2026 Oklahoma Seminar



The BakerGroup

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Welcome

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Economic Update and Fed Outlook

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Q & A

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State of The Industry

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FDIC Quarterly Banking Profile — 2Q 2026

1.37%
Industry return on average assets

$90.1B
Industry net income, up 12.0% from 1Q

3.81%
Community bank net interest margin, up 10 bp from 1Q

+8.2%
Community bank net income ($8.7B), quarter over quarter

- **Community banks grew loans 1.6% in the quarter** and 5.1% year over year; deposits grew 0.4% and 4.6%.
- **The margin came from the asset side:** community bank earning-asset yields rose 10 bp to 5.66%; funding costs slipped 1 bp to 1.85%.
- **Unrealized securities losses, marked at June 30 rates:** $326.7B industry (5.5% of cost; HTM 10.5%); community banks $31.4B (6.0%).
- **Credit improved slightly:** community bank past-due + nonaccrual 1.34% (−10 bp), NCOs 0.19%. 4.4% unprofitable; 47 problem banks.

Source: FDIC Quarterly Banking Profile, Second Quarter 2026 (released August 25, 2026).

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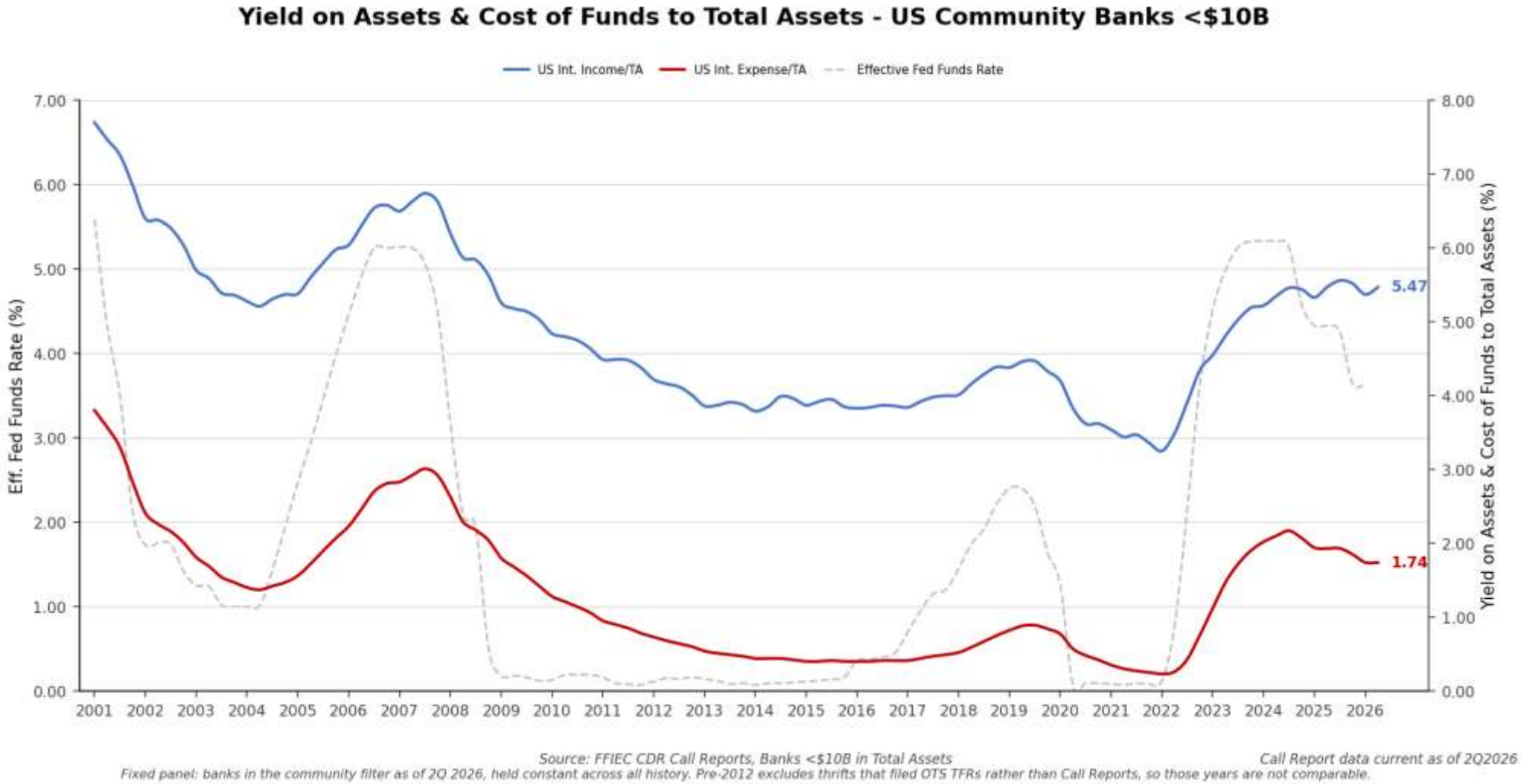
Asset Yields Are Still Climbing. Funding Costs Have Flattened.

Banks under $10B at 2Q 2026: yield on assets 5.47%, interest expense 1.74% of assets, net interest margin 3.82%.



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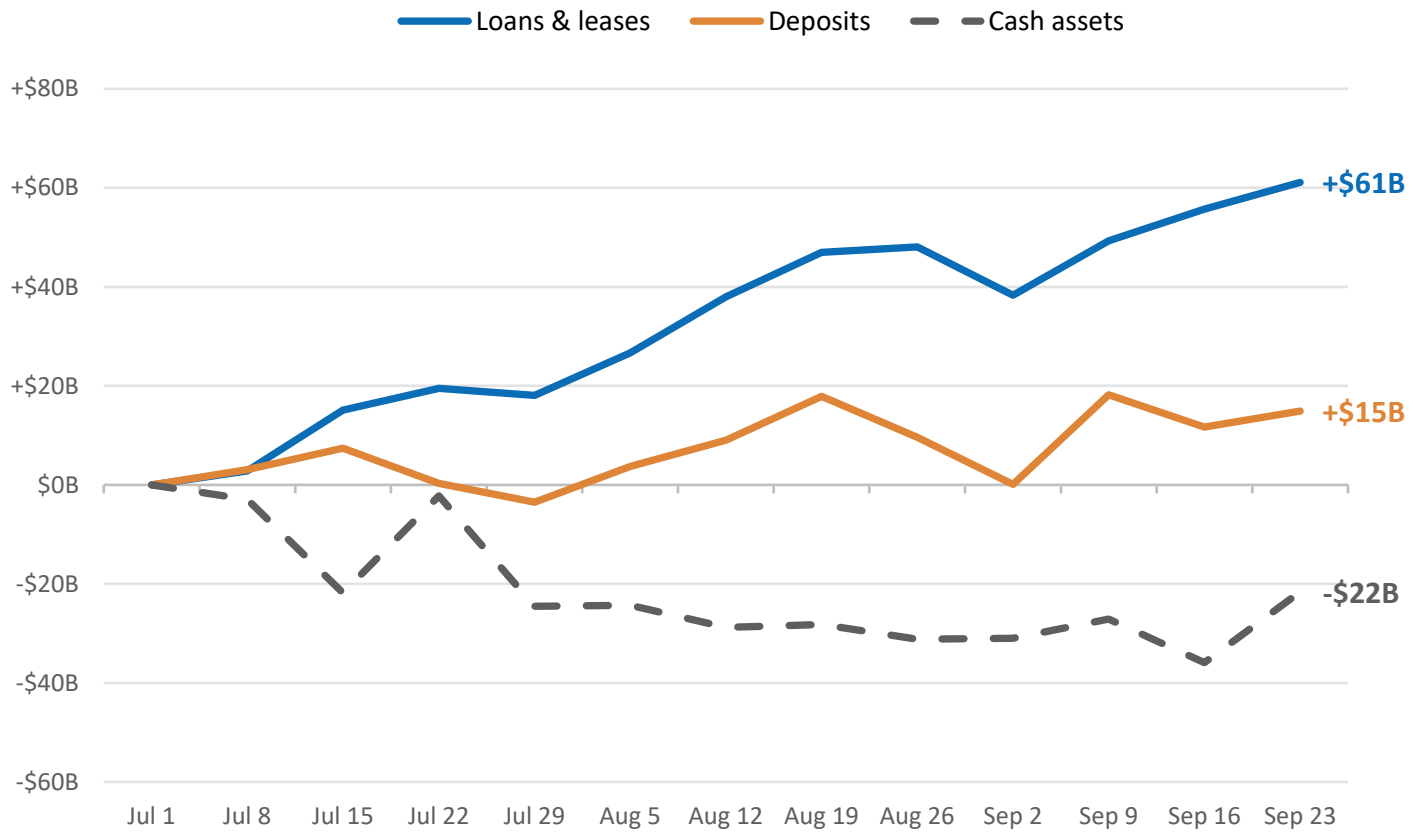
Loans Are Outrunning Deposits Again

Cumulative change since July 1, 2026 ($ billions) — small domestically chartered commercial banks, weekly, seasonally adjusted



+$61B

Loans since July 1 (5.8% annualized)

+$15B

Deposits since July 1 (1.1% annualized)

Loans grew about four times faster than deposits.

Loan-to-deposit ratio 82.9% → 83.7%, the highest since July 2024.

Cash assets fell $22B (-4.2%). The gap is being funded out of on-balance-sheet liquidity.

It started in 2Q: FDIC community banks drew cash down $14.1B (−6.8%) while borrowings rose $7.5B.

Source: Federal Reserve H.8 via FRED, week ending Sept. 23, 2026. "Small" = domestic banks outside the 25 largest; level changes, not break-adjusted.

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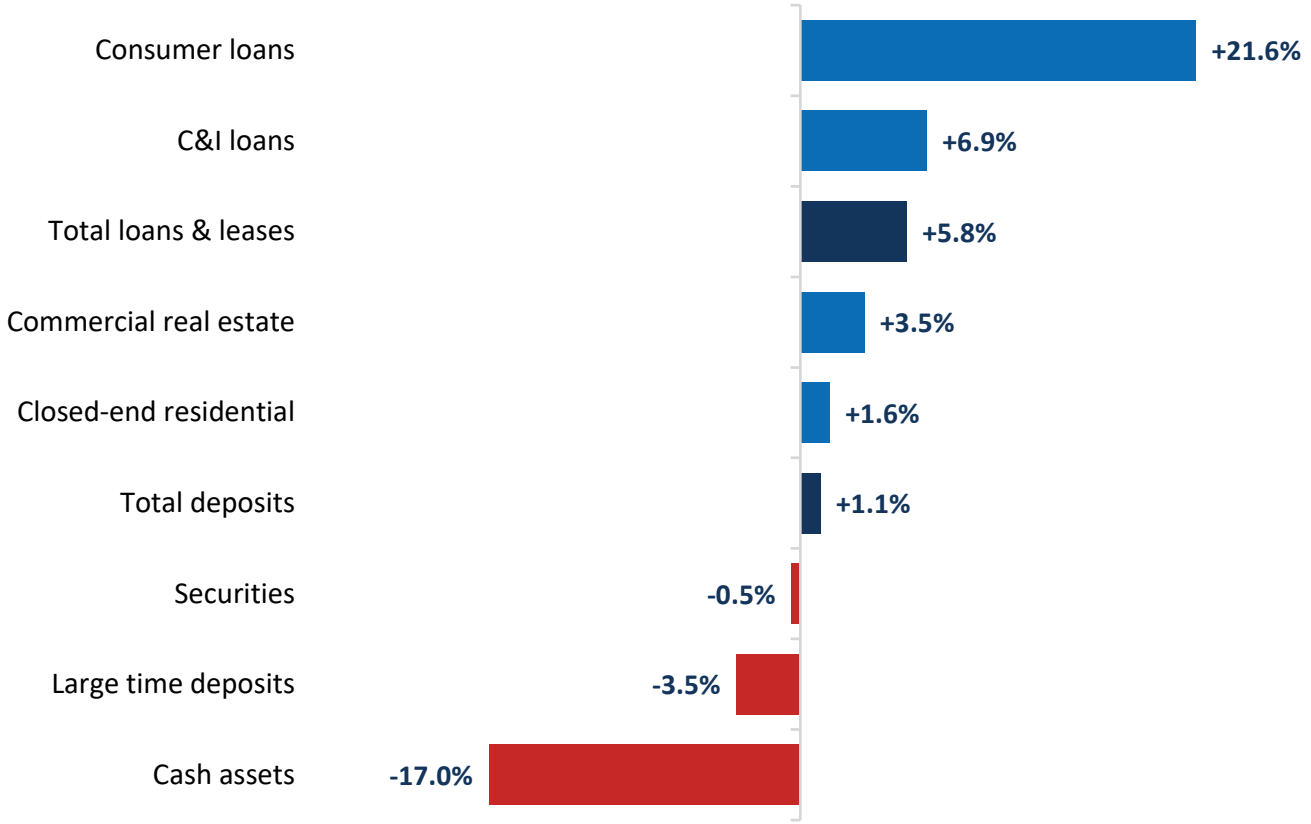
Balance Sheet Movement Since June 30

Annualized growth, July 1 – September 23, 2026 — small domestically chartered commercial banks, seasonally adjusted



- **C&I is leading** at 6.9% annualized; CRE is growing at about half the pace of total loans.
- **Consumer jumped** 21.6% annualized — small base ($344B)
- **Deposit growth is slow** at 1.1%, and large time deposits are running off.
- **Bonds are flat**; securities are not being added to fund the growth.
- **Cash was down;** down 17% annualized.

Loan growth is being funded by liquidity, not by deposits. That is sustainable for a quarter, not for a year.

Source: Federal Reserve H.8 via FRED, small domestically chartered banks (SA), July 1 – Sept. 23, 2026. Annualized 12-week level changes.

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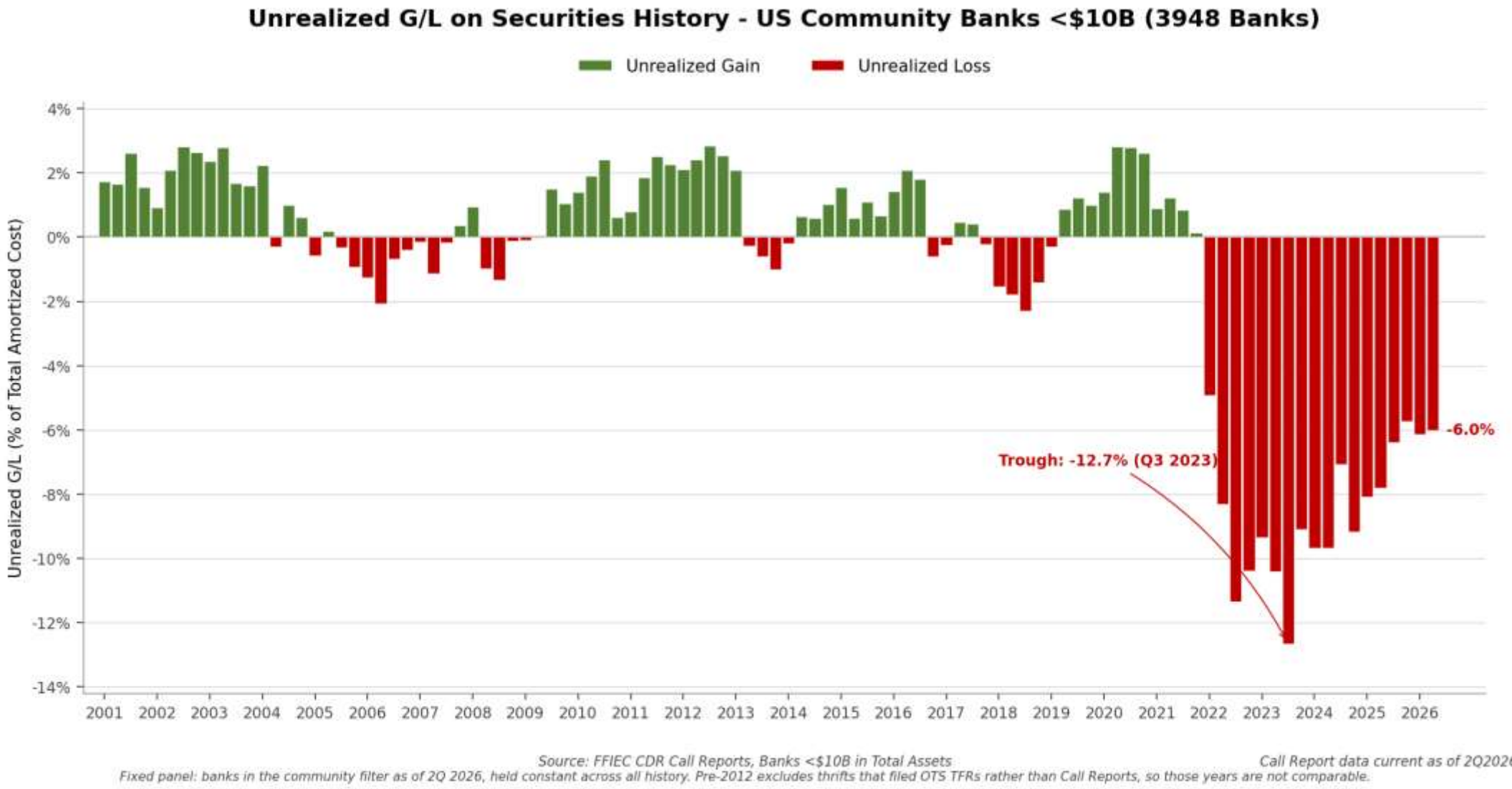
Unrealized Losses Have Halved Since the 2023 Trough



Source: FFIEC CDR Call Reports, banks <$10B, through 2Q 2026; FDIC QBP 2Q 2026; U.S. Treasury via FRED. Estimate is illustrative.

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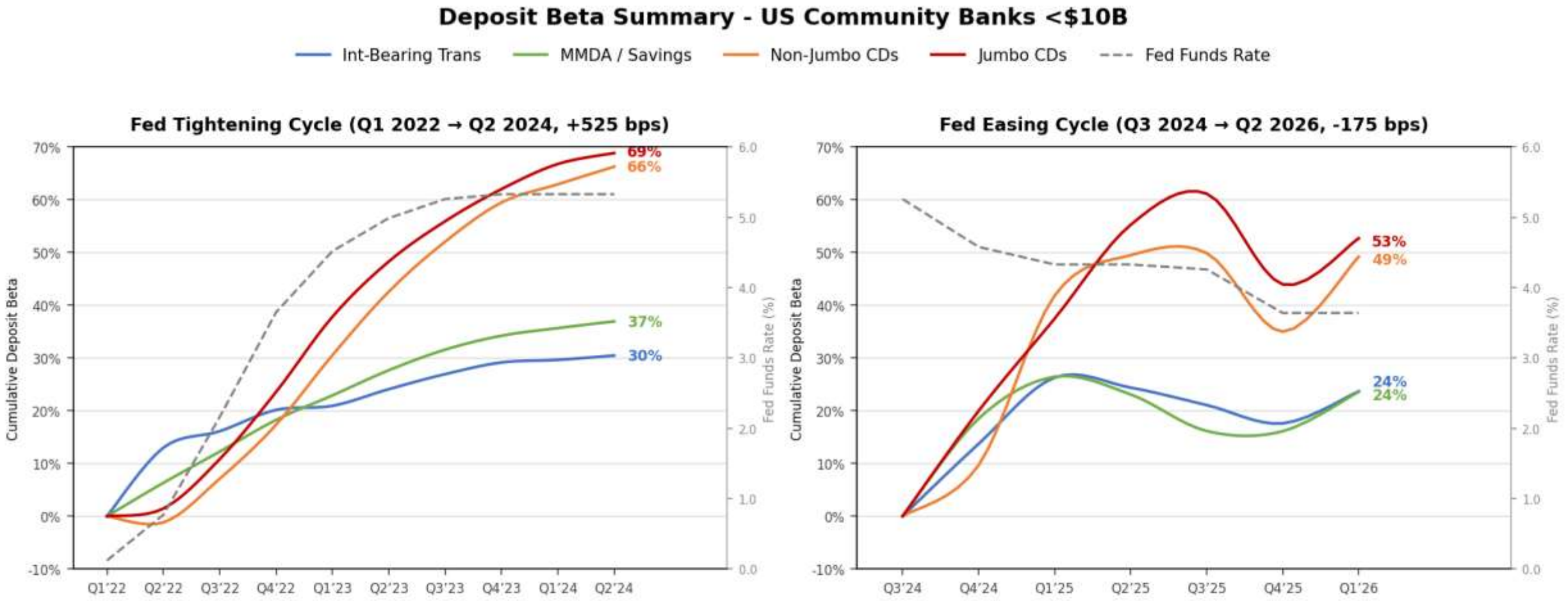
Deposit Betas: 69% Up, 53% Down



Source: FFIEC CDR Call Reports, Banks <$10B in Total Assets *Call Report data current as of 2Q2026*

Fixed panel: banks in the community filter as of 2Q 2026, held constant across all history. Pre-2012 excludes thrifts that filed OTS TFRs rather than Call Reports, so those years are not comparable.

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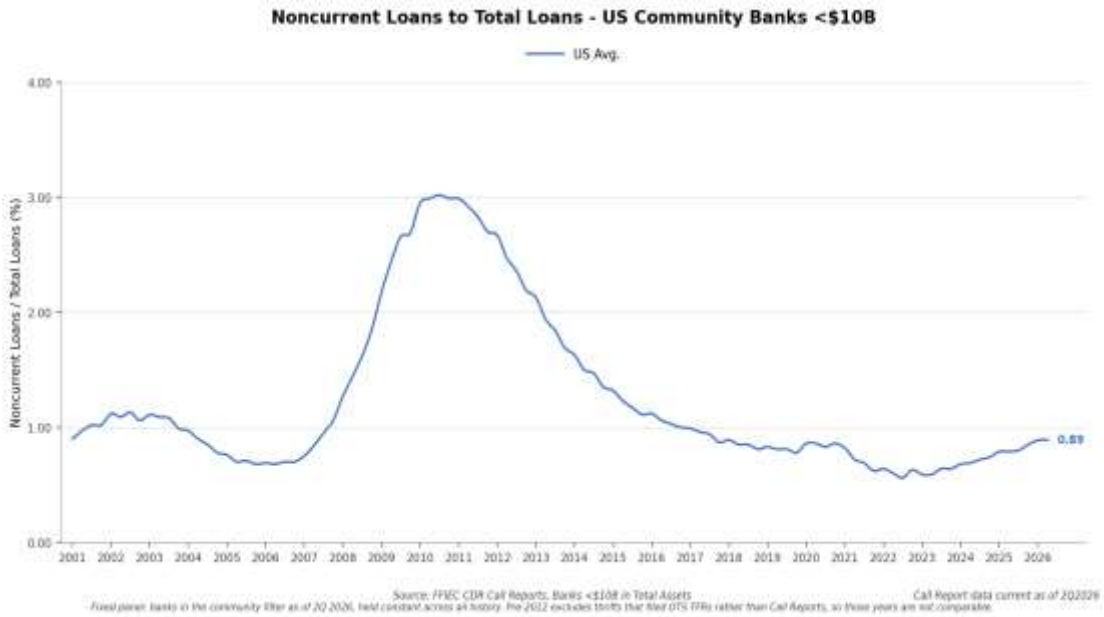
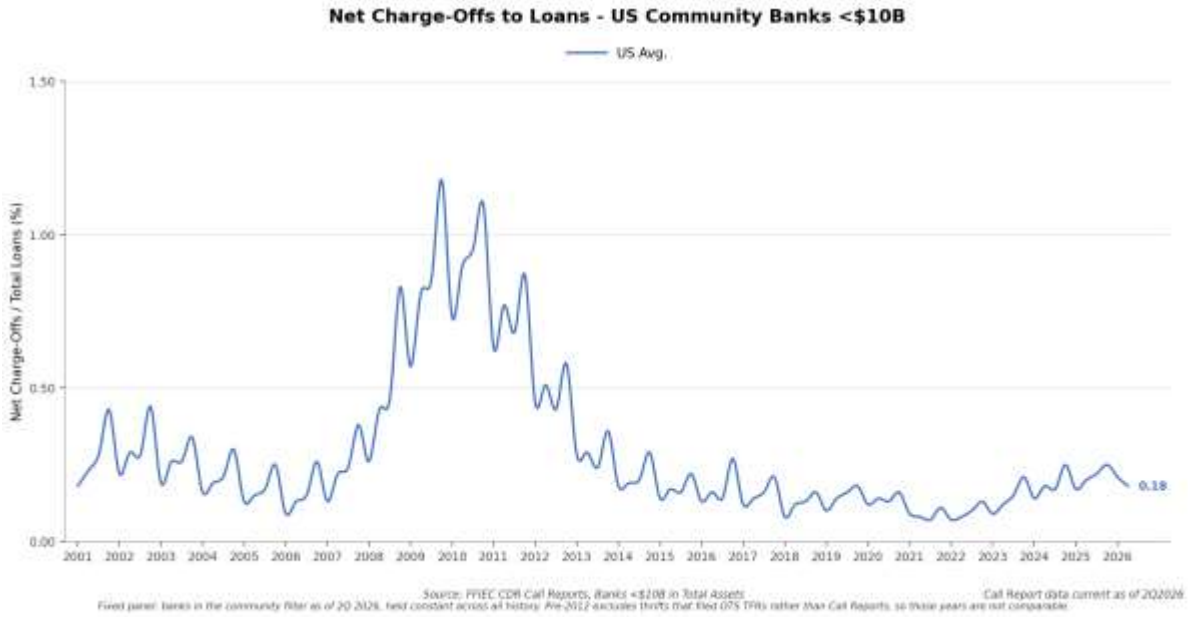
Credit: Normalizing, Not Breaking

Banks <$10B: noncurrent 0.89%, NCOs 0.18%. FDIC community banks: past-due + nonaccrual fell 10 bp to 1.34% in 2Q.





WHAT BANKERS ARE SEEING

58% expect borrower credit metrics to worsen slightly over the next year; **43%** say past dues are trending higher.

Most deterioration: none meaningful 38% · consumer / 1–4 family 19% · agriculture 16% · C&I 15% · CRE 11% · construction 2%

Source: FFIEC CDR Call Reports, banks <$10B (fixed panel), through 2Q 2026; The Baker Group's Community Bank Survey, 3Q 2026 (n ≈ 264).

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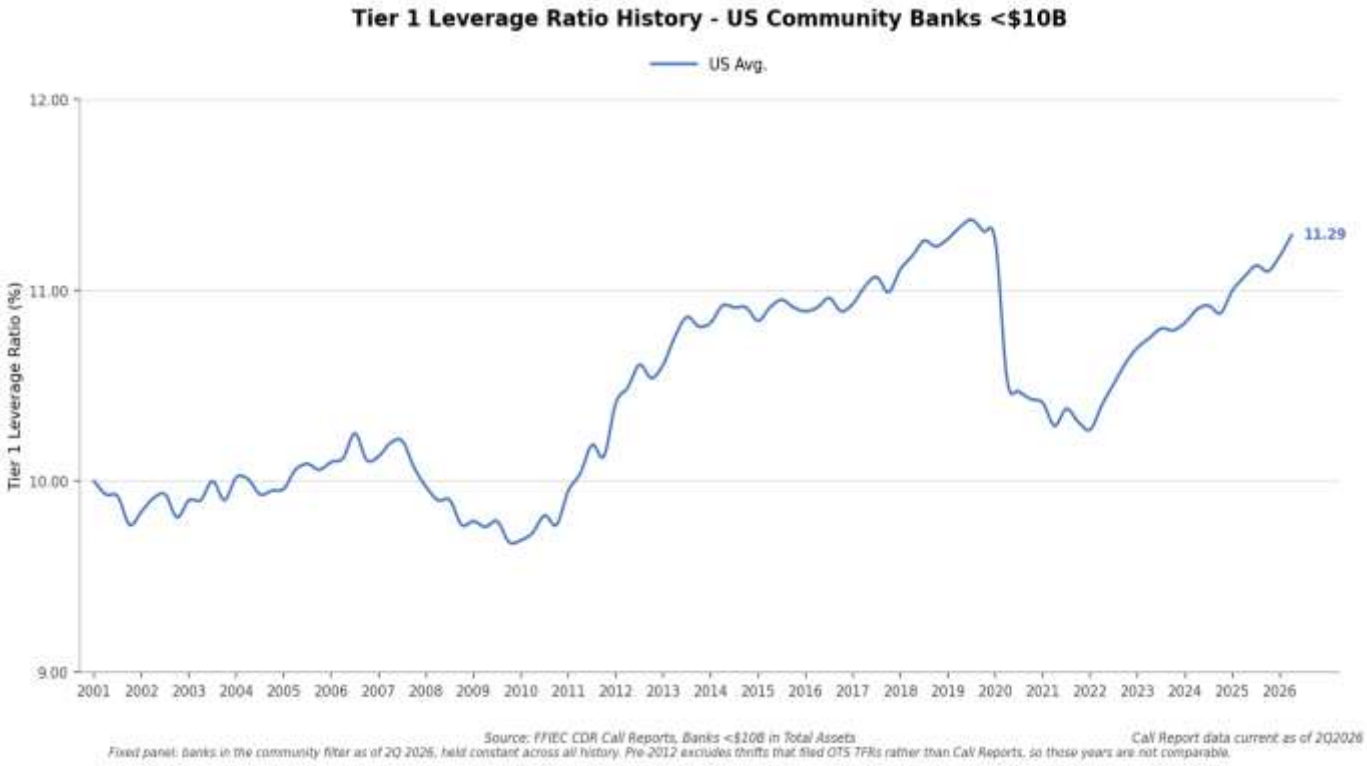
Capital: Back to Pre-Pandemic Strength

Banks <$10B: Tier 1 leverage reached 11.29% in 2Q 2026, up 102 bp from the 1Q 2022 low and 8 bp below the 3Q 2019 high.



- **2020 drop came from asset growth, not losses:** deposit inflows and PPP loans increased balance sheets and cut the ratio 79 bp between 1Q and 3Q 2020.
- **Earnings rebuilt it:** the ratio has climbed steadily since the 1Q 2022 low as deposit growth slowed and retained earnings accumulated.
- **Rate shock did not dent it:** most community banks exclude AOCI from regulatory capital, so 2022 securities losses did not reduce Tier 1.

11.29%
Tier 1 leverage ratio, 2Q 2026

+102 bp
Rebound from the 1Q 2022 low (10.27%)

8 bp
Below the 3Q 2019 high (11.37%)

Source: FFIEC CDR Call Reports, banks <$10B (fixed panel), through 2Q 2026.

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60% of Bankers Expect a Higher Margin

1%

Expected a Fed rate cut — before the September hike

60%

Expect a higher net interest margin for the rest of 2026

85%

Expect cost of funds flat or higher

77%

Are above or well above budget on net income

- **Bankers called the Fed:** 55% expected no change and 44% a hike. Only 1% expected a cut.
- **Loan demand is improving:** 49% moderately or significantly stronger over 90 days; spreads 41% unchanged, 35% wider, 24% tighter.
- **Deposits are mixed:** 40% report higher balances over 90 days, 25% lower — consistent with the H.8.
- **The repricing tailwind is nearly spent:** 71% have less than 20% of the loan book left to reprice off COVID-era rates.

Source: The Baker Group's Community Bank Survey, 3Q 2026 (n ≈ 264). Fielded before the September 16 FOMC meeting.

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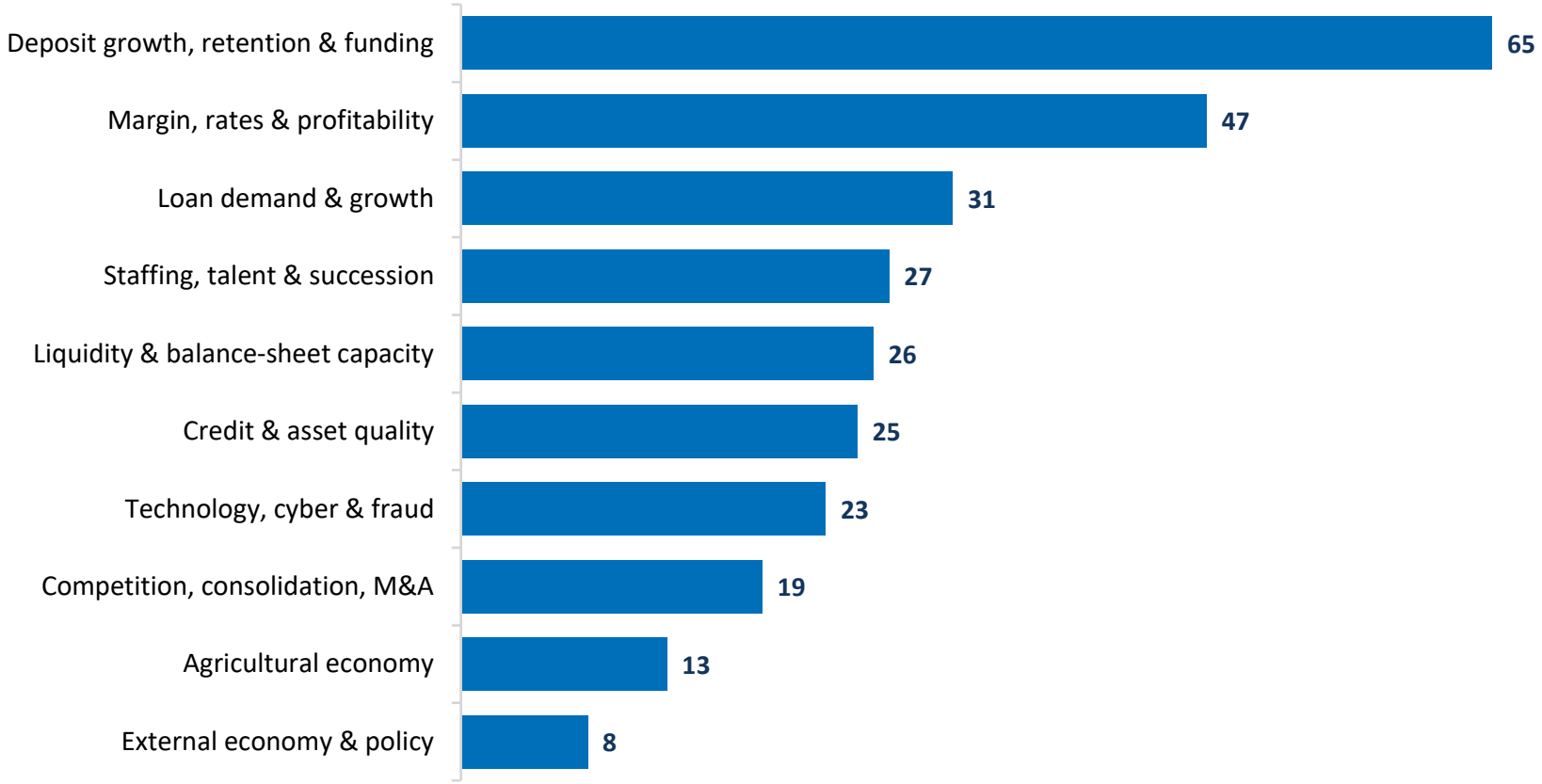
Your Biggest Challenge, Next 12 Months

Open-ended question. Deposits and margin are the top two — by a wide margin.



HOW BANKS ARE CHASING DEPOSITS

102 CD specials and promo rates

37 Nothing — no specials at all

34 Money market and high-yield savings

23 Rewards / high-interest checking

18 Relationship and negotiated pricing

13 Reciprocal, listing service, brokered

The default answer is still the CD special — the most rate-sensitive dollar you can buy.

Source: The Baker Group's Community Bank Survey, 3Q 2026 (n ≈ 264). Counts are mentions, not percentages; respondents could name more than one.

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What Bankers Would Do Differently

“Looking back over the last two years, what would you have done differently?”



OPEN-ENDED THEMES, BY MENTIONS

- **44** Nothing — no regrets
- **22** Loan growth, mix and structure
- **20** Wholesale funding, hedging and rate positioning
- **19** Bond portfolio repositioning
- **13** Deposit gathering and retention

The largest single answer is no regrets, but the regrets that do surface are balance-sheet decisions: loan structure, funding and the bond portfolio.

Source: The Baker Group's Community Bank Survey, 3Q 2026.

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Opportunities for Margin Expansion in 2027

A higher, upward-sloping curve keeps asset yields repricing up. Margins expand if funding costs stay contained.

5.24%	**Bond portfolios reprice higher** 10-year Treasury, up 111 bp in a year; 2- to 10-year paper yields 4.8–5.2%. Cash flow reinvests well above legacy book yields.
+44 bp	**The curve still pays for extension** 2s10s spread is positive and 3-month to 10-year is about +100 bp, so term assets earn a spread over overnight funding.
3.75–4.00%	**Floating-rate assets reset with the Fed** First hike since 2023; median dot sees 4.1% at year-end 2026. Prime-based loans and short liquidity reprice up.
5.8%	**Loan demand has been steady** Small-bank loans grew 5.8% annualized since July 1; the Fed projects 2.4% real GDP growth in 2027.
3.82%	**Margins start from a position of strength** NIM at banks <$10B in 2Q 2026, with asset yield at 5.47% and still climbing; community bank NIM up 19 bp in a year.

Source: U.S. Treasury via FRED (Oct. 9, 2026); FOMC statement and SEP, Sept. 16, 2026; Fed H.8 via FRED (week ending Sept. 23, 2026); FFIEC CDR Call Reports, banks <$10B, 2Q 2026; FDIC QBP 2Q 2026.

Challenges to Margin Expansion in 2027

69%	**Deposit costs turn back up** The hike ends funding relief. Jumbo CD betas ran 69% on the way up, and CD specials are still banks' first tool.
270 bp	**Deposit costs never came back down** Jumbo CDs repriced up 360 bp and only 90 bp back. The next hike starts from a higher funding base.
83.7%	**Liquidity is tightening for some** Loans are growing 5.8% annualized vs. 1.1% for deposits; the loan-to-deposit ratio is the highest since July 2024.
4.1%	**The Fed is likely not done hiking rates** Median dot implies one more hike in 2026; core PCE has run above 3% all year, and markets price more for 2027.
0.89%	**Credit is normalizing under higher rates** Noncurrent loans at banks <$10B, up from about 0.6% in 2022.
+122 bp	**Rate volatility and economic uncertainty** 2-year Treasury move in 12 months. Oil and Middle East risk make deposits and loans harder to price.

Source: FOMC statement and SEP, Sept. 16, 2026; U.S. Treasury via FRED (Oct. 9, 2026); Fed H.8 via FRED (week ending Sept. 23, 2026); FFIEC CDR Call Reports, banks <$10B, 2Q 2026; The Baker Group Community Bank Survey, 3Q 2026.

Investment Portfolio Trends & Strategy

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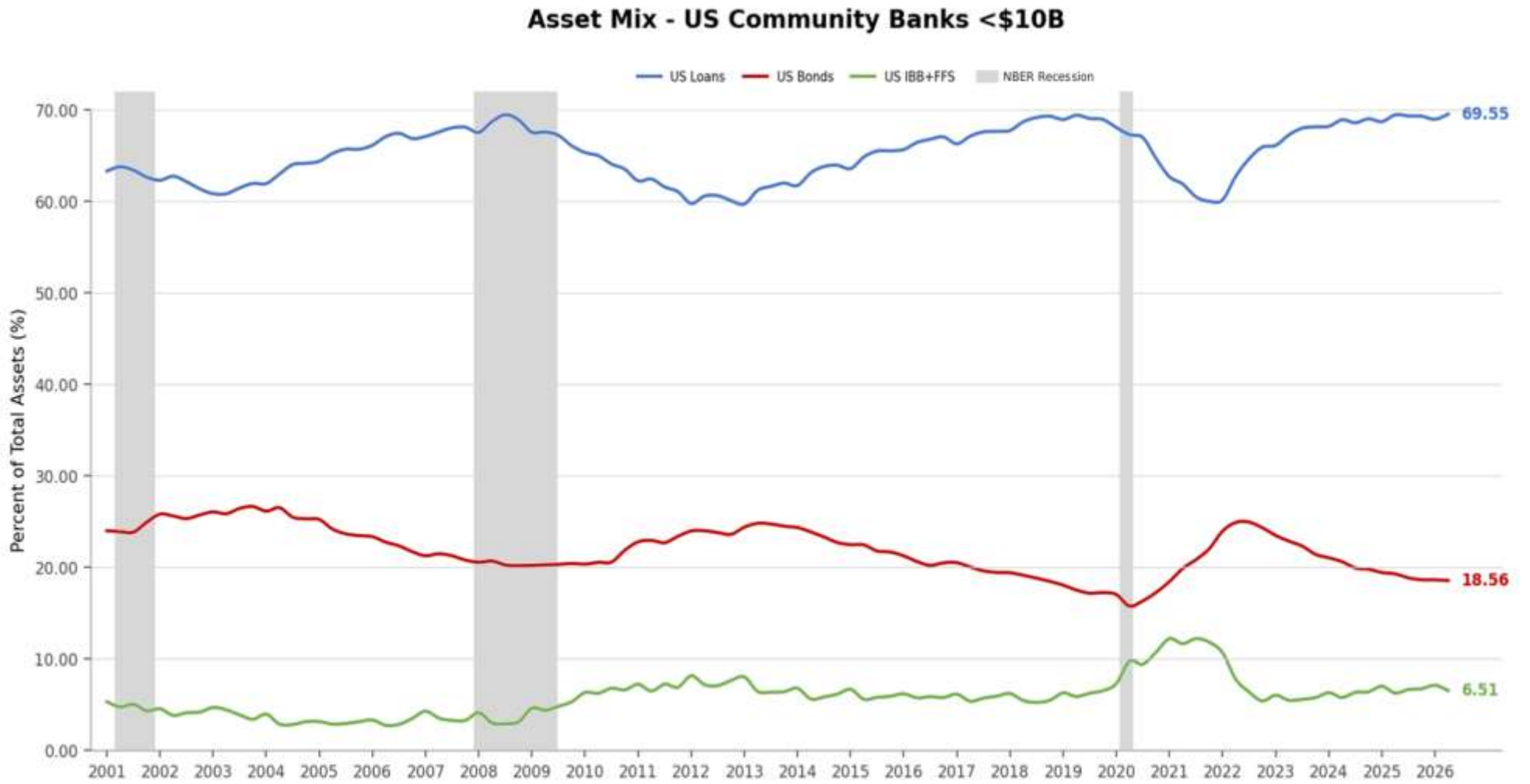
Balance Sheet Trends: Asset Mix
Averages for US Banks < $10B



Source: FFIEC CDR Call Reports, Banks <$10B in Total Assets *Call Report data current as of 2Q2026*

Fixed panel: banks in the community filter as of 2Q 2026, held constant across all history. Pre-2012 excludes thrifts that filed OTS TFRs rather than Call Reports, so those years are not comparable.

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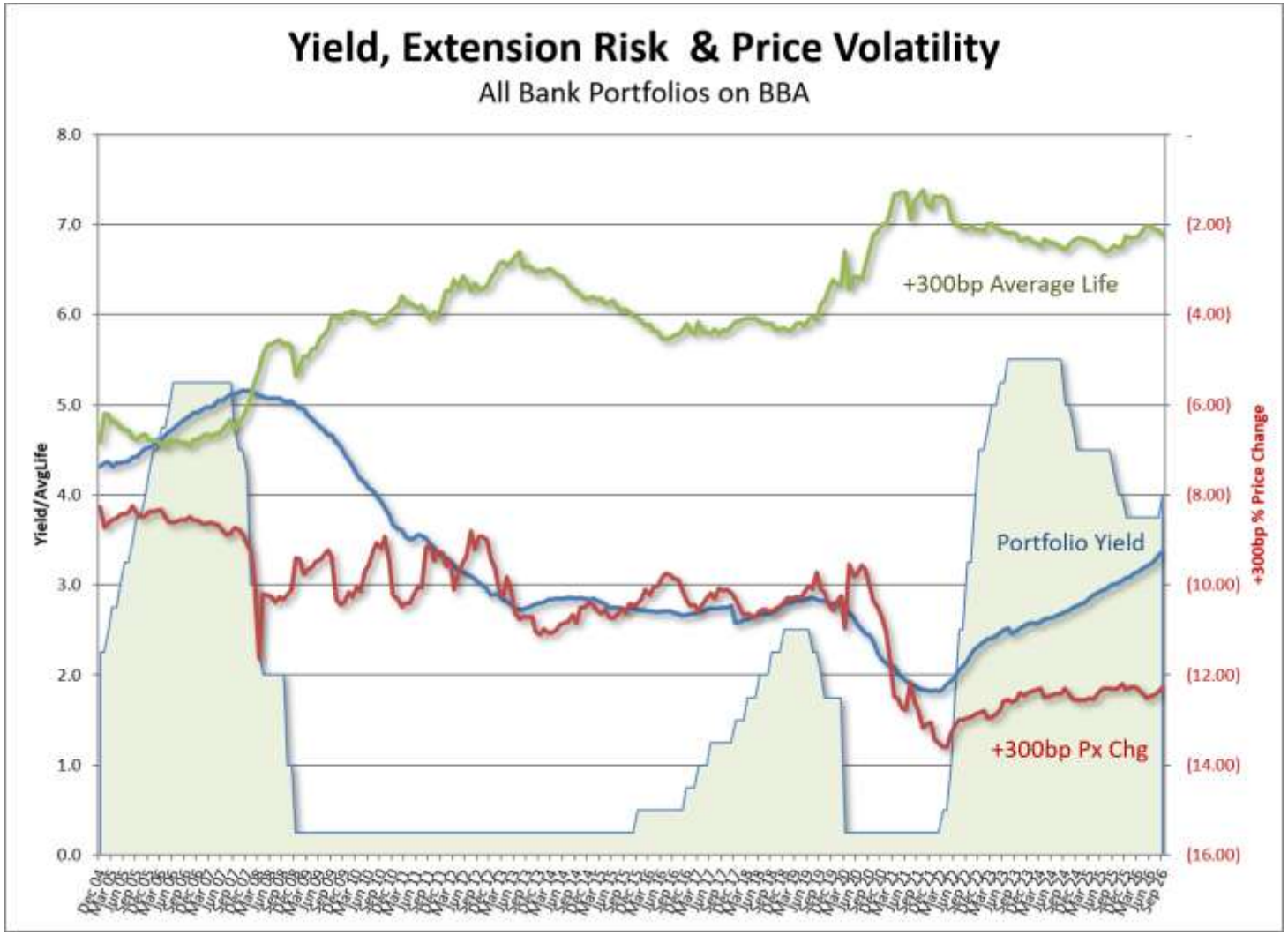
Every Institution Should Continue Assessing Their Risk & Adjust If Necessary

- Clients have actively reduced +300bp price volatility and extension risk since 2022 by focusing on shorter duration options with more stable cash flows.
- We encourage all of our clients to carefully assess their risk profile and ensure they are within risk limits and comfortable with the risk they are taking.
- If any institution is uncomfortable with their risk, they should look for opportunities to make adjustments.
- Portfolio yields have recovered all the yield lost during the pandemic lows and are at 15-year highs but there is still opportunity to add bonds at 25-year highs. The key is stable cash flow and a disciplined reinvestment plan.
- Institutions with too much risk or those that want to take advantage of today's yield opportunities should evaluate using Tax Loss Transactions to adjust risk and/or defer income for an uncertain 2027.



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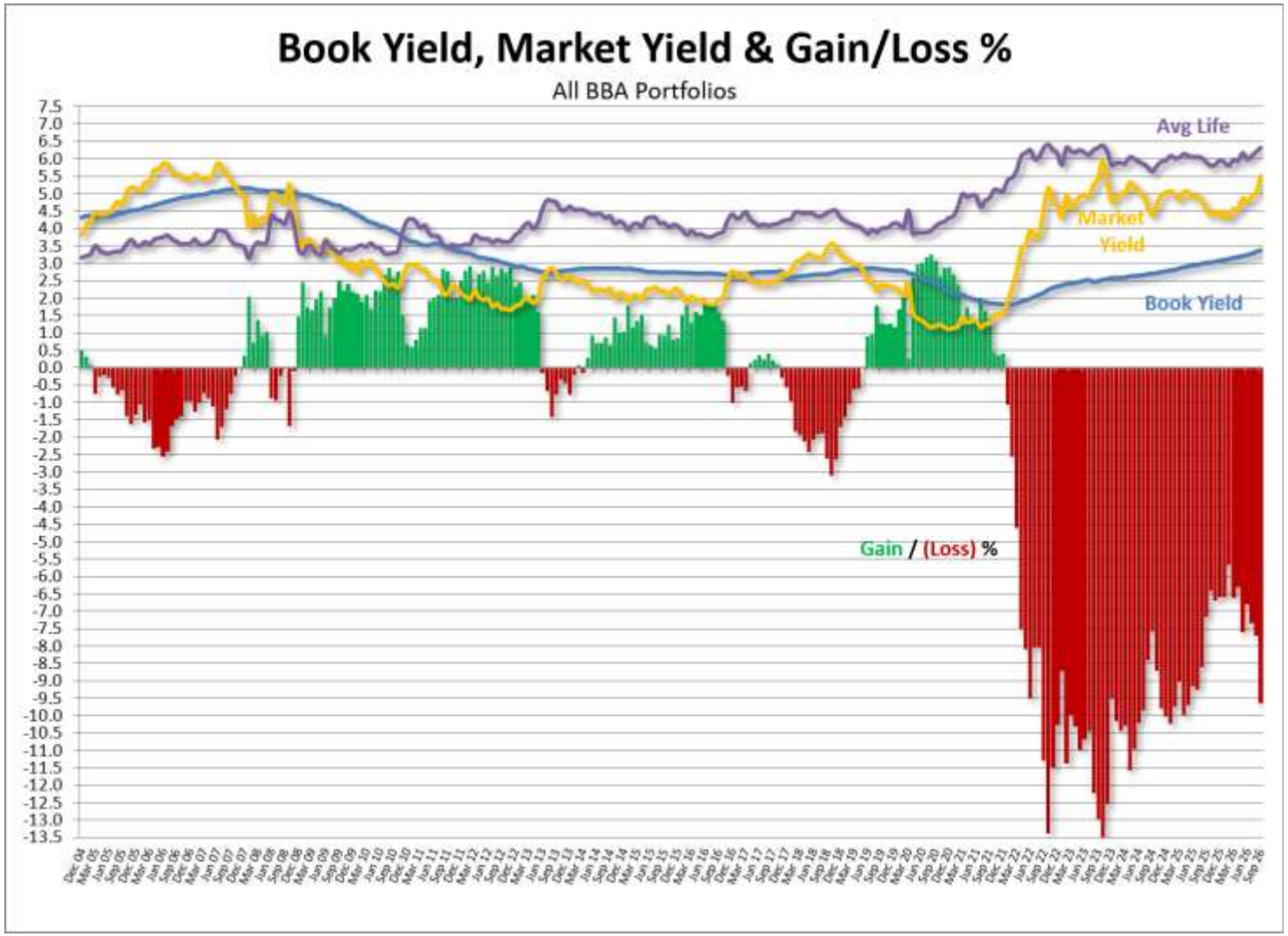
Unrealized Losses 9%, Market Yields Now 200bp+ Above Book Yields

- Today, Market Yields are more than 200bp above Book Yields and the average portfolio is at a 9% unrealized loss.
- While no one wants to own bonds at unrealized losses, it means that on average every new bond we buy yields more than our current portfolio and will raise our average portfolio yield.
- Rising rates are ultimately a good thing for the institution's margin and profitability and is normally the only way to increase portfolio yield without taking on more risk.
- The opposite is also true and falling rates will erode portfolio yield and negatively impact net income. They key is to invest when rates are high and lock-in those yields with longer durations and call/prepayment protection.
- Unfortunately, the best time to invest in the bond market is the very time when institutions are the most hesitant to do so because of unrealized losses.
- The highest performing portfolios over time are the ones that find ways to invest when rates are higher.



