



2008 Annual Development Banking Conference
November 6-7, 2008

**Recent Experiences in Credit, Interest Rate
and Liquidity Risk Management**
10:00 am – 11:00 am

Moderator: William Dana, Jr.
President & Chief Executive Officer, Central Bank of Kansas City

Panelists: Wilbur McKesson
Chief Lending Officer, Broadway Federal Bank, CA

David Oser
Chief Economist & Investment Officer, ShoreBank, IL

November 7, 2008 www.ncif.org

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Restructured Debt

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5 Key Components

- Communication
- Cooperation
- Documentation
- Validation
- Analysis

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Examples

Current Loan: Single Family Residence (SFR), 3 year ARM/6 mo adj

- Origination Info
 - Balance \$908,100.00
 - Interest Rate 7.875%
 - P&I \$6,584.36
 - 30 year loan term (360 months)
 - Property Value \$1,250,000.00

Delinquent Loan: Church, Unsecured Equity Line of Credit & 5 year ARM/6 mo adj

- Origination Info ELOC
 - Balance \$15,000.00
 - Interest rate 9.750%
 - 2 month loan term
 - Interest Only payment
 - Term extended to 06/01/2008
- Origination Info ARM
 - Balance \$860,000.00
 - Interest rate 7.370%
 - 30 year loan term (360 months)
 - Property Value \$1,945,000.00
 - DSCR 2.81

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Communication

Current Loan:

- Borrower contacted Broadway to advise of reduced income
- Advised that unable to continue making payment

Delinquent Loan:

- Contact was made by Broadway through collection calls
- Advised of reduced income
- Advised of intentions for property

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Cooperation

Current Loan:

- Kept loan current
- Provided updated financials and bank statements
- Available for inspections as well as appraisal
- Reduce expenses

Delinquent Loan:

- Provided updated financials and bank statements
- Brought loan current as good faith and deposit for mod
- Available for inspections as well as appraisal
- Reduce expenses

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Documentation

Current Loan & Delinquent Loan:

- Updated Financials
- Most recent bank statements
- Origination Financials
- Original Loan File

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Validation

Current Loan & Delinquent Loan:

- Validate expenses
- Property Value
- Validate reduced income
- Validate loan status
- Original Loan Terms

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Analysis

Current Loan & Delinquent Loan:

- Calculation of Debt to Income
- Affordability calculation based on documentation
- Sustainability factor
- Cost if liquidated
- Analysis reflects a 2.63 DSCR after consolidation of two delinquent loans.

