



# Hovde

Financial Institutions  
Monthly Overview

Capital Markets  
Economic Data Review  
M&A Statistics

July 2009

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## July 2009 - Hovde Monthly Overview

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### About Hovde

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*“Hope for the best, but prepare for the worst.”*  
—English proverb

Given the recent euphoria surrounding the sprouting of the so-called “green shoots” in the spring, many market bulls have now come to the conclusion that the economic and financial crisis is at or very near its end and that the economy will grow robustly in the year to come. The last few months of supposed “positive” data points have resulted in renewed optimism in the financial markets, which has not been seen in the last 18 months. Consequently, the equity markets have had their greatest five-month rally since October 1938 and the fixed income markets have seen spreads dramatically contract amidst the hopes of a thawing credit market. However, if you have been a regular reader of our various publications, you are likely aware that we view most of these “positive” data points as being driven simply by misunderstood seasonal factors or the unprecedented and, importantly, unsustainable stimulus that was recently pumped into the system. As such, we continue to believe that these green shoots will ultimately prove to be short-lived and that the overwhelming deleveraging and deflationary forces will continue to persist in 2010 and beyond.

With that in mind, we thought it would be helpful in this piece to provide some of our observations and counterarguments surrounding two of the largest green shoots—the stabilization of the housing market and the improvement in job losses—while also touching upon the recent higher moves in both oil/gas prices and the aforementioned long-term interest rates. Finally, we will briefly revisit the remaining “shoes” to drop in 2009 and 2010, which will continue to put downward pressure on the economy.

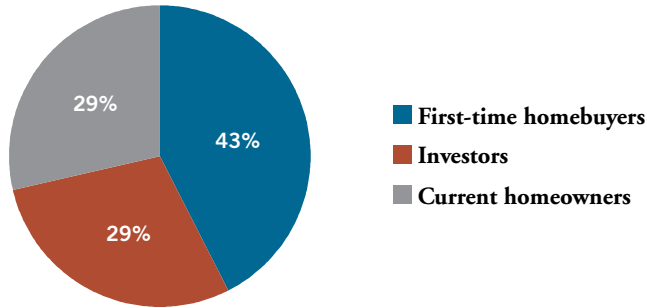
#### **Dispelling the first major green shoot: the myth that the housing market has stabilized**

Clearly, there is a growing chorus that one does not need to look any further than the housing market in order to see evidence that the overall economic crisis is abating—and that the housing market has finally stabilized and is now poised for a meaningful recovery in both sales activity and pricing.

In general, we fundamentally disagree with this premise and the view that housing has truly bottomed but, instead, believe that, for a variety of reasons, many have simply been misinterpreting much of the recent “positive” housing data.

- *First, it is important to realize that housing is the most seasonal industry in the economy and its period of strongest activity typically runs from the weekend following the Super Bowl through the end of June—with the peak period being late March through early June.* Thus, a number of data providers and market optimists have, in our view, mistakenly been citing recent increases in non-seasonally-adjusted housing statistics as a sign that things have recovered. In fact, most of those sequential improvements are merely the result of the typical seasonal improvements that one should expect around this time every year. In addition to these seasonal effects, housing activity has also been propped up by other factors. For instance, nearly one-third of reported existing home sales were actually foreclosures or short sales with well over half of foreclosure sales being bought by investors. Clearly this is not fundamentally absorbing the massive excess inventory because investors will either rent or relist the home shortly after it is purchased.
- *Second, another temporary factor that provided positive stimulus for the housing market this spring was the \$8,000 tax credit for first-time homebuyers that was passed at the national level, in addition to the similar incentives found on many state levels which provided further support—such as California’s \$10,000 tax credit.* These tax credits for first-time homebuyers, coupled with the Federal Reserve purchasing mortgage-backed securities (MBS) and Treasuries in its attempt to compress interest rates, drew out those “fence-sitters” who still had the financial wherewithal to qualify for a mortgage and purchase a home with a substantial down payment. In our opinion, these buyers, who were finally lured into the market by the drop in prices over the last two years and extremely low mortgage rates that dipped below 5% for a short period of time, made up much of the recent activity in non-investor sales. In fact, as illustrated on the following page, first-time homebuyers are estimated to have accounted for as much as 43% of existing home sales in the second quarter. Unfortunately, the segment of the home buying population which fits this description is very small in the grand scheme of things. Once they are done with their purchases and/or mortgage rates begin to rise again, and with the state and national tax credits set to expire this year, these purchasers will once again be out of the market.

Home Purchase Market by Homebuyer Type (Apr-June 2009)



Source: Campbell Communications; percentages rounded

- *Third, what further supported the housing market were the moratoriums on foreclosures, as a national moratorium began on November 20, 2008, and went through March 31, 2009. Additionally, many states and lenders also had foreclosure moratoriums in place that began towards the end of last year and carried over through the early part of this year. These moratoriums reduced the levels of foreclosed homes on the market during the peak of the selling season, thus providing pricing support and, in turn, limiting the number of foreclosure sales that would have caused home prices to fall even more precipitously. However, with the vast majority of those freezes recently expiring and with California—by far the most import housing market—slated to end its moratorium on September 15<sup>th</sup>, we expect this backlog of pent-up potential foreclosures to be unleashed. This, in our opinion, will cause a record level of foreclosure filings in the months to come and will resume the continued downward pressure on pricing.*
- *Fourth, unfortunately, mortgage delinquency rates have continued to increase at an alarming pace throughout the year—with significant problems now clearly moving beyond just the more toxic subprime and Alt-A categories, as continued job losses, a shrinking labor market, and falling household incomes have begun to significantly impact the prime and jumbo mortgage categories, as well. Based upon the most recent data available, as of the end of the second quarter, the **nationwide delinquency rate stood at an all-time high of 9.24%—with delinquent prime loans now at 6.4%**—as rising unemployment and falling home prices have put substantial pressure on even the more creditworthy homeowners. **Even more disturbing, Deutsche Bank estimates that the percentage of U.S. homeowners who will be “underwater” on their***

**mortgages (i.e., owe more than their house is worth) will nearly double to a staggering 48% in 2011.** Surprisingly, the mainstream media and market pundits seem to have more or less glossed over this all-too-important factor amidst the recent euphoria over the other “improving” housing data points.

