



# PORTFOLIO MANAGER'S REPORT



Tuesday July 27, 2010 8:56 AM

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## CURRENT OFFERING YIELDS - Tuesday: 07/27/2010 8:56 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)	27-Jul	S&P/CS 20 City MoM% SA Prior: 0.44% Actual: 0.47%
3 mo	0.142%	UNCH	0.149%	0.465%		27-Jul	S&P/CS Composite-20YoY Prior: 3.81% Actual: 4.61%
6 mo	0.193%	- 0.30 bp's	0.201%	0.511%		27-Jul	Consumer Confidence Prior: 52.9 Actual: ---
12 mo	0.267%	+ 0.4 32'ds	0.387%	0.632%			
2 yr	0.625%	-2.5 32'ds	0.759%	1.011%	1.425%		
3 yr	1.006%		1.151%	1.566%	1.806%		
5 yr	1.768%	-4.0 32'ds	1.934%	2.677%	2.618%		
10 yr	3.029%	-4.0 32'ds	3.250%	4.723%	3.829%		
30 yr	4.058%	-10.0 32'ds	4.622%	6.950%	4.029%		
						DJIA	10,538.22 12.79
						NASDAQ	2,299.28 2.85
						S & P 500	1,116.79 1.78

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 Government Prepares to Start Auctions, Equities Rise

July 27 (Bloomberg) -- Treasuries fell as the government prepared to sell \$104 billion in notes this week, stocks rose and a report showed home prices in 20 U.S. cities increased in May more than forecast. The drop sent 10-year yields to the highest in more than a week as investors sought better-yielding assets. A \$38 billion Treasury two-year note sale set for today was poised to draw a record-low yield. The S&P/Case-Shiller index of property values increased 4.6 percent from May 2009, the biggest year-over-year gain since August 2006, the group said today in New York.

### Today's Topic- CCB Derivatives Apparently Unaffected by Financial Reform Legislation

As all of you know, derivatives were high on the list of topics to be "reformed" in the new bank regulation legislation. After our initial review of the legislation, it appears that the types of derivative transactions we do and recommend to our clients will be unaffected by the changes. All transactions we recommend are strictly for hedge purposes--most are to address interest rate risk in longer term fixed rate loans or to address asset sensitivity in banks with large loan books indexed to prime or hedges that "fix" the rate on floating rate Trust Preferred. It appears that these will be unaffected. Types of transactions that are affected are credit default swaps, commodity swaps and equity-related derivatives, but we do not offer advice to our clients on any of these types of transactions.

We believe that plain vanilla interest rate swaps, caps and floors have a strategic place in the asset-liability management toolkit for community banks. For example, if a competitor bank or a Farm Credit Bank offers one of your best customers a long term fixed rate loan, say 10 years, how do you compete? Or if interest rates finally rise rapidly, would it not be prudent to "fix" the rate on Trust Preferred which is indexed to 3 month LIBOR? These are two examples among several where plain vanilla derivatives can be very useful. We offer advice on these types of transactions.

We will continue to review these developments and keep you advised.