



# Hovde

Financial Institutions  
Monthly Overview

Capital Markets  
Economic Data Review  
M&A Statistics

December 2010

[www.hovde.com](http://www.hovde.com)

WASHINGTON DC  
1826 Jefferson Place, NW  
Washington, DC 20036  
202.775.8109

CHICAGO  
1629 Colonial Parkway  
Inverness, IL 60067  
847.991.6622

LOS ANGELES  
8370 Wilshire Blvd., Suite 340  
Beverly Hills, CA 90211  
310.535.9200

PALM BEACH  
3908 South Ocean Blvd. #M122  
Highland Beach, FL 33487  
561.279.7199

AUSTIN  
2107 W. 10th Street  
Austin, TX 78703  
512.478.7575

DALLAS  
16633 N. Dallas Pkwy., Suite 600  
Addison, TX 75001  
469.737.5635

## December 2010 - Hovde Monthly Overview

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### About Hovde

The Hovde Organization is an investment banking, asset management and private equity firm focused exclusively on the financial services sector. Founded in 1987 and possessing a distinguished industry heritage, Hovde draws from many years of experience and the comprehensive financial services expertise of our team members to develop innovative and value-added solutions for our clients. Hovde has regional offices in major areas of the United States and services the needs of financial services institutions, institutional investors, and private clients both domestically and internationally.

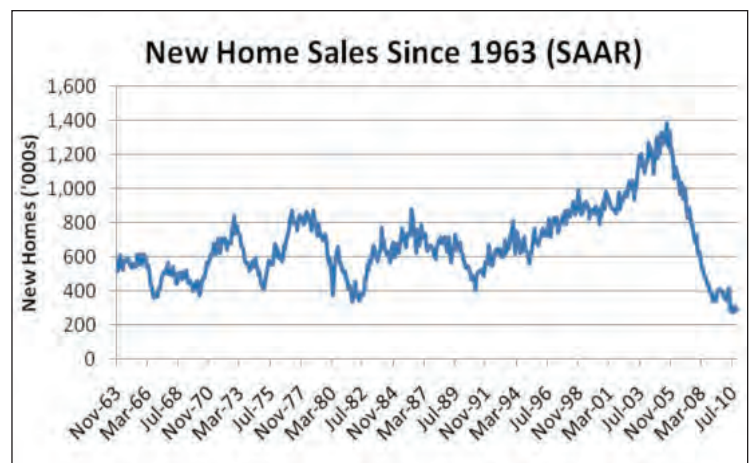
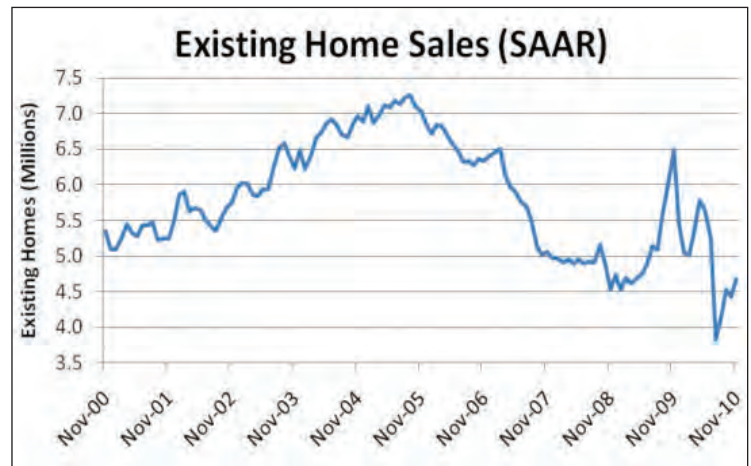
*“When you get to the end of your rope, tie a knot and hang on.”*  
 –Anonymous

With the uphill battle that the residential housing market is facing, it better hang on as it very well could be on its last stretch of rope for the foreseeable future. As 2011 gets underway and we enter the fifth year of the worst credit and housing crisis since the Great Depression, we thought that it would be helpful to provide readers with our thoughts on what we have been seeing and our outlook for housing—particularly as the start of the spring selling season in early February is right around the corner. Since we last opined at length on this topic in our *April 2010 Monthly Overview* (which you can view by clicking [here](#)), many of the headwinds that we believed would cause the brief stabilization in the housing market to stall have begun to play out. Most importantly, housing sales and prices have continued to drift lower following the short-term pop in housing activity in early 2010 stemming from the now expired \$8,000 first-time homebuyer tax credit. Disturbingly, this softening in housing comes despite record-low mortgage rates, which were artificially driven lower by the Federal Reserve’s \$1.25 trillion mortgage-backed securities (MBS) purchase program in addition to the central bank’s first slug of quantitative easing (QE) via the purchase of \$300 billion in Treasury securities and, of course, leading up to its most recent announcement on November 3<sup>rd</sup> to purchase \$600 billion in new Treasuries as part of QE2. As such, we believe that the housing market has entered its second leg down and, although this slump will, thankfully, not be as devastating as the original crisis which began in 2007, it will nonetheless be painful in its own right.

While we are discouraged with what another housing downturn will mean for a still-struggling U.S. economy and financial system—particularly the banking industry—one simply cannot ignore the recent data and key indicators which are, unfortunately, pointing to a move lower. That being said, in this piece, we plan to run through the latest sales activity; what pricing has done; how the “price” of buying a home (i.e., the monthly mortgage payment) has jumped since the Federal Reserve announced QE2 on November 3<sup>rd</sup> and discuss these implications; and, address how high foreclosure and delinquency rates and an unemployment rate of 9.4% will continue to seriously hinder any hopes for a sustainable recovery. Consequently, on account of all of the hard facts and figures, which we will discuss, we expect to see a further decline in home values by 5% to 10% nationwide over the next year—with the more troubled

markets that have been decimated by foreclosures and job losses experiencing even greater declines.

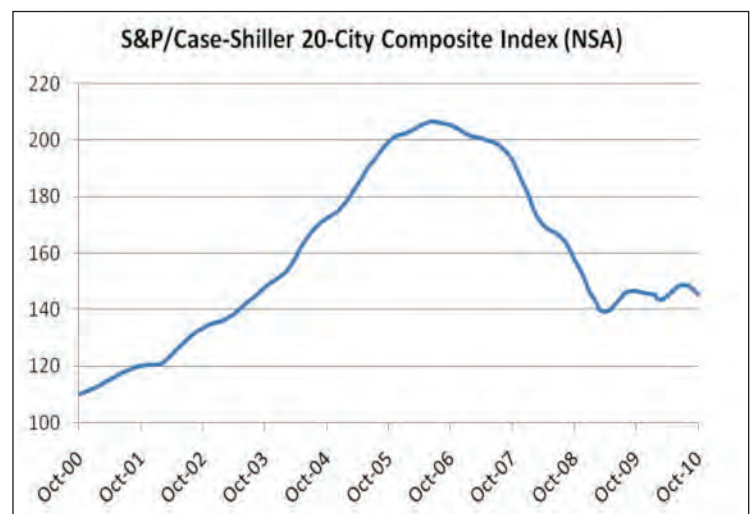
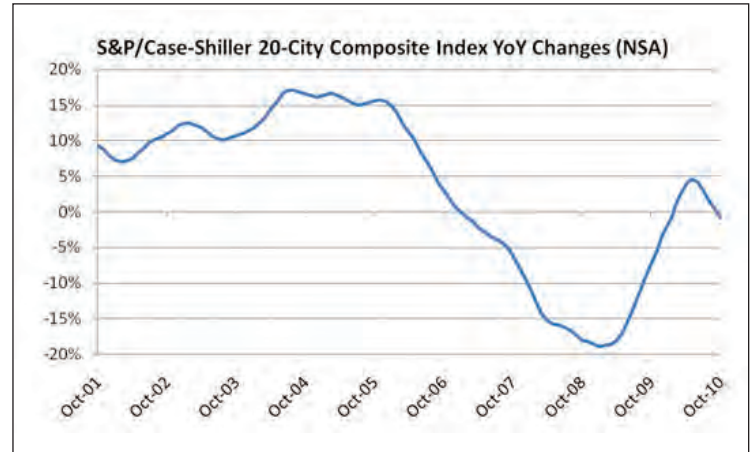
To begin, the overwhelming majority of first-time home buyers who took advantage of the tax credit and had the credit health to secure financing for a mortgage, in addition to those credit-sound, repeat buyers who were able to capitalize on decade low mortgage rates, have already bought a home. In fact, according to the National Association of Realtors (NAR), first-time home buyers purchased 32% of homes in November—a huge drop from the 49% in April when the tax credit expired and an even larger decline from the 51% in November 2009, which was the initial deadline for the tax credit. Obviously, the effect by which the tax credit enticed first-time homebuyers and pulled activity forward has now worn off, causing existing home sales (which represent approximately 85% to 90% of total home sales) to remain at depressed levels. Likewise, new home sales (which account for the remaining 10% to 15% of the pie) recently recorded their fourth lowest reading ever in data going back to 1963 as shown below.



