to 18 months out) may be a great way to avoid competing with new lenders at that time. If a borrower has a lower rate than you can currently offer, one solution is a forward swap that locks in the future rate now and allows them to keep the current rate until the balloon date. This option allows the borrower to keep the lower rate while eliminating future rising rate concerns. For the bank, you don't worry about the borrower seeking new financing options at the balloon date. You can also approach borrowers with rates similar to current offerings and offer to refinance and extend now, before rates increase, earning loyalty and reducing refinance risk.

**Future funding needs:** Most banks are flush with cash but history tells us there is a high probability that situation will reverse over time. Banks with future wholesale funding maturities or expectations of future funding needs should consider using forward starting swaps to lock in the cost of future funding. Bankers will know now what future term funding will cost will be; as an added benefit, the swap will increase in value as rates rise, increasing Other Comprehensive Income. If you ultimately don't need the funding and rates have increased, you can simply terminate the swap at a gain.

Call us to discuss options to help your customers concerned about rising rates or if the bank desires to lock in future funding costs.

Have a great week!

**Vining Sparks Interest Rate Products, LLC**

Toll-Free 800.786.2883

[www.VSIRP.com](http://www.VSIRP.com)

**Rick Redmond**

President

901-766-3382

[redmond@vsirp.com](mailto:redmond@vsirp.com)

**Walt Robison, CPA, CFA**

VP – Sales and Trading

901-766-3389

[wrobison@vsirp.com](mailto:wrobison@vsirp.com)

**Katharine Bray**

Director of Sales and Trading

901-766-3384

[kbray@vsirp.com](mailto:kbray@vsirp.com)

**Battle Beasley**

VP – Sales and Trading

901-766-3383

[bbeasley@vsirp.com](mailto:bbeasley@vsirp.com)

**Tommy Warren, CPA**

Senior VP – Sales and Trading

864-915-6675

[twarren@vsirp.com](mailto:twarren@vsirp.com)

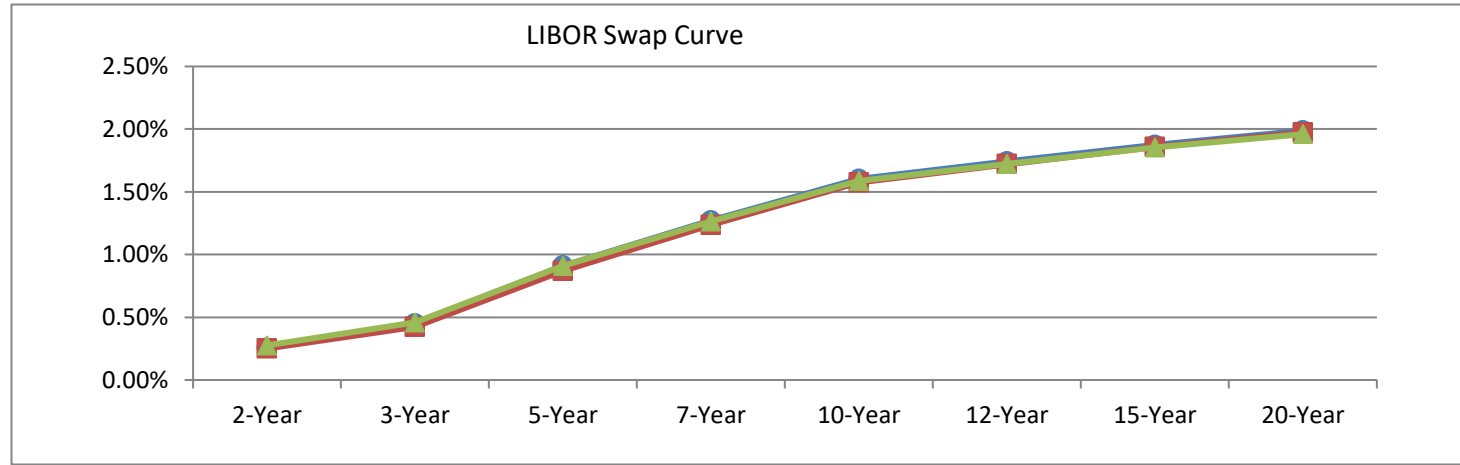
INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The information included herein has been obtained from sources deemed reliable, but it is not in any way guaranteed, and it, together with any opinions expressed, is subject to change at any time. Any and all details offered in this publication are preliminary and are therefore subject to change at any time. This has been prepared for general information purposes only and does not consider the specific investment objectives, financial situation and particular needs of any individual or institution. This information is, by its very nature, incomplete and specifically lacks information critical to making final investment decisions. Investors should seek financial advice as to the appropriateness of investing in any securities or investment strategies mentioned or recommended. The accuracy of the financial projections is dependent on the occurrence of future events which cannot be assured; therefore, the actual results achieved during the projection period may vary from the projections. Interest rate swaps and derivatives are offered and sold via Vining Sparks Interest Rate Products, LLC (VSIRP). VSIRP is an independent operating entity and is not a subsidiary of Vining Sparks IBG, LP. VSIRP is not a broker/dealer registered with the SEC. The firm may have positions, long or short, in any or all securities mentioned. Vining Sparks is a member FINRA/SIPC.

