

Lending Through All Economic Cycles

Utilizing practical tools to build lasting relationships

October 27, 2023



Economic Cycle



Common Phases of The Economic Cycle



Expansion

Peak

Slowdown

Recession

Economy

Accelerating

Strong

Losing Steam

Struggling

Unemployment

Decreasing

Lowest

Increasing

Highest

Spending

Increasing

Highest

Decreasing

Lowest

Inflation

Slowly Increasing

Increasing

Starts Decreasing

Decreasing



The Economic Cycle & Banking



Expansion

Peak

Slowdown

Recession

Economy

Accelerating

Strong

Losing Steam

Struggling

Fed

Shifting Narrative

Tightening

Accommodative

Kitchen Sink

Yield Curve

Narrowing

Flat/Inverted

Steepening

Steep

10YR Treasury

Hits Peak

Trending Lower

Falling

Volatile

Loan Demand

Growing

Utopian

Softening

Weak

Liquidity

Sweet Spot

Very Tight

Building

Excessive

Credit Standards

Expanding

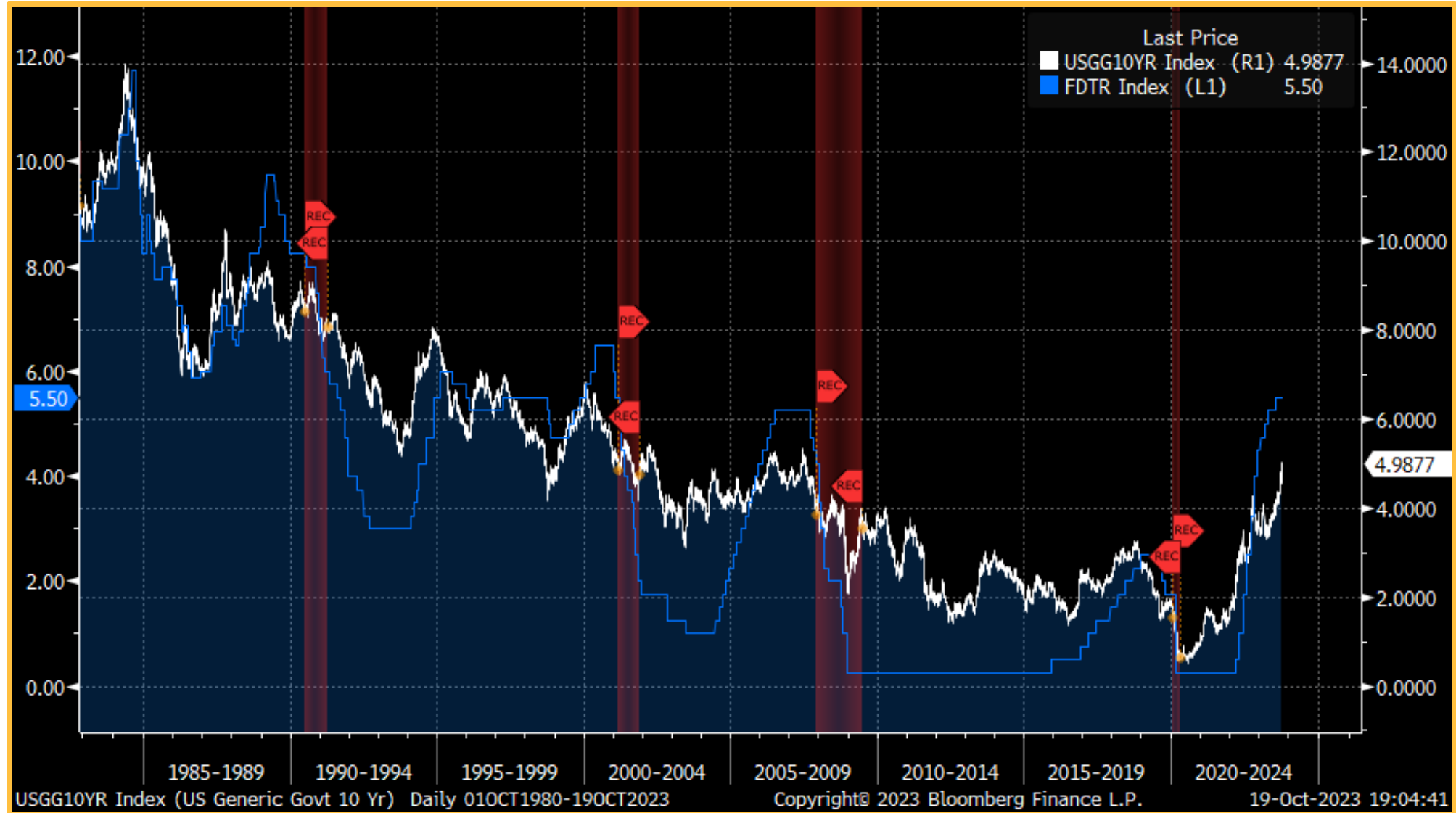
Flexible

Tightening

Strict



40-Years of Rates and Last Four Recessions





Lending During a Recession

At a time when our customers generally need us most, we are often the least accommodating

- **Credit Standards Tighten**

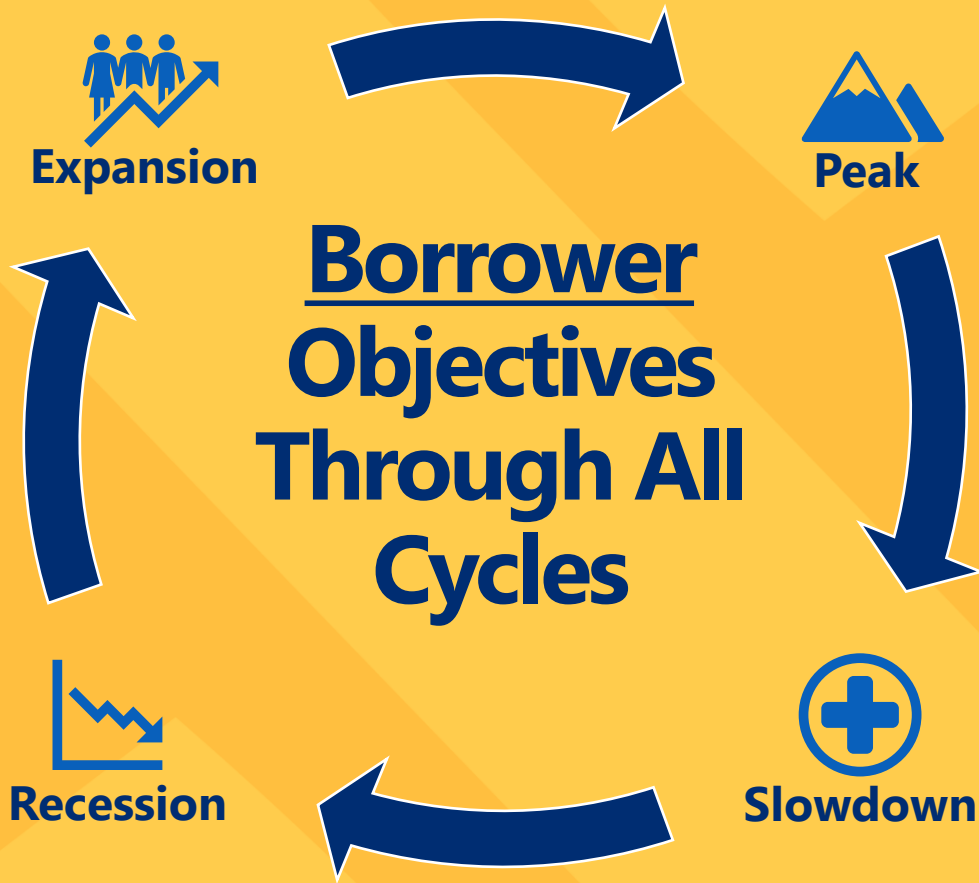
- **Credit Spreads Widen**

- **Relationships Are Tested**

- **Flexibility Fades**



| | |
|-----------------|---------------------------|
| Make | great loans at fair rates |
| Generate | Deposits |
| Build | relationships |
| Book | fee income |
| Remove | interest rate risk |
| Close | more loans |



| | |
|------------------|--------------------------------------|
| Receive | great financing at competitive rates |
| Stabilize | cash flow |
| Have | options that fit their needs |
| Minimize | fees |
| Maintain | flexibility |
| Obtain | additional financing as needed |



