



PORTFOLIO MANAGER'S REPORT



Wednesday May 26, 2010 9:00 AM

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CURRENT OFFERING YIELDS - Wednesday: 05/26/2010 9:00 AM

TODAY'S ECONOMIC DATA

Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)	26-May	MBA Mortgage Applications Prior: -1.5% Actual: 11.3%
3 mo	0.160%	+ 0.70 bp's	0.162%	0.465%		26-May	Durable Goods Orders Prior: -1.3% Actual: 2.9%
6 mo	0.221%	+ 0.30 bp's	0.250%	0.541%		26-May	Durables Ex Transportation Prior: 2.8% Actual: -1.0%
12 mo	0.333%	+ 0.4 32'ds	0.493%	0.708%			
2 yr	0.821%	-2.5 32'ds	0.974%	1.208%	1.721%		
3 yr	1.231%		1.368%	1.809%	1.771%		
5 yr	2.051%	-5.5 32'ds	2.157%	3.011%	2.231%		
10 yr	3.229%	-5.5 32'ds	3.360%	5.041%	2.901%		
30 yr	4.117%	-19.5 32'ds	4.581%	6.950%	4.179%		
					4.229%	DJIA	10,161.87
						NASDAQ	2,251.11
						S & P 500	1,088.51
							118.12
							40.16
							14.48

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

TODAY'S NEWS

Treasuries Decline as Stock Markets Advance on Signs Recovery Is on Course

May 26 (Bloomberg) -- Treasuries fell, pushing yields up from yesterday's one-year low, as signs the economic recovery is still on course boosted equities and curbed demand for the safety of U.S. fixed-income assets. Ten-year yields gained as a government report showed U.S. factory orders rose more than forecast. The Organization for Economic Cooperation and Development in a report raised its growth forecasts for this year and next. The Treasury is scheduled to sell \$40 billion of five-year securities today, the second of three auctions this week totaling \$113 billion. The MSCI World Index gained 1 percent, its first gain this week.

Today's Topic: A Word to the Wise...

In this low rate environment, we often hear clients ask, "Is there anything with a little more yield out there?", and the answer to that question is usually, YES, but with consequences. It's important to understand just how "ugly" things can get when rates move up, and we are looking at the portfolio and asking, "why did we do that?"

Today, there are plenty of Step Ups, Callable Agencies, Muni's and MBS securities being offered, I'm sure you've seen your share. But don't lose sight of the fact these same securities will see the bid side fall away in a rising rate environment. It's not that you won't get a bid, but you will probably not like the one you get. Also, the market value of your portfolio will likely spark some "lively" discussions in your future board meetings unless you lay the ground work for that discussion TODAY!

If you were to buy a \$1,000,000 5 year treasury today, what do you think your loss on that security would be in 1 year if rates were to increase 300 basis points? Hold your nose ---- (107,552.06)! That's right, almost 11 points.

So how do you think the Step Ups, Callable Agencies, Muni's, and MBS securities will fare? The proper analysis is not to use market value alone as the deciding factor as to whether we made the right decision or not, it is to properly evaluate the income from the alternatives versus the market value loss in this rising rate environment. The point is not to scare you into doing nothing, that is not a viable option with cash yielding 0%, but be prepared for those inevitable discussions, and call your CCB rep to help you frame these properly.

Here is an example that fares well in a rising rate environment.

YA

Msg: C. RAPLINGER

ADJUSTABLE RATE MTGE FH1B4678 PAGE 1 OF 31

MORTGAGE DATA	
CURRENT NET COUPON	3.437
ORIG. WAM 30 : 0 REM WAM 29 : 11	
PREPAY TO NEXT RESET	15.00 CPB
LAST PAYMENT RESET	6/ 1/10
NEXT PYMNT RESET (actual)	6/ 1/15
NEXT RATE RESET (actual)	6/ 1/15
NEGATIVE AMORTIZATION LIMIT	
SERVICING FEE	46.5 BPS
NET RESET MARGIN	178.5 BPS
RESETS: PAYMENT 12mos INTEREST 12mos	
FIRST RESET CAP: UP 5.00 DOWN 5.00	
NET CAP: LIFE 8.437 AT RESET 2	
NET FLR: LIFE AT RESET 2	
PMT CAP: LIFE AT RESET	
PMT FLR: LIFE AT RESET	
STATED (ACTUAL) DELAY DAYS 74 (44)	

YIELD ANALYSIS	
SETTLE (21 DAYS ACC INT 0.200)	6/22/10
PRICE 102-28	102-28
YIELD (bond-eq)	2.420
YIELD (monthly)	2.408
BEEM (bp)	120
DISCOUNT MARGIN (bp)	119
INDEX DURATION	3.14
SPRD DUR(same cflows)	3.14
WAL	3.37

TOTAL RETURN	
IF prc=100 on 6/ 1/15	
Tot Ret to next reset = 2.42 %	
(1779 days CBE YIELD 30/360)	
Accreted price will be	

PROJECTIONS NEXT RESET TO MTY: <S>single, <M>multiple or <X>Frwd-model<ARM curr sec ONLY>: S

ASSUME LIBOR12M cashflows	1.218
Discount Index	1.218
ASSUMED CPB (PRE-)	15.00
# OF PERIODS (RESET)	25

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2577 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 Bloomberg Finance L.P. SN 120175 26-May-2010 09:35:51