Lending Strategies for the Current Environment

SouthState

Meeting Agenda

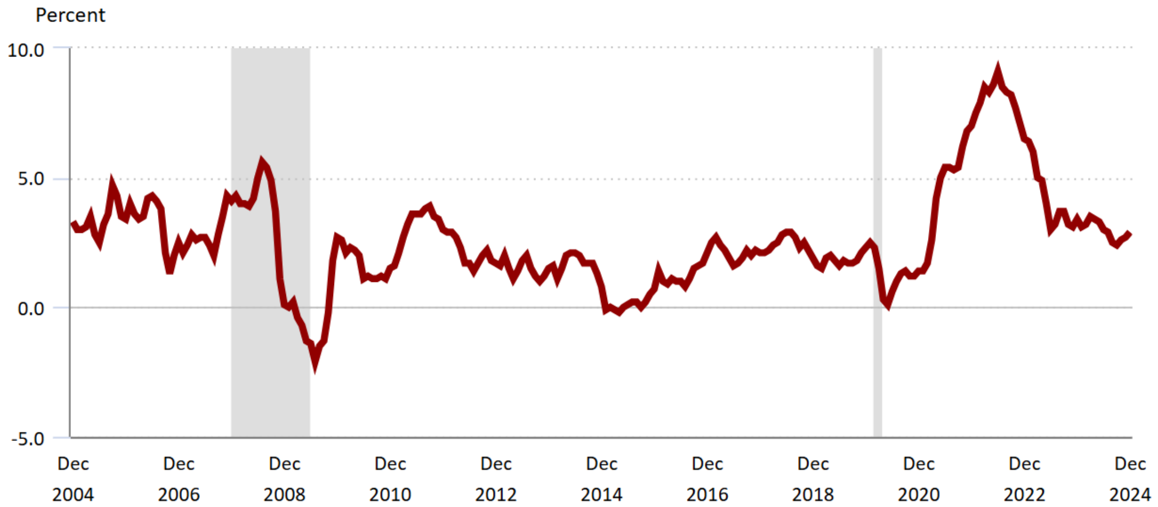
- Current Environment
- Lending Strategies for the Current Environment
- ARC Program Overview
- ARC Strategies to Retain Profitable Relationships

Current Environment

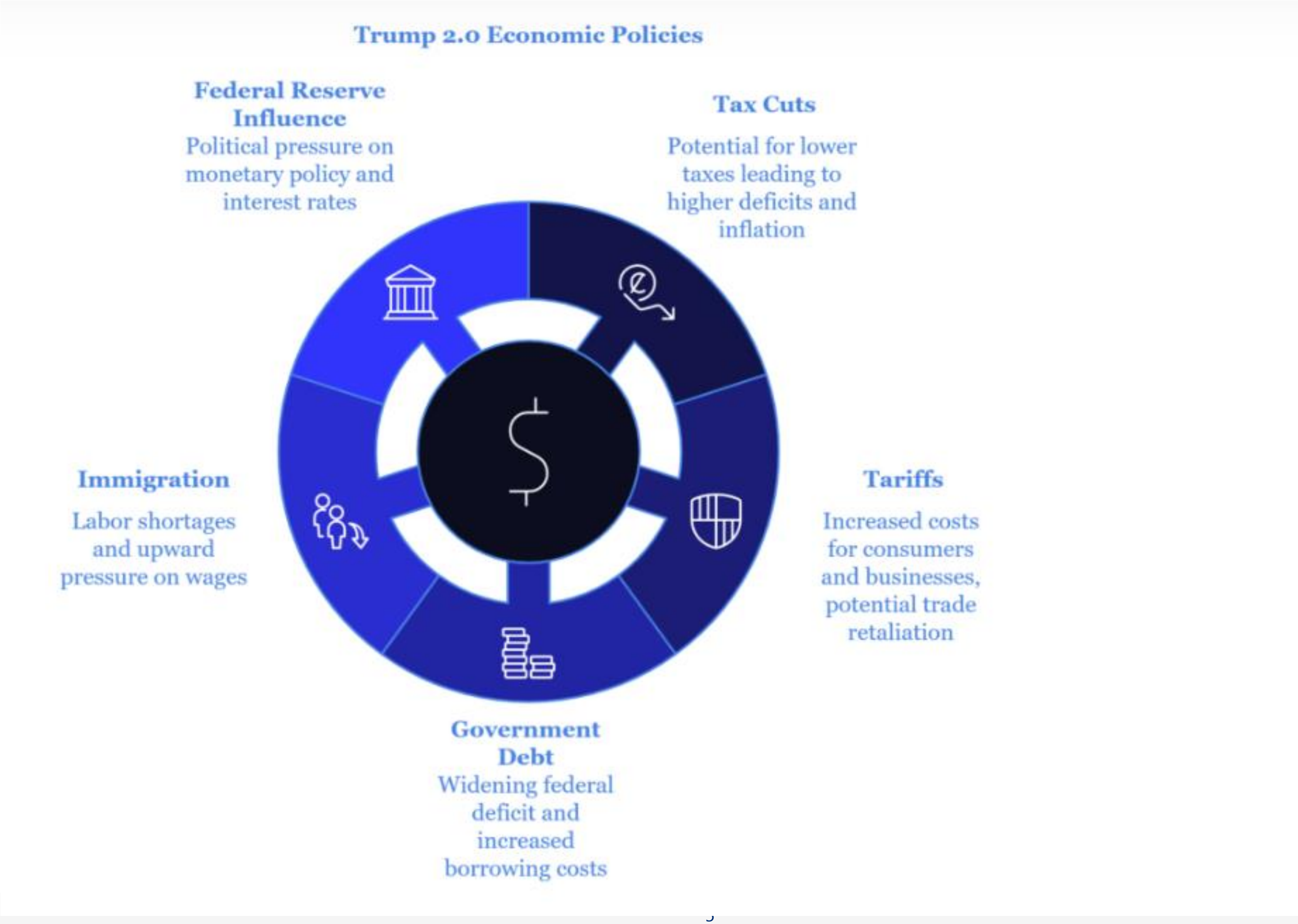
Flat Yield Curve, Fed On Hold?, Banks are Paid Zero for Taking Interest Rate Risk

