

City of Stevenson

Washington Federal

Market Update

October 2019

Washington Federal

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The Bank's Key Financial Metrics

	Fiscal YE 2017	Fiscal YE 2018	Notes
Earnings	\$173,532,000	\$203,850,000	Record annual earnings for 2018
Total Assets	\$15.3 Billion	\$15.9 Billion	\$612 million YOY increase (or 4.0%)
Net Loans Receivable	\$10.8 Billion	\$11.4 Billion	\$654 million YOY increase (or 6.0%)
Non Performing Assets	0.46%	0.44%	\$11.1 million in net recoveries of loans (not charge offs)
Delinquency on Loans	0.40%	0.42%	Allowance for loan losses total \$136.5 million
Deposits	\$10.8 Billion	\$11.4 Billion	\$552 million YOY increase (or 5.1%)
Dividend	\$0.15 per share	\$0.18 per share	142 th consecutive quarterly dividend (35 years)
Net Interest Income	\$432 Million	\$472 Million	\$40.2 million YOY increase (or 9.3%)
Net interest Margin	3.13%	3.27%	Net interest margin is a metric used to measure the effectiveness a Bank's lending decisions (3% + is an industry average)
Tier 1 Common Capital Ratio	6/30/18 8th out of Top 100	14.81%	The Tier 1 common capital ratio is utilized by regulators and investors because it shows how well a bank can withstand financial stress and remain solvent

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Rate Environment

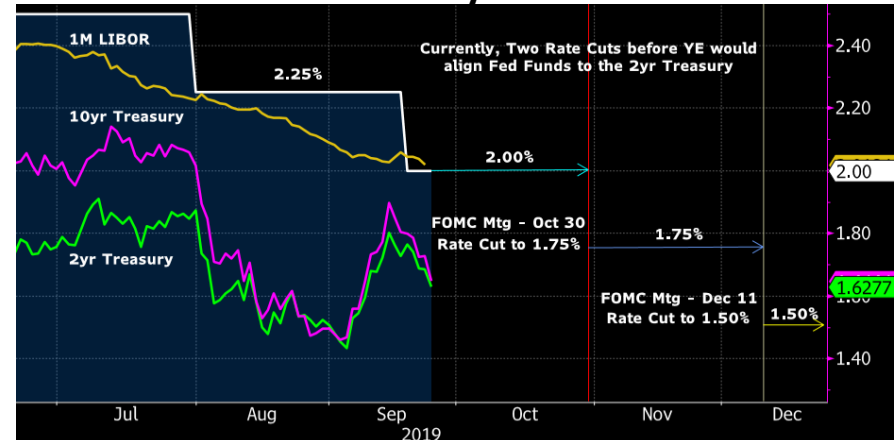
- Economy – Actual vs. Target
 - Unemployment – 3.7% (CBO target 4.6%).
 - Core PCE (Inflation) – 1.58% (FOMC target is 2.0%).
 - GDP – 2.0% (SF Fed Long Trend Estimate 1.75%).
 - We are 6 rate cuts away from ZLB (aka ELB).
- The Next FOMC Meeting will be October 29 & 30.
 - **Analysts** say we'll see 1-more rate cut (in Oct or Dec).
 - The **Market** says the chance of an Oct rate cut is 62%.
- FOMC Disagreement means Uncertainty for Short Term Rates.
 - 9/18/19 – FOMC announces 25bps cut in Fed Funds Rate.
 - 9/18/19's Dot Plot shows the median projection for Fed Funds in 2020 is 1.90%, which means a rate hike in 2020.
 - 9/20/19, St. Louis Fed's Bullard says, "In my view, lowering the target range by 50bps ... would have been a more appropriate action."
 - Boston Fed's Rosengren voted against the rate cut and said in a speech on 9/20/19 that such accommodation in a robust economy is unusual and one potential cost, "is that very low rates can encourage households and firms to take excessive risks."
 - Only two more FOMC meetings before the 2020 voters, who might be a little less apt to cut rates, have their say.