A Few Challenges



Deliver a low long term fixed rate while removing interest rate risk



Generate fee income while trying to keep costs low to our borrower



Deliver a solution that provides flexibility through all cycles

The Solution



Assumable Rate Conversion ("ARC") Program

Community Banks



\$45
Billion in assets

\$32
Billion in loans

\$37
Billion in deposits

\$5.9
Billion market cap

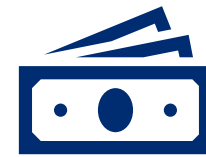
Loan Hedging Alternative



**Lend
Fixed**



**Receive
Floating**



**Earn Fee
Income**
+1-2%



**No Derivative
No ISDA
Simple Docs**



| General: | ARC vs. Swaps | |
|---|---------------|---|
| Fee Generation | ✓ | ✓ |
| Swap/Hedge Portability | ✓ | ✓ |
| Hedge for Unique Structures | ✓ | ✓ |
| Hedges for Forward-Starting Structures | ✓ | ✓ |
| Accounting: | | |
| <u>No</u> Hedge Effectiveness Accounting | ✓ | ✗ |
| <u>No</u> Call Report Derivative Disclosure | ✓ | ✗ |
| <u>No</u> Derivative Capital Allocation | ✓ | ✗ |
| <u>No</u> Dodd-Frank Reporting | ✓ | ✗ |
| Documentation: | | |
| <u>No</u> ISDA Documentation for Bank | ✓ | ✗ |
| <u>No</u> ISDA Documentation for Borrower | ✓ | ✗ |
| Collateral Requirement: | | |
| <u>No</u> Independent Amount (\$500k+) | ✓ | ✗ |
| <u>No</u> Additional Cash & Securities | ✓ | ✗ |
| Simplified Borrower Experience: | ✓ | ✗ |

✓ ARC has all the same capabilities of any swap program.

✓ ARC eliminates all derivative accounting headaches for banks.

✓ ARC reduces the number of pages required for documentation from 45 pages using swaps to four pages for ARC.

✓ ARC allows current loan settlement invoicing instead of having borrowers execute separate monthly swap settlements.

✓ ARC eliminates the requirement for loan officers to explain a complex transaction.

✓ ARC is easier to understand, reducing both sales friction and legal risk.

A simplified platform for borrowers and loan officers' results in more transactions booked.



Why ARC



Increase Loan Growth

Meet borrower demand by having a long-term fixed rate product



Differentiate From Competitors

ARC allows you to be one of the only banks offering a 20-year fixed rate



Generate Fee Income

With ARC you can embed an additional 1 to 2.5pts of fee income



Simple Documentation

Use your standard loan docs and closing process

Broad Usage





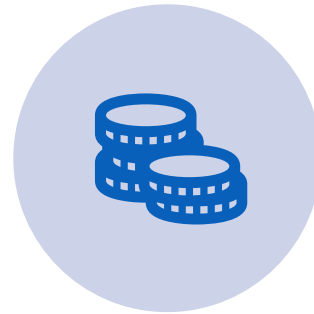
ARC Applications



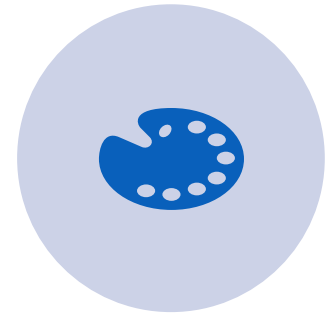
EXISTING LOANS



**CONSTRUCTION
THROUGH PERM**



**ZERO COST
CLOSINGS**



**BLEND AND
EXTEND**



Rates as of 10/27/2023:

Bank Floating Rate Starts At Closing

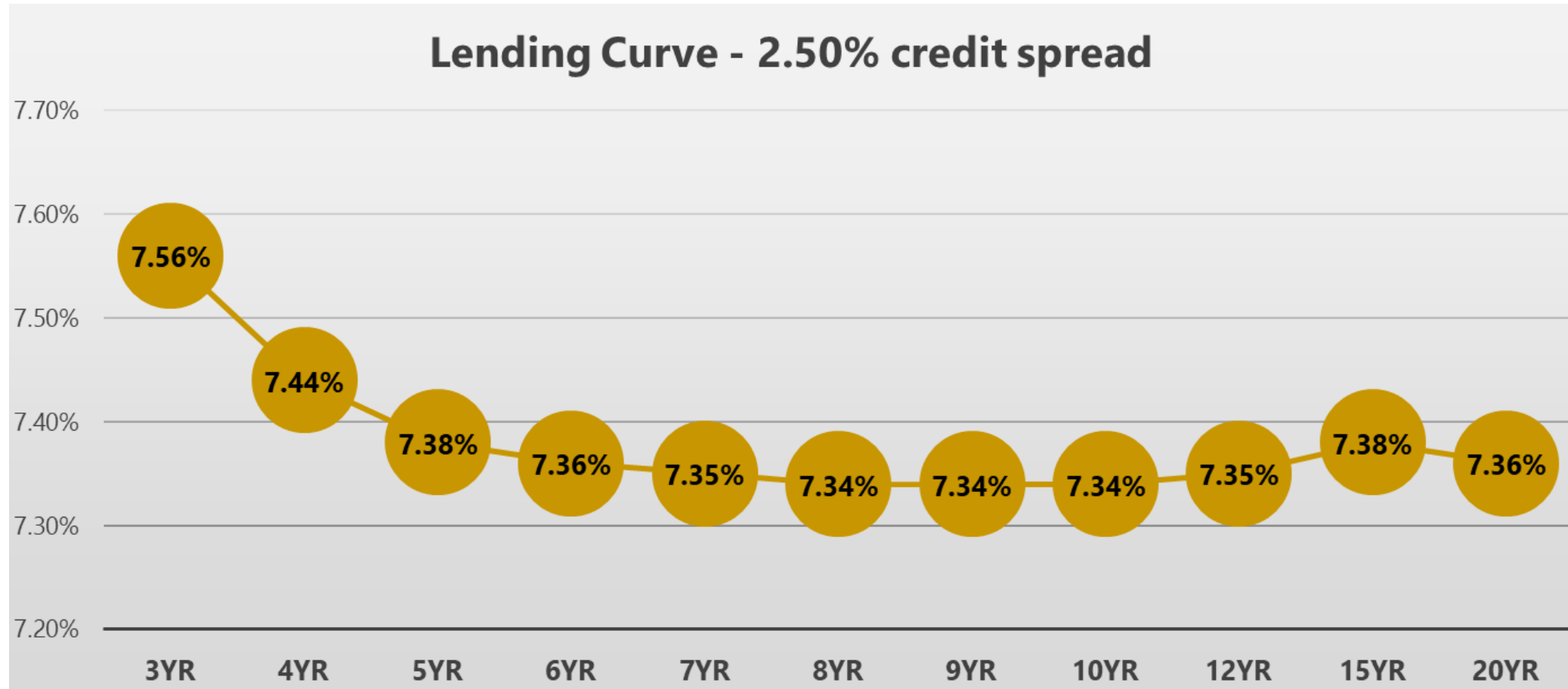
| | Fixed Rate | Floating Rate | ARC Fee Income |
|-----------------------------|-----------------------|--------------------------|---------------------------|
| 5yr ARC Fixed Rate: | <u>7.38%</u> | SOFR + 250bp | \$8,000 |
| 10yr ARC Fixed Rate: | <u>7.34%</u> | SOFR + 250bp | \$13,100 |
| 15yr ARC Fixed Rate: | <u>7.38%</u> | SOFR + 250bp | \$16,000 |
| 20yr ARC Fixed Rate: | <u>7.36%</u> | SOFR + 250bp | \$17,500 |

**Bank would receive a floating rate of 1-Month SOFR plus a credit spread and recognize the full fee income shown above*

**Fee income above is based on a \$1,000,000 loan with an embedded ARC fee of 20 basis points*

With ARC Bank Earns $5.32\% + 2.50\% = 7.82\%$

1-Month SOFR Spread



Yield curve is inverted as the market has priced in potential rate cuts

Borrowers can achieve lower fixed rates with longer terms

Banks floating rate is not impacted on the term the borrower selects

$$\text{A } \underline{\text{ARC Rate}} \text{ + } \text{B } \underline{\text{Spread \& Fee}} \text{ = } \text{C } \underline{\text{Fixed Rate}}$$