4.1% Unemployment Rate

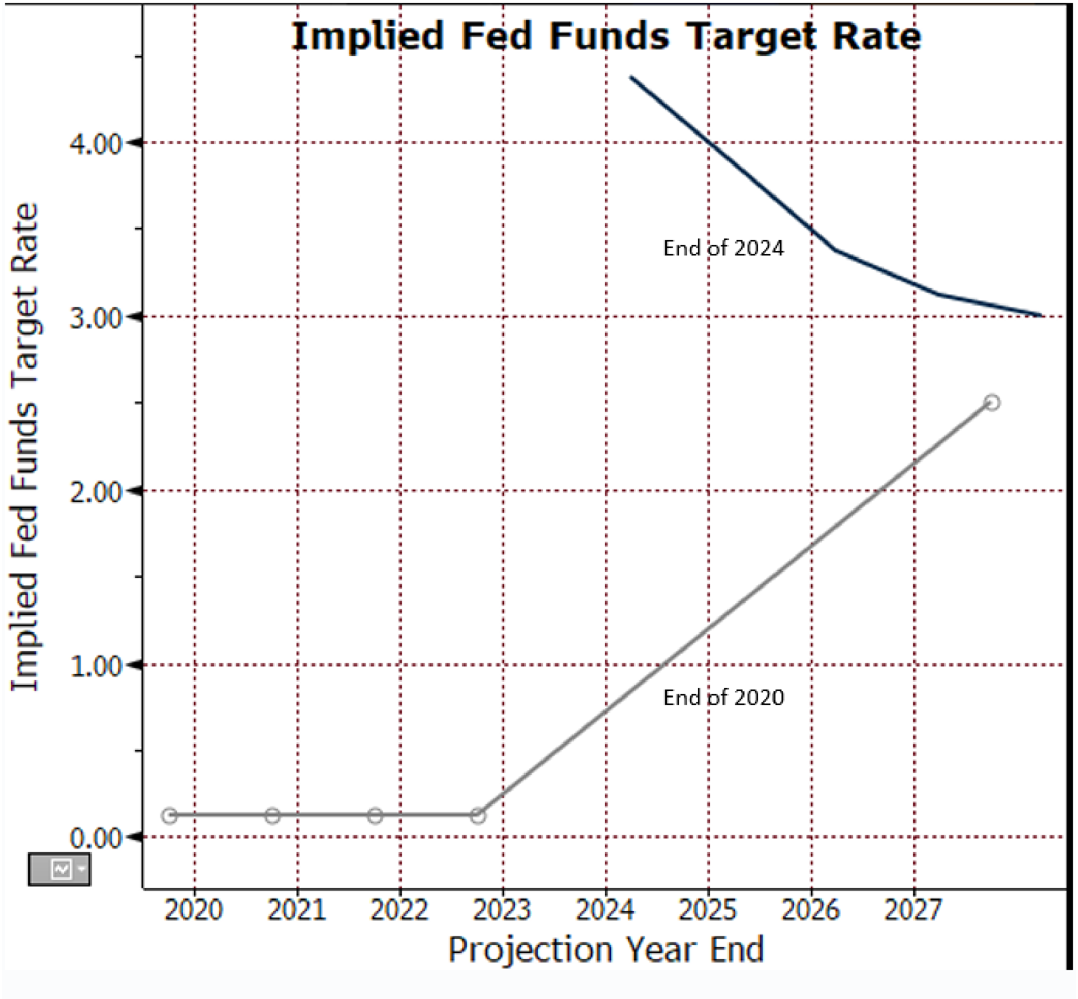
2.9% CPI

