Strategies for a Rising Interest Rate Environment

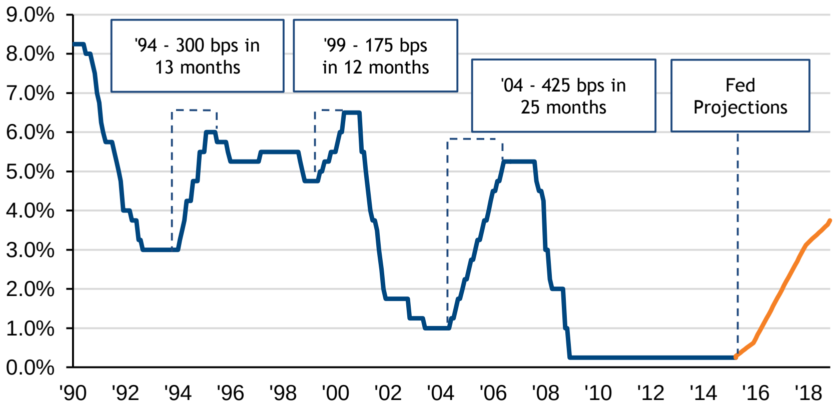
Current Rate Environment

Hedging Tools in the Toolkit

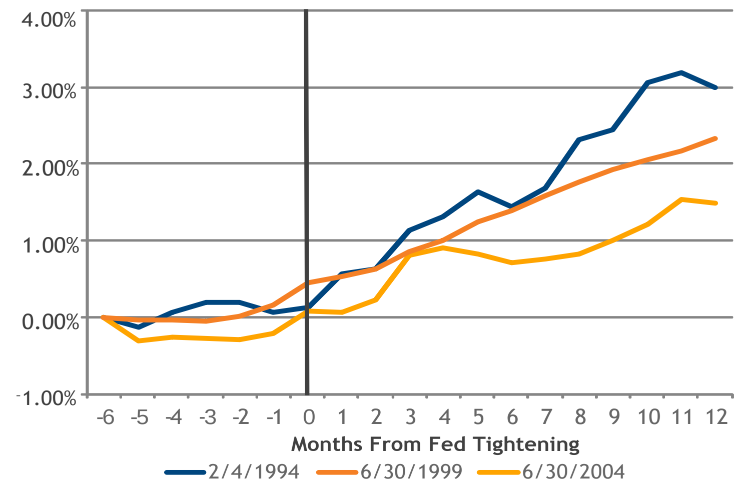
Application of the Tools – Case Study

Current Interest Rate Environment

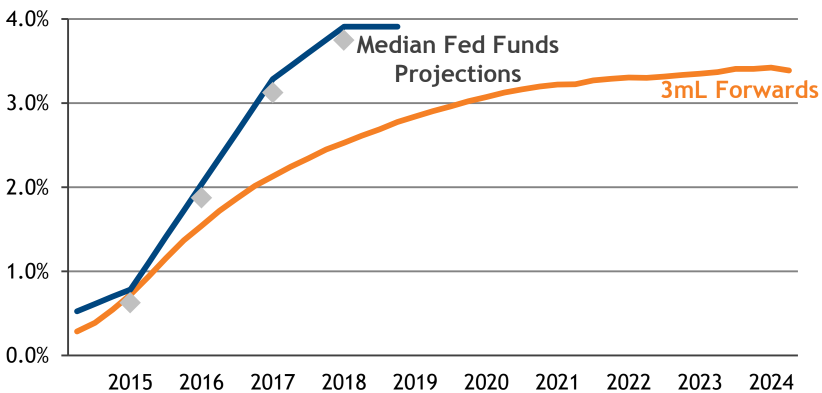
Fed Funds Target Rate with Last Three Tightening Campaigns



