



Hovde

Financial Institutions
Monthly Overview

Capital Markets
Economic Data Review
M&A Statistics

January/February 2009

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
222 N. Sepulveda Blvd. #1306
El Segundo, CA 90245
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

January/February 2009 - Hovde Monthly Overview

Economic Outlook.....	page 1
Capital Markets	page 7
Proprietary Index Valuations.....	page 8
Economic Data Review	page 9
Mergers & Acquisitions.....	page 10

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.

If you would like to receive Hovde's Financial Institutions Monthly Overview and are not currently on our e-mail distribution list, please send us your contact details at publications@hovde.com.

The Hovde Organization and Hovde are trade names for Hovde Private Equity Advisors LLC and its affiliates, including Hovde Capital Advisors LLC, Hovde Financial, Inc. and Hovde Securities LLC. Hovde Capital Advisors LLC is a registered investment advisor and Hovde Securities LLC is a registered broker-dealer and SIPC member firm.

Hovde gathers its data from sources it considered reliable; however, it does not guarantee the accuracy or completeness of the information provided within this publication. The materials presented reflect information known to the authors at the time this publication was written, and this information is subject to change. Hovde makes no warranties, express or implied, regarding the accuracy of this material. This publication is not intended to provide information upon which to base an investment decision, and should not be construed as such.

“Hasten slowly.”
—Augustus Caesar

With the world financial markets holding their collective breath as the American and world financial systems teeter on the brink of near collapse, Treasury Secretary Timothy Geithner unveiled the much anticipated second round of the Troubled Asset Relief Program (TARP)—the Financial Stability Plan (FSP). In its current form, the FSP is broken out into four key elements: 1.) additional capital injections for qualified banks as needed and a mandatory “stress test” for those institutions with over \$100 billion in assets; 2.) an expansion of the scope of the Fed’s Term Asset Backed Loan Facility (TALF) to include commercial mortgage-backed securities (CMBS); 3.) a public/private investment fund aimed at purchasing distressed “legacy” assets from financial institutions; and, 4.) a commitment aimed at preventing mortgage foreclosures. In this piece we will delve into the key parts of this program in more detail, provide our brief initial reaction, and also highlight where there are some key remaining questions. In general, while there are some positive aspects of the FSP and, obviously, some issues of concern, it is still too early to form any concrete opinions without the full details in hand, particularly regarding the public/private investment fund. In fact, in our opinion, this was Secretary Geithner’s key mistake when he addressed his plan to the public: building up expectations only to deliver a broad outline of the Treasury’s intentions with limited specifics and then slowly rolling out additional details. Clearly, the financial markets initially reacted negatively to that lack of detail. However, we also believe a large part of this reaction was related to equity investors in financial stocks hoping for a much broader rescue plan involving a government-sponsored “bad bank” (which we discuss at the end of this piece) through which the government would take problem assets off of the banks’ hands at what would likely be inflated values.

The Treasury has laid out four principal terms as part of the FSP. At this point, it is unclear what the actual cost could be, although we do know that, based on the FSP outline, the capital outlays could be *at least* \$1.5 trillion and will likely top \$2 trillion when it is all said and done. As it pertains to the losses to the taxpayer, that will be the \$1 trillion question along with: will this plan have a lasting, positive impact on the struggling economy and stabilize the U.S. financial system?

• **Financial Stability Trust: the Treasury is allocating a portion of the TARP funding to be used for capital injections into commercial banks.** In order to receive this funding from the Capital Assistance Program (CAP), those larger financial institutions with assets in excess of \$100 billion must undergo a mandatory “stress test” in order to ensure that, in return for the capital injections, they are healthy enough to turn around and lend money instead of hoarding it or using the capital for other purposes (acquisitions, executive bonuses, etc.). As part of this stress test—which is slated to be completed by April 30th—regulators will assess potential losses and the estimated resources available to absorb those losses under a base case as well as a scenario that assumes more adverse macroeconomic conditions. Some of the more adverse conditions include GDP contracting 3.3% this year and staying flat in 2010; home prices falling 22% this year and 7% in 2010; and, an unemployment rate of 8.9% this year and 10.3% in 2010. Only once it is determined that a financial institution has sufficient capital necessary to continue to viably function in the financial system, will it then be deemed eligible to receive CAP funds. The injections will be in the form of a convertible preferred security with a 9% dividend rate, which can be converted into common equity at each bank’s option for seven years at a 10% discount to the 20-day trailing average ending on February 9th. After seven years, if the preferred shares are not converted or redeemed through the issuance of new equity to the private market, the security would automatically convert to common equity. The preferred securities are intended to give banks the incentive to replace the government’s capital with private capital or to redeem the securities, dependent upon market conditions. Those banking institutions with less than \$100 billion in consolidated assets will also be eligible to receive injections via the CAP following a supervisory review—although they must adhere to the Qualifying Financial Institutions (QFIs) criteria as part of the existing TARP Capital Purchase Program (CPP).

– **Our initial views:** While the exact methodology and standards for the stress test remain unclear, we do believe that a coordinated review of the major financial institutions in the country conducted by all of the various financial regulators (e.g., the Fed, FDIC, OCC, OTS) to determine which entities should be eligible to receive additional government funding is

a definite step in the right direction, which will result in a more thorough and comprehensive review of the larger banks. This provides greater clarity, increased scrutiny and, thankfully—finally—establishes a set of guidelines and standards for larger financial institutions prior to their receiving capital injections, a requirement which was sorely needed as part of the original TARP. Unfortunately, we believe that there will still be two sets of standards used when determining which institutions to provide assistance to and in what form. That is, the Treasury will continue to go out of their way to support those institutions deemed “too big to fail” by allowing them to operate with far less capital than other banks and also continue to provide them with access to government capital no matter the quality of the institution’s assets and earnings. To date, all of the Treasury’s efforts have been to stabilize the large banks and giant Wall Street firms at the expense of assisting the broader commercial banking industry. It is our opinion that most institutions under the \$100 billion benchmark will not be deemed critical enough to receive additional capital injections and that those that fall below a certain, unspecified capital level will be left with the option of either having to raise private capital and/or to sell themselves—even if that means massively diluting existing shareholders or selling the bank for almost nothing. And, for those banks under distress that are not able to accomplish either of those outcomes, the regulators and the FDIC will likely be forced to deal with them through receivership.

Please understand that this does not mean that there will be *no* smaller banks that receive capital; clearly, certain banks will be deemed too critical to their states or certain large metropolitan statistical areas (MSAs) to go unassisted. As such, a number of these banks will be given some additional capital as the Treasury attempts to sprinkle just enough money throughout the community banks in order to appease the American Bankers Association (ABA), the Independent Community Bankers of America, and Congress. However, the vast bulk of these dollars will be spent on those institutions above the \$100 billion benchmark. This practice obviously continues to create an uneven playing field where the larger a bank is, the more benefits it will receive. Not only is this an unfair practice in our view but, more importantly, we also find it to be a flawed strategy whereby the government is seemingly trying to resurrect Wall

Street’s credit creation role (which is one of the main reasons we are in this mess to begin with), instead of utilizing the thousands of regional and community banks that have their credit underwriting functions intact and could provide credit and liquidity to the broader U.S. economy if they were given additional capital and support from the government. However, we do compliment the Treasury on establishing a mechanism to provide capital whereby shareholders will rightfully bear the banks’ credit losses.