(Source: Bloomberg; NAR)

This slowdown in sales activity has resulted in a current inventory level of 3.7 million existing homes—which is higher by 13% since January 2010, and still well above the historical average of 2.9 million. What will also continue to add to the high inventory levels as we progress through 2011 is the drying up of the investor bid—a segment which we believe was a key driver in what, to the untrained eye, appeared to be a stabilizing housing market in 2009 and early 2010. As we cited in our April write-up, it is estimated that over 30% of the homes sold between 2003 and 2006 were to investors. Although the latest NAR monthly report states that investors accounted for 19% of existing home transactions in November—unchanged from October—this should not be interpreted as the investor hanging in there; this percentage has been artificially pushed up from prior months on account of the aforementioned percentage of first-time home buyer continuing to drop. October and November also had higher levels of investor purchases, as the average 30-year mortgage rate hit record lows during those same months—propelled lower amidst the hype leading up to the QE2 announcement—which temporarily attracted the speculative bid back into the marketplace. However, now that mortgage rates have begun to climb steadily higher—as we discuss a bit further on—we suspect that investors will run for the hills as this carrot is not as enticing as it was only a few months ago—particularly as prices continue to slide.

In terms of pricing, according to the latest S&P/Case-Shiller 20-City Composite released in December for the three months ending in October (more on the lag in this report below), home values fell by 1.3% month-over-month on an unadjusted basis—the third straight decline as all 20 cities in the index fell. Additionally, on a year-over-year basis, while the unadjusted decline was only fractional (-0.8%) it was in fact the largest annual decline since December 2009. It was also the first annual decline since January 2010 which, outside of this housing crisis, now leaves the actual index at the same levels as it was in September 2003 (see charts to the right). These price declines are the result of the fall-out from the expiration of the tax credit, as they have been declining on an annual basis ever since the year-over-year increases peaked in May at 4.6%. Furthermore, there has recently been a serious move downward in pricing on a three-month annualized basis, as the 20-city index is lower by 9.2% as of October 2010 (unadjusted), which follows a near 2% decline in September. This proceeds a span by which the index rose on a three-month annualized basis anywhere between 5.6% and 13.6% in the May to August 2010 timeframe.

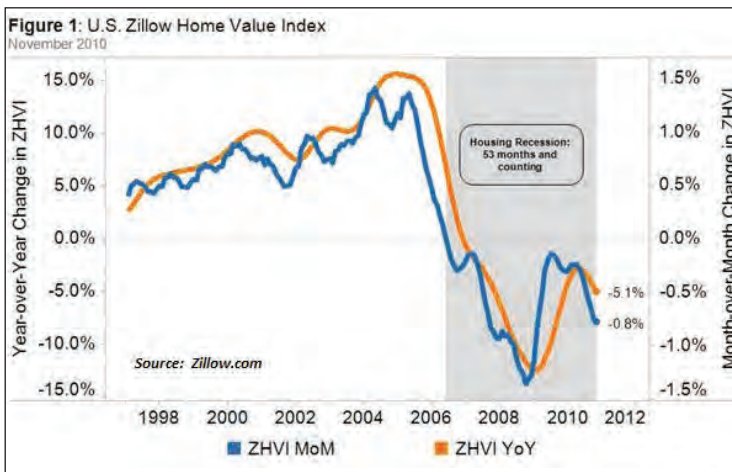


(Source: S&P/Case-Shiller Home Price Indices)

As an aside, we would just like to mention again that it is important to refer to the non-seasonally adjusted data, as the S&P/Case-Shiller Home Price Index Committee stated in April 2010, that the “unadjusted series is a more reliable indicator” (you can read the press release by clicking [here](#)). It is also worth reminding our readers that the latest data released was for the three-month rolling period of August through October. As such, this data has yet to capture what historically tend to be the weakest months in terms of pricing in the November through January timeframe as sales activity grinds to a halt before the official start of the spring selling season—which begins the weekend following the Super Bowl in early February. Therefore, in light of the aforementioned decline in sales trends as well as the recent surge in 30-year mortgage rates (which we discuss in the next section), we would expect the next few S&P/Case-Shiller reports to be just as bad, if not worse.

Although not as closely watched as the S&P/Case-Shiller metric, the Zillow Home Value Index (shown below) recently

caused some headlines, as it is now down by 26% since its peak in June 2006—disturbingly, making it a larger decline than the 25.9% drop that occurred between 1928 and 1933 during the Great Depression. As of November, this index has now fallen for 53 consecutive months and is lower by more than 5% on a year-over-year basis. We would like to point out to readers looking at the chart below not to misinterpret the rise off of its lows as an increase in home prices. This is, instead, merely a deceleration in the decline in home prices, as factors such as the first-time homebuyer tax credit, artificially low mortgage rates, and the temporary return of the investor bid cause prices to stop falling off of a cliff as fast as they had been. As such, with the tax credit having expired and sales activity slowing drastically again, in addition to the rise in mortgage rates, which we discuss next, we would expect this home index to continue its downward trend.



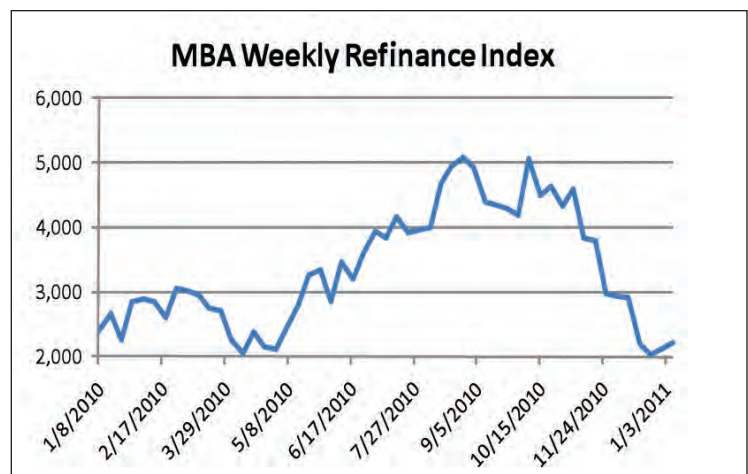
Moving onto the third major obstacle we see facing the housing industry, one simply needs to look at the recent spike in mortgage rates that has occurred with the move up in the 10-year Treasury yield to see the latest major headwind now facing the housing market. With the more than 90 basis point move off of the lows in the 10-year Treasury yield since October and with the more than 50 basis point move higher off of the mid-November lows in the average Freddie Mac 30-year fixed rate mortgage to almost a seven-month high of 4.71%, the cost of buying a home and difficulty of obtaining financing has now increased for almost everyone. To illustrate this dynamic—the magnitude of which we feel is currently being lost on the broader equity markets—we wanted to provide a quick refresher on what happens to a hypothetical monthly mortgage payment on a \$250,000 loan when you have a rise in rates like we have seen recently. Obviously, all else being equal, home prices would need to take another sizeable leg down for monthly payments and overall affordability to remain at the levels

they were just a few months ago when 30-year mortgage rates were at only 4.2%.

30-yr Fixed Mortgage Rate	Monthly Mortgage Payment	Change from 4.20% Referenced Low
4.20%	\$ 1,222.54	--
4.45%	\$ 1,259.30	3.0%
4.70%	\$ 1,296.59	6.1%
4.95%	\$ 1,334.42	9.2%
5.20%	\$ 1,372.78	12.3%
5.45%	\$ 1,411.64	15.5%

(Sources: Freddie Mac, Bankrate.com)

Due to this recent move higher in mortgage rates, refinancing activity has dropped precipitously from its recent peak in the fall. As you can see below, per the Mortgage Banker Association’s (MBA) refinance index, this metric is now sitting at its lowest level since the beginning of April 2010, and has been dropping like a stone since the beginning of October. Clearly, the enticement for homeowners to refinance now that rates have moved back up—not to mention that many simply cannot refinance on account of the tighter credit environment and the fact that one in four mortgages are worth more than the home, as prices are still off by 30% from their peak nationally—has made this prospect less appealing. Simply put: at this point in time, nearly everyone who has been able to refinance already has. And, given that the savings that homeowners recognize from refinancing could have been earmarked for spending, this clearly does not bolster the growth prospects of an economy which is 70% reliant on consumer consumption.