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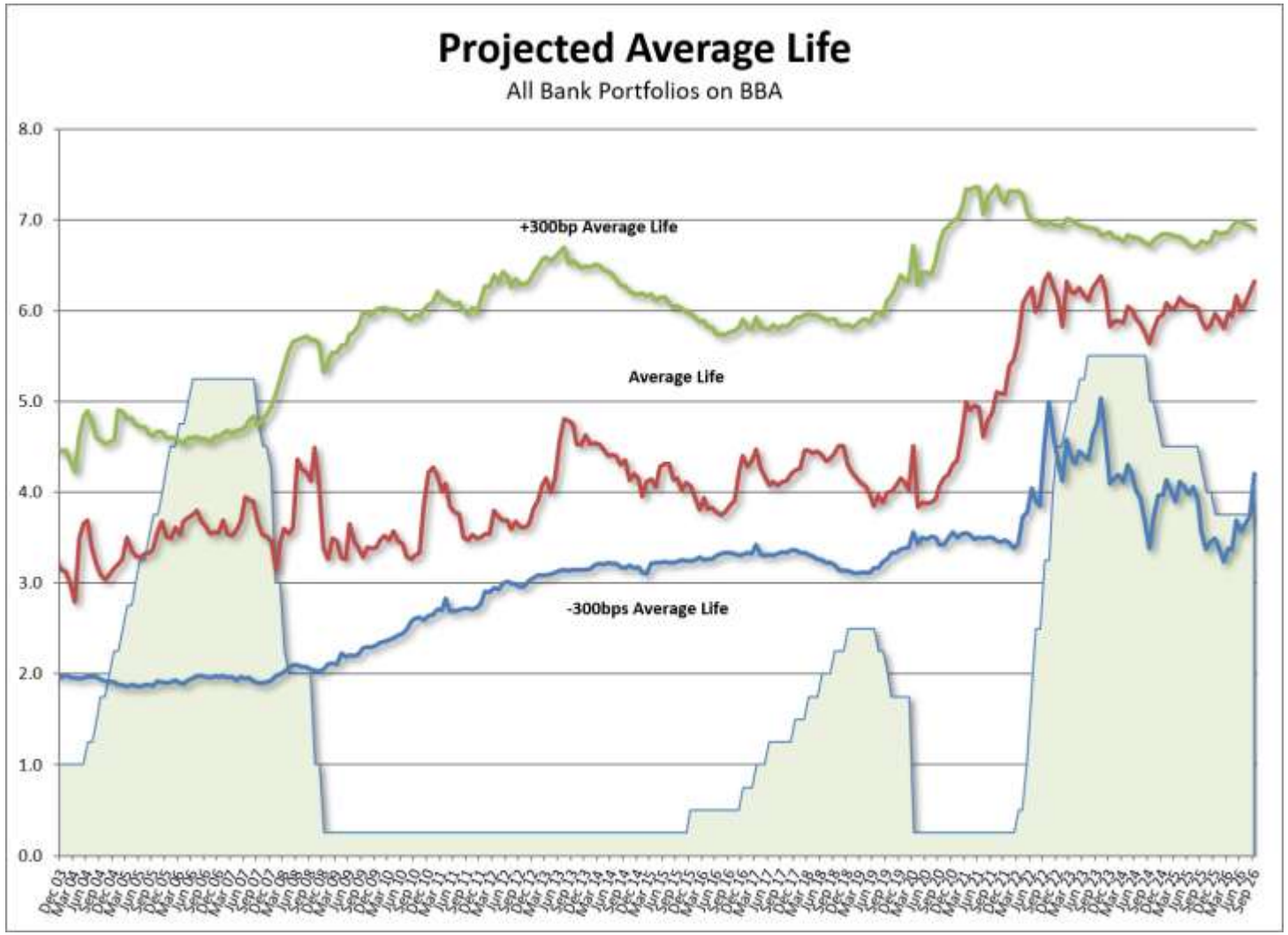
Average Lives Have Risen, Extension Risk Steady & Call Protection Has Risen

- Projected Average Lives have extended to the upper range of the “+/- 300bp AvgLife Band” as mortgage securities and callables are no longer “in the money”.
- But +300bp Average Life remains steady as clients actively work to control extension risk.
- -300bp Average Life has risen, reducing “contraction risk” if rates were to fall. This has happened as clients have added more positively convexed bonds like Bullets, Munis, CMBS and Discount MBS/CMO.



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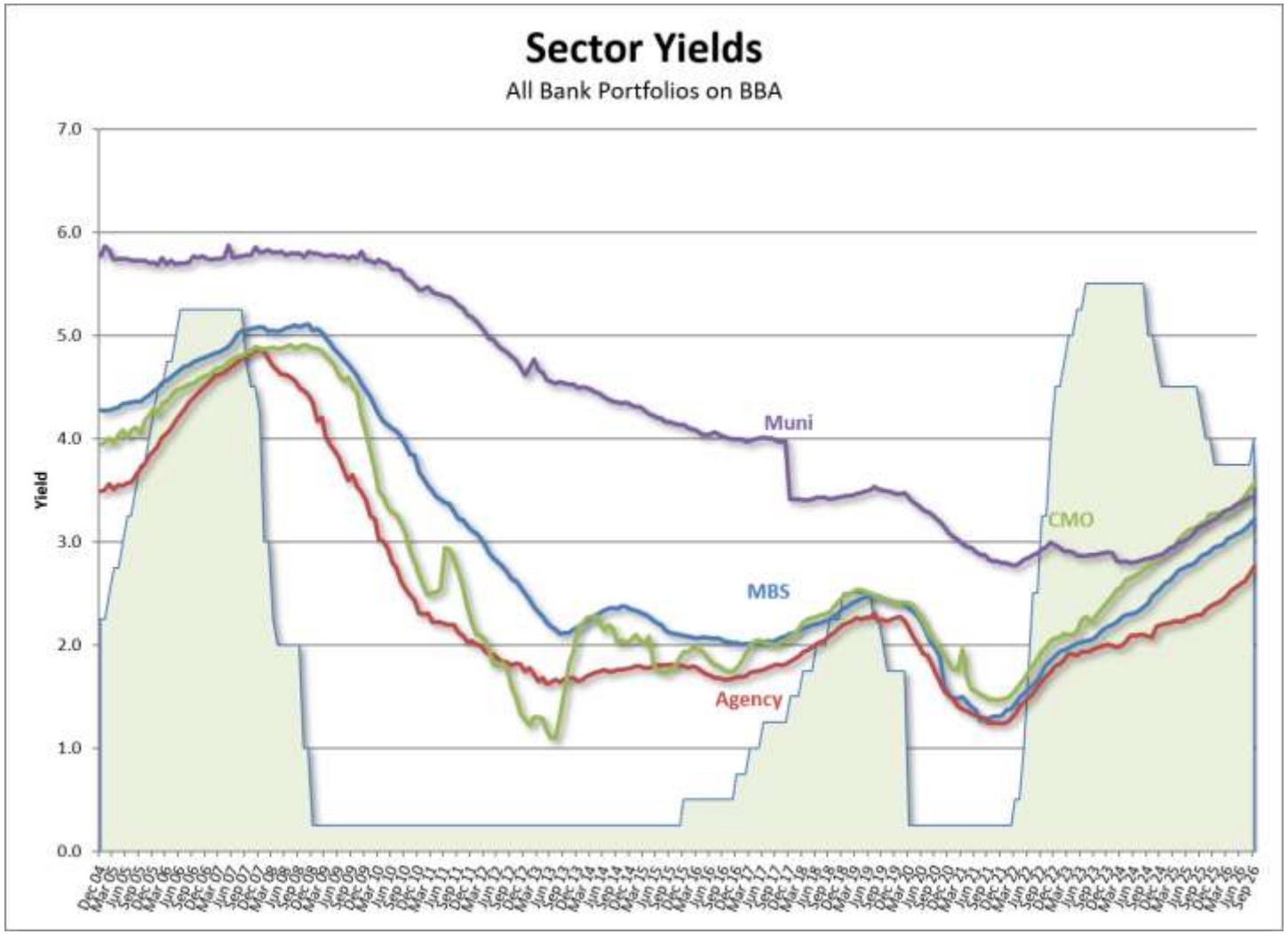
Yields Have Increased In All Sectors, But CMOs Have Seen The Biggest Move

- Yields have increased in all sectors, but CMOs have seen the largest moveand now yield more than Munis.
- Muni spreads have been tight or even negative on the short end for the last several years (especially for C-Corps), limiting banks' ability to add higher yielding Munis. But there is finally much better value in Munis today and relative value buyers should evaluate the sector again.
- CMOs have seen the largest increase in portfolio yields. The shorter, more stable cash flows on our clients CMOs have allow for better reinvestment opportunities. We continue to see excellent value in the CMO sector.



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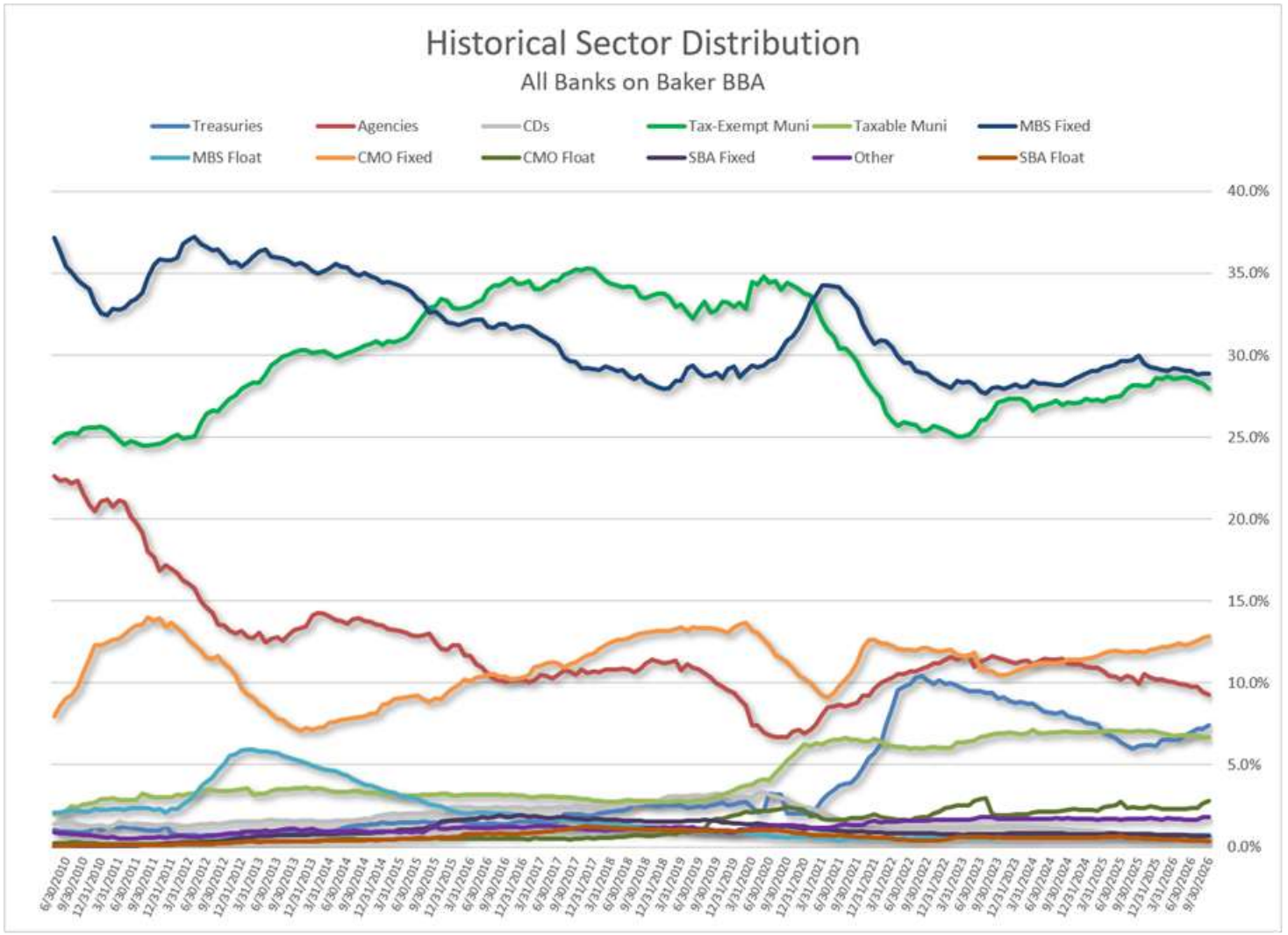
Client Allocations Remain Underweight MBS/Munis & Overweight Tsy/Agy

- Tax-Exempt Munis fell slightly to 28%.
- MBS steady at 29% and CMO increased to 13%.
- Treasuries are up to 7% over the last year after declining 2022-25. Pre-pandemic, Treasuries were at 2%.
- Agencies steady down to 9%.
- 4 years ago spreads were incredibly tight on MBS and even negative on municipals inside of 10yrs so many banks focused more purchases in Treasuries as the "give-up" vs spread product was minimal.
- Today, MBS spreads are the widest since the GFC, Muni yields are the highest in a decade.
- Portfolio managers should focus on the best relative value available at any given time - don't focus on where the value used to be.
- **We recommend reallocating Treasury & Bullet Agency positions to the MBS/CMO, CMBS & Municipal sectors as opportunities present themselves.**



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Clients Bought More MBS, Less Munis In Q2

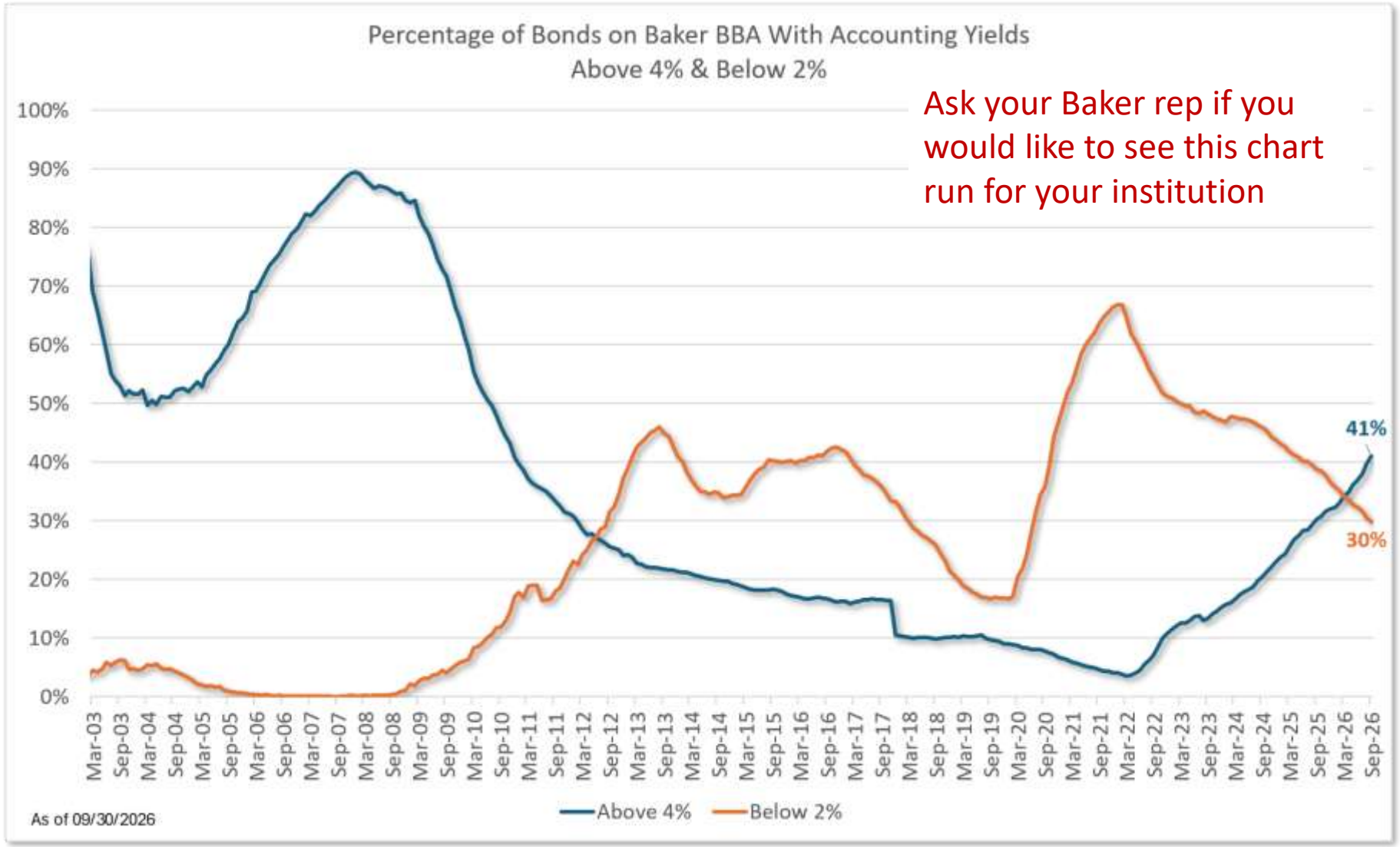
2nd Quarter Purchases

Sector	% of Total	CurFace	Count	Acctg TEY	Avg Life	-300 AL	+300 AL	-300 PxVol	+300 PxVol
ABS FL	1.47%	48,857,585	11	5.21	5.81	5.54	6.55	0.15	(0.46)
Agy	8.01%	266,178,118	211	4.61	7.13	1.54	7.39	9.85	(16.09)
CD	4.58%	152,380,212	607	4.04	1.93	1.78	1.93	5.39	(5.26)
CMBS	6.69%	222,463,903	169	4.45	4.98	4.22	5.18	12.48	(12.09)
CMBS FL	2.07%	68,916,523	27	4.22	6.04	6.05	6.09	(0.02)	(0.31)
CMO	25.08%	833,552,593	565	4.78	4.40	2.05	5.85	7.23	(13.08)
CMO FL	2.13%	70,801,871	40	4.50	5.93	3.35	8.53	0.51	(4.75)
Corp	0.41%	13,644,000	18	5.31	8.43	3.57	8.43	10.39	(16.23)
Corp FL	1.66%	55,200,000	46	6.35	9.52	9.52	9.52	13.56	(11.38)
MBS	28.80%	957,235,826	766	5.64	5.20	3.21	6.31	10.33	(13.69)
MBS FL	1.18%	39,353,200	25	4.49	4.00	1.95	5.57	4.64	(8.79)
Muni	14.33%	476,400,036	839	5.24	10.80	6.66	13.46	14.38	(16.28)
SBA	0.78%	25,798,299	33	4.43	3.72	2.30	4.53	7.97	(11.08)
Tax Muni	2.81%	93,435,000	129	4.55	4.87	3.63	5.42	11.60	(10.91)
STK/PFD	0.00%	400	2	-	-	-	-		
Grand Total	**100.00%**	**3,324,217,565**	**3,488**	**4.92**	**6.01**	**3.66**	**7.22**	**9.82**	**(12.39)**

3rd Quarter Purchases

Sector	% of Total	CurFace	Count	Acctg TEY	Avg Life	-300 AL	+300 AL	-300 PxVol	+300 PxVol
ABS FL	1.72%	59,119,354	10	5.54	5.23	5.14	5.61	0.40	(0.63)
Agy	8.80%	302,737,000	214	4.96	5.92	2.33	6.28	8.94	(14.11)
CD	3.33%	114,605,431	442	4.31	2.08	1.99	2.08	5.88	(5.51)
CMBS	5.40%	185,952,525	126	4.79	5.03	4.19	5.19	12.75	(12.05)
CMBS FL	1.06%	36,574,367	11	4.35	5.75	5.69	5.77	0.01	(0.05)
CMO	24.57%	845,364,716	509	5.16	4.56	2.39	5.90	8.09	(13.20)
CMO FL	4.52%	155,655,852	43	4.42	5.60	3.82	8.18	0.25	(2.13)
Corp	0.41%	14,075,000	17	5.38	6.56	5.88	6.59	16.12	(14.00)
Corp FL	1.45%	50,000,000	41	6.81	9.51	9.51	9.51	11.86	(9.96)
MBS	33.89%	1,166,330,164	844	5.16	5.18	3.40	6.28	10.71	(13.63)
MBS FL	1.44%	49,534,834	28	4.63	5.54	2.39	7.32	6.72	(10.95)
Muni	10.75%	369,833,839	795	5.56	10.50	7.41	11.40	14.72	(14.24)
SBA	0.78%	26,983,958	32	5.15	4.54	2.59	5.63	8.96	(12.63)
SBA FL	0.03%	979,428	1	4.01	4.51	7.36	4.92	1.21	(0.34)
Tax Muni	1.84%	63,360,000	77	5.12	5.93	5.62	6.99	16.06	(13.83)
Grand Total	**100.00%**	**3,441,106,470**	**3,190**	**5.12**	**6.11**	**4.15**	**6.95**	**10.49**	**(12.24)**

Banks Now Hold More 4%+ Bonds Than <2% Bonds, First Time Since 2012



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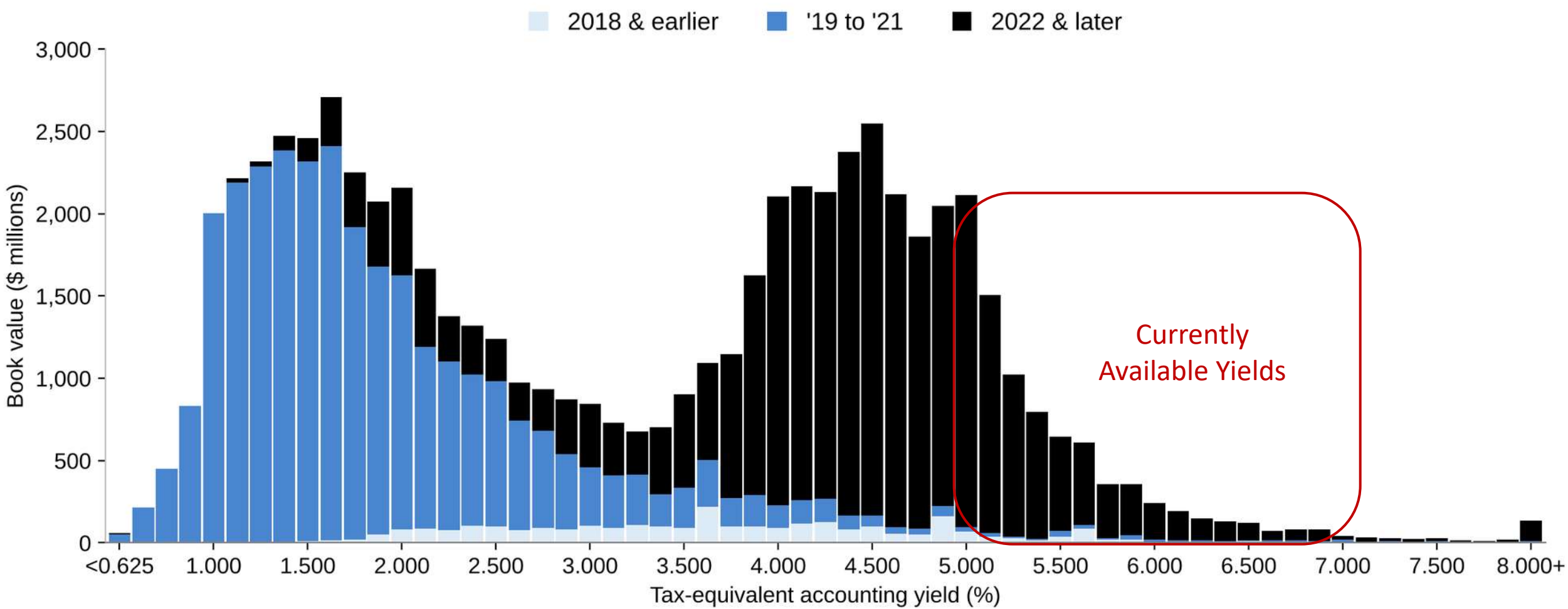
All Bonds Currently Owned By Yield
All Banks on BBA



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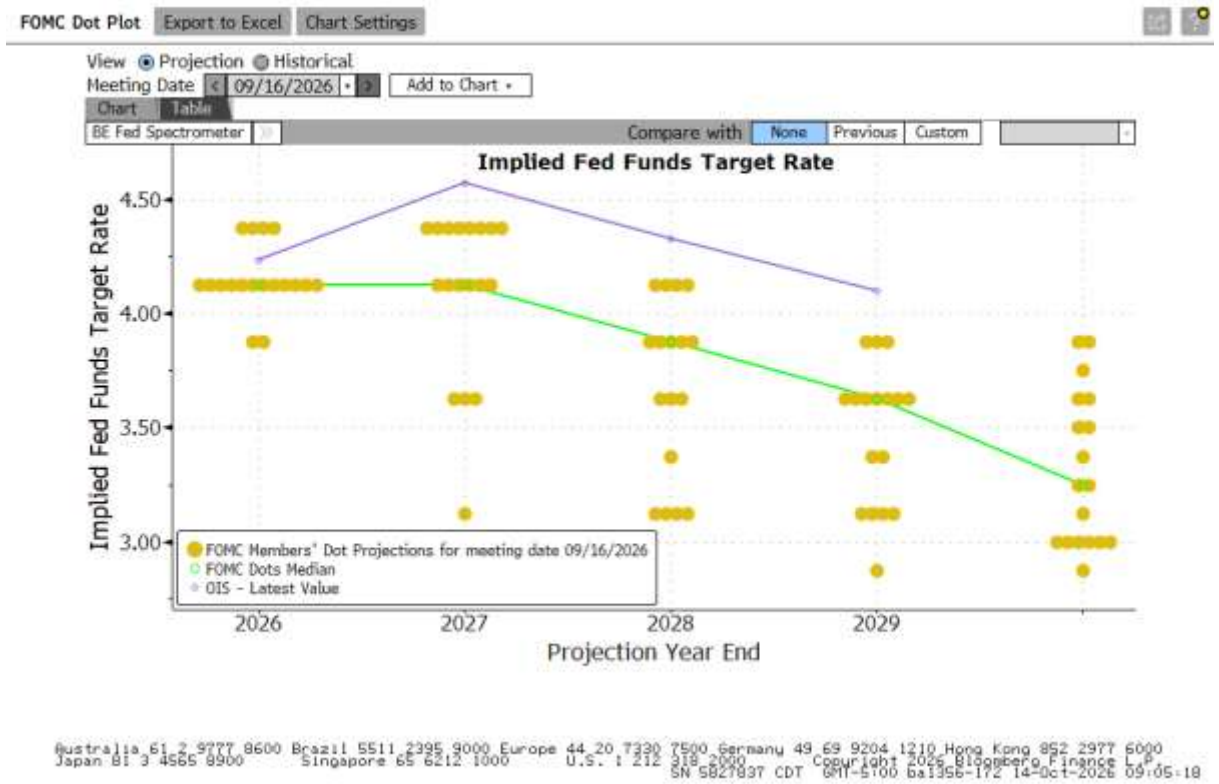
Sep FOMC Meeting & Dot Plot

- Sep FOMC statement: ***"Today's policy action will support a timelier return to the Committee's 2 percent goal…"***
- Vote to raise rates 25bp was unanimous
- 12 members want to raise rates 25bp more in 2026, 4 members want 50bp and 2 members want 0bp
- In 2027, 8 members want rates 50bp higher than today, 6 members want 25bp higher and 4 members want rates lower
- In the long term, the median member wants to cut rates to 3.25%



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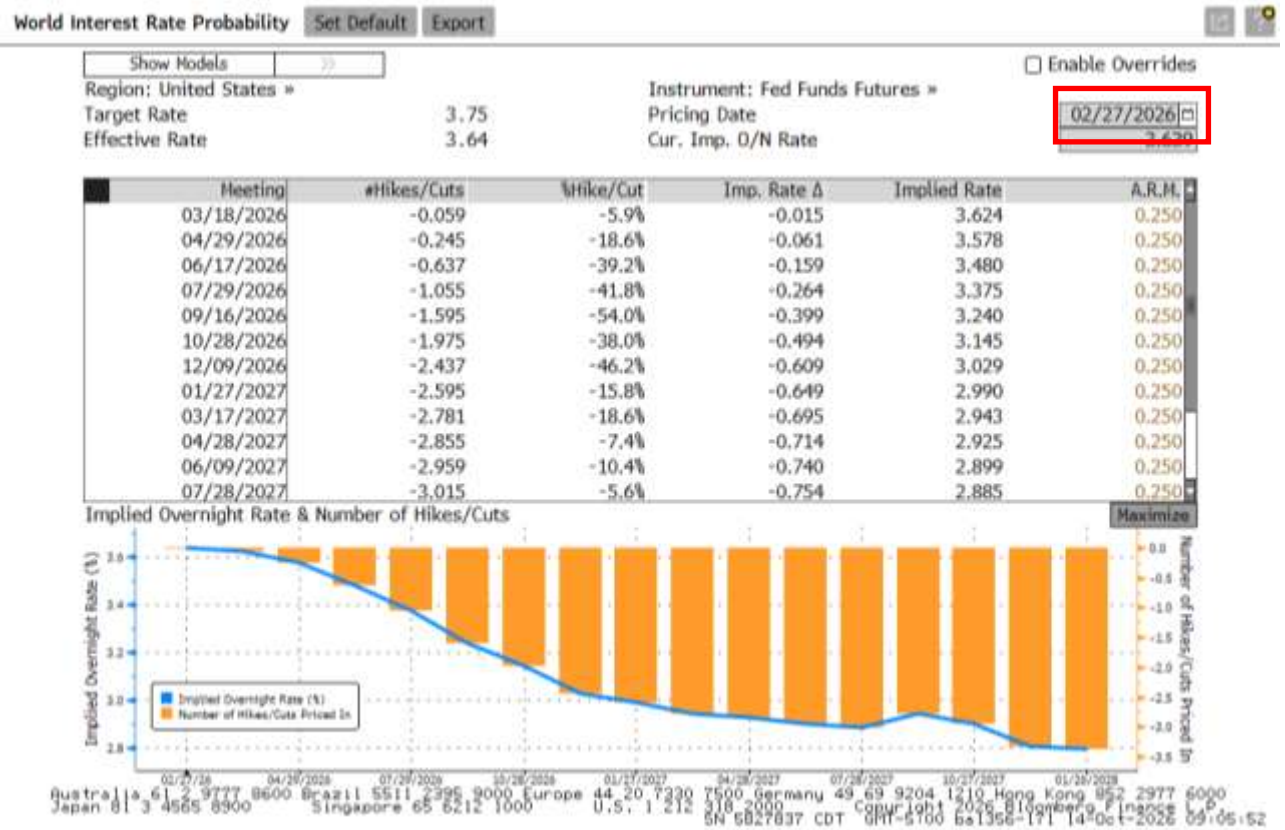
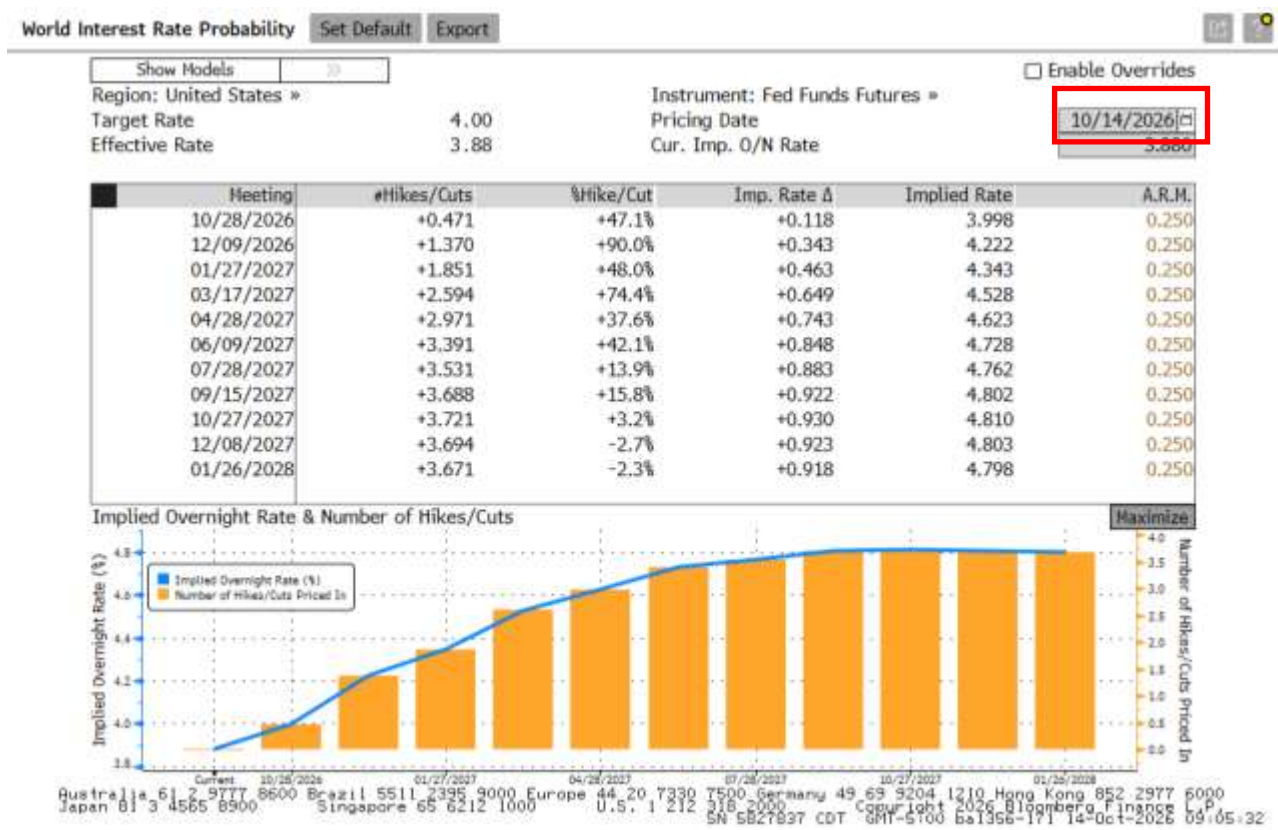
What A Difference A War Makes

Feb 27 Fed Funds Futures



Oct 14 Fed Funds Futures



Source: Bloomberg

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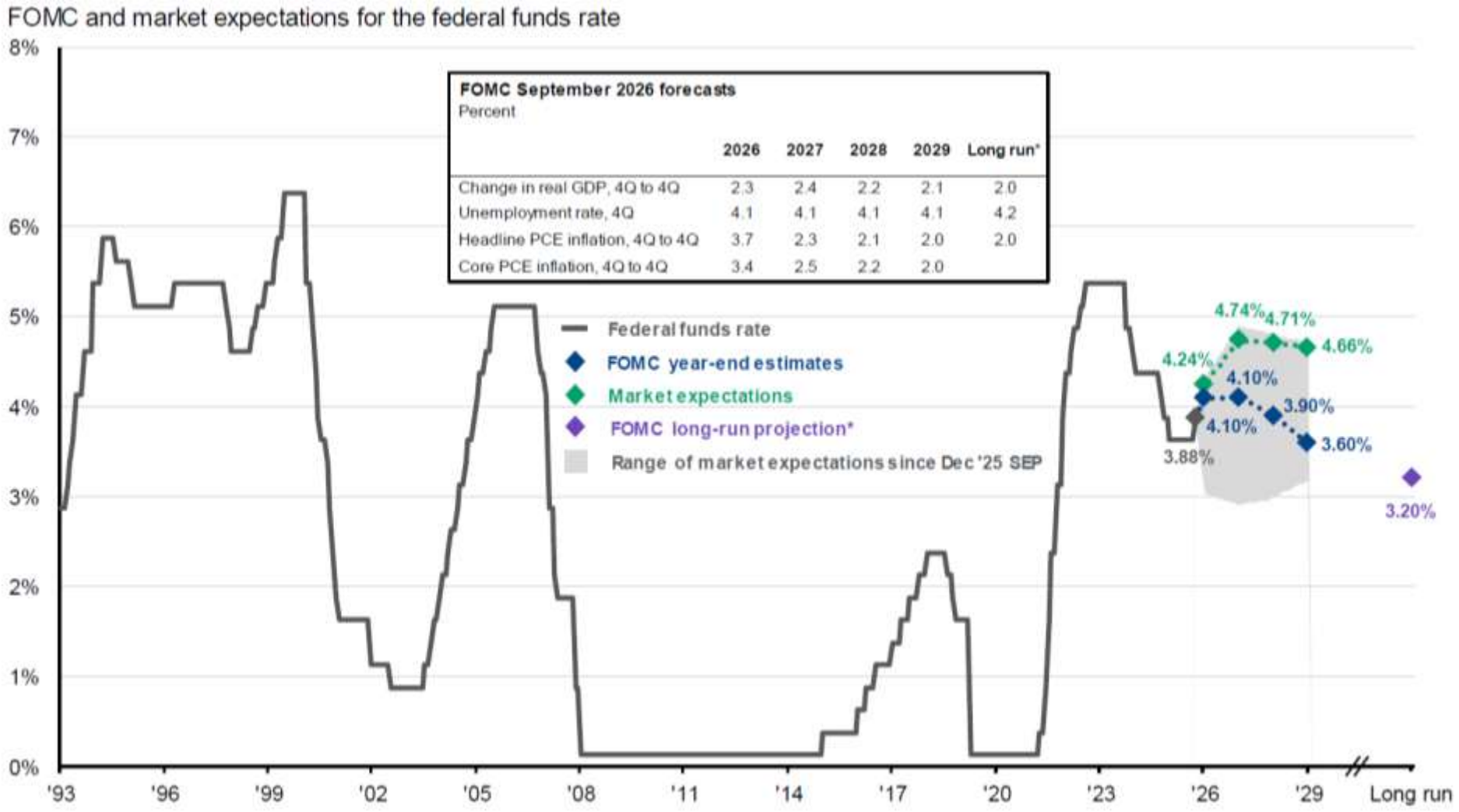
Fed Funds Rate: FOMC Dot Plot vs Range of Market Expectations



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

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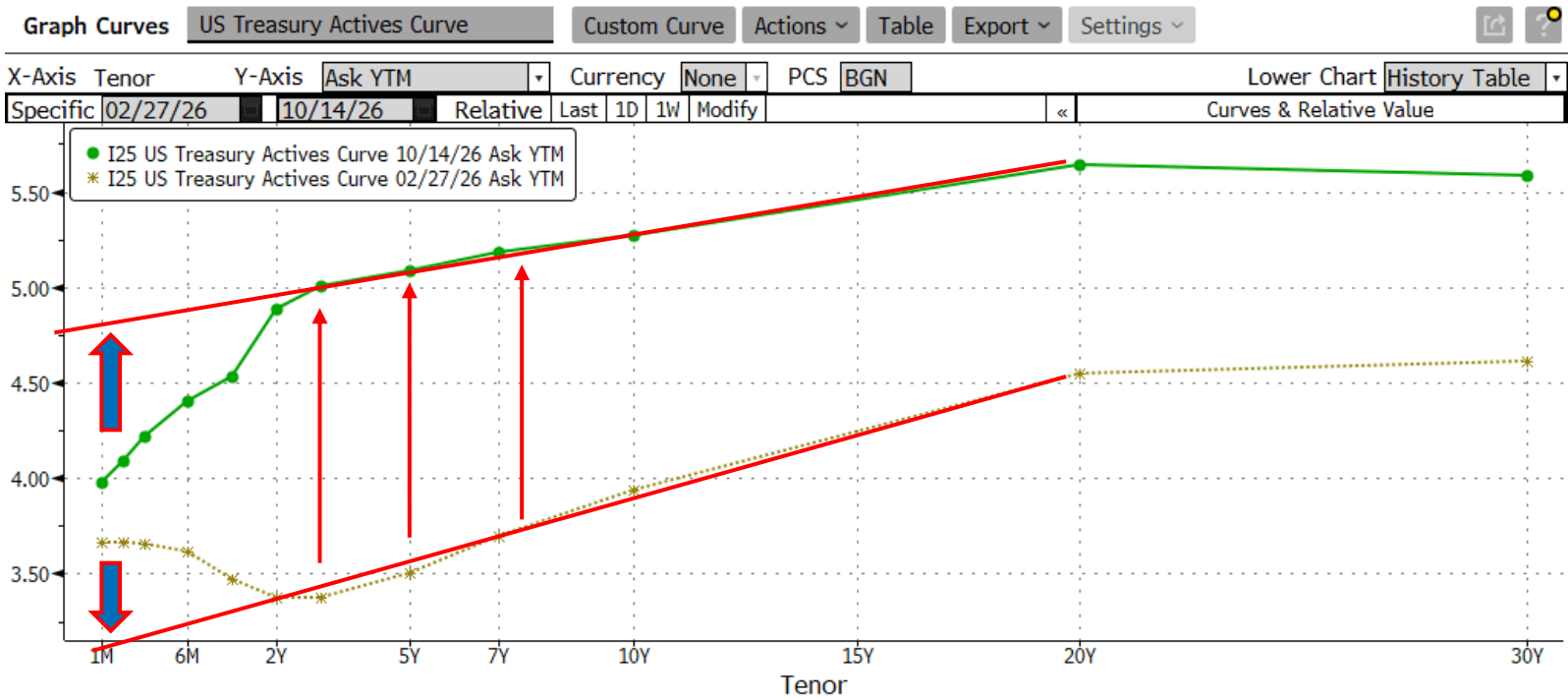
Rate Hike Repricing Creates Opportunity For Investors

- The repricing of multiple rate cuts to rate hikes has steepened the curve and created opportunity
- Since the beginning of the War in Iran, the **5yr is up 159bp** and the **10yr is up 134bp**
- **The bond market is already providing investors today with the benefit of any additional future rate hikes, which may or may not materialize**
- The Fed remains split on how much to continue raising rates based on current data, but with inflation expected to fall in coming months and the labor market deteriorating below the surface, a dovish shift in the data could change the conversation at the Fed



All Tenors ◉ Key Tenors

Curve Id	1M	3M	2Y	5Y	10Y	20Y	30Y
I25 10/14/26	3.975	4.220	4.882	5.088	5.274	5.641	5.585
I25 02/27/26	3.668	3.656	3.375	3.502	3.937	4.550	4.611
I25 (10/14/26-02/27/2...	30.7	56.4	150.7	158.6	133.7	109.1	97.5

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2026 Bloomberg Finance L.P.
SN 5827837 CDT GMT-5:00 ba1356-171 14-Oct-2026 09:08:29

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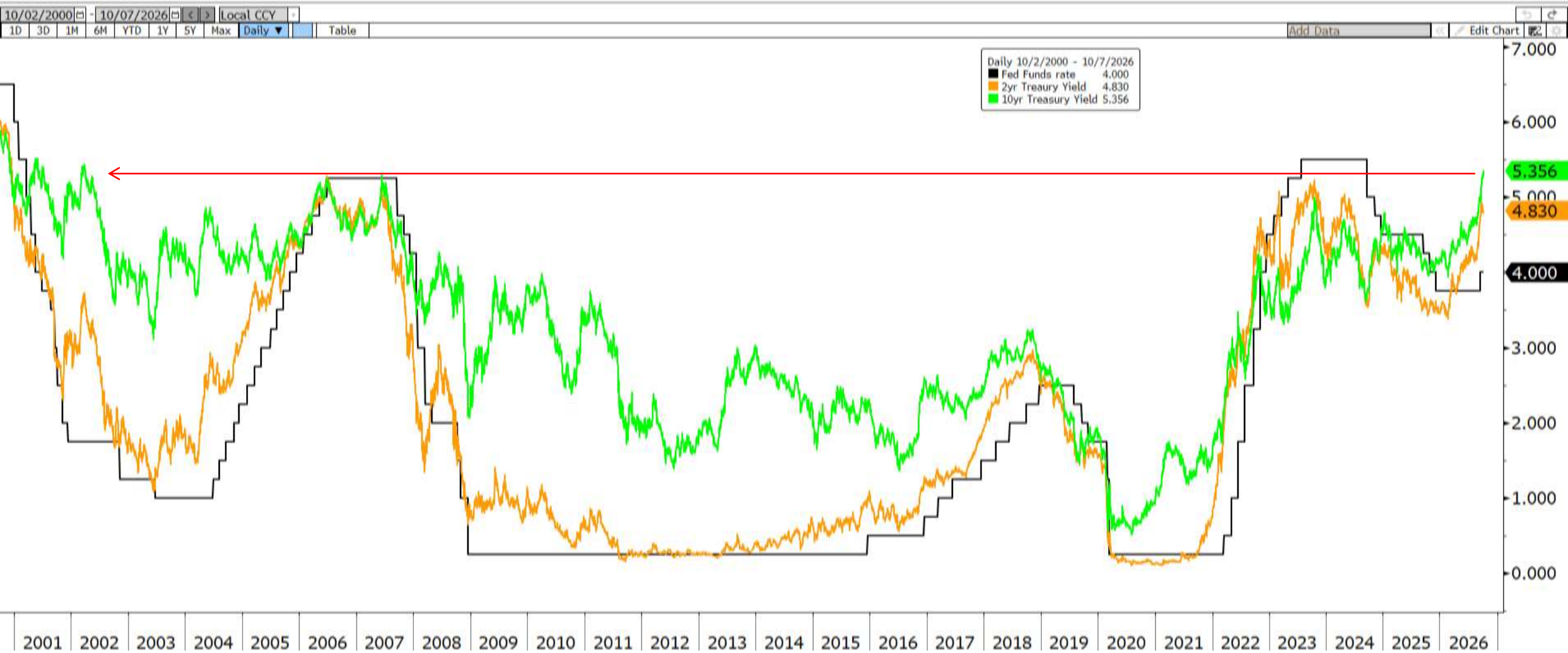
Bond Yields Are Near 25-Year Highs



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Q3 2026 Ties the Largest Quarterly Rise in 10-Year Yield in 25 Years

Top 10 quarterly increases in the 10-year yield, Q4 2001 – Q3 2026, and the change in the following quarter

Rank	Quarter	Start	End	Change (bp)	Next Qtr (bp)
T-1	**Q3 2026***	**4.44%**	**5.29%**	**+85**	—
T-1	Q4 2016	1.60%	2.45%	+85	–5
T-1	Q3 2022	2.98%	3.83%	+85	+5
4	Q2 2009	2.71%	3.53%	+82	–22
5	Q1 2021	0.93%	1.74%	+81	–29
6	Q1 2022	1.52%	2.32%	+80	+66
7	Q3 2023	3.81%	4.59%	+78	–71
T-8	Q4 2010	2.53%	3.30%	+77	+17
T-8	Q4 2024	3.81%	4.58%	+77	–35
10	Q2 2004	3.86%	4.62%	+76	–48

+85 bp

Q3 2026 change (4.44% → 5.29%)

6 of 9

prior top-10 quarters saw yields fall the next quarter

–22 bp

median next-quarter change (avg –14 bp)

The exception: early in the 2022 hiking cycle, Q1 2022's +80 bp was followed by another +66 bp.

*Q3 2026 uses an assumed 9/30/2026 close of 5.29%. Quarterly change = last close of prior quarter to last close of quarter. Ties reflect rounding to whole bp. Source: Federal Reserve Board H.15 via FRED (DGS10).

The 10yr Yield Has Rarely Been Above 5.25% Since 2001

The 10-year has traded above 5.25% for just 1 month in the last 25 years

Daily constant-maturity yield since October 2001. Days above 5.25% are shaded amber — almost entirely spring 2002 and one day in 2007, until the 10-year broke through in late September 2026. At 5.35% today, it is at its highest level since April 2002.

