Important Risk Disclosures
Past performance is no guarantee of future performance or results. From time to time the firm and/or its officers/employees have a position in the securities referred to herein and/or act as principal in securities referred to herein. For all types of debt securities, the sale prior to maturity may cause principal gain or loss. Securities have inherent risk, including credit, prepayment, extension and market risk.

• **Interest Rate Risk/Market Risk** - The market price of the bonds may move higher or lower depending on the prevailing market conditions and interest rates. (Sale of the bonds prior to maturity may cause principal gain or loss.)
  - The market value of debt securities will be inversely affected by movements in interest rates. When rates rise, market prices of existing debt securities fall as these securities become less attractive to investors when compared to higher coupon new issues. When interest rates fall, market prices on existing fixed income securities tend to rise because these bonds become more attractive when compared to the newly issued bonds priced at lower rates.

• **Credit Risk** – An issuer’s ability to make all interest and principal payments in full and on time. In addition, changes in laws or regulations or upgrades/downgrades of the issuer’s credit rating or other financial disclosures may have an impact on the market price of the bonds in the open market, which may cause a principal gain or loss if the bonds are sold prior to maturity.

• **Prepayment Risk** – The risk that a premium mortgage-backed security repays faster than expected and yields lower than expected
  - Prepayment speeds tend to accelerate in a declining interest rate environment. The payment of principal before it is expected to be due may cause a return of funds to be re-invested in a lower rate environment.
  - If actual prepayment speeds are faster than projected prepayment speeds, there will be a decrease in yield and a shorter average life.
  - If actual prepayment speeds are slower than projected prepayment speeds, there will be an increase in yield and a longer average life.

• **Extension Risk** – The risk that a discount mortgage-backed security repays slower than expected and yields lower than expected.
  - Prepayment speeds tend to slow in a rising interest rate environment. Investor’s principal may be committed longer than expected and the investor may miss the opportunity to earn a higher rate of interest on their money.
  - If actual prepayment speeds are faster than projected prepayment speeds, there will be an increase in yield and a shorter average life.
  - If actual prepayment speeds are slower than projected prepayment speeds, there will be a decrease in yield and a longer average life.

• **Duration Risk** - Duration risk is how much the price of your bond investment is likely to fluctuate when there is an up or down movement in interest rates. The higher a bond’s duration, the greater its sensitivity to interest rate changes. This means fluctuations in price, whether positive or negative, will be more pronounced. If you sell before maturity, the price you receive will be affected by the prevailing interest rates and duration. For instance, if interest rates were to rise by two percent from today’s low levels, a medium investment grade corporate bond (BBB, Baa rated or similar) with a duration of 8.4 (10-year maturity, 3.5 percent coupon) could lose 15 percent of its market value.
A similar investment grade bond with a duration of 14.5 (30–year maturity, 4.5 percent coupon) might experience a loss in value of 26 percent. The higher level of loss for the longer term bond happens because its duration number is higher, making it react more dramatically to interest rate changes.

**Agency Securities**
- Agency bonds are backed by the credit of the issuing agency and carry an implied guarantee from the United States Government.
- Bonds issued by Government-Sponsored Agencies (“GSE”s) are solely the obligation of their issuer and, unless explicitly stated, do not carry any guarantee by the federal government.
- Government agency backing only applies to the face value of the security, and not to any premium paid.
- Agency securities, including Agency MBS & CMO’s are exempt from registration under the Securities Exchange Act of 1933 and are “exempted securities” under the Securities Exchange Act of 1934.

**MBS**
Mortgage-Backed Securities and are not suitable for every investor. Mortgage-Backed Securities have inherent risk, including credit, pre-payment/extension and market risk as detailed above. Mortgage-Backed Securities are exposed to mortgage credit risk, which can have adverse consequences on the mortgages which make up the underlying portfolio. There could be a potential impact of continued adverse credit performance trends including, but not limited to, further national and regional declines in residential property values, weak economic conditions and high unemployment. Payment speeds are subject to continual change and changes will affect the resulting yield and average life.

For MBS purchased at a discount:
- If actual prepayment speeds are faster than projected prepayment speeds, there will be an increase in yield and a shorter average life.
- If actual prepayment speeds are slower than projected prepayment speeds, there will be a decrease in yield and a longer average life.

For MBS purchased at a premium:
- If actual prepayment speeds are faster than projected prepayment speeds, there will be a decrease in yield and a shorter average life.
- If actual prepayment speeds are slower than projected prepayment speeds, there will be an increase in yield and a longer average life.

**DUS**
DUS Balloons are a type of Mortgage-Backed Security (MBS) with unique prepayment features. Since each DUS Balloon has its own terms and conditions, it is necessary to understand all provisions and risks of the specific pool prior to purchase. In addition to the risk factors for MBS, DUS balloons are exposed to mortgage credit risk which can have adverse consequences on the mortgages which make up the underlying portfolio. If the underlying loan defaults, the investor receives return of principal at par and does not receive payment for any premium paid above par. The resulting yield may be less than anticipated. There could be a potential impact of continued adverse credit performance trends including, but not limited to, further national and regional declines in residential property values, weak economic conditions and high unemployment. NCUA classifies DUS bonds as commercial mortgage-backed securities; they are backed by multi-family mortgages of residential properties, such as apartment buildings, cooperatives, etc. with (5) or more units.

**Agency CMO**
Agency Collateralized Mortgage Obligations (CMOs) are complex financial instruments, and are not suitable for every investor. CMOs are exposed to mortgage credit risk, which can have adverse consequences on the mortgages which make up the underlying portfolio. There could be a potential impact of continued adverse credit performance trends including, but not limited to, further national and regional declines in residential property values, weak economic conditions and high unemployment. CMOs have inherent risk, including credit, pre-payment/extension and market risk as described in detail above.
Prior to investing in CMOs, the following factors should be considered

- If the security contains any guarantees or credit enhancement, the credit quality of the guarantor needs to be considered.
- The security type of underlying collateral, which can be found in offering documents such as a prospectus or offering circular.
- The quality of the security, and its underlying collateral.
- The level of activity in the secondary market should you need to sell the security before final principal prepayment.
- The estimated average life and final maturity, which should match one’s investment time frame, and also take into account of a faster or slower prepayment rate.
- The yield compared to other comparable types of investments, such as Treasury, corporate and municipal bonds (adjusted for tax considerations).
- The impact of changes in interest rates to the estimated yield and average life of the security, particularly in the case of specific CMO tranches.

Important information for CMO buyers can be found [here](#).

**Municipal Bonds**
Municipal Bonds entail the following types of risks as detailed above, including interest rate risk, market/systemic risk, and credit risk. In the event of a default by the municipal issuer, the investor can lose the entire principal amount invested. Purchasing or selling a Municipal Bond at a market discount (i.e., below par or the ‘adjusted issue price’ in the case of Original Issue Discount (“OID”) bonds) may have significant tax implications. Investors should consider these potential tax implications prior to investing in municipal bonds.

**Corporate Bonds**
Corporate Bonds entail the following types of risks as detailed above, including interest rate risk, market/systemic risk, and credit risk. In the event of a default by the corporate bond issuer, the investor can lose the entire principal amount invested.

**AFFILIATES**
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**Offering Documents**
Publicly available offering documents can be found [here](#).