

Balance Sheet Management & Your Loan Portfolio

April 13, 2012

Agenda

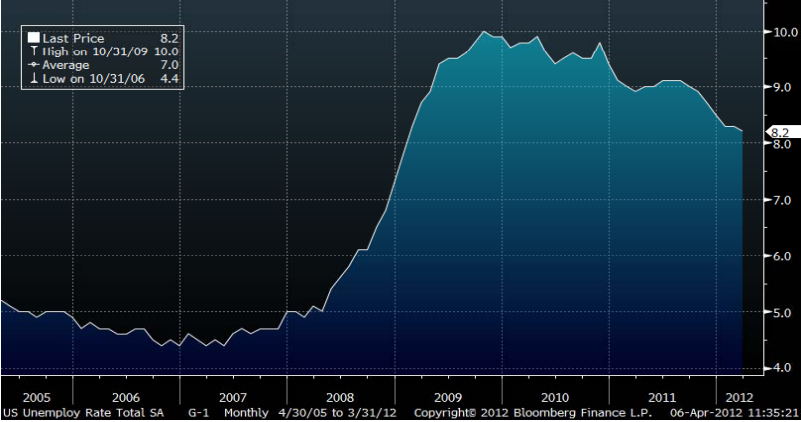
- Banking & Economic Environment
- Loan Portfolio Commentary
- Loan Acquisitions
- Loan Dispositions

Banking Environment

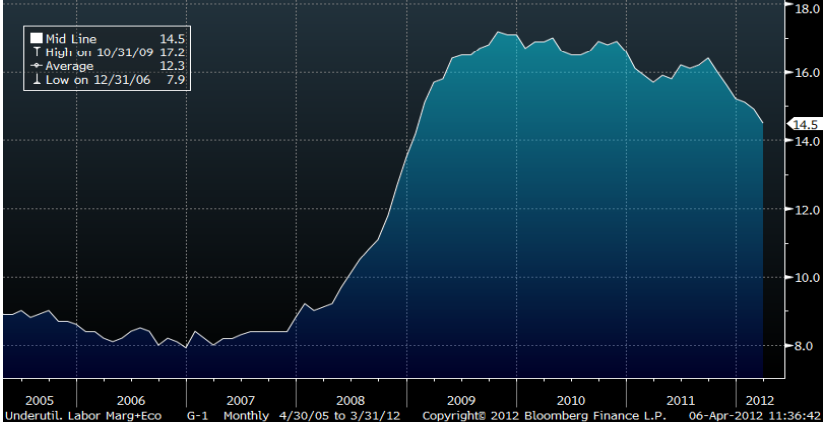
- Capital positions have been strengthened for most
- Continued Regulatory pressures
- Profitability has returned for most, but still not to past levels
- Lack of loan demand
- Problem asset management
- Equity capital, for those that need it, is hard to find/stomach