0.46%
of trading days above 5.25%

29
days / 6,252 total

5.44%
25-yr high · Apr 1 2002

5.35%
today · Oct 7 2026



Source. U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates (10-year Constant Maturity), Oct 9, 2001 – Oct 5, 2026; Oct 7, 2026 is a live intraday market quote (5.35%). Oct 6 official value not yet published. **Method.** Counts trading days with a yield strictly above 5.25% (days equal to 5.25% excluded → 32 days, 0.51%). Weekends and holidays not counted.

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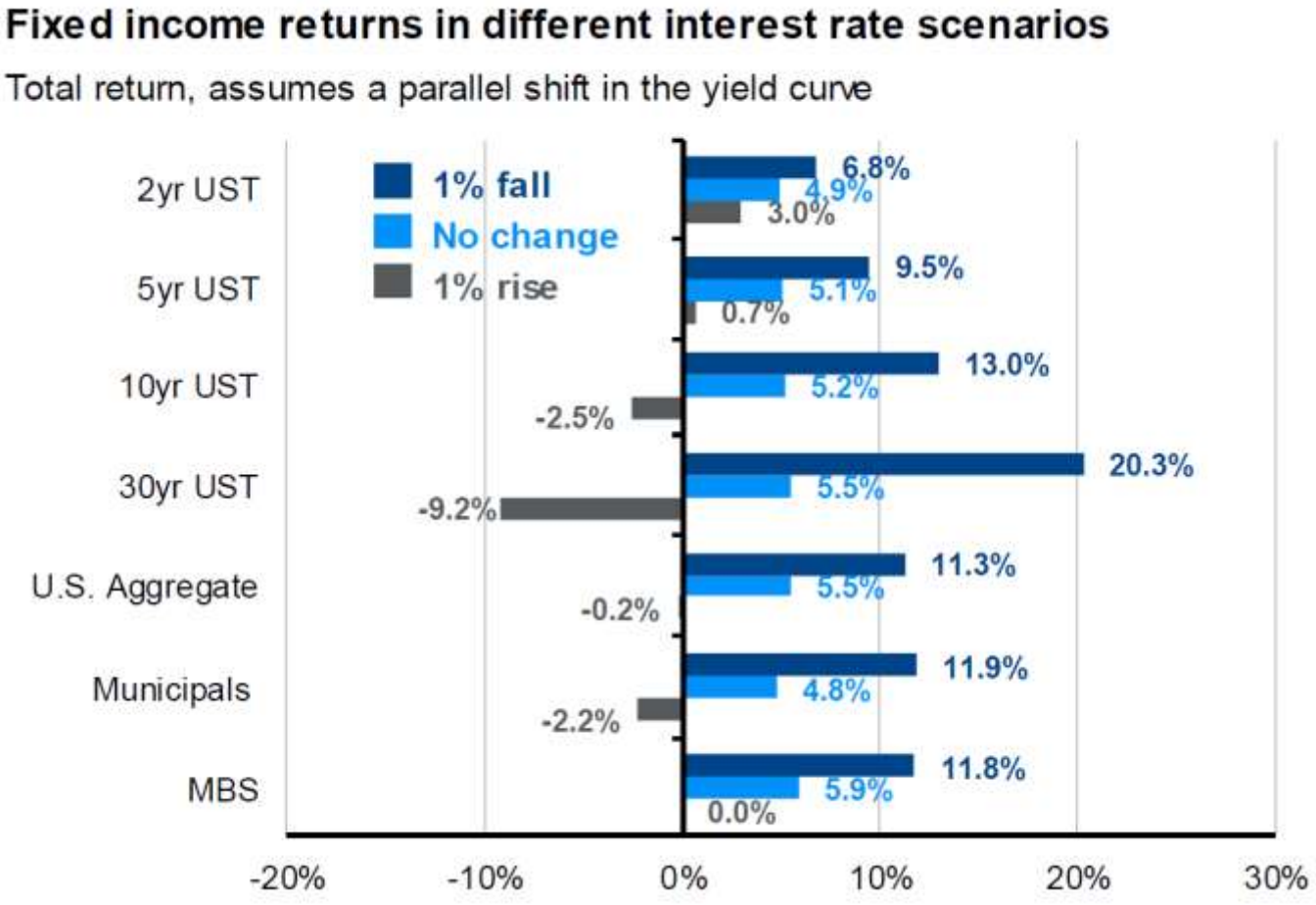
Risk/Reward Tradeoff In Today's Bond Market Is Best in 25yrs

- **The Risk/Reward in today's bond market is asymmetric.**
- Upside total return potential far outweighs downside risk.
- The higher annual income from today's yields lessens the impact of depreciation risk.
- The 1-Year Total Return breakeven yield for the 10yr is 6%, meaning a 10yr bought today would have a positive 1-year total return until yields rise above 6%.
- **Given a +/- 100bp rate shock over a 1yr horizon, MBS have 12% upside and 0% downside.**
- Are you waiting to invest because you are worried rates will rise another 50-100bp? Don't let that prevent you from adding yield to the portfolio and taking advantage of the best risk/reward tradeoff in 25yrs.



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Baker Group APM Peer Comparison

Northeast Banks - Composite

Advanced Portfolio Monitor - Peer Comparison

Portfolio Performance	Your Institution	Bottom	Average	Top
Acctg Yield	3.11	2.41	3.32	4.31
Peer Group Percentile	36%			
Unrlzd Gain/(Loss) %	(8.90)	(13.27)	(9.34)	(6.16)
Avg Life (yrs)	5.60	6.27	6.09	6.70
+300 Avg Life (yrs)	5.93	6.75	6.64	7.33
+300 Price Change %	(11.26)	(12.54)	(12.07)	(12.32)
Port. % Chg Q1'22	-9%	-29%	-7%	+44%
US Treasuries	3%	4%	8%	10%
Agencies	22%	13%	11%	9%
Municipals	29%	30%	27%	26%
Taxable Municipals	5%	6%	7%	6%
MBS	23%	30%	28%	23%
CMO	13%	10%	12%	14%
CMBS	3%	5%	4%	4%
Other	4%	2%	3%	8%

The most important factor in determining investment portfolio performance ranking is how much a bank participates in today's market at 25-year highs in yield.

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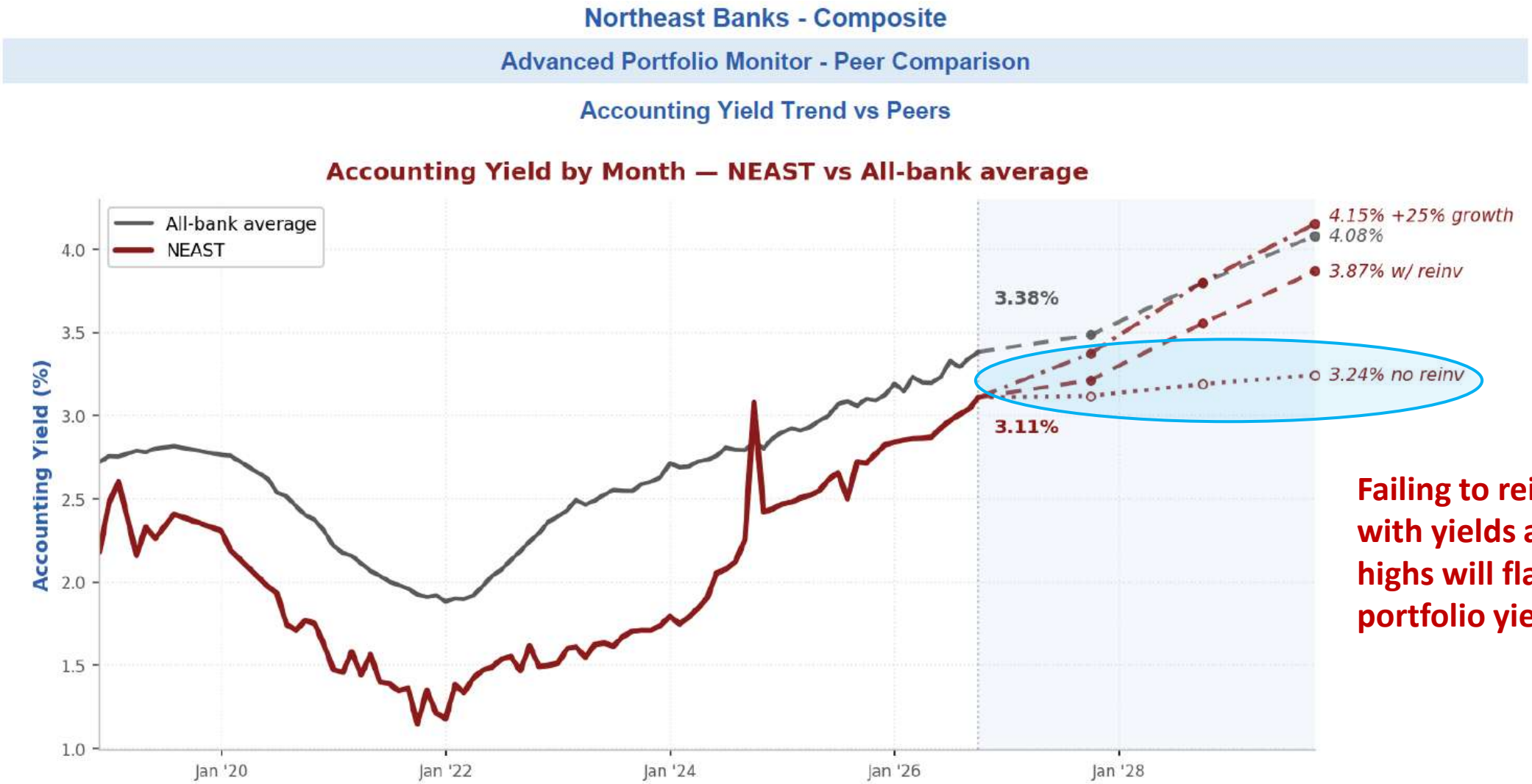
Baker Group APM Peer Comparison
Projected Yield With and Without Reinvestment



Failing to reinvest with yields at 25yr highs will flatline portfolio yields…

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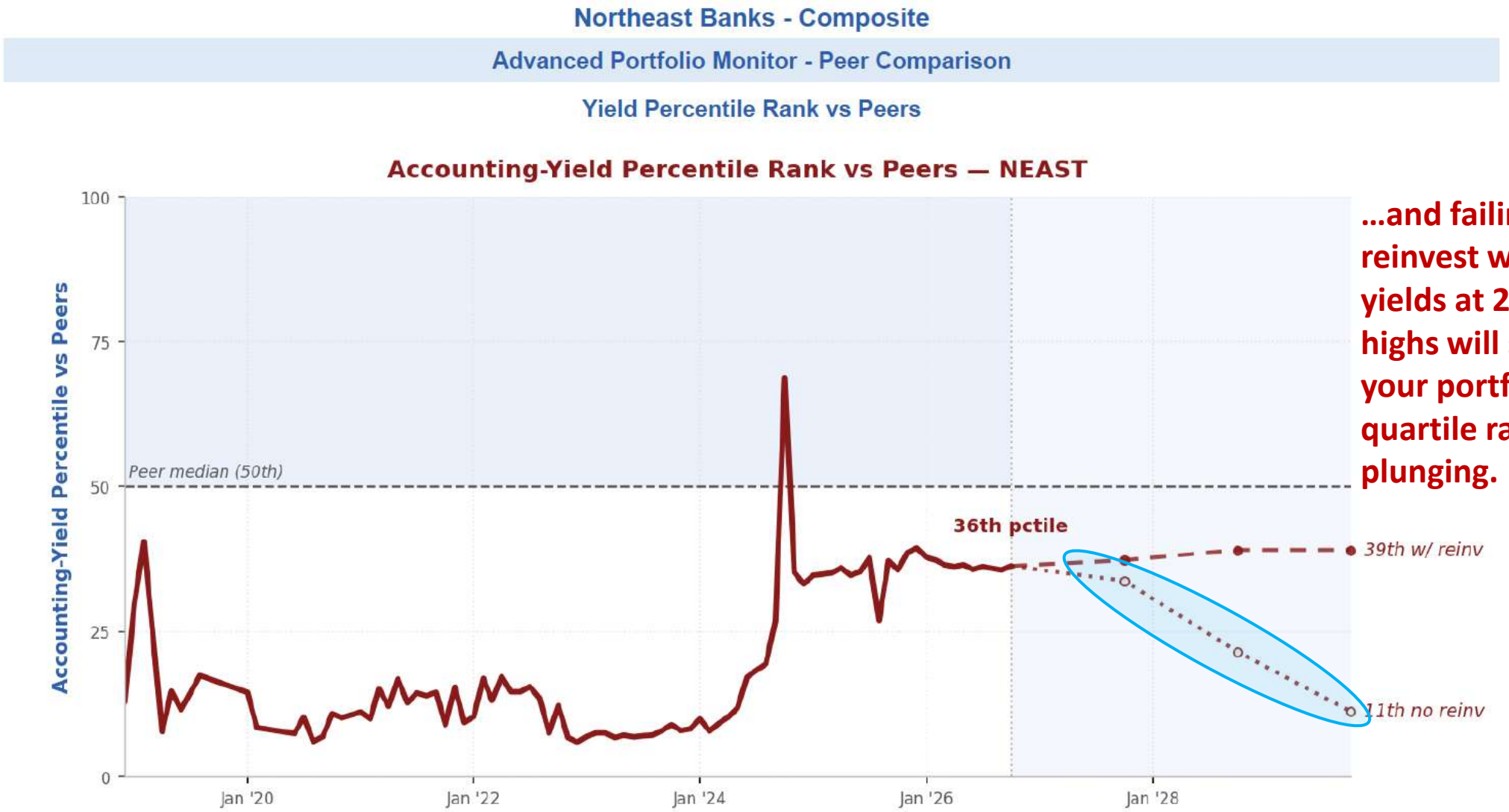
Baker Group APM Peer Comparison
Portfolio Yield Quartile Rank With and Without Reinvestment



…and failing to reinvest with yields at 25yr highs will send your portfolio quartile ranking plunging.

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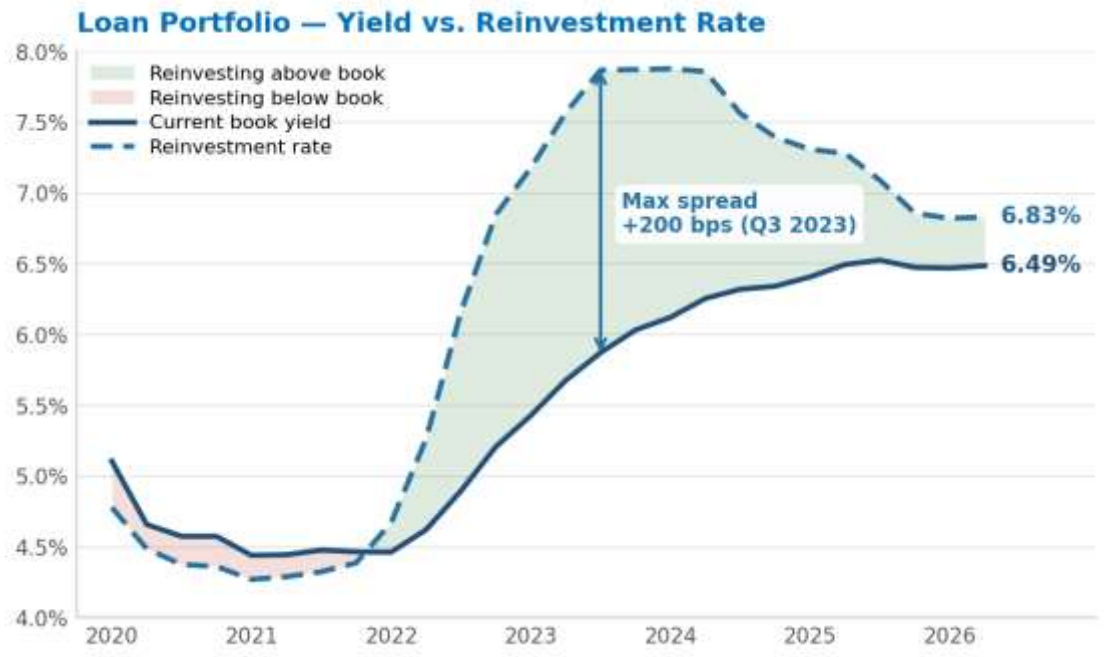
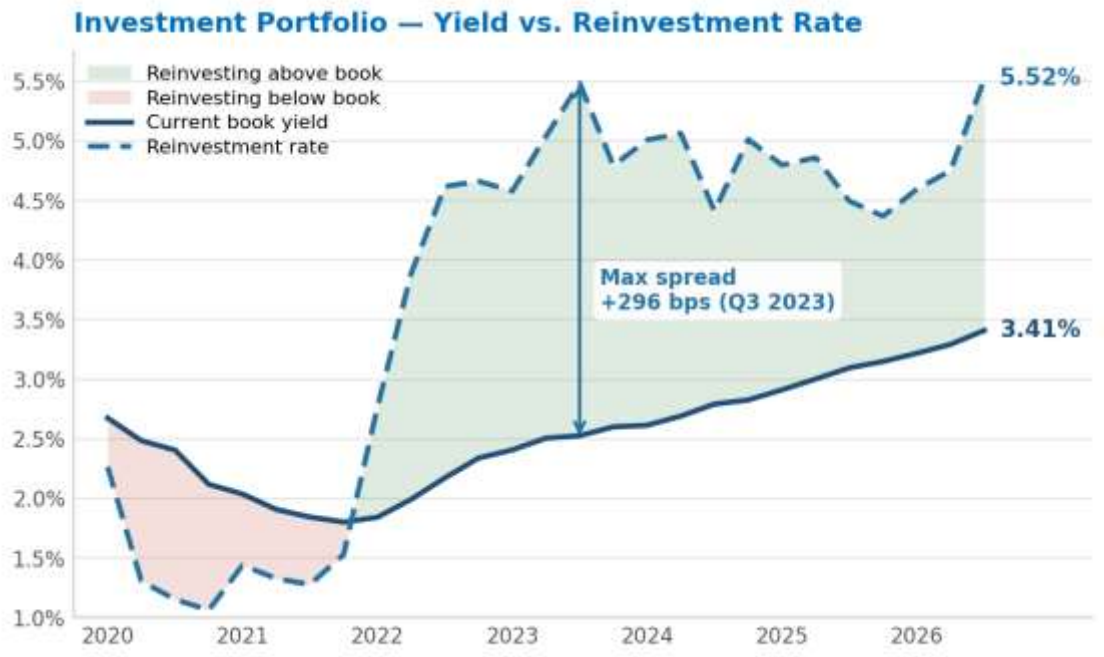
Reinvestment In The Bond Portfolio
Provides Significantly More Opportunity Reinvestment In The Loan Portfolio

KEY TAKEAWAY **Reinvestment rates remain above current book yields, but both spreads have narrowed from their Q3 2023 peaks, especially on the loan book. The Fed rate cuts have put more pressure on loan reinvestment rates. Current spreads: +34 bps on loans, +211 bps on investments.**



Loans: Reinvesting at 6.83% vs a 6.49% book

Current Spread: 34bp



Investments: Buying at 5.52% vs a 3.41% book

Current Spread: 211bp

Source: Loans — IRRM peer cohort trends (book-value-weighted, 651 banks and credit unions; 2 fintech-partner lenders excluded). Investments — Baker APM portfolio history via headwaters, all bank portfolios (832; Accounting = book yield, Market = reinvestment rate). Q1 2020–Q2 2026 (loans), Q1 2020–Q3 2026 (investments).

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We Must Be More Proactive With The Investment Portfolio



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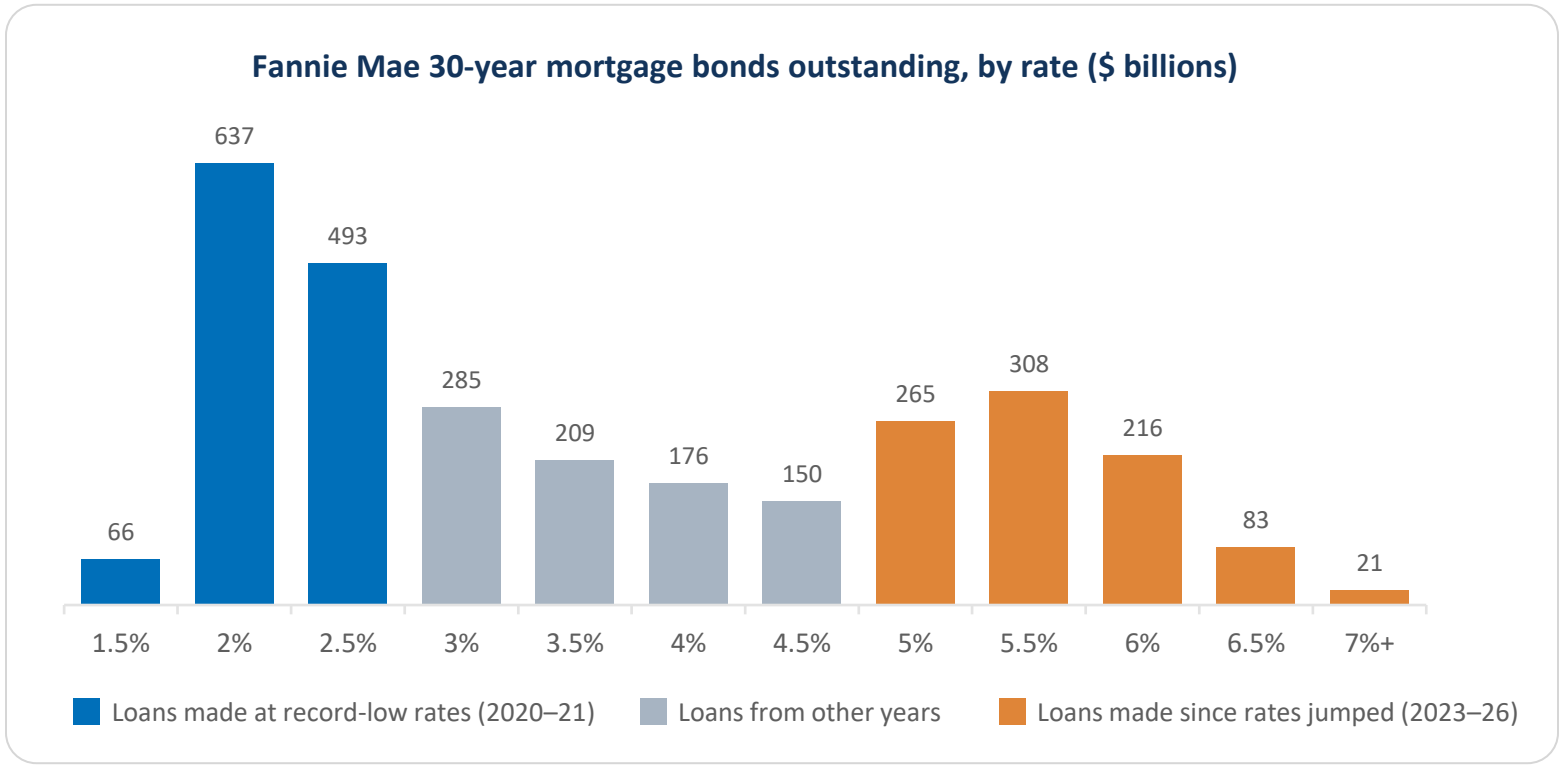
Rapid Rate Moves Over Last Decade Have Created More *Choice* for Bond Investors

The swing from record lows in 2020 to 25yr highs in 2026 have created bonds at almost every level of coupon, price, seasoning and structure

- There is a record amount of choice in the bond market
- MBS/CMO coupons range from 1.5% to 7% and Munis from 2% to 5%
- There are deep discount MBS & Callable Agencies trading at 65-75 cents of the dollar or par/premiums.
- There are super seasoned pools or brand new pools
- Long munis at 7%+ TEYs for yield or short CMOs at 5.5% for cashflow
- There are monthly CMO floaters or Hyrbid ARMs for rate protection.



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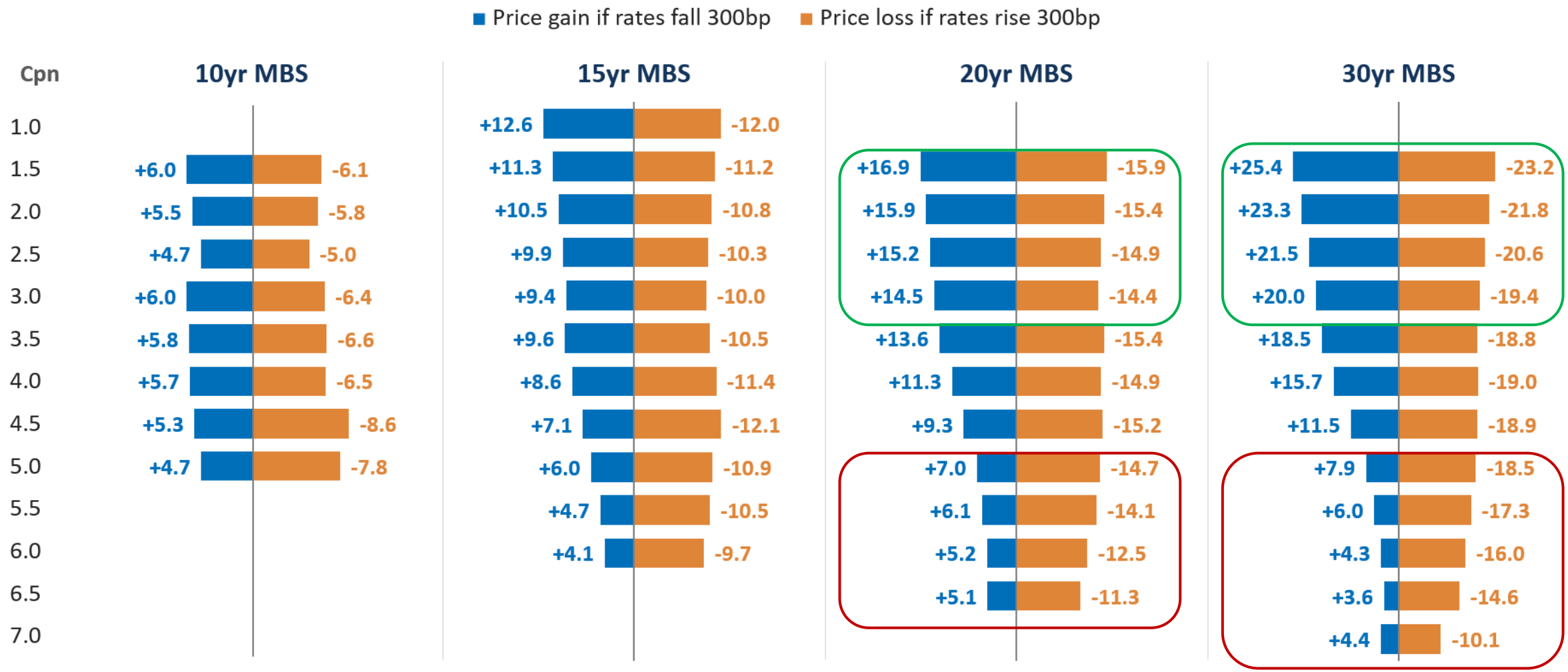
There Are a Lot of Choices in MBS Today – Understand How Term & Coupon Affect +/- Price Vol



Note: % price change. Median of unique fixed-rate MBS pool CUSIPs in APM portfolios issued 2020 or later, WALA ≤80 months; coupons with fewer than 3 CUSIPs left blank.
Indicative only. Source: Baker Group APM, 9/30/2026.

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With good value choices across every sector, there is bond to fit any strategy

If you want…	Look at…	Income today *(yield)*	Price drop if rates rise 300bps *(price risk / duration)*	Years to get most money back *(average life)*	Early-payoff risk *(calls / prepayments)*
Maximize income non-Muni	30-year mortgage pools *Trade-off: the biggest price swings among mortgages*	5.90%–6.25%	−15% to −21%	6–9 yrs	● Moderate
Maximize income w/ Munis	Tax-exempt municipals (bank-qualified and general market) *Tax-equivalent for a bank*	5.5%–6.8% C Corp 6.0%–7.7% S Corp	−14% to −23%	5–23 yrs	● Moderate
High income, can live with calls	Callable agencies (FHLB, FFCB, Fannie, Freddie) *Trade-off: likely called away if rates fall*	5.0%–6.75%	−8% to −24%	3–13 yrs†	● High
Lock in today's rates	Bullet agencies (no call) *Gives up some income for certainty*	4.78%–5.31%	−6% to −20%	2–10 yrs	● None
Minimize price volatility	Agencies maturing within 3 years; CDs *Trade-off: less income (CDs 4.60%–4.85%)*	4.51%–5.07%	−3% to −8%	1–3 yrs	● Moderate
Protect against rising rates	SBA floating-rate pools & CMO Floaters *Income resets with rates — and falls if rates fall*	4.20%–5.25%	About −1%	3–5 yrs	● Moderate
Prepayment protection	Agency multifamily (Fannie DUS, Freddie K) *Prepayment penalties keep cash flow on schedule*	5.18%–5.59%	−9% to −19%	3–9 yrs	● Low
Steady monthly cash flow	15-year MBS and CMOs *Pays down monthly to reinvest or fund loans*	5.10%–5.80%	−10% to −16%	3–6 yrs	● Low
Lowest risk-based capital	Ginnie Mae MBS/CMOs and SBA *Full U.S. government backing; 0% risk weight*	5.35%–6.15%	−10% to −20%	4–8 yrs	● Moderate
Maximize appreciation potential	Deep discount callable Agencies & 30-year MBS *Trading at 65-75 cents on the dollar with 20-40% -300bp Px Chg*	5.75%–6.0%	−23% to −27%	2–19 yrs	● Low
More income from bonds you already own	Swap old 2%–3% bonds into today's 5%–6% offerings *Trade-off: the sale locks in a loss on paper*	About 5%–6% going forward vs. 2%–3% when bought — the extra income works to earn back the loss over time			

*Source: Baker inventory, 495 offerings across agencies, municipals, MBS, CMOs, agency CMBS, SBA and CDs, 10/13/26, grouped by type; ranges show the middle 80% (full range where there were fewer than four offerings: CDs, SBA floaters). Price drop assumes an immediate 300bps rise in rates. *Tax-equivalent yield for a bank at the 21% federal rate, net of the interest-expense disallowance (TEFRA) at a 1.5% cost of funds; credit unions earn the stated yield. †To maturity; may be called sooner. For illustration only.*

A New Version of Our Quarterly Investment Strategy Is Available

The BakerGroup

INVESTMENT STRATEGY · Q4 2026

PORTFOLIO STRATEGIST
tsg@gobaker.com

Sample National Bank

, OK · Portfolio Positioning, Interest-Rate Risk & Reinvestment Plan

1 MARKET OUTLOOK 2 FINANCIAL POSITION 3 INTEREST RATE RISK 4 INV. PORTFOLIO 5 POSITIONING & POLICY 6 STRATEGY 7 RECOMMENDATIONS & GUIDANCE

1 Market Outlook

Q4 2026 Commentary

Q3 closed with a consequential policy shift. On September 17th, the Fed unanimously raised the federal funds rate 25 basis points to 3.75% to 4.00%, its first hike in three years. Chair Kevin Warsh put it frankly: "The plain fact is that inflation is too high and has been for too long." The September dot plot showed 16 of 18 FOMC members expecting another hike by year-end.

Inflation is largely an energy story. The Iran conflict has kept crude above $100 and pushed diesel to a record $6.50 per gallon, up roughly 70% since late February. August CPI hit 3.4% year-over-year, PPI 5.4%, and import prices 7.0%, a four-year high. Core was more contained, with core CPI at 2.4% and core PCE below expectations at 3.0%. That and measured Fed commentary cut October hike odds from nearly 70% mid-month to roughly 35% by quarter-end, though the Fed doesn't see core PCE at 2% until 2029. The labor market held up: August nonfarm payrolls rose 162,000, well above the 55,000 consensus, and unemployment held at 4.1%. Leading indicators softened: JOLTS hiring hit its lowest since February, ADP payrolls rose only 38,000, and wage growth slowed to 3.1%.

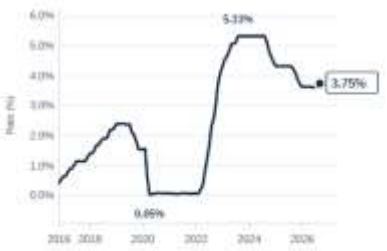
Growth was stable but uneven. Final Q2 GDP was 2.2% annualized, while real private domestic final purchases grew 4.2%, the strongest since Q1 2023, with Q3 momentum driven largely by AI investment and inventory building. Consumers showed more strain: Michigan sentiment closed September at 48.1, near record lows, and one-year inflation expectations rose to 4.6%. Savings fell to 3%, card delinquencies exceed their 10-year average, and 30-year mortgage rates topped 7.5%, the highest since early 2024.

Key Q4 risks are energy, rates, and further Fed action. The Iran conflict shows no near-term resolution, and even gradual oil normalization would keep diesel elevated for months as costs pass through to food, logistics, and construction. The 10-year Treasury crossed 5.30% on the quarter's last day, its highest since 2002, on persistent inflation, record debt issuance, and a more hawkish Fed. The economy enters Q4 in transition: investment and employment remain constructive, but financial conditions have tightened, housing faces high rates, and consumers face elevated prices and borrowing costs. How quickly energy stabilizes, and whether Fed tightening is nearly done, will shape the backdrop well into 2027.

2S/10S SPREAD



FED FUNDS RATE



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4 Investment Portfolio Detail

Portfolio data as of 9/30/2026

Investment Portfolio Overview

APM Table

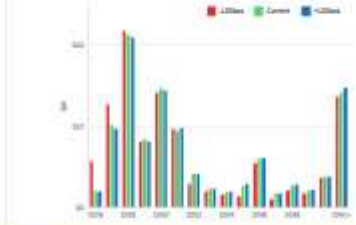
Sector	Par	% Port	Book Px	GIL	GIL %	CPN	Accr. Yield	Proj. Yld	Mkt Yld	Avg Life	Eff Dur	PV -300	PV +300
CMO (Fixed)	29.42M	25.59%	99.38	(4.29M)	(14.69%)	2.64	2.80	2.80	5.80	4.84	4.62	13.53	(14.40)
Municipals	23.73M	22.47%	100.34	(1.91M)	(8.03%)	3.67	4.04	4.48	5.34	11.72	5.33	9.86	(14.79)
Agencies	23M	22.12%	104.47	(2.47M)	(10.28%)	2.62	1.46	1.46	4.99	3.28	3.07	9.78	(8.68)
Corporates	9.63M	9.35%	99.32	(449K)	(4.70%)	2.21	2.49	2.49	4.95	1.89	1.85	5.78	(5.34)
MBS (Fixed)	9.77M	9.13%	103.15	(1.18M)	(11.75%)	3.04	2.65	2.51	5.45	4.75	4.02	12.72	(13.55)
CMBS (Fixed)	4.70M	3.64%	101.76	(1.23M)	(25.74%)	1.94	1.58	1.63	5.52	9.54	7.58	26.78	(17.02)
Corporates (Float)	3M	2.55%	100.00	(519K)	(17.29%)	3.50	3.50	4.70	7.11	9.75	4.16	13.41	(11.62)
SBA (Float)	1.96M	2.09%	107.89	(86K)	(4.07%)	7.19	3.63	4.22	5.79	3.68	0.37	1.22	(1.05)
CMO (Float)	1.38M	1.42%	100.02	(91)	(0.01%)	4.56	4.74	4.01	4.05	4.68	0.03	(0.32)	(1.80)
Taxable Municipals	954K	0.85%	99.97	(27K)	(3.13%)	2.75	3.44	3.44	3.65	20.07	15.10	60.03	(34.83)
SBA (Fixed)	768K	0.76%	100.31	(29K)	(3.83%)	4.83	4.51	4.51	5.53	5.86	5.15	9.43	(15.15)
MBS (Float)	28K	0.03%	102.32	172	0.59%	6.04	5.28	5.58	5.32	2.90	0.65	1.99	(3.82)
Total Portfolio	100.35M	100.00%	101.21	(12.20M)	(11.13%)	3.00	2.78	2.90	5.38	6.16	4.16	11.47	(12.04)

Cash Flow & Scenario Analysis

ANNUAL CASH FLOW BY SECTOR



CASH FLOW SENSITIVITY - PARALLEL SHOCKS



Duration × Spread - Annual Reinvestment Income

Avg Life	0 bps	+25 bps	+50 bps	+75 bps	+100 bps
3.16 Yrs	249K	261K	274K	286K	299K
4.16 Yrs	251K	263K	276K	288K	301K
5.16 Yrs	253K	265K	278K	290K	303K
6.16 Yrs (Current)	255K	268K	280K	293K	305K
7.16 Yrs	258K	270K	283K	295K	307K
8.16 Yrs	259K	272K	284K	297K	309K
9.16 Yrs	261K	273K	286K	298K	311K

Reinvestment Income Pickup

With portfolio average life at 6.16 Yrs and a current risk-free reinvestment rate (RFR) near 5.12% as of 9/29/2026 (linearly interpolated from the treasury curve at the portfolio's average life), redeploying the roll-off of $10.68M over the next 12 months of projected principal roll-off at +50bps over treasury results in an estimated income pickup of $25K relative to risk-free RFR income of $255K.

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5 Investment Positioning, Portfolio Policy & Regulatory Measures

Portfolio data as of 9/30/2026

PRIOR YEAR BOOK VALUE (9/30/2025)



CURRENT BOOK VALUE (9/30/2026)



Portfolio Targets/Limits

Targets (floors to meet) and limits (caps to stay within)

Metric	Current	Targets/Limits	Status
Accounting Yield	2.78	–	
+300 Px Vol	-12.04	–	
Projected Yield	2.90	–	

Over the last 12 months, **Sample National Bank** increased the size of their portfolio by **25.96M**, which is a **31.02%** increase relative to last year's amount. Book yield decreased by **15bps**, and the portfolio average life contracted by **0.81 years**.

HISTORICAL REVIEW OF PORTFOLIO TARGETS/LIMITS



Concentration vs Policy Limits

Each sector as a % of Total Portfolio, with policy ceiling, remaining capacity and notes

Sector	Book Value	% of Total Port.	Policy Limit	Compliant	Remaining Capacity	Notes
CMO (Fixed)	$29.24M	26.66%	26.66%	✓	$0.00M	
Municipals	$23.81M	21.71%	21.71%	✓	$0.00M	
Agencies	$24.03M	21.91%	21.91%	✓	$0.00M	
Corporates	$9.56M	8.72%	8.72%	✓	$0.00M	
MBS (Fixed)	$10.08M	9.19%	9.19%	✓	$0.00M	
CMBS (Fixed)	$4.78M	4.36%	4.36%	✓	$0.00M	
Corporates (Float)	$3.00M	2.74%	2.74%	✓	$0.00M	
SBA (Float)	$2.12M	1.93%	1.93%	✓	$0.00M	
CMO (Float)	$1.39M	1.27%	1.27%	✓	$0.00M	
Taxable Municipals	$859K	0.78%	0.78%	✓	$0.00M	
SBA (Fixed)	$770K	0.70%	0.70%	✓	$0.00M	
MBS (Float)	$29K	0.03%	0.03%	✓	$0.00M	

A New Version of Our Quarterly Investment Strategy Is Available



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6 Strategy

Q4 2026 · Investment Strategy

Bond yields continued to surge in the third quarter as the Fed hiked 25bp and markets began pricing several more hikes over the next six months to bring inflation back to target. The 10yr rose 65bp for the quarter, tying the largest quarterly increase in 25 years, and ended at 5.29%, matching its highest yield since 2002. The Fed's latest dot plot points to one more hike in 2026, a hold in 2027, and eventual cuts back to 3.25%; markets are more bearish and already price another 75bp of hikes. This is the best opportunity in nearly 25 years to add higher-yielding bonds to the investment portfolio.

Higher yields have also created an asymmetrical risk/reward profile, as the added income cushions any further price decline. The 1-year total return on a 10yr Treasury is +13% if rates fall 100bp but only -2.5% if they rise 100bp; for MBS it is +12% vs. 0%. That is a rare chance to rebalance against the low-yielding 2020-21 purchases, which carried a far worse profile. With the 10yr above today's 5.29% for only about six months of the last 25 years, banks should take every opportunity to add higher-yielding bonds. Depreciation has led some banks to stop buying at the very moment the opportunity is greatest; the single most important thing a bank can do today to improve portfolio performance is simply to participate in this market.

Banks should also prepare for the Fed to eventually resume easing by focusing purchases on bonds that will not mature, be called, or prepay quickly: longer durations, less short-term cash flow, and more call and prepayment protection. Buying at these levels builds portfolio liquidity and creates future opportunities to realize gains if rates fall, and better deposit growth with slower loan demand is widening the opportunity to reinvest at higher yields. Top priorities for the quarter: size the minimum cash liquidity needed for deposit runoff and loan growth; weigh the risk of holding too much cash when bonds already provide what future Fed hikes may or may not deliver; deploy excess liquidity into a diversified, conservative, stable-cash-flow portfolio; reassess reinvestment risk; keep shifting from protecting value to protecting yield to conserve recent earnings; favor structures with adequate call and prepayment protection; and use bond swaps to reposition as opportunities arise.

Our strategy continues to favor a Modified Cash Flow Barbell. Municipal yields and spreads surged during the quarter, making municipals much more attractive than last quarter, especially on the long end of the barbell, while MBS/CMOs and Agency CMBS continue to offer attractive spreads on the short end and in the belly of the curve, with particular attention to adding call protection against lower future rates. This combination protects yield from further erosion, supplies the cash flow to fund ALM needs, and locks in yields if rates fall. For steady cash flow and liquidity, continue purchasing clean-structure MBS pass-throughs and CMOs with favorable loan attributes and adequate prepayment protection, resist chasing yield in non-traditional, riskier securities, and keep limiting extension risk and price volatility.

Q4 Strategy

The strategy is twofold. First, participate in this market. Take advantage of yields at 25-year highs by making opportunities to buy bonds with excess cash or through restructurings. Second, the bank should prepare for the Fed to eventually resume their easing cycle by ensuring purchases remain in the portfolio beyond the near term. This means focusing on longer duration, more call protection and more prepayment protection. Develop a strategy to deploy any excess liquidity into a diversified, conservative portfolio of stable cash flow.

QUARTER EXECUTION CHECKLIST

SHORT TERM GOALS	LONG TERM GOALS
☐ Review duration positioning vs target range	☐ Lock in both call and prepayment protection on new buys
☐ Uncertain monetary policy calls for adding bonds with symmetrical risk to reward profiles	☐ Confirm reinvestment plan for upcoming roll-off
☐ Look into bond swap opportunities to pick up yield within policy limits	☐ Develop plan to deploy excess liquidity into stable cash flow



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7 Recommendations & Guidance

Q4 2026 Outlook · By Sector

Sector Recommendations

1 Fixed-Rate MBS: Pass-Throughs

NOTES
- Keep the focus on pools with stable cash flow characteristics; after the sharp rise in rates, also add higher-yielding, longer-duration pools with good convexity.
- Core holdings stay in seasoned, shorter-WAM pools with higher scheduled principal and reduced average-life volatility; keep adding pools with prepayment and extension protection: low loan balances, retail origination, bank servicers, high refi-cost states (NY/TX/FL), more cash-out refis, lower WAC/FICO, higher SATO.
- Add lower-coupon (1.5-4.5%) deep-discount pools for convexity and total return: moderately seasoned 30 yr GNMA and 20/30 yr conventionals with low loan balances, aggressive FinTech servicers, and lower current LTV.
- Consider reperforming/modified pools (less rate-sensitive, extension protection from buyouts); stay very selective on new-production current coupons.

FOCUS
- Seasoned, story-driven, lower-coupon discount pools
- CRA-eligible custom LMI pools as needs arise

2 Fixed-Rate CMOs

NOTES
- Increase CMO allocation for performance and collateral diversification; favor short-intermediate (2-5 yr) sequentials and pass-throughs with collateral that holds stable cash flow across rate scenarios.
- Focus on lower-coupon (1.5-4.5%) discount tranches off seasoned or story collateral (low loan balance, reperforming, state HFA, Rural/PH, high refi-cost states), especially 30 yr GNMA; consider seasoned deep-discounts with limited extension risk.
- Add short-stated maturities that roll down the curve: 1-10 yr GMC and Mandatory Redemption tranches and seasoned deep-discount Freddie SLST seniors.
- Proceed with caution on new-production PACs susceptible to whipsaw extension; consider floaters off fixed-rate collateral with 7.5%+ life caps.

FOCUS
- 2-5 yr avg life sequentials / pass-throughs
- Short-stated GMC / MR / SLST tranches

3 Bank-Qualified & General Market Municipals

NOTES
- Munis cheapened sharply in September to ~85-90% of Treasuries (from 70-75% most of the year), making the long end of the barbell far more attractive.
- Buy BQ deep-discount 3% coupons 5 yrs+, BQ 4.00% at 4.25%+ and 5.00% at 4.10%+ to the call, buy longer GM 4.00% at a discount and GM 5.00% at 4.75%+ to the call.
- Sell munis in the 1-12 yr range, highest coupons first (5%, then 4%, then 3%; 5% bids strong out to '33); and sell pre-refunded/ETM bonds into strong bids.
- Credit: insured bonds need A-or-better underlying, uninsured AA; preferred insurance is PSF, state-backed enhancements, and AGM/BAM/AGC over A credits.

FOCUS
- BQ: 3% deep-discount 5 yrs+; 4% at 4.25%+, 5% at 4.10%+ YTC
- GM: longer 4% discounts; 5% at 4.75%+ YTC

4 Agency CMBS

NOTES
- Excellent value in 4-5 yr full Yield Maintenance multifamily pools vs. other short-duration assets with similar AAL characteristics.
- A flat yield curve makes longer bonds harder to appreciate, but it frequently signals that longer-duration, prepayment-protected bonds are the right choice.
- Review balance sheets for duration gaps and fill them with highly prepayment-protected DUS or Freddie Ks.

FOCUS
- 4-5 yr full YM multifamily pools
- DUS / Freddie Ks to fill duration gaps

5 Taxable Municipals

NOTES
- Purchase taxable municipals inside 10-year finals.
- Use as agency alternatives, supported by AA and AAA credits.

FOCUS
- AA / AAA credits
- Inside 10 yr final maturity



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7 Recommendations & Guidance (cont.)

Q4 2026 Outlook · By Sector

6 Callable Agencies & Treasuries

NOTES
- With bullet spreads pushing through long-term averages, ladder heavily discounted 5-12 yr callables as bullet alternatives; the sell-off also opened a strong risk/reward in moderately discounted 90-95 handle callables (more spread than deeper discounts, significant yield kick if called early).
- Avoid bullets with little to no spread vs. like-maturity USTs; don't sacrifice structure or cash-flow stability for marginal yield on new-issue callables. Favor 1 yr+ call protection with limited optionality (one-time, annual, Canary).
- Sell short maturities and redeploy proceeds on the intermediate and longer end of the curve.

FOCUS
- Discounted 5-12 yr callables; 90-95 handle callables
- Sell short maturities; redeploy intermediate-to-long

7 Jumbo / Direct CDs

NOTES
- Prefer CD bullets over callables; picking up longer callable terms can add some income.
- New (rare-name) CD issuers may come to market as additional funding sources are tapped.

FOCUS
- 2-7 yr bullets
- Selective 3-5 yr callables with the best call protection

Strategy Recap

- Yields surged in Q3 - 10yr yield saw largest quarterly increase in 25 years to the highest level in 25 years.
- **Maintaining investment portfolio performance requires participating in this market** – banks must be more proactive in finding ways and making opportunities to buy bonds at these levels. **Failing to reinvest will send your performance percentile ranking plunging**.
- **Risk/Reward in today's bond market is asymmetrical** – upside total return if rates fall 100bp far exceeds downside total return if rates rise 100bp.
- **Making the decision to buy is far more important than deciding what to buy**. Once you've made the decision to deploy excess liquidity or execute a swap/leverage, then there is a record range of good value options across every sector to meet your strategy/goal.
- Muni yields and spreads have surged, offering best muni value in years - 7%+ TEYs on the long-end for S-Corps and 6%+ TEYs for C-Corps.
- There is a record range of coupons, prices, cash flows and structures in the MBS/CMO market – determine your goal/strategy and there will be options to achieve it.

Finding the Best Balance of Risk and Reward in Today's Market

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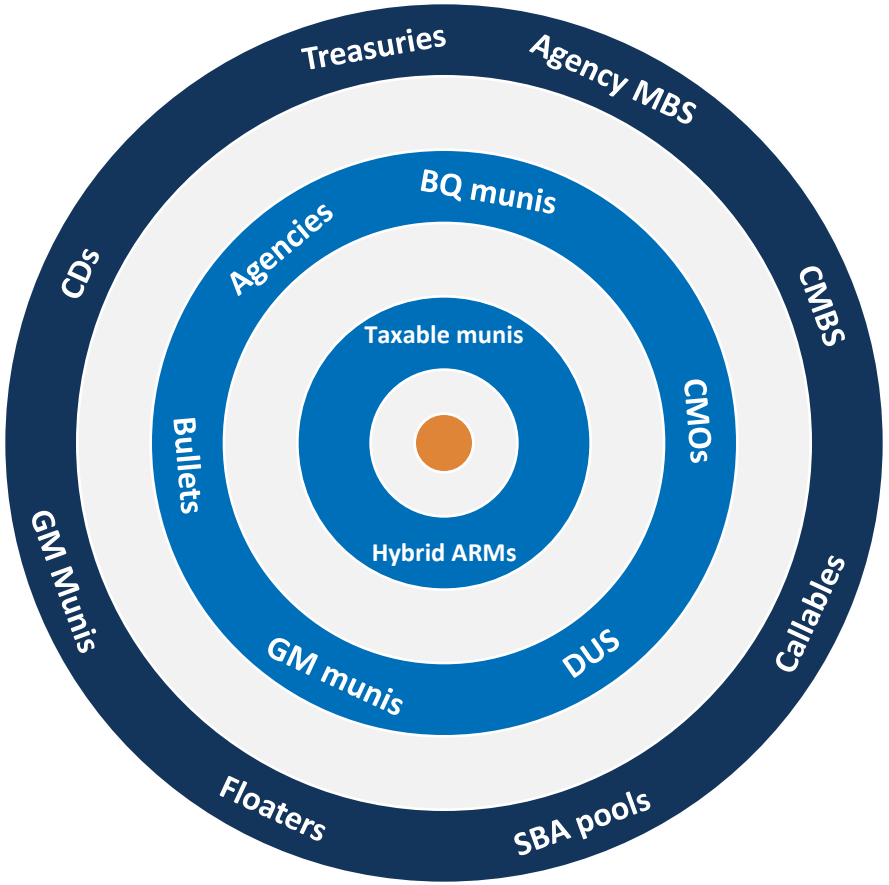
My proprietary bond selection model



At today's yields, it works better than you'd think.