This material was produced by a Vining Sparks Interest Rate Products representative and is not considered research and is not a product of any research department. Employees may provide advice to investors as well as to Vining Spark's trading desk. The trading desk may trade as principal in the products discussed in this material. Employees may have consulted with the trading desk while preparing this material and the trading desk may have accumulated positions in the securities or related derivatives products that are the subject of this material. Employees receive compensation which may be based in part on the quality of their analysis, Vining Sparks' revenues, trading revenues, and competitive factors. Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. Opinions, historical price(s) or value(s) are as of the date and, if applicable, time, indicated. Vining Sparks Interest Rate Products does not accept any responsibility to update any opinions or other information contained in this communication. Vining Sparks Interest Rate Products is not providing investment advice through this material. This is for information purposes only and is not intended as an offer or solicitation of any product. Securities, financial instruments, products or strategies mentioned in this material may not be suitable for all investors. Before acting on any advice or recommendation in this material, you should consider whether it is suitable for your particular circumstances. Further information on any of the securities or financial instruments mentioned in this material may be obtained upon request.

**Interest Rate Swap Curves**

|         | LIBOR Swap Curve |           |            |
|---------|------------------|-----------|------------|
|         | Current          | Last Week | Last Month |
| 2-Year  | 0.255%           | 0.251%    | 0.276%     |
| 3-Year  | 0.451%           | 0.421%    | 0.460%     |
| 5-Year  | 0.911%           | 0.868%    | 0.910%     |
| 7-Year  | 1.271%           | 1.237%    | 1.265%     |
| 10-Year | 1.602%           | 1.575%    | 1.587%     |
| 12-Year | 1.742%           | 1.720%    | 1.723%     |
| 15-Year | 1.876%           | 1.858%    | 1.853%     |
| 20-Year | 1.988%           | 1.974%    | 1.960%     |

\*Bloomberg mid-market quotations



| Money Market Rates |          | 3M LIBOR Forward Rates |          |
|--------------------|----------|------------------------|----------|
| 1M LIBOR           | 0.09750% | Jun-21                 | 0.15500% |
| 3M LIBOR           | 0.14963% | Sep-21                 | 0.16000% |
| 6M LIBOR           | 0.18650% | Dec-21                 | 0.20500% |
| 12M LIBOR          | 0.26450% | Mar-22                 | 0.19000% |
| Prime              | 3.25000% | Jun-22                 | 0.23500% |
| 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% | 2.29%                                   | 2.31%  | 2.31%  | 2.31%   | 2.31%   | 2.32%   | 2.32%   | 2.32%  |
| 3-Year            | LIBOR + 2.00% | 2.34%                                   | 2.43%  | 2.45%  | 2.47%   | 2.47%   | 2.48%   | 2.48%   | 2.49%  |
| 4-Year            | LIBOR + 2.00% |   | 2.54%  | 2.61%  | 2.65%   | 2.68%   | 2.69%   | 2.70%   | 2.71%  |
| 5-Year            | LIBOR + 2.00% |   | 2.60%  | 2.74%  | 2.82%   | 2.86%   | 2.88%   | 2.89%   | 2.91%  |
| 6-Year            | LIBOR + 2.00% |   |        | 2.83%  | 2.96%   | 3.02%   | 3.05%   | 3.06%   | 3.10%  |
| 7-Year            | LIBOR + 2.00% |   |        | 2.86%  | 3.06%   | 3.16%   | 3.19%   | 3.22%   | 3.27%  |
| 8-Year            | LIBOR + 2.00% |   |        |        | 3.12%   | 3.26%   | 3.31%   | 3.34%   | 3.39%  |
| 9-Year            | LIBOR + 2.00% |   |        |        | 3.16%   | 3.34%   | 3.40%   | 3.44%   | 3.50%  |
| 10-Year           | LIBOR + 2.00% |   |        |        | 3.18%   | 3.40%   | 3.48%   | 3.52%   | 3.59%  |
| 12-Year           | LIBOR + 2.00% | Customer Pays Fixed, Monthly, Act/360   |        |        |         | 3.49%   | 3.59%   | 3.64%   | 3.70%  |
| 15-Year           | LIBOR + 2.00% | Customer Receives 1-Month LIBOR + 2.00% |        |        |         | 3.52%   | 3.67%   | 3.72%   | 3.83%  |

