



# Hovde

Financial Institutions  
Monthly Overview

Capital Markets  
Economic Data Review  
M&A Statistics

December 2008

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## December 2008 - Hovde Monthly Overview

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### About Hovde

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*“Christmas is over, and business is business.”*

—Gordon Gecko (original quote by Franklin Pierce Adams)

Unfortunately, the Treasury and the Federal Reserve did not provide the American taxpayers with any presents in 2008 but, instead, left coals in their stockings that may end up holding as much value as the various programs citizens are being asked to fund in order to keep many of the large Wall Street financial institutions and investment banks solvent. Amidst the worst financial crisis since the Great Depression, we have watched the Fed balloon its balance sheet with toxic assets, as it has more than *doubled* in size since the credit crisis began to severely worsen in September and, in turn, assumed massive levels of credit risk from the Wall Street investment houses. In their attempt to restore confidence and reinstate some normalcy to the financial system, the federal government has elected to create and fund different facilities geared towards saving the large financial entities of the investment and commercial banking industries. These include the Term Auction Facility (TAF), the Term Securities Lending Facility (TSLF), the Primary Dealer Credit Facility (PDCF), the bailouts of Bear Stearns and AIG, and, of course, the Capital Purchase Program (CPP)—all of which will likely result in massive losses at the taxpayers’ expense. Given that we have already opined upon many of these facilities in previous pieces throughout this year—most recently in our latest *Industry Update*—we would like to discuss in this piece some of the more recent actions which the federal government has undertaken.

At the end of November, the Fed announced the creation of the Term Asset-Backed Securities Loan Facility (TALF) with the hopes of increasing consumer and small business lending and reviving the securitization market by making *non-recourse* loans to eligible borrowers for the purchase of asset-backed securities (ABS) collateralized by consumer and small business loans (e.g., student, auto, credit card). Under this facility, the Fed will make up to \$200 billion of non-recourse loans with a three-year term to purchasers (including all U.S. companies) of certain AAA-rated ABSs, with the Treasury providing \$20 billion of credit protection as part of the Troubled Asset Relief Program (TARP). While this program was modified to extend the term of the loans from the originally announced one year to three years, it is

clear that the federal government still did not thoroughly think through the structure and practicality of this program. Given that most ABS securitizations have a three to five year life span, many investors in these will run the risk that their financing arrangement with the Fed will expire before the securities actually mature—exposing them to significant liquidity and financing risks in the future, which may scare away many potential participants. Even more importantly, though, is the fact that, in order to complete these securitizations in the first place, the originators and securitizers will still have to find parties who are willing to purchase the *much* more risky, lower-rated AA, A, and overcollateralization (OC) or “first-loss” tranches. With the economy in a free-fall and credit continuing to deteriorate, the appetite for these pieces of the securitizations is virtually nonexistent, as no one wants to purchase these lowest-rated slices where investors incur the first losses in the capital structure.

Another recent—and ongoing—initiative undertaken by the Fed and Treasury is their “fast-tracking” approval of applications for nonbank financial companies to become bank holding companies (BHCs). It began with Goldman Sachs and Morgan Stanley, was then extended to American Express and CIT Group, and, most recently, expanded to include the likes of GMAC—the financing arm of the struggling American car giant, General Motors. In order for GMAC to become a BHC, the Fed’s approval was conditional on the company attempting to raise new capital—with a goal of converting 75% of its issued debt into \$30 billion of preferred equity. Yet, despite less than 60% of bond holders ultimately agreeing to the debt-equity swap—a clear indication that many debt holders felt more confident with their debt positions in the capital structure versus a preferred equity position—GMAC was still granted BHC status. As a result, it was able to receive \$6 billion of TARP capital in exchange for senior preferred equities and warrants. What we were fearful of in our *November 2008 Financial Institutions Monthly Overview* is now coming to fruition, as the government has set a dangerous precedent by allowing nonbanking institutions to apply for—and receive—BHC status and, in turn, receive TARP CPP funds and have access to the Fed’s balance sheet. Consequently, this will have a negative impact for all existing banks and thrifts, as it will continue to accelerate depository pressures and only further hinder those entities

that are in a favorable position to provide credit to the broader economy. Additionally, the federal government has now clearly made the TARP an open-ended initiative by expanding the institutions eligible to receive capital to not only include banks and nonbanks, but, by setting up a separate \$17 billion program within the TARP for the automobile industry, as well. This expansion of the TARP's umbrella and fast-tracking approval of applications to become BHCs will surely open the floodgates for a greater array of both financial companies (banks and nonbanks) and corporations from other struggling industries (e.g., homebuilders), which are hoping to feed at the same trough as the commercial banking industry—the ultimate provider of the Fed's balance sheet.