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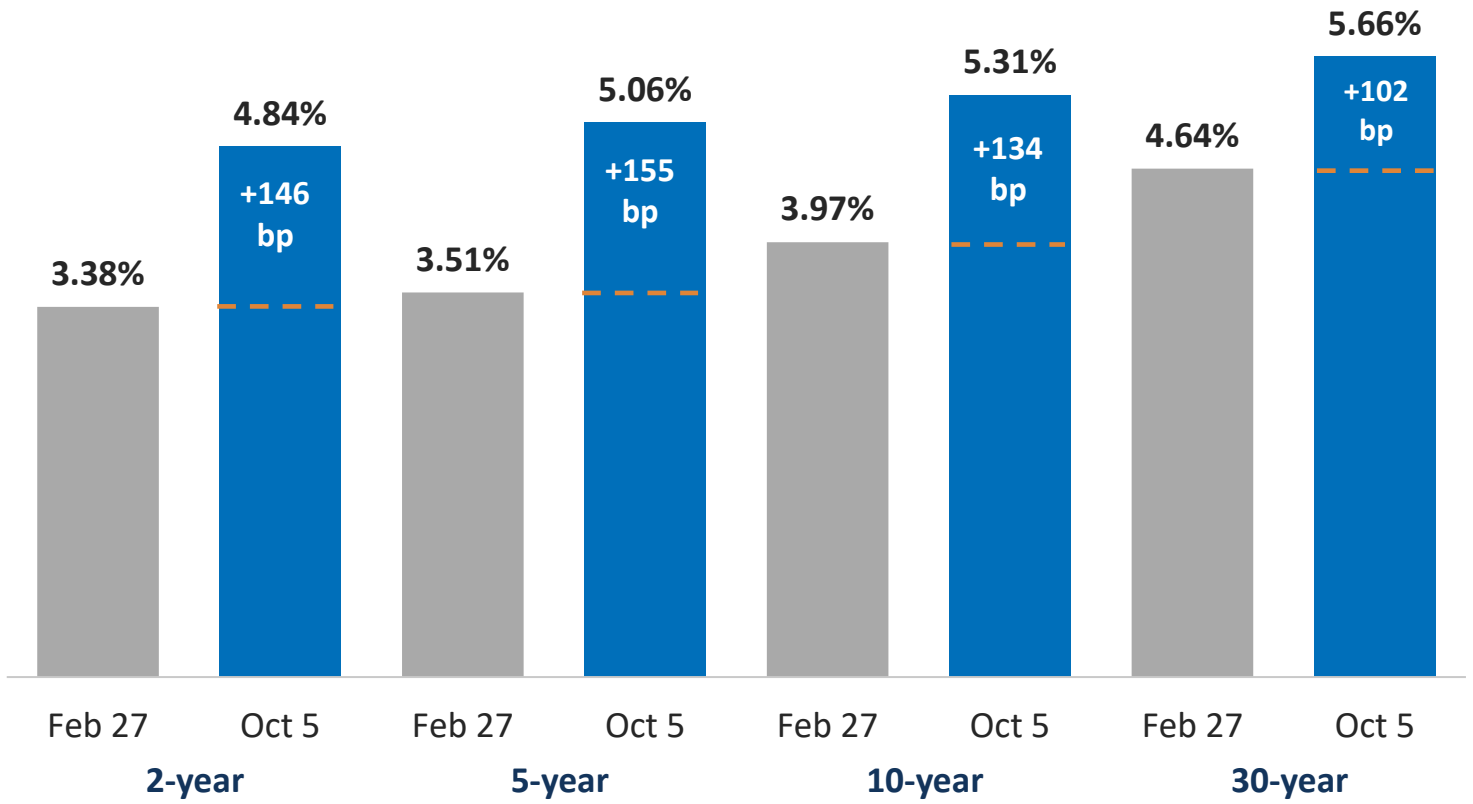
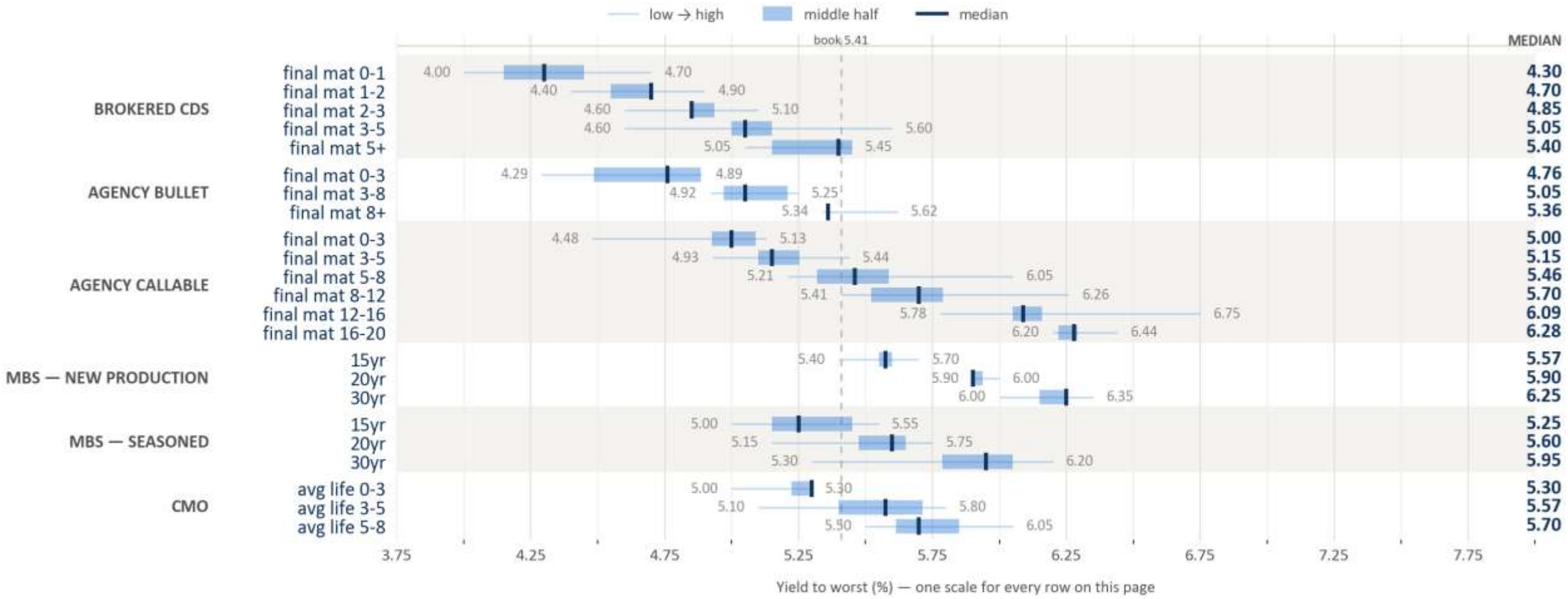
Since the war began, Treasury yields are up 102–155bp; the 10-year is at a 2002 high



- **Fed hiked 25bp** to 3.75–4.00% on Sept 16, its first increase since 2023
- **The long end led:** the 10-year touched 5.35% intraday on Oct 5
- **Futures price ~80% odds of a hold at the October FOMC**
- **30-yr mortgage rate at 7.28**

Note: Feb 27, 2026 closing yields, the last trading day before the war. Source: U.S. Treasury par yield curve (2/27/2026 and 10/5/2026); Federal Reserve FOMC statement (9/16/2026); CME FedWatch via CNBC (10/5/2026); Freddie Mac PMMS (10/1/2026).

Where the Yield Is — CDs, Agencies & Mortgages



Basis differs by row. Amortizers (MBS - CMO - CMBS) are cash-flow yields at the desk's pricing speed — not a worst-case floor.

Muni TEY nets the TEFRA disallowance (20% bank-qualified / 100% general market) at 1.50% assumed cost of funds and 21% C-corp rate; S-corp carries none on bank-qualified issues

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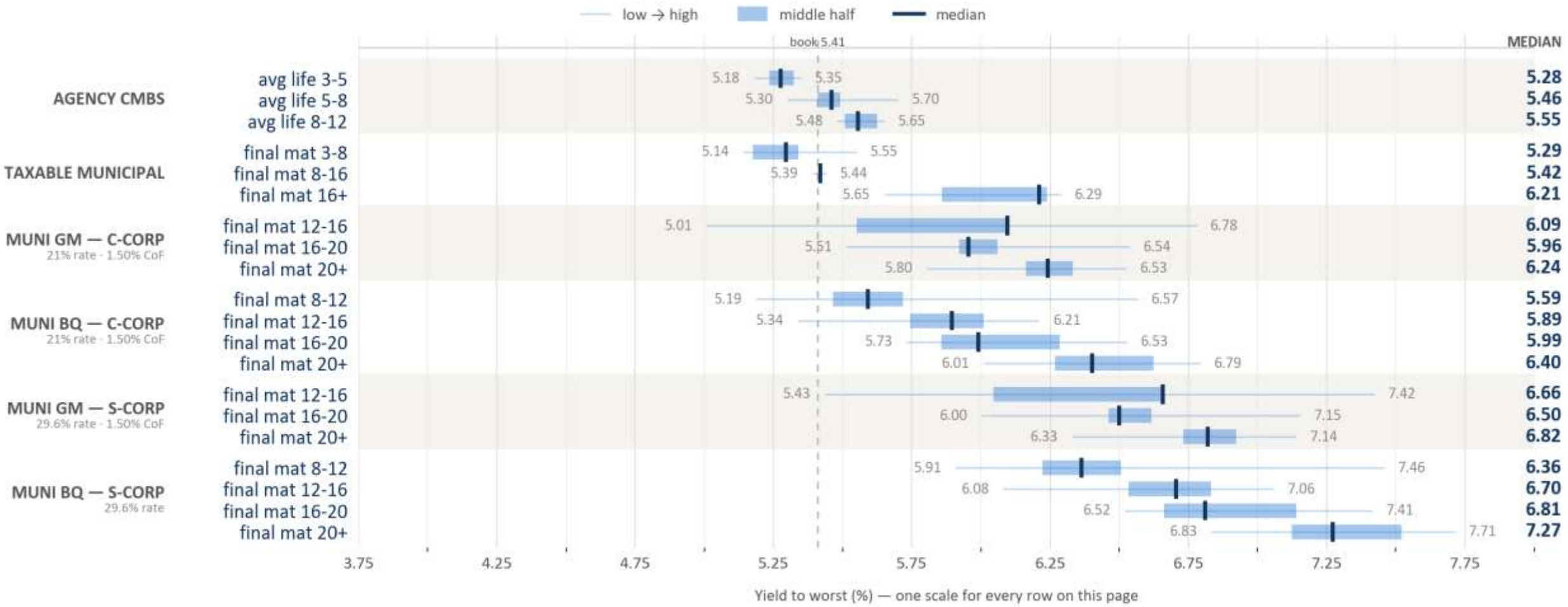
Where the Yield Is — CMBS & Municipals



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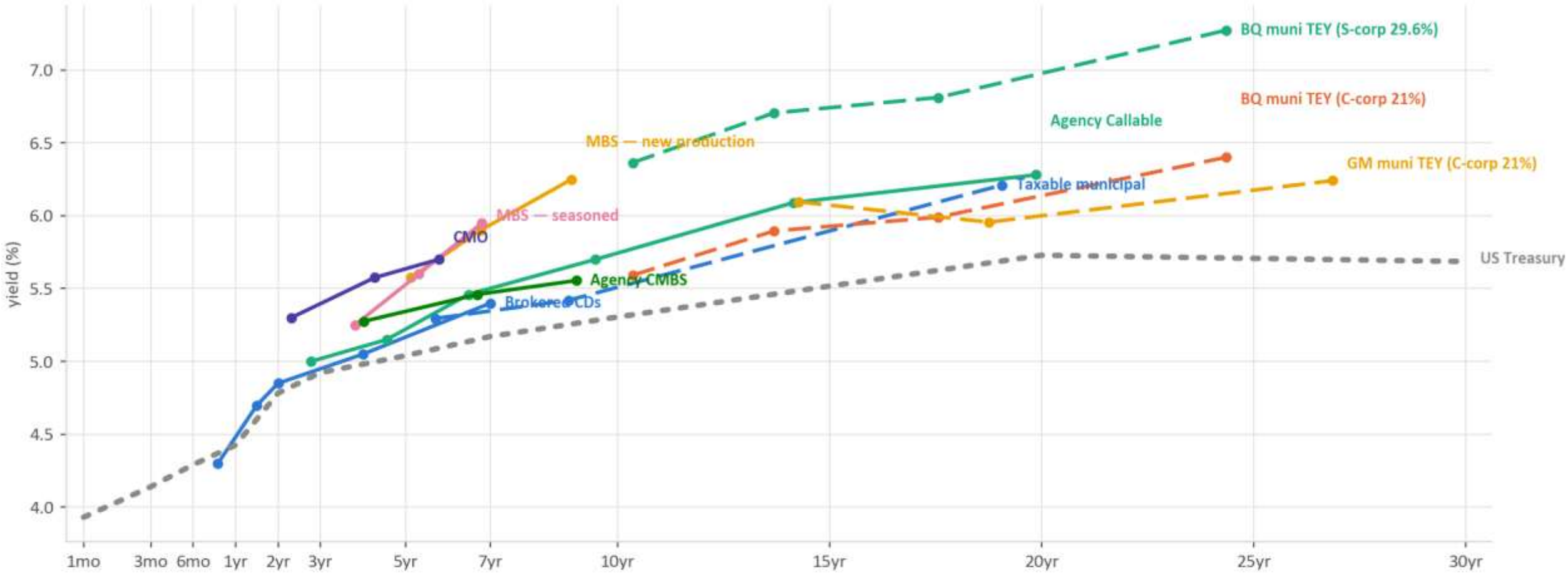
The Curve



Each point is a bucket's median yield at the median term of the bonds in it (using avg life for the amortizers).
Muni TEY nets the TEFRA disallowance (20% bank-qualified / 100% general market) at 1.50% assumed cost of funds and 21% C-corp rate; S-corp carries none on bank-qualified issues.

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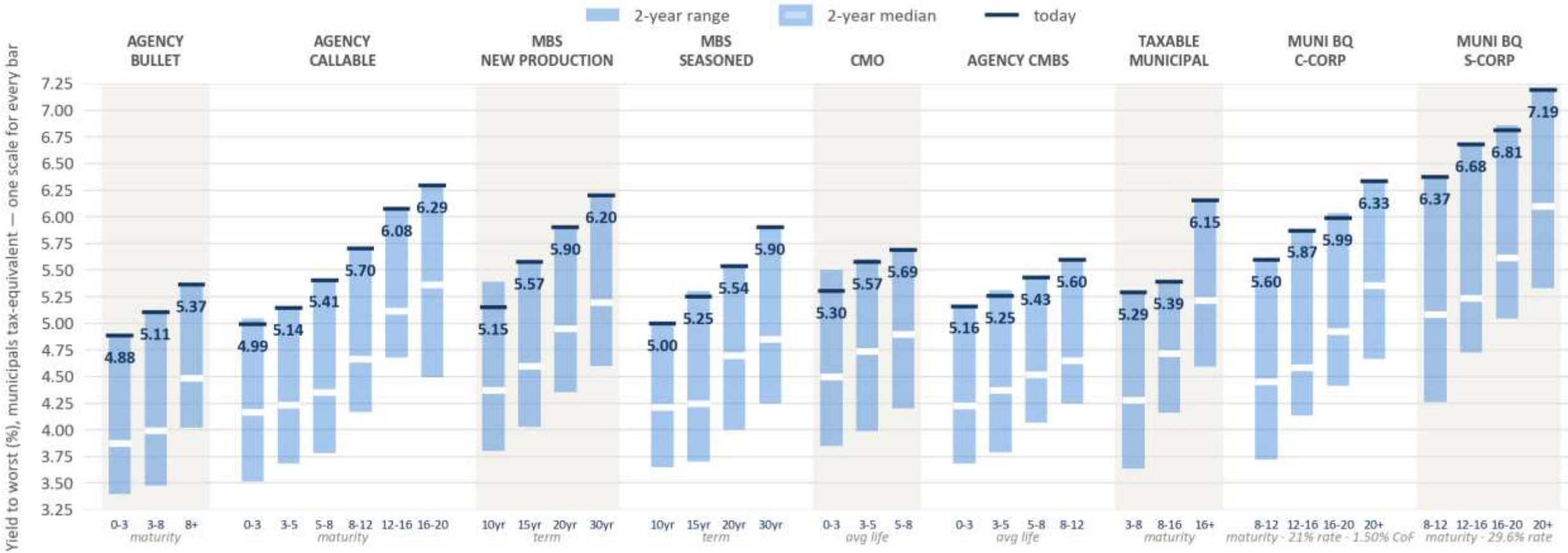
Yields vs Their Own Range



Yield to worst on the desk's own offering sheets, October 2024 to October 2026. Nearly every bar sits at the top of its own range — yields are at or near a two-year high across the board. The two municipal blocks are the same bank-qualified bonds on two tax bases, not two markets.

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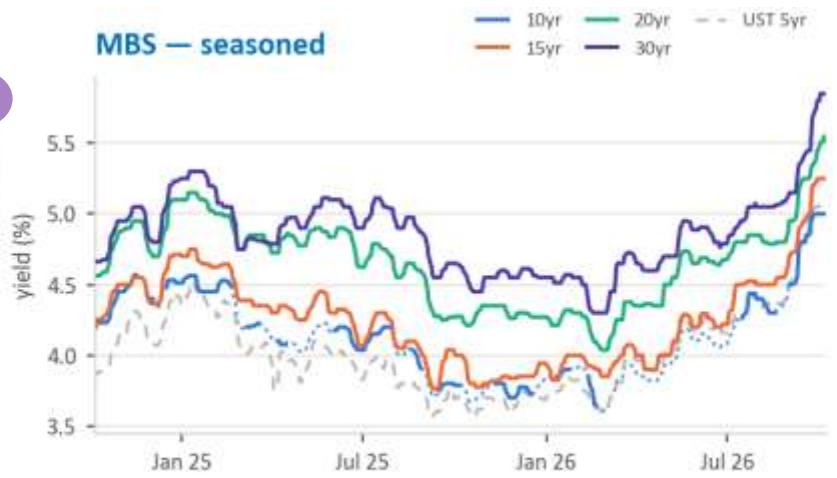
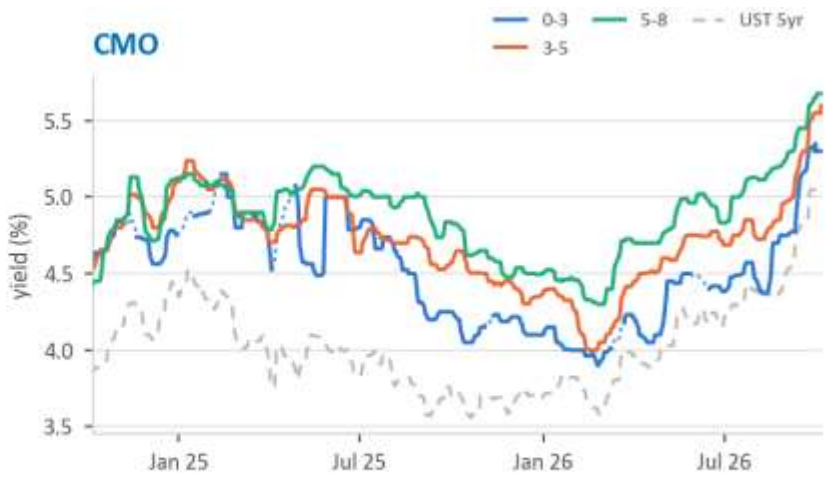
Two-Year Trend













Median offering yield, smoothed (5-day median, then a centred 10-day median), against the 5-year Treasury.
DOTTED = estimated: the desk offered nothing in that bucket for a stretch, so the line follows how the other terms in the sector moved between its last quote and its next one.

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Spreads vs Their Own Range



Spread to Treasury on the desk's own offering sheets, October 2024 to October 2026. A bar below the line yielded less than the Treasury on its basis. The two municipal blocks are the same bank-qualified bonds on two tax bases, not two markets.

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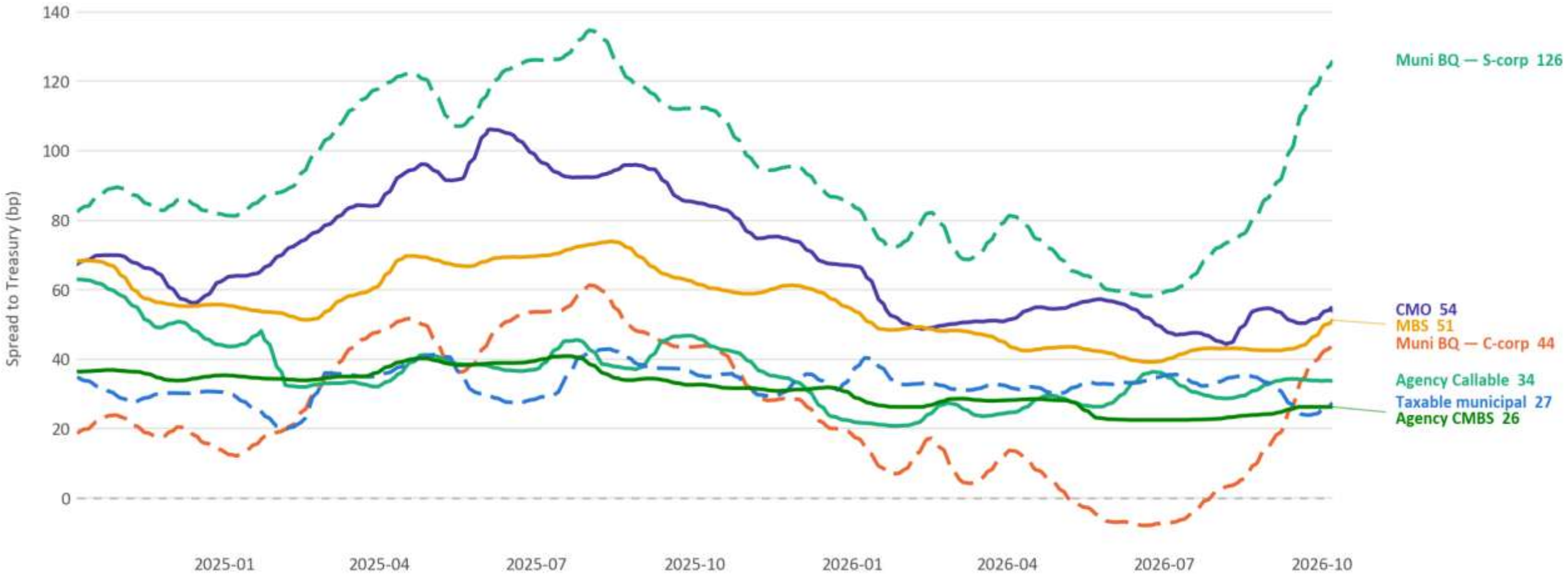
Spreads Over Time



Equal-weighted mean of every term bucket the sector quotes, forward-filled inside the window so a bucket going unquoted cannot change the basket.
A sector average is a synthetic level no bond trades at, and the sectors average over different term ranges.
24-month window, 21-day median per term then a 10-day centred mean. Municipals are tax-equivalent, bank-qualified only.

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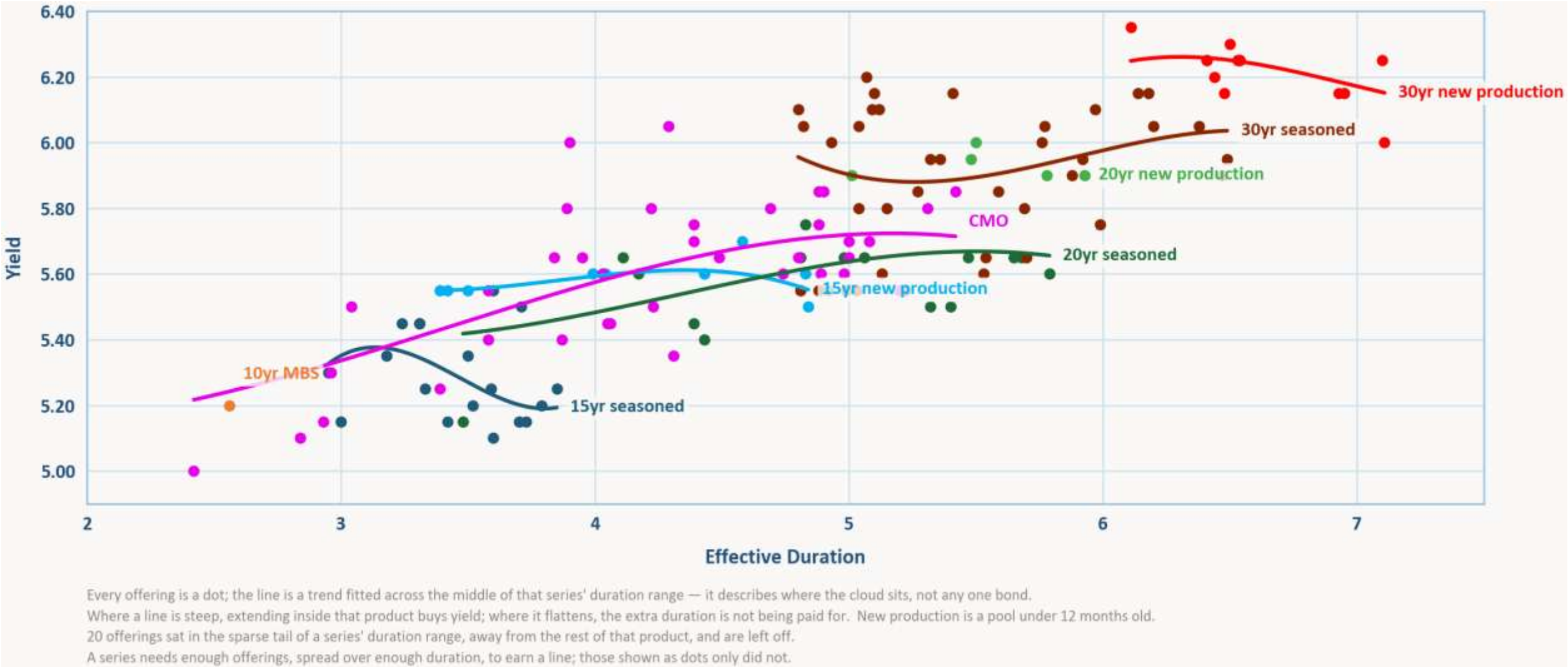
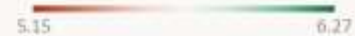
MBS Risk vs Reward



Every offering is a dot; the line is a trend fitted across the middle of that series' duration range — it describes where the cloud sits, not any one bond.
Where a line is steep, extending inside that product buys yield; where it flattens, the extra duration is not being paid for. New production is a pool under 12 months old.
20 offerings sat in the sparse tail of a series' duration range, away from the rest of that product, and are left off.
A series needs enough offerings, spread over enough duration, to earn a line; those shown as dots only did not.

The MBS Grid

Yield (%)



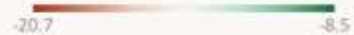
NEW PRODUCTION

	3.5	4.0	4.5	5.0	5.5	6.0
10-Yr				5.20		
15-Yr	5.40	5.55	5.63	5.60	5.55	
20-Yr			5.90	5.95	5.90	
30-Yr		6.10	6.00	6.20	6.27	6.25

SEASONED

	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0
10-Yr											
15-Yr	5.20		5.25	5.17	5.20	5.50	5.30		5.50	5.39	5.45
20-Yr		5.62	5.67	5.52	5.45	5.15	5.40	5.45		5.65	
30-Yr				5.94	5.92	5.68	5.70	5.65	5.84	6.08	6.11

Price change under +300bp (%)



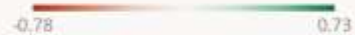
NEW PRODUCTION

	3.5	4.0	4.5	5.0	5.5	6.0
10-Yr				-8.5		
15-Yr	-15.4	-15.2	-13.6	-13.4	-12.6	
20-Yr			-17.6	-16.4	-15.4	
30-Yr		-20.6	-20.7	-20.1	-19.3	-17.4

SEASONED

	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0
10-Yr											
15-Yr	-12.0		-11.5	-10.3	-10.4	-13.4	-10.9		-11.2	-11.0	-9.9
20-Yr		-16.1	-15.5	-14.9	-12.4	-8.6	-13.3	-13.3		-12.6	
30-Yr				-19.8	-17.5	-15.6	-15.7	-15.4	-15.2	-16.4	-16.4

Effective convexity



NEW PRODUCTION

	3.5	4.0	4.5	5.0	5.5	6.0
10-Yr				-0.15		
15-Yr	0.09	-0.07	-0.01	-0.30	-0.66	
20-Yr			0.18	-0.08	-0.55	
30-Yr		0.00	0.73	-0.18	-0.49	-0.78

Coupon (%)

SEASONED

	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0
10-Yr											
15-Yr	0.01		-0.21	-0.02	-0.05	-0.21	-0.06		-0.20	-0.36	-0.32
20-Yr		0.01	0.00	0.00	-0.04	-0.02	0.01	-0.16		-0.08	
30-Yr				-0.25	-0.16	-0.16	-0.10	-0.04	-0.09	-0.42	-0.63

Coupon (%)

Read down the page: a coupon sits in the same place in all three blocks, so its yield, price change and convexity line up.
GREEN IS BETTER in every block — higher yield, a smaller loss under +300bp, better convexity.
Cell = average of the offerings in that term and coupon, to the nearest half point. New production is under 12 months old.

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Key takeaways

1

Yields are high everywhere

Every sector sits at the high end of historical ranges

2

Start with risk

Set your price-risk and desired cash flow first, then pick the highest yield that meets those parameters

3

More options than ever

Regardless of your balance sheet needs or rate expectations, a favorable yield option exists

Agencies, CDs, CMBS and SBIC

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Section overview: why these sectors fit today's market

Where rates are (October 5-7, 2026)

- 10-year Treasury about 5.3%, the highest since 2002 and up about 60 bp since the end of July
- 2-year about 4.8% and 5-year about 5.0%: the curve pays you to extend
- Fed raised the target range to 3.75%-4.00% on September 16; the median projection shows one more hike this year

What that means for these sectors

- Yields of 5% or more across the belly make a defined maturity attractive
- With rates moving this fast, predictable cash flow and call protection have value
- Spread over Treasuries and capital treatment separate the four sectors

Sector	Why it fits today	What to watch
Agency debentures	Adds spread to 5%+ Treasury yields; bullets lock a known maturity, callables pay more for the call	Callables extend if rates keep rising; 20% risk weight
CDs	FDIC-insured fixed rates; short ladders reinvest at higher yields as the Fed hikes	Early-September retail quotes (4.10%-4.65% for 1-5 years) trail Treasuries today
Agency CMBS	Call protection (typically 9.5 of 10 years) keeps cash flow bullet-like when rates are volatile	Spreads tightened early in 2026; check where they sit today
SBIC pools	0% risk weight; September pool priced at 5.454%, 46 bp over the 10-year Treasury	Priced with the 10-year at 4.99%; prepayments can speed up if rates fall

Agency debentures: spread over Treasuries in a high-rate market

Why they fit now

- Treasury yields are near 24-year highs, and agencies add spread on top of them
- Bullets lock in today's yield with a known maturity and no call risk
- A callable bought today pays a higher coupon and is called only if rates fall back below it

What to weigh

- Extension risk: if rates keep rising, callables stay outstanding to final maturity
- 20% risk weight, versus 0% for Treasuries, GNMA and SBA-guaranteed securities
- State tax: FHLB and FFCB are generally exempt, Fannie Mae and Freddie Mac generally not; confirm with your tax advisor

- **With the 10-year up about 60 bp in two months and the Fed still hiking,** know your maturity before reaching for yield

Agency debentures: matching structure to your view on rates

Structure	When it fits	Trade-off
Bullet (non-callable)	You want a known maturity and cash flow while the Fed is still hiking; fits a ladder	Lower yield than a callable with the same final maturity
Callable	You are comfortable owning the bond to final maturity at today's yields and want extra coupon	Called only if rates fall back below the coupon; extends to final maturity if rates keep rising
Step-up callable	You want a rising coupon schedule and can live with an uncertain life	Issuer is likely to call if rates are lower, so you may not reach the higher coupons

- **Call styles:** European (one call date), Bermudan (scheduled call dates), American (callable any time after the lockout)
- **Final maturity on a callable** is the longest the bond can last, not the expected life

Certificates of deposit: insured yield and a short ladder

Why they fit now

- FDIC-insured fixed rates across the curve: early-September top brokered quotes ran from 4.10% (1-year) to 4.65% (5-year)
- Short maturities let you reinvest at higher yields if the Fed keeps hiking
- Held to maturity, principal and rate are known

What to weigh

- Those quotes are early-September retail levels and Treasuries have risen since; check live institutional levels
- $250,000 insurance limit per issuer means many small positions
- Callable CDs can be redeemed early if rates fall; selling early can mean a loss if rates have risen

- **Best fit:** 1-3 year ladders for insured, known cash flow while the Fed's path is uncertain

What Is An Agency Commercial Mortgage-Backed Security (CMBS)?

Agency CMBS (Commercial Mortgage-Backed Securities)

- GSE guaranteed bonds backed by multifamily properties (traditional MBS are backed by 1-4 family properties).
- Agency CMBS have the same credit and risk weighting as traditional MBS (0% GNMA / 20% FN/FH).

Multifamily CMBS Market Details

- Consumer shift toward rental units has increased the demand for MF securitization.
- Private label CMBS dominated issuance until the global financial crisis. Since then, Agency CMBS issuance has exploded while the private label market has failed to recover.

Call Protection vs Traditional MBS

- The main advantage of Agency CMBS vs MBS is call protection.
- Agency CMBS feature call protection for most of the life of the bond, normally in the form of Yield Maintenance or Defeasance.
- The most common Agency CMBS structure is a fixed-rate, 10yr bond with 9.5yrs of call protection, or a “10/9.5”.

Common Agency CMBS Products

- Fannie Mae: FNMA DUS
- Freddie Mac: FHLMC K-Series CMOs
- Ginnie Mae: GNMA Project Loans & REMICs

Agency CMBS overview: Fannie Mae DUS and Freddie Mac K-Series

Fannie Mae DUS (Delegated Underwriting Service)

- Approved lenders issue multifamily loans with P&I guaranteed by Fannie Mae
- Hundreds of pools each month, usually backed by 1 loan
- Pools can be combined into Megas or structured into DUS REMICs/CMOs (“Aces”)
- Most common structure is 10/9.5: 10-year balloon (30-year amortization) with 9.5 years of yield maintenance

Freddie Mac K-Series (“Freddie K’s”)

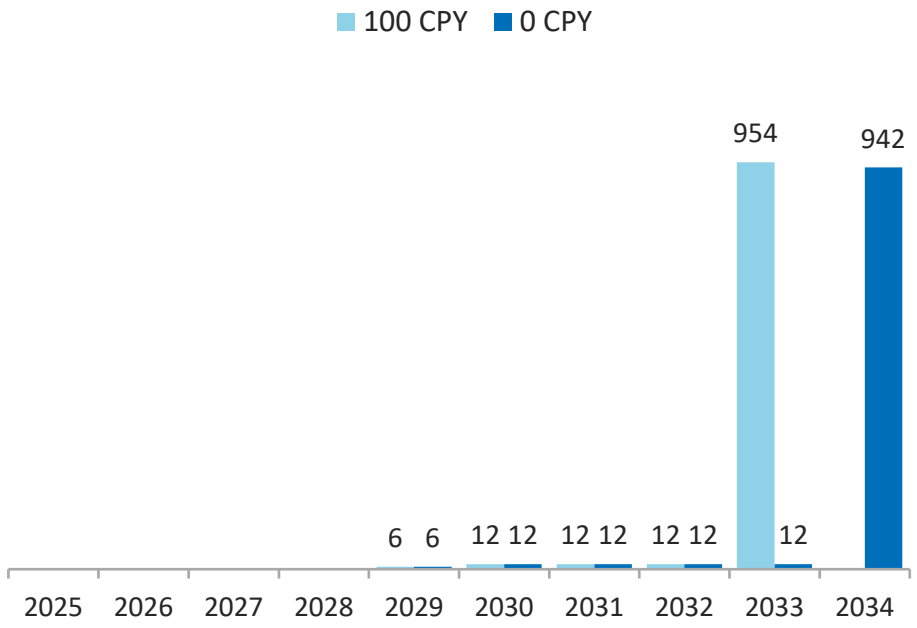
- Several large deals a month, each backed by 30–90 multifamily loans
- Typical deal: large guaranteed A2 (10/9.5), smaller guaranteed A1 (current pay), non-guaranteed mezzanine tranches and IOs
- Illustrative $1Bn deal: A1 15%, A2 75%, B 6%, C 4%
- A2s resemble DUS 10/9.5 pools, but larger deals give better liquidity and a slight premium

	Fannie Mae DUS	Freddie Mac K-Series A2
Prepayment protection	Yield maintenance: borrower pays a fee on voluntary prepay that rises as rates fall below the note rate. Defeasance, prepay penalty and lockout also available	Defeasance: borrower replicates the lost cash flow with Treasuries; investor receives identical cash flows, now backed by Treasuries
Default guarantee	Fannie Mae guarantees timely P&I (yield maintenance fee not included)	Freddie Mac guarantees ultimate, not timely, repayment of principal
Pricing convention	0% CPY for both: zero defaults throughout life and no prepayment after the yield maintenance period ends	

Agency CMBS cash flows: bullet-like principal

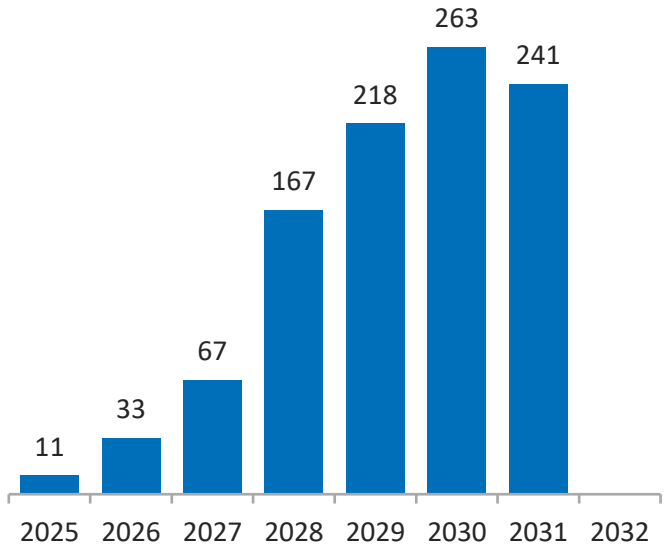
Fannie Mae DUS 10/9.5 pool

Annual principal, $000s per $1mm



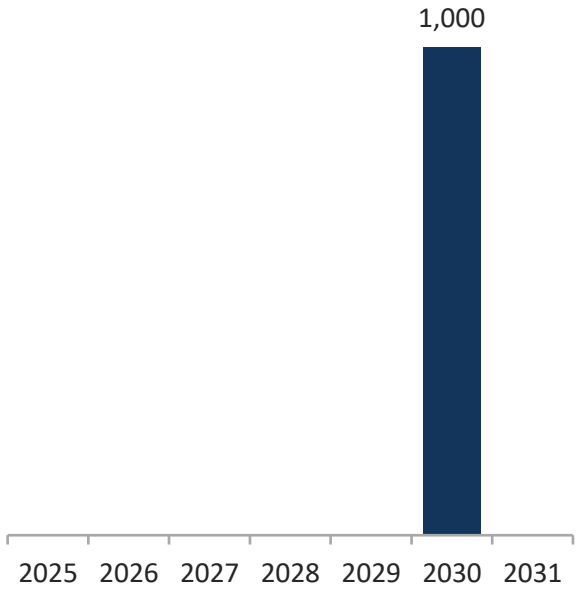
Freddie K A1 (current pay)

Annual principal at 0 CPY, $000s per $1mm



Freddie K A2 (lockout)

Annual principal at 0 CPY, $000s per $1mm



- DUS pools and the Freddie K A2 are bullet-like: little principal during the interest-only and early amortization years, then nearly all of it at the yield maintenance end date or balloon maturity
- The Freddie K A1 is the current-pay tranche: it returns principal every year from 2025 to 2031

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SBIC pools: structure and key terms

What they are

- SBA-licensed private investment funds (SBICs) borrow from the SBA to invest in small businesses; each draw creates a debenture
- SBA pools those debentures and sells them to investors as trust certificates
- You own a share of SBIC debt, not small business loans; principal and interest are guaranteed by the full faith and credit of the U.S. government

Key terms

- 10-year final maturity, fixed rate, semiannual interest, no scheduled principal until maturity
- Each SBIC can prepay a debenture at par, in whole, on any payment date with no penalty
- Large, diversified pools: typically 400-600 debentures from 50-90 SBICs
- Priced quarterly since June 2026 (March, June, September, December)
- September 2026 pool: 5.454% coupon, +46 bp over the 10-year Treasury

- **Expected cash flow:** prepayments are slow early (about 4-5 CPR in the first 3-4 years), then accelerate
- **Average life** is typically 4-6 years on the 10-year final maturity

SBIC pools: why own them

Capital and credit

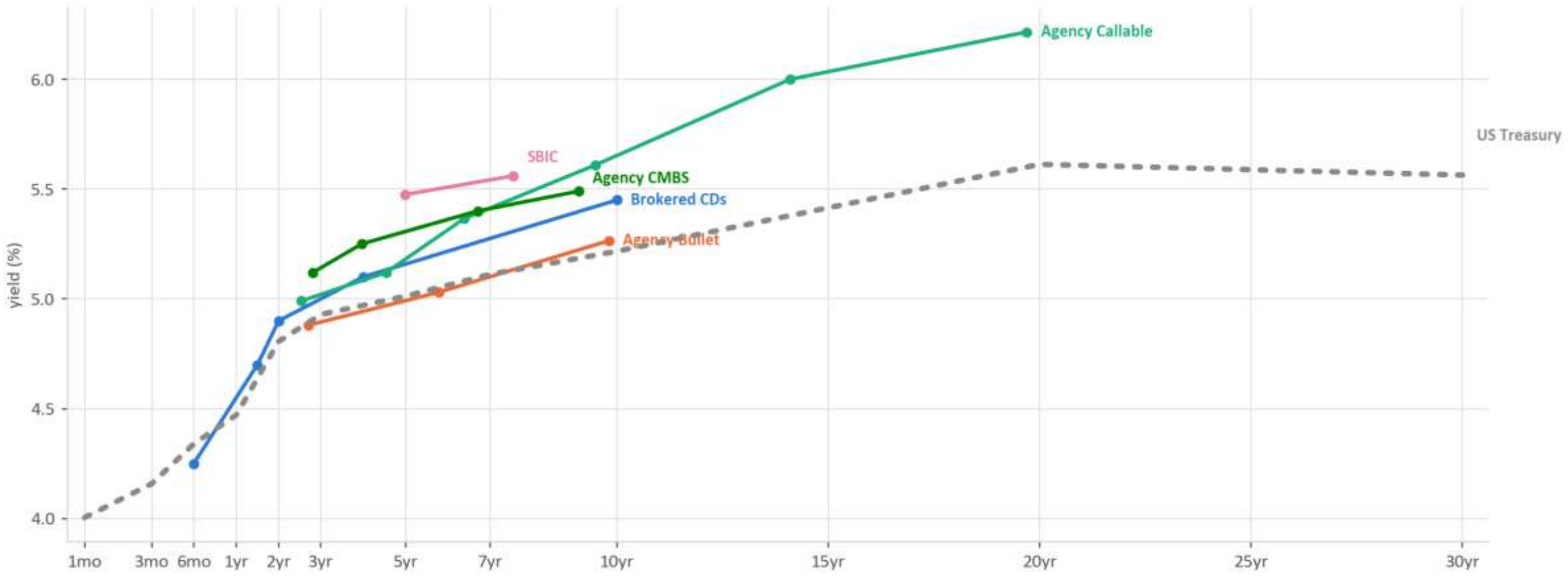
- **0% risk weight:** GSE debentures take 20%, so SBICs use less capital for the same exposure
- **Yield over Treasuries:** +28 to +70 bp across the last six pools, with the same U.S. government backing
- **Government-guaranteed credit:** principal and interest are guaranteed by the full faith and credit of the U.S. government, so SBIC defaults pass through as prepayments at par, not credit losses

Cash flow

- **Shorter life than the stated maturity:** 4-6 year average life on a 10-year final maturity
- **Early lockout:** prepayments are near zero for the first couple of years, giving some call-like protection
- **Diversified pools:** each pool is spread across many SBICs, so no single fund drives the result

- **Considerations:** prepayments can be erratic and may speed up when rates fall
- Trading is thinner than for Treasuries or agencies
- Interest is generally subject to state income tax
- The 0% risk weight helps only banks whose risk-based capital ratios are binding, not banks on the community bank leverage ratio

The Curve — Agencies, CDs & SBICs



Each point is a bucket's median yield at the median term of the bonds in it (using avg life for the amortizers). Mortgage product is off: a prepayment moves the term itself. Callables are plotted at FINAL maturity while the market prices the call, so that line sits right of its real risk. SBICs are two bonds a bucket.

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Callable Agency Example

AGENCY OFFERING

FHLB

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FHLB 36/26 ANY
5.75% Yield to Oct. 2036 Mat. (+53 bp)

AMOUNT	*1,300m* ***AON***
CUSIP	3130B8AN2
COUPON	5.000
MATURITY	10/30/2036
CALL TYPE	Anytime
NEXT CALL DT	10/30/2026 @ 100
ANNOUNCED	10/17/2025
1ST SETTLE	10/30/2025
1ST COUPON	4/30/2026
AMT ISSUED	15 MM
AMT OUTSTANDING	15 MM

PRICE	YTC	YTM
94.371	78.51%	5.75%
Average Life	0.00	10.04
Spread to Treasury	+7,453bp	+530bp

SETTLEMENT DATE 10/14/2026

TAX EQUIVALENT YIELDS

with 100% State Tax Exemption	YTC	Spread v. TSY (bps)	YTM	Spread v. TSY (bps)
4.00%	81.79%	+7,778	5.98%	+77
6.00%	83.53%	+7,952	6.11%	+90
8.00%	85.34%	+8,134	6.25%	+103
10.00%	87.24%	+8,323	6.38%	+117

CALL SCHEDULE

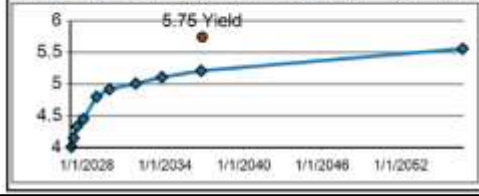
Date	Price	TSY	Avg Life	Yield	Spread
10/30/2027	100	4.47	1.04	10.84	+637bp
10/30/2028	100	4.81	2.04	8.04	+323bp
10/30/2029	100	4.92	3.04	7.09	+216bp
10/30/2030	100	4.97	4.04	6.61	+164bp
10/30/2031	100	5.01	5.04	6.32	+131bp
10/30/2032	100	5.06	6.04	6.13	+107bp
10/30/2033	100	5.11	7.04	5.99	+88bp
10/30/2034	100	5.14	8.04	5.89	+74bp
10/30/2035	100	5.18	9.04	5.81	+63bp

RATINGS

	RATING	WATCH OUTLOOK
S&P	AA+	Stable
MOODY'S	Aa1	
FITCH		

TREASURY YIELD CURVE

3mo	6mo	1yr	2yr	3yr	5yr	7yr	10yr	30yr
4.15	4.33	4.45	4.80	4.92	5.01	5.11	5.21	5.56



SHOCK ANALYSIS

SHOCK	MKT YIELD	PRICE TO	PRICE	PRICE CHNG	EFF DUR/CVX
-300	1.79	11/26	100.3	6.24%	
-200	2.79	11/26	100.2	6.15%	0.1/0.00
-100	3.79	11/26	100.1	6.06%	2.9/(2.82)
0	**5.75**	**10/36**	**94.4**	**0.00%**	**6.7/(0.66)**
+100	6.75	10/36	87.4	-7.37%	7.6/0.36
+200	7.75	10/36	81.1	-14.09%	7.5/0.35
+300	8.75	10/36	75.3	-20.21%	

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Sample Freddie K-Deal "A1"

Seasoned 10yr FHLMC Current Pay CMBS
- -- 4.103% Coupon
- -- Nov 2031 Stated Maturity
- -- $65M Pool Size | 47 Underlying Loans | 47 Months Old
- -- 1.74x Curr DSCR, 60.17% Remaining LTV
- -- 15.6% on Watchlist
- -- 96.6% Defeasance | 3.4% Yield Maintenance

5.18% Yield / +22 bp / 3.35 Avg Life @ 0 CPY

FHLMC K-Series "A1" tranches offer rising principal cashflows until the final maturity date after which the "A2" tranche in the same deal would begin receiving principal. For this reason, these are sometimes called "current pay" CMBS. A1 tranches also "roll down the curve" and have similar spreads to A2's and DUS.