- *Lastly, pricing has continued to drop in every single Metropolitan Statistical Area (MSA) on a year-over-year basis, with the S&P/Case-Shiller 20-City Composite down by 17% from a year earlier and lower by 7.1% year-to-date through the end of May. It is also important to recognize that despite many people being excited about the one month uptick in July’s Case-Shiller Index, this month-over-month increase is easily explained by the list of aforementioned reasons. Furthermore, this flat to positive upticking may continue for at least two more months even though prices have continued to trend lower. The reason why most people do not understand this important fact is because there is a two month delay in the reporting data and the monthly reported results are for a three month rolling period. Therefore, July’s results were actually for the March through May data points—which happen to be three of the four strongest months in the housing market. Consequently, despite the recent month-to-month uptick in some home price indices (which we feel was primarily driven by seasonality and a shift in the mix of the homes that were sold), we see housing values continuing to fall throughout 2009 and even into early 2010. This is critically important for two reasons. First, the banking industry has likely not even recognized 50% of the ultimate housing-related credit losses in their loan portfolios given the significant lag effect between the time a homeowner stops paying on their mortgage and when a bank ultimately realizes losses through the sale of the Real Estate Owned (REO) property. Second, states and local municipalities, which generate the bulk of their revenues from property taxes, typically have a lag of up to 18 months from when property values fall and when they actually see the impact from lower tax assessments. This dynamic already has and will continue to have a profound impact on state and local budgets over the next two to three years.*

On a positive note, while we expect pricing to take another significant lag down over the next seven months, it is important to recognize that some states may be close to finding a level of stabilization. For instance, some

local markets in the central part of the U.S. which are not linked to the auto industry (e.g., Michigan and Ohio) and also never had the level of price appreciation that occurred on the coasts, have now retrenched all of the price appreciation of 2001 through 2006. Furthermore, we believe that, by 2010's spring selling season, we may finally reach a stabilization point in housing for most of the country, but for the most toxic states. However, please appreciate, that this does not mean we believe that there will be a sharp snapback in pricing and activity by any means, but just that most of the decline will have come to an end.

**Dispelling the second major green shoot: “less bad is good” in terms of unemployment**

Clearly, July's unemployment losses of 247,000 non-farm workers were a welcomed relief from what had been occurring over the last six months. However, we believe that too many people are reading this number as an overly positive event. By saying this, we are referring to market bulls waving aside the fact that job losses continue to mount at historic levels. Here, the facts on the magnitude of the implosion in the labor markets simply cannot be ignored.

- Since the beginning of the current downturn, the labor market has lost an average of 350,000 non-farm workers a month.
- The U.S. has now lost over 6.6 million jobs since the beginning of this current downturn—an astounding figure when compared to the average of approximately 2 million full-time positions that were lost in previous post-WWII recessions.
- Since the peak of the job losses in January (December's figures), the economy has shed over 3.5 million jobs—more than what was lost during the entire 2001 to 2002 Internet recession. Importantly, this is despite the huge amount of stimulus spending that is ultimately supposed to “create or save” three to four million jobs.

Now, many are excited that July's job losses were “only” 247,000. However, it should not be that unexpected that job losses would decline from the rate at which they were accumulating in December 2008 through March 2009. Most companies handle their employment adjustments typically around the end and, most importantly, the beginning of the year, as managers and CEOs go through their annual budgeting and planning processes

in December or January. Further, it would not be even surprising to see some rehiring taking place as the rate of decline slows or flat-lines. In particular, due to the massive stimulus spending that is occurring, companies may act with the hope or expectation of a larger economic bounce and may start to rehire some of the people they recently contracted. Unfortunately, we do not believe that this will be sustainable because, once the stimulus spending slows, the deleveraging and credit constricting forces will continue to put our consumer-driven economy back into contraction. While there is still ample stimulus spending to occur, what most people do not recognize is that the highest monthly rate of spending occurs between May through September of this year. During this time frame, this spending is estimated to contribute anywhere from 2% to almost 5% of economic growth—with the highest rate of stimulus spending likely having occurred in June and July. However, for the rest of 2009 and as we move into 2010, we expect that the stimulus spending will likely slow to a trickle and its monthly contribution to growth should flat-line. Consequently, we anticipate that the labor markets, while going through a period of improvement over the next several months, will likely take a negative turn in early 2010.

One negative indicator which tends to fly below the radar is the weekly initial and continuing unemployment claims. Initial unemployment claims have been running above 500,000 on a seasonally adjusted basis since early January 2009—compared to the recession in the earlier part of this decade in which initial claims broke this level just once. Furthermore, although continuing claims have been decreasing, it does not mean that those unemployed workers have suddenly found work. Instead, the decrease in continuing claims is occurring because, as people exhaust their regular unemployment benefits of 26 weeks, they then can apply to roll onto the Extended Benefits and Emergency Unemployment Compensation programs which provide further unemployment benefits—both of which have been at record levels. In fact, an all-time high of 50% of those collecting unemployment insurance have collected their last round of benefits (i.e., the “exhaustion rate”) and, as such, will either have to apply to roll onto these extended benefits programs or hope to find employment—the latter of which is unlikely given the current state of the labor market.

Lastly, it is also important to point out that, even though July's unemployment data was a nice surprise to the

upside, it still was a 247,000 job loss—which would have been the fourth worst month of job losses in the 2001 to 2002 recession and the second worst month in the early 1990's recession. It is also important to remember that our economy needs to add roughly 100,000 jobs each month just to maintain a stable unemployment rate.

#### **The misreading of two additional critical factors: rising gas/oil prices and long-term interest rates**

As with the aforementioned data points, which we think have been misinterpreted as positive indications that the economy is truly turning around, the markets are, in our view, ironically, also misreading two other critical factors: the moves higher in both oil/gas prices and long-term interest rates. First, the markets seem to have now become so euphoric that they currently perceive upswings in oil as a bullish sign that economic activity is recovering amidst greater demand. While we clearly do not consider ourselves oil experts, our view is that much of the recent move in oil has been driven not by the fundamental forces of improving economic activity and increases in demand but, instead, by market speculators. More importantly, though, we think it is somewhat strange that the markets have not been focusing more closely on the enormous “tax” that higher oil and gas prices are having on the already-stretched consumer and the significant potential negative impact this could have on the U.S. economy, particularly one which is so heavily consumer dependent, such as ours. Second, the markets have now become so perverse that they are rallying around the notion that higher rates are indicative of economic expansion and possible inflation, which, in turn, are pulling us out of a deflationary state. This is opposed to the more rational logic that, if the massive amounts of government stimulus and the Federal Reserve's monetary policy of quantitative easing leads to a rapid spike in inflation, the Federal Reserve would have to immediately reverse course and withdraw its aggressive monetary policies—leading to a sharp increase in interest rates, thus crushing housing and all forms of real estate values. This, obviously, would have a further devastating impact to the already weakened banking industry and struggling consumer. It is important to remember that, following the government's overly active intervention in the U.S. economy during the 1970's (which was minimal compared to the last two years), when Federal Reserve Chairman Paul Volker finally took action to quell inflation and remove many of the government's involvements with the economy, it resulted in the devastating recession in

1981 and 1982. One can only shudder at the thought of what the impact will be when the current level of stimulus and monetary policy starts moving in the opposite direction—particularly, when taking into consideration the enormous budget deficits which we are already facing and will continue to face, and that so much of our debt is now externally financed by countries such as China that are becoming increasingly reluctant to finance our ongoing deficits.