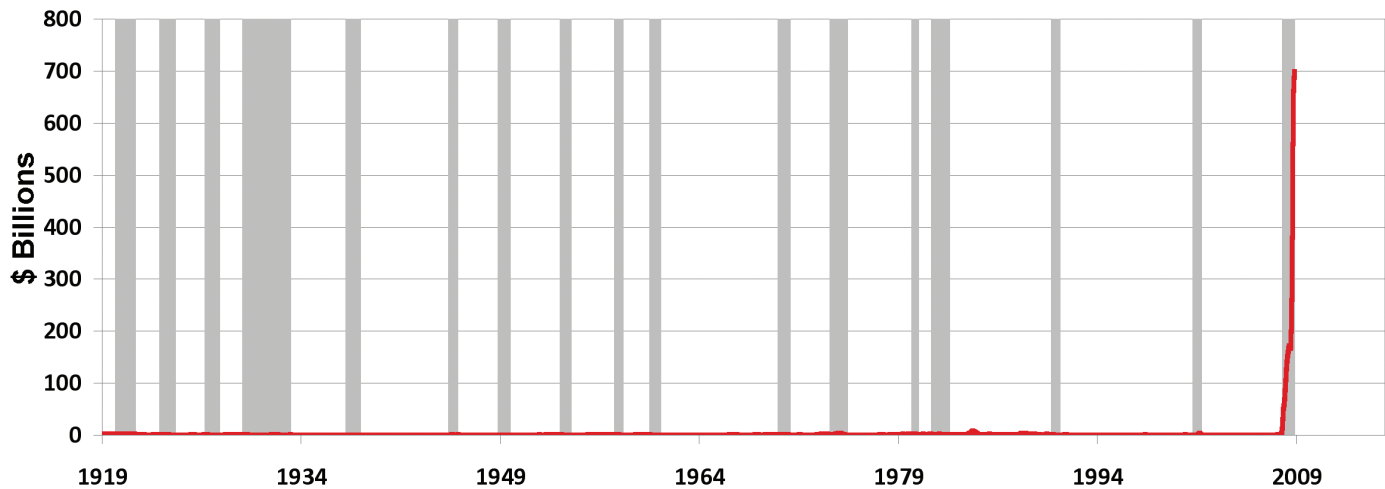
In its continued attempt to stabilize the deterioration of the banking industry and the overall economy, the Fed also recently reduced its main target rate in mid-December to a Japanese-like range of 0% to 0.25%. Unfortunately, despite the ninth rate cut in the last 14 months (down from 4.75% in October 2007) and the first time that the Fed target rate will be as low as 0%, the U.S. economy will likely not be able to gain any traction in the near-term amidst the ongoing erosion of the housing and credit markets and the increasing employment headwinds facing the American labor market. Although lending rates across the various commercial and consumer segments (including fixed residential mortgage rates) have fallen significantly, the fact remains that credit will still not be available for those who have a checkered credit background and unstable employment and income history. Moreover, those who *are* in good shape and are actually able to access funds are probably not that likely to undertake any large purchases or want additional credit given the general uncertainty of the economy and deteriorating employment trends. That being said, it is important to realize that the government may start to force the industry out the credit spectrum, particularly in the area of consumer finance. For example, we found it ironic that after receiving the \$6 billion in TARP funding, GMAC announced that it was modifying its credit criteria to include financing for customers with credit scores of 621 or above—down significantly from the 700 threshold it had in place just two months earlier. We are unsure if this was a government mandate or if it was simply trying to help its two parents—Cerberus and GM—in order to stimulate more auto sales. What is frightening

about this dynamic is that it is exactly the same practice that caused the massive credit bubble to burst and which has led us into this current economic mess. The lowered credit standards that we saw during the residential real estate craze of 2002 to 2006, which provided massive amounts of inexpensive and overly accessible credit to subprime and Alt-A borrowers, could once again resurface in other consumer segments, such as autos, credit cards, and student lending, but this time, being borne by the federal government and, thus, the taxpayers.

Perhaps the most troubling part of the numerous economic programs undertaken by the federal government in 2008 is the jaw-dropping expansion of the Fed's balance sheet over the past year and, in particular, over the last few months. This is even more disturbing because the average U.S. taxpayer—who will inevitably be funding these initiatives for years to come—is unaware of just how much risk the Fed and Treasury have assumed in their myopic focus on addressing the problems of Wall Street and the large financial institutions. *As of the beginning of January 2009, the Fed's balance sheet was slightly under \$2.2 trillion—up from under \$950 billion as of mid-September 2008—with nearly \$640 billion comprised of the TAF, the primary discount window, the PDCF, AIG-related funds, and the Bear Stearns bailout fund.*

Consequently, by becoming the dumping ground of troubled financial institutions' assets, the Fed is bound to take a loss on the credit lines it has extended via its balance sheet and will likely have to continue “printing money” in order to prop up and bailout many of the large financial companies which contributed to this credit crisis—likely leading, first, to a deflationary period and, then, in the longer-term, to higher inflation (which we touch on further below). For instance, AIG has tapped the Fed to the tune of over \$110 billion in credit for capital injections and purchases of its most toxic assets—from which the federal government is surely to take a large loss. Ironically, despite placing U.S. taxpayers and dollar-denominated assets in such a precarious position, the Fed still will not reveal the quality (or lack thereof) and composition of the assets on its balance sheet—although there is little doubt that it is littered with the most toxic and troubled assets of the large Wall Street financial institutions.

## Total Borrowings of Depository Institutions from the Federal Reserve



(Note: Shaded areas indicate U.S. recession as determined by the NBER; Source: Federal Reserve Bank of St. Louis)

Despite the many questionable actions and policies implemented by the federal government in 2008, we can, again, empathize with the monumental challenges facing Washington during this historic financial crisis. While we do believe that the Fed has implemented some positive initiatives—such as the Commercial Paper Funding Facility (CPFF), which finances highly-rated three-month commercial paper and has provided stability to the commercial paper market by acting as a secured senior lending facility—it is critical that policymakers and the new Administration conduct future actions in a prudent and thoughtful manner while protecting the taxpayers as much as possible. This is particularly vital because the combination of the total TARP funds (in addition to the add-ons) and the new Administration’s potential stimulus package could raise the U.S. national debt by as much as *\$2 trillion* in 2009—leading to an unprecedented increase in the Treasury supply in order to fund these various initiatives, along with the Fed’s reckless expansion of its balance sheet. This staggering deficit spending will only further erode the dollar and dollar-denominated assets and likely move our economy into a sustained deflationary period in the near-term.

Consequently, we are hopeful that Fed Chairman Ben Bernanke—a student of the Great Depression and deflation—and new Treasury Secretary Timothy Geithner will act more responsibly in crafting and implementing monetary policies than policymakers have during 2008 in order to prevent the pendulum from swinging too far in the other direction. If they do not, once the economy eventually begins to gain a bit of traction, a massive inflationary spike could result. Furthermore, if foreign investors no longer feel comfortable buying Treasury debt, the Fed and Treasury continue to inefficiently oversee the monetary environment, and policymakers are not careful about deficit spending, interest rates at the mid and longer part of the yield curve (i.e., 5 to 30 years) will eventually spike, leading to yet another devastating blow to the economy.