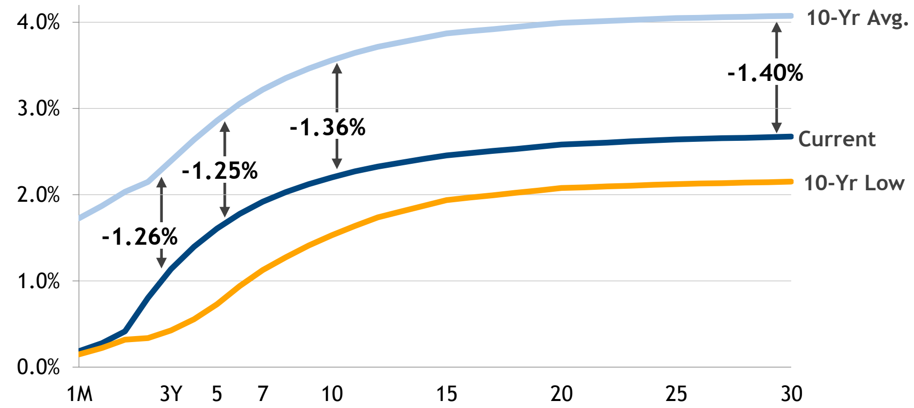
10-Yr Swap Rates During the Previous 3 Fed Tightening Cycles



Fed Projections versus LIBOR forward Curve[1]



Current Swap Curve vs. 10-Year Historical Low



Source: Bloomberg, Federal Reserve

[1]Follows the median of the Fed's Projections. Implied 1mL forward curve is for approximately four years from start date. Assumes 1mL trades 16 bps above the Fed Funds Rate (historical average since December 1984). Source: Bloomberg, Federal Reserve

SunTrust Robinson Humphrey

We are at the beginning of an interest rate tightening cycle

- **The Federal Reserve is approaching the start of a tightening cycle. It is not a question of if but a question of when it will begin . . .**
- **The previous three cycles have been steady, without much pause, ending at 5% to 6%**
- **There currently exists a "gap" between projections from the Fed and market-implied forwards**
- **Volatility has increased as markets gauge the timing and pace of rate increases**

10-Year Swap Rates Since January 2014

Source: Bloomberg, Federal Reserve
Indicative only - not a recommendation or an offer to deal. Rates are subject to change.
The Counterparty in all financial risk management transactions arranged by SunTrust Robinson Humphrey is SunTrust Bank.