**Set by Market*
**Set by Bank*

Daily Rates

Updated: 10/25/2023

MANAGE DAILY ARC EMAIL SUBSCRIPTION

Here is the current loan hedge pricing for a sample ARC transaction that is at least \$1 million (ARC is available for loans as small as \$250k). Please note that the below table is the applicable fixed rate without a credit spread. To arrive at a fixed rate to a borrower add the bank's desired credit spread to the hedge rates shown below. The bank will earn a yield equal to daily SOFR paid monthly (which is currently 5.33%) plus the same credit spread.


Start Date
Spot Start ▼

| AM. | 3YR | 4YR | 5YR | 6YR | 7YR | 8YR | 9YR | 10Y | 12Y | 15Y | 20Y |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3yr Am. | 5.28% | - | - | - | - | - | - | - | - | - | - |
| 5yr Am. | 5.13% | 5.06% | 5.05% | - | - | - | - | - | - | - | - |
| 7yr Am. | 5.09% | 5.00% | 4.97% | 4.94% | 4.93% | - | - | - | - | - | - |
| 10yr Am. | 5.07% | 4.97% | 4.93% | 4.89% | 4.88% | 4.87% | 4.87% | 4.87% | - | - | - |
| 15yr Am. | 5.05% | 4.95% | 4.88% | 4.86% | 4.84% | 4.83% | 4.82% | 4.82% | 4.81% | 4.82% | - |
| 20yr Am. | 5.04% | 4.93% | 4.86% | 4.84% | 4.83% | 4.80% | 4.80% | 4.80% | 4.80% | 4.82% | 4.82% |
| 25yr Am. | 5.04% | 4.92% | 4.85% | 4.83% | 4.81% | 4.80% | 4.79% | 4.80% | 4.80% | 4.82% | 4.80% |
| 30yr Am. | 5.04% | 4.92% | 4.85% | 4.82% | 4.81% | 4.79% | 4.79% | 4.79% | 4.80% | 4.82% | 4.80% |

These rates are indicative, based on assumption of minimum loan size of \$1 million and subject to change based on market conditions. To price a live transaction, please contact the desk at [1-800-481-2443](tel:1-800-481-2443) or arc@southstatebank.com

← OPPORTUNITIES

My New CRE Loan

DELETE  CREATE PRESENTATION →

Pricing Presentations Activity

Opportunity Details New Loan Existing Loan EDIT

| | | |
|---|-----------------------------------|-----------------------------|
| BORROWER NAME My New CRE Loan | LOAN AMOUNT \$1,000,000 | HEDGE FEE 20 b.p. |
|---|-----------------------------------|-----------------------------|

Pricing Option 1 | Show Prepayment Scenario CANCEL


Amortization* 25 years | Spread 250 | Maturity* 10 years

Start Date* Current (Oct 2023)

CALCULATE

 **Borrower receives a fixed rate**

 **Bank receives a floating rate**

 **Bank books additional fee income at closing**


Closing new loan with the ARC program

Pricing Option 1 | Show Prepayment Scenario DELETE EDIT ACTIVE

| FIXED RATE | SPREAD | MATURITY | AMORTIZATION | P&I/MO |
|------------|--------|----------------------|--------------|---------|
| 7.50% | 250 | 10yr | 25yr | \$7,460 |
| START DATE | | FEE INCOME (20 B.P.) | | |
| Spot Start | | \$13,166 | | |

← OPPORTUNITIES

My Existing CRE Loan

DELETE  CREATE PRESENTATION →

Pricing Presentations Activity


Opportunity Details New Loan Existing Loan EDIT


| | | |
|--|-----------------------------------|-----------------------------|
| BORROWER NAME My Existing CRE Loan | LOAN AMOUNT \$1,000,000 | HEDGE FEE 20 b.p. |
|--|-----------------------------------|-----------------------------|


Pricing Option 1 | Show Prepayment Scenario CANCEL

| | | |
|-------------------------------|--|------------------------------------|
| Existing Rate 4.50 % | Existing Rate Expiration* 12mo (Oct 2024) | Existing Amortization* 22 years |
| New Amortization* 25 years | New Spread 250 | New Maturity* 10 years |