**Forward Starting Swap Quotes**

| Rate Term (Years) | Floating Rate | 20-Year Amortization |         |          |
|-------------------|---------------|----------------------|---------|----------|
|                   |               | 3-Month              | 6-Month | 12-Month |
| 2-Year            | LIBOR + 2.00% | 2.36%                | 2.42%   | 2.60%    |
| 3-Year            | LIBOR + 2.00% | 2.56%                | 2.65%   | 2.84%    |
| 4-Year            | LIBOR + 2.00% | 2.77%                | 2.87%   | 3.06%    |
| 5-Year            | LIBOR + 2.00% | 2.96%                | 3.05%   | 3.24%    |
| 6-Year            | LIBOR + 2.00% | 3.13%                | 3.21%   | 3.38%    |
| 7-Year            | LIBOR + 2.00% | 3.27%                | 3.34%   | 3.49%    |
| 8-Year            | LIBOR + 2.00% | 3.38%                | 3.45%   | 3.59%    |
| 9-Year            | LIBOR + 2.00% | 3.47%                | 3.53%   | 3.66%    |
| 10-Year           | LIBOR + 2.00% | 3.54%                | 3.60%   | 3.72%    |
| 12-Year           | LIBOR + 2.00% | 3.64%                | 3.69%   | 3.80%    |
| 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   | \$364   | \$377   | \$385   | \$404   |
| 5-Year            |  | \$266  | \$340  | \$396   | \$439   | \$460   | \$472   | \$502   |
| 6-Year            |  |        | \$364  | \$445   | \$507   | \$537   | \$555   | \$599   |
| 7-Year            |  |        | \$372  | \$483   | \$568   | \$610   | \$634   | \$695   |
| 8-Year            |  |        |        | \$510   | \$622   | \$676   | \$708   | \$788   |
| 9-Year            |  |        |        | \$527   | \$668   | \$738   | \$778   | \$879   |
| 10-Year           |  |        |        | \$533   | \$708   | \$793   | \$844   | \$968   |
| 12-Year           | Fee Income Generation Only Possible With                       |        |        |         | \$765   | \$888   | \$961   | \$1,141 |
| 15-Year           | Back-to-Back Swaps and SMART Loan Products                     |        |        |         | \$797   | \$991   | \$1,104 | \$1,386 |

**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                          | 0.37% |  | 0.30%  | 0.48%  | 1.16%  | 2.51%  | 4.14%  |
| 3-Year                          | 0.56% |  | 0.50%  | 0.40%  | 0.93%  | 2.13%  | 3.60%  |
| 4-Year                          | 0.79% |  | 0.75%  | 0.35%  | 0.75%  | 1.77%  | 3.05%  |
| 5-Year                          | 1.01% |  |  |        |        |        |        |

| 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                           | 3.19% |  | 0.25%  | 0.52%  | 0.75%  | 0.89%  | 1.04%  |
| 3-Year                           | 3.35% |  | 0.15%  | 0.42%  | 0.63%  | 0.75%  | 0.90%  |
| 4-Year                           | 3.58% |  | 0.10%  | 0.40%  | 0.60%  | 0.72%  | 0.85%  |
| 5-Year                           | 3.77% |  |  |        |        |        |        |

