

ARC Program Overview & Bank Profitability

Russ Smith

Managing Director
ARC Program





Bank Profitability:

Long-term Relationships, Size, Term, Credit Quality, Non-interest Income



Average Loan Size	\$3,245,254
Weighted-Avg Loan Term (yrs)	6.11
Weighted-Avg Credit Spread	2.47%
Weighted-Avg Fixed Rate	6.48%
Weighted-Avg Hedge Fee	1.11%

As the year progressed and rate expectations settled, borrowers began requesting longer terms to create greater payment certainty.

- *Loan sizes ranged from a low of \$249,000 to a high of \$51,697,000*
- *Spreads ranged from a low of 1.65% to high of 4.38%*
- *Fixed terms ranged from 3 years to 25 years*

Building Blocks



ARC Is A Commercial Loan Origination Platform

**Variable Rate Loan: Bank Earns 1mo SOFR + Spread Reset/Paid Monthly
Borrower Pays Fixed Rate Via ARC**

Example Pricing \$5mm Loan Request

Fixed Term / Amortization	Current Fixed Rate	Hedge-Based Pricing	Approximate Monthly P&I
3yr / 25yr	6.36%	3yr Swap + 2.65%	\$33,609
5yr / 25yr	6.38%	5yr Swap + 2.65%	\$33,672
7yr / 25yr	6.45%	7yr Swap + 2.65%	\$33,894
10yr / 25yr	6.53%	10yr Swap + 2.65%	\$34,148
15yr / 25yr	6.65%	15yr Swap + 2.65%	\$34,532
20yr / 25yr	6.68%	20yr Swap + 2.65%	\$34,628

5 Year Pricing Example

Bank Earns: 1mo SOFR + 2.65% Reset/Paid Monthly

Borrower: Benchmark Rate 3.73% + 2.65% = 6.38%



Hedge Fee Income Is Highly Valued By Banks

Pricing 2.65% Total Spread:

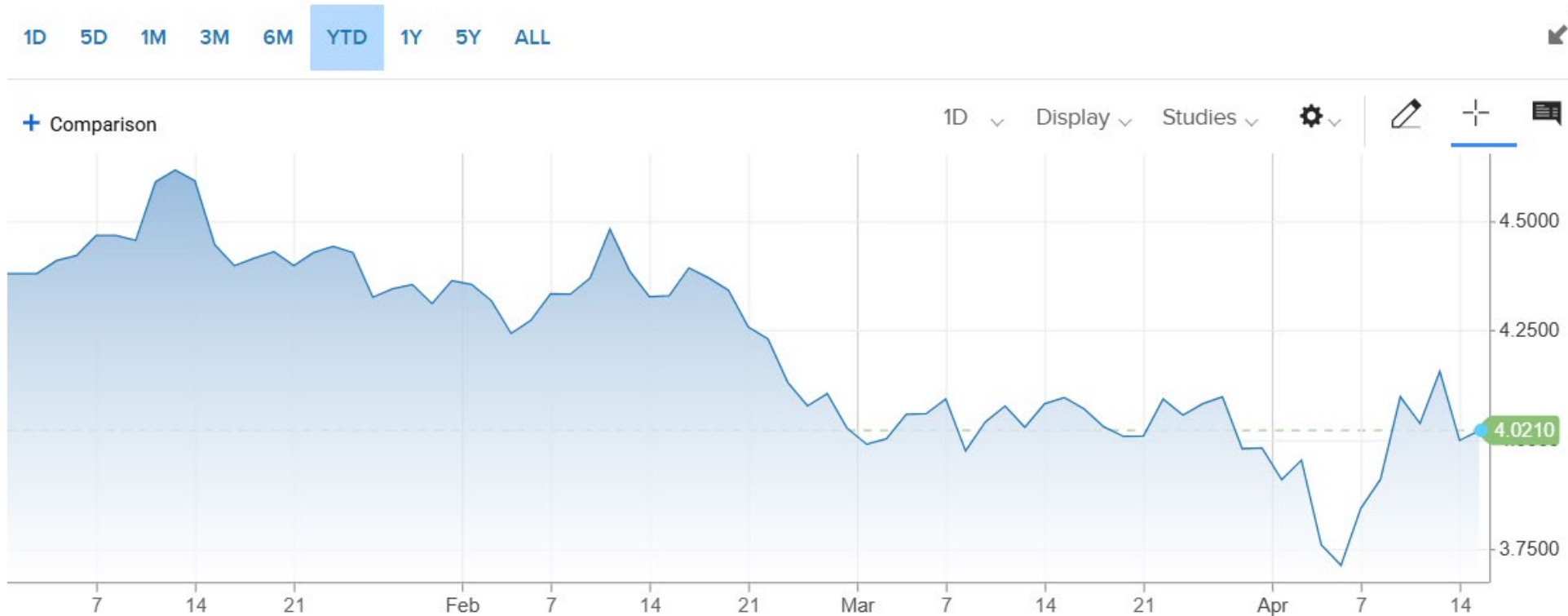
Credit Spread = 2.40% Hedge Fee = 25 basis points