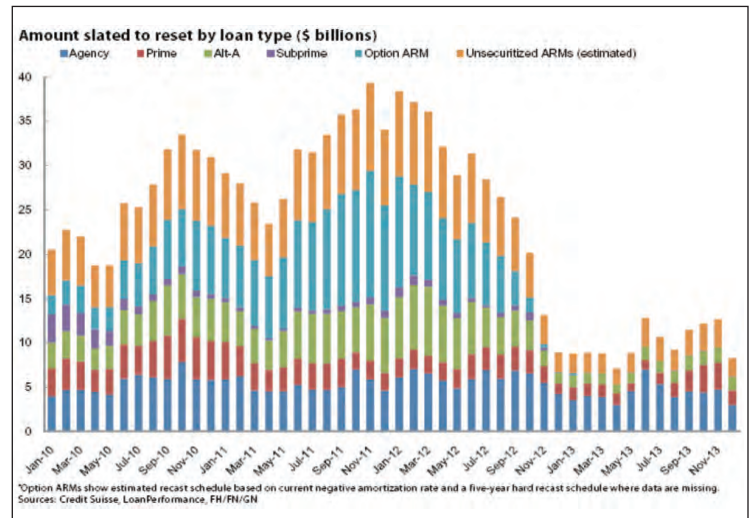


(Source: Bloomberg; MBA)

Escalating mortgage rates will also adversely affect adjustable rate mortgages (ARMs) which are set to recast—a dynamic which does not bode well for the already high level of foreclosure and delinquency rates, which we discuss next. While a good portion of ARM resets has already filtered through—contributing to the steady increase in delinquency and foreclosure rates over the past few years—as you can see to the right, it is estimated that there are still approximately \$700 billion of cumulative ARMs set to recast by 2013. For many borrowers who took out interest-only (IO) ARMs, the initial “teaser” rate period—usually two or three years—during which they only made interest payments and no principal payments, has either already lapsed or soon will. After the teaser period ends, the mortgage resets to a higher interest rate payment but the mortgage does not typically begin re-amortizing until after the fifth year. As such, borrowers feel significant payment shocks since they now have to pay back *both the interest as well as the principal*—only now the principal is re-amortized over a shorter period of time (e.g., from 30 years to 25 years), which causes substantially higher monthly mortgage payments. Even further hurting IO ARM borrowers is that, for many, their original plan of staying in the home for a few years and then either refinancing their mortgage to a 30-year fixed rate loan or selling their home and moving has gone out the window, as home prices continue to fall and erode whatever home equity they may have built.

There is also the issue of the more dangerous payment option ARMs which have begun to recast, as well. These mortgages were set up to have borrowers make very low monthly payments and provide them with the ability to negatively amortize their principal in order to cover the mortgage interest payments—thus, the term “payment option” mortgage. As a result, many parties used this form of mortgage in order to purchase a more expensive home than they could afford, which only drove themselves deeper into debt as housing values started to fall. It is estimated that payment option mortgages originated between 2004 and 2007 have been amortizing at a rate of about 88%. As you can also see from the following chart, we are now in the major repricing wave, whereby these mortgages will have to fully amortize, thereby causing massive payment shocks and spikes in delinquencies and foreclosures.

In addition to escalating mortgage rates causing the price of buying a home to increase and causing ARMs to recast at higher levels, it is also important to remember that the housing market is being negatively impacted by a much tighter credit environment. Consequently, many would-be



(Source: Credit Suisse)

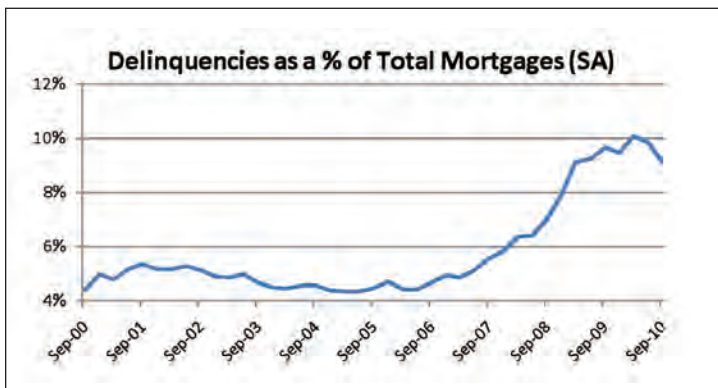
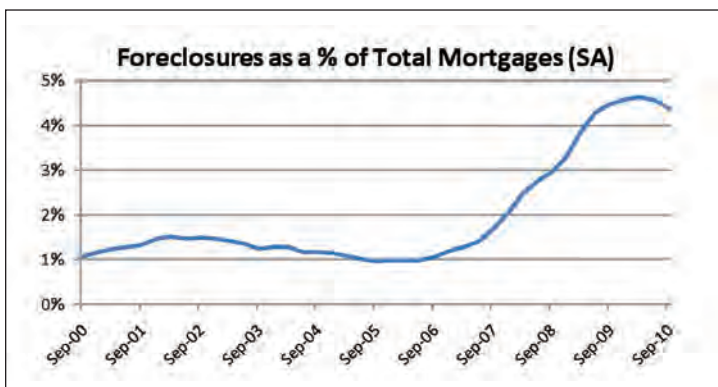
homeowners have not been able to obtain a mortgage, other than qualifying for a loan via the FHA. However, now that the FHA has finally moved to tighten its lending standards, it has made it even more difficult for this demographic of potential homeowners. As an update of what we discussed in our *April Monthly Overview*, as of October 4<sup>th</sup>, HUD (FHA’s supervisor) is allowed to increase the annual mortgage insurance premium from 0.5% to 1.5% on loans with a down payment of 5% or more. Insurance premiums on loans with less than 5% down payment also increased by 100 basis points, to 1.55%. Furthermore, those with credit scores of between 500 and 579 must put down 10%—a huge jump from the previous requirement of 3.5%, while those who have a credit score of less than 500 are not eligible for FHA financing. In addition to the tougher obstacles now facing borrowers out of the FHA, as of December 13<sup>th</sup>, Fannie Mae announced tighter standards, as its maximum debt-to-income ratio (the percentage of a borrower’s total debts compared to their gross monthly income) for those seeking a conventional mortgage dropped to 45% from 55%. Additionally, Fannie Mae is now preventing borrowers who have been through foreclosure from obtaining a Fannie Mae-backed loan for seven years, up from five years previously. Obviously, the recent stricter guidelines coming out of the FHA and Fannie Mae do not portend well for a housing market in which the government guarantees an estimated 90% of all mortgages.

Perhaps the most serious issue preventing the housing market from returning to any realm of normalcy is the elevated level of foreclosure and delinquency rates. While we recognize that the economic recovery has led to some improvement in credit since the depths of the financial crisis, as reflected in the MBA’s foreclosure and delinquency rates ticking down

in the third quarter to 4.39% and 9.13%, respectively, these metrics still remain near record levels and it was inevitable that they would, at one point, inch lower one quarter. However, looking past the headline figures, it is meaningful to note that the prime loan foreclosure rate hit an all-time high of 2.45%. This illustrates that this housing crisis encompasses all types of borrowers, as the unemployment tax has not discriminated against higher or lower credit quality or income households. Additionally, nearly 14%, or one out of every seven mortgages, is in some stage of delinquency or foreclosure, representing approximately seven million mortgages.

development of lenders' alleged false representations in other publications, we will only reiterate that this ongoing situation will also, obviously, have a negative impact as the foreclosure pipeline becomes even further backed up. This logjam comes at the worst possible time for the housing market on account of inventories persisting at elevated levels—particularly when one considers that, according to RealtyTrac, nearly 2.9 million homes received a foreclosure filing in 2010 (an increase of 2% from 2009 and 23% from 2008) and the numbers are slated to rise yet again in 2011.

As if *all* of these issues were not enough, the last challenge which we see as a significant impediment to any sustainable housing recovery continues to loom over the U.S. economy like a dark cloud overhead: an economic environment in which nearly 14.5 million workers remain unemployed. Unfortunately, we believe that these high levels of unemployment are likely to persist throughout 2011 and into 2012—a dire predicament for the housing market and the economy as, without job stability, sales activity will remain depressed, which will only cause prices to continue to trend lower. Perhaps even more disturbing than the prospects of being unemployed is just how difficult it is for the unemployed to once again attain employment, as nearly 60% have been unemployed for at least 15 weeks and a staggering 44% have been without work for at least 27 weeks. With such draconian figures, one cannot help but empathize with the nearly one in 11 who are currently unemployed. While the mass layoffs may have dwindled, large and small businesses alike are still being very cost conscious and not ramping up hiring.



