

# My Thoughts on 2023

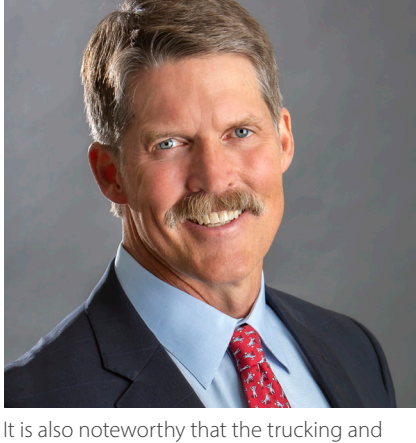
## ERIC HOVDE, CEO SUNWEST BANK

In the world of business and finance we do not always know what is coming around the corner—stock market surprises, geopolitical shock waves and Black Swan events will inevitably arise. Elite performers aim to thrive no matter how challenging the circumstances, which is why Sunwest Bank maintains a so-called “Fortress Balance Sheet” and keeps nearly double the loan reserves of our competitors. That means vastly safer deposits for our clients and allows us to lend to qualified entrepreneurs even during tough economic times.

Unfortunately, the frequency and intensity of negative economic surprises may worsen because, over the past few years, the U.S. government and Federal Reserve have pumped an unprecedented \$6.7 trillion dollars into the nation’s economy. For perspective consider this: Today U.S. Gross Domestic Product (GDP) is about \$25 Trillion. So we have spent more money in two and a half years, and added more debt (almost \$7 trillion) to the federal government’s balance sheet, than we did in the first 215 years of our country’s history. The massive spending binge is nearing its end but has resulted in the highest levels of inflation since the early 1980s.

If you are a middle-class or elderly person, then you are probably getting hammered right now. Grocery prices have shot up considerably, gas and energy prices have soared. Housing market prices skyrocketed, but due to the Fed’s aggressive efforts to tame inflation, asset values in the housing sector are starting to correct. The following comparison tells the story: If you took a medium Fannie May or Freddie Mac securitized mortgage of \$428,000 in 2021, you could have secured an interest rate of 2.98% and your monthly payment would have been \$1,800 dollars. In recent weeks, that same mortgage amount (30-year fixed but now at a 6.65% interest rate) means your monthly payment would be \$2,748. That translates into a greater than 50% increase in your monthly payment.

Since financing costs significantly impact home values, mortgage activity has stagnated. We are going to see low activity in the residential and the housing market for an extended period because many Americans are trapped in low, fixed-rate mortgages. Good for them. They got a real cheap mortgage but will probably be in that home for a long time.



It is also noteworthy that the trucking and transportation sectors have started to decelerate, and manufacturing has slowed. Searching for solutions, last August legislators and President Biden passed the Inflation Reduction Act of 2022. Now, I don’t know how spending more money—another \$437 billion—is going to reduce inflation, because the definition of inflation is too much money chasing a fixed amount of goods. Out-of-control spending has created a giant economic problem for us. Until we truly get to the heart of inflation and start changing some of our economic and energy policies, then we may enter a recession this year—and I think we will be stuck in this difficult slowdown for some time to come.

Is it all doom and gloom? Of course not. I like to be optimistic. Compared to much of Europe, our energy prices are a bargain, and the U.S. dollar has shown remarkable strength versus the euro and U.K. pound currencies. The U.S. is better economically positioned than most of Europe and Asia, and I always believe that the power of American entrepreneurship will help us eventually hurdle most obstacles in our path. I must emphasize, however, how important it is for entrepreneurs, businessowners, and investors to be extremely careful with their investments. Be conservative with your resources. Hopefully some of the information shared here will help others make smarter and wiser business decisions.

Times may indeed get tough, but adversity always produces opportunity. An old African proverb, later modified and popularized by President Franklin D. Roosevelt, advised that “Smooth seas do not make skillful sailors.” And the great Vince Lombardi famously taught, “Luck is what happens when preparation meets opportunity.”

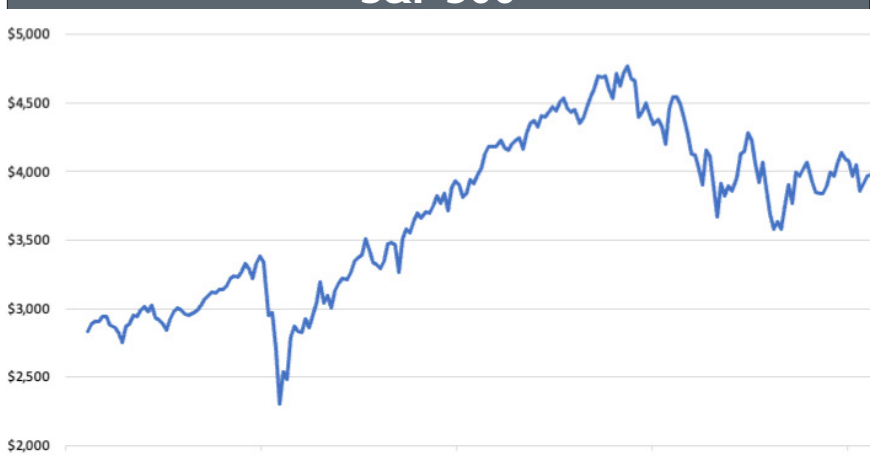
We at Sunwest Bank are grateful to be a bank serving industrious entrepreneurs like you, who contribute immense growth and vitality to our communities. If you are interested in more of my analysis on the state of the US and global economies, which I delivered at our 13th Annual Economic Forum in Newport Beach, Calif., you can watch my presentation by clicking here: [YouTube](#)