Fee:	0.25%
Loan Amount:	\$ 5,000,000
Amortization (yrs):	25
Loan Term (yrs):	5
Hedge Index Rate:	3.98%
Fixed Rate to Borrower:	6.38%
Approximate ARC Referral Fee:	\$ 51,891

In the 5/25 Structure, 25 basis points equates to ~1% Fee, Paid Upfront!

5Yr UST YTD

4.008% ▼ **-0.148**



CT5 has moved in a 90 basis point range this year.

CT5 rose 43 basis points last week.

Volatility Will Continue

ARC & Bank Profitability





Bank Profitability:

Long-term Relationships, Size, Term, Credit Quality, Non-interest Income

Three Players:

- **Borrower**
- **Lender/RM**
- **Bank**

Goals Of The Borrower

- Stabilize Cash Flows
- Fixed Rate Financing At The Lowest Possible Fixed Rate
- Structuring Creativity
- Maintain Flexibility
- Find Solutions tailored to their portfolio

Observable Pricing

- Traditional Loan: $5\text{yr UST} + 3.00\% = \sim 7\%$
- Hedged Loan:
 - $5\text{Yr Swap Rate} + 2.65\% = 6.38\%$
 - $10\text{Yr Swap Rate} + 2.65\% = 6.51\%$

Indicative fixed rates as of 04/14/25, inclusive of hedge fee



Goals Of The Lender

- Win Every Opportunity
- Maintain/grow outstandings while meeting production goals
- Deepen relationships with target clients – always translates to more business in the future
- ***Pair The Goals Of The Borrower And Bank***



Goals Of The Bank

- Consistent Growth In The CRE Book While Improving Credit Quality
- Attract Strong Demand From Strong Borrowers
- Cross Sell/Deposit Growth From Borrowers
- Fee Income
- Larger Loan Sizes
- Increase Yield in the Loan Portfolio
- Extend Relationships
- Manage Risk
- Mine Opportunities Already In The Portfolio

Long-term Relationships, Size, Term, Credit Quality, Non-interest Income



How Do We Meet These Goals?

ARC Meets The Goals Of The Borrower, Lender AND Bank

- Creates/Extends Long Term Relationships
 - Lowest Possible Fixed Rate
 - Delivers Structural Flexibility
 - Attracts Larger Loan Sizes
 - Fee Income
 - Extends Duration Of Loans
- Best ALM Match For Bank
- Cross Sell To Happier Clients
 - Better Loan Structures => Stickier Relationships => Stickier Deposits

Long-term Relationships, Size, Term, Credit Quality, Non-interest Income

Average Loan Size	\$3,245,254
Weighted-Avg Loan Term (yrs)	6.11
Weighted-Avg Credit Spread	2.47%
Weighted-Avg Fixed Rate	6.48%
Weighted-Avg Hedge Fee	1.11%

As the year progressed and rate expectations settled, borrowers began requesting longer terms to create greater payment certainty.

- *Loan sizes ranged from a low of \$249,000 to a high of \$51,697,000*
- *Spreads ranged from a low of 1.65% to high of 4.38%*
- *Fixed terms ranged from 3 years to 25 years*

Delivering ARC Is Explaining Yield Maintenance



Building Comfort With Borrower's



Goals Of The Borrower

- Stabilize Cash Flows
- Fixed Rate Financing At The Lowest Possible Fixed Rate
- Structuring Creativity
- Maintain Flexibility
- Find Solutions tailored to their portfolio

Observable Pricing

- Traditional Loan: $5\text{yr UST} + 3.0\% = \sim 7\%$
- Hedged Loan: $5\text{Yr Swap Rate} + 2.65\% = 6.38\%$
 $10\text{Yr Swap Rate} + 2.65\% = 6.51\%$

Indicative fixed rates as of 04/14/25, inclusive of hedge fee

From the Borrower's perspective, not all “swaps” are created equal.