On a final note, by using the 20-day trailing average stock price as of February 9th to determine the conversion price for the new preferred shares, we believe that those institutions that have actually taken a more proactive stance on recognizing and addressing the problem assets on their balance sheet—and, in most cases, seen their stocks punished—are being disadvantaged compared to those banks that have hidden or been slow to recognize their problems and, hence, have seen their stock prices hold up much better. Thus, by establishing a fixed price in the past, it unfairly rewards those institutions that have not been forthcoming. However, we can appreciate that there would be flaws to any pricing mechanism established.

- ***Expansion of the Fed’s TALF: a program created with the hopes of increasing consumer and small business spending, and reviving the securitization market by making non-recourse loans to eligible borrowers for the purchase of newly issued AAA-rated asset-backed securities (ABS) collateralized by consumer and small business loans [e.g., student, auto, credit card, Small Business Association (SBA)].*** The Treasury is now expanding the size of the TALF to \$100 billion—five times more than originally announced—in order to leverage up to \$1 trillion and will now include commercial mortgage-backed securities (CMBS) among eligible securities for purchase. There is also room in the language for the TALF to potentially include other asset classes, including residential mortgage-backed securities (RMBS) and assets collateralized by corporate debt.

- ***Our initial views:*** The Treasury hopes that the TALF will revive the ABS market’s role in the creation of credit for the consumer. However, it is our opinion that the TALF will *only* be helpful in reviving credit flows to

consumers with good credit and will not be helpful in providing access to credit for the roughly 50% of Americans with a spotty credit record or that have recently lost their jobs. It is important to understand that the ABS market's role in providing consumer credit over the last few years was largely directed at the subprime and Alt-A borrower who had unstable income or a spotty credit record. To explain our rationale why we believe that the TALF will only assist in providing credit flows to consumers with good credit, it is important to understand two critical dynamics: one regarding the risk/reward of using 10-to-1 leverage and, second, the structuring and subordination involved in creating a AAA security. First, if you are provided 10-to-1 leverage, a security is only more valuable if you are confident in the cash flows and complete return of principal. It is important to understand that investors' capital will be in a first-loss position. Thus, if you are leveraging that capital on a 10-to-1 basis and there is not a return of principal, the leverage will simply magnify the losses on your capital investment.

In regard to creating a AAA security today, given the justified fierce criticism of the rating agencies, it is our expectation that the rating agencies will require the underlying credit backing any new securitizations to be filled with consumers that have very stable incomes and with high FICO scores. If an issuer tries to securitize lower quality credit, then subordination tranches to the AAA piece will have to grow tremendously. The reason why this second approach will not work is that there is no demand for these subordinated tranches (i.e., everything below the AAA level) given where we are in the credit cycle and that these riskier tranches will absorb all of the losses prior to affecting the AAA tranche. Therefore, in order to complete these securitizations, issuers will have to hold a giant overcollateralization (OC piece) in order to access funding for their paper. This business model no longer works for issuers if they have to carry a massive OC piece because it ties up too much capital and they suffer all of the first losses. As a result, because of these two dynamics, issuers will only originate high quality credit and buyers of AAA securities will demand terms and conditions that will assure full repayment on their investment. Lastly, for the credit card companies which are a large part of the credit-backed market, as the TALF currently stands, bank-backed credit card companies (e.g., Capital One) are

less likely to utilize this program, as they are receiving much better funding via the Temporary Liquidity Guarantee Program (TLGP)—which guarantees newly issued senior unsecured debt of federally insured institutions for up to 10 years. Please understand we do not mean to be critical of the TALF—it is a good thing to have the credit markets flowing again for good credit, but it is still not addressing the central issue of having credit flowing to 50% of Americans. Then again, we are largely in this predicament because credit was far too easily attainable by those that did not have the ability to repay their loans.

- **Public-Private Investment Fund (PPIF): the Treasury has proposed a government and private sector “partnership” in order to finance the purchase of toxic assets residing on financial institutions’ balance sheets—so-called “legacy” assets.** The Treasury plans to use public financing in order to leverage private capital with the hopes of enticing private investors to purchase large amounts of these toxic assets and unclog the buildup of distressed real estate-related assets on banks’ balance sheets. It is estimated that the initial target size of the program will be up to \$500 billion with the potential to expand it up to \$1 trillion—although we believe it is likely to exceed this amount.

– **Our initial views:** It is exceptionally difficult to opine on the PPIF due to the fact that the government has really provided no final details, other than to indicate that there will be similarities to the TALF. Given the uncertainty regarding the valuation of the assets in question, it is anticipated that the Treasury will likely provide some level of leverage to private capital in order to purchase the toxic assets from the banking system. To start, though, there is one significant question that we find critical as it relates to whether or not this program will ultimately be successful and a good use of taxpayer's money. Specifically, we question whether or not it is the intention of the Treasury to selectively pick a few larger intermediaries to negotiate and purchase these toxic assets off of banks’ balance sheets and then place them into some type of investment partnership where private capital will invest? Or, is it the intention of the Treasury to allow individual private parties to negotiate directly with banks, arrive at a fair value for their assets being purchased on their own, and then apply for PPIF funding?

Unfortunately, it is our suspicion that the Treasury will choose the former and select a few larger firms (e.g., BlackRock, Pimco, State Street, Morgan Stanley, Goldman Sachs, etc.) to negotiate bulk purchases of most of these assets. While this would clearly be easier to orchestrate, in our view, this approach will meet with limited success. Speaking for ourselves, but knowing most other investors, we would never allow a third party to negotiate and value the purchase of complicated troubled assets, and then simply invest behind them—particularly when those third parties have an inherent conflict of interest because they themselves own troubled assets of similar nature. Hopefully, the Treasury will understand this inherent problem and the fact that the institutional investment community no longer has any confidence or trust in Wall Street.

If, on the other hand, they go in the direction of allowing individual parties to directly negotiate the valuation and purchase of these assets and then apply for leverage from the Treasury to purchase them, it will be vastly harder to orchestrate and monitor. That said, when there is increased transparency and individual investors are able to apply their own values to these assets, we believe that there will be far greater flows of capital coming in to buy these assets compared to what you would see if it were only a few larger public institutions responsible valuing these securities.