Economic Environment

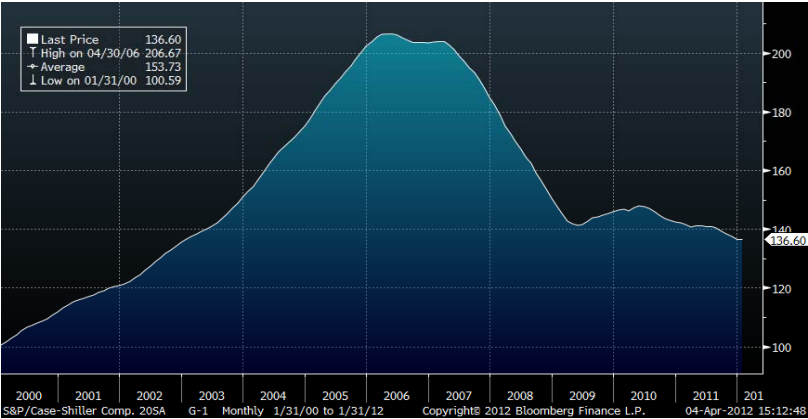
Unemployment Rate



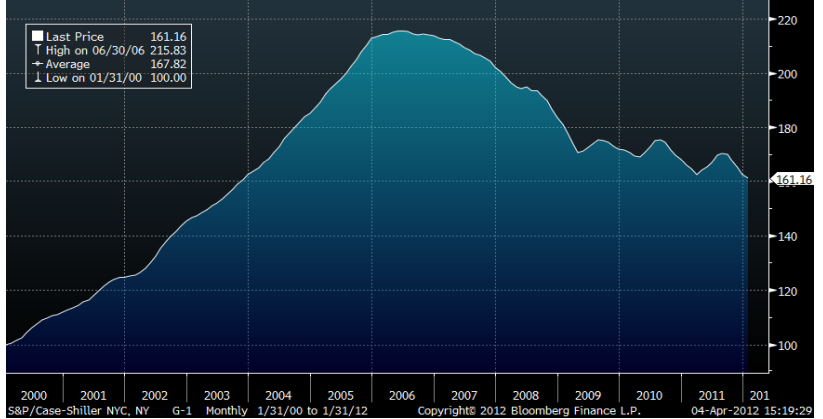
Underemployment Rate



Case Shiller Index

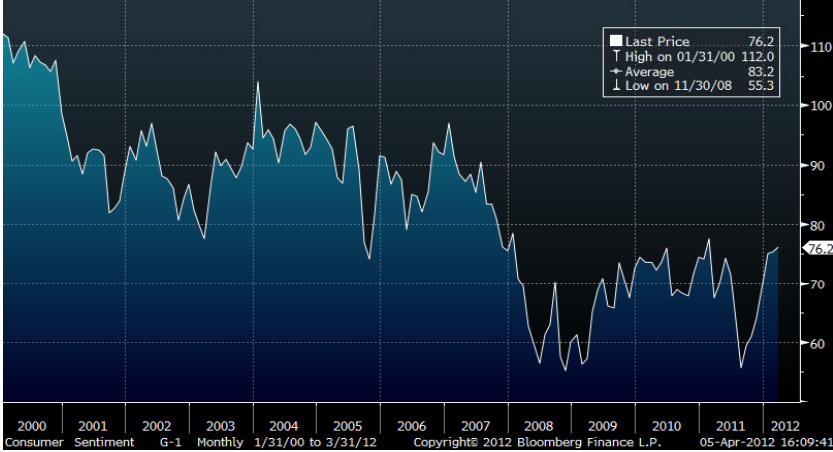


Case Shiller – NY Area

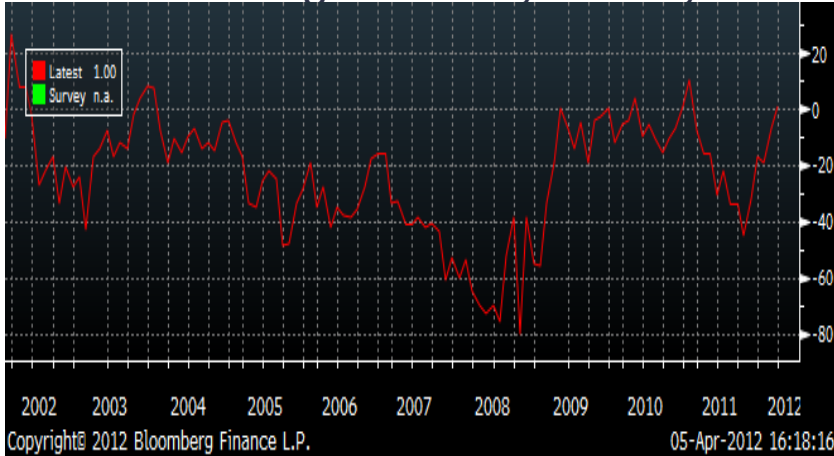


Economic Environment