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



Symmetrical Yield Maintenance: Maximizing Value for Borrowers

Initial Balance:	\$5,000,000
Commitment Term:	5 years
Amortization Term:	25 years
Initial Hedge Rate:	3.98%
Credit Spread:	2.40%
Fixed Rate to Borrower:	6.38%

Symmetrical yield maintenance allows borrowers to protect cash flow with a fixed rate of interest. At the time of prepayment, the borrower may move the rate to a new property or project (subject to bank credit approval). Alternatively, the borrower may pay or collect a breakage fee if the facility is no longer needed.

Remaining Term	Prepayment Hedge Rate vs. Initial Hedge Rate						
	-75 bps	-50 bps	-25 bps	0 bps	+25 bps	+50 bps	+75 bps
5 years	(165,184)	(109,468)	(54,410)	-	53,768	106,903	159,413
4 years	(135,159)	(89,665)	(44,614)	-	44,180	87,932	131,258
3 years	(101,941)	(67,708)	(33,728)	-	33,478	66,708	99,691
2 years	(68,239)	(45,377)	(22,631)	-	22,517	44,919	67,208
1 years	(34,276)	(22,820)	(11,395)	-	11,365	22,699	34,004

\$66,708 If the loan is prepaid with 3 years remaining and the prevailing 3-year hedge rate is 0.50% higher, the borrower will collect a fee*.

(\$67,708): If the loan is prepaid with 3 years remaining and the prevailing 3-year hedge rate is 0.50% lower, the borrower will pay a fee*.

We created a video Borrowers can watch for a full explanation – see the new QR code in our Borrower Presentations



- Partial prepayments are calculated using the same method, on a proportional basis.



Note that this prepayment provision is in line with a borrower's motivation for fixed rate protection and holding period. And if rates rise the borrower will collect a fee upon partial or full prepayment.



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

Hedge Fees



Hedge Fee Income Is Highly Valued By Banks

In the 5/25 Structure, 25 basis points equates to ~1% Fee, Upfront!

Fee:	0.25%
Loan Amount:	\$ 5,000,000
Amortization (yrs):	25
Loan Term (yrs):	5
Hedge Index Rate:	3.98%
Fixed Rate to Borrower:	6.38%
Approximate ARC Referral Fee:	\$ 51,891

Every \$10 million in ARC loans originated can create \$100,000 in fee income in 5yr equivalent tenors

Pricing In The Current Environment



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



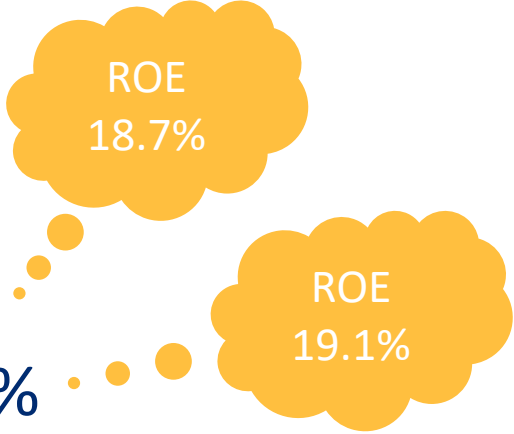
Observable Pricing

- Traditional Loan:
- Hedged Loan:

