An analysis by McQueen Financial Advisors, Inc.

McQueen Financial Advisors

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Charles N. McQueen
charley@m-f-a.com

Craig M. Sicilia
craig@m-f-a.com

Heather L. Ciurla
heather@m-f-a.com

Alicia M. Bradley
alicia@m-f-a.com

James G. Craven
jim@m-f-a.com

Heather N. Schepperly
heatherb@m-f-a.com

Patrick M. McQueen
pat@m-f-a.com

David C. Brandt
dave@m-f-a.com

Charlene A. Withun
charlene@m-f-a.com

Erin E. Tabb
erin@m-f-a.com

Kristie R. Horton
kristie@m-f-a.com

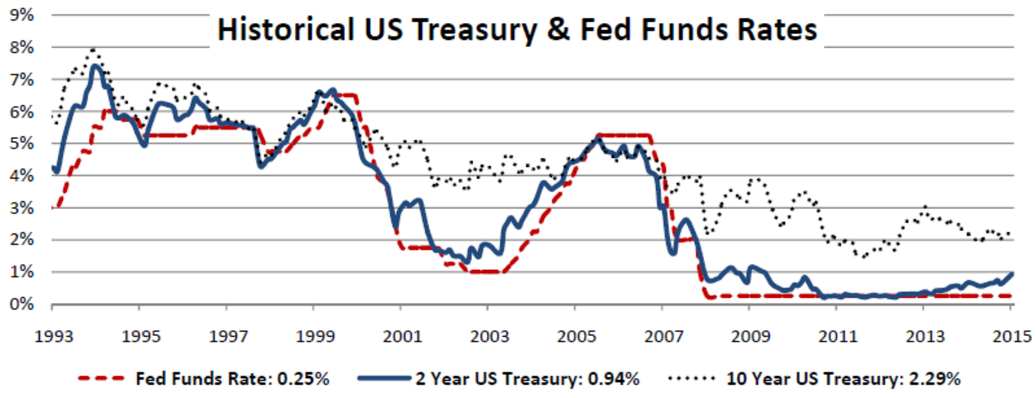
Kelsey R. Mullholland
kelsey@m-f-a.com

Janelle L. Tarbunas
janelle@m-f-a.com

MFA Economic Outlook

November 25, 2015

HIGHLIGHTS



Bloomberg LLP

26676 Woodward Avenue • Royal Oak, MI 48067
248.548.8400 • www.m-f-a.com

ABSTRACT

This paper describes our current view of the economic environment.

COMMENTARY

Fall weather is always welcome as the leaves turn and college football starts. Occasionally, we get a little snow here in Michigan and today we are getting the first snowfall of the season. This Fall also marks the start of the magical twelve-month constant news about political candidates until the election cycle ends.

This Fall is special as the Federal Open Market Committee (FOMC) is debating their next move. They have a list of topics to discuss at their next meeting. The list is unique, due to the new range of the Federal Funds rate and the continued quantitative easing.

"What do we think?"

First, the FOMC will need to determine if they are going to stop replacing maturities in the $4.231 trillion (as of 11/18/15) quantitative easing portfolio. A little overlooked fact by many is that the Federal Reserve is still buying bonds to replace the maturities and mortgage pay downs each month. Last month they bought roughly $24 billion. Why did the FOMC start this process and why does it continue? They are trying to encourage long-term rates to remain low and keep fixed rate mortgage yields low for the consumer.

What do we think? We believe the FOMC needs to stop purchasing long term bonds and let the portfolio slowly shrink, before they increase the Federal Funds rate.

Second, the FOMC needs to decide if they are going to continue to provide a range of yields, such as the current 0.00% to 0.25%, or pick one single number, such as 0.25%.

What do we think? We believe the FOMC needs to pick a single target rate, such as 0.25%

Third, the FOMC needs to decide if they are going to raise the Federal Funds rate or leave it unchanged.

What do we think? This is a difficult question to answer. Why? Craig Sicilia (McQueen Financials Chief Investment Officer) predicted in 2008 that interest rates would remain low for 10 years. Given his correct prediction to date, we do not want to change our position. But, we are starting to feel the pressure.

We are feeling the pressure from the unprecedented level of press coverage of the FOMC and the Federal Funds rate decision. Along with the press coverage, a number of the FOMC members have painted themselves into a corner by stating that rates will rise. To a degree, the next interest rate decision may be more about the FOMC keeping or losing credibility than the economic need to raise rates.

"The economy is improving, but has a long way to go."