Settlement Date 10/15/2026
Price 96-20

Scenario Yield Analysis

CPY	0	0	0	0	25	50	100
Yield to Maturity	**5.18**	**5.18**	**5.18**	**5.18**	**5.19**	**5.19**	**5.20**
Avg Life	3.35	3.35	3.35	3.35	3.34	3.33	3.27
Duration	3.01	3.01	3.01	3.01	3.00	2.99	2.95
Spread to Tsy	+22	+22	+22	+22	+23	+24	+25
Pay Window	11/26-11/31	11/26-11/31	11/26-11/31	11/26-11/31	11/26-11/31	11/26-11/31	11/26-6/31

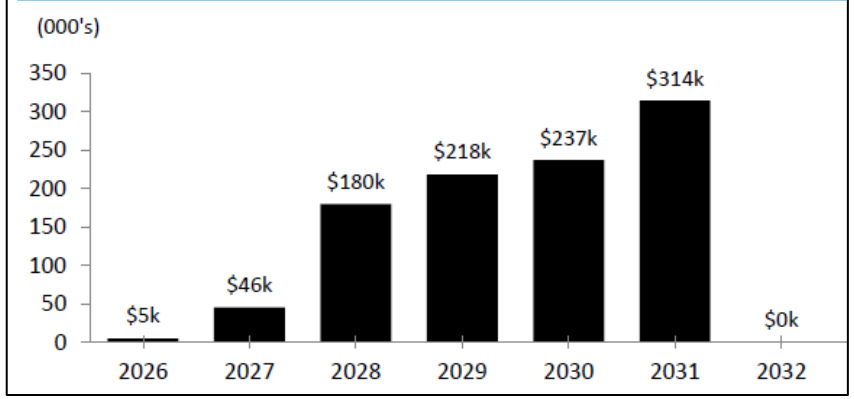
Price Volatility Analysis

Effective Duration/Convexity **3.00 / +0.11** (+/-300 bp)
3.02 / +0.07 (+/-100 bp)

Using level yield assumption:

bps	CPY	Mkt Yld	AL	Price	Px Chg	Eff Dur/Cnvx (+/-300 bp)	At 1yr Horizon A.L.	At 1yr Horizon Px Chg	At 2yr Horizon A.L.	At 2yr Horizon Px Chg
-300	100	2.18	3.27	105.79	**+9.5%**		2.37	**+6.9%**	1.72	**+5.1%**
-200	50	3.18	3.33	102.70	**+6.3%**	3.01 / -0.00	2.44	**+4.7%**	1.80	**+3.5%**
-100	25	4.18	3.34	99.61	**+3.1%**	3.05 / +0.06	2.45	**+2.3%**	1.81	**+1.7%**
0	0	5.18	3.35	96.63		3.02 / +0.07	2.46		1.82	
+100	0	6.18	3.35	93.77	**-3.0%**	2.98 / +0.06	2.46	**-2.2%**	1.82	**-1.7%**
+200	0	7.18	3.35	91.03	**-5.8%**	2.95 / +0.06	2.46	**-4.3%**	1.82	**-3.3%**
+300	0	8.18	3.35	88.40	**-8.5%**		2.46	**-6.4%**	1.82	**-4.9%**

Annual Principal Cashflow Projection @ 0 CPY ($1mm CF)



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Sample SBIC Deal

SBIC Debenture
- 4.626% Coupon
- 113 Month WAM
- Mar 2036 Stated Maturity
- $1757mm Pool Size / 7 Months Old
- Semi-Annual Interest, Principal due in full at Maturity
- Prepayable at any time without penalty

5.50% Yield / +50 bp / 4.94 Avg Life @ 15 CPR

Settlement Date 10/16/2026
Price 96-10+

Scenario Yield Analysis

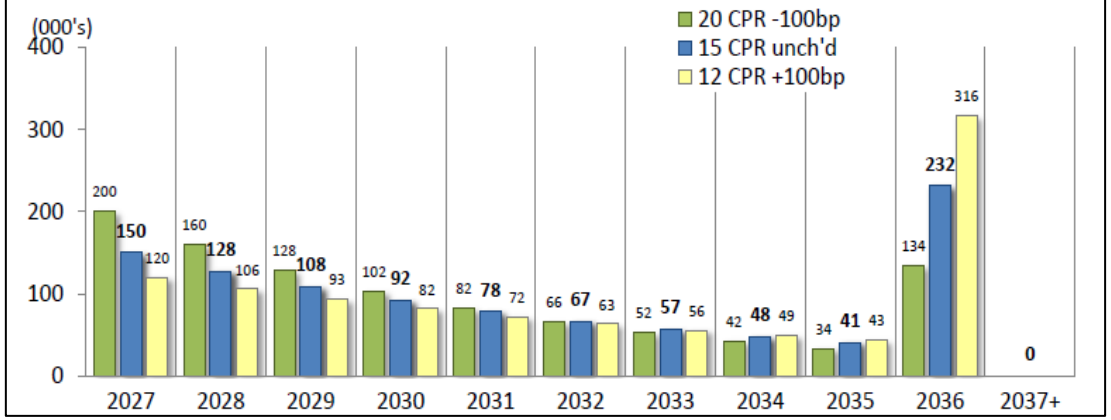
Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	8	10	12	15	20	25	30
Yield to Maturity	**5.30**	**5.35**	**5.41**	**5.50**	**5.67**	**5.87**	**6.08**
Avg Life	6.60	6.06	5.58	4.94	4.07	3.39	2.86
Duration	5.34	4.93	4.56	4.07	3.39	2.86	2.44
Spread to Tsy	+21	+29	+38	+50	+71	+93	+117

Price Volatility Analysis **Source: Bloomberg**

Effective Duration/Convexity **4.16 / -0.62** (+/-300 bp)
4.51 / -0.31 (+/-100 bp)

bps	CPR	Mkt Yld	AL	Price	Px Δ (+/-100 bp)	Eff Dur/Cnvx
-300	30	2.46	2.86	105.68	**+9.7%**	
-200	25	3.48	3.39	103.41	**+7.3%**	2.57 / -0.37
-100	20	4.49	4.07	100.37	**+4.2%**	3.53 / -0.50
0	15	5.50	4.94	96.33		**4.51 / -0.31**
+100	12	6.50	5.58	91.68	**-4.8%**	5.18 / -0.11
+200	10	7.50	6.06	86.83	**-9.9%**	5.79 / -0.20
+300	8	8.50	6.60	81.62	**-15.3%**	

Annual Principal Cashflow Projections ($1mm CF)



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Mortgage Market – MBS and CMOs

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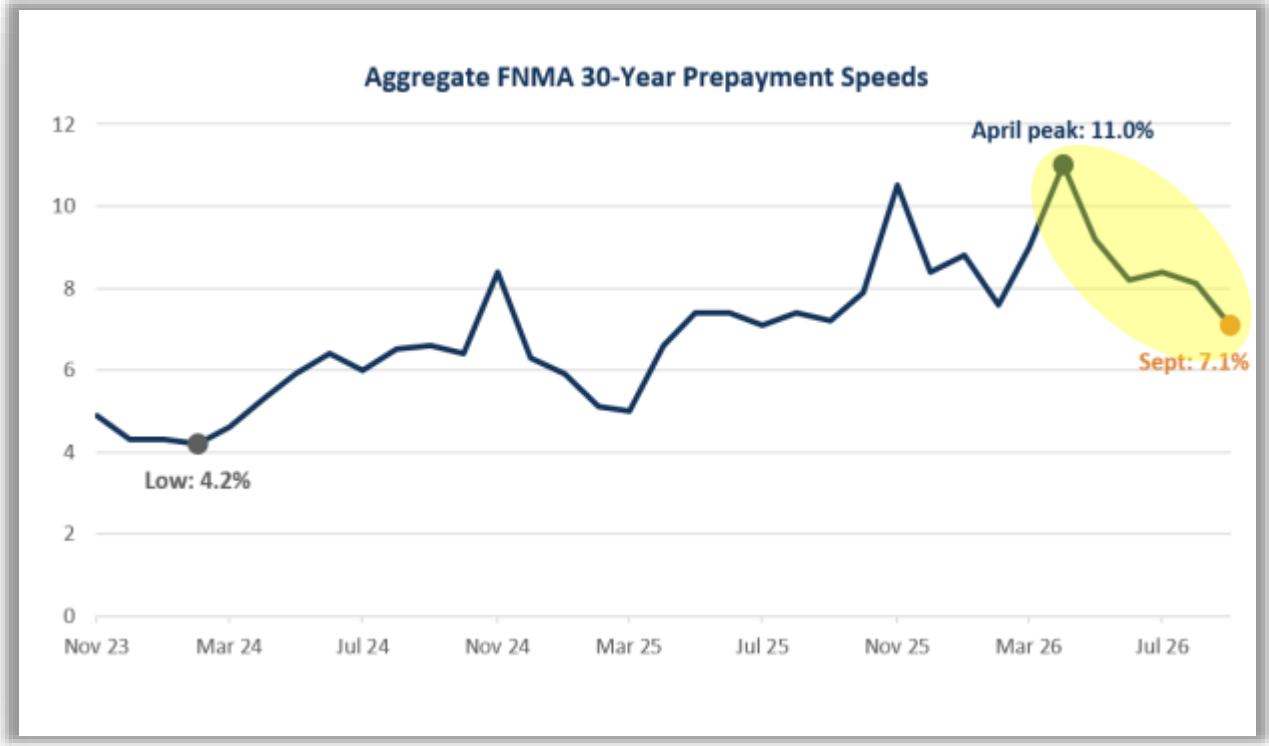
Recent Rate Moves Have Eroded Prepayment Activity

Primary mortgage rates have moved to the highest level in nearly three years.



Prepayments on 30-year MBS have dropped by about a third since April.



Higher mortgage rates have taken away the reason to pay off a home loan early and significantly reduced the affordability of home purchases.

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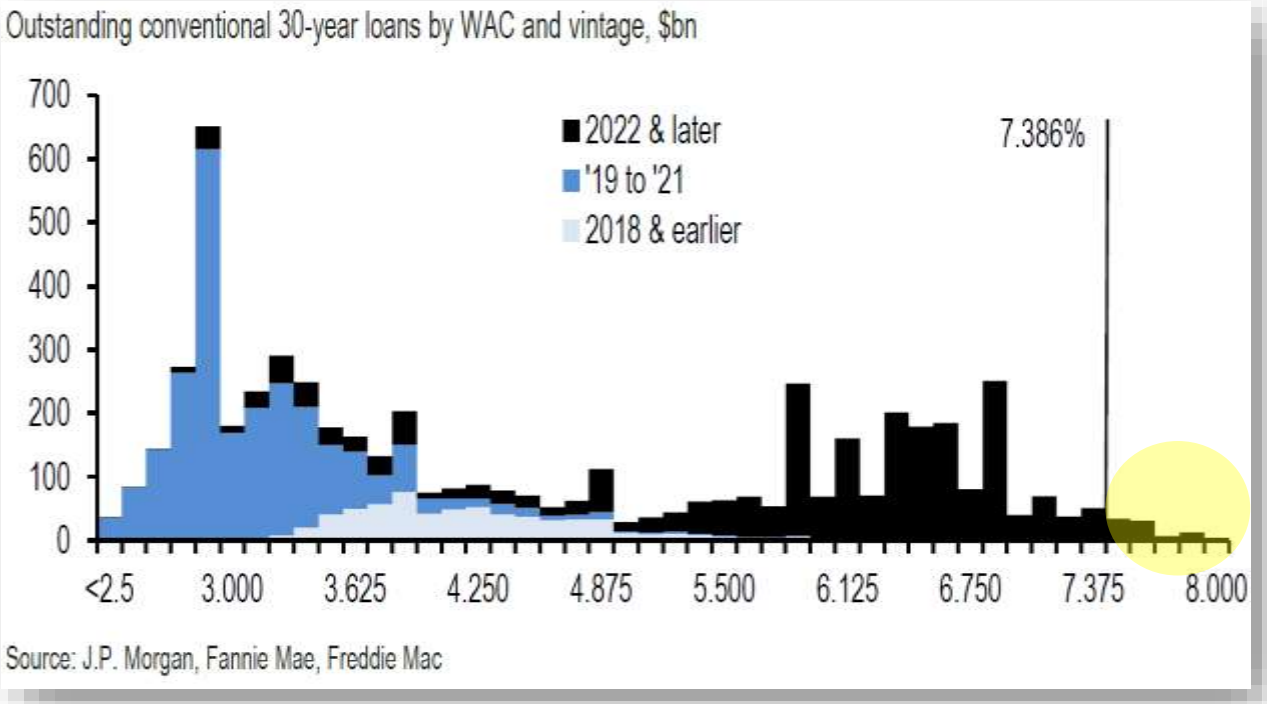
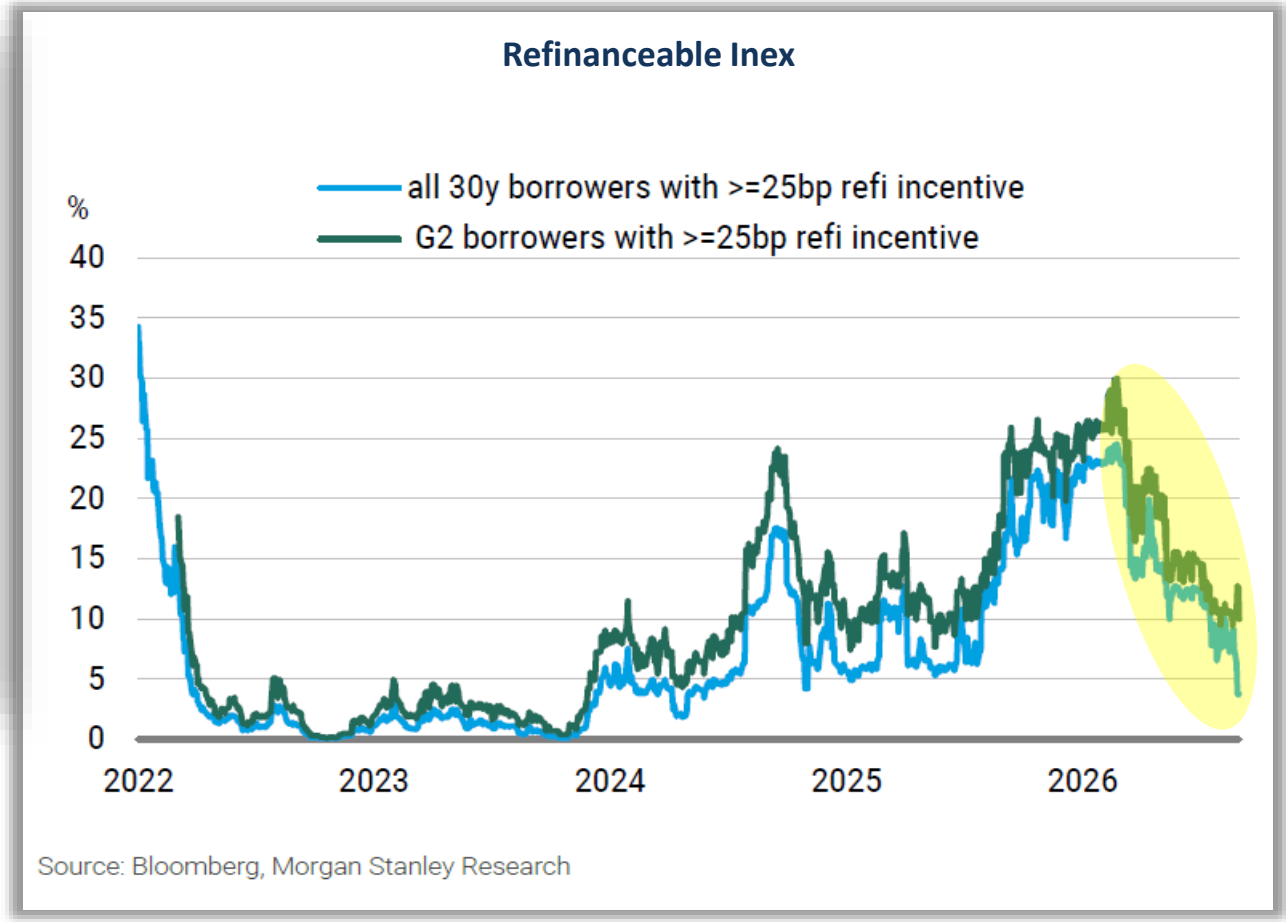
Almost No One Has A Reason to Refinance Anymore

At today's ~7.4% mortgage rates, almost none of the outstanding mortgage universe is in-the-money to refi.



Only 3–4% of homeowners could save at least 25bps by refinancing — down from about 30% in February.



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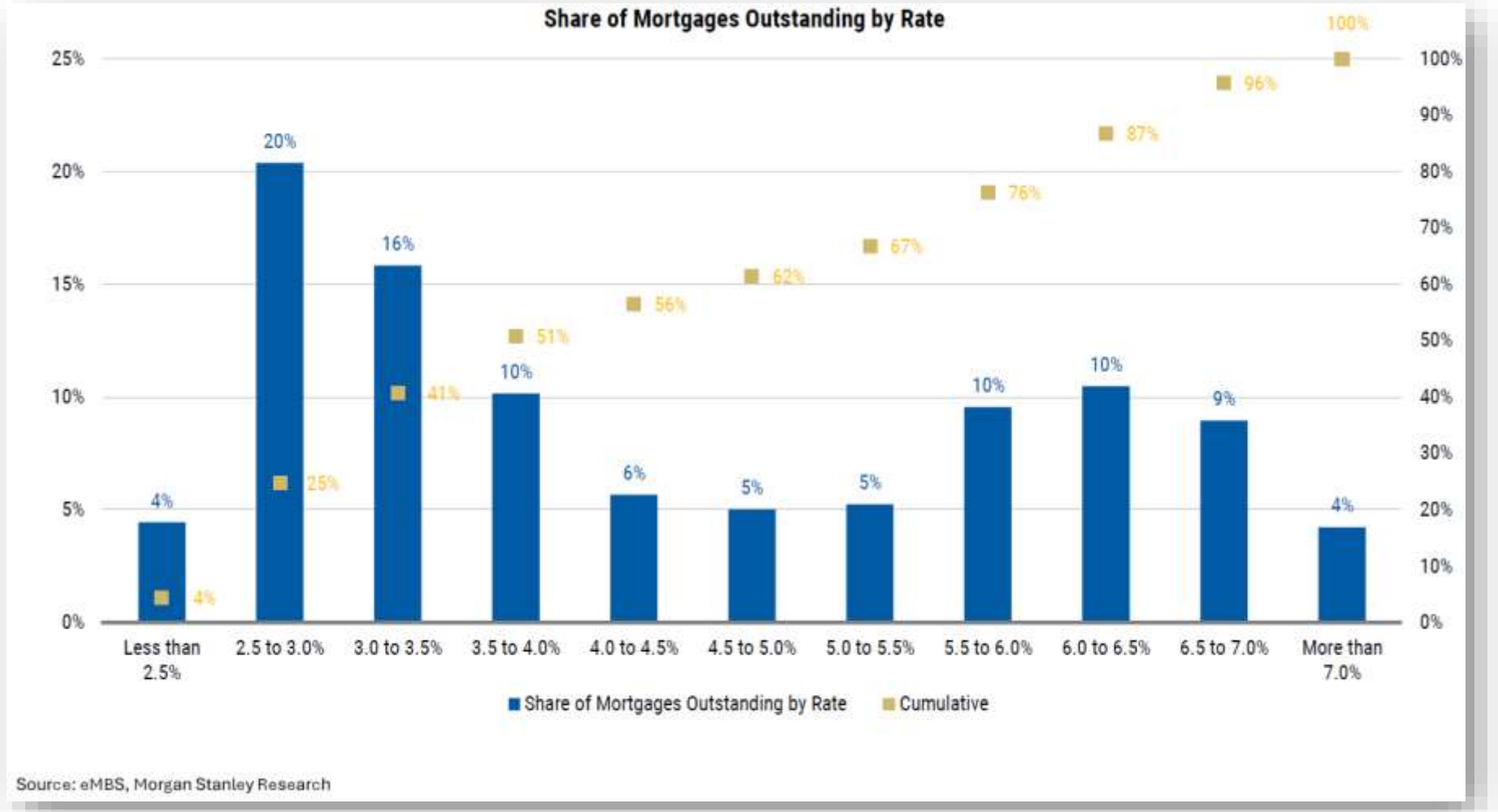
Despite Rate Moves, Mortgage Distribution Is Still Skewed to Much Lower Mortgage Rates

55% of the outstanding mortgage universe still has a rate below 4%



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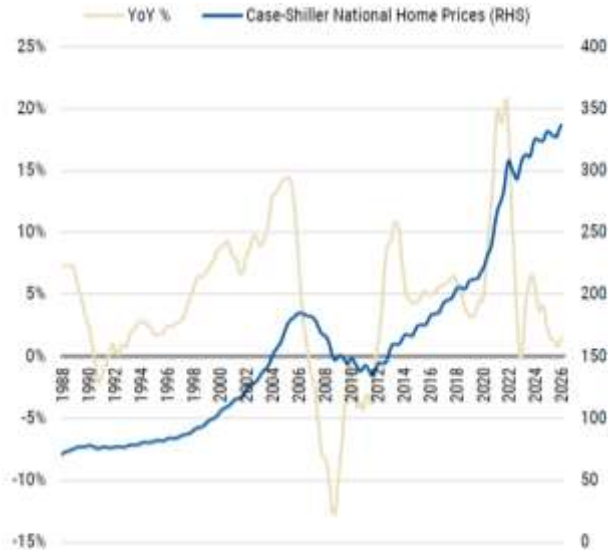
Record High Home Prices + Elevated Rates Continue to Pressure Mortgage Activity

Home prices at record highs combined with elevated mortgage rates leaves affordability near its weakest level in decades.

Pace of Growth Has Slowed, But Home Prices Still at Record Highs



Source: Case-Shiller, Freddie Mac, Morgan Stanley Research

Mortgage Rates Have Risen From Recent Lows



Mortgage Rates Need to Drop 160bps or Prices Decline 16% to Get Back to 10—Year Average Affordability



Source: NAR, Freddie Mac, US Census Bureau, Morgan Stanley Research

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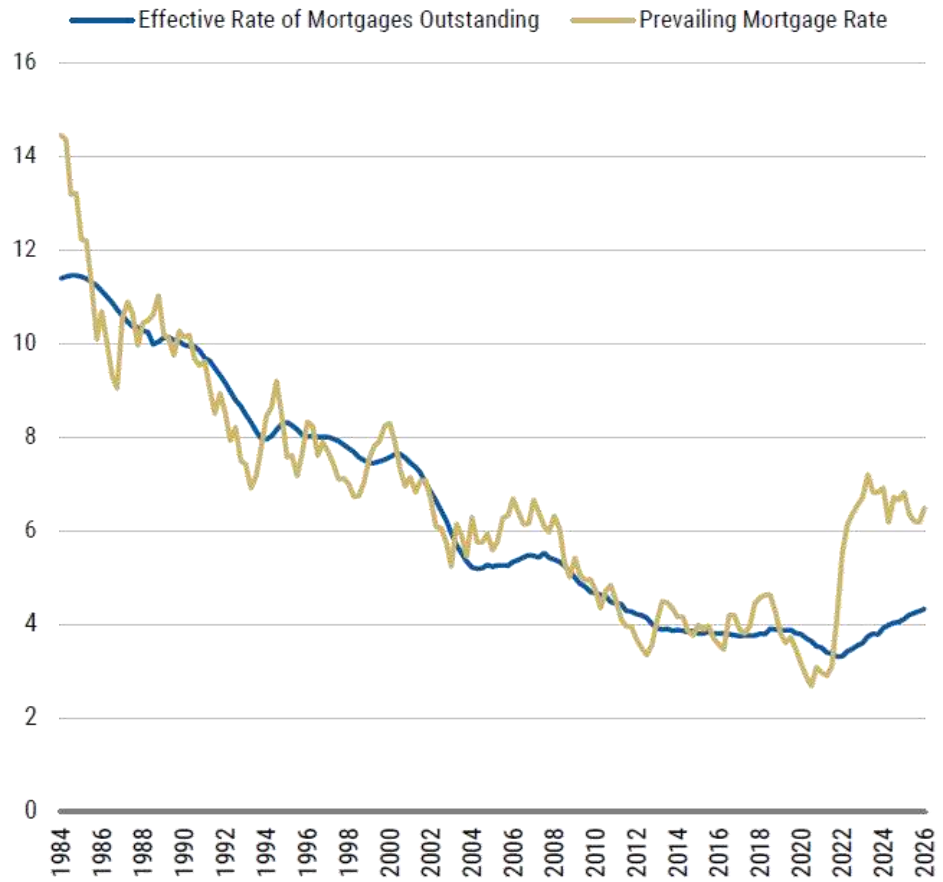
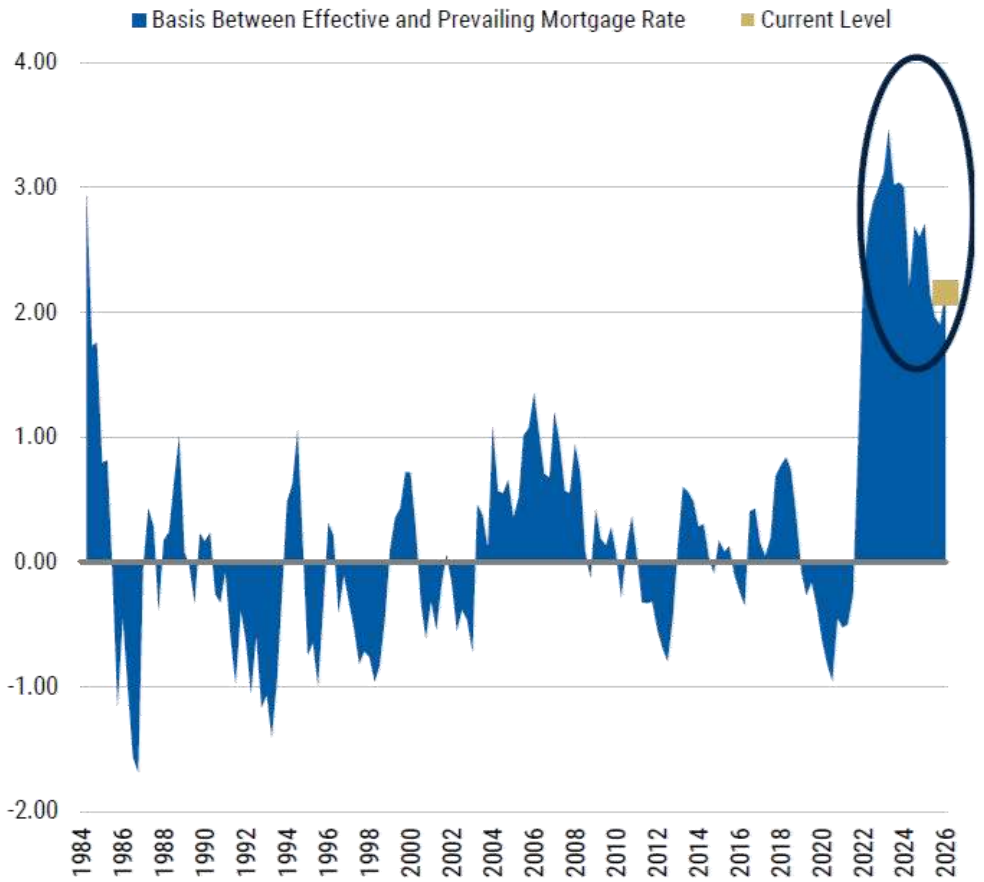
Affordability Challenge Perpetuates the "Lock-in Effect" and Further Hinders Mortgage Activity

The basis between prevailing mortgages rates and the effective rate on outstanding remains wide…



…and while it has improved, the market remains very locked in relative to history



Source: BEA, Freddie Mac, Morgan Stanley Research

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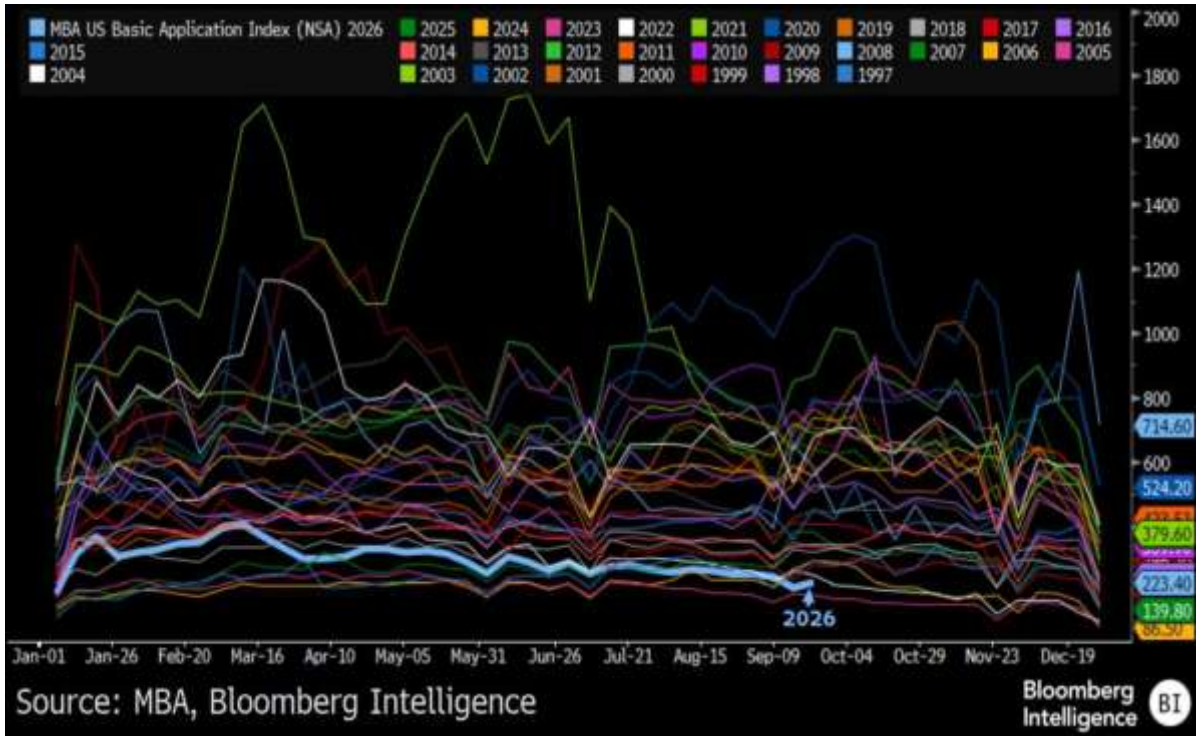
Mortgage-Loan Demand Now Near 30-Year Low and Likely to Fall Further

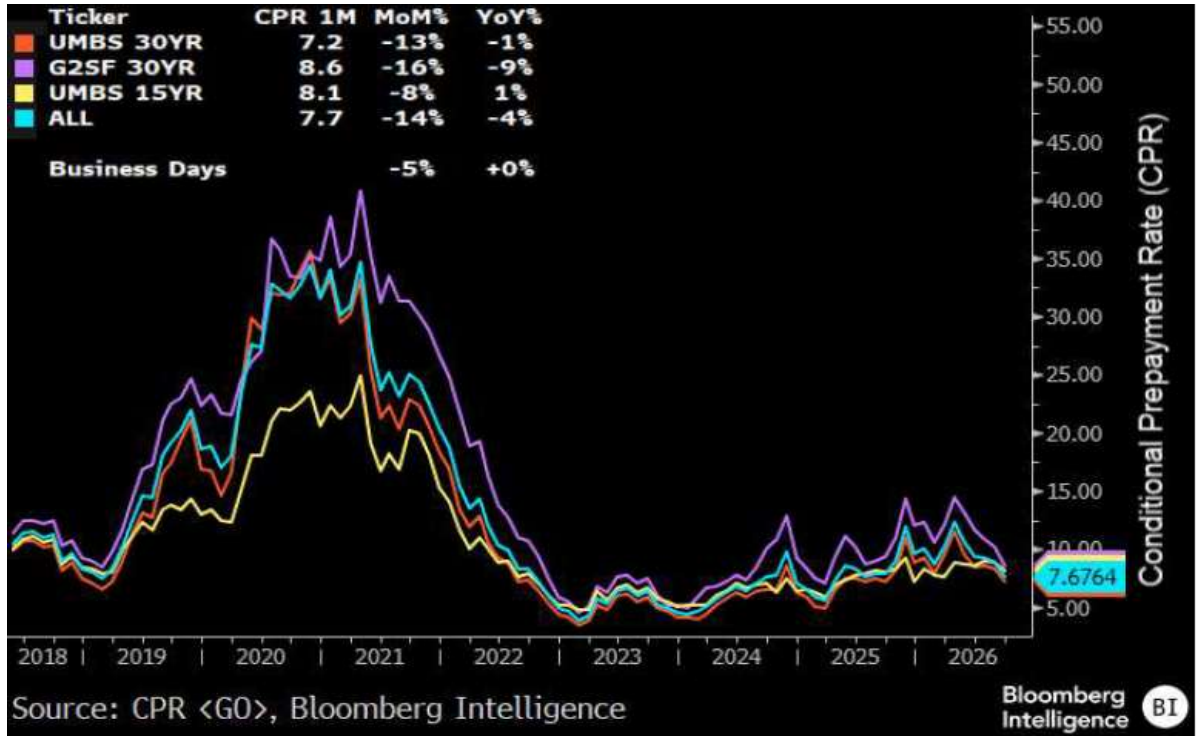
The non-seasonally adjusted loan application index collapsed to its second-lowest September since the mid 90s.

Loan demand is likely to trend even lower into year-end as housing seasonals weaken further.

September Applications Were Lower Only in 2023



Speeds Now Lower YoY, on Track to Fall Further



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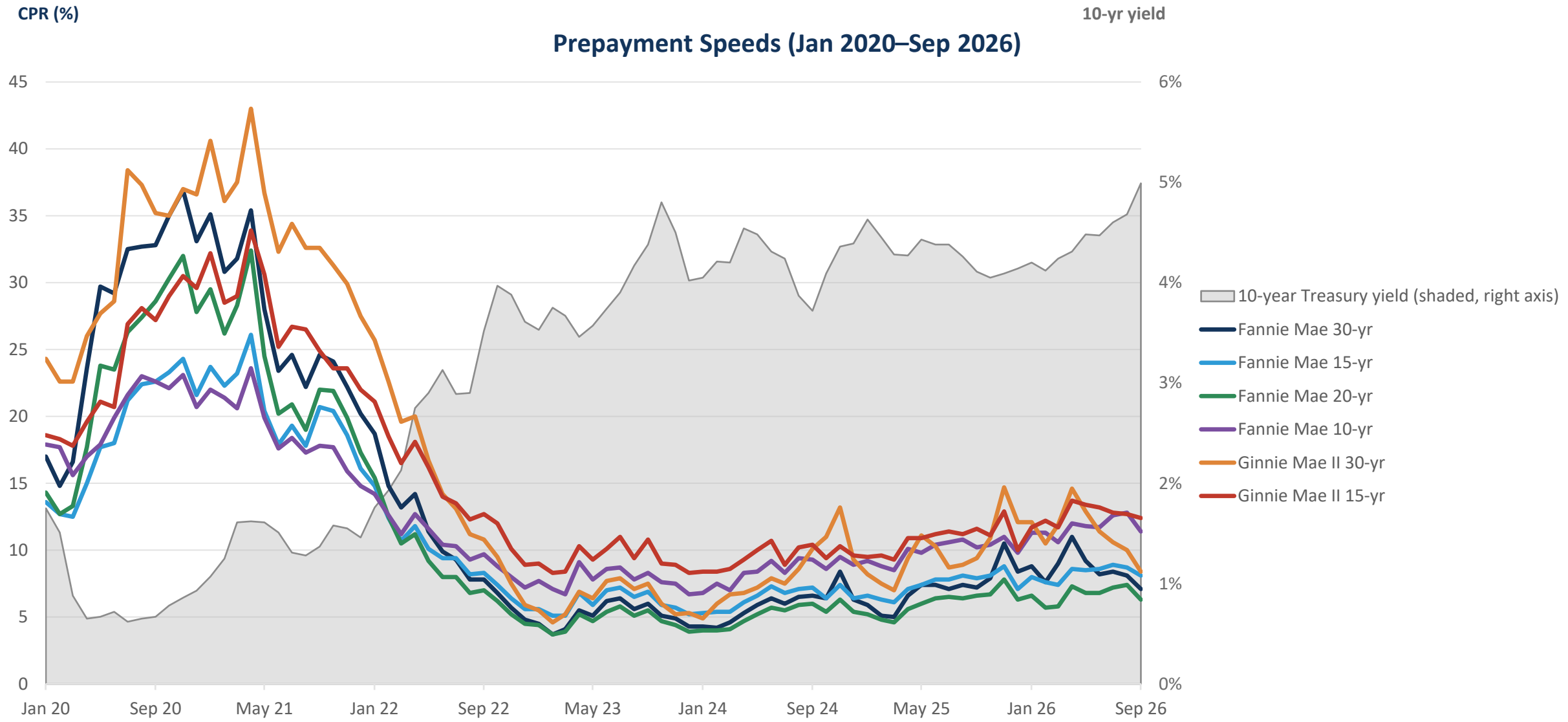
Sluggish Mortgage Activity Has Slowed Prepayment Speeds



Left axis: CPR (annualized share of loans paid off early, %), monthly. Right axis (gray shading): 10-year U.S. Treasury yield, monthly average. Latest: Sep 2026.
Sources: Baker MBS Chartbook (eMBS, Bloomberg); Bloomberg USGG10YR.

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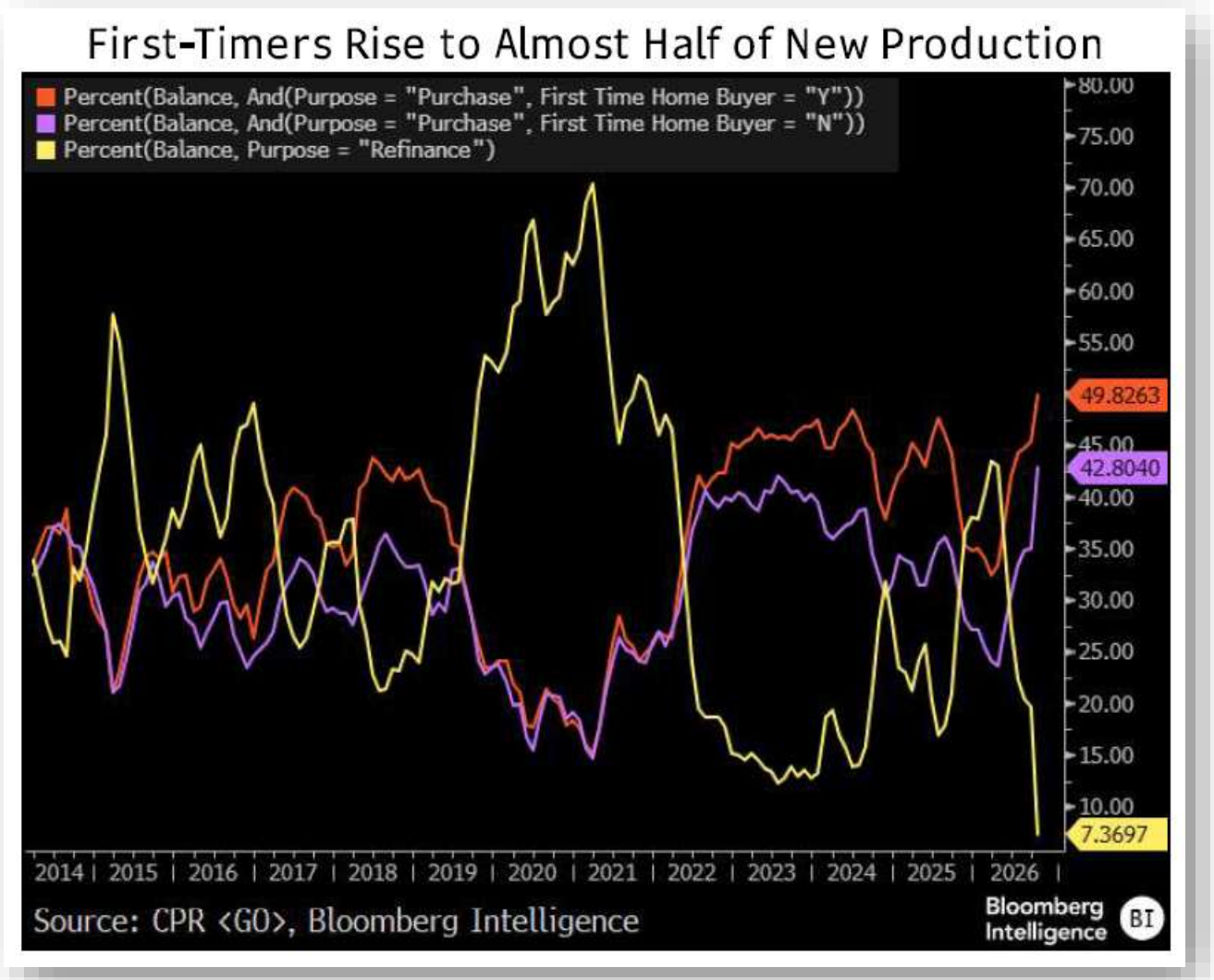
Mortgage Activity Now Driven By Purchase Activity, Especially First Time Homebuyers

First-time homebuyer loans tend to have more favorable convexity profiles relative to loans made to repeat borrowers, including refinances.

Rising rates have also made current homeowners even more reluctant to take out a higher mortgage rate when relocating, keeping them more “locked” into their current homes.



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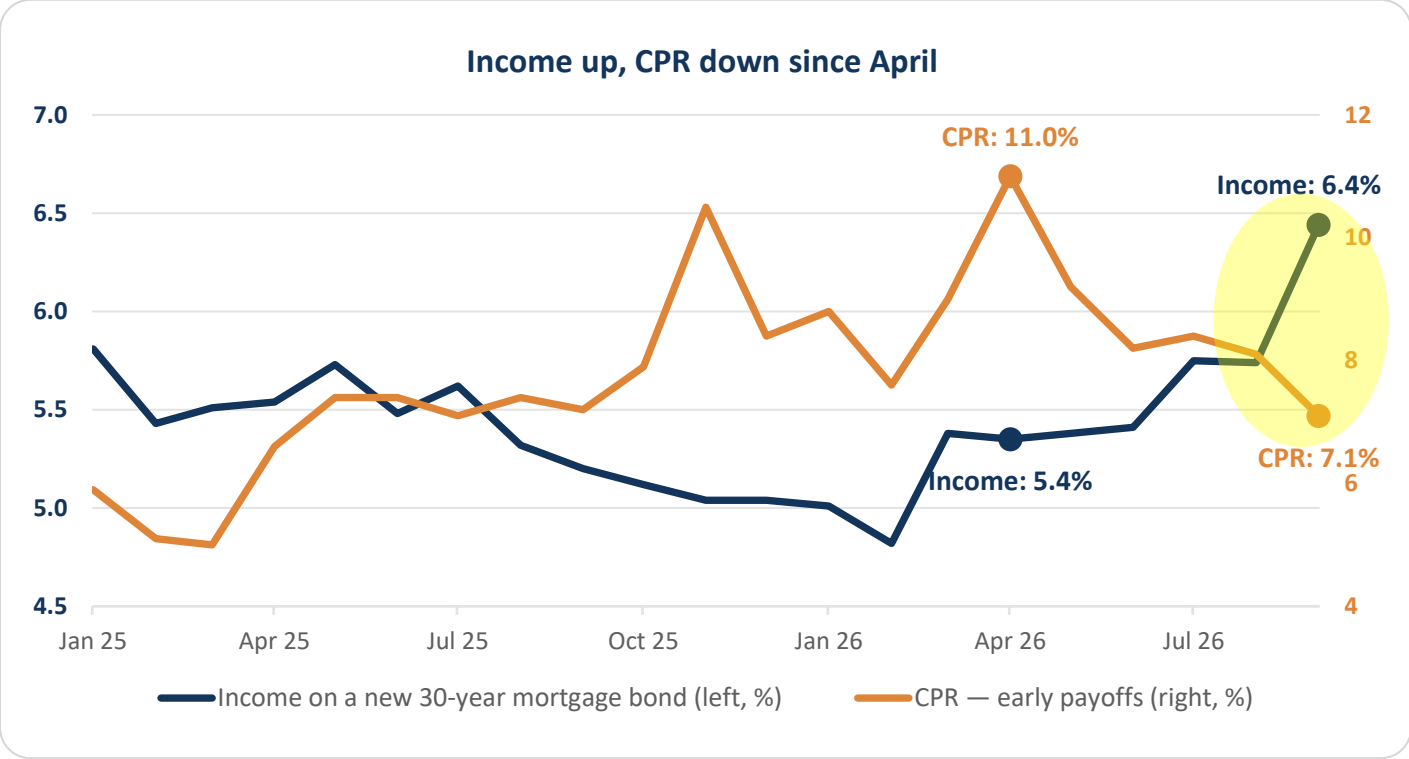
Loan Attributes That Drive Organic Turnover Help Stabilize Cash Flows at Higher Rates

Loan Attribute	Call Protection	Extension Protection	Prepay Characteristics
Low Loan Balance	✓	✓	• Smaller loan amounts don't benefit as much from refinancing • Fixed refinance costs and lower dollar savings reduce refi incentives for these borrowers, offering some call protection • Lower priced homes experience higher turnover as borrowers trade up, offering some extension protection
Seasoned Loans	✓	✓	• Seasoned loans offer some call protection due to burnout effect • Sufficiently seasoned loans also have shorter amortization schedules, offering some extension protection
New Production	✓	✗	• Infrequent turnover and refi activity in the first few months after origination results in slower speeds (call protection) in the short-term
Shorter Term (10-20 years)	✗	✓	• Shorter term mortgages offer some extension protection due to shorter amortization schedules
Geography	✓	✗	• Costs and origination requirements in certain states make it more difficult for residents to refinance, creating some call protection on collateral from specific states
Investor	✓	✗	• GSEs charge higher costs for loans with undesirable characteristics like non-owner occupancy • These borrowers face additional origination costs and underwriting hurdles making it harder for them to refinance, which creates some call protection
High LTV	✓	✗	• GSEs charge higher costs for loans with undesirable characteristics like high LTVs • High LTV borrowers face additional origination costs making it harder for them to refinance, which creates some call protection
Low FICO	✓	✗	• GSEs charge higher costs for loans with undesirable characteristics like low credit scores • Weak credit limits the borrower's ability to secure a mortgage and they face additional origination costs and underwriting hurdles making it harder for them to refinance, which creates some call protection
SATO (Spread at Origination)	✓	✓	• High-SATO borrowers pay a rate above the prevailing market rate at origination, often due to credit risk not captured by FICO or LTV • These borrowers struggle to qualify for a refinance when rates fall, which creates some call protection • As credit improves (credit curing), they refinance regardless of market rates, offering some extension protection
Delinquencies	✓	✓	• Borrowers with recent late payments are ineligible for most GSE refinance programs, which creates some call protection • Seriously delinquent loans (typically 120+ days) are bought out of the pool at par regardless of rates, offering some extension protection
Bank Servicing	✓	✗	• Non-bank servicers exhibit substantially faster refinance speeds compared to their bank counterparts • They tend to be more efficient in processing and more aggressive in soliciting borrowers, which increases prepayment sensitivity • Bank serviced loans offer some call protection
Retail Origination Channel	✓	✗	• Third-party originators have economic incentives to encourage borrowers to refinance and are more likely to prepay than retail originations
Jumbo	✗	✗	• Jumbo loans are the antithesis of low loan balance loans • Dollar incentives to refinance are large when rates fall, which creates reinvestment risk • Disincentives to relocate/refi when rates rise are also large locking these borrowers in, which creates extension risk

With Higher Rates and Lower Prepays, MBS Now Offer More income With Less Risk of Losing it Early

The most income in years, while refinancing — the main threat to it — has nearly disappeared



Income

6.4%

Income on a new 30-year mortgage bond — the most since October 2023

Early payoffs (CPR)

Down 35%

Drop in early payoffs since April — and still falling

Sources: Bloomberg (MTGEFNCL, 30-year mortgage bond yield, month-end; latest 10/2/26); Baker MBS Chartbook (Fannie Mae 30-year early payoffs), eMBS. Jan 2025–Sep 2026.

