



Hovde

Financial Institutions
Monthly Overview

Capital Markets
Economic Data Review
M&A Statistics

August 2009

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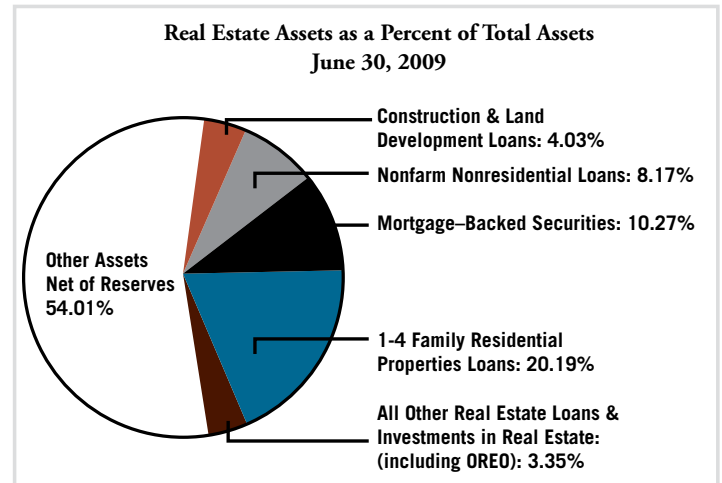
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*“There’s a world of difference between truth and facts.
Facts can obscure the truth.”*
—Maya Angelou

As we are on the verge of third quarter earnings, we thought it would be helpful now that we have been able to obtain all of the data to take a hard look at the reality of second quarter bank earnings in order to understand the trend line in earnings for the remainder of this year. To say the least, second quarter results were not pretty and continued to be ugly. However, the truth is that they also proved to be a “tale of two industries” when comparing the results for the money-center and some super-regional banks versus those of the smaller regional and community institutions. On the one hand, similar to what we discussed at great length in our [first quarter earnings commentary](#), the larger banks were once again able to “manufacture” earnings in the second quarter—albeit to a somewhat lesser extent this time—and, for the most part, to exceed consensus estimates on the strength of non-traditional banking revenues. On the other hand, regional and community bank earnings still underperformed, despite ratcheted-down sell-side earnings expectations, as loan growth was negative for a fourth consecutive quarter and as asset quality continued to deteriorate.

Perhaps the biggest difference between the first two quarters of this year was the fact that the ability to manufacture earnings—which was a key “earnings” driver in the first quarter—was no longer sufficient to offset the combination of credit deterioration and shrinking balance sheets. Consequently, during the second quarter of 2009, FDIC-insured financial institutions reported a total net loss of \$3.7 billion—an about-face from the \$7.6 billion in profits recorded during the first quarter and the \$4.7 billion gain a year earlier. Furthermore, earnings weakness was fairly widespread, as more than one in four institutions reported a net loss for the quarter and almost two out of every three had lower earnings versus a year earlier. The fact that the industry could only muster break-even results for the first half of this year (the average 6-month return on assets (ROA) was only 0.04%) following the “kitchen-sink” fourth-quarter write-downs, illustrates the severity of the toxic assets still residing on banks’ balance sheets. More importantly, because nearly 50% of all bank assets are tied to real estate, there potentially could be an estimated \$2 trillion worth of questionable assets that may have to be written down by the time this crisis has completely run its course.

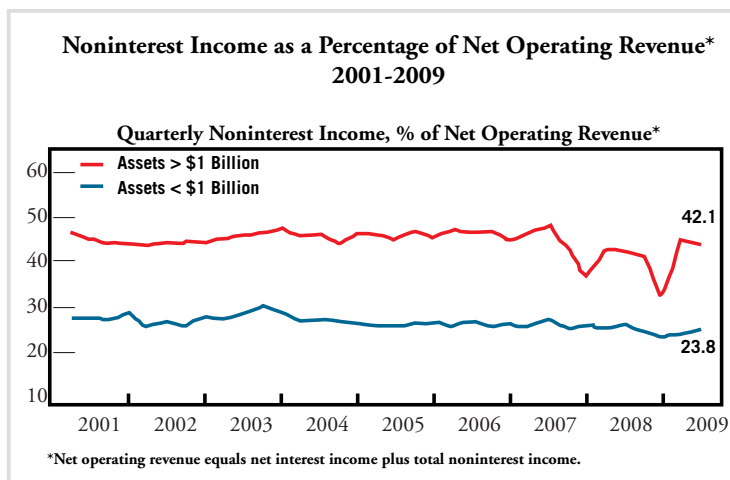


(Source: FDIC)

Not surprisingly, the main catalyst behind the red ink this quarter was an aggregate \$67 billion in loan-loss provisions, which constituted a 10% increase from the first quarter, and was mostly related to residential construction, non-prime mortgages, and credit card losses. However, there were also a number of lesser-known one-time items in the quarter—without which the industry’s reversal of fortune would have been much more pronounced. For starters, once again, the four mega-mergers that were induced by the federal government (i.e., Wells Fargo/Wachovia, Bank of America/Merrill Lynch, PNC/National City, J.P. Morgan Chase/Washington Mutual) were, again, allowed to write-up the assets they acquired to their most recent estimates of fair value—which by itself contributed \$1.5 billion to the industry’s second-quarter “earnings.” Results also included one-time gains from the sale of subsidiaries to joint ventures at three large banks totaling nearly \$22 billion. In addition, Morgan Stanley and Goldman Sachs—which are now officially considered to be bank holding companies—generated \$9.75 billion in trading revenues (an increase of more than \$3 billion from the first quarter). In fact, those two broker/dealers along with the four largest money-center banks, generated \$19.8 billion in investment banking, securities underwriting, securities brokerage, and venture capital revenues during the second quarter—an increase of \$7.9 billion relative to the first quarter. Additionally, the banking industry recorded roughly \$9.5 billion in gains this quarter from writing-up the value of various mortgage-related securities that had presumably been previously written-down to marks that management teams no longer felt were appropriate, even as mortgage delinquencies continue to skyrocket. Lastly, we would note

that the second quarter was especially kind to the large mortgage banks, as origination and sale volumes remained strong because of the flurry of refinancing activity that occurred when the government was able to drive mortgage rates below 5% earlier this year as well as the purchases by first-time home buyers seeking to cash in on the \$8,000 tax credit (which we discussed in more detail in the *July 2009 Monthly Overview*). In the meantime, the subsequent rise in the yield on 10-year Treasury notes allowed for the write-up of capitalized mortgage servicing rights, which in aggregate increased by nearly \$13 billion this quarter for the four largest banks.

Amazingly, despite this surge in mortgage banking activity, another strong quarter in trading and investment banking, and large rebounds in trust and asset management fees, noninterest income for the entire banking industry actually *declined* on a sequential basis by over 1%. And, while the larger institutions still benefitted from these non-traditional banking operations, their contributions from these revenue streams decelerated from the first quarter and will likely continue to drop off as we move through the second half of the year.



