

# Weekly Comments by Rachael Leamon

## A NEW YEAR WITH NEW OPPORTUNITIES!

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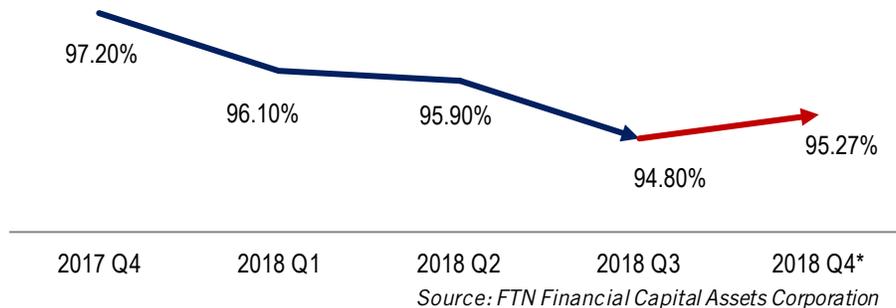
*Few would disagree that 2018 was a year that brought many challenges. One of the lessons learned was that opportunity comes and goes quickly, and those who are prepared are in the best position to benefit. A perfect example is the tremendous rally we're experiencing that few anticipated. Long-duration loans are up significantly in market value, creating opportunities that were not on the table just a few weeks ago. A number of FTN Financial Capital Assets Corporation ("Capital Assets") customers are able to take action because of advance planning done in anticipation of just this sort of event. As you launch your 2019 business plan, there's no better time than now to engage with Capital Assets to help you devise strategies to take advantage of opportunities this year.*

A good business plan should be flexible so that you can make appropriate course changes if things veer off track. Through the years, Capital Assets has developed a systematic approach to loan portfolio management that includes a heightened focus on the "utility" embedded in most loan portfolios. We do so by conducting a top-to-bottom risk assessment of your loan portfolio, then presenting those results to you along with information on how your loans can be used strategically. This information can be invaluable in managing the challenges and capitalizing on the opportunities of the New Year.

**Know your portfolio by** using Capital Assets' loan Portfolio Performance Analysis ("PPA"). It is not enough to know the credit profile of the borrower without also knowing each loan's ever changing value, risk, and liquidity. We conduct PPAs on most all loan types including mortgage loans, commercial loans, autos, HELOCs, and consumer loans. The PPA will provide you with a detailed breakdown of your loans from a fixed-income investment point of view — the same way your balance sheet views them. It also allows us to segment your portfolio from most to least profitable and profile key risk variables from highest to lowest.

**Know your options and be prepared to act** by conducting a Strategy Menu Analysis. The PPA provides granular documentation of the liquidity of each loan type as well as its distinctive risks and utility. That information can be used to conduct a Strategic Menu Analysis in which we pro forma a variety of financial strategies that you can execute with your loans. The blue line in the chart below shows where market values have been tracking within mortgage portfolios throughout 2018. While fourth quarter data is still rolling in, the red line is the valuation improvement we've seen in databases received so far with the year-end rally.

## Est. Market Value



If you are one of the many institutions that added duration to boost yield, 2019 is likely to present opportunities to roll a lot of that risk back. However, those windows will open and close quickly, which is why a Strategy Menu Analysis is a wise exercise to complete. Each portfolio is different, but targeted strategies to remove loans from the highest risk sector will result in the greatest benefit. When the 10 YR CMT is around ~2.50 – 2.75%, you have options if your riskiest “long/lows” are your primary concern. However, at a ~3.25 - 3.50% 10 YR, options for dealing with those specific loans become very limited.

## 10 YR TRES



By the third quarter of 2018, the 10-year had increased to 3.27% and overall mortgage portfolio values were continuing their year-long downward trend. However, the year-end rally has seen rates fall to levels approaching those before the early 2018 trade-off. Agency-eligible seasoned fixed rates, for example, have appreciated over 3% from the lows of the market. Unfortunately, most of the recent positive move occurred too late in the year for institutions to capitalize in 2018. Fortunately, the rally (at least for now) is continuing.

**Monitor both your loan portfolio AND your strategies throughout the year** by keeping both an eye on the market as it moves and on the performance of your portfolio with regular PPAs. The market isn't the only moving target. The composition of your portfolio will change throughout the year as you originate

new loans and old loans pay off. Conducting PPAs on a regular basis (either quarterly or semi-annually) allows you to examine changes and budding trends, putting you in the best position to encourage the positive trends and curtail the negative ones. Strategies that might not have been the best execution in March based on December data could work great in July based on June data. The only way to stay on top of so many moving targets is to occasionally check your pulse and stay updated on all of them throughout the year.

### Seize the New Year

When the gap between the yield on earnings assets and the cost of liabilities narrows, there is no ignoring it. A trick to a prosperous new year is to tackle it head-on with all of your available resources. Your loan portfolio likely has the untapped potential to provide effective solutions for improving earnings, but in order to do so you need to know exactly what you have and what your options are so you can design a strategy specifically suited to your unique situation. While liquidity seems tight, a positive effect from the recent rise in rates is that proceeds from a sale of longer-duration loans can be reinvested into other assets like shorter-duration ARMs and significantly improve the earnings potential of your loan portfolio this year. We can be crunching your year-end numbers while you're wrapping up your 2018 financials so that when you come up for air, we'll have a fresh assessment of your loans ready to go and options for making 2019 great that can be discussed when you're ready. Contact your FTN Financial Representative or Capital Assets today at 800.456.5460 for more information.

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