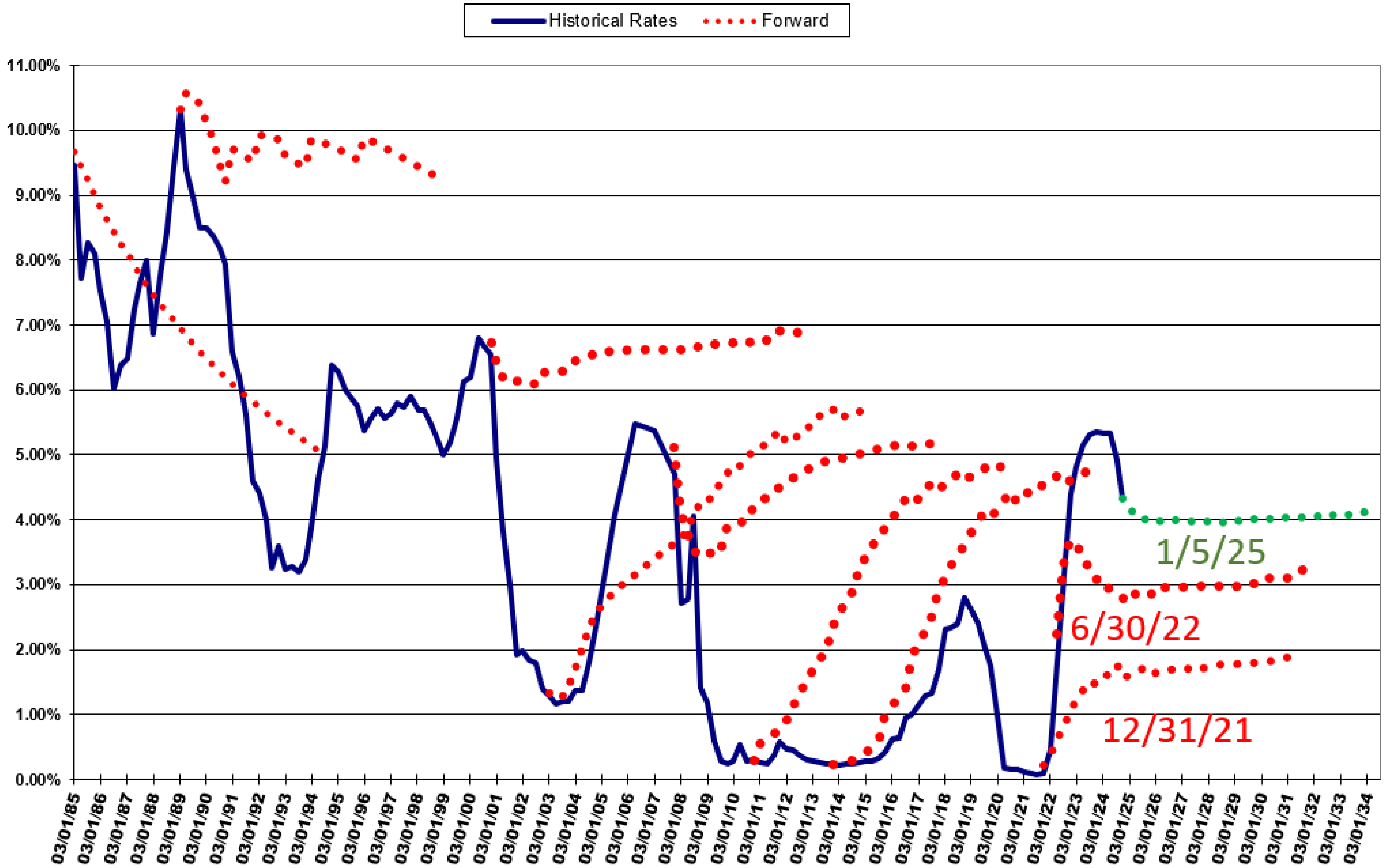


CURRENT ENVIRONMENT



What Will The Fed Do?

