



# Now What? Navigating Fearlessly Through a Turbulent Environment

December 4, 2025

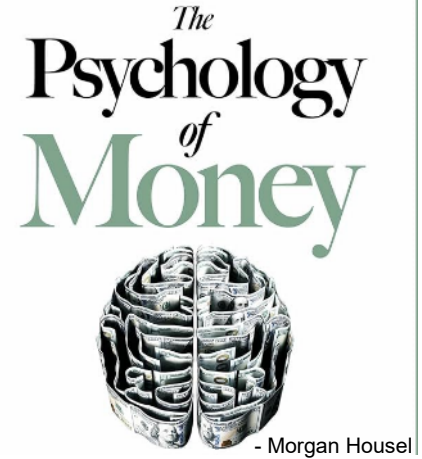
Frank Farone | Senior Managing Director | [ffarone@darlingconsulting.com](mailto:ffarone@darlingconsulting.com)



**“Things**

**That Never Happened Before**

**Happen All the Time.”**



*...Don't Assume Away... the Unexpected*

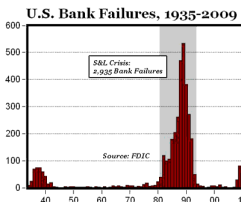
# History and Looking Forward: The “Next Time”

## OPEC Oil Crisis



1973

## S&L Crisis



1986-95

## The Great Recession



2008

## Early '80s Recession



## Dot-com Bubble



Student Loan Bubble  
Credit & Debt Bubble  
Forex Bubble  
QE Low-Rate Bubble  
Auto Loan Bubble  
Green Bubble



# Which State Economies are Already in Recession?

Mark Zandi – Chief Economist (Moody's Analytics)

“State-level data makes it clear why the U.S. economy is on the edge of recession. Based on my assessment of various data, states making up nearly a third of U.S. GDP are either in or at high risk of recession, another third are just holding steady, and the remaining third are growing. States experiencing recessions are spread across the country, but the broader DC area stands out due to government job cuts. Southern states are generally the strongest, but their growth is slowing. California and New York, which together account for over a fifth of U.S. GDP, are holding their own, and their stability is crucial for the national economy to avoid a downturn.”

	Business cycle status	Share of U.S. GDP, %
South Carolina	Expansion	1.18
Idaho	Expansion	0.43
Texas	Expansion	9.41
Oklahoma	Expansion	0.92
North Carolina	Expansion	2.86
Alabama	Expansion	1.10
Kentucky	Expansion	0.99
Florida	Expansion	5.78
Nebraska	Expansion	0.63
Indiana	Expansion	1.81
Louisiana	Expansion	1.11
North Dakota	Expansion	0.26
Arizona	Expansion	1.88
Pennsylvania	Expansion	3.54
Utah	Expansion	1.02
Wisconsin	Expansion	1.53

	Business cycle status	Share of U.S. GDP, %
Missouri	Treading Water	1.54
Ohio	Treading Water	3.14
Hawaii	Treading Water	0.39
New Mexico	Treading Water	0.49
Alaska	Treading Water	0.24
New York	Treading Water	7.92
Vermont	Treading Water	0.16
Arkansas	Treading Water	0.65
California	Treading Water	14.50
Tennessee	Treading Water	1.87
Nevada	Treading Water	0.86
Colorado	Treading Water	1.92
Michigan	Treading Water	2.44

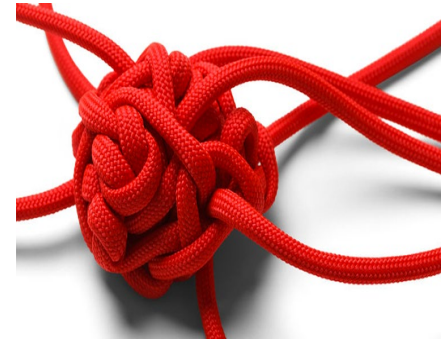
	Business cycle status	Share of U.S. GDP, %
Wyoming	Recession/ High Risk	0.18
Montana	Recession/ High Risk	0.25
Minnesota	Recession/ High Risk	1.70
Mississippi	Recession/ High Risk	0.53
Kansas	Recession/ High Risk	0.80
Massachusetts	Recession/ High Risk	2.73
Washington	Recession/ High Risk	3.02
Georgia	Recession/ High Risk	3.03
New Hampshire	Recession/ High Risk	0.42
Maryland	Recession/ High Risk	1.86
Rhode Island	Recession/ High Risk	0.28
Illinois	Recession/ High Risk	3.85
Delaware	Recession/ High Risk	0.34
Virginia	Recession/ High Risk	2.66
Oregon	Recession/ High Risk	1.14
Connecticut	Recession/ High Risk	1.27
South Dakota	Recession/ High Risk	0.25
New Jersey	Recession/ High Risk	2.93
Maine	Recession/ High Risk	0.33
Iowa	Recession/ High Risk	0.86
West Virginia	Recession/ High Risk	0.36
District of Columbia	Recession/ High Risk	0.64

# Covid 19: the “Aftermath” Should Serve As A Reminder...



## ◆ Risk Management Is Highly Interconnected

- ▶ Liquidity risk
- ▶ Interest rate risk
- ▶ Credit risk
- ▶ Capital risk
- ▶ Reputation Risk



## ◆ It's About The Process & The Discussions

# Perspective vs. Bias: What if We Knew for Sure....?

Given That We Don't Know....What Should We Do?



**Hard  
Landing**  
*"Rates Down  
Significantly & Quickly"*



**Soft  
Landing**  
*"Short Rates Down  
& Y-C Steepens"*



**No Landing**  
*"Higher for Longer"*



**Back to The Future**  
*"Re-Inflation  
& Rate Increases"*

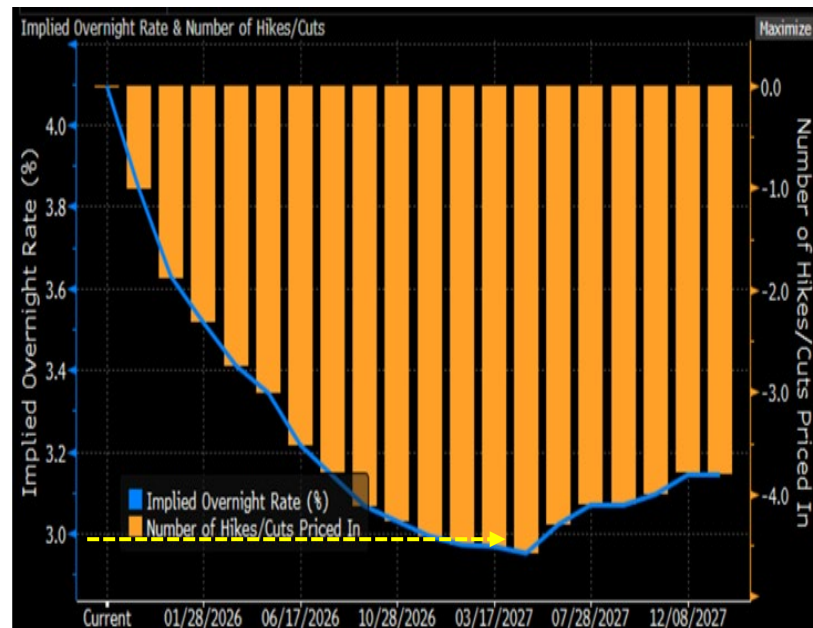
# Fed Funds Futures...Never Right, Always Wrong!

## Fed Rate Expectations

3% End of 2026

### FED FUNDS FUTURES:

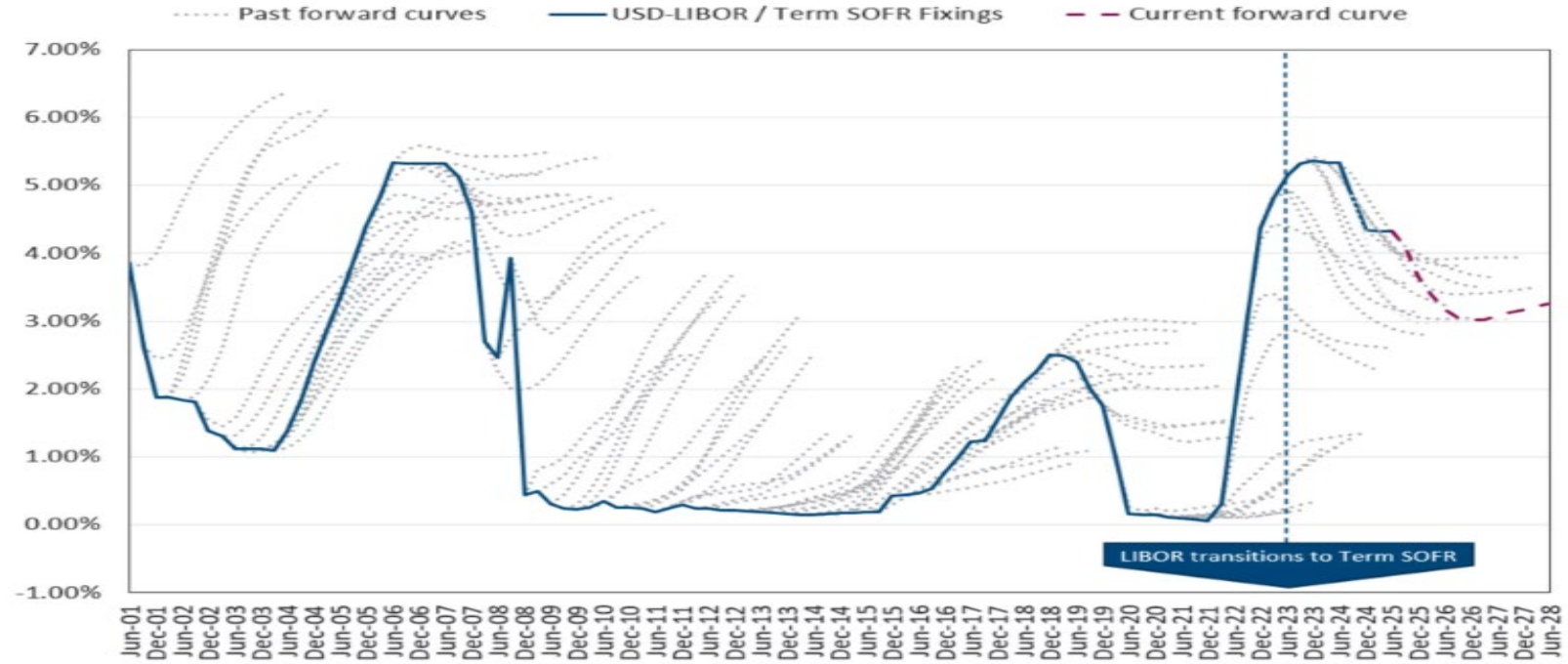
Region: United States »		Instrument: Fed Funds Futures »		Pricing Date: 10/02/2025	
Target Rate	4.25	Effective Rate	4.09	Cur. Imp. O/N Rate	4.095
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
10/29/2025	-1.010	-101.0%	-0.253	3.842	0.250
12/10/2025	-1.878	-86.8%	-0.469	3.626	0.250
01/28/2026	-2.310	-43.2%	-0.578	3.517	0.250
03/18/2026	-2.751	-44.0%	-0.688	3.407	0.250
04/29/2026	-3.010	-26.0%	-0.753	3.342	0.250
06/17/2026	-3.525	-51.5%	-0.881	3.214	0.250
07/29/2026	-3.810	-28.5%	-0.953	3.142	0.250
09/16/2026	-4.118	-30.8%	-1.030	3.065	0.250
10/28/2026	-4.270	-15.2%	-1.068	3.028	0.250
12/09/2026	-4.422	-15.2%	-1.105	2.990	0.250
01/27/2027	-4.490	-6.8%	-1.123	2.972	0.250
03/17/2027	-4.515	-2.5%	-1.129	2.966	0.250
04/28/2027	-4.580	-6.5%	-1.145	2.950	0.250
06/09/2027	-4.303	+27.7%	-1.076	3.019	0.250
07/28/2027	-4.100	+20.3%	-1.025	3.070	0.250
09/15/2027	-4.096	+0.4%	-1.024	3.071	0.250
10/27/2027	-4.000	+9.6%	-1.000	3.095	0.250
12/08/2027	-3.794	+20.6%	-0.949	3.146	0.250
01/26/2028	-3.800	-0.6%	-0.950	3.145	0.250





# Whoa...That Forward Implied Makes a Lot of Sense!

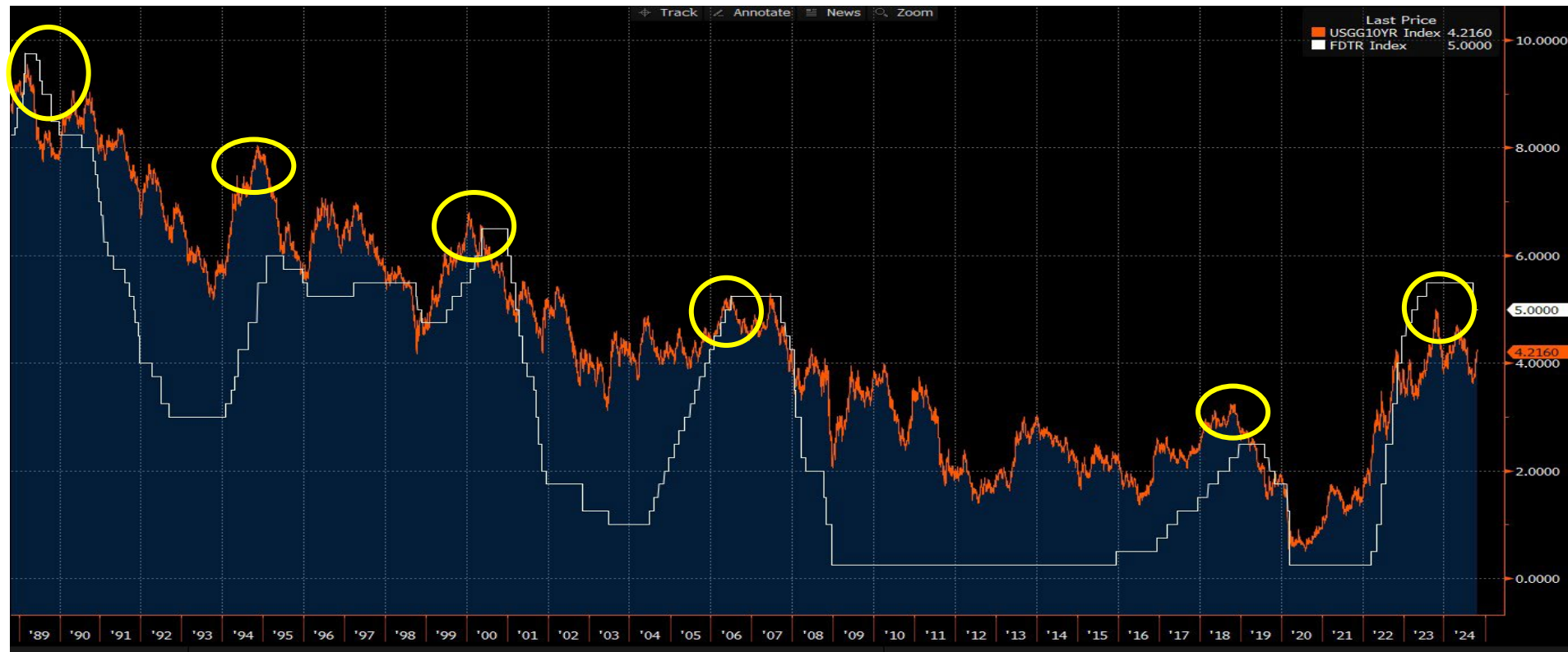
Question: How Reliable is It? | Answer: Terrible