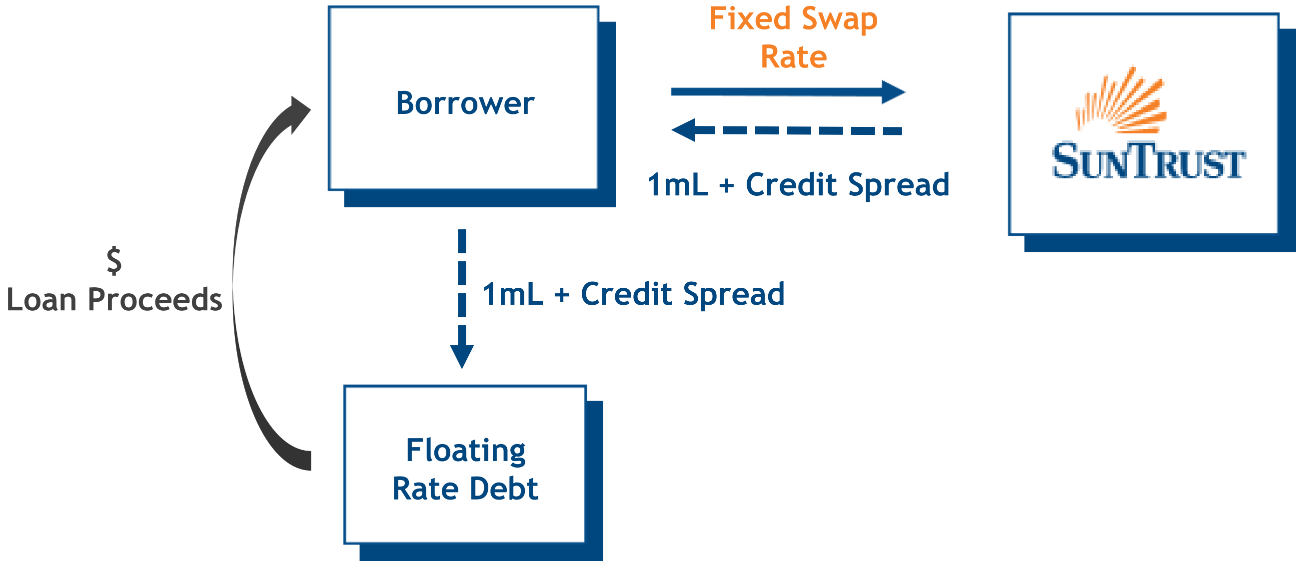
SunTrust Robinson Humphrey

STRATEGIES FOR A RISING INTEREST RATE ENVIRONMENT
– TOOLS IN THE TOOLKIT

Summary of Different Interest Rate Hedging Tools

Tools	Description	Cost?
Swaps	Hedge floating interest rate risk by creating a set of cashflows that result in a fixed borrowing rate	Bank return paid over time
Bullet Swap	Swap with a constant outstanding balance	Bank return paid over time
Step-up Swap	Swap with a notional amount that increases over time	Bank return paid over time
Forward Start Amortizing Swap	Swap that begins in the future with an outstanding amount that decreases over time. No cashflows until the loan begins	Bank return paid over time
Forward Start Cancellable Swap	Swap that begins in the future and offers the ability to terminate the swap contract at or after specified dates at a known or zero cost	Bank return paid over time
LIBOR Cap	Creates a maximum interest rate per period. Allows participation in current low LIBORs with a known worst-case	Paid upfront
Deffered Premum Cap	Cap where premium is paid over the term of the loan	Paid over time
LIBOR Collar	Creates a maximum interest rate per period in exchange for giving up ability to participate in current low LIBORS	Paid for by giving away upside
Variable Rate Forward Swap	Forward starting swap, no cash flows until loan begins. Rate is set at a later date between upper and lower bound	Paid for by giving away upside
Swaption	Borrower purchases the right to pay a fixed rate at a certain level at the start of the loan. Offers ability to fix rate at a lower level if available	Paid upfront or over time

Basic Swap Mechanics



Vanilla Swap

Loan:

- Borrower receives loan proceeds and pays variable interest

Swap:

- Borrower receives floating leg of swap, which matches the variable interest payment of the loan
- Borrower pays fixed leg of the swap, which is a fixed payment

Net Cash flows

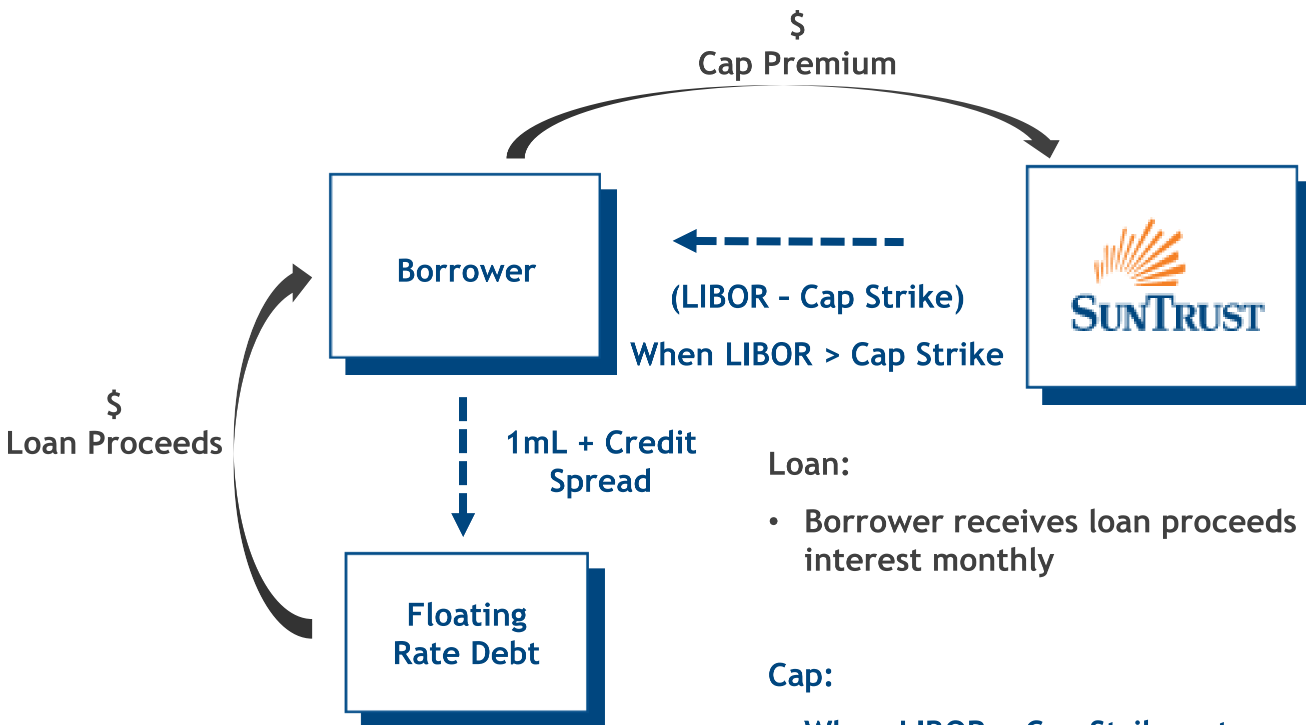
- The result is that borrower would be left with one payment - the fixed rate associated with the swap