(Source: Bloomberg; MBA; latest data as of Q3 2010)

Furthermore, despite RealtyTrac reporting that foreclosure filings fell by 2% in December—resulting in the lowest monthly total since December 2008—and plunged in November by 21% from the prior month—the steepest decline since this data series began in January 2005—this precipitous decline over the last two months was due to the foreclosure moratoriums announced by some of the largest mortgage lenders beginning in October while they look into allegations of improper documentation and so-called “robo signers”. As such, we would expect foreclosure filings to rise in the next few months as this latest mortgage fiasco is worked through. Given that we have addressed this recent

The treacherous employment landscape will also keep housing inventories at high levels due to the slowing of U.S. household formation—an issue that we feel is not being discussed enough as part of the recently completed 2010 Census. During the Great Depression, the U.S. experienced negative household formation on account of the epically horrendous economic conditions and a national unemployment rate of 25%. While we are not saying that this country will experience the dynamics of a negative household formation similar to what we saw in the 1930’s, we do believe that household formation—a key driver of demand for the housing market—will be less than what people are estimating. A simple way to view this is via anecdotal evidence: how many of you know a recent college graduate who is having trouble finding work and has to live back with their parents? Or, how many of you know of someone who

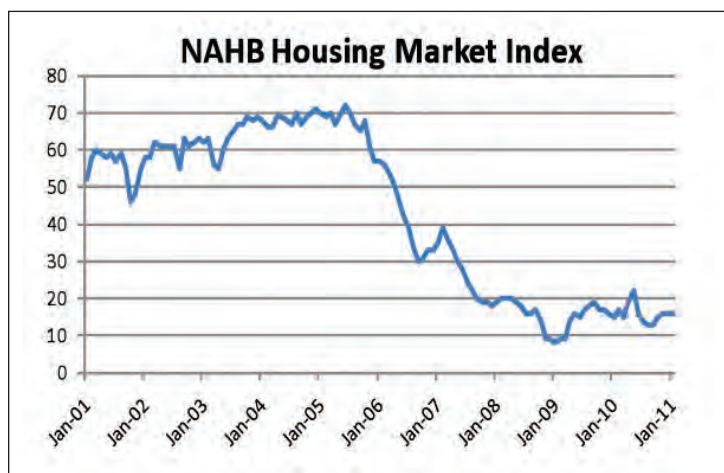
has lost a job and is forced to move in with relatives? While this may not be as prevalent in the Boston to Washington, D.C. corridor—an area which is a poor representation of what the real U.S. economy is experiencing—we know that the majority of the country is dealing with economic hardships that result in the aforementioned scenarios. As household formation continues to lag amidst high levels of unemployment, this will only dry up housing demand even further.

Consequently, after years of excess building and flooding the housing market with too much supply, home builders are finally coming to grips with the fact that homeowners are simply not able to purchase homes with the reckless ease as they did during the housing boom when the economy was humming, jobs were plentiful, and credit was available for everyone. This building spree has, of course, reversed course on account of the instability in the job market, homeowners being upside down on their mortgage, stricter lending standards, and the fact that household formation has slowed amidst the worst economic environment since the Great Depression. This new reality is clearly reflected in not only the National Association of Home Builders' (NAHB) confidence index but, as you can also see below, housing starts remain lower by 77% from the housing boom peak in January 2006. Given the challenges that we have discussed in this piece, we do not expect either chart to look much different come year's end.



(Source: Bloomberg)

Again, while we certainly do not take any pleasure in reaching these conclusions, we feel that it would be unfair to attempt to paint a rosier picture than what we are really seeing. The truth of the matter is that the dynamics caused by these headwinds which we have discussed will take time to reverse course—and without having the crutch of the government—before there is a sustainable recovery in the housing market. And while we remain optimistic for the sake of this country and its future prospects that, at some point, housing will find itself another, long portion of rope by which to begin climbing out of this deep hole, there is still some pain and sacrifices which must be endured before that road to a lasting recovery can begin to be traversed.



(Source: Bloomberg)

## Federal Reserve Aggregate Bank Data

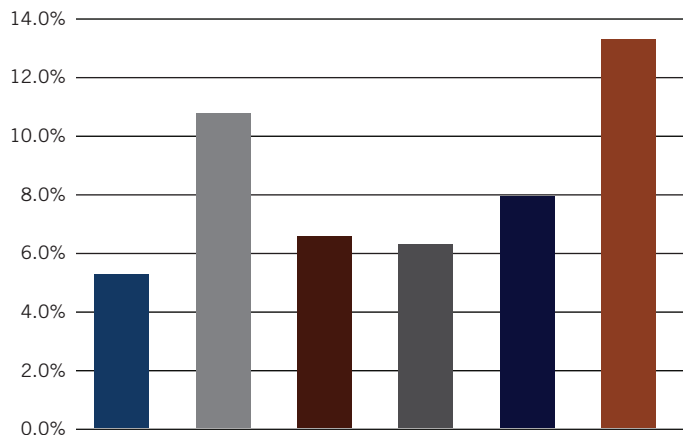
	11/2009	3/2010	4/2010	5/2010	6/2010	7/2010	8/2010	9/2010	10/2010	11/2010	MoM	YoY
<b>ASSETS</b>												
Securities												
Secs in Bank Credit	2,309	2,332	2,330	2,305	2,287	2,362	2,406	2,437	2,451	2,456	0.2%	6.4%
Treasury & Agency	1,381	1,453	1,500	1,495	1,496	1,549	1,585	1,607	1,632	1,638	0.4%	18.6%
Other	928	879	830	809	791	814	821	830	820	818	-0.2%	-11.8%
Loans and Leases												
C&I	1,367	1,276	1,264	1,246	1,242	1,237	1,241	1,223	1,219	1,212	-0.6%	-11.3%
Real Estate	3,819	3,707	3,713	3,700	3,677	3,656	3,649	3,638	3,621	3,621	0.0%	-5.2%
Consumer	842	902	1,178	1,165	1,167	1,169	1,161	1,142	1,520	1,120	-26.3%	33.0%
Other	763	762	777	783	775	787	785	796	811	826	1.8%	8.2%
Other Assets	1,117	1,257	1,240	1,260	1,252	1,225	1,242	1,235	1,237	1,246	0.7%	11.6%
<b>Total Assets</b>	<b>11,769</b>	<b>11,723</b>	<b>11,869</b>	<b>11,875</b>	<b>11,822</b>	<b>11,963</b>	<b>12,054</b>	<b>11,947</b>	<b>12,026</b>	<b>11,974</b>	<b>-0.4%</b>	<b>1.7%</b>
<b>LIABILITIES</b>												
Deposits												
Large Time	1,880	1,852	1,800	1,746	1,753	1,769	1,778	1,793	1,793	1,769	-1.3%	-5.9%
Other	5,802	5,842	5,867	5,913	5,940	5,980	6,022	6,059	6,102	6,133	0.5%	5.7%
Borrowings	1,959	1,861	1,898	2,045	2,001	1,995	2,000	1,922	1,928	1,900	-1.4%	-3.0%
Other Liabilities	406	422	434	457	450	452	459	480	484	475	-1.9%	16.9%
<b>Total Liabilities</b>	<b>10,529</b>	<b>10,310</b>	<b>10,445</b>	<b>10,450</b>	<b>10,416</b>	<b>10,585</b>	<b>10,653</b>	<b>10,631</b>	<b>10,679</b>	<b>10,595</b>	<b>-0.8%</b>	<b>0.6%</b>
<b>Residual (assets less liabilities)</b>	<b>1,240</b>	<b>1,414</b>	<b>1,425</b>	<b>1,425</b>	<b>1,405</b>	<b>1,378</b>	<b>1,401</b>	<b>1,316</b>	<b>1,347</b>	<b>1,379</b>	<b>2.4%</b>	<b>11.2%</b>