#### **Three additional shoes to drop in 2009 and 2010**

Given that we have discussed our views at length as they relate to the three additional shoes to drop throughout the remainder of 2009 and into 2010, we will just touch upon these briefly.

- *First, commercial real estate is continuing to deteriorate at a rapid pace.* The Federal Reserve recently reported that the delinquency rate for commercial real estate loans jumped to 7.91% in the second quarter from 6.46% in the first quarter—the highest since 1993. As for securitized commercial real estate loans, Deutsche Bank estimates that at the end of the second quarter the total commercial mortgage-backed securities (CMBS) loan delinquency rate stood at 4.1% and has been increasing at a very alarming rate—an increase of 120% since March 2009 and 450% since October 2008. Even more disturbing, Deutsche Bank expects the aggregate CMBS delinquency rate to reach between 6% and 7% by the end of 2009, as all categories of commercial real estate continue to come under duress. Further, Real Estate Econometrics noted that the default rate for commercial mortgages jumped from 1.62% to 2.25% in the first quarter and expects it to exceed 4% by the end of the year. Even those market pundits and talking heads, who originally believed that this current crisis would somehow mimic previous downturns—and leave the commercial real estate sector relatively unscathed while the residential market bore the brunt of the pain—are now having to come to grips with the fact that no asset class will be spared in this environment.
- *Second, we expect corporate default rates and bankruptcies to continue to worsen*—further hurting the stability of Corporate America and the tens of millions it employs, thus, making it that much harder for corporations to raise badly needed capital or even just to stay afloat.

- *Third, as housing and commercial real estate prices continue to deteriorate, and amidst an unemployment rate that will likely eclipse 10% by year's end, state and local municipal governments will continue to suffer significant budget shortfalls.* According to the Rockefeller Institute of Government, state tax collections fell by nearly 12% in the first quarter of 2009, with 45 states reporting declines—and early indications for April and May show an overall decline of nearly 20% for total taxes. These budget shortfalls will add increased pressures to the employment picture at the worst possible time—particularly for states and municipalities that have been hard hit by the housing crisis (e.g., California and Florida). It is important to recognize that total state and local municipalities represent 14% of the U.S. employment base.

In conclusion, the green shoots we have discussed may in fact be providing some hope for people, as it is human nature to inherently be optimistic. However, this game of perception versus reality can result in a very harmful outcome for consumers, investors, and companies alike. If the bursting of the housing and credit bubbles have

taught us anything, it is wise to manage expectations in a realistic fashion, be conservative by planning for the worst case scenario, and not allow the masses to alter one's convictions. As such, we would encourage the banking industry to properly stress test their existing portfolios under a realistic set of assumptions—and not an unrealistic set of assumptions such as those used by the government. **The use of a true stress test will more accurately reflect the health—or lack thereof—of the overall economy and worsening employment picture, allowing banks to assess their respective situations. As such, if a bank then feels that they do not have an adequate or comfortable level of capital, they should raise capital while the markets and investors are still willing to provide funding.** It is especially vital that financial institutions take advantage of available funding now because this country and its economy will have to eventually be accountable for the reckless government and consumer spending habits of the last 20 years. When one looks at the following website tracking the cumulative U.S. debt, it is truly astonishing—and disturbing—to see just exactly what we are up against and what the future holds: [www.usdebtclock.org](http://www.usdebtclock.org).

## Federal Reserve Aggregate Bank Data

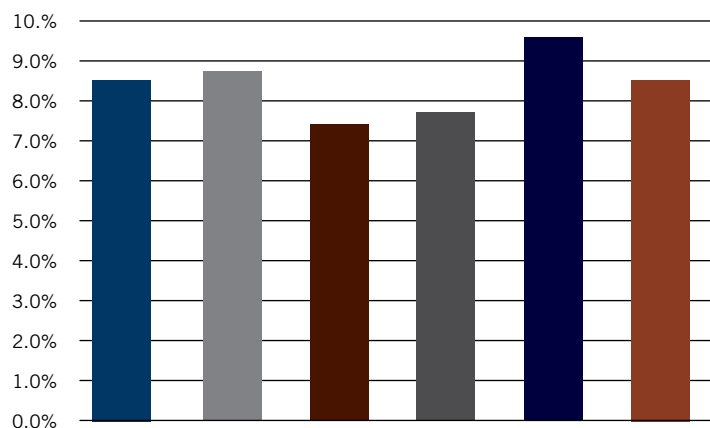
	6/2008	10/2008	11/2008	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009	6/2009	MoM	YoY
<b>ASSETS</b>												
Securities												
Secs in Bank Credit	2,056	2,718	2,726	2,064	2,113	2,134	2,166	2,184	2,210	2,259	2.2%	9.9%
Treasury & Agency	1,133	1,227	1,261	1,240	1,269	1,259	1,273	1,262	1,266	1,300	2.7%	14.7%
Other	922	1,490	1,465	824	844	875	893	922	944	958	1.6%	3.9%
Loans and Leases												
C&I	1,555	1,602	1,596	1,619	1,602	1,587	1,563	1,544	1,527	1,504	-1.5%	-3.3%
Real Estate	3,635	3,792	3,784	3,820	3,803	3,818	3,828	3,834	3,882	3,868	-0.4%	6.4%
Consumer	814	870	876	862	871	882	874	863	863	860	-0.4%	5.6%
Other	942	678	645	954	909	895	866	845	876	860	-1.8%	-8.7%
Other Assets	1,014	1,091	1,132	1,175	1,134	1,145	1,163	1,127	1,143	1,173	2.6%	15.7%
<b>Total Assets</b>	<b>11,045</b>	<b>11,947</b>	<b>12,100</b>	<b>12,264</b>	<b>12,179</b>	<b>12,031</b>	<b>12,085</b>	<b>12,054</b>	<b>12,151</b>	<b>12,024</b>	<b>-1.0%</b>	<b>8.9%</b>
<b>LIABILITIES</b>												
Deposits												
Large Time	2,106	2,066	1,938	1,900	1,891	1,845	1,815	1,840	1,870	1,885	0.8%	-10.5%
Other	4,780	4,383	4,422	5,324	5,379	5,422	5,486	5,482	5,589	5,644	1.0%	18.1%
Borrowings	2,234	2,619	2,600	2,456	2,403	2,429	2,440	2,407	2,420	2,361	-2.5%	5.7%
Other Liabilities	427	806	845	454	447	439	442	429	437	464	6.2%	8.7%
<b>Total Liabilities</b>	<b>9,916</b>	<b>10,733</b>	<b>10,910</b>	<b>11,050</b>	<b>10,969</b>	<b>10,795</b>	<b>10,814</b>	<b>10,813</b>	<b>10,887</b>	<b>10,809</b>	<b>-0.7%</b>	<b>9.0%</b>
<b>Residual (assets less liabilities)</b>	<b>1,129</b>	<b>1,215</b>	<b>1,190</b>	<b>1,214</b>	<b>1,211</b>	<b>1,236</b>	<b>1,271</b>	<b>1,242</b>	<b>1,264</b>	<b>1,215</b>	<b>-3.9%</b>	<b>7.6%</b>