## Federal Reserve Aggregate Bank Data

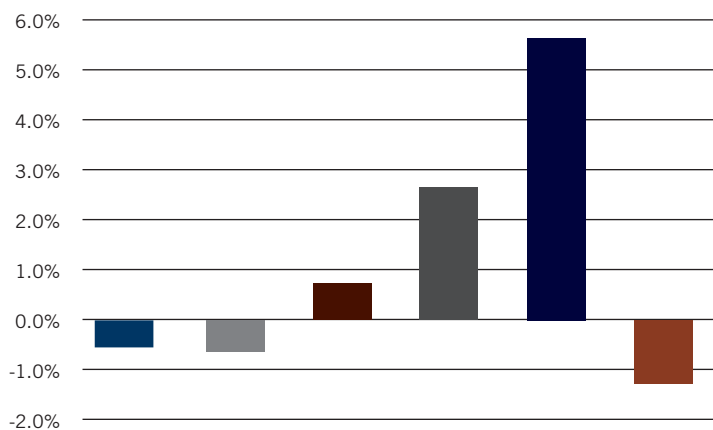
	11/2007	3/2008	4/2008	5/2008	6/2008	7/2008	8/2008	9/2008	10/2008	11/2008	MoM	YoY
<b>ASSETS</b>												
Securities												
Secs in Bank Credit	2,466	2,577	2,531	2,489	2,468	2,486	2,476	2,532	2,718	2,726	0.3%	10.6%
Treasury & Agency	1,119	1,128	1,110	1,115	1,114	1,116	1,129	1,155	1,227	1,261	2.8%	12.7%
Other	1,346	1,449	1,420	1,374	1,354	1,370	1,347	1,377	1,490	1,465	-1.7%	8.8%
Loans and Leases												
C&I	1,412	1,479	1,491	1,494	1,504	1,514	1,514	1,537	1,602	1,596	-0.3%	13.1%
Real Estate	3,569	3,656	3,650	3,650	3,645	3,624	3,642	3,666	3,792	3,784	-0.2%	6.0%
Consumer	792	815	821	825	832	839	845	852	870	876	0.7%	10.6%
Other	664	679	647	646	642	635	630	655	678	645	-4.8%	-2.8%
Other Assets	951	1,020	1,013	996	1,003	1,021	1,022	1,043	1,091	1,132	3.8%	19.1%
<b>Total Assets</b>	<b>10,781</b>	<b>11,182</b>	<b>11,087</b>	<b>11,042</b>	<b>11,027</b>	<b>11,043</b>	<b>11,058</b>	<b>11,333</b>	<b>11,947</b>	<b>12,100</b>	<b>1.3%</b>	<b>12.2%</b>
<b>LIABILITIES</b>												
Deposits												
Transaction	608	614	636	616	605	621	600	640	679	704	3.6%	15.7%
Nontransaction	6,032	6,260	6,220	6,270	6,307	6,263	6,314	6,432	6,448	6,360	-1.4%	5.4%
Large time	2,032	2,105	2,081	2,103	2,126	2,132	2,131	2,161	2,066	1,938	-6.2%	-4.6%
Other	4,000	4,155	4,139	4,166	4,181	4,132	4,183	4,271	4,383	4,422	0.9%	10.5%
Borrowings	2,241	2,303	2,294	2,320	2,322	2,331	2,357	2,397	2,619	2,600	-0.7%	16.0%
Other Liabilities	672	788	743	695	680	674	673	715	806	845	4.8%	25.7%
<b>Total Liabilities</b>	<b>9,659</b>	<b>10,027</b>	<b>9,923</b>	<b>9,872</b>	<b>9,891</b>	<b>9,839</b>	<b>9,852</b>	<b>10,122</b>	<b>10,733</b>	<b>10,910</b>	<b>1.7%</b>	<b>13.0%</b>
<b>Residual (assets less liabilities)</b>	<b>1,122</b>	<b>1,155</b>	<b>1,164</b>	<b>1,169</b>	<b>1,136</b>	<b>1,204</b>	<b>1,206</b>	<b>1,211</b>	<b>1,215</b>	<b>1,190</b>	<b>-2.0%</b>	<b>6.0%</b>

