Strategy & Tactics for the Investment Portfolio

IBAT 35th Annual Convention
October 12, 2009

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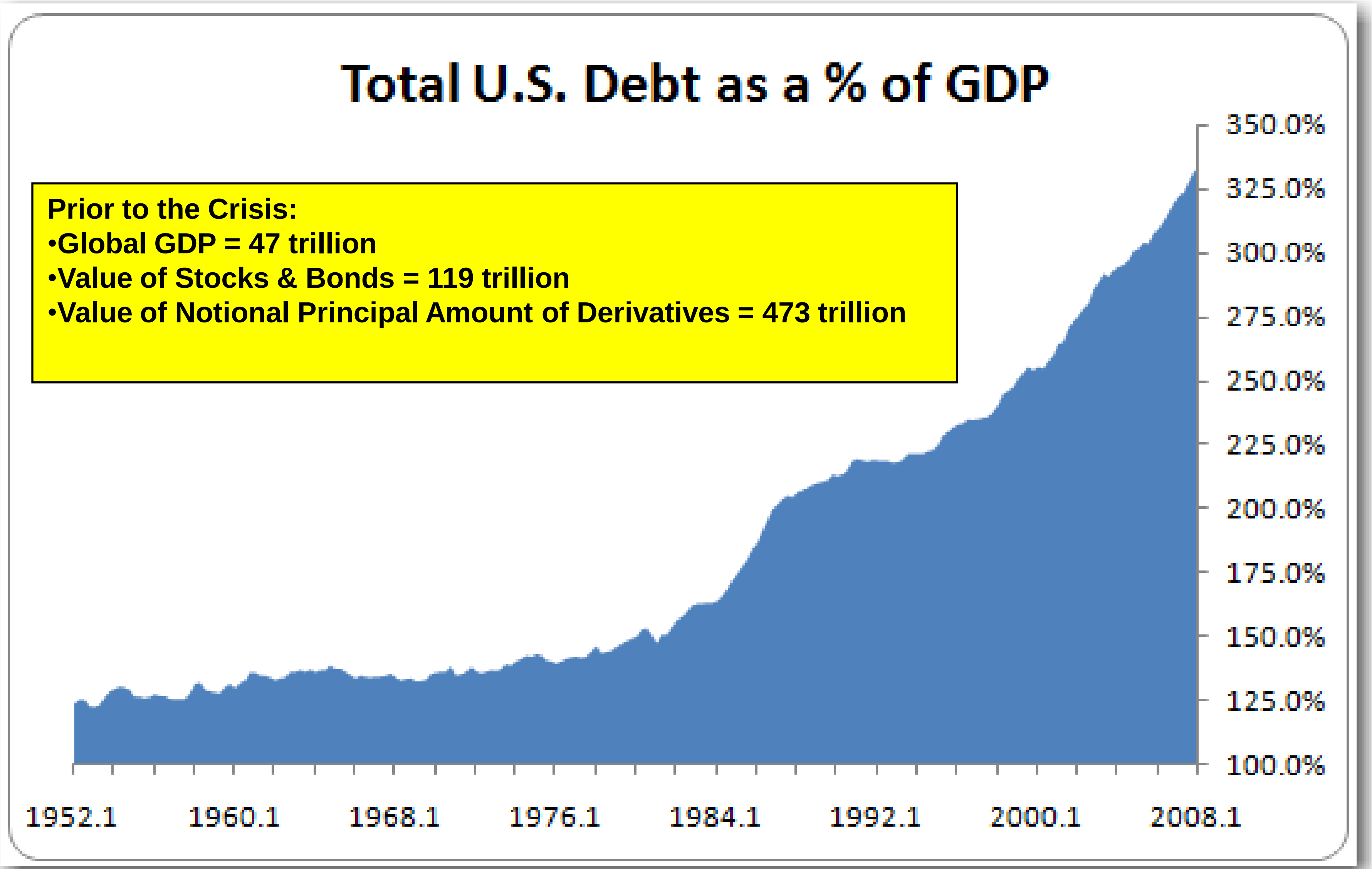
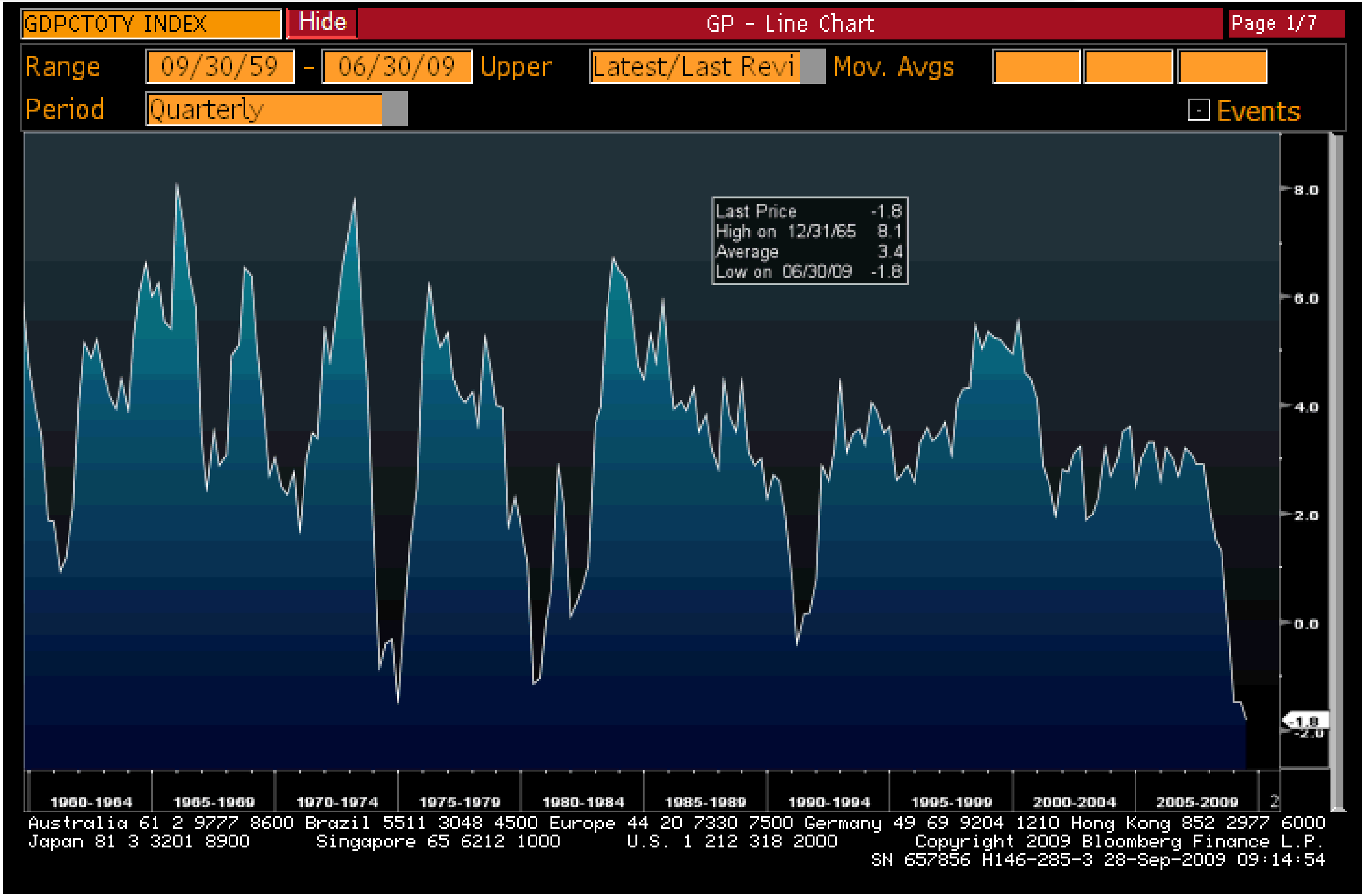
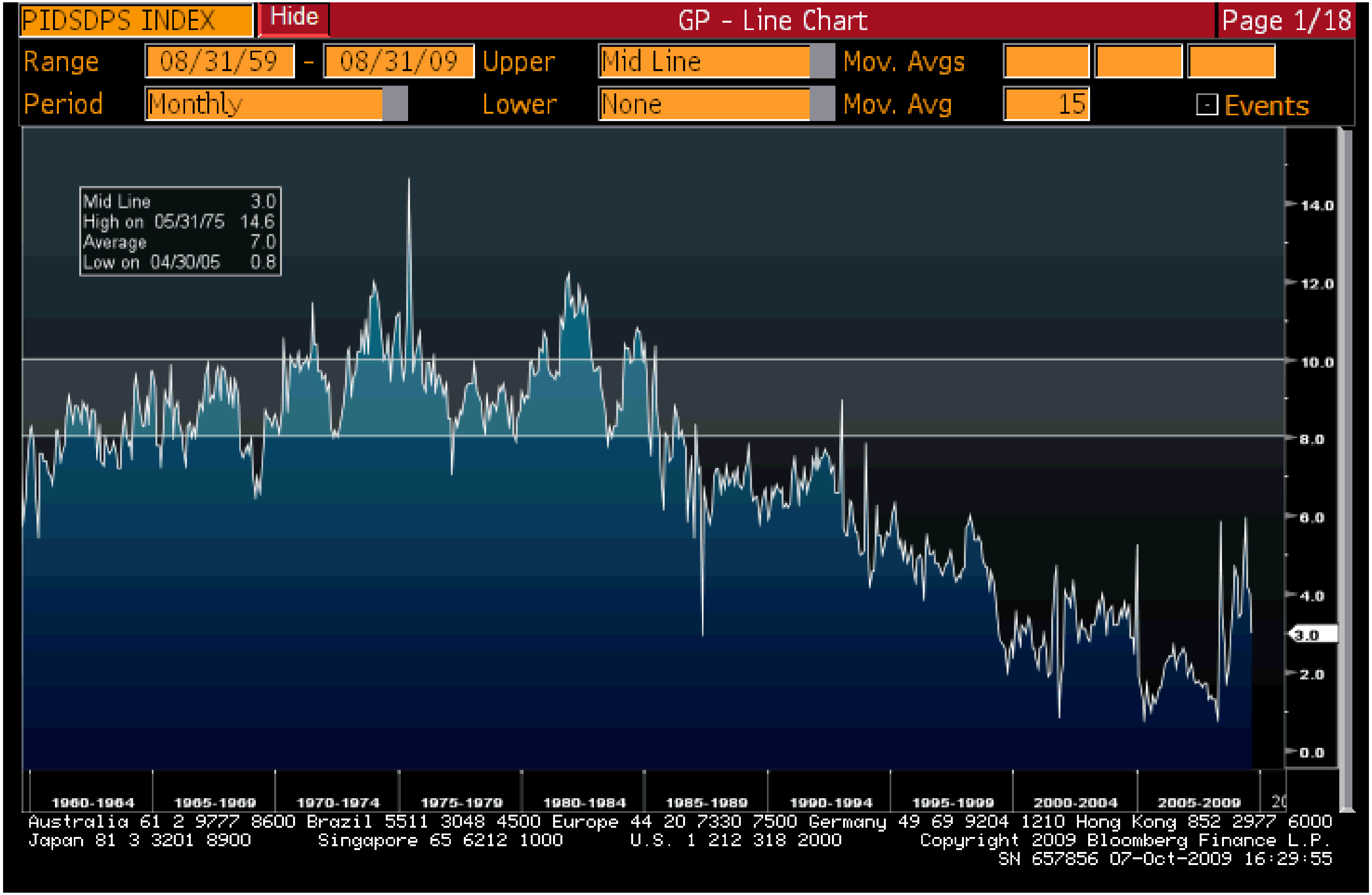
US Debt Imbalance