The other issue we see with the PPIF is somewhat similar to the problem with the TALF; that is, in all likelihood, it will be mainly beneficial to the securities on banks' books where there is an extremely high probability of full repayment of principal. Again, like the TALF, the simple fact that you will be granted leverage, while helpful in generating higher returns, places your equity at greater risk if your assumptions are wrong and there is not a full repayment of principal. Therefore, where we see the most benefit of using the PPIF leverage is primarily with those originally AAA-rated securities that have declined in value not only because of the massive deleveraging and the lack of understanding of many of these securities but, more so, because of the collapse in interest rates. Many securities originally rated AAA and AA now only carry an interest yield of less than 2.5%—which is completely unacceptable to investors in today's market. Most of these securities were priced at 75 to 125 basis points over some Libor or Treasury index or, in the case of private label RMBS,

over the CODI or COFI indexes. Therefore, if you can receive 10-to-1 leverage from the Treasury, with financing that costs you around 1.5%, and you can purchase a security that is currently yielding 2.5%, then one can generate a 10% levered yield, which the marketplace would likely quickly bid down to a 5% to 6% yield, thus lifting the value of those securities. However, again, investors would only do that if they are extremely confident that there will be a full repayment of the principal. As it pertains to whole loans, which will be the largest problem in the banking system, we believe using leverage—while helpful at the margin—is not nearly as beneficial because of how difficult it is to accurately assess the liquidation or repayment value of those loans. As you can see, this is not an easy task for the Treasury to try to design and there will be vastly different outcomes based upon the final path Treasury chooses to take. We truly wish them the best of luck and, again, applaud them for trying to retain these assets in the private markets and for not pursuing the utterly disastrous concept of the bad bank.

- ***Homeowner Affordability and Stability Plan: the Treasury is committing \$75 billion in order to “help up to 7 to 9 million families restructure or refinance their mortgages to avoid foreclosure” and also increased its Preferred Stock funding commitment for Fannie Mae and Freddie Mac.*** As released, the plan is broken into two parts. The first part is the expansion of Fannie Mae and Freddie Mac by increasing the government's Preferred Stock funding commitment to \$200 billion, from their original level of \$100 billion each. Further, the government will permit conforming mortgages owned or guaranteed by Fannie and Freddie with current loan-to-value (LTV) ratios of up to 105% to be refinanced at lower interest rates. This latter initiative attempts to address the issue of many homeowners who are not able to refinance their mortgage to a lower rate because their home values have declined considerably in value and their original mortgages no longer meet the original 80% LTV maximum to refinance a conforming mortgage with Fannie or Freddie. The second part of the plan is the mortgage modification program, with the key components consisting of:

- A reduction of mortgage interest rates so payments are not greater than 38% of the homeowner's income. If a mortgage holder modifies their mortgage, they will be provided some level of insurance tied to a home price index. As such, the government has created a

\$10 billion insurance fund to discourage lenders from foreclosing on mortgages.

- The government will share dollar-for-dollar in the financial losses down to 31% of the debt-to-income (DTI) ratio.
- As long as a borrower stays current in their payments, they can receive up to \$1,000 each year for five years.
- “Pay for Success”: enticing mortgage servicers through cash payments in order to keep homeowners current, by which a mortgage servicer can receive an up-front payment of \$1,000, plus up to \$1,000 per year for three years.
- **Our initial views:** In general, we have two main problems with this plan.
 - First, by providing an additional \$200 billion to Fannie and Freddie, on top of its original \$200 billion commitment and the expansion of the Federal Housing Administration’s (FHA) role in the mortgage market last year, the federal government has essentially nationalized the conforming mortgage market. As a result, the government has now firmly placed the taxpayer at full risk to absorb a majority of the losses in the housing market from this point forward. It is our opinion that, ultimately, the losses from Fannie and Freddie alone could reach close to \$1 trillion.
 - Second, as it pertains to the mortgage modification program, while this will clearly benefit numerous borrowers who are struggling to stay in their homes—by, in some cases, dramatically altering their total monthly payment—it is important to recognize that with the FDIC’s modification mortgage program for IndyMac’s loan portfolio, approximately 57% of those modified mortgages redefaulted within the first six months, obviously far from the successful program it was originally portrayed to be. In regard to the banks, this program will also be beneficial from the standpoint that it will provide them with another option than pursuing only foreclosure where the severity of losses have been averaging 50% on foreclosed homes. Further, this program provides direct government payments to the banks if they are willing to take the modification all the

way down to a 31% DTI ratio. However, this is not a major windfall to the banks by any means, in that the banks will have to take significant write-downs in many cases to get the borrowers to the 38% or 31% DTI level. In our opinion, the single biggest problem with the program and the manner in which politicians have been conducting themselves, is the acceleration of public perception that you can stop paying on your mortgage and that the government will provide you with assistance. It is this law of unintended consequences that is giving us our greatest concern. We know and have heard firsthand of many people that are attempting to game the system of declaring hardship in order to receive a modification even when they have the ability to service their mortgage. Additionally, many people are beginning to understand that they can stop paying and stay in their home 18 to 24 months free of any financial obligation before they are going to be foreclosed on and removed from the home. ***Thus, we believe the acceleration in delinquencies is not only tied to the rise in unemployment but equally to this perception that one can materially financially benefit by not making payments on their mortgage. If this perception picks up enough speed, in addition to Congress now pushing to pass “cramdown” legislation (which in our opinion will be an utter disaster), it may very well collapse the entire financial system.***

Another issue which we think will soon rise to the forefront is that people throughout the middle and northern part of the country will wake up to the realization that a massive wealth transference is occurring from their pocketbooks—and that of their children and grandchildren—to people who live principally in four states: California, Florida, Arizona, and Nevada. These four states are where the greatest level of home speculation occurred and are where 50% of all foreclosures exist today. Thus, we would not be surprised to see a severe backlash by voters in the middle and northern states against those politicians who supported this legislation.

Finally, despite the market’s negative reaction, it is the absence of the aforementioned bad bank structure and the Treasury’s intentions of leaving the toxic assets held by the banks primarily in the private sector that we are most supportive of. Far too many pundits who have little understanding of the real estate and the financial sectors—

and the intensive care required to oversee the problem assets—have been espousing the creation of a bad bank. We, on the other hand, firmly believe that there are four principal reasons why the creation of a bad bank would be a disaster and, therefore, should cease to be a viable consideration.

- *First, there is the fundamental complexity of pricing these assets.* If the assets are acquired at the appropriate mark-to-market valuations—significantly below where most institutions are actually carrying them—the banking industry will suffer massive further losses leaving much of the banking system insolvent. Conversely, if the toxic assets are purchased at or above market or carrying values, taxpayers will absorb those major losses, further depleting the federal government’s finances.
- *Second, a government bureaucracy is not equipped to properly manage these assets.* There is currently no government agency in place that has the wherewithal and capacity to manage the inevitable foreclosure process and oversight of millions of homes and other real estate properties that would come with the purchase of toxic mortgage assets. As we have cited many times, **“unattended real estate has the half life of a head of lettuce”**: *anyone who owns a home understands that uncared for real estate will deteriorate in value at a very rapid pace.* This, in turn, will cause a massive depreciation of these assets should they be placed in the control of a yet-to-be formed government bureaucracy where the employees have no economic incentive to properly oversee and care for these assets.
- *Third, the private sector purchase of distressed assets from the government has always been at rock-bottom values.* The very second assets are transferred from the private sector to the government’s hands, they will trade

at a significant discount. Whether it be sheriff sales, state or federal tax lien sales, or via the Resolution Trust Corporation (RTC) of the late 1980’s and early 1990’s, distressed assets have been taken off of the government’s hands at deep discounts as investors view the government as a disorganized and forced seller, with little economic incentives, that is willing to sell assets at fire sale prices in order to unload its holdings. In our view, it would clearly be no different this time around and, thus, would immediately cause massive losses to the taxpayers by simply transferring these assets into the government’s hands.