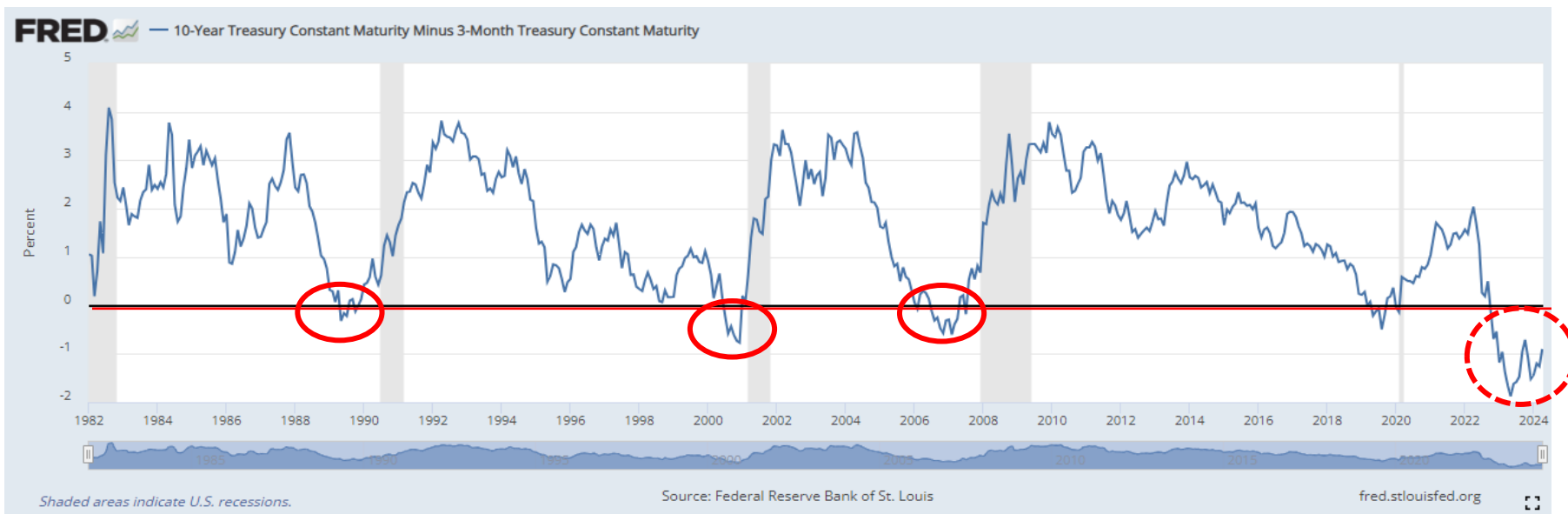
Revised June 30, 2025



# 10-year Treasury vs. Fed Funds History...What's Ahead?



# *Inverted* Yield Curve Cycles: How Will THIS One End?



## 1989-1992

- ▶ Peak inversion 43bps
- ▶ **Short rates -650bps**
- ▶ 5 Year -420bps
- ▶ 10 Year -293bps
- ▶ Peak steepness 257bps
- ▶ Time of cycle 30 months

## 2000-2003

- ▶ Peak inversion 47bps
- ▶ **Short rates -485bps**
- ▶ 5 Year -294bps
- ▶ 10 Year -154bps
- ▶ Peak steepness 269bps
- ▶ Time of cycle 28 months

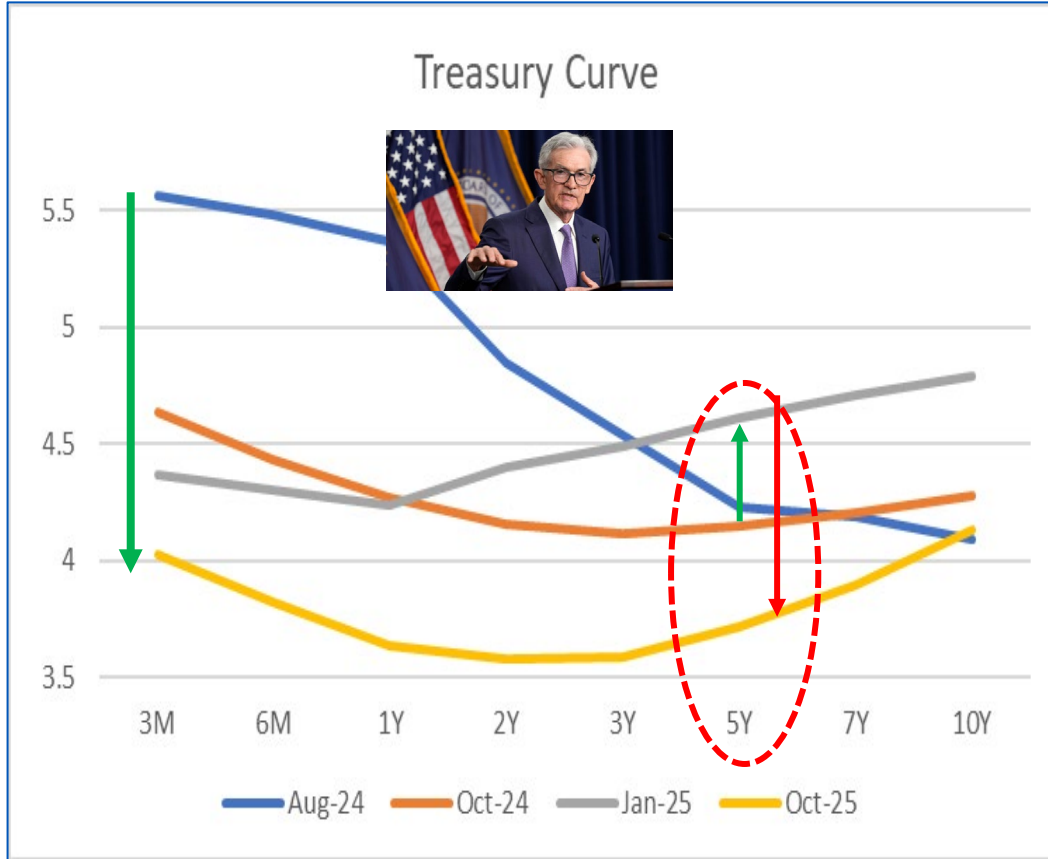
## 2006-2010

- ▶ Peak inversion 16bps
- ▶ **Short rates -500bps**
- ▶ 5 Year -215bps
- ▶ 10 Year -85bps
- ▶ Peak steepness 280bps
- ▶ Time of cycle 39 months

# Long Term Rates ALWAYS Fell After Initial Fed Rate Cut

10yr Treasury Yield Declines (As % of Peak Rate)					
Easing Cycle	Peak Rate (%)	Rate at First Cut	Rate at Bottom	From Peak to First Cut	From First Cut to Bottom
1984 (SL)	13.99	12.54	6.95	-10.36%	-39.96%
1989 (R)	9.53	8.36	5.19	-12.28%	-33.26%
1995 (SL)	8.05	6.05	4.16	-24.84%	-23.48%
2001 (R)	6.79	5.14	3.13	-24.30%	-29.60%
2007 (R)	5.26	4.5	2.11	-14.45%	-45.44%
2019 (R)	3.24	2.02	0.52	-37.65%	-46.30%
2024 (?)	4.98	3.7	?	-25.70%	?
			Average	-21.37%	-36.34%

# Increases, Decreases, Volatility and **Uncertainty**

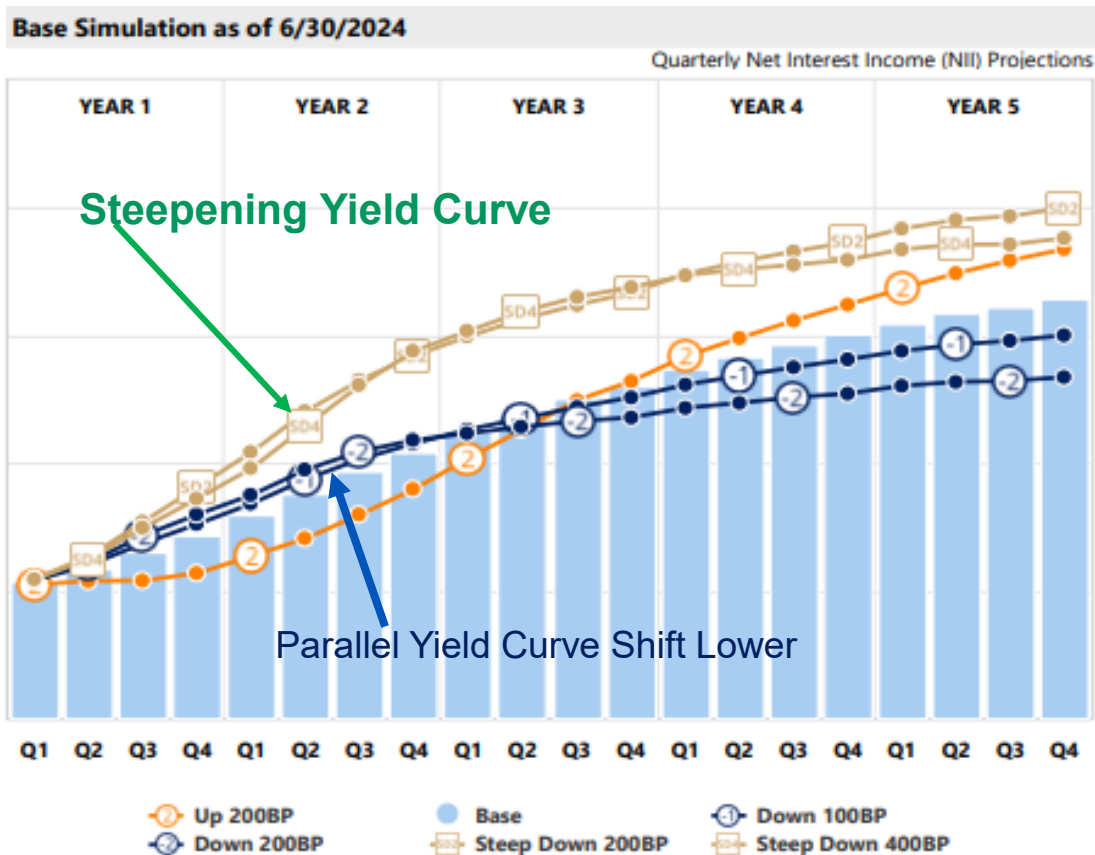


Where Do We Go From Here?

***It DOES Matter...***

- ◆ Loan Yield Trajectory...
- ◆ Cost of Deposits / Funds Trajectory...
- ◆ *Growth Outlook?*
- ◆ *Liquidity Increasing?*
- ◆ Investment Strategy?
- ◆ Hedging? Derivatives?
- ◆ **Wholesale Funding**

# Slope of Market Yield Curves Matters...*Greatly!*

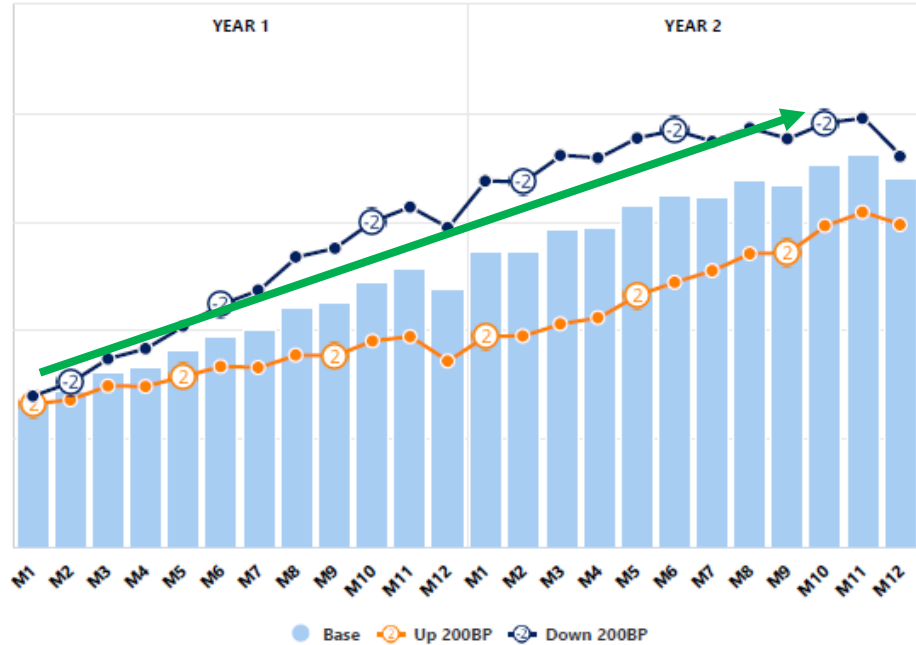


# 2 Year vs 5 Year Simulations: Rate “Ramps”

## What is the Longer-Term Exposure to YOUR Bank?

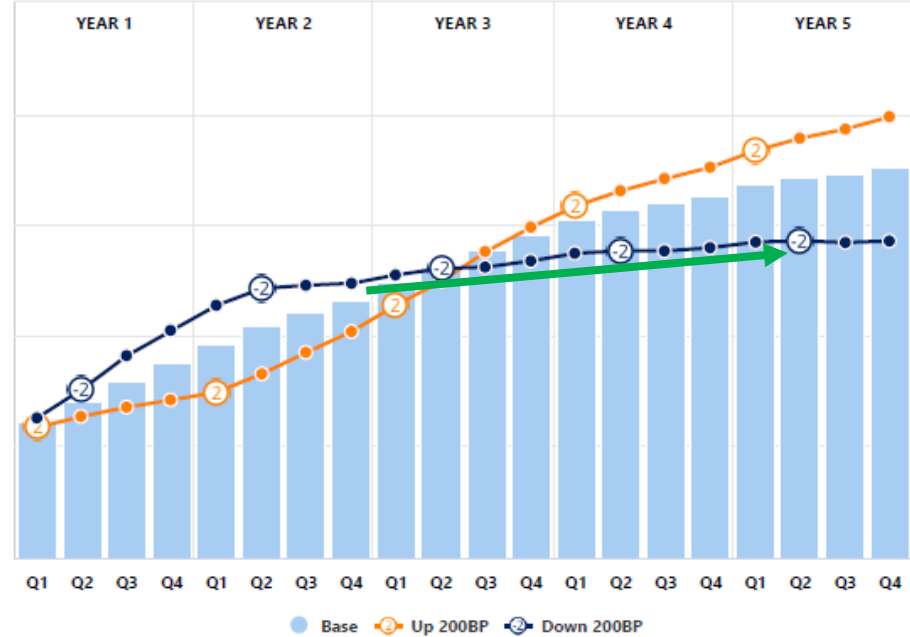
Base Simulation as of 2/29/2024

Monthly Net Interest Income (NII) Projections



Base Simulation as of 2/29/2024

Quarterly Net Interest Income (NII) Projections





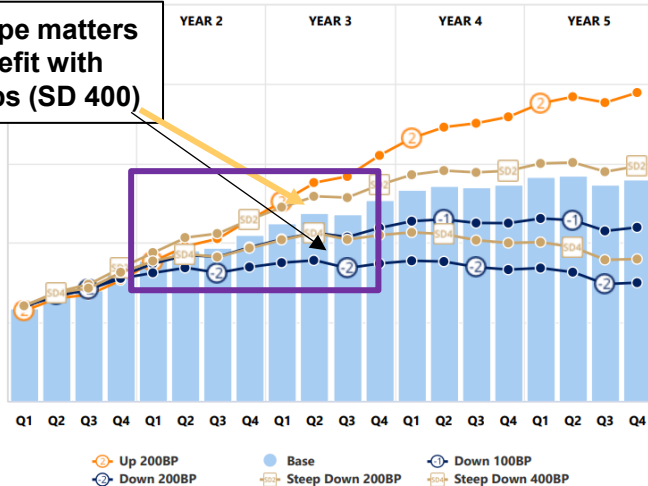
# Bank Position/Assessment (Short-Term and Longer-Term)

## Alternative Interest Rate Risk Scenarios

Base Simulation as of 6/30/2024

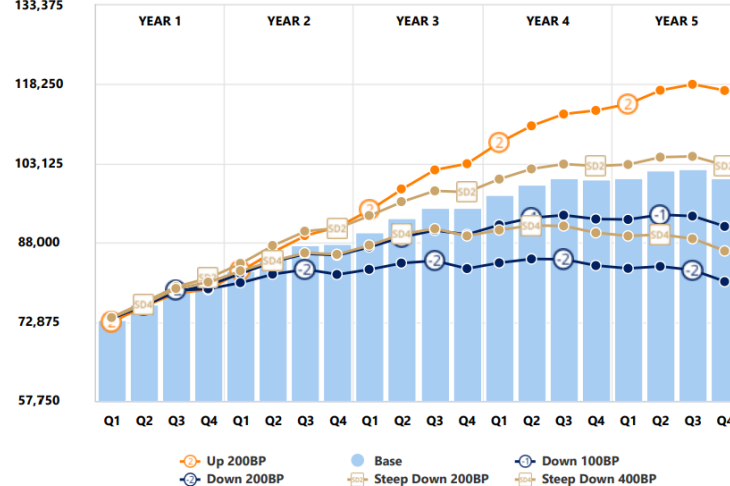
Quarterly Net Interest Income (NII) Projections

Yield curve slope matters but less benefit with larger rate drops (SD 400)



