

Assumable Rate Conversion Program

Initial Overview





Discussion Topics

1. Why ARC
2. Pricing, Fees, and Prepayment
3. ARC Procedure and Policy
4. Additional Applications



**Offering Long-Term Fixed Rates Isn't Easy...
That's Why We Created ARC!**

Lenders may offer long-term fixed rate loans in an uncertain interest rate environment, without a derivative for your bank. However, the benefits offer far more strategic value than simply minimizing risk and increasing fee income:

**Help Borrowers But
Protect The Bank**



**Differentiate From
Competitors**



**Provide Better
Service**



**Develop A
Relationship**



Why ARC

For the Borrower

1. No ISDA
2. No separate settlement statement
3. No derivative accounting

For the Bank

1. No hedge accounting
2. No ISDA docs
3. No capital allocation
4. No collateral flow
5. No Dodd Frank



Why Borrowers Want Long Term Fixed Rates

Fixed Rate Pricing

- Principal Amount of Loan: \$10,000,000
- Approximate Start Date: October 2022
- Prepayment Provisions: Symmetrical Yield Maintenance

Fixed Term (mtge am)	Current Fixed Rate	Hedge-based Pricing	Approximate Monthly P&I
3yr / 25yr	6.55%	3yr Swap + 2.00%	\$68,424
5yr / 25yr	6.25%	5yr Swap + 2.00%	\$66,523
7yr / 25yr	6.10%	7yr Swap + 2.00%	\$65,582
10yr / 25yr	6.00%	10yr Swap + 2.00%	\$64,958
15yr / 25yr	5.96%	15yr Swap + 2.00%	\$64,710
20yr / 25yr	5.90%	20yr Swap + 2.00%	\$64,337



It is difficult to predict where rates may go in the long term, but market consensus points to rates continuing to rise in the short term- setting up an ideal environment for hedging.

MEETING PROBABILITIES										
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575
11/2/2022	0.0%	9.2%	90.8%	0.0%	0.0%					
12/14/2022	0.0%	0.0%	0.0%	6.1%	63.3%	30.6%	0.0%	0.0%	0.0%	0.0%
2/1/2023	0.0%	0.0%	0.0%	0.0%	4.4%	47.2%	39.8%	8.6%	0.0%	0.0%
3/22/2023	0.0%	0.0%	0.0%	0.0%	2.6%	30.1%	42.8%	21.0%	3.4%	0.0%
5/3/2023	0.0%	0.0%	0.0%	0.0%	2.5%	28.9%	42.2%	22.0%	4.2%	0.2%
6/14/2023	0.0%	0.0%	0.0%	0.3%	5.5%	30.4%	39.9%	20.0%	3.8%	0.1%
7/26/2023	0.0%	0.0%	0.1%	1.7%	12.0%	32.9%	34.7%	15.8%	2.8%	0.1%
9/20/2023	0.0%	0.0%	0.5%	4.8%	18.3%	33.4%	29.0%	11.9%	2.0%	0.1%
11/1/2023	0.0%	0.3%	2.9%	12.3%	26.8%	31.0%	19.4%	6.3%	0.9%	0.0%
12/13/2023	0.1%	1.1%	5.8%	16.8%	28.1%	27.4%	15.4%	4.7%	0.6%	0.0%

$$A+B=C$$

- Floating Index (CME 1M SOFR, currently 3.80%, found [here](#)) + Your bank's credit spread = Floating rate your bank earns
- Swap Rate (Provided at final closing by ARC)+ Your bank's credit spread = Fixed rate to borrower
- Rates can be locked at closing, in advance, or via a forward rate lock.
 - Lock at closing- Hedge begins at closing
 - Lock in advance- lock in a rate today and solve for your bank's spread on closing
 - Forward Rate Lock- lock a rate today for a later closing