- *Finally, once the government begins to divest these assets and floods the market with millions of these modified mortgages or repossessed homes, the housing market will ultimately crater even further.* The value of any mortgages held by the government will be even further reduced in the eyes of potential buyers should the government significantly modify those loans by lowering the principal balance or reducing the interest rate to below market levels. Just as foreclosure sales are pressuring housing prices today, government sales at depressed prices will only make matters worse and destroy housing values further.

Ultimately, the “devil is in the detail” with regard to the Treasury’s FSP and we will not be able to definitely determine its implications until all of the remaining information has been provided. Although we clearly have issues with some aspects of the plan as it is outlined, we do recognize that the Treasury is left with a series of unfavorable options and we give them credit for attempting to lay out a comprehensive strategy, instead of rushing from one crisis to the next in a disorganized fashion as was the case with the original TARP.

Federal Reserve Aggregate Bank Data

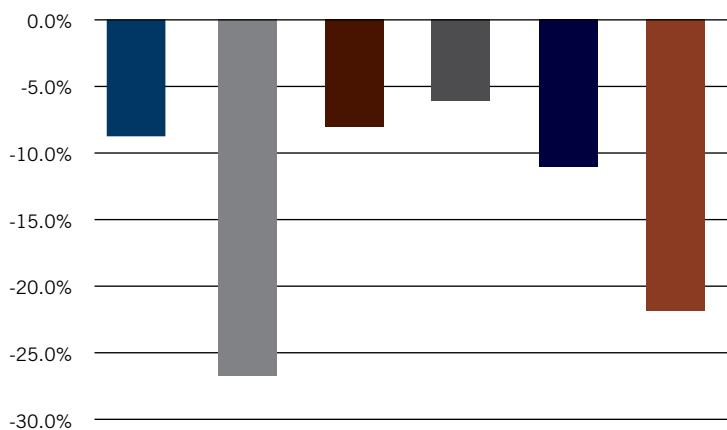
	12/2007	4/2008	5/2008	6/2008	7/2008	8/2008	9/2008	10/2008	11/2008	12/2008	MoM	YoY
ASSETS												
Securities												
Secs in Bank Credit	2,441	2,531	2,489	2,468	2,486	2,476	2,532	2,718	2,726	2,766	1.5%	13.3%
Treasury & Agency	1,111	1,110	1,115	1,114	1,116	1,129	1,155	1,227	1,261	1,256	-0.4%	13.1%
Other	1,330	1,420	1,374	1,354	1,370	1,347	1,377	1,490	1,465	1,510	3.1%	13.5%
Loans and Leases												
C&I	1,435	1,491	1,494	1,504	1,514	1,514	1,537	1,602	1,596	1,584	-0.8%	10.4%
Real Estate	3,584	3,650	3,650	3,645	3,624	3,642	3,666	3,792	3,784	3,787	0.1%	5.7%
Consumer	805	821	825	832	839	845	852	870	876	882	0.6%	9.5%
Other	673	647	646	642	635	630	655	678	645	660	2.3%	-1.9%
Other Assets	961	1,013	996	1,003	1,021	1,022	1,043	1,091	1,132	1,146	1.2%	19.3%
Total Assets	10,853	11,087	11,042	11,027	11,043	11,058	11,333	11,947	12,100	12,311	1.7%	13.4%
LIABILITIES												
Deposits												
Transaction	593	636	616	605	621	600	640	679	704	764	8.6%	28.9%
Nontransaction	6,070	6,220	6,270	6,307	6,263	6,314	6,432	6,448	6,360	6,498	2.2%	7.0%
Large time	2,020	2,081	2,103	2,126	2,132	2,131	2,161	2,066	1,938	1,984	2.4%	-1.8%
Other	4,050	4,139	4,166	4,181	4,132	4,183	4,271	4,383	4,422	4,514	2.1%	11.5%
Borrowings	2,324	2,294	2,320	2,322	2,331	2,357	2,397	2,619	2,600	2,492	-4.1%	7.2%
Other Liabilities	660	743	695	680	674	673	715	806	845	939	11.2%	42.4%
Total Liabilities	9,758	9,923	9,872	9,891	9,839	9,852	10,122	10,733	10,910	11,123	2.0%	14.0%
Residual (assets less liabilities)	1,095	1,164	1,169	1,136	1,204	1,206	1,211	1,215	1,190	1,188	-0.2%	8.4%