all values in \$ billions

SOURCE: Federal Reserve Documents

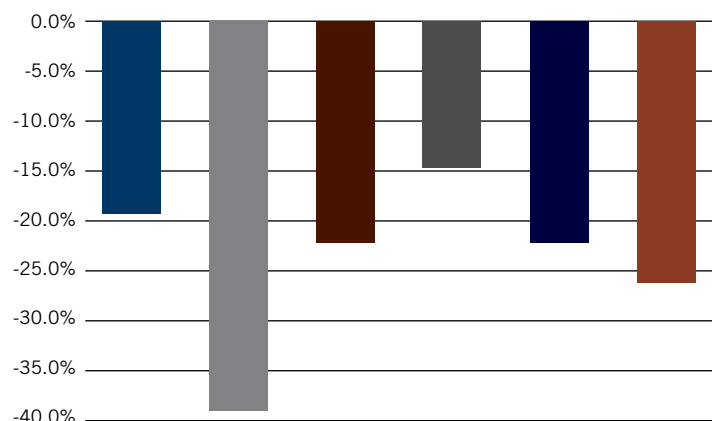
## Major Market Index Performance

### July 2009



SOURCE: Bloomberg, LLC

### Last Twelve Months



SOURCE: Bloomberg, LLC

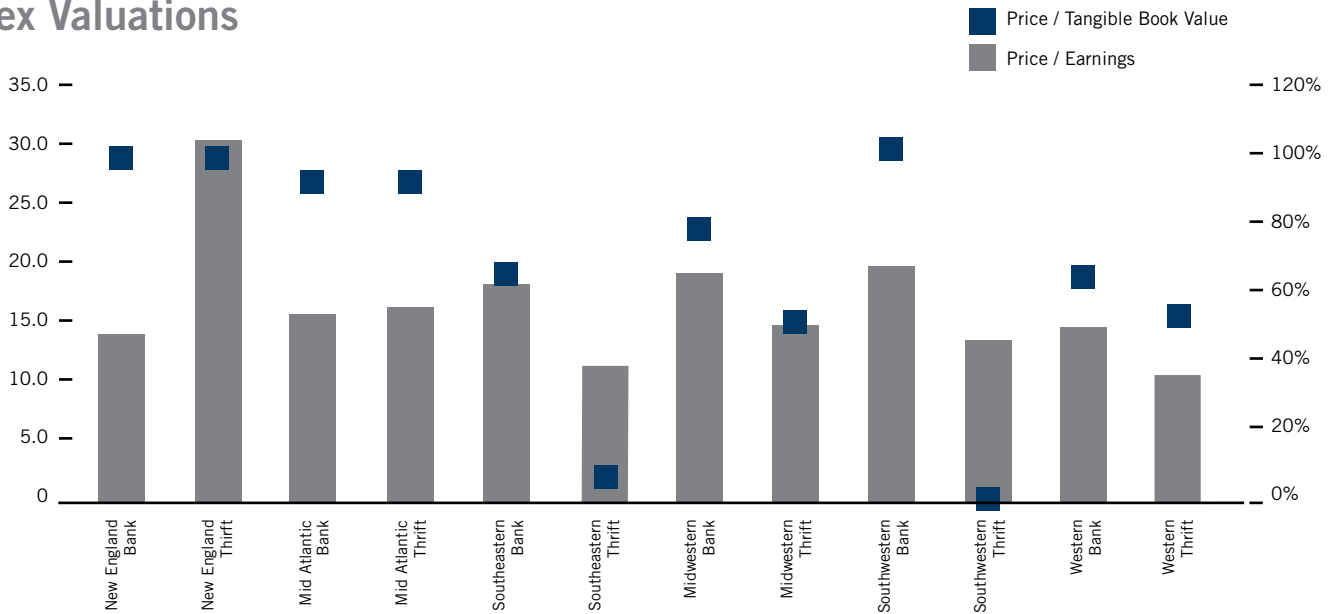
	8/2008	9/2008	10/2008	11/2008	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009	6/2009	7/2009
Dow Jones	1.5%	-6.0%	-14.1%	-5.3%	-0.6%	-8.8%	-11.7%	7.7%	7.3%	4.1%	-0.6%	8.6%
S&P Financial	-1.3%	-5.2%	-22.7%	-18.7%	-0.7%	-26.5%	-18.4%	17.7%	22.2%	13.1%	-2.2%	8.8%
S&P 500	1.2%	-9.1%	-16.9%	-7.5%	0.8%	-8.6%	-11.0%	8.5%	9.4%	5.3%	0.0%	7.4%
NASDAQ	1.8%	-11.6%	-17.7%	-10.8%	2.7%	-6.4%	-6.7%	10.9%	12.3%	3.3%	3.4%	7.8%
Russell 2000	3.5%	-8.1%	-20.9%	-12.0%	5.6%	-11.2%	-12.3%	8.7%	15.3%	2.9%	1.3%	9.5%
NASDAQ Bank	3.8%	4.0%	-7.3%	-8.8%	-1.2%	-21.8%	-11.9%	8.1%	5.1%	1.7%	-4.1%	8.4%

