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RECENT NEWS

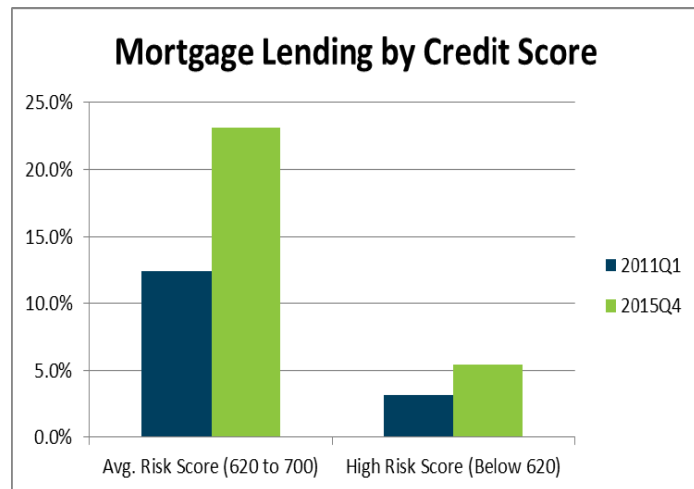
Banks Increase Yield through Subprime Mortgage Opportunities

In the years leading up to the financial crisis, banks were aggressively offering underqualified borrowers easy access to mortgages and requiring little to no income or asset verification. Eventually, these weak credit standards caught up to the banks. After the 2008 housing market crash, banks tightened lending criteria, requiring higher credit scores and employment documentation from their borrowers. With time passing since the financial crisis, the pendulum is swinging back and banks are once again loosening their risk management criteria and offering subprime mortgages in hopes of boosting their bottom lines.

Regulators are beginning to notice these changes in lending standards as well. In the 2015 Survey of Credit Underwriting Practices by the Office of the Comptroller of Currency (OCC), "Underwriting standards eased at a significant number of banks for the three-year period from 2013 through 2015. This trend reflects broad trends similar to those experienced from 2005 through 2007." Additionally, Equifax, one of the three largest American credit agencies, reported that borrowers with a credit score below 620 (the score widely considered to be subprime) increased to 5.4% of first mortgage lending in the fourth quarter of 2015, up from 3.2% in the first quarter of 2011.

While these trends may be concerning, regulators feel the banking industry is better prepared overall for the next economic decline. According to the OCC Comptroller Thomas Curry, banking industry strengths include "higher industrywide capital levels, improved liquidity and more robust loss provisioning."

Sources: Equifax, Inc., Office of the Comptroller of Currency, Wall Street Journal

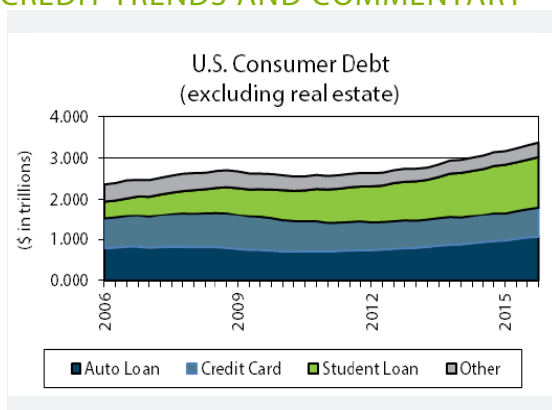


Source: Equifax, Inc.

CREDIT TRENDS AND COMMENTARY

U.S. CONSUMER DEBT:

Total outstanding debt by loan type in trillions of dollars, excluding debt secured by real estate.



Source: Federal Reserve Board of New York

U.S. Consumer Debt has been increasing for the last several years, with the largest growth coming from student loan debt, which has increased over 200% over the last ten years as college costs continue to increase rapidly. Credit card borrowing has remained relatively flat since 2008, when borrowers began to pay off their balances quicker, likely due to financial uncertainty. Auto lending has increased by 47% since the 4th quarter of 2009.

PROFITABILITY

2015	90.8%
2014	89.9%
2013	87.0%

Percentage of banks
generating positive 4th quarter
earnings

Source: SNL Financial

BANKING TRENDS

4th Quarter 2015 Highlights

FDIC-insured institutions earned \$40.8 billion for the fourth quarter of 2015, an increase of 11.9% over the prior year period. More than half of all banks reported a year over year increase in quarterly net income. The proportion of banks that were unprofitable in the fourth quarter fell from 9.9% a year earlier to 9.1%, the lowest level for a fourth quarter since 1996. Community banks' earnings increased 4% over the previous year-end, with over 55% reporting an improvement in earnings from the year before.

Net loan and lease charge-offs totaled \$10.6 billion in the fourth quarter, increasing 7% from the prior year period. This is the first year over year increase in quarterly charge-offs in 22 quarters. Net chargeoffs of commercial and industrial loans increased by 43.4%, as lower oil prices adversely affected energy sector borrowers.

The fourth quarter saw the total number of banks fall from 6,270 to 6,182, due to 81 institutions merging and two bank failures. The number of insured institutions on the FDIC's "Problem List" declined from 203 to 183. Total assets at problem institutions fell from \$51.1 billion to \$46.8 billion. For all of 2015, there were 305 mergers of insured institutions, one new charter was added, and eight total banks failed.

Source: FDIC: Quarterly Banking Profile

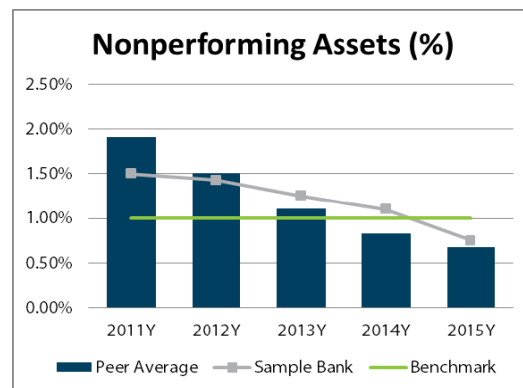
PRUDENT MAN PROCESS

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 2: Data Analysis - Quantitative

Nonperforming assets include nonaccrual loans and repossessed assets. Loans are considered non-accruing when full payment is not expected and repossessed assets are typically assets owned as a result of a foreclosure. Deteriorating asset quality, especially relative to peers, indicates that a bank may be operating with an above average risk profile. Nonperforming assets is graphed to compare a bank to historical trends, bank peers and performance benchmarks.



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