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Fed Funds, 1M LIBOR & 2/10 Treasury



The Future – One of Many Possibilities



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Scenarios – Rates are INDICATIVE only & are neither FIRM nor BINDING

Options - Structure & Term				Borrowing Rates - Tax Exempt					5-Week Average	Today vs. Avg	5-Week Change	
Maturity	Product	Rate Type	Rate Reset	9/10/19	9/17/19	9/24/19	10/1/19	10/8/19				
1 Year	Line of Credit	Floating	Monthly	3.38	3.38	3.36	3.36	3.31	3.36	↓	(0.05)	(0.07)
	Line of Credit	Fixed	n/a	3.07	3.17	3.14	3.14	3.01	3.11	↓	(0.10)	(0.06)
	Term Loan	Fixed	n/a	3.07	3.17	3.14	3.14	3.01	3.11	↓	(0.10)	(0.06)
3 Years	Line of Credit	Floating	Monthly	3.38	3.38	3.36	3.36	3.31	3.36	↓	(0.05)	(0.07)
	Line of Credit	Fixed	n/a	2.64	2.75	2.71	2.73	2.57	2.68	↓	(0.11)	(0.07)
	Term Loan	Fixed	n/a	2.64	2.75	2.71	2.73	2.57	2.68	↓	(0.11)	(0.07)
5 Years	Line of Credit	Floating	Monthly	3.38	3.38	3.36	3.36	3.31	3.36	↓	(0.05)	(0.07)
	Line of Credit	Fixed	n/a	2.61	2.74	2.69	2.72	2.55	2.66	↓	(0.11)	(0.06)
	Term Loan	Fixed	n/a	2.61	2.74	2.69	2.72	2.55	2.66	↓	(0.11)	(0.06)
10 Years	Term Loan	Fixed	n/a	2.65	2.77	2.70	2.73	2.58	2.69	↓	(0.10)	(0.06)
	Draw to Term (2yr Draw Period)	Fixed	n/a	2.65	2.77	2.70	2.73	2.58	2.69	↓	(0.10)	(0.06)
20 Years (1)	Term Loan	Fixed	n/a	2.67	2.80	2.73	2.76	2.61	2.71	↓	(0.10)	(0.06)
	Draw to Term (2yr Draw Period)	Fixed	n/a	2.67	2.80	2.73	2.76	2.61	2.71	↓	(0.10)	(0.06)
30 Years (1)	Term Loan	Fixed	n/a	2.69	2.81	2.73	2.77	2.62	2.72	↓	(0.10)	(0.06)
	Draw to Term (2yr Draw Period)	Fixed	n/a	2.69	2.81	2.73	2.77	2.62	2.72	↓	(0.10)	(0.06)

(1) At 10 year intervals, the interest rate will be reset, according to a pre-determined formula. The facility is callable at each rate reset date.

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Credit Facilities

- **Draw to Term Loan**

- Best of both worlds.
- A line of credit and a term loan wrapped into one.
- Short-term liquidity that turns into a term loan.
- At the end of the draw period, the principal repayment begins, although the commitment can be reduced to the actual amount borrowed, which helps when there is cost uncertainty at the beginning of the project.
- Reduce Costs with ...
 - Flexible commitment.
 - Gradual draws instead of the amount being fully funded at closing.
 - A fixed rate.

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Credit Facilities

Draw Period

- Draw Period – ability to draw when funds needed.
- The draw period functions like a line of credit.
- Interest only during the draw period.
- No unused fee.
- Up to a 3-year draw period is possible.
- Fixed Interest Rate during draw period.
- At the end of the draw period, if the full commitment amount hasn't been drawn, the amortization schedule can be adjusted to what was actually drawn and used for the projects.
 - For example: If the City had \$5 million available on the Draw to Term Loan and only used \$4 million, the amortization schedule would be set up for \$4 million and the remaining \$1 million of the commitment would be released back to the bank.

Date	Draw to Term - Draw Period				
	Amount	Term	Rate (Estimated)		
	1,500,000	3	2.61%		
2020	Draw	Prin Outstan	Rate	Monthly Int	Int Total
Jan	0	0	2.61%	0	0
Feb	0	0	2.61%	0	0
Mar	0	0	2.61%	0	0
Apr	0	0	2.61%	0	0
May	0	0	2.61%	0	0
Jun	350,000	350,000	2.61%	761	761
Jul	0	350,000	2.61%	761	1,523
Aug	0	350,000	2.61%	761	2,284
Sep	0	350,000	2.61%	761	3,045
Oct	0	350,000	2.61%	761	3,806
Nov	0	350,000	2.61%	761	4,568
Dec	0	350,000	2.61%	761	5,329
	350,000			5,329	5,329
2021	Draw	Prin Outstan	Rate	Monthly Int	Int Total
Jan	0	350,000	2.61%	761	761
Feb	0	350,000	2.61%	761	1,523
Mar	0	350,000	2.61%	761	2,284
Apr	0	350,000	2.61%	761	3,045
May	350,000	700,000	2.61%	1,523	4,568
Jun	0	700,000	2.61%	1,523	6,090
Jul	0	700,000	2.61%	1,523	7,613
Aug	0	700,000	2.61%	1,523	9,135
Sep	0	700,000	2.61%	1,523	10,658
Oct	0	700,000	2.61%	1,523	12,180
Nov	0	700,000	2.61%	1,523	13,703
Dec	0	700,000	2.61%	1,523	15,225
	350,000			15,225	15,225
Total	700,000			20,554	20,554
2022	Draw	Prin Outstan	Rate	Monthly Int	Int Total
Jan	0	700,000	2.61%	1,523	1,523
Feb	0	700,000	2.61%	1,523	3,045
Mar	0	700,000	2.61%	1,523	4,568
Apr	0	700,000	2.61%	1,523	6,090
May	800,000	1,500,000	2.61%	3,263	9,353
Jun	0	1,500,000	2.61%	3,263	12,615
Jul	0	1,500,000	2.61%	3,263	15,878
Aug	0	1,500,000	2.61%	3,263	19,140
Sep	0	1,500,000	2.61%	3,263	22,403
Oct	0	1,500,000	2.61%	3,263	25,665
Nov	0	1,500,000	2.61%	3,263	28,928
Dec	0	1,500,000	2.61%	3,263	32,190
	800,000			32,190	32,190
Total	1,500,000			52,744	52,744