SOURCE: Bloomberg, LLC

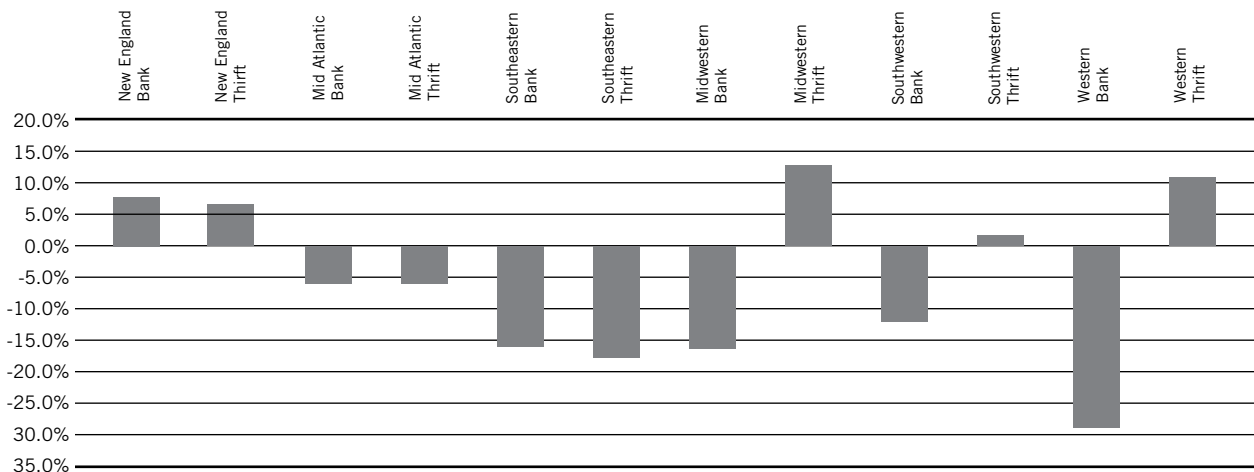
## Bank and Thrift Index Valuations

		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	8.1	14.0	111%	94%	168%	96%	6.9%	7.9%	-11.3%	20
	Thrift	26.3	30.6	92%	86%	115%	96%	6.2%	6.9%	-10.4%	22
<b>Mid Atlantic</b>	Bank	25.7	15.3	91%	87%	171%	90%	2.5%	-5.5%	-25.5%	88
	Thrift	17.0	16.1	112%	88%	147%	90%	3.0%	-5.8%	-20.1%	54
<b>Southeastern</b>	Bank	10.3	17.6	69%	55%	98%	65%	1.0%	-15.2%	-34.4%	117
	Thrift	7.4	11.2	32%	22%	33%	9%	7.9%	-17.0%	-35.1%	11
<b>Midwestern</b>	Bank	18.3	18.0	133%	61%	172%	79%	3.1%	-15.8%	-33.4%	86
	Thrift	14.8	14.7	134%	51%	138%	53%	2.4%	13.4%	-31.8%	43
<b>Southwestern</b>	Bank	12.0	19.4	118%	98%	164%	103%	5.0%	-12.3%	-26.9%	20
	Thrift	11.1	13.9	31%	0%	32%	0%	-7.1%	0.9%	-15.8%	8
<b>Western</b>	Bank	8.1	14.8	85%	50%	120%	67%	-0.7%	-29.8%	-43.2%	64
	Thrift	7.4	10.4	71%	45%	77%	56%	9.2%	10.1%	-28.2%	12

## Index Valuations



## YTD Price Performance



## Economic Data Points - July 2009

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
7/1	ADP Employment Change	JUN	-394K	-473K	-532K	-485K	7/15	Consumer Price Index (MoM)	JUN	0.60%	0.70%	0.10%	--
7/1	ISM Manufacturing	JUN	44.9	44.8	42.8	--	7/15	CPI Ex Food & Energy (MoM)	JUN	0.10%	0.20%	0.10%	--
7/1	ISM Prices Paid	JUN	47	50	43.5	--	7/15	Consumer Price Index (YoY)	JUN	-1.50%	-1.40%	-1.30%	--
7/1	Construction Spending MoM	MAY	-0.60%	-0.90%	0.80%	0.60%	7/15	CPI Ex Food & Energy (YoY)	JUN	1.70%	1.70%	1.80%	--
7/1	Pending Home Sales MoM	MAY	0.00%	0.10%	6.70%	7.10%	7/15	CPI Core Index SA	JUN	--	219.344	218.91	--
7/1	Pending Home Sales YoY	MAY	--	4.60%	3.30%	3.80%	7/15	Consumer Price Index NSA	JUN	215.5	215.693	213.856	--
7/1	Total Vehicle Sales	JUN	9.8M	9.7M	9.9M	--	7/15	Industrial Production	JUN	-0.60%	-0.40%	-1.10%	-1.20%
7/1	Domestic Vehicle Sales	JUN	7.4M	7.2M	7.4M	--	7/15	Capacity Utilization	JUN	67.90%	68.00%	68.30%	68.20%
7/2	Change in Nonfarm Payrolls	JUN	-365K	-467K	-345K	-322K	7/15	Minutes of June 24 FOMC Meeting					
7/2	Unemployment Rate	JUN	9.60%	9.50%	9.40%	--	7/16	Initial Jobless Claims	11-Jul	553K	522K	565K	569K
7/2	Change in Manufact. Payrolls	JUN	-150K	-136K	-156K	--	7/16	Continuing Claims	4-Jul	6850K	6273K	6883K	6915K
7/2	Average Hourly Earnings MoM	JUN	0.10%	0.00%	0.10%	0.20%	7/17	Housing Starts	JUN	530K	582K	532K	562K
7/2	Average Hourly Earnings YoY	JUN	2.90%	2.70%	3.10%	3.00%	7/17	Building Permits	JUN	524K	563K	518K	--
7/2	Average Weekly Hours	JUN	33.1	33	33.1	--	7/22	House Price Index MoM	MAY	-0.20%	0.90%	-0.10%	-0.30%
7/2	Initial Jobless Claims	27-Jun	615K	614K	627K	630K	7/23	Initial Jobless Claims	18-Jul	557K	554K	522K	524K
7/2	Continuing Claims	20-Jun	6740K	6702K	6738K	6755K	7/23	Continuing Claims	11-Jul	6390K	6225K	6273K	6313K
7/2	Factory Orders	MAY	0.90%	1.20%	0.70%	0.50%	7/23	Existing Home Sales	JUN	4.84M	4.89M	4.77M	4.72M
7/6	ISM Non-Manf. Composite	JUN	46	47	44	--	7/23	Existing Home Sales MoM	JUN	1.50%	3.60%	2.40%	1.30%
7/8	Consumer Credit	MAY	-\$8.8B	-\$3.2B	-\$15.7B	-\$16.5B	7/24	U. of Michigan Confidence	JUL F	65	66	64.6	--
7/9	Initial Jobless Claims	4-Jul	603K	565K	614K	617K	7/27	New Home Sales	JUN	352K	384K	342K	346K
7/9	Continuing Claims	27-Jun	6710K	6883K	6702K	6724K	7/27	New Home Sales MoM	JUN	3.00%	11.00%	-0.60%	2.40%
7/9	Wholesale Inventories	MAY	-1.00%	-0.80%	-1.40%	-1.30%	7/28	S&P/CaseShiller Home Price Ind	MAY	--	139.84	139.18	139.21
7/9	ICSC Chain Store Sales YoY	JUN	--	-5.10%	-4.60%	--	7/28	S&P/CS Composite-20 YoY	MAY	-17.90%	-17.06%	-18.12%	-18.10%
7/10	Import Price Index (MoM)	JUN	2.00%	3.20%	1.30%	0.014	7/28	Consumer Confidence	JUL	49	46.6	49.3	--
7/10	Import Price Index (YoY)	JUN	-18.60%	-17.40%	-17.60%	-0.175	7/29	Durable Goods Orders	JUN	-0.60%	-2.50%	1.80%	1.30%
7/10	U. of Michigan Confidence	JUL P	70	64.6	70.8	--	7/29	Durables Ex Transportation	JUN	0.00%	1.10%	1.10%	0.80%
7/13	Monthly Budget Statement	JUN	-\$97.0B	-\$94.3B	\$33.5B	--	7/29	Fed's Beige Book	23-Jul				
7/14	Producer Price Index (MoM)	JUN	0.90%	1.80%	0.20%	--	7/30	Initial Jobless Claims	25-Jul	575K	584K	554K	559K
7/14	PPI Ex Food & Energy (MoM)	JUN	0.10%	0.50%	-0.10%	--	7/30	Continuing Claims	18-Jul	6300K	6197K	6225K	6251K
7/14	Producer Price Index (YoY)	JUN	-5.20%	-4.60%	-5.00%	--	7/31	GDP QoQ (Annualized)	2Q A	-1.50%	-1.00%	-5.50%	-6.40%
7/14	PPI Ex Food & Energy (YoY)	JUN	2.90%	3.30%	3.00%	--	7/31	Personal Consumption	2Q	-0.50%	-1.20%	1.40%	0.60%
7/14	Advance Retail Sales	JUN	0.40%	0.60%	0.50%	--	7/31	GDP Price Index	2Q	1.00%	0.20%	2.80%	1.90%
7/14	Retail Sales Less Autos	JUN	0.50%	0.30%	0.50%	0.40%	7/31	Core PCE QoQ	2Q	2.30%	2.00%	1.60%	1.10%
7/14	Business Inventories	MAY	-0.80%	-1.00%	-1.10%	-1.30%	7/31	Employment Cost Index	2Q	0.30%	0.40%	0.30%	--