Swaption

Client purchases the right to enter into a swap at a future date

- Borrower locks in worst case swap rate
- Borrower can enter into a lower swap rate if market swap rates have fallen

Basic Cap Mechanics



Loan:

- Borrower receives loan proceeds and pays variable interest monthly

Cap:

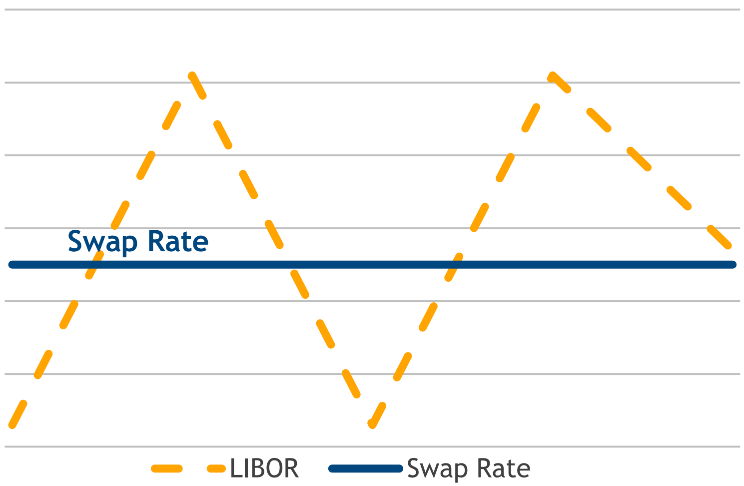
- When LIBOR < Cap Strike rate: no payment occurs
- When LIBOR > Cap Strike rate: SunTrust makes payment to borrower equal to LIBOR - Cap Strike

Net Cash flows

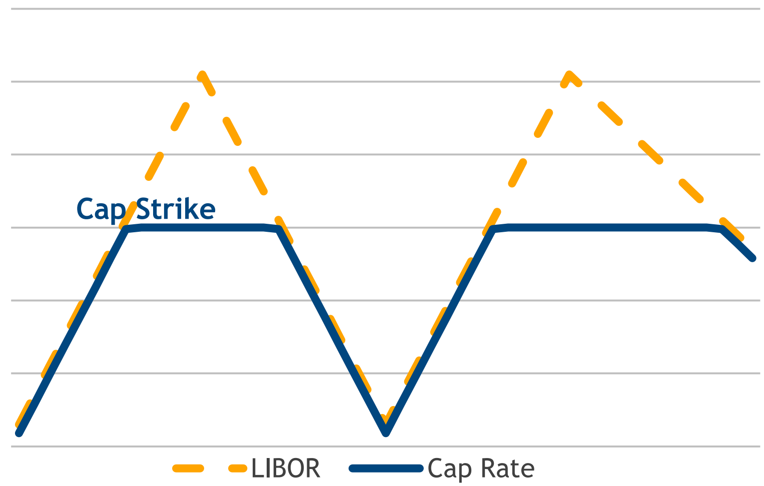
- The result is that the borrower's interest rate will not exceed the cap strike even when LIBOR increases above the cap strike