Base Simulation as of 3/31/2024

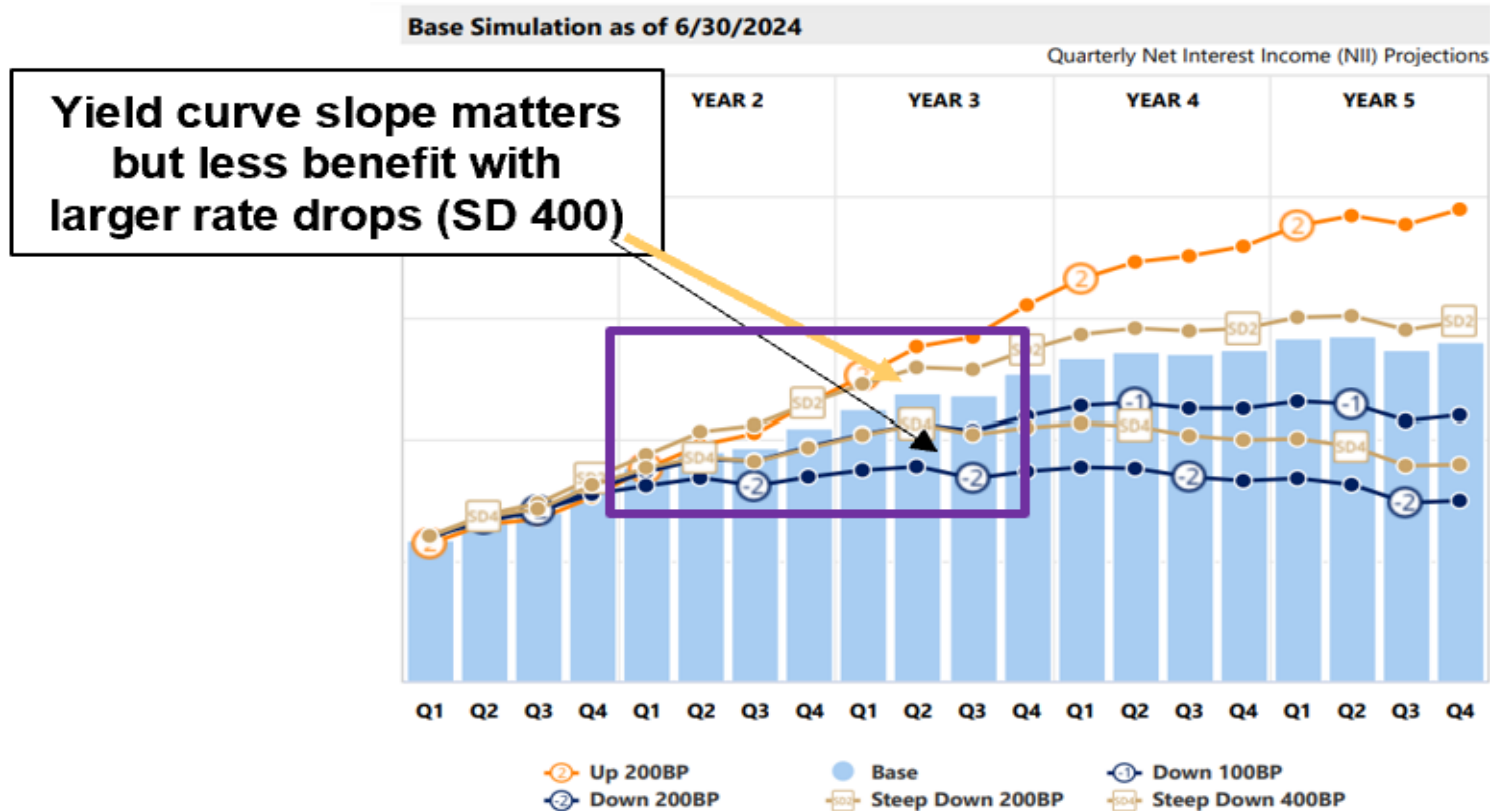
Quarterly Net Interest Income (NII) Projections



NII RESULTS											
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
UP 200BP	311,276	352,995	400,656	440,882	461,953	UP 200BP	306,068	349,194	397,501	443,263	466,940
BASE	314,262	347,754	374,955	394,916	400,618	BASE	308,277	343,504	372,274	396,945	404,825
DOWN 100BP	314,408	342,031	358,426	368,034	366,060	DOWN 100BP	308,104	337,933	356,154	369,876	369,934
DOWN 200BP	313,913	331,002	335,929	335,094	325,929	DOWN 200BP	307,575	327,129	334,567	337,461	329,840
STEEP DOWN 200BP	317,827	357,272	387,283	405,900	410,625	STEEP DOWN 200BP	311,248	352,462	384,561	407,888	414,492
STEEP DOWN 400BP	315,957	342,533	356,451	355,995	344,805	STEEP DOWN 400BP	309,668	338,977	357,137	362,771	353,984

1. In the Steep Down 400BP scenario, market rates move over a 24 month period.

# Bank Position/Assessment (Short-Term and Longer-Term)



# Balance Sheet Management

## Key Current Strategy & Governance Issues

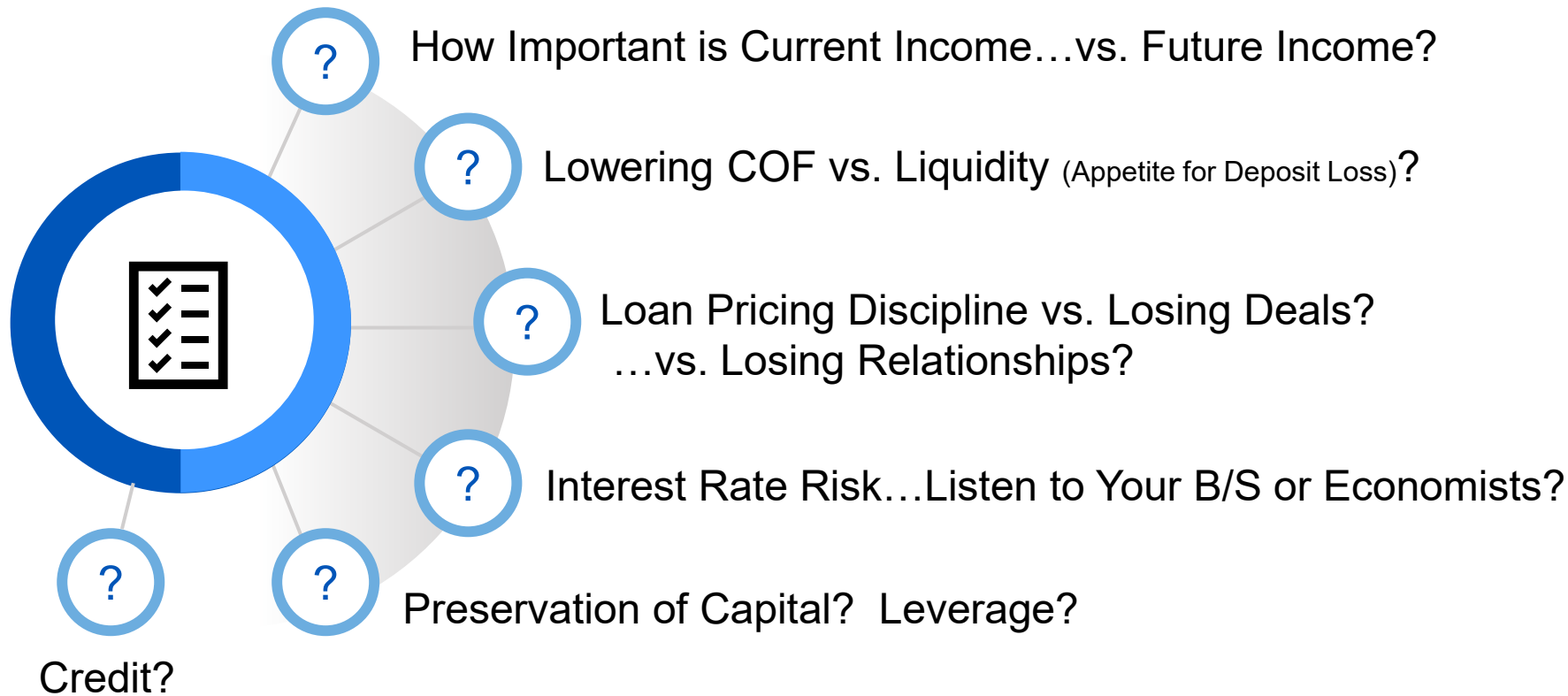
*Tie-Breakers*

*Liquidity Measurement & Management*

*Deposit Strategy & Outlook*

# Tiebreakers?

*Ensuring All Decision-Makers in Sync & “In The Loop”...*



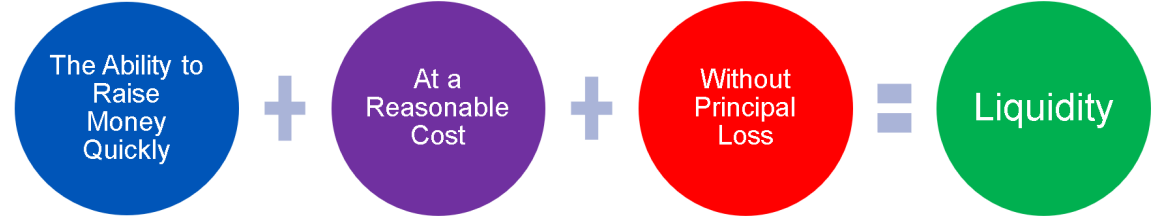
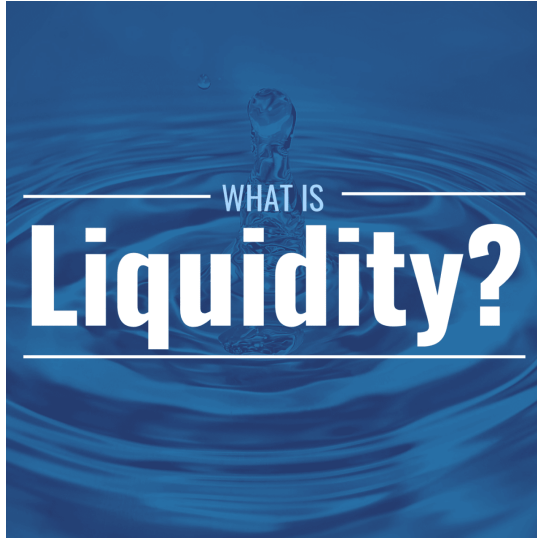
# Rethinking “Liquidity”





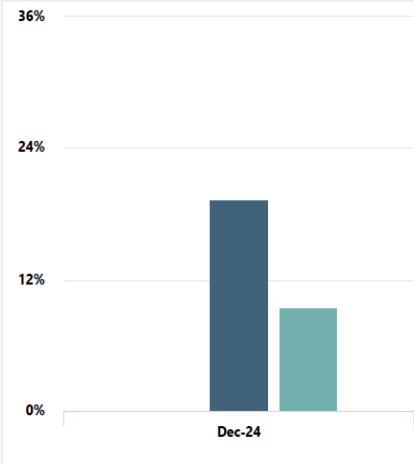


# Liquidity Definition Validated By “March Madness”



# Inventory of Liquidity

	AMOUNT	% OF ASSETS	CUMULATIVE AMOUNT	% OF ASSETS	BASIC SURPLUS	% OF ASSETS	BASIC SURPLUS
<b>1. TIER 1 LIQUIDITY (LIQUID ASSETS)</b>	<b>335,019</b>	<b>16.7%</b>	<b>335,019</b>	<b>16.7%</b>	<b>188,021</b>	<b>9.4%</b>	
Cash/Equivalents	91,879						
Free Bond Collateral	228,960						
Other Inv. Cash Flow <30 Days	0						
Other Liquid Assets	14,180						
<b>2. TIER 2 LIQUIDITY (FHLB LOAN BASED CAPACITY)</b>	<b>385,604</b>	<b>19.2%</b>	<b>720,624</b>	<b>36.0%</b>	<b>573,625</b>	<b>28.6%</b>	
Maximum FHLB Borrowings Capacity	385,854						
Outstanding Advances / LOCs	250						
<b>3. TIER 3 LIQUIDITY (BROKERED DEPOSITS CAPACITY)</b>	<b>0</b>	<b>0.0%</b>	<b>720,624</b>	<b>36.0%</b>	<b>573,625</b>	<b>28.6%</b>	
Maximum Brokered Deposits Capacity	29,485						
Current Brokered Deposits	29,485						
<b>4. OTHER LIQUIDITY</b>	<b>101,266</b>	<b>5.1%</b>	<b>821,889</b>	<b>41.0%</b>			
Other Investments	1,266						
Secured Borrowing Lines	0						
Unsecured Borrowing Lines	100,000						



## BASIC SURPLUS CALCULATION

Cumulative Amount  
- Volatile Liabilities Coverage =  
**Basic Surplus**

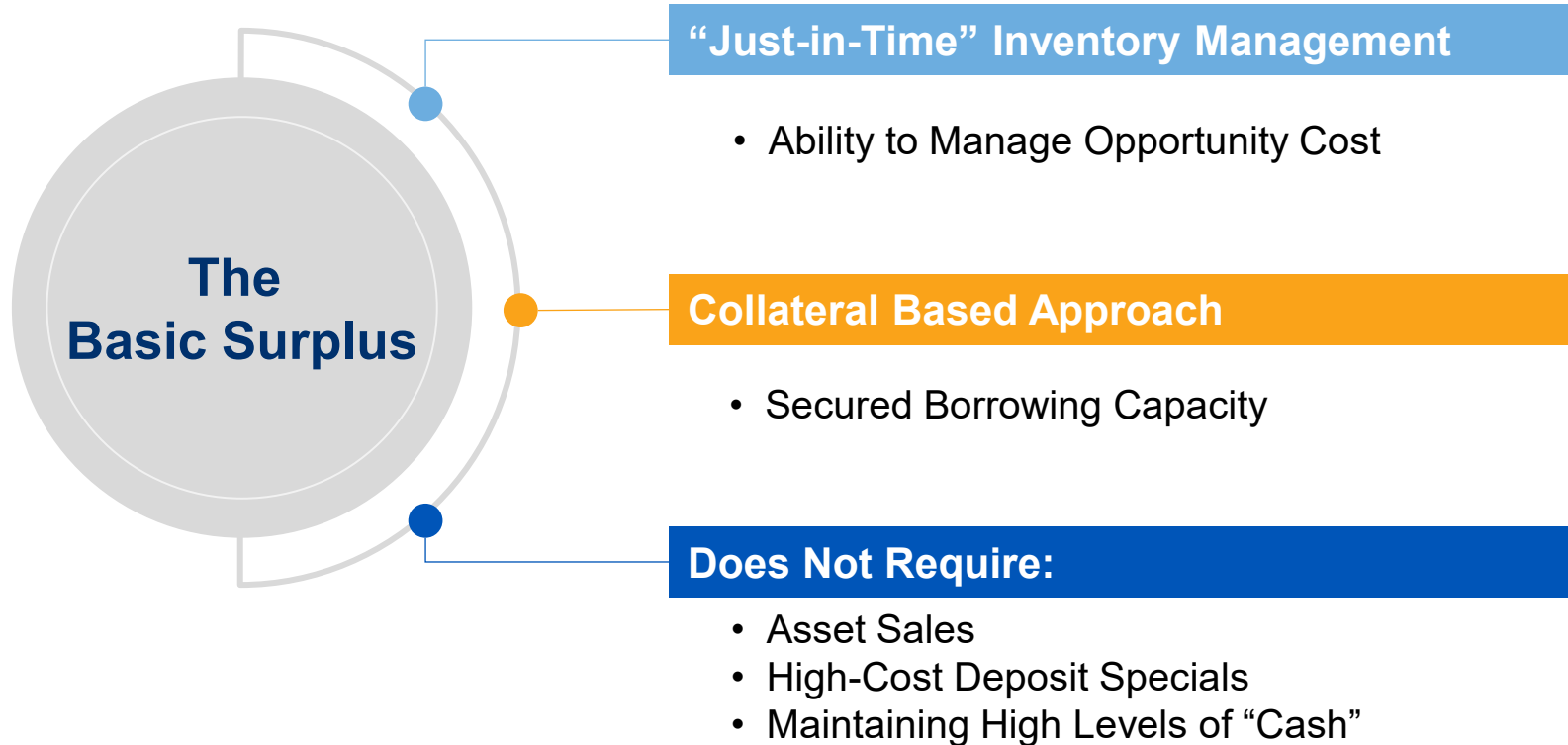
## VOLATILE LIABILITIES COVERAGE

Coverage = \$146,999  
7% of Assets

## Key Liquidity Issues:

- ◆ How much can we get in: 1 day? 5 days? 30 days?
- ◆ How much of our deposit base does that “cover”?
- ◆ Are we maximizing our collateral and testing lines?
- ◆ Discuss pledging loans at the FRB and increasing collateral at the FHLB.
- ◆ Advanced risk monitoring, **contingency planning & stress testing** never more important!

