

ACTING ON THE INTEREST RATE MULLIGAN

This Day in History: Today is National Pecan Pie Day. On July 12, 1954, President Dwight Eisenhower presented his plan for a national interstate system. In 1979, the Chicago White Sox hosted “Disco Demolition Night” between games of a double header. Disco records were blown up and fans stormed the field, resulting in the White Sox forfeiting the second game to the Detroit Tigers.

Market Update: US Treasuries ended an 8-day falling rate streak on Friday but not before hitting multi-month lows. Swap rates tracked closely with Treasuries and sharply rebounded on Friday. With all the intra-week action, the swap curve ended the week lower and slightly flatter than the previous week.

Term	Swap Rates				Change		
	7/9/2021	7/2/2021	6/9/2021	8/4/2020	WoW	MoM	Since 8/4/2020
2y	0.30	0.31	0.22	0.18	-0.01	0.08	0.12
3y	0.52	0.56	0.40	0.18	-0.03	0.12	0.34
5y	0.88	0.97	0.82	0.24	-0.10	0.06	0.63
7y	1.13	1.18	1.16	0.35	-0.05	-0.03	0.78
10y	1.36	1.40	1.46	0.51	-0.04	-0.10	0.86
20y	1.67	1.74	1.83	0.73	-0.07	-0.16	0.94
2s/10s slope	1.06	1.09	1.24	0.32	-0.03	-0.18	0.74

Desk activity increased as more commercial borrowers are interested in taking advantage of the decline in interest rates. In addition, we see increased interest from bankers looking to take advantage of this dip in rates to protect floating rate deposits and investment portfolio values.

Wow. The 10-year swap rate is down 49 basis points since peaking March 2021 and the curve (as represented by 2s/10s slope) has flattened by 44bps. How can a bank take advantage of such an extreme (and surprising) decline in interest rates, especially since the longer-term bias is for higher rates? Here are a few thoughts:

Trust Preferred Securities: For those with this long-term debt/capital, we suggest reconsidering locking in a long-term fixed rate. After the recent reminder of how quickly rates can go up, perhaps this is the opportunity to take advantage of an interest rate mulligan to lock in low long-term rates.

Suppose an entity has trust preferred issued at LIBOR plus 1.50%. A 5-year fixed rate as we write this would be 2.41% while a 10 year (which would be near maturity for most trust preferred) would be 2.86%. (To determine the rate for your issuance, every change in the spread to LIBOR changes the fixed rate one-for-one).

For those with an existing swap, can you take advantage of the dip in rates? Absolutely. The combination of declining rates and a flattening curve lowers the cost of using (1) a forward start swap or (2) a blend and extend strategy to immediately lower the cost of your existing transaction. The forward start is an option for a bank that desires to:

1. Remain floating now but wants to lock in the cost at a future date, say 1 year from now. The additional cost of waiting one year to have a fixed rate (i.e., a forward starting swap one year from now) is only 13 to 18 basis points, depending on the swap term/maturity.
2. Lock in a fixed rate now for a period that starts when your existing swap matures.

Floating rate funding: Pools of floating rate deposits or wholesale funds that are directly tied to or highly correlated to an index can be used to efficiently protect against rising rates. The cost of funds can be locked in via a swap, a forward starting swap or a cap. In either case, these ideas can help you take advantage of this rate mulligan to protect future margins.

Call us and we can walk through your specific situation and suggest options to take advantage of this surprising reduction in interest rates.

Have a great week!