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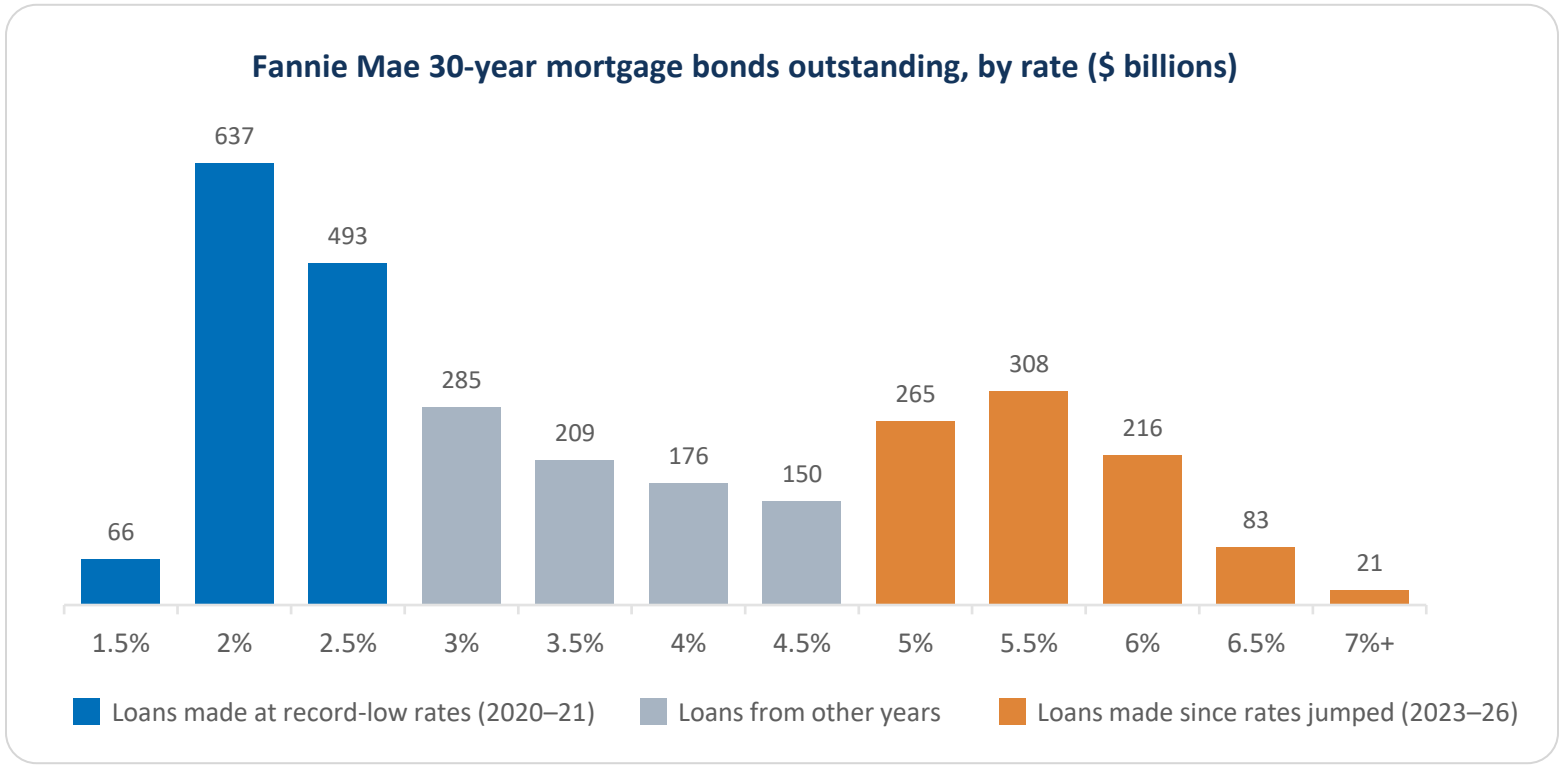
Rapid Rate Moves Have Also Created More *Choice* for MBS Investors

Each bond carries the rate its homeowners locked in — and big rate swings have left bonds at almost every level

1.5% to 7%

Range of coupons on mortgage bonds actively trading today

Different rates behave differently — which is gives investors more *options*.



Sources: Bloomberg — Fannie Mae 30-year pools, amount outstanding by coupon, as of September 2026

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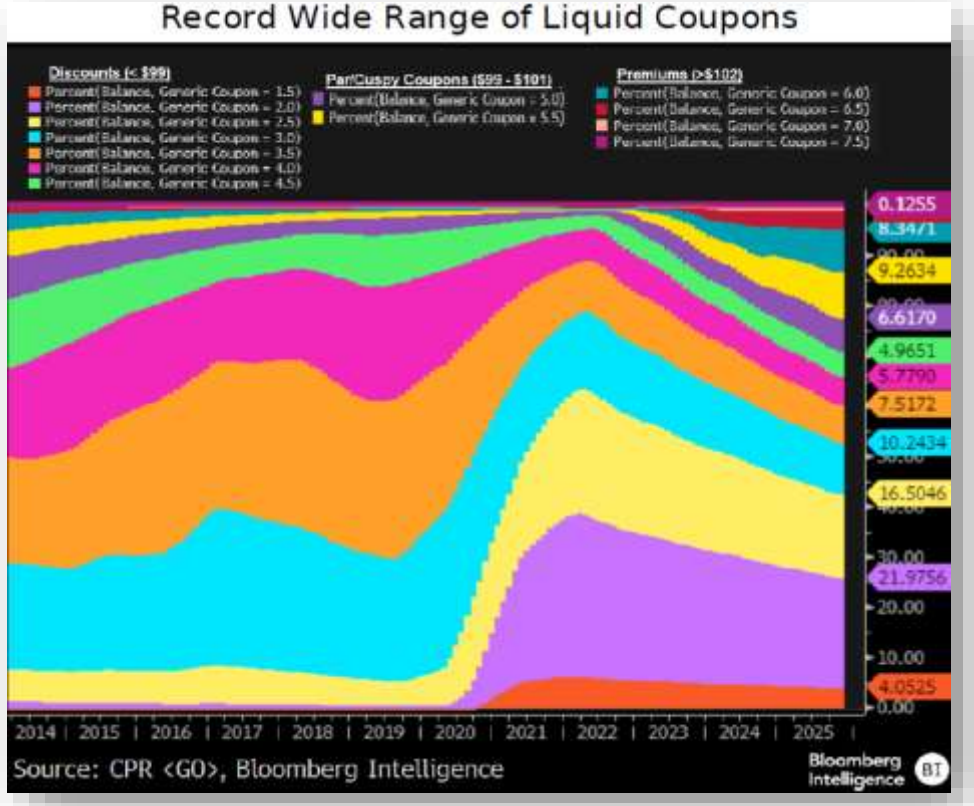
Record Wide Range of Liquid Coupons and Specified Stories Available

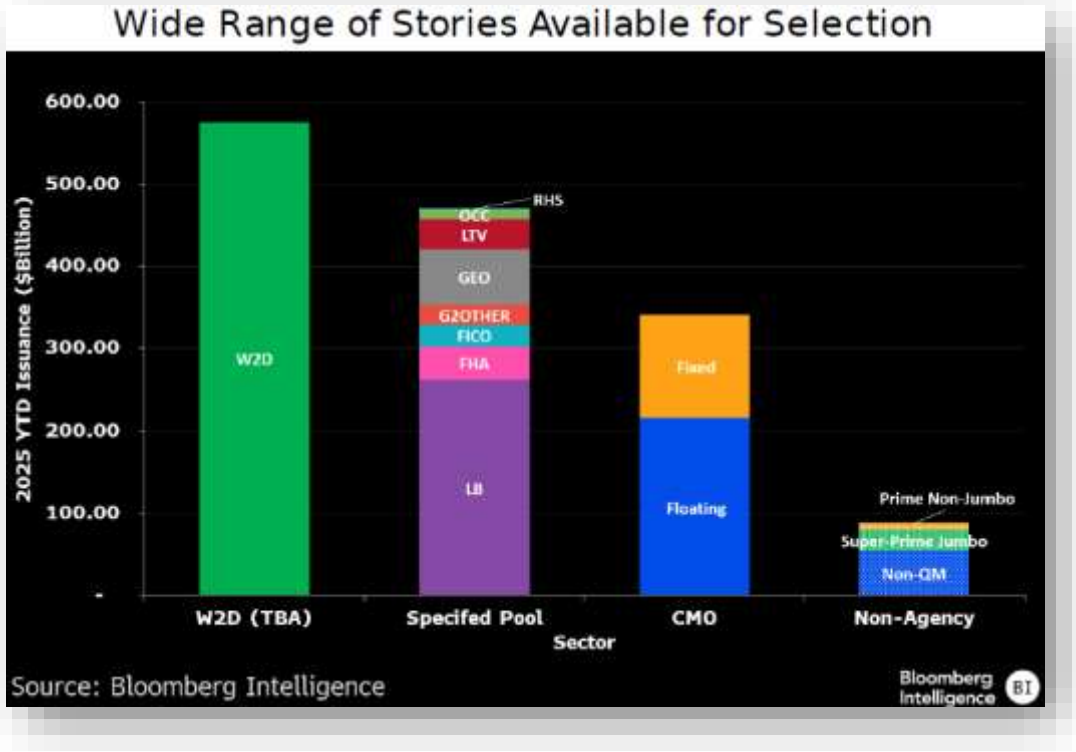
Expanded Coupon Stack Offers Wide Range of Risk Profiles

- Investors have the *widest range of liquid coupons* to choose from in the history of the MBS market.



Strong Specified Pool, CMO, Issuance Expand Options

- *Widest range and largest volume of specified-pool cohorts* on record.
- Spec pools now as much as half of agency MBS issuance, driven by rising loan sizes and demand for prepay protection.
- Loan-balance pools have expanded as their size limits to track higher loan sizes.



The BakerGroup

Wider Range of Choices Allows You to Match Your Bond to Your *Goal*

With the widest range of options available, there is an MBS bond or CMO to fit almost any goal — each with its own trade-off

If you want…	Look at…	Income today *(yield)*	Price drop if rates rise 300bps *(price risk / duration)*	Years to get most money back *(average life)*	Early-payoff risk *(negative convexity)*
Maximize income	New production 30-year pools at 5%–6% coupons *Trade-off: the biggest price swings*	5.90%–6.15%	−16% to −20%	6–9 yrs	● Moderate
Stabilize cash flow income	Pools of smaller loan sizes (capped at $85K–$350K), seasoning, DQs *Gives up a little income for protection*	5.84%–6.09%	−15% to −18%	6–8 yrs	● Low
Minimize price volatility	Short CMOs (2–3 years), Very Seas 20yr, Seas 15yr . 10yr *Trade-off: less income*	5.09%–5.50%	−7% to −10%	2–3 yrs	● Low
Minimize extension risk	10- and 15-year pools, short WAM, GMC CMOs *Shorter amortizations pay down faster in any rate setting*	5.20%–5.55%	−10% to −14%	4–5 yrs	● Low
Price appreciation	Seasoned 1.5%–3% 20 and 30-years, priced at deep discounts *Prepayments repay you at a gain (par)*	5.70%–6.13%	−17% to −21%	7–8 yrs	● Low
Capital treatment + cash flow	Ginnie Mae — full U.S. government backing, higher DQs and buyouts *Income matches Fannie/Freddie today; banks hold less capital*	5.45%–6.11%	−12% to −19%	5–8 yrs	● Moderate
More income from bonds you already own	Swap old 2%–3% bonds into today's 5%–6% bonds *Trade-off: the sale locks in a loss on paper*	About 6% going forward vs. 2%–3% when bought — the extra income works to earn back the loss over time			

Source: Baker inventory, 176 mortgage bond and CMO offerings, 10/5/26, grouped by type and rate; ranges show the middle 80% (full range used for CMOs where there were fewer than four offerings).
Price drop assumes an immediate 300bps rise in rates. For illustration only.

Goal - *Maximize Income*

MBS Analytics - G2 MB1332 (3618N6PS0)

The BakerGroup

GNMA II 30yr MBS
- 5.5% Coupon
- 356 Month WAM (05/20/2056)
- 472 Underlying Loans, Loans 2 Months Aged
- $910k Avg Current Loan Balance
- 52% FinTech Servicing (United Wholesale 35% / Rocket Mtg 15%)
- 755 Avg FICO, 93% Orig LTV,

6.25% Yield / +106 bps / 8.26 Avg Life @ 9 CPR

Security Information

Type	GNMA2 JM
Coupon	5.5
Maturity	08/20/2056
Issue	08/01/2026
Delay	49
Orig Balance	430,816,616
Factor Date	9/1/2026
Factor	0.99712908
Curr Balance	429,579,776
Loan Count	472

Collateral Data

WAM / WALA	356 / 2
WAC	5.996
Orig. Loan Size	913,275
Max. Loan Size	3,206,871
NOO	N/A
LTV	93
FICO	755

Geographic

CA	26.8
TX	8.9
VA	8.8
WA	7.8

Prepay Speeds

	CPR / PSA
1 Mth	2.2 / 552
3 Mth	N/A / N/A
6 Mth	N/A / N/A
12 Mth	N/A / N/A
24 Mth	N/A / N/A
Life	2.2 / 552

Settlement Date: 10/8/2026 Price: 95-29+

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	5	6	7	9	19	66	74
Yield To Maturity	**6.09**	**6.13**	**6.17**	**6.25**	**6.69**	**9.87**	**10.79**
Avg. Life	11.51	10.54	9.68	8.26	4.44	0.99	0.81
Mod. Dur.	7.2	6.72	6.29	5.56	3.38	0.87	0.72
Spread To Tsy	+77	+85	+93	+106	+171	+545	+642

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	2.2				2.2
Yield To Maturity	**5.99**				**5.99**
Avg. Life	15.05				15.05
Mod. Dur.	8.86				8.86
Spread To Tsy	+53				+53

	Sep26	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct25
1 Mth CPR	2.2											

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MBS Analytics - G2 MB1332 (3618N6PS0)

The BakerGroup

Price Volatility Analysis

Effective Duration/Convexity 5.97 /-0.55 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Chg	(+/-100bp) Eff Dur/Cnvx
-300	74	2.92	0.81	101.768	6.1%	
-200	66	3.94	0.99	101.229	5.5%	0.32 /0.21
-100	19	5.17	4.44	101.123	5.4%	2.62 /-2.52
0	9	6.25	8.26	95.922	0.0%	**5.97 /-0.55**
+100	7	7.27	9.68	89.665	-6.5%	6.84 /0.14
+200	6	8.29	10.54	83.659	-12.8%	7.19 /-0.01
+300	5	9.30	11.51	77.638	-19.1%	

Collateral Detail

WAC	5.996
WAM	356
WALA	2
Loan Count	472
Min. Loan Size	227,260
Max. Loan Size	3,206,871
Orig. Loan Size	913,275
FHA	13.8
VA	86.2
RHS	0.0
PIH	0.0
Purchase	90.6
Refinance	8.6
Re-Performing	0.2
Single Family	98.0
Multi-Unit	2.0

Original LTV	93
FICO	755
SATO	

Top Geos

CA	26.8
TX	8.9
VA	8.8
WA	7.8

Vintage

2026	99.8
2022	0.2

Servicers

34.6	United Wholesale Mortgage
14.8	Rocket Mortgage, Llc
7.9	Pennymac Loan Services, L

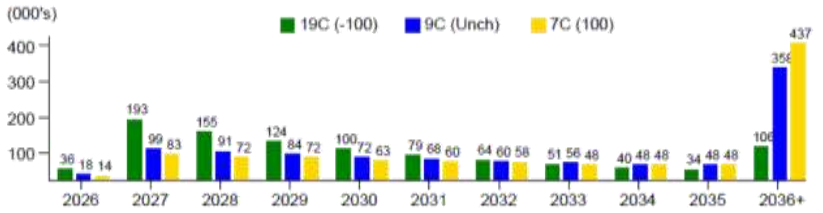
First Time Home Buyer

No	60.7
Yes	29.9
N/A	9.4

Down Payment Assistance Plan

No	95.8
Yes	4.2
55 MIP	4.4
70 MIP	4.3
75 MIP	3.6
Delinquent (30)	0.6
Delinquent (60)	0.0
Delinquent (90)	0.2
Delinquent (120+)	0.0

Annual Principal Cashflow Projection ($1mm CF)



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The BakerGroup

Goal - *Stabilize Cash Flow*

MBS Analytics - FN FA1584 (3140W1XN8)

The BakerGroup

Seasoned FNMA 15yr Super Pool
- 2.5% Coupon
- Sep 2035 Stated Maturity
- 99 Month WAM (12/1/2034)
- 28,135 Underlying Loans, Loans 76 Months Aged
- $169k Avg Current Loan Balance
- 26% Investor + Vacation Loans
- 763 Avg FICO, 64% Orig LTV, 25% Current LTV

5.25% Yield / +30 bps / 3.51 Avg Life @ 8 CPR

Security Information

Type	FNMA CI
Coupon	2.5
Maturity	09/01/2035
Issue	05/01/2025
Delay	54
Orig Balance	31,059,656
Factor Date	9/1/2026
Factor	0.78972458
Curr Balance	24,528,574
Loan Count	28,135

Collateral Data

WAM / WALA	99 / 75
WAC	3.141
Orig. Loan Size	321,320
Max. Loan Size	949,000
NOO	25.4
LTV	64
FICO	763

Geographic

CA	16.3
TX	6.6
WA	6.4
MN	6.4

Prepay Speeds

	CPR / PSA
1 Mth	9.8 / 164
3 Mth	9.3 / 155
6 Mth	8.2 / 136
12 Mth	7.6 / 127
24 Mth	N/A / N/A
Life	7.7 / 128

Settlement Date: 10/8/2026 Price: 91-16+

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	5	6	7	8	9	10	12
Yield To Maturity	**5.04**	**5.11**	**5.18**	**5.25**	**5.32**	**5.40**	**5.55**
Avg. Life	3.8	3.7	3.6	3.51	3.42	3.33	3.16
Mod. Dur.	3.35	3.26	3.18	3.09	3.01	2.93	2.78
Spread To Tsy	+8	+15	+23	+30	+38	+46	+62

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	9.8	9.3	8.2	7.6	7.7
Yield To Maturity	**5.38**	**5.34**	**5.26**	**5.22**	**5.23**
Avg. Life	3.35	3.39	3.49	3.55	3.54
Mod. Dur.	2.95	2.99	3.08	3.13	3.12
Spread To Tsy	+44	+40	+32	+27	+28

	Sep26	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct25
1 Mth CPR	9.8	6.2	11.9	6.5	7.4	7.0	5.7	5.9	6.9	5.8	9.8	7.9

Tue Oct 6 2026 8:38:16 AM EDT

MBS Analytics - FN FA1584 (3140W1XN8)

The BakerGroup

Price Volatility Analysis

Effective Duration/Convexity 3.32 /0.00 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Chg	(+/-100bp) Eff Dur/Cnvx
-300	12	2.25	3.16	100.630	10.0%	
-200	10	3.25	3.33	97.605	6.7%	3.11 /-0.01
-100	9	4.25	3.42	94.552	3.3%	3.22 /0.01
0	8	5.25	3.51	91.516	0.0%	**3.32 /0.00**
+100	7	6.25	3.60	88.474	-3.3%	3.43 /0.00
+200	6	7.26	3.70	85.440	-6.6%	3.54 /0.01
+300	5	8.26	3.80	82.425	-9.9%	

Collateral Detail

WAC	3.141
WAM	99
WALA	75
Loan Count	28,135
Min. Loan Size	39,000
Max. Loan Size	949,000
Orig. Loan Size	321,320
Owner Occupied	74.6
Vacation	2.8
Investor	22.6
Purchase	8.1
Refinance	57.2
Equity Takeout	34.7
Single Family	95.6
Multi-Unit	4.4

Original LTV	64
Current LTV	25
FICO	763
DTI	33
SATO	15

Top Geos

CA	16.3
TX	6.6
WA	6.4
MN	6.4

Vintage

2020	99.2
2019	0.8

Servicers

33.2	Less Than 1%
19.5	U.s. Bank NA
9.6	Rocket Mortgage, Llc

Origination

Broker	6.9
Correspondent	15.9
Retail	77.2

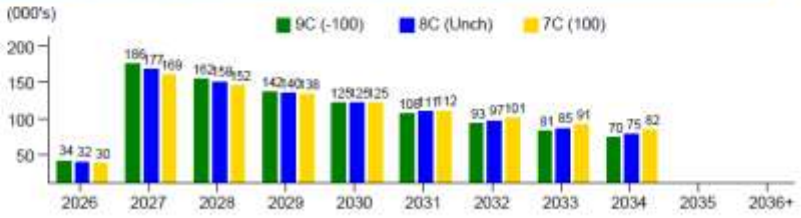
Property Valuation

Appraisal	68.9
Appraisal Waiver	31.2
Onsite Property	0.0

Workout Plan

Not Applicable	99.4
No Workout Plan	0.6
Forbearance Plan	0.1
Delinquent (30)	0.3
Delinquent (60)	0.0
Delinquent (90)	0.0
Delinquent (120+)	0.0

Annual Principal Cashflow Projection ($1mm CF)



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The BakerGroup

Goal - *Minimize Price Volatility*

CMO Offering - FHR 5204 MA (3137H6CA1)

The BakerGroup

Short Avg Life FHLMC CMO — $577k CF*
- 2.5% Coupon
- January 2039 Stated Maturity
- Mixed Collateral – All: 7.82(66)285 $37k Avg Bal
  - 52% FNCL 7.5 8.12(66)284 $40k Avg Bal
  - 48% FNMA&FGLMC 7 7.49(65)288 $33k Avg Bal

5.50% Yield / +67 bp / 2.33 Avg Life @ 12 CPR

Security Information

Coupon	2.5	Orig Bal.	24,579,925
Type	PT	Factor Dt	9/1/2026
		Factor	0.26644777
Maturity	1/25/2039	Curr Bal.	6,549,266
Issue	2/1/2022		
Delay	54	Next Pay	11/25/2026

Collateral Overview

Collat Type:	52% FNMA&FGLMC 7.5
WAM / WALA	66 / 285
WAC	7.818
Orig LTV / FICO	80 / 683
Avg Cur Loan Sz	37k

Hist Prepay Speeds

	CPR / PSA
1 Mo.	7.7 / 129
3 Mo.	9.6 / 159
6 Mo.	10.4 / 173
12 Mo.	10.0 / 166
Life	11.4 / 190

Settlement Date: 10/9/2026 **Price: 93-21+**

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	8	9	10	12	14	15	16
Yield to Maturity	**5.25**	**5.31**	**5.37**	**5.50**	**5.63**	**5.69**	**5.76**
Avg Life	2.55	2.49	2.44	2.33	2.23	2.19	2.14
Mod. Duration	2.26	2.21	2.16	2.07	1.98	1.94	1.90
Spread to Tsy	+40	+46	+53	+67	+81	+88	+95
Pay Window	11/26 - 9/38	11/26 - 9/38	11/26 - 9/38	11/26 - 9/38	11/26 - 9/38	11/26 - 9/38	11/26 - 9/38

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	7.7	9.6	10.4	10.0	11.4
Yield to Maturity	**5.24**	**5.35**	**5.40**	**5.37**	**5.46**
Avg Life	2.56	2.46	2.42	2.44	2.36
Mod. Duration	2.27	2.18	2.14	2.16	2.10
Spread to Tsy	+38	+50	+56	+53	+63
Pay Window	11/26 - 9/38	11/26 - 9/38	11/26 - 9/38	11/26 - 9/38	11/26 - 9/38

	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep
1 Month CPR	7.7	6.4	14.4	10.4	10.3	12.8	9.1	7.6	12.9	6.6	9.3	12.0	11.4

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Source:Bloomberg 10/6/2026 7:40 AM

CMO Offering - FHR 5204 MA (3137H6CA1)

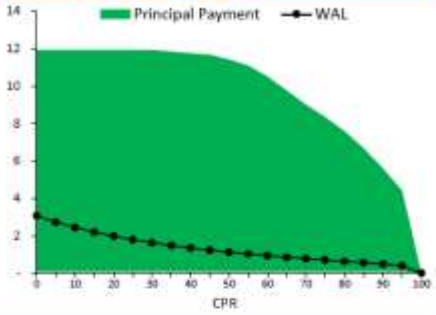
The BakerGroup

Price Volatility Analysis

Effective Duration/Convexity 2.34 / -0.04 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Δ	Eff Dur/Cnvx
-300	16	2.49	2.14	99.88	+6.6%	
-200	15	3.49	2.19	97.85	+4.5%	2.07 / +0.00
-100	14	4.49	2.23	95.82	+2.3%	2.18 / -0.06
0	12	5.50	2.33	93.67		2.34 / -0.04
+100	10	6.50	2.44	91.44	-2.4%	2.37 / +0.07
+200	9	7.51	2.49	89.34	-4.6%	2.35 / +0.00
+300	8	8.51	2.55	87.24	-6.9%	

Weighted Avg Life (Years)

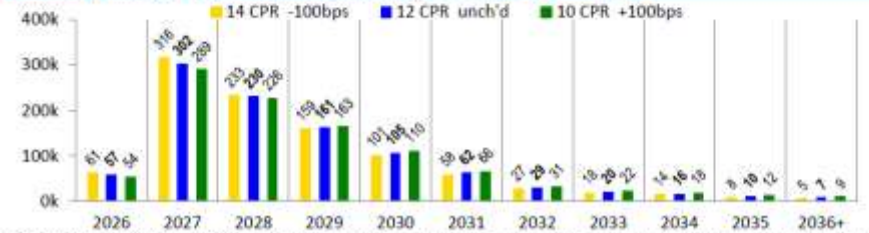


Collateral Detail

WAC	7.818	LTV Orig	80	Origination	
WARM	66	LTV Curr	11	Broker	3.4
WALA	285	FICO	683	Retail	2.3
		DTI Orig	41	Correspo	1.9
Pool Count	2,000	SATO	+67		
Min. Loan Size	5,000			Vintage	
Max. Loan Size	645,000	HFA	3.7	2002	22.7
Orig Loan Size	79,792	2nd Lien	0.0	2001	17.8
Curr Loan Size	36,834			2000	12.5
		Top Geos			
Owner Occupied	75.9	TX	11.0	Top Servicers	
Investor	21.9	NY	11.0	25.2%	Rocket Mortgage, Llc
Vacation	2.2	CA	7.1	19.5%	New Residential Mortgage Llc
		PA	6.6	19.0%	Jpmorgan Chase Bank, National Association
Purchase	53.1			6.8%	Bank Of America, National Association
Cashout Refi	28.8	Top Underlying Pools			
Refinance	18.1	FN 256814	3.9	Property Valuation	
		FN 789296	1.9	100.0	unavailable
1 Unit	9.1	FN 878173	1.7		
Condo	1.1	FN 897220	1.7		
Manufactured	0.8	FN 831891	1.6		

Borrower Assitance	
Not Applicable	94.1
No Workout Plan	5.8
Forbearance Plan	0.1
Repayment Plan	0.0
Delinquent (30)	2.4
Delinquent (60)	1.4
Delinquent (90)	0.7
Delinquent (120+)	0.4

Annual Principal Cashflow Projection @ 12 CPR ($1mm CF)



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Source:Bloomberg 10/6/2026 7:40 AM

The BakerGroup

Goal – *Minimize Extension Risk*

MBS Analytics - FR SA0142 (3132CJEP4)

The BakerGroup

FRLMC 10yr Super Pool
- 5.0% Coupon
- 103 Month WAM (05/01/2035)
- 4,741 Underlying Loans, Loans 11 Months Aged
- $150k Avg Current Loan Balance
- 760 Avg FICO, 45% Orig LTV, 39% Curr LTV

5.15% Yield / +23 bps / 2.99 Avg Life @ 16 CPR

Security Information

Type	FRLMC CN
Coupon	5
Maturity	04/01/2036
Issue	03/01/2026
Delay	54
Orig Balance	68,934,398
Factor Date	9/1/2026
Factor	0.87032573
Curr Balance	59,995,380
Loan Count	4,741

Collateral Data

WAM / WALA	103 / 11
WAC	5.85
Orig. Loan Size	271,085
Max. Loan Size	1,000,000
NOO	8.0
LTV	45
FICO	762

Geographic

TX	10.7
IL	7.0
CA	6.6
MI	4.7

Prepay Speeds

	CPR / PSA
1 Mth	12.9 / 586
3 Mth	15.4 / 769
6 Mth	17.4 / 1019
12 Mth	N/A / N/A
24 Mth	N/A / N/A
Life	17.4 / 1019

Settlement Date: 10/15/2026 Price: 99-13+

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	10	12	14	16	22	30	37
Yield To Maturity	**5.13**	**5.14**	**5.14**	**5.15**	**5.16**	**5.18**	**5.21**
Avg. Life	3.52	3.33	3.15	2.99	2.55	2.09	1.76
Mod. Dur.	3.04	2.89	2.75	2.61	2.26	1.87	1.6
Spread To Tsy	+19	+20	+22	+23	+30	+38	+50

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	12.9	15.4	17.4		17.4
Yield To Maturity	**5.14**	**5.15**	**5.15**		**5.15**
Avg. Life	3.25	3.04	2.88		2.88
Mod. Dur.	2.82	2.65	2.52		2.52
Spread To Tsy	+21	+23	+25		+25

	Sep26	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct25
1 Mth CPR	12.9	19.7	13.4	17.6	22.1	18.6						

Tue Oct 6 2026 10:59:15 AM EDT

MBS Analytics - FR SA0142 (3132CJEP4)

The BakerGroup

Price Volatility Analysis

Effective Duration/Convexity 2.55 /-0.15 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Chg	(+/-100bp) Eff Dur/Cnvx
-300	37	2.06	1.76	104.694	5.3%	
-200	30	3.10	2.09	103.461	4.1%	1.39 /-0.20
-100	22	4.12	2.55	101.809	2.4%	1.98 /-0.36
0	16	5.15	2.99	99.422	0.0%	**2.55 /-0.15**
+100	14	6.15	3.15	96.730	-2.7%	2.85 /-0.07
+200	12	7.15	3.33	93.899	-5.6%	3.09 /-0.07
+300	10	8.16	3.52	90.929	-8.5%	

Collateral Detail

WAC	5.85
WAM	103
WALA	11
Loan Count	4,741
Min. Loan Size	15,000
Max. Loan Size	1,000,000
Orig. Loan Size	271,085
Owner Occupied	92.0
Vacation	3.1
Investor	4.9
Purchase	20.9
Refinance	30.4
Equity Takeout	48.7
Single Family	99.0
Multi-Unit	1.0

Original LTV	45
Current LTV	39
FICO	762
DTI	32
SATO	20

Top Geos

TX	10.7
IL	7.0
CA	6.6
MI	4.7

Vintage

2025	71.6
2026	20.9
2024	6.6

Servicers

33.8	Less Than 1%
20.3	Rocket Mortgage, Llc
10.6	Jpmorgan Chase Bank, Nati

Origination

Broker	9.9
Correspondent	11.1
Retail	79.1

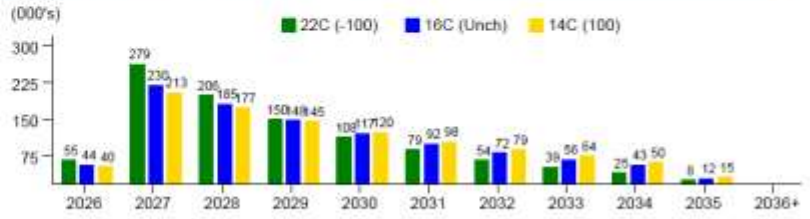
Property Valuation

Appraisal	56.8
Appraisal Waiver	39.4
C	3.5

Workout Plan

Not Applicable	99.6
No Workout Plan	0.4
Delinquent (30)	0.3
Delinquent (60)	0.0
Delinquent (90)	0.0
Delinquent (120+)	0.0

Annual Principal Cashflow Projection ($1mm CF)



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The BakerGroup

Goal – *Price Appreciation*

MBS Analytics - G2 MA7191 (36179V7C8)

The BakerGroup

GNMA II 30yr MBS
- 1.5% Coupon
- 282 Month WAM (03/20/2050)
- 2,482 Underlying Loans, Loans 68 Months Aged
- $270k Avg Current Loan Balance
- 755 Avg FICO, 84% Orig LTV, 49% Curr LTV

6.00% Yield / +82 bps / 8.15 Avg Life @ 6 CPR

Security Information

Type	GNMA2 SF
Coupon	1.5
Maturity	02/20/2051
Issue	02/01/2021
Delay	49
Orig Balance	1,087,006,768
Factor Date	9/1/2026
Factor	0.61418903
Curr Balance	667,627,632
Loan Count	2,467

Collateral Data

WAM / WALA	282 / 68
WAC	1.959
Orig. Loan Size	325,915
Max. Loan Size	1,329,929
NOO	N/A
LTV	84
FICO	755

Geographic

CA	19.9
VA	9.7
TX	7.5
FL	6.8

Prepay Speeds

	CPR / PSA
1 Mth	5.7 / 96
3 Mth	5.8 / 96
6 Mth	5.6 / 93
12 Mth	5.0 / 83
24 Mth	4.6 / 77
Life	5.6 / 117

Settlement Date: 10/8/2026 Price: 74-7

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	3	4	5	6	6	7	8
Yield To Maturity	**5.11**	**5.40**	**5.69**	**6.00**	**6.00**	**6.31**	**6.64**
Avg. Life	10.06	9.36	8.72	8.15	8.15	7.63	7.16
Mod. Dur.	7.52	6.92	6.39	5.92	5.92	5.5	5.13
Spread To Tsy	-15	+17	+49	+82	+82	+115	+150

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	5.7	5.8	5.6	5.0	5.6
Yield To Maturity	**5.90**	**5.93**	**5.87**	**5.69**	**5.87**
Avg. Life	8.32	8.26	8.37	8.72	8.37
Mod. Dur.	6.06	6.01	6.1	6.39	6.1
Spread To Tsy	+72	+75	+68	+49	+68

	Sep26	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct25
1 Mth CPR	5.7	6.6	5.1	6.0	5.0	5.3	4.3	2.6	4.7	3.7	4.6	6.3

Tue Oct 6 2026 11:05:46 AM EDT

MBS Analytics - G2 MA7191 (36179V7C8)

The BakerGroup

Price Volatility Analysis

Effective Duration/Convexity 7.04 /-0.78 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Chg	(+/-100bp) Eff Dur/Cnvx
-300	8	2.98	7.16	91.050	22.7%	
-200	7	3.99	7.63	84.962	14.5%	7.17 /-0.01
-100	6	4.99	8.15	78.863	6.3%	6.81 /0.92
0	6	6.00	8.15	74.219	0.0%	**7.04 /-0.78**
+100	5	7.00	8.72	68.420	-7.8%	8.49 /-0.01
+200	4	8.01	9.36	62.606	-15.6%	9.28 /0.01
+300	3	9.03	10.06	56.800	-23.5%	

Collateral Detail

WAC	1.959
WAM	282
WALA	68
Loan Count	2,467
Min. Loan Size	56,744
Max. Loan Size	1,329,929
Orig. Loan Size	325,915
FHA	8.1
VA	91.7
RHS	0.3
PIH	0.0
Purchase	16.0
Refinance	84.0
Single Family	98.8
Multi-Unit	1.2

Original LTV	84
Current LTV	49
FICO	755
SATO	-99

Top Geos

CA	19.9
VA	9.7
TX	7.5
FL	6.8

Vintage

2021	100.0
2020	0.0

Servicers

59.4	Pennymac Loan Services, L
16.2	Freedom Mortgage Corporat
16.1	Dba Freedom Home Mortgage

First Time Home Buyer	
N/A	84.0
Yes	9.8
No	6.2

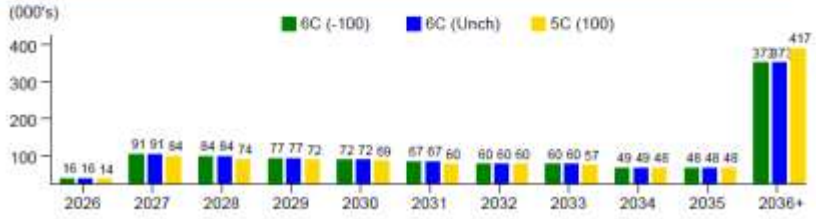
Down Payment Assistance Plan

No	99.8
Yes	0.3

85 MIP	6.1
80 MIP	1.8
100 MIP	0.2

Delinquent (30)	0.5
Delinquent (60)	0.1
Delinquent (90)	0.5
Delinquent (120+)	0.0
Plan Approved	0.0
Special Forbearance	0.0

Annual Principal Cashflow Projection ($1mm CF)



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The BakerGroup

Goal – *Capital treatment + Cash Flow*

MBS Analytics - G2 MA8879 (36179X2L9)

The BakerGroup

GNMA II 30yr MBS
- 5.5% Coupon
- 314 Month WAM (11/20/2052)
- 12,639 Underlying Loans, Loans 42 Months Aged
- $346k Avg Current Loan Balance
- 697 Avg FICO, 95% Orig LTV, 81% Current LTV
- High Delinquencies: 4% 30 days / 2% 60 days / 7% 90+ days

6.05% Yield / +93 bps / 6.81 Avg Life @ 11 CPR

Security Information

Type	GNMA2 SF
Coupon	5.5
Maturity	05/20/2053
Issue	05/01/2023
Delay	49
Orig Balance	6,998,383,806
Factor Date	9/1/2026
Factor	0.62468275
Curr Balance	4,371,769,641
Loan Count	12,639

Collateral Data

WAM / WALA	314 / 41
WAC	6.084
Orig. Loan Size	364,501
Max. Loan Size	2,413,035
NOO	N/A
LTV	95
FICO	697

Geographic

FL	12.5
TX	10.8
CA	10.7
GA	5.4

Prepay Speeds

	CPR / PSA
1 Mth	9.4 / 157
3 Mth	13.8 / 230
6 Mth	17.1 / 285
12 Mth	17.9 / 298
24 Mth	16.0 / 299
Life	12.0 / 297

Settlement Date: 10/8/2026 Price: 97-11+

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	6	7	9	11	17	33	50
Yield To Maturity	**5.93**	**5.95**	**6.00**	**6.05**	**6.21**	**6.70**	**7.36**
Avg. Life	9.73	9.01	7.79	6.81	4.8	2.46	1.48
Mod. Dur.	6.49	6.11	5.44	4.88	3.67	2.07	1.3
Spread To Tsy	+68	+74	+83	+93	+121	+187	+277

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	9.4	13.8	17.1	17.9	12.0
Yield To Maturity	**6.01**	**6.12**	**6.21**	**6.23**	**6.07**
Avg. Life	7.58	5.73	4.77	4.58	6.39
Mod. Dur.	5.32	4.24	3.65	3.53	4.64
Spread To Tsy	+85	+106	+121	+124	+98

	Sep26	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct25
1 Mth CPR	9.4	14.3	17.5	16.3	20.5	24.1	17.5	16.3	19.0	19.9	23.8	14.8

Tue Oct 6 2026 11:05:56 AM EDT

MBS Analytics - G2 MA8879 (36179X2L9)

The BakerGroup

Price Volatility Analysis

Effective Duration/Convexity 5.07 /-0.43 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Chg	(+/-100bp) Eff Dur/Cnvx
-300	50	2.83	1.48	103.530	6.3%	
-200	33	3.93	2.46	103.308	6.1%	0.80 /-0.59
-100	17	5.00	4.80	101.877	4.6%	2.92 /-1.51
0	11	6.05	6.81	97.359	0.0%	**5.07 /-0.43**
+100	9	7.06	7.79	92.007	-5.5%	6.15 /-0.34
+200	7	8.08	9.01	86.037	-11.6%	6.68 /0.26
+300	6	9.09	9.73	80.509	-17.3%	

Collateral Detail

WAC	6.084
WAM	314
WALA	41
Loan Count	12,639
Min. Loan Size	19,159
Max. Loan Size	2,413,035
Orig. Loan Size	364,501
FHA	66.9
VA	32.7
RHS	0.5
PIH	0.0
Purchase	88.8
Refinance	10.4
Re-Performing	0.2
HAMP	0.2
Single Family	96.5
Multi-Unit	3.5

Original LTV	95
Current LTV	81
FICO	697
SATO	-16

Top Geos

FL	12.5
TX	10.8
CA	10.7
GA	5.4

Vintage

2023	99.7
2022	0.1
2019	0.1

Servicers

26.7	Lakeview Loan Servicing,
13.4	Freedom Mortgage Corporat
13.3	Dba Freedom Home Mortgage

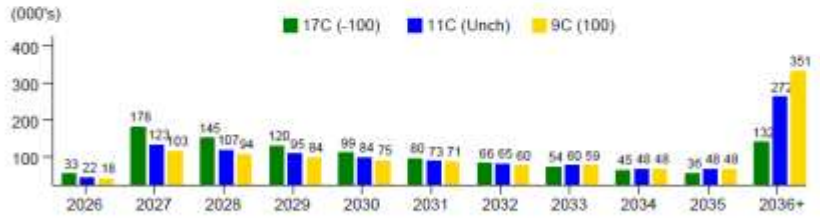
First Time Home Buyer

Yes	57.4
No	31.3
N/A	11.3

Down Payment Assistance Plan

No	92.7
Yes	7.3
55 MIP	37.3
50 MIP	19.2
85 MIP	5.4
Delinquent (30)	4.5
Delinquent (60)	1.5
Delinquent (90)	6.6
Delinquent (120+)	0.0
Plan Approved	1.1
Special Forbearance	0.4

Annual Principal Cashflow Projection ($1mm CF)



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The BakerGroup

CMO Strategy: New-Issue, Higher-Rate Mortgages with Less Cash Flow Volatility

New loans carry today's higher rates. A CMO lets an investor own them for a shorter, more predictable stretch.

A pool of new

6%

mortgages

made in 2024–2026

Paid first
Short slice — money back in about 3–4 years

Paid on a schedule
Scheduled-payment slice ("PAC") — steady payments

Paid by a set date
Guaranteed Maturity Class (Freddie Mac) — next page

Same new 6% loans, two ways to own them

	Whole pool	Ginnie CMO slice
Income (yield)	6.20%	5.70%
Years to get most money back	7.8	4.6
Price drop if rates rise 3%	–17%	–15%

The trade: about half a point of income for getting money back roughly three years sooner — with a little less price risk.

Illustration from Baker inventory 10/6/26: whole pool = new GNMA II 30-year 6% pool (3618N6SC2); CMO slice = GNR 26-108 CP (38385TSQ5), backed by 6% loans about 2¼ years old. Not a recommendation.

CMO Slice of Newer Production Mortgages

CMO Offering - GNR 2026-108 CP (38385TSQ5)

The BakerGroup

Short Avg Life GNMA CMO
- 5.0% Coupon
- GNMA II 30yr 6% Collateral
  - 6.55% WAC, 329 WAM, 27 WALA
  - $351k Avg Curr Loan Bal
  - 712 Avg FICO, 94% Orig LTV, 87% Current LTV

5.70% Yield / +67 bp / 4.64 Avg Life @ 13 CPR

Security Information

Coupon	5.0	Orig Bal.	229,142,000
Type	AD, PAC ("Busted" PAC - now a SEQ)	Factor Dt	9/1/2026
		Factor	0.956953861
Maturity	6/20/2056	Curr Bal.	219,278,322
Issue	6/1/2026		
Delay	49		

Collateral Overview

Collat Type: G2SF 6.0	
WAM / WALA	329 / 27
WAC	6.55
Orig LTV / FICO	94 / 712
Avg Cur Loan Sz	351k

Hist Prepay Speeds

	CPR / PSA
1 Mo.	15.2 / 282
3 Mo.	20.2 / 389
6 Mo.	27.4 / 559
12 Mo.	36.0 / 838
Life	20.2 / 389

Settlement Date: 10/9/2026 **Price: 97-11**

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	7	8	9	13	17	35	49
Yield to Maturity	**5.52**	**5.55**	**5.58**	**5.70**	**5.75**	**6.19**	**6.75**
Avg Life	6.75	6.25	5.82	4.64	4.27	2.45	1.59
Mod. Duration	5.17	4.85	4.56	3.72	3.42	2.11	1.41
Spread to Tsy	+37	+43	+49	+67	+75	+132	+208
Pay Window	11/26 - 2/54	11/26 - 2/54	11/26 - 2/54	11/26 - 2/54	11/26 - 2/54	11/26 - 2/54	11/26 - 2/54

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	15.2	20.2	27.4	36.0	20.2
Yield to Maturity	**5.75**	**5.75**	**5.94**	**6.23**	**5.75**
Avg Life	4.31	4.27	3.25	2.37	4.27
Mod. Duration	3.45	3.42	2.70	2.04	3.42
Spread to Tsy	+74	+75	+99	+137	+75
Pay Window	11/26 - 2/54	11/26 - 2/54	11/26 - 2/54	11/26 - 2/54	11/26 - 2/54

	Sep	Aug	Jul	Jun
1 Month CPR	15.2	21.2	23.9	28.4

Source:Bloomberg 10/6/2026 9:30 AM

CMO Offering - GNR 2026-108 CP (38385TSQ5)

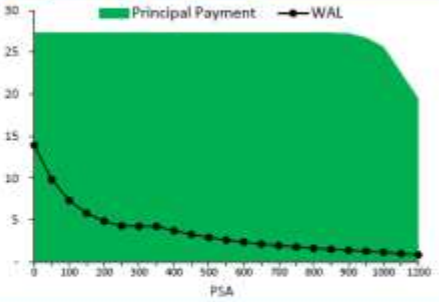
The BakerGroup

Price Volatility Analysis

Effective Duration/Convexity 4.39 / -0.61 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Δ	Eff Dur/Cnvx
-300	49	2.55	1.59	103.51	+6.3%	
-200	35	3.63	2.45	102.90	+5.7%	1.21 / -0.61
-100	17	4.69	4.27	101.02	+3.8%	2.75 / -0.89
0	13	5.70	4.64	97.34		4.39 / -0.61
+100	9	6.73	5.82	92.47	-5.0%	5.12 / +0.15
+200	8	7.74	6.25	87.88	-9.7%	5.34 / -0.10
+300	7	8.75	6.75	83.09	-14.6%	

Weighted Avg Life (Years)



Collateral Detail

WAC	6.550	LTV Orig	94	Origination	
WARM	329	LTV Curr	87	Correspo	45.3
WALA	27	FICO	712	Retail	33.4
		DTI Orig	45	Broker	21.3
Pool Count	1	SATO	-28		
Min. Loan Size	7,782			Vintage	
Max. Loan Size	2,043,000	HFA	0.7	2024	99.8
Orig Loan Size	363,185	2nd Lien	1.0	2023	0.1
Curr Loan Size	351,466			2022	0.1
		Top Geos			
FHA	61.8	FL	13.3		
VA	37.8	CA	10.3		
RHS	0.4	TX	10.0		
PIH	0.0	GA	5.2		
Purchase	87.6	Top Underlying Pools			
Refinance	11.8	G2 MA9726	100		
Non HAMP	0.5				
Single Family	97.0				
2-4 Unit MultiFam	1Unit				

Forbearance	
N/A	
Delinquent (30)	3.2
Delinquent (60)	1.3
Delinquent (90)	0.8
Delinquent (120+)	4.0

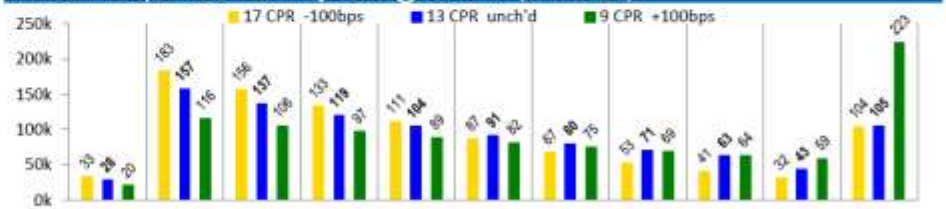
Top Servicers

26.1%	Freedom Mortgage Corporation
18.7%	Lakeview Loan Servicing, Llc
15.0%	Pennymac Loan Services, Llc
9.0%	Newrez Llc

Property Valuation

N/A

Annual Principal Cashflow Projection @ 13 CPR ($1mm CF)



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Source:Bloomberg 10/6/2026 9:30 AM

The BakerGroup

Guaranteed Maturity Classes: New Loans, Firm End Date

A Freddie Mac CMO that pays investors back in full by a set date, however slowly homeowners pay

A guaranteed final payment date

Each class has a date by which investors are paid in full — backed by Freddie Mac, even if the underlying loans have not been paid off.

How the guarantee works

On that date, Freddie Mac auctions the remaining loans' cash flows. If the auction comes up short, Freddie Mac makes up the difference.

Why it matters now

With refinancing nearly gone, the risk is that payback drags on for years. A firm end date removes that risk — and makes it easy to line up with a future need for cash.

Pick the year you want your money back: Baker's inventory today has these bonds maturing from 2029 to 2036, all backed by brand-new 5.5% loans, **yielding 5.00%–5.65%.**

Baker inventory 10/6/26..

Example Ladder of Guaranteed Maturity CMOs

All five are backed by 5.5% mortgages made within the last year; a longer end date earns more income
- FNMA structures off Hybrid ARM collateral also available

-

CUSIP	Bond	Paid in full by	Income (yield)	Years to get most money back (average life)	Price drop if rates rise 3% (price risk / duration)
3133QBPK3	**FHS 481 GD**	**2029**	5.00%	2.7	−7%
3133QBLH4	**FHS 483 AB**	**2030**	5.15%	3.3	−9%
3133Q4C72	**FHS 459 GE**	**2031**	5.25%	3.8	−10%
3133Q3PS4	**FHS 426 CB**	**2033**	5.35%	4.7	−13%
3133QBAY9	**FHS 469 GK**	**2036**	5.65%	6.1	−16%

For comparison: a brand-new Freddie Mac 30-year 5.5% pool yields about 6.15%, but has no end date — about 9 years to return most of the money, and a 19% price drop if rates rose 3%.