(Source: FDIC)

Similar to the first quarter, the average net interest margin (NIM) improved sequentially to 3.48% from 3.39% and rose from 3.37% a year earlier. Yet, only 57% of FDIC-insured institutions reported higher NIMs in the second quarter versus the previous period. And once again, most of the improvement seemed to occur at the larger banks, in part because of the reduction in their debt funding costs due to the FDIC's Term Liquidity Guarantee Program (TLGP)—the government's program geared towards aiding the larger banks by guaranteeing newly issued senior unsecured debt through 2012. In fact, this has been

such a windfall for the largest financial institutions that, according to a recent *Wall Street Journal* article, the eight largest issuers of corporate debt under the TLGP were able to cut their interest costs by about \$2.2 billion in the second quarter alone.

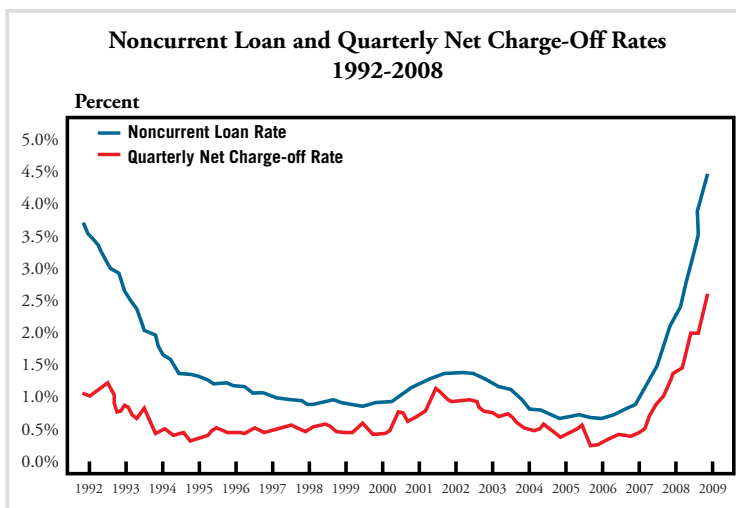
While there were one-time expenses, as well, the extent to which they offset the manufactured earnings was nominal. In fact the largest reversal this quarter was one we had discussed in last quarter's earnings piece: the marking of banks' own debt obligations to market, which had generated \$6 billion in pretax gains in the first quarter, this time resulted in \$15 billion in pretax losses. Also, the FDIC's special assessment totaled about \$4 billion, but its impact was felt across the board and not just at the largest companies. The only other unusual charge of any meaningful size (aside from the now all-too-common merger and restructuring charges) was a \$3.7 billion cost to consolidate asset-backed commercial paper conduits at one of the trust banks. For that matter, because there were only a handful of goodwill impairment charges this quarter, the reduction in those write-offs resulted in an approximate \$2.5 billion increase in pretax earnings versus the prior quarter. Lastly, while the quarter included TARP redemption charges of roughly \$1.3 billion incurred by the handful of banks that were able to exit the government's assistance plan, it is worth noting that the big banks generated after-tax gains of \$600 million from conversions of preferred shares to common stock.

The point behind this laundry list is twofold. First, it is important to realize that the wizards behind the curtain at the larger banks have likely run out of levers to pull, which means that earnings will start to look comparatively worse in the quarters to come. The one exception is that some will still be able to create capital by continuing to put in "negative bids" for FDIC transactions—well below the estimated fair value of the acquired assets. They will then be able to write-up these assets to fair value, thus instantly creating capital. However, some will end up overstating fair value to manufacture phantom capital and artificially boost capital ratios, which will eventually have to be reversed at some point down the road if/when losses exceed the assumptions baked into their valuation algorithms.

Second, although the markets were upbeat about the larger banks continued "improved" earnings, the headlines and commentary about the stability of the banking industry has been greatly overstated and has little to do with the scores of small banks that have traditionally emphasized

real-estate lending. Consequently, on the flip side of the coin, the earnings environment was quite different for the regional and community banks—in fact, 60% of the small-cap banks which KBW tracks missed their consensus estimates. Given that these companies do not possess the arsenal of non-traditional banking businesses as do their larger counterparts, they must instead rely almost exclusively on their spread banking business. Unfortunately, given the fact that a number of state and local economies have been ravaged by climbing unemployment levels, nearly-comatose consumers, and teetering small businesses, most community and regional banks continued to suffer as a result of the ongoing credit tsunami.

Although earnings performance varied widely again during the second quarter, one trend was very consistent across the entire industry: credit trends still remain under exceptionally high levels of pressure. After declining for the first time in nine quarters, net charge-offs (NCOs) resumed their ascent in the second quarter as they jumped by nearly 30% to \$48.9 billion and almost doubled from last year's \$26.4 billion tally. Predictably, this resulted in the NCO ratio surging to 2.55% from last quarter's 1.94%—blowing past the previous 25-year high of 1.95%, established during the fourth quarter of 2008.



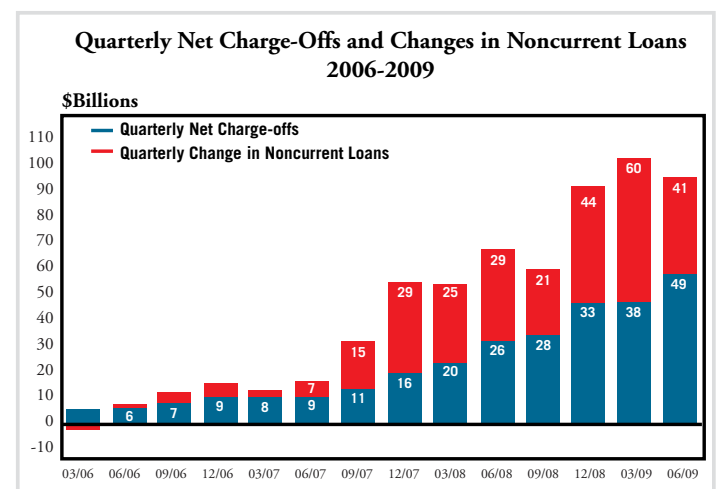
(Source: FDIC)

Moreover, the continued high level of NCOs did not stymie the growth of nonperforming assets and 90-day delinquencies (NPAs+90s), as they increased 14% (or \$48 billion) from the previous quarter and now account for just over 5% of all loans in the bank and thrift industry. At the same time, however, 30-89 day delinquencies declined by 10.5% (or \$16.6 billion), giving some investors what we believe is a false sense of confidence that the economy has turned.

