

DAY 2 - TUESDAY

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Allowance Loan losses/Total Loans

- Measures the percentage of the loan portfolio covered by the allowance for loan and lease losses
- Ratio can be useful when looking at trends for a single bank (with other asset quality measurements) but is not terribly useful when comparing to other banks.
- Generally higher level of non-performing loans and classified assets leads to higher reserves. Can also look at Allowance to NPA ratio
- Banks that are highly acquisitive will have lower ratio due to purchase loan accounting (pre-CECL)
- CECL (Current Expected Credit Loss) is here for larger banks, smaller cap banks can elect to delay.

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Darden Community Bankshares

| Assets | \$ Amount | Liabilities/Capital | \$ Amount |
|---------------------|------------------------|----------------------------------|------------------------|
| Cash and Due From | \$ 10,000,000 | DDA | \$ 200,000,000 |
| Fed Funds Sold | 50,000,000 | Savings/MMDA | 370,000,000 |
| Securities | 150,000,000 | CDs/IRA Certificates | 300,000,000 |
| Loans, Gross | 735,000,000 | Funds Purchased | 0 |
| Reserve Losses | (10,000,000) | Other Borrowings | 20,000,000 |
| Fixed Assets | 40,000,000 | Other Liabilities | 10,000,000 |
| OREO | 5,000,000 | Total Liabilities | 900,000,000 |
| Other Assets | 20,000,000 | | |
| | | Equity Capital | 100,000,000 |
| Total Assets | \$1,000,000,000 | Liabilities & Capital | \$1,000,000,000 |

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Allowance for Loan & Lease Losses

- ALLL - Also called Reserve for Loan Losses
- Deducted from loans to compute “net loans”
- Calculation:
 - Beginning Balance ALLL
 - Plus: Provision for loan losses (expense)
 - Less: Loan charge-offs
 - Plus: Recoveries of previously charged off loans
 - = Ending Balance ALLL
- Ratio:
 - Total ALLL / Total Loans
 - \$ _____ / \$ _____ =

WS # 3

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Ratio: 100/300 CRE Concentration

- Calculation for 100:
 - C&D Loans / Total Capital
 - \$ _____ / \$ _____ =
- Calculation for 300:
 - C&D, CRE-NOO Loans / Total Capital
 - \$ _____ / \$ _____ =

WS # 4
WS # 5

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Bank Investments

- What are the purposes of bank investment portfolios?
 - Liquidity
 - Generate Income
 - Satisfy Pledging requirements
 - Support Interest rate risk management

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Types of Bank Investments

- U.S. Treasury Securities
- Government Agency Securities
- Government Sponsored Agencies Securities
- Municipal Bonds
- Corporate Bonds
- Other: Private label CMO/MBS
- Bank Issued Preferred Stock

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Types of Bank Investments

- U.S. Treasury Securities
 - Full faith and credit of U.S. Government
- Government Agency Securities
 - Full faith and credit of U.S. Government
 - Examples:
 - Government National Mortgage Association (GNMA)
 - Small Business Administration (SBA)

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Types of Bank Investments

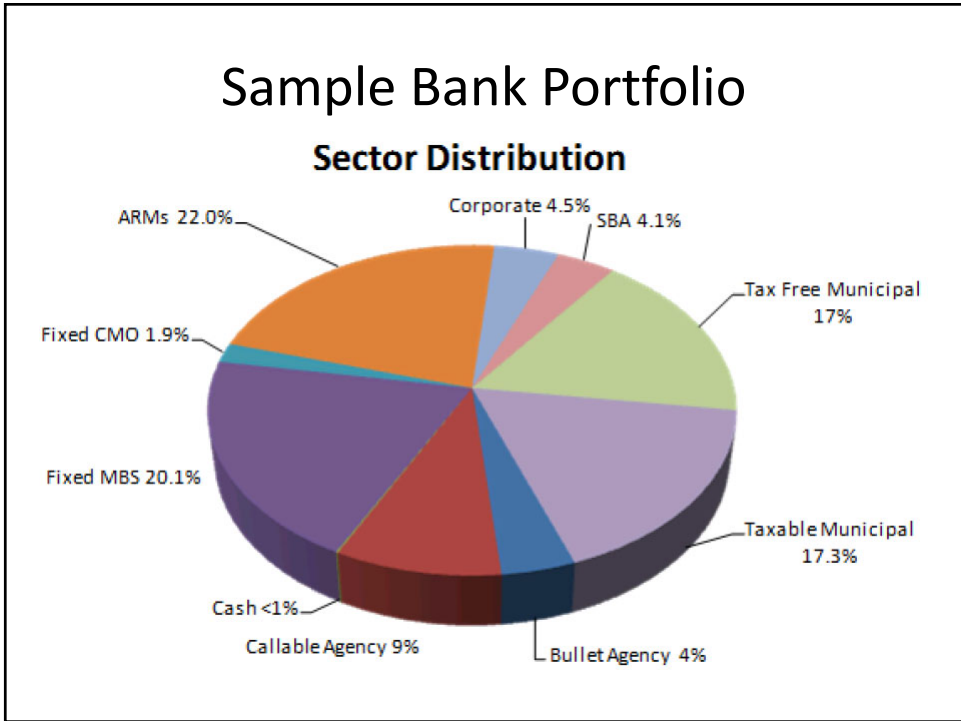
- Government Sponsored Enterprises
 - Not the full faith and credit of the U.S. Government but historically to be of high credit quality
- Examples:
 - Federal National Mortgage Assoc. (Fannie Mae)
 - Federal Home Loan Mortgage Corp. (Freddie Mac)
 - Federal Home Loan Banks (FHLB)
 - Federal Farm Credit Bureau (FFCB)