all values in \$ billions

SOURCE: Federal Reserve Documents

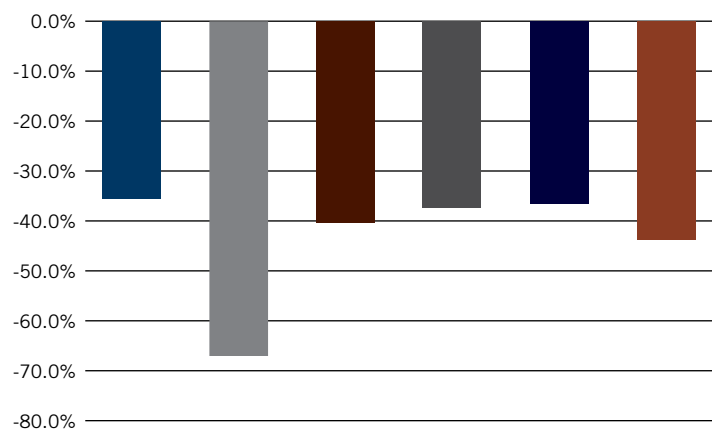
Major Market Index Performance

January 2009



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

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

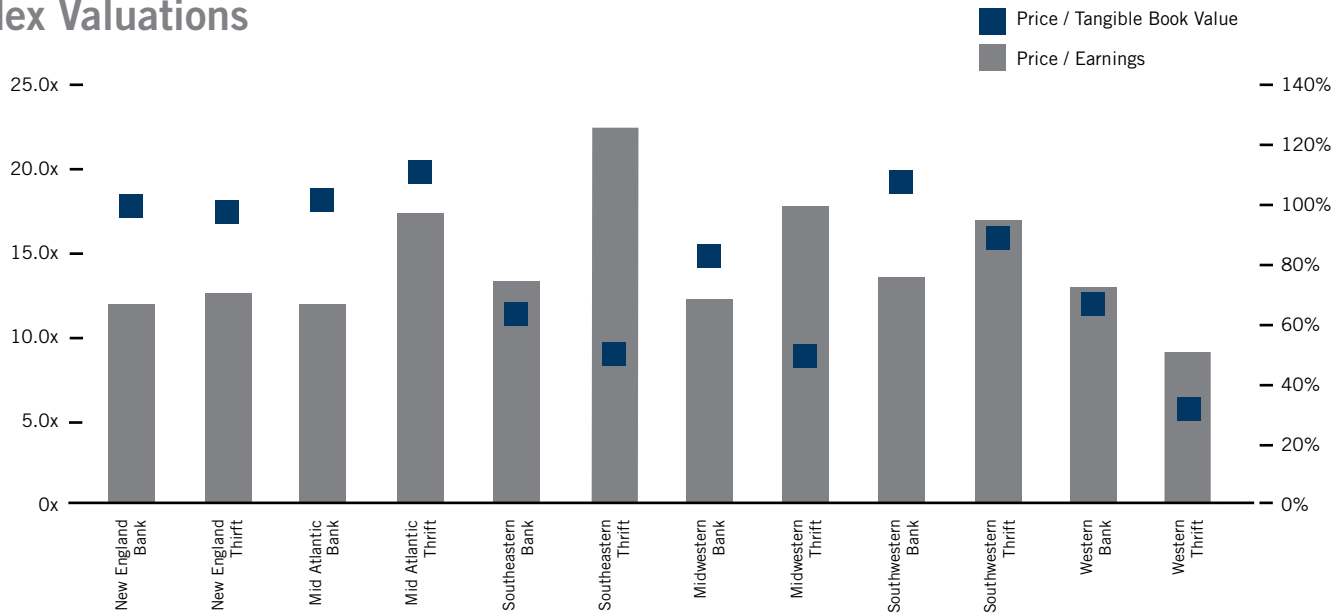
	2/2008	3/2008	4/2008	5/2008	6/2008	7/2008	8/2008	9/2008	10/2008	11/2008	12/2008	1/2009
Dow Jones	-3.0%	0.0%	4.5%	-1.4%	-10.2%	0.2%	1.5%	-6.0%	-14.1%	-5.3%	-0.6%	-8.8%
S&P Financial	-7.7%	-3.1%	6.3%	-6.4%	-18.7%	6.8%	-1.3%	-5.2%	-22.7%	-18.7%	-0.7%	-26.5%
S&P 500	-3.5%	-0.6%	4.8%	1.1%	-8.6%	-1.0%	1.2%	-9.1%	-16.9%	-7.5%	0.8%	-8.6%
NASDAQ	-5.0%	0.3%	5.9%	4.6%	-9.1%	1.4%	1.8%	-11.6%	-17.7%	-10.8%	2.7%	-6.4%
Russell 2000	-3.8%	0.3%	6.1%	2.5%	-7.8%	3.6%	3.5%	-8.1%	-20.9%	-12.0%	5.6%	-11.2%
NASDAQ Bank	-8.6%	2.0%	0.3%	-2.7%	-17.5%	9.6%	3.8%	4.0%	-7.3%	-8.8%	-1.2%	-21.8%

SOURCE: Bloomberg, LLC

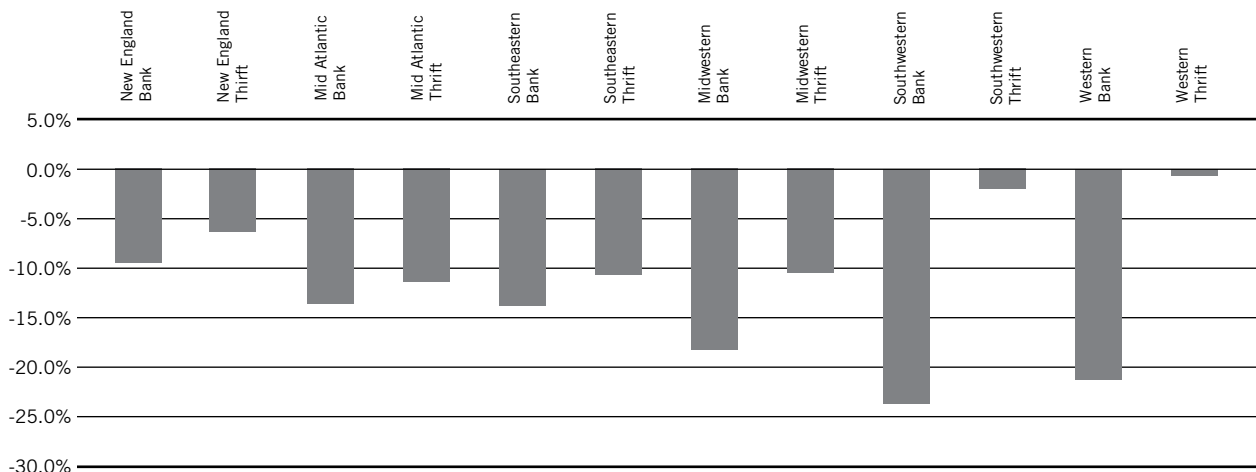
Bank and Thrift Index Valuations

		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	20.8	12.9	90%	96%	126%	100%	-7.8%	-9.6%	-33.1%	18
	Thrift	20.4	12.8	86%	78%	112%	98%	-5.2%	-6.2%	-21.4%	22
Mid Atlantic	Bank	12.4	12.7	74%	78%	131%	103%	-12.2%	-14.2%	-38.6%	83
	Thrift	12.3	17.0	88%	91%	122%	115%	-10.3%	-11.2%	-26.9%	54
Southeastern	Bank	14.7	13.9	50%	57%	70%	64%	-11.7%	-14.1%	-50.3%	121
	Thrift	13.3	22.4	30%	42%	38%	53%	-6.8%	-10.4%	-61.9%	10
Midwestern	Bank	12.6	13.2	92%	65%	111%	83%	-15.9%	-18.0%	-46.3%	85
	Thrift	14.5	17.0	130%	47%	134%	50%	-7.2%	-10.2%	-49.3%	47
Southwestern	Bank	11.4	14.4	97%	89%	143%	113%	-21.8%	-24.6%	-36.6%	19
	Thrift	27.9	16.8	114%	88%	116%	90%	-0.2%	-2.5%	-19.1%	6
Western	Bank	9.4	12.9	78%	51%	67%	67%	-18.8%	-21.3%	-58.1%	61
	Thrift	16.0	9.7	34%	38%	52%	38%	1.3%	-1.7%	-60.2%	11

