



PORTFOLIO MANAGER'S REPORT



Monday July 12, 2010 8:47 AM
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CURRENT OFFERING YIELDS - Monday: 07/12/2010 8:47 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%	UNCH	0.130%	0.420%			PPI (YOY)	5/31/2010	5.30%
6 mo	0.186%	UNCH	0.181%	0.511%			CPI (YOY)	5/31/2010	2.00%
12 mo	0.283%	UNCH	0.388%	0.723%			Unemploy	6/30/2010	9.5
2 yr	0.633%	-0.5 32'ds	0.772%	1.208%	1.533%	1.583%	Non Farm	6/30/2010	-125.00
3 yr	1.033%		1.185%	1.783%	2.033%	2.133%	Cons Conf	6/30/2010	52.9
5 yr	1.832%	-0.5 32'ds	2.011%	2.935%	2.682%	2.982%	DJIA	10,209.45	11.42
10 yr	3.045%	+ 0.5 32'ds	3.290%	4.889%	3.995%	4.045%	NASDAQ	2,212.59	16.14
30 yr	4.036%	+ 2.0 32'ds	4.605%	6.950%			S & P 500	1,080.23	2.27

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
7/13/2010	7:30	Trade Balance	May	-\$39.0B	---	-\$40.3B
7/14/2010	6:00	MBA Mortgage Applications	9-Jul	---	---	6.70%
7/15/2010	7:30	Continuing Claims	3-Jul	4425K	---	4413K

TODAY'S NEWS

Treasuries Near Two-Week Low as Stocks Fluctuate, Note, Bond Auctions Loom

July 12 (Bloomberg) -- Treasuries traded near a two-week low as stocks fluctuated before U.S. earnings season begins today and the government sells \$35 billion in three-year securities, the first of three note and bond auctions this week. The yields on 10- and 30-year securities pared declines and were almost at the highest level since June 28. The MSCI World Index slipped 0.1 percent after a 5.3 percent gain last week. The U.S. this week will also sell \$21 billion in 10-year notes and \$13 billion in 30-year bonds.

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	5/31/2010	6/30/2009
3 mo	0.145%	0.152%	0.120%	0.206%
6 mo	0.186%	0.144%	0.183%	0.420%
2 yr	0.633%	0.579%	0.816%	0.800%
3 yr	1.033%	0.997%	1.334%	1.124%
5 yr	1.832%	1.787%	2.303%	1.657%
10 yr	3.045%	3.004%	3.614%	2.665%
30 yr	4.036%	3.987%	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	0.139%	0.772%	2/1 NC	0.285%	0.918%	0.146%	0.274%	0.907%	0.135%
3Y	0.152%	1.185%	3/1 NC	0.336%	1.369%	0.184%	0.308%	1.341%	0.156%
5Y	0.179%	2.011%	5/2 NC	0.355%	2.187%	0.176%	0.343%	2.175%	0.164%
10Y	0.245%	3.290%	10/3 NC	0.431%	3.476%	0.186%	0.347%	3.392%	0.102%

* 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	0.64%	+	2.60%	+	0.00%	=	3.23%		
2 year	0.94%	+	2.57%	+	0.00%	=	3.51%		
3 year	1.32%	+	2.57%	+	0.00%	=	3.88%		
4 year	1.71%	+	2.56%	+	0.00%	=	4.28%		
5 year	2.07%	+	2.58%	+	0.00%	=	4.65%		
10 year	3.05%	+	2.63%	+	0.00%	=	5.68%		
15 year	3.47%	+	2.63%	+	0.00%	=	6.10%		
20 year	3.64%	+	2.63%	+	0.00%	=	6.26%		

Historical Fixed Indifferent Rates - Non Prepayable Loan

	<u>7/12/2010</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	3.23%	3.23%	3.30%	3.11%	3.06%	3.32%
2 year	3.51%	3.49%	3.63%	3.69%	3.68%	3.83%
3 year	3.88%	3.85%	4.06%	4.29%	4.32%	4.40%
4 year	4.28%	4.23%	4.47%	4.80%	4.84%	4.85%
5 year	4.65%	4.62%	4.85%	5.22%	5.27%	5.22%
10 year	5.68%	5.55%	5.87%	6.32%	6.33%	6.07%
15 year	6.10%	5.98%	6.29%	6.77%	6.78%	6.38%
20 year	6.26%	6.15%	6.45%	6.92%	6.91%	6.48%