GDP Consumption Expenditures

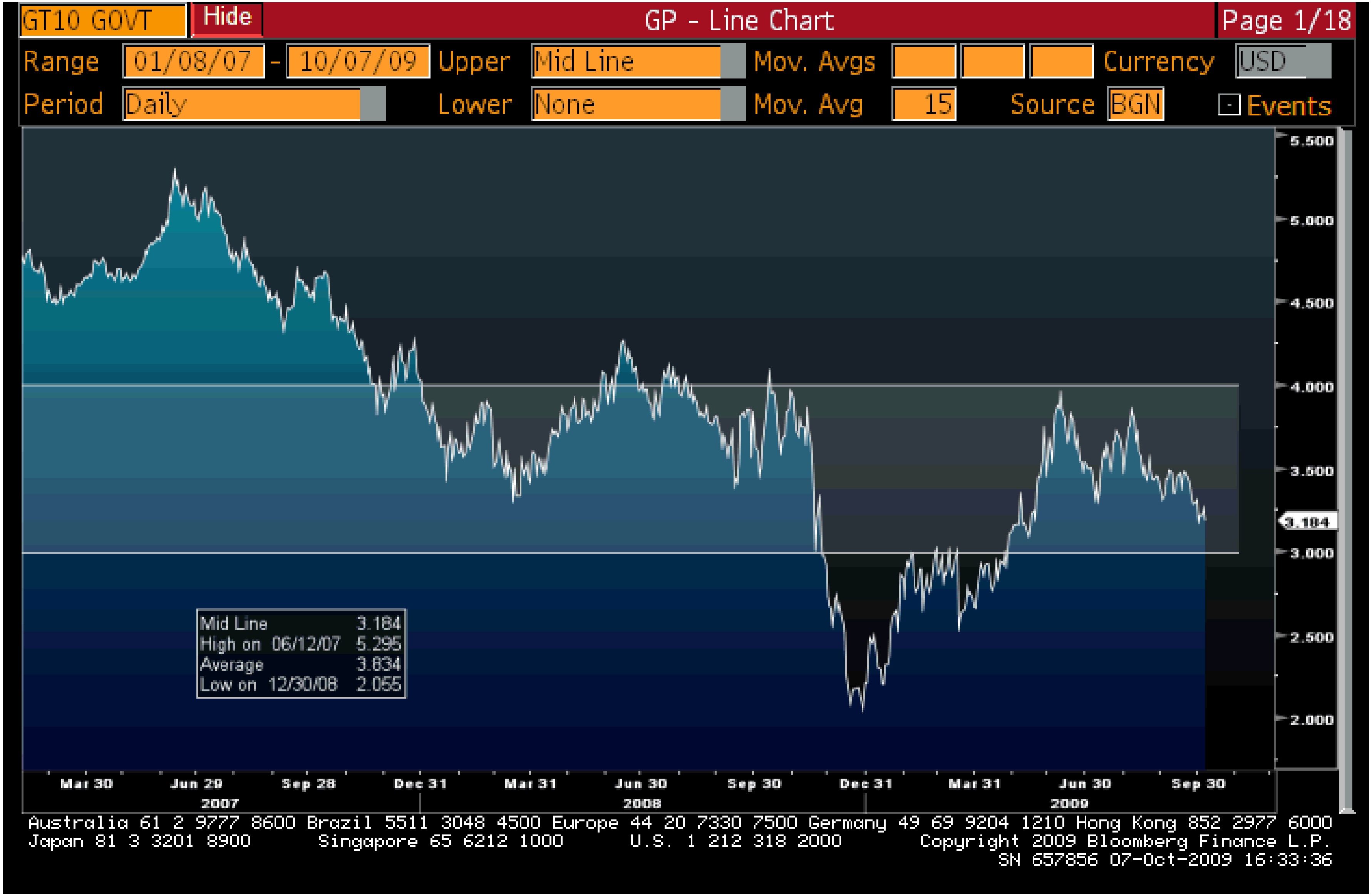


US Savings Rate: 1959 – Today

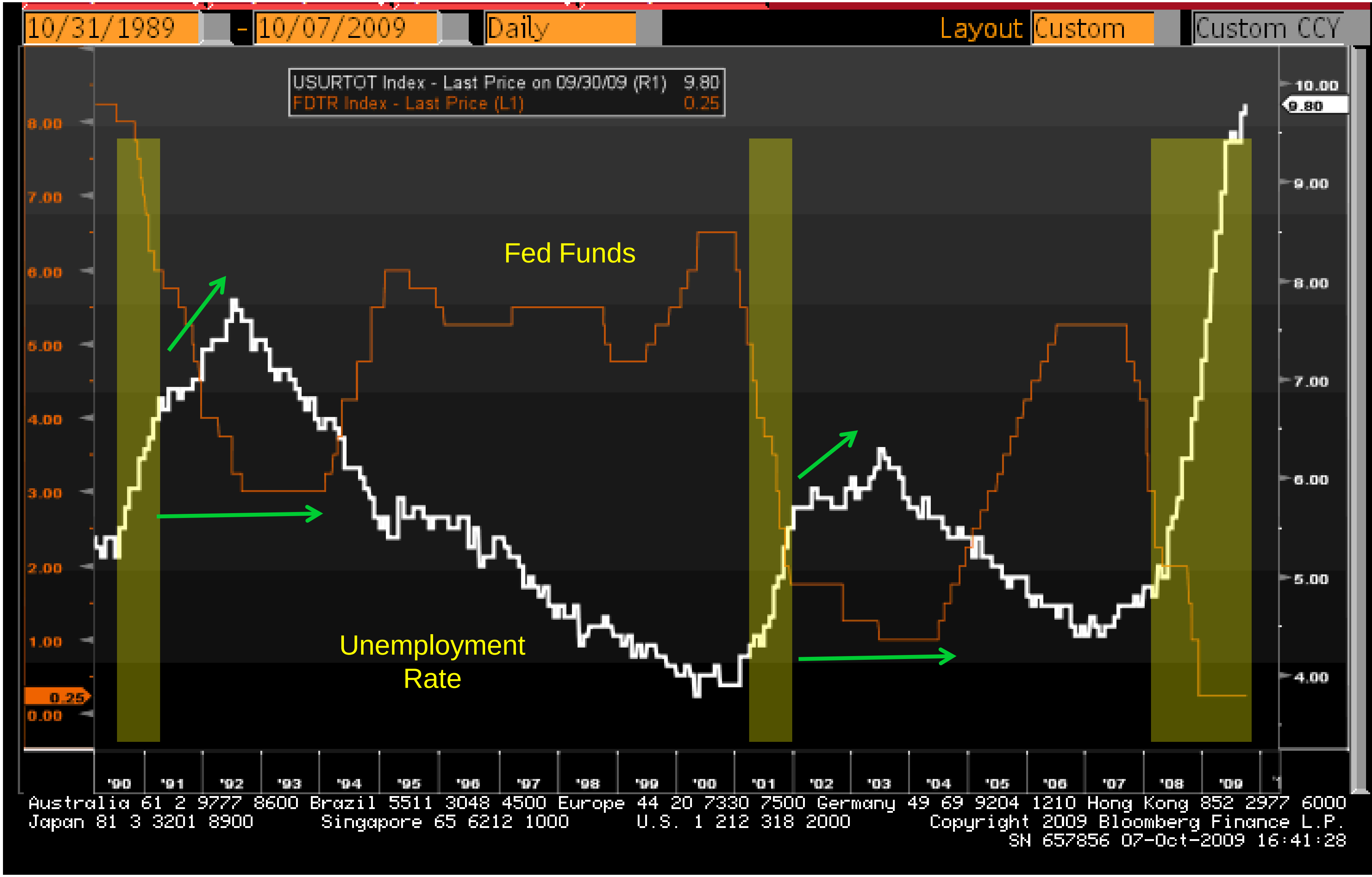


Core Consumer Price Index: 1960 – Today

10 Yr T-Note Yield:
’07 – Today



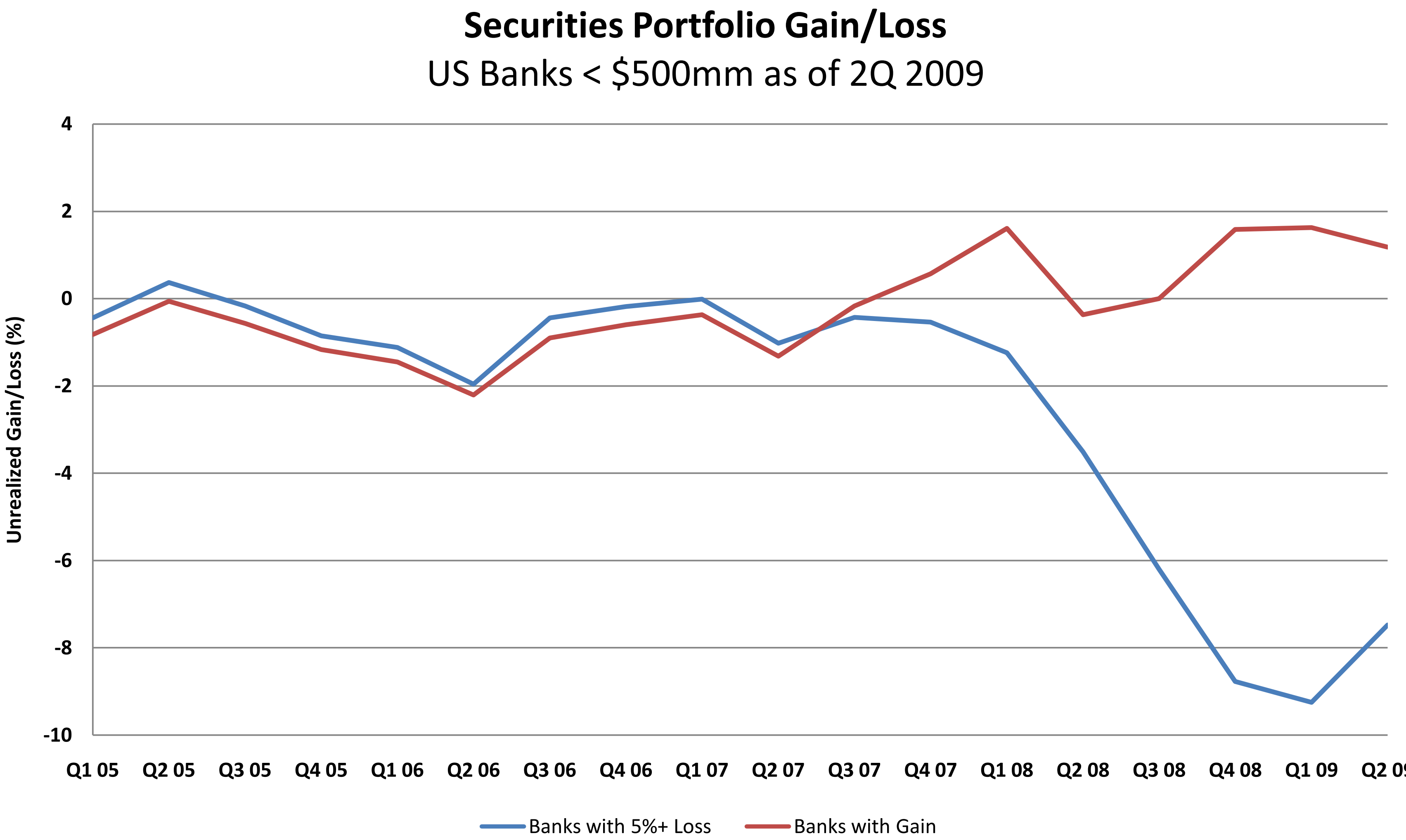
Unemployment Rate vs. Fed Funds



The Banking Environment: 2009

- Crisis of 2008 led to the Debt Deflation of 2009
  - Shrinking Assets & Deleveraging of Big Banks
  - Capital & Liquidity – Balance Sheet Capacity
- Strong Deposit Growth
- Weak Lending
- Investments: Critical Component
  - Marketability & Liquidity
    - Collateral / Borrowing Capacity
  - Cash Flow Management
  - Interest Rate Risk Management