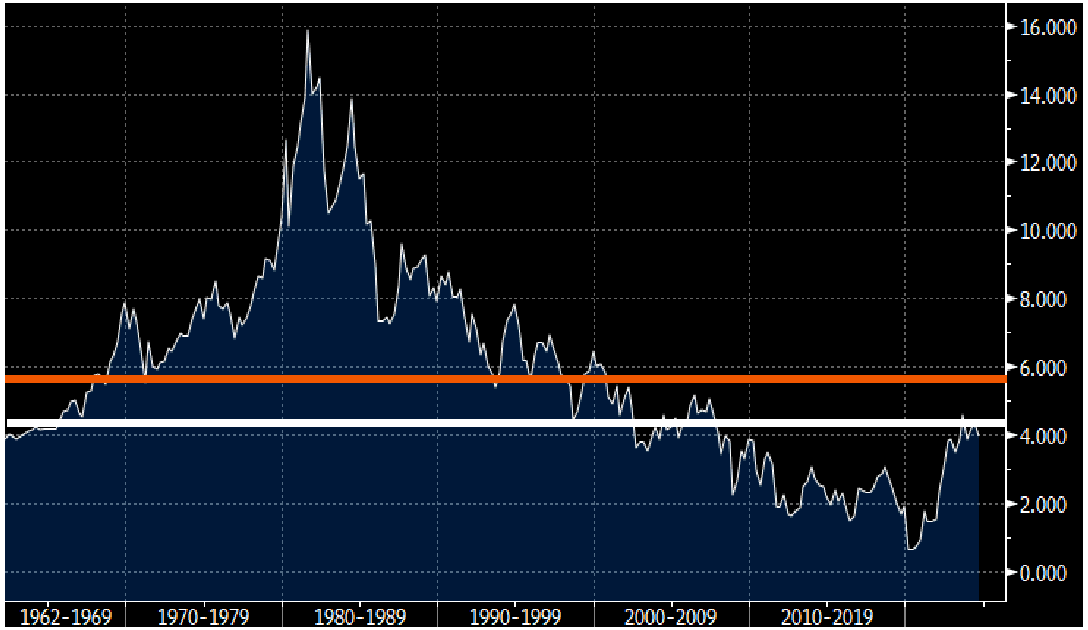




Historical Rates
Forward
11.00%
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
03/01/85
03/01/86
03/01/87
03/01/88
03/01/89
03/01/90
03/01/91
03/01/92
03/01/93
03/01/94
03/01/95
03/01/96
03/01/97
03/01/98
03/01/99
03/01/00
03/01/01
03/01/02
03/01/03
03/01/04
03/01/05
03/01/06
03/01/07
03/01/08
03/01/09
03/01/10
03/01/11
03/01/12
03/01/13
03/01/14
03/01/15
03/01/16
03/01/17
03/01/18
03/01/19
03/01/20
03/01/21
03/01/22
03/01/23
03/01/24
03/01/25
03/01/26
03/01/27
03/01/28
03/01/29
03/01/30
03/01/31
03/01/32
03/01/33
03/01/34
1/5/25
6/30/22
12/31/21

Four Important Points For Rate Context & Decision-Making

Historical Rates:

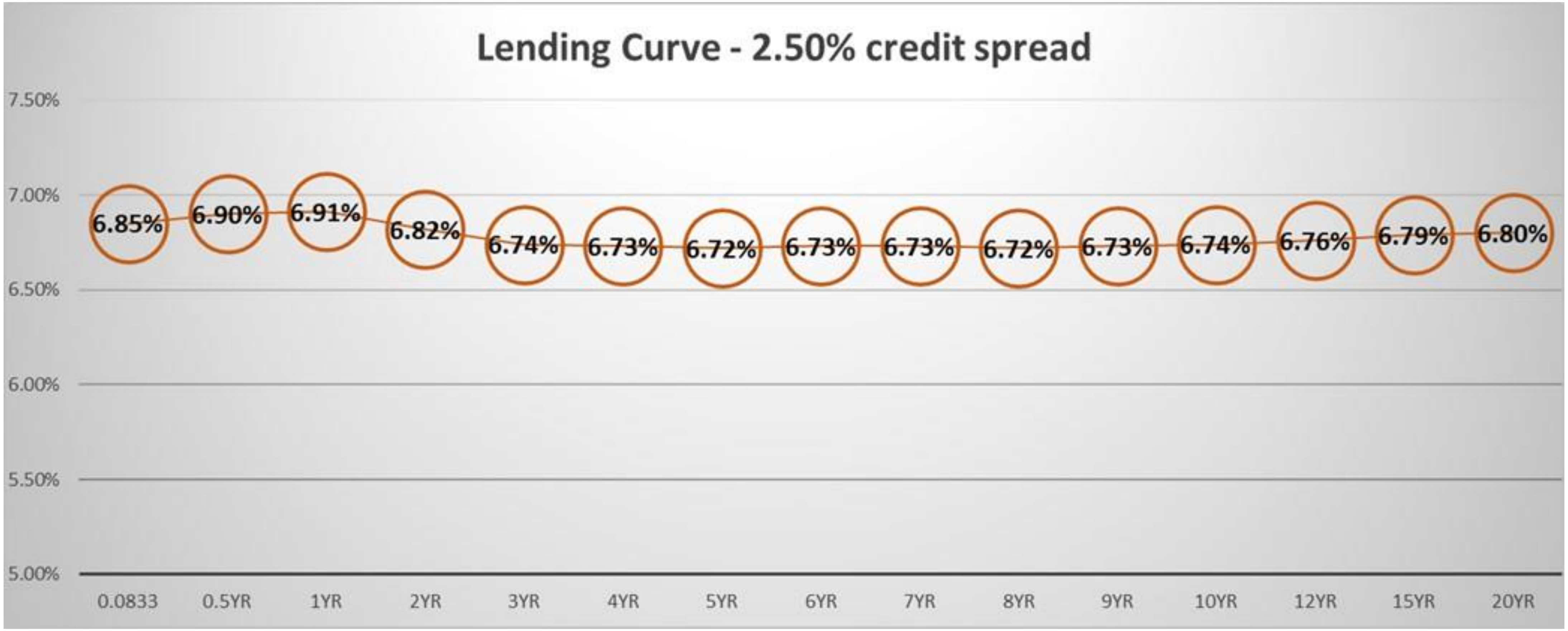


Average = 5.84%

Current = 4.42%

1. The Fed controls ***short-term*** rates directly.
2. Fed rate expectations are ***already baked into*** longer fixed rates.
3. Long-term rates are now ***~140 bps below*** historical averages.
4. Rates are ***favorable*** unless a borrower expects another economic ***crisis***.

Zero to Negative Reward for Interest Rate Risk (Traditional Fixed)



Lending Strategies for the Current Environment


Interest Risk Mitigation
Increase Cross Sell
Credit Risk Mitigation
Hedging
Protect Existing Loans
Borrower Demand
Meet Competition
Generate Fees

Current Market Rates Favor Hedge-Based Pricing

<u>Traditional In-House Fixed</u>

7.50% fixed

Fixed out to 5 years

25 Year Am

Yield to Bank **7.50%**

Fixed Rate to Borrower **7.50%**

No fee income

<u>Hedged Example</u>

SOFR + 2.50%

Fixed to the Borrower out to 20 years

25 bp hedge fee

Yield to Bank SOFR + 2.5% plus fees

Fixed Rate to Borrower 5 year **7.05%**

10 year **6.92%**

20 year **6.97%**

Includes a 25 bp hedge fee (SOFR + 2.75% all -on)