# The DCG Approach to Liquidity Inventory



# Regulatory Focus: Funding Sources

## Example

Source	How Quick?	Term	Contact Info	Deadlines	Authorized Bank Staff	Last Tested	Comments
Federal Reserve Discount Window	Same Day	Overnight	Name: _____ (xxx) xxx-xxxx	4:00 PM	Name, Title	mm/dd/yyyy	<ul style="list-style-type: none"> <li>Collateral pledge <u>required</u></li> <li>Policy limit: _____</li> </ul>
FHLB	Same Day	Overnight to 30 years	Name: _____ (xxx) xxx-xxxx	1:30 PM Term Borrowing 3:00 PM Overnight	Name, Title	mm/dd/yyyy	<ul style="list-style-type: none"> <li>Limited by collateral pledged and <u>stock</u></li> <li>Policy limit: _____</li> <li>Collateralized by: _____</li> </ul>
Brokered Deposits	1 Week	3 months to 5 years	Name: _____ (xxx) xxx-xxxx	N/A	Name, Title	mm/dd/yyyy	<ul style="list-style-type: none"> <li>May not be allowed if below Well-Capitalized</li> </ul>
CD Special	2-4 Weeks	6 months to 5 years	Name: _____ (xxx) xxx-xxxx	N/A	Name, Title	mm/dd/yyyy	
Loan Sales – Name of Broker/Counterparty	1-2 Months	N/A	Name: _____ (xxx) xxx-xxxx	N/A	Name, Title	mm/dd/yyyy	<ul style="list-style-type: none"> <li>May reduce collateral available for pledging</li> </ul>
Loan Participation Sales – Broker	1-2 Months	N/A	Name: _____ (xxx) xxx-xxxx	N/A	Name, Title	mm/dd/yyyy	
Security Sales – Name of Counterparty	1-3 Days	N/A	Name: _____ (xxx) xxx-xxxx	N/A	Name, Title	mm/dd/yyyy	

# Liquidity Risk Monitor

	Risk Level 1	Risk Level 2	Risk Level 3	Current Value	03/31/2023 Value	Risk Level	Cons. Periods Triggered	Stress Level
Indicators - Heightened Funding Needs								
1. \$ Change in Loan Growth less Non-Brokered Deposit Growth (3 Months)	\$100,000	\$150,000	\$200,000	-\$65,017	\$149,306	N/A	N/A	N/A
2. % Change in Non-Maturity Deposit Balances (3 Months)	-3.00%	-5.00%	-10.00%	-2.78%	-3.98%	N/A	N/A	N/A
3. % Change of Loans / Deposits (3 Months)	2.00%	4.00%	6.00%	0.81%	2.44%	N/A	N/A	N/A
Indicators - Liquidity/Funding Ratios								
4. On Balance Sheet Liquidity <b>1</b>	15.00%	12.50%	10.00%	14.81%	15.26%	Level 1	1	Level A
5. Basic Surplus – Tier 1	5.00%	4.00%	3.00%	6.01%	9.36%	N/A	N/A	N/A
6. Basic Surplus – Tier 2	18.00%	14.00%	10.00%	25.23%	26.72%	N/A	N/A	N/A
7. Basic Surplus – Tier 3	25.00%	20.00%	15.00%	37.35%	37.70%	N/A	N/A	N/A
8. Borrowings / Assets	22.00%	26.00%	30.00%	18.68%	19.30%	N/A	N/A	N/A
9. Brokered Deposits / Assets	10.00%	12.50%	15.00%	7.88%	9.02%	N/A	N/A	N/A
10. Brokered Deposits / Total Deposits	10.00%	12.50%	15.00%	11.29%	12.97%	Level 1	5	Level A
11. Wholesale Funds / Assets <b>2</b>	20.00%	25.00%	30.00%	26.63%	28.42%	Level 2	5	Level A
12. Free Investment Collateral & Short Term Inv.'s / Assets	10.00%	9.00%	8.00%	13.14%	13.56%	N/A	N/A	N/A
13. Free FHLB Loan Collateral / Assets	15.00%	12.50%	10.00%	19.22%	17.37%	N/A	N/A	N/A
14. Loans / Deposits	100.00%	112.50%	125.00%	102.86%	102.05%	Level 1	2	Level A
15. Pledged Securities / Investments <b>3</b>	45.00%	55.00%	65.00%	52.91%	52.65%	Level 1	7	Level A
Indicators - Capital at Risk								
16. C&I Loans / Capital	25.00%	35.00%	50.00%	19.62%	21.71%	N/A	N/A	N/A
17. Non-Agency Bonds / Capital	75.00%	100.00%	125.00%	90.33%	92.72%	Level 1	11	Level A
18. Commercial RE Loans / Capital	450.00%	525.00%	600.00%	506.71%	519.34%	Level 1	5	Level A
19. Construction Loans / Capital	30.00%	40.00%	50.00%	27.87%	26.25%	N/A	N/A	N/A
20. Tier One Leverage Capital Ratio <b>4</b>	11.00%	9.50%	8.50%	9.07%	9.18%	Level 2	5	Level A
21. Total Risk Based Capital Ratio <b>5</b>	16.50%	15.50%	14.50%	14.75%	13.78%	Level 2	5	Level A

Source: Liquidity360®

Early warning system (3 levels)

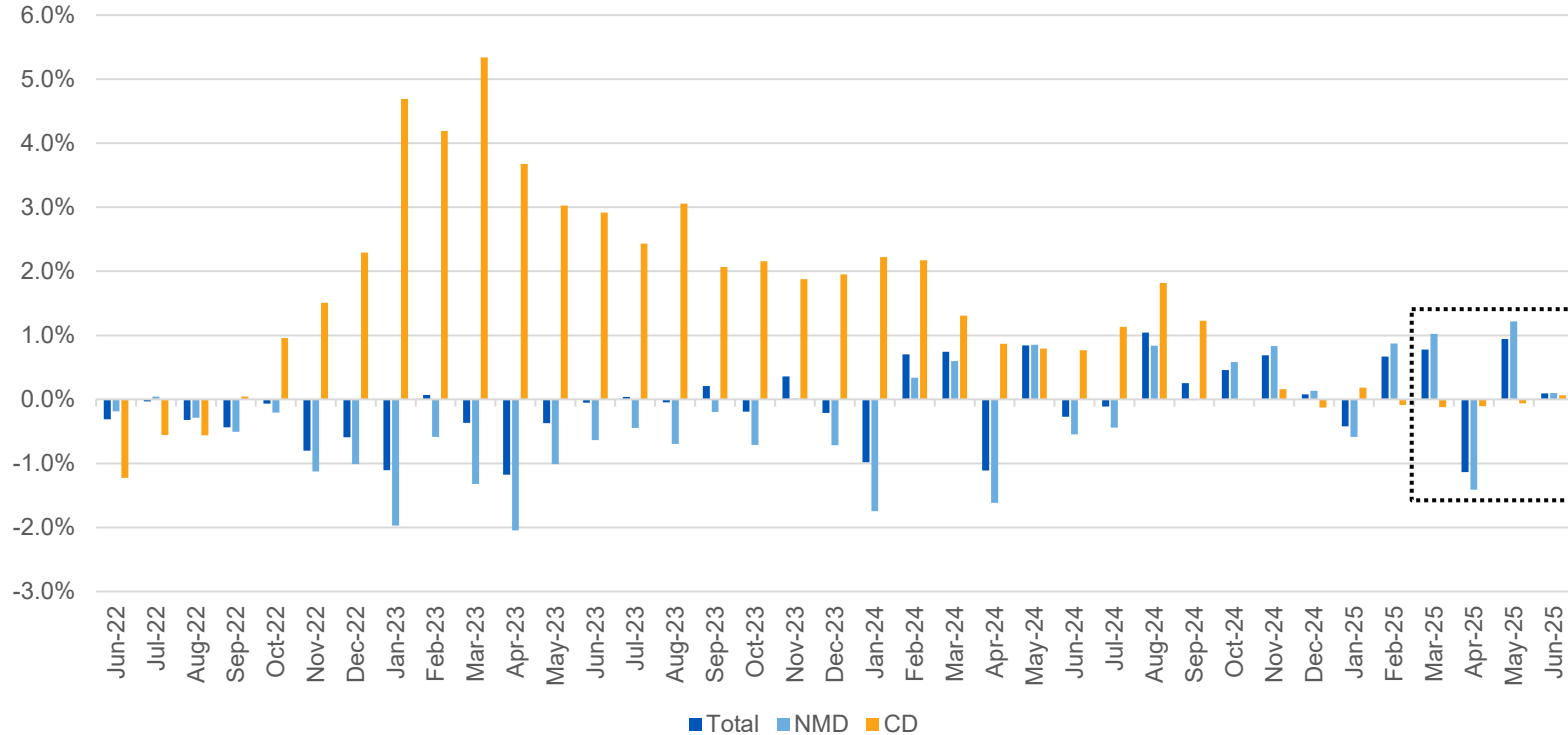
Stress Level and Response / Action Plan

# Deposit Trends, Forecasts & Strategy



# Deposits360<sup>®</sup> Bank Growth Trends

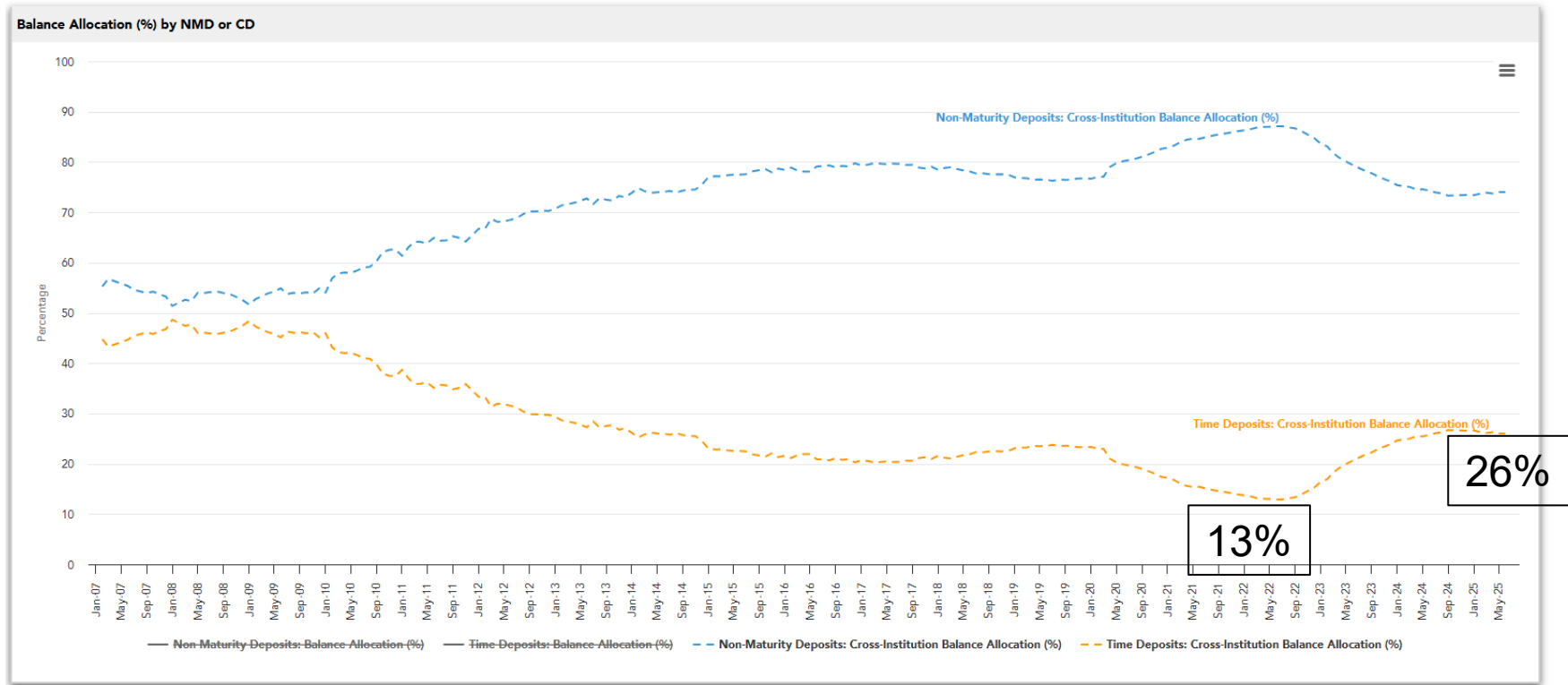
Deposits360<sup>®</sup> Banks Monthly Growth Rate



**YTD:**  
Total +1.1%  
NMD +1.5%  
CD -0.4%

Source: Deposits360<sup>®</sup>

# Deposits360<sup>®</sup> Deposit Mix Predictable as Rates Change

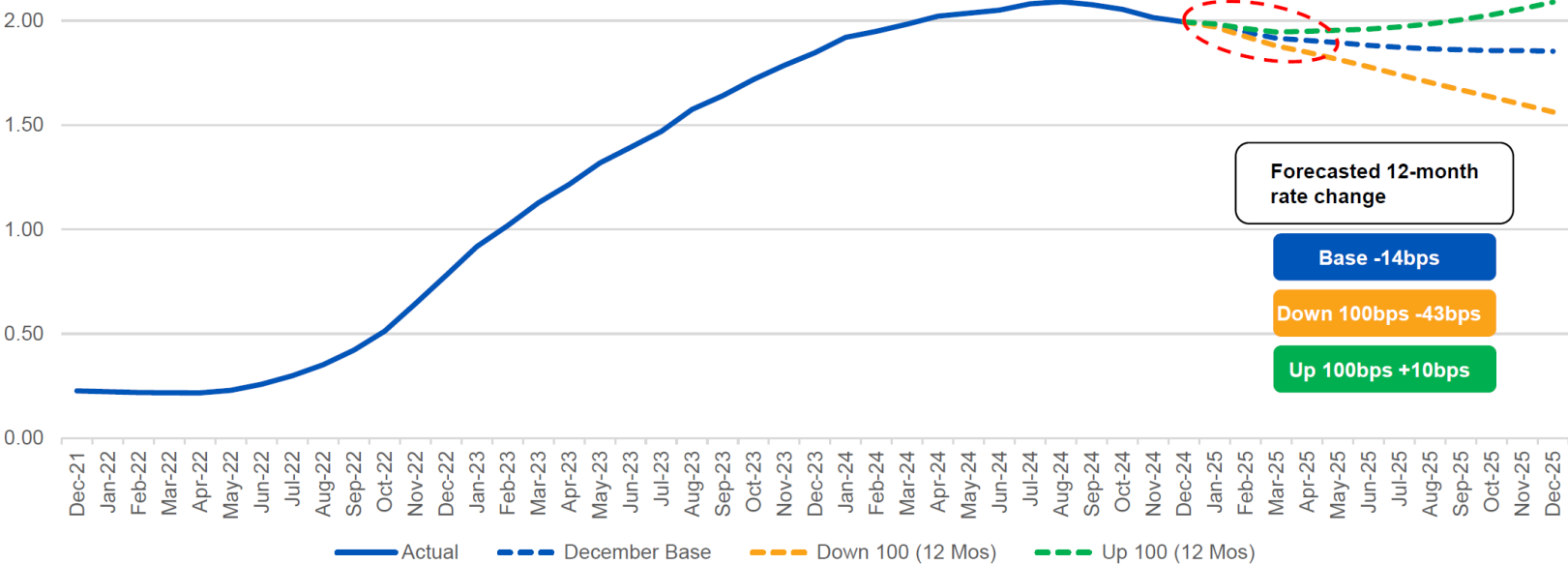


Source: Deposits360<sup>®</sup>

# DCG Deposits360<sup>®</sup> Monthly Industry Review

## The Good News...Deposit Relief Should Continue

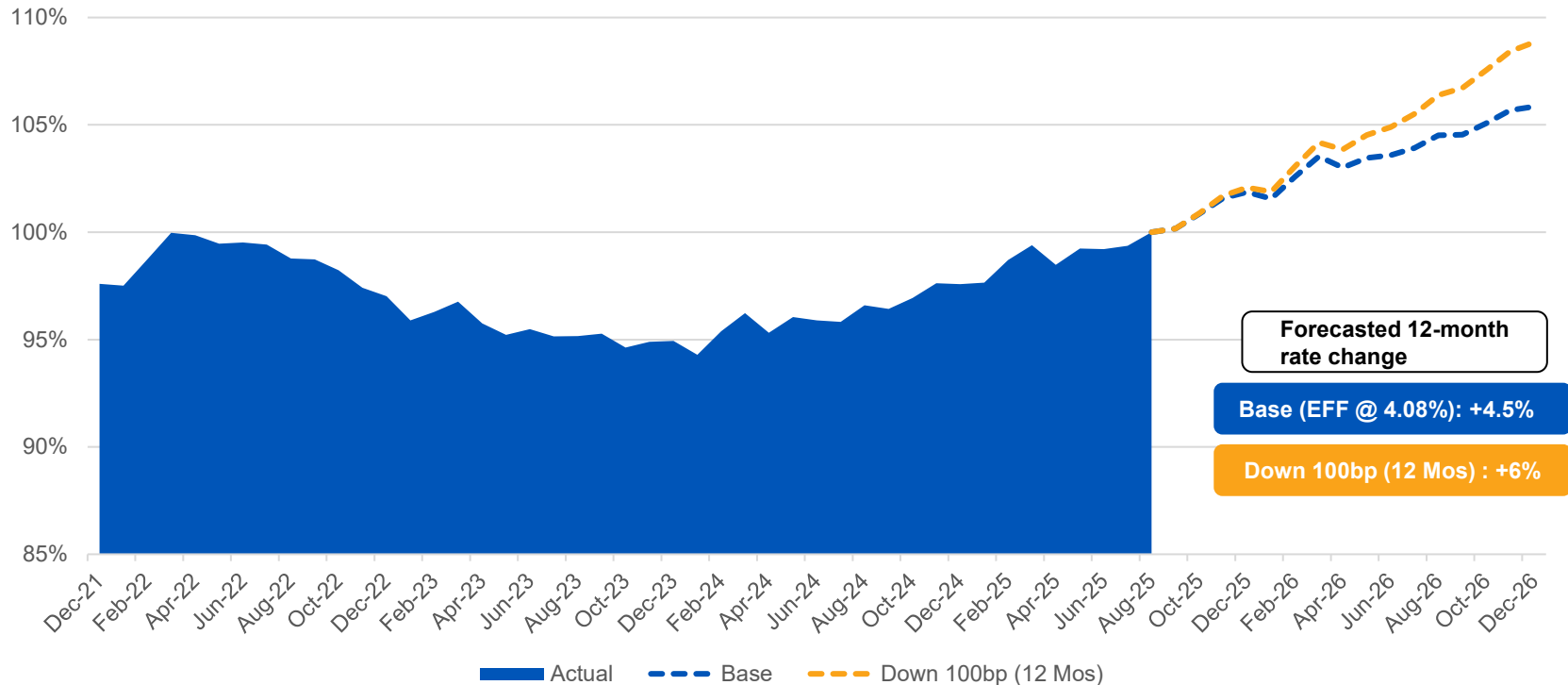
Total Deposit Portfolio Rate History & Forecast