**Contact Information - Toll Free 800-786-2883 or www.VSIRP.com**

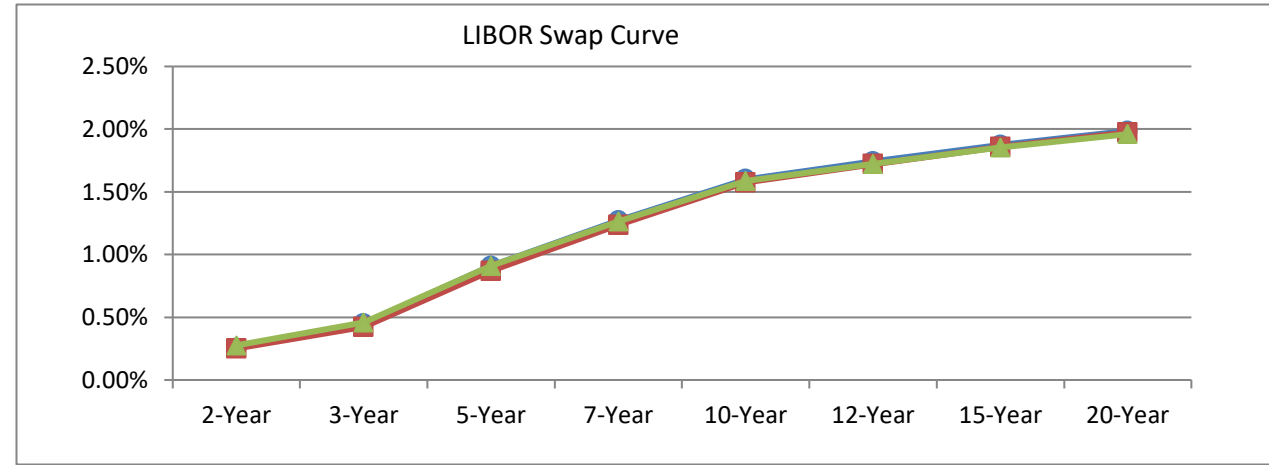
|  |  |  |  |  |
|--|--|--|--|--|
| Rick Redmond<br>(901) 766-3382<br><a href="mailto:rredmond@vsirp.com">rredmond@vsirp.com</a> | Katharine Bray<br>(901) 766-3384<br><a href="mailto:kbray@vsirp.com">kbray@vsirp.com</a> | Walt Robison<br>(901) 766-3389<br><a href="mailto:wrobison@vsirp.com">wrobison@vsirp.com</a> | Tommy Warren<br>(864) 915-6675<br><a href="mailto:twarren@vsirp.com">twarren@vsirp.com</a> | Battle Beasley<br>(901) 766-3383<br><a href="mailto:bbeasley@vsirp.com">bbeasley@vsirp.com</a> |
|--|--|--|--|--|

Although this information is from sources that we believe reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. This is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. All herein listed securities are subject to availability and change in price. Past Performance is not indicative of future results while changes in any assumption may have material effect on projected results. Any distribution or copying of this communication is strictly prohibited.

### Interest Rate Swap Curves

|         | LIBOR Swap Curve |           |            |
|---------|------------------|-----------|------------|
|         | Current          | Last Week | Last Month |
| 2-Year  | 0.255%           | 0.251%    | 0.276%     |
| 3-Year  | 0.451%           | 0.421%    | 0.460%     |
| 5-Year  | 0.910%           | 0.868%    | 0.910%     |
| 7-Year  | 1.271%           | 1.237%    | 1.265%     |
| 10-Year | 1.601%           | 1.575%    | 1.587%     |
| 12-Year | 1.741%           | 1.720%    | 1.723%     |
| 15-Year | 1.874%           | 1.858%    | 1.853%     |
| 20-Year | 1.986%           | 1.974%    | 1.960%     |

\*Bloomberg mid-market quotations



| Money Market Rates |          | 3M LIBOR Forward Rates |          |
|--------------------|----------|------------------------|----------|
| 1M LIBOR           | 0.09750% | Jun-21                 | 0.15500% |
| 3M LIBOR           | 0.14963% | Sep-21                 | 0.16000% |
| 6M LIBOR           | 0.18650% | Dec-21                 | 0.20500% |
| Prime              | 3.25000% | Mar-22                 | 0.19000% |
| FFTR               | 0.2500%  | Jun-22                 | 0.23000% |
| 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            | Prime         | 3.40%                                 | 3.41%  | 3.42%  | 3.42%   | 3.42%   | 3.42%   | 3.42%   | 3.42%  |
| 3-Year            | Prime         | 3.45%                                 | 3.53%  | 3.55%  | 3.56%   | 3.57%   | 3.58%   | 3.58%   | 3.59%  |
| 4-Year            | Prime         |                                       | 3.65%  | 3.71%  | 3.75%   | 3.78%   | 3.79%   | 3.80%   | 3.81%  |
| 5-Year            | Prime         |                                       | 3.70%  | 3.84%  | 3.92%   | 3.96%   | 3.97%   | 3.98%   | 4.00%  |
| 6-Year            | Prime         |                                       |        | 3.93%  | 4.05%   | 4.12%   | 4.14%   | 4.16%   | 4.19%  |
| 7-Year            | Prime         |                                       |        | 3.96%  | 4.15%   | 4.25%   | 4.29%   | 4.31%   | 4.35%  |
| 8-Year            | Prime         |                                       |        |        | 4.22%   | 4.35%   | 4.40%   | 4.43%   | 4.48%  |
| 9-Year            | Prime         |                                       |        |        | 4.26%   | 4.43%   | 4.49%   | 4.52%   | 4.58%  |
| 10-Year           | Prime         |                                       |        |        | 4.27%   | 4.49%   | 4.56%   | 4.60%   | 4.66%  |
| 12-Year           | Prime         | Customer Pays Fixed, Monthly, Act/360 |        |        |         | 4.57%   | 4.67%   | 4.71%   | 4.77%  |
| 15-Year           | Prime         | Customer Receives Prime               |        |        |         | 4.61%   | 4.75%   | 4.79%   | 4.89%  |