Illustrative examples from Baker inventory as of 10/6/26

2029 Stated Final Maturity

CMO Offering - FHS 481 GD (3133QBPK3)

The BakerGroup

Short Avg Life FHLMC Strip CMO
- 4.6% Coupon
- October 2029 Stated Maturity
- FNMA 30yr 5.5% Collateral
  - 6.468% WAC, 344 WAM, 10 WALA
  - $526k Avg Curr Loan Bal
  - 769 Avg FICO, 80% Orig LTV, 77% Current LTV

5.00% Yield / +7 bp / 2.66 Avg Life @ 8 CPR

Security Information

Coupon	4.5	Orig Bal.	150,000,000
Type	MR, PT	Factor Dt.	9/1/2026
		Factor	1
Maturity	10/25/2029	Curr Bal.	150,000,000
Issue	9/1/2026		
Delay	54		

Collateral Overview

Collat Type: FNCL 5.5			
WAM / WALA	344 / 10		
WAC	6.468		
Orig LTV / FICO	80 / 769		
Avg Cur Loan Sz	526k		

Hist Prepay Speeds

	CPR / PSA
1 Mo.	8.0 / 393
3 Mo.	* 9.1 / 565
6 Mo.	* 11.4 / 435
12 Mo.	/
Life	* 9.8 / 1494

Settlement Date: 10/8/2026 **Price: 98-27**

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	5	6	7	8	13	36	54
Yield to Maturity	**4.98**	**4.99**	**4.99**	**5.00**	**5.02**	**5.19**	**5.39**
Avg Life	2.78	2.74	2.70	2.66	2.47	1.71	1.23
Mod. Duration	2.55	2.51	2.48	2.44	2.27	1.58	1.15
Spread to Tsy	+4	+6	+7	+7	+13	+46	+85
Pay Window	11/26 - 10/29	11/26 - 10/29	11/26 - 10/29	11/26 - 10/29	11/26 - 10/29	11/26 - 10/29	11/26 - 10/29

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	8.0	* 9.1	* 11.4		* 9.8
Yield to Maturity	**5.00**	**5.00**	**5.01**		**5.00**
Avg Life	2.66	2.62	2.53		2.59
Mod. Duration	2.44	2.40	2.32		2.38
Spread to Tsy	+8	+9	+11		+9
Pay Window	11/26 - 10/29	11/26 - 10/29	11/26 - 10/29		11/26 - 10/29

	Sep
1 Month CPR	8.0

Source:Bloomberg 10/5/2026 8:36 AM

CMO Offering - FHS 481 GD (3133QBPK3)

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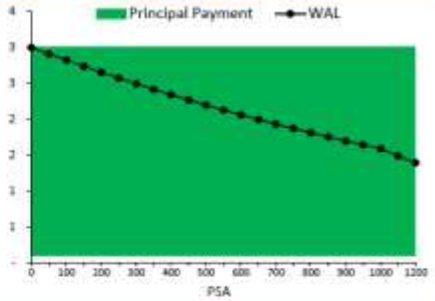
Price Volatility Analysis

Effective Duration/Convexity 2.42 / -0.04 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Δ	Eff Dur/Cnvx
-300	54	1.85	1.23	103.03	+4.2%	
-200	36	2.93	1.71	102.47	+3.7%	0.89 / -0.35
-100	13	3.99	2.47	101.19	+2.4%	1.79 / -0.53
0	8	5.00	2.66	98.84		2.42 / -0.04
+100	7	6.00	2.70	96.42	-2.5%	2.51 / +0.01
+200	6	7.00	2.74	94.00	-4.9%	2.56 / +0.01
+300	5	8.00	2.78	91.60	-7.3%	

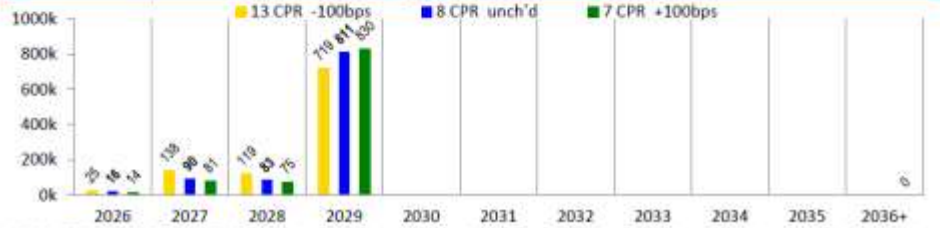
Weighted Avg Life (Years)



Collateral Detail

WAC	6.468	LTV Orig	80	Origination	
WARM	344	LTV Curr	77	Retail 49.4	Borrower Assitance
WALA	10	FICO	769	Broker 25.4	Not Applicable 99.4
		DTI Orig	38	Correspo 25.1	No Workout Plan 0.6
Pool Count	1,391	SATO	+1		
Min. Loan Size	13,000			Vintage	
Max. Loan Size	1,872,000	HFA	0.0	2026 44.7	Delinquent (30) 0.4
Orig Loan Size	542,008	2nd Lien	0.6	2025 38.3	Delinquent (60) 0.1
Curr Loan Size	525,828			2024 17.1	Delinquent (90) 0.0
		Top Geos			Delinquent (120+) 0.1
Owner Occupied	99.3	CA	23.1	Top Servicers	
Investor	0.4	WA	5.4	20.3% Rocket Mortgage, Llc	
Vacation	0.3	TX	5.1	13.9% United Wholesale Mortgage, Llc	
		NJ	4.6	10.0% Lakeview Loan Servicing, Llc	
Purchase	83.6			6.9% Crosscountry Mortgage, Llc	
Refinance	12.6	Top Underlying Pools			
Cashout Refi	3.8	FR RQ0146	24.3	Property Valuation	
		FR RJ6971	9.3	77.0 Appraisal	
1 Unit	58.5	FR QZ7696	8.1	19.3 Appraisal Waiver	
PU	33.4	FR RJ6970	4.7	3.7 Appraisal Waiver + Condition Data	
Condo	7.9	FR QJ5533	3.5		

Annual Principal Cashflow Projection @ 8 CPR ($1mm CF)



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Source:Bloomberg 10/5/2026 8:36 AM

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2031 Stated Final Maturity

CMO Offering - FHS 459 GE (3133Q4C72)

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Short Avg Life FHLMC CMO
- 4.65% Coupon
- July 2031 Stated Maturity
- FNMA 30yr 5.5% Collateral
  - 6.489% WAC, 342 WAM, 12 WALA
  - $508k Avg Curr Loan Bal
  - 772 Avg FICO, 77% Orig LTV, 74% Current LTV

5.25% Yield / +28 bp / 3.78 Avg Life @ 9 CPR

Security Information

Coupon	4.65	Orig Bal	100,000,000
Type	MR, PT	Factor Dt	9/1/2026
		Factor	0.97626875
Maturity	7/25/2031	Curr Bal	97,626,875
Issue	6/1/2026		
Delay	54	Next Pay	11/25/2026

Collateral Overview

Collat Type: FNCL 5.5			
WAM / WALA	342 / 12		
WAC	6.489		
Orig LTV / FICO	77 / 772		
Avg Cur Loan Sz	508k		

Hist Prepay Speeds

	CPR / PSA
1 Mo.	7.4 / 300
3 Mo.	8.1 / 356
6 Mo.	15.0 / 763
12 Mo.	* 14.2 / 982
Life	8.1 / 356

Settlement Date: 10/9/2026 **Price: 97-28**

Scenario Yield Analysis

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	5	6	7	9	14	37	56
Yield to Maturity	**5.20**	**5.21**	**5.22**	**5.25**	**5.31**	**5.73**	**6.27**
Avg Life	4.14	4.05	3.95	3.78	3.36	1.97	1.26
Mod. Duration	3.64	3.56	3.48	3.33	2.97	1.77	1.15
Spread to Tsy	+21	+23	+25	+28	+37	+94	+174
Pay Window	11/26 - 7/31	11/26 - 7/31	11/26 - 7/31	11/26 - 7/31	11/26 - 7/31	11/26 - 7/31	11/26 - 7/31

Historical Yield Analysis

	1 Mo.	3 Mo.	6 Mo.	1 Yr.	Life
CPR	7.4	8.1	15.0	* 14.2	8.1
Yield to Maturity	**5.23**	**5.23**	**5.32**	**5.31**	**5.23**
Avg Life	3.92	3.86	3.29	3.34	3.86
Mod. Duration	3.45	3.40	2.91	2.96	3.40
Spread to Tsy	+25	+26	+38	+37	+26
Pay Window	11/26 - 7/31	11/26 - 7/31	11/26 - 7/31	11/26 - 7/31	11/26 - 7/31

	Sep	Aug	Jul	Jun
1 Month CPR	7.4	7.6	9.2	11.2

Source:Bloomberg 10/6/2026 9:42 AM

CMO Offering - FHS 459 GE (3133Q4C72)

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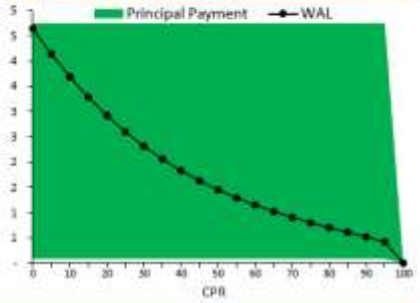
Price Volatility Analysis

Effective Duration/Convexity 3.39 / -0.11 (+/-100 bp)

bps	CPR	Mkt Yld	Avg Life	Price	Px Δ	Eff Dur/Cnvx
-300	56	2.07	1.26	102.88	+5.1%	
-200	37	3.17	1.97	102.49	+4.7%	0.88 / -0.50
-100	14	4.24	3.36	101.08	+3.3%	2.28 / -0.89
0	9	5.25	3.78	97.88		3.39 / -0.11
+100	7	6.25	3.95	94.45	-3.5%	3.60 / +0.03
+200	6	7.25	4.05	91.08	-6.9%	3.69 / +0.01
+300	5	8.25	4.14	87.72	-10.4%	

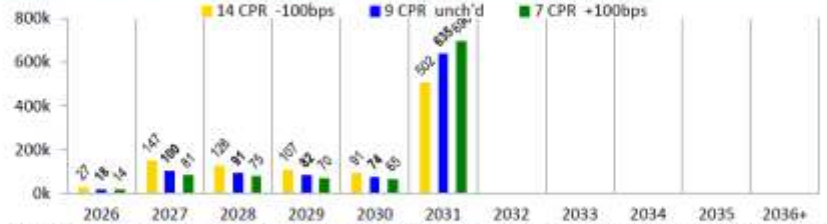
Weighted Avg Life (Years)



Collateral Detail

WAC	6.489	LTV Orig	77	Origination	
WARM	342	LTV Curr	74	Correspo 44.3	Borrower Assitance
WALA	12	FICO	772	Retail 37.0	Not Applicable 99.7
		DTI Orig	38	Broker 18.7	No Workout Plan 0.3
Pool Count	40	SATO	-19		Forbearance Plan 0.1
Min. Loan Size	31,000			Vintage	Repayment Plan 0.0
Max. Loan Size	1,872,000	HFA	0.0	2025 100	
Orig Loan Size	529,371	2nd Lien	0.6		Delinquent (30) 0.2
Curr Loan Size	507,541				Delinquent (60) 0.0
		Top Geos			Delinquent (90) 0.1
Owner Occupied	99.5	CA	15.9	Top Servicers	Delinquent (120+) 0.0
Investor	0.4	TX	6.2	17.0% Rocket Mortgage, Llc	
Vacation	0.1	WA	5.3	14.5% Pennymac Loan Services, Llc	
		NJ	5.3	12.0% United Wholesale Mortgage, Llc	
Purchase	78.6			10.2% New Residential Mortgage Llc	
Refinance	16.6	Top Underlying Pools			
Cashout Refi	4.8	FR RQ0056	60.7	Property Valuation	
		FR RQ0076	16.3	72.9 Appraisal	
1 Unit	57.2	FR RQ0027	10.9	25.2 Appraisal Waiver	
PU	37.3	FR RQ0013	6.4	1.9 Appraisal Waiver + Condition Data	
Condo	5.4	FR RQ0049	4.6		

Annual Principal Cashflow Projection @ 9 CPR ($1mm CF)



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Source:Bloomberg 10/6/2026 9:42 AM

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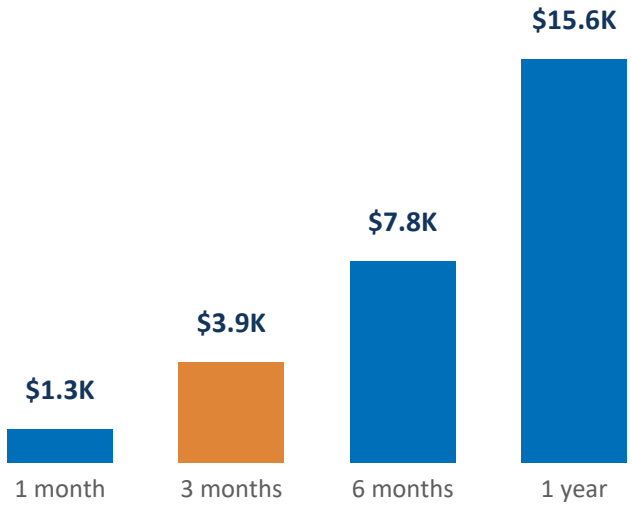
Don’t Guess Where Rates Go — Take Advantage of Today’s Value

No one knows the next move in rates. We do know what’s on offer today — and that it may not last.

	If rates fall…	If rates rise…
Buy now	**Gain** Near 6% income locked in before it disappears.	**Hold steady** Price falls on paper (about 5% for each 1% rise), but ~6% income keeps coming in — and payoffs stay slow.
Wait	**Miss** Prices are higher and today’s ~6% income is gone.	**Maybe a bit cheaper** Only pays off if mortgage bonds still offer this much extra income — and after giving up income while waiting.

The cost of waiting

Income given up per $1 million by parking cash in a 1-year government bond instead



Waiting one quarter ≈ $3,893

Illustration: a 6.00% mortgage bond yield vs. 4.44% on a 1-year U.S. Treasury (Bloomberg USGG12M), both as of 10/5/26. Not a forecast or a recommendation.

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Municipal Market

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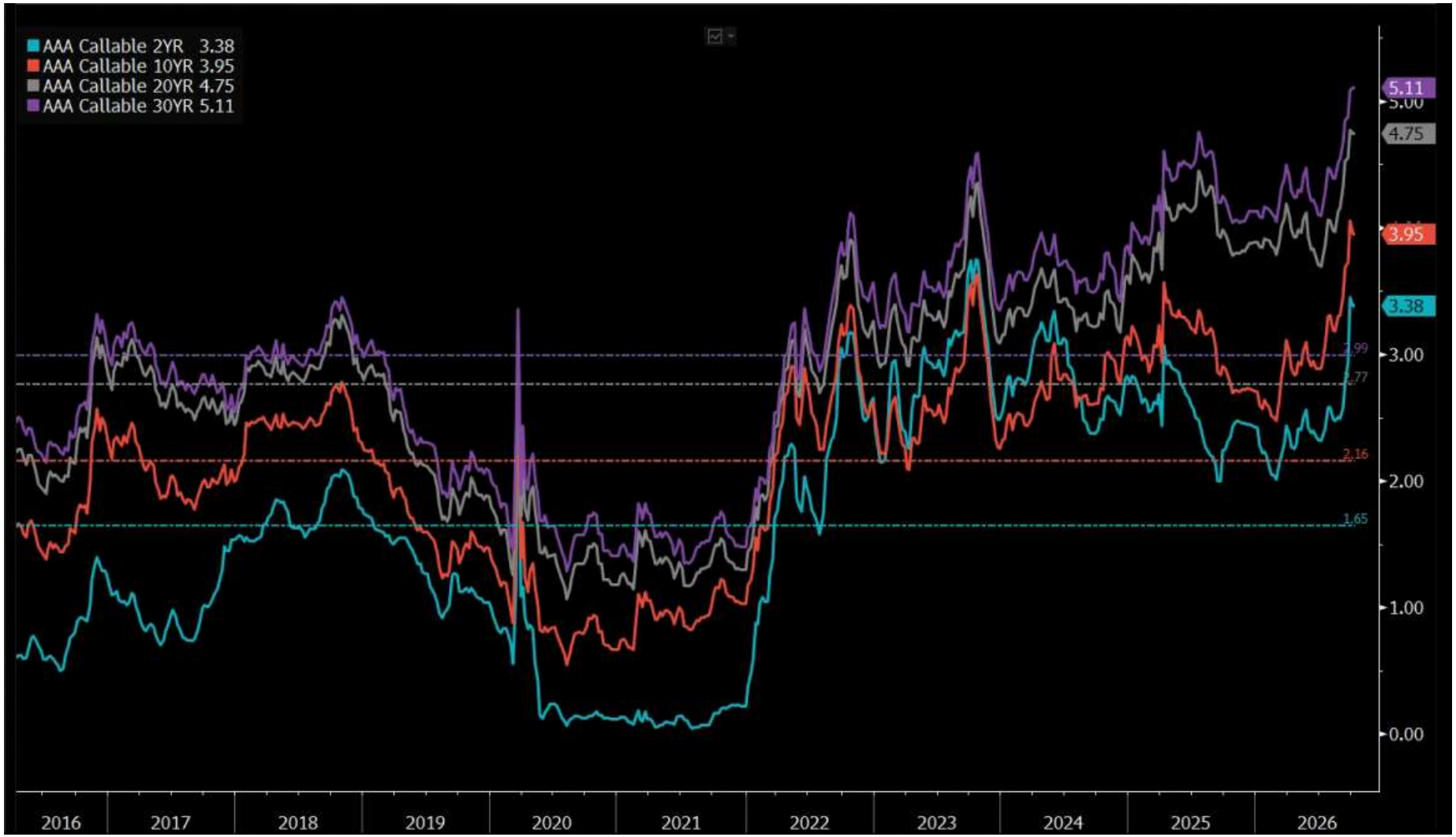
Locking In Value: Munis at Attractive Levels



AAA callable muni yields, 2Y/10Y/20Y/30Y, 2016 to Oct. 5, 2026; dashed lines are period averages. Source: Bloomberg.

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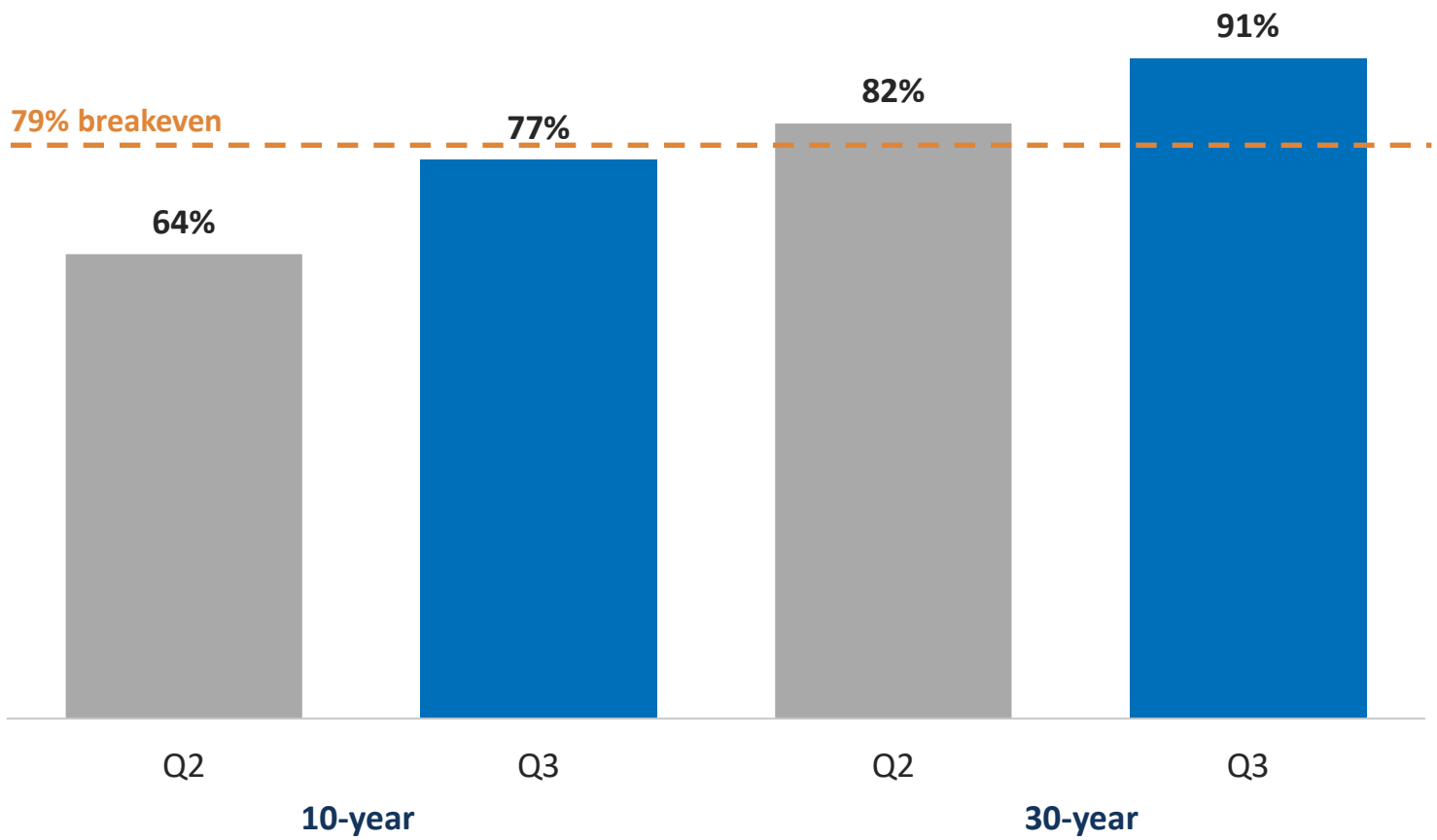
30-year muni clears the 79% breakeven ratio for a 21% taxpayer. (AAA Muni)

AAA muni yield as % of Treasury yield, quarter-end



Breakeven = 1 – tax rate = 79%

- **Below 79%,** a taxable Treasury out-earns a tax-exempt muni, before any TEFRA cost
- **10-year at 77%:** TEY 5.18% vs. 5.31% Treasury, –13bp
- **30-year at 91%:** TEY 6.53% vs. 5.67% Treasury, +86bp

Source: Goldman Sachs Asset Management, Municipal Market Review 2Q 2026; Raymond James Municipal Bond Investor Weekly (10/5/2026); ETF Trends (10/6/2026). TEY = muni yield ÷ (1 – 21%), before TEFRA, using 10/5/2026 Treasury yields.

Municipal Spreads Over Time



Equal-weighted mean of every term bucket the sector quotes, forward-filled inside the window so a bucket going unquoted cannot change the basket.
A sector average is a synthetic level no bond trades at, and the sectors average over different term ranges.
24-month window, 21-day median per term then a 10-day centred mean. Tax-equivalent at the deck's standing rates. BQ and GM are different paper; C-corp and S-corp are the same bonds on two tax bases.

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Yields Are Up on Rates and Technicals, Not Credit Concerns

- **Rates drove the sell-off.** Investment-grade muni yields rose in September to a 15-year high on Treasury weakness, inflation concerns and the Fed's 9/16 hike and expectations for more.
- Heavy supply (>$51B in September, the most for any September since 2020) and tax-loss selling added pressure.
- **Credit spreads narrowed.** The BBB spread over AAA fell to 76 bp in September and remains below its 5-year median of 99 bp. A and AA spreads were essentially flat.
- Higher yields without weaker credit means a better entry point, not a warning sign.



Source: Bloomberg. AA, A and BBB municipal index yields minus AAA municipal index yield, daily, 7/6/2021-10/5/2026.
Past performance does not guarantee future results.

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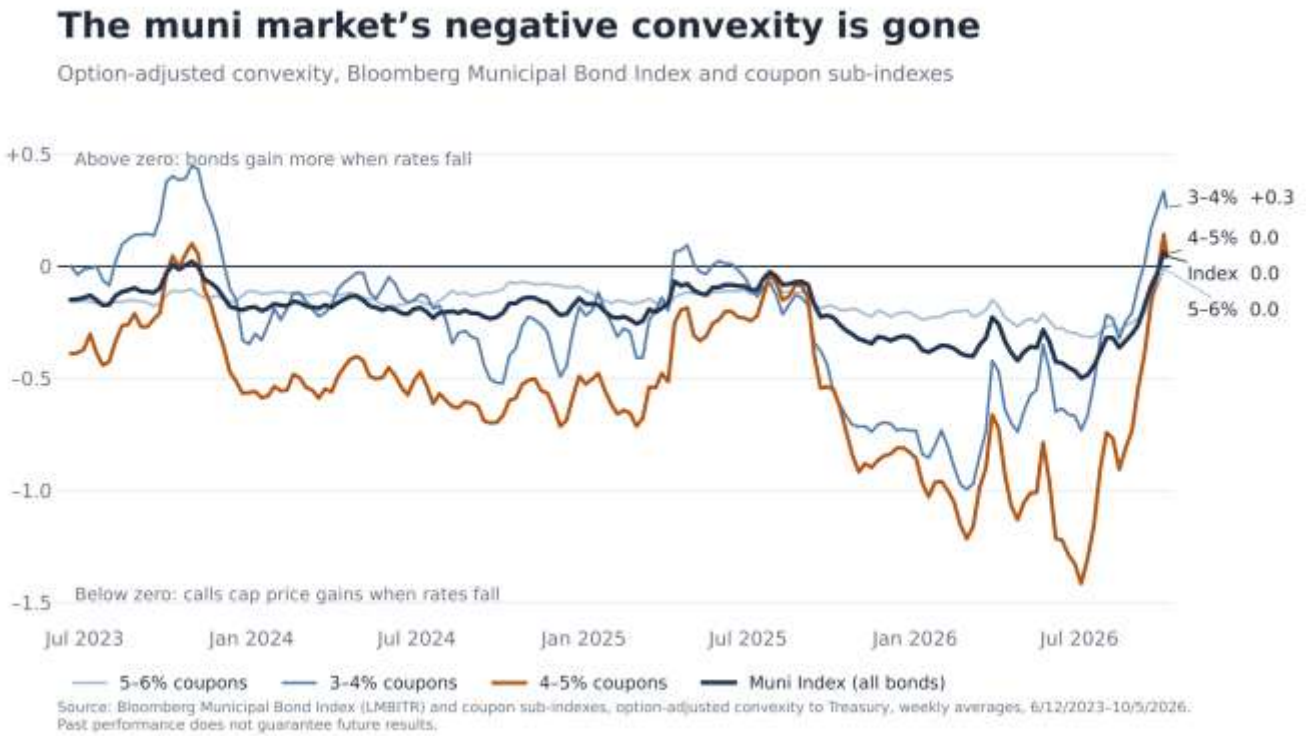
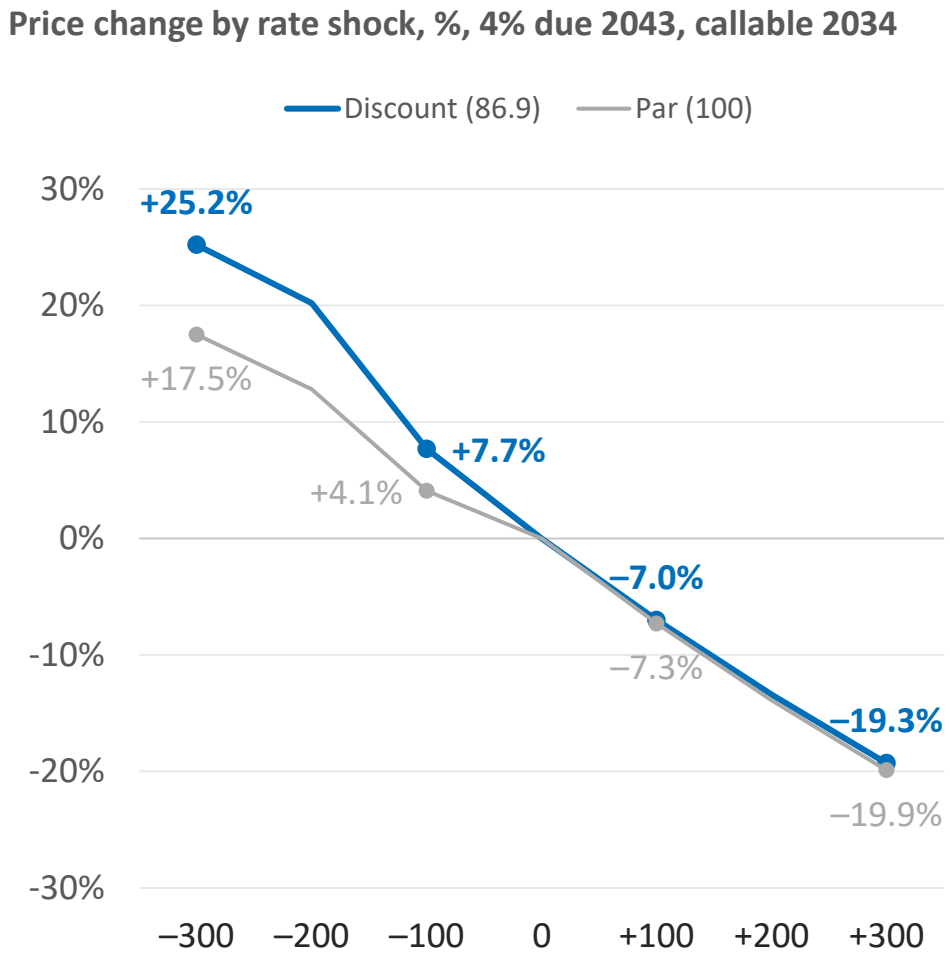
Discount prices make long munis a better anchor: +25% upside vs. +18% at par





Note: Shocks apply the muni yield changes from the offering sheet's shock analysis (a 300bp Treasury move ≈ 190–250bp in munis); price to worst. Discount bond matches the sheet; par bond uses the same yield changes from a 4.00% base. Source: Baker Group calculations.

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BQ vs GM: At a 2.5% cost of funds, TEFRA costs a C-corp ~11bp on BQ munis vs. ~53bp on GM

What TEFRA does: stops the double dip of deducting funding costs used to buy tax-free income. As CoF goes up, yield goes down

Why BQ exists: a carve-out so local banks keep buying small issuers' bonds

	Bank-qualified (BQ)	General market (GM)
Who issues it	Issuers selling ≤$10M of tax-exempt debt a year	All other issuers
Interest expense disallowed: C-corp	20%	100%
Interest expense disallowed: Sub-S*	0%	100%
TEFRA cost at 2.5% COF: C-corp	**~11bp**	**~53bp**
Pre-tax yield	Lower (scarcity premium)	Higher
Best fit	Sub-S banks. C-corps with higher funding costs	Any bank whose GM yield pickup beats its TEFRA cost

Note: TEFRA cost = cost of funds × 21% tax rate × disallowance %. *Sub-S banks 3+ years past conversion. Illustrative; actual results depend on each bank's tax position. Source: IRC §265(b); Baker Group FSG.

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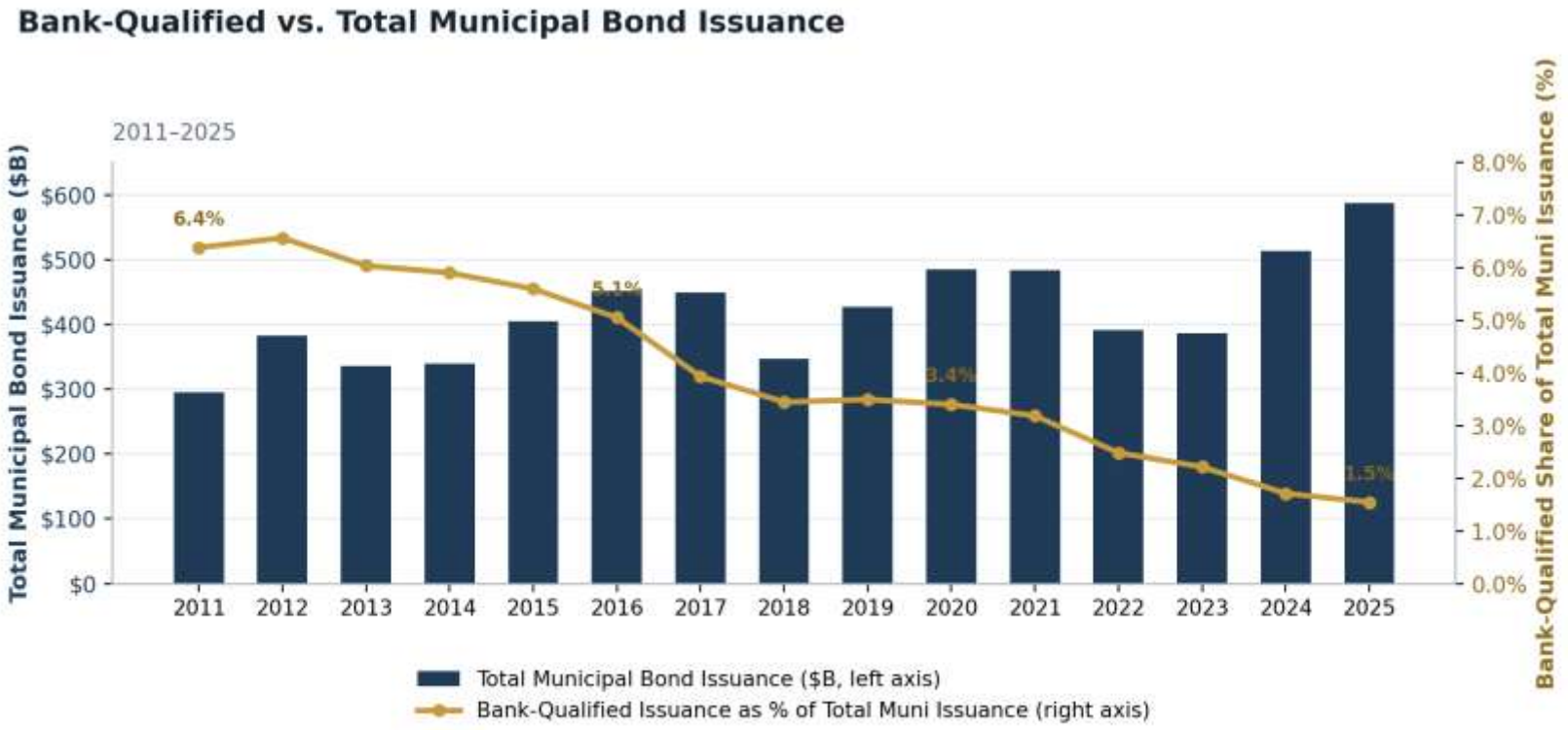
BQ Munis Continue to be Scarce

BQ issuance continues to decline as costs increase and it becomes more and more difficult to stay within the $10mm yearly limit (which was not indexed to inflation). Every year, fewer and fewer issuers qualify for BQ status.



Source: SIFMA Capital Markets Fact Book, 2026 Edition (Tables 31 & 34); Baker Group analysis.
Note: Total muni issuance reflects long-term issuance only (maturities ≥ 13 months); bank-qualified issuance includes short- and long-term BQ bonds under IRC §265(b), so the two series are not perfectly comparable at the margin.

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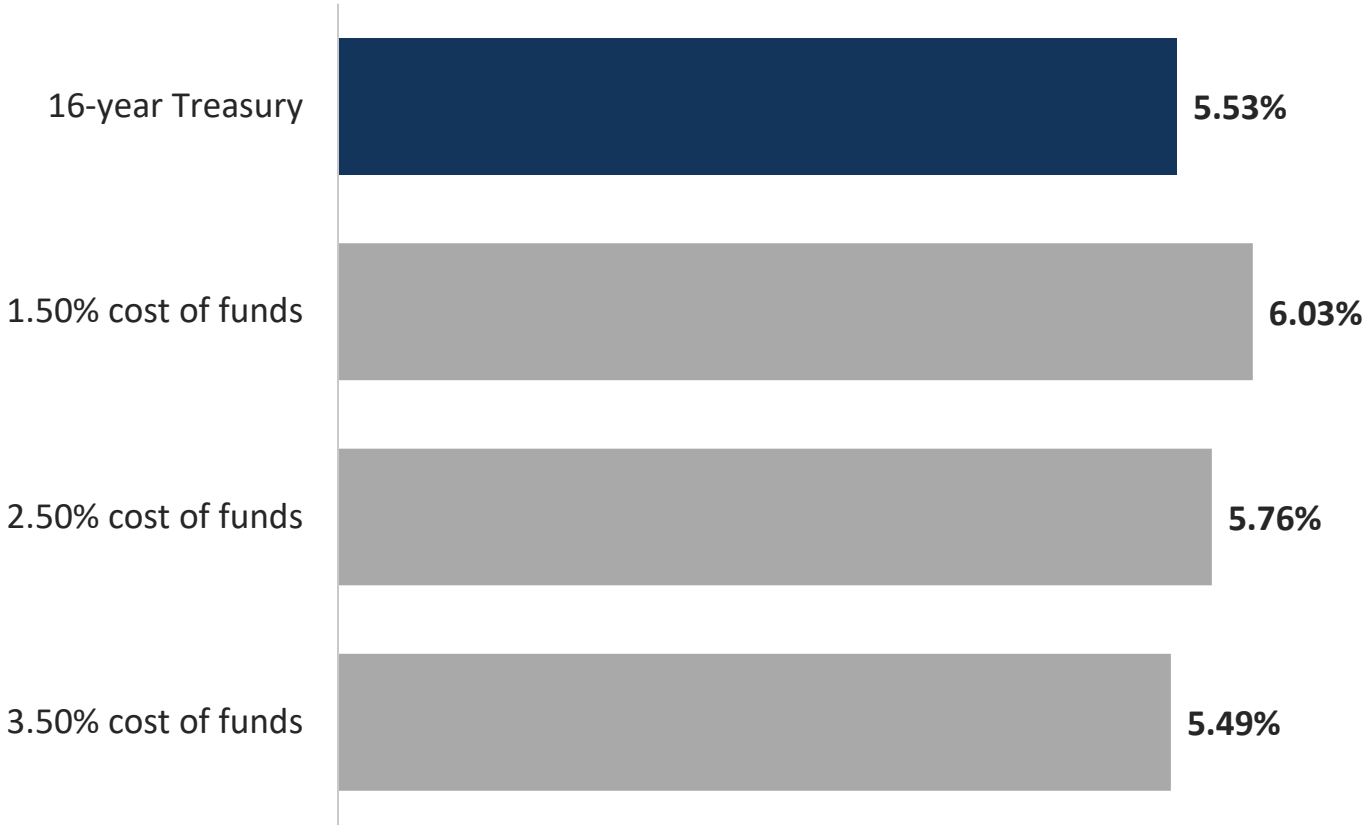
A 5.20% AA GM muni beats Treasuries for a C-corp until cost of funds tops ~3.35%

C-corp TEY on a 5.20% AA GM muni, by cost of funds



Dallas, TX GO · AA

5.20%

Tax-exempt; 4% due 2043, callable 2034

Bank TEY = [Yield – (Tax × COF × Disallowance)] ÷ (1 – Tax)

- **GM disallowance is 100%;** BQ is 20% for C-corps and 0% for Sub-S banks
- **Each 25bp rise in cost of funds** cuts a C-corp's GM TEY by about 7bp
- **Know your breakeven COF. Our offer sheets will calculate for you**

Note: Dallas, TX GO 4.00% 2/15/2043, callable 2/15/2034, priced at 86.90 to yield 5.20% (settles 10/13/2026). TEY at 1.5% cost of funds from the offering sheet; 2.5% and 3.5% are Baker estimates using the same method, including taxable market discount. Treasury yield of ~5.53% implied by the sheet's spread. Assumes a 21% tax rate and 100% TEFRA disallowance. Illustrative only.

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Municipal Outlook by Sector

SECTOR	OUTLOOK	KEY TAKEAWAY
State government	Stable	Tax growth and solid reserve levels provide stability despite federal policy impacts.
Transportation (air/toll/mass transit)	Stable	Airport and toll road demand is strong, but higher oil and gas prices present a risk. Mass transit is stable but has not recovered to pre-pandemic levels.
Housing	Stable	State HFAs typically have good credit, but local housing bonds may be risky.
Cities and Counties	Cautious	Moody's has a negative outlook while S&P has a stable outlook. Inflation (healthcare, labor, capital costs) now outpacing a more restrictive revenue environment; pandemic aid is spent. Bloomberg sees modest widening.
Water & sewer utilities	Cautious	Heavy capital needs disproportionately affect small issuers. Large utility providers are generally stable.
Health care	Cautious	Margins are recovering, but Medicaid changes may create pressure; rural hospitals remain fragile.
Public power (electric)	Cautious	Data-center load growth presents a risk.
Charter schools	Cautious	Credit quality is largely state-specific, driven by funding mechanisms, demographics, and voucher competition.
Transportation (ports)	Negative	Tariffs and policy uncertainty combined with moderating consumer spending are expected to weigh on the sector
Higher education	Negative	Enrollment cliff, affordability, and OBBBA funding cuts pressure tuition-dependent schools. Large, well-resourced universities can navigate the headwinds. Smaller, tuition-dependent colleges are far more likely to struggle.
K-12 school districts	Negative	Enrollment-based funding + voucher expansion threaten revenue. Downgrades outpacing upgrades 3:1

Source: Moody's and S&P Sector Outlook Research as of Oct 2026. Baker's view used for discrepancies among rating agencies.

K-12 School Districts: Pressure, Not Panic

Negative outlooks are rising (~6% of S&P-rated districts), but ~94% are not on negative outlook, and structure and enhancements still provide strong security.

K-12 Structural Strengths

- **Essential, tax-backed.** Most school debt is voter-approved, unlimited-tax GO paid from a dedicated debt service levy, separate from the operating budget.
- **Stable revenue base.** Property taxes are the least cyclical local revenue source, and states fund about half of K-12 budgets.
- **Reserves still solid.** School districts broadly still have historically high reserve levels. Most built cushions during the stimulus years.
- **Defaults are rare.** School district GO defaults are historically uncommon..

Credit Quality Support

- **Credit Enhancement Programs.** Many school district bonds carry state credit enhancement. State aid intercept programs redirect state aid to bondholders if a district misses a payment. PSF or State guarantee programs cover payments if a district defaults. Some states also offer programs to lend funds to distressed districts to cover debt service payments.
- **Bond insurance.** Some school district bonds may have insurance from BAM or AGM which similarly provide additional protection.
- **State Oversight.** States monitor school finances and can step in with oversight boards or takeover of distressed districts.

What Customers Should Watch

- **Multi-year declines in general fund balance.** General fund declines for multiple years are more likely to be structural deficits than one-time drawdowns. 50% of districts ran deficits in 2025, but much fewer had deficits in prior years.
- **Thin reserves.** Fund less than 15% of revenue or less than 1x annual debt service requirement.
- **Enrollment trends.** NCES projects enrollment broad enrollment declines over the next 5 years, and districts already experiencing enrollment declines may be pressured.
- **Tax Limits.** Iowa SAVE diversion on revenue bonds.

Bottom line: Focus on the structure and finances of each bond. Favor unlimited-tax GOs, state guarantees or insurance, reserves above 1x debt service, and stable enrollment.

Sources: S&P Global Ratings, "School Bell Panic" (Sept 16, 2026) and U.S. School District Means And Medians (Oct 8, 2025); Texas PSF Bond Guarantee Program summary (July 31, 2026); NCES; S&P Iowa SAVE research update (Aug 2026).

Municipal Defaults Are Rare & Far Lower Than Corporates of the Same Rating

94% of rated (Moody's) municipal issues are rated A or better and 99% are investment grade.

By contrast only 37% of rated Corporates are rated A or better, only 61% are investment grade and 39% is considered speculative or "junk".

Investment grade munis have a cumulative 10yr default rate of just 0.09% vs 2.14% default rate for investment grade Corporates.

Investment grade corporates default about 24x as often as investment grade munis.

Municipal default rates lower than global corporates for all broad categories

Cumulative default rates, average over the period 1970-2024, municipal vs. global corporate issuers

Municipals

Rating	Average cohort count	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Aaa	988	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aa	6,941	0.00%	0.00%	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%	0.02%	0.02%
A	4,819	0.00%	0.01%	0.02%	0.02%	0.03%	0.04%	0.05%	0.07%	0.08%	0.10%
Baa	696	0.03%	0.10%	0.19%	0.31%	0.43%	0.56%	0.70%	0.82%	0.93%	1.04%
Ba	115	0.21%	0.61%	0.99%	1.44%	1.82%	2.08%	2.40%	2.71%	2.98%	3.23%
B	23	2.63%	5.23%	7.71%	9.68%	11.62%	13.10%	14.00%	14.67%	15.41%	16.44%
Caa-C	11	8.66%	13.65%	16.80%	18.49%	19.65%	20.87%	21.79%	22.80%	23.76%	24.36%
Investment-grade	13,445	0.00%	0.01%	0.02%	0.03%	0.04%	0.05%	0.06%	0.07%	0.08%	0.09%
Speculative-grade	149	1.18%	2.22%	3.11%	3.88%	4.55%	5.07%	5.51%	5.92%	6.30%	6.69%
All rated	13,594	0.02%	0.03%	0.05%	0.07%	0.08%	0.10%	0.11%	0.12%	0.14%	0.15%

Global Corporates

Rating	Average cohort count	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Aaa	100	0.00%	0.01%	0.01%	0.03%	0.08%	0.12%	0.17%	0.23%	0.28%	0.34%
Aa	405	0.02%	0.05%	0.10%	0.17%	0.27%	0.37%	0.48%	0.56%	0.63%	0.71%
A	925	0.05%	0.14%	0.30%	0.46%	0.65%	0.86%	1.09%	1.33%	1.59%	1.84%
Baa	947	0.16%	0.40%	0.71%	1.06%	1.40%	1.76%	2.11%	2.51%	2.96%	3.42%
Ba	487	0.88%	2.37%	4.08%	5.89%	7.66%	9.33%	10.85%	12.30%	13.78%	15.32%
B	591	3.09%	7.40%	11.89%	16.06%	19.83%	23.23%	26.26%	28.94%	31.41%	33.59%
Caa-C	444	9.03%	16.22%	22.46%	27.82%	32.63%	36.68%	39.98%	42.91%	45.65%	47.96%
Investment-grade	2,378	0.08%	0.23%	0.41%	0.62%	0.85%	1.09%	1.33%	1.59%	1.86%	2.14%
Speculative-grade	1,522	4.10%	8.23%	12.15%	15.67%	18.80%	21.53%	23.88%	25.96%	27.91%	29.71%
All rated	3,899	1.62%	3.22%	4.69%	5.96%	7.06%	8.01%	8.81%	9.52%	10.20%	10.82%

Historical ratings have been adjusted to be consistent with the global rating scale as described in Appendix A.

Source: Moody's Ratings

The BakerGroup

Credit is sound; risk is clustered in health care, charter schools and project finance

0.037%

2025 default rate

$1.63B of $4.4T — down from 0.049% in 2024

38

Defaults YTD in 2026

10 were health care (CCRCs, assisted/independent living, hospitals) and 12 were charter schools

$3.2B

Distressed but not defaulted, 2026 YTD

68% is one borrower (Brightline)

Conduit borrowers (often private activity bonds) drove 75% of impairments and 87% of payment defaults (2020–April 2026); the SEC has publicly flagged non-governmental conduit borrowers as the driver of muni defaults.

