



# PORTFOLIO MANAGER'S REPORT



Monday August 02, 2010 9:37 AM  
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## CURRENT OFFERING YIELDS - Monday: 08/02/2010 9:37 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	0.140%	UNCH	0.130%	0.465%		PPI (YOY)	6/30/2010	2.80%	
6 mo	0.186%	-0.50 bp's	0.184%	0.480%		CPI (YOY)	6/30/2010	1.10%	
12 mo	0.272%	UNCH	0.367%	0.541%		Cons Conf	7/31/2010	50.4	
2 yr	0.562%	-1.0 32'ds	0.680%	0.859%	1.362%	1.382%	NAPM (Mfg)	7/31/2010	55.50
3 yr	0.919%		1.040%	1.389%	1.719%	2.269%	NAPM Price	7/31/2010	57.5
5 yr	1.632%	-2.0 32'ds	1.760%	2.450%	2.482%	3.212%	DJIA	10,648.83	182.89
10 yr	2.954%	-5.5 32'ds	3.067%	4.662%	3.754%	3.954%	NASDAQ	2,295.11	40.41
30 yr	4.050%	-13.5 32'ds	4.568%	6.950%			S & P 500	1,122.24	20.64

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
8/2/2010	9:00	ISM Manufacturing	July	54.5	55.5	56.2
8/3/2010	7:30	Personal Income	June	0.2%	---	0.4%
8/4/2010	6:00	MBA Mortgage Applications	30-Jul	---	---	-4.4%

## TODAY'S NEWS

### Treasuries Decline as Report Shows Manufacturing Expanded for a 12th Month

Aug. 2 (Bloomberg) -- Treasuries fell for the first time in four days as report showed U.S. manufacturing expanded for a 12th straight month, giving investors the confidence to seek higher returns than those available from government debt. Two-year note yields rose from a record low as HSBC Holdings Plc, Europe's biggest bank, said first-half net income doubled and BNP Paribas SA, France's biggest bank, reported second-quarter profit that rose 31 percent.

## 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	6/30/2010	7/31/2009
3 mo	0.140%	0.147%	0.175%	0.181%
6 mo	0.186%	0.149%	0.222%	0.254%
2 yr	0.562%	0.500%	0.605%	1.115%
3 yr	0.919%	0.877%	0.966%	1.590%
5 yr	1.632%	1.548%	1.775%	2.516%
10 yr	2.954%	2.857%	2.933%	3.481%
30 yr	4.050%	3.939%	3.889%	4.299%

## Callables v Bullets

Bullet Sprd	Bullet Yld	Call Typ *	Call Sprd	Call Yield	v Bullet	1X Only	1X Yield	v. Bullet	
2Y	0.118%	0.680%	2/1 NC	0.179%	0.741%	0.061%	0.168%	0.730%	0.050%
3Y	0.121%	1.040%	3/1 NC	0.216%	1.135%	0.095%	0.188%	1.107%	0.067%
5Y	0.127%	1.760%	5/2 NC	0.288%	1.920%	0.161%	0.278%	1.910%	0.151%
10Y	0.114%	3.067%	10/3 NC	0.382%	3.336%	0.268%	0.297%	3.251%	0.183%

\* 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	0.47%	+	2.67%	+	0.00%	=	3.14%		
2 year	0.72%	+	2.66%	+	0.00%	=	3.38%		
3 year	1.07%	+	2.66%	+	0.00%	=	3.72%		
4 year	1.42%	+	2.66%	+	0.00%	=	4.08%		
5 year	1.77%	+	2.66%	+	0.00%	=	4.43%		
10 year	2.87%	+	2.65%	+	0.00%	=	5.52%		
15 year	3.35%	+	2.65%	+	0.00%	=	6.00%		
20 year	3.54%	+	2.65%	+	0.00%	=	6.19%		

### Historical Fixed Indifferent Rates - Non Prepayable Loan

Average Maturity	<u>8/2/2010</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	3.14%	3.14%	3.31%	3.27%	3.10%	3.42%
2 year	3.38%	3.39%	3.57%	3.82%	3.71%	4.15%
3 year	3.72%	3.76%	3.95%	4.36%	4.31%	4.78%
4 year	4.08%	4.13%	4.31%	4.81%	4.81%	5.22%
5 year	4.43%	4.49%	4.65%	5.21%	5.21%	5.58%
10 year	5.52%	5.55%	5.61%	6.23%	6.29%	6.42%
15 year	6.00%	6.00%	6.02%	6.62%	6.73%	6.70%
20 year	6.19%	6.18%	6.19%	6.75%	6.89%	6.79%