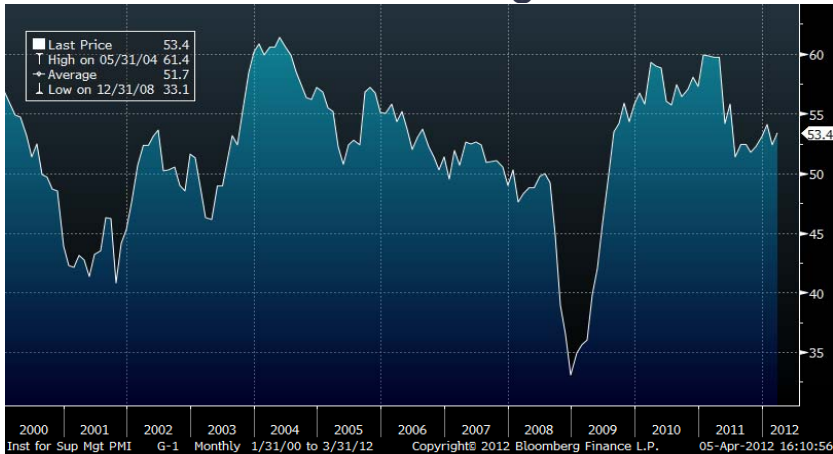
Consumer Confidence



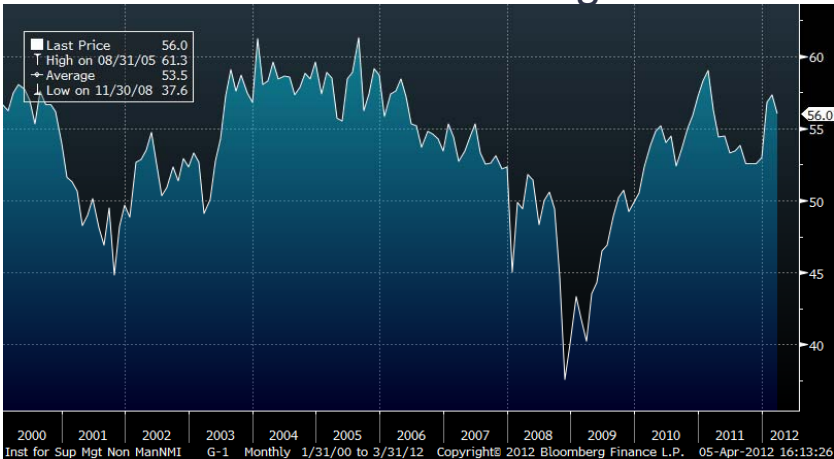
Bloomberg Economy Survey



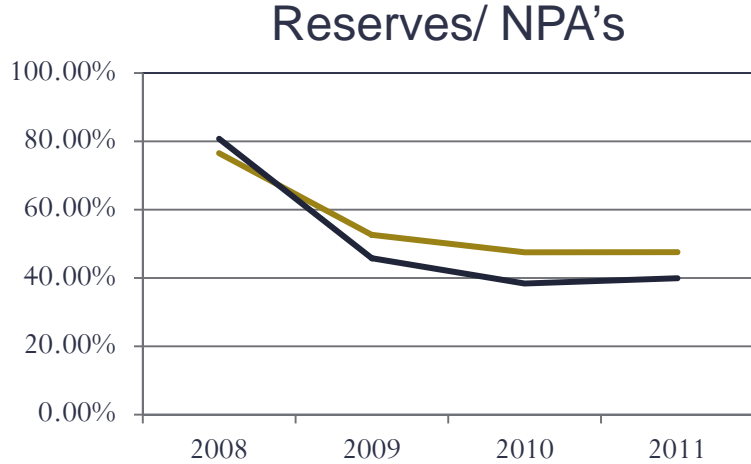
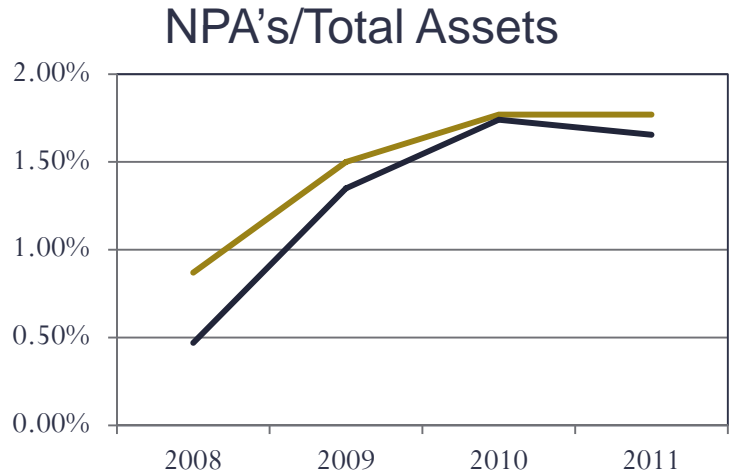
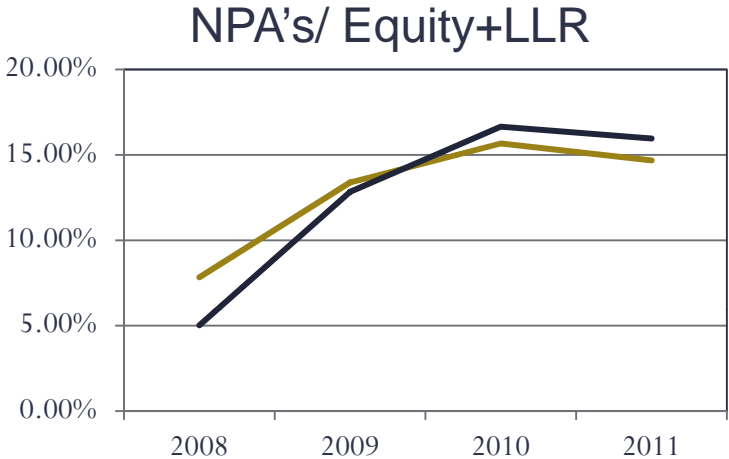
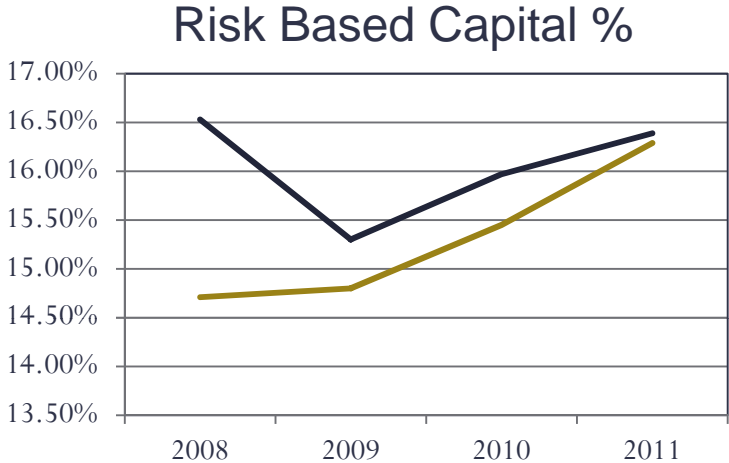
ISM Manufacturing Index