all values in \$ billions

SOURCE: Federal Reserve Documents

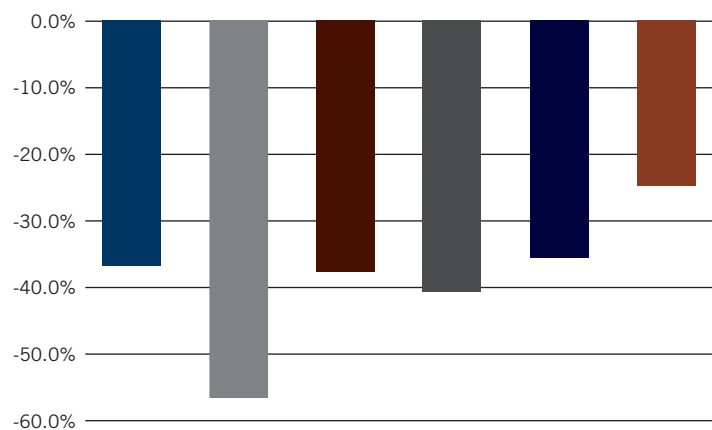
## Major Market Index Performance

December 2008



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

- Dow Jones
- S&P Financial
- S&P 500
- NASDAQ
- Russell 2000
- NASDAQ Bank

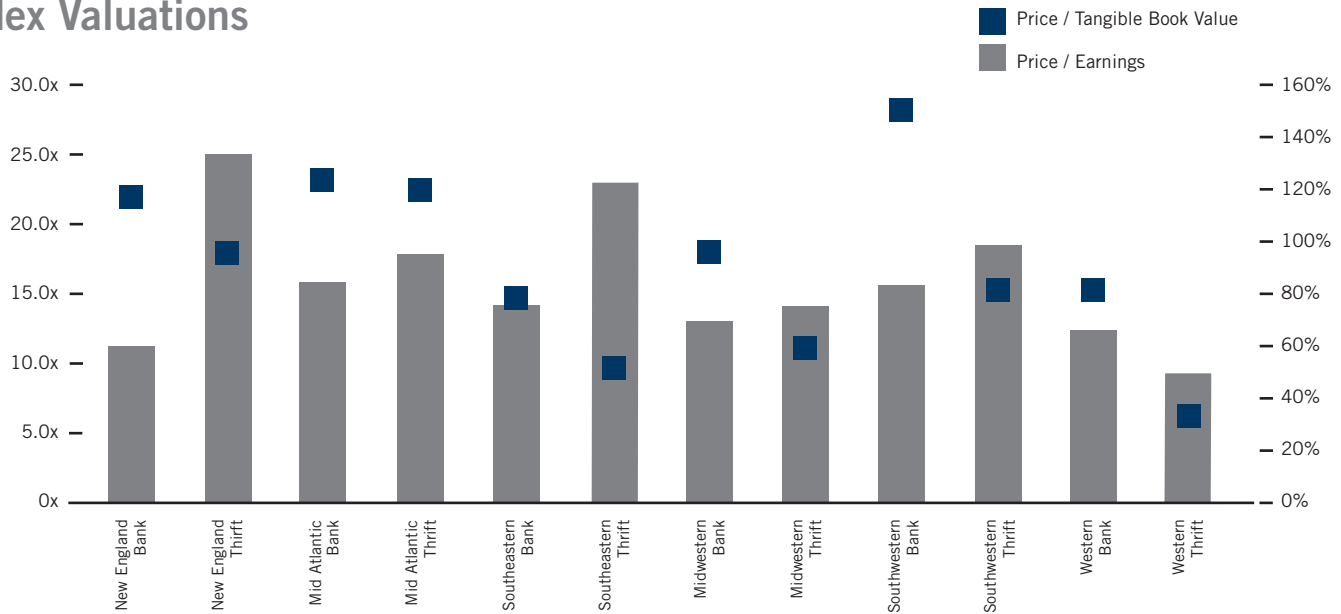
	1/2008	2/2008	3/2008	4/2008	5/2008	6/2008	7/2008	8/2008	9/2008	10/2008	11/2008	12/2008
Dow Jones	-4.6%	-3.0%	0.0%	4.5%	-1.4%	-10.2%	0.2%	1.5%	-6.0%	-14.1%	-5.3%	-0.6%
S&P Financial	-0.6%	-7.7%	-3.1%	6.3%	-6.4%	-18.7%	6.8%	-1.3%	-5.2%	-22.7%	-18.7%	-0.7%
S&P 500	-6.1%	-3.5%	-0.6%	4.8%	1.1%	-8.6%	-1.0%	1.2%	-9.1%	-16.9%	-7.5%	0.8%
NASDAQ	-9.9%	-5.0%	0.3%	5.9%	4.6%	-9.1%	1.4%	1.8%	-11.6%	-17.7%	-10.8%	2.7%
Russell 2000	-6.9%	-3.8%	0.3%	6.1%	2.5%	-7.8%	3.6%	3.5%	-8.1%	-20.9%	-12.0%	5.6%
NASDAQ Bank	2.7%	-8.6%	2.0%	0.3%	-2.7%	-17.5%	9.6%	3.8%	4.0%	-7.3%	-8.8%	-1.2%

SOURCE: Bloomberg, LLC

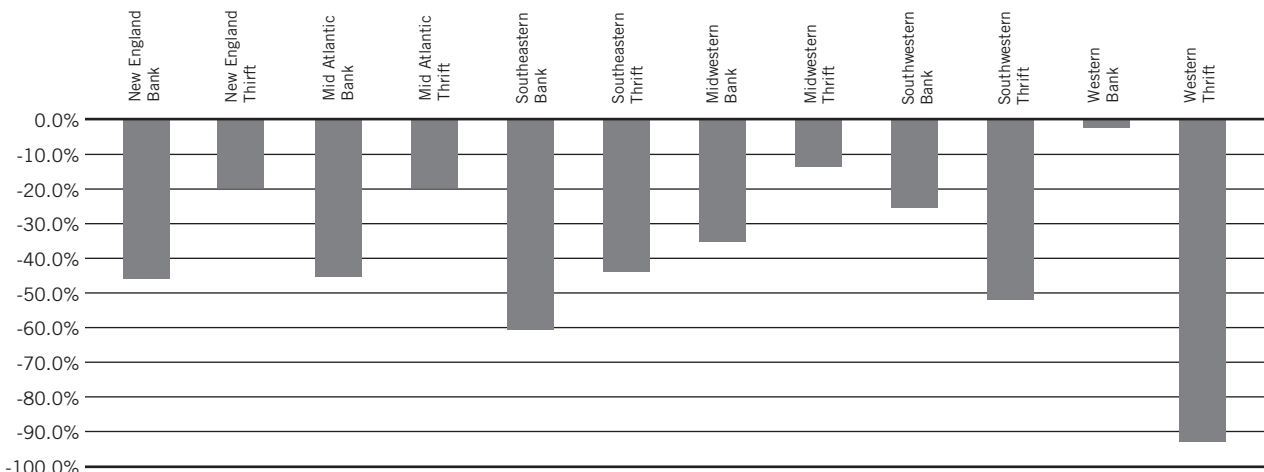
## Bank and Thrift Index Valuations

		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	
<b>New England</b>	Bank	14.0	11.4	106%	97%	155%	119%	2.1%	-0.4%	-27.0%	18
	Thrift	17.3	25.0	100%	89%	132%	95%	1.8%	1.1%	-14.3%	22
<b>Mid Atlantic</b>	Bank	7.7	15.3	87%	105%	164%	129%	1.7%	1.4%	-23.8%	90
	Thrift	15.7	17.9	115%	106%	158%	120%	1.8%	0.9%	-15.7%	54
<b>Southeastern</b>	Bank	10.0	14.0	52%	65%	88%	79%	-1.6%	0.6%	-39.2%	135
	Thrift	20.2	23.3	39%	54%	48%	54%	-7.2%	2.4%	-53.7%	10
<b>Midwestern</b>	Bank	10.2	13.6	116%	86%	175%	98%	6.7%	2.9%	-30.8%	90
	Thrift	14.7	14.2	145%	58%	149%	61%	-4.4%	5.7%	-43.2%	47
<b>Southwestern</b>	Bank	16.8	15.2	121%	111%	181%	149%	1.1%	-0.8%	-19.3%	19
	Thrift	29.7	18.1	128%	80%	130%	83%	-3.1%	0.2%	-15.7%	6
<b>Western</b>	Bank	9.7	12.7	109%	64%	146%	83%	11.9%	2.8%	-45.7%	66
	Thrift	14.6	9.2	50%	32%	76%	38%	-9.7%	2.2%	-58.7%	11