Interest Expense Profiles for Different Hedging Tools

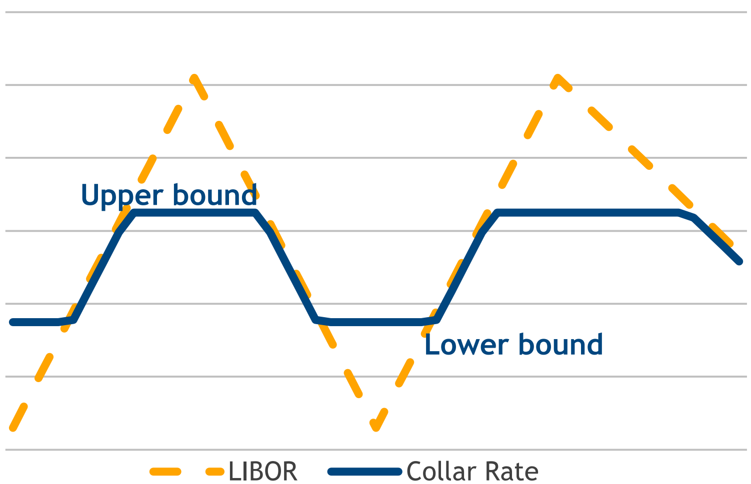
Swap



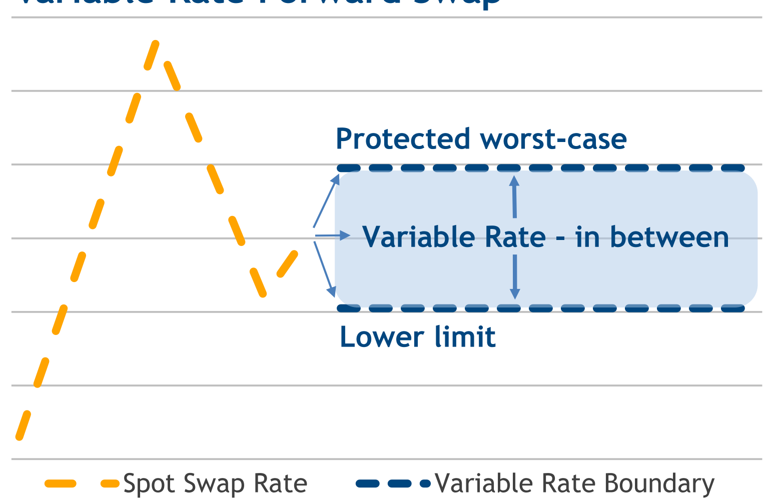
LIBOR Cap



LIBOR Collar



Variable Rate Forward Swap

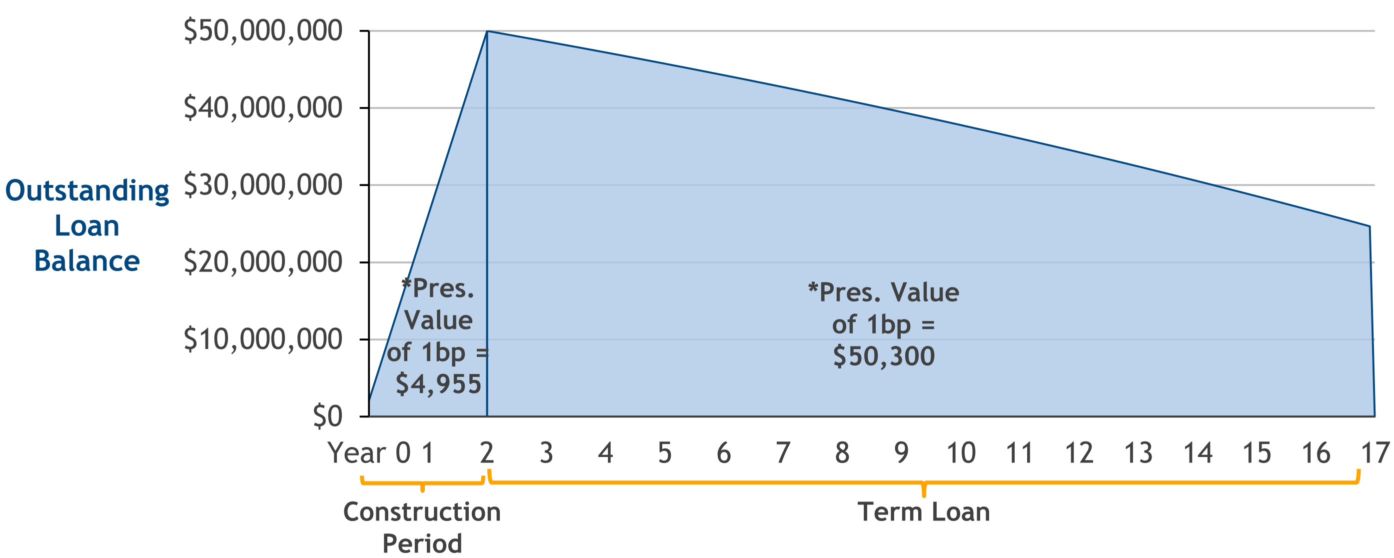


SunTrust Robinson Humphrey

Section 3
APPLICATION OF THE TOOLS - CASE STUDY

Consider a hypothetical Real Estate construction project . . .

Assumptions	
Notional	Accreting up to $50 million
Term	17 years: 2 year construction period followed by 15 year term loan period
Amortization	I/O during construction period, 25 years during term loan period
Floating Interest Rate	1-month LIBOR



A company is financing the construction of a new property

There will be a line of credit which will be drawn upon during the construction period of 2 years

At the end of the construction period, the total amount drawn will be refinanced by a term loan which has a 15 year term and a 25 year amortization schedule

The interest rate for both the LOC and the TL changes for each interest period based on 1-month LIBOR