ISM Non Manufacturing Index



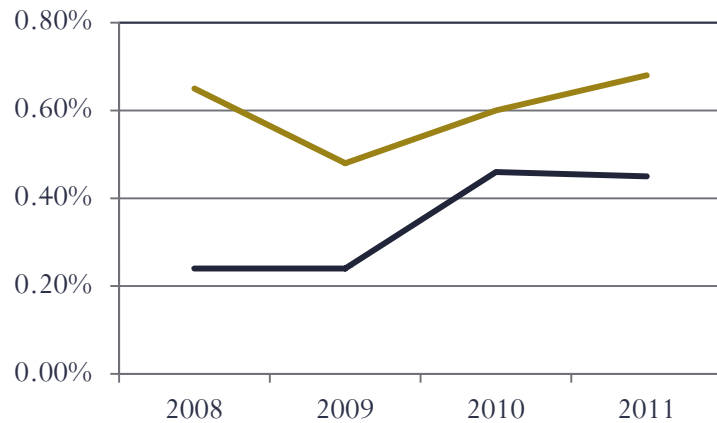
Banking Environment – Capital & Credit



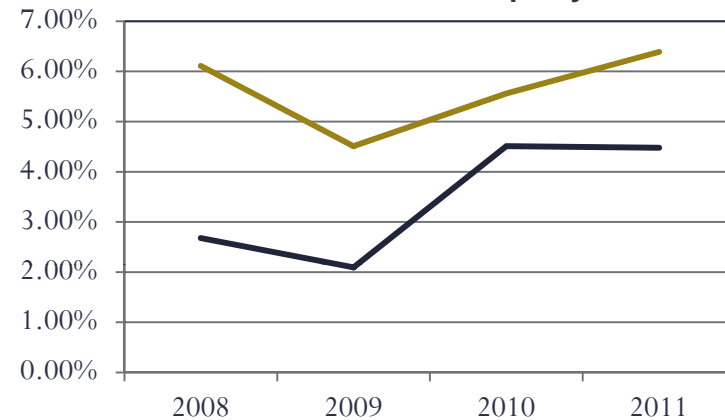
Key: — Nationwide — New Jersey

Banking Environment – Performance

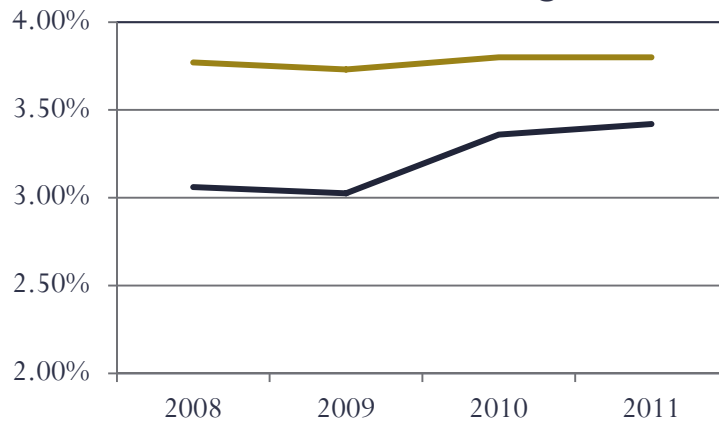
Return on Assets



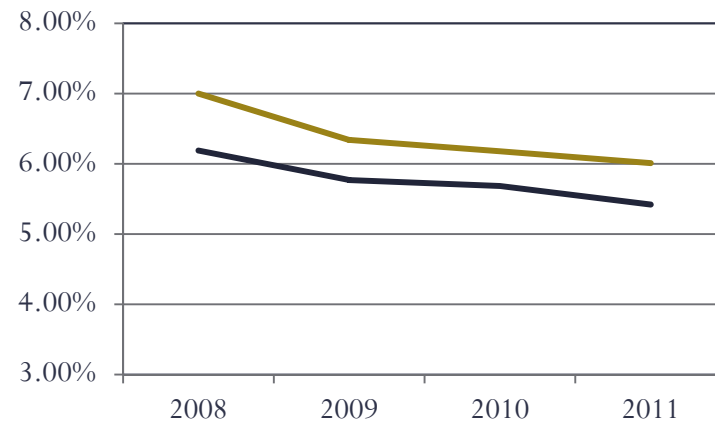
Return on Equity



Net Interest Margin



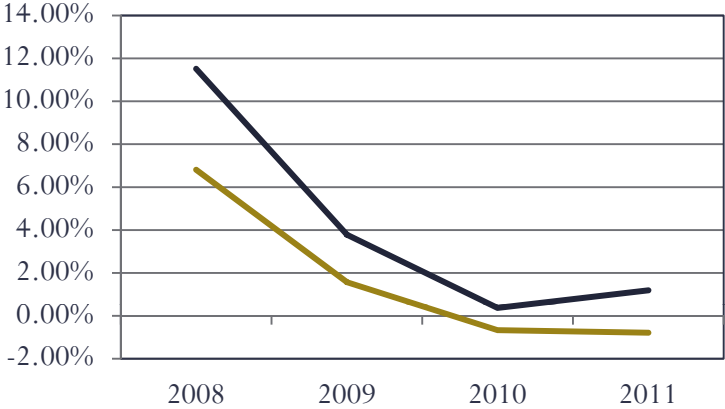
Yield on Loans



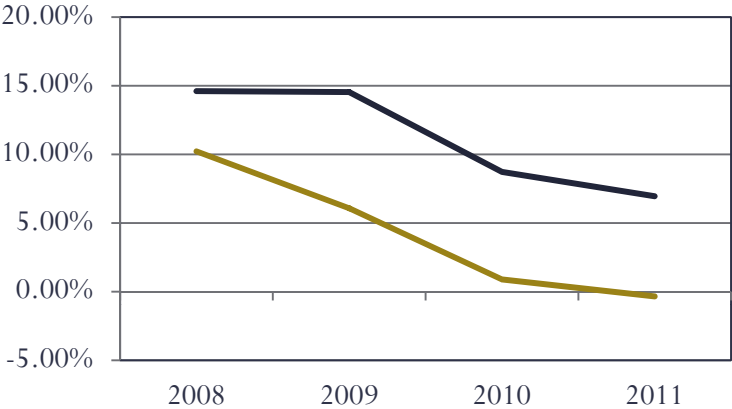
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Banking Environment – Loans