“ARC Pricing Quote” Example

Amort.	Maturity										
	3yr	4yr	5yr	6yr	7yr	8yr	9yr	10yr	12yr	15yr	20yr
3yr	4.75%	-	-	-	-	-	-	-	-	-	-
5yr	4.64%	4.55%	4.52%	-	-	-	-	-	-	-	-
7yr	4.61%	4.49%	4.42%	4.37%	4.35%	-	-	-	-	-	-
10yr	4.59%	4.45%	4.37%	4.29%	4.26%	4.23%	4.22%	4.22%	-	-	-
15yr	4.58%	4.43%	4.31%	4.25%	4.20%	4.16%	4.14%	4.13%	4.10%	4.10%	-
20yr	4.57%	4.41%	4.29%	4.23%	4.18%	4.12%	4.10%	4.09%	4.07%	4.08%	4.06%
25yr	4.57%	4.40%	4.28%	4.22%	4.16%	4.11%	4.09%	4.08%	4.06%	4.07%	4.03%
30yr	4.57%	4.40%	4.28%	4.20%	4.15%	4.10%	4.08%	4.06%	4.06%	4.06%	4.01%

Your bank's revenue will be comprised of:

- Index plus credit spread (Variable)
- Your origination or document fees
- ARC fee (next slide)



- Your Hedge Fee will be realized at the inception of the loan without amortization and without clawback as the NPV of your chosen hedge spread (max 25 bp) of interest over the life of the loan structure.
- Example- \$10MM loan, 25 year am, 10-year term, 6% fixed rate to borrower, 25 basis point fee results in a hedge fee generated to your bank of appx. \$235k, or 2.35% of the loan amount up front.
- Hedge fee quotes for specific structures can be given indicatively by contacting the ARC desk. Fee calculator available as well upon request.

Example Hedge Fee Calculation

Basis points fee	0.25%
Initial balance:	\$ 10,000,000
Amortization Term (yrs):	25
Commitment Term:	20
Initial Hedge Rate:	4.00%
Fixed Rate to Borrower:	6.00%
Starting Date:	10/27/22
Approximate ARC Referral Fee:	234,504



Prepayment/Termination Scenarios

- Rates increase from initial hedge rate, borrower receives fee upon partial paydown or loan termination
- Rates decrease from initial hedge rate, borrower pays fee upon partial paydown or loan termination

Additional material discussing the prepayment provision in depth and alternatives is available upon request

Subject Loan: A \$10,000,000 loan is structured as a 10 year final maturity with a 25 year mortgage amortization, with a 6.000% fixed rate where the initial hedge rate is 4.000%.

If 3 years into the loan, the then current 7 year hedge rate is 25 bps lower than the starting hedge rate and the borrower prepays the entire loan, the borrower will pay \$135,056. Partial prepayments work similarly on a proportional basis. However, the borrower and lender will have the option to apply the loan to a new project/ property and the repayment will not apply.

If 3 years into the loan, the then current 7 year hedge rate is 25 bps higher than the starting hedge rate and the borrower prepays the entire loan, the borrower will receive \$132,878. Partial prepayments work similarly on a proportional basis.

		Initial Hedge Rate:		4.000%			
		Loan Spread:		2.000%			
		All-in Fixed Rate:		6.000%			
Remaining		<u>Prepayment Hedge Rate vs. Initial Hedge Rate</u>					
Term	-75 bps	-50 bps	-25 bps	0 bps	+25 bps	+50 bps	+75 bps
10 years	(580,607)	(382,738)	(189,237)	-	185,071	366,075	543,105
9 years	(528,012)	(348,397)	(172,419)	-	168,936	334,464	496,656
8 years	(470,046)	(310,474)	(153,811)	-	151,013	299,283	444,861
7 years	(411,853)	(272,328)	(135,056)	-	132,878	263,615	392,248
6 years	(353,317)	(233,876)	(116,112)	-	114,485	227,366	338,668
5 years	(294,524)	(195,175)	(97,005)	-	95,855	190,575	284,173
4 years	(235,377)	(156,155)	(77,699)	-	76,949	153,155	228,627
3 years	(176,352)	(117,132)	(58,349)	-	57,918	115,408	172,474
2 years	(117,390)	(78,061)	(38,931)	-	38,734	77,273	115,617
1 years	(58,616)	(39,025)	(19,487)	-	19,435	38,817	58,148



How to get started with ARC

1. Contact the ARC team early to request a borrower presentation
2. Email credit memo for formal ARC hedge approval (2 days)
3. Provide draft loan documents for ARC review (immediate)
4. ARC will send a draft Rate Conversion Agreement
5. Establish a signing appointment with borrower and notify ARC
6. Approximately 30 minutes prior to signing, ARC will email the final Rate Conversion Agreement for execution
7. Immediately after signing, email all executed documents to the ARC team by 4:00PM ET
8. After borrower signing, ARC will send a Transaction Supplement to the ARC Master Servicing Agreement for bank execution