Source: Deposits360<sup>®</sup>

# Deposits360® Balance Forecast

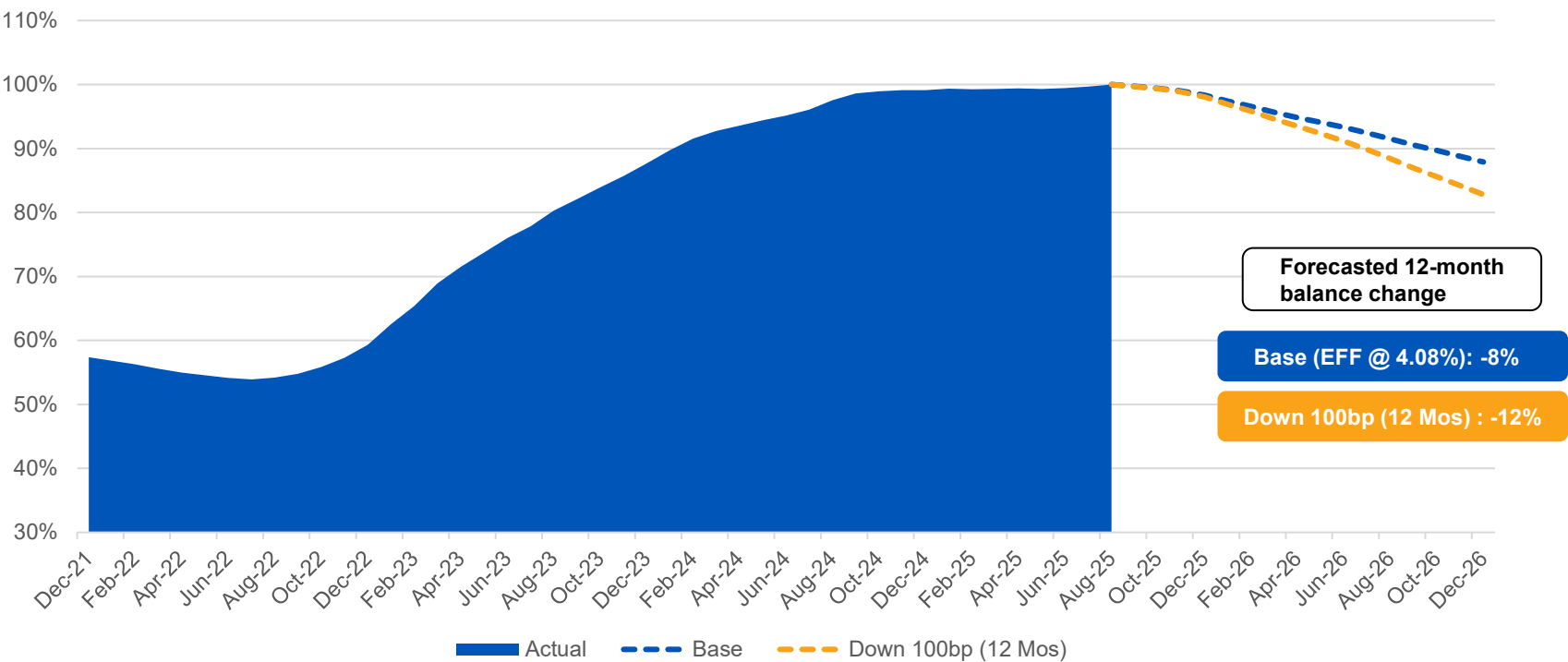
Total Deposit Balance History & Forecast



Source: Deposits360®

# Where Do CD Balances Go From Here?

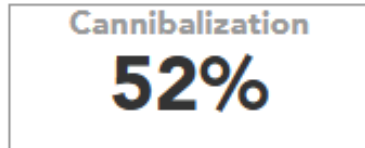
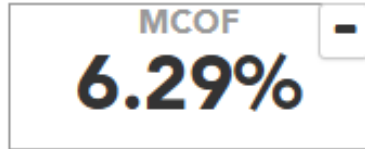
CD Balance History & Forecast



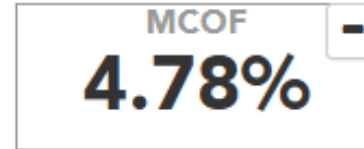
Source: Deposits360®

# Let Data Drive Successful Pricing Decisions

CD Special  
@ 4.50%



MMDA Special  
@ 3.75%



Source: Deposits360®



# Use Marginal Cost of Funds as a Guide

CDs Maturing Next Quarter

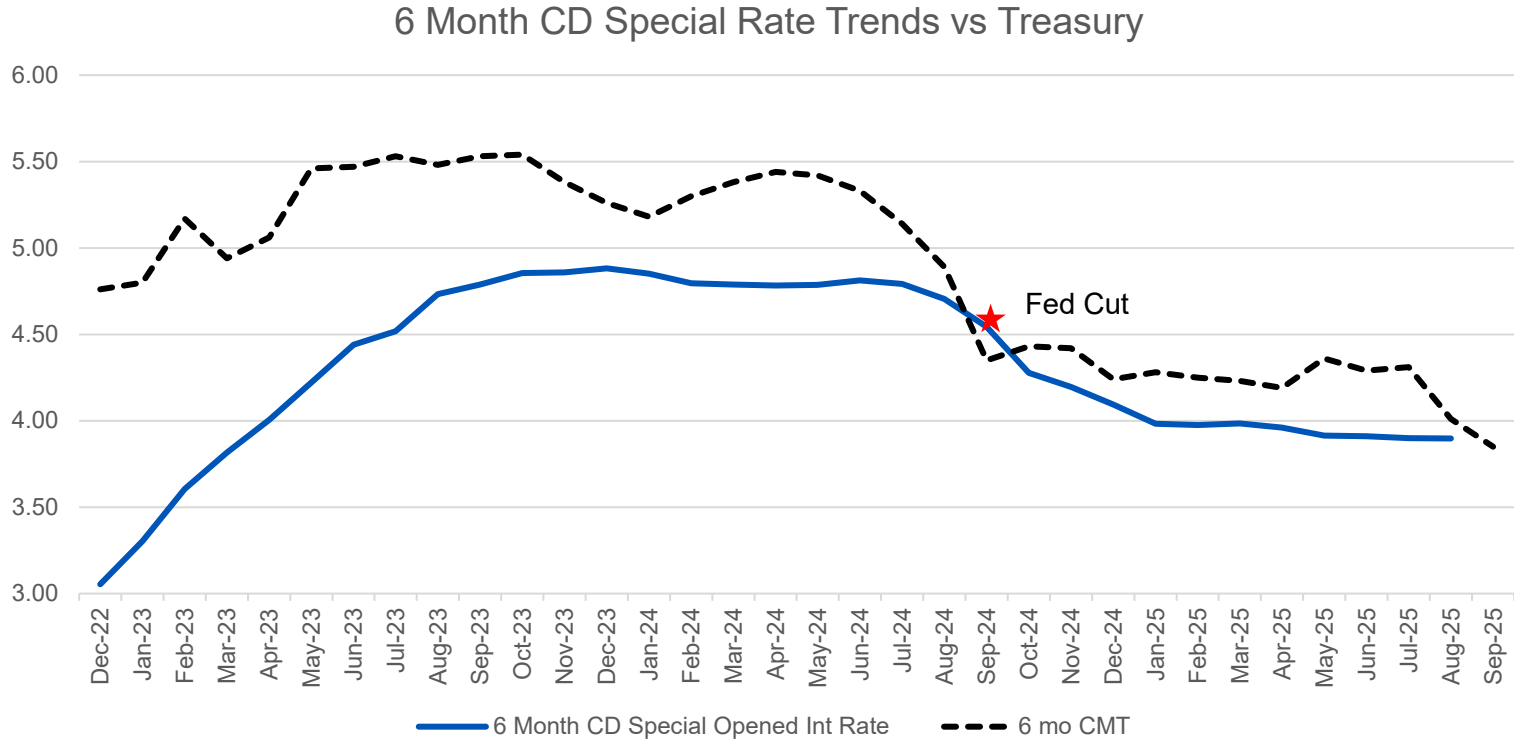
Balance (In thousands)		Current Rate	
\$ 257842		4.00 %	
		Rate Reduction	
		0.25 %	
Runoff Protected	10.00 %	6.25 %	
	25.00 %	4.75 %	

Source: Darling Consulting Group

# Challenging CDs

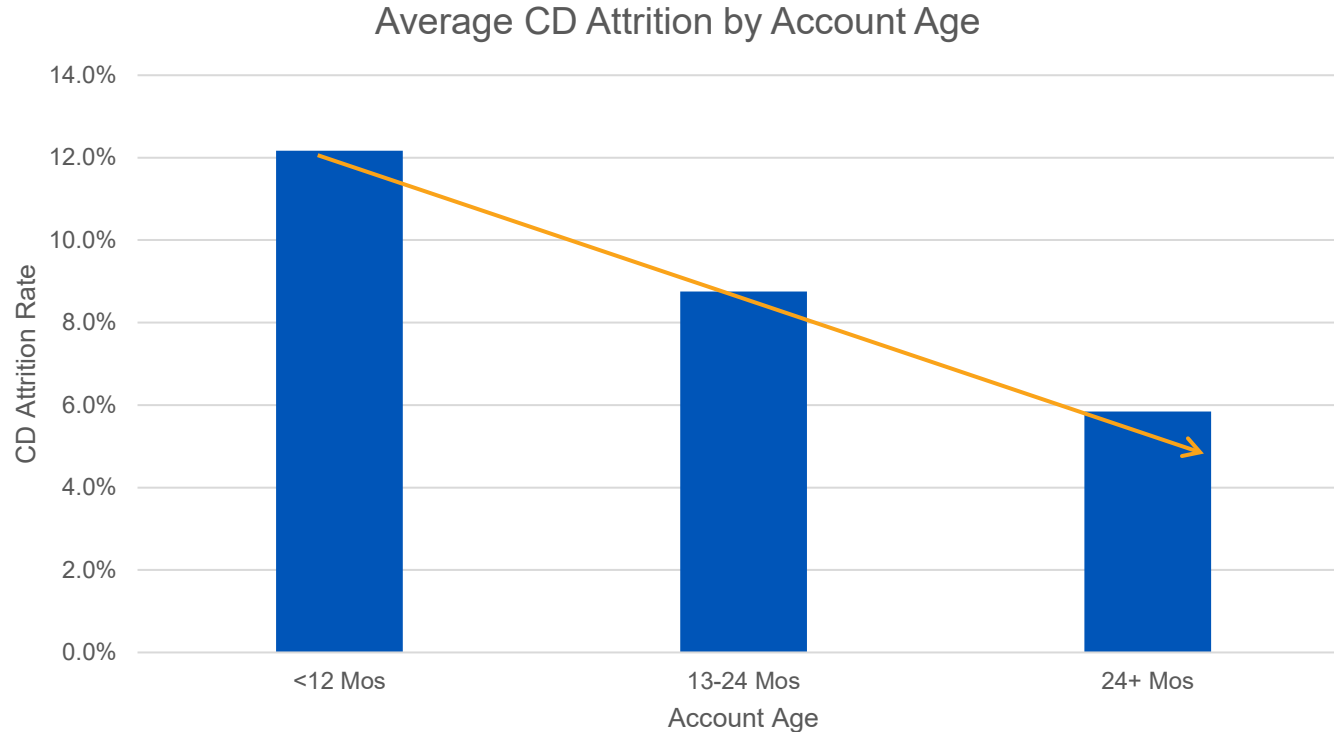


# CD Rates Don't Stay Above Treasury for Long



Source: Deposits360®

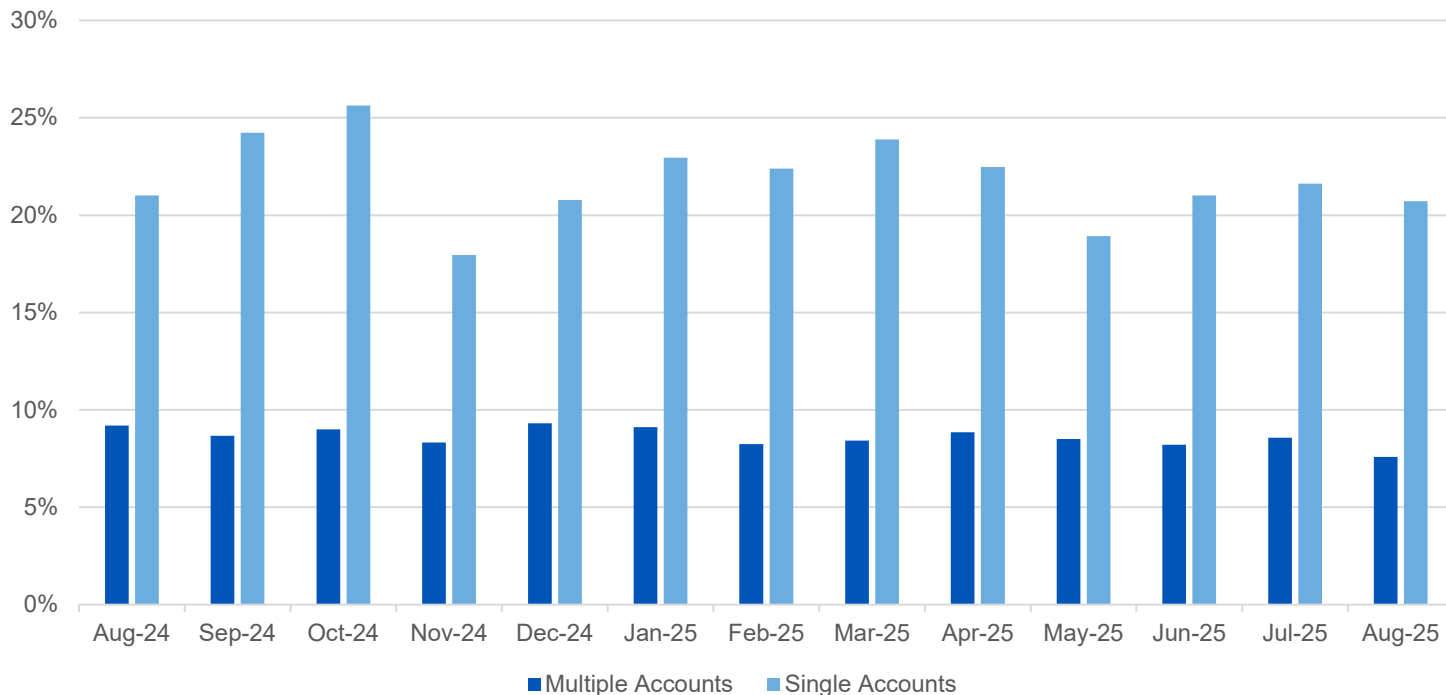
# CDs Get Stickier When Rollovers Multiply



Source: Deposits360®

# If Bending on Rate, Don't Acquiesce on CD Only Customers

CD Attrition At Maturity by Relationship Status



Source: Deposits360®

# Balance Sheet Strategy

Some Thoughts on Lending  
& Investments ...and Derivatives

# Rolling the Dice? ALM not a Game of Chance!





# Banks Continue To Wrestle With Uncertainty and Pricing Risk

## ◆ Reconciling Risk Appetite w/ Loan Growth Goals & Pricing Strategy

## ◆ Current Realities/Challenges:

- ▶ Cost of Capital, Cost of Liquidity, Credit Uncertainties
- ▶ Again...importance of tie-breakers
- ▶ Option risks: modifications, prepayments, commitments
- ▶ Lenders: lenders or relationship developers/managers?