This floating interest rate subjects the borrower to the risk that a rise in interest rates will have a negative impact on their bottom-line

The borrower would like to manage the risk of floating interest rates in both the initial construction period and the back-end term loan period

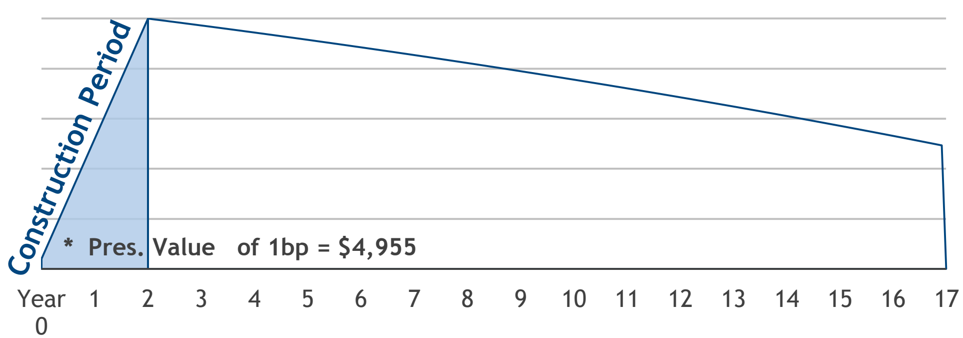
SunTrust Robinson Humphrey

Hypothetical Application of Tools - Construction Period

Swap		LIBOR Cap	Standard	Deferred Prem.	LIBOR Collar	
Swap Rate	1.04%	Strike Rate	1.25%	1.25%	Strike Rates	0.75% - 1.25%
		Cap Premium	$131,700	$131,700	(lower-upper)	
		bp/ann equiv cost[1]	0.27%	0.33%		
At Curr Mkt / LIBOR			*L+0.27% = 0.45%*	*L+0.33% = 0.51%*		*0.75%*
All-in Protected Rate			**1.52%**	**1.58%**		**1.25%**
Best Case			*unlimited*	*unlimited*		*0.75%*
Breakeven Rate [2]			*0.77%*	*0.71%*		*1.04%*

[1] Bp/ann equiv = the cost of the premium if paid for over time via a higher interest rate during the period in which the cap is in effect

[2] Breakeven Rate = the avg LIBOR which would result in a lower interest rate under the hedged scenario compared to a vanilla swap during the period



