<u>MFB Board of Advisors Meeting: 9/17/15</u>

Meeting Agenda:

- Presentation by Gary Wang of Cantor Fitzgerald
- Presentation by Wayne Gore of AlliancePartners
- Presentation by Fran Broccolino of Maryland Financial Bank
- Brief Discussion about Sandler O'Neill by Judy Scott
- Brief Discussion about Santander Bank by Bill Allen

Highlights:

- **<u>(1) Gary Wang of Cantor Fitzgerald:</u>**
    - Company Background: http://www.cantor.com/public/aboutus
    - Subject of Presentation: *<u>Cantor Fitzgerald's Whole Loan Sales and Trading Platform</u>*
        - Mr. Wang has 20+ years of experience in mortgage sales business;
        - Strong relationships with key individuals/institutions within the business;
            - Ie: Fannie Mae, Freddie Mac, JP Morgan Chase, etc.
        - Directly involved with mortgage sales, mortgage purchases, and mortgage portfolio valuations.
    - Mortgage Sales
        - Explained that Community Banks CUSIP purchasing is dwindling due to regulatory changes, which impact the treatment of securities on a Bank's balance sheet;
        - Noted that Community Banks alternative to CUSIP purchasing is the purchasing of loan assets;
        - In the past year, Mr. Wang stated that he has sold over $500MM in jumbo mortgages, as well as $150MM in CRA loans;
        - Cantor Fitzgerald has worked with Banks with asset sizes ranging from $50MM - $10B;
        - Most Banks are interested in purchasing floating rate loans;
        - Mr. Wang outlined current trading prices of adjustable jumbo, qualified mortgage loans:
            - 5/1 ARM – 250 bp
            - 7/1 ARM – 275 bp
            - 10/1 ARM – 300 bp
                - These loans have average durations of 3-7 years.
                - Loans are clean and pristine from credit perspective:
                    - Maximum DTI of 43%
                    - FICO scores > 680; Majority are 720-780
                - Interest rates primarily tied to LIBOR
        - Buyer has the following options regarding loan servicing:
            - Servicing Retained
                - Buyer pays 25 bp annual servicing fee and the original seller or third party servicer will service the loan. Buyer will receive monthly P&I payments from servicer.
            - Servicing Released
                - Buyer services the loan after purchase.
        - Buyer can hand-pick loans from a pool based on:
            - Geographic location/Census tract;
            - FICO score;
            - Loan amount;
                - Pricing is based on the loan's risk profile.
        - Participations:

        - Recently, Cantor Fitzgerald has been seeing interest from Credit Unions and Community Banks to do loan participations.
        - Typically the loan participations are structured to allow the purchaser to obtain 90% of the loan and the originator to hold 10%, while continuing to servicing for the loan.
    - Fixed Rate Loans:
        - Most fixed rate loans are being purchased by the largest Banks and put into long term securities. Securities are primary sold amongst the largest Banks, as well as insurance companies.
- Mortgage Purchases
    - Aggregators of jumbo mortgages, such as JP Morgan Chase, Redwood Trust, etc. involved in the sale and purchase of mortgage assets.
    - JP Morgan Chase offers good jumbo rates, but has very stringent credit standards, making them difficult to sell to, in certain cases.
    - Flow Deals:
        - Selling on-going loans to another Bank/Investor
            - Seller should have 3-4 flow buyers in case one buyer changes appetite;
            - Seller should have financial capacity to stand behind the loan if an issue/problem arises during due diligence;
            - Sellers warrant that all loans are QM qualified, amongst other warrants and representations;

- **(2) Wayne Gore of AlliancePartners and BancAlliance:**
    - Mr. Gore provided a slide-show, which is attached for reference.
    - Company Background:
        - https://www.bancalliance.com/about/
        - https://www.alliancepartners.com/about
    - Subject of Presentation: Today's Ground Rules for Community Banks in Accessing Middle Market C&I and Consumer Lending;
    - Wayne Gore:
        - Director at AlliancePartners
        - Previously held leadership roles in the Financial Institutions Group with McKinsey & Co. and served as managing Director at Corporate Executive Board;
        - Previously, Wayne was an investment banker with Merrill Lynch and Goldman Sachs as a member of the Mergers & Acquisitions teams;
        - Served on Board of non-U.S. community bank during its growth from $200MM-$1.1B in assets;
        - Received B.A. from Princeton University and J.D. and M.B.A. from Columbia University.
    - Background on The BancAlliance:
        - The BancAlliance network is a shared lending platform that provides its community bank members with a broad array of loan programs and services, including sourcing, underwriting and managing loans that might otherwise be inaccessible.
        - BancAlliance is a non-stock corporation, governed by a member elected Board of Directors;
        - Eligible US banks have the opportunity to join the network by executing membership documentation. Members elect the Board of Directors, who adopt and maintain BancAlliance's oversight policies.
        - Exclusive network with 200+ members across the United States;
            - Members' asset size ranges from $200MM to $10B
    - Banc Alliance is supported and managed on a day to day basis by AlliancePartners.