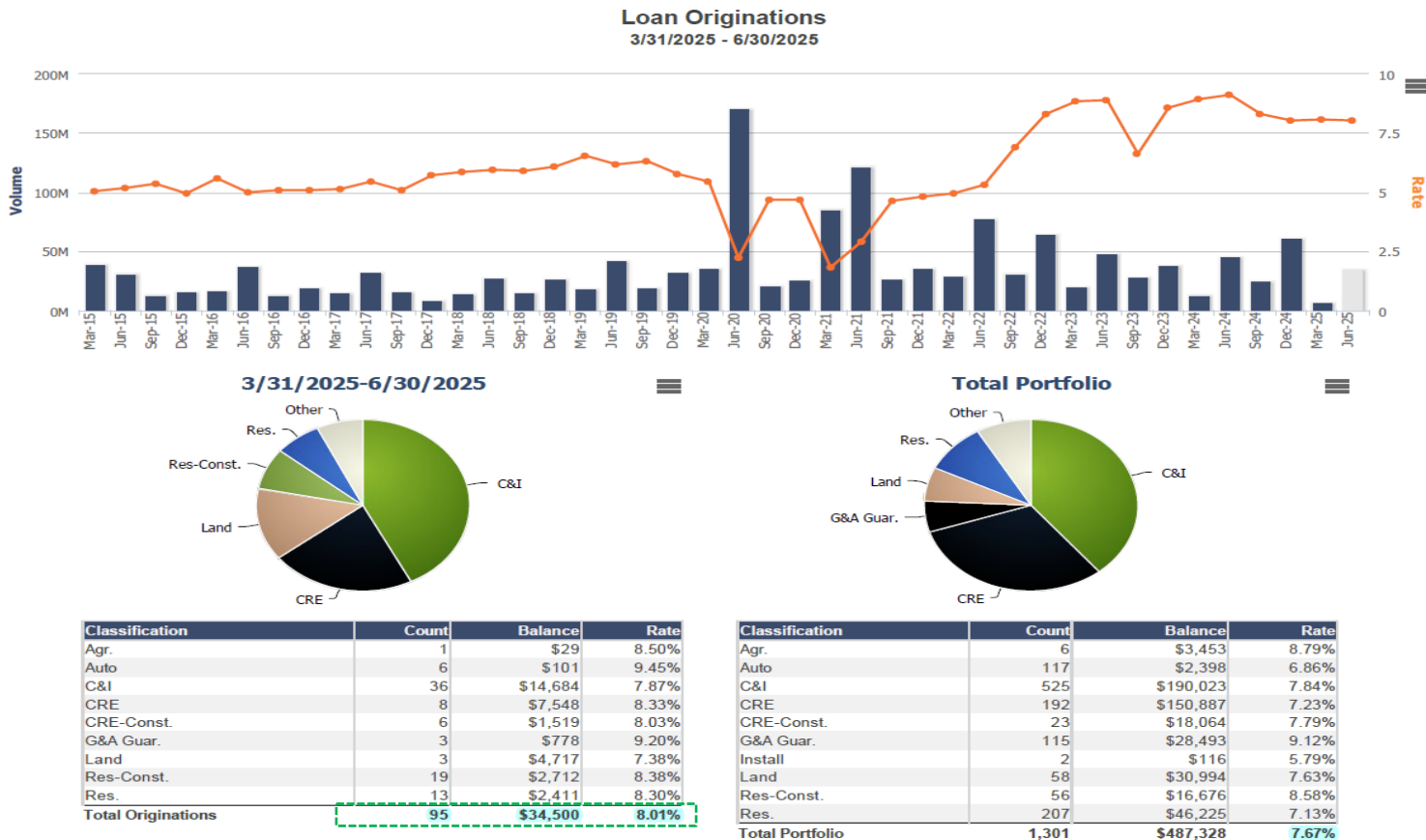
## ◆ Prospective Realities/Challenges:

- ▶ Higher COF pressure necessitates value-driven and disciplined pricing strategy



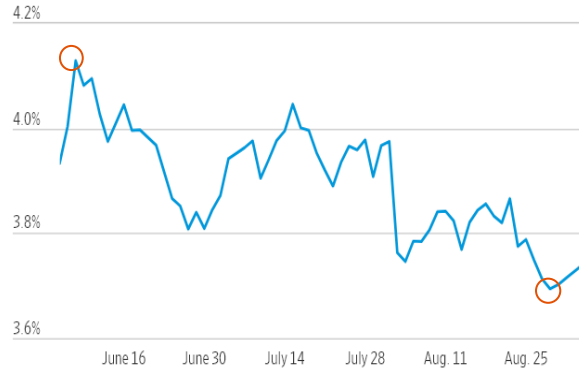
# Loan Origination Volume and Rates

- ◆ Volume / yield trade-offs
- ◆ Potential mix changes
- ◆ Offering “menu”: fixed vs floating, terms, options
- ◆ Prepayment / modification risks
- ◆ Upcoming reset/balloon/ maturity schedule
- ◆ Falling rate protection: floors and prepayment penalties
- ◆ Credit update



# Strategy: Projected Loan Cash Flow

## 5-Year Note



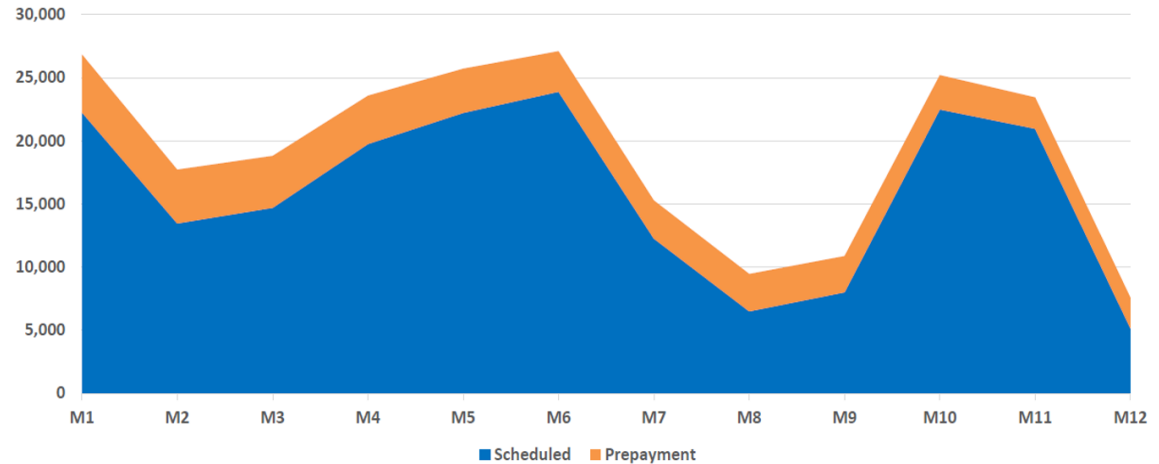
## 10-Year Note



## Breakdown of Scheduled Cash Flow vs. Prepayment and Estimated Rate of Cash Flow Roll Off

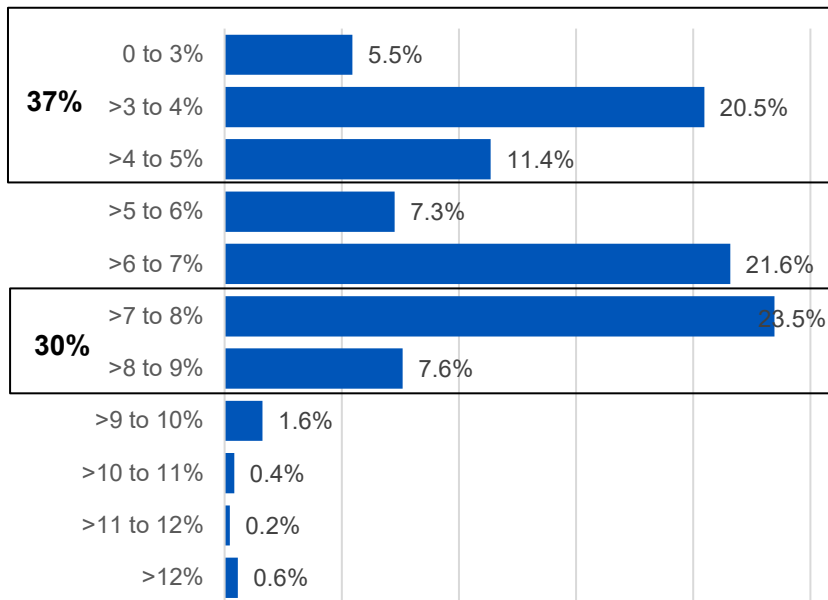
Proj. Loan Cash Flow	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12	Total	% of Total
Scheduled	22,238	13,453	14,696	19,752	22,220	23,884	12,266	6,488	8,005	22,490	20,953	5,147	191,591	83%
Prepayment	4,599	4,271	4,112	3,823	3,496	3,214	3,010	2,960	2,869	2,708	2,493	2,435	39,991	17%
Total	26,838	17,724	18,808	23,575	25,716	27,098	15,276	9,448	10,874	25,198	23,446	7,582	231,582	
Roll Off Rate	8.10	8.08	7.98	8.18	7.97	7.32	8.04	7.83	7.84	7.84	7.99	7.86	7.92	
Spread Gain(Loss) vs. Prior Quarter Avg. Origination Rate of 7.98%	-0.11	-0.09	0.00	-0.19	0.01	0.66	-0.06	0.15	0.14	0.14	-0.01	0.12	0.07	

## Modeled Loan Cash Flow through June 2026

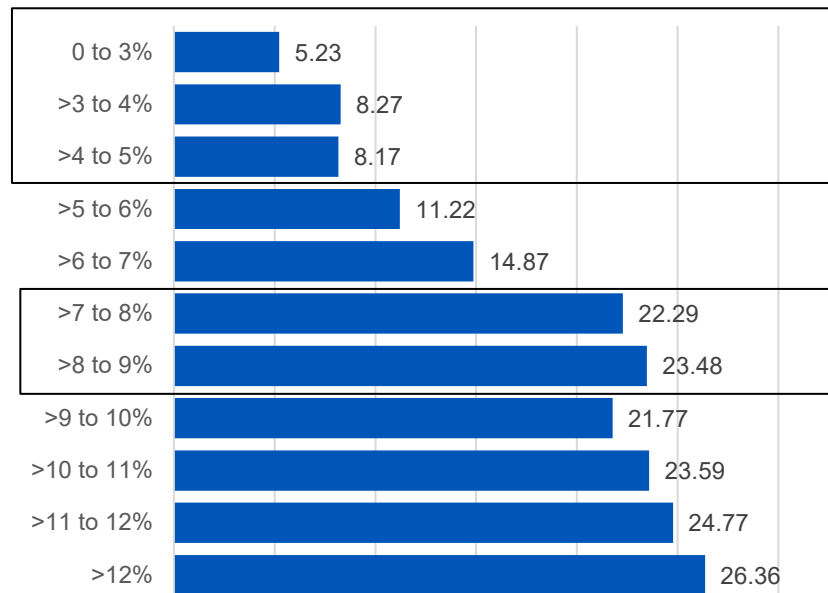


# Prepayment Will Vary Greatly (CRE - DCG Specific)

## Portfolio Mix by Coupon Band



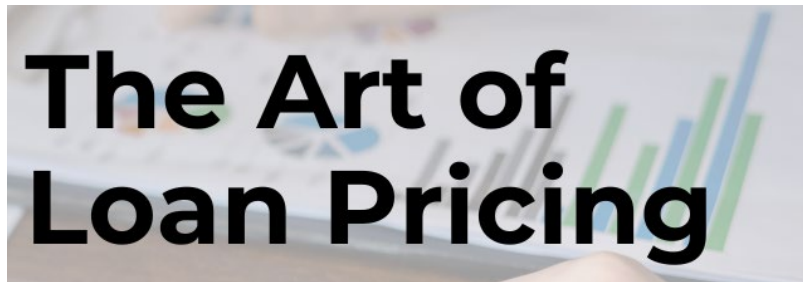
## Projected CPR by Coupon Band



# Current Loan Pricing in Perspective

## Other Discussion Items

- ◆ Prepayment Risk Is Real...and costly to hedge
- ◆ Caps, Floors & Collars
  - ▶ Importance of Prepay Penalty on Floaters
- ◆ Re-pricing Spreads vs. Initial Spreads
  - ▶ Re-establish prepay penalty & floors at reset
- ◆ Commitment Strategy
- ◆ Balloon vs. Adjustable
- ◆ Upcoming Maturities / Resets
- ◆ Etc.



# Financial Institutions Group - Market Update

Friday, October 10, 2025

**Chatham**  
FINANCIAL

Index Rates	
Term	Rate
SOFR	4.130%
1M Term SOFR	4.032%
3M Term SOFR	3.905%
NY Fed 30 Day	4.234%
Eff. Fed Funds	4.100%
FF Target	4.250%
Prime	7.250%

Treasury Rates	
Term	Rate
3 Month Bill	3.94%
6 Month Bill	3.81%
2 Year Note	3.50%
3 Year Note	3.51%
5 Year Note	3.62%
10 Year Note	4.03%
30 Year Bond	4.62%

90 Day History - 5 Year Swap (SOFR)



Market Rates			
Term	SOFR OIS	Fed Funds OIS	3 Month Term SOFR
1	3.48%	3.43%	3.50%
2	3.25%	3.20%	3.27%
3	3.21%	3.15%	3.22%
4	3.22%	3.16%	3.23%
5	3.25%	3.20%	3.27%
7	3.35%	3.30%	3.37%
10	3.52%	3.46%	3.53%
11	3.57%	3.51%	3.58%
12	3.62%	3.56%	3.63%
13	3.66%	3.60%	3.67%
14	3.70%	3.64%	3.71%
15	3.73%	3.67%	3.75%
20	3.82%	3.76%	3.84%
25	3.83%	3.77%	3.85%
30	3.79%	3.74%	3.81%

1 Month Term SOFR Swap Rates						
Term	Bullet	Amortization Period				
		10	15	20	25	30
1	3.49%	3.49%	3.49%	3.49%	3.49%	3.49%
2	3.26%	3.27%	3.26%	3.26%	3.26%	3.26%
3	3.21%	3.23%	3.22%	3.22%	3.21%	3.21%
4	3.22%	3.23%	3.23%	3.23%	3.23%	3.22%
5	3.26%	3.26%	3.26%	3.26%	3.26%	3.26%
7	3.36%	3.32%	3.34%	3.35%	3.35%	3.35%
10	3.52%	3.37%	3.46%	3.48%	3.50%	3.50%
11	3.57%		3.49%	3.52%	3.54%	3.55%
12	3.62%		3.51%	3.56%	3.58%	3.59%
13	3.66%		3.53%	3.59%	3.62%	3.63%
14	3.70%		3.54%	3.61%	3.65%	3.66%
15	3.73%		3.54%	3.63%	3.67%	3.69%
20	3.83%			3.67%	3.73%	3.76%
25	3.84%				3.69%	3.75%
30	3.80%					3.73%

