

DECISION TIME: WHY VSIRP?

This Day in History: Today is World Teachers Day. On October 5, 1973, Elton John released his seventh studio album, "Goodbye Yellow Brick Road." In 2001, the Atlanta Braves became the first professional sports team to win 10 straight division titles.

Market Update: Swap rates moved slightly higher across a steepening curve last week. The 2-year swap rate was unchanged from the previous week, while the 10-year rate was up about 3bps. On Friday, the swap market quickly shrugged off a disappointing payroll report and continued to drift higher.

Desk activity was brisk going into quarter-end. Commercial loan hedging and investment portfolio hedging (the DIY muni hedge) led the way. Bankers continue to take advantage of the low rate, flat curve environment to hedge loan and investment portfolios as well as lock-in low cost fixed rate funding.

In about one month the country will make a critical decision as we vote for the next President of the United States. In keeping with the thought of decision making and the upcoming election, this week's commentary will make the case for why Vining Sparks Interest Rate Products, LLC (VSIRP) is the best hedging partner for community banks. We recognize you have choices when selecting a partner and have listed below several points to be considered:

Relationship with Vining Sparks and ICBA. VSIRP is a sister company of Vining Sparks IBG, LP, (Vining Sparks) the preferred and endorsed broker dealer of the Independent Community Bankers of America (ICBA). Those relationships affirm our longstanding and continuing commitment to community banks and their state organizations. You can be confident that the resources of both VSIRP and Vining Sparks are supporting our community bank customers.

We serve community banks. We serve as the derivatives desk for community financial institutions. This role provides our customers with the product depth needed to compete with larger competitors without having to make a large fixed cost investment to create their own desk. Our products and services are built to serve you.

We do not compete with you or insert ourselves between you and your customers. We do not compete with you in the banking space. Several of our competitors are correspondent or regional banks that may compete directly with you via a market presence or indirectly through internet deposit accounts or online lending. Some of these competitors must underwrite your borrower and take a position in your loan collateral when doing commercial loan hedging. We believe using a derivatives vendor that does not compete for your customers or interfere with the customer relationship is important.

We offer you strategic choices. We can serve as counterparty or as a strategic partner. For our smaller customers we serve as counterparty and provide all our turn-key support. For larger customers, we serve as their strategic partner, introducing them to a counterparty while providing the same turn-key support. Our competitors generally provide only one option for their customers. In addition, some competitors require an up-front retainer that significantly reduces the economic benefit of using derivatives.

We offer product flexibility to you and your customer. We offer three ways to hedge a commercial loan transaction. You choose the structure that works best for you and your borrower. Many of our competitors only offer a one size fits all solution to hedge a long-term fixed rate commercial loan. Our most popular loan hedging product, our propriety SMART loan, allows you to execute loan hedging transactions without requiring your customer to sign complicated hedging documents or meet onerous eligible contract participant requirements.

We take a holistic approach to balance sheet risk management. We employ balance sheet management experts who work with you to understand your balance sheet challenges and opportunities and then suggest the best ways to meet your stated objectives. Those recommendations typically include a variety of different balance sheet management products that include fixed income securities, whole loan trading, wholesale funding, derivatives and subordinated debt. Many of our competitors only have one product for balance sheet management issues even though those issues may require a multiple-product solution. Our commitment to this approach includes the development and use of state-of-the-art decision support technology that allows us to build and present multiple strategic options – making it easier for you to choose between competing solutions.

It's ok to have derivatives on your books. Some of our competitors use loan hedging techniques that requires them to underwrite and get involved with your borrower so you “don't have a derivative on your books.” Avoiding having derivatives on the books limits their use to commercial loan hedging and precludes their use for overall balance sheet management purposes. As your “derivative desk”, we support the use of derivatives across the balance sheet and provide all the information needed to properly analyze, account for and report them. VSIRP provides analytical data from internally developed pricing and valuation models while maintaining your accounting information in SOC 1 and SOC 2 compliant ASC-815 reporting systems. We provide derivative and hedge accounting documentation as well as monthly accounting information to make accounting entries, prepare disclosures, and complete your call report. Your accounting and reporting time will be minimal no matter the nature of transactions you execute.

Contact us and allow us to help you implement a hedging program that will increase your earnings while improving your risk profile.