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Types of Bank Investments

- Municipal Bonds
 - Bonds issued by state and local government bodies
 - General Obligation vs. Revenue Bonds
- Corporate Bonds
 - Bonds issued by corporations
- IDA/IDB Authorities

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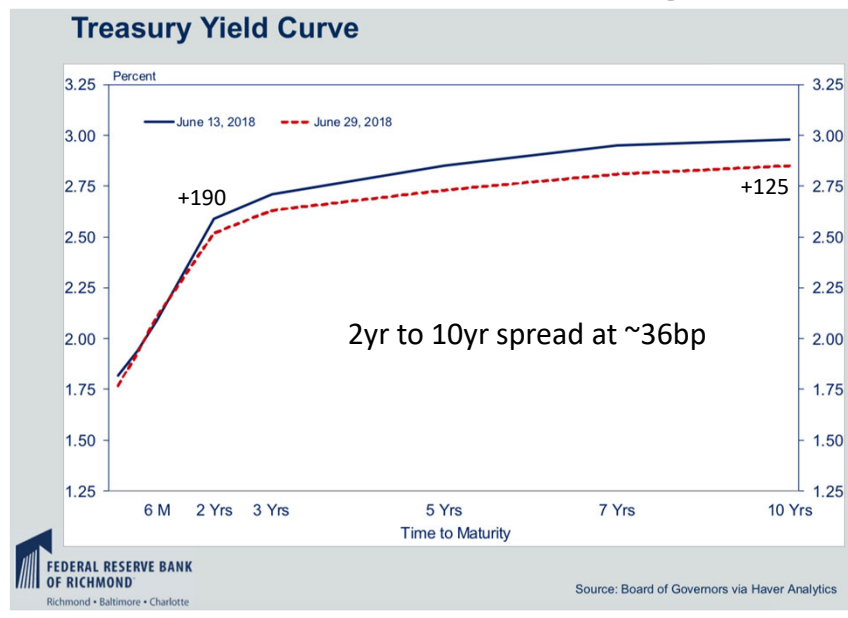
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What Drives the Return on Bonds?

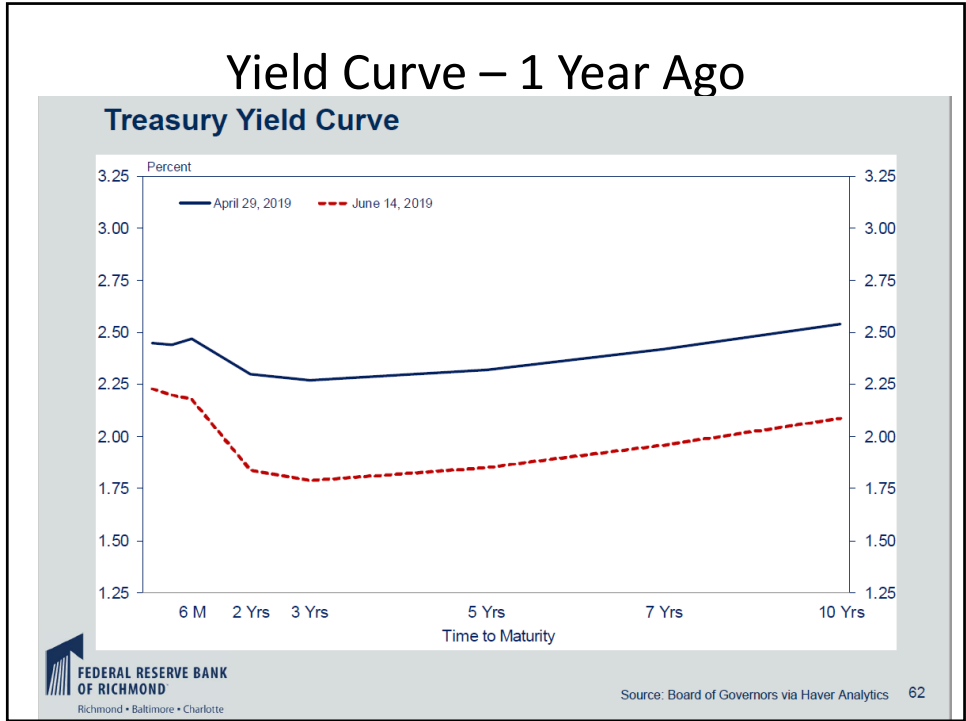
- Interest rate/yield based on purchase
- Predictability / timing of payments
 - Cash Flow
 - Prepayment risk
 - Call risk
- Credit risk
 - Default risk/creditworthiness of borrower
 - Collateral
- Liquidity /ability to sell in efficient market