- A simple, but highly customizable 3 page document that will reflect the loan terms which can be presented to the borrower
- Loan terms with a P&I calculation, a borrower-friendly explanation of the prepayment provision, and a slide with borrower considerations are included
- Up to 6 different scenarios can be represented in 1 borrower presentation
- Unlimited borrower presentations customized to any specific structure are available by contacting arc@southstatebank.com

Sample

Fixed Rate Pricing

- Principal Amount of Loan: \$10,000,000
- Approximate Start Date: October 2022
- Prepayment Provisions: Symmetrical Yield Maintenance

(prepayment example shown on next page)

Fixed Term (mtge am)	Current Fixed Rate	Hedge-based Pricing	Approximate Monthly P&I
10yr / 25yr	6.08%	10yr Swap + 2.00%	\$65,457
15yr / 25yr	6.04%	15yr Swap + 2.00%	\$65,208
20yr / 25yr	5.98%	20yr Swap + 2.00%	\$64,834

- Rates are near historical lows. The chart to the right shows current market expectations of future SOFR

- By fixing the loan rate, a borrower creates cash flow certainty in a rising interest rate environment.



Rates shown are for indicative purposes only. The final fixed rate will be established on the day of loan closing. Prevailing rates will be made available in the interim upon request.



- Loan amounts allowed: \$250k to \$50MM
- Structure: Up to 30 year AM and 20 year Term
- Simplified max LTV of 85% (15% max VAR to Value)
- Minimum debt service coverage ratio 1.20x (Actual, Global, or Pro-Forma all acceptable)
- Dodd Frank requires borrower to have \$1MM net worth
- CRE (OO, NOO) collateral. Other collateral may be acceptable pending approval.
- Loan must not be any of the following:
 - Consumer or Government lending
 - Raw Land/Speculative (A&D)
 - Adult Entertainment or Marijuana/Cannabis

Additional Applications

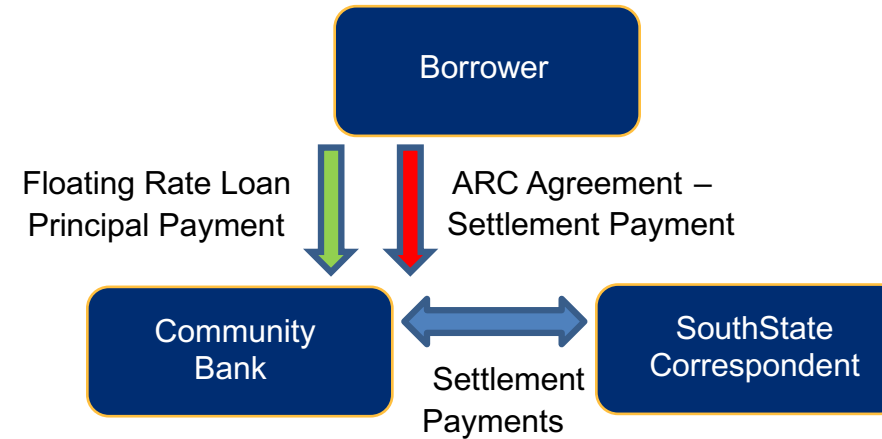
- Existing Loans
- Construction through Perm
- Forward rate locks
- Zero cost closing
- Take advantage of the curve
- Blend and extend

Questions?