First year yield to Bank @ 4.32% SOFR + PV of 25 bps Hedge Fee

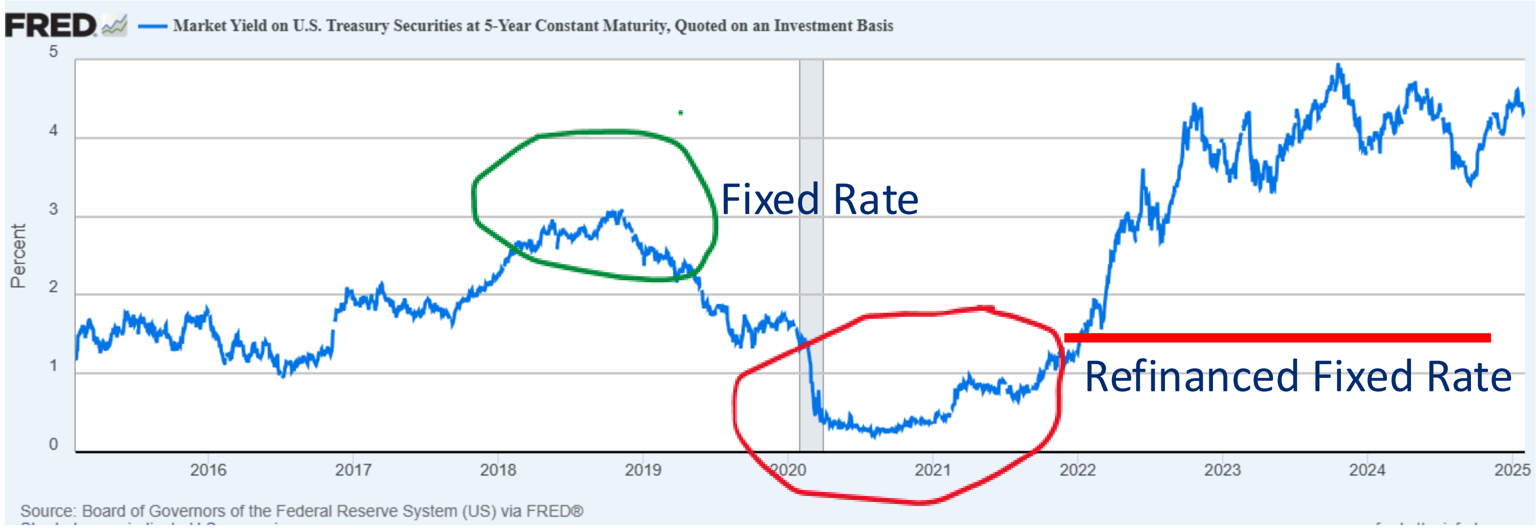
5y	**7.85%**
10y	**8.50%**
20y	**9.08%**

Loan Performance in a Down Rate Scenario

Traditional In-House Fixed		**Hedged Example**	
		SOFR + 2.50%	
New 5 year		Fixed to the Borrower out to 20 years	
25 year am		25 bp hedge fee	
Yield to Bank	**5.50%**	**Yield to Bank**	SOFR + 2.5% plus fees
Fixed Rate to Borrower	**5.50%**	**Extend and Blend***	**5.65%**
No fee income		*Hedge with 2 years remaining, refinancing into new 10 year	
		Additional fee income opportunity	

Rates Back Up - The One-way Floater

Traditional In-House Fixed		**Hedged Example**	
		SOFR + 2.50%	
New 5 year		Fixed to the Borrower out to 20 years	
25 year am		25 bp hedge fee	
Yield to Bank	**5.50%**	**Yield to Bank**	SOFR + 2.5% plus fees
Fixed Rate to Borrower	**5.50%**	**Fixed Rate to Borrower**	**5.65%**



How to Add $1,000,000 to your Bottom Line!

In the 10/25 Structure, 25 basis points equates to ~1.68% Fee, Upfront!

Basis points fee	0.25%	
Initial balance:	$ 5,000,000	Input
Amortization Term (yrs):	25	
Commitment Term:	10	
Initial Hedge Rate:	4.46%	
Fixed Rate to Borrower:	6.92%	
Starting Date:	2/4/25	
Approximate ARC Referral Fee:	83,814	Output

% of loan amount	1.68%

$5mm 10y/25yam per month w 25 bp hedge fee =$1,005,600 boost to current income ($83,800 x 12 months)

ARC Program Overview

All the benefits of a large bank hedging program without the headaches

ARC was Developed for Community Banks and Borrowers

All the benefits of a large bank hedging program without the headaches:

- ✓ No derivative on your books
- ✓ Simple and clear documentation (No ISDA)
- ✓ Plain English risk disclosures
- ✓ No daily collateral posting, accounting, regulatory reporting
- ✓ Borrowers make one payment to your bank
- ✓ Flexible prepayment and modification options
- ✓ Fee income

ARC Pricing

Bank Earns = 1-month Term SOFR + Credit Spread

Borrower Pays = Fixed ARC Rate + Credit Spread

Amort.	Maturity										
	3yr	4yr	5yr	6yr	7yr	8yr	9yr	10yr	12yr	15yr	20yr
3yr	4.34%	-	-	-	-	-	-	-	-	-	-
5yr	4.33%	4.33%	4.33%	-	-	-	-	-	-	-	-
7yr	4.32%	4.33%	4.33%	4.33%	4.32%	-	-	-	-	-	-
10yr	4.32%	4.33%	4.33%	4.32%	4.32%	4.33%	4.33%	4.33%	-	-	-
15yr	4.32%	4.32%	4.31%	4.32%	4.32%	4.32%	4.32%	4.32%	4.33%	4.34%	-
20yr	4.32%	4.31%	4.30%	4.31%	4.32%	4.30%	4.31%	4.32%	4.34%	4.36%	4.37%
25yr	4.32%	4.31%	4.30%	4.31%	4.31%	4.30%	4.31%	4.32%	4.34%	4.37%	4.38%
30yr	4.32%	4.31%	4.30%	4.30%	4.31%	4.30%	4.31%	4.32%	4.34%	4.37%	4.38%