Prime Swap Rates						
Term	Bullet	Amortization Period				
		10	15	20	25	30
1	6.54%	6.55%	6.54%	6.54%	6.54%	6.54%
2	6.30%	6.31%	6.31%	6.30%	6.30%	6.30%
3	6.26%	6.27%	6.26%	6.26%	6.26%	#Missing
4	6.27%	6.28%	6.28%	6.27%	6.27%	6.27%
5	6.31%	6.31%	6.31%	6.31%	6.31%	6.31%
7	6.41%	6.37%	6.39%	6.40%	6.40%	6.40%
10	6.57%	6.41%	6.50%	6.53%	6.54%	6.55%
11	6.62%		6.53%	6.57%	6.58%	6.59%
12	6.66%		6.55%	6.60%	6.62%	6.64%
13	6.71%		6.56%	6.63%	6.66%	6.67%
14	6.74%		6.56%	6.65%	6.69%	6.71%
15	6.78%		6.56%	6.67%	6.71%	6.73%
20	6.87%			6.67%	6.76%	6.80%
25	6.87%				6.73%	6.79%
30	6.84%					6.77%

# Caps & Floors

Accounting Friendly-straight Line Amortization

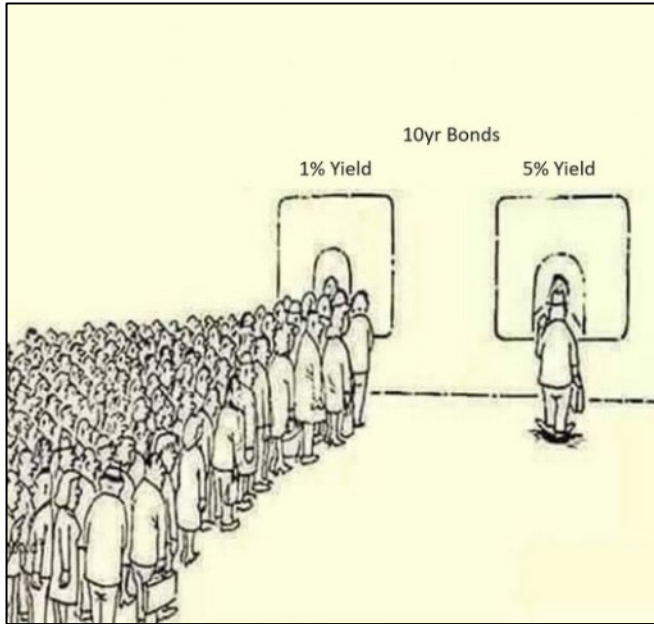
SOFR Cap Pricing (% of Notional)						
Strike						
	2Y	3Y	4Y	5Y	7Y	10Y
3.00%	1.04%	1.66%	2.44%	3.36%	5.51%	9.25%
3.25%	0.74%	1.26%	1.93%	2.74%	4.68%	8.10%
3.50%	0.49%	0.91%	1.49%	2.20%	3.94%	7.06%
3.75%	0.30%	0.66%	1.16%	1.78%	3.35%	6.20%
4.00%	0.18%	0.47%	0.90%	1.45%	2.85%	5.47%
4.25%	0.12%	0.36%	0.73%	1.22%	2.48%	4.88%
4.50%	0.08%	0.27%	0.58%	0.99%	2.09%	4.22%
4.75%	0.06%	0.22%	0.49%	0.85%	1.84%	3.79%
5.00%	0.05%	0.18%	0.41%	0.73%	1.62%	3.42%
5.25%	0.04%	0.15%	0.35%	0.63%	1.44%	3.09%
5.50%	0.03%	0.12%	0.30%	0.55%	1.28%	2.80%
5.75%	0.02%	0.10%	0.25%	0.48%	1.14%	2.54%
6.00%	0.02%	0.08%	0.22%	0.42%	1.02%	2.31%

SOFR Floor Pricing (% of Notional)						
Strike						
	2Y	3Y	4Y	5Y	7Y	10Y
0.00%	0.02%	0.03%	0.07%	0.11%	0.21%	0.42%
1.00%	0.04%	0.10%	0.18%	0.28%	0.50%	0.90%
2.00%	0.14%	0.32%	0.54%	0.77%	1.27%	2.05%
2.50%	0.28%	0.58%	0.92%	1.29%	2.02%	3.10%
2.75%	0.38%	0.78%	1.21%	1.66%	2.55%	3.82%
3.00%	0.52%	1.03%	1.56%	2.10%	3.15%	4.63%
3.25%	0.71%	1.34%	1.99%	2.64%	3.90%	5.62%
3.50%	0.97%	1.75%	2.54%	3.33%	4.83%	6.88%
4.00%	1.64%	2.75%	3.85%	4.91%	6.91%	9.57%
4.50%	2.53%	4.01%	5.45%	6.84%	9.39%	12.76%
5.00%	3.47%	5.36%	7.18%	8.90%	12.08%	16.24%
5.50%	4.43%	6.75%	8.96%	11.05%	14.90%	19.90%
6.00%	5.40%	8.16%	10.77%	13.25%	17.80%	23.70%

# **A Few Comments on Investment Strategy & Derivatives**



# “Do the Opposite” Often Best Strategy!



- ◆ Bankers buy bonds when liquidity high, rates low and reaching for earnings in “Recessionary times”

- ◆ THEN...

- ...Rates reverse,
- ...Unrealized losses appear,
- ...Along with Monday Morning Quarterbacks,
- ...FUD materializes leading to inaction (or loss sales)
- ...And when HIGH yield investment opportunities are once again available (with a flat/inverted curve)
- ...“the FUD” drives everyone “short”

The Opposite: Financial Wisdom  
From George Costanza



...And “The Beat Goes On”...wash, rinse and repeat

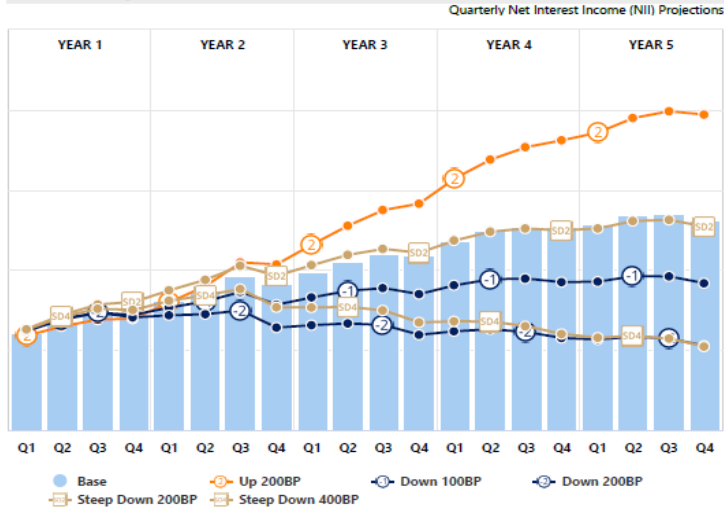


# 6% Yields at “Discounts”- Don't Wait! (from last year's session)

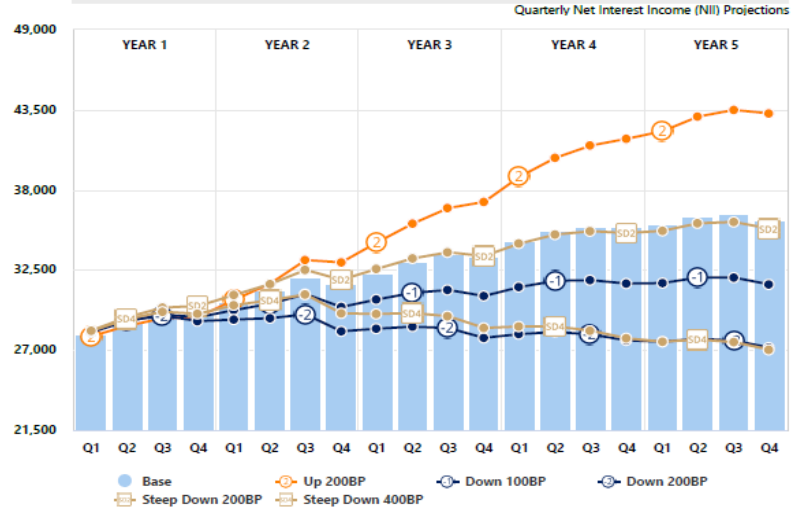
100% FNJMCK 5.5 N				6.110(352)8	CUSIP 31418EZE3	Pool Level ▾	As of 05/2024 ▾							
5/24	OP	0.0C	0.0B	Traits	CK, 30/360	Coupon	5.5%	Maturity	10/01/53	CA	64%	2023	100%	
3Mo	0	0.0	0.0	11/01/2023	2,439,560	LTV/HLTV	83/83	Accrual	06/01-06/30	TN	36%			
6Mo	0	0.0	0.0	05/25/2024	2,424,937	MAXLS	890,000	Next Pay	07/25/24					
12Mo	--	--	--	Factor	0.99400587	WAOLS	818,308							
Life	0	0.0	0.0	# Loans	3									
1) Price-to-Yield														
Settle	06/13/24	9.0 CPR		10.4 CPR		12.7 CPR		17.0 CPR		29.2 CPR		43.3 CPR		51.4 CPR
Indices		F+300		F+200		F+100		F+0		F-100		F-200		F-300
Vary	0	100% BAM		100% BAM		100% BAM		100% BAM		100% BAM		100% BAM		100% BAM
Price	97-29	5.8740		5.8994		5.9381		6.0121		6.2757		6.7066		7.0213
Avg Life		8.65		7.79		6.69		5.15		2.93		1.81		1.43

# \$50MM Pre-Investment (1 Month FHLB): Which is Best Outcome?

\$50MM Leverage - Funded with 1 Month FHLB



Base Simulation as of 3/31/2024



## NII RESULTS

	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5
UP 200BP	114,729	127,439	143,337	161,103	171,320	-215	-636	-538	-451	-361	114,944	128,075	143,874	161,555	171,681
BASE	116,143	124,987	132,523	140,522	143,967	245	208	175	140	115	115,898	124,779	132,348	140,382	143,851
DOWN 100BP	116,247	121,235	123,647	126,752	127,281	475	645	536	434	347	115,772	120,589	123,111	126,318	126,934
DOWN 200BP	116,242	116,973	114,173	112,653	110,593	703	1,082	887	712	560	115,539	115,891	113,285	111,941	110,033
STEEP DOWN 200BP	118,166	127,680	133,872	140,098	142,507	756	1,172	961	771	607	117,410	126,508	132,911	139,326	141,900
STEEP DOWN 400BP	117,177	122,142	118,377	114,542	110,723	726	1,436	1,648	1,301	1,002	116,451	120,706	116,729	113,241	109,721
DIFFERENCE															

- Purchase \$50MM of deeply discounted seasoned 15 year MBS @ 5.68%; funded with 1 Month FHLB @ 5.08%. (Div. Adj).
- Security cash flows pay down borrowings over the life of the simulation.

# Thoughts on Investments



## ARGUMENTS AGAINST

- 1 Scars: Unrealized losses
- 2 Loan Funding
- 3 Cash = “High Yielding Asset”



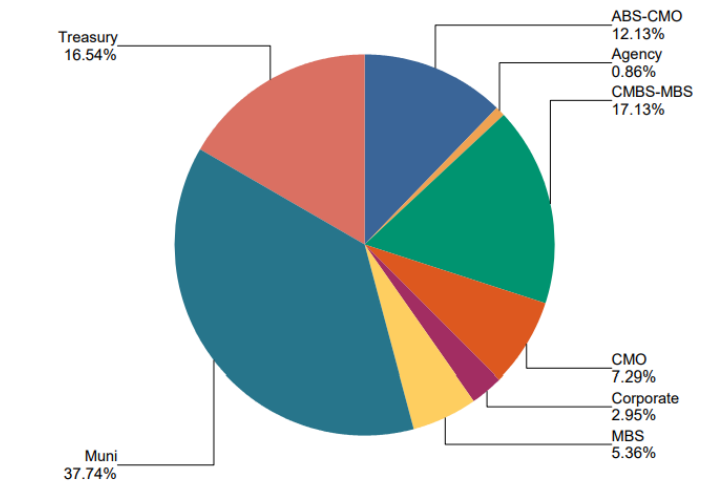
## ARGUMENTS FOR

- 1 150+bp Leverage Spreads
- 2 Hedge: Call Protection (IRR),  
Credit Risk , Loan Slowdown
- 3 Pre-Investment Flexibility



# Discuss Pre-Investment or Leverage (5% Yields at Discounts)

Total Portfolio



	# of Recs	Book Value	Price (Book/Mkt)	Rate (Yld/Cpn)
ABS-CMO	23	20,121	99.63 / 98.99	5.31 / 4.58
Agency	5	1,425	99.99 / 100.25	4.65 / 4.29
CMBS-MBS	27	28,416	100.70 / 96.11	3.33 / 3.67
CMO	26	12,088	98.10 / 91.19	3.25 / 2.94
Corporate	18	4,889	99.77 / 100.28	4.52 / 4.31
MBS	13	8,888	99.62 / 97.96	4.79 / 4.67
Muni	116	62,600	100.62 / 89.13	2.24 / 2.33
Treasury	29	27,437	99.41 / 93.12	1.49 / 1.32
<b>Total Portfolio</b>	<b>257</b>	<b>165,864</b>	<b>100.04 / 93.24</b>	<b>2.97 / 2.91</b>

BASE RATE SCENARIO	ASSETS	Q1Y1	Q2Y1	Q3Y1	Q4Y1	Q1Y2	Q2Y2	Q3Y2	Q4Y2	Y3
	TREASURIES & AGENCIES	825	1,600	2,300	0	0	1,000	300	0	12,000
	MBS & CMO'S	2,206	1,862	2,183	1,495	1,442	1,325	1,299	1,857	5,577
	MUNICIPALS	0	0	150	131	0	0	1,000	645	5,105
	OTHER INVESTMENTS	500	0	850	250	550	0	250	500	1,100
	<b>TOTAL</b>	<b>3,531</b>	<b>3,462</b>	<b>5,483</b>	<b>1,876</b>	<b>1,992</b>	<b>2,325</b>	<b>2,849</b>	<b>3,002</b>	<b>23,782</b>
	<b>CUMULATIVE</b>	<b>3,531</b>	<b>6,993</b>	<b>12,476</b>	<b>14,352</b>	<b>16,344</b>	<b>18,669</b>	<b>21,519</b>	<b>24,521</b>	<b>48,303</b>

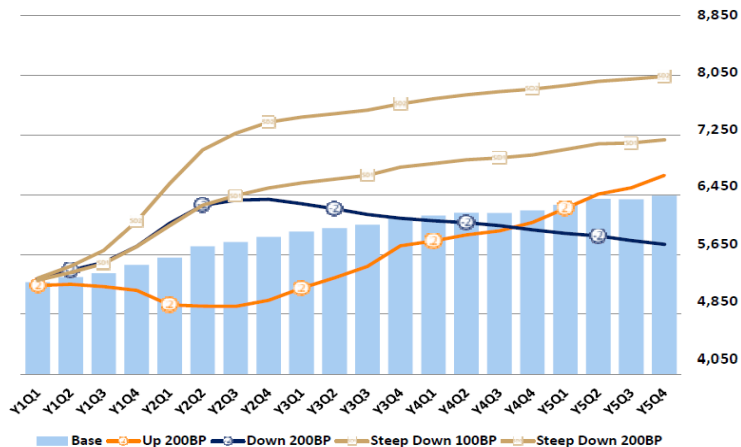
# 15 & 30 Yr. MBS Deep Discount Price (Hedge Credit Risk/Recession)

100% FNCI 3 M				3.519(134)42	CUSIP 3140W3BK4	Pool Level	As of 09/2025			
9/25	196P	11.8C	0.0B	Traits	CI, Super, 30/360	Coupon	3.00%	Maturity	05/01/37	PA 9% 2022 96%
3Mo	--	--	--	08/01/2025	10,409,815	LTV/HLTV	56/46	Accrual	10/01-10/31	FL 9% 2020 4%
6Mo	--	--	--	09/25/2025	10,239,527	MAXLS	200,000	Next Pay	11/25/25	TX 7%
12Mo	--	--	--	Factor	0.98364156	WAOLS	187,487		CA	6%
Life	196	11.8	0.0	# Loans	684					
1) Price-to-Yield										
Settle	10/16/25	6.1 CPR	6.7 CPR	7.6 CPR	8.6 CPR	10.3 CPR	12.2 CPR	15.6 CPR		
Indices	F+300	F+200	F+100	F+0	F-100	F-200	F-300			
Vary	0	100% BAM	100% BAM	100% BAM	100% BAM	100% BAM	100% BAM	100% BAM		
Price	96-08	3.8790	3.8964	3.9222	3.9566	4.0099	4.0746	4.1986		