Portfolio Liquidity When You Need It



Don’t Chase Yield in Illiquid Bonds

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Banks w/ 5%+ Loss Today

	SECURITIES	2005	2006	2007	2008	Jun 2009(YTD)
11	% AFS	79.40	80.55	81.71	81.77	81.27
12	Sec % TSY	4.16	0.61	0.58	0.35	0.71
13	Sec % AGY	32.47	32.37	24.18	13.96	11.92
14	Sec % MUNI	16.58	17.80	18.50	19.12	21.43
15	Sec % MBS	19.25	18.52	16.33	17.19	16.76
16	Sec % CMO	13.60	16.75	21.38	28.84	27.94
17	Sec % Other	13.94	13.95	19.03	20.54	21.24

Banks w/ Gain Today

	SECURITIES					
11	% AFS	82.69	83.82	85.60	87.24	87.60
12	Sec % TSY	4.06	3.23	2.46	1.98	2.30
13	Sec % AGY	50.82	51.67	46.82	37.90	34.78
14	Sec % MUNI	18.82	19.10	19.97	20.04	21.48
15	Sec % MBS	18.14	17.88	21.56	29.52	29.65
16	Sec % CMO	5.64	5.98	6.89	8.40	8.60
17	Sec % Other	2.52	2.14	2.30	2.16	3.19

Sector Yield Spreads: Muni, MBS, Agency

Last 5 Years

Things to Remember With Agencies

- The GSEs (Agencies) are far more efficient at calling bonds than any other sector (MBS, CMO, Muni)
- The Agency owns the option – do what you can to minimize it
- The Agency's first job is always to lower their cost of funds
- If The Agencies are issuing lots of 1 type of bond, ask why
- Most of the largest bank underwriters of Agencies own very few (if any) Agencies

Does This Step-Up Look Appealing?

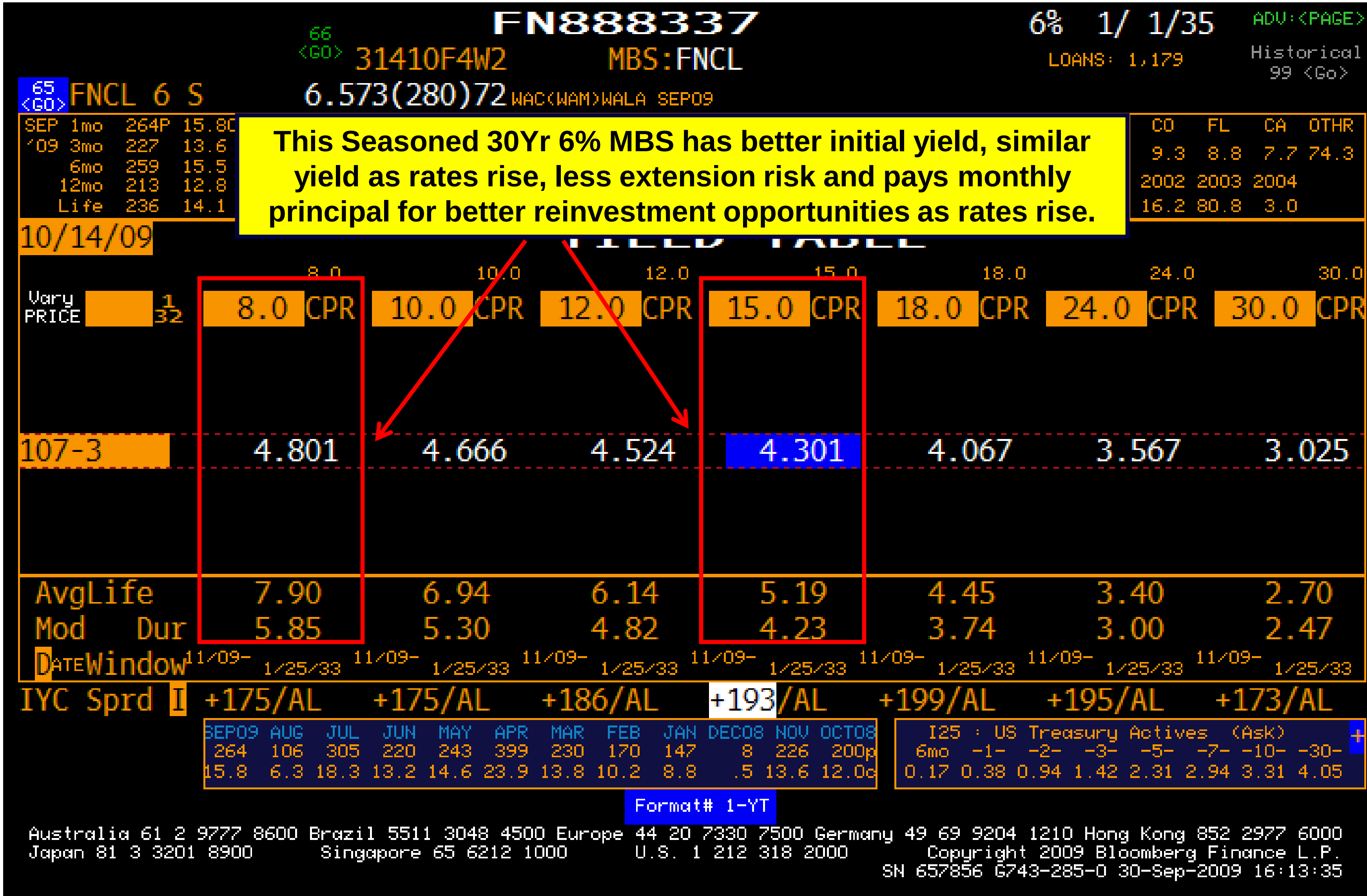
- 4% to 2014, Steps to 6% to 2019, then 8% to 2024 Final
- Yield = 4% to 2014, 4.88% to 2019 or 5.63% to 2024

FANNIE MAE FNMA 4 10/24-14 99.939/ (4.01/) BVAL

Settlement Date	10/22/2009		Price	100	CUSIP: 3136FJGD
Yield To Maturity	10/22/2024	@REDM	100	5.634	
Yield to Custom	10/22/2014	@REDM	100	4.000	blend N wght 0.0%
Yield to Next Call	4/22/2010	@REDM	100	4.000	CNV Duration
Yield To Refunding	4/22/2010	@REDM	100	4.000	& Risk Calc
Yield to Worst Call	10/22/2014	@REDM	100	4.000	B.A.Yield

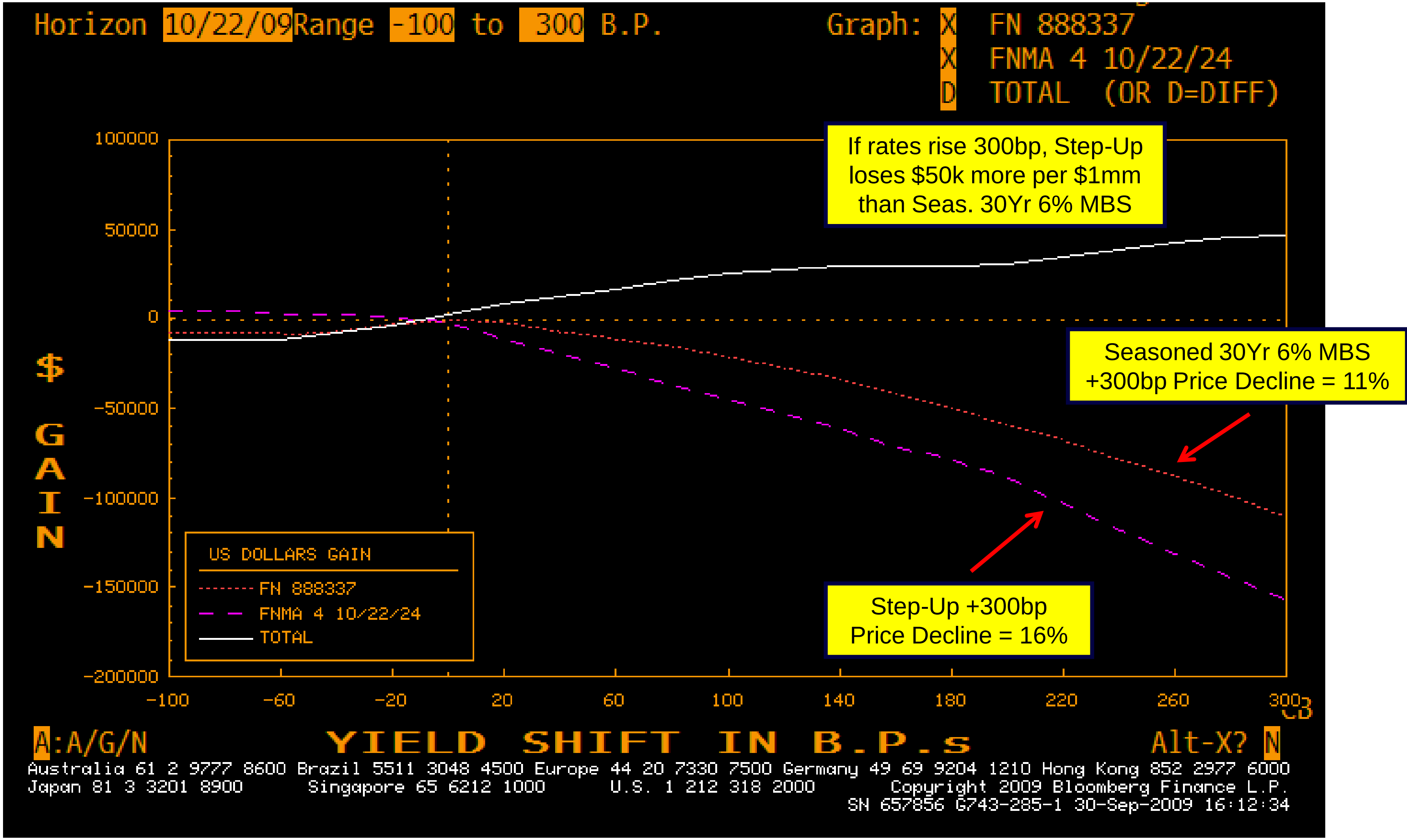
Date	Price	Yield	Treas Curve	Treas Spread	Adjusted Duration	Risk Factor
7/22/18	100	4.759	3.161	1.598	7.232	7.232
10/22/18	100	4.785	3.191	1.594	7.397	7.397
1/22/19	100	4.812	3.222	1.589	7.556	7.556
4/22/19	100	4.835	3.252	1.583	7.716	7.716
7/22/19	100	4.859	3.283	1.576	7.872	7.872
10/22/19	100	4.880	3.297	1.583	8.027	8.027

Or Are There Better Alternatives?