5yr UST + 3.0% = ~7%

5Yr Swap Rate + 2.65% = 6.38%

10Yr Swap Rate + 2.65% = 6.51%



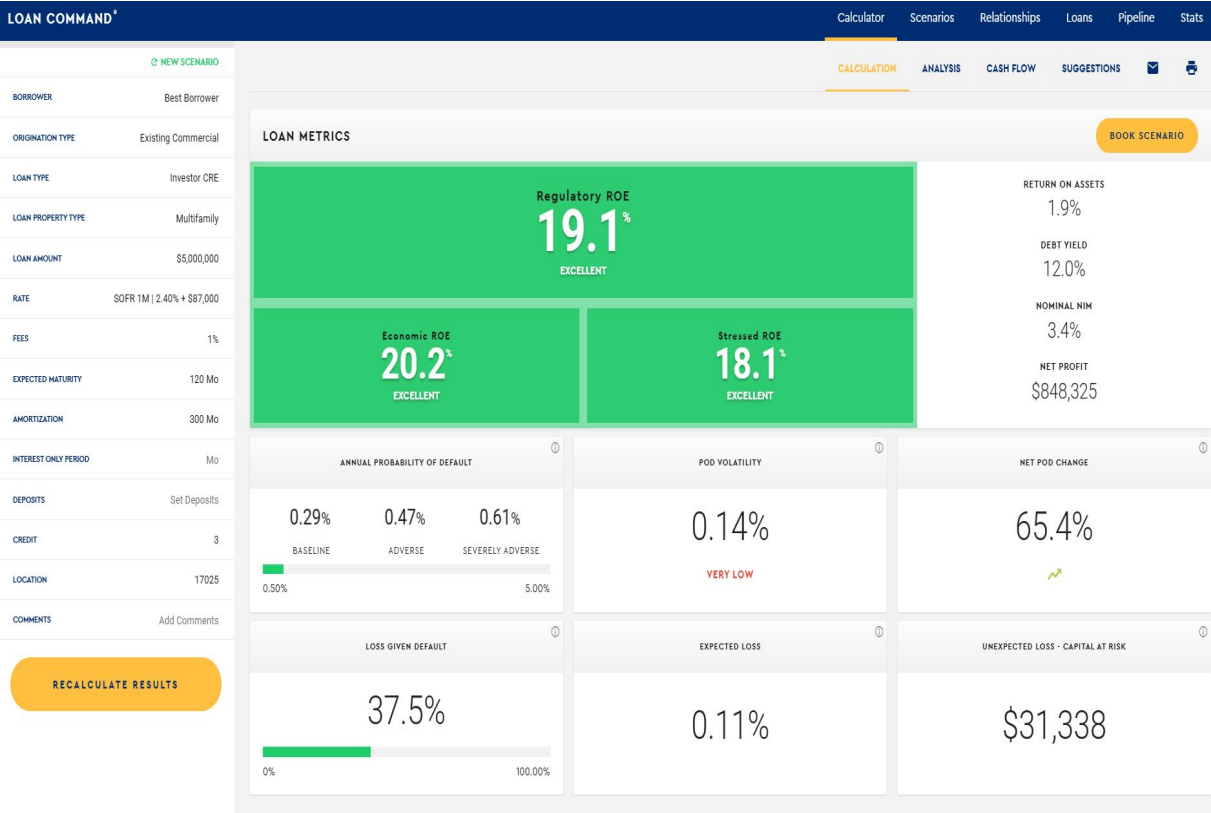
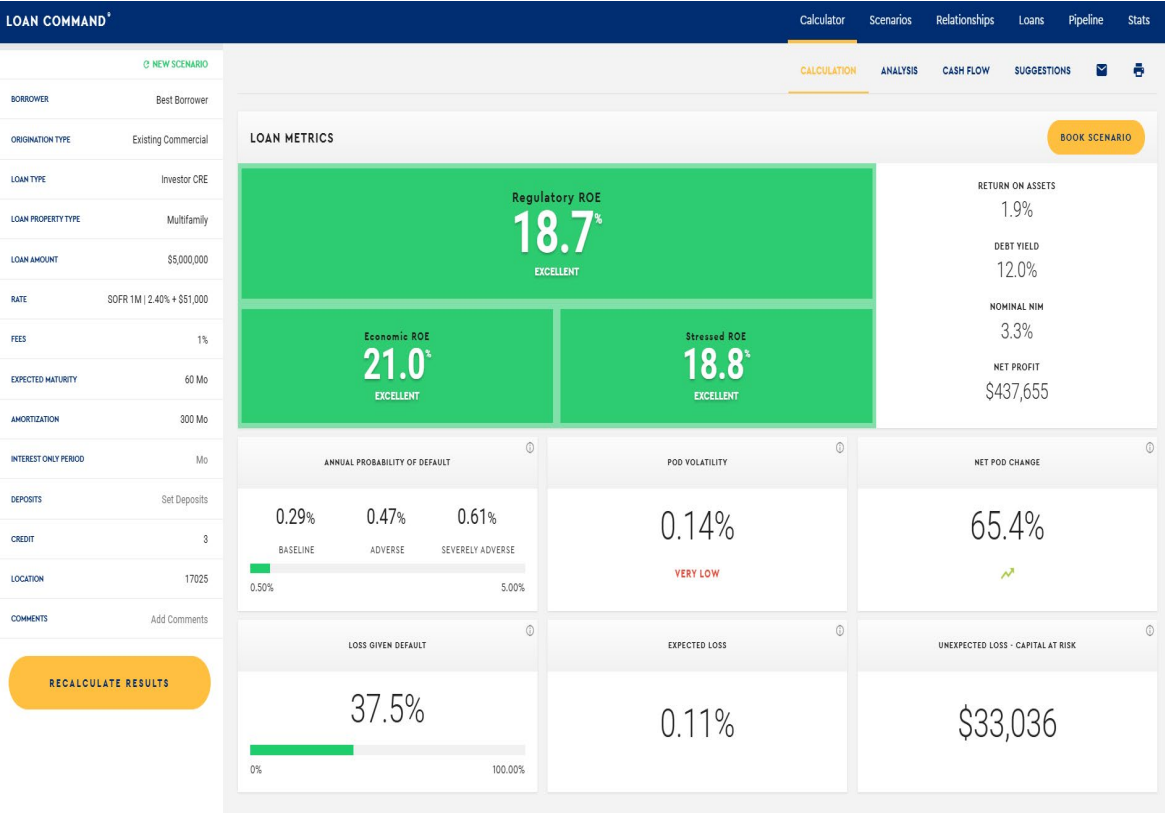
ROE
18.7%