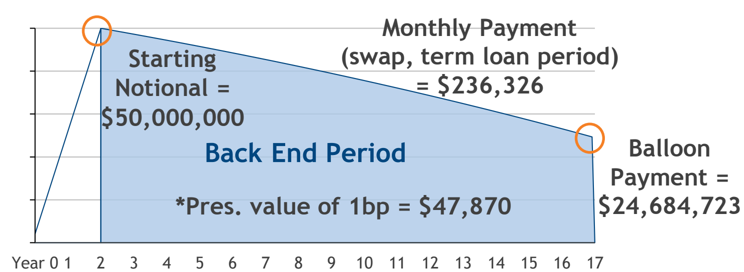
Hypothetical Application of Tools - Permanent Financing / Take-out

Swap		Cancellable Swap			Variable Rate Forward Swap		Swaption (Buy right to pay fixed in 2 yrs)		Deferred Premium LIBOR Cap	
Swap Rate	2.97%	Cancellable Swap Rate	3.25%	3.58%	Swap Rate	2.75% - 3.45%	Strike Rate	3.45%	Strike Rate	3.20%
							Premium	$1,720,000	Premium	$4,534,200
		**Option to Cancel*	*Year 10 (2027)*	*Year 5 (2022)*			bp/ann equiv cost[1]	0.36%	bp/ann equiv cost[1]	0.95%
At Curr Mkt/LIBOR						*2.97%*		*swap+0.36% = 3.33%*		*L+0.95%= 1.13%*
All-in Protected Rate	**2.97%**		**3.25%**	**3.58%**		**3.45%**		**3.81%**		**4.15%**
Best Case						*2.75%*		*unlimited*		*unlimited*
Breakeven Rate[2]						*2.97%*		*2.61%*		*2.02%*

[1] Bp/ann equiv = the cost of the premium if paid for over time via a higher interest rate during the period in which the cap/swaption is in effect

[2] Breakeven Rate = the avg LIBOR or swap rate below which the borrower would pay a lower interest rate under the given scenario compared to a vanilla swap

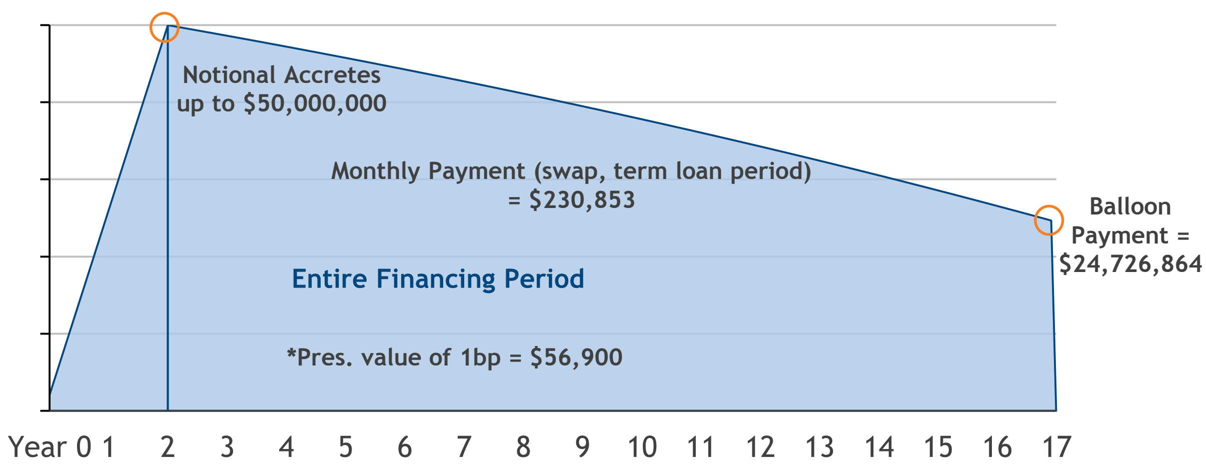
*The option provides the borrower the ability to cancel the swap at a known or zero cost