This Seasoned 30Yr 6% MBS has better initial yield, similar yield as rates rise, less extension risk and pays monthly principal for better reinvestment opportunities as rates rise.

…With Less Depreciation Potential

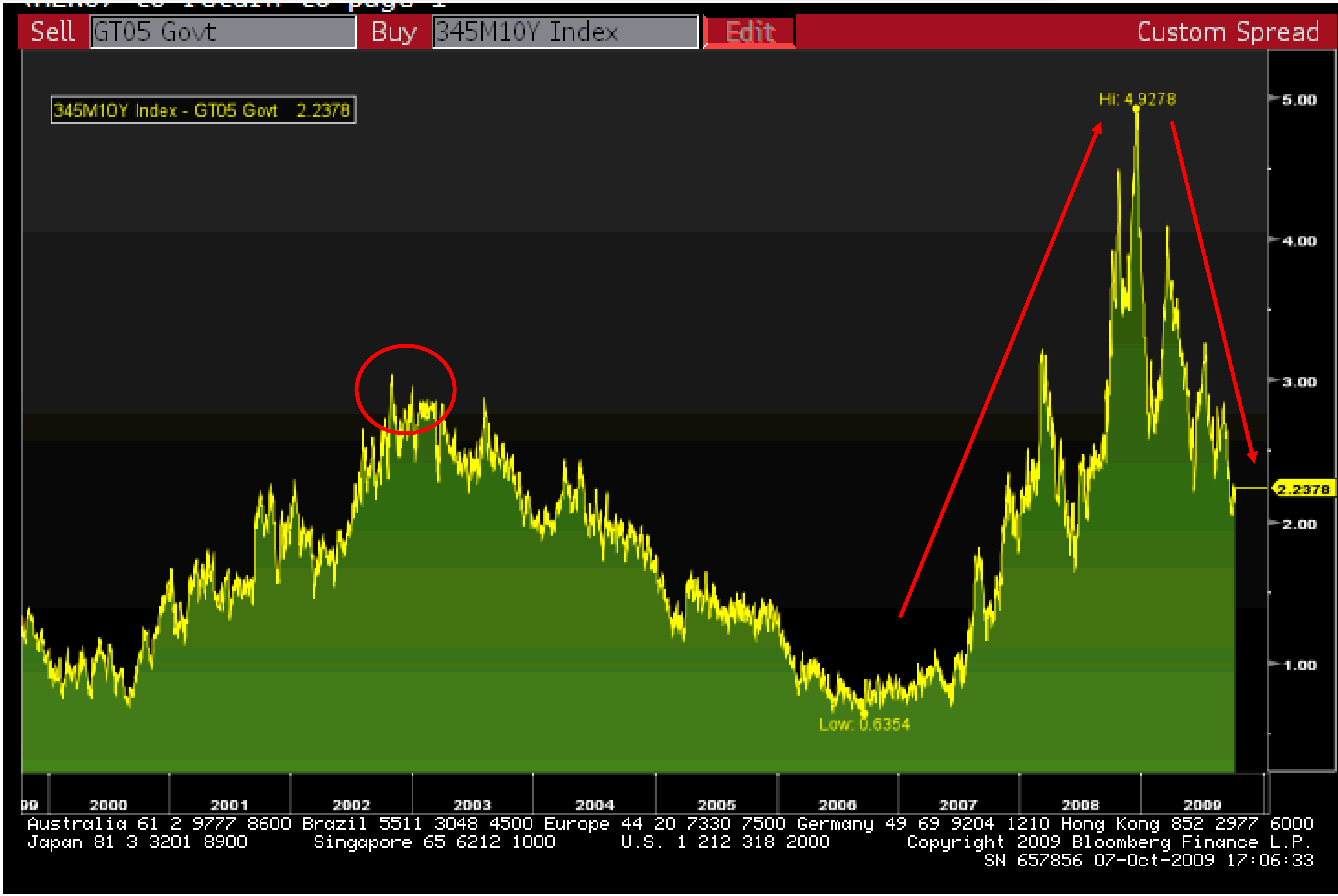


Agency Sector Preferences

- **Preferred Structures**
  - Bullets < = 5 Year Maturity
  - 1-Time Calls < = 10 Yr Maturity (Unless VERY high coupon)
  - New Issue Premium 1X Calls
  - 1X Step-Ups
- **Less Desirable Structures**
  - Par Priced Continuous Calls
  - Long Maturity with Short Call !!!
  - Continuous Call Step-ups or Multi Step-ups with small "Steps"