SOURCE: Bloomberg, LLC

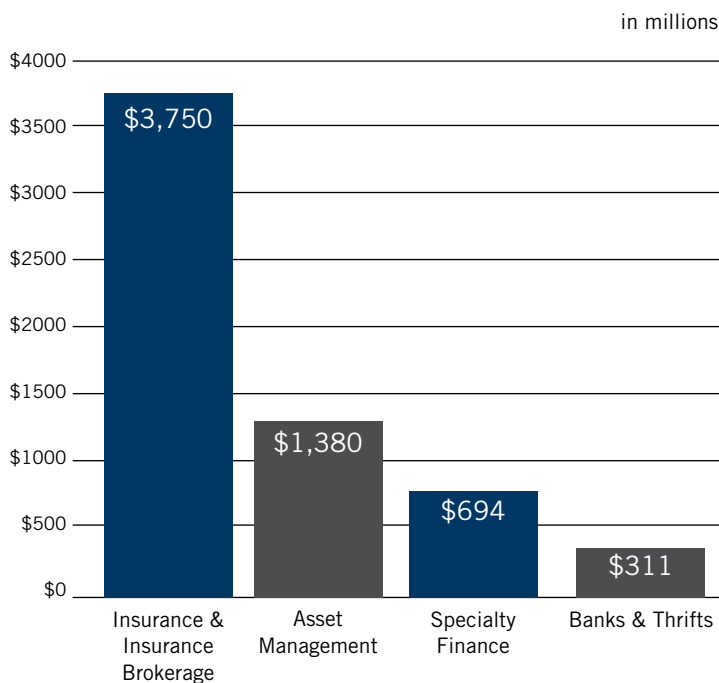
## Economic Data Points - August 2009

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
8/3	Construction Spending MoM	JUN	-0.50%	0.30%	-0.90%	-0.80%	8/14	Capacity Utilization	JUL	68.30%	68.50%	68.00%	68.10%
8/3	Total Vehicle Sales	JUL	10.2M	11.3M	9.7M	--	8/14	U. of Michigan Confidence	AUG P	69	63.2	66	--
8/3	Domestic Vehicle Sales	JUL	7.4M	8.4M	7.2M	--	8/18	Producer Price Index (MoM)	JUL	-0.30%	-0.90%	1.80%	--
8/4	Personal Income	JUN	-1.00%	-1.30%	1.40%	1.30%	8/18	PPI Ex Food & Energy (MoM)	JUL	0.10%	-0.10%	0.50%	--
8/4	Pending Home Sales MoM	JUN	0.70%	3.60%	0.10%	0.80%	8/18	Producer Price Index (YoY)	JUL	-5.90%	-6.80%	-4.60%	--
8/4	Pending Home Sales YoY	JUN	--	9.20%	4.60%	5.40%	8/18	CPI Ex Food & Energy (YoY)	JUL	2.80%	2.60%	3.30%	--
8/6	Initial Jobless Claims	1-Aug	580K	550K	584K	588K	8/18	Housing Starts	JUL	599K	581K	582K	587K
8/6	Continuing Claims	25-Jul	6291K	6310K	6197K	6241K	8/18	Building Permits	JUL	577K	560K	563K	570K
8/7	Change in Nonfarm Payrolls	JUL	-325K	-247K	-467K	-443K	8/20	Initial Jobless Claims	15-Aug	--	--	--	--
8/7	Unemployment Rate	JUL	9.60%	9.40%	9.50%	--	8/20	Continuing Claims	8-Aug	--	--	--	--
8/7	Change in Manufact. Payrolls	JUL	-100K	-52K	-136K	-131K	8/20	RPX Composite 28dy YoY	JUN	--	--	-17.96%	--
8/7	Average Hourly Earnings MoM	JUL	0.10%	0.20%	0.00%	--	8/20	RPX Composite 28dy Index	JUN	--	--	192.05	--
8/7	Average Hourly Earnings YoY	JUL	2.50%	2.50%	2.70%	--	8/21	Existing Home Sales	JUL	4.96M	--	4.89M	--
8/7	Average Weekly Hours	JUL	33	33.1	33	--	8/21	Existing Home Sales MoM	JUL	1.70%	--	3.60%	--
8/7	Consumer Credit	JUN	-\$5.0B	-\$10.3B	-\$3.2B	-\$5.4B	8/25	S&P/CaseShiller Home Price Ind	JUN	--	--	139.84	--
8/11	Nonfarm Productivity	2Q P	5.50%	6.40%	1.60%	0.30%	8/25	S&P/CS Composite-20 YoY	JUN	--	--	-17.06%	--
8/11	Unit Labor Costs	2Q P	-2.50%	-5.80%	3.00%	-2.70%	8/25	S&P/Case-Shiller US HPI	2Q	--	--	128.8	--
8/11	Wholesale Inventories	JUN	-0.90%	-1.70%	-0.80%	-1.20%	8/25	S&P/Case-Shiller US HPI YOY%	2Q	--	--	-19.10%	--
8/12	FOMC Rate Decision	12-Aug	0.25%	0.25%	0.25%	--	8/25	Consumer Confidence	AUG	--	--	46.6	--
8/13	Import Price Index (MoM)	JUL	-0.50%	-0.70%	3.20%	2.60%	8/25	House Price Index MoM	JUN	--	--	0.90%	--
8/13	Import Price Index (YoY)	JUL	-19.10%	-19.30%	-17.40%	-17.70%	8/25	House Price Purchase Index QoQ	2Q	--	--	-0.60%	--
8/13	Advance Retail Sales	JUL	0.80%	-0.10%	0.60%	0.80%	8/26	Durable Goods Orders	JUL	--	--	-2.50%	--
8/13	Retail Sales Less Autos	JUL	0.10%	-0.60%	0.30%	0.50%	8/26	Durables Ex Transportation	JUL	--	--	1.10%	--
8/13	Retail Sales Ex Auto & Gas	JUL	0.00%	-0.40%	-0.20%	-0.10%	8/26	New Home Sales	JUL	--	--	384K	--
8/13	Continuing Claims	1-Aug	6300K	6202K	6310K	6343K	8/26	New Home Sales MoM	JUL	--	--	11.00%	--
8/13	Initial Jobless Claims	8-Aug	545K	558K	550K	554K	8/27	GDP QoQ (Annualized)	2Q P	--	--	-1.00%	--
8/14	Consumer Price Index (MoM)	JUL	0.00%	0.00%	0.70%	--	8/27	GDP Price Index	2Q	--	--	0.20%	--
8/14	CPI Ex Food & Energy (MoM)	JUL	0.10%	0.10%	0.20%	--	8/27	Core PCE QoQ	2Q	--	--	2.00%	--
8/14	Consumer Price Index (YoY)	JUL	-1.90%	-2.10%	-1.40%	--	8/27	Initial Jobless Claims	22-Aug	--	--	--	--
8/14	CPI Ex Food & Energy (YoY)	JUL	1.60%	1.50%	1.70%	--	8/27	Continuing Claims	15-Aug	--	--	--	--
8/14	CPI Core Index SA	JUL	--	219.543	219.344	--	8/28	Personal Income	JUL	--	--	-1.30%	--
8/14	Consumer Price Index NSA	JUL	215.489	215.351	215.693	--	8/28	Personal Spending	JUL	--	--	0.40%	--
8/14	Industrial Production	JUL	0.40%	0.50%	-0.40%	--	8/28	U. of Michigan Confidence	AUG F	--	--	--	--