CALCULATE

 **Borrower receives a fixed rate that starts once current rate ends**

 **Bank receives a floating rate when ARC rate starts**

 **Bank books additional fee income at closing**

Closing existing loan with the ARC program

Pricing Option 1 | Show Prepayment Scenario DELETE EDIT ACTIVE

| FIXED RATE | SPREAD | MATURITY | AMORTIZATION | P&I/MO |
|----------------------|--------|---------------------|-----------------------|---------|
| 7.39% | 250 | 10yr | 25yr | \$7,387 |
| EXISTING RATE | | EXISTING EXPIRATION | EXISTING AMORTIZATION | |
| 4.50% | | October 2023 | 22yr | |
| FEE INCOME (20 B.P.) | | | | |
| \$12,274 | | | | |

Subject Loan: A \$1,000,000 loan is structured as a 25 years amortizing with a 10 years fixed rate, with a 7.50% fixed rate and the initial swap rate or hedge rate (synonymous terms) is 5.00%.

Initial Hedge Rate: 5.00%
 Loan Spread: 2.50%
 All-in Fixed Rate: 7.50%

Prepayment Hedge Rate vs. Initial Hedge Rate

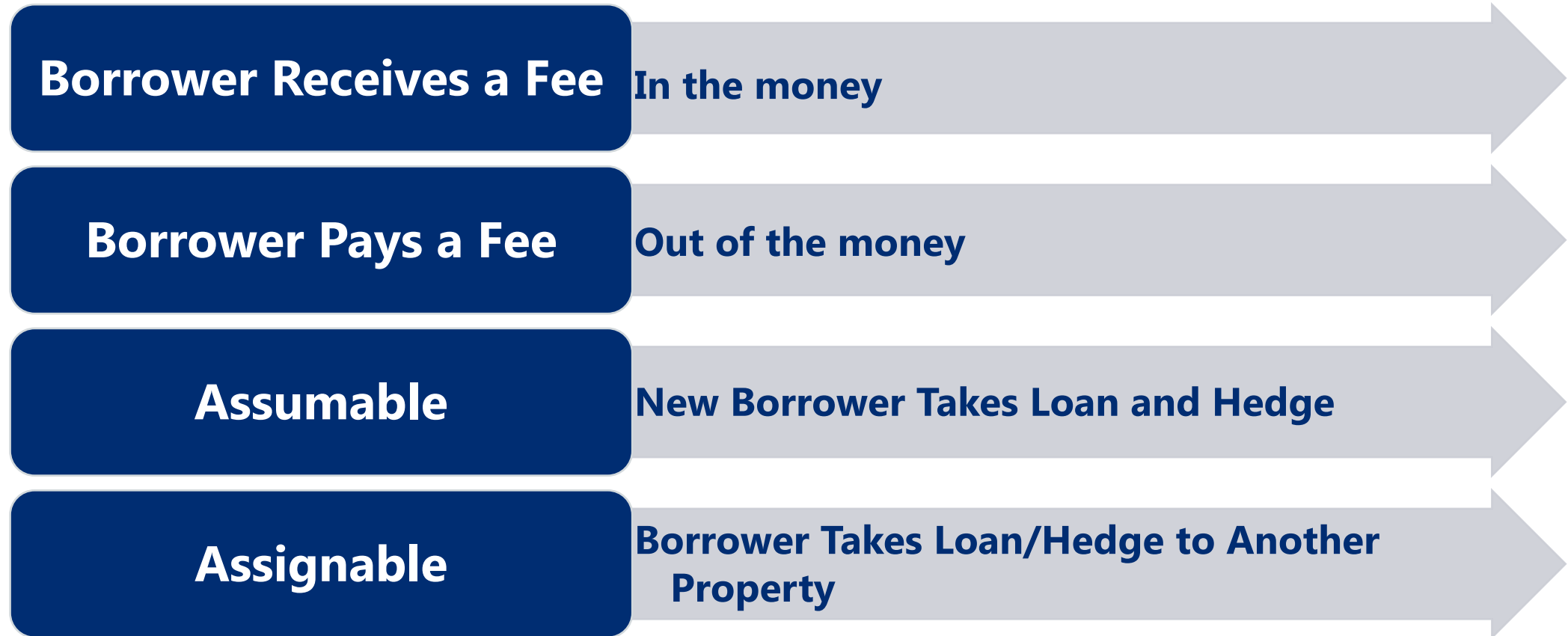
| Remaining Term | -75 bps | -50 bps | -25 bps | 0 bps | +25 bps | +50 bps | +75 bps |
|----------------|-----------|-----------|-----------|-------|----------|----------|----------|
| 10 years | -\$56,549 | -\$37,282 | -\$18,436 | - | \$18,034 | \$35,676 | \$52,936 |
| 9 years | -\$51,714 | -\$34,126 | -\$16,890 | - | \$16,552 | \$32,774 | \$48,672 |
| 8 years | -\$46,361 | -\$30,625 | -\$15,173 | - | \$14,899 | \$29,530 | \$43,898 |
| 7 years | -\$40,896 | -\$27,043 | -\$13,413 | - | \$13,198 | \$26,185 | \$38,964 |
| 6 years | -\$35,325 | -\$23,384 | -\$11,610 | - | \$11,449 | \$22,738 | \$33,870 |
| 5 years | -\$29,632 | -\$19,637 | -\$9,760 | - | \$9,645 | \$19,177 | \$28,596 |
| 4 years | -\$23,864 | -\$15,832 | -\$7,878 | - | \$7,802 | \$15,529 | \$23,182 |
| 3 years | -\$18,008 | -\$11,961 | -\$5,958 | - | \$5,915 | \$11,786 | \$17,614 |
| 2 years | -\$12,075 | -\$8,030 | -\$4,005 | - | \$3,985 | \$7,949 | \$11,894 |
| 1 year | -\$6,057 | -\$4,033 | -\$2,014 | - | \$2,008 | \$4,011 | \$6,009 |