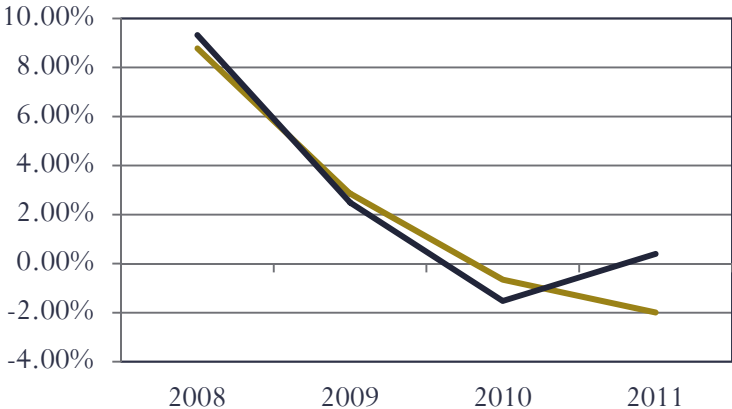
Total Loan Growth



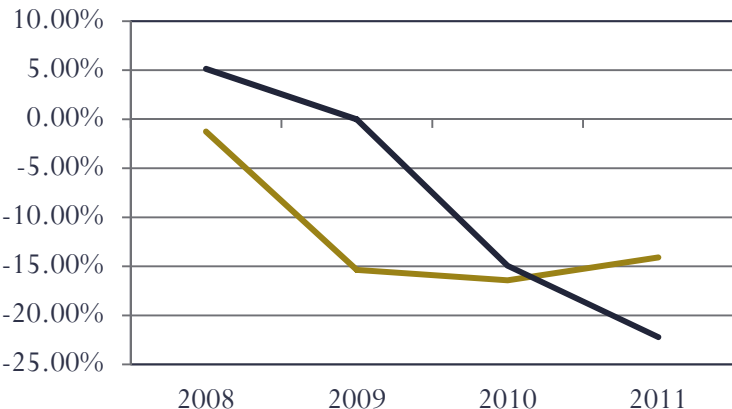
CRE Loan Growth



Residential Loan Growth

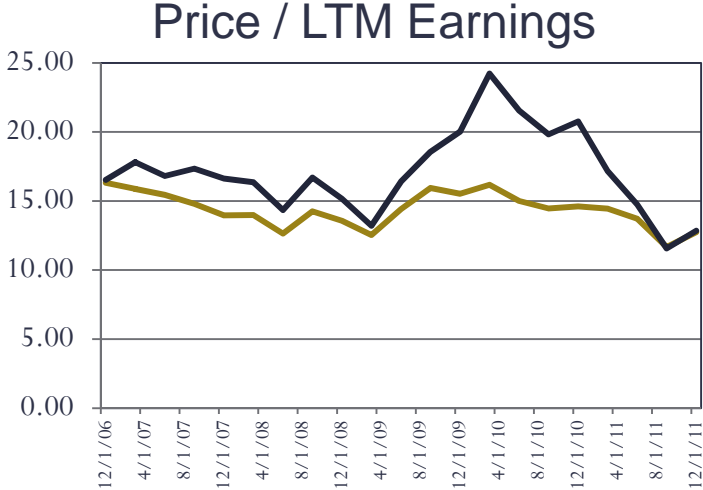
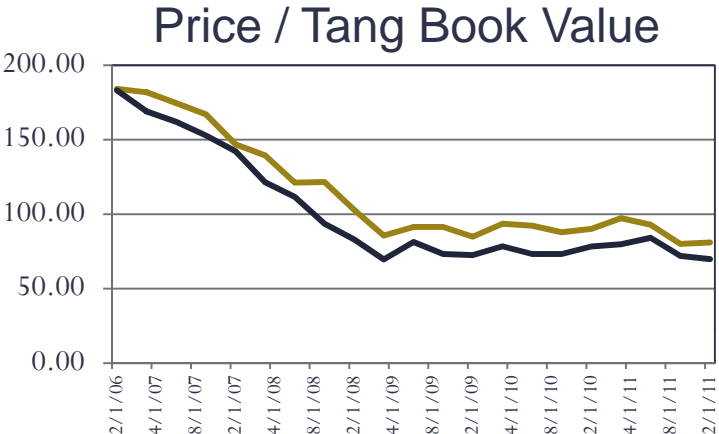
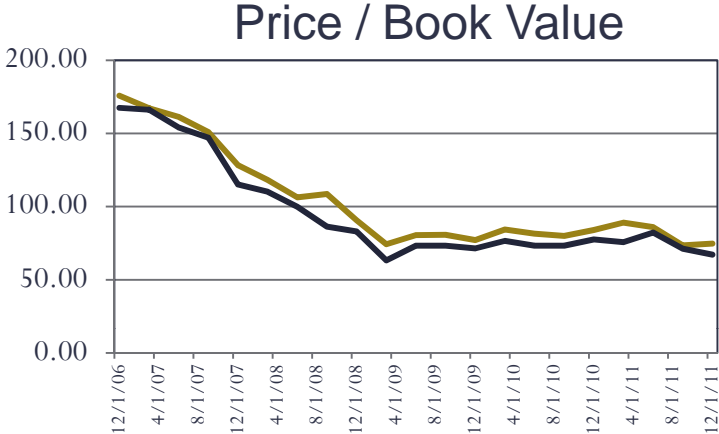


C&D Loan Growth



Key: — Nationwide — New Jersey

Banking Environment – Market Multiples



Key: — Nationwide — New Jersey

Loan Portfolio Commentary

Get Ahead of the Curve

- Actively manage your loan portfolio like you do your securities portfolio
- Monitor your portfolio for areas of opportunity
- Take advantage of market conditions
- Improved pricing for many asset types makes an improved case for selling loans
- Take gains before rates rise

Residential Loans

- Strong active market
- New production has slowed since YE2010
- Another refinance opportunity coming?
- Active sales of seasoned, performing loans
- Yield expectations comparable to organic production
- Further home value declines?

Commercial Loans

- Still a tough market, but improving
- Very competitive for good credits
- Annual reviews – keeping up to date information on your borrowers
- Commercial loan trading has picked up in the last 12 months
- Lack of loan demand for many institutions driving increased demand
- Improved pricing
- Yield expectations declining
- Buyers still being very selective

Auto Loans

- Strong active market
- Production has been fairly strong
- Underwriting/Selectivity has increased
- Delinquencies remained relatively low
- Active sales of seasoned/performing loans and new originations

Loan Acquisitions

Buying Loans – Merits

- Improve earnings and offset lack of organic loan demand
- Yield opportunities competitive with current lending
- Invest excess liquidity
- Buyers can be very selective – 100% pre-purchase review
- Pools tailored to buyer’s stips – size, geography, credit, etc.
- No longer “all or none” transactions where you have to take the bad with the good
- Attractive loan characteristics
- Seasoning and performance
- Updated financials
- Opportunity to completely re-underwrite the loan – including updating values
- Balance Sheet management

Loan Buying Illustration

- Customer requested assistance increasing its earning asset base and putting strong liquidity position to work
- Worked with customer to develop stipulations (credit and size) and processes for purchasing loans
- Communicated loan purchase opportunities that met their stips
- Identified a pool of loans that met their high level stips, buyer committed to purchase \$15mm subject to due diligence and approval of the Purchase & Sale Agreement
- \$3mm of loans fell-out during diligence due to updated financials, valuations and FICO's not meeting underwriting standards
- Closed on \$12mm of whole loans sold servicing released
- Improved ROA by 15bp