    - AlliancePartners is an SEC registered investment adviser and serves as the asset manager for BancAlliance;
    - Alliance Partners is responsible for identifying opportunities for the network, for negotiating and managing partnerships, and for sourcing, underwriting and approving all loans and loan programs prior to referring them to the network.
- BancAlliance plays a key role in helping to solve the problem of diminished loan demand and excess liquidity for Community Banks.
- Community Bank Trends since the financial crisis of 2008:
    - Decreased return on average equity;
    - High real estate concentrations;
    - Excess liquidity;
    - Long-dated assets.
- BancAlliance Solution?
- Part 1: Asset diversification into Corporate C&I via leveraged loans:
    - See slide 7
        - a. Broadly Syndicated Leveraged Loans v b. Middle Market Loans (slide 8)
            a. Leveraged Loans:
                i. Geared towards large Banks. Borrowers have EBITDA > $50MM and loan sizes range from $250MM - $1B;
                ii. Loans to Fortune 1000 companies;
                iii. Regulators take dim view for new entrants;
            b. Middle Market Loans
                i. Better geared towards community Banks, specifically through BancAlliance. Borrowers have EBITDA < $50MM and loan sizes range from $20MM-$250MM;
                ii. Borrowers have national customer base with no regional dependency;
                iii. Duration of loans 2 – 2.5 years;
                iv. Loans structured to quickly return capital;
                v. Amortization is 1-10% of principal/year.
- Additional Characteristics of Middle Market Loans:
    - See slides 9-10;
- Targeted Benefits of Middle Market C&I Loans for Community Banks
    - Balance sheet diversification;
    - Prudent deployment of securities/liquidity;
    - Asset diversification with stable borrowers;
    - Potential for meaningful ROE;
    - Floating rate product, inherently mitigates interest rate risk;
- Part 2: Consumer Lending:
    - See slide 12
    - Community Banks share of the consumer-loan market has steadily declined over past two decades. In 1990s, community banks had around 80% market share. In the present, community banks have <10% market share;
    - Community Banks unable to compete independently with big banks due to economies of scale. See Slide14.
    - BancAlliance partnership with Lending Club allows member community banks access to consumer loans with strong credit profiles. See Slide 15 and Slide 22.

- **(3) Fran Broccolino of Maryland Financial Bank:**
    - Subject of Presentation: Adding Balance Sheet Assets through Participations
        - Current Lending Environment:
            - Competition is fiercer than ever within MFB's marketplace. This is evidenced by the following trends in lending within the marketplace:
                - **a.** Many loans are structured with low, long-term, fixed interest rates;
                - **b.** Non-recourse and limited recourse loans increasing in prevalence;
    - Advantages to Loan Participations with MFB:
        - In the community Banking world, loan participations are often a necessity due to:
            - Legal lending considerations;
            - Regulatory compliance considerations ;
            - Product concentration risks;
            - Credit concentration risks;
            - Geographic concentration risk;
            - Risk mitigation due to loan size.
        - When the need to participate a portion of a loan arises, there are advantages to finding a strategic partner, including MFB.
            - MFB will review for purchase loan requests sent for participation consideration;
            - MFB does have a legal lending limit of $975M. However, when a deal requires a participation >$975M, MFB will strategically downstream the loan within MFB's network.
            - MFB may determine with the lead Bank a list of competitors that should not be considered as downstream participants.
            - Advantages to utilizing MFB as the primary participant:
                - **a.** MFB serves as the singular point of contact. This in turn lessens the administrative burden associated with multiple direct participants.
                    - **i.** Answering questions during underwriting;
                    - **ii.** Disseminating financial information for underwriting and on an on-going basis once the loan is seasoned;
                    - **iii.** Sending loan payments to multiple Banks;
                - **b.** Lead Banks can increase their ROE by taking a scrape of the interest rate.
                - **c.** MFB has a feel for the lending appetites of Banks within its network. In turn, this increases the efficiency of the approval process for loan participations, as MFB can strategically select potential participants with particular interest for certain loan types, etc.
    - Direct Products Offered By MFB
        - Referring Reg "O" Loans to other banks, including MFB:
            - MFB can lend directly to Officers, Directors, and shareholders of other financial institutions, as well as their business interests.
            - In order to prevent the need to ask a Director of your institution to take their loan to a competitor, MFB can directly re-finance the loan, with favorable terms and conditions.
        - Lines of Credit and Term Loans to Officers and Directors of other financial institutions:
            - MFB provides both secured and unsecured loans to Officers, Directors, and shareholders of other financial institutions;
            - Loan purposes can vary. Common purposes include:
                - a. Bank stock purchases;
                - b. Exercising stock options;
                - c. Debt consolidation
                - d. Other

- **(4) Judy Scott from Sandler O'Neill Partners**
    - As an affiliate of a full service investment banking firm specializing in financial institutions, Sandler O'Neill Mortgage Finance advises on asset sales, securitizations, and acquisition activities for all asset classes across all performance levels. Transaction sizes have ranged from $3 Million to $1 Billion, with the same amount of detail and client focus irrespective of deal size.

- **(5) Bill Allen from Santander Bank**
    - Santander Bank is happy to offer an opportunity to community banks to compete in the residential mortgage market without incurring excessive expenses but realize additional fee income. We offer conforming and jumbo products on a non-delegated underwriting basis. The relationship can be as a broker or correspondent. If you choose to act as a broker, Santander will close and fund loans in our name and wire your earned fee income immediately after funding. As a correspondent, your bank would close (after loan approval) and fund the loan in your name and submit the closed loan file to Santander. After file review, Santander will issue a purchase advice and wire the net funds to your account. Please contact Bill Allen at wallen@santander.us with any questions. Thank you.