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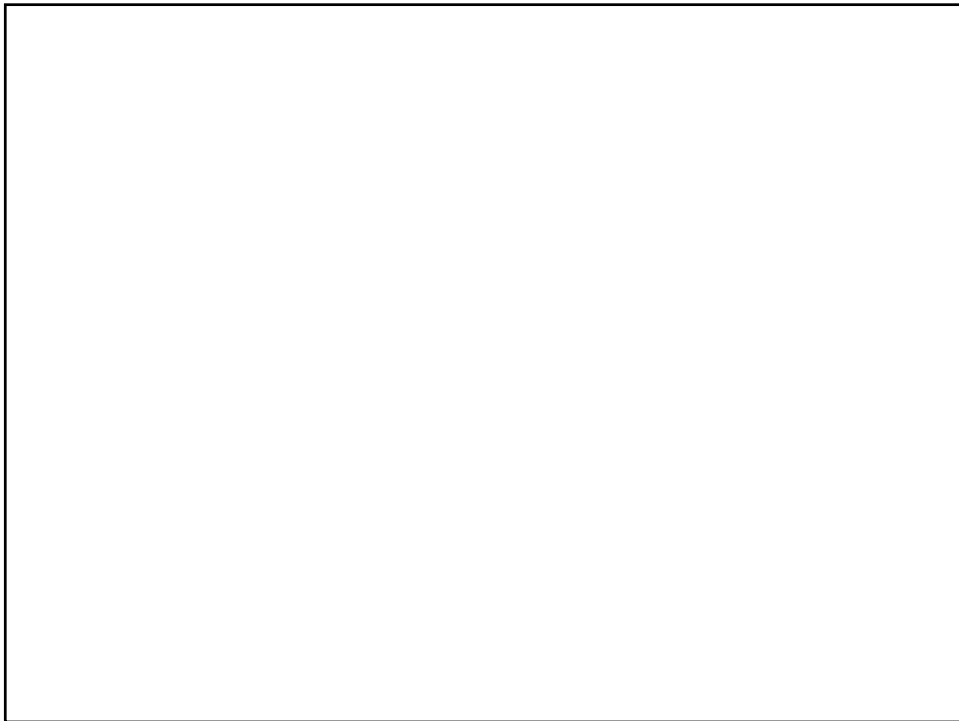
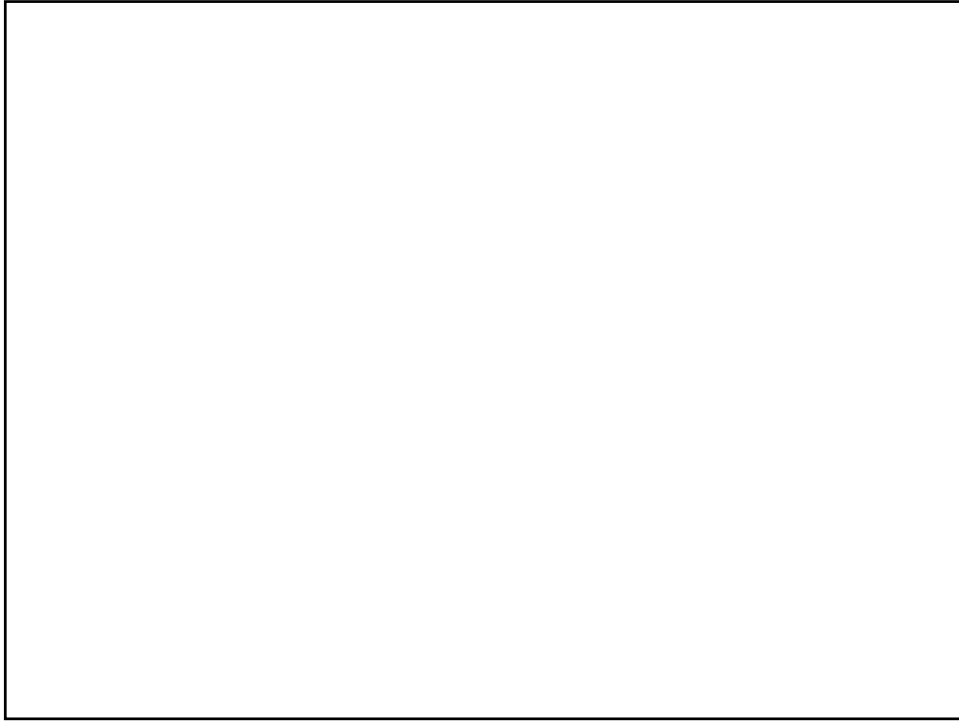
Resolution