	2009Q2	2009Q1	% Chg
NPA+90s	386,642,099	338,695,613	14.2%
NPA+90%	5.04%	4.34%	
30-89s	141,429,257	158,034,517	-10.5%
30-89%	1.85%	2.03%	
Charge-offs	51,676,253	40,277,078	28.3%
Recoveries	2,909,507	2,644,806	
Est'd NCO%	2.55%	1.94%	
LLR%	2.66%	2.36%	10.7%
Res Cov'g of NPA+90s	53%	54%	

(Source: SNL Financial, Hovde)

In fact, the 30-89 data tells another “tale of two industries” when stripping out the privately owned banks and looking closer at the credit trends of the publicly traded banks. This group, which accounted for 83% of the industry's loans also showed a 14% increase in NPA+90s and a similar 10.3% decrease in 30-89s. However, 71% of this decrease could likely be attributed to modified residential first mortgages (RFMs). With mortgage rates dipping below 5% in the second quarter, those homeowners who had heard of the Obama Administration's Homeowner Affordability and Stability Plan increasingly pressed lenders to provide them with relief via an extension of terms, a reduction in rate, or the outright forgiveness of principal. Were it not for this temporary recasting of loans (more than half of which will likely re-default according to current statistics), overall early stage delinquencies would essentially have been flat quarter-over-quarter. In other words, despite the write-off of \$46.5 billion in loans and the migration of another \$39 billion into the nonaccrual or 90-day delinquency categories, the bucket of new problem loans essentially almost refilled again.



(Source: FDIC)

The trends become even worse if we examine the numbers for more traditional publicly traded banks. When we exclude the results for the money-center, broker/dealer, trust, specialty finance and insurance companies, the NCO ratio drops to 2.08% (due to the lack of credit card charge-offs), but the growth in NPA+90s jumps to 18.2% sequentially, suggesting that the rate of credit deterioration in commercial loan portfolios is considerably worse at smaller public banks.

In terms of specific loan types, as declines in 30-89 day delinquencies were seen more or less across the board (as shown in the table further below), they, consequently, were misinterpreted as a sign of an improving credit environment. What many people do not realize is that a fair amount of these sequential improvements were largely due to the seasonally strong trends of the first quarter—as we expanded upon

in the *May 2009 Monthly Overview*—as well as second-quarter events such as the tail-end of tax refund mailings and the full impact of the spring home-selling season. Furthermore, what bolstered the seasonal effects during the first two quarters in 2009 versus other years was the additional liquidity derived from the government's efforts in its attempt to quell the ongoing credit crisis—funds which borrowers otherwise would not have had during typical years. Specifically, consumers had access to additional liquidity via the stimulus spending legislation (e.g., a \$250 additional payment for social security recipients and extended unemployment benefits), mortgage modifications (e.g., reduction in monthly payments), and the nationwide home foreclosure moratoriums (which ran from the end of November 2008 through the end of March 2009) as well as certain state and lender-imposed moratoriums which carried over through the early part of the year.

	2009Q2	2009Q1	% Chg	% Delinq
construc'n NPA+90s	84,561,863	72,039,626	17.4%	
construc'n 30-89s	15,311,092	20,112,364	-23.9%	
	<u>99,872,955</u>	<u>92,151,990</u>	8.4%	19.1%
multifam NPA+90s	8,186,680	6,543,615	25.1%	
multifam 30-89s	2,594,474	2,887,437	-10.1%	
	<u>10,781,154</u>	<u>9,431,052</u>	14.3%	5.1%
income property NPL+90s	19,554,852	14,687,535	33.1%	
income property 30-89s	7,615,451	9,115,703	-16.5%	
	<u>27,170,303</u>	<u>23,803,238</u>	14.1%	4.8%
owner-occ'd NPL+90s	11,751,994	9,490,739	23.8%	
owner-occ'd 30-89s	5,146,325	5,598,418	-8.1%	
	<u>16,898,319</u>	<u>15,089,157</u>	12.0%	3.2%
C&I NPL+90s	38,133,732	32,128,748	18.7%	
C&I 30-89s	12,466,097	14,259,750	-12.6%	
	<u>50,599,829</u>	<u>46,388,498</u>	9.1%	3.7%
HELOC NPL+90s	11,640,604	13,338,207	-12.7%	
HELOC 30-89s	8,346,301	10,333,051	-19.2%	
	<u>19,986,905</u>	<u>23,671,258</u>	-15.6%	3.0%
2nd lien NPL+90s	6,479,017	8,043,859	-19.5%	
2nd lien 30-89s	4,910,667	5,469,874	-10.2%	
	<u>11,389,684</u>	<u>13,513,733</u>	-15.7%	5.7%
RFM NPL+90s	130,108,013	113,343,259	14.8%	
RFM 30-89s	54,959,805	58,963,279	-6.8%	
	<u>185,067,818</u>	<u>172,306,538</u>	7.4%	10.2%
Card NPL+90s	13,211,122	13,005,281	1.6%	
Card 30-89s	10,472,079	11,153,681	-6.1%	
	<u>23,683,201</u>	<u>24,158,962</u>	-2.0%	6.5%
Auto/student/personal NPL+90s	9,556,400	9,116,328	4.8%	
Auto/student/personal 30-89s	14,720,093	14,524,180	1.3%	
	<u>24,276,493</u>	<u>23,640,508</u>	2.7%	3.6%
Autolease NPL+90s	23,300	24,791	-6.0%	
Autolease 30-89s	122,062	132,496	-7.9%	
	<u>145,362</u>	<u>157,287</u>	-7.6%	1.6%

Looking ahead to the third and fourth quarters, the banking industry will continue to be plagued by the ongoing declines in both the residential and the commercial real estate markets. As we discussed in our *July 2009 Monthly Overview*, with the exception of some non-auto related markets in the central U.S., we believe that the perceived stabilization in housing is just a function of government actions which are not sustainable over the next 12 months. Among the most recent evidence, ***an increasing number of delinquent mortgage holders are failing to bring their loans current, according to Fitch Ratings, as only 6.6% of prime borrowers are catching up with late payments (i.e., the “cure rate”)—compared to a 45% average from 2000 through 2006.*** Likewise, the cure rate for Alt-A and subprime mortgages declined to 4.3% and 5.3%, respectively, down from an average of over 30% and 19%, respectively, for the same period. Furthermore, with the foreclosure process now taking even longer—18 to 24 months on average, up from 15 months a year ago according to Amherst Securities Group—as a result of the aforementioned foreclosure moratoriums, banks will continue to face a tremendous uphill battle when it comes to the disposition of residential properties piling up on their balance sheets.

In addition, according to the Federal Reserve, the delinquency rate for commercial real estate loans was 7.9% as of the second quarter (up from 6.46% in the first quarter), as the contagion into this market has now become very clear. In fact, one of the reasons we believe

commercial real estate losses will be worse than many people expect is because a number of banks shifted their emphasis to commercial property loans (at the top of the market) when it became clear that residential lending was about to enter a long period of distress. Indeed, during 2008, while U.S. commercial banks and thrifts reduced their construction/land and residential mortgage portfolios by 6% and 5%, respectively, the growth rate of commercial real estate loans accelerated to just over 10%. Even thus far in 2009, that growth rate has only slowed to about 6.5%. Yet, with vacancy rates rising rapidly—the national average is now up to 18.1% versus 15.2% a year earlier—and rent rolls falling at retail centers, office buildings, and multifamily properties, the time bomb is ticking louder.