SOURCE: Bloomberg, LLC

## M&A Transaction Update

### Announced Transactions - July 2009



SOURCE: SNL Financial, Bloomberg, Factiva

### Deal Count - July 2009

Insurance & Insurance Brokerage	18
Asset Management & Broker/Dealer	11
Bank & Thrift	11
Specialty Finance	9

SOURCE: SNL Financial, Bloomberg, Factiva

### Deal Count - 2009 YTD

Insurance & Insurance Brokerage	98
Bank & Thrift	60
Asset Management & Broker Dealer	58
Specialty Finance	27

SOURCE: SNL Financial, Bloomberg, Factiva

### Financial Deal Alert

Hovde Financial is pleased to announce that its client, First Banks Inc., headquartered in Clayton, Missouri, has agreed to sell its Texas franchise (19 branches and \$500 million in deposits) to Houston, Texas-based Sterling Bank for a 6% deposit premium. Separately, First Banks publicly announced the hiring of Hovde Financial to explore the viability of selling its Chicago franchise which has 24 branches and \$1.2 billion 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	103
2	Keefe, Bruyette & Woods, Inc.	100
<b>3</b>	<b>Hovde Financial</b>	<b>80</b>
4	Howe Barnes Hoefer & Arnett, Inc.	52
5	Stifel, Nicolaus & Company, Inc.	40
6	Sheshunoff & Co. Investment Banking LP	26
7	Austin Associates, LLC	20
7	Morgan Keegan & Company, Inc.	20
9	Carson Medlin Company	17
9	Professional Bank Services Inc.	17

SOURCE: SNL Financial (data from 7/31/2004-7/31/2009)

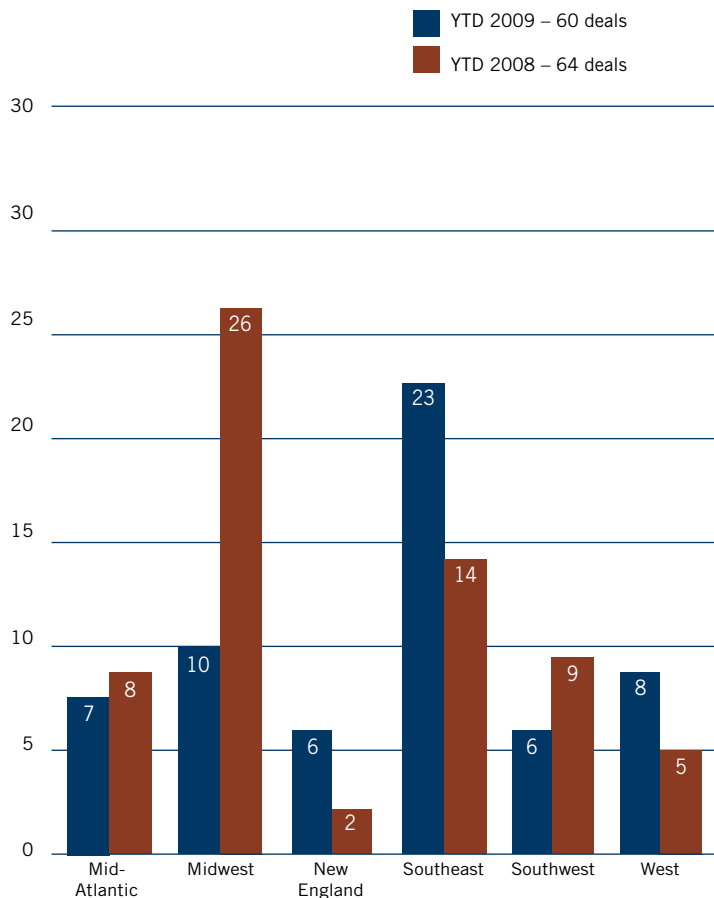
## Bank & Thrift Transactions - July 2009