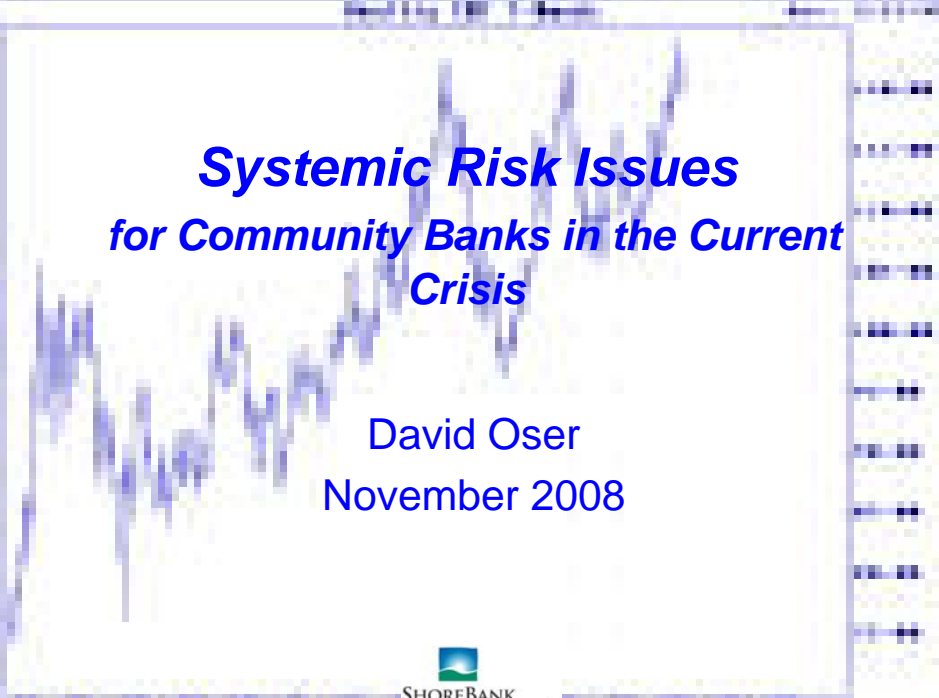
Current Loan

- Reduced interest rate from 7.875% to 6.750%
- Extended loan term from 30 year to 40 year
- Reamortized payment based on new terms, which reduced the payments from \$6,584.36 to \$5,468.08.

Delinquent Loan:


- Add ELOC balance of \$15,000 to existing ARM loan
- Amortized total balance with remaining term, which resulted in a fully amortized payment of \$6,048.62





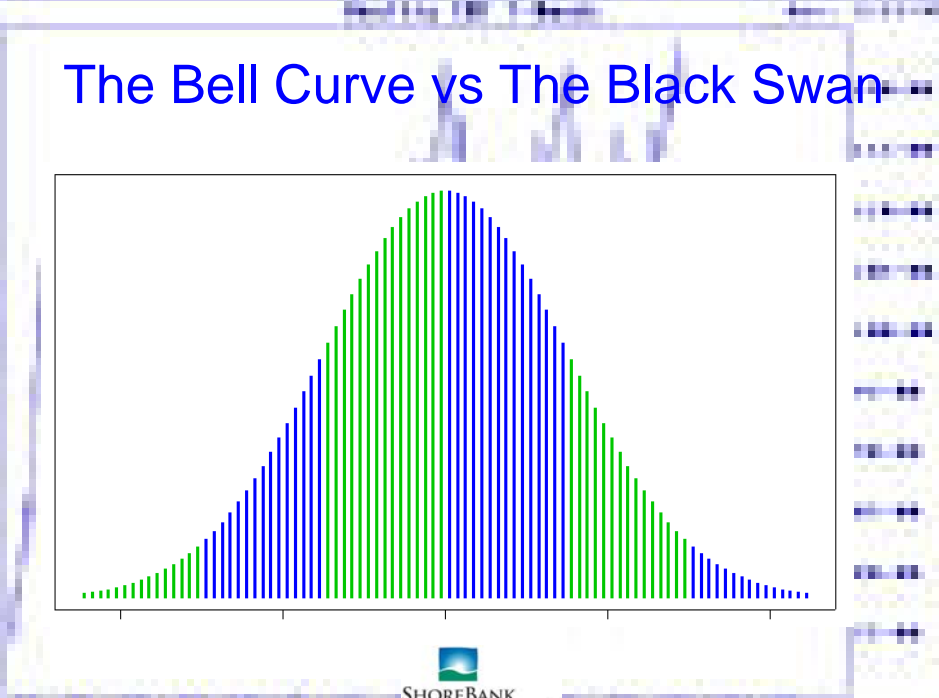
**Systemic Risk Issues
for Community Banks in the Current
Crisis**

David Oser
November 2008




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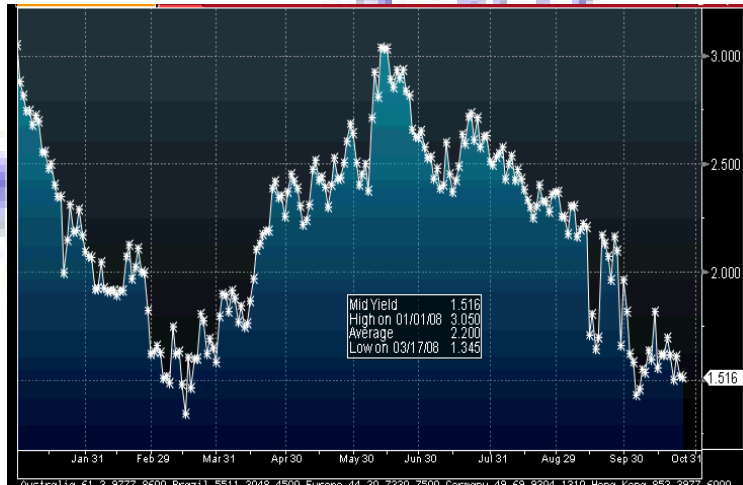
The Bell Curve vs The Black Swan



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The background of this slide features a histogram with a white background and a blue border. The histogram consists of many thin vertical bars that form a smooth, bell-shaped curve. The bars are colored in a gradient from green on the left to blue on the right. The text is centered over the histogram.