Again, while we do not take any pleasure in harping upon the challenges facing the banking industry and the overall economy, it is important to realize that the business environment for many financial institutions is still dire. Although we are pleased to see some small pockets of credit stabilization among the more conservative and healthier banks which sat out the reckless lending spree of 2002 to 2007, the truth remains that the overall health of the banking industry still remains in peril. As such, until financial institutions move swiftly and aggressively to address their respective credit problems, we fear that the current banking crisis will not end and the economy will likely suffer through a prolonged period of economic weakness, as banks continue to de-lever and restrict credit while their clients hoard cash and eschew capital investments.

Federal Reserve Aggregate Bank Data

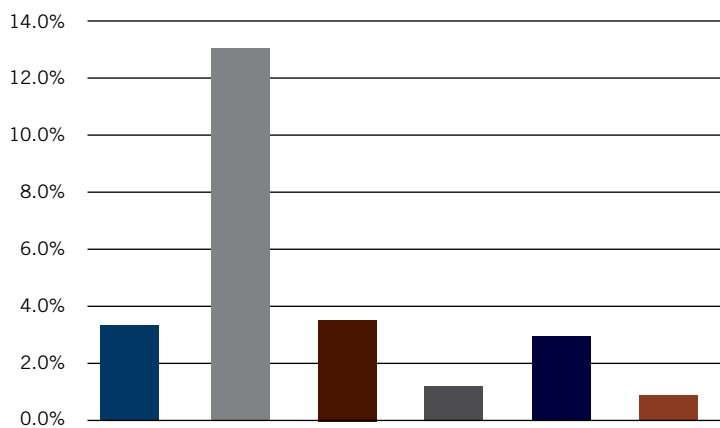
	7/2008	11/2008	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009	6/2009	7/2009	MoM	YoY
ASSETS												
Securities												
Secs in Bank Credit	2,486	2,726	2,064	2,113	2,134	2,166	2,184	2,210	2,259	2,280	0.9%	-8.3%
Treasury & Agency	1,116	1,261	1,240	1,269	1,259	1,273	1,262	1,266	1,300	1,324	1.8%	18.7%
Other	1,370	1,465	824	844	875	893	922	944	958	956	-0.3%	-30.3%
Loans and Leases												
C&I	1,514	1,596	1,619	1,602	1,587	1,563	1,544	1,527	1,504	1,489	-1.0%	-1.7%
Real Estate	3,624	3,784	3,820	3,803	3,818	3,828	3,834	3,882	3,868	3,840	-0.7%	6.0%
Consumer	839	876	862	871	882	874	863	863	860	850	-1.1%	1.3%
Other	635	645	954	909	895	866	845	876	860	801	-6.9%	26.1%
Other Assets	1,021	1,132	1,175	1,134	1,145	1,163	1,127	1,143	1,173	1,140	-2.8%	11.7%
Total Assets	11,043	12,100	12,264	12,179	12,031	12,085	12,054	12,151	12,024	11,869	-1.3%	7.5%
LIABILITIES												
Deposits												
Large Time	2,104	1,938	1,900	1,891	1,845	1,815	1,840	1,870	1,885	1,907	1.2%	-9.4%
Other	4,803	4,422	5,324	5,379	5,422	5,486	5,482	5,589	5,644	5,611	-0.6%	16.8%
Borrowings	2,331	2,600	2,456	2,403	2,429	2,440	2,407	2,420	2,361	2,246	-4.8%	-3.6%
Other Liabilities	674	845	454	447	439	442	429	437	464	452	-2.6%	-33.0%
Total Liabilities	9,839	10,910	11,050	10,969	10,795	10,814	10,813	10,887	10,809	10,639	-1.6%	8.1%
Residual (assets less liabilities)	1,204	1,190	1,214	1,211	1,236	1,271	1,242	1,264	1,215	1,231	1.3%	2.2%