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Credit Facilities

- **Term Loan Period – w/ a 20 Year Maturity**
 - Traditional Amortization – Annual Principal.
 - Semi-Annual Interest (dates are flexible).
 - Call provisions can be placed at any point.
 - Maturity can be 10, 20 or 30 years.
 - Usually there are prepayment penalties.
 - Interest Rates can only be fixed for 10 years.
 - Fixed interest rate for 1st 10 years, including the draw period – rate reset at year 11.
 - Most bonds are called at 10 years.
 - Only pay interest on advanced amounts.
 - Debt Service Coverage Requirement – 1.25x
 - Reserve Requirement – 10% of original principal amount.

Date	Draw to Term				
	Amount	Term	Rate (Estimated)	City Attorney Fee	Bank Attorney Fee
	1,500,000	20	2.61%	10,000	5,000
	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Balance</u>
2020	0	2.61%	5,329	5,329	1,500,000
2021	0	2.61%	15,225	15,225	1,500,000
2022	78,947	2.61%	39,150	118,097	1,421,053
2023	78,947	2.61%	37,089	116,037	1,342,105
2024	78,947	2.61%	35,029	113,976	1,263,158
2025	78,947	2.61%	32,968	111,916	1,184,211
2026	78,947	2.61%	30,908	109,855	1,105,263
2027	78,947	2.61%	28,847	107,795	1,026,316
2028	78,947	2.61%	26,787	105,734	947,368
2029	78,947	2.61%	24,726	103,674	868,421
2030	78,947			78,947	789,474
2031	78,947			78,947	710,526
2032	78,947			78,947	631,579
2033	78,947			78,947	552,632
2034	78,947			78,947	473,684
2035	78,947			78,947	394,737
2036	78,947			78,947	315,789
2037	78,947			78,947	236,842
2038	78,947			78,947	157,895
2039	78,947			78,947	78,947
2040	78,947			78,947	0
	1,500,000		276,059	1,776,059	

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\$1,050,000

15 Year Term Loan

Land & Water Rights Purchase

2019

Washington Federal.
invested here.



\$5,000,000

Draw to Term
Substation Project

2019

Washington Federal.
invested here.



\$10,000,000

2 Year Fixed Rate LOC
Liquidity for Capital Projects

2019

Washington Federal.
invested here.



\$30,000,000

4 year Fixed Rate Line
Street and Water Projects

2018

Washington Federal.
invested here.



\$2,182,951

10 year Term Loan
Refinance & Capital Projects

2018

Washington Federal.
invested here.

Orcas Island
Health Care
District

\$1,050,000

Line of Credit & Draw to Term
Formation, Building Purchase

2018

Washington Federal.
invested here.



\$20,000,000

3 year Fixed Rate Line
Enloe Dam Electrification

2018

Washington Federal.
invested here.



\$1,294,000

15 Year Term Loan
Water & Sewer Projects

2017

Washington Federal.
invested here.

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Market Update

Washington Federal

- Founded in 1917 – 100 Years of Banking Experience
- Operate over 230 branches in 8 western states.
- Largest bank headquartered in Washington State
- Over \$15 billion in assets
- Corporate headquarters:
 - 425 Pike St, Seattle, WA.
- Three Lines of Business:
 - Retail Banking;
 - Commercial Banking;
 - Commercial Real Estate.



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