Vining Sparks Interest Rate Products, LLC

Toll-Free 800.786.2883

www.VSIRP.com

Rick Redmond

President

901-766-3382

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

Walt Robison, CPA, CFA

VP – Sales and Trading

901-766-3389

wrobison@vsirp.com

Katharine Bray

Director of Sales and Trading

901-766-3384

kbray@vsirp.com

Battle Beasley

VP – Sales and Trading

901-766-3383

bbeasley@vsirp.com

Tommy Warren, CPA

Senior VP – Sales and Trading

864-915-6675

twarren@vsirp.com

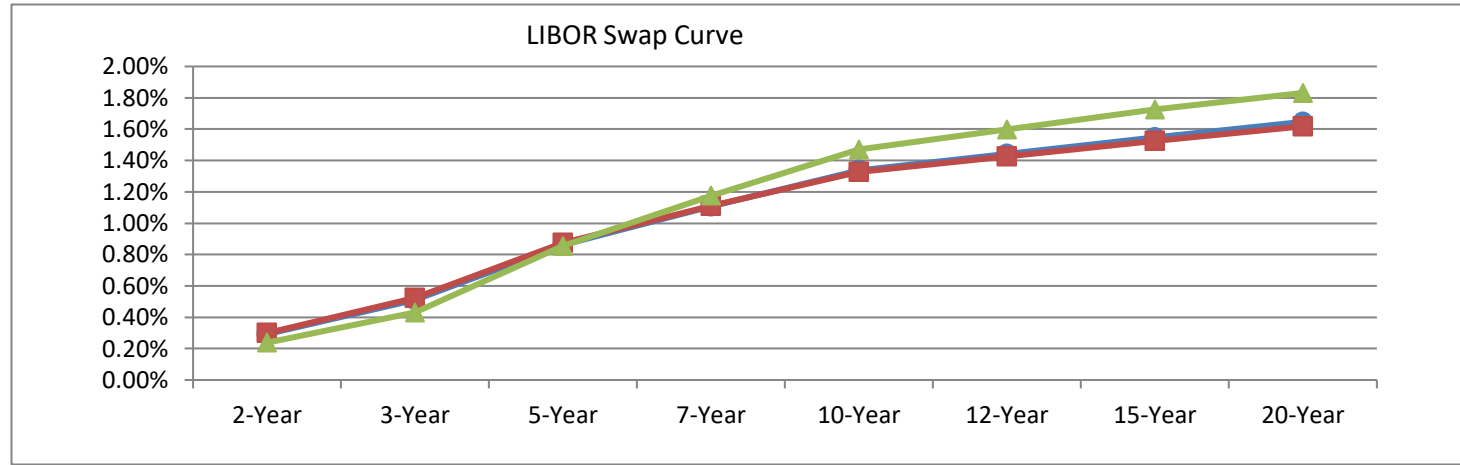
INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The information included herein has been obtained from sources deemed reliable, but it is not in any way guaranteed, and it, together with any opinions expressed, is subject to change at any time. Any and all details offered in this publication are preliminary 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	0.293%	0.299%	0.238%
3-Year	0.511%	0.524%	0.430%
5-Year	0.861%	0.873%	0.854%
7-Year	1.107%	1.109%	1.176%
10-Year	1.338%	1.326%	1.469%
12-Year	1.443%	1.425%	1.599%
15-Year	1.547%	1.525%	1.725%
20-Year	1.647%	1.618%	1.831%

*Bloomberg mid-market quotations



Money Market Rates		3M LIBOR Forward Rates	
1M LIBOR	0.09575%	Sep-21	0.13000%
3M LIBOR	0.13288%	Dec-21	0.19500%
6M LIBOR	0.15438%	Mar-22	0.18000%
12M LIBOR	0.24450%	Jun-22	0.23500%
Prime	3.25000%	Sep-22	0.32000%
FFTR	0.2500%		
Eff FF	0.1000%		
SOFR	0.0500%		

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%	2.32%	2.34%	2.35%	2.35%	2.36%	2.36%	2.36%	2.36%
3-Year	LIBOR + 2.00%	2.39%	2.48%	2.50%	2.52%	2.53%	2.53%	2.54%	2.54%
4-Year	LIBOR + 2.00%		2.58%	2.64%	2.68%	2.70%	2.71%	2.71%	2.73%
5-Year	LIBOR + 2.00%		2.62%	2.74%	2.80%	2.84%	2.85%	2.86%	2.88%
6-Year	LIBOR + 2.00%			2.80%	2.90%	2.95%	2.97%	2.98%	2.99%
7-Year	LIBOR + 2.00%			2.82%	2.97%	3.03%	3.06%	3.07%	3.11%
8-Year	LIBOR + 2.00%				3.02%	3.10%	3.14%	3.16%	3.20%
9-Year	LIBOR + 2.00%				3.04%	3.16%	3.20%	3.22%	3.27%
10-Year	LIBOR + 2.00%				3.05%	3.20%	3.25%	3.28%	3.33%
12-Year	LIBOR + 2.00%	Customer Pays Fixed, Monthly, Act/360				3.26%	3.33%	3.36%	3.43%
15-Year	LIBOR + 2.00%	Customer Receives 1-Month LIBOR + 2.00%				3.29%	3.40%	3.44%	3.53%