all values in \$ billions

SOURCE: Federal Reserve Documents

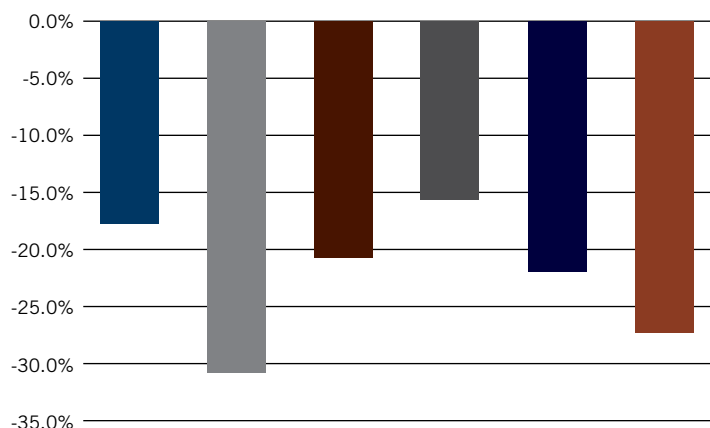
Major Market Index Performance

August 2009



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

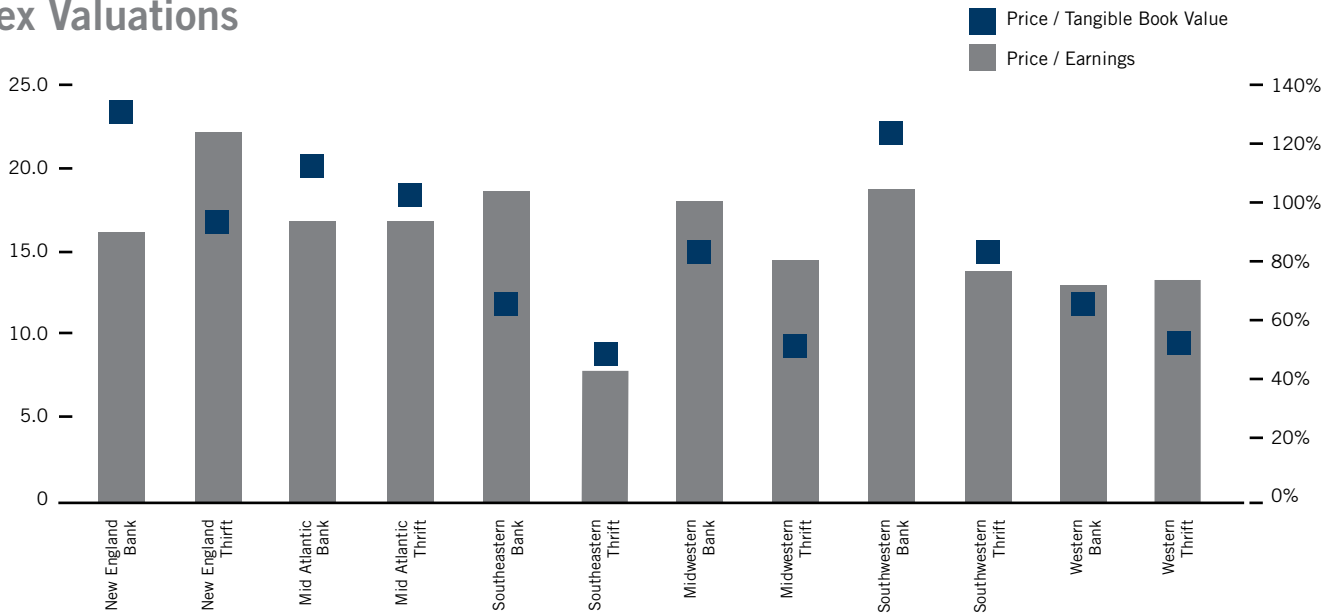
	9/2008	10/2008	11/2008	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009	6/2009	7/2009	8/2009
Dow Jones	-6.0%	-14.1%	-5.3%	-0.6%	-8.8%	-11.7%	7.7%	7.3%	4.1%	-0.6%	8.6%	3.5%
S&P Financial	-5.2%	-22.7%	-18.7%	-0.7%	-26.5%	-18.4%	17.7%	22.2%	13.1%	-2.2%	8.8%	12.9%
S&P 500	-9.1%	-16.9%	-7.5%	0.8%	-8.6%	-11.0%	8.5%	9.4%	5.3%	0.0%	7.4%	3.4%
NASDAQ	-11.6%	-17.7%	-10.8%	2.7%	-6.4%	-6.7%	10.9%	12.3%	3.3%	3.4%	7.8%	1.5%
Russell 2000	-8.1%	-20.9%	-12.0%	5.6%	-11.2%	-12.3%	8.7%	15.3%	2.9%	1.3%	9.5%	2.8%
NASDAQ Bank	4.0%	-7.3%	-8.8%	-1.2%	-21.8%	-11.9%	8.1%	5.1%	1.7%	-4.1%	8.4%	0.6%

SOURCE: Bloomberg, LLC

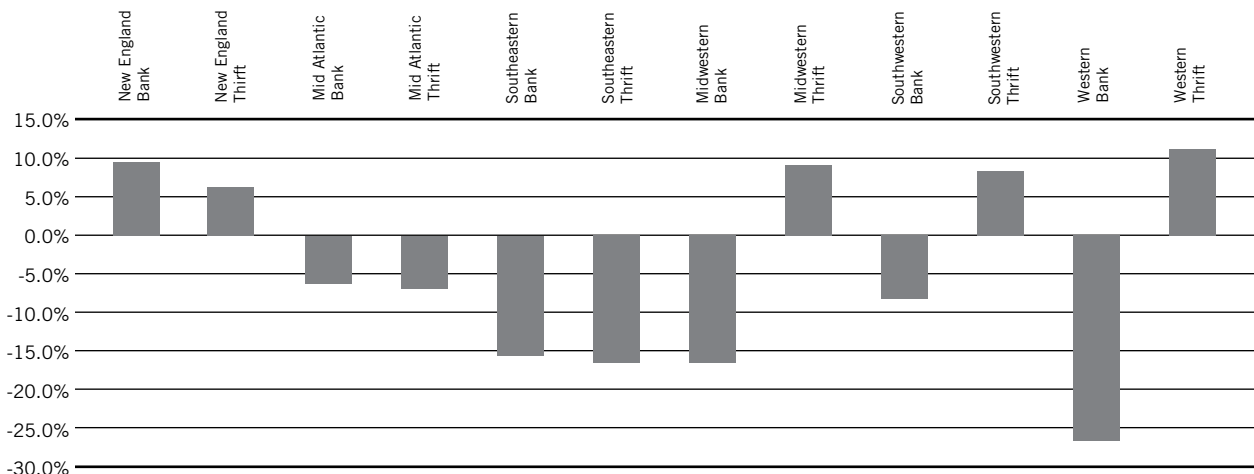
Bank and Thrift Index Valuations

		Price / Earnings		Price / Book Value		Price / TBV		Price Performance			Component Companies
		Weighted Avg	Median	Weighted Avg	Median	Weighted Avg	Median	1 Mo	YTD	12 Mo	
New England	Bank	8.5	15.6	130%	113%	195%	130%	2.4%	9.8%	-13.0%	20
	Thrift	25.7	22.5	93%	83%	118%	91%	-1.1%	6.0%	-15.4%	22
Mid Atlantic	Bank	21.9	16.6	104%	95%	188%	112%	2.2%	-5.5%	-27.0%	88
	Thrift	17.0	16.6	116%	93%	152%	101%	0.8%	-5.9%	-21.5%	54
Southeastern	Bank	11.5	18.1	79%	59%	118%	67%	-0.5%	-15.2%	-34.7%	117
	Thrift	1.8	7.8	68%	49%	70%	48%	1.7%	-16.7%	-37.9%	11
Midwestern	Bank	18.8	17.7	136%	67%	182%	88%	0.5%	-17.0%	-36.8%	86
	Thrift	13.2	14.4	132%	56%	136%	56%	-1.5%	8.5%	-31.3%	43
Southwestern	Bank	12.4	18.6	123%	103%	175%	128%	5.6%	-8.5%	-26.9%	20
	Thrift	12.9	13.8	134%	84%	136%	84%	-4.7%	7.9%	-9.9%	7
Western	Bank	7.1	13.0	91%	54%	72%	67%	3.5%	-26.3%	-43.2%	64
	Thrift	6.9	13.3	71%	44%	78%	54%	0.9%	11.5%	-26.7%	12

