An analysis by McQueen Financial Advisors, Inc.

McQueen Financial Advisors

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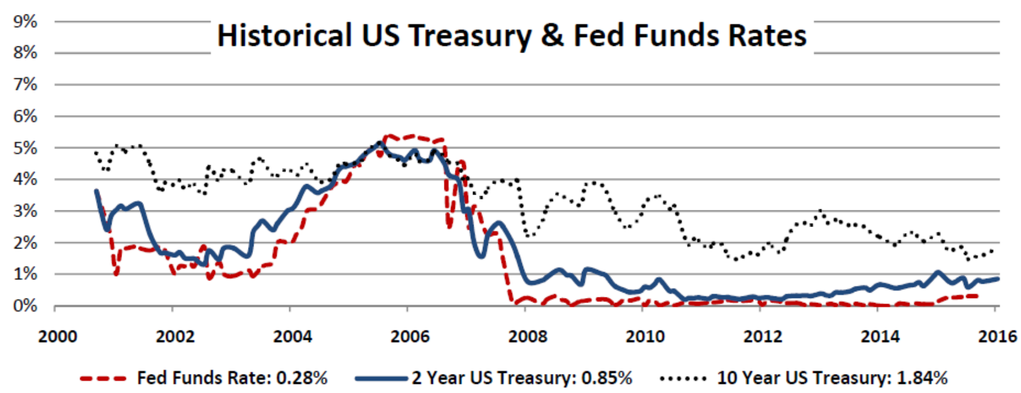
MFA Economic Outlook

November 1, 2016

HIGHLIGHTS



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ABSTRACT

This paper describes our current view of the economic environment.

COMMENTARY

" Fall is here, and thankfully, the political circus is about to close"

The air is getting crisp and the leaves are turning spectacular colors. Fall is here, and thankfully, the political circus is about to close. As we enjoy this beautiful time of the year, we pause to look forward and project the economic and interest rate positions for 2017.

To start out, let's take a look at some of the primary economic data:

By the Numbers

GDP:
It is stuck in a low 1.00% to 1.50% annual growth. There are some signs that we are pushing toward the 2% level, but reluctantly. We continue to be well below the target consensus long term growth rate of 3%, with no real change in sight. Consumer spending continues to be reasonable, but automotive sales are starting to show signs of a decline. Housing, while not what it used to be, is strong. Business investment is faltering somewhat but being held up by consumer spending. We have adjusted to lower fuel prices with no significant changes in the foreseeable future, as oil and natural gas inventories worldwide are flush and production, especially in the U.S., continues to be strong.

" Inflation is not an issue"

Inflation:
Depending on the measurement, we are anywhere between 1.50% and 2.30%. Inflation remains low, but it is growing a bit. Inflation is not an issue.

Employment:
Unemployment is close to 5.00% all over our country. Most economists consider this nearly full employment. Employment is even better, if you have skills that are in demand. The labor force is growing significantly as jobs become more plentiful.

International Markets - Interest Rates:
International rates are really low; in fact a recent German 10 year "bund" auction was at 0%. This will make investment in the United States look attractive and keep rates low or even push our interest rates lower. The credit risk of the United States, relative to other sovereign nations, still looks good.

" Demographics are profoundly changing in the United States and around the world

" The FOMC is in a bit of a pickle as they have telegraphed that they are going to raise rates over the past few years"

Automation Meets Technology

Detroit was all but buried a few short years ago. How times have changed. It is alive and well today. Much of the good news comes right from our core strength, manufacturing. Today the assembly line has transitioned to high tech with new materials, new methods of engineering and new technology applied to new and different challenges. Some of these challenges we did not even know existed a few short years ago. If you have not been in downtown Detroit or in Ann Arbor, Plymouth or Auburn Hills, where new high tech centers are opening up every day, it is a true renaissance for the region. Every manufacturer and supplier involved in automobile and truck production, as well as technology from around the world, has a facility in southeast Michigan.

Why are we talking about automation in an economic and interest rate update? As technology has evolved, it has been able to replace unskilled labor, and to some degree, skilled labor. The obvious result is that less people are needed to get the same output. Labor costs for unskilled positions will continue to be a challenge. If I wanted to be cool, I would say that drones and robots are going to take over; however, being from Detroit, I expect that self-driving trucks will take over.

Caterpillar is in the beta stage of selling mining trucks that are fully autonomous. Yes, we could call them droid trucks. How much more can Caterpillar charge for an autonomous truck? This is an interesting question as its' savings get bigger. Savings include the cost of a driver, healthcare, reduced accidents, less maintenance due to controlled driving and engine speed to name a few. Also, think about savings in the recruiting, human resources and other costs. This makes me really appreciate ATM's and electronic banking.

Demographics

Demographics are profoundly changing in the United States and around the world. Changing birth rates, migration, lifestyle preferences and better health care are all impacting the composition of our population. In the United States the most change is evident in the Sunbelt; California, Arizona, Florida and Texas, where the population growth spurred by immigration from the south and a migration from the north and east has swelled the population of those states. The Midwest is becoming a smaller portion of the population and that same population is aging. The baby boomers are retiring and their spending habits are changing. The demographics of our regions are becoming more diverse, more different. We are also living longer. Our children are marrying later, if they marry. They are having fewer children, if they have children. There is much greater diversity in our population, especially among the younger population. Everything, in terms of demographics is different today and will be even more so tomorrow.

Low growth, Low Economic Activity

The data we have reviewed shows that the economy has been improving, albeit at a slow rate. But, over time slow growth can add up. Given this slow growth, should the Federal Open Market Committee (FOMC) raise the Federal Funds rate due to this growth? Given all of the economic factors I believe that they should not.

The FOMC is in a bit of a pickle as they have telegraphed that they are going to raise rates over the past few years. The children's story 'The Boy Who Cried Wolf' comes to mind. The FOMC may need to increase rates to prove that we should pay attention to them.

Another reason why the FOMC may raise the Federal Funds rate is that they need to be able to lower rates if we enter a recession or economic slowdown. Stated differently, they need to raise rates to put a bullet or two back in their gun.

Our Forecast:

The FOMC will leave rates unchanged in November due to the pending election. We believe that they may raise the Fed Funds rate in December by 0.25% to a range of 0.50% to 0.75%. We still believe that interest rates will remain low for the foreseeable future.

	2016 Y/E	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Fed Funds	0.50%-0.750%	0.50%-0.75%	0.50%-0.75%	0.50%-0.75%	0.75%-1.00%
2 Year Treasury	0.90%	0.90%	0.95%	1.00%	1.25%
5 Year Treasury	1.25%	1.25%	1.30%	1.30%	1.45%
10 Year Treasury	1.75%	1.75%	1.80%	1.85%	1.90%
GDP (Annual)	1.25%	1.50%	1.50%	1.75%	1.85%
US Unemployment	5.00%	4.95%	4.95%	5.00%	5.00%
CPI X – YOY	2.20%	2.20%	2.20%	2.40%	2.50%

Using our Economic Forecast for your Portfolio Management:

Managing your bond portfolio is a substantial key to your economic success.To properly manage your portfolio we need to carefully understand your Asset Liability Management (ALM) position. By using your ALM data, your portfolio will be designed to optimize your interest rates risk position and your earnings.

Contact Us

Contact your McQueen Financial Advisor to discuss positions to improve earnings today.

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.

Products and Services

McQueen Financial Advisors, provides the following services to financial institutions throughout the country:

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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