Forward Starting Swap Quotes

Rate Term (Years)	Floating Rate	20-Year Amortization		
		3-Month	6-Month	12-Month
2-Year	LIBOR + 2.00%	2.42%	2.50%	2.70%
3-Year	LIBOR + 2.00%	2.61%	2.70%	2.88%
4-Year	LIBOR + 2.00%	2.78%	2.86%	3.02%
5-Year	LIBOR + 2.00%	2.92%	2.99%	3.14%
6-Year	LIBOR + 2.00%	3.03%	3.10%	3.23%
7-Year	LIBOR + 2.00%	3.12%	3.18%	3.30%
8-Year	LIBOR + 2.00%	3.19%	3.25%	3.36%
9-Year	LIBOR + 2.00%	3.25%	3.30%	3.41%
10-Year	LIBOR + 2.00%	3.30%	3.35%	3.44%
12-Year	LIBOR + 2.00%	3.37%	3.41%	3.50%
15-Year	LIBOR + 2.00%	3.44%	3.47%	3.55%

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	\$293	\$304
4-Year		\$254	\$301	\$336	\$363	\$376	\$384	\$404
5-Year		\$265	\$340	\$395	\$438	\$459	\$471	\$502
6-Year			\$364	\$444	\$507	\$537	\$555	\$599
7-Year			\$372	\$483	\$568	\$610	\$635	\$695
8-Year				\$511	\$623	\$678	\$710	\$790
9-Year				\$528	\$670	\$740	\$781	\$883
10-Year				\$533	\$710	\$797	\$848	\$974
12-Year	Fee Income Generation Only Possible With				\$769	\$895	\$968	\$1,151
15-Year	Back-to-Back Swaps and SMART Loan Products				\$803	\$1,002	\$1,118	\$1,407

Macro-Hedging

Protection Against Rising Rates							
3mL Pay Fixed Swap		3-Month LIBOR Caps - Premium in Basis Points					
2-Year	0.41%	Pay Fix, quarterly, act/360 both sides	Strike	2-Year	3-Year	4-Year	5-Year
3-Year	0.62%		0.30%	0.55%	1.31%	2.53%	3.85%
4-Year	0.82%		0.50%	0.45%	1.07%	2.13%	3.31%
5-Year	0.98%		0.75%	0.38%	0.86%	1.75%	2.75%

Protection Against Falling Rates							
Prime Rcv Fixed Swap		3-Month LIBOR Floors - Premium in Basis Points					
2-Year	3.23%	Receive fixed, monthly, act/365 both sides	Strike	2-Year	3-Year	4-Year	5-Year
3-Year	3.41%		0.25%	0.51%	0.72%	0.85%	1.00%
4-Year	3.58%		0.15%	0.41%	0.61%	0.72%	0.85%
5-Year	3.74%		0.10%	0.39%	0.58%	0.67%	0.80%

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

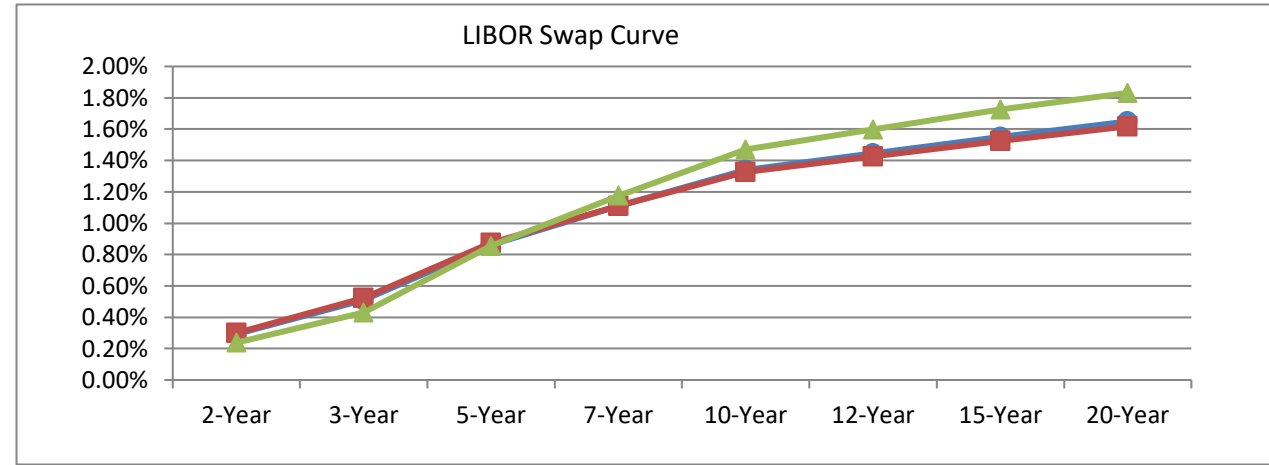
Rick Redmond (901) 766-3382 rredmond@vsirp.com	Katharine Bray (901) 766-3384 kbray@vsirp.com	Walt Robison (901) 766-3389 wrobison@vsirp.com	Tommy Warren (864) 915-6675 twarren@vsirp.com	Battle Beasley (901) 766-3383 bbeasley@vsirp.com
--	--	--	--	--

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.