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Interest Rate Swap Curves

LIBOR Swap Curve			
	Current	Last Week	Last Month
2-Year	0.221%	0.223%	0.228%
3-Year	0.248%	0.240%	0.239%
5-Year	0.368%	0.336%	0.331%
7-Year	0.529%	0.484%	0.479%
10-Year	0.749%	0.690%	0.681%
12-Year	0.861%	0.799%	0.783%
15-Year	0.977%	0.911%	0.885%
20-Year	1.093%	1.023%	0.987%

*Bloomberg mid-market quotations



Money Market Rates		3M LIBOR	
1M LIBOR	0.14275%	Forward Rates	
3M LIBOR	0.22025%	Dec-20	0.23000%
6M LIBOR	0.23375%	Mar-21	0.19500%
12M LIBOR	0.34875%	Jun-21	0.19500%
Prime	3.25000%	Sep-21	0.19500%
FFTR	0.25000%	Dec-21	0.21500%
Eff FF	0.09000%		
SOFR	0.10000%		

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%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	
3-Year	LIBOR + 2.00%	2.25%	2.25%	2.26%	2.26%	2.26%	2.26%	2.26%	2.26%	
4-Year	LIBOR + 2.00%		2.28%	2.29%	2.30%	2.30%	2.31%	2.31%	2.31%	
5-Year	LIBOR + 2.00%		2.29%	2.33%	2.35%	2.36%	2.37%	2.37%	2.37%	
6-Year	LIBOR + 2.00%			2.36%	2.40%	2.42%	2.43%	2.44%	2.45%	
7-Year	LIBOR + 2.00%			2.38%	2.45%	2.49%	2.51%	2.52%	2.54%	
8-Year	LIBOR + 2.00%				2.49%	2.55%	2.58%	2.60%	2.64%	
9-Year	LIBOR + 2.00%				2.51%	2.61%	2.65%	2.68%	2.68%	
10-Year	LIBOR + 2.00%				2.52%	2.66%	2.71%	2.72%	2.77%	
12-Year	LIBOR + 2.00%	Customer Pays Fixed, Monthly, Act/360			2.74%	2.78%	2.83%	2.86%	2.86%	
15-Year	LIBOR + 2.00%	Customer Receives 1-Month LIBOR + 2.00%			2.76%	2.87%	2.89%	2.96%		

Forward Starting Swap Quotes

Rate Term (Years)	Floating Rate	20-Year Amortization		
		3-Month	6-Month	12-Month
2-Year	LIBOR + 2.00%	2.24%	2.24%	2.26%
3-Year	LIBOR + 2.00%	2.27%	2.28%	2.32%
4-Year	LIBOR + 2.00%	2.32%	2.34%	2.39%
5-Year	LIBOR + 2.00%	2.39%	2.41%	2.47%
6-Year	LIBOR + 2.00%	2.46%	2.49%	2.55%
7-Year	LIBOR + 2.00%	2.53%	2.56%	2.62%
8-Year	LIBOR + 2.00%	2.61%	2.64%	2.70%
9-Year	LIBOR + 2.00%	2.68%	2.71%	2.77%
10-Year	LIBOR + 2.00%	2.74%	2.76%	2.82%
12-Year	LIBOR + 2.00%	2.80%	2.83%	2.88%
15-Year	LIBOR + 2.00%	2.89%	2.91%	2.95%

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	\$266	\$282	\$289	\$293	\$304	
4-Year		\$254	\$302	\$337	\$365	\$378	\$386	\$406	
5-Year		\$266	\$342	\$398	\$441	\$463	\$475	\$506	
6-Year			\$366	\$449	\$512	\$543	\$561	\$606	
7-Year			\$375	\$488	\$576	\$619	\$644	\$706	
8-Year				\$518	\$633	\$690	\$723	\$805	
9-Year				\$535	\$683	\$756	\$798	\$904	
10-Year				\$542	\$726	\$816	\$869	\$1,000	
12-Year	Fee Income Generation Only Possible With			\$788	\$920	\$998	\$1,190		
15-Year	Back-to-Back Swaps and SMART Loan Products			\$825	\$1,036	\$1,160	\$1,467		

Macro-Hedging

Protection Against Rising Rates									
3mL Pay Fixed Swap			3-Month LIBOR Caps - Premium in Basis Points						
Rate Term	Rate	Pay Fix, quarterly, act/360 both sides	Strike	2-Year	3-Year	4-Year	5-Year		
2-Year	0.33%		0.30%	0.37%	0.55%	1.02%	1.64%		
3-Year	0.35%		0.50%	0.32%	0.40%	0.75%	1.24%		
4-Year	0.41%		0.75%	0.32%	0.36%	0.62%	0.98%		
5-Year	0.47%								

Protection Against Falling Rates									
Prime Rcv Fixed Swap			3-Month LIBOR Floors - Premium in Basis Points						
Rate Term	Rate	Receive fixed, monthly, act/365 both sides	Strike	2-Year	3-Year	4-Year	5-Year		
2-Year	3.07%		0.25%	0.49%	0.76%	0.95%	1.22%		
3-Year	3.06%		0.15%	0.43%	0.69%	0.85%	1.10%		
4-Year	3.09%		0.10%	0.42%	0.67%	0.83%	1.06%		
5-Year	3.20%								

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