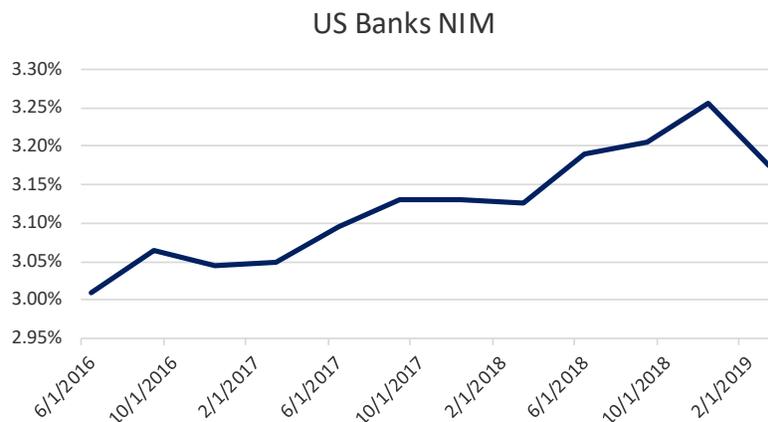


Weekly Comments by Rachael Leamon

FIRST QUARTER 2019 PUTS PRESSURE ON EARNINGS

While 2018 saw consistent improvement in NIM for most institutions, earnings in the first quarter of the new year made a pretty abrupt turn. Portfolio lenders will need to keep a sharp eye on maintaining the liquidity in the balance sheet as the year rolls on in case this trend continues.

Net interest margins (“NIM”) reached a historic low in the first quarter of 2015, at 2.95%. Since then, as the economy began to normalize and rates started to increase, depository institutions experienced a slow, but steady, improvement in NIM throughout the year.

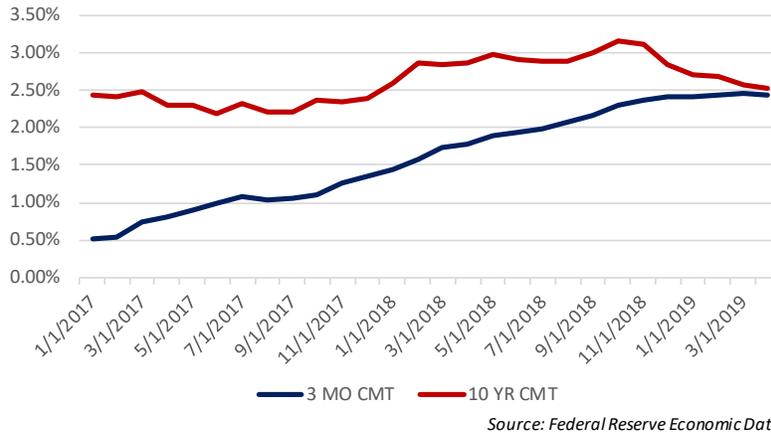


Source: S&P Global Market Intelligence

In Q1 2019, however, average margins took a drastic turn as the competition for deposits caused an increase in COFs industry-wide. The downward turn in NIM is not an isolated data point, but symptomatic of how liquidity needs can affect earnings. This situation could easily get worse before it gets better as we are less than half way through the year, which is why having a backup source of price-efficient liquidity is necessary in today’s market.

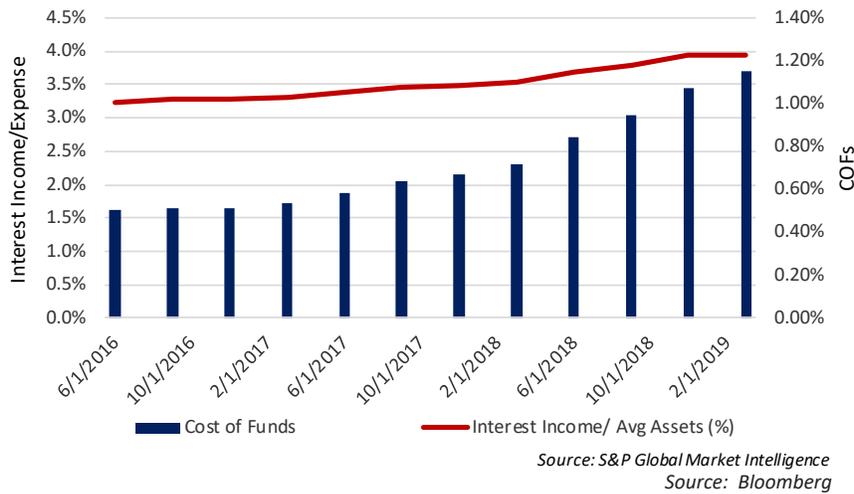
The driver of the earnings crunch that depositories are experiencing into 2019 is, in part, market dynamics out of our control. As short-term rates have moved up and longer-term rates have dropped somewhat, the yield curve has begun to invert, putting further pressure on COFs.