all values in \$ billions

SOURCE: Federal Reserve Documents

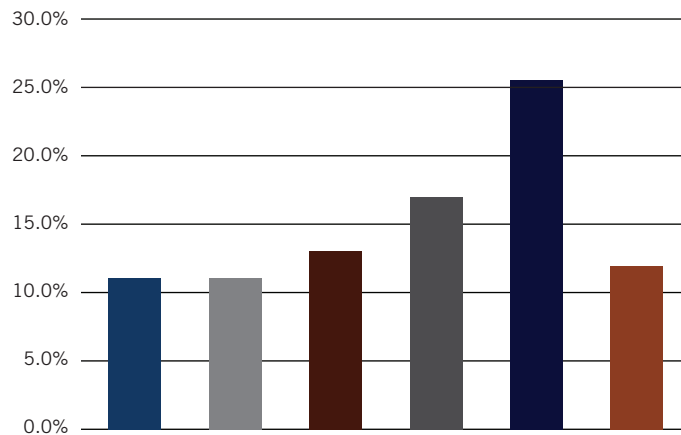
## Major Market Index Performance

December 2010



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

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

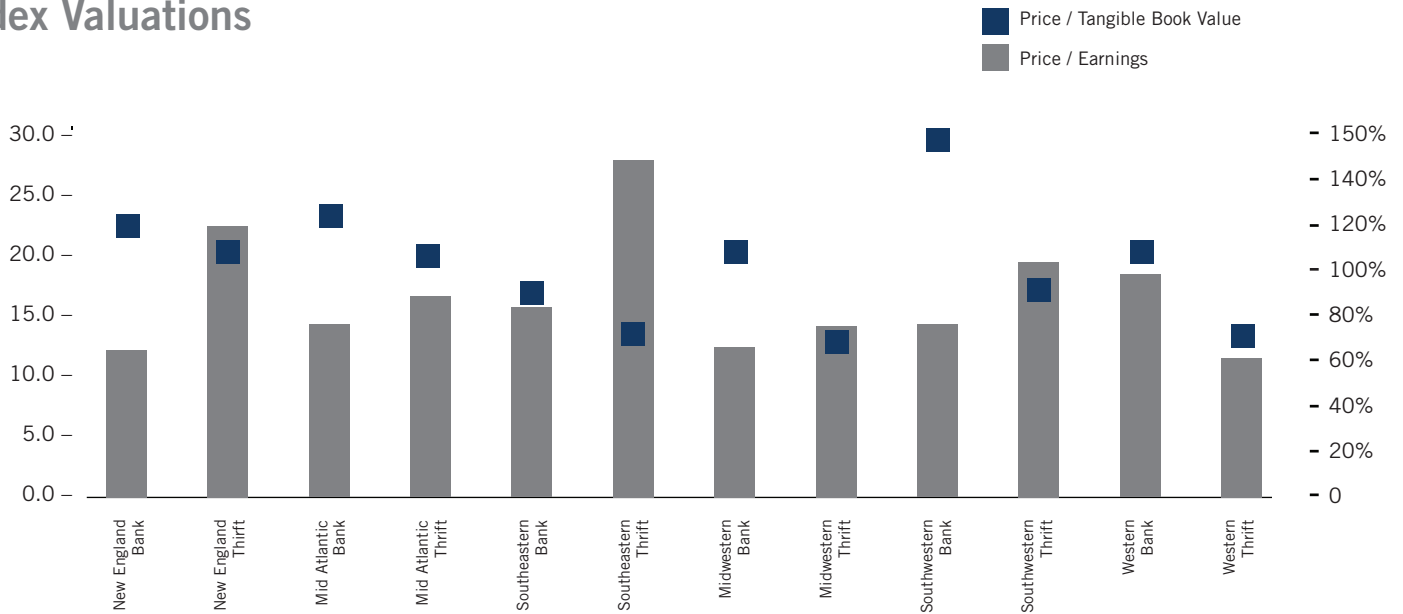
	1/2010	2/2010	3/2010	4/2010	5/2010	6/2010	7/2010	8/2010	9/2010	10/2010	11/2010	12/2010
Dow Jones	-3.5%	2.6%	5.1%	1.4%	-7.9%	-3.6%	7.1%	-4.3%	7.7%	2.6%	-1.0%	5.2%
S&P Financial	-1.5%	3.4%	8.8%	1.3%	-9.2%	-6.0%	6.6%	-7.9%	6.0%	1.3%	-0.9%	10.6%
S&P 500	-3.7%	2.9%	5.9%	1.5%	-8.2%	-5.4%	6.9%	-4.7%	8.8%	3.4%	-0.2%	6.5%
NASDAQ	-5.4%	4.2%	7.1%	2.6%	-8.3%	-6.5%	6.9%	-6.2%	12.0%	5.5%	-0.4%	6.2%
Russell 2000	-3.7%	4.4%	8.0%	5.6%	-7.7%	-7.9%	6.8%	-7.5%	12.3%	3.8%	3.4%	7.8%
NASDAQ Bank	4.6%	1.7%	6.4%	6.4%	-9.0%	-7.0%	3.0%	-10.5%	6.6%	0.3%	-0.9%	13.2%

SOURCE: Bloomberg, LLC

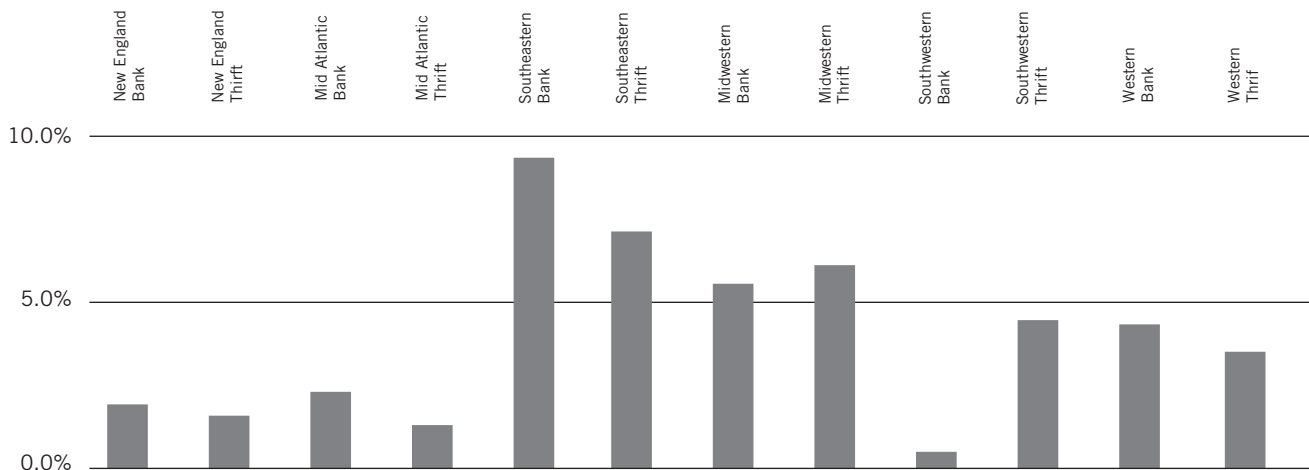
## Bank and Thrift Index Valuations

		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	10.5	12.6	111%	105%	155%	119%	3.9%	1.8%	28.7%	20
	Thrift	24.6	22.6	96%	97%	123%	112%	11.0%	1.5%	24.2%	22
<b>Mid Atlantic</b>	Bank	13.7	14.7	101%	105%	163%	123%	4.7%	2.2%	16.6%	85
	Thrift	16.0	15.9	127%	94%	171%	107%	5.4%	1.2%	12.8%	51
<b>Southeastern</b>	Bank	11.2	15.5	82%	72%	118%	87%	12.5%	9.0%	-1.9%	104
	Thrift	11.4	27.3	104%	71%	105%	71%	10.7%	6.8%	-19.7%	13
<b>Midwestern</b>	Bank	13.8	13.9	134%	89%	173%	112%	10.4%	5.3%	16.8%	82
	Thrift	11.3	14.2	71%	64%	74%	68%	5.2%	5.9%	5.8%	38
<b>Southwestern</b>	Bank	15.7	16.8	115%	122%	148%	149%	7.9%	0.5%	24.8%	19
	Thrift	13.2	19.4	124%	88%	126%	90%	4.9%	4.3%	-13.7%	7
<b>Western</b>	Bank	14.9	18.1	115%	104%	147%	112%	9.7%	4.2%	7.9%	50
	Thrift	11.0	11.3	79%	73%	84%	76%	7.9%	3.4%	20.4%	12