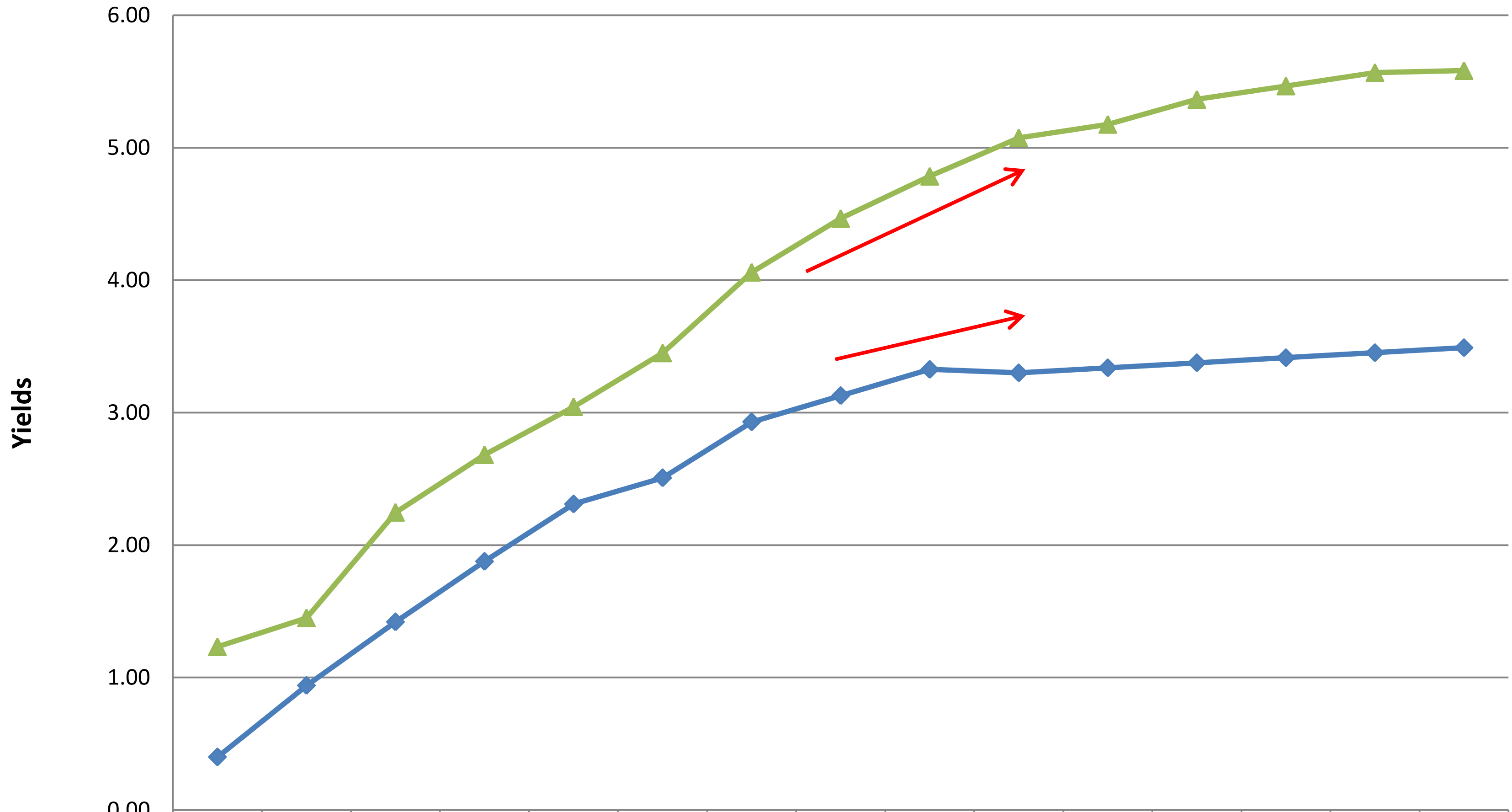
******Avoid Yield Chasing

AAA BQ Muni Yield Spread:
’99 – Today



Yield Comparison

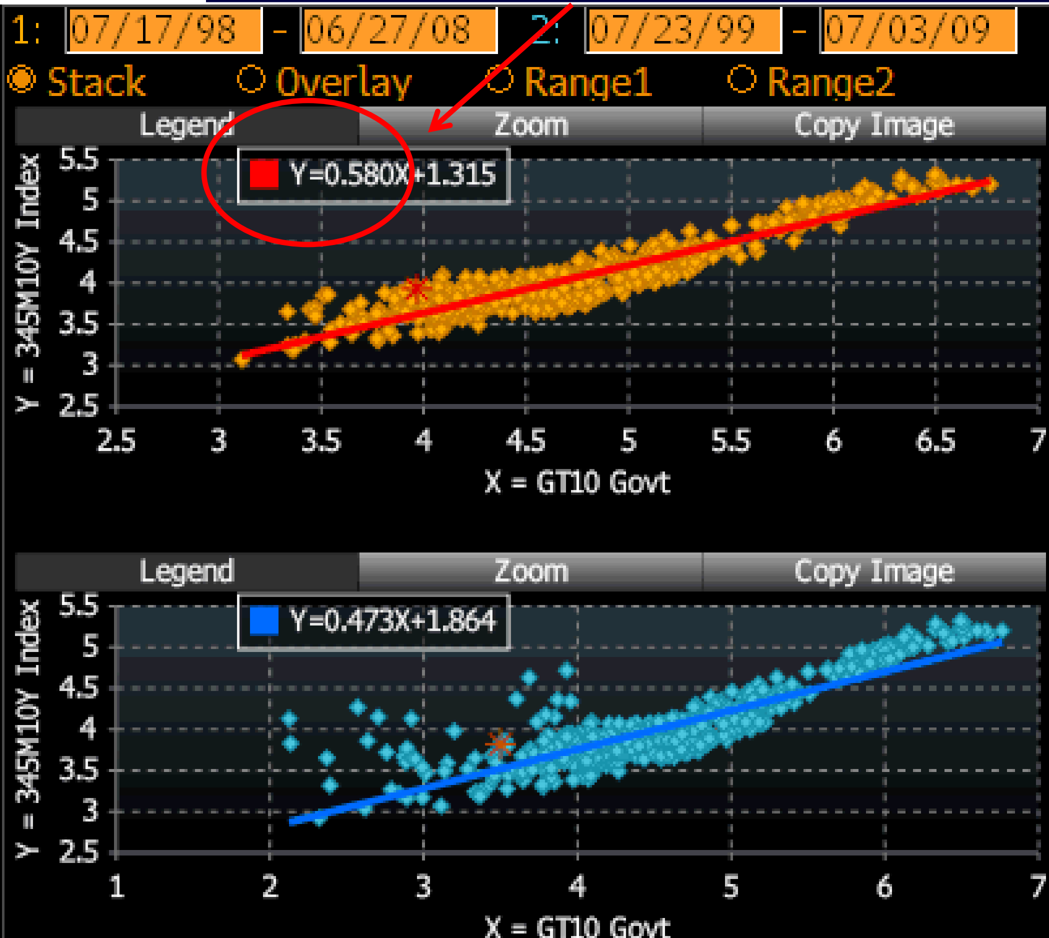
Treasuries, Agencies and Municipals



	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Treasury	0.40	0.94	1.42	1.88	2.31	2.51	2.93	3.13	3.33	3.30	3.34	3.38	3.41	3.45	3.49
Muni TEY	1.23	1.45	2.25	2.68	3.05	3.45	4.06	4.47	4.79	5.08	5.18	5.36	5.47	5.57	5.58

10Yr Treasury vs 10Yr Municipal

Regression analysis over 10 years shows when Treasury yields move 100bp, Municipals move 58bp. This means Municipal price volatility is 58% of Treasuries and a 10Yr Muni has a Duration similar to a 5Yr Treasury.



Y = BFV US Bank Qualified AAA 10 Y
X = US TREASURY N/B

Item	Range1	Range2
Raw BETA	0.580	0.473
ALPHA(Intercept)	1.315	1.864
R^2(Correlation^2)	0.873	0.731
Std Dev Of Error	0.161	0.241
Std Error Of ALPHA	0.047	0.058
Std Error Of BETA	0.010	0.013
Number Of Points	520	520

Item	Range1	Range2
Last Observation	*	*

51) Regression 52) Spread 53) Ratio 54) Correlation

Treasury vs Municipal

Maturity	TSY Yield	Eff. Dur	Muni Yield	Eff. Dur (58%)
2 Yr	.86	1.90	1.45	1.10
5 Yr	2.17	4.50	2.81	2.61
10 Yr	3.18	8.00	4.41	4.64
15 Yr	3.83	10.20	5.19	5.92

Tax-Equivalent assumes 34% Tax/1.5 COF

Municipal Credit Analysis

General Obligations:

Debt to Assessed Ratio: < 15.00% (higher in some states like MT, KS)

Percentage of an Issuer's total outstanding bonded debt relative to the current tax assessed value

Per Capita Debt: < $3,500

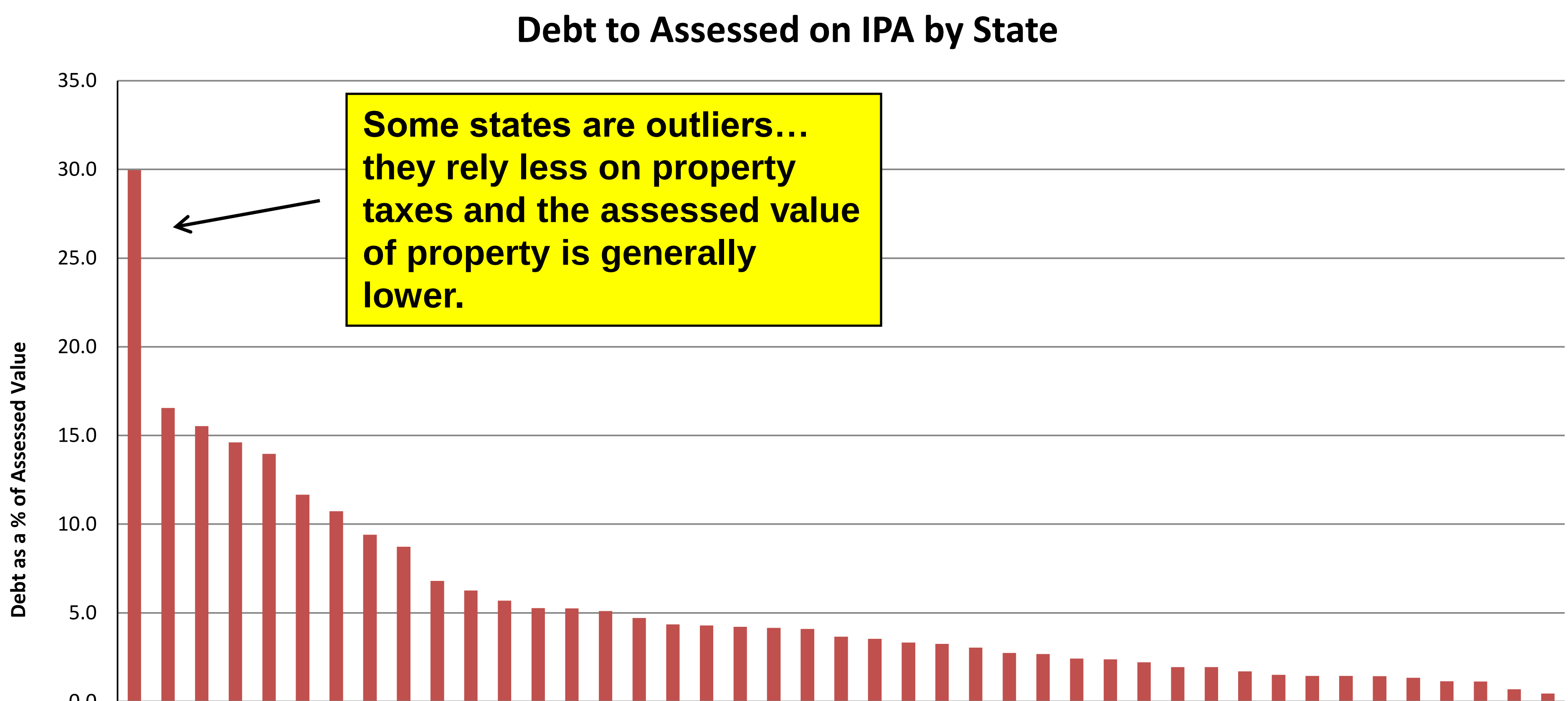
Issuers Net Debt divided by to the total population of the taxable public for a particular issue

Revenues:

Debt Coverage Ratio: > 1.25%

Ratio of the amount of revenues generated to the total debt service required. A coverage ratio of 1.25% indicates there is 25% more revenue coming in than is needed to pay principal and interest.

Debt to Assessed Avg Varies By State



	MT	KS	LA	AL	CO	AR	PA	AZ	MO	SC	OK	NY	TN	MS	IN	ND	MI	IL	NM	WY	TX	OH	NE	MN	IA	CT	SD	ID	WI	MD	NV	RI	ME	NJ	OR	NH	MA	WA	UT	CA	VA	KY	VT
Avg DA %	30	16	15	14	14	11	10	9.	8.	6.	6.	5.	5.	5.	5.	4.	4.	4.	4.	4.	4.	3.	3.	3.	3.	3.	2.	2.	2.	2.	2.	1.	1.	1.	1.	1.	1.	1.	1.	1.	1.	0.	0.

Municipal Credit Report

Municipal Insurance & Underlying Ratings

09/30/2009

Cusip Financial	Description ate x Status	Cpn FAS 115 Issue Date	Par Maturity Call Date	Book Price	Market Price	Gn/(Ls) Gn/(Ls)% County Unemployment	Muni Type Muni Insurer Security	Moody	S&P	Fitch	GO | REV *DA% | DC% *Per Cap | Covnt	Yield *Acctg	Yield *Proj	Eff Dur	Eff Cnvx
									Ratings Underlying Ratings			Overlapping D/A - Debt/Pop			
535769CB7	LINN BENTON ORE CMNTY COLL	4.000	130,000	100.80	111.15	13,449	GO	WR	NR	WD	0.10 | --	5.67	5.67	2.33	(0.10)
2008 Report	OR	AFS	06/01/14			10.26	Insd-AMBAC	N/A	N/A	N/A	68 | --				
	BQ	05/01/07				LINN - 15.10%	AD VAL TAXES								2.36 - 1,538
537096SR1	LITTLE ELM TX ISD FSA	0.000	100,000	80.31	85.96	5,648	GO	Aa3	AAA	AA+	8.72 | --	5.61	5.61	3.49	0.15
2009 Report	TX	AFS	08/15/15			7.03	Insd-FSA	N/A	A	A	4,145 | --				
	BQ	06/15/08				Denton - 7.60%	AD VAL TAXES								10.21 - 4,850

1 Hyperlinks to the most recent financials and the bond's official statement

2 County Unemployment Rate and Source of Payment (Security)

3 Credit Metrics: GO - Debt to Assessed, Per Capita Debt
REV - Debt Coverage, Rate Covenant

4 Overlapping Debt Metrics:
GO - Debt to Assessed, Per Capita Debt

Build America Bonds (BABs)

- Created by the American Recovery and Reinvestment Act of 2009 in February
- State and local governments can issue taxable bonds and receive periodic payments from the Treasury equal to 35% of interest costs
- Bonds will be Federally Taxable but some are State Tax Exempt
- Bonds must be issued before 2011
- Bonds must be for new projects (no refundings) that are owned or controlled by the issuer (e.g. no private hospitals or private colleges)
- To investors, BABs are simply taxable munis