Short-Term vs Long-Term Rates

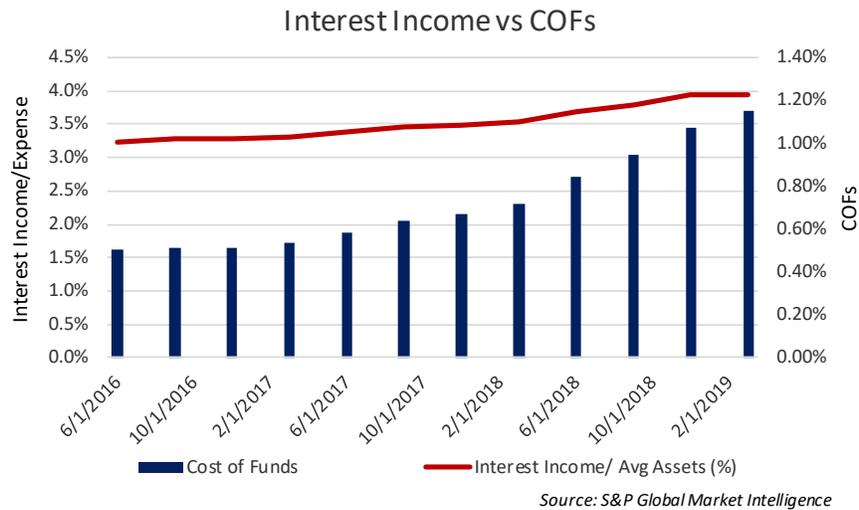


US Treasury Actives Curve | Actions | Table | Export | Settings | Graph Curves

Interest Income vs COFs



In tandem with market rates, liquidity also took a hit in Q1 as loan-to-deposit ratios spiked. The result of higher LTD ratios and lower liquidity ratios is that the already compressed NIM could continue to compress. Funding costs, escalating with short-term rates, is challenging to control due to the fierce competition for deposits.



We can control two things, however, to safeguard earnings in this market. One is when and how we can utilize the liquidity embedded in the retained loan portfolio. The second is how we add additional high-quality earning assets to the balance sheet to generate more earnings. FTN Financial Capital Assets Corporation (“Capital Assets”) can help you develop liquidity contingency strategies that can produce liquidity very quickly should your institution experience an earnings pinch.

Most banks and credit unions own large portfolios of loans that are predominantly investment grade. As long-term rates have rallied, many institutions find that they can take advantage of the market to sell loans that not long ago priced at a big loss. In the majority of cases, these loan sales are part of a broader strategy to fund new loans and/or other initiatives. This type of “two-for-one” strategy (generate liquidity + IRR reduction) is unique to today’s market. In markets where loan originations have continued to be sluggish, customers are looking to use the secondary market to supplement their originations. In addition to bulk purchases of prime credit loans to provide liquidity, we can arrange commitments whereby loans are originated on your documents to your credit specs (i.e., flow sales). This can be a highly effective way to meet budgeted growth goals.

At a minimum, you should have a good handle on the potential liquidity in the loan portfolio in order to demonstrate that you have the ability to access it, whether or not you need it in the immediate future. There is a reason Capital Assets is the oldest and largest loan advisory firm in the country specializing in bank and credit union portfolio lenders. Whether you want to get a good handle on your loan portfolio, document the embedded liquidity, or develop a growth strategy, contact your FTN Financial representative or Capital Assets directly at 800.456.5460.

FTN FINANCIAL CAPITAL ASSETS CORPORATION

Jerry Hubbard, President

901.435.8758 | jerry.hubbard@ftnfinancial.com

Lester Coleman, VP

901.435.8219 | lester.coleman@ftnfinancial.com

Rachael Leamon, VP

901.435.8864 | rachael.leamon@ftnfinancial.com

Mia Condon, VP

901.435.4716 | mia.condon@ftnfinancial.com

Tom McLemore, SVP

901.435.8222 | tom.mclemore@ftnfinancial.com

Mark Cary, CPA, CGMA

901.435.8141 | mark.cary@ftnfinancial.com

David Cluck, SVP

901.435.7917 | david.cluck@ftnfinancial.com

Pete Taglia, CPA, CGMA, CMB

312.258.5000 | pete.taglia@ftnfinancial.com

Mitchell Redd, SVP

901.435.8622 | mitchell.redd@ftnfinancial.com

Andrew Marino, VP

901.435.8748 | andrew.marino@ftnfinancial.com

Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. This is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. All herein listed securities are subject to availability and change in price. Past performance is not indicative of future results, while changes in any assumptions may have a material effect on projected results. Ratings on all securities are subject to change.

FTN Financial Group, FTN Financial Capital Markets, FTN Financial Portfolio Advisors and FTN Financial Municipal Advisors are divisions of First Tennessee Bank National Association (FTB). FTN Financial Securities Corp (FTSC), FTN Financial Main Street Advisors, LLC, and FTN Financial Capital Assets Corporation are wholly owned subsidiaries of FTB. FTSC is a member of FINRA and SIPC—<http://www.sipc.org/>.

FTN Financial Municipal Advisors is a registered municipal advisor. FTN Financial Portfolio Advisors is a portfolio manager operating under the trust powers of FTB. FTN Financial Main Street Advisors, LLC is a registered investment advisor. None of the other FTN entities including, FTN Financial Group, FTN Financial Capital Markets, FTN Financial Securities Corp or FTN Financial Capital Assets Corporation are acting as your advisor and none owe a fiduciary duty under the securities laws to you, any municipal entity, or any obligated person with respect to, among other things, the information and material contained in this communication. Instead, these FTN entities are acting for their own interests. You should discuss any information or material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

FTN Financial Group, through FTB or its affiliates, offers investment products and services. Investment Products are not FDIC insured, have no bank guarantee and may lose value.

© 2019 First Tennessee Bank. All rights reserved.