## Index Valuations



## YTD Price Performance



SOURCE: SNL Financial and Bloomberg, LLC

## Economic Data Points - December 2008

Date	Event	Period	Survey	Actual	Prior	Date	Event	Period	Survey	Actual	Prior
12/1	ISM Manufacturing	NOV	37	36.2	38.9	12/16	CPI Ex Food & Energy (YoY)	NOV	2.10%	2.00%	2.20%
12/1	ISM Prices Paid	NOV	32	25.5	37	12/16	CPI Core Index SA	NOV	--	216.849	216.801
12/1	Construction Spending MoM	OCT	-1.00%	-1.20%	-0.30%	12/16	Consumer Price Index NSA	NOV	212.699	212.425	216.573
12/2	Domestic Vehicle Sales	NOV	7.8M	7.6M	7.9M	12/16	Housing Starts	NOV	736K	625K	791K
12/2	Total Vehicle Sales	NOV	10.5M	10.2M	10.6M	12/16	Building Permits	NOV	700K	616K	708K
12/3	Challenger Job Cuts YoY	NOV	--	148.40%	78.90%	12/16	U.S. Federal Reserve Open Market Committee Meeting				
12/3	ADP Employment Change	NOV	-205K	-250K	-157K	12/16	FOMC Rate Decision	16-Dec	0.50%	0.25%	1.00%
12/3	Nonfarm Productivity	3Q F	0.90%	1.30%	1.10%	12/18	Initial Jobless Claims	13-Dec	554K	554K	573K
12/3	ISM Non-Manf. Composite	NOV	42	37.3	44.4	12/18	Continuing Claims	6-Dec	4390K	4384K	4429K
12/4	Initial Jobless Claims	29-Nov	535K	509K	529K	12/23	GDP QoQ (Annualized)	3Q F	-0.50%	-0.50%	-0.50%
12/4	Continuing Claims	22-Nov	4030K	4087K	3962K	12/23	Personal Consumption	3Q F	-3.70%	-3.80%	-3.70%
12/4	ICSC Chain Store Sales YoY	NOV	-1.10%	-2.70%	-0.90%	12/23	GDP Price Index	3Q F	4.20%	3.90%	4.20%
12/5	Change in Nonfarm Payrolls	NOV	-335K	-533K	-240K	12/23	Core PCE QoQ	3Q F	2.60%	2.40%	2.60%
12/5	Unemployment Rate	NOV	6.80%	6.70%	6.50%	12/23	U. of Michigan Confidence	DEC F	58.8	60.1	59.1
12/5	Change in Manufact. Payrolls	NOV	-100K	-85K	-90K	12/23	New Home Sales	NOV	415K	407K	433K
12/5	Mortgage Delinquencies	3Q	--	6.99%	6.41%	12/23	New Home Sales MoM	NOV	-4.20%	-2.90%	-5.30%
12/5	Consumer Credit	OCT	\$2.0B	-\$3.5B	\$6.9B	12/23	Existing Home Sales	NOV	4.93M	4.49M	4.98M
12/9	Pending Home Sales MoM	OCT	-3.00%	-0.70%	-4.60%	12/23	Existing Home Sales MoM	NOV	-1.00%	-8.60%	-3.10%
12/11	Trade Balance	OCT	-\$53.5B	-\$57.2B	-\$56.5B	12/23	House Price Index MoM	OCT	-1.30%	-1.10%	-1.30%
12/11	Import Price Index (MoM)	NOV	-4.90%	-6.70%	-4.70%	12/24	Personal Income	NOV	0.00%	-0.20%	0.30%
12/11	Import Price Index (YoY)	NOV	-2.00%	-4.40%	6.70%	12/24	Personal Spending	NOV	-0.70%	-0.60%	-1.00%
12/11	Initial Jobless Claims	6-Dec	525K	573K	509K	12/24	PCE Deflator (YoY)	NOV	1.50%	1.40%	3.20%
12/11	Continuing Claims	29-Nov	4100K	4429K	4087K	12/24	PCE Core (MoM)	NOV	0.00%	0.00%	0.00%
12/12	Producer Price Index (MoM)	NOV	-2.00%	-2.20%	-2.80%	12/24	PCE Core (YoY)	NOV	2.00%	1.90%	2.10%
12/12	PPI Ex Food & Energy (MoM)	NOV	0.10%	0.10%	0.40%	12/24	Durable Goods Orders	NOV	-3.00%	-1.00%	-6.20%
12/12	Producer Price Index (YoY)	NOV	0.20%	0.40%	5.20%	12/24	Durables Ex Transportation	NOV	-3.00%	1.20%	-4.40%
12/12	PPI Ex Food & Energy (YoY)	NOV	4.20%	4.20%	4.40%	12/24	Initial Jobless Claims	20-Dec	560K	586K	554K
12/12	Advance Retail Sales	NOV	-2.00%	-1.80%	-2.80%	12/24	Continuing Claims	13-Dec	4410K	4370K	4384K
12/12	Retail Sales Less Autos	NOV	-1.80%	-1.60%	-2.20%	12/30	S&P/CaseShiller Home Price Ind	OCT	--	158.16	161.56
12/12	U. of Michigan Confidence	DEC P	54.9	59.1	55.3	12/30	S&P/CS Composite-20 YoY	OCT	-17.90%	-18.04%	-17.40%
12/16	Consumer Price Index (MoM)	NOV	-1.30%	-1.70%	-1.00%	12/30	Consumer Confidence	DEC	45.5	38	44.9
12/16	CPI Ex Food & Energy (MoM)	NOV	0.10%	0.00%	-0.10%	12/31	Initial Jobless Claims	27-Dec	575K	492K	586K
12/16	Consumer Price Index (YoY)	NOV	1.50%	1.10%	3.70%	12/31	Continuing Claims	20-Dec	4400K	4506K	4370K