Index Valuations



YTD Price Performance



Economic Data Points - January 2009

Date	Event	Period	Survey	Actual	Prior	Date	Event	Period	Survey	Actual	Prior
1/2	ISM Manufacturing	DEC	35.4	32.4	36.2	1/16	CPI Ex Food & Energy (YoY)	DEC	1.80%	1.80%	2.00%
1/2	ISM Prices Paid	DEC	20	18	25.5	1/16	CPI Core Index SA	DEC	--	216.816	216.849
1/5	Construction Spending MoM	NOV	-1.40%	-0.60%	-1.20%	1/16	Consumer Price Index NSA	DEC	210.21	210.228	212.425
1/5	Total Vehicle Sales	DEC	10.0M	10.3M	10.2M	1/16	Industrial Production	DEC	-1.00%	-2.00%	-0.60%
1/5	Domestic Vehicle Sales	DEC	7.5M	7.8M	7.6M	1/16	Capacity Utilization	DEC	74.50%	73.60%	75.40%
1/6	ISM Non-Manf. Composite	DEC	36.5	40.6	37.3	1/16	U. of Michigan Confidence	JAN P	59	61.9	60.1
1/6	Factory Orders	NOV	-2.30%	-4.60%	-5.10%	1/21	NAHB Housing Market Index	JAN	9	8	9
1/6	Pending Home Sales MoM	NOV	-1.00%	-4.00%	-0.70%	1/22	Housing Starts	DEC	605K	550K	625K
1/6	Minutes of Dec. 16 FOMC Meeting					1/22	Building Permits	DEC	600K	549K	616K
1/7	Challenger Job Cuts YoY	DEC	--	274.50%	148.40%	1/22	Initial Jobless Claims	17-Jan	550K	589K	524K
1/7	ADP Employment Change	DEC	-495K	-693K	-250K	1/22	Continuing Claims	10-Jan	4555K	4607K	4497K
1/8	Initial Jobless Claims	3-Jan	545K	467K	492K	1/22	House Price Index MoM	NOV	-1.20%	-1.80%	-1.10%
1/8	Continuing Claims	27-Dec	4483K	4611K	4506K	1/26	Existing Home Sales	DEC	4.40M	4.74M	4.49M
1/8	ICSC Chain Store Sales YoY	DEC	--	-1.70%	-2.70%	1/26	Existing Home Sales MoM	DEC	-2.00%	6.50%	-8.60%
1/8	Consumer Credit	NOV	\$0.0B	-\$7.9B	-\$3.5B	1/27	S&P/CaseShiller Home Price Ind	NOV	--	154.59	158.16
1/9	Change in Nonfarm Payrolls	DEC	-525K	-524K	-533K	1/27	S&P/CS Composite-20 YoY	NOV	-18.40%	-18.18%	-18.04%
1/9	Unemployment Rate	DEC	7.00%	7.20%	6.70%	1/27	Consumer Confidence	JAN	39	37.7	38
1/9	Change in Manufact. Payrolls	DEC	-100K	-149K	-85K	1/27	Richmond Fed Manufact. Index	JAN	-50	-49	-55
1/14	Import Price Index (MoM)	DEC	-5.30%	-4.20%	-6.70%	1/28	FOMC Rate Decision	28-Jan	0.25%	0.25%	0.25%
1/14	Import Price Index (YoY)	DEC	-9.50%	-9.30%	-4.40%	1/29	Durable Goods Orders	DEC	-2.00%	-2.60%	-1.00%
1/14	Advance Retail Sales	DEC	-1.20%	-2.70%	-1.80%	1/29	Durables Ex Transportation	DEC	-2.70%	-3.60%	1.20%
1/14	Retail Sales Less Autos	DEC	-1.40%	-3.10%	-1.60%	1/29	Initial Jobless Claims	24-Jan	575K	588K	589K
1/15	Producer Price Index (MoM)	DEC	-2.00%	-1.90%	-2.20%	1/29	Continuing Claims	17-Jan	4625K	4776K	4607K
1/15	PPI Ex Food & Energy (MoM)	DEC	0.10%	0.20%	0.10%	1/29	New Home Sales	DEC	397K	331K	407K
1/15	Producer Price Index (YoY)	DEC	-1.10%	-0.90%	0.40%	1/29	New Home Sales MoM	DEC	-2.50%	-14.70%	-2.90%
1/15	PPI Ex Food & Energy (YoY)	DEC	4.10%	4.30%	4.20%	1/30	GDP QoQ (Annualized)	4Q A	-5.50%	-3.80%	-0.50%
1/15	Initial Jobless Claims	10-Jan	503K	524K	467K	1/30	Personal Consumption	4Q	-3.50%	-3.50%	-3.80%
1/15	Continuing Claims	3-Jan	4620K	4497K	4611K	1/30	GDP Price Index	4Q	0.40%	-0.10%	3.90%
1/15	Empire Manufacturing	JAN	-25	-22.2	-25.76	1/30	Core PCE QoQ	4Q	1.00%	0.60%	2.40%
1/16	Consumer Price Index (MoM)	DEC	-0.90%	-0.70%	-1.70%	1/30	Employment Cost Index	4Q	0.70%	0.50%	0.70%
1/16	CPI Ex Food & Energy (MoM)	DEC	0.10%	0.00%	0.00%	1/30	Chicago Purchasing Manager	JAN	34.9	33.3	34.1
1/16	Consumer Price Index (YoY)	DEC	-0.20%	0.10%	1.10%	1/30	U. of Michigan Confidence	JAN F	61.9	61.2	61.9