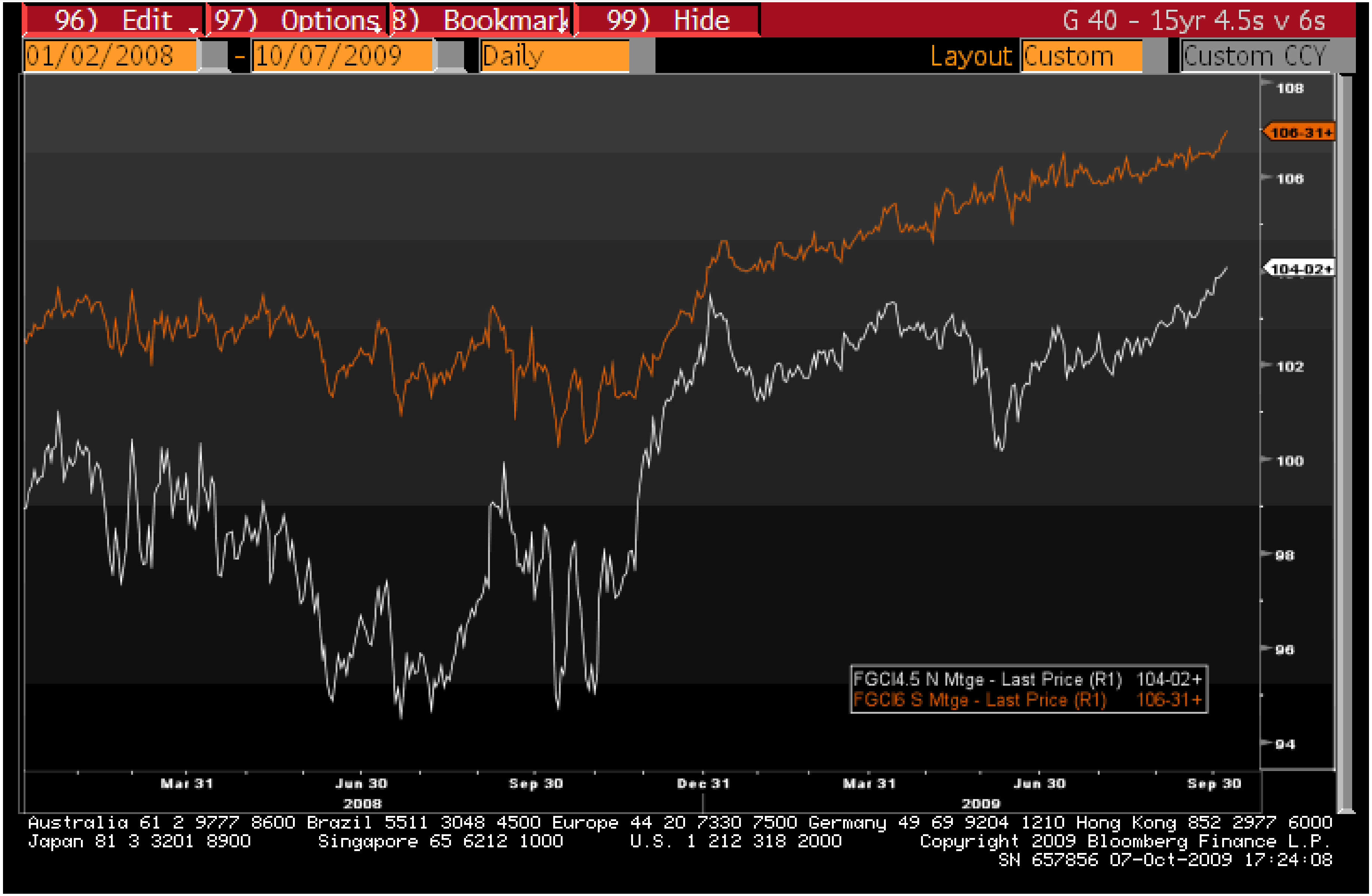
Municipal Summary

- Spreads have tightened in the last year but remain above their long-term average
- Municipal TEY's are above Treasuries and Agencies across the curve but the best spreads are in 10+ years
- Tax rates are heading higher so the demand for municipals should continue to grow
- Focus on credit fundamentals
  - PSF/NSF is best insurance; Assured Gty, FSA, BHAC next
  - A or better underlying rating
  - Low Debt/Assessed & Per Capital Debt, High Coverage Ratios
- BABs offer ability to further diversify but supply of short maturity bonds is tight

Favored MBS For 4th Quarter 2009

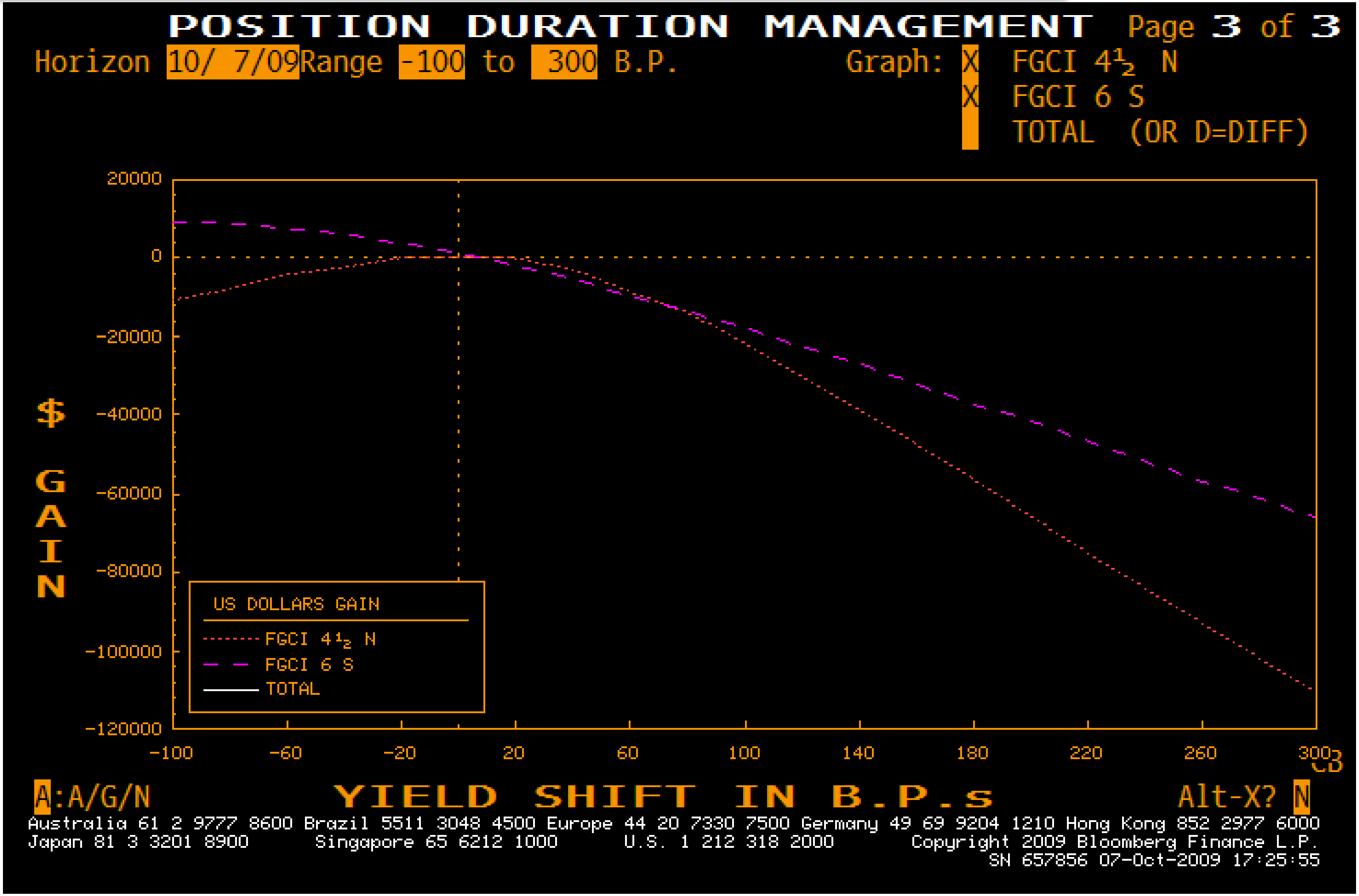
- High Coupons
  - Less cash flow volatility than lower cuspy coupons
  - Less price depreciation and more upward “yield drift” when rates rise
  - Combine with good loan attributes for prepay protection
- Shorter WAM Mortgages
  - Rolling down amortization scale limits potential extension
  - More stable Average Lives
  - Seasoned MBS less likely to prepay if rates fall
- Specified Pools with Best Loan Attributes
  - Pools with lower average Loan Balances (e.g. <$110k)
  - Investor Properties, Low FICO, High LTV
  - Prepayment protection, especially for large premium MBS
- GNMA’s – Full Faith & Credit & Zero Risk-Weighting
  - Watch for opportunities with increase in supply
  - Focus on lower loan balance GNMAs to avoid excess prepays

MBS Price Behavior: Price



MBS Price / Yield Behavior

FHLMC New 4.5 v Seasoned 6



Loan Attributes Today

- Seasoning
- Low Loan Balance
- Investor Properties
- Low FICO Scores
- High LTV
- Geographics – FL, NY, TX

FNMA 15Yr Loan Attributes

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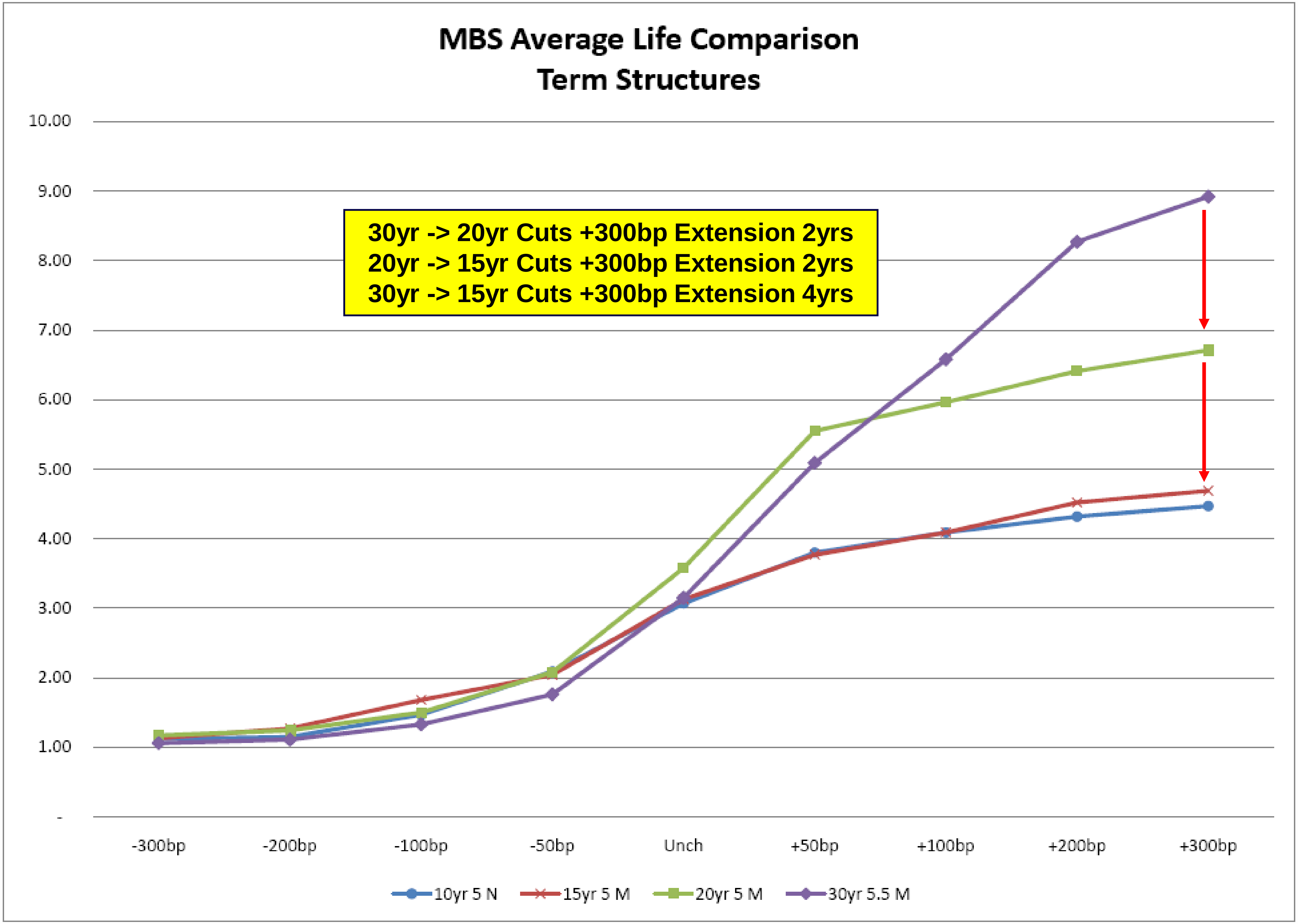
FNMA 15 YR