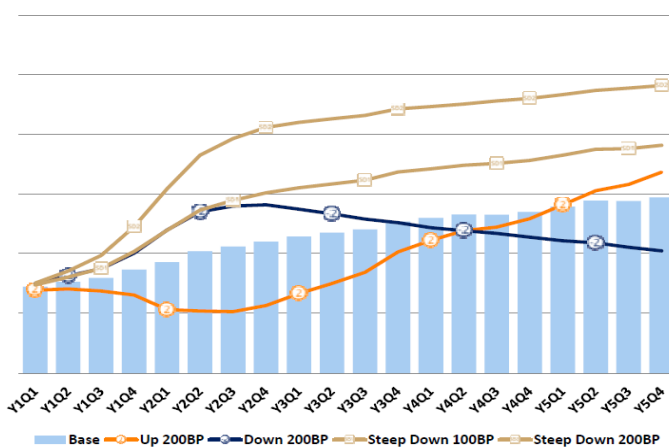
Avg Life		4.75	4.65	4.51	4.34	4.10	3.83	3.42						
Mod Duration		4.16	4.08	3.96	3.81	3.60	3.38	3.02						
Prin Win	Date	11/25-1/37	11/25-1/37	11/25-1/37	11/25-1/37	11/25-1/37	11/25-1/37	11/25-1/37						
	I Spread	21	23	27	31	38	46	61						
100% FNCL 4 M		4.706(317)39		CUSIP 3140W1RG0		Pool Level		As of 09/2025						
9/25	57P	3.4C	0.3B	Traits	CL, Super, 30/360	Coupon	4.00%	Maturity	05/01/53	CA	22%	2022	99%	
3Mo	71	4.3	1.1		04/01/2025	65,993,322	LTV/HLTV	83/75	Accrual	10/01-10/31	TX	13%	2021	1%
6Mo	--	--	--		09/25/2025	64,489,816	MAXLS	1,701,000	Next Pay	11/25/25	MD	12%	2020	0%
12Mo	--	--	--		Factor	0.9772173	WAOLS	433,043			AZ	9%	2023	0%
Life	60	3.6	0.7		# Loans	119,715								
1) Price-to-Yield														
Settle	10/14/25	+300 MED	+200 MED	+100 MED	0 MED	-100 MED	-200 MED	-300 MED						
Vary	0	80 PSA	92 PSA	109 PSA	130 PSA	159 PSA	368 PSA	619 PSA						
Price	94-25	4.7061	4.7396	4.7883	4.8503	4.9392	5.6723	6.7440						

# Pre-Investment Strategy: \$20MM MBS

Strategy Simulation



Base Simulation as of 8/31/2025



Strategy Simulation					
NII Results	Year 1	Year 2	Year 3	Year 4	Year 5
Up 200BP	20,873	19,922	21,793	23,790	25,983
Base	21,533	23,070	24,160	24,829	25,534
Down 200BP	22,068	25,142	24,911	24,197	23,453
Steep Down 100BP	21,995	25,327	26,798	27,715	28,519
Steep Down 200BP	22,622	28,349	30,277	31,224	31,917
% Change from Yr 1 Base					
Up 200BP	-3.1	-7.5	1.2	10.5	20.7
Base		7.1	12.2	15.3	18.6
Down 200BP	2.5	16.8	15.7	12.4	8.9
Steep Down 100BP	2.1	17.6	24.4	28.7	32.4
Steep Down 200BP	5.1	31.7	40.6	45.0	48.2

Difference					
Year 1	Year 2	Year 3	Year 4	Year 5	
305	331	371	-114	-129	
308	308	308	154	140	
380	384	309	458	423	
308	308	308	337	340	
324	327	314	514	523	
0.0	0.2	0.3	-2.1	-2.4	
	-0.1	-0.2	-0.9	-1.1	
0.3	0.1	-0.2	0.5	0.4	
0.0	-0.3	-0.4	-0.3	-0.3	
0.0	-0.4	-0.6	0.3	0.3	

Base Simulation as of 8/31/2025					
Year 1	Year 2	Year 3	Year 4	Year 5	
20,568	19,590	21,422	23,904	26,112	
21,225	22,762	23,852	24,675	25,394	
21,688	24,758	24,603	23,739	23,030	
21,687	25,019	26,490	27,378	28,179	
22,298	28,021	29,964	30,710	31,394	
-3.1	-7.7	0.9	12.6	23.0	
	7.2	12.4	16.2	19.6	
2.2	16.6	15.9	11.8	8.5	
2.2	17.9	24.8	29.0	32.8	
5.1	32.0	41.2	44.7	47.9	

Purchase \$20MM of 30Y MBS (4.85%) with \$20MM Pay Fixed (3.32%)/Rec Float (4.16%) Swap

# Strategy Results and Impact: Risks & Rewards

## Benefits:

- The impact to liquidity is negligible as the bonds are equivalent to cash from a liquidity perspective if pledged to Fed or FHLB.
- Reduced exposure to falling rates and prepayments/refi's (gains and wider spread on transaction if Fed lowers the funds rate)
- Improved ROA and ROE
- Improved efficiency ratio
- Hedge against slowing loan activity

## Potential Risks:

- Opportunity cost if rates rise beyond term of swap in year 3...tail risk of balances of MBS (this is your balance sheet inflection point).
- Unrealized loss of bonds if rates rise on long end of curve (helps rest of assets repricing and new assets)
- Prepayment risk over next 3 years (could fund bonds with cash and hedge half or \$10MM, or hedge half with a 5 year swap, half unhedged)

A Nice Boost to Earnings in 2026!



# FHLB Advances vs. Pay Fixed Swaps

## European Structures Worth Considering!

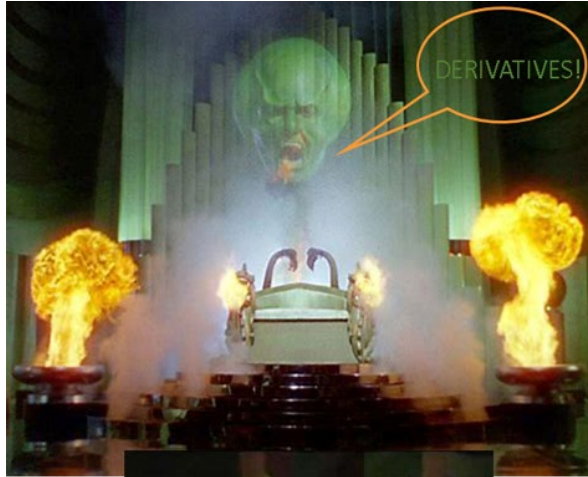
Convertibles - Bermudan			Convertibles - European		
Final Maturity	1st Call	Rate	Final Maturity	1st Call	Rate
2yr	3mo	3.31	2yr	3mo	3.37
2yr	6mo	3.44	2yr	6mo	3.47
3yr	3mo	3.04	3yr	3mo	3.21
3yr	6mo	3.10	3yr	6mo	3.22
5yr	3mo	2.69	5yr	3mo	3.09
5yr	6mo	2.78	5yr	6mo	3.07
5yr	1yr	2.90	5yr	1yr	3.07
10yr	3mo	2.37	10yr	3mo	3.12
10yr	6mo	2.46	10yr	6mo	3.10
10yr	1yr	2.57	10yr	1yr	2.99

- Fixed rate, reduces rate by selling options; Act/360; Quarterly interest payments
- Quarterly callable by FHLBank (Bermudan); 1-time callable by FHLBank (European)

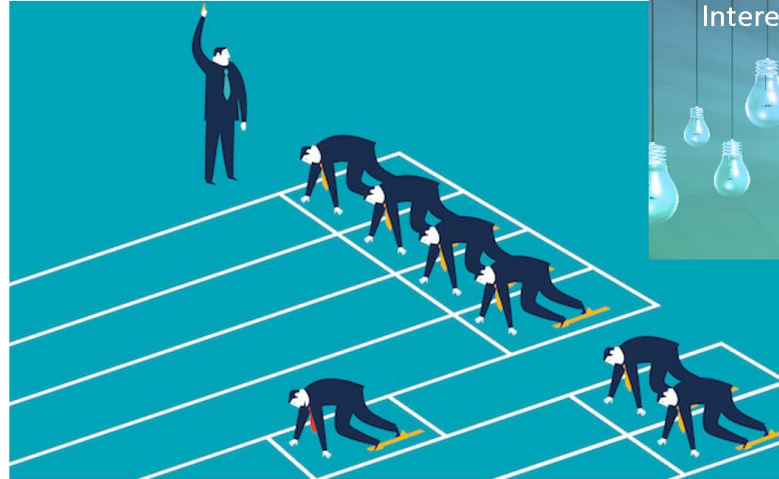
Market Levels	Rate
2-year	3.57
3-year	3.43
5-year	3.43
10-year	3.65
30-year	3.98



# C-Suite: DON'T “Just Say No”... Important Role of Derivatives



...Can Create Competitive Advantage



...& Provide Important Flexibility

# Meaningful & Appropriate Policies

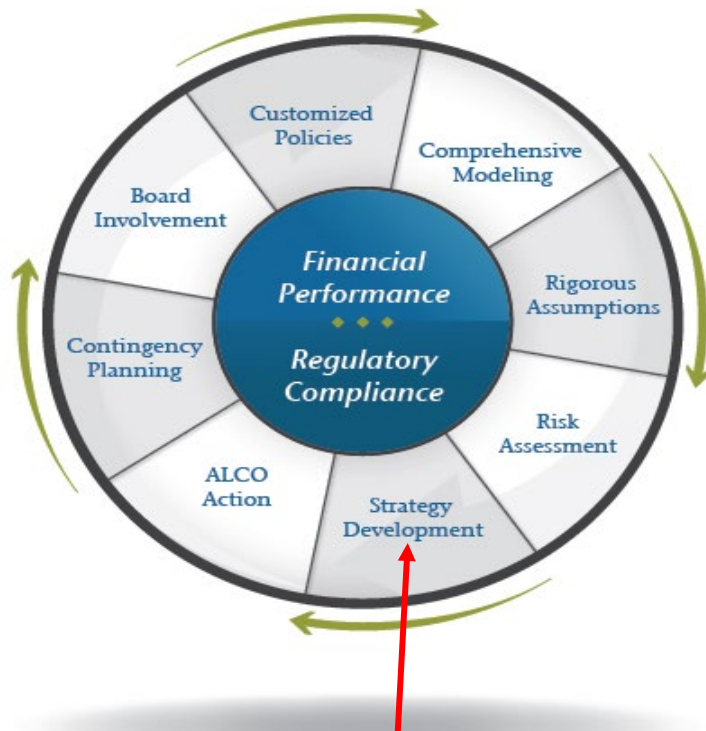
Avoid “If, Then” Statements



# Strategic ALCO

## A Decision Oriented Process

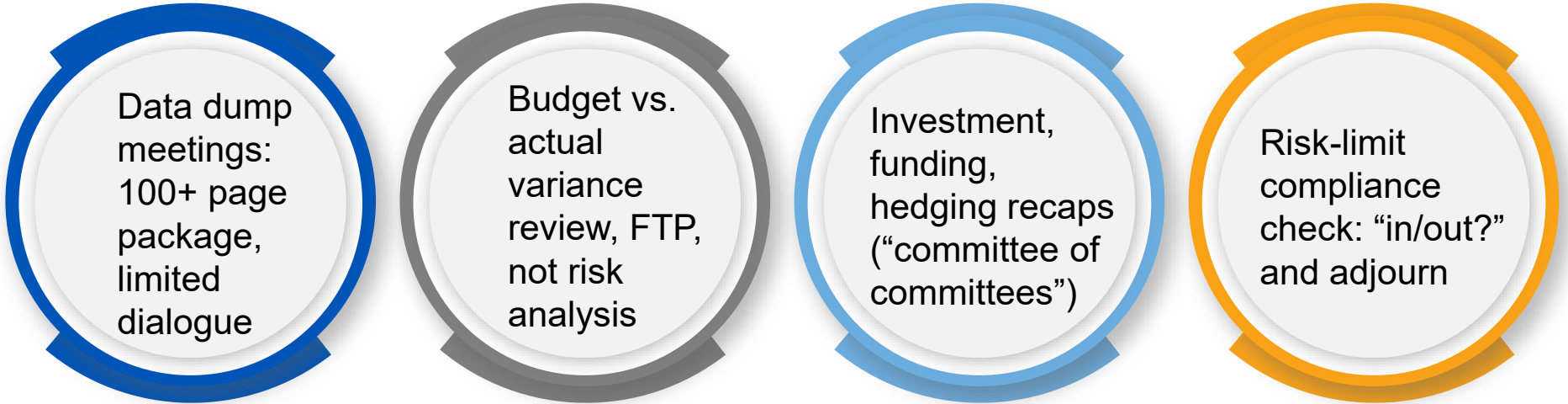
# Best Practices for “Effective” ALCO Process



❖ **Strategic ALCO Meeting:**  
Where most ALCO processes Fall Short

# Industry Reality Check

What ALCO Often Looks Like



Data dump meetings:  
100+ page package,  
limited dialogue

Budget vs. actual  
variance review, FTP,  
not risk analysis

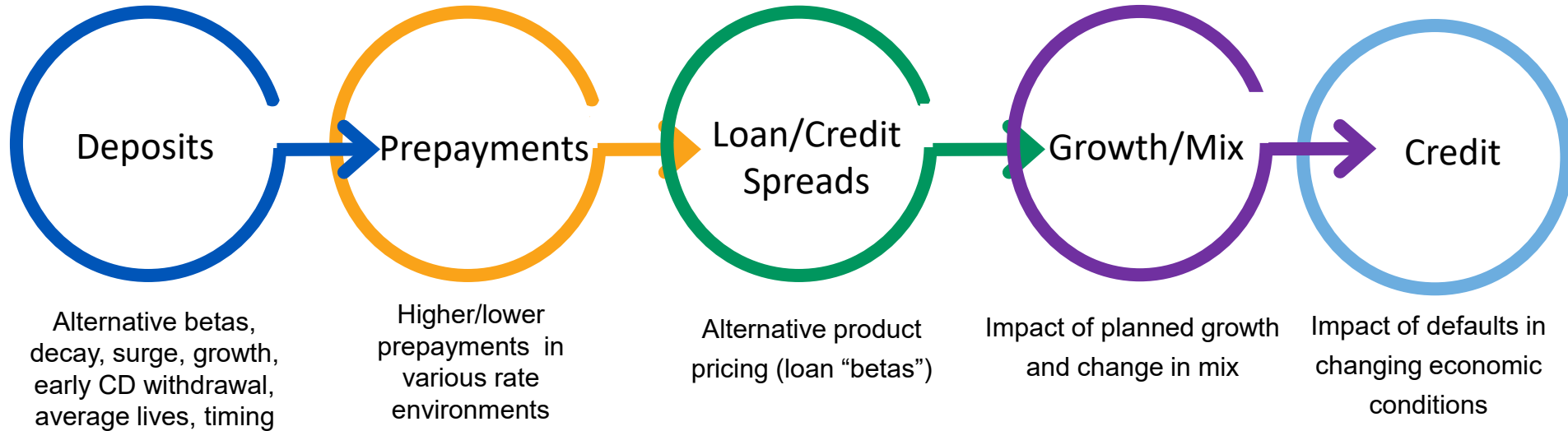
Investment, funding,  
hedging recaps  
("committee of committees")

Risk-limit compliance  
check: "in/out?"  
and adjourn

Net result: ALCO is a reporting exercise, NOT risk management forum

# Assumption Sensitivity and Stress Testing

## Key Categories



# Concluding Thoughts



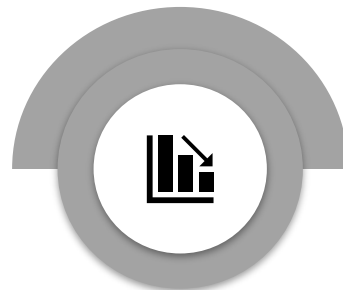
**Listen** to your  
balance sheet



**Maintain** discipline  
with pricing



**Revisit** liquidity  
management  
philosophies



**Be prepared** for  
lower rates; But,  
never say never



**Change** the  
conversation!





# All Roads Lead to...ALCO



## Make ALCO a Profit Center...

- ◆ Valuable Incubator For Total Balance Sheet Strategies
- ◆ Importance of Having the Right People “On The Bus”





# Thank you!

[DarlingConsulting.com](http://DarlingConsulting.com)

# Ongoing Education & Support

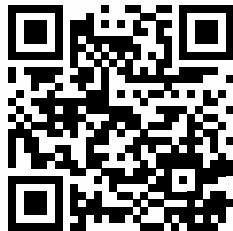
Interested in a Complimentary  
ALCO Review?



SCAN  
HERE

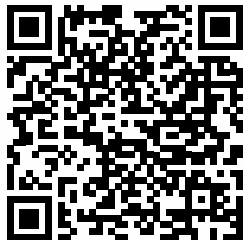


DCG Website



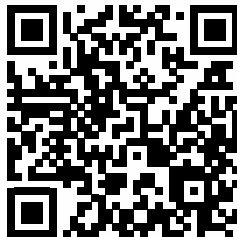
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# Today's Speaker



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