ROE
19.1%



The Loan Command Model

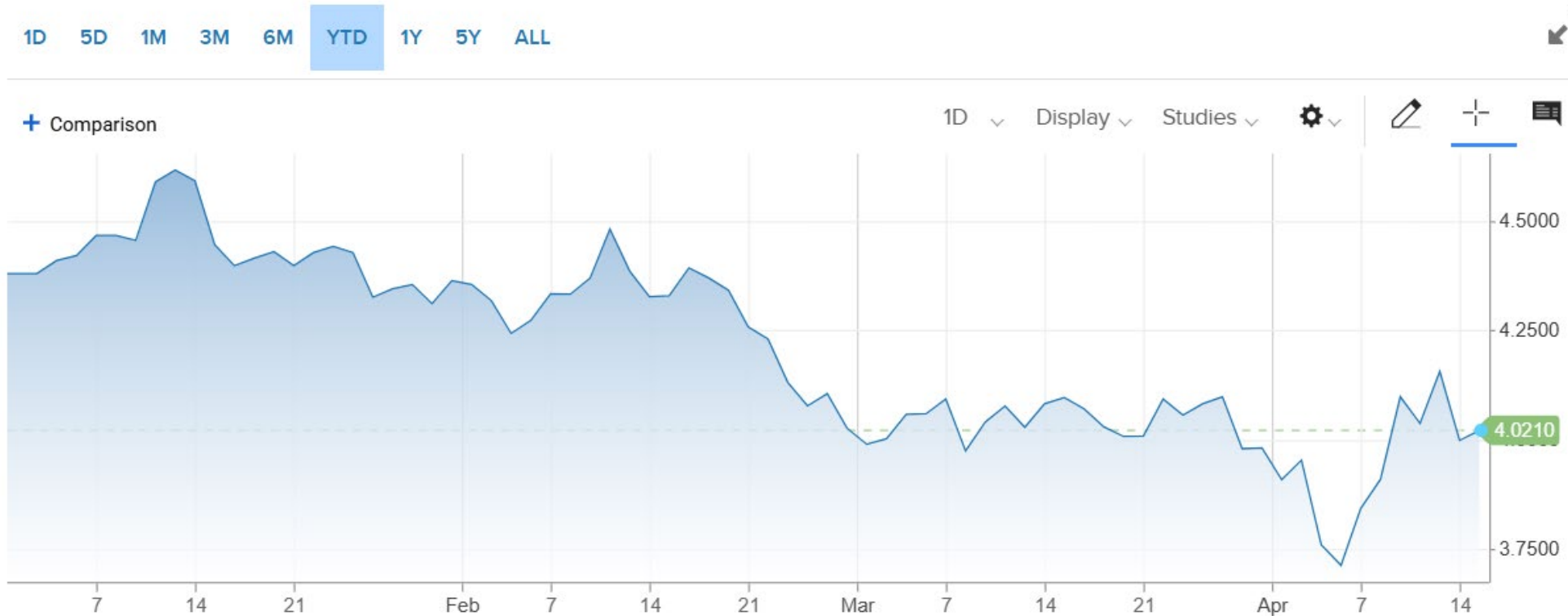
5Y & 10Y Loans, SOFR + 2.40% Plus 25 Basis Point Hedge Fee



app.loancommand.com

5Yr UST YTD

4.008% ▼ **-0.148**



CT5 has moved in a 90 basis point range this year.