Buyer	Buyer State	Target	Buyer State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
Ladder Capital Finance Holdings, LLC	NY	FirstCity Bank of Commerce	FL	7/7/09	NA	NA	NA	NA
Management group		Bank of Belleville	IL	7/8/09	5.1	NM	142.01	5.06
Investor group		Bank of Santa Barbara	CA	7/10/09	10.1	NM	160.00	9.54
Investor group	NY	1st Commerce Bank	NV	7/13/09	8.5	NM	150.01	8.93
First American Financial Management Co.	DE	Community Bank of Rowan	NC	7/15/09	15.9	19.47	150.00	5.04
First Business Bank, N.A.	CA	1st Pacific Bancorp	CA	7/16/09	7.0	NM	33.10	NA
Meridian Interstate Bancorp, Inc. (MHC)	MA	Mt. Washington Co-operative Bank	MA	7/20/09	NA	NA	NA	NA
Banco Sabadell SA		Mellon United National Bank	FL	7/23/09	NA	NA	NA	NA
First Niagara Financial Group, Inc.	NY	Harleysville National Corporation	PA	7/26/09	239.8	8.43	114.74	0.88
Artisan Financial Corp.		Valley Community Bancorp, Inc.	IL	7/29/09	NA	NA	NA	NA
SP Acquisition Holdings, Inc.	NY	Frontier Financial Corporation	WA	7/30/09	24.3	NM	9.05	NA

SOURCE: SNL Financial

## Bank & Thrift Transactions

by Region



SOURCE: SNL Financial

## Deal Pricing by Region - 2009 YTD

Region	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
Mid-Atlantic	\$349	0.0	19.8	-3.3
Midwest	\$79	109.5	20.4	1.9
New England	\$119	118.6	NA	0.9
Southeast	\$312	86.3	19.8	1.7
Southwest	\$33	97.3	14.5	0.3
West	\$88	101.4	18.3	4.9
<b>Total</b>	<b>\$980</b>	<b>86.2</b>	<b>19.2</b>	<b>1.4</b>

SOURCE: SNL Financial

## Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
1Q2007	\$21,007	265.3	26.8	22.9
2Q2007	\$30,841	229.3	26.5	16.4
3Q2007	\$9,324	215.3	26.2	17.9
4Q2007	\$11,660	197.6	23.5	11.9
1Q2008	\$5,093	190.3	26.9	12.4
2Q2008	\$1,855	197.3	30.1	8.4
3Q2008	\$27,195	149.9	25.9	9.0
4Q2008	\$1,680	123.0	32.6	2.1
1Q2009	\$280	93.4	18.8	-1.8
2Q2009	\$389	91.4	23.1	2.9
3Q2009	\$311	108.4	14.0	5.9

SOURCE: SNL Financial

## Insurance and Insurance Brokerage Transactions - July 2009

Buyer	Target	Announced	DV (\$MM)
Brown & Brown, Inc.	Camford National Insurance Brokers, LLC	7/1/09	NA
CBIZ, Inc.	EAO Consultants, LLC	7/1/09	NA
Cullen/Frost Bankers, Inc.	Insurance Options, Inc.	7/1/09	NA
DCAP Group, Inc.	Commercial Mutual Insurance Company	7/1/09	3.8
Ironshore Inc./Rockwood Programs Inc.	Wright & Company	7/1/09	NA
Hub International Limited	Montana Insurance Group	7/2/09	NA
Focus Holdings, LLC	Capacity Insurance Company	7/1/09	NA
PartnerRe Ltd.	PARIS RE Holdings Limited	7/4/09	1,715.8
Undisclosed buyer	Retail stores/Franchise business	7/7/09	NA
Validus Holdings, Ltd.	IPC Holdings, Ltd.	7/9/09	1,649.5
Pan-American Life Mutual Holding Company	USNow, L.P.	7/14/09	NA
Pope Limited	Annuity & Life Re (Holdings), Ltd.	7/15/09	10.8
SCOR S.E.	XL Re Life America Inc.	7/18/09	44.7
UnitedHealth Group Incorporated	Northeast MO business	7/20/09	180.0
Main Street America Group Mutual Holdings, Inc.	Grain Dealers Mutual Insurance Company	7/28/09	NA
Aflac Incorporated	Continental American Insurance Company	7/29/09	100.0
FPIC Insurance Group, Inc.	Advocate, MD Financial Group Inc.	7/30/09	45.6
Arthur J. Gallagher & Co.	Portland, ME and Cranston, RI operations	7/30/09	NA

SOURCE: Factiva, AM Best

## Asset Management/Broker-Dealer Transactions - July 2009

Buyer	Target	Announced	DV (\$MM)
Nomura Holdings, Inc.	NikkoCiti Trust and Banking Corporation	7/1/09	197.6
International Assets Holding Corporation	FCStone Group, Inc.	7/1/09	122.5
StarInvest Group, Inc.	Todd & Company, Inc.	7/2/09	NA
Hatteras Capital Investment Management, LLC	Alternative Investment Partners LLC	7/9/09	NA
Cedrus Investments Ltd.	Gibl Crown's institutional bus	7/13/09	NA
Lazard Ltd.	Edgewater Funds' management vehicles	7/15/09	NA
Neuberger Berman Group LLC	Lehman Brothers Trust Companies	7/23/09	NA
Westwood Holdings Group, Inc.	Baxter's Philadelphia Fund	7/23/09	NA
Enterprise Acquisition Corporation	ARMOUR Residential REIT, Inc.	7/29/09	NA
Sumitomo Trust & Banking Company Limited	Nikko Asset Management Co., Ltd	7/29/09	1,060.0
Bank of New York Mellon Corporation	CLO business of Rabobank	7/30/09	NA
FBR Capital Markets Corporation	Watch Hill Partners LLC	7/31/09	NA

SOURCE: Factiva, Bloomberg

## Specialty Finance Transactions - July 2009

Buyer	Target	Announced	DV (\$MM)
Caisse de depot et placement du Quebec	Sierra Capital Origination and servicing assets	7/1/09	NA
Investor group	AIG Colombian consumer finance operations	7/1/09	NA
Dollar Financial Corp.	Undisclosed Four Stores	7/6/09	0.9
Dollar Financial Corp.	Undisclosed two pawn stores	7/8/09	NA
Puente Investments Limited	GMAC Residential Funding Corporation E.F.C., S.A.	7/13/09	NA
Dollar Financial Corp.	Optima, S.A.	7/14/09	5.4
Snap-on Incorporated	50% of Snap-on Credit LLC. From CIT	7/16/09	8.2
Wintrust Financial Corporation	Assets of A.I. Credit Corp.	7/28/09	679.5
Banco Santander, S.A.	AIG Polish consumer finance business	7/29/09	NA

SOURCE: Factiva, Bloomberg, Reuters