SOURCE: Bloomberg, LLC

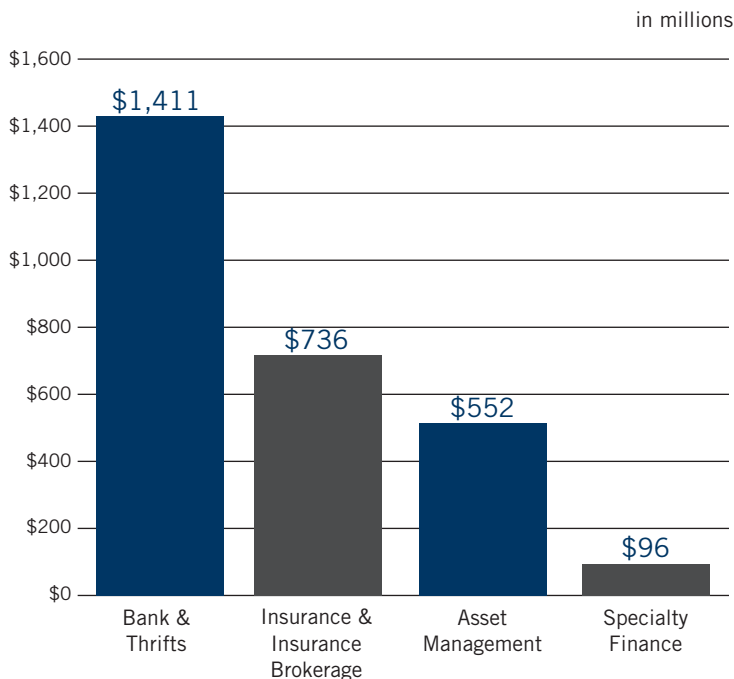
## Economic Data Points - January 2009

Date	Event	Period	Survey	Actual	Prior	Date	Event	Period	Survey	Actual	Prior
1/2	ISM Manufacturing	NOV	37	--	38.9	1/16	Consumer Price Index (MoM)	DEC	-1.00%	--	-1.70%
1/2	ISM Prices Paid	NOV	32	--	37	1/16	CPI Ex Food & Energy (MoM)	DEC	0.10%	--	0.00%
1/5	Construction Spending MoM	OCT	-1.00%	--	-0.30%	1/16	Consumer Price Index (YoY)	DEC	--	--	1.10%
1/5	Total Vehicle Sales	SEP	--	--	219.67	1/16	CPI Ex Food & Energy (YoY)	DEC	--	--	2.00%
1/5	Domestic Vehicle Sales	SEP	--	--	-17.96%	1/16	CPI Core Index SA	DEC	--	--	216.849
1/6	ISM Non-Manf. Composite	NOV	7.8M	--	7.9M	1/16	Consumer Price Index NSA	DEC	--	--	212.425
1/6	Factory Orders	NOV	10.5M	--	10.6M	1/16	Industrial Production	DEC	-0.80%	--	-0.60%
1/6	Pending Home Sales MoM	NOV	--	--	78.90%	1/16	Capacity Utilization	DEC	74.70%	--	75.40%
1/6	Minutes of Dec. 16 FOMC Meeting					1/16	U. of Michigan Confidence	JAN P	60	--	60.1
1/7	Challenger Job Cuts YoY	DEC	--	--	148.40%	1/21	NAHB Housing Market Index	JAN	--	--	9
1/7	ADP Employment Change	DEC	-493K	--	-250K	1/22	Housing Starts	DEC	--	--	625K
1/8	ICSC Chain Store Sales YoY	DEC	--	--	-2.70%	1/22	Initial Jobless Claims	17-Jan	--	--	--
1/8	Initial Jobless Claims	3-Jan	545K	--	492K	1/22	Building Permits	DEC	--	--	616K
1/8	Continuing Claims	27-Dec	4450K	--	4506K	1/22	Continuing Claims	10-Jan	--	--	--
1/8	Consumer Credit	NOV	\$0.0B	--	-\$3.5B	1/22	House Price Index MoM	NOV	--	--	-1.10%
1/9	Change in Nonfarm Payrolls	DEC	-490K	--	-533K	1/26	Existing Home Sales	DEC	--	--	4.49M
1/9	Unemployment Rate	DEC	7.00%	--	6.70%	1/26	Existing Home Sales MoM	DEC	--	--	-8.60%
1/9	Change in Manufact. Payrolls	DEC	-100K	--	-85K	1/27	S&P/CaseShiller Home Price Ind	NOV	--	--	158.16
1/9	Wholesale Inventories	NOV	-0.80%	--	-1.10%	1/27	S&P/CS Composite-20 YoY	NOV	--	--	-18.04%
1/13	Trade Balance	NOV	-\$51.0B	--	-\$57.2B	1/27	Consumer Confidence	JAN	--	--	38
1/13	Monthly Budget Statement	DEC	-\$33.0B	--	\$48.3B	1/28	FOMC Rate Decision	28-Jan	--	--	0.25%
1/14	Import Price Index (MoM)	DEC	-5.50%	--	-6.70%	1/29	Durable Goods Orders	DEC	--	--	--
1/14	Import Price Index (YoY)	DEC	--	--	-4.40%	1/29	Durables Ex Transportation	DEC	--	--	--
1/14	Advance Retail Sales	DEC	-1.10%	--	-1.80%	1/29	Initial Jobless Claims	24-Jan	--	--	--
1/14	Retail Sales Less Autos	DEC	-1.20%	--	-1.60%	1/29	Continuing Claims	17-Jan	--	--	--
1/14	Business Inventories	NOV	-0.50%	--	-0.60%	1/29	New Home Sales	DEC	--	--	407K
1/15	Producer Price Index (MoM)	DEC	-1.90%	--	-2.20%	1/29	New Home Sales MoM	DEC	--	--	-2.90%
1/15	PPI Ex Food & Energy (MoM)	DEC	0.10%	--	0.10%	1/30	GDP QoQ (Annualized)	4Q A	--	--	-0.50%
1/15	Producer Price Index (YoY)	DEC	--	--	0.40%	1/30	Personal Consumption	4Q	--	--	-3.80%
1/15	PPI Ex Food & Energy (YoY)	DEC	--	--	4.20%	1/30	GDP Price Index	4Q	--	--	3.90%
1/15	Initial Jobless Claims	10-Jan	--	--	--	1/30	Core PCE QoQ	4Q	--	--	2.40%
1/15	Continuing Claims	3-Jan	--	--	--	1/30	Employment Cost Index	4Q	--	--	0.70%
1/15	Empire Manufacturing	JAN	-25	--	-25.76	1/30	U. of Michigan Confidence	JAN F	--	--	--

SOURCE: Bloomberg, LLC

## M&A Transaction Update

### Announced Transactions - December 2008



SOURCE: SNL Financial, Bloomberg, Factiva

### Deal Count - December 2008

Insurance & Insurance Brokerage	40
Asset Management & Broker/Dealer	18
Bank & Thrift	9
Specialty Finance	6

SOURCE: SNL Financial, Bloomberg, Factiva

### Deal Count - 2008 YTD

Insurance & Insurance Brokerage	243
Asset Management & Broker/Dealer	148
Bank & Thrift	104
Specialty Finance	53

SOURCE: SNL Financial, Bloomberg, Factiva

### Financial Deal Alert

First announced in October 2008, Hovde Financial is pleased to announce that its client, Liberty Bank, headquartered in Clearwater, Florida, has been acquired by USAmeriBank.

Currently, Liberty Bank has \$100 million in assets. USAmeriBank is an independent, non-public bank formed in February 2007 and has three branches in Florida. USAmeriBank's parent company is USAmeriBancorp, Inc.