Interest Rate Volatility: Daily Closing Two-Year T-Note Yield 2008 Y-T-D



Interest Rate Volatility: Daily Closing Two-Year T-Note Yield 1980



The Investment Landscape

- Treasuries are detached from spread product
 - 200+ bp OAS in Agency debentures
 - MBS/Treasury spreads gapped out
- Some markets have collapsed
 - Evaporation of Prime Whole Loan CMO market
 - Freeze up of Agency CMO market
- Government actions cause confusion
 - GNMA/FNMA MBS spreads collapsed

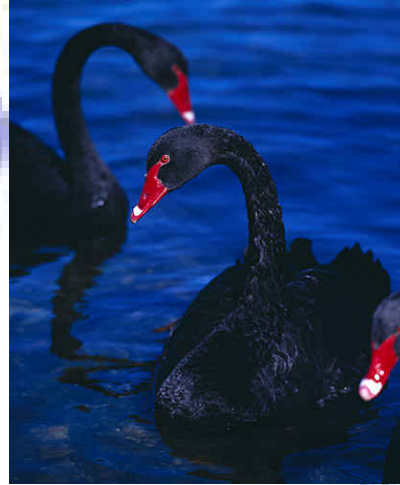
Munis: The Monoline Implosion

Insurer Ratings at a Glance

	Moody Investor Services	Standard & Poor's	Fitch Ratings
Financial Security Assurance	Aaa Stable Outlook	AAA Stable Outlook	AAA Stable Outlook
Assured Guaranty Corp.	Aaa Stable Outlook	AAA Stable Outlook	AAA Stable Outlook
Berkshire Hathaway Assurance Corp.	Aaa Stable Outlook	AAA Stable Outlook	Not Rated
Radian Asset Assurance	Aa3 Negative Outlook	A Negative Watch	Rating withdrawn
AMBAC Assurance Corp.	Aa3 Negative Outlook	AA Negative Outlook	AA Negative Outlook
MBIA Insurance Corp.	A2 Negative Outlook	AA Negative Outlook	AA Negative Outlook
SCA (XL Capital Assurance)	B2 Negative Outlook	BBB- Negative watch	BB Negative Outlook
Financial Guaranty Insurance Corp.	B1 Negative Outlook	BB Negative Outlook	BBB Negative Outlook
CIFG Assurance North America Inc.	Ba2 Negative Outlook	A- Negative Outlook	CCC Negative Outlook
ACA Financial Guaranty Corp.	Not Rated	CCC Developing Watch	Not Rated

Some Random Black Swans

- Fannie/Freddie Preferred Stock vs Sub Debt
- Lehman collapses, Reserve Fund breaks the buck, Treasury guarantees money market funds
- Privately-owned banks & CPP



Funding - Wholesale CDs

- Spike in brokered CD rates in 2007 as big banks entered the market
- Rates have come back in somewhat with heightened demand, but are still high
- Higher rates on wholesale CDs for banks with lower IDC ratings
- Callable CDs swapped to LIBOR floating have become ultra-expensive due to higher volatility



Funding - Unsecured

- Correspondent banks decreasing the number of consecutive days fed funds can be purchased
- Regulatory concern is increasing: “If you have an unsecured borrowing line, it won’t be there when you need it.”



Funding - Secured

- Bigger haircuts on reverse repos
- FHLB tightening restrictions on collateral
- Public funds availability may be reduced as tax revenues decline



Takeaways: A Dual Mandate for CDFIs

- A Strong Balance Sheet:
 - You can't have too much liquidity
 - You can't have too much capital
- Be Part of the Solution
 - Keep the supply of credit flowing



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