SOURCE: Bloomberg, LLC

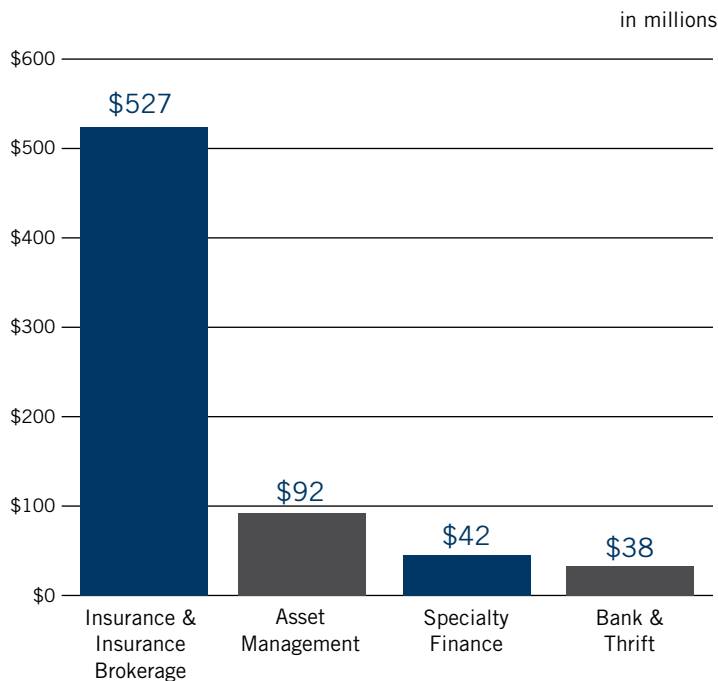
Economic Data Points - February 2009

Date	Event	Period	Survey	Actual	Prior	Date	Event	Period	Survey	Actual	Prior
2/2	Personal Income	DEC	-0.40%	-0.20%	-0.20%	2/18	Industrial Production	JAN	--	--	-2.00%
2/2	Personal Spending	DEC	-0.90%	-1.00%	-0.60%	2/18	Capacity Utilization	JAN	--	--	73.60%
2/2	PCE Deflator (YoY)	DEC	1.00%	0.60%	1.40%	2/19	Producer Price Index (MoM)	JAN	--	--	-1.90%
2/2	PCE Core (MoM)	DEC	0.00%	0.00%	0.00%	2/19	PPI Ex Food & Energy (MoM)	JAN	--	--	0.20%
2/2	PCE Core (YoY)	DEC	1.70%	1.70%	1.90%	2/19	Producer Price Index (YoY)	JAN	--	--	-0.90%
2/2	ISM Manufacturing	JAN	32.5	35.6	32.4	2/19	PPI Ex Food & Energy (YoY)	JAN	--	--	4.30%
2/2	ISM Prices Paid	JAN	18	29	18	2/19	Initial Jobless Claims	14-Feb	--	--	--
2/2	Construction Spending MoM	DEC	-1.20%	-1.40%	-0.60%	2/19	Continuing Claims	7-Feb	--	--	--
2/3	Pending Home Sales MoM	DEC	0.00%	--	-4.00%	2/20	Consumer Price Index (MoM)	JAN	--	--	-0.70%
2/3	Total Vehicle Sales	JAN	10.2M	--	10.3M	2/20	CPI Ex Food & Energy (MoM)	JAN	--	--	0.00%
2/3	Domestic Vehicle Sales	JAN	7.7M	--	7.8M	2/20	Consumer Price Index (YoY)	JAN	--	--	0.10%
2/4	Challenger Job Cuts YoY	JAN	--	--	274.50%	2/20	CPI Ex Food & Energy (YoY)	JAN	--	--	1.80%
2/4	ADP Employment Change	JAN	-530K	--	-693K	2/20	Consumer Price Index NSA	JAN	--	--	210.228
2/4	ISM Non-Manf. Composite	JAN	39	--	40.6	2/20	CPI Core Index SA	JAN	--	--	216.816
2/5	ICSC Chain Store Sales YoY	JAN	--	--	--	2/24	S&P/CaseShiller Home Price Ind	DEC	--	--	154.59
2/5	Nonfarm Productivity	4Q	1.50%	--	1.30%	2/24	S&P/CS Composite-20 YoY	DEC	--	--	-18.18%
2/5	Initial Jobless Claims	31-Jan	585K	--	588K	2/24	S&P/Case-Shiller US HPI	4Q	--	--	--
2/5	Continuing Claims	24-Jan	4795K	--	4776K	2/24	S&P/Case-Shiller US HPI YOY%	4Q	--	--	--
2/5	Factory Orders	DEC	-3.00%	--	-4.60%	2/24	Consumer Confidence	FEB	--	--	37.7
2/6	Change in Nonfarm Payrolls	JAN	-533K	--	-524K	2/24	House Price Index MoM	DEC	--	--	-1.80%
2/6	Unemployment Rate	JAN	7.50%	--	7.20%	2/24	Bernanke Report on Economy & Fed Policy				
2/6	Change in Manufact. Payrolls	JAN	-143K	--	-149K	2/24	House Price Purchase Index QoQ	4Q	--	--	-1.80%
2/6	Consumer Credit	DEC	-\$3.5B	--	-\$7.9B	2/25	Existing Home Sales	JAN	--	--	4.74M
2/12	Advance Retail Sales	JAN	-0.30%	--	-2.70%	2/25	Existing Home Sales MoM	JAN	--	--	6.50%
2/12	Retail Sales Less Autos	JAN	-0.40%	--	-3.10%	2/26	Durable Goods Orders	JAN	--	--	-2.60%
2/12	Initial Jobless Claims	7-Feb	--	--	--	2/26	Durables Ex Transportation	JAN	--	--	-3.60%
2/12	Continuing Claims	31-Jan	--	--	--	2/26	Initial Jobless Claims	21-Feb	--	--	--
2/12	Business Inventories	DEC	-0.60%	--	-0.70%	2/26	Continuing Claims	14-Feb	--	--	--
2/13	U. of Michigan Confidence	FEB P	61.5	--	61.2	2/26	New Home Sales	JAN	--	--	331K
2/17	Empire Manufacturing	FEB	--	--	-22.2	2/26	New Home Sales MoM	JAN	--	--	-14.70%
2/17	NAHB Housing Market Index	FEB	--	--	8	2/27	GDP QoQ (Annualized)	4Q P	--	--	-3.80%
2/18	Import Price Index (MoM)	JAN	--	--	-4.20%	2/27	Personal Consumption	4Q	--	--	-3.50%
2/18	Import Price Index (YoY)	JAN	--	--	-9.30%	2/27	GDP Price Index	4Q	--	--	-0.10%
2/18	Housing Starts	JAN	--	--	550K	2/27	Core PCE QoQ	4Q	--	--	0.60%
2/18	Building Permits	JAN	--	--	549K	2/27	U. of Michigan Confidence	FEB F	--	--	--

SOURCE: Bloomberg, LLC

M&A Transaction Update

Announced Transactions - January 2009



SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - January 2009

Insurance & Insurance Brokerage	24
Bank & Thrift	6
Specialty Finance	4
Asset Management & Broker/Dealer	4

SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - 2009 YTD

Insurance & Insurance Brokerage	24
Bank & Thrift	6
Specialty Finance	4
Asset Management & Broker/Dealer	4

SOURCE: SNL Financial, Bloomberg, Factiva

Financial Deal Alert

Previously announced on January 16, 2008, Hovde Financial is pleased to announce that its client, Republic Bank of Chicago (\$832 million in assets), acquired National Bank of Commerce in the first government assisted deal of 2009. National Bank of Commerce had approximately \$431 million in assets (\$402 million in deposits) at the time the transaction closed.

With the transaction, Republic Bank of Chicago will expand its branch network to 12 and it will increase its market share in Cook and DuPage Counties, Illinois, based on total deposits, by adding more than \$400 million in deposits.

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.	106
2	Keefe, Bruyette & Woods, Inc.	104
3	Hovde Financial	89
4	Howe Barnes Hofer & Arnett, Inc.	50
5	Stifel, Nicolaus & Company, Incorporated	41
6	Sheshunoff & Co. Investment Banking LP	30
7	SAMCO Capital Markets, Inc.	21
8	Austin Associates, LLC	20
8	Morgan Keegan & Company, Inc.	20
10	Professional Bank Services Inc.	18

SOURCE: SNL Financial (data from 1/31/2004-1/31/2009)