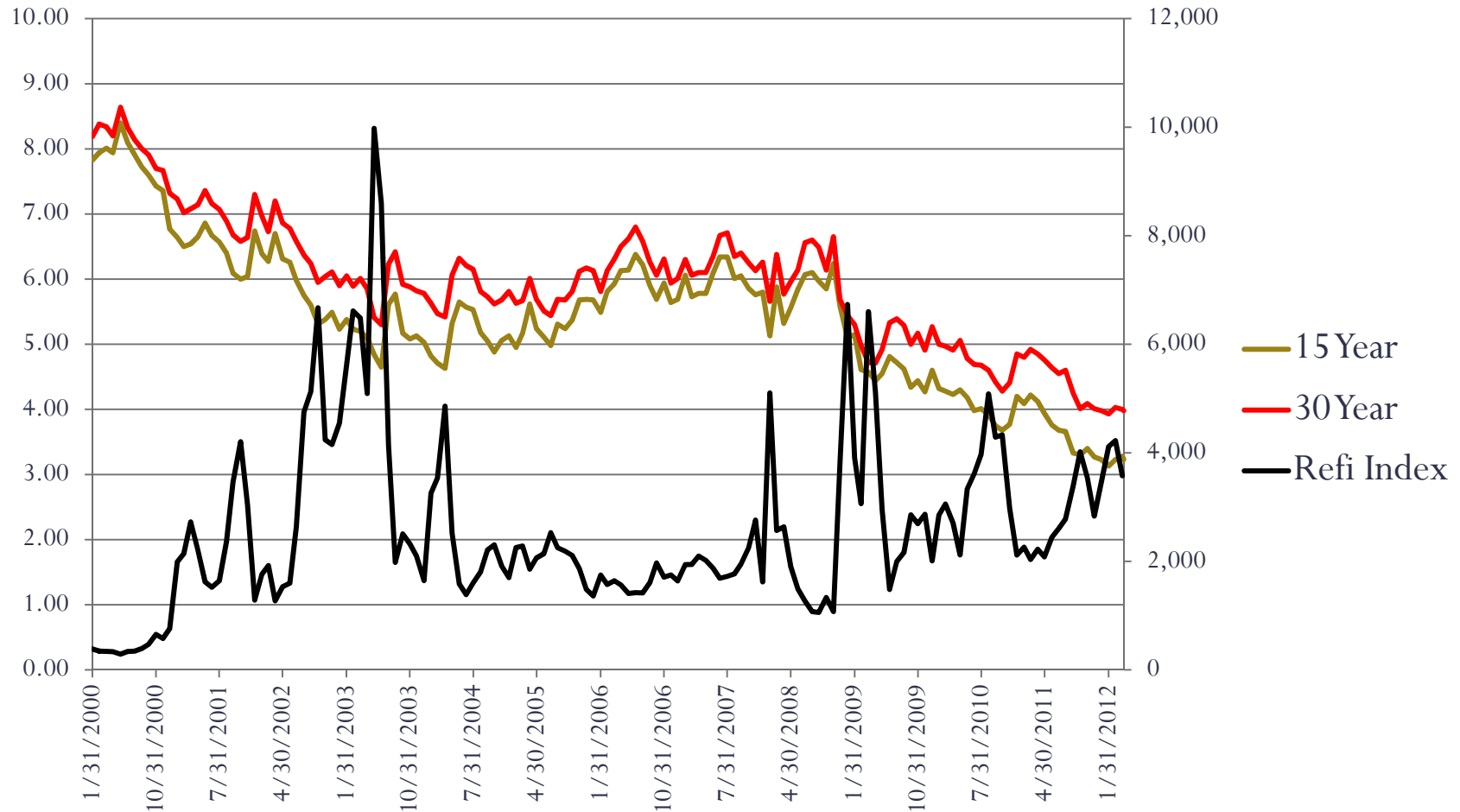
Premium and Prepayment Concerns

- Given lower yield expectations for CRE and Residential loans, many pools are trading at significant premiums
- How significant are the prepay risks and how can you assess a pool to determine inherent risks to prepay?
- Evaluate yield sensitivity at various CPR's
 - Ensure the yield is comparable to organic production and other investment alternatives at an expected CPR and evaluate yields at higher CPR's as well
 - Determine the break-point and assess your comfort with how fast speeds need to be
- Review prepayment penalty language/terms for CRE loans
- Assess the structure/composition of the pool – ensure diversity

Muted Refinance Activity

- Drop in home prices resulting in higher LTVs – loans over 80% must pay for MI or bring cash to closing
- Much tighter underwriting guidelines by Agencies
- Elimination of securitization market for non-agency loans
- Elimination of streamlined refinance product
- Reduction in industry capacity – independent mortgage companies driven out of business by new regulatory environment
- Wider spreads on new originations due to lack of competition
- Originations and servicing even more concentrated now than before the crises

Premium and Prepayment Concerns



FNMA 30-yr Fixed – 4% Pass-Through

Orig. Year	WAC	WAM	Age	# of Pools	Factor	1mo CPR	3mo CPR	6mo CPR	12mo CPR	Life CPR	Jan	Dec	Nov	Oct
2012	4.44	355	2	992	0.997	1.6	0.2	-	-	1.2	0.7	-	-	-
2011	4.46	350	8	4114	0.943	14.9	11.8	12.9	6.9	7.2	10	8.8	10	8.4
2010	4.5	338	17	3181	0.839	21.7	19.2	20.5	12.6	10.1	18	18	24	23
2009	4.57	319	34	1840	0.718	30	27.2	27.3	17.8	9.8	25	27	31	29
2008	4.61	305	44	39	0.715	26.7	26.1	24.4	15.8	10.7	26	26	28	22
2007	4.97	293	56	13	0.576	27.4	27.5	26.5	18.7	15.9	25	30	30	22
2006	4.81	287	65	14	0.699	19.7	19	18.1	14	12.6	20	17	20	16
2005	4.82	269	82	22	0.657	19.8	18.3	15.2	11.1	8.4	20	15	14	11
2004	4.86	257	92	37	0.59	23	24.7	26.8	19.1	14.8	23	28	37	22
2003	4.76	244	103	119	0.487	21.6	23	22.9	15.9	8.7	20	28	24	23
ALL	4.5	338	18	10373	0.839	20.9	19.2	21.4	13.9	8.7	17	18	23	22

Sensitivity Table

<u>CPR</u>	<u>Yield</u>	<u>Avg Life</u>
6	3.84	7.59
9	3.75	6.39
12	3.65	5.50
15	3.54	4.69
20	3.35	3.74
25	3.15	3.06
30	2.92	2.56
40	2.42	1.86
50	1.83	1.41
68	.22	.85