Index Valuations



YTD Price Performance



SOURCE: SNL Financial and Bloomberg, LLC

Economic Data Points - August 2009

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
8/3	ISM Manufacturing	JUL	46.5	48.9	44.8	--	8/14	CPI Ex Food & Energy (YoY)	JUL	1.60%	1.50%	1.70%	--
8/3	ISM Prices Paid	JUL	52	55	50	--	8/14	CPI Core Index SA	JUL	--	219.543	219.344	--
8/3	Construction Spending MoM	JUN	-0.50%	0.30%	-0.90%	-0.80%	8/14	Consumer Price Index NSA	JUL	215.489	215.351	215.693	--
8/3	Total Vehicle Sales	JUL	10.2M	11.3M	9.7M	--	8/14	Industrial Production	JUL	0.40%	0.50%	-0.40%	--
8/3	Domestic Vehicle Sales	JUL	7.4M	8.4M	7.2M	--	8/14	Capacity Utilization	JUL	68.30%	68.50%	68.00%	68.10%
8/4	Pending Home Sales MoM	JUN	0.70%	3.60%	0.10%	0.80%	8/14	U. of Michigan Confidence	AUG P	69	63.2	66	--
8/4	Pending Home Sales YoY	JUN	--	9.20%	4.60%	5.40%	8/18	Producer Price Index (MoM)	JUL	-0.30%	-0.90%	1.80%	--
8/5	Challenger Job Cuts YoY	JUL	--	-5.70%	-9.00%	--	8/18	PPI Ex Food & Energy (MoM)	JUL	0.10%	-0.10%	0.50%	--
8/5	ADP Employment Change	JUL	-350K	-371K	-473K	-463K	8/18	Producer Price Index (YoY)	JUL	-5.90%	-6.80%	-4.60%	--
8/5	ISM Non-Manf. Composite	JUL	48	46.4	47	--	8/18	PPI Ex Food & Energy (YoY)	JUL	2.80%	2.60%	3.30%	--
8/6	Initial Jobless Claims	1-Aug	580K	550K	584K	588K	8/18	Housing Starts	JUL	599K	581K	582K	587K
8/6	Continuing Claims	25-Jul	6291K	6310K	6197K	6241K	8/18	Building Permits	JUL	577K	560K	563K	570K
8/6	ICSC Chain Store Sales YoY	JUL	--	-5.00%	-5.10%	--	8/20	Initial Jobless Claims	15-Aug	551K	576K	558K	561K
8/7	Change in Nonfarm Payrolls	JUL	-325K	-247K	-467K	-443K	8/20	Continuing Claims	8-Aug	6223K	6241K	6202K	6239K
8/7	Unemployment Rate	JUL	9.60%	9.40%	9.50%	--	8/20	Mortgage Delinquencies	2Q	--	9.24%	9.12%	--
8/7	Change in Manufact. Payrolls	JUL	-100K	-52K	-136K	-131K	8/21	Existing Home Sales	JUL	5.00M	5.24M	4.89M	--
8/7	Average Hourly Earnings MoM	JUL	0.10%	0.20%	0.00%	--	8/21	Existing Home Sales MoM	JUL	2.10%	7.20%	3.60%	--
8/7	Average Hourly Earnings YoY	JUL	2.50%	2.50%	2.70%	--	8/25	S&P/CaseShiller Home Price Ind	JUN	--	141.86	139.84	139.91
8/7	Average Weekly Hours	JUL	33	33.1	33	--	8/25	S&P/CS Composite-20 YoY	JUN	-16.40%	-15.44%	-17.06%	-17.02%
8/7	Consumer Credit	JUN	-\$5.0B	-\$10.3B	-\$3.2B	-\$5.4B	8/25	Consumer Confidence	AUG	47.9	54.1	46.6	47.4
8/11	Nonfarm Productivity	2Q P	5.50%	6.40%	1.60%	0.30%	8/25	House Price Index MoM	JUN	0.40%	0.50%	0.90%	0.60%
8/11	Unit Labor Costs	2Q P	-2.50%	-5.80%	3.00%	-2.70%	8/25	House Price Purchase Index QoQ	2Q	-0.40%	-0.70%	-0.60%	-0.50%
8/11	Wholesale Inventories	JUN	-0.90%	-1.70%	-0.80%	-1.20%	8/26	Durable Goods Orders	JUL	3.00%	4.90%	-2.50%	-1.30%
8/12	Trade Balance	JUN	-\$28.7B	-\$27.0B	-\$26.0B	--	8/26	Durables Ex Transportation	JUL	0.90%	0.80%	1.10%	2.50%
8/12	Monthly Budget Statement	JUL	-\$180.0B	-\$180.7B	-\$102.8B	--	8/26	New Home Sales	JUL	390K	433K	384K	395K
8/12	FOMC Rate Decision	12-Aug	0.25%	0.25%	0.25%	--	8/26	New Home Sales MoM	JUL	1.60%	9.60%	11.00%	9.10%
8/13	Retail Sales Less Autos	JUL	0.10%	-0.60%	0.30%	0.50%	8/27	GDP QoQ (Annualized)	2Q S	-1.50%	-1.00%	-1.00%	--
8/13	Retail Sales Ex Auto & Gas	JUL	0.00%	-0.40%	-0.20%	-0.10%	8/27	GDP Price Index	2Q	0.20%	0.00%	0.20%	--
8/13	Import Price Index (MoM)	JUL	-0.50%	-0.70%	3.20%	2.60%	8/27	Core PCE QoQ	2Q	2.00%	2.00%	2.00%	--
8/13	Import Price Index (YoY)	JUL	-19.10%	-19.30%	-17.40%	-17.70%	8/27	Initial Jobless Claims	22-Aug	565K	570K	576K	580K
8/13	Initial Jobless Claims	8-Aug	545K	558K	550K	554K	8/27	Continuing Claims	15-Aug	6242K	6133K	6241K	6252K
8/13	Continuing Claims	1-Aug	6300K	6202K	6310K	6343K	8/28	PCE Deflator (YoY)	JUL	-0.90%	-0.80%	-0.40%	--
8/14	Consumer Price Index (MoM)	JUL	0.00%	0.00%	0.70%	--	8/28	PCE Core (MoM)	JUL	0.10%	0.10%	0.20%	--
8/14	CPI Ex Food & Energy (MoM)	JUL	0.10%	0.10%	0.20%	--	8/28	PCE Core (YoY)	JUL	1.40%	1.40%	1.50%	--
8/14	Consumer Price Index (YoY)	JUL	-1.90%	-2.10%	-1.40%	--	8/28	U. of Michigan Confidence	AUG F	64.3	65.7	63.2	--