Example: 25/10y Bank Note Priced at SOFR + 2.00% (Currently 4.32% + 2.00% = 6.32%)

Borrower Pays Fixed ARC Rate + 2.00% (4.32% + 2.00% = **6.32% Fixed**)

Fee Calculator

Basis points fee	0.25%		% of loan amount	2.25%
Initial balance:	$ 1,000,000	Input		
Amortization Term (yrs):	25			
Commitment Term:	20			
Initial Hedge Rate:	4.87%			
Fixed Rate to Borrower:	6.87%			
Starting Date:	11/5/23			
Approximate ARC Referral Fee:	22,499	Output		

Hedge fees allows you the flexibility to optimally position your bank in competitive circumstances

- **Waive loan origination fees**
- **Pay for appraisal and other closing costs**
- **Build in prepayment costs for borrowers looking to move a relationship to your bank**
- **Lender compensation**

Symmetrical Prepayment Provisions

Initial balance:	$ 1,000,000
Amortization Term (yrs):	20
Commitment Term:	5
Initial Hedge Rate:	4.31%
Fixed Rate to Borrower:	6.31%
Starting Date:	4/3/24

Prepayment Hedge Rate vs. Initial Hedge Rate

Remaining Term	**-0.75%**	**-0.50%**	**-0.25%**	**0%**	**0.25%**	**0.50%**	**0.75%**
	3.560%	**3.810%**	**4.06%**	**4.31%**	**4.56%**	**4.8100%**	**5.060%**
5yrs	($32,504)	($21,540)	($10,706)	$0	$10,579	$21,034	$31,365
4yrs	($26,035)	($17,273)	($8,595)	$0	$8,512	$16,942	$25,291
3yrs	($19,538)	($12,977)	($6,464)	$0	$6,417	$12,786	$19,109
2yrs	($13,023)	($8,660)	($4,319)	$0	$4,297	$8,573	$12,827
1yrs	($6,506)	($4,331)	($2,163)	$0	$2,157	$4,308	$6,454

Explaining Yield Maintenance

Building Comfort With Borrower’s

ARC From The Borrower's Perspective

Prepayment Options:

1. Borrower receives fee (rates are higher)
2. Borrower pays fee (rates are lower)
3. Portable: Borrower takes loan/hedge to another property, preserving rate
4. Assumable: New Borrower takes loan & hedge
5. Borrower modifies loan - adds new money and/or extends term/amort

Alternatives To Symmetrical Prepay Are Also Possible

Blend and Extend Example

	$2mm 5y/25yam	6.98% fixed	
Scenrio:	2 years left, rates down 1%	Hedge Value	Principal
		-$36,682.00	$ 1,899,634
New Loan Options:	10y/25yam	5.98%	
	Blend and Extend	6.28%	
	True up to Original $2mm	6.26%	
	Increase deal by $1mm	6.18%	

ARC Advantage – Relationship Lending

- ✓ **Rate Portability** – borrower can replace collateral with another suitable property
- ✓ **Loan Assumability** – ARC hedges can be moved to a new borrower
- ✓ **Blend and Extend** – borrowers needing additional financing can keep their current hedge rate if rates are higher, or enjoy a lower blended fixed rate in a lower rate scenario
- ✓ **Symmetrical Prepayment Provisions** – borrower may choose to terminate the hedge and get paid the positive value of the remaining if rates are higher, or pay the negative hedge value if rates are lower, and the sale or refinancing opportunity outweighs the cost

Why do borrower's choose "ARC"

ARC Delivers Competitive Advantages Worth Highlighting

	Traditional Loan	ARC Loan	Loan + Interest Rate Swap
Documentation	Bank Standard Set	Bank Standard Set Plus 4 Page Addendum	ISDA Agreements (40+ Pages)
Monthly Invoicing	Single Monthly Invoicing	Single Monthly Invoicing	Two Invoices
Accounting	Fixed Rate Loan Accounting	Fixed Rate Loan Accounting	Varies
Prepay Convention	Fixed Prepay Penalty (ie. 5/4/3/2/1%)	Yield Maintenance	Yield Maintenance

ARC is also portable and assumable

While interest rates have risen recently, they are still very low from a historical perspective, and the Yield Curve is Flat. This offers borrowers the opportunity to lock in years of additional rate and cash flow certainty with minimal incremental cost.