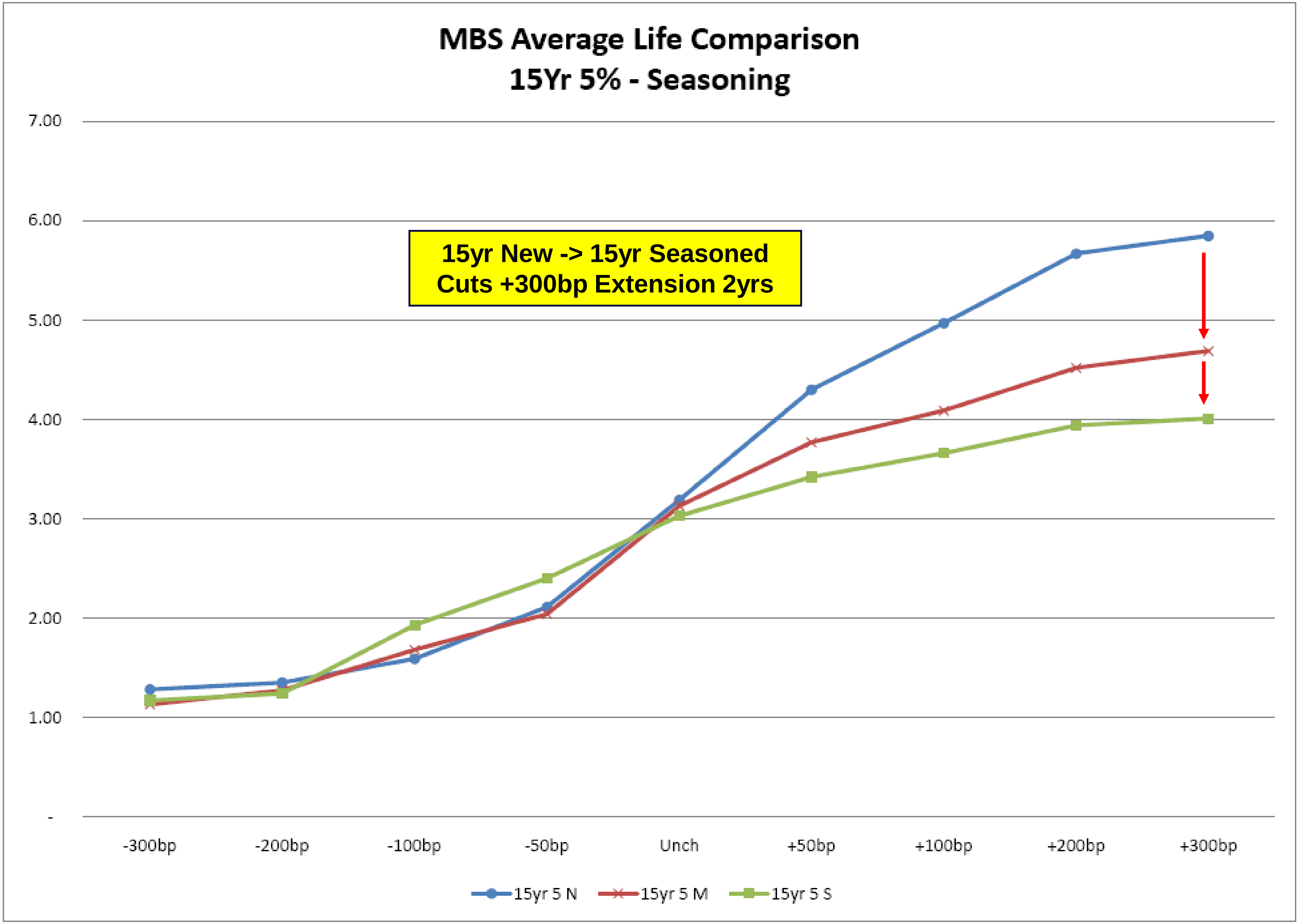
COUPON	VINTAGE	WAC	WAM	WALA	AOLS/ Curr	LTV	FICO	Refi%	Historical CPR May	Historical CPR Jun	Projected CPR Jul	Projected CPR Aug
4.5	2008	5.07	163	15	196 / 179	61	754	88	22.5	19.8	16.6	14.5
	2005	5.13	126	49	166 / 124	60	743	70	19.1	20.0	16.8	14.6
	2004	4.96	113	62	151 / 103	59	737	85	15	15.0	12.8	11.3
	2003	4.96	102	72	138 / 87	59	739	94	14.9	16.4	13.9	12.2
5	2008	5.55	164	13	161 / 146	62	746	79	32.2	29.8	24.6	21.2
	2006	5.68	137	37	167 / 133	60	741	65	30.8	28.8	23.8	20.5
	2005	5.48	127	48	134 / 101	60	734	77	19	21.0	17.6	15.3
	2004	5.42	114	60	127 / 88	61	726	78	15.2	17.8	15.0	13.2
	2003	5.43	100	74	122 / 76	60	732	94	16.6	18.8	15.8	13.8
5.5	2008	6.01	165	12	137 / 124	64	735	70	36.5	37.5	28.7	23.6
	2007	6.07	151	24	141 / 120	61	736	74	35	36.0	28.5	25.4
	2006	6.01	138	37	140 / 111	60	737	69	33.1	33.9	25.8	22.2
	2005	5.90	128	47	110 / 85	63	718	80	17.3	19.5	14.4	12.6
	2004	5.87	115	60	100 / 70	63	716	76	13.2	15.3	13.1	11.5
	2003	5.92	101	74	102 / 65	62	718	90	14	15.8	14.5	13.7
	2002	5.96	90	84	109 / 62	62	732	91	19	20.3	19.0	17.5
6	2008	6.51	164	12	100 / 92	67	709	73	24.2	25.9	23.5	19.2
	2007	6.51	152	24	107 / 93	61	723	79	28.5	28.6	23.6	19.4
	2002	6.46	87	86	100 / 57	65	717	87	16.2	18.2	16.4	14.3
	1998	6.62	44	131	91 / 28	65	727	81	18.9	19.5	17.4	15.1
6.5	2008	7.02	165	12	82 / 77	69	676	79	17.3	18.1	16.3	14.2
	2007	7.03	151	25	63 / 56	56	707	89	16.8	16.1	15.7	13.7
	2002	6.92	88	86	74 / 43	67	704	85	12.4	17.0	16.4	14.3
	1998	6.98	43	133	78 / 24	65	722	80	17.7	17.8	17.0	14.8

30-year mortgage rate assumption: 5.375%

Source: JPMorgan, FNMA

- Coupon, attributes & seasoning critical to performance
- Fastest paying coupons not necessarily the highest
- Loan attributes big reason for slow payments on 6-6.5's
- Seasoning helps slow all coupons


MBS Average Life Comparison
Term Structures
30yr -> 20yr Cuts +300bp Extension 2yrs
20yr -> 15yr Cuts +300bp Extension 2yrs
30yr -> 15yr Cuts +300bp Extension 4yrs
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
-
-300bp
-200bp
-100bp
-50bp
Unch
+50bp
+100bp
+200bp
+300bp
10yr 5 N
15yr 5 M
20yr 5 M
30yr 5.5 M

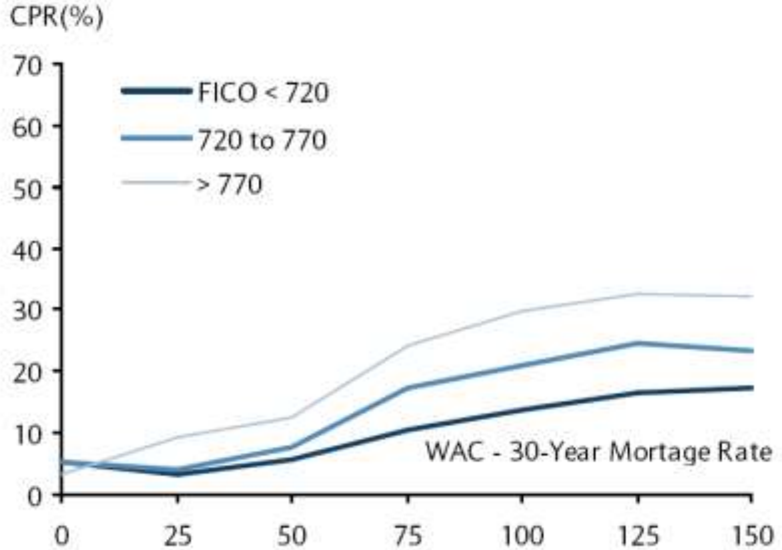

MBS Average Life Comparison
15Yr 5% - Seasoning
15yr New -> 15yr Seasoned
Cuts +300bp Extension 2yrs
7.00
6.00
5.00
4.00
3.00
2.00
1.00
-
-300bp
-200bp
-100bp
-50bp
Unch
+50bp
+100bp
+200bp
+300bp
15yr 5 N
15yr 5 M
15yr 5 S

Why Loan Size Matters

Loan Size	Current 30Yr Mortgage Rate	Monthly Interest Savings @ 5%	Months to Recoup $2500 in Fees
$50,000	6.5%	$48	52
	7.0%	$64	39
$100,000	6.5%	$95	26
	7.0%	$128	20
$200,000	6.5%	$191	13
	7.0%	$257	10

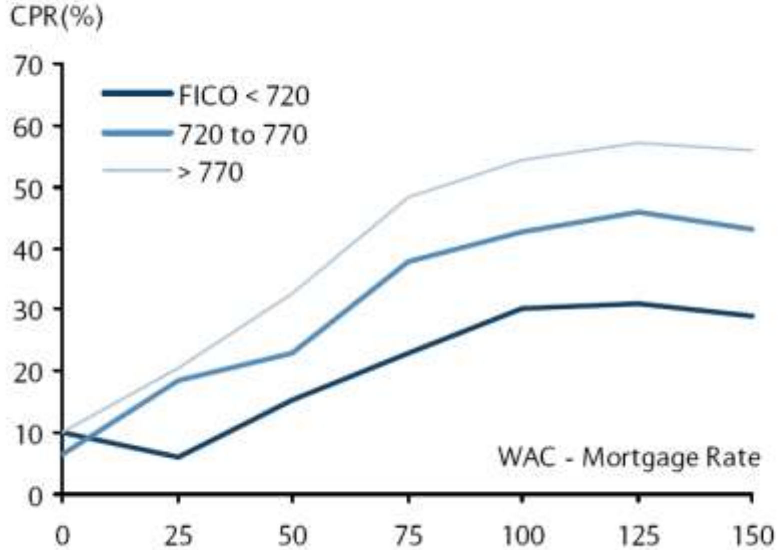
High LTV + Low FICO = Less Prepays

Figure 6: Refinancing profile of loans with updated LTV > 80%



Source: FHLMC, Barclays Capital

Figure 7: Refinancing profiles of loans with updated LTV <= 80%



Source: FHLMC, Barclays Capital

Low FICO, High LTV collateral projected to prepay at **10-15% CPR** when 100bp "in-the-money".