CT5 rose 43 basis points last week.

What hasn't moved?

Volatility Will Continue

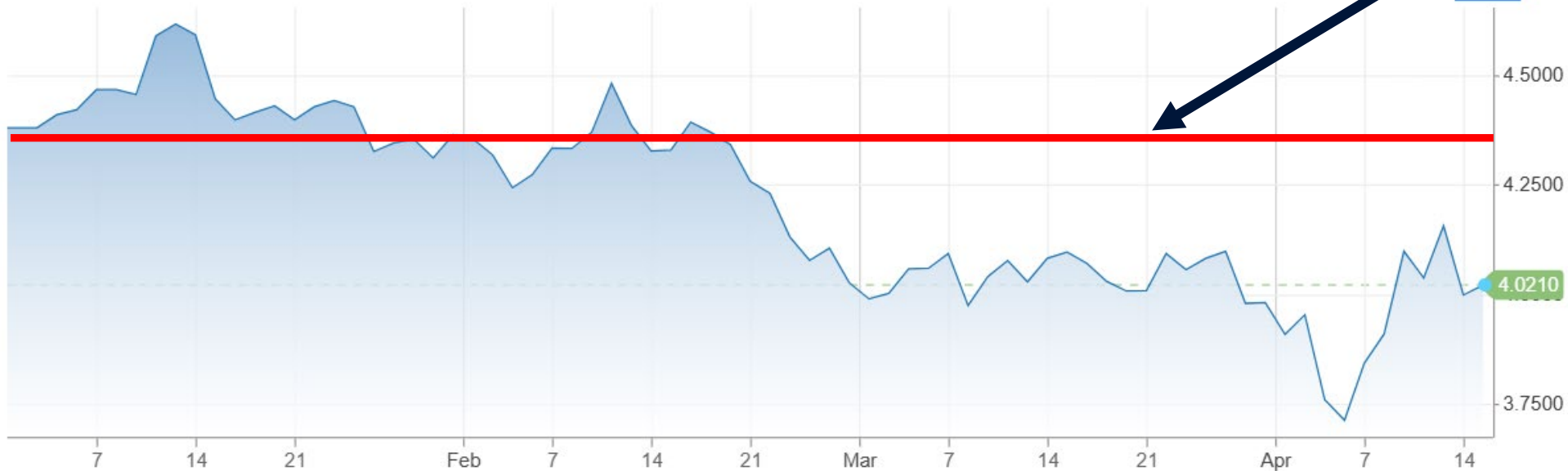
5Yr UST YTD vs 1M SOFR

4.008% ▼ **-0.148**

1D 5D 1M 3M 6M **YTD** 1Y 5Y ALL

+ Comparison

1D Display S



**1m Term SOFR:
~95% Correlated
With Bank COF**

CT5 has moved
in a 90 basis
point range this
year.

CT5 rose 43
basis points last
week.

What hasn't
moved?

Don't Take Interest Rate Risk In The Loan Portfolio

Observable Pricing

- Traditional Loan: 5yr UST + 3.0% = ~7%
- Hedged Loan: 5Yr Swap Rate + 2.65% = 6.38%
10Yr Swap Rate + 2.65% = 6.51%



ROE
18.7%

ROE
19.1%

Ask Yourself: If It Takes 6.38% To Win, Do I Want To Write That Traditional, or ARC?

Challenges



Building Comfort With Borrower's





Challenges For The Bank

- Use ARC Offensively
 - Best Prices For Best Clients & Prospects
 - Larger Loan Sizes
 - Fee Income
 - Maintain Pricing Discipline
 - Motivate Lenders On Which Products To Sell
 - Demand Cross Sell/Deposit Growth From Borrowers
 - Manage Toward Extending Relationships
 - Don't Take Interest Rate Risk In The Loan Portfolio
 - Mine opportunities already in the portfolio
- Long-term Relationships, Size, Term, Credit Quality, Non-interest Income**

ARC Marketing Solutions

Let our marketing team equip your team with everything you need to market the ARC Program, explain how it works, and close more loans.



ARC Landing Pages



Custom Email Campaigns



Borrower Testimonials



Digital Ads



2-Minute Explainer Video



Direct Mail



Custom One-Pager



Russ Smith Managing Director 917 324 6641 rsmith@SouthStateBank.com

ARC Group (26 team members) 800 481 2443 ARC@SouthStateBank.com

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 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 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 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.