Pricing An ARC Loan
6 Inputs

Borrower Name:	**[Best Borrower LLC]**
Loan Amount:	**[$5,000,000]**
Credit Spread:	**[2.75%]**
Term:	**[5 Years, 7 Years, 10 Years]**
Amortization:	**[25 Years]**
Hedge Fee:	**[25 basis points]**

A + B = C

Hedge Index Rate (includes Hedge Fee) + Credit Spread = Loan Fixed Rate

- Loan amounts, LTV, and terms determined by bank policy
- Up to 20 years final maturity and 30-year amortization
- ARC is preapproved for LTV of 85% or better and debt service coverage ratio 1.20x, or better
- Borrower minimum $1mm net worth
- Property types OO and NOO CRE. General and special purpose.
  - office, industrial, retail, multifamily, special purpose, self storage, among many others
- No consumer, or government. No speculative land.

ARC Program Recent Deal Stats

Average Deal Size: $2.71mm

Average Term: 4.5 years, before curve inversion this was 10.7 years

Credit Quality: 1.65x DSCR
62% LTV
Zero past due credits

Average ARC Fee: 1.4% of initial principal ($37,940 current income)

ARC Is More Than A Product – It's A Relationship

- ✓ Customized Borrower Presentations
- ✓ In-Person Meetings With Your Borrowers
- ✓ Marketing Campaigns, Materials, Content and Support
- ✓ Loan Structuring and Profitability Assistance
- ✓ Lender and Operational Training
- ✓ Loan Pricing Model Analysis
- ✓ Assistance With Participations
- ✓ General Bank Performance Support – Deposit Pricing, Technology, etc.

We Are A Bank And A User ARC

ARC Program Overview

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 4:30PM ET
8. After borrower signing, ARC will send a Transaction Supplement to the ARC Master Servicing Agreement for bank execution

Single Close Construction Through Perm

Forward-Starting Structures: *Construction Loans*

- As an example, a Promissory Note reads as a variable rate for 11 years. The first year remains a floating rate construction note. The last 10 years are fixed through the ARC program.

Flexible Draw	Borrower Fixed Rate Locked at Beginning of Initial Draw Period

- ✓ Fixed rate certainty.
- ✓ Single close.
- ✓ No additional collateral requirements.
- ✓ Less possibility of the bank losing the loan to competitors that avoid construction lending but are aggressive term loan lenders.

Protect Your Valuable Relationships – Strategic Refinancing

Example: Focus borrower has a current fixed-rate loan on the books at 5%, maturing in 1 year

Current Loan $3,000,000
Collateral: Long-term CRE
Fixed Rate: 5.00%
Matures: in 1 year
Current rate if refinanced today:
Treasuries + 3.25%
Where will rates be in 1 year?

Proactive Refinance with ARC $3,000,000
Terminate existing loan and replace with a 10 year Note that is fixed at 5% for 1 year, then converts to SOFR + 2.50% (approx. Prime – 1/2%)
Borrower pays 5% fixed, then 6.85% fixed for remaining 9 years
Pricing includes 25 bps for hedge fees = $43,428 or 1.45% paid to you from ARC

- ✓ Bank gets additional 1.45% on a loan already funded, plus SOFR + 2.50% floating on remaining 9 years (currently 7.82% yield)
- ✓ Head off competitors and solidify relationship (deposits, credit quality, cross-sell opportunities)
- ✓ Secure DSCR and reduce credit exposure to increased inflation and further Fed rate hikes
- ✓ Being proactive positions lender as trusted advisor

Thank you!

Want more ideas and data?

Sign up at:

SouthStateCorrespondent.com

Disclaimer

This presentation is for general strategic information only and should not be relied upon as a substitute for independent research before making a material management decision. This presentation does not take into account any particular bank's performance objectives, financial situation or needs. All banks should obtain advice based on their unique situation before making any decision based upon this presentation or any information contained within. In addition, any implied projections or views of the bank market provided by the authors may not prove to be accurate. While all the information contained herein is believed to be accurate as of the date of source or publication, the information is subject to change and constant revision.

In addition to any specific risks discussed herein, there are other factors that may influence the performance of an interestrate 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 otherdefined 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 ofsecurities, 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 mayhave positions in, and may effect 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 doesnot 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 notbe 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.

SouthState