Borrower Owes

Borrower Receives



ARC Potential Prepayment Outcomes





Transaction Parameters

- **Loan Amount:** \$250K to \$50 million
- **Terms:** 20-year term and 30-year amortization
- **LTV:** Maximum LTV ratio of 85%*
- **DSCR:** Minimum debt service coverage ratio of 1.20x*
- **Loan Types Considered:** Office, industrial, retail, multifamily, special purpose, hospitality, self storage, tax-exempt, non-profit, SBA, among many others
- **Loan Types Excluded:** Public golf courses, non-defense weapon manufacturers, adult entertainment, marijuana industry

**We are willing and able to make exceptions to these guidelines based on acceptable credit rationale.*

Regulatory Requirements:

- Per Dodd-Frank, the borrowing entity *or* entity ownership must be able to demonstrate a **\$1mm net worth** in order to qualify as an Eligible Contract Participant ("ECP"). Ask the ARC team about methods of qualification.

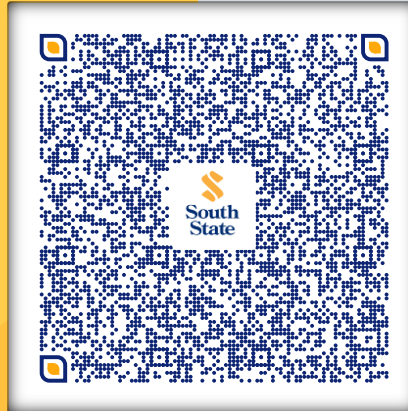
Questions?



Wes Kolari

979-492-7500

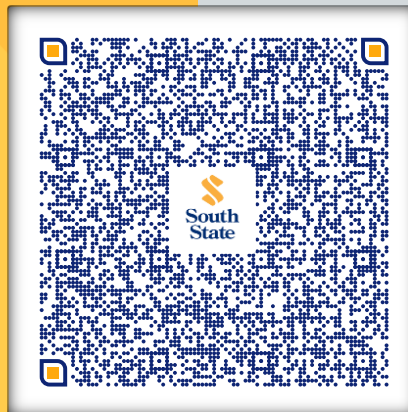
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NEXT STEPS

1. UNDERSTAND [ARC Hub](#)

2. UTILIZE ARCpricing.com

3. ASK **Call & Email**