## Index Valuations



## YTD Price Performance



SOURCE: SNL Financial and Bloomberg, LLC

## Economic Data Points - December 2010

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
12/1	MBA Mortgage Applications	26-Nov	--	-16.50%	2.10%	--	12/15	Consumer Price Index (MoM)	NOV	0.20%	0.10%	0.20%	--
12/1	Challenger Job Cuts YoY	NOV	--	-3.30%	-31.80%	--	12/15	CPI Ex Food & Energy (MoM)	NOV	0.10%	0.10%	0.00%	--
12/1	ADP Employment Change	NOV	70K	93K	43K	82K	12/15	Consumer Price Index (YoY)	NOV	1.10%	1.10%	1.20%	--
12/1	ISM Manufacturing	NOV	56.5	56.6	56.9	--	12/15	CPI Ex Food & Energy (YoY)	NOV	0.60%	0.80%	0.60%	--
12/1	Construction Spending MoM	OCT	-0.30%	0.70%	0.50%	0.70%	12/15	Empire Manufacturing	DEC	5	10.57	-11.14	--
12/1	Fed's Beige Book	1-Dec					12/15	Industrial Production	NOV	0.30%	0.40%	0.00%	-0.20%
12/1	Domestic Vehicle Sales	NOV	9.03M	9.27M	9.27M	--	12/15	Capacity Utilization	NOV	75.00%	75.20%	74.80%	74.90%
12/1	Total Vehicle Sales	NOV	12.10M	12.26M	12.25M	--	12/15	NAHB Housing Market Index	DEC	16	16	16	--
12/2	Initial Jobless Claims	27-Nov	424K	436K	407K	410K	12/16	Housing Starts	NOV	550K	555K	519K	534K
12/2	Continuing Claims	20-Nov	4200K	4270K	4182K	4217K	12/16	Housing Starts MoM%	NOV	6.00%	3.90%	-11.70%	-11.10%
12/2	Pending Home Sales MoM	OCT	-1.00%	10.40%	-1.80%	--	12/16	Building Permits	NOV	560K	530K	550K	552K
12/3	Change in Nonfarm Payrolls	NOV	150K	39K	151K	172K	12/16	Building Permits MoM%	NOV	1.50%	-4.00%	0.50%	0.90%
12/3	Change in Private Payrolls	NOV	160K	50K	159K	160K	12/16	Initial Jobless Claims	11-Dec	425K	420K	421K	423K
12/3	Unemployment Rate	NOV	9.60%	9.80%	9.60%	--	12/16	Continuing Claims	4-Dec	4115K	4135K	4086K	4114K
12/3	Avg Hourly Earning MoM All Emp	NOV	0.20%	0.00%	0.20%	0.30%	12/20	Chicago Fed Nat Activity Index	NOV	0	-0.46	-0.28	-0.25
12/3	Avg Hourly Earning YoY All Emp	NOV	1.70%	1.60%	1.70%	--	12/22	MBA Mortgage Applications	17-Dec	--	-18.60%	-2.30%	--
12/3	ISM Non-Manf. Composite	NOV	54.8	55	54.3	--	12/22	GDP QoQ (Annualized)	3Q T	2.80%	2.60%	2.50%	--
12/3	Factory Orders	OCT	-1.20%	-0.90%	2.10%	3.00%	12/22	Personal Consumption	3Q T	2.90%	2.40%	2.80%	--
12/7	JOLTs Job Openings	OCT	--	3362	2929	3011	12/22	Existing Home Sales	NOV	4.75M	4.68M	4.43M	--
12/7	Consumer Credit	OCT	-\$1.0B	\$3.4B	\$2.1B	\$1.2B	12/22	Existing Home Sales MoM	NOV	7.10%	5.60%	-2.20%	--
12/8	MBA Mortgage Applications	3-Dec	--	-0.90%	-16.50%	--	12/23	Durable Goods Orders	NOV	-0.50%	-1.30%	-3.30%	-3.10%
12/9	Initial Jobless Claims	4-Dec	425K	421K	436K	438K	12/23	Durables Ex Transportation	NOV	1.80%	2.40%	-2.70%	-2.00%
12/9	Continuing Claims	27-Nov	4237K	4086K	4270K	4277K	12/23	Personal Income	NOV	0.20%	0.30%	0.50%	0.40%
12/9	Wholesale Inventories	OCT	0.80%	1.90%	1.50%	2.10%	12/23	Personal Spending	NOV	0.50%	0.40%	0.40%	0.70%
12/10	Trade Balance	OCT	-\$43.8B	-\$38.7B	-\$44.0B	-\$44.6B	12/23	Initial Jobless Claims	18-Dec	420K	420K	420K	423K
12/10	U. of Michigan Confidence	DEC P	72.5	74.2	71.6	--	12/23	Continuing Claims	11-Dec	4105K	4064K	4135K	4167K
12/14	NFIB Small Business Optimism	NOV	92.3	93.2	91.7	--	12/23	U. of Michigan Confidence	DEC F	74.5	74.5	74.2	--
12/14	Advance Retail Sales	NOV	0.60%	0.80%	1.20%	1.70%	12/23	New Home Sales	NOV	300K	290K	283K	275K
12/14	Retail Sales Less Autos	NOV	0.60%	1.20%	0.40%	0.80%	12/23	New Home Sales MoM	NOV	6.00%	5.50%	-8.10%	-10.70%
12/14	Retail Sales Ex Auto & Gas	NOV	0.60%	0.80%	0.40%	0.80%	12/28	S&P/CS 20 City MoM% SA	OCT	-0.60%	-0.99%	-0.80%	-0.96%
12/14	Producer Price Index (MoM)	NOV	0.60%	0.80%	0.40%	--	12/28	S&P/CS Composite-20 YoY	OCT	-0.20%	-0.80%	0.59%	0.44%
12/14	PPI Ex Food & Energy (MoM)	NOV	0.20%	0.30%	-0.60%	--	12/28	Consumer Confidence	DEC	56.3	52.5	54.1	54.3
12/14	Producer Price Index (YoY)	NOV	3.30%	3.50%	4.30%	--	12/28	Richmond Fed Manufact. Index	DEC	11	25	9	--
12/14	PPI Ex Food & Energy (YoY)	NOV	1.20%	1.20%	1.50%	--	12/30	Initial Jobless Claims	25-Dec	415K	388K	420K	420K
12/14	Business Inventories	OCT	1.00%	0.70%	0.90%	1.30%	12/30	Continuing Claims	18-Dec	4084K	4128K	4064K	4070K
12/14	FOMC Rate Decision	14-Dec	0.25%	0.25%	0.25%	--	12/30	Pending Home Sales MoM	NOV	0.80%	3.50%	10.40%	10.10%
12/15	MBA Mortgage Applications	10-Dec	--	-2.30%	-0.90%	--	12/30	Pending Home Sales YoY	NOV	--	-2.40%	-22.40%	-22.60%