Loan Dispositions

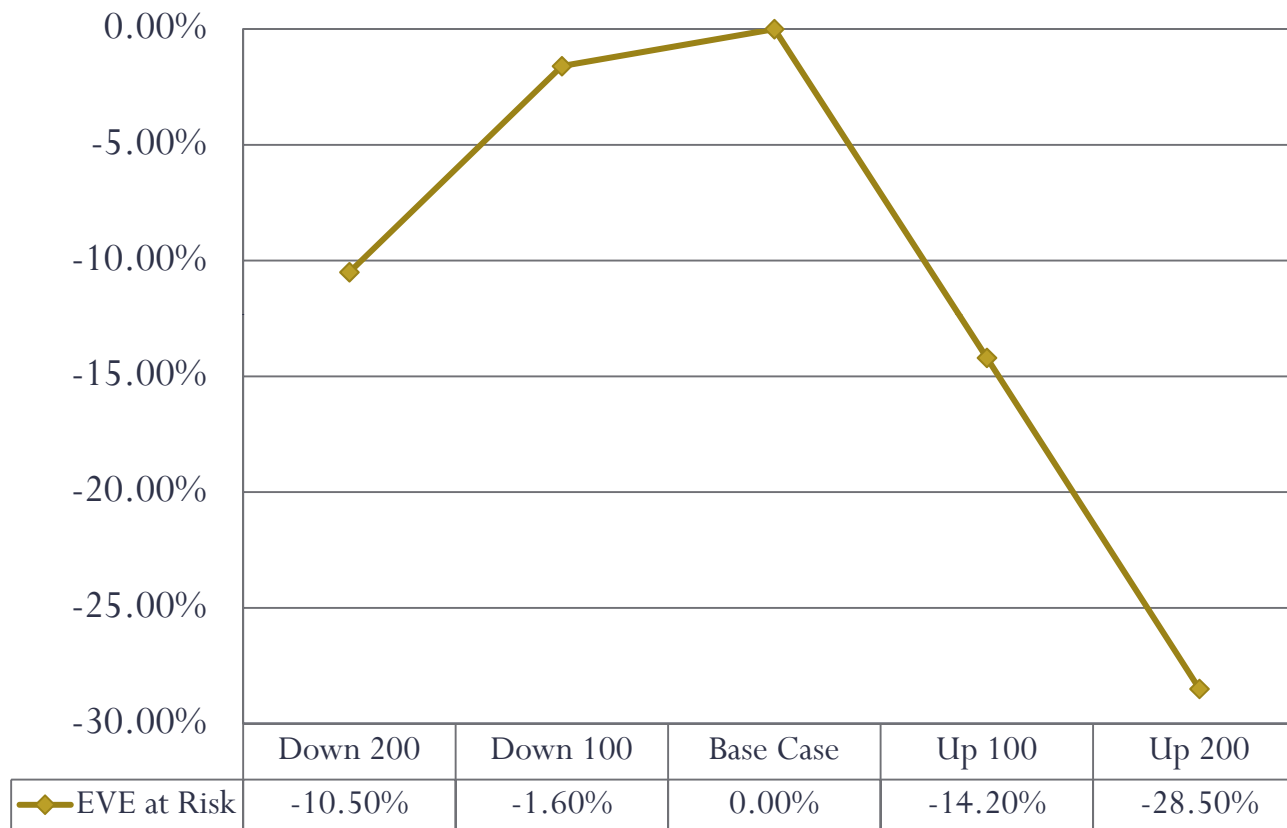
Selling Loans – Merits

- Improved pricing creates flexibility
- Manage Interest Rate Risk profile
- Improve capital ratios
- Potentially book gain-on-sale
- Manage credit risk profile
- Manage extension risk
- Unique market conditions:
 - Historically low interest rates
 - Low loan demand not replacing runoff at many institutions – not many quality opportunities

Residential Mortgage Case Study

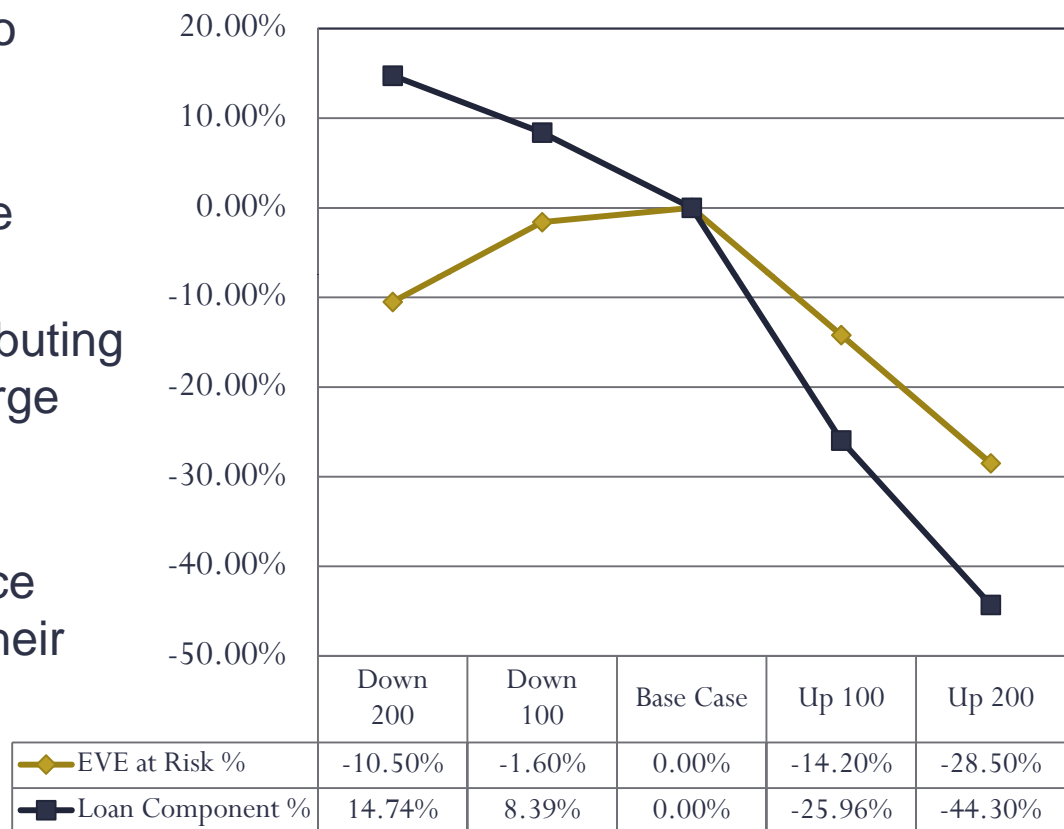
- Customer wanted to reduce interest rate risk in their fixed-rate loan portfolio and generate gain-on-sale to help build loan loss reserves
- Comprehensive review of approximately \$300mm of mortgage loans, worked with customer to scrub data on likely sale candidates
- Identified a marketable pool of 15 and 30-year mortgages with a weighted average age of 5 years
- Analyzed agency execution (pull-through and pricing) to whole loan sale for best execution
- Sold \$40mm in two whole loan transactions, minimized fallout and met seller's targets to maximize gain-on-sale and reduce risk to rising rates
- Seller booked more than \$1mm in gains, retained customer relationship with servicing retained, and reduced extension risk in their balance sheet