### Forward Starting Swap Quotes

| Rate Term (Years) | Floating Rate | 20-Year Amortization |         |          |
|-------------------|---------------|----------------------|---------|----------|
|                   |               | 3-Month              | 6-Month | 12-Month |
| 2-Year            | Prime         | 3.46%                | 3.52%   | 3.69%    |
| 3-Year            | Prime         | 3.65%                | 3.74%   | 3.93%    |
| 4-Year            | Prime         | 3.87%                | 3.96%   | 4.15%    |
| 5-Year            | Prime         | 4.06%                | 4.14%   | 4.33%    |
| 6-Year            | Prime         | 4.22%                | 4.30%   | 4.47%    |
| 7-Year            | Prime         | 4.36%                | 4.43%   | 4.58%    |
| 8-Year            | Prime         | 4.47%                | 4.53%   | 4.67%    |
| 9-Year            | Prime         | 4.55%                | 4.61%   | 4.74%    |
| 10-Year           | Prime         | 4.62%                | 4.68%   | 4.79%    |
| 12-Year           | Prime         | 4.72%                | 4.77%   | 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 |        |        |         |         |         |         |         |
|-------------------|--|--------|--------|---------|---------|---------|---------|---------|
|                   | 3-Year   | 5-Year | 7-Year | 10-Year | 15-Year | 20-Year | 25-Year | Bullet  |
| 2-Year            | \$141  | \$167  | \$179  | \$187   | \$194   | \$197   | \$199   | \$203   |
| 3-Year            | \$160  | \$222  | \$249  | \$268   | \$283   | \$291   | \$295   | \$304   |
| 4-Year            |  | \$256  | \$303  | \$339   | \$366   | \$379   | \$387   | \$404   |
| 5-Year            |  | \$268  | \$343  | \$400   | \$443   | \$464   | \$476   | \$502   |
| 6-Year            |  |        | \$368  | \$450   | \$512   | \$543   | \$560   | \$599   |
| 7-Year            |  |        | \$376  | \$489   | \$575   | \$617   | \$641   | \$695   |
| 8-Year            |  |        |        | \$517   | \$631   | \$686   | \$717   | \$788   |
| 9-Year            |  |        |        | \$535   | \$679   | \$749   | \$789   | \$879   |
| 10-Year           |  |        |        | \$541   | \$720   | \$807   | \$857   | \$968   |
| 12-Year           | Fee Income Generation Only Possible With                       |        |        |         | \$780   | \$906   | \$979   | \$1,141 |
| 15-Year           | Back-to-Back Swaps and SMART Loan Products                     |        |        |         | \$814   | \$1,014 | \$1,129 | \$1,386 |

### Contact Information - Toll Free 800-786-2883 or www.VSIRP.com

Rick Redmond  
(901) 766-3382  
[rredmond@vsirp.com](mailto:rredmond@vsirp.com)

Katharine Bray  
(901) 766-3384  
[kbray@vsirp.com](mailto:kbray@vsirp.com)

Walt Robison  
(901) 766-3389  
[wrobison@vsirp.com](mailto:wrobison@vsirp.com)

Tommy Warren  
(864) 915-6675  
[twarren@vsirp.com](mailto:twarren@vsirp.com)

Battle Beasley  
(901) 766-3383  
[bbeasley@vsirp.com](mailto:bbeasley@vsirp.com)

Although this information is from sources that we believe reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. This is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. All herein listed securities are subject to availability and change in price. Past Performance is not indicative of future results while changes in any assumption may have material effect on projected results. Any distribution or copying of this communication is strictly prohibited.