SOURCE: Bloomberg, LLC

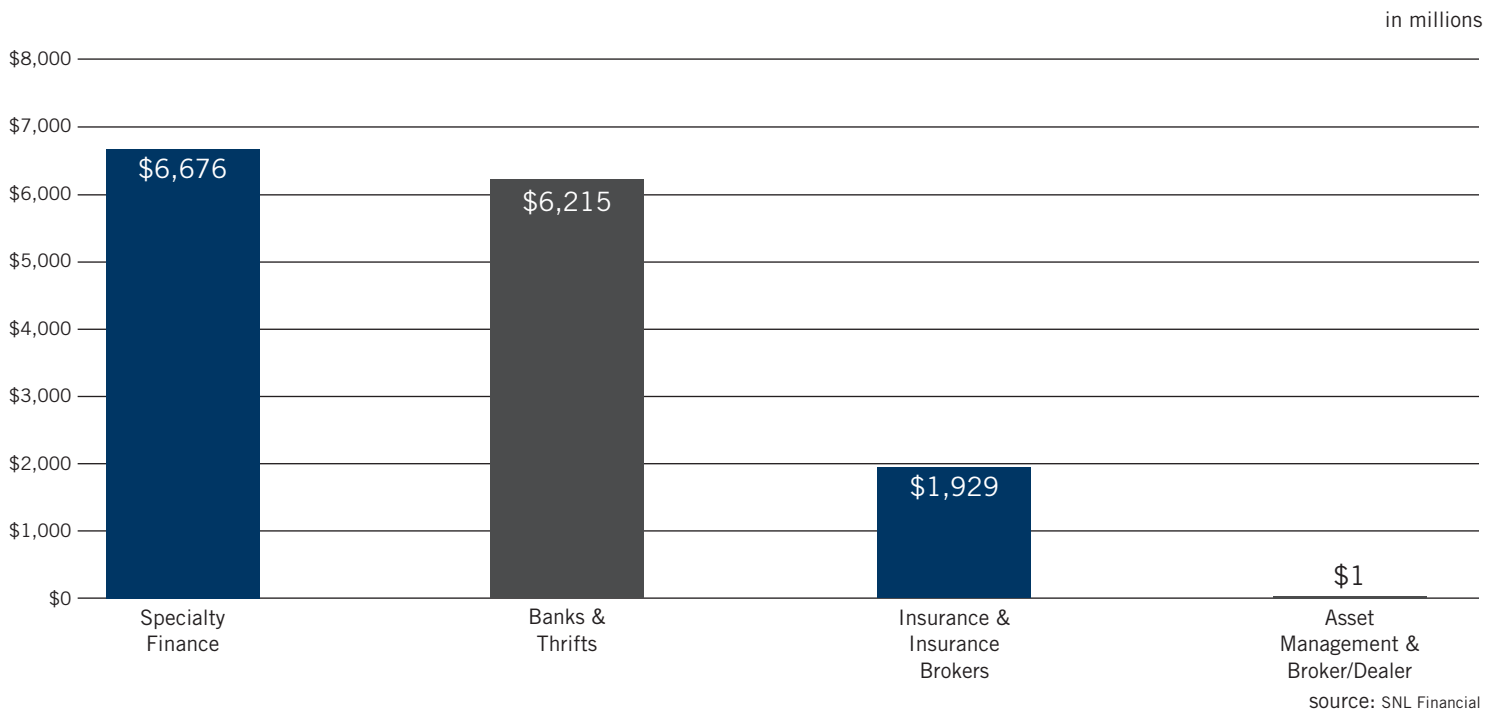
## Economic Data Points - January 2011

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
1/3	ISM Manufacturing	DEC	57	57	56.6	--	1/14	U. of Michigan Confidence	JAN P	75.5	72.7	74.5	--
1/3	Construction Spending MoM	NOV	0.20%	0.40%	0.70%	--	1/14	Business Inventories	NOV	0.70%	0.20%	0.70%	0.80%
1/4	Factory Orders	NOV	-0.10%	0.70%	-0.90%	-0.70%	1/18	Empire Manufacturing	JAN	13	11.92	10.57	9.89
1/4	Minutes of FOMC Meeting	4-Jan					1/18	Total Net TIC Flows	NOV	--	\$39.0B	\$7.5B	\$15.1B
1/4	Domestic Vehicle Sales	DEC	9.21M	9.46M	9.27M	--	1/18	NAHB Housing Market Index	JAN	17	16	16	--
1/4	Total Vehicle Sales	DEC	12.30M	12.53M	12.26M	--	1/19	Housing Starts	DEC	550K	--	555K	--
1/5	MBA Mortgage Applications	31-Dec	--	2.30%	-3.90%	--	1/19	Housing Starts MoM%	DEC	-0.90%	--	3.90%	--
1/5	Challenger Job Cuts YoY	DEC	--	-29.00%	-3.30%	--	1/19	Building Permits	DEC	555K	--	530K	544K
1/5	ADP Employment Change	DEC	100K	297K	93K	92K	1/19	Building Permits MoM%	DEC	2.00%	--	-4.00%	-1.40%
1/5	ISM Non-Manf. Composite	DEC	55.7	57.1	55	--	1/20	Initial Jobless Claims	15-Jan	425K	--	445K	--
1/6	Initial Jobless Claims	1-Jan	408K	409K	388K	391K	1/20	Continuing Claims	8-Jan	3985K	--	3879K	--
1/6	Continuing Claims	25-Dec	4080K	4103K	4128K	4150K	1/20	Existing Home Sales	DEC	4.86M	--	4.68M	--
1/7	Change in Nonfarm Payrolls	DEC	150K	103K	39K	71K	1/20	Existing Home Sales MoM	DEC	3.80%	--	5.60%	--
1/7	Change in Private Payrolls	DEC	178K	113K	50K	79K	1/25	S&P/CS 20 City MoM% SA	NOV	--	--	-0.99%	--
1/7	Unemployment Rate	DEC	9.70%	9.40%	9.80%	--	1/25	S&P/CS Composite-20 YoY	NOV	--	--	-0.80%	--
1/7	Avg Hourly Earning YoY All Emp	DEC	1.80%	1.80%	1.60%	--	1/25	Consumer Confidence	JAN	55	--	52.5	--
1/7	Consumer Credit	NOV	\$0.500B	\$1.346B	\$3.400B	\$7.000B	1/26	MBA Mortgage Applications	21-Jan	--	--	--	--
1/11	NFIB Small Business Optimism	DEC	94.5	92.6	93.2	--	1/26	New Home Sales	DEC	300K	--	290K	--
1/11	JOLTs Job Openings	NOV	--	3248	3362	3328	1/26	New Home Sales MoM	DEC	3.50%	--	5.50%	--
1/11	Wholesale Inventories	NOV	1.00%	-0.20%	1.90%	1.70%	1/26	FOMC Rate Decision	26-Jan	0.25%	--	0.25%	0.25%
1/12	MBA Mortgage Applications	7-Jan	--	2.20%	2.30%	--	1/27	Durable Goods Orders	DEC	1.50%	--	-1.30%	-0.30%
1/12	Fed's Beige Book	23-Apr					1/27	Durables Ex Transportation	DEC	0.80%	--	2.40%	3.60%
1/13	Initial Jobless Claims	8-Jan	410K	445K	409K	410K	1/27	Initial Jobless Claims	22-Jan	--	--	--	--
1/13	Continuing Claims	1-Jan	4088K	3879K	4103K	4127K	1/27	Continuing Claims	15-Jan	--	--	--	--
1/13	Producer Price Index (MoM)	DEC	0.80%	1.10%	0.80%	--	1/27	Pending Home Sales MoM	DEC	1.00%	--	3.50%	--
1/13	PPI Ex Food & Energy (MoM)	DEC	0.20%	0.20%	0.30%	--	1/27	Pending Home Sales YoY	DEC	--	--	-2.40%	--
1/13	Producer Price Index (YoY)	DEC	3.80%	4.00%	3.50%	--	1/28	GDP QoQ (Annualized)	4Q A	3.60%	--	2.60%	--
1/13	PPI Ex Food & Energy (YoY)	DEC	1.40%	1.30%	1.20%	--	1/28	Personal Consumption	4Q A	4.10%	--	2.40%	--
1/13	Trade Balance	NOV	-\$40.5B	-\$38.3B	-\$38.7B	-\$38.4B	1/28	U. of Michigan Confidence	JAN F	74.7	--	72.7	--
1/14	Consumer Price Index (MoM)	DEC	0.40%	0.50%	0.10%	--	1/31	PCE Core (MoM)	DEC	--	--	0.10%	--
1/14	CPI Ex Food & Energy (MoM)	DEC	0.10%	0.10%	0.10%	--	1/31	Personal Spending	DEC	0.60%	--	0.40%	--
1/14	Consumer Price Index (YoY)	DEC	1.30%	1.50%	1.10%	--	1/31	PCE Core (YoY)	DEC	--	--	0.80%	--
1/14	CPI Ex Food & Energy (YoY)	DEC	0.70%	0.80%	0.80%	--	1/31	PCE Deflator (YoY)	DEC	--	--	1.00%	--
1/14	Advance Retail Sales	DEC	0.80%	0.60%	0.80%	--	1/31	Personal Income	DEC	0.40%	--	0.30%	--
1/14	Retail Sales Ex Auto & Gas	DEC	0.30%	0.40%	0.80%	0.60%	1/31	Chicago Purchasing Manager	JAN	--	--	68.6	66.8
1/14	Industrial Production	DEC	0.50%	0.80%	0.40%	0.30%	1/31	NAPM-Milwaukee	JAN	--	--	--	--
1/14	Capacity Utilization	DEC	75.60%	76.00%	75.20%	75.40%	1/31	Dallas Fed Manf. Activity	JAN	--	--	12.8	--

SOURCE: Bloomberg, LLC

## M&A Transaction Update

### Announced Transactions - December 2010



### Deal Count - December 2010

Insurance & Insurance Brokerage	43
Asset Management & Broker/Dealer	14
Bank & Thrift	12
Specialty Finance	9

SOURCE: SNL Financial

### Deal Count - 2010 YTD

Insurance & Insurance Brokerage	250
Bank & Thrift	170
Asset Management & Broker/Dealer	128
Specialty Finance	69

SOURCE: SNL Financial

### Top Financial Advisors in Bank and Thrift Transactions

Last Five Years, Sell-Side Advisory Transactions

Rank	Firm	# of Deals
1	Keefe, Bruyette & Woods, Inc.	94
2	Sandler O'Neill & Partner, LP	89
<b>3</b>	<b>Hovde Financial</b>	<b>61</b>
4	Howe Barnes Hoefer & Arnett, Inc.	50
5	Stifel, Nicolaus & Company, Inc.	34
6	Sheshunoff & Co. Investment Banking, LP	29
7	Capitol Corporation, LLC.	15
8	Professional Bank Services Inc.	13
9	Austin Associates, LLC	12
9	Goldman, Sachs & Co.	12

SOURCE: SNL Financial (data from 12/31/2005-12/31/2010)

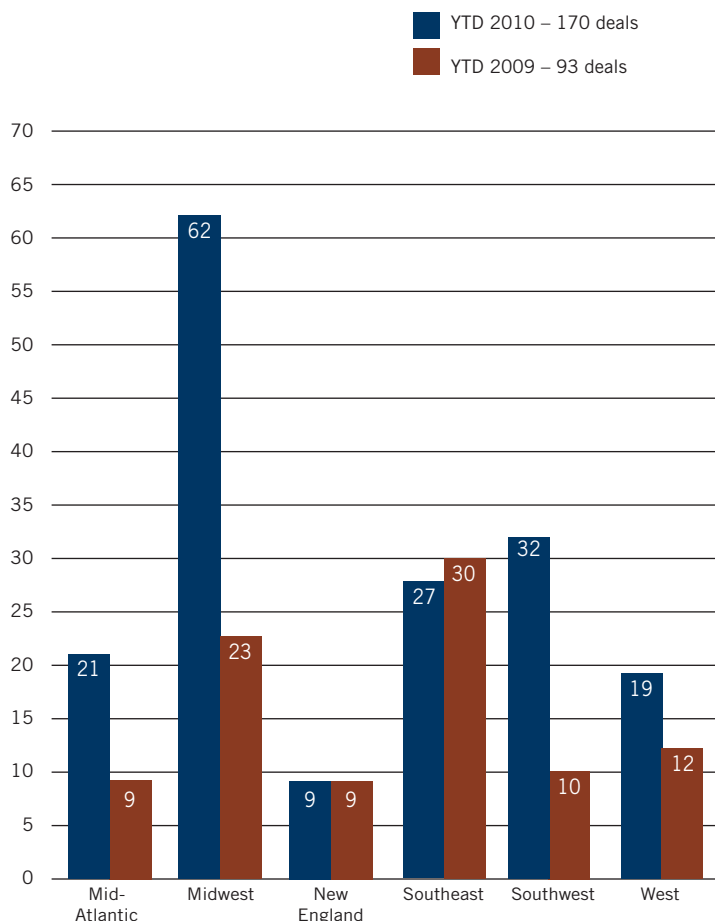
## Bank & Thrift Transactions - December 2010

Buyer	Buyer State	Target	Target State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
Nara Bancorp, Inc.	CA	Center Financial Corporation	CA	12/09/10	286.3	NM	NM	NM
C.S.B. Company	NE	FNS Inc.	NE	12/14/10	NA	NA	NA	NA
Norwood Financial Corp.	PA	North Penn Bancorp, Inc.	PA	12/14/10	27.5	20.63	125.21	6.45
American National Bankshares Inc.	VA	MidCarolina Financial Corporation	NC	12/15/10	38.7	52.34	104.12	-1.02
United Bankshares, Inc.	WV	Centra Financial Holdings, Inc.	WV	12/15/10	185.4	22.18	146.30	6.78
Citizens National Bancshares of Bossier, Inc.	LA	Citizens Bankshares of Springhill, Inc.	LA	12/16/10	NA	NA	NA	NA
BMO Financial Group	Canada	Marshall & Ilsley Corporation	WI	12/17/10	4,096.0	NM	97.63	-5.42
Hancock Holding Company	MS	Whitney Holding Corporation	LA	12/21/10	1,468.4	NM	163.73	3.55
Berkshire Hills Bancorp, Inc.	MA	Legacy Bancorp, Inc.	MA	12/21/10	112.8	NM	110.70	1.88
Liberty Bancshares, Inc.	MO	Village Bancshares, Inc.	MO	12/23/10	NA	NA	NA	NA
University Financial Corp, Inc.	MN	Rosemount Financial Services, Inc.	MN	12/29/10	NA	NA	NA	NA
First Prestonsburg Bancshares, Inc.	KY	Short Holding Company	KY	12/30/10	NA	NA	NA	NA

SOURCE: SNL Financial. Please note that prior data is updated by the source provider on a regular basis.