Interest Rate Swap Curves

	LIBOR Swap Curve		
	Current	Last Week	Last Month
2-Year	0.293%	0.299%	0.238%
3-Year	0.511%	0.524%	0.430%
5-Year	0.862%	0.873%	0.854%
7-Year	1.109%	1.109%	1.176%
10-Year	1.341%	1.326%	1.469%
12-Year	1.445%	1.425%	1.599%
15-Year	1.550%	1.525%	1.725%
20-Year	1.649%	1.618%	1.831%

*Bloomberg mid-market quotations



Money Market Rates		3M LIBOR Forward Rates	
1M LIBOR	0.09575%	Sep-21	0.12500%
3M LIBOR	0.13288%	Dec-21	0.19000%
6M LIBOR	0.15438%	Mar-22	0.18500%
12M LIBOR	0.24450%	Jun-22	0.24000%
Prime	3.25000%	Sep-22	0.32000%
FFTR	0.2500%		
Eff FF	0.1000%		
SOFR	0.0500%		

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	3.43%	3.45%	3.45%	3.46%	3.46%	3.46%	3.46%	3.47%
3-Year	Prime	3.49%	3.58%	3.60%	3.62%	3.63%	3.63%	3.63%	3.64%
4-Year	Prime		3.68%	3.73%	3.77%	3.79%	3.80%	3.80%	3.81%
5-Year	Prime		3.71%	3.83%	3.89%	3.93%	3.94%	3.95%	3.97%
6-Year	Prime			3.89%	3.99%	4.04%	4.06%	4.06%	4.08%
7-Year	Prime			3.91%	4.06%	4.12%	4.14%	4.16%	4.19%
8-Year	Prime				4.10%	4.18%	4.22%	4.24%	4.27%
9-Year	Prime				4.13%	4.24%	4.28%	4.30%	4.33%
10-Year	Prime				4.13%	4.28%	4.32%	4.34%	4.39%
12-Year	Prime					4.33%	4.39%	4.43%	4.48%
15-Year	Prime					4.36%	4.46%	4.50%	4.57%

Customer Pays Fixed, Monthly, Act/360

Customer Receives Prime

Forward Starting Swap Quotes

Rate Term (Years)	Floating Rate	20-Year Amortization		
		3-Month	6-Month	12-Month
2-Year	Prime	3.52%	3.60%	3.78%
3-Year	Prime	3.71%	3.79%	3.96%
4-Year	Prime	3.87%	3.94%	4.10%
5-Year	Prime	4.01%	4.08%	4.22%
6-Year	Prime	4.12%	4.18%	4.31%
7-Year	Prime	4.20%	4.25%	4.36%
8-Year	Prime	4.27%	4.32%	4.42%
9-Year	Prime	4.32%	4.37%	4.46%
10-Year	Prime	4.37%	4.41%	4.50%
12-Year	Prime	4.43%	4.47%	4.55%
15-Year	Prime	4.49%	4.53%	4.60%

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		\$255	\$303	\$339	\$366	\$379	\$387	\$404
5-Year		\$267	\$343	\$399	\$442	\$463	\$475	\$502
6-Year			\$367	\$449	\$512	\$543	\$560	\$599
7-Year			\$376	\$489	\$576	\$617	\$642	\$695
8-Year				\$518	\$632	\$687	\$719	\$790
9-Year				\$535	\$681	\$752	\$792	\$883
10-Year				\$541	\$723	\$810	\$861	\$974
12-Year					\$784	\$913	\$987	\$1,151
15-Year					\$820	\$1,025	\$1,143	\$1,407

Fee Income Generation Only Possible With Back-to-Back Swaps and SMART Loan Products

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

Rick Redmond (901) 766-3382 rredmond@vsirp.com	Katharine Bray (901) 766-3384 kbray@vsirp.com	Walt Robison (901) 766-3389 wrobison@vsirp.com	Tommy Warren (864) 915-6675 twarren@vsirp.com	Battle Beasley (901) 766-3383 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.