Economic Value of Equity at Risk

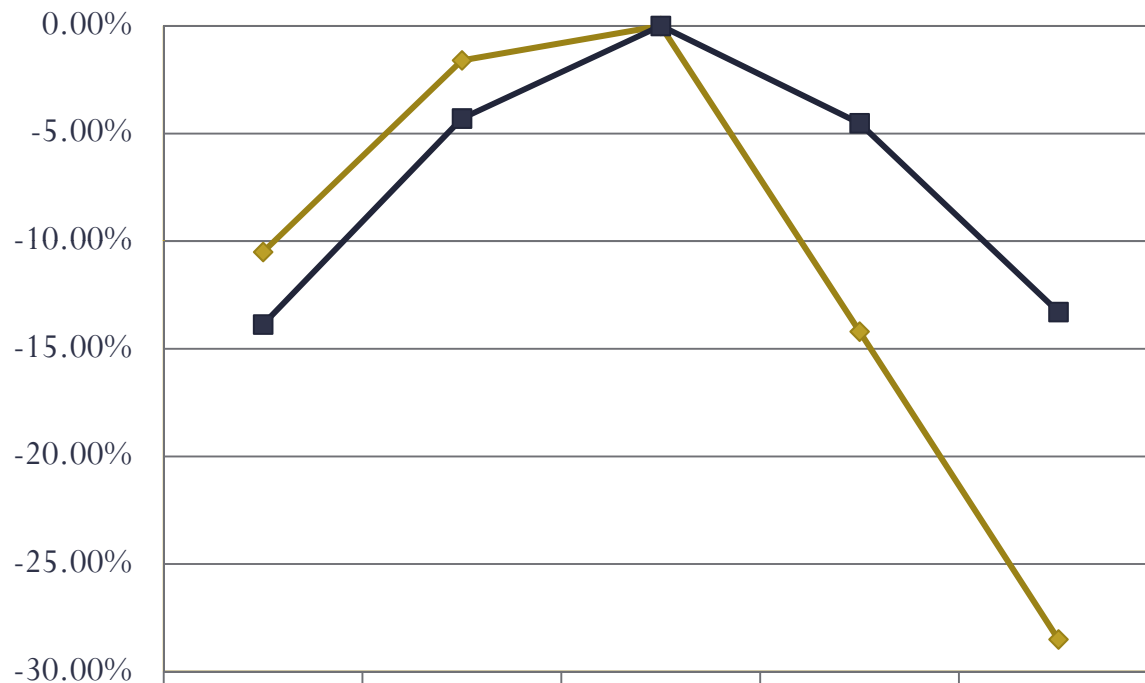


Economic Value of Equity

- Many institutions exposed to rising rates
- Economic Value of Equity adversely affected in up rate scenarios
- Breaking EVE into its contributing factors demonstrates the large effect loans have on values
- More fully understand the inherent risks in your balance sheet and how to mitigate their effects



Proforma Economic Value of Equity at Risk after Sale



	Down 200	Down 100	Base Case	Up 100	Up 200
◆ EVE at Risk %	-10.50%	-1.60%	0.00%	-14.20%	-28.50%
■ Proforma EVE at Risk %	-13.87%	-4.30%	0.00%	-4.52%	-13.29%

Commercial Loan Case Study

- Customer requested assistance reducing its concentration to commercial loans and providing needed liquidity and capital relief
- Conducted a comprehensive review of the loan portfolio and identified a marketable pool of loans for sale
- Marketed the pool servicing released
- Sold \$100mm+ of loans to ten institutions
- Achieved seller's goals of reducing concentration and provided liquidity
- Significant improvement to capital ratios

Commercial Loan Case Study

Total Assets	\$ 1,400,000
Risk Weighted Assets	\$ 1,000,000
Total Risk Based Capital	\$ 97,500
Risk Based Capital Ratio	9.75%

100% Risk Weighted Assets Sold	\$ 125,000
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Net Price on Sale	\$ 103.00
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After Tax Gain of Sale of Loans	\$ 2,438
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Resulting TRBC	\$ 99,938
Proforma Risk Weighted Assets	\$ 875,000
Proforma TRBC %	11.42%

Capital Implications

		Sell \$100mm of Assets @ Various Prices						
	Current	\$ 90.00	\$ 92.00	\$ 94.00	\$ 96.00	\$ 98.00	\$ 100.00	\$ 102.00
Risk Based Capital	100,000	93,500	94,800	96,100	97,400	98,700	100,000	101,300
Risk Weighted Assets	1,000,000	900,000	900,000	900,000	900,000	900,000	900,000	900,000
TRBC %	10.00%	10.39%	10.53%	10.68%	10.82%	10.97%	11.11%	11.26%

Capital Implications

	Base	Sell \$100mm Loans		Raise \$15mm of Common Equity	
		100% Risk Weighted	50% Risk Weighted	50% of Book Value	100% of Book Value
Risk Weighted Assets	500,000	400,000	450,000	515,000	515,000
ROAA	1.00%	1.00%	0.89%	1.00%	1.00%
Earnings Per Share	\$ 0.50	\$ 0.40	\$ 0.40	\$ 0.29	\$ 0.41
Risk Based Cap Ratio	10.00%	12.50%	11.11%	12.62%	12.62%
Equity/Assets	8.00%	10.00%	8.89%	10.68%	10.68%
# of Shares	10,000	10,000	10,000	17,500	12,500
Shares Issued				7,500	2,500
% Ownership Current Investors	100.0%	100.00%	100.00%	70.00%	83.33%
% Ownership New Investors	0.00%	0.00%	0.00%	30.00%	16.67%

Indicative Pricing

	Illustrative Coupon	2010 Yield Range	2011 Yield Range	Current Yield Range	Pricing
Residential	5.00%	5.0 – 5.5%	4.5 – 5.0%	4.0 – 4.5%	102–104.5
Commercial	5.50%	6.5 – 7.0%	5.0 – 5.5%	4.5 – 5.0%	100–103.5
Autos	6.00%	4.5 – 5.0%	4.0 – 4.5%	3.5 – 4.0%	102–104

Summary

- Utilize analytical resources to actively manage your loan portfolio
- Perform regular portfolio reviews to stay abreast of areas of opportunity
- Identify and reduce risk exposures
- Take advantage of market conditions – whether you are a buyer or a seller

Contact Information

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