



# PORTFOLIO MANAGER'S REPORT



Monday May 10, 2010 9:08 AM  
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## CURRENT OFFERING YIELDS - Monday: 05/10/2010 9:08 AM

## ECONOMIC SNAPSHOT

	Trsy (Last Price)	Change (From Yest)	Agcy NC	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)	Release Dt		
3 mo	0.145%	+ 2.50 bp's	0.139%	0.465%			PPI (YOY)	3/31/2010	6.00%
6 mo	0.227%	+ 3.50 bp's	0.210%	0.556%			CPI (YOY)	3/31/2010	2.30%
12 mo	0.405%	+ 1.2 32'ds	0.502%	0.783%			Unemploy	4/30/2010	9.9
2 yr	0.888%	-5.0 32'ds	0.987%	1.314%	1.788%	1.838%	Non Farm	4/30/2010	290.00
3 yr	1.353%		1.427%	1.925%	2.353%	2.453%	Cons Conf	4/30/2010	57.9
5 yr	2.283%	-9.0 32'ds	2.308%	3.147%	3.133%	3.433%	DJIA	10,760.73	380.30
10 yr	3.554%	-18.0 32'ds	3.635%	5.071%	4.504%	4.554%	NASDAQ	2,362.52	96.88
30 yr	4.420%	-34.0 32'ds	4.808%	6.965%			S & P 500	1,155.57	44.69

Source: Bloomberg Fair Value Curve or Last Price (Treasury only); ALL yields and spreads are "representative", not actual. Spreads change as the market changes, actual offerings may be higher or lower than indicated here. The municipal rate is the taxable equivalent yield after 10 bps TEFRA at the 34% federal tax bracket.

## THIS WEEK'S ECONOMIC REPORT

Date	Time	Report	Period	Mk Est.	Actual	Previous
5/11/2010	9:00	Wholesale Inventories	Mar	0.5%	---	0.6%
5/12/2010	7:30	Trade Balance	Mar	-\$40.5B	---	-\$39.7B
5/13/2010	7:30	Continuing Claims	1-May	4595K	---	4594K

## TODAY'S NEWS

### No Bear Market for Treasuries as Geithner Advisers See 90% Drop in Options

May 10 (Bloomberg) -- Just six months after the committee of bond dealers and investors that advises Treasury Secretary Timothy Geithner raised the alarm over record U.S. debt sales, Treasuries are the securities everyone needs to own. The cost to hedge against rising yields as measured by the so-called payer skew in options on interest-rate swaps has fallen about 90 percent from a record high in October, Barclays Plc data show. At about four basis points, the measure, which the Treasury Borrowing Advisory Committee flagged as a warning sign in November, is back in line with the average before credit markets seized up in August 2007.

## MONDAY - YIELD CURVE REVIEW

The first day of the week is a day for preparation - in this regard we will take this opportunity to review the market.

Treasuries	Today	Last Week Close	3/31/2010	4/30/2009
3 mo	0.145%	0.127%	0.120%	0.206%
6 mo	0.227%	0.150%	0.183%	0.420%
2 yr	0.888%	0.762%	0.816%	0.800%
3 yr	1.353%	1.269%	1.334%	1.124%
5 yr	2.283%	2.115%	2.303%	1.657%
10 yr	3.554%	3.377%	3.614%	2.665%
30 yr	4.420%	4.226%	4.558%	3.535%

## Callables v Bullets

	Bullet Sprd	Bullet Yld	Call Typ *	Call Sprd	Call Yield	v Bullet	1X Only	1X Yield	v. Bullet
2Y	0.099%	0.987%	2/1 NC	0.264%	1.152%	0.165%	0.257%	1.145%	0.158%
3Y	0.075%	1.427%	3/1 NC	0.338%	1.691%	0.263%	0.305%	1.658%	0.230%
5Y	0.025%	2.308%	5/2 NC	0.381%	2.664%	0.356%	0.350%	2.633%	0.325%
10Y	0.081%	3.635%	10/3 NC	0.436%	3.990%	0.355%	0.357%	3.911%	0.276%

\* Indications for "Continuously Callable" (Bermuda or American) securities. "1 Time Only" (European) Callables are 2/1; 3/1; 5/2; and 10/3 1X only.  
 The "Callables v Bullets" section is updated weekly and may not reflect current offering rates exactly.



# PORTFOLIO MANAGER'S REPORT



## Indifference Rate Curve

What is the Fixed Rate alternative to Prime, to which my bank is economically indifferent? These are the types of questions we face every day in our own bank, and through contact with banks like yours who use our Asset Liability Subsidiary (AMG).

Loan Pricing is becoming more of a "SCIENCE", and less of an "ART". Especially in those markets where we "Community Banks" are faced with competition from our "Big Bank" colleagues. We can understand a little more about this issue if we can apply some of the tools that bigger banks use to calculate the "Indifference Rate", or the rate at which they are mathematically indifferent to a borrower, whether the borrower chooses to utilize a Variable or Fixed Rate Loan. This calculation may not always produce a rate that will WIN a highly competitive loan, but will help the bank to better understand the true cost of making a loan at a less than indifferent rate. We have created this Indifference Rate Curve to help in making this decision. We hope it makes you and your staff more confident in evaluating the credits you see on an ongoing basis.

If you would make the following variable rate loan to a customer:

<u>Prime Rate</u>		<u>Credit Adjust.</u>		<u>Var Offering Rate</u>
3.25%	+	0.00%	=	3.25%

Then you would have the following Fixed Rate Alternatives to which you would be mathematically indifferent:

These would be Non Prepayable Loans, an additional adjustment should be made for Prepayment Risk.

	<u>LIBOR SWAP</u>		<u>Spread</u>		<u>PRIME/3MO LIBOR</u>		<u>Credit Adj</u>		<u>FIXED</u> <u>Offering Rate</u>
1 year	0.66%	+	2.64%	+	0.00%	=	3.30%		
2 year	1.14%	+	2.59%	+	0.00%	=	3.72%		
3 year	1.62%	+	2.57%	+	0.00%	=	4.19%		
4 year	2.08%	+	2.57%	+	0.00%	=	4.65%		
5 year	2.47%	+	2.58%	+	0.00%	=	5.04%		
10 year	3.50%	+	2.61%	+	0.00%	=	6.11%		
15 year	3.88%	+	2.61%	+	0.00%	=	6.49%		
20 year	4.03%	+	2.61%	+	0.00%	=	6.64%		

## Historical Fixed Indifferent Rates - Non Prepayable Loan

Average Maturity	<u>5/10/2010</u>	<u>Last Week</u>	<u>Last Mo</u>	<u>3 mos Ago</u>	<u>6 mos Ago</u>	<u>1 yr Ago</u>
Prime	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
1 year	3.30%	3.33%	3.22%	3.20%	3.16%	3.63%
2 year	3.72%	3.83%	3.77%	3.75%	3.74%	3.94%
3 year	4.19%	4.36%	4.36%	4.34%	4.33%	4.41%
4 year	4.65%	4.82%	4.86%	4.84%	4.80%	4.79%
5 year	5.04%	5.22%	5.27%	5.26%	5.18%	5.09%
10 year	6.11%	6.25%	6.35%	6.35%	6.16%	5.85%
15 year	6.49%	6.64%	6.79%	6.80%	6.59%	6.19%
20 year	6.64%	6.78%	6.94%	6.95%	6.74%	6.28%