History of Municipal Defaults

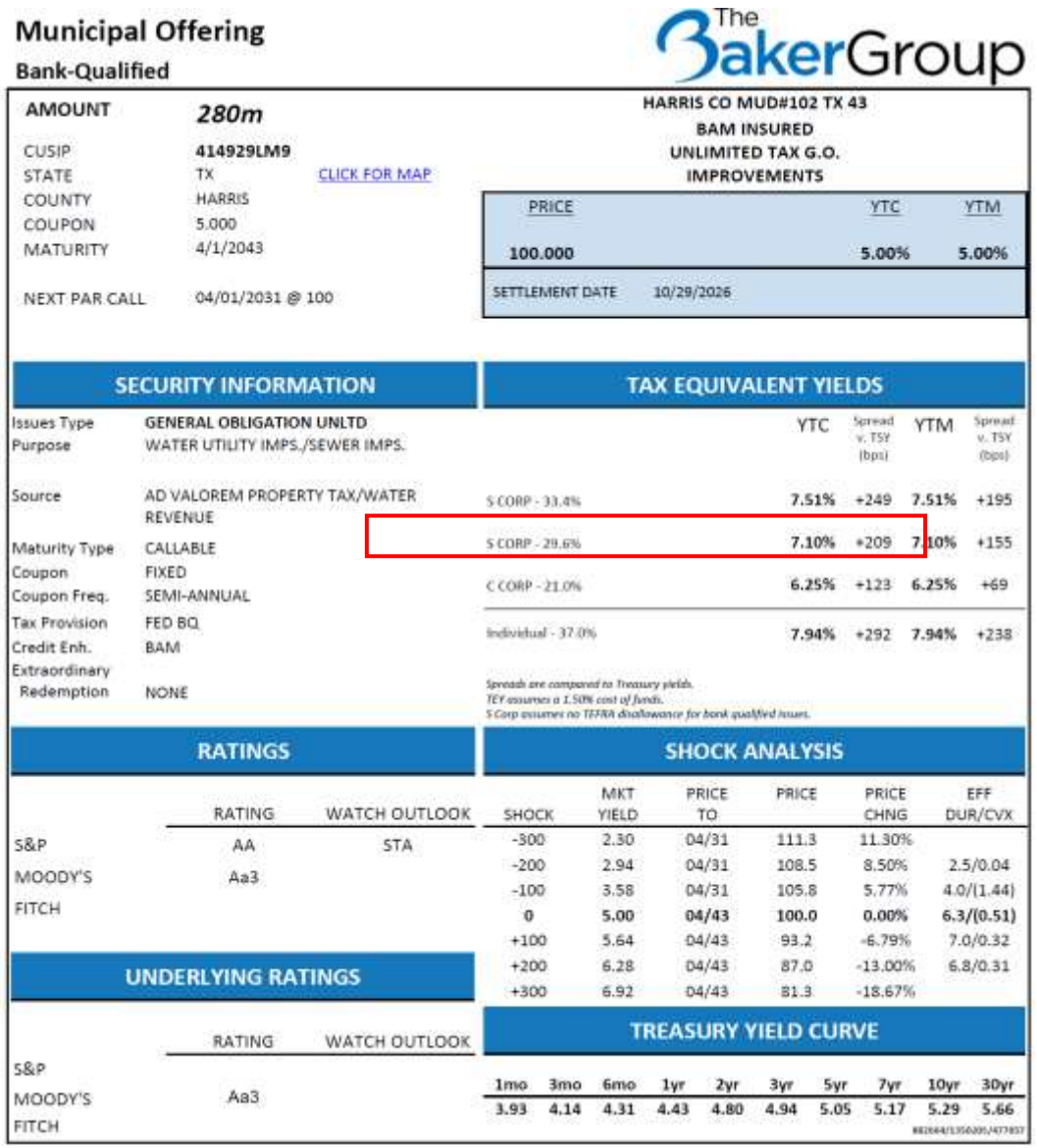
	2026 YTD		2025		2024		2023		2022	
HEALTH	$ 495,558,763	53%	$ 630,375,000	39%	$ 752,466,856	37%	$ 1,012,122,200	45%	$ 864,811,464	57%
DEV DISTRICT	$ 70,439,000	8%	$ 452,940,000	28%	$ 643,590,000	31%	$ 631,095,000	28%	$ 430,268,000	29%
OTHER TAX	$ 3,600,000	0%	$ 13,610,000	1%	$ -	0%	$ 86,440,000	4%	$ 53,675,000	4%
ESSENTIAL PURPOSE	$ -	0%	$ -	0%	$ 53,090,000	3%	$ 54,230,000	2%	$ -	0%
HOUSING	$ 58,195,000	6%	$ 73,755,000	5%	$ 81,595,000	4%	$ 52,660,000	2%	$ 54,575,000	4%
OTHER	$ 50,179,600	5%	$ 86,835,000	5%	$ 157,605,000	8%	$ 333,489,050	15%	$ 48,645,000	3%
CHARTER SCHOOLS	$ 178,680,000	19%	$ 223,070,000	14%	$ 244,215,000	12%	$ 48,265,000	2%	$ 22,855,000	2%
GO/AD VAL TAX	$ 4,568,000	0%	$ 128,000	0%	$ -	0%	$ -	0%	$ -	0%
HIGHER ED	$ 72,215,000	8%	$ 124,825,000	8%	$ 126,465,000	6%	$ -	0%	$ 33,400,000	2%
LEASE/APPROPRIATION	$ -	0%	$ 195,000	0%	$ -	0%	$ -	0%	$ -	0%
TRANSPORTATION	$ -	0%	$ 21,990,000	1%	$ -	0%	$ 35,500,000	2%	$ -	0%
Total	*$ 933,435,363*	*100%*	*$ 1,627,723,000*	*100%*	*$ 2,059,026,856*	*100%*	*$ 2,253,801,250*	*100%*	*$ 1,508,229,464*	*100%*

2026 YTD = monetary defaults on Bloomberg 2026 tab, data through Sept. 2026

Source: Bloomberg

The BakerGroup

Takeaways: muni value is as good as it's been in 15 years



Municipal Offering

Bank-Qualified

The BakerGroup

AMOUNT	*280m*
CUSIP	414929LM9
STATE	TX CLICK FOR MAP
COUNTY	HARRIS
COUPON	5.000
MATURITY	4/1/2043
NEXT PAR CALL	04/01/2031 @ 100

HARRIS CO MUD#102 TX 43
BAM INSURED
UNLIMITED TAX G.O.
IMPROVEMENTS

PRICE	YTC	YTM
100.000	5.00%	5.00%

SETTLEMENT DATE 10/29/2026

SECURITY INFORMATION

Issues Type	GENERAL OBLIGATION UNLTD
Purpose	WATER UTILITY IMPS./SEWER IMPS.
Source	AD VALOREM PROPERTY TAX/WATER REVENUE
Maturity Type	CALLABLE
Coupon	FIXED
Coupon Freq.	SEMI-ANNUAL
Tax Provision	FED BQ
Credit Enh.	BAM
Extraordinary Redemption	NONE

TAX EQUIVALENT YIELDS

	YTC	Spread v. TSY (bps)	YTM	Spread v. TSY (bps)
S CORP - 33.4%	7.51%	+249	7.51%	+195
S CORP - 29.6%	7.10%	+209	7.10%	+155
C CORP - 21.0%	6.25%	+123	6.25%	+69
Individual - 37.0%	7.94%	+292	7.94%	+238

Spreads are compared to Treasury yields.
TEY assumes a 1.50% cost of funds.
S Corp assumes no TEFRA disallowance for bank qualified issues.

RATINGS

	RATING	WATCH OUTLOOK
S&P	AA	STA
MOODY'S	Aa3	
FITCH		

UNDERLYING RATINGS

	RATING	WATCH OUTLOOK
S&P		
MOODY'S	Aa3	
FITCH		

SHOCK ANALYSIS

SHOCK	MKT YIELD	PRICE TO	PRICE	PRICE CHNG	EFF DUR/CVX
-300	2.30	04/31	111.3	11.30%	
-200	2.94	04/31	108.5	8.50%	2.5/0.04
-100	3.58	04/31	105.8	5.77%	4.0/(1.44)
0	**5.00**	**04/43**	**100.0**	**0.00%**	**6.3/(0.51)**
+100	5.64	04/43	93.2	-6.79%	7.0/0.32
+200	6.28	04/43	87.0	-13.00%	6.8/0.31
+300	6.92	04/43	81.3	-18.67%	

TREASURY YIELD CURVE

1mo	3mo	6mo	1yr	2yr	3yr	5yr	7yr	10yr	30yr
3.93	4.14	4.31	4.43	4.80	4.94	5.05	5.17	5.29	5.66

1. Loan-level yields at a 15-year high
2. Most banks will focus on BQ, but GM can pay. (Ex. Housing Bonds)
3. Defaults are rare and risk is clustered. A good credit process lets you buy sound names

The BakerGroup

Floating Rate Options:
Trading Price Volatility For Income Volatility

The BakerGroup

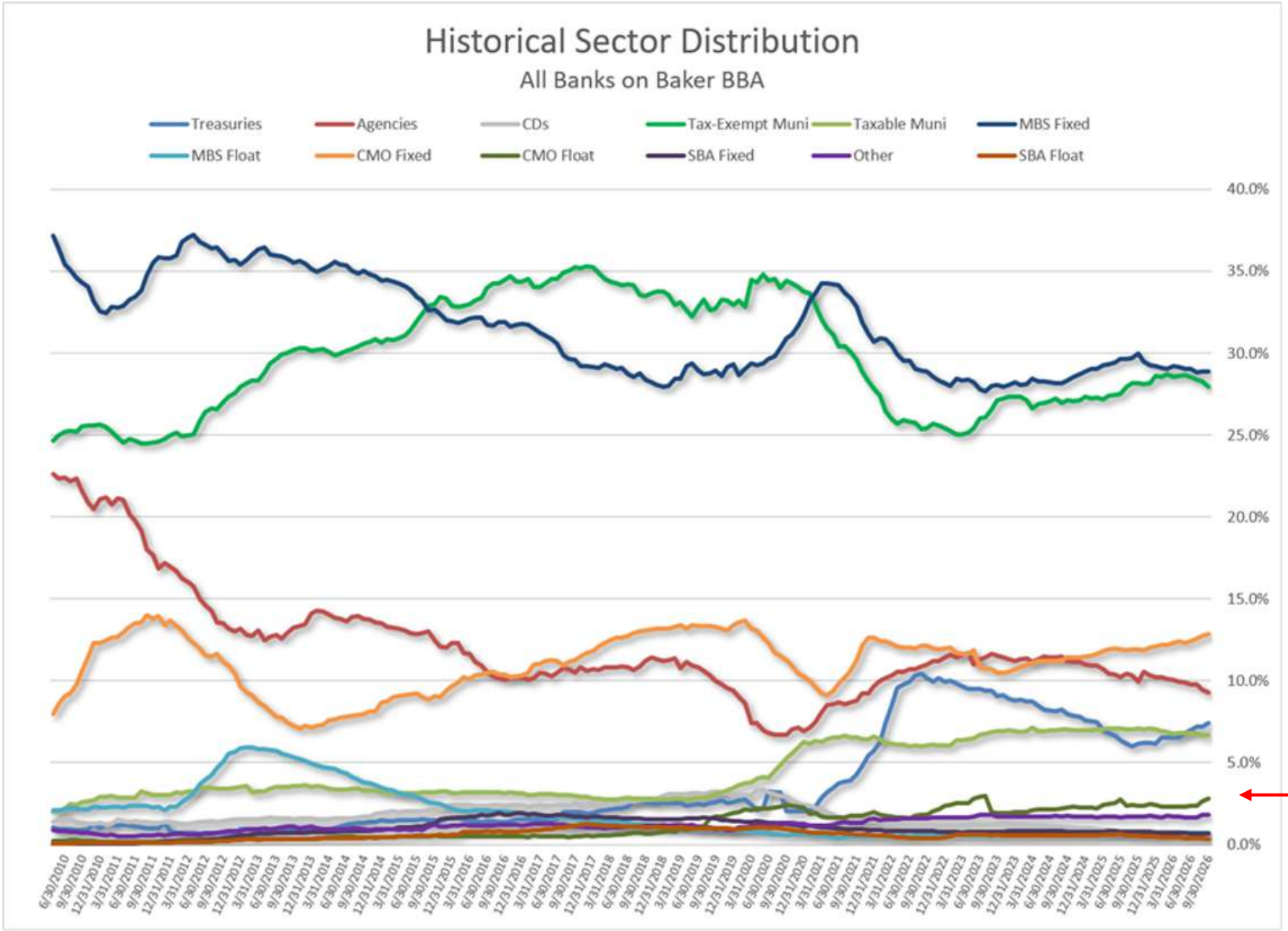
What are Floating Rate Securities?

Floating rate bonds, also known as “Floaters”, are debt securities that pay interest at a variable rate rather than a fixed rate. Their interest payments adjust periodically based on a benchmark rate. This makes them attractive to investors looking to hedge against rising interest rates.

Other Key Features:

- **Variable interest rate:** The coupon payments fluctuate with market rates, offering protection against rising rates, but income will drop if rates drop.
- **Benchmark-Based Adjustments:** The rate is typically set as a spread above a reference rate, ensuring alignment with prevailing market conditions
- **Lower Price Volatility:** Floaters tend to have less price sensitivity to interest rate changes.
- **Interest Rate Risk Tradeoff:** Floaters effectively trade price volatility for income volatility.

Floating Rate Security Allocation Remains Low, But Is Rising



CMO Floaters

The BakerGroup

Clients Bought More MBS, Less Munis In Q2

2nd Quarter Purchases

Sector	% of Total	CurFace	Count	Acctg TEY	Avg Life	-300 AL	+300 AL	-300 PxVol	+300 PxVol
ABS FL	1.47%	48,857,585	11	5.21	5.81	5.54	6.55	0.15	(0.46)
Agy	8.01%	266,178,118	211	4.61	7.13	1.54	7.39	9.85	(16.09)
CD	4.58%	152,380,212	607	4.04	1.93	1.78	1.93	5.39	(5.26)
CMBS	6.69%	222,463,903	169	4.45	4.98	4.22	5.18	12.48	(12.09)
CMBS FL	2.07%	68,916,523	27	4.22	6.04	6.05	6.09	(0.02)	(0.31)
CMO	25.08%	833,552,593	565	4.78	4.40	2.05	5.85	7.23	(13.08)
CMO FL	2.13%	70,801,871	40	4.50	5.93	3.35	8.53	0.51	(4.75)
Corp	0.41%	13,644,000	18	5.31	8.43	3.57	8.43	10.39	(16.23)
Corp FL	1.66%	55,200,000	46	6.35	9.52	9.52	9.52	13.56	(11.38)
MBS	28.80%	957,235,826	766	5.64	5.20	3.21	6.31	10.33	(13.69)
MBS FL	1.18%	39,353,200	25	4.49	4.00	1.95	5.57	4.64	(8.79)
Muni	14.33%	476,400,036	839	5.24	10.80	6.66	13.46	14.38	(16.28)
SBA	0.78%	25,798,299	33	4.43	3.72	2.30	4.53	7.97	(11.08)
Tax Muni	2.81%	93,435,000	129	4.55	4.87	3.63	5.42	11.60	(10.91)
STK/PFD	0.00%	400	2	-	-	-	-		
Grand Total	**100.00%**	**3,324,217,565**	**3,488**	**4.92**	**6.01**	**3.66**	**7.22**	**9.82**	**(12.39)**

3rd Quarter Purchases

Sector	% of Total	CurFace	Count	Acctg TEY	Avg Life	-300 AL	+300 AL	-300 PxVol	+300 PxVol
ABS FL	1.72%	59,119,354	10	5.54	5.23	5.14	5.61	0.40	(0.63)
Agy	8.80%	302,737,000	214	4.96	5.92	2.33	6.28	8.94	(14.11)
CD	3.33%	114,605,431	442	4.31	2.08	1.99	2.08	5.88	(5.51)
CMBS	5.40%	185,952,525	126	4.79	5.03	4.19	5.19	12.75	(12.05)
CMBS FL	1.06%	36,574,367	11	4.35	5.75	5.69	5.77	0.01	(0.05)
CMO	24.57%	845,364,716	509	5.16	4.56	2.39	5.90	8.09	(13.20)
CMO FL	4.52%	155,655,852	43	4.42	5.60	3.82	8.18	0.25	(2.13)
Corp	0.41%	14,075,000	17	5.38	6.56	5.88	6.59	16.12	(14.00)
Corp FL	1.45%	50,000,000	41	6.81	9.51	9.51	9.51	11.86	(9.96)
MBS	33.89%	1,166,330,164	844	5.16	5.18	3.40	6.28	10.71	(13.63)
MBS FL	1.44%	49,534,834	28	4.63	5.54	2.39	7.32	6.72	(10.95)
Muni	10.75%	369,833,839	795	5.56	10.50	7.41	11.40	14.72	(14.24)
SBA	0.78%	26,983,958	32	5.15	4.54	2.59	5.63	8.96	(12.63)
SBA FL	0.03%	979,428	1	4.01	4.51	7.36	4.92	1.21	(0.34)
Tax Muni	1.84%	63,360,000	77	5.12	5.93	5.62	6.99	16.06	(13.83)
Grand Total	**100.00%**	**3,441,106,470**	**3,190**	**5.12**	**6.11**	**4.15**	**6.95**	**10.49**	**(12.24)**

Two Main Types of Floating Rate Securities

Floating Rate Coupon

- **Only the coupon floats** to an index & margin
- Either the bond has no collateral (floating rate agency note) or the collateral is fixed (floating rate CMO)

Floating Agency Bullet or Callable

Floating Rate CMO's

Floating Rate Collateral

- **The coupon AND the collateral both float** to an index & margin
- Prepayment behaviors can be drastically different as the borrower is now impacted by floating rate changes as well

1/1 or Hybrid ARMs

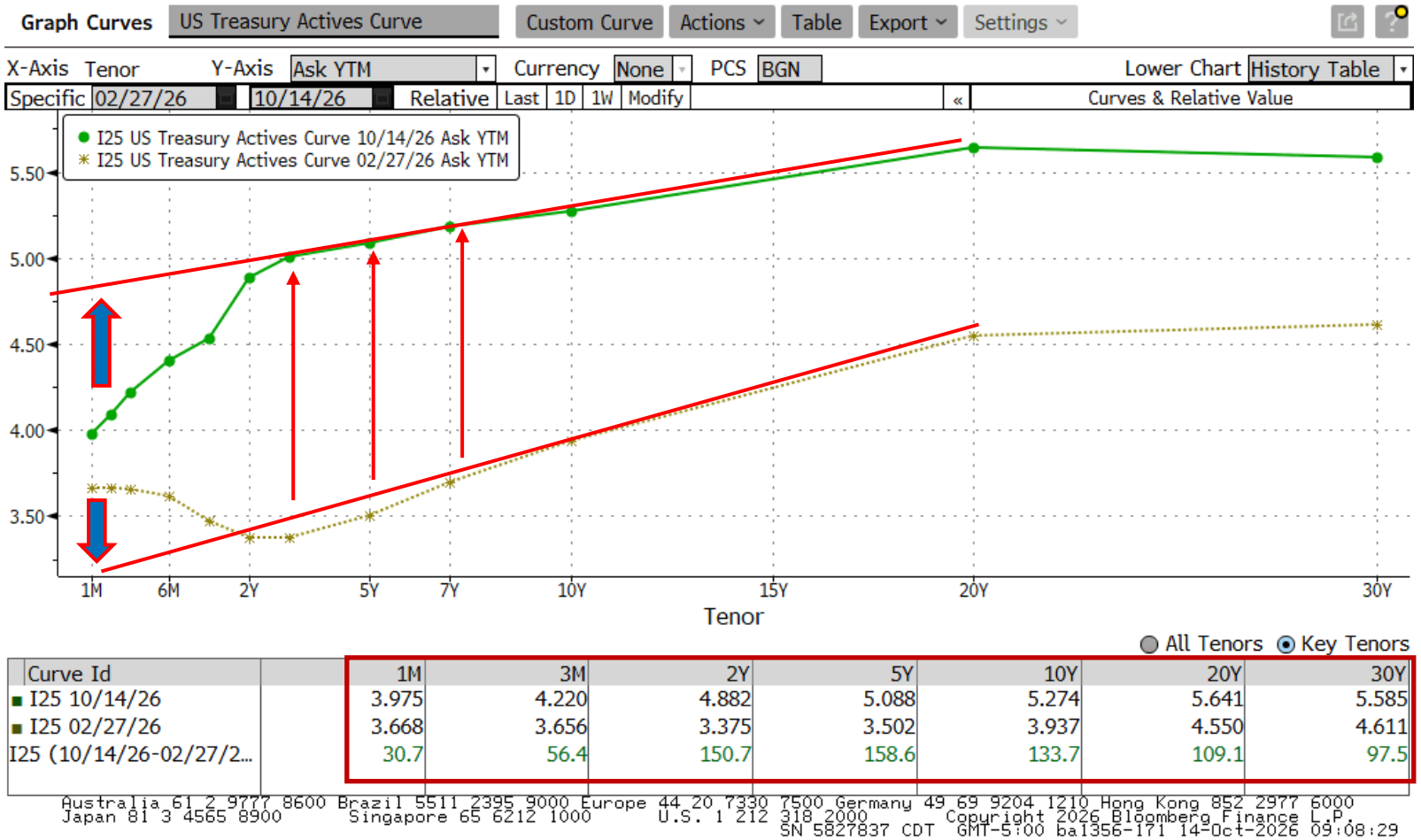
Floating Rate CMBS

Floating Rate SBA's

The BakerGroup

When Evaluating Floaters, The Shape of The Yield Curve Matters…A Lot!

- The 1mo Bill yields about 90bp less than the 2yr Note. This is because the market expects the Fed to hike 75-100bp.
- Buying floaters tied to SOFR will most likely yield 75-100bp less than fixed rate option like short average life CMOs
- Floaters buy you protection against a rate move **larger** than the market currently expects rather what the market already expects
- If the Fed hikes 75bp or less, an investor would be better off buying the higher yield fixed rate option



The BakerGroup

When Evaluating CMO Floaters, CAP Matters…A Lot!

CMO Floater Offering - FHR 5368 FC (3137HBAQ7)

The BakerGroup

FHLMC CMO Floater
- 5.19% Current Coupon (Cpn Formula = SOFR(30d MA) + 150 bps)
- Monthly Reset / 7.00 Life Cap / 1.50% Life Floor
- Seasoned FRLMC 30yr Fixed-Rate 6.5% Collateral
  - 7.374% WAC, 318 WAM, 36 WALA
  - $368k Avg Curr Loan Bal
  - 757 Avg FICO, 94% Orig LTV, 82% Current LTV

5.25% Yield / +135 bp DM / 6.46 Avg Life @ 12 CPR

Price Volatility Analysis

bps	CPR	Mkt Yld	Avg Life	Price	Px Δ
300	48	2.92	1.54	99.83	0.8%
-200	38	3.51	2.07	99.78	-1.0%
-100	21	4.45	3.94	99.83	-0.9%
0	12	5.25	6.46	100.78	
+100	9	6.15	7.92	101.49	+0.7%
+200	8	7.11	8.53	99.90	0.9%
+300	7	8.09	9.20	94.57	-6.2%

Security Information

Coupon	5.19029	Orig Bal	62,667,796
Type	FLT, PT	Factor Dt	10/1/2026
		Factor	0.45799208
Maturity	12/25/2053	Curr Bal	28,701,354
Issue	11/25/2023		
Delay	30	Next Pay	10/25/2026

Collateral Overview

Collat Type: FNCL 6.5	
Index (SOFR(30d MA)) = 3.848%	
WAM / WALA	318 / 36
WAC	7.374
Orig LTV / FICO	94 / 757
Avg Cur Loan Sz	368k

Hist Prepay Speeds

	CPR / PSA
1 Mo.	13.3 / 222
3 Mo.	22.9 / 381
6 Mo.	26.0 / 434
12 Mo.	38.8 / 674
Life	22.7 / 611

Settlement Date: 10/16/2026 **Price: 100-25**

Scenario Yield Analysis (Spot Curve Shifts)

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	7	8	9	12	21	38	48
Yield to Maturity	**6.96**	**6.95**	**6.28**	**5.25**	**4.16**	**2.99**	**1.88**
Avg Life	9.20	8.53	7.92	6.46	3.94	2.07	1.54
Spread Duration	5.78	5.46	5.36	4.82	3.33	1.92	1.48
Discount Margin	+3	+102	+136	+135	+128	+110	+98
Pay Window	10/26 - 9/53	10/26 - 9/53	10/26 - 9/53	10/26 - 9/53	10/26 - 9/53	10/26 - 5/53	10/26 - 12/50

CMO Floater Offering - FHR 5429 FA (3137HDSR2)

The BakerGroup

FHLMC CMO Floater
- 4.59% Current Coupon (Cpn Formula = SOFR(30d MA) + 90 bps)
- Monthly Reset / 8.00 Life Cap / 0.90% Life Floor
- FRLMC 30yr Fixed-Rate 6.5% Collateral
  - 7.446% WAC, 324 WAM, 28 WALA
  - $432k Avg Curr Loan Bal
  - 755 Avg FICO, 84% Orig LTV, 76% Current LTV

4.76% Yield / +87 bp DM / 6.09 Avg Life @ 13 CPR

Price Volatility Analysis

bps	CPR	Mkt Yld	Avg Life	Price	Px Δ
-300	52	2.20	1.38	99.48	-0.7%
-200	45	3.01	1.67	99.67	-0.5%
-100	24	3.84	3.44	99.85	-0.3%
0	13	4.76	6.09	100.19	
+100	9	5.73	7.98	100.45	+0.3%
+200	8	6.72	8.59	100.63	+0.4%
+300	7	7.75	9.29	100.63	+0.4%

Security Information

Coupon	4.59029	Orig Bal	49,506,747
Type	FLT, PT	Factor Dt	10/1/2026
		Factor	0.37130993
Maturity	7/25/2054	Curr Bal	18,382,347
Issue	6/25/2024		
Delay	30	Next Pay	10/25/2026

Collateral Overview

Collat Type: FNCL 6.5	
Index (SOFR(30d MA)) = 3.848%	
WAM / WALA	324 / 28
WAC	7.446
Orig LTV / FICO	84 / 755
Avg Cur Loan Sz	432k

Hist Prepay Speeds

	CPR / PSA
1 Mo.	17.8 / 316
3 Mo.	23.5 / 432
6 Mo.	31.5 / 612
12 Mo.	44.4 / 982
Life	33.9 / 1160

Settlement Date: 10/16/2026 **Price: 100-06**

Scenario Yield Analysis (Spot Curve Shifts)

Rate Shift (bps)	+300	+200	+100	0	-100	-200	-300
CPR	7	8	9	13	24	45	52
Yield to Maturity	**7.83**	**6.80**	**5.78**	**4.76**	**3.72**	**2.68**	**1.67**
Avg Life	9.29	8.59	7.98	6.09	3.44	1.67	1.38
Spread Duration	5.53	5.53	5.53	4.69	3.00	1.58	1.34
Discount Margin	+87	+87	+87	+87	+84	+79	+77
Pay Window	10/26 - 11/53	10/26 - 11/53	10/26 - 11/53	10/26 - 11/53	10/26 - 11/53	10/26 - 3/53	10/26 - 5/50

The BakerGroup

Hybrid ARMs Can Be A Good Compromise Between Fixed and Floating Options

ARM Analytics - G2 MB1365 (3618N6QT7)

The BakerGroup

GNMA II 30yr 3/1 Hybrid (1%/5% caps) MBS
- 3.5% Current Coupon until Oct 2029 initial reset
  - 1yCMT + 150 bps
  - 8.5% Life Cap / 1.5% Life Floor / 1% Periodic Cap (+/-1% 1st Reset)
  - 37 Months to Next Reset
- 359 Month WAM (8/20/2056)
- 202 Underlying Loans, New Loan Origination
- $373k Avg Current Loan Balance
- 717 Avg FICO, 85% Orig LTV

5.646% Yield / +80bp / 2.33yr Avg Life @ 16 CPB

Security Information

Type	GNMA2 AT
Coupon	3.5
Maturity	08/20/2056
WAM / WALA	358 / 2
WAC	4.102
Issue	08/01/2026
Delay	49
Orig Balance	75,559,127
Factor Date	9/1/2026
Factor	0.99839945
Curr Balance	75,438,191
Loan Count	202

Reset Data

Index Name	1YRCMT
Index Value	4.44
Margin	1.500
1st Reset Cap	1.000
Per. Cap	1.000
Life Cap	8.500
Reset Freq	Annual
WA Mths to Reset	36
Next Reset	10/01/2029

Roll Schedule

10/01/2029	100.0%

Prepay Speeds

	CPR / PSA
1 Mth	0.2 / 54
3 Mth	N/A / N/A
6 Mth	N/A / N/A
12 Mth	N/A / N/A
24 Mth	N/A / N/A
Life	0.2 / 54

Settlement Date 10/8/2026
Price 95-10+

CPB Yield Analysis To October 2029 Reset

Rate Shift (bps)	300	200	100	0	-100	-200	-300	Acctg
CPB	11	13	14	16	20	27	37	Proj-16.0
CPB Yield	**5.49**	**5.55**	**5.58**	**5.65**	**5.78**	**6.05**	**6.51**	**5.65**
Spread to Trsy	+62	+69	+73	+80	+95	+126	+184	+80
Avg. Life To Reset	2.51	2.44	2.40	2.33	2.19	1.96	1.65	2.33
% Prin. Bal @ Reset	67.4	63.1	61.0	56.9	49.4	37.8	24.6	56.9

Scenario Yield Analysis

Rate Shift (bps)	300	200	100	0	-100	-200	-300
CPR	11	13	14	16	20	27	37
Yield To Maturity	**6.37**	**6.18**	**5.92**	**5.65**	**5.43**	**5.42**	**5.81**
Effective Margin	-107	-26	+48	+121	+199	+298	+437
Avg. Life	7.21	6.27	5.85	5.17	4.17	3.06	2.15

ARM Analytics - G2 MB1365 (3618N6QT7)

The BakerGroup

Price Volatility Analysis

Effective Duration/Convexity **3.77 /-0.48** (+/-100 bp)

bps	CPR	Mkt Yld	BEEM	FIC	Avg Life	Price	Px Chg	(+/-100bp) Eff Dur/Cnvx
-300	37	2.32	88	3.000	2.15	102.037	7.0%	
-200	27	3.37	93	4.000	3.06	100.695	5.6%	1.77 /-0.44
-100	20	4.49	105	5.000	4.17	98.469	3.3%	2.73 /-0.46
0	16	5.64	120	6.000	5.17	95.328	0.0%	**3.77 /-0.48**
+100	14	6.89	145	7.000	5.85	91.276	-4.3%	4.64 /-0.20
+200	13	8.19	175	8.000	6.27	86.865	-8.9%	5.61 /-0.53
+300	11	9.49	205	8.500	7.21	81.532	-14.5%	

Collateral Detail

WAC	4.102
WAM	358
WALA	2
Loan Count	202
Min. Loan Size	149,511
Max. Loan Size	1,146,700
Orig. Loan Size	374,116
FHA	76.4
VA	23.6
RHS	0.0
PIH	0.0
Purchase	5.8
Refinance	94.2
Single Family	100.0

Original LTV	85
Current LTV	84
FICO	717
SATO	

Top Geos

CA	9.6
FL	8.5
AZ	6.7
TN	5.8

Vintage

2026	100.0

Servicers

70.7	United Wholesale Mortgage
17.7	Freedom Mortgage Corporat
4.5	Loandepot.com,llc

First Time Home Buyer

N/A	94.2
No	3.5
Yes	2.3

Down Payment Assistance Plan

No	99.7
Yes	0.3

50 MIP	66.8
55 MIP	8.2
70 MIP	1.5

Delinquent (30)
Delinquent (60)
Delinquent (90)
Delinquent (120+)

	Sep26	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct25
1 Mth CPR	0.2											

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Floating-Rate Options

If you want…	Look at…	Income today *(yield)*	Price drop if rates rise 300bps *(price risk)*	Years to get most money back *(average life)*
Maximize floater income	CMO floaters with 6.0%–7.0% caps (SOFR + 78–185) *Trade-off: income stops rising at the cap — price falls if rates spike*	4.40%–5.25%	−2% to −11%	4–8 yrs
Income with a cap cushion	CMO floaters with 7.5% caps (SOFR + 70–145) *A little less income for more room under the cap*	4.30%–5.06%	−3% to +1%	4–9 yrs
Most room for rates to rise	CMO floaters with 8.0%+ caps (SOFR + 65–103) *Trade-off: lowest margin among CMO floaters*	4.15%–4.76%	About 0%	3–9 yrs
Protect against rising rates	SBA floating-rate pools (Prime-based, no caps) *Resets quarterly with Prime — low loan counts and premiums present prepayment risk*	3.85%–4.35%*	About −1%	2–5 yrs
Prepayment protection	Freddie Mac multifamily SOFR floaters (no caps) *Prepayment penalties keep cash flow on schedule*	4.13%–4.47%	About −0.3%	5–9 yrs
Fixed now, floats in 3 years	GNMA 3/1 hybrid ARMs *Trade-off: trades like a 3-year fixed bond until first reset*	4.75%–5.65%†	−12% to −15%	About 2 yrs
Fixed for 5–7 years, then floats	5/1 and 7/6 hybrid ARMs (GNMA, Freddie Mac) *Trade-off: the most price risk of any floating-rate option*	4.70%–5.50%†	−12% to −18%	3–4 yrs
Lowest risk-based capital	Ginnie Mae CMO floaters and SBA floaters *Full U.S. government backing; 0% risk weight*	3.85%–5.05%	−10% to +1%	2–9 yrs
If the Fed cuts	Floater income follows the index down *Floors (set at the margin) limit the slide*	CMO and multifamily floaters reset monthly, SBA quarterly — a 100bp cut takes about 1% off the coupon within 1–3 months. Hybrids hold their coupon until first reset.		

SBA Securitization

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Ways to Participate in Today's Market

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The 10-year Treasury yields more than at any point since 2002

5.31%

10-year Treasury yield, Oct 5, 2026

Up 112bp since January; the 30-year is at 5.67%

What waiting costs

- **Cash at fed funds (3.88%)** earns about 120bp less than a 5-year Treasury (5.06%)
- **Banks historically buy the fewest bonds at yield highs,** when new purchases lift portfolio yield the most
- **No one needs to call the top:** staging purchases over several months spreads the entry point

Source: U.S. Treasury par yield curve and NY Fed effective fed funds rate (10/5/2026); Bloomberg (10/5/2026); The Baker Group FSG.

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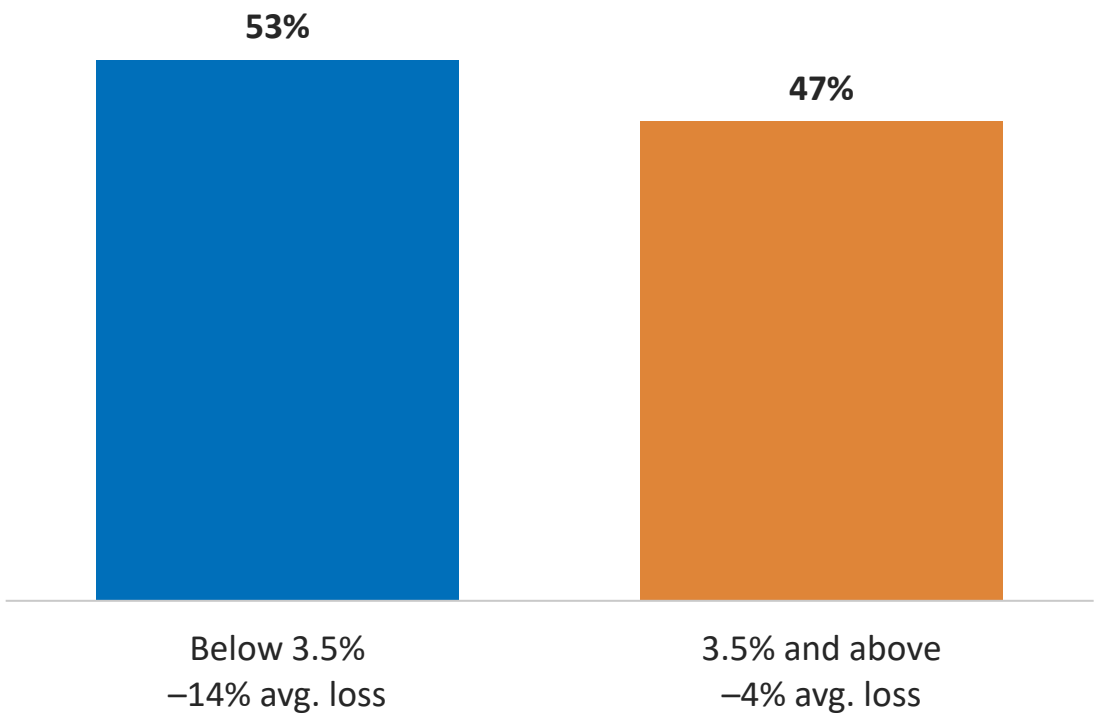
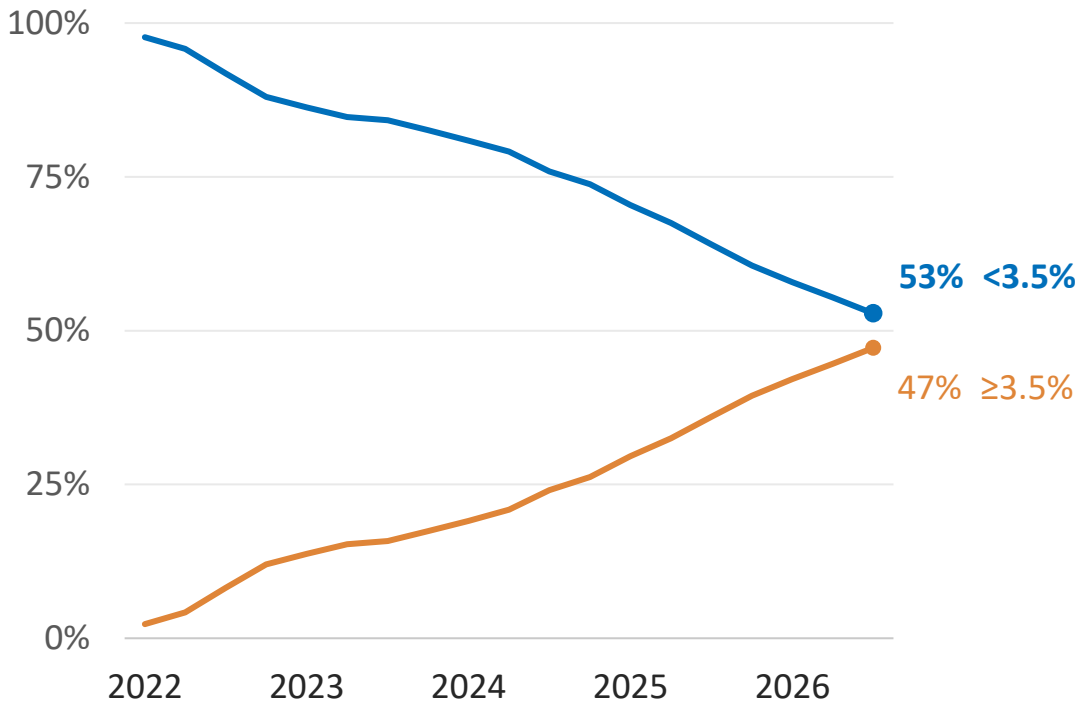
Low-yield bonds fell from 98% to 53% of the book, but still tie up 13% of assets

Share of book value by book yield, with avg. unrealized loss, 9/30/2026



Share of book value by book yield, %, Q1 2022–Q3 2026



The average institution has roughly **13% of total assets** tied up in bonds yielding sub 3.5%. Repricing is worth roughly **25–35bp of margin** for the typical institution.

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Three ways to put today's yields to work



Reinvest cash flow

Put maturities and paydowns to work on a set schedule

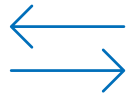
Best for:
Every portfolio



Prefunding

Borrow against future cash flow to lock in yields now

Best for:
Large, predictable cash flows



Bond swaps

Sell low-yielding bonds and reinvest at today's rates. Absorb the loss with:

- Earnings
- Sale-leasebacks
- BOLI
- Loan sales, etc.

Best for:
Any institution with low book yields and a way to cover the loss

Prefunding locks in today's yields before the cash arrives

Today

Borrow

FHLB advance or brokered CDs, termed to your expected cash flow

Today

Invest

Buy bonds at current yields instead of waiting for maturities

Next 6–24 months

Repay

Maturities and paydowns retire the borrowing as they arrive

What you earn: bond yield minus funding cost, from today until the cash flow arrives

Fits when

- Large, predictable maturities are due within two years
- Funding costs sit below the yield on the bonds you would buy

Watch for

- Spread squeeze if short funding rates rise with more Fed hikes
- Collateral pledged to the FHLB reduces available liquidity

Framework: The Baker Group FSG; brokered CDs available through Baker Funding Solutions. Not a recommendation; evaluate within your ALCO strategy and liquidity plan.

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Prefunding $44.5M at 5.50% adds about $1.24M of net interest income over 12 months

Projected Principal Cash Flow & Roll-Off Yield: Rates Unchanged

Summary	
Projected 12Mo Cash Flow:	44,861,457
12Mo Yield Roll-Off:	2.41
*Annualized Interest Income:	1,081,434

Reinvestment Opportunities								
Yield	Ann. Income	Income Pickup	Yield	Ann. Income	Income Pickup	Yield	Ann. Income	Income Pickup
3.50	1,570,151	**488,717**	5.00	2,243,073	**1,161,639**	6.50	2,915,995	**1,834,561**
4.00	1,794,458	**713,024**	5.50	2,467,380	**1,385,946**	7.00	3,140,302	**2,058,868**
4.50	2,018,766	**937,332**	6.00	2,691,687	**1,610,254**	7.50	3,364,609	**2,283,175**

	10/31/2026	11/30/2026	12/31/2026	1/31/2027	2/28/2027	3/31/2027	4/30/2027	5/31/2027	6/30/2027	7/31/2027	8/31/2027	9/30/2027	Grand Total
Agencies	3,000,000	4,000,000	5,000,000	3,000,000	-	1,000,000	1,000,000	-	2,000,000	-	1,000,000	-	**20,000,000**
	0.98	1.69	2.63	1.15		1.18	1.23		2.41		3.38		1.85
CMO Fixed	304,683	302,580	299,878	296,833	294,789	292,760	290,743	288,739	286,752	284,779	282,820	280,875	**3,506,231**
	2.56	2.56	2.56	2.57	2.57	2.57	2.57	2.57	2.57	2.57	2.57	2.57	2.56
Corporates Float	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxable Municipals	-	835,000	160,000	-	500,000	500,000	-	500,000	500,000	1,045,000	1,230,000	1,000,000	**6,270,000**
		3.19	1.95		4.47	3.23		3.29	3.50	1.59	3.27	1.43	2.76
Municipals	-	-	905,000	-	1,915,000	205,000	205,000	430,000	700,000	-	-	-	**4,360,000**
			5.12		3.18	2.79	3.51	5.25	3.43				3.82
CMO Float	44,618	44,222	44,430	44,692	45,146	45,172	45,357	45,644	45,293	45,277	45,426	45,226	**540,503**
	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39
Treasuries	-	-	-	-	-	-	-	-	-	-	-	-	-
SBA Structured Fixed	26,158	23,866	-	-	41,777	-	24,749	22,583	-	-	39,512	-	**178,644**
	3.09	2.69			2.88		3.09	2.69			2.88		2.89
MBS Fixed	888,202	878,234	868,387	858,659	848,209	837,153	827,904	818,124	809,115	800,208	789,914	780,759	**10,004,866**
	2.52	2.52	2.52	2.53	2.53	2.53	2.53	2.54	2.54	2.54	2.54	2.55	2.53
CMBS Structured Float	88	76	89	77	77	116	78	91	88	158	137	137	**1,212**
	4.32	4.32	4.32	4.32	4.32	4.32	4.32	4.32	4.33	4.33	4.33	4.33	4.33
Total Expected Cash Flow	**4,263,748**	**6,083,978**	**7,277,784**	**4,200,260**	**3,644,997**	**2,880,201**	**2,393,831**	**2,105,182**	**4,341,248**	**2,175,422**	**3,387,809**	**2,106,997**	**44,861,457**
Total Roll-Off Yield	**1.46**	**2.08**	**2.92**	**1.57**	**3.17**	**2.24**	**2.12**	**3.32**	**2.76**	**2.12**	**3.09**	**2.06**	**2.41**
Payments on Borrowing >>>	-	-	-	11,125,000	-	-	11,125,000	-	-	11,125,000	-	-	**11,125,000**
Cumulative Cash Flow >>>	-	*4,263,748*	*10,347,726*	*17,625,510*	*21,825,770*	*25,470,767*	*28,350,967*	*30,744,798*	*32,849,980*	*37,191,229*	*39,366,650*	*42,754,459*	***44,861,457***
Balance on Borrowings	44,500,000	44,500,000	44,500,000	33,375,000	33,375,000	33,375,000	22,250,000	22,250,000	22,250,000	11,125,000	11,125,000	11,125,000	**PAID OFF**
	4.28	4.28	4.28	4.35	4.35	4.35	4.41	4.41	4.41	4.48	4.48	4.48	
Cum. Interest Expense >>>	158,763	158,763	158,763	120,845	120,845	120,845	81,815	81,815	81,815	41,533	41,533	41,533	
New Purchases	44,500,000	44,500,000	44,500,000	44,500,000	44,500,000	44,500,000	44,500,000	44,500,000	44,500,000	44,500,000	44,500,000	44,500,000	**44,500,000**
	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	**5.50**
Cum. Interest Income >>>	203,958	203,958	203,958	203,958	203,958	203,958	203,958	203,958	203,958	203,958	203,958	203,958	

Term	Borrowing Rate	Borrowing Amount
Overnight	3.86	0
1 Month	3.96	0
2 Month	4.00	0
3 Month	4.09	11,125,000
4 Month	4.13	0
5 Month	4.17	0
6 Month	4.21	11,125,000
7 Month	4.25	0
8 Month	4.30	0
9 Month	4.34	11,125,000
10 Month	4.39	0
11 Month	4.43	0
12 Month	4.48	11,125,000

1,208,870 <<< Interest Based On Pay Off

2,447,500

1,238,630 <<< Net Interest Income

These figures are rough estimates and are not intended to be exact calculations of income and expense. For precise net income figures, simulations need to be ran through your IRRM / ALM.

An illustrative bond swap adds $123K to next year's income

1 Sell

$5.0M at 3.00%

Estimated 9% loss: $4.55M proceeds and a $450K loss

2 Reinvest

$4.55M at 6.00%

Income rises from $150K to $273K a year

3 Next year's earnings

+$123K

The $450K loss is roughly earned back in about 3.7 years

Before you swap

- **Check this year's earnings against budget.** If you're ahead, it may make sense to move income into future years.
- **Judge the trade on next year's earnings.** Holding costs income every day, but that doesn't make holding the wrong decision.
- **Be prepared to act when the market offers, rather than when the calendar dictates.** The best swap may not show up at year-end for tax losses or in January for recovery. Being flexible allows you to move when the market is in your favor.

Note: Hypothetical, pre-tax; bond carried at par. Sale price of 91 matches the 9/30/2026 APM average for bonds with ~3% book yields; reinvestment at 6.00%. Earn-back = loss ÷ annual income pickup. Not a recommendation; results vary by institution.

Selling the guaranteed 75% of a $2M SBA loan covers a $1.73M bond swap

1 Sell the SBA 7(a) guaranteed portion

Original loan amount	**$2,000,000**
Unguaranteed 25% kept on books	*$500,000*
Guaranteed 75% sold	**$1,500,000**
Indicative price	**110.750**
Gross premium	**$161,250**
SBA split above 110 (50/50)	**($5,625)**
Gain on sale	**$155,625**

2 Swap out of low-yielding bonds

Par sold	**$1,730,000**
Book yield	**3.00%**
Sale price	**91.00**
Proceeds	**$1,574,300**
Reinvested at 6.00%	**+$42,560 / yr**
Realized loss	**($155,700)**

Net earnings impact

≈ $0

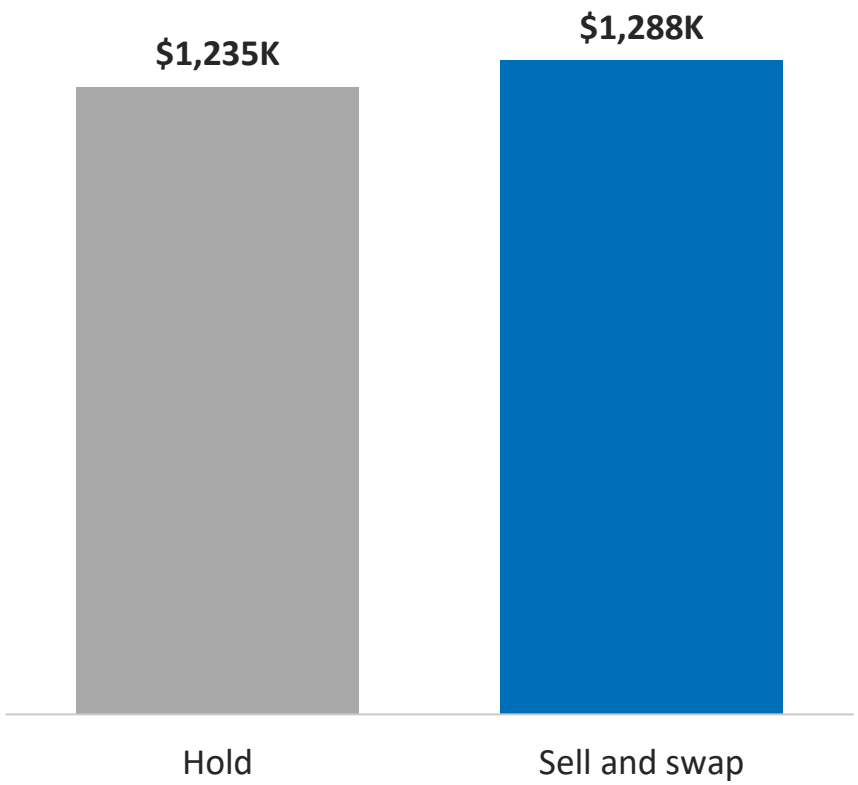
The $155,625 gain absorbs the $155,700 loss, leaving a $75 net hit.

Portfolio income rises about $42,600 a year from day one.

Note: Hypothetical, pre-tax. The loan follows the SBA purchase program example: Prime + 2.750%, 120-month term, 1.000% servicing retained on the sold portion, price 110.750, T+10 settlement through the SBA fiscal transfer agent. The lender keeps the $500,000 unguaranteed portion and its loan income. The bond swap assumes the bonds are carried at par. Interest given up on the sold balance and reinvestment of the sale proceeds are not shown. Not a recommendation.

Reinvested at 6.00%, selling and swapping earns about $53K more than holding over five years

Five-year income by option, pre-tax



Where the income comes from

Annual income	Hold	Sell and swap
SBA loan interest (9.75%)	$195,000	$48,750
Servicing retained (1.00%)	—	$15,000
Bond income	$51,900	$94,458
Sale proceeds reinvested (6.00%)	—	$99,338
Total per year	**$246,900**	**$257,546**
Five-year total	**$1,234,500**	**$1,287,653**

Swap: +$42,600 a year ($94,458 of bond income vs. $51,900)

SBA sale: –$31,900 a year (lost loan interest, net of servicing and reinvestment)

Net: +$10,600 a year (breakeven reinvestment yield ≈ 5.67%)

Note: Hypothetical and pre-tax. Hold = keep the $2M SBA loan and $1.73M of bonds at a 3.00% book yield. Sell and swap = sell the $1.5M guaranteed portion and the bonds as on the prior slide, keep the $500K unguaranteed portion, and reinvest the $1,655,625 of SBA sale proceeds and $1,574,300 of bond proceeds at 6.00%, a tax-equivalent yield available on long munis today. Prime is assumed to hold at 7.00% (Fed funds upper bound plus 3.00%) for five years, with no amortization or prepayment. The five-year total includes the $75 net year-one loss. Excludes credit, funding and capital effects.

The market won’t always line up with your plan, so keep both tools ready

	Bond swap	Prefund maturing cash
Yield picked up	Today’s yield on the full swap, for the life of the new bond	Today’s yield, minus funding cost until maturities arrive
This year’s earnings	Realized loss hits earnings now	No loss realized
Low-yield bonds	Removed from the book	Stay on the book until they mature
Liquidity and IRR	Neutral. New bonds replace old	Uses borrowing capacity and adds a funding mismatch
Market favors it when	Losses are smaller, or a gain is available to offset them	Borrowing costs sit below bond yields, as they do today
Best fit	**Ahead of budget, earnings room to absorb the loss**	**Behind budget, or don’t want to take a loss**

Today the market favors prefunding.

Conditions change. Review both options periodically and act when the market offers the opportunity.