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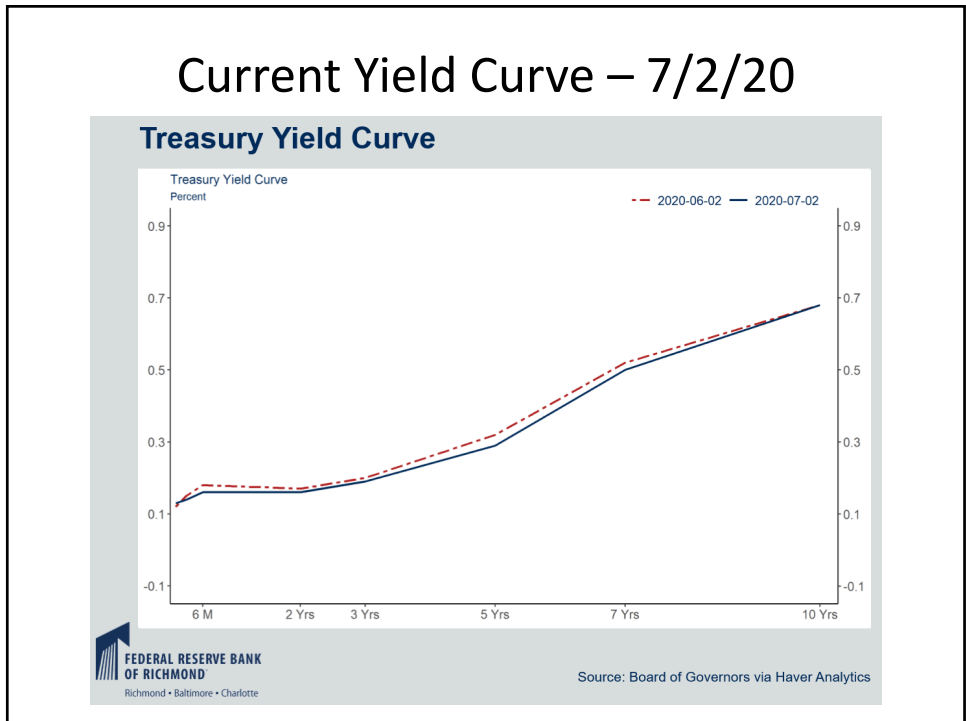
Yield Curve – 2 Years Ago



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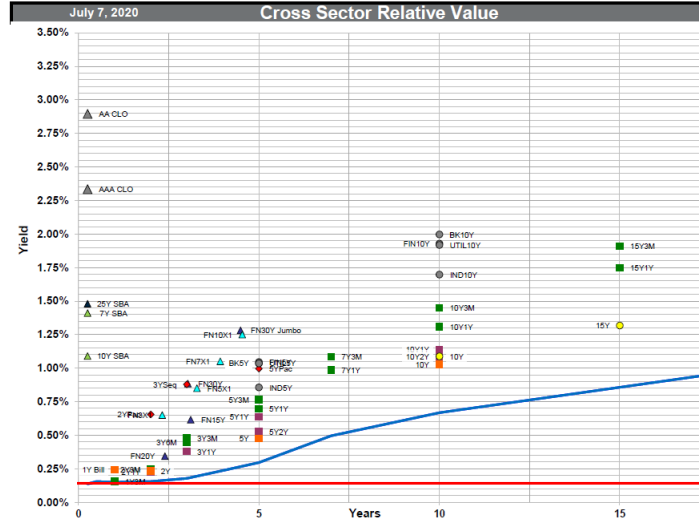


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Investment Options to Yield Curve