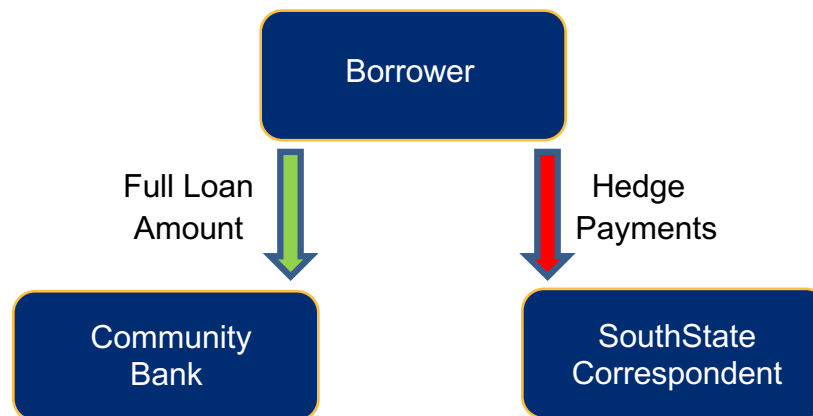




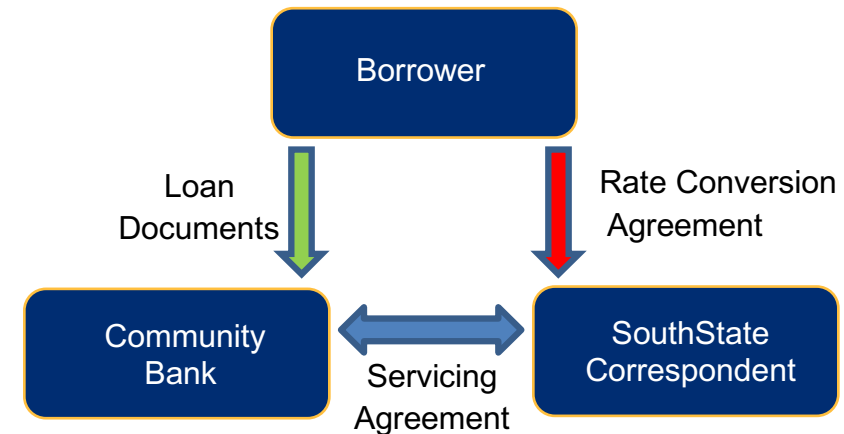
Cash Flow Diagram



Credit Obligations



Document Requirements





In addition to any specific risks discussed herein, there are other factors that may influence the performance of an interest rate hedge product.

Counterparty Risk – the risk that the counterparty will not perform pursuant to the contract terms. Borrowers should carefully assess counterparty risk when engaging in such a transaction as described herein.

Basis Risk – the risk that the floating rate interest payments made on the loan and the floating rate interest payments received on the hedge contract could be mismatched, specifically if the floating rate indices, spreads, and other terms are not exact.

Amortization Risk – the risk of the potential mismatch between the outstanding principal amount of the loan and the outstanding notional amount of the hedge. Amortization mismatches could also result in termination of portions of the hedge prior to maturity and under unfavorable conditions.

Termination Risk – the risk that the hedge could be terminated as a result of certain events including payment default or other defined events of default. A termination of a hedge may result in payment received by the borrower or owed to the Bank depending on the market at the time of termination.

Prior to entering into any interest rate hedge transaction, recipients should determine, in consultation with their own legal, tax, regulatory, and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences of any transaction.

The information herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or instrument or to participate in any trading strategy. No representation or warranty can be given with respect to the accuracy or completeness of the information herein, or that any future offer of securities, instruments or transactions will conform to the terms hereof. SouthState Bank, N.A. and its affiliates disclaim all liability relating to this information. SouthState Bank, N.A., its affiliates and others associated with it may have positions in, and may affect transactions in, securities and instruments mentioned herein.

The information herein may contain general, summary discussions of certain tax, regulatory, accounting and/or legal issues relevant to the proposed transaction. Any such discussion is necessarily generic and may not be applicable to, or complete for, any particular recipients' specific facts and circumstances. SouthState Bank, N.A. is not offering and does not purport to offer tax, regulatory, accounting or legal advice and this information should not be relied upon as such. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction.

The projections or other estimates in these materials (if any), including estimates of returns or performance, are forward-looking statements based upon certain assumptions and are preliminary in nature. Any assumptions used in any such projections or estimates that were provided by a recipient are noted herein. Actual results are difficult to predict and may depend upon events outside the recipient's or SouthState Bank's control. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the analysis. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates, and SouthState Bank does not represent that any such assumptions will reflect actual future events. Accordingly, there can be no assurance that estimated returns or projections will be realized or that actual returns or performance results will not be materially different from those estimated herein. Any such estimated returns and projections should be viewed as hypothetical. Recipients should conduct their own analysis, using such assumptions as they deem appropriate, and should fully consider other available information in making a decision regarding these securities, instruments or transactions. Past performance is not necessarily indicative of future results. Price and availability are subject to change without notice.