### Top Financial Advisors in Bank and Thrift Transactions

Last Two Years, Sell-Side Advisory Transactions

Rank	Firm	# of Deals
1	Keefe, Bruyette & Woods, Inc	41
2	Sandler, O'Neill & Partners, L.P	40
3	Howe Barnes Hofer & Arnett, Inc.	22
<b>4</b>	<b>Hovde Financial</b>	<b>21</b>
5	Stifel, Nicolaus & Company, Incorporated	15
6	Sheshunoff & Co. Investment Banking LP	11
7	Austin Associates, LLC	8
7	Capitol Corporation, LLC	8
7	Professional Bank Services Inc.	8
10	Carson Medlin Company	7

SOURCE: SNL Financial (data from 12/31/2006 - 12/31/2008)

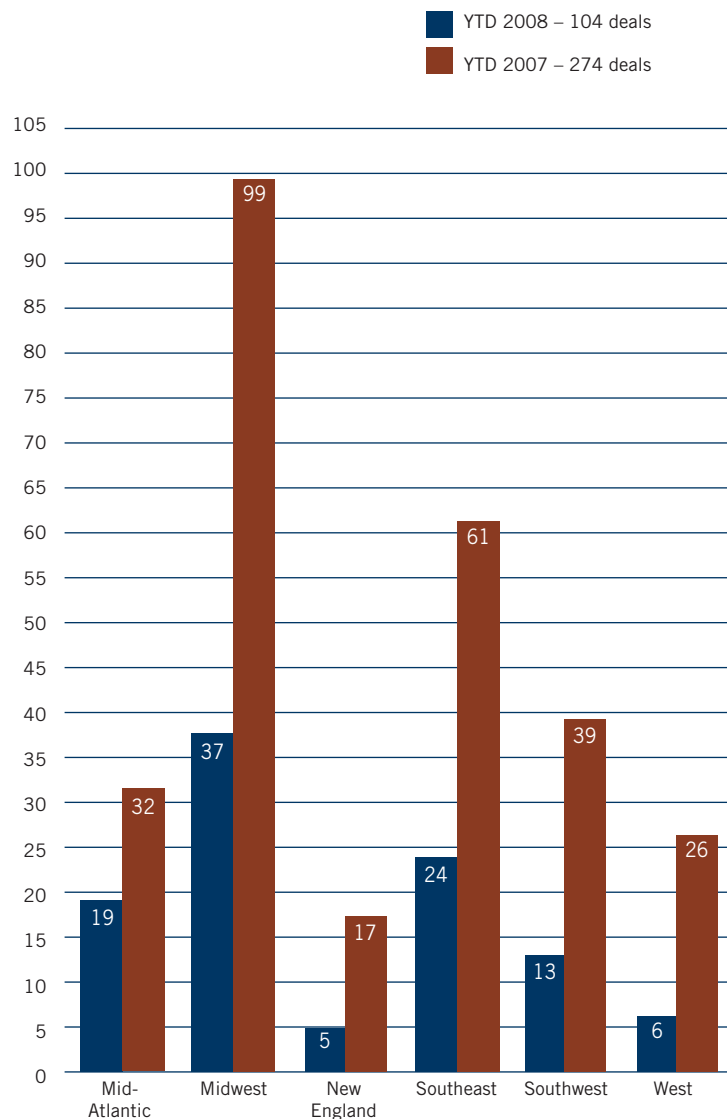
## Bank & Thrift Transactions - December 2008

Buyer	Buyer State	Target	Target State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
Capital One Financial Corporation	VA	Chevy Chase Bank, F.S.B.	MD	12/3/08	520.0	NM	66.0	-2.67
Penseco Financial Services Corporation	PA	Old Forge Bank	PA	12/5/08	58.0	22.3	172.6	16.18
Middlesex Savings Bank	MA	Service Bancorp, Inc. (MHC)	MA	12/8/08	21.8	NM	268.2	2.22
Investors Bancorp, Inc. (MHC)	NJ	American Bancorp of New Jersey, Inc.	NJ	12/14/08	140.3	NM	149.3	14.30
MatlinPatterson, LLC	NY	Flagstar Bancorp, Inc.	MI	12/17/08	250.0	NA	NA	NA
Chemung Financial Corporation	NY	Canton Bancorp, Inc.	PA	12/17/08	7.7	35.5	100.7	0.10
M&T Bank Corporation	NY	Provident Bankshares Corporation	MD	12/18/08	402.0	NM	150.3	2.73
Tygris Commercial Finance Group, Inc.		Texico Bancshares Corporation	IL	12/27/08	NA	NA	NA	NA
Premier Financial Bancorp, Inc.	WV	Abigail Adams National Bancorp, Inc.	DC	12/30/08	11.6	NM	NA	NA

SOURCE: SNL Financial

## Bank & Thrift Transactions

by Region



SOURCE: SNL Financial

## Deal Pricing by Region - 2008 YTD

Region	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
Mid-Atlantic	\$3,685	144.4	28.5	8.7
Midwest	\$6,445	167.4	31.1	7.7
New England	\$332	194.3	23.8	7.8
Southeast	\$16,654	184.0	24.9	12.1
Southwest	\$663	254.9	20.7	12.9
West	\$8,177	104.9	39.1	6.0
<b>Total</b>	<b>\$35,955</b>	<b>176.4</b>	<b>27.8</b>	<b>9.5</b>

SOURCE: SNL Financial

## Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
2Q2006	\$47,362	239.6	26.5	17.9
3Q2006	\$6,486	264.6	24.9	19.3
4Q2006	\$37,379	253.4	26.1	20.4
1Q2007	\$21,007	265.3	26.8	22.9
2Q2007	\$30,841	229.3	26.5	16.4
3Q2007	\$9,201	215.3	26.2	17.9
4Q2007	\$11,640	197.6	23.5	11.9
1Q2008	\$5,093	190.3	26.9	12.4
2Q2008	\$1,835	199.2	30.1	8.7
3Q2008	\$27,298	155.6	27.1	9.4
4Q2008	\$1,728	131.0	27.6	3.6