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Investment Options - July 7, 2020

| AGENCY | Spread | YTM | Maturity |
|---------|--------|-------|----------|
| 1Y3M | 0 | 0.15% | 1 |
| 2Y3M | 9 | 0.24% | 2 |
| 3Y3M | 30 | 0.46% | 3 |
| 3Y6M | 27 | 0.46% | 3 |
| 5Y3M | 47 | 0.77% | 5 |
| 5Y1Y | 40 | 0.70% | 5 |
| 7Y3M | 59 | 1.11% | 7 |
| 7Y1Y | 49 | 1.01% | 7 |
| 10Y3M | 75 | 1.45% | 10 |
| 10Y1Y | 64 | 1.31% | 10 |
| 15Y3M | 124 | 1.91% | 15 |
| 15Y1Y | 108 | 1.75% | 15 |
| 2Y1Y | 7 | 0.22% | 2 |
| 3Y1Y | 20 | 0.36% | 3 |
| 5Y1Y | 34 | 0.64% | 5 |
| 5Y2Y | 23 | 0.53% | 5 |
| 10Y1Y | 47 | 1.14% | 10 |
| 10Y2Y | 42 | 1.09% | 10 |
| 1Y Bill | 8.9 | 0.24% | 1 |
| 2Y | 8 | 0.23% | 2 |
| 5Y | 18 | 0.46% | 5 |
| 10Y | 36 | 1.03% | 10 |

| CORPORATES ⁴ | Spread | YTM | Maturity | |
|-------------------------|---------|-----|----------|----|
| Industrials | IND5Y | 56 | 0.86% | 5 |
| | IND10Y | 103 | 1.70% | 10 |
| Banks | BK5Y | 74 | 1.04% | 5 |
| | BK10Y | 133 | 2.00% | 10 |
| Financials | FIN5Y | 75 | 1.05% | 5 |
| | FIN10Y | 126 | 1.93% | 10 |
| Utilities | UTIL5Y | 74 | 1.04% | 5 |
| | UTIL10Y | 125 | 1.92% | 10 |

| SBAs | B/EEM | B/EY | Eff Dur |
|---------|-------|-------|---------|
| 7Y SBA | 184 | 1.41% | 0.25 |
| 10Y SBA | 216 | 1.06% | 0.25 |
| 25Y SBA | 177 | 1.48% | 0.25 |

| MBS Pass-Thrus ¹ | Spread | YTM | Avg. Life | Coupon |
|-----------------------------|--------|-------|-----------|--------|
| FN15Y | 43 | 0.62% | 3.11 | 2.0 |
| FN20Y | 18 | 0.34% | 2.40 | 2.5 |
| FN30Y | 70 | 0.88% | 3.03 | 3.0 |
| FN30Y Jumbo | 101 | 1.28% | 4.49 | 2.0 |

| CMOs ² | Spread | YTM | Avg. Life |
|-------------------|--------|-------|-----------|
| 2YPac | 50 | 0.65% | 2.00 |
| 5YPac | 70 | 1.00% | 5.00 |
| 3YSeq | 70 | 0.88% | 3.00 |

| MBS ARMs ³ | Z-Spread | YTM | Eff. Dur |
|-----------------------|----------|-------|----------|
| FN3X1 | 45 | 0.65% | 2.32 |
| FN5X1 | 60 | 0.85% | 3.28 |
| FN7X1 | 70 | 1.05% | 3.93 |
| FN10X1 | 80 | 1.25% | 4.54 |

| CLOs | DM | B/EY | Eff. Dur |
|---------|-----|-------|----------|
| AAA CLO | 179 | 2.06% | 0.25 |
| AA CLO | 232 | 2.62% | 0.25 |
| A CLO | 291 | 3.21% | 0.25 |
| BBB CLO | 455 | 4.85% | 0.25 |

| MUNIS-BQs ³ | Spread | YTM | Maturity |
|------------------------|--------|-------|----------|
| 10Y | 42 | 1.09% | 10 |
| 15Y | 65 | 1.32% | 15 |

¹Pass-Thrus & CMOs Maturity = Avg. Life
²ARMs Maturity = Eff. Duration
³MUNIs = AAA rated
⁴Corporates = A rated

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Deposits and Funding

- Deposits
 - Demand deposits
 - NOW accounts
 - Money Market Accounts
 - Time Deposits/CDs
 - CDARS/Brokered Deposits
- Fed Funds Purchased
- Repurchase Agreements
- Federal Home Loan Bank Advances
- Other forms of debt/hybrid capital securities

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A Note on Liquidity

- What are core deposits?
- What is liquidity?
- Types of Liquidity
 - Balance Sheet-based liquidity (*\$ in bank*)
 - Liability-based liquidity (*Credit Cards*)
- Can I have too much or too little liquidity
 - What is impacted if I have too much?
 - Too little?
- Can a lack of liquidity cause a bank to fail?

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A Note on Liquidity

Excess Liquidity, How Much is Enough?

What's the Right Amount of Cash and Unencumbered Securities?

- Focus on Cash and Unencumbered Securities-to-Assets Ratio
- Low of 12.9% in 3Q08, High of 22.0% in 1Q13
- Average over the time period of 16.8%