Hypothetical Application of Tools - Life of Financing

Construction Period Swap		Permanent Financing Swap		Blended Swap*	
Swap Rate	1.04%	Swap Rate	2.97%	Swap Rate	2.79%
All-in Protected Rate	**1.04%**		**2.97%**		**2.79%**

*The blended swap is a swap contract that covers the entire seventeen-year financing period (Construction and Permanent Periods). The blended swap rate would be the fixed rate during both the Construction and Permanent financing periods



Important Disclosures

THIS PRESENTATION DOES NOT CONSTITUTE AN OFFER TO ENTER INTO ANY "SWAP" WITHIN THE MEANING OF SECTION 1A(47) OF THE COMMODITY EXCHANGE ACT (WHICH WE REFER TO, ALONG WITH ANY "FOREIGN EXCHANGE SWAP" OR "FOREIGN EXCHANGE FORWARD", AS A "SWAP"). THIS PRESENTATION IS NOT A RECOMMENDATION THAT YOU ACT ON THE STRATEGIES OR TRANSACTIONS DESCRIBED HEREIN OR THAT YOU ENTER INTO A SWAP OR ANY TRADING STRATEGY INVOLVING A SWAP. ANY SUCH OFFER OR RECOMMENDATION, IF ANY, WILL ONLY OCCUR AFTER WE HAVE RECEIVED APPROPRIATE DOCUMENTATION FROM YOU REGARDING WHETHER YOU ARE QUALIFIED TO ENTER INTO A SWAP UNDER APPLICABLE LAW. IF SUNTRUST BANK MAKES A SWAP RECOMMENDATION OR OFFERS TO ENTER INTO A SWAP WITH YOU AFTER YOU HAVE QUALIFIED PURSUANT TO APPROPRIATE DOCUMENTATION, YOU SHOULD UNDERSTAND THAT *SUNTRUST BANK WILL BE ACTING IN ITS CAPACITY AS A COUNTERPARTY*.

Nothing in this document constitutes a "Research Report" within the meaning of CFTC Regulation 23.605(a)(9). **This document constitutes a solicitation within the meaning of CFTC Regulation 23.605(a)(9)(v) to potentially enter into a derivatives transaction upon satisfaction of all applicable legal requirements.**

This presentation does not constitute an offer to sell nor a solicitation of an offer to purchase any securities, a commitment to lend money, underwrite any proposed transaction, provide financing, arrange financing, or provide any other services. SunTrust Robinson Humphrey, Inc. and its representatives and affiliates make no representation and have given you no advice concerning the appropriate regulatory treatment, accounting treatment, or possible tax consequences of the proposed transactions described herein. Prior to entering into any proposed transaction, you should determine, without reliance upon SunTrust Robinson Humphrey, Inc. or its representatives or affiliates, the economic risks and merits, as well as the legal, tax, and accounting characteristics and consequences, of the transaction, and that you are able to assume these risks. These materials should not be relied upon for the maintenance of your books and records or for any tax, accounting, legal or other purposes.

All materials, including proposed terms and conditions, are indicative and for discussion purposes only. Finalized terms and conditions are subject to further discussion and negotiation and will be evidenced by a formal written agreement. Except as required by applicable law, we make no representation or warranty, express or implied, to you or to any person as to the content of the information contained herein. Opinions expressed herein are current opinions only as of the date indicated. Any historical price(s) or value(s) are also only as of the date indicated. We are under no obligation to update opinions or other information.

This presentation is for informational purposes only and is being furnished on a confidential basis. By accepting this information, the recipient agrees that it will use the information only to evaluate its potential interest in the general subject matter described herein and for no other purpose and will not divulge any such information to any other party. In connection with Treasury Regulation Section 1.6011-4, it is our mutual intent that the tax structure and tax treatment of the transactions described in this presentation are not confidential and that notwithstanding anything herein to the contrary that each of us (and our employees, representatives and agents) may disclose to any and all persons, without limitation of any kind, the tax structure and tax treatment of the transactions contemplated herein.

SunTrust Robinson Humphrey is the trade name for the corporate and investment banking services of SunTrust Banks, Inc. and its subsidiaries, including SunTrust Bank.

Foreign exchange, risk management products and services and agency services including derivatives products are provided by SunTrust Bank.

SunTrust Robinson Humphrey