High FICO, Low LTV collateral projected to prepay at **50% CPR** when 100bp "in-the-money".

Yield, Average-Life, and Price Risk

09/30/2009	Anybank2 - Anytown, US	Page 1 of 1

Security Sector	Gain/ (Loss)	Acct Yld	Book Yield -300	-200	-100	Cur	+100	+200	+300	Average Life -300	-200	-100	Cur	+100	+200	+300	% Change in Market Price -300	-200	-100	+100	+200	+300
Agencies	213,672	4.77	4.94	4.94	4.94	4.94	4.77	4.78	4.88	0.8	0.8	0.8	0.8	1.8	2.9	3.9	0.5	0.5	0.4	-2.1	-5.3	-8.1
Municipals	1,433,571	5.86	5.87	5.87	5.87	5.87	5.93	5.97	5.98	6.1	6.1	6.1	6.1	8.2	9.3	9.5	10.3	6.7	3.3	-4.0	-8.6	-12.7
MBS Fixed	2,046,166	4.61	3.55	3.66	3.91	4.36	4.68	4.81	4.87	1.6	1.7	2.0	2.8	3.7	4.3	4.6	2.1	1.6	0.8	-1.9	-4.5	-7.3
Portfolio Totals	**3,693,409**	**4.99**	**4.30**	**4.37**	**4.54**	**4.83**	**5.05**	**5.15**	**5.20**	**2.9**	**3.0**	**3.1**	**3.7**	**4.9**	**5.7**	**6.0**	**4.4**	**3.0**	**1.5**	**-2.5**	**-5.8**	**-8.9**

		% of TA
Total Assets	318,297,000	
Total Risk Based Assets	192,553,476	
Total Capital	28,806,000	9.05%
Tier 1 Capital	26,308,000	8.27%
Total Portfolio Market Value	116,378,087	36.56%
Total Portfolio Book Value	112,684,678	35.40%
Total Portfolio Gain / (Loss)	3,693,409	
Total Portfolio % Gain / (Loss)	3.28%	

Effective Duration	2.22
Effective Convexity	(0.50)

Interest Rates:	Appr/Depr(*)	% of Equity
+100bp	778,456	2.70
+200bp	(3,022,573)	(10.49)
+300bp	(6,676,488)	(23.18)

Rate Shift	Maximum Total Portfolio Duration Total Capital @ Risk 15%	20%	25%	30%	35%	40%	45%	50%
+100 bp	3.46	4.70	5.94	7.18	8.41	9.65	10.89	12.13
+200 bp	1.36	1.97	2.59	3.21	3.83	4.45	5.07	5.69
+300 bp	0.49	0.90	1.31	1.72	2.14	2.55	2.96	3.37

~~~100~~~ 8.80 Maximum Effective Duration to Risk 36.56 % of Capital
~~~200~~~ 4.02 Maximum Effective Duration to Risk 36.56 % of Capital
~~~300~~~ 2.26 Maximum Effective Duration to Risk 36.56 % of Capital
~~~

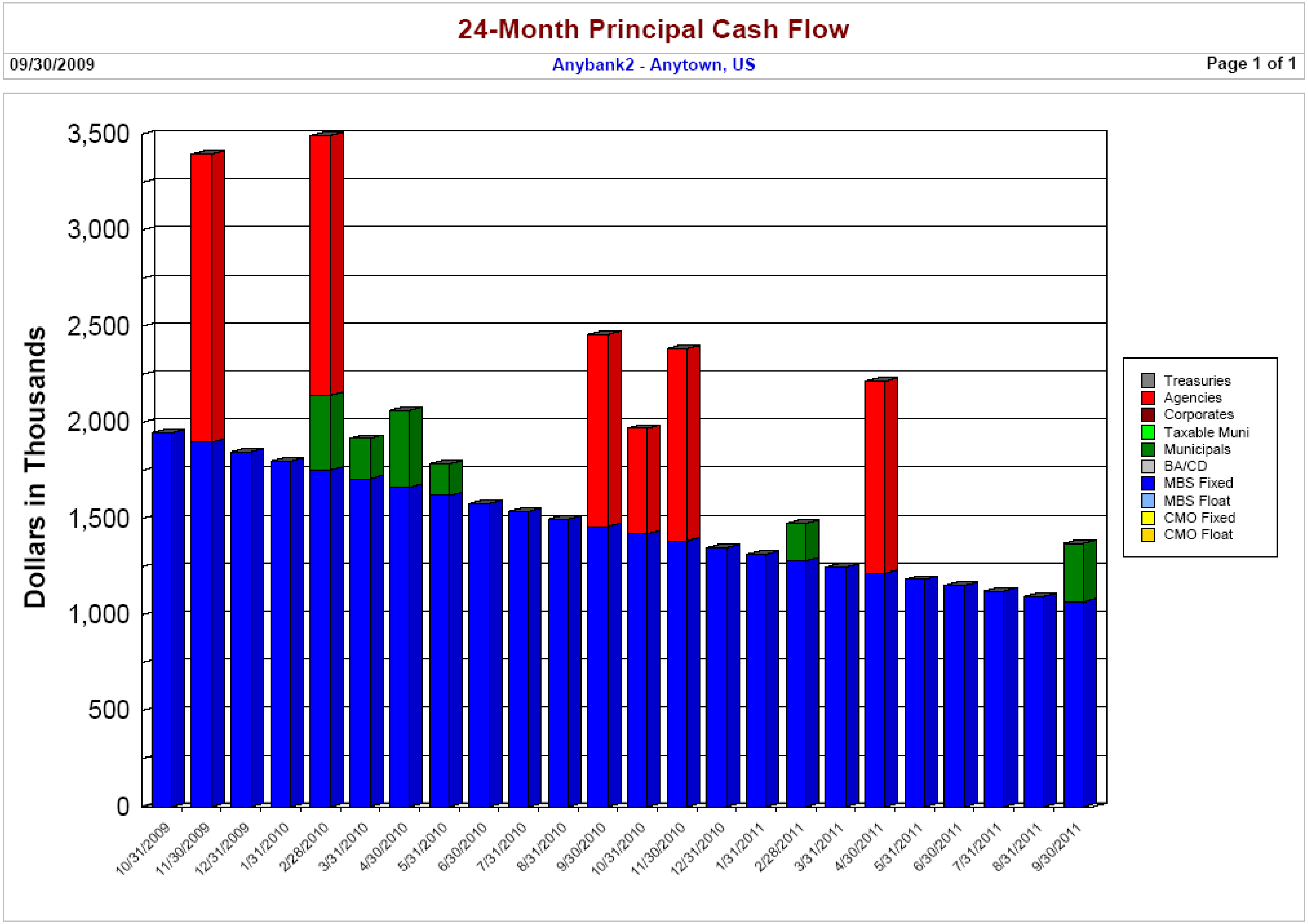
Cumulative Monthly Scenario Principal Cash Flow

09/30/2009 **Anybank2 - Anytown, US**

Scenario	Oct 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010	Aug 2010	Sep 2010
+300bp	944,775	3,380,249	4,306,538	5,223,758	6,322,019	7,221,431	8,112,101	9,159,136	10,032,638	10,897,709	11,754,449	12,602,955
+200bp	1,077,495	3,641,758	4,692,987	5,731,374	6,947,105	7,960,364	8,961,330	10,115,179	11,092,083	12,057,209	13,010,723	13,952,784
+100bp	1,330,916	4,139,971	5,427,562	6,694,077	8,129,893	9,355,380	10,560,897	11,911,798	13,078,426	14,226,116	15,355,199	17,465,993
+50bp	1,597,936	4,662,981	6,195,848	7,697,231	10,707,806	12,148,236	13,559,161	15,106,212	16,459,999	17,786,120	19,085,158	21,357,682
Current	1,946,797	5,342,945	7,189,801	8,988,682	12,480,867	14,397,598	16,460,082	18,244,493	19,821,969	21,358,617	22,855,514	25,313,704
-50bp	2,483,877	6,381,508	8,696,052	10,930,539	14,827,878	17,120,863	19,532,175	21,639,391	23,514,987	25,326,342	27,075,743	29,765,388
-100bp	3,034,571	7,429,910	10,194,059	12,834,376	17,097,621	19,720,024	22,427,345	24,799,924	26,912,727	28,935,386	30,872,228	33,727,310
-200bp	3,752,200	8,756,320	12,041,347	15,130,210	19,781,383	22,740,042	25,738,904	28,363,820	30,694,216	32,903,404	34,998,819	37,987,186
-300bp	4,375,861	9,784,000	13,366,717	16,696,466	21,552,980	24,690,466	27,845,586	30,606,161	33,052,917	35,360,304	37,536,903	40,590,628

Scenario	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011
+300bp	13,443,324	14,275,649	15,100,024	15,916,540	16,920,285	17,721,348	18,514,815	19,300,770	20,079,298	20,850,479	21,614,396	22,676,126
+200bp	15,433,551	16,353,178	17,261,818	18,159,617	19,241,722	20,118,276	21,984,418	22,840,285	23,686,013	24,521,732	25,347,574	26,468,665
+100bp	19,108,815	21,183,971	22,241,761	23,282,480	24,501,415	25,508,847	27,500,054	28,475,304	29,434,863	30,378,989	31,307,937	32,526,955
+50bp	23,154,246	25,375,393	26,571,652	27,743,539	29,086,558	30,211,203	32,312,956	33,392,286	34,449,653	35,485,506	36,500,285	37,799,418
Current	27,284,205	29,668,004	31,016,061	32,329,311	33,803,662	35,049,996	37,264,172	38,447,027	39,599,371	40,721,996	41,815,670	43,186,141
-50bp	31,947,392	34,523,789	36,046,536	37,517,515	39,133,538	40,506,350	42,832,629	44,113,992	45,351,998	46,548,144	47,703,878	49,125,589
-100bp	36,054,438	38,757,195	40,388,957	41,952,913	43,647,075	45,084,297	47,462,285	48,783,606	50,050,701	51,265,888	52,431,376	53,854,268
-200bp	40,424,643	43,216,842	44,919,015	46,536,031	48,267,438	49,727,499	52,115,217	53,434,360	54,688,478	55,880,920	57,014,850	58,398,256
-300bp	43,078,835	45,908,393	47,635,732	49,266,873	51,002,462	52,457,795	54,832,838	56,132,255	57,360,422	58,521,448	59,619,191	60,962,276

Liquidity Ladder: Investments



Cash Flow Variation: +/-100bps