## U.S. Bonds and Rates

BANK RATES	APRIL 28, 2023	MONTH AGO	YEAR AGO
WSJ Prime	8%	7.75%	3.50%
1 Month Term SOFR	4.83%	4.71%	0.31%
Overnight Fed Funds Rate	4.83%	4.57%	0.33%
Fed Funds Target	4.75-5.00%	4.50-4.75%	0.25-0.50%
30 Year Mortgage Fixed	6.32%	6.65%	4.67%
TREASURY RATES			
10 Year	3.28%	3.95%	2.56%
7 Year	3.30%	4.14%	2.67%
5 Year	3.31%	4.25%	2.70%
3 Year	3.51%	4.59%	2.71%
1 Year	4.38%	5.02%	1.72%
1 Month	4.66%	4.75%	0.21%
1-MONTH TERM SOFR SWAP RATES			
10 Year	2.95%	3.65%	2.30%
7 Year	2.97%	3.79%	2.36%
5 Year	3.06%	3.99%	2.44%
3 Year	3.34%	4.44%	2.53%

\*30 Year Mortgage as of 3.30.23 (Latest Freddie Mac Primary Mortgage Survey Release)

## S&P 500



## Commercial Solar Financial

### Why Sunwest Bank Advocates for Solar

#### CARSON LAPPETITO, PRESIDENT SUNWEST BANK



Sunwest Bank has become a large advocate and financier for solar. Clients increasingly approach us seeking information and education about the benefits of solar and renewable energy, and we see cost-saving opportunities for most of them. Much of the publicity around solar relates to clean energy and “going green,” but equally compelling are the economic and business continuity reasons for investing in solar and storage solutions. The use cases vary across different business types, but the two key drivers of investing in solar are lowering the overall cost of energy (particularly what are called “demand charges,” which occur when a business uses peak load during manufacturing or other energy intensive processes) or generating additional NOI for an investor real estate building by reselling power to your NNN tenants. Both of these cases create meaningful economic benefit for business owners and can create additional tax credits and depreciation to lower your tax obligations.

Sunwest solar financing and advisory business is already a leader for commercial solar nationwide and is committed to funding over \$200 million in projects annually with a special focus on California, Arizona, Nevada, Utah, Massachusetts, Illinois, Texas and Florida. The solar group offers a variety of product types to tailor each solution to our clients; A **Solar Loan**; a **Solar Lease**; and a **Purchase Power Agreement (PPA)**.

Solar loans allow a business or other borrower to own the solar system, generating energy cost savings and tax benefits. For a real estate investor, this allows the building owner to resell the solar power they generate to their tenants to produce additional NOI, as well as benefit from the lucrative tax credits. Capital for the solar system and installation is borrowed from Sunwest and paid back over time with interest. The cost of this financing can be lowered through 1st trust deed on the property rather than simply an equipment loan on the solar installation. Solar loans can

often deliver a 120% return of equity through tax credits and accelerated depreciation.

A Solar lease allows the business or other entity to generate energy cost savings with minimal initial capital outlay and a future option to purchase the solar system when it makes sense for the business. Leases also enable a real estate investor to operate a solar system and resell the solar power to their tenants with a minimal initial capital outlay. Leases do not have the same tax benefits of owning the system through a loan so they are more advantageous for businesses or real estate investors that do not have large federal tax obligations. However, Sunwest’s leases are structured with buyout options that allow lessees to own the system at a later date.

The third product type is a Power Purchase Agreement (PPA) which allows a business or building owner to purchase power from a solar system the Bank owns on the site of the property without a loan or lease payment. This product is similar to a lease structure, however, the business or building owner only pays for a set amount of power usage from the system at a mutually negotiated rate. Like the previous two options, a PPA reduces overall energy costs for a business and enables a building owner to resell power to its NNN tenants.

Renewable energy is not a fad and not just about driving clean energy utilization. Energy inflation and government incentives have made solar energy very attractive for an economic return, energy cost-savings, and clean electricity perspective. By 2035, 40% of the nation’s clean electricity could be supplied by solar and may climb to 45% by 2050 (source: U.S. Department of Energy Solar Energy Technologies Office).

We highly suggest evaluating a solar solution for your business or real estate properties in order to manage electricity cost, maximize lucrative government tax incentives and ensure continuity of power for your business. If you are in the market, I invite you to read more about Sunwest Bank’s solar financing solutions at: [SunwestBank.com/solar/](#)