SOURCE: Bloomberg, LLC

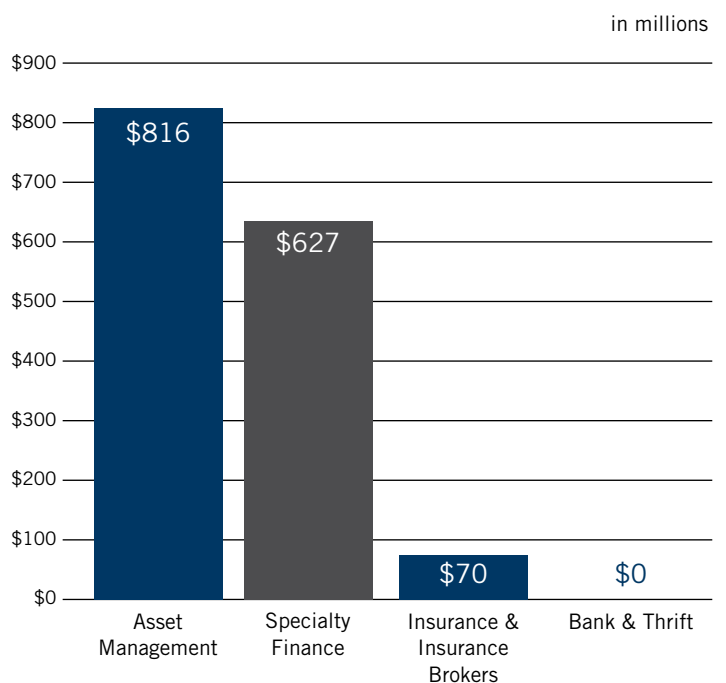
Economic Data Points - September 2009

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
9/1	ISM Manufacturing	AUG	50.5	52.9	48.9	--	9/15	Retail Sales Ex Auto & Gas	AUG	0.00%	0.60%	-0.40%	--
9/1	ISM Prices Paid	AUG	57.8	65	55	--	9/16	Consumer Price Index (MoM)	AUG	0.30%	0.40%	0.00%	--
9/1	Construction Spending MoM	JUL	0.00%	-0.20%	0.30%	0.10%	9/16	CPI Ex Food & Energy (MoM)	AUG	0.10%	0.10%	0.10%	--
9/1	Pending Home Sales MoM	JUL	1.50%	3.20%	3.60%	--	9/16	Consumer Price Index (YoY)	AUG	-1.70%	-1.50%	-2.10%	--
9/1	Pending Home Sales YoY	JUL	--	12.90%	9.20%	--	9/16	CPI Ex Food & Energy (YoY)	AUG	1.40%	1.40%	1.50%	--
9/1	Total Vehicle Sales	AUG	13.3M	14.1M	11.3M	--	9/16	CPI Core Index SA	AUG	--	219.692	219.543	--
9/1	Domestic Vehicle Sales	AUG	9.5M	10.2M	8.4M	--	9/16	Consumer Price Index NSA	AUG	215.62	215.834	215.351	--
9/2	ADP Employment Change	AUG	-250K	-298K	-371K	-360K	9/16	Current Account Balance	2Q	-\$92.0B	-\$98.8B	-\$101.5B	-\$104.5B
9/2	Nonfarm Productivity	2Q F	6.40%	6.60%	6.40%	--	9/16	Industrial Production	AUG	0.60%	0.80%	0.50%	1.00%
9/2	Unit Labor Costs	2Q F	-5.80%	-5.90%	-5.80%	--	9/16	Capacity Utilization	AUG	69.00%	69.60%	68.50%	69.00%
9/2	Minutes of Aug. 12 FOMC Meeting						9/17	Housing Starts	AUG	598K	--	581K	--
9/3	Initial Jobless Claims	29-Aug	564K	570K	570K	574K	9/17	Building Permits	AUG	583K	--	560K	564K
9/3	Continuing Claims	22-Aug	6130K	6234K	6133K	6142K	9/17	Initial Jobless Claims	12-Sep	555K	--	550K	--
9/3	ISM Non-Manf. Composite	AUG	48	48.4	46.4	--	9/17	Continuing Claims	5-Sep	6100K	--	6088K	--
9/3	ICSC Chain Store Sales YoY	AUG	--	-2.00%	-5.00%	--	9/22	House Price Index MoM	JUL	0.50%	--	0.50%	--
9/4	Change in Nonfarm Payrolls	AUG	-230K	-216K	-247K	-276K	9/23	FOMC Rate Decision	23-Sep	0.25%	--	0.25%	--
9/4	Unemployment Rate	AUG	9.50%	9.70%	9.40%	--	9/24	Initial Jobless Claims	19-Sep	--	--	--	--
9/4	Change in Manufact. Payrolls	AUG	-60K	-63K	-52K	-43K	9/24	Continuing Claims	12-Sep	--	--	--	--
9/4	Average Hourly Earnings MoM	AUG	0.10%	0.30%	0.20%	0.30%	9/24	RPX Composite 28dy YoY	JUL	--	--	-14.61%	--
9/4	Average Hourly Earnings YoY	AUG	2.20%	2.60%	2.50%	2.70%	9/24	RPX Composite 28dy Index	JUL	--	--	197.04	--
9/4	Average Weekly Hours	AUG	33.1	33.1	33.1	--	9/24	Existing Home Sales	AUG	5.33M	--	5.24M	--
9/9	Fed's Beige Book	3-Sep					9/24	Existing Home Sales MoM	AUG	1.60%	--	7.20%	--
9/10	Trade Balance	JUL	-\$27.3B	-\$32.0B	-\$27.0B	-\$27.5B	9/25	Durable Goods Orders	AUG	0.10%	--	4.90%	5.10%
9/10	Initial Jobless Claims	5-Sep	560K	550K	570K	576K	9/25	Durables Ex Transportation	AUG	0.80%	--	0.80%	1.10%
9/10	Continuing Claims	29-Aug	6200K	6088K	6234K	6247K	9/25	New Home Sales	AUG	440K	--	433K	--
9/11	Import Price Index (MoM)	AUG	1.00%	2.00%	-0.70%	--	9/25	U. of Michigan Confidence	SEP F	70	--	70.2	--
9/11	Import Price Index (YoY)	AUG	-15.90%	-15.00%	-19.30%	-19.20%	9/25	New Home Sales MoM	AUG	1.60%	--	9.60%	--
9/11	U. of Michigan Confidence	SEP P	67.5	70.2	65.7	--	9/29	S&P/CaseShiller Home Price Ind	JUL	--	--	141.86	--
9/11	Monthly Budget Statement	AUG	-\$139.5B	-\$111.4B	-\$111.9B	--	9/29	S&P/CS Composite-20 YoY	JUL	--	--	-15.44%	--
9/15	Producer Price Index (MoM)	AUG	0.80%	1.70%	-0.90%	--	9/29	Consumer Confidence	SEP	--	--	54.1	--
9/15	PPI Ex Food & Energy (MoM)	AUG	0.10%	0.20%	-0.10%	--	9/30	ADP Employment Change	SEP	--	--	-298K	--
9/15	Producer Price Index (YoY)	AUG	-5.30%	-4.30%	-6.80%	--	9/30	GDP QoQ (Annualized)	2Q T	-1.20%	--	-1.00%	--
9/15	PPI Ex Food & Energy (YoY)	AUG	2.20%	2.30%	2.60%	--	9/30	Personal Consumption	2Q	--	--	-1.00%	--
9/15	Advanced Retail Sales	AUG	1.90%	2.70%	-0.10%	-0.20%	9/30	GDP Price Index	2Q	--	--	0.00%	--
9/15	Retail Sales Less Autos	AUG	0.40%	1.10%	-0.60%	-0.50%	9/30	Core PCE QoQ	2Q	--	--	2.00%	--

SOURCE: Bloomberg, LLC

M&A Transaction Update

Announced Transactions - August 2009



SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - August 2009

Insurance & Insurance Brokerage	9
Asset Management & Broker/Dealer	6
Bank & Thrift	5
Specialty Finance	2

SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - 2009 YTD

Insurance & Insurance Brokerage	107
Bank & Thrift	65
Asset Management & Broker Dealer	64
Specialty Finance	29

SOURCE: SNL Financial, Bloomberg, Factiva

Financial Deal Alert

Hovde Financial is pleased to announce the signing of a merger agreement between two of its clients—Ukiah, California-based Savings Bank of Mendocino County (\$753.4 million in assets) and Bank of Willits (\$132.4 million in assets) of Willits, California. The merger combines two long-standing banking institutions that have proudly served their communities since the early 1900's. The terms of the transaction were not publicly disclosed.