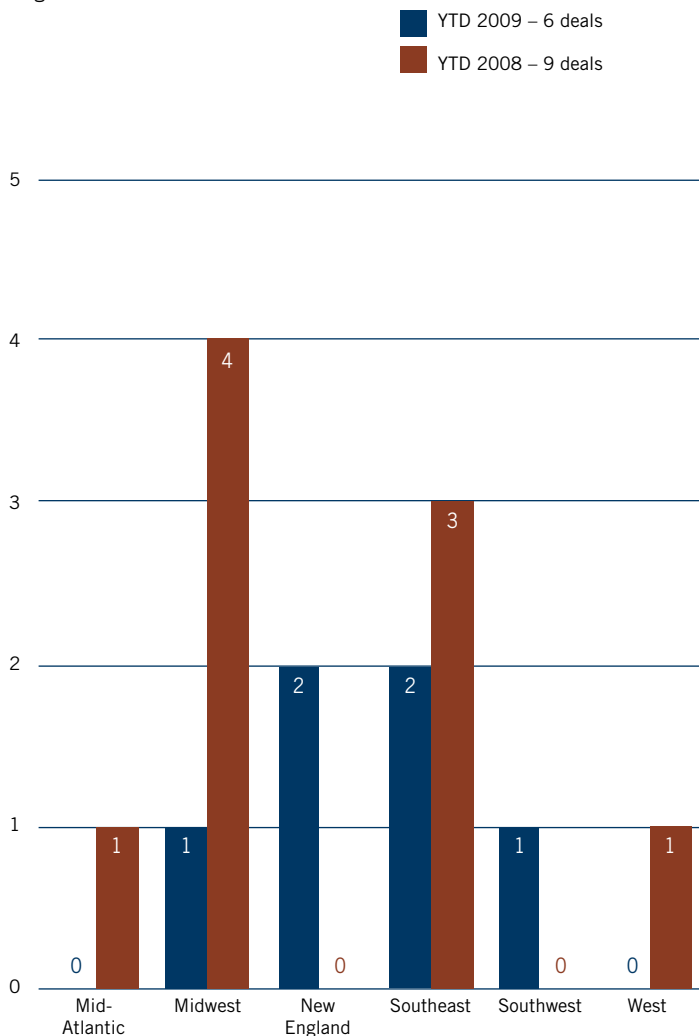
Bank & Thrift Transactions - January 2009

Buyer	Buyer State	Target	Target State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
Phoenix Companies, Inc.	CT	American Sterling Bank	MO	1/1/09	NA	NA	NA	NA
First Wagoner Corporation	OK	Green Country Bancorporation, Inc.	OK	1/1/09	NA	NA	NA	NA
NewStar Financial, Inc.	MA	Southern Commerce Bank, National Association	FL	1/5/09	19.0	NM	96.5	-0.77
New England Bancshares, Inc.	CT	Apple Valley Bank & Trust Company	CT	1/14/09	7.1	NM	114.7	1.55
Private Investor - Wilbur L. Ross	Not App	First Bank and Trust Company of Indiantown	FL	1/16/09	7.3	20.0	137.8	4.71
Investor Group	Not App	Lowell Co-operative Bank	MA	1/29/09	5.0	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	NA	NA	NA	NA
Midwest	NA	N/A	NA	NA
New England	\$12	114.7	25.0	1.6
Southeast	\$26	117.2	17.7	2.0
Southwest	NA	NA	NA	NA
West	NA	NA	NA	NA
Total	\$38	116.3	20.1	1.8

SOURCE: SNL Financial

Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
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	\$27,299	155.6	27.1	9.4
4Q2008	\$1,728	131.3	23.6	3.7
1Q2009	\$38	116.3	20.0	1.8

SOURCE: SNL Financial

Insurance and Insurance Brokerage Transactions - January 2009

Buyer	Target	Announced	DV (\$MM)
Ash Financial Holdings Group, Inc.	Delta Financial Associates, Inc.	1/2/2009	NA
Brown & Brown, Inc.	Preferred Insurance Services, L.L.C.	1/2/2009	NA
Augur Capital Group	Deutsche Ruckversicherung Aktiengesellschaft	1/5/2009	NA
Clear Choice Health Plans, Inc.	Trusteed Plans Service Corporation	1/5/2009	NA
Monarch Insurance Services, Inc.	Bishop Insurance Agency of Hawaii Inc.	1/5/2009	NA
Randall & Quilter Investment Holdings Plc	Quest Group of Companies	1/5/2009	6.9
W.R. Berkley Corporation	Irish Professional Risks Ltd	1/5/2009	NA
HCC Insurance Holdings, Inc.	Virtual MGU , Inc.	1/6/2009	NA
Hub International Limited	Gemini Group, Inc.	1/6/2009	NA
Bearence Management Group	T. C. Field & Company	1/7/2009	NA
Investor Group	Eastern Insurance Group	1/8/2009	NA
KPD Insurance, Inc.	Jones, Kendall & Sauer, Inc.	1/8/2009	NA
Glatfelter Insurance Group	Professional Underwriters	1/12/2009	NA
American Enterprise Mutual Holding Company	Homesteaders Life Company	1/13/2009	NA
BMO Financial Group	AIG Life Insurance Company of Canada	1/13/2009	311.4
Bradley & Parker, Inc.	Profile Coverage Corp.	1/16/2009	NA
Citadel Reinsurance Company Limited	Reinsurance Run-off Business	1/20/2009	NA
Mitsubishi UFJ Financial Group, Inc.	Colt Park Agency, Inc.	1/21/2009	NA
Haftpflichtverband der Deutschen Industrie V.a.G.	Genworth Seguros Mexico, S.A. de C.V.	1/22/2009	45.0
Arthur J. Gallagher & Co.	Liberty Mutual Renewal Rights	1/22/2009	164.0
Goldman Sachs Group, Inc.	Liberty Mutual Renewal Rights	1/22/2009	NA
Hub International Limited	Liberty Mutual Renewal Rights	1/22/2009	NA
Diablo Valley Insurance Agency, Inc.	Gingrich Insurance Brokers, Inc.	1/29/2009	NA
Eastern Bank Corporation	Rosemary Walker Insurance Agency, Inc.	1/29/2009	NA

SOURCE: Factiva, AM Best

Asset Management/Broker-Dealer Transactions - January 2009

Buyer	Target	Announced	DV (\$MM)
Farmers National Banc Corp.	Butler Wick Trust Company	1/7/2009	12.1
TD Ameritrade Holding Corporation	Thinkorswim Group Inc.	1/8/2009	606.5
FCStone Group, Inc.	Elders Risk Management Pty Limited	1/12/2009	NA
Wedbush Inc.	Pacific Growth Equities, LLC	1/12/2009	NA
Morgan Stanley	51% of Morgan StanleySmith Barney	1/13/2009	NA
Vista Wealth Management, LLC	BPM Wealth Management LLC	1/14/2009	NA
Pritchard Capital Holding, LLC	Global Hunter Securities, LLC	1/15/2009	NA
Barclays PLC	UBS' Base Metals, Oil and US Power & Gas Businesses	1/16/2009	NA
Institutional Cash Distributors, LLC	Institutional Cash Distributors Business	1/16/2009	2.0
Pan Asia China Commerce Corporation	Capital Markets Business	1/22/2009	NA
Stark & Roth, Inc.	Substantially All Assets of Deephaven Segments (Knight Capital)	1/27/2009	44.7
Pagemill Partners, LLC	Financial Intelligence Valuation Business	1/29/2009	NA
Sanders Morris Harris Group Inc.	Edelman Financial Advisors LLC	1/29/2009	35.0

SOURCE: Factiva, Bloomberg

Specialty Finance Transactions - January 2009

Buyer	Target	Announced	DV (\$MM)
BB&T Corporation	AON's Canawill Domestic Operations & Premium Finance Assets	1/7/2009	NA
First Choice Bank	Citizens Community Bank Mortgage Ops	1/16/2009	NA
East West Banking Corporation	AIG Consumer Banking and Car Financing Companies	1/23/2009	42
Walker & Dunlop, Inc.	Column Guaranteed LLC	1/30/2009	NA

SOURCE: Factiva, Bloomberg, Reuters