Another point that we need to consider is the theory of a neutral rate position. This is a theory that the Federal Funds rate needs to be increased to a level that provides them with room to lower rates if the economy falters. So, another way to look at this is that the FOMC needs to find a neutral rate that promotes growth, but at the same time it does not stifle the economy. This theory is not believed by all of us at McQueen Financial, but none the less a good theory.

So, our answer: Craig believes the FOMC will not raise rates any time soon. He has been correct, so we are sticking with him. This is the worst possible prediction as the result is continued pressure on margins. A more positive prediction is that the FOMC will slowly increase the Federal Funds rate in 2016, maxing out in the near term of 0.50%. Why are both answers correct? The economy is improving, but has a long way to go. The FOMC needs to stop their bond buying for maturities and mortgage pay downs in the quantitative easing portfolio. Next, they need to go from a range of 0.00% to 0.25% to just 0.25%. Is this a rate increase? Some will say yes and some will say no.

Our interest rate projections are as follows:

Our Forecast:

The FOMC will leave rates unchanged through the end of 2015. Somewhere near the first half of 2016, the FOMC will raise the Fed Funds rate from a range of 0.00% to 0.25% to just 0.25%. The next move eventually will be to 0.50%.

	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Fed Funds	0.25%	0.25%	0.25%	0.25%
2 Year Treasury	0.75%	0.85%	0.95%	1.00%
5 Year Treasury	1.60%	1.70%	1.80%	1.90%
10 Year Treasury	2.37%	2.45%	2.55%	2.75%
GDP (Annual)	2.00%	2.25%	2.35%	2.50%
US Unemployment	4.50%	4.50%	4.40%	4.30%
CPI X – YOY	1.80%	1.80%	1.90%	2.00%

About McQueen Financial Advisors, Inc.

McQueen Financial Advisors, Inc. (MFA) is a leading nationwide provider of financial advisory services that has been serving financial institutions since 1999. An SEC-registered investment advisory firm, MFA works only for financial institutions. We provide our services to institutions throughout the United States, with assets ranging from $20 million to over $5 billion.

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Investment Portfolio Management: As a fixed income investment advisor, we will bring professional, in-house fixed income investment portfolio management to your financial institution at substantial savings. Our process is designed to develop a desired portfolio structure while focusing on your current income and total return with safety of principal.

Municipal and Corporate Credit Review: On a quarterly basis we provide you with a detailed credit review on all municipal and corporate credits. Having and reporting our strong credit culture is a paramount philosophy and daily practice at McQueen Financial Advisors. We focus on credit to ensure that we are able to harness the benefit of credit spread products and take advantage of the additional yield, without taking unnecessary risk.

Asset Liability Management: McQueen Financial Asset Liability Management reports will provide you with recommendations and strategies that are designed to fit your unique needs and provide you with the information you need to make the most informed decisions and add income to your bottom line.

Core Deposit Studies: This report will be an integral part of your Asset Liability Management report. The Core Deposit Study is comprised of two sections. The first is a historical comparison of your deposit rates to market interest rates. The second section is the determination of the duration of your core deposits.

Prepayment Speed Analysis: McQueen Financial has developed a process to determine your actual prepayment speeds. Our Analysis provides a report that shows your actual prepayment speeds, the national or state speeds and our recommended prepayment speeds for your ALM report.

Liquidity Analysis: The liquidity stress testing report covers 30 day, 60 day and 90 day liquidity in current, moderately stressed and severely stressed scenarios. The report is designed to be easy to understand and provide significant detail to allow for a comprehensive view of your liquidity position.

Assumption Stress Testing: McQueen Financial provides a detailed list of the assumptions in your Asset Liability Management report. We have developed a model that stress tests your assumptions and provides you with a detailed analysis of the results. The goal is to understand if an unanticipated change in assumptions would significantly hurt your projected financial performance or risk profile.

Back Testing: The objective of the back testing report is to determine the net interest income projection in your ALM report was reasonable. Our analysis focuses on volume as well as booked interest rates of each interest-sensitive component of the balance sheet. The back-testing analysis is a useful management tool that provides you with a cross-check of ALM inputs and assumptions.

ALM Validation: The objective of the ALM validation report is to provide you with an independent review of your ALM model, your ALM policy, and procedures used to measure interest rate risk. The validation process involves a detailed study of your financial statements, ALM reports, ALM policy and inputs to your model.

Mortgage Servicing Rights Valuations: The Mortgage Servicing Rights Valuation (MSR Valuation) process is an integral step in determining the overall financial success of a financial institution's mortgage operations. By outsourcing your MSR Valuation to McQueen Financial, you will receive an independent third party market valuation.


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Charlene A. Withun


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Dave C. Brandt

Additional Team Members:
Kristie R. Horton
Kelsey R. Mulholland
Janelle L. Tarbunas

Disclosures

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