SOURCE: SNL Financial

## Insurance and Insurance Brokerage Transactions - December 2008

Buyer	Target	Announced	DV (\$MM)
National Penn Bancshares, Inc.	Carl A. Curcio & Associates, Inc.	12/1/2008	NA
National Penn Bancshares, Inc.	Johnson & Muir, Inc.	12/1/2008	NA
Two Rivers Financial Group, Inc.	Ruhl & Ruhl, Inc.	12/1/2008	NA
Donegal Group Inc.	Sheboygan Falls Mutual Insurance Company	12/1/2008	12.0
Jimcor Agencies	Zaloom Associates, Inc.	12/2/2008	NA
HCC Insurance Holdings, Inc.	Surety Company of the Pacific	12/3/2008	NA
Apex Global Partners, Inc.	Brooks Bittner and Associates	12/8/2008	NA
Arthur J. Gallagher & Co.	Treiber Group/Treiber Agency	12/8/2008	NA
AXIS Capital Holdings Limited	Dexta Corporation Pty Ltd	12/8/2008	NA
Brown & Brown, Inc.	Stewart & Tunno Insurance Agency, Inc.	12/8/2008	NA
CNA Financial Corporation	Scarborough	12/8/2008	NA
Realty Advisors, Inc.	INSIG	12/9/2008	53.0
Edgewood Partners Insurance Center	Complete Insurance Services, Inc.	12/12/2008	NA
HCC Insurance Holdings, Inc.	Arrowhead Public Risk	12/12/2008	NA
HCC Insurance Holdings, Inc.	Criminal Justice division	12/12/2008	NA
Beecher Carlson Holdings Inc.	Sage Insurance Group	12/15/2008	NA
Brown & Brown, Inc.	R.E. Sutton & Associates, LLC	12/15/2008	NA
Ironshore Inc.	Marine Re Inc.	12/15/2008	NA
ProAssurance Corporation	Mid-Continent General Agency, Inc.	12/15/2008	NA
Undisclosed Buyer	American Network Insurance Company	12/15/2008	NA
Brown & Brown, Inc.	Charter Insurance Services, Inc.	12/16/2008	NA
First Community Bancshares, Inc.	Carr & Hyde Insurance, Inc.	12/16/2008	NA
Brown & Brown, Inc.	Alexander & Bolton, Inc.	12/17/2008	NA
James C. Jenkins Insurance Services, Inc.	Athens Benefits Insurance Services, Inc.	12/17/2008	NA
Leavitt Group Enterprises, Inc.	James C. Jenkins Insurance Services, Inc.	12/17/2008	NA
BB&T Corporation	J. Rolfe Davis Insurance Agency, Inc.	12/18/2008	NA
Torus Insurance Holdings Limited (Bermuda)	New Castle Re contract renewal rights	12/18/2008	NA
BB&T Corporation	TAPCO Underwriters, Inc.	12/19/2008	NA
Rockwood Programs, Inc.	Modern Insurance Consultants, Inc.	12/19/2008	NA
William J. Kamm & Sons, Inc.	Myers-Briggs and Co., Inc.	12/19/2008	NA
Brown & Brown, Inc.	Insurance 1, Inc.	12/22/2008	NA
Münchener Rückversicherungs-Gesellschaft	HSB Group, Inc.	12/22/2008	666.0
Arthur J. Gallagher & Co.	Stanton Group LLC	12/23/2008	NA
Evercore Partners Inc.	Allied Insurance Services	12/23/2008	NA
Bankers Insurance, LLC	Hutton Vincent Williamson McLean Insurance Group	12/24/2008	NA
Evercore Partners Inc.	BK International Insurance Brokers, Ltd	12/24/2008	NA
Univest Corporation of Pennsylvania	Liberty Benefits, Inc.	12/29/2008	5.0
Starkweather & Shepley Insurance Brokerage, Inc.	Preston Agency, Inc.	12/30/2008	NA
Brower Insurance Agency, LLC	Consolidated Insurance Agency, Inc.	12/31/2008	NA
Brown & Brown, Inc.	Gallagher Associates, Inc.	12/31/2008	NA

SOURCE: Factiva, AM Best

## Asset Management/Broker-Dealer Transactions - December 2008

Buyer	Target	Announced	DV (\$MM)
Aabar Investments PJSC	AlG Private Bank Ltd	12/1/2008	254.0
Management group	Neuberger Investment Management	12/1/2008	NA
Beacon Trust Co.	Clear Asset Management, Inc.	12/3/2008	NA
California Financial Partners, Inc.	Glencrest Investment Advisors, Inc.	12/3/2008	NA
Regions Financial Corporation	Revolution Partners, LLC	12/8/2008	NA
Guggenheim Capital, LLC	Thomas Weisel India Opportunity Fund	12/9/2008	NA
Coil Investment Group AF	Anderson & Strudwick Investment Corporation	12/12/2008	NA
Regions Financial Corporation	Burke Capital Group, LLC	12/15/2008	NA
Mitsubishi UFJ Financial Group, Inc.	NikkoCiti Trust and Banking Corporation	12/16/2008	277.5
Stifel Financial Corp.	Butler, Wick & Co., Inc.	12/18/2008	12.0
SunTrust Banks, Inc.	Cymric Family Office Services	12/18/2008	NA
GLG Partners, Inc.	Societe Generale Asset Mgmt Intl Ltd	12/19/2008	NA
JPMorgan Chase & Co.	UBS Commodities Canada Ltd	12/22/2008	NA
JPMorgan Chase & Co.	UBS' global agricultural business	12/22/2008	NA
NASDAQ OMX Group, Inc.	International Derivatives Clearing Group, LLC	12/22/2008	NA
Canandaigua National Corporation	Greentree Capital Management LLC	12/22/2008	NA
Management Group	Veredus Asset Management LLC	12/29/2008	NA
Univest Corporation of Pennsylvania	Trollinger Consulting Group	12/31/2008	8.8

SOURCE: Factiva, Bloomberg

## Specialty Finance Transactions - December 2008

Buyer	Target	Announced	DV (\$MM)
First Cash Financial Services, Inc.	Central America Capital, S.A. de C.V	12/1/2008	25
BB&T Corporation	Live Oak Capital, Ltd.	12/8/2008	NA
Mud Duck Equities, LLC	Agency Lending Operations	12/18/2008	70.5
Aussie Home Loans	Wizard Home Loans Pty, Ltd	12/23/2008	NA
Ryder System, Inc.	Edart Leasing Company, LLC	12/23/2008	NA
Wintrust Financial Corporation	Professional Mortgage Partners, Inc.	12/23/2008	NA

SOURCE: Factiva, Bloomberg, Reuters