

RECENT NEWS

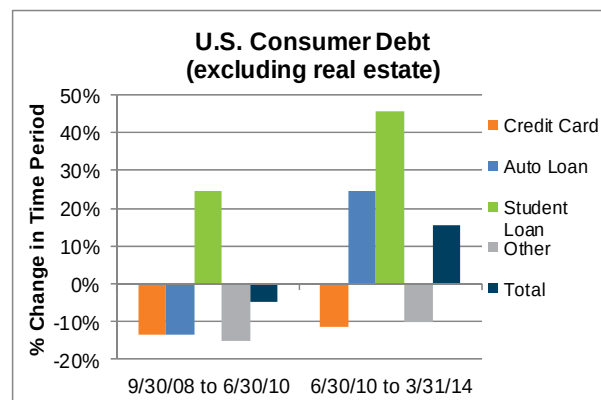
Weak Economy Continues to Constrain Borrowing

Consumer borrowing has seen several changes since the Great Recession. Banks and consumers are showing prudence with declining new mortgages and credit card debt, with balances at the lowest levels since 2002. However, student loans grew dramatically over the past several years; including the period from September 30, 2008, until June 30, 2010, when other consumer loans were declining. Additionally, demand for automobile loans has increased over the last four years.

With these changes, available credit lines for credit cards and revolving home equity loans declined by 24% and 26%, respectively, since the third quarter of 2008. New mortgage originations have also been strained recently, with rising home prices partially to blame. This has placed homeownership out of reach amongst many young adults in America who are strapped with student loan debt and limited established credit. Furthermore, construction on starter homes and new single-family house sales were 4.2% below from the previous year, as more college graduates are living at home after graduation. The Senior Loan Officer Survey from the Federal Reserve Board affirms these findings, with banks citing consumers' preference for lower debt levels and 2009's Credit Card Accountability Act as factors constraining growth.

With stagnant wages and elevated unemployment, consumers' lack of trust in the recovery is causing weak demand for credit. This has continued implications on the economy as personal consumer spending accounts for two-thirds of Gross Domestic Product (GDP). In order to reverse these trends, banks may be forced to loosen credit standards and lend to less creditworthy borrowers. Some banks have already reported easing standards on both automobile and credit cards, potentially leading to riskier bank balance sheets.

Sources: Federal Reserve, SNL Financial, Wall Street Journal



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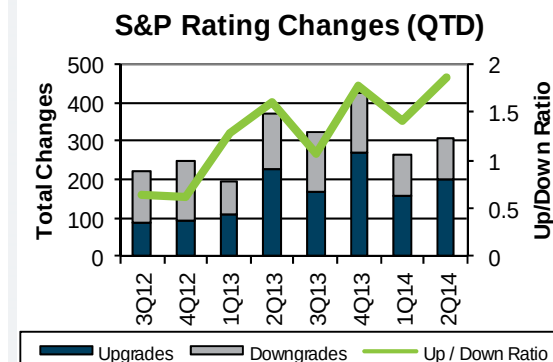
CREDIT TRENDS

S&P RATING CHANGES

The number of Standard & Poor's U.S. rating changes and the ratio of upgrades to downgrades.

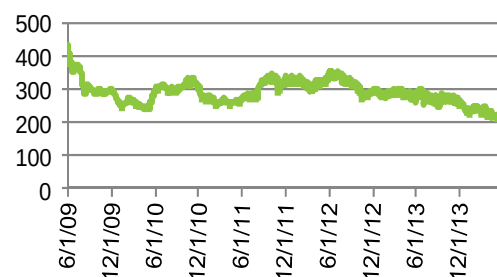
U.S. CORPORATE SPREADS

The spread between U.S. 10-year Moody's Baa-rated corporate bonds and 10-year U.S. Treasuries.



Source: Bloomberg

U.S. Corporate Spreads (10Yr)



BANK FAILURES

2014	9
Illinois	2
Maryland	1
Ohio	1
Pennsylvania	1
South Carolina	1
Virginia	1
2013	24
Florida	4
Arizona	3
Georgia	3
North Carolina	2
Tennessee	2

Source: Federal Deposit Insurance Corporation (FDIC)

BANKING TRENDS

1st Quarter 2014 Highlights

FDIC insured institutions reported a 7.6% decline in net income compared with the first quarter of 2013. This is only the second time in the last 19 quarters that the industry has reported a year-over-year decline in quarterly earnings. Lower noninterest income, reflecting diminished mortgage revenue, declining trading income and a one-time gain that inflated year-ago results was the main reason for the decline. The decline in noninterest income was led by a 53.6% drop in income from mortgage sales, securitization and servicing. The rise in 2013's interest rates resulted in decreased demand for mortgage refinancings. The largest positive contribution to the change in earnings came from reduced loan-loss provisions, with the first quarter of 2014 being the 14th consecutive quarter that provisions have declined year over year.

Asset quality continued to improve in the first quarter, as chargeoffs fell for the 15th consecutive quarter, to the lowest quarterly total since the second quarter of 2007. Noncurrent loan and lease balances improved in all major loan categories, led by residential mortgage loans, real estate loans secured by nonfarm and nonresidential properties and real estate construction and development loans. This is the first time since the third quarter of 2008 that noncurrent balances have been below \$200 billion.

During the 1st quarter, mergers absorbed 74 institutions and five institutions failed. No new banks were added. The number of institutions on FDIC's "Problem List" declined from 467 to 411. The problem list fell to less than half the recent peak.

Source: FDIC: Quarterly Banking Profile

PRUDENT MAN PROCESS

The Prudent Man Analysis

The Prudent Man Process includes four steps which begin with gathering data and analyzing a bank's credit quality and continues with ongoing risk management throughout the life of a deposit. The process helps public funds investors avoid repayment, reinvestment and reputation risk that may be associated with a bank failure.

STEP 3: ASSIGN PMA RATING AND DEPOSIT LIMITS

After all of the data has been gathered and analyzed, each bank is rated on a scale of 1 to 5 (with 1 being the highest and 5 being the lowest). Deposit limits such as day limits on the term for an individual deposit and aggregate dollar limits on deposits per bank are also applied.

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The PMA rating reflects PMA's opinion of a bank's complete financial profile. The firm believes current financial performance alone often does not tell the entire story of a bank's risk profile. Banks currently displaying strong performance may hold exceptionally high levels of risk. Conversely, some currently underperforming banks may hold acceptable levels of risk and represent a prudent investment for public funds. A thorough understanding of the banking industry and a detailed knowledge of each bank enable PMA to make informed judgments of the creditworthiness of each bank within PMA's network.

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