Top Financial Advisors in Bank and Thrift Transactions

Last Five Years, Sell-Side Advisory Transactions

Rank	Firm	# of Deals
1	Sandler, O'Neill & Partners, L.P	101
2	Keefe, Bruyette & Woods, Inc.	95
3	Hovde Financial	78
4	Howe Barnes Hoefer & Arnett, Inc.	52
5	Stifel, Nicolaus & Company, Inc.	40
6	Sheshunoff & Co. Investment Banking LP	26
7	Austin Associates, LLC	19
8	Morgan Keegan & Company, Inc.	18
9	Professional Bank Services Inc.	17
10	Carson Medlin Company	16

SOURCE: SNL Financial (data from 8/31/2004-8/31/2009)

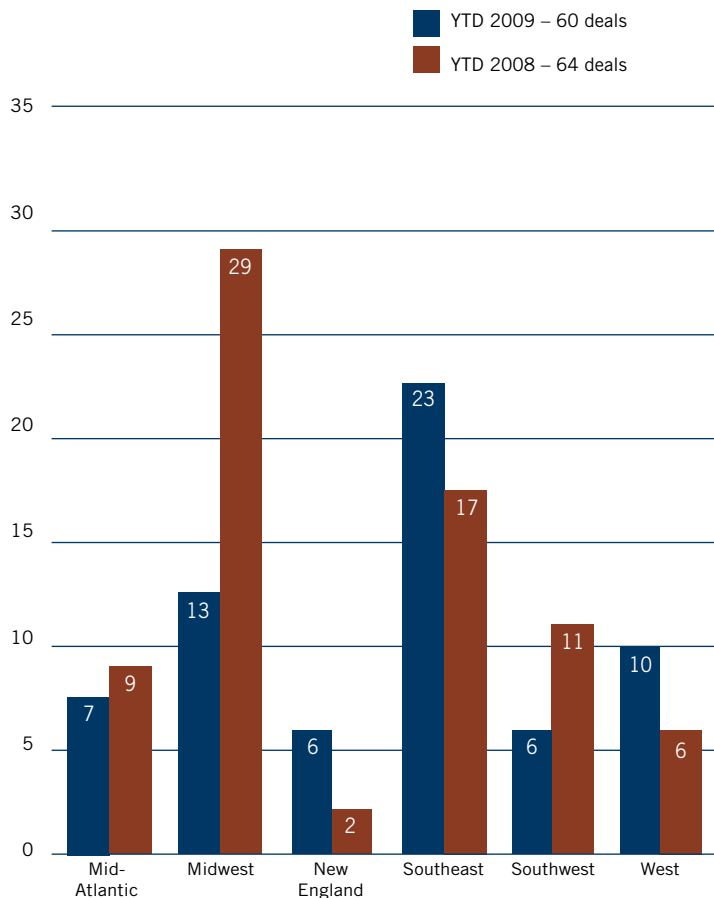
Bank & Thrift Transactions - August 2009

Buyer	Buyer State	Target	Buyer State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
Golden Pacific Bancorp, Inc.	CA	Gold Country Financial Services, Inc.	CA	8/6/09	NA	NA	NA	NA
First Farmers Financial Corporation	IN	C. B. Bank Shares, Inc.	IN	8/13/09	NA	NA	NA	NA
Edgar County Banc Shares, Inc.	IL	First National Bank of Gilman	IL	8/19/09	NA	NA	NA	NA
Savings Bank of Mendocino County	CA	Bank of Willits	CA	8/19/09	NA	NA	NA	NA
Klein Financial, Inc.	MN	Community Bank Plymouth	MN	8/28/09	NA	NA	NA	NA

SOURCE: SNL Financial

Bank & Thrift Transactions

by Region



SOURCE: SNL Financial

Deal Pricing by Region - 2009 YTD

Region	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
Mid-Atlantic	\$349	0.0	19.8	-3.3
Midwest	\$79	109.5	20.4	1.9
New England	\$119	118.6	NA	0.9
Southeast	\$310	85.9	19.8	1.7
Southwest	\$41	120.6	11.3	2.9
West	\$88	101.4	18.3	4.9
Total	\$985	88.1	18.1	1.5

SOURCE: SNL Financial

Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
1Q2007	\$21,007	265.3	26.8	22.9
2Q2007	\$30,841	229.3	26.5	16.4
3Q2007	\$9,324	215.3	26.2	17.9
4Q2007	\$11,660	197.6	23.5	11.9
1Q2008	\$5,093	190.3	26.9	12.4
2Q2008	\$1,855	197.3	30.1	8.4
3Q2008	\$27,195	149.9	25.9	9.0
4Q2008	\$1,680	123.0	32.6	2.1
1Q2009	\$278	93.0	18.8	-1.9
2Q2009	\$397	95.4	19.4	3.2
3Q2009	\$311	108.4	14.0	5.9

SOURCE: SNL Financial

Insurance and Insurance Brokerage Transactions - August 2009

Buyer	Target	Announced	DV (\$MM)
UMB Financial Corporation	Chapman-Sander Insurance Agency	8/6/09	NA
Demetriou General Agency, Inc.	H. Al Roth Agency, Inc.	8/10/09	NA
Randall & Quilter Investment Holdings Plc	R.K. Carvill & Company, Ltd.	8/12/09	NA
Assurant, Inc.	Group business of Shenandoah Life Insurance Co.	8/13/09	0.5
Edgewood Partners Insurance Center	Metro/Risk, Inc.	8/19/09	NA
First Horizon National Corporation	Sandlin Insurance Agency	8/27/09	NA
Brown & Brown, Inc.	Group employee benefits division	8/31/09	NA
Management group	Galloway-Chandler-McKinney Insurance Agency, Inc.	8/31/09	NA
Markel Corporation	Elliott Special Risks LP	8/31/09	69.2

SOURCE: Factiva, AM Best

Asset Management/Broker-Dealer Transactions - August 2009

Buyer	Target	Announced	DV (\$MM)
Prospect Capital Corporation	Patriot Capital Funding, Inc.	8/3/09	196.8
Sikich LLP	Levi Littell Herbst & Co.	8/11/09	NA
Bank of New York Mellon Corporation	Insight Investment Management Limited	8/12/09	387.8
Coil Investment Group AF	SSB Securities ASA	8/13/09	NA
Meredith Whitney Advisory Group, LLC	Seegal Benson Leucadia Securities, LLC	8/13/09	NA
Macquarie Group Limited	Delaware Management Holdings, Inc.	8/18/09	428.0
CEROS Holding AG	Rydex Financial Services division	8/28/09	NA

SOURCE: Factiva, Bloomberg

Specialty Finance Transactions - August 2009

Buyer	Target	Announced	DV (\$MM)
China Construction Bank	AIG Finance (Hong Kong) Limited	8/12/09	627
Banco Patagonia SA	GMAC Compania Financiera S.A	8/27/09	NA

SOURCE: Factiva, Bloomberg, Reuters