## Bank & Thrift Transactions

by Region



SOURCE: SNL Financial

## Deal Pricing by Region - 2010 YTD

Region	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
Mid-Atlantic	\$937	114.48	19.7	5.78
Midwest	\$4,459	105.60	17.1	2.06
New England	\$1,918	128.74	23.8	6.93
Southeast	\$566	87.87	31.5	0.59
Southwest	\$1,621	152.55	21.9	10.06
West	\$411	100.73	43.1	2.13
<b>Total</b>	<b>\$9,912</b>	<b>112.38</b>	<b>25.4</b>	<b>4.20</b>

SOURCE: SNL Financial. Please note that prior data is updated by the source provider on a regular basis.

## Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
2Q2008	\$1,884	176.6	29.3	8.9
3Q2008	\$27,194	152.5	25.9	12.2
4Q2008	\$1,430	116.0	32.6	6.6
1Q2009	\$259	89.5	18.8	3.3
2Q2009	\$402	99.6	19.4	12.6
3Q2009	\$643	102.7	8.4	3.9
4Q2009	\$271	107.8	20.0	5.6
1Q2010	\$271	110.9	33.9	6.0
2Q2010	\$585	100.7	32.0	5.4
3Q2010	\$1,978	99.8	20.0	4.8
4Q2010	\$878	102.7	20.1	2.6

SOURCE: SNL Financial. Please note that prior data is updated by the source provider on a regular basis.

## Insurance and Insurance Brokerage Transactions - December 2010

Buyer	Target	Announced	DV (\$MM)
Arthur J. Gallagher & Co.	Premier Risk Services, Inc.	12/1/10	NA
Champion Risk & Insurance Brokers, L.P.	Leavitt Group Enterprises, Inc.	12/1/10	NA
Evercore Partners Inc.	Woodland Group	12/1/10	NA
KBS International Corp.	Ice Group	12/1/10	NA
Wells Fargo & Company	Prestige Professional Plans	12/1/10	NA
Brown & Brown, Inc.	Ruland & Mattingley Insurance Services, Inc.	12/2/10	NA
Integro, Ltd.	Reinsurance Advisory Services, Inc.	12/2/10	NA
Cretcher Heartland, LLC	CH Incorporated	12/6/10	NA
Risk Strategies Company, LLC	Cohn-Reid-O'Neill Insurance Services, Inc.	12/6/10	NA
Conifer Holdings Inc.	Woodbine Properties	12/8/10	NA
Brown & Brown, Inc.	Alliance Financial Corporation	12/8/10	NA
Ryan Specialty Group, LLC	OakBridge Insurance Services, LLC	12/8/10	NA
Eastern Atlantic Holdings Ltd.	Eastern Insurance Holdings, Inc.	12/9/10	5.3
Aon Corporation	Glenrand M-I-B	12/9/10	85.6
Goldman Sachs Group, Inc.	Paternoster Ltd.	12/10/10	NA
Aon Corporation	Insureforsure Ltd.	12/14/10	NA
Everest Re Group, Ltd.	Heartland Crop Insurance, Inc.	12/15/10	68.5
Arthur J. Gallagher & Co.	CA Group	12/16/10	NA
Arthur J. Gallagher & Co.	Herbruck, Alder & Company	12/16/10	NA
Undisclosed buyer	Extendicare Real Estate Investment Trust	12/17/10	8.0
Arthur J. Gallagher & Co.	Investor Group	12/20/10	NA
Arthur J. Gallagher & Co.	Tribeca Strategic Advisors, LLC	12/20/10	NA
Dawson Companies	American Agency, Inc.	12/20/10	NA
Hub International Limited	Leeds Insurance Brokers Inc.	12/20/10	NA
Enstar Group Limited	Hannover Rückversicherung AG	12/21/10	200.0
Hub International Limited	Phoenix Insurance Group	12/21/10	NA
RLI Corp.	Private investor - Mr. Donald Sirkin	12/22/10	137.2
Marsh & McLennan Companies, Inc.	Trion Group Inc.	12/22/10	NA
Compass Acquisition Holdings Corporation	Mastors & Servant Risk Services Limited	12/23/10	NA
Greenhill & Co., Inc.	Houston International Insurance Group	12/27/10	23.0
Cowen Group, Inc.	Eureka B.V.	12/28/10	151.6
Brown & Brown, Inc.	Comcover Insurance Group, Inc.	12/28/10	NA
First Financial Corporation	Clay Ladd, Inc.	12/28/10	NA
Genstar Capital, LLC	Specialty Auto Insurance Agency, Inc.	12/28/10	NA
CVS Caremark Corporation	Universal American Corp.	12/30/10	1,250.0
Blackstone Group L.P.	Olympus Partners	12/30/10	NA
Hylant Group, Inc.	Advanced Benefit Services, Inc.	12/30/10	NA
Hylant Group, Inc.	Business of Dale W. DeHaan	12/30/10	NA
Hylant Group, Inc.	Schlosser and Associates	12/30/10	NA
Enstar Group Limited	CIGNA's Workers' Comp & Personal Accident Reinsurance Business	12/31/10	NA
Genstar Capital, LLC	American Insurance Services, Inc.	12/31/10	NA
Hub International Limited	Sander A. Kessler & Associates, Inc.	12/31/10	NA
Wilson Smith Group, LLC	Greenwich Transportation Underwriters, Inc.	12/31/10	NA

SOURCE: SNL Financial

## Asset Management/Broker-Dealer Transactions - December 2010

Buyer	Target	Announced	DV (\$MM)
Munder Capital Holdings, LLC	Integrity Asset Management, LLC	12/1/10	NA
New York Life Insurance Company	Private Advisors, LLC	12/2/10	NA
Carlyle Group, LLC	Claren Road Asset Management, LLC	12/6/10	NA
Whitaker Bank Corporation of Kentucky	Kentucky Trust Company	12/6/10	NA
GEROVA Financial Group, Ltd.	Seymour Pierce Holdings Limited	12/7/10	NA
GEROVA Financial Group, Ltd.	Ticonderoga Securities LLC	12/7/10	NA
Davidson Companies	Silver Steep Partners, LLC	12/8/10	NA
Sterne, Agee & Leach, Inc.	KKS Securities	12/8/10	NA
Management group	Investor Group	12/13/10	NA
Duff & Phelps Corporation	Dynamic Credit Partners' U.S. consulting business	12/15/10	0.8
SVA Wealth Management, Inc.	Wisconsin Capital Management, LLC	12/20/10	NA
Commercial Industrial Finance Corp.	Deerfield Capital Corp.	12/21/10	NA
Sterne, Agee & Leach, Inc.	Nollenberger Capital Partners Inc.	12/23/10	NA
Morgan Joseph Holdings Inc.	Tri-Artisan Capital Partners, LLC	12/28/10	NA
Raymond James Financial, Inc.	Howe Barnes Hoefler & Arnett, Inc.	12/29/10	NA

SOURCE: SNL Financial

## Specialty Finance Transactions - December 2010

Buyer	Target	Announced	DV (\$MM)
Dollar Financial Corp.	NSF Nordic Special Finance's Sefina Finance AB	12/2/10	73.0
Bank of Nova Scotia	Investor group	12/6/10	NA
Management group	Federal National Payables, Inc.	12/15/10	NA
Ryder System, Inc.	Scully Companies, Inc.	12/16/10	NA
Ryder System, Inc.	Carmenita Leasing, Inc.	12/20/10	NA
Toronto-Dominion Bank	Chrysler Financial Corp.	12/21/10	6,300.0
Banco Santander SA	General Electric Capital Corporation's Consumer Mortgage Business	12/24/10	NA
Investor group	United PanAm Financial Corp.	12/28/10	107.8
Dollar Financial Corp.	CompuCredit Holdings Corporation's Purpose U.K. Holdings Limited	12/31/10	195.0

SOURCE: SNL Financial